

Insolvency Forecasts

Atradius Economic Research – February 2016

Summary

- Atradius forecasts very little to no improvement in insolvencies in the majority of advanced markets in 2016. Only a 3% improvement is expected, the lowest since 2012.
- The challenging external environment and low commodity prices are increasing business risks and bankruptcies could pick up in spite of strengthening domestic economies.

Business risks are rising in 2016

Across many advanced markets, business risks are expected to increase in 2016 after the positive developments seen in 2015. Atradius forecasts very little to no improvement in the majority of markets in 2016, with risks to the outlook sharply to the downside – stemming from low oil prices, US monetary normalisation and the uncertain impacts of a slowdown in emerging markets.

The low level of commodity prices is expected to continue to weigh on the outlook for commodity-dependent economies. These include Australia and Norway where commodity-related exports account for more than 60% of the total. While both economies are slowly adjusting, aided

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Insolvency matrix 2016

Insolvency Outlook	Deteriorating	Australia	Greece	
	Stable	Austria, Canada, Germany, New Zealand, Norway, Switzerland, United States	United Kingdom, Luxembourg, Portugal	
	Improving	Finland, Japan, Netherlands, Sweden	Belgium, Denmark, France, Ireland, Italy, Spain	
		Low	Average	High

Source: Atradius Economic Research

by depreciating currencies and loosening monetary policy, bankruptcies are forecast to rise 6% in Australia and stay flat in Norway. Absolute levels remain above pre-crisis levels in both economies: +22% and +42% respectively. North America will also face pressure from low oil prices as investment in the relatively expensive American and Canadian oil stays restrained. Canada is forecast to see no change in insolvencies and the United States is forecast to see a drop of only 2%.

The Federal Reserve's monetary tightening cycle could challenge businesses in the US by making commercial loans more expensive. Monetary policy divergence between the US and most other advanced markets, however, makes US assets more attractive for international investors, which should improve liquidity overall in the US but may have the opposite effect elsewhere.

Particularly for the Asia-Pacific countries – Australia, Japan and New Zealand – the turmoil in emerging markets, driven by the slowdown in China and low commodity prices, will be an obstacle for firms. Lower demand in emerging markets, exacerbated by weaker domestic currencies, will also continue to drag on exporting businesses in the eurozone, US, UK and in Denmark, where insolvencies remain 58% higher than in 2007.

Eurozone recovery on track

In line with the solid economic recovery in the eurozone, the business environment is forecast to see another year

of improvements. With only -5% change in aggregate insolvencies, the improvement is half of what it was in 2014, when the economy was much more fragile. The total number of businesses forecast to go bankrupt in 2016 is also still 67% higher than in 2007.

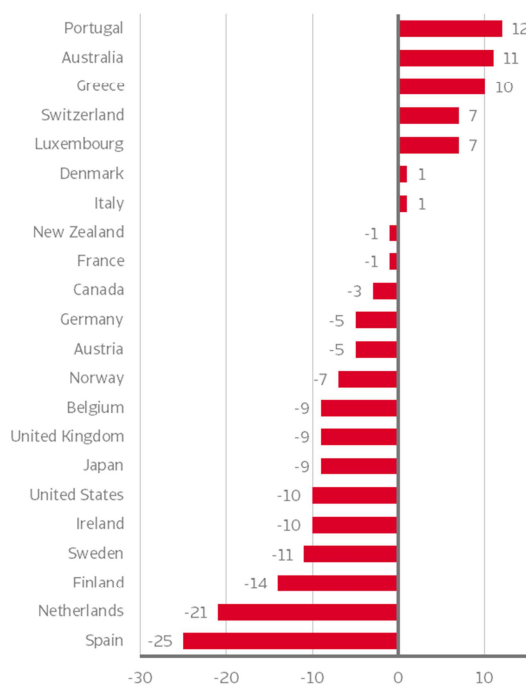
Greece, in particular, is weighing on the eurozone's outlook with a further 5% increase in business failures forecast for 2016, after 10% estimated in 2015. Political uncertainty, low consumption and capital controls continue to create a very difficult operating environment for the small and medium-sized enterprises that dominate Greece's economy. The ongoing Greek government debt crisis has driven national insolvency rates to more than five times the level in 2007.

The level of business bankruptcies around the periphery of the Eurozone remain remarkably higher than before the onset of the global financial crisis. Portugal's level is 4.4 times higher than in 2007; Italy's is 2.8; and Spain's is 2.5.

Overall, the Netherlands and Spain are forecast to see the most improvement again in 2016. The booming economic recovery in Ireland, the other top runner of 2015, is expected to slow down slightly this year, with insolvencies only forecast to fall 6% and, like in Spain, to remain over twice as high as before the debt crisis.

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Insolvencies 2015
(% change year ago)



Source: Atradius Economic Research

Insolvencies 2016
(% change year ago)



Source: Atradius Economic Research

Insolvency growth, percent change per annum

	2007	2008	2009	2010	2011	2012	2013	2014	2015f	2016f
Australia	-4	18	3	-1	5	1	4	-22	11	6
Austria	-6	0	9	-8	-8	3	-10	-1	-5	-2
Belgium	1	10	11	2	7	4	11	-9	-9	-7
Canada	-7	-2	-12	-20	-11	-12	-2	-2	-3	0
Denmark	21	54	54	13	-15	0	-10	-20	1	-4
Finland	-1	16	25	-13	3	0	11	-11	-14	-7
France	7	8	14	-5	-1	3	2	0	-1	-4
Germany	-15	0	12	-2	-6	-6	-8	-7	-5	-2
Greece	0	30	40	30	33	30	10	3	10	5
Ireland	19	100	50	10	7	3	-19	-15	-10	-6
Italy	-35	18	29	21	8	14	16	10	1	-4
Japan	6	11	-1	-14	-4	-5	-11	-10	-9	-5
Luxembourg	5	-13	17	33	5	8	2	-20	7	0
Netherlands	-23	1	73	-10	-1	21	10	-19	-21	-15
New Zealand	-5	-35	45	-6	-12	-8	-13	-7	-1	0
Norway	-6	28	38	-12	-2	-12	20	-5	-7	0
Portugal	-12	54	36	16	18	42	8	-9	12	-2
Spain	10	100	50	-2	14	38	13	-30	-25	-10
Sweden	-5	7	20	-4	-4	7	5	-7	-11	-6
Switzerland	-5	-2	24	20	7	3	-5	-7	7	0
United Kingdom	-5	24	23	-16	5	-4	-7	-6	-9	-1
United States	2	52	41	-7	-15	-16	-17	-19	-10	-2

Sources: National bureaus, Atradius Economic Research

f=forecast

Insolvency level, index

	2007	2008	2009	2010	2011	2012	2013	2014	2015f	2016f
Australia	100	118	121	120	126	127	133	104	115	122
Austria	100	100	110	101	93	96	87	86	82	80
Belgium	100	110	123	125	133	138	153	140	127	118
Canada	100	98	86	69	62	54	54	52	51	51
Denmark	100	154	238	269	228	227	204	163	165	158
Finland	100	116	145	127	131	131	145	129	111	103
France	100	108	123	118	116	119	122	122	121	116
Germany	100	100	112	110	103	97	89	83	79	77
Greece	100	130	182	237	315	409	450	463	510	535
Ireland	100	200	300	330	354	365	296	252	227	214
Italy	100	118	151	183	197	223	259	285	288	277
Japan	100	111	110	95	90	86	77	69	63	60
Luxembourg	100	87	102	135	141	152	155	124	132	132
Netherlands	100	101	175	158	156	189	207	167	132	112
New Zealand	100	65	94	89	78	72	63	58	58	58
Norway	100	128	176	156	153	134	161	152	142	142
Portugal	100	154	210	242	286	405	438	398	446	437
Spain	100	200	300	293	335	463	523	366	274	247
Sweden	100	107	128	123	117	126	133	123	110	103
Switzerland	100	98	121	145	154	159	150	140	149	149
United Kingdom	100	124	153	128	135	129	120	112	102	101
United States	100	152	215	199	169	142	117	95	86	84

Sources: National bureaus, Atradius Economic Research

f=forecast, index 2007 = 100

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Atradius Credit Insurance N.V.
David Ricardostraat 1 · 1066 JS
P.O. Box 8982 · 1006 JD
Amsterdam
The Netherlands
Telephone: +31 20 553 9111
Fax: +31 20 553 2811
www.atradius.com