

Insolvency forecasts

Atradius Economic Research – February 2017

Summary

- The pace of improvement in insolvencies has slowed since 2015 and businesses are facing increasing uncertainty and changing access to finance. Only a -2% change is forecast across advanced markets.
- The eurozone outlook is stable but risks lean heavily to the downside due to political uncertainty. In North America, political uncertainty also clouds the outlook but recovering oil prices should support the most vulnerable sectors.

Figure 1 Insolvency matrix 2017

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

Source: Atradius Economic Research

Business environment recovery is losing steam

2016 was a difficult year for businesses in many developed markets. Despite another year of low energy prices and ultra-loose monetary policy, global GDP growth slowed half a percentage point to 2.5%. In this environment, the on-going improvement in insolvency statistics weakened. Corporate failures decreased 3% in 2016, a marked slowdown from the 7% decline seen in 2015 and 13% in 2014. The aggregate level of insolvencies is slowly approaching 2007 levels.

Corporate failures around the world are expected to continue declining in 2017 but at a slower rate of only 2%. Global economic growth is expected to accelerate to 2.8% but the business environment is facing many problems. The stimulus of lower energy prices is fading. While this should encourage investment in commodity exporting countries, it will increase costs and lower private consumption growth elsewhere. Increasing price

pressures also motivate monetary tightening in some markets, which will increase the cost of financing for many firms in advanced markets. Furthermore, the level of political uncertainty in Europe and North America is unprecedented in recent decades and will weigh on economic activity.

Political uncertainty – a downside risk in the eurozone

In 2016, insolvencies in the eurozone performed similarly to the year before, led by Spain and the Netherlands with decreases of about 20% each. Following an average decline of 8% over the past two years, we foresee a 3% decline in insolvencies in the eurozone in 2017.

Periphery continues to outperform, but improvements are stabilising. The peripheral economies of the eurozone (Greece, Ireland, Italy, Portugal and Spain) have enjoyed average declines of 10% in insolvencies from 2015 to 2016. Overall levels across all five markets remain high, but in 2016 these were improving with the exception of Ireland whose insolvencies stabilised. Ireland is forecast to see an increase of 2% in corporate bankruptcies in 2017 due to still highly-leveraged public and private sectors and heavy dependence on FDI, exposing companies to external volatility like the potential shock from Brexit.

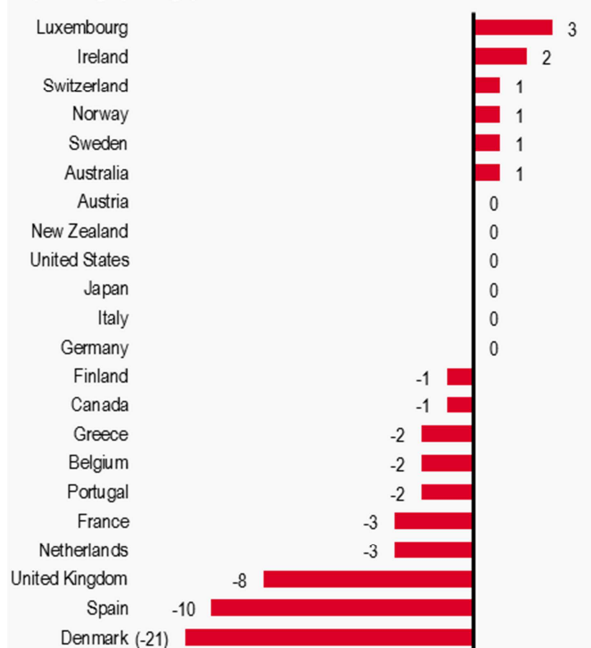
Robust, broad-based economic growth in Spain supported the country’s business environment despite the inconclusive general elections and the eventual establishment of a minority government. Spanish GDP growth is expected to slow slightly in 2017, bringing the expected decline in the rate of insolvencies down to 10%. Greece is forecast to finally see a reversal in the upward trend of insolvencies, the number of annual business failures has increased six-fold since the crisis. Bank recapitalisations and the removal of capital controls will support firms there.

Portugal is forecast to see only a 2% reduction in corporate insolvencies in 2017, following a 6% decline in 2016. Italy is also estimated to have enjoyed a 6% decrease last year, but the insolvency level is forecast to remain unchanged this year.

Political uncertainty is a potential headwind for eurozone businesses. 2017 should be an eventful year on the eurozone political calendar and the increasing support of populist parties is making the outlook highly uncertain. In March there are general elections in the Netherlands, in May presidential elections in France and in September federal elections in Germany. Early elections are also likely to be held in Italy, possibly this summer, following the resignation of PM Renzi after the constitutional referendum in December 2016. All of this is also occurring with the potential commencement of Brexit negotiations between the UK and EU.

Political uncertainty is likely to strain business activity due to the negative impact it has on sentiment and business investment. At this point, the effects are relatively muted – just slowing down the rate of improvement. France and the Netherlands are expected to see a 3% decline in insolvencies, while no improvement or worsening is predicted in Germany and Italy. However, due to the uncertainty around the elections, this outcome is subject to heightened downside risks. Depending on the results of the elections, policymaking directions may change in a

Figure 2 Insolvencies 2017
(% change year ago)



Source: Atradius Economic Research

business-unfriendly manner, weighing on investment and employment. Slowdowns in one market may also lead to spillover into others due to close trade and investment ties.

Insolvencies stabilising in North America

Under the new administration, the United States’ outlook is more uncertain as well. The US business environment was more benign than expected with insolvencies stabilising since 2014 at around 90% of their pre-crisis level. GDP growth slowed in 2016 primarily due to lower investments, stemming from low oil prices, and a cyclical downturn in inventories. GDP is forecast to pick up this year thanks to higher oil and gas prices which are turning around investment growth and should stabilise claims and defaults in oil and gas and related sectors. Growth should be further supported by President Trump’s promised fiscal stimulus which, alongside deregulation, should help US businesses. However, the details of either of these remain unknown.

While there could be some stimulus which would help most businesses, there are many tangible downsides coming up. In light of the balanced risks, we predict no change in the US. One clear downside to American businesses is that inflation pressures are increasing and the Fed is expected to increase interest rates three more times over the year, which will tighten access to finance and hurt all businesses, especially those that are heavily indebted. The US dollar is also forecast to remain strong which will continue to damage the competitiveness of US exports.

Insolvencies are forecast to stabilise in Canada, potentially declining only 1%. Canada’s economy has also suffered through the low oil price environment over the past couple years. While overall corporate insolvencies fell 6% last year, there was an increase of 54% in the mining and oil & gas extraction sector. Recovering prices should help the sector stabilise. Canada’s economy is forecast to pick

up in 2017 with higher public investment for an extensive infrastructure programme and another year of record low interest rates supporting business spending and investment. However, Canada's insolvency level is at record lows, almost half its pre-crisis level, offering little room for large improvements. Furthermore, there are many uncertainties on the horizon which may push insolvencies upwards. These stem primarily from US policymaking due to the close trade and supply chain linkages between the two countries.

2017 forecasts for UK and Denmark are largely corrections for statistical changes in 2016

Last year insolvencies in the UK were higher than expected due to changes to claimable expense rules which led to the liquidation of nearly 1,800 personal service companies (PSCs) in Q4. As a result, total insolvencies rose 15%. Excluding these PSCs though, the overall

change was only +1%, more in line with the 2% uptick we previously forecast. For 2017 our outlook remains broadly unchanged: uncertainty surrounding negotiations with the EU on GDP, particularly through business investment and confidence, should cause insolvencies to increase moderately. However, due to the exceptionally high level of the 2016 figures, we predict a -8% change signalling a statistical adjustment as opposed to economic strength.

Danish statistics also showed a sharp increase in 2016: +63%. The case there however is more exceptional due to the introduction of a new form of company in official statistics and the clearing of a backlog of insolvencies. As such, it is more difficult to provide an accurate outlook on real business developments and headline figures should be taken with a grain of salt. Based on our economic outlook, we predict total insolvencies to decline 21%, an adjustment from exceptionally high levels last year.

Table 1 Insolvency growth (% per annum)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016e	2017f
Australia	-4	18	3	-1	5	1	4	-22	10	-12	1
Austria	-6	0	9	-8	-8	3	-10	-1	-5	2	0
Belgium	1	10	11	2	7	4	11	-9	-9	-6	-2
Canada	-7	-2	-12	-20	-11	-12	-2	-2	-1	-6	-1
Denmark	21	54	54	13	-15	0	-10	-20	1	63	-21
Finland	-1	16	25	-13	3	0	11	-11	-22	15	-1
France	7	8	14	-5	-1	3	2	0	0	-4	-3
Germany	-15	0	12	-2	-6	-6	-8	-7	-4	-7	0
Greece	0	30	40	30	33	30	10	3	10	3	-2
Ireland	19	100	50	10	7	3	-19	-15	-10	-1	2
Italy	-35	18	29	21	8	14	16	10	-6	-6	0
Japan	6	11	-1	-14	-4	-5	-11	-10	-9	-4	0
Luxembourg	5	-13	17	33	5	8	2	-20	6	11	3
Netherlands	-23	1	73	-10	-1	21	10	-19	-24	-19	-3
New Zealand	-5	-35	45	-6	-12	-8	-13	-7	4	-1	0
Norway	-6	28	38	-12	-2	-12	20	-5	-7	2	1
Portugal	-12	54	36	16	18	42	8	-9	12	-6	-2
Spain	10	100	50	-2	14	38	13	-30	-25	-20	-10
Sweden	-5	7	20	-4	-4	7	5	-7	-9	-4	1
Switzerland	-5	-2	24	20	7	3	-5	-7	7	3	1
United Kingdom	-5	24	23	-16	5	-4	-7	-6	-9	15	-8
United States	2	52	41	-7	-15	-16	-17	-19	-8	-2	0

Sources: National statistics bureaus, Atradius Economic Research

e = estimate, f=forecast

Table 2 Insolvency level, index

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016f	2017f
Australia	100	118	121	120	126	127	133	104	115	101	102
Austria	100	100	110	101	93	96	87	86	82	83	83
Belgium	100	110	123	125	133	138	153	140	127	120	117
Canada	100	98	86	69	62	54	54	52	52	49	48
Denmark	100	154	238	269	228	227	204	163	165	269	213
Finland	100	116	145	127	131	131	145	129	101	117	115
France	100	108	123	118	116	119	122	122	122	117	113
Germany	100	100	112	110	103	97	89	83	79	74	74
Greece	100	130	182	237	315	409	450	463	510	525	515
Ireland	100	200	300	330	354	365	296	252	228	226	230
Italy	100	118	151	183	197	223	259	285	268	251	251
Japan	100	111	110	95	90	86	77	69	63	60	60
Luxembourg	100	87	102	135	141	152	155	124	130	145	149
Netherlands	100	101	175	158	156	189	207	167	127	103	100
New Zealand	100	65	94	89	78	72	63	58	61	60	60
Norway	100	128	176	156	153	134	161	152	142	144	146
Portugal	100	154	210	242	286	405	438	398	446	417	409
Spain	100	200	300	293	335	463	523	366	274	219	197
Sweden	100	107	128	123	117	126	133	123	112	108	109
Switzerland	100	98	121	145	154	159	150	140	149	153	155
United Kingdom	100	124	153	128	135	129	120	112	102	117	108
United States	100	152	215	199	169	142	117	95	88	86	86

Sources: National statistics bureaus, Atradius Economic Research

e = estimate, f = forecast, index 2007 = 100

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