

Insolvency Forecast Germany: Several sectors at insolvency risk in 2013

29 May 2013

Romeo Grill (Senior Economist)
✉ romeo.grill@eulerhermes.com

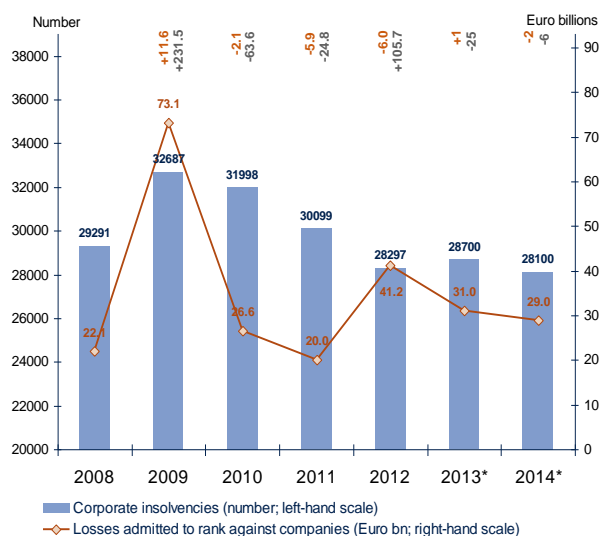
In summary

- 2013 will bring a moderate increase in insolvencies in Germany (+1% to 28,700), according to the latest forecasts by Euler Hermes.
- The weak economic environment will significantly impact on insolvency trends in some areas of industry, e.g. textiles (+13%), mechanical engineering (+10%) and printing (+9%).
- Logistics/forwarding companies, the printing industry and building cleaning rank at the top of the scale of industries at risk when looking at the relative rate of insolvency.
- Geographically, a moderate trend reversal in most German states is predicted.

2012 overview: Continued decline (-6%) to a lowest since 2000

Economic activity in Germany weakened significantly in 2012 as a result of increasing external economic pressures. Gross domestic product (GDP) increased by just +0.9%, following growth of +3.1% the previous year. At year's end, the economy again found itself in a distinctly weak phase, which saw a decline in GDP in the final quarter (-0.7%). Overall, however, economic activity remained solid, hence the positive developments that continued to be recorded in relation to insolvency. After -5.9% in 2011, the number of corporate insolvencies further decreased in 2012, by -6.0% to 28,297, the lowest level since 2000. This decline can be attributed to economic activity, as well as a significant, one-off calendar effect in 2012. Despite this improvement, financial losses on receivables more than doubled, climbing 105.7% to EUR 41.2 billion – a consequence of the rising number of larger insolvency cases.

Chart 1: Insolvencies and lost receivables in Germany 2008-2014



* Euler Hermes forecast

+ -x.x Annual percentage change in insolvencies

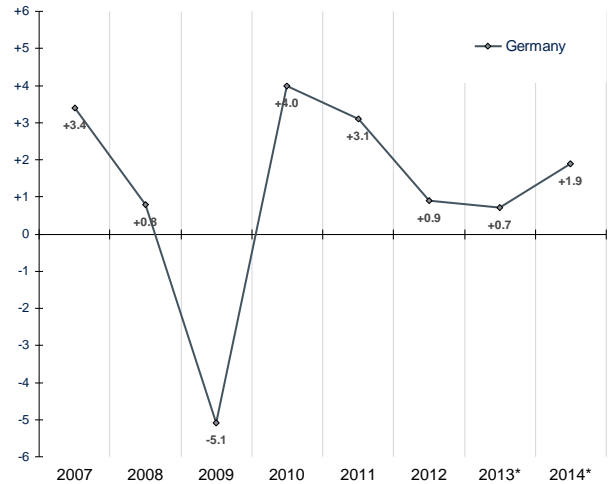
+ -x.x Annual percentage change in lost receivables

Source: Federal Statistical Office, Euler Hermes; as at 03-2013

2013/2014 forecast: Only a temporary rise in insolvency (+1% in 2013 but -2% in 2014)

In view of the fragile environment, prospects for economic activity remain modest overall, despite the upward trend that started in early 2013 and the positive dynamism set for 2014. Euler Hermes estimates GDP growth of +0.7% in 2013, followed by +1.9% in 2014. In that context, the number of business insolvencies is once again expected to rise in 2013, by +1% to 28,700 – the first increase since 2009. This can be attributed, in particular, to an increase in insolvencies in industry (+5%) and in the services sector (+2%). Company bankruptcies are then expected to drop by -2% to 28,100 in 2014. After their rapid jump in 2012, losses on receivables reported during insolvency proceedings continue to hover at a historic high, despite the expected decline in 2013 (-25% to EUR 31 billion) and 2014 (-6% to EUR 29 billion).

Chart 2: Economic growth in Germany 2007-2014
(Annual percentage change of gross domestic product)

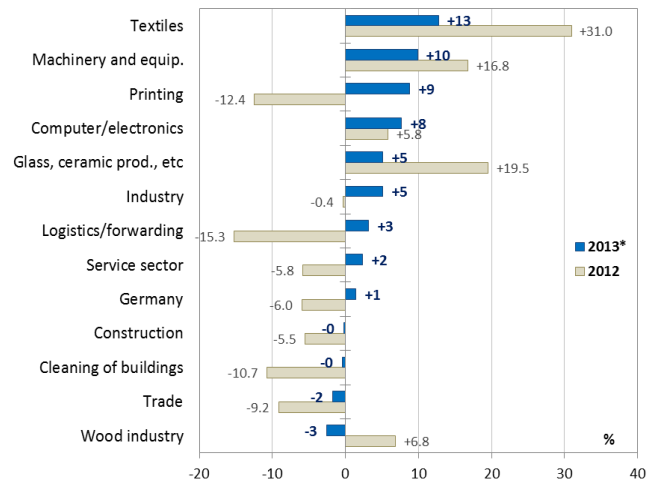


* Euler Hermes forecast
Source: IHS Global Insight, Euler Hermes; as at 03-2013

Industries: Rising insolvency in industry (+5% in 2013) and among service providers (+2%)

Euler Hermes expects a +5% rebound in insolvencies in particularly in industry, in 2013, following the decline in previous years. The deterioration in the economic environment will significantly impact on insolvency trends in some areas of industry, e.g. with an estimated +13% rise in the textile industry, following +31% in 2012, as well as in mechanical engineering (+10% following +16.8%), the printing industry (+9% following -12.4%) and computer/electronics (+8% following +5.8%) – all sectors that had already suffered a noticeable rise in bankruptcies the previous year (except for the printing industry). Logistics/forwarding companies (+3%) and the entire services sector in general (+2%) must also prepare for increasing insolvencies following the drop last year. Euler Hermes expects virtual stagnation for the construction industry (-0%), following the fall in 2012 (-5.5%), while trade should see a continued decline (-2%) as a result of favourable consumer activity. As usual, well over half of all insolvency cases occur in the services sector (57%), 18% in trade, 16% in the construction industry, and 8% in the manufacturing industry.

Chart 3: Corporate insolvencies by selected sectors in Germany in 2013 and 2013
(Annual percentage change)



* Euler Hermes forecast
Source: Federal Statistical Office, Euler Hermes; as at 04-2013

Industries: High insolvency risk for logistics

Insolvency risk varies greatly depending on the industry. Looking at the relative rate of insolvency, based on the ratio between insolvency figures and the number of existing companies liable to tax, Euler Hermes sees the logistics/forwarding industry as highest risk, with 2.2% of companies in the sector likely to become insolvent in 2013. Ranking second is the printing industry, with an insolvency percentage of 1.7%, followed by building cleaning at 1.6%. The risk for the construction sector is 1.3%, once again exceeding the all-industry average, followed by mechanical engineering and the textile industry, each with a statistical insolvency risk of 1.2%. Trade (0.8%), computer/electronics (0.8%) and the wood industry (0.5%), among others, display a below-average rate of insolvency.

Regions: Bankruptcies to increase in more than 66% of states

At a regional level, Euler Hermes expects a moderate reversal in most states in 2013, with a modest climb in company insolvency following an almost nationwide easing the previous year. According to Euler Hermes' analysis, the most dramatic rises will be seen in Bremen, Thuringia and Baden-Württemberg (+4% each), with the greatest declines in Mecklenburg-Western Pomerania, Hamburg and Saxony (-3% to -4% each). Based on the number of companies in existence, North Rhine-Westphalia continues to be the clear leader of all the states when it comes to the rate of insolvencies (1.6%), while Baden-Württemberg (0.5%), Bavaria (0.6%) and Hesse (0.6%) all record rates below the national average.

Table 1: Corporate insolvencies by selected sectors in Germany in 2013 and 2014

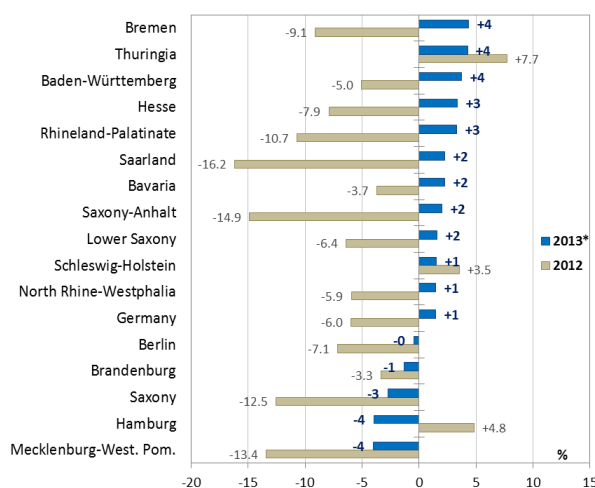
Sector	Number of insolvencies		Annual % change		Insolvency rate** 2013* in %
	2012	2013*	2012	2013*	
Industry	2,246	2,360	-0.4	+5	1.0
Textiles	55	62	+31.0	+13	1.2
Wood industry	78	76	+6.8	-3	0.5
Printing	204	222	-12.4	+9	1.7
Glass, ceramic products, etc	98	103	+19.5	+5	0.8
Computer/electronics	91	98	+5.8	+8	0.8
Machinery and equipment	223	245	+16.8	+10	1.2
Construction	4,512	4,500	-5.5	-0	1.3
Trade	5,224	5,130	-9.2	-2	0.8
Service sector	16,066	16,440	-5.8	+2	0.9
Logistics/forwarding	504	520	-15.3	+3	2.2
Cleaning of buildings	482	480	-10.7	-0	1.6
Germany	28,297	28,700	-6.0	+1	0.9

* Euler Hermes forecast

** Insolvencies in % of the companies in the respective sector

Source: Federal Statistical Office, Euler Hermes; as at 04-2013

Chart 4: Corporate insolvencies by state in Germany in 2012 and 2013
(Annual percentage change)



* Euler Hermes forecast

Source: Federal Statistical Office, Euler Hermes; as at 04-2013

DISCLAIMER

These assessments are, as always, subject to the disclaimer provided below.

This material is published by Euler Hermes SA, a Company of Allianz, for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by Euler Hermes and Euler Hermes makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the Euler Hermes Economics Department, as of this date and are subject to change without notice. Euler Hermes SA is authorised and regulated by the Financial Markets Authority of France.

© Copyright 2013 Euler Hermes. All rights reserved.