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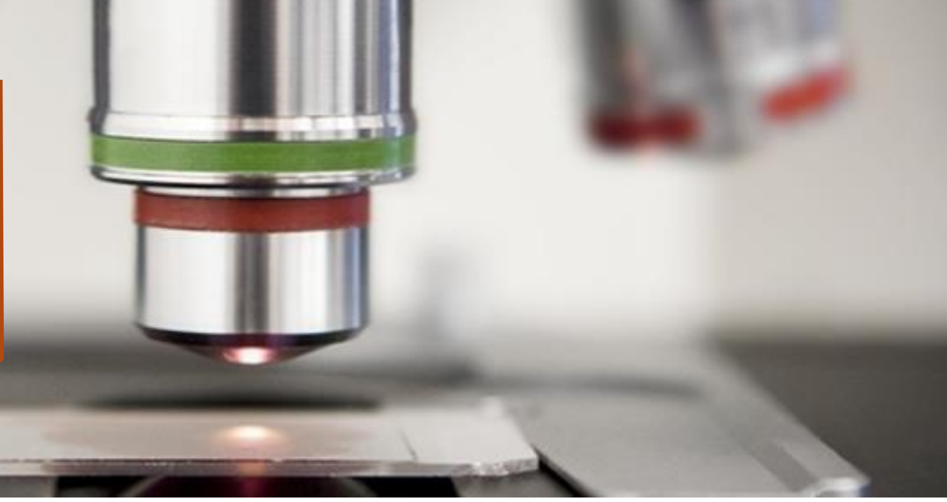
Economic Insight



Corporate insolvencies: Why does this crisis differ from 2009?

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Executive summary

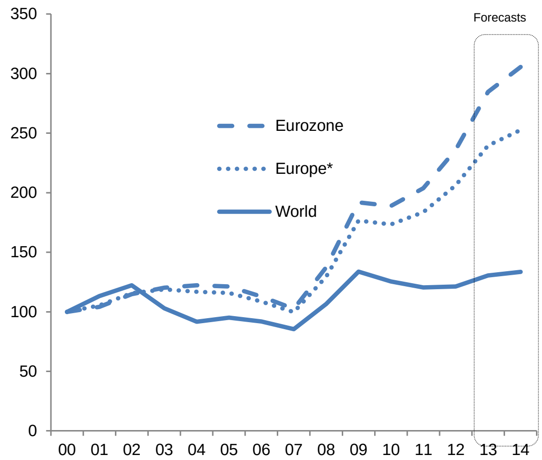
- The rise in corporate insolvencies has concentrated in the eurozone, with +16% in 2012 and +21% in 2013 according to our estimates.
- While industry was the most severely affected by the rise in insolvencies in 2009, construction (+12.9% since 2010) and services (+13.5%) have suffered the most from the withdrawal of subsidies and from their procyclical nature. The current crisis therefore differs from that in 2009 by the victims it has created.
- The services sector (two-thirds of insolvencies in Europe) comprises the largest number of countries where insolvencies have soared (frequency). The construction sector comprises the highest increases (severity).

Europe, and the eurozone in particular, is by far the world's most-affected region by the rise in corporate insolvencies. Excluding Europe, global insolvencies would have shown a decline (-11% per year during 2010-2012 then -3% during 2013-2014). Since 2010, the eurozone has thus contributed around 6 to 7 pps to the trend in bankruptcies.

After the peak in 2009 and two consecutive years of moderate decline (-6% in 2010 and -4% in 2011), global corporate insolvencies rose slightly in 2012 (+1%) despite the ongoing downtrend in Asia-Pacific and the Americas. This upturn at the global level is a direct result of the difficulties in Europe, and in the eurozone in particular. It looks set to continue through 2013 (+8%) and 2014 (+2%), in keeping with the downward revision in our macroeconomic scenario.

Throughout the European continent excluding Russia *(see Chart 1)*, a glance at

Chart 1: Aggregate Insolvency Indices (Basis 2000=100)



(*) Europe: Western and Eastern Europe excl. Russia
Source: Euler Hermes calculations and forecasts, countries weighted by 2011 GDP at current exchange

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corporate insolvencies through the lens of our global indicator – which takes into account the relative weight of countries and trends in insolvencies rather than absolute numbers – highlights at least three points: (i) the weakness of the decline in insolvencies in 2010 (-2%) in light of the preceding surge (+30% in 2008 and +37% in 2009); (ii) the rapid rise in insolvencies since 2011 (+6% in 2011 and +12% in 2012), which looks set to continue through 2013 and 2014 (+15% per year on average); and (iii) the new high which was already reached in 2012, and which is well above the 2009 peak and twice as high as in 2007.

Unsurprisingly, the upward pressure on these figures stems from eurozone countries taken as a whole (*see Chart 1*), in particular the Mediterranean countries, but some Eastern European countries have not been spared (*see Chart 2 and our Economic Outlook no. 1194 on global insolvencies*). Moreover, unfavorable economic prospects out to 2014 merely point to new highs in insolvencies for Europe and the eurozone.

The fresh surge in insolvencies since 2011 has spared none of the three major sectors (industry, construction and services). Unlike in 2009, however, it has concentrated more in construction (+12.9% between 2010 and 2012) and services (+13.5%) than in industry (+2.7% in 2012).

On the whole, the rise in corporate insolvencies in Europe since 2011 has spared none of the three major sectors of activity (industry, construction and services). Nevertheless, differences between these three sectors exist in terms of rates of increase in insolvencies (*see Chart 3*) and levels (*see Chart 4*).

Insolvencies returned to an upward trajectory in the **industrial sector** in 2012 (+2.7% compared with 2011). Nevertheless, this upturn pales in comparison to that seen in 2009 (+41%). As a result, the two years of decline (-12% in 2010 and -5.4% in 2011) mean that the number of corporate insolvencies still remains below its 2009 peak. In 2012 on average, industry accounted for 11% of all corporate insolvencies in Europe, with significant differences between countries (industry's share is 2% in Luxembourg and 5% in Norway but 20% or more in Spain, Italy and Poland).

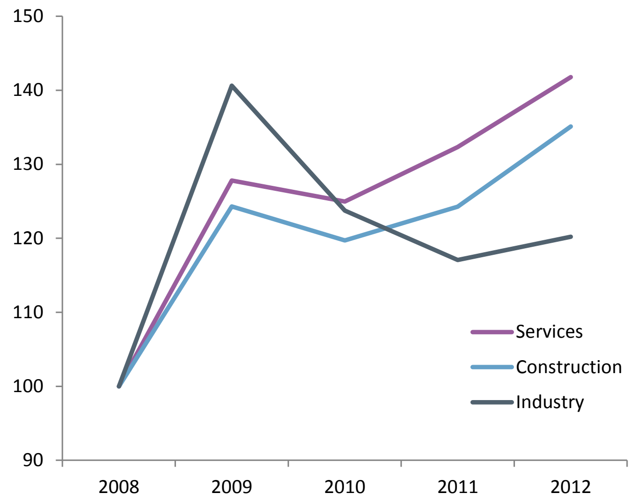
On average there were twice as many insolvencies in the **construction sector**

Chart 2 : Trend in insolvencies in European countries in 2012 (y/y, as %)

	2012		2012
Germany	-6,0%	Denmark	-0,2%
France	1,9%	Greece	30,0%
UK	-8,5%	Finland	0,7%
Italy	2,0%	Portugal	41,7%
Spain	32,0%	Ireland	2,8%
Netherlands	20,7%	Czech Rep.	46,4%
Switzerland	-3,9%	Romania	31,4%
Sweden	7,4%	Hungary	12,6%
Poland	28,9%	Slovakia	6,1%
Belgium	3,6%	Lithuania	5,2%
Norway	-12,4%	Luxembourg	8,2%
Austria	2,9%	Lettonie	0,2%

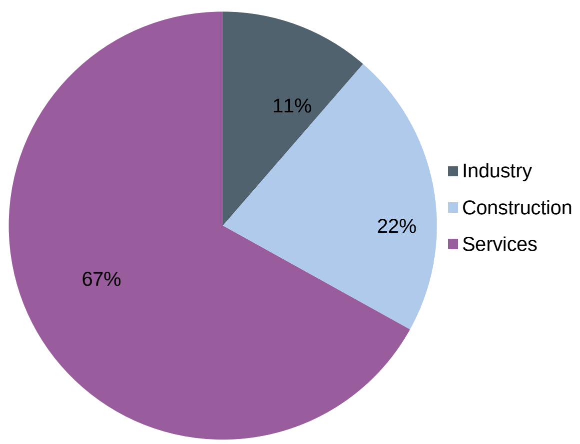
Sources: National sources, Euler Hermes

Chart 3: Insolvencies in the three major sectors in Europe* (base 2008=100)



(*) Europe: Western and Eastern Europe excl. Russia
Source: Euler Hermes calculations and forecasts, countries weighted by 2011 GDP at current exchange rates

Chart 4: Average share of major sectors in insolvencies in Europe* in 2012



(*) Europe: Western and Eastern European countries excl. Russia for which the breakdown in insolvencies by sector is available
Source: Euler Hermes

(22% of total insolvencies) than in industry. Once again, there were marked differences between countries, with this share nearer 15% for countries such as Germany, Luxembourg, Belgium, the United Kingdom and Denmark, but around 30% in Poland and Spain. This sector recorded the smallest increase in insolvencies in 2009 (albeit +24%), after which the rise in insolvencies gradually accelerated between 2011 (+4% after -4% in 2010) and 2012 (+8%). At end-2012, the number of insolvencies in construction thus comfortably exceeded that in 2009 (8.7% more).

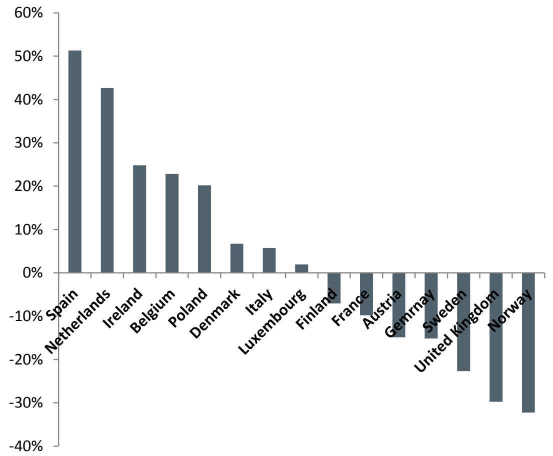
The **services sector**, which has been much more of a hotbed for business creation, is unsurprisingly also the sector that recorded the largest number of corporate insolvencies. Here too, the average figure for Europe (67% of the 2012 total) masks disparities. The proportion of services companies in total insolvencies is higher (above 75%) in the Nordic countries (Denmark, Norway and Sweden) and around Germany (Germany, Belgium and the Netherlands) and less high (less than 50%) in Spain, Portugal and Poland. Notably, it is this sector that has posted the steepest rise since 2010 (+13.5%), while the decline during 2009 was much too small (-2.2%) to wipe out the increase in 2008 (+27.8%). In other words, it is in the services sector that the number of insolvencies exceeds the 2009 peak the most (10.9% higher).

All in all, the services sector comprises the most countries that have seen an upward trend in insolvencies, but it is in construction that the increases in insolvencies are the highest at national levels

The regional trends described above of course mask more disparate and more pronounced national trends (see Charts 5 to 8), as a direct result of the disparate macroeconomic situations between the different countries in Europe. A breakdown by country nevertheless corroborates the overall observations for each of the three major sectors.

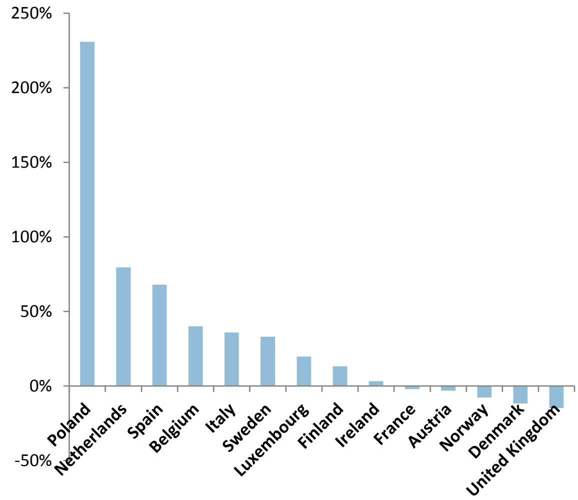
The **industrial sector** comprises the highest number of countries where the rise in insolvencies has not brought about a return to the level of insolvencies seen in 2009. This underlines on the one hand the magnitude of the 2009 shock – for example in the cases of Sweden, the United Kingdom and France – and, on the other hand, major disparities in terms of the situation and the capacity of national industries in Europe to weather the storm, with a more negative picture for Spain, the Netherlands, Belgium and Ireland (*see Chart 8*).

Chart 5: Insolvencies in industry in 2012 compared with 2008-2009 average



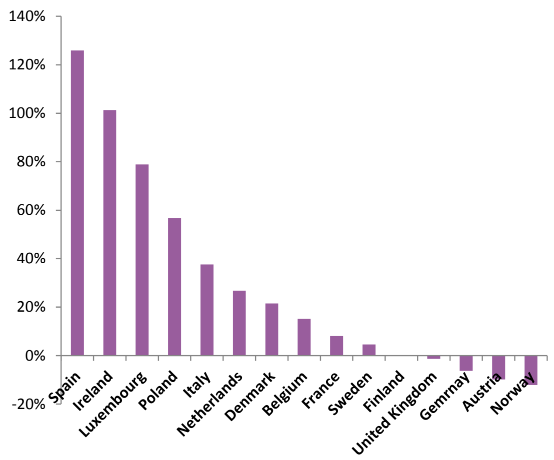
Sources: National sources, Euler Hermes

Chart 6: Insolvencies in construction in 2012 compared with 2008-2009 average



Sources: National sources, Euler Hermes

Chart 7: : Insolvencies in services in 2012 compared with 2008-2009 average



Sources: National sources, Euler Hermes

For the **construction sector**, the steep rise recorded at the aggregate level in the recent period is the result of a poorer situation than in 2008-2009 (in terms of the number of insolvencies) over a broader range of countries, with particularly marked deteriorations in Poland, the Netherlands, Spain and Belgium – but also in other countries where the trend remains unfavorable (+1% in France in 2012 and +11% in Austria).

Lastly, and above all, the overall deterioration in the **services sector** is no better, whereas this sector already accounted for 67% of total insolvencies in 2012. In fact, (i) almost all European countries recorded an increase in insolvencies in this sector in 2012 (the only noteworthy exceptions being Norway, Germany and the United Kingdom) and (ii) nearly all these countries also posted a higher annual number of insolvencies – in most cases far higher – than the average observed over 2008-2009.

Chart 8: Insolvencies in 2012 compared with 2008-2009 average

	Industry	Construction	Services
Gemrnay	-15%	-16%	-6%
France	-10%	-2%	8%
United Kingdom	-30%	-15%	-1%
Italy	6%	36%	38%
Spain	51%	68%	126%
Netherlands	43%	80%	27%
Sw eden	-23%	33%	5%
Belgium	23%	40%	15%
Poland	20%	231%	57%
Norw ay	-32%	-8%	-12%
Austria	-15%	-3%	-10%
Denmark	7%	-12%	21%
Ireland	25%	3%	101%
Luxembourg	2%	20%	79%
Finland	-7%	13%	0%

Sources: National sources, Euler Hermes

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