

## **Euler Hermes analysis: 2014 a year of Disappointment, Disruption and Divergence; 2015 determined by Liquidity, Demand and Politics**

**PARIS – 8 DECEMBER 2014** – The risk of non-payment by companies has not disappeared and caution is in order as the world continues to suffer from subdued growth and trade prospects, according to the latest Economic Outlook “A rotten apple can spoil the barrel” from Euler Hermes, the worldwide leader in credit insurance.

“Liquidity, demand and politics are the three big ticket items to watch in 2015,” said Ludovic Subran, group chief economist at Euler Hermes. “Which consumer will save the world? Will trade financing be still upbeat with a more expensive dollar? And how will political risk impact businesses’ investment decisions? These three themes underpin why the old adage ‘hope for the best, but plan for the worst’ is more apt than ever. Although we have seen a 12 per cent fall in global insolvencies in 2014 and expect only a further 3% drop in 2015, there is still considerable risk looming ahead for B2B trade.”

Euler Hermes’ Global Insolvency Index remains 12 per cent above pre-crisis levels with timid macro developments weighing on companies’ income statements and financing restraints in several countries. The threat of non-payments is set to increase by over 23 per cent by the end of 2014, largely due to difficulties in the Chinese and Russian economies -- with the former’s relatively low growth becoming a new ‘norm’. Also the average “days sales outstanding” (DSO) is increasing by one day every year since the onset of the crisis, reaching 73 days in 2014.

Research from Euler Hermes highlights in particular the fragility of the Eurozone economy. It cites poor demand, significant under-investment in infrastructure, downward price pressures and ongoing corporate funding issues as the core underlying challenges for businesses on the continent.

### **2014 a year of Disappointment, Disruption and Divergence**

- The world began 2014 with much optimism but ultimately it was a year of persistent disappointment. Out of the 80 major economies covered by Euler Hermes, only Spain and India outperformed – modestly – below consensus expectations.
- The lack of aggression in the Eurozone recovery remains ultimately a problem of demand, both corporate and consumer. Importantly, intra-Eurozone trade has struggled to recover, further hindering the upturn. Corporate funding continues to be an issue, constraining opportunities for expansion when they did present themselves.
- The escalation of tensions and sanctions in Russia and Ukraine has seen a parallel increase in risk associated with trading for companies operating in the area.
- The visibility and scale of the threat posed by Islamic State (IS) grew during 2014, representing an existential threat in the Middle East region, especially for investment and financing.
- China continued on its path towards slower but more domestically-driven growth, shifting the emphasis from its investment-dominated path.
- Brazil continues to languish, with growth expected at 0.3% in 2014, likely to be lower than many Eurozone countries. The reliance on consumer spending combined with the lack of public and private investment during the years of strong commodity prices have left the country highly exposed to the recent slow-down in commodity prices. Mexico, on the other hand, has seen growth strengthen as a leveraged beneficiary of the US recovery. Structural reforms boosted investor confidence and inflationary pressures stayed under wraps.



## 2015 determined by Liquidity, Demand and Politics

Euler Hermes estimates that the Eurozone economy will grow by just 1.0 per cent in 2015, while world GDP will increase by 2.8 per cent, a fourth consecutive year below 3% and only slightly boosted by emerging market growth of a possible 4.3 per cent. The firm's research suggests that exporters' best opportunities lay in turning their attention to regions where growth is strongest - Africa (4.9 per cent), Asia (4.7 per cent) and the Middle East (3.8 per cent) - while being equipped for non-payment risks.

- Consumption levels in the US, the UK and Germany, will fare slightly better but barely at their 2008 levels. In addition, in a context of a deflationary world, world trade volume and prices are below long- term average.
- The US FED's policy rate hike in 2015 is expected to have a limited impact on the rest of the world, but still means a higher risk of change for companies exporting to emerging countries with a large current account deficit (e.g., Brazil, India, South Africa and Turkey).
- Looking further afield, Euler Hermes flags up increasing geo-political risk as more than 40% of the world population will vote in 2015, and public policies tend to be leaning toward more interventionism.

Subran continued: "There are positive signals all over the world, from the manufacturing rebound in the US, to Italy exiting recession to new frontier markets offering important potential for industrial and household equipment. But there is also some noise, and disentangling the two will be crucial to restoring sustainable confidence, investment and stability. Companies are used to crises and have gained experience and knowhow; enriching their toolbox for successful internationalization will be more important than ever."

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