Global Business Failures—Insights

- Reflecting the uneven pattern of global growth, business failures continued to show mixed results across world regions in Q1 2012.
- Business failures decreased strongly in North America, but rose sharply in Eastern Europe in Q1 2012.
- Insolvencies fell in Euroland, although this was largely due to strong improvement in Germany.
- Insolvency levels will remain elevated in H2 2012 due to adverse global economic conditions.

- **Rising insolvency levels**: Australia, Hungary, Netherlands, Poland, Portugal, Spain.
- **Falling insolvency levels**: Finland, Germany, Latvia, Lithuania, Norway, US.

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Recent Developments: Global Business Failures Fall Year on Year

The number of global business failures as measured by D&B's Global Insolvency Index fell further in Q1, despite growing signs of a slowdown in major emerging markets (crucially China) and the euro zone; the index fell to 90.2, down from 93.5 in Q4 2011 and from 95.8 in Q1 2011; this was a 3.5% quarter-on-quarter decline and a 5.8% year on year (y/y) decline (after falling 2.7% y/y in Q4 2011). The improvement reflects the benefits of the economic recovery in some regions, notably in the US, underlining the global economic recovery’s still-favourable effects on the business climate since mid-2009. On a more cautious note, the y/y improvement masks knock-on lagged effects stemming from tightening credit conditions facing businesses (especially SMEs) amid the euro-zone crisis, growing fiscal consolidation in EU markets, and renewed capital and currency market volatility in response to erratic fluctuations in global risk aversion.

Our regional data show that patterns of insolvencies in Q1 were mixed: business failures fell most sharply in advanced countries, notably in North America and the Nordics, which experienced y/y decreases of 17.5% and 6.2% respectively. The number of business failures rose sharply in emerging markets (excluding China), particularly in Eastern Europe, which saw a 35.4% y/y rise in insolvency levels. Euroland saw some easing in the number of business failures, but this was largely due to improvements in the euro-zone’s leading member, Germany. Conversely, firms in the euro-zone’s periphery continued to struggle, as shown by rising business closures, particularly in Portugal and Spain. Meanwhile, the UK saw a general fall in business failures, although the retail trade sub-sector continued to record high levels of insolvency.

Outlook: Insolvency Risk Will Remain Elevated in H2 2012

The global economic outlook remains fraught with problems; of particular note is the potential disorderly Greek exit from the monetary union and the subsequent re-emergence of systemic problems in Europe and emerging markets; in addition, the ongoing slowdown in China will increase short-term cyclical challenges in many of its import markets, leading to softer growth trends. Already, such concerns have led to tighter credit conditions and weaker business sentiment. While the US, and to a lesser extent Asia, will underpin global growth over the remainder of 2012, we believe that the net effect will be fragile global growth over H2 2012. Slower growth will likely inhibit the process of improvement in failures and bankruptcies and so further improvements in business failure readings are unlikely in the near term.
This Insolvency Risk Outlook matrix shows the level of insolvency risk for the key countries covered in this report, categorised by D&B’s economic outlook for each country (horizontal axis) and the change in each country’s Insolvency Index (vertical axis).

A positive/negative economic forecast means that economic activity for that country for 2012-13 will grow/contract. A rising/falling Insolvency Index refers to the country’s latest insolvency level recorded in Q1 2012. For example, the ‘High Insolvency Risk’ category lists countries that combine still-high level of insolvencies compared with the previous year (according to our latest data) with a weaker economic outlook (compared with historical standards).

**Key Insight: Insolvency Risk Rises In Indebted Euro-zone Economies and Elsewhere**

The matrix shows that insolvency risk is rising particularly sharply in the countries that have been affected by the euro-zone sovereign debt crisis e.g. Italy, Portugal, Spain and the Netherlands. Even countries that have low sovereign debt levels and which have recovered comparatively well (Australia, Switzerland) are seeing a marked increase in insolvency risk.

At the other end of the spectrum, ongoing recoveries in countries such as Germany and Norway continue to support decreases in insolvency risk, despite the global slowdown. That said, given the escalating problems in the euro zone, we expect insolvency levels to accelerate (from relatively low levels) in many economies in the coming quarters.
Sectoral Developments in Advanced Countries

Key Sector: Manufacturing

- business insolvencies in the key manufacturing sector dropped in Q1, although the outlook remains weak due to softer economic growth;
- among the advanced countries, the number of business failures in the manufacturing sector fell by 13.0% y/y in Q1 and by 12.3% over the past four quarters;
- this is significantly down on the peak seen in Q3 2009, when business failures rose by 167.7% y/y in the wake of the global recession.

Developments in Other Sectors

- particularly strong decreases were recorded in the construction, telecommunications & transportation, real estate and natural resources sectors;
- the remaining sectors also saw declines in insolvencies in Q1;
- meanwhile, the net effect of the weak outlook for demand in Euroland and the mild recovery for demand in the US is likely to be an increase in insolvency risk in the services sector.

United States

Latest Developments:

- the number of business failures fell for a sixth consecutive quarter in Q1, by 17.5% y/y, compared with a 14.9% y/y fall in Q4 2011;
- the easing in business insolvency levels is due to the slowly embedding economic recovery;
- all sectors recorded y/y improvement in Q1, led by natural resources and transportation, but with real estate improving less strongly.
- in the last four quarters combined, all sectors have shown an impressive improvement in the rate of business failures.

Outlook:

- external factors could derail the recovery, which we expect to remain uneven across various states;
- as such, we advise caution when dealing with sectors with a high dependency on sales to Asia and Europe.
United Kingdom

Latest Developments:
• the number of business failures declined by 17.5% y/y in Q1 2012, marking the first quarter of decrease in bankruptcies since Q2 2011;
• aggressive restructuring and productivity gains are offsetting the ongoing drag from sluggish recovery;
• the worst performing sector was retail trade;
• finance, insurance, real estate and personal services experienced the largest drop in business failures.

Outlook:
• despite the decline in business failures, we expect insolvency risk to remain high in the coming quarters, as downside risks linked to the euro zone have risen;
• UK exports and import substitution industries will feel the full impact of the euro-zone crisis in coming quarters.

Spain

Latest Developments:
• the number of business failures rose for the fifth consecutive quarter in Q1 2012, by 26.2% y/y;
• the high level of business failures reflect the severely recessionary macroeconomic environment;
• transport and storage, construction, and wholesale trade saw the largest increases in bankruptcies;
• by contrast, agriculture and fishing saw a decline in bankruptcies.

Outlook:
• a further increase in the number of business failures is likely given depressed demand and ongoing fiscal consolidation;
• the outlook for almost all sectors looks weak.
France

Latest Developments:

• the trend in business failures reversed y/y in Q1 2012: there was a 0.3% y/y decrease in bankruptcies after a marginal increase of 0.4% y/y in the previous quarter;

• the worst performing industries in terms of an increasing number of bankruptcies were transport, logistics, information and communications;

• the best performing industries with decreasing number of bankruptcies were construction, industry and personal services.

Outlook:

• overall confidence is weak, signalling an increase in business failures in H2 2012;

• retailers/financial services will suffer weakness as consumers remain cautious amid credit tightening.

Australia

Latest Developments:

• bankruptcy cases rose sharply y/y in Q1 2012, rising by 18.8%, after a 1.3% y/y rise in Q4 2011;

• the rise in insolvencies partly reflected the lagged effect of increases in interest rates in the post-credit crunch recovery period in 2010–11;

• negative consumer sentiment and the strong currency are also reducing profits outside the mining sector.

Outlook:

• with weakness in retail, financial services and construction, we expect new failures, due to recent high interest rates and falling bank credit;

• overall confidence is weak, signalling an increase in business failures going into H2 2012;

• there will also be new uncertainty for the mining sector as projects are delayed or downsized and as Chinese demand cools.
Japan

Latest Developments

- the number of business failures dropped by 0.8% y/y in Q1, after declining 5.9% y/y in Q4, despite the economic shock of the Great East Japan Earthquake;
- the continued decline in bankruptcy cases reflected recovery from the lagged recovery after the shock of 2009, and the fact that credit conditions improved and government support to SMEs continued;
- the manufacturing sector saw the largest y/y drop in Q1, followed by the retail sector, even as services failures rose 11.9%.

Outlook:

- government support and guarantees shielded firms from the Great East Japan Earthquake in March 2011 and the economy is on a post-quake expansion path;
- having survived natural disasters in Japan and Thailand and a strong yen in 2011, 2012 could prove difficult for exporters as global demand stagnates;
- grace periods for debtors in stricken areas will expire and raise business failures in 2012.

South Africa

Latest Developments:

- the number of business failures fell by 10.0% y/y in Q1 2012, after a 31.6% y/y increase in the previous quarter;
- despite this, the business climate continues to suffer from tight lending conditions, rising input costs and weaker exports;
- wholesale trade was the best-performing sector, both in y/y terms and in the 12 months to Q1;
- the agriculture, forestry, fishing, mining and services sectors showed sharp increases in insolvency risk.

Outlook:

- we expect business insolvency risk to remain elevated amid subdued domestic activity and a downturn in the key trade partner, the EU;
- however, gold mining will benefit from strong external demand due to ongoing global uncertainty.
Russian Federation

Latest Developments

• the number of business failures declined for the seventh consecutive quarter in Q1 2012, by 2.5% y/y;

• decreasing business failures reflect an improved economic environment (especially buoyant private and government demand) and improved credit conditions;

• finance, insurance and real estate saw the largest y/y increase in bankruptcies in Q1;

• agriculture, forestry, fishing, mining and manufacturing showed sharp drops in insolvency risk.

Outlook:

• business insolvency risk is likely to rise in the coming quarters amid rising inflation and a downturn in the key trade partner, the EU;

• however, the oil industry will benefit from high oil prices.

Business Failures by Sector in Q1 2012

<table>
<thead>
<tr>
<th>Sector</th>
<th>Share of Total</th>
<th>Y/Y Change Q1-12</th>
<th>Y/Y Change yr to Q1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale and retail trade</td>
<td>26.2</td>
<td>-4.9</td>
<td>-14.6</td>
</tr>
<tr>
<td>Construction</td>
<td>19.6</td>
<td>-0.2</td>
<td>-5.7</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>15.2</td>
<td>-9.7</td>
<td>-9.9</td>
</tr>
<tr>
<td>Finance, insurance, real estate</td>
<td>13.0</td>
<td>12.0</td>
<td>10.4</td>
</tr>
<tr>
<td>Agriculture, forestry, fishing, mining</td>
<td>12.9</td>
<td>-5.7</td>
<td>-9.4</td>
</tr>
<tr>
<td>Transport and Telecommunications</td>
<td>5.1</td>
<td>2.5</td>
<td>-8.6</td>
</tr>
<tr>
<td>Hotel and restaurants</td>
<td>1.0</td>
<td>0.0</td>
<td>-4.9</td>
</tr>
<tr>
<td>Other</td>
<td>7.1</td>
<td>-3.1</td>
<td>-4.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>-2.5</strong></td>
<td><strong>-7.7</strong></td>
</tr>
</tbody>
</table>
Developments in Other Countries

**China**
- Business failures rose 15.2% y/y in Q1, reflecting higher credit risk among firms affected by a tightening of credit conditions in 2011;
- By Q4, real estate and the export sector were already noticeably affected, and the outlook for credit quality in 2012 is negative in several sectors;
- The incomplete development of the bankruptcy framework means that business failures data tend not to capture all involuntary business cessations.

**Singapore**
- The number of business failures fell 16.7% y/y in Q1, compared to a 10.8% y/y rise in Q4;
- Singapore’s economic growth has slowed down appreciably from 2010-11, but this has not yet translated into sharply higher credit risks;
- Weaker demand prospects in 2012 in trade partners such as the EU and China will lower profits in cyclically exposed sectors.

**Taiwan**
- The number of business failures rose for the second consecutive quarter in Q1 2012, by 13.4% y/y;
- The continued increase reflects renewed difficulties in the business climate, especially weakening export orders, falling manufacturing output (mainly in high-tech industry) and subdued consumer spending;
- Given these factors, we expect a further deterioration in business insolvency risk, and advise caution when dealing with manufacturing firms in particular.

**Brazil**
- The number of business failures fell by 5.6% y/y in Q1 2012, after a 7.3% y/y rise in Q4 2011;
- The amelioration reflects positive economic performance, although the majority of important sectors in the economy remain weak;
- A reversal in trend in the number of business failures is likely over 2012 as economic momentum slows.
Netherlands
- the number of business failures increased by 24.1% y/y in Q1 2012, up from an increase of 10.9% in Q4 2011;
- the increase in business failures reflects tougher lending terms and a deteriorating economic climate amid low domestic demand and sluggish export performance;
- the weakening economic outlook is likely to see a further rise in insolvencies in H2 2012.

Germany
- the number of business failures fell by 31.4% y/y in Q1 2012, compared with a 5.7% y/y drop in Q4 2011;
- the decline reflects the economic recovery, with credit conditions and companies' payments performance improving notably;
- however, the escalating euro-zone crisis is a threat to further improvements, and we expect an increase in insolvency rates from late 2012 onwards.

Portugal
- the number of business failures increased by 46.5% y/y in Q1 2012, up from 23.9% y/y in Q4;
- the deterioration reflects the ongoing economic downturn amid companies' weak performance and the government's sharp budget cuts;
- a further increase in the number of business failures is likely given the fragile economic outlook and the ongoing need for fiscal consolidation.

Switzerland
- the number of business failures rose by 6.5% y/y in Q1 2012, after an expansion by 3.4% y/y in Q4 2011;
- the increase since Q3 2011 reflects the franc's sharp appreciation and the aggravation of the euro-zone crisis;
- although the franc's upward trend has been curbed by the intervention of the Swiss central bank, price competitiveness problems for export-orientated businesses remain.
**Hungary**

- the number of business failures rose by 34.1% y/y in Q1 2012, compared with 30.0% y/y in Q4 2011;
- worryingly, the weakness of the forint increases repayment obligations for companies (which are very often indebted in Swiss francs);
- it is likely that the number of business failures will keep rising over the next quarters, as the domestic banking sector is exposed to the euro-zone crisis and tightens access to credit.

**Poland**

- the number of business failures rose by 35.8% y/y in Q1 2012, after a 15.4% y/y increase in Q4 2011;
- the continued decline reflects Poland’s economic slowdown, stemming from reduced trade with the euro-zone countries, as well as weaker household consumption and private investment constrained by credit tightening;
- a further increase in business failures is likely to occur in the near term.
Macroeconomic Context

The table below summarises the D&B Insolvency Index (Q2 2010 = 100), the year-on-year change in the number of business failures, and the real GDP growth forecast (2012–16 average) for a selected list of countries; it also indicates the trend for each country’s risk rating (▲ = ‘improving’, ■ = ‘stable’, and ▼ = ‘deteriorating’). The countries shaded in grey are covered in more detail in the preceding pages.

<table>
<thead>
<tr>
<th>Country</th>
<th>D&amp;B Insolvency Index Q2 2010</th>
<th>year-on-year change in Q1 2012</th>
<th>Real GDP Growth Average 2012–16</th>
<th>Risk Rating Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>104.2</td>
<td>18.8</td>
<td>1.9</td>
<td>▼</td>
</tr>
<tr>
<td>Belgium</td>
<td>133.3</td>
<td>0.9</td>
<td>1.5</td>
<td>▼</td>
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<tr>
<td>Brazil</td>
<td>87.8</td>
<td>-5.6</td>
<td>5.0</td>
<td>■</td>
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<tr>
<td>China</td>
<td>59.9</td>
<td>15.2</td>
<td>7.4</td>
<td>▼</td>
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<tr>
<td>Czech Republic</td>
<td>107.5</td>
<td>9.04</td>
<td>1.4</td>
<td>▼</td>
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<tr>
<td>Denmark</td>
<td>82.6</td>
<td>-1.4</td>
<td>1.6</td>
<td>■</td>
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<td>Finland</td>
<td>119.1</td>
<td>-5.6</td>
<td>2.2</td>
<td>▼</td>
</tr>
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<td>France</td>
<td>112.3</td>
<td>-0.3</td>
<td>1.4</td>
<td>▼</td>
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<td>Germany</td>
<td>63.0</td>
<td>-31.4</td>
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<td>▼</td>
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<td>Hong Kong</td>
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<td>0.6</td>
<td>3.9</td>
<td>▼</td>
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<tr>
<td>Hungary</td>
<td>127.7</td>
<td>34.1</td>
<td>1.7</td>
<td>▼</td>
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<tr>
<td>Iceland</td>
<td>133.3</td>
<td>-20.9</td>
<td>2.4</td>
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<tr>
<td>Ireland</td>
<td>85.5</td>
<td>-14.8</td>
<td>2.4</td>
<td>▼</td>
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<tr>
<td>Israel</td>
<td>181.6</td>
<td>-11.0</td>
<td>3.6</td>
<td>■</td>
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<tr>
<td>Italy</td>
<td>100.4</td>
<td>0.8</td>
<td>0.5</td>
<td>▼</td>
</tr>
<tr>
<td>Japan</td>
<td>95.8</td>
<td>-0.8</td>
<td>1.1</td>
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<td>Latvia</td>
<td>33.0</td>
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<td>3.7</td>
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<td>Lithuania</td>
<td>67.1</td>
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<td>Norway</td>
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<td>3.4</td>
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<td>Serbia</td>
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<td>70.1</td>
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<td>Poland</td>
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<td>35.9</td>
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<td>Switzerland</td>
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<td>▼</td>
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<td>Taiwan</td>
<td>104.6</td>
<td>13.4</td>
<td>4.3</td>
<td>▼</td>
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<tr>
<td>United Kingdom</td>
<td>69.1</td>
<td>-17.5</td>
<td>1.2</td>
<td>▼</td>
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<tr>
<td>United States of America</td>
<td>75.0</td>
<td>-17.3</td>
<td>2.1</td>
<td>■</td>
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</table>

Glossary of Terms

D&B Global Insolvency Index: A proprietary D&B Country Risk Services index that assesses the performance of business failures globally (more details available below). The terms ‘bankruptcy’, ‘business failure’ and ‘insolvency’ are used interchangeably in this report.

Eastern Europe: Czech Republic, Hungary, Latvia, Lithuania, Poland and Serbia.

Emerging Asia (excl. China): Taiwan and Singapore

Nordic Region: Denmark, Finland, Iceland and Norway

North America: United States of America

Methodology

The D&B Global Insolvency Index is a D&B Country Risk Services product calculated as the weighted average of the insolvency index for each country based on the information available. The D&B Global Insolvency Index aggregates the indices for 33 countries organised in seven regions covering more than 70% of global GDP. The country’s GDP (nominal terms) in US dollars provides the weighting for each national insolvency index. The D&B Global Insolvency Index benchmark value is 100 for Q2 2010. An increase in the index implies more negative events concerning insolvencies, while a decrease represents a positive development. More information is available upon request.

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D&B Country Risk Services

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Additional Resources

The information contained in this publication was correct at the time of going to press. For the most up-to-date information on any country covered here, refer to D&B’s monthly International Risk & Payment Review. For comprehensive, in-depth coverage, refer to the relevant country’s Full Country Report.

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