Economic Outlook 2011

February 2011

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Executive summary

- The recovery in global activity which began in the second quarter of 2009 broadly continued in 2010. The expansion has been led by countries in Asia and Latin America while Western Europe has lagged behind.

- The pace of the recovery is expected to slow in 2011 compared to 2010 across a majority of Western European markets. This is in line with recent signals from production, sales and trade.

- Large and growing imbalances within the Eurozone became the major theme of 2010, which have implications for the 2011 outlook. The Eurozone aggregate masks sizeable country variations regarding structural performance. The fallout from recent sovereign debt pressures in Greece and Ireland underscores the risk of rapid contagion.

- The massive fiscal stimulus designed to support the recovery since the onset of the crisis has now given way to a concerted squeeze on net public spending which is likely to act, in the short term, as a drag on GDP growth. The final impact on real economic activity is uncertain and can be expected to vary significantly in magnitude across markets.

- While the consensus opinion is that the downward phase of the cycle is now behind us, there is still uncertainty surrounding the sustainability of the recent pick-up. Emerging fiscal constraints coupled with sluggish credit conditions translate into a high degree of forecast uncertainty for 2011.

- Improving real economic activity led to a widespread decrease in insolvencies during 2010, though the speed and timing varied from country to country. The level of insolvencies remained structurally high, however, as did the general price of credit risk.

- The main scenario of a protracted economic recovery implies that we expect to see further improvements in the insolvency environment in 2011. Despite these projected improvements, a prolonged period of weak corporate credit conditions is anticipated. Economic recovery will not herald an immediate return to the benign insolvency conditions that prevailed before the onset of the crisis.

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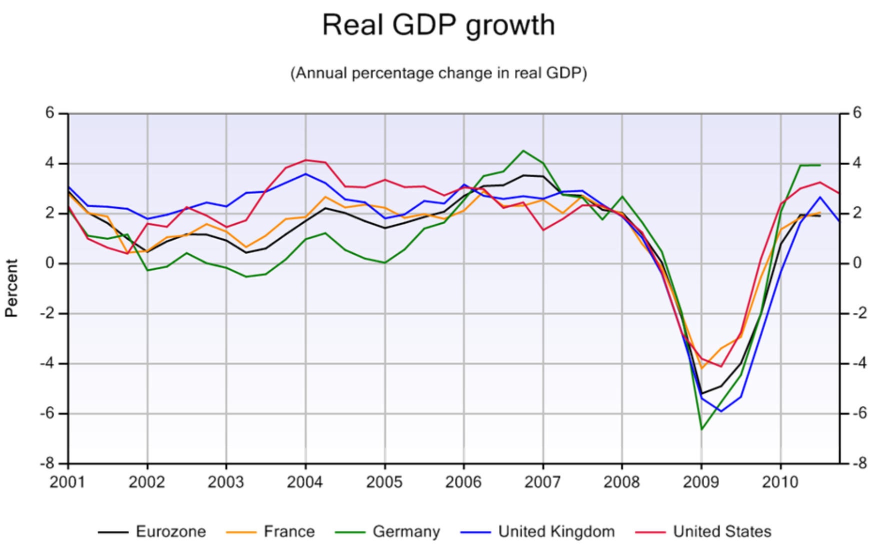
The recovery in economic activity has broadly continued…



	Output shortfalls in % (10 quarters after pre-crisis GDP peak)				
	United States	***Germany***	***United Kingdom***	***France***	***Italy***
1990-93 downturn	***5,3***	***4,0***	***3,8***	***3,4***	***1,5***
2007-09 downturn	***-1,1***	***-1,5***	***-3,8***	***-1,2***	***-5,7***

- The recovery in global activity, which began in the second quarter of 2009, has broadly continued over the last few quarters with world output rising by 4.0% in 2010 after a 1.8% decline in the previous year. The recovery has been led by the Asia-Pacific region and Latin America with growth rates of 6.9% and 5.7% respectively.
- Meanwhile, many of the more advanced economies have lagged far behind. Output in the Eurozone and the US rose by 1.7% and 2.9% respectively. There were also sizeable differences within Europe. While GDP in Germany, the UK and France rose by 3.6%, 1.7% and 1.6%, activity fell back in both Ireland and Spain. In Greece GDP fell by around 4.0%.
- Even in those markets where the GDP growth has picked up sharply towards pre-crisis levels, the length and severity of the 2007-09 downturn means that the level of output remains markedly below their pre-crisis peaks. Consequently, there remains an unprecedented level of economic slack this far into an economic recovery.
- Despite huge levels of fiscal and monetary support, output in several of our key markets remains around 1.1% to 5.7% below their pre-downturn peaks. At the same point of the early 1990s recovery, GDP exceeded its pre-recession peak by 1.5% to 5.3%. This difference partly reflects the particularly damaging impacts of credit market dislocations and frictions on spending and trade.

Sources: DataInsight; Atradius Economic Research.

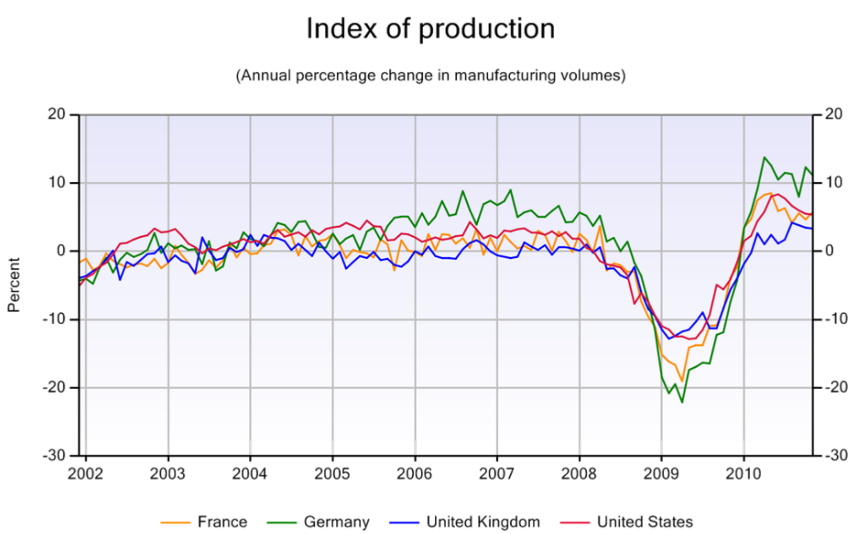
...but moderation in growth rates is anticipated for 2011.

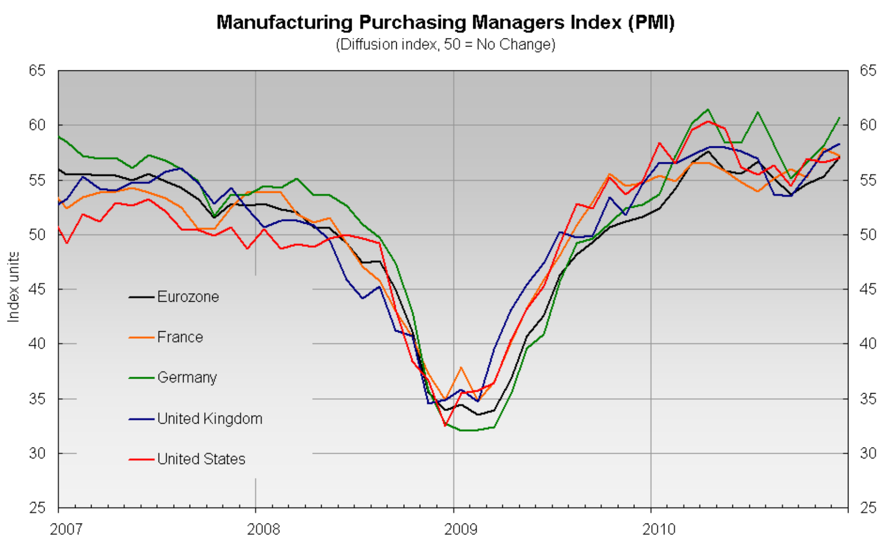
	Consensus Forecast January 2011 Survey	Real GDP % Growth					
		2009	2010	2011	2012	2011 Trend	2011 M-o-M forecast revision
Major Markets	France	-2.5	**1.6**	1.6	1.7	→	↑
	Germany	-4.7	**3.6**	2.5	1.8	↓	↑
	Italy	-5.1	**1.0**	0.9	1.1	↓	↓
	Japan	-5.3	**4.3**	1.2	2.0	↓	↑
	Netherlands	-3.9	**1.7**	1.4	1.7	↓	↑
	Spain	-3.7	**-0.2**	0.6	1.2	↑	→
	United Kingdom	-5.0	**1.7**	2.1	2.1	↑	↑
	United States	-2.6	**2.9**	3.2	3.3	↑	↑
Major Regions	Western Europe	-4.1	**1.8**	1.6	1.7	↓	↑
	Eastern Europe	-5.2	**3.9**	3.9	-	→	→
	Euro zone	-4.0	**1.7**	1.5	1.6	↓	→
	Asia Pacific	1.9	**6.9**	5.1	5.4	↓	↑
	Latin America	-1.7	**5.7**	4.1	-	↓	↑
	Total	-1.8	**4.0**	3.4	-	↑	↑

Source: Consensus Forecasts (Survey date 10 January).

- According to Consensus forecasts, the pace of the recovery is broadly expected to slow in 2011 compared to 2010. This is in line with recent signals from production, sales and trade. Japan is expected to face the sharpest slowdown, with real output growth falling from 4.3% in 2010 to 1.2% in 2011, while growth in the US is anticipated to remain robust.
- There are some significant variations among the major European markets. The Spanish economy is expected to barely return to growth, while UK activity strengthens from 1.7% in 2010 to 2.1% in 2011. Growth remains stable at 1.6% in France, while German activity is expected to slow more abruptly, from 3.6% in 2010 to 2.5% in 2011.

There are signs that production growth is easing…





- The main reason for the expected moderation in growth during 2011 is that many of the underlying drivers of the economic recovery, such as industrial production, have lost momentum over recent months.
- Industrial output saw a sharp turnaround in 2009. This partly reflected temporary government schemes and support in the form of production and demand subsidies such as the 'cash for clunkers' programmes for motor vehicles, housing market tax credits, and cuts in consumption taxes introduced over 2008-2009.
- It is possible that such schemes have simply brought forward production and spending which will fall back once such interventions have run their course. These patterns may help to explain why industry output has slowed over the second half of 2010.
- The recent behaviour of the forward-looking monthly Manufacturing Purchasing Managers' Indices, which are based on company surveys, suggests that this slowdown in production may unwind over the coming months. But with capacity utilisation rates across Europe and the US still around 5 percentage points below their pre-downturn averages, companies can be expected to continue to adopt a highly cautious approach to any sustained capital expenditures which could otherwise help to put the recovery on a firmer footing.

Sources: DataInsight; Bloomberg.

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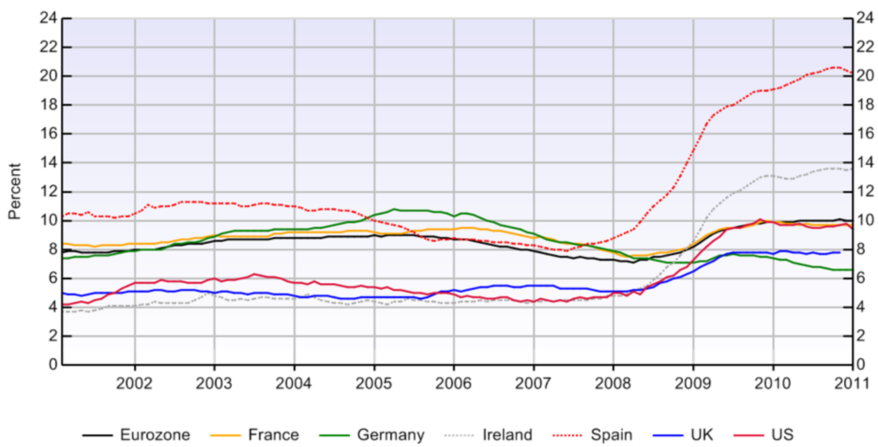
…as a sluggish labour market is pressing on consumption…

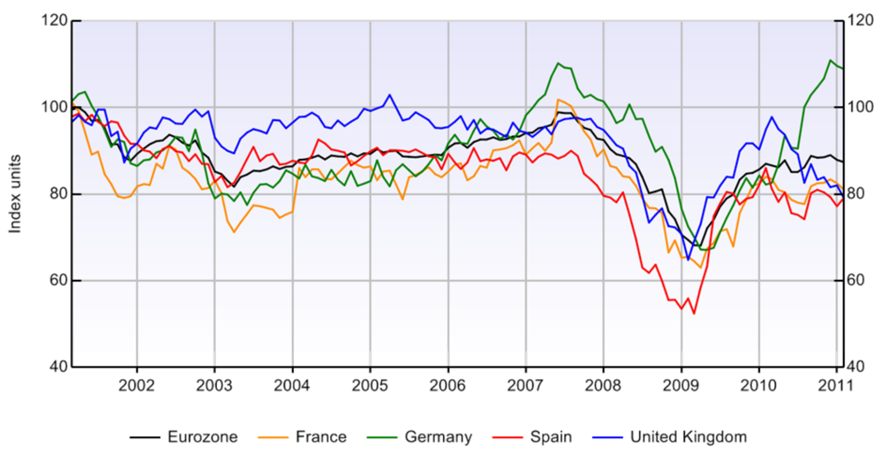
Unemployment

(Percentage rate of total workforce)



Consumer climate indicators in Europe

(Index 100 = Neutral)



- The broad pickup in activity since mid-2009 has fed through to the labour market with unemployment rates stabilising over the last few months at around 10% in the US and Eurozone, and 8% in the UK.
- But the Eurozone aggregates mask sizeable country variations, some of which reflect structural and policy differences. For example, Spanish and Greek labour markets continue to deteriorate. On the other hand, countries such as Germany and the Netherlands, with more fiscal headroom to subsidise short-time working and job creation have outperformed their Euro area peers.
- Even in those countries where the labour market is recovering, its weakness is likely to linger for some time as firms remain hesitant to create employment slots amidst uncertainties about the ongoing strength of the recovery.
- Such labour market overhangs, together with weak wage growth and oncoming sharp declines in public spending, help to explain the general retrenchment in consumer confidence since the start of the year. This weakening of household sentiment can be expected to put a brake on domestic consumption growth, which has played the dominant role in driving activity across our markets over the last decade.

Source: DataInsight.

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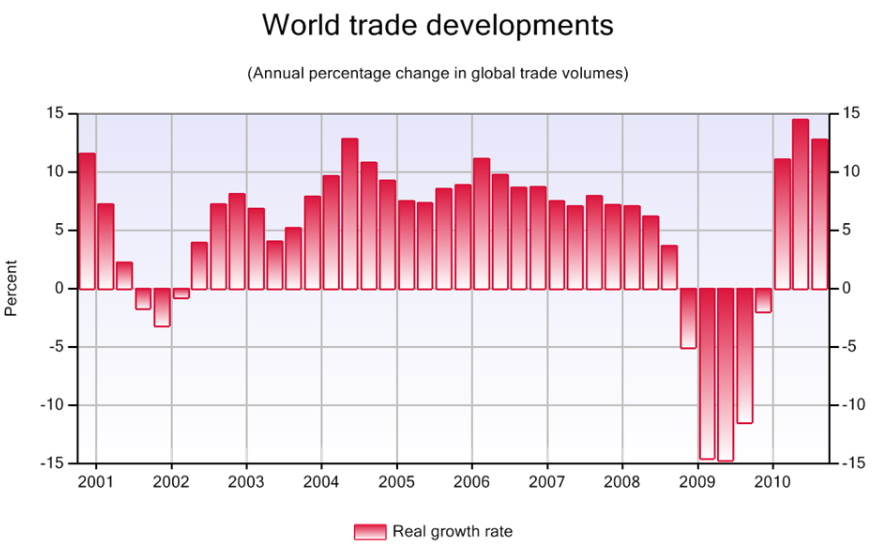
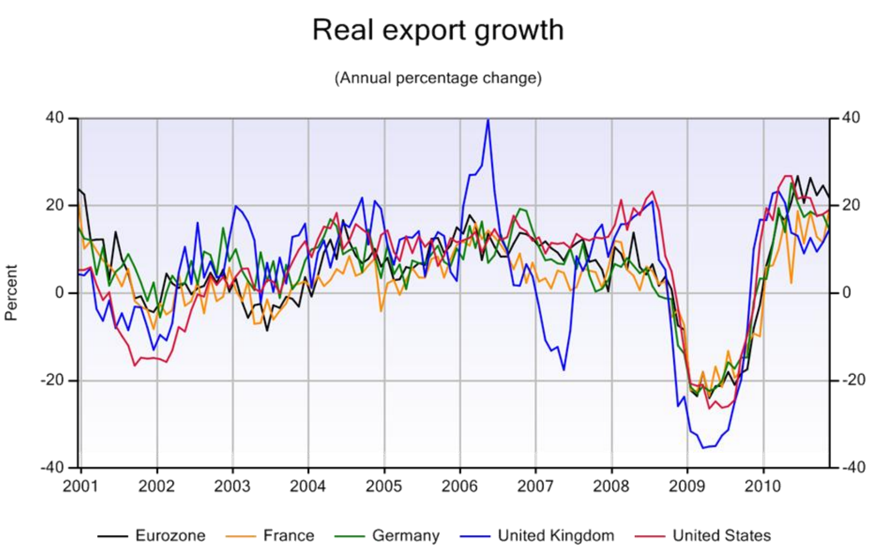
…and export growth is moderating.





- After falling by more than 10% in 2009, global trade rebounded strongly in 2010 displaying an annual rate of growth of around 15%. This figure is more than twice as strong as the average rate of growth over the last four decades and has helped push international shipments close to their pre-crisis peak of nearly US$4 trillion.
- Exports from our largest markets, which fell by 20% to 35% during the first half of 2009, have also picked up. However, in contrast to the global picture, these are still below their pre-recession highs as most of the global pick-up has been dominated by the emerging Asian and Latin American economies.
- The shortfalls are broadly replicated by those countries where international trade plays a much larger role in driving overall activity, such as Belgium and the Netherlands, which are down by 30% and 20% respectively. On the other hand, shipments from the US, where economic growth is much less sensitive to trade flows, have recovered to within 10% of the previous peak.
- The most recent trade data from Q3 of 2010 indicate a fading in the recent pace of export growth among the advanced economies which will further lengthen the time for these export gaps to be eliminated.

Source: DataInsight.

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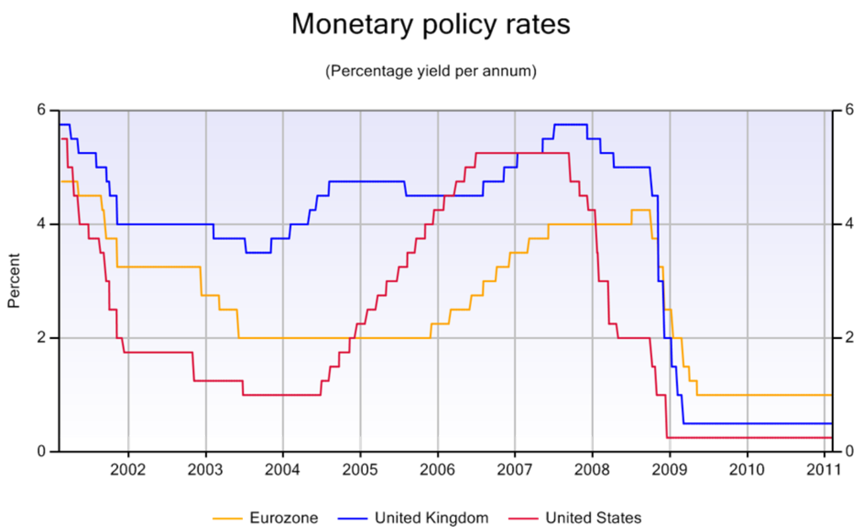
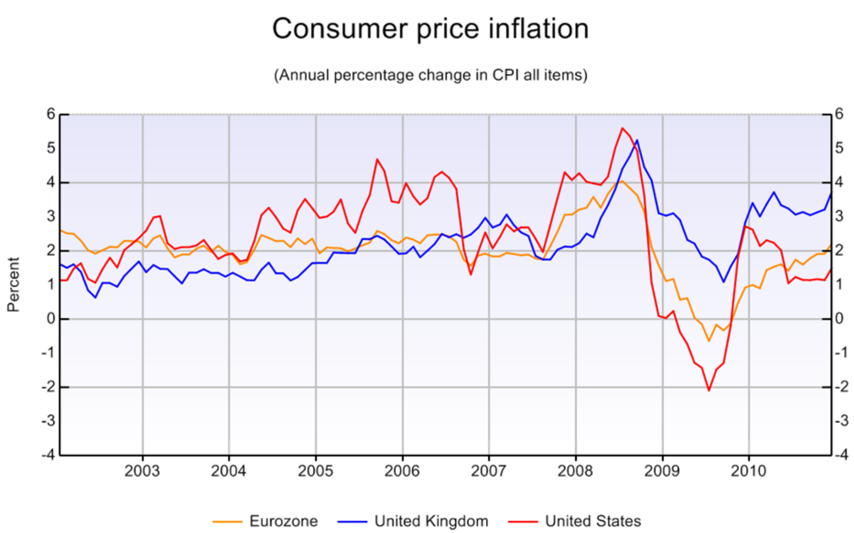
Policy remains supportive of economic activity…

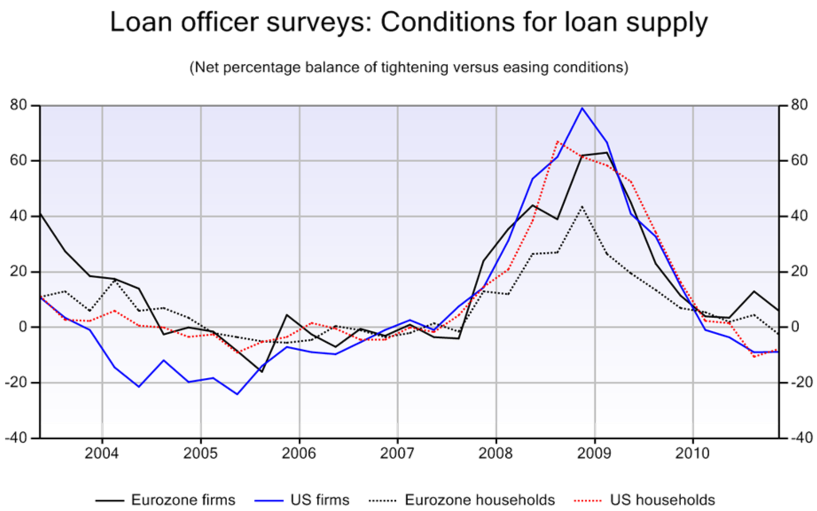


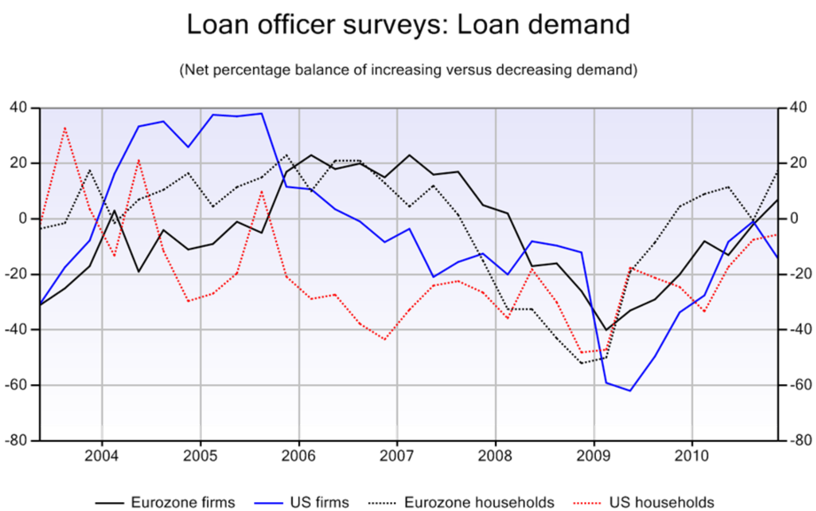


- Conventional monetary policy, which has seen record low policy rates for well over seven quarters in the US, UK, and Eurozone, is likely to have peaked in terms of its effectiveness in supporting economic activity and staving off the threat of deflation.
- All three regions have also conducted less conventional support in the form of so-called ‘Quantitative Easing’. This has involved the purchasing of government and corporate debt and is aimed at stimulating private sector demand via lower borrowing costs, raising wealth, and increasing the funds available for bank lending.
- Domestic price dynamics have diverged during 2010. The pace of annual price growth in the Euro area has risen steadily over the past year and has recently reached 2.2%, which is a little above the policy objective of the European Central Bank. However, at 3.7%, UK inflation is well in excess of the 2% target.
- In contrast, US price growth, which is currently around 1%, has fallen markedly over the year. This decline, along with renewed weakness in the domestic housing market and sluggish labour market conditions, has prompted the Federal Reserve Board to announce that it intends to embark on a second round of Quantitative Easing. This will involve purchasing an extra $600 billion in longer-term Treasury securities by the end of Q2 of 2011.

Source: DataInsight.

…but credit conditions remain restrictive...





- Loan officer surveys across our key markets indicate that bank lending has lagged behind the pickup in real activity, possibly due to continued uncertainty about future write-downs, weak capital positions and sovereign-related risks. The latest surveys for the Eurozone and the US show that the improvements in the underlying conditions for the supply of credit have largely ground to a halt.
- In the US, the net balance of credit standards used to appraise corporate and household applications moved into negative territory in the first half of 2010 signifying a slight easing after two years of tightening. Lending conditions in the Euro area have been broadly flat over 2010, with the positive net balance indicating a moderate pace of continued tightening.
- The demand for commercial loans picked up in the Eurozone and is rising at its fastest rate for nearly two years, largely due to an increase in funding requirements for inventory restocking and working capital as product demand recovered. However, demand among US companies slipped in Q3 of 2010, possibly due the greater uncertainty over the economic outlook.
- The demand picture across households mirrors that for firms. Eurozone appetite for credit has picked up to levels last seen in late 2006, while demand from the US consumer remains subdued, which is likely to limit any near-term pickup in US domestic consumption.

Sources: DataInsight; ECB; Federal Reserve.

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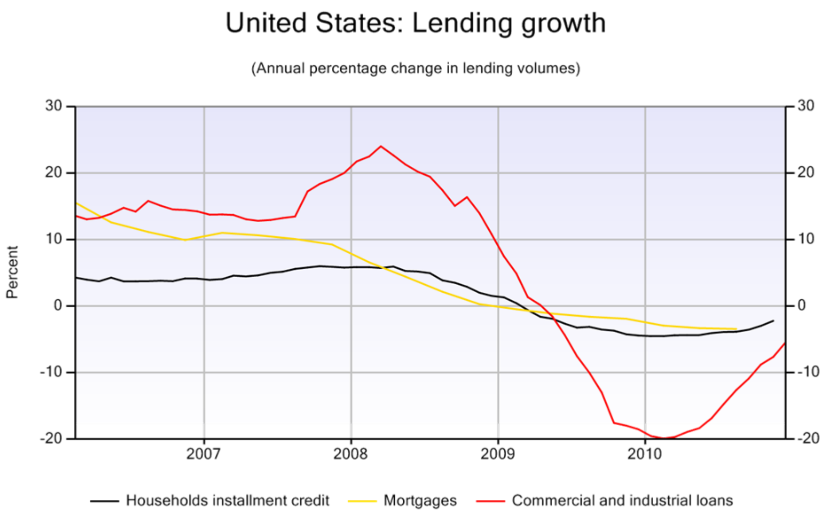
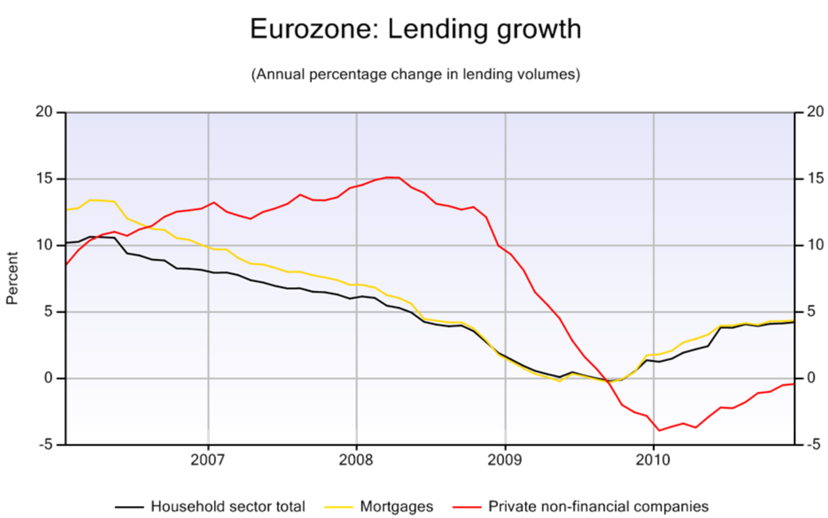
…as reflected in lending volumes.





- Not surprisingly, the slow easing of credit standards and improvements in credit demand have been matched by weak recoveries in corporate and household lending growth across the Eurozone and the US.
- Loans to US households have been contracting steadily at an annual rate of around 5% since mid-2009 and any pickup will be challenged by the renewed weakness in the US housing market, which will press down on available collateral to set against borrowings. Lending to European households has started growing again and is currently up by 4% on the year.
- Lending flows to firms are still declining in both the US and the Euro area, although once again the US paints a weaker picture. Lending growth to Eurozone firms stabilised towards the end of 2010, mainly driven by loans to firms in construction and industry where output growth during the recent recovery has been particularly strong.
- Compared to larger firms, SMEs are particularly reliant on bank funding. Thus any shortfalls are likely to have deeper impacts on restraining potential growth. There is some evidence that the continued decline in Eurozone lending is particularly affecting SMEs. The recent ECB report on SME access to finance suggests that the availability of bank loans to such firms continued to deteriorate in Q2 and Q3. On the other hand, larger firms (those with at least 250 employees) experienced an improvement in bank finance availability over the same period.

Source: DataInsight.

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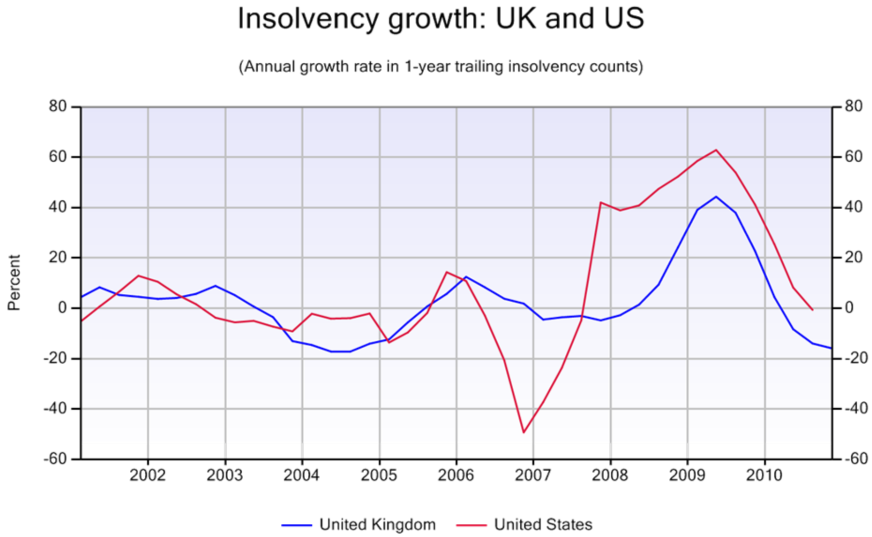
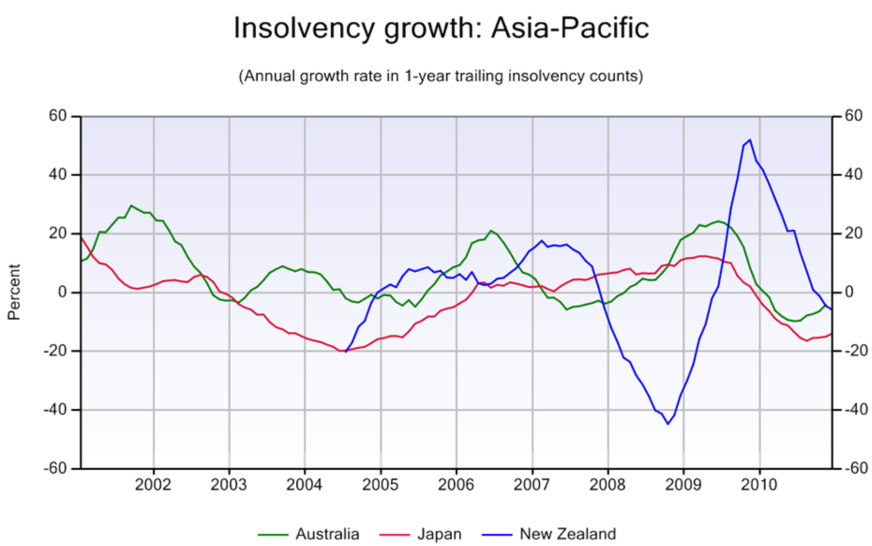
The insolvency environment generally improved in 2010…

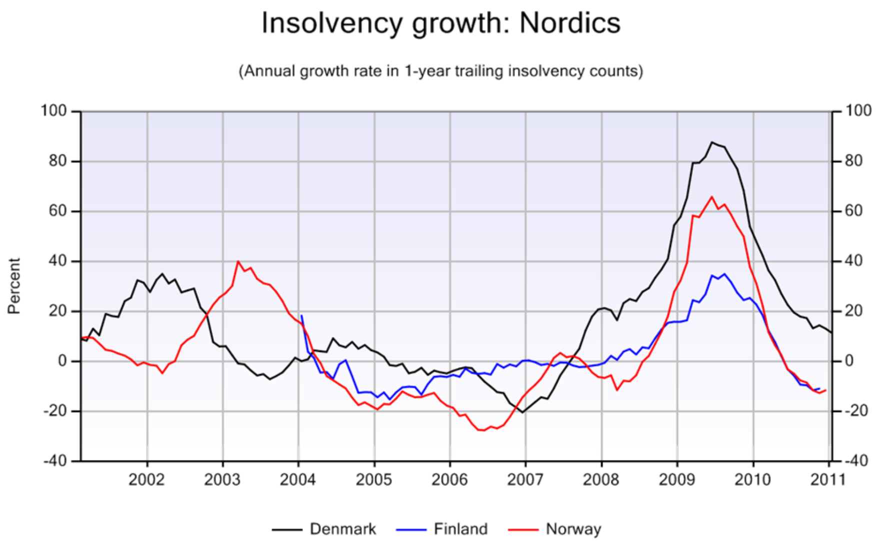


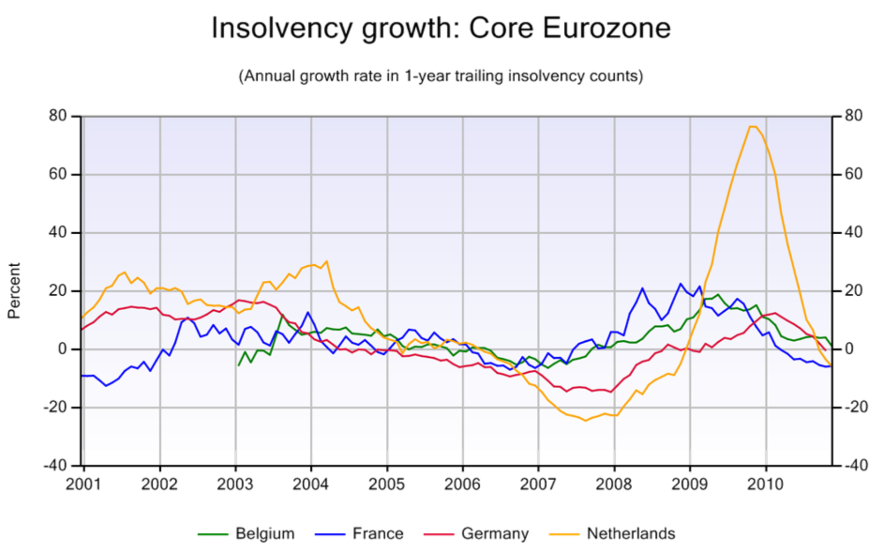


- 2009 witnessed a spectacular increase in the total number of insolvencies on a global scale, which have resulted in structurally high insolvency levels across a majority of developed markets.
- Improving real economic activity and a stabilisation of credit market conditions have led to a widespread decrease in insolvencies in 2010, though the speed and timing varied from country to country. The Appendix shows our 2010 and 2011 insolvency projections.
- In the UK, insolvencies decreased markedly at a rate of roughly 15% during 2010 compared to 2009, consistent with the pick-up in economic growth. In the US insolvencies merely stabilised at a high level.
- Similar patterns were evidenced across large markets in the Asia-Pacific region. The number of insolvencies fell by almost 20% in Japan, while the speed of improvement was slower in Australia and New Zealand.
- The general improvement in the insolvency environment is not surprising given the severity of the previous shock and the rebound in GDP growth that took place in these markets in 2010. Besides the response to improving conditions the reduction in the number of insolvencies also reflect a gradual adjustment back from the unusually elevated levels observed in late 2009.

Sources: DataInsight; Atradius Economic Research.

…though the speed and timing has varied across countries.

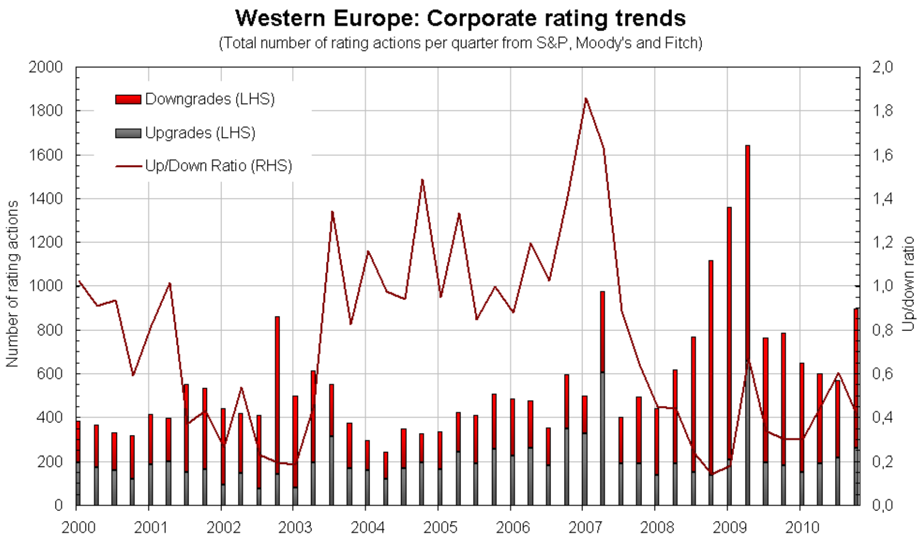


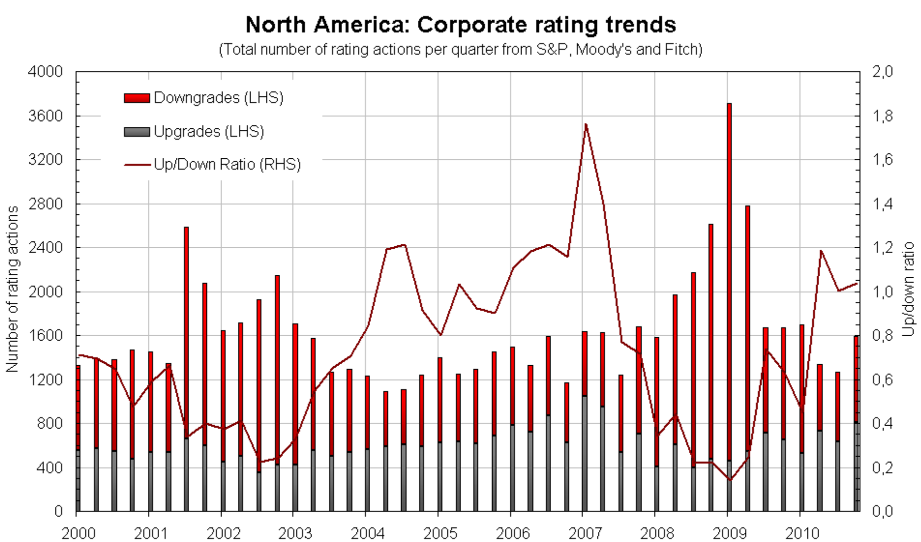


- Except for Denmark, which experienced a fourth consecutive year of sharp deterioration in 2010, the Nordic region showed a marked improvement in the insolvency environment. Insolvencies decreased by almost 15% a year in Finland and Norway, while stabilising in Sweden.
- The picture across the Eurozone is more mixed. The Netherlands, which witnessed a very steep increase in insolvencies during the downturn just like the Nordic countries, recorded an 8% improvement during 2010.
- In Belgium and Germany insolvencies roughly remained at their 2009 levels, while they decreased in France and Austria. These developments must be seen against the backdrop of very different insolvency dynamics during the crisis, where the insolvency response in Germany was muted to begin with.
- By contrast, the number of business failures in the Eurozone countries most affected by the sovereign debt crisis continued to rise. While the high insolvency level stabilised in Spain in 2010, the remaining southern countries deteriorated further.
- Similarly, the insolvency environment has continued to deteriorate in Switzerland. The overall picture illustrates the vast heterogeneity across markets in Europe and underscores the risk that firm failures may begin to increase again as public support is being withdrawn.

Sources: DataInsight; Atradius Economic Research.

Rating downgrades continue to dominate in Europe…





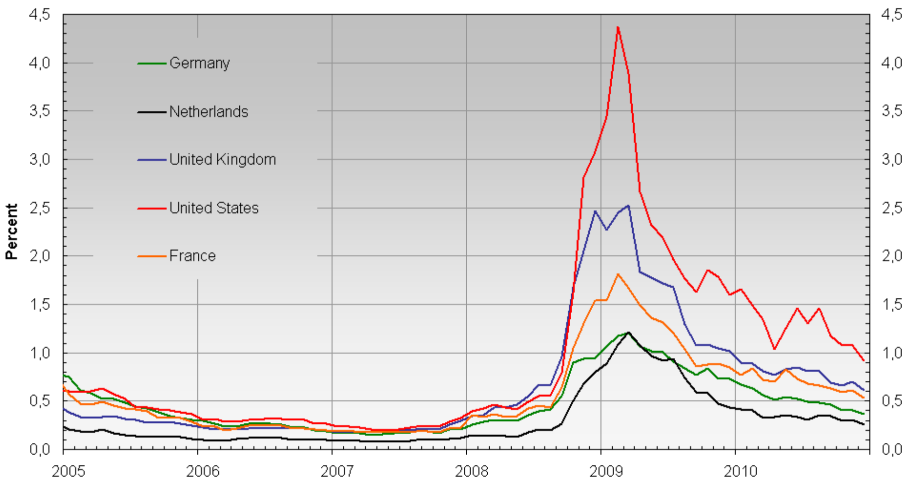
- In addition to the elevated number of broad-based insolvencies across markets in 2009 there was also a wave of large-scale defaults. The global default rate among firms rated by the major agencies reached 12% in 2009, consistent with previous episodes of crises. Although this rate declined significantly in 2010, the level remains above its pre-crisis mark.
- Alongside the rising number of large defaults, a general deterioration in perceived credit quality has taken place since late 2007, as reflected in the actions of rating agencies. Negative rating actions are still outstripping positive ones in Western Europe, after 14 quarters of deterioration. In North America, however, the trend clearly reversed in 2010. Since the second quarter 2010 the number of upgrade actions dominate the US pool.
- Firstly, these rating developments suggest that a significant financial weakening has taken place in the corporate sector as a whole since the onset of the crisis. Secondly, they suggest a growing divergence between credit performance in the US and that in Europe. The corollary is that firms may be regarded as less resilient to any future adverse shocks. The increasingly negative perception of corporate performance in Europe is also evident from credit spread developments, where US firms, on average, now carry lower credit risk than their European counterparts.

Sources: Standard and Poor's; Moody's; Fitch Ratings; Bloomberg.

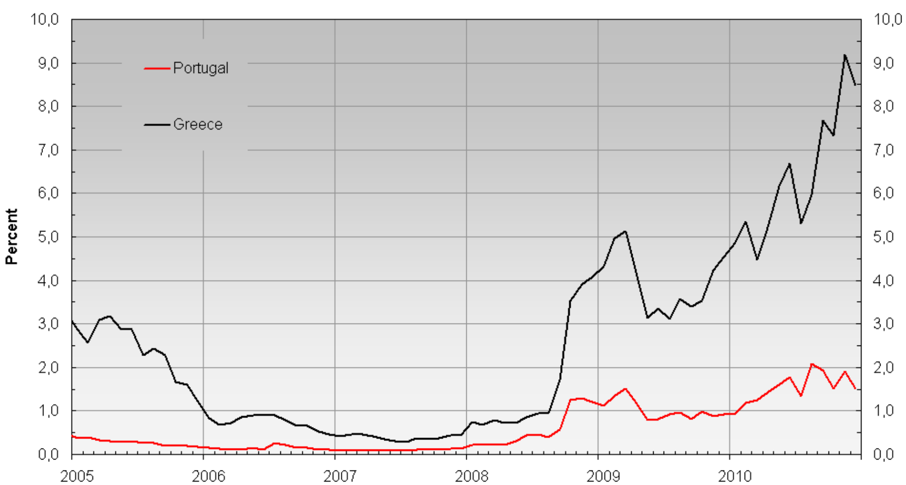
Note: Tracking the activities of rating agencies gives a good indication of the general direction in which credit quality is moving. The upgrade and downgrade actions of Moody's, S&P and Fitch are counted by quarter, and a ratio of the two calculated. The sample is confined to large debt-issuing companies.

…and default expectations remain at elevated levels.

Median EDF evolution by country



Median EDF evolution by country



- A major factor driving the general perception of a sustained recovery is the strong uplift in stock markets that has taken place since April 2009. This rebound in equity prices and a simultaneous reduction of market volatility have generally translated into gradually lower corporate default expectations.
- Expected Default Frequencies (EDFs) have continued to moderate in recent months, both in North America and across major European countries. The median corporate EDF in the US pool fell below 100 basis points in December, which implies a 50 basis point reduction since the onset of 2010. The trend across Eurozone markets directly affected by the sovereign financial turmoil is markedly different; Greece and Portugal have displayed increasing default risk by this measure over the period.
- Despite the overall improvement, it is worth emphasising that current levels still reflect default conditions well above a long term average. The pool of firms in the listed corporate universe are considered to have significantly higher default risk compared to previous years.
- Long-term corporate bond spreads also show levels far higher than their pre-crisis readings. While these measures suggest that the perception of risk has declined somewhat, it is clear that the elevated level of credit risk has persisted over 2010.

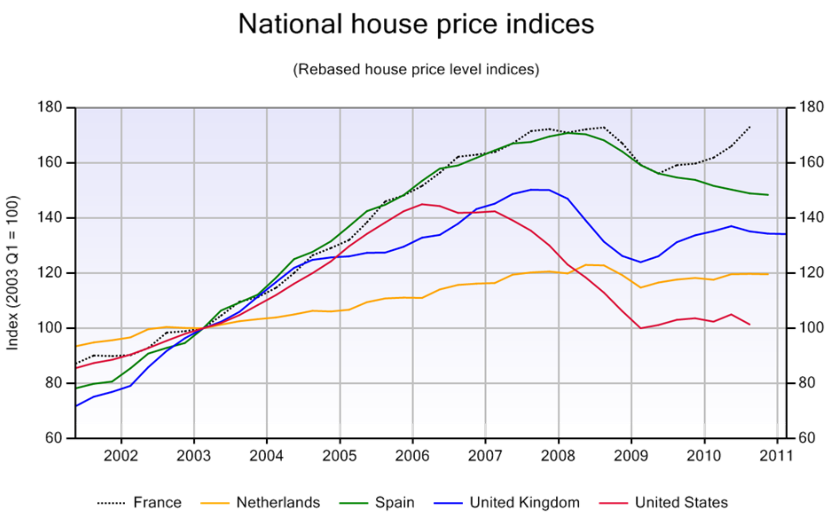
Source: Moody's KMV Credit Monitor; Atradius Economic Research.

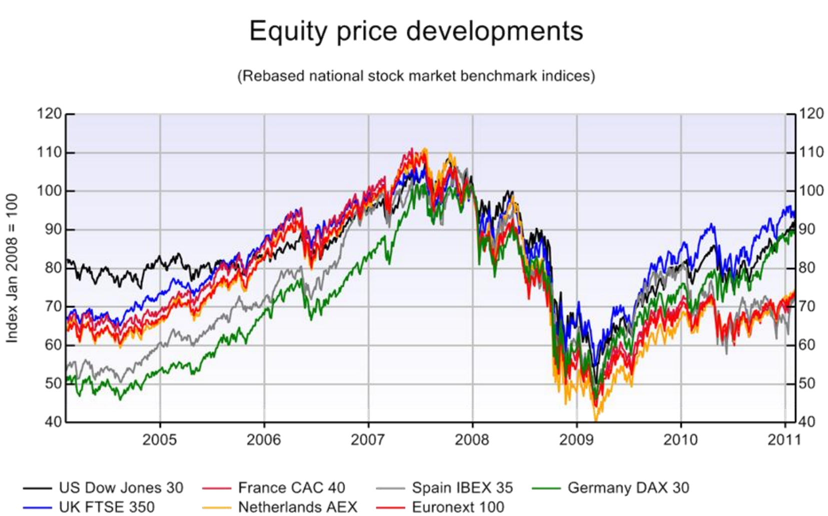
Note: The EDF represents a tool for tracking default risk among stock listed companies. Combining balance sheet and stock market information for a particular firm yields a 1-year ahead default forecast. The median EDF represents the 50th percentile in the firm aggregate of interest.

The 2011 outlook implies an improved insolvency environment

- The aggressive rate of insolvency growth in 2009 seen across many markets was not uniform. Country specific developments depended on a range of factors, including the specific economic and financial profiles of countries, Central Bank and fiscal measures taken to combat the credit crisis, and the extent to which firms were able to adjust to their new environment.
- While we broadly experienced an improvement in the insolvency environment in 2010, there was considerable heterogeneity across markets and insolvency levels in general remain high. The same set of factors influencing insolvency dynamics in 2009 were also at play throughout 2010.
- The economic outlook for 2011 is characterised by GDP growth rates below trend (i.e. weaker than their historical averages) in a majority of markets. Moreover, growth rates are widely expected to decelerate compared to the 2010 values. So, even though the outlook is one of a continued recovery, it must still be considered as tepid.
- Consequently, the sharp rise in insolvencies during 2009 and the moderate decline in 2010 translate into a relatively weak, but broadly improving, insolvency environment. Any recovery will not herald an immediate return to the benign insolvency conditions that prevailed before the onset of the crisis.
- The 2011 forecasts for 22 major developed markets, together with their most recent insolvency history, are tabulated in the Appendix. In summary, the UK and the Nordic countries are expected to revert more quickly towards pre-crisis insolvency levels during 2011. Insolvencies in the US are also expected to decrease significantly.
- The default outlook for the Eurozone is mixed. Germany, which largely escaped an insolvency shock during the crisis, is expected to improve further in 2011. France and the Netherlands are also expected to continue their benign insolvency trends, though the expected rates of decrease vary.
- Other major Eurozone countries, such as Spain and Italy, are expected to experience insolvency declines as they climb out of recession, although default levels will remain high. In particular, for those countries that have been most affected by the sovereign turmoil (Greece, Ireland, Portugal) we expect the current weak conditions to persist.

Support from recovering asset prices may be stalling…





- House prices continue to decline across several Eurozone markets. There are also signs that the recent market recoveries in the UK and US have given way to renewed weakness, which will press on collateral values and credit raising capacity.
- The turnaround in UK house prices during 2009 partly reflected the withdrawal of purchase taxes for some first-time buyers and the fact that the majority of homeowners have benefited significantly from the decline in the policy rate since early 2009. But the recovery stalled in 2010 and, with the ratio of house prices to earnings around 40% higher than its long-run average, there remains scope for downside adjustment.
- The recent fall in US house prices partly reflects the April expiration of the home-buyers‘ tax credit. But, despite a 40% decline in house prices since 2006, the current fundamentals point to ongoing weakness in the US market with potentially significant downside effects on the banking sector. The IMF estimates that US foreclosures continued rising in 2010, leaving US banks facing losses of over US$2 trillion on their loan book. IMF calculations also suggest that that write off rates on residential and commercial loans, will put further downward pressure on bank capital and lending.
- In principle, the relative weakness of house values as a source of financial wealth could be accompanied by the waning momentum of equity prices. Along with subdued credit flows, this adds to the downside pressure on the ability of domestic demand to propel economic growth over 2011.

Source: DataInsight.

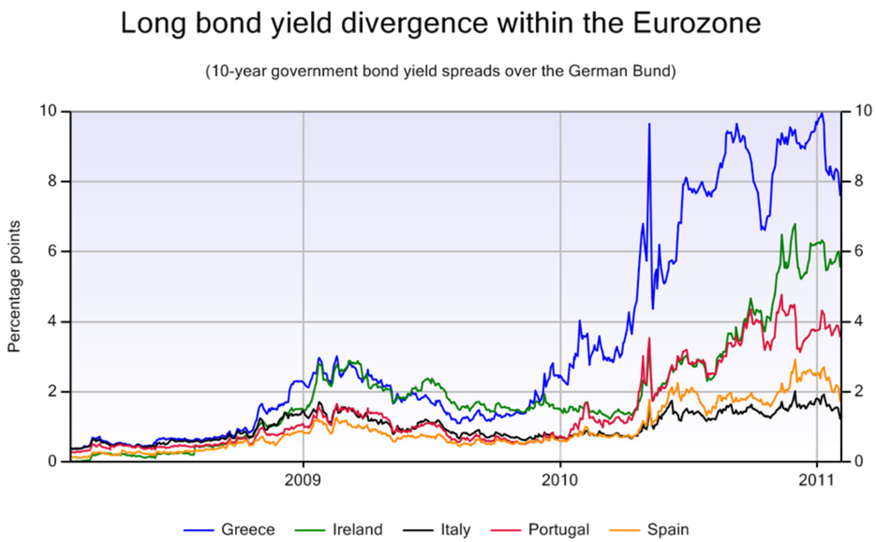
…and public sector austerity measures will start to bite in 2011.

	Government Fiscal Balance (as % of GDP)			
	Average 2002/06	**2009**	**2010**	**2011**
Austria	*-1,9*	*-3,5*	*-4,3*	*-3,6*
Belgium	*-0,6*	*-6,0*	*-4,8*	*-4,7*
Denmark	*2,6*	*-2,7*	*-5,1*	*-4,3*
France	*-3,2*	*-7,5*	*-7,7*	*-6,3*
Germany	*-3,3*	*-3,0*	*-3,7*	*-2,7*
Greece	*-5,8*	*-15,4*	*-9,6*	*-7,4*
Ireland	*1,2*	*-14,4*	*-32,3*	*-10,3*
Italy	*-3,5*	*-5,3*	*-5,0*	*-4,3*
Netherlands	*-1,3*	*-5,4*	*-5,8*	*-3,9*
Portugal	*-3,9*	*-9,3*	*-7,3*	*-4,9*
Spain	*0,4*	*-11,1*	*-9,3*	*-6,4*
Sweden	*0,6*	*-0,9*	*-0,9*	*1,0*
United Kingdom	*-3,0*	*-11,4*	*-10,5*	*-8,6*
EU	*-2,5*	*-6,3*	*-6,3*	*-4,6*
United States	*-3,7*	*-11,2*	*-11,3*	*-8,9*
Japan	*-6,1*	*-6,3*	*-6,5*	*-6,5*

Source: European Commission

- Synchronised fiscal loosening during the downturn, which partly reflected automatic stabilisers, increased discretionary spending aimed at supporting the banking sector and aggregate demand, and collapsing tax receipts, will give way to a synchronised consolidation this year as governments seek to return the public finances to sustainable levels.
- But there is considerable cross-country variation in the degree of tightening across our markets ranging from 22 percentage points in Ireland (which incurred huge one-off expenditures in recapitalising several financial institutions in 2010), to almost zero in Belgium which, along with Greece, Spain, Italy, Portugal and the UK, began cutting net public spending in 2010.
- These squeezes on net public spending are likely to act as a near-term drag on GDP growth. But the actual impacts are uncertain and can be expected to vary across countries according to several background factors:
  - The size of the adjustment;
  - The mix between lower spending and higher taxes (where cuts in spending have a larger multiplier effect);
  - The credibility of the measures taken (those which are less credible will have more muted impacts on sovereign risk premiums, future aggregate demand and confidence);
  - The openness of the economy, and the extent to which firms and households are credit constrained.

Sovereign and banking pressures may intensify…



Sources: DataInsight; Atradius Economic Research.

- Despite this expected public sector consolidation over the coming months, investors have recently become increasingly concerned about Eurozone creditworthiness especially in Portugal, Ireland, Italy, Greece and Spain where funding costs have become have become increasingly elevated. These rises can be expected to feed through to corporate borrowing rates.
- The weak budgetary positions of these countries have been exacerbated by a variety of country-specific factors, including fragile banking sectors which are particularly exposed to the risk of sovereign and real-estate related losses, leading to more acute funding frictions in wholesale markets, high debt-service burdens and borrowing needs over the next few years, and structural imbalances such as relatively high unit labour costs and persistent current account deficits.
- Such factors mean that the possibility of default over the next few years is not negligible, even for Greece and Ireland who have negotiated substantial support packages. And further sovereign downgrades will add to funding pressures. The extensive exposures of European banks to the external liabilities of these countries threatens significant cross-border contagion in the case of financial stress which, if realised, could further undermine credit flows.
- The latest Bank for International Settlements (BIS) figures suggest that European banks account for around 80% of the US$2.3 trillion of total foreign exposures to Portugal, Ireland, Greece and Spain, with German, French and UK banks holding the largest positions.

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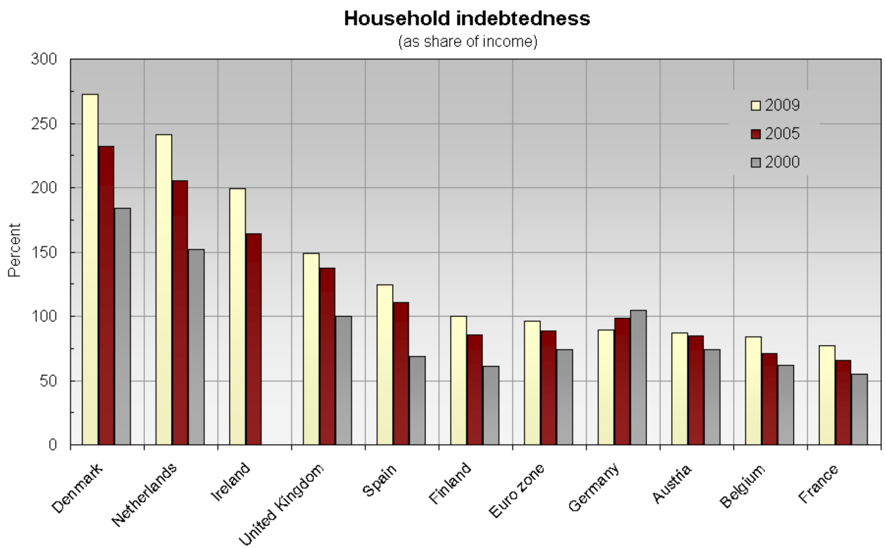
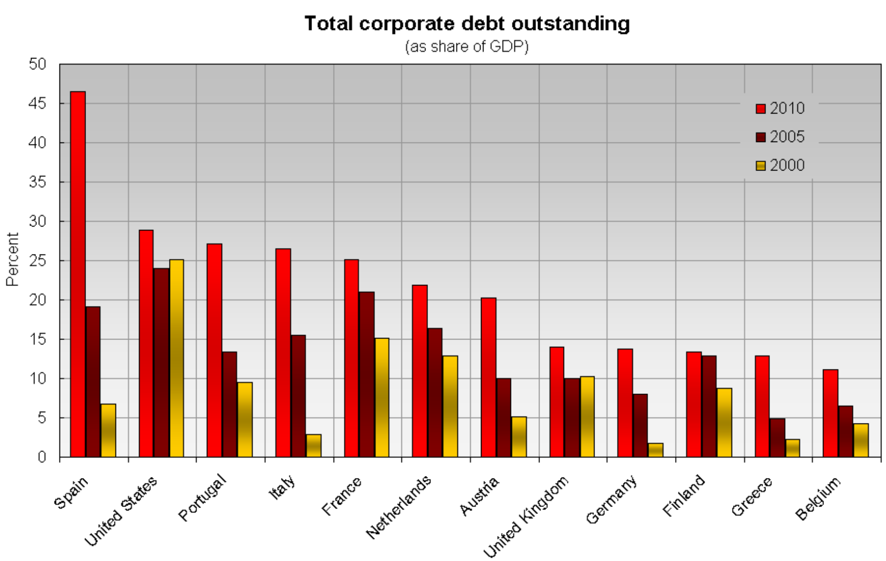
...while private sector indebtedness remains high.





- The marked build-up of private sector debt among households and firms over the last decade has left both sets of agents with unanticipated debt servicing constraints once credit conditions tightened, which in turn helped to drive rising delinquencies and financial sector losses with downside effects on the real economy.
- According to the Bank for International Settlements, the rises in debt over the period tended to be steepest in those nations that also experienced a housing boom such as Spain, Ireland, the UK, the US, and Denmark.
- Much of the accumulated debt among firms was also driven by property-related borrowing. Countries with relatively stable house prices, such as Germany and Japan, saw their private sector obligations as a share of GDP remain constant or even decline.
- On the whole, corporate sector adjustment has been far less aggressive, partly because of pre-arranged credit lines as well as a pickup in corporate profitability as costs were slashed. Nonetheless, liabilities (as a share of income) remain substantially higher than their long-term averages, suggesting that further retrenchment will be required to bring debt down to sustainable levels: and this will continue to bear down on private sector demand.
- The unusually low interest rates over the last two years may have served to slow the pace of debt reduction by reducing servicing costs. But, if policy rates rise before the deleveraging process is complete, then this could pose a downside risk to growth and corporate profitability.

Sources: DataInsight; Atradius Economic Research.

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Insolvency projections: Nordic countries

Insolvency Forecast January 2011		Number of insolvencies and change in % from previous year						
		2006	2007	2008	2009	2010	2011	2011 Trend
Denmark		1.987	2.401	3.709	5.710	6.461	5.815	
	%	**-20,4**	**20,8**	**54,5**	**54,0**	**13,2**	**-10**	
Finland		2.285	2.254	2.612	3.275	2.849	2.707	
	%	**0,3**	**-1,4**	**15,9**	**25,4**	**-13**	**-5**	
Norway		3.032	2.845	3.637	5.013	4.411	4.191	
	%	**-14,4**	**-6,2**	**27,8**	**37,8**	**-12**	**-5**	
Sweden		6.489	6.152	6.602	7.892	7.546	7.169	
	%	**-10,0**	**-5,2**	**7,3**	**19,5**	**-4,4**	**-5**	

Sources: DataInsight; National Statistics Offices; Atradius Economic Research.

Note: Forecasts are based on the outcome of statistical models and expert opinion. 2010 estimates for Finland and Norway comprise actual data up to November plus forecasts for December. All views expressed here are those of Atradius Economic Research (date of final forecast: 21 January 2011).

Insolvency projections: Western European countries

Insolvency Forecast January 2011		Number of insolvencies and change in % from previous year						
		2006	2007	2008	2009	2010	2011	2011 Trend
Austria		6.707	6.295	6.315	6.902	6.366	6.047	
	%	-4,9	-6,1	0,3	9,3	-7,8	-5	
Belgium		7.617	7.677	8.472	9.420	9.608	9.128	
	%	-3,3	0,8	10,4	11,2	2	-5	
France		40.407	42.840	51.254	53.743	51.593	49.014	
	%	-6,3	6,0	19,6	4,9	-4	-5	
Germany		34.137	29.160	29.291	32.687	32.033	30.432	
	%	-7,3	-14,6	0,5	11,6	-2	-5	
Netherlands		5.941	4.602	4.635	8.040	7.397	6.657	
	%	-12,4	-22,5	0,7	73,5	-8	-10	
Switzerland		4.528	4.314	4.221	5.215	6.255	5.942	
	%	-4,7	-4,7	-2,2	23,5	19,9	-5	
United Kingdom		13.137	12.507	15.535	19.077	16.215	15.405	
	%	1,9	-4,8	24,2	22,8	-15	-5	

Source: DataInsight; National Statistics Offices; Atradius Economic Research.

Note: Forecasts are based on the outcome of statistical models and expert opinion. Estimates for 2010 comprise actual data up to Q3 plus forecasts for Q4 (2010 values for Austria and Switzerland represent actual data). All views expressed here are those of Atradius Economic Research (date of final forecast: 21 January 2011).

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Insolvency projections: Southern European countries and Ireland

Insolvency Forecast January 2011		Percentage change in insolvencies from previous year					
		2007	2008	2009	2010	2011	2011 Trend
Greece	%	0	30	40	30	30	↑
Ireland	%	19	100	50	10	-15	↓
Italy	%	-35	18	40	10	-5	↓
Portugal	%	-12	54	36	5	5	↑
Spain	%	10	100	50	3	-10	↓

Source: Atradius Economic Research.

Note: Forecasts are based on the outcome of statistical models and expert opinion. The history of growth rates in the table represent estimates based on official insolvency statistics up to 2009 and model-based calculations. As such they should be treated as indicative. Spanish estimates for 2010 comprise actual data up to Q3 plus forecast for Q4. All views expressed here are those of Atradius Economic Research (date of final forecast: 21 January 2011).

Insolvency projections: Asia-Pacific and the United States

Insolvency Forecast January 2011		Number of insolvencies and change in % from previous year						
		2006	2007	2008	2009	2010	2011	2011 Trend
Australia		12.486	12.018	14.173	14.580	14.288	14.288	
	%	6,2	-3,7	17,9	2,9	-2	0	
Japan		13.245	14.091	15.646	15.480	13.322	13.988	
	%	1,9	6,4	11,0	-1,1	-13,9	5	
New Zealand		3.419	3.233	2.105	3.047	2.870	2.870	
	%	14,0	-5,4	-34,9	44,8	-5,8	0	
United States		19.814	28.137	42.861	60.530	57.504	51.753	
	%	-49,3	42,0	52,3	41,2	-5	-10	

Source: DataInsight; National Statistics Offices; Atradius Economic Research.

Note: Forecasts are based on the outcome of statistical models and expert opinion. Estimates for 2010 comprise actual data up to Q3 plus forecasts for Q4. 2010 values for Japan and New Zealand represent actual data. All views expressed here are those of Atradius Economic Research (date of final forecast: 21 January 2011).

Structural insolvency overview: All markets

Insolvency Outlook 2011	Frequency type assessment 2010: Low	Average	High
Deteriorating	Japan		Greece Portugal
Stable	Canada New Zealand	Australia	
Improving	Sweden Switzerland Finland	Austria Netherlands Germany Luxembourg Norway	Belgium France United Kingdom United States Ireland Italy Spain Denmark

Source: Atradius Economic Research.

Note: This assessment is based on the outcome of statistical models and expert opinion. The categories 'Low', 'Average' and 'High' describe our perception of absolute default risk across different countries. For example, any country classified as belonging to the 'Low' category in the table was associated with a perceived low default rate in 2010. The default rate is here defined as the fraction of business failures in the entire pool of firms in a country measured within a calendar year. The buckets 'Improving', 'Stable' and 'Deteriorating' further describe how we project insolvencies to develop in 2011, as illustrated in the previous forecast tables. All views expressed here are those of Atradius Economic Research.

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Economic Outlook 2011

February 2011

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