

F O C U S: Global Business Failures

Issue in a Snapshot

The global economic recovery has led to a further drop in insolvency levels.

In Q2 failures fell strongly in emerging economies such as Poland and South Africa.

Euroland was the only region to record an increase in insolvencies.

The manufacturing sector saw another sharp decline in business failures in Q2.

There is a rising risk that the global slowdown will lead to a reversal of the downward trend in insolvency levels.

Insolvency risk is rising particularly sharply in indebted euro-zone countries.

Our latest analysis of the D&B Global Insolvency Index shows that the global economic recovery has led to a further drop in insolvency levels, despite the onset of a slowdown in early Q2 2011. All regions except Euroland saw decreases in insolvencies in Q2. In advanced countries with sectoral data, the number of business failures fell particularly sharply in the transportation, real estate and manufacturing sectors. However, there is an increasing risk that the global economic slowdown will lead to a reversal of the recent downward trend in insolvency levels towards the end of 2011 and into 2012.

Recent developments: global business failure levels continue to fall

In Q2 2011 the number of global business failures, as measured by the D&B Global Insolvency Index, fell to its lowest level since Q3 2007 (i.e. before the global financial crisis). The D&B Global Insolvency Index fell to 92.7 in Q2, down from 95.2 in Q1. Hence, the index has come down significantly since peaking at 108.3 in Q1 2009. In year-on-year (y/y) terms, the level of bankruptcies fell by 7.3% in Q2, compared with a fall of 3.2% in Q1. This further improvement indicates that the favourable effect of the global economic recovery on business failure levels since mid-2009 has not yet come to an end, despite the global economic slowdown since the start of Q2.

The level of insolvencies in Q2 fell more sharply in emerging economies such as Brazil and South Africa (11.8% y/y) than in advanced ones such as the US and some euro-area economies (5.7%). All regions except Euroland, which has been hit by the sovereign debt crises in several countries (e.g. Portugal and Spain), saw y/y decreases in insolvencies in Q2. Eastern Europe was the region with the sharpest fall in business failures in Q2, followed by North America, Emerging Asia, and the Nordic region. At a country level, the strongest y/y declines in failure levels were recorded in Poland, Canada, China and South Africa, while there were sharp rises in Hungary, Spain, Australia and Portugal.

Sectoral developments in advanced countries

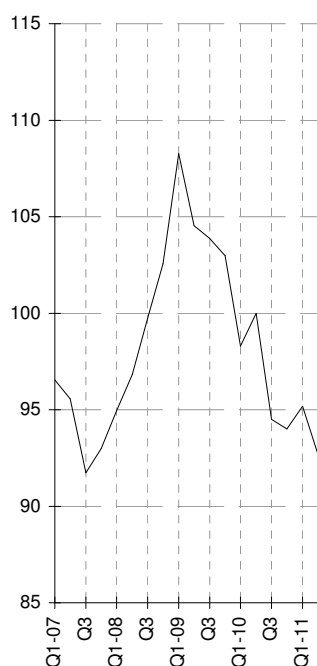
The rebound in the manufacturing sector has been a key driver of the global recovery. Globally, the number of business failures in the sector fell 15% in the past four quarters (they had risen by almost 200% y/y in late 2009 in the wake of the global recession). The sector's performance has weakened since early 2011, raising insolvency risk for coming quarters. Meanwhile, other sectors (except natural resources and finance) also saw a decline in insolvencies in Q2, with particularly strong drops in the telecommunications and transportation, real estate, construction, wholesale, and retail sectors. Service sector performance has deteriorated compared with early 2011: insolvency risk may increase in the service sectors in light of the weak outlook for demand in the US and Euroland.

Outlook: economic slowdown in 2011 increases insolvency risk

Global economic growth will remain muted in H2 2011. Moreover, downside risks to growth remain high. These risks include: the debt crises in Europe and the US; possible policy errors as governments and central banks try to counterbalance dealing with sovereign debt while promoting growth; volatility and potential asset bubbles in the financial markets; and the threat of currency wars and attendant protectionism. The slowdown will dent corporate profitability and payments performance, raising the risk of corporate insolvency in many economies, especially in Euroland and North America.

Our insolvency risk outlook shows that insolvency risk is rising particularly sharply in countries that have been affected by the euro-zone sovereign debt crisis (such as Ireland, Italy, Portugal and Spain) and countries that are still recovering from major downturns (Hungary, Iceland). But even countries that have low sovereign debt levels and have recovered comparatively well (Australia, Switzerland) are seeing a marked increase in insolvency risk. Meanwhile, the 'rising insolvency risk' category (which includes, for example, the US and the UK) is by far the largest one, highlighting our prediction that insolvency levels are set to increase (from relatively low levels) in many economies in light of the global slowdown. In contrast, the strong economic performances in Brazil, Germany, Norway and Sweden support a sharp fall in insolvency risk despite the onset of a global slowdown. For more details see D&B's latest *Global Business Failures Report*.

D&B Global Insolvency Index
(Q2 2010=100)



Sources: National Statistics Offices, D&B