Press release

Euler Hermes: Globally more businesses will fail in 2016

U.S. business bankruptcies to increase for the first time in six years

BALTIMORE, Md. – 31 MAY 2016 – The health of the global economy will deteriorate further in 2016 as corporate insolvencies are expected to rise 2 percent worldwide, according to a new report from Euler Hermes, the worldwide leader in trade credit insurance. Weak long-term growth, increased turbulence in sectors like commodities, and the domino effect of major bankruptcies will cause more business bankruptcies, marking the first rise since the peak of the global financial crisis in 2009.

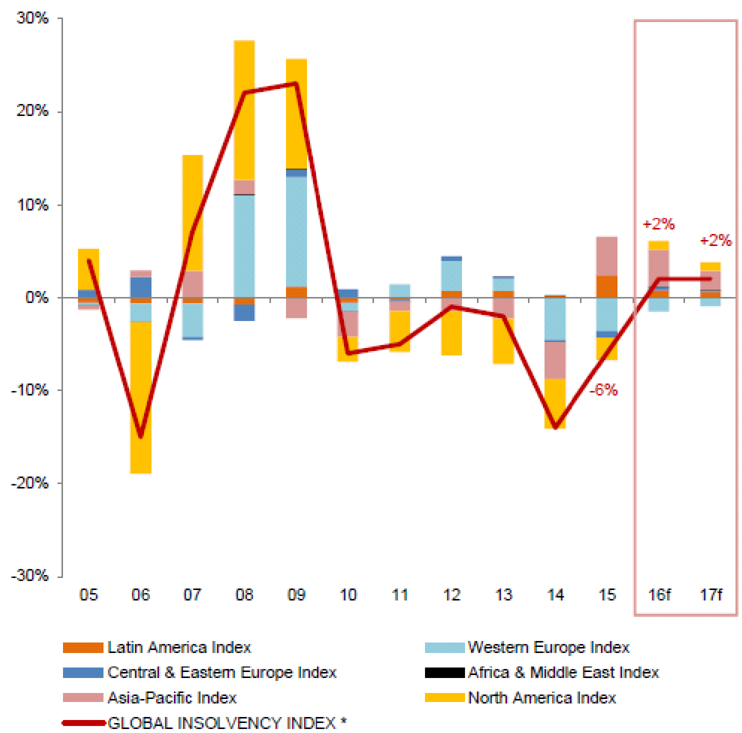
Euler Hermes expects the U.S. to make a major U-turn, as business bankruptcies are expected to jump 3 percent in both 2016 and 2017 after six years of steady declines. The economy is nearing the end of its recovery cycle; GDP is forecast to decelerate to 2% or less this year, at least 20 basis points (bps) below the estimated equilibrium rate needed to keep insolvencies stable.

The U.S increase is not an isolated incident, with much larger business bankruptcy increases predicted in the Asia-Pacific region (+13%) and Latin America (+17%).

“The fact that insolvencies will rise this year after six consecutive decreases is yet another indicator that the state of the global economy is precarious,” said Ludovic Subran, chief economist at Euler Hermes. “While we don’t anticipate a repeat of 2008, companies around the world, particularly those in emerging markets, should be aware that low growth and uneven liquidity may push to the edge companies whose working capital has eroded over the past few years.”

Western Europe is the only region where insolvencies are expected to decrease – by 5 percent in 2016 and by 3 percent in 2017. However, the decrease may not be cause for celebration. The annual number of bankruptcies remains higher than pre-crisis levels in 11 out of 17 European countries. Increasing non-payment risk from trade partners and political uncertainties might darken European corporates’ outlook.

Euler Hermes Global Insolvency Index and regional indices



-*Sources: National Statistics, Euler Hermes’ forecast*

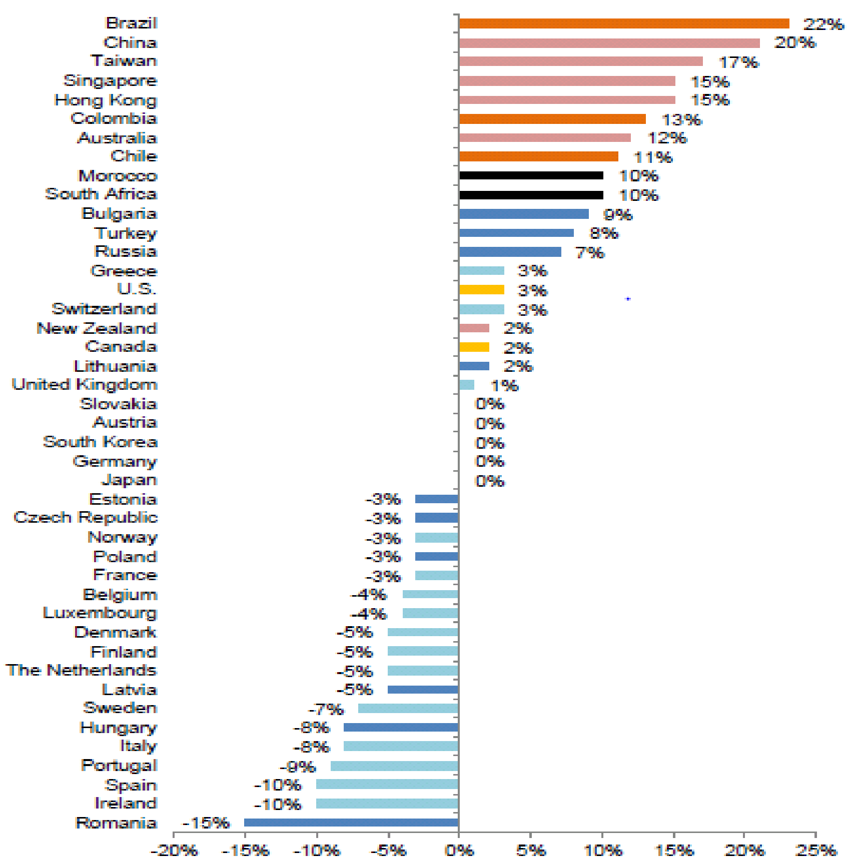
The primary reason for the insolvency increase is declining global growth. The global economy is expected to slow to 2.5 percent growth in 2016. Advanced economies have continued to grow moderately at 1.8 percent, but the slowed growth of emerging economies is the real threat. Emerging economies are expected to grow by only 3.6 percent in 2016, the slowest since 2009. This, in turn, negatively impacts the revenue of large corporations.

The second factor leading to more bankruptcies is shake-ups in the metal and energy sectors. U.S. companies in these industries accounted for half of publicly traded firm bankruptcies in 2015 when 10 energy companies, valued collectively at $8.5 billion, filed for bankruptcy. Six more, valued at $3.4 billion, met similar fates in Canada due to persistently low oil prices.

In the metals industries, a decrease in Chinese government state support has greatly impacted the Chinese steel industry, compounding overcapacity pressures. The sector reported the largest single insolvency worldwide in 2015 when Sinosteel, worth $26 billion, became bankrupt in October.

“There is reason to believe that a domino effect is on the way,” said Subran. “Large bankruptcies often translate into distress for suppliers if those companies are not properly hedged.”

Euler Hermes Global Insolvency Index, 2016 (yearly changes in %)



Source: Euler Hermes

The full report is available here: http://www.eulerhermes.us/economic-research/economic-publications/Documents/Economic-Insight-Insolvencies-Keep-an-Eye-on-Domino-Effect-Apr16.pdf

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Media Contacts

Euler Hermes Americas Media Relations
Morgan Salinger – +1-212-931-6158
msalinger@peppercomm.com

Laura Crovo – +1-410-753-0862
Laura.Crovo@eulerhermes.com

Euler Hermes Group Media Relations
Remi Calvet – +33(0)1 84 11 61 41
remi.calvet@eulerhermes.com

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