Global Bankruptcy Report 2016

Dun & Bradstreet Worldwide Network

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INTRODUCTION

Welcome to the Dun & Bradstreet Global Bankruptcy Report. This report is compiled for you by the members of the Dun & Bradstreet Worldwide Network (WWN).

Since 2005, our network of partner organisations has offered customers across the globe access to the best local data, whilst maintaining a consistent high-quality standard. Today, the network consists of 16 partners and six Dun & Bradstreet-owned markets, collecting business information on 245 countries. We work together to provide the best data, analytics and insights to help you manage your business relationships. This report covers bankruptcy data from 32 markets in total and we expect this number to increase in future editions. I would like to extend a special thanks to the following WWN members who contributed local bankruptcy data from their respective markets:

Altares, Bisnode, CRIBIS D&B, D&B Indonesia, D&B Israel, D&B Netherlands, D&B Singapore, D&B Thailand, D&B Vietnam, Huaxia D&B China, Informa, Interfax, NICE D&B and TSR.

The data compiled has been analysed and edited by Dun & Bradstreet's Country Insight team of experienced economists.

We hope you find the report beneficial.

Sabine Leferink
Dun & Bradstreet Worldwide Network Leader

OVERALL COMMENTARY

Global Bankruptcy Trends

Oana Aristide | Dun & Bradstreet Economist

The global economy is still feeling the after-effects of the 2008-09 financial crisis and the over-investment that preceded it. The fragile recovery has variously been blamed on the unintended consequences of monetary policy, unresolved debt hangovers, fiscal policy constraints that render governments unable to spend their way out of the anaemic growth environment, and generally a lack of global growth engines. Dun & Bradstreet forecasts world GDP expansion to slow to 2.2% in 2016 (from 2015's already sluggish pace of 2.5%); despite this, in terms of corporate bankruptcies we are seeing a clear declining trend globally. Low and falling interest rates, record-low inflation in general – signifying stable input costs for companies – and low energy prices in particular have made it possible for corporate insolvencies to fall against the background of mostly still-disappointing growth.

Consequently, looking at the 32 countries included in our report, and at data from 2014 to July 2016, bankruptcy rates have declined in year-on-year terms significantly for 20 of the countries in our sample, and have stagnated for two. Ten countries have experienced clearly increasing bankruptcy rates. Positively, bankruptcies are clearly decreasing in several of the world's largest economies, the US and Japan being the most salient examples. In the US, unspectacular but consistent domestic demand, a solid job market, and low interest rates have supported companies, while in Japan low energy costs, low and declining borrowing costs, and banks' willingness to reschedule loans have led to record-low failure rates. Germany's bankruptcy rate is also falling, albeit at a slower pace. The outlook for these three major economies is mixed: in the US and Germany we expect to see a continuing fall in bankruptcy rates, but in Japan the outlook is deteriorating. Japanese exporters can expect the recent strength of the yen to hurt both their sales and their stock market value, while small and medium-sized companies report labour shortages, meaning that they may have to accept higher payroll costs in order to attract and retain workers.

Largely due to their exposure to China and commodities, countries in the Asia Pacific region are over-represented in the poorer performing category, with company failures in Australia, Hong Kong, Indonesia, Vietnam and Taiwan on the rise or flat-lining. Even in China, where data shows declining bankruptcy rates over the last 12 months, the trend in the last six months appears to have reversed, instead pointing to a sharp increase (using that latter reference period, company failures are up by more than a quarter in year-on-year terms).

OVERALL COMMENTARY

CHINA

Indeed, China's financial cycle is entering a far more difficult phase after at least a decade of easy credit and capital misallocation. The fall in private sector investment growth has been the most telling feature of China's economic trajectory in 2016. In January-July urban fixed asset investment by the private sector increased only 2.1% year on year. In July, private sector investment actually shrank from levels in June, and it has also been declining in China's distressed northeast for months. The tax burden on private enterprise has grown for years as tax thresholds have failed to rise with inflation, while the introduction of VAT, and information technology in general, has closed earlier tax loopholes. Moreover, private enterprises pay far higher interest rates on debt than state-owned enterprises, despite consistently higher capital efficiency and profits. They are the first to suffer in downturns as banks rein in risk. The risk premium private enterprises pay varies, but in July a domestic investment bank part-owned by China's sovereign wealth fund estimated that the average had risen from about three percentage points in 2015 to six percentage points in Q2 2016, meaning private enterprises in China are paying an average interest rate of almost 10%.

It is important to keep in mind that in China there are important divisions between the ailing industrial sector and the mostly prospering services (which represent more than 50% of GDP), and between regions. Several northeastern provinces that are heavily dependent on coal and steel are in the middle of a serious recession that will last into 2017.

US ECONOMIC GROWTH

In the US, meanwhile, economic growth remains stubbornly below the rates seen before the global financial crisis, and growth forecasts have been downgraded throughout the year. Dun & Bradstreet now forecasts real GDP growth of 1.6% in 2016, accelerating to 2.1% in 2017. This 'new normal' or 'new mediocre' is in sharp contrast to the impressive gains in the labour market. Since the end of the recession, steady, robust job gains have pushed the unemployment rate down from its peak of 10% to 4.9% currently, which by most measures implies full employment. This apparent disconnect between GDP growth and employment growth is explained by slow labour productivity growth, among other factors.

This assessment is corroborated by our proprietary Small Business Health Index (SBHI : http://www.dnb.com/perspectives/data-management-and-analytics/us-business-economic-trends.html) which fell by 0.7 points to 91.8 in July after operating conditions in the US became less favourable in recent months. This brings the index's three-month moving average to 92.6, more than five points below the index's latest peak of 97.8 last September. The SBHI is a leading indicator of macroeconomic performance; an SBHI stuck in the low 90s is consistent with a US economy growing at a modest rate between 1.5% and 2%. Small business activity and overall growth are thus expected to be correspondingly modest in the near term.

EU COUNTRIES

Turning to Europe, the most positive credit development in the last year is the improved outlook for southern EU countries: company failures in both Spain and Italy are clearly trending downwards after several years of increases. Meanwhile, although it is still too early to assess the full economic and political impact of the UK's Brexit vote, high-frequency data in the UK suggests the country will avoid a recession. Germany, which has close trade links with the UK, was able to withstand the Brexit fallout relatively unscathed, and the first post-vote leading indicators are encouraging. The concerns are more long term, but our core scenario is that the UK and the EU will reach some form of agreement regarding market access and freedom of movement that is beneficial for both.

Looking in more detail at the Eurozone's growth engine, Germany, we see that in all four sectors for which PMIs exist (construction, retail, services, and manufacturing), the index values are above the neutral 50-points line that divides an expansion in sectoral activity from contraction; only the manufacturing sector (which has the closest ties to the UK) saw a deterioration in July. The German labour market also continues to produce encouraging news, with employment levels having risen by 1.2% year on year in each month since December 2015. Germany's unemployment rate will remain one of the lowest in the EU for the foreseeable future, fuelling demand from the country's sizeable middle class. Dun & Bradstreet remains confident that exporters to the country will continue to see good business prospects in 2016-17.

OVERALL COMMENTARY

FRENCH ECONOMY

After a very strong start to 2016, the French economy ground to a halt in Q2. Although it was clear that the economy was unlikely to maintain the very high Q1 growth rate, the Q2 performance surprised on the downside and is a serious blow for the French government less than a year before the next presidential and parliamentary elections. For the first time in three years, imports contracted in quarter-on-quarter terms, reducing business prospects for exporters to the country. Household demand (up by just 0.1%) was also sluggish, while investment fell by 0.4%, ending a run of three consecutive quarters of expansion. Looking ahead, Dun & Bradstreet predicts that economic performance will recover somewhat, as in our view Q2 was an outlier caused by severe strike action. Moreover, the company failure data shows a clear decline (4.6% year on year). We expect 1.3% growth in 2016.

In terms of payments performance in Europe, proprietary data from our Paris-based World Wide Network partner Altares shows that Denmark has the highest prompt payment rate (87.0%), followed by Germany (72.3%). Payments performance in France has been on an improving trend over the four quarters to Q2 2016: in terms of average payment delays, France has a mid-table position. The country is ranked below Germany (6.6 days) and the Netherlands (8.2 days), on par with neighbouring Belgium (12.5 days) but better than Spain (14.8 days), the UK (15.8 days), Italy (19.4 days) and Portugal (27.0 days).

BROADER GLOBAL CONTEXT

Returning to the wider global context, overall we expect US and Chinese growth to decelerate in 2016 (to 1.6% and 6.3% respectively), and for Brazil's and Russia's economies to keep contracting. The EU as a whole is still ailing, and moreover faces an uncertain political future given the UK's decision to leave the Union. The existing growth hot spots, such as EU member states in Eastern Europe or the Philippines, are too small to have a noticeable impact on global growth.

Thus, worryingly for international companies, we believe the risks associated with doing cross-border business in the global economy still remain elevated, which is reflected in our Global Risk Index (https://www.cips.org/en/cips-for-business/supply-assurance/cips-risk-index/).

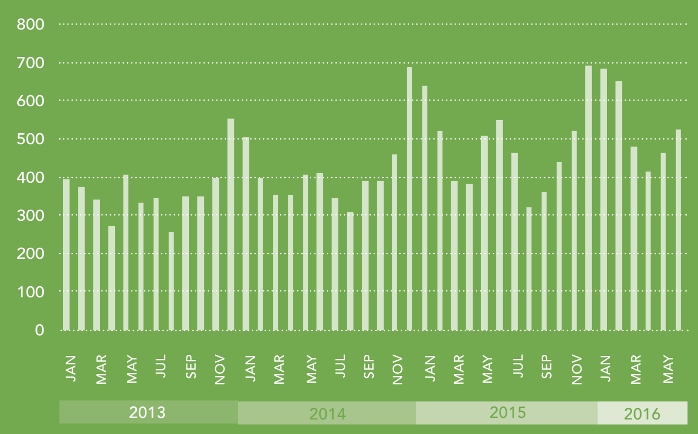
Of the 132 countries Dun & Bradstreet assesses, 94 are rated worse than at the start of 2008. In contrast, only 19 economies have seen their scores improve over this period. This far into the recovery we would normally expect to have upgraded significantly more countries since the nadir of the global financial crisis; instead, risks remain near record highs, and some countries that had seen upgrades have subsequently been downgraded again.

Globally, another key risk for the remainder of 2016 (in addition to the possibility of a less-than-soft landing in China) is the size of the losses incurred by financial institutions and investors due to negative interest rates. Up to one-third of investment-class government debt may now be priced to yield negative returns. The negative interest rate environment – hitherto thought impossible by textbook economic approaches – will put pressure on the balance sheets of financial institutions and pension funds. While only one of 51 European banks would lose all its capital in the scenarios of the most recent official stress test, Greek and Portuguese banks were excluded, as were any risks from sovereign debt. Dun & Bradstreet advises customers to tailor their credit sales ceilings not only by country but also by sector, as risks in manufacturing and services, and upstream versus downstream prospects, are diverging more than historical averages.

Oana Aristide is a Senior Economist on Dun & Bradstreet's Advanced Analytics team. Based in the UK, she covers three Scandinavian countries as well as Romania, Japan, Malaysia, and the Philippines as a contributor to Dun & Bradstreet's Macro Market/Country Insight Products. She has a background in central banking.

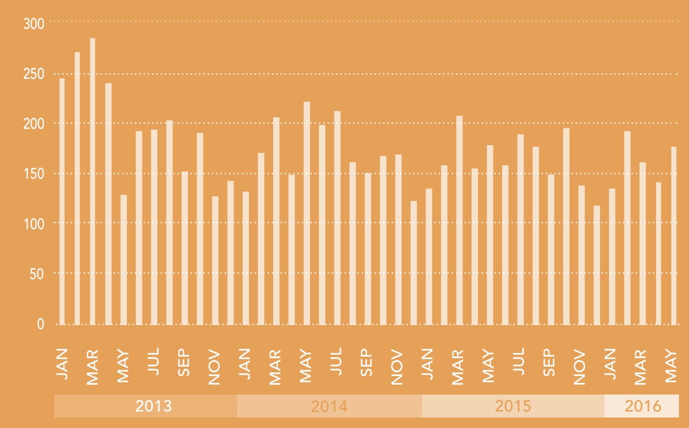
CHARTS – AFRICA

MOROCCO



Source: Altares

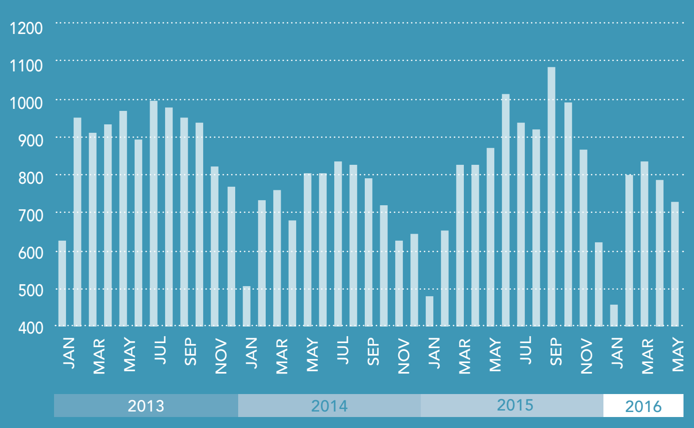
SOUTH AFRICA



Source: Statistics South Africa

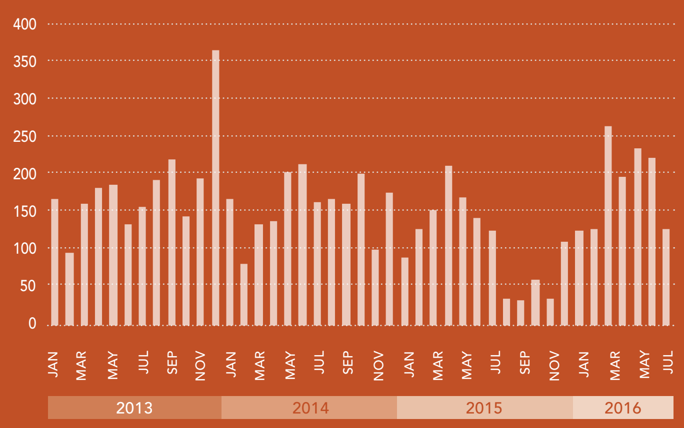
CHARTS – ASIA/OCEANIA

AUSTRALIA



Source: Australian Securities and Investments Commission

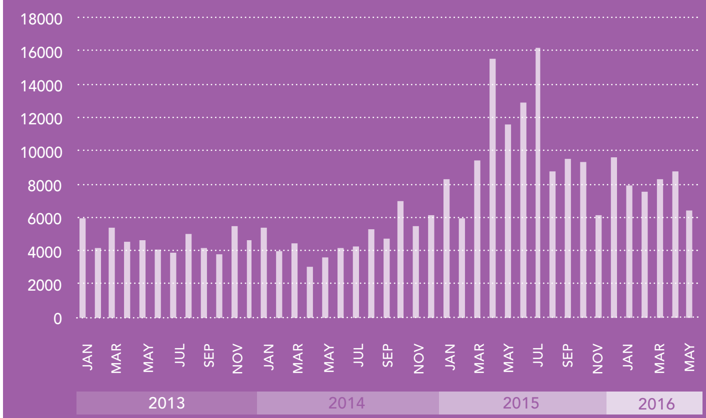
CHINA



Source: Huaxia Dun & Bradstreet China : Websites of Chinese Courts

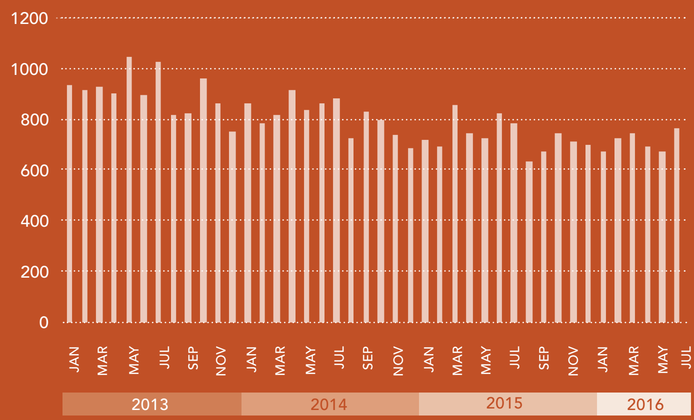
CHARTS – ASIA/OCEANIA

HONG KONG



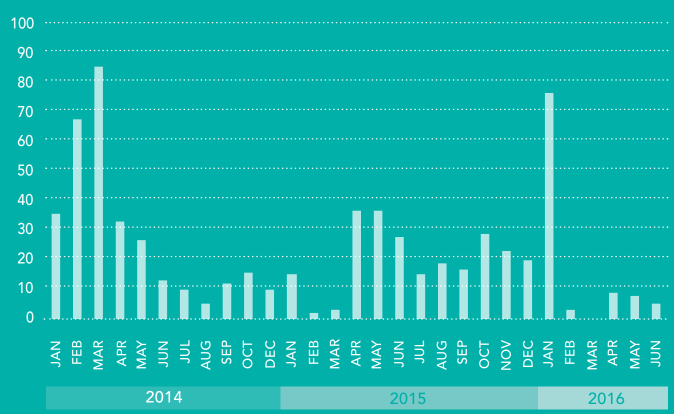
Source: Census and Statistics Department, Hong Kong

JAPAN



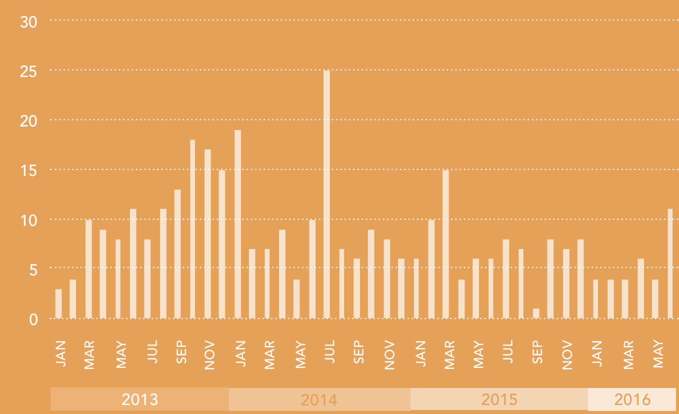
Source: Tokyo Shoko Research

INDONESIA



Source: PT. Dun & Bradstreet Indonesia

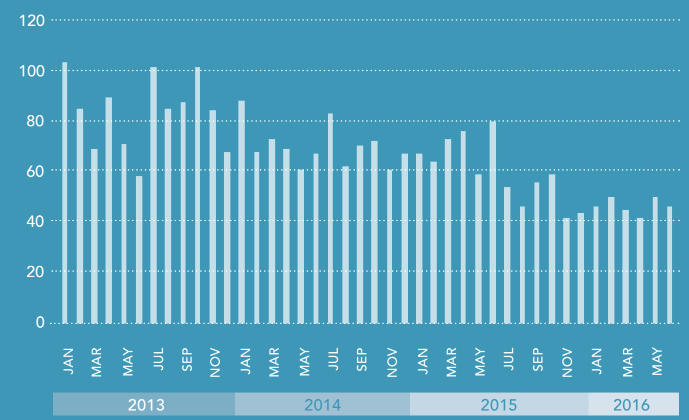
SINGAPORE



Source: D&B Singapore

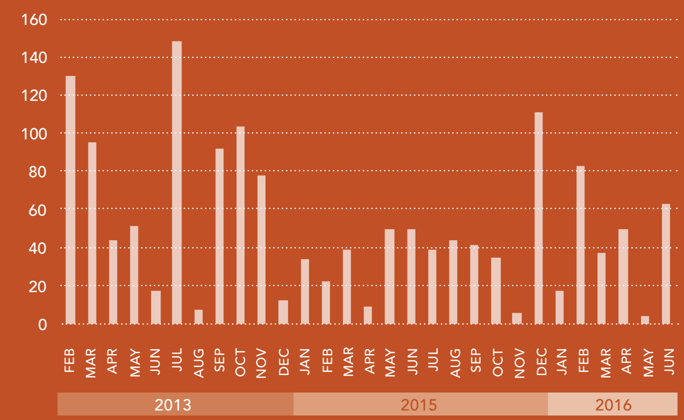
CHARTS – ASIA/OCEANIA

SOUTH KOREA



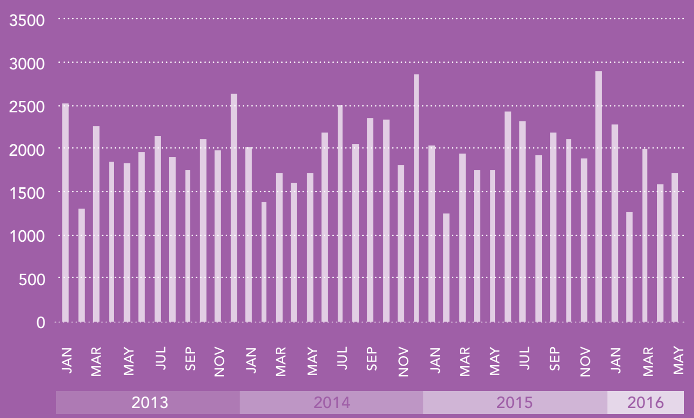
Source: NICE D&B

THAILAND



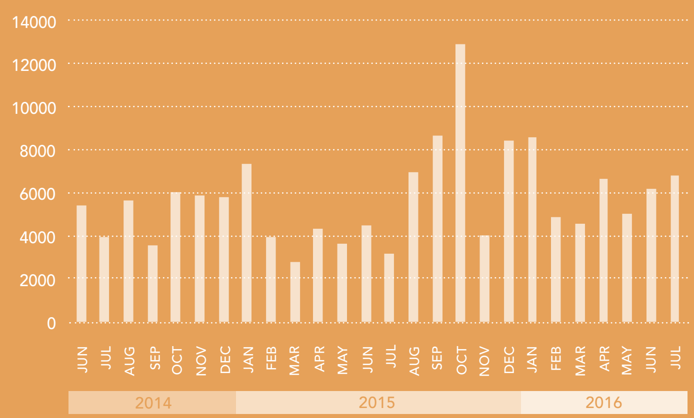
Source: Department of Business Development, Ministry of Commerce

TAIWAN



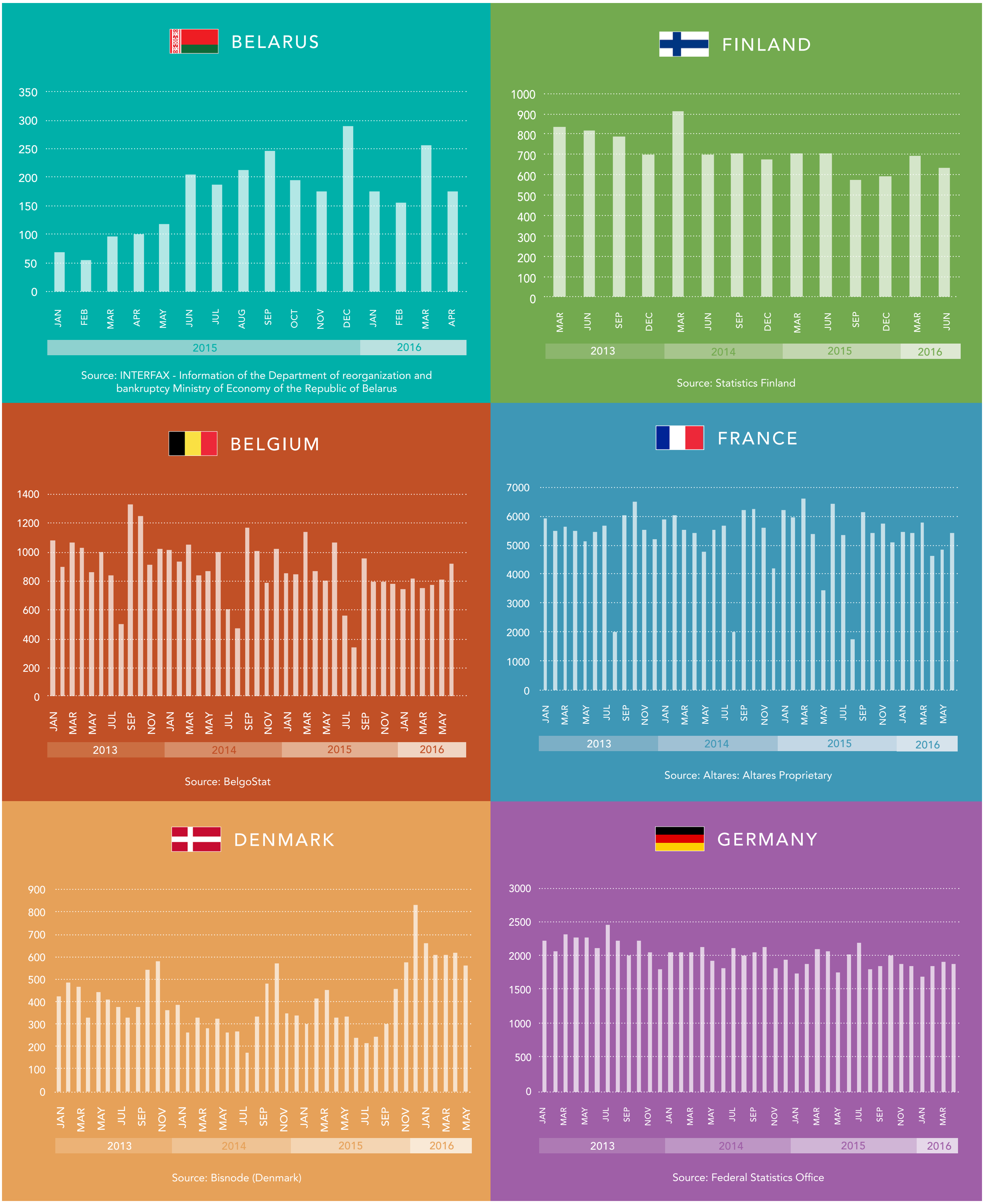
Source: Ministry of Economic Affairs, R.O.C.

VIETNAM



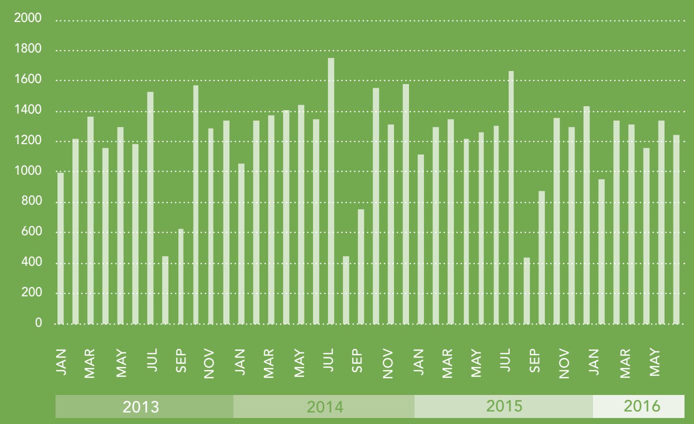
Source: General Statistics Office of Vietnam

CHARTS – EUROPE



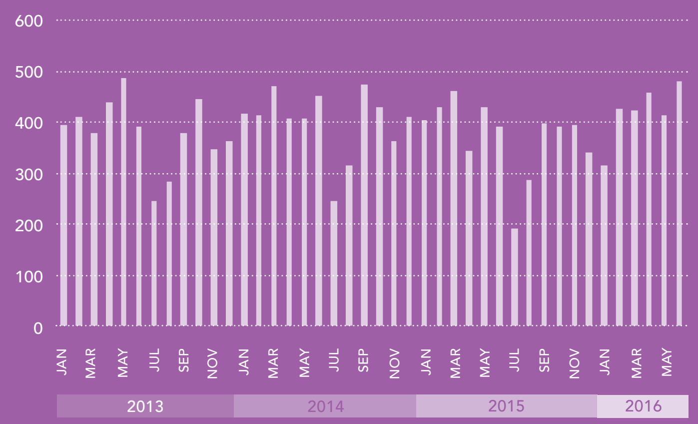
CHARTS – EUROPE

ITALY



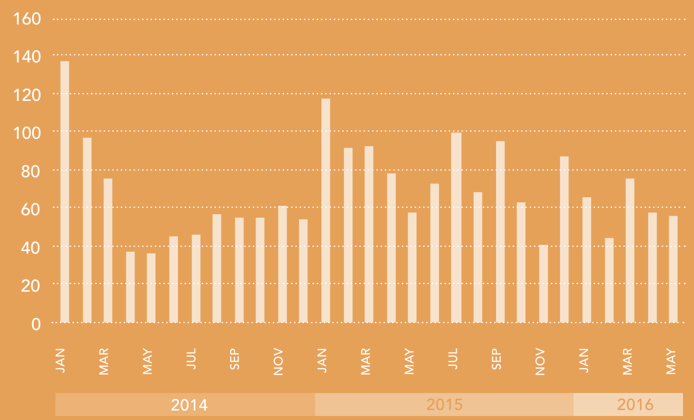
Source: CRIBIS D&B

NORWAY



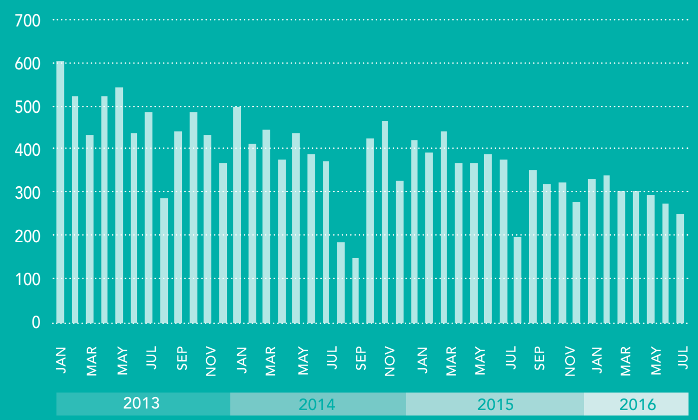
Source: Statistics Norway

KAZAKHSTAN



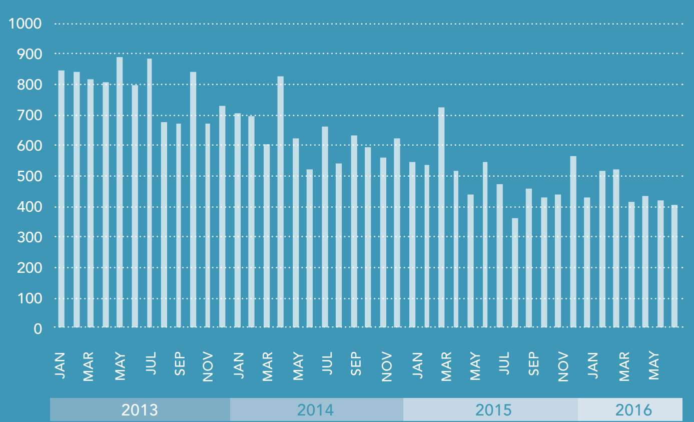
Source: Interfax - State Revenue Committee of Ministry of Finance of the Republic of Kazakhstan

PORTUGAL



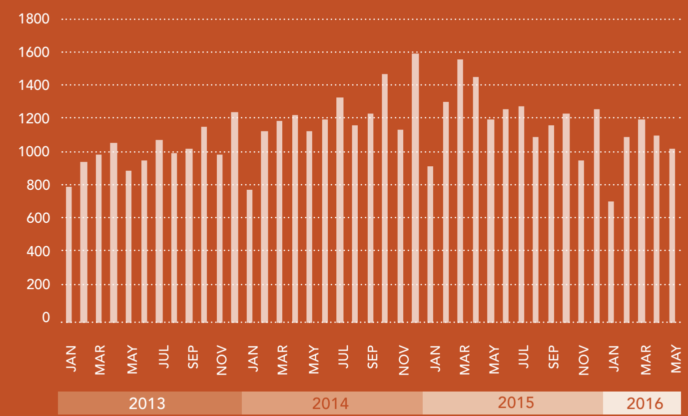
Source: Informa

NETHERLANDS



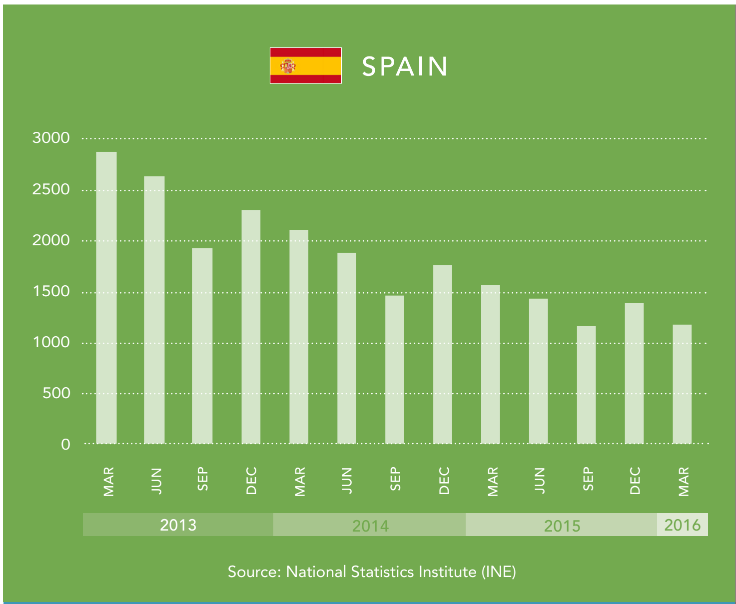
Source: Dun & Bradstreet Netherlands

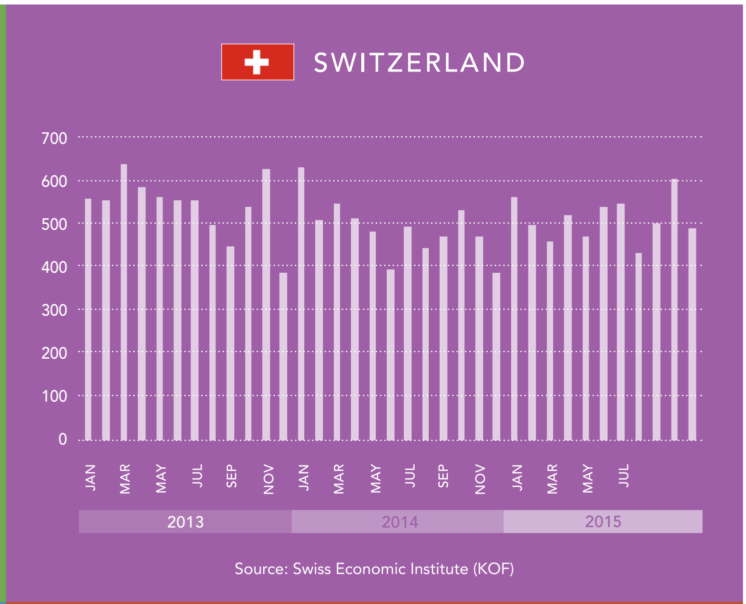
RUSSIA

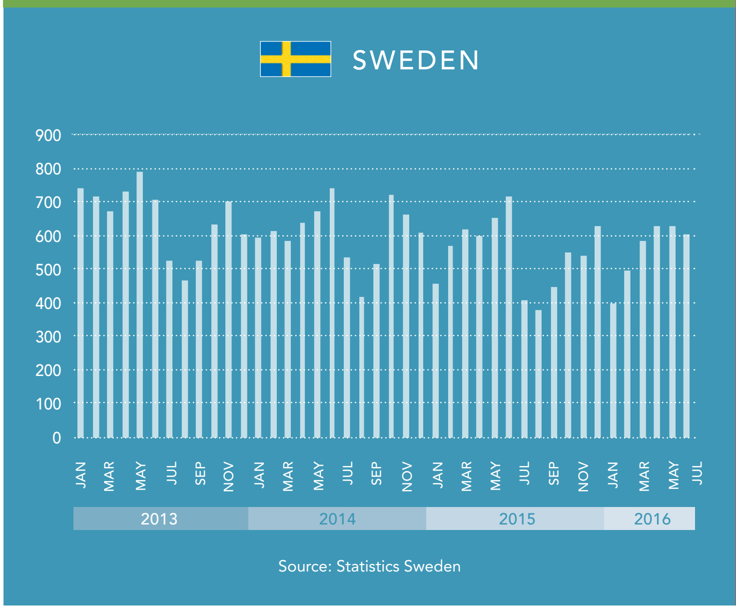


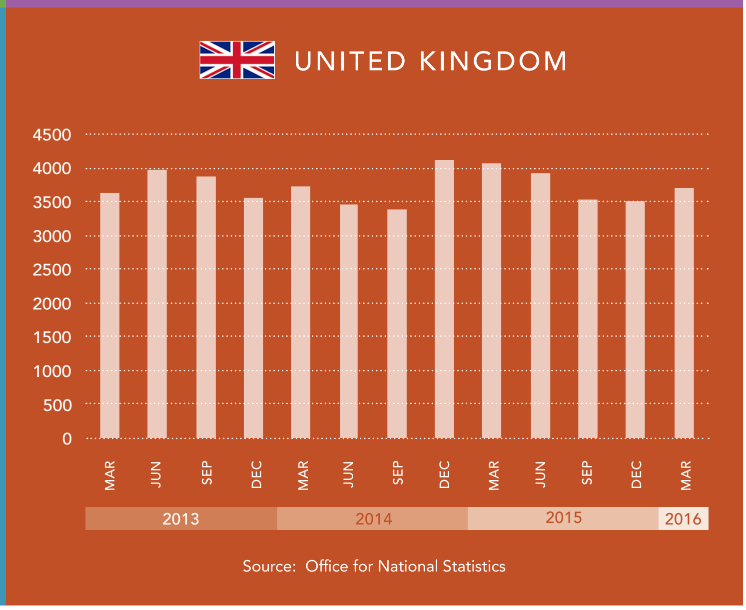
Source: Interfax

CHARTS – EUROPE

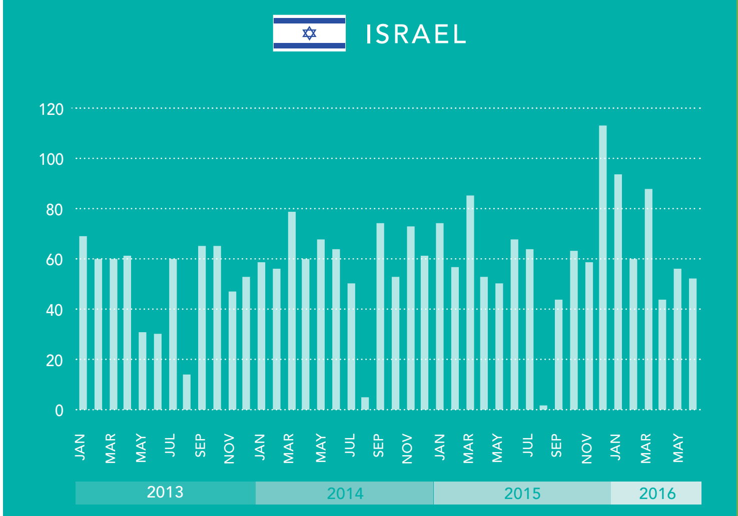




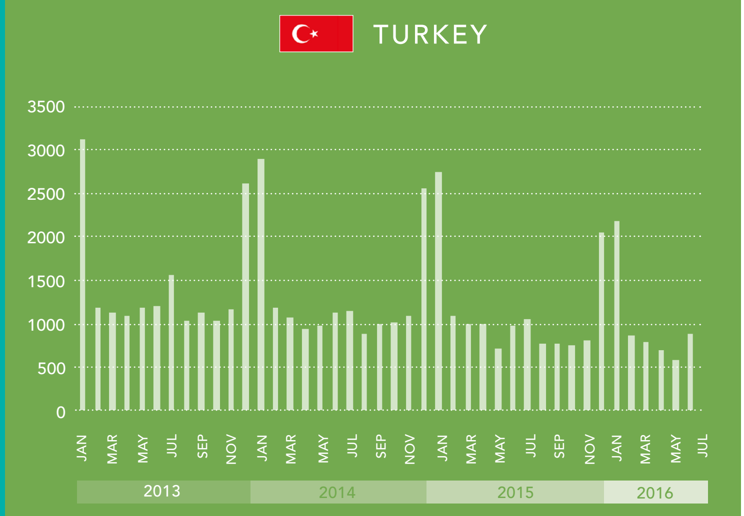




CHARTS – MIDDLE EAST

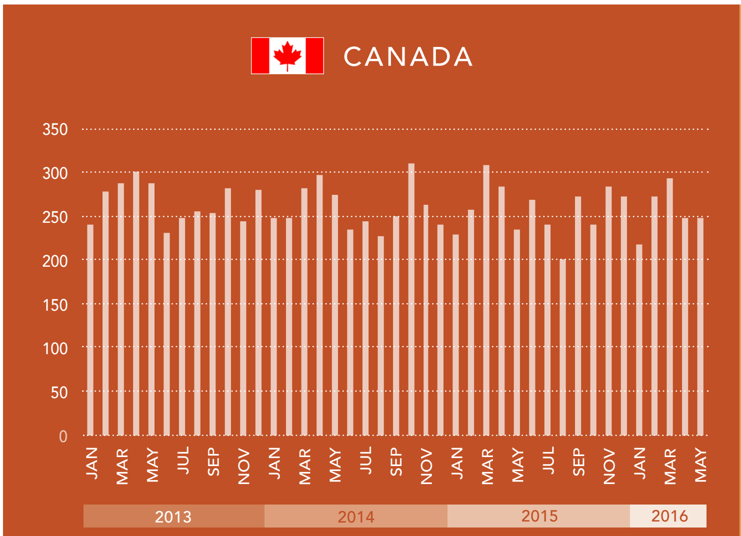


Source: Dun & Bradstreet Israel

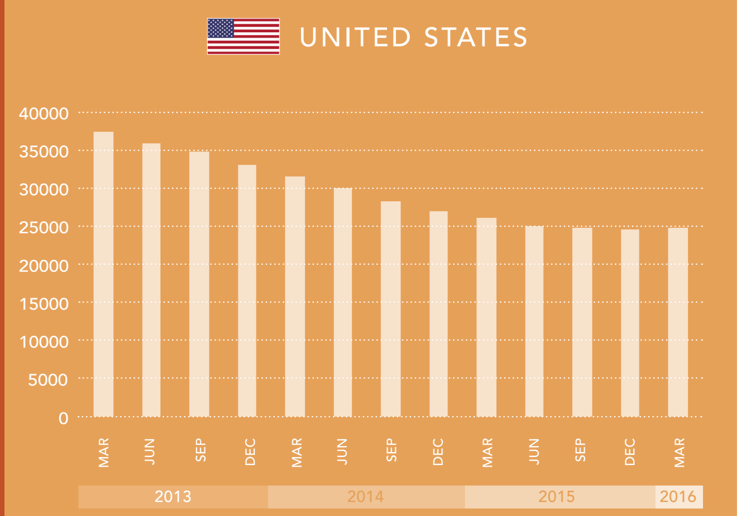


Source: TOOB, Turkey

CHARTS – NORTH AMERICA



Source: Statistics Canada



Source: Administrative Office of the U.S. Courts.

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WORLDWIDE NETWORK

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