Global Risk Matrix

QUARTER 1 2016

February 2016

TEN KEY RISKS FACING BUSINESSES IN A GLOBALISED WORLD

The latest Dun & Bradstreet Global Business Impact score highlights a slight easing of risks facing businesses across the world, although risk remains elevated. Furthermore, the nature of risk is changing rapidly, with six new entries among our top ten risks. The biggest risk we highlight this month is the negative impact caused by Chinese real GDP growth slowing below 5%.

MARGINAL IMPROVEMENT

In The Dun & Bradstreet overall *Global Business Impact* (GBI) score for Q1 2016 is the second lowest on record since we started the Global Risk Matrix (GRM). It confirms our view that despite the gloomy headlines business conditions are gradually easing almost a decade after the start of the global financial crisis. The GBI improved for a second successive quarter, albeit only marginally to 230 (out of a maximum of 1,000) from 231 in the previous quarter. Our lowest GBI score, 226, was recorded in Q1 2014.

Our top ten risks combine an assessment of (i) the event's probable magnitude on the global business operating environment and (ii) the likelihood of it happening. Previously the GRM was based around risks emanating from the seven regions Dun & Bradstreet covers, but we have now enhanced our matrix by adding risks that are pan-regional.

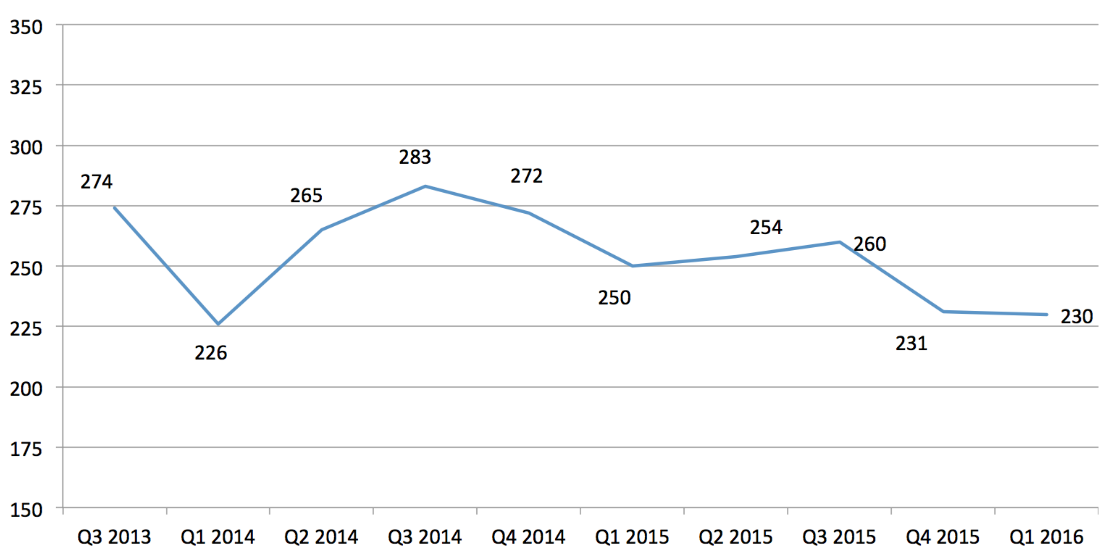
SIX NEW RISKS

Despite the relative stability of the score over the past two quarters, the Q1 2016 GRM has six new entries, highlighting that, in an increasingly complex and globalised world, finance, procurement and supply chain teams across all sectors of business face urgent and ever-evolving risks. The six new entries relate to:

1. Bad energy loans in the US creating systemic risk in the financial sector (GBI of 32 out of a maximum 100);
2. A large influx of refugees into Europe undermining supply chains (GBI of 30);
3. Low oil prices fomenting socio-political unrest in oil-rich countries (24);
4. The fall in banks' share prices triggering serial defaults and global recession (20);
5. Capital flight forcing the Chinese yuan below CNY7:USD and causing market volatility across Asia (20); and
6. Resistance to austerity measures leading to further debate on a Grexit in the medium term (18).

Of the four risks that remained in the GRM from Q4 2015, the GBI of one worsened, two improved and one remained the same. The likelihood of Chinese real GDP growth slowing to below 5% has increased from 35% to 50%, raising its GBI score from 28 to 40. Meanwhile, the likelihood of the ECB's quantitative easing programme adding further volatility to global markets has fallen from 75% to 60%, lowering its GBI from 30 to 24. Although we forecast that the likelihood of the strong US dollar impacting negatively on US businesses has increased from 35% to 50%, we have lowered its global impact magnitude from 3 (out of a maximum 5) to 2, thereby reducing its GBI from 21 to 20. Finally, the GBI associated with civil wars in Iraq, Syria, Yemen and Libya spreading into neighbouring countries and giving radical Islamist groups further opportunities to launch economic jihad remains at 20.

GLOBAL BUSINESS IMPACT SCORE



CHINA IS BIGGEST RISK

Our top risk – with a GBI of 40 – is related to the Asia Pacific region and emanates from China. We are concerned that default contagion from industry, property and local government will slow real GDP growth in China to under 5%, triggering additional problems in the financial sector and necessitating state rescues and emergency capital issues. Among those upstream industries currently appearing to have too much capacity are steel-making, ship-building, solar panels, coal, property and local government (and possibly cement, glass-making, aluminium and commercial real estate in the Yangtze River delta). Chinese growth of below 5% would seriously impact on the growth prospects for many emerging markets.

In second place (GBI of 32) is the highest new entry, which emanates from North America. The risk here is that bad energy sector loan portfolios related to the shale oil and gas sector could cause a systemic crash in the US financial sector. As was seen in 2007-08, difficulties in the US financial sector can rapidly spread to other banking sectors and then to the real economy.

Thirdly, we are concerned about the negative implications of the refugee crisis in Europe continuing to grow sharply (GBI of 30). This would trigger a political reaction which could lead to the re-implementation of border checks in the Schengen area, directly impacting EU supply chains; there would also be a second-level negative impact on global supply chains. The fourth-place risk (down from top position in the previous report) also emanates from West and Central Europe: with a GBI score of 24, this is the impact of an increase in the size of the ECB's QE scheme adding renewed volatility to global financial markets.

Also in fourth place is our highest placed pan-regional risk. This relates to our worry that the continuation of subdued oil prices could lead to further fiscal austerity, fuelling social unrest and political instability in authoritarian oil-rich countries in the Middle East, North Africa and Central Asia (GBI 24). Such instability would also be likely to curtail global oil supplies.

The second risk emanating from North America is in equal sixth place with a GBI of 20, and is associated with the strength of the US dollar. A strong dollar could weigh on US growth (and therefore global economic growth) as exports and manufacturers suffer, while also undermining the foreign profits of US corporations, forcing them to cut capital spending.

The second of our pan-regional risks is also in equal sixth place, and relates to the recent fall in banks' share prices in developed economies. We are concerned that this will cause another systemic financial crash, leading the global economy into recession. We assign a 20% likelihood of this happening.

Also in joint sixth place is the risk that an increase in regional security issues arising from the civil wars in Iraq, Libya, Syria and Yemen could spread into neighbouring countries (a 25% possibility), impacting not only local supply routes but also destabilising oil markets, with the potential to significantly raise global energy prices.

The final equal sixth-place risk is another new entry. We are concerned that capital flight could force China's yuan to weaken past CNY7:USD, triggering a wave of currency selling and deflation in Asia.

The final top ten risk is related to West and Central Europe, where increasing public resistance to EU-imposed austerity in Greece could lead to a resurgence of the Grexit debate in the medium term.

BUSINESS ENVIRONMENT REMAINS CHALLENGING

The Dun & Bradstreet *Global Business Impact* (GBI) score for Q1 2016 highlights that risks facing businesses are easing somewhat, despite some dark headlines. However, the business environment remains challenging and business decision-makers need to be aware of the rapidly changing risk environment.

TOP 10 RISKS

REGION	RISK	LIKELIHOOD OF EVENT (%)	GLOBAL IMPACT (1-5)	GLOBAL BUSINESS IMPACT SCORE (1-100)
ASIA-PACIFIC	Default contagion from industry, property and local government slows real GDP growth in China to under 5%.	50	4	40
NORTH AMERICA	Bad energy sector loan portfolios create a systemic crash in the financial sector.	40	4	32
WEST & CENTRAL EUROPE	Large influx of refugees into the region leads to the re-implementation of border checks in the Schengen area, thereby impacting EU supply chains.	50	3	30
WEST & CENTRAL EUROPE	Increase in the size of the ECB's Quantitative Easing scheme in order to boost inflation adds further volatility to global capital markets.	60	2	24
PAN-REGIONAL	Continuation of subdued oil prices leads to further fiscal austerity, fuelling social unrest and political instability in authoritarian oil-rich countries, as well as curtailing global oil supplies.	30	4	24
NORTH AMERICA	Strong US dollar weighs on growth as exports and manufacturing suffer. Furthermore, dollar strength hurts foreign profits of US corporations forcing them to cut capital spending.	50	2	20
PAN-REGIONAL	The fall in banks' share prices in the developed economies causes another systemic crash, leading the global economy into recession.	20	5	20
MIDDLE EAST & NORTH AFRICA	Civil wars in Iraq, Syria, Yemen and Libya spread into neighbouring countries, giving radical Islamist groups further opportunities to launch economic jihad.	25	4	20
ASIA-PACIFIC	Capital flight forces China's yuan to weaken past CNY7:USD triggering a wave of currency selling and deflation in Asia.	33	3	20
WEST & CENTRAL EUROPE	Increasing public resistance to EU-imposed austerity in Greece leads to a resurgence of the Grexit debate over the medium term.	45	2	18

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