



market monitor

Adapting to the challenging
economic environment

November 2010

What does the future hold?

That's what seems to be worrying consumers in many of the countries featured in this month's Market Monitor. The word 'nervous' aptly describes the US economy. While consumer spending looks relatively healthy at the moment that may simply be as a result of the seasonal 'back to school' effect, with families having to buy school related merchandise. The underlying trend of US consumer sentiment is still shaky, with anxiety about the future spilling over into anger and a clear vote of no-confidence in the government's handling of the economy at the recent mid-term elections.

In the Czech Republic, although the economic barometer has pointed to sunny periods in recent months, consumers are jittery about clouds on the horizon. Portugal too has seen some signs of recovery of late, but this glimmer of light appears short-lived, as Prime Minister José Sócrates forces through austerity measures destined to dampen consumer confidence. In Belgium there are also signs of nervousness, in anticipation of the appointment of a new administration and the harsh austerity measures that must surely follow.

The FIFA World Cup gave some support to the South African economy, but only fleetingly, as the country must still wrestle with ingrained problems of unequal wealth distribution and high unemployment.

One country in this Market Monitor that does seem to have bucked the trend is the Netherlands, where unemployment is decreasing and consumer confidence has reached its highest level since January, with a consequent rise in household spending. But even here, once the new government's austerity package receives parliamentary approval, consumers may again rein in their spending.

In this issue...

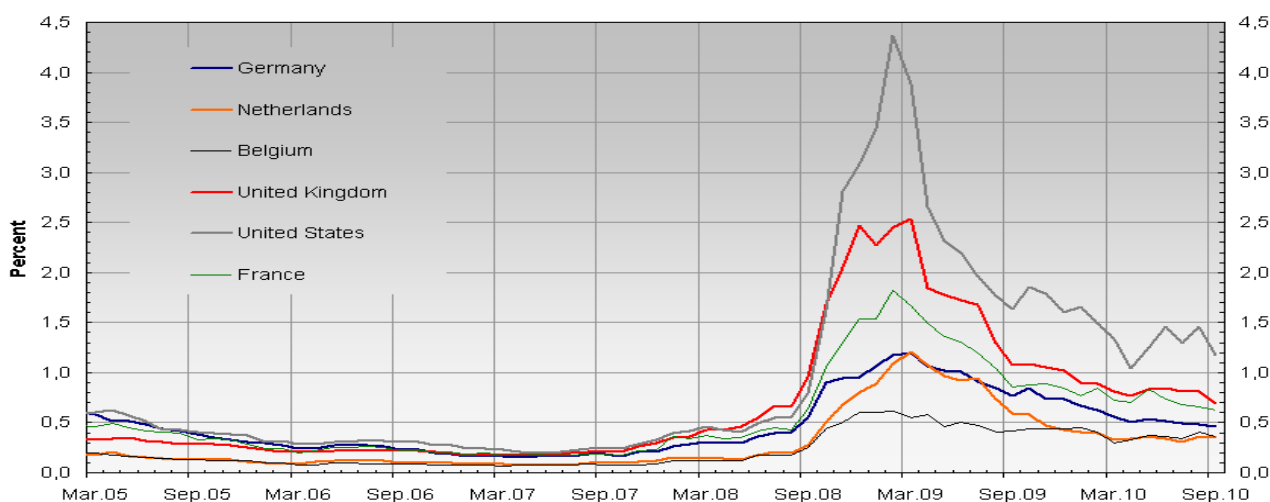
...we feature the following markets:

- United States – with a spotlight on the construction and energy sectors
- Belgium – with a spotlight on the chemicals and food sectors
- The Netherlands
- Czech Republic
- Portugal
- South Africa

Expected default in Western Europe and USA

One of the most important factors that any business needs to know is the trend in insolvencies in their markets. The following Expected Default Frequency (EDF) chart is based on listed companies in the markets referred to, and the likelihood of default across all sectors within the next year. In this context, default is defined as a failure to make a scheduled payment, or the initiation of bankruptcy proceedings. Probability of default is calculated from three factors: market value of a company's assets, its volatility and its current capital structure. As a guide, the probability of one firm in a hundred defaulting on payment is shown as 1%.

Median EDF evolution by country



Source: KMV Credit Monitor and Atradius Economic Research

Since the beginning of the year, the EDF values of most of the countries surveyed have shown some volatility from month to month, although the general tendency has been one of overall improvement. After several months of rather inconsistent developments, a simultaneous EDF-decrease in all the economies surveyed was again recorded in September. In addition, the September median EDFs for all the major economies - France, Germany, the United Kingdom and the United States - are the lowest since the September 2008.

On the following pages, we assess the impact of expected default in key markets. As well as the expert view of our underwriters, we indicate the general outlook for each market and sector featured using these 'weather' symbols:



Excellent



Good



Fair



Gloomy



Bleak



Household consumption grows, but consumer sentiment remains jittery

According to advance estimates by the US Bureau of Economic Analysis (BEA), real GDP grew 2% on the previous quarter in Q3 of 2010, compared to 1.7% in Q2 (see chart below). The main drivers of growth were:

- an increase in consumer spending – at its fastest pace since Q4 of 2006
- private inventory investment
- non-residential fixed investment
- federal government spending
- exports



From a consumer spending perspective, the third quarter encompasses the 'back to school' retail season which traditionally delivers some stimulus, while business investment in private inventories amounted to US\$ 115.5 billion.

However, concern remains that much of the current demand is being met by imported products: a worrying trend for domestic manufacturers. According to BEA, the trade deficit increased again in August 2010 to US\$ 46.3 billion. Until demand for domestic products and services increases, the likelihood of a meaningful reduction in unemployment, currently at 9.6%, is some way off. Many economic observers think that, to tackle the high unemployment rate, a quarterly GDP growth rate in the region of 3.5% is required – and that rate of expansion is unlikely to be seen before the second half of 2011.

So, again, the outlook is for tepid growth as the USA moves forward. Structural issues arising from the collapse of the residential housing market still persist and, while consumer spending did increase in Q3, the paradoxical nature of consumer behaviour is displayed in the October measurement of consumer confidence, which shows greater anxiety. With 14.8 million unemployed, and little relief in terms of a housing market recovery in the short-term, US consumers remain understandably anxious. Their concerns were certainly manifested in the shift back to the Republican Party



during the November congressional elections – a clear vote of no confidence in the policies employed so far to convincingly tackle the country's economic problems.

The administration pursues an export-led recovery

A second round of federal stimulus, or quantitative easing ('QE2'), has been announced. Essentially this means that the US Federal Reserve will repurchase holdings of US government securities from banks, injecting more money into circulation in the hope that this will encourage banks to adopt more expansive lending attitudes to struggling businesses and potential home buyers.

The initial round of quantitative easing did little to convince smaller banks to relax their lending policies – especially those banks that saw their corporate real-estate loan portfolios turn sour. So we will monitor with interest the effects of this round of quantitative easing – particularly to see if it has a positive impact on bank lending attitudes.

A by-product of the combination of an inflow of money into the system and low interest rates will be a US\$ depreciation. With the Obama administration promoting the need to export as an engine for economic recovery, some more critical observers take issue with QE2, seeing it as an unfair way to make US exports more competitive on the back of a weaker dollar. This attitude is held most vociferously by Germany and China, though somewhat ironically given Germany's acceleration of exports, creating detrimental trade imbalances for its European Union neighbours, and China's aggressive purchase of US treasury bonds, which served to calibrate the Yuan favourably against the US\$.

While such views could potentially lead to a reaction in the form of the imposition of tariffs and tit-for-tat trade restrictions, there is a clear intent by the Obama administration to optimize the opportunities for US exporters. This strategy is seen as a relatively short-term ploy to address the high rates of local unemployment while re-booting US manufacturing: effectively so that a boost in exports can serve as a major stimulus for a broader US economic rebound. Asia has been targeted as a major US export destination and, in advance of the G20 summit, Obama has visited India, Indonesia and South Korea to foster and establish trade agreements.

Atradius has itself entered an arrangement with Export-Import (Ex-Im) Bank to provide trade credit insurance solutions for small and medium sized exporters that have struggled to obtain short-term credit insurance since the financial crisis of 2008 / 2009.

It remains to be seen what levels of economic traction will be achieved by the QE2 stimulus plan. However, we think that, on both fronts, there are considerable attitudinal obstacles to overcome. Locally, there is a considerable challenge of overcoming the banks' ingrained restrictive lending attitudes while, as for exports, there is real potential for trade partners to take protectionist measures.

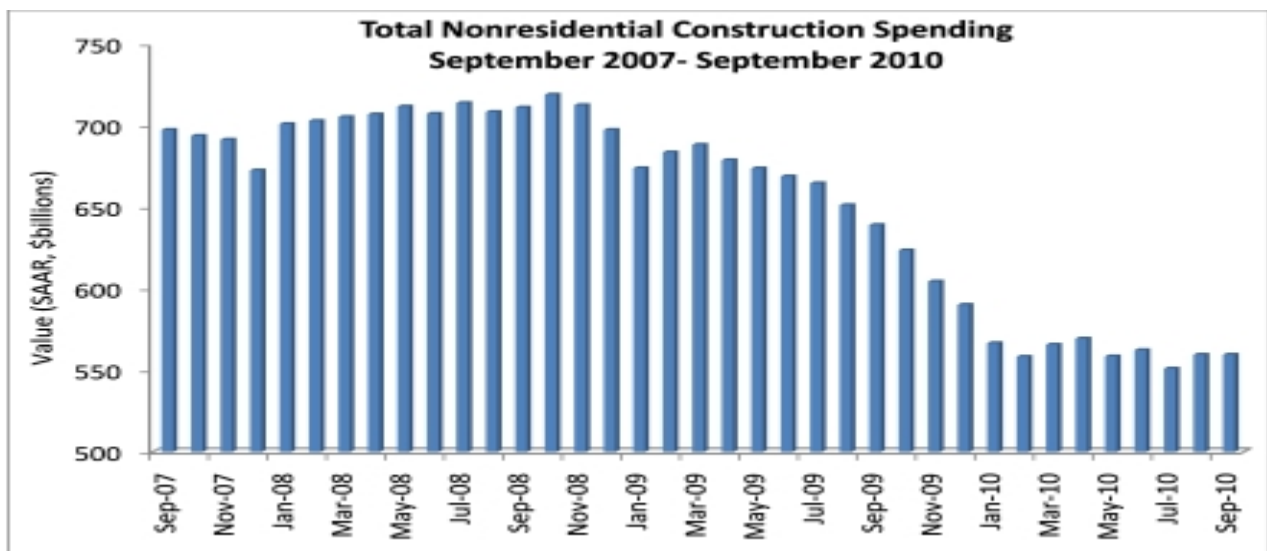


Construction

How has the construction sector performed so far in 2010?

After several years of driving the US economy to unprecedented buoyancy, distress in the construction and construction materials sectors continues to be a major depressing factor in this post-recessionary period, the severity of which has not been seen since the 1930s. Historically a barometer for the US economy, performance in the construction sector has struggled for the last 5 years and the new housing market has been in freefall since 2008. In 2009, the weakness of construction activity was the single largest contributor (10%) to a 2.4% decline in GDP. As the trend has continued throughout 2010, construction now constitutes just 4.1% of GDP, compared to 15% in 2003.

State, local and federal construction spending has stagnated as a result of substantial budgetary shortfalls nationwide. In the past, non-residential construction activity has followed the residential cycle by 9 to 18 months. This cycle had been quite resilient over the last four years, but continued weak economic metrics are now dampening sector activity significantly. As a consequence, deep distress is also being felt by all building materials producers, distributors and retailers. Residential housing markets did experience some relief in early 2010, thanks to lower mortgage rates and first time buyer incentives, but, with the expiry of those initiatives, markets have stalled.



Source: U.S. Department of Commerce

What is the current trend in payment terms, payment defaults and insolvencies?

Two factors are emerging. Firstly, longer payment terms are being offered, and secondly, and not uncommonly, buyers are stretching their payables by an extra 30 days. Longer terms of sale may become standard but we expect that, as sector conditions improve, payables will return within contractual terms. We do not anticipate a significant shift in the value or number of insolvencies.



Construction (continued)

What is Atradius' short-term outlook for the construction sector?

In commercial and non-residential construction, it is estimated that in 2010 we will see a 13% drop in activity. While federal stimulus money has been slow to trickle down to public construction sectors, infrastructure and highway spend is expected to pick up in 2011 by which time federal funds should begin to flow more freely. For residential construction, no relief is expected until the latter part of 2011 and no return to historical patterns of activity before 2013.

While certainly distressed, building materials sectors are expected to remain relatively stable in the short-term. Recent trends in the retail building supply sector are promising, as consumers address long delayed home maintenance, repair and renovation.

Key issues for construction and related sectors are, and will continue to be, the ongoing home mortgage/foreclosure debacle; tight credit markets; raw material and energy costs; interest rates; consumer confidence; federal stimulus spending; moderating capital spend; pervasive unemployment; and overcapacity.

What is the Atradius approach to the sector?

Given continuing stresses in the construction and construction materials industries, underwriters must exercise extraordinary discernment and discretion when reviewing buyers in these sectors. Without favourable trade, financial statements or other credit/financial insight, coverage will not be granted on buyers in these sectors. Our commercial strategy is to review any new business opportunity very carefully and apply whatever conditions are necessary to limit the risk to our clients.



Energy

How has the energy sector performed so far in 2010?

The US energy sector is in a state of transition and faces an uncertain regulatory environment. The recent oil spills in the Gulf of Mexico led to a drilling moratorium, causing many oil and gas companies to either sell - or at least re-evaluate - their drilling operations in the Gulf. This will also lead to more stringent safety requirements and regulatory monitoring, though it may be a while before all the changes are agreed and implemented. Natural gas drilling activity remains robust, though prices remain low because of the abundant supply. The US has more than doubled its reserves over the last 5 years due to new drilling techniques. The focus on reducing carbon emissions should be a benefit to natural gas producers, as natural gas is the cleanest burning fossil fuel.

What is the current trend in payment terms, payment defaults and insolvencies?

From a payment standpoint, most of the energy industry operates under standard terms. There is very little tolerance for late payments because of the critical nature of what is often being supplied. Also, in view of the large amounts typically involved, vendor credit departments will typically address any perceived payment issues expeditiously. Atradius saw a small rise in insolvencies when oil prices collapsed in 2008, but generally insolvency rates have been low since then, and we expect them to remain so for the foreseeable future.

What is Atradius' short-term outlook for the energy sector?

More stringent safety requirements could prove to be an opportunity for those companies that make equipment and provide services to oil companies, as spending will need to increase to bring existing operations up to standard with those requirements. The recent elections and subsequent change in control of Congress makes the passage of a cap and trade bill very unlikely, which will benefit coal producers. The current administration still heavily favours renewable sources of energy such as wind and solar, but there are substantial costs associated with upgrading the power grid to accommodate these new sources. We will continue to see growth in wind and solar energy, though probably at a slower rate in the coming years.

The Environmental Protection Agency (EPA) will play an increasingly important role in the direction of the energy sector, though this is being challenged by almost every manufacturing and economic association. Beginning in 2011, the EPA will regulate greenhouse gas emissions from stationary sources, which is essentially a way of imposing cap and trade. The EPA also recently ruled that gasoline with a 15% ethanol blend (E85) could be used in cars with a model year of 2007 or newer. This should increase slightly the demand for ethanol. Overall, we can expect to see a continued focus on 'clean energy' in all its forms, although traditional fossil fuels will continue to play a big role for the foreseeable future.

What is the Atradius approach to the sector?

Our underwriting approach is positive, as we view the sector as a whole as favourable. However, the various subsectors are influenced by vastly different factors so we take a more specialized view at a subsector level.



Still a long way to complete recovery

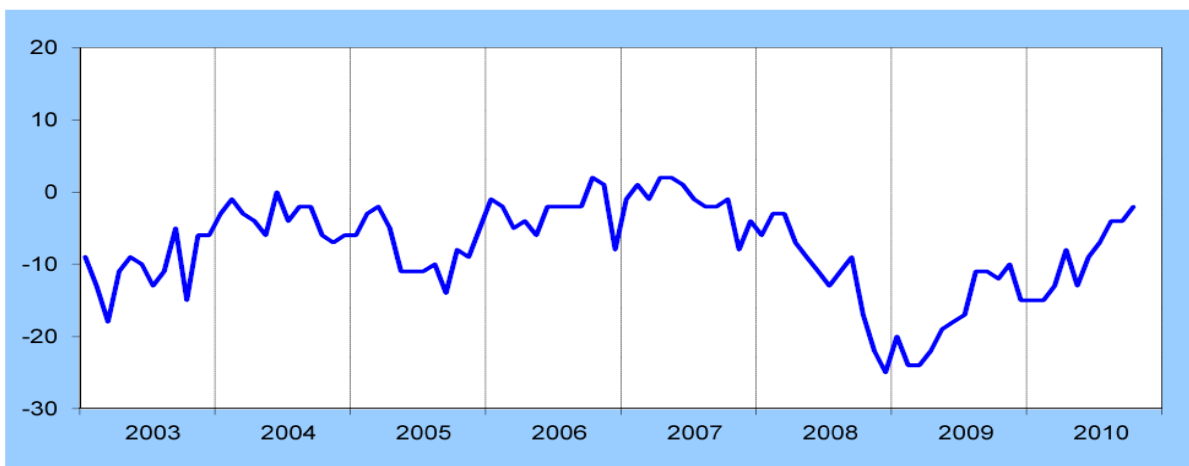
According to the National Bank of Belgium (NBB), in Q3 of 2010 GDP grew 2.1% year-on-year and 0.5% on the previous quarter: a poorer performance than in Q2. Belgian exports are benefiting from strong demand from Germany, which can be expected to continue for the coming months. For the second month in row, the foreign trade balance was positive in July (see chart below)



Source: NBB

According to the NBB, business confidence increased in October for the fourth consecutive month, due largely to an improved business climate in the manufacturing and building sectors. In the same month, consumer confidence also improved (see chart below), as consumers' expectations of a recovery in the Belgian economy remain optimistic while their fears of a massive rise in unemployment subside (the jobless rate has increased only slightly this year: from 8.3% in January 2010 to 8.7% in October).

CONSUMER CONFIDENCE INDICATOR



Source: NBB

The IMF forecasts 1.6% GDP growth this year and 1.7% in 2011. The political situation in Belgium still poses some questions for future economic development, as, while awaiting the appointment of a new administration, the current interim government has yet to pass any of the austerity measures necessary to reduce the budget deficit in the



coming years. The introduction of such austerity measures would have a negative effect on both consumer confidence and growth.

Payment morale has improved

According to the latest Atradius Payment Practice Barometer (summer 2010)*, payment duration of both domestic and foreign customers has reduced compared to our previous survey (undertaken in winter 2009/10). Not only have Belgian companies succeeded, during this difficult time, in getting their domestic customers to pay earlier (at an average of 33 days compared to 38 days last winter), but they have also managed to reduce the average waiting time for payment from foreign customers: from 45 days last winter to the current 39 days. While this suggests that many companies have sharpened their credit management processes, e.g. with more emphasis on credit reports and proactive reminders, around 34% of the invoices of Belgian respondents to our survey were still paid "late".

Statistics Belgium reported that corporate insolvencies increased 3.1% year-on-year in September 2010 and 7.5% between June and August, with construction (+14,7%), retail (+14,5%), hotels, bars & restaurants (+12,4%) and transport (+11,4 %) most affected, closely followed by manufacturing (+ 9.5%). After two-digit increases in 2008 and 2009, we still expect corporate insolvencies to rise 5%, to around 9,900, this year and to decrease 5% next year. The Expected Default Frequency (EDF) for Belgium has shown some ups and downs since the beginning of the year, and in September we saw a 5 basis points decrease from the previous month (see chart page 2).

* You can download the Atradius Payment Practices Barometer: www.atradus.com/paymentpracticesbarometer



Chemicals

How has the chemicals sector performed in the last couple months?

The chemicals sector is one of Belgium's major industries, with sales amounting to 1.6% and exports as much as an 8.4% worldwide share. The main subsectors are basic chemicals, petrochemicals, pharmaceuticals and plastics/rubber. According to Essenscia, the Belgian Chemical Association, turnover in the sector decreased 25% year-on-year in 2009, while exports and imports fell 4.3% and 6.4% respectively.

However, the repercussions of the economic slowdown on chemicals were limited in comparison to other industries, and the business health of this truly international-oriented sector (80% of local production is exported) has improved, with new orders up since the beginning of the year as worldwide demand for chemical products returns.

What is the current trend in payment delays, payment defaults and insolvencies?

Within Belgium, payment behaviour is excellent, with 80% or more payments made by due date. The insolvency rate in this sector is quite low compared to other industries. Our experience is that the volume and number of payment defaults in this sector are far below the average for all industries.

What is the Atradius approach to the sector?

We assess the current performance of all subsectors (basic chemicals, energy and fuel, rubber, plastics, pharmaceuticals) to be good, and our short-term outlook remains favourable. We have a positive underwriting approach to the industry, including newly established businesses.



Food

How has the food sector performed in the last couple months?

Despite suffering from decreasing domestic consumption, the Belgian food sector has weathered the crisis well. We assess the development in the tobacco, food and beverage, meat, and other foodstuff subsectors as satisfactory, while fruit and vegetables show a deteriorating trend.

What is the current trend in payment delays, payment defaults and insolvencies?

With the exception of tobacco, we have noticed a slight worsening in payment behaviour in the industry over the last couple of months. The insolvency rate remains at an acceptable level, although we have also noticed a slight deterioration recently.

In contrast to other food subsectors, we have seen some medium and large credit insurance claims for fruit and vegetables. This subsector suffered in 2009 from very low prices, which have weakened some of the businesses active in the industry. In 2010, there are two main contributors to fruit and vegetables' problems: a decrease in consumption and higher pressure on distributors' prices.

What is the Atradius approach to the sector?

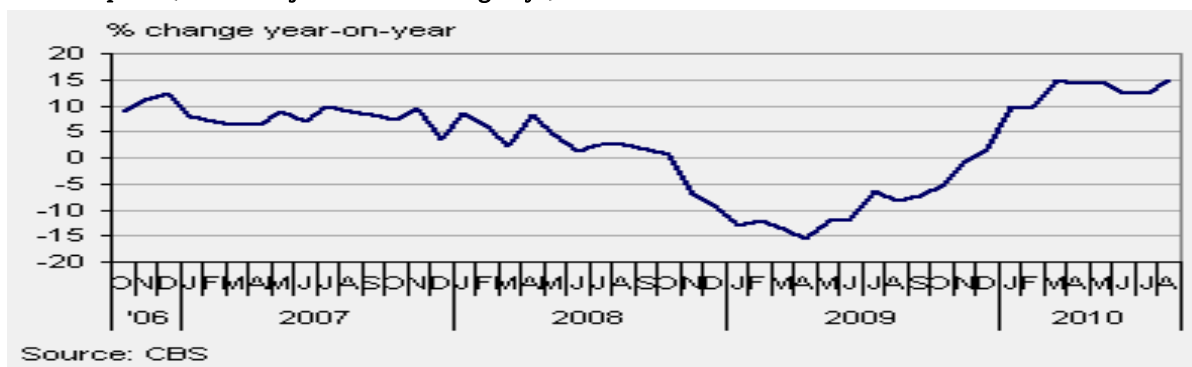
Our underwriting strategy reflects a positive approach to tobacco, food and beverage, meat, and other foodstuffs, while a more restrictive stance on fruit and vegetables (especially on undercapitalized newly established businesses), as we do not foresee any signs of improvement in the short-term for this particular subsector.



After the growth in exports, consumer spending picks up

As we reported in our last analysis of the Netherlands in August 2010, exports are still driving Dutch growth, and signs of revitalised consumer spending and investment are also emerging. According to Statistics Netherlands (CBS), the value of exports rose 19% year-on-year from January to August 2010, reaching € 238 billion, with a monthly average nearing € 30 billion. Expectations are that 2010 exports will be second only to 2008's record performance.

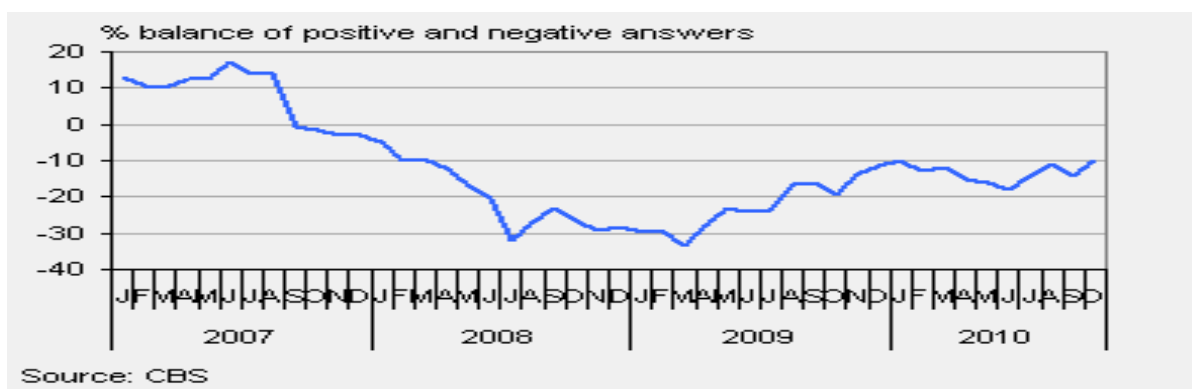
Goods exports (volume adjusted for working days)



Commodities and oil related products, plastics, machinery, transport, chemicals, metals and the semi conductor industry are still the main beneficiaries of increased external demand. Industrial production increased 7% year-on-year in July and August 2010, although this is still lower than 2008 output. However, the transport industry recorded outstanding results, with a 38% increase in output in August. It is therefore no wonder that truck manufacturers have announced further expansion of output and an increase in employee numbers. The machinery and base metal/metal products industries also recorded high output growth of 24% and 11% respectively.

Producer confidence has been positive for several months, while consumer confidence has lagged behind somewhat, as consumers have been uncertain about future economic prospects. However, consumers' confidence is now picking up, with the consumer confidence index reaching its highest level since January (see chart below), and consumers' willingness to spend consequently improving.

Consumer confidence, seasonally adjusted





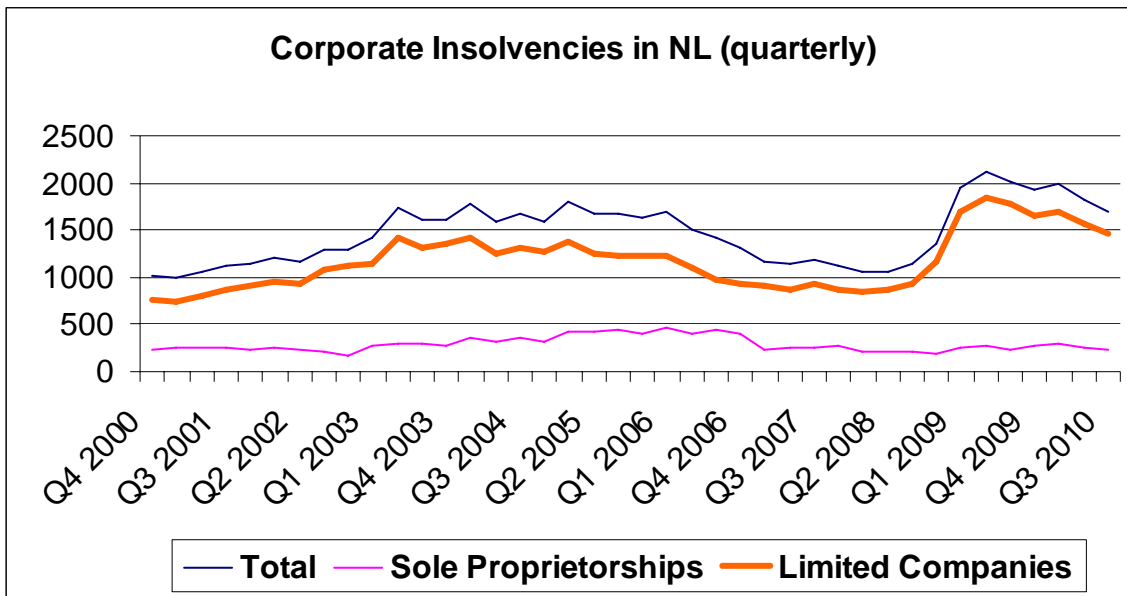
As consumer confidence gradually returns (albeit tentatively) the effect on spending and consumption is beginning to show. According to CBS, household consumption increased 1.6% year-on-year in August: the sixth consecutive month of year-on-year growth. The retail industry recorded 2% growth in turnover in August, with 3% in non-food products like electronics and clothing. Unemployment decreased to 5.1% in September, from its peak of 6.1% in February, and the number of people in employment is now slightly above that of September 2009.

Household savings have continued to increase in the first half of 2010: by approximately € 19 billion to € 350 billion (compared to € 333 billion at the end of 2009 and € 315 billion at the end of 2008). The value of other assets such as shares, Pension Funds and Life Insurance portfolios, has also increased. This suggests that sufficient funds are available for increased consumer spending.

In October, a new minority government under Prime Minister Mark Rutte was elected, after the former administration was dissolved in February. Rumours about public savings in the interim period had some negative impact on consumer confidence and spending. The new administration has finally announced an austerity programme aimed at reducing the budget deficit by € 8 billion by 2015 (for 2011 a budget deficit of 4% of GDP and public debt of 66% of GDP is expected). The austerity package includes a substantial increase in health care insurance premiums, a reduction in the number of civil servants, and a cut in child allowances. How effective these measures will be remains to be seen, and the programme still has to be approved by parliament. It is bound to have consequences for household income, but may not directly affect all trade sectors. There will be some impact on GDP growth: the IMF is forecasting 1.7% growth in 2011, after 1.8% this year. However, investments are expected to pick up again next year and contribute positively to output growth.

Continued decrease in insolvencies in 2010

Corporate insolvencies decreased 9.6% year-on-year in the first nine months of 2010, suggesting an overall decrease in business failures for the year of more than 10%. However, the number of failures is still far higher than the average annual number of 5,000 to 6,000 seen before the credit crisis (see chart overleaf). In July and August 2010 trade and industry recorded year-on-year declines of 16% and 8% respectively, and financial services and services sector insolvencies decreased 27%.



Source: Statistics Netherlands (CBS)

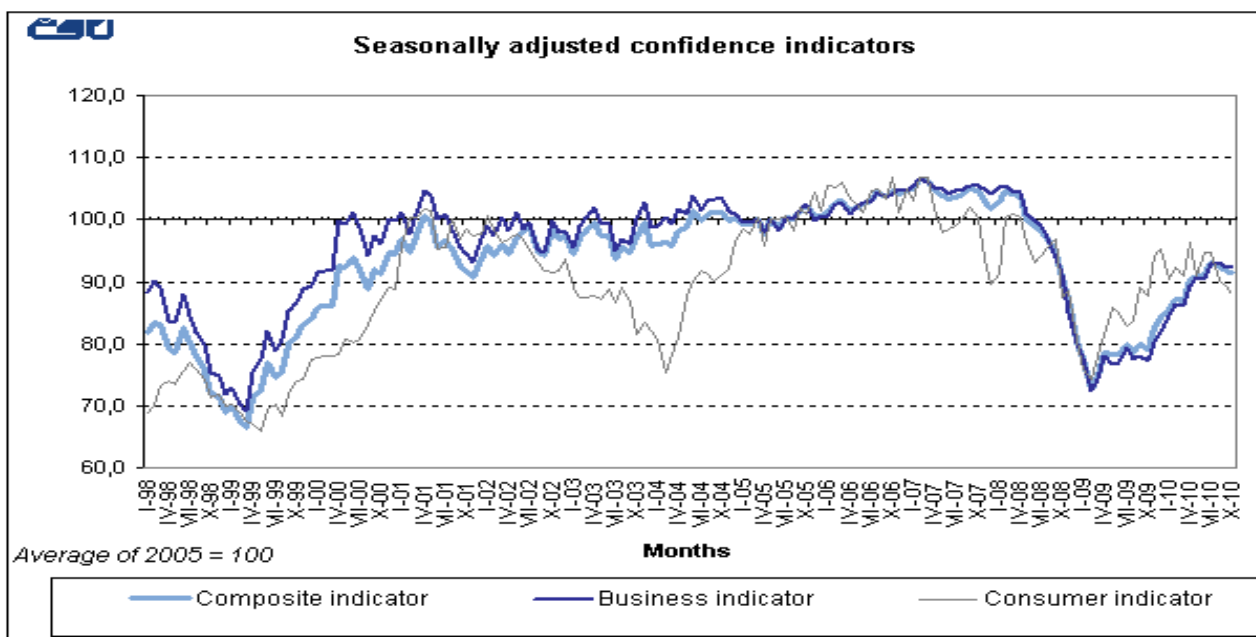
The construction industry saw a 29% year-on-year insolvency increase between January and August 2010. The situation is set to remain difficult, with the industry expected to contract almost 8% in 2010 and another 1% in 2011, as the infrastructure projects generated by the previous government's stimulus package come to an end. One positive sign for the construction sector is the new government's decision to continue the tax deductibility of mortgages, which may stimulate an increase in sales of existing houses. Any increase in the construction of new houses will, however, not materialise before 2012 or even 2013.



Improved expectations for this year...

The economic situation has improved considerably since our last Market Monitor analysis of the Czech Republic in May 2010. GDP increased 2.4% year-on-year and 3.8% on the previous quarter in Q2 of 2010. The Czech National Bank (CNB) has revised its 2010 growth expectation upwards to 2.3%. According to the Czech Statistical Office, between January and September 2010 exports and imports increased 16.2% and 18.7% year-on-year, respectively, after a sharp decline in 2009. Industrial production rose 10.2% year-on-year in Q3 of 2010, due mainly to a surge in production of motor vehicles and trailers, metal products, machinery and equipment. Unemployment decreased 0.2% year-on-year to 7.2% in Q3.

In October 2010 sentiment for the domestic economy decreased slightly on the previous month, with a 1.2% drop in consumer confidence. Consumers expect a less benign economy and a deterioration of their own financial situation in the next 12 months. The business confidence indicator levelled off in October, with confidence in industry and construction increasing slightly, while decreasing somewhat in trade and selected services. However, compared to its low point in October 2009, the overall confidence indicator is up 14.5 points (see chart below).



Source: Czech Statistical Office

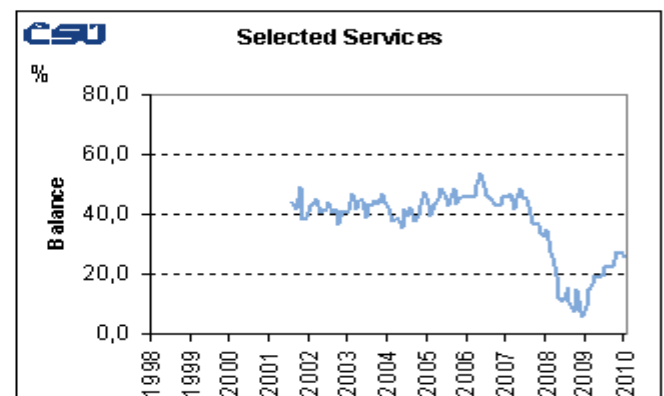
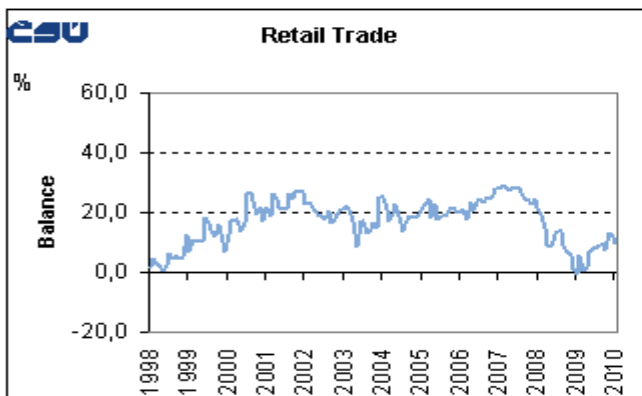
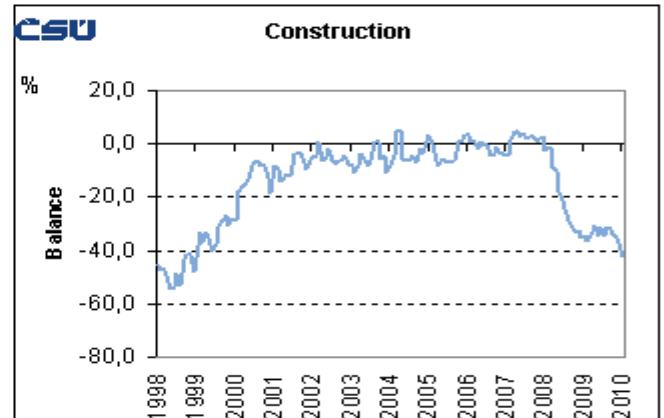
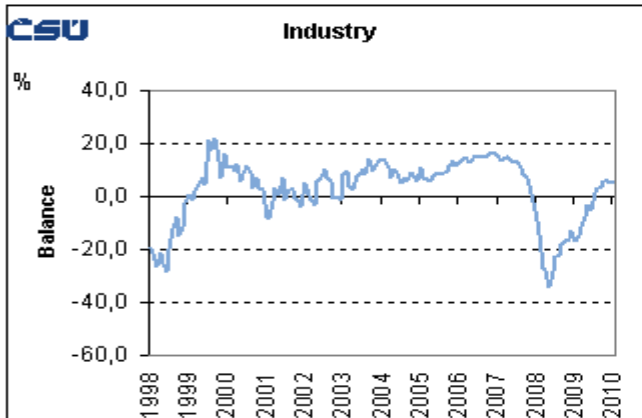
...but insolvencies will continue to increase

Generally, in the last few years the number of 'at risk' companies has increased rapidly. After an 82% year-on-year rise in corporate insolvencies last year, 2010 will again be critical, as company failures continue to rise despite the recovery, because the recession had such a severe impact on the equity base of many companies directly dependent on the economic cycle. We assess agriculture, manufacturing, transport and construction to be the sectors most at risk. In particular, construction companies in the public building sector (infrastructure) will suffer from forthcoming public



spending cuts. Overall, construction output decreased 4.8% year-on-year in Q3 of 2010, with both new orders and building permits down. Consequently, business confidence in the construction sector is far lower than in other sectors (see charts below).

Seasonally adjusted confidence indicators



Source: Czech Statistical Office

In contrast, we assess banks and energy to be the most secure sectors. Czech banks benefited from strict regulation which softened the effects of the credit crisis, while the strength of the energy sector stems from its status as an oligopoly. One exception in this sector is that of solar power stations, which have been subject to the imposition of a special tax. Other promising sectors are health service, pharmaceuticals and education.

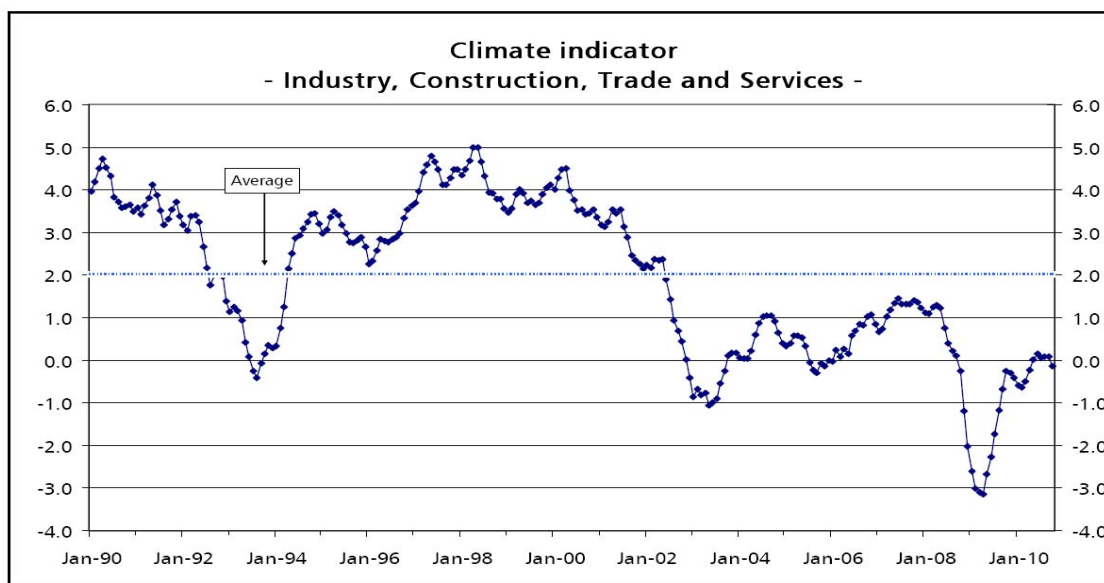
Economic growth will slow down next year, due to widespread austerity measures aimed at reducing the budget deficit. The Czech Central bank has recently revised its real GDP growth forecast downwards to 1.2% from 1.8%. However, the Ministry of Finance is more optimistic and expects a 2% increase in output.



Recovery slows as austerity measures take effect

After 2.6% GDP contraction in 2009, the Portuguese economy showed some signs of recovery in the first half of this year, due mainly to stronger domestic demand and a better export performance. A weaker euro and increased demand from some Eurozone members have helped Portuguese exports, which rose 14.9% year-on-year in the period June to August 2010. This rebound, however, appears short-lived and will probably not continue in the coming months. Exports are hampered by lower international demand and the fragile economic recovery expected in Spain: Portugal's main trade partner. Imports will remain at a low level too, due to high unemployment (10.6% in Q2 and expected to rise further) and tight credit conditions. One reason for the rise in private consumption seen in the first six months of the year was probably a rush to avoid July's VAT increase.

According to Statistics Portugal, industrial production declined 0.4% year-on-year in Q3 of 2010, and the economic climate indicator decreased in October 2010 (see chart below), after having stabilised in the three previous months. The consumer confidence indicator also dropped in October, driven by downbeat expectations for both household finances and the overall economy.



Source: Statistics Portugal

This deceleration comes as no surprise, since the government has announced harsh austerity measures aimed at reducing the country's large fiscal deficit (government debt will rise from 76.8% of GDP in 2009 to 82.1% this year and 86.6% in 2011) and regaining investors' confidence. The government hopes to reduce the fiscal deficit to 4.6% of GDP next year (7.3% of GDP in 2010) and to 2.8% by 2013. Its measures include further tax increases (a VAT increase to 23% following July's rise to 21%), a pension freeze, 5% wage cuts in the public sector and changes to the unemployment compensation system. Consequently, the government has decreased its GDP growth forecast for 2011 to 0.2%.



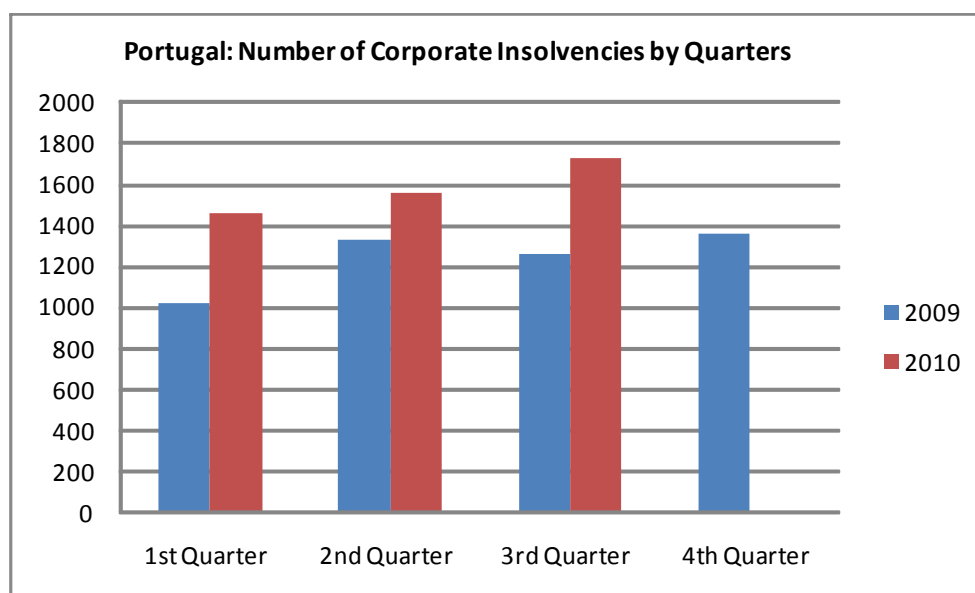
At the end of October the minority government, under socialist prime minister J3se S3crates, finally won the support for these austerity measures from the opposition Social Democratic Party. That support was gained only after S3crates had threatened to resign if parliament failed to pass the austerity package – an action that would have plunged Portugal into political crisis and further weakened investors' confidence in its economy. Portugal's parliament finally approved the general guidelines of the austere 2011 budget on November 3rd 2010.

Payment behaviour has improved, but insolvencies continue to rise

Although the payment performance of Portuguese companies improved in the first half of 2010, it still lags behind other EU members such as France, Germany, Italy, the Netherlands, Spain and the UK. As small and medium-sized companies continue to experience difficulties with credit conditions and access to new loans, payment risks are expected to remain severe this year.

Corporate insolvencies increased 31% year-on-year in Q3 of 2010, with 4,759 cases registered, compared to 3,626 in 2009 (see chart below).

	QI	QII	QIII	QIV
Number of insolvencies 2009	1.026	2.360	3.626	4.992
Number of insolvencies 2010	1.464	3.029	4.759	
Variation over previous year	43%	28%	31%	



Source: Atradius



Still no return to pre-crisis growth levels

The FIFA World Cup definitely gave a huge boost, not just to South Africa, but to the African continent as a whole, proving that South Africa has what it takes to successfully mount such an event, and instilling a sense of pride in many South Africans. However, while fleetingly shining the spotlight on the nation, it seems to many that the gains were mainly short lived, with the economic benefit of the competition judged to have made only a minimal contribution to South Africa's GDP growth.

South Africa has one of the most sophisticated business environments in Sub Saharan Africa, underpinning its dominant position in the region. Driving this are its strong state institutions and, until recently, its relative political and economic stability compared to the rest of the region, both of which have helped attract vital foreign investment.

The immediate impact of the global economic downturn on South Africa was relatively marginal: a contraction in GDP for just three consecutive months. Having introduced the new Consumer Credit Act before the crisis, financial institutions and consumers were already accustomed to tighter lending criteria and regulations, such that the overall impact of the credit crisis on liquidity and consumer debt were largely mitigated in comparison to other countries.

Although this paints a relatively positive picture, South Africa is by no means without its problems. Recently, the combination of strikes, a high crime rate, an inflexible labour market and power shortages have made the country less attractive for overseas investors, while the focus of attention created by the World Cup has exposed many of the weaknesses which continue to hamper economic growth. Unequal wealth distribution remains a real issue, as does the very high unemployment rate (25.3% in Q3 of 2010). Tensions within the African National Congress (ANC) and with the trade unions have led to further unease for investors and uncertainty over policy in the short to medium term. Overall, while South Africa benefits from a strong and established democracy, a number of structural weaknesses still clearly exist.

The general consensus is that 2010 will be a reasonable year for the South African economy, as it gradually recovers from the recession. However, growth is not expected to return to pre-crisis rates (4-6% year-on-year), and the IMF has forecast growth of 3% for this year and 3.5% in 2011.

Activity in key sectors has decreased over the past quarter, and the outlook for the short term remains pessimistic. Recent trade activity indexes show a marked drop in sales volumes, pointing to a decline in all major components of trade activity. Business confidence fell between March and June 2010 (from 43 points to 36) and, according to Statistics South Africa, the number of corporate liquidations rose by 25% year-on-year, demonstrating the challenging trading conditions in South Africa. While investment flows were strong during the build-up to the World Cup, these now appear to have ground suddenly to a halt, making the drop from such a high base all the more dramatic. However, the pessimistic business sentiment is to some extent offset by consumer confidence, which increased in Q3 of 2010.



Business opportunities in neighbouring countries

With activity in the domestic market currently low, South African businesses are increasingly looking beyond its borders for growth opportunities, and this is where we are likely to see most demand in the coming 12 months. Compared to its neighbours, and despite its political and economic problems, South Africa continues to enjoy relatively healthy demographics, an improving infrastructural base, a manageable debt burden, proven mineral reserves, and a stable banking system, all of which have the potential for it to benefit from the rapid growth expected in neighbouring countries such as Zambia and Angola.

From a risk underwriting perspective, South African buyers will have to be financially very strong to withstand the ongoing problems, and cover on unsecured terms will usually be reserved for companies that exhibit a robust liquidity position with good cash flow generation and low dependency on external financing. Financial information is not widely available, so that a direct approach to buyers is often required. Thankfully, business morality generally remains good, and most companies are happy to cooperate when we contact them for information, especially if the name of the supplier seeking cover can be disclosed.

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