



market monitor

Adapting to the challenging
economic environment

March 2010

Different markets, different perspectives

In 2009, China recorded a massive 8.7% GDP increase, outperforming all other countries in times of fragile economic conditions. Demand from 'the middle kingdom' and other emerging markets has helped to revive exports from EU economies such as Italy, which increased its shipments to non-EU countries in January. Nevertheless, this growth in exports to non-EU markets does not compensate for the sluggishness of intra-EU trade, which still faces rather pessimistic prospects due to modest growth expectations (the EU commission expects a mere 0.7% growth for the EU and Consensus Economics forecasts 1.3% for the Eurozone in 2010). However, apart from Spain and Italy, all other major EU markets (France, Germany and the United Kingdom) are forecast to grow above the EU- and Eurozone average.

While growth expectations vary from country to country, credit restriction remains an issue for all European economies. According to the European Central Bank (ECB), loans to the private sector (businesses and consumers) in the Eurozone decreased 0.6% in January 2010 from the previous month. In a recent ECB survey, small and medium-sized companies judged the availability of bank loans to be more difficult in the second half 2009 than in the first half of the year. So, as we see signs of a fragile recovery, concerns remain about businesses' access to credit.

In this issue...

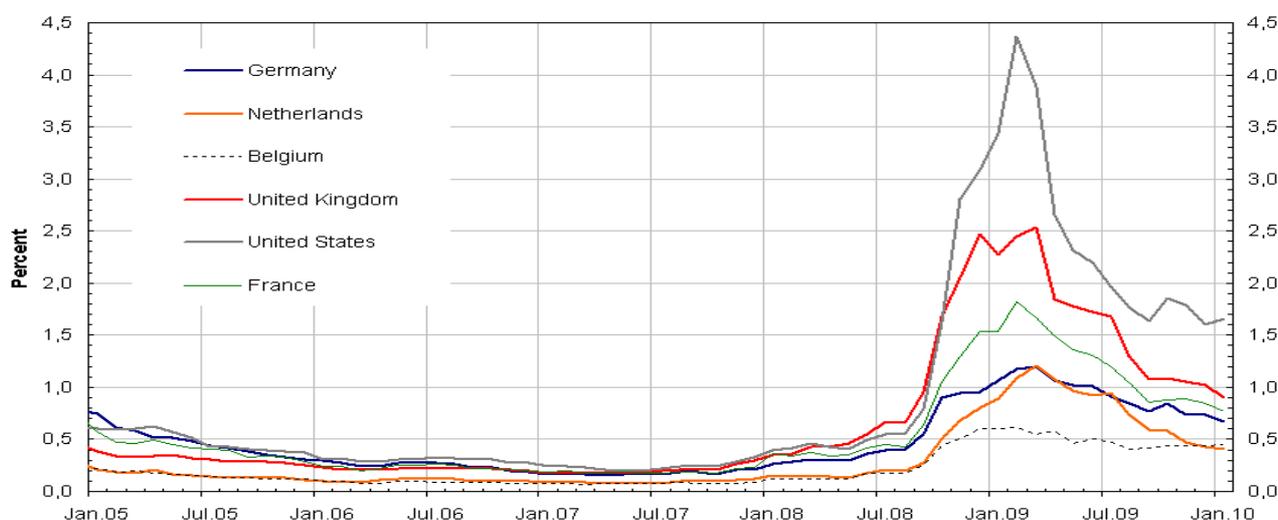
...we feature the following markets:

- Italy – with a spotlight on the metals and chemicals sectors
- Australia – with a spotlight on the consumer durables and agriculture/wheat sectors
- France
- Sweden
- Portugal
- China

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

In January 2010 the median EDF continued the generally improving trend that we have seen for several months. The United Kingdom recorded the best improvement of 12 basis points and is now back to 90 – the lowest level since August 2008. Similar patterns occurred in France, Germany and the Netherlands, while Belgium's median EDF has remained constant since October 2009. Although the US saw a modest 6 basis points rise compared to December 2009 due to some increased stock market volatility, the January 2010 level is much lower than at the beginning of 2008 due to double-digit monthly decreases in the last couple of months.

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



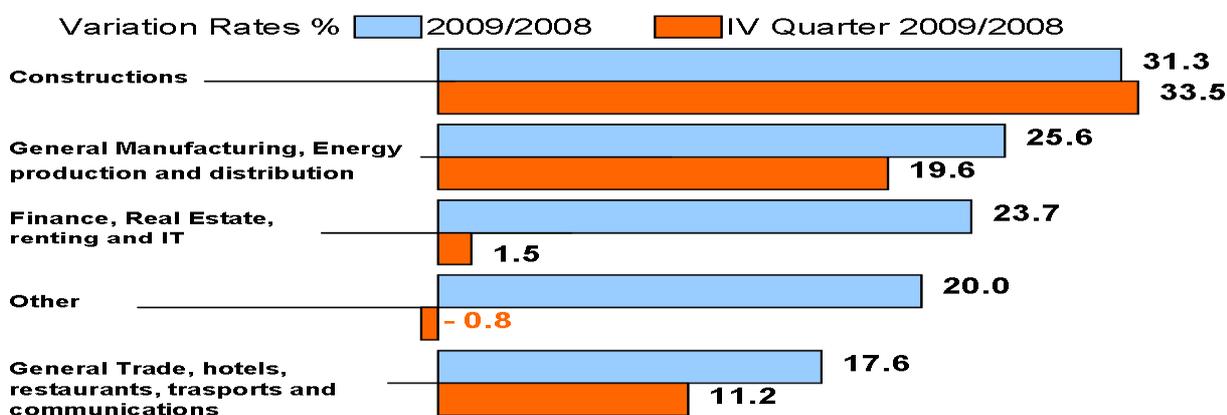
Exports rose towards the end of 2009

After quarterly GDP growth of 0.6% in Q3 of 2009, Statistics Italy (ISTAT) reported a decrease of 0.3% for Q4. For the whole of the year, GDP declined 5.0% year-on-year: slightly more than the 4.6% estimated after the positive third quarter. In the first 11 months of 2009, exports declined 22.1% year-on-year, but have improved again since the end of 2009. While exports to EU neighbours increased slightly - by 1.4% year-on-year in December 2009 - those to non-EU countries rose 4.7% in January 2010, with notable increases to China (38.9%) and Turkey (50.6%).

Although business confidence has risen recently, companies are still hesitant to increase production because of the uncertain outlook for new orders. In fact, according to ISTAT, the industrial production index decreased 0.8% in Q4 of 2009 compared to Q3, and, in the same period, production index also declined in the construction sector (-0.9%). Private consumption remained muted, with retail trade recording a mere 0.1% increase in the last quarter compared to the Q3.

In 2009, the construction industry recorded the highest year-on-year increase in corporate insolvencies (31.3%), followed by general manufacturing, energy production and distribution (25.6% - with rubber/plastic, shoes and leather manufacturing, and mechanical engineering the worst hit) and finance, real estate, renting and IT (see chart below). In contrast, the food sector recorded a 7% decrease.

Bankruptcies: Sectors Involved



Source: Sole24Ore 2010



According to the Bank of Italy, conditions for the supply of credit to firms remained tough in late 2009. Despite the relaxation of lending conditions for larger companies in Q3 of 2009, conditions for riskier loans were tightened by increasing margins. Italian Banks are still careful when granting new business loans, mainly because of rising corporate bankruptcies. They took advantage of the drop in the use of credit lines during 2009 to reduce credit authorisations and also, opportunistically, to massively increase the spread, leading to many tense negotiations between banks and businesses. Those small companies with capital intensive activities, in particular, will continue to suffer from loan restrictions, especially in the light of a scarcity of new orders. For instance, automotive suppliers will be affected by the Italian government's decision to end its incentives to the sector, with a knock-on effect along the production chain, especially in the north-west of the country.

Modest recovery in 2010

For the whole of 2010, the International Monetary Fund forecasts a modest 1% recovery of GDP growth, thanks to the residual effects of government investment and exports, which the Bank of Italy estimates will rise by around 3% year-on-year, although domestic demand will remain weak. While total investment will increase 0.7%, according to the Bank of Italy, household consumption (0.4%) will be dampened by the poor employment outlook: unemployment stood at 8.6% in January.

We do not foresee an improvement in the insolvency trend before the end of the first quarter, when the economic cycle could reach the real turning point. For the whole of 2010, we expect a higher number of insolvencies than in 2009, with many weak players falling by the wayside after the recovery gains momentum. In December and January 2010, the Expected Default Frequency (EDF) indicator for listed companies in Italy fell 18 basis points, after it had increased 16 basis points between September and November. Therefore the median EDF is still well above its long-term level, indicating elevated default risk among listed companies.



Metals

How has the metals industry performed after the beginning of the economic crisis until today?

In 2009, performance deteriorated, with a steep reduction in pricing levels. In particular, production of steel bar products decreased 35-40%, while flat steel production fell 47%, with a negative spike in March and June 2009. Forecasts for price increases for the three main metals, until mid 2010, are in the region of: aluminium +16%, copper +7% and zinc +21%.

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

The payment behaviour of the metals industry improved in the last quarter of 2009, due to a slight recovery in the sector. That said, we saw an increase in claims from our customers in the metals sector between October 2009 and January 2010.

What is Atradius' short term (6 months) outlook for the Italian metals industry?

For basic metals, we predict that prices will flatten out again by mid 2010. Demand will slow down in the course of the year, as China had already started to restock at the end of 2009. Furthermore, several steel consuming industries, such as construction and automotive, are expected to perform less well as fiscal stimulus packages come to an end. While this will affect exports of Italian metals, the situation could be different for the domestic market. In fact, even if demand from the global automotive sector suffers, it has to be noted that Italy is not a large car producer. About 50% of the Italian automotive market is made up of imported vehicles, and therefore reduction in demand would not be that severe for the steel sector.

For the construction sector, as a major consumer of metal products, there are two issues that will influence the market. On the one hand, there are a few recently started large infrastructural projects that will continue in 2010, and, on the other, the overall contraction of the commercial and residential subsectors will continue. The combined effect will be a very slow recovery of the steel market.



Chemicals

How has the chemicals industry performed after the beginning of the economic crisis until today?

In Q3 of 2009, overall production decreased around 10% year-on-year, having dropped about 20% since January 2009. For the whole of 2009, production is forecast to decrease 14.1%. The chemical subsectors that have performed best are those related to retail, such as cosmetics, food and household-related products, while subsectors like base chemical productions, fertilizers, chemical fibres and technical gas deteriorated sharply (see chart below).

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

We saw the payment behaviour of the chemicals industry improve in the last quarter of 2009, due to a slight recovery of the sector triggered by decreasing inventories and additional orders. We also saw claims in the chemicals sector level off between October 2009 and January 2010.

What is Atradius' short term (6 months) outlook for the Italian chemicals industry?

Italy's chemical industry is heavily dependent on the performance of the country's general manufacturing industry, which shows signs of only modest recovery - below the EU average. Growth in 2010 will therefore depend mainly on increasing demand from abroad. However, recovery of the sector's main EU export markets will remain slow, and competitiveness (not just with the US) is under pressure due the Euro/Dollar exchange rate. That said, Italy's chemical exports are forecast to grow 4% year-on-year in 2010. Assuming a slow recovery of internal demand (2.5%), chemical production in Italy will increase 2.8%, which is not enough to compensate for the two previous loss making years (-6.0% in 2008 and -14.1 in 2009). At the end of this year the production level will still be 15% lower than in 2007.

Chemical activity in the Italian market

	2008	2009	2010
Internal Demand	-6.0	-14.1	2.5
Import	-5.5	-15.0	3.0
Export	-4.0	-15.0	4.0
Production	-6.0	-14.1	2.8
Chemical	-12.5	-17.1	2.5
Plastics	-9.0	-14.0	3.5
Fertilizers	0.5	-20.0	2.0
Chemical Fibres	-14.8	-28.0	2.5
Paints & Glues	-5.5	-14.6	4.0
Semifinished fine chemicals & specialities	-4.0	-13.0	3.0
Food	5.0	-1.0	0.0
Technical Gas	-6.6	-17.0	3.0
Soaps and household products	-0.5	-2.0	1.0
Cosmetics	-1.0	-0.9	-1.5
Animal healthcare products	-6.0	-2.5	1.0
Active principles & integ. Medicines	0.5	1.5	2.0
First aid Medicines (ticket)	-0.3	-0.5	1.0

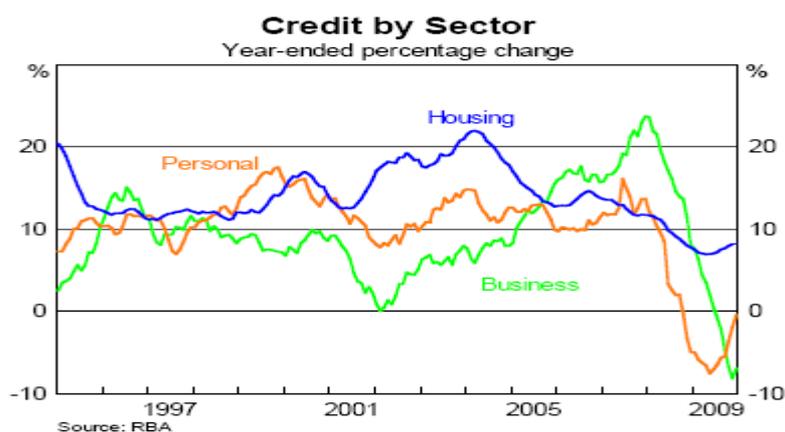
Source: Federchimica



Growth returns – and quicker than expected

Through the combined monetary and fiscal moves by the Reserve Bank of Australia (RBA) and the government, Australia has avoided a technical recession. Early in 2009, the government launched a 40 billion Euro stimulus package which it funded in part through past budget surpluses. The RBA swiftly reduced interest rates to historical lows of 3%. According to the Australian Bureau of Statistics (ABS), GDP continued to grow in Q4 of 2009, by 0.9% over the previous quarter and 2.7% year-on-year, driven mainly by an increase in public (10.2%) and private investment (3.5%). Unemployment reached a peak of 5.7% in May 2009 and was expected to reach 6.5% by the end of the year, after the original forecast of around 8%. However, according to the ABS, by year end the rate had fallen to 5.5% - and fell a further 0.2% in January 2010. As a result of this good economic performance, the RBA was the first central bank in the OECD to raise rates: with three consecutive rises by the end of 2009. Early in 2010, the Governor of the Reserve Bank characterised the new challenge as “managing an economic expansion” and said that rates still have “a little distance to go yet” before returning to a more normal setting. The first of a new wave of expected rate raises was introduced on 2nd March, with a further 0.25% added to the Cash Rate – which now stands at 4%.

Because of pressure on their working capital, many firms had concentrated on reducing inventory levels in 2009. This de-stocking was completed in Q3 of 2009 and, in Q4, they began to rebuild inventory levels to a more normal level. However, as the chart below demonstrates, banks are choosing to lend against the housing market, while business lending continues to see dramatic reductions. The reason for this? The urban structure in Australia, with its mega coastal cities and net positive immigration policies, provides a naturally increasing source of demand for housing. Australian Banks who came through the worst of the downturn relatively unscathed and with their capital intact now see the housing market as a safer place to lend funds, in view of the security that real estate offers and the increasing demand for that real estate.

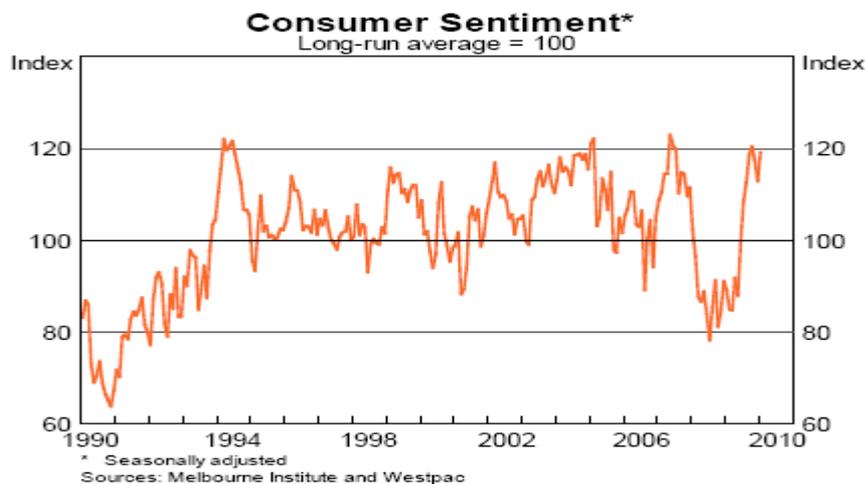


Without access to short term bank funding, many business are being forced to pull one of the other two main levers of working capital: payables and receivables. Of these, receivables is the easiest to control, and the nationwide reduction in days sales outstanding (DSO) that we saw from Q1 to Q3 of 2009 has now effectively reversed in the early months of 2010. This trend is expected to continue into the second quarter.

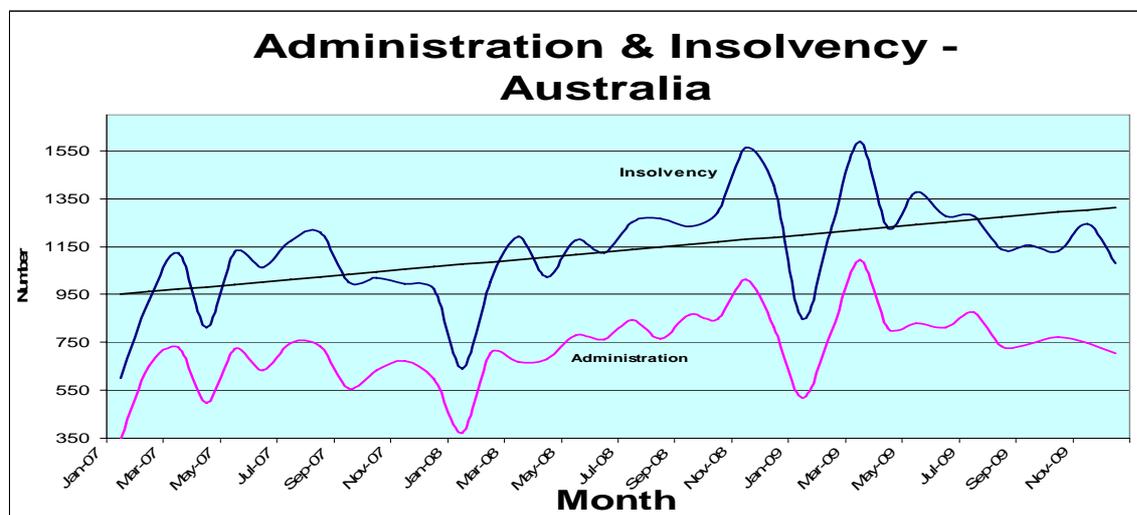


The outlook is still positive, but some problems remain

All the signs are that the Australian economy will continue to improve throughout 2010, with GDP forecast to grow 3.25%. Business confidence is returning and, while mining exports to emerging markets will continue to play a crucial role, there are clear signs that Australian consumers are more confident about the future - and have the level of disposable income to sustain a domestically-led recovery.



However, this positive development has yet to be fully reflected in the insolvency statistics, which are still at record levels (see chart below).



Source: Australian Securities and Investment Commission

Almost all sectors in Australia have been affected; especially construction. Agriculture has fared better than most other sectors, despite suffering on two fronts - credit availability and drought. The retail sector has benefited from the government stimulus package, while sales in the chemicals sector have remained relatively robust. Overall, corporate insolvencies are currently on a downward slope. However, we expect them to remain high in 2010, with the possibility of another upswing as businesses start to restock and grow but, without access to bank lending, have to fund this by exhausting their working capital.



Consumer durables

How has the consumer durables industry performed after the beginning of the economic crisis until today?

Consumer durables are particularly susceptible to any downturn in economic activity. In Australia, however, the industry has been particularly resilient to the effects of the economic crisis. The pain was tempered by two government stimulus packages, firstly in December 2008 and again in early 2009, which, along with low interest rates, supported the sector at the height of the crisis. The stimulus is estimated to have added about 1% to GDP growth in Q2 of 2009, with much of this flowing through to retail/consumer durables sales. Small to middle market businesses felt the greatest benefit from the stimulus packages, as it was their consumers who particularly benefited from the fiscal and monetary measures.

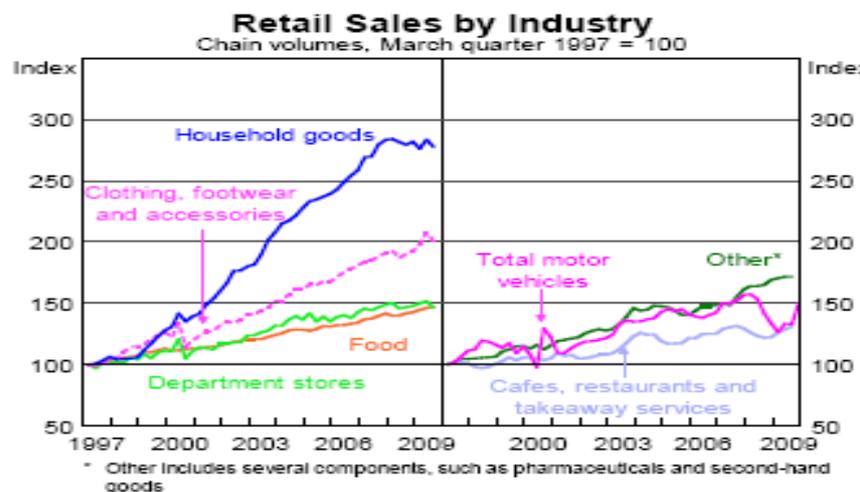
October and November 2009 saw a high number of sales, although these fell in December as consumers waited for discounting in January. This forced many retailers to offer significant promotions for the first time in many years, resulting in margin erosion across the sector. For the whole of 2009, retail growth rates declined 1.7%, compared to a growth rate of 3.2% in 2008.

What is the current trend in payment terms?

Average payment terms have lengthened since the beginning of 2008 - from 52.3 days and peaking at 58 days in February 2009. They fell back to 51.7 days in August 2009 (the lowest level in two years) and then steadily rose again to 54.4 days in November 2009. This is in line with the Australian industry average.

What is Atradius' short term (6 months) outlook for the consumer durables industry?

Even without the 2008/9 stimulus package, which injected many millions of dollars of disposable cash into the hands of the average consumer, the outlook for the coming months is favourable, as consumer confidence is improving, driven by a recovery in labour demand, increased housing churn - particularly from the investor and trade-up market - and improvements in the stock market. All this creates a feeling of wealth. While rising interest could be a key risk for this sector, it is forecast that retail revenue growth will recover to 1.7% in 2010.



Source: RBA



Agriculture – Wheat

How has the wheat sector performed after the beginning of the economic crisis until today?

World grain prices fell in January 2010, as a result of the expectation of sufficient global grain stocks. Yield results in Australia show that the wheat crop is just under expectation, at around 22 million tonnes, and slightly lower than the mid season expectation of 23 million tonnes. The sector is now focusing on marketing, with 15 million tonnes being available for export. The recent slight softening of the AUS-\$/US-\$ exchange rate has raised interest in Australian exports, particularly from Asian buyers.

What is the current trend in payment terms?

Average payment terms for the agricultural industry were below 50 days (48.7 days) in January 2008, but then started to rise. They improved between March and October 2008 but went back up again between November 2008 and April 2009. End of December 2009 payment terms were at 51.8 days.

What is Atradius' short term (6 months) outlook for the wheat sector?

Although, this year, the lower than expected harvest is likely to have minimal impact on global trade, it is worthwhile remembering the severe impact that production shortfalls have had on export availability and domestic prices in recent years. The current low prices could result in a decline in planting interests for wheat in Australia in 2010/11, with rainfall and drought conditions also continuing to have their impact.

Australia continues to play an important role for buyers who demand a quality product. However, the Black Sea region, with its fertile soils and low cost structure, will present an attractive alternative to grain buyers. Of equal concern is the potential danger for mid-tier grain traders attempting to capitalise on the recent deregulation of grain marketing without the capital necessary to do so. Unless these businesses can raise alternate sources of capital in a tight credit market, it is likely that they will put their business under stress in the process.



Private consumption spurs economic growth

With 0.6% GDP growth in the fourth quarter, France showed a surprisingly healthy economic performance, benefiting mainly from a surge in household consumption and inventory changes – both up 0.9%. According to the French Statistics Office, INSEE, new orders across the board increased 4.7% compared to the previous quarter, driven by orders in the automotive sector (+10.2%) and rising demand from abroad in December 2009 (+19.5%). That said, manufacturing production levelled off with a 0.1% increase in the last quarter.

For the whole of 2009, however, GDP contracted 2.2%, with total production down 3.1%, gross fixed capital formation down 6.9% and exports down 11.2%, all registering record declines. The budget deficit reached almost 8% of GDP and public debt will stand at 77% of GDP, compared to 67% in 2008.

According to business leaders in the main economic sectors, the French business climate remained stable in February 2010, 22 points above its lowest record in March 2009 (see chart below).

Business climate indicators

	Oct. 09	Nov. 09	Dec. 09	Jan. 10	Feb. 10
Business climates					
France	86	88	87	90	90
Industry	89	90	89	91	91
Wholesale trade	-	79	-	83	-
Building	93	93	93	93	93
Retail trade	97	104	100	103	100
Services	85	86	86	88	89

Source: INSEE, Business tendency surveys

French companies and consumers have both suffered from limited access to bank loans because of the crisis. In the first nine months of 2009, the overall amount of bank credit provided to consumers and businesses decreased 24% year-on-year, a credit gap of around 80 billion Euros. That said, in the last quarter of 2009 we noted a slight rebound in credit issuance, with a 2.6% increase in the amount of loans granted. Consumer and real estate credits benefited most from this positive trend, with 5.6% and 6.4% increases respectively, while corporate credit saw a small increase of 0.9%. This positive trend needs to continue over the early months of 2010, but it already signals that France should avoid a massive credit crunch. Nevertheless, the negligible increase in short-term bank credit - up just 0.44% in the



last quarter of 2009 - is a warning that companies will face difficulties in financing their growth and working capital requirements in the coming months.

On average, payment duration remained above 60 days in 2009, but did decrease, partly due to the Modernisation of Law of Economy (Loi de modernisation de l'économie), which aims to bring down payment terms to 45 days (end of month) or 60 days from invoicing date. Manufacturing in general has profited from this law, but it has had no real impact on retail, and, in contrast, the average payment duration in the construction industry has risen by 8 days.

For the whole of 2009, corporate insolvencies increased 10% - to 56,400 - with manufacturing, real estate, transport, hotels and catering the main victims (up to 25% increase), while food, wholesale and retail were less affected, with a lower than 10% increase. In the context of company size, smaller businesses, with 2 to 200 employees, suffered a 50% increase in insolvency, with those employing between 50 and 100 registering a rise of more than 60%.

Decreasing insolvencies in 2010

At the end of January, the IMF revised its forecast for French GDP growth in 2010 upwards to 1.4%. Corporate investments will remain low, expected to increase only 2.6% in 2010. Private consumption may decrease slightly at the beginning of the year, as a result of lower state subsidies and the gradual phasing out of the car scrappage scheme. In January, for instance, private consumption declined 2.7% and new car registrations decreased 18.7% month-on-month. However, private consumption is expected to grow 1.4% over the course of 2010, with foreign demand remaining relatively dynamic: exports are expected to increase 4.1% in the first half of the year.

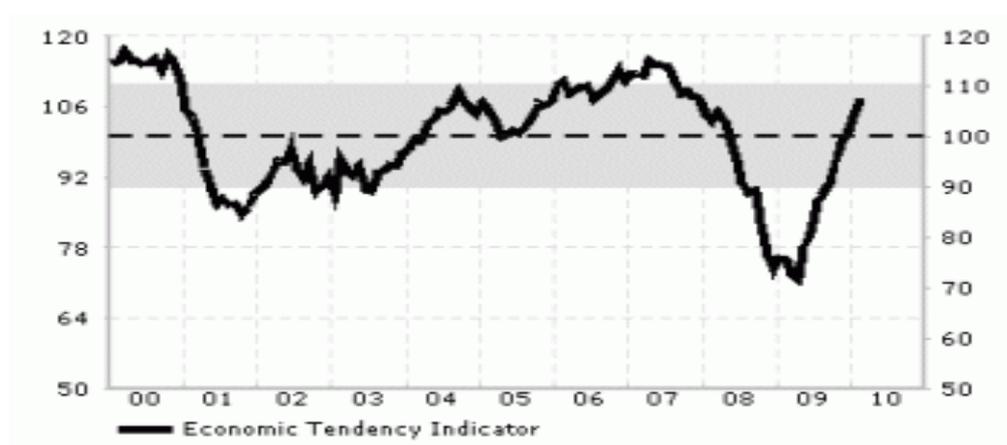
The agriculture, food and pharmaceutical industries have performed relatively well during the crisis, with a forecast of stability with little growth. After massive destocking and production contraction in the first half of 2009, the metallurgy, chemicals and plastics industries should recover and register an increase in turnover of 10% in 2010 compared to last year. However, forecasts for the automotive and construction sectors remain rather pessimistic, with an expected decline in automotive sales of 8%, due to the end of public subsidies, and an expected 7% decrease of new housing sites. Textile and clothing remain in a poor state, with an expected 10% turnover decrease.

In January 2010, the Expected Default Frequency (EDF) indicator for listed companies in France fell 8 basis points - to 77 - continuing its monthly decrease since November 2009 and reaching its lowest level since September 2008 (see chart page 2). We forecast a 5% decrease in overall corporate insolvency levels in 2010.



Business and consumer confidence continues to rise

According to Statistics Sweden, seasonally adjusted GDP decreased 1.5% year-on-year in Q4 of 2009, after a 5% drop in the previous quarter. For the year as a whole, GDP decreased 4.4%, due to low investments and a poor export performance. Nevertheless, the economy has passed its low point, thanks to an expansionary fiscal policy (e.g. tax cuts) and low interest rates: the Swedish central bank continues its strategy of keeping the repo interest rate (the rate the central bank charges commercial banks) low, at 0.25%. According to the National Institute of Economic Research (NIER), the Economic Tendency Indicator, which measures business and consumer confidence, rose again in February 2010, continuing the upward trend that has persisted for the past 10 consecutive months (see chart below).



Source: NIER

Although many Swedish companies are still facing low demand, and some sectors still suffer from previous over-production, there is now much more optimism than in our last report on Sweden in September 2009, as many companies rode the crisis well and continued to show reasonable profits. The only exception to this positive picture is the domestic automotive industry and its suppliers, who face tough times ahead. But, despite lending to businesses continuing to decrease, with some smaller and/or newly established companies facing problems accessing loans, we do not foresee an overall deterioration in the credit situation.

Automotive: Demand for new cars has improved from its very low 2009 level. In February 2010, registration of new cars and trucks increased 21.9% year-on-year. That said, it was mainly foreign car makers who profited from this development. Volvo Trucks faced huge losses during 2009 and still suffers from low demand in all its business areas. Scania managed better, making a small profit despite low demand. Volvo Cars is still waiting for its new owners (Ford sold it to the Chinese car maker Geely, but the deal is not expected to be sealed until the second quarter of 2010). SAAB Automobile was threatened with liquidation, but was saved in January 2010 when the Dutch automobile manufacturer Spyker NV took ownership. However, doubts remain over the future performance of this new company.



Construction: Overall, the private housing industry had a surprisingly good year in 2009, with high order books, low interests and a house market that still benefited from increased prices. This will continue into 2010, as, in February, the forecast for newly built small houses was increased from 7,000 to 7,500 for the year. DIY markets are still doing well, due to the continuation of the tax reduction programme (ROT).

Wood/timber: After a slight recovery in 2009, prospects for the sawmill industry are rather uncertain. Currently, the overall order situation remains satisfactory but, in the course of 2010, demand could decrease while material prices are expected to increase. In addition, the appreciation of the Swedish krona is not helping this industry.

Retail: Overall, the retail sector grew 3.6% in 2009 compared to 2008, due to tax decreases, low interest rates, and a well-performing stock market. In January 2010 retail sales of consumables continued to increase (3.6% year-on-year), while sales of durables rose by as much as 6.3%. But there's a mixed picture across the subsectors, with furniture, electronics and the construction trade all showing weak performance in the last couple of months.

Decreasing insolvencies in 2010

The NIER forecasts 2.7% growth in 2010, driven mainly by household and government consumption. Exports will increase, although dampened somewhat by the krona exchange rate. Because of the continuing recovery, a small increase in the repo interest rate is expected in the summer or early autumn.

For the whole of 2009, corporate insolvencies increased 25% - to 7,900 - with retail, rental, wholesale and restaurants suffering most. However, in January 2010, the Expected Default Frequency (EDF) indicator for listed companies in Sweden fell 21 basis points, to 83: its lowest level since September 2008. In the same month, overall corporate insolvencies decreased 14% year-on-year, and we forecast a 5% decline in insolvencies throughout 2010 as the economic recovery continues.



The severe economic deterioration continues

In the third quarter of 2009, GDP increased 0.7% on the previous quarter, due mainly to the government's stimulus package, introduced in late 2008, and the low interest rates which have helped to generate higher activity levels. Nevertheless, macroeconomic conditions remain extremely weak and Portugal's path back to more sustainable growth is still very uncertain. The economy suffers from a high budget deficit, while structural problems such as low skills and wage competitiveness, weak productivity, rising unemployment and fewer foreign and domestic orders have suppressed economic activity and will continue to do so. The business risks of falling profitability, payment delays and rising corporate insolvency levels will remain a source of concern.

	2007	2008	2009e*	2010f**
Real GDP (% change)	1.9	0.0	-2.7	0.7
Real consumer spending (% change)	1.6	1.7	-1	0.6
Investment (% change)	3.1	-0.7	-10.3	1.2
Consumer Price Index (% change)	2.5	2.6	-0.8	0.9
Unemployment rate (%)	8	7.6	9.3	9.4
Fiscal balance (% of GDP)	-2.6	-2.7	-9.3	-8.4
Exports (% change)	7.8	-0.5	-12.1	1.5
Imports (% change)	6.1	2.7	-10.4	1.1

*estimate **forecast

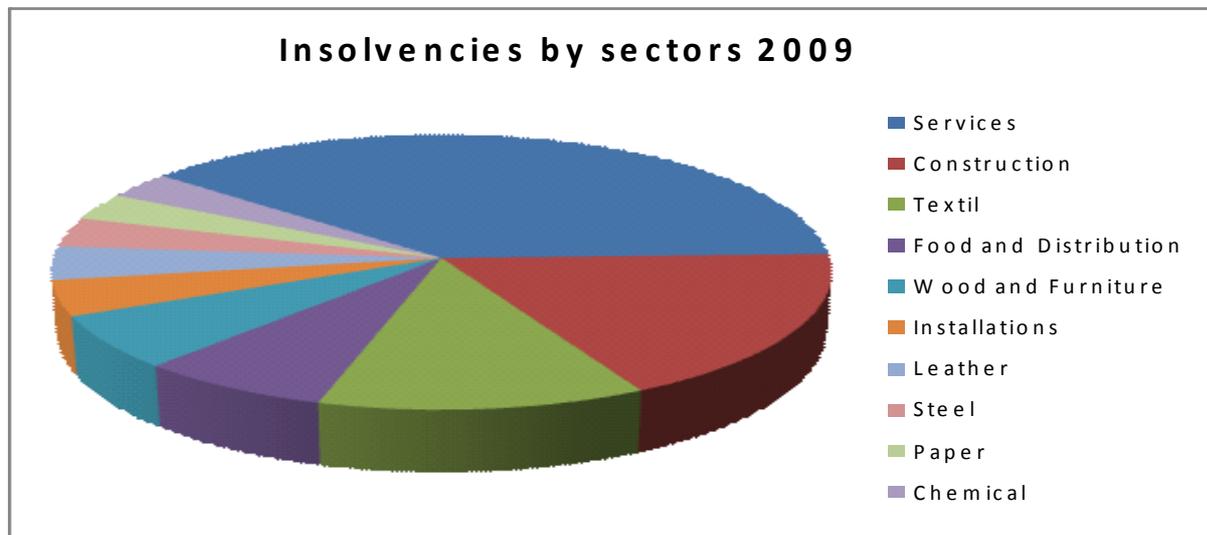
Source: Statistics Portugal and Banco de Portugal

The crisis has spread rapidly across all sectors of commerce and industry. According to Statistics Portugal, the total volume of business declined 12.5% in 2009 (+1% in 2008) and industrial production fell 9.9% (-4% in 2008). Exports decreased 12.1% in 2009, due primarily to the current downturn in Spain, which is Portugal's main export market, and low demand from other European countries.

Although the payment performance of Portuguese companies improved in the last quarter of 2009, the ratio for the whole year is worse than in France, Germany, Italy, the Netherlands, Spain and the UK, and also worse than their own payment performance in 2008. 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 61% year-on-year in 2009, with 4,992 cases registered compared to 3,113 in 2008. This deterioration was particularly marked from mid 2009 onwards (see chart below).

	Q1	Q2	Q3	Q4
Number of insolvencies 2008	968	1,824	2,558	3,113
Number of insolvencies 2009	1,026	2,360	3,626	4,992
Variation over previous year	6%	29%	42%	61%

Source: Atradius



Source: Atradius

Troubled outlook for main sectors

Between January and September 2009, insolvencies in the service industry (retail, tourism, transport, travel agencies) increased 144% year-on-year. The sector continued to be severely affected by falling private consumption and banks' reluctance to provide consumer credit. That reluctance may be due partly to the 34% increase in consumer credit default in 2009: its highest level for 30 years. We expect the problems in this sector to endure for the medium term.

Insolvencies in the construction industry rose 19% year-on-year in the first nine months of 2009. Many companies in the sector are highly geared and hold assets which currently suffer from devaluation. Both the current market situation and the industry outlook deter banks from providing loans.

In 2009, insolvencies in the textile industry decreased 30% year-on-year. The sector has been in a deep crisis for at least the last two years because of deteriorating competitiveness. Companies in this sector are generally among the slower payers in the market, with payment delays of between 30 and 60 days after due date. Many textile businesses suffer from a tight liquidity situation, and we expect this to worsen due to the banks' tighter credit conditions and decreasing state subsidies.



Governmental measures to curb potential overheating

China's economy expanded 10.7% year-on-year in Q4 of 2009: the fastest increase since Q4 of 2007. For the whole of 2009, GDP grew by 8.7%, helped by a moderately loose monetary policy and the government's economic stimulus package rolled out since November 2008. China's stimulus programme has targeted mainly infrastructure construction, such as railway and road building and other public works, greatly benefiting the large state-owned enterprises.

In the first six months of 2009, China's banks lent out around US-\$ 1.08 trillion (7.37 trillion yuan), almost double the loans provided in 2008, and, in total, a record US-\$ 1.4 trillion (9.59 trillion yuan) was lent throughout 2009. This surge in lending fuelled China's rapid growth in 2009, but now it risks overheating the economy and an assets bubble, leading to a rise in inflation, and adding fuel to a real estate sector that is already overheated. The government is aware of these concerns and has already taken measures to manage rising inflation and to curb lending. In January 2010, the People's Bank of China drained a net US-\$ 20.1 billion (137 billion yuan) from the money market through its open-market operations. The government plans to restrict credit supply to 7.5 trillion yuan in 2010.

The problem sectors in China remain export-oriented ones, such as textiles/clothing, toys, steel/metal, and shipbuilding. Exports of textiles and clothing declined 9.8% to US-\$ 167 billion in 2009 due to sluggish demand in China's major export destinations (USA, EU and Japan) and increased quality and safety standards. Wages driven up by labour shortages and rising costs for energy and raw materials are eroding profits.

The steel/metals sector still faces declining export orders, falling prices, increased costs for iron ore and coking coal and serious overcapacity. The Chinese government has encouraged mergers and restructuring in the industry to improve economies of scale and overall competitiveness, and to put companies in a better position in negotiations for iron ore supplies from key suppliers: BHP Billiton, Rio Tinto and Vale. Local government has been urged to close obsolete iron-making, steel-making and steel-rolling lines and prevent the revival of outdated capacities. Commercial banks have been asked to cut, by as much as half, loans to steelmakers who report obsolete capacities or who blindly expand production. In the Chinese shipbuilding industry, 65% of companies received no new orders last year while 30% of old orders were cancelled or delayed. The paper and printing industry suffers from squeezed profit margins because of rising raw material prices and threatened protectionism (e.g. anti-dumping duties imposed by US).

That said, domestic consumption has been impressive in 2009, with nominal retail sales growth increasing 17.5% year-on-year in December. To continue to boost consumption, and offset the impact of a depressed export market, the Chinese government plans to increase pensions for retirees and raise the earnings of China's low- and middle-income population. It has also introduced favourable policies, such as home appliances replacement and 'home appliances to the countryside', preferential tax rates for vehicle purchases, a subsidy for agricultural machinery purchases and a beneficial policy for pharmaceutical areas.



Smaller private companies outperformed state-owned enterprises

As the economy has become more dependent on state-dominated investment, small and medium-sized enterprises (SMEs) in the private sector have continued to grow much faster than state-owned enterprises throughout the economic downturn. At least three factors contributed to this: 1) more flexibility in response to the crisis; 2) SMEs benefiting indirectly from contracts associated with the stimulus measure; and 3) new policy initiatives ensuring that SMEs receive financial support through the banking system.

Over the past 6 months we haven't seen any obvious increases in late payment. Overdue payments have been mainly due to the morality issue – so called Moral Hazard - rather than to financial difficulty.

In 2010, state-led investment will continue. However, to stave off excess liquidity and lessen the negative impact of overcapacity, China plans to redirect stimulus spending away from fixed-asset investment and into social services, such as healthcare and education.

Exports rebounded sharply in January 2010 with a 21% increase year-on-year. That said, rising trade protectionism and anti-dumping measures by the US and the EU threaten to impact exports by increasing costs and reducing demand in several sectors, such as tyres, steel, etc. In early March 2010, the Chinese government forecasted GDP growth of 8% for the current year.

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