



# market monitor

Adapting to the challenging  
economic environment

June 2010

# Will the euro crisis hamper recovery?

**T**he World Trade Organisation expects the volume of world trade to rebound 9.5% this year, after its 12% dip in 2009, driven by surging emerging markets demand, and several of the economies that we survey in this month's Market Monitor have profited from this trend.

For instance, while the private consumption that sustained the French economy throughout 2009 has now levelled off, this is offset by its buoyant exports, with heightened demand from Asia and the US. Rising commodity exports to Asian emerging markets have also spurred Canada's economic resurgence, and increasing demand for commodities – in particular oil – will play a major role in Norway's recovery, while New Zealand has increased its food exports to China and India.

But current concerns over the euro threaten to cast a shadow over these and other positive signs. The rise in Italy's GDP is countered by its increasing public debt (the government has recently announced a plan to cut 24 billion Euros from its 2011-2012 budgets, a move aimed at shoring up investor confidence). Even the Bank of Canada has felt the need to caution investors about continuing uncertainty caused by the euro zone's problems. And while Slovakia has so far escaped injury from the euro crisis, this may change if Europe's monetary problems spread to the real economy of those EU members on whom Slovakia's exporters are so reliant.

## In this issue...

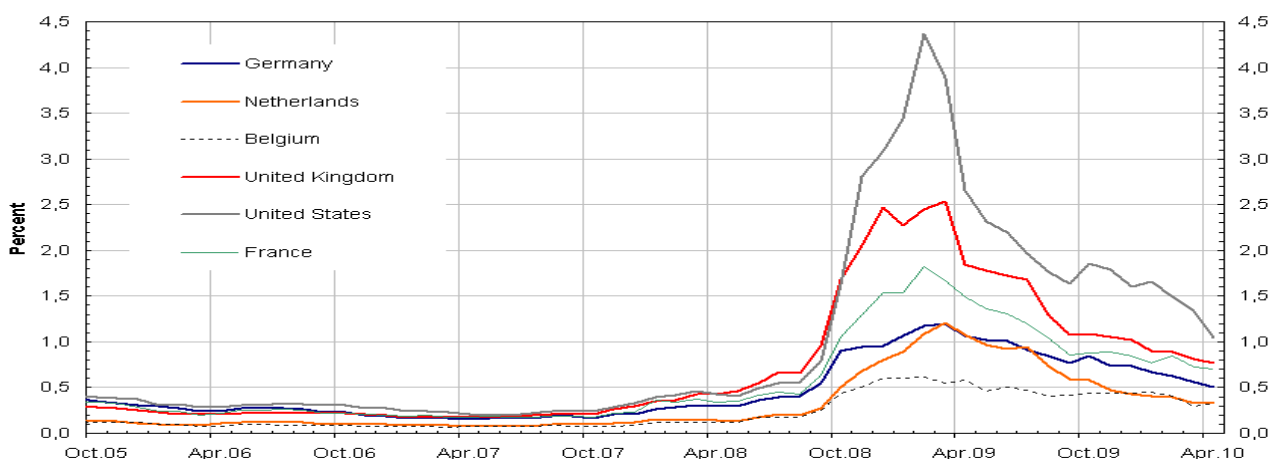
...we feature the following markets:

- France – with a spotlight on the chemicals and building/construction sectors
- Canada – with a spotlight on the metals and retail sectors
- Italy
- Norway
- Slovakia
- New Zealand

# 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 2010 the median EDF of all economies surveyed have shown a robust improving downward trend. Between January and April 2010, the median EDF for Belgium fell 12 basis points, France's 15 basis points, Germany's 22 basis points and The Netherlands' 9 basis points and the United Kingdom's 25 basis points. The US recorded the largest decrease by far with 56 basis points – but one has to bear in mind that the US also suffered the largest increase at the height of the credit crisis.

Despite these improvements, most stock exchange listed companies in the countries observed are still considered to have significantly higher default risk compared to the previous years.

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



## Lower private consumption means weaker growth

After 0.5% GDP growth in the last quarter of 2009, France recorded a rather disappointing growth rate in Q1 of 2010 (0.1%) confirming that the French economy still has a long way to go on its path to comprehensive economic recovery (Source: French Statistics Office INSEE). As we expected in our last Market Monitor analysis, private consumption has levelled off as a result of lower state subsidies and the gradual phasing out of the car scrappage scheme. Household consumption of manufactured goods declined 1.9% in the first three months of 2010, and this negative trend continued in April (-1.2%), as car purchases fell further. The consumer confidence indicator has decreased from the beginning of the year to May. That said, the French economy has been supported by manufacturing production and especially by buoyant exports, which increased 3.9% in the first three months of 2010, driven by higher demand from Asia and the USA.

The business climate indicators have continued to improve gradually over recent months (see chart below), and are now 28 points above their lowest point in March 2009. Only retail trade recorded a slowdown last month (see chart below).

### Business climate indicators

	Oct. 09	Nov. 09	Dec. 09	Jan. 10	Feb. 10	Mar. 10	Apr. 10	May 10
France	86	88	87	90	90	92	96	96
Industry	89	90	89	91	91	93	96	97
Wholesale	-	79	-	83	-	87		92
Building	93	93	93	93	93	91	92	93
Retail trade	97	104	100	103	100	98	105	103
Services	85	86	86	88	89	92	98	98

Source: INSEE, Business tendency surveys

In May 2010, food, electrical, machinery, chemicals and plastics recorded improved production figures, stabilised or decreasing inventory levels and increasingly optimistic production forecasts, thanks to improvement in orders. Automotive and transport recorded disappointing figures with a decrease in production, heavy inventories and a low number of orders: hence forecasts are pessimistic. For services and retail, the situation has stabilised in May with low positive forecasts.

The slight rebound in credit issuance that we noticed at the end of 2009 has continued into 2010, with a 1.2% increase in the value of loans granted by the end of March. For the small and medium-sized segment, credit issuance increased 3.7%, and for real estate companies the increase reached 5.4%. Nevertheless, short term credit issuance has continued



to fall (-8.8% in February and -7.7% in March 2010), albeit more slowly. While the danger of another major credit crunch seems to be receding, there are still warning signs that weaker companies will face difficulties in financing their working capital requirements.

## Improved domestic payment behaviour

According to the latest Atradius Payment Practices Barometer\*, some 52% of French companies surveyed assessed domestic payment behaviour as ranging from 'good' to 'excellent', with domestic payment delays occurring less often than in previous survey periods. The improvement in French payment behaviour has been more evident since the last quarter of 2009, with the government respecting its commitment to pay invoices within payment terms, and the building sector in particular improving its payment practices. This improvement has been further boosted by the effect of the Companies Modernisation Law (Loi de modernisation de l'économie), a government initiative designed to invigorate the French economy. On average, domestic and foreign payments took 33 days in the winter of 2009/10: equal to the average contractual payment term. As they learn the lessons of the credit crisis, French companies are now focusing even more on optimising their working capital requirements, and that includes strengthening their credit management procedures and their accounts receivable follow-up.

According to INSEE, the number of corporate insolvencies increased 7.1% year-on-year in 2009 (see chart below).

### Corporate bankruptcies - judgment date - Sa-wda data\*\*



\*\* Seasonally and working-day adjusted data

Source : BODACC, INSEE calculations

\* You can download the Atradius Payment Practices Barometer from [www.atradius.com](http://www.atradius.com)



In Q1 of 2010, insolvencies decreased 0.5% year-on-year. Those most affected were newly established and small companies (with less than 10 employees and turnover less than 500,000 euro) while the number of medium and larger business failures has improved.

This positive trend could be explained by a general improvement in French companies' liquidity, coupled with a restoration of margins and operating profits. Indeed, businesses' liquidity is believed to be near its long term average (i.e. the same level as in Q1 of 2008).

Recently, the OECD revised its forecast for French GDP growth in 2010 upwards to 1.7% (the IMF revised the GDP growth up to 1.5% in April). Corporate investments will remain low, and are expected to increase only 2.6% in 2010. The main uncertainty is private consumption, which could remain under pressure as lower state subsidies, austerity measures (tax increases) and higher unemployment reduce consumers' purchasing power. However, currently private consumption is still expected to show a small growth in 2010.



## Chemicals

### **How has the chemicals sector performed in the last six months?**

In 2009 turnover in the chemicals industry dropped 8% (-9.7% in volume) reflecting the depressed state of the market coupled with dramatic pressure on prices. But, since the second half of 2009, the situation has steadily improved, partly helped by the rebound in foreign demand and the car market, which has enabled price increases.

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

The chemicals industry showed strong resilience to the crisis, with an insolvency trend that remained below average in 2009. Since the end of 2009, insolvencies in this sector have continued to decrease.

### **What should companies selling products into the chemical sector pay particular attention to?**

They should pay attention to the capacity of a buyer to protect its margins against any potential increase in raw material prices and, in turn, its ability to impose price increases on its customers. Therefore, exercise caution if your buyers in this sector are over-dependent on major customers and/or single sectors (such as automotive).

The recent crisis brought additional competition into the chemicals world market, mainly from Asia. With this additional competition, innovation is now a key factor for business success.

### **What is Atradius' short term (6 month) outlook for the chemicals sector?**

The first five months of 2010 saw a consistent improvement in production, with chemicals the most dynamic sector within manufacturing. Inventory levels are very low, and global export orders have constantly improved. The volume of production is expected to increase 5.5% in 2010 and to recover completely from the crisis in 2011.



## Building and construction

### How has the construction sector performed in the last six months?

The first quarter of 2010 again showed deterioration in the building, construction and public works sectors, with a decline in production and low level of new orders. According to INSEE, turnover in the construction sector decreased 2.1% on the previous quarter and 5.5% year-on-year.

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

On the one hand we noticed an improvement in payment behaviour in winter 2009/10 compared to winter 2008/09. On the other hand, the insolvency rate continued to increase 2.5% year-on-year in the first quarter 2010, in contrast to the overall decreasing trend for France: according to Altares, affecting 5,000 building companies.

### What should companies selling products into the construction sector pay particular attention to?

Sellers should pay attention to the size and age of a buyer company, as most bankruptcies affect companies younger than 3 years old and with less than 3 employees. Subsectors like individual housing and building finishing remain highly sensitive.

### What is Atradius' short term (6 month) outlook for the construction sector?

In May 2010, building and construction activity again contracted, but at a lower rate than in previous months. Orders represent 6.3 months of full activity, which is still far below average and normal business conditions. The business climate improved slightly (see chart below). However, forecasts for the short-term future remain pessimistic, due to the low level of orders and pressure on prices.

### Construction business climate synthetic indicator



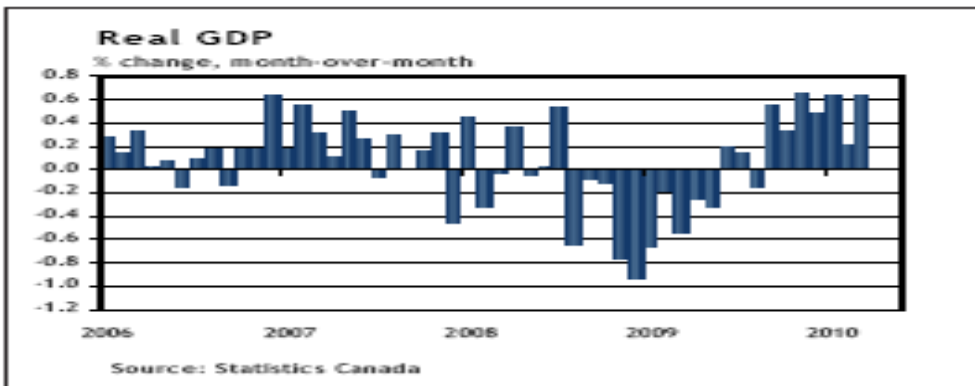
Source: INSEE



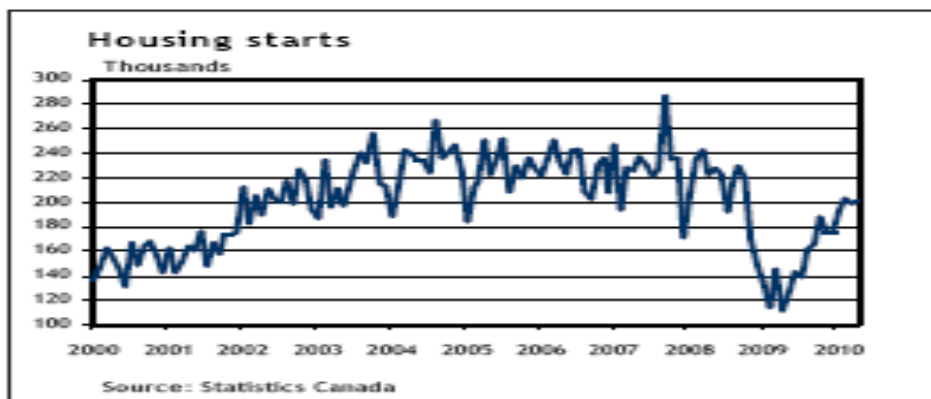


## GDP grows as consumers drive recovery

Canada's economy grew faster than expected in the first quarter of 2010, still led by domestic spending. GDP rose 6.1% year-on-year: the largest increase since the last quarter of 1999 (see chart below). This marks the third straight quarter of economic growth in Canada, following three consecutive quarters of contraction.



Statistics Canada reported that consumer spending on goods and services rose 1.1 % in Q1 of 2010, compared to a 1% gain in the previous quarter. Household spending on semi-durable goods increased, particularly on clothing, footwear, and accessories. Expenditure on new motor vehicles grew, but at a much slower pace than in the previous three quarters. Residential investment grew by as much as 5.4% - its fourth monthly increase in a row - while new housing construction rose 11% and renovation activity 6.3%. High prices have bolstered the construction industry and the furniture and building materials sectors.



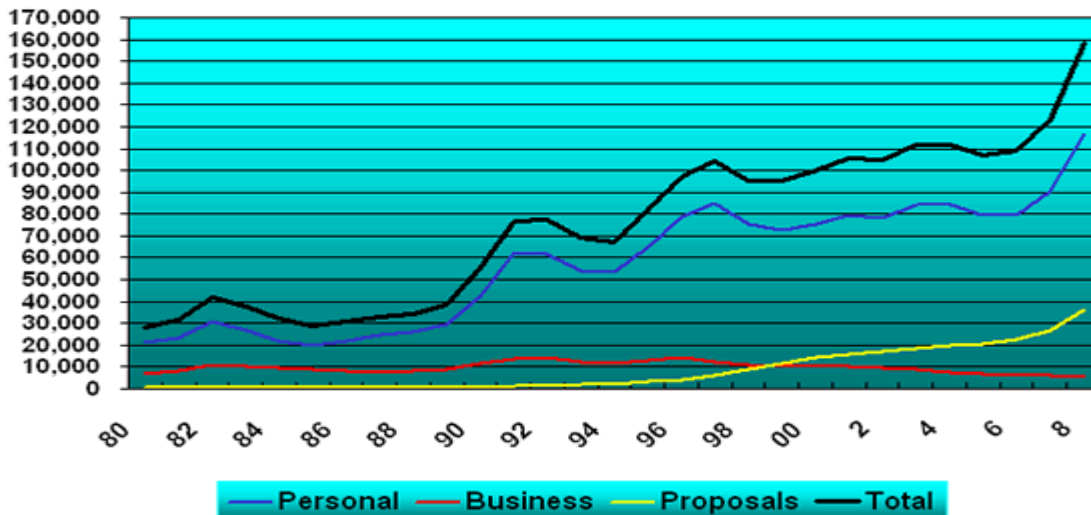


Exports were up 2.9%, the third quarterly gain in a row following five quarters of decline, led by industrial goods and materials and auto products. Imports rose 3.4%, again lifted by industrial goods and materials and auto products, and by machinery and equipment.



In February, Canadian business and personal insolvencies (defined as bankruptcies and proposals) increased on January's figures: by 8.2% and 13.4% respectively. However, the year-on-year results show a definite improvement, providing convincing evidence that the recovery has taken hold in Canada. Insolvencies declined 6.7% year-on-year in February 2010. Consumer insolvencies decreased 5.7%, as consumer bankruptcies decreased 16%. Business insolvencies decreased 25.6%, as business bankruptcies decreased 27%. Business insolvencies for the 12 months to 28 February 2010 fell 11.6% compared to the 12 months to 28 February 2009. A reduction in insolvencies in agriculture, forestry, fishing and hunting, transportation and warehousing, construction, wholesale trade, and information and cultural industries contributed to this improvement.

**Canadian Bankruptcies and Proposals, 1980-2009.**  
 Source: Industry Canada. (Prepared by BankruptcyCanada.com)





In April 2010, the Expected Default Frequency (EDF) indicator for listed companies in Canada dropped again compared to the previous month, continuing its 14 month decline, and ending 333 points lower than at its peak in February 2009. The Canadian median EDF is now at 104 basis points.

Declining business insolvencies in Q4 of 2009 and Q1 of 2010 are an indication of improving payment cycle trends, across most commercial sectors, since mid 2008. As the overall Canadian economy improves, we also expect, for the short term, that Canadian payment defaults will continue to decrease. That said, not all industries have shared this improving trend. Most notably, the construction and transportation sectors have shown weak payment cycle statistics, with a 'pay when paid' mentality causing collection issues throughout the supply chain.

## Canada's growth forecast revised upwards by Bank of Canada

The strengthening economic outlook and high growth in Q1 of 2010 has led the Bank of Canada to revise upwards its 2010 GDP forecast - to 3.7% from its earlier 2.9%. Correspondingly, the Bank raised its forecast for core inflation to 1.9% from 1.7%. The headline inflation forecast, even excluding the temporary hit from the harmonisation of sales tax in Ontario and British Columbia, was also increased to reflect a higher profile for energy prices.

In April, the Bank of Canada further altered its policy stance, by ending the economic stimulus of its conditional commitment to low interest rates (0.25% was committed as the prevailing rate in April 2009) – an indication that the need for this extraordinary policy has now passed. As had been widely speculated, the Bank raised its key interest rate in early June - the first G7 industrialised economy to do so in 2010. The rate hike, to 0.5% from 0.25%, is in response to two quarters of extraordinarily strong growth.

The Bank has signalled that further rate hikes are in the pipeline, and plans to implement a policy of steady, gradual rate increases. However, it also commented that its next move remains highly unpredictable and cautioned investors about the continuing uncertainty caused by euro zone fiscal problems and an uneven global recovery.



## Metals: steel and iron subsector

### How has the steel and iron subsector performed in the past six months?

During the global economic downturn of 2008/9, demand for steel reduced dramatically, resulting in oversupply and downward pressure on prices. Companies responded by reducing inventory levels. But in Q1 of 2010 demand started to return, prices firmed up and production started to increase. March 2010 production data showed double digit increases.

#### Steel primary forms and pig iron — Production and shipments of steel, primary forms, monthly

	Production		Shipments	
	2009	2010	2009	2010
	metric tonnes			
<b>March</b>				
<b>Steel, primary forms (carbon and alloy including continuous cast steel)</b>				
Electric furnace	308,023	495,077	x	x
Basic oxygen furnace	429,462	640,682	x	x
<b>Steel, primary forms - Total</b>	<b>737,485</b>	<b>1,135,759</b>	<b>67,772</b>	<b>292,442</b>
<b>Included in "Steel primary forms total" above</b>				
Continuous cast steel	730,079	1,120,057	x	281,046

Source: Canadian Steel Producers Association

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

As companies in this subsector work to turn over older, higher priced inventory; they have put significant pressure on their suppliers by renegotiating established supply contracts to try to bring them in line with the current market reality. Despite this, we have seen no increase in insolvencies.

### What should companies selling into the steel and iron subsector pay particular attention to?

Companies who sell into this subsector need to be aware of how well – or badly – their customers have managed inventory turnover and valuation through the recession, as delinquency and insolvency are still possible. Moreover, if supply is made under a pre-2010 dated supply contract, there is a potential risk of contract repudiation or default.

### What is Atradius' short term (6 month) outlook for the steel and iron subsector?

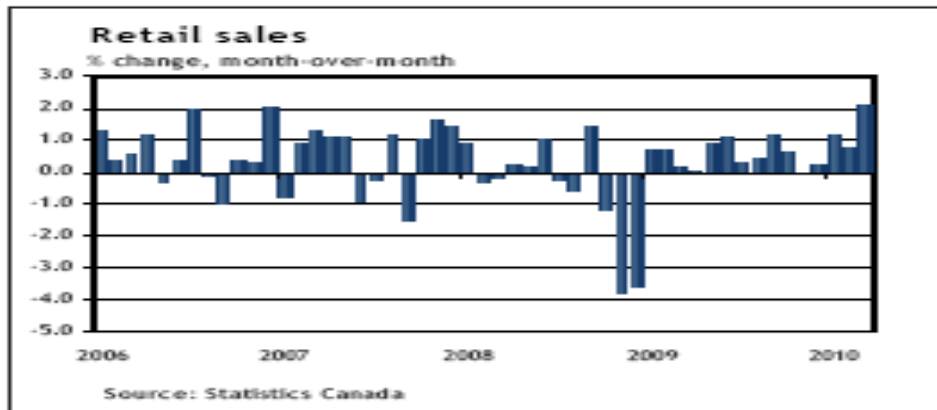
The short-term outlook for the steel and iron subsector is fair to bright. As the global economy rebounds, the demand for steel and iron will continue to improve, which should sustain or improve recent pricing gains.



## Consumer durables: retail subsector

### How has the retail subsector performed in the past six months?

After a decline in the first three quarters of 2009, retail recovered in Q4, posting 2.3% growth. Q1 of 2010 results built on this turnaround - posting robust growth of 7.8%. This level of growth will not be sustained, but the consensus is that retail should reverse the 3% annualised decline of 2009, with growth of 2.9% in 2010.



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

There has been little evidence of an increase in payment defaults or insolvencies in this subsector. The only meaningful default data has been in the speciality retail segments (single store operations of clothing and footwear) which have probably been due to undercapitalisation since start-up.

### What should companies selling into the retail subsector pay particular attention to?

Companies selling into this subsector should pay special attention to contractual terms of sale and ensure all agreed-on conditions are reflective of industry norms. The longer the term, the greater is the likelihood of non-payment or the occurrence of deduction/reconciliation issues.

### What is Atradius' short term (6 month) outlook for the retail subsector?

The short-term outlook for the retail subsector is quite bright. As long as consumer confidence is stable and the unemployment rate remains static year-on-year, retail gains should continue to be achieved. If the global economic recovery continues and interest rates remain in a manageable range (with a central rate of no more than 2.5%), the 2010 forecasted growth rate will probably be revised upward.



## A better performance by consumer electronics, chemicals and food

According to the Italian Statistics Office Istat, Italy's GDP rose 0.5% in Q1 of 2010 on the previous quarter and 0.6% year-on-year, thanks to GDP gains in agriculture, industry and the services sectors. The calendar-adjusted industrial production index increased 3.1% year-on-year, with a 6.4% increase recorded for March. Despite this positive news, Italy's public debt is increasingly an issue, as it continues to rise (3.1% year-on-year in March 2010). This is sure to increase further in the course of the year, as Italy is due to contribute 18.4% to the euro zone's bailout loan for debt-ridden Greece. Based on the current trend, Istat expects GDP to grow 0.6% in 2010, while the International Monetary Fund and the EU forecast a 0.8% increase.

### Sector performance in the first three months of 2010:

**Consumer electronics:** According to GFK, turnover increased 2% year-on-year in Q1 of 2010, with very good sales performance in office equipment (10.8%) and audio and videos (6.9%). That said, information technology turnover decreased 2.4%, mobile phones 2.3%, and photography 10.9%.

**Clothing manufacturing** confirmed the negative trend of the last two years, with turnover decreasing 3.5% and production declining 15% in Q1 of 2010. In 2009, turnover decreased 14.5% and production 19.8%. According to Istat, exports of clothing products decreased 10.7% and imports 11.3%, and employment in this sector continues to decline. A return to pre-crisis levels is not yet foreseeable.

**Chemicals:** According to Istat, the trend in orders is positive (7.4% year-on-year) with production increasing 14.5% because of buyers' restocking after a period of low raw material purchasing. This process was accelerated by the announcement of price increases due in the forthcoming months. That means that growth in the second half of the year will be slower - for 2010, this is forecast to be around 7%, with paint and varnish 10%, plastic products 9%, and medical gas sector 7.5%. Exports of chemical products are expected to grow 4%.

**Food** has recorded a slight increase in production value compared to the previous quarter (up 0.6%), with positive signals coming from consumer demand. Istat reports a 3.3% sales increase in food products year-on-year. According to the food and agriculture institute ISMEA, the industry confidence index increased 2.3% in Q4 of 2009, thanks to positive expectations. After recording a negative performance in 2009, **agriculture** has shown slightly positive signals, with an increase in added value (3%) in Q1 of 2010 compared to the previous quarter, while prices have remained stable.

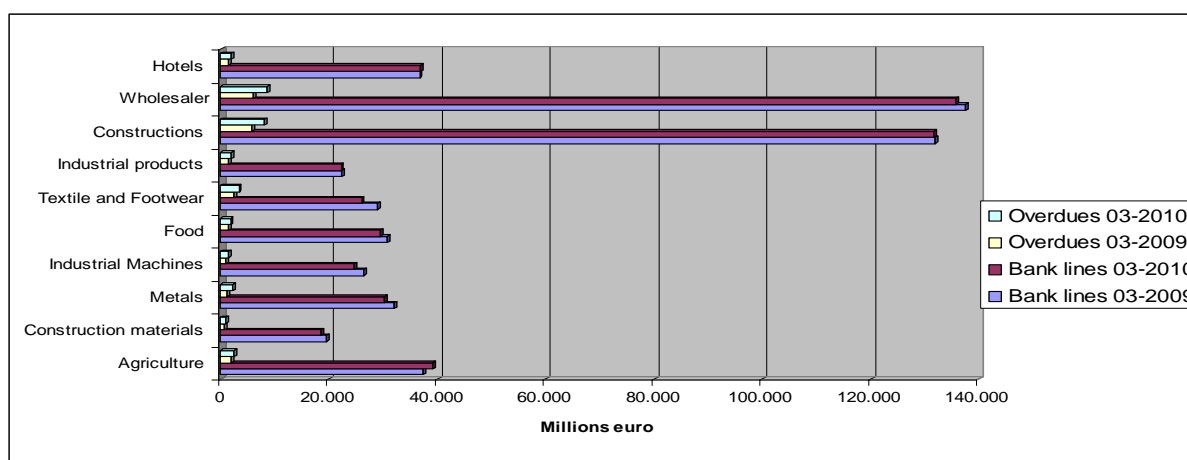
**Transport:** The Italian freight forwarding market remains extremely fragmented. In 2009 transport company insolvencies increased 18% year-on-year, while payment behaviour in the sector has deteriorated.



## Bank overdues have increased

In March 2010 the amount of bank lines granted to the Italian companies was 937 billion euro compared to 955 billion euro in March 2009 (down 1.8%). Many companies still have problems obtaining loans to expand their business activities. At the same time, overdues increased 44% year-on-year, reaching the highest monthly value for the past 15 months. Currently 4.8% of bank exposure is overdue - compared to 3.6% last year. Looking at individual sectors, construction and wholesale are receiving the largest volumes of bank finance, and both are also showing the highest amount of overdues. In terms of performance ratio (the ratio of bank financing to overdues) the worst performers in March 2010 were textiles and footwear (13%), industrial products (9%) and metals (8%). Viewing the overdue trend over the last 12 months, we can see that metals are the worst sector, with an overdue increase of 78%, followed by industrial products with 67%. However, agriculture recorded only a 24% increase (see chart below).

	Bank lines 03-2009	Bank lines 03-2010	Overdues 03-2009	Overdues 03-2010	Overdues/lines 2009	Overdues/lines 2010
Agriculture	37.375	39.190	2057	2549	6%	7%
Construction materials	19.595	18.512	640	980	3%	5%
Metals	31.986	30.352	1283	2287	4%	8%
Industrial Machines	26.413	24.591	947	1472	4%	6%
Food	30.692	29.465	1482	1825	5%	6%
Textile and Footwear	28.985	26.036	2455	3371	8%	13%
Industrial products	22.245	22.223	1430	1934	6%	9%
Constructions	131.831	131.757	5795	8027	4%	6%
Wholesaler	137.575	135.682	6143	8690	4%	6%
Hotels	36.729	36.813	1367	1967	4%	5%



Source: Bank of Italy

According to the latest Atradius Payment Practices Barometer\*, the average domestic payment duration was 72 days, an average delay of 12 days beyond due date. Some 31% of Italian companies surveyed assessed domestic payment behaviour as 'fair' and 35% as 'poor'. Of the European countries surveyed, Italy stands out as the country with the most negative evaluation of its domestic payment behaviour. Companies in the building and construction industry and the retail sector were judged to be the worst payers of any industries.

\* You can download the Atradius Payment Practices Barometer from [www.atradius.com](http://www.atradius.com)



## A 15% decrease in bankruptcies in Q1 of 2010

According to statistics Norway, GDP increased 0.1% in Q1 of 2010 for mainland Norway. Production fell in parts of manufacturing, with a marked drop in construction having a major impact. That said, wholesale and retail industries grew for the fourth consecutive quarter, as household consumption remained stable. Unemployment has increased 0.1%, but - at 3.5% - this is still low compared to other countries.

After the record high level of bankruptcies in 2009, the trend has reversed in 2010. According to Statistics Norway, the number of bankruptcies was 1,211 in Q1 of 2010: a 15% decrease year-on-year (see chart below). Of these, 865 were related to business failures (excluding sole proprietorships), with one in three of these in the wholesale and retail trade sectors. In the group of sole proprietorships/personal bankruptcies, more than a third related to the construction sector.

**Bankruptcies, by quarter. 1st quarter 2000-1st quarter 2010**



Source: Statistics Norway

Overall, we expect insolvencies to decrease 10% in 2010. That said, for construction and related business, we still expect a high number of bankruptcies in the coming months. The industry suffered from adverse weather conditions last winter and, despite improvements in orders since then, for many small and medium sized companies this has come too late. On the other hand, there are larger projects that have not yet started (some of them out of the governmental support programme) but larger companies will be the major beneficiaries of these, as they were in 2009 and early 2010.

In April 2010, the Expected Default Frequency (EDF) indicator for listed companies in Norway stood at 75 basis points: 244 points lower than at its peak in March 2009. That said, it was still 50 basis points higher than in June 2008, i.e. before the credit crisis took hold.





## Sectors hit by the crisis show signs of improvement

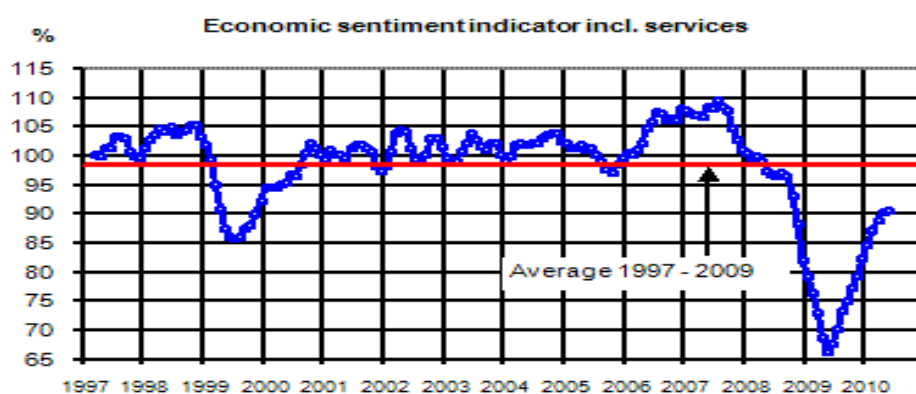
The shipbuilding sector entered the economic crisis with full order books, but order cancellations and a lack of new business changed all that. Responding to increasing pressure, at the end of April the government decided on a new support package, with increased guarantee capacity, extended loan facilities, new public orders and other subsidies. Paper is still struggling with overcapacities and price pressures worldwide. Having seen a severe price reduction and a record high number of bankruptcies in 2009, the metal sector seems to be getting back on track, with major players possibly presenting first quarter 2010 figures ahead of budget and analysts' expectations. The important salmon sector continues to profit from the salmon virus epidemic in Chile.

The International Monetary Fund forecasts GDP growth of 1.1% in 2010, after a decline of 1.6% last year, as the sectors hit by the crisis show signs of improvement. The future development of oil prices and the Norwegian crown exchange rate are hard to predict because of new uncertainties in the wake of the euro crisis, but will play an important part in Norway's economic performance in the coming months.



## Strong recovery from a severe downturn

The Slovakian economy has rebounded from last year's severe economic downturn, with GDP growing 4.6% year-on-year in the first quarter of 2010. According to the Statistical Office of the Slovak Republic, overall industrial production increased 13.1% compared to Q1 of 2009 (when it declined 22%). After steep decline during the last year, production in the automotive industry has increased 49.8% year-on-year, the manufacture of machinery and equipment 49.9%, and chemicals 35.9%. Exports of goods rose 16.9% in the first three months of 2010, after their decrease of 19.9% in 2009 (imports declined by 23.6% in the same period). The economic sentiment indicator has increased 24.2 points since its all-time low of mid-2009, but is still 8% below its long-term average (see chart below). Unemployment rose to 12.5% in April 2010 (10.9% in April 2009), dampening consumer demand.



Source: Statistical Office of the Slovak Republic

Corporate lending conditions are still a sensitive issue, as banks remain reluctant to provide new credit: loans decreased 4.2% year-on-year in Q1 of 2010, while the interest rates for all maturities declined slightly. According to Creditreform, insolvencies increased 54.6% year-on-year in 2009. This year we expect the number of corporate failures to decrease by about 10%. The risky sectors are still:

- construction (due to weak demand from the private sector),
- textiles (because of a decline in demand and low price competitiveness),
- paper (with increasing input prices likely to cause future problems),
- retail (due to decreased sales of domestic appliances),
- food and beverages (because of higher unemployment), and, despite some recent improvement,
- transport/logistics.

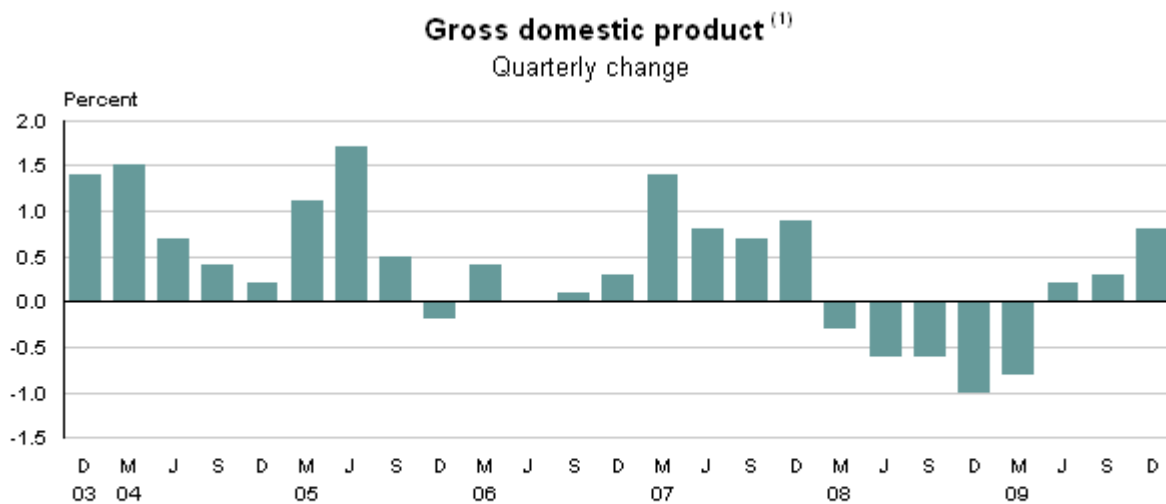
## Highest growth in the eurozone

The IMF has revised its forecast for Slovakia's growth upwards - to 4.1% in 2010 - after a decline of 4.7% in 2009: the highest growth forecast of any eurozone member this year. Thus far, Slovakia has not been affected by the recent euro crisis. The rating agency Fitch confirmed Slovakia's rating with a stable outlook on 18 May. However, problems may occur if monetary problems spread into the real economy of major EU members, as Slovakia is highly dependent on exports to those countries.



## A responsible budget paves the way for sustained recovery

According to Statistics New Zealand, the economic recovery gained momentum in the last quarter of 2009, with GDP growing 0.8% on the previous quarter (see chart below). Manufacturing activity was up 4.5%, after seven quarters of decline. However, per capita GDP is still 4% lower than in 2007 and that lost ground won't be regained until 2011.



(1) Seasonally adjusted chain-volume series expressed in 1995/96 prices.

**Source:** Statistics New Zealand

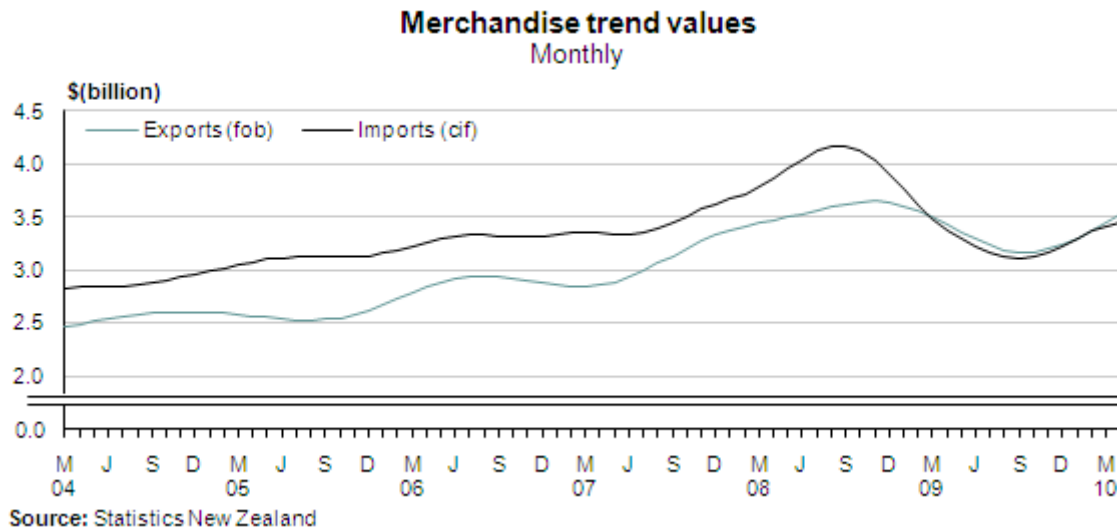
May 2010 saw the most important budget in a decade, as the New Zealand government tries to build on the green shoots of recovery experienced in late 2009 and turn them into a sustainable platform for long term prosperity. To stimulate business activity, the rate of corporate tax will drop 2% - to 28% - while, at the same time, the Goods and Services Tax (GST) will rise to plug the gap in revenue. The treasury is forecasting that the tax changes in the budget will boost GDP by 0.4% in the 4 years to 2014 and by 0.5% in the following three years.

## Better prospects for the construction sector

As in most markets, residential construction slowed dramatically in 2009, but New Zealand has a natural population growth that requires an estimated 18,000 new homes a year. In 2009 only 14,400 new homes were built - and this at a time when a surge in net migration meant more houses were required to meet the new demand. Both these factors will combine to push up the level of construction, as can be seen by the 57% year-on-year increase in housing consents in Q1 of 2010. This change in fortunes for the construction sector is likely to continue for 2 years, despite an anticipated tightening of monetary policy by the Reserve Bank.



Merchandise exports increased 9% year-on-year in April 2010, led by food products, wood and wood products. The trend in export values has risen 10.9% since September 2009, following 10 months' decline (see chart below).



Business investment spending was down 11% in 2009. However, with the recovery in the global economy, capacity utilisation is currently running ahead of the long-term average. When this happens it is normally followed by increased business investment.

The Reserve Bank forecasts growth of around 3% in 2010 and 3.5% in 2011, before it flattens to around 3% in 2012-2014. These growth forecasts are based on a further uplift in exports driven by a recovery in the global economy. However, the current account deficit, while shrinking from 7.9% of GDP in 2009, is not expected to reach positive territory over the next 3 years. Despite the slump in GDP during the downturn and the government's stimulus spending, sovereign debt is projected to peak at only 27.4% of GDP in 2015 before the budget returns to surplus.

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