



## Talking Point

The 2008/2009 global economic and financial crisis had a huge impact on the insolvency statistics for German industry. In 2009 alone, the number of insolvency proceedings instituted in Germany's manufacturing sector rose by 48%. At the same time, the country's industrial output contracted by more than 17% in real terms. However, the rapid recovery of the economy as a whole in 2010 and 2011 caused the number of insolvencies in German industry to fall significantly again – by 17% and 13.5% respectively. This was accompanied by expansion of industrial output by 12% and 8.5% in real terms. Since then, this pattern – a rise in insolvencies for industry during periods when output is falling, and vice versa – has continued:

- German industrial output declined slightly in both 2012 and 2013, while there was a small increase in the number of insolvency proceedings instituted.
- The opposite happened in 2014 and 2015: manufacturing went up by 2% and 1.1% respectively; at the same time, the number of insolvencies in German industry went down by 20.5% and 2.7%.

Overall, the number of insolvency proceedings instituted in Germany's manufacturing sector in 2015 was 15% below the number in 2008 and almost 43% below the number in 2009. All in all, this shows a very encouraging trend.

It is unsurprising that the number of insolvencies in manufacturing is influenced by the prevailing economic conditions in each sector. Economic performance of course depends on many factors that, in turn, also have a direct or indirect impact on the number of insolvencies. One such factor is the exchange rate. Between the end of 2008 and the end of 2009 and from mid-2012 to the end of 2013, the euro appreciated by an average of approximately 8% and more than 10% respectively against the currencies of Germany's trading partners, making German companies less competitive abroad in terms of price. This is likely to be a (further) reason why the number of insolvency proceedings instituted rose in 2009 and in 2012 and 2013. The euro's appreciation also adversely affected German exports in those years.

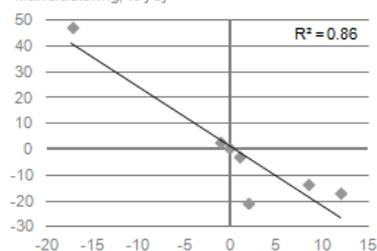
Conversely, the depreciation of the euro by roughly 13% between early 2014 and early 2015 probably contributed to the aforementioned exceptionally sharp fall (20.5%) in the number of insolvencies in industry during 2014.

Producer prices also have a degree of influence on profitability and thus on the number of insolvencies in industry. However, there is not a clear empirical correlation in the period under analysis here. In 2009, producer prices decreased – which is consistent with the increase in insolvencies. Producer prices then recovered again between 2010 and 2012, and have shown a slight downwards trend since then. By contrast, there was a drop in the number of insolvency proceedings instituted in 2014 and 2015.



### Strong correlation\*

X: Manufacturing output in Germany, real terms, % yoy; Y: Insolvency proceedings\*\* in German manufacturing, % yoy



\* Chart displays correlation from 2009 to 2015

\*\* i.e. the number of insolvency proceedings instituted

Sources: Federal Statistical Office, Deutsche Bank Research

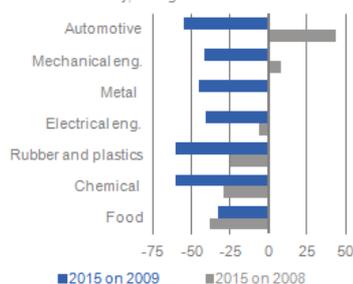
The number of insolvency proceedings instituted (according to insolvency statistics) compared with the number of VAT-registered companies (according to VAT statistics) gives the 'insolvency ratio'. This ratio reflects the generally positive trend observed over the past few years. In 2009, the insolvency ratio was 1.08%. By 2014 (more recent figures are not yet available), it had fallen to 0.66%.

### A mixed picture at sectoral level

The trend outlined above for the institution of insolvency proceedings in manufacturing can also broadly be seen in many sectors of German industry. Nevertheless, individual years exhibit major variations in the rate at which the number of insolvencies has changed. Some of this significant fluctuation is due to the fact that the total number of insolvency proceedings instituted in individual sectors is very low.

### In many sectors fewer insolvencies than pre-crisis

Number of insolvency proceedings instituted in German industry, change in %



Sources: Federal Statistical Office, Deutsche Bank Research

A look at the large sectors of industry reveals that in 2009, a year of recession, the increase in insolvency proceedings was the most pronounced for automotive including component suppliers (up by 222%), rubber and plastics (up by 88%), mechanical engineering (up by 85%) and metal (up by 83%). That same year also saw disproportionately strong decreases in domestic output for each of these sectors. The aforementioned appreciation of the euro adversely affected the automotive and mechanical engineering sectors, which are particularly export-driven. All sectors then experienced two years of – in some cases significant – falls in the number of insolvencies, thereby reflecting the trend in manufacturing as a whole. However, the food industry exhibits a different trend, with the number of insolvency proceedings in fact declining by almost 8% in 2009. The recession in Germany did not lead to a rise in insolvencies in the food industry because the price elasticity of demand for food is low. The exchange rate is also less relevant. Nonetheless, the number of insolvencies in this industry went up slightly in 2010.

There is no consistency to the pattern of the number of insolvencies across all sectors of industry in the years 2012 to 2015. Only the general trend pointed in the same direction: in 2015, the number of insolvencies was below the 2009 level across all sectors. And this is also true for most sectors when the number of insolvencies in 2015 is compared with those in 2008. However, there are a number of notable exceptions. The number of insolvencies in the automotive industry in 2015 was still more than 43% higher than in 2008; the corresponding number for the mechanical engineering sector was more than 8% higher. The number in the metal industry in 2015 was almost as high as in 2008. To be fair, an assessment of the number of insolvencies in the automotive industry needs to take into consideration that, in absolute terms, there were only 33 insolvency proceedings instituted in 2015 and thus 'only' ten more than in 2008.

A final look at the insolvency ratios in 2015 reveals that, among the major sectors of industry, mechanical engineering was above average at 0.91%. By contrast, the construction materials industry



(0.36%), the pharmaceutical industry (0.43%) and the chemical industry (0.55%) registered relatively low insolvency ratios.

Overall, the impact of the global economic and financial crisis on the insolvency statistics for German industry has now largely dissipated. In 2015, almost all sectors reported fewer insolvencies than in 2008. The prospects for a further fall in insolvencies in German industry in 2016 are good. And indeed, the number of proceedings instituted in the first quarter was almost 5% down on the corresponding prior-year period. Nevertheless, risks still remain. These include the appreciation of the euro and – very much related to this – an economic slowdown. Both of these risks have increased following the vote for Brexit.

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