

COVID-19 CRISIS IN EUROPE TO PUT 13,000 CORPORATES AT RISK

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In the context of the COVID-19 crisis, we estimate that turnovers of Eurozone companies could fall between -15% to -25% y/y at the peak of the crisis end of March. Operating margins could be indented by 1.0pp to 1.5pp.

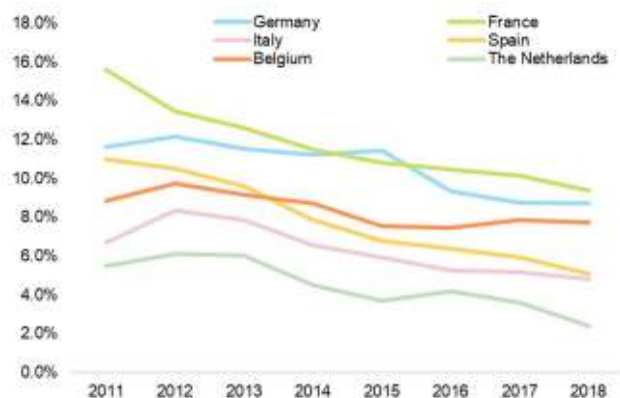
Taking into account the domestic demand shock and the contraction in international trade flows caused by the spread of Covid-19, we expect Eurozone GDP to contract by -1.8% in 2020 should the full lockdowns last for one month, or by -4.4% should they last two months. Hence, turnovers in the manufacturing sector could fall by as much as -15% y/y and -25% y/y in Q2. Over the year, we expect turnovers in the manufacturing sector to fall by -12% to -18%. Advanced indicators for March suggest that Eurozone companies face upside pressures on their input prices due to supply shortages and downside pressures on their selling prices due to the shock on demand. Lower for longer oil prices and government policies provide some support.

We estimate that, before the Coronavirus outbreak, 13,000 SMEs and MidCaps in the Eurozone (7% of total) were already at-risk. This cash flow crisis could now push them to default. Our past [research](#) has identified three leading indicators that can help detect corporate distress four years before a bankruptcy: profitability, capitalization and interest coverage. We apply these criteria to over 200,000 SMEs and MidCaps in Germany, France, Italy, Spain, Belgium and the Netherlands. In France, we find 10% of total SMEs and MidCaps are at risk, in Germany close to 9%, in Italy 5%, in Spain 6%, in Belgium 8% and in the Netherlands around 3% (see Figure 1).

The sectors most at risk are construction, agrifood and services. In France and the Netherlands, the services sector has the highest number of firms at risk. In Germany, Italy and Belgium, it is construction (see Figure 2). The concentration in the top five sectors is highest in France (67%) and the Netherlands (67%), followed by Belgium (64%), Spain (63%), Germany (57%) and Italy (56%).

All in all, we expect insolvencies to surge by +16% in Western Europe in 2020. Government interventions to support corporates (tax deferrals, state loans and guarantees, etc.) should help limit the overall number of bankruptcies. Yet, we expect a significant increase in insolvencies, particularly in Italy (+18%), Spain (+17%) and the Netherlands (+21%). Germany (+7%), France (+8%) and Belgium (+8%) would also post a larger rise in insolvencies than anticipated prior to the pandemic (Figure 3).

Figure 1 - Share of SME & MidCaps at risk, % of total



Source: Euler Hermes

Figure 2 - The share of SME & MidCaps at risk, % of total – top 5 sectors

Germany		France		Italy	
Construction	15%	Services	20%	Construction	16%
Metals	11%	Construction	19%	Agrifood	11%
Agrifood	11%	Retail	12%	Services	11%
Machinery	10%	Automotive	8%	Retail	9%
Services	10%	Agrifood	8%	Machinery	9%

Spain		Belgium		The Netherlands	
Agrifood	18%	Construction	20%	Services	26%
Construction	16%	Services	15%	Construction	12%
Services	15%	Agrifood	10%	Agrifood	11%
Transport	9%	Retail	9%	Automotive	9%
Automotive	6%	Transport	9%	Machinery	9%

Source: Euler Hermes

Figure 3: Insolvency forecasts in key European country in numbers and variation

	Pre pandemic			Latest			max range	2008-2009 avg
	2019 e	2020 f	change	2019	2020 f	change		
Global Insolvency Index	121	128	6%	120	137	14%	18%	21%
US	22 900	23 800	4%	22 720	24 300	7%	12%	47%
China	12 750	14 000	10%	11 826	13 600	15%	21%	2%
Europe Insolvency Index	134	140	3%	134	155	16%	20%	33%
Germany	19 370	19 950	3%	18 749	20 000	7%	9%	6%
France	52 100	52 000	0%	51 342	55 200	8%	11%	13%
Italy	11 200	11 700	4%	11 000	12 950	18%	21%	24%
Spain	4 100	4 300	5%	4 162	4 860	17%	20%	125%
Belgium	10 600	10 800	2%	10 598	11 400	8%	10%	11%
Netherlands	3 740	3 930	5%	3 792	4 550	21%	27%	37%
UK	22 325	22 995	3%	22 132	23 903	8%	11%	22%

Source: Euler Hermes

These assessments are, as always, subject to the disclaimer provided below.

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