

Atradius Country Report

The Netherlands – July 2011



Summary

Main economic developments

- GDP grew 2.8 % in Q1 and is forecast to grow 2.1 % in 2011
- Private consumption will remain subdued throughout 2011
- Manufacturing production continues to grow, albeit slower than last year
- Gross fixed investment to rebound after two years of sharp decline

Industry performance

- Rebound in the chemicals, steel/metals and transport sectors
- Continuing difficulties in construction, retail and agriculture

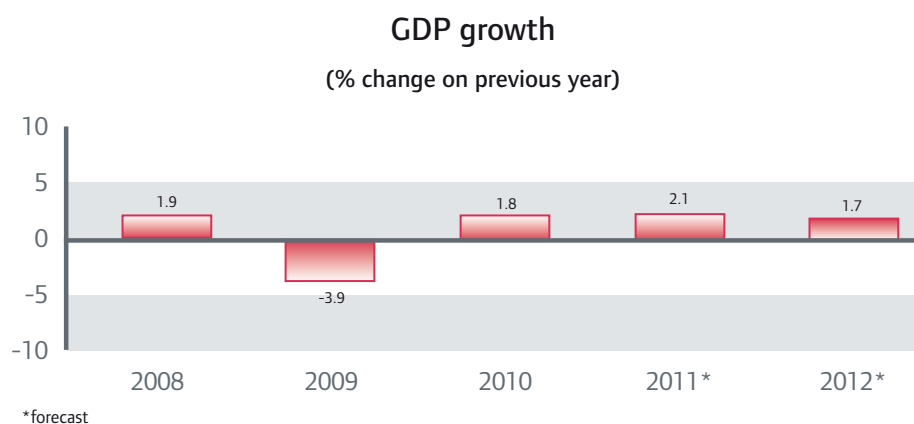
Insolvency environment

- We estimate that corporate insolvencies will decrease by 9.3 % in 2011 and 5 % in 2012, provided that potential downside risks do not materialise.

Main economic developments

According to Statistics Netherlands (CBS), the rebound of the Dutch economy gained momentum in Q1 of 2011, with 0.9 % **real GDP growth** on the previous quarter and 2.8 % year-on-year (following 2.5 % in Q4 of 2010 and 1.8 % in Q3). Investments increased 10.1 % year-on-year, due mainly to a surge in construction activity (residential, non-residential and infrastructure). Construction output increased 13 %, thanks in large part to favourable weather conditions. At the same time, the export of goods and services increased 7.0 %: a lower rate than in previous quarters (11 % in Q4 and Q3 of 2010). However, household consumption decreased by 0.1 % year-on-year and 0.3 % on the previous quarter.

Overall, Consensus Forecasts has revised its forecast upwards: to GDP growth of 2.1 % this year and 1.7 % in 2012 (see chart below).



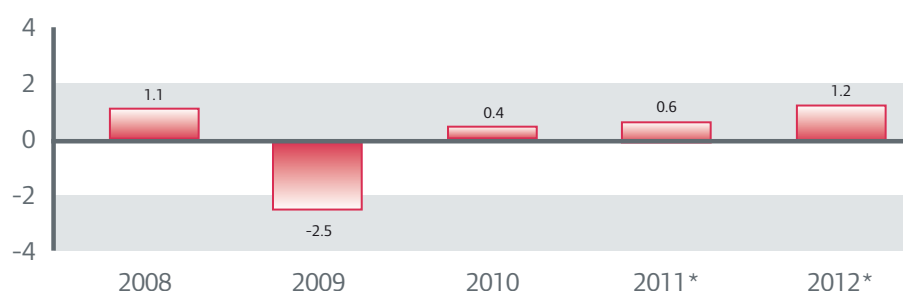
Source: Consensus Forecasts (Survey date June 13, 2011)

Private consumption, which had been weak in 2009, recovered slightly during 2010, but decreased again in Q1 of 2011 and has remained modest since then despite a 0.5 % rise in April, according to CBS. Consumer confidence remains subdued, as expectations for the economic situation over the next 12 months are still pessimistic with little willingness to spend. Unemployment rose slightly, to 5.1 % in May (5.0 % in April 2011), but was at least lower than in February 2010 (5.8 %). Overall private consumption is expected to increase only slightly - by 0.6 % - in 2011 (see chart below).

Consumer prices increased by 2.3 % in May and June 2011 (2.1 % in April), the highest rate since December 2008, due to higher energy and food costs. However, Dutch inflation is still below the eurozone average of 2.7 %. After rising 1.3 % in 2010, consumer prices are forecast to increase by 2.2 % in 2011.

Private consumption

(% change on previous year)



*forecast

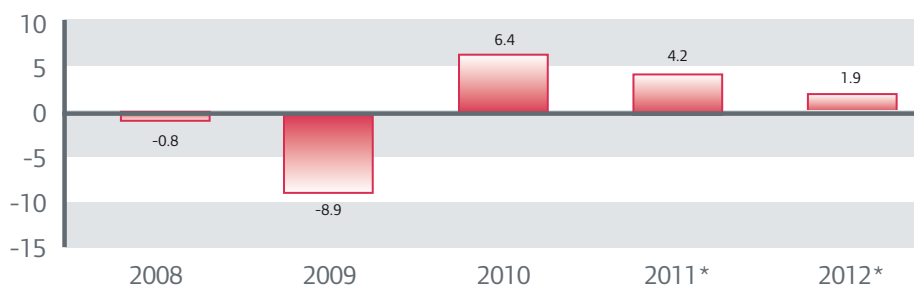
Source: Consensus Forecasts (Survey date June 13, 2011)

While private consumption remained weak and gross fixed investments continued to fall in 2010, the **export of goods** contributed significantly to last year's GDP rebound: up 12 % year-on-year after an 8.8 % decline in 2009. This was due mainly to the recovery of the Netherlands' main trading partners such as Germany. However, the surge in exports slowed somewhat in the first quarter of 2011: to 4.2 %. **Imports of goods** rose 12.6 % year-on-year in 2010 and 6.9 % in Q1 of 2011.

Manufacturing output recovered strongly in 2010, but has slowed recently and is forecast to grow by a more modest 4.2 % year-on-year in 2011 (see chart below). After a 9.2 % year-on-year growth in February 2011, the increase in production slowed to 3.1 % in March, 1 % in April and 3 % in June. Manufacturing turnover still grew 13 % in April 2011, but this was much less than in previous months.

Manufacturing production

(% change on previous year)

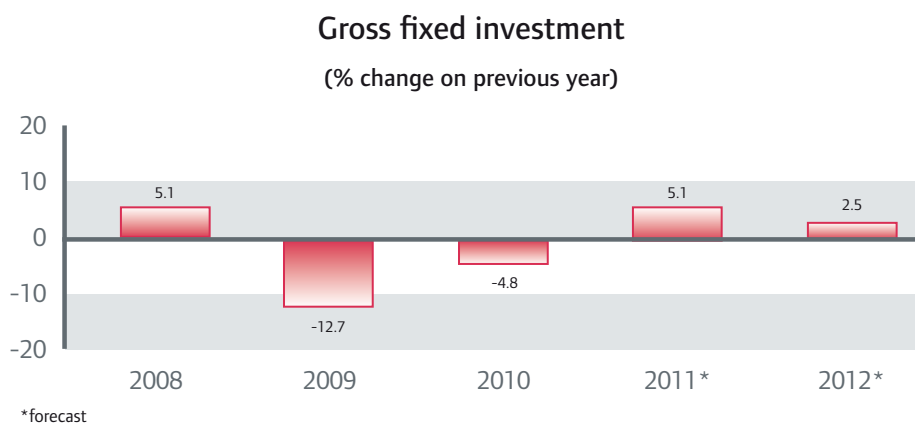


*forecast

Source: Consensus Forecasts (Survey date June 13, 2011)

According to CBS, **producer confidence** in the manufacturing sector has risen significantly since early 2009. However, in June 2011 it decreased for the third consecutive month, after having reached its highest level in three years in March 2011, as demand from the eurozone shows signs of weakening.

Gross fixed investments are expected to pick up again in 2011 (by 5.1 %) and 2012, from the steep decline of the past two years (see chart below). After peaking in Q1 of 2011, the growth in private sector investments slowed down in April, due mainly to decreasing investments in the construction sector following their sharp rise in January and February.



Source: Consensus Forecasts (Survey date June 13, 2011)

Industry performance

Construction – only a modest recovery expected

Dutch construction suffered a decrease in production of more than 9 % in 2010, with new building (both housing and utility) and civil engineering most harshly affected. While the total number of Dutch business failures decreased by more than 10 % year-on-year in 2010 (see insolvency chapter below), construction insolvencies increased by more than 20 %, with the non-residential building subsector hit especially hard. However, we expect the downward spiral to stop in 2011, with an upturn mainly in the new building sector, while the utility sector and the civil engineering works are expected to show a small decline: the latter affected by drastic public budget cuts.

That said, fierce competition, pressures on margins and working capital issues will persist despite the modest upswing and, on average, we expect payment behaviour in the construction sector to deteriorate this year. And, while we expect overall corporate insolvencies in the Netherlands to again decrease by 9 % year-on-year, the construction sector is likely to go against this trend, with many more companies in the sector failing. Of these, SMEs, with their generally low solvency rate, are expected to be worst affected.

Steel and metals – demand remains below pre-crisis levels

The Dutch steel/metals industry suffered from the stagnation in the construction and automotive sector, with low demand for steel from shipbuilders and heavy industry in 2010. Exports, however, (up 4 %) compensated for the drop in domestic sales. While demand for construction steel reached its lowest level in Q4 of 2010 and Q1 of 2011, demand for steel from other manufacturing sectors has now risen. In 2011 we expect general revenue growth of 4 %, as Dutch suppliers with buyers in Germany take advantage of that country's continuing growth. However, in general, demand for steel and metal will remain below its pre-crisis level.

Chemicals – demand from Germany drives growth

The main focus of the Dutch chemicals sector is the production of basic chemicals (60%), paints, lacquer, varnish (10%) and pharmaceuticals (17%). The industry is largely export driven (75% of products are destined for foreign markets) and benefits from a good transport network to the rest of Europe and the availability of raw materials, including natural gas. In Q1 of 2011, chemicals saw rising orders domestically (45%) and from abroad (14%), as well as steeply rising turnover and production volumes. In particular, the industry has gained from Germany's economic recovery. Payment behaviour remains good, the number of insolvencies compares well to other sectors, and our forecast for the industry remains positive.

Transport/logistics – margins remain under pressure

Thanks to the rebound in exports, the turnover of Dutch transport companies improved slightly in 2010 (by 3%) after its very poor performance in 2009, when it fell by 12.5%. Road transport companies and freight forwarders played a key role in the sector's overall recovery last year, contributing almost 50% of total turnover. As the sector rebounded, transport company insolvencies decreased 7% year-on-year, to a total of 386 in 2010, and we expect this trend to continue. However, margins remain under pressure due to risen fuel prices, higher wages, the cost of meeting stricter environmental regulations and increased price competition, making it hard to pass on higher expenses to customers. No doubt, overcapacity will lead to further consolidation.

Agriculture/food – full effects of E. coli outbreak remain to be seen

The value of food exports increased in 2010. However, overall, the grocery retail sector will grow by only 1.5% this year as consumer spending in the Netherlands has not fully recovered from the economic downturn. Moreover, the Dutch agricultural/food sector is facing increasing international competition. There are however business opportunities thanks to rising demand from emerging markets. Retailers are also focusing on the fruit/vegetables subsector, and seeking to cooperate closely with growers to provide customers with high quality and organic products, as this presents an opening to gain a strong market position.

The real consequences of the E. coli crisis for the Dutch fruit and vegetables subsector have yet to be established, but already some growers are feeling the effects on their finances, with almost a month's supply of their peak season harvest now valueless. With trading conditions remaining challenging, we will continue to monitor the food industry, especially smaller-sized trading companies, closely.

Retail – rise of e-commerce will cause increasing insolvencies

Both food and non-food retail continue to suffer from low consumer confidence and subdued private consumption. While modest growth is projected for 2011 for the non-food retail sector, the recovery is fragile and could be easily derailed by government cutbacks and lower purchasing power.

Textiles and clothing have to cope with lower margins as, in the current climate, rising production costs cannot all be passed on to customers. The *furniture* segment is still suffering from the poor housing market, with sales continuing to fall. The middle and lower segments saw growth while the higher segments fared less well. *Electronics* retail is a market characterised by consolidation, innovation, fierce competition (discounters) and rising price pressure, with producers constantly competing by introducing new products, resulting in an oversupply of products and outlets.

In Q1 of 2011, insolvencies in the retail sector increased significantly on the previous quarter (up 25%), after three successive quarters in which the number of business failures declined. We expect more business failures, especially in the electronics retail subsector, as e-commerce (buying online) grows in popularity, because some chains are unable to adapt quickly enough to this change in the pattern of purchasing. Retailers, especially those in the furniture and DIY subsectors, will also have to address continuing pressures on their margins and liquidity.

The insolvency environment

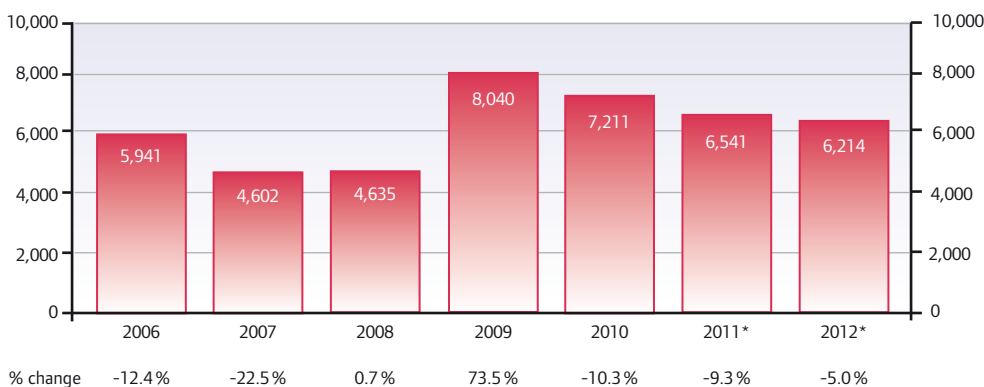
Corporate insolvencies will decrease 9 % in 2011 and 5 % in 2012

The Netherlands' economic recovery manifested itself in fewer business failures. According to CBS, the number of corporate insolvencies decreased 10.3 % year-on-year - to 7,211 cases - after a massive 73.5 % increase in 2009.

From January to the end of May, business failures fell by as much as 8.2 % year-on-year: to 2,781 cases. For the whole of 2011, we expect a 9.3 % decrease, followed by another 5 % drop next year, to 6,200 cases (see chart below), provided that potential downside risks - such as a further escalation of the Euro debt crisis or a global downturn - do not materialise.

However, even in a benign scenario, 2011 and 2012 insolvency figures will still be much higher than their 2007/8 pre-crisis levels.

Dutch business insolvencies
(year-on-year change)



*forecast

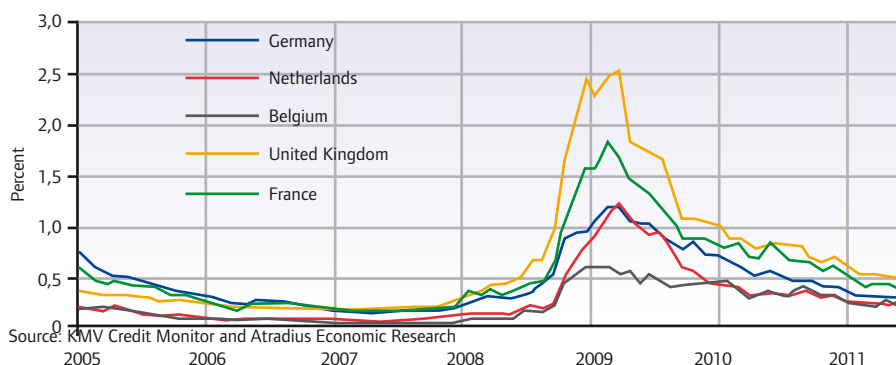
Sources: National Statistics Office; Atradius Economic Research.

Note: Forecasts are based on the outcome of statistical models and expert opinion. The history of growth rates in the table represent estimates based on official insolvency statistics and model-based calculations. As such they should be treated as indicative. All views expressed here are those of Atradius Economic Research (date of final forecast: 2 May 2011)

Expected default frequency for Dutch listed companies back to pre-crisis levels

May 2011's median Expected Default Frequency (EDF) for Dutch listed companies did not continue its moderating trend of recent months, as it increased 5 basis points on the previous month, to 27 basis points (see chart below). However, there has been a 14 basis points reduction since the start of 2010, due mainly to a rise in equity prices and a simultaneous reduction in market volatility.

Median EDF evolution *



Source: KPMV Credit Monitor and Atradius Economic Research

*The Expected Default Frequency (EDF) chart above 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%.

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