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Triple shock in 2008
Financial crisis, soaring commodity prices and worldwide slowdown
What are the consequences for France and for the world?
Analysis by credit insurer Euler Hermes

A 15% increase in defaults worldwide in 2008

The world economy is faced with three shocks in 2008 and 2009 – a sub-prime crisis affecting all the OECD economies resulting in a slowdown in construction and real estate; a shock in terms of food and energy commodities; and lastly a downturn in world trade caused by the slowdown in the US economy. "These three shocks are going to reduce global growth to just under 3% in 2008 and 2009," says Research Director Karine Berger of Euler Hermes SFAC, French subsidiary of the world leading credit insurance firm Euler Hermes.

Therefore, the Global Corporate Insolvency Index* is expected to increase by an average of around 15% in 2008.

Growth in France curbed by the three shocks in 2008

In France, GDP growth of 1.8% forecast in 2008 and 1.4% in 2009. "Owing to these three shocks, for both years, this amounts to a total loss of around one point of growth compared to previous estimates - 0.2 point related to the downturn in construction, 0.6 point due to the decline in consumption and 0.2 point resulting from the slowdown in exports, all of which is expected to reduce GDP growth to 1.8% in 2008 and 1.4% in 2009," stresses Karine Berger. Soaring food and energy prices are having the greatest impact, reducing inflation-adjusted growth in household income to 1% this year, which explains why consumption was flat in the first three quarters of 2008. Despite that, businesses are continuing to invest, although at a somewhat slower pace. Moreover, the French economy is still bolstered by a good job market.

With this slowdown, at the end of May, the average increase in business insolvencies in France (12 month total vs. last year) is 14%, affecting primarily small organisations. The sectors in France that are the most affected by the economic slowdown are construction, real estate, transportation and retail and wholesale.

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* The Global Corporate Insolvency Index, created by Euler Hermes SFAC's Research department, compares corporate insolvencies by country avoiding problems due to different country definitions and taking into account the size of each country's economy.



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