



Autumn–Winter 08

no. 2

World business sectors report

The world economic crisis is impacting on every sector

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Global Sectors Outlook



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Construction



Clothing

- Textile
- Air transport



Distribution

- Automobiles
- Press, publishing
- Automotive components
- Road transport
- Paper and pulp
- Consumer electronics
- Semiconductors and components
- Food products and beverages



Manufacture of IT and telecoms equipment


- IT and telecoms services
- Steel
- Transport equipment (railways, shipbuilding & aeronautics)
- Machines
- Chemicals

Pharmaceuticals

- Energy



Euler Hermes Global Sectors Outlook has been prepared by Euler Hermes SFAC analysts with the support of local risk experts in the group's 40 local offices around the world

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Editorial

Halting the crisis at what cost?

The instability that has taken hold in world financial markets is quickly altering the course of the world economy, tipping it from an outlook of abrupt economic downturn to one of much more profound breakdown in OECD markets. Stock markets in the space of a month have shed nearly 30% of their value. This would not be problematic were there none of the yo-yo fluctuations we have been seeing on ever more record scale, whether upward or downward. It is not the price volatility in the markets that is increasing, but rather the volatility of the price volatility! Behind this observation is a complex mathematical calculation, but I can express it in more prosaic terms: for very many assets, we can no longer define a price. This, by the way, is one of the points of dispute in the Paulson plan adopted after so much difficulty by the US Congress, aimed at using \$700bn to buy the banking system's bad debts, similarly to the different European plans announced on October 12. The point of the dispute: the price at which the aforesaid bad debts are to be purchased for now does not exist. It is not so much liquidity that is lacking in the market (the amounts of cash being injected each day by the central banks are equally record-breaking) as the fact that billions of assets have become illiquid. Illiquid, that is, simply because they have no price attached to them, something that in economics constitutes a serious problem. Now, of course it's impossible for governments or heads of central banks to admit that they no longer understand very much – but with the IMF and its successively revised assessments of the cost of the financial crisis, putting it first at \$1,000bn, then at \$1,300bn and now at \$1,400bn, what other conclusion can we draw?

For all that, how could the volatility of the price volatility of financial assets also impact on the real economy, from the international conglomerate all the way down to the small artisan business? Well, to issue credit within an economy, i.e., to lend to businesses, the banking system has to create money. The creation of this money is at a legally established ratio to a reserve of money that is issued by the central bank and traded between banks on the interbank market. Since no actor is quite certain any more of being repaid one day by the other actors – measuring the risk is practically impossible – the interbank market has seized up, and, as a result, the financial system has to limit the credit it issues in the real economy or considerably increase the cost of credit. The consequences of this transmission to the real economy will be severe: beyond the postponing of investment projects, there will be increasing cash flow problems, and this will lead to many bankruptcies. This issue of Global Sectors Outlook shows that every sector of the world economy is now entering into slowdown, due to both the economic crisis and the financial crisis.

How to stem the spiral? While a coordinated response by the central banks has not yet been conclusive, and while it is certain that measures taken by OECD governments (the US on one side and European nations on the other) will prove helpful, responsible behaviour on the part of every single actor is now also a key factor in the future outcome of the problem.



Hourly wages in industry

Euros/hour	2007	USA=100
Belgium	34.4	209
Sweden	33.1	201
Denmark	32.5	197
Germany	31.8	193
France	31.6	191
Netherlands	28.9	175
Austria	28.7	174
Finland	28.5	173
Luxembourg	28.1	170
Euro zone	27.3	165
Ireland	26.4	160
United Kingdom	26.4	160
Italy	25.0	152
EU-25	23.7	144
Spain	18.3	111
Greece	16.6	101
United States	16.5	100
Cyprus	14.4	87
Japan	13.9	84
Slovenia	13.3	80
Portugal	11.2	68
Malta	10.0	61
Czech Republic	8.2	50
Hungary	7.7	47
Estonia	7.4	45
Poland	6.7	41
Slovakia	6.4	39
Lithuania	5.4	33
Latvia	5.2	31
Romania	3.9	24
Bulgaria	2.1	13
China	1.0	6

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