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## PRESS RELEASE

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### The demography of companies

The demography of companies is a subject of great interest. However, it is also notable that when comparing the various publications the figures can vary dramatically depending on the statistical sources used and when the data were recorded.

Contrary to normal practice, the analysis focuses exclusively on the demographic progression of companies. The reason for this is that the structural impact of these developments, in other words the innovation and productivity of an economy, is largely determined by the evolution of companies. Moreover, it appears that the demographic progression that companies undergo is not necessarily the same as that of the self-employed; it is assumed that company dynamics are mainly determined by earnings potential and competitive strength, while other factors may also play an important part in the analysis of the self-employed.

As one might expect, the demography of companies is determined by the state of the economic cycle. It is clearly the case that this effect is most apparent in the area of incorporations, with slower growth in gross domestic product immediately reflected in a more than proportionate decline in the number of start-ups. In this respect, the considerable drop in the number of incorporations in 2012 was significant. This correlation is less obvious with regard to business failures, since these may be delayed for various reasons. The effect of the economic cycle is more noticeable in some sectors than in others. The construction sector and the other services sector show the greatest business dynamics, as they are highly cyclical sectors. The accommodation and food service sector is a special case, because it is often cited in connection with its high risk of bankruptcy. Until the end of 2005, the hotels and catering business had a net growth ratio<sup>1</sup> that was clearly higher than that of the other branches of activity. The situation has changed since 2006 as a result of a decline in the incorporation ratio, and the net growth ratio in this branch has fallen sharply. The development of the net growth ratio in the manufacturing industry and trade was less clear-cut than in the other sectors, but it is notable that the negative development in 2012 was more pronounced than in 2009.

The analysis also considered regional aspects. The demographic developments at regional level show that a cautious approach should be adopted when drawing generalised conclusions. There may be very diverse developments within a Region or local area that mean that an average score gives an incomplete and misleading impression.

At local level, Flanders had the lowest net growth ratio of the three Regions in 2012, as it did in the period 2001-2012. This was purely due to the sharp decline in the number of incorporations, which was 23 % lower than in 2011 and shows that Flanders was particularly badly affected by the economic crisis. Although the net growth ratio in Wallonia was slightly higher than in Flanders, this was the lowest figure during the analysis period for this Region as well. Only the Brussels-Capital Region managed to achieve a net growth ratio that was higher in the crisis year of 2012 than in the period 2001-2004.

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<sup>1</sup> The net growth ratio is the difference between the incorporation ratio and the termination ratio. The incorporation ratio is the ratio of the number of incorporations to the number of companies operating during the previous year. The termination ratio is the ratio of the number of terminations and petitions for bankruptcy registered in a particular year to the number of companies operating during the previous year.

At provincial level in Flanders, the incorporation ratio in the provinces of West Flanders and Antwerp, in particular, was very low. Since this was accompanied by a high bankruptcy ratio in the province of Antwerp, contrary to West Flanders, the conclusion can be drawn that the present crisis is significantly affecting business dynamics in Antwerp. In terms of the incorporation ratio, the province of Limburg is performing slightly better than the other Flemish provinces. Until 2008, it was either Limburg or the Brussels-Capital Region that boasted the highest incorporation ratio. For Limburg, this came to an end with the economic crisis, although it continued to be the province with the highest net growth ratio in Flanders between 2001 and 2012. The less favourable position of Antwerp is confirmed at district level. In 2001, this was actually the only district with a negative net growth ratio. Despite a slight improvement in 2011 and 2012, the district of Antwerp did not manage to rise above second-to-last place in terms of net growth ratio, while Ostend was the district that experienced the sharpest fall in its net growth ratio in 2012.

Business dynamics in the Brussels-Capital Region have been rising strongly since 2001. The notable feature here is that the net growth ratio was due to a very high incorporation ratio combined with a very high bankruptcy ratio. The analysis at district level also shows the strong position of Brussels and the greater ability of this Region to withstand the economic crisis.

The highest incorporation ratios over the whole period between 2001 and 2012 in Wallonia were in the provinces of Walloon Brabant and Hainaut. In Wallonia, the province of Walloon Brabant had the highest net growth ratio as a result of a high incorporation ratio and a low bankruptcy ratio. The province of Hainaut had a high bankruptcy rate, and therefore a lower net growth ratio, while the province of Luxembourg showed very low incorporation, bankruptcy and net growth ratios and thus posted the lowest score in Wallonia. At district level, the district of Ath is notable in that it had a consistently high net growth ratio in all the years reviewed. Even in the crisis year of 2012, Ath had the highest net growth ratio of all the districts.

The analysis of the survival rate shows that the year of incorporation has little or no effect on the risk of bankruptcy. In years featuring a high number of incorporations, many failures are also registered. This would appear to be consistent with theoretical assumptions. From a regional perspective, companies have a greater chance of survival in Flanders than in Wallonia, and certainly in the Brussels-Capital Region. An analysis at provincial level, however, shows that the chances of survival can vary dramatically within the Regions. The industry in which a company operates is more important than the region in which it is situated. As expected, accommodation and food services is the industry with the lowest chance of survival. A company's age is also significant; young companies aged between three and five years are the most vulnerable to bankruptcy.

Both the regional and the general analysis of demographic developments show that caution and qualification are needed when drawing conclusions. Business dynamics and thus the future of an economy are largely determined by incorporations, which in turn depend on earnings potential and other expectations. An excessive and unqualified focus on the development of business failures not only gives a false picture of the real state of health of an economy, it also negatively affects sentiment. This could cause the number of incorporations to decline and prolong the crisis.