

BAROMETER COUNTRY AND SECTOR RISKS BAROMETER

Q1 2019

By Coface
Economic
Research team

The great industrial rotation continues

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ASSESSMENT CHANGES

Signs of the global economic slowdown continued to accumulate at the beginning of 2019: companies are much less confident than a year ago, and global trade is showing signs of fatigue. We expect it to increase by 2.3% this year (compared to 3.0% in 2018). This change in international trade trends goes hand in hand with a change in production: Coface expects world GDP to increase by 2.9% this year, a 0.3 point decrease compared to 2018. This would be the lowest level observed since 2016, the last year in which growth had slowed jointly in the top three world economies (eurozone, United States and China). In this environment of slower growth, companies are weakened: the number of corporate insolvencies is expected to increase in 26 of the 39 countries for which such data is available, compared to only 19 in 2018.

In this context of confirmation of downturn of the industrial cycle, 14 sector assessments have been downgraded. Six of these relate to the chemicals sector, where companies – particularly in Western Europe and the

United States – are suffering from reduced opportunities in the automotive and construction sectors, shrinking margins in the coming quarters due to increasing input costs (such as oil), and the implementation of stricter regulations in some countries.

On the positive side, the five sector assessments upgrades all concern the Middle East. The rise in oil prices (+ 29% between the end of March 2019 and the end of December 2018 in a context of high volatility) is helping to reduce the level of corporate credit risk in the region, especially as we anticipate that the price of a barrel of Brent crude oil will remain at a comfortable level this year for most producing countries in the region (USD 65 dollars on average in 2019). The US Federal Reserve's change in direction should also have a positive effect on bank credit conditions for companies in Gulf Cooperation Council countries whose currencies are aligned with the US dollar. Following the upgrade of the United Arab Emirates in the last quarter of 2018, this Barometer sees an upgrade for Saudi Arabia has been upgraded (from C to B).

Confirmed slowdown of world trade and growth

Whereas the first half of 2018 was marked by strong growth, the second half of 2018 and even more so the first quarter of 2019 have shown a marked slowdown in international goods trade. The World Trade Organization (WTO) now forecasts that global trade growth will not exceed 2.6% this year, after 3.0% in 2018. Coface's forecast is 2.3%¹. This slowdown in world trade reflects the slowdown in growth. Coface expects global GDP to grow by only 2.9% this year, a 0.3 percentage point decrease from 2018. This would be the lowest level observed since 2016, the last year in which growth had slowed jointly in the top three world economies (euro zone, United States and China). In this context of slower growth, companies are weakened: the number of corporate failures is expected to increase in 26 of the 39 countries for which such data are available, compared to only 19 in 2018 (**Chart 1**). Unsurprisingly, most of the countries in this situation are likely to be European economies.

Persistent uncertainties in the global economic environment related to protectionism in general and US trade policy in particular. The latter lie in pending questions – such as the possibility of a trade agreement or not between the United States and China, or potential tariff increases on US car imports from Europe – that continue to affect the morale of companies, leading them to postpone their investment decisions. Capital expenditure, which had risen by 6.3% year-on-year in the world (excluding China) in the first half of 2018, increased by only 2.5% in the second half of last year. The decline in business morale across Europe and Asia in the first quarter suggests that this trend will continue, which will have a negative knock-on effect on world trade, given the importance of equipment goods.

Against this backdrop, the longest industrial expansion cycle in the euro area in 30 years ended last November (**Chart 5**). Economies that are particularly exposed to the cycle will be the first to suffer. In Germany, the decline in business confidence in the manufacturing sector was much more pronounced than in its European neighbours. New manufacturing orders to industry fell by more than 4% in March (-8% year-on-year in February 2019), the lowest since January 2017 (**Chart 6**). The high degree of openness of the German economy, combined with its exposure to high-risk destinations at the beginning of the year (Turkey, United Kingdom, China, and to a lesser extent the United States), are all obstacles to the international sales of its companies. However, in both Germany (whose growth forecast for 2019 has been revised to 0.8%) and the rest of the eurozone, service sector activity in the services remains sustained.

Pro-cyclical sectors are impacted by the slowdown knock on effects: following the automotive sector, the chemical industry is now also facing difficulties

The decline in new orders in German industry is particularly marked in the automotive and chemical sectors. In the former, the difficulties highlighted in the previous barometer article² persisted at the beginning of the year. At the end of February 2019, year-on-year car sales in the United States and China fell by 2.6% and 5.9% respectively, while registrations in Europe fell by 1.9% over the same period.

Companies that supply inputs to the automotive sector are now experiencing the side effects of this trend shift, with those in the chemicals sector³ being particularly affected: the main customers of the petrochemical segment are the automotive (e.g. car parts such as bumpers) and construction sectors. The cost of petrochemical production inputs, such as ethane, depends on the evolution of oil prices (**Graph 2**). As a result, companies in the sector are suffering from growth of the latter since the beginning of the year (+ 29% between the end of March 2019 and the end of December 2018 in a context of high volatility) and their margins will likely decline in the coming quarters. In addition, changes in consumer preferences – which are becoming more oriented towards environmental considerations and therefore more restrictive in terms of plastic consumption – are structural risks for the sector in the long-term. These concerns are being reflected by governments, notably via stricter regulation of the sector in different countries. For example, the Chinese authorities are considering setting up a standard in the image of the European Union (EU) REACH⁴ directive, which aims to better protect human health and the environment against the risks associated with chemical substances, while promoting the competitiveness of the European Union's chemical industry. Faced with this tightening of regulations, companies are forced to increase their investment spending in order to meet the standards of the new, more demanding standards. In some cases, increased government control may lead to the closure of some chemical plants, as has been the case in Italy recently (see p.12). These risks have led to downgrades of our sector risk assessments in Western Europe and the United States (p. 11-12).

1 The Coface model uses as an explanatory variable for the growth of world trade the business confidence in the United States (ISM manufacturing index), the growth of Korean exports, the change in oil prices (Brent) and the change in the Baltic maritime transport cost index.

2 Deterioration in the risk assessment of the automotive sector in Western Europe and the United States in particular. Coface Economic Research Department, 2019. *Barometer Q4 2018 - Global economy: industry is stalling*. [Online] Available at: <https://www.coface.com/News-Publications/Publications/Country-and-sector-risks-barometer>

3 The sector is composed of two main sub-segments: petrochemicals and specialty chemicals. "Specialty chemicals" includes the production of products like artificial flavours or pesticides. In terms of business volume, this sub-segment is less important than petrochemicals, which includes most petroleum-based products, such as plastics.

4 https://ec.europa.eu/growth/sectors/chemicals/reach_fr

US Fed changes direction; several other central banks follow suit and capital returns to emerging markets

The less positive news on the activity side is partly offset by a change in the direction of monetary policies, through postponements of increases or reductions in key interest rates. The US Federal Reserve has somewhat started a trend by stressing that it no longer expects rate hikes this year in a context of downward revision of its growth forecast of the US economy (2.1% instead of 2.3% in 2019), with inflation remaining contained. The European Central Bank also admitted that there is a probability that it will leave its key policy rate unchanged for an extended period of time.

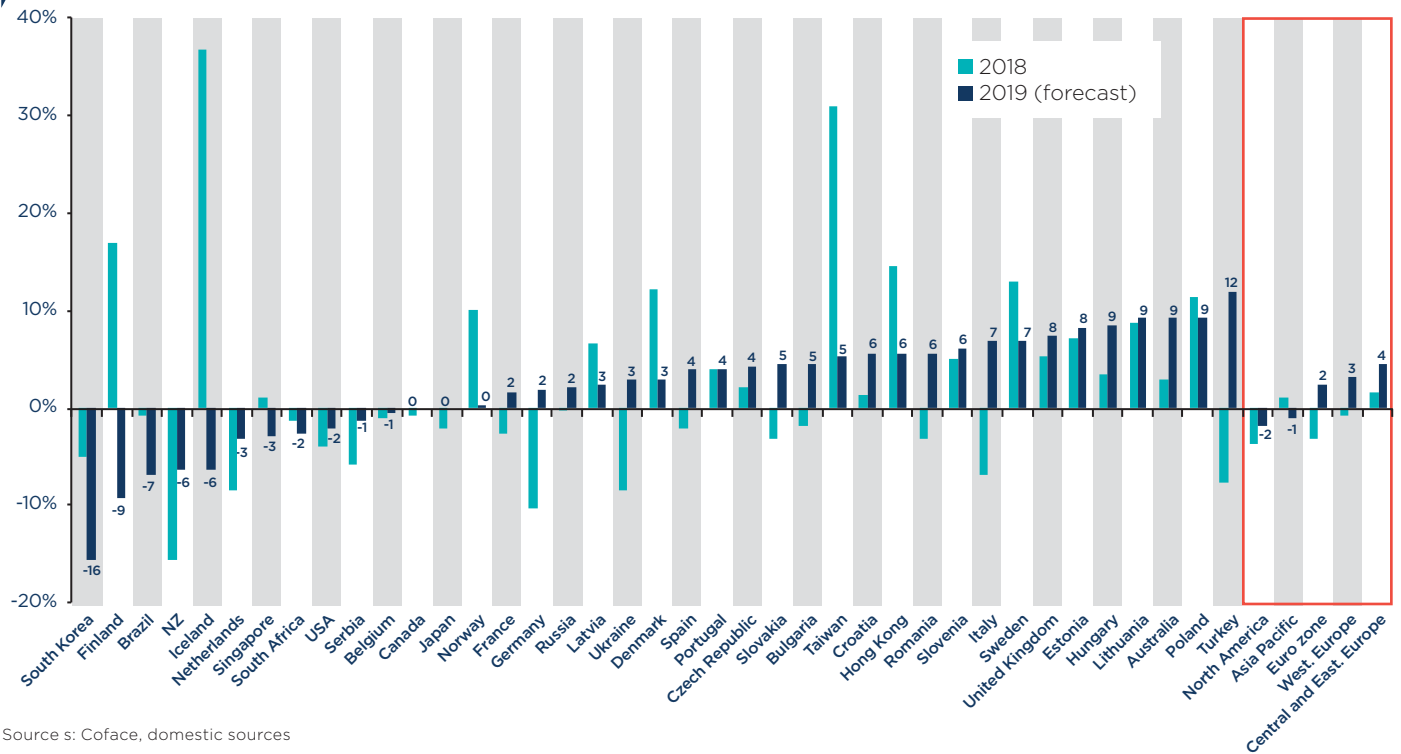
Several central banks have already followed the Fed's lead, particularly in countries whose economies are closely linked to the global industrial cycle. This is particularly the case in Asia. The Indonesian central bank explicitly cited its US counterpart as a justification for not raising interest rates in March. The Indian central bank reduced its key interest rate in early April, after the Bank of Thailand kept its key interest rate unchanged. Moreover, the consequences of this change in the United States will be even more visible in countries whose currencies have a fixed exchange rate with the US dollar (such as the Gulf Cooperation Council countries). In this environment of monetary easing, the few exceptions are to be found in economies with tight labour markets (Czechia, Hungary) or fragile financial stability: in Turkey, the central bank was forced to increase its key rate to limit downward pressure on the lira before municipal elections were held last month.

China is not one of these exceptions. The effects of the monetary policy easing have been increasingly visible since the beginning of the year: new loans granted by banks have increased sharply, while business confidence (measured by PMI indicators) returned to a level in line with an expansion in activity in March. This renewed confidence has also been facilitated by budget support measures: the central government's budget deficit is expected to reach 2.8% of GDP this year (after 2.6% in 2018). Most importantly, provincial bond issuance is expected to reach 2.2% of GDP this year (up from only 0.5% in 2018). As it is often the case, most of this fiscal stimulus will take the form of infrastructure investment plans. But the authorities are also planning to help SMEs through tax cuts (cuts in social security contributions and VAT rate reductions).

While these monetary and fiscal easing measures are increasing in the emerging world, growth in its economies as a whole is expected to remain stable this year (4.3%). At the same time, that of the advanced economies is expected to decline by half a percentage point (1.8% after 2.3%). The Fed's change in management combined with this relative growth gap is boosting capital flows to emerging markets. According to estimates by the Institute of International Finance, net monthly capital flows to emerging countries (which include foreign direct investment as well as portfolio and banking flows) were positive in February for the first time since May 2018. Exceptions include economies whose financial stability remains precarious after recent currency crises (Argentina, Turkey) or those whose current account deficits are deteriorating and elections are approaching (India⁵, South Africa).

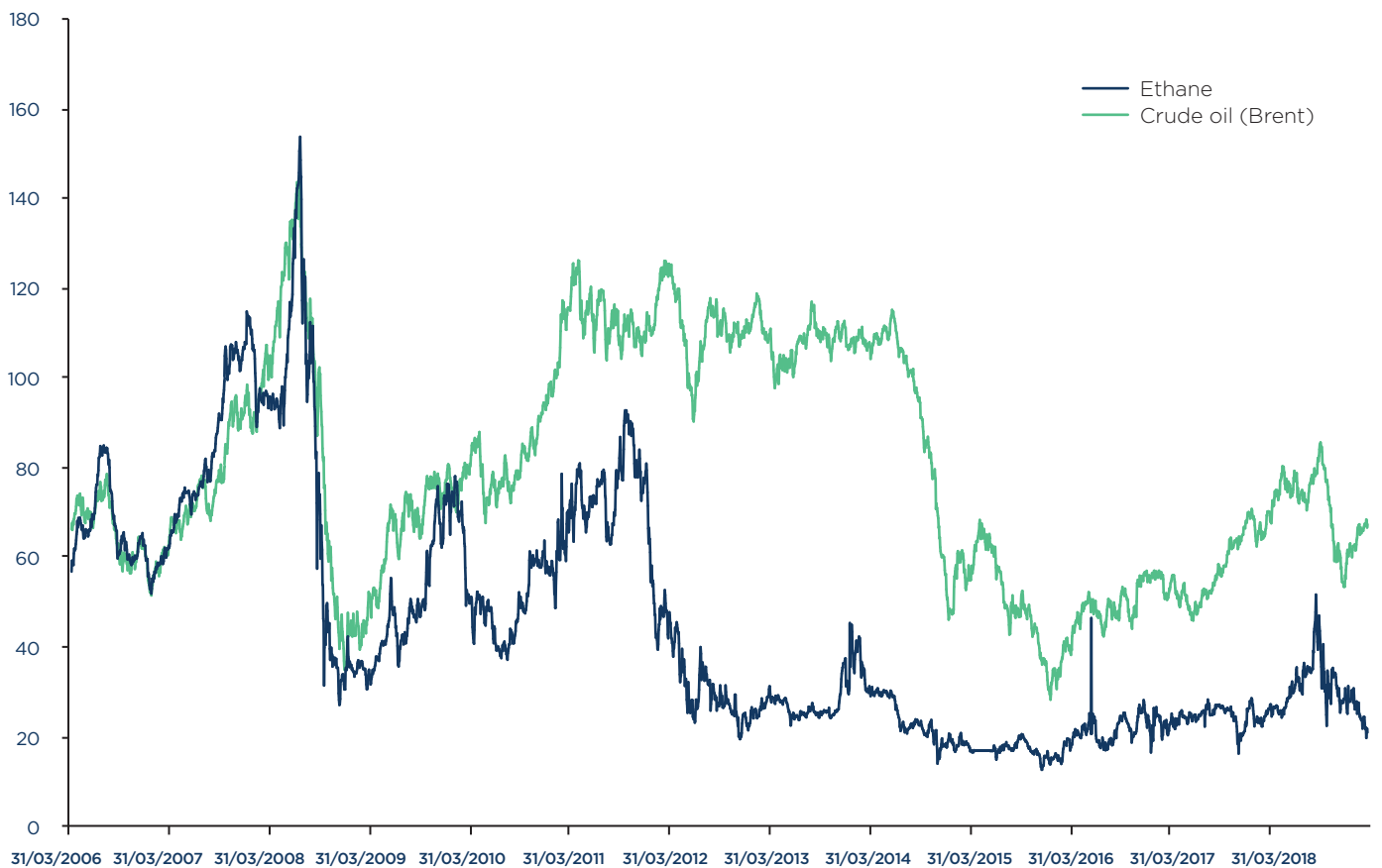
5 Casanova, C., April 2019. *Focus - Despite five years of "Modinomics", India continues to be constrained by economic fragilities*. Coface [Online] Available at: <https://www.coface.com/News-Publications/Publications/Despite-five-years-of-Modinomics-India-continues-to-be-constrained-by-economic-fragilities>

Chart 1:
Annual evolution of corporate insolvencies per country
(in %)



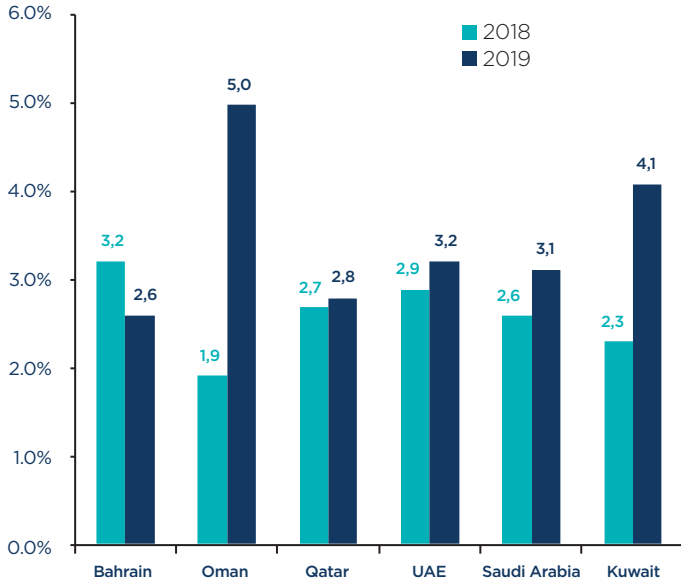
Source: Coface, domestic sources

Chart 2:
Price evolution of oil and ethane*
(in %)



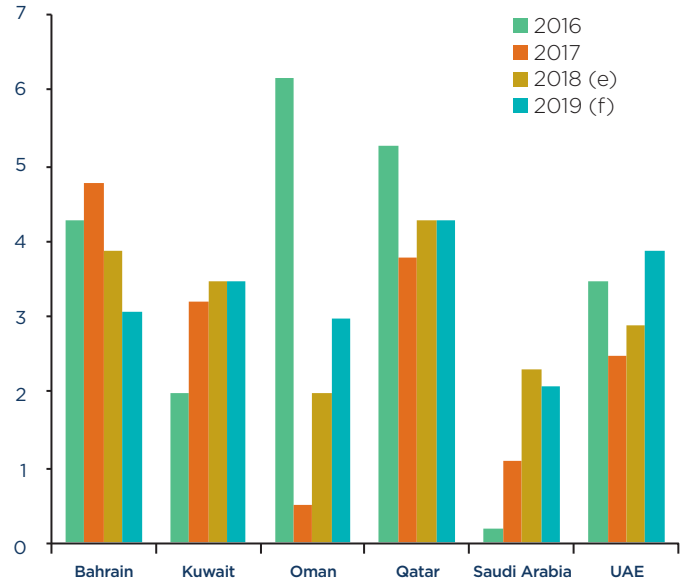
*Ethane is a hydrocarbon. It is a combustible gas that is colourless and odourless. It exists as a natural gas, and can also be produced from petroleum refining.
Source: Thomas Reuters Datastream

Chart 3:
Better economic growth perspectives
across the GCC*



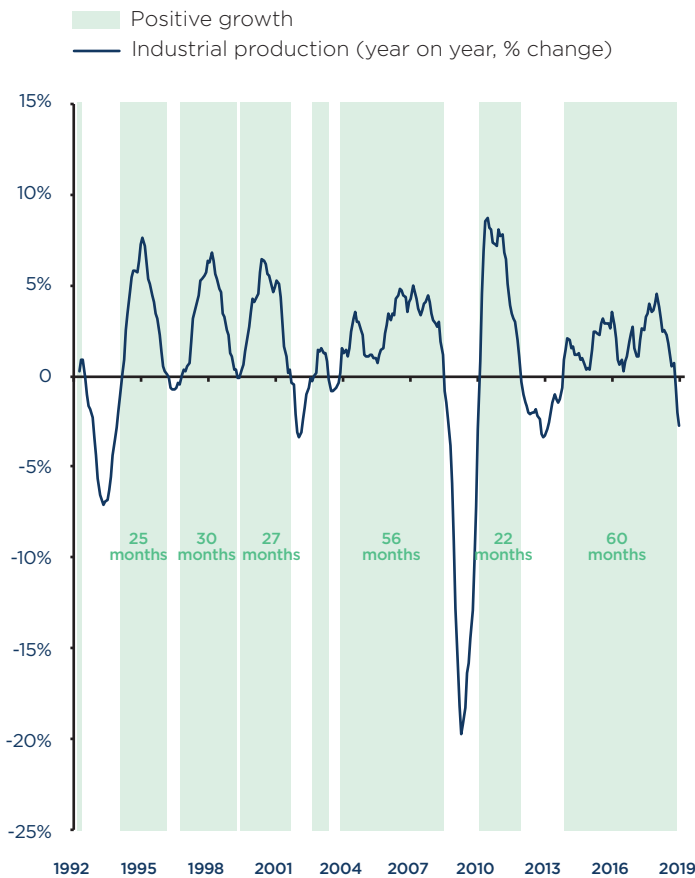
*Gulf Cooperation Council
Source: Coface

Chart 4:
Gradual strengthening of non-oil GDP
(% change)



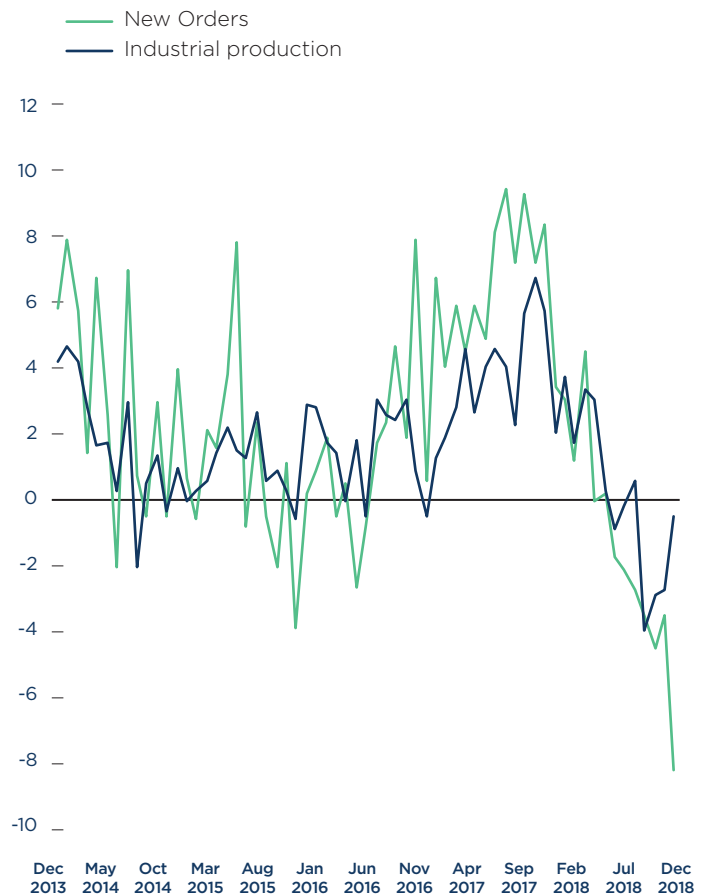
e : estimate f : forecast
Source: IMF

Chart 5:
Eurozone: Industrial Production



Sources: Eurostat, Coface

Chart 6:
Germany: Industrial production and new orders
(year on year % change)



Source : Destatis, Thomson Reuters Datastream

Country Risk Assessment Changes

COUNTRY		Previous Assessment		Current Assessment
SAUDI ARABIA		C		B

Saudi Arabia (Upgrade from C to B)

- State spending will increase by more than 7% this year to 1.106 trillion riyals (USD 295 billion). Higher government spending, thanks to relatively high energy prices (Coface forecasts oil prices at USD 65 per barrel on average in 2019 in the context of high oil market volatility) will support domestic demand. Saudi Arabia will continue paying its citizens the cost-of-living allowances it introduced early in 2018. These allowances are intended to stimulate growth.
- Oil output in 2018 was 3.5% higher than in 2017 (when it fell by 4.3% compared to 2016). Revenues from oil are expected to continue to help the economy recover from former sluggish growth rates.
- Credit and deposit growth remain weak, but both are expected to strengthen gradually due to higher government spending and greater non-oil economic growth performances.

BUSINESS DEFAULT RISK

A1

Very Low

A2

Low

A3

Satisfactory

A4

Reasonable

B

Fairly High

C

High

D

Very High

E

Extreme



Upgrade



Downgrade

Sector Risk Assessment Changes

REGIONAL SECTOR RISK ASSESSMENTS

	Asia	Central & Eastern Europe	Latin America	Middle East & Turkey	North America	Western Europe
Agri-food	Medium Risk	Medium Risk	High Risk	Medium Risk	High Risk	Medium Risk
Automotive	High Risk	Medium Risk	High Risk	High Risk	High Risk	Medium Risk
Chemical	Medium Risk	Medium Risk	High Risk	Medium Risk	Low Risk (Downgrade)	Medium Risk
Construction	Very High Risk	High Risk	High Risk	Very High Risk	High Risk	Medium Risk
Energy	High Risk	Medium Risk	High Risk	High Risk	Low Risk	Medium Risk
ICT*	High Risk	Medium Risk	Medium Risk	High Risk	Medium Risk	Medium Risk
Metals	High Risk	Medium Risk	High Risk	Very High Risk	Medium Risk	High Risk
Paper	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk	High Risk
Pharmaceuticals	Low Risk	Low Risk	Medium Risk	Medium Risk	Low Risk	Low Risk
Retail	Medium Risk	Medium Risk	Medium Risk	High Risk	High Risk	Medium Risk
Textile-Clothing	High Risk	Medium Risk	High Risk	High Risk	Very High Risk	High Risk
Transport	Medium Risk	High Risk	High Risk	Medium Risk	Low Risk	Medium Risk
Wood	High Risk	Medium Risk	Medium Risk (Downgrade)	Medium Risk (Upgrade)	Medium Risk	Medium Risk





* Information and Communication Technologies
Source: Coface

ASIA-PACIFIC

	Asia	China	India	Japan	South Korea
Agri-food	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Automotive	High Risk	High Risk	Medium Risk	Medium Risk	High Risk
Chemical	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Low Risk
Construction	Very High Risk	Very High Risk	High Risk	Medium Risk	Very High Risk
Energy	High Risk	High Risk	High Risk	High Risk	High Risk
ICT*	High Risk	High Risk	Very High Risk	Medium Risk	Medium Risk
Metals	High Risk	High Risk	High Risk	High Risk	High Risk
Paper	Medium Risk	Medium Risk	Medium Risk	High Risk	Medium Risk
Pharmaceuticals	Low Risk	Low Risk	Low Risk	Low Risk	Medium Risk
Retail	Medium Risk	Medium Risk	High Risk	Medium Risk	Medium Risk
Textile-Clothing	High Risk	High Risk	High Risk	High Risk	Medium Risk
Transport	Medium Risk	Medium Risk	Medium Risk	Medium Risk	High Risk
Wood	High Risk	High Risk	Medium Risk	Medium Risk	Medium Risk

* Information and Communication Technologies
Source: Coface

BUSINESS DEFAULT RISK

-  Low Risk
-  Medium Risk
-  High Risk
-  Very High Risk
-  Upgrade
-  Downgrade

CENTRAL & EASTERN EUROPE

	Central & Eastern Europe	Czechia	Poland	Romania
Agri-food	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Automotive	Medium Risk	Medium Risk	Medium Risk	Low Risk
Chemical	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Construction	High Risk	Medium Risk	High Risk	High Risk
Energy	Medium Risk	Medium Risk	Medium Risk	Medium Risk Downgrade
ICT*	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Metals	Medium Risk	High Risk	Medium Risk	High Risk
Paper	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Pharmaceuticals	Low Risk	Low Risk	Low Risk	Low Risk
Retail	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Textile-Clothing	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Transport	High Risk	Medium Risk	High Risk	Medium Risk
Wood	Medium Risk	Medium Risk	Medium Risk	Medium Risk

* Information and Communication Technologies
Source: Coface**ROMANIA****Energy**
 (Medium Risk to High Risk)

- At the end of 2018, the government implemented a tax of 2% on energy companies' turnover. The ordinance forces the biggest state-owned electricity companies to sell up to 65% of their production with regulated prices. Romania's energy production and electricity exports fell respectively by 1.6% and 16.3% on average in 2018, comparing to the previous year.
- As a consequence, many companies operating in energy manufacture and distribution of electrical and thermal energy, together with water & gas companies in the country, are experiencing financial difficulties.

BUSINESS
DEFAULT
RISK

	Low Risk
	Medium Risk
	High Risk
	Very High Risk
	Upgrade
	Downgrade



Decoding the
WORLD ECONOMY
1st quarter 2019

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A UNIQUE METHODOLOGY

- Macroeconomic expertise in assessing country risk
- Comprehension of the business environment
- Microeconomic data collected over 70 years of payment experience

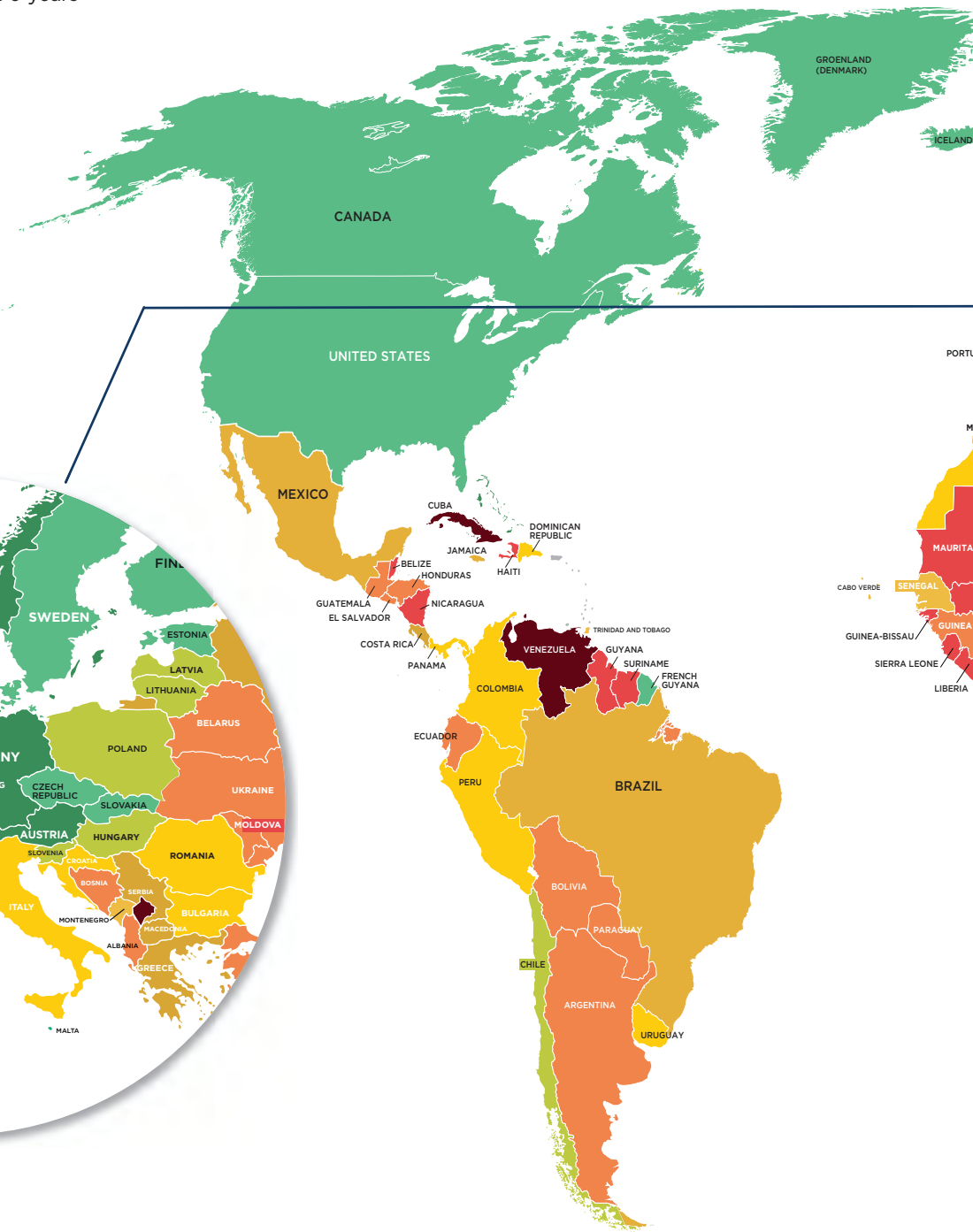
BUSINESS DEFAULTING RISK



UPGRADES



DOWNGRADES



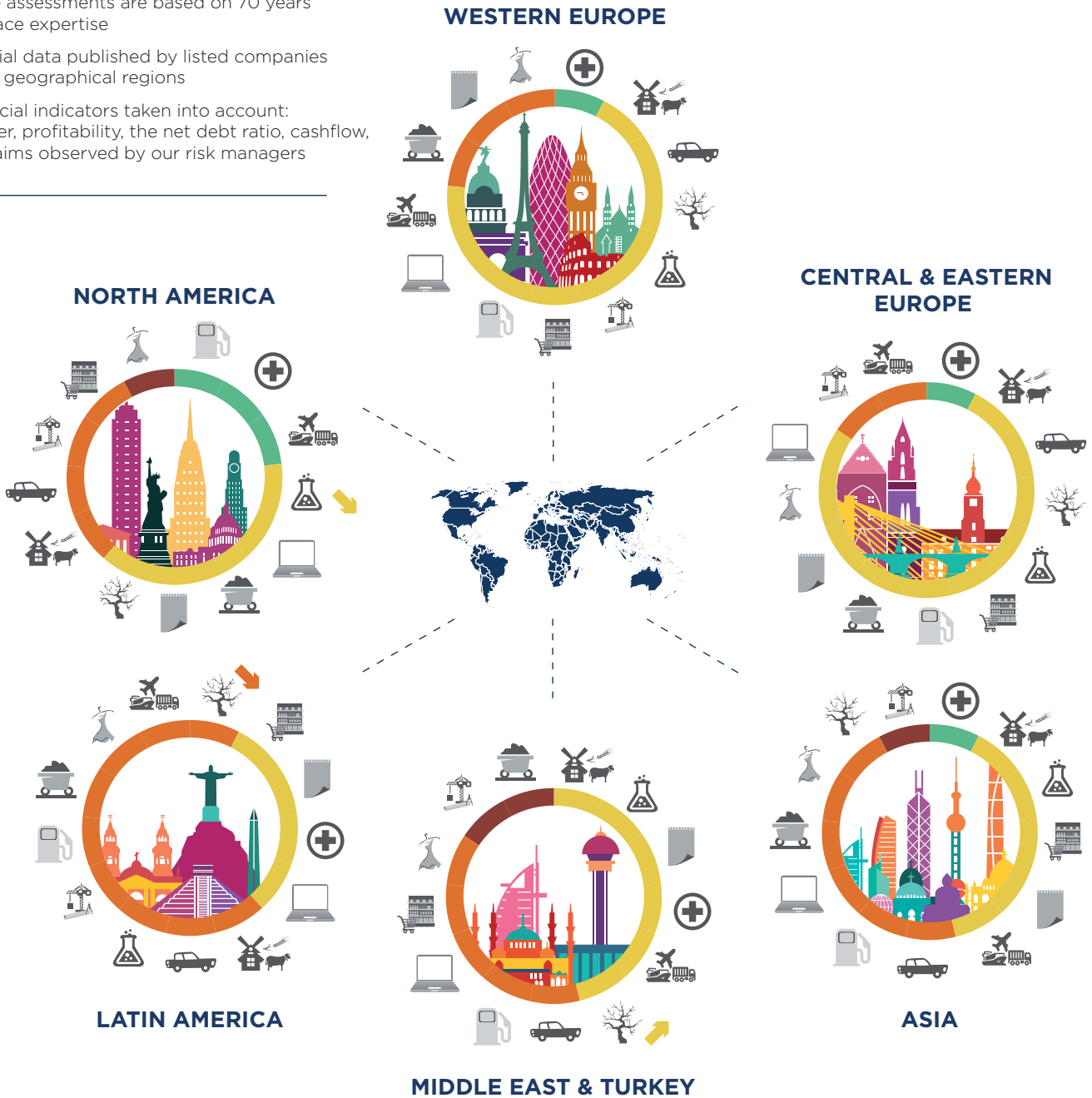
SECTOR RISK ASSESSMENTS

13 MAJOR SECTORS ASSESSED WORLDWIDE

Coface assessments are based on 70 years of Coface expertise

Financial data published by listed companies from 6 geographical regions

5 financial indicators taken into account: turnover, profitability, the net debt ratio, cashflow, and claims observed by our risk managers



agri-food	ICT*	textile-clothing
automotive	metals	transport
chemical	paper	wood
construction	pharmaceuticals	
energy	retail	

Upgrade

Downgrade



* ICT, Information and Communication Technologies

LATIN AMERICA

	Latin America	Argentina	Brazil	Chile	Mexico
Agri-food	High Risk	High Risk	High Risk	High Risk	High Risk
Automotive	High Risk	Very High Risk	Medium Risk	Low Risk	High Risk
Chemical	High Risk	High Risk	High Risk	High Risk	High Risk
Construction	High Risk	High Risk	High Risk	High Risk	Very High Risk
Energy	Medium Risk	Medium Risk	Medium Risk	Low Risk	Very High Risk
ICT*	Medium Risk	Very High Risk	Medium Risk	Medium Risk	Medium Risk
Metals	High Risk	Medium Risk	High Risk	Medium Risk	High Risk
Paper	Medium Risk	High Risk	Medium Risk	Medium Risk	Medium Risk
Pharmaceuticals	Medium Risk	Medium Risk	Medium Risk	Low Risk	Low Risk
Retail	Medium Risk	Very High Risk	Medium Risk	Low Risk → Medium Risk	Medium Risk
Textile-Clothing	High Risk	Very High Risk	High Risk	Medium Risk	High Risk
Transport	High Risk	High Risk	High Risk	Medium Risk	Medium Risk
Wood	Medium Risk → High Risk	Medium Risk → High Risk	High Risk	Medium Risk	Medium Risk

* Information and Communication Technologies
Source: Coface

ARGENTINA

Wood ↘

(Medium Risk to High Risk)

- According to national statistical institute Indec, wood and products made of wood and cork output, (except furniture) dropped by 1.3% YOY in the full-year 2018 and by 0.5% YOY in January 2019. Moreover, furniture and related products production shrunk by 12.6% YOY in the full 2018 year and by 14.5% YOY in January 2019. Declining sales in the domestic market, which is regarded as the main negative factor, followed by soaring costs, including, linked to tariffs for services and sky high interest rates. This has dented profitability in the sector, which is now almost at zero. Moreover, in this context, a sharp decline in the sector companies' margins is expected in the medium term.
- According to Argentine timber industry federation (FAIMA), a total of 78.3% of companies in the forestry sector stated that their production dipped during 2018, with 85% highlighting a downturn in sales. 42% of businesses surveyed consider that the situation of this sector will worsen in 2019, impacting employment. 35% of firms have reduced staff levels.

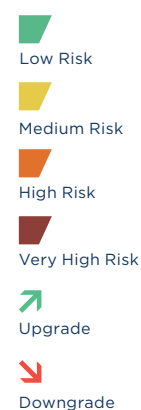
CHILE

Retail ↘

(Low Risk to Medium Risk)

- Retail sales have decelerated in recent months. In 2018, the sector increased by 2.1% YOY, down from 3.1% in 2017. It has also observed a weak start of year (+0.4% YOY in January 2019).
- While inflation and interest rates remain at low level, some tightening of the monetary cycle is expected (from 2.5% until July 2018 to 3.25% in December 2019).
- Consumer confidence index did not rebound last February and stands at 46.3, for a total of 7 months in pessimistic terrain. Alongside, economic activity overall is expected to somewhat decelerate this year.

BUSINESS DEFAULT RISK



MIDDLE EAST & TURKEY


	M. East & Turkey	Israel	Saudi Arabia	Turkey	UAE
Agri-food	Medium Risk	Medium Risk	Medium Risk	High Risk	Medium Risk
Automotive	High Risk	Low Risk	High Risk	High Risk	High Risk to Medium Risk (Upgrade)
Chemical	Medium Risk	Low Risk	Medium Risk	High Risk	Medium Risk
Construction	Very High Risk	High Risk	Very High Risk	Very High Risk	High Risk
Energy	High Risk	Medium Risk	Medium Risk	Very High Risk	Medium Risk
ICT*	High Risk	Medium Risk	High Risk	Very High Risk	High Risk
Metals	Very High Risk	Medium Risk	Very High Risk	Very High Risk	High Risk
Paper	Medium Risk	Medium Risk	Medium Risk	High Risk	Medium Risk
Pharmaceuticals	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Retail	High Risk	High Risk	High Risk	Very High Risk	High Risk to Medium Risk (Upgrade)
Textile-Clothing	High Risk	High Risk	High Risk to Medium Risk (Upgrade)	High Risk	High Risk to Medium Risk (Upgrade)
Transport	Medium Risk	Medium Risk	Medium Risk	Medium Risk	Medium Risk
Wood	High Risk to Medium Risk (Upgrade)	Medium Risk	High Risk to Medium Risk (Upgrade)	High Risk	Medium Risk

* Information and Communication Technologies
Source: Coface

BUSINESS
DEFAULT
RISK

-  Low Risk
-  Medium Risk
-  High Risk
-  Very High Risk
-  Upgrade
-  Downgrade

SAUDI ARABIA

Textile-Clothing 
(High Risk to Medium Risk)

- There are very few domestic manufacturers. A greater economic growth dynamic in the country, combined with increased government financial support to civil servants, notably permitted by greater oil prices; are factors that will contribute to support the Textile - Clothing sector in the medium term.

Wood 
(High Risk to Medium Risk)

- The furniture segment will benefit from increasing budgetary expenses and growing investments into the development of infrastructure and real estate.
- Increasing international investments across the hospitality, education, and healthcare sectors should support the wood sector.

UNITED ARAB EMIRATES

Automotive 
(High Risk to Medium Risk)

- As of the second half of 2018, the market has started recovering and is expected to enjoy increased sales in the coming years considering the massive projects influence of Expo 2020 on the industry.
- Activity in the construction sector ahead of Expo 2020, together with other large infrastructure projects will support the commercial vehicles segment. After falling for three consecutive years, the passenger vehicle sales should improve this year.
- Improved market confidence, with the economic growth forecasts expected at 3,2% this year and preparations for Expo 2020 Dubai, are strong drivers of demand.

Retail 
(High Risk to Medium Risk)

- The retail sector will continue to witness increased sales in 2019, driven by a stronger growth, increasing investments, slower monetary tightening (Fed's impact), and tourism flows.

Textile-Clothing 
(High Risk to Medium Risk)

- Gradual strengthening of the growth performance, rising purchasing power, growing population comprising a large proportion of expatriates, changing consumer patterns and increasing penetration of international retail players support the textile sector in the UAE.

NORTH AMERICA

	North America	Canada	United States
Agri-food			
Automotive			
Chemical			
Construction			
Energy			
ICT*			
Metals			
Paper			
Pharmaceuticals			
Retail			
Textile-Clothing			
Transport			
Wood			

* Information and Communication Technologies
Source: Coface

UNITED STATES

Chemical

(Low Risk to Medium Risk)

- Chemicals production is slowing down: +3.8% YOY in the three months to January after 5.8% in Q3.
- The sector has to be monitored as automotive and construction sectors are less buoyant and oil prices are expected to remain relatively high in 2019 (Coface forecasts oil price on average at USD 65 per barrel in 2019).

**BUSINESS
DEFAULT
RISK**



WESTERN EUROPE

	Western Europe	Austria	France	Germany	Italy	Netherlands (the)	Spain	Switzerland	United Kingdom
Agri-food	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	High Risk
Automotive	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	High Risk
Chemical	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	High Risk
Construction	Low Risk	Low Risk	Low Risk	Low Risk	High Risk	Low Risk	Low Risk	High Risk	Very High Risk
Energy	Low Risk	Low Risk	Low Risk	Low Risk	High Risk	Low Risk	High Risk	Low Risk	High Risk
ICT*	Low Risk	Low Risk	Low Risk	Low Risk	High Risk	Low Risk	Low Risk	Low Risk	Low Risk
Metals	High Risk	Low Risk	High Risk	Low Risk	High Risk	Low Risk	Low Risk	High Risk	Very High Risk
Paper	High Risk	Low Risk	High Risk	High Risk	High Risk	High Risk	Low Risk	High Risk	High Risk
Pharmaceuticals	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk
Retail	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	High Risk
Textile-Clothing	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk	Low Risk	Low Risk	High Risk
Transport	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk	Low Risk
Wood	Low Risk	Low Risk	Low Risk	Low Risk	High Risk	Low Risk	Low Risk	Low Risk	High Risk

* Information and Communication Technologies
Source: Coface

BUSINESS DEFAULT RISK

-  Low Risk
-  Medium Risk
-  High Risk
-  Very High Risk
-  Upgrade
-  Downgrade

FRANCE

Chemical 
(Medium Risk to High Risk)

- After registering a positive trend between 2012 and 2017, chemicals production is now falling sharply: -5% YOY in Q4 2018 (after -3.9% in Q3 2018).
- The chemicals sector is heavily affected by the deceleration in automotive sector.
- On the demand side, cosmetics store retail sales are stagnating (unchanged in the three months to November after +0.5% YOY in Q3). As a consequence, corporate insolvencies rose in the three months to January 2019 (+4% YOY), even though we are talking about insignificant numbers (less than 200/year), so the insolvencies trend is volatile.

Retail 
(Low Risk to Medium Risk)

- In line with household consumption (affected by lower consumer confidence), retail sales continue to decelerate (+2.1% YOY in the three months to November after +2.4% in Q3 and +3.3% in Q2). The sector has to be monitored as all the subdivisions registered a slight deceleration in the same period as the aforementioned one (three months to Q3): e-commerce sales (+3% YOY after 3.5% in Q3), and non-specialised store (+3.5% YOY after +3.9% in Q3). Also affected by the yellow vest movement, non-specialised retail stores insolvencies rebounded (+2.3% YOY in the three months to January 2019 and +6% YOY for the sole month of January).

GERMANY

Chemical 
(Low Risk to Medium Risk)

- Softening economic conditions are likely to put output prices under pressure due to slower demand. Many big German conglomerates

are anticipating lower volume sales in 2019, notably shipments directed toward carmakers. Domestic economic growth is expected to strongly decelerate in 2019, causing demand to be curtailed.

- The new orders index for German chemical products reached 102 points at end December 2018 against 111 a year earlier, a clear indication that softening economic conditions are challenging the chemical producers' business model.

ITALY

Chemical 
(Medium Risk to High Risk)

- The Italian chemical industry is facing slower growth due to weakening economic momentum and unfavourable prospects on its export markets. Political uncertainty is also affecting the sector, prompting customers to be more cautious when purchasing raw chemical materials.
- The government is increasingly concerned about illegal pollution emissions from the chemical industry. In this light, Versalis (Europe's leading producer of elastomers) has received seizure notifications from the Italian authorities for one of its sites (the Priolo complex).

Agri-food 
(Medium Risk to High Risk)

- Agri-food sales are expected to decline due to political uncertainty, a tight labour market, and low wage growth, as well as a decline in economic activity, which will weigh on household consumption. This will affect companies whose production is oriented towards the domestic market.
- External demand for agri-food products (wine, cheese), mainly from other EU countries (France, the United Kingdom, and Germany in particular), will be penalised by the global economic slowdown.

**NETHERLANDS (THE)****Chemical** ↘**(Low Risk to Medium Risk)**

- Despite the fact that the Dutch chemical sector's profitability increased to around 15% at end 2018, benefitting from lower input prices and resilient demand, the lackluster economic growth both domestically and within its main EU economic partners will likely lower demand.

Automotive ↘**(Low Risk to Medium Risk)**

- Passenger car registrations in The Netherlands dropped by 19% YOY in January 2019 in line with other European markets.
- Although the country is a potential new home for some premium carmarkets (such as BMW MINI) due to the looming threat of Brexit, its good location and its access to the wide European car markets are not enough to compensate for the small size of the Dutch automotive sector remains compared to its French or German counterparts.

SPAIN**Retail** ↘**(Low Risk to Medium Risk)**

- The three-month moving average of consumer confidence declined for the eighth consecutive month in January 2019 and reached -6.33 (compared with -2.6 a year earlier) - its lowest level in 28 months. The higher wages driven by the increase of the minimum wage and of public

sector pensions are therefore likely to only moderately impact household consumption, as households will prefer to save this gain in disposable income. Household consumption is consequently expected to decline.

UNITED KINGDOM**Chemical** ↘**(Medium Risk to High Risk)**

- Despite the acceleration of chemical product output in the fourth quarter of 2018 (+3% YOY after +0.4% in Q3), production slowed down markedly in 2018 as a whole (+0.4% after +2.7% in 2017), suffering from the slowdown of the automotive and construction sectors in both the UK and its main export markets (United States, Germany, and France).
- The outlook is heavily dependent on the outcome of Brexit negotiations. Britain's chemicals industry, which makes up about 7% of the manufacturing sector, exports two-thirds of its production (the highest proportion of any goods manufacturing sector in the UK economy). 60% of those exports go to the EU (Germany 12%, France 8%, Belgium 8%, Netherlands 8%, and Ireland 7%), and 75% of sector imports and raw materials come from the European Union.
- More than 50 chemicals companies, which have operations in the UK, have applied to use European Union regulators for critical authorisations to protect their ability to do business legally.

OTHER COUNTRIES

	Russia	South Africa
Agri-food		
Automotive		
Chemical		
Construction		
Energy		
ICT*		
Metals		
Paper		
Pharmaceuticals		
Retail		
Textile-Clothing		
Transport		
Wood		

* Information and Communication Technologies
Source: Coface

SOUTH AFRICA

Agri-food
(Medium Risk to High Risk)

- Drier conditions are likely to hit South Africa; the El Nino phenomenon is likely to translate into warmer-than average temperatures and lower rainfall, adding to lingering dry conditions in the Western Cape province. The first release of production forecasts for the 2019 summer harvest predicts a 16.8% decline in output for commercial summer crops.
- The Agbiz/IDC Confidence Index - one of the main gauges of confidence in the sector - fell to its lowest level since Q4 2009 (42), with respondents citing drier weather conditions as a key challenge.
- Confidence in the sector is affected by a land reform, which could allow for expropriation, pledged by President Cyril Ramaphosa in the run-up to the upcoming May general elections.
- Livestock in the Limpopo province has been hit by an outbreak of foot-and-mouth disease (FMD). As a consequence, South Africa lost its FMD-free status, resulting in neighbouring countries banning imports of meat from South Africa.

BUSINESS
DEFAULT
RISK

- Low Risk
- Medium Risk
- High Risk
- Very High Risk
- Upgrade
- Downgrade

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