



# market monitor

Focus on consumer durables/non-food  
retail performance and outlook



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On the following pages we indicate the general outlook for each sector featured using these symbols:



Excellent



Good



Fair



Poor



Bleak



# Increasing sales not followed by rising profits

In 2016, most consumer durables retail markets are expected to expand further, with global retail sales increasing 2.7%, according to the Economist Intelligence Unit. By region, Asia will again show the highest year-on-year growth in sales volumes, driven by robust demand in China and India, but also in large middle-sized markets like Indonesia and Vietnam. In North America the outlook for US retail business remains positive, while the situation of Canadian retailers is more stressful. Europe's retail performance is diverse, with markets like Germany performing well, and others like Italy and Spain, where retail sales have not yet returned to pre-crisis levels, underperforming.

In most markets, worldwide, margins of consumer durables retailers remain tight, as, despite the general rebound, most consumers remain price-sensitive. This is still a legacy of the past recession, but also a consequence of the rising challenge online retailers pose to the traditional high street: price transparency made available to consumers by online retailers maintains pressure on margins along the whole value chain.

As in 2015, the success and resilience of consumer durables retailers increasingly depend on their ability to adopt new strategies, e.g. building up and expanding their online business and/or offering additional services. Brick-and-mortar retailers will also tend to generate more footfall through longer sales seasons. It remains to be seen how, especially smaller players, with their often weaker financials, can cope with the on-going challenges in the highly competitive consumer durables retail market.

# Germany

- Robust domestic demand expected to continue in 2016
- Smaller players struggle to cope with market leaders and e-commerce
- No negative trends in payment delays and insolvencies



## Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✓		
Development of non-payments over the coming 6 months			✓		
Trend in insolvencies over the last 6 months			✓		
Development of insolvencies over the coming 6 months			✓		
Financing conditions	very high	high	average	low	very low
Dependence on bank finance			✓		
Overall indebtedness of the sector			✓		
Willingness of banks to provide credit to this sector			✓		
Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months			✓		
General demand situation (sales)		✓			

Source: Atradius

According to the German Statistics Office, non-food retail turnover increased 3.0% year-on-year in 2015, and further growth is expected in 2016. German consumer durables retail benefits from the country's robust economic performance, with household consumption expected to grow 2.2% in 2016 following the 1.9% growth registered in 2015.

According to the research institute GfK, in 2015 sales of large electric domestic appliances increased 4.4%, to EUR 8.7 billion, while sales of small electric domestic appliances rose 9.9%, to EUR 4.2 billion. GfK expects sales growth of those items to continue in 2016, due to low inflation and decreased fuel prices as well as a robust job market.

For the furniture segment, the German association of furniture industries BVDM recorded a turnover increase above 4% in 2015,

reaching EUR 32.6 billion. In 2016 it is expected that sales will again amount to more than EUR 32 billion. However, textiles sales just levelled off in 2015 compared to 2014.

In all German consumer durables retail segments a concentration process is on-going, with a few large retail chains generating the majority of sales. Therefore, smaller and mid-sized retailers are still struggling to cope with the fast growing market leaders. At the same time, they are facing additional pressure from online retailers. The best way for smaller retailers to survive in this very competitive market is to join a large purchasing association.

In general, payment terms in the consumer durables retail segment still range from 30 days to 60 days, however they can extend to more than 120 days depending on the market power of individual retailers.

### Germany: Retail trade (excl. automotive)

	2015	2016f	2017f
GDP growth (%)	1.7	1.8	1.6
Sector value added growth (%)	3.1	1.9	1.7
Sector share in the national economy (%)			3.9
Average sector growth over the past 3 years (%)			1.6
Average sector growth over the past 5 years (%)			1.4
Degree of export orientation			very low
Degree of competition			high

Sources: IHS, Atradius

Payment behaviour in the German consumer durables sector has so far remained both good and stable, and we expect no major changes, as the general outlook for all subsectors is positive. The sector's insolvency level is low, and no increase is expected in 2016.

We still see consumer durables retail as a medium-risk sector. Despite persisting sales growth, we monitor more closely the performance of smaller players, who are generally more exposed to risks due to larger players dominating the market. We are also more cautious on segments dependent on weather conditions, such as clothing and leisure articles retail. We closely observe the growing competition between online and brick-and-mortar retailers. Price transparency, made available to consumers by online retailers, maintains pressure on margins along the whole value chain.

In segments with a steadily increasing share of e-commerce, (consumer electronics, electrical domestic appliances, clothing) we try to obtain interim accounts in order to continuously check if buyers are able to keep sufficient margins.

When businesses cannot pass on increased costs to customers/ consumers or compensate for this with savings elsewhere, they might demand extended payment terms. We monitor payment behaviour closely in all subsectors and inform our customers immediately of any deterioration.

We do not cover newly established firms during their first year of business unless they are members of a well-known group or have branched out from an established company.

### German consumer durables retail sector



Strengths

Many long-established, financially strong family businesses

Experienced and reliable management



Weaknesses

Strong competition for brick-and-mortar from e-commerce

Highly dependent on consumer sentiment

Source: Atradius

# The Netherlands

- Higher growth in 2015, but unevenly distributed
- Continued pressure on sales prices
- Level of non-payments remains high



## Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✓		
Development of non-payments over the coming 6 months			✓		
Trend in insolvencies over the last 6 months				✓	
Development of insolvencies over the coming 6 months			✓		
Financing conditions	very high	high	average	low	very low
Dependence on bank finance		✓			
Overall indebtedness of the sector		✓			
Willingness of banks to provide credit to this sector				✓	
Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months				✓	
General demand situation (sales)			✓		

Source: Atradius

According to the Dutch Statistics Office CBS, non-food retail increased 2% in 2015. However, sales prices decreased 0.7%, and sales levels were still 16% lower than at the onset of the 2008 economic crisis.

Growth was unevenly distributed among subsectors. According to CBS, home furnishing shops recorded a turnover increase of almost 7%, driven by a rebound in the Dutch housing market. Clothing retail increased 2%, but was affected by decreasing prices. Businesses selling household articles, consumer electronics and DIY items recorded turnover decreases (by 5%, 3% and 2% respectively).

The growth outlook for 2016 remains positive, with Dutch private consumption expected to increase 1.7%. The furniture and DIY segments are expected to benefit from a continued rebound of the Dutch housing market.

However, the business environment is expected to remain challenging. Dutch consumers remain very price sensitive, and the growing market power of larger players has led to fierce price competition. In all retail segments competition and subsequent pressure on prices will remain high, and the deterioration of profit margins of many businesses will continue.

At the same time, many retailers are highly geared and dependent on bank loans, but access to bank credit remains limited for many companies. Lack of finance was a major reason for the insolvencies of some larger non-food retail businesses end of 2015/beginning of 2016, especially in the consumer electronics and textile/shoes segments.

The difficulties for many Dutch brick-and-mortar retailers are exacerbated by the rapid increase in online shopping, both in the number of sales and sales volumes per customer. In 2015, B2C

**The Netherlands: Retail trade (excl. automotive)**

	2015	2016f	2017f
GDP growth (%)	2.0	1.7	1.8
Sector value added growth (%)	1.0	1.5	1.8
Sector share in the national economy (%)	3.0		
Average sector growth over the past 3 years (%)	-2.1		
Average sector growth over the past 5 years (%)	-1.7		
Degree of export orientation	very low		
Degree of competition	very high		

Sources: IHS, Atradius

internet sales increased 20%. Already in 2014, 10.6 million Dutch people – out of a population of approximately 17 million – already shopped online, and some large online retailers already have started to offer the whole range of consumer durables goods as a one-stop shop.

Another issue, which is forecast to shape future customer needs and shopping behaviour, is changing demographics, i.e. the growing population which is aging (in 2025 the share of people aged 65 or older is expected to be more than 20%). At the same time, there is a population shift towards the growth areas of Amsterdam and Rotterdam. Consumers increasingly demand longer opening hours in order to shop whenever it suits them. It cannot be excluded that businesses unwilling or unable to adapt to changing shopping behaviour patterns will sooner or later cease to exist. This trend could mainly affect smaller retailers, which often lack the required financial strength to make the necessary investments.

Our underwriting stance remains cautious, given the above mentioned current and future challenges for the sector. It is expected that the levels of non-payments and insolvencies both remain high in 2016, and further increases of business failures cannot be ruled out.

Close attention is paid to businesses' turnover and margin development as well as their ability to sell online. Given the persistent threat of overcapacity, especially in the brick-and-mortar businesses segment, non-food retailers' resilience and ability to survive increasingly depends on successfully combining offline (shopping floor) and online sales channels. Retailers' location and opening hours are also taken into consideration when underwriting the business.

**Dutch consumer durables retail sector**

Strengths

**Improving consumer confidence and increased household spending in 2016**



Weaknesses

**Pressure on margins remains**

**Highly competitive business environment**

**Limited access to loans, especially for smaller players**

Source: Atradius

# United Kingdom

- Consumption growth continues in 2016
- Margins remain tight
- Payments take 60 days on average



## Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✓		
Development of non-payments over the coming 6 months			✓		
Trend in insolvencies over the last 6 months			✓		
Development of insolvencies over the coming 6 months			✓		
Financing conditions	very high	high	average	low	very low
Dependence on bank finance		✓			
Overall indebtedness of the sector			✓		
Willingness of banks to provide credit to this sector		✓			
Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months			✓		
General demand situation (sales)			✓		

Source: Atradius

In 2015 the British non-food retail sector continued to grow, driven by a robust private consumption increase of more than 3%. According to the British statistics office ONS, the quantity bought in this segment rose 4.5% and the amount spent increased 2.6%, while average store prices decreased 1.8%.

The sales outlook remains benign, with household consumption expected to increase 3% in 2016. However, further decreasing sales prices could partly offset this trend.

The retail sector experienced extremely difficult business conditions during the last economic downturn, with a sharp increase in insolvencies. Many companies could not cope with the adverse business environment, often due to an unprofitable store portfolio that retailers were unable to downsize.

Margin pressure could increase in 2016 due to the introduction of the living wage, which will increase to GBP 7.20 an hour in April 2016 and to GBP 9 by 2020.

On average, payments in the consumer durables retail industry take 60 days, and we do not expect any significant increase in payment delays in the foreseeable future. The consumer durables retail sector's default/insolvency rate is average compared to other British industries, and we do not expect a major increase. However, the fact that the British retail market remains extremely competitive, coupled with changing shopping behaviour (i.e. increasing price sensitivity and a growing share of online retail sales) indicates that insolvencies will continue to occur.

We maintain a neutral approach to underwriting in this area.

**United Kingdom: Retail trade (excl. automotive)**

	2015	2016f	2017f
GDP growth (%)	2.2	2.2	2.2
Sector value added growth (%)	2.4	1.9	2.2

Sector share in the national economy (%)	5.5
Average sector growth over the past 3 years (%)	2.0
Average sector growth over the past 5 years (%)	1.0
Degree of export orientation	low
Degree of competition	high

Sources: IHS, Atradius

Retailers are aware of credit insurance and are therefore usually willing to share confidential financial information. This enables us to make the best informed decision.

Seasonality is a major factor in the British retail sector, particularly around the Christmas period. We therefore actively encourage our customers to consider seasonal peak requirements well in advance, so that we can ensure that we are able to satisfy their demand.

**British consumer durables retail sector**

Buoyant demand and consumer confidence

Well invested multi-channel proposition

Positive economic outlook



Saturated market in parts

Changing profile from physical store to online

Vulnerable to sudden market shocks

Source: Atradius

# United States

- Increasing sales expected in the coming years
- Insolvencies are forecast to level off
- More troubles for the electronics and toys segments



## Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months				✓	
Development of non-payments over the coming 6 months			✓		
Trend in insolvencies over the last 6 months			✓		
Development of insolvencies over the coming 6 months			✓		
Financing conditions	very high	high	average	low	very low
Dependence on bank finance			✓		
Overall indebtedness of the sector			✓		
Willingness of banks to provide credit to this sector		✓			
Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months		✓			
General demand situation (sales)		✓			

Source: Atradius

The retail sector is a major contributor to the US economy, accounting for about two-thirds of GDP and employing nearly 16 million people. Five out of the 10 largest retail companies in the world are from the US. Annual retail sales increased 4.5% between 1993 and 2015.

The general outlook for the US consumer durables retail segment remains positive, driven by robust private consumption, forecast to grow about 3% in 2016 and 2017, while inflation is expected to remain low. It is expected that pent-up demand will increase due to improving consumer confidence, relatively low household debt, and falling unemployment.

Consumer durables retailers' aggregate operating profits are expected to increase 5.0%-6.5% over the next 12 months, while revenues are expected to grow 5%-5.5%. In the home-product

subsector, appliances and furnishings revenues are expected to grow 5%-7% over the next 12 months, while operating profit is forecast to increase 7%-8%.

The consumer products and retail industry continue to consolidate within each segment of the value chain. Merger and acquisition activity will remain robust as companies seek to turn their stable margins and stronger balance sheets into enhanced product portfolios and greater geographic diversity.

Especially electronics and toys retailers continue to face steep competition. In both segments competitive dynamics are fierce between online and brick-and-mortar retailers. Online sales are expected to remain the fastest growing segment of the retail industry and shift the retail landscape. Cyber Monday is expected to increasingly drive holiday sales instead of Black Friday.

### USA: Retail trade (excl. automotive)

	2015	2016f	2017f
GDP growth (%)	2.4	2.2	2.4
Sector value added growth (%)	3.0	3.1	0.0
Sector share in the national economy (%)	4.7		
Average sector growth over the past 3 years (%)	2.2		
Average sector growth over the past 5 years (%)	1.5		
Degree of export orientation	low		
Degree of competition	high		

Sources: IHS, Atradius

Despite the generally good outlook for consumer durables retail, there is always the risk that sales prices may suffer if demand unexpectedly slows and competition intensifies. While high earners continue to spend, thanks to gains in the housing and equity markets, many middle-income consumers still remain more cautious.

Payments take 90 days on average, and we noticed increasing non-payments in the last couple of months. However, we do not expect non-payments to increase further in the coming months. Insolvencies are expected to level off in 2016.

Our outlook for the overall consumer durables sector should be viewed as mildly conservative. Despite the general upswing, the consumer durables retail sector continues to be characterised by increased competition and continued price and margin pressure. Therefore, businesses within the industry should be carefully evaluated and liquidity should be closely observed.

Specific subsectors are viewed more positively than others: while solid home sales should support demand for furniture and other home goods, we are more cautious on segments like electronics and toys with strong competition.

### US consumer durables retail sector



Strengths

Increasing private consumption and decreasing unemployment

Home products companies will benefit from the improving housing market

Mergers and acquisitions will continue to increase revenue and earnings



Weaknesses

Late payments in the sector

Middle-income consumers remain reluctant to spend

Source: Atradius

# Market performance snapshots

## Canada

- Lower holiday sales likely to result in payment delays and insolvencies in 2016
- Longer payment terms requested by retailers
- Payments take 90-120 days on average



In 2015, Canadian retail trade grew 2.6% (to CAD 505.5 billion), following growth of 4.6% in 2014. However, profit margins decreased last year, and Canadian consumer confidence fell to its lowest level in two years in December 2015, as concerns grew over the state of the Canadian economy (GDP is expected to increase only 1.4% in 2016). That said, low inflation and low interest rates should sustain retail sales growth.

The globalisation of procurement has opened up many segments to international and cloud/online retailers, especially with Canada's proximity to the US. This has increased competition, put pressure on profits and harmed businesses with inefficient infrastructures and weak capitalization.

Payments in the Canadian consumer durables retail industry take 90-120 days on average. Payment delays have stabilised in H2 of 2015 – but with retail sales dropping in December 2015, inventory levels are likely elevated, and therefore increases in delinquencies are expected. Retailers are moving away from requesting cash discounts (advanced payments) from suppliers and are requesting longer terms of payment, e.g. 'pay when sold' terms of sale. This could lead to increased payment delays; however, as many retailers tightly manage their inventory levels (preventing oversupply issues), payment re-scheduling is not yet (that) problematic.

According to the Office of the Superintendent of Bankruptcy, retail insolvencies decreased 3.9% year-on-year in the period January-November 2015; from 511 to 491 cases. At the same time, some larger multi-location chain-stores filed for creditor protection/bankruptcy or announced store closures in early to

mid-2015. It is expected that the number of consumer durables retail insolvencies will level off in 2016, as many businesses' profit margins are under pressure, competition is high and the pressure on brick-and-mortar stores from online retailers increases. Weaker players who cannot adjust to the changing market conditions will face major problems. Retail insolvencies compromised debt amounts are expected to increase with the failures of larger retailers.

Given those developments and the volatility in consumer confidence, our underwriting stance remains neutral to cautious. In the home appliances segment most retailers are large, well-capitalized entities. In the furniture subsector we are more cautious with smaller players, as financial information is hard to get. In the textile retail segment we observe that businesses with a narrow specialisation are vulnerable to larger multi-line competitors as well as online retailers. We have seen a number of failures in this subsector over the past two years, and we expect the remaining market participants to be more resilient and to show higher credit quality.

We are closely monitoring economic issues that could negatively impact the industry's performance, e.g. increases in unemployment, the volatility of the Canadian dollar, rising inflation and/or other adverse economic trends resulting in weaker consumer confidence.



# China

- Slower, but still robust growth
- Payment delays are expected to increase
- Stable profit margins



Until 2014, China's retail industry has recorded substantial growth rates for a couple of years, due to rising disposable incomes and booming urbanisation. Consumer durables sales in China continued to grow in 2015, but at a slower pace than in the previous year, as government rebates on household appliances for rural families were withdrawn in 2014. In addition, the slowdown in property transactions due to the downturn in the real estate market in 2014/2015 affected consumers' desire for new purchases of consumer appliances, especially major appliances.

A further slowdown of retail growth is expected in 2016, in line with slower economic growth and private consumption. However, gross margins in the consumer durables sector range from 20%-30%, and are expected to remain stable over the coming six months.

Some larger domestic players remain in the leading position, due to wide product portfolios in both major and small appliances, extensive distribution networks across the country, high penetration in lower tier cities and rural areas, and well-known brand reputation among local consumers. Price competition is high, especially between online and offline retail channels.

While larger retailers benefit from stable financing channels, smaller, local-focused businesses face more challenges, with many relying on non-official lending channels, even 'shadow banking'. Many online retailers finance themselves via venture capital or private equity. Those businesses try to take advantage of a low-price strategy in order to grow quickly, and with it to attract additional investment.

On average, payments in the consumer durables retail industry take 60 days, and we expect payment delays to increase in the coming months. The consumer durables retail sector's default/insolvency rate is relatively low compared to other Chinese industries, and we do not expect this to change. However, we need to closely monitor private-owned consumer durables retailers whose gearing is above 50%, given the concern about potential failure of loan renewal.

As e-commerce continues its rapid development in China, we also need to monitor those businesses with small-scale sales and equity but large investment in their online platforms. This could lead to significant funding pressure and, in the worst cases, to insolvency if no timely and effective action is taken.

Our underwriting stance remains generally open for the household appliances segment, as we expect sales to increase further, mainly driven by replacement demand and product upgrades. With technological upgrades to consumer appliances, products are increasingly equipped with advanced functions and therefore commanding higher prices, which will underpin value growth in coming years. While being neutral in the furniture segment, we are restrictive in the textile retail subsector due to overcapacity.

# Italy

- Modest growth expected in 2016
- Concentration process on-going in the market
- Special attention paid to fraud issues



It is expected that Italian consumer durables retail will grow modestly in 2016, as private consumption is forecast to increase 1.4%. Both demand and profit margins are expected to remain stable.

Due to its dependence on real estate, the furniture subsector has suffered yearly declines until 2014, despite decreasing sales prices (down 40% over the last six years). A rebound started in 2014, but is still insufficient to compensate for the decline seen in previous years.

In the household appliances segment a modest rebound was registered in 2015, partially sustained by some public incentives for the replacement of white goods.

Competition in the consumer durables retail sector is very high, and this is leading to market adjustments: weaker players with poor financial strength have disappeared while other businesses chose to merge with other peers in order to survive. The on-going concentration process is expected to continue until a new balance is reached in the market (compared with many other EU countries, Italian retail businesses are, on average, small). The share of sales done online is increasing further.

Payment terms generally range from 60 to 90 days. Payment delays decreased in the H2 of 2015, but are expected to level off in the coming months. No major increase in insolvencies is expected in 2016.

Our underwriting stance for consumer durables retail will remain generally cautious, due to the still shaky rebound of household consumption and because smaller players often lack the critical mass for long-term survival in a highly competitive environment.

Special attention is paid to fraud issues that occur in the electronics retail segment, with some small businesses reporting very good financial results while the performance is not in line with the industry trend.



# Poland

- Further growth expected in 2016
- Introduction of a retail tax could hurt businesses' margins
- Payment terms are 60 days on average



The consumer durables retail sector continued to grow in 2015, helped by robust GDP growth (up 3.5%) and buoyant private consumption. According to Statistical Office, retail sales of furniture and household appliances increased 4.3%, while sales of textiles, clothes and shoes rose 8.2%.

Given the positive economic outlook for 2016, with GDP and household consumption forecast to increase again above 3%, further consumer durables sales growth is expected.

Businesses' accounts show that profit margins have remained stable or just decreased slightly in 2015. A market adjustment due to several large bankruptcies in 2013 and 2014 and rising demand provide the remaining players with some breathing space for the time being.

Payment terms are 60 days on average, but very much depend on the type of goods - from 30 days for electronics and small appliances to 180 days for large appliances. Payment delays decreased in the last six months and are expected to level off in the coming months. The insolvency trend has further improved in 2015, and consumer durables retail business failures are expected to level off in the coming months.

However, the gap between stronger and weaker consumer durables retail businesses is growing and further problems can be expected later this year or in 2017. Costs for bank loans are expected to increase as a result of a new tax imposed on banks. The government plans to introduce an additional tax on retailers along turnover size in the course of 2016. The exact scope of this retail tax has not yet been decided, but it seems most probable that only very small retailers will be excluded, while a tax range of 0.7% to 2% would affect profit margins of mid-sized and larger retailers, given the low profitability in the sector (below 1% for most household appliances retailers).

At the same time, export sales of household appliances have decreased since the change of VAT regulations in July 2015 and as a result of actions taken by manufacturers in order to discourage Polish retailers from exporting (sales prices in Poland are still lower compared to Western Europe due to lower personal incomes).

Due to the still persisting sales growth, but also taking into consideration the challenges mentioned above, our underwriting stance remains neutral on the consumer durables retail sector.

# Market performance at a glance

## India



- Consumer durables sales continue to show robust growth. According to the India Brand Equity Foundation, sales are expected to reach USD 12.5 billion in the financial year 2016 after amounting to USD 9.7 billion in 2015. About two-thirds of retail revenues is generated from the urban population in India, fuelled by rising disposable income, easy financing and the growing popularity of e-commerce platforms.
- Profit margins are expected to remain stable in 2016, but competition is strong. Indian consumers continue to be very price sensitive, with sales price remaining the primary decision factor for purchase.
- While the Indian consumer durables manufacturing segment is primarily dominated by large and financially strong players, many businesses are leveraged as dependency on working capital funding remains high.
- Payment terms are 60 days-90 days on average. Overall, the payment experience in this segment is on average with other industries, with more payment delays registered in the small distributors segment.
- Our underwriting approach is generally open for large consumer durables manufacturers and retail chains which are financially sound or part of larger groups. However, we maintain a more prudent approach on small and medium-sized retailers, as those generally operate on low margins and are impacted by multiple sourcing, tougher competition and price volatility. We maintain a cautious approach on highly leveraged businesses in this segment. Apart from financials, we also take into consideration the customer-buyer relationship and evidence of established trading experience.
- We observe a large amount of application traffic in the e-commerce segment, where exposure is growing rapidly and challenges remain in terms of capacity allocation.

## Indonesia



- The Indonesian consumer durables retail sector has recorded robust growth rates in recent years, driven by a growing middle class with higher household purchasing power. However, in 2015 the pace of growth has decelerated due to economic growth woes and currency depreciation. Despite these, consumer confidence has improved again in early 2016 on the back of fuel price cuts.
- Businesses' profit margins are expected to remain stable in 2016 after deteriorating in H2 of 2015. While lower oil prices have helped to decrease logistics and distribution costs, the market is crowded with local and foreign players. The influx of cheaper brands from China has increased competition in the lower and middle segment, but businesses in the high-end segment will continue to experience growth as long as they differentiate themselves and focus on premium goods.
- Most smaller consumer durables retail businesses still use internal financing or shareholder funds for their working capital, while middle-sized or larger companies use bank loans. Banks are generally open for lending to businesses, especially after the Central Bank lowered the benchmark interest rate in early 2016.
- The current average payment duration in the industry is 30-60 days. The number of protracted payments is rather low, and non-payments are not expected to increase in the coming months.
- Our underwriting stance for the industry is generally open, however we assess buyers more prudently in case of lack of financial and other qualitative information, such as strong group backing.

## Sweden



- The Swedish consumer durables retail sector grew about 2% in the last five years, more or less in line with national GDP growth. In 2016 Swedish GDP is expected to grow 3.2%, and private consumption is expected to remain robust.
- Businesses' profits are expected to remain stable. While price wars within the electronics retail sector have subsided, there are signs of increased competition in the sports retail segment. Currently furniture and fashion/textile retailers also face a more difficult business environment due to tough competition. Exchange rate volatility has some effect on consumer durables importers and exporters.
- Payment duration in the Swedish consumer durables retail industry is 45 days on average. Non-payments are not expected to increase in 2016, while insolvencies are forecast to decrease about 10%.
- Newly founded businesses, in particular, face higher risks in the highly competitive market. Online retailers generally enjoy good business prospects, as there are still growth opportunities in segments with low market penetration. Swedes increasingly embrace shopping online, and the online segment is expected to continue to grow in the years ahead. The effect of growing e-commerce and that of stores relocating to large shopping malls and out of towns will continue to shape the Swedish consumer durables retail sector.
- Our underwriting stance is generally open for household appliances, while it remains neutral for furniture and textiles.

## Spain



- In 2015 consumer durables retail showed a positive trend, with robust growth thanks to the economic rebound in Spain, a fiscal expansionary policy, decreased oil prices and a modest rebound in the housing market. Mainly household appliances and furniture retail benefited from the upswing.
- The positive trend also continued in 2016, but growth in retail sales is expected to slow down compared to 2015 due to lingering political issues (hung parliament) and increased uncertainties about the global economy. While consumer financing has eased and unemployment decreased, those improvements remain susceptible to setbacks.
- Financial institutions were more willing to grant loans to retail businesses in 2015, but since the beginning of 2016 they started to be more selective again. Profit margins in the consumer durables retail industry have generally increased in 2015 and are expected to remain stable in 2016.
- Payment behaviour in the consumer durables retail sector was relatively good in 2015. We registered decreasing notifications of non-payments and lower protracted payments in 2015, and expect that payment delays will not rise in the coming months. On average, payments in the sector take 90 days.
- The insolvency environment is stable, with no major increases in business failures expected.
- Our underwriting approach remains neutral for all main consumer durables retail subsectors. Despite the recent upturn, competition in the market remains strong, and the current economic rebound is susceptible to setbacks. The industry remains highly dependent on consumer credit and the performance of still feeble sectors (e.g. real estate and housing).

## Vietnam



- Demand for consumer durable goods in Vietnam continues to increase, driven by a growing middle class, rising living standards, a young population and rapid urbanisation.
- Growth prospects for 2016 remain good, and businesses' profits are expected to remain stable. However, persisting problems with distribution networks and logistics could continue to limit the growth potential. Competition is high and rising further, as local players have to face increasing market entries of some large foreign players, e.g. from France, South Korea and the US.
- Many local consumer durables retail businesses are highly geared, but banks are generally willing to provide credit.
- The current average payment duration in the industry is 30-60 days. Some slower payment is seen in this sector, but mostly not to the extent of turning into non-payment. Non-payments are not expected to increase in the coming months.
- Our underwriting stance for the industry is generally open, and we rely mainly on financial statements and trade experience in our decisions.

# Industries performance forecast per country

March 2016

	Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrl	Consumer Durables	Electronics/ ICT	Financial Services
Austria							
Belgium							
Czech Rep.							
Denmark							
France							
Germany							
Hungary							
Ireland							
Italy							
The Netherlands							
Poland							
Portugal							
Russia							
Slovakia							
Spain							
Sweden							
Switzerland							
Turkey							
UK							
Brazil							
Canada							
Mexico							
USA							
Australia							
China							
Hong Kong	N/A						
India							
Indonesia							
Japan							
New Zealand							
Singapore							
Taiwan	N/A						
Thailand							
United Arab Emirates							

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INDUSTRY PERFORMANCE

Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles

Excellent

Good

Fair

Poor

Bleak



# Industry performance

## Changes since February 2016

### Europe

#### The Netherlands

##### Metals



Down from Fair to Poor

##### Steel



Down from Fair to Poor

The Dutch steel and metals industries are impacted by decreased sales prices, triggered by the economic slowdown in China and the increased offer of cheap Chinese metals and steel products in Europe. Another issue is decreased demand for steel and metals products from the oil and gas industry.

#### United Kingdom

##### Metals



Down from Fair to Bleak

##### Steel



Down from Poor to Bleak

Both industries suffer from low global steel prices, fuelled by increased export levels from China. Coupled with high operating costs within the European market, these have resulted in strenuous trading conditions for UK metals and steel businesses. Since a couple of years steel-making has been affected by cost containment measures due to increasing energy and environmental protection costs.

### The Americas

#### Brazil

##### Consumer durables



Down from Poor to Bleak

##### Electronics/ICT



Down from Poor to Bleak

The on-going recession has led to a large increase in credit insurance claims in both sectors.

##### Paper



Down from Fair to Poor

Many businesses in this industry show signs of serious deterioration due to high energy prices.

#### United States

##### Machines/Engineering



Down from Good to Fair

Businesses in this sector record decreasing revenues due to lower demand for machinery equipment from the agriculture, mining and energy sectors.

## Asia/Oceania

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### Japan

#### Machines/Engineering



Down from Good to Fair

The sector is negatively impacted by decreasing demand from China. The subsectors which are affected the most are construction and industrial machinery.

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Atradius N.V.  
David Ricardostraat 1 · 1066 JS Amsterdam  
Postbus 8982 · 1006 JD Amsterdam  
The Netherlands  
Phone: +31 20 553 9111

[info@atradius.com](mailto:info@atradius.com)  
[www.atradius.com](http://www.atradius.com)