Atradius
Managing risk, enabling trade

September 2019

market monitor

Focus on automotive performance and outlook

Disclaimer

This report is provided for information purposes only and is not intended as a recommendation or advice as to particular transactions, investments or strategies in any way to any reader. Readers must make their own independent decisions, commercial or otherwise, regarding the information provided. While we have made every attempt to ensure that the information contained in this report has been obtained from reliable sources, Atradius is not responsible for any errors or omissions, or for the results obtained from the use of this information. All information in this report is provided 'as is', with no guarantee of completeness, accuracy, timeliness or of the results obtained from its use, and without warranty of any kind, express or implied. In no event will Atradius, its related partnerships or corporations, or the partners, agents or employees thereof, be liable to you or anyone else for any decision made or action taken in reliance on the information in this report or for any consequential, special or similar damages, even if advised of the possibility of such damages.

Copyright Atradius N.V. 2019

In this issue...

Introduction	Trouble shifting gears ... 4
Full reports	
China	Higher credit risk due to sales downturn ... 5
France	Increasing pressure on suppliers' margins ... 7
Germany	More insolvencies in the suppliers segment ... 9
Italy	Financial support for smaller players at risk ... 11
United Kingdom	Production and sales suffer from Brexit uncertainty 13
United States	Imposition of import tariffs could lead to more insolvencies ... 15
Market performance at a glance	
	Czech Republic ... 17
	Japan ... 18
	Mexico ... 19
	Poland ... 20
	Spain ... 21
	Sweden ... 22
Overview chart	Industry performance per economy/market ... 24
Industry performance	Changes since July 2019 ... 26

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

Excellent
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend

Poor
The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend

Good
The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend

Bleak
The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend

Fair
The credit risk situation in the sector is average / business performance in the sector is stable

Trouble shifting gears

The automotive industry is currently facing major structural challenges that could lead to a comprehensive upheaval of the sector itself, including a shakeout with many companies leaving the market. The main issues are:

- The shift to e-mobility, fuel cells and other engine systems - away from combustion engines
- New technologies, such as digitalisation and autonomous driving
- Changing consumer habits and new mobility services

While it is still not clear what the future of mobility will look like, i.e. which technologies and innovations will prevail, it is clear that huge investments are necessary to adapt to the changing market conditions. It is estimated that globally, investments in the electric vehicle segment will amount to about USD 300 billion over the next five to ten years.

Currently the ratio of production of combustion engine vehicles versus electric vehicles/plug-in hybrids is still 50:1, however it is expected that electrical vehicle sales will account for about 15% of global sales by 2025.

Additionally, new players from outside the industry have entered the market, many of them with a technological edge and financially strong. This concerns not only new technologies like autonomous driving, but also e-mobility. The relative simplicity of electric engines (which use far fewer parts than combustion engines) is attracting businesses from outside (e.g. the British household appliances producer Dyson has started to build electric vehicles).

A change in most difficult times

Adding to the major challenges the moment for change and substantial investments seems mistimed, as years of robust growth are over. Global car sales are forecast to decrease 5% in 2019, and the ongoing global economic uncertainty does not bode well for a rebound in 2020.

While the US imposition of punitive tariffs on vehicles and vehicle parts has been suspended for the time being, the issue remains a dark cloud on the horizon. The impact of the Sino-US trade dispute has already been felt, and uncertainty over the Brexit outcome is still looming. All those economic policy issues have led to decreasing production and sales, shrinking profits and liquidity issues for original equipment manufacturers (OEMs) and suppliers alike.

Woes of the weaker ones

Within the industry the competitive race for innovation is well underway. This poses a major challenge for the bulk of small- and medium-sized suppliers. Many of them are seriously affected by the current downturn, as sales have deteriorated and already thin margins further squeezed.

Climbing up the value chain and investing in new technologies is key, as electric cars have much simpler engines with fewer parts, do not need fuel systems, exhaust systems, or gear boxes. However, given the technological and/or financial constraints that many suppliers face, the future seems to be very uncertain. Payment delays and insolvencies have already started to increase in this segment, especially for those businesses that deliver less valuable car components and parts, are often heavily dependent on just one OEM and which are active in a highly competitive environment.

We expect that in the coming five years the credit risk of many of the structurally weaker automotive suppliers will increase, leading to strained liquidity, more payment delays and business failures – even if the currently looming issues related to rising protectionism and limitations of free trade do not materialise. In the worst case of a massive industry shake-up many small suppliers will have to leave the market.

The speed of change

The fate of many automotive businesses depends heavily on the speed and scope of the market shift. While concerns about climate change and air pollution are prompting governments around the world to consider phasing out new petrol and diesel engines in the coming decade, the speed of change away from combustion engines will heavily depend on the amount of government subsidies for R&D and electric vehicle purchase.

Other major points are the availability of charging infrastructure and of rare earth elements used in the production of batteries, and finally the relation of prices between electric and gas vehicles. Should consumers in the future reject buying e-vehicles at a larger scale, this, combined with the large upfront investments, could lead to a serious deterioration of the financials for all automotive businesses along the value chain, including OEMs.

China

- Higher credit risk due to sales slowdown
- The Sino-US trade dispute has an impact
- Payments take 90-120 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

While the Chinese car market is expected to rebound in the long-term, currently sales are sharply declining and the credit risk situation in some segments has deteriorated. This has triggered a downgrade in our sector performance outlook.

For the time being, the direct effects on the Chinese automotive industry of the of the ongoing trade dispute with the US have been rather low. In total, vehicle import and export volumes accounted for just 4.1% and 4.6% of China´s automotive output in 2018.

However, the indirect consequences of the Sino-US trade dispute (lower economic growth, increased insecurity of businesses and consumers) have a substantial impact on the Chinese car market. After several years of high growth, domestic vehicle sales decreased 2.8% year-on-year in 2018 and even declined 12.4% in H1 of 2019. This downward trend is expected to continue in H2 of 2019 and in early 2020. Despite the current sales deterioration we still see original equipment manufacturers (OEM) as strong businesses, due to high capital levels, advanced technical capacities and the long-term growth potential of the Chinese automotive market. The same accounts for core part (Tier 1) suppliers, which are highly integrated into the supply chains of OEMs.

However the situation is more difficult for the basic component parts (Tier 2) subsector. Smaller and/or private-owned companies in this segment often suffer from poor equity, while at the same time they face increasing difficulties obtaining bank finance. More payment delays and higher insolvencies are likely in this segment due to the current market slowdown and decreasing profit margins for smaller companies.

Given the ongoing sales slump it comes as no surprise that car dealers are having a difficult time, with more than 50% of them suffering losses in 2018. Due to this and fierce competition in this segment we expect and increasing number of small-sized car dealers to close their business in the coming 12 months.

China: Automotive

	2018	2019f	2020f
GDP growth (%)	6.6	6.2	5.9
Sector value added growth (%)	4.9	2.8	4.2

Average sector growth over the past 3 years (%)	11.0
Average sector growth over the past 5 years (%)	10.3
Degree of export orientation	very low
Degree of competition	average

Sources: Macrobond, Oxford Economics, Atradius

E-mobility segment – more suppliers facing insolvency

In contrast to the combustion engine segment the electrical car sector (currently with a 5% market share) continues to grow. Sales rose 62%, year-on-year, in 2018 (to about 1,256,000 units) and 50% in H1 of 2019. Over the last couple of years the government has provided substantial subsidies to manufacturers of more than CNY 95 billion (EUR 12.3 billion), while customers have been offered tax incentives and favourable discounts for purchasing.

However, concerns over overcapacity have increased, as more and more carmakers and suppliers have entered the e-mobility segment, and with the opening of the market to overseas manufacturers competition becomes even fiercer. In order to show the market the Chinese government has raised the market entrance barriers in terms of capacity, investment scale and technology standards. At the same time subsidies will be gradually phased out, decreasing by over 50% in 2019 and expiring by the end of 2020.

Those measures will lead to the elimination of many smaller low-cost manufacturers that currently produce basic parts and have widely benefited from subsidies in the past. Only those suppliers with access to external funding and who are technically able to convert themselves into hi-tech companies with core competencies and constant R&D investment will survive in the mid-term. We expect that the number of insolvencies in this low-tech electrical car segment will increase by more than 5% in the coming 12 months.

Chinese automotive sector

Strengths

- Automotive is a government-backed industry
- Rising income and urbanisation will drive demand
- Major players are financially strong. They are usually large corporations with state-owned background or joint ventures with multinationals

Weaknesses

- Rising costs for raw materials and labour will impact profits in the sector
- Slowdown of economy and the escalating trade disputes with the US have a negative impact on the industry
- Traffic restrictions and environmental regulations could have a negative impact on the market

Source: Atradius

Restrictive underwriting stance for car dealers

On average, it takes car manufacturers and suppliers about 90-120 days to collect debts. In the car dealers segment, average creditor days are about 40-60 days. Late payments are expected to increase in both the Tier 2 and car dealers segments in the coming 12 months.

While our underwriting strategy remains generally open for OEMs and Tier 1 suppliers, we are more cautious on manufacturers of domestic brands than we are to joint ventures. Given the issues in both the gas-powered and electric car segments mentioned above our underwriting stance for the Tier 2 segment is neutral to restrictive. Due to contracting sales, fierce competition and the, on average, small size of businesses, our underwriting stance for the car dealers segment is mostly restrictive. We expect automotive insolvencies to increase by about 5% in the coming 12 months.

As both the business performance (sharply decreasing sales) and the credit risk situation have deteriorated in H1 of 2019, we have recently downgraded the Chinese automotive performance forecast from “Fair” to “Poor”.

Performance forecast along subsectors

OEMs & Tier 1	Tier 2 producers	Car dealers

Source: Atradius

France

- Increasing pressure on suppliers´ profit margins
- Limited impact of potential US punitive tariffs
- More payment delays expected

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

Timely payment is generally important in the French automotive industry, and the payment experience has been good over the past two years. However, this is about to change for the worse, as suppliers are facing tougher times ahead.

Since the end of 2018 difficulties in the French automotive industry have increased, mainly due to lower car sales (down 1.8% year-on-year in H1 of 2019 according to the European Automotive Manufacturers´ Association ACEA) and tighter environmental regulations (especially the world harmonised light vehicles test procedure, WLTP). This is mainly impacting smaller Tier 1 manufacturers and many Tier 2 businesses, with generally deteriorating turnover and shrinking profit margins, leading to serious liquidity issues for some smaller players.

Major issues in the supplier segment remain

We expect payment delays to increase in the coming 12 months. While the insolvency level has been low compared to other industries over the last couple of years, an increase of up to 3% is expected in the coming 12 months. Mainly affected will be smaller suppliers that are highly geared and positioned at the lower end of the value chain, i.e. engaged in foundry work, small stamping and/or producing items with low technology requirements.

Those segments have already faced structural issues in the past (high working capital requirements leading to high debt levels and financing needs, coupled with strong competition and price pressure). The ongoing sharp order decrease (especially from Diesel manufacturers) has put many businesses under severe financial stress (mainly cash issues).

France: Automotive

	2018	2019f	2020f
GDP growth (%)	1.7	1.4	1.5
Sector value added growth (%)	0.6	3.6	-7.4

Average sector growth over the past 3 years (%)	3.8
Average sector growth over the past 5 years (%)	4.8
Degree of export orientation	high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

The situation is also worrying for smaller French car dealers, where we forecast business failures to increase more than 3% year-on-year in 2019. Car dealers are impacted by significant pressure from OEMs, which provided them with many cars and high sales targets in 2018, while Diesel car sales have meanwhile deteriorated. Smaller dealers therefore have difficulties in financing their inventories.

For the time being our underwriting stance for OEMs and large Tier 1 suppliers remains open, as those businesses retain a strong risk profile, posting robust revenues and margins. But given the issues mentioned above we have turned more cautious since the beginning of 2019 when underwriting Tier 2 suppliers and smaller car dealers. We expect that the impact of any US import tariffs on French carmakers and suppliers would be limited as the export share to the US is very low, with no change in credit risk for the industry.

French automotive sector

Strengths

- Leading companies in some segments: FAURECIA, VALEO, Plastic Omnium
- Technical knowledge
- State support to a certain extent (R&D loans, digitalization tax credit)

Weaknesses

- Low margins in some segments, coupled with high debt levels
- Not yet fully ready for supply chain changes (e-mobility, industry 4.0)
- Still lack of competitiveness in some segments

Source: Atradius

Future challenges, but some mitigating factors

Regarding the challenges on the horizon (tighter emission standards/increasing e-mobility and digitalization), French Tier 1 and Tier 2 businesses are still lagging behind some international competitors in terms of innovation, but are speeding up to close the gap. Businesses benefit from government initiatives and funds that support financing innovations and increased R&D (e.g. digitalization). With a decreasing number of family-owned businesses and investors increasingly taking control, there is a shift towards more technical innovations (e.g. robotics) and export development.

As French OEMs are introducing cost-reducing measures in order to focus on investment in new technologies, they will, to some extent, increase pressure on subcontractors in the coming 2-3 years, requesting greater productivity and lower prices. However, unless unexpected events occur, we do not expect OEMs to overly pressure their suppliers in order to avoid supply chain disruption. This should be a lesson learned from the 2008-2009 economic crisis, when the purchase of insolvent Tier 2 suppliers by another company often had to be supported by OEMs with volume agreements.

There is a risk of deterioration if suppliers do not adapt their production to new needs and for the time being Industry 4.0 demand is not anticipated to drop dramatically. Therefore, while automotive insolvencies are currently rising, and the credit risk in the sector has increased, no sharp deterioration is expected in the coming 2-3 years.

Performance forecast along subsectors

OEMs & Tier 1	Tier 2 producers	Car dealers

Source: Atradius

Germany

- More insolvencies in the suppliers segment
- Decreasing demand and production
- OEMs and large suppliers are still financially robust

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 German automotive sector is facing tougher times ahead, with decreasing demand and fundamental structural challenges. It seems that the benign times of very low insolvencies and few payment delays are over for now.

According to the International Organisation of Motor Vehicle Manufacturers (OICA), car production in Germany decreased 9.3% in 2018, and demand is decreasing further in 2019. While domestic new passenger car registrations increased 0.5% in H1 of 2019, they fell 3.1% in the EU, a core market for German car sales.

The sector faced significant challenges in 2018 and H1 of 2019 (WLTP, diesel scandal, decreasing sales in China, looming threat of US tariffs, shift to e-mobility, increased use of car sharing models), which have resulted in a performance decrease of OEMs and suppliers alike. Most of those challenges will become even more urgent to tackle in the coming years. Currently it seems that OEMs and suppliers have to quickly change their business models, away from focusing on combustion engines (especially diesel).

Where to invest?

At first sight it seems that OEMs and Tier 1 suppliers are suited for that shift. Despite the current decline in turnover and profitability they own a strong global market position and their solvency and liquidity situation is still good. Due to good earnings in the past the majority of companies still have adequate equity positions to cope with high capital expenditures in research and development, necessary to stay ahead of competition in new trends and technologies (electric motors, connected driving, autonomous cars). However, given the still unclear future of the global

Germany: Automotive

	2018	2019f	2020f
GDP growth (%)	1.5	1.0	1.5
Sector value added growth (%)	-2.0	-0.6	1.7

Average sector growth over the past 3 years (%)	2.2
Average sector growth over the past 5 years (%)	3.0
Degree of export orientation	high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

car market a major challenge is to decide where to strategically invest in order to gain the right technology that will determine the future of cars (e.g. hybrid, e-cars, autonomous driving).

The challenge to adapt their business models is even larger for Tier 2 suppliers, especially those active in delivering parts and supplies for combustion (diesel) engines. Many Tier 2 suppliers face the issue that their products are easily substitutable. At the same time their solvency and equity position is generally weaker and pressure on margins is already high, due to increased material and labour costs, rising competition and price pressure from OEMs. A large number of Tier 2 suppliers have been severely affected by the current sales downturn, and it remains to be seen if they have enough innovative skills and the capital to finance a quick and substantial change in their business models.

German automotive sector

Strengths

- Technology leader
- Excellent reputation
- Record of government support ("too big to fail")

Weaknesses

- OEMs demand worldwide supply so constant & high investments necessary
- Fierce competition

Source: Atradius

Smaller suppliers could struggle for existence

It seems that a large number of smaller suppliers could face higher credit risk in the future, as they have difficulty in climbing up the value chain. Payment behaviour in the sector has been good in 2017 and 2018, however, we have noticed an increase in payment delays since the end of last year and expect this negative trend to continue. Since the beginning of 2019 we are seeing an increasing number of suppliers with worsening financials (declines in turnover and profitability) and covenant breaches, while the number restructuring cases has substantially increased.

We expect automotive business insolvencies to increase by more than 2% in the coming 12 months. It seems probable that during the process of market adaptation in the coming years the number of automotive business failures will exceed the average annual German business insolvency level per industry.

Our underwriting stance remains open for OEMs and Tier 1 suppliers, which usually have good access to capital markets and a low default risk, despite the major challenges ahead. However, we have recently tightened our underwriting stance on Tier 2 businesses and the car dealers sector.

When underwriting the industry, we pay particular attention to the most recent financial information available (balance sheets, interim figures, bank status, payment terms, duration of contract, order volume, payment behaviour).

It seems that many German automotive businesses can cope technologically and financially with the necessary business model shifts. However any major market disruption (e.g. US import tariffs, an escalation of the Sino-US trade dispute, a global recession) could decisively weaken businesses financials – just at a time when major investments are needed. This downside risk could lead to a major shake-up of the industry, with a sharp increase in payment delays and insolvencies, especially in the suppliers segment.

Performance forecast along subsectors

OEMs & Tier 1	Tier 2 producers	Car dealers

Source: Atradius

Italy

- Increasing insolvencies expected in the coming years
- Financial support for smaller players at risk
- Payment duration still very long in comparison to other countries

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

After solid growth in 2017 the performance of the Italian automotive industry deteriorated in 2018, and the mid-term outlook is rather poor, with increasing credit risk in the supplier segment. The sector performance outlook has been recently downgraded from “Fair” to “Poor”

After four years of growth, sales of Italian vehicles decreased 3.1% year-on-year in 2018 and 3.5% in H1 of 2019, according to ACEA. Last year decreasing domestic demand for Italian car components (down 7.5%) was partially offset by higher exports (up 6.6%), however, this export surge has ended with the slowdown of the automotive market in Europe, mainly hitting export-oriented Italian car part suppliers.

Given the subdued GDP growth and increased economic uncertainty, domestic car sales will likely stagnate in the coming 12 months at best. Diesel sales are affected by eco-taxes, while government incentives to support sales of low emission vehicles mainly benefit sales of foreign-made cars.

An expected insolvency increase of 5%

On average, payments in the Italian automotive industry range from 60 to 90 days and 120 to 150 days, depending on the end-buyer and whether working capital requirements can be financed by banks or suppliers. While payment experience was rather good until H1 of 2018, non-payments have increased since then, and will rise further in the coming months. The level of automotive insolvencies has been low so far compared to other industries, but business failures are expected to increase by about 5% in the coming 12 months.

Italy: Automotive

	2018	2019f	2020f
GDP growth (%)	0.7	0.0	0.4
Sector value added growth (%)	-3.1	-2.2	8.3

Average sector growth over the past 3 years (%)	2.8
Average sector growth over the past 5 years (%)	7.8
Degree of export orientation	high
Degree of competition	average

Sources: Macrobond, Oxford Economics, Atradius

This will mainly affect smaller suppliers, especially those active in the combustion engine parts and car metals segments, which are severely affected by deteriorating demand, a high level of competition and fragmented networks. In 2017 many smaller Tier 2 suppliers already experienced a decrease in equity, solvency and liquidity ratios, which has weakened their resilience to weather the current market downturn. At the same time tyre distributors/wholesalers are affected by fierce competition and an ongoing market shakeout.

Therefore we have tightened our underwriting stance for automotive suppliers since the end of 2018, while we remain neutral to open on the OEM segment. In the car dealers segment the underwriting stance depends heavily on the strength of the brand and the size of businesses.

Italian automotive sector

Strengths

- High degree of internationalisation
- Technologically advanced Tier 1 suppliers

Weaknesses

- High labour costs affect margins
- Subdued domestic economic performance
- The Italian banking sector remains weak

Source: Atradius

A subdued mid-term outlook with more business failures to come

Given the current market shake-up (shift to e-mobility, digitalization) the mid-term outlook for the industry is rather subdued. As OEMs are introducing cost-reducing measures they will increase price pressure on suppliers, probably leading to a deterioration in margins and even longer payment terms.

While Italy's Tier 1 manufacturers are generally recognized as innovative and technologically advanced, they are poorly capitalized and highly dependent on banks to support their capital expenditures. This could prove to be a weak point given the ongoing issues in the Italian financial sector.

It currently seems that many smaller Tier 2 suppliers with low capital expenditure that are producing low-tech items lack the ability to climb up the value chain, which increases the risk of insolvency. During the 2008-2012 economic crisis many smaller players already left the market, and it seems that in the current market shake-up another wave of small businesses with low capital expenditure capacity will face the same fate in the coming 2-3 years.

At the same time the outlook for government support to help the industry in this difficult period (e.g. by domestic car sales schemes, subsidizing R&D, tax reliefs) is impacted by budget constraints and the high amount of government debt.

Performance forecast along subsectors

OEMs	Tier 1 & 2 producers	Car dealers

Source: Atradius

United Kingdom

- **Production and sales suffer from Brexit uncertainty**
- **Increasing insolvencies expected in 2019 and 2020**
- **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

The British automotive sector´s performance has deteriorated over the past 12 months. Major challenges are looming, and the credit risk situation has worsened since the end of 2018. Therefore we downgraded the sector performance outlook from “Fair” to “Poor” in May 2019.

According to OICA, in 2018 UK automotive sector output decreased 8.3%, followed by a 20.1% decline in H1 of 2019 (this steep decrease can be partly explained by the fact that several major plants closed down in April in expectation that the UK would leave the EU in March).

According to ACEA, in H1 of 2019 new passenger car registrations in the UK decreased 6.8%, commercial vehicle registrations fell 9.5%, and exports declined 21%, despite a weaker pound. Exports account for around 80% of production, with the EU being the biggest export market, accounting for 53% of exports in 2018.

The depreciation of the pound since the June Brexit referendum has pushed up the cost of importing both vehicles and components. Approximately 82% of domestic-sold vehicles and 60% of automotive components are imported from the EU. The decrease in new car registrations requires dealers and manufacturers to absorb a share of those increased costs, which negatively impacts their margins.

Both lower production and sales are the result of weaker demand domestically and in overseas markets (Europe and Asia), model changes, a continued decline in diesel sales, uncertainty about emission reduction plans and the Brexit outcome. The outlook for the coming months remains subdued. The looming Brexit continues to affect consumer and business confidence in the UK, and there is no short-term rebound of the European and Chinese car markets on the horizon.

TABLE OF CONTENS
FULL REPORTS
MARKET PERFORMANCE AT A GLANCE
OVERVIEW CHART
INDUSTRY PERFORMANCE

United Kingdom: Automotive

	2018	2019f	2020f
GDP growth (%)	1.4	1.3	1.6
Sector value added growth (%)	-1.5	-3.7	2.0

Average sector growth over the past 3 years (%)	1.6
Average sector growth over the past 5 years (%)	3.8
Degree of export orientation	very high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Mounting cost pressure imposed by OEMs

We expect that both payment delays and insolvencies will further increase in the coming 12 months, with business failure rising by about 7%, mainly affecting smaller suppliers and car dealers. The decrease in domestic car sales is impacting profits of new car dealerships, with some having to restructure and downsize. Lower production has already impacted suppliers, particularly those that had invested in expanding their facilities, expecting that robust growth would continue.

The outlook is especially worrying for smaller suppliers in the Tier 2 segment, as many OEMs are phasing out the one-engine combustion model and are shifting to increased production of electric vehicles. Jaguar Land Rover has announced a major cost reduction project, while both Ford and Honda will close plants in 2020 and in 2021 respectively. All this will hurt suppliers, many of them already struggling with deteriorating margins.

As OEMs will look to obtain cost synergies wherever possible, especially producers of generic parts can expect increasing price pressure. We expect the amount of suppliers facing insolvency to increase further in the coming 2-3 years, as many, facing innovation challenges and liquidity issues, will find it difficult to adapt to the changing market conditions. External finance providers will turn more restrictive given the poor performance outlook of the industry and will only increase lending when fully secured. Comprehensive government support (e.g. grants and guarantees) is far from certain, as many other UK industries would also require backing, especially in the case of a hard Brexit.

The downside risks of a hard Brexit

The true implications of Brexit for the industry still remain uncertain. A hard Brexit outcome (ending access to the single market and customs union) without any interim arrangement would severely hurt both producers and suppliers, leading to even higher costs and burdens for the already stressed sector. Under World Trade Organization (WTO) rules, there would be a tariff of 10% on vehicles and 4.5% on components. The introduction of customs controls would hamper the just-in-time delivery of parts from EU suppliers, and lead to higher stocks, thereby increasing costs as on average approx. 60% of components in UK-made cars are imported from the EU. Foreign-based car producers with operations in the UK could suffer from deterioration in profits and an impairment in assets.

For the time being, our underwriting stance remains neutral towards OEMs, and Tier 1 producers, but we have tightened it for the Tier 2 and the car dealers segments. A hard Brexit decision would most probably lead to a comprehensive review of our underwriting stance. There is also the concern that any US tariffs on automotive imports would affect the sector´s performance as the US market share in UK automotive exports amounts to about 18%.

British automotive sector

Strengths

Engineering excellence

Weaknesses

High fixed cost base means any slippage in revenues could lead to losses
Skills shortage – a major issue in case of a hard Brexit
Ongoing uncertainty over the Brexit outcome has affected business and consumer confidence

Source: Atradius

Performance forecast along subsectors

OEMs & Tier 1	Tier 2 producers	Car dealers

Source: Atradius

United States

- Imposition of import tariffs could lead to more insolvencies
- Payments take 30-60 days on average
- Subdued sales performance in 2019

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 sector performance outlook remains “Fair”, but the credit risk outlook has deteriorated somewhat due to the still looming uncertainty surrounding the implementation of import tariffs and lower demand.

According to OICA, US vehicle production increased 1.1% year-on-year in 2018, to 11.3 million units, while sales of new vehicles increased 0.3%, to 17.3 million units with higher pickup truck and SUV sales offsetting a decline in passenger car sales. The continued rise in ride sharing services (such as Uber and Lyft) had a dampening impact on new car sales, as did higher sales prices triggered by higher production costs.

After years of steady growth it is expected that annual car sales will decrease below 17 million units in 2019. Rising new-vehicle prices are undermining consumer demand, while the benefits of 2018’s tax cuts are waning and US economic growth is losing momentum.

Limited impact of steel tariffs on profits so far

The imposed tariffs on steel and aluminium have, so far, barely impacted profits and cash generation of US OEMs and suppliers, as higher commodity prices have been largely passed on to consumers. The recent abolishment of tariffs on steel/aluminium imports from Mexico and Canada helps the sector, especially as a high percentage of cars and car parts for the US market are manufactured south of the border. The car dealers segment has enjoyed favourable trading conditions in recent years with subsidies, readily available affordable financing and above average consumer confidence.

The average payment duration in the US automotive industry is 30-60 days. Payment behaviour in this sector has been satisfactory over the past two years. In 2018 and H1 of 2019 the number of protracted payments, non-payments and insolvency cases has not increased and remained low compared to other industries.

USA: Automotive

	2018	2019f	2020f
GDP growth (%)	2.9	2.4	1.6
Sector value added growth (%)	5.7	0.1	1.5

Average sector growth over the past 3 years (%)	2.1
Average sector growth over the past 5 years (%)	4.1
Degree of export orientation	average
Degree of competition	very high

Sources: Macrobond, Oxford Economics, Atradius

US automotive businesses tend to be highly leveraged since the sector is very capital-intensive. Access to external funding has steadily improved since the 2008 credit crisis, due to improved trading conditions within the sector, relaxation within the traditional credit markets and access to funding via government-backed programmes. Banks are generally willing to lend to the industry.

US automotive sector

Strengths

- Robust consumer confidence and finance readily available
- Many US automotive businesses restructured after the 2008 credit crisis and are consequently financially more resilient

Weaknesses

- Increased uncertainty over the future course of economic and trade policies
- Strong USD hampers export performance
- Increased environmental requirements (emissions) and evolving technologies (autonomous) requiring investment

Source: Atradius

Import tariffs on cars could trigger an insolvency increase

The still looming 25% tariff on vehicles and car parts imported from the EU and/or Japan has increased uncertainty in the market. Any future imposition of those tariffs would severely impact the industry, most probably leading to increasing insolvencies, especially in the Tier 2 segment where many businesses show thin margins. While still recording solid operating results, due to the ongoing tariff uncertainty large OEMs have started to close down domestic production sites and to shift production to more favourable destinations abroad.

Another challenge for the industry is the accelerated transition from traditional combustion engines to alternative fuel/electric technology and the growing trend towards digitalisation/autonomous driving. With those major challenges ahead we expect the credit risk situation for Tier 2 businesses to deteriorate in the coming 2-3 years, leading to higher annual insolvencies and a market consolidation.

Due to the potential downside risks and more uncertain sales outlook we have a neutral underwriting approach to the automotive sector. We continue to monitor developments in US trade policies, which could have a disruptive impact on the industry and ultimately lead to a change in our risk appetite.

Performance forecast along subsectors

OEMs	Tier 1 & 2 producers	Car dealers

Source: Atradius

Market performance at a glance

Czech Republic

- Both production and new orders of cars have significantly slowed down since Q4 of 2018, and the outlook remains subdued for the coming 12 months, mainly due to lower demand from the EU and increased market uncertainty (especially over potential trade disputes and a hard Brexit).
- Together with rising energy and labour costs the flat demand situation has increased pressure on margins of Czech automotive businesses - just at a time when more investments are needed to adapt the product portfolio (shift to e-mobility) and to increase automation (increasing lack of labour force).
- For the time being, we do not expect a significant increase in payment delays and insolvencies in the industry. However, a small increase in business failures of about 2% in the coming 12 months seems probable, as small suppliers at the bottom of the value chain will experience increasing cash-flow problems due to deteriorating turnover and margins, while costs for external financing and labour are growing.
- We expect that in the coming 2-3 years price pressure will be increasingly passed - top down – through the value chain, mainly affecting Tier 2 businesses. Higher costs, reduced orders, price pressure and changes in the type of products demanded could put the finances of many smaller suppliers under stress. While a sharp insolvency increase is not expected in the mid-term, the very low levels of automotive business failures will be a thing of the past.
- Currently a sharp deterioration of the risk environment is not expected, rather a step-by-step adaption to the changing market conditions, with increasing focus on production of higher value added goods. The Czech automotive sector has seen robust growth in production capacities over the last ten years, with significant investments and good profits. Many players are part of international groups, and while increasing, local labor costs are still below Western European levels.
- For the time being our underwriting stance remains generally neutral, but given the more clouded outlook, our risk appetite has become more restrictive than in 2018. Should the pressure to shift towards electric cars accelerate and/or US trade tariffs be imposed, the credit risk situation in the sector would definitely increase.

Czech Rep: Automotive

	2018	2019f	2020f
GDP growth (%)	2.9	2.5	2.1
Sector value added growth (%)	2.0	-0.3	0.8

Average sector growth over the past 3 years (%)	8.7
Average sector growth over the past 5 years (%)	10.0
Degree of export orientation	very high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Source: Atradius

Japan

- The business performance and credit risk situation in the Japanese automotive industry remains benign. Profitability in the sector is good with a stable outlook. Due to the robust business performance banks are generally willing to provide loans with good financing conditions, supported by low interest rates.
- While Japanese automotive manufacturers active in the US are affected by the import tariffs on steel and aluminium imposed since June 2017, the impact on profitability has been limited so far. And given the financial strength of the manufacturers, they are able to cope with higher commodity prices in the medium-term.
- The average payment duration in the Japanese automotive industry is around 30 days for car retailers, 30-60 days for manufacturers and 60-90 days for wholesalers. Payment behaviour in this sector has been very good over the past two years. The number of non-payments and insolvency cases is very low, and it is expected that there will be no deterioration in the coming months, given that the business environment remains stable.
- However, potential US import tariffs on Japanese cars and car parts remain a major downside risk for the industry, as the US market contributes a significant share of revenues for most major OEMs and many Tier 1 and Tier 2 suppliers. US tariffs could severely impact Japanese suppliers of low value added/basic car parts, as OEMs could replace their products with tariff-free items.
- Although the Japanese government is promoting the use of electric vehicles (EV), any transition away from gas cars is expected to be very gradual. The production volume of EVs by Japanese OEMs is still relatively low. Given this gradual shift, the impact on suppliers to adapt (e.g. by investing more in R&D and shifting away from producing parts for combustion engines) will be limited over the coming 2-3 years. Therefore no market shake-up like in the EU is expected.
- Due to the generally positive indicators we currently assess the credit risk and business performance of the automotive sector as “Good”, and our underwriting stance continues to be very open for large manufacturers and Tier 1 suppliers
- We have adopted a neutral approach for smaller Tier 2 businesses, which often produce low-tech/substitutable products, have weaker financials, and are therefore more vulnerable to sudden changes in market sentiment. We closely observe any effects that an escalation of trade disputes could have on the sales and profit performance of manufacturers.

Japan: Automotive

	2018	2019f	2020f
GDP growth (%)	0.8	0.5	0.2
Sector value added growth (%)	1.0	0.3	-1.9

Average sector growth over the past 3 years (%)	2.2
Average sector growth over the past 5 years (%)	2.0
Degree of export orientation	high
Degree of competition	average

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

OEMs	Tier 1 producers	Tier 2 producers

Source: Atradius

Mexico

- According to OICA, Mexican vehicle production increased slightly (0.1%) to 4.1 million units in 2018, and 0.7% in H1 of 2019. Mexico has increased its share in the US market, partly compensating overall decreasing car sales in the US. However, domestic car sales decreased 6.4% year-on-year in H1 of 2019.
- In the short-term moderate production growth will continue as a result of foreign investment in the setup of auto parts and assembly factories. Stable sales of spare parts in the aftermarket segment are expected from a slight growth of the domestic vehicle fleet and a modest decrease in fuel prices.
- Manufacturers of car parts and assemblers are mainly subsidiaries of global groups, benefitting from robust foreign investment. Profit margins of OEMs and Tier 1 suppliers are expected to remain stable in the coming 12 months, while Tier 2 suppliers (mainly local-owned businesses) remain susceptible to commodity price changes and exchange rate volatility, with limited options to pass on higher prices to their customers.
- Payment terms in the Mexican automotive industry vary between 30 days and 90 days, while the average payment duration is 45 days. Payment behaviour has been stable over the past two years, and the number of protracted payments has been low. Most payment delays are in the auto parts dealers and retailers segment, which is exposed to price adjustments and exchange rate volatility. No substantial increase in payment delays or insolvencies is expected in the coming 12 months.
- Automotive businesses in Mexico are expected to gradually adjust to the USMCA agreement regulations. At the moment 70% of the industry in Mexico complies with the new rules of origin. According to USMCA, by 2023 40% to 45% of car parts must be made by workers who earn at least USD 16 per hour (average wages in the Mexican automotive sector are currently about USD 6 per hour). That means that in order to comply and to maintain competitiveness, Mexican businesses will likely accelerate the shift to production automation.
- Some OEMs already produce electric vehicles in Mexico, while others are preparing to start in 2020, without the production shift having a major impact on costs and profitability so far. However, the shift toward e-mobility could impact Tier 2 suppliers in the coming years, which would have to improve their level of specialization in order to meet the requirements of OEMs and Tier 1 players.
- Our underwriting position for the automotive sector is neutral for buyers involved in the vehicle production chain, but more cautious for buyers involved in the aftermarket segment and for car dealers, where businesses are affected by thin margins, strong competition and high levels of debt.

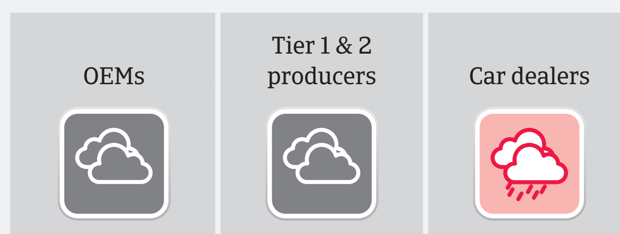
Mexico: Automotive

	2018	2019f	2020f
GDP growth (%)	2.3	2.2	2.4
Sector value added growth (%)	9.3	2.8	3.1

Average sector growth over the past 3 years (%)	5.5
Average sector growth over the past 5 years (%)	6.2
Degree of export orientation	very high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors



Source: Atradius

Poland

- For both OEMs and suppliers the burden of innovation in order to adjust to new emission standards is high, while the industry has to cope with declining demand. According to OICA, Poland´s automotive production decreased 4.4% year-on-year in 2018, and the decline continued in 2019 (down 3.5% in Q1 of 2019). Global economic uncertainties weigh on sector performance (55% of Polish automotive production value was exported in 2018).
- Competition is very high in the industry with price wars and consolidation pressures, particularly visible in the car parts distribution and car dealers segments. Profit margins in the automotive sector have steadily decreased since 2015 due to wage pressures and increased commodity prices. Margin deterioration will likely continue in the coming months, reinforced by rising R&D expenses necessary for electric vehicle development and adjustment to new emission requirements. Effective logistics and IT solutions in distribution as well as proper stock management are key success factors for businesses if they are to sustain their margins.
- Payment duration in the automotive sector is about 115 days, on average, in the car parts & accessoires production segment and about 75 days in the distribution subsector. We recorded a substantial increase in the number of non-payment notifications and credit insurance claims over the last 18 months.
- Given the current issues (decreasing production output domestically and in the EU, looming uncertainty about Brexit and trade wars, technological adjustments related to fuel emission reduction/shift to electric vehicles) we expect payment delays to rise further. Insolvencies are expected to increase by about 3% in the coming 12 months, mainly affecting car dealers, car part distributors and Tier 2 suppliers.
- In the coming 2-3 years we expect the shift to e-mobility to increase the credit risk for Tier 2 suppliers that cannot cope with changing demand, leading to higher insolvency levels. At the same time many Polish suppliers are rather resilient as they are part of large international groups. Some locally-owned suppliers recorded higher margins than in other sectors over the last couple of years and are well capitalized. It remains to be seen if financial buffers are high enough to adapt the product range.
- Our underwriting stance is generally neutral to restrictive for the sector. We increasingly consider whether manufacturers and suppliers are bound to innovation (electric/hybrid cars) or are overly dependent on diesel vehicles, and if they have the financial strenghth to invest in new technologies.
- We are more cautious with smaller Tier 2 companies due to heavy competition in this segment and lower bargaining power. The same accounts for distributors of car parts and tyres, as this subsector is characterized by low margins, intense competition and slow stock turnover.

Poland: Automotive

	2018	2019f	2020f
GDP growth (%)	5.2	4.3	3.2
Sector value added growth (%)	2.9	3.0	-2.1

Average sector growth over the past 3 years (%)	4.7
Average sector growth over the past 5 years (%)	6.2
Degree of export orientation	very high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

OEMs	Tier 1 & 2 producers	Car dealers

Source: Atradius

- Due to the high dependence on exports, a hard Brexit and/or any imposition of US import tariffs would have an adverse impact on the Polish automotive sector, especially for Tier 1 and Tier 2 businesses.

Spain

- Until 2017 the Spanish automotive sector benefitted from robust global demand. However since 2017, domestic vehicle production has started to decrease (albeit slightly) and the market outlook for 2019 remains subdued.
- Despite decreasing profit margins and more challenges ahead (increased global economic and political uncertainty, tighter environmental regulations, changes in concepts of mobility) many Spanish suppliers are financially resilient and therefore seem to be able to adapt to market changes.
- While external financing requirements and gearing are generally high in this sector, banks are willing to provide credit to the industry, for both short-term financing (working capital management) and long-term facilities (i.e. capital expenditure financing).
- On average, payments in the Spanish automotive sector take around 60 days. Payment experience is still good, and the level of protracted payments has not been overly high over the past couple of years. Non-payment notifications are low and we do not expect major increases in the coming months. The level of insolvencies in this sector is low and no major increase is expected in the coming 12 months.
- Currently we do not expect the market adjustment to lead to a serious deterioration of the credit risk situation in the Spanish suppliers segment in the coming 2-3 years. Many businesses are competitive and have international branches, benefiting from growing demand in some overseas markets in the coming years. We expect that the price pressure of OEMs on Spanish suppliers will remain limited so as not to provoke major supply chain interruptions, with the most likely scenario being joint adjustment efforts.
- That said, several Tier 2 players with already tight profit margins and high indebtedness may not succeed in adapting to the challenges ahead. Some insolvencies could occur, but in many cases larger players are expected to seize the opportunity of buying distressed smaller players in order to expand their market share and bargaining power against OEMs.
- Automotive is an important industry for Spain, accounting for 10% of GDP, employing 9% of the total workforce and providing investment in remote regions of the country thanks to the presence of assembling/production plants. Therefore, government support can be expected should too many businesses face trouble. Currently the Spanish government is trying to reach agreements with the main European manufacturers and with China to set up car battery factories in the country.

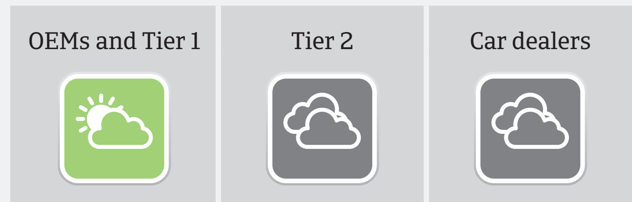
Spain: Automotive

	2018	2019f	2020f
GDP growth (%)	2.6	2.3	2.0
Sector value added growth (%)	-1.9	0.1	8.7

Average sector growth over the past 3 years (%)	2.3
Average sector growth over the past 5 years (%)	5.2
Degree of export orientation	very high
Degree of competition	very high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors



Source: Atradius

- Our underwriting stance remains generally open due to the low claims ratio, good payment behaviour and the industry's strengths. However, in the Tier 2 producer segment we are more cautious with smaller businesses that are showing financial weakness (e.g. high leverage, low profit margins). Car dealers are currently facing lower sales and strong competition.

Sweden

- The Swedish car producer segment is dominated by Volvo Cars in the passenger car segment and by Volvo AB and Scania AB in the truck segment. Those companies are mainly export-oriented (the export ratio amounts to more than 85%) and largely determine the performance of smaller Swedish suppliers. Automotive exports account for about 12% of Sweden´s GDP. Demand from the EU has weakened since the end of 2018 and in 2019 is expected to remain lower than in previous years.
- Due to its high export dependency the automotive sector is exposed to currency exchange risk, as most costs incurred are in Swedish krona. Currently the relative weakness of the Swedish currency still supports international competitiveness.
- Profit margins in the automotive industry have been rather high over the past two years, but are expected to deteriorate slightly in the coming 12 months. Most businesses should be financially resilient enough to cope with volatility in demand or commodity prices. The current interest rate environment (the Swedish benchmark interest rate remains at -0.25%) favours companies in servicing their debt, and banks are willing to lend.
- Depending on the level in the supply chain, payment duration in the automotive sector ranges from 30 to 90 days. The level of non-payments and insolvencies has been low over the last two years. We expect a slight increase in payment delays and insolvencies (up about 2%) in the coming 12 months, mainly triggered by the overall economic slowdown in Sweden and the EU.
- For the time being we do not expect that the credit risk situation of suppliers will seriously deteriorate in the coming 2-3 years due to the industry challenges ahead (shift to e-mobility, pressure from OEMs etc.). Most local suppliers produce high-quality parts, for which there will still be substantial demand in the future. At the same time the lion´s share of the industry is active in the commercial vehicle segment (trucks and buses), where the pressure to swiftly convert to e-mobility is currently still lower than in the passenger cars segment.
- However, given the currently weaker Swedish krona exchange rate it cannot be ruled out that certain suppliers take this competitive edge for granted, delaying innovations/investing in new technology and/or neglecting cost prudency.
- For the time being. our underwriting stance remains generally open to neutral for this industry, with no major restrictions on any subsectors.

Sweden: Automotive

	2018	2019f	2020f
GDP growth (%)	2.5	1.8	1.9
Sector value added growth (%)	7.8	1.0	2.9

Average sector growth over the past 3 years (%)	11.8
Average sector growth over the past 5 years (%)	8.0
Degree of export orientation	high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

OEMs	Tier 1 & 2 producers	Car dealers

Source: Atradius

Industries performance forecast per economy/market

September 2019

	Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrls	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							
India							
Indonesia							
Japan							
New Zealand							
Singapore							
Taiwan							
Thailand							
United Arab Emirates							

Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles
Good	Good	Fair	Fair	Good	Poor	Poor
Good	Fair	Fair	Fair	Poor	Good	Poor
Fair	Fair	Fair	Fair	Fair	Poor	Poor
Good	Fair	Fair	Bleak	Fair	Poor	Poor
Fair	Fair	Fair	Poor	Fair	Fair	Poor
Fair	Fair	Poor	Poor	Good	Poor	Poor
Fair	Good	Poor	Fair	Good	Poor	Poor
Good	Fair	Fair	Bleak	Fair	Fair	Poor
Fair	Good	Fair	Fair	Fair	Fair	Poor
Excellent	Good	Good	Fair	Good	Fair	Fair
Fair	Poor	Fair	Fair	Good	Fair	Fair
Fair	Fair	Poor	Poor	Good	Poor	Poor
Fair	Bleak	Fair	Fair	Poor	Fair	Fair
Fair	Good	Fair	Fair	Fair	Poor	Poor
Good	Fair	Fair	Poor	Good	Fair	Poor
Good	Good	Poor	Fair	Fair	Poor	Poor
Good	Good	Fair	Fair	Good	Poor	Poor
Good	Fair	Bleak	Poor	Poor	Fair	Poor
Poor	Fair	Poor	Poor	Poor	Poor	Poor
Good	Poor	Poor	Fair	Fair	Poor	Poor
Good	Fair	Fair	Poor	Good	Fair	Bleak
Good	Fair	Poor	Good	Good	Poor	Poor
Fair	Fair	Fair	Poor	Good	Fair	Fair
Good	Fair	Poor	Poor	Fair	Poor	Poor
Good	Fair	Bleak	Poor	Good	Bleak	Poor
Excellent	Fair	Poor	Fair	Good	Poor	Fair
Good	Fair	Poor	Good	Good	Poor	Fair
Good	Fair	Poor	Fair	Fair	Poor	Fair
Good	Fair	Fair	Fair	Good	Fair	Poor
Fair	Fair	Fair	Poor	Poor	Poor	Poor
Good	Fair	Fair	Fair	Good	Poor	Fair
Excellent	Fair	Poor	Fair	Good	Poor	Fair
Good	Fair	Fair	Fair	Fair	Poor	Bleak
Poor	Fair	Poor	Fair	Good	Poor	Poor

Excellent

Good

Fair

Poor

Bleak

Industry performance

Changes since July 2019

Europe

Czech Republic

Agriculture

Down from Good to Fair

A draught has resulted in lower crop yields, while costs for energy, labour, and feeding stuff are increasing.

Food

Down from Good to Fair

A major decline in sugar prices (due to a surplus after the lifting of the EU quota) is causing losses for sugar refineries. Meat processors are affected by rising pork prices, with a significant increase expected this year due to the negative effect of the African swine flu on Chinese pork supply. Additionally, energy and labour costs are increasing.

Machines

Down from Good to Fair

Machines demand from manufacturing has slowed down, leading to lower production and revenues. Rising energy and labour costs have a negative effect on margins.

Steel

Down from Fair to Poor

Steel demand from manufacturing is slowing down. At the same time steel producers are affected by rising energy and production costs, while the import of cheaper Chinese steel continues. Environmental regulations are putting additional pressure on the industry.

Germany

Machines

Down from Good to Fair

The business outlook has deteriorated as orders on hand have sharply decreased. Production is forecast to decrease 2% in 2019, with a further decline expected in 2020.

Metals

Down from Fair to Poor

Steel

Down from Fair to Poor

Steel and metal producers suffer due to deteriorating demand from key buyer sectors (automotive and machines) and high raw material prices (esp. for iron ore). Steel/metals service centers and traders were not able to reduce their stocks in spring as usual, and steel prices are expected to decrease further.

Slovakia

Agriculture

Down from Good to Fair

A draught has resulted in a lower crop yield, while costs for energy, labour, and feed stuff are increasing.

Food

Down from Good to Fair

A major decline in sugar prices (due to a surplus after the lifting of the EU quota) is causing losses for sugar refineries. Meat processors are affected by rising pork prices, with a significant increase expected this year due to the negative effect of the African swine flu on Chinese pork supply. Additionally, energy and labour costs are increasing.

Steel

Down from Fair to Poor

Steel demand from manufacturing is slowing down. At the same time steel producers are affected by rising energy and production costs, while the import of cheaper Chinese steel continues. Environmental regulations are putting additional pressure on the industry.

Asia/Oceania

Turkey

Automotive

Down from Good to Fair

Automotive sales declined 45% in H1 of 2019 due to poor domestic demand, high interest rates and decreasing exports. The downturn in production and sales is expected to continue in the coming six months.

United Kingdom

Steel

Down from Fair to Poor

The British steel market is negatively affected by the insolvency of a major producer in May, ongoing market consolidation, looming Brexit, and the uncertain future of some major infrastructure projects.

China

Automotive

Down from Fair to Poor

See article on page 5.

TABLE OF CONTENS
FULL REPORTS
MARKET PERFORMANCE AT A GLANCE
OVERVIEW CHART
INDUSTRY PERFORMANCE

If you've found this report useful, why not visit our website www.atradius.com, where you'll find many more Atradius publications focusing on the global economy, including more country reports, industry analysis, advice on credit management and essays on current business issues.

On Twitter? Follow @Atradius or search #marketmonitor to stay up to date with the latest edition

Connect with Atradius
on Social Media

@atradius

Atradius

atradius

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

info@atradius.com
www.atradius.com