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Coface "Panorama sectors"

14 business sectors

3 large regions: Emerging Asia, North America and the European Union

The gap between Europe and the rest of the world is widening with regard to sector risk

- **Globally, credit risk has increased in the metal industry and remains satisfactory in the energy and pharmaceutical sectors**
- **No sector in Europe has escaped the credit risk, while several sectors have seen their risk improve or be maintained at a contained level in Asia and in North America**
- **Focus: traditional retail channels face the boom in e-commerce, a source of risk and opportunities for companies**

Credit risks still high in Europe but the outlook is favourable in Emerging Asia and in North America

The unique indicator¹, developed by Coface economists and based on the payment experience of companies recorded by its underwriters, confirms a significant gap between sector risks in Emerging Asia and North America on one side and the European Union of 15 countries on the other.

In **Emerging Asia**, the risk is contained: three-quarters of the analysed sectors present a moderate or medium risk. This region is characterised by constant growth in corporate turnover, between 4% and 16%, depending on the sectors. Pharmaceuticals is benefiting from the growing middle classes in India and in China, both markets also new major players in the manufacture of active ingredients for the pharmaceutical industry. Within the energy sector, the solar segment is affected by the fall in panel prices and has as a result seen its credit risk increase. The textile-clothing sector also needs to be watched, particularly in China, due to the relocation of production towards lower-cost countries.

Overall, the **North America** sectors show a medium risk, apart from the metal industry, where the risk continues to be high because of the inflow of cheap Chinese steel. As for the energy sector, it has seen its credit risk improve thanks to low-cost shale gas available to American industry. The automobile industry recorded sales up 4% in February 2013, benefiting from the resurgence of household consumption. We also note that the chemicals sector remains competitive, particularly due to historically low gas prices.

¹ Coface's credit risk indicator is based on changes in financial data published by over 6,000 listed companies from Emerging Asia, North America and the European Union of 15 countries: the change in turnover, profitability, net indebtedness ratio, cash flow and claims observed by Coface analysts. It is broken down into four risk categories: moderate, medium, high and very high.

In Europe, there is not a single sector in which the credit risk is moderate. The situation is particularly worrying in the metal industry, which has overcapacity and is exposed to the difficulties of its main customers – the automobile and construction industries. These latter two sectors are considered as at risk too, because they remain very vulnerable to sluggish European domestic demand. In the electronics sector, credit risks are increasing, as illustrated by the sharp drop in sales of computers.

Traditional retail channels and e-commerce: towards a still risky hybrid European model

The retail sector which is undergoing great changes following the boom in e-commerce (with turnover having almost doubled in 5 years), has started its transition towards a hybrid economic model, combining the advantages of the two business models. The traditional model of physical stores has run out of steam. At the same time, e-commerce continues to grow, helped by increased internet connection rates, increased security of transactions and competitive prices, against the background of a squeeze on consumer purchasing power. The cases of the UK market, forerunner of e-commerce with 12% of global sales, and France, which has gradually caught up with its online consumption habits, reflect the general overall trends.

However, this business model convergence turns out to be a source of additional risk for companies in the sector, particularly in Western Europe where credit risk has increased sharply. This is illustrated by a deterioration in the payments experience recorded by Coface in the French retail sector, with the traditional segment displaying a certain vulnerability. In the future, players must demonstrate responsiveness and adaptability. Traditional distributors need to introduce both multi-channel and cross-channel systems, to optimise the management of both their stock and their store areas. However, faced with growing competition, risks also need to be monitored among the pure e-commerce players, who must rely on the support of solid backing groups for financial consolidation.

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About Coface

The Coface Group, a worldwide leader in credit insurance, offers companies around the globe solutions to protect them against the risk of financial default of their clients, both on the domestic market and for export. In 2012, the Group posted a consolidated turnover of €1.6 billion. 4,400 staff in 66 countries provide a local service worldwide. Each quarter, Coface publishes its assessments of country risk for 158 countries, based on its unique knowledge of companies' payment behaviour and on the expertise of its 350 underwriters located close to clients and their debtors.

In France, Coface manages export public guarantees on behalf of the French state.

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APPENDIX

Credit risk index *			
Sectors	Emerging Asia	North America	European Union (to 15)
Chemical	●	●	●
Pharmaceuticals	●	●	●
Wood-paper	●	●	●
Transportation	●	●	●
Mechanicals	●	●	●
Metals	●	●	●
Automotives	●	●	●
Construction	●	●	●
Energy	●	●	●
Agro-food	●	●	●
Retail	●	●	●
Textile-clothing	●	●	●
Services	●	●	●
Electronics, IT	●	●	●

Sources : Datastream, Coface
* At the end of March 2013

● Moderate risk ● Medium risk ● High risk ● Very high risk