P R E S S   R E L E A S E

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Quarterly sector risk assessments update

Sector risks remain under pressure in the emerging markets

- **Sectoral analysis expanded to 6 regions worldwide**
- **Sectors that are dependent on investment are more at risk than those tied to consumption**
- **Metals downgraded to "very high risk" in 4 out of 6 regions**
- **Sector upgrades in Europe, while sector risks are on the rise in emerging Asia and Latin America**

Corporate investment remains fragile

Global growth at half-mast (2.7% projected by Coface for 2016), under the impact of the highly volatility financial markets and continuing low oil prices, is compromising the health of industries analysed by Coface. Sectors that are dependent on business investment are more at risk, especially those in emerging Asia, Latin America and North America. Conversely, in both advanced and emerging economies, those tied to household consumption are the least affected. Weak growth in global trade (1.8% for the year to end February 2016) is another source of vulnerability. The pace of trading has slowed sharply since August 2015 (3%) and is particularly affecting carriers, especially shipping (80% of global trade).

Europe less and less risky

While none of the six regions analysed by Coface have been spared by the ever more challenging world economy, Europe is enjoying positive internal momentum. **Central Europe** continues to post lower risk than other regions, despite **the chemical sector** being downgraded to **"medium risk"**, due to the Chinese slowdown and the contraction of activities in Russia.

Activity in **Western Europe** is good, thanks to acceleration in consumption, which is the main engine of European growth. Both of the upgrades made by Coface this quarter concern this region.

- **The automotive sector** has a favourable outlook and has been upgraded to **"medium risk"**. This is supported by the 10.1% growth in sales of new vehicles (for the year to end February 2016) and the future renewal of ageing inventories.
- **Pharmaceuticals**, upgraded to **"medium risk"**, are sound in terms of growth, given the ageing European population, the end of fiscal austerity policies and the good payment experience recorded by Coface.

The downgrade in **textiles and clothing** in Western Europe to **"high risk"** is underlined by the rise in insolvencies (+1.3%) in France in 2015.

A wave of downgrades, in both advanced and emerging countries

The majority of the updates this quarter were downgrades. With chemicals in Central Europe and textiles and clothing in Western Europe, they totalled nine.

Metals have seen its assessment updated for the second time since the end of 2015, with credit risk becoming **"very high" in Latin America and the Middle East.** This movement followed a recent drop in the prices of primary metals, which is impacting business margins. This makes metals the riskiest sector in the world.

Also in **Latin America**, **pharmaceuticals** have been downgraded to **"medium risk"** in the context of very strong contractions in investment by oil companies (Petrobras: -24.5% over the 2015-2019 period; Ecopetrol: - 40% in 2016), which led to cuts in public spending, thus penalising consumption. The para-pharmaceutical segment should be the hardest hit, but public policies on drug reimbursement could also be amended and weaken the industry's players.

Contrary to Latin America, North America's energy sector does not represent a "systemic" risk to the region. However, the situation is worsening. 2015 saw the first cut in production of shale oil since the start-up of its development and the sector's business margins are in free fall. Even if forecasts look positive from the demand side, given the low oil prices, risk for the **North American energy sector** is becoming **"very high"**.

The **automotive industry in North America** has also seen a change in its risk assessment, now at **"medium risk"**. While growth in auto sales could remain positive (though still not comparable to 2015), the risks associated with "subprime" and "deep subprime" consumers are increasing. In addition to shrinking credit, the rise in interest rates approved by the Fed in December 2015 is impacting the cost of variable-rate loans (9 new vehicles out of 10 are financed on credit). Moreover, average loan periods are growing to 6 years, meaning that borrowers are excluded from the market for long periods, thus accentuating the loss in their vehicles' residual resale values.

Emerging Asia is beginning to show signs of saturation on the electronics market. This is particularly the case with PCs and tablets, the sales of which continue to contract. An increase in late payments is prompting a health watch on two connected sectors: those of **retail**, downgraded to **"medium risk"** and **ICT**, downgraded to **"high risk"**.

APPENDIX

SECTOR RISK ASSESSMENT

Sectors	Western Europe	Emerging Asia	North America	Latin America	Central Europe	Middle East + Turkey
Agrofood	Medium	Medium	Medium	High	Medium	Medium
Automotive	High ↗ Medium	Medium	Low ↘ Medium	High	Medium	Medium
Chemical	Medium	High	Low	High	Low ↘ Medium	High
Construction	High	High	Medium	Very high	Medium	High
Energy	High	High	High ↘ Very high	Very high	High	High
ICT *	Medium	Medium ↘ High	Medium	Medium	Low	Medium
Metals	Very high	Very high	High	High ↘ Very high	High	High ↘ Very high
Paper-wood	High	Medium	Medium	High	Medium	Medium
Pharmaceuticals	High ↗ Medium	Low	Medium	Low ↘ Medium	Medium	Low
Retail	Medium	Low ↘ Medium	Medium	High	Medium	Medium
Textile-clothing	Medium ↘ High	High	Low	High	Medium	Medium
Transportation	Medium	Medium	Low	High	High	Medium

Source: Coface
* Information and communications technologies

Low risk · Medium risk · High risk · Very high risk

↗ The risk has improved
↘ The risk has deteriorated

Sectoral risk assessment methodology

Coface's assessments are based on the financial data published by listed companies in six major geographic regions: Emerging Asia, North America, Latin America, Western Europe, Central Europe and Middle East + Turkey. Our statistical credit risk indicator simultaneously summarises changes in four financial indicators: turnover, profitability, net indebtedness, and cash flow, completed by the claims recorded through our network.

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