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Sector assessments revised in 6 global regions

Global sector risks in precarious balance

- **Mixed global sector trends**
- **Four sectors downgraded in North America: retail, textiles/clothing, transportation and paper/wood**
- **One sector downgraded in Western Europe: agrofood**
- **Two downgrades in Central Europe: construction and ICT*, for one upgrade (transportation)**
- **One downgrade in the Middle East: ICT**

2016: nearly one third of sectors were downgraded

At the end of 2016, global sector trends remained mixed, including in the regions that until now have been relatively spared by the increase in risks. Over the whole year, across 12 sectors evaluated in six regions of the world, nearly half saw their assessments change. There were 23 downgrades for 10 upgrades.

The trend is likely to continue into 2017. Global growth is still weak (estimated at 2.6%). Still-low commodity prices are weighing on the profitability of many sectors. The increase in political risk, provoked by uncertainties linked to the victory of Donald Trump in the US presidential elections, to *Brexit* and to a number of political events in Europe, could lead companies in the developed countries to postpone their investment decisions.

In the 4th quarter, North America became the most weakened region at a sector level

This quarter, North America is the region that has been most weakened by the increase in risks. After a net reduction in company insolvencies in 2014 (-16%) and 2015 (-12%), they figures are expected to stabilise in 2016, with then a slight increase of +1% in 2017. The sectors that depend on household consumption will suffer most from the slowdown in growth. The rate of increase in retail sales is already down one point over one year at the end of July 2016. The second increase in key lending rates since the 2008 financial crisis, which is expected in December, will increase the cost of loans and affect purchasing habits in poorer households.

- This has led Coface to downgrade its assessments of the **retail and textiles/clothing sectors** to “high risk”.

- Although the **transport sector in North America** is benefiting from low oil prices and the effects of the restructure begun around ten years ago, its prospects, particularly with regard to air traffic, are gloomy because of the downturn in consumption. It is now evaluated as “medium risk”.
- The **paper/wood sector** suffered from a sluggish trend in the construction market in the United States: between January 2016 and September 2016, growth in construction permits dropped from +12.5% to +2.3%. The risk in the sector is now “high”.

An increase in credit risk in Europe

Credit risks are increasing in Europe, despite a slight drop in the number of insolvencies.

In **Western Europe**, the **agrofood** sector dropped by a notch, to “high risk”. European grain producers, particularly in France and Germany, suffered from an adverse twofold effect of prices and volumes: unprecedentedly low production in an environment of low prices worldwide.

Central Europe saw two sectors downgraded (construction and ICT) and one upgraded (transportation).

- The situation in the **construction** sector, downgraded to “high risk”, is worsening because of the freezing of infrastructure projects in Poland, which could become the first European country to be penalised for non-compliance with European regulations on public deficit.
- The ICT sector, downgraded to “medium risk”, has suffered (as in the rest of the world) from moderate consumption, particularly due to the slowdown in global sales of smartphones. Credit risk is increasing because of downward pressure on prices and thus on company margins.
- **The transport sector**, the only one to be upgraded (to “medium risk”) benefits from the trend in consumption in the region and satisfactory growth prospects in the Eurozone. The sector only suffered in Poland, from its exposure to the United Kingdom.

A further downgrade in the Middle East: the ICT sector is robust but risky

In the Middle East, the risks in 3/4 of sectors are considered as “high” or “very high”. The most recent sector downgraded to “very high” risk is **ICT**, where margins have been affected by the market downturn, primarily linked to the drop in oil revenues. Moreover, re-exports to Iran will decrease, given the lifting of sanctions. Finally, the existence of a black market that is difficult to control has also contributed to the drop in profits on the legal market.

ANNEXE

SECTOR RISK ASSESSMENT						
Sectors	North America	Latin America	Central Europe	Western Europe	Emerging Asia	Middle East + Turkey
Agrofood						
Automotive						
Chemical						
Construction						
Energy						
ICT*						
Metals						
Paper-wood						
Pharmaceuticals						
Retail						
Textile-clothing						
Transportation						

Source: Coface
 * Information and communications technologies

Low risk
 Medium risk
 The risk has improved
 High risk
 Very high risk
 The risk has deteriorated

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