

Source: Atradius

Industry performance

Changes since January 2021 - Sources: Atradius, Oxford Economics

Agriculture



Remains Fair

Agriculture value added is forecast to grow by more than 8% in 2021 after a 4% contraction in 2020. The sector was partially impacted by lockdown measures (e.g. transport and supply chain issues).

After years of prolonged drought, the east coast of Australia recorded the first favourable weather conditions since early 2020, positively affecting the sector and the grain harvest in particular. The west coast is still experiencing drier than average weather conditions.

China has imposed tariff of 80% on Australian barley, and an export ban of eight of Australia's largest abattoirs have hurt related segments for beef and lamb. Beijing has also imposed import restrictions on lobster and cotton. Following an anti-dumping investigation into Australian wine by the Chinese government, China has imposed tariffs on Australian wine of up to 212%, starting since the end of November 2020. Given that China is the largest export destination for wine, this has had a negative impact on the segment's credit risk. The strained relationship with China, with potentially more import bans and tariffs, remains a downside risk and a threat to the sector as a whole, but it also creates opportunities to expand business relationships with other countries in the Asia-Pacific region.

Automotive/Transport



Up from Poor to Fair

Automotive value added is forecast to rebound by more than 8% in 2021 after a 3.6% contraction in 2020. According to the Federal Chamber of Automotive Industries, new vehicle sales increased 28.3% year-on-year in H1 of 2021, reflecting improved consumer and business confidence. Sales growth is expected to continue in the coming months. With international travel banned, many Australians are increasingly upgrading their vehicles as a redirection of discretionary spending. The share prices of ASX-listed vehicle groups have been experiencing rises over the past few months.

The transport sector has also performed well in H1 of 2021, supported by growth in total merchandise imports and exports. Due to government stimulus measures and insolvency protection laws, automotive and transport business failures have remained at a very low level. With a solid sector performance ongoing, this positive development is expected to continue in the coming months.

Chemicals/Pharmaceuticals



Remains Fair

While chemicals value added is forecast to contract by 0.5% in 2021, in 2022 a solid rebound of about 5% is expected. In H1 of 2021 the pharmaceutical industry performed well due to the ongoing surge in demand for health products, and value added is expected to grow by about 5% in 2021, and by 3% next year.

Construction/ Construction Materials



Remains Poor

Construction value added is forecast to rebound only modestly (by about 1.5%) in 2021 after a 6.7% contraction in 2020. After an already difficult year 2019 for the industry, the economic downturn last year has increased the already elevated credit risk of many construction companies, especially smaller players. With stimulus measures abating there has been a modest insolvency increase of those businesses which, without coronavirus-related government support, would likely have failed last year already. It is expected that more of those so-called "zombie companies" will fail over the coming twelve months.

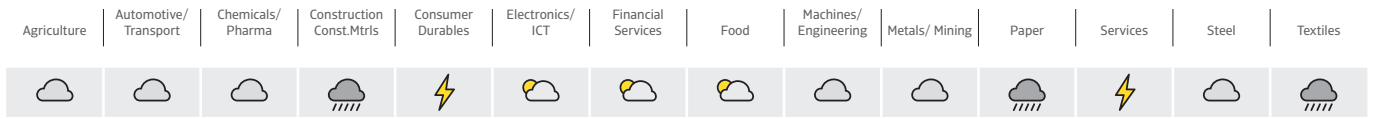
Consumer Durables



Remains Poor

Last year private consumption of non-food consumer goods deteriorated due to the coronavirus impact, with many brick-and-mortar retailers temporarily closed due to lockdowns. At the same time, e-commerce operators sharply increased their sales in 2020 and H1 of 2021. Electrical household appliance retailers still benefit from robust sales, as consumers continue to work from home and have upgraded some of their household appliances.

Household consumption in Australia is estimated to rebound by 6.5% after a 5.8% contraction last year, fuelled by solid employment growth, tax offsets for low- and middle-income earners, and rising house prices. However, the recent increase in coronavirus cases and the still low vaccination rate remain downside risks. Currently it is not expected that insolvencies will substantially increase in the coming months, as retailers have been largely successful in extending their digital channel sales. However, an economic downturn and the imposition of longer and stricter lockdowns could lead to rising business failures in the coming months.



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Electronics/ICT



Remains Good

ICT retailers and distributors have performed well, benefitting from a surge in demand for remote working solutions and accelerated digital transformation of businesses. ICT sector value added is forecast to increase by about 5% in 2021.

Payment experience in the sector has been good, with cash flows benefiting from government subsidies. The level of protracted default and insolvencies remains low, relative to other industries.

Financial Services



Remains Good

Profitability in the sector remains impacted by very low interest rates in Australia. Mortgage loan defaults have increased, in particular after the expiry of government stimulus measures (e.g. JobKeeper) in March 2021. Data is showing more than 1.5 million Australian households in mortgage stress, and more consumers are expected to struggle with cash flow in the coming months. That said, the sector remains resilient so far, able to cope with those challenges. Finance value added is expected to increase by about 1% in 2021.

Food



Remains Good

Food value added is forecast to contract by about 2.5% 2021, but to rebound by 3% next year. Food and beverage wholesalers and smaller retailers exposed to the food service and hospitality sectors could be impacted by lower demand as a result of recently imposed lockdowns.

Machines/Engineering



Remains Fair

Engineering value added is forecast to grow by about 0.5% in 2021 after a 1% contraction in 2020. Companies in this industry are generally financially resilient compared to other industries. Engineering and construction machinery benefit from the rollout of government infrastructure projects. Agriculture and mining machinery demand has remained steady throughout the pandemic.

A decent increase in machinery and components made in Australia is expected due to the government's AUD 1.5 billion investment in a so-called "Modern Manufacturing Strategy", which will help to strengthen manufacturers' supply chains and scale-up their businesses.

Metals/Mining



Remains Fair

Australia's mining industry benefits from the recovery of global demand and high commodity prices. Iron ore export earnings have reached an all-time high, given strong demand from China and supply problems in Brazil. Demand for metals such as lithium, copper, nickel and zinc is increasing, due to the rise of electric vehicle, batteries and renewable energy use.

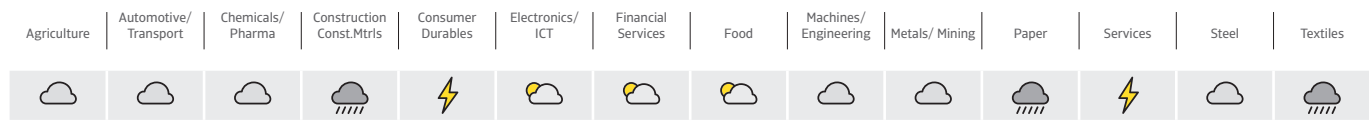
However, some analysts predict that iron ore prices will drop by the end of the year as Chinese demand cools down. Additionally, coal has been hit by lower demand due to the import ban from China, although producers have been trying to re-route supply to other markets such as India and Japan. Liquefied natural gas (LNG) exports are also under risk, as it appears that non-state owned LNG buyers in China have been asked to avoid accepting Australian deliveries.

Paper



Remains Poor

In 2020 paper producers were impacted by reduced demand due to lockdown measures, lower economic growth and the digitalization process. While the sector has benefited from the ongoing economic recovery, with many print businesses recording improved order levels, recently imposed lockdown measures could negatively affect the industry's rebound in H2 of 2021.



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Services



Remains Bleak

Due to the pandemic many segments have suffered sharply deteriorating revenues, especially hotels and catering, restaurants, bars, entertainment and cultural events, travel agencies and tour operators. There has been an increase in business closures, mainly in the arts and recreation, accommodation and food service segments.

The entertainment, hotel and restaurant industries recorded encouraging signs of business growth across Australia over the past couple of months, as leisure demand from domestic markets picked up again. However, many businesses have reported difficulties in meeting financial commitments over the coming three months (e.g. 37% in the arts and recreation and 25% in accommodation and food services segments). The recent imposition of new lockdowns due to rising infection numbers and a still low vaccination rate could pose serious challenges for the sector in the coming months. Hotel and catering value added is expected to rebound just 12% in 2021 after a 20% contraction in 2020.

Steel



Up from Poor to Fair

Strong global demand for steel and iron ore have resulted in surging prices and tighter supply. Steel wholesalers in Australia currently record robust revenues and profitability due to continued government investment in infrastructure and in the residential housing market. Steel companies' efforts to increase supply from overseas steelmakers have only partly been successful, due to a lack of available supply, and long lead times caused by slow shipping times.

Textiles



Up from Bleak to Poor

Textile wholesalers and retailers focused on the home improvement/furnishing/outdoor markets have enjoyed favourable market conditions during the pandemic, as consumers have increased their discretionary spending for those items during the pandemic. The spending surge has been supported by government stimulus and early access to superannuation savings.

Clothing and footwear wholesalers and retailers have benefited from the economic rebound since H2 of 2020. However, those gains are offset by increased competition from e-commerce, and sales growth is expected to slow down in the coming months.