

Source: Atradius

## Industry performance

Changes since January 2021 · Sources: Atradius, Oxford Economics

### Agriculture



#### Remains Fair

Agriculture value added is expected to decrease by about 4% in 2021. While the sector can be considered resilient with its essential consumption status, it remains impacted by price volatility of several key products. This year an unusual early spring frost damaged crops and vines across the country. As a consequence, the government has announced aid to the affected farmers.

### Automotive/Transport



#### Remains Bleak

Automotive sector output is forecast to increase by about 22% this year, after decreasing 28% in 2020. However, despite the strong rebound, the credit risk situation of many businesses remains strained, as the 2020 downturn has led to severe liquidity strains and cash shortfalls. Despite comprehensive stimulus measures (e.g. direct spending and tax break measures), many Tier I and Tier II subcontractors, and even some medium-sized businesses, are facing increased credit risk.

In the transport sector, French aerospace industry production will rebound by about 13%, but it recorded a contraction of more than 30% in 2020. Subcontractors will continue to suffer from subdued activity, with no real recovery expected before 2024-2025. As the segment needs to consolidate, many players will disappear in the short- and mid-term.

### Chemicals/Pharmaceuticals



#### Remains Fair

The chemicals sector has proved to be rather resilient during the pandemic. Although there were some disruptions in the supply chain, the whole industry was back on track in June 2020. Chemicals value added is expected to increase by about 7% this year. However, caution is advised when dealing with the plastics subsector, where many businesses are subcontractors dependent on aeronautics. Pharmaceutical businesses benefit from rising health expenses, with value added forecast to increase 3.5% in 2021 after growing 3% in 2020.

### Construction/ Construction Materials



#### Up from Bleak to Poor

With better growth prospects this year, the sector performance outlook has been upgraded by one notch, but due to some major issues it remains "Poor" for the time being. Construction was performing poorly before the coronavirus outbreak, with increased cash issues for businesses due to difficulties funding their working capital requirements. Construction output contracted 14% in 2020. While residential and non-residential building activity continued to decline in early 2021, the renovation work subsectors have remained resilient so far. Construction output is expected to rebound by about 12% in 2021, but material shortages, volatile input pricing and postponement of projects are weighing on businesses with tighter margins. Thanks to government support measures, construction insolvencies remained low in 2020 and Q1 2021, but a rise of business failures is expected towards the end of this year.

### Consumer Durables



#### Remains Poor

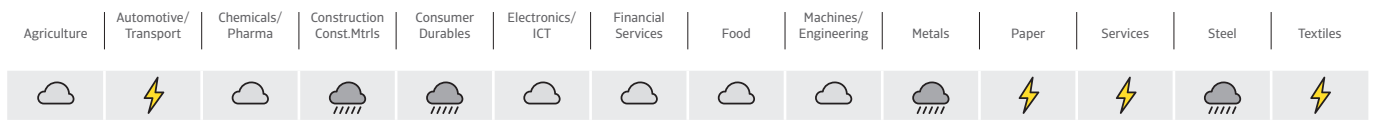
Retail value added contracted 9% in 2020, as private consumption of non-food consumer goods deteriorated due to the coronavirus impact, with many businesses temporarily closing due to lockdowns. While retail is expected to rebound 6% in 2021, worries remain about the mid-term deterioration of French consumers' purchasing power.

### Electronics/ICT



#### Up from Poor to Fair

Sales have deteriorated due to the closure of businesses because of the lockdowns, and some retail businesses face a reduced level of incoming cash flow. However, spending from businesses and employees on digital goods and services has increased due to the sharp rise of remote working, and ICT output is set to grow 5% this year. Therefore, the sector performance outlook has been upgraded by one notch, from "Poor" to "Fair".



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### Financial Services



#### Remains Fair

Rising financial troubles for businesses and consumers alike leading to increased non-performing loans remain a downside risk for the industry. However, the financial sector is supported by a significant amount of cash injected by the government (state-guaranteed loans) to support businesses. Both French banks and insurance companies remain financially resilient, and the finance sector value added is forecast to grow by more than 4% in 2021 after a 5% decline in 2020.

### Food



#### Remains Fair

While a number of businesses still suffers from the closure of several distribution channels (e.g. restaurants and catering) and faces higher credit risk, most segments remain resilient. Food value added is forecast to increase by about 3% in 2021.

### Machines/Engineering



#### Up from Bleak to Fair

Machinery output is set to rebound 13% in 2021, after a contraction by the same figure in 2020. After a difficult time, due to the freeze in investments by many industries, a rebound has started since late 2020. The outlook remains positive for H2 of 2021 and for 2022, as previously postponed capital investments will finally be realized. Therefore, the sector performance outlook has been upgraded by two notches, from "Bleak" to "Fair".

### Metals



#### Up from Bleak to Poor

In H1 of 2020, metal producers and traders suffered due to deteriorating demand from key buyer sectors (automotive, aeronautics, construction and machines) and/or supply chain disruptions. However, activity in the metals industry was back to pre-crisis level by August 2020. The industry has benefited from activity in public works and a good price level. Both order and sales will increase further, as demand from some key buyer industries (automotive, construction and machines/engineering) is rebounding. Metals value added is forecast to increase 17% in 2021, after a contraction by the same number in 2020. While producers currently benefit from higher sales prices due to increasing demand and shortages of metal products, higher input prices due to a lack of raw materials are an issue. Additionally, businesses could still face serious strains in cash flow once government support measures expire.

### Paper



#### Remains Bleak

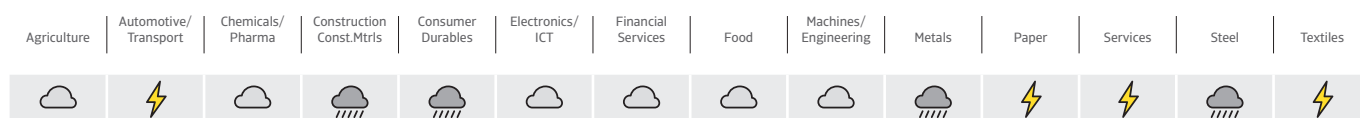
Paper producers have been impacted by less demand due to lockdown measures and the ongoing digitalization (graph paper is the main segment affected). After a 4% contraction in 2020, paper value added is forecast to rebound only 1% in 2021. Despite the general issues, some niche segments linked to packaging and hygiene-related sectors are rather resilient.

### Services



#### Remains Bleak

Due to the comprehensive lockdown measures many segments have suffered heavily, especially hotels and catering, restaurants, bars, entertainment and cultural events, travel agencies and tour operators. After a 10% contraction in 2020, service output is expected to rebound by about 4% this year. The recovery of the tourism sector back to past levels will take some time. Tourism flows will not fully recover in 2021, as some people will refrain from travelling to limit health risks. As restrictions are eased, the severely hit hotel and catering segment will rebound, but by only about 8% in 2021, after a 29% contraction last year.



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### Steel



#### Up from Bleak to Poor

Steel producers and traders will see a recovery in orders and sales this year, as demand from some key buyer industries (automotive, construction and machines/engineering) is rebounding. French iron and steel value added is forecast to increase 17%, after an 18.5% contraction in 2020. While producers currently benefit from higher sales prices due to increasing demand and shortages of steel and metals products, higher input prices due to a lack of raw materials are an issue. The number of players active in the industry has decreased over the past couple of years, with mainly larger ones remaining. For them, the risk of business failures is currently not overly high.

### Textiles



#### Remains Bleak

Producers, wholesalers and retailers already suffered before the coronavirus outbreak from fierce competition and thin margins. Furthermore, they have been affected by deteriorating sales due to the lockdowns and declining private consumption. After shrinking in 2018 and 2019, textiles value added contracted again in 2020, by 18%, with only an 8% rebound forecast in 2021. Brick-and-mortar retailers in particular struggle with low cash flow while facing high fixed costs. Insolvencies and business closures increased in 2020, and more business failures are expected in 2021.