



market monitor

Focus on consumer durables retail
performance and outlook



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On the following pages we indicate the general outlook for each sector featured using these symbols:



Excellent



Good



Fair



Poor



Bleak



A look beyond sales figures

When looking (solely) at 2014 turnover and sales figures, the performance of consumer durables retailers seems to be satisfying at first sight. Sales increased in most countries discussed in this issue of Market Monitor, and are expected to do so again in 2015. It seems that the worst is over for the retail industry, after the sector suffered severely during the economic crisis, with sharp insolvency increases and a comprehensive market adjustment in many economies.

Today, the business environment seems to be more benign, and indeed, many larger players are enjoying good business results. However, many smaller and mid-sized consumer durables retailers' margins remain tight or are even decreasing further. Despite the exit of many players during the crisis, competition between brick-and-mortar shops remains fierce, and is exacerbated by the rising challenge online retailers pose to the traditional high street: price transparency made available to consumers by online retailers maintains pressure on margins along the whole value chain - mainly in markets where consumers remain stubbornly price sensitive as a legacy of the recession.

Therefore, consumer durable retailers' business success and resilience increasingly depend on their ability to adopt new strategies, e.g. building-up and expanding their online business and/or offering additional services. However, this requires the willingness to change as well as financial investments, and it remains to be seen if many of the smaller, already struggling retailers have those means to realign their businesses in order to remain competitive.

Germany

- Robust domestic demand expected to continue in 2015
- Margins remain under pressure due to e-commerce
- No negative trends in payment delays and insolvencies



Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✓		
Development of non-payments over the coming 6 months			✓		
Trend in insolvencies over the last 6 months			✓		
Development of insolvencies over the coming 6 months			✓		
Financing conditions	very high	high	average	low	very low
Dependence on bank finance			✓		
Overall indebtedness of the sector			✓		
Willingness of banks to provide credit to this sector		✓			
Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months				✓	
General demand situation (sales)			✓		

Source: Atradius

According to the German Statistics Office, non-food retail turnover (excluding car sales) increased 1.9% year-on-year in 2014, after a slight 0.1% decrease in 2013. German consumer durables retail benefits from the country's robust economic performance, with household consumption expected to grow 2% in 2015 after 1.2% registered in 2014.

Between 2011 and 2013, a main issue for consumers (and subsequently for the retail sector) was higher inflation, triggered mainly by increased prices for fuel, electricity and food, which had a negative effect on spending for other goods. However, in 2014 inflation decreased to 0.9%, due to sharply decreased oil prices and a modest rise in food prices. German inflation is forecast to remain low in 2015, at 0.8%, while the (already low) unemployment rate is expected to decrease further. Both factors will most probably sustain consumer durables sales.

According to the research institute GfK, in 2014 sales of large electric domestic appliances increased 5.2%, to EUR 8.5 billion and 4.6%, to EUR 3.5 billion for small electric domestic appliances. GfK expects sales growth of those items to continue in 2015, given improved consumer confidence and low inflation.

According to the German association of furniture industries BVDM, in 2014 furniture turnover increased 1.8%, to EUR 31.3 billion. In 2015, another increase of around 1.5% is expected, due to the rising number of building licenses and households in Germany. The 10 largest furniture retailers hold about 48% of the market share, and this percentage is growing as the trend of consolidation progresses. Therefore, smaller and mid-sized furniture retailers are still struggling to cope with the fast growing market leaders. At the same time, they are facing additional pressure from online retailers.

**Germany: Consumer durables retail sector
(excl. automotive)**

	2013	2014e	2015f
GDP growth	0.2	1.5	1.6
Sector value added growth	0.2	1.3	1.5
Sector share in the national economy (%)			3.8
Average sector growth over the past 3 years (%)			0.6
Average sector growth over the past 5 years (%)			1.3
Degree of export orientation			low
Degree of competition			high

Source: IHS Global Insight, Atradius

Payment terms in the consumer durables retail segment vary between 30 days and 120 days and even longer, depending on the market power of individual retailers. In general, however, they range from 30 days to 60 days. Payment behaviour in the German consumer durables sector has so far remained both good and stable, and we expect no major changes as the general outlook for all subsectors is positive. However, when businesses cannot pass on increased costs to customers/consumers or compensate for this with savings elsewhere, they might demand extended payment terms. We monitor payment behaviour closely in all subsectors and inform our customers immediately of any deterioration.

Price transparency, made available to consumers by online retailers, maintains pressure on margins along the whole value chain. However, the sector is still quite resilient, with no negative developments for payment behaviour or insolvency expected this year.

Across all subsectors, we still see consumer durables retail as a medium-risk sector. We maintain close contact with consumer durables buyers, with whom we have built good relationships over recent years. Generally, our emphasis is on inspecting financial results shortly after publishing (annual results, interim results, latest budget and liquidity plans), especially if we are to cover larger exposures. We do not cover newly established firms during their first year of business unless they are members of a well-known group or have branched out from an established company.

At the same time, we closely observe the growing competition between online and brick-and-mortar retailers. The share of e-commerce as a percentage of total retail turnover has increased to nearly 9% in 2014 and is expected to continue to grow. In order to stay competitive, brick-and-mortar businesses have to add online sales channels and/or provide extra services, such as comprehensive customer sales advice and sales or return offers. However, it remains to be seen if even then customers are willing to purchase goods, given higher prices.

German consumer durables retail sector

Strengths

Many long-established, financially strong family businesses**Experienced and reliable management**

Weaknesses

Strong competition for brick-and-mortar from e-commerce**Highly dependent on consumer sentiment**

Source: Atradius

The Netherlands

- Rebound since 2014, but margins remain under pressure
- No major insolvency decrease expected in 2015
- Online sales increasingly essential for business survival



Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months				✓	
Development of non-payments over the coming 6 months			✓		
Trend in insolvencies over the last 6 months			✓		
Development of insolvencies over the coming 6 months			✓		
Financing conditions	very high	high	average	low	very low
Dependence on bank finance		✓			
Overall indebtedness of the sector		✓			
Willingness of banks to provide credit to this sector				✓	
Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months				✓	
General demand situation (sales)		✓			

Source: Atradius

Subdued consumer spending was one of the main reasons for the Netherlands' poor economic performance in 2012 and 2013, when measures to trim the budget deficit, a persistent slump in the Dutch property market (that has left many home owners in negative equity) and higher unemployment heavily weighed on consumer confidence. After two years of contraction, the Dutch economy rebounded again in 2014, by 0.8%, and is forecast to grow 1.7% in 2015. However, this recovery is expected to remain fragile for the time being. In 2014, Dutch consumers' purchasing power grew again for the first time in four years, by 1.5%, and another 0.5% increase is expected in 2015. Although private consumption continued to shrink slightly in 2014 (down 0.1%), it is forecast to increase 0.9% in 2015, fuelled by higher disposable incomes. While stronger consumption growth is still held back by lower house prices, this effect is at least bottoming out. However, the debt ratio of Dutch households of around 130% of GDP is still higher than that of its EU neighbours.

Despite the still fragile situation, in 2014 Dutch retail trade has benefited from higher consumer confidence, economic growth and purchasing power. According to Statistics Netherlands (CBS), retail sales volumes increased 1.0%, the first year-on-year growth since 2008. Mainly non-food shops registered turnover and sales volumes increases. However, sales prices continued to decrease due to the strong competitive business environment.

Sales volumes increased in the consumer electronics (up 7%) and do-it-yourself (DIY, up 2.6%) segments; however, sales volumes of household items shrank 0.8%. Furniture and household appliances still suffer because consumers are bound by tough financing rules and have less to spend on those items.

In 2015, non-food retail sales volume growth is forecast to accelerate to 1.3%, given increasing consumer confidence and rising household consumption. While demand is improving, it is also expected that competition and subsequent pressure on prices



The Netherlands: Consumer durables retail sector (excl. automotive)

	2013	2014e	2015f
GDP growth	-0.7	0.8	1.7
Sector value added growth	-3.8	0.8	1.5
Sector share in the national economy (%)			3.0
Average sector growth over the past 3 years (%)			-2.0
Average sector growth over the past 5 years (%)			-1.7
Degree of export orientation			low
Degree of competition			high

Source: IHS Global Insight, Atradius

will remain high, and the deterioration of profit margins of many businesses in this industry will continue. At the same time, access to bank loans remains limited for many companies.

On average, payments in the Dutch consumer durables retail sector take around 60 to 90 days. While notifications of late payments still increased in 2014, we expect them to level off in the coming months, given better growth prospects for the industry. Retail insolvencies decreased 30% year-on-year in 2014, to 644 cases. However, in January 2015 insolvencies increased again, and in contrast to the general Dutch business insolvency development, we expect no further significant decrease in the coming months.

Our underwriting stance remains cautious, given the on-going difficulties in this sector. Close attention is paid to businesses' turnover and margin development as well as their ability to sell online. Given persistent overcapacities, especially in the brick-and-mortar businesses segment, non-food retailers' resilience and ability to survive increasingly depends on successfully combining offline (shopping floor) and online sales channels.

This accounts for all retail subsectors such as clothing, shoes, textiles, furniture, household appliances, DIY, consumer electronics and personal care. According to CBS, following increases of 9% in 2012 and 10% in 2013, both considered to be difficult years for the sector, mail order and web-shop retailers' turnover increased nearly 10% in 2014. It cannot be excluded that businesses unwilling or unable to adapt to the changes in shopping behaviour will sooner or later cease to exist. This trend could mainly affect smaller businesses, which often lack the required financial strength to make the necessary investments.

Dutch consumer durables retail sector



Strengths

Improving consumer confidence and household spending



Weaknesses

Low margins

Highly competitive business environment

Traditional aptitudes of many businesses

Source: Atradius

Spain

- Growth expected to continue in 2015
- Fewer non-payment cases in 2014
- The insolvency environment remains stable



Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months		✓			
Development of non-payments over the coming 6 months		✓			
Trend in insolvencies over the last 6 months			✓		
Development of insolvencies over the coming 6 months			✓		
Financing conditions	very high	high	average	low	very low
Dependence on bank finance		✓			
Overall indebtedness of the sector			✓		
Willingness of banks to provide credit to this sector		✓			
Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months			✓		
General demand situation (sales)		✓			

Source: Atradius

The rebound of the Spanish economy is gaining momentum, and this bodes well for the consumer durables retail sector, as this recovery is mainly driven by domestic demand. Spanish GDP is expected to increase 2.2% in 2015 after 1.3% in 2014, while private consumption is forecast to increase 2.8% in 2015 after growing 2.3% last year (in 2011 and 2012 private consumption contracted). Accelerating job growth and a better economic environment have lifted consumer confidence, as well as the fact that households' expectations of their own financial situation has improved. Another important factor for the 2014 rebound was the more favourable pattern of consumer financing. Financial institutions have developed a greater willingness to grant loans to small businesses and to households for consumption.

Vehicles: The extension of the PIVE (Efficient Vehicle Incentives Programme) led to higher sales in H1 of 2014, while demand softened in H2. In 2014, around 860,000 units were sold in Spain, a 19% year-on-year increase. It is forecast that close to 900,000

units will be sold domestically in 2015, assuming the PIVE is maintained and the economic rebound continues.

Furniture: In 2014, the first increase in housing investment since 2007 boosted activity in the furniture sector, and turnover increased in each of the first three quarters of the year (by 5.3%). The rebound forecast for the housing market in 2015 should sustain furniture sales increases.

White goods: In 2014 turnover increased 7.5%, with all segments recording growth. However, sales prices decreased.

Brown goods: Sales of mobile devices increased in 2014. In the consumer electronics segment, sales increased mainly in H1 of 2014 due to the FIFA World Cup.

Looking forward, the forecast for Spain's economy seems to sustain further consumer durables sales in 2015. However, for

**Spain: Consumer durables retail (excl. automotive)**

	2013	2014e	2015f
GDP growth	-1.2	1.3	2.2
Sector value added growth	-5.2	0.3	2.3
Sector share in the national economy (%)	4.8		
Average sector growth over the past 3 years (%)	-1.9		
Average sector growth over the past 5 years (%)	-1.7		
Degree of export orientation	low		
Degree of competition	high		

Source: IHS Global Insight, Atradius

some segments growth could be lower, given high purchase levels already seen in 2014. At the same time, competition throughout all sectors is high, and profit margins remain low.

The consumer durables retail sector has shown relatively good payment behaviour in 2014. We registered decreasing notifications of non-payments in 2014, and expect that payment delays will decrease further in the coming months. In any case, we monitor payment behaviour closely in all subsectors and inform our customers immediately of any deterioration. The insolvency environment is stable, with no major increases expected.

While our underwriting approach is still cautious, due to the recovery of the consumer durables sector and businesses' better access to external financing, we are more comfortable in increasing our exposure. However, in the white and brown goods segments, margins are generally low, and due to the higher sales in 2014, turnover growth could be more modest in 2015. Therefore, this subsector requires more attention and monitoring.

Spanish consumer durables sector

Strengths

The importance of the sector within the Spanish economy

Household consumption growth forecast to accelerate in 2015



Weaknesses

Strong competition, pressure on margins and high dependence on consumers' credit

Highly dependent on still weak sectors (e.g. real estate and housing)

Source: Atradius

United Kingdom

- Consumption growth continues in 2015
- Margins remain tight
- Payments take 60 days on average



Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✓		
Development of non-payments over the coming 6 months			✓		
Trend in insolvencies over the last 6 months			✓		
Development of insolvencies over the coming 6 months			✓		
Financing conditions	very high	high	average	low	very low
Dependence on bank finance		✓			
Overall indebtedness of the sector		✓			
Willingness of banks to provide credit to this sector		✓			
Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months			✓		
General demand situation (sales)		✓			

Source: Atradius

2014 was a strong year for the British retail sector, with consumer demand (private consumption increased 2.3%) being one of the primary drivers for the 2.6% GDP growth. Consumer confidence and discretionary income have shown significant improvement over the past 12 months. The overall trend in consumer durables retail performance over the past 18 months has been an improving one, with like-for-like sales increasing. One driver of demand in household appliances has been the recent pick up in housing activity.

Given the current forecast of 3.1% private consumption increase and 2.7% GDP growth, it is expected that consumer durables retail will perform well in 2015. However, there are also concerns over whether this rebound will continue as real wages stagnate.

The retail sector experienced extremely difficult business conditions during the economic downturn with high insolvency numbers, as many companies could not cope with the adverse busi-

ness environment, often due to an unprofitable store portfolio that retailers were unable to downsize. And while the economic downturn has been overcome, it has nevertheless changed the way many consumers shop today - with greater price sensitivity, and an increasing reluctance to purchase 'big-ticket' items. Margin pressure remains an issue for many businesses, and the key to success is being able to sell stock as close to full price as possible. There will of course be periods in which retail businesses will have to be on 'seasonal sale', but the ability to keep these periods to a minimum is key.

A major area of discussion in recent months has been the performance of the major British supermarket chains. German discounters Aldi and Lidl have grown rapidly in the past two years, as their low-cost no-frills convenience model has become very popular with British consumers. Large British retailers such as Tesco, Asda, Sainsbury's and Morrison's have struggled to adapt to this, with their large out-of-town store network not proving

**UK: Consumer durables retail sector
(excl. automotive)**

	2013	2014e	2015f
GDP growth	1.7	2.6	2.7
Sector value added growth	1.1	2.6	2.4
Sector share in the national economy (%)			5.5
Average sector growth over the past 3 years (%)			0.9
Average sector growth over the past 5 years (%)			0.8
Degree of export orientation			low
Degree of competition			high

Source: IHS Global Insight, Atradius

as popular as they once were. They all remain very strong businesses, but the impact that Aldi and Lidl have on the market will continue to be felt by them in 2015.

On average, payments in the consumer durables retail industry take 60 days, and we do not expect any significant increase in payment delays in the foreseeable future. The consumer durables retail sector's default/insolvency rate is average compared to other British industries, and we do not expect a major increase. However, there are always some retail insolvencies in the immediate aftermath of Christmas, as traditionally this is a time when businesses would fail. Usually, those are retailers that already looked fragile for some time (e.g. loss making stores). There have been high profile retail insolvencies following the Christmas period of 2014 (Austin Reed entering a company voluntary arrangement, CVA, USC and Bank Fashion went into administration). Those business failures are a reminder that the British retail market remains extremely competitive, and changing shopping behaviour, i.e. increasing price sensitivity and a growing share of online retail sales, mean that insolvencies will continue to occur.

We maintain a cautious approach to underwriting in this area. Retailers have a good awareness of credit insurance and are therefore usually willing to share confidential financial information. This enables us to make the best informed decision. Seasonality is a major factor in the retail sector, particularly around the Christmas period, and we therefore actively encourage our customers to consider seasonal peak requirements well in advance, so that we can ensure we are able to satisfy their demand. Management accounts are generally reviewed on a six month basis, but in more critical cases, these are scrutinised on a quarterly basis.

UK consumer durables retail sector

Strengths

Buoyant demand and consumer confidence**Well invested multi-channel proposition****Positive economic outlook**

Weaknesses

Saturated market in parts**Changing profile from physical store to online****Vulnerable to sudden market shocks**

Source: Atradius

United States

- Increasing sales expected in 2015
- Insolvencies expected to level off
- Competition remains high and profit margins tight



Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months				✓	
Development of non-payments over the coming 6 months			✓		
Trend in insolvencies over the last 6 months		✓			
Development of insolvencies over the coming 6 months			✓		
Financing conditions	very high	high	average	low	very low
Dependence on bank finance			✓		
Overall indebtedness of the sector			✓		
Willingness of banks to provide credit to this sector		✓			
Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months		✓			
General demand situation (sales)		✓			

Source: Atradius

The general outlook for the US consumer durables industry remains positive. Although the recovery of the US housing market has been slower than expected, it is still sufficiently strong to benefit home products companies, which generate about half of the consumer durables retail sector's revenue and operating profit.

Given the combination of discretionary and non-discretionary demand for consumer products, core macroeconomic indicators correlate with consumer spending as well as indicators that influence consumers' willingness to spend on 'bigger ticket'-items. The US economy grew 2.4% in 2014 and is expected to increase 3.1% in 2015, while unemployment is expected to drop to 5.5% in 2015. Together with improving consumer sentiment, those indicators support higher top-line sales growth.

That said, it is expected that the Federal Reserve will raise the currently low interest rate of 0.25% this year, possibly as early as June 2015, as the US economic rebound gains momentum. This could dissuade consumers from taking on more debt in order to fuel spending, and therefore impede consumer durable demand growth to a certain extent. Consumer durables retailers' aggregate operating profit is expected to increase 5.0%-5.5% over the next 12 to 18 months. This is slightly down from a prior forecast of up to 6% growth, due to the uneven housing market recovery as well as to rising food and healthcare costs, which could hamper consumer durables spending by middle-income consumers.

While the improvement of the housing market remains uneven, the generally positive trend will nevertheless benefit home products companies, because consumers typically replace appliances, mattresses, carpets and furniture when they buy or build a home. Replacement demand remains a key driver of growth in the current economic environment, especially for major appliance-

**USA: Consumer durables retail sector
(excl. automotive)**

	2013	2014e	2015f
GDP growth	2.2	2.4	3.1
Sector value added growth	1.1	3.3	3.1
Sector share in the national economy (%)			4.7
Average sector growth over the past 3 years (%)			1.4
Average sector growth over the past 5 years (%)			1.7
Degree of export orientation			low
Degree of competition			high

Source: IHS Global Insight, Atradius

es, bedding, and lawn and garden equipment. The replacement cycle for home products bought during the mid-2000s housing boom is beginning to take hold, as many of these products last 5 to 10 years. If economic growth and housing market rebound continue as forecast, it is expected that consumers will move forward with deferred purchases, releasing pent-up demand.

However, despite the principally good outlook for consumer durables retail, there is always the risk that sales prices may suffer if demand unexpectedly slows and competition intensifies. And while high earners continue to spend, thanks to gains in the housing and equity markets, many middle-income consumers still remain cautious, partly due to the rising food and healthcare costs.

Mergers and acquisitions and shareholder returns are expected to increase in the US consumer durables sector in the coming 12 to 18 months. Higher-rated companies will continue to increase shareholder returns through dividends and share repurchases as earnings and cash flows improve.

Our outlook for the overall consumer durables sector should be viewed as mildly conservative. Specific industry subsectors may be viewed more positively than others. For example, the outlook for household appliances remains positive in 2015. Despite the general upswing, the consumer durables retail sector continues to be characterized by increased competition and continued price and margin pressure. Therefore, businesses within the industry should be carefully evaluated and liquidity should be closely observed. Payments take 90 days on average, and we noticed increasing non-payments in the last couple of months. However, we do not expect them to increase further in the coming months. Insolvencies have decreased in 2014 due to better performance, and are expected to level off in the coming months.

For smaller credit limits we will take into consideration the years in operation and other available credit information. If this information does not support the coverage, we further look to obtain recent financial statements and detailed trading experience. In considering coverage on a buyer that belongs to a group, we attempt to obtain financial statements specific to the subsidiary. If this is not possible, the strength of the parent is taken into consideration and the group strategy is used as a reference for the final decision. Depending on the size of the request, we often contact the owner of the parent company requesting an updated opinion on the group.

US consumer durables retail sector

Strengths

Increasing private consumption and decreasing unemployment

Home products companies will benefit from the improving housing market

Mergers and acquisitions will continue to increase revenue and earnings



Weaknesses

Late payments in the sector

Middle-income consumers remain reluctant to spend

Still consumers defer replacing goods like furniture and mattresses beyond their normal replacement cycle

Source: Atradius

Market performance snapshots

Canada

- Retail sales decreased in December 2014
- Longer payment terms requested by retailers
- More payment delays and insolvencies expected



In 2014, Canadian retail trade grew 4.6% (to CAD 505.5 billion), following growth of 3.1% in 2013. Furniture and home furnishing retail showed strong gains, growing 3.8% (to CAD 15.9 billion); more than double the growth of 1.3% experienced in 2013. Electronics and appliances retail recorded slower, but acceptable growth of 1.5%, increasing to CAD 14.9 billion. Sporting goods, hobbies, book and music store retail showed significant growth of 5.6% in 2014 – increasing to CAD 11.5 billion. At the end of 2013, the Bank of Canada cautioned consumers about high debt levels, indicating that restraint in household spending was needed. This message appeared to take hold in 2014 as household debt levels stabilised, with no apparent negative impact on retail sales in the first three quarters of the year. However, Canadian consumer confidence has weakened in Q4 of 2014 and remains volatile, mirroring concerns over the state of the Canadian economy, as economic growth is expected to slow down to 1.9% in 2015. According to Statistics Canada, retail sales already decreased 2.0% year-on-year in December of 2014 – the largest decrease since April 2010.

Payment delays in the Canadian consumer durables retail sub-sector have increased in H2 of 2014 – and with retail sales dropping in December, further increases in reported delinquencies are expected. Retailers are moving away from requesting cash discounts (advanced payments) from suppliers and are requesting longer terms of payment, e.g. pay when sold terms of sale. This could lead to increased payment delays; however, as many retailers tightly manage their inventory levels (preventing over-supply issues), payment re-scheduling is not yet (that) problematic.

According to the Office of the Superintendent of Bankruptcy, retail insolvencies decreased 5.7% year-on-year in 2014; from 528 to 498 cases. However, at the same time, some larger multi-location chain-stores have filed for creditor protection/bankruptcy or announced store closures in late 2014/early 2015. It is expected that consumer durables retail insolvencies will increase in 2015, as many businesses' profit margins are under pressure, competition is high and the pressure on brick-and-mortar stores from online retailers increases. Weaker players that cannot adjust to the changing market conditions will face major problems.

Given those developments and the recent downswing in consumer sentiment, our underwriting stance has become more restrictive. We are closely monitoring economic issues that could negatively impact the industry's performance, e.g. increases in unemployment, volatile Canadian dollar, rising inflation and/or other adverse economic trends resulting in weaker consumer confidence.

Our customers selling into this sector typically have longer risk horizons (terms of sale, maximum extension periods, pre-credit coverage) and seasonality issues. For buyer risks where the credit and/or financial information is not fully supportive of the cover requested, the quality and capabilities of our customer's credit department is taken into account: as effective credit management, coupled with high demand products, can be strong loss mitigating factors. To assist customers, underwriters make themselves as available as possible to explain the rationale for their decisions.



China

- Growth rates remain high
- Decreasing profit margins for household appliances retailers
- Payments take between 45 and 90 days



China's retail industry has seen substantial growth rates in recent years, due to rising disposable incomes and booming urbanization. In 2014, domestic consumption surpassed investment to become the strongest driving force of the Chinese economy, accounting for 51.2% of GDP growth.

However, the Chinese retail market remains highly fragmented, with many small and independent retailers in the market, due to the large population and differences in consumer behaviour and purchasing power across the country. According to Euromonitor International, the top 20 retailers only account for approximately 12% of the market share (compared to about 40% in the US). Domestic operators still dominate the market, making up an estimated 75% of the total stock by number of shopping centres.

Sales of household appliances sharply increased between 2009 and 2013, mainly driven by public subsidy programmes (such as "Old for New Policy", "Home Appliances to the Countryside" and "Energy Saving"). This growth was expected to slow down after the subsidy programmes ended in 2013, as many Chinese families had upgraded their appliances and demand for replacement was expected to be low in coming years. However, in 2014 the market performed better than expected as household appliance manufacturers started to launch innovative products at relative low prices. But this action and fierce market competition in the Chinese home appliances industry has also affected retailers' profit margins. The growth of internet shopping is also fueling competition and eroding profit margins. China's traditional brick-and-mortar household appliance retailers are increasingly feeling the pressure from online retail competition. Forrester Research estimates that online retail will grow at a compound annual rate of 19.9% every year until 2019 – significantly faster than retail sales overall. In response, an increasing number of offline retailers are adding online sales channels.

According to the Ministry of Industry and Information Technology, turnover in the furniture industry increased 10.9% year-on-year in 2014. This was lower than in previous years, due to government measures to curb the overheated real estate market. Despite the slowdown in residential furniture, the recent construction boom in many major Chinese cities has resulted in a significant growth in office space – and a consequent demand for office furniture as companies upgrade both their offices and their office furnishings. This has provided a boost to the middle and upper-end office furniture markets. Customized furniture has become another growth driver, although it only accounts for 10% of the overall furniture market. Since customized furniture normally charges relative high prices, it brings much more profit per unit to a company than ordinary furniture.

On average, payments in the consumer durables retail industry take 45 to 90 days and we do not expect any significant increase in payment delays in the foreseeable future. Even when payment delays occur, this is often seen as a bargaining ploy rather than because of cash or liquidity issues.

The consumer durables retail sector's default/insolvency rate is relatively low compared to other Chinese industries, and we do not expect this to change. However, as e-commerce continues its rapid development in China, we need to monitor those businesses with small-scale sales and equity but large investment in their online platforms. This could lead to significant funding pressure and, in the worst cases, to insolvency if no timely and effective action is taken.

The vast size of China's consumer base, the undeveloped nature of organised retail, relatively low penetration of services, and growing demand for premium products are key factors behind the growth of the industry in the coming years. A key opportunity is the growing middle-class segment's demand. Another growth opportunity lies in still less developed towns and cities or rural areas, where the impact of income growth and urbanisation is likely to create increasing demand for consumer durables.

Sweden

- A transformation of the retail sector is underway
- Higher-risk sector despite decreasing insolvencies
- High-street retailers face problems



The Swedish consumer durables retail sector grew about 2% in the last five years, more or less in line with national GDP growth. Larger growth rates were recorded for the online retail sector, including major players such as Dustin, NetOnNet, CDon. In contrast, brick-and-mortar retailers often recorded weak or even negative growth. In 2015, just a modest growth increase in the consumer durables retail segment is expected.

Beside the growing market share of online retail, another trend is the concentration of retail stores in large, newly-built and car-accessible malls close to Swedish cities, often financed through public-private partnership ventures. This has led to retail overcapacities in some places, with customers going away from traditional high-street retailers in the city centres. As a consequence, the number of those traditional players continues to decrease. Meanwhile, the costs of new building projects have forced landlords to increase rents for subletting retailers to compensate, which puts additional financial pressure on affected businesses.

Between January and November 2014, the number of insolvencies in the retail sector decreased 23% year-on-year, from 800 to 617 cases. However, this was in line with the development in all Swedish industries, and the insolvency level remains high compared to other sectors: retail insolvency exposure is the second highest in the country (at 1.13%) behind hotels and restaurants. While insolvencies are expected to decrease further, the number of businesses active in retail is decreasing. Insolvencies outnumber new foundations, which also points to on-going challenges in this industry.

Our underwriting stance for consumer durables retail is mildly cautious. Newly founded businesses, in particular, face higher risks in the highly competitive market. The same accounts for brick-and-mortar high-street retailers and subsectors with capital tied to inventory, such as kitchen, furniture and boat retail. Online retailers generally face good business prospects, as there are still growth opportunities in segments with low market penetration. Swedes increasingly embrace shopping online, and the online segment is expected to continue to grow in the years ahead. The dual effect of growing e-commerce and relocation of stores in large shopping malls out of towns will continue to shape the transformation of the Swedish consumer durables retail sector.



Market performance at a glance

Belgium



- Belgian consumer confidence has improved over the last couple of months, while economic growth (up 1.4%) and private consumption (up 1.8%) are expected to accelerate in 2015. This bodes well for the continuation of the consumer durables sector's rebound. However, the recovery remains fragile.
- Banks still remain reluctant to provide loans to the sector, while businesses' indebtedness generally remains high.
- Payment terms generally range from 60 to 90 days, and the level of protracted payments remains high. Profit margins have deteriorated over the past 12 months.
- While insolvencies are expected to decrease in the coming months, the insolvency level remains high compared to other industries.
- Our underwriting stance remains generally cautious, especially for smaller players.

France



- The French consumer durables market faced another difficult year in 2014 after a contraction in 2013. However, a slight rebound is possible in 2015.
- Lower sales put pressure on already small profit margins, while businesses' resilience is additionally weakened by low equity levels and previous losses. Dependency on external financing is high, but banks remain generally unwilling to lend to this sector.
- Payment delays and insolvencies have increased in 2014, and are expected to rise further in H1 of 2015.
- A prudent management of working capital requirement is crucial for consumer durables retail businesses. A good mix-product and multi-channel distribution are key to business success.
- As size matters in the currently difficult market environment, our underwriting stance on larger players is generally relaxed, while being more restrictive with smaller and independent retailers. Unless operating in geographic and product niches, independent retail stores have suffered severely over the last two years.

Italy



- A slight increase in consumer confidence and growth forecast of 0.8% for private consumption in 2015 are positive signals. It is expected that consumer durables retail will grow modestly in 2015. Both demand and profit margins are expected to remain stable.
- Competition is very high, and this is leading to market adjustments: weaker players with poor financial strength have disappeared while other businesses choose to merge with other peers in order to survive.
- Payment terms generally range from 60 to 90 days. Payment delays decreased in the last six months and are expected to level off in the coming months.
- No major increase in insolvencies is expected in 2015.
- Our underwriting stance will remain generally neutral, with a more cautious approach towards businesses with credit management issues and towards smaller players, as some of them lack the critical mass for long-term survival in a highly competitive environment.

Japan



- The April 2014 the consumption tax increase continues to have a negative effect on consumer spending. However, a rebound is expected in the course of 2015 due to strong employment figures, good stock price performance and higher corporate profits.
- Consumer durables retailers' profit margins are expected to come under pressure as labour shortages drive up employee expenses. Additionally, businesses that rely on imported products also face increased expenses due to the depreciation of the Japanese Yen.
- Payment terms vary greatly within the industry and generally range from 30 to 120 days. Payment delays are low and not expected to increase in the coming months.
- While the default level in the Japanese consumer durables retail sector is low, an insolvency increase is expected in the coming six months, mainly affecting smaller players.
- Our underwriting stance will remain relaxed for larger, well established players in the industry. However, we have adopted a more cautious approach for smaller business, given the pressure on margins and currently weaker consumer spending trends. Smaller businesses are also highly dependent on bank financing.

Poland



- The Polish consumer durables retail sector recorded an insolvencies increase amongst medium-sized and even larger players between Q4 of 2013 and Q2 of 2014.
- This market adjustment provided the remaining players with some breathing space for the time being. It is expected that insolvencies in the sector will level off in the coming months.
- Payment terms are 60 days on average. Payment delays decreased in the last six months and are expected to level off in the coming months.
- A downside risk for the sector is the current VAT issue in Poland: due to many VAT fraud cases in the consumer electronics and other sectors, Polish tax authorities have increased fiscal inspections of businesses. This has caused liquidity problems for some companies, as VAT reimbursement is either stopped in case of suspicion or often delayed, in some cases even for months.
- Given those issues, our underwriting stance remains restrictive on the consumer durables retail sector.

Industries performance forecast per country

March 2015

	Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrl	Consumer Durables	Electronics/ ICT	Financial Services
Austria							
Belgium							
Czech Rep.							
Denmark							
France							
Germany							
Hungary							
Ireland							
Italy							
The Netherlands							
Poland							
Portugal							
Russia							
Slovakia							
Spain							
Sweden							
Switzerland							
Turkey							
UK							
Brazil							
Canada							
Mexico							
USA							
Australia							
China							
Hong Kong	N/A						
India							
Indonesia							
Japan							
New Zealand							
Singapore							
Taiwan	N/A						
Thailand							
United Arab Emirates							

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INDUSTRY PERFORMANCE

Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles

Excellent

Good

Fair

Poor

Bleak

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Industry performance

Changes since February 2015

The Americas

Brazil

Chemicals



Down from Good to Fair

Machines/Engineering



Down from Fair to Poor

Moody's recent downgrading of the state-owned oil company Petrobras to 'junk' status has a strong negative impact on future investments, hurting both sectors.

Asia/Oceania

Japan

Electronics/ICT



Up from Fair to Good

Electric components and IT are performing well due to solid demand for smartphone and car-related products and increasing IT investments by domestic businesses.

Machines/Engineering



Up from Fair to Good

Orders of machinery products have sharply increased in recent months.

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