

Source: Atradius

## Industry performance

Changes since January 2021 · Sources: Atradius, Oxford Economics

### Agriculture

#### Remains fair

While sector value added grew 4.7% in 2020, businesses' profitability has been affected by the implementation of anti-coronavirus measures and some logistical problems during the lockdowns. Many companies with a weak financial position before the pandemic could face problems, due to higher leverage related to loans provided by the state-owned ICO bank. In 2021 the sector is forecast to grow again, by about 2%. The EU-UK Brexit trade agreement and the recent suspension of tariffs on EU agricultural products by the US support export-driven businesses. However, structural issues remain, including price pressure from large retailers, and the risk of adverse weather conditions.

Payment delays and insolvencies remained very low in H1 of 2021. The credit risk outlook for the coming months depends on how EU agriculture funds are to be distributed, and on the impact of ongoing margin pressure by food retailers.

### Automotive/Transport

#### Up from Bleak to Poor

Automotive production and sales decreased sharply in 2020, by 19.6% and 32.5% respectively. In H1 of 2020, temporary production stops caused a major decrease in margins and in profits for manufacturers, suppliers and car dealers alike. While both production and sales started to increase again in H2 of 2020, a strong rebound has not yet materialised. In the period of January-April 2021, vehicle production and sales were still 13.6% and 36% lower than during the same period in 2019. Currently, a comprehensive recovery is hampered by a global semiconductor shortage. In 2021 automotive production is forecast to amount to 2.8 million units (2.27 million in 2020).

Transport value added contracted by 16.8% in 2020, with the passenger transportation segment mainly affected. In 2021 another 2.5% decrease is expected, mainly due to mobility restrictions in force until May. In H2 of 2021, a rebound should gain momentum, and in 2022 a 14% recovery is forecast.

Payment delays in the industry increased in H1 of 2020, but the situation improved notably in H2. The insolvency outlook for H2 of 2021 is expected to remain stable. However, an increase in early 2022 is expected, following the expiry of government support measures and grace periods for bank loans.

### Chemicals/Pharmaceuticals

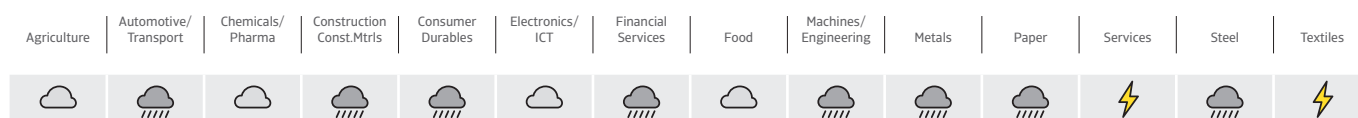
#### Remains Fair

In 2020 many chemical businesses suffered due to deteriorated demand from key buyer sectors in Spain and abroad. Chemicals value added contracted 4.1% last year, but in 2021 a rebound of about 6.5% is forecast. However, ongoing high commodity prices and a potential shortage of some raw materials could hamper production growth. The cosmetics subsector has gradually recovered in Q2 of 2021 to normal activity levels after suffering from another pandemic-related shutdown of retailers in Q1. Pharmaceuticals continues to benefit from rising healthcare expenses.

### Construction/ Construction Materials

#### Up from Bleak to Poor

Despite a rebound since the credit crisis, the industry was still struggling before the coronavirus outbreak, with many smaller players facing increased credit risk. Due to a sharp pandemic-induced recession in 2020, businesses were affected by the postponement of projects and reduced order volumes, especially in the public works segment. Although some tenders were reinitiated in May 2020, there was only a partial recovery in H2. In the residential construction segment, demand was affected by higher unemployment. During the first months of 2021, construction performance improved. The upcoming disbursement of European Recovery Fund aid and the marked lack of infrastructure investment has boosted public bidding, which increased by 73% in January-April 2021. Investment in home renovation increased by 14%, expected to continue rising in the coming months. However, residential construction permits decreased 0.6%. Nonetheless, the build-to-rent segment provides growth prospects in the short term. After a 14.5% contraction, construction value added is expected to increase by about 9% in 2021. That said, the rise in raw materials prices, along with difficulties in finding suppliers, qualified staff and subcontractors, pose serious challenges. The viability of many contracts is questioned due to additional costs for construction businesses, which are difficult or even impossible to pass on to end-customers. Additionally, associated labour costs are expected to increase. Currently, construction insolvencies are not expected to increase in the coming months, assuming that fiscal support continues and given the quick disbursement of European Recovery Fund means. However, business failures are expected to increase in 2022, following the expiry of both government support measures and grace periods for bank loans.



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### Consumer Durables



#### Up from Bleak to Poor

In 2020 consumer durables sales suffered a major deterioration due to the coronavirus impact, with many businesses temporarily closing due to lockdowns. Despite a rebound in H2, retail value added contracted 16% last year. New pandemic-related restrictions in early 2021 have further weakened the financial strength of businesses. However, another rebound has started since March/April 2021 with the expiry of lockdowns and mobility restrictions, and retail value added is expected to rebound by 13.5% in 2021.

While payment delays and insolvencies have not increased in H1 of 2021, the outlook for H2 strongly depends on the further evolution of consumer spending. It is expected that business failures will increase in early 2022, following the expiry of government support measures and grace periods for bank loans.

### Electronics/ICT



#### Up from Poor to Fair

In 2020 the industry displayed a solid performance, as the closure of businesses during the lockdowns was partly offset by e-commerce sales. Domestic online sales increased from 22% in 2019 to 33% in 2020. ICT value added is expected to increase by more than 2% in 2021, but lower consumer sentiment and rising unemployment remain downside risks. While payment delays and insolvencies are not expected to increase significantly in H2 of 2021, this trend could reverse in early 2022, after the expiry of government support measures and grace periods for bank loans.

### Financial Services



#### Remains Poor

The sector remains immersed in a process of readjustment in order to improve its competitiveness and efficiency, and to adapt to the shift towards online banking and digital transformation. This will most probably lead to redundancies and closures of branches.

Larger Spanish banks recorded an improvement in profits in Q1 of 2021. The non-performing loans (NPL) ratio has remained low so far, as public support measures and moratoriums for consumer credits have helped borrowers meet their commitments. However, with the expiry of the moratoriums, NPLs are expected to increase in H2 of 2021.

### Food



#### Remains fair

In 2020 and early 2021, businesses selling to food retailers have significantly increased turnover, while their peers dependent on restaurants, bars and hotels suffered a strong sales decrease. In the beverage subsector, 2020 sales decreased 19% for non-alcoholic beverages and more than 40% for wines and liquor. That said, food and beverage exports recorded a 2.5% growth last year.

After a 4.8% decrease in 2020, food value added is forecast to grow by about 4% this year. However, this rebound largely depends on the recovery of hotel and restaurant businesses in H2 of 2021.

### Machines/Engineering



#### Remains Poor

Engineering value added decreased 12.5% in 2020, mainly due to a sharp decrease in orders on hand and supply chain disruptions in the first half of the year. The sector is forecast to grow by about 6% in 2021, as investment in machinery is estimated to increase by about 12%. Payment delays and insolvencies increased in Q2 of 2020, but decreased again in H2. However, further increases are expected in early 2022, after the expiry of government support measures and grace periods for bank loans.

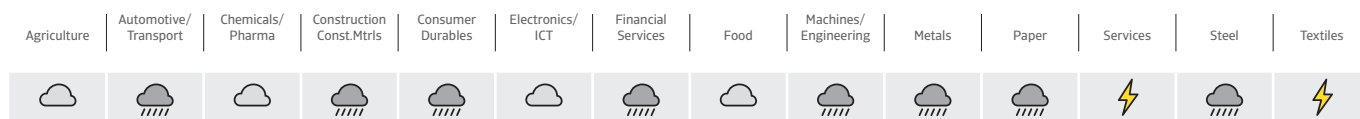
### Metals



#### Up from Bleak to Poor

The sector is characterised by high pressure on margins, with many companies already showing low profitability even before the coronavirus outbreak. In 2020 metal producers and traders suffered due to deteriorating demand from key buyer sectors (automotive, construction and machines). However, as of Q4 of 2020, demand has increased again.

While the impact of the pandemic has led to a further deterioration of businesses' financial strength, the current high level of metal prices has partly offset decreases in demand and margins. However, input prices (commodities) have also increased. Metals value added is forecast to increase 8% in 2021, after a contraction by the same amount in 2020. Both payment delays and insolvencies are expected to increase in early 2022, following the expiry of government support measures and grace periods for bank loans.



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### Paper



#### Remains Poor

Paper producers and printing are structurally impacted by the ongoing digitisation process. Cardboard packaging is performing better than other segments, due to stable demand from the food industry and increased e-commerce during the lockdown period. Paper industry value added is forecast to rebound by about 4% in 2021, after a 3.5% decline in 2020. The sector has faced higher pulp prices over the last couple of months. While payment delays and insolvencies have decreased in H1 of 2021, both are expected to increase in early 2022, following the expiry of government support measures and grace periods for bank loans.

### Services



#### Remains Bleak

Due to the comprehensive lockdown measures, many segments suffered heavily in 2020 and early 2021, especially hotels and catering, restaurants, bars, entertainment and cultural events, travel agencies and tour operators. Last year, arrivals of foreign tourists decreased by 77%, to 18.9 million, and remained low in H1 of 2021 due to mobility restrictions. A surge in the arrival of foreign tourist in the coming months depends on the containment of the third wave of the pandemic, vaccination rollout and the lifting of international mobility restrictions.

Services value added is forecast to rebound by about 2% in 2021, after a contraction of 8.9% in 2020. While the hotel and catering segment declined 46.8% last year, a 22% recovery is expected, subject to a rebound of activity in H2 of 2021, especially during the summer holiday season.

Both payment delays and insolvencies sharply increased in H1 of 2020, and although in H2 of 2020 and H1 of 2021 there was some improvement, payment default and insolvency ratios remained higher than in other sectors. The credit risk of many businesses could deteriorate again if the expected rebound in tourism does not materialise. In any case, insolvencies are expected to increase again in early 2022, after the expiry of government support measures and grace periods for bank loans.

### Steel



#### Up from Bleak to Poor

The sector is characterised by high pressure on margins, with many companies already showing low profitability even before the coronavirus outbreak. In 2020 steel producers and traders suffered due to deteriorating demand from key buyer sectors (automotive, construction and machines). However, as of Q4 of 2020, demand has increased again.

While the impact of the pandemic has led to a further deterioration of businesses' financial strength, the current high level of steel prices has partly offset the decreases in demand and margins. However, input prices (commodities) have also increased. Steel value added is forecast to increase by about 19% in 2021, after a 17% contraction in 2020. That said, both payment delays and insolvencies are expected to increase in early 2022, after the expiry of government support measures and grace periods for bank loans.

### Textiles



#### Remains Bleak

Producers, wholesalers and retailers already suffered before the coronavirus outbreak from fierce competition and thin margins. Textiles value added contracted by 6.3% in 2020, as both domestic sales and exports deteriorated. Small retailers have been particularly impacted by the negative effects of the lockdowns and subdued consumer sentiment. Many businesses are investing in online sales channels in response to the decline in brick-and-mortar sales during the pandemic. While payment delays and insolvencies have decreased over the last couple of months, they are expected to increase in early 2022, following the expiry of government support measures and grace periods for bank loans.