United Kingdom

July 2021

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrls	Consumer Durables	Electronics/ ICT	Financial Services	Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles

Source: Atradius

Industry performance

Changes since January 2021 · Sources: Atradius, Oxford Economics

Agriculture

Up from Poor to Fair

Agriculture value added is forecast to increase by about 2% in 2021. The continuing supply of labour issues first caused by Brexit, exacerbated by the coronavirus pandemic, has created challenging market conditions for the UK agricultural sector. For the agriculture sector, labour shortage will remain an issue for the time being. The real outcome of the trade agreement with the EU for agriculture still remains to be seen, but it represents a positive outcome compared to the alternative of 'no deal.' There are concerns that upcoming bilateral trade agreements (e.g. the recent agreement between Australia and the UK) could harm the sector by permitting cheaper agriculture imports with lower production standards.

Automotive/Transport

Up from Bleak to Poor

Supply chain disruptions negatively impacted manufacturing capability and stock availability, with shortages and lengthened factory shutdowns throughout the sector in early 2020. Automotive value added is forecast to rebound by about 24% in 2021, after a 25.6% contraction in 2020. However, the current global shortage of semiconductors continues to restrict car production for the time being, delaying the recovery.

The UK automotive market remains closely tied to Europe, with EU imports accounting for 60% of components in UK-made cars, of which one in every two is exported to EU member states. Although direct tariffs have been avoided under the agreed trade deal, new customs bureaucracy with the European Union has created additional time and cost requirements for businesses.

Chemicals/Pharmaceuticals

Remains Fair

While the petrochemicals segment suffered from extreme oil price volatility last year, the recent rebound in oil prices is of some comfort. Other chemical subsectors were affected by sharply decreasing demand from key buyer industries like automotive, but demand from manufacturing has started to rebound again. Chemicals value added is forecast to grow by about 2% in 2021 after a 3.9% decline in 2020. After a 13.6% surge in 2020, pharmaceuticals value added is forecast to grow further this year, by more than 4%, due to increasing health expenses.

Construction/ Construction Materials

Remains Poor

The pandemic and the massive economic downturn in 2020 have severely impacted construction, with value added declining 14%. However, construction has rebounded faster than other industries, and with a forecast 14% growth it should return to its pre-pandemic level in 2021. All new work segments have recovered, in particular residential construction. The same accounts for renovation and repair work, and builders merchants report robust sales.

However, stretched supply chains and steep rises in raw material prices have contributed to a rapid increase in average cost burdens for construction businesses. There has been a shortage of building material, in particular steel, timber, roof tiles and bagged cement. As in other countries, construction materials demand in the UK and continues to outstrip supply by far, and there a few signs of improvement during the seasonally busy summer months. Additionally, businesses face labour supply issues, in particular for skilled construction workforce.

Consumer Durables

Remains Bleak

Many brick-and-mortar retailers already faced severe troubles before the coronavirus pandemic, suffering from high operating costs, decreasing turnover and increasing competition from online retailers, all of which have led to deteriorating margins. The level of shop closures and insolvency of larger retailers seen in 2020 was at its highest since 2012. Additionally, the shutdown of retail operations in early 2021 due to another lockdown has caused more financial distress for weaker players. The pandemic has accelerated the move of British consumers towards online shopping, a trend that most probably will persist in the future.

Retail value added is forecast to rebound by 7% in 2021, after a 6.7% decline last year. While brick-and-mortar retailers with sufficient liquidity at hand should be able to take advantage of the ongoing private consumption recovery, the major structural issues seen already before the pandemic will persist, and retail insolvencies are expected to increase in H2 of 2021 and in 2022. Therefore, the sector performance outlook remains "Bleak" for the time being.

United Kingdom

July 2021

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrls	Consumer Durables	Electronics/ ICT	Financial Services	Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles

Source: Atradius

Industry performance

Changes since January 2021 · Sources: Atradius, Oxford Economics

Electronics/ICT

Up from Poor Fair

Initial concerns over supply chain disruptions in the first months of 2020 proved unfounded, while demand for a wide variety of product lines (e.g. related to remote working) has remained high so far. While some major players have recorded very high sales, challenges remain for several businesses regarding the management of working capital. Therefore, a real emphasis has to be placed on assessing each individual company's business performance and credit risk situation. ICT value added is forecast to grow by 7%% in 2021 after a 3.3% expansion last year.

Financial services

Remains fair

The sector remains resilient for the time being, but it could still be impacted by increased financial troubles for businesses and consumers in the future, which could lead to increased non-performing loans and deteriorating profits. Finance sector value added is forecast to level off in 2021 after a 3.4% contraction in 2020. While the EU-UK Free Trade Agreement provides for tariff-free bilateral trade in goods, little has been arranged for financial services so far.

Food

Up from Poor to Fair

Over the past couple of years, exchange rate volatility and its impact on costs of commodities and food items has been an issue for many British food producers and processors reliant on imports. The increasing market success of discounters has put pricing under pressure and weighed on suppliers along the food supply chain. Due to an inability to absorb higher input costs and increased pressure on margins, both payment delays and insolvencies increased in H1of 2020, but have decreased again since then to a low level. Food value added is forecast to increase by about 1.5% in 2021 after a 5.6% decline in 2020.

Machines/Engineering

Remains fair

The sector has been rather resilient so far, with most businesses in a stable financial situation. Subdued global and domestic demand from key domestic buyer industries like automotive and construction posed a major downside risk at the height of the pandemic, but with the economic recovery ongoing, demand for machines has rebounded again. Engineering value added is expected to increase by about 9% in 2021.

Metals

Up from Bleak to Poor

Metals manufacturing value added decreased 8.9% in 2020, as the sector's supply chain and individual businesses' abilities to trade in H1 of 2020 were severely affected by the coronavirus pandemic. Demand for ferrous products subsided due to construction and manufacturing site closures, while aluminium and speciality metals sales suffered from declined aerospace and automotive demand.

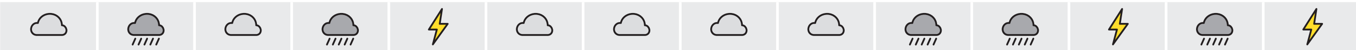
As this industry is highly reliant on working capital financing, the downturn in trade has exacerbated underlying liquidity problems of businesses. Many producers reduced their cost base in order to cope with subdued demand. However, comprehensive government support measures avoided an increase in payment delays and insolvencies.

In 2021 a modest 2.5% recovery is forecast. As metals demand has outpaced supply, metals sales prices have increased, but this surge is expected to abate by the end of the year with the unwinding of pent-up demand. The shift towards e-mobility will continue to drive demand for battery metals (nickel, lithium and cobalt), and prices for precious metals are expected to remain elevated.

United Kingdom

July 2021

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrls	Consumer Durables	Electronics/ ICT	Financial Services	Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles



Source: Atradius

Industry performance

Changes since January 2021 · Sources: Atradius, Oxford Economics

Paper

Remains Poor

Paper value added shrunk by 3.4% in 2020, and in 2021 a 2% contraction is expected. Paper producers and printing are structurally impacted by the ongoing digitisation process. A number of paper mills have announced price increases of between 6% and 15%, as production cost have increased due to higher input prices (in particular for pulp, energy and chemicals). Additionally, the sector is affected by sharply increased freight and container prices, triggered by disruptions in container shipping. Corrugated cardboard supply is dependent on the recycling of old boxes into paper and conversion into new boxes. The segment is therefore subject to the changing dynamics of global trade. Paper products entering the UK can still be subject to delays at the customs, as paper is not deemed a priority product for customs clearance.

Services

Remains Bleak

With the UK economy being mainly service sector driven, the lockdown measures and the sharp deterioration of GDP growth in 2020 has directly impact this industry´s performance, with hotels restaurants, tourism, travel agencies and the entertainment segment most severely affected. Service value added contracted by 9.9% in 2020, while the hotel and catering segment recorded a whopping 44% decline.

Payment delays and insolvencies has not yet increased. As with other sectors, service businesses have fully taken advantage of various government support initiatives, which has resulted in good liquidity levels so far. For the time being, this has eased some of the concerns of a major wave of insolvencies.

Currently service value added is forecast to grow by about 4% in 2021, while the hotel and catering segment is expected to rebound by 34%. However this recovery is subject to further vaccination rollout and the containment of another wave of the pandemic. Another issue that could impact growth are labour supply issues (e.g. there are occasional reports of restaurants not being able to re-open or to run at full capacity due to staff shortage).

Steel

Remains Poor

Demand for steel products in the UK decreased by 45% during the first lockdown in early 2020, and sector value added declined by 7.1% last year. As this industry is highly reliant on working capital financing, the downturn in trade has exacerbated underlying liquidity and cash flow problems of individual businesses. However, comprehensive government support measures have avoided an increase in payment delays and insolvencies so far. With the easing of restrictions and the recovery of key buyer industries, pent-up demand for steel has encountered bottlenecks in global capacity, triggering a considerable increase in steel prices.

Decarbonisation efforts under the government’s 2035 green emissions target will likely lead to higher production costs in the mid-term, as increased investment in new technology and processes is required.

Textiles

Remains Bleak

Producers, wholesalers and retailers already suffered before the coronavirus outbreak from fierce competition and thin margins. Brick-and-mortar fashion retailers are especially severely affected by rising online sales, and deteriorating sales due to the lockdowns have exacerbated the market crisis. Clothing value added is forecast to rebound by only 12% in 2021 after a whopping 30% contraction in 2020. In line with the generally negative perception of prospects for UK brick-and-mortar retail, there are concerns over an impending increase in insolvency cases.