

Source: Atradius

Industry performance

Changes since January 2021 · Sources: Atradius, Oxford Economics

Agriculture



Remains Fair

The industry performance rating remains “fair”, as growth in most subsectors is expected, but uncertainty remains regarding global trade and recovery of pandemic-impacted demand. In 2021 soybean and corn demand is expected to increase by 2%-3% year-on-year, due to high volume purchases from China (which is meeting its trade deal obligations). Dairy production and demand are expected to recover slightly from the negative impact of the pandemic, except for liquid milk, which continues on a downward trajectory. The outlook for US livestock remains positive, with an expected 1%-2% increase in consumption. The industry continues to enjoy strong government support through a variety of programs, which provides comfort from a risk perspective.

Automotive/Transport



Up from Poor to Fair

Automotive value added contracted 12.8% in 2020, as both sales and production were severely impacted by the pandemic. Major OEMs halted production for several weeks in April and May 2020, and many businesses took actions to preserve liquidity. These actions included fully drawing down available credit facilities, furloughing employees/reducing headcount and reducing capital expenditures.

Production started to rebound in H2 of 2020, with volumes rising as capacity returns and operators restocked after running down inventory levels during the shutdowns. While the recovery of demand is fuelled by large fiscal stimulus and the improving health situation, automotive production in H1 of 2021 has been negatively impacted by the global semiconductor shortage, petrochemical shortage (due to the production disruptions in Texas in early 2021 caused by adverse weather conditions) and port delays. Some major OEMs have temporarily suspended production lines, focusing on their more profitable vehicles. They are also building vehicles and parking them until chips become available.

Currently, it is expected that automotive value added will rebound by 13% in 2021, followed by an increase of more than 7% in 2022. However, there is still some uncertainty regarding when supply constraints will ease. Some estimate an increased production as of July, while others expect that these issues could continue into next year. Even if the situation normalises over the coming months, OEMs and supplier companies will still struggle to make up for the lost earnings in H1.

Chemicals/Pharmaceuticals



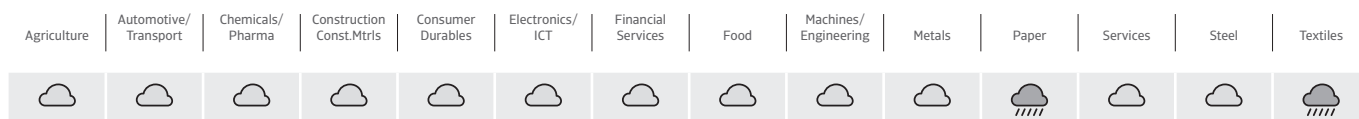
Remains Fair

In 2020 the energy and fuel subsector suffered severely, with 108 insolvencies filed in the upstream, midstream and downstream sectors, and total debt associated with those filings amounting to USD 102 billion. Meanwhile, the performance of the industry has started to recover, due to the robust economic rebound and higher oil and gas prices. Energy and fuel value added is forecast to increase by about 4% this year.

Other chemicals subsectors like rubber and plastics are also benefiting from the economic recovery. Profit margins of businesses are generally stable, and the number of payment delays and insolvencies remained low in H1 of 2021. Chemicals value added is expected to increase by about 4% in 2021.

Pharmaceuticals benefited from rising health care expenses in 2021, with value added expected to increase by more than 6%. The successful rollout of Operation Warp Speed provided pent-up demand for testing, medicines, therapeutics and vaccines to mitigate the global pandemic, greatly benefiting manufacturers and distributors alike.

The margins for branded pharmaceuticals are robust, leading to strong cash flow and excellent credit profiles. However, legislative pressure to lower drug costs for consumers remains a long-term threat to industry-wide margins. There is government pressure to reduce the sale of opioids, which has forced a number of manufacturers, distributors and pharmacies involved in the sale of those substances to close their business and/or file for bankruptcy.



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Construction



Remains Fair

The coronavirus pandemic resulted in a significant 10% reduction of construction starts in 2020, with many segments experiencing double-digit losses. In 2021 a 7% recovery is currently expected, with the broad-based vaccine rollout and large federal stimulus measures being key drivers. Additionally, any sort of infrastructure bill that will pass Congress would further strengthen the industry momentum.

In the residential building segment, single-family construction remained largely resilient last year, while multi-family starts are expected to increase after a poor 2020 performance. However, the construction rate will still remain below pre-pandemic levels. While commercial and industrial construction recorded a steep decline in 2020, with businesses losing revenues, a solid rebound is expected in 2021, with further acceleration in 2022.

Low interest rates, a persistent glut of first-time homebuyers with a sustained lack of supply, and a continued migration from cities to suburbs have kept construction business confidence up at high levels. However, some material shortages and volatile input pricing, particularly in relation to lumber, will continue to weigh on the industry in the short-term. Currently, construction value added is forecast to increase by about 5.5% in 2021 and more than 6% in 2022.

Consumer Durables



Up from Poor to Fair

Despite the repercussions of the pandemic (e.g. temporary shop closures due to lockdown measures and deteriorated consumer sentiment), US retail sales grew 6.9% in 2020, driven by sales of electronics, hardware and home improvement, sporting goods, toys, furniture and home appliances. The limitations of in-store shopping last year accelerated the shift to e-commerce, with online sales growing 32.4% year-on-year, to USD 791.7 billion, accounting for 19.6% of total retail sales last year. Offline sales expanded by a modest 2.1%.

Supported by large government stimulus and the vaccination rollout, US retail sales are currently expected to grow between 6.5% and 8.2% in 2021, to more than USD 4.33 trillion.

In the major household appliance manufacturing industry, segment revenues decreased 1.4% in 2020, but they are expected to rebound 7.8% in 2021 due to an economic recovery, while the housing market has recovered quicker than expected. E-commerce operations have increased as their share in industry revenue.

The overall performance of the furniture segment has remained robust, due to increased demand for home furnishings from consumers. Supply chain constraints remain, causing delays in deliveries and an expanding customer delivery backlog. However, the office furniture segment faces weaker demand due to the ongoing trend towards remote working.

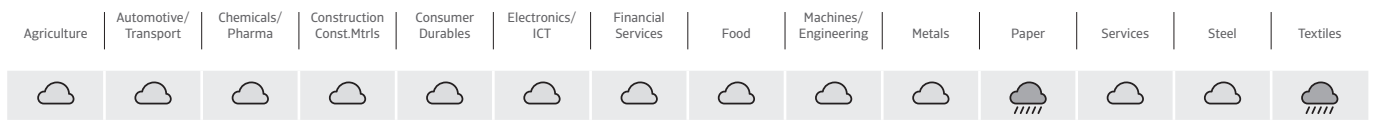
Companies with a strong online presence and/or the ability to shift to remote sales have been capable of maintaining a solid operating profile during the pandemic. However, many businesses have suffered heavily, particularly brick-and-mortar retailers. In 2020 a large wave of store closures and bankruptcies was recorded, with permanent business closures amounting to 8,960, compared to 3,307 openings. More than 160 businesses filed for bankruptcy, including 35 major retailers. Despite the benign sales prospects for consumer durables, many retailers remain under financial strain. In order to avoid bankruptcy, many retailers will need liquidity and working capital in order to adapt to a shifting market landscape that is more digital than ever before.

ICT/Electronics



Remains Fair

ICT value added growth is forecast to increase by about 8% in 2021 after growing 3.3% in 2020. ICT businesses focusing on enterprise cloud, mobility and remote connectivity continue to perform well, as demand remains strong in these areas. Consumer electronics retailers with a strong online presence have also recorded steady demand, as consumers are still working remotely, and as schools have remained in a virtual learning environment for much of the school year. However, some easing in demand is expected, as schools and businesses have started to reopen. Many ICT businesses who sought to conserve liquidity in light of the pandemic-related uncertainty with a combination of cost-cutting measures and drawing down on lines of credit have started to pay down outstanding balances with excess cash flow. As 5G continues to become more available, top tier carriers are looking for ways to monetize the advanced wireless networks through new products, services and business models. Payment terms usually range between 30 and 90 days. The highly competitive market environment for telecom services and devices is fueling low pricing plans and reduced margins for carriers and distributors. The current global semiconductor shortage has expanded to the smartphone market, as there is a serious imbalance in supply and demand for chips in the global IT sector. The chip shortage could potentially last until mid-2022, potentially pushing up prices for consumer electronic products, as higher prices are passed on from manufacturers.



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Financial Services



Remains Fair

The finance sector includes banks, insurance companies, private investment funds, brokerages and mortgage finance companies. Banks are well capitalised and continue to maintain adequate capital ratios in 2021. The Federal Reserve's Main Street Lending and Paycheck Protection Programs have provided banks with additional fee and interest income, supporting strong capitalization.

In the homeowner's insurance and car insurance segments, premiums have remained stable. Regarding mortgage companies, mortgage delinquency rates continued to decrease in the first quarter of 2021, as a rebounding job market and stimulus measures helped borrowers stay current on their mortgage payments.

Food



Remains Fair

While some businesses in the food retail, distribution and service segments have failed during the pandemic, many have emerged by utilizing creative ways to stay afloat. One trend that grew sharply during the pandemic was the use of digital tools and e-commerce by restaurants and food retailers, which is likely to persist in the future. Government subsidies (payroll grants) have assisted many companies.

Payments commonly range between 30 and 90 days in the industry, and it is expected that both payment delays and insolvencies will level off in 2021. While it is forecast that food value added will expand by about 6% in 2021, fierce competition in both food retail and food service segments will continue. Currently, food and beverage manufacturers are facing significant worker shortages, and given the generally low-margins, businesses will struggle with rising wages. Restaurants and the food service sector are also seeing worker shortages, and the outlook for many of them still remains uncertain, depending on the further pace of vaccine rollout.

Machines/Engineering



Remains Fair

Despite increased domestic demand, businesses currently face challenges, such as project delays and cancellations. However, engineering value added is expected to increase by more than 7% this year, after a 5.3% contraction in 2020. Due to strong order books, businesses in this sector have been able to respond quicker than their peers in other industries to reset and to prepare for taking advantage of the recovery. There have been significant improvements in payment experience and financial indices for machines/engineering businesses.

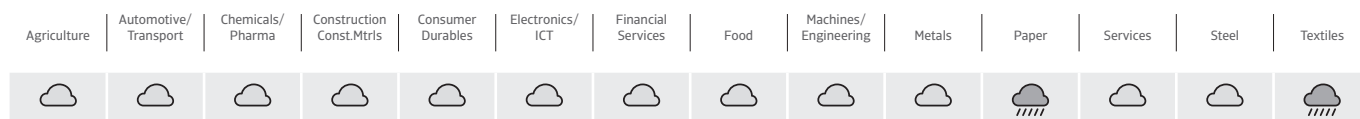
Metals



Up from Poor to Fair

In 2020 metal businesses reliant on automotive, aerospace and the oil country tubular goods (OCTG) industries recorded considerable revenue declines and increased pressure on profits, as large capital expenditure projects were delayed or even cancelled. At the height of the pandemic in early 2020, metals pricing decreased 11% on average across all non-ferrous metals, putting additional stress on their already weak performance. Both payment delays and insolvencies increased in H2 of 2020, but this trend has leveled off to normal levels in H1 of 2021.

Metal prices started to increase again from Q3 of 2020, as demand slowly rebounded and domestic companies continued to sell off inventory. Meanwhile, metal prices have sharply increased due to supply issues, and metals businesses (apart from those dependent oil/gas and aerospace buyers) have recorded robust revenue increases. Metals value added is forecast to increase by 9% in 2021 after a contraction by the same number in 2020. However, companies recognizing increased debt burden following 2020 may find themselves struggling to fund rising working capital needs in light of the current pricing environment.



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Paper



Remains Poor

The paper packaging and tissue segment is expected to maintain a stable performance in 2021 with a 3% year-on-year EBIT-DA increase, driven by price increases and higher demand from e-commerce. The pulp subsector market outlook is positive, given expectations of global economic growth and higher pricing. However, in general, paper producers and printing are structurally impacted by the ongoing digitalization process. Graphic papers demand, in particular for newsprint and coated paper, will continue to face a severe decline, with companies forced to restructure production capacity.

Services



Remains Fair

Service value added is forecast to increase by more than 5% this year, after a 4.2% contraction in 2020. The services sector is an extremely diverse sector comprised of numerous subsectors. Demand for healthcare, education and government services has remained stable or will even increase. However, some subsectors like hotels and catering, restaurants, bars, entertainment and cultural events, travel agencies and tour operators have been heavily affected by sharply decreased footfall and closures resulting from the coronavirus pandemic.

Hotel and catering value added is forecast to rebound by 15% in 2021, after a 22.4% contraction last year. In line with the vaccination rollout, hotel occupancy and revenues per available room rebounded in spring 2021 from the very low levels seen in early 2020. Leisure travel has also increased, expected to accelerate further in the coming months. However, there are currently difficulties in finding enough staff, and business travel is not expected to return to 2019 levels until 2023 or 2024 at the earliest. Still, half of US hotel rooms are projected to remain empty in 2021.

Steel



Up from Poor to Fair

In 2020 steel businesses reliant on automotive, aerospace and the oil country tubular goods (OCTG) industries recorded considerable revenue declines and increased pressure on profits, as large capital expenditure projects were delayed or even cancelled. Both payment delays and insolvencies increased in H2 of 2020, but this trend has leveled off to normal levels in H1 of 2021.

Steel prices have sharply increased, due to pent-up demand from key buyer industries, coupled with a lack of supply caused by production capacity rollbacks and inventory selloffs during 2020. Since March 2020, the price for hot rolled coil has increased from USD 550 to USD 1,800. Additionally, the prospect of a massive infrastructure bill has added to the price surge, and market sentiment continues to increase. Steel value added is expected to increase by 12% in 2021 after a decline by the same number in 2020.

Textiles



Remains Poor

In 2020 the pandemic hit US textile and apparel production hard, mainly due to deteriorating exports. At the same time, fashion retailers have suffered from compounding supply-chain problems, being forced to greatly reduce orders with their suppliers (even cancelling whole seasons), putting their suppliers into distress as well.

Wholesalers and retailers already suffered before the coronavirus outbreak from fierce competition and thin margins. Brick-and-mortar clothing retail has been gradually declining for years, as the industry struggles to adapt to shifting consumer preferences for clothing. Deteriorating sales due to coronavirus-related lockdowns have exacerbated the market crisis, and clothing retailers' insolvencies have sharply increased in 2020 and early 2021, with three major textile retailers filing for bankruptcy in H1 of 2021. With consumers shifting some of their spending online permanently, they are unlikely to return to mall-based specialty apparel and department stores. Clothing value added is forecast to rebound by about 10% in 2021, but suffered a 14.5% contraction in 2021.