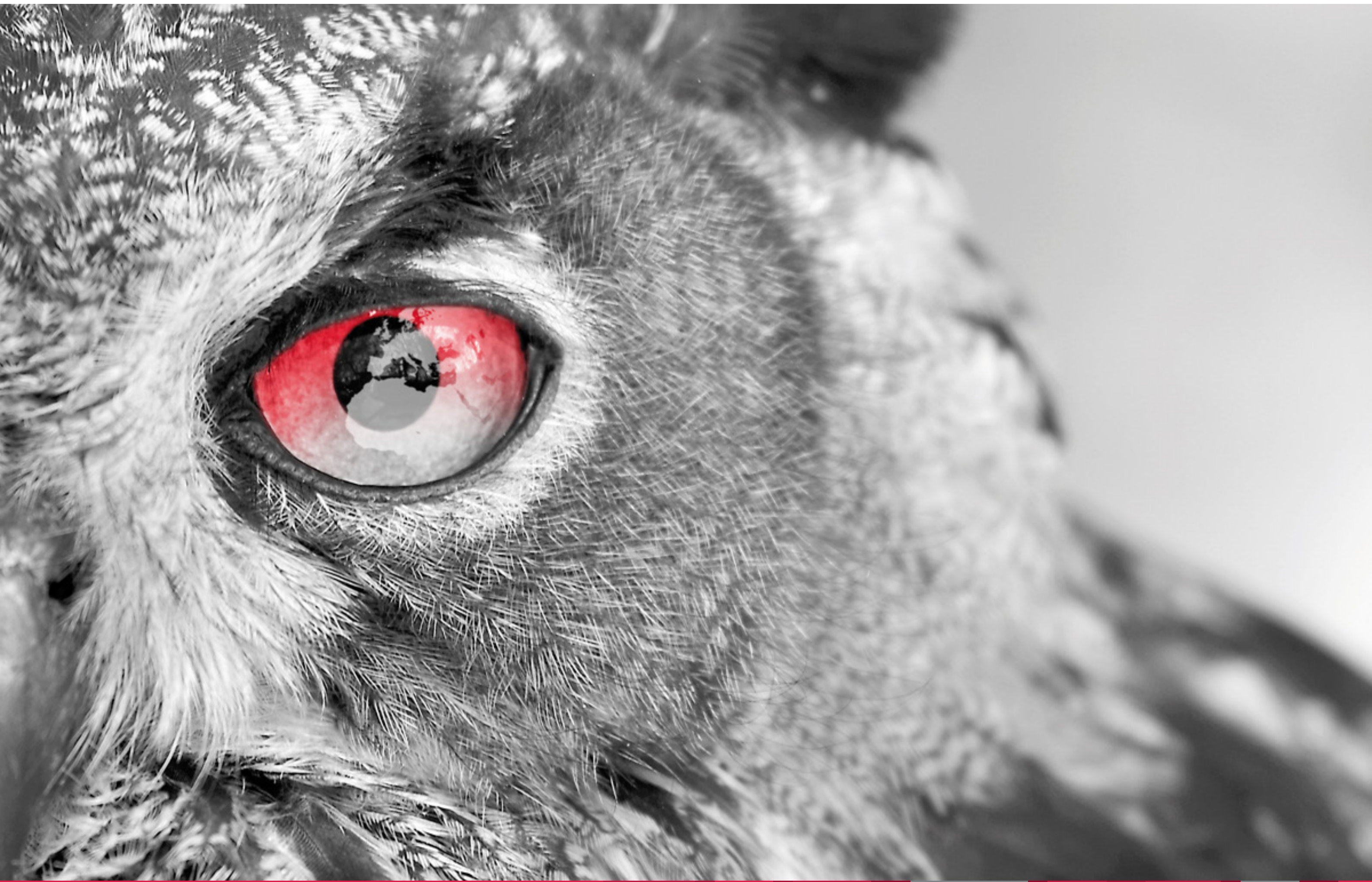
Managing risk, enabling trade

October 2016



market monitor

Focus on automotive performance and outlook

Disclaimer

In this issue...

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

Excellent Good Fair Poor Bleak

A shifting balance of power?

The recent dispute between Volkswagen and two of its key suppliers in August 2016 (which led to the production suspension of certain car types for several days) has turned the attention again to the original equipment manufacturer (OEM)-supplier relationship, with some experts interpreting it as a sign of a changing balance of power in the supply chain – in favour of the latter.

Indeed, new trends like environmental-friendly engines, autonomous driving and digitalisation could change the whole automotive industry and challenge traditional car makers. Technology firms like Apple and Google entered the market as new players, while advanced supplier companies could gain leverage against OEMs by developing the necessary new technologies for digitalisation and autonomous driving. Innovative and specialised suppliers often record higher profit margins than OEMs.

However, the situation is still different for the majority of suppliers, especially those who are small-sized and/or deliver less valuable car components and parts. Often those businesses are heavily dependent on just one OEM. Due to their still significant market power, OEMs continue to pass price pressure on to suppliers who often suffer from very slim profit margins and have weak financials. This prevents many businesses from making the necessary investments needed to climb up the value chain and expand into new markets.

Currently, the market situation seems to be steady as the automotive industry continues to perform well in many major markets. However, the current global economic situation remains susceptible to setbacks, and any deterioration in the economic environment would be soon felt in the automotive industry, elevating first and foremost the credit risk for the bulk of structurally weaker automotive suppliers.

France

- The rebound in sales and production continues
- Payments take 60 days on average
- Overcapacity remains an issue in some supplier segments

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

French car production increased 4.7% in 2014, and this rebound accelerated in 2015, with a production increase of 8.7%. In 2016 production growth of 5% is expected. French car makers benefit from increased domestic and international demand. Domestic car sales increased 12.4% in 2015, and this surge continued in H1 of 2016, with new passenger car registrations rising 8.3%, according to the European Automobile Manufacturers Association (ACEA).

As a consequence, French automotive businesses recorded increasing revenues over the past 18 months. Revenues of automotive subcontractors and suppliers are expected to grow 3.5% in 2016 after increasing 3.8% in 2015, and their business confidence remains high. Average Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) increased 4% in 2015 after rising 0.7% in 2014. Automotive suppliers still benefit from lower prices for raw materials and energy costs.

While automotive businesses' profit margins have generally increased due to the global car market upturn, suppliers´ margins remain structurally under pressure, as the powerful car manufacturers demand greater productivity, coupled with lower prices. While car manufacturers´ equity is still quite strong, suppliers' equity is much weaker. In order to preserve turnover and margins, many French suppliers have no other choice than to stay close to their buyers, i.e. they have to follow large car producers overseas, as original equipment manufacturers (OEM) tap dynamic markets and/or outsource their production facilities to places with lower production costs (e.g. Eastern Europe, Turkey, Morocco). Meanwhile, French suppliers generate 50% of their turnover abroad.

This necessity to go overseas requires high investment and restructuring measures in order to cope with new market environments. At the same time, the supplier sector is a capital intensive

France: Automotive sector

	2015	2016f	2017f
GDP growth (%)	1.2	1.4	1.2
Sector value added growth (%)	5.8	2.7	2.5

Sector share in the national economy (%)	0.5
Average sector growth over the past 3 years (%)	1.0
Average sector growth over the past 5 years (%)	-1.5
Degree of export orientation	high
Degree of competition	high

Sources: IHS, Atradius

segment, requiring sizeable finance for new investment and restructuring and high working capital. While banks were rather unwilling in the past to provide credit to the automotive suppliers subsector, the current rebound has facilitated increased access to bank loans.

On average, payments in the French automotive industry take 60 days (end of month) and timely payment is important in this sector, with few protracted delays. We do not expect any fundamental increase in payment delays in the coming months. Nor do we expect insolvencies in the sector to increase in the short term. The default rate is in line with the overall trend in French business insolvencies, where business failures are forecast to level off in 2016.

Given the solid performance and the positive business outlook, our underwriting stance for the French automotive industry is open. However, as in 2015, we continue to closely observe some weaker players who rank second or third in the subcontracting chain, especially smaller suppliers engaged in foundry work, small stamping and/or producing items with low technology requirements. Businesses in those segments remain susceptible to higher risks, as the trend to outsource production overseas and high competition from foreign companies has led to overcapacity.

French automotive sector

Strengths	Leading companies in some segments: FAURECIA, VALEO, Plastic Omnium
	Technical knowledge
	Support from the French government with public funds (BPI)
Weaknesses	Overcapacity and low margins in some segments
	Lack of attractiveness for private funds

Source: Atradius

Germany

- The insolvency rate remains low for the time being
- On-going consolidation process in the supplier segment
- Potential risks for smaller players are high

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 Automotive Association VDA, the production of German passenger cars again increased in 2015, by 1.3% to 15.1 million units. Domestic production increased 1.9%, while production abroad rose 1.0%. Turnover of the whole German automotive industry (producers and car part suppliers) increased 10% year-on-year. In the period January-August 2016 domestic car production grew 2%, while new car registrations in Germany rose 6%. This underlines the continued robust performance of the German automotive industry.

German automotive suppliers are still making good profits and, in general, their solvency and liquidity are robust. However, margins have decreased for the last couple of years, due to increased material and labour costs, rising competition and pressure on sales prices. At the same time, suppliers have to invest in engineering/production branches overseas in order to be close to original equipment manufacturers (OEM) that have relocated abroad. High capital expenditures in research and development are necessary to stay ahead of competition in new trends and technologies, i.e. electric motors, connected driving, autonomous cars. In order to stem necessary investments, increasingly size matters. Therefore, the concentration process in the German suppliers segment is on-going, while dedicated technology companies are entering the automotive market.

The overall indebtedness of the automotive sector remains manageable and banks are generally willing to provide loans to automotive businesses. Our view of payment behaviour in the sector has been good over the last two years, with no increase in the number of non-payment notifications in the past 12 months. We expect the level of non-payments and insolvencies to remain stable or even to decrease slightly in the coming months - pro-

Germany: Automotive sector

	2015	2016f	2017f
GDP growth (%)	1.7	1.6	1.2
Sector value added growth (%)	3.1	1.8	1.1

Sector share in the national economy (%)	3.7
Average sector growth over the past 3 years (%)	3.2
Average sector growth over the past 5 years (%)	4.5
Degree of export orientation	very high
Degree of competition	high

Sources: IHS, Atradius

vided that the currently shaky international economic environment does not deteriorate further, and the economic rebound in the eurozone continues.

Given the still benign business outlook for the automotive sector, our underwriting stance remains reasonably relaxed, as it was in 2014 and 2015, especially for larger-sized, well-established suppliers, who usually have good access to capital markets and face a very low default risk.

That said, there are also a large number of small companies in the supplier subsector, which could face higher business and credit risks in the future, due to low leverage in negotiations with OEMs or if OEMs stop ordering from them (delisting). At the same time, competition is fierce in some segments. More than 50% of chassis manufacturers and electronic component providers generate revenues of less than EUR 50 million. Many small businesses have difficulties funding the investment necessary for further growth or to climb up the value chain.

Those structural weaknesses are exacerbated by the fact that the automotive market performance is highly dependent on volatile factors, such as global political and economic developments (consumer spending and consumption attitudes), raw material prices, and currency exchange rates.

While the current performance of the German car industry is still solid, any deterioration in economic performance and consumer sentiment would have direct and immediate negative effects on automotive sales, hitting mainly smaller suppliers. Given the structural vulnerability of those players, we rate the German automotive sector as “Fair”.

German automotive sector

Strengths	Technology leader
	Excellent reputation
Weaknesses	OEMs demand worldwide supply so constant & high investments necessary
	Fierce competition

Source: Atradius

Spain

- **Further increasing production and car registrations**
- **Payments take 60 days on average**
- **Some downside risks remain**

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 Spanish automotive sector is a key sector in the country's economy, as it accounts for 10% of the Spanish industry sectors´ share of GDP and about 9% of employment. Spain is the second largest car manufacturer in Europe, after Germany, and ranks number nine globally. Nine original equipment manufacturers (OEM) are active in Spain, with a total of 17 production plants. The automotive component producers subsector plays an important role for the sector´s performance. Three of the largest car component producers worldwide are Spanish businesses, with good performance in Europe, Asia and the NAFTA region. Automotive is Spain's second largest export industry with more than 85% of the national production exported.

In 2015 the Spanish automotive sector performed well, as production and capacity utilisation returned to pre-crisis levels. Spanish car production increased 12.7%, to more than 2.7 million units. Automotive exports increased 11.4% by units and 18% by value, to EUR 31.7 million. This upswing continued in 2016, with domestic car production increasing 11.2% year-on-year in H1 of 2016, to more than 1.6 million units, according to the Spanish car manufacturers association ANFAC. Exports increased 12.3% in H1 of 2016.

In addition to rising exports, the Spanish car industry continues to benefit from the on-going economic rebound of the domestic economy. Car sales in Spain increased by more than 12% in H1 of 2016, to more than 620,000 units, due to robust private consumption and a decreasing unemployment rate, increased access to bank financing for consumers and government schemes supporting the renewal of vehicle fleets and purchase of electric models.

The profitability of Spanish automotive businesses has generally increased over the past 12 months, and profit margins are expected to remain stable in 2016. While external financing requirements and gearing are generally high in this sector, banks

Spain: Automotive sector

	2015	2016f	2017f
GDP growth (%)	3.2	2.9	2.0
Sector value added growth (%)	5.9	2.6	3.9

Sector share in the national economy (%)	1.1
Average sector growth over the past 3 years (%)	7.8
Average sector growth over the past 5 years (%)	3.4
Degree of export orientation	high
Degree of competition	high

Sources: IHS, Atradius

are increasingly willing to provide credit to this industry, for both short-term financing (working capital management) and long-term facilities (i.e. capital expenditure financing).

On average, payments in the Spanish automotive sector take around 60 days. Payment experience is good, and the level of protracted payments has not been overly high over the past couple of years. Non-payment notifications are low, and we do not expect major increases in the coming months due to the still positive outlook for automotive performance. The level of insolvencies in this sector is low, and this is expected to remain unchanged in the coming six months.

While the outlook for the remainder of 2016 and for 2017 remains generally benign, some downside risks remain: the economic recovery in the eurozone remains fragile, and the domestic car market could be negatively affected by the on-going political uncertainty. The persistent lack of a government with a stable majority in parliament could severely hurt domestic consumption and investment in Spain.

That said, our underwriting stance for the automotive sector has become more relaxed than in previous years. There are no major restrictions in our underwriting stance for large companies and strong international groups. However, we are still more cautious with small and medium-sized car parts suppliers who are highly geared.

Spanish automotive sector

Strengths	Importance to the Spanish economy
	High competitiveness of the Spanish automotive components industry
	Skilled workforce and strong commitment to research and development
Weaknesses	Increasingly strong competition from emerging economies
	Dependence on export market demand

Source: Atradius

United Kingdom

- **Still robust performance, Brexit consequences loom large**
- **Payments take 60 days on average**
- **Troubles for smaller aftermarket businesses remain**

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 British car industry has grown four years in a row, mainly helped by cheaper finance and stronger exports. Car manufacturing reached a ten year-high in 2015, growing 3.9% year-on-year to 1,587,677 vehicles. Both domestic car production and domestic car registrations have continued to grow in the first months of 2016.

According to the Society of Motor Manufacturers and Traders (SMMT), car production increased 13% in H1 of 2016, to 897,157 units. Exports increased 14.9%, while production for domestic demand grew 7.1%. A major strength of the British car manufacturing industry is its diversity, with a mix of volume, premium and specialist producers. The proportion of premium and specialist cars, in particular, has grown in the past decade, leading to increasing demand from outside the EU.

With increasing car production, demand from UK car manufacturers for components produced domestically has increased in the past few years. Currently about one third of the components in a UK-built car are domestically sourced.

The short-term outlook remains positive. Among the global manufacturers investing in UK production are Bentley, Honda, Jaguar Land Rover and MINI - all with new products due to roll-off production lines in the next couple of months, and this should have a positive effect on the automotive supply chain segment. Overseas demand for cars produced in the UK is expected to remain robust in the coming months.

The UK new car market grew 3.2% in H1 of 2016, with more than 1,420,000 new cars registered, which is the best half-year performance ever recorded. Growth was reported across all fuel types. Demand eased slightly in June 2016, with a 0.8% decrease in registrations, meeting expectations that market growth would stabilise. Meanwhile, the British car retailers segment has posted increased profits. That said, a challenge that the automotive

United Kingdom: Automotive sector

	2015	2016f	2017f
GDP growth (%)	2.2	1.6	0.6
Sector value added growth (%)	4.9	3.4	1.9

Sector share in the national economy (%)	0.7
Average sector growth over the past 3 years (%)	3.0
Average sector growth over the past 5 years (%)	5.2
Degree of export orientation	high
Degree of competition	high

Sources: IHS, Atradius

retail sector is facing is the impact of the increasing number of nearly-new used vehicles returning to the market. Used car supply is increasing as the new car market grows, and this could potentially lead to lower margins for used car sales.

Payments in the UK automotive industry take around 60 days on average. Protracted payments in the sector are rare and consequently we have seen no increase in notifications of non-payment over recent months. Compared to other UK industries, the automotive sector's default and insolvency rate is good, with a stable outlook. As in 2015, our risk underwriting stance remains positive towards most parts of the UK automotive sector, given the good payment and insolvency performance and reflecting the on-going robust car demand in the UK and in the eurozone.

Despite the benign short-term outlook, the industry remains very susceptible to global economic volatility, while the Brexit decision will surely have an impact on the British automotive sector in the mid-term. The decision to leave the EU has already increased exchange rate volatility and affected UK business and consumer confidence, with companies delaying hiring and investment decisions. GDP growth is expected to slow down to 0.6% in 2017, which, together with the on-going insecurity over the Brexit, could slow down domestic car sales and affect car retailers and producers alike in the course of next year.

The depreciation of the pound will push up the cost of importing both vehicles and components (about 87% of domestic vehicle sales and 65% of automotive components are imported). Any significant cost increase is likely to have a negative impact on sales, unless dealers and manufacturers absorb a share of this increase, which would negatively impact their margins. Foreign-based car producers with operations in the UK could suffer from a deterioration in profits and an impairment in assets.

For the time being, it remains to be seen which are the true implications of the Brexit for UK automotive manufacturers. Leaving the EU could mean that European export tariffs would make producing cars in the UK more expensive. Currently 57% of cars made in the UK are exported to EU countries. In addition to any potential trade disruptions, the sector would lose benefits from EU funds for manufacturing research and development.

British automotive sector

Strengths	Strong domestic and global demand
	Significant benefits realized from low commodity (steel) prices
	Many British car makers restructured after the 2008 credit crisis and are financially more resilient
	Engineering excellence
Weaknesses	High operating leverage magnifies gains and losses, making earnings sensitive to sales
	Skills shortage
	Effect of discounting on profit margins
	Uncertainty after decision

Source: Atradius

Market performance snapshots

Czech Republic

- **Still booming, but there are downside risks on the horizon**
- **Profit margins expected to remain stable in 2016**
- **Steel suppliers face more troubles**

The automotive industry plays a pivotal role in the Czech economy, accounting for 7.4% of GDP, 24% of manufacturing production and 23% of exports (mainly to EU countries). The Czech Republic hosts three major car production companies with Škoda, Toyota Peugeot Citroën Automobile (TPCA) and Korean Hyundai. There are many local suppliers, and the Czech steel/metals and plastics industry depends heavily on the automotive industry´s performance.

In 2015 car production increased 4.1%, to 1.3 million units. That said, producer prices decreased 2% due to higher input costs, currency volatility and stronger competition in the market. Export is the main driver of growth, with export sales increasing 110% since 2010, while domestic sales rose 29%. New orders increased 20% in H1 of 2016, and the short-term performance outlook for automotive remains benign, with value added growth of 5.6% and 4.1% expected in 2016 and 2017 respectively.

Due to robust sales, profit margins of car manufacturers and suppliers are expected to remain stable in the coming months. Payment behaviour is generally good with a low number of non-payment notifications, and this is expected to remain unchanged in the coming months. The insolvency level in this industry is expected to remain low.

Our underwriting stance remains open, given increasing orders, revenues and low payment default and insolvency cases in this industry. However, we are more cautious with steel producers and steel service centres, as many businesses in this segment suffer from low sales prices, sharp competition, very low margins and elevated bank debts.

While the market conditions are expected to remain favourable for the time being, some downside risks could materialise in the course of 2017: a slowdown of eurozone growth, the negative consequences of Brexit for automotive exports to the UK, and an end of the Czech koruna cap imposed by the Central Bank (which currently prevents appreciation of the koruna). At the same time, increased pressure on prices from original equipment manufacturers like the VW Group (Škoda is part of the VW Group and many Czech suppliers deliver to other VW OEMs) could have a negative effect on Czech automotive businesses

Italy

- Robust rebound in production continues
- Many businesses improved their financial strength
- Insolvencies are expected to level off in 2016

The whole automotive and automotive-related sector in Italy consists of 145,000 businesses with 485,0000 employees. In 2015 the industry benefitted from robust global and domestic car demand. According to the Italian National Automotive Industry Association (ANFIA), domestic automotive production increased 45% year-on-year in 2015, to more than 1,000,000 units (65% passenger cars, 31% light commercial vehicles, 3% trucks and 1% buses). The share of exports increased from 54% in 2014 to 58% in 2015. The positive trend continued in 2016, with car production increasing 17% in Q1 of 2016.

In H1 of 2016 domestic passenger car registrations increased 19.1% and commercial vehicles registrations rose 30.8%. However, this surge in production and registrations must be seen against sharp decreases in the recession years after 2008.

The rebound in domestic demand is mainly due to the currently modest economic recovery, coupled with low interest rates, low fuel prices, easier access to consumer credit and appealing promotional campaigns by car manufacturers. Demand growth could slow down in the coming months, if the promotional campaigns end and fuel prices rise again. However, given that 45% of passenger cars and light commercial vehicles in Italy still do not meet the Euro 4 emission standards, there is future potential for sales growth of new vehicles replacing obsolete models.

With the steep decline in car sales and production in the years before 2014, many of Italy's manufacturers and car part suppliers recorded decreasing profit margins. Especially smaller businesses saw their equity ratios, solvency and liquidity weaken. Thanks to the strong recovery, the surviving supplier businesses have registered increasing profit margins and an improvement of their financial strength.

On average, payments in the Italian automotive industry range between 60 to 90 and 120 to 150 days, depending on the end-buyer and whether working capital requirements can be obtained from banks or suppliers. Generally, payments are quicker when the end-buyer is a foreign company. Payment experience has been satisfying over the past two years, and non-payments are not expected to increase in the coming months. Automotive insolvencies have decreased in 2014 and 2015 and are expected to level off in 2016.

Considering the good performance of the industry, we have further relaxed our underwriting stance. A more cautious approach is still applied on components manufacturers, having low bargaining power against car manufacturers, and on steel components manufacturers, as persistently low steel prices could lead to inventory devaluation

United States

- **Growth continues, but the market will be steadier in the future**
- **Payments take 30-60 days on average**
- **Low number of insolvency cases**

After the 2008 economic crisis US vehicle sales declined to 10.4 million units in 2009. However, sales have steadily risen every year since then, and reached 17.9 million units in 2015. Automotive production (cars and commercial vehicles) increased 3.8% in 2015, according to the Organisation Internationale des Constructeurs d'Automobiles (OICA). Light vehicle sales (passenger cars and light trucks) increased 1% year-on-year in the period January-July 2016, to more than 10 million units.

On-going low oil prices continue to have an impact on US household vehicle-buying patterns, with a shift in demand for larger vehicles, especially towards crossover utility vehicles. At the same time, with consumers benefitting from low gas prices, more miles are being driven, which has a positive impact on the aftermarket/replacement market.

The US automotive market is expected to grow further in H2 of 2016 and early 2017, however, excess capacity coupled with an increase in new products being introduced in key segments will keep pressure on manufacturers' ability to increase prices. As sales approach the pre-recession peak, manufacturers will need to adjust from what has been a growth environment to a more steady-state market situation. Gross margins of automotive businesses are expected to remain stable in the coming months as the industry continues to benefit from low raw material prices. However, at the same time there is some headwind from a stronger USD.

In international comparison the US automotive sector remains at the forefront of innovation, as US automotive businesses investmentment in new research and development (R&D) initiatives amount to USD 18 billion per year (compared to USD 100 billion R&D investment by the whole automotive sector worldwide).

Automotive businesses tend to be highly leveraged, since the sector is very capital-intensive. Access to external funding has steadily improved since the 2008 credit crisis, due to improved trading conditions within the sector, relaxation within the traditional credit markets and access to funding via government-backed programmes. Banks are generally willing to lend to the industry.

The average payment duration in the US automotive industry is 30-60 days. Payment behaviour in this sector has been good over the past two years. The number of protracted payments, non-payments and insolvency cases has been low in 2015 and H1 of 2016. Given the stable performance outlook weexpect the current insolvency rate to remain stable.

Due to the generally benign indicators we still assess the credit risk and business performance of the automotive sector as "Good", and our underwriting stance continues to be open.

Market performance at a glance

Mexico

- The Mexican automotive industry has recorded an average growth rate of 4.5% over the past three years. It acounts for 17% of manufacturing GDP and generates more than 18% of manufacturing employment (more than 800,000 jobs). Direct foreign investment amounted to EUR 5 billion in 2015.
- Mexico is currently the seventh largest producer of light vehicles globally, with 3.3 million units built in 2015 (up 5.6% year-on-year), and the fifth largest producer of car parts worldwide. Automotive exports increased 4.4% in 2015, with the US accounting for 72% of sales. Domestic car sales increased 9% in 2015 as a result of higher consumer confidence and increased brand competition.
- The Mexican automotive industry is expected to continue growing in the coming years, also benefitting from the current slump in Brazilian automotive production and the strengthening of the US dollar. It is expected that production levels will increase to 5.2 million vehicles in 2020.
- Payment behaviour in this sector has been good over the past two years, and the number of protracted payments and insolvencies is low. Business failures are expected to decrease further in the coming months as the business environment is expected to remain benign and banks are willing to lend. We assess the credit risk and business performance of the automotive sector as “Good”, and our underwriting stance continues to be open.

Slovakia

- Slovakia´s automotive industry broke a record in 2015, producing more than a million cars for the first time. The country is the global leader in car production per capita (184 cars per 1,000 inhabitants in 2015). Automotive accounts for 45% of Slovakia´s manufacturing activities and 35% of exports. In H1 of 2016 the sector continued to benefitted from rising car sales in Europe, while domestic car sales remain robust.
- Jaguar Land Rover has decided to build a new plant in Slovakia with production expected to start in 2018 (150,000 cars per year planned at the start). This will further increase demand from local car parts suppliers.
- Major strengths of the industry are its close proximity to core export markets in Europe, low labour costs, and government support.
- Profit margins of vehicle manufacturers are expected to increase further in the coming months due to robust sales, lower costs for steel and plastics and improving efficiency in the production process.
- Depending on the level in the supply chain, payment duration in the automotive sector ranges between 30 days and 60 days. Payment behaviour is generally good with a low number of non-payment notifications, and this is expected to remain unchanged in the coming months. The insolvency level in this industry is expected to remain low after decreasing over the last six months.
- Our underwriting stance remains open, given the low payment default and insolvency level in this industry. Market conditions are expected to remain favourable. However, due to its high export dependency, the Slovakian automotive sector remains highly susceptible to adverse developments in the global car market, e.g. a major slump in demand in the eurozone and/or China.

Sweden

- The Swedish car producer segment is dominated by Volvo Cars in the passenger car and by Volvo AB and Scania AB in the truck segment. Those OEMs are mainly export-oriented, and their performance widely determines the performance of smaller Swedish suppliers, among them many engineering businesses.
- Sweden´s robust economic performance (GDP grew 4.2% in 2015 and is expected to increase 3.5% in 2016). Robust global demand has supported growth in the automotive sector, which is expected to record valued added growth rates of 2.8% in 2016 and 4.6% in 2017.
- Profit margins are expected to remain stable in the Swedish automotive industry. Most businesses in this sector should be financially resilient enough to cope with some minor volatility in demand or commodity prices. The current low interest rate environment favours companies in servicing their debt, and banks are willing to lend.
- Depending on the level in the supply chain, payment duration in the automotive sector ranges between 30 and 90 days. The level of non-payments and insolvencies is low, and this is expected to remain unchanged in the coming months. Our underwriting stance remains generally open for this industry.

Turkey

- Automotive demand in Turkey has started to decrease, as the market contracted 3% year-on-year in the first quarter of 2016. This was mainly due to a more difficult political and economic environment coupled with security issues, all negatively impacting domestic demand.
- It is expected that automotive demand will remain at lower levels in the second half of 2016 and into 2017. All segments (automotive manufacturers, suppliers and car part producers, car dealers) are affected by lower sales.
- Despite a favourable raw material costs environment (low flat steel prices), profitability of Turkish car producers and suppliers remained unchanged over the last 12 months. Price wars are common in the market, and with lower raw material prices, companies feel more comfortable in cutting prices to try to increase market share. Competition plays an important role in the direction of stable bottom-line figures. Businesses´ margins are expected to remain largely unchanged in 2016.
- Gearing and financial requirements are average in the Turkish automotive sector. Supplier support, rather than bank finance, is usually sought out in this sector. However, when needed heavy investments are to be funded by bank loans.
- Payment duration in the automotive sector ranges between 30 and 60 days. Payment behaviour is generally stable, with non-payment notifications expected not to increase in the coming months. Automotive insolvencies are low and are expected to remain stable in the coming six months. That said, foreign exchange risks, fierce competition, high taxes and the fact that many businesses are undercapitalised pose downside risks.

Industries performance forecast per country

October 2016

	Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrls	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	🌤	☁	☁	🌧	🌧	🌧	☁

Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles
Good	Good	Fair	Fair	Good	Poor	Poor
Good	Fair	Fair	Poor	Poor	Fair	Poor
Fair	Fair	Fair	Fair	Fair	Poor	Poor
Good	Fair	Fair	Bleak	Fair	Poor	Poor
Good	Fair	Fair	Poor	Fair	Fair	Poor
Fair	Good	Fair	Poor	Good	Fair	Poor
Fair	Good	Poor	Fair	Good	Poor	Poor
Good	Fair	Fair	Bleak	Poor	Fair	Poor
Good	Fair	Poor	Poor	Good	Poor	Poor
Good	Fair	Poor	Fair	Good	Poor	Poor
Fair	Fair	Fair	Fair	Good	Fair	Fair
Fair	Fair	Poor	Fair	Good	Poor	Fair
Poor	Poor	Poor	Fair	Poor	Poor	Poor
Fair	Good	Fair	Fair	Fair	Poor	Poor
Good	Fair	Poor	Poor	Good	Poor	Poor
Good	Good	Poor	Fair	Fair	Poor	Poor
Good	Good	Fair	Bleak	Good	Poor	Fair
Good	Fair	Bleak	Poor	Poor	Fair	Poor
Fair	Fair	Poor	Poor	Fair	Poor	Poor
Good	Poor	Poor	Poor	Fair	Poor	Poor
Good	Fair	Fair	Poor	Good	Fair	Bleak
Good	Fair	Poor	Good	Good	Poor	Poor
Good	Fair	Poor	Poor	Good	Poor	Poor
Good	Fair	Poor	Poor	Fair	Poor	Poor
Fair	Fair	Bleak	Poor	Good	Bleak	Poor
Excellent	Fair	Poor	Fair	Good	Poor	Fair
Good	Fair	Poor	Good	Good	Poor	Fair
Good	Fair	Poor	Fair	Fair	Poor	Fair
Good	Fair	Fair	Fair	Fair	Fair	Poor
Fair	Fair	Fair	Poor	Poor	Poor	Poor
Good	Fair	Fair	Fair	Good	Poor	Fair
Excellent	Fair	Poor	Fair	Good	Poor	Fair
Good	Fair	Fair	Fair	Fair	Poor	Bleak
Poor	Fair	Poor	Fair	Good	Poor	Poor

Excellent

Good

Fair

Poor

Bleak

Industry performance

Changes since September 2016

Europe

Portugal

Consumer Durables

Down from Fair to Poor

Consumer durables has been negatively affected by a slowdown of household consumption growth in 2016..

Spain

Services

Up from Fair to Good

The Spanish services sector benefits from the strong performance of the tourism segment (hotels and restaurants) since three years. Tourist arrivals have increased 11% year-on-year in the January-July 2016 period.

The Americas

USA

Textiles

Down from Fair to Poor

The sector has recorded increasing insolvencies in H1 of 2016, especially in the retail segment.

Asia/Oceania

Hong Kong

Consumer Durables

Down from Good to Fair

Consumer durables retails has been negatively affected by the economic slowdown in China, as less visitors from the mainland arrive in Hong Kong and spend less on consumer durable goods. At the same time domestic spending has also decreased in H1 of 2016. This, together with high rents, has resulted in many shop closures.

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Atradius N.V.
David Ricardostraat 1 · 1066 JS Amsterdam
Postbus 8982 · 1006 JD Amsterdam
The Netherlands
Phone: +31 20 553 9111

info@atradius.com
www.atradius.com