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Paris, November 28, 2016

Coface Sector Risk Update: Six Downgrades Reflect Precarious Global Risk Situation

- North America: Downgrades for retail, textiles/clothing, transportation and paper/wood
- Western Europe: Downgrade for agrofood
- Central Europe: Construction and information/communication technologies (ICT) downgraded; transportation upgraded
- Middle East: Downgrade for ICT

Nearly One-Third of Sectors Downgraded in 2016

During the course of the year, Coface issued 23 downgrades and 10 upgrades across the 12 sectors evaluated in six regions of the world.

The trend is likely to continue into 2017. Global growth is still weak at an estimated 2.6%. Low commodity prices are weighing on the profitability of many sectors. The increase in political risk, provoked by uncertainties linked to the Donald Trump victory in the US presidential elections, to *Brexit*, and to a number of political events in Europe, could lead companies in developed countries to postpone investment decisions.

North America Weakens

This quarter, North America is the region most weakened by the increase in risks. After a net reduction in company insolvencies in 2014 (-16%) and 2015 (-12%), insolvencies are expected to stabilize in 2016, and then increase slightly in 2017 (+1%.) The sectors that depend on household consumption will suffer most from the slowdown in growth. The rate of increase in retail sales is already down one point as of July 2016, compared to the previous year. The second increase in key lending rates since the 2008 financial crisis, which is expected in December, will increase the cost of loans and affect purchasing habits in poorer households.

- This has led Coface to downgrade its assessments of the **retail and textiles/clothing sectors** to “high risk.”
- Although the **transport sector in North America** has benefitted from low oil prices and the effects of 2008-2011 bailout, prospects are gloomy because of the downturn in consumption, particularly with regard to air traffic. It is now evaluated as “medium risk.”



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- The **paper/wood sector** suffered from a situation in the construction market in the United States. From January to September 2016, growth in construction permits dropped from +12.5% to +2.3%. The risk in the sector is now “high.”

Credit Risk Increases in Europe

Credit risks are increasing in Europe, despite a slight drop in the number of insolvencies.

In **Western Europe**, the **agrofood** sector was downgraded to “high risk.” European grain producers, particularly in France and Germany, have suffered from an adverse two-fold effect of prices and volumes - unprecedentedly low production in an environment of low prices worldwide.

Central Europe saw two sectors downgraded (construction and ICT) and one upgraded (transportation.)

- The situation in the **construction** sector, downgraded to “high risk,” is worsening because of the freezing of infrastructure projects in Poland, which could become the first European country to be penalized for non-compliance with European regulations on public deficit.
- The ICT sector, downgraded to “medium risk,” has suffered from moderate consumption, particularly due to the slowdown in global sales of smartphones. Credit risk is increasing because of downward pressure on prices and hence on company margins.
- **The transport sector**, the only one to be upgraded (to “medium risk,”) benefits from the trend in consumption in the region and satisfactory growth prospects in the Eurozone. The sector only suffered in Poland, from its exposure to the United Kingdom.

Middle East: the ICT Sector Is Robust but Risky

In the Middle East, the risks in three-quarters of sectors are considered as “high” or “very high.” The most recent sector downgraded to “very high” risk is **ICT**, where margins have been affected by the market downturn, primarily linked to the drop in oil revenues. Moreover, re-exports to Iran will decrease, given the lifting of sanctions. Finally, the existence of a black market that is difficult to control has also contributed to the drop in profits on the legal market.

ANNEX

SECTOR RISK ASSESSMENT						
Sectors	North America	Latin America	Central Europe	Western Europe	Emerging Asia	Middle East + Turkey
Agrofood						
Automotive						
Chemical						
Construction						
Energy						
ICT*						
Metals						
Paper-wood						
Pharmaceuticals						
Retail						
Textile-clothing						
Transportation						

Source: Coface
 * Information and communications technologies

Low risk
 Medium risk
 The risk has improved
 High risk
 Very high risk
 The risk has deteriorated

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About Coface

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