Atradius
Managing risk, enabling trade

September 2018

market monitor

Focus on automotive performance and outlook

In this issue...

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

Excellent
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend

Good
The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend

Fair
The credit risk situation in the sector is average / business performance in the sector is stable

Poor
The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend

Bleak
The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend

Mounting risks and structural challenges

Globally the automotive industry has continued to perform quite well in 2017 and into 2018, with the credit risk situation and business performance rated "Fair" or even "Good" in most major markets, and the short-term outlook remains generally favourable. However, this positive picture could immediately reverse, as potential downside risks have increased in a business environment already facing structural challenges. While the imposition of US punitive tariffs on vehicles and vehicle parts has been suspended for the time being, the issue remains a dark cloud on the horizon, with potentially severe repercussions for an industry strongly relying on cross-border supply chains. Other short-term issues with a potential negative impact are the looming uncertainty over the Brexit outcome and the ongoing Sino-US trade dispute.

All those economic policy issues are impacting the global automotive industry in a time when there are structural major challenges ahead that sooner or later will affect the sector, such as emission curbing, new technologies, and changing consumer habits. Within the industry the competitive race for this innovation round is well underway, requiring large R&D spending from original equipment manufacturers (OEMs) and suppliers alike. This poses a major challenge for the bulk of small and medium-sized suppliers who deliver less valuable car components and parts, often heavily dependent on just one OEM and active in a highly competitive environment. We therefore expect that in the coming five years the credit risk of many of those structurally weaker automotive suppliers will increase, leading to strained liquidity, more payment delays and business failures – even if the currently looming issues related to rising protectionism and limitations of free trade do not materialise.

China

- Strong growth, but overcapacity in the electric car segment
- Rather resilient in light of the Sino-US trade dispute
- Payments take 90-120 days on average

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 China Association of Automobile Manufacturers (CAAM), domestic vehicle sales increased 3% year-on-year in 2017, to 28.88 million units, a sales increase far lower than the 10% rise seen in 2016. The slower growth was due to higher taxes on smaller cars and subsidy adjustments on electric vehicles. Passenger car sales increased 1.4% (among those SUV sales rose by 13.3%, to 10.25 million units), while sales of minibuses/multi-purpose vehicles plunged 20% and 17% respectively. Commercial vehicles recorded robust demand with sales increasing 14%, to 4.16 million units. In 2018 it is expected that vehicle sales will increase as much as 5% year on-year.

Electric cars remain a promising segment, as the government still provides substantial subsidies to manufacturers, while customers are offered incentive and favourable discounts for purchasing. State-owned institutions are encouraged to buy more new energy vehicles. The electric car market grew 53.3% in 2017, to about 780,000 units, while sales increased 111.5% in H1 of 2018. However, concerns over overcapacity are rising, as there are currently more than 200 electric-vehicle projects in China with investment of over CNY 1,026 billion and a potential capacity of more than 21 million units, while the government-set target aims at just 7 million units on the road by 2025. In order to guide the industry, the Chinese state is gradually reducing subsidies. Stricter rules are also set to raise the subsidy threshold, which will force automakers to increasingly convert themselves into hi-tech companies with core competencies. In this way, low-cost manufactures will leave the stage.

It seems that the Chinese car market is rather resilient in the light of the ongoing Sino-US trade dispute. Vehicle import and export volumes (1.25 million units and 1.06 million units respectively) are quite small compared to the industry output (29 million in 2017). The government has recently taken several measures to boost the automotive market. Since July 2018 import duties on vehicles have been slashed to 15% from 25%, while duties for car

China: Automotive

	2017	2018f	2019f
GDP growth (%)	6.9	6.4	6.0
Sector value added growth (%)	5.2	5.1	3.7

Average sector growth over the past 3 years (%)	11.6
Average sector growth over the past 5 years (%)	12.3
Degree of export orientation	low
Degree of competition	average

Sources: Macrobond, Oxford Economics, Atradius

parts have been lowered to 6% from around 10%. The additional 25% tit-for-tat tariff is only imposed on products made in the USA. At the same time China announced it will ease limits on joint ventures within five years and open up the market to overseas carmakers. The rules will be loosened on electric cars this year, commercial vehicles by 2020 and passenger cars in 2022. All that should ensure a solid and steady performance of the domestic automotive market in the coming years. However, despite its resilience a major escalation of the current Sino-US trade dispute would surely impact the automotive business along with other sectors (e.g. potential deterioration of business and consumer sentiment).

On average, it takes car manufacturers and suppliers about 90-120 days to collect debts. In the car dealers segment, average creditor days are about 40-60 days. Payment experience has been good over the past two years, and non-payments are not expected to increase in the coming months. The level of automotive insolvencies is low compared to other industries, and business failures are not expected to increase in 2018.

We see original equipment manufacturers as strong businesses, because of the segment's high capital level, technical intensity and the growth potential of the Chinese automotive market. Our underwriting strategy remains open, but we are more cautious towards manufacturers of domestic brands than we are to joint ventures. We have a relaxed underwriting stance on core parts (Tier 1) suppliers, which are highly integrated into the supply chains of OEMs. Our underwriting stance for the basic component parts (Tier 2) segment is neutral. We are more careful with smaller companies in this segment because of their poor equity, which could lead to insolvencies. Unlike other manufacturers, businesses in this segment may have difficulty obtaining bank finance. Due to fierce competition and the, on average, small size of businesses, our underwriting stance for the car dealers segment is rather restrictive.

Chinese automotive sector

Strengths

- Automotive is a government backed industry
- Rising income and urbanisation will drive demand
- Major players are financially strong. They are usually large corporations with state-owned background or joint ventures with multinationals

Weaknesses

- Rising costs for raw materials and labour will impact profits in the sector
- Escalating trade disputes between China and USA might affect the industry
- Traffic restrictions and environmental regulations could have negative impact on the market.

Source: Atradius

Performance forecast along subsectors

Source: Atradius

France

- Further growth expected in 2018
- Limited impact of potential US punitive tariffs
- Major challenges in the supplier segment 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

According to the International Organization of Motor Vehicle Manufacturers OICA, French automotive production increased 6.5% in 2017, while domestic registrations or sales of new vehicles rose 4.7%. French carmakers, which have a 59% market share in France, recorded a 14% sales increase, benefitting from growing domestic and international demand. In H1 of 2018 the robust performance continued, with domestic automotive sales increasing 4.7%. The utility vehicles market performed well, partly driven by a rebound of the construction sector.

Automotive parts and components manufacturers' revenues are expected to increase 3.5% in 2018 after growing 6% in 2017. Automotive suppliers are impacted by the decrease in diesel vehicles production and have therefore launched measures such as new R&D, innovation and investment plans in a shift to provide components for more environmental-friendly engines as well as connected and electrical vehicles. This requires large investments, and it helps that banks are currently willing to provide loans to this segment, which is already highly dependent on bank financing (both short- and long-term debts).

Despite the unfavourable impact of rising commodity prices and higher staff costs automotive suppliers posted good margins in 2017, with average earnings before interest, taxes, depreciation and amortization (ebitda) at 5.7% of revenues.

That said, structurally the margins of suppliers remain under pressure as the powerful car manufacturers keep requesting greater productivity, coupled with lower prices (e.g. many suppliers could not pass increased metal prices on to OEMs). Despite the ongoing upturn, major structural issues persist (high working capital, investment requirements leading to high debt levels and financing needs, coupled with strong competition and price pressure). Any demand downturn in the future could seriously affect suppliers, especially those who are highly geared and positioned at the lower end of the value chain.

France: Automotive

	2017	2018f	2019f
GDP growth (%)	2.0	2.1	1.9
Sector value added growth (%)	5.0	2.2	6.8

Average sector growth over the past 3 years (%)	5.9
Average sector growth over the past 5 years (%)	3.6
Degree of export orientation	high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

On average, payments in the French automotive industry take 60 days (end of month). Timely payment is important, and there are few protracted payments. The payment experience has been good over the past two years, and we do not expect any fundamental change in the coming months.

Insolvencies decreased in 2017 and the insolvency level is expected to remain low (below 1.5%) in 2018. Usually the assets of defaulting companies are taken over by other suppliers, sometimes supported by a car manufacturer in order to avoid disruptions in the supply chain.

Given the solid performance in 2017 and the positive business outlook for 2018, our underwriting stance for the French automotive industry remains generally open. We expect that the impact of any US import tariffs on French carmakers and suppliers would be limited as the export share to the US is very low, with no change in credit risk for the industry.

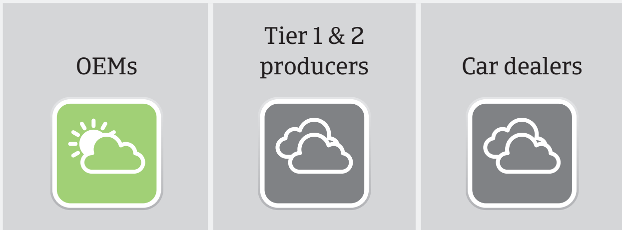
French automotive sector

Strengths	Leading companies in some segments: FAURECIA, VALEO, Plastic Omnium
	Technical knowledge
	State support to a certain extent (R&D loans)
Weaknesses	Low margins in some segments
	Lack of attractiveness for private funds
	Lack of competitiveness

Source: Atradius

OEMs and Tier 1 suppliers retain a strong risk profile, posting robust revenues and margins, For Tier 2 suppliers our underwriting stance is more neutral, as this segment remains impacted by changes in raw material prices and pressure on margins from OEM/Tier 1 businesses. Businesses in the Tier 2 segment remain susceptible to higher risks, as the trend to outsource production overseas and high competition from foreign companies has led to overcapacity. We closely monitor smaller suppliers engaged in foundry work, small stamping and/or producing items with low technology requirements. We also maintain a neutral underwriting stance for car dealers, as this segment suffers from decreasing demand of diesel cars and could therefore face significant inventories.

Performance forecast along subsectors



Source: Atradius

United Kingdom

- 2018 sales negatively affected by Brexit uncertainty
- Increasing insolvencies expected in 2018
- Payments take 60 days on average

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 International Organization of Motor Vehicle Manufacturers OICA, in 2017 UK automotive sector output decreased 3.7% to 1.75 million vehicles produced. Reduced demand for diesel engines due to uncertainty about regulation and taxation surrounding the government's plan to cut CO2 emission targets led some car manufacturers to cut production. According to the European Automotive Manufacturers Organisation, ACEA, in 2017 new passenger car registrations increased 3.4%, while commercial vehicle registrations fell 4.4%. Domestic new car registration decreased 6% in H1 of 2018 according to the Society of Motor Manufacturers and Traders (SMMT), due to ongoing uncertainty about Brexit and the government´s plans for emission reduction. That said, exports continued to sustain automotive production growth, helped by a weaker pound. Exports account for around 80% of production, with the EU being the biggest export market, accounting for 54% of exports in 2017.

According to SMMT, investment in the British automotive sector continued to decrease, from GBP 1.7 billion in 2016 to GBP 647.4 million in H1 of 2017 and further to GBP 347.3 million in H1 of 2018. This decline in investment reflects the ongoing uncertainty of businesses over the outcome of Brexit. As UK automotive manufacturers require access to free and frictionless trade with the EU, there is concern that manufacturers could decide to divert further investment outside the UK. A "hard Brexit" outcome (ending access to the single market and customs union) without any interim arrangement would severely hurt producers and suppliers alike.

Leaving the EU could mean that increased tariffs would make producing cars in the UK more expensive. Under World Trade Organization (WTO) rules, there would be a tariff of 10% on vehicles and 4.5% on components. The introduction of customs

UK: Automotive

	2017	2018f	2019f
GDP growth (%)	1.8	1.7	1.7
Sector value added growth (%)	0.1	-1.5	1.5

Average sector growth over the past 3 years (%)	3.8
Average sector growth over the past 5 years (%)	5.9
Degree of export orientation	very high
Degree of competition	very high

Sources: Macrobond, Oxford Economics, Atradius

controls would hamper the just-in-time delivery of parts from EU suppliers, and lead to higher stocks, thereby increasing costs as on average, UK-made cars contain approx. 60% of components imported from the EU. In addition to any potential trade disruptions, the sector would lose benefits from EU funds for manufacturing research and development. Foreign-based car producers with operations in the UK could suffer from a deterioration in profits and an impairment in assets.

Currency volatility continues to be an issue. While the depreciation of the pound has helped exporters, it has also pushed up the cost of importing both vehicles and components. Approximately 82% of domestic-sold vehicles and 60% of automotive components are imported from the EU. The recent decrease in new car registrations due to weaker consumer and business confidence will require dealers and manufacturers to absorb a share of those increased costs, which could negatively impact their margins.

British automotive sector

Strengths	Strong global demand
	Engineering excellence
Weaknesses	High fixed cost base means any slippage in revenues could lead to losses
	Skills shortage – a major issue in case of a hard Brexit
	Ongoing uncertainty over the Brexit outcome has affected business and consumer confidence

Source: Atradius

Payments in the UK automotive industry take 60 days on average. We expect that both payment delays and insolvencies will increase in the coming 12 months. Lower production will impact suppliers, particularly those that had invested in expanding their facilities expecting that robust growth would continue. The decrease in domestic car sales is impacting profits of new car dealerships, with some having to restructure and downsize.

For the time being, our underwriting stance remains 'open to neutral' towards the UK automotive sector, due to the persistent strength of the British car manufacturing industry (its diversity, with a reasonable mix of volume, premium and specialist producers), the still satisfying output (compared to pre-2016 production levels) and robust export demand. However, while the true implications of Brexit for the UK automotive sector remain uncertain, we continue to monitor closely the ongoing negotiation process and may adapt our position in the future if the environment changes significantly. Meanwhile, given that sales to US account for 14.5% of UK automotive exports, there is also a concern that any US punitive tariffs on automotive imports could affect the sector's performance.

Performance forecast along subsectors

OEMs	Tier 1 & 2 producers	Car dealers
		

Source: Atradius

USA

- **Sales have rebounded after a setback in 2017**
- **Imposition of punitive tariffs could lead to higher insolvencies**
- **Payments take 30-60 days on average**

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

Following consecutive years of growth, in 2017 the US automotive market recorded the first decrease in sales since the 2008 credit crisis. According to the International Organization of Motor Vehicle Manufacturers, OICA, US vehicle production decreased 8% year-on-year in 2017, to 11.2 million units, while registrations or sales of new vehicles declined 2.2%, to 17.5 million units. That said, car sales have been resilient in H1 of 2018, with many of the larger players posting sales increases. Despite rising interest rates and more choices of late-model used vehicles, strong economic performance, low unemployment and tax cuts have helped to drive sales. The car dealers segment has enjoyed favourable trading conditions in recent years with subsidies, affordable financing readily available and above average consumer confidence.

The postponement of a 25% tariff on vehicles and auto parts imported from the EU has not removed uncertainty in the market. While still recording solid operating results, large OEMs have lowered their profit forecasts for 2018, citing higher steel and aluminium prices caused by recently imposed US import tariffs on both commodities. General Motors recently stated that they estimate a USD 600-700 million cost increase in 2018, while Ford reported that the tariffs increased their costs by USD 150 million in H1 of 2018 alone. Domestic steel producers have already increased their prices in reaction to the tariffs, and rising prices for steel and aluminium could negatively impact businesses profitability and cash generation, especially for Tier 1 and Tier 2 producers. Their ability to pass on price increases is key in this respect.

US 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.

USA: Automotive

	2017	2018f	2019f
GDP growth (%)	2.3	2.8	2.4
Sector value added growth (%)	-0.4	2.5	0.1

Average sector growth over the past 3 years (%)	3.1
Average sector growth over the past 5 years (%)	5.2
Degree of export orientation	high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

The average payment duration in the US automotive industry is 30-60 days. Payment behaviour in this sector has been satisfying over the past two years. The number of protracted payments, non-payments and insolvency cases has not increased in 2017 and H1 of 2018. However, any future imposition of tariffs on car parts and vehicle imports would severely impact the industry, most probably leading to increasing insolvencies. The suggested tariffs would ultimately hurt US consumers, who could experience fewer options and higher prices across the board, as even domestic manufactured vehicles use imported parts.

US automotive sector

Strengths	Positive economic outlook and robust consumer confidence
	Many US automotive businesses restructured after the 2008 credit crisis and are consequently financially more resilient
Weaknesses	Increased uncertainty over the future course of economic and trade policies
	Strong USD hampers export performance
	Increased environmental requirements (emissions) and evolving technologies (autonomous) requiring investment

Source: Atradius

Another challenge that the automotive industry is facing is the transition from traditional combustion engines to alternative fuel/electric technology. With a number of countries announcing policy changes to phase out gasoline and diesel engines, this puts pressure on OEMs and core suppliers to invest in the development of alternative fuel/electric vehicles. While we are seeing a number of electronic vehicles being added to ranges there is still a number of hurdles that the industry faces, such as making the technology more affordable, improving the range of fuel cells and improving infrastructure (charging stations).

Despite the looming downside risks we still have a positive underwriting approach to the automotive sector for the time being. At the same time we continue to monitor developments in US trade policies, which could have a disruptive impact on the industry and ultimately lead to a change in our risk appetite.

Performance forecast along subsectors

OEMs	Tier 1 & 2 producers	Car dealers
		

Source: Atradius

Market performance at a glance

Germany

- The solvency and liquidity situation of German automotive producers and suppliers is robust in general. However, margins are decreasing due to increased material and labour costs, rising competition, pressure on sales prices and the need to invest (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). Given the good results in the past, the majority of companies still have adequate equity positions to cope with this.
- However, there are 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. Many small businesses have difficulty funding the funding necessary for further growth or to climb up the value chain.
- German OEMs producing in the US could be affected by higher prices for commodities due to US punitive tariffs on steel and aluminium, as there are doubts that US producers can provide the quality and volume required in the short-term. Given the importance of the US market for the German automotive industry the imposition of tariffs on car and car part imports could severely impact certain German OEMs and suppliers (especially those that have no production plants in the US).
- 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. The insolvency level is expected to remain low for the time being. The average payment duration is 60 to 90 days. However, we have recently observed that some Tier 1 suppliers use their market power to increase their payment terms to 120 days.
- Given the major challenges ahead (emission curbing, new technologies, changing consumer habits, mounting trade disputes) we rate the German automotive sector as “Fair”. Our underwriting stance remains open for OEMs and Tier 1 suppliers, which usually have good access to capital markets and face a very low default risk. However, we take a neutral UW stance on Tier 2 businesses due to lower equity ratios in this segment and because many products are substitutable. Should the US impose tariffs on automotive imports and the ongoing trade disputes escalate, it cannot be ruled out that suppliers could face liquidity and payment issues.

Germany: Automotive

	2017	2018f	2019f
GDP growth (%)	2.5	2.3	1.8
Sector value added growth (%)	3.8	0.6	-0.4

Average sector growth over the past 3 years (%)	2.5
Average sector growth over the past 5 years (%)	3.4
Degree of export orientation	very high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

OEMs	Tier 1 & 2 producers	Car dealers

Source: Atradius

Italy

- According to the industry association ANFIA car sales increased 6.8% in 2017, due to robust domestic demand and higher exports (more than 50% of cars produced in Italy are destined for export, with France, Germany, and the US as main markets). However, the positive trend slowed down in H1 of 2018, with car registrations in Italy decreasing 1.4%, in contrast to further growth in Europe (up 2.8%). In 2018 the domestic market is expected to remain flat, due to the subdued economic rebound and increased uncertainty after the government change.
- Potential support for production and sales growth in the short-term future comes from the need to align with emission standards and to replace obsolete models (the average age of the vehicle fleet in Italy is above ten years).
- Many Italian manufacturers and car part suppliers recorded stable or improving profits in 2017. However, smaller businesses experienced a decrease in equity, solvency and liquidity ratios, a trend that is expected continue in 2018.
- On average, payments in the Italian automotive industry range from 60 to 90 days and 120 to 150 days, depending on the end-buyer and whether working capital requirements can be financed by banks or suppliers. Generally, payments are quicker when the end-buyer is a foreign company. Payment experience has been rather good over the past two years, and non-payments are not expected to increase in the coming months. The level of automotive insolvencies is low compared to other industries, and business failures are expected to level off.
- Our underwriting approach remains generally open for the time being. Car manufacturers have a diversified product range and are competitive in both domestic and foreign markets, while Tier 1 producers can rely on the sound creditworthiness of their final customers. However, we are more cautious with small and medium-sized players and tyre distributors/wholesalers, due to fierce competition in those segments.

Italy: Automotive

	2017	2018f	2019f
GDP growth (%)	1.5	1.5	1.1
Sector value added growth (%)	6.2	-1.1	-3.3

Average sector growth over the past 3 years (%)	13.1
Average sector growth over the past 5 years (%)	8.0
Degree of export orientation	high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

OEMs	Tier 1 & 2 producers	Car dealers
		

Source: Atradius

Japan

- The Japanese automotive sector recorded a 5.2% year-on-year sales increase in 2017, while production rose 5.3%, to 9.6 million units, due to higher domestic sales (mainly driven by new model launches) and increased exports (up 1.5%) to key markets such as the US and Europe.
- Profitability in the Japanese automotive sector is high, and over the past five years the average net profit margin of Japan's top three automakers (Toyota Motors, Nissan Motors and Honda Motors) was 6.2% - higher than their large foreign rivals. This is mainly due to streamlining at various stages from design to production. Due to the good business performance, banks are generally willing to provide loans with good financing conditions, which is helped by low interest rates.
- The average payment duration in the Japanese automotive industry is around 30 days for car retailers, 30-60 days for manufacturers and 60-90 days for wholesalers. Payment behaviour in this sector has been very good over the past two years. The number of non-payments and insolvency cases is very low, and it is expected that there will be no deterioration in the coming months, given that the business environment remains stable.
- However, there are major challenges ahead. Japanese automotive manufacturers active in the US are affected by the import tariffs on steel and aluminium imposed since June 2017. There are downside risks for the industry stemming from an escalation of the US-China trade dispute. China is Japan's biggest export destination, and any trade restrictions weakening Chinese purchasing power would curb demand for Japanese products, including cars. In the domestic market demand could be curbed by an increase in the consumption tax planned for October 2019.
- Due to the generally positive indicators, we currently assess the credit risk and business performance of the automotive sector as "Good", and our underwriting stance continues to be very open for large manufacturers and open for car parts suppliers and wholesalers.
- However, we have adopted a more cautious approach for smaller businesses, which often have weaker financials and are more vulnerable to sudden changes in market sentiment. We also monitor any effects punitive tariffs and an escalation of trade disputes could have on the sales and profit performance of larger manufacturers.

Japan: Automotive

	2017	2018f	2019f
GDP growth (%)	1.7	1.5	0.9
Sector value added growth (%)	4.5	1.3	1.5

Average sector growth over the past 3 years (%)	3.4
Average sector growth over the past 5 years (%)	2.2
Degree of export orientation	high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

OEMs	Tier 1 & 2 producers	Car dealers

Source: Atradius

Mexico

- In 2017 Mexican vehicle production increased 13% to more than four million units, according to the International Organization of Motor Vehicle Manufacturers OICA. Exports increased 12% in 2017 and 10% in H1 of 2018, helped by new production plants. That said, domestic market sales remained subdued in H1 of 2018 (also due to higher fuel prices).
- Profit margins of OEMs and Tier 1 suppliers are expected to remain stable, as Mexico imports only 10% of car parts used by assembly companies, and therefore an immediate effect of punitive tariffs on steel and aluminium is not expected. In addition, many car parts producers (often subsidiaries of global groups) have hedged against price volatility.
- The average payment duration in the Mexican automotive industry is between 30 days and 90 days. Payment behaviour in this sector has been stable over the past two years. The number of non-payments and insolvency cases is not above average compared to other industries, and it is expected that there will be no deterioration in the coming months, given that the businesses environment remains stable.
- Our underwriting stance remains open for vehicle manufacturers and Tier 1suppliers, given the strengths of most businesses in this segment (well established, often part of global company, high investments made). For Tier 2 suppliers our underwriting stance is more neutral, as this segment is more susceptible to changes in commodity prices and to price competition. It is expected that foreign investment into manufacturing and supply will continue; further strengthening the sector.

Mexico: Automotive

	2017	2018f	2019f
GDP growth (%)	2.3	2.2	2.4
Sector value added growth (%)	9.3	2.8	3.1

Average sector growth over the past 3 years (%)	5.5
Average sector growth over the past 5 years (%)	6.2
Degree of export orientation	very high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

OEMs	Tier 1 & 2 producers	Car dealers

Source: Atradius

Poland

- The domestic demand situation is benign, supported by economic growth and increased consumer sentiment. In 2017 the number of registered vehicles grew 6% year-on-year, and between January and May 2018 new car registrations increased 10% for passenger cars and 8% for light commercial vehicles. The used car market is import-driven, which adversely affects sales of new cars in Poland, but at the same time manufacturing is very much export oriented (automotive accounted for more than 16% of total Polish exports in 2017).
- Competition is very high in the industry with price wars and consolidation pressures, particularly visible in the car parts distribution and car dealers segments. Profit margins in the automotive sector have decreased since 2015 due to wage pressures and increased commodity prices. Margin deterioration will continue in the coming months, reinforced by the competition and consolidation pressures (especially for tire and car parts distributors) and rising R&D expenses necessary for electric vehicles. Effective logistics and IT solutions in distribution as well as proper stock management are key success factors for businesses in order to sustain their margins.
- Payment duration in the automotive sector is about 80 days, on average. Payment experience has been good over the past two years, and no significant increase in non-payments is expected in 2018. However, payment delays and non-payments are rising in the tire segment (due to lower sales in 2017 and higher stock levels) and from buyers in the transport sector. Automotive insolvencies are expected to rise in the coming months due to lower exports to Germany (declining demand for diesel engines) and the problems in the tire distribution segment.
- Our underwriting stance is generally neutral for the sector. While domestic demand continues to grow, we are aware of risks related to changes in production processes (e.g. tighter emission standards, less demand for diesel cars). Therefore we increasingly consider whether manufacturers and suppliers are bound to innovation (electric/hybrid cars) or overly dependent on diesel vehicles. We are more cautious with smaller Tier 2 companies due to high competition in this segment and lower bargaining power. Due to the high export dependence any imposition of import tariffs by the US would have an adverse impact on the Polish automotive sector, especially for Tier 1 businesses.

Poland: Automotive

	2017	2018f	2019f
GDP growth (%)	4.5	4.2	3.5
Sector value added growth (%)	7.4	2.8	12.5

Average sector growth over the past 3 years (%)	9.0
Average sector growth over the past 5 years (%)	7.4
Degree of export orientation	very high
Degree of competition	very high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

OEMs	Tier 1 & 2 producers	Car dealers

Source: Atradius

Slovakia

- Slovakian automotive production is set to grow further in 2018. While profits are expected to remain stable in 2018, an increase in labour cost cannot be ruled out due the low unemployment rate and labour shortage. Competition and price pressure remain high.
- Financing requirements and gearing of businesses are average in this sector. Many Tier 1 suppliers have significant equity and their working capital financing is rather low, as they deliver just in time. While Tier 2 suppliers are generally more indebted as they require higher stock levels, banks are willing to provide loans to this segment and to automotive businesses in general.
- Payment duration in the automotive sector ranges from 45 to 90 days. Payment experience has been good over the past two years. The level of non-payments and insolvencies is low, and this is expected to remain unchanged in the coming months.
- Our underwriting stance remains open for this industry, especially for OEMs and Tier 1 businesses, and neutral for Tier 2 companies and car dealers.
- While the threat of US punitive tariffs on car and car part imports from the EU has been averted for the time being, any future imposition would immediately hurt the strongly export-oriented Slovakian automotive industry. This would mainly affect the turnover and margins of one large OEM that exports directly to the US and related suppliers. It would also increase the credit risk of businesses along the value chain.

Slovakia: Automotive

	2017	2018f	2019f
GDP growth (%)	3.4	3.3	2.7
Sector value added growth (%)	-0.8	10.8	11.7

Average sector growth over the past 3 years (%)	8.6
Average sector growth over the past 5 years (%)	8.3
Degree of export orientation	high
Degree of competition	very high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

OEMs	Tier 1 & 2 producers	Car dealers

Source: Atradius

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Spain

- The Spanish automotive sector has benefitted from robust global demand over recent years. Domestic vehicle production recorded a cumulative growth rate of 45% from 2012 to 2016. In 2017 production decreased slightly (1.3% year-on-year) to about 2.8 million units, according to the International Organization of Motor Vehicle Manufacturers, OICA. The outlook for 2018 remains positive, with an expected output of more than 2.9 million units.
- Domestic car sales have recorded annual increases since 2012, in line with the rebound following the economic crisis. The improvement has been stimulated by robust private consumption 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. Domestic car sales increased 9.9% year-on-year in H1 of 2018.
- The profit margins of Spanish automotive businesses have been good over the past 12 months, and are expected to remain stable in 2018. While external financing requirements and gearing are generally high in this sector, banks are willing to provide credit to the 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 2018.
- Our underwriting stance remains generally open due to the low claims ratio, good payment behaviour and the industry's strengths. However, in the Tier 2 producer segment we are more cautious with smaller businesses that are showing financial weaknesses (e.g. high leverage, low profit margins). Additionally, in the car dealer segment some businesses could face difficulties in selling their stock of diesel cars, while in larger cities the increase of car sharing initiatives is impacting sales.
- The immediate impact of potential US tariffs on cars and car parts would be limited, as the US is no key market for Spanish OEMs due to their model range (small and medium-sized cars), while most of the larger Tier 1 businesses have their own manufacturing plants in the US.

Spain: Automotive

	2017	2018f	2019f
GDP growth (%)	3.0	2.9	2.4
Sector value added growth (%)	2.1	5.3	2.2

Average sector growth over the past 3 years (%)	6.7
Average sector growth over the past 5 years (%)	6.3
Degree of export orientation	high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

OEMs

Tier 1 & 2 producers

Car dealers

Source: Atradius

Sweden

- The Swedish car producer segment is dominated by Volvo Cars in the passenger car segment and by Volvo AB and Scania AB in the truck segment. Those companies are mainly export-oriented (the export ratio amounts to more than 85%), and they largely determine the performance of smaller Swedish suppliers.
- In 2017 car production increased 10.2% to 226,000 units, according to the International Organization of Motor Vehicle Manufacturers, OICA. Swedish GDP is expected to grow 2.8% in 2018 after increasing 2.7% in 2017, supporting domestic automotive sales.
- Profit margins in the automotive industry are rather high and expected to remain stable in 2018. Most businesses should be financially resilient enough to cope with some minor volatility in demand or commodity prices. The current interest rate environment (the Swedish benchmark interest rate remains at -0.5%) 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 from 30 to 90 days. The level of non-payments and insolvencies is low. This is expected to remain unchanged in the coming months.
- Our underwriting stance remains generally open for this industry, with no restrictions on any subsectors. Due to its high export dependency the automotive sector is exposed to currency exchange risk, as most costs incurred are in Swedish krona. Therefore we check that businesses take adequate measures to manage this risk.

Sweden: Automotive

	2017	2018f	2019f
GDP growth (%)	2.7	2.8	2.1
Sector value added growth (%)	10.4	14.9	-4.8

Average sector growth over the past 3 years (%)	12.5
Average sector growth over the past 5 years (%)	8.8
Degree of export orientation	high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

OEMs	Tier 1 & 2 producers	Car dealers

Source: Atradius

Industries performance forecast per country

September 2018

	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	☁	☁	☁	☁	☁	🌤	🌤
India	☁	☁	🌤	🌧	☁	☁	☁
Indonesia	☁	☁	☁	☁	☁	☁	🌤
Japan	🌤	☁	☁	☁	☁	🌤	🌤
New Zealand	🌤	🌧	🌤	🌤	🌧	🌤	🌤
Singapore	🌤	🌧	☁	🌧	☁	☁	🌤
Taiwan	☁	🌧	☁	☁	🌤	🌤	☁
Thailand	☁	🌤	☁	☁	☁	☁	🌤
United Arab Emirates	🌤	☁	☁	🌧	🌧	🌧	🌤

	Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles
	Good	Good	Fair	Fair	Good	Poor	Poor
	Good	Good	Fair	Poor	Poor	Good	Poor
	Good	Fair	Fair	Fair	Fair	Fair	Poor
	Good	Fair	Fair	Bleak	Fair	Poor	Poor
	Fair	Fair	Fair	Poor	Fair	Fair	Poor
	Fair	Good	Fair	Poor	Good	Fair	Poor
	Fair	Good	Poor	Fair	Good	Poor	Poor
	Good	Fair	Fair	Bleak	Fair	Fair	Poor
	Good	Excellent	Fair	Fair	Fair	Fair	Poor
	Excellent	Good	Good	Fair	Good	Fair	Fair
	Fair	Poor	Fair	Fair	Good	Fair	Fair
	Fair	Fair	Poor	Fair	Good	Poor	Poor
	Fair	Bleak	Fair	Fair	Poor	Fair	Fair
	Good	Good	Fair	Fair	Fair	Fair	Poor
	Good	Fair	Fair	Poor	Good	Fair	Poor
	Good	Good	Poor	Fair	Fair	Poor	Poor
	Good	Good	Fair	Fair	Good	Poor	Fair
	Good	Fair	Bleak	Poor	Poor	Fair	Poor
	Fair	Fair	Fair	Poor	Fair	Fair	Poor
	Good	Poor	Poor	Fair	Fair	Poor	Poor
	Good	Fair	Bleak	Poor	Good	Bleak	Bleak
	Good	Fair	Poor	Good	Good	Poor	Poor
	Good	Fair	Poor	Poor	Good	Poor	Poor
	Good	Fair	Poor	Poor	Fair	Poor	Poor
	Good	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	Good	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 July 2018

Asia/Oceania

United Arab Emirates

Financial Services

Up from Fair to Good

The banking sector has proved largely resilient during the recent period of subdued economic performance and deteriorating government finances, both triggered by the oil price decrease.

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