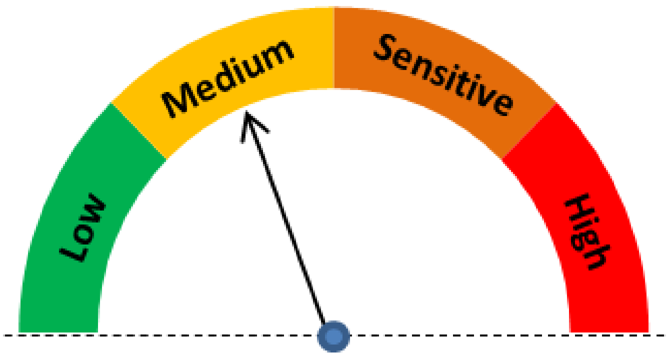
Euler Hermes Economic Research

Global Sector Report

MACHINERY

Sector Risk Rating



What to Watch?

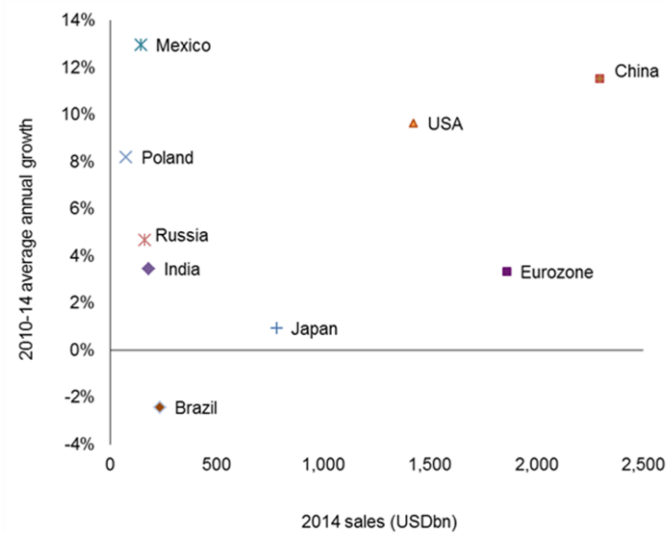
- Positive evolution of Construction sector in advanced economies might offset lack of oil-related investments in machinery
- Global economic growth and related higher demand for technical and automated products
- Low interest rates are favorable for financing investments for corporates

Trust, the Founding Principle that Fuels Machinery Output

The decision for a firm to purchase machinery and equipment hinges on (i) its anticipation of higher activity level with which its current capacity will not allow it to cope, and (ii) its confidence that the higher activity level will occur. World fixed investments were worth USD20tn in 2014, and we forecast them to exceed USD25tn by 2020. While figures indicate general optimism on both axes, actual growth in machinery output has been unevenly distributed, with growth in emerging economies slowing down with the rest of their economies after a period of high growth, and picking up in advanced economies seeing slow recoveries.

To illustrate, while machinery output in China grew to reach nearly USD2.3tn in 2015, the situation is not as rosy in other BRICS, particularly in Brazil where infrastructure investment deficiency induced an average -2.5% decline of machinery output per year between 2010 and 2014. On the contrary, the US market has experienced sustained growth (+10%). The positive industrial confidence indicator combined with capacity use getting back to pre-crisis levels at 80% should trigger new investment decisions this year. We thus forecast machinery output there to rise by +5% in 2015.

Machinery sales growth opportunities, by country (USD bn and %)



Sources: ITC, Euler Hermes

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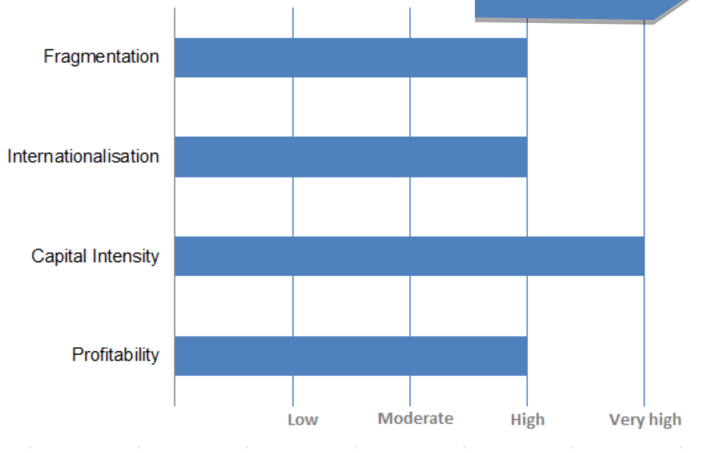
Key Players

Country	Role	Sector Risk
China	#1 producer #1 exporter #2 importer	
United States	#2 importer #3 producer #3 exporter	
Germany	#2 exporter #3 importer	

ID Card

Sector Value:
3,837bn
USD



Strengths

- High-end technology and skilled workers requirement leave little chance for new entrants
- Long-run business cycle allowing decreasing sensitivity to short term market variations

Weaknesses

- Dependence on structural trend of end sectors (Manufacturing, Oil & Gas, Construction and Agrifood)
- High financing requirements to fund R&D and capital expenditures

Subsectors Insights

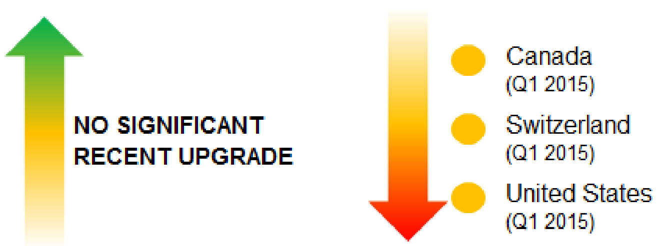
Manufacturing: This segment absorbs two thirds of investments (USD3tn in 2014).

Oil & Gas: Lower oil price resulted in Exploration and Production investment cuts of 15% in 2015.

Construction: Signs of improvements particularly in North America.

Agriculture: Decline in agricultural prices (-14.5% ytd as of May 2015) will deter farmers from investing.

Recent Sector Risk Changes



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