no. 1191

Global Sector Outlook

Now where did global demand go?

Euler Hermes Economic Research Department

Economic Outlook

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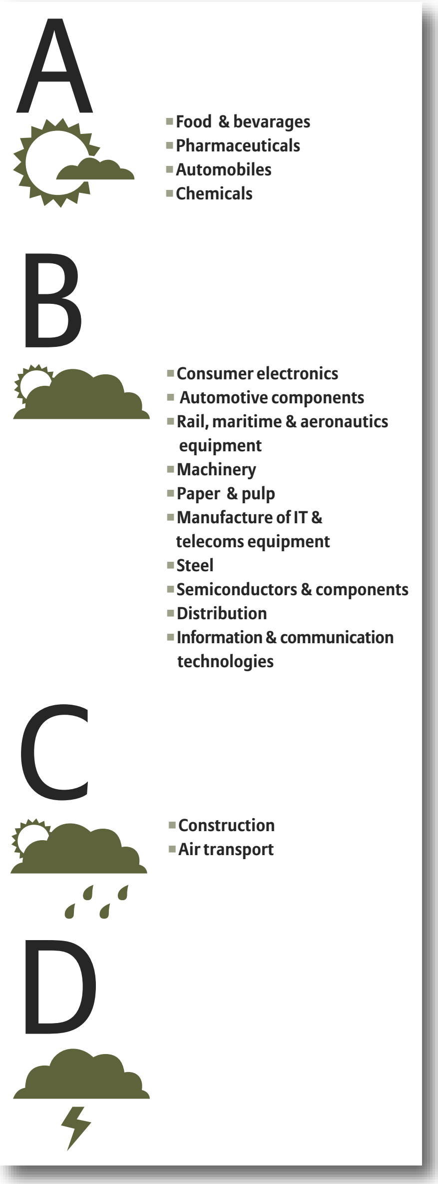
Editorial

In search of lost demand

International business sector forecast



With a genuine sigh of relief some would say that the crisis is over, that the Eurozone remains intact and that the markets are moving forward again. In short, that the worst is now behind us. The problem lies in the long-term impact of three successive and unrelenting crises (the raw materials crisis, the financial crisis and the sovereign debt crisis) on the dynamics of certain industry sectors and corporate balance sheets. Higher production costs, financing problems and dented confidence combined with greater public policy volatility have obviously all left their mark. The pace of investment by companies (particularly in the Eurozone but also in the United States, China and Brazil) has suffered from these economic fluctuations. When all is said and done, the overcapacity in China, the lacklustre profitability of European companies or the massive deleveraging underway just about everywhere around the globe will influence credit management risks in 2013. However, looking beyond these short-term trends, a real sea change has been underway over the last five years. This has gone unnoticed and even today is difficult to document as its analysis is limited by the available data, but this is a radical change in global demand, in the factors which determine it and in its regional variations. The cause for this lies in demographic and behavioural changes (Generation Y does not necessarily want to buy an apartment or a car, but instead to travel and communicate more!), extreme public policies which artificially boost purchasing power one day and decimate it the next, and the emergence of middle classes within more robust and less interconnected regional blocs. It should come as no surprise to learn that the *World Economic Forum* is interested in income inequality. If the giants of the private sector have gathered in Switzerland, this is because over and above the impact of these inequalities on world growth, in purely business terms the market potentials have changed. As we announced in a previous issue, the year 2013 will be a year of resilience for the private sector, particularly affected by adverse economic conditions, but will also be the year in which a necessary adaptation gets underway. Corporate strategies must be tailored to a newly structured competitive environment (characterised by the effects of attrition on struggling companies and the arrival of new players in the market), but also and above all to demand indicators which are more difficult to decipher. Where is demand today? Who is it? What is it looking for? This adaptation period will necessarily have an impact on companies' balance sheets._*Ludovic Subran*

Overview

Now where did global demand go ?

A few clear patches but still cloudy

We are seeing some positive green shoots although these are still too few and far between. The contrast between the European and American situations is the most striking example, including a car market down by -8% in Europe but surging by 13% in the United States. Similarly, although we are seeing some signs of a turnaround in the construction sector in the United States, albeit at a very low level, this is certainly not the case in Europe, in particular in some southern or eastern countries where the crisis persists. As an alternative growth centre, the emerging nations also began to show some signs of weakness before recovering a little towards the end of the year with the sharp slowdown in global steel production being a perfect illustration of this. In this continued lacklustre environment, the high levels of commodity prices have continued to eat into the profitability of certain sectors, with transport in the forefront.

Europe is still trailing in far too many sectors

The recession raging in southern Europe fuelled by the austerity programmes is gradually spreading to the whole economy due to the fall in demand from both households and companies. Consequently, unemployment continues to rise and is having a major negative impact upon consumer confidence, with consumers reining in their expenditure. The construction sector is a good example, with business levels continuing to fall back, particularly in Spain, Italy, France and Great Britain but also a number of eastern European countries. The effect is also striking in the distribution sector due to the fall in household consumption, or the car market with car sales in Europe down by -8% in 2012 and the scale of the restructuring programmes contributing to a general climate of apprehension for the future.
With the decline of its main sales outlets (the car making and construction markets), the steel industry is also weakening under the effect of significant production overcapacity.
Transport is also struggling with the high levels of oil prices. Unlike companies which are dependent upon their national markets, the internationalised groups are taking advantage of world growth to offset the slowdown in Europe. As an example we should mention the healthy outlook for the chemical industry (which moreover is succeeding in imposing its own price levels) and the automotive equipment manufacturers. Aeronautics is another growing sector benefiting as it does from remarkable long-term visibility with orders scheduled for the next eight years. The pharmaceutical sector also remains highly profitable although two threats are now casting a shadow over its future, these being the expiry of patents and social deficits at a time of budgetary constraints aimed at limiting public deficits. Finally, some sectors find themselves at a crossroads, including the food industry whose volumes are holding up overall but which is suffering from commodity price volatility, packaging whose business levels tend to fluctuate in line with the economy of the country concerned, and electronics or capital goods due to the low level of investments.

In the United States, the strong growth in the car market contrasts with the weary recovery of the construction sector

The sharp continued upturn in the car market (with automotive production up 13% in 2012) contrasts with the timid recovery in the construction sec- ▶

Keys to symbols

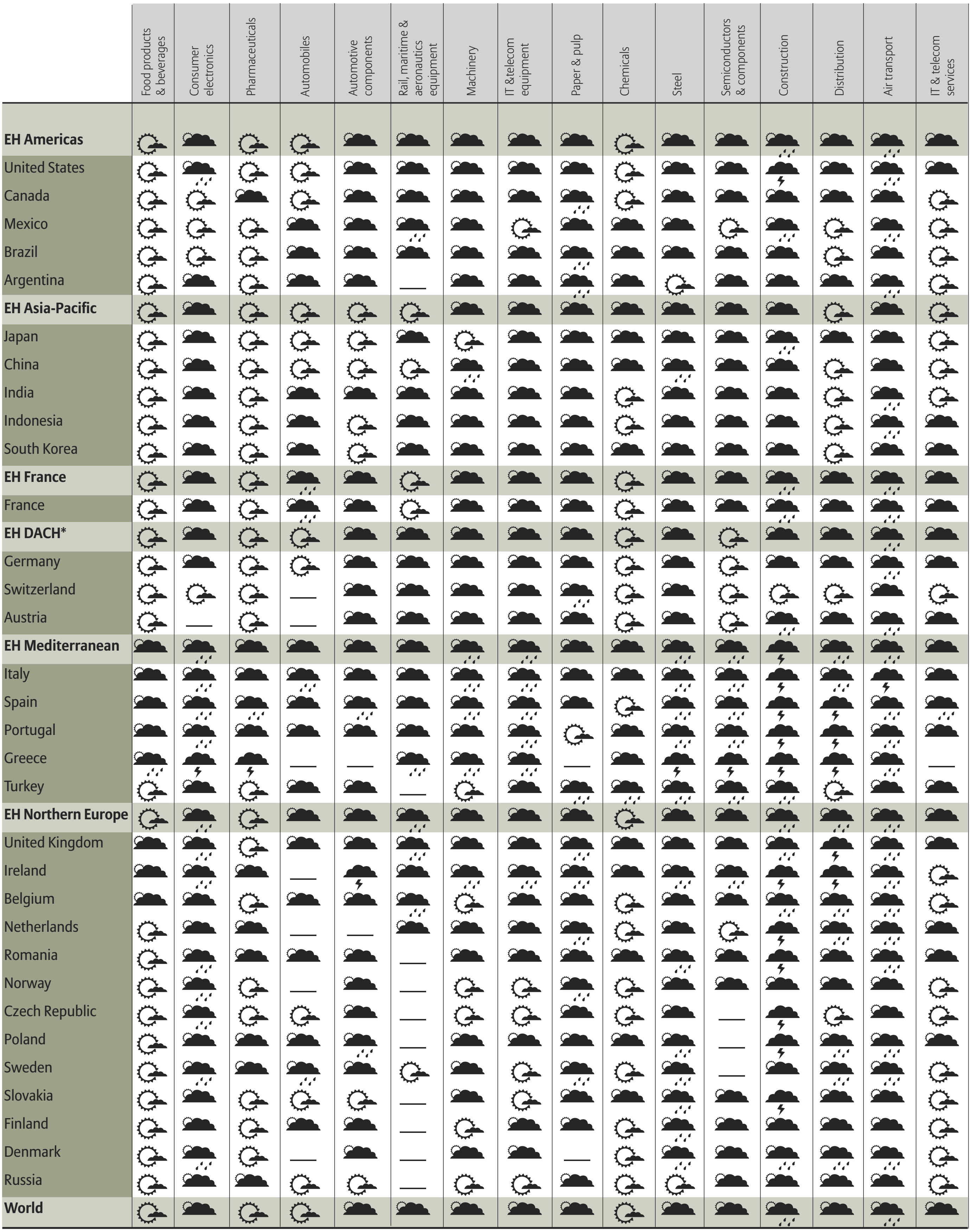
Note A	**Positive fundamentals & outlook**
Note B	**Signs of weaknesses**
Note C	**Structural weaknesses**
Note D	**Imminent or recognised crisis**
—	**Not available**

▶Our business sector forecasts are a rating system founded upon the microeconomic expertise of Euler Hermes group underwriters and analysts, who closely monitor risk in companies worldwide through our network of more than 50 local subsidiaries. This results in a qualitative assessment of the health and outlook of a sector. Generally, although not in every case, this assessment includes growth forecasts for a given sector. We focus more on the health of businesses (in terms of margins and solvency) than on their growth in turnover.

▶Starting this year, the forecasts cover a large number of countries — 32 in total — spread across the six major zones as defined by Euler Hermes. The number of modalities under the ratings has been cut to 4, compared to 5 previously, to avoid arriving at an average level that is little representative of the realities. The category 'Not available' indicates a sector that is not present in a country or an aggregate that cannot be calculated. The sector forecast for a given zone is the weighted sum (by GDP) of the forecasts of the countries concerned._

International

Business sector forecasts



* Germany - Austria - Switzerland

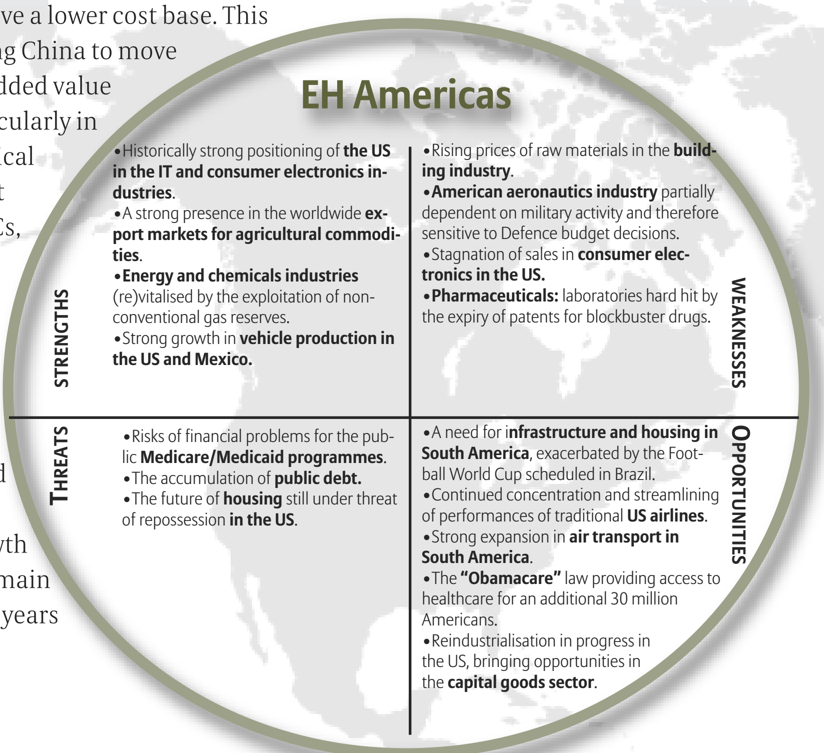
Source: Euler Hermes

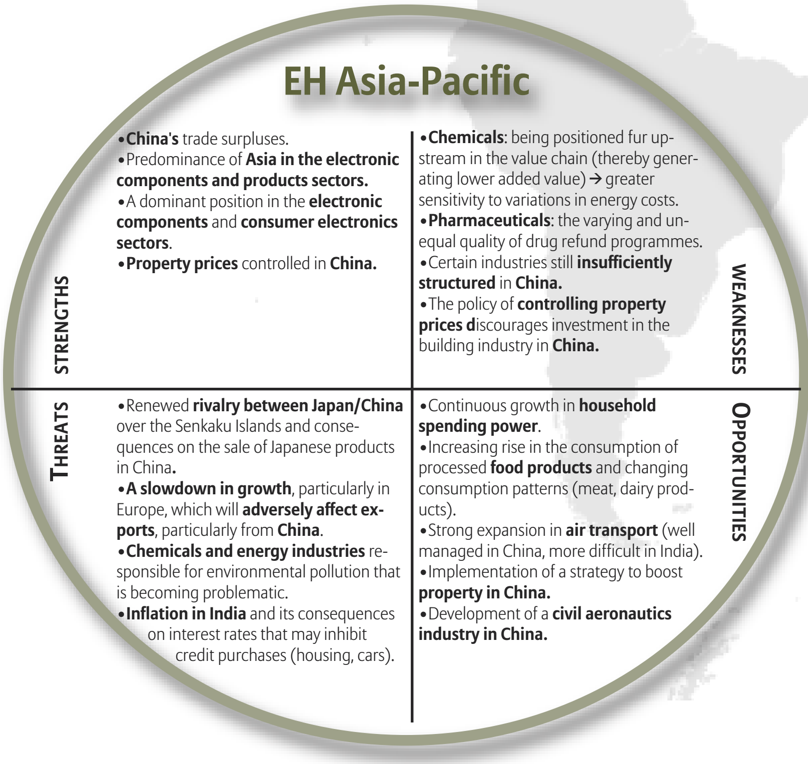
tor where volumes are still at extremely low levels. Certainly, stocks have continued to decrease, returning to an acceptable level of 1.6 million units, whereas they were more than double this at the peak of the crisis and property prices have increased moderately, but we should not lose sight of the fact that the default rate on property loans, although down, is well above its pre-crisis level, demonstrating that the shake-out of the property market is still not totally complete. Despite this, excluding transport due to the high oil prices and household equipment which is tied to the construction sector, American industry has turned the corner. The steelmakers and automotive equipment manufacturers have been buoyed by the strong recovery in the car market. Electronics are benefiting from the capacity for innovation of the American IT and telecommunications companies. With unemployment no longer rising, distribution is also doing well. Despite the current problems with the 787, the American aeronautics sector (just like its European competitor) is enjoying an extremely favourable outlook thanks to strong global demand. Finally, we should also note the rise of shale gas extraction, which offers American industry the perspective of an inexpensive energy supply which will further enhance its competitiveness.

After a breather, the emerging nations are moving forward once again

The emerging nations have the means to finance their growth, through internal demand in China, through reduced interest rates in India or through the financing of infrastructure programmes in Brazil in preparation for the 2014 World Cup and the 2016 Olympic Games. Several key facts are worth mentioning, especially compared to the developed nations, including the promising outlook for the construction industry in almost all of the emerging economies, whether this concerns housing (with rapid urbanisation) or infrastructure spending. This also holds true for distribution, with improvements in purchasing power and the emergence of a middle-class. However, although the growth in purchasing power, particularly in China, is boosting domestic demand, it also poses new threats. This is particularly the case for textiles, which was once a major growth driver for exports to Europe and the United States, and which is today suffering from competition from other emerging countries which still have a lower cost base. This is encouraging China to move into higher added value sectors, particularly in the aeronautical market. Apart from the BRICs, other Asian countries (Thailand, Malaysia and Indonesia) are now emerging and stimulating regional growth which will remain high over the years to come._YL

In a nutshell





EH DACH(*)

STRENGTHS

- An **image of quality** that facilitates worldwide exports**.**
- A flourishing **vehicle industry**, gaining market share on all the continents.
- **High-end positioning in chemicals supply** related to the strong German companies (Basf, Bayer, Lanxess and Evonik).
- Growth maintained in the **construction industry**.
- Certain branches of the **food industry** (including pig farming) very competitive in exports.

WEAKNESSES

- Signs of **property bubble** in several regions in Switzerland**.**
- The recession in the Eurozone is hitting **German exports.**
- **Chemicals industry** subjected to rising costs of power supply (electricity).

THREATS

- **Air transport** currently undergoing strategic reconfiguration and restructuring, still in the grip of adverse economic conditions**.**
- **Pharmaceuticals:** measures to reduce the deficits of the health insurance programme.
- **The electronics industry** is dependent on investments from other countries in the Eurozone.

OPPORTUNITIES

- **Strong demand for aircraft** (increase in production throughput and consistently healthy order levels)**.**
- **Success in worldwide exports**, benefiting from the growth of the emerging nations.
- **International positioning on the Algerian market** (building of sports infrastructure and roads).

(*) Germany, Austria, Switzerland

EH Northern Europe

STRENGTHS

- The financial might of the **City of London**.
- The recovery of the **British automotive industry** with large-scale foreign investments.
- Dynamism of **food producers on the worldwide export markets.**
- **The United Kingdom's monetary autonomy** in comparison to the Eurozone.

WEAKNESSES

- Slowing down of the catch-up effect in the **building industry** in Eastern European countries**.**
- Persistent difficulties for **manufacturers of high-tech products,** such as the Finnish Nokia.

THREATS

- Slow down in the growth of the still very volatile **Russian vehicle market**.
- **2013 will be a year of multiple dangers for certain historical domestic air transporters**, facing serious financial difficulties and weakened government shareholders.

OPPORTUNITIES

- Requirement for **renovation work in Russia**, and implementation of the new European Structural Fund programme for the 2014-2020 period**.**
- **Aeronautical construction:** strong demand for aircraft (increase in production throughput and consistently healthy order levels).
- Changes in **food consumption patterns** for the industrialists in the sector.

EH France

STRENGTHS

- **Pharmaceuticals industry** that remains competitive.
- The global notoriety of the **luxury goods industry** in textiles, leather goods and spirits.
- A thriving **aeronautics industry.**
- **Construction groups** among the world leaders in the industry.

WEAKNESSES

- Sharp deterioration in **construction industry**.
- Continuing decline **in car production** and major restructuring operations underway.
- Overcapacity in the **steel industry**, with a downturn in demand.
- Impoverishment of local industrial infrastructure in the **electronics industry**.
- Production infrastructure of the **food industry** still fragmented.

THREATS

- **Air transport** currently undergoing strategic reconfiguration and restructuring, still in the grip of adverse economic conditions**.**
- The effectiveness of **new measures in favour of construction.**
- Government measures to reduce the deficits of the **health insurance** that weighs heavily on drug prices.

OPPORTUNITIES

- **Strong demand for aircraft** (increase in production throughput and consistently healthy order levels)**.**
- **Chemicals industry** positioned in high added value markets.
- **Chronic deficit of more than 500,000 homes** and potential importance of the renovation market to comply with environmental standards.

EH Mediterranean

STRENGTHS

- **Very low production costs in the countries of north Africa**, facilitating the expansion of local industry.
- A strong **luxury goods industry in Italy** for clothing, footwear and vehicles.

WEAKNESSES

- **The construction industry in Spain** is being adversely affected by stocks of existing housing available for sale**.**
- Lacklustre **consumption and investment**, with austerity plans in **Italy, Spain, Portugal and Greece.**
- The sharp deterioration in the **building industry in Italy** in 2012.
- **Pharmaceuticals industry** affected by late payments of several health insurance programmes (**Greece**).

THREATS

- **2013 will be a year of multiple dangers for certain historical domestic air transporters**, facing serious financial difficulties and weakened government shareholders.
- Continuous decline in **vehicle production in Italy** and consequences for the sector.
- **Mutation in consumption patterns accelerated** by economic difficulties (dynamism of supermarket own-brand products to the detriment of equivalent branded products).

OPPORTUNITIES

- **The economic expansion of the countries of northern Africa** (motorway projects in Algeria).
- The creation of a **car industry in Morocco** and planned in **Algeria**.
- **The lowering of labour costs in Spain** to encourage growth in industrial sector.

Commodities

Despite a slight fall in 2012, prices remain very high

A slight fall in prices in 2012, excluding oil

In 2012, despite a bullish economic climate, with world growth reduced to 2.4% compared to 3% in 2011, global prices for the main raw materials remained very high but were nevertheless slightly down compared to 2011. The Cyclope Rexecode raw material price index was showing a -2% fall in 2012, but above all a -9% reduction excluding oil, demonstrating a high degree of stability where annual variations are concerned. To accurately assess the year 2012, we must separate the raw materials into two categories. Firstly, agricultural raw materials and particularly cereals, for which prices increased, with +6% for wheat and +5% for corn, following the droughts in the United States and Russia which limited harvests, thereby propagating inflation within the sector itself, particularly with regard to livestock. Secondly, we have industrial raw materials, all of which were subject to price falls of varying degrees, with -10% for copper, zinc and steel. Mirroring the industrial climate, world steel production increased very slightly by 1.2% in 2012 having previously grown by more than 7% in 2011, following a sharp slowdown in China where production rose by 3.6% in 2012 compared to almost 10% in 2011. Sharper price falls were seen for iron ore (-20%) and nickel, or even -40% for cotton (the price of which had surged by 65% in 2010 and 46% in 2011) and also maritime freight resulting from an overcapacity in supply and the slackening pace of global trade. Finally, moving on to precious metals, gold continued to play its traditional role as safe haven, rising by +6% in 2012 whereas silver saw a fall of -12% in its market price.

Few major changes expected in 2013

From a macro-economic point of view, global growth forecasts for 2013 remain at a fairly low level and are very close to 2012 at 2.5%. Subject to favourable climatic conditions for the coming harvests, the prices of agricultural materials should fall by -10% for wheat and up to -20% for corn, relieving pressure not only on this sector but also on the food industry as a whole. For industrial raw materials, we also expect a slight downturn in market prices due to lacklustre demand, particularly from Europe. We anticipate a limited fall of -5% for copper and steel but an increase of 9% for iron ore, which will further erode the margins of the steelmakers, who are already experiencing difficulties in Europe due to falling volumes. The price of oil could see a downward correction of between -7 and -10%, unless a geopolitical crisis occurs (as was the case in 2012 with Iran, Libya, Egypt and Syria) due to the abundance of this resource and the exploitation of non-conventional deposits in the United States. Under the guise of an adaptation of transport capacities, maritime freight saw sharp falls in 2012 and may bounce back by 9%, though still achieving levels below those of 2011. Finally, precious metals could see a slight downturn with a limited fall of -4% for gold, leaving many wondering if it had reached its peak at almost USD 1,700 per ounce, and by -10% for silver following a fall in demand in India._*YL*

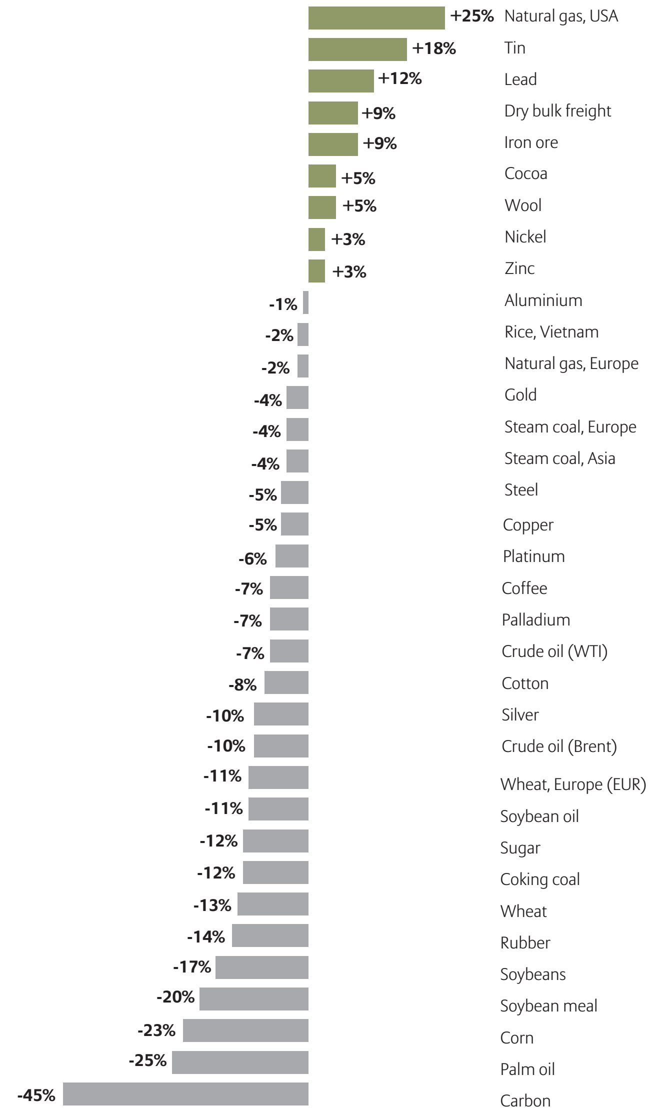
Commodities prices

		dec. 2011	dec. 2012
Soybean meal	USD per tonne	281.52	459.49
Build timber	1,000 board feet	256.18	362.10
Soybeans	USD per bushel	11.24	14.47
Bovine skins	USD cents per pound	72.07	94.77
Barley	USD per tonne	211.67	304.66
Scraps	USD per tonne	596.1	554.52
Corn	USD per bushel	6.13	7.31
Wheat	USD per bushel	6.07	8.07
Tin	USD per tonne	19,375.01	22,918.05
Platinum	USD per once troy	1,454.59	1,579.91
Beef	USD per pound	1.83	1.85
Gold	USD per once troy	1,640.55	1,681.76
Zinc	USD per tonne	1,908.32	2,038.41
Copper	USD per tonne	7,569.59	7,945.19
Live adult cattle	USD cents per pound	122.2	132.06
Palladium	USD per once troy	645.04	693.20
Silver	USD per once troy	30.59	31.73
Cocoa	USD cents per tonne	2,216.75	2,436.11
Palm oil	USD cents per tonne	972.86	715.48
Aluminium	USD per tonne	2,018.73	2,082.39
Soja oil	USD cents per pound	50.2	47.10
Lead	USD per tonne	2,015.98	2,277.74
Crude oil	USD per baril	108.11	109.29
Wool	USD per kilo	9.54	8.90
Sugar	USD cents per pound	23.13	19.31
Nickel	USD per tonne	18,187.96	17,364.05
Rubber	USD cents per pound	333.92	289.75
Coton	USD cents per pound	94.94	83.59
Coffee	cents per pound	189.39	130.79
Coconut oil	USD cents per pound	65.7	35.61
Freight	BFI/BDI index (1,000=1988)	1,839.09	818.38

Sources: CyclOpe, Euler Hermes

Commodities prices forecasts for 2013

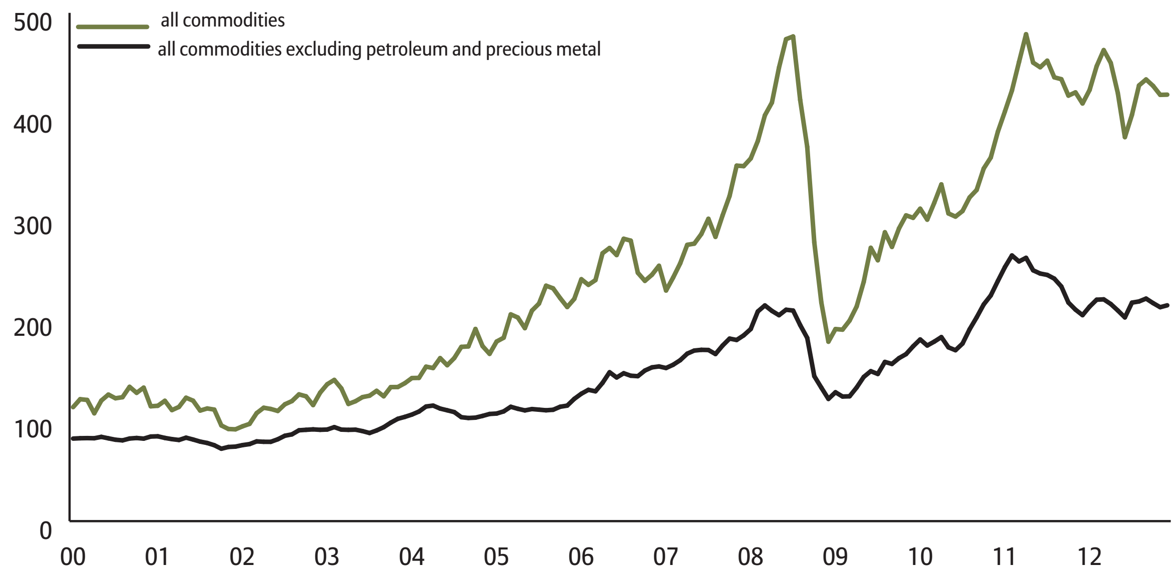
2013 compared with 2012 annual average, in %



Sources: CyclOpe, Euler Hermes

CyclOpe indicators

basis 1988=100



Sources: CyclOpe, Euler Hermes

Energy

Whereas nuclear and solar are suffering, fossil fuels are doing well

A growing sector

Demand for energy is steadily rising due to world demographic and economic growth. Furthermore, it remains essential for transport which is 94% dependant on fossil fuels for which there is currently no mass substitute. Fossil fuels, with oil leading the pack, account for 80% of the world's energy supply. Oil consumption in the Asia-Pacific which accounts for 26% of world demand has already exceeded Europe's (19%) and is roughly equivalent to North America's (25%). Although the crisis does not solve the long term issue of the sustainability of current levels of oil consumption, Europe remains the only part of the world where the energy dynamic is no longer as strong as elsewhere. Although it benefits from competitive electric power because of its nuclear supplies, the disaster at Fukushima in Japan in 2011 has slowed the pace of investment in new generating capacity. More worrying is the question of the viability of nuclear power in Germany and Belgium which has rattled the entire industry. Only France continues to promote electricity of nuclear origin. But it is accompanied by the revelation of the true cost which includes the storing of radioactive materials and the dismantling of reactors at the end of their life. Although in that respect a rise in the price of electricity looks inevitable in the future, it is currently being delayed due to the extension in the life cycle of some power stations.

North America and Asia fill up with energy

The shale gas boom has triggered an energy revolution in the United States. It has resulted in gas prices halving on the other side of the Atlantic and by renewed competitiveness for American industry which is able to buy cheap energy as a result. The exploitation of new-found supplies makes it look as if North America will soon be able to become independent in terms of overall energy supplies. However, exploitation of the Barnett shale field in Texas shows that, in the first years of extraction, gas comes in enormous quantity, which requires numerous wells to be opened. The environmental impact can turn out to be crucial if the effects of an operation of this type are not properly measured, without counting the escalation of greenhouse gas emissions when the technology for capturing the carbon given off is not sufficiently mastered. Non-conventional gas resources, even though they appear to be considerable across the Atlantic, ultimately require massive investment in infrastructure that is not always easy to finance. Like Asia-Pacific, China is devouring energy to the point where it has become the top consumer ahead of the United States, as well as the top greenhouse gas emitter. Its growing needs mean that it is now a net importer of energy which goes hand in hand with a high degree of pollution. The construction in China of new nuclear reactors will change nothing, as their contribution will only account for 3% of its energy mix by 2020 (against 1.5% now), a long way from the share of carbon-based materials. Currently, an American uses on average 8 tonnes of oil a year, a European 4 and an Asian 1.6. So demand in emerging countries is very likely to grow, especially as they are steadily adopting a western lifestyle._ML

Major world companies

Rank *USD bn*	Company	Nationality	Turnover 06-2012	Change 06-2012/06-2011
1	Exxon	United States	251	5%
2	Shell	United Kingdom	237	3%
3	BP	United Kingdom	187	0.4%
4	Petrochina	China	169	10%
5	Total	France	129	2%
6	Chevron	United States	119	-5%
7	Petrobras	Brazil	72	2%
8	Gazprom	Russia	72	-10%

Source: companies, based on most recent accounts data

The ten main oil producing countries

Countries *Mb/d (million barrels/day)*	Production 2010	Share
Russia	10.5	13%
Saudi Arabia	10	12%
United States	7.8	9%
Iran	4.2	5%
China	4.1	5%
Canada	3.4	4%
Mexico	3	4%
United Arab Emirates	2.9	3%
Kuwait	2.5	3%
Venezuela	2.7	3%
Rest of world	32.5	39%
Total world	**84**	**100%**

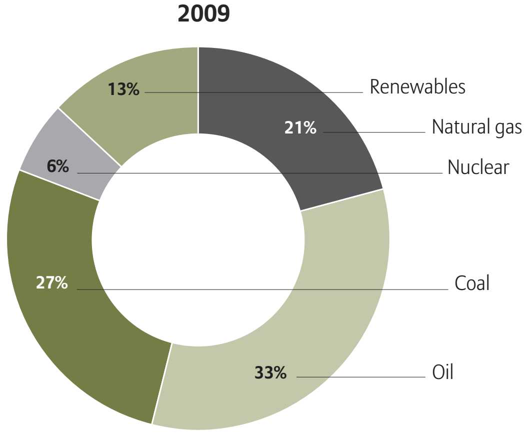
Source: AIE

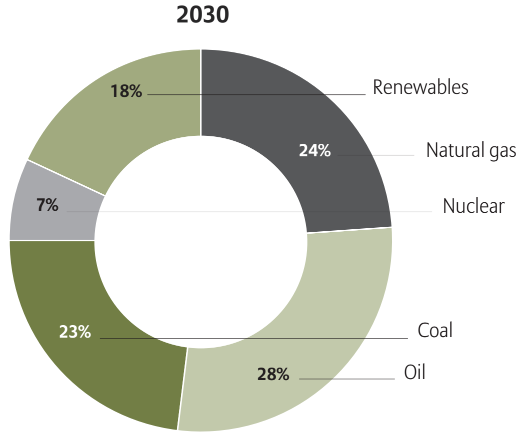
Changes in the demand for oil by 2015 according to geographic area

Mbd	2009	2015	Annual average growth
Europe (W+E)	19	20	0.2%
North America	23	24	0.8%
South America	6	6	0.7%
Asia Pacific	26	33	4.2%
Middle East	7	8	2.7%
Africa	3	3	0.6%
World	**84**	**94**	**2%**

Sources: BP, AIE forecasts

Long term change in world energy mix
Million tonnes of oil equivalent





Sources: AIE, Cédigaz forecasts

World Grade

A

Food products & beverages

Risks and opportunities

A sector suffering continued disruption

According to IHS Global Insight, in 2012 the global food and beverages industry achieved sales of USD 5,500 billion. Price hikes for soya, corn and wheat last summer then filtered through to affect production costs during the second half of the year, eating into the profit margins of those sectors most exposed (mainly animal nutrition in addition to slaughtering and the processing of meat products). In 2013, growth in global production should be around +3% aided by demographic and economic developments while the trading prices of agricultural commodities should continue their new "normal" behaviour, combining high price levels (with stocks generally limited) and volatility. Faced with this latter problem, each sector is considering the most appropriate combination of structural solutions, by examining futures contracts, contractual indexing that allows to pass on the variations of the prices or storage capacity for examples.

The food and beverages industries are affected by the European economic climate

In 2012, the industrial output[1] (excluding drinks) of the European food sector began to slacken, with a contraction estimated at -0.5% (compared to +1.4% and +1.8% respectively in 2010 and 2011). The cost reduction plan worth €200 million over two years announced by Danone in December 2012 provides an insight into the impact of lacklustre consumption, particularly in southern Europe. In this climate, characterised by a long-term deterioration, it has now become necessary to adapt business models. With this in mind, the key players in the European dairy sector, (who are also facing heightened competitive pressure due to the end of the quota system scheduled for 2015), are introducing numerous initiatives including: concentration (with the merger of the dairy units of the French co-operatives Eurial and Agrial), an increased focus on worldwide exports and a shift towards higher added value product ranges, as is the case with the Scandinavian group Arla. An examination of the most recent initiatives launched by the Swiss chocolate giant Barry Callebaut further highlights the range of possible solutions open to food and beverage companies such as: major strategic changes (the disposal of BtoC activities in order to refocus on the BtoB portfolio) and above all decisive acquisitions (with the acquisition of Petra Foods' ingredients division for USD Mn 950).

The importance of carefully watching the markets in the United States

The American food and beverages industry saw its production volume increase by +2.4% in 2012. The +8.1% rise achieved by the sugar sector stands in contrast to the -4.1% downturn suffered by the grain/milling companies and the stagnation experienced by the local heavyweight, the meat sector (+0.7%). Profitability in the industry after tax, which stood at +4.8% in the third quarter of 2012[2], has steadily improved since the low point reached a year earlier, but still remains below the performance levels achieved in 2007-2010. Product innovation and/or business model optimisation (with vertical integration for Smithfield Foods Inc) are some of the strategies used by these companies to face up to the mediocre economic outlook. Furthermore, rapid changes in demand as a result of the economic crisis or new opinion-leader channels are a source of added uncertainty. In 2012, the historic fall of -4% in the sales of the main drinking milk segment[3] illustrated the new degree to which situations can change and can be considered a warning shot to the dairy groups. The ever-faster changes in demand for food and beverage products (with the growing market share of the private labels) will almost certainly have an impact on the structural aspects of the whole industry.

Buoyant figures from Asia

The planned share listing of the Japanese Suntory Beverage and Food Ltd, expected to be worth more than USD 6 billion, further demonstrates the ambitions of the Japanese producers to expand abroad, in quest of more dynamic markets. For 5 years now, the three main Japanese brewers have spent USD 26 billion abroad. When we consider the value of the investments currently underway (with the acquisition of the Singaporean conglomerate Fraser and Neave Ltd by the owner of the Thai group Thai Beverage PCL for USD 11.2 billion) or the transactions completed (including the takeover of the Spanish company Seda Solubles by Olam International Limited), we see that the Asian companies are now carving out a larger place for themselves in the global food and beverages industry._*BG*

To watch…

►The prices of agricultural raw materials, packaging and energy.

►Consumption habits, which are changing very quickly following certain campaigns (targeting obesity, for example)._

(1) EH sample including 19 of the 27 countries of the European Union
(2) Source: US Census Bureau
(3) Source: SymphonyIRI Group Inc.

Business sector forecasts

	Jan-13	Jul-12
EH Americas	⛅	⛅
United States	⛅	⛅
Canada	⛅	⛅
Mexico	⛅	⛅
Brazil	⛅	⛅
Argentina	⛅	⛅
EH Asia-Pacific	⛅	⛅
Japan	⛅	☁
China	⛅	⛅
India	⛅	⛅
Indonesia	⛅	⛅
South Korea	⛅	⛅
EH France	⛅	⛅
France	⛅	⛅
EH DACH*	⛅	⛅
Germany	⛅	⛅
Switzerland	⛅	⛅
Austria	⛅	⛅
EH Mediterranean	☁	⛅
Italy	☁	⛅
Spain	☁	☁
Portugal	☁	☁
Greece	🌧	🌧
Turkey	⛅	⛅
EH Northern Europe	⛅	⛅
United Kingdom	☁	☁
Ireland	☁	☁
Belgium	☁	☁
Netherlands	⛅	⛅
Bulgaria	⛅	⛅
Norway	⛅	⛅
Czech Republic	⛅	⛅
Poland	⛅	⛅
Sweden	⛅	⛅
Slovakia	⛅	⛅
Finland	⛅	☁
Denmark	⛅	⛅
Russia	⛅	⛅
World	⛅	⛅

Source: Euler Hermes
* Germany - Austria - Switzerland

Major world companies

Rank	Company	Nationality	Turnover 06-2012	Change 06-2012/06-2011
USD bn				
1	Cargill	United States	69	1.3%
2	Nestlé	Switzerland	47.6	7.5%
3	ADM	United States	45.3	19.2%
4	Pepsico	United States	28.9	0.4%
5	AB InBev	Belgium / Brazil / United States	19.2	5.4%
6	Coca-Cola	United States	24.2	4.2%
7	SAB Miller	United Kingdom	17.5	11.4%
8	Tyson Foods	United States	16.6	6.3%
9	Unilever	United Kingdom/Netherlands	16.5!	7.0%
10	Mars	United States	N/A	N/A

! only food activity
Source: companies, based on most recent accounts data
NB: Mondelēz International, Inc. and Kraft Foods Group, Inc. are not tentatively ranked.

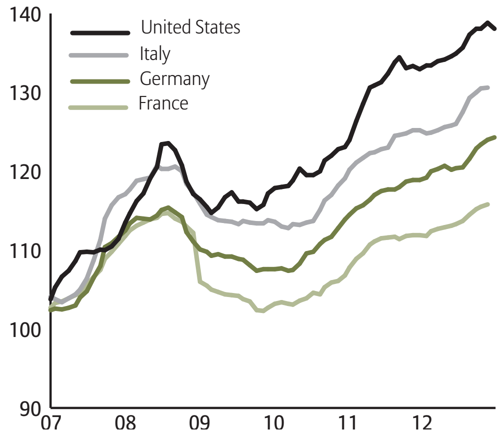
Food production growth, selected countries

by volume	Change 2012/2011	Change 2011/2010
Germany*	-0.8%	1.2%
Brazil	-1.8%	-0.1%
United States	2.4%	2.3%
France	0.4%	4.0%
Japan*	0%	-0.1%

*beverages and tobacco products included
Source: National statistics

Change in food products price index

basis 2005=100



*beverages and tobacco products included
Source: National statistics

World Grade

A

Pharmaceuticals

Overcoming the “patent cliff”

A healthy economic sector

Estimated to be worth approximately USD 930 billion in 2012, the global pharmaceuticals market has fared well in turbulent economic times. Stabilising at a global level of between 4 and 5%, its annual growth rate has benefited from a number of contributing factors including demand for drugs from the emerging nations where a great deal still remains to be done to meet demand from the middle classes. To this should be added demand from the mature economies thanks to their rising life expectancy following improvements to medical technology, now making it possible to treat (or even cure) hitherto incurable diseases. The laboratories currently find themselves in stormy waters as they are facing the unstoppable rise of competition from generic drugs, spurred on by ever lower prices for such products, and the expiry of highly profitable blockbuster patents which have not been replaced due to a lack of pharmaceutical R&D matching previous levels of innovation.

A reduction in pharmaceutical expenditure in Europe

The business activity levels of the pharmaceutical laboratories were hampered in 2012 by the disappearance of patents for blockbuster drugs. All European states are looking to curtail the growth in their health expenditure. Following pressure from the financial markets to reduce their budgetary deficits, they are doing everything possible to keep rises to a minimum. With this in mind they are applying stricter criteria for the approval of innovative drugs requiring (where applicable) the setting of high sales prices. They are reducing the reimbursement rates for drugs considered insufficiently effective. They are also showing a preference for generic products to patented ones in identical therapeutic fields. The laboratories are therefore not enjoying the same financial health as they once did, even if overall they are performing well. In many cases they are adapting their workforce sizes while at the same time trying hard to improve the output of their stalled R&D programmes.

Reducing the “cliff” for the American laboratories

Although not of equal intensity on both sides of the Atlantic, the determination to rein in health expenditure is also beginning to make itself felt stateside despite the chiefly private financing method prevailing there. The voting of the ACA (Affordable Care Act) last summer appeared to be a positive step for the sector as it provides access to health care for an additional 40 million Americans, who until now were denied this access. The surge in long-term spending anticipated by the Congress Budget Office (CBO) has led the federal state to take a greater interest in the setting of price levels for health care. The laboratories have been obliged to comply, by granting massive rebates (expected to total USD 3 billion for 2013 alone) off the price of their annual sales of drugs with the state-run health programmes. Keen to maintain their profitability levels, they are seeking to control their costs through concentration or by restructuring their sales teams handling the promotion of drugs which meanwhile have entered the public domain. They are also having to deal with a tougher attitude adopted by the regulators, who today no longer hesitate to impose financial sanctions on laboratories guilty of marketing some of their drugs outside their authorised perimeter.

Looking for growth in the emerging economies

Due to a lack of significant growth in the mature nations, the laboratories are now focusing on the emerging economies to boost their sales of drugs. The problem here is that they are not expanding as quickly as anticipated. For the first half of 2012 for example, the combined sales of the Big Pharma companies to the emerging nations grew by +7% on an annual basis compared to 12% in 2011. Even if this only has the effect of slowing an unavoidable trend, we are witnessing the consequences of difficulties in the Indian economy (for example) which is well positioned in the generic market. It also highlights price pressure on drugs sold in the emerging countries (with Turkey topping the list) aimed at improving access for the widest possible number of people, combined with their wish to promote national champions to the detriment of subsidiaries of foreign laboratories. At the same time, the Big Pharma companies are pursuing active external growth policies locally, while taking care to protect the sensitive national aspects of the potential targets concerned._*ML*

To watch…

►The expiry of patents for blockbuster drugs in 2012 Problems financing public health insurance programmes.

►Developments in the market for generic drugs within the mature economies.

►The difficulties of pharmaceutical R&D when it comes to innovating with new drugs._

Business sector forecasts

	Jan-13	Jul-12
EH Americas	⛅	⛅
United States	⛅	⛅
Canada	☁	☁
Mexico	⛅	⛅
Brazil	⛅	⛅
Argentina	⛅	⛅
EH Asia-Pacific	⛅	⛅
Japan	⛅	⛅
China	⛅	⛅
India	⛅	⛅
Indonesia	⛅	⛅
South Korea	⛅	⛅
EH France	⛅	☁
France	⛅	☁
EH DACH*	⛅	⛅
Germany	⛅	⛅
Switzerland	⛅	⛅
Austria	⛅	⛅
EH Mediterranean	☁	☁
Italy	☁	☁
Spain	🌧	☁
Portugal	☁	☁
Greece	⛈	⛈
Turkey	⛅	⛅
EH Northern Europe	⛅	☁
United Kingdom	⛅	⛅
Ireland	☁	🌧
Belgium	⛅	⛅
Netherlands	☁	☁
Bulgaria	☁	☁
Norway	⛅	⛅
Czech Republic	⛅	☁
Poland	☁	☁
Sweden	☁	☁
Slovakia	⛅	☁
Finland	⛅	☁
Denmark	⛅	⛅
Russia	☁	☁
World	⛅	⛅

Source: Euler Hermes
* Germany - Austria - Switzerland

Major world companies

Rank	Company	Nationality	Turnover 06-2012	Change 06-2012/06-2011
USD bn				
1	Pfizer	United States	30	-8%
2	Johnson & Johnson	United States	33	-1%
3	Novartis	Switzerland	28	-3%
4	Merk	United States	24	1%
5	Roche	Switzerland	24	-3%
6	Sanofi	France	22	0%
7	GSK	United Kingdom	21	-3%
8	Abbott	United States	19	4%
9	AstraZeneca	United Kingdom	14	-16%
10	Eli-Lilly	United States	11	-7%
11	BMS	United States	10	-7%

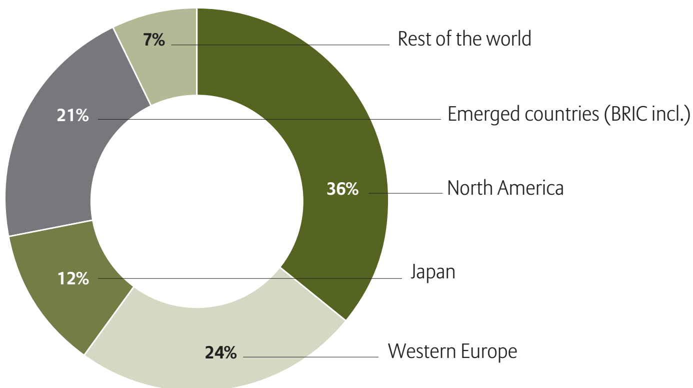
Source: companies, based on most recent accounts data

Expiry of drug patents in the United States for 2012

Drug name patented	Expiry month	Nationality	Laboratory drug concerned	*Blockbuster* Turnover 2011 *USD bn*
Seroquel	March	United Kingdom	AstraZeneca	3
Plavix	May	USA	BMS	6
Tricor	July	USA	Abbott	1
Actos	August	Japan	Takeda	3
Singulair	August	USA	Merck	3
Diovan	September	Switzerland	Novartis	5

Sources: IHS Global Insight, Euler Hermes

Global share of world pharmaceutical sales, 2012



Sources: IHS Global Insight, Euler Hermes

World Grade

A

Automobiles

The importance of being a global player

A global market up by 4% in 2012

The global market confirmed its return to a steady pace in 2012 with a growth rate of 4%, which should be confirmed in 2013. Although growth slowed in the emerging nations, the global market benefited from sharp upturns in the American and Japanese markets in 2012, largely offsetting a significant new fall in the European market. In Europe, the situation for general purpose vehicle manufacturers has worsened still further, with producers finding themselves faced with a declining market, competition from low-cost car manufacturers and a tendency by the top of the range manufacturers to compete in lower range markets. The restructuring programmes already underway are far from over. In the United States, this restructuring was undertaken during the 2008-2009 crisis, with the result being that the car industry has been hiring people again for the last two years.

The downturn continues in Europe, hitting general-purpose car manufacturers currently in the process of restructuring

The situation in the European market is becoming increasingly worrying. Apart from the temporary benefit of the vehicle scrapping premiums in 2010, the market is down for the fifth year. At 12.5 million units for private vehicles, it has contracted by -8%, far more than in 2011 when the fall was limited to -1.4%. For 2013, we still do not see any sign of recovery and the market should contract by a further -3%. It will then represent a volume of 12.3 million units, far from the 16 million units sold before the crisis. In addition to this loss of almost 4 million units, general purpose car manufacturers are also having to contend with heightened competition from low-cost vehicles, which have, in addition to the tendency of the German top of the range manufacturers to move downrange to secure sales. The obvious overcapacity resulting from this has been dealt with up until now by downsizing certain sites (reducing the number of production lines) and by a limited number of site closures including Opel's Antwerp factory in Belgium in 2010, Fiat's Termini plant in Italy and the closures scheduled for 2014 at Aulnay in France by PSA and Genk in Belgium by Ford. This restructuring has been made necessary in order to tackle the losses incurred in Europe by the general-purpose manufacturers.

The American market takes off, with automotive employment rising

In the United States, the upturn in the automotive market which began in 2010 continued in 2012 with sales growth of 13% at almost 15 million units, after 15% in 2011 and 8% in 2010. For 2013, we estimate that the American market should continue to grow at 5 to 6% to a level of 15.7 million vehicles sold, as even at this pace it still remains below its pre-crisis level of between 16.5 and 17.5 million units sold per annum. This favourable outlook is naturally also having a positive effect on production, which is approaching its pre-crisis level at more than 10 million vehicles produced, having fallen under the 5.5 million mark at the height of the crisis. After the sheer scale of the previous restructuring programmes, this upturn is now fully benefiting the American producers, who have recovered decent profitability levels. A "technical" upturn has also occurred in Japan with a growth rate of almost 30%, though resulting only from a very limited comparable base effect related to the earthquake and tsunami in 2011. However, the Japanese market had already started to nosedive in late 2012 and 2013 should see a fall of 10-15%.

Offsetting the slowdown in growth in the emerging nations without public support measures

Without support, the emerging markets are running out of steam, which is the case in India where growth in 2012 was limited to 4% and is estimated at just 3% in 2013. China achieved a growth rate of 7% supported by vehicle scrapping premiums, particularly in Beijing where the level of the premium is set to be further increased in 2013 (from €550 to €800) and applicable until late 2014. Similarly, the environmental protection office in Peking will pay bonuses of between €300 and €2000 to drivers scrapping a car dating from no later than 1995. These incentive packages will further support the market in 2013, which should also grow by 6%. Finally, Brazil, whose vehicle sales contracted in early 2012, has reduced or even scrapped taxes on industrial products until December 2012, allowing for an upturn in the market which grew by almost 8% in 2012. Without aid packages, the market should grow at best by 3 to 4% in 2013._*YL*

To watch…

►The continued slide in sales in Europe and the consequences this may have on the profitability of the general-purpose car manufacturers.

►The maintenance of public support measures in emerging markets where the scale of investments may lead to overcapacity.

►The business outlook for hybrid and electric vehicles with their high development costs._

Business sector forecasts

	Jan-13	Jul-12
EH Americas	⛅	⛅
United States	⛅	⛅
Canada	⛅	⛅
Mexico	☁	☁
Brazil	☁	☁
Argentina	☁	⛅
EH Asia-Pacific	⛅	⛅
Japan	⛅	⛅
China	⛅	⛅
India	☁	⛅
Indonesia	☁	☁
South Korea	☁	☁
EH France	🌧	☁
France	🌧	☁
EH DACH*	⛅	⛅
Germany	⛅	⛅
Switzerland	—	—
Austria	—	—
EH Mediterranean	☁	☁
Italy	🌧	🌧
Spain	☁	☁
Portugal	☁	☁
Greece	—	—
Turkey	☁	☁
EH Northern Europe	☁	⛅
United Kingdom	☁	☁
Ireland	—	—
Belgium	☁	☁
Netherlands	—	—
Bulgaria	☁	☁
Norway	—	⛅
Czech Republic	⛅	⛅
Poland	☁	☁
Sweden	🌧	☁
Slovakia	⛅	⛅
Finland	☁	☁
Denmark	—	—
Russia	⛅	⛅
World	⛅	⛅

Source: Euler Hermes
* Germany - Austria - Switzerland

Major world companies

Rank	Company	Nationality	Turnover 06- 2012	Change 06-2012/06-2011
USD bn				
1	Toyota *	Japan	137.5	36%
2	Volkswagen	Germany	124.0	23%
3	General Motors	United States	75.4	0%
4	Daimler	Germany	72.7	9%
5	Ford	United States	65.7	-3%
6	Honda *	Japan	59.3	30%
7	Nissan *	Japan	57.3	4%
8	Fiat (1)	Italy	54.3	NS
9	BMW	Germany	48.8	10%
10	Peugeot	France	38.4	-5%
11	Hyundai	South Korea	36.0	9%
12	Renault	France	27.2	-1%

(1) Fiat with Chrysler
*For the Japanese group, these are six-monthly figures to September 2012
Source: companies, based on most recent accounts data

Variation in car registrations in units per region

in mn of Private Vehicules annual average	2011	2012	Change 2012/2011
Europe (30)	13.56	12.50	-7.9%
Russia	2.65	2.93	10.7%
United States	13.15	14.90	13.4%
Brazil	2.65	2.85	7.7%
Japan	4.21	5.37	27.5%
China	14.50	15.49	6.9%
India	1.95	2.02	3.5%

Source: National statistics

Automobile production 2011

Companies	Rank	Nationality	all vehicles	of which private vehicles	of which commercial vehicles
General Motors	1	United States	9.10	6.70	2.40
Volkswagen	2	Germany	8.50	8.00	0.50
Toyota	3	Japan	8.10	6.80	1.30
Hyundai-Kia	4	South Korea	6.60	6.10	0.50
Ford	5	United States	5.00	2.20	2.80
Nissan	6	Japan	4.60	3.60	1.00
Psa	7	France	3.60	3.20	0.40
Honda	8	Japan	2.90	2.90	0
Renault	9	France	2.80	2.40	0.40
Suzuki-Maruti	10	India	2.70	2.30	0.40
Fiat	11	Italy	2.40	1.80	0.60
Daimler	12	Germany	2.20	1.40	0.80
Chrysler (1)	13	United States	2.00	0.50	1.50
BMW	14	Germany	1.70	1.70	0
Tata	15	India	1.20	0.70	0.50
Mazda	16	Japan	1.17	1.10	0.07
Mitsubishi	17	Japan	1.14	0.70	0.44
Dengfend	18	China	1.10	0.40	0.70
Geely- Volvo	19	China	0.90	0.90	0
Beijing Automotive	20	China	0.69	0.03	0.66

(1) In 2011, Fiat only had a minority holding in Chrysler
Source: CCFA

World Grade

B

Automotive components

Controlling costs and pursuing growth

Adapting to differing trends in the various regional markets
The major automotive equipment manufacturers enjoying a global presence and a highly diverse clientele have benefited from the worldwide growth in the automotive sector. Despite this, an examination of the figures for changes in the production volumes of private vehicles per country between 2007 and 2012, (ranging from -55% in Italy to +145% in China) shows that it is more important than ever to adapt quickly, slashing costs in areas with negative growth and managing investments effectively in high-growth regions. These brutal changes in the markets are occurring at the same time as another necessity emerging over the last few years: the need to propose new, more environmentally friendly products or even fully electric-engined models which are totally CO2 neutral. These are all challenges which the manufacturers have successfully taken up and which have strengthened their negotiating position in dealings with their clients.

Dealing with negative growth in the European market

Although overall automotive production is declining in line with the fall in sales in Europe, despite this the situation is by no means comparable from one country to another. We have seen a collapse in southern Europe with production halved in Italy and France between 2007 and 2012, and a decline of -30% in Spain, while volumes in Germany and the United Kingdom have only contracted by -5 to -6%. Within Europe itself, automotive component manufacturers need to adapt their production resources. The European situation has certainly been particularly difficult for the last two months of 2012 and will remain so in 2013. However, thanks to the internationalisation and diversification of their customer base, automotive component manufacturers are able to take advantage of growth in other international markets. We are in a position to announce that the global turnover of the European automotive component manufacturers grew in 2012, but that their profitability may be slightly affected by the fall in activity in Europe even if this should remain at a very satisfactory level.

Benefiting from the clear upturn in the American car market

The significant upturn witnessed in the North American car market benefits all stakeholders. And this growth in production should continue, with plans to open new sites to be better able to meet local demand, but also to be less dependent on volatile exchange rates which can harm the profitability of the manufacturers. Consequently, according to the Centre for Automotive Industry Research, suppliers are expected to create 44,000 jobs this year in the United States to keep pace with rising car production and should once again exceed the levels achieved in 2008. Conversely, Japanese production suffered a downturn in the summer of 2012, and 2013 should bring confirmation of a more pronounced deterioration due to a domestic market which should contract by between 10 and 15% in addition to difficult choices concerning production locations due to the high value of the yen in comparison with the dollar and the euro.

Controlling investment levels in the emerging economies

The news from the emerging nations is that growth is running out of steam in certain countries, particularly in India. Slowing demand is also placing a question mark over the "10-year Auto Mission Plan" (AMP) project from the Indian government, aimed at increasing sales by the Indian automobile industry to 145 billion dollars by 2016, i.e. 10% of GDP. According to estimates, this target cannot be reached and the sales for this industry will actually stand at 111 billion dollars by this date. It will probably require an extra decade for India to reach the 145 billion dollar level. A number of key players have made it known that they intend to be extremely cautious regarding their future investments as production overcapacity may already be appearing. This situation could also arise in China and Brazil, considered until very recently as new Eldorados, where the main players have invested massively over recent years. Nevertheless, these countries still offer excellent medium and long-term perspectives due to a very low per capita car ownership rate and the emergence of a middle-class. Finally, it should be noted that the main players remain the major Western component manufacturers due to their global presence and their high levels of Research & Development, with the notable exception of the South Korean company Mobis, which has benefited from the growth of its shareholder Hyundai-Kia._*YL*

To watch...

►**Continued decline in Europe and the necessary adaptation of production resources there.**

►**Slowing growth in certain emerging countries faced with the sheer scale of industrial investments already made.**

►**The significant price pressure which certain loss-making manufacturers may be tempted to apply._**

Business sector forecasts

	Jan-13	Jul-12
EH Americas		
United States		
Canada		
Mexico		
Brazil		
Argentina		
EH Asia-Pacific		
Japan		
China		
India		
Indonesia		
South Korea		
EH France		
France		
EH DACH*		
Germany		
Switzerland		
Austria		
EH Mediterranean		
Italy		
Spain		
Portugal		
Greece	—	—
Turkey		
EH Northern Europe		
United Kingdom		
Ireland		
Belgium		
Netherlands	—	—
Bulgaria		
Norway		
Czech Republic		
Poland		
Sweden		
Slovakia		
Finland		
Denmark		
Russia		
World		

Source: Euler Hermes
* Germany - Austria - Switzerland

Major world companies

Rank	Company	Nationality	Turnover 06- 2012	Change 06- 2012/06-2011
USD bn				
1	Bosch	Germany	n/d	n/d
2	Johnson Controls	United States	41.9	3%
3	Denso*	Japan	22.5	23%
4	Aisin Seiki*	Japan	16.8	27%
5	Magna	Canada	15.4	6%
6	Mobis	South Korea	15.6	18%
7	Faurecia	France	11.4	8%
8	TRW	United States	8.4	1%
9	Delphi	United States	8.1	3%
10	Valéo	France	7.8	12%

* Financial statements to March 2012
Source: companies, based on most recent accounts data

Operating margin

Operating profit/ Turnover	2008	2009	2010	2011	2012
Europe	3.4%	2.1%	6.9%	7.1%	6.8%
United States	3.7%	1.4%	5.3%	5.8%	6.0%
Japan*	7.9%	-0.8%	4.5%	6.0%	5.2%

* Financial statements to March 2012
Source: main quoted companies

Vehicles production per region in 2011

in million units	2007	2011	variation 2011/2007
United States	10.47	10.04	-4.2%
Japan	9.94	8.68	-12.7%
China	6.40	15.70	145.3%
South Korea	4.09	4.58	12.1%
Germany	5.71	5.39	-5.6%
Spain	2.20	1.52	-30.6%
France*	3.02	1.40	-53.6%
Italy	0.91	0.41	-55.2%
United Kingdom	1.53	1.46	-4.5%

* production in France does not include Toyota's production at Valenciennes and Smart's at Hambach in Moseille
Sources: OICA, Euler Hermes forecasts

World Grade

B

Aeronautics

2013: the moment of industrial truth

Clear visibility for the industry

The commercial aeronautical industry (aircraft with more than 100 seats) generated USD 95 billion in 2012[1], 95% of which was accounted for by the Boeing/Airbus duopoly, and should break through the historic USD 100 billion barrier in 2013. The sector continues to benefit from dynamic demand (growth in air traffic, the requirement for more modern and therefore more fuel-efficient fleets, interest from the leasers) enabling it to achieve healthy advance orders, representing around seven years' global production. There are no question marks over the financing of deliveries, although its characteristics should change in 2013. Proportionally, we should expect to see less reliance on bank financing backed by guarantees provided by the export credit agencies (which have become more costly), and greater use of the financial markets added to the continued rise of the Chinese, Japanese, North American and middle eastern banks.

(1) According to Boeing Capital Corporation

2013, a key year for Europe

The attempt last summer by EADS (Airbus' shareholder) to merge with BAE Systems was in keeping with the group's strategic goal of obtaining a significant defence arm, giving it a better balanced spread of business activities, alongside its commercial civil aviation subsidiary (an implicit admission that this segment suffers from structural cyclicality). However, Airbus' results do not point to any immediate "low" in business activity. With 833 net orders, sales in 2012, though certainly down in comparison to an outstanding year 2011(1203 orders) were extremely healthy and confirm the attractiveness of the A320neo. Furthermore, the manufacturer increased deliveries from 534 in 2011 to 588 in 2012. For the year which has just started, the company will still have to face up to major industrial challenges having a direct impact upon its profitability. These include starting construction of the assembly site in the United States, continuing to repair the microscopic cracks on the current A380 fleet and keeping to the planned schedule with the A350, which has a major milestone coming up during the second half of 2013 with the maiden flight of this latest European aircraft. Forecasts for 2013 point to a fall in orders combined with trends remaining favourable where production is concerned.

Uncertainties in the United States

Boeing re-established its supremacy in the industry in 2012, producing and selling more than its European competitor. Net orders also increased by around 50% to 1203 units, thanks to the impact of the "B737 Max", the re-engined version of its flagship single-aisle model (93% of annual commercial performance in unit terms). Boeing's production increased by more than 25% to stand at 601 aircraft, reflecting the general increase in industrial output rates, especially for the dominant B737 model (415 aircraft, +12%/2011) and the the scrutinized B787 (from 3 aircraft in 2011 to 46 in 2012). However, despite the bright outlook for production, the year 2013 could well be a risky one as since the beginning of the year the B787 programme, which is extremely innovative (with its composite materials, powerful power supply system and increased use of sub-contracting) but which had already encountered difficulties at the development stage, has suffered from a series of problems caused among others by lithium-ion batteries. These incidents have led to the temporary grounding of the global fleet already in service. Obviously detrimental to Boeing's profitability due to the compensation which will presumably be payable, should these restrictive measures not be short-lived they could consequently disrupt the planned increase in production over the next few quarters.

China continues to make headway

The Chinase civil aeronautics company Comac is forecasting that the assembly line for its single-aisle C919 will be finished at the end of the year, with the maiden flight forecast for 2014. This programme currently totals 380 orders, chiefly from local airlines or leasers and will also be financed by Chinese companies (with forecasts for 2000 sales of C919 aircraft over 10 to 15 years). Already dealing with numerous Western suppliers, Comac is also planning to boost its cooperation with Bombardier to explore the scope for possible synergy between the C919 and the CSeries. Finally, Comac's ambitions extend now to the whole range of civil aircraft with the stated aim of building a wide-body aircraft by 2025._*BG*

To watch…

- ►**The industrial difficulties encountered by the manufacturers .**
- ►**Tensions with subcontractors due to increasing production rates._**

Business sector forecasts

	jan-13	juil-12
EH Americas	☁	☁
United states	☁	☁
Canada	☁	☁
Mexico	🌧	🌧
Brazil	☁	☁
Argentina	—	—
EH Asia-Pacific	⛅	⛅
Japan	☁	☁
China	⛅	⛅
India	☁	☁
Indonesia	☁	☁
South Korea	☁	☁
EH France	⛅	☁
France	⛅	☁
EH DACH*	☁	☁
Germany	☁	☁
Switzerland	☁	☁
Austria	☁	☁
EH Mediterranean	☁	🌧
Italy	☁	🌧
Spain	☁	🌧
Portugal	☁	🌧
Greece	🌧	🌧
Turkey	—	—
EH Northern Europe	🌧	🌧
United Kingdom	🌧	🌧
Ireland	☁	☁
Belgium	🌧	🌧
Netherlands	☁	☁
Bulgaria	—	—
Norway	—	—
Czech Republic	—	—
Poland	—	—
Sweden	⛅	☁
Slovakia	—	—
Finland	—	—
Denmark	—	—
Russia	—	—
World	☁	☁

Source: Euler Hermes
* Germany - Austria - Switzerland

Major world companies
Civil aviation

Rank	Company	Nationality	Turnover 06- 2012	Change 06- 2012/06-2011
USD bn				
1	Boeing Commercial Airplanes	United States	22.8	42.7%
2	Airbus Commercial	Netherlands	22.7	14.7%
3	Bombardier Aéronautique	Canada	3.8	-11.9%
4	Embraer	Brazil	2.3	-4.2%
5	Gulstream*	United States	n/c	n/c
6	Cessna	United States	1.4	18.5%
7	Dassault Aviation**	France	1.4	72.0%
8	ATR	France/Italy	n/c	n/c
9	Hawker Beechcraft	United States	n/c	n/c

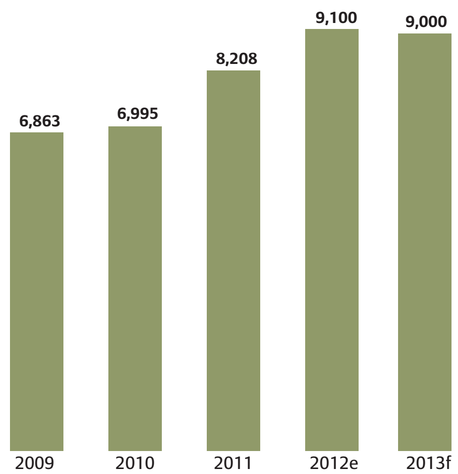
(*) Estimated/excluding services (**) Falcon range
Source: companies, based on most recent accounts data

Net orders for 2012

in units	Airbus Commercial	Boeing Commercial Airplanes	Bombardier Aerospace*
Net orders **2012**	833	1,203	138
Net orders **2011**	1,419	805	54

* Excluding business jets
Source: constructors

Total order books for the main manufacturers
in units



e: estimates f: forecasts
Source: constructors

World Grade

A

Chemicals

Toward a trend reversal?

Well-prepared for difficult times

Estimated at USD 3,000 billion excluding pharmaceuticals, the global chemical market experienced mixed results for 2012. Although growth in the chemical sector looked promising until late spring of last year, from that point onwards the key players in the industry began to lower their sights. Being sensitive to GDP variations in the different parts of the world, chemical production suffered from the slowdown in industrial activity in Asia, the economic crisis in (southern) Europe and market developments in the United States following a surge in the supply of shale gas. Moreover, as chemical production is a basic industry, it has followed the trends of the other manufacturing sectors, but above all local growth in the demand for infrastructure. Only demand from a healthy global agricultural market helped to boost sales of fertiliser and phytosanitary products.

Europe is stuck in a rut

Although the first quarter of 2012 was a dynamic one, the chemical production in Europe has still not recovered to its pre-crisis production levels. This could well continue if we factor in the problems encountered by two of its major outlets which are the construction and automotive sectors. The crisis affecting southern Europe has accentuated the difficulties of these two sectors while at the same time reducing household consumption, which is having a non-negligible impact on the sale of hygiene products. The only good news for the European chemical industry is the maintenance or even increase in the trade surplus, which owes less to increased demand outside Europe than it does to a sharp slowdown in imports.

Full speed ahead in North America

The year gone by was something of a milestone for the American chemical industry. In addition to an upsurge in business, particularly in the automotive market, it also benefited from the indirect benefits of the shale gas revolution accompanied by improvements to its so-called horizontal drilling extraction technology. The result is that America has benefited from energy costs which are significantly more competitive than elsewhere. The supply costs for ethane, a raw material which competes with naphtha, is now lower in the United States than everywhere else, at 23 cents compared to 80 cents per gallon a year ago. It is ethane that is used to produce ethylene which represents 40% of global trading volumes in the chemicals sector. The rise of shale gas has given a welcome shot in the arm to the American petrochemicals industry, with countless investment projects in steam crackers, with estimates of capacity increases from 33 to 40 MT per year by 2020. Despite this, the upstream dynamism of the American chemicals sector has not prevented restructuring further downstream among the speciality chemicals manufacturers such as Dow (3,300 jobs lost) or DuPont (-1,500 jobs).

A chain reaction in Asia and the Middle East

Asia is keen not to be outdone by the renaissance of the American (petro) chemicals industry. Although it is not fortunate enough to be able to enjoy the bonanza of a cheap energy supply, it does benefit on the other hand from the continued dynamism of its outlets in both the automotive or electronics markets or from a considerable requirement for infrastructure, in both India and China. The shift of focus by the chemical industry from west to east is well underway. The chemical companies of the Middle East have demonstrated wisdom in their business choices, moving their attention away from their stagnating European clientele to zero in on the more promising Asian markets. They are raising their investments in joint ventures, with an example being the USD 20 billion deal signed last summer between the Saudi company Aramco and the American firm Dow for the construction of the "Sadara" plastics plant.
Aware of the fact that they do not possess the technological know-how for speciality chemicals, the chemical producers in the emerging nations are instead seeking to implement a vertical integration strategy aimed at making better use of their raw material.
Just like the Indian company Reliance, the Saudi company Sabic or the Chinase company Sinochem, they are on the lookout for external growth opportunities in Europe (like the French company Arkema) enjoying a healthy financial position and positioned in high added value segments of the chemical market._*ML*

To watch…

►Changes in oil prices .

►The crisis affecting the markets in southern Europe Gains achieved in the purchasing of energy in North America.

►The number of external growth operations in the global chemical market._

Business sector forecasts

	Jan-13	Jul-12
EH Americas		
United States		
Canada		
Mexico		
Brazil		
Argentina		
EH Asia-Pacific		
Japan		
China		
India		
Indonesia		
South Korea		
EH France		
France		
EH DACH*		
Germany		
Switzerland		
Austria		
EH Mediterranean		
Italy		
Spain		
Portugal		
Greece		
Turkey		
EH Northern Europe		
United Kingdom		
Ireland		
Belgium		
Netherlands		
Bulgaria		
Norway		
Czech Republic		
Poland		
Sweden		
Slovakia		
Finland		
Denmark		
Russia		
World		

Source: Euler Hermes
* Germany - Austria - Switzerland

Major world companies

Rank	Company	Nationality	Turnover 06-2012	Change 06-2012/06-2011
	USD bn			
1	BASF	Germany	52	-2%
2	Dow Chemical	United States	29	-5%
3	Sinopec	China	21	12%
4	Lyondell Basell	United States	23	-7%
5	SABIC	Saudi Arabia	25	1%
6	Mitsubishi Chemical	Japan	20	-4%
7	Dupont de Nemours	United States	22	10%
8	Ineos	United Kingdom	12	-10%
9	Bayer	Germany	26	-0.3%

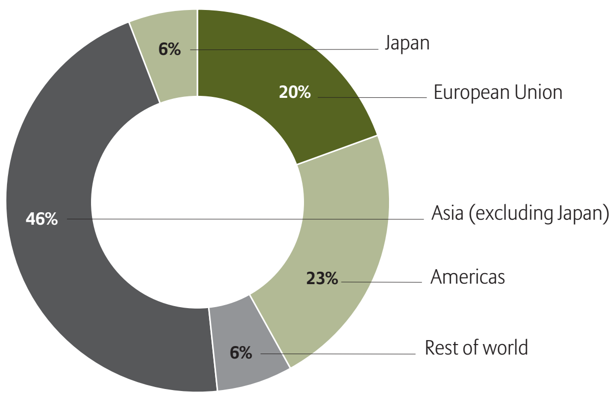
Source: companies, based on most recent accounts data

Annual growth rate of chemical production (in volume terms) per region

Region	2011	2012
United States	2%	1.5%
Western Europe	3%	0.5%
Japan	0%	2.0%
Asia (excluding Japan)	9%	8.0%
World	**5%**	**4.0%**

Sources: ICIS, Euler Hermes

Share of global chemical sales



Sources: Cefic, Euler Hermes

World Grade
C

Construction

Marking time in the construction sector…

An industry subject to the growth in national wealth and the challenges of internationalisation
As the cornerstone of the infrastructure and housing industries, the construction sector is intrinsically linked to growth and demographics. The slowdown in wealth generation in numerous countries therefore heralds trouble for businesses in this sector. The deteriorating financial situation for both households and states and the contagious effect as difficulties spread between trading partners in a "chain reaction" have adversely affected the construction industry, which operated more as a group of national markets. The internationalisation of this sector has also been accentuated by the competition raging between the major groups outside their national borders. For 2012, it can be estimated that the nominal value of the entire global construction market increased to 9100 billion dollars, i.e. a growth rate of 2.5%, indicating that various property bubbles are now deflating. The outlook for 2013 points to a similar performance with differing evolutions according to the countries in question and the extent to which recovery from crises coincides with the emergence of new difficulties.

The weaknesses of the construction sector are felt all across Europe

The European construction market is still experiencing difficulties. The benefits of stimulus packages have now faded and market activity levels are falling due to a lack of investors despite the historically low interest rates. The situation remains particularly tense in Spain, where despite the production of new homes falling by late 2012 to 10% of its peak of January 2007 and with prices down by -30%, there still remains a surplus of 650,000 homes available for sale. The outlook in this industry is also deteriorating in France, where the effects of new public support packages are not yet measurable, and in the United Kingdom which benefited from an upturn through public investment. Recovery from the crisis is therefore not likely to occur before the second half of 2013 at best. What's more, we are seeing a slowdown in activity in the Eastern European countries, which have invested a great deal in their infrastructure, although the effects of this windfall are disappearing with the reduced demand from their trading partners in the West. This is the case in Poland where housing starts were down by -7% by late October and road building projects are under increasing pressure with European financing ever more limited and regulated.

The low point has now been reached in North America

A market correction for previous excesses appears to be drawing to a close in the United States. Several indicators confirm this, even if the upturn is still a rather fragile one. The number of houses available for sale has climbed back to its long-term average level, with 1.6 million in late December 2012. After a drastic fall, house prices have stabilised (-0.6% at late October 2012 over 10 months). The value reached on this date was even ahead of October 2011. Finally, housing starts are up, compared to the low point of October 2011. In 2013, the pace of activity in the American market will be closely linked to the employment situation and the future of homes under the threat of repossession. The start of a trend reversal in the construction sector has already sparked a sharp increase in the prices of raw materials and particularly wood (+47% in 2012). This has therefore encouraged the Canadian producers to boost production, all the more so as housing starts in Canada increased by +11% in 2012 with significant disparities according to the regions, although this trend should be attenuated in 2013.

The more moderate emerging nations remain sources of growth

Property investments in China are now under control with stricter access to property ownership. The price of homes has therefore been contained at the risk of harming local finances. In Beijing, their prices fell by -7.6% in 2012. The slowdown in growth has contributed to this price moderation despite upward price pressure due to increasing urbanisation. The strategy of the new governing team for 2013 is once again to favour the development of infrastructure. India also has a reservoir of potential production activity due to its pressing need for housing, a growing population and a bold dam-building policy on the Ganges. In Brazil, the requirement for infrastructure (€70 billion per year) and real estate investments (€100 billion per year) remains considerable. The organisation of the World Cup in 2014 (€7.5 billion) is an added bonus for this sector. Africa also has a considerable growth potential due to current under-investment and demographic growth. What's more, this continent possesses raw materials necessary to the construction sector, such as iron._*DM*

To watch…

- ►**Signs of recovery and renewed confidence.**
- ►**The investment capacities of households and states.**
- ►**Increases in the historically low interest rates.**
- ►**The intensity of competition between operators._**

Business sector forecasts

	Jan-13	Jul-12
EH Americas		
United States		
Canada		
Mexico		
Brazil		
Argentina		
EH Asia-Pacific		
Japan		
China		
India		
Indonesia		
South Korea		
EH France		
France		
EH DACH*		
Germany		
Switzerland		
Austria		
EH Mediterranean		
Italy		
Spain		
Portugal		
Greece		
Turkey		
EH Northern Europe		
United Kingdom		
Ireland		
Belgium		
Netherlands		
Bulgaria		
Norway		
Czech Republic		
Poland		
Sweden		
Slovakia		
Finland		
Denmark		
Russia		
World		

Source: Euler Hermes
* Germany - Austria - Switzerland

Major world companies

Rank	Company	Nationality	Turnover 06-2012	Change 06-2012/06-2011
USD bn				
1	CRG	China	26.2	-15%
2	CRCC	China	26.1	-14%
3	ACS (including Hochtief)	Spain	24.3	6%
4	Vinci	France	23.1	4%
5	CCC	China	19.9	-10%
6	China Metallurgical	China	17.1	1%
7	Bouygues Construction Activities	France	15.1	4%
8	Bechtel	United States	nc	
9	Skanska	Sweden	9.1	12%
10	Balfour beatty	United Kingdom	8.7	6%
11	Eiffage	France	8.5	0%
12	Strabag	Austria	7.4	-4%

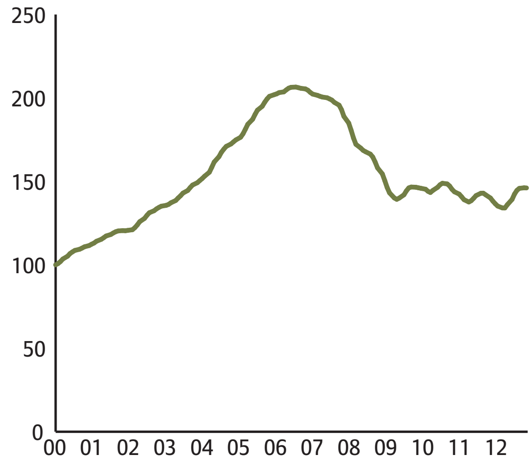
Source: companies, based on most recent accounts data

Construction market

EUR bn	2011	2012e	Change 2012/2011
North America	1.441	1.508	4.6%
Latin America	471	495	5.1%
Europe	2.771	2.625	-5.3%
Asia	3.864	4.148	7.3%
Middle East	295	311	5.4%
Africa	81	82	1.2%
Total	**8.923**	**9.169**	**2.8%**

e: Euler Hermes estimates
Sources: IHS Global Insight

House price index in the United States



Sources: IHS Global Insight, Euler Hermes

World Grade
C

Air transport

Flight plans needed

Diverging trends
The turnover of the global air transport industry increased by more than 6% in 2012 to exceed USD 635 billion according to the International Air Transport Association (IATA). In fact, this increase hides two diverging trends. Globally, traffic and prices in the passenger segment have continued to rise, benefiting from regional expansions (respectively +5.3% and +3.0%) while freight suffered from difficult international trading conditions due among other things to the difficulties in Europe (-2.0% for both indicators). Global profit for the sector remained limited overall (at more than USD 6 billion according to IATA), once again adversely affected by market prices for jet fuel which were near record levels. Finally, although being a symbol of globalisation, air transport is still very much subject to regional factors.

The time for action has come in Europe

For 2012, the traditional European air transport sector finished the year with a consolidated net loss. Still suffering from stiff competition from the low-cost and Middle Eastern airlines, the traditional players have also had to deal with a deteriorating economic environment. As at the start of 2012 they had already made significant efforts to reduce costs and increase productivity , the second half of the year saw a number of major strategic realignment initiatives including the introduction and/or reinforcement of low-cost offers (Germanwings for Lufthansa and Transavia for Air France – KLM) and stronger ties with Gulf companies with an example being the integration of Qatar Airways within the Oneworld alliance and “code sharing” (operational cooperation on certain routes) between Etihad Airways and Air France – KLM. Although a return to equilibrium is expected for the entire traditional air transport sector in 2013, a number of national, medium-sized airlines are still facing serious difficulties and find themselves at a crossroads, with a choice between the closure of their businesses or acquisition by a competitor (after the financing of any possible restructuring required).

The figures are looking strong for the United States

Continuing its focus on strict capacity control, the traditional American air transport sector demonstrated the value of this model in 2012, in which pricing power is crucial to maintaining profitability in the sector faced with a lacklustre trading environment (with traffic up by +1.1% compared to 2011) and above all a period of high fuel costs (with companies being handicapped by their ageing fleets). Despite stability in performance terms being expected in 2013 and in response to demand levels which may just be showing the first signs of sensitivity to continued price hikes, the main airlines are now involved in the second phase of the "plan" intended to bring about a long-term return to profitability: i.e. replacing their aircraft, with huge orders for re-engined single-aisle planes. While the future of American Airlines will certainly be decided during 2013 (a merger with US Airways is still being discussed), recent strategic manoeuvres have demonstrated that the American operators have become ambitious once again with the acquisition of a shareholding by Delta Air Lines in the British airline Virgin Atlantic, following a similar operation involving the Brazilian airline GOL in late 2011.

Supporting growth in Asia and the Middle East

Although displaying some similarities with Europe (fragmentation, significant freight activity, intense competition, etc.), the the Asian legacy carriers are looking healthier, partly due to a more promising economic climate. The net average profitability of these players nevertheless fell by 50% in 2012 according to the Euler Hermes[(1)] sample, hampered by a certain degree of price pressure triggered by the massive arrival of capacity and performance in the cargo segment, affected by the low levels of worldwide trade. In 2013 we can expect to see an upturn in results and fresh progress in the realignment of business models, with the rollout of low-cost offers (Scoot for Singapore Airlines for example) and cooperation for the operation of certain routes with the Gulf companies (Emirates and Qantas). Finally, according to the specialised consultancy companies CAPA and Innovata, 2013 should see the emergence of Emirates as the leading global airline in terms of capacity._*BG*

(1) Sample: Cathay Pacific, ANA, Singapore Airlines, Korean Airlines

To watch…

►**Oil prices.**

►**Cargo traffic change.**_

Business sector forecasts

	Jan-13	Jul-12
EH Americas		
United States		
Canada		
Mexico		
Brazil		
Argentina		
EH Asia-Pacific		
Japan		
China		
India		
Indonesia		
South Korea		
EH France		
France		
EH DACH*		
Germany		
Switzerland		
Austria		
EH Mediterranean		
Italy		
Spain		
Portugal		
Greece		
Turkey		
EH Northern Europe		
United Kingdom		
Ireland		
Belgium		
Netherlands		
Bulgaria		
Norway		
Czech Republic		
Poland		
Sweden		
Slovakia		
Finland		
Denmark		
Russia		
World		

Source: Euler Hermes
* Germany - Austria - Switzerland

Major world companies

Rank	Company	Nationality	Turnover 06-2012	Change 06-2012/06-2011
USD bn				
1	Lufthansa	Germany	19.9	6.0%
2	United Continental Holdings	United States	18.5	2.9%
3	Delta Airlines	United States	18.1	7.4%
4	Air France-KLM	France	16.7	5.1%
5	AMR / American Airlines	United States	12.5	7.2%
6	IAG (British Airways + Iberia)	UK / Spain	11.7	9.8%
7	All Nippon Airways	Japan	9.5	6.9%
8	Emirates	UAE	10.4	17.0%
9	Southwest + AirTran	United States	8.6	18.9%
10	Qantas	Australia	8.2	6.0%
11	Japan Airlines	Japan	8.0	5.7%

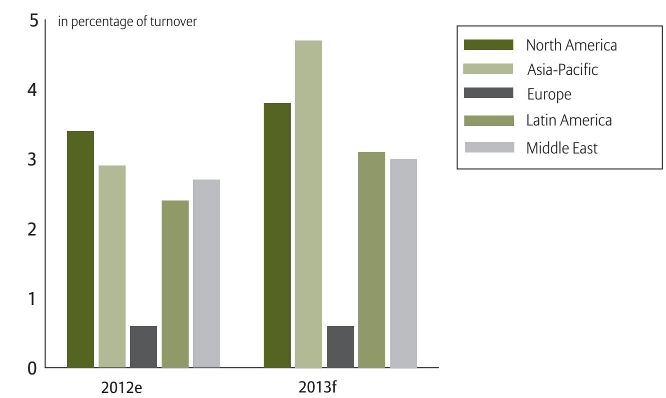
Source: companies, based on most recent accounts data

Rate of growth in annual air trafic

passengers and cargo. in %	2011	2012e	2013f
Global	**4.0**	**3.2**	**3.7**
North America	1.7	0.2	0.4
Europe	6.7	2.8	2.2
Asia Pacific	2.4	2.3	4.4
Middle East	8.6	15.5	12.3
Latin America	9.8	6.5	6.4
Africa	-0.7	6.9	6.2

e: estimates, f: forecasts
Source: IATA

Cumulative operating earnings in the main regions



e: estimates, f: forecasts
Source: IATA

World Grade

B

Information and Communication Technologies

Innovation and services

The mobile market is on cloud nine

The Information and Communication Technologies sector covers a huge range of subsectors, the perimeters of which can often overlap. It includes computer equipment and services and telecommunications, but also electronic consumer goods. Turnover for 2012, which was close to €3200 billion, is now mostly comprised of services (58%). Hardware manufacturers are often at the very forefront of innovation and provide fertile ground for the expansion of services. Consequently, the issue of telecommunications equipment and infrastructure opening the way to the deployment and use of 4G technology is set to emerge in a big way in 2013. The theme of cloud computing became commonplace in 2012, while awaiting the next big thing in innovation. The challenges today lie in keeping pace with personal mobility and ensuring the connectivity of products. In terms of geographical areas, Asia-Pacific, North America and Europe each represent around 30% of the market but their economic dynamics are very different.

Europe loses ground despite its best efforts

The Information and Communication Technology sector has held its ground in Europe with a growth of 1.5% in 2012. Despite this, its global market share is gradually contracting, a trend which should continue in 2013. Europe supports its technologies in order to promote the competitiveness of European companies with a number of programmes aimed at boosting competitiveness and innovation (worth €156.5 million in 2013). In the mass consumer sector, the market is being driven mainly by smartphones and tablet computers, to the detriment of PCs. Although Europe has lost many of its mass consumer electronics manufacturers, where the production of components is concerned it maintains a modest position for specific products, accounting for 11% of global production. The deployment of 4G is likely to be the main event of the year in 2013 in Europe, which is lagging behind the United States and Japan, and being rolled out in a rather haphazard way (having already been completed in Sweden and Portugal, underway on a town-by-town basis in France with several operators and implemented on a blanket basis with a single operator in Great Britain).

North America is ready to bounce back

Though its domination was once being gradually eaten away, a trend exacerbated by the economic crisis of 2008, the North America region is today faring better than Europe. It represents approximately 30% of business in this sector with a growth rate of 4%, twice that of Europe. It accounts for 23% of the number of connected devices (tablets, smartphones, laptop computers and TVs). This dynamism is amply demonstrated by the presence of 9 American companies among the world's 15 largest Information and Communication Technology firms. Some 50,000 software publishers are American and a quarter of patents registered in the world are American, which is decisive at a time when interfaces and services have become more important than the equipment and terminals and when an upturn is underway in the United States. Furthermore, this country is also a trailblazer in the deployment of the fourth generation telephony network which it launched in late 2010, becoming the world's leading network in late 2012 with 16 million subscribers. The central role of mobile communications in the mass retail electronics sector was confirmed at the recent annual electronics show in Las Vegas.

The emerging economies lead the way

The emerging countries are major consumers of technology products but also leading producers of them too. The Asia-Pacific region continues to gain market share in the field of semiconductors in which it accounted for 56% of the global market by late November 2012. This sector should attract relatively little investment in 2013, but already has sufficient production capacity to meet demand from structural growth. At the other end of the chain, the Korean and Chinase manufacturers were the stars of the Las Vegas show with the latest sign of their success being the transition currently underway from PCs to tablets. Conversely, India, a champion of the offshoring of IT services, is experiencing a slowdown in this market, exacerbated by rising real estate and labour costs. At the same time, the state is seeking to boost technological infrastructure faced with demographic pressure and an increasingly urban population. In the short term, Brazil will need to invest in these fields to prepare for the major sporting events to be held there in 2014 and 2016, all the more so as its burgeoning middle class has an ever greater appetite for new technologies._DM

To watch…

- **The pace at which the new networks are deployed.**
- **The intensity of price pressure.**
- **Household consumption levels._**

Business sector forecasts

	Jan-13	Jul-12
EH Americas	☁	☁
United States	☁	☁
Canada	⛅	⛅
Mexico	⛅	⛅
Brazil	⛅	⛅
Argentina	⛅	⛅
EH Asia-Pacific	⛅	⛅
Japan	⛅	⛅
China	⛅	⛅
India	⛅	⛅
Indonesia	☁	☁
South Korea	☁	☁
EH France	☁	☁
France	☁	☁
EH DACH*	☁	☁
Germany	☁	☁
Switzerland	⛅	⛅
Austria	☁	☁
EH Mediterranean	☁	☁
Italy	☁	☁
Spain	🌧	🌧
Portugal	☁	☁
Greece	—	—
Turkey	☁	☁
EH Northern Europe	☁	☁
United Kingdom	☁	☁
Ireland	⛅	⛅
Belgium	⛅	⛅
Netherlands	☁	☁
Bulgaria	☁	☁
Norway	⛅	—
Czech Republic	⛅	☁
Poland	☁	☁
Sweden	⛅	☁
Slovakia	⛅	⛅
Finland	⛅	⛅
Denmark	⛅	☁
Russia	⛅	⛅
World	☁	☁

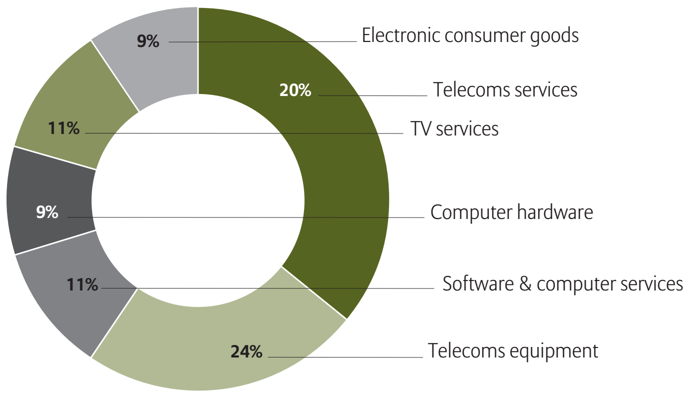
Source: Euler Hermes
* Germany - Austria - Switzerland

Major world companies

Rank	Company	Nationality	Turnover	Change
USD bn			06-2012	06-2012/06-2011
1	Apple	United States	86	66%
2	Samsung	South Korea	82	21.5%
3	NTT	Japan	65	1.6%
4	AT&T	United States	63	0.7%
5	Verizon	United States	57	4.2%
6	IBM	United States	50	-1.6%
7	Panasonic	Japan	45	-9%
8	Sony	Japan	39	2%
9	Deutsche Telekom	Germany	37	-0.9%
10	Microsoft	United States	36	-7.3%
11	Dell	United States	29	-5.8%
12	Cisco	United States	23	7.7%
13	LG	South Korea	22	-9%
14	Oracle	United States	20	2.1%
15	HP Products et Services	United States	19	-5.0%
16	Nokia	Finland	19	-24.3%
17	Lenovo	China	17	21.7%
18	Ericsson	Sweden	16	-1.3%

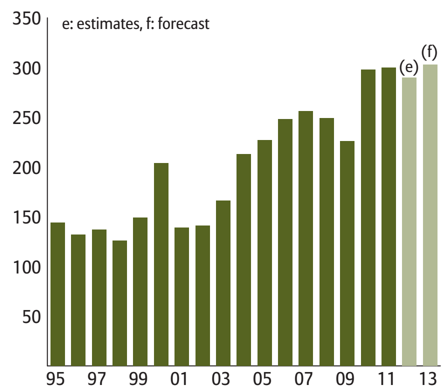
Source: companies, based on most recent accounts data

The market for information and communication technology



Sources: Idate, Euler Hermes

World semi-conductor market



Sources:WSTS, Euler Hermes

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