

Sector Risk Ratings

Changes at the end of Q4 2017

Economic Research Department

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1 Overview of Q4-2017 sector risk changes

4 key topics: Automotive sector strongly back on track,

2 Construction slowly recovering, Machinery poised to recover, Europe extending its lead

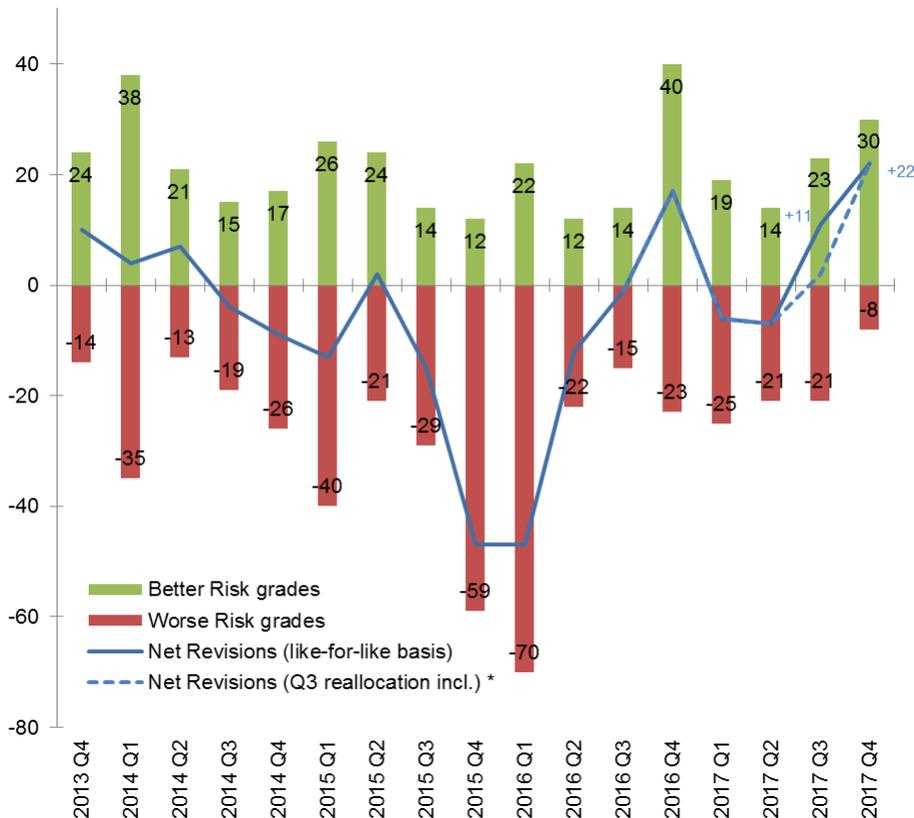
3 Methodology of the Sector Risk Ratings

Sectors continue to cash in on the return of global growth: +30 upgrades in Q4 2017

Net changes of sector ratings now strongly in a bullish cycle with nearly three times more upgrades than downgrades in Q4 2017

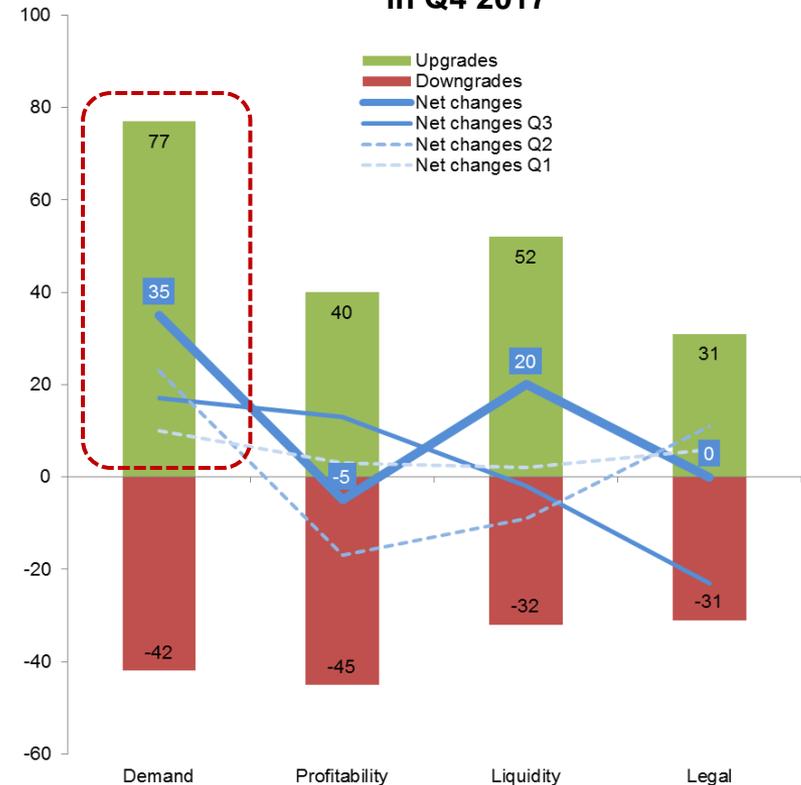
Demand and liquidity show more positive net upgrade balance than profitability indicators

Sector risk changes by quarter



(*) The NACE code reallocation scheme triggered 10 upgrades and 1 downgrade in Q3 2017
Source: Euler Hermes

Sector risk subcomponents changes in Q4 2017

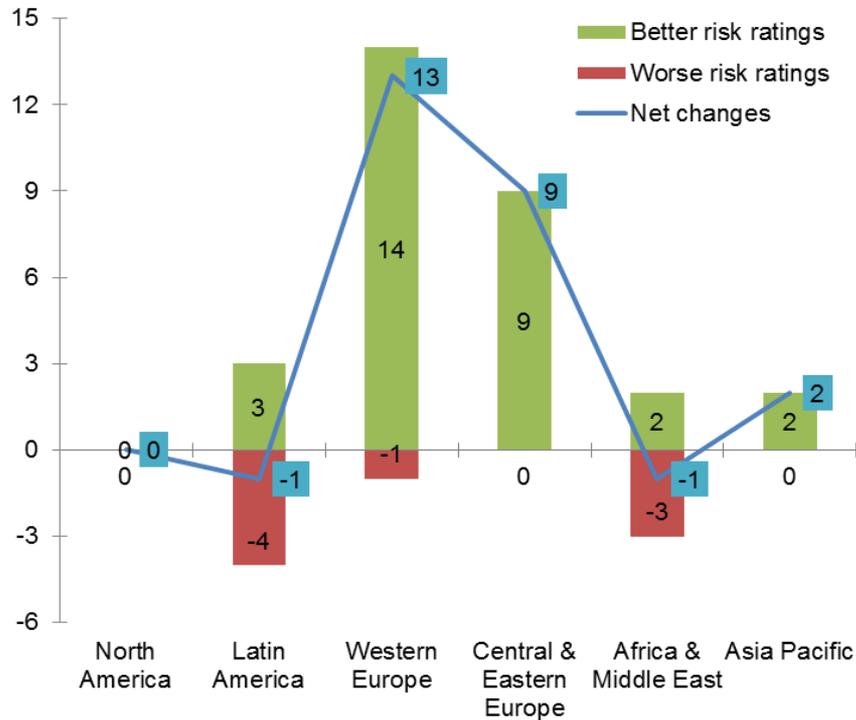


Source: Euler Hermes

(Western) Europe lies ahead of all other regions in terms of upgraded sectors

The Europe region accounts for 22 net upgrades risk ratings in Q4 2017

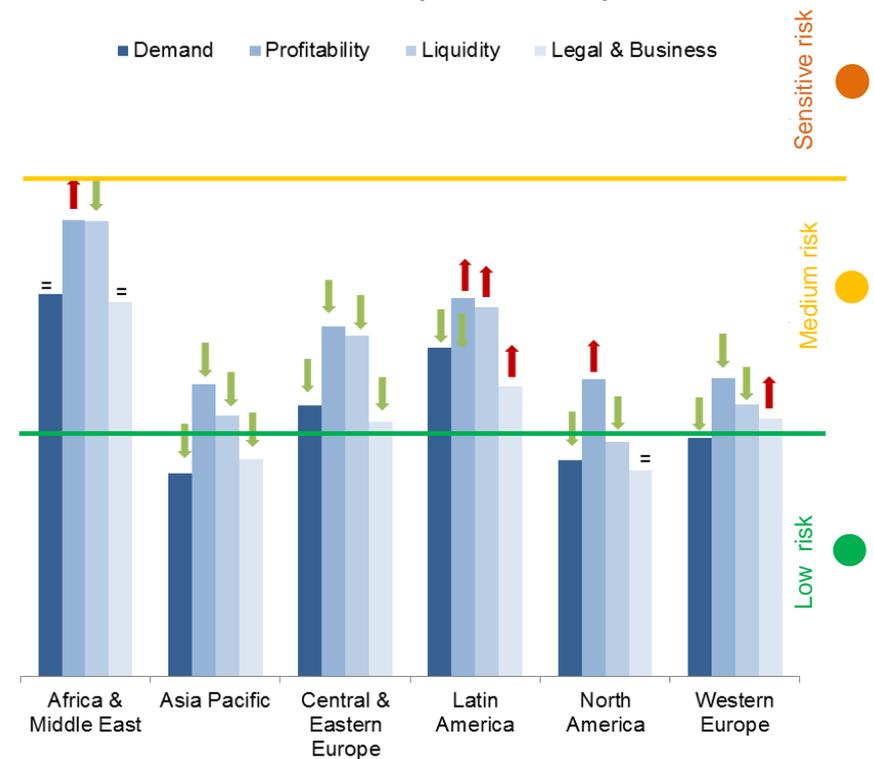
Net changes in sector risk ratings by region in Q4 2017 (vs. Q3 2017)



Source: Euler Hermes

Recovering liquidity has found its way into the improvement of profitability almost all over the world

Evolution of sector risk subcomponents by region in Q4 2017 (vs. Q3 2017)

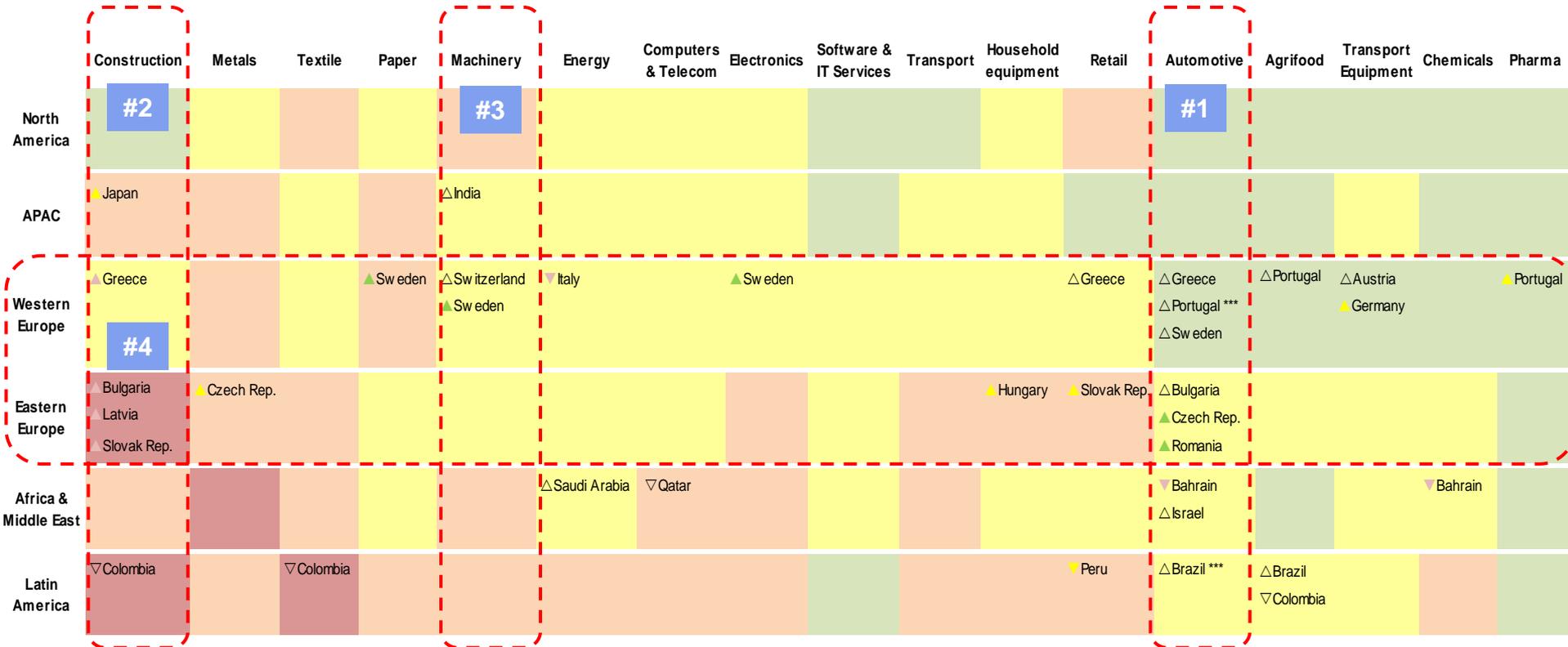


↑ Increasing risk (compare to Q3 2017); ↓ Falling risk (compare to Q3 2017)

Source: Euler Hermes

Changes overview in Q4 2017: 4 takeaways

Changes* in sector risk proposed in Q4 2017 by sector and by region



(***) Two sectors: Manufacturers + Suppliers
Source: Euler Hermes

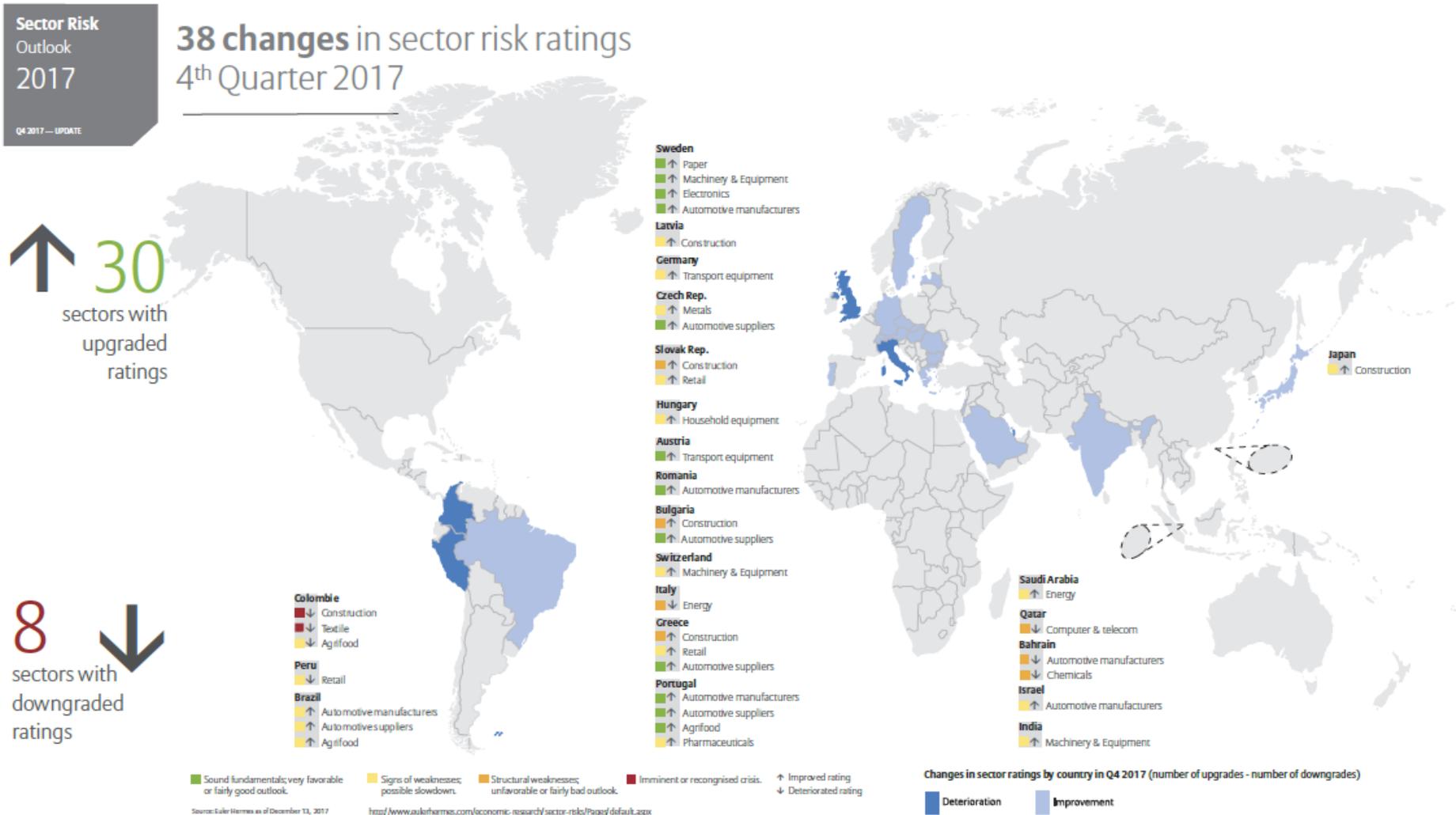
Change* of sector risk in a given country:
 ▽ Deterioration
 △ Improvement
 * The color of the arrow gives the final risk level

Regional risk level
 Low
 Medium
 Sensitive
 High

- #1 Automotive:** Boosted by demand momentum in Europe and recovery in Brazil
- #2 Construction:** Positive net balance for a slow recovery, thanks to Eastern Europe
- #3 Machinery:** Net upgrade on the back of global growth
- #4 Europe:** On the road of economic success

Q4 2017 overview of changes: Sector risk map

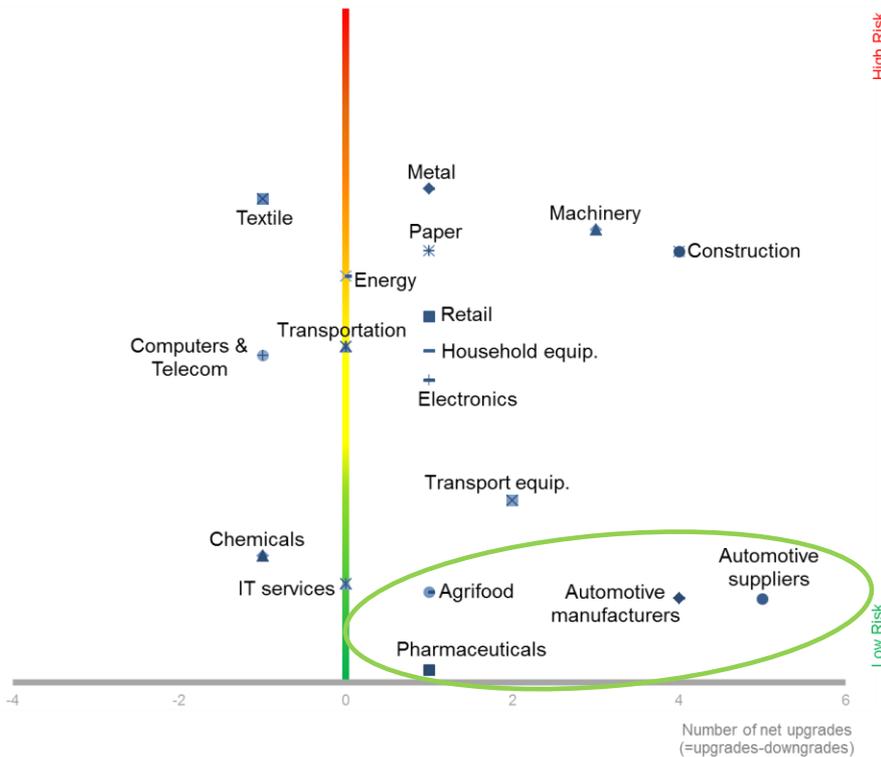
Quarterly revision of sector risk ratings



In 2017, Automotive is the strongest industry with positive net grade changes ahead of all others

Automotive has joined the inner circle of global sectors enjoying a structural low risk profile

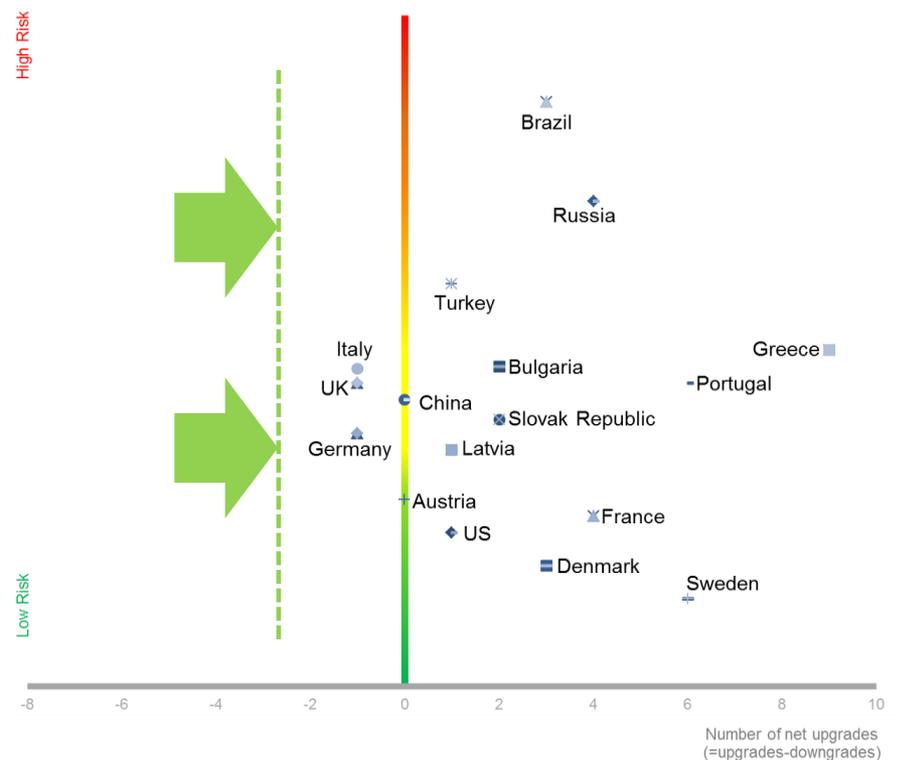
Sector risk 4Q changes (number of changes for a given sector), by declining order of average risk



* Risk grades are weighted in terms of countries' GDP

2017 has seen confirmation of a rise in the number of net upgrades across the globe (shifting of countries to the right in the chart)

Sector risk 4Q net changes (x-axis) and global risk grade* (y-axis) in Q4 2017, by country



* Risk grades are weighted in terms of countries' GDP

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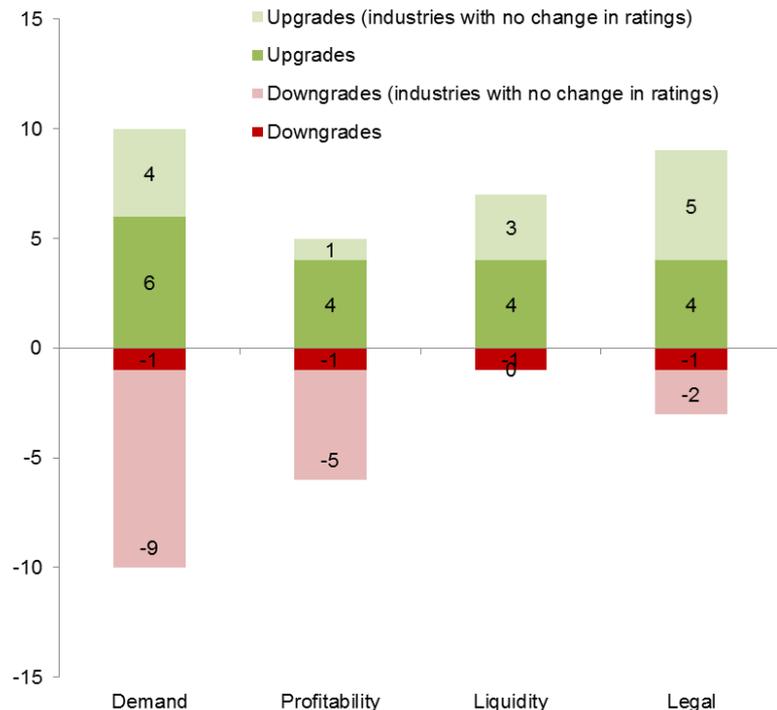
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Automotive is back on a more profitable road

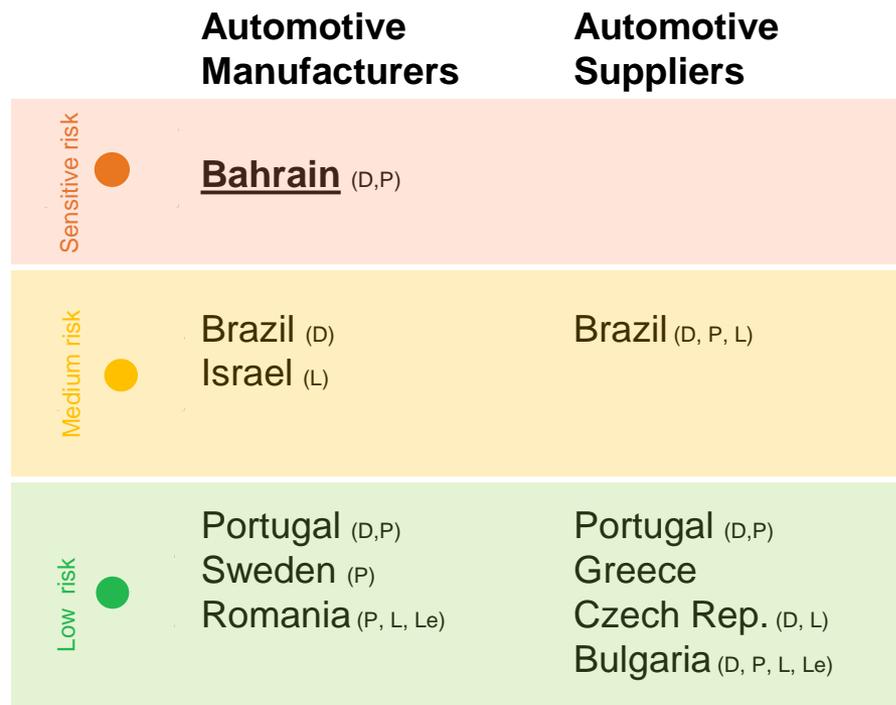
The global rise in demand remains uneven but the improvement in subcomponents is strong enough to qualify several auto suppliers and manufacturers for an upgrade

In Q4 upgrades mainly concern European countries in recovery (Greece and Portugal) or accelerating (Sweden), and Brazil – exiting from recession. Watch out for Bahrain.

Changes in sector risk subcomponents in Q4 2017 (number of industries*)



Changes in ratings proposed for Q4 2017 SRC (new ratings by country)



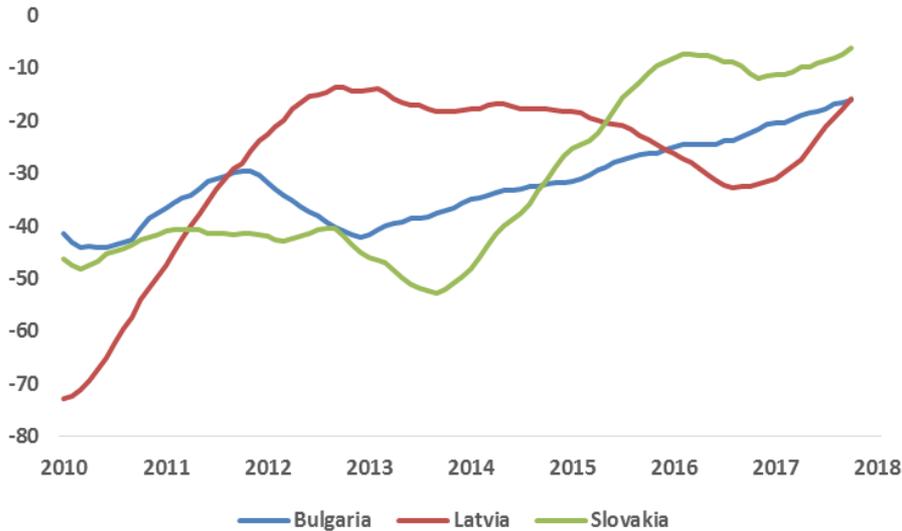
(*) industries = manufacturers or suppliers
Source: Euler Hermes

Upgraded industry versus **Downgraded industry**
Triggers for changes in grade: Demand (D), Profitability (P), Liquidity (L), Legal (Le)
Source: Euler Hermes

The sun rose in Eastern Europe's Construction sector

The momentum in the Construction sector has come mainly from Eastern Europe fueled by more confidence, demand and liquidity

Confidence indicator in the construction sector in Bulgaria, Latvia and Slovakia in October 2017



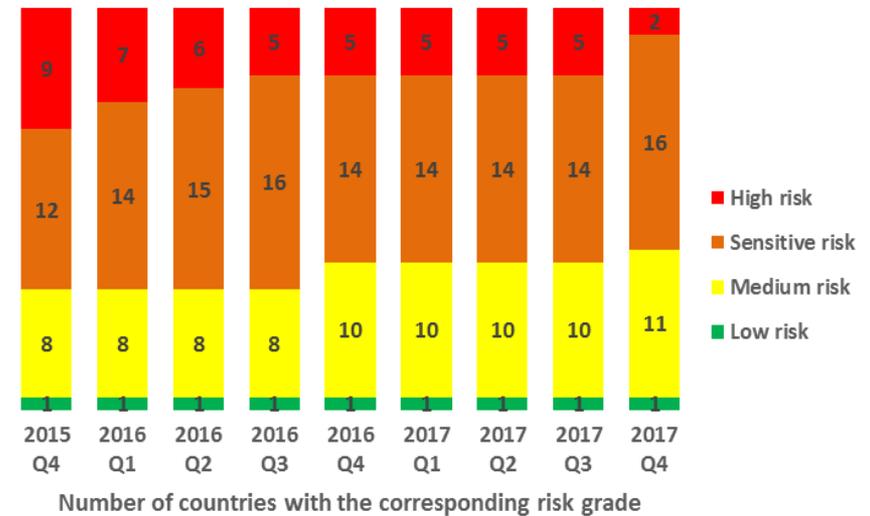
Upgrade from 4 to 3: **Bulgaria** and **Slovakia** (and **Greece**)

Upgrade from 3 to 2: **Latvia** (and **Japan**)

Demand (2) and Liquidity (2) or both (1) of these sub-components have improved

Risk level ratings have been improving throughout the Construction sector since the end of 2015

Sector risk distribution in the construction in Europe (evolution over the last nine quarters)



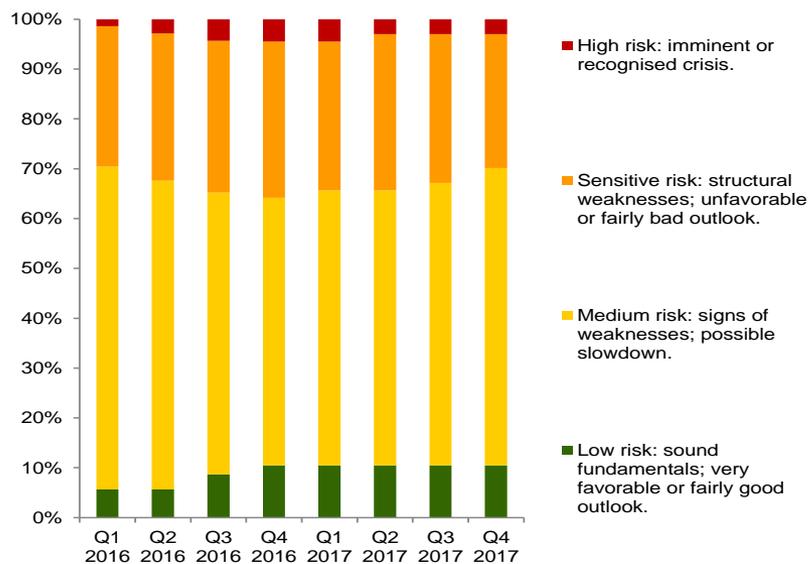
The decline in Construction is over : high risk from 9 to 2
Weaknesses still prevail : medium risk for a majority of countries

Machinery: Underpinned by global growth

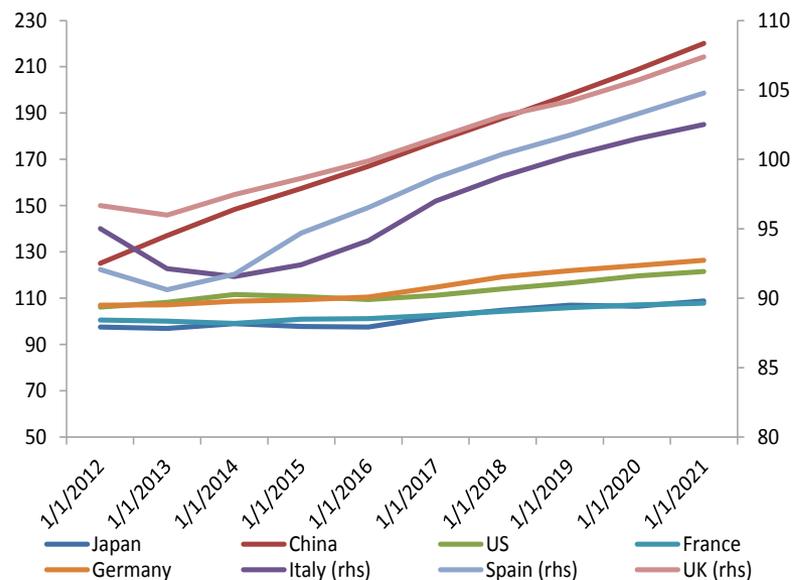
Positive net change continues previous quarters trends

Industrial output data suggest continuation of growth for the Machinery sector, confirmed by business confidence

Distribution of changes in grades (Q4 2017)



Global industrial output indices



Upgrade from 3 to 2: **India**
 Upgrade from 3 to 2: **Switzerland**
 Upgrade from 2 to 1: **Sweden**

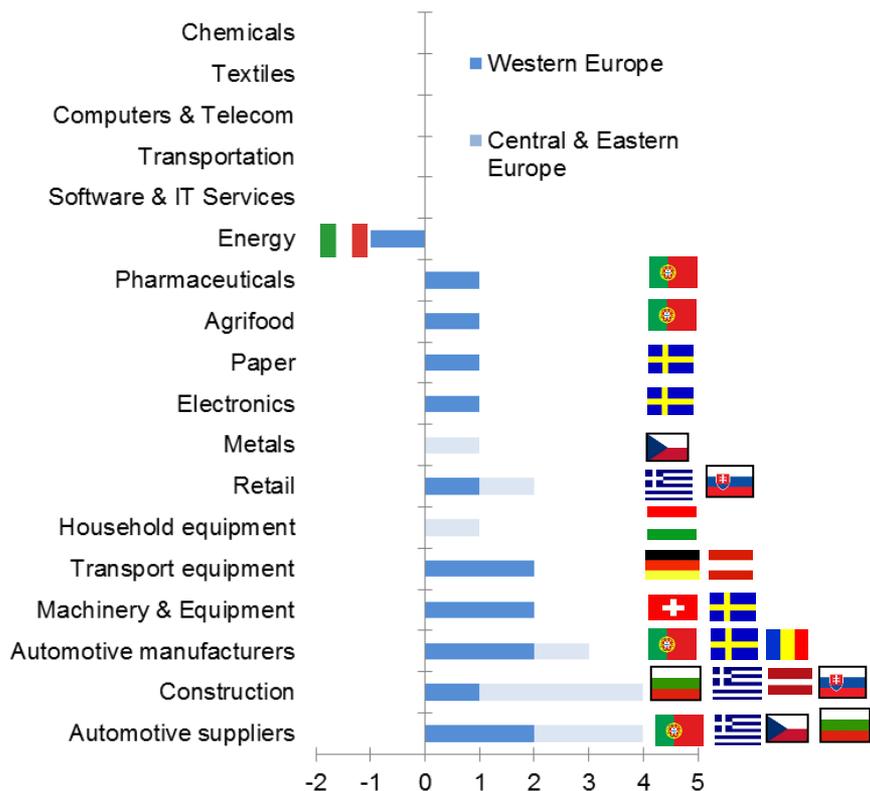
Business sentiment: slowdown in China (-60bps ytd), growth US (+40bps ytd), Japan flat, Eurozone very positive (+310bps)

Europe: Sectors have been slowly but constantly improving for two years (except for the UK)

Hardly any European sector has been rated as either Sensitive or High risk for one year: 22 new upgrades in Europe in Q4

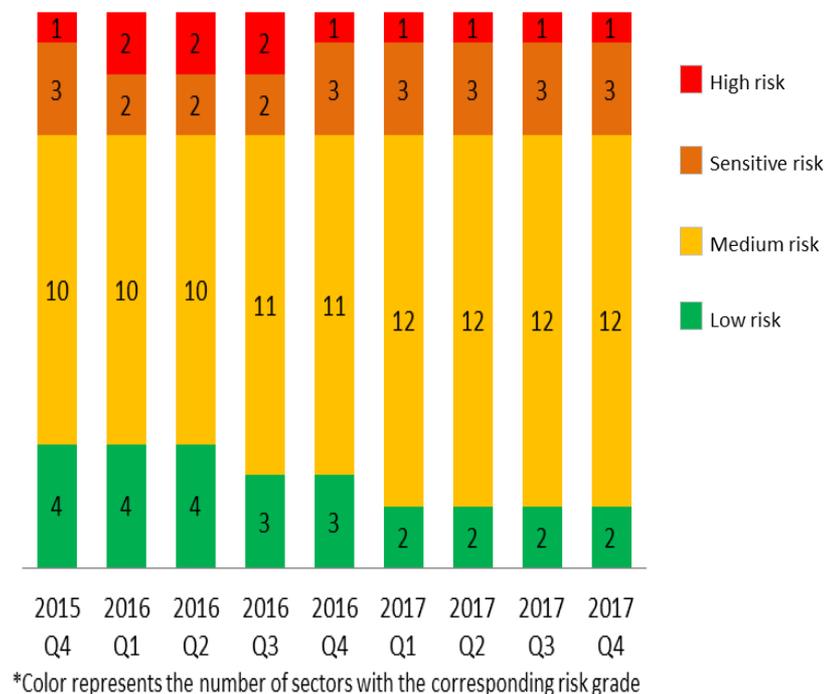
The UK exception: Automotive and (Paper) sectors have been downgraded to Medium (High) risk since the Brexit referendum

Q4 2017 changes in sector risk ratings (number of countries)



Source: Euler Hermes

Sector risk distribution in the UK



Source: Euler Hermes

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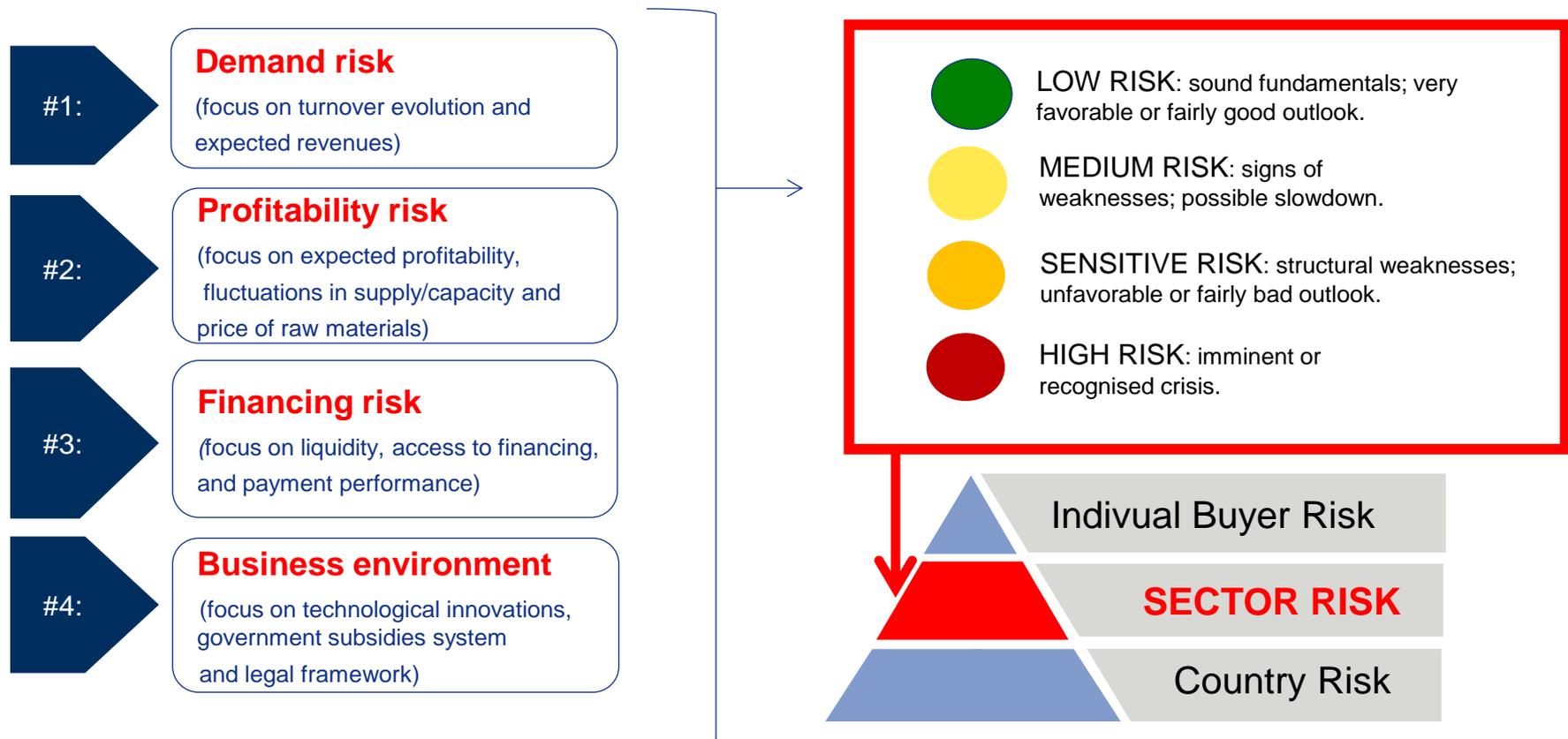
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Methodology of the Sector Risk Ratings

☞ **The objective:** to gauge the risk of non-payment by a company in a given industry (an industry is a given sector in a given country)

An assessment based on the evaluation of 4 key components, updated quarterly...

...And dedicated to completing both the Country Risk (CR) and the Individual Buyer Risk (IBR)



Thank you for your attention

Document prepared by EH ERD

Next Update: End of March 2018

