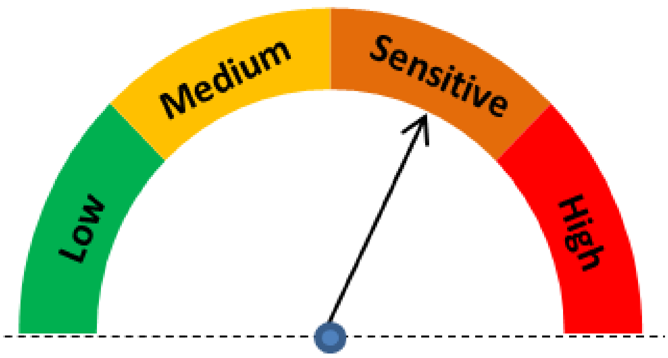
Euler Hermes Economic Research

Global Sector Report

MACHINERY

Sector Risk Rating



What to Watch?

- Firms' capacity to cope with lasting low commodity prices leading to delayed capital expenditure decisions and thus lower revenues
- Rising interest rates which may hamper investment and weaken machinery companies' financial strength, as they are suffering from high debt (92% of equity)
- Expansionary budgets and positive business confidence may support the construction machinery segment in 2016

Lack of confidence boosts rentals and hampers investment decisions

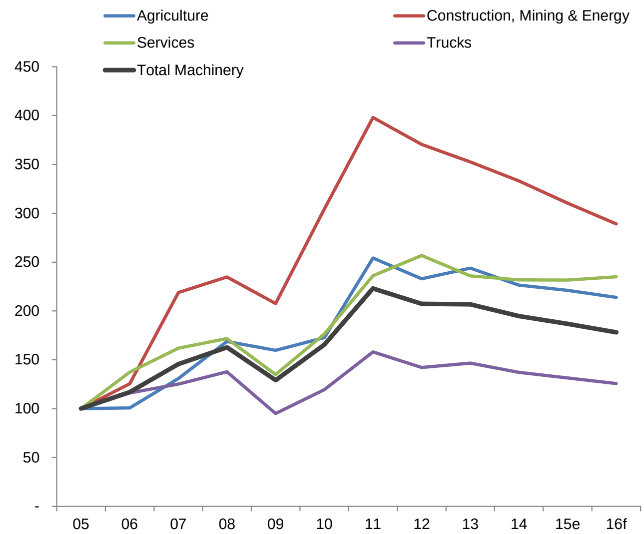
Most commodity prices plummeted in 2015. The price of oil more than halved while gas, iron ore and corn prices dropped by about -40%. Business confidence deteriorated, except for the Eurozone. Machinery companies' revenues fell by -4% in 2015 due to delayed and cancelled investment decisions, primarily in the construction, mining & energy segment.

At the beginning of 2016, the risk level of the Machinery sector in several countries such as the United States, Canada, or China is assessed as sensitive.

Euler Hermes forecasts revenues to decline by -5% in 2016, with only one segment bucking the trend: services. In fact, renting is showing increasing activity with a quite positive outlook. For example, the U.S. forecast growth rate stands at +5% a year until 2019.

On the backdrop of continuing uncertainty about future yields, businesses prefer to rent or lease the necessary machineries to run operation than purchase. In the current atmosphere, committing funds for 5 to 7 years with no guarantee on return on investment is not the strategy of choice for many companies.

Machinery revenue by segment, Index 2005=100



Sources: Bloomberg, Euler Hermes

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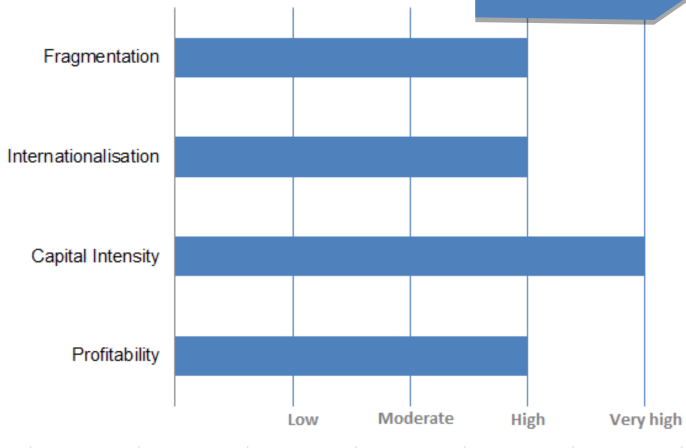
Key Players

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

ID Card

Sector Value:
3,837bn
USD



Strengths

- High-end technology and skilled labor requirements leave little room for new market players. Established leaders have relatively little reason to worry about fresh competition
- Long-run business cycle serves as a buffer to short term market variations

Weaknesses

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

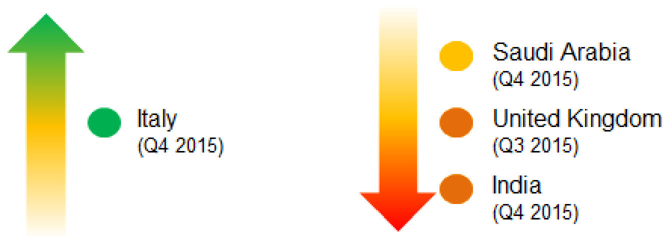
Subsectors Insights

Mining and Energy: Capital spending is set to decrease by -24% in 2016 with no improvement foreseen in 2017.

Construction: Signs of improvement in North America and Latin America offset by delayed infrastructure projects in oil exporting countries (mainly GCC).

Agriculture: Decline in agricultural prices (-18% in 2015) will deter farmers from investing.

Recent Sector Risk Changes



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