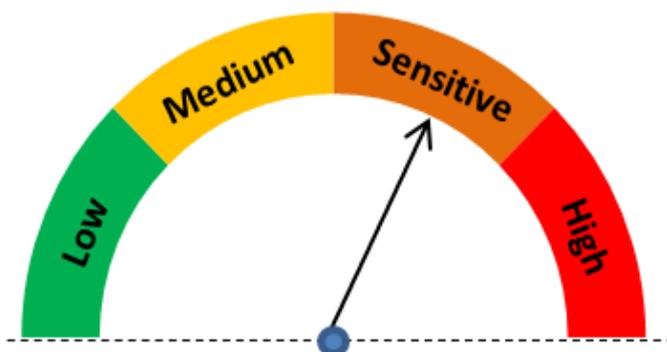


Sector Risk Rating



What to Watch?

- Stronger than expected economic struggles in emerging markets, markedly for commodity exporters, leading to declining public investments
- Increasing interest rates weighing on firms' capacity to repay debts and household purchasing decisions
- Rebound in public investment may support some infrastructure projects in Europe and China

Structural growth will be shaped by a mix of divergent country trends

Growth in the construction sector is set to remain slow with a +2.8% increase this year after +2.4% in 2015. Moreover it currently faces a major shift: production in emerging markets will grow in 2016 by only +3.4% vs. +7% over the last 10 years. Yet it will rebound in advanced economies with +2.2% vs. -0.7%.

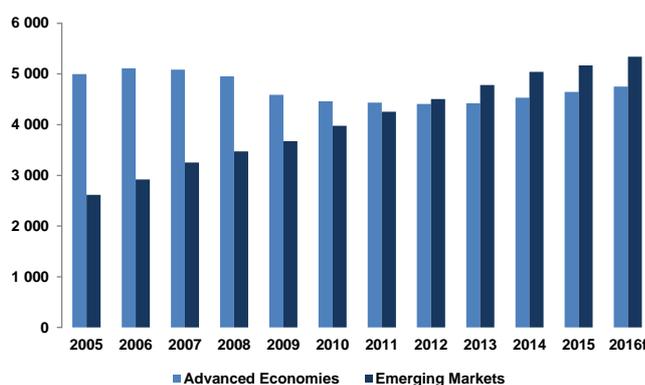
Structural weaknesses coupled with lasting price pressures mean the sector is still risky with a fairly negative outlook in most countries monitored.

The sector remains mainly composed of small firms with very high leverage ratios, a weakness highlighted by longer payment terms compared to other sectors.

More complexity is added into the mix by the effects of strong cyclical and cross-country differences. Recovery in the UK has reached a plateau, while growth is negatively impacted in oil exporting countries as low oil prices put brakes on infrastructure investments. Prospects appear brighter in the Nordics – markedly Norway – and the United States.

There is also marked heterogeneity in housing prices trends. Some bubbles keep on inflating (China) while others are slowly deflating (France).

Construction Gross Output (real USD)



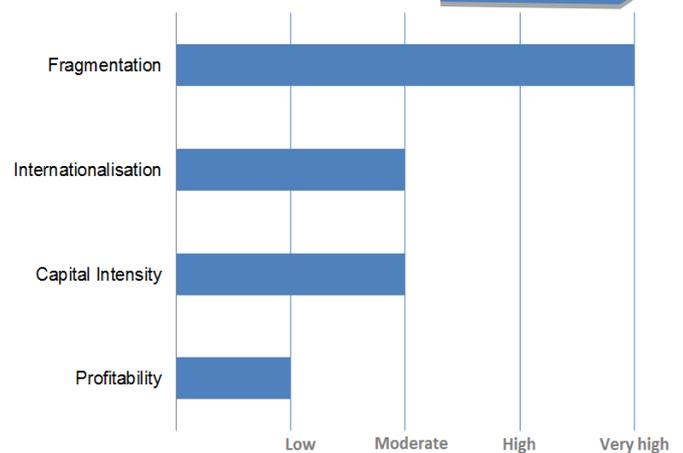
Sources: Oxford Economics, Euler Hermes

Sector Value:
4,023bn
USD

Key Players

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

ID Card



Strengths

- Long term market opportunities in emerging countries for infrastructure and housing development
- Positive impact of new environmental standards in mature markets
- Global population growth and increase in urbanization rate
- Well-established major players

Weaknesses

- Many small companies with fragile financial structures highly exposed to market fluctuation
- Longer payment delays compared to the overall economy
- Investments in infrastructure postponed in oil exporting countries
- Dependency on national and household borrowing capacity linked to interest rate trends

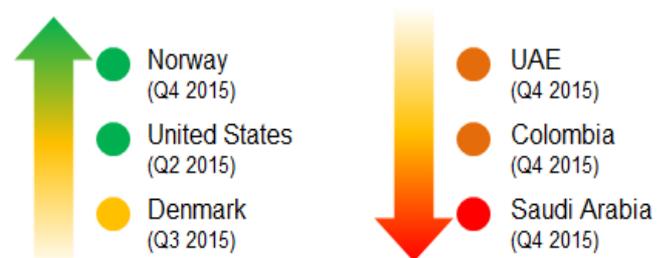
Subsectors Insights

Civil engineering: Highly capital intensive activity mainly linked to public investment.

Housing construction: High potential market, but very sensitive to changes in local environment and public stimulus plans.

Renovation: Sustained by new environmental regulations. Companies tend to be small and face difficulties in a market now plagued by low household spending.

Recent Sector Risk Changes



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