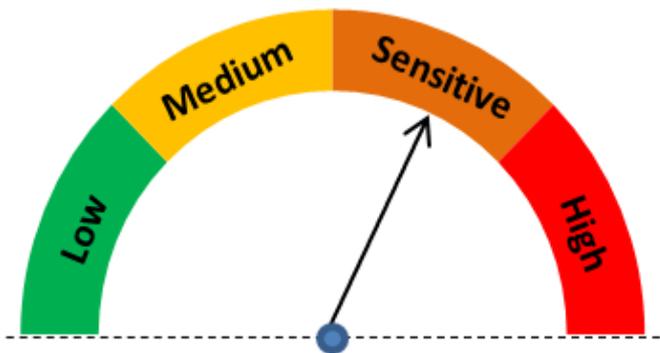


Sector Risk Rating



What to Watch?

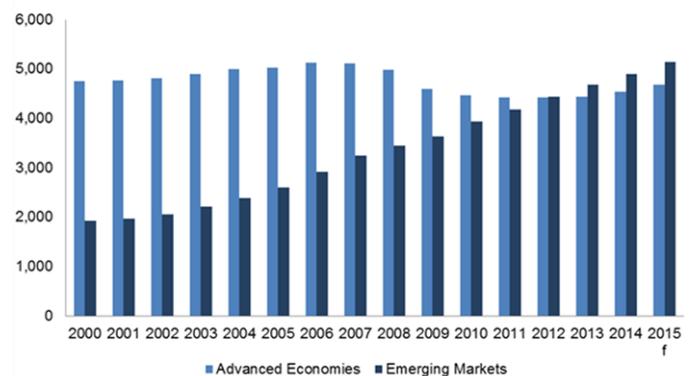
- Increase in interest rates could hamper household access to financing
- Low commodity prices to reduce public investment of economies depending on commodities exports
- Slow and uncertain recovery in mature European markets

Recovery in Progress that Will Be Difficult and Heterogenous by Country

Growth in the construction sector remains slow and piecemeal, with the sector expanding by +3.5% in 2014 and set to grow by +4% in 2015. Structural weaknesses mean however that the sector remains risky with a fairly bad outlook. Price pressures remain high for an increasing number of companies, and the sector can still be considered a two-speed one since sales in emerging markets rose twice as fast as those in mature ones in 2014.

Complexity is added into the mix as the sector is affected by strong cyclical and cross-country differences. Recovery of the construction sector in the UK has reached a plateau, while growth in the sector could be negatively impacted in oil exporting countries as low oil prices put brakes on infrastructure investments. Heterogeneity of housing price trends among countries – some recent housing bubbles have burst (US, Spain), others are slowly deflating (France), inflating (China) or just threatening to burst (Australia) – add to the complexity of sectorial assessment. Nevertheless, recent developments show a tenuous recovery in progress in smaller economies, and a real one in the US.

Construction Gross Output (real USD)



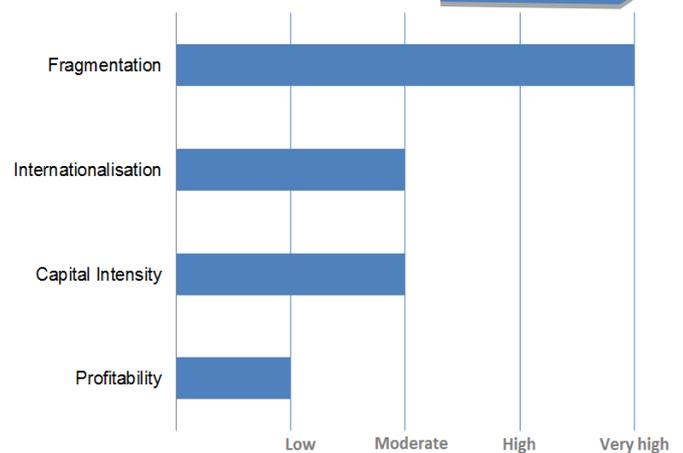
Sources: Oxford Economics, Euler Hermes

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

- Market opportunities in emerging countries to develop infrastructure
- Positive impact of new environmental standard in mature markets
- Well-established major groups

Weaknesses

- Many small companies with fragile financial structures exposed to activity fluctuation
- Volatility of raw material prices in a highly competitive sector
- High risk of bursting of housing bubbles in booming markets
- Dependency on national and household borrowing capacity

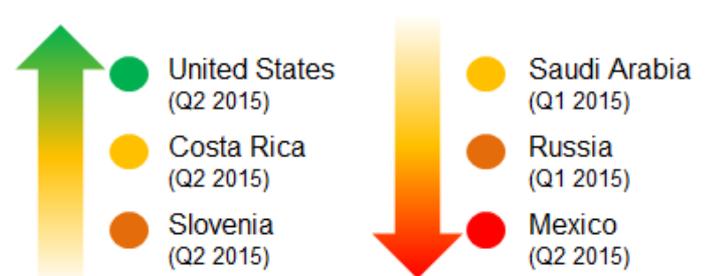
Subsectors Insights

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

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

Renovation: Market 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



DISCLAIMER

These assessments are, as always, subject to the disclaimer provided below.

This material is published by Euler Hermes SA, a Company of Allianz, for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by Euler Hermes and Euler Hermes makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the Euler Hermes Economics Department, as of this date and are subject to change without notice. Euler Hermes SA is authorised and regulated by the Financial Markets Authority of France.

© Copyright 2015 Euler Hermes. All rights reserved.

View all Euler Hermes
 Economic Research online
<http://www.eulerhermes.com/economic-research>

Contact Euler Hermes Economic
 Research Team
 ✉ research@eulerhermes.com

Last review: 2015-07-15
 Sector Risk Analyst: Didier Moizo
 ✉ didier.moizo@eulerhermes.com