



# market monitor

Focus on automotive industry performance  
and outlook

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On the following pages we indicate the general outlook for each sector featured using these symbols:



Excellent



Good



Fair



Poor



Bleak

# Shifting gears

Just as the warm summer months can lift people's moods, so the economic rays of sunshine breaking through in some countries seems to have boosted consumer confidence – and the automotive industry.

In the UK, that positive mood is apparent in the record number of new car purchases and the huge investment pumped into UK production plants by the likes of luxury brands like Jaguar Land Rover and Bentley, as well as Nissan and Toyota.

Not surprisingly, since it is the world's most populous country, car sales are increasing rapidly in China too, and the potential for growth is large in a country where currently car ownership is still relatively low: with fewer than 100 cars for every 1,000 people. That said, increasing competition is expected to negatively affect automotive businesses' profitability.

The automotive industry is a vital element of Spain's economy, especially cars built for export, so the increase in car sales, not just in the EU, but elsewhere as well, comes as welcome news. Both German and Czech car makers are enjoying healthy profits. However, the Ukraine crisis is already having an impact on German sales in Russia and could threaten the Czech industry's exports if further sanctions are imposed.

Elsewhere, fortunes are far less positive. The slight rebound of car sales in France cannot mask the problems faced by suppliers, while in Italy still subdued sales are an indication of the general trend in private consumption. Across the Atlantic, Brazil's once buoyant automotive industry has fallen victim to an economy on the brink of recession.

## Brazil



- Both production and sales are deteriorating
- Rising payment delays and insolvencies
- Pressure on suppliers and spare parts producers.

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months					✓
Development of non-payments over the coming 6 months					✓
Trend in insolvencies over the last 6 months					✓
Development of insolvencies over the coming 6 months					✓

Financing conditions	very high	high	average	low	very low
Dependence on bank finance		✓			
Overall indebtedness of the sector		✓			
Willingness of banks to provide credit to this sector				✓	

Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months				✓	
General demand situation (sales)				✓	

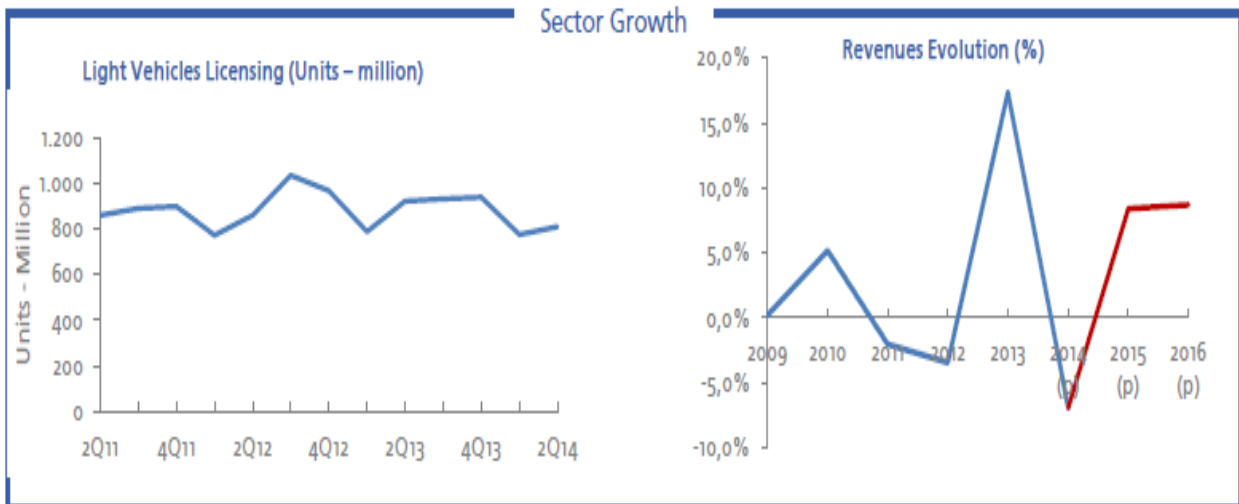
Source: Atradius

The automotive sector has been severely hit by the slowdown in the Brazilian economy, which is expected to grow only 0.7% in 2014. Brazil is on the brink of recession because of a contraction in industrial production and slower than anticipated job growth. Lower growth, higher inflation and the ending of the Brazilian economic model based on subsidized consumption are having an impact on the whole automotive sector value chain: from the spare parts producers to car manufacturers and sellers. Scarce credit and reduced consumer spending power have hurt overall sales in a market that until recently was expected to be one of the world's fastest growing car markets.

As well as the economic slowdown, a recent change in security features has increased the price of cars, adding one more stumbling block for sales and also affecting the aftermarket segment. The appreciation of the real has made the import of cars and car parts even more expensive: importing cars into Brazil has always been more expensive due to the high tax rates used to encourage foreign companies to establish local production plants.

A further complication is the low rate of vehicle repossession – 20% - in cases of default. Banks take two years, on average, to conclude the repossession process: one reason why banks are restrictive in granting loans for car purchase. Since this is an important factor in buying a car, a drop in car loans of more than 10% creates a further slowdown in sales.

Domestic car production is also affected by the deteriorating economic situation in neighbouring Argentina: the main market for Brazilian car exports. The trade flow between these two countries is affected by the restrictions on the freeing of dollars in Argentina to pay for its imports. Against this backdrop, it is unsurprising that margins have been squeezed in an attempt to boost sales volumes. The car industry’s high fixed costs mean that maintaining volumes is essential and this has put pressure on suppliers and spare parts producers that have heavy financial structures and growing debts to service.



Source: Anfavea, IBGE  
Elaboration and Projections by Lafis

Average payment times in this sector differ widely along the value chain: from 60 to 120 days. Car manufacturers normally have very long payment terms with their suppliers - even exceeding 120 days - while steel/metal producers usually ask for shorter payment terms for sales to suppliers/spare parts producers, adding to the pressure on them in terms of cash flow and high interest rates.

Given the current problems along the whole automotive value chain, we expect both payment delays and defaults to continue to worsen markedly in the coming months. As a result our current underwriting stance is cautious.

### Brazilian automotive sector

STRENGTHS	WEAKNESSES
Growth prospects in the long-term	Subdued consumer sentiment
	Currency volatility

Find out more about protecting your business against payment defaults by your automotive customers in Brazil and other markets around the world [at the Atradius website](#). If you have more specific questions, please [leave a message](#) and a product specialist will call you back.

## China



- Sales expected to increase at double digit rates in 2014
- Tougher competition between dealerships
- Smaller car parts suppliers could come under pressure

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✓		
Development of non-payments over the coming 6 months			✓		
Trend in insolvencies over the last 6 months			✓		
Development of insolvencies over the coming 6 months			✓		

Financing conditions	very high	high	average	low	very low
Dependence on bank finance			✓		
Overall indebtedness of the sector			✓		
Willingness of banks to provide credit to this sector		✓			

Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months			✓		
General demand situation (sales)		✓			

Source: Atradius

According to the China Association of Automobile Manufacturers (CAAM), Chinese car production increased 15% in 2013, to 22.1 million units. Vehicle sales increased 13.9% year-on-year to 21.98 million units in 2013, more than in any other country. Passenger car sales increased 15.71% and commercial vehicle sales reached 4 million units, up 6.4% year-on-year and reversing a downward trend. Although China's economic growth slowed in 2013, to 7.7%, and another slowdown to 7.5% is forecast for 2014, there are many positive catalysts for the car industry, and we expect a second straight year of strong growth in 2014.

China's auto industry sales were robust during the first half of the year. Passenger car sales increased 11%, to 9.6 million units, as consumers continued to flock to dealerships. However, the economic slowdown had an impact on the commercial vehicle market, with truck sales down 4% to 1.8 million units, due mainly to lower construction activity. Bus sales increased 4%, to around 300,000 units. Overall, in the first half of the year total vehicle sales increased 8%, to 11.7 million units.

As the world's biggest auto market, China is likely to sustain the momentum it regained in 2013, helped by the anticipated economic stimulus measures and robust demand for cars in the smaller cities of China's interior regions. China's auto market still has plenty of growth potential. Relative to population, car ownership is low, with about 120 million vehicles on the roads in a country of 1.4 billion. That equates to fewer than 100 cars for every 1,000 people: far lower than in Europe and Japan where there are 600 vehicles for every 1,000 people. Economic growth in the interior provinces, new stimulus measures, rising household incomes and falling vehicle prices will all help ensure a second straight year of robust growth in the passenger car segment.

The truck market is expected to grow moderately over the next few years because of continuous structural adjustments to China's economy. With positive factors such as increased demand for tourist and school buses, the bus market has seen strong growth in recent years. In 2013, output and sales volumes reached 483,000 and 477,000, rising by 13.4% and 12.0% year-on-year respectively. The bus market is projected to continue to grow rapidly, with an estimated average growth rate of around 10% in 2014-2017.

In 2013, the sales volume of new cars in China accounted for 80.9% of Chinese car dealers' total sales of both new and used vehicles. New car sales represented more than 85% of dealers' total revenue. In comparison, in America over the same period the sales volume of new cars sales made up just 27.6% of the total accounting for 57.1% of dealers' total revenue. Last year, China's auto after-sales service sector accounted for a small proportion of revenue, (less than 12%), but made a larger contribution to gross profit (above 45%). In future, with a slowdown in the growth of the automotive market and the declining before-sales profit on vehicles, we expect carmakers and dealers to shift their focus to developing the automotive aftermarket. Meanwhile, as private car ownership surges and car owners' perception of upkeep shifts to 'car maintenance' from 'car repair', the automotive aftermarket, which has shown great potential, can start a period of development.

Payments in the Chinese automotive industry take 90 day on average, but we expect longer payment times in the future because of liquidity pressures on suppliers. Payment defaults in the automotive sector are on a par with other Chinese industries and automotive businesses in general will see their profitability hit by more intense competition. However, we do not expect any significant increases in payment delays or insolvencies in the coming months.

Our underwriting stance towards manufacturers remains generally open. We view auto manufacturers as strong businesses, because of the sector's capital and technical intensity and the growth potential of the Chinese car market. However, we are more cautious towards manufacturers of domestic brands than joint ventures, and focus more attention on companies involved in 'new energy' or electric-powered vehicles. In all cases, we look mainly at cash flow and profitability when considering applications for cover.

Core parts manufacturers (engines and related equipment) usually have high Research & Development costs (often accounting for more than 65% of net profits) and therefore, when assessing their creditworthiness, we tend to focus on their own financials. For players in the non-core parts segment (lights, seats, axles, tyres etc.) we focus on whether they are overly export-oriented, in view of ongoing anti-dumping policies against Chinese enterprises that can lead to import barriers. We take extra care with smaller companies in the car parts supplier segment: they will come under particular pressure because of their poor equity strength, which could give rise to insolvencies. Unlike manufacturers, businesses in this segment may have difficulty obtaining bank finance.

In the car dealer segment we are seeing increasingly fierce competition between '4S' stores (Sales, Service, Spares and Surveys) and therefore, when assessing their credit risks, we consider changes in stock levels in 2012 and 2013, cash flow and the rationale for any expansion of their business.

## Chinese automotive sector

STRENGTHS	WEAKNESSES
The domestic industry is still developing from a low penetration rate, with rising income and urbanisation and village reconstruction in the country	The fierce market competition and rising raw material cost will undermine profitability in the sector for many businesses
Major players are large corporations usually with state-owned background or large joint ventures with multinationals	Trade disputes between major economies, increasing export problems with potential import tariffs
China has renewed private-buyer subsidies for "new energy" or electric-powered vehicles for another three years	Traffic issue, infrastructure, air quality, and oil supply will slow down car market growth

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## France



- Slight rebound in sales and production
- Restructuring of whole supplier segment still needed
- A cautious underwriting stance

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✓		
Development of non-payments over the coming 6 months			✓		
Trend in insolvencies over the last 6 months			✓		
Development of insolvencies over the coming 6 months			✓		

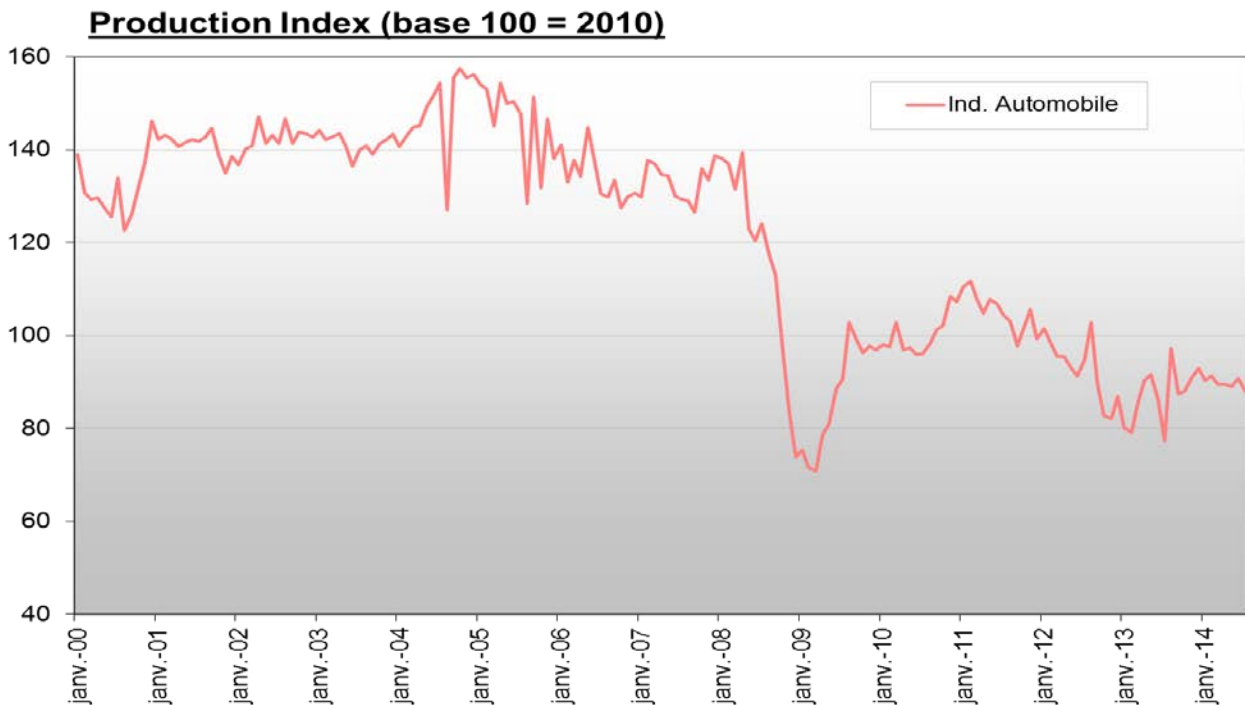
Financing conditions	very high	high	average	low	very low
Dependence on bank finance		✓			
Overall indebtedness of the sector		✓			
Willingness of banks to provide credit to this sector			✓		

Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months			✓		
General demand situation (sales)		✓			

Source: Atradius

Last year the downward trend in the French car market that had started in 2011 continued. According to the European Automobile Manufacturers' Association (ACEA), new passenger car registrations in France decreased 5.7% year-on-year in 2013, compared to a 1.7% decrease in the EU as a whole.

However, from January to August this year registrations rose again, by 1.6% (EU: up 6.2%). The downward trend in the French automotive industry appears to have bottomed out, and there are signs of a modest rebound. Following a competitiveness agreement signed between the French state and French car makers, car production increased 8.3% year-on-year (excluding Toyota and Daimler production) in the first half of 2014. However, in 2013 domestic production had dropped 11.6%, to 1.74 million cars. That was a massive 42.3% lower than in 2007, and can be explained in part by outsourcing. Production costs are lower in Eastern Europe and Northern Africa: for instance, the Renault Clio, a best seller in France, is cheaper to produce in Turkey than in France.



Source: INSEE

Despite the current rebound, the long-term drop in car production in recent years continues to have serious repercussions for French subcontractors and suppliers, most of which are traditionally linked to French car manufacturers like Renault and Peugeot. Sales in this subsector decreased again in 2013 (down 6.7%, to EUR 15 billion, after a drop of 13.5% in 2012) and orders have fallen again during the course of this year. Suppliers' margins are constantly under pressure, as the powerful car manufacturers demand greater productivity coupled with lower prices. While car manufacturers' equity is still quite strong, suppliers' equity is weakening. This segment is very capital intensive, requiring both sizeable finance, for new investment and restructuring, and high working capital. However, banks are generally unwilling to provide credit to the automotive suppliers subsector.

On average, payments in the French automotive industry take 60 days (end of month) and timely payment is important in this sector, with few protracted delays. We do not expect any fundamental increase in payment delays in the coming months. Neither do we expect insolvencies in the sector to increase in the short term.

However, we have identified some weak players (e.g. in the stamping subsector) and take steps to avoid any impact on our customers from insolvencies in this segment. For suppliers in particular, falling domestic production has led to rising overcapacity: estimated to be as much as 40%. In the long term, a restructuring and market adjustment seems inevitable, either in the form of insolvencies or by 'clean closures' (i.e. with support from shareholders, car manufacturers). Those mainly affected by overcapacity issues are suppliers that rank second or third in the subcontracting chain: especially those engaged in foundry work, small stamping and those producing items with low technology requirements.

Despite the rebound in sales and the artificial boost to production achieved by government measures, our underwriting stance towards the French automotive sector remains cautious, especially given ongoing problems in the suppliers subsector. We continue to scrutinise businesses' customer structure and export share, the level of EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization), financial costs and the level of short-term debt compared to sales. While we have to be vigilant when asked to increase existing cover, meeting our customers' needs is a priority and we try to meet their requests whenever possible. Even if the buyer's financial strength does not merit the full cover requested, we will try to give a partial approval: perhaps by setting a time limit or seeking a parent or bank guarantee.

## French automotive sector

STRENGTHS	WEAKNESSES
Leader companies in some segments: FAURECIA, VALEO, Plastic Omium	Overcapacities and margins under pressure
Technical knowledge	Lack of financing/ lack of attractiveness for private funds
French State support with public funds	The main market – Europe -is still not growing

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## Italy

- Car registrations up again
- Worst may be over, but performance still weak
- Insolvencies still high



Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✓		
Development of non-payments over the coming 6 months			✓		
Trend in insolvencies over the last 6 months			✓		
Development of insolvencies over the coming 6 months			✓		

Financing conditions	very high	high	average	low	very low
Dependence on bank finance		✓			
Overall indebtedness of the sector			✓		
Willingness of banks to provide credit to this sector			✓		

Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months				✓	
General demand situation (sales)			✓		

Source: Atradius

Italy's GDP shrank again last year, by 1.8%, after contracting 2.4% in 2012, and private consumption decreased 2.6% in 2013. Against this backdrop, it is no surprise that Italy's car industry remained depressed. According to the European Automobile Manufacturers' Association (ACEA), new passenger car registrations in Italy fell 7% in 2013, compared to a 1.7% decrease in the EU.

However, it seems that the slump has begun to at least level off: in the period from January to August 2014 new passenger car registrations increased 3.5%. While in the first half of this year production of passenger cars fell 5.6%, output of light commercial vehicles recovered by 10.4%. However, the outlook for the second half of 2014 and into 2015 remains muted, as production and orders generally follow the trend of consumption – and private consumption is expected to do no more than level off in 2014 and grow by only 0.4% next year.

With the steep decline in car sales and production in recent years, many of Italy's car suppliers still face lower profit margins. Smaller businesses have weak equity ratios, and solvency and liquidity depend largely on the customer

portfolio. As a result, while companies focused on the domestic market face real challenges with both orders and payments, export-oriented businesses - especially those delivering to markets outside the EU - are faring better and we do not expect the financial situation of car suppliers to deteriorate further this year. Car dealers are still the weakest subsector: with little in the way of assets and equity, and exposed to pressure from both suppliers and customers, they have been challenged by lower sales in recent years and by the need to carefully manage their working capital.

On average, payments in the Italian automotive industry range between 60/90 to 120/150 days, depending on the end-buyer and whether working capital requirements can be obtained from banks or suppliers. Generally, payments are quicker when the end-buyer is a foreign company. Over the past few years domestic payment trends have been poor, although over the last six months we have seen fewer notifications and stable average amounts, and we expect this to continue for the rest of the year.

Insolvencies in the sector are high and have increased sharply over the past couple of years. We expect another slight increase (of about 5% year-on-year) or a levelling off this year.

We remain cautious when assessing risks in this industry. We collect as much information as possible to assess buyers' creditworthiness, including their years in business, their management, and associated companies. To give our clients an accurate assessment of their buyers we seek the most recent financial information, including interim results, either directly from the buyer or from our client. In complex and sensitive cases we will visit the buyer to investigate their reference market, clients, bank dependence, and business strategies.

### Italian automotive sector

STRENGTHS	WEAKNESSES
Focus on export opportunities outside the EU	High fragmentation of small and medium sized companies
Positive expectations for used car market / spare parts	High dependence on macroeconomic factors

Find out more about protecting your business against payment defaults by your automotive customers in Italy and other markets around the world [at the Atradius website](#). If you have more specific questions, please [leave a message](#) and a product specialist will call you back.

## Spain



- Rebound in production and car registrations
- Fewer payment delays in 2014
- Banks still reluctant to provide business loans

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months		✓			
Development of non-payments over the coming 6 months		✓			
Trend in insolvencies over the last 6 months		✓			
Development of insolvencies over the coming 6 months		✓			

Financing conditions	very high	high	average	low	very low
Dependence on bank finance		✓			
Overall indebtedness of the sector		✓			
Willingness of banks to provide credit to this sector			✓		

Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months		✓			
General demand situation (sales)		✓			

Source: Atradius

The Spanish automotive sector is strategically very important for the country's economy. It accounts for 10% of the Spanish industry sector's share of GDP and for 8.1% of employment. It also contributes 11.2% to Spanish exports and receives 3.9% of imports. Spain is still the second largest manufacturer in Europe, behind Germany and ahead of France, and ranks number 12 globally.

Like other Spanish industries, the automotive sector was hit hard by the economic crisis, as lower domestic consumption and difficulties accessing finance led to a slump in the car market. However, a rebound began in 2013, with domestic car production increasing 9.3% to 2.16 million vehicles. In the passenger car segment, Spain produced 1.71 million units: an 11.7% year-on-year increase.

## Principales países productores 2013

Main manufacturing countries 2013

Pais/Country	2012	2013	%13/12
China	19.271.808	22.116.825	+14,8%
USA	10.332.626	11.045.902	+6,9%
Japón/Japan	9.943.077	9.630.070	-3,1%
Alemania/Germany	5.649.260	5.718.222	+1,2%
Corea del Sur/South Korea	4.561.766	4.521.429	-0,9%
India	4.174.713	3.880.938	-7,0%
Brasil/Brazil	3.402.508	3.740.418	+9,9%
Méjico/Mexico	3.001.814	3.052.395	+1,7%
Tailandia/Thailand	2.429.142	2.457.057	+1,1%
Canadá/Canada	2.463.364	2.379.806	-3,4%
Rusia/Russia	2.233.103	2.175.311	-2,6%
España/Spain	1.979.179	2.163.338	+9,3%
Francia/France	1.967.765	1.740.000	-11,6%
Reino Unido/United Kingdom	1.576.945	1.597.433	+1,3%
Indonesia	1.065.557	1.208.211	+13,4%

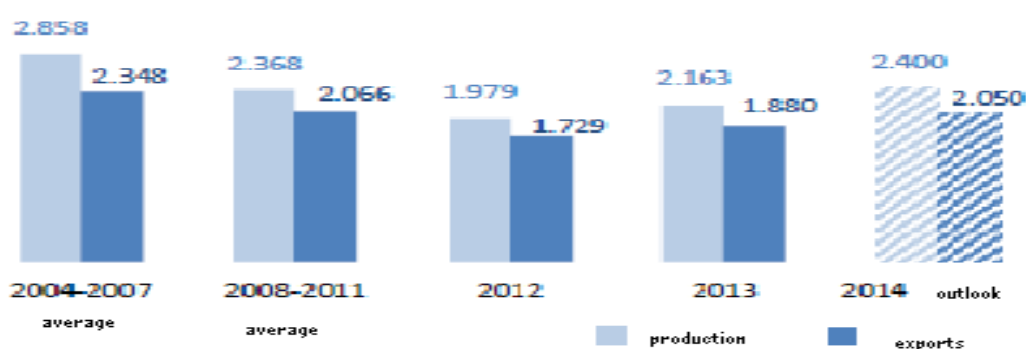
Source : Organisation Internationale des Constructeurs d'Automobiles" (OICA).

Exports became the mainstay of Spain's economic recovery and in 2013 1.87 million cars were exported: up 8.7%. More than 85% of cars made in Spain are destined for export, particularly to the EU. However, car manufacturers were also able to increase their exports to markets outside the EU.

Demand from the home market for passenger cars fell dramatically as a result of the economic crisis: from 1.7 million vehicles registered in 2007 to fewer than 0.8 million in 2012. However, in 2013, new car registration grew 4%: to 822,950 units; and from January to August this year new passenger car registrations have increased 16.4%, indicating that a surge in domestic demand, as well as exports, is fuelling the economic rebound.

The outlook for 2014 is optimistic, with more production and export growth expected.

### Spain: car production and exports



Both payment delays and insolvencies in the automotive sector have decreased over the last six months and the improving trend is expected to continue in the coming months. However, despite this positive trend, Spanish business insolvencies have remained at a high level since 2008. With increased global economic uncertainties, continued high credit costs for business loans and a fragile rebound in domestic demand, our underwriting approach to the automotive sector is still cautious. The recent rebound in production and car registrations is a good

sign, but it must be seen in the context of steep decreases during the crisis years 2008-2012. Much will depend on the continuation of the current car incentives programs by the Spanish government.

### Spanish automotive sector

STRENGTHS	WEAKNESSES
Importance to the Spanish economy	Fragile rebound of private consumption
Car incentive program by the government to boost sales	High costs for business loans

Find out more about protecting your business against payment defaults by your automotive customers in Spain and other markets around the world [at the Atradius website](#). If you have more specific questions, please [leave a message](#) and a product specialist will call you back.



## United Kingdom



- Growing production and sales
- Payments take between 45 and 90 days
- More troubles for smaller aftermarket businesses

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✓		
Development of non-payments over the coming 6 months			✓		
Trend in insolvencies over the last 6 months		✓			
Development of insolvencies over the coming 6 months			✓		

Financing conditions	very high	high	average	low	very low
Dependence on bank finance		✓			
Overall indebtedness of the sector				✓	
Willingness of banks to provide credit to this sector		✓			

Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months		✓			
General demand situation (sales)		✓			

Source: Atradius

UK car manufacturing is staging a recovery amid billions of pounds of investment pumped into UK factories by foreign-owned companies such as Jaguar Land Rover and Bentley, as well as mass-market Japanese producers Nissan and Toyota. Between January and July 2014 production increased 3.4%: to 923,884 units. Almost eight out of 10 cars made in the UK are exported. Structurally, the UK's automotive industry has been well placed to ride both the emerging market boom and the move upmarket to more aspirational, premium models.

The UK car market continued to grow last year. According to the European Automobile Manufacturers' Association (ACEA), new passenger car registrations in the UK increased 10.8% year-on-year in 2013, compared to a 1.7% decrease in the EU, while commercial vehicle registrations increased 14.5% (up just 1% in the EU). This has continued in 2014, with new passenger car sales growing 10.1% between January and August: to 1,460,172 units. The Ford Fiesta was the bestseller in August, followed by the Ford Focus and Vauxhall Corsa, and these have also been the top three best sellers throughout the year to date.

This year, British consumers have been buying new cars at the fastest rate in nine years, as the economic rebound gains momentum, unemployment falls and consumer confidence rises. Attractive financing options and lower running costs available for newer models are also driving demand. The Society for Motor Manufacturers expects car sales to increase 8.1% this year: to 2.45 million units. Most auto suppliers' credit ratios and their ability to generate cash have improved significantly as a result of their solid profitability, and this has allowed them to reduce debt.

However, the sector's success is being partially fuelled by discounts and margin-eroding sales tactics, which means that profitability will not necessarily rise in line with shipments. Fleet sales to companies are often heavily discounted. Sales to rental companies are at cost, or lower, and the biggest loss maker involves dealers registering cars as demonstration models only to sell them on to customers, unused, at discounted prices.

Besides a potential rise in interest rates, the biggest challenge facing the automotive retail sector will be the impact of the increasing numbers of nearly-new used vehicles returning to the market. This could lower residual values with the knock-on effect that a used vehicle purchase may become a more competitive proposition.

As in 2012 and 2013, average payments in the UK automotive industry take between 45 and 90 days and this is expected to remain the case in the coming months. Protracted payments in the sector are rare and consequently we have seen no increase in notifications of non-payment over recent months. Compared to other UK industries, the automotive sector's default and insolvency rate is good, with a stable outlook.

Our risk underwriting stance is positive towards all parts of the UK automotive sector and is even more relaxed than last year. However, third tier component manufacturers and independent specialist vehicle manufacturers represent higher risks than other segments. Most of the credit insurance claims we receive relate to the aftermarket and haulage subsectors. Characteristically, these are usually small businesses where information is limited to abridged accounts and most of these failures have been caused by internal management issues.

### UK automotive sector

STRENGTHS	WEAKNESSES
Strong domestic and global demand	High levels of capital expenditure
Diversity	Skill shortage
Engineering excellence	Effect of discounting on profit margins

Find out more about protecting your business against payment defaults by your automotive customers in the UK and other markets around the world [at the Atradius website](#). If you have more specific questions, please [leave a message](#) and a product specialist will call you back.

## Market performance at a glance

### Czech Republic



- Sharp increase in sales and production
- On average payments take 30-45 days
- Ukraine crisis could have a major impact

The Czech automotive sector is benefiting from a rebound in car sales – globally and domestically. The economy is recovering, with GDP expected to grow 2.5% in 2014 and 2.8% in 2015, after a 0.9% contraction in 2013. This is reflected in new passenger car registrations, which increased by more than 10% in the period January to August 2014: in August alone rising 20% year-on-year. Production rose as well, by 46% year-on-year in July, while orders have increased at double-digit rates so far this year.

Increased demand has boosted profit margins for Czech automotive businesses. Rising production levels need more working capital, so producers are highly dependence on bank loans. However, banks are currently willing to provide credit to this sector and its overall financial health is sound.

On average, payments in the Czech automotive industry take between 30 and 45 days. Our experience of the sector over the past two years has been good, with few notifications of non-payment. Indeed, the number of such notifications has fallen in the last couple of months and we expect numbers to stabilise throughout the rest of 2014 and into 2015. The same can be said of automotive insolvencies, which we do not expect to increase in the coming months.

While the Czech automotive sector has not yet felt the effects of the Ukraine crisis, any escalation or further sanctions (e.g. on automotive imports to Russia) could have a severe impact because of the sector's high reliance on exports.

Our underwriting policy for this sector is currently relaxed and, when considering requests for credit cover we look at the buyers' most recent financial information, profit and equity.

## Germany



- Growing share of car production overseas
- Increasingly dependent on the Chinese market
- Ukraine crisis has already had an impact

According to the German Automotive Association VDA, the production of German passenger cars rose 3.4% in 2013. Domestic production increased 1%, while production abroad rose by 4.9%. In the period January to August car production and exports both grew 4% while new car registrations rose 3%.

The share of German original equipment manufacturer (OEM) car production abroad continues to rise, from 57% in 2011 to 61% in 2013, and is expected to reach 68% by 2018, at the expense of production in Germany. China is already a very important market for many German OEMs: currently contributing 35% to Volkswagen's worldwide turnover (BMW: 25%, Daimler: 22%). However, market entry barriers in China are high and, given the subdued growth of the car market in other BRIC countries and in the Eurozone, there is no real alternative market at hand should Chinese economic growth deteriorate. Moreover, recent action by the Chinese government against alleged price fixing by foreign manufacturers and car parts producers will increase the pressure on margins as sales prices fall.

Decreasing car sales in Russia in the wake of the Ukraine crisis have already had a negative impact on German OEMs and suppliers, as orders and sales have decreased and the Russian rouble has depreciated. With the ongoing geopolitical uncertainty, several German automotive suppliers are currently reviewing their investment plans in Russia, and in 2014 VW will cut its production there by 30,000 units, to 120,000 units.

German automotive suppliers are still making good profits and, in general, their solvency and liquidity are robust. However, margins have decreased for the last couple of years, due to increased material and labour costs and exchange rate risks. At the same time, suppliers are having to invest in engineering/production branches overseas in order to be close to OEMs that have relocated abroad. There is also an increasing concentration process in the suppliers segment.

The overall indebtedness of the sector remains manageable and banks are generally willing to provide loans to automotive businesses. Our view of payment behaviour in the sector has been good over the last two years, with no increase in the number of non-payment notifications in the past six months. We expect the level of non-payments and insolvencies to remain stable in the coming months provided that the currently shaky geopolitical environment (i.e. the Ukraine crisis) does not deteriorate further, the economic rebound in the Eurozone continues and global car demand remains stable.

At present, our underwriting stance remains reasonably relaxed, as it was in 2012 and 2013, and only companies with lower ratings are underwritten more restrictively. We keep in direct contact with buyers to obtain their most recent financial information. Larger suppliers, tyre and aftermarket companies are monitored at least quarterly. Our focus is on businesses' equity, profitability, working capital, cash flow, net debts and liabilities to banks. We also monitor customer spread, the importance of a single supplier to an OEM or key suppliers to a buyer, and market feedback.

# Industries performance forecast per country

October 2014

	Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrls	Consumer Durables	Electronics/ ICT	Financial Services	Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles
Austria	☁️	☁️	☀️	☁️	☁️	☁️	☀️	☀️	☀️	☁️	☁️	☁️	☁️	☁️
Belgium	☁️	☁️	☀️	☁️	☁️	☀️	☀️	☁️	☁️	☁️	☁️	☁️	☁️	☁️
Czech Rep.	☁️	☀️	☀️	☁️	☁️	☁️	☀️	☁️	☀️	☁️	☁️	☁️	☁️	☁️
Denmark	☁️	☁️	☀️	☁️	☁️	☁️	☀️	☁️	☁️	☁️	☁️	☁️	☁️	☁️
France	☀️	☁️	☀️	☁️	☁️	☁️	☀️	☀️	☁️	☁️	☁️	☁️	☁️	☁️
Germany	☀️	☁️	☀️	☀️	☁️	☀️	☁️	☁️	☀️	☁️	☁️	☁️	☁️	☁️
Hungary	☁️	☁️	☀️	☁️	☁️	☁️	☁️	☁️	☁️	☁️	☁️	☁️	☁️	☁️
Ireland	☀️	☁️	☀️	☁️	☁️	☁️	☁️	☀️	☁️	☁️	☁️	☁️	☁️	☁️
Italy	☁️	☁️	☀️	☁️	☁️	☀️	☀️	☀️	☁️	☁️	☁️	☁️	☁️	☁️
The Netherlands	☀️	☁️	☀️	☁️	☁️	☁️	☀️	☀️	☁️	☁️	☁️	☁️	☁️	☁️
Poland	☀️	☁️	☁️	☁️	☁️	☁️	☀️	☀️	☁️	☁️	☁️	☁️	☁️	☁️
Portugal	☀️	☁️	☁️	☁️	☁️	☁️	☁️	☀️	☁️	☁️	☁️	☁️	☁️	☁️
Russia	☁️	☁️	☁️	☁️	☁️	☁️	☁️	☁️	☁️	☁️	☁️	☁️	☁️	☁️
Slovakia	☁️	☀️	☀️	☁️	☁️	☁️	☀️	☀️	☁️	☁️	☁️	☁️	☁️	☁️
Spain	☁️	☁️	☁️	☁️	☁️	☁️	☁️	☀️	☁️	☁️	☁️	☁️	☁️	☁️
Sweden	☀️	☁️	☀️	☁️	☁️	☁️	☀️	☀️	☁️	☁️	☁️	☁️	☁️	☁️
Switzerland	☀️	☁️	☀️	☁️	☀️	☀️	☀️	☀️	☁️	☁️	☁️	☁️	☁️	☁️
Turkey	☀️	☀️	☁️	☁️	☁️	☁️	☀️	☀️	☁️	☁️	☁️	☁️	☁️	☁️
UK	☀️	☁️	☀️	☁️	☁️	☁️	☁️	☁️	☁️	☁️	☁️	☁️	☁️	☁️
Brazil	☁️	☁️	☀️	☁️	☁️	☁️	☀️	☀️	☁️	☁️	☁️	☁️	☁️	☁️
Canada	☀️	☁️	☁️	☁️	☁️	☁️	☀️	☀️	☁️	☁️	☁️	☁️	☁️	☁️
Mexico	☁️	☀️	☀️	☁️	☁️	☁️	☀️	☀️	☁️	☁️	☁️	☁️	☁️	☁️
USA	☁️	☀️	☀️	☁️	☁️	☁️	☀️	☀️	☁️	☁️	☁️	☁️	☁️	☁️
Australia	☀️	☁️	☁️	☁️	☁️	☁️	☀️	☀️	☁️	☁️	☁️	☁️	☁️	☁️
China	☀️	☁️	☁️	☁️	☀️	☁️	☀️	☀️	☁️	☁️	☁️	☁️	☁️	☁️
Hong Kong	N/A	☁️	☁️	☁️	☀️	☀️	☀️	☀️	☁️	☁️	☁️	☁️	☁️	☁️
India	☁️	☁️	☀️	☁️	☁️	☁️	☁️	☀️	☁️	☁️	☁️	☁️	☁️	☁️
Indonesia	☀️	☁️	☁️	☁️	☀️	☀️	☀️	☀️	☁️	☁️	☁️	☁️	☁️	☁️
Japan	☀️	☁️	☁️	☁️	☁️	☁️	☀️	☀️	☁️	☁️	☁️	☁️	☁️	☁️
New Zealand	☀️	☁️	☀️	☁️	☁️	☁️	☀️	☀️	☁️	☁️	☁️	☁️	☁️	☁️
Singapore	☀️	☁️	☁️	☁️	☁️	☁️	☀️	☀️	☁️	☁️	☁️	☁️	☁️	☁️
Taiwan	N/A	☁️	☁️	☁️	☀️	☀️	☀️	☀️	☁️	☁️	☁️	☁️	☁️	☁️
Thailand	☁️	☁️	☁️	☀️	☁️	☁️	☀️	☀️	☁️	☁️	☁️	☁️	☁️	☁️
United Arab Emirates	☀️	☀️	☀️	☁️	☁️	☁️	☀️	☀️	☁️	☁️	☁️	☁️	☁️	☁️

 Excellent  
 Good  
 Fair  
 Poor  
 Bleak

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# Industry performance

Changes since September 2014

## Europe

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### Czech Republic

Agriculture..... ↓ Down from Good to Fair

Falling commodity prices have had a negative impact on traders and producers. Businesses' financials are deteriorating.

---

### Italy

Electronics/ICT ..... ↑ Up from Fair to Good

Credit insurance claims down in number and amount.

Services ..... ↑ Up from Poor to Fair

Credit insurance claims down in number and amount.

Steel..... ↑ Up from Bleak to Poor

The steel market has stabilised after a slump in 2013.

---

### The Netherlands

Chemicals/Pharmaceuticals ..... ↑ Up from Good to Excellent

Low default rate in this sector and good performance outlook.

Construction/Construction materials..... ↑ Up from Bleak to Poor

Construction activity and house sales are still far below pre-crisis level, but have at least started to rebound. A cautious underwriting approach is still required.

Consumer durables ..... ↑ Up from Bleak to Poor

While business margins remain tight, turnover has started to increase again as consumer confidence and spending both rise.

Financial services..... ↑ Up from Fair to Good

Dutch banks have stabilised after serious problems and the economic outlook looks more stable.

Services ..... ⬆ Up from Fair to Good

The sector is performing better, in line with the current economic rebound.

Textiles ..... ⬆ Up from Bleak to Poor

Textile and clothing retailers report rising turnover as consumer spending increases again.

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## Russia

Food ..... ⬇ Down from Poor to Bleak

The sector suffers severely from sanctions imposed on food imports. Payment defaults have increased sharply.

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## Turkey

Textiles ..... ⬆ Up from Bleak to Poor

The sector is profiting from lira depreciation and has registered fewer non-performing loans, although they remain at a high level.

---

## United Kingdom

Services ..... ⬆ Up from Poor to Fair

Many service subsectors have improved, in line with the overall economy.

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## The Americas

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### Brazil

Automotive ..... ⬇ Down from Fair to Poor

See article on page 4

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### USA

Financial services ..... ⬆ Up from Fair to Good

The Federal Reserve's monetary policy and fewer insolvencies have led to fewer write-offs by banks.

Food ..... ⬆ Up from Fair to Good

As a result of consolidation, most of the major companies have diversified or established dominant market shares in their key product offerings.

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