



market monitor

Focus on food performance and outlook



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



Excellent

The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend



Poor

The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend



Good

The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend



Bleak

The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend



Fair

The credit risk situation in the sector is average / business performance in the sector is stable



Still rather stable, but mounting pressures

In general, the food sector continues to perform reasonably well, with a stable or even good sector performance assessment in many countries. It helps that, compared to other industries, the food industry is non-cyclical. Despite this, food markets remain vulnerable to sudden downside risks, with issues such as commodity price volatility, disease outbreaks and weather always difficult to predict. Such issues could lead to an immediate deterioration of business profitability, in an industry characterised by thin margins for most producers and retailers.

The ongoing African swine fever epidemic constitutes an important challenge to overcome, with higher input prices affecting meat producers and processors worldwide. Increasing trade barriers are a concern, as in many markets exports clearly play an essential role in the profitability of the food sector, sometimes compensating for less positive results in the home market.

At the same time, consumer habits are changing as the end-client increasingly demands full transparency. Widespread distrust has increased the need for food and drink manufacturers to be more transparent about their ingredients, production processes, and supply chains.

Denmark

- A modest increase in payment delays expected
- Higher credit risk for smaller retailers
- Surging exports of pork meat



Overview

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 Danish Agriculture & Food Council, two thirds of Danish food production is destined for exports, with Germany, UK and Sweden the top three destinations (the EU as a whole accounts for two thirds of all food exports). The fourth largest market is China, which has recently seen a large increase in Danish food exports (mainly pork carvings). The main commodity exports continue to be pigs and pork meat (18% of sector exports), fish and seafood products (15%), and milk and dairy products (13%).

Value added in the dairy sector is expected to increase about 1.5% annually in 2019 and 2020, while meat segment value added is expected to increase 4% and 2% respectively. Danish pig farmers are benefiting from higher sales prices for pork, which are expected to rise further, triggered by the ongoing African swine fever epidemic. However, the pork meat segment would be severely affected should the disease spread to Denmark.

In general, large Danish food businesses are active globally and performing well, while smaller manufacturing and trading companies supply the domestic market and/or export to closer markets in the EU. In those markets consumer habits have changed due to health and ecological concerns, away from “traditional” protein towards fish/seafood and organic protein products.

With its high dependence on exports, free trade and open markets are crucial for the Danish food industry. Issues like the ongoing Russian import ban and the escalated US-China trade conflict had a negative impact on Danish food exports. However, this impact is often only temporary, as the basic demand for food remains in many markets. Higher demand for substitute products and/or changes in sourcing and trade routes provide opportunities for many food trading businesses operating internationally.

**Denmark: Food and Beverages**

	2018	2019f	2020f
GDP growth (%)	1.5	2.0	1.2
Sector value added growth (%)	0.8	1.6	1.7
Average sector growth over the past 3 years (%)			2.5
Average sector growth over the past 5 years (%)			0.3
Degree of export orientation			very high
Degree of competition			high

Sources: Macrobond, Oxford Economics, Atradius

Export-dependent businesses better prepared for Brexit

While Brexit was originally perceived as a major downside risk for Danish food businesses with large exports to the UK, the prospect of deteriorating sales has meanwhile abated somewhat. Several Brexit postponements have provided businesses with sufficient time to adapt to any adverse scenario.

The Danish domestic food market is characterised by excess capacity, fierce competition and price sensitive consumers, putting pressure on retailers' already thin profit margins. For small food producers and wholesalers this means continuous low profit margins and tough competition in selling their goods.

Danish food sector

Strengths

Good reputation for quality food products

Highly efficient in producing and trading

Good access to external financing sources



Weaknesses

Very exposed to international trade issues

Shrinking margins and insufficient investment weaken smaller players

Dependent on commodity price development

Exposed to price volatility

Source: Atradius

Domestic food retail is dominated by a few large players, and in recent years turnover in the discount retail segment has expanded, while remaining flat in the "traditional" food wholesale and retail segment. Annual sales of food via retail amount to EUR 5,200 per household, and the discount segment has a market share of more than 40%. Online sales of food account for 4% of total sales but show high growth rates, as the first "digital generations" reach adult age and parenthood.

Smaller food retailers suffer from market price pressure

Payments in the Danish food sector take on average between 30 and 60 days, and the payment experience over the past three years has been good. Although still at a low level, the number of payment delays has increased in 2019, and is expected to rise further in 2020, although at a slow pace. Mainly affected are small and medium-sized food processors under pressure from retailers. The insolvency level in the industry is low and the outlook for 2020 is stable, with no increase expected.

Our underwriting approach remains open across all subsectors. That said, we closely monitor the fierce competitive environment in domestic food retail, paying special attention to the many smaller players. Those businesses either need a niche or tight customer relations in order to avoid falling victim to market price pressure. We continue to monitor food businesses dependent on exports to the UK, taking into account that many of them seem to be better prepared for Brexit than in the past.

Performance forecast along subsectors

Beverages



Food manufacturing



Food retail



Source: Atradius

France

- Margins have rebounded somewhat in 2019
- More insolvencies expected in 2020
- Brexit and US tariffs are potential downside risks



Overview

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 food industry is a key sector of the French economy, which, according to the National Association of Food Industries (ANIA), generated revenues of EUR 184 billion in 2018, up 1.5% year-on-year. France remains the sixth largest food exporter worldwide, generating about 20% of sales abroad, with leading positions in segments such as wine, sugar, cheese, and poultry. According to The French Ministry of Agriculture, the French food trade balance surplus amounted to EUR 6.8 billion in 2018, up from EUR 5.5 billion in 2017. This increase was mainly due to a rebound of grain exports last year, after poor harvests in 2016 and 2017.

However, looking at individual segments the current trade balance is positive only for beverages, dairy and grain, and excluding beverages there is a deficit for the whole industry. French food processors, particularly in the meat industry, are losing domestic market share due to lack of competitiveness.

Volatile commodity prices remain a major challenge for French food processors. Many businesses struggle to pass on higher input prices, facing the high concentration and market power of retailers and strong competition from other companies within the EU. In 2017 the French government initiated a mediation between producers/processors and retailers with a National Food Conference (Etats Généraux de l'Alimentation), resulting in new rules for annual price negotiations. However, most food manufacturers and syndicates still consider those rules insufficient.

Margins rebounded, but issues in the meat segment are persistent

After reaching an all-time low in 2018, the margins of many food processors have rebounded somewhat in 2019 due to lower commodity prices in some segments. That said, labour costs remain an issue, and many businesses struggle to find qualified workers for what is perceived to be, "unpleasant" jobs.

France: Food and Beverages

	2018	2019f	2020f
GDP growth (%)	1.7	1.3	1.3
Sector value added growth (%)	-1.4	0.3	1.6
Average sector growth over the past 3 years (%)	-0.8		
Average sector growth over the past 5 years (%)	0.3		
Degree of export orientation	medium		
Degree of competition	high		

Sources: Macrobond, Oxford Economics, Atradius

While domestic consumption of certain dairy products is decreasing (fluid milk, yogurts) demand for cheese and organic products remains robust, and the export ratio remains high. The dairy processing segment benefited from decreasing prices for milk, butter and sugar in 2018 after a spike in 2017. The number of dairy business failures remains generally low, compared to other food segments.

In contrast, the meat subsector is characterised by elevated payment delay and insolvency levels. Besides difficulties in passing on any commodity price increases and losing market shares to foreign peers, changing consumer habits are an issue. Consumption of bovine meats is structurally declining due to health and environmental concerns, while this segment additionally suffers from higher input prices and decreased leather prices. Profitability of small and mid-sized processors is under serious pressure. In the poultry segment growing demand is increasingly met by imports (mainly from Poland). In 2019 slaughter prices for pigs have surged due to the African swine fever epidemic in China, putting pork meat processors under additional pressure.

French food sector



Strengths

The world's 6th largest food exporter

Good reputation for quality food products



Weaknesses

Some food subsectors are too fragmented

Shrinking margins and insufficient investment

High labour costs and strict French hygiene rules affect international competitiveness

Source: Atradius

The situation in the food retail sector remains difficult, with high competition and low margins. Many long-established retailers are facing difficulties, while new players are expanding aggressively. Additionally, in Q4 of 2018 the surge of yellow vest protests negatively affected sales.

Downside risks due to Brexit and US tariffs

The portfolio payment experience in the food sector was bad in 2017 and 2018, especially in the meat segment. While the situation remains difficult in this subsector, we have registered modestly decreasing payment delays and insolvencies for the sector as a whole in 2019, supported by lower commodity prices. However, we expect food insolvencies to increase again in 2020, especially in the troubled meat subsector. The current issues of volatile commodity prices impacting margins, price wars between retailers, changing consumer habits and difficulties in staff recruitment remain.

Our underwriting stance remains neutral for retail and restrictive for the meat segment, while we still have an open approach to beverages and dairy for the time being. However, the high export dependency of both subsectors could prove to be a weak point in the short-term. Brexit, recently imposed US retaliatory tariffs on EU food imports (as response to the WTO Airbus subsidy case) and the US threat of heavy duties on French beverage and food imports (as response to France's digital service tax) are posing downside risks. This would immediately affect larger businesses, but also have an indirect impact on the value chain as a whole.

Fraud remains an issue in the French food sector, especially in the wholesale of meat. Fraud detection training for underwriters is a requirement to help them detect suspicious patterns. At least the number of fraud cases has not increased so far in 2019.

Performance forecast along subsectors

Beverages



Food manufacturing



Food retail



Source: Atradius

Germany

- Business failures expected to increase in 2020
- Difficult domestic market situation
- Number of fraud cases increased further in 2019



Overview

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 German Food Association BVE, nominal turnover increased 1.5% year-on-year in H1 of 2019, to EUR 89.5 billion, mainly due to slightly higher market prices. Despite growing sales in 2019, domestic market conditions remained difficult for food producers and processors due to rising input costs, including labour costs, and structurally low margins.

The German food retail market is the most competitive in Europe, with low market prices due to the overwhelming power of the leading food retailers and discounters. This, together with tough competition and price wars in the retail market indicate that food producers, processors and suppliers have found it difficult to pass on costs. This issue will persist in 2020, leading to further (albeit slightly) decreasing profit margins for many German food processors.

The situation in the dairy segment has stabilised somewhat since the end of 2016, and value added is expected to increase by about 1.5% in 2020. However, volatile market prices and difficulties in passing on higher input costs remain issues. As a result, profitability in this segment remains low.

A wave of longer payment terms along the supply chain

While overcapacities impact the beverages subsector, many meat processors and producers suffer from higher procurement prices, especially for pork, while their ability to pass on those increases to retailers is limited due to long-term contracts. The outbreak of the African swine fever epidemic in China has led to

**Germany: Food and Beverages**

	2018	2019f	2020f
GDP growth (%)	1.5	0.6	0.7
Sector value added growth (%)	-0.4	1.8	0.9
Average sector growth over the past 3 years (%)			1.7
Average sector growth over the past 5 years (%)			1.8
Degree of export orientation			high
Degree of competition			very high

Sources: Macrobond, Oxford Economics, Atradius

substantially higher raw material prices, which many pork meat processors cannot tack on to the sales price. Meat subsector value added contracted 0.8% over the past five years, and is expected to contract again in 2020, by 0.6%.

While the dependence on banks for external financing is high, financial institutions remain rather unwilling to provide loans to food businesses compared to other industries. Food producers and wholesalers pay, on average, within 30 days, while payment terms of food retailers often vary from 45 to more than 90 days. With food processing companies and retailers demanding longer payment terms from their immediate suppliers to improve their working capital, a wave of longer payment terms is being created along the whole supply chain, and payment delays have increased in 2019.

German food sector

Strengths

Non-cyclical industry

Innovative industry sector reacting to changing consumer behaviour

Profitable export business



Weaknesses

Partial overcapacities

Declining number of consumers and ageing population in Germany

Shrinking margins

Low price levels due to strong discount sector

Source: Atradius

Insolvencies expected to increase as much as 2% in 2020

Insolvencies are expected to increase by about 1%-2% in 2020, especially in the troubled meat segment, but also in the beverages and fruit & vegetables subsectors. Most at risk to fail are (smaller) businesses that lack export opportunities or that do not offer specialised products, and companies with already poor financial strength.

Overall, our underwriting stance remains neutral to cautious for the food sector, with a more open stance for food retail, while remaining restrictive for meat production and meat processing, as we expect the difficult business environment in this subsector to persist in 2020. While we are closely monitoring the current increase in trade protectionism, for the time being, we see no serious impact from the recently imposed US import tariffs on German food exporters that could jeopardize their credit risk situation.

The German food sector remains affected by a considerable number of fraud cases. Impersonation (identity) fraud cases have further increased in 2019. Especially in the fish, fruits and vegetables segments criminal buyers order goods easy to resell on credit terms.

Therefore, we pay close attention to the number of credit limits that are applied for within a short period, especially where the buyers are recently established and where management and/or shareholders have recently changed or the buyer's business sector does not match with the goods ordered (e.g. a steel company ordering food items). The same applies when a buyer proactively sends financial figures that indicate unusually high profit margins.

Performance forecast along subsectors

Beverages



Food manufacturing



Food retail



Source: Atradius

Italy

- Limited impact of US tariffs for the time being
- A modest increase in payment delays expected
- High number of fraud cases in 2019



Overview

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 food sector is one of the most important Italian industries, generating total turnover of more than EUR 140 billion in 2018 and accounting for 8% of Italy's GDP. Italian food and beverage sector value added is expected to increase 3.0% in 2019 and 1.4% in 2020.

Export of agrifood products increased 1.2% in 2018, to EUR 41.8 billion, and grew 5.5% in H1 of 2019, with the EU remaining the main end-market. However, domestic consumption was less dynamic with a modest 0.8% increase in Q3 of 2019. Italian food production, processing and retail remain heavily fragmented, with a very competitive business environment.

Turnover in the meat segment has stabilised in 2018 and 2019 after several years of declining sales triggered by changed consumption habits. Value added is expected to increase 0.9% in 2019 and 0.2% in 2020. Beef processors have benefited from a slight increase in sales prices and consumption. However, the

pork processing industry suffers from increased slaughter cattle prices, triggered by the African swine fever epidemic and increased Chinese demand.

Impact of US retaliatory tariffs on individual segments

Value added in the dairy segment is expected to increase 2.5% in 2019 and 1.5% in 2020. While adverse weather conditions have resulted in dairy businesses having to pay more for milk in 2019, sales prices for their dairy products (e.g. cheese) have also increased. The recent introduction of US import tariffs on certain Italian cheeses (e.g. Parmigiano and Grana Padano) could affect the positive export trend seen so far. US import tariffs could also have an impact on the liquors segment in the beverages subsector, while the wine segment is not affected and is still performing well domestically and abroad.

Italy: Food and Beverages

	2018	2019f	2020f
GDP growth (%)	0.7	0.1	0.2
Sector value added growth (%)	2.4	3.0	1.4

Average sector growth over the past 3 years (%)	2.6
Average sector growth over the past 5 years (%)	2.2
Degree of export orientation	high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Currently it is difficult to quantify the potential economic damage of US import tariffs to Italian food businesses. While the US account for 10% of total food exports, the EU remains by far the main market with a two-third share, and few products have been targeted by the US tariffs so far. Therefore, the impact on the credit risk of certain segments seems to be rather limited for the time being.

Food producers and processors are often highly geared in order to maintain working capital requirements. Due to its anticyclical business performance, lending to the food industry remains appealing to banks and other financial institutions, enabling them to diversify asset investments.

Italian food sector



Strengths

Non-cyclical sector

Good reputation of 'Made in Italy'

Export opportunities



Weaknesses

Many small businesses

Low capitalisation and tight margins

High competition

Source: Atradius

Ongoing consolidation puts smaller food retailers under pressure

In general, the domestic food retail segment is rather resilient with a positive credit cycle, which mitigates risks of liquidity distress. However, the market is also characterized by intense competition, too many players and a low average size of Italian food retailers compared to other major international businesses. In 2019 a consolidation process has started. We expect it to continue in 2020, with a small number of larger retailers using their strong liquidity to pursue further investments and acquisitions in order to gain market share. This process will increasingly put small retailers with a poor capacity to generate cash flow under pressure.

While the profitability of Italian food businesses is generally low, profit margins are expected to remain stable in 2020, also taking into account the current level of food raw material prices. The 'Article 62' law decree from 2012 lays down a maximum payment term in the food sector of 30 days for perishable goods and 60 days for non-perishable goods. While most businesses are abiding by those terms, some weaker players still protract payments in order to manage their liquidity in case of financial distress. Due to this and the sluggish performance of the Italian economy we expect a modest increase in payment delays in 2020, and a levelling off of insolvencies.

Our underwriting stance for Italian food businesses remains generally open to neutral. However, we are pursuing a more cautious approach towards highly leveraged companies (due to possible difficulties in refinancing) and small- and medium-sized retailers with a poor market position, impacted by the increasing competitive pressure from larger retailers. We are also monitoring the impact of the ongoing EU-US trade dispute (e.g. a further escalation).

In the first months of 2019, we have observed a high degree of suspected frauds in the food sector, mainly in the general wholesale of foods, meat, and fish segments. Therefore, we take a closer look at the frequency of credit limit applications and the reliability of businesses' management. Financial figures of individual businesses not aligned to average sector/subsector levels serve as a warning sign.

Performance forecast along subsectors

Beverages



Food manufacturing



Food retail



Source: Atradius

The Netherlands

- Environmental issues pose a major challenge
- Payments take 45 days on average
- Modest insolvency increase expected



Overview

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

While the Dutch food and beverages sector continues to expand in 2019 and 2020, value added growth is expected to slow down compared to 2018. A poor harvest in 2018 and decreasing live-stock will lead to a production decline of about 1% in 2019. However, the profitability of Dutch food businesses remains generally high, with a stable outlook for 2020.

Domestic food retail sales are expected to increase by about 2% in 2019 and 1.5% in 2020, but price increases will impact sales volumes. Sales of supermarkets continue to excel while those of specialty stores are expected to decrease 1% in 2019 after a 0.5% contraction in 2018. Specialty shops for organic food have difficulties retaining their market position, due to a consolidation of bigger stores in this segment and growing competition from regular supermarket chains. Online food retailing continues to grow at double-digit rates, and market share is expected to increase to 10% in 2025 from 5% in 2019.

The Netherlands is one of the world's largest exporters of agricultural-food products, with a focus on meat and dairy (e.g. 65% of dairy production is exported). Export of agrifood amounted to EUR 90.3 billion in 2018 (up 0.2% year-on-year after growing 6% in 2017 and 4% in 2016). The EU accounts for more than 75% of Dutch food exports, while the value of deliveries to China and the US rose sharply in the first nine months of 2019.

For Dutch food businesses, the impact of US import tariffs on EU food imports is rather limited so far, with no major pressure on Dutch wholesale exports expected. Beer and cocoa as the largest export goods are not yet affected by tariffs, while dairy products could suffer a minimal loss of below 0.2% valued added. However, in case of an escalation of the US-EU trade dispute beverages (beer) export could suffer.

The Netherlands: Food and Beverages

	2018	2019f	2020f
GDP growth (%)	2.5	1.6	1.2
Sector value added growth (%)	4.1	0.8	1.9

Average sector growth over the past 3 years (%)	3.1
Average sector growth over the past 5 years (%)	0.7
Degree of export orientation	high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

The nitrogen emission issue is a major challenge

Environmental issues pose a potential major challenge for the Dutch agriculture and food sector. In May 2019, the country's highest court ruled that the way Dutch builders and farmers dealt with nitrogen emissions was in breach of EU laws. Since September 2019, vital infrastructure and building projects worth approximately EUR 14 billion have been put on hold, and an independent report called for drastic measures to reduce livestock and change feed composition. The agricultural sector causes 57% of Dutch nitrogen emissions, of which the largest part (56%) is produced by cows. Despite a reduction of livestock since 2018, total nitrogen emissions have barely decreased.

Value added in the Dutch agricultural sector is forecast to decline 0.7% in 2019 and 0.4% in 2020. It comes as no surprise that uncertainty over environmental issues has spilled over to the dairy and meat production and processing subsectors. While the dairy segment currently benefits from higher sales prices compared to 2018 (relieving pressure on operating profits), and valued added increased 1% in 2019, the phosphate reduction scheme for dairy farming and the nitrogen issue will put structural pressure on growth in this segment.

Dutch food sector



Strengths

Modern logistics and infrastructure

Highly efficient in producing and trading



Weaknesses

Accelerating ageing of the population limits labour supply and productivity growth

Fierce competition in the retail segment

Source: Atradius

Meat subsector valued added contracted 2.5% in 2018. It is expected to level off in 2019 and grow by about 1.5% in 2020. Changing consumer habits and environmental issues weigh on the long-term prospects of the industry, as the limits of growth seem to have been reached in intensive livestock farming, with major reductions on the horizon.

Stable profits and good financial situation for the time being

However, the short-term performance is still good. The Netherlands are the largest importer and exporter of poultry in Europe, and sales performed well in 2019. However, cheap poultry from Poland and Ukraine is putting the segment under pressure. Pork meat sales currently benefit from increasing exports to China (up 55% in January-August 2019), triggered by the African swine fever epidemic in Asia. While sales prices of pork meat are expected to remain high in 2020, higher cost levels affect the international competitiveness of Dutch meat producers with businesses in other countries (e.g. Brazil and the US).

The average payment duration in the sector is 45 days, and the amount of payment delays, protracted payments and insolvencies remains low compared to other Dutch industries. However, the catering/hospitality segment recorded a sharp rise in the number of business failures over the past twelve months. We expect food insolvencies to increase about 2%-3% in 2019, with another modest increase of 1% expected in 2020.

Due to the still good short-term performance with stable profits and a robust financial situation (banks are generally willing to provide loans, while the indebtedness of Dutch food companies is low compared to EU peers) our underwriting stance remains open to neutral for most major food subsectors. However, in the retail segment we are restrictive concerning organic food specialty stores and catering/hospitality businesses.

Performance forecast along subsectors

Beverages



Food manufacturing



Food retail



Source: Atradius

United Kingdom

- Insolvencies expected to increase further in 2020
- Smaller food producers and processors continue to suffer
- Payments take between 45 and 60 days on average



Overview

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 British food and beverages sector value added is forecast to grow 2.5% in 2019, followed by a 1.6% expansion in 2020. However, major challenges remain. Exchange rate volatility and its impact on costs of commodities and food items remain an issue for many British food producers and processors reliant on imports (more than 45% of food consumed in the United Kingdom is imported). The positive effect of the recent sterling rebound has been limited so far, as many UK importers are bound by contracted prices agreed at a lower sterling exchange rate.

As a result, input costs for British food businesses remain high, while the chances to pass on price increases to retailers are limited. Both further consolidation in the retail segment (especially among large retailers) and the increasing market success of discounters putting traditional retailers and pricing under pressure continue to weigh on suppliers along the food supply chain.

Major issues in the meat and fruit and vegetables segments

After a 2.3% decrease in 2018, value added growth in the meat subsector is forecast to contract 1.6% and 0.4% in 2019 and 2020 respectively. Higher input costs severely impact the highly import-dependent meat businesses, adding pressure on already thin margins. Additionally, slaughter prices for pigs rising as a result of the African swine fever epidemic. A hard Brexit scenario would pose a substantial threat to the meat subsector.

The fruit and vegetables subsector is also highly dependent on imports. As this subsector is dominated by small and medium-sized enterprises (SME), it is particularly susceptible to foreign exchange volatility, as there is limited forward buying. As in the meat subsector, many SMEs lack resources and skills/exper-

UK: Food and Beverages

	2018	2019f	2020f
GDP growth (%)	1.4	1.3	1.1
Sector value added growth (%)	2.2	2.5	1.6

Average sector growth over the past 3 years (%)	2.2
Average sector growth over the past 5 years (%)	2.3
Degree of export orientation	average
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

tise to effectively manage risk mitigation with forward contracts and currency hedging. Furthermore, there is a significant threat of spoilage (e.g. delays at ports given limited shelf life) in this segment.

Value added in the dairy subsector is expected to increase 2.1% in 2019 and 1.7% in 2020. While not overly reliant on milk imports, pricing pressure on small and large processors remains high due to elevated input costs and the unwillingness of supermarkets to increase sales prices. Fixed price contracts remain a large feature of this sector, and all parts of the supply chain struggle to recover margins when prices or supplies decrease.

The beverages segment continues to perform well, dominated by large multinational groups with significant funding. However, the recently imposed US tariffs on EU imports are a major threat to the Scottish Whisky segment (Scotland's second largest export product).

British food sector



Strengths

Resilient, legacy businesses

Well established, strong global reputation for high food quality and animal welfare standards



Weaknesses

Brexit decision has a major impact in the short and medium term

Shrinking margins and postponed investments due to unclear outlook

Source: Atradius

Leverage with retailers is limited by the fact that the food producer/processing segment is dominated by small and medium-sized players in a highly fragmented market. Profit margins of food businesses deteriorated further in 2019, a development expected to continue in 2020. It does not help that despite increased real incomes UK consumers remain price-sensitive. This is especially affecting processors and producers that supply casual dining chains. In 2019 food producers and processors continued to pursue mergers and acquisitions in order to increase their leverage in price negotiations with major retailers and to diversify their product offering.

Larger players push the supply chain on price and longer payment terms

Payments in the British food sector take between 45 and 60 days on average. Some larger players continue to push the supply chain on price and longer payment terms, adding cash flow challenges to mainly smaller food businesses. Due to an inability to absorb higher input costs and increased pressure on margins, both payment delays and insolvencies have increased this year, and we expect this negative trend to continue in 2020. Food business failures are expected to rise by about 8%, and should there be a hard Brexit this increase would be even higher.

Our underwriting stance remains restrictive for the meat and the fruit and vegetables subsectors due to the issues mentioned above. We remain neutral for dairy and beverages, in the latter segment monitoring any potential impact of US tariffs. While we remain generally open for food retail, the ongoing success of discounters is driving structural change within this subsector, hence there is significant consolidation in the market.

As in 2018, the levels of both short firm fraud and impersonation fraud have remained stubbornly high in 2019, mainly in the meat and fruit and vegetables subsectors, and no improvement is expected in 2020. We have observed an increase in disputed shipments, with customers claiming the quality of the goods delivered in order to renegotiate a lower price.

Performance forecast along subsectors

Beverages



Food manufacturing



Food retail



Source: Atradius

Market performance at a glance

Australia



- Australian food production has grown steadily over the past couple of years. However, the Australian agricultural sector suffers heavily from the ongoing draught, especially on the East Coast. Agriculture value added growth deteriorated by more than 7% in 2018 and is forecast to decline almost 5% in 2019.
- As a consequence of the ongoing draught, input prices have increased, especially for livestock, meat, and grain. This has led to further deterioration of profit margins for many food producers and processors, with no relief in sight in the coming months.
- Price wars are fairly common in the food retail sector, where bigger players compete for market share by pushing prices down. This also puts pressure on the margins of food producers and processors. As a consequence mergers and acquisitions have continued amongst food producers in order to achieve economies of scale.
- While the gearing of food businesses is generally high, financing conditions in the industry are good as banks are generally willing to provide loans to the industry. Banks have also provided additional drought relief funding to farmers.
- Payments in the Australian food sector take 45-60 days on average, and payment delays in the sector have increased slightly in 2019. As the ongoing drought has put additional pressure on margins industrywide due to higher input costs, many businesses are struggling to break-even, and some have even incurred losses. Therefore insolvencies are expected to increase about 3% in 2020.
- Our current underwriting stance differs according to subsector, while we monitor the future impact of the current draught on the industry. We remain open for food retail, despite lower profit margins and fierce competition, as demand will remain high. We are generally very open for the beverages segment, which mainly consists of well-established companies with solid financials. However, we are cautious with producers of low cost wines, which suffer from extremely slim margins and downward pressure on prices due to oversupply in China.
- Our underwriting stance is generally open to neutral for dairy manufacturers and processors, but more cautious for agents/wholesalers, as large players dominate the sector and often bypass wholesalers. Exporters of infant formula milk to China face strict requirements to obtain brand registration (no additional exporters have been granted the required brand registration since early 2018). Chinese authorities have also tightened the rules for the sale of overseas infant formula into the country.

Australia: Food and Beverages

	2018	2019f	2020f
GDP growth (%)	2.7	1.8	2.3
Sector value added growth (%)	4.7	4.0	3.6
Average sector growth over the past 3 years (%)	2.6		
Average sector growth over the past 5 years (%)	0.7		
Degree of export orientation	high		
Degree of competition	very high		

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors



Source: Atradius

- The meat sector remains restrictively underwritten due to tight supply, increased input costs and high livestock prices triggered by the drought. For farmers and wholesalers margins remain severely under pressure. That said, pork processors have started to benefit from increased Chinese demand and rebounded sales prices since 2018, due to the severe African swine fever outbreak in China.



Belgium

- Value added growth in the Belgian food and beverage industry contracted in 2018 and recorded no increase in 2019. Competition in the domestic and international markets is increasing. The entry of new players, a hot summer in 2018 and the African swine fever epidemic have put additional pressure on prices and affected sales in many segments. Profit margins of Belgian food businesses have decreased in 2019, and are expected to deteriorate further in 2020.
- In the food retail segment the market entry and expansion of two large Dutch supermarket chains will add more competition with higher pressure on prices, impacting profit margins of Belgian retailers and food producers/processors. A comprehensive price war cannot be ruled out for the future, potentially forcing many businesses out of the market.
- The value added in the Belgian meat sector is forecast to contract about 1.5% in 2019 and 1% in 2020. Hygiene problems have affected some businesses, while the outbreak of the African swine fever in Belgium has led to decreased sales of pork meat and an import ban from China. In the fish segment fierce competition and liquidity issues have led to many business failures.
- In the Belgian beverages sector competition in the beer segment is further increasing due to the emergence of many new local breweries. However, sales margins are expected to remain stable, while there are more export opportunities for specialty beers.
- The fruit subsector continues to suffer from the Russian import ban on EU food products, putting serious pressure on businesses sales and margins (especially in the apple and pears segment).
- Modest value added growth is forecast for the Belgian dairy sector in 2019 (up 0.5%) and in 2020 (up 1.8%). While the situation remains stable for the time being, Belgian businesses highly dependent on exports to the US could be negatively impacted by the recently imposed US tariffs on EU food imports.
- Payments in the Belgian food industry take 30 days on average. We expect both payment delays and insolvencies to increase in the coming months, due to increasing pressure on prices and margins along the value chain, coupled with elevated downside risks for food exporters (import bans and tariffs). With a negative outlook on sales and profit margins for many companies, food business failures are expected to increase by about 5% in 2020.
- Due to the more subdued business development and credit risk situation we have recently downgraded the Belgian food sector performance assessment from “Good” to “Fair”. Our underwriting stance is more restrictive on the food retail and meat and fish subsectors, and remains neutral for beverages and dairy for the time being.

Belgium: Food and Beverages

	2018	2019f	2020f
GDP growth (%)	1.4	1.2	1.1
Sector value added growth (%)	-0.4	0.0	1.9

Average sector growth over the past 3 years (%)	0.2
Average sector growth over the past 5 years (%)	1.6
Degree of export orientation	very high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors



Source: Atradius

Ireland



- The total value of the Irish food and drink industry amounted to EUR 27.5 billion in 2018, of which EUR 13.5 billion was exported. However, value of Irish food exports decreased 4% year-on-year as volume growth was offset by global price volatility.
- The UK market accounted for 37% of all Irish food and drink exports in 2018 (EUR 4.5 billion), a robust performance given the significant exchange rate issues experienced in 2017 and lingering Brexit uncertainty. Food deliveries to markets outside the EU accounted for 29% of food exports (EUR 3.45 billion), down from 32% in 2017 due to significant declines in exports of powdered food to the US.
- All main subsectors have been rather stable in 2018 and 2019. Pork meat sellers benefit from higher sales prices due the African swine fever epidemic in China, while primary producers of beef are affected by lower sales prices. Value added in the dairy segment is expected to increase more than 5% in 2019. However, Brexit uncertainty and currency fluctuations have led to decreasing profit margins. Irish dairy producers are increasingly looking to Asian markets as part of their diversification efforts.
- Growth in the beverage sector is largely driven by increased demand for Irish whiskey, which accounts for 42% of Ireland's beverage exports, worth EUR 1.5 billion. While Irish whiskey has been spared so far from recently imposed US tariffs on EU imports, the segment remains vulnerable to future tariffs (38% of total beverage exports go to the US).
- Despite the efforts of food exporters to diversify shipments away from Britain, a hard Brexit remains a major threat. Any future imposition of tariffs by the UK on food imports from the EU after leaving could be devastating for the Irish food sector. A hard Brexit could also cause delays in shipments of fresh food to Europe, increasing costs and reducing competitiveness (almost 80% of Irish exports to Europe go via the UK). Irish companies have continued to acquire smaller UK operators in order to maintain access to the UK market after Brexit. The several Brexit delays have provided Irish companies with some time to diversify their markets.
- The average payment duration in the Irish food industry is 45-60 days. Payment behaviour in the sector has been very good over the past two years, and the number of protracted payments, non-payments and insolvency cases has been low. However, we expect a modest increase in payment delays and insolvencies (below 2%) in the coming six months due to the fierce competitive environment and persistent pressure on margins. In case of a hard Brexit in early 2020 a higher increase in food business failures cannot be ruled out.

Ireland: Food and Beverages

	2018	2019f	2020f
GDP growth (%)	8.4	4.6	2.7
Sector value added growth (%)	8.4	5.2	1.2
Average sector growth over the past 3 years (%)	4.6		
Average sector growth over the past 5 years (%)	8.6		
Degree of export orientation	high		
Degree of competition	very high		

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors



Source: Atradius

- Our sector performance assessment remains “good” for the time being due to the low level of credit risk seen so far. Our underwriting stance remains very open for beverages, open for food retail and neutral for the dairy and meat segments.

Mexico

- Following estimated domestic food sales growth of 6.7% in 2018, 6% sales growth is expected in 2019. The outlook for Mexico's food retail market remains positive, with average annual sales growth of more than 6% expected between 2019 and 2023. The mass grocery retail segment is fairly concentrated, with the four leading operators accounting for more than 60% of sales.
- Mexican households continue to spend more than a quarter of their total spending on food and non-alcoholic drinks. Basic staples will remain a key component of the market, reflecting the large number of low-income households. However, steady economic growth and rising wages will support the expansion of a middle class with higher spending power.
- The Mexican agriculture and food sectors are very much export-driven (exports amounted to USD 14.8 billion in 2018), with the US the main export market. The USMCA agreement replacing NAFTA is still subject to ratification in all three member states. Should this fail and trade disputes flare up again it could have a major impact on the industry, as Mexican food and agriculture exports to the US could be impacted by tariffs. At the same time, Mexico imports most of its dairy from the US, and another deterioration of the US-Mexican trade relationship could encourage Mexico to boost production at home.
- Should the USMCA agreement finally take effect after ratification it is expected that the economic impact on consumers and food supply chains will be relatively small and comparable to the status quo of a continuation of NAFTA.
- Financing requirements and financial gearing are high in the food industry, and the willingness of banks to provide loans has encouraged additional investments. The maximum payment period ranges from 30 to 120 days, depending on the kind of products (perishable or non-perishable food products). Profitability of food businesses is generally high.
- The insolvency level in the food industry continues to remain low, and no major increase is expected in 2020. Most overdue payments are due to administrative reasons or commercial disputes, mainly covering small amounts.
- For the time being our underwriting stance for the food sector remains generally open for all main subsectors. The outlook for meat, dairy, beverages producers and food retail is positive, with steady sales growth expected in the short- and medium-term. We carefully monitor the economic policies and decisions under President Andrés Manuel López Obrador as well as the Mexican and US economic performance in general, and adapt our underwriting stance if necessary.



Mexico: Food and Beverages

	2018	2019f	2020f
GDP growth (%)	2.0	0.3	1.1
Sector value added growth (%)	2.7	2.0	1.8

Average sector growth over the past 3 years (%)	2.8
Average sector growth over the past 5 years (%)	2.3
Degree of export orientation	high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Beverages	Food manufacturing	Food retail

Source: Atradius

Poland



- Food is one of Poland's strongest industries, accounting for a 9% share in the EU food industry. Domestic and export demand continue to grow, with almost 4% value added growth expected in 2020.
- Competition in the Polish food market is high, especially on price. While profit margins for most businesses are stable, they generally remain at a low level. Higher profits are only generated by larger entities or small specialised players, while many smaller and mid-sized businesses struggle to perform well. The ongoing consolidation process is rather slow, as many small and family-owned companies are reluctant to sell their business, with the decision to do so often coming too late (e.g. when a business is already facing severe liquidity problems).
- The dairy segment is mainly controlled by four large companies and shows stable growth rates (value added is expected to increase 5.6% in 2019 and 3.9% in 2020). The level of overdue and non-payments is low.
- Within the meat segment the white meat subsector is performing well. Poultry farming has shown robust growth rates for several years, and Poland has become one of the largest poultry meat producers in the EU. However, the red meat segment struggles with low margins, price pressure, a slow consolidation process and the repercussions of repeated outbreaks of African swine fever on Polish commercial farms. The level of non-payments and insolvencies is high and increasing in this segment.
- The food retail sector is characterised by fierce competition, high price pressure and changing consumer behaviour (price-sensitiveness). Smaller and independent retailers are mainly affected, with many struggling to remain profitable, working on tiny and even negative margins. The number of payment delays and insolvencies remains elevated.
- Financing requirements and financial gearing are high in the food industry, and low interest rates still support further investments. The average payment duration in the Polish food industry is 30 days. The number of protracted payments is generally high, as larger businesses use their leverage against suppliers demanding long payment terms or to prolong payments in order to improve their own cash flow.
- Insolvencies are expected to increase by 3% annually in 2019 and 2020. Food retailers and businesses active in the red meat segment are mainly affected.
- Due to the differences in business performance and credit risk our underwriting varies by subsector. We are open for Polish dairy businesses, as this segment is currently doing well, and neutral for beverages, where price competition is an issue. We are restrictive for the red meat segment and food retail due to the issues mentioned above.

Poland: Food and Beverages

	2018	2019f	2020f
GDP growth (%)	5.2	4.0	3.2
Sector value added growth (%)	4.0	6.3	3.9
Average sector growth over the past 3 years (%)	2.4		
Average sector growth over the past 5 years (%)	2.3		
Degree of export orientation	high		
Degree of competition	high		

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors



Source: Atradius

- Fraudulent events are a concern in both domestic and export business transactions throughout all food subsectors, but most prominent in the fruit and vegetables and meat segments. While the awareness within companies has increased, the number of fraud attempts is still rising.

Spain

- Turnover in the Spanish food and beverage industry increased 0.1% year-on-year in 2018, to EUR 116,890 million. While the sector has recorded turnover growth for five consecutive years, sales expansion is expected to remain modest in the near-term.
- In general, profit margins are tight in the industry, as price pressure from large distributors force food producers and processors to adjust. A general profit margin decrease cannot be ruled out in the coming months due to weaker global demand.
- In the meat subsector pork meat processors are currently facing difficulties due to high slaughter prices for pigs (caused by the African swine fever epidemic in China). Value added growth in the meat segment is expected to contract slightly (down 0.1%) in 2019. Value added growth in the dairy sector is forecast to increase by about 2% in 2019 and 2020, but low sales prices and strong competition have an impact on margins.
- Olive and olive oil account for about 8% of total Spanish food production. The US is the largest single market for Spanish table olives, accounting for more than 20% of exports. In August 2018 Washington already imposed 27% tariffs on imports of Spanish black olives based on allegations of unfair subsidising, leading to a revenue loss of about USD 50 million to date. The recently imposed US tariffs (up 25%) on EU imports, including Spanish olives and olive oil, pose an even greater threat to the subsector. While sales have not yet deteriorated, financial pressure on producers and processors could increase in the coming months.
- Payments in the Spanish food industry take 60 days on average, and we expect no increase in payment delays and insolvencies in 2020. However, if downside risks materialise (a hard Brexit, no solution or even escalation in the EU-US trade dispute), a deterioration of businesses' credit risk cannot be ruled out, mainly affecting export-dependent food companies.
- Our underwriting stance on the food sector is generally neutral. The industry has to be closely monitored, considering a potential slowdown in demand and increased downside risks in the global economy, which could impact profitability and credit risk of food businesses.
- Many food businesses show high short-term gearing. The willingness of banks to lend is a key factor in our risk assessment, as well as the lending conditions and how the debt is split between the short- and long-term, the evolution of debt and the credit lines utilisation rate.



Spain: Food and Beverages

	2018	2019f	2020f
GDP growth (%)	2.4	2.0	1.7
Sector value added growth (%)	-0.1	2.5	2.0

Average sector growth over the past 3 years (%)	2.2
Average sector growth over the past 5 years (%)	2.0
Degree of export orientation	high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors



Source: Atradius

- We are currently more restrictive on fruit and vegetables (olives and olive oil) and pork processing due to the current issues. As those segments are highly exposed to US tariffs we have made special reviews for all businesses we believe could be affected (e.g. estimating the effects based on the percentage share of their exports to the US). The fruit and vegetables segment already struggles with tight margins and fierce competition from countries with lower labour costs.



Industries performance forecast per economy/market

December 2019

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MARKET PERFORMANCE AT A GLANCE

OVERVIEW CHART

INDUSTRY PERFORMANCE

	Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrls	Consumer Durables	Electronics/ ICT	Financial Services	F
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								
India								
Indonesia								
Japan								
New Zealand								
Singapore								
South Korea								
Taiwan								
Thailand								
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Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles

Excellent

Good

Fair

Poor

Bleak

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AT A GLANCE

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Industry performance

Changes since November 2019

Europe

France

Automotive



Down from Fair to Poor

Car production is expected to decrease significantly in 2020, while at the same time companies have to make large investments in order to change their business models from combustion engines focused towards e-mobility, autonomous cars, etc. This will affect the whole supply chain and potentially increase the credit risk of many businesses.

Spain

Food



Down from Good to Fair

See article on page 22.

Sweden

Food



Down from Good to Fair

Many food importers are struggling with decreasing margins due to the weaker Swedish Krona exchange rate.

Americas

Mexico

Construction



Down from Poor to Bleak

The sector has performed poorly so far in 2019, and credit insurance claims have increased sharply.

Asia/Oceania

Hong Kong

Consumer Durables



Down from Fair to Poor

Services



Down from Good to Fair

Streets protests are deteriorating sales and resulting in temporary shutdowns for many shops and restaurants.

United Arab Emirates

Paper



Down from Fair to Poor

Both value and volume of non-payment notifications have increased in 2019.

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