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market monitor

Focus on food performance and outlook

Disclaimer

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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

Size does matter

In general, the food sector continues to perform reasonably well, with a stable credit risk situation in many countries. It helps that, compared to other industries, food is rather resilient to business cycle downturns. That said, in most markets reviewed in this issue of Market Monitor many (mainly smaller) food producing and processing businesses remain under pressure. The competitive environment is fierce, and the bargaining power of major retailers and discounters has been growing, making life increasingly difficult for many of their suppliers, whose margins are becoming stuck at low levels or even shrinking. At the same time food businesses remain susceptible to sudden downside risks, such as commodity price volatility and health issues.

In such a difficult business environment, efficiency and low production costs are necessary for sustaining a competitive edge, sales growth and margin improvement. This, together with economies of scale and increased bargaining power, seems to be best achieved through concentration. Therefore it comes as no surprise that in many markets merger and acquisition activities and a subsequent consolidation process have accelerated among food businesses.

Belgium

- **Margins under pressure due to high labour and energy costs**
- **Payments take 45 days on average**
- **Insolvency environment expected to remain stable**

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

In 2016 the general demand situation for the Belgian food sector remained benign, mainly due to increased exports. The industry is expected to expand again in 2017, with value added growth forecast to increase 1.8%.

Businesses located in the Flanders region account for more than 80% of Belgian food industry turnover and exports. Employment figures have remained stable over the past couple of years, with 82,000 people directly and 128,000 indirectly employed in 2015. After decreasing in 2013 and 2014, business investments rose again in 2015, to EUR 996 million.

The food sector continues to positively contribute to the Belgian trade balance. Increasing exports are key for further sector growth, with quality and safety standards as well as process and product innovation being key selling points overseas. Main destinations remain France, Germany, the Netherlands and the UK, while exports to the US, Japan and the BRIC countries are increasing (mainly alcoholic beverages and chocolate). Distant foreign markets provide the best growth opportunities (in 2015 food exports to those markets increased 19%).

However, competition remains fierce in the global food market, and the profit margins of many (mainly smaller) Belgian food businesses are negatively affected by high energy and labour costs. Labour costs are almost 20% higher than in France, Germany and the Netherlands, countries which host big competitors. Energy costs have increased substantially due to additional charges imposed by the government. Another issue is volatile commodity prices. Food producers are forced to pass on any price increases to their customers, otherwise their yields would come under even greater pressure. Additionally it remains to be seen how the recent Brexit decision will affect Belgian food exports to the UK in the mid- and long-term. In order to remain domestically and internationally competitive, further investments in innovations and technological specialisation are necessary.

Belgium: Food and beverages sector

	2015	2016f	2017f
GDP growth (%)	1.4	1.4	1.3
Sector value added growth (%)	1.7	0.9	1.8

Sector share in the national economy (%)	2.2
Average sector growth over the past 3 years (%)	0.2
Average sector growth over the past 5 years (%)	1.1
Degree of export orientation	high
Degree of competition	high

Sources: IHS, Atradius

Beverages is a profitable subsector, which benefits from increasing international demand. 2016 sporting events (the European football championship and the summer Olympics) have helped to drive demand. However, an additional tax on sugary beverages has negatively affected sales, leading to increased cross-border shopping of Belgian residents. Excise taxes on alcoholic beverages have also increased.

The dairy segment suffered in 2015 as a result of the abolition of EU milk quotas, but the market is showing signs of stabilisation after a volatile period. Further consolidation in this subsector is expected.

The meat subsector suffers from margin pressure and high competition, while a consolidation process is on-going. Some meat exporters are negatively affected by the Russian food import ban, which has also increased pressure on the fruit and vegetables segment.

While dependence on bank finance and businesses gearing are generally high in the food industry, banks are generally willing to provide credit to the sector. On average, payments in the Belgian food sector take around 60 days. However, much longer payment periods are not unusual for very large food businesses with robust market leverage. Protracted payments are not unusual, especially when peak periods lead to liquidity issues for some food businesses. However, non-payment notifications are not expected to show major increases in the coming months. The level of food insolvencies is average compared to other Belgian industries, and a slight increase was noticed in H1 of 2016. That said, no major increases are expected in the coming months.

Our underwriting stance remains generally neutral to cautious, given the cost and margin pressure for many businesses in the industry (affecting mainly smaller companies active in the dairy and meat segments). We take into account the seasonal trends that affect most food subsectors and manage credit exposure through time-limited cover. Despite our generally cautious stance, we try to find ways to provide cover by obtaining additional information, for instance, good payment experience or a guarantee from a stronger parent company.

Belgian food sector

Strengths	Leading sector in Belgium for investments, product & process innovation
	High quality of food products
	Strong export performance in markets outside the EU
Weaknesses	High labour and energy costs compared to foreign competition
	Lack of skilled staff

Source: Atradius

Germany

- The domestic market situation remains difficult
- Insolvencies are expected to increase
- Fraud cases remain an issue

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 Germany´s third largest industry and also has a leading role in Europe. Apart from a few large players the German food sector mainly consists of small- and middle-sized businesses (about 5,800), employing about 570,000 people in total.

According to the German Food Association BVE, nominal turnover decreased 2.1% year-on-year in 2015, to EUR 168.8 billion, mainly due to lower market prices, caused by increased production volumes and export restrictions (the Russian food import ban). This was followed by a 0.8% increase in H1 of 2016, up to EUR 82.5 billion. While domestic sales (EUR 55.8 billion) levelled off, export sales rose 2.6%, to EUR 26.7 million. Real turnover (domestic and export combined) increased 2.2%.

Domestic market conditions have become increasingly difficult during the last couple of years, as yearly turnover figures have either levelled off or even decreased, mainly due to a shrinking population and increased price pressure. The German food retail market is the most competitive in Europe, with structurally low market prices due to the overwhelming power of the leading food retailers and discounters (EDEKA, REWE, Schwarz Group and Aldi), which account for 67% of the entire German food retail market.

The market power of large retailers and discounters, tough competition and price wars in the food retail sector indicate that food producers, processors and suppliers have found it difficult to pass on costs. As a result, their profit margins have decreased in recent years and are continuing to decline. This is exacerbated by increasing quality standards, which require food producers and processors to make significant investments. There are overcapacities in some subsectors like beverage, meat production and wholesale, which forced a number of companies to leave the market, either by takeover, liquidation or insolvency. At the same

Germany: Food and beverages sector

	2015	2016f	2017f
GDP growth (%)	1.7	1.8	1.4
Sector value added growth (%)	-1.4	1.8	1.7

Sector share in the national economy (%)	1.4
Average sector growth over the past 3 years (%)	-0.3
Average sector growth over the past 5 years (%)	-0.4
Degree of export orientation	high
Degree of competition	high

Sources: IHS, Atradius

time the dairy segment still suffers from sharply decreased market prices for milk. In contrast, the fruit and vegetables subsector is currently characterised by stable market conditions and an overall improvement in business development.

While increasingly facing troubles in the domestic market, the German food industry has successfully expanded overseas in order to secure sales growth, partly helped by its high quality reputation. Over the past ten years the sector has increased its export ratio from 20% to 33%, and has successfully expanded its sales activities in growth markets like China.

Food producers and wholesalers pay, on average, within 30 days, while payment terms of food retailers often vary between 45 and even 90 or more 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. We have seen an increase in the number of notified non-payments in the last couple of months, and expect this trend to continue in the future.

The already low profit margins are further decreasing for many businesses, and insolvencies are expected to increase in 2017. Most at risk are (smaller) businesses that lack export opportunities or do not offer specialised products, and those companies with already poor financial strength.

Therefore, our underwriting stance has become more restrictive, especially in the meat production/meat processing and dairy products segments, as we expect the difficult business environment in those sectors to continue in 2017.

The food sector remains affected by considerable fraud cases, which are still rising and getting increasingly tricky and professional. 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).

German food sector

Strengths	Non-cyclical industry
	Innovative industry sector reacting on changing consumer behaviour
	Profitable export business
	Internationally very competitive
Weaknesses	Partial overcapacities
	Declining number of consumers and ageing society in Germany
	Shrinking margins
	Low price levels due to strong discount sector

Source: Atradius

The Netherlands

- Smaller food retailers will face more troubles in the future
- Impact of Russian import ban still felt
- Payments take 40 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

In 2015 total food consumption in the Netherlands increased from EUR 56.7 billion to EUR 57.4 billion, with supermarkets accounting for more than 50% of this amount, while the market share of out-of-home food services (hotels, restaurants, catering and convenience) has further increased. It is expected that until 2025 the total value of food sales will grow to EUR 69 billion, an average increase of 2% per year.

However, it is not expected that all food retailers and wholesalers will benefit from this increase. In particular, the margins of small- and mid-sized players remain under pressure and are expected to lose further market share, while a concentration process is ongoing. Additionally, the share of food product offers in the assortment of originally non-food retailers is increasing (e.g. Ikea or Action).

At the same time consumer behaviour is changing at the expense of food retailers: during the economic crisis the market share of retailers increased due to higher price-sensitiveness, but with the rebound consumers started to spend again more for food and beverages out-of-home or for food home delivery, a service that has recorded high growth rates over the past two years. Dutch food retailers will have to react/adapt to those changing food consumption patterns.

The Netherlands is one of the largest exporters of agricultural and food products in the world. Food product exports amounted to about EUR 60 billion in 2015 (90% fresh and processed food, 10% beverages and tobacco). More than a quarter of food exports consist of re-exports, i.e. foodstuffs that are imported undergo minor processing and are exported again. Due to the

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The Netherlands: Food and beverages sector

	2015	2016f	2017f
GDP growth (%)	2.0	1.6	1.5
Sector value added growth (%)	-1.2	0.8	1.1

Sector share in the national economy (%)	2.2
Average sector growth over the past 3 years (%)	-3.1
Average sector growth over the past 5 years (%)	-2.1
Degree of export orientation	high
Degree of competition	high

Sources: IHS, Atradius

weaker euro exchange rate and increased demand from overseas markets, Dutch food exports increased in 2015, especially to the UK (up 5.9%), USA (up 20.4%) and Switzerland (up 27.5%). Asia accounts for more than 10% of food exports.

While exports continued to increase in 2016, deliveries to the UK have been negatively affected by the Pound Sterling depreciation since the Brexit decision, and the Russian import ban still hurts the industry, particularly the fruit and vegetables subsector. Food exports to Russia decreased by more than 50% over the last two years.

In general, demand for Dutch food products is expected to increase further in 2017, and profit margins of most businesses are expected to remain stable. Banks are generally willing to provide loans, and businesses' gearing is rather low. The average payment duration is 40 days, and the amount of payment delays, protracted payments and insolvencies remains low compared to other Dutch industries. In line with the overall trend in the Netherlands, food business insolvencies have decreased in 2015 and 2016, by 17% and 25% respectively. However, in 2017 this positive trend is probably coming to an end, with business failures forecast to level off. For the time being our underwriting stance for the food sector remains open, as the positive performance is expected to continue in 2017.

Dutch food sector

Strengths	Modern infrastructure
	Highly efficient in producing and trading
Weaknesses	Price competition with foreign food businesses
	Fierce competition in the retail segment

Source: Atradius

United States

- Above average growth of the organic food segment
- More mergers and acquisitions expected
- New legal requirements affect producers

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 US food and beverage industry is expected to grow 1.4% in 2016 and 1.6% in 2017, less than the GDP growth rates forecast for this period. Food and beverage manufacturing is one of the largest employers in the US, providing jobs for more than 1.4 million employees. The US food manufacturing industry consists of approximately 21,000 companies and generates revenues of about USD 760 billion.

The relatively benign agricultural commodity price environment has kept food price inflation low. At the same time consumers are increasingly becoming health-conscious, and natural, organic and gluten-free food items will continue to be strategic areas of new product focus, at the expense of packaged/convenience food manufacturers.

Other challenges for the US food industry are new legal requirements, e.g. in May 2016 the US Food and Drug Administration (FDA) announced a new nutrition facts label for packaged foods to reflect new scientific information, including the link between diet and chronic diseases such as obesity and heart disease. The US Congress has also passed a new bill that establishes national standards for food containing ingredients which are genetically engineered, also known as genetically modified organisms (or GMOs). This will affect most food manufacturers as they will be required to make changes to the labels on every package they produce. As food safety and security is becoming increasingly important to US consumers, the transparency of a food business supply chain is very important for market success.

While profit margins of US food businesses are not expected to deteriorate in 2017, they remain structurally very tight throughout the sector. In the retail and food service segments competition is particularly fierce and companies are prone to undercutting others' prices to gain market share. There have been many mergers and acqisitions (M&A) over the last few years, signaling a trend towards greater consolidation among large food brands.

USA: Food and beverages sector

	2015	2016f	2017f
GDP growth (%)	2.6	1.5	2.2
Sector value added growth (%)	1.8	1.4	1.6

Sector share in the national economy (%)	1.3
Average sector growth over the past 3 years (%)	1.4
Average sector growth over the past 5 years (%)	-0.5
Degree of export orientation	high
Degree of competition	high

Sources: IHS, Atradius

It is expected that M&A activities and the subsequent consolidation process will accelerate in the coming years, as it seems that in this highly competitive environment only expansion guarantees sustainable sales growth and margin improvement. Banks are mostly willing to provide financial support for M&A activities, and private equity companies are investing heavily in the food market.

The average payment duration in the US food industry is 15-60 days, depending on the items sold (e.g. perishable goods or packaged goods). The number of non-payments and insolvency cases is expected to remain stable in the coming months. Many companies are being bought and sold - which should result in fewer insolvencies and further efficiencies due to increased synergies.

As a result of the highly competitive market environment and persistently low margins our underwriting stance is generally neutral for food producers and retailers. In this sector there is always the risk that the sudden outbreak of an epidemic, contamination or fraud can lead to the immediate deterioration of the earnings and profitability of single businesses.

US food sector

Strengths	Good long-term growth prospects
	Strong export performance
Weaknesses	Pressure on margins
	Volatile commodity prices

Source: Atradius

Market performance snapshots

France

- Weaker bargaining power for food producers and processors
- Beverage subsector performs well due to exports
- The meat and dairy segments still face challenges

According to the National Association of Food Industries (ANIA), turnover of the French agri-food industry amounted to EUR 170 billion in 2015. French food sector value added growth is expected to increase 1.0% in 2016, followed by 1.6% in 2017. Growth has been steady over the last couple of years, although at a lower pace than French GDP growth.

In the domestic market the margins of many food producers are negatively impacted by decreasing producer prices (down 1.2% in 2015), the fierce price competition in the French retail segment and contractual price-adjustment mechanisms. The on-going concentration process of retail chains has further weakened the bargaining power of food producers and processors, who are at the same time in competition with other European food businesses which in some cases have lower production costs. Many French food manufacturers or processors try to increase their leverage through acquisitions or by strengthening their brand image.

Exports are of major importance for the French food sector (especially for the wine, champagne and spirits segment), positively contributing to the French trade balance. In 2015 the trade balance surplus generated by beverage exports alone amounted to more than EUR 11 billion. While volumes of French wine exports are decreasing since 2012 (down 2% in 2015), the value of exports continues to increase since 2009 (up 7% in 2015). France remains the second-largest producer of wine worldwide behind Italy.

Generally, French food businesses are highly dependent on bank finance, and many companies have high short-term debts to finance their working capital requirements. Banks are generally willing to lend to food businesses. The profit outlook for most companies active in this industry remains stable.

The level of non-payment notifications and insolvencies in the food sector is rather low compared to other industries, and no substantial increase is expected in the coming months.

While our underwriting stance towards this sector remains generally relaxed, we are keeping a closer eye on certain subsectors, especially meat and dairy, because of the challenging market conditions in those segments. The French meat industry is composed mainly of small companies, and even French groups are quite small compared to their foreign competitors. Pressure on meat prices remains high, affecting business margins. Exports of dairy products have been severely impacted by decreased global demand.

We try to meet our customers' requests whenever possible and, indeed, where our assessment of the buyer or subsector is particularly positive, we encourage the customer to extend credit limits further.

Ireland

- Sector risks have increased due to the Brexit decision
- Still good growth opportunities in overseas markets
- Payments take between 30 days and 60 days on average

The export-driven food sector represents Ireland's most important indigenous industry, employing 50,000 people directly, with 180,000 related jobs in farming and support industries. Ireland continues to be the largest net exporter of dairy ingredients, beef and lamb in the EU, and has recorded increasing demand for its products in 2014 and 2015. Ireland is the largest exporter of powdered infant formula in Europe, currently producing 15% of the total global output. Domestically, the sector benefits from the rebound of the Irish economy and growing consumer confidence.

Irish food exports amounted to EUR 10.8 billion in 2015 and are expected to grow further, reaching EUR 12 billion by 2020. Several of the world's larger emerging economies are undergoing cultural changes, away from 'starch-based diets' to 'protein based diets', further fuelling the global demand for Irish food products.

However, the Irish food industry is highly dependent on the British market, which accounts for 40% of food exports. Therefore, exporters to the UK have already suffered shrinking margins due to the Pound Sterling depreciation in the wake of the June 2016 Brexit decision. The Irish food sector will increasingly be exposed to currency volatility and risks in relation with the decision of the UK to leave the EU.

Irish mushroom growers, who export 80% of their output to the UK, have already been negatively affected by the Pound depreciation. Many forward contracts had been negotiated with British retailers in Pound Sterling end of 2015, with the consequence that the Pound depreciation in H2 of 2016 has led to severe losses for many businesses in this segment, even including closures of several companies.

For the Irish dairy subsector the recent abolition of EU milk quotas and sharply decreasing milk prices have led to a short-term decrease in margins and delays in capital expenditure programmes. However, in the long term the lack of quotas is expected to provide new business opportunities for Irish dairy businesses.

Payment duration in the food sector ranges between 30 days and 60 days, depending on the subsector and the customer segment. Payment behaviour in this sector has been very good over the past 12 months. The number of protracted payments, non-payments and insolvency cases is still very low, but an increase cannot be ruled out in the coming months, as downside risks for Irish food exporters to the UK will probably rise in the future.

The sector still suffers from the lack of capital expenditure during the years of recession. While banks still do not provide sufficient loans to the food sector, the situation is improving. That said, Irish bank lending is still relatively conservative, and access to finance can pose problems for smaller food businesses.

Poland

- Many businesses are highly geared
- Payment delays and insolvencies have increased in some segments
- Payments take about 45 days on average

The Polish food sector accounts for 6% of GDP and 13% of exports. Polish food producers have benefited from robust domestic demand (which accounts for about 70% of sales) and increasing exports. After increasing 2.5% in 2015 domestic sales are expected to rise 3.4% in 2016, and export sales 6%. The major Polish export destination remains the EU, notably Germany and the UK, but the share of exports going to Asia and Africa is growing. In 2017 the sector is expected to grow by more than 3%.

Given its current fragmentation, a further concentration and consolidation process in the Polish food sector is highly probable. With the support of investment funds such a process is already ongoing in the food processors segment, while in the food producers segment consolidation is still in its initial phase.

Pork production, which accounts for the lion´s share of Polish meat production, is decreasing due to lower pork prices and lower profitability, which has been partially caused by the Russian embargo. Investments in this segment have been financed externally, and as a result many companies are highly indebted.

Since the EU milk quota ended in April 2015, the dairy sector has been facing more challenges. However, in the long term Polish farmers and dairy producers could benefit from the lifting of production limits, utilising their full production capacity.

On average, payments in the food sector take about 45 days. Payment delays and insolvencies have increased in certain segments, such as the red meat subsector, due to oversupply and low prices. We have also observed increasing business failures in the food retail segment, as smaller players suffer from fierce competition and low margins.

Our underwriting stance remains generally open for segments like fruit and vegetables, dairy and white meat. However, we exercise more caution in the retail segment, for slaughterhouses and processors in the red meat segment. Additionally we pay specific attention to single food businesses´ gearing ratio. Many investments have been financed externally, and as a result a lot of companies are highly indebted. After the Brexit decision we closely monitor food businesses dependent on exports to the UK.

Market performance at a glance

Denmark

- The Danish agro-industrial sector accounts for nearly 25% of Danish commodity exports, with more than two thirds of Danish food production destined for export. In recent years China has joined Germany and the UK as Denmark's most important export markets, and the industry's sales increases in 2013 and 2014 have been mainly driven by demand from emerging markets.
- However, sector value added growth contracted in 2015 (down 0.3%) and is expected to level off in 2016 and 2017, due to fierce domestic and international competition and low sales prices.
- In general, large Danish food businesses are active globally and performing well, while smaller players supply the domestic market and/or export to close markets like Germany, UK, Sweden and Eastern Europe. Small food producers and wholesalers generally face tough competition and low profit margins.
- On average, payments in the food sector take 30 days - 60 days. The payment experience over the past two years has been good. Compared with other industries, we have received few credit insurance claims in the food sector and we expect this positive trend to continue in 2017.
- For the time being, our underwriting approach remains positive across all subsectors. However, as profit margins are generally low, especially smaller players are susceptible to sudden market shocks. Therefore we are closely monitoring the consequences of the Brexit decision on food businesses dependent on exports to the UK.

Hungary

- The food and beverage industry is one of the most important sectors of the Hungarian economy. It is the second-largest employer and the third-biggest producer in the manufacturing sector, accounting for more than 10% of industrial output. Food export revenues are a significant contributor to Hungary´s overall trade surplus.
- Hungary´s food sector is expected to grow 3.3% in 2016 and 2.4% in 2017. Exports have emerged as the main driving force of the industry. The main export products are fruits and vegetables, meat and dairy products, with over 90% of exports bound for the European Union. However, the high export exposure makes the sector susceptible to global volatility.
- While profitability of food businesses has increased in 2015 and remained stable in 2016, it still remains low compared to other Hungarian industries. One of the main challenges in the domestic market is the overall high tax burden that dampens household consumption.
- The average payment duration in the Hungarian food industry is 60 days. The number of protracted payments, non-payments and insolvency cases has remained stable over the last six months, and no increase is expected in the coming months. However, the food sector´s insolvency rate (3.5% for food and beverage producers in 2015) is still above average compared to other Hungarian industries (2.7% in 2015). Financial gearing of Hungarian food businesses is generally high, and can be a significant risk for businesses with weak profitability.
- Our underwriting stance remains generally open, as food turnover is expected to increase further and business proftability remains adequate.

Italy

- The food sector is one of the most important industries in Italy, employing around 385,000 people and generating a total turnover of about EUR 135 billion in 2015, with exports amounting to EUR 36.9 billion. After several years of suffering from the domestic economic downturn, the Italian food sector´s performance has rebounded since 2014, benefiting from lower raw materials and energy prices.
- Italian food production, processing and retail remain strongly fragmented, with fierce competition, high gearing and pressure on margins. Even the biggest Italian food retail businesses are small compared to other major international players. The average size of food producers is typically small, which hampers international expansion. It is expected that the concentration process in the Italian retail segment will accelerate further in 2017.
- Many Italian food businesses (especially in the pasta and bakery segments) benefit from the strong international reputation of the "Made in Italy" trademark. The short-term outlook for Italian food exports remains positive, with further demand growth expected in the EU, the US and in Asia.
- Since October 2012 a new law ('Article 62') lays down a maximum payment term in the food sector of 30 days for perishable goods and 60 days for non-perishable goods. However, the effects of the law have been limited so far, as payments in the food sector take about 90 days on average. In general, payment delays and insolvencies are low compared to other Italian industries and are expected to level off in H1 of 2017 compared to H2 of 2016.
- Value added growth of the food sector is expected to increase 0.8% in 2016 and 1.2% in 2017. Our underwriting stance for Italian food businesses remains generally open.

Portugal

- The Portuguese food sector is expected to grow 0.3% in 2016 and 1.8% in 2017. The economic downturn of two main export markets - Brazil and Angola - has led to reduced exports and, to some extent, investment levels in the sector. Investments are also negatively affected by Portugal´s more subdued GDP growth rate forecasts for 2016 and 2017 (1.0% and 1.2% respectively).
- Producer price deflation in 2014 and 2015 had a negative impact on businesses' margins. Mainly affected was the meat subsector as a result of the Russian import ban. Profitability of food businesses has declined due to strong competition and price wars in the food retail segment. However, both consumer and producer food prices have increased again in 2016, which should have a positive effect on profit margins.
- Non-payment notifications remained stable in 2016, and we expect no increase in 2017. As a result of the food sector's resilience and stable payment behaviour we are supportive in our underwriting stance. However, we are more restrictive when underwriting the meat subsector, which still suffers from overproduction and decreasing overseas sales.

Spain

- The agri-food sector is one of Spain´s most important industries, accounting for 9% of the national economy and 2.4 million employees. Sales grew 1.8% in 2015, to EUR 95 billion. Food exports, which account for more than 15% of total Spanish exports, increased 7.5%, to EUR 44 billion. The food sector is expected to grow further in 2016 and 2017, by 1.1% and 1.8% respectively.
- The external financing requirement of food businesses is high, and access to credit (both working capital and long-term facilities) has further improved. Foreign direct investments in the Spanish agri-food sector increased 28% in 2015, up to EUR 1.9 billion, after significant decreases since 2010. However, this amount remains far below the EUR 2.8 billion of investment made back in 2010. At the same time Spanish investments in the food industry abroad have decreased since 2007, reaching only EUR 698 million in 2015.
- The intense price war in the food retail segment has left some players in a difficult situation. While the industry is still fragmented, industry consolidation is on-going and companies should gain size and become more competitive domestically and abroad.
- The average payment duration in the Spanish food industry is 80 days. Non-payment notifications remained stable in 2016, and we expect no increase in 2017. Due to the food sector's resilience and stable payment behaviour we are supportive in our underwriting stance. However, we are more cautious when underwriting the fruit and vegetables subsector, as well as slaughterhouses.

Industries performance forecast per country

December 2016

	Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrls	Consumer Durables	Electronics/ ICT	Financial Services
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	🌤	☁	☁	🌧	🌧	🌧	☁

Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles
Good	Good	Fair	Fair	Good	Poor	Poor
Good	Fair	Fair	Poor	Poor	Fair	Poor
Fair	Fair	Fair	Fair	Fair	Poor	Poor
Good	Fair	Fair	Bleak	Fair	Poor	Poor
Good	Fair	Fair	Poor	Fair	Fair	Poor
Fair	Good	Fair	Poor	Good	Fair	Poor
Fair	Good	Poor	Fair	Good	Poor	Poor
Good	Fair	Fair	Bleak	Poor	Fair	Poor
Good	Fair	Poor	Poor	Good	Poor	Poor
Good	Fair	Poor	Fair	Good	Poor	Poor
Fair	Poor	Fair	Fair	Good	Fair	Fair
Fair	Fair	Poor	Fair	Good	Poor	Fair
Fair	Poor	Fair	Fair	Poor	Poor	Fair
Fair	Good	Fair	Fair	Fair	Poor	Poor
Good	Fair	Poor	Poor	Good	Poor	Poor
Good	Good	Poor	Fair	Fair	Poor	Poor
Good	Good	Fair	Bleak	Good	Poor	Fair
Good	Fair	Bleak	Poor	Poor	Fair	Poor
Fair	Fair	Poor	Poor	Fair	Poor	Poor
Good	Poor	Poor	Fair	Fair	Poor	Poor
Good	Fair	Fair	Poor	Good	Fair	Bleak
Good	Fair	Poor	Good	Good	Poor	Poor
Good	Fair	Poor	Poor	Good	Poor	Poor
Good	Fair	Poor	Poor	Fair	Poor	Poor
Fair	Fair	Bleak	Poor	Good	Bleak	Poor
Excellent	Fair	Poor	Fair	Good	Poor	Fair
Good	Fair	Poor	Good	Good	Poor	Fair
Good	Fair	Poor	Fair	Fair	Poor	Fair
Good	Fair	Fair	Fair	Fair	Fair	Poor
Fair	Fair	Fair	Poor	Poor	Poor	Poor
Good	Fair	Fair	Fair	Good	Poor	Fair
Excellent	Fair	Poor	Fair	Good	Poor	Fair
Good	Fair	Fair	Fair	Fair	Poor	Bleak
Poor	Fair	Poor	Fair	Good	Poor	Poor

Excellent

Good

Fair

Poor

Bleak

Industry performance

Changes since October 2016

Europe

Poland

Electronics/ICT

Down from Fair to Poor

The sector has been affected by decreasing demand from the public procurement market and the impact of negative VAT business controls.

Machines/Engineering

Down from Fair to Poor

Businesses in the mining machines segment suffer from the financial deterioration and bad payment behaviour of coal mines, while the agricultural machinery segment is affected by a sharp decrease in demand since mid-2015.

Russia

Automotive

Up from Bleak to Poor

Consumer Durables

Up from Poor to Fair

Electronics/ICT

Up from Poor to Fair

Financial Services

Up from Poor to Fair

Food

Up from Poor to Fair

Metals

Up from Poor to Fair

Textiles

Up from Poor to Fair

The economic situation and performance of many industries has improved towards the end of 2016, as the exchange rate has stabilised, the banking sector has strengthened and interest rates have decreased. The economy is expected to grow again in 2017 (up 1.2%) after two years of recession, with private consumption forecast to rebound. In the industries mentioned above the credit insurance claims and non-payment situation has stabilised or even improved.

Brazil

Paper

Up from Poor to Fair

Despite the ongoing recession in Brazil the pulp and paper sector has shown some resilience, and production is estimated to have grown by more than 8% in 2016. Additional investment in the forest base and new mills is expected in the coming years. Compared to 2015, both non-payments and insolvencies have decreased.

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