Atradius
Managing risk, enabling trade

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market monitor

Focus on automotive performance and outlook

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In this issue...

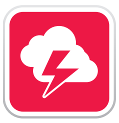
On the following pages we indicate the general outlook for each sector featured using these symbols:


Excellent


Good


Fair


Poor


Bleak

A big question mark

The high volume of car sales in emerging markets significantly helped the global automotive industry steer over bumpy roads after the 2008 credit crisis. However, the market appears to be a swinging back west, as demand for cars in the advanced economies has revved up and continues to grow, while the automotive markets in some major emerging economies are applying the brakes and increasingly show signs of weakness.

In the US, the car market has enjoyed seven consecutive years of growth, and sales and production continue to increase in 2015, with further growth expected in 2016. The rebound of the car market in Western Europe gained momentum in the first half of 2015, with new passenger car sales increasing by more than 8% year-on-year in the January-July 2015 period. This upturn, which after several years of stagnation or even contraction, helped many car producers, parts suppliers and retailers in France, Italy and Spain to continue their recovery that started in 2014. However, one has to bear in mind that the economic rebound in the Eurozone is still modest and fragile, and that many automotive businesses, especially in Southern Europe, still have week balance sheets due to the long downturn.

In contrast to the upturn in Europe and the US, the car market´s performance turned feeble in some major emerging economies. In the first half of 2015 passenger car sales in Russia and Brazil contracted 35% and 20% respectively due to mounting economic problems, and there is no turnaround on the horizon. It is just two years ago that forecast for both countries was for major growth for automotive in the coming years.

In China, the economic slowdown and a more volatile stock market have had a negative effect on car sales, which nevertheless are still expected to grow in 2015 and 2016. However, the days of double-digit growth rates seem to be over. Given that China has become the world´s largest car market, any serious downturn in the economic performance in the coming years could have severe consequences for the global car market. Therefore, together with further oil price developments, the future direction of Chinese economic performance has become a big question mark for the automotive industry.

Brazil

- A double-digit decrease in car sales in H1 of 2015
- Strongly rising payment delays and insolvencies
- Increasing pressure on suppliers and spare parts 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 downturn of the Brazilian automotive sector seen in the first half of 2014 has accelerated since then, in line with the economic slowdown: After a mere 0.1% GDP growth in 2014, Brazil´s economy is expected to contract 2.0% in 2015. Public spending has been cut, and household spending power has considerably shrunk due to a persistently high inflation rate of more than 9% and higher unemployment (which increased to 7.5% in July 2015 from 4.3% in December 2014). The economic performance is also affected by massive exchange rate volatility and scarce credit due to a very high benchmark interest rate (14.25% in September 2015), hampering both household and business lending and investments. Government-controlled banks, which pushed car loans and other consumer credit in previous years, have restricted their lending.

The downturn has an impact on the whole automotive sector value chain: from spare parts producers to car manufacturers and sellers. Until recently Brazil was expected to be one of the world´s fastest growing car markets. However in 2014 domestic vehicle sales (including cars, light vehicles, trucks and buses) decreased 7.1%, to 3.5 million units, according to the Brazilian car producer association Anfavea. Production decreased 15.3%, to 3.15 million units, while exports declined 30.4%, mainly due to the still adverse economic situation in neighbouring Argentina, which is the main market for Brazilian car exports. The trade flow between both countries is affected by the restrictions on the freeing of US dollars in Argentina to pay for its imports.

In the first half of 2015 vehicle sales decreased 17.5%, with passenger car sales declining 19%. This negative trend is expected to continue in the coming months, with sales forecast to contract 20% in 2015.

Under pressure to reduce the public deficit the Brazilian government has reinstated a consumer tax on new vehicles (IPI), which will raise prices between 4.5% to 7%, depending on the vehicle's

Brazil: Automotive sector

	2014	2015f	2016f
GDP growth (%)	0.1	-2.0	-0.4
Sector value added growth (%)	-16.1	-15.2	2.8

Sector share in the national economy (%)	2.0
Average sector growth over the past 3 years (%)	-7.5
Average sector growth over the past 5 years (%)	0.4
Degree of export orientation	medium
Degree of competition	high

Sources: IHS, Atradius

size. This means that Brazilian car businesses have to pass a higher tax burden on to consumers in an adverse economic environment. In addition, the Federal Government has started a deep spending review, cutting several projects and subsidy programs, and it is rather unlikely that it will have resources to support the ailing automotive sector.

The accelerated depreciation of the real has made imports of cars and car parts even more expensive: importing cars into Brazil has always been more expensive due to the high taxes used to encourage foreign companies to establish local production plants.

Against this backdrop, it is not surprising that profit margins of Brazilian automotive businesses have deteriorated sharply over the past 12 months, and this negative trend is expected to continue. The car industry's high fixed costs mean that maintaining volumes is essential, and this has put pressure on suppliers and spare parts producers that have weaker financial structures and growing debts to service.

Average payment times in this sector differ widely along the value chain: from 60 to 120 days. Car manufacturers normally have very long payment terms with their suppliers – some even exceeding 120 days - while steel/metal producers usually ask for shorter payment terms for sales to suppliers/spare parts producers, adding to the pressure they already have in terms of cash flow and high interest rates. We have already seen a steep deterioration since the end of 2014, however given the current problems along the whole automotive value chain, we expect both payment delays and defaults to continue to worsen markedly in the coming months. As a result, our current underwriting stance for all automotive subsectors and segments is cautious.

Brazilian automotive sector

Strengths	Growth prospects in the long-term
Weaknesses	Subdued consumer sentiment due to the recession
	High currency volatility
	High interest rates and restricted lending hamper investments

Source: Atradius

China

- Still growing, but much lower sales in 2015
- The car dealerships segment faces serious trouble
- Smaller car parts suppliers could come under pressure

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 China Association of Automobile Manufacturers (CAAM), Chinese car production increased 7.3% year-on-year in 2014, to more than 23 million units. Passenger car sales increased 9.9% while commercial vehicle sales dropped 6.5%.

According to CAAM, total car production growth slowed to 2.6% year-on-year (12.1 million units) in H1 of 2015, mainly due to lower economic growth. Passenger car sales registered an increase of 4.8% to 10.1 million units as consumers continued to flock to dealer showrooms. But the slowing economy had an impact on the commercial vehicle market, as sales of commercial vehicles decreased by 14.4%, to 1.8 million units. Given the downward revision of the forecast for Chinese GDP growth to 6.5% in 2015 and the recent stock market volatility hurting consumer spending, car sales are currently expected to grow just 3.9% this year, down from 7% growth projected in January 2015.

Despite the current slowdown the Chinese car market still provides robust growth potential. Car ownership remains quite low, with about 154 million vehicles on the roads in a country with a population of 1.4 billion. That compares to less than 120 cars for every 1,000 people, far lower than in mature markets such as Europe and Japan, with penetration rates of 600 vehicles for every 1,000 people. After decreasing production and sales in 2014 the Chinese truck market is expected to show moderate growth rates in 2015, also driven by the fact that booming of e-commerce increases demand for road transportation and express service. With positive factors such as increased demand for tourist and school buses, the bus segment is expected to continue growing rapidly in 2015.

However entry barriers for auto manufacturers are high in China, as the sector is capital intensive and requires constant invest-

China: Automotive sector

	2014	2015f	2016f
GDP growth (%)	7.4	6.5	6.6
Sector value added growth (%)	9.6	6.2	n.a.

Sector share in the national economy (%)	2.4
Average sector growth over the past 3 years (%)	8.8
Average sector growth over the past 5 years (%)	12.6
Degree of export orientation	medium
Degree of competition	high

Sources: IHS, Atradius

ment in Research & Development (R&D) to develop new models. The life cycle of new models in China is getting increasingly shorter too: for instance, while in mature markets the life cycle of a new car model is 6-8 years, in China it is 4 years. In the commercial vehicle segment competition is even fiercer, with the life cycle of a new model now as short as 6-18 months.

As in 2014 payments in the Chinese automotive industry take 90 days on average, but we expect longer payment terms in the future because of liquidity pressures on suppliers. Payment defaults in the automotive sector are on a par with other Chinese industries, and automotive businesses in general will see their profitability hit by more intense competition. However, despite the expected slowdown in growth we do not expect any significant increases in payment delays or insolvencies in the coming months.

Despite the downturn in the economy, our underwriting stance towards manufacturers remains open. We still view auto manufacturers as strong businesses, because of the sector's capital and technical intensity and the growth potential of the Chinese car market.

However, we are more cautious towards manufacturers of domestic brands than we are to joint ventures with established foreign partners, and focus more attention on companies involved in 'new energy' or electric-powered vehicles. In all cases, we look mainly at cash flow and profitability when considering applications for cover.

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

In the car dealer segment problems have mounted since 2014, with 50% of car dealers losing money since last year as sales have started to slow. There is overcapacity in this segment as the number of car retailing businesses sharply increased during the boom years. Almost 60% of the retailers are single-site operations - often poorly capitalised. Many car dealers are now affected by decreasing sales prices, while at the same time they are often pushed by car producers to achieve aggressive sales targets in a cooling market. Therefore, when assessing the credit risk of car dealers, we consider changes in stock levels in 2013 and 2014, cash flow and the rationale for any expansion of their business.

Chinese automotive sector

Strengths	Demand due to rising income and urbanisation
	Major players are large corporations with state-owned background or large joint ventures
	Private-buyer subsidies for 'new energy' or electric-powered vehicles
Weaknesses	Fierce competition affects businesses´ profitability
	Trade disputes between major economies
	Decelerating economic growth, traffic and infrastructure issues

Source: Atradius

France

- Rebound in sales and production
- Overcapacity remains an issue in the suppliers segment
- Underwriting stance remains generally cautious

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

For the first time since 2011, the French car market recorded a slight increase in passenger car registrations in 2014, by 0.3%. However, according to the European Automobile Manufacturers Association (ACEA), this growth rate was far below the EU average of 5.6% and growth rates in countries like Spain (up 18.4%), Italy (up 4.2%) and the UK (up 9.3%). New car registrations in France increased 6.1% in H1 of 2015, but still remained below the EU average increase of 8.2%.

Following a competitiveness agreement signed between the French state and French car makers, French car production increased 4.7% in 2014. However, despite this upturn, car production was still 40% lower than in 2007, which can be explained in part by outsourcing. Production costs are lower in Eastern Europe and Northern Africa: for instance, the Renault Clio, a best seller in France, is cheaper to produce in Turkey than in France.

That said, after subsequent years of production decreases French subcontractors and suppliers have benefited from the rebound of the French and the European automotive sector. Revenues increased 4.3% in 2014, to EUR 15.6 billion. Rising exports played a pivotal role, accounting for more than 50% of the revenue. While profit margins have recently increased due to the upturn, suppliers´ margins remain structurally weak, as the powerful car manufacturers demand greater productivity coupled with lower prices. While car manufacturers´ equity is still quite strong, suppliers' equity is much weaker. The suppliers´ segment is very capital intensive, requiring sizeable finance for new investment and restructuring and high working capital. However, while banks were rather unwilling during the last couple of years to provide credit to the automotive suppliers subsector, the recent rebound should facilitate more credit access.

France: Automotive sector

	2014	2015f	2016f
GDP growth (%)	0.2	1.1	1.3
Sector value added growth (%)	4.2	3.5	2.5

Sector share in the national economy (%)	0.4
Average sector growth over the past 3 years (%)	-5.1
Average sector growth over the past 5 years (%)	-0.3
Degree of export orientation	high
Degree of competition	high

Sources: IHS, Atradius

Despite the significant decrease in domestic production in the years before 2014 suppliers are dealing with rising overcapacity: estimated to be as much as 40%. In the long term, a restructuring and market adjustment seems inevitable, either in the form of insolvencies or by 'clean closures' (i.e. with support from shareholders and car manufacturers). Those mainly affected by overcapacity issues are suppliers that rank second or third in the subcontracting chain: especially those engaged in foundry work, small stamping and those producing items with low technology requirements.

On average, payments in the French automotive industry take 60 days (end of month) and timely payment is important in this sector, with few protracted delays. We do not expect any fundamental increase in payment delays in the coming months. Neither do we expect insolvencies in the sector to increase in the short-term, which is in contrast to the overall trend in French business insolvencies, where a 4% increase is expected in 2015.

However, as in 2014 we continue to closely observe some weak players (e.g. in the stamping subsector), and take steps to avoid any impact on our customers from insolvencies in this segment. Despite the rebound in sales and production, our underwriting stance towards the French automotive sector remains cautious, especially given the overcapacity issues in the suppliers subsector.

French automotive sector

Strengths	Leader companies in some segments: FAURECIA, VALEO, Plastic Omium
	Technical knowledge
	French State support with public funds (BPI)
Weaknesses	Overcapacity and low margins
	Lack of attractiveness for private funds
	French market growth below EU average

Source: Atradius

Spain

- **Further increasing production and car registrations**
- **Payments take 40 days on average**
- **Fewer insolvencies expected in 2015**

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 Spanish automotive sector is strategically very important for the country's economy, as it accounts for 10% of the Spanish industry sectors´ share of GDP and 9% of employment. It also accounts for 12% of Spanish exports an 4.9% of imports. Spain is still the second largest car manufacturer in Europe, behind Germany, and ranks number 9 globally.

Like other Spanish industries, the automotive sector was hard hit by the economic crisis, as lower domestic consumption and difficulty accessing financing led to a slump in the car market. However, a rebound began in 2013 and accelerated in 2014, in line with Spain´s and the Eurozone´s economic recovery. According to the Spanish car manufacturers association ANFAC, domestic car production increased 11% year-on-year in 2014, to 2.4 million units. In the passenger car segment, production increased 8.8%, to 1.87 million units, while commercial vehicle production increased 19.7%, to 530,900 units. This upswing continued in the first four months of 2015, with car production increasing 12.5% year-on-year. Exports became the mainstay of Spain´s economic recovery, and in 2014 two million cars were exported; up 8.5%. 85% of cars made in Spain are destined for export, particularly to the EU, which accounts for 74% of Spanish car exports.

Due to the economic crisis domestic demand for passenger cars had decreased dramatically: from 1.7 million vehicles registered in 2007 to fewer than 0.8 million in 2012. However, the sector has benefited from the domestic economic rebound that started in 2014, as new vehicle registration grew 4%, to 987.281 units. This recovery has gained momentum in 2015. In line with the forecast for solid performance of the Spanish economy, which is expected to grow 3.1% in 2015, and a strong recovery of domestic household consumption in the January2015 - July 2015 period, new passenger car registrations increased 22.3% year-on-year.

Spain: Automotive sector

	2014	2015f	2016f
GDP growth (%)	1.4	3.1	2.7
Sector value added growth (%)	9.5	5.2	2.2

Sector share in the national economy (%)	1.0
Average sector growth over the past 3 years (%)	4.5
Average sector growth over the past 5 years (%)	2.0
Degree of export orientation	high
Degree of competition	high

Sources: IHS, Atradius

The outlook for the remainder of 2015 and into 2016 remains optimistic, given the expected Spanish GDP growth rate of 2.7% next year and forecasts for further acceleration of economic growth in the Eurozone (1.5% in 2015 and 1.7% in 2016). Spanish car production is forecast to increase to about 3 million units in 2017.

While external financing requirements and gearing are generally high in this sector, banks are increasingly willing to provide credit to this industry. Profit margins are expected to remain stable in the coming 12 months. Payments generally take about 40 days on average, and payment delays have decreased in H1 of 2015.

The same accounts for automotive business insolvencies, which are expected to decrease further in the coming months. Overall it is expected that Spanish business insolvencies will decrease 20% in 2015 after a 30% decline in 2014. However, this would still leave business insolvencies at a high level compared to the pre-crisis figures before 2008.

Due to the rebound our underwriting stance for the automotive sector has become more relaxed than in previous years. There are no major restrictions in our underwriting stance for large companies and strong international groups. However, we are still more cautious with small and medium-sized automotive companies that are highly geared.

Spanish automotive sector

Strengths	Importance to the Spanish economy
	High productivity levels
Weaknesses	Increasingly strong competition from emerging economies
	Dependence on export market demand

Source: Atradius

United Kingdom

- **Robust performance expected to continue**
- **Payments take 60 days on average**
- **Trouble for smaller aftermarket businesses remain**

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 UK automotive sector has continued growing in 2015, although at a more modest rate than in 2014. According to the Society of Motor Manufacturers and Traders (SMMT), car production increased 0.3% in H1 of 2015, to 793,642 units. In June 2015 output increased 5.4% year-on-year, and production for sales overseas increased 9%. Overall, production volumes have increased by more than 50% since 2009. A major strength of the British car manufacturing industry is its diversity, with a mix of volume, premium and specialist producers. The proportion of premium and specialist cars, in particular, has grown in the past decade, leading to increasing demand from outside the EU.

According to SMMT, new passenger car registrations in the UK increased 7% year-on-year in H1 of 2015, to more than 1.3 million units, after growing 8% in 2014. The UK-built Vauxhall Astra, Nissan Qashqai and Mini were among the overall top 10 sellers in the first half of 2015. The ongoing robust economic performance in the UK, with decreasing unemployment and rising consumer confidence, coupled with low interest rates, attractive finance deals and lower running costs available for newer models, are driving demand. The SMMT expects domestic car sales to increase by more than 8% in 2015.

Credit ratios of most automotive suppliers, and their ability to generate cash have further improved in 2014 and 2015 as a result of their solid profitability, and this has allowed them to reduce debt. However, the sector's success is still being partially fuelled by discounts and margin-eroding sales tactics, which means that profitability will not necessarily rise in line with shipments. Fleet sales to companies are often heavily discounted. Sales to rental companies are at cost, or lower, and the biggest loss maker involves dealers registering cars as demonstration models only to sell them on to customers, unused, at discounted prices.

A challenge facing the automotive retail sector is the impact of the increasing number of nearly-new used vehicles returning to

United Kingdom: Automotive sector

	2014	2015f	2016f
GDP growth (%)	3.0	2.6	2.6
Sector value added growth (%)	1.8	1.2	4.3

Sector share in the national economy (%)	2.5
Average sector growth over the past 3 years (%)	7.1
Average sector growth over the past 5 years (%)	0.4
Degree of export orientation	high
Degree of competition	high

Sources: IHS, Atradius

the market. Used car supply is increasing as the new car market grows, and this potentially could lead to lower margins for used car sales.

Payments in the UK automotive industry take around 60 days on average. Protracted payments in the sector are rare and consequently we have seen no increase in notifications of non-payment over recent months. Compared to other UK industries, the automotive sector's default and insolvency rate is good, with a stable outlook.

As in 2014, our risk underwriting stance remains positive towards most parts of the UK automotive sector, given the good payment and insolvency performance and reflecting the ongoing robust car demand in the UK and in the Eurozone.

That said, Tier 3 component manufacturers and independent specialist vehicle manufacturers still represent higher risks than other segments. As in 2014, still most of the credit insurance claims we receive relate to the aftermarket and haulage subsector. Characteristically, these are usually small businesses where information is limited to abbreviated accounts and most of these failures have been caused by internal management issues.

British automotive sector

Strengths	Strong domestic and global demand
	Diversity
	Engineering excellence
Weaknesses	High levels of capital expenditure
	Skills shortage
	Effect of discounting on profit margins

Source: Atradius

Market performance snapshots

Germany

- Growing share of overseas car production
- BRIC downturn has already had an impact
- Ongoing concentration process in the supplier segment

According to the German Automotive Association VDA, the production of German passenger cars increased further in 2014, by 6.1% to 14.9 million units, after rising 3.4% in 2013. Domestic production increased 3%, while production abroad rose 8.1%. In the period January 2015 - August 2015 domestic car production and exports both grew 2%, while new car registrations in Germany rose 6%. This underlines the continued robust performance of the German automotive industry in H1 of 2015, which has widely benefited from the rebounding car demand in the Eurozone.

The share of German original equipment manufacturers (OEM) car production abroad continued to rise, from 61% in 2013 to 62.5 % in 2014, and is expected to reach 68% by 2018, at the expense of production in Germany. China is already a very important market for many German OEMs: currently contributing 37% to Volkswagen's worldwide turnover (BMW: 25%, Daimler: 19%). Currently VW is losing market share in China, while Daimler was able to increase both unit output and sales by 29% and 30% respectively.

The recessions in Brazil and Russia and the current slowdown of Chinese economic growth all have an impact on the performance and margins of German automotive businesses, which can be offset by cost containment measures. German OEM´s export turnover has continued to grow, helped by a weaker Euro exchange rated against the USD.

German automotive suppliers are still making good profits and, in general, their solvency and liquidity are robust. However, margins have decreased for the last couple of years, due to increased material and labour costs. At the same time, suppliers are having to invest in engineering/production branches overseas in order to be close to OEMs that have relocated abroad. In order to reduce cost and to stem necessary investments, increasingly size matters. Therefore the concentration process in the suppliers segment is on-going: e.g. ZF acquired TRW, Magna took over Getrag , and Mahle persistently grows due to acquisitions (Behr, Letrika, Delphi Thermal, Kokusan Denki). At the same time there are long-term growth opportunities for German tier-1 and tier-2 suppliers in China, as they are welcomed partners for Chinese OEMs. This should reduce their dependency on German OEMs abroad.

The overall indebtedness of the automotive sector remains manageable and banks are generally willing to provide loans to automotive businesses. Our view of payment behaviour in the sector has been good over the last two years, with no increase in the number of non-payment notifications in the past six months. We expect the level of non-payments and insolvencies to remain stable or even to decrease slightly in the coming months - provided that the currently shaky international environment (i.e. developments in BRIC countries, Ukraine crisis, slowdown of Chinese growth) does not deteriorate further, the economic rebound in the Eurozone continues, and the current shake-up of the automotive sector due to the recently discovered manipulation of diesel emission data will not severely harm car producers and suppliers in the immediate future.

At present, our underwriting stance remains reasonably relaxed, as it was in 2013 and 2014, and only companies with lower ratings are underwritten more restrictively. We stay in direct contact with buyers to obtain their most recent financial information. Larger suppliers, tyre and aftermarket companies are monitored at least quarterly. Our focus is on businesses equity, profitability, working capital, cash flow, net debts and liabilities to banks.

We also closely monitor developments in the global macroeconomic and geopolitical environment for any early warning signs: while the current performance of the German car industry is still solid in general, any deterioration in economic performance and consumer sentiment would have straight and immediate negative effects on automotive sales. We also closely observe further developments regarding the diesel emission scandal for any repercussions on the market and individual businesses.

Italy

- Robust rebound in production
- Car dealers still the weakest link in the chain
- Insolvencies are expected to decrease in 2015

Italy's GDP shrank again last year, by 0.4%, after contracting 1.8% in 2013. However, in contrast to an originally more muted outlook for the Italian automotive industry for the second half of 2014 and into 2015, the sector showed a robust rebound: according to the Italian National Automotive Industry Association (Anfia) in 2014 domestic car production increased 6% year-on-year in 2014 to 700,000 units. Production mainly rose in H2 of 2014, with a year-on-year increase of 15.5%. In H1 it decreased 1.5%. While the light motor vehicles segment and light commercial vehicles segment recorded increases in 2014 (7.7% and 15% respectively), the production of heavy commercial vehicles recorded a 24% decrease.

New passenger car registrations increased 4.2% and commercial vehicle registrations rose 13.9% in 2014 as the recession bottomed out and economic growth returned, expected to reach a modest 0.6% in 2015.

The rebound accelerated in H1of 2015, with total production (cars, commercial vehicles, trucks) increasing 43.1% year-on-year, to almost 520,000 units. Passenger car production increased 63%, while light commercial vehicles output grew 12% and heavy vehicles 58%, benefiting from the rebound in the European car market.

At the same time domestic car registrations increased further, by 15.2% for passenger cars and 8.6% for commercial vehicles.

With the steep decline in car sales and production in the years before 2014, many of Italy's manufacturers and car part suppliers recorded decreasing profit margins. Especially smaller businesses saw their equity ratios, solvency and liquidity weaken. Thanks to the strong recovery seen since H2 of 2014 many of Italy's car suppliers have registered increasing profit margins and an improvement of their financial strength. Despite the rebound in the domestic car market, export-oriented businesses are still faring better than their domestic-oriented peers.

Car dealers are still the weakest subsector in the automotive industry: with little in the way of assets and equity, and exposed to pressure from both suppliers and customers, they have been challenged by lower sales in recent years and by the need to carefully manage their working capital.

On average, payments in the Italian automotive industry range between 60/90 to 120/150 days, depending on the end-buyer and whether working capital requirements can be obtained from banks or suppliers. Generally, payments are quicker when the end-buyer is a foreign company. Over the past few years domestic payment trends have been poor, although over the last six months we have seen fewer non-payment notifications . We expect non-payments to decrease further in H2 of 2015. While insolvencies in the automotive sector have increased sharply over the past couple of years, we recorded a decrease in 2014 and expect this positive trend to continue in 2015, by about 5% year-on-year.

When underwriting the Italian automotive sector we still remain generally cautious, given the degree and duration of contraction seen in previous years and due to the fact that many businesses are still financially feeble. However, we have cautiously relaxed our underwriting stance since 2014, due to the recent signs of rebound.

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

Market performance at a glance

Japan

- The Japanese automotive sector faces decreasing domestic sales due to the tax hikes implemented in recent years as well as structural issues such as a decrease in younger population. While overseas sales are negatively affected by the current slowdown in China, turnover is increasing in North America, helped by a weaker yen exchange rate.
- Japanese automotive businesses´profit margins have generally improved, mainly due to higher sales in North America. However, global price competition is increasing for Japanese manufacturers, especially in the car parts segment.
- Capital requirement is high in this sector, but in general Japanese automotive businesses are not overly indebted. Due to the satisfying business performance banks are generally willing to provide loans with good financing conditions, which is helped by low interest rates. Additionally, the Japanese government is encouraging banks to support companies with strong financing needs.
- The average payment duration in the Japanese automotive industry is 30-60 days for car retailers and 60-90 days for wholesalers and manufacturers. Payment behaviour in this sector has been very good over the past two years. The number of protracted payments, non-payments and insolvency cases is very low, and it is expected that there will be no deterioration in the coming months as the businesses environment is expected to remain stable and banks are willing to lend.
- Due to the generally benign indicators we assess the credit risk and business performance of the automotive sector as stable, and our underwriting stance continues to be very open for large manufacturers and open for car parts suppliers and wholesalers. However, in those latter segments we have adopted a more cautious approach for smaller business, which often have weaker financials than larger businesses and are more vulnerable to sudden changes in the market sentiment.

Slovakia

- The Slovakian automotive sector is performing well as production increased 5% year-on-year in the period January 2015 - July 2015. Businesses´ profit margins are expected to increase futher in the coming months due to robust sales and improving efficiency in the production process. Input cost for steel and plastics have decreased.
- Jaguar Land Rover has announced a plan to build a new plant in Slovakia with a production capacity of 300,000 cars per year. This would further increase demand from local car parts suppliers.
- Depending on the level in the supply chain, payment duration in the automotive sector ranges between 30 days and 90 days. Payment behaviour is generally good with a low number of non-payment notificiations, and this is expected to remain unchanged in the coming months. The insolvency level in this industry is expected to remain low.
- Our underwriting stance remains open, given the low payment default and insolvency level in this industry. Market conditions are expected to remain favourable, with continued growth in car production and additional business opportunties for suppliers. However due to its high dependence on exports the Slovakian automotive sector remains highly susceptible to adverse developments in the global car market, e.g. a major slump of demand in China.

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Sweden

- Sweden´s robust economic performance (GDP grew 2.4% in 2014 and is expected to increase 2.6% in 2015) has supported the automotive sector. New passenger car registrations reached an all time high in August 2015.
- The Swedish car producer segment is dominated by Volvo Cars in the passenger car and by Volvo AB and Scania AB in the truck segment. Their performance widely determines the performance of smaller Swedish suppliers.
- Both demand and profit margins are expected to remain stable in the Swedish automotive industry. Competition remains high in the car retail segment, but has decreased in the passenger car producing subsector after Saab Automobile went bankrupt in 2011.
- Most businesses in this sector should be financially resilient enough to cope with some minor volatitily in demand or commodity prices. Depending on the level in the supply chain, payment duration in the automotive sector ranges between 30 days and 90 days. Payment behaviour is quite stable, and insolvencies are not expected to increase in the coming months.
- In the past our underwriting was more restrictive following the SAAB Automobile bankruptcy and a few years of poor results for Volvo Cars. However, we have gradually increased our risk appetite again, as most suppliers sucessfully managed the transition from supplying SAAB to other customers. At the same time Volvo Cars' sales performance has improved again in recent years. The truck sector has been reasonably stable for years, so we have been able to issue substantial credit limits for quite some time.

Thailand

- Thailand´s automotive sector is facing only a slight increase in demand in 2015 due to the more subdued domestic household consumption outlook and expected lower growth in some major Asian economies. That said, profit margins are expected to remain stable in the sector.
- Thailand´s automotive sectors is characterised by high entry barriers as the players in the market are large multinationals with strong financials and good know-how.
- Depending on the level in the supply chain, payment duration in the automotive sector ranges between 30 days and 90 days. Payment behaviour is good with a low number of non-payment notificiations, and this is expected to remain unchanged in the coming months. The insolvency level in this industry is expected to remain low.
- Due to the robust performance our underwriting stance is generally open. The currently low commodity prices (e.g. steel and metals) benefit the automotive sector. But this also means that steel and metals-related suppliers to the industry currently face more troubles due to high competition and lower sales prices.

USA

- The US automotive sector is performing well, with new car sales approaching pre-recession levels. New car sales are expected to increase 3.7% in 2015, to 17 million units, driven by robust economic performance, improved consumer confidence and expanded regulatory requirements for safety and fuel economy. The aftermarket segment remains stable, aided by lower fuel prices.
- Gross margins of automotive businesses are expected to remain stable in the coming months as the industry benefits from lower raw material prices (on average raw materials account for 20% to 25% of a car's selling price). However, at the same time there is some headwind from a stronger USD.
- The US automotive market is very competitve, with domestic brands such as GM, Ford and Fiat Chrysler losing market share to foreign producers from Japan and Germany. That said, The 'Detroit 3' remain the largest players in North America, and the industry remains competitive due to changing technology and regulatory requirements.
- Automotive businesses tend to be highly leveraged, since the sector is very capital-intensive. Access to external funding has steadily improved since the 2008 credit crisis, due to the improved trading conditions within the sector, relaxation within the traditional credit markets and access to funding via government-backed programs.
- The average payment duration in the US automotive industry is 30-60 days. Payment behaviour in this sector has been rather good over the past two years. The number of protracted payments, non-payments and insolvency cases is low. Given the positive performance outlook we expect the current insolvency rate to remain stable.

Industries performance forecast per country

October 2015

	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	Good	Fair	Fair	Fair	Poor	Poor
Good	Fair	Fair	Bleak	Fair	Poor	Poor
Good	Fair	Fair	Poor	Poor	Fair	Poor
Fair	Good	Fair	Poor	Good	Fair	Poor
Fair	Good	Poor	Poor	Good	Poor	Poor
Good	Fair	Poor	Bleak	Poor	Poor	Poor
Good	Fair	Poor	Poor	Fair	Poor	Poor
Good	Fair	Fair	Fair	Good	Fair	Poor
Fair	Fair	Fair	Fair	Good	Fair	Fair
Fair	Fair	Poor	Fair	Fair	Poor	Fair
Poor	Poor	Poor	Fair	Poor	Poor	Poor
Fair	Good	Fair	Fair	Fair	Poor	Poor
Good	Fair	Poor	Poor	Fair	Poor	Poor
Good	Good	Poor	Fair	Fair	Poor	Fair
Good	Good	Fair	Bleak	Good	Poor	Fair
Good	Fair	Bleak	Poor	Poor	Fair	Poor
Fair	Fair	Fair	Poor	Fair	Poor	Poor
Good	Poor	Poor	Fair	Fair	Poor	Poor
Good	Fair	Fair	Poor	Good	Fair	Bleak
Good	Fair	Fair	Good	Good	Poor	Poor
Good	Good	Poor	Poor	Good	Poor	Fair
Good	Fair	Poor	Poor	Fair	Poor	Poor
Fair	Fair	Poor	Poor	Good	Bleak	Poor
Excellent	Fair	Poor	Fair	Good	Poor	Fair
Good	Fair	Fair	Good	Good	Fair	Fair
Good	Fair	Poor	Fair	Fair	Poor	Fair
Good	Good	Fair	Fair	Fair	Fair	Poor
Fair	Fair	Fair	Poor	Poor	Poor	Poor
Good	Good	Fair	Fair	Good	Poor	Fair
Excellent	Fair	Poor	Fair	Good	Poor	Fair
Good	Fair	Fair	Fair	Fair	Poor	Bleak
Good	Good	Fair	Good	Good	Fair	Fair

Excellent

Good

Fair

Poor

Bleak

Industry performance

Changes since September 2015

Asia/Oceania

Indonesia

Electronics/ICT

Down from Good to Fair

As most electronic devices (e.g. notebooks and smartphones) are imported, many businesses recorded decreasing sales due to currency depreciation and are facing increased inventory costs.

Machines/Engineering

Down from Good to Fair

The sector has been negatively affected by the current economic slowdown in Indonesia. Machines manufacturing businesses have decreased production and their purchasing power has weakened.

Metals

Down from Fair to Poor

The sector has been negatively affected by decreased commodity prices. Risks have increased in the metal stamping subsector. Mining performance has declined since 2013, and government regulations hamper foreign investment in this segment.

New Zealand

Construction/Construction materials

Up from Poor to Good

The industry widely benefits from the current commercial and residential rebuilding measures after the Christchurch 2010 earthquake and the Auckland housing boom. Both are expected to last until the end of 2016 at least.

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Atradius N.V.
David Ricardostraat 1 · 1066 JS Amsterdam
Postbus 8982 · 1006 JD Amsterdam
The Netherlands
Phone: +31 20 553 9111

info@atradius.com
www.atradius.com