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PRESS RELEASE

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Coface Sector Outlook: Risks Still Increasing in Emerging Markets

- **In Europe, dynamic household consumption is boosting many sectors**
- **The health of UK industries is deteriorating and hinges on post-Brexit decisions**
- **Strong regional disparities persist – five out of the six downgrades are in emerging markets**

Brexit poses political problems just as the European economy is staging a recovery

The uptick in household consumption reflects restored confidence among households and companies in Western Europe. This positive dynamic has led the **Information and communication technology (ICT)** and **Automotive** sectors to be reclassified as **low risk** in **Western, Central, and Eastern Europe**. The rise in new vehicle registrations has benefitted both auto manufacturers and companies in the **Metals** sector. Although metals are still associated with **high risk**, the assessment for this sector has been upgraded since the automotive industry accounts for 12% of the sector and construction for 50%. The moderate improvement observed at the beginning of the year in **Construction** has been confirmed. This situation, along with the rise in building permits in **Spain** (35%), **Germany** (12.5%), and **France** (7.6%), has led to the sector to be reclassified as **average risk**.

Despite the positive trend in household spending, the **Textile** sector has been plagued by intensified internal competition, particularly in the industry's mid-range segment.

Although the region is gaining momentum, three sectors are under surveillance in the **UK** following the anticipated split with the European Union. In the short term, construction (6.1% of GDP) will be hampered by rising import prices due to the depreciation of the pound sterling. The pharmaceutical and automotive sectors may be negatively impacted by entry barriers, as goods from these industries are among the most heavily exported (7.8% and 11.3% of exports, respectively.)

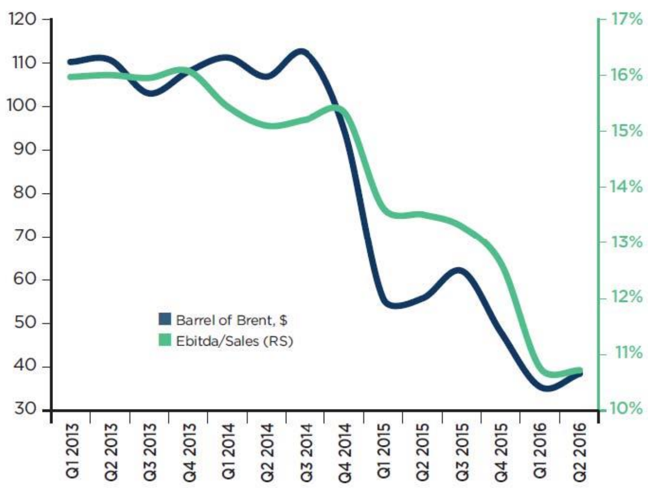
A shift between emerging and developed markets

Latin America is still associated with the highest risk in the world, with its **Energy, Steel**, and **Construction** sectors all classified in the maximum risk category (**very high risk**.) On the positive side, **Brazil**, like many other Latin American countries, is seeing the manufacture of paper pulp enhanced by the fall of the real against dollar in 2015 (47%.) During the first five months of 2016, Brazilian exports surged by 10%, reducing risks in the **Paper-Wood** sector (reclassified as **average risk**.)

Among the 12 sectors analyzed by Coface, the **Pharmaceuticals** sector remains the least risky globally. Despite the challenging international environment, the sector is benefiting from increasing healthcare demand in emerging economies and a business model based on reimbursement in advanced economies. This is causing companies to invest. Given the high level of profitability observed in **North America**, we are reclassifying the **Pharmaceuticals** sector there as **very low risk**. However, **US** growth is losing momentum in 2016 (1.8%) and retail sales are slowing, reflecting more muted consumption. North America's **Textile** sector, which has been impacted by this slowdown, has been downgraded to **high risk**.

Oil dependent regions bucking the global trend

Graph n°1: Profitability (Ebitda/Sales) of the energy sector and change in the price of a barrel of oil



Sources: Thomson Reuters, Coface

Even though stronger economic trends can be seen overall, some regions have highly distressed sectors.

The **Middle East**, which is mainly dependent on oil exports, has adopted austerity policies that are detrimental to other sectors. These measures are hindering economic activities that rely on robust household consumption. The developments are the result of lower oil prices, which have led to a decrease in fuel subsidies. **Automotive, Agrofood, Retail** and **Textile-Clothing** have all been downgraded to **high risk**.

Policies imposing cuts in public expenditure have also impacted countries in emerging **Asia**. This is particularly so in the **Construction** sector, where company debt has reached record levels due to increased customer late payments. The sector has therefore been downgraded to **very high risk**. However, the **Agrofood** industry is faring better and expanding due to a slight rally in agricultural commodity prices.

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About Coface

The Coface Group, a worldwide leader in credit insurance, offers companies around the globe solutions for protection against the risk of financial default of their clients, both on the domestic market and for export. In 2015, the Group, supported by its 4,500 staff, posted a consolidated turnover of €1.490 billion. Present directly or indirectly in 100 countries, Coface secures transactions of 40,000 companies in more than 200 countries. Each quarter, Coface publishes assessments of country risk for 160 countries, based on its unique knowledge of company payment behavior and on the expertise of its 660 underwriters and credit analysts located close to clients and their debtors. In France, Coface manages export public guarantees on behalf of the French State. Learn more at [www.coface.com.](http://www.coface.com)

APPENDIX

SECTOR RISK ASSESSMENT						
Sectors	**Western Europe**	**Emerging Asia**	**North America**	**Latin America**	**Central Europe**	**Middle East + Turkey**
Agrofood	Medium risk	Medium risk	Medium risk	High risk	Medium risk	Medium risk ↘ High risk
Automotive	Medium risk ↗ Low risk	Medium risk	Medium risk	High risk	Medium risk ↗ Low risk	Medium risk ↘ High risk
Chemical	Medium risk	High risk	Low risk	High risk	Medium risk	High risk
Construction	High risk ↗ Medium risk	High risk ↘ Very high risk	Medium risk	Very high risk	Medium risk	High risk
Energy	High risk	High risk	Very high risk	Very high risk	High risk	High risk
ICT *	Medium risk ↗ Low risk	High risk	Medium risk	Medium risk	Low risk	Medium risk
Metals	Very high risk ↗ High risk	Very high risk	High risk	Very high risk	High risk	Very high risk
Paper-wood	High risk	Medium risk	Medium risk	High risk ↗ Medium risk	Medium risk	Medium risk
Pharmaceuticals	Medium risk	Low risk	Medium risk ↗ Low risk	Medium risk	Medium risk	Low risk
Retail	Medium risk	Medium risk	Medium risk	High risk	Medium risk	Medium risk ↘ High risk
Textile-clothing	High risk	High risk	Low risk ↘ Medium risk	High risk	Medium risk	Medium risk ↘ High risk
Transportation	Medium risk	Medium risk	Low risk	High risk	High risk	Medium risk

Source: Coface

* Information and communications technologies

Low risk — High risk — Medium risk — Very high risk — ↗ The risk has improved — ↘ The risk has deteriorated

Sectoral risk assessment methodology

Coface's assessments are based on the financial data published by listed companies in six major geographic regions: Emerging Asia, North America, Latin America, Western Europe, Central Europe and Middle East + Turkey.

Our statistical credit risk indicator simultaneously summarises changes in four financial indicators: turnover, profitability, net indebtedness, and cash flow, completed by the claims recorded through our network.