

Paris, 9 December 2015

Quarterly sector risk assessments update

2015 marked by the persistence of high risks around the world

4th quarter 2015: no improvements but new declines

The new downward revision of sectorial evaluations reflects the number of burdensome realities faced by industries. The most obvious of these factors is the slowdown in sales, for reasons specific to each sector.

- As regards the **textile and clothing sector in emerging Asia**, the slowdown in apparel sales is coupled with the decline of China's cost competitiveness (a country which accounts for 70% of the region's GDP) and with the challenges in cotton inventories - the principal raw material used for apparel. The return of uncertainties for producers leads Coface to downgrade this sector as 'high' risk.
- The slowdown in retail sales in the United States and especially in Canada (which experienced a recession during the first half of 2015), is at the root of the revision of **North America's retail sector** to 'medium' risk. The dependence of Canada's economy on oil and household debt are impacting consumption, which slowed down to 1.7% year-on-year at the end of the third quarter, compared to 2.6% in 2014. The withdrawal of the distributor Target from the Canadian market illustrates the perceived rise in risks for companies in this sector.

Price falls are an additional threat.

- Despite the signs of a recovery in construction and the dynamism of automobile sales supporting the demand for metals, **metals in Western Europe** is going through a difficult period. Steel production is declining in favour of low-cost imports from Asia. During the first seven months of 2015, Europe imported twice as much steel from China as it did in 2013. An anti-dumping tax, implemented in August for six months by the European Commission, is expected to help European industrialists regain their competitiveness. In the meantime, Coface warns against destabilisation in this sector, with its assessment in the 'very high' risk category.

In 2015, one-third of sectors assessed in the 'high' and 'very high' risk categories

Of the fourteen sectors of activity monitored by Coface economists in three large regions of the world, which represent 73% of global GDP, nine were reviewed in 2015. There were more downgrades than upgrades in the levels of risk. The biggest loser of the year was **energy in the United States**. This sector, which underwent two downgrades, was penalised by drastic cuts in investments and the high level of indebtedness of companies working in exploration and production as a result of the drop in oil prices. At a global level, **metals** is by far the sector most at risk, assessed as 'very high' risk in emerging Asia and now also in Western Europe.



P R E S S R E L E A S E

The two improvements concern Western Europe, where chemicals and ICT (information and communication technologies) sectors were upgraded as 'medium' risk in October 2015. Despite this good news, the recovery is still too disparate for all of the sectors in the zone to benefit from it. **Western Europe** is the most stricken region, with none of the sectors assessed at this time at 'low' risk.

"In 2015, sector risks have deteriorated in comparison to 2014", commented Paul Chollet, economist at Coface. "One-third of the sectors are now assessed as 'high' or 'very high' risk, and no region is spared. Greater control over risks is required. This is at the heart of our conception of the role of credit insurer, thanks in particular to our fifty centres devoted to collecting, processing and analysing information, which are located as close as possible to companies."

MEDIA CONTACTS:

Maria KRELLENSTEIN T. +33 (0)1 49 02 16 29 maria.krellenstein@coface.com
Justine LANSAC T. +33 (0)1 49 02 24 48 justine.lansac@coface.com

About Coface

The Coface Group, a worldwide leader in credit insurance, offers companies around the globe solutions to protect them against the risk of financial default of their clients, both on the domestic market and for export. In 2014, the Group, supported by its 4,400 staff, posted a consolidated turnover of €1.441 billion. Present directly or indirectly in 99 countries, it secures transactions of 40,000 companies in more than 200 countries. Each quarter, Coface publishes its assessments of country risk for 160 countries, based on its unique knowledge of companies' payment behaviour and on the expertise of its 350 underwriters located close to clients and their debtors.

In France, Coface manages export public guarantees on behalf of the French State.

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APPENDIX

| SECTOR RISK ASSESSMENT | | | |
|------------------------|---------------|---------------|-----------------|
| Sectors | Emerging Asia | North America | Western Europe* |
| Agrofood | | | |
| Automotive | | | |
| Chemicals | | | |
| Construction | | | |
| Energy | | | |
| Engineering | | | |
| ICT** | | | |
| Metals | | | |
| Paper-Wood | | | |
| Pharmaceuticals | | | |
| Retail | | | |
| Services | | | |
| Textile-clothing | | | |
| Transportation | | | |

Source: Coface

* European Union 15

** Information and communications technologies

Low risk

Medium risk

High risk

Very high risk

The risk has improved

The risk has deteriorated

Sectorial risk assessment methodology

Coface's assessments are based on the financial data published by over 6,000 listed companies in three major geographic regions: Emerging Asia, North America and the European Union 15.

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.