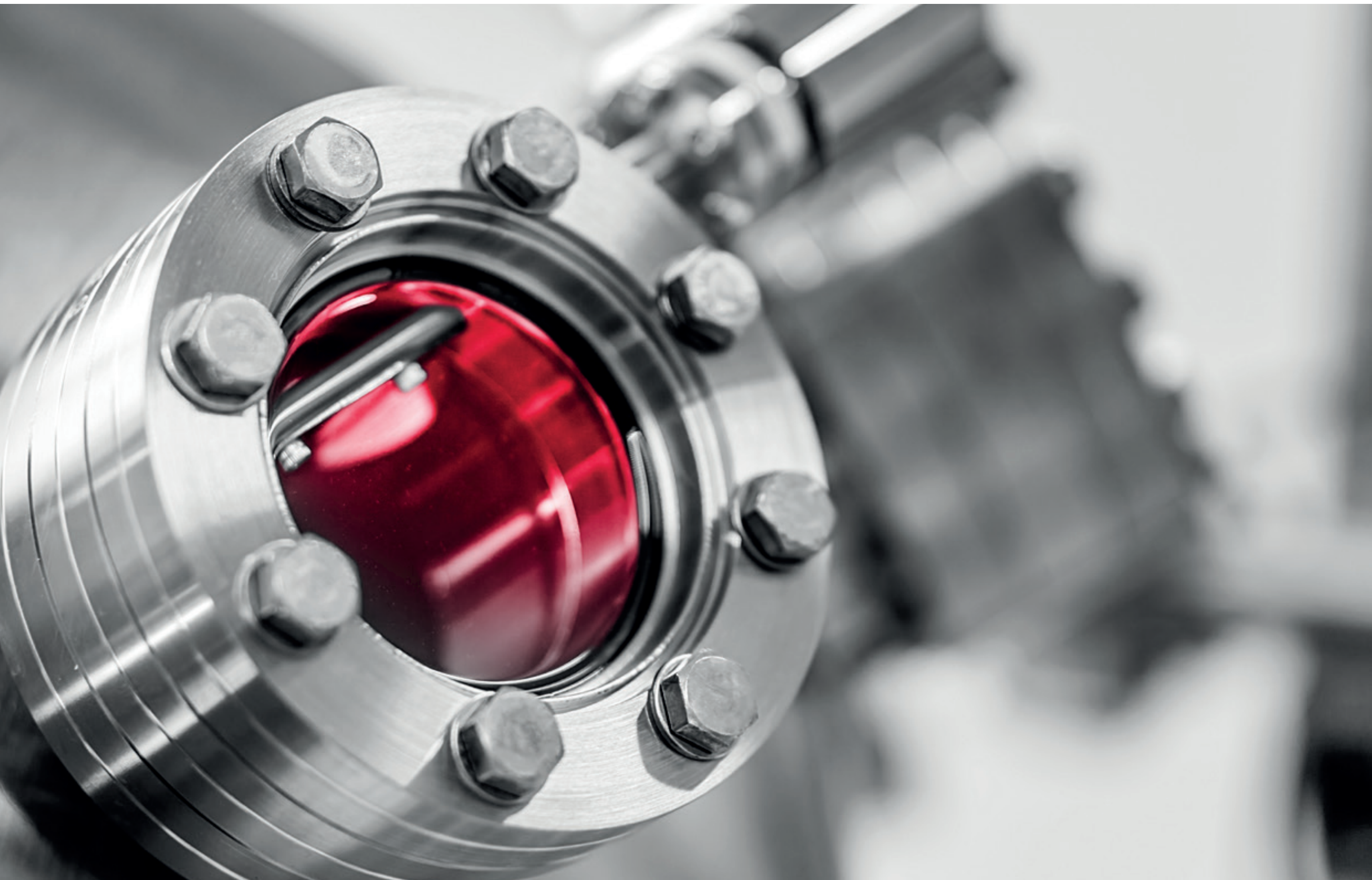
Atradius
Managing risk, enabling trade

November 2019



market monitor

Focus on metals and steel performance and outlook

In this issue...

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

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

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

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

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

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

Doing business in harder times

Since H2 of 2018, the market situation has continuously deteriorated for many metals and steel businesses. A slowing global economy, increasing trade tensions, geopolitical issues and the economic deceleration in China weigh on business confidence and investment.

Performance of major metals and steel buyer industries have begun to weaken. Despite a slowdown in some countries, construction activity kept up in some major markets like the US and Germany. However, production and sales in the global machinery sector have steadily decelerated. This is expected to continue in 2020. At the same time, the automotive industry is currently facing fundamental challenges, with weakening demand in key markets (e.g. China), market saturation in other regions and a shift from combustion engines to e-mobility by many major car producers.

Adding to all those issues the steel industry has to cope with higher commodity prices and decreasing steel prices in some key markets, especially in Europe. The steel price decline is also fuelled by ongoing US steel import tariffs, as producers from China, Russia and Turkey have redirected their exports to the EU. In addition, EU steel businesses are affected by higher prices for emission trading permits. The combination of lower demand, higher input costs and lower sales prices has led to deterioration of (already thin) margins for many businesses.

Due to the more difficult market environment, the business performance and credit risk situation of many metals and steel companies has deteriorated over the past 12 months. This is reflected in several performance outlook downgrades of metals and steel subsectors in key markets, compared to the previous 2018 issue of the Metals and Steel Market Monitor.

France

- A less benign performance outlook
- A modest insolvency increase is expected
- Payments take 80 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 H1 of 2019 demand for French metals and steel from the construction industry remained quite stable despite the fact that the building industry faced some difficulties. The automotive sector rebounded following poor performance in Q4 of 2018. Metals and steel demand from the machinery industry was driven by solid demand with increased exports.

The French metals and steel sector is mainly dependent on domestic demand, less so on exports. The impact of the US import tariffs on steel and aluminium remains low (the US market accounts for only 4% of French steel and metals exports).

However, the performance outlook is less benign for the coming 12 months. In the construction sector we have noticed some delays of major projects. This is impacting deliveries, payment terms and the cash flow of affected metals and steel suppliers. At the same time, metals and steel demand from domestic automotive producers is expected to decrease sharply in the coming months. At least demand from machinery remains robust, despite reduced activity in the farming machines/equipment segment.

Operating margins generally remain small for many small players, especially for smaller steel/metal traders, wholesalers and processors. Profit margins of these businesses continue to deteriorate as sales prices have decreased. That said, many traders have learned to prudently manage their inventories over the past couple of years, and are better prepared to cope with commodity and sales price volatility.

Metals and steel businesses are generally highly dependent on bank financing, due to high capital expenditures when operating upstream, and/or the need for short-term facilities to finance working capital requirements and inventories. The willingness of banks to provide credit to the sector has remained unchanged since last year, and can be described as neutral.

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France: Metals Manufacturing

	2018	2019f	2020f
GDP growth (%)	1.7	1.3	1.3
Sector value added growth (%)	0.8	-1.9	1.3

Average sector growth over the past 3 years (%)	1.2
Average sector growth over the past 5 years (%)	0.8
Degree of export orientation	medium
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

The average payment duration in the metals and steel industry is 80 days. Payment delays and insolvencies are expected to increase slightly in the coming 12 months. While metal and steel traders and wholesalers are able to adapt with a flexible cost structure, we expect more business failures in the metal manufacturing segment, which suffers from decreasing demand (especially from automotive). Insolvencies in the industry are expected to increase by about 1%-2% in 2019 and 2% in 2020, as heavier working capital requirements are putting pressure on cash flow and liquidity of producers. Additionally, investments recently made by some companies to increase their business activity could lead to overcapacity.

French metals/steel sector

Strengths	Less overcapacity than in the past due to concentration and rationalisation
	Businesses have learned to better manage inventories
	Some resilient key players active within the steel sector
Weaknesses	High financial needs
	Low margins due to stiff competition
	Financing new investments is an issue for many businesses
	Exposed to price volatility

Source: Atradius

Our underwriting stance remains generally open for the iron and steel segment, considering the quality of the portfolio (larger businesses with strong fundamentals). However, we are more cautious with businesses in the recycling segment due to ongoing price volatility.

Our underwriting stance remains neutral for metal trading business, considering persistent price and competition issues, while many players have improved their inventory management. A neutral approach also applies to the metals manufacturing segment, where capacity problems, cash flow pressure, difficulties absorbing new investments and decreasing demand from key buyers are issues. We are closely monitoring small and mid-sized manufacturers that deliver to the automotive industry, as demand from this buyer sector is expected to decrease sharply (production of related automotive components could decline by about 20% in 2020). We pay close attention to businesses active in the forging segment, which is seriously impacted by the shift away from combustion (Diesel) engines, and has comprehensive financing needs in order to climb up the value chain.

In the steel and metals industry, where both overcapacity and volatile prices are a concern, conditions can change quickly, especially if decreasing revenues and margins are not bolstered (in time) by cost management. Prudent inventory management has become a key factor for cost optimisation and absorbing sudden price decreases..

Performance forecast along subsectors

Iron and Steel	Metals	Metals Manufacturing
		

Source: Atradius

Germany

- **Performance forecast downgrade due to mounting challenges**
- **More business failures expected in 2020**
- **Extension of payment terms ongoing**

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 German metals and steel sector is currently facing mounting challenges, which are seriously affecting the performance of many businesses in the industry. Ongoing global economic issues (Sino-US trade dispute, insecurity over the future EU-US trade relationship, Brexit, manufacturing slowdown in the EU and lower growth in China) are negatively affecting exports and domestic sales.

The US import tariffs on steel (25%) and aluminium (10%) have created additional problems. While the immediate impact is rather low (the US accounts for just 1.5% of German steel/aluminium exports), the German steel industry is suffering from lower steel prices, because of additional steel inflow redirected from the US into the EU. So far, the success of safeguarding and anti-dumping measures initiated by the European Commission in order to stem the flow of cheap steel imports has been limited.

While steel prices declined in 2019, transport, energy and labour costs have continued to increase for German businesses. There has been a truck driver shortage since 2018, and the situation could deteriorate in the coming years, potentially threatening the smooth supply flow along the value chain.

The automotive industry as one of the key buyer sectors for German metals and steel businesses is facing decreasing demand and fundamental structural challenges lay ahead ("Dieselgate", Worldwide Harmonized Light Vehicles Test Procedure, shift away from combustion engines to e-mobility). For metals and steel component suppliers we have already noticed decreasing sales (down between 10% and 20%) and deteriorating results in H1 of 2019. Some suppliers have already implemented cost reduction measures (e.g. short-time work and redundancies) in order to cope with market uncertainty. Other businesses have

Germany: Metals Manufacturing

	2018	2019f	2020f
GDP growth (%)	1.5	0.6	0.7
Sector value added growth (%)	0.9	-3.1	-0.8

Average sector growth over the past 3 years (%)	3.7
Average sector growth over the past 5 years (%)	3.7
Degree of export orientation	high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

issued profit warnings, or even started comprehensive restructuring processes.

Due to all those issues, we have recently downgraded the business performance and credit risk outlook for German metals and steel from "Fair" to "Poor". Both segments suffer from decreasing demand from key buyer sectors (mainly automotive, but also mechanical engineering), high commodity prices (e.g. iron ore) which are difficult to pass on to customers, overcapacity, strong competition, low profitability and increased pressure on margins, which are expected to deteriorate further in the coming 12 months.

We have not yet noticed major changes in the payment behaviour of metals and steel businesses over the past couple of months. Payments take, on average, between 30 and 45 days. However, increasingly the trend of extending payment terms up to 60 days is noticeable. While the level of metal and steel business failures was low over the past twelve months, an increase of about 2%-3% is expected in H2 of 2019 and in 2020.

German metals/steel sector

Strengths	Broad range of customer industries and export destinations
	Quality/niche products
	High technology level compared to other competitors
Weaknesses	Persistent overcapacity
	Volatile prices depending on demand and competition
	High energy and personnel costs

Source: Atradius

Our underwriting stance is mainly neutral to cautious for German steel and metal businesses. We have recently turned more cautious when underwriting the iron and steel producer segment. We are also more cautious with steel service centres, as this segment could see increased write-offs at the end of the fiscal year due to weak sales, well-stocked inventories and lower steel prices. Smaller steel traders often face strong competition and low margins; especially those without additional business like prefabrication.

In the metals segment we remain mainly neutral for smaller and medium-sized wholesalers, which often show low equity and tight margins. We have tightened our underwriting stance on metal manufacturing, especially on those businesses that depend heavily on sales to the automotive sector. Many companies in this segment have a weak solvency and equity position. Pressure on their margins is already high, and they have to make additional investments to adapt to the changing market environment (e.g. e-mobility). We focus on liquidity, profitability and the order situation as well as the individual business outlook.

Performance forecast along subsectors

Iron and Steel	Metals	Metals Manufacturing
		

Source: Atradius

Italy

- Ongoing deterioration of demand and margins
- Increasing payment delays and insolvencies expected
- Payments take 105 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

After three years of positive market development between 2016 and 2018, this year the business conditions for the Italian metals and steel industry have started to deteriorate. Demand for metals and steel products has slowed down, mainly due to the downturn in the automotive industry and the persistent difficulties in the domestic construction industry.

At the same time, a slowdown in manufacturing activity in the EU and subdued investments due to elevated downside risks (e.g. Brexit, trade disputes) hamper the performance of export-oriented metals and steel businesses.

Another issue is higher steel imports to the EU from overseas producers, triggered by the ongoing US import tariffs. So far, steel producers have considered safeguard measures introduced by the European Commission insufficient. A "Carbon Border Adjustment" has been recently proposed to restore more equal trade competition with producers from countries with less strict environmental regulations.

Due to the mounting challenges, according to the World Steel Organisation Italian domestic raw steel production decreased 4.5% year-on-year between January and August 2019, and the iron and steel sector value added growth is expected to contract by about 4% this year, while steel prices have constantly decreased since Q4 of 2018.

For many Italian metals and steel businesses both demand and profit margins are expected to deteriorate further in the coming months, with a moderate rebound expected in H2 of 2020 at the earliest.

While the payment experience has been good over the past two years and insolvencies have not increased, it is expected that

Italy: Metals Manufacturing

	2018	2019f	2020f
GDP growth (%)	0.7	0.1	0.2
Sector value added growth (%)	0.9	-3.1	-0.8

Average sector growth over the past 3 years (%)	3.1
Average sector growth over the past 5 years (%)	1.7
Degree of export orientation	average
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

both payment delays and business failures will increase in Q4 of 2019 and H1 of 2020 (up about 4%). Metals and steel businesses operating in the domestic market remain affected by slow payment from their customers as the average payment duration is 105 days, putting pressure on their cash flow.

Taking into account both the solid performance over the past two years, but also the current issues, our underwriting stance remains generally open to neutral, depending on the performance of the subsectors and their main buyer industries.

Italian metals/steel sector

Strengths	Flexible production
	Export oriented
	Consolidation in certain sectors
Weaknesses	Slowdown in demand both at domestic and European level
	Market remains quite fragmented
	High dependence on construction and automotive

Source: Atradius

We are more open to metals and steel producers and companies that are export-oriented, while more caution is advised for metals and steel distributors and service centres dependent on automotive and construction. Many of those businesses are highly leveraged small and medium-sized companies with thin margins.

We closely observe the ongoing issue regarding the future of the Ilva steel plant. A sharp reduction of production or even a closure of the plant would severely affect Italian steel output (Ilva´s production accounts for 1.4% of Italian GDP). In such a case Italian steel distributors and service centres would have to purchase raw steel from abroad, leading to higher costs and tighter payment terms. This would ultimately put additional pressure on (already tight) margins and working capital of Italian steel buyers.

Performance forecast along subsectors

Iron and Steel	Metals	Metals Manufacturing

Source: Atradius

United Kingdom

- **Insolvencies expected to increase 5% in 2020**
- **Payments take 60 days on average**
- **Ongoing consolidation process**

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 domestic metals and steel demand situation has remained rather stable so far, but is increasingly affected by subdued investment in the construction sector as a result of uncertainty surrounding Brexit, and a marked slowdown in demand from automotive.

Additionally, energy costs remain an issue, as British steel producers pay 50% and 110% more for energy (electricity) than their German and French peers - even after compensation and exemption schemes provided by the government. This is a major competitive disadvantage domestically and internationally. At the same time, businesses suffer from higher commodity costs, lower sales prices for steel and fierce competition, both leading to an ongoing deterioration of profit margins. Steel value added growth is expected to level off in 2019 and to contract 1.0% in 2020.

Historically service centres and steel stockholders already struggled to obtain decent margins against price volatility. Now the challenge is to maintain margins when falling prices are endemic. While banks are still generally willing to provide loans to the industry, lending conditions are increasingly getting tighter.

Regarding consolidation of steel producers, the Tata and ThyssenKrupp merger is off the table as competition authorities have blocked the deal. However, we observe that larger mills have increased their interest in acquiring more downstream businesses in order to support vertical integration. The main driver is to improve efficiencies and economies of scale, as well as increasing the bargaining power with major end-suppliers. This could potentially put pressure on independent service centres, as stockists associated with mills will receive preferential prices for their products.

UK: Metals Manufacturing

	2018	2019f	2020f
GDP growth (%)	1.4	1.3	1.1
Sector value added growth (%)	0.6	-1.1	-1.8

Average sector growth over the past 3 years (%)	0.0
Average sector growth over the past 5 years (%)	0.7
Degree of export orientation	low
Degree of competition	very high

Sources: Macrobond, Oxford Economics, Atradius

The issue of sales price decline was exacerbated by Brexit-related stock piling, as more stock was accumulated in Q1 of 2019, ahead of the previous March 29th Brexit deadline. After the extension of the deadline, the stock was dumped on the market.

The ongoing uncertainty related to Brexit remains a major problem, especially if the EU and the UK fail to reach a comprehensive agreement on the post Brexit EU-UK trade relationship or if there is a hard Brexit. Potentially, British steel and metals exports could become subject to EU measures put in place to protect domestic steel. At the same time, with no preferential tariffs or simply no tariffs at all on non-EU trade, the UK and its metals and steel industry could become more vulnerable to cheap imports from Asia and the Middle East.

British metals/steel sector

Strengths	Investment in new technologies
	Still good access to external financing which underpins liquidity.
Weaknesses	Lower prices increase margin pressure
	High dependence on the automotive sector
	Brexit-related economic uncertainty.

Source: Atradius

That said, it seems that many metals and steel businesses have made some contingency planning, including stock piling, to ensure they have suppliers from outside the EU, or setting-up a subsidiary in the EU to facilitate trade between the EU and a UK entity.

The average payment duration in the UK steel and metals industry is about 60 days. Due to squeezed margins in many businesses, payment delays have increased in H1 of 2019, and are expected to rise further in the coming 12 months. There have been three large metals and steel business failures recently, mainly the result of poor management decisions and the inability or unwillingness to adapt to the changing market environment. Insolvencies in the metals and steel industry are expected to increase about 5% in 2020.

Due to the recent business failures of some larger companies, and the subdued insolvency outlook for 2020, we have tightened our underwriting stance for metals and steel. While financial analysis remains a key part of the decision-making process, understanding the strategic plans of businesses is just as important. Other important criteria are succession planning and pensions, as some businesses are not generating the cash/profits to fund additional payments into their pension schemes.

Performance forecast along subsectors

Iron and Steel	Metals	Metals Manufacturing
		

Source: Atradius

Market performance at a glance

Belgium

- Demand for Belgian metals and steel is currently being impacted by the slowdown in demand from automotive and reduced investment from other manufacturing industries in Belgium and the EU. Profit margins of many businesses have decreased over the past 12 months due to increased competition. Value added growth in the iron and steel segment is expected to decrease by about 5% in 2019, with a modest 0.1% rebound forecast in 2020.
- Gearing of businesses mainly depends on the subsector, e.g. while large metals and steel groups have a lower gearing, the overall indebtedness of metal traders and smaller buyers in the semi-finished goods segment is rather high. Banks are still generally willing to provide loans to Belgian metals and steel businesses.
- Payments in the Belgian metals and steel sector take about 60 days on average, and the number of non-payment notifications in 2019 has been lower than in 2017 and 2018. While Belgian business insolvencies are forecast to increase 4% in 2019 and 2% in 2020, it is expected that steel and metals business failures will level off.
- Our underwriting stance is neutral for both the metals and steel segments, especially for larger groups. However, we are more cautious with businesses that depend heavily on supplies to the automotive industry. Regarding metals and steel traders interim figures are required to better follow-up their business activities.

Belgium: Metals Manufacturing

	2018	2019f	2020f
GDP growth (%)	1.4	1.2	1.1
Sector value added growth (%)	-2.2	0.6	2.4

Average sector growth over the past 3 years (%)	-1.2
Average sector growth over the past 5 years (%)	1.8
Degree of export orientation	high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Iron and Steel	Metals	Metals Manufacturing

Source: Atradius

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Canada

- In H1 of 2019 most Canadian metal and steel businesses showed positive results, with higher revenues due to higher sales prices, robust demand and the impact of protectionist measures in both Canada and the US, which disadvantage competition from overseas suppliers.
- The sector benefits significantly from Washington´s decision in May 2019 to lift US import tariffs on Canadian steel and aluminium (the US market accounted for 82% of all Canadian iron and steel exports in 2018, affecting about 45% of domestic production). In June 2019 alone Canadian exports of previously tariffed steel products to the US increased 15.8% year-on-year, while exports of aluminum products rose 47.2%. Profit margins of Canadian metal and steel businesses are expected to improve over the coming 12 months.
- As in 2018, payments in the Canadian metals and steel sector take 65 days on average, and payment experience has been good over the past two years. However, it cannot be ruled out that due to weaker economic growth prospects and lower demand from key buyer sectors (construction and energy) payment delays could increase in 2020. However, so far this adverse development has not yet materialised. No major insolvency increase is expected over the coming 12 months.
- Our underwriting stance remains neutral for the steel segment. Many companies are foreign-owned, and for the few remaining Canadian-owned companies we seek detailed financial disclosure due to concerns about the cyclical and capital-intensive nature of the business (several companies have sought insolvency protection in the past). While the lifting of the US protectionist tariffs is positive, concerns over overcapacity remain.
- For the metals segment our underwriting stance remains open, as this subsector provides more value-added products and overcapacity is less of an issue compared to the steel segment.

Canada: Metals Manufacturing

	2018	2019f	2020f
GDP growth (%)	1.9	1.4	1.1
Sector value added growth (%)	6.4	3.9	2.2

Average sector growth over the past 3 years (%)	2.5
Average sector growth over the past 5 years (%)	0.9
Degree of export orientation	high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Iron and Steel	Metals	Metals Manufacturing
		

Source: Atradius

China

- Supply side reforms in China's metals and steel industry improved overcapacity issues somewhat in 2017 and 2018. However, according to the National Bureau of Statistics, crude steel production increased again in the first eight months of 2019, up 9.1% year-on-year, to 665 million metric tons. This has coincided with high iron ore prices and a relaxation of production curtailments formerly introduced to increase environmental protection.
- However, at the same time demand from key buyer sectors has decreased, mainly due to China´s ongoing economic deleveraging program, while the Sino-US trade dispute has negatively impacted domestic business sentiment. Metals and steel demand from the construction industry has weakened, as infrastructure investment has slowed down since 2018. Property investment is impacted by tighter government policies in order to reduce speculation in the supply heavy market. Growth of steel demand from the property sector is expected to slow to 2.9% in 2019, 1.1% in 2020, and to contract afterwards. Additionally, the slowdown in domestic automotive production and sales is having a negative impact on metals and steel suppliers.
- Chinese steel businesses are also impacted by rising iron ore prices, while sales prices remain volatile. Replenishment of inventories after the Chinese New Year in February 2019 pushed steel prices up to USD 525 per tonne, but prices started to decrease again in Q2 of 2019 amid faltering domestic demand and are expected to hit new lows in H2 of 2019. As a result, Chinese steel manufacturers reported sharp declines in profit in 2019, and margins are expected to deteriorate further in the coming 12 months.
- Payment in the Chinese steel and metals industry take between 60 and 120 days on average. The number and amount of protracted payments and insolvencies over the past 12 months was high, and is expected to increase further in 2020. While leading state-owned steel makers still show some resilience, many private-owned steel and metals producers face serious trouble. The majority of private Chinese metals and steel traders do not have sufficient fixed assets, and suffer from slim margins and very limited bank facilities.
- Given the poor credit risk situation in the industry, our underwriting stance remains very restrictive, with cover strictly limited to businesses with strong financial profiles or state-owned background. Downstream businesses like manufacturers of oil pipes and metals/steel products with high-tech applications are also more resilient.

China: Iron and Steel

	2018	2019f	2020f
GDP growth (%)	6.6	6.1	5.7
Sector value added growth (%)	7.8	9.4	0.8

Average sector growth over the past 3 years (%)	2.3
Average sector growth over the past 5 years (%)	4.0
Degree of export orientation	medium
Degree of competition	very high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Iron and Steel	Metals	Metals Manufacturing

Source: Atradius

India

- India's steel pruduction increased 3.3% year-on-year in the 2019 financial year (April 2018-March 2019) and 1.3% between April and September 2019. Domestic steel prices have decreased 13% since January 2019, due to a low global price level and weak domestic construction and infrastructure activity. At the same time, production and sales in the Indian automotive sector, another major buyer industry, has been subdued.
- Profit margins have decreased since H2 of 2018, and are expected to deteriorate further in 2020. While a robust rebound of demand is not expected in the short-term, there is significant potential for long-term growth, given the low per capita steel consumption in India. However, the effective implementation of government policy reforms remains to be seen. Officially the government plans to triple India's annual steel production capacity to 300 million tonnes by 2030, giving preference to locally manufactured steel, whilst reducing imports to zero.
- Competition remains fierce, especially from global players. Demand for imports remains high despite various measures taken by the Indian government to shield domestic businesses from foreign competition.
- Payments in the Indian metals and steel industry take between 60 and 90 days on average. Payment delays are common.
- Many Indian metals and steel businesses are highly leveraged and heavily depend on bank financing for their working capital requirements. However, due to a high level of non-performing assets in the sector, with some larger companies defaulting and struggling to repay debt, banks are now unwilling to provide credit to the industry. This is causing additional liquidity issues for many businesses.
- Five steel companies, which account for a fifth of India's crude steel capacity, have already filed for insolvency proceedings and are in a resolution process. Stronger companies have taken over those stressed assets in order to enlarge their domestic market share. Due to the ongoing consolidation in the market, with larger players acquiring smaller and troubled businesses, a further increase in insolvencies is not expected in the short-term.
- Our current underwriting strategy for metals and steel continues to be restrictive. We remain cautious with trading firms and non-incorporated entities, segments where we have witnessed several credit insurance claims in the past. We insist on reviewing companies with their latest audited financials, also taking into account customer profiles and credit management capabilities.

India: Iron and Steel

	2018	2019f	2020f
GDP growth (%)	7.4	5.6	6.8
Sector value added growth (%)	8.4	6.1	8.1

Average sector growth over the past 3 years (%)	9.2
Average sector growth over the past 5 years (%)	10.1
Degree of export orientation	low
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Iron and Steel	Metals	Metals Manufacturing

Source: Atradius

The Netherlands

- Although the steel and metals sector accounts for just about 1% of Dutch GDP, it is important as a leading supplier for construction, automotive and machinery. The industry is highly dependent on domestic construction sector performance. Additionally, many metals businesses are export-oriented, delivering items for offshore platforms (wind, oil and gas).
- The Dutch metal and steel sector performed well in 2018 and H1 of 2019, supported by robust economic growth and ongoing demand from the construction sector. Profitability of metals and steel businesses has been high, and profit margins have increased over the past 12 months.
- However, there are downside risks ahead. Metals and steel demand from automotive has started to decrease, and the ongoing discussion in the Netherlands over enviromental damages caused by nitrogen could seriously impact construction as a key buyer sector. In May 2019 the country's highest administrative court ruled that the way Dutch builders and farmers dealt with nitrogen emissions was in breach of EU legislation. As a consequence up to 18,000 infrastructure and construction projects have been put on hold. While the final outcome of the nitrogen issue is not yet clear, it could potentially hamper metals and steel sales to the building industry.
- Dutch metal and steel makers, traders and wholesalers are very dependent on bank financing. Financing is currently not an issue, as banks are still willing to lend to the sector. Payments in the Dutch metals and steel sector take 45 days on average. Payment delays and insolvencies are expected to remain rather stable in the coming months. It is expected that metals and steel insolvencies will level off in 2020 or slightly increase, by about 1%. However, in this respect the potential repercussion of the nitrogen issue remains a downside risk.
- Our underwriting stance remains generally open due to the positive performance seen in 2018 and H1 of 2019, and the fact that most companies have reported good results so far. However, we closely monitor the impact of the ongoing nitrogen emission discussion on domestic construction, and also observe the current issues in the automotive industry, both being key buyer sectors for Dutch metal and steel businesses. Due to the increased downside risks we have downgraded our sector performance outlook for the metals segment from "Good" to "Fair".

The Netherlands: Metals Manufacturing

	2018	2019f	2020f
GDP growth (%)	2.5	1.6	1.2
Sector value added growth (%)	-0.2	-0.8	0.5

Average sector growth over the past 3 years (%)	0.9
Average sector growth over the past 5 years (%)	2.9
Degree of export orientation	high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Iron and Steel	Metals	Metals Manufacturing
		

Source: Atradius

Poland

- The direct impact of US import tariffs has been low so far, given the limited share of exports to the US (5% of total Polish steel exports). However, the indirect impact on the domestic steel market has been high, due to a sharp increase in (cheap) steel imports from non-EU producers (mainly from East Asia, Russia Ukraine and Turkey), redirected from the US. This has led to a significant price decrease for many steel products (mainly hot rolled coils and sheets, HEB profile and ribbed bars).
- The competitive price pressure has led to deteriorationg profit margins for Polish steel producers and the steel and metals distribution segment over the past 12 months, and a further deterioration in the coming months is expected. Higher emission trading and electrity prices have a visible impact on Polish metals and steel producers since H2 of 2018. According to the World Steel Association, steel production in Poland decreased 6% year-on-year in H1 of 2019. Currently it seems that EU measures to protect the common market from large volumes of cheap steel imports from overseas are still inadequate.
- Despite those issues there are still good bussiness opportunities for Polish metal and steel businesses, as domestic demand remains robust. Demand for building office spaces and residential buildings remains high, while elevated public spending on infrastructure (roads, rail) and the energy sector (powerplants) is ongoing, strongly supported by EU funding.
- Another issue for Polish businesses remains the split payment scheme aimed at reducing VAT fraud, which has raised concerns about deteriorating liquidity due to the freezing of business funds related to VAT on a dedicated account. Failure to comply with the provisions may result in sanctions on both the supplier and the buyer.
- Payment experience in the metals and steel sectors has been good over the past two years, and steel and metals business insolvencies have not increased so far in 2019. The current slowdown in the automotive industry has not yet led to deterioriation in the payment experiences of metals and steel suppliers. However, with the new split payment tax regulation delays in payments to smaller companies are expected to increase.
- Our current underwriting approach remains neutral due to the satisfactory performance seen in 2018, when businesses were able to accumulate capital and increase their financial resilience. However, we continue to monitor the impact of cheap steel imports from outside the EU. The key factor of success for Polish metals and steel distributors is a proper stock policy and prudent anticipation of price trends.

Poland: Iron and Steel

	2018	2019f	2020f
GDP growth (%)	5.2	4.0	3.2
Sector value added growth (%)	2.9	-1.5	3.0

Average sector growth over the past 3 years (%)	3.4
Average sector growth over the past 5 years (%)	3.7
Degree of export orientation	medium
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Iron and Steel	Metals	Metals Manufacturing

Source: Atradius

Spain

- The export orientation of the Spanish metals and steel industry is high, with about 60% of its steel exports destined for the EU. Within the EU market, main buyer industries are building and infrastructure (51%), mechanical equipment (15%), and automotive (12%). Demand from all those sectors has recently started to decrease, especially from automotive.
- At the same time, the general downturn in global manufacturing activity is negatively impacting the Spanish steel industry, which recorded decreasing exports in H1 of 2019, while Spanish steel production levelled off year-on-year. Spanish steel value added growth is expected to contract in 2019 and 2020.
- As elsewhere, lower demand coupled with decreasing sales prices and higher prices for iron ore have led to deteriorating margins of steel manufacturers, service centres and distributors, and the deterioration is expected to continue over the coming 12 months. The competitiveness of the domestic metals and steel industries remains negatively impacted by power costs, which are about 30%-50% higher than in France or Germany. This is of major importance for the sector, given that 75% of Spanish steel producers work with electric furnaces.
- While the risk of further decreasing steel prices remains due to surplus exports from producers outside the EU, Brussels has recently imposed additional safeguard measures to further contain steel imports. However, despite some protection against imports from countries like China, Russia and Turkey the issue of lower demand in Spain and elsewhere in Europe remains.
- Payment experience has been good over the past two years, and both payment delays and insolvencies remained stable in 2018 and H1 2019. Neither are expected to increase significantly in the coming months. Despite the ongoing deterioration of businesses' profit margins, we expect the number of steel insolvencies to level off in 2020.
- Our underwriting stance for the steel sector remains neutral to cautious due to the potential downside risks (further escalation of trade disputes, a eurozone recession, and sharply decreasing demand from major buyer industries like automotive). We continue to closely monitor businesses that are vulnerable to US import tariffs and price fluctuations.

Spain: Iron and Steel

	2018	2019f	2020f
GDP growth (%)	2.4	2.0	1.7
Sector value added growth (%)	1.4	-2.7	-0.2

Average sector growth over the past 3 years (%)	3.3
Average sector growth over the past 5 years (%)	2.8
Degree of export orientation	high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Iron and Steel	Metals	Metals Manufacturing

Source: Atradius

United States

- According to the World Steel Association, US steel production increased 3.2% in the period January-September 2019. US metals and steel businesses have benefited from tax cuts on corporations, which allowed companies to improve their infrastructure.
- Immediately after the imposition of import tariffs on steel and aluminium by Washington in spring 2018, US metals and steel producers recorded increased revenues and improved profitability (domestically produced steel and metals being less expensive than imported products). The original worry that many (smaller) steel/metals trading or processing businesses in the US could not pass on higher prices to customers/end buyers has not materialised.
- While profits remained steady in H1 of 2019, a decrease is expected in the coming 12 months due to a combination of lower pricing (e.g. steel prices have decreased to pre-tariff levels again) and higher commodity costs, especially for iron ore. At the same time, demand for metals and steel is expected to slow down in 2020, in line with lower economic growth. Automotive production is expected to decrease as a significant amount of 2019 inventory remains on hand. Construction activity has been steady in 2019, with residential building supported by lower mortgage interest rates. However, in 2020 construction activity is due to level off at best.
- Payments in the US metals and steel industries take about 60 days on average, and payment experience has been good over the past two years. After the imposition of tariffs payment terms were extended while the market adapted to the changed buying and selling practices. Due to decreasing profits and increased volatility of demand a modest increase in payment delays cannot be ruled out in the coming 12 months. However, no substantial insolvency increase is expected, as even smaller players, thus far, are able to cope with higher prices for tariff-related products.
- Our underwriting stance for the steel and metals sector remains generally neutral for all major metals and steel segments. Each buyer must be reviewed on a stand-alone basis. We seek a clear understanding of each buyer's domestic/international revenue split and the dynamics of their supply chain.

USA: Iron and Steel

	2018	2019f	2020f
GDP growth (%)	2.9	2.2	1.6
Sector value added growth (%)	7.0	0.2	0.3

Average sector growth over the past 3 years (%)	1.6
Average sector growth over the past 5 years (%)	-0.3
Degree of export orientation	average
Degree of competition	average

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Iron and Steel	Metals	Metals Manufacturing

Source: Atradius

Industries performance forecast per economy/market

November 2019

	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	☁	☁	☁	☁	☁	⛅	⛅
India	☁	☁	⛅	🌧	☁	☁	☁
Indonesia	☁	☁	☁	☁	☁	☁	⛅
Japan	⛅	☁	⛅	☁	☁	⛅	⛅
New Zealand	⛅	🌧	⛅	⛅	🌧	⛅	⛅
Singapore	⛅	🌧	☁	🌧	☁	☁	⛅
South Korea	☁	⛅	⛅	🌧	⛅	☁	⛅
Taiwan	☁	🌧	☁	☁	⛅	⛅	☁
Thailand	☁	☁	☁	☁	☁	☁	⛅
United Arab Emirates	⛅	☁	☁	🌧	🌧	🌧	⛅

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

Excellent

Good

Fair

Poor

Bleak

Industry performance

Changes since September 2019

Europe

Belgium

Finance

Up from Fair to Good

Both the frequency and amount of credit insurance claims have decreased.

Food

Down from Good to Fair

Both the frequency and amount of credit insurance claims have increased, especially in the meat and beverage segments.

Germany

Chemicals

Down from Good to Fair

In H1of 2019 both production volume and turnover decreased year-on-year, by 6.5% and 4% respectively. The ongoing debate on climate change (stricter environmental regulations) and worldwide trade disputes will affect sector performance in the coming months.

Consumer Durables

Down from Fair to Poor

Digital transformation poses a major challenge for the sector, as changing consumer behaviour is increasingly putting stationary retailers under pressure. Establishing new sales channels and building awareness in social media seem to be essential for re-tailers in order to survive in the medium-term.

The Netherlands

Metals

Down from Good to Fair

See article on page 17.

Slovakia

Automotive

Down from Good to Fair

Machines/Engineering

Down from Good to Fair

Both sectors are impacted by decreasing orders and shrinking production activity, both a result of business uncertainty in key export markets and rising production costs.

Asia/Oceania

Indonesia

Textile

Down from Fair to Poor

The number of non-payment notifications has increased as the sector suffers from fierce competition, especially from China. The situation is exacerbated by the Sino-US trade war, which has led to increasing imports of cheap Chinese raw material of fabric. Recently imposed import restrictions by the Indonesian government will need time to take effect.

Thailand

Automotive/Transport

Down from Good to Fair

Thailand´s automotive production is shrinking due to weaker domestic spending, stricter standards for loans and downward pressure on exports due to Baht appreciation. The number of non-payment notifications is increasing.

United Arab Emirates

Food

Up from Poor to Fair

Food production and sales have rebounded since last year.

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