



# market monitor

Focus on consumer durables/non-food  
retail performance and outlook



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



Excellent



Good



Fair



Poor



Bleak



# The need to adapt in order to survive

When looking (solely) at 2016 turnover and sales figures, the performance of consumer durables retailers seems to be satisfying at first sight. Sales increased in most countries discussed in this issue of Market Monitor , and are expected to do so again in 2017.

However, the margins of most consumer durables retailers margins remain tight, as competition between brick-and-mortar shops remains fierce, and is exacerbated by the rising challenge online retailers pose to the traditional high street: price transparency made available to consumers by online retailers maintains pressure on margins along the whole value chain.

Therefore, consumer durable retailers' business success and resilience increasingly depend on their ability to adopt new strategies, e.g. building-up and expanding their online business and/or offering additional services. However, this requires the willingness to change as well as financial investments, and it remains to be seen if many of the smaller, already struggling retailers have those means to realign their businesses in order to remain competitive.

The lack of willingness or means to adapt to a volatile and fast changing market environment can immediately result in serious troubles for large and small players alike, regardless how established in the market they are or how successful they have been in the past.

# China

- Sharp increase in online sales continues
- Payments take 60 days on average
- Majority of payment delays caused by trade disputes



## 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

China's retail industry has recorded substantial growth rates for a couple of years, due to rising disposable income and booming urbanisation. However, since 2014/2015 the pace of consumer durables sales growth has slowed down, mainly due to lower economic growth and increased volatility in the property market, especially in third and fourth-tier cities. Sales of domestic appliances remained sluggish in H1 of 2016 but rebounded towards the end of the year, following the subsiding of inventory issues, especially for products such as air conditioners (up 33%), washing machines (up 10%) and refrigerators (up 7%). However, as this upturn is driven by replacement and upgrade demand, it is expected to remain temporary - sustaining into H1 of 2017 before abating again.

The current economic rebalancing efforts in China (away from export-oriented investments to more consumption-led growth) could lead to higher growth rates in sales of consumer durables. However, so far the rebalancing efforts do not really support

consumer durables retailing, as, due to the lack of a comprehensive social-safety net, the saving rate of Chinese consumers still remains high. Additionally, the Chinese government continues to focus mainly on infrastructure fixed asset investment (which increased 17.8% year-on-year in 2016), which will remain the key driver of economic growth in 2017. That said, in November 2016, the China State Council announced several supporting policies in order to enhance retailers' business environment, including tax reductions and better access to bank lending for small and medium-sized retailers.

While the output and total sales of consumer goods are barely growing, online retailing is rapidly expanding at the expense of brick-and-mortar businesses, with China about to become the world's largest e-commerce market. According to the China Center for Information Industry Development (CCID), the market of B2C online shopping for home appliances (including mobile devices) amounted to RMB184.8 billion (EUR 25.3 billion) in H1

**China: retail stores**

	2016	2017f	2018f
GDP growth (%)	6.7	6.5	6.2
Sector value added growth (%)	6.0	5.1	5.9
Sector share in the national economy (%)	5.6		
Average sector growth over the past 3 years (%)	2.6		
Average sector growth over the past 5 years (%)	1.6		
Degree of export orientation	very low		
Degree of competition	very high		

Sources: IHS, Atradius

of 2016, an increase of 35% year-on-year. Online sales of flat TVs, air conditioners, refrigerators and washing machines increased by more than 40%. Sales of water heaters, exhaust hoods and built-in kitchen appliances even grew by more than 50%.

On average, payments in the consumer durables retail industry take 60 days, and the number of notifications of payment delays is rather low. The majority of payment delay cases is usually caused by trade disputes, not by buyers' financial problems. The sector's default/insolvency rate is relatively low compared to other Chinese industries, and we do not expect this to change in 2017.

Our underwriting stance remains generally open for the household appliances segment, as we expect sales to increase further in 2017, mainly driven by replacement demand and product upgrades.

However, we closely monitor privately-owned consumer durables retailers who have diversified their business portfolios, and are exposed to high gearing. For such companies, investment failures and/or banks refusing loan renewals could lead to serious liquidity pressure.

In order to mitigate margin pressure from higher raw material costs, industry leaders such as Midea and Gree have taken pre-emptive measures to lift product prices selectively, and we expect this to continue in 2017. However, the potential negative impacts from rising sales prices will be limited. Chinese consumers are less sensitive to minor price changes on big-ticket items such as large home appliances, and focus on comparing functionalities and value between the various brands.

**Chinese consumer durables retail sector**

Strengths

China's vast population makes it an attractive market

Government support for retailers



Weaknesses

Slower economic growth expected in the coming years

The Chinese market remains highly fragmented, with small, independent retailers throughout the country serving a population of approximately 1 billion people who buy goods at around subsistence level

Source: Atradius

# France

- Growth in all segments in 2016
- Payments take 45 days on average
- Smaller and independent retailers more exposed to risks



## 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 Gifam (the French association of household appliances manufacturers), sales of household appliances increased 1.7% in 2016. Small household appliances continued their upward trend with an increase of 3.2%, while the sales value of large household appliances increased 0.8%. Demand in this segment is driven by innovative products.

The French furniture industry research organisation IPEA stated that the French furniture market returned to growth in 2015 and recorded a 2.3% increase in 2016, in line with a rebound in the housing market. However, furniture sales growth slowed down in H2 of 2016 after a robust performance in H1.

According to the research firm GfK, consumer electronics sales grew 2% in 2016 after five years of decline, mainly driven by the shift to TNT HD television in April 2016, while the European Football Championship boosted TV sales (up 30% in volume in H1 of 2016).

The French consumer durables retail business environment – similarly to that in other advanced markets - is highly competitive among the different distribution networks, and this competition is additionally fuelled by the increasing market share of online retailers. There is significant pressure on sales prices, which explains the generally low profitability in the sector.

However, given the positive sales growth seen in 2016, businesses' profitability should remain stable. Further sales growth in 2017 is uncertain as consumer confidence could be affected by the outcome of the presidential and parliamentary elections.

Over the last couple of years there has been an on-going concentration process in the market, as businesses try to increase their market share and/or obtain critical market size. The growing concentration is also accompanied by alliances, e.g. in September 2016 retailer Casino and furniture chain Conforama launched a joint central purchasing agency in order to optimise their house-

**France: retail stores**

	2016	2017f	2018f
GDP growth (%)	1.2	1.1	1.4
Sector value added growth (%)	0.5	0.6	0.9
Sector share in the national economy (%)	4.6		
Average sector growth over the past 3 years (%)	0.8		
Average sector growth over the past 5 years (%)	0.8		
Degree of export orientation	low		
Degree of competition	very high		

Sources: IHS, Atradius

hold appliances purchases. Other retailers expand their franchise system in order to extend their geographical presence, which reinforces competitive pressure on independent wholesalers and retailers.

In general gearing of consumer durable retailers is rather high, given their need to finance working capital requirements and inventories. Moreover, there are peak seasons and special events, (such as the switch to TNT HD) which temporarily require additional pre-financing. Loans are also required to finance the opening of new stores in order to extend geographical presence. Banks are principally not restrictive to lending to the sector, but their willingness mainly depends on an individual retailer's creditworthiness.

Payments in the industry take about 45 days on average. The current level of non-payment notifications is rather low, and payment delays are not expected to record major increases in 2017. Competition, however, will remain fierce, mainly affecting independent and smaller retailers. While retail insolvencies decreased in 2016, we expect them to level off in 2017. However, given the competitive and volatile market environment there is always the risk that important players fail, as seen with furniture group Mobilier Européen in 2014 and Euronics /Logitec (household appliances) at the end of 2015.

In general, our underwriting stance for the consumer durables retail sector is neutral. Our underwriting approach is rather open for major players, while we remain cautious with small independent players, as several of them have been affected by decreasing revenues and margins over the past couple of years. Larger retailers also require constant monitoring, due to increased financial exposure after acquisitions and higher gearing ahead of peak sales seasons. In general we focus on individual buyers' resilience in a very competitive market environment, the quality of product-mix and distribution channels and the management of working capital requirements.

**French consumer durables retail sector**

Strengths

Improved consumer confidence and higher household spending

Market consolidation on-going



Weaknesses

High gearing of many businesses

Fierce competition

Consumer sentiment susceptible to potential uncertainty in the wake of the 2017 presidential election

Source: Atradius

# The Netherlands

- Outlook for businesses remains difficult despite sales growth
- Increasing competition from foreign retailers
- Decrease in insolvencies not expected to last



## Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✓		
Development of non-payments over the coming 6 months			✓		
Trend in insolvencies over the last 6 months		✓			
Development of insolvencies over the coming 6 months			✓		
Financing conditions	very high	high	average	low	very low
Dependence on bank finance		✓			
Overall indebtedness of the sector		✓			
Willingness of banks to provide credit to this sector			✓		
Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months				✓	
General demand situation (sales)			✓		

Source: Atradius

In 2016 the Dutch consumer durables retail sector continued to benefit from the continued rebound of the domestic economy. According to the Dutch Statistics Office CBS, turnover in the non-food retail segment increased 1.9% in 2016, while online sales turnover even increased 19%. In 2017, the non-food retail segment is expected to grow further, by about 1.5%-2.0%. Along subsectors, clothing/footwear sales are expected to level off, while the volume of offline sales of electronic devices is expected to decrease by about 2%. Furniture retail and DIY retailers' volume growth is forecast to increase 3%, driven by the continued rebound of the Dutch real estate sector.

However, the economic rebound, increased consumer confidence and sales growth do not translate into an untroubled positive outlook for Dutch non-food retailers, as the business environment remains difficult. Total sales generated in 2016 were still more than 10% below 2008 pre-crisis levels. As a legacy of the previ-

ous economic crisis, Dutch consumers remain very price sensitive and they have become accustomed to sales offers and discounts, which negatively affects sales prices. Consumers increasingly demand longer opening hours in order to shop whenever it suits them. Changing demographics, i.e. the aging population (in 2025 the share of people aged 65 or older is expected to be more than 20%) is also increasingly playing a role.

At the same time, consumers' buying behaviour keeps changing due to the increased offerings from international companies (e.g. Primark and Zara) and technological advances. Online sales are rapidly growing (2017 forecast: up 17%) at the expense of brick-and-mortar retailers, with foreign online retailers like Alibaba increasing their market share at the expense of local businesses.

Competition is high in all segments and the subsequent price pressure offsets sales volume growth, meaning that the already low

**The Netherlands: retail stores**

	2016	2017f	2018f
GDP growth (%)	2.1	1.7	1.6
Sector value added growth (%)	1.9	1.2	0.5
Sector share in the national economy (%)	3.0		
Average sector growth over the past 3 years (%)	1.2		
Average sector growth over the past 5 years (%)	-0.7		
Degree of export orientation	low		
Degree of competition	very high		

Sources: IHS, Atradius

profit margins of many businesses will remain under pressure. At the same time, many retailers are highly geared and dependent on bank loans, but access to bank credit remains limited for many companies, especially traditional brick-and-mortar retailers.

According to CBS, in 2016 business insolvencies in the retail segment decreased 15%, to 952 cases (including 449 wholesalers and 425 retailers). Compared to other industries, this sector has the highest number of business failures. A far more modest decline in retail insolvencies is expected in 2017, probably in line with the general business insolvency forecast for Dutch companies (down 3%). However, since not all businesses are willing or able to adapt to an increasingly difficult business environment, rapidly changing market conditions and changing shopping behaviour, non-food retail insolvencies are expected to increase again in late 2017 and 2018. This could mainly affect smaller retailers, who often lack the required financial strength to make necessary investments. The failure of a long-established retailer like V&D shows how even large businesses can face troubles due to the lack of a clear product segmentation and a successful online sales strategy.

For non-food retailers, a combination of clear product segmentation and positioning, coupled with effective online sales channels and the ability to swiftly adapt to market changes are of major importance in order to generate success - or even to just survive. While the increase in size and market power that acquisitions

provide are usually an indicator of business success, some recent examples of Dutch failures show that take-overs can prove to be the wrong strategy in a rapidly changing market environment, especially if there are insufficient financial resources available for necessary adjustments. The mere existence of online sales channels does not per se guarantee any business success: we have observed cases in which businesses experienced difficulties because of improper implementation and maintenance of online channels, e.g. lack of social media activities, outdated websites or websites not working properly on smartphones (80% of Dutch people own a smartphone).

Our underwriting stance remains principally cautious, given the current and future challenges for the sector. However, due to a rebound in recent years and further growth expected in 2017 we have upgraded the performance outlook from "Poor" to "Fair" for the time being. When underwriting the industry close attention is paid to businesses' turnover and margin development as well as their product positioning/segmentation and their ability to sell online. Retailers' location and opening hours are also taken into consideration when underwriting the business. It is of major importance to check whether a company's liquidity position is sound (cash and credit facility) and if it is able to finance investments through cash flow as opposed to additional borrowing.

**Dutch consumer durables retail sector**

Strengths

**Improving consumer confidence and increased household spending in 2017**



Weaknesses

**Pressure on margins remains**

**Highly competitive business environment**

**Limited access to loans, especially for smaller players**

Source: Atradius

# United Kingdom

- Growing economic uncertainty to affect consumer spending in 2017
- The sector struggles with higher costs for imported goods
- Payment delays and insolvencies expected to increase in 2017



## Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✓		
Development of non-payments over the coming 6 months				✓	
Trend in insolvencies over the last 6 months			✓		
Development of insolvencies over the coming 6 months				✓	
Financing conditions	very high	high	average	low	very low
Dependence on bank finance			✓		
Overall indebtedness of the sector			✓		
Willingness of banks to provide credit to this sector		✓			
Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months			✓		
General demand situation (sales)			✓		

Source: Atradius

In 2016 the British non-food retail sector continued to grow on the back of a robust increase in private consumption (up 2.8%). Consumer spending has been the engine of UK economic growth over the last couple of years, supported by relatively high employment and low inflation. According to the British Statistics Office ONS, non-food retail sales volumes increased 4.3% year-on-year in December 2016, and many retailers have posted very positive results over the Christmas period. The amount spent on non-food items increased 1.2%, while average store prices rose 0.9%. Online sales, accounting for approximately 15% of retail spending, were once again particularly buoyant, rising 21.3% year-on-year, which no doubt is putting pressure on companies with a more traditional bricks-and-mortar presence.

2017 is expected to be a more challenging year for consumer durables retail, as the weaker British pound is putting upward pressure on prices, and uncertainty surrounding the UK's future relationship with the EU is weighing on investment spending.

This will likely cause businesses to slow hiring and wage growth, with real wages expected to start decreasing over the next six months, which will result in a reduction of disposable income. Higher inflation (2017 forecast: up 2.6%) will make consumer goods more expensive, both hurting consumer spending and weighing on GDP growth. Private consumption is expected to grow 1.6% in 2017, and UK retail sales growth is expected to slow down to 0.6%, after increasing 2.5% in 2016.

Higher costs for imported materials due to the British pound depreciation have already begun to force retailers to reconsider their sources for raw materials and their pricing of goods. The retailers' biggest challenge ahead will be achieving real growth while contending with increased prices as import costs are passed on to customers. In January 2017 furniture prices rose 2.5% reaching a five-year high. Having been a buoyant market in recent years, it is expected that price increases will negatively impact furniture sales over the next 12 months. At the same

### United Kingdom: retail stores

	2016	2017f	2018f
GDP growth (%)	2.0	1.4	1.2
Sector value added growth (%)	2.9	1.3	0.6
Sector share in the national economy (%)	5.6		
Average sector growth over the past 3 years (%)	2.6		
Average sector growth over the past 5 years (%)	1.6		
Degree of export orientation	very low		
Degree of competition	very high		

Sources: IHS, Atradius

time, sales of domestic appliances are also expected to be impacted by increasing input prices, although to what extent is not yet known, given the challenge faced by retailers to keep prices competitive.

In 2016 unseasonal weather conditions resulted in lengthy discount periods on the high street in order to sell seasonal stock, further contributing to margin pressure, and this is expected to continue well into 2017. Additionally, in April 2017 the National Living Wage will be increased to GBP 7.50 an hour for persons aged 25 and older. As many brick-and-mortar retail businesses rely heavily on staff paid towards the lower end of the scale, those higher labour costs could force them to consider their cost base and store portfolios as a result, closing outlets that are no longer covering their costs or are not sufficiently profitable to keep open.

On average, payments in the consumer durables retail industry take 60 days, and while we do not expect a significant increase in payment delays in the foreseeable future, a small increase due to the upcoming challenges is rather probable. As the British retail market remains highly competitive and faces increasing costs, changing shopping behaviour (i.e. increasing price sensitivity and a growing share of online retail sales) and lower consumer spending, insolvencies are expected to increase slightly along with the rising economic uncertainty.

We maintain a neutral approach to underwriting in the consumer durables segment. We continue to monitor developments in the sector on a regular basis, making as much contact with buyers as possible, in particular with those who heavily rely on sourcing materials from overseas, those who have large store portfolios, high levels of debt to service and those whose financials are showing signs of deterioration. In general there is a willingness for retailers to share confidential financial information, allowing us to make the best informed decision.

Seasonality remains a major factor in the British retail sector, particularly around the Christmas period. We therefore actively encourage our customers to consider seasonal peak requirements well in advance, so that we can ensure that we are able to satisfy their demand.

### British consumer durables retail sector



Strengths

**Buoyant demand and consumer confidence in recent years helped the sector**

**Well invested multi-channel proposition**



Weaknesses

**Saturated market in parts**

**Changing profile from physical store to online**

**Vulnerable to increasing economic uncertainty due to Brexit decision and pound depreciation**

Source: Atradius

# United States of America

- Good sales prospects, but trade restrictions could hamper growth
- Profit margins remain under pressure
- Insolvencies expected to increase in 2017



## 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 retail sector is a major contributor to the US economy, accounting for about two-thirds of GDP (contributing USD 2.6 trillion annually to US GDP) and employing nearly 16 million people. The Christmas holiday shopping season accounts for almost 20% of the entire US retail industry's annual sales. 2016 holiday sales increased 3.4% in 2016, with online sales rising 14% (the fastest growth in five years), while department store sales decreased 7%. In 2016 annual retail sales increased 3.3%, with online retailers recording a substantial increase of 11.4%, taking more market share away from traditional department stores, whose sales declined 5.6%.

The 2017 outlook for US consumer durables sales remains positive, due to robust private consumption driven by an improved housing market, job growth and higher wages. If the US Congress passes tax cuts early enough this year, this could have an additional impact on spending in 2017. At the same time, faster than expected interest rate hikes could hamper consumer spending,

and any trade restrictions imposed by the new US administration could increase prices for imported consumer durables goods, thereby reducing consumer spending power.

The US furniture market has been growing since 2009, and furniture sales are expected to continue to increase in 2017 as home sales are rising and consumers have switched expenditures back to furniture. While online sales are rising fast in this segment, many consumers still prefer to research online but purchase in-store. Innovative products that connect furniture with smartphones or combine furniture with technology and fashion design are thriving. Consumer appliances in the US continued to record positive volume growth in 2016 and are expected to grow modestly in 2017, with major appliances continuing to outperform small appliances.

That said, US consumer durables retailers will continue to face a very competitive environment with further pressure on mar-

**United States: retail stores**

	2016	2017f	2018f
GDP growth (%)	1.6	2.3	2.4
Sector value added growth (%)	2.5	2.78	3.0
Sector share in the national economy (%)	4.7		
Average sector growth over the past 3 years (%)	2.7		
Average sector growth over the past 5 years (%)	2.0		
Degree of export orientation	low		
Degree of competition	very high		

Sources: IHS, Atradius

gins in 2017 due to changing customer preferences, including the continued rise in online sales. E-retailing is expected to remain the fastest growing sales channel and to shift the retail landscape, increasing its share of total sales to 20% within the next seven years. Especially in the electronics and toys segments competitive dynamics are fierce between online and brick-and-mortar retailers. Global specialty retailers could face headwinds from the continued appreciation of the USD against the British pound and the euro. The stronger currency could also impact the flagship stores in tourism centres such as New York, by curbing sales to international visitors.

Retailers facing a shift in customer shopping habits and attitudes toward discretionary expenditures have responded by moving to omni-channel models in order to holistically serve customers across their online and brick-and-mortar presence. Although shoppers will never completely abandon brick-and-mortar stores, they expect retailers to offer a convenient online alternative.

In 2016, a significant number of retail store closings and bankruptcies were an indication of both shifting consumer preferences and growing online competition. The number of bankruptcy filings by US retailers with at least USD 250 million in liabilities nearly doubled last year, and the excess of available retail space in the US and stronger competition could lead to some major retail filings and department store closures in 2017. Payments take 90 days on average, and payment delays are expected to increase in 2017.

Our outlook for the overall consumer durables sector remains mildly conservative, as, despite the general sales upswing, the industry continues to be characterised by increased competition and continued price and margin pressure. Therefore, businesses within the industry should be carefully evaluated and liquidity should be closely observed. Specific subsectors are viewed more positively than others: while solid home sales should support demand for furniture and other home goods, we are more cautious on segments like electronics and toys.

**US consumer durables retail sector**

Strengths

Accommodative monetary policy should support consumer borrowing and spending

Home products companies will benefit from the improving housing market and decreasing unemployment

Mergers and acquisitions will continue to increase revenue and earnings



Weaknesses

Fierce retail competition by brick-and-mortar stores exacerbated by the shift toward online shopping

Faster than expected Fed interest rate hikes and trade barriers could hinder sector growth

Consumer spending habits changed compared to those before the 2008 credit crisis.

Source: Atradius

# Market performance snapshots

## Germany

- **Rising consumer prices could act as a brake on further spending**
- **Smaller brick-and-mortar retailers continue to struggle**
- **Payment terms range from 30 to 60 days**



According to the German Statistics Office, non-food retail turnover increased 1.6% year-on-year in 2016 – the seventh consecutive year of growth, and further growth is expected in 2017. German consumer durables retail benefits from the country's robust economic performance, with household consumption expected to rise 1.6% in 2017 following growth of 1.8% in 2016. Demand is driven by low unemployment and increased household purchasing power. However, rising consumer prices (expected to increase to 2.1% in 2017, after 0.5% in 2016 and 0.2% in 2015) could somehow act as a brake on further spending.

For the furniture segment, the German association of furniture industries BVDM recorded a turnover increase of 2.5% in 2016, reaching EUR 33.4 billion. In 2017 sales are expected to be more than EUR 34 billion. According to the German Electrical and Electronic Manufacturers' Association ZVEI, in H1 of 2016 manufacturers sales of large electric domestic appliances increased by almost 5%, while manufacturers' sales of small electric domestic appliances rose 3%.

In all German consumer durables retail segments a concentration process is on-going, with a few large retail chains generating the majority of sales. Therefore, smaller and mid-sized retailers are still struggling to cope with the fast growing market leaders. At the same time, they are facing additional pressure from online retailers (in 2016 online sales again grew more than average, by more than 10%). Therefore, restrained future prospects are expected for smaller brick-and-mortar retailers in subsectors, where e-commerce has rapidly increased market share (e.g. consumer electronics, electrical domestic appliances, furniture, leisure articles, clothing), especially in segments where sales development highly depends on weather conditions (clothing, leisure articles). The best way for smaller retailers to survive in this very competitive market is to join a large purchasing association and to compete with e-commerce by providing outstanding service, e.g. advisory, easy return of goods, etc.

In general, payment terms in the consumer durables retail segment range from 30 to 60 days, however they can extend to more than 120 days depending on the market power of individual retailers. Payment behaviour in the German consumer durables sector has so far remained both good and stable, and we expect no major changes, as the general outlook for all subsectors is positive. The sector's insolvency level is low, and no major increase is expected in 2017.

We still see consumer durables retail as a medium-risk sector. Despite persisting sales growth, we monitor more closely the performance of smaller players, who are generally more exposed to risks due to larger players dominating the market. We are also more cautious on segments dependent on weather conditions, such as clothing and leisure articles retail. We closely observe the growing competition between online and brick-and-mortar retailers. Price transparency, made available to consumers by online retailers, maintains pressure on margins along the whole value chain.

In segments with a steadily increasing share of e-commerce we try to obtain interim accounts in order to continuously check if buyers are able to keep sufficient margins. When businesses cannot pass on increased costs to customers/consumers or compensate for this with savings elsewhere, they might demand extended payment terms. We monitor payment behaviour closely in all subsectors and inform our customers immediately of any deterioration.

We do not cover newly established firms during their first year of business unless they are members of a well-known group or have branched out from an established company.



## Poland

- Sales boosted by government subsidies
- Increased tax controls are an issue for retailers
- Businesses' margins remained stable in 2016



According to the Polish Statistical Office, retail sales increased 5.7% year-on-year in 2016, with sales of furniture and household appliances even increasing 9%. This was mainly due to a new child benefit programme launched by the government in mid-2016, by which families receive zloty 500 (about EUR 115) monthly for second and all subsequent children up to the age of 18. Given the positive economic outlook for 2017, with GDP and household consumption forecast to increase again above 3%, further robust consumer durables sales growth is expected.

However, as increased government spending such as the child benefit programme puts strain on Poland's public finances, the government has intensified tax controls and tightened the law in order to increase tax incomes. This means that despite good sales prospects there is substantial uncertainty related to tax issues amongst retailers. Especially companies trading with IT and consumer electronics are particularly targeted by tax controllers, and in 2016 one out of the three largest IT distributors went into court restructuring due to tax issues.

A progressive retail tax introduced in September 2016 was suspended in December 2016 until January 2018 after the EU Commission ordered Poland to do so, based on concerns over breaching EU state aid rules and unfair competition. The measure would have taxed retailers along turnover size, excluding small retailers, but affecting mid-sized and larger retailers.

Consumer durables retailers' profit margins remained stable in 2016 due to the robust sales performance. There were no significant changes in the market structure, notably major bankruptcies, mergers or alliances.

Payment terms are 60 days on average, but very much depend on the type of goods - from 30 days for electronics and small appliances to 180 days for large appliances. The number of payment delays and insolvencies is low in this industry, and no major increases are expected in 2017. Despite an additional bank tax introduced in 2016, the original expectation that corporate loan costs would increase has not yet materialised.

Given the continued sales growth, but also taking into consideration the challenges mentioned above like increased tax controls, our underwriting stance remains neutral/moderately positive on the consumer durables retail sector. In the furniture segment our underwriting stance is more relaxed, as businesses in this sub-sector are less affected by VAT issues.

# Market performance at a glance

## Hungary



- Over the last three years the Hungarian consumer durables retail sector recorded growth rates above the EU average. In 2016 non-food retail sales increased 6.8%, benefitting from robust private consumption growth of 4%, which was fuelled by low inflation and increasing employment.
- Consumer durables retail growth is set to continue in 2017, although at a lower level than in 2016 as private consumption growth will slow down somewhat.
- The consumer durables market is characterised by strong price competition, which has increased due to the increasing importance of online sales, which grew 24% in 2016. Online transactions accounted for 3.9% of all retail trade in 2016, up from 3% in 2015. As the increased price competition is currently more than offset by demand increase, businesses' profit margins continue to improve.
- Retailers have been trying to keep their inventories on a manageable level, but some players are not sufficiently capitalised, requiring additional bank- or supplier-financing. Banks are generally willing to provide loans to the sector.
- Payment duration in the Hungarian consumer durables retail industry is 60 days on average. Payment delays show no increasing trend, however, in the furniture industry the current situation is worrying, as almost 3% of invoices are paid with delays of more than 90 days. Consumer durables retail insolvencies are on a par with other Hungarian industries, and no increases are expected in 2017.
- Tax-evasion/tax fraud is an issue in this sector because the 27% VAT in Hungary is one of the highest in the world. Therefore, quick actions are needed in case of unusual events surrounding a buyer (e.g. sudden changes in name, ownership, management structure, high dividends, suspiciously high increases in turnover or profitability, etc.).

## India



- Consumer durables sales showed robust growth in the first ten months of 2016. About two-thirds of retail revenues is generated from the urban population in India, fuelled by rising disposable income, easy financing and the growing popularity of e-commerce platforms.
- However, the government's decision in November 2016 to abolish cash by withdrawing rupiah 500 and 1,000 bank notes had a negative impact on sales, as cash transactions have traditionally been high in the retail sector. Across regions, smaller retail outlets were more affected than large retailers.
- Since January 2017 consumer durables retail sales have started to rebound again, especially in the urban areas where consumers have been fast in adapting to alternative payment channels. Sales are expected to increase 10%-15% in the fiscal year 2016-2017.
- Retailers would benefit from the planned implementation of a nation-wide Goods and Services Tax in 2017, which would help to reduce tax burden and lower logistical and transactional costs. Government investment in rural electrification should help to boost demand for durable products in the future. However, market liberalisation in some durable goods segments has already attracted a large number of foreign players, which will increase competition in terms of efficiency and price struggles.
- Payment terms are 60 days-90 days on average. Overall, the payment experience in this segment is on par with other industries, with more payment delays registered in the small distributors segment. Payment delays and insolvencies are expected to level off in 2017.
- Our underwriting approach is generally open for large retail chains which are financially sound. However, we maintain a more prudent approach on small- and medium-sized retailers, as those generally operate on low margins and are impacted by multiple sourcing agreements, tougher competition and price volatility.



## Indonesia



- Indonesia's retail sector remains one of the most promising in Asia, on the back of its large population and growing middle class with higher household purchasing power and increasingly modern spending habits. Private consumption increased more than 5% in 2016 and was a main driver of economic growth.
- However the private consumption outlook for 2017 is more subdued on the back of persisting poor performance in the mining and agricultural sectors. Inflation is also expected to increase to more than 5% in 2017 due to higher food prices, higher electricity tariffs and fees for vehicle registration. This will affect households' discretionary spending for consumer durables.
- However, retail business earnings are expected to grow again in 2017, due to the still positive economic outlook and lower interest rates. Growth in the retail sector will be largely seen in the mass grocery retailers and modern store-based retailers segments.
- A number of retailers have indicated commitment for capital expenditure in 2017 to open new premises, especially to reach out to smaller cities and regions outside of Java. Those growth plans piggyback on the government's undertaking for infrastructure and logistics development in more remote regions this year.
- The long-term outlook for the consumer durables retail sector remains positive amid structural reforms and increased spending on infrastructure by the current administration. Notably for the retail sector, the government has permitted up to 67% foreign ownership in shares of department stores with sales floor area of 400 square meters up to 2,000 square meters, as long as they are located in a mall.
- The current average payment duration in the industry is 30-60 days. The number of protracted defaults is rather low, and non-payments are not expected to increase in the coming months.
- Our underwriting stance for the industry is generally open. However, we assess buyers more prudently in case of lack of financial and other qualitative information, such as strong group backing.

## Italy



- Italy's private consumption growth is expected to slow down to 0.5% in 2017 after growing 1.4% in 2016. However, domestic demand for consumer durables is expected to remain stable, as retail sales are forecast to grow 1.9%, and inflation will increase only modestly, by 1.7%. Retailers' profit margins are expected to remain stable.
- Due to its dependence on real estate, the furniture subsector has suffered yearly declines until 2014. A rebound started in 2014, and in 2016 demand for furniture increased 2.2%, and will be further sustained in 2017 by new public incentives to support household consumption. In the household appliances segment sales grew 2.9% in 2016, also thanks to some public incentives, partially confirmed for 2017.
- The consumer durables retail sector remains highly competitive, with a moderate to high level of fragmentation also after some large aggregations on the top operators. Weaker players with poor financial strength have disappeared while other businesses chose to merge with other peers in order to survive. It is expected that the current concentration process will continue until a new market balance is found, considering that the average size of Italian retailers remains small compared to European peers.
- Payment terms generally range from 60 to 90 days. Payment delays and insolvencies remained stable in 2016, and no major change is expected in 2017.
- Our underwriting stance for consumer durables retail will remain generally open with, a more cautious approach towards the weaker players in the distribution chain, which often lack the critical mass for long-term survival in a highly competitive environment.

## Spain



- In 2016 consumer durables sales continued to grow, driven by robust GDP and private consumption growth, improved consumer confidence, low inflation and increased availability of consumer credit. Spanish retail sales increased 2.6% year-on-year in 2016. Consumer durable goods are expected to continue their sales expansion in 2017, although at a lower pace than last year, as private consumption and retail sales growth are expected to slow down, to 2.2% and 1.1% respectively.
- The recovery of the real estate segment has had a positive influence on home furnishing sales. While turnover growth slowed down in H2 of 2016, it still remained at healthy rates. Benign forecasts for real estate activity suggest that the furniture sales will continue to increase in 2017.
- Major domestic appliances (white goods) sales increased 3.8% in value in 2016. A slowdown in sales in H2 of 2016 led to decreased sales prices. Turnover is expected to increase again in 2017, although at a lower level than in 2016.
- Profit margins in the consumer durables retail industry have generally remained stable in 2016 after increasing in 2015. On average, payments in the sector range from 60 to 90 days; however, they can extend to more than 120 days depending on the market power of individual retailers. Payment behaviour in the sector was relatively good in 2016, and no major changes are expected, as the general performance outlook remains positive. The insolvency environment is also stable, with no major increases in business failures expected.
- Our underwriting approach remains positive to neutral for all subsectors, given the expectation of further growth in 2017. However, competition in the market remains strong, the slowdown in sales growth since H2 of 2016 needs to be monitored, and the industry remains highly dependent on consumer credit. Spain's current economic rebound remains susceptible to setbacks in a more volatile global environment.

## Sweden



- The Swedish retail sector has been growing faster than national GDP over the past couple of years, and is expected to increase 3.5% in 2017, again driven by robust private consumption and population growth.
- The consumer durables retail segment has benefitted from low interest rates, a strong home furnishing trend and increasing real estate prices. However, the risk of a downturn in the real estate market could dampen higher growth prospects in the furniture and domestic appliances segments in 2017.
- Retailers' profits are expected to remain stable or decrease somewhat in 2017. While price wars within the electronics retail sector have subsided, there are signs of increased competition in the sports retail segment. Currently, furniture and fashion/textile retailers also face difficulties due to tough competition. Exchange rate volatility has some effect on consumer durables importers and exporters.
- Payment duration in the Swedish consumer durables retail industry is 45 days on average. Non-payments are not expected to increase in 2017, while retail insolvencies are forecast to decrease after a 4% increase in 2016.
- Newly founded businesses, in particular, face higher risks in the highly competitive market. Online retailers generally enjoy good business prospects, as there are still growth opportunities in segments with low market penetration. Swedes increasingly embrace shopping online, and the online segment is expected to continue to grow in the years ahead. The effect of growing e-commerce and that of stores relocating to large shopping malls and out of towns will continue to shape the Swedish consumer durables retail sector.
- As in 2016, our underwriting stance remains generally open for household appliances, while it remains neutral for furniture and textiles.

# Industries performance forecast per country

April 2017

	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							

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Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles

Excellent

Good

Fair

Poor

Bleak

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# Industry performance

## Changes since February 2017

### Europe

#### Belgium

##### Steel



Up from Fair to Good

Credit insurance claims have decreased in Q4 of 2016, and the sector benefits from increased sales and higher prices.

#### Czech Republic

##### Steel



Up from Poor to Fair

Credit insurance claims have not increased as previously expected, while demand has recovered again, inventory management has improved and margins have increased after a rebound in sales prices.

#### Germany

##### Chemicals/Pharmaceuticals



Up from Good to Excellent

Most businesses record a very positive sales performance and robust profit margins, while insolvency numbers in this sector are very low.

#### The Netherlands

##### Consumer durables



Up from Poor to Fair

See article on page 9.

##### Food



Up from Good to Excellent

##### Metals



Up from Poor to Fair

##### Steel



Up from Poor to Fair

All those sectors have benefited from the economic rebound and improved business climate seen in 2016, while the outlook remains benign. Insolvency levels have decreased back to pre-crisis levels.

#### Poland

##### Consumer durables



Up from Poor to Fair

See article on page 16.

#### Slovakia

##### Steel



Up from Poor to Fair

Credit insurance claims have not increased as previously expected, while demand has recovered again, inventory management has improved and margins have increased after a rebound in sales prices.

## Asia/Oceania

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### Japan

#### Services



Up from Fair to Good

The human resource services sector benefits from labour shortage in Japan, and there is solid demand in the online advertisement segment. Increasing number of inbound tourists provide a positive impact on travel-related segments.

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