



market monitor

Focus on construction sector
performance and outlook



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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



Foundations remain shaky

Construction remains a cyclical sector, i.e. the performance of building companies is closely linked to a country's economic growth and investors' sentiment as well as business and consumer confidence. Therefore, it comes as no surprise that construction activity can be very different from one country to the next. However, even in markets where construction growth has been very robust in recent years competition is high, profit margins slim, public buyers generally pay late and the proportion of business failures remains higher than in most other industries. Those seem to be reoccurring issues in the construction industry, regardless of performance.

Despite its cyclical nature and 'traditional' issues, from a global perspective there are new trends and ongoing developments. Technological advancement increasingly has a major impact on construction, with significant changes anticipated across the industry from project design through to completion of the project. 3D printing, Building Information Modelling (BIM), drones, robots, GPS tracking are some of the tools the industry has already started using in various capacities. In advanced economies prefabricated and modular construction is a rising trend, as it provides more efficiency (cost and time savings), increased independence from (adverse) weather conditions and higher sustainability by recycling and pollution prevention.

Belgium

- Good demand situation, but margins very low
- Insolvencies increased in 2018
- Bank financing remains an issue



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

With well-filled order books, the current demand situation is generally good in the Belgian construction sector. Despite significant competition, sales prices have increased, although not yet to pre-crisis levels. Profit margins however, remain very low, except for in some niche markets. This is also because, compared to neighbouring countries, the Belgian construction sector is highly fragmented, and consolidation is ongoing.

In order to remain profitable, companies need sufficient financial resources to invest in real estate development projects or expensive tendering. Working capital requirements for more lucrative projects have been increasing, as customers are shifting full responsibility and financing needs to the contractor (Design, Build, Finance, and Maintain projects). At the same time, hiring suitable experienced staff remains an issue, and labour costs are high.

Delays in the start-up of projects are common, while contractors need to respond swiftly once an order is placed, which reduc-

es time to prepare work. In the private sector customers tend to split building projects into parts, which increases tendering costs. The final settlement of projects can take a very long time as well.

While construction projects are getting more complicated (e.g. stricter energy efficiency regulations, more complicated administrative procedures), digitalisation (Building information Model, 3D printing) is expected to improve efficiency and productivity in the future. Smaller companies not able to cope with the new technologies will probably become less competitive with larger players.

Residential construction and real estate development are supported by low interest rates and higher incomes. However, growth is hampered by more difficult and slower approval procedures of building permits since this task has become a local responsibility. At the same time, high energy efficiency require-

Belgium: construction sector

	2017	2018f	2019f
GDP growth (%)	1.7	1.4	1.5
Sector value added growth (%)	1.2	1.3	1.7
Average sector growth over the past 3 years (%)			1.2
Average sector growth over the past 5 years (%)			0.5
Degree of export orientation			low
Degree of competition			high

Sources: Macrobond, Oxford Economics, Atradius

ments make building processes more expensive. In some areas (e.g. Antwerp) there is a potential risk of the market overheating due to oversupply of new (overpriced) buildings.

Current building activities still show a clear preference for flats/apartments at the expense of single-family houses. Since 2007, the number of renovation permits granted has been higher than the number of new residential building permits granted. However, this trend has changed since Q2 of 2018.

In the commercial construction segment margins are low due to market saturation. Many construction businesses that made large investments in the past must increase turnover to cover fixed costs. Many of these organisations, however, are not adjusted to this. Additionally the fast growth of e-commerce negatively affects construction investments of the retail sector.

Belgian construction sector



Strengths

Demographic evolution and increasing spending power of households

Aged real estate stock, coupled with insufficient infrastructure investments in the past

Low interest rates



Weaknesses

A very fragmented market

Cyclical trend in public spending and long time between tender and actual execution of public works

High labour costs and lack of skilled workers

Source: Atradius

Businesses related to public construction currently still benefit from projects related to elections (municipal in 2018 and regional in 2019) even though the effect is less pronounced than in previous years. Several large infrastructure works (Oosterweel, sluis Terneuzen,) have taken capacity out of the market, resulting in higher working volumes for businesses as a whole. However, capacity issues sometimes result in decreased efficiencies and margins, and many companies complain that margins are generally too low in the public tendering market.

Public construction investment volumes (especially in infrastructure works) is still low, compared to neighbouring countries. However, in September 2018 the government announced it will increase investments in the future.

The overall indebtedness of construction businesses and their dependence on external financing is still high, while banks remain rather unwilling to provide credit to the construction sector. At the same time many construction companies are still confronted with defaulting payers (high DSO), and few Belgian companies are able to get advance payments. In general, payment terms tend to be long in the sector, i.e. "60 days end of month" is very common.

Payment experience has been bad over the past two years, and the number of non-payment notifications in the sector was high in 2018, with no major improvement expected in 2019. Construction insolvencies increased by more than 2% in 2018, while for Belgian businesses as whole the trend was positive (down 1%). In 2019, construction insolvencies are expected to level off.

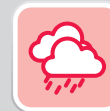
Due to the issues mentioned above our current underwriting stance is neutral to restrictive for all subsectors. In order to sustain our risk appetite, it is necessary to identify the most affected companies/subsectors and to contact buyers for up-to-date financial information and performance outlooks. We examine the flexibility of companies (fixed cost structure) and whether they are able to build a buffer against potential economic downturns.

Performance forecast along subsectors

Residential construction



Commercial construction



Public construction



Source: Atradius

France

- Increase in insolvencies expected in 2019
- Slowdown in the residential construction segment
- Smaller players still face financing issues



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

Source: Atradius

According to the French Builders Association FFB (Fédération Française du Bâtiment), the construction sector grew a robust 5% in 2017, mainly driven by a surge in the new residential building market (new housing starts reached 430,000 units, the highest in six years).

However, in 2018 production output slowed down to 2.3% as residential construction did not perform as well. Housing permits decreased 6.6% after a 7% increase in 2017, and another decline is anticipated in 2019 impacting both single-family and multi-family housing. New housing permits are forecast to decrease by about 8% and new housing starts to decline 5% in 2019.

The ongoing slowdown in residential construction is mainly due to a weaker economic environment and lower household purchasing power (impacted by rising real estate and energy prices, and an increase in the CSG social charge tax). At the same time, public spending for new housing decreased in 2018. The scope

of beneficiaries to tax exemptions (for both first-time buyers and investors) has been significantly reduced, and investment in social housing has declined. Therefore residential construction output is expected to contract by about 0.5% in 2019.

Production in non-housing construction is expected to increase 3% in 2019 driven by ongoing dynamism in office building (mainly in the Paris area). However, this would be a marked slowdown compared to the 7% growth in 2018. Commercial construction still struggles with decreasing demand from the retail sector, which is partly due to growing competition from e-business.

While the production capacity utilization rate remains above its long-term average, the construction sector suffers from a lack of skilled work force. Among businesses with more than 10 employees, four out of five report difficulties in hiring the right employees. As a consequence, many businesses have to refuse new orders and are limited in expanding their business.

France: construction sector

	2017	2018f	2019f
GDP growth (%)	2.3	1.6	1.7
Sector value added growth (%)	1.7	1.8	2.1
Average sector growth over the past 3 years (%)			-0.1
Average sector growth over the past 5 years (%)			0.5
Degree of export orientation			low
Degree of competition			high

Sources: Macrobond, Oxford Economics, Atradius

Profit margins decreased in 2018 and are expected to deteriorate further in 2019. While construction businesses face higher prices for commodities and energy as well as increased labour costs, they struggle to pass on those price increases due to fierce competition. Larger contractors keep putting pressure on their subcontractors.

In 2017 and 2018 the sector reported severe cash management issues as companies found it difficult to fund their increasing working capital requirements in the framework of the business recovery after several difficult years. Operating margins remained tight, whereas a significant amount of cash was needed to fund order books. At the same time, banks remain very selective with their loans to construction businesses, making access to short-term credit difficult. Cash management remains a major issue for many, mainly smaller, construction businesses.

French construction sector



Strengths

Structural lack of housing due to demographic developments (growing population)

Low interest rates

Government support through tax exemptions



Weaknesses

Slowdown of economic growth

Lack of skilled workforce

Costs rising faster than prices

Downturn in the new residential market

Source: Atradius

Payments in the construction industry take 70 days on average. The payment experience over the past two years has been rather bad, and non-payment notifications increased significantly last year, especially in H2 of 2018, reflecting difficulties in the structural works, single-housing construction of individual housing and construction material wholesalers segments. Construction insolvencies decreased in H1 of 2018, but started to increase again in the second half of the year, mainly due to a deterioration in structural and secondary works. Business failures are expected to increase further in H1 of 2019, also affecting businesses with more than 10 employees.

In this context we have tightened our underwriting stance for the time being. However, we continue to provide cover to our customers whenever it is reasonable and prudent to do so.

We focus on the cash situation and loan facilities available to buyers, especially smaller and mid-sized companies. Several key financial indicators must be analysed: the level of activity, margins and ability to fund working capital requirements. High financial costs are a key indicator of potential pressure on cash. We also try to assess the ability of construction businesses to manage bigger projects than usual, as we often notice that smaller enterprises cannot cope with financial distress due to insufficient pricing and allocation of resources.

Performance forecast along subsectors

Residential construction



Commercial construction



Public construction



Source: Atradius

Germany

- Benign order situation in 2019
- Poor payment behaviour of public buyers remains an issue
- Interior work-related segments show higher vulnerability



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 2018 the German construction sector continued to perform solidly and the outlook for 2019 remains positive, mainly driven by a robust order situation in the residential construction segment, but also in public construction.

While market competition has decreased somewhat (until recently many companies had to specialise and to operate in niches in order to survive), it remains high. Due to the benign demand situation and robust price increases most construction businesses were able to improve their profits over the past few years, and the profit outlook for 2019 remains stable.

The dependence of German construction businesses on bank finance is not overly high, given that payments in advance or instalment payments by investors are a major source of financing.

On average, payments in the German construction sector take around 45-60 days. With demand increasing and profit mar-

gins having improved, payment delays and insolvencies have decreased in recent years, and are expected to remain stable in 2019.

However, despite the more benign situation we still consider the construction sector to be riskier than other industries, as the proportion of non-payment notifications and credit insurance claims is still higher than in other German trade sectors.

The poor payment behaviour of public buyers remains an issue, as it puts a strain on suppliers' liquidity. Many construction companies – especially smaller ones – traditionally have weak equity ratios (the proportion of equity used to finance a company's assets) and limited financial scope, which makes them vulnerable to payment delays and defaults.

We still observe higher claims in some segments related to interior and finishing work, such as building installation, plastering,

Germany: construction sector

	2017	2018f	2019f
GDP growth (%)	2.5	1.6	1.6
Sector value added growth (%)	3.0	2.6	2.6
Average sector growth over the past 3 years (%)			1.4
Average sector growth over the past 5 years (%)			0.9
Degree of export orientation			average
Degree of competition			high

Sources: Macrobond, Oxford Economics, Atradius

painting and glazing. Those activities are usually due at the final stage of building projects, and are therefore more susceptible to budget constraints of the awarding authority. Another reason could be the lack of commercial skills in those mainly very small businesses.

Due to the good performance of the German construction and construction materials sector in the last couple of years and the promising business outlook for 2019, our underwriting stance for the industry remains quite relaxed. In general, when assessing buyer risk we take into account operating results, equity, liquidity and financing (e.g. the ratio of work in progress/advanced payments) and orders in hand.

German construction sector



Strengths

Solid performance since 2010 helped by a robust German economy

Significant amount of specialization, mainly in construction services

Strong in technical innovations, especially in the area of energy-efficiency



Weaknesses

Very large number of small companies

Limited access to international capital markets

Many smaller companies have weak equity ratios and limited financial scope

Source: Atradius

However, we are more cautious with the above-mentioned interior work-related segments and businesses that are mainly active for public customers (road, railway and other infrastructure construction). Those often face delayed payments by their clients, which could put a strain on their liquidity.

With less background information to work with, we are naturally very cautious when assessing the creditworthiness of construction/construction materials businesses that have operated for less than one year, unless they are part of, or a spin off from, a larger group.

Performance forecast along subsectors

Residential construction



Commercial construction



Public construction



Source: Atradius

Italy

- More deterioration after a modest rebound
- Business failures of some major players in 2018
- Insolvencies expected to increase again in 2019



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

While in early 2018 there was the expectation of a continued modest rebound of Italian construction performance, this has not materialized. To the contrary, in 2019 the sector is facing one of the most challenging periods since the beginning of the economic crisis in 2008, with subdued demand and further deteriorating profit margins.

In the residential construction segment investments made in 2017 were still more than 60% lower than in 2008, which could not be compensated by a 20% increase in restoration work (mainly based on public investments). Investments in new residential buildings grew just 2% in 2018, and the backlog of unsold houses still amounts to 1.4 million units.

While investments in commercial construction have modestly rebounded since 2016 (e.g. investments in malls and industrial

plants increased by about 2% in 2017 and 2018), the 2019 outlook is hampered by lower GDP growth and increased economic uncertainty.

Public construction investment remains far below the 2008 pre-crisis level. While the number of public tenders rose 33% in 2018 (up to EUR 29.7 billion, driven by investments in railway infrastructure), financial coverage could be an issue due to increased uncertainty about future spending capacity.

Besides the still low spending capacity, ongoing tight lending conditions set by banks remain one of the main reasons for the subdued performance of construction, exacerbating the fact that many Italian construction businesses are highly geared. New loans for construction businesses decreased 12% year-on-year in value in 2018, more than for any other Italian industry. Larg-

Italy: construction sector

	2017	2018f	2019f
GDP growth (%)	1.6	0.9	0.4
Sector value added growth (%)	1.1	0.8	0.5
Average sector growth over the past 3 years (%)			0.1
Average sector growth over the past 5 years (%)			-2.1
Degree of export orientation			medium
Degree of competition			very high

Sources: Macrobond, Oxford Economics, Atradius

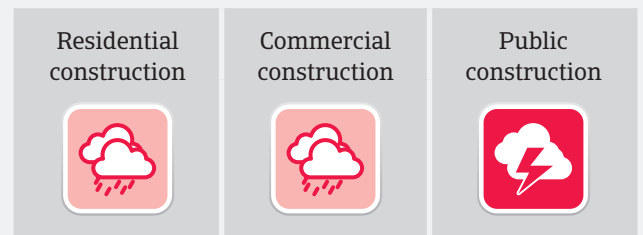
er construction companies have looked for alternative liquidity sources such as bonds, but those are more expensive than bank loans when operating margins are low.

Payment experience in the construction sector has been bad over the past two years, and non-payment notifications were at a very high level in 2018. Last year several of the top 50 Italian construction businesses went insolvent or faced severe liquidity crisis. This was mainly due to devaluation of trade receivables and order backlog in some markets abroad (Algeria, Venezuela), high financial leverage to finance the working capital requirements and capital expenditure, and slow payments from public clients. The business failures of larger players have affected many sub-

contractors and suppliers of cement, concrete and steel. Therefore we expect that in 2019 both the number of non-payment notifications and insolvencies will sharply increase.

Due to the adverse insolvency development, subdued demand for residential buildings, uncertainty about the future spending capacity of public bodies and their persistent bad payment behaviour our underwriting stance is very restrictive for all main subsectors. However, we observe that the restoration segment still performs well, while the same accounts for certain export-driven construction material segments (e.g. ceramics, tiles, and glass).

Performance forecast along subsectors



Source: Atradius

Italian construction sector



Strengths

Positive performance of the restoration segment



Weaknesses

Weak domestic demand

Restrictive bank lending

Smaller businesses lack financial resilience

Increased political and economic uncertainty

Source: Atradius

United Kingdom

- A difficult year ahead
- Insolvencies are expected to increase further
- Tighter access to bank finance



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 2018, construction demand in the UK remained stable, although signs of a slowdown became visible in the second half of the year. There is a shortage of housing in the UK and demand is outweighing supply. Therefore, activity in the residential construction subsector should remain reasonably buoyant in the short- to medium-term.

The commercial construction sector performed rather well in 2018, but businesses are increasingly impacted by (Brexit-related) reluctance of clients to place orders for new projects.

In the public construction segment there are some major projects underway. However, these projects are not without their problems due to delays in delivery and severe pressure on costs.

While the construction material subsector is supported by the buoyant housebuilding segment the short-term outlook is volatile, as Brexit has caused a considerable amount of uncertainty.

2019 is expected to be a rather difficult year for construction, due to the lingering uncertainty over Brexit and the impact it could have on output, investment and the current shortage of skilled workers. The ongoing repercussions of the Carillion failure in early 2018 (the largest corporate insolvency ever in the sector) on businesses is still high, with investors and financiers becoming particularly careful.

Legacy contracts have been a serious issue for the construction industry over the past 4-5 years, as many businesses pursued an aggressive accounting strategy by sealing risky contracts, which proved unprofitable. However, it seems that apart from some issues regarding Energy from Waste contracts, legacy issues will be less of a problem in 2019.

Access to bank finance is difficult, as there are growing signs that financial institutions want to reduce their exposure to construction and related sectors, which could affect the confidence of

**United Kingdom: construction sector**

	2017	2018f	2019f
GDP growth (%)	1.7	1.3	1.7
Sector value added growth (%)	5.7	-3.6	0.8
Average sector growth over the past 3 years (%)	4.7		
Average sector growth over the past 5 years (%)	4.9		
Degree of export orientation	low		
Degree of competition	high		

Sources: Macrobond, Oxford Economics, Atradius

other credit providers. All this could adversely impact the liquidity of construction businesses in the medium-term and have an impact on access to uncommitted facilities.

Average payment in the British construction industry is 75 to 90 days, and the level of protracted payments and payment delays remains high. After increasing in 2018, the level of non-payment notifications is expected to increase further in H1 of 2019.

Construction insolvencies were on a high level between January and September 2018, increasing by more than 16% year-on-year in Q3 2018 alone. The insolvency outlook for 2019 is negative, with further increases expected due to the increased economic uncertainty, persistent late payments, lack of supplier support, contract overruns, escalating costs and retention payment issues. The knock-on effect of the Carillion liquidation will contin-

ue to impact suppliers and subcontractors (according to unconfirmed reports, retention payments outstanding from Carillion could amount up to GBP 1 billion).

If the coming months fail to provide more clarity about the conditions under which the UK will leave the EU, the commercial and infrastructure segments in particular could suffer from lower investments. So far, there has been more evidence of project delays as opposed to cancellations, as investors wait to see the Brexit outcome.

As more than 60% of building materials are imported from the EU, any increase in tariffs or limits on quantities imported after leaving the EU could lead to higher costs for British construction businesses and a shortage of building materials. Once the UK leaves the Single Market it is likely that the current issue of skill shortage will worsen, especially if there are no follow-up agreements with the EU on the free movement of people. This could result in even higher pressure on wages, causing construction firms to face considerably higher project costs.

Currently the UK construction sector still benefits from having access to the European Investment Bank (EIB) and the European Investment Fund (EIF), which have invested EUR 7.8 billion in major infrastructure projects in the UK and provided loans worth more than EUR 500 million to smaller British construction businesses. A loss of that financial support could significantly impact the ability of businesses to deliver big infrastructure projects, such as High Speed 2, and reduce development opportunities for start-ups.

We continue to underwrite cautiously, with risks considered on a case-by-case basis. Even more than in the past the requirement for up to date regular financial information supported by visits, meetings and conference calls is essential to be able to provide the most informed underwriting decision we can. The lessons learned in the past twelve months is that the speed at which companies fail appears to have increased, as stakeholders sometimes take drastic steps to safeguard their position.

British construction sector

Strengths

Supply of new housebuilding is not matching demand

Larger projects Crossrail, Thameslink, HS2 and Hinckley Point help to sustain output

Increased spending in the regeneration of major cities such as Birmingham and Manchester.



Weaknesses

Continued uncertainty due to Brexit

High level of payment delays

Skills shortages across the industry

Nervousness amongst investors and financiers due to the Carillion failure and cost overruns on major projects

Source: Atradius

Performance forecast along subsectors

Residential construction



Commercial construction



Public construction



Source: Atradius

United States

- Slower, but still robust growth expected in 2019
- Payment terms have increased
- No insolvency increase expected in 2019



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 2018, value added in the US construction industry grew a solid 3%, with increased construction spending across almost every region and project type. In Q1-Q3 of 2018 construction spending increased 7% year-on-year for public building and 5.1% for private construction. Public works and institutional building both had reasonable gains in 2018 following surges in 2017, and recently passed appropriations will carry into 2019. Residential project spending increased 6.4%.

That said, higher mortgage rates have somewhat constrained growth potential of the housing market in 2018. Tighter inventories and price increases have left some first time homebuyers out of the market until wage growth catches up. However, multi-family housing has partially compensated lower growth in the single-family homebuilding segment.

In 2019 construction spending growth is expected to continue (up 4.8%), although at a slower pace than in 2018 (expected up

6.5%). Lower economic growth, workforce shortages, higher interest rates and uncertainty over trade policies could have a dampening effect on output expansion.

Residential construction is expected to grow modestly on the back of wage growth, low unemployment, and low inventories, while higher interest rates have an adverse effect. Non-residential construction is projected to continue its improvement, largely supported by the USD 305 billion FAST (Fixing America's Surface Transportation) Act. Commercial construction growth is expected to decrease slightly in 2019 due to higher office vacancies as the economic expansion slows down.

Both construction businesses leverage and dependence on bank financing are generally high, and banks are generally willing to provide loans to the sector. Companies that show consistent profitability, healthy balance sheets and prompt payment trends are generally able to obtain ample lines of credit. Profit margins

**United States: construction sector**

	2017	2018f	2019f
GDP growth (%)	2.2	2.9	2.5
Sector value added growth (%)	0.7	3.0	2.3
Average sector growth over the past 3 years (%)			3.1
Average sector growth over the past 5 years (%)			2.8
Degree of export orientation			low
Degree of competition			high

Sources: Macrobond, Oxford Economics, Atradius

are expected to remain stable in 2019, as most businesses are able to pass on higher commodity costs (also triggered by imposed import tariffs on steel and aluminum) to their end-customers. The construction materials subsector clearly benefits from increased building material prices. Elevated costs are expected to persist throughout 2019.

Payments in the industry have slowed to 54 days on average, as longer terms have increasingly become a method of attracting business from end-customers. Payment experience in the construction sector has been decent in 2018, and the overall number of payment delays and insolvencies is expected to level off in 2019.

USA: construction sector

Strengths

Despite expectations of slowing growth in 2019, US economic performance remains robust

Construction benefits from accelerating job growth and decreasing unemployment



Weaknesses

Construction input prices have increased

Many prospective workers lack the necessary skills to fill various openings creating skill mismatches

Rising home prices and tighter lending standards could create a prohibitive environment for first-time home buyers

Source: Atradius

While we continue to increase our risk appetite in the industry, caution is still taken with smaller construction businesses, which show above average bankruptcy rates. When available, financial statements are to be reviewed annually with supplemental soft credit information reviewed more frequently. Trading experience is used to gain a better comfort level in gauging the relationship between our customers and their buyers. Reduction or withdrawal of cover is considered if a buyer shows significantly worsening results, which may include losses, unsustainable capital structures, liquidity issues, or deteriorating payment trends.

Performance forecast along subsectors

Residential construction



Commercial construction



Public construction



Source: Atradius

Market performance at a glance

Australia



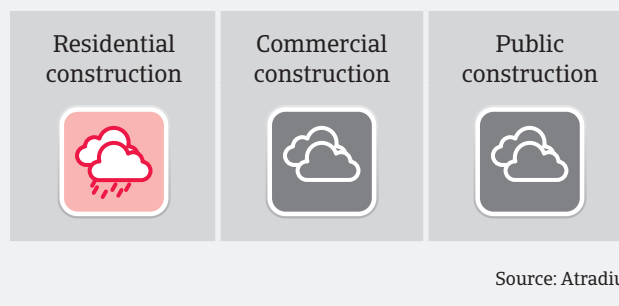
- Construction is a significant contributor to the Australian economy, accounting for approximately 8% of GDP. The sector is the largest non-service related industry, contributing AUD 134 billion to the economy and employs more than 1.1 million people.
- Nation-wide residential construction decreased in the 2018 financial year and is expected to decline further, due to overcapacity, tighter lending conditions and slowing prices. In New South Wales and Victoria residential construction is expected to be hit hard by overcapacity and deteriorating demand after robust growth in previous years.
- Non-residential construction is at record highs and elevated activity levels are predicted to continue. Infrastructure construction activity is currently rebounding and high levels of activity are expected in the coming five years, underpinned by public investment. The federal government has given transport infrastructure high priority as part of a AUD 75 billion ten-year infrastructure plan.
- However, despite solid performance in the non-residential segment the weaker residential market is expected to lead to a 10% decrease in total building activity by 2020.
- Payments in the construction sector take 30-60 days on average, and the level of protracted payments, non-payment notifications and insolvencies was high in 2018. In Western Australia there were many insolvencies triggered by excess supply of housing and commercial space built up during and just after the mining boom. A unit glut in Queensland led to price decreases, combined with lower demand, rising input costs and plummeting unit approvals. Loss making projects for developers and builders increased in 2017 and 2018, leading to high profile business failures.
- Nation-wide payment delays and insolvencies are expected to increase further in 2019. Therefore our underwriting approach remains cautious, particularly for small businesses in the residential segment and in the Western Australia and Queensland markets generally. Overall, construction sector performance still needs to be closely monitored given its volatility.

Australia: construction sector

	2017	2018f	2019f
GDP growth (%)	2.4	3.0	2.5
Sector value added growth (%)	1.0	3.5	-1.6
Average sector growth over the past 3 years (%)			-1.8
Average sector growth over the past 5 years (%)			-0.1
Degree of export orientation			low
Degree of competition			high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors



Denmark

- Demand for construction has increased over the past five years, and employment in the sector is currently at its highest level since 2008. However it is expected that demand will start to decrease in 2019 and 2020.
- Despite the still benign demand situation competition is fierce in the construction market. Many mid-sized players have expanded their activities beyond their traditional local markets to all over the country, which has led to lower sales prices. This, combined with increased prices for building materials and higher labor costs, has triggered a modest decline in profit margins, which are expected to decrease further in 2019.
- The average equity ratio of Danish construction businesses has increased from 30% to 33% over the past three years and is considered acceptable. While banks' general willingness to provide loans have improved over the past five years, the approach is still cautious at times.
- The volume of protracted payments is higher than in other industries, mainly due to many commercial disputes in the construction sector. After a period with few non-payment notifications 2018 saw a general increase, and another slight increase of 2%-5% is expected in 2019.
- The insolvency level is high compared to other industries, and after increasing in 2018 business failures are expected rise further in H1 of 2019, by 5%-10%. This trend is primarily the result of many very small businesses failing.
- Demand in the residential construction segment is still robust, but prices for existing houses have started to decline in urban areas. Commercial construction activity is expected to decrease in 2019, while public construction activity remains rather low.
- Our underwriting stance has turned from neutral to more restrictive in 2018 as more construction businesses are struggling. This is mainly due to lower market prices, decreasing margins, declining financial strength, as well as higher risk of payment delays and insolvencies. Especially higher commodity prices and increased labour costs are burdening construction businesses.
- However, our underwriting stance remains neutral for the construction materials subsector, as this segment still benefits from solid demand, full order books and increased commodity prices.



Denmark: construction sector

	2017	2018f	2019f
GDP growth (%)	2.3	0.8	2.0
Sector value added growth (%)	4.0	2.2	2.2

Average sector growth over the past 3 years (%)	3.5
Average sector growth over the past 5 years (%)	3.1
Degree of export orientation	very low
Degree of competition	very high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Residential construction	Commercial construction	Public construction

Source: Atradius

The Netherlands



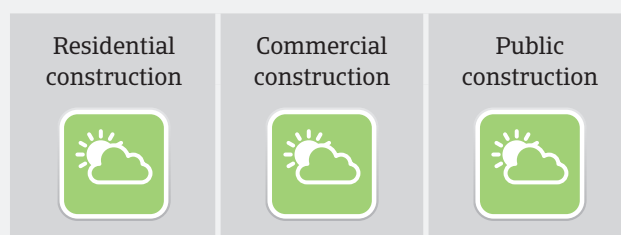
- The construction industry continued to grow in 2018, in line with the overall Dutch economic performance. Construction gross added value increased more than 5% year-on-year. In Q3 of 2018 civil and utility construction sales increased more than 11%, while infrastructure related sales rose more than 6%.
- At year end 2018 about 174,000 construction companies were registered in the Netherlands, of which 148,000 are one-man businesses, while 26,000 employ between 2 and 250 people. Only 55 companies are larger, employing more than 250 people. While competition in the Dutch construction market is high, there are currently no price wars.
- After an increase in 2017 profit margins of construction businesses decreased in 2018, mainly due to higher labour and material costs. Especially mid-sized and larger construction businesses had trouble in passing on increased expenses for salaries and materials/commodities to end-customers, due to fixed price agreements. According to CBS, profitability decreased 10% in Q4 of 2018 in the building industry. In order to sustain and to increase profit margins businesses try to improve working and earning practices (e.g. stricter tender procedures and more standardised residential building).
- Payment duration in the industry is 60-90 days on average. After a steep increase during the post 2009 crisis years, a decrease in non-payments and insolvencies was recorded between 2015 and 2017. That said, there was a slight increase in non-payment notifications and insolvencies over the past six months, and business failures are expected to increase further in H1 2019, albeit modestly. Mid-sized construction businesses facing ongoing profitability issues due to elevated labour costs (shortage of qualified staff) and increased commodity prices could be the most affected.
- Growth prospects for 2019 remain generally benign, with residential construction expected to grow 5%. Infrastructure-related construction is expected to benefit from more government projects over the next couple of years. Therefore, our underwriting stance remains relaxed for all major subsectors (residential construction, commercial construction and public construction) as well as for construction materials.
- However, short-term growth prospects remain below potential, hampered by a backlog in approved building permits, as public building authorities currently lack staff and resources to cope with the increased number of requests for permit procedures. This could potentially cause capacity issues for some Dutch construction businesses.

The Netherlands: construction sector

	2017	2018f	2019f
GDP growth (%)	3.0	2.6	1.7
Sector value added growth (%)	5.9	5.5	2.1
Average sector growth over the past 3 years (%)	7.2		
Average sector growth over the past 5 years (%)	4.1		
Degree of export orientation	very low		
Degree of competition	high		

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors



Source: Atradius

- When assessing a buyer's creditworthiness, we require up-to-date financial information, and details of their 2018 order book and payment experience. Additionally, we seek details on a company's financing (covenants/securities), the maturity dates of bank loans and we scrutinise work-in-progress and working capital positions.

Singapore

- After a poor performance in 2017, Singapore's construction sector output continued to shrink in 2018, due to subdued activity in private and public building projects and a large supply of already completed private housing projects and offices.
- The postponement of the Kuala Lumpur-Singapore High-Speed Rail (HSR) project will impact engineering and construction firms in 2019. In summer 2018 the government introduced higher fees and rates, and tighter loan limits to cool down the property market. The measures were a reaction to a sharp rise in private residential prices, triggered by a large number of en bloc sales since Q3 of 2017. This is likely to dampen activity in the private residential market in 2019.
- The profitability of many construction businesses is low and profit margins are expected to deteriorate further in 2019. SME contractors in particular, continue to suffer from tight cash flow and deteriorating margins. This is due to a lack of projects, increasing competition, and higher labour and rental costs.
- Singapore's construction businesses are heavily reliant on banks for loans and project funding. Government measures to cool down the property market include tighter lending criteria (such as higher deposit requirements, lower loan-to-value limits, additional stamp duty and higher interest rates) for both private consumers and developers.
- Payment duration in the industry is 60-120 days, on average. Payment behaviour slowly deteriorated in 2017 and 2018, and this negative trend is expected to continue in 2019. According to the Singapore Commercial Credit Bureau (SCCB), the construction sector recorded the highest percentage of delayed bill payments for the ninth consecutive quarter in 2018. The protracted default rate in the industry remains high.
- Business insolvencies increased in 2018, and are expected to rise further in 2019. Construction businesses can now choose adjudication under the recently updated Building and Construction Industry Security Payment Act (with an emphasis on debtor protection and corporate rescue), rather than resorting to litigation or arbitration. While this offers valuable breathing space and a chance of survival for struggling SMEs, slow payments continue to trouble businesses.
- Due to sluggish demand, tough competition, tight margins, slow payments and increased insolvencies our underwriting stance is restrictive for the residential construction, commercial construction and the construction materials segments, especially for smaller contractors. That said, we are generally open for businesses active in the public construction segment, as government investment in infrastructure projects and civil engineering works remains high (expected to amount to between SGD 26 billion and SGD 33 billion annually in 2019 and 2020 respectively).



Singapore: construction sector

	2017	2018f	2019f
GDP growth (%)	3.6	3.3	2.5
Sector value added growth (%)	-8.4	-0.4	3.8

Average sector growth over the past 3 years (%)	-0.4
Average sector growth over the past 5 years (%)	1.8
Degree of export orientation	low
Degree of competition	very high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Residential construction	Commercial construction	Public construction

Source: Atradius

Spain



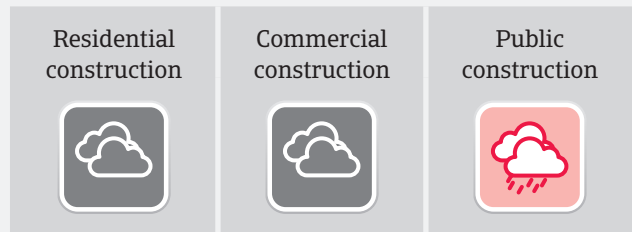
- The construction sector continued its rebound with an estimated value added growth rate of 3.7% in 2018, mainly due to Spain's economic recovery and increased foreign investments. However, it must be said that the current construction recovery comes from a very low level, following years of severe recession.
- In 2019, value added construction growth is expected to increase by about 3%, mainly driven by residential and commercial construction. Residential building benefits from a rebound of the real estate market, driven by lower interest rates and higher employment. In the commercial building segment demand from retail and hotel & catering is driven by the entry of new investors (e.g. real estate investment trusts, investment funds) searching for alternative returns to variable and fixed rent investments.
- Growth in the public construction/civil engineering segment is expected to remain subdued due to the ongoing commitment to fiscal deficit reduction.
- While conditions for external financing have continued to improve in 2018 due to the robust performance of the domestic economy, high leverage still remains a serious issue for many Spanish construction businesses. Moreover, both commodity and labour costs are increasing.
- The construction sector has a record of frequent and long payment delays. While the average payment period has improved in recent years it continues to be high, at 95 days on average. Late payments by mainly larger companies continues to negatively affect the working capital management of many smaller businesses in all segments, including the construction materials subsector. Despite this, insolvencies are not expected to increase sharply in 2019.
- Due to the ongoing rebound, our underwriting stance for the construction sector has become less restrictive than in previous years, with an open stance for larger businesses and international groups. That said, any significant increase of interest rates for loans would again lead to a tighter underwriting stance.
- We are still prudent with smaller businesses (especially newly established ones), as the market has not yet fully consolidated, many companies are still highly indebted, commodity prices have increased and lending conditions have not yet fully eased. We are also more cautious when underwriting businesses dependent on the public construction sector, as the activity level in civil works remains low.

Spain: construction sector

	2017	2018f	2019f
GDP growth (%)	3.0	2.5	2.4
Sector value added growth (%)	4.9	3.7	2.9
Average sector growth over the past 3 years (%)	3.1		
Average sector growth over the past 5 years (%)	-0.8		
Degree of export orientation	medium		
Degree of competition	high		

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors



Source: Atradius

Sweden

- In 2019, demand and margins are expected to remain stable in some segments like office buildings and civil engineering. However, the market for building new malls and hotels is increasingly mature. The residential building subsector shows signs of decreasing demand, which will have a negative effect on businesses' margins. Additionally, increased commodity prices and high prices for building sites in Sweden have a negative impact on construction.
- Competition in the Swedish construction sector is high and consolidation is ongoing, with financially stronger groups buying financially weaker construction companies. This consolidation trend is also present in the construction materials segment.
- Construction businesses are often highly indebted, especially those active in the real estate and housing construction segment. Banks are increasingly reluctant to lend to this subsector, while being more willing to provide loans to companies active in other segments.
- Payment duration in the industry is 30-45 days on average. The level of protracted payments is high, and both payment delays and insolvencies increased in H2 of 2018. This deteriorating trend is expected to continue in 2019.
- Our underwriting stance is restrictive for businesses active in residential construction and for subcontractors depending on it. The subsector is impacted by tighter access to bank financing and expected to face a substantial decrease in demand. At the same time we are less restrictive on commercial construction. While this subsector is facing a decrease in demand, businesses and end-customers are generally financially healthier and have easier access to loans. We are generally open for businesses active in public construction, where businesses and end-buyers are more resilient than other segments.



Sweden: construction sector

	2017	2018f	2019f
GDP growth (%)	2.4	2.3	2.0
Sector value added growth (%)	7.3	4.8	2.3

Average sector growth over the past 3 years (%)	5.6
Average sector growth over the past 5 years (%)	3.1
Degree of export orientation	average
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Residential construction	Commercial construction	Public construction

Source: Atradius

Industries performance forecast per country

February 2019

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MARKET PERFORMANCE
AT A GLANCE

OVERVIEW CHART


INDUSTRY PERFORMANCE

	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							
Taiwan							
Thailand							
United Arab Emirates							


Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles




Excellent




Good



Fair



Poor



Bleak

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OVERVIEW CHART

INDUSTRY PERFORMANCE



Industry performance

Changes since December 2018

Europe

Belgium

Automotive/Transport



Down from Fair to Poor

Non-payment notifications and credit insurance claims have increased in the sector.

Germany

Chemicals/Pharmaceuticals



Down from Excellent to Good

The sector is affected by lower global economic growth expectations in 2019 and increasing competition from Asia (so far mainly low-tech-goods, but competition skills and expertise in special chemicals are constantly increasing). Additionally, concerns over the ecological footprint of the industry have increased (e.g. ocean plastic pollution).

The Americas

Brazil

Consumer durables



Up from Bleak to Poor

The sector suffers from a negative outlook for public investments and a significant insolvency increase of larger players.

Electronics/ICT



Up from Bleak to Poor

Both the 2019 economic outlook for Brazil and the credit insurance claims situation in those sectors have improved.

United States

Food



Down from Good to Fair

Competition in the sector is persistently fierce, especially in the distribution and retail segments. Increasing raw material and energy costs as well as changing consumer preferences due to healthier lifestyles are having a negative impact on margins and profitability of many businesses active in food manufacturing.

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