



Industry Trends Consumer durables retail

Focus on sector business
performance and credit risk

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Consumer durables retail industry performance per market

May 2022

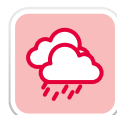
Austria		Spain		Australia	
Belgium		Sweden		China	
Czech Rep.		Switzerland		Hong Kong	
Denmark		Turkey		India	
France		United Kingdom		Indonesia	
Germany				Malaysia	
Hungary		Brazil		Japan	
Ireland		Canada		New Zealand	
Italy		Mexico		Singapore	
The Netherlands		USA		South Korea	
Poland				Taiwan	
Portugal				Thailand	
Slovakia				United Arab Emirates	

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

Belgium

Profit margins should remain stable, but downside risks remain



The Belgian consumer durables market grew strongly in 2021. Restrictions or lockdowns and the surge of hybrid and remote working triggered higher household investment in domestic appliances, furniture and electronic goods. Sales increased 14% in H1 of 2021 over the same period in 2019, and 26% year-on-year. Along segments, sales rose 30% for telecommunication equipment, 18% for consumer electronics and 26% for major domestic appliances.

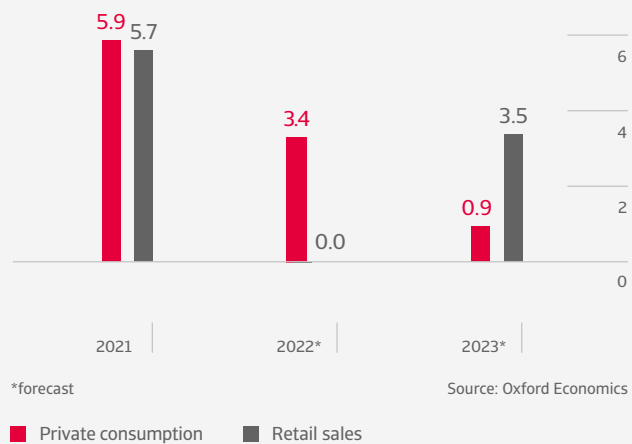
However, sales growth has started to slow down in H2 of 2021, and rising inflation (forecast at about 7% in 2022), mainly driven by high energy and fuel prices, is negatively affecting consumer confidence. Many households have started to postpone purchase of consumer durables, or to look for bargain offers and move downmarket when buying discretionary goods. We expect retail sales in Belgium to level off this year, after growing 5.7% in 2021.

Profit margins of consumer durables retailers increased in 2021 and should remain stable in 2022. While sales growth has slowed down, we do not expect a serious deterioration in demand. As producers pass on higher prices for commodity and energy along the value chain, many retailers try to absorb higher input prices by increasing their sales prices. Demand for premium products, which usually generate higher margins, remains robust for the time being.

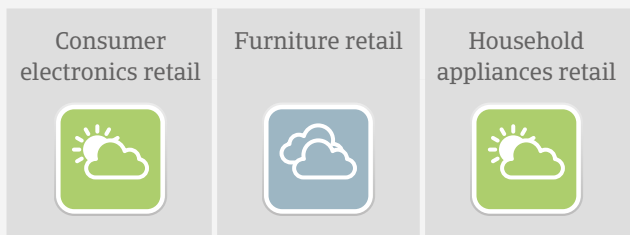
Payments in the Belgian consumer durables retail sector take 30-60 days on average, and the payment behaviour has been good during the past two years. While the number of non-payment notifications was historically low in 2021, we have noticed an increase of payment delays since early 2022. The insolvency level in the sector was low in 2022, and we do not expect a substantial increase in business insolvencies in the coming twelve months. However, we are closely observing current downside risks that could severely affect consumer sentiment (e.g. another spread of the pandemic and economic impacts of the war in the Ukraine). For the time being, our underwriting stance is mainly open for the consumer electronics and the household appliances segment, while neutral for furniture, due to fierce competition in this subsector.

Belgium private consumption and retail sales growth

y-on-y, % change



Performance forecast along subsectors



Belgium consumer durables retail - credit risk assessment

Fair



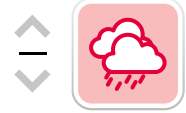
Business conditions	Financing conditions	Default assessment
Demand situation (sales)	Overall indebtedness of the sector low	Non-payments over the last 12 months
Profit margins: trend over the next 12 months	Dependence on bank finance low	Non-payments over the next 12 months
	Willingness of banks to provide credit high	Insolvencies over the last 12 months
		Insolvencies over the next 12 months



Source: Atradius

Brazil

High inflation and lower consumer confidence weigh on sales



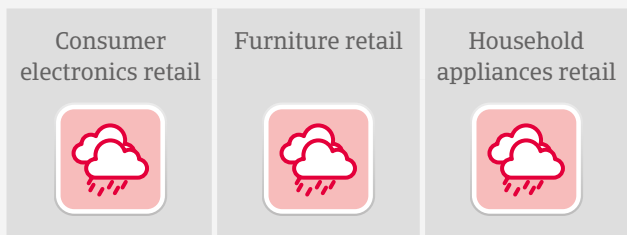
Brazil's economic rebound from the deep contraction caused by the pandemic has lost steam. Retail sales contracted year-on-year in H2 of 2021, and remained subdued in early 2022, due to high inflation, elevated interest rates and persistently high unemployment. Despite several benchmark interest rate hikes since H2 of 2021 (to 11.75% in March 2022), we expect annual inflation to increase to 10% in 2022. This weighs on the consumer durables sector, as confidence remains subdued amid more expensive consumer credits and sharply increased food and fuel prices. After a 1.9% increase in 2021, we expect retail sales to contract by 0.4% this year, with domestic appliances value added decreasing by about 4%. However, online sales will continue to grow, by about 12% in 2022, after increases of 27% in 2021 and 41% in 2020. Online competition particularly affects brick-and-mortar retailers of consumer electronics and small household appliances.

producers, but higher end-prices hamper sales, as household purchasing power has decreased. Additionally, high transport costs affect producers and retailers alike. Several retailers also struggle with high inventories.

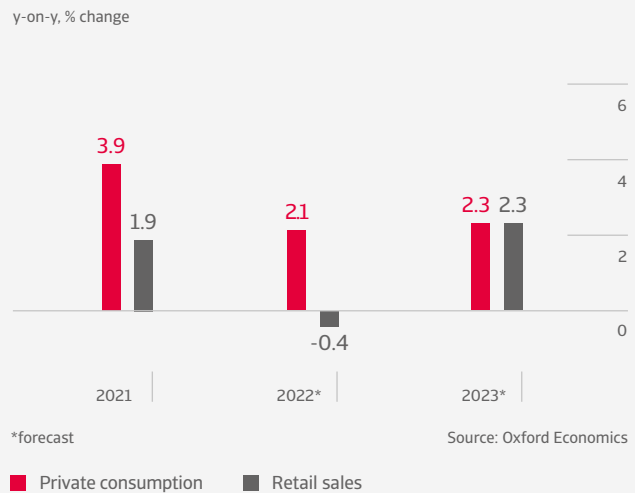
Payment duration in the sector is 90 days on average, and payment behaviour has been good during the past two years. However, we expect payment delays to increase in the coming twelve months. The insolvency level in the consumer durables retail sector has been low last year, but we expect an increase of about 5% in 2022, mainly affecting smaller brick-and-mortar retailers. Due to higher credit risk and subdued sales outlook, our underwriting stance varies between neutral and restrictive across subsectors, dependent on individual businesses' financial situation and sales performance.

Most consumer durables retailers are highly dependent on bank financing, and access to loans is still good. While profit margins are generally low, those of furniture retailers are usually higher in comparison with their peers in the household appliances and consumer electronics segments. After rising profit margins across all subsectors in 2021, we expect a deterioration in 2022, due to the subdued economic environment and sales outlook. Retailers try to pass on price increases imposed by consumer durables

Performance forecast along subsectors



Brazil private consumption and retail sales growth



Brazil consumer durables retail - credit risk assessment

Poor



Business conditions	Financing conditions	Default assessment
- Demand situation (sales)	Overall indebtedness of the sector? high	Non-payments over the last 12 months
- Profit margins: trend over the next 12 months	Dependence on bank finance high	- Non-payments over the next 12 months
	Willingness of banks to provide credit high	Insolvencies over the last 12 months
		- Insolvencies over the next 12 months



Source: Atradius

China

Lockdowns and a slowdown in the property sector affect demand



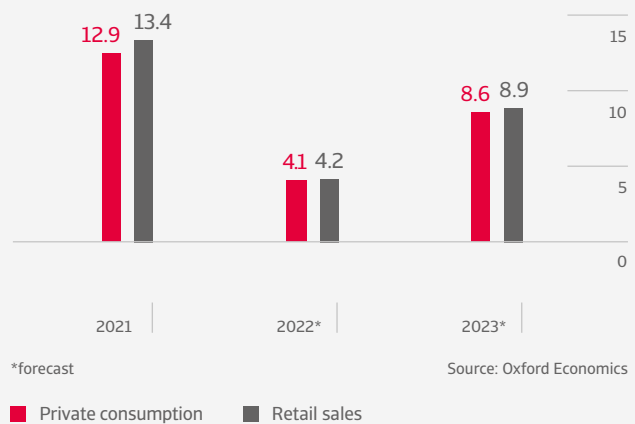
Sales of consumer durable goods increased by 12.5% in 2021, to CNY44 billion. In line with a slowdown of the economy and lower private consumption in 2022, we expect retail sales to slow, but still growing by about 4% this year. Higher global prices for commodities and energy have not yet affected the sector, but could have an impact as of H2 of 2022. Online retail sales increased by 11% in 2020 and by 14% in 2021. Brick-and-mortar retailers of home appliances and consumer electronics are the most affected businesses by online competition. Some of them have set up their-own online platforms, while others have adopted a strategy of product differentiation. Market shares of brick-and-mortar retailers continue to decrease.

Currently several lockdowns imposed on larger cities due to the zero-Covid policy have a negative impact on revenues and profits of local consumer durables retailers. Another issue is the slowdown in the property sector, after the government has imposed stringent regulations to rein in real estate investment in order to cool down the market. This negatively affects demand for home appliances and furniture. We expect domestic appliances value added to grow by just 0.2% in 2022 after a sharp 12% increase last year. The consumer electronics should face lower demand this year, due to higher sales prices. However, retailers' margins should remain stable, after recording increases in 2021.

Payments in the sector take 30-90 days on average. Payment terms of up to 90 days affect import-dependent retailers, due to currently slow sea shipments. Payment behaviour has been good over the past two years, and we expect no increase in payment delays or insolvencies in the coming 12 months. This is mainly due to fiscal support, as the government assists retailers with rent and tax rebates as well as subsidies. Our underwriting stance is currently more restrictive for retailers located in cities and regions that are under lockdown for two months or longer. Apart from that, it is neutral across all subsectors. Most vulnerable to downside risks (more lockdowns, property sector woes) are small brick-and-mortar retailers. Those usually show weaker balance sheets and have limited bargaining power. We are more open to retailers that are state-owned, or have a strong group background.

China private consumption and retail sales growth

y-on-y, % change



Performance forecast along subsectors



Source: Atradius

China consumer durables retail - credit risk assessment

Fair



Business conditions	Financing conditions	Default assessment
Demand situation (sales)	Overall indebtedness of the sector? average	Non-payments over the last 12 months
Profit margins: trend over the next 12 months	Dependence on bank finance low	Non-payments over the next 12 months
	Willingness of banks to provide credit average	Insolvencies over the last 12 months
		Insolvencies over the next 12 months



Source: Atradius

France

A more difficult year ahead

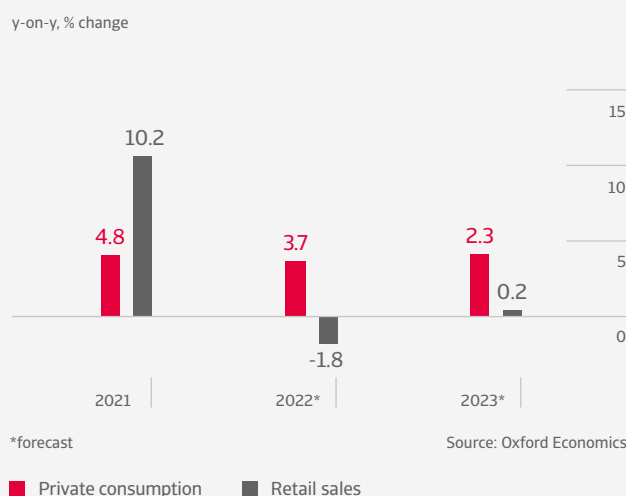


The French consumer durables market recorded robust growth in 2021, driven by remote working, household investments in home furnishing and a trend towards premium goods purchase. Sales of large household appliances sales increased 11%, while those of smaller items rose 3%. After a 5% decline in 2020 due to lockdowns, furniture sales increased by 14% last year. Consumer electronics grew just 2% in 2021, affected by the global shortage of electric components. Online sales accounted for 31% of household equipment sales, and retailers continue to rollout omni-channel sales strategies.

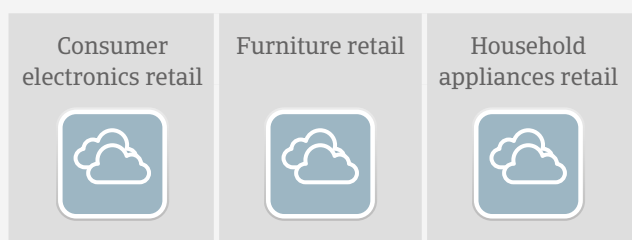
2022 will be a more difficult year for the industry. Higher raw material prices and transport costs have increased input prices, while at the same time rising prices for energy, fuel and food affect household purchasing power. Pre-election concerns weighed on household expenses in early 2021. We forecast retail sales in France to contract by about 2% in 2022 after a 10% increase last year, and (already thin) profit margins of consumer durables retailers should decrease in the coming months. Many businesses try to pass on higher production and transports costs to end-customers, but this could be difficult due to the fierce competition in the market and less room for discretionary spending. In order to preserve margins, the product mix is key (e.g., margins are usually higher in the household appliances segment).

External financing requirements and gearing of consumer durables retailers are high, due to high working capital requirement and peak sales periods. Payments take 45 days on average, and the number of non-payments has been low in 2021. Insolvencies decreased in 2021 by about 30%, due to favorable market conditions and Covid-related fiscal measures (e.g. state-guaranteed loans). With the phasing out of those measures, we expect that both payment delays and insolvencies in the retail sector will increase as of H2 of 2022. However, we do not expect a significant deterioration of the insolvency situation, rather a return to “normal” levels seen prior to the pandemic in 2019. Given the slowdown of revenues and higher credit risk, our underwriting stance is neutral for all consumer durables main subsectors.

France private consumption and retail sales growth



Performance forecast along subsectors



France consumer durables retail - credit risk assessment

Fair



Business conditions	Financing conditions	Default assessment
Demand situation (sales)	Overall indebtedness of the sector? high	Non-payments over the last 12 months
Profit margins: trend over the next 12 months	Dependence on bank finance high	Non-payments over the next 12 months
	Willingness of banks to provide credit average	Insolvencies over the last 12 months
		Insolvencies over the next 12 months



Source: Atradius

Germany

Higher input costs and supply chain issues hit profit margins



In 2020 and 2021, consumer durables sales benefited from pandemic-related shortfalls of other spending opportunities (e.g. for travel and restaurants). However, 2022 will be a more difficult year. With the lifting of lockdowns there is pent-up demand for services at the expense of discretionary spending. High inflation, triggered by a sharp increase in food and energy prices, has a negative effect on households' purchasing power. We expect domestic appliances value added to contract by about 3.5%, while furniture should grow a modest 1.5%. However, online non-food retail sales are expected to grow again at double-digit rates (forecast 13.5% this year).

Increased input costs for commodities, transport and energy are major concerns for consumer durables producers and retailers alike. Supply chain bottlenecks remain an issue across all main segments. Shortages could aggravate further if the current lockdowns in major cities and provinces in China persist.

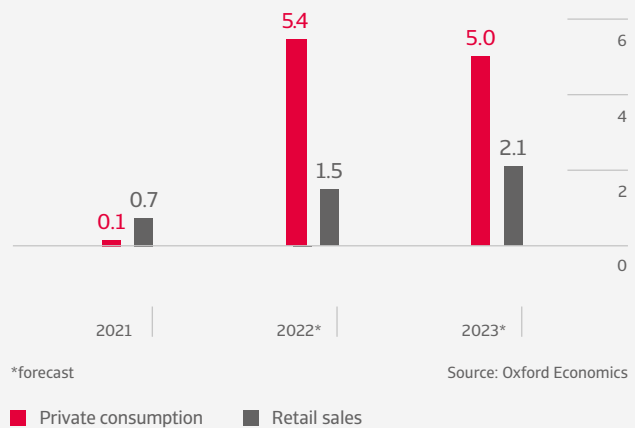
Consumer durables manufacturers and wholesalers strive to pass on increased production and energy costs to retailers. Those operate in a fierce competitive environment, facing subdued discretionary consumer spending and economic uncertainty caused by the war in Ukraine. Therefore, passing on higher prices to end-consumers is very difficult, and we expect gross margins

of retailers to shrink during the coming months, mainly affecting brick-and-mortar businesses.

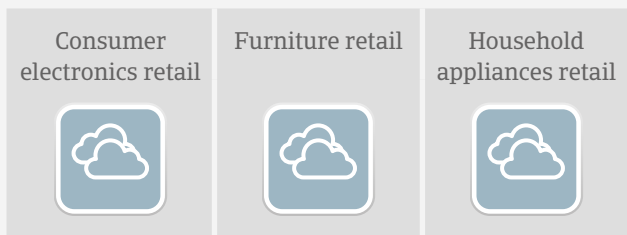
Payments usually take 30-60 days on average, but could also take up to 120 days, particularly when larger retail chains use their leverage vis-à-vis suppliers. We have already observed increasing payment delays and insolvencies during the last twelve months among brick-and-mortar retailers. Due to shrinking margins and lower sales, we expect that insolvencies in this segment should increase by about 10% in the coming twelve months, mainly affecting smaller retailers. Across all main subsectors, our underwriting stance is generally neutral. With a steadily increasing share of e-commerce and the current issues affecting the industry, we try to obtain interim accounts, in order to continuously check if buyers can maintain sufficient margins.

Germany private consumption and retail sales growth

y-on-y, % change



Performance forecast along subsectors



Source: Atradius

Germany consumer durables retail - credit risk assessment

Fair



Business conditions	Financing conditions	Default assessment
Demand situation (sales)	Overall indebtedness of the sector? average	Non-payments over the last 12 months
Profit margins: trend over the next 6 months	Dependence on bank finance average	Non-payments over the next 12 months
	Willingness of banks to provide credit average	Insolvencies over the last 12 months
		Insolvencies over the next 12 months

- big increase
- increase
- stable
- decrease
- big decrease

Source: Atradius

Italy

More insolvencies expected in 2022



Retail of consumer durables benefited from Italy's economic recovery in 2021. Private consumption increased by 5.2% and retail sales grew 8.1% (down 7.8% in 2020). The rebound was also driven by public incentives for home renewals and fiscal support for households. Online sales of electronics/small domestic appliances and furniture increased 10% and 18% respectively in 2021. While larger brick-and-mortar retailers are adapting to online competition by launching multichannel sales options, smaller retailers are still less prepared to shift towards online business.

Retail sales growth will slow down to 2% in 2022. This is due to the long life-cycle of larger household appliances and furniture products after the recent sales surge. Following a whopping 20% increase in 2021, we expect domestic appliances value added to contract by 5% this year. Consumer electronics sales will decline after high sales over the past two years and with special events (e.g. high demand for decoders and TVs due to a shift to new digital standards). Another reason for lower consumer durables sales is high inflation (forecast at almost 6% in 2022), driven by sharply increased oil and gas prices. This severely weighs on disposable incomes and discretionary spending. Private consumption growth in 2022 has been revised downwards, from 6% in February to 3.6% currently.

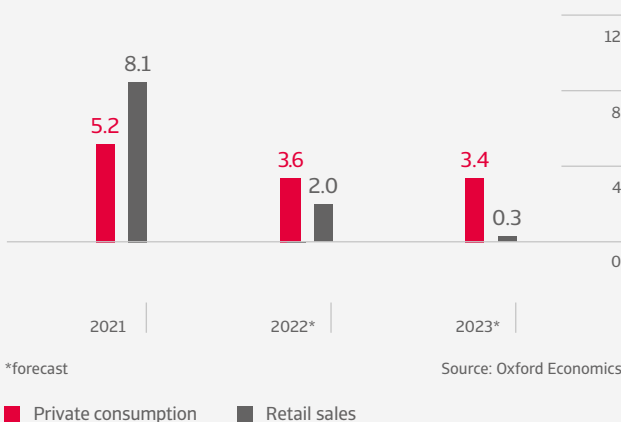
We expect profit margins of consumer durables retailers to

decrease in the coming months, as passing on higher production, energy and transport costs to end-consumers will be difficult, given the high competition in the market.

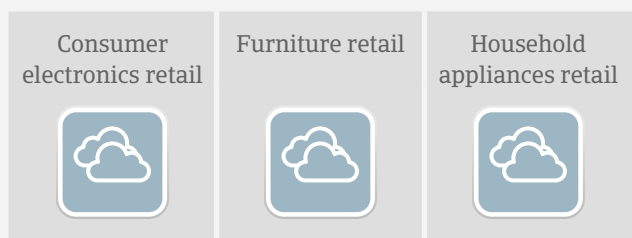
Payments take 60-90 days on average, and the number of payment delays and insolvencies has been low during the past 12 months. However, due to the current challenges, we expect more payment delays and insolvencies in H2 of 2022 and in early 2023, although not a sharp increase. Our underwriting stance remains neutral for all consumer durables subsectors. Consumer durables retailers' working capital requirements remain high to sustain purchases and maintain an adequate level of inventories. A main criterion for us is the capability of businesses to manage recourse to financial debt adequately in relation to their working capital requirements.

Italy private consumption and retail sales growth

y-on-y, % change



Performance forecast along subsectors



Source: Atradius

Italy consumer durables retail - credit risk assessment

Fair



Business conditions	Financing conditions	Default assessment
- Demand situation (sales)	Overall indebtedness of the sector? average	+ Non-payments over the last 12 months
- Profit margins: trend over the next 12 months	Dependence on bank finance average	- Non-payments over the next 12 months
	Willingness of banks to provide credit high	+ Insolvencies over the last 12 months
		- Insolvencies over the next 12 months

big increase | increase | stable | decrease | big decrease

Source: Atradius

Malaysia

Decreasing profit margins for brick-and-mortar retailers



Pandemic-related lockdowns and lower sales in 2020 and 2021 negatively affected the business performance and credit risk of many Malaysian consumer durables retailers. However, with the lifting of restrictions and reopening of cross-border travelling (especially with Singapore), consumer durable sales have started to rebound, up 14% in Q1 of 2022. We expect private consumption to grow by more than 7% annually in 2022 and 2023, sustained by higher disposable household incomes and rising employment. Domestic appliances, furniture and consumer electronics sales will benefit from pent-up demand in the coming months, and we forecast retail sales to increase by more than 8% this year. However, rising inflation is a downside risk, as it could affect the purchasing power of Malaysian households.

Many brick-and-mortar retailers recorded deteriorating margins in 2021 due to lockdowns. While a recovery is ongoing, they face the challenge of coping with the increased competition from their online peers, who benefit from changed buying patterns. Online sales grew by 30% in 2021. Along products, fashion accounted for 31% of online sales revenues, followed by electronics and media (28%), while furniture and domestic appliances accounted for 13%.

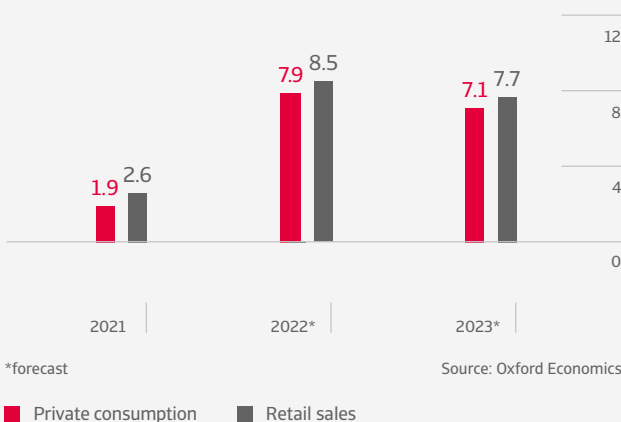
Brick-and-mortar retailers have to make additional investments in order to build up online sales channels, enabling them to cope

with changing market conditions. At the same time, passing on higher input prices to end-consumers is difficult, due to the highly competitive market environment. Therefore, we expect that profit margins of retailers will decrease again in the coming months. However, fiscal support worth MYR 332 billion (EUR 73 billion) in order to boost the post-Covid recovery of businesses and households should also benefit retailers.

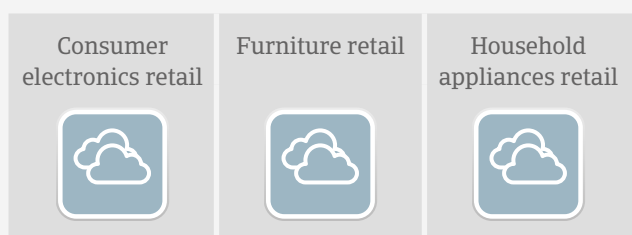
Gearing of businesses is generally low in the Malaysian consumer durables retail sector, and there are no restrictions on accessing bank loans. Payments take 30-60 days on average, and we expect no increase in payment delays or business failures in the coming 12 months, due to the ongoing economic recovery. Our underwriting stance is open to neutral for businesses in all main subsectors.

Malaysia private consumption and retail sales growth

y-on-y, % change



Performance forecast along subsectors



Source: Atradius

Malaysia consumer durables retail - credit risk assessment

Fair



Business conditions	Financing conditions	Default assessment
+ Demand situation (sales)	Overall indebtedness of the sector? average	Non-payments over the last 12 months
- Profit margins: trend over the next 12 months	Dependence on bank finance average	Non-payments over the next 12 months
	Willingness of banks to provide credit average	Insolvencies over the last 12 months
		Insolvencies over the next 12 months



Source: Atradius

The Netherlands

More brick-and-mortar retailers will leave the market



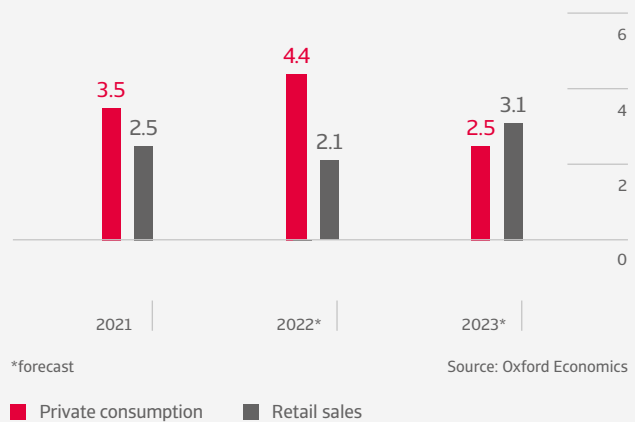
According to the Dutch Statistics Office, non-food retail turnover increased 2.5% in 2021, with online retail sales growing almost 24%. Consumer durable sales were flattening out last year after robust growth rates in 2020, when they benefited from a booming housing market and pandemic-related shifts in consumer behaviour. Furniture sales decreased 1.1% in 2021 after a 7.9% increase in 2020, while consumer electronics and white goods recorded a 7.9% decline (up 8.6% in 2020).

Growth of non-food retail sales will slow down somewhat in 2022, as food and energy price inflation dampen consumer sentiment and discretionary spending. Additionally, after the lifting of lockdowns, consumer preferences have shifted back towards services (e.g. hospitality and travel). Another issue for consumer durable retailers is higher input prices, which are difficult to pass on in a very competitive market environment. We expect that domestic appliances value added should shrink about 4% in 2022, while furniture segment growth should slow down to about 1%. Profit margins of retailers decreased in 2021, and we expect them to decline further in the coming months. Furniture retail largely depends on the housing market, which has shown signs of overheating. We also expect a deterioration of margins for household appliances and consumer electronics retailers, due to fierce competition.

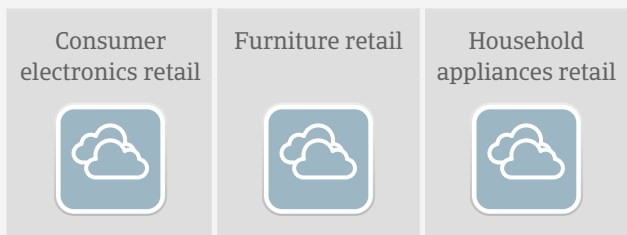
Payment duration in the sector is 60 days on average for larger retailers, while smaller businesses generally pay in 30 days. Over the past two years, payment behaviour has been good and the number of insolvencies low, helped by Covid-related fiscal stimulus for Dutch businesses. However, as fiscal support expired at the end of March 2022, and with higher input prices to digest and lower revenues ahead, we expect both payment delays and insolvencies to increase in the coming twelve months. The amount of that increase is currently hard to assess due to the ongoing economic uncertainties, but we expect it to be mainly smaller brick-and-mortar smaller retailers who are affected. Many of them struggle to raise investments necessary to adapt to an increasingly online-driven market environment. Online competition is very fierce in the consumer electronics and household appliances segments, and the number of brick-and-mortar stores has already decreased significantly during the past couple of years.

The Netherlands private consumption and retail sales growth

y-on-y, % change



Performance forecast along subsectors



Source: Atradius

The Netherlands consumer durables retail - credit risk assessment

Fair



Business conditions	Financing conditions	Default assessment
Demand situation (sales)	Overall indebtedness of the sector? average	Non-payments over the last 12 months
- Profit margins: trend over the next 12 months	Dependence on bank finance average	- Non-payments over the next 12 months
	Willingness of banks to provide credit average	+ Insolvencies over the last 12 months
		- Insolvencies over the next 12 months



Source: Atradius

Singapore

Retailers' profit margins sustained by fiscal support

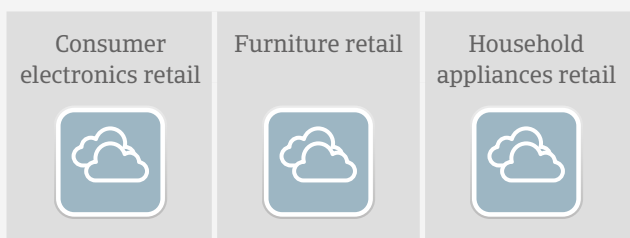


Retail sales in Singapore rebounded by more than 11% in 2021 after a 16.4% slump in 2020. The recovery is likely to slow down in 2022, as higher inflation could affect discretionary spending, while the spread of new Covid variants remains a downside risk. A slower recovery of global economy and international travel continues to pose challenges for an economy that heavily relies on external trade and tourism. However, according to Statista, the 2022-2025 compound annual growth rates for furniture, consumer electronics, and household appliances are 18%, 8.7% and 16.5% respectively.

Retailers are currently facing higher costs for energy, and it remains to be seen if they can pass on higher input prices to end-customers. While supply chain disruptions remain an issue, businesses have learnt their lesson from the serious supply chain bottlenecks at the height of the pandemic. Retailers have started to stock up their inventories early, ahead of festive peak seasons like the Chinese New Year, for example. This reduces the impact of supply chain issues on revenues and profits. Given the growing importance of online sales, most brick-and-mortar retailers try to compete with their online peers by collaborating with e-commerce platforms. We expect that brick-and-mortar retailers will increasingly adapt to new strategies in order to increase their online sales and to remain competitive.

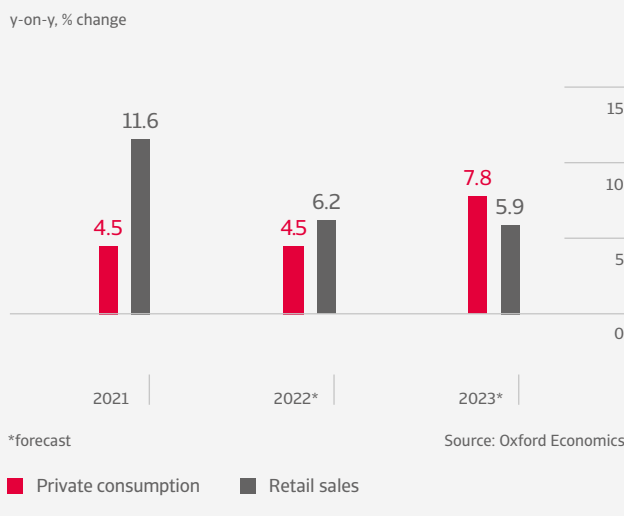
Most retailers have been able to sustain their profit margins during the past two years, strongly supported by comprehensive fiscal stimulus. Payments in the consumer durables retail industry take 60-90 days on average, and there has been no increase in payment delays. While some retailers had to file for bankruptcy last year due to losses, most businesses have managed to stay afloat thanks to fiscal measures. We do not expect a deterioration of the insolvency environment this year, because the government has again earmarked support for Singaporean businesses in its Financial Year 2022 budget. Given the current credit risk situation and the ongoing growth prospects in 2022 and beyond, our underwriting stance is open to neutral for businesses across all main subsectors.

Performance forecast along subsectors



Source: Atradius

Singapore private consumption and retail sales growth



Singapore consumer durables retail - credit risk assessment

Fair



Business conditions	Financing conditions	Default assessment
Demand situation (sales)	Overall indebtedness of the sector? average	Non-payments over the last 12 months
Profit margins: trend over the next 12 months	Dependence on bank finance average	Non-payments over the next 12 months
	Willingness of banks to provide credit average	Insolvencies over the last 12 months
		Insolvencies over the next 12 months



Source: Atradius

Spain

More difficult market conditions after robust growth in 2021



The Spanish consumer durables market grew strongly in 2021 as the economy rebounded from the Covid-related recession in 2020. Household appliances and small electrical items sales increased 14% and 8% respectively. Furniture sales rose 11%, while consumer electronics grew 3.5% (after a 7.5% increase in 2020). Online sales of consumer durables increased a whopping 60% in 2020, followed by a 3.7% growth last year. Currently e-commerce accounts for about 30% of sector sales, and brick-and-mortar retailers have increasingly set-up their own online sales channels.

Retail sales growth has started to slow down since H2 of 2021, due to rising inflationary pressures and supply chain bottlenecks. Those bottlenecks will remain an issue across all consumer durables subsectors in the coming months, while we expect annual inflation to increase by more than 6% this year, as gas, fuel, electricity and food prices have sharply risen during the past couple of months. Lower household purchasing power negatively affects discretionary spending this year. We expect domestic appliances value added to contract 5% in 2022 after growing 7.5% in 2021. Additionally, both brick-and-mortar and online retailers face higher transport cost as well as increased producer prices passed on by manufacturers. Due to strong competition in the market, retailers can only partly pass on those costs to end-customers.

Lower demand and higher costs negatively affect revenues and profit margins of businesses, which should lead to deteriorating payment behaviour in the coming months. In Q1 of 2022, insolvencies of retailers (food and non-food) grew 7.8% year-on-year, and we expect further increases in the coming twelve months. The number of business failures and the amount of claims will be highly impacted by inflation development in the coming months and its impact on future discretionary spending. On a positive note, fiscal support of domestic consumption is still ongoing, and the government has taken measures to curb energy price inflation.

Our underwriting stance is neutral for all consumer durables retail subsectors. While exposed to rising consumer prices and soaring costs for raw materials, energy and transport, the sector is still quite resilient compared to other industries.

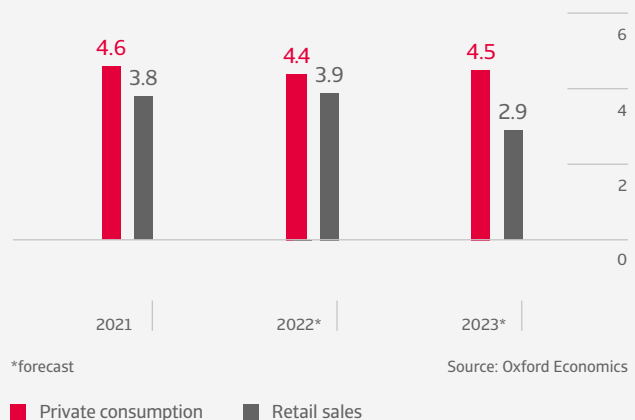
Performance forecast along subsectors



Source: Atradius

Spain private consumption and retail sales growth

y-on-y, % change



Spain consumer durables retail - credit risk assessment

Fair



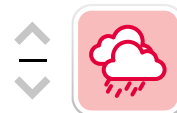
Business conditions	Financing conditions	Default assessment
- Demand situation (sales)	Overall indebtedness of the sector? average	- Non-payments over the last 12 months
- Profit margins: trend over the next 12 months	Dependence on bank finance average	- Non-payments over the next 12 months
	Willingness of banks to provide credit average	- Insolvencies over the last 12 months
		- Insolvencies over the next 12 months



Source: Atradius

United Kingdom

Rising insolvencies as fiscal support expired



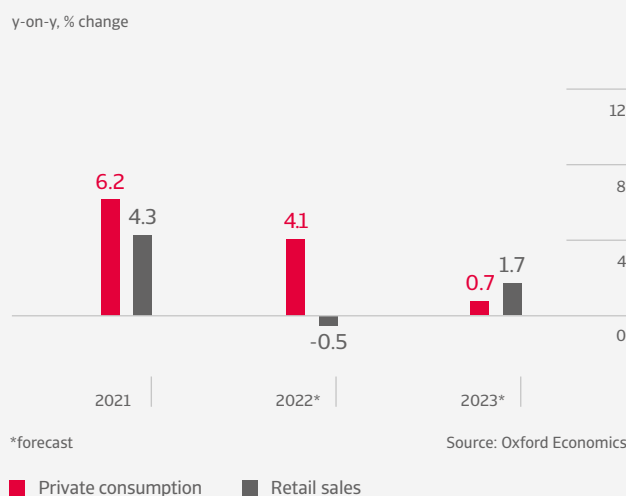
The UK consumer durables market recorded solid growth in 2021, as retail stores value added increased by 7.6%. While demand was up during the holiday season, retailers had to struggle with higher input costs and supply chain bottlenecks (e.g. consumer electronics affected by delayed deliveries from China). As a result, some larger retailers issued profit warnings. We expect consumer durable sales to decrease this year, as a sharp increase of energy, fuel and food prices curbs discretionary spending. Catch-up effects after the expiry of lockdowns and lifting of travel restrictions have spurred consumer spending on services (e.g. hospitality, travel). This also affects spending on big-ticket items (furniture, domestic appliances) in times of decreasing household purchasing power. We forecast domestic appliances value added to shrink by 3.5% in 2021.

We expect the profit margins of consumer durable retailers to deteriorate in 2022. Between lower demand and strong competition, retailers face serious difficulties in passing on higher input costs for commodities, energy and labour to end-customers. This affects mainly smaller retailers, lacking access to funding and favourable credit terms compared to larger players. While footfall has recovered, brick-and-mortar retailers have to find new ways of enticing consumers into stores and to improve their online offering, because shopping patterns have decisively shifted towards online

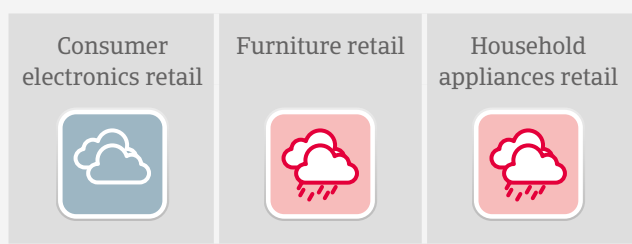
purchases during the pandemic. Competition between online and offline retailers remains fiercest in the clothing/fashion segment, where during the past couple of years several well-known high-street fashion brands fell into administration.

Payments in the industry take about 60 days on average, and we expect both payment delays and insolvencies to increase in the coming twelve months. Along with higher costs and lower demand, retailers also have to cope with the recent expiry of pandemic-related government support for businesses (a job retention scheme, business rate reliefs, tax deferrals and rent moratoriums). Business failures could increase by up to 50% year-on-year, mainly affecting smaller brick-and-mortar retailers. Therefore, our underwriting stance is currently restrictive, for domestic appliances and furniture retailers in particular.

United Kingdom private consumption and retail sales growth



Performance forecast along subsectors



United Kingdom consumer durables retail - credit risk assessment

Poor



Business conditions	Financing conditions	Default assessment
- Demand situation (sales)	Overall indebtedness of the sector? high	- Non-payments over the last 12 months
- Profit margins: trend over the next 12 months	Dependence on bank finance high	- Non-payments over the next 12 months
	Willingness of banks to provide credit average	- Insolvencies over the last 12 months
		- Insolvencies over the next 12 months



Source: Atradius

United States

Ongoing, but lower sales growth in 2022



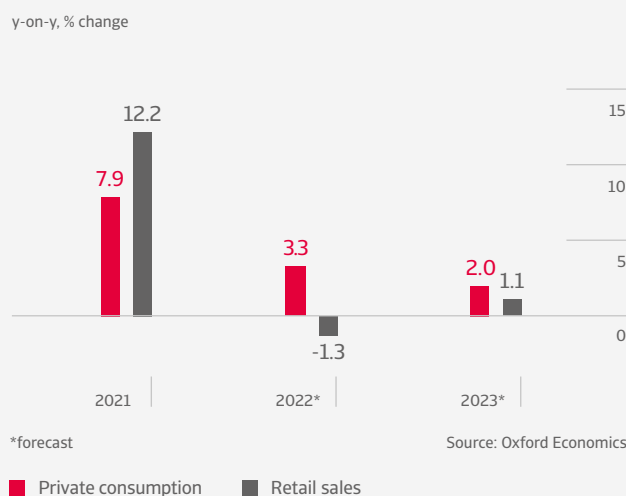
We expect that consumer durables sales should continue to grow in 2022, as higher wages and house prices support ongoing demand. However, growth will slow down compared to 2021, because with the lifting of social distancing measures there is high pent-up demand of non-durable goods and services. Additionally, high inflation, driven by gas and food prices, will impact discretionary spending. We expect domestic appliances output to contract 2.5%, after a whopping 12.2% increase in 2022. Furniture and consumer electronics revenues should grow 3.5% and 2.8% respectively, but remain impacted by supply bottlenecks and shipping delays. Online sales accounted for about 23% of total retail sales and are forecast to grow between 11% and 13% this year.

Retailers' profit margins have increased in 2021, helped by pandemic-related cost savings, and we expect them to remain stable in the coming months. The current cost inflation should have a lagged effect on businesses' financials, and retailers are able to pass on a share of increased input costs to end-customers.

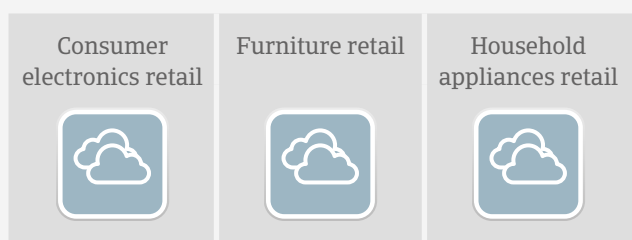
Payments in the industry take about 60 days on average. As retailers have returned to normal operations after the height of the pandemic, payment trends should remain stable. In 2021, US retail bankruptcies decreased to the lowest number seen during the past ten years. This was due to buoyant sales, fuelled

by government stimulus for consumers. Additionally, consumer durable retailers benefited from business liquidity support programmes like the Paycheck Protection Program (PPP), while low interest rates provided favourable funding opportunities for debt refinancing. We expect no substantial increase in retail bankruptcies in the coming twelve months, given the ongoing sales growth. However, there are downside risks for the credit risk of smaller retailers. Many of them have to increase lending because PPP loans are no longer available, while at the same time banks are more reluctant to provide loans to this business segment. As interest rates rise, smaller retailers are more susceptible to financial distress if their liquidity shrinks. Additionally, ongoing supply chain bottlenecks and the impact of persistently high inflation on consumer sentiment remain downside risks in the coming months.

United States private consumption and retail sales growth



Performance forecast along subsectors



United States consumer durables retail - credit risk assesement

Fair



Business conditions	Financing conditions	Default assessment
Demand situation (sales)	Overall indebtedness of the sector? high	Non-payments over the last 12 months
Profit margins: trend over the next 12 months	Dependence on bank finance average	Non-payments over the next 12 months
	Willingness of banks to provide credit average	Insolvencies over the last 12 months
		Insolvencies over the next 12 months



Source: Atradius

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