Atradius
Managing risk, enabling trade

April 2018

market monitor

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

Disclaimer

In this issue...

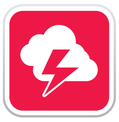
On the following pages we indicate the general outlook for each sector featured using these symbols:

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

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

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

Poor
The credit risk in the sector is relatively high / business performance in the sector is below 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

A look beyond sales figures

In 2017 most consumer durables retail markets expanded their sales and turnover growth is expected to continue in many countries discussed in this Market Monitor. That said, mainly for many smaller and mid-sized retailers, margins remain tight or are even decreasing further. Online retailers put increasingly more pressure on their traditional high street peers and online sales growth continues to far outpace sales growth for brick-and-mortar.

Consumer durable retailers´ business success and resilience increasingly depend on their ability to adopt new strategies, e.g. building-up and expanding their online business and/or offering additional services. However, this requires the willingness to change and financial investment. It remains to be seen if many of the smaller retailers have the means to realign their businesses to remain competitive.

In 2018 business insolvencies in the consumer durables retail sector are expected to remain stable in most markets and some countries are expecting increases. Due to the very competitive and volatile market environment sudden and unexpected defaults - even of larger players - cannot be ruled out, leading to a more elevated credit risk environment. Therefore, the sector performance assessment of most markets is “Fair” and not “Good”, despite ongoing sales growth.

France

- Profit margins of many retailers have decreased
- Sales growth set to continue in 2018
- No further insolvency decrease expected in 2018

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 research institute GfK, consumer electronics sales decreased in 2017, mainly impacted by a decline in TV sales (a 31% drop in volume and 20% in value). However, the TV segment had recorded a 30% increase in volume in 2016, driven by a change to TNT HD and the 2016 UEFA EURO Football Championship.

Another reason for the decrease was subdued consumer sentiment in H1 of 2017 ahead of the French presidential elections.

According to Gifam (the French association of household appliances manufacturers), sales of large household appliances increased 3.6% in 2017 to EUR 5.4 billion. Sales of small household appliances also increased 5% to EUR 3.5 billion, continuing their upward trend for the tenth consecutive year.

The French furniture industry research organisation IPEA stated that the French furniture market grew 2% in 2017, in line with a rebound in the housing market. The kitchen segment, which accounts for 26% of the furniture sector, was the main contributor to growth.

The 2018 outlook for consumer durables seems to be benign. Household appliances and furniture sales are expected to grow further, the latter supported by a dynamic real estate market. In the consumer electronics segment TV sales are expected to rebound (up 2%), driven by the summer 2018 FIFA World Cup.

The consumer durables retail business environment is highly competitive among the different distribution networks. This fierce competition has been reinforced in recent years by the increasing market share of online retailers, which have generated significant pressure on sales prices and profitability, especially affecting independent and local retailers. In 2017 the profitability of many retailers decreased, and in 2018 no significant rebound is expected, despite growing sales. In order to adapt to the more

France: retail stores

	2017	2018f	2019f
GDP growth (%)	1.9	2.1	1.7
Sector value added growth (%)	1.5	2.1	2.0

Average sector growth over the past 3 years (%)	1.6
Average sector growth over the past 5 years (%)	1.5
Degree of export orientation	low
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

difficult market conditions – and in response to the challenge by online retailers - the main players further develop their cross channel strategies and online sales. At the same time, the concentration process through acquisitions or purchasing alliances is ongoing.

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

Payments in the industry take 45 days on average. The current level of non-payment notifications is rather low, and payment delays are not expected to increase in 2018, given further sector growth. Non-food retail insolvencies decreased 5% in 2017, and while French business insolvencies are forecast to decrease another 7% in 2018, it is expected that non-food retail business failures will level off this year. Given the competitive and volatile market environment there is always the risk that several players fail, especially independent and smaller ones. At the same time, sudden and unexpected defaults of major players cannot be ruled out in this industry.

French consumer durables retail sector

Strengths	Improved consumer confidence and higher household spending
	Market consolidation ongoing
Weaknesses	High gearing of many businesses
	Fierce competition

Source: Atradius

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

Performance forecast along subsectors

Household appliances	Furniture	Consumer electronics

Source: Atradius

Germany

- Smaller brick-and-mortar retailers continue to struggle
- Payment terms range from 30 to 60 days
- No insolvency decrease expected in 2018

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 German Statistics Office, non-food retail real turnover increased 3.5% year-on-year in 2017 – the eighth consecutive year of growth, and further expansion is expected in 2018. German consumer durables retail benefits from the country´s robust economic performance, with household consumption expected to rise 1.8% in 2018 following a 2.2% increase in 2017. Demand is driven by low unemployment and increased household purchasing power. However, rising consumer prices (expected to increase to 1.9% in 2018) could act as a brake on further spending.

According to the German association of furniture industries BVDM, turnover in the furniture segment increased 0.5% in 2017, to EUR 33.6 billion, and in 2018 sales are again expected to record a modest increase. According to the German Electrical and Electronic Manufacturers' Association ZVEI, in 2017 manufacturers' sales of large electric domestic appliances increased 1.5%, while manufacturers' sales of small electric domestic appliances rose 3%.

Smaller and mid-sized retailers are still struggling in their efforts to cope with the fast growing market leaders. At the same time, the competitive pressure from online retailers has further increased (in 2017 online sales of consumer durables grew 10.9%). In segments where e-commerce has rapidly expanded its market share (e.g. consumer electronics, electrical domestic appliances, furniture, leisure articles, clothing) competition is fiercer and the pressure on margins higher, which dampens the future prospects of mainly smaller brick-and-mortar retailers. The best way for smaller retailers to survive in this very competitive market is to join a large purchasing association and to compete with e-commerce by providing outstanding service, e.g. advisory services, easy return of goods, etc.

In general, payment terms in the consumer durables retail segment range from 30 days to 60 days, however they can extend to more than 120 days depending on the market power of individual retailers. Payment behaviour in the German consumer

Germany: retail stores

	2017	2018f	2019f
GDP growth (%)	2.5	2.4	1.8
Sector value added growth (%)	2.9	2.4	1.9

Average sector growth over the past 3 years (%)	2.4
Average sector growth over the past 5 years (%)	1.8
Degree of export orientation	very low
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

durables sector has so far remained both good and stable, with a low share of protracted payments.

The sector´s insolvency level is average compared to other industries and it is expected that the number of consumer durables retail business failures will level off in 2018 compared to 2017. This is bucking the general business insolvency trend for 2018 (with a forecast 4% year-on-year decrease).

Due to the increasingly difficult situation of smaller players we still see consumer durables retail as a medium-risk sector. According to the retail federation HDE, 24% of the retailers with less than five employees expect higher turnover in 2018, compared to 80% of companies with more than 100 employees. We continue to closely observe the growing competition between online and brick-and-mortar retailers. In 2018 HDE expects a turnover increase of 1.2% for brick-and-mortar retailers, compared to more than 10% for online traders. Price transparency, made available to consumers by online retailers, maintains pressure on margins along the whole value chain.

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

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

German consumer durables retail sector

Strengths	Many long-established, financially strong family businesses
	Experienced and reliable management
Weaknesses	Strong competition for brick-and-mortar from e-commerce
	Highly dependent on consumer sentiment

Source: Atradius

Performance forecast along subsectors

Household appliances	Furniture	Consumer electronics
		

Source: Atradius

The Netherlands

- **Outlook for the living/home related segment remains benign**
- **Increasing competition from foreign retailers**
- **Insolvencies remain at high level despite decrease**

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 Statistics Netherlands (CBS), turnover in the Dutch non-food retail sector grew 3.1% in 2017. Do-it-yourself items, kitchens and floor turnover grew 7.5%, while furniture and household stores recorded 4.5% turnover growth, all reflecting a robust housing market. On the other hand, turnover of consumer electronics stores declined 2.1%.

In 2018 consumer electronics performance is expected to remain feeble, while revenues in the living/home-related segment are expected to increase by about 4%, thanks to the strong housing market and robust consumer confidence. After a slight increase in 2017, businesses´ profit margins are expected to level off only in 2018, mainly as a consequence of tougher competition.

This competition is mainly driven by the extraordinarily high growth rates of the online retail segment – at the expense of offline sellers (in 2017 the volume of online sales rose 19.5%), and this trend is set to continue. The number of brick-and-mortar stores has significantly decreased in recent years - despite the fact that high street also benefits from the current sales increase. Various retail chains have shifted their focus to online sales. At the same time, we see a significant number of new foreign retail chains entering the Dutch market, especially in fashion retail, but also in the DIY and kitchen segments.

Competition is especially fierce in the largely saturated consumer electronics market, where bottom prices have been reached in various categories and the number of retail chains has decreased significantly over the last 10 years. Despite generally decreasing sales, the top three online players managed to achieve such strong growth rates over the past couple of years that they pose a serious threat to the (remaining, but ailing) established chains. Large foreign platforms such as Amazon and Alibaba are increasingly paying attention to the Dutch market, which will result in even more pressure on prices and the margins of established players.

The Netherlands: retail stores

	2017	2018f	2019f
GDP growth (%)	3.2	2.4	1.8
Sector value added growth (%)	6.4	4.0	2.5

Average sector growth over the past 3 years (%)	4.3
Average sector growth over the past 5 years (%)	3.3
Degree of export orientation	very low
Degree of competition	very high

Sources: Macrobond, Oxford Economics, Atradius

Payments in the Dutch non-food retail sector take 60 days on average, and while non-payments have decreased in 2017, they are only expected to level off in 2018. Non-food retail insolvencies are expected to decrease further in 2018 (by about 2%-4%), after a decline in 2017. However, this remains a high level when compared to other trade sectors.

Dutch consumer durables retail sector

Strengths	Recovered consumer confidence and robust household spending in 2018
Weaknesses	Pressure on margins remains
	Highly competitive business environment
	Limited access to loans, especially for smaller players

Source: Atradius

Our underwriting approach for the industry remains generally cautious despite the sales upswing, given the current and future challenges for the industry, especially regarding the major shift towards online sales. While being more open in the furniture segment, we remain restrictive in the consumer electronics sub-sector.

Performance forecast along subsectors

Household appliances	Furniture	Consumer electronics
		

Source: Atradius

United Kingdom

- A challenging outlook for 2018
- Payments take 45-60 days on average
- Payment delays and insolvencies expected to increase further

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 consumer spending has been the engine of UK economic growth over the last couple of years, supported by higher employment and low inflation, the 2018 outlook for the British non-food retail sector is challenging. This is due to lower consumer confidence, decreasing household consumption (estimated to increase just 1%), higher consumer prices and higher unemployment, coupled with deteriorated real wages.

The decline already started at the end of 2017 as, according to the BRC-KPMG retail sales monitor, in the period September-November 2017 (which includes Black Friday) non-food retail sales decreased 3.7% on a like-for-like basis, while November 2017-January 2018 sales declined 0.6%. Online sales, meanwhile accounting for approximately 15% of retail spending, grew at the expense of brick-and-mortar retailers during this period. However, with 7% online retail growth, was much lower than in previous years - a sign that even this previously fast-growing segment has been affected by the slowdown. Additionally, in January 2018 (traditionally a key part of the year for big ticket retailers) sales of furniture and household appliances were disappointing.

As a result of more difficult trading conditions, it comes as no surprise that profit margins have deteriorated in H2 of 2017, and further decline is expected in 2018, mainly for brick-and-mortar retailers. In order to preserve margins many of the larger established traditional retailers are trying to offset the deterioration in their offline business by expanding their online channels.

Payments in the consumer durables retail industry take 45-60 days on average. We have recorded a significant increase in non-payment notifications in H2 of 2017. We expect this deteriorating trend to continue in 2018, as the British retail market remains highly competitive while facing changing shopping behaviour (i.e. increasing price sensitivity and a growing share of online retail sales) and lower consumer spending. Additional issues are the weaker pound making purchases more expensive (this espe-

UK: retail stores

	2017	2018f	2019f
GDP growth (%)	1.7	1.5	1.6
Sector value added growth (%)	1.7	1.8	1.8

Average sector growth over the past 3 years (%)	3.8
Average sector growth over the past 5 years (%)	4.3
Degree of export orientation	very low
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

cially affects "big ticket" and furniture retailers) and minimum wage increases, leading to increased input costs for consumers in a highly competitive and shrinking market environment.

Business insolvencies are expected to increase by about 5% in 2018 after already rising over the past six months. The industry is going through a period of correction, with businesses failing to adapt to online demand facing serious troubles. We currently maintain a neutral to restrictive approach to underwriting in the consumer durables segment. The household appliances sector is holding up reasonably well for the time being, but future deterioration cannot be ruled out. As large ticket items in the furniture segment face major sales decreases we observe that the largest players are struggling, while a number of smaller players already became insolvent. In the consumer electronics segment phone retail is a particularly troubled segment due to lack of innovation, longer lifespan of handsets, and a change in the legislation of EU roaming tariffs.

British consumer durables retail sector

Strengths	Well invested multi-channel proposition
Weaknesses	Saturated market in parts
	Changing profile from physical store to online store
	Vulnerable to increasing economic uncertainty due to the Brexit decision and pound depreciation

Source: Atradius

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

Performance forecast along subsectors

Household appliances	Furniture	Consumer electronics
		

Source: Atradius

United States of America

- Good sales prospects, profit margins remain low
- Many long-standing retail chains are highly indebted
- Insolvencies expected to increase further in 2018

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

Consumer durables retail sales in the US increased 3.8% in 2017, with online sales growing by more than 10%. The share of e-commerce amounted to 13% of total retail sales in 2017, increasing from 11.6% in 2016, and represented about 50% of all retail sales growth in 2017, with the bulk of gains stemming from growth of web leader Amazon.com Inc.

The 2018 outlook for US consumer durables sales remains positive, due to robust private consumption driven by an improved housing market, job growth and higher wages. Total sales are expected to grow by about 4.5% this year, with e-commerce increasing by 15%, while in-store sales are forecast to increase 3%. Downside risks for this outlook are faster than expected interest rate hikes that could hamper consumer spending, while trade restrictions imposed by the US administration could increase prices for imported consumer durables goods.

The US household appliances segment is expected to grow further in the coming years, with sales to increase to USD 115 billion in 2020 (from USD 84.43 billion in 2014).

The US furniture market has been growing since 2009, and furniture sales are expected to continue to increase in 2018, supported by a benign economic environment with higher disposable income, supporting home sales and home furnishing expenditures increase. US furniture sales are forecast to reach USD 122 billion by 2020, a 3% compound annual growth rate. While online sales are rising in this segment, many consumers still prefer to research online but purchase in-store.

Revenues in the consumer electronics segment are expected to amount to USD 69.3 billion in 2018, with an annual growth rate of more than 6% in the coming five years, resulting in a market volume of USD 90 billion in 2022.

USA: retail stores

	2017	2018f	2019f
GDP growth (%)	2.3	2.6	1.8
Sector value added growth (%)	3.1	2.9	1.9

Average sector growth over the past 3 years (%)	2.9
Average sector growth over the past 5 years (%)	3.0
Degree of export orientation	low
Degree of competition	very high

Sources: Macrobond, Oxford Economics, Atradius

That said, smaller consumer durables retailers, in particular, will continue to face a very competitive environment with low net margins compared to other industries. E-retailing is expected to remain fast growing and to shift the retail landscape, increasing its share of total sales to 20% within the next seven years. At the same time consumer habits are changing, with spending on durable goods as a percentage of total personal consumption expenditures decreasing. Instead, there is a marked increase in purchases of accommodations, recreation, and other experience-related products and services.

Payments in the US retail sector take 60 to 90 days on average and the number of non-payment notifications has been stable over the past 12 months, with no major increase expected in 2018. However, the insolvency level in the industry is high (retail business failures accounted for more than 10% of total filings in 2017). It is expected that retail insolvencies will increase further in 2018 and that the number of store closures will remain overly high – despite the generally robust sales performance.

Reasons for this negative development are the overwhelming online competition as well as shifting consumer preferences. The main cause is that many long-standing chains are highly indebted, often from leveraged buyouts led by private equity firms. There are billions in US dollar debt on the balance sheets of troubled retailers and sustaining that burden is increasingly difficult, even for healthy retail chains. So far struggling retailers have largely been able to avoid bankruptcy by refinancing to buy more time. But the market sentiment has shifted, pushing investors to reconsider lending to the industry, coupled with the burden of rising interest rates.

The situation is expected to remain difficult in the coming years, with a high amount of risky debt owed by retail coming due over the next five years. Just USD 100 million of high-yield retail borrowings were set to mature in 2017, but that will increase to USD 1.9 billion in 2018 and to an annual average of almost USD 5 billion between 2019 and 2025.

Therefore, our underwriting stance is neutral to cautious, as, despite the general sales upswing, many retail businesses continue to struggle with high levels of debt.

US consumer durables retail sector

Strengths

- Home products companies will benefit from the improving housing market and decreasing unemployment
- Mergers and acquisitions will continue to increase revenue and earnings

Weaknesses

- Fierce retail competition by brick-and-mortar stores exacerbated by the shift toward online shopping
- Faster than expected Fed interest rate hikes and trade barriers could hinder sector growth
- Many retailers accumulated high levels of debt after more than a decade of private-equity-sponsored activity

Source: Atradius

Performance forecast along subsectors

Household appliances	Furniture	Consumer electronics

Source: Atradius

Market performance at a glance

Australia

- In 2018 consumer durables retail sales are expected to be affected by slower household spending growth, triggered by a weaker housing market and subdued growth in household income. Growth is mainly generated in the online retail segment, driven by high internet penetration in combination with a well-established online banking system and a well-developed logistic infrastructure. The transition away from high street sales towards online sales has been very swift over the last couple of years.
- In 2017 the margins of traditional brick-and-mortar retailers have been negatively impacted by the shift towards e-commerce and this trend is set to continue in 2018. Well established players have meanwhile revised their business strategy in response to this shift and managed to sustain their market presence by generating more sales online. However, for smaller retailers it is increasingly difficult to compete (particularly on price and convenience), and therefore more store closures and businesses downsizing are expected in the future.
- Payment terms in the retail sector vary between 30 days and 120 days. In general the payment experience in this industry is good, and no major increases in payment delays or insolvencies are expected in 2018. The financing conditions for the industry remain generally positive, with the majority of loans sanctioned for working capital management and with no major breach of covenants.
- Given the fundamental shift in the retail industry towards online sales and digitalisation we have adopted a cautious approach when assessing businesses with traditional (offline) sales channels. Therefore, besides focusing on the financial situation of buyers we also assess management ability to adapt to the changes within the industry.

Australia: retail stores

	2017	2018f	2019f
GDP growth (%)	2.4	2.2	2.1
Sector value added growth (%)	2.0	1.8	1.6

Average sector growth over the past 3 years (%)	3.6
Average sector growth over the past 5 years (%)	2.7
Degree of export orientation	low
Degree of competition	very low

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Household appliances	Furniture	Consumer electronics

Source: Atradius

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India

- According to the India Brand Equity Foundation, the size of the Indian consumer durables market amounted to INR 1.4 trillion (USD 21.70 billion) in the financial year 2017 (April 2016-March 2017). The implementation of a nationwide Goods and Service Tax (GST) in July 2017 created some ambiguity in the tax structure, resulting in lower revenue growth in Q3 of 2017, but caused no major payment delays. GST on consumer durables (appliances and consumer electronic products are considered in the luxury category) is at 28%, which caused a low sales increase even during the festival season. However, the industry is expecting a reduction of the GST rate to 18% which, if implemented, will boost demand in 2018.
- About two-thirds of Indian retail revenues are generated from urban areas, fueled by rising disposable income, easy financing and the growing popularity of e-commerce platforms. The rural market of around 800 million people accounts for nearly 40% of the sales of all branded products in daily use. As a large part of government spending is aimed at bolstering rural development and providing higher income for farmers, this is positive for the consumer durables industry.
- Due to the "Make in India" government programme many domestic and Chinese manufactures are investing in India to set up their manufacturing plants. In December 2017 the government hiked import duties on smartphones, television sets, microwaves, LED lamps and some other electronic items in a bid to protect domestic manufacturers.
- Overall, businesses' profit margins are expected to moderate in 2018 due to growing competition and the rising market share of e-commerce. Indian consumers continue to be very price sensitive, with sales prices remaining the primary decision factor for purchase.
- Payment terms are 60 to 90 days on average. In general the payment experience in this segment remains satisfactory, with any reported payment delays mainly notified in the small distributors segment.
- Our underwriting approach is generally open for large consumer durables manufacturers and retail chains which are financially sound or part of larger groups. However, we maintain a more prudent approach on small and medium-sized retailers, as those generally operate on low margins and are impacted by multiple sourcing, tougher competition and price volatility. We maintain a cautious approach on highly leveraged businesses in this segment.
- While many e-commerce retailers are scaling up and investing heavily in operations, they also continue to report significant losses due to heavy discounting.

India: retail stores

	2017	2018f	2019f
GDP growth (%)	6.7	7.6	8.0
Sector value added growth (%)	10.2	9.3	8.7

Average sector growth over the past 3 years (%)	10.0
Average sector growth over the past 5 years (%)	8.8
Degree of export orientation	low
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Household appliances	Furniture	Consumer electronics

Source: Atradius

Indonesia

- Indonesia's retail sector remains one of the most promising in Asia, on the back of its large population and growing middle class with higher household purchasing power and increasingly modern spending habits. While in 2017 private consumption was affected by higher prices for food, electricity and fees for vehicle registration, in 2018 it is supported by lower credit cost, increasing employment and an expansion of social welfare.
- Retailers' profit margins decreased in 2017, but are expected to remain stable in 2018. Last year some initiatives were taken to boost sales after the more subdued retail performance, e.g. "Indonesia's Shopping Day" was held last August, organized by the Shopping Centers Tenants Association (Hippindo).
- In 2017 a number of retailers, both foreign and local, closed some or all of their stores in Indonesia as they were no longer able to sustain business amid weaker consumption and stronger competition. However, at the same time, other retailers have increased capital expenditure by opening new premises, especially to reach out to smaller cities and regions outside of Java that are less saturated. Those expansion plans piggyback on the government's undertaking for infrastructure and logistics development in more remote regions.
- The medium-term outlook for the consumer durables retail sector remains positive amid structural reforms and increased spending on infrastructure by the current administration. Notably for the retail sector, the government has permitted up to 67% foreign ownership in shares of department stores with a sales floor area between 400 and 2,000 square meters, as long as they are located in a mall.
- Like in 2017, the average payment duration in the industry is 30-60 days. The number of protracted defaults remains rather low, and we expect non-payment and insolvencies to be stable in the coming months. The overall indebtedness of businesses in the sector is low, and banks are generally willing to lend.
- Our underwriting stance for the industry is generally open. However, we assess buyers more prudently if there is a lack of financial and other qualitative information, such as strong group backing.

Indonesia: retail stores

	2017	2018f	2019f
GDP growth (%)	5.0	5.2	5.1
Sector value added growth (%)	6.2	5.4	5.1

Average sector growth over the past 3 years (%)	4.2
Average sector growth over the past 5 years (%)	4.5
Degree of export orientation	low
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Household appliances	Furniture	Consumer electronics

Source: Atradius

Italy

- Private consumption in Italy increased 1.4% in 2017 and is expected to grow 1.2% in 2018, with demand for consumer durables expected to grow at the same rate. In 2017 demand for household appliances declined 1.1%, and the outlook for 2018 remains subdued. Demand for furniture increased by about 2% in 2017 and should be sustained in 2018 by public incentives to support household consumption.
- Retailers' profit margins are expected to remain under pressure in 2018 after deteriorating in 2017. The consumer durables retail sector remains highly competitive with a high level of fragmentation, especially among small and medium-sized players. Weaker players with poor financial strength disappeared while other small businesses chose to merge with their peers in order to survive. It is expected that the current concentration process will continue, considering the smaller average size of Italian retailers compared to their European peers and high pressure from e-commerce on the margins of brick-and-mortar retailers.
- Payment terms generally range from 60 to 90 days on average. For businesses in the consumer durables retail sector the main source of financing is working capital. Payment delays and insolvencies increased in 2017. We expect the credit risk environment for consumer durables retail to remain challenging in 2018, with further rising insolvencies due to the ongoing competitive pressure (especially from online retailers) and liquidity issues of some players. This is in contrast to the general business insolvency development, as Italian business failures are expected to decrease 6% in 2018.
- Our underwriting stance for consumer durables retail is cautious, mainly with low value added distributors. Especially in the low-growing household appliances and consumer electronics segments there are many weaker players in the distribution chain that face liquidity problems and/or often lack the critical mass for long-term survival in a highly competitive environment. Some may not be able to follow the evolution of consumers demand and changing consumption patterns. That said, exports and public incentives support sales in the furniture segment.

Italy: retail stores

	2017	2018f	2019f
GDP growth (%)	1.6	1.4	1.1
Sector value added growth (%)	1.9	1.7	1.2

Average sector growth over the past 3 years (%)	2.4
Average sector growth over the past 5 years (%)	1.7
Degree of export orientation	low
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Household appliances	Furniture	Consumer electronics
		

Source: Atradius

Poland

- According to the Polish Statistical Office, retail sales increased 7.3% year-on-year in 2017, with sales of furniture and household appliances even increasing 9.8% driven by robust economic growth and buoyant private consumption (up 4.8%). Dynamic sales growth is set to continue in 2018, with household spending forecast to increase 4.7%.
- Despite the robust sales performance consumer durables retailers' profit margins deteriorated in 2017. they are however expected to remain stable in 2018. Since 2016 the government has intensified tax controls and tightened the law in order to increase tax incomes. This means that despite good sales prospects, there remains substantial uncertainty related to tax issues amongst retailers. In 2017 a larger domestic appliances retailer went insolvent due to tax issues, and VAT-related risk remains high for retail businesses in 2018.
- The implementation of a progressive sales tax that would tax retailers along turnover size (excluding small retailers, but affecting mid-sized and larger retailers) has been postponed until January 2019. The EU commission has raised legal concerns over the law, and Poland has submitted the case to the EU Court of Justice.
- Payment terms are 60 days on average, but very much depend on the type of goods - from 30 days for electronics and small appliances to 180 days for large appliances. Insolvencies have increased in 2017, and it appears this trend will continue in 2018. The increase is partly due to the introduction of a new restructuring procedure in 2016, which allows more businesses than before to file a proceeding.
- While still remaining low compared to other industries, insolvencies in the furniture subsector increased significantly in 2017, as this export-oriented segment suffered from currency appreciation and higher labour costs. In this subsector there is high competition and a growing gap between larger players and smaller businesses, the latter often unable to make necessary investments and to increase efficiency.
- Given the continued sales growth, but also taking into consideration challenges like increased tax controls, higher input costs and rising insolvencies, we have tightened our underwriting stance for the Polish consumer durables retail sector somewhat. However, the sector performance outlook still remains "Fair" for the time being.

Poland: retail stores

	2017	2018f	2019f
GDP growth (%)	4.4	3.8	3.3
Sector value added growth (%)	6.3	4.4	4.0

Average sector growth over the past 3 years (%)	5.4
Average sector growth over the past 5 years (%)	3.1
Degree of export orientation	high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Household appliances	Furniture	Consumer electronics

Source: Atradius

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Spain

- In 2017 consumer durables sales continued to grow driven by robust GDP and private consumption growth (up 3.1% and 2.4% respectively), improved consumer confidence, low inflation and increased availability of consumer credit. Consumer durable goods are expected to continue their sales expansion in 2018, although at a lower pace than last year, as private consumption growth is expected to slow down somewhat, to 2.1%.
- Profit margins in the consumer durables retail industry have generally remained stable in 2017, and this development is expected to continue in 2018. External indebtedness is not overly high in this industry, as businesses generally do not make large investments, while their financing needs are mainly tied to working capital.
- Competition in the Spanish consumer durables sector remains high and will increase further over the coming years. E-commerce businesses will continue to expand their market share, while the main players will continue developing strategies focused on improving their digital positioning.
- On average, payments in the sector range from 60 to 90 days. Payment behaviour in all major subsectors (household appliances, furniture, consumer electronics) was relatively good in 2017, and no major changes are expected, as the general performance outlook remains positive. Consumer durables retail insolvencies are expected to decrease by about 5% in 2018.
- Our underwriting approach remains positive for the consumer electronics segment, while it is neutral for household appliances as in this segment e-commerce competition could have a significant impact on local and small retailers in the short-term. Despite growth over the last couple of years, our underwriting stance on furniture is also neutral, as this subsector is closely linked to construction performance and large retailers put pressure on their smaller peers.

Spain: retail stores

	2017	2018f	2019f
GDP growth (%)	3.1	2.9	2.4
Sector value added growth (%)	3.4	3.8	3.4

Average sector growth over the past 3 years (%)	3.6
Average sector growth over the past 5 years (%)	1.9
Degree of export orientation	average
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Household appliances	Furniture	Consumer electronics
		

Source: Atradius

Vietnam

- Solid demand, as the sector benefits from robust consumer spending growth, driven by robust economic performance and strong wage increases. The short-term outlook is benign, with private consumption expected to increase by more than 6% in 2018. While this and higher disposable household income will spur consumer durables sales growth, rising inflation could have a dampening effect.
- Competition in the market is fierce due to relaxed regulations on foreign investment, which has led to an influx of foreign retailers trying to gain market share. Nevertheless profit margins of most businesses are expected to remain stable in 2018.
- The current average payment duration in the industry is 30-60 days. Payment behaviour has been rather good over the past two years, and payment defaults are expected to remain low in 2018 due to the robust economic performance. The level of business insolvencies is low and no increase is expected in 2018.
- Due to the benign business and credit risk situations our underwriting stance is generally open. However, more caution is advised with highly geared businesses that have sub-par profits. Companies in the household appliances and wholesale segments tend to be highly geared as credit growth has increased, helped by lower interest rates. The risk of downward pressure on profit margins could be aggravated by rising competition in the consumer durables retail market.

Performance forecast along subsectors

Household appliances	Furniture	Consumer electronics

Source: Atradius

Industries performance forecast per country

April 2018

	Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrls	Consumer Durables	Electronics/ ICT	Financial Services
Austria	🌤️	🌧️	🌤️	⛈️	☁️	☁️	☀️
Belgium	☁️	🌤️	☀️	☁️	☁️	🌤️	☁️
Czech Rep.	🌤️	🌤️	🌤️	🌧️	☁️	☁️	🌤️
Denmark	⛈️	☁️	🌤️	☁️	🌧️	☁️	☁️
France	🌧️	☁️	☀️	🌧️	☁️	☁️	🌤️
Germany	☁️	☁️	☀️	☁️	☁️	☁️	🌤️
Hungary	☁️	☁️	🌤️	☁️	☁️	☁️	☁️
Ireland	☁️	☁️	🌤️	☁️	☁️	☁️	🌤️
Italy	🌤️	🌤️	🌤️	🌧️	☁️	🌤️	🌤️
The Netherlands	🌤️	☁️	☀️	🌤️	☁️	🌤️	🌤️
Poland	☁️	🌧️	☁️	🌧️	🌧️	🌧️	🌤️
Portugal	☁️	☁️	🌧️	🌧️	☁️	☁️	🌧️
Russia	🌧️	☁️	🌧️	🌧️	☁️	🌧️	☁️
Slovakia	☁️	🌤️	🌤️	🌧️	☁️	☁️	🌤️
Spain	☁️	🌤️	🌤️	🌧️	☁️	☁️	☁️
Sweden	🌤️	☁️	🌤️	☁️	🌤️	🌤️	🌤️
Switzerland	🌤️	☁️	🌤️	🌧️	☁️	☁️	☀️
Turkey	🌤️	🌤️	☁️	🌧️	☁️	🌧️	🌤️
UK	🌤️	☁️	🌤️	🌧️	☁️	☁️	☁️
Brazil	☁️	🌧️	☁️	🌧️	⛈️	⛈️	🌤️
Canada	☀️	☁️	☁️	☁️	☁️	☁️	☀️
Mexico	☁️	🌤️	☁️	🌧️	☁️	☁️	🌤️
USA	☁️	🌤️	🌤️	☁️	☁️	🌤️	🌤️
Australia	🌤️	🌧️	☁️	🌧️	☁️	🌤️	🌤️
China	☀️	☁️	☁️	🌧️	☁️	☁️	☀️
Hong Kong	N/A	☁️	☁️	☁️	☁️	🌤️	🌤️
India	☁️	☁️	🌤️	🌧️	☁️	☁️	☁️
Indonesia	☁️	☁️	☁️	☁️	☁️	☁️	🌤️
Japan	🌤️	☁️	☁️	☁️	☁️	🌤️	🌤️
New Zealand	🌤️	🌧️	🌤️	🌤️	🌧️	🌤️	🌤️
Singapore	🌤️	🌧️	☁️	🌧️	☁️	☁️	🌤️
Taiwan	N/A	🌧️	☁️	☁️	🌤️	🌤️	☁️
Thailand	☁️	🌤️	☁️	☁️	☁️	☁️	☁️
United Arab Emirates	🌤️	☁️	☁️	🌧️	🌧️	🌧️	☁️

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

Excellent

Good

Fair

Poor

Bleak

Industry performance

Changes since February 2017

Europe

Italy

Consumer Durables

Down from Good to Fair

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