

BAROMETER COUNTRY AND SECTOR RISKS BAROMETER

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The great industrial rotation continues

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Signs of the global economic slowdown continued to accumulate at the beginning of 2019: companies are much less confident than a year ago, and global trade is showing signs of fatigue. We expect it to increase by 2.3% this year (compared to 3.0% in 2018). This change in international trade trends goes hand in hand with a change in production: Coface expects world GDP to increase by 2.9% this year, a 0.3 point decrease compared to 2018. This would be the lowest level observed since 2016, the last year in which growth had slowed jointly in the top three world economies (eurozone, United States and China). In this environment of slower growth, companies are weakened: the number of corporate insolvencies is expected to increase in 26 of the 39 countries for which such data is available, compared to only 19 in 2018.

In this context of confirmation of downturn of the industrial cycle, 14 sector assessments have been downgraded. Six of these relate to the chemicals sector, where companies – particularly in Western Europe and the

United States – are suffering from reduced opportunities in the automotive and construction sectors, shrinking margins in the coming quarters due to increasing input costs (such as oil), and the implementation of stricter regulations in some countries.

On the positive side, the five sector assessments upgrades all concern the Middle East. The rise in oil prices (+ 29% between the end of March 2019 and the end of December 2018 in a context of high volatility) is helping to reduce the level of corporate credit risk in the region, especially as we anticipate that the price of a barrel of Brent crude oil will remain at a comfortable level this year for most producing countries in the region (USD 65 dollars on average in 2019). The US Federal Reserve's change in direction should also have a positive effect on bank credit conditions for companies in Gulf Cooperation Council countries whose currencies are aligned with the US dollar. Following the upgrade of the United Arab Emirates in the last quarter of 2018, this Barometer sees an upgrade for Saudi Arabia has been upgraded (from C to B).