Atradius
Managing risk, enabling trade

July 2015

market monitor

Focus on machinery performance and outlook

Disclaimer

In this issue...

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

Excellent Good Fair Poor Bleak

Many running well, while some sputter

The 2015 outlook for the machinery industry in most countries covered by this Market Monitor issue is good or fair. Main machinery producers and markets like Germany. Japan and the US continue to perform well, while machinery in France and Italy is helped by increased demand from automotive and domestic recovery. In Eastern Europe the Czech Republic´s and Hungary´s machinery industries are doing well, also benefiting from the rebound of the car industry in Europe, and the more benign growth prospects of the Eurozone.

In contrast, the machinery industry is currently facing more troubles in the large emerging markets Brazil and China, after years of high investment in engineering equipment. Given the fact that Chinese economic growth has been slowing down since 2014 and Brazil is on the brink of a recession this comes as no surprise, as the fortunes of those engaged in the production and sale of machinery depend crucially on the well-being of the businesses and industries for which their machines are designed.

That said, even well-established machinery players from developed markets have to take care in the future and adapt to a changing global competitive environment. A good example is the German machinery business, where profit margins have recently decreased, as Chinese machinery builders are increasingly capable of producing high quality machines, forcing German businesses to compromise on price.

Brazil

- **Deterioration across all main subsectors**
- **Many businesses are highly geared**
- **Increasing payment delays and insolvencies**

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

Machinery and equipment production is one of Brazil's major industrial sectors, accounting for approximately 7% of the country's overall Industrial production. Currently the sector is being severely impacted by an economic downturn (Brazilian GDP is expected to contract 1.5% in 2015). The whole Brazilian business environment has deteriorated due to decreased export revenues from commodities, decreasing industrial production and rising inflation (more than 8% in the first half of 2015), growing unemployment and exchange rate volatility.

The machinery sector mainly suffers from a decrease in investments, triggered by high interest rates and the current crisis in the oil/gas sector, which is a major buyer industry (the oil/gas industry is affected by lower oil prices and a large corruption scandal involving the state-owned Petrobras energy company). Additionally, there are cuts in government investment programs due to austerity measures, and the commodity export boom has ended for the time being. The high volatility of the Brazilian Real against the USD has also negatively affected the machinery business. The central bank needs to keep the general level of prices under control in order to avoid further deterioration of consumers´ purchasing power and has currently only limited options to use its reserves in the secondary market to stabilize the exchange rate (as it did in the past).

The agricultural machinery subsector is affected by falling commodity prices (mainly for soybeans and corn), which has resulted in lower margins for farmers, leading to lower investment. The prospects for the 2015/16 season suggest farmers´ margins will decrease further.

Oil and gas machinery equipment has been affected by lower investment of the energy sector, as the lower oil price has a very negative impact on this industry – given the high costs for exploration of Brazils´ pre-salt oil fields. Additionally machinery sales have been hit by a major corruption scandal involving the state-owned energy company Petrobras and suppliers, as investments came to halt. At the same time road equipment machinery is hit by government austerity.

Therefore, in all machinery segments both demand and profit margins have significantly deteriorated over the last 12 months, and this negative trend is expected to continue in the second half of 2015.

Many machine businesses are highly indebted, due to large investments made in previous years when businesses expanded. Now that Brazil´s commodity-driven growth phase has ended for the time being, serving those debts has become increasingly difficult, mainly due to higher interest rates (the Brazilian central bank has repeatedly raised interest rates to combat inflation, and in June 2015 the benchmark interest rate was up to 13.75%). This monetary policy has had a credit crunch effect, and it comes as no surprise that financial institutions´ willingness to provide loans to businesses remains very limited for the time being.

The average payment duration in the Brazilian machinery industry is 60-90 days, although there are exceptions when a buyer´s sector economic cycle tends to be longer (e.g. in agricultural machinery). Payment behaviour in the machinery sector is rather bad, as non-payments have increased in the first half of 2015 and are expected to increase further in the coming six months. Due to the credit crunch generated by high interest rates many businesses are stretching their payment terms. Insolvencies of machinery businesses´ have also increased, and a further rise in business failures is expected in the coming months.

Due to increasing credit insurance claims, the deteriorated business performance and increased credit risk, our underwriting stance is currently restrictive for all machinery subsectors. We are especially cautious with businesses that show weak financials, especially those which are highly geared and will most likely have problems serving their debts. Due to increased exchange rate volatility we also closely monitor businesses that are highly dependent on imported goods or semi-finished goods.

Brazilian machinery sector

Strengths	A sector of vital importance to the economy, as the production process of most industries depends on it.
Weaknesses	Susceptible to currency volatility as the industry depends largely on imported components.
	High dependence on credit availability due to the lengthy maturity times of investments.
	High gearing of many businesses

Source: Atradius

China

- Lower demand and overcapacity
- Financial troubles for smaller businesses as banks are reluctant to lend
- Average payment duration of 90-150 days

Overview

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

Source: Atradius

The Chinese machinery industry recorded sluggish demand in the second half year of 2014, in line with the cooling down of China´s economy. Given a forecast 6.5% GDP growth in 2015 China´s economic performance will remain weak compared to previous years, despite efforts by the central bank and the government to stimulate growth. However, with the Chinese government planning additional investment in infrastructure construction, a modest rebound in machinery demand can be expected in H2 of 2015.

Due to the economic slowdown and decreased demand from key buyer industries, the profits of many Chinese machinery businesses has deteriorated significantly over the past twelve months. And despite some opportunities in overseas markets and new government investment programs it is expected that companies´ profits will decrease further. This is mainly due to high overcapacity in the sector: profits of machinery businesses will be squeezed further by fierce competition, as companies have to offer lower prices to keep market shares.

Keeping market share also means providing favourable payment terms to customers, but this requires more cash to support the business. Additionally machinery manufacturing is a highly capital-intensive business, as large investments on fixed assets are common. Therefore, financing requirement and gearing is high in this sector. But at the same time the current lending policy of Chinese banks is not favourable, especially for privately-owned small and medium-sized enterprises. Banks are increasingly reluctant to lend due to a large amount of non-performing loans in 2014 and the economic slowdown. If bank loans are provided, usually additional security is required, such as fixed assets and personal property guarantees.

The average payment duration in the Chinese machinery industry is 90-150 days. As credit conditions have been tightened since 2014, many smaller and/or privately owned machinery businesses face liquidity issues, leading to slower payments and even payment defaults. Recently, the Chinese State Council has announced plans to remove a lending cap at commercial banks in a bid to boost flagging economic growth, which might help some companies get additional loans. But given the lower economic growth and decreasing demand it is not expected the payment conditions in the machinery sector will improve in the short-term.

We barely monitor proper insolvency procedures in China (most of the business failures end-up with the owner disappearing). However we have observed many small machinery companies shutting down their businesses in 2014 and in the first half of 2015, and this trend is expected to continue. to optimise economies of scale there is currently an increase in mergers and reorganisations of smaller companies.

In contrast to their smaller/privately owned peers, larger and state-owned machinery companies are doing better, as it is much easier for them to get financial support from a parent company or the government when they are in trouble. Therefore their payment records are better and their business resilience is higher.

In general our underwriting stance is rather restricted for machinery companies, given the current difficulties - mainly for smaller/privately owned businesses. However, our underwriting stance is more open for the engineering machinery subsector, as China is one of the largest engineering machinery markets in the world and has attracted investment from major foreign companies. Turnover of the large key players account for more than 85% of sales in this segment. With the government planning further investment in infrastructure, this subsector´s performance should improve in the future. While our underwriting stance for electrical machinery is neutral, we are restrictive on textile machines due to the downturn of the textile industry.

Chinese machinery sector

Strengths	Very large market for engineering machinery
	Domestic demand will continue to grow in the long-term
	Cheap labour force and high productivity help Chinese companies expand
Weaknesses	High level of overcapacity in the sector
	High dependence on bank finance
	Many small-scale businesses are burdened by low levels of efficiency and poor economies of scale

Source: Atradius

France

- **Growth mainly due to automotive rebound**
- **Machinery businesses related to construction still carefully monitored**
- **Machinery insolvencies expected to level off in 2015**

Overview

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

Source: Atradius

The French machinery sector has continued its modest rebound that started last year. Machinery production recorded 0.1% year-on-year growth in 2014 and increased 0.8% in Q1 of 2015, with inventories slightly above average. Order books have stabilised, albeit on a low level, and exports to EU markets increased. The rebound is mainly due to increased demand from automotive buyers, together with a dynamic aerospace sector. However, machinery demand from construction still remains low, and while agricultural machinery was growing in the past, this subsector now appears to be facing some difficulties, as farming equipment buyers may reduce their investments due to lower revenues. But in general machinery should benefit from the economic rebound in France, with GDP forecast to grow 1.1% in 2015 (after 0.2% in 2014) and stronger growth in industrial production and exports.

In the long term, overcapacity still remains a concern for the French machinery sector as, despite the positive trend, demand remains comparatively subdued, with limited investment from the main customer sectors. Industrial production capacities have been used at about 80% over the last two years, which implies limited investments for a large part of businesses.

In this capital intensive industry, financing needs are high. As a result, businesses in this sector can incur large debts that weaken their financial structure and overall solvency, putting undue stress on liquidity. However, in many cases advance payments can improve suppliers' cash situations, while banks seem willing to lend.

On average, payments in the French machinery sector take 70-80 days. Payment delays have increased in the last six months, but no further increase is expected in the second half of 2015. Machinery insolvencies increased slightly in 2014, but are expected to level off in 2015, mainly thanks to manufacturing businesses´ intentions to increase their machinery investments.

In view of the modest positive outlook, we have relaxed our underwriting stance, especially for small credit limit applications, although we require more information and updates of the buyer's situation when it comes to requests for higher limits. We are still cautious on companies selling to more distressed business sectors like construction, due to the continued poor payment behaviour in this industry. Consequently we continue to carefully monitor the more distressed subsectors:

- Manufacturing of metal structures/boiler making, which has a direct link to the construction sector. We have identified the weakest companies by checking their financial commitments, margins, order books and type of construction, e.g. public works, structural works, residential or non-residential.
- Machine tools linked to the construction sector, as in this segment the production period is often very long (between 6-9 months), which implies a high need for working capital financing.

French machinery sector

Strengths	Leadership in some key products
	Diversity of outlets
	Technical knowledge
	Good worldwide position (France is the 6th largest world player)
Weaknesses	Structural overcapacity in some segments
	High financial needs
	Competition from emerging markets
	Dependency on export markets

Source: Atradius

Italy

- **Italy's economic recovery helps the sector**
- **Still troubles for businesses bound to construction**
- **Strong competition in textiles and printing machinery**

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

After just a modest increase in 2013, Italian machinery production gained momentum in 2014, growing 4.6% year-on-year, according to the Italian machinery association UCIMU. While the export-oriented Italian machinery sector was negatively affected by slower global growth and the decision of the European Union to limit exports of machinery to Russia (one of Italy´s largest machinery buyers), the industry benefited from the rebound of the Italian economy in 2014. Due to renewed investments made by the domestic manufacturing industry in production systems, domestic sales recorded even double-digit rates. This was also helped by the fact that Italian machinery manufacturers were able to swiftly re-orientate a part of their supply offering to the new demand situation.

While export orders levelled off, export sales increased 2% in Q1 of 2015. In the same period the rebound of domestic demand continued, with orders increasing by more than 15% year-on-year. The outlook for the coming months is promising, as the Italian economy is expected to grow 0.6% in 2015 and 0.9% in 2016 after two years of contraction, and real fixed investment is forecast to increase 1.5% after more than five years of decline. While the Italian construction sector as a main buyer of machinery still shows a feeble performance, machinery strongly benefits from increased orders from automotive companies, as this sector has rebounded since 2014.

Both the amount and volume of non-payments that we recorded in 2014 were low compared to other sectors. In the first half of 2015 we even recorded a decrease for both amount and volume of non-payments. The number of insolvencies in the machinery sector is relatively low, and we expect no change in the coming months. Regarding payment defaults the machinery sector is performing better than Italian manufacturing as a whole. However, payment duration in the machinery industry is 120 days on average.

Our underwriting approach in 2015 remains generally open, however, the recent surge in domestic demand for machinery cannot hide the fact that the on-going economic recovery in Italy remains fragile. We are more relaxed for some niche export-focused subsectors (e.g. high precision mechanical works), which is one of Italy's production success stories. Those businesses usually show solid financials, a good liquidity profile and an increase in their order portfolios amply covered by advanced payments. Our underwriting approach is also more open for subsidiaries of solid international groups that have consolidated their position in Italy.

However, we are more cautious about companies operating in still difficult end-sectors (especially construction), and smaller businesses mainly in the textile and printing machinery subsectors, as those are facing strong competition from Asia for lower value-added machinery products.

Italian machinery sector

Strengths	Heavily export-oriented
	High quality in some segments
Weaknesses	Dependence on construction
	Still fragile rebound of domestic demand

Source: Atradius

United States

- **Non-payments expected to decrease further**
- **Demand situation expected to remain stable**
- **Low oil price could have an adverse effect on buyer industries**

Overview

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

Source: Atradius

The US is the world's largest market for machinery, as well as the third largest supplier. Domestic manufacturers share of the US domestic market amounts to nearly 60%. In 2014, the business environment for the machinery industry was quite favourable, as US industrial production grew by more than 5.0% year-on-year, including a 6.7% hike in manufacturing production and an 18.8% increase in mining production. However demand declined in Q1 of 2015, as industrial production decreased 1% year-on-year, due to weaknesses in the mining and utilities industries. However, the first quarter is traditionally a period of slower growth for machinery, and it is expected that demand will increase again in the coming months. Overall, it is expected that businesses´ profit margins will remain stable in 2015. However, volatility of raw material prices (steel) and energy prices (coal and oil) remain a concern.

Most businesses in the US machinery sector are small and medium-sized enterprises (SME), but there are also many large publicly traded firms and iconic American brands that do business on a global scale. Usually those large companies easily obtain external liquidity. Large players like John Deere and Caterpillar each have captive finance entities to facilitate the purchases of their equipment.

In general the dependency on bank financing of the capital-intensive machinery industry is high. US banks are principally willing to provide loans to the sector, and there are also other lenders such as Machinery Finance Resources (MFR), which have specialised in the financing the machinery industry.

The average payment duration in the US machinery industry is 30 days, however, payment terms can be longer as capital equipment can carry a higher price tag. Payment experience over the last two years has been good, with a rather low number of non-payment cases, and it is expected that non-payment cases will decrease further, by about 5% in the coming six months. Compared to other US industries the rate of insolvencies is low in the machinery sector, and it is expected that business failures will level off or even decrease slightly (by about 1%) in H2 of 2015. As the machinery sector has fully recovered from the 2008/2009 recession, weaker players have already left the market during the crisis years.

Due to the benign credit risk and good business performance our underwriting stance for the US machinery sector is generally open. Some caution is advised on the farm machinery subsector, which recorded double-digit decreasing sales in 2014, and on the important industrial machinery buyer sectors due to the effect of oil prices: a persistently declining oil price could force oil producing companies to curtail their drilling activities, and this may trigger lower capital spending on purchase of machinery and equipment.

US machinery sector

Strengths	Robust sales and order situation
	Strong exports despite higher USD exchange rate
Weaknesses	Declines in oil prices could trigger lower capital spending on purchases of machinery
	Rising raw material costs and steel prices could affect the industry

Source: Atradius

Market performance snapshots

Czech Republic

- **Growth helped by demand from automotive sector and exports**
- **Profit margins expected to remain stable**
- **Suppliers to construction still face more payment delays**

The Czech machines/engineering industry will benefit from the solid performance of the Czech economy, which is expected to grow 3.0% in 2015 and 3.1% in 2016, with investments up 4.1% and 4.2% respectively. Industrial production is expected to increase 5.2% in 2015. The 3% growth in machinery production in 2014 was mainly due to the solid performance of the automotive industry, which is the main customer for machines. The very export-oriented Czech machinery industry also benefits from the recovery in the eurozone and a stable exchange rate of the koruna against the euro. Additionally the appreciation of the USD against the koruna helps machinery businesses when exporting to overseas markets. Just a few Czech machinery businesses are negatively affected by the repercussions of the Ukraine crisis.

In contrast to 2013, profits and losses of machinery businesses were not negatively affected by exchange rate volatility in 2014. Throughout 2014 and into 2015, profit margins have remained stable, and are expected to remain so in the second half of 2015. Machinery companies' equity is above the average of all manufacturing sectors. Because Czech banks are quite conservative, few machinery companies are highly leveraged. While dependence on bank finance is average, banks are positive about the sector in general, providing enough liquidity.

Payments in the Czech machinery sector take around 40 days, with 'days sales outstanding' (DSO) for smaller businesses of about 50 days. However, machinery businesses focused mainly on the construction sector are still experiencing higher DSO in that market, despite a modest rebound of construction activity in the first half of 2015. But this rebound is mainly due to public infrastructure projects, while construction demand in the private sector is still low. Projects are still realized with low or even negative margins and the payment morale remains poor.

Over the past six months the number of notifications of non-payment levelled off, while machinery insolvencies even decreased. It is expected that the machinery sector´s credit risk environment will remain benign in the coming months. As a result, our underwriting approach to the sector remains relatively open.

When asked by a client in this sector to assess a buyer's creditworthiness, we look at our client's own trading experience with the buyer, check the buyer's key financial figures, distribution of receivables, creditors and stocks to ensure that they are within an acceptable range. However, we still pay extra attention to those machinery companies dependent on the construction industry.

Germany

- **Lower margins due to increasing competition**
- **Machinery insolvencies expected to decrease 5% in 2015**
- **The paper/print and solar-related subsectors still face problems**

The German machinery/mechanical engineering sector performed quite well in 2014, with real turnover increasing 1.9% and nominal production growing 2.2% year-on-year, according to the German engineering association VDMA. Exports increased 1.7%, while domestic sales rose 3.8%. Capacity utilization was 84.7%. In the period of March-May 2015 incoming orders decreased 3% in the domestic market, while orders from foreign markets increased 1%. In 2015 production is expected to increase at around 2%, the same level as in 2014.

The Ukraine crisis continued to impact business with Russia, with machinery exports decreasing 28% year-on-year in Q1 of 2015. While in 2013 Russia was the 4th largest export market for German machines it has slipped back to 10th. Russian buyers´ financing is the main issue in the machinery businesses with Russia: in many cases even already ordered and paid down machines are not delivered, as Russian customers lack the financial means to pay the remaining amount. That said, most machinery exporters with a strong focus on Russia were able to at least partly compensate declining revenues by increasing exports to the EU, the US and Asia, thereby limiting their profit losses. However, some smaller players dependent on trade with Russia, which already had financial difficulties ahead of the Ukraine crisis, are now facing more troubles.

German machinery businesses generally have little in the way of debt and are therefore not excessively reliant on bank finance. Most business financials are healthy, however a general decrease in profit margins has been observed over the last 12 months. This is mainly due to increasing competition, especially from China. In the global market Chinese machinery builders are increasingly capable of producing high quality machines, forcing German businesses to compromise on price. Additionally the sharply decreased business with Russia had its effect on margins, as affected machinery companies had to run-down their business there and to start investing in other markets in order to compensate for lost business.

Compared to other German industries, the machinery/engineering sector's payment behaviour and default/insolvency rate is still good. The amount of non-payment notifications is expected to remain low, and insolvencies are expected to decrease further in 2015, by about 5% year-on-year.

Our underwriting approach remains generally relaxed and our exposure to this sector is increasing. We still need to see financial data such as balance sheets, quarterly reports, forecasts and bank commitments when assessing the creditworthiness of buyers in the sector and will sometimes recommend that our clients impose retention of title or other forms of security.

That said, caution is advised with machinery businesses involved in the troubled solar-related and paper/print subsectors. Problems in the paper/print segment are structural, as society in general becomes more and more 'digital'. This shift has resulted in shrinking profit margins, and many companies are still restructuring to adjust their production to customer needs. Another segment with difficulties remains textile machinery, but this subsector represents only a minor share of the German machinery industry.

Japan

- Good growth prospects in 2015 and 2016
- Profit margins are expected to increase
- More caution advised for smaller businesses

Regarding global machinery sales Japan ranks fourth (behind China, Germany and the US), with and estimated turnover of EUR 222 billion in 2014. Japanese machinery sales have rebounded strongly since a large decrease in Q2 of 2014, which was due to a value-added tax increase. The sector benefits from higher machinery investments as the Japanese economic recovery is on track (GDP is expected to grow 1.0% in 2015 and 1.5% in 2016 after a modest contraction in 2014). Industrial production is forecast to increase 2.3% in 2015 and 4.4% in 2016. Machinery orders increased 2.8% in March 2015 and 3.9% in April over the previous month.

The highly export–oriented Japanese machinery sector also benefits from surging exports due to a weaker Yen exchange rate, which helps Japanese machinery manufacturers in their competition with European and US manufacturers (mainly for high-end products) and South Korean, Chinese and Taiwanese producers (for low-end products). However, the weaker Japanese Yen has led to higher prices for imported goods, which has a negative impact on some machinery wholesalers. That said, for manufacturers, lower energy prices mainly offset increases in raw material prices.

Due to on-going production and sales growth, profit margins of Japanese machinery businesses have increased over the past 12 months, and are expected to rise further in 2015. Japanese machinery businesses are, in general, highly indebted, especially manufacturers and/or smaller and medium-sized enterprises (SME). But banks are generally willing to provide loans to the machinery sector with good financing conditions, which is helped by low interest rates. Additionally the Japanese government is encouraging banks to support companies with strong financing needs or in financial difficulties.

The average payment duration in the Japanese machinery industry is 60-90 days from invoicing date, depending on products and business type. Payment behaviour in this sector has been very good over the past two years. The number of protracted payments, non-payments and insolvency cases is very low, and it is expected that there will be no change in the coming months.

Due to the generally positive indicators we assess the credit risk and business performance of the machinery sector as good, and our underwriting stance continues to be relaxed, especially for well-established players in the industry. However, we have adopted a more cautious approach for smaller business, which often have weaker financials than larger businesses, less transparent financial information available and are more vulnerable to sudden changes in the market sentiment.

Market performance at a glance

Hungary

- The Hungarian machinery sector is mainly focused on the production of agricultural machines and machines used by the automotive industry.
- Hungarian agriculture output has increased, leading to rising demand for machinery.
- In the automotive segment machinery businesses cooperate closely with international car producers. Hungary has become a key production base for automotive majors such as Audi, Daimler (Mercedes-Benz), Suzuki and General Motors.
- Machinery sales only rose slightly in January-April 2015. However, sales prices have increased by more than 10% since June 2014, and order amounts are also higher. Therefore we expect profit margins to improve further in the coming months
- In general the gearing of businesses in this sector is low, and banks are generally willing to provide loans.
- The average payment duration in the machinery industry ranges from 30-60 days. Payment delays are low, and expected to decrease further in the coming months. Insolvencies are low and not expected to increase in 2015.
- Due to the good growth prospects and low credit risk our underwriting stance is relaxed for all subsectors.

Sweden

- The Swedish machinery sector is highly export oriented. Its main segments are automotive (trucks), agriculture and industrial machines.
- The industry has shown several years of positive development, and currently benefits from higher global demand. Sweden's economic growth has also picked up (2.4% in 2014) and is forecast to be 2.2% in 2015. As a result, investments continue to increase.
- Due to the benign growth outlook profit margins are expected to remain stable in 2015.
- While the external financing requirement is high, the industry faces no particular lending problems as banks are generally willing to provide loans to the machinery sector.
- The average payment duration in the machinery industry ranges from 30-45 days. Payment behavior has been good over the last two years and the number of payment delays, defaults and insolvencies is expected to remain low in 2015
- Due to the good growth prospects and low credit risk our underwriting stance is relaxed for all subsectors.

Industries performance forecast per country

July 2015

	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	Fair	Fair	Poor	Poor	Fair	Poor
Fair	Good	Fair	Fair	Fair	Poor	Poor
Good	Fair	Fair	Bleak	Fair	Poor	Poor
Good	Fair	Fair	Poor	Poor	Fair	Poor
Fair	Good	Fair	Poor	Good	Fair	Poor
Fair	Good	Poor	Poor	Good	Poor	Poor
Good	Fair	Poor	Bleak	Poor	Poor	Poor
Good	Fair	Poor	Poor	Fair	Poor	Poor
Good	Fair	Poor	Fair	Good	Poor	Poor
Fair	Fair	Fair	Fair	Good	Fair	Fair
Fair	Fair	Poor	Fair	Fair	Poor	Fair
Poor	Poor	Poor	Fair	Poor	Poor	Poor
Fair	Good	Fair	Fair	Fair	Poor	Poor
Good	Fair	Poor	Poor	Fair	Poor	Poor
Good	Good	Poor	Fair	Fair	Poor	Fair
Good	Good	Fair	Bleak	Good	Poor	Fair
Good	Fair	Bleak	Poor	Poor	Good	Poor
Fair	Fair	Fair	Poor	Fair	Poor	Poor
Good	Poor	Fair	Fair	Fair	Fair	Poor
Good	Fair	Fair	Poor	Good	Fair	Bleak
Good	Fair	Fair	Good	Good	Fair	Poor
Good	Good	Poor	Poor	Good	Poor	Fair
Good	Fair	Poor	Poor	Fair	Poor	Poor
Fair	Fair	Poor	Poor	Good	Bleak	Poor
Excellent	Fair	Poor	Fair	Good	Poor	Fair
Good	Fair	Fair	Good	Good	Fair	Fair
Good	Good	Fair	Fair	Fair	Poor	Fair
Good	Good	Fair	Fair	Fair	Fair	Poor
Fair	Fair	Fair	Poor	Poor	Poor	Poor
Good	Good	Fair	Fair	Good	Poor	Fair
Excellent	Fair	Poor	Fair	Good	Poor	Fair
Good	Fair	Fair	Fair	Fair	Poor	Bleak
Good	Good	Fair	Good	Good	Fair	Fair

Excellent

Good

Fair

Poor

Bleak

Industry performance

Changes since June 2015

Europe

Hungary

Machines/Engineering

Up from Fair to Good

See article on page 18.

Russia

Agriculture

Up from Bleak to Poor

Chemicals/Pharmaceuticals

Up from Poor to Fair

Consumer durables

Up from Bleak to Poor

Electronics/ICT

Up from Bleak to Poor

Food

Up from Bleak to Poor

Metals

Up from Bleak to Poor

Paper

Up from Poor to Fair

All those sectors benefit from an improvement of the Russian economic situation as the rouble exchange rate has stabilised and interest rates have decreased again, easing liquidity access for the corporate sector. But refinancing still remains a major problem for many Russian companies, and many businesses in the sectors mentioned above still face falling sales and profitability.

Spain

Pharmaceuticals

Up from Fair to Good

After several years of decrease public and private pharmaceuticals expenditure started to grow again in 2014 and early 2015, and this positive trend is expected to continue.

Turkey

Metals

Down from Poor to Bleak

The sector suffers from a volatile lira exchange rate, while bank are more unwilling to lend and interest rates have increases. The number of non-payment cases is increasing.

Asia/Oceania

Australia

Steel

Down from Fair to Poor

The sector is facing challenges due to lower demand from the mining sector, and non-residential building suffers from tighter financing.

Indonesia

Consumer Durables

Down from Good to Fair

The sector is negatively affected by a depreciation of the Indonesian rupiah which currently hampers the economic performance.

Singapore

Construction/ Construction materials

Down from Fair to Poor

The sector is negatively affected by decreasing private property prices and increasing operating cost due to tighter of labour regulation. Notifications of non-payments have increased.

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