Managing risk, enabling trade

April 2019

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

The need to adapt in order to survive

During the 1990s and into the early 2000s many large retailers focused their efforts on expansion of both storefronts and square footage. However, retail market conditions have profoundly changed since then. Some well-known retailers went insolvent in recent years, and many survivors have cut back and/or announced store closures. The lack of willingness or means to adapt to a more volatile and fast changing market environment can immediately result in serious troubles for large and small retailers alike, regardless of how established they are in the market or how successful they have been in the past.

'Business as usual' is no longer an option in the retail sector, driven by new technologies and the influence of pioneering digital-first companies like Amazon. In 2019, worldwide retail e-commerce sales are forecast to increase 21% year-on-year, to USD 3,453 trillion. Research group eMarketer expects online sales to increase to about USD 4,900 trillion in 2021, accounting for 17.5% of total retail sales.

Today, consumers have easy access to real-time information about products, pricing and quality, and social media enables them to amplify their options and complaints. Price transparency made available to consumers by online retailers maintains pressure on margins along the whole value chain. Additionally margins are being squeezed by more frequent markdowns combined with constant discounts, as consumers expect year-round discounts.

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, enhancing digital capabilities and/or offering additional services. However, this requires the willingness to change as well as major investments, a more difficult task in times of tight profit margins. It remains to be seen if many of the smaller, already struggling retailers have the means to realign their businesses in order to remain competitive.

France

- No sales rebound expected in 2019
- Smaller brick-and-mortar retailers continue to struggle
- Insolvencies expected to increase in 2019

Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months				✔	
Development of non-payments over the coming 6 months				✔	
Trend in insolvencies over the last 6 months				✔	
Development of insolvencies over the coming 6 months				✔	

Financing conditions	very high	high	average	low	very low
Dependence on bank finance		✔			
Overall indebtedness of the sector		✔			
Willingness of banks to provide credit to this sector			✔		

Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months				✔	
General demand situation (sales)				✔	

Source: Atradius

In 2018 consumer durables retail sales were affected by lower household consumption, together with the negative impact of the so-called ‘yellow vests protests’ at the end of the year, usually a peak sales period for retail. Purchasing behaviour has changed in recent years, e.g. the evolution of ‘Black Friday’ in France has changed sales patterns.

According to the research institute GfK, consumer electronics sales decreased 0.3% in 2018, to EUR 4.3 billion. The stagnation was mainly due to declines in the struggling photo segment (down 14%) and lower sales of audio items. The consumer electronics segment is characterised by very low margins.

Sales of home equipment decreased 0.6% in 2018, to EUR 31.5 billion, after a robust increase seen in 2017. According to Gifam (the French association of household appliances manufacturers) sales of large household appliances decreased 0.9% in 2018, to EUR 5.2 billion, impacted by a downward trend in new housing and lower household confidence. Sales of small home appliances continued its upward trend for the eleventh consecutive year, but at a lower pace (up 0.5%), due to a lack of innovative new products.

After three consecutive years of growth, furniture sales decreased 2.7% to EUR 9.5 billion, mainly due to a subdued performance in H2 of 2018, according to the industry research organization IPEA. Some large retailers are facing difficulties, and it seems that businesses have adjust their product mix and reduce store sizes to adapt to changing consumption habits. That said, despite a decline in new housing, the kitchen segment (which accounts for 27% of furniture sales) kept up well, mainly benefiting kitchen specialist retailers.

France: retail stores

	2018	2019f	2020f
GDP growth (%)	1.5	1.5	1.6
Sector value added growth (%)	1.6	1.6	1.8

Average sector growth over the past 3 years (%)	1.6
Average sector growth over the past 5 years (%)	1.9
Degree of export orientation	low
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

The French consumer durables market is not expected to rebound in 2019, due to the more difficult economic environment and ongoing social tensions. The decrease in new housing should again affect demand for large household appliances and furniture. The rather cyclical TV market is unlikely to be boosted by a major sports event as seen in 2018.

The business environment will remain highly competitive in all segments. Increasing market share of online retailers has generated significant pressure on sales prices and profitability, especially affecting independent and local retailers. According to the e-commerce federation FEVAD, online retail sales increased more than 13% in 2018, and online sales accounted for 23% of home equipment sales. E-commerce competition and the high frequency of discount sales have squeezed the margins of retailers over the past 12 months.

A concentration process through acquisitions or purchasing alliances is ongoing among retailers to cope with the mounting challenges.

In order to adapt to the competitive environment and ongoing development of e-commerce, several major players have developed omni-channel strategies. Partnerships between online and brick-and-mortar retailers have emerged to take advantage of each other's strengths.

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 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. In line with the subdued sales performance in 2018 and rising market challenges, non-payment notifications and insolvencies increased in H2 of 2018, and are expected rise further in the coming months. Given the fierce competitive environment and pressure from online retailers, mainly independent and smaller players are threatened by business failures. However, some larger businesses are also facing major financial difficulties.

Our underwriting stance for the consumer durables retail sector is neutral for the consumer electronics and household appliances segments. We remain cautious with small independent players, as deteriorating revenues and margins have affected several of them over the past couple of years. However, even larger businesses could face troubles due to increased financial exposure after acquisitions and the difficult economic environment.

We are more cautious in the furniture retail segment, as the market situation of many small players is difficult due to the overwhelming market power of three large retailers.

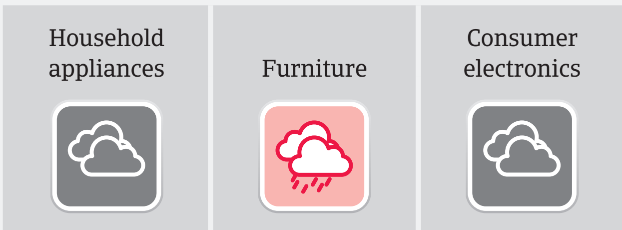
In general, we focus on the resilience of individual buyers in a competitive market environment, the distribution channels and the management of working capital requirements.

French consumer durables retail sector

+ Strengths	Several major players benefit from a good financial situation and keep on developing their network and develop omni-channels strategies
	Market consolidation ongoing
– Weaknesses	High gearing of many businesses
	Fierce competition
	Decrease in consumer confidence and slowdown in household consumption

Source: Atradius

Performance forecast along subsectors



Source: Atradius

Germany

- Smaller brick-and-mortar retailers continue to struggle
- Payment terms range from 30 to 60 days
- Insolvencies expected to increase by 2% or more

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 1.2% year-on-year in 2018 – the ninth consecutive year of growth. German consumer durables retail benefited from the country´s robust economic performance, with demand driven by low unemployment and increased household purchasing power.

However, turnover growth was lower than in 2017 (up 3.5%), and while further expansion is expected in 2019, growth could slow down again as economic uncertainties have increased.

According to the German association of furniture industries BVDM, turnover in the furniture segment decreased 2% in 2018, to EUR 32.9 billion. However, in 2019 the BVDM expects demand to increase again.

According to the German Electrical and Electronic Manufacturers' Association ZVEI, in 2018 manufacturers' sales of large electric domestic appliances levelled off compared to 2017, and sales stagnation is expected to continue in 2019. However, sales of small electric domestic appliances by manufacturers are expected to increase about 1%-2%.

German textiles sector value added contracted more than 4% in 2018 and another 2% contraction is forecast in 2019. The payment default risk in the textile retail segment has increased since H2 of 2018, as an unusual warm late autumn negatively affected sales of winter clothes. Besides dependence on seasonal events, textile retail structurally suffers from low equity ratios of many businesses, high rental fees in many cities and thin margins due to online competition. Many brick-and-mortar retailers still lack successful online sales channels, while some online clothes retailers lack efficient logistics.

Mainly smaller and mid-sized retailers will continue to struggle in their efforts to cope with the fast growing market leaders. At

Germany: retail stores

	2018	2019f	2020f
GDP growth (%)	1.5	1.3	1.6
Sector value added growth (%)	2.5	2.1	1.8

Average sector growth over the past 3 years (%)	2.7
Average sector growth over the past 5 years (%)	2.6
Degree of export orientation	very low
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

the same time, the competitive pressure from online retailers has further increased (in 2018 online sales of consumer durables grew more than 11%). In segments where the market share of e-commerce has expanded rapidly (e.g. consumer electronics, electrical domestic appliances, furniture, leisure articles, clothing) competition is fiercer and 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 duration in the consumer durables retail segment ranges from 30 to 60 days, however it can extend to more than 120 days, depending on the market power of individual retailers. Payment behaviour in the German consumer durables sector has so far remained both good and stable, with a low share of protracted payments.

German consumer durables retail sector

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

Source: Atradius

Businesses margins however are expected to decrease further in 2019 due to the fierce competitive market environment in most segments. Price transparency, made available to consumers by online retailers, maintains pressure on margins along the whole value chain. Consumer durables retail insolvencies are expected to increase in 2019, probably on par or even higher than the 2% insolvency increase expectation for all German businesses in 2019.

Despite persistent sales growth and stable consumer sentiment, we see consumer durables retail as a medium-risk sector, mainly due to the increasingly difficult market situation of smaller players. According to the retail federation HDE, only 10% of small high-street retailers are satisfied with their business situation, while 75% reported lower footfall in 2018.

Our underwriting stance is generally neutral for consumer durables retail, while being more restrictive for textiles and footwear retail. We continue to closely observe the growing competition between online and brick-and-mortar retailers (in 2019 HDE expects a turnover increase of 1.2% for brick-and-mortar retailers, compared to about 9% for online traders). 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 are reluctant to 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.

Performance forecast along subsectors

Household appliances	Furniture	Consumer electronics
		

Source: Atradius

The Netherlands

- **Lower turnover growth expected in 2019**
- **Payments take 60 days on average**
- **High level of competition fuelled by large online retailers**

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 1.7% in 2018. Turnover in the do-it-yourself, kitchens and flooring sectors grew 2.3%, while turnover in the furniture and household items sector rose 2.1%. However, turnover of consumer electronics stores declined again, by 0.8% (down 2.1% in 2017). Profit margins in the non-food retail sector have increased somewhat in 2018, but still remain low.

In 2019 non-food retail growth is expected to slow down to 1.5%, in line with lower household consumption growth (forecast to increase 1.9% after growing 2.5% in 2018). Furniture and DIY stores benefited from the strong housing market in recent years, but housing growth has started to weaken.

Stores within the non-food retail sector have varying degrees of success. Drug stores perform well, while consumer electronics continues to shrink. Turnover growth in fashion retail has become heavily dependent on weather conditions, while competition from large online retailers in this segment is fierce.

The number of brick-and-mortar stores has significantly decreased in recent years, and various retail chains have shifted their focus to online sales. We have seen 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 remains very 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 achieved 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

The Netherlands: retail stores

	2018	2019f	2020f
GDP growth (%)	1.6	1.8	1.7
Sector value added growth (%)	3.2	2.5	1.7

Average sector growth over the past 3 years (%)	3.9
Average sector growth over the past 5 years (%)	3.7
Degree of export orientation	very low
Degree of competition	very high

Sources: Macrobond, Oxford Economics, Atradius

attention to the Dutch market, which will result in even more pressure on prices and the margins of established players.

While the financial gearing of non-food retailers is average in general, willingness of banks to provide loans to the sector is rather low. Payments in the Dutch non-food retail sector take 60 days on average, and while non-payments have increased in 2018, they are expected to level off in 2019. Our forecast is for non-food retail insolvencies to level off or to increase slightly in 2019, in line with the forecast of a modest 2% increase in Dutch business insolvencies after several years of decreases.

Dutch consumer durables retail sector

Strengths	Growth in online sales
Weaknesses	Pressure on margins remains
	Decreasing consumer confidence
	Highly competitive business environment
	Limited access to loans, especially for smaller players

Source: Atradius

Our underwriting approach for the industry remains generally neutral to cautious, given the current and future challenges for the industry, especially regarding the major shift to online sales.

Our underwriting stance for the furniture segment is open, but we remain more cautious with consumer electronics retail. The same accounts for textiles and footwear due to fierce competition in the market, triggered by large online retailers. Compared to last year we have tightened our underwriting stance in the household appliances retail segment, amongst other things due to ongoing financial difficulties of two large retail chains.

Performance forecast along subsectors

Household appliances	Furniture	Consumer electronics
		

Source: Atradius

United Kingdom

- The performance outlook remains subdued
- Payment takes 60 days on average
- Insolvencies expected to increase more than 5%

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

Last year the British consumer durables sector was impacted by increased economic uncertainty, lower GDP growth and decreased consumer confidence, leading to tougher trading conditions and a downgrade of the business performance/credit risk situation of the industry from "Fair" to "Poor" in December 2018.

Since then, the situation has not improved at all. According to the British Retail Consortium footfall during the 2018 holiday season decreased 2.5% year-on-year (after declining 3.5% in 2017), and sales remained stagnant – the first time since 2008 that there was no annual growth.

The sales outlook for consumer durables in 2019 is subdued, as consumer sentiment remains low, household finances are strained and private consumption growth is decreasing. Uncertainty over the Brexit outcome additionally hampers consumer spending and business investment. The economic growth outlook for the UK has worsened since Q4 of 2018 and remains highly uncertain.

While the sales performance of household appliances has shown some resilience so far, furniture retail has been impacted by lower demand and higher input prices due to the weaker pound sterling, as furniture heavily relies on raw material imports. In the consumer electronics segment, low levels of innovation and longer product life cycles have led to difficult market conditions. Changes in consumer buying patterns (e.g. in the mobile phone segment away from 'bundles' towards sim free/sim only) mean that retailers need to adapt their offering. The textile/footwear segment has been impacted by unseasonal weather conditions, poor buying patterns and increased import costs, as clothing is heavily reliant on overseas manufacturers in Asia and Europe).

UK: retail stores

	2018	2019f	2020f
GDP growth (%)	1.4	1.5	2.0
Sector value added growth (%)	2.1	1.6	2.1

Average sector growth over the past 3 years (%)	2.8
Average sector growth over the past 5 years (%)	3.6
Degree of export orientation	very low
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Given the more difficult trading conditions it comes as no surprise that profit margins of consumer durables retailers deteriorated in 2018. Further decline is expected in 2019, mainly for brick-and-mortar retailers. The portfolio payment experience has been bad over the past two years, and we expect non-payment notifications to increase again in 2019.

According to Ernst & Young, retailers reported a 50% increase in profit warnings in 2018 due to margin pressures, the need for re-invention and lower consumer confidence. The clothing segment is mainly affected.

Retail insolvencies increased in 2018, with about 2,600 shops and stores affected, compared to 1,400 in 2017. The number of business failures of large retailers also rose, especially in the textiles/footwear segment. A growing share of businesses, including multi-store retailers, has entered 'Company Voluntary Arrangement', trying to reduce their debt and/or rent burden with this insolvency procedure.

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

In 2019 retail insolvencies are expected to increase by more than 5%. The industry is going through a period of correction, with businesses failing to adapt to online demand facing serious troubles. Lower sales and postponement of investment decisions have large ramifications for both larger and smaller retailers.

We currently maintain a restrictive underwriting approach in the consumer durables industry. Our underwriting stance for household appliances remains neutral for the time being, but a deterioration in the short-term future cannot be ruled out. We are restrictive with buyers in the furniture and consumer electronics segments, and even very restrictive with clothing/footwear retailers due to sharply increased numbers of business failures, including insolvencies of larger businesses.

We continue to monitor developments in the sector on a regular basis, making as much contact with buyers as possible (meetings, conference calls, and management accounts). This enables us to track progress and underwrite appropriately on a case-by-case basis. In particular, we focus on businesses that rely heavily 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.

Performance forecast along subsectors

Household appliances	Furniture	Consumer electronics

Source: Atradius

United States

- **Higher operating margins expected in the short-term**
- **Payments take 60 days on average**
- **More larger retailers could face bankruptcy in 2019**

Overview

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

Source: Atradius

Since the end of 2018 many consumer durables retailers have begun to reap the benefits of their previous investments, aimed at cost efficiency, enhancing e-commerce capabilities and the in-store experience for customers. Many companies have made significant investments in strengthening their omni-channel operations, with digital innovations along with store remodeling and refurbishments.

Coupled with a strong economy and robust household consumption this will result in higher operating profits for those businesses. Accordingly, we have upgraded the business performance/credit risk outlook for the US consumer durables retail industry from "Fair" to "Good".

According to preliminary estimates of the National Retail Federation, retail sales grew 4.6% year-on-year in 2018, to USD 3.68 trillion. In 2019, we expect retail sales to increase about 4%, with e-commerce sales growing by about 15% and in-store sales around 2-3%. Currently accounting for about 15% of total sales, the share of online retail is expected to grow to about 20% in the coming five years. While Amazon will continue to dominate e-commerce, brick-and-mortar businesses will gain more of the online market share as they set up their own platforms.

The household appliances sector is driven by increasing disposable household income, coupled with robust housing and construction activities. Sales are expected to increase by more than 8% in 2019, to USD 15 billion. Higher costs of raw materials and import tariffs on steel have increased operational costs, and reduced margins and overall profitability. However, companies are resorting to higher pricing and cost-productivity programs/cost-reduction initiatives in order to sustain margins.

The US furniture market has been growing since 2009, and furniture sales are expected to continue to increase at least until 2023. A solid housing market and low unemployment has helped

United States: retail stores

	2018	2019f	2020f
GDP growth (%)	2.9	2.5	1.9
Sector value added growth (%)	3.4	2.8	1.8

Average sector growth over the past 3 years (%)	2.5
Average sector growth over the past 5 years (%)	2.8
Degree of export orientation	low
Degree of competition	very high

Sources: Macrobond, Oxford Economics, Atradius

consumer spending for furniture. Online sales are further increasing at the expense of brick-and-mortar retail, as more than 90% of customers start their purchasing process online.

According to the Consumer Technology Association, retail revenues in the consumer electronics segment increased 6% to a record-breaking USD 377 billion in 2018. Robust growth of about 5% is expected in 2019.

We expect merger and acquisition activity in the consumer durables retail industry to slow down in 2019 compared to 2018, as businesses integrate recently made acquisitions. Retailers will curtail share repurchases until they have strengthened their balance sheets. While digitally-native brands plan to open about 850 stores over the next 5 years, traditional brick-and-mortar-based retailers closed about 7,000 stores while opening 3,000 in 2018. The closure process will continue, but will be partly offset by the expanding retail footprint of direct-to-consumer brands and other niche retailers better positioned to thrive in this environment. Brick-and-mortar is in the midst of a radical transformation. Emerging trends like cashier-less checkout, pop-up stores and data-driven merchandising have caused retailers to reimagine the retail experience for modern consumers.

Payments in the US retail sector take 60 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 still elevated. Over the last 18 months, the largest US business bankruptcies were concentrated in the retail sector, which accounted for five of the ten largest Chapter 11 filings. In 2018, businesses in the apparel segment and big-box retailers continued to use the bankruptcy process to rationalize their physical store footprint and to reduce unsustainable debt levels.

In 2019, we again expect large national retail brands to seek Chapter 11 protection. However, we do not expect the number of retail business failures to increase substantially, as many troubled businesses have already filed for bankruptcy. Mitigating factors are the robust economic performance and that many retailers have adapted to the changing market conditions.

Our underwriting strategy for all main subsectors is cautiously optimistic. When analysing buyers the level of transparency into the products and their life cycle—including any insight into buyback arrangements for old or obsolete products—is key. With short life cycles and technology quickly becoming obsolete, it is important for us to know which end-markets are being served.

Downside risks for the retail industry are a tighter labor market and increasing freight charges. In addition, a significant and prolonged escalation of the ongoing trade dispute between the US and China would negatively affect US retailers that import a meaningful portion of their products from China.

Given the longevity of the current economic cycle with robust consumer spending since 2010, a softening of spending could occur over the next one or two years. This would more likely impact discretionary categories like apparel, household appliances and consumer electronics than staple categories like food. Highly leveraged retailers that have made major investments in order to adapt to the changing market conditions could face margin pressure and financial issues.

US consumer durables retail sector

Strengths	Household appliances retailers will benefit from the improving housing market and lower unemployment
	Mergers and acquisitions will continue to increase revenue and earnings
Weaknesses	Fierce retail competition among brick-and-mortar stores exacerbated by the shift to online shopping
	Interest rate hikes and tariffs 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

Belgium

- The market situation for Belgian consumer durables retailers has deteriorated in most segments. Competition is fierce and brick-and-mortar stores are suffering from lower footfall. Consumers are seeking additional shopping experiences and services rather than simply purchasing products.
- Online retail is increasing sharply, with a notable emergence of big global players such as Amazon and Alibaba. Consumers now have easy access to the latest trends, new products and price comparisons.
- In 2018, household appliances retail recorded modest sales growth, but average sales prices in this segment decreased. In the furniture and textiles/footwear subsectors small retailers suffer from the overwhelming market power of large players, which are able to offer a highly diversified product range at lower prices. The consumer electronics market is mature and sales are decreasing (both units and value), with persistent growth only seen in innovative sub-segments (e.g. drones).
- Strong competition and an increase in e-commerce are putting downward pressure on prices and upward pressure on service. Retailers have to cut their margins to retain customers and keep market share. Any increase in purchase/input prices is difficult to pass on to consumers. Therefore, profit margins are expected to deteriorate again in 2019.
- Payments of retailers to suppliers generally take 30-60 days. The number of non-payment notifications has increased sharply in H2 of 2018, mainly caused by smaller retailers, while the payment behaviour of larger retailers is still satisfactory. Both payment delays and insolvencies are expected to increase in the coming six months, mainly affecting smaller businesses. This is bucking the overall trend of Belgian business insolvencies, which are forecast to level off in 2019.
- Due to the more difficult market situation we have downgraded the business performance/credit risk situation of consumer durables from “Fair” to “Poor”. Our underwriting stance for larger consumer durables retailers with higher margins and for businesses with good financial performance is generally open. However, over the past 12 months we have increasingly tightened our underwriting stance for smaller retailers across all subsectors to restrictive, due to the increased number of payment delays and higher insolvency risk in this business category.

Belgium: retail stores

	2018	2019f	2020f
GDP growth (%)	1.4	1.4	1.5
Sector value added growth (%)	0.5	1.3	1.0

Average sector growth over the past 3 years (%)	1.4
Average sector growth over the past 5 years (%)	1.2
Degree of export orientation	very low
Degree of competition	very high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Household appliances	Furniture	Consumer electronics

Source: Atradius

China

- Despite a forecast slowdown of GDP growth in 2019 to about 6%, consumer durables sales are expected to remain stable. Following 6.9% growth in 2018 private consumption is forecast to grow 6.8% in 2019 supported by tax cuts to sustain economic growth.
- While the growth potential for offline sales is increasingly limited, the average annual growth rate of online sales is above 25%. Profit margins of consumer durables retailers in the online segment are expected to increase slightly in 2019, while brick-and-mortar retailers face continued pressure on their margins.
- Sales in the household appliances segment are expected to remain robust, but stiff competition keeps profit margins of smaller players at a low level, while larger companies usually show healthy margins. In the consumer electronics segment the fierce competitive environment keeps margins of most businesses at a low level.
- In general, the gearing of consumer durables retailers is not overly high, and banks are principally willing to provide loans. Payments in the sector take 30-60 days on average, and payment behaviour has been good over the past two years. The current level of non-payment notifications is average, and payment delays as well as insolvencies are not expected to increase in 2019.
- Our underwriting stance for large consumer durables retailers and businesses with good financial performance is generally open. However, we are more cautious with smaller businesses, and restrictive with companies that are highly geared and have a weak market position. In the furniture segment we are cautious with businesses exporting to the US due to the ongoing trade dispute. The same accounts for the textiles segment due to overcapacity.

China: retail stores

	2018	2019f	2020f
GDP growth (%)	6.6	6.1	5.8
Sector value added growth (%)	6.7	8.7	8.9

Average sector growth over the past 3 years (%)	7.0
Average sector growth over the past 5 years (%)	7.4
Degree of export orientation	very low
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Household appliances	Furniture	Consumer electronics

Source: Atradius

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Indonesia

- Indonesia's retail sector remains one of the most promising in Asia. It has a large population and growing middle class, with rising household purchasing power and increasingly modern spending habits. Private consumption is forecast to remain robust in 2019 and 2020, increasing about 5% annually.
- Consumer electronics sales are the main driver of sector growth. In comparison, growth in furniture and larger household appliances sales is lower, as the focus of general consumer spending is still more on essential items in Indonesia.
- Sales of clothing, a key growth driver for retail, grew by more than 10% in 2018. However, competition between the different brands is very high and the market tends to be price sensitive. Several uncompetitive department stores and clothing brands closed in 2018.
- In 2018, 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 locations, primarily to reach less saturated smaller cities and regions outside of Java. Those expansion plans piggyback on the government's undertaking for infrastructure and logistics development in more remote regions.
- E-commerce provides lucrative businesses opportunities for retailers across all subsectors, as Indonesia's e-commerce industry is the fastest growing in Southeast Asia. There are several unicorn start-ups (privately held start-up companies valued at over USD 1 billion) like Tokopedia and Bukalapak, which have received funding from both foreign and local private equities. International players like Shopee (by Sea Limited) and Lazada (by Alibaba) are also active in the market.
- Profit margins of consumer durables retailers are expected to remain stable in 2019. The average payment duration in the industry is 40 days. The number of protracted defaults remains low, and our portfolio payment experience has been good over the past two years. We expect the level of non-payment and insolvencies to remain 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 to neutral. 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

	2018	2019f	2020f
GDP growth (%)	5.1	5.2	5.2
Sector value added growth (%)	6.0	5.4	5.4

Average sector growth over the past 3 years (%)	4.8
Average sector growth over the past 5 years (%)	4.4
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

- In 2018 demand increased for both medium sized domestic appliances (up 1.3%) and small domestic appliances (up 6.3%), while demand for consumer electronics and office equipment decreased 1.2% and 3.5% respectively.
- The outlook for 2019 is subdued, with lower consumer confidence and private consumption forecast to grow only 0.3%. A government proposal to curb Sunday shopping (by a 50% reduction of opening days) would additionally hit retailers in case of parliamentary approval.
- Retailers' profit margins are expected to remain under pressure in 2019 after already deteriorating in 2017 and 2018. The consumer durables retail sector remains highly competitive with a high level of fragmentation, especially among small and medium-sized businesses. Weaker players with poor financial strength already 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. Given the increasing challenge posed by e-commerce, many smaller and mid-sized players still lack the flexibility and/or financial means to adapt their business models to changing consumer habits.
- Payment duration ranges from 80 to 90 days on average – deterioration compared to early 2018 (60 to 90 days). Both payment delays and insolvencies increased in 2018. We expect the credit risk environment for consumer durables retailers to remain challenging in 2019, with further rising insolvencies due to ongoing competitive pressure and liquidity issues of some players.
- Due to stressed market conditions, stiff competition and lower household consumption we downgraded our outlook for the business performance/credit risk situation of the industry to "Poor" in December 2018.
- Our underwriting stance for consumer durables retail is cautious, mainly for low value added distributors. Especially in the household appliances and consumer electronics segments there are many weaker players in the distribution chain that face liquidity problems and/or 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 due to weak business models. Exports sustain the performance of the textile segment. In the domestic market insolvency levels in the clothing and footwear segment is high.

Italy: retail stores

	2018	2019f	2020f
GDP growth (%)	0.8	0.0	0.8
Sector value added growth (%)	1.8	1.0	0.9

Average sector growth over the past 3 years (%)	1.4
Average sector growth over the past 5 years (%)	2.3
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

Spain

- Consumer durable goods are expected to continue their sales expansion in 2019, although at a lower pace than last year as private consumption growth is expected to slow down to 2.0%.
- Profit margins in the consumer durables retail industry generally remained stable in 2018, and this development is expected to continue in 2019. External indebtedness is not overly high in the 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 continue to expand their market share, with annual growth rates of more than 20%. Brick-and-mortar businesses have to adapt to the rapidly changing market conditions and consumer habits in order to defend their market position.
- On average, payment duration in the sector ranged from 60 to 90 days. Payment behaviour in all major subsectors (household appliances, furniture, consumer electronics) was relatively good over the past two years, and no major changes are expected as the general performance outlook remains positive. Consumer durables retail insolvencies increased slightly in 2018, mainly of small businesses with low total asset value. The number of business failures in the industry is expected to level off in 2019.
- Our underwriting approach remains positive for the consumer electronics segment while it is neutral for household appliances. In this segment e-commerce competition could have a significant impact on local and small retailers in the short-term. At the same time lower private consumption growth in 2019 and 2020 will impact sales growth.
- Despite growth over the last couple of years, our underwriting stance on furniture is neutral, as this subsector is closely linked to construction performance and large retailers put pressure on their smaller peers.
- Our underwriting stance is also neutral for the textile retail segment. In 2018, sector activity in Spain decreased 2.2%, mainly due to seasonal conditions (weather), but is expected to increase again in 2019. Textile retailers are facing the sharp growth of e-commerce and changing consumption priorities. Smaller, highly-leveraged businesses are the most vulnerable in this subsector.

Spain: retail stores

	2018	2019f	2020f
GDP growth (%)	2.5	2.3	2.0
Sector value added growth (%)	3.0	3.0	2.5

Average sector growth over the past 3 years (%)	3.5
Average sector growth over the past 5 years (%)	3.6
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

United Arab Emirates

- The consumer durables value chain in the UAE encompasses mainly distributors, power retailers and resellers (online and offline), while manufacturing is not present. Apart from re-exports domestic demand is driven by expatriates, tourists, regular shopping festivals and speciality electronic retail events. Many distributors are present in Dubai's free trade zones and redistribute to the wider Middle East and Africa.
- It is expected that sales growth of consumer durables in the UAE will remain subdued in 2019, due to modest private consumption growth and a difficult economic environment. Tourism inflow growth is sluggish compared to previous years. Competition continues to remain high, and distributors and retailers have lowered sales prices in order to maintain turnover. This led to decreasing profit margins in 2018, with no rebound expected in 2019.
- Consumer durable distributors selling in the UAE and re-exporting (mainly from Dubai) are reliant on bank financing to support their inventory and receivable days. However, banks have become more restrictive in their lending approach to the industry as many businesses (mainly from Dubai) have cash flow issues due to weaker demand.
- Payment duration has increased to 90-120 days (payment terms are usually 60-90 days). The number of payment delays and protracted defaults is expected to remain high in 2019 due to ongoing cash flow problems and more restricted access to bank loans.
- Our underwriting approach for the household appliances segment is generally neutral, as we expect demand to remain stable. However, we have adopted a cautious and selective underwriting approach for furniture and textiles/footwear retail. Both segments consist of many small and uncompetitive businesses. We are also restrictive for consumer electronics, as we have seen many sizeable runaway cases (especially in Dubai) in the recent past.
- Our underwriting approach is also cautious for distributors and resellers exporting to high political risk countries in the Middle East and Africa. The imposition of new taxations and customs duties on certain consumer durable items in India has impacted demand from the UAE.
- Across all subsectors, availability of the latest audited financials, updated trading experience and knowledge on the buyer business model is required for positive review.

UAE: retail stores

	2018	2019f	2020f
GDP growth (%)	2.7	3.1	3.4
Sector value added growth (%)	2.7	2.4	4.0

Average sector growth over the past 3 years (%)	2.2
Average sector growth over the past 5 years (%)	3.4
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

Industries performance forecast per country

April 2019

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

Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles
Good	Good	Fair	Fair	Good	Poor	Poor
Good	Fair	Fair	Poor	Poor	Good	Poor
Good	Good	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	Poor	Good	Poor	Poor
Fair	Bleak	Fair	Fair	Poor	Fair	Fair
Good	Good	Fair	Fair	Fair	Fair	Poor
Good	Fair	Fair	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
Poor	Fair	Fair	Poor	Poor	Fair	Poor
Good	Poor	Poor	Fair	Fair	Poor	Poor
Good	Fair	Fair	Poor	Good	Fair	Bleak
Good	Fair	Poor	Good	Good	Poor	Poor
Fair	Fair	Fair	Poor	Good	Fair	Fair
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 2019

Europe

Belgium

Consumer Durables

Down from Fair to Poor

See article on page 15.

The Americas

United States

Consumer durables

Up from Fair to Good

See article on page 13.

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