know more / grow more

Trading around the globe, 2019 and beyond

How credit insurers can help companies to identify trading risks and opportunities

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Introduction

"There are known knowns; things we know we know. There are known unknowns; things we know we don't know. But there are also unknown unknowns; things we don't know we don't know."

US Secretary of Defense Donald Rumsfeld, February 12 2002

A business can never know too much

The old saying "knowledge is power" is no less true for being so familiar, and above all it is true in business. The best decisions are the best informed decisions, based on detailed and up-to-the-minute data, expertly analysed. When companies know where the risks and opportunities lie, they can trade with confidence, make the most of opportunities and avoid costly mistakes.

This knowledge is particularly essential for companies that are about to start exporting to new territories or to more volatile parts of the world. But even when trading within the UK or with Western Europe and North America, background knowledge of current and forthcoming conditions should inform every business decision.

Credit insurers: a reliable source of business intelligence

One of the most reliable sources of business intelligence is too often ignored or neglected: the credit insurance industry.

Insurers such as Coface are in the business of knowing how individual companies, regions, countries and industrial sectors are performing at any given moment. They have teams of experts tracking individual companies, analysing economic movements, anticipating political changes and spotting business trends.

They use this information to assess the risks they underwrite. But they also make the data, and their conclusions from it, available to their policy holders. In fact for a leading credit insurance company such as Coface, providing business intelligence is as much a part of their service to clients as covering them against bad debt and delayed payment.

By the time you are reading this white paper, some of the information which follows may have been superseded. But the point is the sheer quantity of data and quality of analysis available, and how frequently it is updated.

1. General world trade trends

2. Sector by sector intelligence

3. Emerging countries remain vulnerable

4. Look east for positive signs

5. Luxury goods are bucking the downward trend

Why Coface?

We monitor 80 million businesses in the UK and worldwide so when you - '**Coface it First'**, you'll have:

- Customer and supplier credit checks on demand
- Up-to-the-minute business and economic trends at your fingertips
- All the knowledge you need to make informed decisions
- The confidence to offer better terms and win more business

If you want to know more about the "know more, grow more" effect a credit insurance policy can bring to your business, talk to the experts at Coface on 0800 085 6848.

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1. General world trade trends

The headline conclusions in the latest Coface Country Risk Barometer (published April 2019) are:

- A slowing global economy.
- Companies less confident than they were the year before, and consequently investing more cautiously.
- Global trade showing signs of fatigue, with the 3% increase of 2018 slipping to 2.3% in 2019.
- Productivity across the globe heading downwards, with the world GDP set to increase by just 2.9% in 2019, 0.3% lower than 2018. This is the lowest level of growth since 2016, the last year in which the three leading economies (USA, Eurozone and China) all slowed down.
- In 2019 insolvencies are set to increase in 26 of the 39 countries for which data is available. This figure was just 19 the previous year. A 3% increase is expected in Western Europe, with 4% more insolvencies anticipated in Central and Eastern Europe.

Political risk on the rise

Coface's social risk indicator showed that political risk for businesses in 2019 is at its highest since 2010. These risks often increase around elections, and at the time the report was published, elections were due or likely in Italy, Spain, Germany and India. Spreading social discontent and the increasing popularity of anti-European parties are also noted, with the possibility of a fragmented European Parliament following the 2019 European elections.

Germany hit harder than most

The fall in business confidence noted by the Coface Barometer is particularly marked in Germany. The German economy's high degree of openness is partly responsible for this, compounded by the fact that its main trading partners include relatively high risk nations such as Turkey, the UK (high risk because of the uncertainty surrounding Brexit) and China, where years of rapid growth have begun to slow down.

Orders received by German manufacturers had dropped by over 4% in March 2019, the lowest figure since January 2017.

Key reasons to choose credit insurance:

- Grow your business
- Minimise risk
- Protect against insolvency
- Support business strategy and development
- Secure favourable financial terms and support
- Build supplier relationships
- Enhanced credit management

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2. Sector by sector intelligence

The Coface Barometer also looks at individual industrial sectors, and the findings confirm the downward trend in the global economy. Fourteen sector assessments in the most recent Coface sector reports have been downgraded, and six of them refer to a single sector: chemicals.

Chemicals

This industry is particularly vulnerable in Western Europe and the USA because of reduced sales opportunities in the automotive and construction sectors. As a result of all these factors, Coface has downgraded the chemicals sector to medium risk in the US, Germany and the Netherlands, and to medium-to-high risk in France, the UK and Italy.

Automobiles slowing down

The automotive sector is particularly affected. After eight years of consistent growth, Coface reports that it is now showing signs of slowing. Low investment, increased competition, rising oil and ethane prices, changing consumer lifestyles and the necessity to adapt to new anti-pollution environmental standards all play their parts. Equally influential is the slow down in the Chinese market as it reaches maturity. Signs of growing protectionism around the world are also noted as likely to have a dampening effect on automobile sales.

The forecast is for shrinking margins in future quarters caused by the increasing prices of commodities, especially oil, along with the stricter environmental regulations that seem sure to be introduced in many countries.

With these developments in mind, Coface has downgraded the automotive sector to medium risk in almost all Western European countries, as well as in Central and Eastern Europe, and to high risk in Latin America and North America.

3. Emerging countries are still vulnerable

This global environment has contrasting effects on emerging economies. There's a slowdown in growth in the Eurozone, which is forecast to grow by only 1.6 % in 2019, while in the United States projected growth is just 2.3 % - and many emerging economies depend on trade with these major economic powers.

On the plus side, slowing growth in the United States is making the proposed interest rate hikes by the US Federal Reserve less likely, so the risk of capital outflows from emerging markets chasing better returns in the US decreases.

Increasing political risk

Possible political risks in 2019 in the emerging world are becoming a more serious concern. In Africa, for example, internet access has tripled since 2010, so people now have better ways to express their frustrations and turn individual feelings into movements.

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Individual success stories

However, despite the fragile political and security situation, Coface notes a more favourable outlook for Mozambique. Foreign exchange reserves there are at their highest since 2014 and growth will exceed 3%. Rwanda too has been upgraded with a constantly improving business climate and continuing momentum for reform.

Coface has also upgraded its assessments for oil-dependent developing countries, with oil prices remaining at a moderate level despite high volatility. Angola, Azerbaijan and Trinidad & Tobago have all had their country rating increased. In fact Lebanon is the only country to have been downgraded, due to its persistent economic difficulties.

4. Searching for positive signs? Look east

The five sector assessment upgrades made by Coface in the latest world trade Barometer all focus on one global region: the Middle East. One of the biggest influences on the positive direction for Gulf Cooperation Council countries is the US Federal Reserve's change of monetary policy. All their currencies are aligned with the US dollar.

Saudi Arabia

Coface has now upgraded Saudi Arabia from C to B. The fact that oil prices are on the rise (29% up between December 2018 and March 2019 and highly volatile) is helping to reduce the level of corporate credit risk in the region. The forecast is for a barrel of Brent crude oil to remain at a price level that producers find comfortable throughout 2019. The average price in 2019 is expected to be 65 US dollars.

United Arab Emirates

The Middle East is also experiencing improved trade in other sectors, which is why the United Arab Emirates also received an upgrade from Coface In February 2019. Three sectors in the UAE are now promoted into the medium risk category:

- **Automotive, stimulated by the wealth many infrastructure projects will bring - including Expo 2020**
- **Retail, driven by stronger growth, investment, and tourism**
- **Textiles and clothing, benefiting from the population's increased purchasing power and changing consumer behaviour**

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5. Luxury goods are bucking the downward trend

According to a special Coface report published in May 2019, luxury goods are one of world trade's major growth areas. The world luxury goods market grew by 5%. The main driver for this remarkable growth is China's burgeoning middle class. In fact China's consumers now account for 33% of all global purchases of luxury goods, this is expected to rise to 46%.

The opportunity is clear, but there's also the danger of being too dependent on one market. If the Chinese middle classes start to feel the pinch, the luxury goods sector may regret having all its 'Fabergé' eggs in one basket.

Conclusion

The content of the Coface Barometer, and other Coface reports shows how much detailed data and penetrating analysis is available to businesses - enabling them to make informed trading decisions.

However, by the time you read this white paper, some of that data and analysis will have been superseded by the "unknown unknowns": events that could never have been foreseen. That's why businesses need business intelligence that is not only detailed and expertly analysed, but also constantly updated.

A world leading credit insurance company such as Coface is one of the most reliable sources of such information; furthermore, it is available on demand and free of charge to policy holders.

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