



no. 1
2009

World business sectors report

A plummeting world economy and all sectors in turmoil

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Global Sectors Outlook



EULER HERMES

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Contents

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Global Sectors Outlook

Global Sectors Outlook no. 1 | 2009

Editorial

page 3

Business sector forecasts

page 4

Contributions

page 22

Summary




of economic forecasts

page 20

Sector analyses

page 6

Food products and beverages ▶ Back to basic commodities	page 6
Consumer electronics ▶ The party's over	page 7
Pharmaceuticals ▶ Major manoeuvres	page 8
Automobiles ▶ Drip-fed by government assistance	page 9
Automotive components ▶ On the edge of the abyss	page 10
Aeronautics ▶ Caution reigns	page 11
Chemicals ▶ Heading towards the bottom of the cycle	page 12
Steel ▶ After a decade of boom, a sudden halt	page 13
Semiconductors ▶ Weighed down by the crisis	page 14
Construction ▶ The housing market continues to suffer, but public works will revive	page 15
Energy ▶ A fall in oil production	page 16
Distribution ▶ Stalled growth in household consumption	page 17
Air transport ▶ From bad to worse	page 18
IT services ▶ A change of programme	page 19

<ul style="list-style-type: none"> Automotive components Automobiles Construction 	<ul style="list-style-type: none"> Steel Clothing Textile Press, publishing Air transport Distribution Consumer electronics Paper and pulp 	<ul style="list-style-type: none"> Semiconductors and components Chemicals Road transport Machinery & equipment 	<ul style="list-style-type: none"> Manufacture of IT and telecoms equipment IT and telecoms services Food products and beverages Pharmaceuticals 
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Euler Hermes Global Sectors Outlook has been prepared by Euler Hermes SFAC analysts with the support of local risk experts in the group's 40 local offices around the world

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Editorial

No momentary crisis

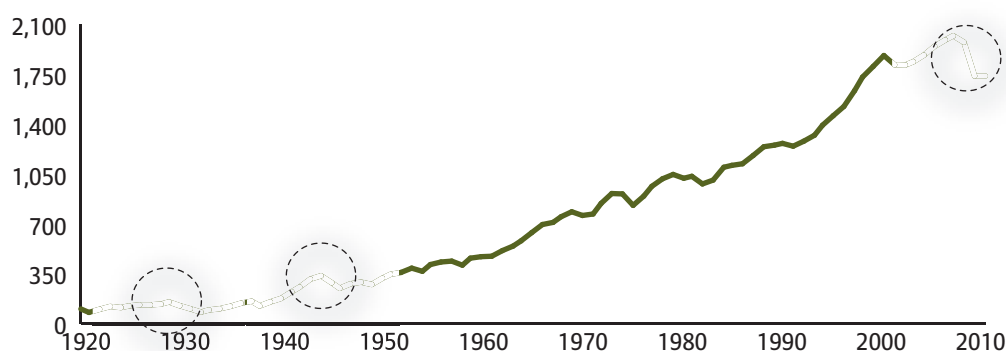
The crisis of 2008-2009 has yet to receive its official name: history will be the judge, after the academicians have dissected it and decided on what to call it. But even without knowing its proper name, we can compare it to its elder siblings. And when we do view this crisis alongside earlier ones, we have to conclude that this year's 2% drop in world GDP constitutes an extraordinary shock. As for earlier world recessions, the fact is that, since 1918, output has fallen on a global basis on only two occasions: first, the Great Depression of the 1930s and, next, during the Second World War. The oil price shock of 1973 was also a period of sharp slowdown, although, technically, it was not a recession. Thanks to the invaluable work of economist and statistician Angus Maddison, we now know not only how to date these crises, but also how to measure their scale. Accordingly, we can estimate that GDP in the United States fell by 25% between 1929 and 1933, and also that it took around 10 years for the US economy to recover from the shock, since it was only in 1939 that GDP returned to its 1929 level. In the first half of the 1940s, it was clearly Europe that was the most violently hit by recession. Between 1939 and 1946, it is estimated, French GDP fell by 40%, returning to its 1939 level only in 1949. German GDP fell by 60%, returning to 1944 levels in 1955. British GDP dropped by 8%. By comparison, in 1975, the only year post-1945 when GDP fell in the majority of the OECD countries, GDP in the countries of Western Europe fell by just 0.8%, while GDP in the US fell by 0.3%. But worldwide, GDP in 1975 rose by more than 1%.

In this chronicle, the recession of 2009, at undoubtedly between -3% and -4% in the OECD countries, stands out as a major and extremely rare event. As the graph below shows, US industrial output will post a decline unprecedented in the long-term record, dropping by the end of 2009 to its level of 1998. If past history can be relied on, it takes time to recover from such shocks. The injuries suffered threaten to force businesses into a process of long and painful adaptation and also to upset the internal workings of whole economies. In this vein, the early 'good news' heard this spring on the macroeconomic front needs to be viewed with great caution, undoubtedly representing more of a technical gain than a genuine upturn. We are in crisis, and full recovery is not yet on the menu.



US industrial output, 1920-2010

Index, basis 1919 = 100



International Business sector forecasts

	Food products and beverages	Consumer electronics	Pharmaceuticals	Automobiles	Automotive components	Machinery & equipment	Manufacture of IT & telecoms equipment	Paper and pulp	Chemicals	Steel	Semiconductors and components	Construction	Distribution	Road transport	Air transport	IT and telecoms services
World																
United States																
Canada																
Japan																
Euro zone																
Germany																
France																
Italy																
Spain																
Netherlands																
Belgium																
United Kingdom																
Sweden																
Central & E. Europe																
Russia																
Asia																
Latin America																
Mexico																
Brazil																

Source: Euler Hermes

Storm clouds are rumbling across the world

Overview: every region and sector is affected

Signs of loss of steam in the economy appeared from the start of 2008 in the US and from spring onwards in Europe. The deterioration at the time was relatively modest, up to the collapse of US bank Lehman Brothers in mid-September, an event that sent the world financial system into lockdown. Sectors depending largely on credit then collapsed. Construction and the auto sector were the first to do so – dragging along in their wake their suppliers and subcontractors, as well as transport companies, in a tide of job shedding and site closures. Since then, the slowdown in purchasing power has impacted on household consumption and thus on the entire distribution sector.

Current situation: a sharp deterioration in Q4 2008

Over the closing months of 2008, the downturn in activity gathered pace. The auto sector was the prime example of this, with sales dropping on nearly every continent. Decreases of 20, 30, and even 40 percent in the number of units sold over the last quarter of the year were commonplace. Automakers tried to cope, but their reductions in production volumes only barely tracked the fall in sales. On top of the collapse in real estate markets (since 2007 in the US and 2008 in Europe), sales by steel and chemical companies have gradually fallen off. Falling production and declining exports have steered the

road haulage and air transport sectors into the crisis. With volumes sharply down and little by way of prospects, job losses and site closures have multiplied. In the face of this new situation, businesses have moved to safeguard their cash flows by restricting investment as much as possible, in both goods (productive equipment) and services (IT services). In this recessionary context, consumers, fearful for the future, have sharply braked their spending (on textiles and clothing, consumer electronics, etc.), drawing the major producing countries – notably the emerging countries – into the downturn. As we are seeing, aside from a few rare sectors such as agrofoods or pharmaceuticals, the crisis has steadily spread to most sectors of the economy and to every region of the globe.

Outlook: massive destocking over H1 2009 in the face of lacklustre demand

After the violent downturn in activity of Q4 2008, an even stronger contraction was seen over H1 2009. Production cuts of 40% to 50% yr/yr were frequent in Q1 in automobiles, steel, chemicals and other sectors. Going even beyond the 20% to 30% fall in demand, major industrial companies drastically slashed output in order both to contain stock levels and to safeguard their own liquidity. The first quarter of 2009 has thus proved very worrying and has raised questions over the ability of businesses to manage – and finance – such low levels of

activity over several months. Some big names in industry have had to pay the price, and there have been a number of resounding collapses. Among these have been Nortel, one of the leaders in network telephony equipment, and LyondellBasell, the world's third biggest petrochemical company. General Motors, once the world's number one automaker, may be next. Nonetheless, here and here we can see some small stirrings of revival, certainly the result of the end of destocking activity in some industries, but also evidence of the impact of the massive stimulus programmes being implemented around the world. It is still too early to talk of recovery, but H1 2009 may prove to have marked the low point, before a slow and fragile upturn. Even so, 2009 will be a far cry from posting the figures seen in 2007. The road to growth still stretches long before us, and, at the very least, it is fraught with pitfalls. ■ YL

Key to symbols

Global risk AA ☀	Positive fundamentals and outlook
Global risk A ☀	Fairly good outlook
Global risk B ☁	Signs of weakness
Global risk C ☁	Structural weaknesses
Global risk D ⚡	Imminent or recognised crisis

Our business sector forecasts are founded upon the microeconomic expertise of Euler Hermes group underwriters and analysts, who closely monitor risk in companies worldwide through our network of 35 local subsidiaries. This results in a qualitative assessment of the health and outlook of a sector. Generally, although not in every case, this assessment includes growth forecasts for a given sector. We focus more on the health of businesses (in terms of margins and solvency) than on their growth in turnover. ■

Global risk



Food products and beverages

Back to basic commodities

Overview: a falling share of world trade

In forty years, trade in food products and beverages, which had accounted for more than 20% of world trade, has fallen to below 6%. The US remains the world's leading exporter and importer of food products and beverages. The EU's share of world exports has fallen from 20% ten years ago to below 20%, in the face of growing competition from Brazil and China. The EU's surplus has fallen by half, whereas the US deficit remains high, at \$20bn. The increase in European imports from Asia and South America is largely due to purchases of soyabean meal and palm oil, but also due to meat and fruit imports. The agrofood sector has a dual nature, marked by both the existence of a few major multinationals and a great number of very small and medium sized specialist firms.

Current situation: highly varying margins

The crisis failed to genuinely affect volumes, and prices remained buoyant, especially at the start of 2008. Operating profits for some players in the sector still remained high in 2008. Manufacturers of alcoholic beverages were in the lead in this regard, such as Diageo, with an operating margin of 32%, and also Anheuser-Busch InBev (25%). Coca-Cola was also among the most profitable, with an operating margin of 26%. By contrast, in sectors where products are hard to brand and where value added thus is low, e.g., meats, profitability also remains low (e.g., Tyson, at 1%). As for concentration in sector, Belgium's InBev succeeded in buying America's Anheuser-Busch for a record \$52bn, creating the world's second biggest brewing group. Some weeks later, US poultry firm Pilgrim's Pride (\$85bn in turnover, with 48,000 employees) filed for protection under Chapter 11, collapsing under a debt load contracted

largely in buying up a competitor. As for agricultural commodity prices, these had soared in 2007 and into H1 2008, due to very low stock levels and an environment of fierce speculation, but later they fell back in the face of far better than anticipated harvests. This price drop, however, could prove to be short-lived: demand remains strong and the amount of arable land is falling.

Outlook: more expensive commodities

Prices for agricultural commodities should rise, as stocks, although better, are still on average only half what they were in the 1990s, and because world demand, led by China and India, will remain buoyant. Grain stocks, now at less than 20% of annual world demand, are at their lowest for 30 years. Another bullish price factor is the fall in US corn and wheat acreages, primarily because of the fall in grain prices and continued high fertiliser prices, resulting in some 2 million hectares being lost to grain production. Moreover, the fall in prices does nothing to stimulate significant investment in agriculture. This is all the more regrettable, as food products is the sector where demand is the least sensitive to cyclical movements. With a lack of volumes, prices should thus head upwards. But it is equally true that the high margins founded on the brand recognition, brand innovative ability and brand image are becoming harder to sustain in an environment of flagging purchasing power and global economic slowdown. The outlook for simple, affordable products is better than ever. ■ **LB**

Major world food and beverage companies, by turnover

Rank	Company	Nationality	Turnover 2008 ⁽¹⁾	Operating margin ⁽²⁾	Sector
1	Cargill	United States	81.6	3%	Multi-product
2	Nestlé	Switzerland	67.1	14%	Multi-product
3	Unilever	Anglo-Dutch	40.5	18%	Beverages, snacks
4	Pepsico	United States	39.5	16%	Beverages, snacks
5	Archer Daniels Midland	United States	31.4	4%	Grains
6	Kraft	United States	28.2	9%	Dairy, snacks, beverages
7	Coca-Cola	United States	21.4	26%	Beverages
8	Tyson	United States	18.1	1%	Meat
9	Diageo	United Kingdom	9.3 ⁽³⁾	32%	Alcoholic beverages
10	A-B InBev	Belgium/USA	16.1	25%	Beer, beverages
11	Danone	France	15.2	10%	Dairy, multi-product
12	SABMiller	South Africa	14.4	15%	Beer
13	ConAgra	United States	7.8	12%	Prepared foods

⁽¹⁾ billions of euros

⁽²⁾ operating profit ÷ turnover

⁽³⁾ over six months

Source: group accounts

6

Leading world importers and exporters in 2007

Exports			Imports		
	USD billions	Share of market (in %)		USD billions	Share of market (in %)
EU ⁽¹⁾	74.3	19.8	EU ⁽¹⁾	70.9	18.8
United States	43.0	11.5	United States	63.4	16.8
Brazil	27.6	6.4	Japan	36.2	9.6
China	24.5	6.5	China	19.3	5.1
Argentina	17.7	4.7	Russia	17.5	4.6
Canada	17.1	4.6	Canada	16.6	4.4
Thailand	16.7	4.5	Mexico	10.8	2.9
Australia	13.7	3.6	South Korea	10.7	2.8
New Zealand	11.5	3.3	Hong Kong	8.0	2.1
Indonesia	10.5	2.8	Saudi Arabia	6.9	1.8
Malaysia	10.0	2.7	Australia	6.7	1.8
Mexico	8.3	2.2	Switzerland	6.2	1.6
India	7.5	2	Singapore	5.4	1.4
Vietnam	7.0	1.9	Malaysia	4.6	1.2
Norway	4.2	1.1	Taiwan	4.5	1.2

⁽¹⁾ excluding intra-EU trade

Sources: Confederation of the Food and Drink Industries in the EU (CIAA), WITS database



Consumer electronics

The party's over

Overview: the digital age

Estimated at a little below \$340bn (+4%) in 2008, the global consumer electronics market comprises the entire range of hi-fis, videos, computers, photographic equipment, games and other products manufactured for sales to private individuals. Long the uncontested champions of the sector, Japanese consumer electronics manufacturers were able to impose their expertise and their brands on a global scale. But since the commercial advent of digital technology to the sector in 2004, the cards in the market have been re-dealt, following new innovations such as MP3 players, flat panel displays and Sat Nav systems. Combining better performance plus miniaturisation, digital technology has also helped to appreciably lower the average selling price of electronic goods. Today, the Japanese multinationals in the sector face frontal competition from more cost-competitive Korean manufacturers (e.g., Samsung and LG) and from more innovative American manufacturers (such as Apple, with its ubiquitous iPod). In addition, they have to reckon with technological developments in telecom operator offerings – packaging internet, telephony and television services – and to ensure that their products are compatible.

Current situation: the end of growth in 2008

The second half of 2008 brought a violent halt to the enviable growth cycle in consumer electronics, one that had run for four years and that as recent as two years ago brought annual volume growth of better than 20%, enabling the sector to absorb the continuous decrease in its product selling prices. The halt results

from a significant slowing in household consumption, due to consumer perceptions of reduced purchasing power. Moreover, the lack of recent innovations acts to amplify the price war between manufacturers, whose model of competing for sales volumes is now proving destructive. The financial difficulties of Pioneer, like the profitability collapse in the consumer electronics divisions at Sony, Hitachi or Panasonic in Q4 2008, are perfect illustrations of this. Lastly, the rise in the yen since summer 2008 against the Korean won and US dollar has put Japanese manufacturers at a particularly harmful competitive disadvantage against their Korean or American competitors.

2009 outlook: getting through the storm

Because of these factors, this year promises to prove very difficult, and we cannot rule out negative volume growth for the sector over 2009. All categories of consumer electronics products will face slowing demand, unless stimulated by the emergence of new products. Japanese manufacturers thus did not wait to publish their end of September 2009 results before officialising restructuring plans involving draconian cost cuts. Among them were Sony and, very notably, Panasonic. The latter, expecting a net loss of more than €3bn, decided to close 27 factories (out of 230), to shed 15,000 jobs and to absorb financially troubled manufacturer Sanyo. The consumer electronics sector will see no return to solid growth before 2011. ■ ML

Major world consumer electronics companies

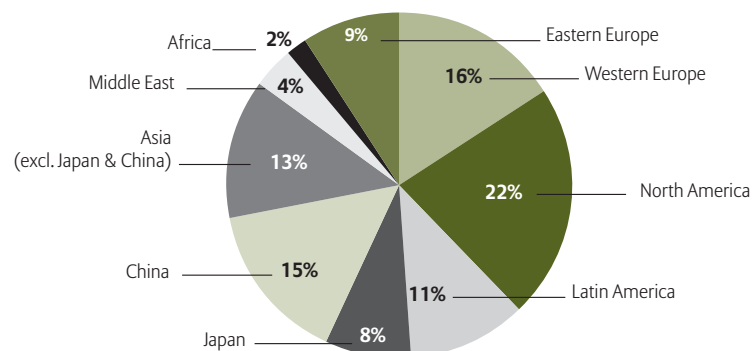
Ranking	Company	Country	2008 turnover USD billions
1	Panasonic (+ Sanyo)	Japan	115 ^(*)
2	Siemens	Germany	112
3	Samsung	South Korea	110 ^(**)
4	Hitachi	Japan	98 ^(*)
5	LG	South Korea	85 ^(**)
6	Sony	Japan	78 ^(*)
7	Toshiba	Japan	67 ^(*)
8	Philips	Netherlands	39
9	Sharp	Japan	38 ^(*)

^(*) y/e 31 March 2008

^(**) December 2008 estimate

Sources: Fortune, la Tribune, groups

World consumer electronics market: share of world market turnover, by region



Source: ZDnet

Global risk

B



Pharmaceuticals

Major manoeuvres

Overview: good fundamentals

Estimated by IMS Health at more than \$700bn in 2007, the world pharmaceutical market usually grows at around 5% by value from year to year. In this, it benefits from growing structural demand, thanks to the increasing lifespan of the global population, from the emergence of new illnesses, and from the marketing of treatments for previously incurable pathologies. Increasingly concentrated, with the ten leading pharmaceutical groups accounting for some 45% of the market in 2007 (up from 40% in 1999), its major outlets are the developed countries, which account for less than a quarter of the world's population. Access to medications by the populations of the emerging countries will thus constitute a vital avenue of growth for the world pharmaceutical industry in the more or less long term, depending on how quickly purchasing power in these markets catches up with that in the developed countries. The uncertainty surrounding this lies in the fact that most of the emerging countries have nothing or very little by way of suitable state-run or insurance structures for managing health expenditure.

Current situation: pursuing volume growth

In 2008, pharmaceutical companies drew on production volume increases of between 6% and 7%. They continued adapting to the upheaval in their traditional growth model, badly shaken by the decline in their R&D productivity and by policies aimed at cutting health expenditure in the developed countries. Also, the criteria for approving a new molecule as an innovative treatment – the sole justification for setting a high selling price – continue to become more restrictive. The promotion by public powers of

generic drugs, available more cheaply in pharmacies, is fuelling the takeoff of competitive products spurred on by the patents expiring on many profitable blockbuster drugs. The Obama administration's goal of reforming America's increasingly costly health care system compounds the pressures on medicine prices in the US. Against this background, the recent mega-mergers between Pfizer and Wyeth and between Merck and Schering-Plough seem purely defensive in nature.

Outlook: in search of a new growth model

World pharmaceutical demand should grow by around 5% to 6% in 2009. Resisting deflationary pressures as much as possible, pharmaceutical companies are now adopting aggressive strategies in anticipation of their most profitable patents expiring in the next three years. In the US, this takes the form of alliances between pharmaceutical groups, resulting in an underlying overstaffing in their sales forces, which will have to be trimmed. In Europe, where the system of price regulation reins in ambitions for such operations, some actors (e.g., GlaxoSmithKline, Roche or Novartis) are reinforcing their drug pipelines and breaking up their enormous R&D departments into small, ultra-specialist research units, or paying high prices to acquire young biotech companies with new molecules at advanced stages of development. The alternative is to diversify their offerings in related fields, such as medical equipment or animal health, as exemplified by Sanofi-Aventis, not excluding its potentially completing its ownership of animal health company Merial by buying out co-owner Merck's 50% holding, now up for sale after the latter's merger with Schering-Plough.

■ ML

Major world pharmaceutical companies

Ranking	Company	Country	2008 turnover USD billions
1	Pfizer (+ Wyeth)	USA	71
2	Merck (+ Schering-Plough)	USA	47
3	Novartis	Switzerland	42
4	Roche	Switzerland	39
5	Sanofi-Aventis	France	35
6	GSK	UK	34
7	AstraZeneca	UK-Sweden	32
8	Abbott	USA	30
9	J&J ⁽¹⁾	USA	25
10	Bristol-Myers Squibb	USA	21

⁽¹⁾ J&J pharmaceutical division only

Source: Chimie Pharma hebdo

Share of pharmaceutical exports and imports, by zone

in %	2007 share, by zone	
	Exports	Imports
EU ⁽¹⁾	27.2	13.3
USA	9.1	14.6
Canada	1.7	2.8
Japan	0.9	2.5
Brazil	0.2	1.1
Russia	ns	1.8
China	1.6	1.1
India	1.2	ns

⁽¹⁾ Excluding intra-EU trade

Source: WTO

Global risk



Automobiles

Drip-fed by government assistance

Overview: growth in emerging regions is no longer enough

As we had seen, the so-called mature markets – the US, Western Europe and Japan – for several years were showing auto sales growth that was near zero or even slightly negative. This was not so grave, however, given that new market regions – China, India, South America and Eastern Europe – were fuelling demand and helping total world automotive sales to grow on annual average by at least 5% into 2007, with vehicle sales totalling nearly 71 million units. The year 2008 brought a sharp break from this, notably from summer onwards, with a collapse in sales in the mature markets and a braking in sales in the emerging zones. World sales contracted by around 5% to 67 million units. There had also been a certain balance between production and consumption in the respective regions, apart from, on the one hand, North America, where production was largely in deficit due to badly adapted product ranges, and, on the other, Japan, for its part exporting more than 50% of its production, helped by a weak yen. Here too, the year 2008 brought a marked rupture, with the sharp rise in the yen against the dollar hitting the Japanese automaking sector, which relied for North America for nearly a third of its turnover and an important share of its profits.

Current situation: a collapse in sales and production over the second half of 2008

With sales volumes down between 20% and 40% over Q4 2008, the world auto industry is the big victim of the world economic crisis and of the financial crisis – the vast majority of vehicles are purchased on credit. US manufacturers, already in trouble for a number of years, sank even deeper into crisis, with GM and Chrysler forced to plead with the US government for financial aid totalling

many tens of billions of dollars. Japanese automakers, highly dependent on the US market and suffering for a number of months from the yen's appreciation against the dollar, have all announced a collapse in profitability. For European carmakers, the profits achieved in H1 2008 allowed the majority to post still good results for the year as a whole, especially German manufacturers. And across the globe, including the emerging zones, the end of 2008 saw massive production halts in order to contain stock levels.

Outlook: a 15% to 20% fall in the world market?

Sales in the early months of 2009 have generally continued the trend of Q4 2008, with demand contracting by between 20% and 40%, apart from China, where sales continue to increase slightly. The first half of 2009 will thus prove a big disappointment for all automakers – given the continuation of massive destocking – before, hopefully, the start of market stabilisation in H2. Given this situation, carmakers in general are asking governments to step in, either through direct financial help as in the US or France, or indirectly via the introduction of incentives for new vehicle purchases (scrappage allowances, various tax reductions, etc.). Most governments are underwriting such efforts, even in some of the emerging countries, such as China. At stake is the survival of the world automobile industry. The alternative, as seen in the cases of Saab in Sweden or SsangYong in Korea, is the collapse of many actors in the sector, something that could in the end lead to the destruction of an entire sector: automakers, component suppliers and subcontractors. ■ YL

Major world automakers companies

Ranking	Company	Country	2008 turnover USD billions
1	Toyota	Japan	223.3(*)
2	Volkswagen	Germany	166.0
3	GM	United States	149.0
4	Daimler	Germany	140.0
5	Ford	United States	139.3
6	Honda	Japan	101.9(*)
7	Nissan	Japan	91.9(*)
8	Fiat	Italy	86.7
9	Peugeot	France	79.0
10	BMW	Germany	77.6
11	Renault	France	55.2
12	Mazda	Japan	29.5(*)
13	Hyundai	Korea	24.6
14	Mitsubishi	Japan	22.8(*)
15	Kia	Korea	13.4

(*) figures for Japanese groups are for the year ending March 2008
Sources: companies, Euler Hermes SFAC

New vehicle registrations, by zone

Private cars and utility vehicles	New registrations 2007	New registrations 2008	Change '07 to '08
Western Europe	16,833,313	15,774,817	-6,3%
Eastern & Central Europe	5,801,000	6,381,100	10,0%
NAFTA	19,300,000	15,712,000	-18,6%
South America	2,904,937	3,241,879	11,6%
Japan	5,354,000	5,082,235	-5,1%
Rest of world	20,457,108	20,431,786	-0,1%
Total world	70,650,358	67,117,840	-5,0%

Sources: CCF, Euler Hermes SFAC

Global risk



Automotive components

On the edge of the abyss

Overview: dependent on their automaker clients

Component makers and subcontractors manufacture 75% of the content of a vehicle. They are thus wholly dependent on the production volumes of their car manufacturer clients. In line with this, they have had to accompany these manufacturers in establishing operations in the new zones of production and consumption, notably Asia and South America, occasioning significant industrial investment in the process. However, depending on their place of origin, they are more or less heavily dependant on one or two specific markets. This is especially the case with American component suppliers, for most of whom the collapse in the domestic market creates very grave financial difficulties.

Current situation: extremely weak

The first cracks appeared at the start of 2008 in the US, where activity started to decline. With the financial crisis of September 2008, however, there was a collapse in activity over the fourth quarter, with volumes dropping by 20% in Europe and by 40% in the US, forcing component suppliers to embark urgently on vast restructuring plans. In the face of an immediate need to adapt costs to falling production volumes, halts were called to fixed-term hiring and to temporary and part-time employment, and site closures were decided upon. With reduced volumes at this juncture preventing them from covering their fixed overheads and with their exceptional restructuring costs, component suppliers posted significant financial losses for 2008. Some of them are in an

extremely fragile financial position, threatening their future, in a context where it is proving increasingly difficult to find sources of liquidity either from the financial markets directly or from lending establishments.

Outlook: a state of emergency

Apart from China, where auto sales continued to grow slightly, at the start of 2009 auto sales were falling by 20% to 40%, depending on the market. More than this, however, it has been the massive stock cutting by automakers that has weakened component suppliers. Automakers have in fact slashed operations by 50%, forcing component manufacturers into a level of under-utilisation practically impossible to sustain on any long-term basis. The first half of 2009 should bring turnover reductions of the order of 40% to 50%, threatening really dire financial results. In this, to say the least, dramatic situation, component suppliers are in places making the same sort of financial appeals to governments as their automaker clients. In the US, the government has announced some \$5bn in support. France (via its Fond de Soutien à l'Industrie), Germany and Spain have also planned assistance to component manufacturers. With insolvencies gathering pace in early 2009, this is an urgent matter: victims so far include Edscha (€1bn in turnover) in Germany and Plastal (€1.3bn) in Sweden. The list could quickly grow, given the at least precarious situation of some of the big US component manufacturers. ■ YL

Major world auto component companies

Ranking	Company	Country	Turnover (USD billions)
1	Bosch	Germany	65.7
2	Johnson Controls	United States	38.0
3	Denso	Japan	29 ^(*)
4	Magna	Canada	23.7
5	Delphi	United States	18.0
6	Faurecia	France	17.5
7	Ainsi	Japan	16.6 ^(*)
8	TRW	United States	15.0
9	Lear	United States	13.6
10	Valeo	France	12.8
11	Visteon	United States	9.5

^(*) figures for Japanese groups are for the year ending March 2008
Sources: Companies, Euler Hermes SFAC

Automotive production, by region

Change in unit production, by volume

	Q4 2007 to Q4 2008	Jan & Feb 2008 to Jan & Feb 2009
United States	-37%	-55%
Japan	-22%	-55%
Germany	-20%	-43%
France	-39%	-46%

Sources: Federal Reserve Bank, MITI, Federal Statistical Office Germany, INSEE

Global risk



Aeronautics

Caution reigns

Overview: well-established players and some aspirants

According to preliminary estimates, aeronautic construction (civil and military, excluding aerospace) should post a consolidated turnover of \$320bn for 2008, a rise of 6.7%. The problems at Boeing (strike action by machinists), the good health of European firms and a new depreciation of the dollar against the euro (by around 6.5%) all acted to narrow the gap between the US and Europe, which together account for 85% of the world market. Canada, thanks to Bombardier and its subcontractors (USD 20bn) and Japan (USD 13bn), both heavily involved in Boeing programmes, are the next biggest. Other actors, boosted by support from their respective governments, are also trying to make their way. Russia's aeronautics industry is regaining impetus thanks to the Superjet-100 (SSJ-100, formerly known as RRI) from Sukoi, which is targeting 15% of the world market in this niche within the next 15 years. China's AVIC consortium is also launching its own regional jet, the ARJ21, while Japanese actors, led by Mitsubishi Heavy Industries, are developing a competitive aircraft, the Mitsubishi Regional Jet (MRJ), expected to enter service in 2013.

Current situation: a halt to growth

The growth enjoyed by the aeronautics industry continued in 2008, with the rate of deliveries continuing to increase for most aircraft manufacturers. Deliveries rose by 7% for Airbus (483 units), 21% for Embraer (204), and also for Dassault Aviation (72 Falcons, against 70 in 2007). However, the global economic crisis began to have an impact from Q3 2008, with new orders dropping below levels of Q3 2007, although the latter was admittedly an exceptional year. At the same time, airlines (*see page 19*) remain

mired in the crisis. The market for business aircraft has ground to a sharp halt, with the buyers of such aircraft directly hit by the financial crisis. Despite their order books still being full (to the tune of six to seven years' production for Airbus and Boeing, and three to four years' for Bombardier and Embraer), several constructors have quickly adapted to the new situation, by cutting their initial delivery schedules for 2009 by 10%, the number of deliveries nonetheless remaining higher than in 2008.

Outlook: a 2010 fraught with dangers

Production volumes should thus continue to increase in 2009: Embraer expects to deliver 242 aircraft, Boeing plans on delivering 480 against 375 in 2008, while Airbus expects its number of deliveries to remain stable. While 2009 looks safe, things will be different for 2010 and beyond. The flurry of restructuring plans announced over recent months – with job cuts totalling 4,000 at Embraer and 10,000 at Boeing – suggest that the slowdown could prove sharper than expected. This would especially be the case if credit proves slow to ease: some 75% of the fleet is directly or indirectly financed by specialist banking establishments. The good health of the world air transport market is the other precondition for the good state of the sector. And with no tangible sign of improvement in these two factors likely to be seen this year, a contraction of at least 30% in the market (via delivery cancellations or postponements) cannot be ruled out for 2011. ■ NL

Major world aeronautics constructors and component companies

(Civil only)

Ranking	Company	Country	2007 turnover (USD billions)
1	Airbus	Netherlands	40.0
2	Boeing Commercial Airplanes	USA	28.3
3	Bombardier Aerospace	Canada	9.9
4	Embraer	Brazil	6.3
5	Cessna	USA	5.6
6	Gulfstream	USA	5.5
7	Hawker Beechcraft	USA	3.5
8	Dassault Aviation	France	3.4
9	ATR	France/Italy	1.3

Source: companies

Aeronautics construction, by region

(Civil and military) USD billions

	2007	2008 (estimate)	Change
United States	134.4	135.3	0.7%
Europe	129.4	144.8	11.9%
of which France	45.7	50.7	10.9%
Canada	20.4	21.0	2.9%

2007: 1€ = \$1.37

2008: 1€ = \$1.46

Sources: AIA, ASD, AIAC, GIFAS

Global risk



Chemicals

Heading towards the bottom of the cycle

Overview: a vital supplier to industries

According to the European Chemical Industry Council (CEFIC), over 2002-2007 chemical production increased at an annual rate of 2% in Europe and 2.2% in North America. Over the same period, output rose by 5% in Latin America and by 8% in Asia-Pacific. Estimated at some \$2.5tn in 2008, the world chemical industry enjoyed positive cyclical growth between 2004 and 2007, in close correlation with growth in world trade. In this, it benefited from the economic takeoff of industries in the emerging BRIC countries (Brazil, Russia, India and China), which for their part profited over these four years from continued good levels of consumption in the developed countries. Last spring marked the turnaround in the cycle for the chemicals sector, which had to absorb costs resulting from the explosion in prices of its chief strategic input, oil, during the first half of 2008. Fully recouping these costs from downstream customers, however, depends in large part on the state of end-user demand, and this, for its part, was just starting to slow.

Current situation: a widespread halt at the end of 2008

The current economic environment is hurting the major chemical manufacturing groups considerably, most of them being fairly heavily indebted. During H2 2008, they already had to bear losses on stocks following the sudden collapse in oil prices, from which they were unable to immediately profit, given the forward purchase arrangements commonly used in the sector. From Q4 2008, they have also been hit by the fall in downstream demand resulting from the economic recession seen in all the developed coun-

tries. Every branch of the chemical sector is affected, although agrochemicals and fertilisers have held up a bit better, given the good health of the agricultural sector. But in particular those chemical groups – such as PPG and Dow in the US – that are heavily exposed to problem-ridden sectors, such as automobiles (which accounts for 25% of all chemical sector turnover) and construction, are suffering badly.

Outlook: rough weather ahead in 2009

The fall in volumes is widespread within the sector, but the segment worst hit in terms of margins is bulk organic chemicals – notably petrochemicals – given the fall in refined product selling prices. The world leader, Germany's BASF, expects total world chemical output this year to fall 2% by volume. Persistently weak downstream demand will impact heavily on the financial health of the major chemical groups in 2009. Those weakened by very high levels of debt will not be able to hold out for long, e.g., LyondellBasell, the world's third biggest petrochemical company, which filed for Chapter 11 protection last January. Those positioned in higher value added products will weather the storm, as they enjoy pricing power that will help them withstand the bearish price pressures. ■ *ML*

Major world chemical companies

Ranking	Company	Country	2008 turnover (USD billions)
1	BASF	Germany	80
2	Dow (+ Rohm & Haas)	USA	68
3	Exxon Mobil	USA	54
4	Shell	UK	44
5	Ineos	UK	39 ⁽¹⁾
6	LyondellBasell	Netherlands	35 ⁽¹⁾
7	Sabic	Saudi Arabia	34
8	Sinopec	China	32
9	Dupont de Nemours	USA	30
10	Mitsubishi Chemical	Japan	26

⁽¹⁾ estimate (group not listed)
Sources: IClS, companies

Chemical imports and exports, by zone

in %	2007 share of world market	
	Exports	Imports
EU ⁽¹⁾	18.2	10.9
USA	10.4	10.5
Canada	2.3	2.6
Japan	4.4	3.0
China	4.1	7.1
Russia	1.2	1.4
India	1.1	1.4

⁽¹⁾ excluding intra-EU trade
Source: WTO

Global risk



Steel

After a decade of boom, a sudden halt

Overview: China more than ever in the lead

World steel output marked time in 2008, dropping by 1.2% to 1.33bn tonnes. China remained the world leader, with production up 2.6% to 502m tonnes, slowing however after eight years of double-digit growth. Japan, the world number two with a quarter of China's output, was down also by 1.2%, to 119mt. Production also dropped in the US, the world number three, falling 7% to 91.5mt, due to lacklustre activity in both the auto sector and construction, the two biggest outlets for the industry. World output rankings differed little from 2007, apart from France, which ceded 13th place to Spain, with domestic output down by more than 7% to 17.9mt.

Current situation: a slow adjustment in 2008

While world steel output was still growing by 6% during summer 2008, the month of September brought a halt to this, with production volumes down by 3.2% yr/yr, notably due to a 9.1% decline in Chinese output over the period. The fourth quarter saw acceleration in the downtrend, with respective declines of 12%, 19%, and then 24% in October, November and December. Steelmakers meanwhile had announced significant production cuts, for example ArcelorMittal, whose deliveries fell by more than 30% against the previous quarter. Adjustment of supply to demand accelerated over the first two months of 2009, as output dropped by 23% against the first two months of 2008. The fall has been particularly strong both in Europe, with output down by 43% (-33.5% in Germany and -41% in France), and in the US, where production fell by 53.5%. Notably, this saw US steel production surpassed over the period by both India and Russia. Output also fell by 42% in Brazil and 41% in Japan.

Outlook: possible restocking in H2

China is to a degree escaping the general gloom, with steel output rising by 2.4% over the first two months of 2009, but the outlook is poor: the index of prices on the domestic market has been falling for six weeks, and most Chinese steelmakers are showing noticeable declines in profitability. In coming months, they will have to cut capacities in order to restore margins, and closures of non-competitive units should accelerate during the year. We estimate that Chinese steel output should fall at most by 8% this year, dropping to 460mt. This is far better than the outlook for Europe or the US, where production should drop by between 15% and 20%, in line with apparent steel consumption. All actors are hoping that restocking activity, in tandem with the initial effects of budgetary stimuli, will revive demand from H2 2009. Although there is great uncertainty over output volumes, it is already a given that prices for the raw materials used in steel production will come down significantly. Negotiations over top qualities of coking coal have ended with prices down by 60%. Iron ore prices should come down by 30% to 40% this year – in any event, this is the aim of Chinese steelmakers, who, given the current crisis, are now producing 48% of the world's total steel output! ■ NL

Major world steelmakers companies

Ranking	Company	Country	2008 turnover (USD billions)
1	ArcelorMittal	Netherlands	124.9
2	Nippon Steel	Japan	41.8 ^(*)
3	JFE	Japan	30.7 ^(*)
4	Tata Steel	India	28.9 ^(*)
5	Baosteel	China	28.8
6	Posco	South Korea	27.8
7	US Steel	USA	23.7
8	ThyssenKrupp Steel	Germany	20.8 ^(**)
9	Jiangsu Shagang	China	15.7 ^(***)
10	Anshan Benxi	China	nc

^(*) y/e 31 March 2008

^(**) y/e 30 September 2008

^(***) y/e 31 December 2007

Source: companies

Steel production, by region

Millions of tonnes	Q4 2008	Q4 2007	Change
China	111.1	121.2	-8%
Japan	26.4	30.9	-15%
USA	15.6	25.2	-38%
Russia	11.6	18.4	-37%
India	14.0	14.0	0%
South Korea	12.1	13.3	-9%
Germany	9.6	12.1	-21%
Ukraine	5.5	10.9	-50%
Brazil	6.9	8.8	-22%
Italy	6.5	8.0	-19%

Source: Worldsteel



Semiconductors

Weighed down by the crisis

Overview: long-term growth, punctuated by cycles

The world market in semiconductors totalled \$249bn in 2008, down 2.8% against 2007. This came after six years of consecutive growth, during which activity in the sector nearly doubled. But the long-term growth enjoyed by the sector is punctuated by cycles, and the year 2008 clearly constituted the start of a downward phase. The major outlets are data processing (memories, components, cards, and processors), telecommunications and Sat Nav systems. Production of semiconductors is mainly in Asia-Pacific, which accounted for 49.9% of the total in 2008, marking a doubling since the preceding crisis, with the region accounting for 25% in 2000. Over the same period, the US share of production fell to 15%, equivalent to that of Europe. Japan has fared better, with 20% of the world market.

Current situation: a halt to growth

Capacity utilisation rates fell sharply in Q4 2008, stabilising at historically low levels, running at best at two-thirds of full potential. Previous overinvestment exacerbated the impact of the drop in demand, which brought considerable job losses on all continents and at all levels of the sector, from semiconductor manufacturers to their subcontractors and to manufacturers of capital equipment and consumer electronics. Silicon producers were also affected, with sales falling by a third from the end of 2008. The earliest figures for January 2009 show world semiconductor billings down by more than 30%. The worsening in economic conditions, should it continue at the same rate, could erase the gains of several years of growth in the sector.

Outlook: a long convalescence

Turnover in the sector continued to fall considerably in Q1 2009, despite a few flurries of orders announced for major Asian semiconductor manufacturers. For 2009 overall, the world semiconductor market will total around \$210bn, marking a drop of 15.5%. Slowing investment in production capacities and, even more, in R&D expenditure, along with large job losses could severely harm the sector. The damaging shrinkage of its economic fabric is likely to hamper its revival and its many potential new growth possibilities – in avenues such as Radio Frequency Identification (RFID), digital TV, wireless networks, and other fields. In the immediate future, demand will remain weak, despite stock reductions already effected. The sector is especially awaiting the revival in mobile telephony demand. The violence of the present shock has seriously disturbed the semiconductor market, threatening to undermine the repetition of the 'virtuous circle' in the sector that had given hope for market stabilisation in 2011 and an outright revival in 2012. It will now probably take several years for the market to be restored. In the meantime, the sector will be transformed by alliances and mergers among various actors. ■ DM

Major world manufacturers companies

Ranking	Company	Country	2008 turnover (USD billions)
1	Intel	USA	34.14
2	Samsung	Korea	17.89
3	Texas Instruments	USA	11.50
4	Toshiba	Japan	11.46
5	STMicroelectronics	France/Italy	10.71
6	Renesas Technology	Japan	7.86
7	Sony	Japan	7.05
8	Qualcomm	USA	6.71
9	Hynix	Korea	6.41
10	Infineon	Germany	6.31

Sources: ICIS, companies

The semiconductor market, by major zone

Millions of USD	Q4 2008	Q4 2007	Change
Americas	10.96	8.09	-26.2%
Europe	10.60	7.65	-27.8%
Japan	12.92	11.21	-13.2%
Asia Pacific	32.36	25.26	-21.9%

Source: WSTS

Global risk



Construction

The housing market continues to suffer, but public works will revive

Overview: widespread and sudden slowdown

Despite the sharp slowdown seen in the United States, the construction market there remains the world's biggest, followed by Japan's. In third place is the Chinese construction market, growing fast and likely to rapidly take second place, followed by the European Union. The US was the first to be hit by the reversal in the housing market, in 2007, whereas markets in Central Europe, the Middle East and Asia continued to be buoyed by very strong demand up to September 2008. In both Ireland and Spain, the construction sector accounts for close to 20% of GDP, a rate more than twice the EU average. The very strong slowdown of the sector in these two countries is being felt quite severely and sparking an explosion in unemployment.

Current situation: the housing market weighs down the sector

In the EU-15, the construction sector was still enjoying positive growth during Q1 2008, but in both construction and in civil engineering, growth continued to decline over subsequent months at an increasingly rapid rate, falling to below an annualised -10% by the end of the year. In this environment, the number of bankruptcies rose to peak levels. This was notably the case in Spain, where things will worsen as the sector heads towards a rate of 100,000 housing starts a year, against more than 800,000 a few years back. Stocks of unsold housing (around 1 million units) do not seem to be coming down, to the great distress of lenders. But the corresponding figures are not as great in the US (at around one year's sales volume), where operators have recently begun to increase the number of housing starts. But this increase will only prove to be a flash in the pan should selling prices continue to

come down. In the US, the fall in the number of housing starts has reached 19%, while the number foreclosures continues to mount. The shock seems less acute in Eastern Europe, where residential construction accounts for only a quarter of activity in the sector, or half the share seen in Western Europe.

Outlook: public works will benefit from recovery plans

Revival in housing construction depends on a number of conditions being met: low interest rates, household debt not being excessive (though it is in some countries), house prices within reach and, in some cases, good fiscal incentives. These conditions are sometimes in place, but there remains the problem of a lack of confidence, due to growing unemployment that, for its part, so far shows no signs of abating. Stimulating the housing market is thus no easy matter. But, when it comes to public works, governments do have more leverage. The outlook for civil engineering is thus less sombre, given recovery plans aimed at this sector worldwide that total nearly \$355bn for 2009 – the equivalent of 7% of world turnover in the sector or of the total turnover of the German construction industry. In China, the recovery efforts are especially strong, at \$450m for the next two years, equivalent to 40% of total Chinese construction industry turnover over this period. In the US, \$120bn has been allocated to transport and energy infrastructure for 2009. Also for 2009, in Germany, infrastructure spending will be increased by €18bn, with a similar €10.5bn to be spent in France and €11bn in Spain. Hopefully these additional funds will be deployed quickly enough. For this to happen, the planning and approval stages need to be very well prepared, with no bureaucratic obstacles blocking the way. ■ LB

Major world building and civil engineering companies

Ranking	Country	2008 turnover (USD billions)	Operating margin ^(*)	
1	Vinci	France	33.9	10%
2	Bouygues	France	32.7	6.8%
3	Hochtief	Germany	21.6	3.1%
4	ACS	Spain	16	6.8%
5	Skanska	Sweden	14.9	2.8%
6	FCC	Spain	14.0	6.8%
7	Eiffage	France	13.2	8.3
8	Acciona	Spain	12.7	13.2%
9	Bilfinger & Berger	Germany	10.7	2.8%
10	Balfour Beatty	UK	9.5 ^(*)	2.4%
11	BAM	Netherlands	8.8	4.9%
12	Sacyr	Spain	5.4	8.0%

^(*) GBP millions

^(**) operating profit ÷ turnover

Sources: group accounts

Housing starts, year to end of 2008

(basis 2000 = 100)

		Change over 1 year
Germany ^(*)	54	-8%
UK	62	-37%
Spain	56	-42%
USA	56	-32%
France	94	-16%
Japan	90	6%
Ireland ^(*)	63	-26%

^(*) approved housing starts

Source: OECD

Global risk



Energy

A fall in oil production

A net fall in oil demand since Q4 2008

After dropping by 0.4% in 2008 to 85.7m barrels a day (bbl/d), due to lower Q4 offtake, world oil consumption should continue to fall sharply by some 1 to 1.2m bbl/d in 2009. OPEC, in heavily cutting its production quotas at the end of 2008, clearly kept pace with or even anticipated this fall in consumption, but was unable to slow the fall in prices at the end of the year. Among the majors, 2008 will be remembered as a year of record profits: Total's net adjusted profits were €13.9bn, up 14% against the already exceptional levels of 2007. But its net profit figure was not so brilliant, dropping by 20% due to the effect of lower prices on the value of its stocks. Exxon Mobil, for its part, posted record net profits of \$45bn, up 11% against 2007. Against this, however, Q4 was already showing a noticeable fall in profits across the industry, especially for Exxon, with profits down by a third.

Current situation: an impressive cut in OPEC quotas in the face of the deteriorating world economy

The year 2008 saw a further increase in oil production up to the autumn. But the reversal in world growth in summer 2008 forced OPEC to make very significant cuts in its production quotas, slashing a total of 4.2m bbl/d between September and December 2008, including an unprecedented 2.2m bbl/d cut at its Oran meeting on December 17. This, however, failed to slow the fall in oil prices in Q4, with WTI sliding from \$102 a barrel on September 30 to \$42 on December 31, a drop of nearly 60%. At the heart of this was a genuine fall in demand and an only partial implementation of quotas by OPEC's member countries. Thus, in mid-December, we estimate that 1.5m bbl/d had been withdrawn from the market,

out of the 2m bbl/d agreed upon by OPEC in September and October. As usual, it was Saudi Arabia that was responsible for implementing the bulk of the production cuts, although the degree to which other OPEC members have been adhering to their quotas has tended to improve over recent months.

Outlook: a return to rising oil prices

Since mid-February 2009, oil prices have again been on the rise, posting around \$50 a barrel in April. The quota cut factor is thus beginning to have a visible impact on prices. But in the short term we cannot count on a rise in consumption lifting oil prices: latest forecasts by OPEC point to a very clear 1.6% drop in oil consumption in 2009, and the International Energy Agency (IEA) forecasts an even sharper decline. One of the direct consequences of low prices is to push the majors towards countries where extraction costs are low – and hence Iraq. This works out well for them, as the Iraqi government wants fairly rapidly to increase daily output from 2.5m bbl/d to 3.5m bbl/d, with the aim of lifting daily production to 6m bbl/d by 2015. This could be in all their interests, as the Iraqi government possesses neither the capital nor the expertise of the majors. In exchange for providing these, companies like Total, Elf, ExxonMobil, BP and others will be allowed to have ownership control of their local companies. ■ AdN

Major world energy companies

Ranking	Company	Country	2008 Turnover (USD billions)
1	Saudi Aramco	Saudi Arabia	non published
2	N.I.O.C.	Iran	non published
3	Exxon Mobil	EU	362
4	Shell	Netherlands/UK	311
5	BP	UK	248
6	Chevron	EU	201
7	Total	France	180
8	ConocoPhillips	EU	167
9	Petrochina/CNPC	China	122
10	E.N.I.	Italy	108

Source: companies

Oil output, by major production zone

in millions of bbl/d ^(*)	2007	2008 ^(est)	Change
North America	13.7	13.6	-0.7%
South & Central America	6.6	6.6	0.0%
Europe & Eurasia	17.8	18.1	1.7%
<i>of which Russia</i>	10	9.9	-1.0%
Middle East	25.2	24.2	-4.1%
<i>of which Saudi Arabia</i>	10.4	9	-15.6%
Africa	10.3	10.7	3.7%
Asia Pacific	7.9	7.9	0.0%

^(*) excluding biofuels and coal distillates
Sources: BPSR, Euler Hermes/HSFAC

Global risk



Distribution

Stalled growth in household consumption

Overview: still looking for new avenues of growth

In the mature markets, retailing and wholesaling are highly organised activities, and the degree of concentration in the sector varies from place to place. In Europe, the level of concentration is highest, at more than 62% of the market for the top five distributors, except in the UK and Italy. The level of concentration is less in the US, at 30% for the top five, and in Japan, at 18%. Consumers everywhere are increasingly seeking out low prices and turning to hard discount retailers (such as Aldi or Lidl) or to chains with aggressive pricing policies (Wal-Mart). In their home markets, the margins of the major food distribution groups are falling. For the big players, all of which still carry out more than half their activities in their country of origin, international expansion is vital for sustaining growth. Despite the present crisis, they are continuing their expansion in the emerging countries. This is notably the case in the still-atomised BRIC markets, with the top five distributors accounting for just 10% of the market in Russia, 5.7% in China, and around 3% in India.

Current situation: household consumption fell in 2008

The credit crunch spread through all the industrialised countries in 2008, impacting on the real economy and seizing up household consumption. The fall in consumption came over the second half of the year and hit non-food spending, notably on household durables and clothing, while food expenditure held up better. The crisis struck first in the US, with consumption dropping by 1% by volume in Q3 2008 and by 1.1% in Q4. The euro zone economies followed, with household consumption dipping by 0.9% in Q4. All the

major distributors are feeling the impact of this and trying to adapt to the new realities, putting the emphasis on low prices and looking to free up cash flows by cutting stocks and restricting investment. The global market leader, Wal-Mart, saw turnover rise by 7.2% to above \$400bn in 2008-2009, with net profits up by 5% to \$13.4bn. Carrefour, the world number two, declared turnover of €87bn for 2008, up 6%, but its operating profits were unchanged, while net profits fell (on a comparable basis to 2007, after significant exceptional costs) by 33% to €1.25bn.

Outlook: a sector under strong constraints

In 2009, household consumption volumes should fall by 2.4% in the US and by 1.1% in the euro zone. France should enjoy consumption growth (+0.6%) better than neighbours Spain or Italy, both seriously affected by the crisis, and better than Germany, where consumption is likely to fall for the third year running. Demand weakness is now spreading to the emerging country economies, and their strong consumption growth should clearly slow. The big distribution groups will be more selective in their investment decisions, while strengthening their positions in countries with good growth potential. Margins, for their part, will remain under pressure, as a result of shrinking consumer purchasing power. Groups that operate only in their own country will be weakened by the slowdown in activity, as will small retailers in the mature markets, and the number of insolvencies will increase. ■ AG

Major world food distribution companies

Ranking	Group	Country	2007 turnover (USD billions)	2008 turnover (USD billions)	Number of countries ⁽¹⁾
1	Wal-Mart	USA	378.8	401.2	14
2	Carrefour	France	114.2	127.0	31
3	Tesco Plc ^(*)	UK	94.7	nc	12
4	Metro	Germany	88.2	99.3	32
5	Schwarz (Lidl) ^(*)	Germany	69.3 ^(e)	nc	15
6	Rewe-Zentral ^(*)	Germany	61.8	nc	14
7	Aldi ^(*)	Germany	58.5 ^(e)	nc	15
8	Auchan	France	50.3	57.6	12
9	Seven & I Holdings ^(*)	Japan	49.8	nc	4
10	Edeka ^(*)	Germany	46.5 ^(e)	nc	3
11	Leclerc	France	44.7	50.7	6
13	Aeon Co ^(*)	Japan	44.7	nc	10
14	ITM (Intermarché)	France	41.1 ^(e)	50.8	8
15	Ahold	Netherlands	38.6	37.6	10
16	Casino	France	34.6	41.9	11

⁽¹⁾ including franchises^(*) 2007 figures^(e) estimated

Sources: Deloitte, companies

Household consumption growth, in volume

	2007	2008	2009
OECD	2.2%	0.5%	-1.5%
US	2.8%	0.2%	-2.4%
Japan	0.7%	0.5%	-0.6%
Euro zone	1.6%	0.5%	-1.1%
Germany	-0.3%	-0.3%	-0.4%
France	2.4%	1.3%	0.6%
Italy	1.2%	-0.9%	-1.2%
Spain	3.4%	0.1%	-3.1%
Netherlands	2.1%	1.7%	0.4%

Sources: Global Insight, Euler Hermes SFAC forecasts

Global risk



Air transport

From bad to worse

Overview: the US remains the biggest world market

According to initial estimates by the International Air Transport Association (IATA), representing 230 airlines accounting for 93% of international air traffic, total 2008 turnover of the sector (from passenger, cargo, maintenance and other revenue sources) rose by 4.3% to \$530bn. Passenger turnover on its own was up by 4%, but this was due solely to a 3.9% price increase, with the actual number of passengers transported remaining nearly stable against 2007. Bolstered by its dynamic domestic market (accounting for 58% of total world domestic traffic), the North American market remains the biggest by value (35% of the total), while Europe and Asia-Pacific are neck-and-neck, each with around 27% of total traffic, followed by Latin America and Africa, together accounting for 7%.

Current situation: the crisis is impacting on already-weakened airlines

The year 2008 was another difficult one for the entire sector: both passenger and cargo traffic slowed throughout the year, while oil prices skyrocketed – at least until hitting a record peak of \$147 a barrel in July. The fuel bill for the year rose to \$168bn, marking a four-fold increase since 2003, accounting thus for more than 30% of airline operating costs. A good number of airlines were forced out of business: no less than 75 companies of all sizes ceased operations, a bigger figure than recorded in the airlines' dark days of 2001 and 2003. This year threatens more of the same: cargo traffic

is down 20% against 2008 levels, and passenger traffic was down yr/yr by 5.6% in January and by 10.1% in February. All zones are affected: since the start of the year traffic is down by 9% in North America, 11% in Asia-Pacific, and 8% in Europe. Capacity reductions (nearly 6% in February) are still insufficient, and airlines' load factors are worsening, impacting on their margins.

Outlook: weak recovery in the second half of 2009

Air passenger traffic should contract by around 6% this year, despite the second half-year being traditionally a more buoyant period for the airlines. In fact, IATA estimates the sector will post a net loss of \$5 bn, its eighth loss in ten years. No part of the world should escape the current stagnation, including the US, where last year airlines very quickly trimmed capacities by withdrawing their most fuel-hungry aircraft from service. Inevitable restructuring plans will weigh on the airlines' results, and their main focus will be on conserving cash flows and on making continuous capacity adjustments. In this sector deep in crisis, the only positive factor will be a lower fuel bill, which – assuming an annual average oil price \$50 for the year – should allow the airlines cost savings of \$50bn in 2009. ■ NL

Major world airlines companies

Ranking	Company	Country	2008 turnover (USD billions)
1	Lufthansa	Germany	36.3
2	Air France KLM	France	33.0 ^(*)
3	American Airlines	USA	23.7
4	Delta Airlines	USA	22.7
5	United Airlines	USA	20.2
6	Japan Airlines	Japan	19.3 ^(*)
7	British Airways	UK	17.1 ^(*)
8	Continental Airlines	USA	15.2
9	All Nippon Airways	Japan	13.6 ^(*)
10	Qantas	Australia	13.0 ^(**)

^(*)y/e 31 March 2008

^(**)y/e 30 June 2008

Source: companies

Rate of growth in annual air traffic, by zone

Passengers and cargo, in %

	2007	2008 ^(est)	2009
Global	5.3	-1.2	-7.8
North America	3.5	-2.5	-7.5
Europe	2.1	1.3	-6.5
Asia Pacific	7.8	-1.6	-6.8
Middle East	16.4	6.1	1.2
Latin America	9.9	0.0	-7.8
Africa	4.5	-4.1	-7.8

Source: IATA

Global risk



IT services

A change of programme

Overview: steady long-term growth

The world market for software and IT services accounts for 70% of world IT expenditure, or a little more than twice the total for IT equipment sales. During the five years to the end of 2008, the market enjoyed annual average growth of 6.5%, but while it continued to grow at an estimated 5.3% in 2008, it had already begun to slow (against 7.3% in 2007). Existing budgets and annual contracts helped to support activity and limit the fall in the market growth rate, with 2008 world turnover in the sector estimated at €696bn. The slowdown has less affected the emerging countries, which managed to preserve double-digit growth. Nonetheless, the Americas remain dominant, accounting for 48% of world market turnover. Europe's share is relatively stable at 34%.

Current situation: a sector increasingly affected by the crisis

As they have increasingly been affected by the crisis, many businesses have trimmed their expenditure on IT services. The fall in demand, which initially came in one major outlet, the financial sector, later spread to all sectors at the end of 2008. But the slowdown in IT services has been gradual by contrast to the speed and violence with which it has been seen in other sectors. Also, the sins committed in the financial world should result in its facing increased regulation and oversight, and this should benefit the IT services industry. Its 2008 figures were not alarming, but the contraction in demand did become stronger and resulted in job cuts. Slowing activity in the developed countries was not compensated by sector growth in the emerging countries, which only account for a modest share of the market. Moreover, the contraction in the market reduced the intensity of the main incentives for offshoring

IT operations, namely, cost reductions and the shortage of IT specialists.

Outlook: returning pressures on prices and margins

The thorough presence of IT and communication technologies in the economy enables IT services to be one of the rare growth activities in the current crisis. Even so, cuts were decided when finalising 2009 IT budgets, and market growth will be nominal at best. We expect 2009 world turnover in the sector to total €702bn, a rise of just 0.9%. The few buoyant markets will not be enough to maintain the sector's long-term growth trend. The deceleration will be more marked in the developed countries. The revived intensity of downward price pressures will impact in later years via new contracts being agreed on less attractive terms, a development already seen in the previous downturn. By contrast, the more favourable prices of previous contracts did act to cushion the sector for a time after the start of the crisis. Subcontractors, no matter where in the world they are located, will be affected. And plans by IT service enterprises from emerging countries to establish operations in Europe have also been called into question – by the slowdown in activity, by worsening customer cash flows, and by widespread pressures on prices and margins. ■ DM

Major world IT services companies

Ranking	Company	Country	2008 turnover (USD billions)
1	IBM	USA	58.9
2	HP/EDS	USA	38.7
3	Accenture	USA	23.4
4	Fujitsu	Japan	17.9
5	CSC	USA	16.5

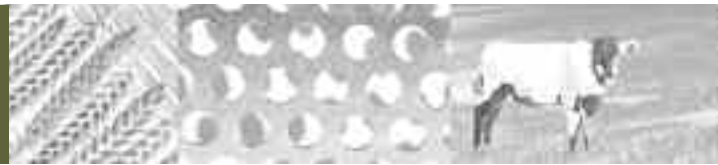
Sources: companies

IT services: market growth, by zone

USD billions	2007	2008 ^(est)	Change
Americas	315	330	4.8%
Europe	225	236	4.9%
Asia Pacific	111	114	2.7%
Rest of world	60	63	5.0%

Source: IDATE

Summary of economic forecasts



GDP, inflation (change over the period, in %), unemployment rate (in % of labour force) — forecasts

NB: forecasts are from Euler Hermes Economic Outlook no. 2 | 2009

Country		2007	2008	2009	2010
USA	GDP	2.0	1.1	-2.6	0.7
	Inflation	3.1	3.4	-0.8	1.6
	Unemployment rate	4.7	6.0	8.9	9.6
	General government balance (% of GDP)	-1.4	-5.8	-10.0	-7.7
	Public debt (% of GDP)	49	58	75	83
	Current account (% of GDP)	-5.3	-4.7	-4.1	-4.1
Canada	GDP	2.7	0.5	-1.8	1.4
	Inflation	2.4	2.3	0.2	1.4
	Unemployment rate	6.0	6.1	7.8	8.7
	General government balance (% of GDP)	0.9	0.0	-0.9	-0.4
	Public debt (% of GDP)	64	62	64	63
	Current account (% of GDP)	0.9	0.6	-2.0	-1.5
Japan	GDP	2.4	-0.7	-5.7	0.2
	Inflation	0.0	1.4	-1.1	-0.3
	Unemployment rate	3.8	4.1	4.9	5.1
	General government balance (% of GDP)	-2.4	-1.4	-6.0	-7.0
	Public debt (% of GDP)	162	170	184	191
	Current account (% of GDP)	4.8	3.2	0.8	1.7
Euro zone	GDP	2.6	0.7	-2.9	0.3
	Inflation	2.1	3.3	0.3	1.6
	Unemployment rate	7.4	7.6	9.2	9.7
	General government balance (% of GDP)	-0.6	-1.8	-4.2	-4.6
	Public debt (% of GDP)	66	66	72	76
	Current account (% of GDP)	0.4	-0.7	-1.0	-1.1
Germany	GDP	2.6	1.0	-3.5	0.6
	Inflation	2.4	2.5	0.2	0.6
	Unemployment rate	8.7	7.5	8.0	8.1
	General government balance (% of GDP)	-0.2	-0.1	-2.9	-3.7
	Public debt (% of GDP)	65	64	68	72
	Current account (% of GDP)	7.5	6.5	4.0	3.9
France	GDP	2.1	0.7	-1.8	0.5
	Inflation	1.5	2.8	0.3	1.5
	Unemployment rate	8.3	7.8	9.3	9.9
	General government balance (% of GDP)	-2.7	-3.3	-5.6	-5.8
	Public debt (% of GDP)	64	65	71	76
	Current account (% of GDP)	-1.1	-2.0	-2.8	-3.7
Italy	GDP	1.5	-1.0	-2.8	0.3
	Inflation	1.7	3.3	1.1	1.4
	Unemployment rate	6.2	6.7	8.1	9.3
	General government balance (% of GDP)	-1.9	-3.1	-4.7	-5.3
	Public debt (% of GDP)	104	112	117	120
	Current account (% of GDP)	-2.4	-3.1	-2.3	-2.6
Spain	GDP	3.7	1.2	-2.3	-0.5
	Inflation	2.8	4.1	0.8	2.2
	Unemployment rate	8.3	11.3	16.2	17.7
	General government balance (% of GDP)	2.2	-3.5	-5.6	-6.8
	Public debt (% of GDP)	36	40	47	54
	Current account (% of GDP)	-10.1	-9.6	-8.0	-8.6
Netherlands	GDP	3.5	2.0	-2.4	0.6
	Inflation	1.7	2.4	1.3	1.8
	Unemployment rate	4.5	3.9	5.2	5.9
	General government balance (% of GDP)	0.4	1.0	-2.5	-3.0
	Public debt (% of GDP)	45	56	58	61
	Current account (% of GDP)	7.7	7.2	6.5	6.2
Belgium	GDP	2.6	1.1	-2.6	0.4
	Inflation	1.8	4.5	1.3	2.1
	Unemployment rate	8.9	8.2	9.3	9.4
	General government balance (% of GDP)	-0.2	-1.0	-3.5	-3.0
	Public debt (% of GDP)	85	88	93	95
	Current account (% of GDP)	1.7	-2.1	-2.8	-2.1



GDP, inflation (change over the period, in %), unemployment rate (in % of labour force)

forecasts

Sources: IHS Global Insight, Euler Hermes SFAC forecasts

NB: forecasts are from Euler Hermes Economic Outlook no. 2 | 2009

Country		2007	2008	2009	2010
Austria	GDP	3.0	1.6	-1.8	0.5
	Inflation	2.2	3.2	0.5	0.6
	Unemployment rate	6.2	5.8	6.5	6.2
	General government balance (% of GDP)	-0.5	-0.8	-1.9	-1.2
	Public debt (% of GDP)	59	58	62	63
	Current account (% of GDP)	3.2	3.7	1.9	2.2
Finland	GDP	4.2	0.9	-2.2	1.3
	Inflation	2.6	4.1	1.3	1.8
	Unemployment rate	6.9	6.4	7.4	7.8
	General government balance (% of GDP)	5.3	4.0	0.0	0.5
	Public debt (% of GDP)	35	34	38	40
	Current account (% of GDP)	4.1	2.5	1.4	1.7
Greece	GDP	4.0	2.9	0.0	0.9
	Inflation	2.7	4.4	1.5	3.0
	Unemployment rate	8.3	7.6	8.0	7.9
	General government balance (% of GDP)	-2.8	-3.8	-4.0	-3.1
	Public debt (% of GDP)	95	95	98	98
	Current account (% of GDP)	-12.3	-12.8	-17.9	-25.3
Ireland	GDP	6.0	-1.2	-5.1	-0.1
	Inflation	4.8	3.9	-1.6	2.2
	Unemployment rate	7.2	9.7	13.0	13.4
	General government balance (% of GDP)	0.3	-5.0	-9.0	-10.0
	Public debt (% of GDP)	25	35	48	60
	Current account (% of GDP)	-5.4	-5.8	-6.0	-5.9
Portugal	GDP	1.9	0.1	-1.9	0.3
	Inflation	2.4	2.7	0.2	2.2
	Unemployment rate	8.0	7.6	8.6	8.7
	General government balance (% of GDP)	-2.6	-2.5	-4.5	-4.3
	Public debt (% of GDP)	66	67	71	73
	Current account (% of GDP)	-8.3	-9.7	-10.1	-10.2
UK	GDP	3.0	0.7	-3.2	0.0
	Inflation	2.3	3.6	0.9	1.7
	Unemployment rate	5.3	5.7	7.5	7.7
	General government balance (% of GDP)	-2.5	-4.8	-8.5	-8.7
	Public debt (% of GDP)	44	46	60	71
	Current account (% of GDP)	-2.8	-1.8	-1.4	-1.7
Sweden	GDP	2.7	-0.5	-3.9	1.1
	Inflation	2.3	3.2	0.3	0.9
	Unemployment rate	4.6	5.4	7.9	8.4
	General government balance (% of GDP)	3.5	2.8	0.8	0.5
	Public debt (% of GDP)	41	39	40	40
	Current account (% of GDP)	8.6	8.3	7.5	7.6
Denmark	GDP	1.6	-1.3	-2.8	0.4
	Inflation	1.7	3.4	1.2	1.4
	Unemployment rate	3.8	3.4	4.7	4.8
	General government balance (% of GDP)	4.4	3.8	1.0	1.5
	Public debt (% of GDP)	26	22	22	21
	Current account (% of GDP)	0.7	1.7	1.1	0.8
Norway	GDP	3.2	2.0	0.0	2.0
	Inflation	0.7	3.8	2.1	1.5
	Unemployment rate	2.5	2.6	3.9	4.2
	General government balance (% of GDP)	17.7	16.9	12.0	10.5
	Public debt (% of GDP)	52	49	48	46
	Current account (% of GDP)	15.9	18.4	15.5	15.6
Switzerland	GDP	3.3	1.6	-1.2	1.0
	Inflation	0.9	2.3	0.0	1.3
	Unemployment rate	2.8	2.6	3.5	3.8
	General government balance (% of GDP)	2.1	1.5	-0.4	0.0
	Public debt (% of GDP)	43	41	41	39
	Current account (% of GDP)	10.0	7.1	5.6	6.6



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