crédito y caución
Atradius Group

market monitor

Focus on automotive performance and outlook

October 2013

A smooth ride – or a rocky road?

What does the road ahead look like for those in the automotive industry? The answer is "It depends on the where you are based and where you are selling".

In the US, for instance, sales of cars and commercial vehicles continue to rise, with good news for manufacturers, retailers, tyre and parts suppliers. The outlook is even brighter for the US's immediate neighbour Mexico, where the automotive industry is a mainstay of the economy. One indicator of the strength of the industry in Mexico is the number of leading automotive brands investing heavily in their operations there, including Honda and GM.

This healthy situation is in stark contrast to the auto industry in several European countries. The downward trend in France shows no sign of abating, with sales falling while insolvencies rise. It is a similar story in Belgium, not helped by the ending of government 'Eco-bonus' sales incentives, for buying low emission vehicles, and the forthcoming closure of the Ford' plant in Genk.

Our report on Italy underlines the fact that much of the EU's problems arise from the poor state of domestic sales: Italian makers concentrating on export markets outside the EU are faring better than those selling mostly at home and in the EU. Even Germany's sales within EU fell quite steeply last year, while its sales to the US and Asia continue to rise. But the German industry has increased its resilience to a falling market through flexible labour contracts and improved cost structures.

It's a different story in the UK, where the domestic market is booming. And the revival of the fortunes of Jaguar Land Rover since its acquisition by India's Tata Motors is evident in Jaguar Land Rover's heavy investment in its UK production plant.

China's growing urbanisation is proving a boon to its domestic car sales, although increased car ownership is having a negative impact on coach (tour bus) sales. China is now the world's largest market for new cars, with sales of 18 million expected this year: considerably more than in the US.

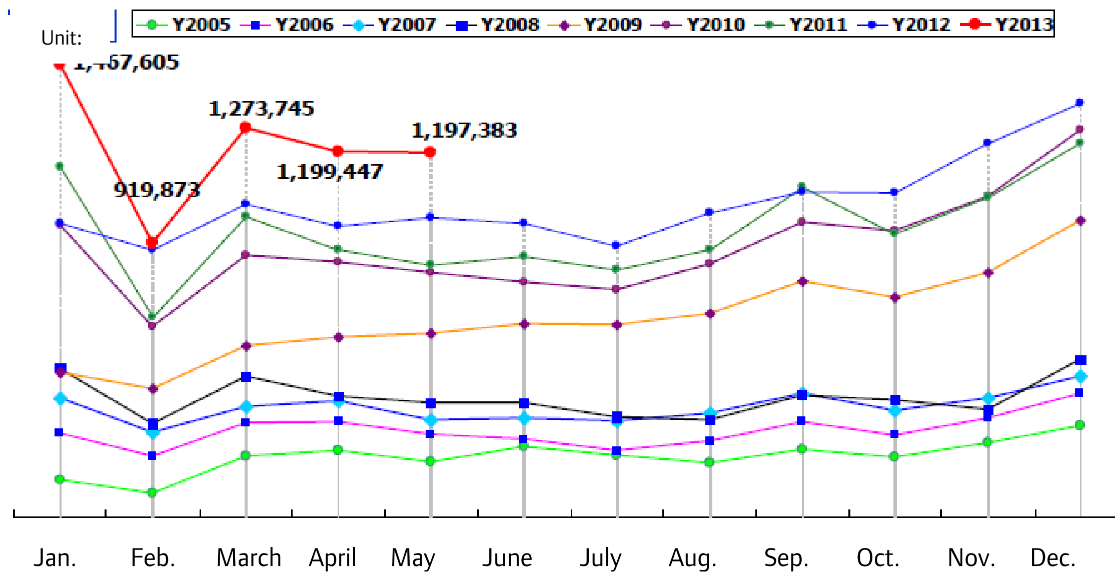
China

- Manufacturers and core parts suppliers are financially strong
- Tough competition between dealerships
- Liquidity pressure on suppliers will lead to longer payment terms

According to the China Association of Automobile Manufacturers (CAAM), vehicle sales increased 4.3% in 2012, to 19.3 million units. Passenger car sales increased 7.1% while commercial vehicles sales dropped 27.9%. Despite lower economic growth in China, the automotive sector generally performed well in the first half of 2013, and we expect this to continue for the rest of the year.

In China, entry barriers for auto manufacturers are high, as the sector is capital intensive and requires constant investment in R&D to develop new models. The life cycle of new models in China is getting increasingly shorter too: for instance, while in mature markets the life cycle of a new car model is 6-8 years, in China it is 4 years. In the commercial vehicle segment competition is even fiercer, with the life cycle of a new model now as short as 6-18 months.

Sales of passenger cars in China 2005-2013



Source: CPCA

The International Organisation of Motor Vehicle Manufacturers (OICA) reports that sales of cars increased 19.6% year-on-year in the period January-August 2013 and the ending of subsidies for energy-saving cars has had only limited negative impact on domestic brands. The Chinese car market will see continuing robust sales in both the high-end and low-end segment. Fierce competition is forcing producers to upgrade and develop new models to meet the demands of China's growing middle class.

In May, truck sales increased 28.5% year-on-year, the first 'black' figure this year, thanks largely to the modest recovery of the national economy and release of fixed assets investment. However, in view of the overall slower growth of the Chinese economy this year, the annual growth of truck sales is expected to be just 8%. The market for coaches is increasingly squeezed by the rapid growth in ownership of private cars, with coach sales down 1.1% year-on-year in the period January-April 2013. In contrast, bus manufacturers saw sales increase 12.7% in the same period, benefiting from higher investment in public transport and investment in hybrid and electric buses.

We view auto manufacturers as strong businesses, because of the sector's capital and technical intensity and the growth potential of the Chinese car market. As for auto parts manufacturers, we differentiate between core parts manufacturers (engines and related equipment) and non-core parts manufacturers (lights, meters seats, axles, tyres, etc). The former usually have in-house core technology and work closely with car manufacturers: sometimes even sharing R&D results. Businesses in this category compete intensely in R&D – with their R&D investment typically accounting for 67% of net profit last year - rather than using it to boost their bottom line. Therefore, when assessing their creditworthiness we tend to focus on their own financials.

The non-core parts segment is composed of various manufacturers. Tyre manufacturers are followers rather than leaders, as the main players are still global brands like Michelin, Bridgestone and Goodyear. When assessing them, we therefore attach importance to their parent background.

For other players in the non-core parts segment, we focus on whether they are overly export-oriented, in view of the ongoing anti-dumping policies against Chinese enterprises that can lead to import barriers.

In the case of car dealers, the leading Chinese businesses generated sales of RMB 966.4 billion (EUR 120.8 billion) in 2012 - up 13.5% year-on-year - with sales volumes increasing 23.5% to 4.84 million units. Gross margins increased 0.6% (to 8.2%), net margin dropped 1.1% (to 1.2%) and return on equity decreased 6.7% (to 11.5%) according to Gasgoo, China's B2B platform for global automotive sourcing. We are seeing increasingly fierce competition between 4S stores (short for Sales, Service, Spares and Surveys) and therefore, when assessing their credit risks, we consider changes in stock levels in 2011 and 2012, cash flow and the rationale for any expansion of their business.

Market shares of passenger cars: May 2013

	Market share	m-o-m change	y-o-y change
Domestic Brand	39.6%	-3.8%	-0.9%
Japanese Brand	16.1%	1.4%	-2.4%
German Brand	19.3%	1.1%	0.3%
US Brand	12.5%	0.3%	1.7%
Korean Brand	9.1%	0.8%	0.7%
French Brand	3.1%	0.0%	0.5%

Source: CAAM

On average, payments in the Chinese automotive industry take 90 days, but we expect payments to take longer in the future because of liquidity pressure on suppliers. Payment defaults in the automotive sector are on a par with other Chinese industries and automotive businesses in general will see their profitability hit by more intense competition.

Our underwriting stance towards manufacturers and major car dealers remains generally open. That said, we are more cautious towards manufacturers of domestic brands than we are to joint ventures. In all cases, we look mainly at cash flow and profitability when considering applications for cover. For car parts suppliers, we also take into account their end users, for instance a major brand such as Volkswagen or Ford, whether the parts are 'core', such as engine or axle, and if a patent or special technique is involved. We take extra care with smaller companies in this segment: small to medium sized domestic suppliers will come under particular pressure because of their poor equity strength, which could give rise to insolvencies. Unlike manufacturers, businesses in this segment may have difficulty obtaining bank finance.

So that we can agree as much cover as possible for our customers, we will often interview and visit buyers to obtain financial information and, if necessary, seek a bank or parent guarantee.

Chinese automotive sector

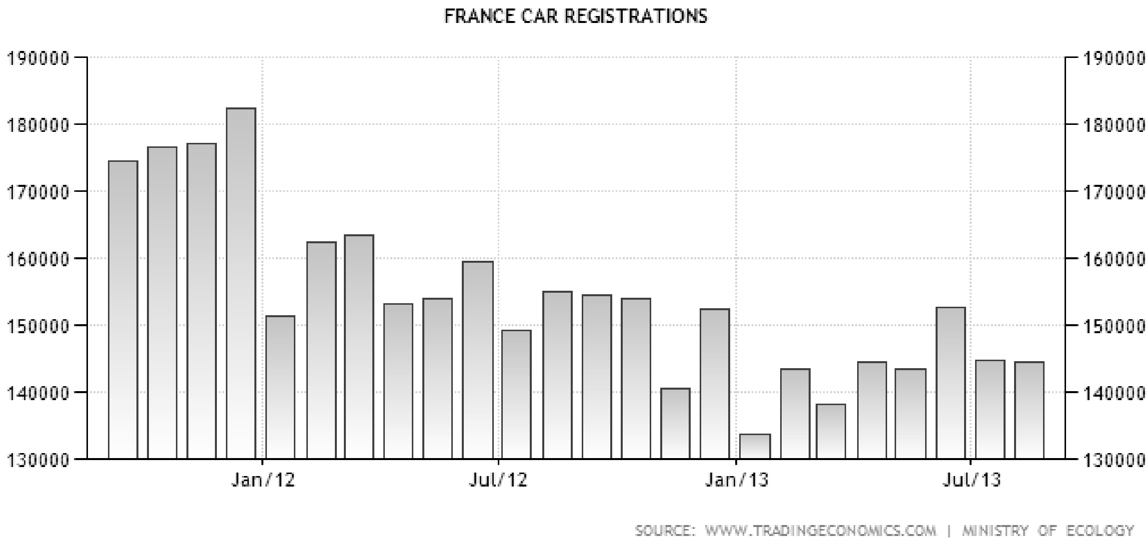
STRENGTHS	WEAKNESSES
The domestic industry is still developing from a low penetration rate, with rising income and urbanisation	The fierce market competition and rising raw material cost will undermine profitability in the sector
Major players are large corporations usually with state-owned background or large joint ventures with multinationals	The sluggish global economy has led to trade disputes between major economies, increasing export problems with potential import tariffs

France

- Rising payment delays and insolvencies
- Restructuring of whole supplier segment is needed
- More cautious underwriting stance than in 2012

The downward trend in the French car market that started in 2011 shows no sign of abating. According to the European Automobile Manufacturers´ Association (ACEA), new passenger car registrations in France fell 13.9% year-on-year in 2012, compared to an 8.2% decrease in the EU as a whole. Between January and the end of August 2013, registrations fell 9.8%, compared to the EU decrease of 5.2%. Last year, domestic production dropped 12.3%, to 1.96 million cars, followed by a sharp decrease of 20% in the first half of 2013.

Compared to pre-credit crisis levels, those figures are genuinely worrying: in 2012 domestic production was 38.7% lower than in 2006 and a staggering 45.5% lower than in 2001, explained in part by the outsourcing of manufacturing to emerging markets. As with sales, the decrease in production in France is below the EU average.



Because of their market positioning in the small and medium size car and low cost segments, French automotive producers generally have low margins, and their solvency and liquidity are shakier because of poor sales, increased stock levels and high monthly cash consumption.

The decline in domestic production continues to have serious repercussions for French suppliers, most of which are traditionally linked to French car manufacturers like Renault and Peugeot. Sales in this subsector dropped 13.5% in 2012 to EUR 16 billion after a 5% rebound in 2011, and orders have continued to decrease this year. Suppliers´ margins are constantly under pressure from powerful car manufacturers demanding greater productivity coupled with lower prices. While car manufacturers´ equity is still quite strong, suppliers' equity continues to weaken. This segment is very capital intensive, requiring both sizeable finance, for new investment and restructuring, and high working capital. However, banks are generally unwilling to provide credit.

On average, payments in the French automotive industry take 60 days (end of month). Generally, timely payment is important in this sector, with few protracted payments. However, we expect payment delays to increase in the coming months: while payments to suppliers are usually given priority, to maintain deliveries and avoid any damaging breakdown in the supply chain, we may see increasing payment delays from struggling end-of-chain small subcontractors to their raw material suppliers. Insolvencies in the sector have risen recently and we expect this to continue in the coming months, as the slump and relocation of production leads to more overcapacity - especially for suppliers. Those in most danger are suppliers that rank second or third in the subcontracting chain. With shrinking order books and a lack of bank support, these companies may become insolvent – especially those engaged in foundry work, small stamping and those producing items with low technology requirements.

Given these ongoing problems, the whole sector, especially the suppliers' subsector, needs to be restructured. However, the key question is 'how?' Will there be a sharp rise in insolvencies and closures or will there be 'clean closures', i.e. with no insolvencies and financed by shareholders, car manufacturers or the French state? While we have seen small suppliers, suffering from the difficulties in this sector, try to increase exports and diversify their activity towards dynamic markets such as aeronautics, compliance regulations make this difficult to achieve. Because of the dip in both sales and production, our underwriting stance towards the French automotive sector is even more cautious than in 2012. We scrutinise businesses' customer structure and export share, the level of EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization), financial costs and the level of short-term debt compared to sales. For significant new cover requests and increases in existing cover, especially on wholesalers, we may ask for additional information about destination sectors, interim financial statements, the short-term financing of working capital requirements – both granted and used, capacity utilisation rate, and compulsory levels of investments.

We are particularly vigilant when asked to increase existing cover at a time of weak product demand, as this may signal payment delays. However, as meeting customer needs remains a priority, we try to meet those requests whenever we can. Even if the buyer's financial strength does not merit the full cover requested, we will try to give a partial approval, perhaps by setting a time limit to the approval or seeking a parent or bank guarantee. Whether or not the buyer is financially strong, we will always make our customer aware of the level of risk and, if the signs are good, we are always supportive if our customer plans to grow the business with the buyer.

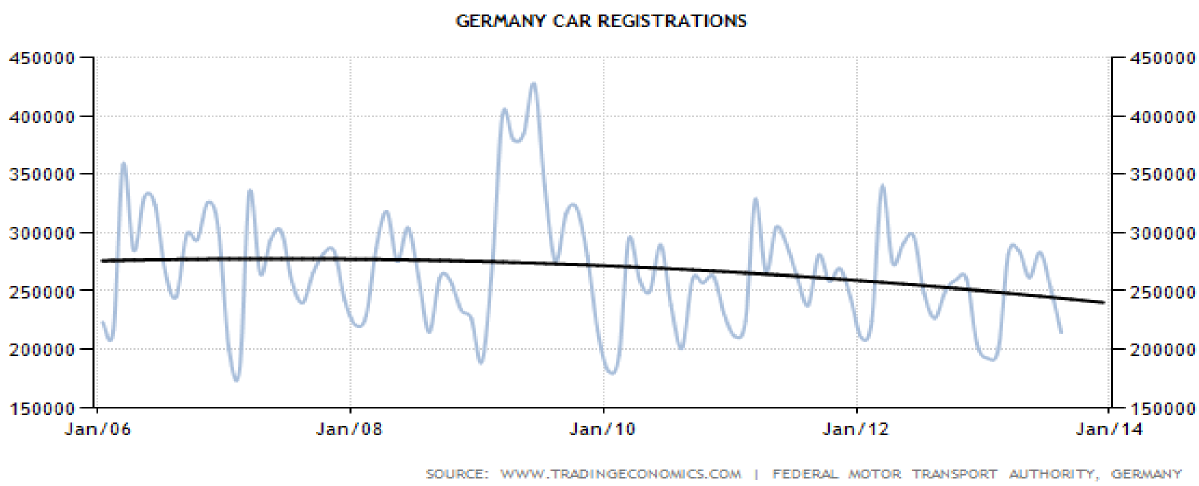
French automotive sector

STRENGTHS	WEAKNESSES
Leader companies in some segments: FAURECIA, VALEO, Plastic Omium	Overcapacities and margins under pressure
Technical knowledge	Lack of financing/ lack of attractiveness for private funds
French State support with public funds (FMEA)	As main market the European market is a mature (not a growth area)

Germany

- Modest fall in production and sales
- Lessons learned from the credit crisis
- More payment delays and insolvencies cannot be ruled out

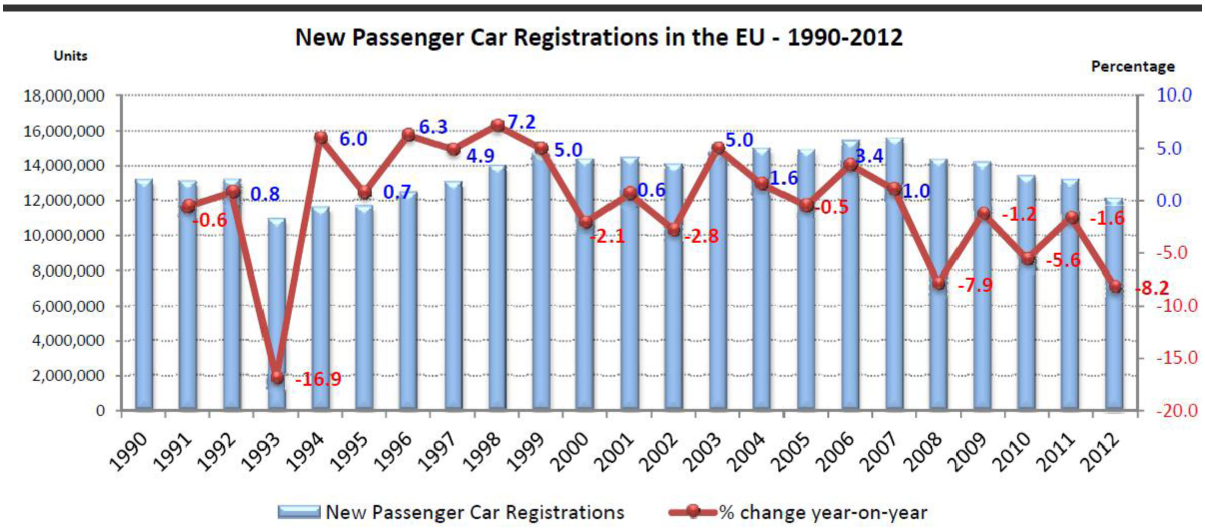
According to the German Automotive Association VDA, the production of German cars rose by 5% in 2012. However, there was a marked difference between production for the export and the domestic markets: with domestic production down 3.7%, after a 5.8% increase in 2011, and overseas production up 11.5%. Exports to the Eurozone fell 12.7% while those to Asia and the US continued to rise: up 6% and 18.8% respectively. German original equipment manufacturers (OEMs) are highly valued in the global market, as are most Tier 1 suppliers. Nevertheless, new car registrations in Germany decreased 7% year-on-year in the period January to August 2013, after a 2.9% drop in 2012. Competition is intensifying as struggling OEMs in Southern Europe try to boost their sales with incentives – in particular by cutting prices. Exports and production both fell 2% each in the same period.



In the first half of 2013, German automotive suppliers were still making profits, although below expectations and less than last year. As in 2012, increased raw material costs are adding to their burden while the market in spare parts is generally doing well as people maintain, rather than renew, their cars. Profit margins are still shrinking, although the equity strength of many automotive businesses has improved since the 2008 credit crisis and, in general, their solvency and liquidity situation is still positive.

2012 was very disappointing for tyre wholesalers and retailers. Extreme overstocking at the end of the year has had a negative impact on liquidity, while price competition and the growth of internet sales have both eaten into margins. Wholesalers are now very cautious in stocking for the winter after a year of overcapacity. The first half of 2013 was below expectations as the long winter delayed the change from winter to summer tyres until May. Now, much will depend on the weather in early winter. Some sources expect the demand for tyres to be far better and availability to be lower. If that happens, margins will improve significantly.

Our view of payment behaviour in the sector has been good over the last two years, with no increase in the number of non-payment notifications in the past six months - although this may change in the coming months if the European car market continues to deteriorate. However, some leading indicators show that the economic situation in the Eurozone is about to improve – albeit modestly. Insolvencies have risen slightly in recent months, but are still quite low. We may see a further slight rise, depending on future developments in the European car market. This makes accurate predictions difficult and we are therefore keeping an eye on sector developments: closely monitoring monthly or quarterly figures of our higher exposures. However, we do not expect any real deterioration in payment behaviour or insolvencies.



Source: ACEA

After good performance in 2011, and especially since the second half of 2012, the German automotive sector has faced more difficulties, and the outlook for the second half of this year and 2014 remains uncertain. However, despite signs of a slowdown in the sector we do not see this as a real crisis. Almost all companies in the sector (OEM, TIER1 automotive suppliers, tyre and spare part sellers) have learned lessons from the 2008 credit crisis and if the market deteriorates, are resilient enough to react in time through flexible labour contract agreements and improved cost and liquidity structures. Overall indebtedness of the sector remains low and banks are generally willing to provide loans to automotive businesses.

For the time being, our underwriting stance remains reasonably relaxed, as it was in 2012, and only companies with lower ratings are underwritten more restrictively. We keep in direct contact with buyers so that we can obtain their most recent financial information. Larger suppliers, tyre and aftermarket companies are still monitored at least quarterly. Our focus is on businesses equity, profitability, working capital, cash flow, net debts and liabilities to banks. We also monitor customer spread, the importance of a single supplier to an OEM or key suppliers to a buyer, and market feedback.

We pay particular attention to the tyre subsector for the reasons explained earlier. As their business is seasonal, long payment terms are typical in this segment and consequently their balance sheets differ from those of manufacturers. Equity in the tyre subsector is very often quite low; margins are poor, fixed assets mainly privately owned, and stocks high. However, we have noted that the most recent insolvencies in this segment were the result of fraud rather than financial difficulty.

So that we can maximise the cover provided to our customers - even when we are cautious about a buyer - if necessary we will attach conditions to a credit approval: for instance relating to seasonal uplifts, maximum extension period or retention of title. As long as we are not bound to confidentiality, we always try to explain the reason for our decisions to the customer, and the information we may need to review a decision if we are unable to meet the customer's request in full.

German automotive sector

STRENGTHS	WEAKNESSES
Technology leader	OEMs demand worldwide supply so constant & high investments necessary
Excellent reputation	Fierce competition

Italy

- Car registrations continue to fall
- Real challenges on the domestic market
- Insolvencies set to rise

Italy's GDP is expected to shrink 1.9% in 2013 after last year's 2.4% drop. Against this backdrop, it comes as no surprise that Italy's car industry remains depressed. According to the European Automobile Manufacturers´ Association (ACEA), new passenger car registrations in Italy fell a massive 19.9% in 2012, compared to an 8.2% decrease for the EU as a whole. This has continued into 2013, with a 9% drop in the period from January to August, compared to the EU's 5.2% decrease. Sales of commercial vehicles have also decreased: 19.5% in the first half of 2013. Last year, domestic production of cars and commercial vehicles fell 15%, to 671,000 units. Production and orders generally follow the trend of consumption – and private consumption is forecast to shrink again this year, by 2.4%, followed by a further contraction of 0.7% in 2014.

Many of Italy's car suppliers suffer from deteriorating profit margins due to the current slump, with higher raw material prices adding pressure to the cost structure. Smaller businesses have weak equity ratios, and solvency and liquidity depend largely on the customer portfolio. As a result, while companies focused on the domestic market face real challenges with both orders and payments, export-oriented businesses - especially those delivering to markets outside the EU - are faring better.

On average, payments in the Italian automotive industry range between 60/90 to 120/150 days, depending on the end-buyer and whether working capital requirements can be obtained from banks or suppliers. Generally, payments are quicker when the end-buyer is a foreign company. In contrast, over the past few years domestic payment trends have been poor, reflected in the high number of notifications of non-payment that we have received. Insolvencies in the sector have increased over the past month and we expect this worsening trend to continue in the coming months, as the automotive market follows the overall economy. We expect the economy to remain subdued in the second half of 2013, although there may be a slight rebound in early 2014. Overall, Italian business insolvencies are likely to rise by 10% year-on-year in 2013 after a 15% increase in 2012.

Car dealers are the weakest subsector: with little in the way of assets and equity, and exposed to pressure from both suppliers and customers, they are challenged by lower sales and by the need to carefully manage their working capital. For these dealers, there is no way out of the downward spiral other than by cutting costs and closing sites. The number of dealerships has shrunk 20% in the last five years to about 2,800 outlets, according to industry group Federauto.

In light of these problems, we remain very cautious when assessing risks in this industry. We collect as much information as possible to assess the creditworthiness of buyers, including their years in business, their management, and associated companies. To give our clients an accurate assessment of their buyers, we seek the most recent financial information, including interim results, either directly from the buyer or from our client. In complex and sensitive cases we will visit the buyer to investigate their reference market, clients, bank dependence, and business strategies.

Naturally, in this troubled sector we focus on isolating weaker buyers, but we are also identifying the best performing buyers and acting accordingly. Whatever the outcome, we will always give a full assessment to our clients. Even if the buyer has financial weaknesses, we will try to approve cover subject to securities such as retention of title or third party guarantees.

Italian automotive sector

STRENGTHS	WEAKNESSES
Focus on export opportunities outside EU	High fragmentation of the companies with medium/small average size
Positive expectations for used car market / spare parts	High dependence on macro-economic factors

Mexico

- A positive outlook for 2014
- Few late payments or insolvencies
- Growth continues as more businesses invest in Mexico

The automotive industry is one of the most important drivers of the Mexican economy, accounting for 4% of Gross National Product (GNP) and 20% of manufacturing. In 2012, car and commercial vehicle production increased 12% year-on-year, to more than 3 million units. Exports increased 9.4% (2.5 million units) and domestic sales increased 8.6%. Last year Mexico ranked number eight of the top ten major automotive manufacturing countries and is the number one choice for many global manufacturing companies because of its low cost/high quality labour and proximity to the US market.

In 2012 auto parts production in Mexico grew 10% year-on-year, making the country the world's fifth largest producer. 90% of exports go to the US and in 2013 the growth forecast for the supplier industry segment is between 3% and 4%. Most Tier 1,2 and 3 auto parts suppliers have to be located close to original equipment manufacturers' (OEMs) facilities if they are to provide 'just in time' service. Mexico's vast number and range of auto parts companies provide another advantage for OEMs planning to establish a base in Mexico, guaranteeing a solid supply chain. According to the Information Manufacturing-Outsourcing Index of Alix Partners, in 2011 Mexico was the most competitive country in terms of manufacturing costs: 21% lower than the US and 11% lower than China.

Several foreign automotive companies have recently invested in Mexico. US-based truck manufacturer Navistar has invested US$ 60 million to increase truck production, while Grupo Industrial Saltillo GIS is building a new plant to produce automotive steel products in the north eastern state of San Luís Potosí. Honda is building a new transmission plant in Celaya with an initial investment of US$ 470 million and GM is investing an extra US$ 700 million to extend its transmission plant. Now it has been announced that BMW is considering opening an assembly plant in Mexico.

The outlook for the Mexican automotive sector continues to be positive for the rest of 2013 and into 2014. Global Insight expects Mexico to produce more than 3.7 million vehicles by the end of 2016 – boosting the supplier industry as well.

On average, payments in the automotive industry take 60 days, and our experience of this sector has been good in recent years, with few notifications of non-payment or insolvencies. We are not expecting any change in the foreseeable future.

As a result, our underwriting stance is generally relaxed, although we are more careful when assessing businesses that are not part of a group or that have been only recently established.

When assessing companies in the automotive sector, we focus on their time in the market, their shareholders, the financial position compared to others in the industry, major customers and the relationship with the big companies - e.g. as major OEM suppliers - and usual terms of payment. For car part manufacturers we look at who they sell to, so that we can factor in data on the performance of their main customers.

Regular meetings with our customers help us to better understand their business and their credit policies, so that we can tailor our service to their precise needs. To reassure buyers when we contact them directly for information, we offer confidentiality agreements when financial disclosure is required. While some will not send financial information, they will invite us to their premises to provide insights into their financial information, and this is often sufficient for us to make an accurate assessment.

Even if we feel the amount of cover requested is too high, we give a detailed explanation to our customer, and will always review that decision if new information is made available.

Mexican automotive sector

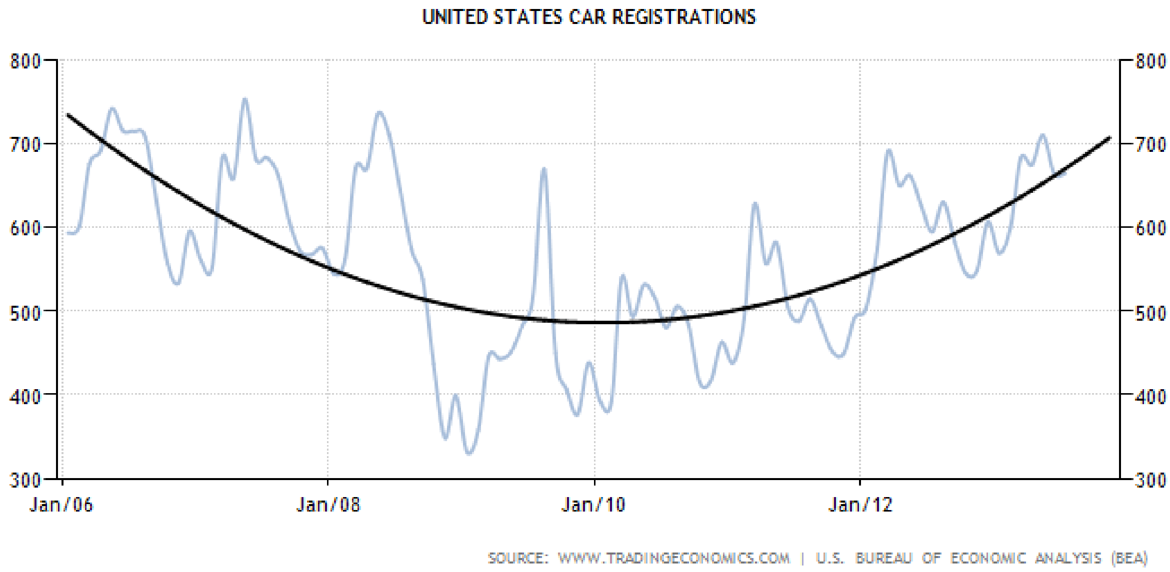
STRENGTHS	WEAKNESSES
Established solid chain of suppliers	Protection trends in Latin American markets
Skilled high quality and low cost labour	Internal markets affected by the low average per capita income of the population and import of used automobiles from the US
Advantageous geographic locations favouring exports to North America.	Heavy concentration on the North American market

USA

- The rebound continues
- Longer payment terms for larger retailers
- Insolvencies are decreasing

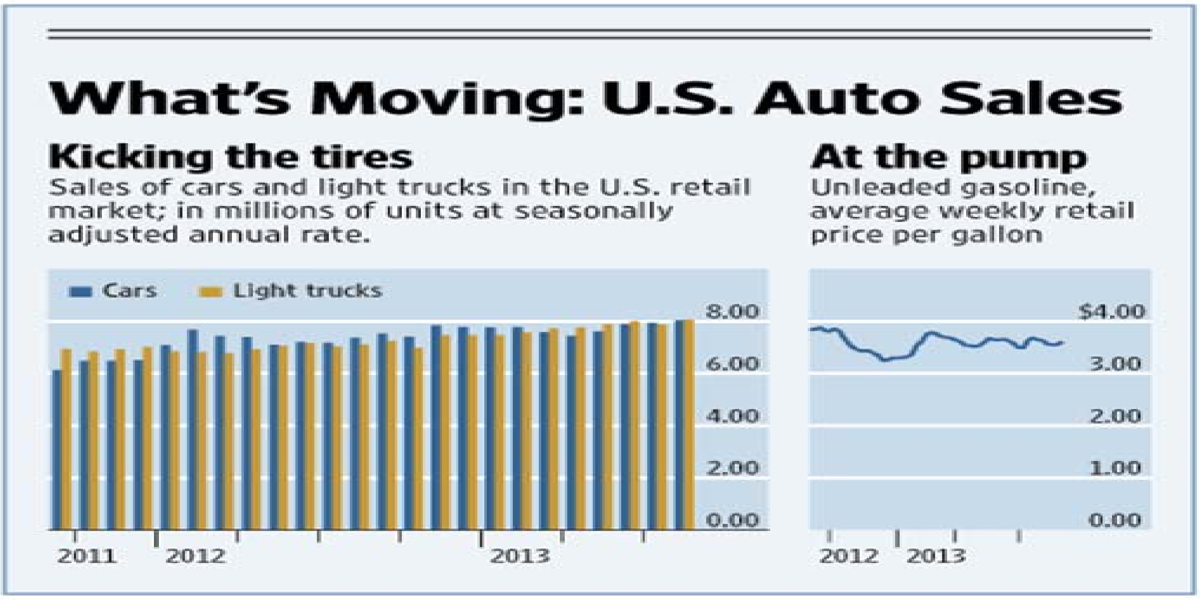
The recovery in the US automotive sector has continued into 2013. According to the International Organisation of Motor Vehicle Manufacturers (OICA), in the first half of the year car sales in the US increased 7.3% year-on-year: to nearly 8 million units (passenger cars up 4.2%; commercial vehicles up 10.5%). This is in stark contrast to falling sales in Japan and the Eurozone and follows last year's 19% increase in US car production, to more than 10 million units.

Many major original equipment manufacturers (OEMs) are anticipating a 10% increase in sales in 2013: close to their 2008 levels. Sales of large vehicles moved in the right direction in 2012 and in the first half of 2013 but higher fuel prices may lead consumers to again opt for smaller vehicles, as they did during the recession. Light-vehicle sales in the US remain a bright spot, while several companies in car-related trades whose performance does not depend directly on new production, such as new and used car retailers, tyre makers and after sales parts suppliers, have also fared well.



Financial conditions are reasonably good. Along with growth in sales and production, capital markets have more appetite for automotive producers' and suppliers' risk. While the sector's dependence on bank finance is generally high, overall business indebtedness is manageable and banks are therefore willing to provide credit.

On average, payments in the US automotive industry take between 60 and 90 days. Agreed payment terms have been extended, especially for larger automotive retail stores: in many cases to as many as 360 days. Over the past two years we have seen a positive and stable payment trend in the automotive sector, and expect this to continue in the coming months. The number of insolvencies has decreased and will continue to do so, in line with the overall pattern of US business.



Source: The Wall Street Journal

The US automotive sector is highly competitive in every subsector, but entry barriers are quite high. While our underwriting stance is increasingly relaxed – more so than last year - we need to be mindful of concentration risk as the sector is highly dependent on the future economic performance, both in the US and globally. Currently the economic outlook for the US is quite benign but we will be keeping a close eye on developments in Europe and the Middle East over the next six months, as sales of cars there – including US cars - have been low this year and are expected to fall further.

When assessing applications for cover we require current financial statements if we are to approve any sizeable amount. For subsidiaries that do not produce their own set of financial accounts, we will take into consideration the financial strength of the parent company – and, for international subsidiaries, local market conditions are also important. If we have a large exposure on a buying company that we consider to be problematic, we will monitor it more closely. And, naturally, if a buyer does not release financial statements, we will have to reduce or even cancel cover.

However, when an application for cover is accompanied by financial statements these are analysed in accordance with our normal review process: checking on the buyer's profitability, working capital, tangible net worth and leverage condition. Where we see much longer payment terms than is the norm (e.g. in the car parts retail subsector), we will of course weigh up the additional credit risk.

As full financial disclosure by privately-owned companies in the US is unusual, we actively call on buyers and explain our relationship with their supplier, and in this way seek to obtain updated financial, trading and banking information. Even if a buyer appears to be more risky than is usual, we will still try to provide cover: perhaps by stipulating that shorter payment terms need to be applied or the insurance policy amended to cover risks that may occur before delivery. In some cases we will place an expiry date on the credit approval and review cover more frequently.

US automotive sector

STRENGTHS	WEAKNESSES
Most companies have completed a restructuring plan	Higher oil price
Development of green technologies – fuel efficiency	Europe's economic performance
	Slow supplier production levels

Belgium

- Low business and consumer confidence affecting sales
- Relocation of production to lower cost countries
- Insolvencies set to rise

Belgium has traditionally been an important centre of car production in Europe. However, with 541,000 cars, trucks and buses assembled in 2012, production has decreased 48% since 2002. Nevertheless, the automotive sector still plays a pivotal role in the Belgian economy and employment, with more than 300 active suppliers.

Currently the Belgian automotive sector is facing very difficult times, due in part to the repercussions of the Eurozone crisis, and also because of domestic economic stagnation and low consumer and business confidence. Moreover, after two good years in 2010 and 2011, last year's domestic sales were hit by the ending of government incentives to buy cars with low CO_2 emissions ('Eco-bonus') and the introduction of stricter rules on company cars. In addition, a registration tax on new cars in Flanders led consumers to delay their purchases. The upshot of all this, according to the Belgian automotive association FEBIAC, was a 14.9% year-on-year drop in car registrations in 2012 followed by a modest 0.4% increase in the period from January to August 2013. Sales of commercial vehicles have continued to decrease. Prices are under extreme pressure and truck production is increasingly relocated to countries with lower labour costs. The closure of the Ford production site in Genk is planned for the end of 2014 and will directly and indirectly affect nearly 12,000 jobs.

Payment behaviour has traditionally been quite good in the automotive industry, but we have noticed a slight deterioration in the last couple of months and expect this to continue into 2014. While the number of insolvencies is still lower than in other industries, it is rising and will continue to do so in the coming months. Car registrations are expected to level off in 2013, but the outlook for commercial vehicles is more pessimistic. The current price war in the transport sector, higher fuel prices and weaker demand could lead to a reduction in the number of transport companies, many of which are encountering significant payment delays from their customers and are thus finding it difficult to cover their fixed costs. This directly affects the heavy vehicles segment. Nevertheless, these current issues are not generally affecting our underwriting of the sector, at least for the time being, because of the average size and creditworthiness of buyer companies. As many of these belong to large groups, we check the financial situation (2012 accounts and interim figures) and the strategy of the parent companies as well as closely monitor stock levels, trade creditors, the level of debts and cash flow. Our customers help by providing their trading experience with the buyers we are asked to assess. A check on social security payments can also be useful and we often visit buyers to obtain their most recent financial information. We are more cautious with small, medium sized and undercapitalised companies, and also the industrial vehicles subsector because of its close connection to the troubled transport industry.

United Kingdom

- Growing production and sales
- Payments take between 45 and 60 days
- Payment behaviour has improved

UK car exports broke all-time records in 2012, with export volumes exceeding 1.2 million units: up 8% year-on-year. Structurally, the UK's automotive industry has been well placed to ride both the emerging market boom and the move upmarket to more aspirational, premium models. Car output rose 9%, to 1.46 million units, last year. New car registrations rose 5.3% to 2,044,609 units: a four-year high boosted by strong consumer demand. However, the new car market was still 14.9% below the 2007 pre-recession level of 2.4 million units.

Car production grew 1.1% in the first half of 2013: to 764,390 units. While four out of five cars built in the UK are exported, the 24.4% rise in output for the home market has boosted volumes. Although subdued demand in some European countries has held back production levels this year, this has been offset by a significant rise in volumes destined for UK buyers. Car sales in the UK continue to buck the trend and significantly outperform the rest of the UK retail sector. New car registrations passed the one million mark in June, growing 10% in the first half of the year - to 1,163,623 units - led by private demand. The evidence of consistent growth has prompted the Society of Motor Manufacturers and Traders (SMMT) to revise its 2013 forecast for new car sales upward: to 2.2 million, an 8.4% increase on 2012. We expect the UK automotive sector to continue to profit from increasing global car sales in the coming months, as Western Europe economies stabilise and the US economic rebound continues. This may also offset the decreasing pace of economic growth in the emerging markets of Asia and South America.

There is still significant investment in new models and production capacity at a number of UK plants: notably at Jaguar Land Rover (JLR) which plans to create 1,700 jobs at its plant in Solihull as part of a £1.5 billion investment in expanding its product range. This investment will also go towards plans for the chassis of future models to be made out of aluminium. Bentley too is investing £ 800 million at its headquarters in Crewe to develop and build a sports utility vehicle (SUV) which will compete with models like the Range Rover.

As in 2012, average payments in the UK automotive industry take between 45 and 90 days and this is expected to remain the case in the coming months. Protracted payments in the sector are rare and consequently we have seen fewer notifications of non-payment over recent months. Compared to other UK industries, the automotive sector's default and insolvency rate is very good, with a stable outlook.

Our risk underwriting stance is positive towards all parts of the UK automotive sector and is even more relaxed than last year. As second tier component suppliers are enjoying JLR's success we are able to increase our exposure on them. However, third tier component manufacturers and independent specialist vehicle manufacturers represent higher risks than other segments.

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