crédito y caución
Atradius Group

market monitor

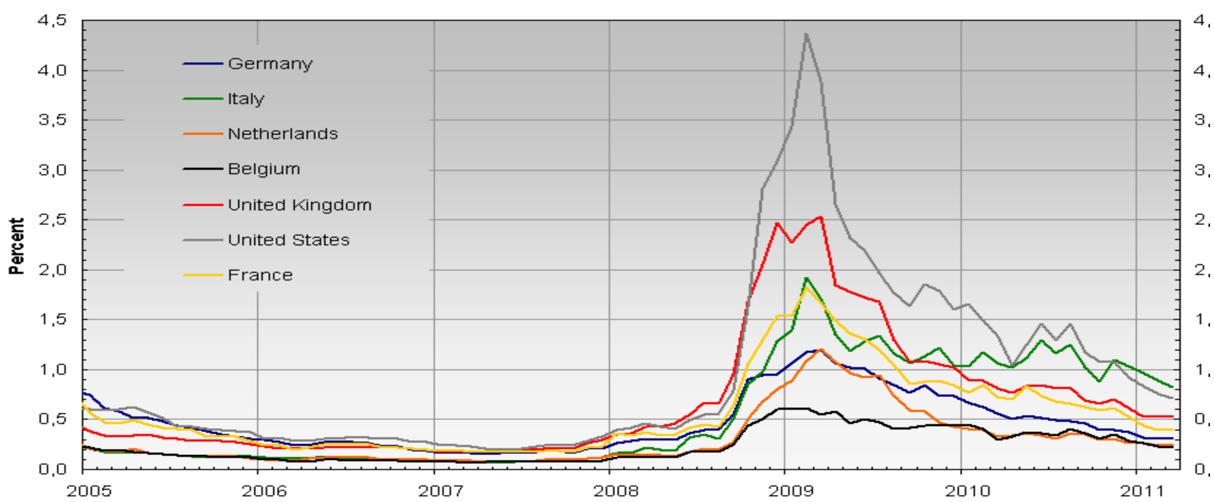
USA and Belgium: retail and electronics/ICT
Singapore, Czech Republic, Norway, Finland: electronics/ICT

May 2011

Expected default in Western Europe and USA

One of the most important factors that any business needs to know is the trend in insolvencies in their markets. The following Expected Default Frequency (EDF) chart is based on listed companies in the markets referred to, and the likelihood of default across all sectors within the next year. In this context, default is defined as a failure to make a scheduled payment, or the initiation of bankruptcy proceedings. Probability of default is calculated from three factors: market value of a company's assets, its volatility and its current capital structure. As a guide, the probability of one firm in a hundred defaulting on payment is shown as 1%.

Median EDF evolution by country



Source: KMV Credit Monitor and Atradius Economic Research

In the first quarter of 2011, the median Expected Default Frequency (EDF) for listed companies has continued its moderating trend in all economies surveyed. Compared to December 2010, the March 2011 median EDFs for the US and Italy recorded the largest drop (by 21 basis points, to 71 and 82 basis points respectively), followed by France (-12 to 41 basis points, the UK (-7 to 54), Belgium (-7 to 22), Germany (-6 to 31) and the Netherlands (-2 to 24).

In March 2011 France, Germany, and the UK recorded levels lower than in August 2008, i.e. before the credit crisis began, while Belgium and the Netherlands are also nearing that level. Only the US and Italy still recorded EDF figures higher than in the summer of 2008. However, the US median EDF has recorded a monthly improving trend since August 2010, while the Italian EDF, after showing some volatility in 2010, has, since December 2010, started to improve month-on-month.

Luxury or necessity?

It's often said that a measure of a healthy economy is the degree of discretionary spending by its citizens: spending on items that are not essential but are 'nice to have', such as holidays and fashion goods. Traditionally, consumer electronics and information & communication technology (ICT) have been seen as a discretionary purchase but, as this month's Market Monitor suggests, it may well be time to reassess this view.

In the not so distant past, the cell phone was considered a luxury item or something for the business high flyer and Bill Gates' vision of 'a computer in every home seemed to many to be unrealistic. Now these are commonplace – not just in every home, but in every railway carriage, café and on every park bench. As our report from the USA shows, many individuals now see ICT as necessities rather than luxury items, which is why the industry continues to thrive, driven by fast-evolving tablet PCs and smart phones.

While the outlook for the industry varies across the countries that we feature, Singapore too can be optimistic about the outlook for its cell phones, laptop and desktop PCs. Other countries, including Finland – home of Nokia – aren't quite as upbeat about the industry: in Finland's case because of Nokia's loss of market share to intense competition.

One sector in which discretionary spending is a major concern is retail, and we also look at the outlook for this industry in the US and Belgium, with price conscious consumers looking for low cost options and, in the case of Belgium, continuing political uncertainty as the country has still to elect a new government.

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

Excellent

Good

Fair

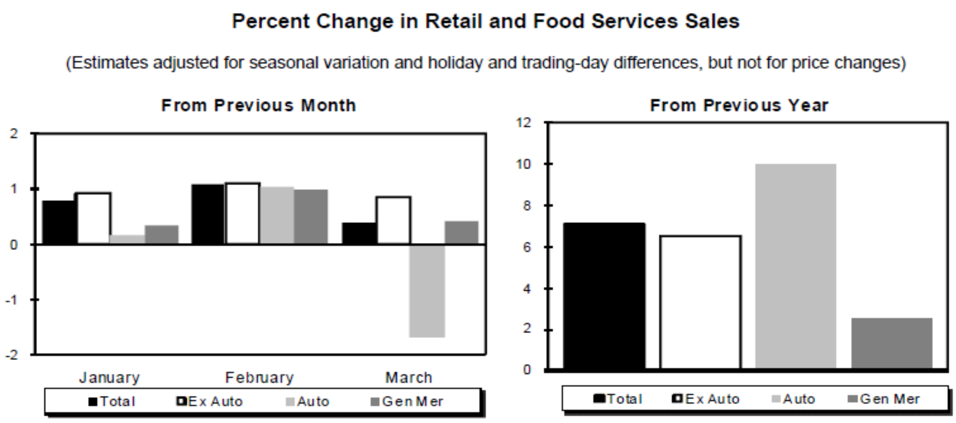
Gloomy

Bleak

2010 turned out better than expected

While 2010 was a year of recovery from the worst recession in recent history, retailers still faced numerous supply chain challenges. However, many were able to weather the storm and appropriately adjust to turn those challenges into opportunities, as the retail sector enjoyed one of its best winter holiday seasons in years. The focus was on streamlining internal processes. To that end, retailers concentrated on aligning inventories with sales, improving operating efficiencies and spending on technology. These focused efforts helped retailers enter 2011 with a more optimistic outlook.

According to the latest annual report from the U.S. Census Bureau (for the calendar year 2009), the total value of sales for the US Retail Industry (including food service and automotive) was US$ 4.13 trillion. This was the second consecutive annual decline for the retail industry, both an effect and a cause of the US economic downturn. Most major multi-store retail chains recorded sales declines in the first part of 2009, but saw improvements toward the end of the year. According to the US Commerce Department retail sales increased 6.6% year-on-year in 2010 and the upward trend has continued into 2011, with total sales rising 8.1% year-on-year in Q1 of 2011.



Source: U.S. Department of Commerce

In terms of fundamentals, 2010 turned out to be better than expected. Although the economic recovery proceeded slowly and unemployment remained persistently high, consumers more readily opened their wallets - to the benefit of retailers. The luxury segment, characterized by the likes of Neiman Marcus Group Inc., Saks Inc., and Nordstrom Inc., led the retail sector out of recession with strong sales increases. Discounters, dollar stores, and off-price retailers, like Wal-Mart Stores Inc., Target Corp., Dollar General Corp., Ross Stores Inc., and TJX Cos. Inc., continued to attract shoppers, and even the highly competitive department stores excelled.

Sales, margins, and earnings before interest, taxes, depreciation and amortization (EBITDA) recovered strongly throughout the year. Most retailers continued to prosper during the holiday season, with sales likely to have increased

3.5% or even more. Because retailers were successful over the past two years in limiting capital spending and working capital investment, free cash flows have flourished.

Speciality clothes retailers have performed well over the past six months, with most demonstrating good revenue growth. Lower promotional activity was a significant driver in margin gains, but many also maintained good expense discipline. We expect performance to moderate in the short term as higher commodity prices (especially for cotton) begin to weigh on margins, and it is uncertain to which extent retailers will be able to pass on price increases. Still, we anticipate that consumers will increase their spending on clothing in the short term, leading to modestly positive same-store-sales. The performance of footwear retailers has also been positive. Margins should remain relatively flat as increased full-price sales are offset by higher raw material and labour costs.

Department stores continued their positive momentum over the past six months, with generally good top-line gains. Growth in consumer spending propelled increases in same-store-sales for most businesses, and we expect this trend to continue in the coming months. Upscale department store performance has led the growth of this subsector, due to the good performance of the capital markets and the increased confidence of the luxury consumer segment. Margins have increased at nearly all department stores recently because of good inventory management, reduced markdown activity and, in some cases, positive operating leverage. While we expect some incremental operating margin gains, increased raw material and labour costs could dampen growth in 2011.

Following a period of outperformance, discounters' operating results remain adequate, supported by a good value proposition and emphasis on basics and consumables. Wal Mart and Target resumed share repurchases and increased capital expenditures in 2010, but continue to generate strong free cash flow. Extreme value segments such as dollar stores continue to perform well, though sales have moderated. Dollar General Corp continues to achieve solid same-store-sales because of its extreme value proposition and by benefiting from consumers trading down in weak economic conditions. In addition, improved merchandising and better operating efficiency have contributed to better sales and earnings.

A benign outlook, but major challenges remain

2011 will bring challenges as well as opportunities for the retail industry. On the one hand, retailers appear to be well placed to take advantage of improved economic performance (after 2.8% GDP growth in 2010 the IMF forecasts the same growth rate in 2011), and retail businesses are cautiously optimistic that the economic recovery is finally taking hold. Consumers have accumulated some spending power and their market confidence is starting to return. The National Retail Federation (NRF) estimates that retail industry sales will grow 4% year-on-year in 2011, on the back of a better-than-expected holiday season.

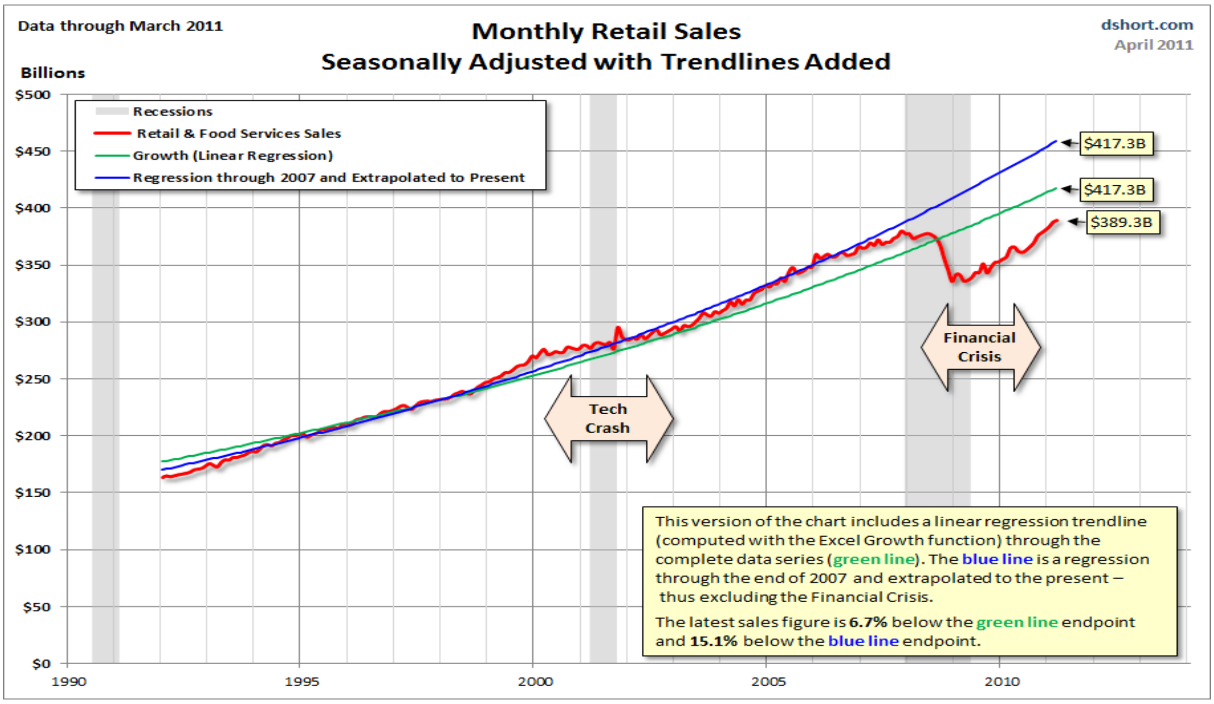
However, higher consumer price inflation (at 2.7% in March 2011), driven by rising commodity prices and a still high unemployment level, could become a matter of concern for retailers. With prices for fuel and food steadily rising, consumers have less disposable or discretionary income, which will affect retail demand, especially for luxury items.

USA: retail

Unemployment remains high, so that most consumers are very cautious when it comes to spending money. Certain low price retailers, such as dollar stores and Wal Mart, may see a rise in sales as consumers become increasingly price conscious. This could lead to fiercer competition: Wal Mart recently announced its renewed focus on low prices. The company is adding around 11% more items to its average store and has committed to a low price guarantee on all items. Because of their leading market share, this is very likely to lead to an intense price war.

There is also a growing risk to US retail companies´ credit ratings in 2011 because of possible margin problems and the possibility of shareholder-friendly initiatives (stock buybacks, dividends) and leveraged buyouts (LBO) transactions, which can potentially be negative from a credit rating standpoint as they involve cash leaving the business with no future return. As companies take on debt to fund such initiatives there can be a negative impact on the balance sheet.

On average, payments in the retail sector take 30 days, and payment behaviour has remained unchanged over the last six months. We do not expect any deterioration in 2011, but the broader economic conditions - primarily inflationary pressures - need to be monitored. The payment default rate in the retail sector is on a par with the average of other US industries and we expect insolvencies to level off in the coming months. Many of the weaker companies have already failed during the recession, and the ones that have survived are typically leaner and more efficient, as they have worked to lower their cost structure and are doing a better job at managing inventory. However, if consumer spending deteriorates again, some highly leveraged companies could be affected, with insolvencies rising again. Therefore, our underwriting approach is moderately cautious, although more relaxed than it was a year ago. We still require financial statements for higher dollar amounts over US$ 250,000 and review more accounts on a quarterly basis. Segments with goods related to discretionary purchases are still considered riskier than necessity purchases.



Source: dshort.com

USA: retail

Retailers will continue to be cautious, paying extremely close attention to economic indicators such as employment, housing and commodity prices throughout the year. Many retailers were able to make adjustments last year to remain competitive and some were even able to become stronger in the process. The anticipated uncertainty in 2011 will once again challenge retailers' supply chains. We expect capacity and pricing issues to impact operations in the coming year for all modes of transportation. The hope is that it won't be as severe as we saw last year, when retailers really learned who their real supply chain partners were.

US retail sector

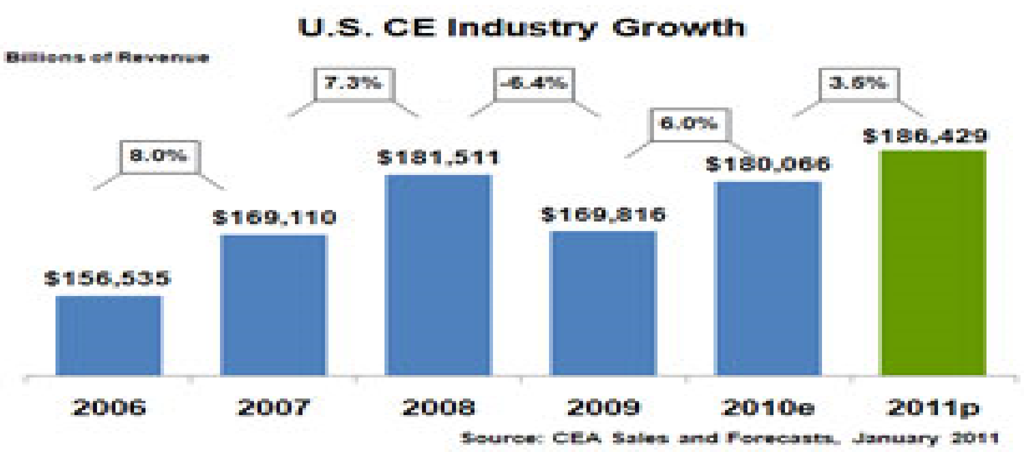
Strengths	Weaknesses
• E-commerce and online purchases boosting revenues • Keeping volume growth intact; shopping price over merchandise quality. Value retailers will benefit. • 2010 Holiday sales increased to US$ 584 billion - the best performance in 5 years. Luxury chains are faring well.	• Intense competition, companies constantly struggling for market share. • Since this is a highly seasonal business, many companies cannot survive based solely on their peak periods. • Bottom line results will be impacted by significant sales promotions (discounts).

Persistent growth of the US electronics/ICT sector

The consumer electronics subsector is currently positioned for further growth in 2011 after a particularly good performance last year, when revenues increased 6%: to US$ 180 billion. The Consumer Electronics Association (CEA) expects revenues to grow 3% this year, reaching a peak of US$ 186 billion. As in 2010, the main drivers for growth will be eReaders, tablet computers and smart phones. Technological advances and ever-changing product lines have helped the industry avoid major saturation problems by making existing products appear outdated and convincing consumers to acquire newer models. It is evident that the economic crisis caused consumers to be cautious in their purchase patterns. However, analyst research has found that individuals view consumer electronics as necessities rather than luxury items, which has reinforced the strength of the consumer electronics industry even during the economic downturn. As technology changes at a rapid pace, retailers such as Best Buy are making consumers more comfortable with their purchases by offering 'buyback' programmes which provide cash or credit for used electronics to be used towards newer products.

Led by sales of laptops, shipment revenues for personal computers increased 34% in 2010, to US$ 29 billion, representing more than 16% of overall industry revenues. This segment will continue to grow in 2011, with nearly 59 million units being shipped to dealers, and revenues of US$ 32 billion projected for the year. Within this segment, it is expected that tablet PCs will be the main driver of sales growth, following the strong 2010 performance, with revenues increasing 35%: to more than US$ 21 billion. The growing popularity of Apple's iPad continues to take significant market share from the PC and notebook markets. Competition in the eReader market will become fiercer, resulting in lower prices for consumers, but also lower margins for companies like Sony, Barnes & Noble, Amazon, and Plastic Logic. The television segment is affected by high competition, eroded pricing, and low margins. Retailers are heavily discounting television sets now that the market is mature and saturated (US household penetration exceeds 70%). Digital TV unit sales were down 1% in 2010. However, there will be bright spots within this segment in 2011 as internet-connected TVs and 3D-TVs continue their growth after unit sales grew 151% and 91% respectively in 2010.

The wireless handset segment performed strong in 2010 and will continue to see growth during 2011, with sales of smart phones continuing to lead the way. Smart phones generated nearly US$ 18 billion in shipment revenue with more than 55 million unit sales in 2010, and are forecast to increase 20% in 2011: to more than US$ 21 billion on 72 million projected shipments to dealers.



Overall, the computer hardware sector had a positive 2010. Conditions were strong during the first half of the year, with solid IT spending, especially for the semiconductor, components, and hardware markets. While IT growth flattened sequentially during the second half of 2010, current expectations for 2011 are for continued moderate revenue growth across the subsectors. Global IT spending is expected to be around US$ 3.6 trillion in 2011- a 5.1% increase from the $3.4 trillion recorded in 2010 - according to the technology research firm Gartner Inc. Gartner expects that, among technology segments, telecom will grow 9.1% in 2011, followed by computer hardware and enterprise software (7.5%) and IT services (4.6%).

The telecom segment is expected to benefit most from IT spending as the demand for mobile devices from consumers and enterprise users continues to drive sales for carriers and phone manufacturers. Overall spending from the large US carriers such as Verizon and AT&T will continue to ramp up capital expenditures with investments to further expand their 3G and 4G (LTE) networks. The surging internet and mobile traffic, caused by increased smart phone adoption, is leading to shortages of capacity and putting pressure on carriers to invest in their infrastructure. The growing penetration of smart phones and tablet PCs (excluding iPad) and roll-outs of LTE and other high-speed wireless network technologies will further propel data traffic. As the underlying economy improves, spending on telecommunications equipment is expected to increase at faster rates. Most of the funds provided in the American Recovery and Reinvestment Act (the Stimulus Plan) will be distributed in 2011, and this should lead to the initiation of projects for the expansion of broadband, most of which will be used to extend the network backbone in the US.

Global sales of semiconductors amounted to a record US$ 298.3 billion in 2010 (+31.8%), due in part to the increased use of semiconductor technology in a wider range of electronic devices, and a rebound of the IT spending that was subdued in 2009. As semiconductors have been America's top export over the last five years, it is important to note that the Asia Pacific region represents 54% of the total worldwide semiconductor market (the US market share amounts to 18%). Semiconductor design and manufacturing facilities are strategic to the nation's economic growth. However, the industry is faced with fierce global competition. For 2011, the Semiconductor Industry Association forecasts moderate single digit growth for the industry sector as a whole. This growth projection is encouraging given the continued impact of the economic downturn.

Low insolvency ratio in the sector, but some payment issues

Compared to other US industries the electronics/ICT sector's insolvency rate is below average. We have not seen any significant insolvency activity over the course of 2010 and do not expect the situation to change over the next six months. On average, payments in the US electronics/ICT industry take 30 days, but can sometimes range up to 90 days. We have noted that overall payment behaviour has been positive over the last six months and has improved significantly year-on-year. However, we also saw increased non-payments in some ICT subsectors with strong business links to public bodies: in particular radio dealers that supply US government municipalities with radios and services to fire and police stations. Municipalities have been forced to make budget cuts because of the lower tax revenue base, resulting in cash flow constraints.

USA: electronics/ICT

In the electronics subsector there have been additional payment delays by retailers, wholesalers and distributors, due to disputes with producers over the pricing of products. Manufacturers often offer 'price protection' or discounts on products, since the industry evolves rapidly and leads to inventory obsolescence. This can cause disputes and ultimately an increase in non-payment until the issues are resolved. Disputes are likely to continue at their usual pace and may even increase if, as a result from the Japanese earthquake there are any supply problems in computer components that lead to price increases.

Overall, the outlook for the electronics/ICT sector remains positive as the constant flood of new and innovative products (especially mobile computing) continues to drive revenue and production. The industry performed satisfactorily throughout the global slowdown and US recession, and will benefit as economies slowly recover. The effects of the Japanese earthquake will cause some supply disruptions and may lead to higher component pricing, but this will not reverse the overall positive trend.

However, some downside risks remain. The recent rise in oil prices (and subsequently gasoline prices) needs to be monitored. With consumers having to spend more on this basic necessity, they will have less opportunity for discretionary spending, which could in turn reduce demand for optional IT and electronic products. A persistently high unemployment rate would also hamper consumer sentiment in the long term. Another issue is high commodity prices for speciality metals like indium and gallium - both important components in LCD panels, semiconductors and lighting products. Current demand is driving price increases, which can squeeze margins if not passed on to the consumer, while, if supply becomes scarce, and other materials needs to be used, product performance could suffer.

US electronics/ICT sector

Strengths	Weaknesses
• Electronic components are used in a multitude of products, and the end users/markets are very diverse across a wide array of industries. • Product innovation high within the US as companies such as Apple, IBM, Intel, and Texas Instruments remain at the forefront of the industry. • Increased US government stimulus spending (US$ 7.2 billion) on broadband infrastructure will increase demand for ICT products/services.	• US macroeconomic factors, such as high unemployment and inflation affecting consumer spending and enterprise IT expenditures, providing problems for the industry. Industry is vulnerable to economic downturns. • Highly competitive • Capital intensive requiring heavy research & development to keep pace with the industry's technological advancements.

Belgium: retail

Private consumption hampered by political uncertainty

The Belgian economy grew 2% in 2010, and the IMF forecasts that GDP will increase 1.7% in 2011. According to the National Bank of Belgium (NBB), private consumption rebounded 1.4% year-on-year in 2010 after a 0.2% decrease in 2009, and is forecast to increase by between 1.4% (NBB forecast) and 1.7% (OECD forecast).

Retail turnover
February 2011

Gross index (1995=100)	2010											2011	
	F	M	A	M	J	J	A	S	O	N	D	J	F
Value													
All retail	132	155	155	150	163	160	149	171	176	156	198	157	139
Food	136	151	154	152	159	157	146	170	173	148	187	145	134
Textiles and shoes	127	189	197	168	171	212	147	206	211	163	197	228	135
Household articles	114	132	131	132	168	148	167	165	179	171	202	150	134
Other articles	136	164	155	159	172	158	148	168	165	159	230	145	147
Volume													
All retail	108	131	129	123	138	135	125	143	147	135	170	137	116
Food	102	112	114	113	118	116	108	126	128	110	139	107	99
Textiles and shoes	116	173	180	153	156	194	129	181	184	142	171	199	122
Household articles	106	123	121	122	156	137	155	153	166	158	187	139	124
Other articles	97	113	104	105	115	107	100	113	110	106	149	93	93

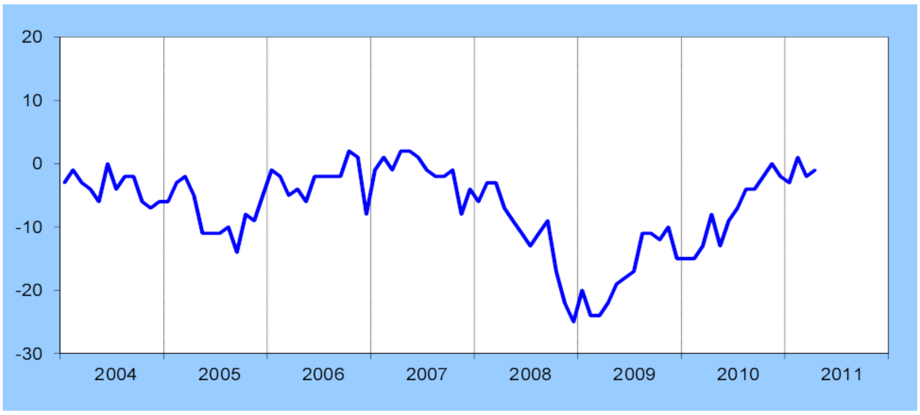
Source: Statistics Belgium

In early 2011 there was a slight rise in retail turnover (year-on-year), driven mainly by price increases, while the volume of sales remained fairly stable. Those price increases are most noticeable in the food subsector, which is suffering from rising commodity prices.

Customer confidence is back to pre-crisis levels (see chart below). However, this has yet to translate into increasing consumption, which is hampered by the current political situation. The political landscape is very fragmented, with a caretaker government in place for more than a year, as the country has been without an elected government since April 2010. Financial market pressures on Belgium have increased due to the high public debt - almost 100% of GDP - and, despite limited powers, the caretaker government announced in mid-April that it would take measures to reduce the budget deficit to 2.8% of GDP in 2012. Nevertheless, uncertainties remain, as the country needs a stable government to decide on continued economic policy and related reforms, even if this could bring with it some austerity measures that would hurt household spending. Moreover, in 2011 unemployment is expected to remain at its 2010 level (8.4%, IMF forecast).

APRIL 2011

CONSUMER CONFIDENCE INDICATOR



Source: NBB

Another issue is that of rising consumer prices, which have steadily increased since mid-2010 and stood at 3.5% in March 2011. A continued rise could further erode consumers´ purchasing power. However, we expect the retail sector to grow in 2011, with most of these rising prices passed on to consumers.

Generally good payment behaviour

The payment behaviour in the Belgian retail sector has remained unchanged over the last six months and is generally good, with about 75% to 80% of payments made on due date. We do not expect any increase in payment delays in the course of 2011. Corporate insolvencies in Belgium increased 1.6% year-on-year in 2010, with the commercial sector recording a 2.4% increase - to 2,649 cases - according to Statistics Belgium. In Q1 of 2011, insolvencies rose 2% year-on-year, with the commercial sector recording a 3.5% increase in business failures. However, we expect this trend to stabilise or even to decrease in the coming months. Overall the retail sector's insolvency ratio is better than that of many other key sectors, and we are therefore currently adopting a relaxed underwriting policy on this industry (both food and non-food), including our assessment of newly established companies. For the whole of 2011, we expect Belgian business insolvencies to decrease 5% year-on-year – the first drop since 2006.

Belgian retail sector

Strengths	Weaknesses
• Potential purchasing power of Belgian households (currently partially allocated to household savings)	• No real surge in domestic consumption • Uncertain political situation • Rising commodity prices

Belgium: electronics/ICT

Lower prices will sustain sales but impact margins

Compared to some other countries, Belgium isn't such a significant player in electronics/ information and communication technology (ICT) manufacturing. However, products are distributed mainly by both large distributors and small independent retailers, contributing over 4% of Belgium's gross domestic product, and between 1997 and 2007 it accounted for a sixth of the country's GDP growth.

According to the European Information and Technology Observatory (EITO), in 2010 the Belgian ICT market was driven by PC sales, which increased 10% year-on-year. EITO expects the Belgian ICT market to grow 2.6% in 2011, to Euro 17.9 billion, regaining pre-crisis levels. While the telecommunications sector is forecast to grow 1.3%, IT sales will rise by 4%. Sales of laptops and other portable devices will lead the rebound, rising 20% for the second consecutive year. However, sales of desktop PCs will also increase, as Belgian companies begin to invest again in information technology, helped by a fall in average prices.

While lower prices of electronics/ICT products will help to sustain sales, this also puts pressure on retailers´ margins, impacting the creditworthiness of mainly small retailers. That said, in general, increasing sales should allow many businesses to improve their economic health.

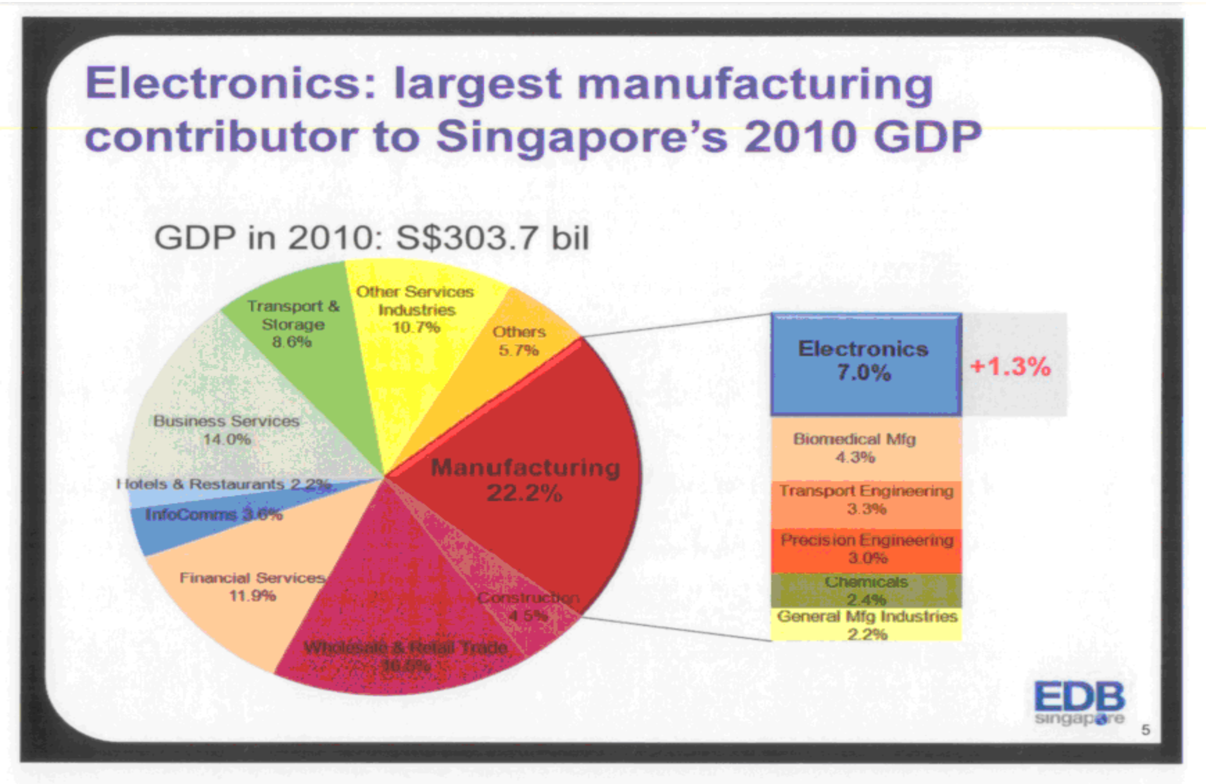
Payment behaviour in the Belgian electronics/ICT sector has been good compared to other industries, and we expect no significant change in the coming months: i.e. no increase in payment delays. We have seen an improvement in the number of reported non-payments compared to during the economic crisis and even the pre-crisis period. Insolvencies have decreased in the last six months and, as the sector will be boosted by the expected increase in sales, we do not foresee any deterioration in 2011. We therefore pursue a relaxed underwriting policy on electronics/ICT, including newly established businesses.

Belgian electronics/ICT sector

Strengths	Weaknesses
• Already well performing sector • Expected increase in domestic consumption	• Part of the distribution channel consists of small and independent retailers. • Price wars in some segments

Electronics manufacturing output increased more than 25%

The Singaporean economy is heavily dependent on the electronics sector, which was the largest manufacturing contributor to 2010 GDP. Its share increased from 5.7% in 2009 to 7.0% in 2010 as output rose by 26.9%, compared to the global industry growth of 9.3% (see chart below).



Source: Economic Development Board Singapore

This increase in output was fuelled primarily by a strong regional economic rebound and increased international demand after the global economic crisis. Singapore's electronics industry has moved to manufacturing higher value-added products and to reinforcing its R&D capability. With this development the semiconductors and data storage subsectors saw revenue growth of 49.8% and 25% respectively in 2010. Singapore's electronics manufacturing output share of global revenues increased last year: from 11.2% to 13.5%.

Computer peripherals & info communication/consumer electronics manufacturing together contributed 21% to Singapore's total electronics manufacturing output in 2010. This is partly in response to growing mobility and internet connection among regional consumers.

The city state's focus is on ensuring that the electronics industry remains at the forefront of integrated circuit technology. To that end, it has created a pool of skilled labour, leveraged on its strong base of manufacturing capabilities, and has provided a conducive environment to attract reputable semiconductor companies like IM Flash

Technologies, 3M, Bayer Material Science, Western Digital and Showa Denko to expand their manufacturing operations, establish R&D facilities or house their supply chain control activities in Singapore.

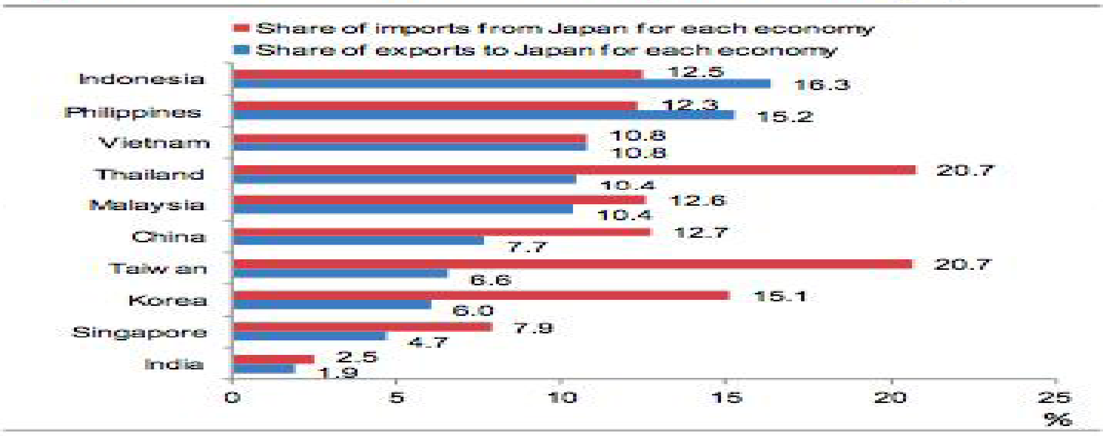
The manufacturing output of the electronics cluster increased 6.9% year-on-year in Q1 of 2011 and, in the semiconductor field, a US$ 5.6 billion investment has been made this year by Global Foundries (formerly Chartered Semiconductor), Singapore's largest chip manufacturing company.

There have been no notable credit insurance claims or insolvencies as Singapore continues to reinforce its position as a favourable investment location for engaging in the electronics business. The ICT sector remains buoyant, with rising GDP and availability of wide ranging mobile gadgets to the market. In the retail subsector, the market is highly competitive, with the Singapore ICT market remaining price-sensitive. With increased competition, profit margins will therefore be under further pressure and companies will need to focus on core competencies or target a niche market to manufacture higher-profit margin products. Businesses with local retail exposure present a relatively stable payment outlook, in view of the buoyancy of the market reflected in the success of the frequent computer trade shows that continue to attract strong visitor numbers and generate strong, growing revenues. Singapore's electronics/ICT manufacturing sector is strongly supported by government initiatives, such as tax benefits and infrastructure initiatives, and, with Asia's overall growth potential, remains sound.

No long-lasting effects from the disruption of Japanese supplies

While Japan is Southeast Asia's largest trading partner, Singapore has one of the lowest exposures to Japanese trade in the region (see chart below). But, while the earthquake in Japan is not expected to have a huge impact on trade with Singapore, Japan is still an important contributor to various electronic manufacturing inputs. Supply chain disruption has been felt by different businesses to varying degrees, although this is not expected to have a long-lasting effect.

Figure 1. Share of trade with Japan in 2010 (%)



Source: CEIC and Nomura Global Economics.

Singapore: electronics/ICT

In the first quarter of 2011, Singapore's GDP increased 23.5% on the previous quarter, reflected in similar growth in the electronics industry. In creating a sustainable competitive edge, Singapore is now venturing into new growth areas such as Bioelectronics, Green Electronics, Printed Electronics and Security. Programmes to encourage the development of solutions for medical, energy and environmental applications are poised to stimulate further growth in the electronics industry.

Prospects for the ICT market also remain optimistic, in view of Singapore's GDP growth in the first quarter of 2011 and its low unemployment figures, both of which have buoyed consumer confidence and supported consumers' purchasing power. However, despite solid underlying economic fundamentals, Singapore is a relatively mature market when it comes to the ICT sector, given the increasing PC and broadband penetration. By early 2011, mobile penetration had reached 145% with 3G customers comprising 60% of the total mobile subscriber base. According to Gartner Inc research, Singapore is expected to have the highest number of personal computers in the Asia-Pacific region by 2012 - 948 per 1,000 people - which translates to 4.5m installed desktop and laptop PCs. This penetration has led to intense competition among the computer and consumer electronics brands. Those companies that can offer value-for-money products and have promising R&D capabilities will prosper in this highly competitive environment.

At the same time, there are bright growth opportunities in international markets: global spending for mobile phones and devices in 2011 is forecast to rise by another 10% and the Asia-Pacific region is a promising market, with smart phone makers and computer brands all competing to grow their share. GFK Asia predicts up to 35% growth in sales of mobile phones, with internet browsing capabilities in Asia in 2011 attributed to affordability, rising incomes and improved accessibility.

Despite the positive economic indicators in Singapore, generally speaking, Atradius underwrites the electronics/ ICT sector with a balanced mindset, among other factors placing importance on the buyer's length of establishment, its location, diversification, strength of ownership and quality of management - including industry experience, market position, customer base profile, the extent of its distribution networks, and its operational efficiency.

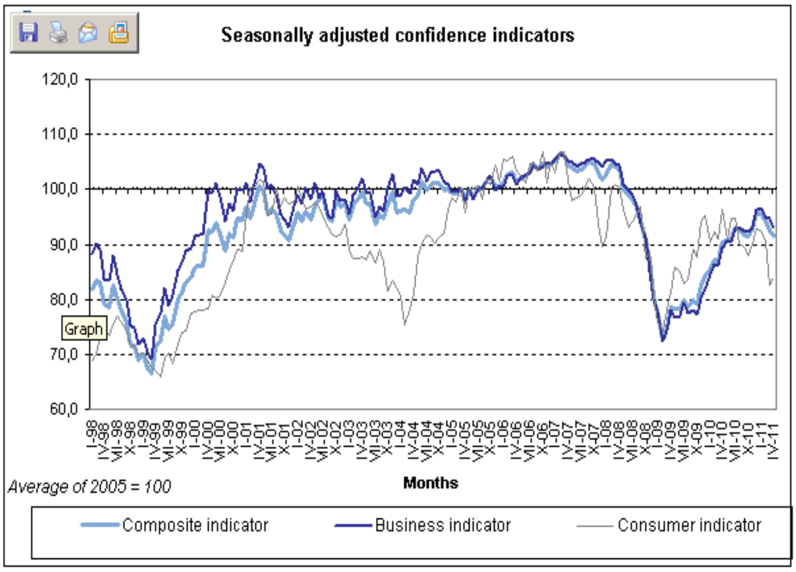
Singapore electronics/ICT sector

Strengths	Weaknesses
• Strong domestic and regional demand • Highly innovative • Strong support by government initiatives	• ICT market remains price-sensitive

Lower electronics/ICT sales in 2010

According to the Czech Statistics Office GDP grew 2.2% year-on-year in 2010. However, the contribution to growth was unevenly distributed, with the economy growing mainly as a result of a surge in manufacturing, which profited from increased foreign demand. In contrast, household consumption increased only slightly, and actually decreased in the second half of the year (by 0.4% in Q4), as unemployment remained high and, despite its decreasing trend, unemployment still stood at 9.2% in March 2011. Retail sales of non-food items decreased 0.7% year-on-year in 2010, and banks are still cautious about providing retail credit, as default rates in this segment have increased.

Consumer confidence remains subdued (see chart below), with consumers wary of a decrease in the overall economic situation as well as in their own financial standing over the next twelve months.



Source: Czech Statistics Office

Sales of electronic/ICT products have also been negatively affected by consumers´ restraint. However, retail sales of non-food products have improved since the end of 2010, as have sales of information and communication equipment.

Equity in the Czech electronics/ICT sector is stable, with an equity ratio of around 20%. Gross margins are between 5% and 10%, with a slightly decreasing trend. The general solvability and liquidity situation is also stable. However, while internet sellers are recording rising sales, ordinary shops are losing market share.

Czech Republic: electronics/ICT

Payment behaviour has again improved

On average, payments in the electronics/ICT industry take 30 days. Payment delays have increased in recent months, as Christmas sales were below expectations, but the figures for Q1 of 2011 show that stocks have again fallen. We do not expect any deterioration in payment behaviour in the coming months.

On average, compared to other Czech industries, the electronics/ICT sector's default and insolvency rate is good. Only the electronics subsector tied to residential building/construction is considered to be more problematic, as demand for real estate in the residential segment is still weak.

We expect stable sales figures for electronics/ICT products in 2011. If the labour market continues to recover and consumer sentiment improves, sales may increase by up to 5% year-on-year. We are adopting a relaxed underwriting policy towards this sector, with an emphasis on trading history, sales and stock development.

Czech electronics/ICT sector

Strengths	Weaknesses
• Strict credit management	• Size of market • Small margins

Fierce competition in the market

While the electronics subsector recorded an increase in units sold in 2010, lower sales prices ate into the growth of turnover volume, and we expect that trend to continue in 2011. The ICT subsector performed a little better as a result of the rebound in the economy, which has led to increased demand for smart phones and similar products. That said, the domestic market for mobile phones is close to saturation.

Norway: electronics/ICT sales

1.000 units						forecast	
	2006	2007	2008	2009	2010	2011	2012
TV	510	650	636	601	593	582	581
Music	161	149	142	161	215	236	273
MP3-player	585	400	400	300	250	225	200
Car radio	220	255	220	174	223	220	210
mobile phones	2 050	2 300	2 280	2 365	2 500	2 500	NA
DVD player	5 532	5 761	5 686	5 610	5 791	5 774	3 276
White goods large products	1 439	1 527	1 361	1 235	1 247	1 265	NA
White goods small products	9 826	10 243	3 368	9 684	10 011	9 984	NA

Source: Elektronikkbransjen

We have seen several players in the electronics subsector performing poorly and with insufficient equity strength, but kept afloat by the backing of strong owners. However, we cannot rule out the possibility that, in the future, backers will lose either interest or their ability to support those companies. In general, ICT is in a better position, but still with a wide range of companies - from large players dealing with both hardware and infrastructure to medium-sized or small players - operating on small margins. In both the electronics and ICT subsectors, profits were squeezed in 2010 and we expect even more pressure this year. Businesses have reduced the number of their shops, with the trend towards larger single units to reduce costs and increase efficiency. Two major players (Elkjøp and Expert) are in tough competition, increasing pressure on prices and making business for medium-sized and smaller players more difficult. In addition, Media Markt has announced its intention to enter the Norwegian market in early 2012, which will intensify this already fierce competition.

Longer payment terms in the future

On average, payments in the electronics/ICT sector take between 30 and 90 days, and we have noticed a rise in the number of payment delays over the last six months: mainly by small or medium-sized businesses. We expect longer payment times in the future, with the trend in Sweden for some producers to offer up to 180 days credit terms to probably spill over into Norway. So far, in Norway, 90 days is the norm, with a few exceptions of 120 days payment terms.

The insolvency rate in the electronics/ICT sector is on a par with the average for other Norwegian industries, although the rate has increased in the last couple of months, and we expect this deteriorating trend to continue, mainly in the electronics subsector. Therefore, our underwriting policy for this subsector is cautious. Where performance is poor and equity strength weak, we ask for clear assurances from business owners. For ICT, our approach is more relaxed in the business-to-business segment, while the business-to-consumer market requires closer monitoring.

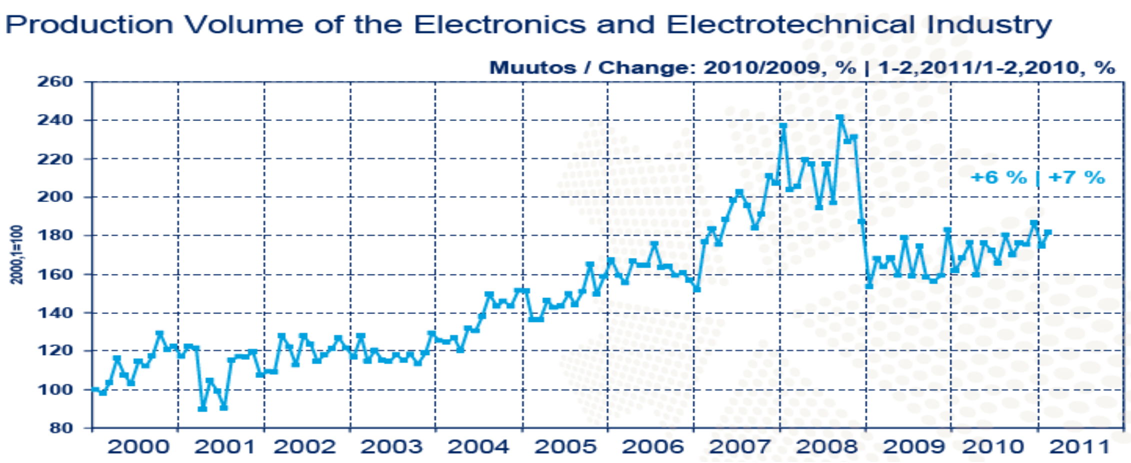
Norwegian electronics/ICT sector

Strengths	Weaknesses
• Economic rebound • Consumers keen on new products • Demand for high-tech products	• Too many players in the market • Decreasing purchasing power as an increasing threat for small and medium-sized players

Rebound forecast for 2011

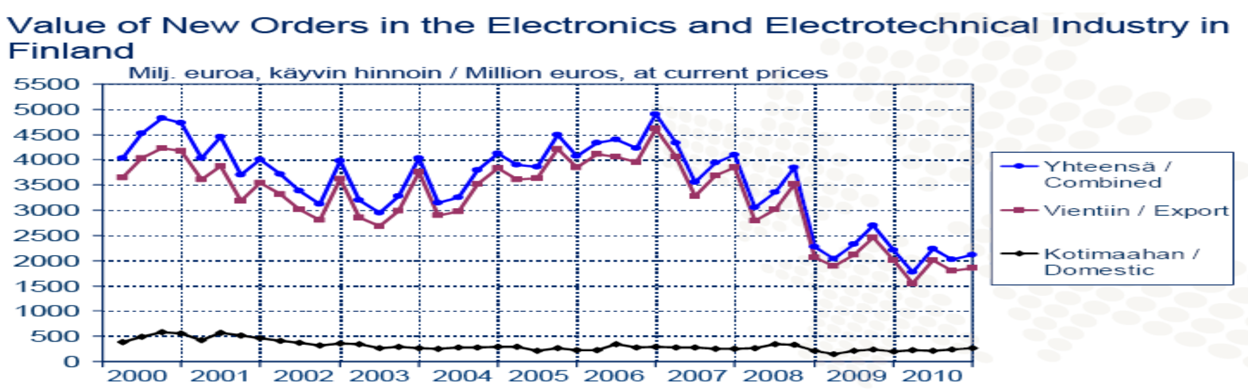
The Finnish electronics and ICT industry employs 58,000 workers domestically and 137,000 abroad in its foreign subsidiaries, with total annual turnover of Euro 19 billion. Before the global economic crisis, market expansion was particularly strong in Western Europe and Asia. According to the Federation of Finnish Technology Industries, electronics/ICT invests heavily in research and development (R&D): in the last couple of years annual R&D spending has totalled around Euro 2 billion.

The sector is highly dependent on exports, with 80% of production destined for delivery around the world. Export volumes of Nokia alone still have a high impact on the sector's overall volume despite Nokia's falling market share in recent years. Due to its high reliance on international demand, the industry was hit hard by the global economic crisis, with export volumes decreasing 47% in 2009 and production declining 24%. However, production picked up again in 2010, albeit modestly, with 6% growth (see chart below).



Source: Statistics Finland

The decline of export volumes bottomed out in early 2010, and began to increase again in the following months. However, this recovery proceeded only slowly in 2010, reflected in the volatility of the value of new orders (see chart below).



Source: Statistics Finland

That said, the Research Institute of the Finnish Economy (ETLA) expects the industry's production to grow by 15% in 2011 and 9% year-on-year in 2012, while export volumes are forecast to increase 40% this year and 10% in 2012. Domestically, consumer sentiment has improved and spending on electronics/ICT products is expected to rise further in 2011.

Improvement of the insolvency situation

The profit margins of Finnish electronics/ICT businesses have slowly recovered from their 2009 low levels, but many companies still reported poor results in 2010. The disaster in Japan has increased the prices of electronics components and may therefore have an indirect effect on Finland's electronics businesses´ profit margins. While many companies faced liquidity problems in 2009 and 2010, the situation has stabilized since then. Generally, equity strength is good, but many smaller companies are operating with very low equity ratios.

On average, payments in the sector take 30 days, but many companies use much shorter payment terms (as low as seven days). We saw a slight increase in payment delays in 2009 and in the first half of 2010 but, since then, payment behaviour has improved. We expect a further improvement as the industry benefits from the better economic climate at home and abroad. The electronics/ICT sector's insolvency rate is around the average for Finnish industries. After a worsening trend, the situation has stabilized since the first half on 2010 and the outlook remains good. When underwriting this sector, we look in particular at the most recent financial information (often interim reports), payment behaviour and businesses' market reputation.

Finnish electronics/ICT sector

Strengths	Weaknesses
• High-tech industry. • Consumer and industrial spending grows.	• Heavily dependent on exports. • Smaller companies have lower equity ratios. • Many companies reported poor financials in 2010.

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