crédito y caución
Atradius Group

market monitor

Focus on consumer durables/non-food retail performance and outlook

March 2013

Crisis in the high street

It is not a difficult concept to grasp. If your income is falling in real terms, it costs more to run a car and heat your home, and you are worried about whether you will have a job this time next year, your natural reaction will be to cut back on discretionary spending: on those items you would like but do not necessarily need. That is what is happening in many countries, and consumer durables producers and retailers are feeling the pinch.

In the Netherlands, private consumption fell 1.4% last year and a further drop is expected this year, as consumers' purchasing power weakens. It is a similar story in the UK, and even more so in Italy and Spain. Another factor is the close link between sales of household items, like kitchen appliances and furniture, and the housing industry. That is bad news in countries where house building and sales are stagnant, but in the US sales of new homes again rose almost 20% last year, giving a welcome boost to furniture stores. However, in the US's immediate neighbour Canada, despite some improvement in consumer confidence, sales of consumer durables are expected to be downbeat this year.

As in many industries, smaller retailers are in the most precarious position, with stiff competition taking its toll on margins. The answer, as is seen in Germany and Poland, is often for smaller independent firms to merge with larger syndicates.

There are some positive signs. The German household appliances sector has seen growth for the last five years. And in China the continuing improvement in living standards, coupled with growth in office space and hotel construction, has proved beneficial to furniture and appliance retailers.

But the challenge throughout the industry is that of rising costs in a competitive environment – and where consumers are stubbornly price sensitive. That puts real pressure on margins throughout the supply chain.

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

Excellent **Good** **Fair** **Poor** **Bleak**

China

The Chinese retail sector is set for further growth

Although Business Monitor International (BMI) forecasts China's real GDP to grow 7.5% in 2012 and 7.1% in 2013, which would be the economy's worst performance since 1999, population expansion and increasing individual wealth are key to ensuring substantial growth in China's retail sales. Regulatory reform following China's accession to the World Trade Organisation (WTO) in 2001 has allowed foreign retailers to make significant inroads into the market, satisfying demand from young and aspirational consumers and contributing to a trend that is likely to see the value of the retail segment increase significantly. The country's future retail growth remains positive, with a double-digit rise in annual sales expected.

Table: China Retail Sales Indicators, 2010-2017

	2010	2011	2012f	2013f	2014f	2015f	2016f	2017f
Retail sales, CNYbn	15,889	17646.6	20241.9	23002.0	26036.5	29360.4	33020.8	36970.2
– US$bn, fixed 2009 foreign exchange rate	2,326	2,583	2,963	3,367	3,811	4,298	4,834	5,412
– US$bn, forecast foreign exchange rates	2,347.2	2,729.8	3,162.8	3,594.1	4,068.2	4,587.6	5,159.5	5,776.6
Retail sales as % GDP	39.9	38.5	39.9	41.0	42.6	44.1	45.5	46.9
Retail sales per capita, CNY	11,845.4	13,095.2	14,954.1	16,921.1	19,077.5	21,435.0	24,028.3	26,823.2
– US$	1,733.9	1,916.9	2,189.0	2,476.9	2,792.6	3,137.7	3,517.3	3,926.4
Total retail sales growth, CNY	26.8	11.1	14.7	13.6	13.2	12.8	12.5	12.0
Per capita retail sales growth, CNY	26.2	10.6	14.2	13.2	12.7	12.4	12.1	11.6
Private final consumption, CNYbn	13,761	15,839	17,685	19,784	22,067	24,579	27,351	30,336
– real growth % y-o-y	2,033	2,450	2,763	3,091	3,448	3,841	4,274	4,740
– US$bn	14	15	12	12	12	11	11	11

Source: BMI

Consumer price inflation has decreased since the beginning of 2012, to 2% in January 2013, with the last six months' consumer price index for consumer durables much more stable than in previous years.

Household appliances

Between January and September 2012, sales turnover in the Chinese household appliances retail market decreased 4.4% year-on-year, to CNY 1.155 trillion (EUR 144 billion). This came as no surprise, since retailers in this sector had benefited greatly in 2011 from a government programme of subsidies to encourage consumers to sell their household appliances to recycling companies and buy new ones: the so-called 'Old for New Policy'.

Since this programme has ended, businesses have generally seen their profits weakened, especially those selling white goods such as air-conditioners, refrigerators and washing machines. At the same time, fierce market competition in the Chinese home appliances industry has affected retailers' profit margins. We have noted that some large household appliances retailers have set up online sales channels in recent years, triggering price wars and further squeezing profitability in the industry.

However, the general equity strength of household appliances manufacturers is still relatively sturdy, as most market players are quite large corporations. The sales value of several Chinese home appliances enterprises is in excess of CNY 10 billion (EUR 1.25 billion), with sales of a single product exceeding 10 million units. These companies have a significant share of the global market.

Although in 2012 the performance of the household appliances sector dipped somewhat, the situation is expected to improve in 2013 with the recovery of house sales and local government moves to boost affordable housing. The current subsidy programme 'Encouragement of energy savings' might also play a positive role. In January 2013 the sales value of televisions and air-conditioners grew 0.6% and 13.6% year-on-year respectively. For refrigerators and washing machines, although sales volume dropped slightly, sales values increased 2.3% and 1.9% respectively.

However, the price war between several of China's consumer retailers has led to massive discounts, which will put price pressure on suppliers upstream. The growth of internet shopping is also fuelling competition and eroding profit margins. At the same time, many low-end consumer durables manufacturers are forced to increase prices to maintain their profit margins and counter higher production costs, caused mainly by rising labour costs. According to the country's Employment Promotion Plan, minimum wage levels in China will grow by at least 13% a year until 2015. Conversely, mid- and high-end household appliances manufacturers are wary of increasing prices as they try to maintain market share. While their profit margins are also affected by increasing costs, these remain at an acceptable level.

Furniture

According to the Ministry of Industry and Information Technology, turnover in the furniture industry increased 13.8% year-on-year in 2012 after a 1.1% decrease in 2011. Profits also increased, by 19.4%.

With continuing improvements in household living standards and rising disposable incomes, Chinese consumers are buying more furniture items. Moreover, demand for furniture is closely related to the development of Chinese real estate market: China's top economic planners are encouraging local governments to continue to boost affordable housing development, and public financial support for affordable housing increased in 2012. Meanwhile, government measures to cool the residential sector took effect in 2012, as residential real estate prices have risen sharply in recent years. China's real estate market for residential housing has slowed amid government efforts to rein in speculators and control prices, and the situation will not change much in 2013. However, the recent construction boom in many major Chinese cities has resulted in a significant growth in office space - and a consequent demand for office furniture as companies upgrade both their offices and their office furnishings. This has provided a boost to the middle and upper-end office furniture markets. In addition, the development of the tourism industry has led to the construction and refurbishing of hotels, creating a healthy market for the hotel furniture segment.

No change in payment behaviour expected

On average, payments in the consumer durables retail industry take 45-90 days and we do not expect any significant increase in payment delays in the foreseeable future. Even when payment delays occur, this is often as a bargaining ploy with suppliers rather than because of cash or liquidity issues.

The consumer durables retail sector's default/insolvency rate is on a par with other Chinese industries, and we do not expect this to change. However, we need to monitor those businesses with small scale sales and equity but large investment in their e-commerce platforms, as this could lead to significant funding pressure and, in the worst cases, to insolvency if no timely and effective action is taken.

We assess buyers in the consumer durables sector on a case-by-case basis. Our main criteria are a business's shareholding background, the business portfolio and financial performance. While there are fewer restrictions in our underwriting of large companies, strong groups and state-owned enterprises (SOEs) with sufficient capacity, we do need to see supporting trading experience to agree large credit limits if there is a doubt about their capacity. We are more cautious in the case of small and medium-sized enterprises with high external borrowings, because of concerns about tight banking policies.

So that we can maximise the cover we provide, we collect additional information that helps us reach a conclusion on a buyer's strength. If we have to make more restrictive decisions, we will explain our concerns to our customers and see if we can reconsider the credit limit based on any additional information that they can provide, e.g. a buyer's updated internal financial accounts, trading record for recent months and orders on hand.

Chinese consumer durables sector

STRENGTHS	WEAKNESSES
China has made steady progress in meeting its WTO membership commitment	China is still classified by many of its major trading partners as a non-market economy
GDP per capita is forecast to increase steadily, reaching US$ 8,944 in 2017	The Chinese market remains highly fragmented, with small, independent retailers throughout the country serving a population of approximately 1 billion people who buy goods at around subsistence level
The value of the retail segment is forecast to increase 61%, to US$ 5.41trillion by 2017	

Germany

Slow, but further growth in 2013

In 2012, and for the fifth year in a row, the German household appliances sector achieved growth in turnover of white and brown goods and electrically driven domestic heat systems: by 3%, to EUR 7.8 billion. Smaller appliances such as vacuum cleaners and coffee machines recorded even higher growth rates of around 4%. Smaller household appliances retailers are increasingly reacting to growing competition from large electronics retail chains by joining purchasing syndicates.

The furniture manufacturing sector saw an increase in turnover of 1.3% last year, to EUR 17.2 billion, of which 72% (EUR 12.3 billion) related to domestic sales. However, industry performance lost momentum over the course of the year. While the kitchen furniture subsector grew 6.6% in the first half of 2012, this slowed to 3.9% for the year, mainly because of lower demand from Eurozone markets. Furniture retail turnover increased 2%, to EUR 30 billion. The 20 largest furniture retailers hold around 50% of market share, and this percentage is growing as the trend of consolidation progresses.

In the meantime, half of the furniture sold in Germany is imported, compared to just a third in 2005, as furniture retailers source cheap unbranded imports. This is putting additional pressure on the margins of domestic furniture producers.

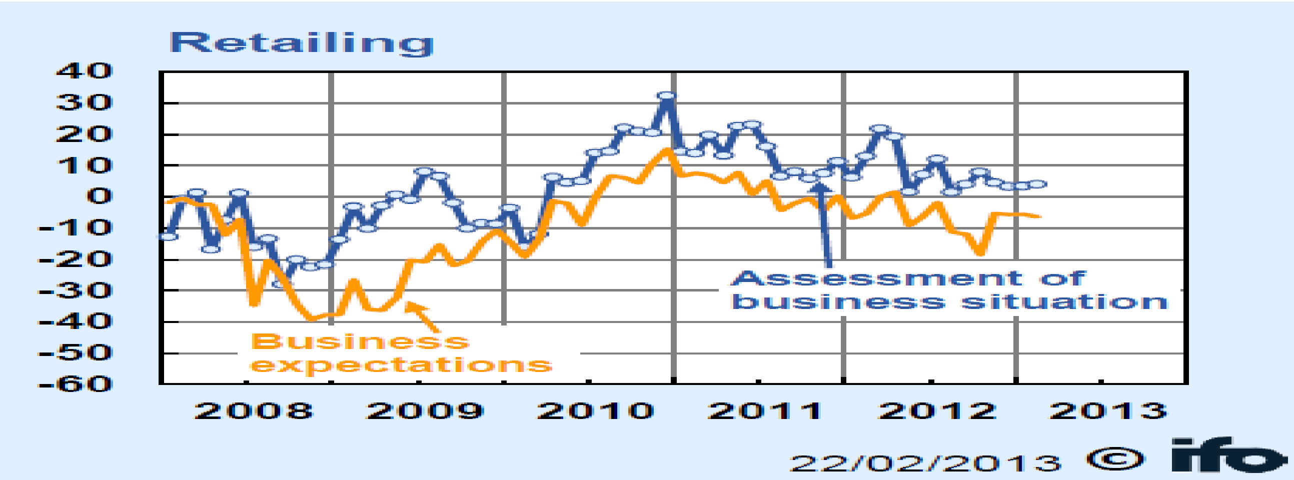
After growing 0.8% in 2012, German private consumption is expected to increase 0.9% in 2013, according to Consensus Economics. Consumer confidence dipped in the second half of 2012, due to increasing uncertainties about the Eurozone's economic outlook and its repercussions for Germany itself. However, recently confidence has begun to pick up again (see chart below), on expectations of continued stability in the German labour market. Consumer price inflation rose 2.0% in 2012 but is expected to slow to 1.9% in 2013, which should help to sustain household consumption.

Source: ICON; IHS Global Insight

Higher energy and commodity prices have increased the production costs of consumer durables, which cannot be passed on completely to retailers. Likewise, in the current competitive environment, retailers cannot pass on all the higher producer prices that they incur to consumers. This has put added pressure on margins along the whole value chain.

Business Situation and Expectations

February 2013; balances, seasonally adjusted



Source: Ifo business survey

Payment behaviour expected to remain stable

According to the German retail federation HDE, the nominal turnover of consumer durables will grow 1%, while, according to the German Electrical and Electronic Manufacturers´ Association ZVEI, sales of electronic household appliances will increase 2%. Consumer electronics turnover is expected to grow 2%, to more than EUR 29 billion, according to the German Association for consumer electronics, gfu. The German woodworking association HDH forecasts turnover to level off this year as foreign demand decreases. However, retail sales of domestic furniture are expected to increase 2% due to the robust economic situation in Germany.

Payment behaviour in the German consumer durables sector has so far remained both good and stable, and we expect no major changes as the general outlook for all subsectors is positive. However, when businesses cannot pass on increased (energy) costs to customers/consumers or compensate for this with savings elsewhere, they might demand extended payment terms. We monitor payment behaviour closely in all subsectors and inform our customers immediately of any deterioration.

Apart from just one major insolvency in the mail order business, failures in the consumer durables/non-food retail sector decreased last year, following the overall trend in Germany. We do not expect any major changes in the coming months, as long as the labour market remains stable and consumer prices are not adversely affected by higher energy prices.

Across all its subsectors, we still view consumer durables/non-food retail as a medium-risk sector. We maintain close contact with buyers, with whom we have built good relationships over recent years. Generally, our emphasis is on inspecting financial results shortly after completion (annual results, interim results, latest budget and liquidity plans), especially if we are to cover larger exposures. We do not cover newly established firms during their first year of business unless they are members of a well known group or have branched out from an established company.

When customers ask us to cover larger exposures, we try to persuade buyers to agree to retention of title in the sales contract, as this gives us more flexibility in our credit limit decisions. If we cannot agree a credit limit application in full, we will explain our decision clearly to our customers, helping them to maintain good business relationships with their buyer.

German consumer durables retail sector

STRENGTHS	WEAKNESSES
Many long-established, financially strong family businesses	Small and mid-sized businesses lack access to international capital markets
Experienced and reliable management	Highly dependent on consumer sentiment

Italy

No respite from the sector's problems

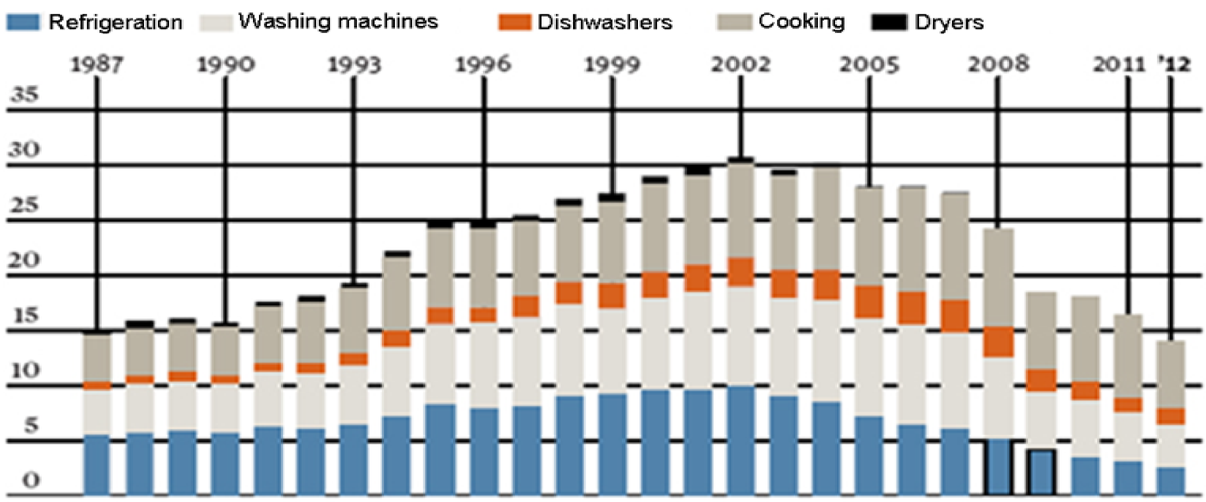
In 2012 Italy's GDP contracted 2.2%, with a sharp decrease in private consumption (-3.9%). Consequently, the consumer durables sector suffered greatly from the reduction in household purchasing power. Consumer spending is expected to shrink further this year - by more than 1.5% - as a result of limited disposable income and rising unemployment. Moreover, the performance of the consumer durables sector is closely linked to sectors that are currently in crisis, such as real estate.

Household appliances: the decline continues

This subsector includes consumer electronics, major domestic appliances (white goods) and small domestic appliances (brown goods). Sales fell 7% year-on-year in the first half of 2012: to EUR 4.98 billion. In Q4, the most important sales period with 50% of annual sales usually made in the run up to Christmas, turnover decreased in all subsectors. Even massive Christmas discounts and special offers were not enough to boost sales, and pressure on margins continues to threaten smaller and weaker businesses.

Consumer electronics recorded a 21.8% year-on-year drop in turnover in Q4 of 2012. All product categories were affected by this negative trend, except for docking stations and loudspeakers.

Major domestic appliances: in the first half of 2012, production volumes decreased by 29% for cookers, 23% for freezers, dishwashers and air conditioners, 14% for hobs and ovens, 12% for refrigerators and 8% for washing machines. In Q4 sales of new kitchens also fell sharply. Only washing machines and dryers showed an upward trend. Over the last ten years, production of household appliances in Italy has contracted dramatically: from 30 million units in 2002 to just 14 million in 2012, i.e. back to 1987 levels (see chart below).



Source Confindustria

Small domestic appliances: turnover decreased 1.7% year-on-year in Q4 of 2012, to EUR 492 million. Italian production of small appliances like vacuum cleaners, microwaves and irons suffers from outsourcing to China.

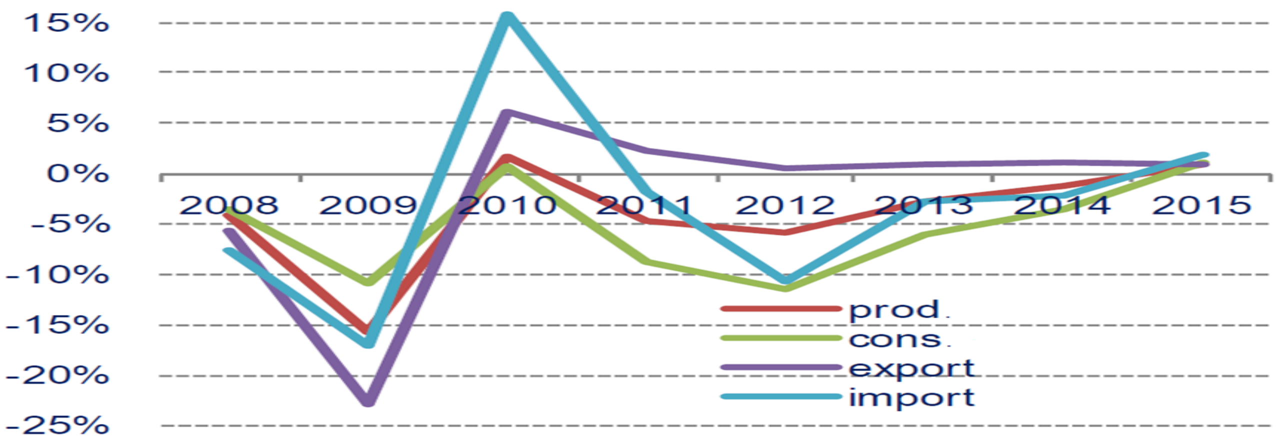
Office equipment: turnover decreased 2.3% in Q4 of 2012, with only cartridges showing a positive trend.

In view of the ongoing economic malaise, the 2013 outlook for household appliances remains pessimistic. The lack of credit and low consumer demand will hamper this subsector's performance at least until 2014.

Furniture: there are at least some export opportunities

The Italian furniture market is very fragmented; with thousands of small businesses whose average turnover is less than EUR 1 million. In 2012 the domestic furniture market continued to suffer, while exports – especially to Asia - grew. However, this increase in export sales was not enough to prevent a further fall in production (see chart below). 2013 will be another difficult year for the industry in Italy, with a 3% decrease in production (at constant prices) expected.

Trend of the furniture sector in Italy: from 2008 to 2015



Source: CISL

As the domestic market continues to decline, only exports provide growth prospects for the Italian furniture sector. There are around 5000 exporting companies in the sector, representing 24% of all active companies. Italian-made furniture and furnishings enjoy a high international reputation, which should afford openings for growth in emerging markets. However, while the traditional, family-run, nature of many Italian companies may be fine for export markets like the EU and US, those markets are currently not providing large growth opportunities. The Italian business model does not have the degree of internationalisation and the medium-term strategic approach vital to capitalise on the burgeoning emerging markets, which is where fresh opportunities lie.

Rising payment delays and insolvencies

On average, payments in the consumer durables/non-food retail industry range from 60 to 120 days, depending on the subsector: with furniture businesses seeing the longest durations. Payment delays have increased as restricted access to bank loans mean that companies tend to delay paying suppliers in order to manage their liquidity. This is also reflected in a massive increase in the number of non-payments notified to us last year. We expect a further increase in payment delays at least until mid-2013.

Insolvencies in the sector increased last year. The boom in sales of digital TV sets in 2011 and government incentives to renew household appliances had both come to an end, leaving the market weak with insufficient critical mass to support the majority of the players in these sectors. Compared to other Italian industries, the default/insolvency rate in the consumer durables/non-food retail sector is above average. We expect business failures to increase for a number of reasons: firstly, because of their dependence on other struggling sectors like real estate, and secondly because the two waves of recession - in 2009 and 2011 - have already weakened some smaller companies beyond the point where they can survive. Their only hope is for a reduction in labour cost and taxes. Furniture is the subsector most at risk and also the most difficult to assess accurately because of its highly fragmented nature: 60% of furniture companies are unlimited partnerships that are not obliged to publish accounts.

In view of the current situation our underwriting approach is cautious. We require the most up–to-date financial information - even on unlimited partnerships - and we meet buyer companies as often as possible to fully understand their situation and the market. A key factor for our analysis is sight of businesses´ short-term financial debt, the maturity of long-term debts, stock levels and cash flow generation, together with periodic checks on their trading experience.

The home appliances subsector, unlike the furniture subsector, consists of larger businesses that we know very well and which can be easily monitored. However we are, as explained above, more cautious in the case of buyers in the furniture industry: their record of payment is poor and even positive trading history from suppliers is sometimes insufficient to guarantee their financial strength. By compiling the most complete set of information possible and meeting regularly with our customers, we can provide them with a clear indication of their buyers' creditworthiness, even in those instances when we cannot fully meet our customers' credit limit requests.

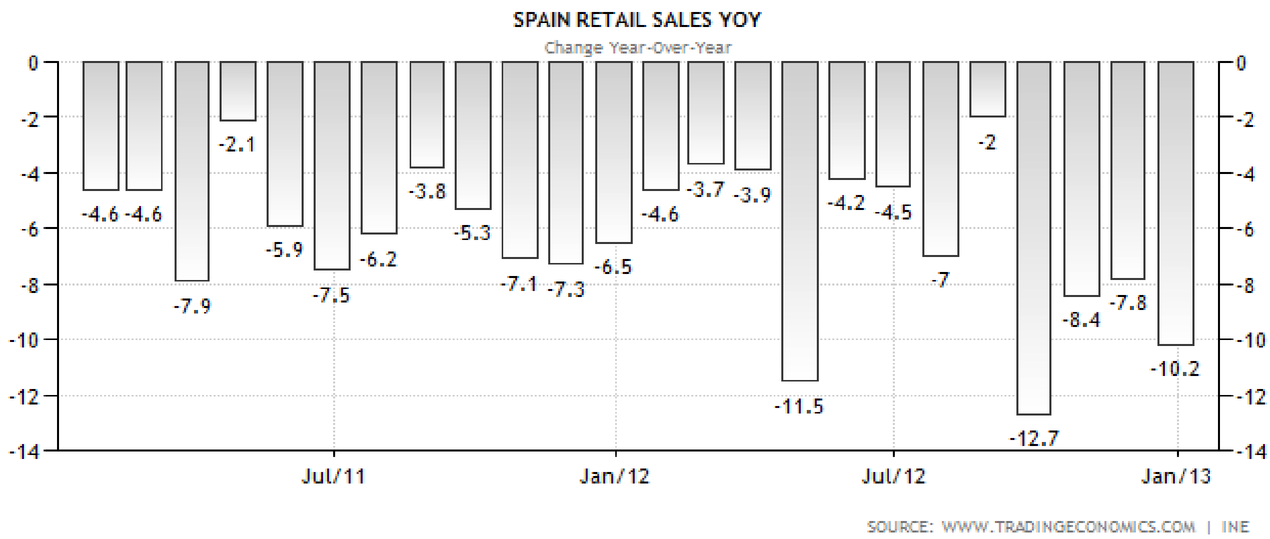
Italian consumer durables retail sector

STRENGTHS	WEAKNESSES
Appeal of high tech products and small appliances	Overcapacity, high number of distribution networks
Brand awareness 'made in Italy' appeal	Reduction of average margins due to high competition
Exports partially compensate for the decline in the domestic market	Dependence on troubled sectors (e.g. real estate)

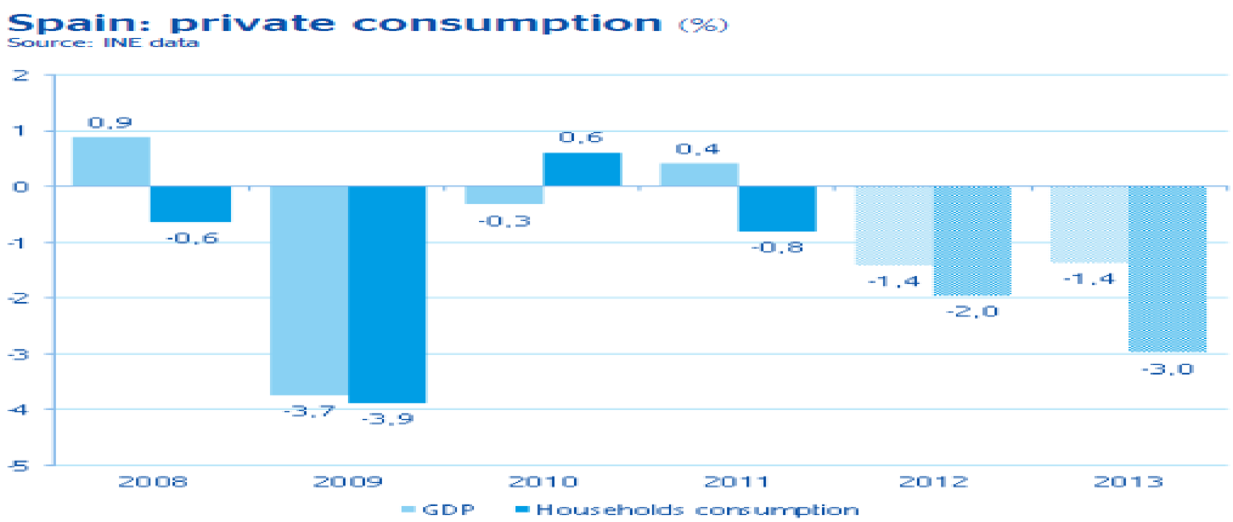
Spain

The downturn continues as customers´ habits change

Spain's economic troubles have clearly affected retail sales, which decreased 10.2% year-on-year in December 2012 after persistent monthly decreases (see chart below).



The decline in private consumption accelerated due to new fiscal measures, mainly for durable goods. As expected, a VAT increase in September 2012 has resulted in a big contraction of household spending.



In 2012, demand for durable goods recorded the largest decrease since the beginning of Spain's economic crisis. The deterioration in the labour market has led to falling disposable income and, as uncertainty is expected to remain high, purchasing decisions are being postponed. Moreover, liquidity pressures have encouraged saving to the detriment of consumption. Consequently, there has been a general decrease in real household expenditure, directly affecting durable goods. With changes in consumer habits and preferences, priority is being given to food, health and education, at the expense of spending on durable goods.

Moreover, credit has played a key role in the trajectory of durable goods purchases, as the restructuring of Spain's financial system and low domestic demand have both affected consumer financing. Lending to households for consumption continued to decrease in the second half of 2012, although at a slower pace than seen in the first half of the year. Household deleveraging led to a drop in the ratio of consumer credit to GDP: to 6.0% in September, three percentage points below the European average. Although higher interest rates for consumer credit, resulting from changes in financial institutions' commercial policy, contributed to the reduction in consumer credit, the deterioration in consumer financing is due mainly to a general decrease in demand.

To sum up, tighter access to credit, higher income elasticity, a lack of liquidity and the delaying of purchases because of the general economic uncertainty are all factors that explain the drop in sales of consumer durables since 2007.

Furniture

Turnover rose again in the second half of 2012 following a decrease over the first six months of the year, due mainly to sales ahead of the VAT increase and good foreign demand.

Household appliances

The prolonged adjustment in the real estate sector has continued to have a negative effect on purchases of household appliances. In the domestic appliances subsector in particular, smaller and independent retailers face tough competition from the larger players, adding pressure on their margins.

Brown goods (light electronic items)

After a recovery in July and August 2012, purchases fell back in September and October, although the VAT mark-up on final prices was virtually zero.

Prospects in the short and medium-term point to a substantial decrease in private consumption, forecast to fall further in 2013, by 2.3%, according to FUNCAS consensus forecast. Together with lower consumer confidence, this will inevitably affect the consumer durables sector. The deterioration in employment will trigger a decline in the wage component of households' gross disposable income. At the same time, the decrease in consumer credit is expected to continue in the coming months, as part of the deleveraging process that Spanish households are undergoing.

On average, payments in the consumer durables retail industry take around 60-90 days. The worsening economic situation has had a negative impact on the payment behaviour of consumer durables retailers in the recent past, and we expect this trend to continue in the coming months. At the same time we have seen a significant increase in credit insurance claims from this sector in the last six months, with furniture and domestic appliances manufacturers most at risk.

Prudent underwriting is key

Since the beginning of the economic crisis in Spain, our underwriting approach to all consumer durables/non-food retail subsectors has been, and will remain, cautious. We have recently reviewed a large number of companies involved in this sector based on specified risk indicators and available rating and scoring models, updating information and adjusting underwriting strategies accordingly.

With economic activity in recession and flat consumer demand, businesses may face cash tensions unless their stock management is efficient. Household appliances retail is the most sensitive subsector, consisting in general of independent and/or smaller retail stores whose financial structure is more vulnerable during an economic downturn.

Our underwriters seek the most recent interim figures from those companies in the sector identified as particularly sensitive as well as regular face-to-face meetings. We maintain close contact with buyers, with whom we have built good relationships over recent years, as a result of which they are more willing to share preliminary information with us. This is valuable for our underwriting process and helps us to maintain a satisfactory level of cover under current circumstances.

Generally, our emphasis is on inspecting annual results shortly after completion. If we are to cover larger exposures, we require more detailed financial information, e.g. interim reports and the latest budget figures, and we pay closer attention to any buyer who appears to be getting into financial difficulties. Our focus is on cash flow, net cash position, and terms of payment - especially with newly established and smaller retailers. We try to anticipate risks as soon as possible by collecting financial data on the weakest companies (especially, those facing decreasing market volumes and volatile economic conditions).

To sum it up, our underwriting team had foreseen the potential difficulties that this sector was going to experience in 2012. We visited more buyers to identify the risks, which gave us and our customers more risk-related information in 2012. This will continue in 2013. We will continue paying particular attention to the underlying trends that could point to potential future difficulties: such as high leverage, adverse performance against budget and erosion of profit margins.

Spanish consumer durables sector

STRENGTHS	WEAKNESSES
Important weight of the sector within the Spanish economy	Further slowdown of growth and private consumption
Businesses have taken measures to counter the downturn	Strong competition, pressure on margins and high dependence on consumer credit

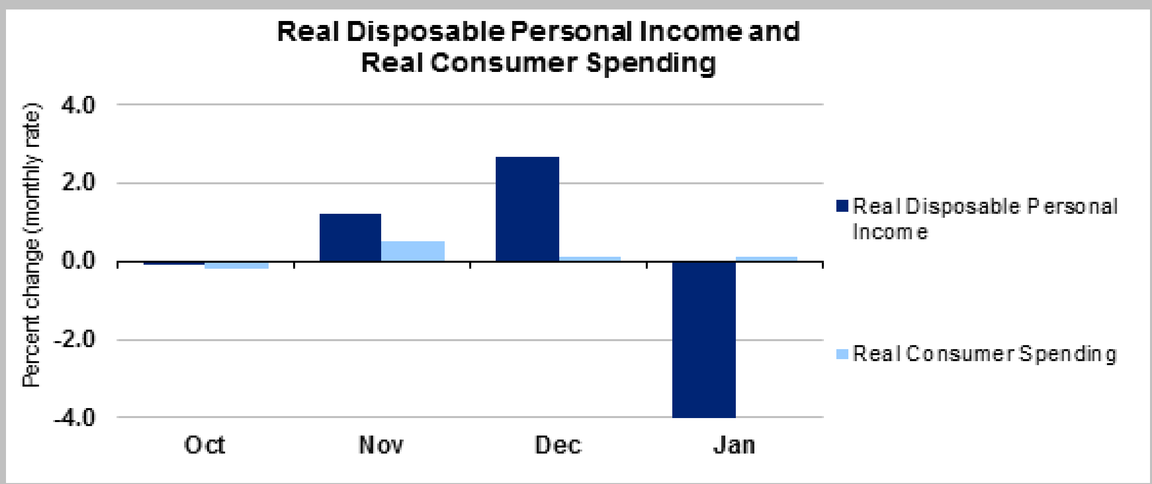
United States

Some barriers to consumer spending

According to Consensus Economics, the US economy grew 2.2% in 2012, with a 1.9% rate of growth expected this year. While the real estate market in the US continues to improve, unemployment remains high and major concerns still loom over the government's current debt level.

With unemployment high and sequestration threatening jobs across many industries, pressure on consumer spending is likely to persist. As a result of the 2008 financial crisis and the ongoing economic uncertainty, many consumers are saving and reducing their personal debt levels.

Reuters reported that the 2012 winter holiday season may have been the worst for retailers since 2008, with sales growth far below expectations. Real consumer spending throughout November and December was well below real disposable personal income levels (see chart below). The impact of Hurricane Sandy and concerns about the 'fiscal cliff' were partially responsible for the overall poor holiday results.



U.S. Bureau of Economic Analysis

The consumer durables trade sector in the US comprises several principal products including domestic electrical and electronic appliances, furniture, jewellery, leisure articles and the distribution chains that bring these products to the market. Household durables include large-ticket items that are meant to last three years or more, including major home appliances and furnishings. Domestic appliances include electrical and electronic household goods such as radios, televisions, refrigerators and washing machines. Leisure articles include the manufacture and distribution of sporting goods, games and toys.

Domestic appliances profit from housing rebound

According to Hoovers, the US household appliances manufacturing industry consists of around 300 companies with combined annual revenue of more than US$ 20 billion. The industry is highly concentrated with the top 20 companies generating about 85% of total revenue. Competition within the home appliances industry is tough and in 2012 home appliances manufacturers faced increased cost pressure due to the rising price of raw materials like base metals and plastic resins. Many manufacturers are looking towards emerging markets such as those in Latin America for expansion opportunities and revenue growth. The major retailers within the household appliance market include the big players like Best Buy and Wal-Mart, online retailers such as Amazon, regional consumer electronic retailers including H.H. Greg and Fry's, wholesale clubs, and small local electronics dealers. Large-ticket items continue to generate strong margins for the large retailers despite declining sales in categories such as consumer electronics and entertainment.

The household appliances industry is tied closely to trends in the housing industry. According to the US Department of Housing and Urban Development, an estimated 367,000 new homes were sold in 2012: a 19.9% year-on-year increase. Early indications are of increased home improvement activity in 2013: according to the Leading Indicator of Remodelling Activity (LIRA), home improvement spending will see double-digit growth in the first three quarters of the year. In 2012, low interest rates and refinancing options continued to contribute to higher sales of existing homes and this should have a positive impact on the US household appliances market in 2013.

The US furniture manufacturing industry includes some 20,000 companies generating combined annual revenue of around US$ 60 billion. Some segments, such as mattress and office furniture manufacturing, are highly concentrated, but the industry as a whole is fragmented: the largest 50 companies generate less than 40% of revenue. Furniture stores have long competed on price, but most high-end furniture stores have shifted to stressing 'lifestyle' rather than just selling furniture.

Operating performance in the bedding and home furnishings industries has improved significantly since the 2008/2009 recession, thanks to a slowly improving economy and increased sales due to pent-up demand. In general, companies within the furniture industry are now better equipped to weather a prolonged weak economic period than during the last recession, because they have reduced costs and improved liquidity over the past two years. In fact, most of the bedding and home furniture manufacturers have a stable outlook, and demand for their products, particularly from more affluent consumers, has improved.

Demand for office furniture is expected to remain above average in 2013, as companies continue to spend on furniture and fixtures, following steep reductions after 2008. Office relocation could increase as companies seek to economise on their rent. Within the bedding and home furnishings industry, demand is likely to remain uneven, as growth in the upper and lower tier furnishings segments modestly outweighs sluggish demand for mid-tier products.

In the leisure articles subsector, wholesale sales of sporting goods, apparel, footwear, fitness equipment and licensed merchandise reached US$ 77.3 billion in 2011, according to the Sporting Goods Manufacturers Association. Americans spend US$ 646 billion each year on outdoor recreation, a growing US industry. In the US sporting goods industry, e-commerce sales in 2011 were US$ 2.1 billion and are expected to reach $4.9 billion by 2015.

On average, payments in the consumer durables retail industry take 30-60 days. In response to the challenging economic climate, furniture companies have been known to offer consumers terms as long as 360 days interest free as an incentive to buy. There have been no significant changes in payment behaviour over the last six months in the domestic appliance or furniture subsectors.

Atradius' notified non-payments in the US consumer durables retail sector have remained steady over the past twelve months with no increasing trend. The additional pressure on consumer spending, driven by increased taxes and rising fuel prices, could lead to increased non-payments in early 2013. On average, the consumer durables retail sector's default rate is on a par with other industries, with no large bankruptcy filings to date. While Atradius is not expecting an increase in insolvencies, our underwriting approach remains cautious given the continued elevated levels of unemployment, flat wages, rising tax rates, and the impact of financial issues within the Eurozone. As a result of continued price and promotion pressures in this crowded and competitive sector, the outlook for consumer durables retailers remains challenging, with ongoing margin and pricing pressure expected in 2013. Buyers in the industry will be carefully evaluated and their liquidity closely monitored.

US consumer durables sector

STRENGTHS	WEAKNESSES
Improving housing market leading to increased sales of consumer durables	Continued pressure on discretionary consumer spending money
Increased consumer savings and lower household debt levels may lead to increased high ticket purchases	Intense brick and mortar and e-commerce competition
Diversified distribution channel	Uncertain economic climate moving forward in light of the US government deficit and mandatory tax increases

Canada

Payment delays are increasing

In 2012 overall Canadian retail trade grew only 2.5% (to C$ 467 billion), after 4.1% growth in 2011. Furniture and home furnishing retail showed a modest gain, growing 1.3% (to C$15.23 billion) and reversing its slight decline of 0.1% (C$ 15 billion) in 2011. Electronics and appliances retail saw a significant 6% decrease to C$ 14.1 billion – a dramatic reversal from 2011's growth of 4.6%. Sporting goods, hobbies, book and music store retail declined slightly, by 0.4% (to C$ 11.1 billion), compared to a 1.1% increase (C$ 11.2 billion) in 2011.

Canadian consumer confidence appears to be improving, according to the monthly index compiled by the Conference Board of Canada. In January 2013 the index rose to its highest level since June 2011, due mainly to confidence in future jobs and income. However, the Bank of Canada has cut its GDP growth forecast for 2013 from 2.3% to 2% and now expects the economy to return to full potential later than earlier anticipated: in the second half of 2014 rather than late 2013. At the end of 2012, caution about high debt levels had already begun to restrain household spending. Consumer durables retail is expected to remain subdued for the rest of 2013 and to lag behind overall economic growth.

Payment delays in the consumer durables retail sector have increased, with the poor retail performance in Q4 of 2012 leading to elevated inventory levels at retail stores. The knock-on effect is that retailers are moving away from advanced payments and towards a 'pay when sold' attitude.

According to the Office of the Superintendent of Bankruptcy, overall retail insolvencies decreased 11.9% year-on-year in 2012: from 648 to 547 cases. This represented 13.1% of total Canadian insolvencies (4,353) down from 13.6% in 2011 (648 of 4,775 cases). However, against a backdrop of historical low insolvency figures and a mediocre business outlook, we expect insolvencies to increase again this year.

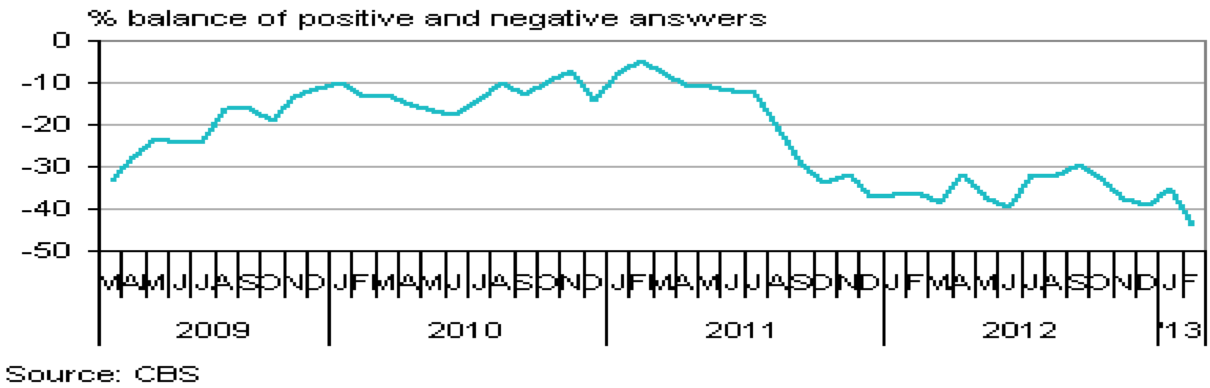
Our underwriting stance for the sector is quite cautious. Customers who sell into the sector potentially have longer risk horizons (terms of sale) and seasonality issues. We also take into consideration the capabilities of the customer's credit department, as their experienced personnel can provide significant insights to us about their processes and their buyers. To assist customers dealing with this difficult sector, our underwriters seek to make themselves as accessible as possible to the customer and explain the reasons for our decisions clearly. In sensitive cases where we cannot disclose confidential financial data on a buyer, we encourage our customer to seek out that information for themselves.

The Netherlands

Retailers are tightening their belts

After a 0.9% contraction in 2012, the Dutch economy will remain in recession, with another 0.3% year-on-year contraction in 2013 forecast by Consensus Economics in February. Private consumption is expected to decrease 0.7% after a 1.4% contraction in 2012, while Dutch consumers' purchasing power continues to weaken: it is expected to have decreased 2% in 2012 and to shrink another 1.25% in 2013.

Consumer confidence, seasonally adjusted



All this is having a negative effect on consumer retail sales, which fell 3% last year and will shrink another 1% this year. In this downbeat business environment, the non-food retail/consumer durables segment has been particularly hard hit. In Q3 of 2012 sales decreased 4.5% year-on-year. July and August were especially bad months, with sales down 6.8% and 5% respectively. Although September saw a modest 0.1% increase, thanks to growth in sales of consumer electronics, clothing and personal care, in Q4 the monthly figures again showed falling turnover and volumes, according to the statistics office CBS. December saw a 6% decline in sales and an 8% decline in volume. All non-food sectors were affected, with living & furniture, DIY and textiles hit hardest.

The number of retail insolvencies fell in Q3 of 2012 compared to the previous quarter (178 cases after 200 in Q2). Three sectors accounted for more than half the total number: clothing and fashion; furniture, lighting and other household items; and DIY. However, year-on-year, the number of insolvencies has clearly increased. From January to September 2012 alone there were 589 retail business failures, so the yearly total is set to exceed 2011's total of 623 and will be far in excess of 2010's total of 551 insolvencies.

We expect a further insolvency increase this year.Therefore, while this poor business environment persists, our underwriting stance remains very restrictive on non-food retail/consumer durables. Particular care needs to be taken when it comes to subsectors that have been worst affected by the economic downturn: namely furniture, the whole living sector, and DIY.

Poland
Overstocking damages profits

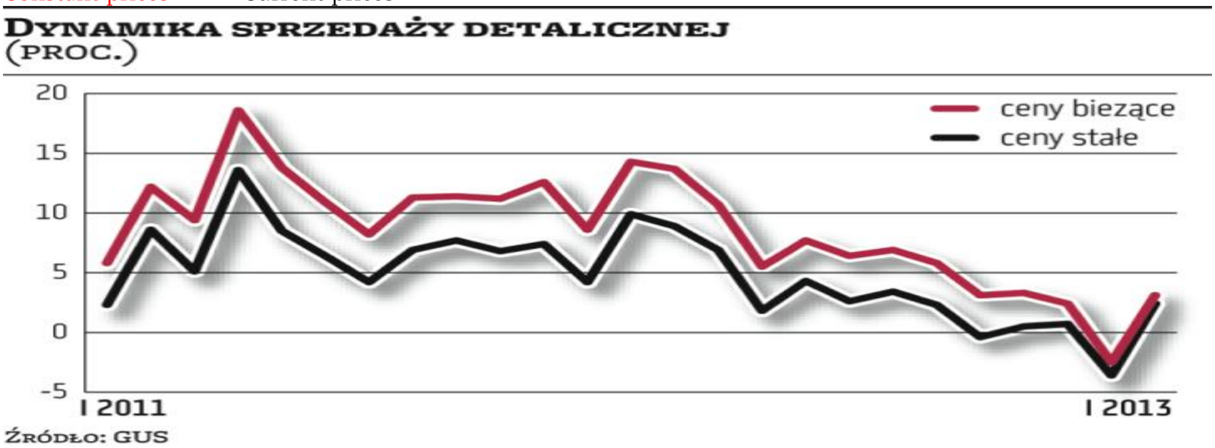
While it is estimated that the Polish household appliances market grew by up to 6% in 2012 it is forecast to stagnate at 0-1% in 2013, as the country's overall economic performance slows down. Private consumption, which accounts for two-thirds of Polish GDP, decreased 1% in Q4 of 2012: to the lowest level for 20 years. Consumer confidence is currently subdued, unemployment increased to 14.2% in January this year and households are tending to increase their savings rather than spend. In view of this, many businesses in the non-food retail/consumer durables sector are overstocked, with a consequent negative effect on both their liquidity and profitability. While company solvency in the sector is generally acceptable, margins are low. There is an ongoing consolidation process in the household appliances sector (retail/wholesale), as companies that used to operate as independent entities within purchase groups now merge: both within their own purchase group and across groups. The consolidation of large retail chains threatens smaller players in the medium and long term.

In household appliances retail we expect a further polarisation of results: on the one hand, with companies showing increasing sales and decent results and, on the other, companies gradually losing their market and incurring losses. The latter will continue to disappear, more probably through insolvency than takeover, for which there is little remaining capacity. However, this process will take more than six months for larger businesses, while smaller ones may be affected earlier. At the same time, domestic appliances producers and furniture manufacturers predominantly (>80%) export their goods, so their situation will depend on demand from foreign markets: mainly from the EU. Overall, we expect more non-food/consumer durables payment delays and insolvencies in the coming months.

We currently have a cautious approach in underwriting the non-food retail/consumer durables sector. Buyers whose risk is assessed as being above average are monitored through their quarterly accounts. In addition, we sometimes ask for the list of available credit lines. In order to maximise the cover we provide, we stay close to the market and regularly meet the largest buyers.

Retail sale dynamics in %

Constant prices Current prices



Source: GUS

United Kingdom

No light at the end of the tunnel

A difficult 2012 culminated in a flat Q4 for many retailers, with consumers slow to start their Christmas spending and increasingly discount driven. Adverse weather conditions significantly affected footfall on the high street and concentrated peak shopping into the last two weeks of the year. The Centre for Retail Research noted that 2012 was the worst year since 2008: due partly to the second economic downturn but also to the collapse of some retail giants (Peacocks, Comet, Clinton Cards and Game). Non-food retail insolvencies increased 3% in 2012 and the sector remains vulnerable. There have been further problems since the year end, with the administrations of Blockbuster, HMV and Jessops in January alone. Online retail is increasing its market share and continues to outperform its 'bricks and mortar' rivals. British households have cut back on their spending on clothes and furniture to cope with a sharp rise in petrol bills, while businesses face the dilemma of trying to pass increased energy costs on without losing market share. Those with a high store presence, and the associated fixed costs, are most at risk and quarterly rent payments will be key trigger points for potential failures. Stores that are reliant on big ticket items remain particularly vulnerable, although the demise of a company of such scale as electrical retailer Comet could potentially have beneficial effects for the wider market.

According to the Office of National Statistics (ONS), the total amount spent on furniture and lighting was up 7.7% in December 2012. Independent information source 'The Furnishing Report' confirmed that accounts filed over Christmas and New Year for ten major UK sofa businesses show total sales in 2012 of £ 204.2m, down 2.6% year-on-year, suggesting that Britain's upholstery market held up reasonably well last year. However, while independents were able to improve their earnings potential, national operators were more intent on driving top line growth, with margins declining across the board for chain store furniture and flooring firms.

There are some good news stories however, with stalwarts like John Lewis, Debenhams and Next all reporting strong sales throughout 2012. At the other end of the spectrum, anecdotal evidence suggests that value chains, pound stores and charity shops are thriving and certainly they are among the few who are increasing their store portfolios. The supermarkets generally had a strong Christmas with the major names continuing to invest in their non-food offering.

UK GDP growth will remain subdued in 2013, and Consensus Economics forecasts that growth in private consumption will level off at 0.9%. With inflation at 2.7% and average wages down by 1.4%, Britain is heading for a fifth year of falling living standards. There is continued pressure on the government to ease austerity measures in an attempt to bolster consumer confidence in a year when welfare cuts are expected to take their toll on consumption. The proposed rise in fuel duty in January has now been delayed. The British Retail Consortium BRC continues to lobby for business rates to be frozen and for a change in the way they are calculated. We currently have a cautious underwriting approach to this sector. We will continue to monitor the portfolio closely: identifying risks that we believe to be vulnerable and seeking up-to-date financial information. Cash flow and stock management will be key. By focusing on buyers who demonstrate negative trends and market positions that are exposed, we are able to prudently advise and offer solutions to our customers.

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