



Global Sectors Review

As the months go by, the recovery is being confirmed, but there are some zones or sectors that largely still face risks

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Economic Outlook



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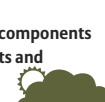
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- Construction
- Air transport



- Manufacture of IT and telecoms equipment
- IT and telecoms services
- Semiconductors and components
- Distribution
- Consumer electronics

- Paper and pulp
- Machinery
- Rail, maritime & aeronautics equipment manufacture
- Automobiles
- Steel
- Automotive components
- Food products and beverages



- Pharmaceuticals
- Energy
- Chemicals



Euler Hermes Economic Outlook – Global Sectors Review has been prepared by Euler Hermes analysts with the support of local risk experts in the group's 40 local offices around the world ■ **Head of Market Management, Strategic and Economic Studies:** Karine Berger • **Business sectors Manager:** Yann Lacroix • **Sector economists:** Bruno Goutard, Marc Livinec, Didier Moizo • **Has also contributed:** Dan North • **Graphic Design:** Claire Mabilbe – Paris • **Production editors:** Martine Benhadj, Anne-Marie Bégoc, Valérie Poulain • **Administration and documentation:** Anne-Marie Bégoc • **Translation:** Charles Prager – London • **For further information, contact:** Support Direction des Marchés et Marketing groupe 1, rue Euler 75008 Paris – Tel: +33 (0)1 40 70 53 77 ► Euler Hermes is a limited company with a Directoire and Supervisory Board, with a capital of 14,691,191.20 euros • **Photoengraving:** Evreux Compo, Evreux, France – Permit January 2011 ; SSN 1 162 – 2 881 • **Publication Director:** Karine Berger ■ *February 8, 2011*

Editorial

Meeting the competition on quality and forgetting about competing on cost

The industrial distance between OECD and non-OECD countries widened continuously over the course of 2010. From mid-2008 to the end of 2010, world industrial output rose by only 4% overall. But within this there were large differences: industrial output in the OECD countries continued to decrease, dropping by 7% against its summer 2008 peak, with businesses still taking a highly cautious view on restocking. By contrast, industrial output outside the OECD soared by 16%. In Asia alone, over the 30 months to the end of 2010, it shot up by 26%!

This divide is likely to widen further. In the coming years, growth in certain non-OECD countries – including China, Brazil, India, Russia and South Africa – will continue to be buoyed by their priority requirements in infrastructure, construction and transport. The accompanying investments will gradually transform their still low value added production structures into high value added structures on the OECD model. All these investment projects will be decided and borne by governments, but they will have leverage effects on productivity in the private sector.

Little by little, OECD businesses are seeing very serious competitors emerging on world markets in practically every sector. One needs only to look at the latest top ten listings of the biggest groups in different sectors to acknowledge this fact. While China and India have become global players in ICT, they still have some way to go in the automobile and chemicals sectors. But there is strong will – notably on the part of their governments – to make up the distance in the next ten years. Aeronautics, in which Brazil is already a global player, has become a priority sector for China. As for health sectors overall – and notably pharmaceuticals – these will become a development priority, with the lengthening of life spans and the emergence of a middle class. Its growth is the result of the advance of these economies and will also have a leverage effect on generating further growth.

Our early 2011 business sectors forecasts make it clear that the outlook is good for a number of high value added segments in the growth regions of the planet. Obviously, there will be some bumps along the way. Thus, should China fail to achieve rapid solutions to the need to restructure its steel sector, then that could slow GDP growth in the country. Similarly, construction sectors, still weakened in OECD countries, are showing local bubbles in emerging countries that could cool things down in coming months. Nonetheless, the battle for innovation will be a priority in these emerging zones during the next two years – with large amounts of available liquidity, infrastructure organisation efforts already well underway, and an incredible desire to build a prosperous future! So we need to stop thinking that the chief weakness of Europe and the United States would be their lack of price competitiveness: from now on their Achilles' heel may be in meeting quality requirements and in their capacity to innovate.



International Business sector forecasts

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

Source: Euler Hermes

As the months go by, the recovery is being confirmed, but there are some zones or sectors that largely still face risks

Overview: recovery continues, but some doubts remain

Quarter by quarter, global economic recovery is being confirmed, thanks to the effects of stimulus measures, restocking, and growth in the emerging countries. Nonetheless, a key sector, construction, remains fragile, with a still very uncertain outlook in developed countries, confirming that, with high unemployment rates, confidence is still lacking. There is also a new risk factor: rising prices for commodities, notably agricultural commodities, in step with increased demand in the emerging countries, increasing the risk of inflation, which could impact on household consumption.

Current situation: growth at two different speeds

The second half of 2010 confirmed the recovery in volumes posted in H1. After the restructuring efforts begun in 2009, profitability has also improved considerably, especially in the chemicals sector and among automotive component manufacturers, who have largely benefited from soaring growth in the emerging countries, with automobile sales exploding by more than 30% in China and India. This has also greatly benefited the steel sector, now back at pre-crisis output levels, albeit unevenly. Steel output in Europe and the United States is still far below the volumes of 2007. Similarly, the public's enthusiasm for innovative high-tech products has fuelled

activity in consumer electronics, with turnover now exceeding pre-crisis levels. While some sectors were very resilient in the crisis – pharmaceuticals, agrifoods, and also aeronautics (with swollen order books), other sectors remain structurally weakened. The traditional airlines, despite having returned to positive profitability in 2010 by cutting capacities, still face two threats: competition on their medium-distance routes from low-cost carriers, and competition from well-financed Gulf-state carriers on long-haul routes. They also suffer from the high volatility in fuel prices. Lastly, the construction sector remains depressed in developed countries, still showing no sign of recovery, testimony that, while the developed country economies are showing improvement, they are largely still convalescing.

from distributors during a period of annual product distribution agreements. Also, geopolitical events in North Africa are helping to fuel the surge in oil prices, which once again weakens airlines' profitability. Even apart from the risk of overheating, the strong growth in emerging countries should continue driving world growth, from which some of the developed countries should mainly benefit (Japan, Germany, and possibly others) as well as certain export sectors (capital goods, luxury goods, etc). ■ YL

Outlook: the worrying rise in prices for commodities, and particularly agricultural commodities

For 2011, continued recovery should be confirmed, but the end of stimulus measures and – notably in Europe – the introduction of austerity plans should limit potential expansion. By contrast, the emerging countries should maintain high growth rates, leading to ever-increasing demand for commodities, generating a further upsurge in prices, notably for agricultural commodities. This will impact on the agri-food sector, whose relationships with distributors are tense, due to price pressures



Key to symbols

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

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

Indicators

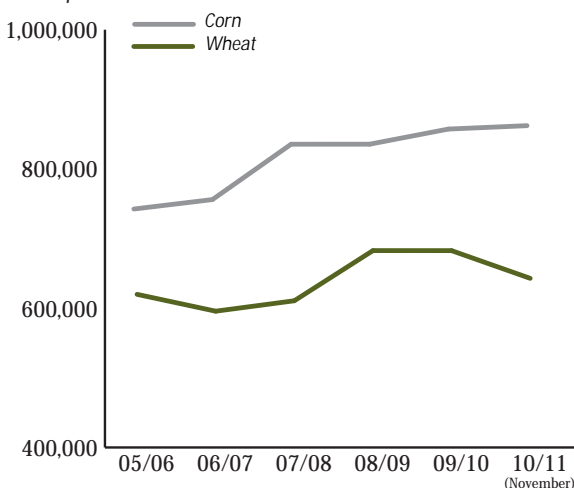
Grains

Cyclical shock or a crisis?

Over the full year 2010, grain prices rose by more than 38%. Corn, at its highest point since July 2008, is seeing a worsening imbalance in its physical market. Demand continues to rise sharply, driven by the powerful new dietary transitions taking place in the emerging countries (with Chinese requirements up by 16% in 2011, against 2010) and the impact of ethanol production (which absorbs 40% of US corn production). At the same time, a succession of adverse weather events (presently, in Argentina and southern Brazil) have significantly lowered yields. According to latest forecasts, corn stocks at the end of the current season will be down to critical levels. Wheat prices, notably because of the summer 2009 drought in Russia and Ukraine, two major exporters, are showing manifest gains, although still below the highs of 2008. These price increases have also been driven by decisions in some countries to limit or ban exports, which, in markets where supplies are tight, have raised fears of shortages and led to panic buying by countries highly dependent on imported supplies for their own food security. The depreciation of the dollar and speculative financial investment are also fuelling the rise in prices. For 2011, the central question is this: will the scale of production in the current crop year be great enough to meet the imperative of restoring stock levels and also calm the boom in prices? To begin to answer that question, all eyes will focus particularly on weather conditions during the critical periods for the different regions – March to May in Europe, later in the year in North America – as well as on how La Niña takes shape. **■ BG**

World grains production

Millions of tonnes



Sources: Cyclope/USDA

Petroleum

Upward price pressures

Economic forces are driving up oil prices and will continue doing so over 2011. The Energy Information Administration (EIA) in the US forecasts world oil demand to grow by 1.7% to 89 million b/d in 2011, with supply rising by only 0.9%. China's uninterrupted growth is obviously the biggest factor in this, with the country's oil demand estimated to rise by 5.9%, against its own output falling by 0.7%. The decline in world oil reserves is also part of the equation in the price rise, especially in the United States, where, up to now, reserves were fairly high. However, between October and December, US reserves fell by 9% to their average level over the past five years. With economic recovery continuing in the US, the country's growing demand for oil is likely to contribute to a continued fall in reserves, strengthening upward price pressures. The Federal Reserve will also help push up prices. Its Quantitative Easing (QE) measures are, basically, an exercise in printing money, driving down the value of the dollar and automatically pushing up oil prices. Lastly, OPEC seems to have no readiness to lower prices, given that, at its latest meeting, a number of oil ministers suggested that the world could sustain oil prices of \$100 a barrel. OPEC ministers also decided not to attend its next meeting in March, signalling their satisfaction with the present situation. All these forces will drive oil prices upwards across all of 2011.

■ DN

Petroleum prices

USD per barrel



Source: New York Mercantile Exchange

Indicators

Steel

World steel output and prices stabilised in H2 2010

In the second half of 2010, world steel output returned to its pre-crisis level of nearly 1.4 trillion tonnes annually. However, the 'old' industrial countries – the United States, Japan and European Union – were very hard hit by the crisis and have not yet returned to their levels of 2007 output volumes. At the end of November 2010, yearly output in both the European Union and the United States was still 19% down on the same period of 2008, with Japanese output down by 14%. By contrast, Chinese steel output over the same period was up by 19%, confirming the severe decoupling at work in the world economy. For 2011, steel output should continue to rise in China and continue to recover in the US, but it could still remain well below its pre-crisis levels in Japan and the European Union. Prices, for their part, were relatively stable in the second half of 2010, but the flooding in Australia from late December 2010 has disrupted coking coal supplies again, at least until mid-February, with Queensland on its own providing more than half of the world steel industry's coking coal requirements. This pressure on supplies has already driven up coking coal prices, and steelmakers are very likely to pass on the increase to their customers. ■ YL

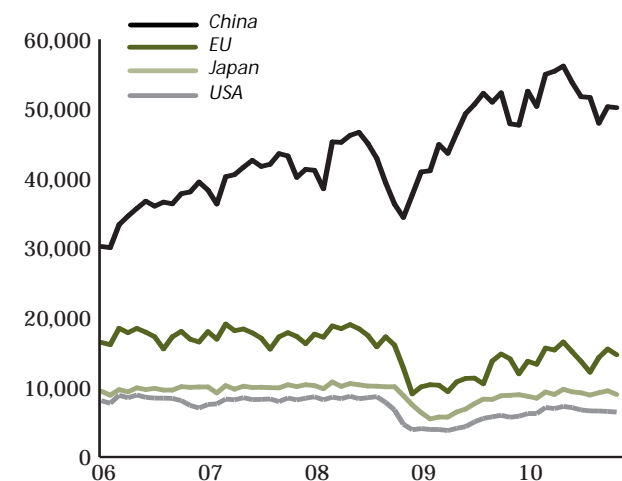
Semiconductors

A soft landing and start of a new cycle

The euphoria surrounding the revival of production in semiconductor factories from mid-2009 gradually brought a return in 2010 to the industry's long-term average capacity utilisation rates of around 90% – at 93.5% in March 2010, against 55.6% in March 2009. The recovery in demand helped the world semiconductor market grow by 25% in 2010, to slightly more than \$300 billion. Impressive as it might seem, this 25% increase is only proportional to the fall that preceded it, and the pace of growth slowed gradually during H2 2010. Also, this growth has confirmed the supremacy of Asian markets, which now account for 54% of semiconductor production, posting a one percentage point gain in market share over the course of 2010. In other regions, the sector has revived only later and less strongly, only to run out of steam rapidly, handicapped by constant pressures to cut prices. More significantly, the high-volume production markets (such as telecoms) that have shifted their centres to Asia are beginning to stagnate, which could foreshadow a strengthening in competition in other markets and also in research and development. Semiconductor market growth is likely to be no more than 5% in 2011 – a soft landing, and one masking the onset of a new cycle. This is a familiar pattern for the sector, confirming its dependence on the state of world economic activity. ■ DM

Monthly steel output

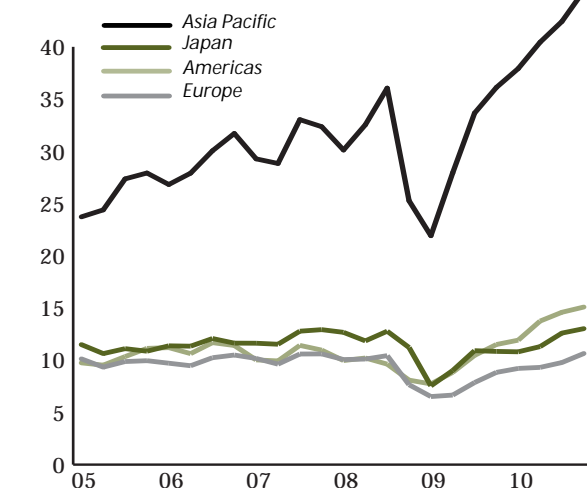
Thousands of tonnes



Source: worldsteel.org

Semiconductor markets

USD billions per quarter



Source: WSTS

Global risk

B 

Food products and beverages

A world on the move

Overview: catching back up

Food expenditure in 2009 can be estimated at more than \$1 trillion in Western Europe, \$610 billion in the United States, \$550 billion in China and \$415 billion in Japan. On a global level, trends follow well-known fault lines: between 2005 and 2009, per capita food spending (excluding exchange rate effects) rose by 61% in India, 59% in Brazil, and 55% in China, with a limited 13% increase in the United States. Inflation notwithstanding, these figures reflect consumption on the part of middle classes in the emerging countries shifting increasingly towards processed foods and a change in eating habits.

Current situation: pressure on results

Broadly spared by the recession in 2009, agrifood businesses have entered into a more difficult period, marked by continued deflationary pressures (high price sensitivity, rooted in discount selling operations that have sustained volumes) at the same time that agrifood manufacturers face sharp increases in agricultural commodities. The squeeze effect of these two forces clearly impacts on their profitability, in recent weeks bringing downward revisions in profit forecasts by ConAgra Food, Campbell Soup, and Kellogg's. Alongside this, mergers and acquisitions are continuing in all segments of the sector: Ralcorp's purchase of private label manufacturer American Italian Pasta for \$1.2 billion, and the forthcoming merger of German dairy cooperatives Nordmilch and Humana (with consolidated sales of more than \$5 billion). Despite everything, however, the western agrifood sector still attracts interest not only from, on the one hand, investment funds, lured by reliable profits (KKR's purchase of Del Monte Foods for around \$4 billion)

but also from operators based in the South, relying on their solid positions domestically to build positions in major markets (e.g., significant operations by China's Bright Food Group in Europe and the United States; India's Tata Chemicals' move into the UK; and the continuing ambitions of Brazil's JBS).

Outlook: new horizons

During the second half of 2010, the sector saw a larger-scale deployment of the majors' twin-track growth strategy: on the one hand, looking for new growth among emerging country consumers (e.g., Pepsico's purchase of Wimm-Bill-Dann in Russia for \$3.8 billion, or 18 times its EBITDA) and, on the other, creating value through innovation. An example of the latter is medical foods (for the prevention or treatment of diseases such as diabetes, obesity, cardiovascular disease, Alzheimer's, disease, etc.). This field is very promising and offers comfortable margins— a great deal of excitement followed Nestlé's announcement of its plans to launch a specialist subsidiary with a research budget to match its ambitions— some \$500 million over 10 years. So although this is a new field, it will be the scene of fierce competition, with agrifood businesses (including Danone and others) and also pharmaceutical firms (Abbott, Johnson & Johnson, etc.) joining the fray. And it can count on close scrutiny by regulators, now very vigilant about any product claims of real health benefits. Other approaches for adapting to the current environment include trials such as those carried out by Danone with milk producers (a pilot scheme on three sites in France) with a view to securing its supply lines, and its forthcoming introduction of a 'tactical' private label brand in partnership with Wal-Mart. ■ BG

Major world food and beverage companies

Rank	Company	Nationality	Turnover H1 2010 USD?billions	Change vs H1 2009
1	Cargill	USA	58.9 ****	N/A
2	Nestlé	Switzerland	57.3	5.7%
3	ADM	USA	30.8 **	1.6%
4	Unilever	UK/Netherlands	29.2	9.7%
5	Pepsico	USA	24.2 2	8.0%
6	Kraft	USA	23.6 2	5.6%
7	A-B InBev	Belgium/Brazil/USA	17.5 -	1.1%
8	Coca-Cola	USA	16.2	4.9%
9	SABMiller	UK/Netherlands	14.2 ***	6.6%
10	Tyson	USA	13.6 *	6.2%

* as of 31 March ** as of 30 June (H2 2009/10) *** as of 30 September **** as of 30 November

Sources: companies

Food production growth, selected countries

	Change 2008 to 2009	Change 2009 to 2010
Germany	-1.0%	1.0%
Brazil	-1.4%	4.9%
United States	-0.5%	5.1%
France	1.1%	1.3%
China	2.0%	0.1%

Sources: national statistics bases

Global risk



Consumer electronics

Return to growth

Overview: the digital era

Estimated by market research firm iSuppli at \$341 billion (+6%) at the end of 2010, the world consumer electronics market covers the entire range of hi-fis, videos, personal computers, photographic equipment, games and mobile phones manufactured for sales to individuals. The year 2010 marked a return to growth for a sector that is now globalised. In 2009, the sector was hit heavily by the economic crisis, posting turnover of \$321 billion for the year, a drop of around 4.5% against 2008. The revival in the market, which proved stronger than originally anticipated, is undoubtedly the result of last summer's broadcast of football's FIFA World Cup in South Africa, which led to large number of households replacing their old equipment with the latest television and video technology.

Current situation: inexpensive, innovative products

Latest available figures from iSuppli show a significant increase in the volume of two of the sector's leading products over 2010. One of these, LCD flat screen televisions, saw sales rise by 40% to around 178 million units, for a cumulative turnover of around \$95 billion. Even more spectacularly, the explosion in sales of Blu-ray players and recorders made it effectively the industry standard, with sales in 2010 up 82% by volume in 2010 to a total of more than 16 million units, marking an increase of 82% in volume and with no signs of slowing so far. Up to one point, Blu-Ray's takeoff had been hampered by a limited range of available content, but this is now rapidly expanding. Some attribute its success to the sales of Blu-Ray disks of the blockbuster film Avatar, in a longer, 3D version. Less visible but just as vital to the health of the sector, hi-fi sales in the end proved very strong over 2010, both for home systems and for

portable media players. Their success, however, masks a relative slowdown in onboard electronic items such as car radios and GPS systems that, nonetheless, remain very popular among motorists. The preference now is for applications that perform the same functions but are available on mobile phone platforms, epitomising the impact of what may prove an important technological change. Lastly, there is a more general factor behind the recovery in the sector's growth in 2010: better controlled price reductions. Combining enhanced performance and miniature size, digital technology offers high value added goods that are a good fit with consumer purchasing power.

Outlook: a promising 2011

The shift in world growth from west to east, with its vast reservoir of eager customers, offers good prospects for volume growth, albeit for lower margin entry-level products. Judging by the initial response to the latest Consumer Electronics Show in Las Vegas, consumer electronics manufacturers are not unduly concerned by this, as they are at the same time expecting to maintain their sales in the developed countries thanks to product innovation: in the first instance, by meeting consumer demand for digital connectivity for the home – with computers, televisions, mobile telephones and fixed lines all becoming interdependent – and then, by marketing major innovations such as Apple's iconic iPad or devices (e.g., Amazon's Kindle) for purchasing books, magazines or newspapers online. Given these factors, we forecast the sector to post value growth of around 3% for 2011. ■ ML

Major world consumer electronics companies

Rank	Company	Nationality	Turnover H1 2010 USD billions	Change against H1 2009
1	Samsung	South Korea	63	7%
2	Panasonic	Japan	50	14%*
3	Sony	Japan	39	11%
4	Toshiba	Japan	37	18%
5	LG	South Korea	24	9%
6	Sharp	Japan	17	25%
7	Philips	Netherlands	16	9%
8	Hitachi	Japan	11	15%

* Excluding the SANYO group (consolidated in 2010)

Sources: companies

Forecast of average annual growth in the consumer electronics market, by zone, 2008-2013

Region	% growth
Europe	1.5%
North America	0.7%
Japan	3.1%
China	6.9%
Other Asia Pacific	7.1%
Rest of world	4.2%
Total	2.7%

Source: Décision Etudes et Conseils

Global risk



Pharmaceuticals

Obstacles to overcome

Overview: buoyant fundamentals

Estimated at close to \$840 billion in 2010, the world pharmaceuticals market enjoys prospects that other industrial sectors could considerably envy. It has a positive structural demand, due to the lengthening life expectancy of the global population and due to marketing of treatments against previously incurable diseases in the developed countries. It is the developed countries that are the prime market for the pharmaceutical firms, although they account for no more than a quarter of the world's population. Inevitably, the populations of the emerging countries will have access to medicines, but this will take time and offers no immediate solutions to the problems now facing the entire sector. And the industry is marked first of all by a continued process of concentration, with three major mergers carried out since 2009: Pfizer with Wyeth, Merck with Schering-Plough, and Genentech with Roche.

Current situation: patents expiring

The adaptation efforts carried out should not obscure the most important feature of the sector: its current deflationary situation, especially in Western Europe. With volume growth being dependent on traditional markets, price would seem to be the only remaining course of action. At the same time, the inability of the developed countries to durably end the deficits in their health insurance regimes forces their governments to adopt (sometimes unilaterally) further measures to reduce costs. The standstill in new innovations arising out of pharmaceutical R&D for several years does nothing to ease the downward pressures on the average price of a course of treatment. This is all the more true given that govern-

ment agencies are hardening the criteria for approving new medicines every year, in favour of those offering a genuine therapeutic improvement. Even so, the main challenge to Big Pharma comes from the wave of patent expiries on their big blockbuster drugs over 2010-2012. These drugs represent the equivalent of \$83 billion in turnover, and for buyers, competing generic versions are an irresistible substitute, especially given that, when a drug patent expires, the competing generic sells on average in the US alone at just half the price.

Outlook: reinventing innovation

Forced to adjust to this new situation, the pharmaceutical firms continued their restructuring efforts over 2010. Anxious to preserve their former profitability as much as possible, they have not hesitated in unison to reduce their workforce, close down factories or sell them to subcontractors, and to diversify into other areas related to human health. And the sector has also looked at rekindling innovation (which had slowed) in its R&D. This is because paying high prices for new biotech start-ups in order to beef up a firms' new drug pipelines does not seem enough to fill the gap over the long run. This is why R&D departments in the sector are being reorganised into small autonomous units focusing on a single therapeutic area, a course of action initiated by GSK several years ago. ■

ML

Major world pharmaceutical companies

Rank	Company	Nationality	Turnover H1 2010 USD billions	Change vs H1 2009
	Pfizer	USA	34	56%
	Sanofi-Aventis	France	20	5%
	Novartis	Switzerland	11.7	11%
	GSK	UK	22	7%
	Roche	Switzerland	24	7%
	AstraZeneca	UK	17	7%
	Merck	USA	23	102%
	Johnson & Johnson	USA	31	2%
	Bristol-Myers Squibb	USA	10	7%
	Abbott	USA	9	14%

Sources: companies

Global shares of world pharmaceutical sales, 2009

Region	% share
North America	39%
South America	6%
Japan	11%
Asia, Oceania and Africa	13%
Europe	32%

Sources: IMS Health, Chimie Pharma Hebdo

Global risk

B 

Automobiles

A very mixed global recovery

Overview: replacement markets and investment markets

After a 13% collapse in 2009, world automobile production returned to pre-crisis levels at almost 71 million units in 2010. A closer look, however, shows the genuine transformation that has taken place in the world market. The geographical distribution of sales shows the downturn in the mature markets – the so-called replacement markets – of Europe, the United States, and Japan, which in 2007 accounted for more than 73% of world demand, but less than 59% in 2010. This has been to the benefit of the so-called investment markets – i.e., the emerging markets, (notably, China, with sales growth of nearly 40% in 2010) whose share of world sales rose from less than 27% in 2007 to more than 41% in 2010. This is linked to the emergence of a middle class in these new consumption zones, and extremely low ownership rates, at less than 4%, against nearly 60% in Europe and Japan and 80% in the United States. This new situation justifies significant productive investment in the new consumer countries, but also reveals the surplus production capacity that exists, especially in Europe, undermining operators' profitability – something that will one day surely be called into question.

Current situation: on the face of it, a good year in 2010

While 2010 brought sales volumes back to pre-crisis levels, besides the growth in the emerging countries, there was also the effect, still significant in the early months of the year, of stimulus measures (scrappage allowances and environmental bonuses) in Europe and Japan. New vehicle registrations in H1 showed strong growth everywhere, but over the course of H2 the trend reversed in European markets and in Japan. The European market even posted a

difficult end to the year and is likely to pose a volume fall of between 5% and 6% for the full year, at around 13.5 million units sold, well below its 2007 figure of 16 million units. Japan ended the year with a likely figure of 5 million units, well up on the 4.6 million units figure of 2009, but below its August 2010 performance of an annualised 5.3 million units, and moreover well below its medium-term average of nearly 6 million units. While the US market grew by 8% to 11.5 million units, it will stay below 5.5 million units in the medium term, although the big event of the year was GM's successful return to the stock market – testimony to a restoration of investor confidence. As for the emerging countries, the nearly 40% explosion in Chinese sales over 2010 (against 2009) also owes much to stimulus measures (tax benefits for vehicles with small or medium-sized engines).

Outlook: towards low growth in vehicle sales in 2011

The world market should grow only slightly in the wake of the diverging paths of the major auto markets. Also, in line with the latter months of 2010, we can expect a worsening of sales in Europe and Japan following the final ending of car purchase incentives over H1 2011. The US market should continue the uptrend in sales, with new vehicle registrations rising by around 10% to more than 12.5 million units. The rate of growth in auto sales in the emerging countries should slow markedly with the end of fiscal stimuli and scrappage allowances, apart from in the Russian market, which will continue to benefit from assistance in 2011. In the end, after expanding by 8% in 2010, the world auto market should grow by 3% to 4% for 2011. ■ YL

Major world automakers

Rank	Company	Nationality	Turnover H1 2010 USD billions	Change vs H1 2009
1	Toyota	Japan	106.6	16%
2	Volkswagen	Germany	75.4	21%
3	Ford	United States	66.6	30%
4	Daimler	Germany	56.5	21%
5	Honda	Japan	38.9	15%
6	Nissan	Japan	47.6	28%
8	BMW	Germany	33.9	14%
9	Fiat	Italy	33.9	14%
10	Peugeot	France	34.6	21%
11	Renault	France	24.0	23%

(*) For the Japanese groups, figures represent yearly turnover to the end of September 2010

Sources: companies

World automobile sales: change in market share, by region

	2007	2008	2009	2010*
Europe	32.4%	32.1%	28.6%	24.9%
America	33.5%	30.6%	26.6%	26.9%
China	11.3%	13.3%	20.8%	24.1%
Japan	7.5%	7.4%	7.0%	6.9%
Other Asia and Oceania	11.5%	12.8%	13.1%	13.5%

* forecast

Source: OICA

Global risk

B



Automotive components

Back into profit

Overview: restored fundamentals for the world's major component suppliers

A key element in the auto sector value chain, component makers provide 75% of the content of a vehicle and carry out 50% of R&D in the sector. In response to the violent crisis hitting their sector, component manufacturers have deeply restructured their productive apparatus. The biggest global players are emerging strongest in the end, having cut capacities in the mature markets and massively invested in new consumption regions. They have also profited from the collapse of others in the sector to strengthen their core business and become the vital players – and therefore less vulnerable to price pressures from their automaker clients. Admittedly, this does not amount to a reversal of roles, but it does represent a rebalancing in their relationships with one another.

Current situation: after restructuring efforts, the recovery in volumes benefited component manufacturers in 2010

With the collapse in their activity in late 2008 and early 2009, due to the drop in orders and massive destocking by automakers, component suppliers significantly restructured their industrial apparatus. Helped by the recovery in volumes – especially in H1 2010 – in the mature markets, and profiting from the strong growth in emerging countries, they managed to very markedly restore profitability, some of them achieving profits better than any seen over the past ten years. Despite a less favourable year-end, notably in European auto production, continued growth in major markets will allow most major global suppliers to post excellent financial results for the full year 2010. These good results are reassuring, as

they allow them confidence in financing the necessary industrial investments in strong growth countries, as well as R&D in new technologies to reduce or eliminate CO2 emissions, to reduce pollution and fight against global warming – all of which have become priorities for the automobile industry.

Outlook: upgrading targets, but also focusing on critical mass in 2011

Notwithstanding the expected contraction in European and Japanese markets, notably in H1 2011, the world market will benefit from continued recovery in the US market and from growth – albeit at a slower pace than in 2010 – in the emerging countries. The world market overall will grow by around 3% to 4%, thus offering component manufacturers good prospects in terms of both volumes and profitability. While this good outlook prevails for the larger manufacturers, it also spotlights the need to have a global presence, which requires a critical mass that not every actor has attained. One must therefore be concerned, especially across Europe, that some of the players – those that are too small – will experience new difficulties over the first half of this year, in line with the fall in auto production volumes, as they will not be able to meet the twin challenges to come: globalisation and the need for clean-energy technology. ■ YL

Major world auto component companies

Rank	Company	Nationality	Turnover H1 2010 USD billions	% change from H1 2009
1	Bosch ⁽¹⁾	Germany	NC	
2	Johnson Controls ⁽²⁾	United States	34.3	20%
3	Denso	Japan	19.0	22%
4	Ainsi Seiki	Japan	13.1	30%
5	Magna	Canada	11.6	59%
6	Faurecia	France	8.3	27%
7	TRW	United States	7.2	41%
8	Delphi ⁽³⁾	United States	6.9	33%
9	Lear ⁽³⁾	United States	5.8	35%
10	Valeo	France	5.9	38%
11	Visteon ⁽³⁾	United States	3.9	32%

^(*) Figures for Japanese groups are for the half year to the end of September 2010.

⁽¹⁾ Bosch does not supply half-yearly figures.

⁽²⁾ For Johnson Controls, figures are for annual accounts to the end of September 2010.

⁽³⁾ Delphi emerged from Chapter 11 on October 6, 2009.

Lear came out of Chapter 11 on November 9, 2009.

Visteon left Chapter 11 on October 1, 2010.

Sources: companies

New car registrations by region, personal vehicles

Market	12 mo. to end-Nov. 2010	12 mo. to end-Nov. 2009	Change yr/yr 2009-2010
Europe-30	13,782,059	14,339,060	-3.9%
Russia	1,823,046	1,545,823	17.9%
United States	11,329,569	10,469,089	8.2%
Brazil	2,579,318	2,402,480	7.4%
Japan	5,040,894	4,542,966	11.0%
China	13,543,657	9,796,624	38.2%
India	1,837,388	1,394,316	31.8%

Source: OICA

Global risk

B 

Aeronautics

Industrial tensions

Overview: globalisation on the march

At the end of 2010, the United States (\$82.5bn in 2009), France (\$49.8bn), and Germany (\$32.8bn) continued to dominate the world civil aeronautics market. But the emergence of constructors in Canada (Bombardier), China (Comac), Russia (Irkut and Sukhoi) and very likely Brazil (Embraer), in direct competition with the Airbus/Boeing duopoly, strengthens by the day. One example over recent months is the significant progress in China's C919 programme, with the first 100 orders and the start of work on manufacturing its fuselage.

Current situation: damaged profitability

Commercial aviation again distinguished itself in 2010, showing genuine resilience in a climate of strong economic uncertainty, posting a consolidated level of deliveries near its previous peak of 972 units. The forward visibility given by well stocked order books (6 to 7 years' activity) and the accelerated recovery of sales bolster the gradual increase in announced production rates, especially for single aisle aircraft. Airbus plans to increase deliveries of its A320 from 36 a month currently to 40 in 2012, while Boeing plans to increase monthly production of the B737 from 31/32 units now to 36 units in 2013. Overlaid on this, for the aircraft manufacturers, two objectives are emerging. One of these is commercial, namely 'saturating' the market in order to quash the start of interest in other competing solutions. The other is financial: to generate the increased liquidity needed to match the scale of their development programmes (confirming the 'cash cow' role played by the two aforementioned medium-haul airliners). Indeed, the additional delays encountered for the B787, the R&D efforts for the A350XWB

and the production delays for the A380 will all probably weigh on the two manufacturers' operating profitability in 2011, as they did in 2010.

Outlook: a time for decisions

Government aircraft export credit provisions, which account for around a third of annual financing for aircraft (against 20% prior to the financial crisis and the ensuing drying up of bank loans), will soon come under the revised terms of a new agreement. Its provisions will allow widened eligibility for US and European companies but should also lead to higher premiums (in order to reflect terms on offer in the market). This also raises a number of questions about the architecture of such funding. One response will probably be in the form of an increase in leasing arrangements (27% of orders in 2010), as pointed to by recent fund raising from investors attracted by the robustness of the business model (the strength of airliner demand and the geographical flexibility in deployment). Lastly, 2011 will bring a finishing touch to the contours of the competitive landscape of the preponderant single-aisle segment (70% market share by number of units) for the next 15 years. Airbus recently unveiled its strategy for an updated version of the A320 (the A320NEO, available in 2016), equipped with fuel-efficient engines, and aimed at competing with Canadian and Chinese aircraft on the critical fuel consumption front. Airbus has opted for the least dangerous option in terms of financing (about 15% of the cost of a complete programme), offering a short-term answer but one not without risks: namely, a shorter life cycle, pressures on engineering resources, and potential cannibalisation of A320 order books. It is now Boeing's turn, in the coming months, to show its hand. ■ BG

Civil aviation: major world aeronautics constructors and component manufacturers

Rank	Company	Nationality	Turnover H1 2010 USD billions	% change from H1 2009
1	Airbus	Netherlands	17.3	-1.8%
2	Boeing Commercial Airplanes	United States	14.9	-12.0%
3	Bombardier Aerospace	Canada	3.8	-15.6%
4	Embraer	Brazil	2.3	-11.5%
5	Dassault Aviation	France	2*	66.0%
6	Hawker Beechcraft	United States	1.2	-10.7%
7	Cessna	United States	1.1	-34.8%
8	ATR	France/Italy	N/A	N/A

*Falcon range

Sources: constructors

New orders and cancellations, 2010

Units

Year to 31 December, 2010	Airbus	Boeing	Bombardier Aerospace*
Gross orders	644	625	160
Cancellations	70	95	47
Net orders	574	530	113
Net orders, same period of previous year	270	142	11

*as of 31 October 2010

Sources: constructors

Global risk



Chemicals

A new upward cycle

Overview: in tune with world growth

Estimated at €2 trillion in 2010 (excluding pharmaceuticals), the world chemicals industry rapidly emerged from the difficult conditions of the previous two years. These were marked by violent economic recession in all the western economies and the sharp fall in world trade that followed. If any industry can be described as global, it is indeed chemical production (apart, of course, from a few isolated producers whose output is sold close to their places of manufacture, due to its dangerous nature or toxicity risk). The sector has thus fully benefited from restored world GDP growth over 2010, with greater impetus from the strong growth in Asian markets than from the markedly softer markets in developed countries – with Europe (24% of world production) most recently relegated to second place in world chemical output, ahead of North America (at 21%), but behind Asia (including India and Japan) at 45%, with China alone accounting for 22% of world production.

Current situation: a better than expected 2010

While the upturn that started in Asia, evident from late 2009, broadened to all of the western economies during the course of 2010, this did not diminish the growing dichotomy between growth in emerging countries and that in the mature economies. Now that the engines driving the recovery forward have reached cruising speed, the different factors geographically in world economic expansion supporting chemicals industry growth have become clearly visible. Thus, in the US, it is the continuation of restocking combined with the application of two massive public stimulus plans that has sustained activity. Across the Atlantic, however, one

of the industry's major market outlets – residential real estate – is still stuck in a rut. But the European chemicals sector also has reasons to celebrate, if only for the 11% output growth it posted for the first 10 months of 2010 compared to 2009, thanks to stimulus measures but also because its focus on exports, particularly in the case of the German chemicals industry. The industry in Asia continues to boom, even though its momentum is dulled by the slowdown seen in Asia's enviable growth. As a result of the strong recovery in 2010, financial results of all industry operators are showing marked improvement. This is also the result of drastic cost cutting carried out from the end of Q2 2009. A second cause of satisfaction, specific to European operators, is their successful transit of the Phase 1 of the European Union regulation concerning the Registration, Evaluation, Authorisation and restriction of Chemicals (REACH), under which all chemical substances produced or imported in volumes exceeding 1,000 tonnes a year must be registered with The European Chemicals Agency (ECHA).

Outlook: the threat of spiralling input costs

We should not overlook the bigger picture: European chemical production is still almost 6% below its 2007 pre-crisis level, according to CEFIC. The feverish chemical demand from the East increases the risks of general rises in input commodity prices for the sector, and, in the first instance, oil prices. This has had the effect of significantly eroding margins in the sector because the increases cannot in their entirety be passed on downstream. The risks of an unexpected slowdown in the new upward cycle in the world chemicals sector in 2011 cannot be ruled out. ■ ML

Major world chemicals groups (excluding refining activities)

Rank	Company	Nationality	Turnover H1 2010 USD billions	% change from H1 2009
1	BASF	Germany	41	28%
2	Dow Chemical	USA	27	20%
3	Lyondellbasell	USA/Luxembourg	20	51%
4	Sabic	Saudi Arabia	19	67%
5	Mitsubishi Chemical	Japan	19	42%
6	Dupont de Nemours	United States	17	25%
7	Bayer	Germany	12	10%
8	Ineos	United Kingdom	11 *	22%
9	Akzo Nobel	Netherlands	5	13%

*Estimates

Sources: companies

World chemical production, by region

Zone	2009
European Union	24%
North America	21%
Asia (excl. Japan and China)	16%
Japan	6%
China	22%
Latin America	5%
Rest of world	6%

Source: Cefic

Global risk



Construction

A gradual restoration of purchase orders

Overview: long-term growth

The world construction sector posted turnover of around \$7.3 trillion in 2010, a 2% decrease, after a fall of 6% for 2009. Thus, 2009 went down as the worst year of the decade in terms of decline in activity. However, the market has enjoyed long-term growth averaging 3% a year since the start of the century. Its three biggest national markets are the US, China and Japan, together accounting for a third of global turnover. A few majors dominate the market, with the largest segment, residential housing construction, accounting for 30% of the total. All countries have their own fabric of businesses in the sector, the number and size of which vary widely, often working as subcontractors. Two French companies, Vinci and Bouygues, share the two top spots in the world rankings of construction companies. Next in the rankings are Germany's Hochtief and the ACS group in Spain, while Chinese majors (CREC, CRCC, CBSC, CCGC) are steadily strengthening their positions internationally.

Current situation: reconstruction underway

The world construction market probably hit its low point during 2010, with activity at a level similar to that seen 2006. Looked at by region, the picture shows strong contrasts, with the sector in good health in the emerging countries, which have to meet massive requirements for housing and infrastructure, and a state of convalescence in the developed countries, who have used the leverage effect of house construction to sustain their economies, nourishing illusions of unlimited gains on the part of households and encouraging speculation. These excesses now corrected, the recovery taking shape is from unmet housing requirements, even though the correction effects persist and are obscuring a true reading of the volume indicators and prices that we currently have. In this context,

the rankings of the major world construction and public works groups are rapidly changing. In particular, Chinese groups are quickly rising to be among the top 100 world operators in the sector, and their globalisation is gathering speed. For now, their share of world export turnover is still low, but their market share is steadily rising, with a strong presence in Africa and also an increasing participation in large-scale projects in Europe.

Outlook: challenges to meet

The situation in the construction sector should continue improving gradually, allowing turnover in the sector to increase by 1% in 2011, with a continued better relative performance in the emerging countries. The challenge will be in transiting the progressive end of the stimulus plans targeting the construction sector. Moreover, those measures will give way to austerity plans aimed at slashing public debt. The hopes raised by 'green construction' may not be enough in the short term. No return to significant growth rates is expected before 2012. In the United States, getting rid of existing stocks still weighs on the finances of economic agents. In other places, construction and renovation plans are under challenge, e.g., the reconstruction of the Stadtschloss castle in Berlin. And while the sector is likely to post only very low growth in 2011, this achievement should not be underated: this is good news, especially given that this scenario could be threatened by external factors, including, notably, a rise in interest rates, which currently are historically low. Such an increase could dampen the strong appetite for housing, which also is a safe haven in times of crisis. The fits and starts in housing prices are more of an indication of the scale of the challenges that need to be met, rather than a sign of outright recovery in the sector. ■ DM

Major world building and civil engineering companies

Rank	Company	Nationality	H1 2010	H1 2009	Change
			USD billions	USD billions	
1	China Railway Constr. Corp.	China	28	22	30.1%
2	China Railway Group Ltd	China	27	21	27.9%
3	China State Constr. Eng'g Corp.	China	23	17	39.4%
4	Vinci	France	19	22	-10.8%
5	Bouygues	France	18	21	-13.7%
6	China Communications Constr.	China	18	15	21.7%
7	Hochtief	Germany	13	14	-9.7%
8	China Metallurgical Group	China	13	12	10.4%
9	Bechtel	United States	NC	NC	-
10	Grupo ACS	Spain	10	12	-14.1%
11	Strabag	Austria	8	6	22.1%

Sources: companies, Euler Hermes

Construction market

USD billions

	2009	Change
United States	935	-7.8%
China	876	9.6%
Japan	774	4.9%
Germany	341	-2.4%
Spain	227	-15.5%
France	224	-6.4%
United Kingdom	167	-22.6%

Sources: European Construction Industry Federation (FIEC), Euler Hermes

Global risk



Energy

Mixed prospects for 2011

Overview: continued growth

The resumption of world growth in 2010 buoyed markets for oil and coal. The increase in energy demand was essentially driven by China, notably to meet its coal import needs. It seems likely that oil and coal prices will continue to rise in 2011, although natural gas prices are expected to stay low.

Current situation: turnaround in the world economy and in energy demand

The strengthening in the world economy over the course of 2010 is reflected in energy demand and energy prices. After falling sharply for two years, OECD oil demand rose by nearly 4% in August 2010 on an annualised basis, including a 9% rise in France and a 13% jump in Germany. Coal production in the US rose 3% in 2010 against 2009. Over October, world natural gas production rose by a yearly rate of 11%. Prices have tracked this uptrend, with oil rising from \$75 a barrel to \$90, an increase of 20%. Coal prices rose by nearly 60% on a yearly basis. By contrast, natural gas prices have clearly departed from the trend in the other two major fossil fuels, posting a 14% drop in the US, a symptom of a world surplus.

Outlook: continued world recovery is expected to sustain oil and coal prices, while natural gas prices will remain weak

Prices for oil and coal, the world's two main energy sources, rose in 2010. Oil prices increased by 20%, while coal prices leapt by nearly 60%, and the uptrend in these prices is expected to continue in 2011. This is good news for producers, but rising

energy prices do complicate world recovery. Crude oil prices, more than anything else, impact on economic growth worldwide. Sudden peaking in oil prices is particularly harmful, but gradual increases are less so. And while oil prices could continue to rise and limit world economic recovery to some extent, it is unlikely that they will surge with enough violence to tip the world back into recession. In any event, the auto sector, trucks and airlines would be the biggest losers. Coal prices and output are being driven upwards by China's appetite for coal imports, and this demand is not set to abate in the immediate future. China nearly doubled its coal imports in H1 2010, and this demand shows no sign of easing. Also, China recently overtook the US as the world's leading energy consumer, a position it is likely to retain in the immediate future. Natural gas prices, by contrast, are expected to fall in the face of a world surplus. They fell by 14% in the US in 2010, while a production increase of 5.6% was posted at the end of October, resulting in a 5.6% increase in world reserves in 2010. Moreover, the US Energy Information Administration (EIA) doubled its estimate of oil shale reserves in its annual revision, taking total US reserves to their highest level for 40 years. ■ DN

Major world energy companies

Rank	Company	Nationality	Turnover S1 2010	Change
			USD billions	H1 09 to 10
1	Saudi Aramco	Saudi Arabia	not published	not published
2	NIOC	Iran	not published	not published
3	Exxon Mobil	United States	183	33%
4	Shell	Netherlands/UK	177	45%
5	BP	United Kingdom	150	44%
6	Sinopec	China	137	75%
7	Total	France	105	29%
8	Chevron	United States	101	33%
9	Petrochina/CNPC	China	100	65%
10	ConocoPhillips	United States	95	42%

Sources: companies

Growth in petroleum demand to 2015, by major region

Millions of barrels/day

	2005	2010	2015	Annual average change 2005-2015
Total OECD	49.5	46.0	46.3	-6.5%
of which, North America	25.2	23.5	24.6	-2.4%
of which, Europe	15.7	14.4	14.0	-10.8%
of which, Asia	8.6	8.1	7.7	-10.5%
Total non-OECD	34.6	40.6	42.4	22.5%
of which, China	6.7	9.0	10.0	49.3%
of which, India	2.5	3.3	3.2	28.0%
of which, Middle East	5.8	7.4	7.2	24.1%
of which, South America	5.5	6.4	6.6	20.0%
Other non-OECD	14.1	14.5	15.4	9.2%
World	84.0	86.6	88.7	5.6%

Sources: Energy Information Administration, Energy Intelligence

Global risk



Air transport

Savour the present moment

Overview: back to the level of 2008

According to the International Air Transport Association (IATA), turnover in the world air transport industry rose by 17% in 2010 to \$565 billion. Air traffic and unit revenue contributed fairly equally to the upturn in the passenger segment (up respectively by 8.9% and 7.3% against 2009) while air cargo benefited from particularly buoyant volumes (+18.5%).

Current situation: good news, finally

With net profits of nearly \$15 billion in 2010 (a relatively small 2.7% of turnover), this was the industry's best performance of the decade. Helped by better economic conditions and by cargo activity revived by springtime restocking, airlines in Asia Pacific are driving this growth by generating more than half of total world profits in the sector. Bolstered by an unaccustomed worldwide discipline among carriers to make widespread and continuous capacity adjustments, US airlines have returned to profitability. Driven by a logic of cost rationalisation and supply management, Southwest Airlines' acquisition of AirTran is one more step in the consolidation of the sector, necessary for its survival. By comparison with the global industry average, the beakeven results shown by European players – achieved at the cost of significant price reductions – seem lacklustre. Already prey to a weak economic environment, European airlines are facing a crisis in their market model (with a durable decline in the premium seat segment in Europe) and are under assault from redoubled, sharp competition. Besides the low cost airlines affecting their margins on domestic routes, there is also the threat posed by airlines in the Middle East (with 300 air-

liner orders in 3 years), which, among other things, are diverting a growing share of lucrative international flights through their hubs, attacking the heart of the traditional airlines' business.

Outlook: two worlds

Slower growth in world air traffic (+5.3%), stagnant unit revenues (with potential downward pressure on prices via a premature restoration of capacity), and especially the increase in jet fuel prices will all act to degrade industry performances in 2011, with IATA forecasting a 40% drop in net airline profits. European airlines continue their efforts to increase productivity and to adapt their capacities to the changes in demand (Air France-KLM will have no first class seating in its new B777 configuration). In addition to the creation of the giant South American LATAM Airlines Group (via the merger of Chile's LAN and Brazilian airline TAM, with \$9 billion in consolidated sales), the southern hemisphere will be abuzz with airlines looking for capital to finance their growth: after Cebu Pacific (\$500 million in 2010), Garuda Indonesia in February 2011 launched an IPO that was expected to raise \$350 million to \$530 million. Lastly, the three airline alliances, after having prioritised a cooperative defensive strategy of revenue and profit sharing among its members, will now turn resolutely towards growth in the emerging markets, as, for example, Star Alliance with Air India (mid-2011) and the recruitment by Sky Team of Aerolineas Argentina, Garuda Indonesia (in 2010) and Shanghai Airlines (2011). ■ BG

Major world airline companies

Rank	Company	Nationality	Turnover H1 2010 USD billions	Change H1 2009
1	Lufthansa	Germany	16.9	23.5%
2	Air France KLM	France	16.6 *	14.8%
3	United & Continental Airlines	United States	16.3 ****	18.2%
4	Delta	United States	15.0	9.5%
5	American Airlines	United States	10.7	10.4%
6	British Airways & Iberia	United Kingdom	9.0 */****	8.4%
7	Japan Airlines	Japan	N/A ***	NA
8	All Nippon Airways	Japan	8.2	11.8%
9	Emirates	UAE	7.2 **	35.5%
10	Southwest & AirTran	United States	7.1 ****	18.3%
11	Qantas	Australia	6.8 **	5.8%

*as of 30 September 2010

** H2 2009/2010

*** Figures not available

**** Cumulative turnover of two airlines in the merger

1.00 Euro = USD 1.34

Sources: companies

Rate of growth in annual air traffic

Passengers and cargo, in %

	2009	2010*	2011**
Global	-4.3	11.6	5.3
North America	-6.3	10.9	3.7
Europe	-7.7	5.0	3.5
Asia Pacific	-2.2	15.5	6.9
Middle East	9.5	21.5	10.5
Latin America	0.0	15.3	6.3
Africa	-5.4	13.8	5.5

* estimates

** forecast

Source: IATA

Global risk



Information and communications technology

Busy times, and more to come

Overview: a fairly minor slowdown

The world market in information and communications technology (ICT) in 2010 had a turnover of \$2.95 trillion, an increase of 1.7%, more or less offsetting the modest 1.6% decline of 2009. This sector, which was in the end overtaken by a crisis not of its own making, was little affected compared to other sectors. It can even boast to be helping to remedy the crisis, by encouraging competitiveness. However, developments in different parts of the world and in different market segments are not uniform: the emerging countries have maintained markedly positive growth rates (4% to 5% in 2010), and service activities have confirmed their vital role, particularly in telecoms. By contrast, investments in equipment have been deferred, reducing their percentage share of output in the sector.

Current situation: gradual recovery in expenditure

Investments, which formerly had been postponed, thus increasing equipment maintenance costs, are gradually resuming. Despite competition from tablets and smart phones, world PC sales rose by 7.5% in the third quarter of 2010. Sales of mobile phones from the top five manufacturers jumped 14% in the same period. Lastly, world server sales rose by 15%; this market is flourishing particularly well in the wake of the growth in cloud computing (web-based, on-demand sharing of computing resources, configurable for both researching and for data processing operations), which has been winning over increasing numbers of businesses. The cloud computing market is estimated at \$70 billion dollars in 2010, an increase of 17%. In this upturn, services are gradually recovering.

But this overall recovery should not obscure the fact that this is mainly taking place in the emerging countries, and the 2009 points of comparison are low. Moreover, those sectors whose performances had improved significantly at the end of the first half of 2010 stalled in the second half of the year.

Outlook: new avenues of growth at risk

Activity in the ICT sector will continue to increase in 2011, rising by 3% to more than \$3 trillion in sales. This growth is the result of innovation, but it is also due to necessary renewals of network infrastructure. The widespread deployment of server virtualisation and the advent of cloud computing are generating huge requirements for storage, for data protection, for infrastructure and for the creation of dedicated software, posing a risk of a bubble forming. The rise of the mobile internet also encourages the development of new applications. However, demand for computers could suffer, marking the end of the high point for PCs, parallel to the rise of smart phones and tablets. The year 2011 will also see strong investment in LTE (long term evolution) 4G technology support. However, constraints will continue to weigh on operators in the sector. The adoption of budgetary austerity by governments – themselves an important outlet for the sector – could impact negatively on activity. Even worse, pressure on prices will remain very sharp in 2011, with the execution of contracts signed during the crisis and incorporating tightly squeezed pricing structures. ■ DM

Major companies, by segment

Rank	Company	Nationality	H1 2010 USD billions	H1 2009 USD billions	Change 09 to 10
IT equipment					
1	HP	United States	34.0	29.8	-14.1%
2	Acer	Taiwan	10.0	7.2	38.5%
3	Dell	United States	30.4	25.1	21.1%
IT services and software					
1	IBM	United States	46.6	45.0	3.6%
2	Microsoft	United States	30.5	26.7	14.2%
3	Accenture	United States	10.5	11.3	-6.5%
Telecoms equipment					
1	Nokia	Finland	23.4	26.8	-12.5%
2	Cisco	United States	21.2	16.7	27.0%
3	Ericsson	Sweden	11.9	13.1	-9.1%
Telecoms services					
1	A&T	United States	61.3	60.8	0.9%
2	NTT	Japan	62.0	58.4	6.1%
3	Verizon	United States	53.7	53.5	0.4%

Sources: companies

The ICT market

USD billions

	2009	Change	2010*	Change
North America	869	-3.3 %	874	0.6%
Europe	980	-3.2 %	987	0.7%
Asia Pacific	710	0.6 %	734	3.4%
Rest of world	368	2.7 %	381	3.5%
Total	2,927	-1.6 %	2,976	1.7%

* estimates

Sources: IDATE, Euler Hermes forecasts



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Summary of economic forecasts

GDP, inflation (change over the period, in %), unemployment rate (in % of labour force) Forecasts
Sources: IHS Global Insight, Euler Hermes forecasts from Economic Outlook no. 9, 2010

Country		2009	2010	2011	2012
United States	GDP	-2.6	2.9	2.8	2.5
	Inflation	-0.1	1.5	1.6	1.4
	Unemployment rate	9.3	9.6	9.5	8.7
	General government balance (% of GDP)	-10.4	-9.1	-8.9	-7.3
	Public debt (% of GDP)	87	94	99	103
	Current account (% of GDP)	-2.7	-3.2	-3.2	-3.2
Canada	GDP	-2.5	3.0	2.4	2.8
	Inflation	0.3	1.6	1.8	1.6
	Unemployment rate	8.3	8.1	7.9	7.3
	General government balance (% of GDP)	-5.1	-4.5	-3.6	-2.0
	Public debt (% of GDP)	83	85	86	83
	Current account (% of GDP)	-2.8	-3.0	-2.1	-1.9
Japan	GDP	-6.3	4.2	0.9	1.3
	Inflation	-1.5	-0.6	-0.2	0.0
	Unemployment rate	5.2	5.1	4.8	4.7
	General government balance (% of GDP)	-7.1	-8.9	-8.3	-7.9
	Public debt (% of GDP)	185	192	200	205
	Current account (% of GDP)	2.8	3.4	3.2	3.5
Euro zone	GDP	-4.0	1.7	1.3	1.5
	Inflation	0.3	1.5	1.5	1.3
	Unemployment rate	9.3	9.8	9.5	9.1
	General government balance (% of GDP)	-6.2	-6.2	-4.6	-3.6
	Public debt (% of GDP)	80	84	86	88
	Current account (% of GDP)	-0.6	-0.4	-0.4	-0.6
Germany	GDP	-4.7	3.6	2.1	1.6
	Inflation	0.3	1.1	1.4	1.3
	Unemployment rate	7.8	7.4	7.1	6.9
	General government balance (% of GDP)	-3.0	-3.8	-2.8	-2.1
	Public debt (% of GDP)	73	76	76	76
	Current account (% of GDP)	5.1	4.9	5.2	5.6
France	GDP	-2.5	1.5	1.3	1.8
	Inflation	0.1	1.4	0.9	1.2
	Unemployment rate	9.5	9.8	9.7	9.1
	General government balance (% of GDP)	-7.6	-7.2	-6.6	-6.1
	Public debt (% of GDP)	78	85	89	92
	Current account (% of GDP)	-2.0	-2.1	-2.6	-2.7
Italy	GDP	-5.1	1.0	1.0	1.1
	Inflation	0.7	1.6	1.5	1.5
	Unemployment rate	7.8	8.5	8.5	8.1
	General government balance (% of GDP)	-5.3	-5.3	-3.9	-2.7
	Public debt (% of GDP)	116	119	120	120
	Current account (% of GDP)	-3.2	-4.1	-4.7	-4.7
Spain	GDP	-3.7	-0.2	0.5	1.1
	Inflation	-0.2	1.7	1.6	1.2
	Unemployment rate	18.0	19.9	19.6	18.9
	General government balance (% of GDP)	-11.1	-9.7	-7.6	-5.0
	Public debt (% of GDP)	53	63	70	74
	Current account (% of GDP)	-5.5	-4.4	-2.8	-2.5
Netherlands	GDP	-3.9	1.7	1.3	1.6
	Inflation	1.0	1.0	1.3	1.3
	Unemployment rate	4.8	5.5	5.3	5.2
	General government balance (% of GDP)	-5.4	-6.0	-4.8	-3.6
	Public debt (% of GDP)	61	65	68	69
	Current account (% of GDP)	4.6	5.5	5.5	4.9
Belgium	GDP	-2.7	2.0	1.5	1.8
	Inflation	0.0	2.2	1.9	1.7
	Unemployment rate	7.9	8.6	8.8	8.2
	General government balance (% of GDP)	-6.0	-5.0	-4.8	-4.5
	Public debt (% of GDP)	96	99	101	102
	Current account (% of GDP)	0.8	2.8	1.9	2.4

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

Sources: IHS Global Insight, Euler Hermes forecasts from Economic Outlook no.9, 2010

Forecasts

Country		2009	2010	2011	2012
Austria	GDP	-3.7	1.9	2.0	2.0
	Inflation	0.5	1.8	1.9	1.7
	Unemployment rate	7.2	6.8	6.6	6.3
	General government balance (% of GDP)	-3.5	-4.4	-3.7	-3.1
	Public debt (% of GDP)	67	70	71	71
	Current account (% of GDP)	2.7	2.8	3.5	4.3
Finland	GDP	-8.1	3.0	2.6	2.5
	Inflation	-0.2	1.2	1.9	1.8
	Unemployment rate	8.2	8.3	7.9	7.6
	General government balance (% of GDP)	-2.5	-3.7	-2.2	-1.7
	Public debt (% of GDP)	44	48	51	52
	Current account (% of GDP)	2.7	1.3	0.6	1.5
Greece	GDP	-2.3	-3.8	-2.2	0.9
	Inflation	1.2	4.3	2.0	0.4
	Unemployment rate	9.5	12.4	14.6	15.5
	General government balance (% of GDP)	-15.4	-8.4	-7.5	-6.7
	Public debt (% of GDP)	127	148	164	171
	Current account (% of GDP)	-10.6	-11.6	-9.4	-6.9
Ireland	GDP	-7.6	-0.4	0.9	1.6
	Inflation	-4.9	-0.8	0.6	0.9
	Unemployment rate	17.1	19.0	18.4	17.4
	General government balance (% of GDP)	-14.4	-33.0	-11.5	-9.0
	Public debt (% of GDP)	64	97	105	105
	Current account (% of GDP)	-3.0	-3.2	-2.9	-2.8
Portugal	GDP	-2.5	1.5	0.1	0.9
	Inflation	-1.0	1.4	1.6	1.2
	Unemployment rate	9.6	10.7	10.3	10.2
	General government balance (% of GDP)	-9.3	-7.7	-4.8	-3.5
	Public debt (% of GDP)	78	86	90	93
	Current account (% of GDP)	-9.4	-8.8	-3.8	2.0
United Kingdom	GDP	-4.9	1.4	1.5	1.9
	Inflation	2.2	3.1	2.3	1.7
	Unemployment rate	7.7	8.1	8.4	8.3
	General government balance (% of GDP)	-11.3	-10.1	-8.2	-6.9
	Public debt (% of GDP)	67.7	75.5	80.4	83.5
	Current account (% of GDP)	-1.7	-2.1	-1.8	-1.7
Sweden	GDP	-5.3	5.2	3.4	2.4
	Inflation	-0.3	1.2	1.9	2.0
	Unemployment rate	8.4	8.4	7.9	7.7
	General government balance (% of GDP)	-0.9	-0.9	-0.3	0.4
	Public debt (% of GDP)	42	41	40	38
	Current account (% of GDP)	7.1	6.9	6.7	6.4
Denmark	GDP	-5.2	2.1	1.7	1.7
	Inflation	1.3	2.3	2.0	1.5
	Unemployment rate	6.0	7.3	7.2	6.7
	General government balance (% of GDP)	-2.7	-5.0	-4.3	-3.8
	Public debt (% of GDP)	41	45	48	50
	Current account (% of GDP)	3.5	4.8	3.8	3.5
Norway	GDP	-1.3	-0.2	1.6	2.1
	Inflation	2.0	2.2	1.5	1.8
	Unemployment rate	3.2	3.6	3.5	3.3
	General government balance (% of GDP)	9.9	9.6	9.3	9.8
	Public debt (% of GDP)	44	44	44	43
	Current account (% of GDP)	13.1	11.8	10.8	11.3
Switzerland	GDP	-1.9	2.7	1.9	2.1
	Inflation	-0.5	0.6	0.7	1.0
	Unemployment rate	3.7	3.9	3.7	3.5
	General government balance (% of GDP)	0.4	-0.5	-0.3	0.5
	Public debt (% of GDP)	39	39	38	36
	Current account (% of GDP)	11.9	12.0	10.5	9.9

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