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RISK ROUND-UP

INTRODUCTION

Most of the credit insurers who offer export and global trade credit insurance have their own teams of Economists carrying out research and publishing articles, helping Brokers and Clients understand the risk outlook of the economies around the world. As Brokers for the whole trade credit insurance market, Acumen are in a unique position to have access to all this information and so this Risk Round-Up is designed to bring together the key ideas and information in one document. If you are interested in the greater depth of the original articles from which this information is taken, please contact your Acumen Broker (or call 0845 073 8630) and they will be able to provide this.

CHEMICALS AND PHARMACEUTICALS UNITED STATES: REMAIN BUOYANT AS A RESULT OF CHEAP GAS AND BABY BOOMERS

Robust growth is predicted for US chemicals and pharmaceutical corporations, according to the American Chemistry Council, with an estimated growth of 3.7% in 2018 and 3.9% in 2019.

There are a number of factors which are contributing to this growth. Firstly the industry is taking full advantage of the low cost of shale gas. This has significantly contributed to the US converting from a high-cost producer of petrochemicals and resins to what is now the second lowest cost producer in the global market. Secondly, strong and stable demand from the US automotive and construction sectors maintain production levels and the proposed tax reform will present companies based in the US with lower corporate tax. This reduction in tax contributions will allow companies to reinvest in US-based projects and where cash has been repatriated from other countries, pay off company debt.

President Donald Trump's announcement early in his presidency for significant infrastructure improvements has yet to be crystallised but if it comes to bear, chemical businesses supplying polymers, coatings and adhesives to the construction industry would benefit greatly.

Tariffs implemented in 2018 on steel and aluminium imports and an estimated $50bn of tariffs levied on Chinese goods, if answered with aggressive counter tariffs could hit a trade surplus chemical industry. Mexico, in isolation, accounts for greater than half of the US chemical trade surplus. Ultimately, any retaliatory tariffs could lead to higher material costs and therefore have an impact on the supply-chain.

Early May 2018 President Trump announced a drive to lower the cost of prescription drugs and the Secretary of Health and Human Services verified a number of companies are being scrutinised. As of yet, no drug manufacturer has acknowledged its intention to comply with a reduction in prescription prices, therefore, any impact from this directive is not expected to have an impression on the industry in the near-term. The 'baby boomer' generation is set to enable drug companies to maintain growth along with an increase in demand for pharmaceutical/health care goods.

Profit margins overall remain stable. Average payments within the sector are between 30 and 90 days with insolvency levels to continue on their current low trajectory.

Atradius remain generally positive to neutral at the present time with the performance forecast set at fair for basic chemicals and good for petrochemicals and pharmaceuticals.

UK: A HIGHLY COMPETITIVE MARKET VULNERABLE TO BREXIT SUPPLY CHAIN TARIFFS AND RESTRICTIONS OF MOVEMENT

Consisting of mainly small to medium sized companies, with some large enterprises headquartered in the UK, the chemical and pharmaceutical industry contributes 18bn GBP of value to the UK economy every year.

Due to the high costs of regulatory compliance and capital expenditure needed to enter the industry, though a competitive market, the players remain pretty consistent and well established with a stable customer base.

Business investment in this sector remains high with many companies relying on asset-based finance which, due to the adequate profit margins, allows them to manage the interest payments. There are no indications of issues with business refinancing.

Payment experience is deemed good with typical payments averaging between 60 and 90 days. Insolvency and non-payment cases are set to continue at same the low level trend which has been experienced in both 2016 and 2017.

Brexit poses the most risk in relation to its impact on the domestic economy and payment behaviour in the mid-term. This sector's supply chain relies heavily on the seamless transfer of ingredients and products between the UK and Europe. The EU accounts for 60% of British chemical and pharmaceuticals exports.

Source: Atradius Market Monitor – Focus on chemicals /pharmaceuticals performance and outlook July 2018

TUNISIA: MORE AUSTERITY REQUIRED TO TAME THE PUBLIC WAGE BILL, HASTEN ECONOMIC GROWTH AND REDUCE UNEMPLOYMENT LEVELS

Tunisia continues to be subjected to unease and tensions in its political and economic position. The current coalition government, due to the nature of its make up, means ideologies differ resulting in delays on decisions and reform. To add to the mix, the on-going threat of terrorist attacks poses a challenge to maintain security whilst allowing democratic freedom. Regular strikes disrupt business production and deter financial investment, however, the protests and unrest is not seen to be a catalyst only a short term situation.

There are a number of influences which are playing a part in Tunisia's outlook. Reforms are coming through slowly and the 2018/2019 GDP growth is forecast to remain moderate at 2.5% and 1.8% respectfully. This level of growth will not have an impact on the reduction of the current 15% unemployment rate in the country. 2018 sees inflation increasing caused by higher food prices and a weakening currency. Further interest rises, in a bid to control inflation, may put pressure on growth and financial institutions are not as strong as they should be with non-performing loan levels high.

In May 2016, Tunisia agreed a four year Extended Fund Facility arrangement for USD 2.9 billion with the International Monetary Fund (IMF). As part of this deal, Tunisia need to reduce deficit by introducing reforms across public institutions and controlling the significant public wage bill (70% of primary current spending). Austerity measures have been applied in a bid to start dealing with these areas, including a cut to the oil subsidy. Any breach of the IMF disbursement could have consequences as Tunisia is highly reliant on international assistance to pay for its debts.

The country remains vulnerable to exchange rate fluctuations. A planned acceleration of the depreciation of the managed exchange rate by the central bank and agreed by the IMF, seeks to aid an improvement in external competitiveness.

There needs to be further structured reforms to hasten economic growth and reduce the high unemployment levels. Resolving the differences within the coalition government, restructuring tax and subsidy systems are essential to an up turn in economic position.

Automotive/ Transport, Energy and Food industry sectors are forecast by Atradius as good, which indicates the credit risk in these sectors as benign and business performance is above its long term trend. Paper on the other hand is rated as poor, with a credit situation seen as relatively high risk and performance below the long-term trend.

Source: Atradius, MENA Country Report Tunisia 2018

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