Australia

September 2020

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrls	Consumer Durables	Electronics/ ICT	Financial Services	Food	Machines/ Engineering	Metals/ Mining	Paper	Services	Steel	Textiles

Source: Atradius

Industry performance

Changes since June 2020 · Sources: Atradius, Oxford Economics

Agriculture

Remains Fair

Agriculture value added growth is forecast to contract by more than 3% in 2020. The sector has been partially impacted by lockdown measures (e.g. transport and supply chain issues). Coronavirus clusters at some abattoirs in the state of Victoria have recently led to restriction of operations. After years of prolonged drought, the East Coast of Australia recorded the first favourable weather conditions since early 2020, positively affecting the sector and the grain harvest in particular. However, China's imposed tariff of 80% on Australian barley and an export ban of four of Australia's largest abattoirs have hurt related segments. In August 2020, China also announced it will conduct an anti-dumping investigation into Australian wine, and a further deterioration of Australia's relationship with China (with more import bans and tariffs) remains a downside risk.

Automotive/Transport

Remains Poor

After a rather subdued performance in 2019, the automotive sector suffers from deteriorating sales for passenger cars and commercial vehicles. In the January-July 2020 period, vehicle sales decreased by 19% year-on-year, and automotive valued added is expected to decrease by more than 16% in 2020. Demand from commercial fleet buyers, such as rental cars, has declined significantly due to a decline in bookings, while demand for car aftermarket parts has remained strong.

Industry revenue is expected to decline further in the coming months and into 2021, as the negative economic downturn with high unemployment and underemployment is limiting household discretionary incomes. The shift in consumer preferences toward smaller, cheaper and fuel-efficient cars negatively affects local car manufacturers that traditionally produced large cars. Many operators are currently taking on additional debt, which poses a downside risk as automotive demand continues to drop.

It is expected that payment delays and defaults will increase as soon as government subsidy payments and insolvency protection laws expire, currently expected after 31 December 2020.

Chemicals/Pharmaceuticals

Remains Fair

Deteriorating domestic and global demand have had a negative impact on chemicals´ performance, with chemicals value added forecast to decrease by 1.5% in 2020. However, the chemicals industry has performed rather well over the past couple of years, with generally robust business financials and good payment records. The agri-chemicals segment will increase sales to agriculture businesses due to improved harvest expectations.

Pharmaceutical businesses have been affected by some supply chain disruption, but will benefit from increasing health expenses. The industry has been classified as an essential sector, and pharmaceuticals value added is forecast to increase by 12.5% in 2020.

Construction/ Construction Materials

Remains Poor

2019 was already a difficult year for the industry, with lower building activity and decreasing value added (down 3.9%). Residential construction output continued to decline, due to more restrictive lending practices and falling property prices. The portfolio payment experience has been bad over the past two years, and the number of non-payment notifications and value of credit insurance claims was already high in 2019. Underperforming projects and rising costs led to more high profile business failures in 2019, and the ongoing economic downturn will additionally increase the already elevated credit risk of many construction companies, especially smaller players.

Construction value added is expected to shrink by 6% in 2020. The government is stimulating the sector with the "HomeBuilder" program worth AUD 680 million and is looking to fast track infrastructure projects worth AUD 72 billion over the next two years. Currently it is too early to predict the outcome, however, rising payment delays and insolvencies cannot be ruled out in Q4 of 2020 and in 2021.

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Consumer Durables

Remains Bleak

Private consumption of non-food consumer goods has deteriorated due to the coronavirus impact, with many brick-and-mortar retailers temporarily closed due to lockdowns. While the pressure on this segment is mounting, especially in the state of Victoria, e-commerce operators have sharply increased their sales. Electrical household appliance retailers have benefited, as consumers are working from home and have upgraded some of their household appliances (e.g. coffee machines, computer electronics, refrigerators, etc.) However, this uptick seems to be short-lived. In the longer term, subdued consumer sentiment and rising unemployment cast a shadow on any substantial rebound. Retail value added is forecast to contract 10% in 2020.

There has been a significant increase in payment delays as businesses struggle to pay their invoices. It is expected that retail insolvencies will increase in the coming months, after the scaling back of stimulus measures (e.g. Job Keeper and Job Seeker) and rent moratoriums.

Electronics/ICT

Remains Fair

In general, ICT is a profitable segment with steady margins, apart from the ICT wholesale and retail segment, where the market is very competitive and cost pressure is high. Payment experience over the past two years has been good and the level of protracted payments and insolvencies remains low compared to other industries, especially in the IT producer and service segment.

ICT value added is expected to increase by about 1% in 2020. Currently online and national chain retailers show good results due to increased demand for IT and home office equipment, while retailers dependent on physical stores struggled. The credit risk in this segment has increased, especially for smaller ICT retailers that already had liquidity issues before the pandemic. Subdued consumer senti¬ment and rising unemployment could hamper higher growth in the short-term future, especially as the spike in spending in remote working items is abates. That said, public bodies and the education sector remain key investors in IT projects.

Financial Services

Remains Good

The sector remains relatively robust. However, increased financial troubles for businesses and consumers alike due to the economic downturn could lead to more loan defaults for banks and tighter lending conditions. Profitability in the sector is impacted by very low interest rates in Australia.

Food

Remains Good

After two years of robust growth, food value added is forecast to contract by about 1% in 2020. Despite ongoing sales, the sector has been impacted by the consequences of lockdown measures (e.g. transport and supply chain issues). Food and beverage wholesalers and smaller retailers exposed to the food service and hospitality sectors are impacted by low demand as a result of government restrictions. In August 2020, China announced it will conduct and anti-dumping investigation into Australian wine, which could foreshadow a hike in import duties, as diplomatic ties between China and Australia remain strained. China is Australia's biggest export market for wine and rapidly growing.

Machines/Engineering

Remains Fair

Companies in this industry are in general financially resilient compared to other industries. However, the business outlook is impacted by decreasing orders on hand and lower production due to the economic downturn. Demand from key buyer sectors like construction and mining has decreased, while demand from the agricultural industry has increased. Engineering value added is expected to decrease 7% in 2020.

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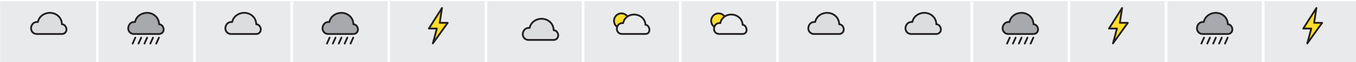

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Metals/Mining

Remains Fair

The mining sector amounts for about 10% of economic output and is highly export-driven, with China as the biggest export market, followed by Japan and South Korea. The mining industry has seen some notable changes in H1of 2020, mainly related to the coronavirus pandemic and the subsequent economic consequences. Gold and iron ore prices have increased. Oil and gas prices have rebounded again from the historic low seen in early 2020, but this recovery will remain constrained. Demand for iron ore and lithium is increasing, whilst demand and pricing for nickel, zinc, aluminum and coal are expected to decline because of weaker consumption.

Both higher export volumes and a lower AUD exchange rate support commodity exports, estimated worth AUD 293 billion in 2019-2020. However, price weakness is likely to cut export earnings significantly in the coming months, while political and economic tensions between Australia and China remain a downside risk.

Paper

Remains Poor

Paper producers are impacted by reduced demand due to the lockdown measures, lower economic growth and the ongoing digitalization process. The sector is impacted by fierce competition and working capital pressure for many businesses. Businesses producing standard or newsprint paper products have experienced a major drop in sales, due to a decline in office activity and in advertising. However, the sanitary paper segment has benefited from a significant increase in demand. Value added of the industry is expected to contract by about 4% in 2020.

Services

Remains Bleak

Due to the lockdown measures over the past couple of months, many segments have suffered sharply deteriorating revenues, especially hotels and catering, restaurants, bars, entertainment and cultural events, travel agencies and tour operators. It is expected that consumer spending in those areas will remain modest even after lockdowns are lifted, due to higher unemployment, an end to bank deferral on mortgages, and subdued consumer sentiment. Hotel and catering value added is expected to contract 38% in 2020. There has been an increase in payment delays in the service industry over the last couple of months, and it is expected that defaults and insolvencies will sharply increase after September when government stimuli start to unwind. This will particularly hit the entertainment and restaurant segment.

Steel

Remains Poor

The coronavirus outbreak has added additional woes to an already challenging steel market. Global production has deteriorated due to a sharp drop in demand and production disruptions, with steel producers cutting supplies. Steelmakers are suffering from slim profit margins due to higher iron ore prices. The steel wholesale shows modest signs of recovery due to increased demand from local and state government projects. Steel value added is forecast to decrease 16% in 2020 and to level off in 2021. Payment delays and insolvencies are expected to increase in the coming periods.

Textiles

Remains Bleak

Textile value added is expected to shrink by more than 22% in 2020. Wholesalers and retailers are negatively affected by changes in customer behaviour and increased competition from new online retailers. Their performance has further deteriorated due to low sales during the lockdowns. Logistical delays and reduced manufacturing activity in China are anticipated to strongly inhibit wholesalers' ability to source low-cost goods. Due to subdued consumer sentiment, a comprehensive rebound is rather unlikely.

Many businesses engaged in synthetic and natural textile manufacturing (e.g. yarn and wool fabrics) are expected to close, while others offshore operations or turn to cheaper imported products to cut costs and improve profit margins. Lower demand from commercial and industrial building construction will impact the carpet textile segment.

Currently, many suppliers are offering extended payment terms. It is expected that insolvencies will increase in the coming months, especially among some small and unprofitable businesses, such as carpet manufacturers.