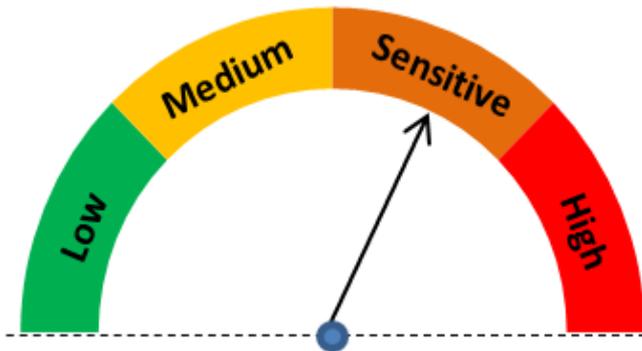


Sector Risk Rating



What to Watch?

- Long-term stabilization of production in the construction sector worldwide with a slow recovery in advanced markets
- Increasing interest rates and prices risk weighing on household purchasing decisions and firms' capacity to invest
- Rebound in the residential market in advanced countries while the construction sector is on a downturn in emerging countries

The return to structural growth could be shaped by increasing interest rates

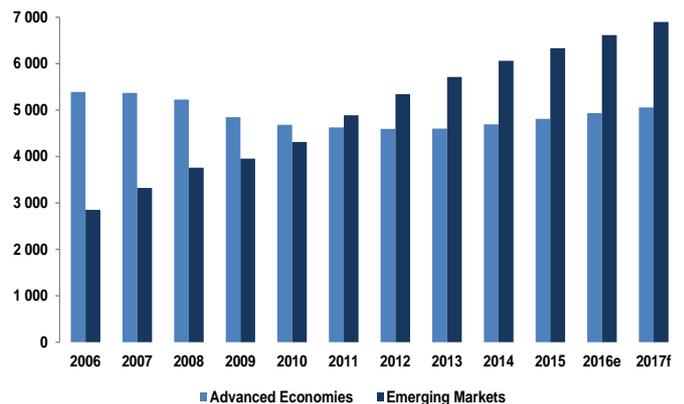
Growth in the construction sector is set to remain slow with a +3.5% increase this year after +3.4% in 2016. Moreover, it currently faces a major shift: production in emerging markets will grow in 2017 by only +4.2% vs. +8.8% over the last 10 years. Conversely, it will rebound in advanced economies with +2.5% vs. -0.9%.

Despite structural weaknesses and price pressures, the sector has become slightly less risky. Yet, outside of this current positive global trend, the sector is still one of the riskiest with several countries facing a negative outlook.

The sector remains mainly composed of small firms with very high leverage ratios, a weakness highlighted by longer payment terms compared to other sectors.

Strong cyclical and cross-country differences make for an even more complex picture. Recovery in the UK has been interrupted early last year. The sector also faces headwinds in oil exporting countries as oil prices are decisive for infrastructure investments. In the United States, the sector could be reinforced by the decisions of the new government. Some countries continue to face difficulties on inflation (China) while others have weathered the storm (France, Spain).

Construction Gross Output
(real USD bn)



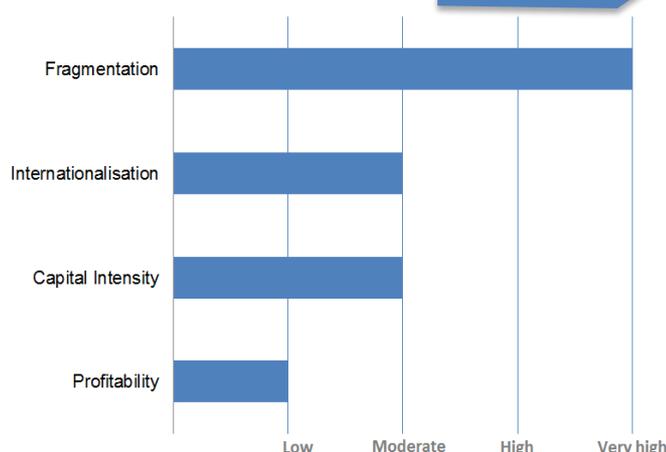
Sources: Oxford Economics, Euler Hermes

Sector Value:
4,456bn
 USD

Key Players

Country	Role	Sector Risk
China	#1 producer #1 exporter	●
United States	#1 importer #2 producer	●
Japan	#3 producer #5 importer	●

ID Card



Strengths

- Long term market opportunities in emerging countries for infrastructure and housing development
- Stimulating impact of new environmental standards in mature markets
- Global population growth and increase in urbanization rate
- Well-established major players

Weaknesses

- Many small companies with fragile financial structures highly exposed to market fluctuation
- Longer payment delays compared to the overall economy
- Infrastructure investments postponed in emerging countries
- Dependency on national and household borrowing capacity linked to interest rate trends

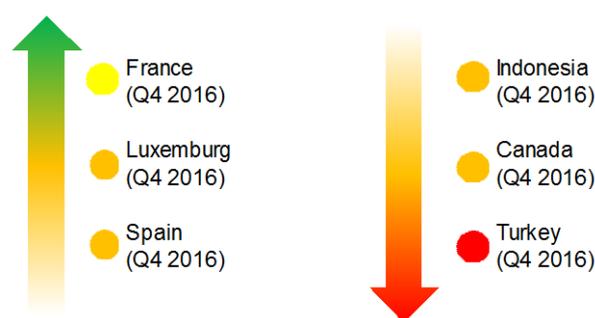
Subsectors Insight

Civil engineering: Highly capital intensive activity mainly linked to public investment.

Housing construction: High market potential, but very sensitive to changes in interest rates and public stimulus plans.

Renovation: Sustained by new environmental regulations. Companies tend to be small and face difficulties in a market now plagued by low household spending.

Recent Sector Risk Changes



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