

# RETAIL

## ASSESSMENTS BY COFACE

LATIN AMERICA



HIGH

NORTH AMERICA



MEDIUM

EMERGING ASIA



MEDIUM

CENTRAL EUROPE



MEDIUM

WESTERN EUROPE



MEDIUM

M. EAST + TURKEY



MEDIUM

## RISKS ASSESSMENTS

### HIGHLIGHTS

The driving force of retailing, household consumption, differs from one region to another. It is contracting in Brazil, it is shrinking but its growth remains positive in Asia as well as in the United States, while it is picking up in Europe.

Since the fall in retail sales at a worldwide level during the 2009 financial crisis (see chart), they have been growing by more than 2% per year since 2010 and close to 3% in 2015. But some sectors do not benefit from this improvement, including that of electronics in Asia.

E-commerce sales of consumer goods represent a major challenge for retailers. They are growing strongly (+28% in 2014) throughout the world, and should reach USD 1,700 billion in 2015 (50% of which in the United States, China and the United Kingdom). In 2015, 11% of the French funds raised for the CapHorn Invest fund (specialised in retailing) relate to digital transformation. According to emarketer, the number of online buyers in the world is estimated to increase by 7.6% year-on-year in 2016, which is promising for the e-commerce giants (Amazon, Alibaba and Ebay), which already had around 800 million clients in 2015. In France for example, online purchases are expected to grow by 10% in 2016 according to Fevad (after a 14% increase in 2015). Although the market potential is great, the retailers' battle to acquire market share has become even tougher;

### Strengths

- Sustained retail sales growth since 2010.
- Growth in the Chinese middle class.
- Significant urbanization in Asia and Africa, driving the sector

### Weaknesses

- Slowdown in emerging economies
- Fierce competition in the sector.

### Growth in global retail sales 2008-2018, (%)



Sources: PwC; Economist Intelligence Unit

## DEMAND

Eurozone growth should come in at +1.7% in 2016 according to Coface (versus 1.5% in 2015) and is likely to be boosted by household consumption, which bodes well for the sector. Indeed household purchasing power grew already in 2015, particularly due to the low level of inflation. The drop in the rate of unemployment, which affected 10.3% of the eurozone labour force in January 2016 (11.3% in January 2015), also explains part of this development. Likewise, retail sales growth remains satisfactory in the euro zone (2.4% in January 2016 year-on-year); it is now higher than in the United States (2.1% in January 2016 year-on-year).

In North America, retailing could be affected by the slight slowdown in growth in the United States (+2% in 2016 according to Coface, versus 2.4% in 2015). If growth is stimulated by household consumption (+3.1% year-on-year in Q4 2015), wages and the continuous fall in unemployment over the past two years (4.8% in the fourth quarter of 2015), then signs of faltering are perceptible for 2015, when the growth rate in retail sales was halved (year-on-year) between February 2015 (4.1%) and February 2016 (2.2%). Given the rise in interest rates and in short-term interest rates linked to consumer loans, the impact should be negative for US consumers who consume on credit. The trend is the same in Canada, where retail sales grew at almost half the rate in January 2016 (+2.6%) as in January 2015 (+4.3%). In spite of a recession in the second quarter of 2015, with a slowdown in household consumption (2.4% year-on-year in the second quarter of 2015, versus 2.8% in the fourth quarter of 2014), consumption is nevertheless likely to pick up slightly in 2016 (GDP growth of +1.5% according to Coface, versus 0.9% in 2015).

Demand should have a negative impact on the retailing sector in Latin America in 2016. The 3% contraction in Brazilian GDP is a sign that consumption will continue to suffer. Retail sales growth in Brazil is negative year-on-year (-5% in January 2016). This economy must deal with rising unemployment, high inflation (+10.7% in 2015), and an erosion of real wages.

The slowdown in the Chinese economy (+6.9% in 2015 and +6.2% in 2016 according to Coface) should continue to drag down demand in 2016. Households' confidence has been eroding since the summer of 2015, and growth in their available income has been slowing down markedly (+8.2% year-on-year in Q4 2015 versus +9.3% in Q4 2014). While retail sales growth still exceeds 10% (10.6% in February 2016), it fell by 31% year-on-year in 2015.

## SUPPLY

Revenues of companies in this sector are increasing moderately in Europe, as shown by the resilience of Carrefour, the European leader in food retailing, whose turnover grew by 3% in 2015 to €86.3 billion. Likewise for Leclerc, whose turnover grew by 3.4% on 2015 and which expects it to grow by 3% in 2016. This vigour is seen in France (+3.4% in 2015 versus +1.8% in 2014). In the United Kingdom, revenues from retail sales of beverages and food products recorded 7% growth between 2014 and 2015, and are estimated to grow by 9% between 2015 and 2016 according to Eurostat. Lastly, discounters like Lidl continue to gain market share in France (+0.2 percentage points to 4.9% market share in December for Lidl), while in the United Kingdom, the low-cost airline EasyJet had a very promising start to 2016.

In the United States, while the turnover of the world's largest retailer, Walmart, increased by 2% year-on-year in 2015, it is expected to stagnate in 2016 (according to the group). The strong dollar is having a negative impact on the revenues of the retailers, which generate one-third of their turnover outside the United States. Concerning Walmart, the changes in its wage policy, which will increase the wages of 1.2 million of its employees (USD 10 per hour from USD 9 previously) from January 2016, is expected lead to a 9.8% decline in the operating margin in 2016. Concerning e-commerce, in July 2015, Walmart launched its programme of free and unlimited deliveries on US soil for USD 50 a year (versus USD 90 for Amazon's "prime" programme). Some retailers suffered in 2015 and were placed under safeguard proceedings, such as the groups Quick Silver, taken over by Oaktree capital Management end-2015 and American Apparel (textile), taken over in early 2016. In Canada, the closure of all the stores of the Canadian subsidiary of Target (the fifth largest US retailer) in early 2015 (133 stores and 17,600 jobs affected) confirms this trend.

In Latin America, companies in the sector are suffering from the economic slowdown. In Brazil, the contraction in activity has led the US retailer WalMart, the world's largest retailer, to close 60 stores in 2016. In contrast, Carrefour, which has been present in Brazil for 40 years, was an exception as it managed to obtain 7.9% sales growth in 2015.

Companies in the retailing sector are likely to suffer from the economic slowdown in China in 2016. That is already the case with Carrefour, which posted a 15.7% decline in its organic sales in the fourth quarter of 2015 in this region. The financial situation of certain Chinese food distribution suppliers could therefore tighten, like that of Electronics companies in China and Taiwan, whose credit risk increases. Also, while Alibaba (second largest e-commerce site in the world) posted 38.9% year-on-year growth in its e-commerce turnover in 2015, it did not increase as fast as in 2014 (+54.7%) or in 2013 (+86.5%).