

**New regional balances****Europe – United States: stark contrast in sector trends**

PARIS – 6 MARCH 2013 – In its latest sector report, leading credit insurer [Euler Hermes](#) analyzes the sharply contrasted trends in global sectors in the early part of 2013. *“The gap continues to widen, particularly between Europe and the United States, with a substantial rebound in US manufacturing output, up by 4.2% in 2012 versus a fall of 2.2% in the European Union, with a particularly pronounced contraction of 2.5% in the Eurozone,”* said [Ludovic Subran, Euler Hermes’ chief economist](#). Economic activity declined for all the four largest Eurozone countries: by 0.8% in Germany, 2.7% in France, 6.7% in Italy and 6.4% in Spain. The gap between the US and Europe is partly attributable to structural differences in competitiveness; in the short term, it reflects in particular the differing momentum in domestic demand, which has entered a lasting slump in Europe, as well as specific international strategies of key business sectors. *“The automotive industry is the clearest example,”* explains Nicolas Delzant, Chairman of Euler Hermes France’s Board of Management, *“with sales growth of 13% in the United States in 2012 while sales in Europe were down steeply, by 8% overall and by 14% in France.”*

**I. Overall, European industry is on a down trend: the resilience shown by some sectors has failed to offset the difficulties experienced by major sectors that are too dependent on crisis-stricken European markets**

- **Sharp fall in the automobile and construction markets reflecting lasting slump in European domestic demand**

- Although the global automobile manufacturing market returned to growth with an increase of 4% at world level in 2012, the European market contracted for the fifth consecutive year, down by 8% or 12.5 million units. In a tense environment marked by in-depth restructuring, the outlook for 2013 is far from bright. The market is forecast to fall by another 3% to 5%.

- The construction market is still struggling from lack of investors. Despite very low interest rates, the market contracted by 5.3% compared with 2011. In Spain, production of new housing was down to 50,000 units at the end of 2012, corresponding to around 6.5% of its pre-crisis peak of 800,000 units. The outlook has also deteriorated in Italy and France, with around 300,000 new homes scheduled for 2013 in France, compared with an annual requirement of 500,000 units. Economic activity is also slowing in several Eastern European countries.

- **Some European sectors have managed to take advantage of world economic growth thanks to internationalization: aeronautics, automotive components manufacturers and chemicals**

- Spared by local crises, the aeronautics industry is enjoying robust demand and remarkable visibility with an order backlog of 8 years. This is clearly reflected in Airbus’s results with 833 orders in 2012 after an exceptional level of 1,203 orders in 2011.

- Tier 1 automotive components manufacturers, although forced to adjust their production structures to the fall in European car sales, have managed to benefit from the 4% growth recorded in the global automobile market, forecast to continue in 2013, in particular through their investments in emerging Asian countries and North America.

- The chemicals sector offset the 2.5% fall in sales volumes in Europe by adjusting production facilities and implementing price increases averaging 2.7% over the year underpinned by strong specialization and higher value added products. The sector also benefited from growth in Asian and Latin American markets.

- **Few sectors are safe from the crisis: agri-food and pharmaceuticals**

- The agri-food industry remains relatively stable in mature countries despite its exposure to fluctuations in commodities prices. At world level, production grew by around 3% in 2012, benefiting in particular from changes in consumption in emerging countries linked to the developing middle classes.

- Similarly, world growth in the pharmaceutical industry has stabilized at between 4% and 5%, benefiting from strong support factors, which include growing demand from emerging middle classes but also increased demand in mature countries due to longer life expectancy linked to improving medical technology.

## II. The US manufacturing industry is recovering, with manufacturing output up (by 4.2%) for the third consecutive year in 2012, corresponding to an increase of 15% since 2009.

- **Momentum remains positive in most major sectors**

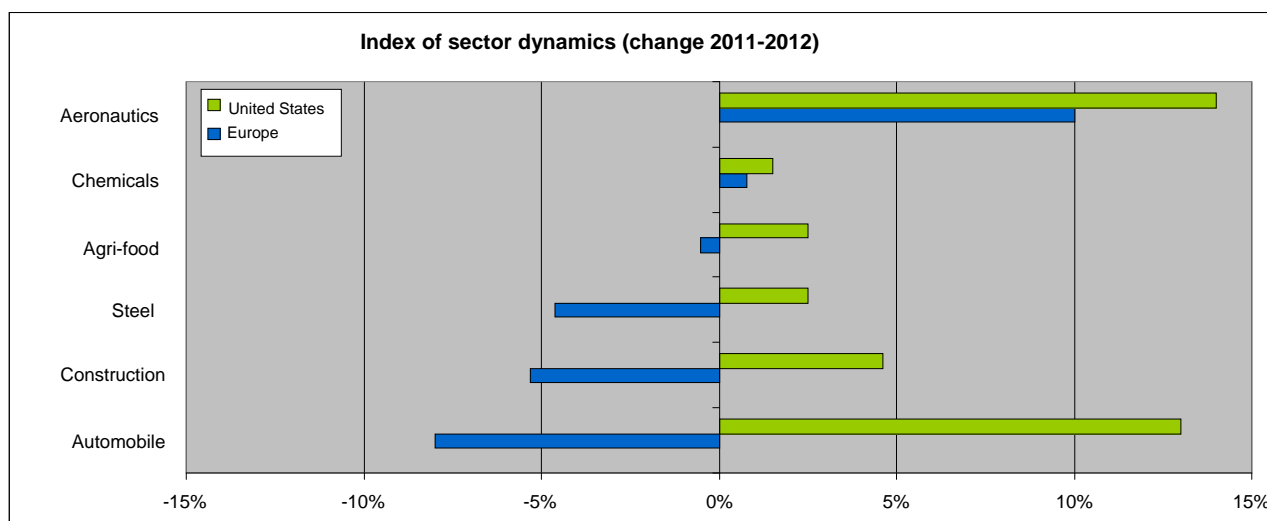
- In the United States, the recovery underway in the automobile market since 2010 was further confirmed in 2012 with sales up by 13% to 15 million units. Market growth is expected to continue at between 5% and 6% in 2013 but without returning to the pre-crisis annual sales volumes of between 16.5 million and 17.5 million units. This strong recovery has also benefited the automotive components and steel sectors – with 2.5% growth in steel output in the United States in 2012 compared with world growth of only 1.2%.

- The chemicals sector, already on an upward trend thanks to renewed automotive outlets, has benefited from cheaper energy, thanks to increased use of natural gas. This considerably boosts the competitiveness of US petrochemicals as the ethylene produced in Europe from naphtha is 50% more expensive than that produced in the United States using natural gas.

- In aeronautics, the outlook for Boeing, like for its European rival, is very good thanks to strong global demand. Boeing recovered its sector leadership in 2012 by producing and selling more aircraft than Airbus – production increased by more than 25% to 601 aircraft whereas net orders grew by around 50% to 1,203 units in 2012.

- **The still weak recovery in the construction sector is the only discordant note**

- Recovery in the construction sector remains very tentative, with volumes still very low. The number of houses available for sale has dropped to an acceptable level of 1.6 million units compared with 3.2 million in the middle of the crisis, property prices have risen slightly and housing starts are also increasing. However, the property loan default rate remains higher than before the crisis, showing that the weaknesses in the property market have not yet been totally eliminated.



Source: Euler Hermes. Data: Aeronautics – growth in aircraft deliveries at Airbus and Boeing, Chemicals – change in sales. Agri-



food – change in production. Steel – change in output. Construction – change in construction activity. Automobile – change in numbers of new passenger car sales.

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