

PRESS RELEASE

Medium & long-term knock-on effects of the war in Europe on global sectors trends: will there be resilient sectors?

Bucharest, 24 May 2022 – Even though we see disparities according to companies' position in the supply chain or geographic location, all 13¹ sectors studied by Coface will keep on being impacted by the knock-on effects of the war in Ukraine, directly or indirectly, in the medium to long term. Most sectors are expected to be affected by a context of high commodities prices & supply issues exacerbated by the war. This is notably the case for high oil prices that are likely to keep on being fueled by the spillover effect of the ban on Russian oil announced last week by the EU² commission; as well as for cereals (Ukraine, Russia & Belarus being large cereal producers). In a context of ongoing disruptions in semiconductors supply, and still spillover effect of the COVID pandemic as shown by the Shanghai port lockdown, the longer the war lasts, the more likely it is that a demand shock will materialize, making the global environment even more adverse.

Therefore, the most impacted sectors are expected to be the most cyclical & energy intensive ones such as petrochemical³, transport, automotive, paper, textile-clothing & agri-food. Looking forward, we expect the most resilient ones to be the media (an ICT⁴ segment), a segment of specialty chemicals, and the pharmaceuticals.

The inflationary tensions and energy shock will mostly impact cyclical & energy intensive sectors, with significant disparities between regions

All industrial sectors are concerned but the most cyclical & energy intensive, such as, petrochemicals, transport, paper, and textile-clothing will be amongst the most impacted. They are typically cyclical sectors, which have been challenged for several years by technological innovations, evolution in environmental regulations and the evolution of consumers' preferences. For instance, the paper sector faces the challenges of the ongoing global digitalization of the economy and social use.

Sectors that were in difficulty before the crisis are also likely to be strongly impacted by this new shock, looking forward. The textile-clothing and automotive sectors globally are good illustration of this.

In the long-term, it remains to be seen to what extent the retail sector will be impacted. This new context of war is fuelling uncertainties that are likely to continue to hamper consumers' confidence. However, with the materialization of some buffers implemented by some

1 Coface sector risk assessment methodology includes 13 sectors: Agri-food, Automotive, Chemical, Construction, Energy, Information and Communication Technology, Metals, Paper, Pharmaceuticals, Retail, Textile- Clothing, Transport, Wood.

2 As part of a new round of sanctions against Russia. This ban is planned to be gradually implemented toward the end of the year.

3 In Coface's sector risk assessment methodology, the chemicals sector comprises 3 sub-segments: petrochemicals, specialty chemicals and fertilizers.

4 Coface's sector risk assessment methodology for the Information and Communication Technologies (ICT) sector incorporates several segments: telecommunications, electronics, media segment & a final one composed by computers, software and IT equipment.

governments, particularly in advanced economies, such as food stamps for the most vulnerable populations or energy price subsidies in Europe, the impact on the retail segment might be relatively subdued.

While the transport sector overall is energy intensive and is likely to be hit by high oil prices, we anticipate disparities in the shock impact between the different sub-sectors⁵, since they face this new shock with different financial situation. For example, in the 1st quarter of 2022, sea freight profit was 28% of its turnover, while air transport registered a loss of 11% of its turnover. Furthermore, for a majority of sectors, we foresee that there will be wide disparities in terms of impact and a split between industries/companies' position in the supply chain, depending on if they are upstream or downstream. The geographical, composition and operational dynamics within the same sector has also a role to play when we look at the impact of the war.

The global agri-food sector is also likely to remain one of the most impacted, with risks of entailing socio-political issues

Given the vital dimension of the agri-food sector, the consequences of the challenges it faces from high food & inputs prices (particularly fertilizers) are critical, as they could threaten global food safety, as well as triggering political instability. High energy prices contribute to increase input costs for agricultural crops, therefore lowering the yield for farmers, while the agri-food sector is already vulnerable to several structural factors such as biological risks and the evolution in climatic conditions, materialized for example by strong heat episode since the beginning of the year in different parts of the world which cause droughts (Horn of Africa, India etc..) and large-scale fires (such as in New Mexico in the US).

Significant sector transformations and consumer habits evolution are expected

In the long-term, we expect a gradual adaptation of both consumers' and companies' habits (energy savings, shifts from wheat flour towards alternative ones), as well as a shift in supply chain organization. The latter will definitely have an impact on global supply chains. For instance, crucial rail freight routes between Europe & China are now developing outside of Russia via the middle corridor. Just like the COVID crisis' impact on global sectors trends, this new shock is likely to act as a catalyst to significant transformations on both supply chain organization and consumer habits.

Some sectors are likely to remain resilient

The countercyclical highly innovative sectors which require important research and development, will once again remain the most resilient to the shock.

While the health crisis linked to Covid has somewhat eased in many parts of the world, it is definitely not over. Therefore, the pharmaceuticals sector should continue having a sound dynamic financial performances.

Among the different ICT segments, Coface expects the media one to remain the most resilient, as investments & equipment required to use those services pre-dated the crisis, so users are not impacted by supply chain disruptions. Moreover, these services remain necessary and can be used remotely. Thus, they are not constrained by physical and geographical barriers, contrarily freight transport activities for instance.

The specialty chemicals sub-segment, particularly companies evolving in the beauty, fragrance or flavour markets, are expected to be resilient compared with other industries in the sector, such as those linked to paints and dyes, which are clients to the very cyclical automotive sector and its lacklustre outlook.

⁵ According to Coface methodology, transport includes rail, maritime, road and air transport.



These 3 industries (media, specialty chemicals & pharmaceuticals) have in common a combination of various factors which include the fact that they are countercyclical sectors, of which products and dominant market positions are concentrated in specific parts of the world. Moreover, there are high-tech and innovative industrial activities, with strong barriers to entry for new actors.

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