



Industry Trends Construction

Focus on sector business
performance and credit risk

In this issue ...




































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Construction industry performance per market

October 2021

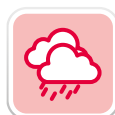
Austria		Russia		Australia	
Belgium		Slovakia		China	
Czech Republic		Spain		Hong Kong	
Denmark		Sweden		India	
France		Switzerland		Indonesia	
Germany		Turkey		Japan	
Hungary		United Kingdom		New Zealand	
Ireland				Singapore	
Italy		Brazil		South Korea	
Netherlands		Canada		Taiwan	
Poland		Mexico		Thailand	
Portugal		USA		United Arab Emirates	

On the following pages we indicate the general outlook for each sector featured using these symbols:



Excellent

The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend



Poor

The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend



Good

The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend



Bleak

The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend



Fair

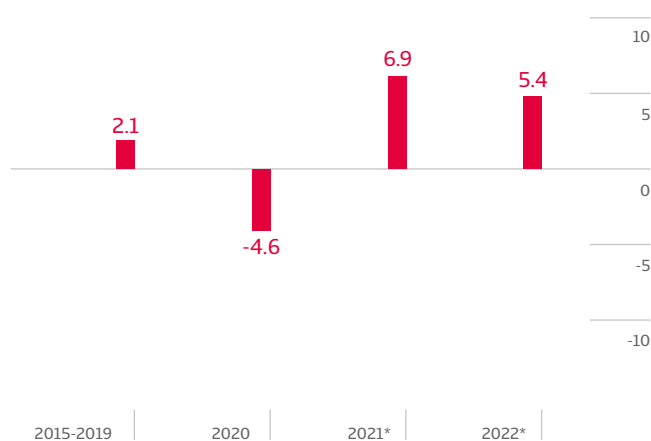
The credit risk situation in the sector is average / business performance in the sector is stable

Global construction – performance at a glance

Global construction output

Strong rebound in 2021 and 2022 expected

y-on-y, % change



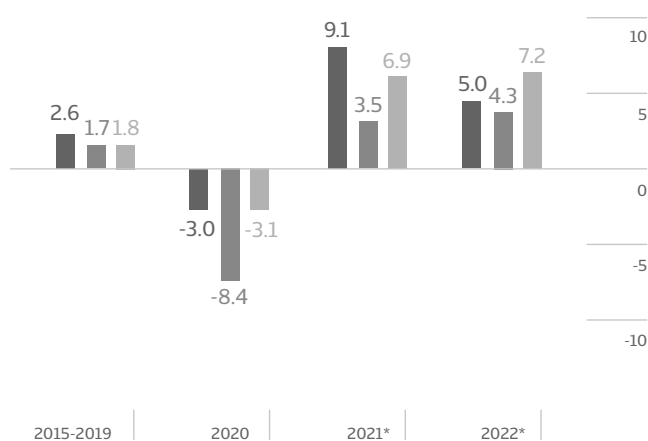
*forecast

Source: Oxford Economics

Global construction – subsectors output

Civil engineering rebound driven by government stimulus

y-on-y, % change



*forecast

Source: Oxford Economics

■ Residential construction

■ Non-residential construction

■ Civil engineering construction

Global construction

Construction growth drivers

- Pent-up demand for construction works that were put on hold during the pandemic.
- Civil engineering benefits from stimulus measures, mainly in the infrastructure segment.
- Sustainability: increasing demand for renovation/upgrades to improve energy efficiency and to comply with tighter environmental standards.
- Emerging markets: growing urbanisation continues to drive demand for new housing.

Construction constraints

- Despite a robust rebound, in most markets competition is intense, profit margins are narrow, public buyers systematically pay late, and there is a higher proportion of business failures than in most other industries.
- Rebound of non-residential construction remains subdued in the short-term, due to reduced demand for office and retail space.
- Higher prices for construction materials add additional pressure on profit margins, mainly affecting smaller players.
- Tight labour markets and lack of a skilled workforce increase wage costs for builders in many advanced markets.

Belgium

Robust demand, but margins remain under pressure



In 2020, Belgian construction output contracted 4.7%. In Q1 of 2021, construction activity was still impacted by lower order volumes and project delays, but in Q2 residential and infrastructure construction activity have started to rebound. With the economic recovery gaining momentum, construction output is expected to increase by almost 7% this year. Business opportunities for the renovation segment remain good, in particular for energy-efficient building renovation (heating, ventilation, isolation and renewable energy).

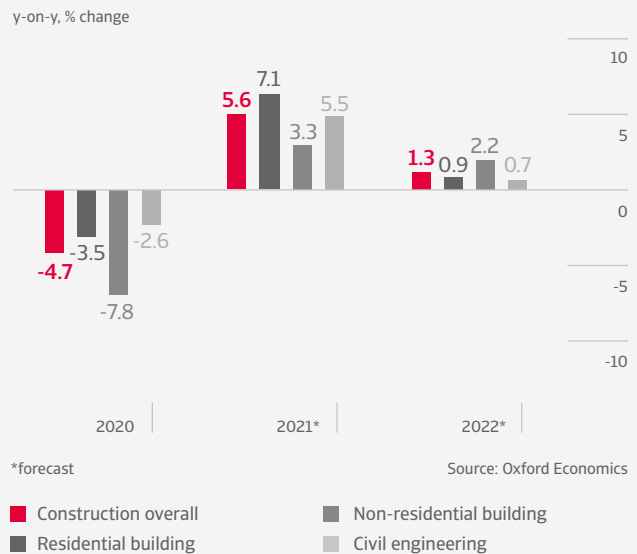
The Belgian construction sector remains highly fragmented, and consolidation in the market is ongoing. Despite increased demand and full order books, profit margins remain low and under pressure, and the bargaining power of smaller subcontractors and suppliers is very limited. Belgian construction companies operate in a very competitive environment (in particular in the public tendering business), and are facing higher costs for commodities and labour, as well as limited availability of building sites. Currently supply chain disruptions are a major problem, with eight out of ten construction businesses reporting issues with material supplies.

The indebtedness of most businesses is high, and working capital requirements have increased due to the rebound in demand.

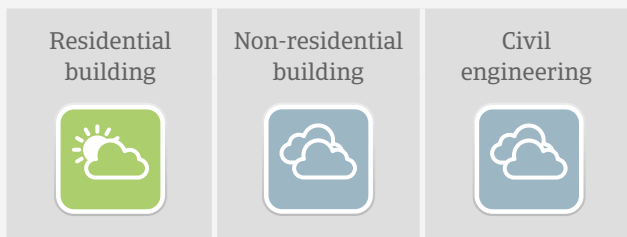
Payments in the construction industry take about 95 days on average, and payment behavior has been good over the past two years. However, it is expected that the number of payment delays and business insolvencies will increase in Q4 of 2021 and into 2022, as high input costs (mainly for materials, energy, wages) remain a serious issue for the time being.

Additionally, government support measures are about to expire, and some construction businesses could experience difficulties settling their bank debts after grace periods for payment plans end. While business failures could increase 10% in the coming six months, this would be from a low level in 2020 and early 2021, when stimulus measures and bankruptcy moratoriums resulted in lower insolvencies.

Belgian construction output



Performance forecast along subsectors



Source: Atradius

Belgium construction sector - credit risk assessment

Fair



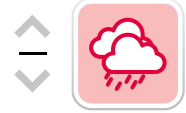
Business conditions		Financing conditions		Default assessment	
+	Demand situation (sales)	Overall indebtedness of the sector? high		+	Non-payments over the last six months
-	Profit margins: trend over the last 12 months	Dependence on bank finance very high		-	Non-payments over the next six months
		Willingness of banks to provide credit average		+	Insolvencies over the last six months
				-	Insolvencies over the next six months

big increase | increase | stable | decrease | big decrease

Source: Atradius

China

Forced deleveraging has led to a shake-up in the property market



After a 1.3% increase in 2020, Chinese construction output is forecast to grow almost 7% in 2021 and 6% in 2022. Civil construction remains the main driver of growth. Since H2 of 2020, residential construction has been affected by new government rules for the real estate segment. The new rules are designed to make housing more affordable and to curb speculation in a property market characterized by excessive borrowing. Authorities have constricted property developers' capacity to continue accumulating debt, and banks have tightened lending. Several highly leveraged real estate developers had to offload assets to reduce their borrowings, leading to a shortage of working capital and stoppage of building projects. The default risk of large property developers like Evergrande has sharply increased, leading to elevated credit risk among contractors and suppliers.

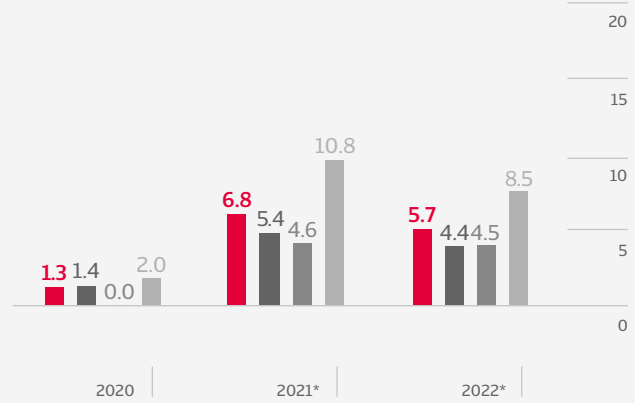
The credit cycle of the construction industry is very long, and large (mostly state-owned) construction companies with a lot of bargaining power habitually pay slowly. Up to 200-300 days sales outstanding are common, which puts pressure on the working capital of smaller businesses, with many of them facing cash flow issues. Insolvencies of smaller businesses with working capital issues are expected to increase in the coming months.

The default risk has increased for highly leveraged property developers, and subsequently for their contractors and suppliers. However, if Evergrande should default there is still the possibility that the government steps in to support affected construction businesses, by taking care that properties already sold to households, but not yet built, will be completed.

Besides the ongoing issues in the Chinese property market, higher global prices for commodities and construction materials will eat into the profit margins of small-and medium-sized enterprises (SMEs) active in all subsectors. In contrast, large state-owned enterprises (SOEs) and listed construction groups are able to pass on higher costs to end-customers. With large working capital requirements, the overall indebtedness of construction businesses and dependence on bank loans are high. Banks remain willing to provide loans to construction SOEs, but are more restrictive towards SMEs.

China construction output

y-on-y, % change

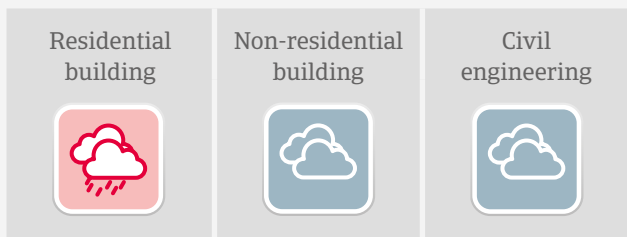


*forecast

Source: Oxford Economics

■ Construction overall
■ Residential building
■ Non-residential building
■ Civil engineering

Performance forecast along subsectors



Source: Atradius

China construction sector - credit risk assessment

Poor



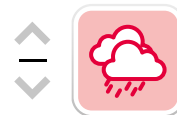
Business conditions		Financing conditions		Default assessment	
+	Demand situation (sales)	Overall indebtedness of the sector?	high	Non-payments over the last six months	➡
	Profit margins: trend over the last 12 months	Dependence on bank finance	high	Non-payments over the next six months	➡
		Willingness of banks to provide credit	average	Insolvencies over the last six months	➡
				Insolvencies over the next six months	➡

big increase increase stable decrease big decrease

Source: Atradius

France

Structural deficiencies cloud the outlook



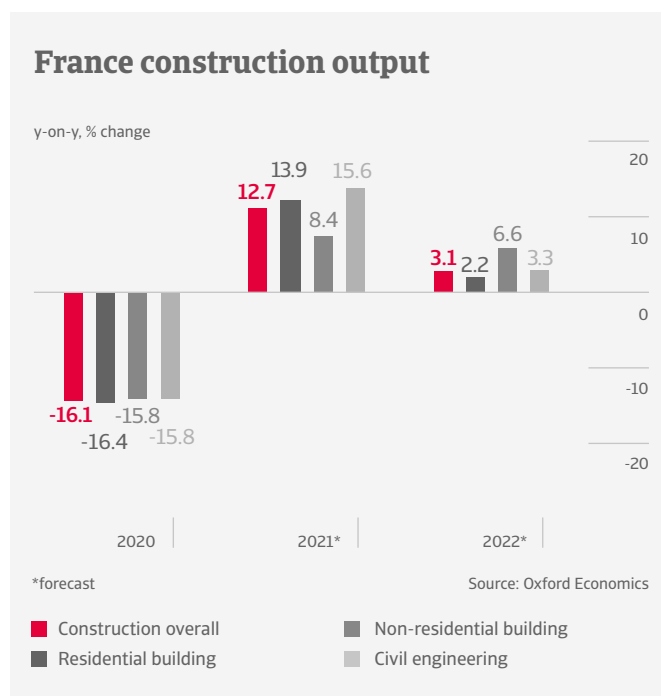
After contracting 14% in 2020, French construction output is forecast to rebound by about 13% in 2021, and to grow 3% in 2022. Residential building and civil engineering are driving the recovery. The renovation work segment remains resilient, while the Next Generation EU fund will provide large investments in projects with a sustainability aspect. However, commercial construction activity remains hampered by subdued investment in retail and office buildings.

Over the past couple of years, French construction has faced structural problems, such as cash issues for businesses due to difficulties in funding their working capital requirements. Profit margins are expected to decrease further in the coming months, due to sharply increased construction material prices and rising labour costs. Many contracts do not contain escalation clauses, and the credit risk situation of companies with tight margins is about to deteriorate, which are mainly affected by material shortages, volatile input pricing and postponement of projects. It does not help that banks are generally reluctant to support the short-term financing needs of construction businesses.

Payments in the construction industry take 64 days on average, compared to 44 days on average for all other industries. Public bodies and larger construction companies in particular tend

to extend payment terms. Payment behaviour has been rather bad over the past two years. Thanks to government support measures, construction insolvencies remained low in 2020 and in H1 of 2021, but an increase of up to 10% is expected in the coming months.

While the current sector performance could be assessed as “Fair” due to robust demand and ongoing stimulus measures, structural sector fundamentals (tight margins, working capital issues, default frequency) remain “Poor”. Pandemic-related downside risks remain, and despite the strong growth forecast, French construction will not reach its pre-pandemic levels until early 2023.



Performance forecast along subsectors

Residential building	Non-residential building	Civil engineering

Source: Atradius

France construction sector - credit risk assessment

Poor

Business conditions	Financing conditions	Default assessment
+ Demand situation (sales)	Overall indebtedness of the sector? high	+ Non-payments over the last six months
- Profit margins: trend over the last 12 months	Dependence on bank finance average	- Non-payments over the next six months
	Willingness of banks to provide credit low	+ Insolvencies over the last six months
		- Insolvencies over the next six months

big increase
 increase
 stable
 decrease
 big decrease

Source: Atradius

Germany

Residential construction remains the main driver of growth



The industry remained relatively unaffected by the worst impacts of the pandemic, and output increased by 2.8% in 2020. The order backlog is still positive, but output is expected to contract slightly in 2021. Turnover decreased in Q1 (also triggered by a VAT re-increase), while a shortage of building materials (reinforced steel, insulation materials, lumber) hampers additional growth. Some larger construction projects could even be postponed.

In 2022, a rebound of about 2.5% is expected, with residential construction activity remaining the main driver of growth, given a shortage in housing facilities and ongoing demand for residential renovation works. While civil engineering depends heavily on the state of public finances, there is a big necessity for infrastructure investment. However, the performance of the non-residential segment remains muted, due to lower business investment in commercial, retail and office buildings.

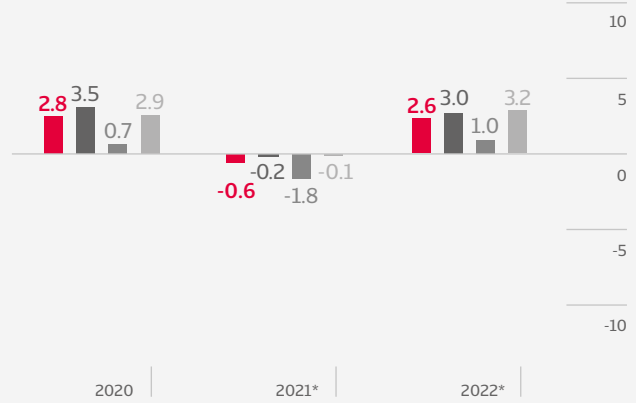
The majority of German construction businesses have recorded stable or slightly improved results over the past twelve months. The profit margin outlook remains stable for the time being, with price wars being avoided due to the benign demand situation. However, ongoing material shortages and volatile input pricing remain an issue. Builders find it difficult to pass on price increases to customers unless escalation clauses are part of the contracts.

This could have an adverse impact on margins in the future.

Payments in the industry take less than 60 days on average, and the number of non-payments has remained stable over the past two years. However, in the coming months an increase is in the cards for businesses that cannot pass on higher prices to end-customers. Construction insolvencies decreased over the past couple of years. However, it seems that this trend has bottomed out, and a 5%-10% increase in business failures can be expected in the coming months. Due to ongoing demand and the rather stable credit risk situation, our underwriting stance remains open to neutral for the industry.

Germany construction output

y-on-y, % change

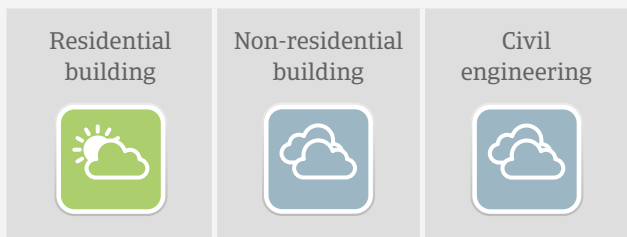


*forecast

Source: Oxford Economics

■ Construction overall
■ Residential building
■ Non-residential building
■ Civil engineering

Performance forecast along subsectors



Source: Atradius

Germany construction sector - credit risk assessment

Fair



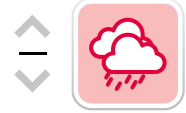
Business conditions	Financing conditions	Default assessment
Demand situation (sales)	Overall indebtedness of the sector? average	Non-payments over the last six months
Profit margins: trend over the last 12 months	Dependence on bank finance average	Non-payments over the next six months
	Willingness of banks to provide credit average	Insolvencies over the last six months
		Insolvencies over the next six months

big increase
 increase
 stable
 decrease
 big decrease

Source: Atradius

Italy

Very long payment duration remains an issue for the industry



After a 6.6% contraction in 2020, a rebound of about 12% is forecast for Italian construction output in 2021, and 0.5% growth in 2022. Residential building and civil engineering are driving the recovery. The Next Generation EU fund will make large investments in projects with a sustainability aspect. Out of the fund EUR 224 billion are assigned to Italy in the 2021-2026 period, with about 50% earmarked for construction projects.

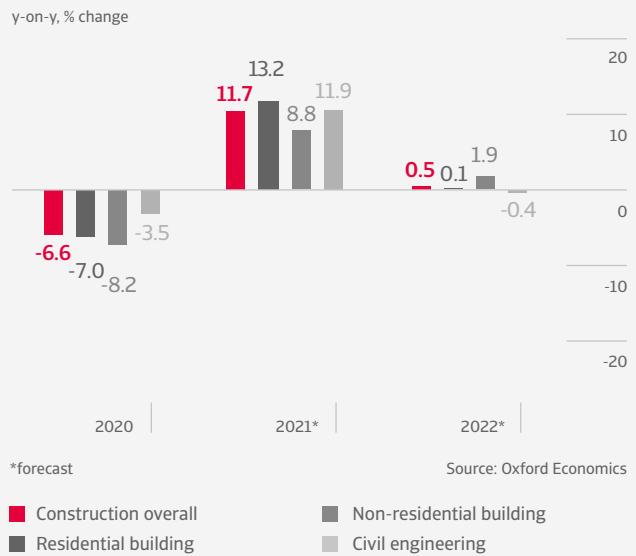
The sharp increase in commodity prices will negatively affect businesses' profitability in the coming months. However, it is expected that builders will increasingly be able to pass on higher prices for construction materials to end-customers. While construction companies are highly dependent on loans, banks remain generally unwilling to provide credit to the industry, due to high levels of payment delays and defaults seen over the past couple of years. At least lending conditions have eased somewhat recently, mainly through state guarantees for bank loans.

Payments in the Italian construction industry take a whopping 200 - 250 days on average. SMEs in particular suffer from the bad payment behaviour of public bodies. In the years before the coronavirus outbreak, the Italian construction sector stood out with a persistently high level of non-payments and high numbers of business failures, including the insolvencies of several

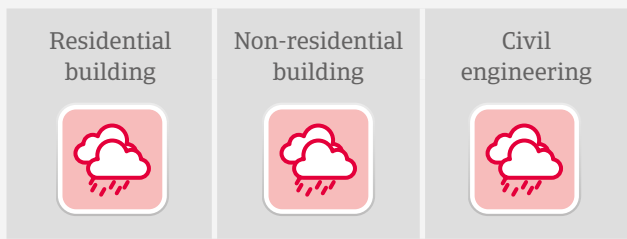
larger players. Due to pandemic-related stimulus measures both non-payment delays and insolvencies decreased in 2020 and in H1 of 2021. No substantial increase is expected in the coming months.

Despite the surge in demand and the benign short-term insolvency outlook, our industry assessment remains "Poor" for the time being. Structural weaknesses continue to impact the credit risk outlook of the sector. Those include tight lending conditions combined with high gearing of businesses, tight margins, uncertainty about the future spending capacity of public bodies, and the history of high levels of default frequency.

Italy construction output



Performance forecast along subsectors



Italy construction sector - credit risk assessment

Poor



Business conditions		Financing conditions		Default assessment	
+	Demand situation (sales)	Overall indebtedness of the sector? high		+	Non-payments over the last six months
	Profit margins: trend over the last 12 months	Dependence on bank finance high			Non-payments over the next six months
		Willingness of banks to provide credit low		+	Insolvencies over the last six months
					Insolvencies over the next six months



Source: Atradius

Japan

Increased credit risk for smaller builders serving certain segments



After contracting 4.9% in 2020, Japanese construction output is forecast to rebound by about 4% annually in 2021 and in 2022. The recovery is mainly driven by major public sector investments in infrastructure projects. While demand for residential and non-residential construction is currently also robust, investments in private construction are still susceptible to downside risks, as the pandemic is not yet under control.

The positive effect of rebounding construction demand and activity is impaired by higher prices for commodities (mainly for lumber) and for shipments. Another issue is the shortage of a skilled workforce due to the ageing population, which has driven up labour costs. Higher input prices have put the margins of both larger construction companies and of subcontractors under pressure, with further decreases expected in the coming months. Mainly smaller and medium-sized construction businesses suffer from the surge in construction materials and labour prices. Many of them are highly leveraged, and are forced to increase their gearing even further in order to pay the higher material and wage rates needed to continue their building activities/projects.

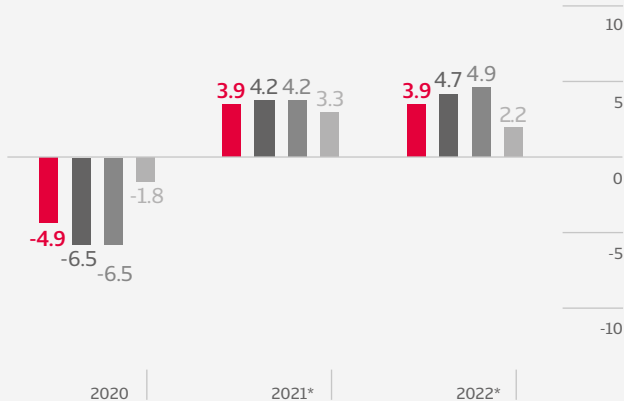
Payments in the construction industry take about 120 - 150 days on average. While non-payment notifications increased in H2 of 2020 and Q1 of 2021, the situation has improved since March

this year. Construction insolvencies have, however, increased in H1 of 2021, and are expected to increase further in the coming months.

Mainly affected by rising business failures are smaller players, in particular those dependent on building projects in the retail and hotel/restaurant sectors. In both sectors demand for construction remains subdued due the pandemic, while at the same time builders have to bear higher construction material and labour costs, as well as additional expenses for sanitary measures. That said, due to the ongoing robust demand in the coming months our sector assessment remains "Fair" for the time being.

Japan construction output

y-on-y, % change



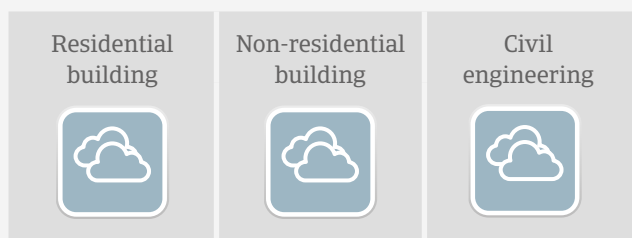
*forecast

Source: Oxford Economics

■ Construction overall
■ Residential building

■ Non-residential building
■ Civil engineering

Performance forecast along subsectors



Source: Atradius

Japan construction sector - credit risk assessment

Fair



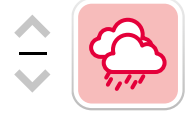
Business conditions		Financing conditions		Default assessment	
+	Demand situation (sales)	Overall indebtedness of the sector? high		-	Non-payments over the last six months
-	Profit margins: trend over the last 12 months	Dependence on bank finance high			Non-payments over the next six months
		Willingness of banks to provide credit average		-	Insolvencies over the last six months
				-	Insolvencies over the next six months

big increase | increase | stable | decrease | big decrease

Source: Atradius

Mexico

Only a modest rebound in 2021 and in 2022



The economic downturn caused by the coronavirus pandemic has further weakened a Mexican construction sector that had already been performing poorly in 2019. After a 17.7% contraction in 2020, Mexican construction output is forecast to rebound only 11% in 2021, and to grow about 3% in 2022. Residential construction demand is impacted by a high unemployment rate, leading to project delays. Recovery of industrial and commercial building remains slow following a severe 8.5% contraction in Mexico's GDP in 2020, while civil engineering has suffered from low public investment over the past three years.

high in 2019 and in 2020. Requests for payment extensions are common within the industry, as businesses depend on work in progress and recovery of their accounts receivables. It is quite usual for construction customers to pay slowly, in particular in the public infrastructure segment. Due to the unsubstantial recovery in short-term demand and the ongoing elevated level of payment delays our sector assessment is "Poor", and our underwriting stance remains rather restrictive across all subsectors.

Margins of construction businesses have deteriorated over the past twelve months, due to increased prices for construction materials like aluminium, cement, copper, steel, and insulation materials. That said, Mexican banks have continued to offer loans and payment extensions to construction businesses at competitive rates, as the financial services sector remained generally resilient during the economic crisis. Mexican construction companies usually require bridge loans or replacement loans from banks.

Payments in the Mexican construction industry take about 60 days on average. The number of protracted payments has been



Performance forecast along subsectors

Residential building	Non-residential building	Civil engineering

Source: Atradius

Mexico construction sector - credit risk assessment

Poor



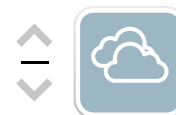
Business conditions	Financing conditions	Default assessment
Demand situation (sales)	Overall indebtedness of the sector? average	Non-payments over the last six months
Profit margins: trend over the last 12 months	Dependence on bank finance average	Non-payments over the next six months
	Willingness of banks to provide credit average	Insolvencies over the last six months
		Insolvencies over the next six months

big increase |
 increase |
 stable |
 decrease |
 big decrease

Source: Atradius

The Netherlands

Only a modest increase in insolvencies expected



After a modest 0.8% contraction in 2020, Dutch construction output is forecast to grow by about 4% in 2021, and more than 2% in 2022. The rebound is mainly driven by residential construction and civil engineering. In the Netherlands, housing demand will remain high in the coming years, while infrastructure needs to be maintained and upgraded. However, non-residential construction rebound recovery remains muted for the time being, due to an ongoing lack of commercial construction demand.

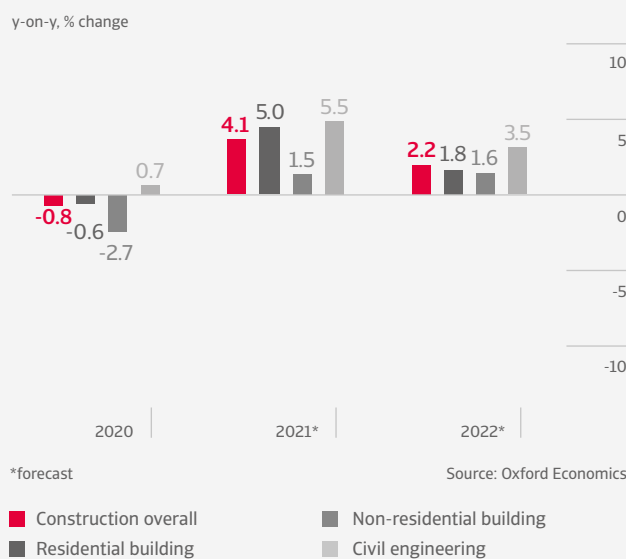
Dutch construction remains impacted by environmental issues, i.e. nitrogen reduction and tighter rules regarding per- and poly-fluoroalkyl substances (PFAS) in the soil. They have resulted in many building project delays and postponement of building permits even before the pandemic. The current shortage of building materials has led to additional project delays. Tenders are affected by the reluctance to bid, as builders are afraid of not being able to pass higher construction material prices on to customers. There is an urgent need for construction businesses to find according agreements with developers (e.g. escalation clauses).

The Dutch construction market is mature, characterized by low entry barriers and competition driven by price. At about 3%, profit margins have been very low for several years. Increasing prices

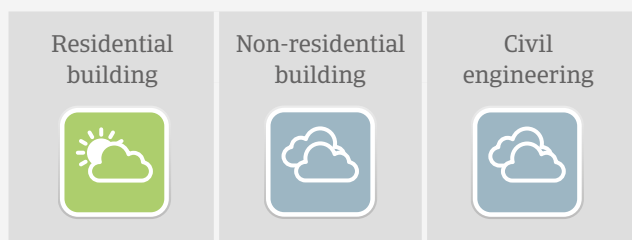
for construction materials and higher wages will most probably have a negative impact on profit margins in the coming months.

Payments in the construction industry normally take about 45 - 60 days. Payment experience has been good over the past two years, as the sector remained relatively stable during the pandemic. However, tighter environmental regulations and surging materials prices will most probably lead to increasing payment delays and insolvencies in the coming six months. Business failures are expected to increase by about 5%, albeit from a very low level. Due to the continued demand, our sector assessment remains "Fair" for the time being.

The Netherlands construction output



Performance forecast along subsectors



Source: Atradius

The Netherlands construction sector - credit risk assessment

Fair



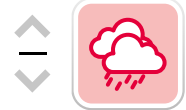
Business conditions	Financing conditions	Default assessment
+ Demand situation (sales)	Overall indebtedness of the sector? average	Non-payments over the last six months
Profit margins: trend over the last 12 months	Dependence on bank finance average	- Non-payments over the next six months
	Willingness of banks to provide credit high	Insolvencies over the last six months
		- Insolvencies over the next six months



Source: Atradius

Poland

More insolvencies expected in the coming months



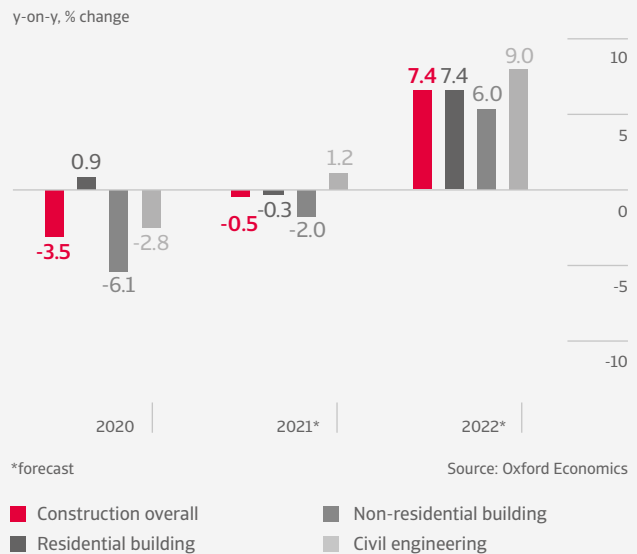
After a 3.5% contraction last year, Polish construction output is forecast to level off in 2021, but then to rebound by more than 7% in 2022. Apart from warehousing and transport-related building projects, commercial construction is performing poorly, as investment in office buildings remains subdued. Civil engineering is set to grow, but the current dispute between the EU and Poland over rule of law issues is putting a disbursement of EUR 36 billion from the Next Generation EU fund at risk. That said, the outlook for residential construction is more positive, as demand continues to exceed supply.

While profit margins of construction businesses remained stable in 2020 and H1 of 2021, they are expected to deteriorate in the coming months, due to higher prices for construction materials and increasing labour costs.

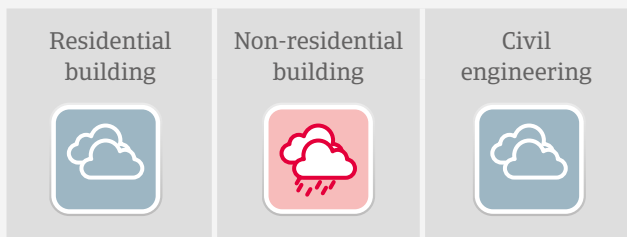
Payments in the Polish construction industry take 83 days on average. Payment behavior has been rather bad over the past two years, and overdue payments of up to 30 days are common. The sector is prone to payment delays, as there are many disputes related to quality and scope of work. Payment delays suffered by a company are usually passed on to peers along the value chain.

In H1 of 2021 the number of construction insolvencies increased sharply year-on-year, mainly due to a high rate of simplified out-of-court restructuring proceedings. In the coming six months, business failures are expected to increase further, as government support schemes expire, pandemic-related aid has to be repaid, and the liquidity of businesses remains strained by higher costs for materials and wages. Most vulnerable are companies that have a low level of diversification in their work portfolio, and that are focused on infrastructure and/or office/hotel buildings. Our underwriting stance remains neutral for residential construction, but rather selective for businesses active in the non-residential and civil engineering segments, depending on their individual situation.

Poland construction output



Performance forecast along subsectors



Poland construction sector - credit risk assessment

Poor



Business conditions	Financing conditions	Default assessment
Demand situation (sales)	Overall indebtedness of the sector? low	Non-payments over the last six months
Profit margins: trend over the last 12 months	Dependence on bank finance low	Non-payments over the next six months
	Willingness of banks to provide credit low	Insolvencies over the last six months
		Insolvencies over the next six months

big increase increase stable decrease big decrease

Source: Atradius

Spain

Insolvencies have started to increase again

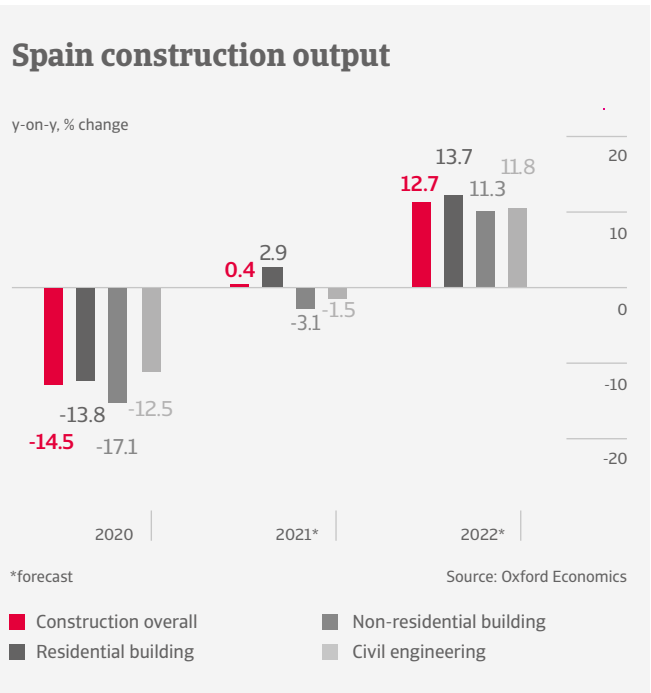


After a 14.5% contraction in 2020, Spanish construction output is forecast to grow only about 0.5% in 2021, but to rebound strongly by 13% in 2022. Residential building and civil engineering are expected to drive the recovery. The Next Generation EU fund will support large investments in projects with a sustainability aspect. However, commercial construction activity will remain hampered by subdued investment in retail and office buildings. Spanish construction is forecast to reach its pre-pandemic levels in Q4 of 2022.

After increasing over the past 12 months, profit margins of businesses have started to deteriorate due to higher commodity, transportation and energy prices. Currently, many contracts do not contain escalation clauses allowing builders to pass on prices. This has a negative effect on the credit risk situation of smaller businesses (contract renegotiations are ongoing with both private and public customers). Shortage of building materials and lack of skilled labour have already led to project delays and postponements, mainly in the residential construction segment. During the pandemic, the gearing of construction companies has increased. Banks have provided loans backed by guarantees from the Spanish government, with grace periods of 1-2 years. However, highly indebted smaller companies could face limited access to new financing in the future. Payments in the construction industry take

about 100 days on average, with mainly larger companies asking for extended payment terms.

Non-payments have remained stable over the past 12 months, mainly due to strong government stimulus. However, insolvencies, mainly of small businesses, have started to increase, and are expected to rise further in the coming months. We could see a significant rise in early 2022, depending on the expiry of stimulus measures, the ending of grace periods for bank loans, and the speed of disbursement of EU funds. Due to this uncertainty, along with the high gearing of businesses and the ongoing pressure on margins, our underwriting stance remains more restrictive for the time being, in particular for smaller businesses active in the residential construction segment.



Performance forecast along subsectors

Residential building	Non-residential building	Civil engineering

Source: Atradius

Spain construction sector - credit risk assessment

Poor



Business conditions	Financing conditions	Default assessment
Demand situation (sales)	Overall indebtedness of the sector? high	Non-payments over the last six months
Profit margins: trend over the last 12 months	Dependence on bank finance high	Non-payments over the next six months
	Willingness of banks to provide credit high	Insolvencies over the last six months
		Insolvencies over the next six months

big increase |
 increase |
 stable |
 decrease |
 big decrease

Source: Atradius

United Arab Emirates

Restricted access to bank loans remain a major issue



After a 10.4% contraction in 2020, UAE construction output is forecast to rebound more than 9% in 2021. However, the recovery of the property market, which is still struggling with overcapacity, remains rather uncertain. The industry was already performing poorly before the coronavirus outbreak, as modest economic growth over the past couple of years prevented higher spending on building projects. This led to increased cash difficulties and tight margins for construction businesses, especially for smaller companies.

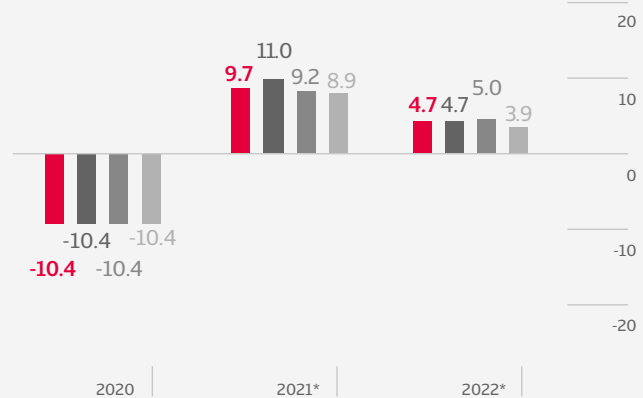
High prices for building materials and commodities have put gross margins under pressure, and the ability to pass them on to end-customers is limited in a fierce competitive environment. The pandemic has resulted in a shortage of construction workers from Asian countries like India and Pakistan, as in H1 of 2021 most flights were suspended. This has led to increased labour costs and several project delays.

For UAE construction businesses financing remains an issue, as both gearing and dependence on bank loans for project funding are high, and banks have become reluctant to provide loans to builders over the past couple of years.

Payments in the construction industry take about 180 days on average. Due to strong competition, low margins and a lack of bank financing, the number of protracted payments has been high over the past two years, and the number of non-payment notifications is expected to remain elevated in the coming months. In March 2021 Dubai's biggest contractor Arabtec filed for bankruptcy. While insolvency proceedings are rather uncommon in the UAE, there have been some sizeable runaway cases in the construction industry, leaving behind unpaid creditors and bank loans. More such cases cannot be excluded in the short- and mid-term.

UAE construction output

y-on-y, % change



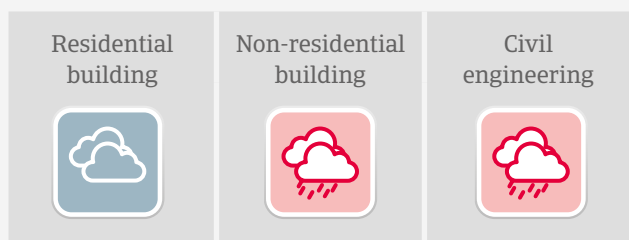
*forecast

Source: Oxford Economics

■ Construction overall
■ Residential building

■ Non-residential building
■ Civil engineering

Performance forecast along subsectors



Source: Atradius

UAE construction sector - credit risk assessment

Poor



Business conditions	Financing conditions	Default assessment
+ Demand situation (sales)	Overall indebtedness of the sector? high	Non-payments over the last six months
Profit margins: trend over the last 12 months	Dependence on bank finance high	Non-payments over the next six months
	Willingness of banks to provide credit low	Insolvencies over the last six months
		Insolvencies over the next six months

big increase |
 increase |
 stable |
 decrease |
 big decrease

Source: Atradius

United Kingdom

Robust demand rebound, but rising insolvencies expected



After a 14% contraction in 2020, British construction output is forecast to rebound by almost 15% in 2021, and to grow by more than 5% in 2022. While commercial construction activity remains hampered by subdued demand for retail and office space, growth is driven by residential building and large public infrastructure projects. However, a shortage of construction materials (timber, concrete, sealants etc.) has led to delays in project completion.

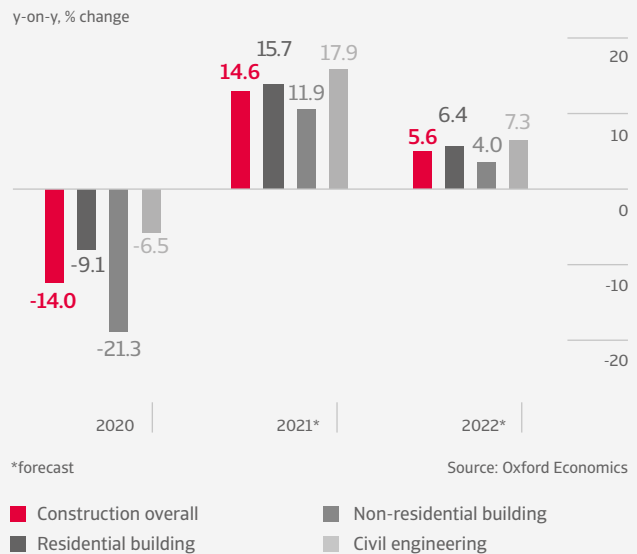
Currently the financial gearing of construction businesses is not overly high. During the lockdowns many companies have preserved cash, supported by several government schemes. The margins of businesses have been generally stable over the past twelve months, as order volumes rebounded with the easing of lockdown restrictions. However, material and labour shortages have triggered a significant cost increase, and this knock-on effect will ultimately squeeze profit margins in the short- and medium-term, in particular for builders with fixed price contracts.

Payments in the construction industry take about 90 days on average. The number of non-payments and insolvencies has been low over the past twelve months. However, both are expected to increase in the coming months, as government support abates or expires, while higher material prices and labour costs eat into the financial strength of businesses (in particular labour availability

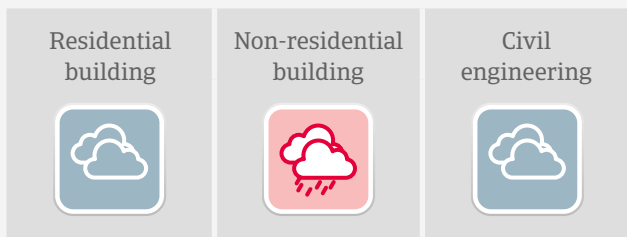
and wage costs have become serious problems for construction companies). Margins are already tight, and any slippage could have a major effect on profitability and performance. With a reverse VAT change since March 2021, about 150,000 construction companies are facing a 20% drop in cash flow.

Should input prices continue to remain overly high, insolvencies could increase up to 25% in the coming six months. Due to the looming downside risks for the industry's credit management situation, for the time being our sector outlook remains "Poor", despite the robust rebound in orders and output.

United Kingdom construction output



Performance forecast along subsectors



Source: Atradius

UK construction sector - credit risk assessment

Poor



Business conditions	Financing conditions	Default assessment
+ Demand situation (sales)	Overall indebtedness of the sector? average	+ Non-payments over the last six months
Profit margins: trend over the last 12 months	Dependence on bank finance high	- Non-payments over the next six months
	Willingness of banks to provide credit average	+ Insolvencies over the last six months
		- Insolvencies over the next six months

- big increase
- increase
- stable
- decrease
- big decrease

Source: Atradius

United States

Good prospects, but lack of skilled labour is a structural issue



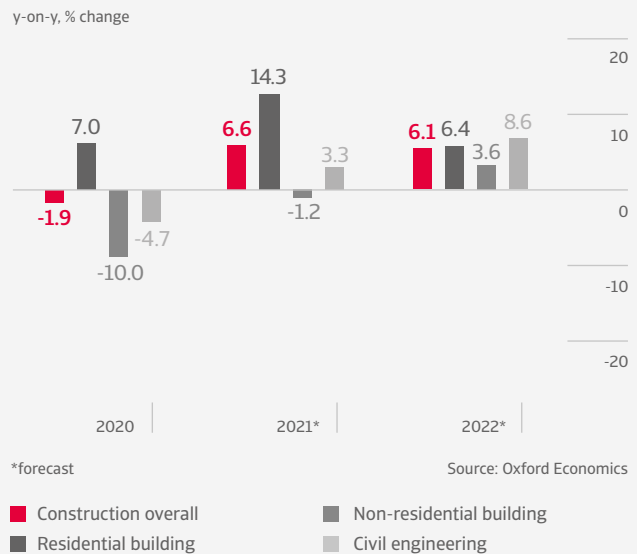
After a 1.9% contraction in 2020, US construction output is forecast to grow more than 6% annually in 2021 and 2022. Residential construction performance is buoyant, driven by demand for single-family housing. Due to additional discretionary household income (a result of large government stimulus), robust demand for home improvement and renovation continues. However, non-residential building activity remains muted for the time being, due to less investment in office buildings. The civil engineering sector could see significant growth in 2022 and beyond, provided that Congress will approve a large infrastructure bill proposed by the government. The bill aims at comprehensive investments in ageing infrastructure (including roads, highways, bridges, rail, and broadband development).

Material shortages and volatile input pricing, particularly for lumber, will continue to weigh on the industry in the short-term, but are expected to abate in 2022. At the same time, availability of labour is an issue in the US construction sector, with smaller businesses currently most susceptible to project delays triggered by workforce shortages. The lack of skilled labour and an ageing workforce could curtail potential construction output in the future.

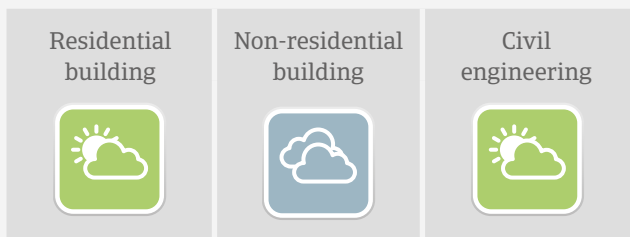
Over the past twelve months, profit margins of businesses have improved due to higher demand, the strength of supply chains

and the ability to pass on higher commodity prices. Profit margins should remain stable in the coming months, as demand remains robust. The positive outlook provides comfort for banks to lend to the industry, which adds to the sector's resilience. Currently some larger construction businesses are taking on more debt in order to fund acquisitions, as they want to increase their market share. Payments in the construction industry take about 60 days on average. The payment behavior has been good over the past two years, and non-payments are expected to decrease in the coming months. The insolvency environment should remain stable, with no increases expected. Given the solid performance, our sector assessment has been recently upgraded to "Good", and our underwriting stance is mainly open to neutral for the industry.

United States construction output



Performance forecast along subsectors



Source: Atradius

US construction sector - credit risk assessment

Good

Business conditions		Financing conditions		Default assessment	
+	Demand situation (sales)	Overall indebtedness of the sector? average			Non-payments over the last six months
+	Profit margins: trend over the last 12 months	Dependence on bank finance high		+	Non-payments over the next six months
		Willingness of banks to provide credit high			Insolvencies over the last six months
					Insolvencies over the next six months



Source: Atradius

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