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By the Coface Economic Research Department

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

EXECUTIVE SUMMARY

In the short run, all sectors for which Coface publishes sector risk assessments in six regions worldwide¹ will be impacted by the knock-on effects of Russia's invasion of Ukraine on 24 February. As explained in Coface's article on the matter published in March², we expect a majority of sectors for which we publish sector risk assessments to be hit directly or indirectly, including: metals, the petrochemicals sub-sector³, automotive, transport, textile-clothing, paper and agri-food, with disparities according to companies' position in the supply chain or geographic location.

While analysing the abovementioned sector dynamics and outlook, this article examines those that Coface foresees as being relatively resilient in the medium to long-term⁴.

The most resilient sectors and sub-sectors are expected to be media⁵ (an ICT sub-segment), pharmaceuticals and a sub-segment of specialty chemicals. They have in common a combination of various factors. There are countercyclical sectors, of which products and dominant market positions are concentrated in specific parts of the world: primarily Asia, the U.S. and to a lesser extent Western Europe, mainly in advanced economies. Moreover, there are high-tech and innovative industrial activities, with strong barriers to entry for new actors, requiring important long-term research and development investments. De facto, they are concentrated in a few leading global companies for each of them.

In the medium to long run, the most impacted sectors are likely to be the most cyclical and energy intensive, such as, petrochemicals, paper, transport⁶ and textile-clothing. These are typically cyclical sectors, which have been challenged for several years by technological innovations, enhanced environmental regulations and the evolution of consumers' preferences. This, in a context where all sectors worldwide and global trade are likely to be impacted by the continued negative knock on effects of the COVID-19 pandemic, notably materialized by the Shanghai port lockdown in China, due to the authorities' zero-Covid policy. According to UNCTAD, China represented about 15% of global trade in 2020. By the time of writing, this lockdown has been ongoing for over a month.

The above-mentioned sectors expected to be the most impacted by the medium and long-term spillover effects of the war in Ukraine, as well as the port of Shanghai lockdown, have to face those shocks starting from different financial situations. There are, for instance, important disparities between the different transport sub-sectors. In the first quarter (Q1) of 2022, sea freight profit was 28% of its turnover, while air transport registered a loss of 11% of its turnover (see Chart 2).

The paper sector is quite illustrative of the sectors that are expected to be the most impacted in the medium-term. It faces the challenges of the ongoing global digitalization of the economy and social use. In the long-term, it remains to be seen to what extent the retail sector (linked to textile-clothing) will be impacted.

1 - North America, Latin America, Asia - Pacific, Central and Eastern Europe, Western Europe, Middle East & Turkey.

2 - See Coface Focus: Russia-Ukraine conflict: stagflation ahead, 7 March 2022 by Coface Economic Research Department, www.coface.com/News-Publications/Publications/Russia-Ukraine-conflict-Stagflation-ahead

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

4 - In this article, given the very volatile global geopolitical environment, the medium-term is defined as an outlook of approximately six months from now. Long-term is defined as a period between six months and a year from now.

5 - 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.

6 - According to Coface methodology, transport includes rail, maritime, road and air transport sub-sectors.