

## FOCUS



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 worldwide<sup>1</sup> 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 March<sup>2</sup>, we expect a majority of sectors for which we publish sector risk assessments to be hit directly or indirectly, including: metals, the petrochemicals sub-sector<sup>3</sup>, 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-term<sup>4</sup>.

The most resilient sectors and sub-sectors are expected to be media<sup>5</sup> (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, transport<sup>6</sup> 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](http://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.

As mentioned in our macroeconomic study on the matter<sup>7</sup>, since households expect a marked deterioration in their personal financial situation and in the overall economy, a negative impact on the retail sector in the medium-term is likely, with disparities from one region to another. However, with the materialization of some buffers implemented by governments, such as food stamps for the most vulnerable segment of the population or energy price subsidies in Europe, the impact on the retail segment might be relatively subdued. In this regard, a correlation of a potential rise in company insolvencies globally with this crisis will have to be monitored carefully, in light of possible government policies to contain such a phenomenon.

Indeed, during the peak period of the COVID-19 crisis (back in spring 2020, when half of humanity was under lockdown), governments' support to companies and households, particularly in advanced economies, have contributed to contain insolvencies overall.

Given the vital dimension of the agri-food sector, the consequences of the challenges it faces from high food and inputs prices, combined with shortages in fertilizer supply, are critical, as they could threaten global food safety, as well as triggering political instability, notably via hunger riots. According to the results of Coface's model on vulnerability to high food prices and dependence on energy prices by region, Southern Asia and Africa are the most vulnerable regions, with over 225 million people being vulnerable to food insecurity worldwide.

In the agri-food sector, as well as in energy and petrochemicals, it is worth mentioning that not all companies within the same sector will be affected to the same extent by the war in Ukraine. It will depend on whether they are upstream or downstream in the supply chain.

Overall, most sectors are expected to be affected by continued supply issues in the medium-term, as those will be exacerbated by the war, particularly regarding energy (especially in Europe) and cereals (Ukraine, Russia and Belarus being large cereal producers), in addition to the ongoing disruptions in semiconductors supply that started early last year, mainly because of the post-pandemic economic rebound. The longer the war lasts, the more likely it is that a demand shock will materialize, making the global environment even more adverse.

That being said, in the long-term, we also 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 and China, which used to cross Russia, are now developing outside the zone via the middle corridor (this route is not under sanction at the time of writing). Just like the COVID-19 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.

Table 1: Sectors covered by Coface's Sector Risk Assessment methodology

 agri-food	 ICT*	 textile-clothing
 automotive	 metals	 transport
 chemical	 paper	 wood
 construction	 pharmaceuticals	
 energy	 retail	

\* According to Coface's sector risk assessment methodology, the ICT sector incorporates several sub-segments: telecommunications, electronics, media segment & a final one composed by computers, software and IT equipment.

## The Russia-Ukraine war will have medium and long-term negative consequences (direct and indirect) on all global sectors trends

In the medium to long-term, all of the thirteen sectors for which Coface publishes sector risk assessments in six regions worldwide will be impacted by the knock-on effects of the Russia-Ukraine war<sup>8</sup>. Beyond the aforementioned regions, the African continent is also at significant risk.

**The additional economic, political and humanitarian shock to the global economy triggered by the war in Ukraine has occurred in a context of pre-existing high volatility of commodity prices, which is likely to remain**

The war in Ukraine has exacerbated the pre-existing inflationary tensions (notably for food and oil)<sup>9</sup> that were already weighing on the global economy since early 2021. Ukraine, Russia, and to a lesser extent Belarus, are leading key commodities producers and exporters (gas, coal, oil,

cereals, industrial and precious metals, wood, fertilizers, etc.), notably to Europe. For instance, Russia and Ukraine respectively accounted for 18% and 11% of global wheat exports in 2019, according to the USDA<sup>10</sup>. Therefore, we anticipate that this war will have both medium and long-term negative consequences on all sectors worldwide.

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

Soaring energy prices will primarily have an impact on energy intensive sectors. In this regard, all industrial sectors are concerned, although at varying degrees and depending on the region. Coface ran an advanced energy intensity study for the 27 European Union countries, in order to assess which sectors would be more vulnerable to disruptions in energy supply in the EU (see Box 1). The findings display similarities with the study in Box 2 where Coface examines the impact of this shock on global sector financial trajectories. From a sector analysis standpoint, although the energy intensity results are limited to EU countries, in both studies, among the most energy intensive sectors that stand out as very vulnerable to energy supply disruption are paper<sup>11</sup> and food<sup>11</sup>, both at EU and global level (see Box 2 page 4).

7 - See Coface Focus article- War in Ukraine: Many (big) losers, few (real) winners, 3 May 2022, By the Coface Economic Research Department, in collaboration with Institut français des relations internationales (IFRI).

8 - See Coface Focus Article - Russia - Ukraine conflict: stagflation ahead, 7 March 2022 by Coface Economic Research Department, [www.coface.com/News-Publications/Publications/War-in-Ukraine-Many-big-losers-few-real-winners](https://www.coface.com/News-Publications/Publications/War-in-Ukraine-Many-big-losers-few-real-winners) War in Ukraine: Many (big) losers, few (real) winners / Publications / News & Publications - Coface

9 - See Coface Barometer article, The U.S. leads the race to global recovery, emerging markets lag behind, April 2021, Box 1 p.5: Post-pandemic recovery drives a tighter crude oil market and Box 2 p.6: Taking stock on the strong increase in food prices <https://www.coface.com/News-Publications/Publications/Country-Sector-Risk-Barometer-Q1-2021-Quarterly-Update>

10 - USDA, World Agricultural Supply and Demand Estimates (March 2022), available at: <https://www.usda.gov/bce/commodity/wasde/wasde0322.pdf>

11 - In the two studies in Box 1 and Box 2, we respectively used Eurostat data and Refinitiv Datastream financial data for global companies.

## BOX 1: ENERGY INTENSITY IN EU27 MAIN INDUSTRIAL SECTORS

As previously mentioned, Russia's invasion of Ukraine has led to an inflationary shock, especially on energy prices. In order to analyse in detail the spillover effects of this shock in a range of industries in the EU, Coface produced an energy intensity index. For the purpose of this study, we have only considered the use of energy on production lines. Therefore, it does not take into account the energy used upstream for the inputs used.

The energy intensity index was calculated by dividing the energy consumption of an EU country's sector<sup>12</sup> by the value added. Thus, we obtain a value corresponding to the quantity of energy (MJ) necessary to produce one euro of value added. The energy index therefore highlights EU sectors that will be most affected by disruptions in the energy market, on a country-by-country basis.

It worth mentioning that the raw Eurostat database used aggregates a group of sectors, which together account for only 5% of final energy consumption as far as plants' production lines are concerned, including: pharmaceuticals, manufacture of computers, electronic and optical products, manufacture of electrical equipment, manufacture of furniture, and jewellery.

The three most energy intensive industries in the European Union according to this indicator are metals, non-metallic minerals and chemicals & petrochemicals. They are closely followed by paper pulp and printing. The two sectors that appear as least energy intensive using this indicator are transportation equipment and construction. While this result might be surprising, it is in fact coherent with the methodology used to calculate this indicator using the Eurostat database, as it measures the amount of energy (MJ) used in the production line. Therefore, the materials used are not taken into account, nor the level of energy consumption required to produce them.

Overall, according to Coface's methodology, we expect the construction and transport sectors to be impacted by high energy prices via two main channels. First, the direct rise in electricity prices or oil prices will affect the activities in the transport sector on all segments (rail, air, maritime and road) and for construction activities, the energy needs to run machinery, etc (in a context of tighter monetary conditions overall). For instance, the inflationary effects of the war pushed the Fed to cool down activity faster than expected. The second channel comprises indirect costs, linked to the fact that the intermediary goods used are more expensive, since they are made of plastic or metals for instance. On this latter channel, the construction and transport sectors will be impacted indirectly via 'supplier sectors' - the petrochemicals sub-sector and metals sector - that are very energy intensive.

Several factors can explain the disparities in energy intensity between countries for the same sector in this study (see **Table 2**). Among them is the fact that sectors are divided into several sub-sectors and thus specializations, which are more or less energy-intensive. Therefore, it depends on the sub-sector specialization of each country.

For example, if we analyse the non-metallic minerals activities in various countries, there are important disparities. Indeed, the study shows that Finland, Sweden and the Netherlands are among the least intensive regarding those activities (see **Table 2**), because they do not manufacture much cement compared to other countries. For the chemicals sector for instance, the important differences between countries are generally explained by the degree of exposure to petrochemicals, which are highly energy-intensive.

**Table 2: industrial sectors (energy intensity on production line)**

Calculated with the quartiles of total distribution (all table)

Energy Intensity (total energy) (MJ/€)	Metallurgy	Chemical and petrochemicals	Non-metallic minerals	Transport equipment	Machinery	Mining and quarrying	Food, Beverages and Tobacco	Paper, pulp and printing	Wood and wood products	Construction engines	Textile and leather
EU 27	22,4		19,3			3,6	4,6	18,3	9,5	0,6	2,2
Belgium	19,4	19,8	21,1	1,6	3,2	7,9	7,7	14,4	9,4	0,4	5,7
Bulgaria	24,1	77,9	47,5	1,9	8,9	8,0	7,9	26,1	22,3	1,3	3,2
Czech Rep	31,1	23,2	21,3	1,8	6,2	2,9	5,6	18,0	6,9	0,6	4,7
Denmark	9,2	3,3	15,7	1,0	1,2	1,0	5,9	3,7	5,9	0,4	1,5
Germany	19,1	12,3	15,0	0,8	2,0	3,2	4,5	12,2	9,3	0,6	2,3
Estonia	2,6	12,7	22,0	2,9	7,7	1,5	6,0	17,9	5,2	1,2	2,0
Ireland	52,9		19,5	0,5		3,9	2,5	1,5	18,7	0,5	2,1
Greece	27,6	4,0	38,0	0,7	10,5	5,9	3,7	4,7	13,6	2,2	7,5
Spain	23,0	15,9	26,9	1,5	5,4	6,1	4,3	12,3	12,9	0,8	1,7
France	24,1	13,1	18,2	1,2	6,3	8,8	4,6	11,9	7,5	0,5	2,1
Croatia	13,2	29,2	42,6	1,5	9,0	1,3	5,1	8,3	11,9	1,9	2,6
Italy	20,8	12,3	17,1	0,8	3,7	1,4	3,9	8,2	4,3	0,2	1,8
Cyprus	1,8	11,4	44,3	1,1	3,8	14,9	4,6	2,2	0,4	0,4	1,0
Latvia	2,6	10,2	28,1	2,5	6,8	3,5	5,3	1,6	26,4	0,6	2,2
Lithuania	4,3	26,2	24,2	0,6	6,6	2,3	4,7	5,9	7,0	0,6	2,5
Luxembourg		13,1				1,3				0,2	5,5
Hungary	20,6	37,5	26,1	1,9	11,0	3,5	11,2	12,6	15,7	1,7	3,2
Malta		14,5					1,7			0,4	8,5
Netherlands	22,0	27,1	10,0	1,0	1,6	0,8	5,0	6,4	1,9	0,8	3,4
Austria	11,5	15,0	13,6	0,8	2,4	11,5	3,4	26,1	8,0	0,6	2,7
Poland	38,7	32,7	25,4	2,2	6,9	2,5	6,4	17,1	14,9	0,2	1,9
Portugal	19,9	22,7	27,7	1,7	6,8	5,5	4,5	39,0	5,6	0,8	3,1
Romania	51,7	60,3	33,0	2,1	10,4	0,8	2,5	6,7	13,1	1,2	2,2
Slovenia	23,7	15,7	23,9	2,0	10,5	5,8	4,2	18,9	6,8	0,6	2,4
Slovakia	61,7	30,4	26,4	1,7	6,3	7,6	5,3	40,5	3,7	0,2	1,4
Finland	29,3	14,3	10,7	2,2	2,4	8,1	6,0	73,0	18,3	1,1	1,9
Sweden	16,2		9,2	0,7	1,5	6,8	3,2	51,1	11,1	0,5	1,8

Sources: Coface, Eurostat

Very high energy intensity  
High energy intensity  
Medium energy intensity  
Low energy intensity

12 - In the Eurostat raw database used to produce the energy intensity index, the sectors denomination and contents somewhat differs from the 13 sectors for which Coface publishes sector risk assessments.

**BOX 2: COFACE FORECASTS OF THE IMPACT OF THE RUSSIAN INVASION OF UKRAINE ON GLOBAL SECTORS' FINANCIAL TRAJECTORY**

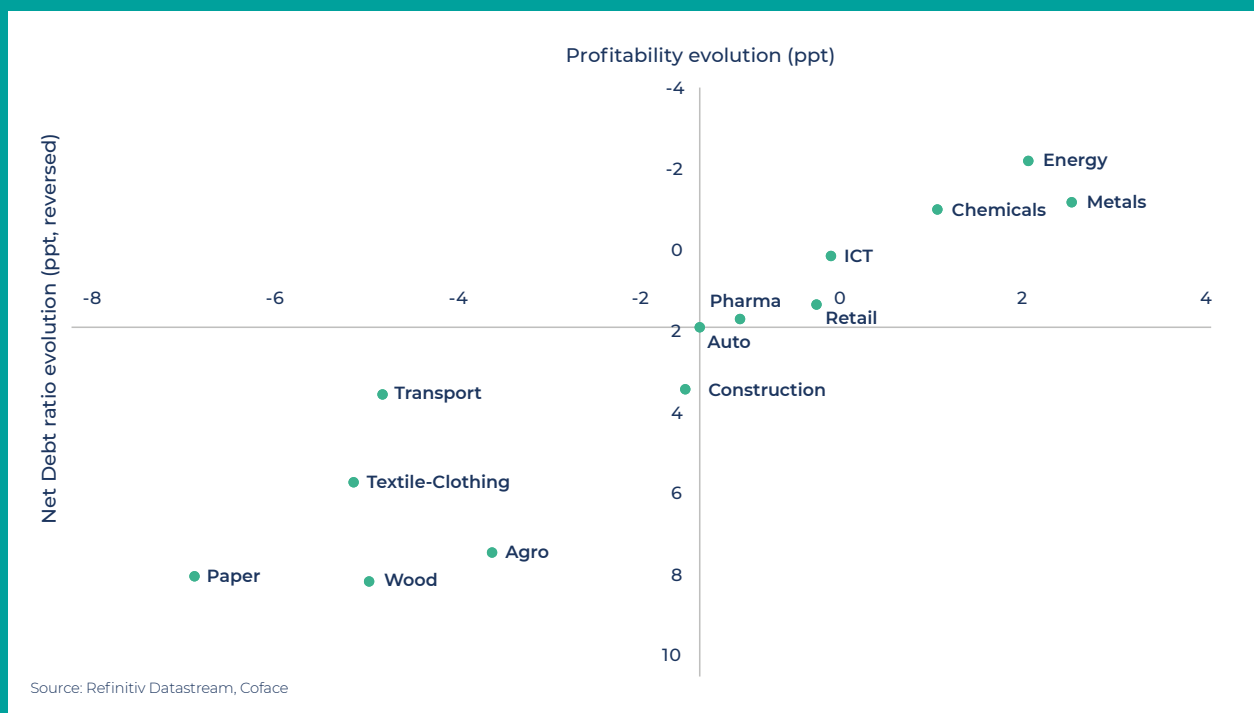
Coface carried out a statistical study in order to classify the sectors likely to be most affected by the shock triggered by the war in Ukraine - in terms of repercussions on the financial health of companies in the sector - by forecasting the variations of financial indicators (turnover and net debt) for Q2 2022. The considered database is composed of the listed companies (available in Refinitiv Datastream) in the 13 sectors for which Coface produces sector risk analyses.

For this purpose, Coface has studied and integrated the magnitude of the COVID-19 crisis<sup>13</sup> in 2020. **Chart 1** (a similar approach was used for **Charts 6 and 7**, see p7.) shows the relationship between growth in the net debt ratio (net debt/total assets) and growth in turnover between Q4 2021 and Q4 2022, for the 13 sectors. Among the resilient sectors, pharmaceuticals and ICT stand out.

The resilience of specialty chemicals is less clear from this chart, due to the chemical industry's complex dynamics. On the one hand, there are differences in terms of impacts for the petrochemicals sectors in different regions of the world. On the other hand, specialty chemicals is a smaller sub-sector, with a handful of companies mainly located in Western Europe, Asia and North America, which are selling technology intensive products spanning across several industries (cosmetics, automotive, construction, etc.).

The study reveals that cyclical and energy intensive sectors such as paper, wood, textile-clothing, transport and agri-food are expected to be the most impacted.

**Chart 1:** Evolution of the net debt ratio and the profitability between Q4 2021 and Q4 2022 (ppt)



Source: Refinitiv Datastream, Coface

*The axis does not represent 0% but the median value. The data used here concern listed companies, therefore, they may not be fully representative of the whole set of companies within a sector.*

The likelihood of a sector being resilient is also linked to the pre-existing economic and financial situation when the shock occurs.

While the transport sector overall is energy intensive and is likely to be hit by high oil prices, maritime freight activities, for example, face the shock with a comfortable level of profitability overall due to very high price dynamics since early last year.

Most difficulties for those activities might emerge from the spillover effects of the disruption in Shanghai port, that has been on-going for over a month by now, due to the strict lockdown implemented by the Chinese authorities to contain the COVID-19 pandemic there (Omicron variant). As a consequence, container throughput for external trade in China fell by 4.1% for the middle ten days of April, down from 4.5% average growth in March. As when the pandemic hit the global economy, sectors that were in difficulty before the crisis are

likely to be strongly impacted by this shock. Moreover, the new round of sanctions that might lead to a gradual ban on Russia's oil, toward the end of the year, decided in early May by the EU commission in response to Russia's invasion of Ukraine last February, would put higher pressure on oil prices. Therefore, it will have a negative impact on most sectors, by notably increasing further input costs and thus denting margins.

By contrast, the energy sector is likely to remain positively impacted in the medium-term overall. In the long-term, it could be negatively impacted should a strong deterioration of the global demand dynamic materialize, in particular if the war in Europe lasts. The textile-clothing and automotive sectors globally are expected to remain the most impacted going forward. Even before the pandemic, both sectors were affected by deep changes in consumers' habits and new regulations related to environmental concerns.



This new context of war in Europe, a leading global market, is fuelling political uncertainties that are likely to continue to hamper consumers' confidence, therefore influencing primarily cyclical sectors. Moreover, the aforementioned sectors, expected to be the most impacted by the medium and long-term spillover effects of the war in Ukraine, as well as those linked to 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 Q1 2022, sea freight profit was 28% of its turnover, while air transport registered a loss of 11% of its turnover (see **Chart 2**).

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

On the one hand, rising gas prices contribute to increase input costs for agricultural crops, therefore lowering the yield for farmers (**Box 3**), while the agri-food sector is already vulnerable to several structural factors such as biological risks and the evolution in climatic conditions like the *La Niña*<sup>15</sup> phenomenon. The consequences of the ongoing *La Niña* episode, which is causing lower soybean and corn production in Latin America, are likely to be exacerbated.

The beginning of 2022 is marked by strong heat episodes. These phenomena, which cause droughts and large-scale fires, weaken vulnerable regions by threatening crops (Horn of Africa, South Asia), therefore increasing the risk of famine. This also affects wealthier economies such as the U.S. (by the time of writing the Calf Canyon fire consequences in New Mexico for example), where they cause considerable damage to the environment, as well as on homes in densely populated areas.

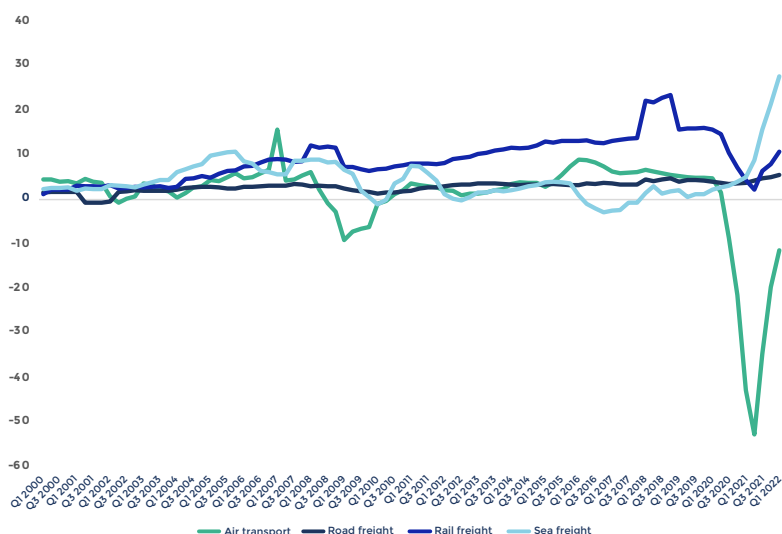
Yet, it is worth mentioning that there will be wide disparities in terms of impact and a split between industries/companies' position in the supply chain, depending on if they are upstream or downstream. Moreover, there will be regional disparities. For instance, Latin America is likely to be less impacted by cereal supply chain disruptions than the EU, as the region has large agri-food (notably cereal) producers such as Brazil and Argentina, despite their dependence on Russian fertilizers. The latter indeed constitutes a risk for the agri-food sector in the region.

Added to the the drought faced by some parts of Latin America (South of Brazil, part of Argentina and the full territory of Paraguay), which threatens the 2021/2022 crop harvest. 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. This partly explains why the chemical sector at the global level is expected to face a more subdued shock on its financial trajectory, compared with other energy intensive sectors such as paper, agri-food and textile-clothing, according to the results of the study (**Box 2**).

**Significant sector transformations and consumer habits evolution are expected**

Global supply chains have faced challenges over the past two years due to the knock-on effects of the health crisis (for example, the still ongoing shortages of semiconductors). The current environment of substantial uncertainty and high inflation could lead to a demand shock in the medium-term in some regions, particularly in Europe. As during the pandemic, most governments have taken measures to limit the impact of the crisis on households (vouchers, rebates, lower taxes on energy and/or food products). In countries such as Egypt - which was swept by 'hunger riots' during the Arab springs in 2011 (although they were also motivated by political claims for regime change) -, governments have made efforts since then to stock wheat for instance (Egypt is the

**Chart 2: Profit of the Transport sector**



Source: Refinitiv Datastream, Coface

first wheat importer worldwide with 12 million tons of imports per year). In Indonesia, where palm oil exports represented 21% of total exports last year, President Joko Widodo announced a ban on food oil exports starting on 28 April, until further notice. This decision aims at ensuring domestic availability and curbing inflation on edible oil prices in the country.

Another example that illustrated the adaptation of actors, which will have long-term consequences, is the EU governments' decision to significantly reduce their dependence on Russian energy, following the Versailles summit held in France in March. They have agreed to phase out their reliance on Russian gas, oil and coal imports, as soon as possible, through three main channels. First, by accelerating the reduction of their reliance on fossil fuels, although it is expected to be a gradual and long-term process. They aim at taking into account national circumstances and Member States' choices on their energy mix. Second, by diversifying their suppliers and routes, including by using Liquefied Natural Gas (LNG) and the development of biogas. Third, by developing a hydrogen market in Europe.

Adaptations are also at play in supply chain organization, in order to limit the impact of the knock-on effects of the war. For instance, this is the case of rail activities. The sanctions against Russia do not prohibit - so far - rail transport between China and Europe through Russia. However, some companies are reluctant to use these routes for their goods, and therefore prefer to export their goods via the middle corridor, which passes through China and Kazakhstan, crosses the Caspian Sea to Azerbaijan, passes through Georgia and Turkey, and eventually reaches Europe via the Bosphorus Strait. While it would be difficult to re-route all the excess traffic through this corridor (about 15 million TEU<sup>16</sup> pass through Russia by train each year, while less than 100,000 TEU transit through the middle corridor), this example shows actors' adaptation to the circumstances that could lead to changes in major rail freight routes and therefore practices looking forward.

Moreover, in the long-term, some consumers' preferences might evolve. For instance, soaring wheat prices could spur the locally grown flour production (sorghum, corn or millet, notably in sub-Saharan Africa). We also see an acceleration in households and companies' energy savings practices in the EU, strongly encouraged by governments and energy providers.

15- According to the National Oceanic and Atmospheric Administration (NOAA), "La Niña is defined as a cooler than normal sea-surface temperatures in the central and eastern tropical Pacific ocean that impact global weather patterns".

16- Twenty-Foot Equivalent Units (intermodal shipping container).

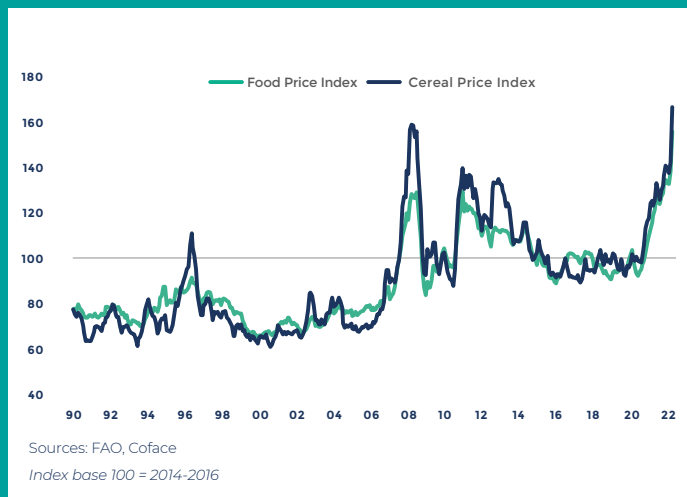
**BOX 3 – THE RUSSIA-UKRAINE WAR’S IMPACT ON GLOBAL FOOD SUPPLY**

The preponderance of Ukraine and Russia in global exports of cereals, such as wheat and corn, directly affected their prices, and then, by knock-on effect, those of coarse grains (barley, sorghum, oats, etc.). Concomitantly, the Russia-Belarus pair accounts for 20% of global fertilizer exports and 40% regarding potash.

The restrictions on trade with these two belligerents have automatically increased fertilizer prices. Inflationary pressures on fuels and fertilizers are severely affecting the production costs of cereal producers. Therefore, all agri-food segments down the value chain (meat, milk, vegetable oils, etc.) will be hard-hit in short-term.

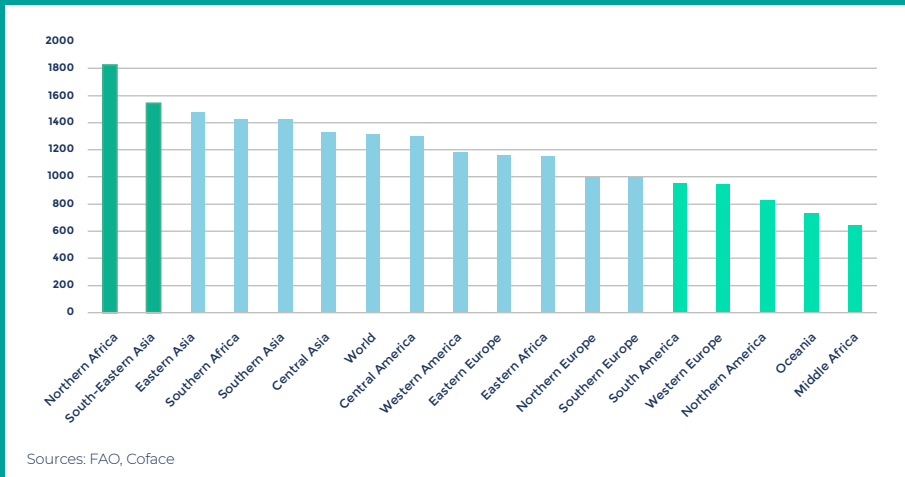
Moreover, the contraction in global trade of cereals (-2% between 2020/21 and 2021/22) is driving this inflationary spiral, despite the upward trends forecasted for world production and cereal stocks. The consequences are already heavy on consumer prices: +17.9 points (month-on-month) for the FAO March Food Price Index, which has reached its highest level ever (see Chart 3).

**Chart 3: FAO Food Price Index**

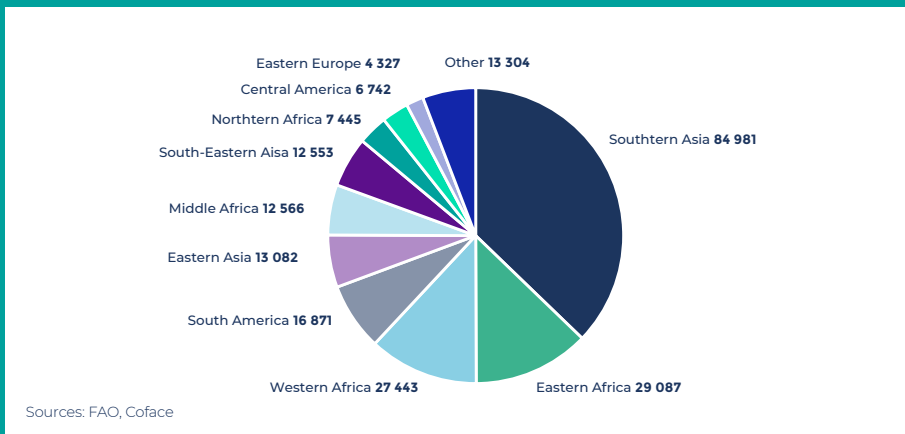


The evolution of the risk linked to this shock on the agri-food sector mainly affects countries with a high dependence on food imports and for which the average daily basket of households relies on a significant cereals-based energy intake. Over 225 million people are vulnerable to food insecurity worldwide - several high-risk regions' populations have cereals-based diet. Rising consumer prices for staple foods combined with an increased risk of food insecurity suggests an increase in socio-political risk in several countries and regions, notably North Africa, South Asia and the Horn of Africa (see Chart 4 and Chart 5).

**Chart 4:**  
Energy intake of cereals in people's daily ration (in kcal)



**Chart 5:**  
Populations vulnerable to food insecurity (in thousand of people)



Last but not least, the fact that the governments of significant markets such as China and India are not sanctioning Russia, could suggest changes in Russia's export orientations in the long run, in absence of a resolution of the war and the lifting of the current sanctions against Russia. Therefore, we could see a shift in Russian exports towards other regions in the world, notably Asia. We will monitor carefully competition positions of companies in all sectors worldwide that could lead to 'winners and losers' in the upcoming two to three years, in the loop of the race to access Russian exports under Western sanctions.

### The pharmaceuticals sector, media and a sub-segment in the specialty chemicals sub-sector, are likely to remain resilient

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

While the health crisis linked to COVID-19 has somewhat eased in many parts of the world, it is definitely not over, as highlighted by the surge in new cases in China over the last weeks. Therefore, the pharmaceuticals sector, which emerged as one of the most 'resilient' to that crisis, should continue having a sound dynamic regarding financial performances, with differences depending on countries.

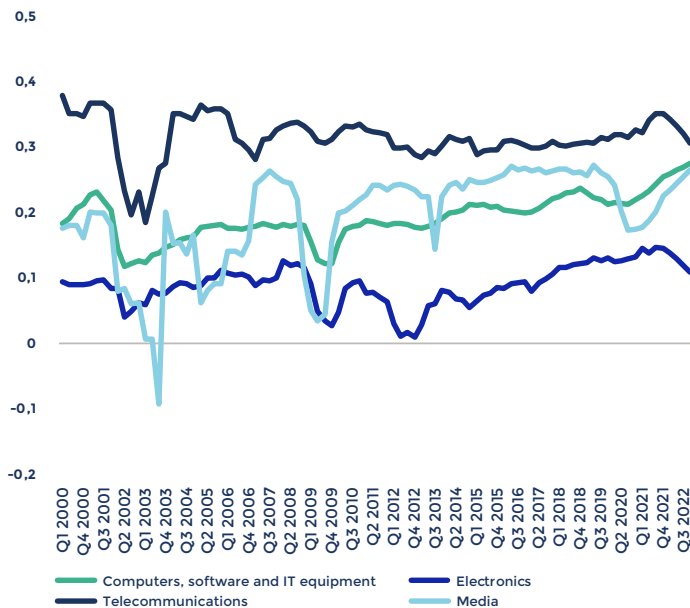
Among the three ICT segments, Coface expects the media one to remain the most resilient, as seen in **Charts 6 and 7**, comparing the financial performances projected for the different segments. The media sub-sector's resilience can be explained by three main factors. First, investments and equipment required to use those services pre-dated the crisis, so users are not impacted by supply chain disruptions. Second, these services remain necessary and can be used remotely. Thus, they are not constrained by physical and geographical barriers, contrarily to rail freight activity that we mentioned earlier for example. Third, long-time budgeted investment from ICT companies, which are facing this new crisis with a comfortable financial position and can keep investing in high-tech.

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

The sample of our covered and monitored corporates evolving in this specialty chemicals sub-segment has showed an ability to somewhat bypass the current lower sales environment (in volume) by increasing prices. This move allowed those companies to maintain satisfactory profits so far, despite the high level of economic uncertainty.

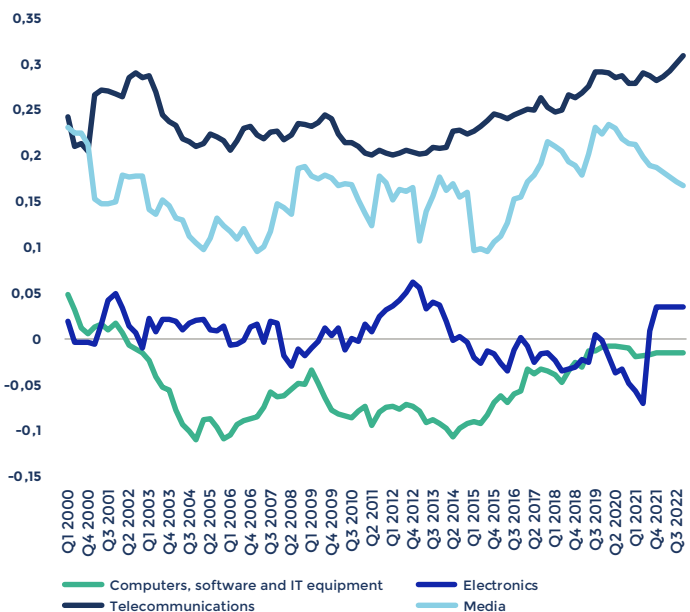
As such, many of the aforementioned companies posted, on a quarterly basis, overall, dynamic volume sales growth, while output price increases were ranging between +12% and 22%, depending on companies. This dynamic is expected to remain relatively sound in the medium-term, even if noticeable uncertainties and risks ahead remain.

**Chart 6: Profitability ratio forecasts\* by ICT segments, with war in Europe shock**



Source: Datastream Refinitiv, Coface  
\*Same methodology as the one used in chart 1, Box 2 p.4

**Chart 7: Net debt ratio forecasts\* by ICT segments, with war in Europe shock**



Source: Datastream Refinitiv, Coface  
\*Same methodology as the one used in chart 1, Box 2 p.4

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