



UK Sector Snippets

Quarterly sector risk outlook

February 2026



Summary

We're excited to share our first edition of the UK Sector Risk Outlook. In this quarterly report, our local team of sector experts provides a concise view of the risks shaping performance, liquidity, and credit conditions across 18 major UK industries. Each sector is also ranked from 1 to 4, from low to high risk.

As we entered 2026, the UK economy reflected a state of uneven recovery, marked by persistent cost pressures, shifting global trade dynamics and an accelerating transition toward digital and green technologies. Against this backdrop, businesses across the value chain are navigating a complex mix of structural change and cyclical uncertainty. This edition highlights where vulnerabilities are rising, where resilience is strengthening, and what trends will matter most for companies and their supply chains in the months ahead. From a challenging operating environment for Construction to a stable and resilient outlook for Pharmaceuticals, read ahead to understand what's currently shaping the top UK sectors.



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1) Automotive manufacturers

⚠️ Sector risk level: 3

Outlook: UK automotive output is strongly impacted by trade tensions over the new US tariff framework as export-oriented output declined by -8% in 2025 of which -12% took place in H2 only. A recovery of domestic production late last year (+21% in Q4) underpinned by a solid local demand (new registrations +3% in 2025) helped somewhat in shoring up the deteriorated confidence of automakers, whose 2026 outlook remains under pressure due to profitability concerns, uncertain trade conditions and new competition coming from China.

Nicole White, sector head for Automotive, reports that September production fell to its weakest level for the month since 1952, with the 27,000 vehicle drop knocking 0.17% off UK economic output. Year-to-date car and van output totalled 582,250 units, down 15.2% compared to the equivalent period in 2024. Energy costs, support scheme uncertainty, component sourcing challenges (especially for EVs and batteries), labour shortages, and a zero emissions mandate continue to weigh on competitiveness. The sector is also affected by global trade disruptions and tariff uncertainty. Modest growth is expected in 2026, but pressure from Chinese OEMs and suppliers is intensifying.



2) Automotive suppliers

⚠️ Sector risk level: 4

Outlook: Suppliers are being forced to adapt quickly as the digital shift of the automotive supply chain reshapes requirements and investment needs. In the meantime, suppliers are coping with a squeeze of their margins as OEMs are implementing large cost-cutting plans amid shrinking European demand and a tense international trade environment, as well as an aggressive pricing policy from Chinese suppliers that are exporting their capacity surplus to Europe.

Nicole White, sector head for Automotive, explains that rapid technological shifts in EV and autonomous systems require sustained investment across skills, R&D, and infrastructure. The UK's energy cost disadvantage is shaping investment and production allocation decisions, with UK OEMs paying up to double the electricity prices of EU peer. Supply chain structures are evolving as firms consolidate inbound logistics to improve resilience and cost control, including reshoring production to lower cost countries such as Hungary, Turkey, and Spain. The sector remains under strain, with performance dependent on managing high costs and ongoing change simultaneously.

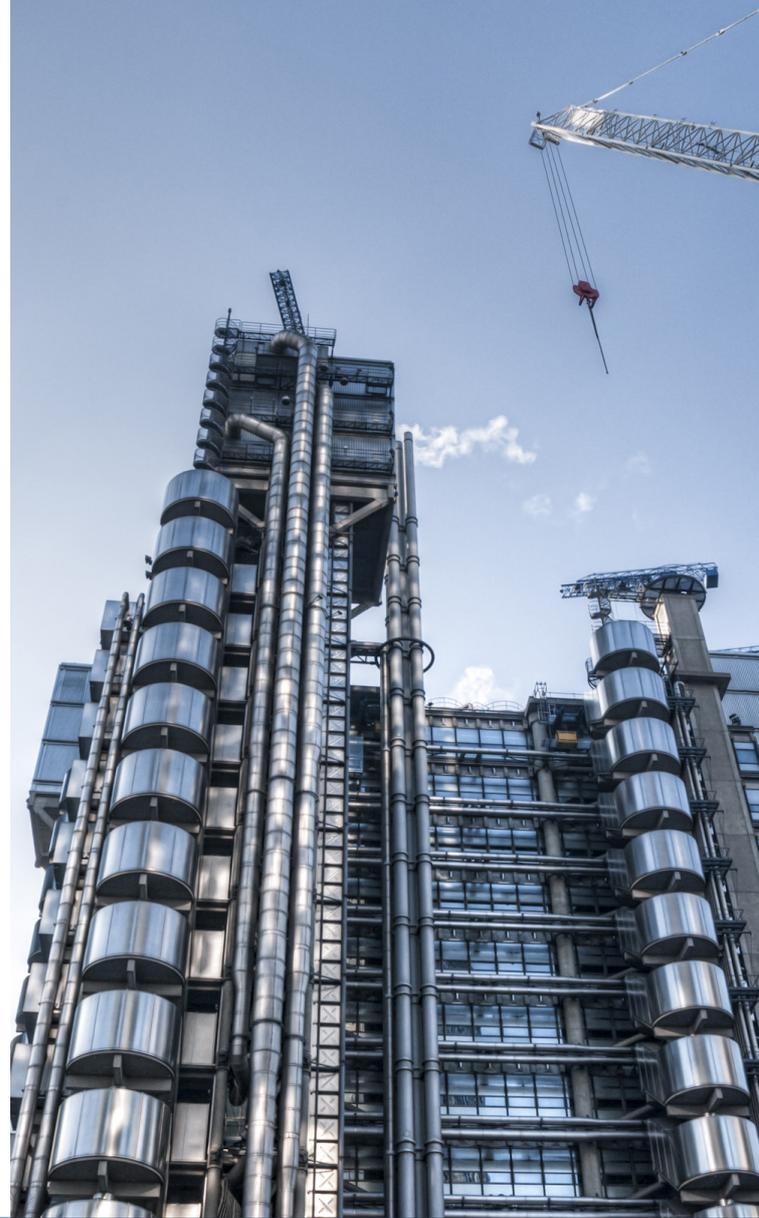


3) Construction

⚠️ Sector risk level: 4

Outlook: The UK construction sector remains in contraction. Growth prospects have been downgraded, and insolvencies stay elevated, underscoring a persistently challenging operating environment.

According to **Iveta Terefenkova, sector head for Construction**, the UK Construction PMI rose to 46.4 in January 2026, indicating a softer but ongoing contraction. House building and civil engineering remained weak, while commercial activity saw a smaller decline. New orders showed modest improvement, but rising costs and low confidence continued to weigh on the sector. The Construction Products Association (CPA) has cut its 2026 growth forecast to 1.7%, down from 2.8%, reflecting continued sector-wide weakness and delayed decision-making. Limited growth is expected to come from commercial fit-out, energy and water infrastructure, and public-sector building programmes. Private housing output is now forecast to grow by only 1.5%, down from 4%, while private housing RMI is expected to decline by 1%, driven by affordability pressures and rising costs. Insolvencies remain elevated, and construction accounted for 15.7% of all UK insolvencies in the year to November 2025, with nearly 4,000 cases recorded over that period.



4) Transport

⚠️ Sector risk level: 3

Outlook: Demand is stable and revenues are rising modestly, but margins remain under pressure. Smaller operators are more exposed to cash and solvency risks.

Kieron Franks, sector head for Transport, observes that profitability is restricted by rising operating costs and limited pricing power, particularly among smaller operators. Liquidity is more stable for larger firms, while smaller businesses remain exposed to tighter cashflow and higher insolvency risk as banks stay selective on new lending. Technology is reshaping operating models and efficiency, and the sector's strategic importance is increasing, with potential for targeted digital and green transition support.

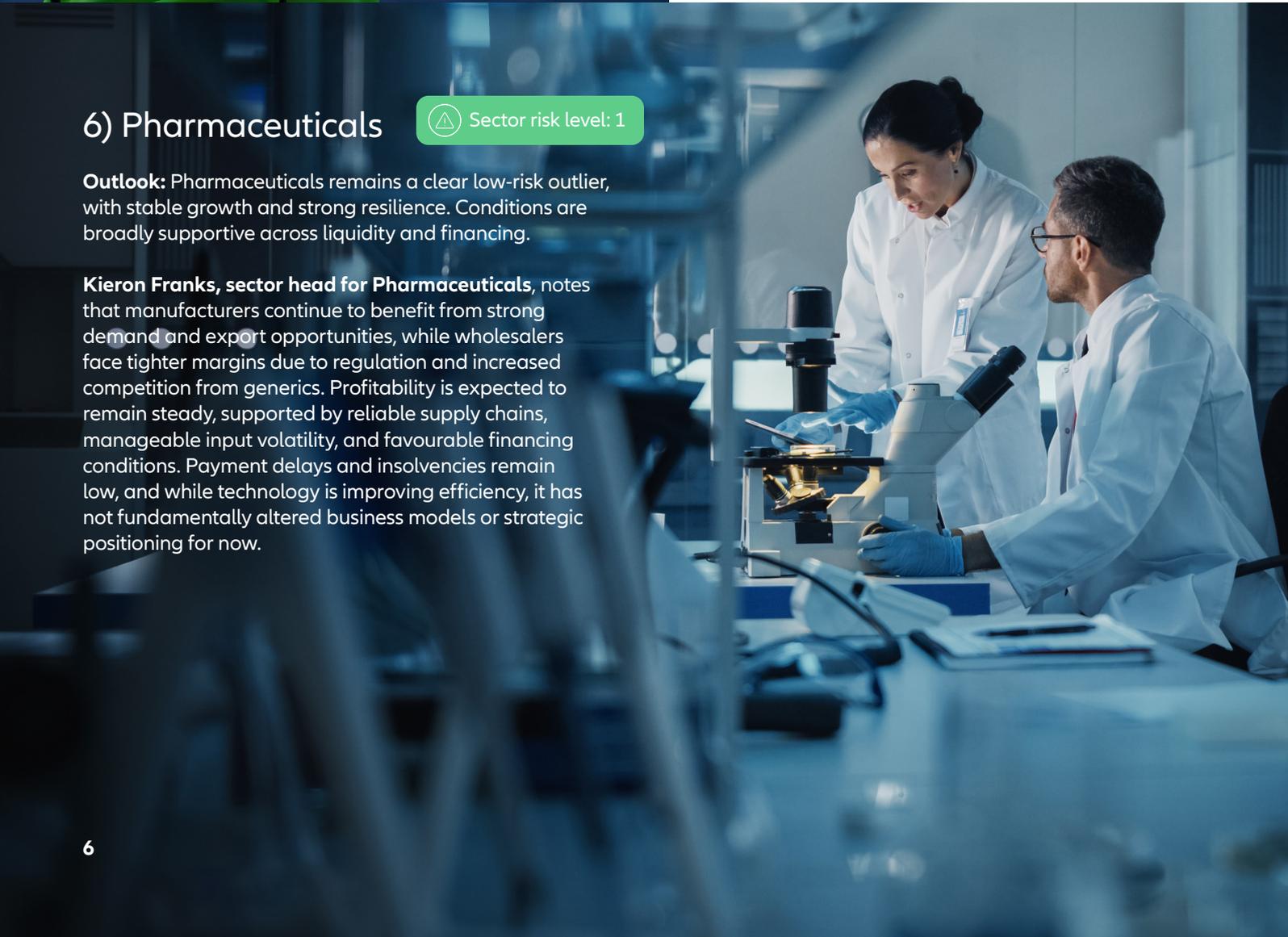


5) Chemicals

⚠️ Sector risk level: 3

Outlook: Chemicals remains subdued, with weak demand and margin compression. Liquidity and payment risk are key watchpoints, especially for smaller firms.

Kieron Franks, sector head for Chemicals, expects profitability to stay subdued, with insolvency risks rising among smaller players. Capacity remains stable but under used, and raw material and energy price volatility continues to pressure margins. Access to finance is constrained, banks remain cautious, and payment delays are likely to increase. Innovation is influencing business models, particularly in specialty chemicals, but no significant policy or subsidy shifts are anticipated near term.



6) Pharmaceuticals

⚠️ Sector risk level: 1

Outlook: Pharmaceuticals remains a clear low-risk outlier, with stable growth and strong resilience. Conditions are broadly supportive across liquidity and financing.

Kieron Franks, sector head for Pharmaceuticals, notes that manufacturers continue to benefit from strong demand and export opportunities, while wholesalers face tighter margins due to regulation and increased competition from generics. Profitability is expected to remain steady, supported by reliable supply chains, manageable input volatility, and favourable financing conditions. Payment delays and insolvencies remain low, and while technology is improving efficiency, it has not fundamentally altered business models or strategic positioning for now.

7) Agrifood

⚠️ Sector risk level: 2

Outlook: Agrifood is squeezed by tight margins and cautious demand. Liquidity stress and elevated failure risk remain key concerns.

Kieron Franks, sector head for Agrifood, explains that high input costs, volatile supply conditions, and cautious consumer spending continue to suppress profitability and liquidity in the short term. Access to finance is difficult as banks remain selective, and payment delays and failures are expected to remain above historical norms, especially for smaller or less diversified firms. Innovation is gradually reshaping business models for those able to invest, and subsidies are increasingly focused on sustainability, innovation, and resilience.



8) Textiles

⚠️ Sector risk level: 3

Outlook: Textiles remains in a tough trading environment, with soft demand, higher digital footprint on retail sales, stronger competition from US and Chinese marketplaces and changing consumer behaviour (lower brand loyalty and appetite for second-hand markets). The volatile environment results in low visibility on cashflow and persistent cost pressure. Working-capital and insolvency risks remain elevated in weaker parts of the market.

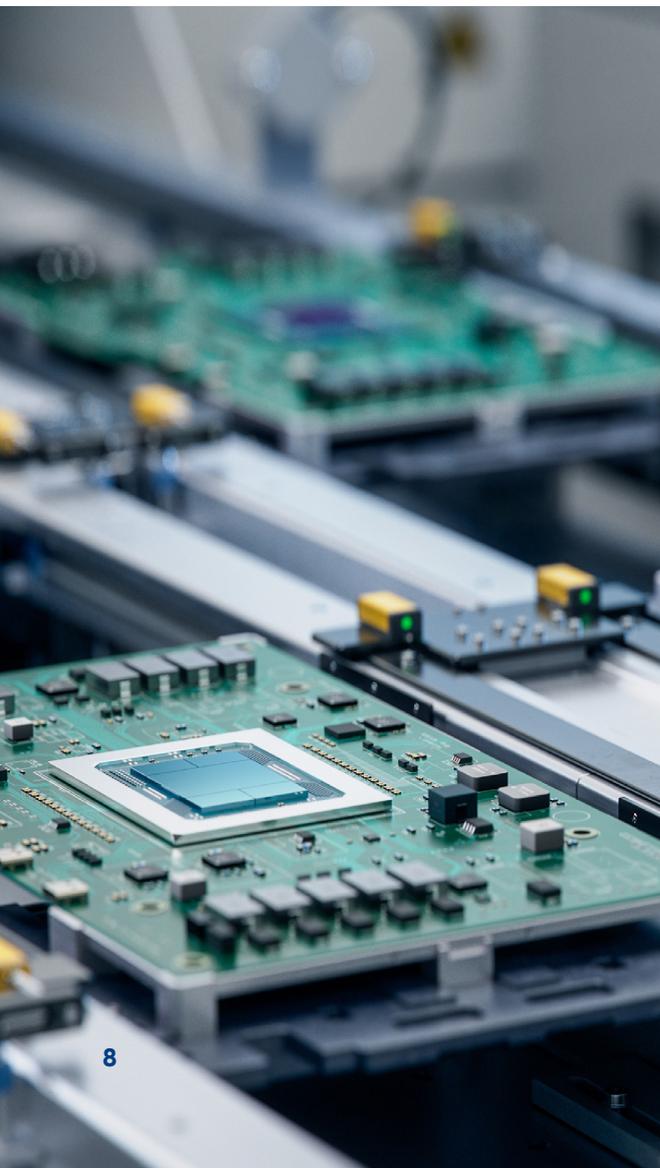
Chris Daker, sector head for Textiles, reports that apparel and footwear manufacturing and wholesale demand remains weak as retailers destock, while home textiles show only modest improvement. Industrial energy costs and wage inflation, particularly for skilled machinists, continue to pressure margins, and smaller firms face limited pricing power. Producers are attempting to pass on cost rises, with factory gate prices up around 3.6% year-on-year in October, though margins remain squeezed. Insolvency activity remains elevated, with working-capital pressure evident in tight inventories, low order visibility and concentrated customer exposure. More resilient performance is found in technical and higher-value export-led segments.

9) Paper

⚠️ Sector risk level: 4

Outlook: Paper is in structural decline as digital substitution erodes demand. Profitability remains under strain and sector volatility is high.

Nicole White, sector head for Paper, notes that revenue continues to decline as demand from newsprint and stationery manufacturers decreases, amid intense competition and rising imports. Paper and paperboard manufacturing are expected to dip 2.4% in 2025–26 to around £2.6bn in revenue (with an underlying multiyear decline trend). Even with some easing in input inflation, profitability remains low due to persistent energy and raw material costs pressures, contributing to plant closures and reduced capacity. Regulatory costs, particularly packaging related requirements, are increasing, while opportunities remain in packaging and higher value print supported by sustainability and technology integration such as automation and digital-enabled printing.



10) Electronics

⚠️ Sector risk level: 3

Outlook: Electronics has a supportive growth backdrop, aided by policy focus on innovation, digital transformation and sovereign risk protection. Demand expectations for contract manufacturing are positive but strong external dependency for key upstream inputs or services (raw materials, chip design process, silicon wafer) is a big threat that might substantially affect revenue (reduced output) and/or profitability (higher costs) in case of a supply-chain bottleneck or disruption.

Chris Daker, sector head for Electronics, explains that government initiatives such as the “Invest 2035” strategy are expected to support innovation, decarbonisation, and digital transformation. The British Business Bank will make over £4bn available in growth capital for UK scale ups, and the strategy includes £2bn to cut industrial electricity costs for more than 7,000 businesses. Strong growth is projected for contract manufacturing and EMS providers, supported by improving labour availability across permanent and temporary roles. The broader outlook is positive but still influenced by broader global and domestic challenges.

11) Metal

 Sector risk level: 3

Outlook: Metals faces an uncertain, trade-sensitive environment shaped by global overcapacity and muted pricing power. Competitiveness and policy risk are key constraints into 2026.

Nicole White, sector head for Metal, highlights that demand is expected to remain steady but highly sensitive to macro conditions amid persistent global overcapacity and competitive distortion. Average electricity prices for UK steelmakers are roughly 14–25% more than key European competitors, and uncertainty around EU import measures, CBAM benchmarks and costs, and tariff or quota changes is creating planning challenges. Policy and demand uncertainty continue to shape a cautious outlook.



12) Retail

 Sector risk level: 3

Outlook: Despite a promising rebound in H2 in the UK (volume up +2.5% yy/value up by +3.5%), boosted in part by higher retail prices (+4% in Q4 25), retail sales remains fragile, with weak confidence, volatile trading patterns and national budget uncertainty still weighing on the outlook. Restructuring and cost-cutting are prominent as firms protect cash and margins.

Chris Daker, sector head for Retail, explains that consumer confidence has been volatile and remains negative overall, with inflation and higher interest rates constraining disposable income. Trading visibility is unstable, and firms continue to contend with higher costs such as NI, business rates, and geopolitical pressures. Footfall also declined for the sixth consecutive month in October, reinforcing weak visibility and cautious inventory. Businesses are reducing spending, particularly in advertising and marketing, and adopting a “wait and see” stance on capex, while financial distress and administrations remain frequent. Conditions are expected to stay challenging.





13) Machinery & equipment

⚠️ Sector risk level: 3

Outlook: Machinery shows improving demand signals, but recovery remains uneven and fragile. Liquidity pressure and refinancing risk remain key constraints.

Nicole White, sector head for Machinery, notes improving sentiment as surveys show rising orders and stronger investment intentions in automation and replacement capex, despite soft production. Long-term opportunities in automation and sustainability are balanced against near-term pressures from weak demand, liquidity constraints, and elevated refinancing risk. Demand is expected to stay subdued through early 2026, leaving highly leveraged firms most exposed to refinancing pressure and elevated borrowing costs. Recovery prospects depend on improved macro conditions, policy stability, and financing availability opportunities in automation and sustainability are balanced against near-term pressures from weak demand, liquidity constraints, and elevated refinancing risk.

14) Transport equipment (excluding automotive)

⚠️ Sector risk level: 3

Outlook: Transport equipment is supported by demand momentum in defence, space, and logistics automation. Liquidity and payment dynamics remain a key risk factor.

Nicole White, sector head for Transport equipment, reports that demand is supported by defence, shipbuilding, space innovation, and logistics automation, though liquidity is a concern due to late payments and insolvency pressures keeping working capital risk elevated. Further growth in defence and space segments is anticipated for 2026-2017, while rail remains subdued pending clearer policy direction. The outlook is positive in selected sub sectors but constrained by working capital and payment risk challenges.





15) Software & IT services

⚠️ Sector risk level: 2

Outlook: Software & IT services continues to benefit from strong demand for digital solutions, but execution risk is shaped by IT budget volatility and changing regulations, with a data footprint across the whole economy. The ongoing revamping of IT requirement caused by gradual AI infusion into corporate processes is both a business opportunity (low learning curve) and a risk (dilution of SaaS revenue and margin). Managing talent and compliance remains central to outperform.

Chris Daker, sector head for Software & IT Services, explains that the sector is shaped by rapid technological change and a complex regulatory environment, with profitability and liquidity influenced by talent costs, competition, and access to finance. Legal and compliance requirements, spanning data protection, IP, and employment law, require careful management. Structured frameworks such as PESTEL continue to be valuable in supporting strategic planning. Overall, the outlook remains constructive but dependent on disciplined management of costs and regulation.

16) Household equipment

⚠️ Sector risk level: 3

Outlook: Household equipment remains constrained by cautious consumers and weak spending intentions toward the ongoing AI-driven upgrade of the new generation of products. A moderate appetite from consumers for early-stage technology upgrades coupled with the competitiveness gap with Asian firms weigh on the industry outlook. Trading conditions mirror broader retail softness and recent failures underline ongoing pressure.

Chris Daker, sector head for Household equipment, notes that household bills remain high and retail spending is rising more slowly, while confidence has been volatile and remains negative overall. Recent failures underline pressure across the sector, and segments boosted during the 2022/23 energy price crisis now face saturation and make differentiation harder. Spending on big ticket items shows some easing, but this is largely price-led rather than volume-led, with spending intention still down. Home automation and sustainability/eco-friendly products as ongoing drivers of growth. Near-term conditions remain challenging as consumers stay cautious.



17) Computers & telecom

⚠️ Sector risk level: 2

Outlook: Computers & telecoms benefits from sustained policy backing and structural demand for digital capability. However, the risk of disruption of chips due to the absorption of global demand from AI data center projects threatens to impact production and prices in 2026. Beyond risks of temporary shortages, a gradual usage of AI technology in both consumer and corporate segments will not justify a very large increase of hardware prices. Cyber-security, data protection, new technology adoption and the regulatory framework change will increasingly be the defining themes in 2026.

Chris Daker, sector head for Computers & Telecom, reports that sustained government investment and multi-year planning support the sector, alongside rising public R&D funding and skills initiatives. The UK AI market could reach £801.6bn by 2035, with the Vodafone–Three UK merger being a major development. Public R&D funding is set to rise to £22.6bn by 2029/30, and the “TechFirst” programme includes £187m to address digital skills gaps (bursaries, apprenticeships and fellowships in AI and data science). Prominent cyber disruption has reinforced the need for improved resilience, particularly for smaller firms, and ongoing consultation on telecoms security requirements may drive further investment. The outlook is supportive but increasingly shaped by resilience requirements.



18) Energy

⚠️ Sector risk level: 3

Outlook: Energy is in rapid transition, driven by decarbonisation goals, investment needs, and shifting regulation. Margin and funding pressures persist despite improving wholesale volatility in some areas.

Nicole White, sector head for Energy, explains that renewables are becoming more commercially viable with policy support, but the sector faces margin pressure from wholesale dynamics and the scale of infrastructure and technology investment required. Larger firms generally have better access to capital markets, whereas smaller firms and new entrants face significant funding gaps, especially around renewables and grid upgrades, alongside liquidity demands tied to storage and operational costs. Rapid regulatory change under the Clean Power 2030 Action Plan is creating both opportunity and uncertainty, and requires accelerated renewable buildout and reduced reliance on gas-fired generation. Even as volatility has eased, energy resellers face structural challenges such as grid constraints, capital adequacy rules, and decarbonisation costs that continue to pressure margins.

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