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Corporate insolvencies in France: all good things come to an end

The third quarter of 2018 marks a turning point for companies in France: for the first time in two years, insolvencies increased by 2.3% compared to the same quarter of the year previous. This trend reversal is consistent with the slowdown in growth to 1.6% in 2018.

As this decline in French growth can chiefly be attributed to household consumption, sectors such as personal services, food retail, and automotive have been the most affected by the rebound in insolvencies. At the same time, the slowdown in construction sector activity (27% of the total number of insolvencies) is also reflected in the recent rise in insolvencies. The trend is the same in personal services (which accounts for one insolvency per five).

Unsurprisingly, the reversal in the cycle has until now affected micro-enterprises with revenues of less than EUR 500,000, which have recorded a rise in insolvencies, unlike larger companies. The cost of insolvencies, both in financial and employment terms, has therefore continued to fall. Moreover, this upward trend affects two-thirds of the regions of France.

As a result, the number of insolvencies is expected to start rising again next year: Coface forecasts a 0.8% increase in 2019. This rebound will be attributable, firstly, to the continued slowdown in growth due to ongoing supply constraints and a less favourable international environment (less vigorous growth among the advanced countries, and greater protectionism). Secondly, the large number of business start-ups in recent years is expected to lead to additional insolvencies, with a company's chances of survival barely exceeding 50% after five years of existence.

Elsewhere, there is a paradox in the evolution of business health over recent years: on the one hand, a constantly improving insolvency and profitability rate, and on the other, disappointing international performances, as shown in the widening trade deficit. A key element of the response is whether companies choose to pass on only partially the competitive gains recorded between 2014 and 2016 in their prices, so as to increase their margin rate. Most key export sectors, such as automotive, pharmaceuticals, aeronautics and the agri-food industry, saw their margin rates rise and their trade balance deteriorate over the period. However, some sectors managed to come out on top and increase their trade surplus over this period, such as mechanical engineering, chemicals, alcoholic beverages and precision instruments. In addition, this restoration of margins in key export sectors could prove an advantage for regaining market share in a less favourable environment in the years to come. Inaddition, this recovery in margins in key export sectors could prove to be an asset in cushioning the impact of the slowdown in global demand in the coming years.

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