

Paris, May/June 2016

Is the French economy definitely taking off?

- **Several Q1 indicators (growth, consumer spending, investment) incite optimism**
- **The sole blot on the landscape: falling exports, given the slowdown in emerging markets and a lack of competitiveness**
- **A sharp improvement in the insolvency rate (-3.2% expected in 2016), except in the textile-clothing sector and the Ile-de-France region**
- **50% of business sectors have improved**
- **Road transport hindered by a massive competitiveness gap**

Economic activity underpinned by domestic demand, but undermined by exports

A number of positive indicators for the French economy appeared between January and April 2016. Steady growth, which had begun in 2014 (+0.6% in Q1 2016 compared to Q4 2015) has gathered pace, driven by domestic demand. Household consumer spending (+1.2%) has reached an all-time high since 2004 and investment has also surpassed expectations. For the first time since 2012, corporate investments should contribute positively to growth this year, boosted by new governmental measure to reduce charges and the lower oil price. Coface is forecasting economic growth of 1.6% in France in 2016 and 1.3% in 2017.

Only foreign trade is continuing to weigh on economic activity. Although imports increased in Q1 (+0.5%), exports decreased (-0.2%), partly due to the slowdown in economic activity among emerging markets, particularly the anticipated recession among certain BRICS countries. In addition to this issue, structural weaknesses account for France's decline in the global export market (3.5% since 2011). France has only one third as many exporting companies as Germany, out of a roughly similar total number of firms. Furthermore, out of every ten first-time French exporters, only three will still be exporting one year later and only one company after three years.

In terms of price-competitiveness, France lags behind Spain and Italy which benefit from significantly lower unitary costs. In terms of non-price competitiveness, France lags behind Germany, with 41% of high-end products exported (aerospace & defence, luxury goods and wine), compared to 48%. In the medium term, corporate investments will improve export quality, although it will take several years to bridge the gap.

Insolvencies and sector risk are returning to normal levels

The economic recovery is clearly reflected in the reduction in insolvencies and a sharp improvement in sector risk.

The corporate insolvency rate is returning to normal levels. According to the Coface forecasting model, the number of insolvencies will decline by 3.2% in 2016. At the end of April 2016, the year-on-year total stood at 58,846 (-4.3%), for a cost of almost EUR 3.35 billion (-8.6%) and the number of jobs threatened falling by 2.4%. More encouragingly, the positive trend concerns firms of all sizes and is particularly strong among larger companies (-21.5%). Average turnover posted by insolvent companies have also fallen to pre-crisis levels (EUR 591,800). Insolvencies have increased only in the Central France region (+2.9%) and the Ile-de-France region (+3.0%). The peak in the Ile-de-France region, which accounts for 21% of the national total, is only partly attributable to the terrorist attacks in November 2015, as the trend began increasing before this date and concerns a broad range of sectors beyond tourism, hotels and restaurants.

In terms of sector risk, the trend is sufficiently positive to benefit six of the twelve business sectors covered by Coface economists.

- Thanks to steady household consumer spending, the retail sector is the first French sector to be included in the “low risk” category;
- The automotive sector, pharmaceuticals (as at the European level in April), chemicals and transport have been upgraded to “medium risk”;
- As the construction sector is recovering, this sector has been withdrawn from the “very high risk” category and upgraded to “high risk”.

One sector has been nonetheless downgraded. Textile-clothing is now classified as “high risk”. Clothing, which represents 85% of insolvencies in the sector (+6% at the end of April), is the main cause for the downgrade, due to heightened competition and extremely strong growth in on-line sales.

Road freight transport: low visibility

Although the transport sector has improved (upgraded to “medium risk”), road freight outlook appears more uncertain over the medium term. Lately, road freight has benefitted from lower commodities prices and more stable demand, driven by the construction recovery and the healthy maritime transport industry. The few major companies in the sector, which nonetheless represent almost 80% of business, seized the opportunity to strengthen their positions and increased the pressure on their minor competitors. These smaller firms were then obliged to feed gains from lower energy costs through to their sales prices.

As the sector is composed chiefly of smaller more vulnerable firms, the insolvency rate depends mainly on the impact of forthcoming legislation (the Macron law) regarding salaries and the unpredictable oil price trend. Although the number of insolvencies in the sector is currently decreasing, the creation of many new companies at the beginning of the year augurs for a potential peak in 2019.



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