

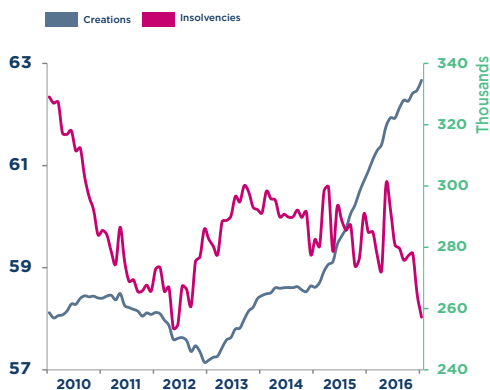
FOCUS



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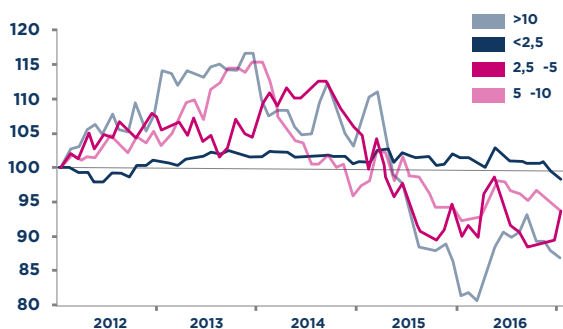
Business insolvencies in France: new year starts where the old year left off

CHART 1
Company insolvencies and creations
(thousands p.a.)



Sources : Ellipsphère, Coface, Insee

CHART 2
Insolvencies by tranche of turnover
(millions of euro, 100 = January 2012)



Sources : Ellipsphère, Coface

January 2017 saw the drop in insolvencies, which started in May 2014, reach 58,031 - its lowest figure since September 2012 (-2.8% on the same period in 2016). At the start of 2017 one company in 72 was failing on average over the course of the year (one in 56 in 2011). The trend is expected to continue. Coface forecasts a further 1% slide in insolvencies in 2017 against 2016. The Coface model takes account of the predicted growth in GDP and company margins¹). More good news is that the number of employees caught up in company insolvencies has fallen 2.6% (to 179,619).

The number of new companies rose 9.8% over the year (331,239, excluding auto-entrepreneurs). This is another indication of company dynamism and has almost returned the figure to pre-crisis levels (340,686 foundations in August 2008). However, more new companies will also mean a negative secondary impact of more insolvencies. Three companies in ten fail in their first three years according to INSEE².

Increase in the average size of company insolvencies

The drop in the number of insolvencies and the rise in the number of business creations is good news. But in addition to the risk of insolvency this creates, the total cost of insolvencies to the economy - calculated as total trade debt - is now reaching 3.74 billion euro, up 5.2% in one year. As debts have shot up after continuing to fall since 2012, the average size³ of each insolvency, measured by turnover, has grown to 551,765 euro in January 2017, +4.4% in one year.

At the same time, the average age of insolvency has levelled out at 80 months - a record since 2011 and proof of the relative solidity of French companies, evidenced by higher margins (31.6% in 2016 according to Coface) and easy borrowing terms (average rate on an over 2-year loan was 1.6% in October 2016, vs 3.6% in 2011).

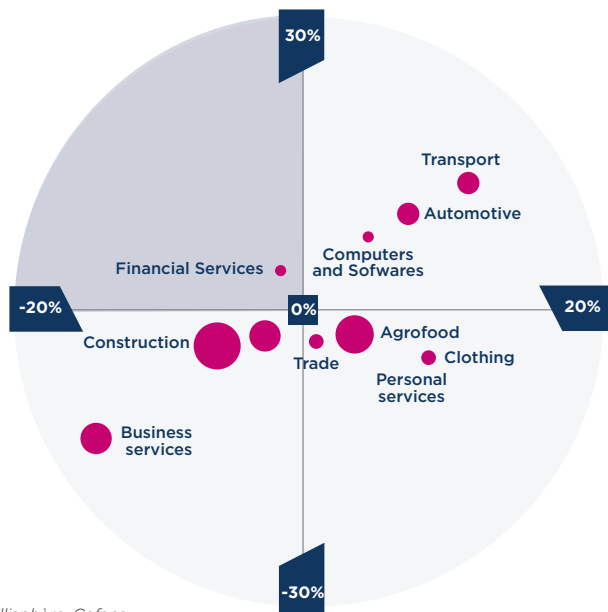
CHART 3

Insolvencies in leading sectors

X: annual average insolvencies in 2017

Y: difference 2017/2016 (%)

Size of dot = sector contribution to insolvencies (construction = 30% of insolvencies)



Sources : Ellipshère, Coface

Rising transport and clothing insolvencies

A few sectors saw a material increase in insolvency levels in January 2017 (chart 3): clothing (+14.8%), meat (+10.9%), transport (+11.8%) and computers and software (+4.5%). In France clothing is the hardest hit sector and its Achilles' heel is specialist retailers. Retail insolvencies accounted for almost two-thirds (62.5%) of all clothing insolvencies, up 13.5% at end October. Retail footwear (10.3% of the sector) closures also rose 4% in 2016. Companies in these sub-sectors are facing fierce international competition (turnover for Inditex, the Spanish group, went up 11% in the first three quarters of 2016) and strong growth in internet sales (penetration forecast at 36.6% in 2016 vs 31% in 2014).

Whatever their size (in terms of turnover), company closures have for the first time fallen below 1 January 2012 levels. While companies with turnover under 2.5 million account for 98% of all insolvencies and are the main reason for the annual variation in the number of insolvencies, the 2016 and 2017 upswing in the average size of insolvencies is caused by the dynamics of companies with turnover in excess of 5 million (chart 2). Although the number of big company (turnover over 10 million euro) insolvencies also rose between March and September 2016 (+16% to 234 in September, over one year), the picture has improved significantly since. There may be a number of reasons for the change. Firstly, sectors such as metals that have suffered a lot over the last few years are probably over-represented in this population. Also, big companies are in general more sensitive to changes in the world economy as they export part of their output. Their problems could therefore be partly the result of the slowdown in world trade to +1.7% in 2016 (vs 3.5% on average 2012-2014) and of sluggish growth in many emerging countries.

Services and construction showing marked improvement

Services continued to improve at the start of the year (chart 3). Insolvencies of financial service companies (2% of all insolvencies) and of corporate service providers (10%) in January fell 1.5% and 15.2% respectively over the previous year. The upswing in retail insolvencies (18% of all insolvencies) slowed (+3.5% in January 2017 vs +5.7% in January 2016). Although closures of premises selling alcoholic and other drinks increased 28.4%, these account for only a small proportion of retail insolvencies. Catering insolvencies had dropped 5.6% by the end of January 2017.

2016 saw construction insolvencies (30% of all insolvencies) go down 6.2%. In the same year, the number of building licenses issued for new homes in mainland France (438,300) increased 15%, benefitting the entire sector since it indicates fatter order books, which contained 6.7 months of orders at end December. INSEE's January 2017 monthly survey of the industrial economy rated the business climate for this sector at 99, one point below its long-term average but one point up on April 2012. Joiner, painter and electrician insolvencies (8.3%, 7.7% and 6.6% of sector insolvencies respectively) fell 11%, 4.9% and 6.9%.

The January 2017 restructuring of Vivarte, the clothing and footwear group, illustrates the problems.

While 11.8% of transport companies failed, the taxi sub-sector alone (14% of the sector) accounted for 57% of the 135 rise in the number of insolvencies in this sector in France over one year (up from 1,576 to 1,711). 241 taxi firms closed in 2016 (164 in 2015). Competition from chauffeured car companies seems in part responsible for this increase (see *Panorama Coface, December 2016*⁴). The upswing in haulier insolvencies (+1.9%) needs to be seen in the context of the rise in the price of oil since fuel is their biggest expense (see *Panorama Coface, May 2016*⁵).

1 - Coface model $Def_t = a \text{marge}_{t-2} + b \text{def}_{t-1} + c \text{PIB}_t + \varepsilon$

2 - Insee Première, no. 1,543, April 2015

3 - Weighted reduced annual average, 1% of observations at the extreme top and bottom of the distribution scale have been excluded to give a truer picture of average turnover.

The strength of the upsurge in automotive insolvencies is surprising (+7.4% in January 2017) since the number of new car registrations slightly increased 0.5% over the same period. While manufacturers and primary auto-part suppliers are posting strong profits, smaller ones (distributors and repairers) are far more exposed to international and internet competition (see *Panorama Coface, September 2016*). Car repair firm (45% of sector insolvencies) insolvencies went up 15.3% in 2017.

Continued variation in regional dynamics

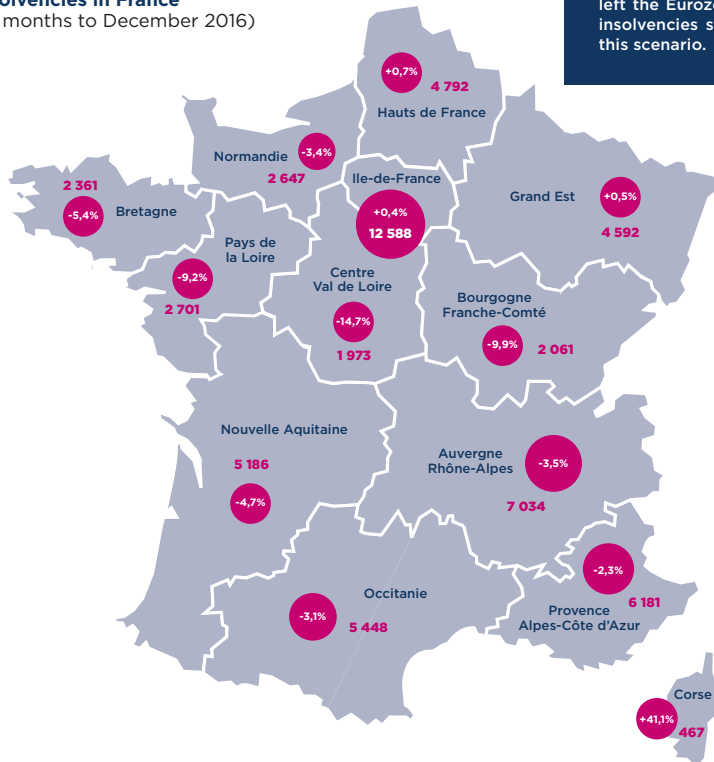
2016 company insolvencies rose in four French regions: Hauts-de-France (+0.4%), Grand-Est (+0.5%), Ile de France (+0.4%) and Corsica (+41.1%). Four regions saw marked improvements: Bourgogne Franche-Comté (-9.9%), Nouvelle Aquitaine (-4.7%), Centre-Val de Loire (-14.7%) and Pays de Loire (-9.2%).

Better directed industry

At a time when some industry sectors are shrinking downstream (e.g. automotive and clothing), core industry insolvencies in January 2017 decreased 10.9% in general. As in the case of the economy as a whole, the cost of these insolvencies (measured as total trade debts over one year) rocketed in January (+32.2%). The rise is however the result of a series of extraordinary insolvencies, without which the annual cost would have dropped 5.9%. Service insolvencies reduced by 14.8% and chemicals by 14.7%. While consumer goods insolvencies also went down 5.1%, certain sectors such as printing (+23%), sawmilling and planning of wood (+8%) remain at greater risk.

The agri-food industry continues to suffer (55% failure rate, the worst-hit French industry sector). The increase is the result of a bad year for bakers and confectioners (80% of sector insolvencies; +5.3% over one year). Being a consumer of cereals, the sector will continue to suffer in 2017 from the higher prices charged by cereal growers after the bad crops in 2016. The meat sector, especially butchers/cooked meat retailers (+3%, 7.2% of the sector) will be impacted as heavily as bakers.

CHART 2.7
Insolvencies in France
(12 months to December 2016)



How will political shocks affect company insolvencies in France?

In October 2016 Coface published *Économies européennes: le risque politique va-t-il gâcher la «fête» en 2017?* [European economies - will political risk spoil the party in 2017?]. One of the aims was to measure the impact of political shock on European economies. Although higher political risk is partly the result of falling macro-economic and social indicators (unemployment, income per inhabitant, inequality of income etc.) it can also itself affect growth via two main channels: the financial markets (rise in sovereign rates, falling equity markets etc.) and the confidence of economic agents (companies and households).

A vector auto-regression statistical model (VAR) was used to quantify the impact of Economic Policy Uncertainty (EPU) index⁸ shock on GDP growth. In the case of France, the impact on GDP of an increase of the EPU index similar to that observed in the UK at the June 2016 referendum is 0.6 of a point after one year. In other words, GDP would not grow 1.3% (the Coface forecast without political shock) that year but just 0.7% if uncertainties increased at the forthcoming presidential and/or general elections in April, May and June. In this situation, company insolvencies would not drop 1.0%, but would instead rise 1.1% (a 2.1-point impact).

In addition to the short-term impact of increased uncertainty, Institut Montaigne⁹ used the MESANGE macro-econometric model to estimate that GDP would fall 9 points if France left the Eurozone. Coface's model for forecasting company insolvencies shows that these would go up around 27% in this scenario.

4 - <http://www.coface.com/fr/Actualites-Publications/Publications/Uberisation-de-l-economie-en-France-une-nouvelle-arme-de-destruction-creatrice-massive>

5 - <http://www.coface.com/fr/Actualites-Publications/Publications/France>

6 - The figure has been reduced to 99% of the lowest trade payables to eliminate extraordinary insolvencies

7 - <http://www.coface.com/fr/Actualites-Publications/Publications/Economies-europeennes-le-risque-politique-va-t-il-gacher-la-fete-en-2017>

8 - <http://www.policyuncertainty.com/>

9 - <http://www.institutmontaigne.org/presidentielle-2017/propositions/marine-le-pen-europe-et-international-sortir-de-leuro-et-restaurer-une-monnaie-nationale-le-franc>

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