

Atradius Country Report

France – May 2014



Overview

General information

Capital:	Paris
Government type:	Republic
Currency:	Euro (EUR)
Population:	63.7 million

Most important sectors (% of GDP, 2012)

Services:	79.8%
Industry:	18.3%
Agriculture:	1.9%

Main import sources (2012, % of total)

Germany:	19.1%
Belgium:	11.1%
Italy:	7.4%
The Netherlands:	7.2%
Spain:	6.5%
United Kingdom:	5.0%

Main export markets (2012, % of total)

Germany:	16.5%
Italy:	7.4%
Belgium:	7.4%
Spain:	6.8%
United Kingdom:	6.8%
USA:	6.1%

Key Indicators

	2011	2012	2013	2014*	2015*
Real GDP (y-on-y, % change)	2.0	0.0	0.3	0.9	1.3
Consumer prices (y-on-y, % change)	2.1	2.0	0.9	1.0	1.3
Household consumption (y-on-y, % change)	0.5	-0.4	0.3	0.8	1.1
Retail sales (y-on-y, % change)	-0.3	-1.3	0.2	0.6	1.1
Manufacturing production (y-on-y, % change)	3.8	-3.4	-1.1	1.0	1.7
Unemployment rate (%)	9.2	9.8	10.3	10.3	10.1
Business investment (y-on-y, % change)	3.1	-1.9	-2.3	1.1	2.4
Export of goods and non-factor services (y-on-y, % change)	5.6	2.5	0.8	1.8	3.2
Fiscal balance (% of GDP)	-5.3	-4.8	-4.3	-3.9	-3.4
Government debt (% of GDP)	85.8	90.2	94.2	95.6	95.4

* forecast

Source: Consensus Economics, IHS Global Insight

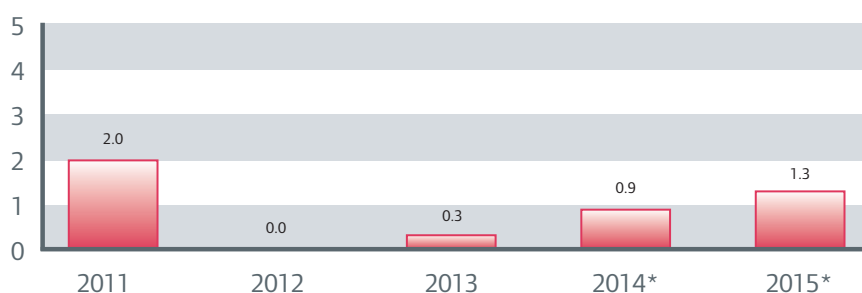
Main economic developments

Growth expected to pick up again in 2014 and 2015

According to the French National Institute of Statistics and Economic Studies (INSEE), real GDP grew 0.3% in Q4 of 2013, after a 0.1% contraction in Q3, due mainly to increased household consumption (up 0.5%) and business investment (up 0.9%), which increased for the first time since the end of 2011. Net trade also contributed positively to GDP growth as exports bounced back (up 1.3%), growing more than imports (up 0.7%).

In 2013 France recorded modest economic growth of 0.3%, but GDP is forecast to increase 0.9% in 2014 and 1.3% in 2015 (see chart below) as private consumption, investments, manufacturing and exports all improve.

GDP growth
(% change on previous year)



*forecast

Source: Consensus Forecasts (Survey date 14 April 2014)

Improved consumer sentiment, but concerns remain

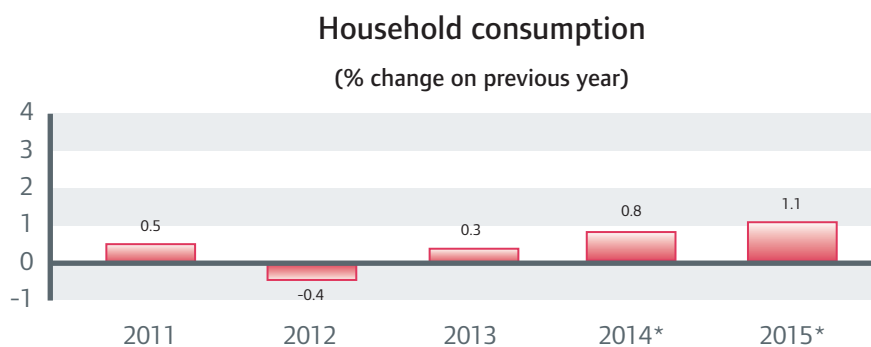
Consumer confidence decreased sharply between mid-2012 and the first half of 2013, largely because of a weak economic outlook, tax increases which deterred consumer spending, and rising unemployment (up from 9.5% in Q1 of 2012 to 10.3% in Q1 of 2013). However, since mid-2013 consumer sentiment has improved amid expectations of an improvement in the economy. Nevertheless, concerns remain over the labour market situation.

Consumer confidence
(Index 100 = Neutral)



Source: National Institute for Statistics and Economic Studies (INSEE)

Private consumption, traditionally a major contributor to French economic growth, grew just 0.3 % in 2013. However, it is forecast to increase 0.8 % in 2014 and 1.1 % in 2015 (see chart below).



*forecast

Source: Consensus Forecasts (Survey date 14 April 2014)

Consumer price inflation rose 2.0% in 2012, but has followed a downward path since then. Consumer prices increased only 0.9% in 2013 and are again expected to rise only modestly in 2014 and 2015, by 1.0% and 1.3% respectively.



Source: OECD, IHS Global Insight

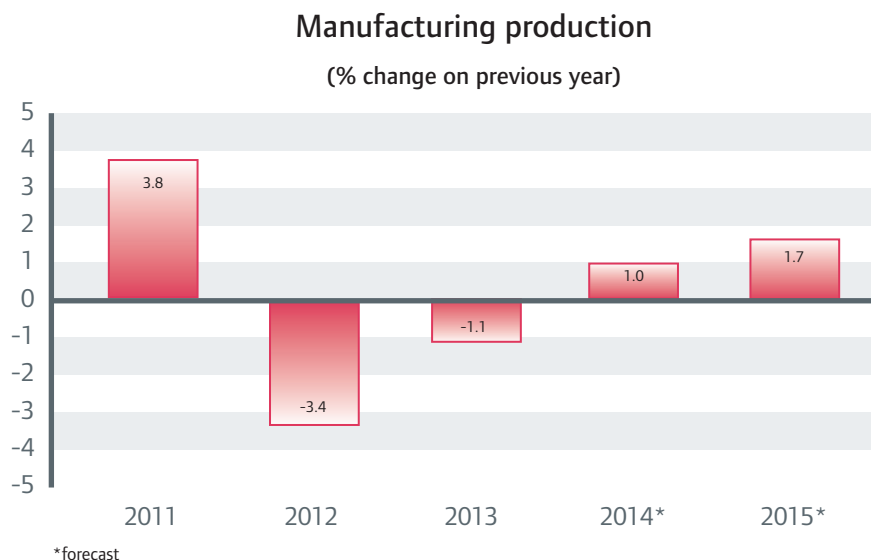
Manufacturing production expected to improve slightly

French manufacturing production decreased 1.1 % year-on-year in 2013, but has shown signs of a rebound in recent months, bolstering hopes that the economic growth will see some support from the manufacturing industry. Business confidence has picked up again since the second half of 2013 (see chart below).



Source: OECD (MEI).

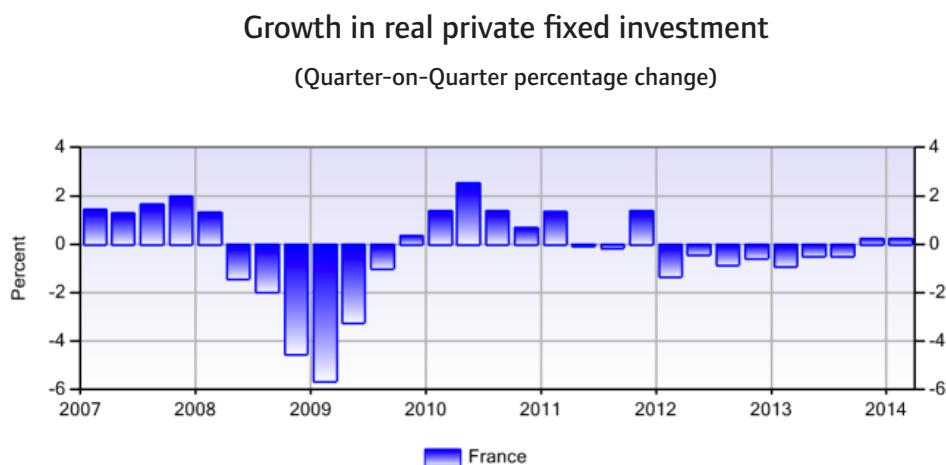
This year manufacturing production is expected to grow 1 %, and by 1.7 % in 2015. While this is a positive sign after two years of contraction in manufacturing production, this expected rebound is still small given the decreases in 2012 and 2013 (see chart below).



Source: Consensus Forecasts (Survey date 14 April 2014)

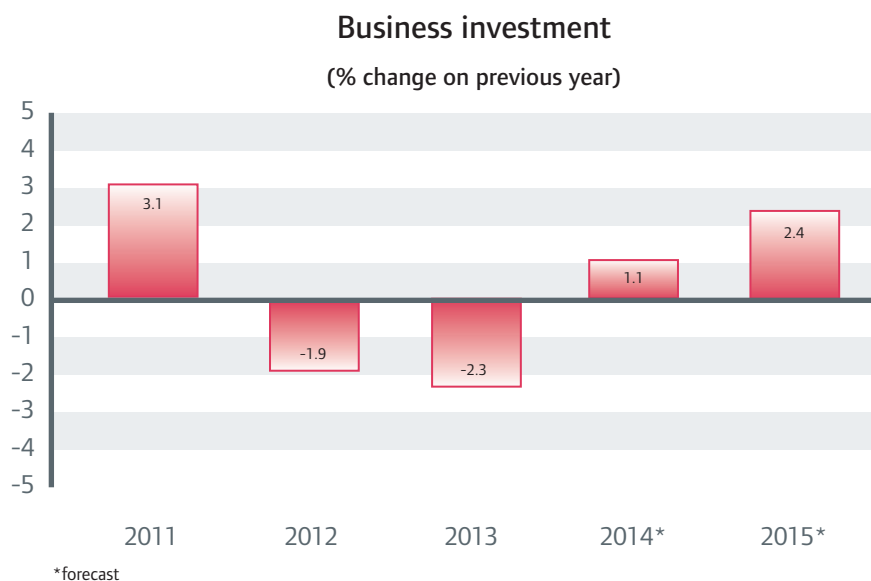
Rising business investment

Investments finally picked up again in Q4 of 2013 after decreasing every quarter since early 2012 (see chart below). Economic uncertainty, including uncertainty over the government’s economic policy on corporate tax burdens and social charges, together with low profit margins, had led many French businesses to put investment on hold.



Source: National Institute for Statistics and Economic Studies (INSEE)

Forecasts for business investments in 2014 have been revised upwards every month since January and now stand at a modest 1.1 % increase. A surge to 2.4 % is forecast for 2015 (see chart below)



Source: Consensus Forecasts (Survey date 14 April 2014)

Export growth to remain modest

Following last year's 0.8 % rise, exports are expected to grow 1.8 % in 2014 and 3.2 % in 2015. With its international competitiveness diminished, France's share of global exports has decreased by a third since 2002.

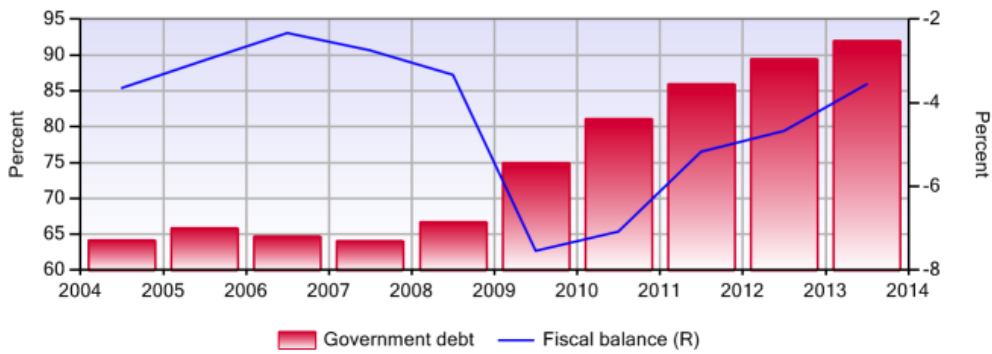
Will France again miss the Maastricht deficit targets?

The 2008 credit crisis, subsequent government stimulus measures, and the modest recovery have led to a sharp increase in public debt in recent years: to 94 % of GDP in 2013 from 66.7% of GDP in 2008. The government's fiscal deficit in 2013 reduced to just 4.3 % of GDP, missing the target of 4.1 %. According to the Cour de Comptes (the supreme audit institution in France), four fifths of last year's fiscal consolidation came from tax increases rather than spending cuts. More measures to curb public spending are required, especially as, at 57 % of GDP, public spending in France is the highest in the Eurozone.

At the end of April 2014 the French parliament agreed a government plan to cut EUR 50 billion in public spending to fund lower payroll taxes for businesses. The French government originally aimed for a deficit of 3 % of GDP in 2015 to meet the Maastricht deficit threshold. However, even taking into account the new budget saving measures, the EU Commission expects the budget deficit to decrease to only 3.9 % of GDP in 2014 and 3.4 % of GDP in 2015. The French government is planning to ask the European Commission for more time, but this would be the third time in seven years that France has missed the EU deficit targets that it originally pledged to keep.

Public debt and budget balance: France

(Government debt and budget balance in percent of GDP)



Source: French Ministry of Finance; Global Insight

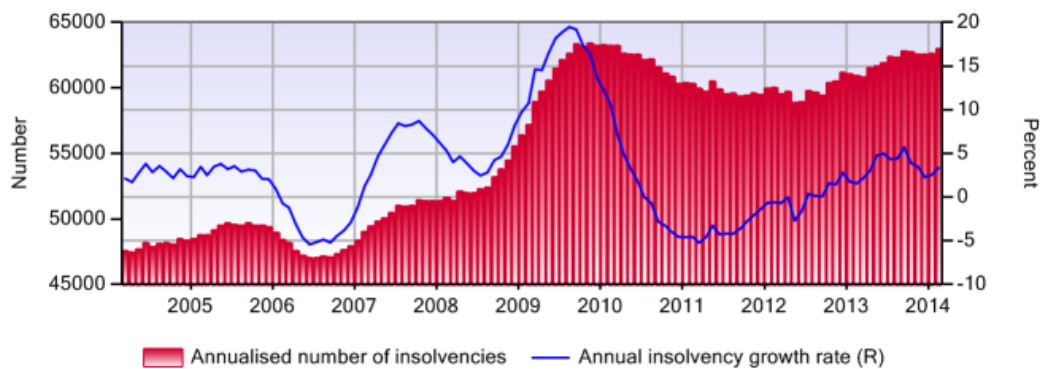
The insolvency environment

French corporate insolvencies expected to level off after two years of increases

After year-on-year increases from 2007 to 2009, the number of corporate insolvencies fell in 2010 and 2011, by 5% and 1% respectively.

Insolvency trends: France

(1-year trailing sum of insolvency counts based on quarterly data)

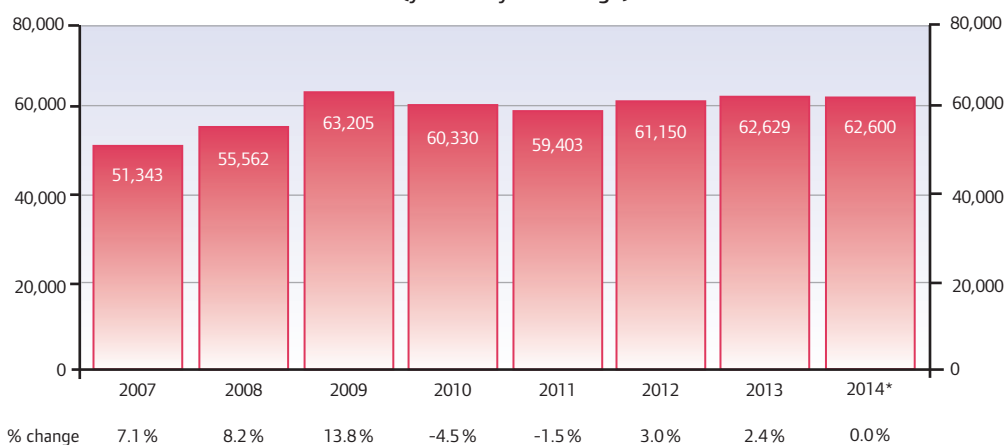


Source: National Institute for Statistics and Economic Studies (INSEE)

However, with the French economy stagnating in 2012 and 2013, insolvencies again increased 2.4% to 62,629 cases last year. In view of the forecast modest economic rebound we expect an improvement of the insolvency environment in 2014. The increase in insolvency cases has started to slow down in Q4 of 2013, and in Q1 of 2014 business failures just rose 0.5% compared to the previous quarter. Therefore we expect corporate insolvencies to level off this year. However, the number of business insolvencies is currently more than 20% higher than in 2007 (see chart overleaf).

French business insolvencies

(year-on-year change)



*forecast

Source: Banque de France, Atradius Economic Research

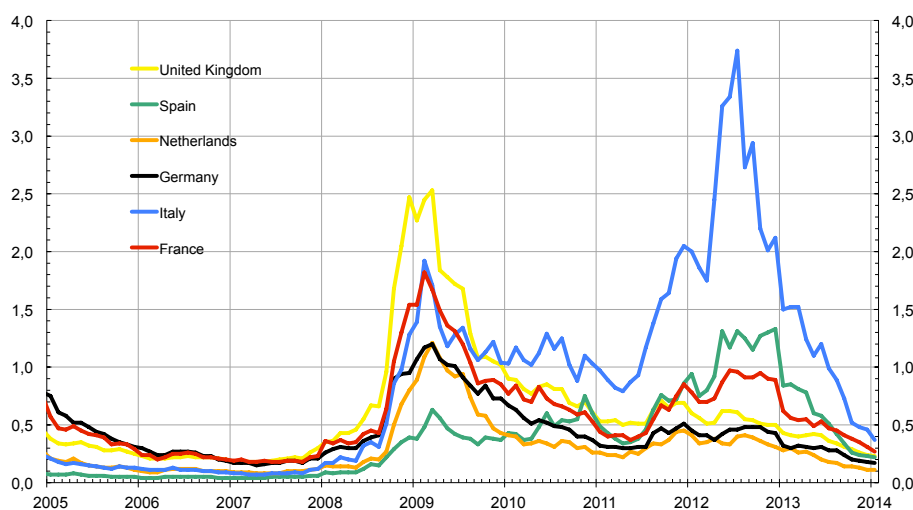
Note: Forecasts are based on the outcome of statistical models and expert opinion. The history of growth rates in the table represents estimates based on official insolvency statistics and model-based calculations. As such these rates should be treated as indicative. All views expressed here are those of Atradius Economic Research (date of final forecast: 15 April 2014).

Default risk for French listed firms has decreased in 2013

The median Expected Default Frequency (EDF) for French listed companies increased in 2012 as fears of a Greek exit - and even a Eurozone breakup - grew. This increase was much less than in Italy and Spain but higher than in Germany. Since the beginning of 2013, the French EDF has improved and the January 2014 figure (27 basis points) is the lowest monthly number since autumn 2008, when the global credit crisis started. However, listed companies in France are still facing a higher default risk than their German or British peers (see chart below).

Median EDF evolution by country*

(Expected default frequency, percentage points)



Source: KMV Credit Monitor and Atradius Economic Research

*The Expected Default Frequency (EDF) chart above is based on listed companies in the markets referred to, and the likelihood of default across all sectors within the next year. In this context, default is defined as a failure to make a scheduled payment, or the initiation of bankruptcy proceedings. Probability of default is calculated from three factors: market value of a company's assets, its volatility and its current capital structure. As a guide, the probability of one firm in a hundred defaulting on payment is shown as 1%.

Developments in some main sectors

Construction

2013 was a bad year for the French construction sector. We received many notifications of non-payment and claims, while insolvencies, already high in 2012, rose even more. We expect construction activity to remain subdued in 2014. As a result, our underwriting stance is generally restrictive.

Prices and profitability are both being squeezed. Major players are putting pressure on their subcontractors, while there is growing competition from Italian, Spanish and Portuguese construction companies trying to gain market share in France to compensate for losses in their home markets.

Financing is a major issue for French construction businesses: the result of a tough couple of years of poor performance and low demand. The situation is exacerbated by the generally bad payment behaviour in the industry over the last two years. In addition, construction firms' finances are low as banks remain very selective with their loans, making access to short term credit difficult.

Unsurprisingly, with these problems construction has the highest share of total business insolvencies in France, at around 30%. In 2013, those insolvencies were very high - almost as many as in 2009, at the height of the credit crisis. The subsectors most affected are masonry and carpentry, both of which have been hit by the fall in new house construction. Timber - a poorly industrialised subsector - faces strong foreign competition. While we do not expect construction insolvencies to increase further this year, this is little comfort in view of the already high numbers.

Electronics/ICT

The French electronics/ICT market is expected to rebound modestly in 2014. Spending on IT is expected to rise, due to the expansion of cloud-computing and increased mobility. Software edition and computing hardware are expected to grow around 2.5%, while Software as a Service (SaaS) is forecast to grow by more than 20% in 2014. Telecommunication spending should also continue to rise and tablet sales are again expected to outperform PC sales in 2014.

We expect payment delays to remain generally stable in the coming months, as many electronics/ICT businesses have satisfactory cash reserves. In addition, credit facilities will be reassessed by banks, based on 2013 balance sheets. However, there is little doubt that banks will continue to restrict loans to businesses that are performing weakly. With the modest rebound in 2014, we expect insolvencies in the electronics/ICT sector to level off this year, in line with our forecast for overall French business insolvencies.

However, despite the recovery, margins will remain tight and working capital requirements will be a key issue for many electronics/ICT businesses this year. Therefore our underwriting stance remains cautious for the time being. We have to take into account that risks for many electronics/ICT businesses are still high, especially for very small businesses with limited equity bases that will struggle to absorb any further decline in margins.

Food

The sector still benefits from its reputation for products such as wine, champagne and cheese, and it can claim some genuine global brands within the food sector. However, most of the 13,000 French food businesses are small: with 75% of them employing fewer than 20 people.





















The sector has proven resilient so far, but market conditions have become more difficult due to raw material price fluctuations and strained relations between agri-food firms and the major retail chains, with agri-food companies facing problems in passing increased costs on to retailers. At the same time consumers have become more price-sensitive due to the weaker economic performance and higher unemployment. As businesses struggle with rising production costs, gross margins have decreased. As a result, French food companies are often unable to invest enough, and this has a negative effect on their competitiveness with other European food firms.

Faced with these challenges, the sector is pursuing a strategy of reorganisation and concentration, with several mergers and partnerships, especially in the milk and meat subsectors. The aim is for companies to reach a critical size to strengthen their negotiating power with distributors, develop their sales abroad and focus on core-business or fewer segments.

While our underwriting stance towards this sector remains generally relaxed, we are keeping a closer eye on troubled subsectors, especially meat, where we have observed a rising number of insolvencies.

French industries performance forecast

May 2014

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Construction Materials	
					 Excellent
Consumer Durables	Electronics/ICT	Financial Services	Food	Machines/ Engineering	 Good
					 Fair
Metals	Paper	Services	Steel	Textiles	 Poor
					 Bleak

As our report shows, trading risks exist across a number of French trade sectors, as they do in all markets. Many companies minimise these risks to their profitability by insuring their credit sales with Atradius.

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