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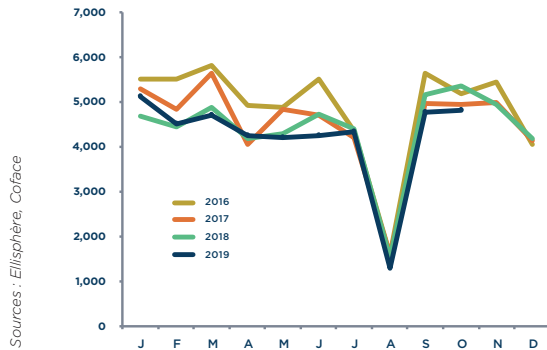
Corporate insolvencies in France: fewer in number, larger in size

Corporate insolvencies fell by 3.3% in France during the first ten months of the year. After a difficult first quarter, due in particular to the repercussions of the “yellow vest” movement, they have been steadily declining since May 2019. As a result, the number of corporate insolvencies is expected to decline over the full year, for the fourth consecutive time. However, Coface expects a slight rebound of insolvencies in 2020 (+0.9%), for around 52,000 proceedings, mainly due to the expected slowdown in the construction sector that was largely driven by public works in 2019. The peak in activity, related to the run-up to the municipal elections, had thus led to a sharp drop in insolvencies in the sector, which accounts for more than a quarter of all insolvencies. Personal services and retail, which are dependent on consumption, have fully benefited from household purchasing power gains, thanks to the dynamism of the labor market and the tax measures taken by the government following the “yellow vest” movement.

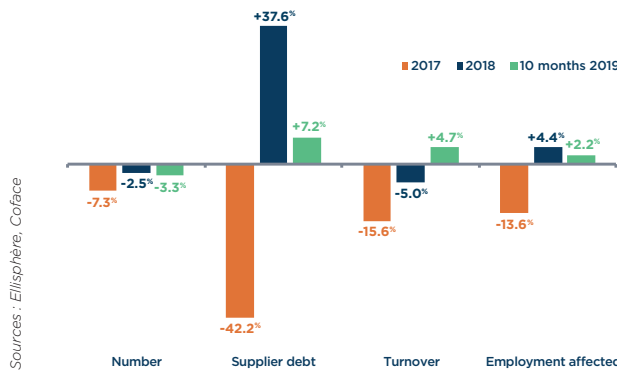
On the other hand, while transport is still penalized by the increase in the number of insolvencies for taxi drivers and road hauliers, the automotive sector has seen an increase in the cost of insolvencies, despite a decrease in their frequency. This noticeable relative contradiction is explained by the difficulties encountered in 2019 by automobile equipment manufacturers, of which the weight is significant despite their limited number. More broadly, the first ten months of the year were marked by an increase in corporate insolvencies for companies that generated over EUR 5 million in revenue. In total, during this period, no fewer than six companies with a turnover above EUR 200 million initiated insolvency proceedings, mainly because of structural changes in the concerned sectors.

According to the very first survey conducted by Coface among industry executives, at the beginning of September 2019, French companies are relatively positive about the evolution of their cash flow in 2020. However, they are much less so regarding the French economy and, above all, the global environment. Half of the surveyed believe that their export activity will continue to be threatened mainly by trade tensions and geopolitical risks, much more so than by Brexit or a potential recession in the United States. Despite these risks, 2020 will also bring export opportunities, particularly towards the rest of the European Union, which is identified by companies in the sector as the most buoyant market next year, ahead of North America and Asia.

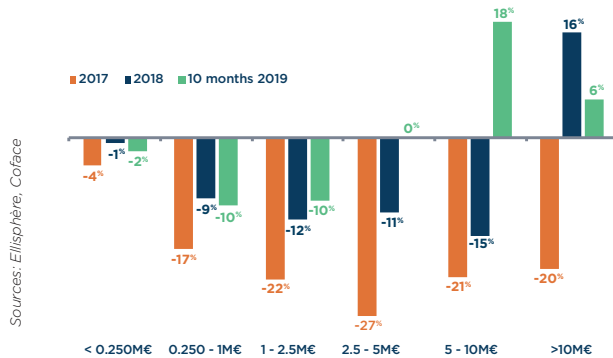
GRAPH 1
Monthly corporate insolvencies



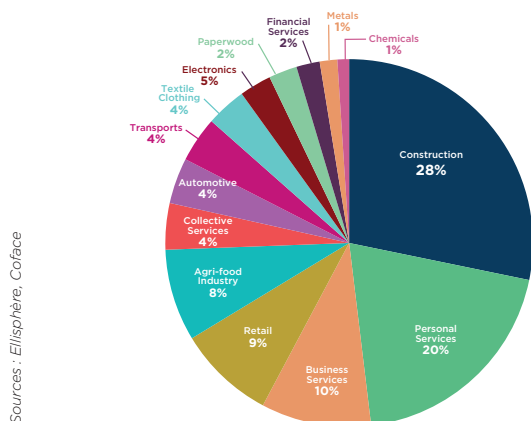
GRAPH 2
Annual growth in the cost of insolvencies



GRAPH 3
Annual growth in insolvencies by turnover bracket



GRAPH 4
Breakdown of insolvencies by sector during the first 10 months of 2019



Significant decline of insolvencies in the second half of the year

42,276 corporate insolvencies were recorded in France during the first ten months of 2019, 3.3% less than the same period in 2018. After increasing at the beginning of the year, particularly in January (+9% compared to January 2018) due to the impact of the “yellow vest” movement, insolvencies have been falling steadily since May 2019 (Graph 1). The resilience of activity in France, reflected by a stable GDP growth of 0.3% in the first three quarters, led to a drop in insolvencies between August and October 2019 (-10%) compared to the same months in the previous year. During this period, they were even lower than those recorded at the end of 2017, at the time of the activity growth peak.

However, the insolvency cost has increased

While the number of insolvencies has decreased, their cost has increased, both financially and in terms of the number of jobs affected, during the first ten months of the year. Thus, the total suppliers’ outstanding debt amounted to EUR 3.1 billion, up 14% compared to the first ten months of 2018 (Graph 2), and the average cost of an insolvency rose by 18% (EUR 73,000). The situation is similar when analyzing the average turnover of insolvent companies, which also increased sharply: +8% to reach EUR 334,000.

At the same time, the cost of insolvencies calculated on the basis of affected jobs also increased (+2.2%). Over 140,000 jobs have been affected by insolvency proceedings since the beginning of the year. The increase in the cost of insolvencies, despite the decline in their number, can be attributed to the increase in insolvencies of larger companies. While those with a turnover (T/O) of less than EUR 2.5 million (98% of insolvencies) saw their number decrease, the trend is opposite for those with a T/O of more than EUR 5 million (Graph 3). Even though the number remains limited (476 insolvencies during the first ten months of 2019), it still increased by 12% compared to the previous year, despite the resilience of activity in France.

In total, six companies with a turnover of over EUR 200 million were placed under insolvency proceedings during the first ten months of 2019. The children’s clothing chain ORCHESTRA (EUR 533 million T/O) was placed under safeguard proceeding in September 2019. In addition, ARJOWIGGINS - a company specialized in the production of printing and writing paper, and of which four subsidiaries represent EUR 460 million in T/O - was placed under rehabilitation proceeding in January 2019, because of the difficult context linked to the sharp rise of pulp prices in 2018 (+30%), and deteriorated outlook due to the boom in digital technologies. The tourism and air transport sectors were also affected, with the opening of rehabilitation proceedings for the tour operator THOMAS COOK (EUR 417 million T/O) and the airline companies XL AIRWAYS (EUR 305 million) and AIGLE AZUR (EUR 290 million). However, the insolvencies of the latter are more related to structural difficulties, such as the change in traveller behavior or unbridled competition, than to a sudden halt in tourism development. Finally, the significant insolvency of the frozen food supplier TOUPARGEL (EUR 241 million T/O) is also linked to structural changes, in this instance changes in consumption patterns.

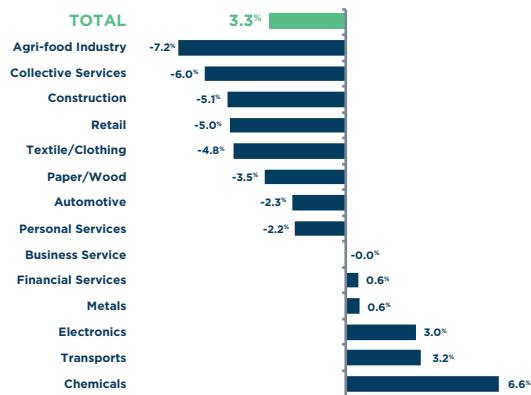
Automotive and transport, the only shadows on the board

During the first ten months of the year, the main defaulting sectors recorded a decrease in the number of insolvencies. It is the case of construction, which accounts for over a quarter of the total number of insolvencies (**Graph 4**). While the residential segment was in difficulty in 2019, with a drop in building permits (-4% over the first ten months), the sector was driven by public works that accelerated as the municipal elections approached (+13% of work carried out, in volume, over the first three quarters), and warehouses (+37% of surface area under construction) linked to the rise of e-commerce. Personal services and retail, which respectively account for 20% and 9% of the total number of insolvencies, also fared better than in 2018 (**Graph 5**), thanks to solid household consumption driven by purchasing power gains resulting from the momentum of the labor market as well as the tax measures taken by the government following the “yellow vest” movement. However, beyond the favorable economic situation, these sectors face the abovementioned structural challenges, which explain the difficulties of some large players and the increase in the number of jobs affected by insolvencies (**Graph 6**). The agri-food industry posted the best performance in terms of sectors, thanks to lower costs in bakery and pastry, with cereal prices below their 2018 level. The only shadow on the board among the main sectors is the upward trend of insolvencies in transport, again due to taxi drivers (+11%) and, to a lesser extent, road freight transport (+2%). Finally, while the automotive sector seems to be in a favorable situation when looking at the evolution of the number of insolvencies, the average turnover of an insolvent company has increased by 17%. The total number of jobs affected increased by 21%. This contrast is explained by the relative good performance of garages and dealers, who account for 80% of the sector’s total number of insolvencies, which recorded a 1.5% increase in registrations over the first ten months of the year. On the other hand, coachwork and automotive equipment manufacturers were in difficulty over the period because of the sharp slowdown in the sector. Indeed, beyond a lower demand in the new car segment (reflected by a 1% drop in new registrations), the sector is facing structural challenges, such as regulatory changes (modified test systems and tighter homologation measures to limit CO₂, nitrogen oxide and fine particles emissions, as well as successive reductions of authorized thresholds), and the innovation shock materialized by electric cars.

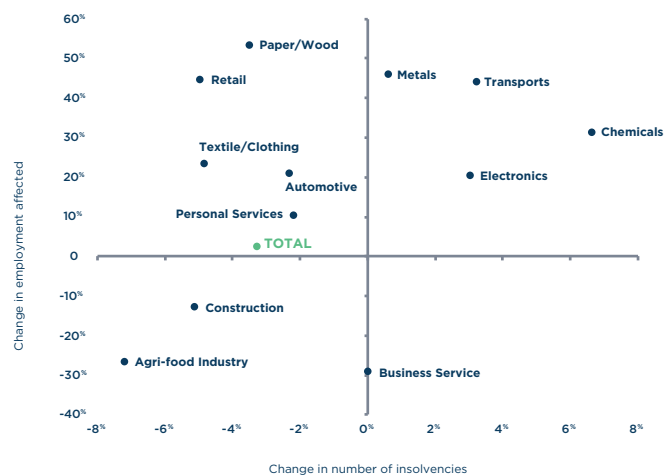
Almost the entire country is benefiting from the decline in insolvencies

The trend in insolvencies was relatively homogeneous throughout the country: more than three-quarters of regions recorded a decline in their number, during the first ten months of 2019 (**Graph 7**). Ile-de-France, the region experiencing the highest proportion of insolvencies (one in five), was a major factor in the reduction of the number of insolvencies at the national level, after a difficult start to the year. The good performance of the Ile-de-France region is attributable, at two-thirds, to the construction sector (-7%). In line with the national level, personal services (-4%) also showed better health than in the same period in 2018.

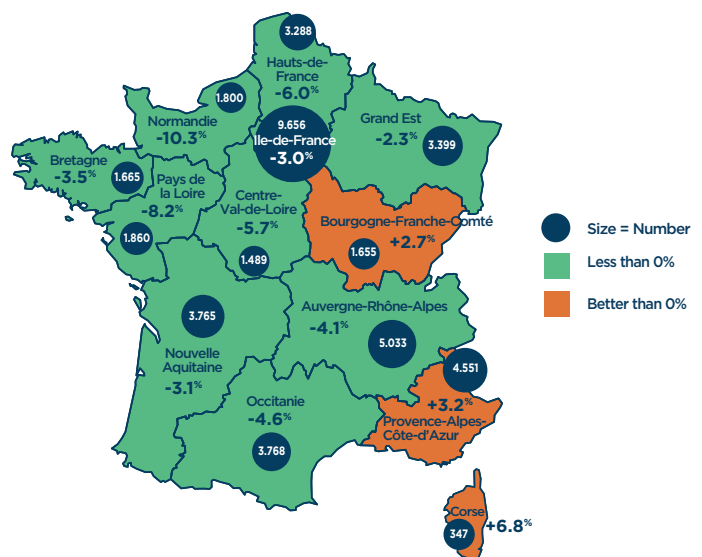
GRAPH 5
Annual growth in insolvencies by sector over the first 10 months of 2019 (%)



GRAPH 6
Annual growth in insolvencies and in jobs affected over the first 10 months of 2019 (en %)



GRAPH 7
Insolvencies in France during the first 10 months of 2019 (annual growth and number)



1 - However, the sharp increase in taxi driver insolvencies in recent years is partly due to the rising number of private hire drivers, which leads to more companies in the sector and ultimately to insolvency proceedings.

**SLIGHT REBOUND IN INSOLVENCIES IN 2020,
DUE TO THE LANDING IN CONSTRUCTION**

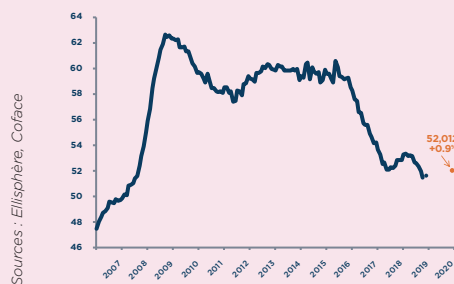
According to Coface's forecasting model, the number of corporate insolvencies should increase by 0.9% in 2020, after four consecutive years of decrease (-2.5% for the year 2019 as a whole). Thus, 52,012 insolvencies would be recorded in 2020, compared to 51,533 this year (Graph 8):

$$Ins_t = -404.2GDP_{t-2} + 0.36Ins_{t-1} - 171.5ConfConstruction_{t-1} + \epsilon^5$$

(0.03) (0.02) (0.01)

The slight rebound in the frequency of insolvencies in 2020 will be mainly due to the expected landing in the construction sector, as according to Coface's forecast, GDP growth will remain stable in 2020: 1.2% after 1.3% in 2019. Despite a still unfavorable global environment (sharp slowdown in the United States, persistent trade tensions and weak growth in the Eurozone), activity should show resilience in France next year. This will mainly be due to the acceleration of household consumption, whose purchasing power will once again be driven by job creations, consequent real wage increases and tax measures. Conversely, the construction confidence index is expected to fall in 2020, as public works will decrease, reflected by the decline in contracts concluded in the third quarter of 2019 (-12%, including -29% in September).

GRAPH 8
Annual corporate insolvencies (in thousands)

**DISCLAIMER**

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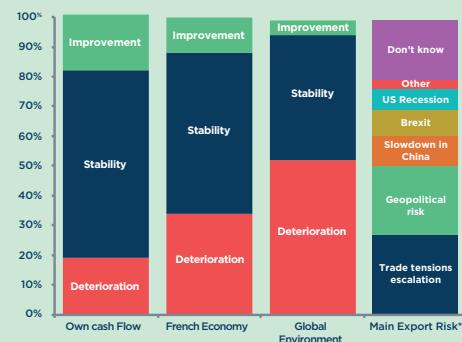
BUSINESS OUTLOOK FOR INDUSTRY IN 2020

According to an exclusive survey conducted in September 2019 by Coface and "L'Usine Nouvelle" among 208 industry executives, the average payment terms remained steady (for 52% of companies that dealt with private companies in France and 69% for those with customers abroad), or deteriorated (43% and 25% respectively), this year in the industrial sector. The trend towards a relative deterioration of payment terms is in line with the slowdown in activity recorded this year in France and worldwide. At the same time, while 43% of companies considered their cash flow to be "normal", more than a quarter rated it as "bad". On the export side, not surprisingly, the main payment delays have been recorded in the European Union, North Africa and South America, regions where activity slowed sharply in 2019. On the other hand, only 15% of companies exporting to North America mentioned their main payment delays over there, in a context of robust growth in the United States.

Regarding the outlook for 2020 (Graph 9), while French companies are relatively positive about the evolution of their cash flow (63% anticipating stability, the rest being divided equally between improvement and deterioration), they are much less so about the French economy (54% anticipating stability and 34% deterioration), and above all, about the global environment, which will deteriorate according to a majority of respondents (52% against 42% anticipating stability). The escalation of trade tensions (27%) and geopolitical risks (23%) are among the main risks identified by exporting companies.

Brexit, the most imminent and closest risk in geographical terms, is only in fourth position (9%), between the possibility of a halt in China (10%) and that of a recession in the United States (7%). Thus, the EU is identified as one of the most buoyant export markets for 2020 by 47% of respondents, ahead of North America and Asia (32% and 31% respectively). Less than one in six exporters mention the other regions. Finally, only 4% of companies intended to relocate all or part of their business outside France in 2020.

GRAPH 9
Outlook for 2020 (as a % of companies surveyed)



Source: Infopro Digital Etudes - Coface - L'Usine Nouvelle survey, conducted online from August 5 to September 15 among 208 industry executives - *118 exporting companies responded

2 - Payment is considered delayed if payment is made after the date mentioned on the invoice. Although it is the subject of negotiation between the partners, the payment period is capped by French legislation, at 60 calendar days after the invoice is issued.

3 - R. Nizard, Morocco Payment Survey 2019: Payment terms to remain long, Coface, June 2019

4 - Excluding those exporting to only one destination, more than half of the companies exporting to these regions experienced their main payment delays over there.

5 - The variable «change in the confidence index in the construction sector in the previous quarter» is significant within a confidence interval of 99%. Similarly, the variable «GDP growth two quarters earlier» and «evolution in insolvencies in the previous quarter» are significant in a confidence interval of 97% and 98% respectively. Therefore, the forecast model is significant within the standard 95% confidence interval.