P R E S S R E L E A S E

Paris, 14 September 2016

The French economy: a temporary pause in growth

- **Q2 impacted by external shocks**
- **2016 growth forecasts remain positive at 1.6%**
- **Non-financial corporate debt: an upward momentum unique in Europe but far below alert thresholds**
- **Company insolvencies remain on a downward trend: -3.4 in 2016**
- **Sector risk is stabilising: out of 12 sectors, the agri-food industry has been downgraded and the automotive industry upgraded**

The recovery is gathering pace against a backdrop of political tension

The French economy remains on a positive trend despite Q2 being impacted by external shocks. Flooding in the Ile-de-France region caused a slowdown in business activity in the short term locally. However, over the longer term, this factor will trigger a recovery rally in employment, particularly in the construction sector, where order books are filling up rapidly for reconstruction needs. Strikes in refineries will also have a dual impact, i.e. by creating a short-term shock, but with a positive medium-term impact, as stocks are replenished on a large scale in order to avoid further shortages. Furthermore, political incertitude in Europe has fuelled market volatility. With political chaos in Spain, the forthcoming referendum in Italy threatening the Renzi government and Brexit, three of France's major trade partners are currently a source of political risk and are destabilising the markets. This factor confirms that in the coming quarters, growth in France will essentially be domestically driven and self-sustained.
The positive trend is being supported by a steady decline in unemployment (which has dipped below 10% according to the Insee and confirmed at the international level by the International Labour Office). Private consumer spending has increased significantly, despite a lower occupancy rate in the hotel industry and a more general slowdown in trade services.

The insolvency rate continues to decline, despite a pause during Q2

Corporate insolvencies will remain on a downward trend this year, despite a pause in the decline during Q2, in parallel with the French economy. The hotel industry and the transport sector have also been hit by the uberisation of the economy, particularly in the Ile-de-France region. This region, which comprises 21.4% of national insolvencies, will be one of the hardest hit in 2016 with a 5.4% increase recorded at the end of July. An increase in new corporate loans contributes to a lower annual average insolvency rate, confirming the forecast of -3.4% for 2016.

P R E S S R E L E A S E

Corporate debt: France is the only major European country where it is increasing

France is the only major European country where corporate debt levels are on a rising trend (+14.8 percentage points between 2008 and 2016), but they are still well below the critical 90% threshold (68.7%).
Two phases account for this particular trend:

- 2007 - 2013, companies had to leverage massively to offset the effects of the crisis: demand and margins were too low to generate sufficient cashflow;
- 2013 - today, cashflow has been restored but companies are benefitting from highly favourable interest rates, improved outflow (higher consumption, investments) and keen investor appetite in the markets where they can even borrow at negative rates (Sanofi), which encourages them to invest without consuming their capital reserves.

Agri-food industry downgraded to "high risk" and the automotive sector upgraded to "low risk"

Sector risk in France is stabilising but remains in line with the first quarter.

- The **textile-clothing**, downgraded to "high risk" in May, faces an increase in insolvencies and shrinking margins;
- Insolvencies have risen by 3.2% in the agri-food industry. Farmers have been hit by poor harvests, particularly cereal growers who will not see their prices increase because the rest of the world has benefited from a mild climate. The sector has been downgraded to "high risk";
- The **automotive** sector has improved further with an increase in sales, which have not yet returned to pre-crisis levels, although a recovery rally is expected. As such, the sector has been upgraded to "**low risk**".

MEDIA CONTACTS:
Maria KRELLENSTEIN – T. +33 (0)1 49 02 16 29 maria.krellenstein@coface.com
Justine LANSAC – T. +33 (0)1 49 02 24 48 justine.lansac@coface.com