

**2**

Part 1

Macroeconomic situation

**6**

Part 2

Company insolvencies

**8**

Part 3

Sectoral Risk

**10**

Part 4

"Road Transport" Focus

# PANORAMA

## FRANCE

MAY 2016

COFACE ECONOMIC PUBLICATIONS

By Coface Group Economists



**I**s the recovery finally under way? That is the question being asked after a start to 2016 marked by a series of positive indicators for the French economy. But after several false starts and as many dashed hopes since 2009, caution remains the order of the day. There are grounds for optimism however: growth accelerated in the first quarter and, more importantly, it is no longer solely reliant on household consumption. Business investment appears to be finally picking up and will make a positive contribution to growth this year, for the first time since 2012. The increase in companies' margins made possible by the low oil price and government measures to alleviate the

burden on businesses seem to be finally paying off. Company insolvencies are down sharply and are set to shrink by 3.2% for the year as a whole. This trend is reflected in companies of all sizes and in all regions (except for the Ile-de-France and Centre regions).

The only cloud on the horizon is that exporting companies in most business sectors (chemicals and aeronautics being the only exceptions) are suffering from the slowdown in demand from emerging countries. This rather positive outlook has reduced sectoral risks, with six sectors out of the 12 studied (automotive, construction, pharmaceuticals, chemicals, distribution and transport) being reclassified and only one, textiles-clothing, being downgraded.

The road transport sector, which is the particular focus of this overview, is a good example of the current French growth dynamic (expected to be 1.6% this year and then 1.3% in 2017). After several difficult years, companies in that sector are now benefiting from the combined effects of a fall in the oil price and growth in household consumption. As in the economy as a whole, however, although company insolvencies are down and formations up, structural weaknesses remain. In the medium term, the sector will remain constricted by its lack of price competitiveness, while the risk of repeal of the Schengen agreement will have a negative but moderate impact (estimated at 0.4%) on road transport.

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**coface**  
FOR SAFER TRADE

MAY 2016

FRANCE OVERVIEW 1<sup>ST</sup> QUARTER 2016

**Khalid AIT YAHIA**  
Economist



**Paul CHOLLET**  
Head of sectors  
and insolvencies

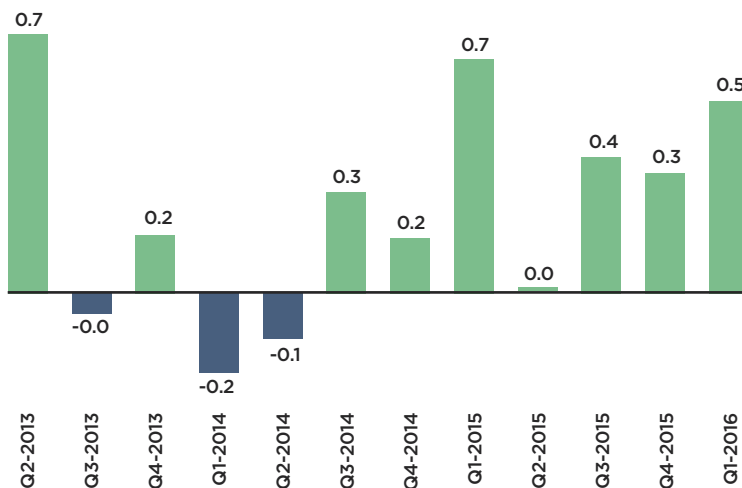


**Guillaume RIPPE-LASCOUT**  
Economist

## 1

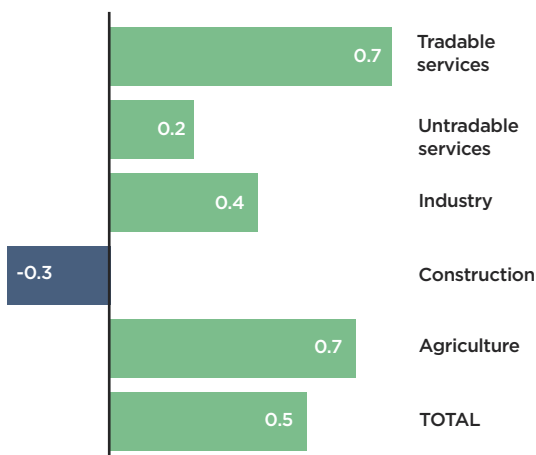
## MACROECONOMIC SITUATION: IT IS BETTER!

Graph n°1.1  
Quarterly growth in France (quarter-on-quarter)



Source: Insee

Graph n°1.2  
Breakdown in activity by business segment



Source: Insee

## Sustained activity during the first quarter

In the first quarter of 2016, French growth reached +0.6% compared with the fourth quarter of 2015. This confirms the positive dynamic recorded since the second half of 2014.

Household consumption, the main component of activity (55% of GDP), grew by 1.2% after having contracted by -0.1% in the fourth quarter (particularly following the Paris terrorist attacks in November). This represents a level not reached since the fourth quarter of 2004. In terms of fixed capital investment, the figures reveal an acceleration in growth (+0.9% following +0.7%). Business investment was dynamic (+1.6%), compared with 1.3% on average between 2003 and 2007. Local authority investment remains stable (+0.1%).

The negative contribution (-0.2% point) of stocks to growth was expected after two positive quarters.

Only external trade continues to drag down activity by -0.2 % point for the third consecutive quarter, despite favourable external factors (*see part 3*).

## Market services boost growth

Market services account for 56% of activity and contributed 0.4% point to first quarter growth. More specifically, trade (10% of activity) grew by 1.2% and corporate services (13.1%) by 0.7%, reflecting vigorous internal demand.

In the industry side (14% of activity) the transport equipment segment continued to support growth (+3.0%). The energy and water and waste treatment sector also recorded a sharp increase of +1.2%, linked to harsher temperatures than in the fourth quarter of 2015.

Activity in the construction sector continued to fall for the 10th consecutive quarter (-0.3%). Household investment (-0.2%) remains negative although its contraction was less than recorded in 2014 and 2015 (-1.1% and -0.7% respectively). The sector's leading indicators suggest that it is close to a return to positive growth (see section 3 on sectoral risks).

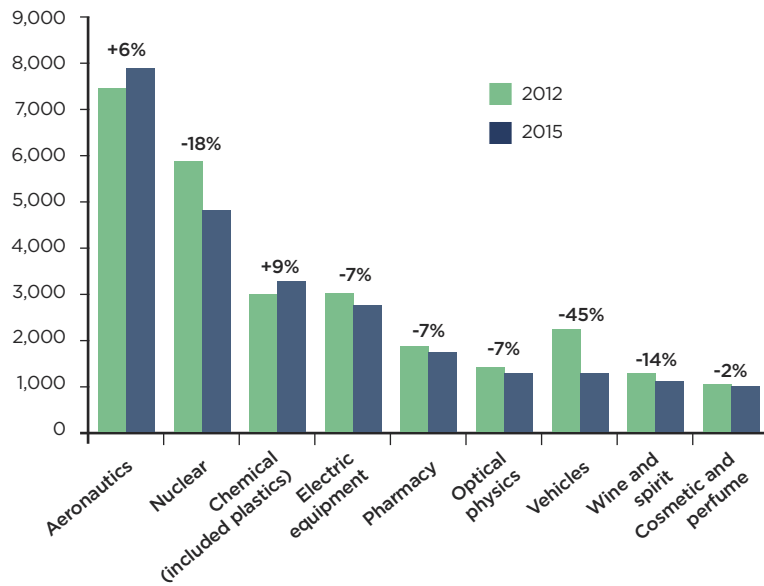
### Fall in exports, partly due to the BRICs

The external trade of the sixth largest global exporter of goods and services had a negative impact on its growth once again, despite a favourable context (low oil price and relatively sustained growth in its main European trading partners account for 61% of outlets). The rise in imports (+0.5% in the first quarter), linked to the increase in internal demand, was more than offset by the slowdown in emerging partner countries (China, Russia and Algeria) and resulting fall in exports (-0.2%). Representing 7.1% of exports (compared with 10.6% for Germany, 7.4% for Italy and 4.8% for Spain, the BRICs are France's sixth largest trading partner. The impact on exports of the expected recessions in 2016 (see graph n° 1.3) in Russia (-1.5%), Brazil (-3%) and the slowdown in China (6.5%), South Africa (0.6%) and even, to a lesser extent, India (7.3%), is therefore significant. Most business sectors are affected to varying degrees (see graph n° 1.3), including the traditional drivers of exports: electrical equipment, nuclear equipment, automotive, pharmaceuticals and fragrances and cosmetics. Only two sectors saw no decline in their exports to the BRICs between 2012 and 2015: aeronautics and chemicals.

### Strengths as well as structural weaknesses

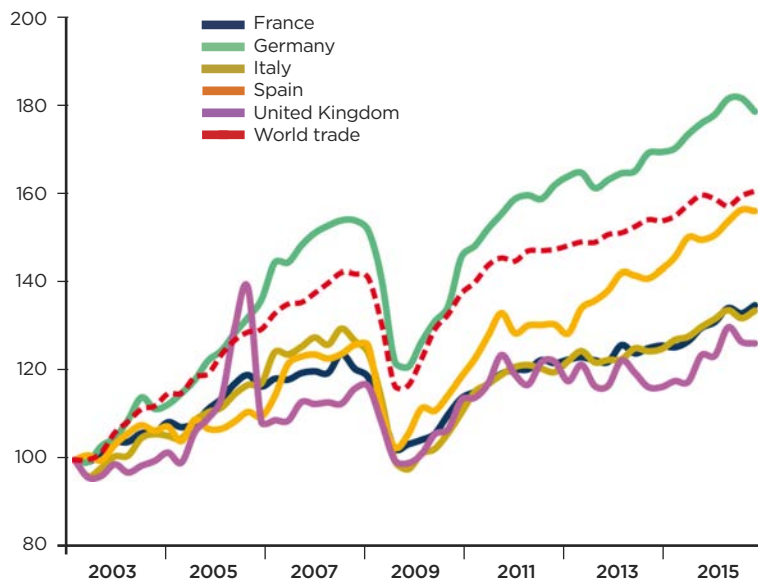
In addition to these relatively recent problems, France's export performances remain constricted by several structural weaknesses, as illustrated by the loss of global market share in the export of goods since 2003 (see graph n° 1.4). The growth in global trade was 7% a year on average between 2003 and 2007 while French exports of goods increased by 3.5% over the same period. France's share in the global trade in goods and services therefore fell, before stabilising at 3.5% since 2011. The French example is not isolated, however, since with the exception of Germany, all European countries have seen their market share fall. Indeed the UK has experienced an even sharper decline. In France, approximately 121,000 companies exported in 2014 compared with 132,000 in 2000. Although this level has tended to rise since 2009, in Germany three times as many companies have decided to export despite the total number of companies being similar in both countries (3.6 million companies identified in 2013 in Germany compared with 3.7 million in France). The drop-out rate is also high for export since only three out of 10 first-time exporters<sup>(1)</sup> are still exporting a year later and only one three years later. Exporting companies are 99% made up of SMEs achieving 15% of French companies' turnover from exporting. This is therefore a very high concentration, with large companies representing 0.4% of exporting companies but 50% of turnover.

Graph n°1.3  
Change in exports to the BRICs, in millions of euros



Source: Eurostat

Graph n°1.4  
Dynamic of exports and world trade, 100 = 2003

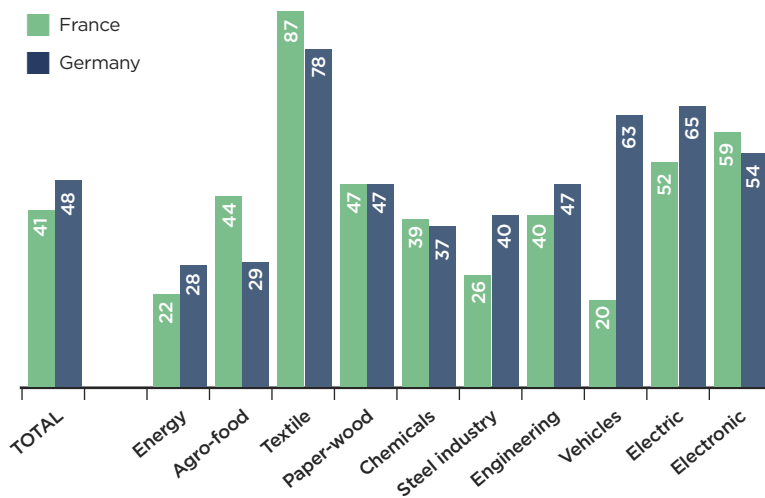


Sources: Eurostat, CBP, Coface

(1) Rapport 2015 sur la stratégie du commerce extérieur de la France et la politique commerciale européenne [“2015 report on France's external trade strategy and European commercial policy”], Ministry for Foreign Affairs, M. Fekl, 2015

Graph n°1.5

High-value exports by sector (%)



Source: basic country profile Cepii

Graph n°1.6

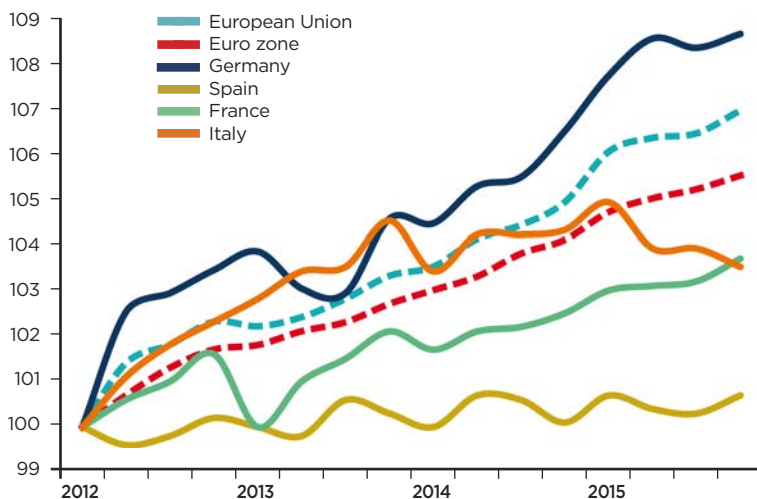
Net exports of automotive vehicles, in billions of euros



Source: external Trade Ministry

Graph n°1.7

Cost of labour in industry excluding construction, 2012 =100



Sources: Eurostat, Coface

## Germany – a country synonymous with quality

France's main strengths lie in exports of very high added value products in the aeronautics, luxury, wine and defence sectors. These sectors enjoy remarkable non-price competitiveness, making them more sensitive to price variations. Apart from these four sectors, however, France's competitiveness appears weak. A study by Cepii<sup>(2)</sup> emphasises Germany's dominant position in terms of brand image. According to a calculation by the authors, 41% of products exported by France are high-end, compared to 48% for Germany (See graph n° 1.5).

## French vehicles running low on added value

The automotive sector illustrates this gap between France and Germany, with a significant difference in perception between German and French cars (see graph n° 1.5). Cars produced in Germany are seen as more high added value than French cars. One of the reasons for this difference lies in the high added value incorporated into the production chain by German manufacturers. C. Emlinger and G. Santoni demonstrated that relative to France, Germany has imported more products at the start of the production chain from the 2000s. This allows it to integrate its own factors of production. In Germany, added value in 2012 per employee was €94,300 compared with €51,100 in France and €65,600 in the European Union<sup>(3)</sup>.

The added value on a French car is not high enough to reduce the sector's deficit during an increasing demand in the Eurozone (including in France). In 2015, for example, French vehicle exports reached record highs despite the financial crisis, but the deficit widened. However, foreign markets accounted for 79% of outlets for French manufacturers compared with less than 60% in 1990 according to the French Automobile Manufacturers Association (CCFA).

## French companies now more competitive

Although improving the quality positioning of French products could win market share, the recent impact of the Employment Competitiveness Tax Credit (CICE)<sup>(4)</sup> on exporting companies, in the framework of the Responsibility Pact, is apparently positive since it lowers the cost of labour and restores competitiveness. However the services sector is the main beneficiary of the CICE, while industry more focused externally benefits from a reduced tax basis. Less than 40% of the payroll of the pharmaceuticals, chemicals and refining sectors is eligible for this credit. Nevertheless, the cost of an hour's labour in the manufacturing sector has increased in competitiveness compared with other Eurozone countries since 2012, while the reduction in corporation tax from 33% to 28% between 2017 and 2020 will also help to improve this cost competitiveness.

(2) La France en mal de qualité ["France lacks quality"], M. Bas, L. Fontagné, P. Martin and T. Mayer, Cepii, 2015

(3) Rapport Annuel Automobile ["Annual Automotive Report"], CCFA, 2015

(4) The tax credit is equivalent to 6% of a company's payroll excluding salaries more than 2.5 times the minimum wage

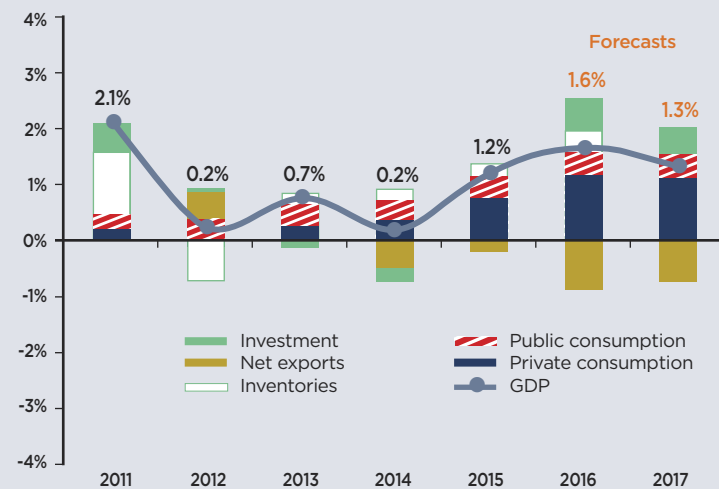
Although this reduction in costs is good news in the short term, in the medium term only business investment will improve the quality positioning. Unfortunately France investment fell behind following the crisis and, despite gaining ground since 2015, it will take several years to fully catch

up. Annual business investment contracted by -0.1% between 2009 and 2014. The continued existence of the extra-depreciation on production<sup>(5)</sup> in 2016 will boost French companies' ability to catch up.

## Growth forecasts

Graph n°1.8

French growth forecast



Source: Coface

Coface expects the French economy to grow by 1.6% in 2016. Household consumption will be the main contributor (+1.2 points) along with investment for the first time since 2012 (0.5 points). Net exports will have a negative impact on activity, which has suffered as a result of the slowdown in global trade. In 2017, Coface expects activity to be stable (+1.3%).

Investment will again make a positive contribution to growth (0.6 % points) particularly thanks to household investment (0.1 % points). As in 2016, household consumption will be the main driver behind the increase in activity (+1.1 % points).

## METHODOLOGY

Coface projects each component of demand in GDP. Quarterly consumption is projected monthly via two vector autoregression (VAR) models. In the first, in addition to consumption (cons<sub>m</sub>) for the last two months, the explanatory variables are employment offers (Emp) and household confidence (Conf) for the previous months.

$$Cons_m_t = a_1 Cons_m_{t-1} + a_2 Cons_m_{t-2} + a_3 Emp_{t-1} + a_4 Conf_{t-1} + \xi$$

In the second, quarterly consumption is then explained using the two previous quarters and estimated consumption for the three months (cons3m) constituting the quarter using model 1.

$$Cons_q_t = a_1 Cons_q_{t-1} + a_2 Cons_q_{t-2} + a_3 Cons3m_t + \xi$$

We have the same methodology for the investment, which is explained by current consumption and passed investment. Our model forecasts a 1.8% growth in 2016 (13<sup>th</sup> May 2016 forecast). Our expert analyse has led to revise lower the consumption contribution and then to forecast a 1.6% growth.

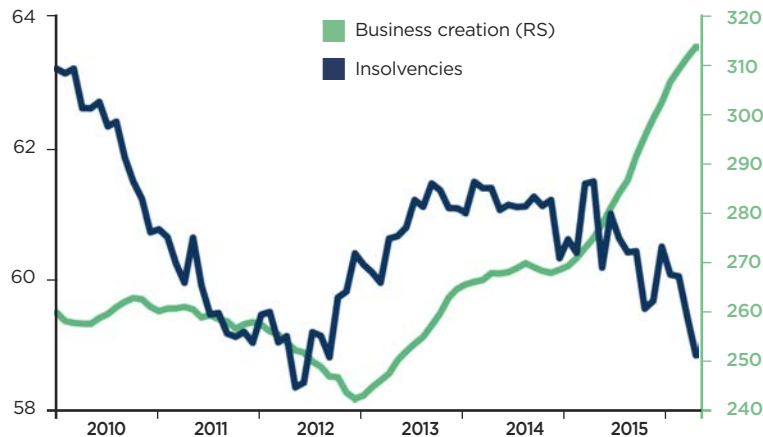
(5) Exceptional extra-depreciation measure affecting industrial investments, enabling companies to depreciate goods at 140% of their value

2

## COMPANY INSOLVENCIES: MARKED RECOVERY DUE IN 2016

Graph n°2.1

Change in company insolvencies and formations (in thousands per annum)



Sources: Ellisphere, Insee, Coface

Graph n°2.2

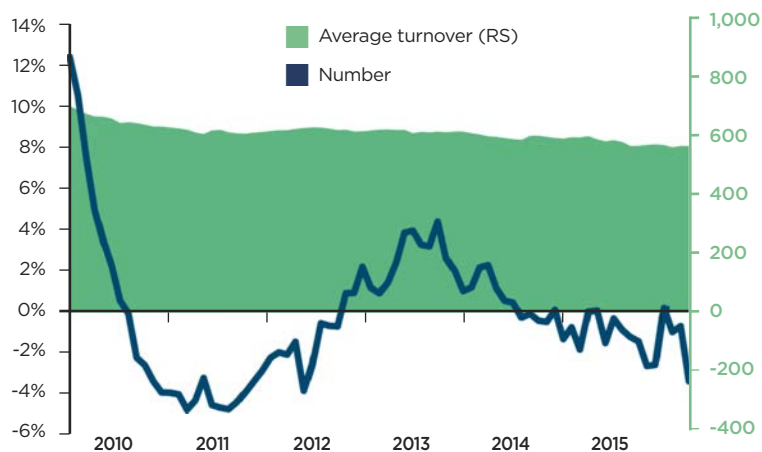
Monthly change in company insolvencies



Sources: Ellisphere, Coface

Graph n°2.3

Annual variation in company insolvencies and average turnover (in thousands of euros)



Sources: Ellisphere, Coface

### Confirmation of the fall in the number of insolvencies

Insolvencies have continued to fall since the start of April 2015, when they were at their highest level since 2010. At the end of April and year-on-year, 58,846\* companies were subject to receivership or involuntary liquidation, representing an annual decrease of -4.3%. However, with an average of 46,000 company insolvencies a month between 2000 and 2006, the level is still high. This difference is unsurprising, however, since company formations, excluding auto-entrepreneurs, have increased significantly to reach 313,646 companies a year. This is close to pre-crisis levels, with 340,686 formations in August 2008. The total number of companies was 4.2 million in 2015 compared with 3.5 million in 2006.

The total cost of insolvencies, calculated based on total outstanding supplier debt, stood at €3.350bn, down 8.6% year-on-year. The number of employees involved also fell by 2.4% to 183,928 people.

### 2016 - a year free of upheavals?

Insolvency data was particularly volatile in 2015, due to social unrest in the trade tribunals in December 2014 and May 2015 which reduced the registries of the tribunals' activity. However, cases postponed during those two months naturally swelled the figures for subsequent months, i.e. March and June 2015. In March 2016, insolvencies therefore fell by 10% compared with the same period the previous year, with 5,729 insolvencies recorded. During the first quarter of 2016, the fall in one year was 6%.

### Reduction in the average size of insolvencies

The fall in the number of company insolvencies was accompanied by a decline in their size measured in average turnover<sup>(6)</sup> which stood at €591,800 at the end of March, down 5.4% in a year.

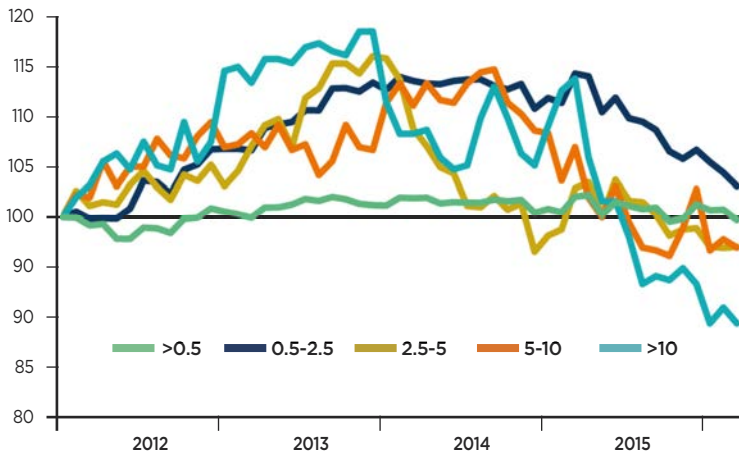
This level is equivalent to pre-crisis levels. The average age of a company insolvency has meanwhile stabilised at 107 months since May 2015.

In the first four months of 2016, the largest company insolvencies were the e-commerce site PIX-MANIA (turnover: €295m, in receivership), the wholesaler of electronic and telecommunications components AVENIR TELECOM (turnover: €88m, in receivership) and mattress manufacturer HIBIKI (turnover: €55m, in receivership).

(6) Reduced weighted annual average, 1% of observations at the lower and upper ends of the distribution are excluded to give a more accurate image of average TO

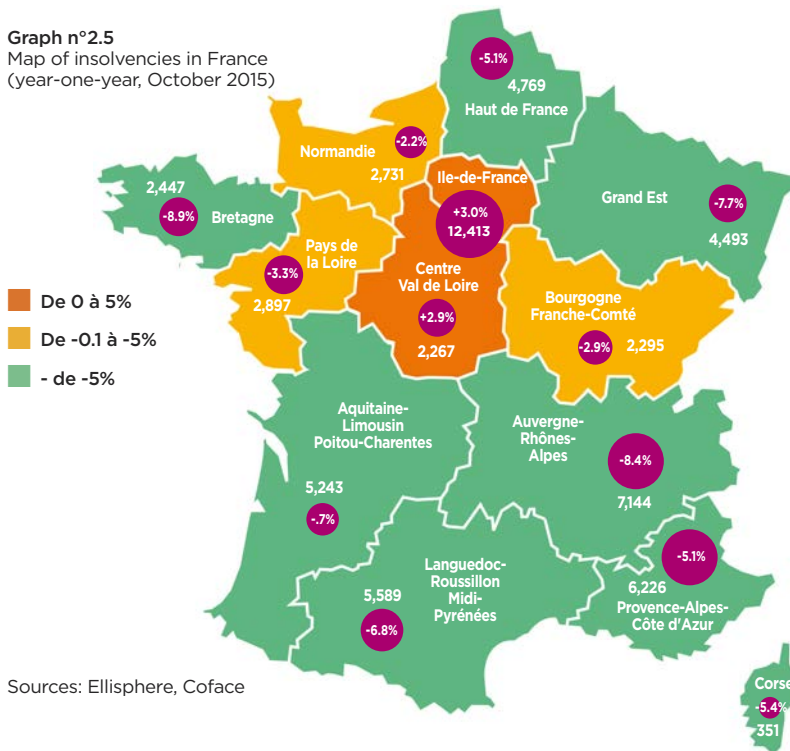
\* Data May 17, 2016

**Graph n°2.4**  
Change in insolvencies by turnover bracket (millions of euros, 100 = January 2011)



Sources: Ellisphere, Coface

**Graph n°2.5**  
Map of insolvencies in France (year-one-year, October 2015)



Sources: Ellisphere, Coface

## Confirmation of the normalization in insolvencies

The number of company insolvencies has tended to fall since March 2015, whatever their size. Insolvency among companies with turnover of less than €500,000 (88% of insolvencies) fell by 2.5% a year at the end of March. The sharpest fall (-21.5%) was in large companies with turnover of more than €10m, in which just 226 companies went bankrupt, compared with 288 at the end of March 2015.

Nevertheless, the level of insolvencies remains higher than in 2012 for companies with turnover between €500,000 and €2.5m. The adjustment was spectacular for all companies in 2015 and the good economic outlook for 2016 (see section 1) suggests that by the end of the year the claims rate among all companies will fall below the 2012 level.

## An improvement in almost all regions

In the last 12 months to the end of March 2016, company insolvencies have increased in only two regions: the Centre (+2.9%) and the Ile-de-France (+3.0%). Two regions recorded small declines: Normandie (-2.2%) and Pays-de-la-Loire (-3.3%). Four regions saw sharp falls: Bretagne (-8.9%), Aquitaine-Limousin-Poitou-Charentes (8.7%), Auvergne-Rhône-Alpes (-8.4%) and Grand Est (-7.7%).

The Ile-de-France region accounts for 21.1% of insolvencies in metropolitan France, a percentage similar to the region's share of companies (21.4% in 2013). Contrary to the national trend, the rise in Ile-de-France is explained by the higher insolvency rate across many sectors. In the transport sector (see section 4), insolvencies increased by almost 36% over a year at the end of March 2016 compared with -0.1% at a national level. Similarly, agri-food (+12.2%), personal services (+10%) and construction (+5.6%) stand out from the decreases recorded (see section 3). Finally, the textile sector, is affected as badly as the rest of the country (+12.2%).

## Company insolvency forecasts for 2016

**Graph n° 2.6**  
Company insolvencies at one year (thousands)



According to our forecast model <sup>(7)</sup>, the number of company insolvencies will fall by 3.2% in 2016 to stand at 58,560. This increase is explained by the good payment experience recorded by Coface. This increase explains the insolvencies that will occur nine months later.

Coface expects a margin rate of 32.3% by the end of 2016. This figure is confirmed by the 0.4 % point positive change in rates in the third quarter (31.1) and the fourth quarter (31.5). Finally, loans to non-financial companies also recorded an increase of 4.3%, above 3% since February 2015, suggesting a positive change for insolvencies over the next six months.

The downturn in the cycle is therefore confirmed, although disparities remain at a sectoral level.

Sources: Ellisphere, Coface

(7) See methodology, "Fall in company insolvencies in France: three is the magic number", Coface, February 2016

### 3 SECTORAL RISK

Table n°3.1

SECTOR RISK ASSESSMENT		
Sectors	Western Europe*	France
Agro-food	Medium risk	Medium risk
Automotives	High risk → Medium risk	High risk → Medium risk
Chemicals	Medium risk	High risk → Medium risk
Construction	High risk	Very high risk → High risk
Energy	High risk	High risk
ICT**	Medium risk	Medium risk
Metals	Very high risk	High risk
Paper-wood	High risk	High risk
Pharmaceuticals	High risk → Medium risk	High risk → Medium risk
Retail	Medium risk	Medium risk → Low risk
Textile-clothing	Medium risk → High risk	Medium risk → High risk
Transportation	Medium risk	High risk → Medium risk

Source: Coface

\* Changes in ratings Europe was made in April 2016

\*\* Information and communications technologies

▬ Low risk      ▬ Medium risk  
▬ High risk      ▬ Very high risk  
↗ The risk has improved  
↘ The risk has deteriorated

The positive change in insolvencies reflects the healthier state of the French economy. Almost all sectors are benefiting from this improvement. Coface has therefore made six upgrades and one downgrade among the 12 sectors monitored. As their European counterparts in April, the automotive and pharmaceutical sectors were upgraded to medium risk. The transport is also upgraded to medium risk in line with the Western Europe assessment. The construction sector is in a recovery phase, leading to it being upgraded to high risk. The chemicals sector, which is correlated to that sector as well as pharmaceuticals, has also been upgraded to medium risk. The strong performance of household consumption led to distribution being upgraded to low risk. Finally, the high claims rate and 3% annual increase in insolvencies at the end of March 2016 in the textile-clothing sector led to it being downgraded to high risk.

**COFACE SECTORAL RISK ASSESSMENT METHODOLOGY**

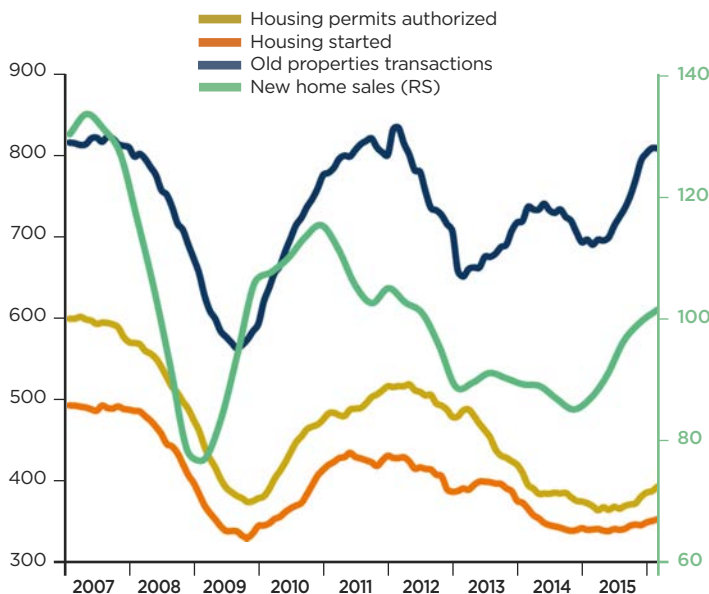
Assessments by Coface are based on financial data published by listed French companies. Its statistical credit risk indicator simultaneously summarises changes in the five financial indicators (turnover, profitability, net debt, cash-flow and the claims rate recorded by our network).

### CONSTRUCTION: ▬ ↗ ▬ new orders cement the recovery

The construction has displayed signs of recovery since the second half of 2015, confirmed in 2016. Insolvencies in that sector also recorded a sharp annual contraction of 6.8% at the end of March. At the end of February, sales of old dwellings increased by 17% year-on-year and new residential construction by 2.5%. The 7.7% increase in building permits suggests that the upturn will continue in 2016. Furthermore, the Pinel law was renewed for 2016 and should support the construction of new rental housing. In April, INSEE published a quarterly economic survey favourable to the sector. According to the French national statistics office, many more developers than in 2015 consider that there is strong demand for new housing. This survey level is equivalent to 2010 one.

In terms of the availability of credit, the average 10-year borrowing rate was 1.92% in February, as it was for 2015 as a whole. These advantageous rates led to a 3.6% year-on-year increase in real-estate loans in February – a level not seen since 2012. The effect on prices is now being felt. At a national level, they increased by +0.2% in the third quarter of 2015, a first since 2012.

Graph n°3.2  
Change in sales of houses in thousands

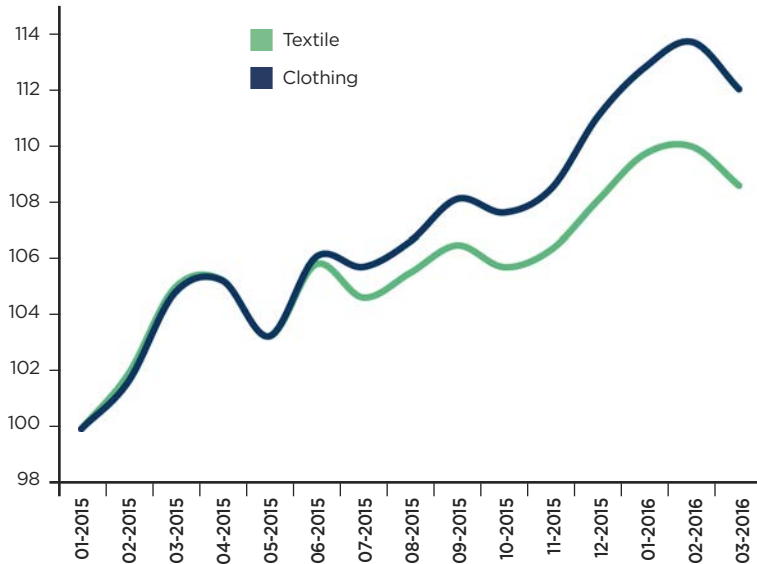


Source: Insee



Graph n°3.3

Textile and clothing company insolvencies (retail sales)



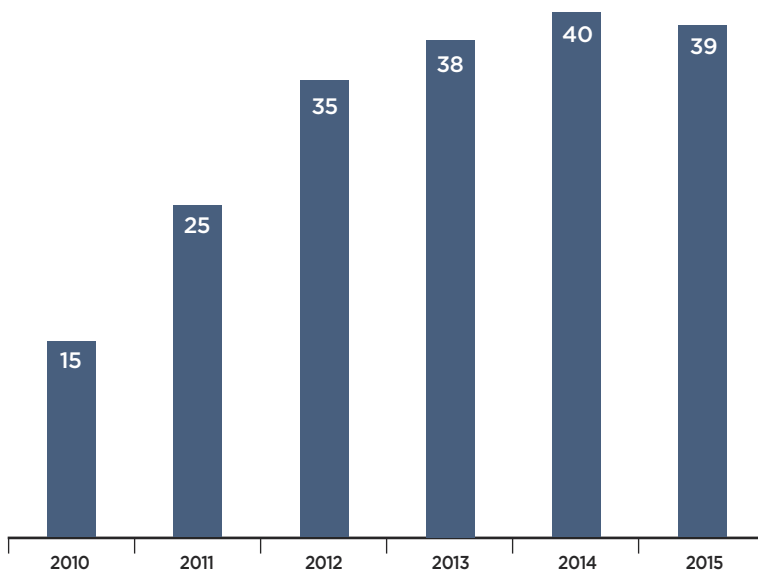
Sources: Ellisphere, Coface

### TEXTILE: French clothing unravels

With 2,121 companies affected (in the last year), the number of insolvencies increased by 3.4% in March 2016, down from a record high in February (2,148). Clothing, which represents 85% of total insolvencies in textile-clothing, is the main culprit, with a 6.8% increase in insolvencies in March 2016. Like the restructuring of GERARD DAREL PABLO in June 2015 (€148m in turnover - €271m in turnover and 884 employees for the group) the increase in insolvencies for "retail sales of clothing in specialist stores" stands at 7%. Furthermore, it represents more than a third (36.8%) of clothing insolvencies. Companies in this French sub-sector are suffering from heightened competition (Inditex group) and the very sharp increase in e-commerce sales (penetration rate of 36.6% forecast in 2016, compared with 31% in 2014). Finally, the November terrorist attacks in Paris had a temporary impact on sales.

Graph n°3.4

Newly approved active substances



Source : EMA

### PHARMACEUTICALS: outlook improving

The European Medicines Agency (EMA) approved 39 new active substances in 2015, a result comparable with the historic level of 40 approvals in 2014. These new treatments include expensive speciality medicines, such as Repatha (Amgen) and Praluent (Sanofi), prescribed for various cardiovascular diseases. They are already on sale in the United States, at \$14,100 and \$14,600 respectively. Furthermore, almost a third of these approvals concern oncology, for which treatments are costly. One example is Keytruda, prescribed for melanoma, which has an estimated sale price of €100,000 per year per patient.

Most of these speciality therapies (often administered in hospital) are difficult to copy once their patent falls into the public domain. The body setting the price of medicines therefore finds it hard to negotiate. This near-monopoly allows laboratories to maintain a high level of profit.

## AUTOMOTIVE: finally out of reverse

The French automotive market continues to rise. New passenger car registrations increased by 8.4% year-on-year in the first quarter of 2016. This upturn is particularly benefiting national manufacturers, whose total market share is 50%.

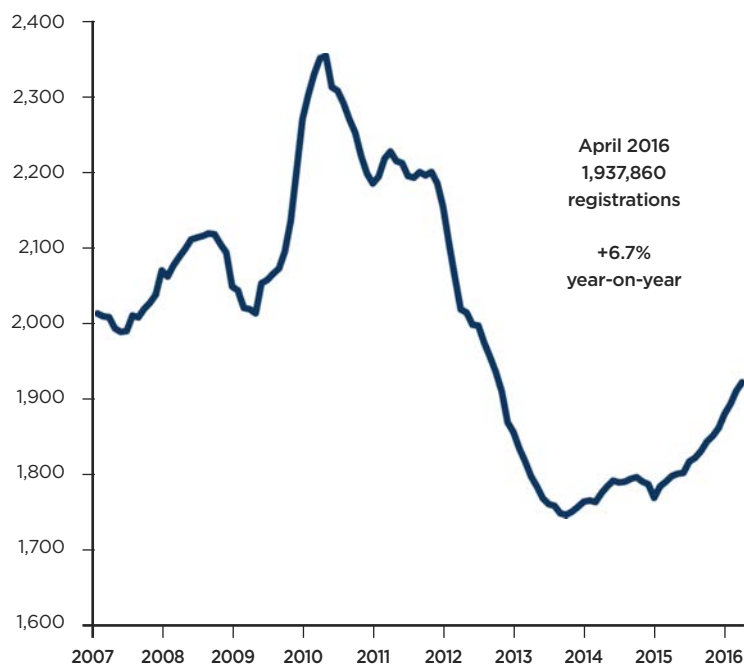
The recovery is explained by the dynamism of the corporate and leasing segment, which accounts for almost 48% of the market (compared with 34% in 2010) and enjoys attractive debt levels, as well as by the increase in financing via Lease Purchase (LP) among professionals and private individuals. This financing scheme has eclipsed traditional loans and grew by 44% in 2016.

The revival of the automotive market is therefore benefiting all players in the sector, in addition to manufacturers and specialist financial institutions, particularly PSA and Renault. Top ranking OEMs are the main beneficiaries in this respect, since although they have diversified their customer portfolios, they remain closely linked to French manufacturers. We could mention Faurecia, a quarter of whose orders come from Renault and PSA.

Finally, the increase in registrations also benefits car dealers. According to INSEE, vehicle dealers saw a rise in their activity in the first quarter and are optimistic for the coming months.

Graph n°3.5

Change in registrations, in thousands of vehicles

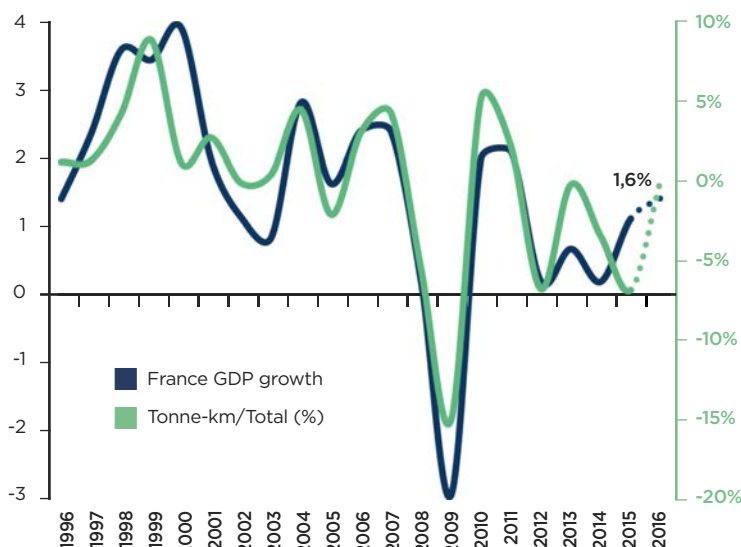


Sources: SOeS, Insee

## 4

## ROAD TRANSPORT IN 2016: A FLEETING BREATH OF FRESH AIR

Graph n°4.1

Increase in tonne-kilometres in France by French operators <sup>(10)</sup>, compared with growth in GDP, (2016 = projected)

Source: Environment Energy and sea Ministry

With 35,000 specialist companies and 400,000 jobs generated, road freight transport (RFT) is a key sector in the French economy. While the transport sector as a whole accounted for 8.7% of French GDP in 2014 <sup>(8)</sup>, 3.1 % points are linked to freight transport. With an 85% share in the total transport of freight in France, RFT represents approximately 2.6% of French activity. Our last overview on the subject, published in 2014, revealed a sector in decline since the financial crisis of 2008, due in particular to its lack of competitiveness. With a large number of small companies (97% with fewer than 50 employees) and high staffing and tax costs, French RFT continues to lose market share to its European competitors. Although it represents 85% of total transport in France, just 63% of this is achieved by French operators <sup>(9)</sup> (compared with 73% in 2000, see graph n° 4.4). RFT activity by French operators has continued to decline since 2014 (see graph n° 4.1, -6.9% in 2015 and -10.1% the two previous years). This decline was exacerbated in 2015 by strikes against the ecotax and bans on road use during Cop 21.

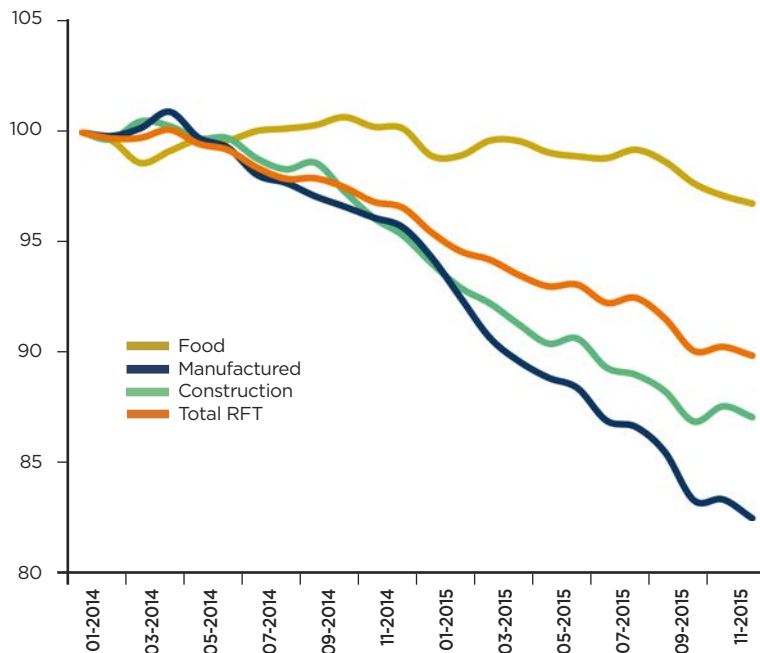
(8) French Environment Ministry

(9) Insee; 2014

(10) National transport and French share of international activity

Graph n°4.2

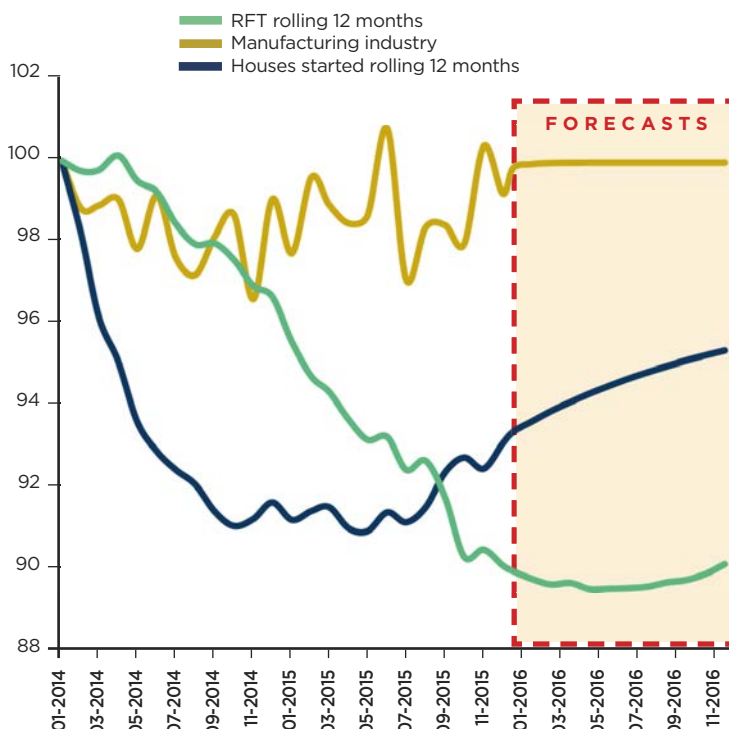
French RFT growth achieved nationally by French operators and growth achieved in the three main sub-sectors (in tonne-kilometres, base 100 in 2014)



Source: Insee

Graph n°4.3

Change in RFT, new residential construction (year-on-year) and the manufacturing industry index (base 100 in January 2014)



Sources: Insee, Coface

Since 2014, the fall in the oil price has been very profitable to the sector however. Although this breath of fresh air has boosted margins, its impact is linked to the economic climate and is unlikely to be sufficient to remedy the segments structural problems.

### French RFT has suffered from weak economic growth in recent years

Unsurprisingly, the 2008 financial crisis coincided with the decline in RFT which, having recorded average growth of +1.6% between 2000 and 2007, fell by an average of -3.9% between 2008 and 2015 (see graph n° 4.1). This fall was far more than that of French GDP, whose growth declined from 2.1% to 0.4% over the same period. Although RFT growth appears to be correlated to economic growth, it over-reacted to the global crisis of 2008, its growth rate falling by two-thirds in 2009. This confirms the procyclical nature of the sector. Following a rebound in 2010 and 2011, RFT then suffered from GDP growth of less than 1% between 2012 and 2015.

Activity has decreased since 2014 (fall in the number of TKMs<sup>(11)</sup>) by 10% between January 2014 and December 2015. This fall is mainly linked to a 17% decline in the transport of "manufactured products" (24% of the sector) and 13% in the transport linked to the "construction" sector (20% of the sector). Finally, the impact of the fall in domestic road transport of agricultural and agri-food products is marginal (see graph n° 4.2). Although this sub-sector represented almost a third of all RFT activity in 2015 (32%), its activity fell by just 3% over the same period.

### Demand set to stabilise in 2016...

Growth in GDP in 2016, expected to be 1.6%<sup>(12)</sup> (compared with 1.2% in 2015) is in line with almost flat growth in RFT (+0.03%) in 2016 (compared with -6.9% in 2015). As graph no. 4.3 shows, the driver of this change will be transport linked to the construction sector, whose growth is expected to be +2.5% in 2016. The manufacturing sector, boosted by strong demand and business investment, will experience growth of +0.8% (see inset n° 1). This slight increase in demand should be more beneficial to French RFT operators.

#### Inset n° 1

The forecasting model used for monthly RFT activity is a dynamic regression model including lagged errors, in order to avoid falling into the domain of spurious regressions. This model incorporates as explanatory variables a year-on-year new residential construction series, as well as the index for variations in turnover of companies in the manufacturing sector.

(11) TKM: tonne-kilometres  
(12) World Bank

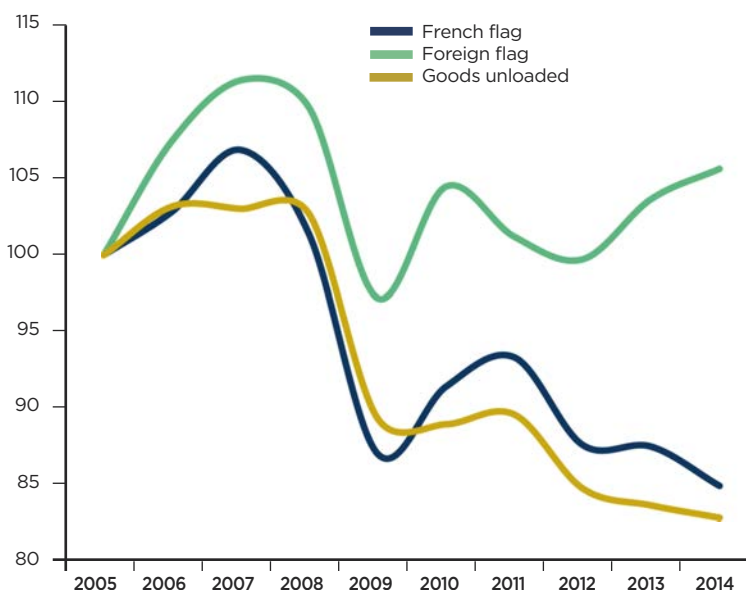
### ... partly thanks to dynamic maritime transport

Shipping is one of the pillars of international transport, accounting for 80% of global trade by volume and 70% by value<sup>(13)</sup>. In the EU, although volumes unloaded in European ports did not return to their 2008 levels, they are up compared with 2009<sup>(14)</sup>. The continuous decline in

freight unloaded in French ports (-7.2% since 2009) has naturally led to a fall in domestic RFT by French operators (-2.4% over the same period) while favouring the rise in domestic RFT by foreign operators (+8.6%, see *graph n° 4.4*). While Marseille was the second busiest European port in the 1970s, it was in fourth place by 2012, behind the ports of Rotterdam, Antwerp and Hamburg. In the general rankings, French ports occupy fifth place at European level, with a 4% fall in activity between 2009 and 2014, while freight handled by ports increased 18% in the Netherlands, 17% in Belgium and 18% in Spain. The decline of French ports can be explained by a lack of investment in maritime infrastructure, which was 4.5 times less than in Spain<sup>(15)</sup> between 2009 and 2013. Foreign road transporters therefore benefit from the strong position of their ports to ship freight to France (rather than French transporters). The proportion of outgoing freight (as a percentage of the total<sup>(16)</sup>) stood at 21% in Belgium, 14.5% in the Netherlands and just 4.8% for France. This dynamic positioning of foreign ports is also visible in the share of international road freight transport, which stands at 8.5% for French transporters, compared with 34.5% for Spanish operators, 39.7% for Belgian operators and 56% for Dutch operators. Since the French government launched parliamentary missions to improve the competitiveness of French ports in 2013, the port of Marseille and Le Havre recorded growth in traffic of 4.2% and 2% respectively in 2015. Marseille recorded twice the average growth for European ports in 2015 (Rotterdam +2.6%, Antwerp +4.3% and Hamburg +3.1%). The €360m investment programme over four years (starting in 2014) is therefore beginning to pay off. This increase in French port activity could be particularly beneficial since it comes against a backdrop of a reduction in overall RFT expenses since 2014.

Graph n°4.4

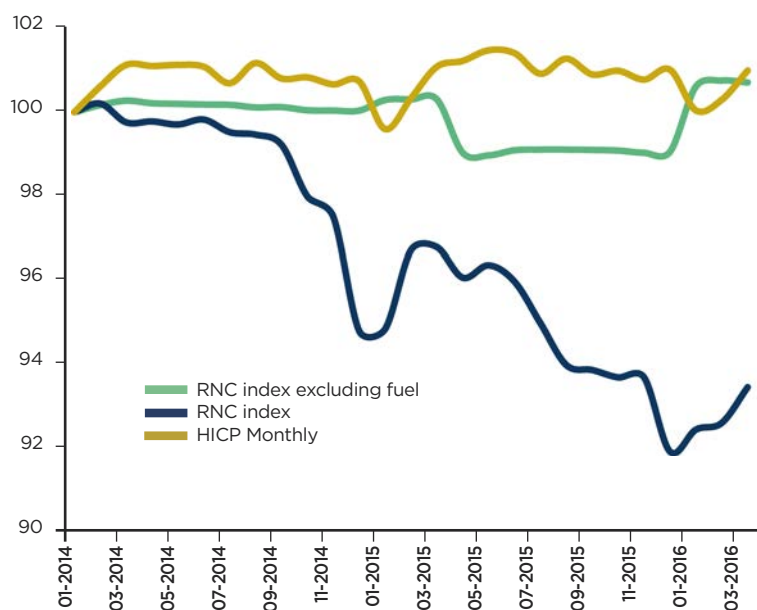
Change in French and foreign domestic land transport (in billions of tonne-kilometres) and freight unloaded in the main French ports (base 100 in 2005)



Source: Insee

Graph n°4.5

Change in the CNR production costs index for Regional RFT (40T) and inflation (IPCH) - (base 100 in January 2014)



Source: Road National Committee

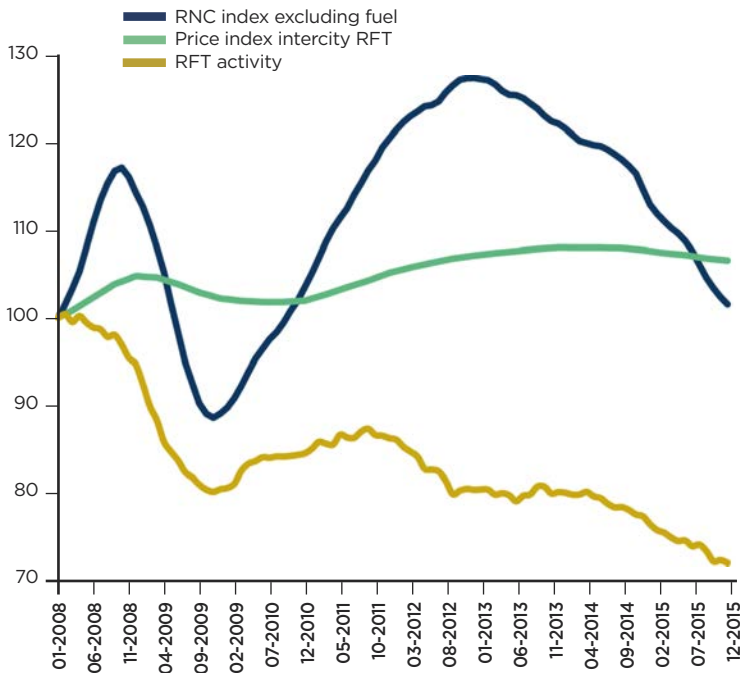
### The fall in the oil price - a boon for the sector...

Between January 2014 and 2016, the 43% fall in the price of Brent crude enabled RFT operators to drastically reduce their production costs. As a percentage of total production costs, fuel prices fell by 7 points between January 2014 and January 2016, to represent 19% of the total compared with more than a quarter in January 2014 (26%). This corresponds to a 24% reduction in the price of commercial diesel (see *graph n° 4.5*), resulting in a 6.5% reduction in annual production costs over the same period<sup>(18)</sup>. Excluding diesel, the CNR production costs index rose by 0.7% between January 2014 and March 2016, less than the level of inflation (+1%) over the same period. The fall in the oil price therefore had a very profitable impact on RFT companies' expenses.

(13) UNCTAD  
(14) Eurostat  
(15) OECD (2016)

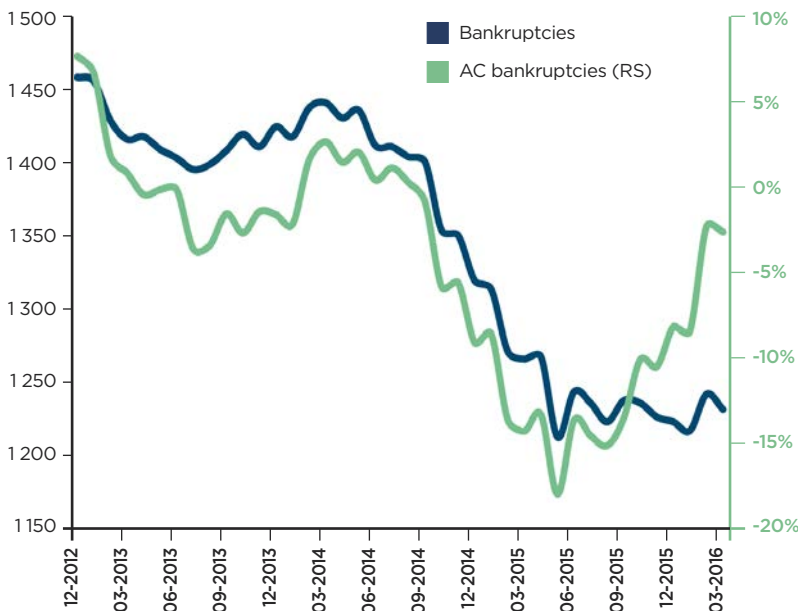
(16) Total = freight loaded and unloaded in the country + incoming and outgoing freight  
(17) Insee  
(18) Road National Committee

Graph n°4.6  
Knock-on effect of oil prices on inter-urban RFT prices/Variation in RFT activity



Sources: Road National Committee, Insee

Graph n°4.7  
Change in RFT insolvencies (year-on-year and annual variations)



Sources: Ellisphere, Coface

**This fall in the oil price brought down production costs without any excessive impact on RFT sale prices** (see graph n° 4.6)

Unlike expenses, which were favourably impacted by the fall in the oil price, RFT prices appear to be relatively static. When production costs fell by 6.5%, the prices index fell by just 1.4% between 2014 and 2015 <sup>(19)</sup> (see graph n° 4.6). Coface expects the oil price to remain at a low level in 2016, with an average barrel price below \$50 for the year. This level is below the average for Brent crude prices in 2014 (\$74).

However we should note that, according to the CNR, costs excluding diesel could increase by 2.1% (regional 40 tonnes - year-on-year) between 2015 and 2016. The "drivers" component (wages, expenses and travel costs), the sector's largest cost centre (33.1% of total production costs in January 2016) will increase in 2016. Following a wage agreement signed on 3 November 2015 and effective from 1 January 2016, drivers' contractual hourly rates increase by +2.1% in 2016. Contractual travel indemnities rose by 2% from 1 February 2016 (agreement dated 7 January 2016). Finally, the use of interim staff is increasing within RFT (+8.2% year-on-year in 2015 <sup>(20)</sup>) and is costing companies more on average. The transport sector in general recorded a sharper rise in the use of interim staff in February 2015 (+9.6% year-on-year <sup>(21)</sup>), although this was down on the January figure (+11.7% year-on-year), as for most other sectors.

**... improving the financial health of RFT operators**

This gap between the decrease in production costs and that of sale prices appears to indicate that the margins of companies in the sector are increasing thanks to the lower oil price, despite the increase in other expenses. In this context, company insolvencies <sup>(22)</sup> have unsurprisingly fallen sharply since 2014 (by 15.3% <sup>(23)</sup> at the end of March 2016). In detail, they have stabilised since mid-2015 (see graph n°4.7 and n°4.9, page 14).

The dynamism of new companies creations in the sector partially explains this stabilisation <sup>(24)</sup> despite the continued fall in the oil price, boosted by a regain in confidence among professionals in the sector who seem to expect an increase in demand in 2016. Since 2014, company formations have increased sharply in the sector (+46% in March 2016 -see graph n° 4.8, page 14-). This is 28 points higher than growth among all companies in France over the same period <sup>(25)</sup>.

(24) All things being equal, an increase in the number of firm creations tend to result in an increase of that of business failures a few months later, some established firms failing to sustain their activity.

(25) In parallel, we are seeing a sharp increase in new registrations of HGVs which, having fallen by 16% year-on-year in January 2015, increased by 13% between January and December 2015. This is also due to fleet renewals.

(19) Road National Committee

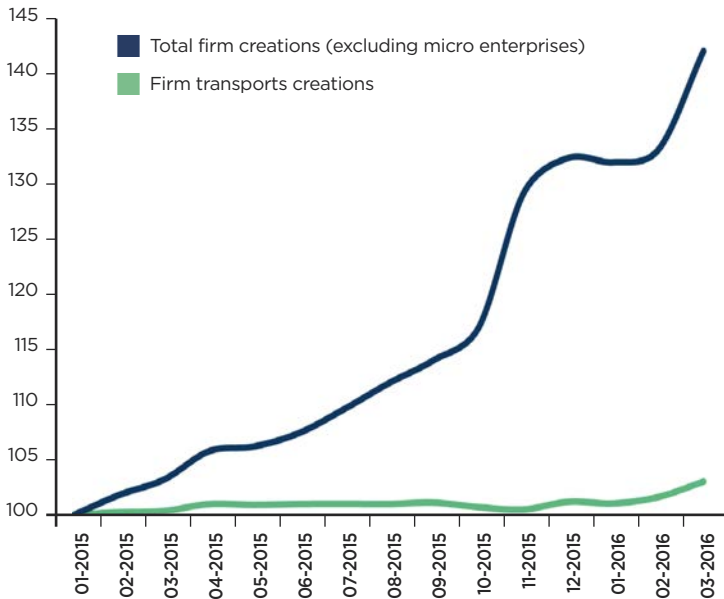
(20) Insee

(21) Prism'emploi

(22) NACE codes: 4941A; 4941B; 5210A; 5210B, 5229A

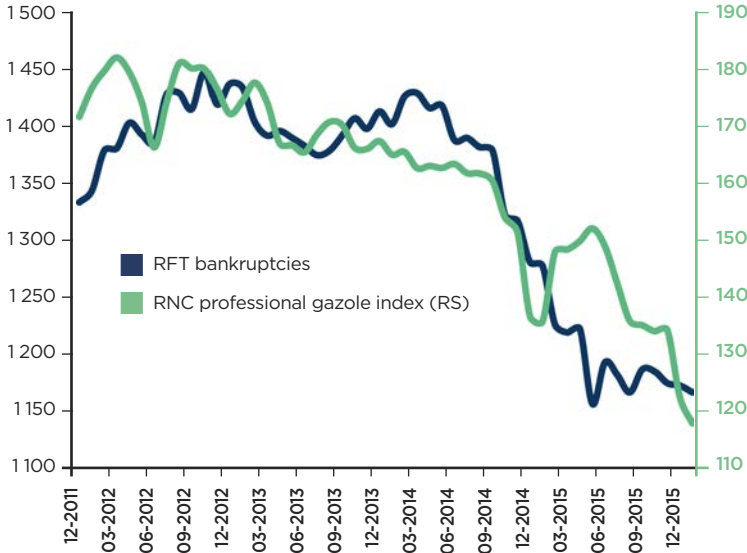
(23) Coface / Ellisphere

**Graph n°4.8**  
Change in company formations (overall and transport) - Base 100 in January 2014



Source: Insee

**Graph n°4.9**  
Change in insolvencies and oil price



Sources: Ellisphere, Road National Committee, Coface

### Low competitiveness and repeal of the Schengen Agreement: two areas for attention

The very positive impact of the fall in the oil price (reflected in a reduction in insolvencies and growth in company formations) gives RFT breathing space in 2016, particularly since demand is set to stabilise. Nevertheless, the long-term situation for RFT remains marked by uncertainty. The oil price could increase again in 2017, at a time when French RFT will be suffering from competition from many of its European neighbours. The fragmented nature of the French sector is an obstacle to achieving economies of scale and social security charges remain high. France ranks fifth out of 15 for hourly labour costs<sup>(26)</sup> at €35.10/hour (€32.30/hour for transport and warehousing). And differences in wage levels in the RFT sector are similar to average wage gaps across Europe<sup>(27)</sup>.

The ambiguous effects on the sector linked to potential repeal of the Schengen Agreement also presents a potential risk. According to a study by France Stratégie, "in the long term, the generalisation of permanent controls, counting about 1 hour extra time for border crossing, would be equivalent to a 3% tax on trade between Eurozone countries. In the short term, the direct cost to France would be €1bn to €2bn euros<sup>(28)</sup> (depending on the estimated additional time at the border between 30 minutes and 1 hour), 12% linked to freight transport barriers.

In detail, the number of trucks on the road in the year is estimated at 6 million (3 million to import 3 million for export). According to France strategy study, the value of time "carrier" is estimated at 37 euros / hour / truck. This would lead to additional costs for carriers of EUR 112 million for import and for export if each truck had to wait 1 hour for a total of about 224 million euros for the French RFT<sup>(29)</sup>, 0.6% of the French RFT value in France<sup>(30)</sup>.

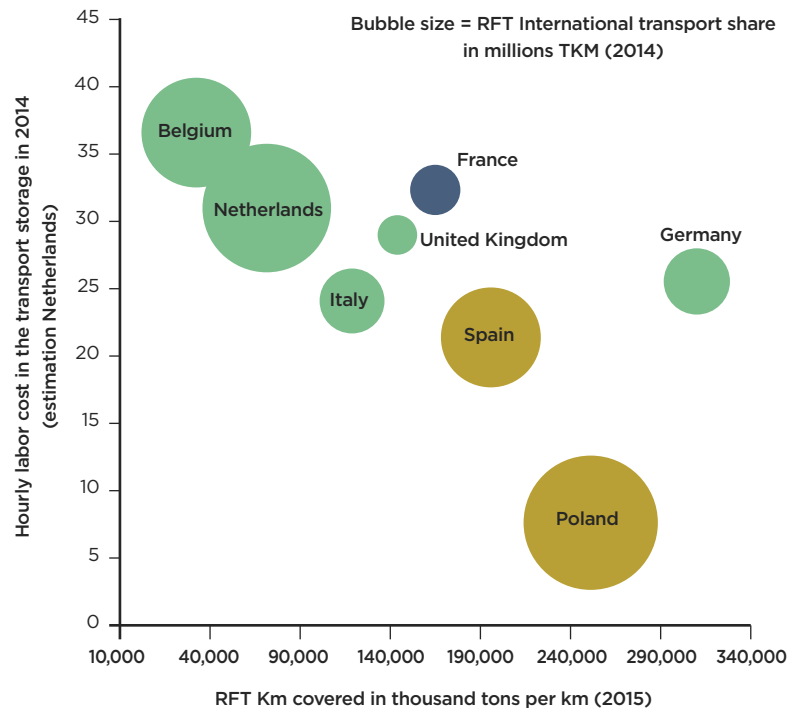
(25) In parallel, we are seeing a sharp increase in new registrations of HGVs which, having fallen by 16% year-on-year in January 2015, increased by 13% between January and December 2015. This is also due to fleet renewals  
 (26) Eurostat, 2015  
 (27) Report by the commission to the european parliament on the State of the EU Road Haulage Market, 2014  
 (28) France Stratégie, Les conséquences économiques d'un abandon des accords de Schengen ["The economic consequences of abandoning the Schengen Agreement"], February 2016  
 (29) € 500 million for german road transport companies  
 (30) = 0.6% Cost of removal of Schengen for the French RFT / (2014 \* GDP share of the French flag in French activity) either (224 million / (2133 billion \* 1.638%)) \* 100

But French RFT should not be the most affected, since the share of international transport in the transport of goods is at 8.5% for France, a lower level of 27 points to the average share achieved in the European Union <sup>(31)</sup>. In the short term, French RFT could therefore suffer less than its European neighbours (Belgium, Netherlands and Spain; see graph n° 4.10).

Spanish road transport appears to be the most threatened in the short term. If the price competitiveness of Poland appears high as very important (hourly labor costs are four times less than in France), that Spain might not be sufficient (1.5 times lower) face the risk of extension of time trips. The level of Spanish RFT internationalization almost 4 times that of France could then undermine the sector.

Graph n°4.10

National RFT exposure of European countries in the event of closure of borders



Source: Eurostat

(31) Eurostat

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#### RESERVATION

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#### COFACE SA

1, place Costes et Bellonte  
92270 Bois-Colombes  
France  
[www.coface.com](http://www.coface.com)

