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PANORAMA

France

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Tenuous but confirmed. These are the terms that best describe France's current growth - as illustrated by the figures for the third quarter, published in early November. Household consumption has increased, even if only modestly, due to gains in purchasing power as a result of almost zero inflation and despite the ever-rising unemployment rate. Corporate investment has also risen, but at a less rapid rate than the majority of France's neighbours and at a slower pace than has been historically observed during phases of economic recovery. External support from reduced oil prices and government measures, such as the Tax Credit for Competitiveness and

Employment (CICE), are also helping to restore company margins.

The change in company insolvencies shows that they have begun to take advantage of the effects of this tentative recovery. Insolvencies have now fallen for three consecutive half-years, regardless of company size. Companies are, however, still faced by cloudy weather in some areas, for example in the Centre and Auvergne regions, where the number of insolvencies are still rising, and in the Ile-de-France, where they remain stable.

Coface's sector analysis of France highlights these persistent risks. While most of the sectors have a similar risk level to

those of the European average, the transport and construction sectors are more risky. Despite the fall in oil prices, France's transport sector is ranked as high-risk, a notch above its European counterparts.

Construction remains the Achilles' heel of the French economy. Moreover, while new housing sales have certainly risen in 2015, we remain cautious as prices have only been slightly adjusted downwards since 2008, pointing towards a new drop in 2016. Lastly, segments are suffering from the divestiture of public players and regional disparities remain strong. The sector's insolvencies in the Ile-de-France and Rhone Alpes regions remain in the red.

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FRANCE OVERVIEW THIRD QUARTER 2015



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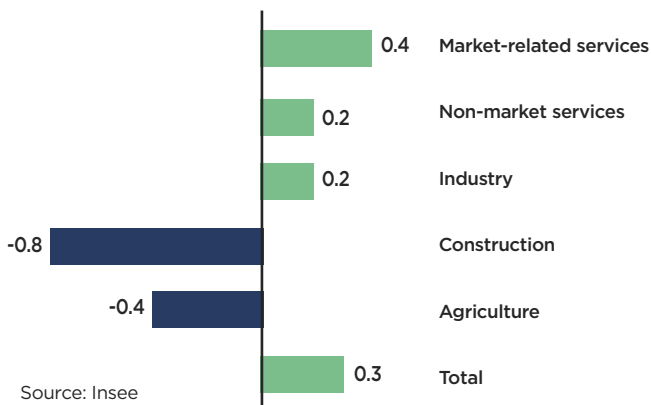
1 MACROECONOMIC SITUATION: very gradual improvement

Graph n° 1.1
Quarterly growth in France (quarterly change)



Source: Insee

Graph n° 1.2
Breakdown of growth by segment of activity



Source: Insee

Activity picking up

France returned to growth in Q3 2015 (+0.3%). This result confirms the positive dynamics recorded in HY1, despite zero growth in Q2. This result is due to the dynamism of household consumption, at +0.3%, (lower than the 0.5% forecast by Coface - see *methodology, page 3*) and also due to investment, at +0.1%. Companies seem inclined to invest again. The only downsides are that State and household investments are still penalising the gross fixed capital formation.

Although the euro rose very slightly against the dollar (+1%) between 1 July and 1 October 2015, foreign trade has been marked by a sharp fall of 26% in the price per barrel of oil in dollars. Net exports fell by 0.1%, as the fall in hydrocarbon prices was followed by bulk purchasing in order to build up stocks at low prices. Moreover, stocks have contributed 0.7 percentage points to growth. These stocks are mainly transport equipment.

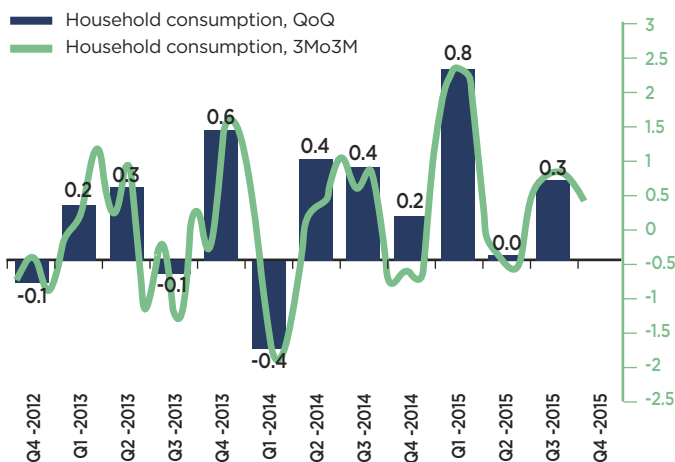
Growth buoyed by industry and services

Industry has positively contributed to activity, partly due to the dynamism of the transport equipment (+0.4%) and energy (+0.3%) sectors. Services have also boosted growth, in particular market-related services (+0.4%), as well as those linked to information and communications (+1.1%), transport (+0.6%) and trade (+0.6%).

As a consequence of the liberalisation of milk quotas and strong pressure on prices, agricultural activity has been negatively affected (-0.4%). Activity in the construction sector is down for the ninth consecutive quarter (-0.8%). However, several signs of improvement could reverse this trend (see *focus on construction, page 11*).

Graph n° 1.3

Household consumption at the end of October 2015



Source: Insee

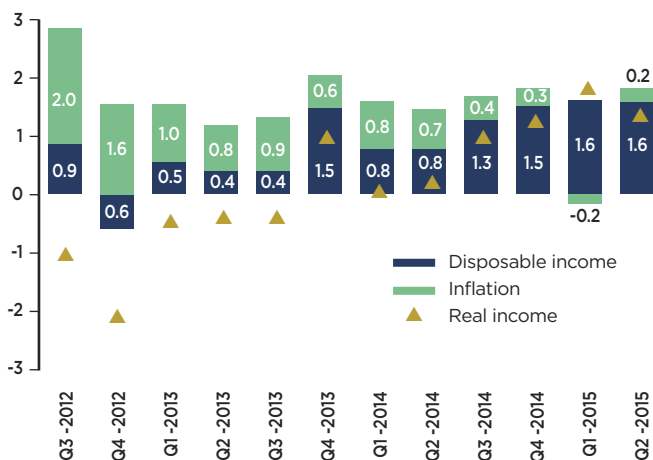
Modest upturn in household consumption

After a net cessation in Q2 2015, linked to the fall in energy expenditure (-2.1%) and a contraction in clothing sales (-1.9%), growth in consumption picked up again in Q3 (+0.3%). Household goods consumption in fact rose by 0.7%, boosted by sales of home equipment, which contributed 0.3 percentage points.

Nevertheless, according to Coface, growth in consumption could slow to 0.2% in Q4. We estimate that food purchases will penalise activity (meat consumption notably fell back in Q3). Sales in the automotive sector (see the sector risk survey on page 8) will be the main contributor to growth in consumption. As a consequence of buoyant confidence, employment figures have improved somewhat. Although unemployment increased during Q3, standing at 10.7% of the working population in September 2015, the trend now seems downwards orientated. The number of vacancies at the end of September 2015 was 235,000 (compared to 217,000 on average in 2014). This is the highest level since 2012.

Graph n° 1.4

Household disposable income, YoY



Sources: Insee, Coface

Household disposable income is increasing

Gross household disposable income has been on a rising trend since Q1 2014. The further fall (26%) in oil barrel prices between 1 June (\$64) and 30 September (\$47) has improved the disposable income of French households, by reducing energy bills and by participating towards further downwards pressure on prices. In this context, the amount allocated to consumption expenditure has increased, although the rate of household savings remains high and stable (15.1% of disposable income in Q2). Outstanding consumer loans sharply increased in Q3 (+4.2% at the end of September) underlining the willingness of households to acquire and take advantage of low interest rates (4.3% on average at the end of September 2015 for consumer credit loans).

Methodology

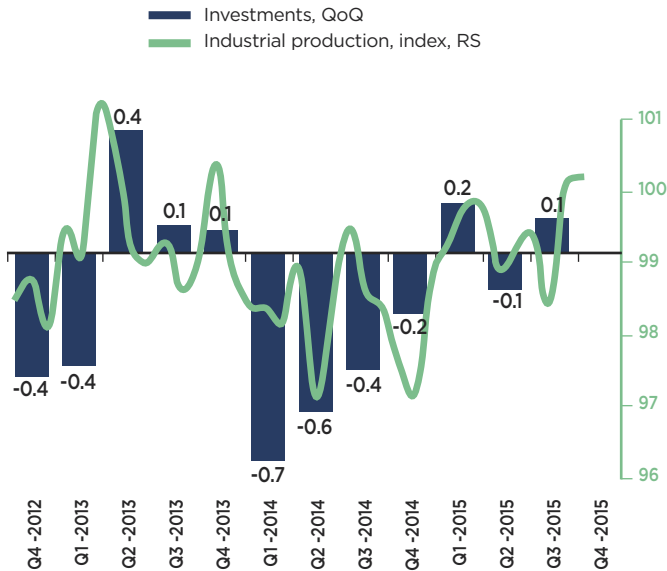
Coface forecasts each component of GDP demand. Quarterly consumption is forecast monthly via two vector autoregressive models (VAR). Firstly, in addition to the consumption (cons_m) of the two preceding months, explanatory variables are job vacancies (Emp) and household confidence (Conf) from the previous month.

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

Secondly, quarterly consumption is then explained from the two previous quarters and estimated consumption (cons_{3m}) from the three months forming the quarter by model 1.

$$Consq_t = a_1 Consq_{t-1} + a_2 Consq_{t-2} + a_3 Cons3m_t + \xi$$

Graph n° 1.5
Gross fixed capital formation



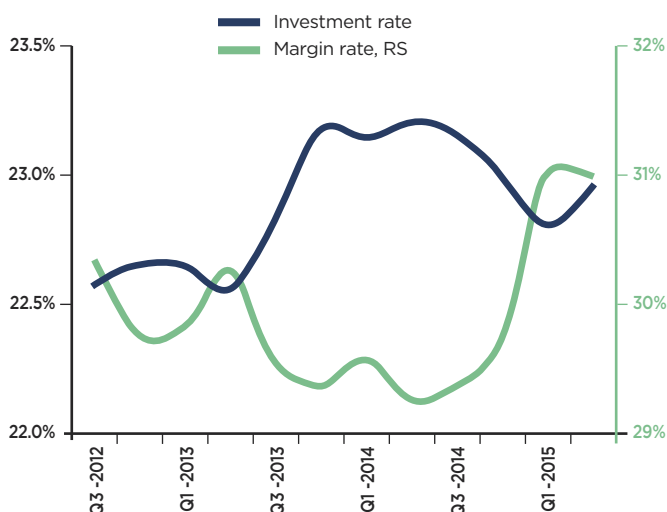
Source: Insee

Only the corporate investment has helped the growth

Investment grew by 0.1% in Q3 2015, driven by a rise in fixed capital expenditure by non-financial companies (+0.7%). Domestic property expenditure continues to affect activity (-0.5%, see *focus on construction*, page 11), although this is a significantly lower fall than those seen during the first two quarters (-0.8% and -1.1% respectively).

With industrial production increasing since last August, investment should remain in positive territory in Q4, but far from pre-crisis levels (+4% average annual rate between 2004 and 2007) and far below those of France's main European partners. Coface forecasts that for 2015, investment in France will fall by 0.5%, whereas it will increase by 0.7% in Italy, by 1.2% in Germany and by 6% in Spain. Still below its pre-crisis levels (84% in 2007), the utilisation of production capacity is nevertheless increasing (77.7% at the end of October 2015, compared to 75% at the end of 2013). This rate reflects a supply capable of meeting higher demands. The rate of increase in consumption in 2015 (1.6%, according to Coface) is in fact 0.5 percentage points lower than the 2003-2007 average of 2.1%. The motivation behind industrialists' investments has more to do with ageing production equipment than in meeting demand.

Graph n° 1.6
Accounts of non-financial companies



Source: Insee

Rise in corporate margin rates

Companies have regained margins (31.1%)⁽¹⁾, particularly as a result of the first effects of the CICE⁽²⁾ and the fall in oil barrel prices (which has reduced energy bills, particularly for the agricultural, transport and industry sectors). Company profit margins are two percentage points higher than for Q2 2014. A sign of improved financial health (see *company insolvencies section*, page 6) is that the rate of corporate investment began to grow in Q2. Furthermore, the capacity of companies to self-finance⁽³⁾ is at its highest since 2006 (85.3% in Q2 2015).

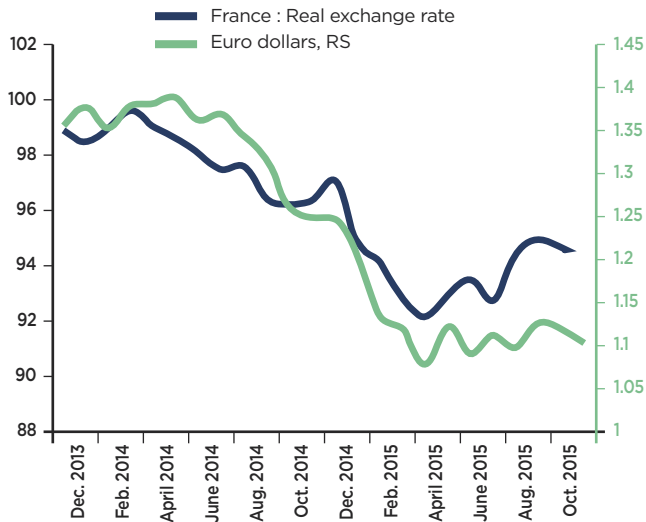
According to the Banque de France quarterly survey on companies concerning their access to credit, the demand for new investment loans from SMEs (22% requested loans in Q3) fell very slightly in Q3 compared to Q2 (24%), but is still higher than for previous quarters. The study shows that 92% of SMEs obtain the financing they request, while financing-related costs tend to be lower. The results are almost identical for intermediate-sized companies.

(1) Operating income to value added ratio.

(2) The tax credit is equivalent to 6% of the wage bill of a company excluding wages exceeding 2.5 times the SMIC (minimum wage).

(3) Ratio of gross savings to the gross fixed capital formation.

Graph n° 1.7
Change in the real effective exchange rate of France



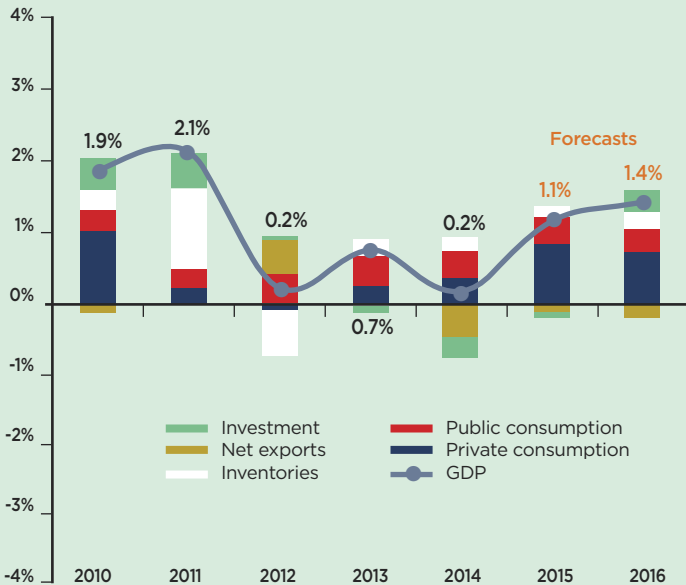
Sources: Reuters, OECDE

A sudden stop for French export companies

The fall in the euro in 2014 has helped European companies to increase their competitiveness. In Q3 2015, the disruption in emerging economies and the US Federal Reserve's wait-and-see approach with regards to a change of direction in monetary policy, have both contributed to an improvement in the French real effective exchange rate - to the detriment of exports. Despite the further fall in the price of oil (-27%) in Q3, which has reduced the price of imported products, the spike in hydrocarbons has led to a 0.1% drop in net exports.

The impact of the CICE on export companies is, in theory, positive, because it lowers the cost of work and restores competitiveness. In Q2 2015, the cost of an hour of work in the manufacturing sector (€37.47) became lower than in Germany (€39.53). Nevertheless, the services sector is the main beneficiary of the CICE whereas industry, which is more externally focused, has a lower base for benefits. Less than 40% of the salary costs for the pharmaceutical, chemicals and refining sectors are eligible for this credit.

Graph n° 1.8
French economy growth forecasts



Source: Coface

French economy growth forecasts

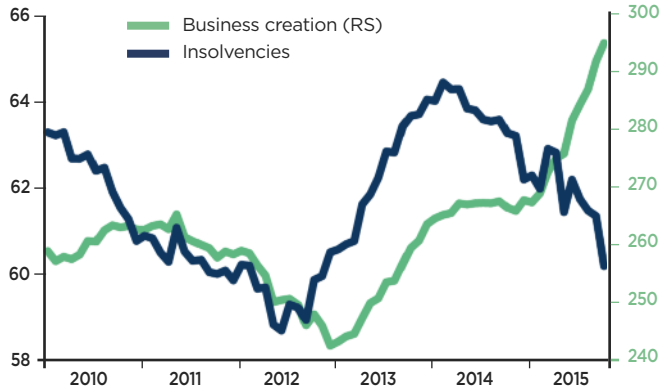
Coface forecasts growth in the French economy of 1.1% in 2015. Household consumption, at 0.8%, and public consumption, at 0.4%, will be the main contributors. Investment will slightly affect growth, in line with the falls in public and household investments.

In 2016, Coface expects an acceleration of activity, at +1.4%. Investment will contribute positively to growth for the first time since 2012 (0.3 percentage points). As in 2015, consumption will be the main driver of the increase in activity (+0.7 percentage points). Unemployment will continue to gradually decrease, but will remain above 10%.

2 COMPANY INSOLVENCIES: down for the second year

Graph n° 2.1

Change in insolvencies and company creations (In thousands, annual)



Sources: Scores & Décisions, Coface, Insee

Graph n° 2.2

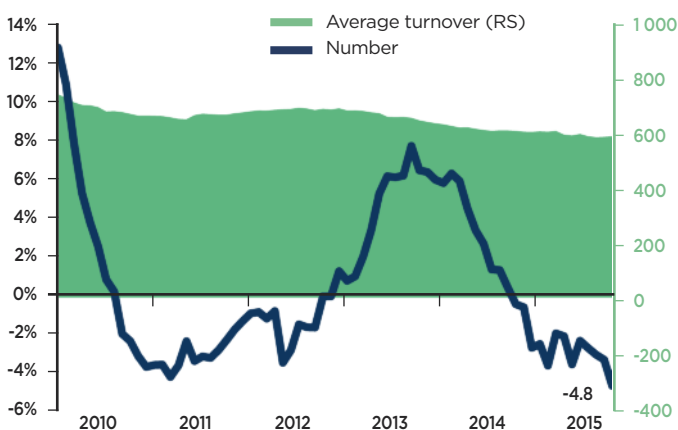
Monthly change in company insolvencies



Sources: Scores & Décisions, Coface

Graph n° 2.3

Annual change in company insolvencies and average sales (in thousands of euros)



Sources: Scores & Décisions, Coface

The number of insolvencies continues to fall

Since the high recorded in April 2014, company insolvencies have continued to fall in France. At the end of October 2015, some 61,143 companies in one year were faced with insolvency procedures. This represents an annual fall of 4.8%. The total cost of insolvencies, calculated as the sum of the outstanding amounts of trade payables, reached €3.6 billion, down 20% year-on-year. The number of employees affected also contracted, by 4.8%, to 162,625. Thus, the two main indicators (that are the cost and number of jobs under threat) will fall by the end of 2015. However, with on average 46,000 company insolvencies between 2000 and 2006, the level is still high. Nevertheless, company creations, excluding auto-entrepreneurs, rose sharply year-on-year, to total 294,156. The total number of companies has therefore increased by 31% since 2005⁽⁴⁾. In other words, the ratio between the number of insolvencies and the number of companies returned, in 2013, to its 2005 level (1.41% compared to 1.42%).

Volatile data due to industrial action by the commercial courts

In 2015, data on bankruptcies has been particularly volatile, due to industrial action by commercial courts in December 2014 and in May 2015, which reduced the activity of clerks' offices. The delay in procedures during these two months is therefore followed by increases in data during the following months, as was the case for March and June 2015.

In October 2015, some 5,047 company insolvencies were recorded, showing an 18.4% fall compared to the same period in 2014. Over the past three months the trend is identical, with a 10.71% reduction year-on-year.

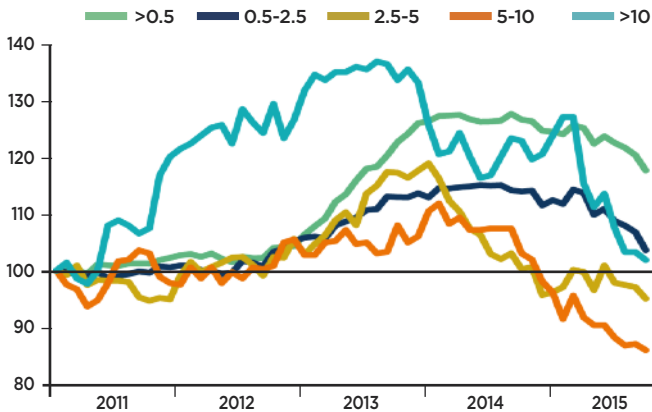
Reduction in the average size of insolvencies

The fall in the number of company insolvencies is accompanied by a fall in the average size, measured by average sales⁽⁵⁾, which was €578,000 at the end of October, down by 3.2% year-on-year. This is equivalent to the level before the crisis and shows a return to normality. In addition, the average age of company insolvencies stabilised at 106 months in October 2015, after a historic record in August of the same year (107 months year-on-year). Over the past three months, the largest company insolvencies were the tour operator FRAM (Sales: €373 million), the electrical appliances distribution hub LOGITEC (Sales: €132 million) and textile manufacturer CENTRAL'VET, better known under its trade name Vet'affaires, (Sales: €113 million).

(4) "Number of companies and establishments on 1 January 2014 - Total field", October 2015, INSEE (excluding the French overseas departments and territories).

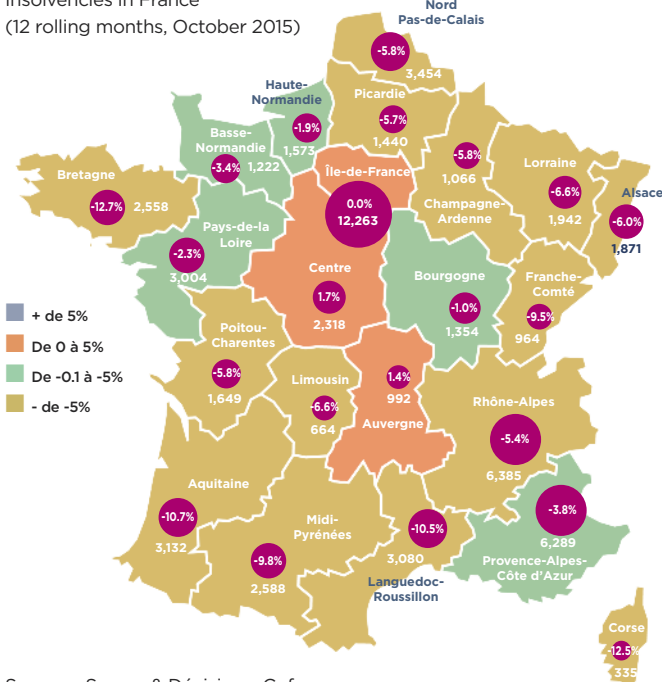
(5) Weighted reduced annual average, 1% of observations on extremes below or above the distribution are excluded to give a truer picture of average sales.

Graph n° 2.4
Change in insolvencies by sales segment
(millions of euros, 100 = January 2011)



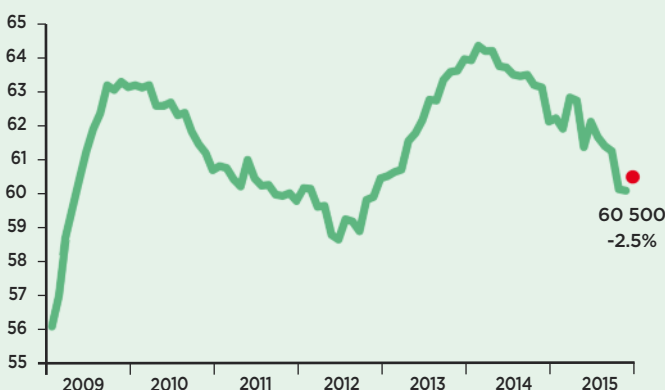
Sources: Scores & Décisions, Coface

Graph n° 2.5
Insolvencies in France
(12 rolling months, October 2015)



Sources: Scores & Décisions, Coface

Graph n° 2.6
Company insolvencies year-on-year (thousands)



Sources: Scores & Décisions, Coface

The smallest companies are still over-represented

The rise in insolvencies at the end of 2013 was accompanied by a sharp increase in company insolvencies with sales of over €10 million, with a peak in August 2013 of 296 companies. This segment is now on a continued decreasing trend and, at 222 companies, is moving closer back to the levels seen at the start of 2011. While a reduction in insolvencies has been observed in the entire sales segment since 2014, the number of companies with sales of less than €500,000 (74% of insolvencies for which financial data are available) still remains 20% higher than the 2011 level. We also note a fall in insolvencies of companies with sales of between €2.5 and €5 million (1.2% of insolvencies), which was 5.0% for the year to the end of October 2015.

An improvement in nearly all regions

During the twelve months to the end of October 2015, company insolvencies increased only in the Centre (+1.7%) and Auvergne regions (+1.4%), while they remained stable in the Ile-de-France. Conversely, there were 14 regions where insolvencies fell by over 5%, notably in Brittany (-12.7%), Aquitaine (-10.7%) and Languedoc (-10.2%).

The Ile-de-France region accounts for 20.4% of the insolvencies in mainland France, which is similar to the weighting of Paris companies in France, at 21.4% in 2013. The reason why the Ile de France region does not follow the national fall in insolvencies can be explained by the decline in the construction (+5.9%, see focus on construction, page 11) and personal services sectors (+6.8%). In detail, it is the sub-sector of masonry that is the most affected, with a 20.3% rise in October 2015 (masonry accounts for 20% of insolvencies in the construction sector in Ile-de-France).

Forecast for company insolvencies in 2015

According to our forecast model⁽⁶⁾, the number of company insolvencies will fall by 2.5% in 2015, continuing on from the 2.8% fall in 2014. Companies have benefited from a slight improvement in the economic situation (see part 1, page 2). This less significant fall than that recorded at the end of October is explained by a base effect. In fact, while in December 2014 the strikes by commercial courts meant that the number of insolvencies was reduced by around 500 to 700 during the year, these were instead registered during the subsequent months in 2015.

Nevertheless, the trend of declining insolvencies is confirmed, even if some sectors emerged slightly worse off than others. This is particularly the case for textiles, chemicals and, to a lesser degree, personal services.

(6) See methodology, "Company bankruptcies in Western Europe: the lull is confirmed in 2015", Coface, September 2015.

3 SECTOR RISK

SECTOR RISK ASSESSMENT

Sectors	Western Europe	France
Agro-food	Medium risk	Medium risk
Automobives	High risk	High risk
Chemical	Medium risk	Medium risk
Construction	High risk	Very high risk
ICT*	Medium risk	Medium risk
Energy	High risk	High risk
Engineering	Medium risk	Medium risk
Metals	High risk	High risk
Paper-wood	High risk	High risk
Pharmaceuticals	High risk	High risk
Retail	Medium risk	Medium risk
Services	Medium risk	Medium risk
Textile-clothing	Medium risk	Medium risk
Transportation	Medium risk	High risk

Source: Coface

* Information and communications technologies

■ Low risk ■ Medium risk
■ High risk ■ Very high risk

Although insolvencies have fallen in France, some sectors remain very affected. The pharmaceuticals sector recorded a sharp rise in insolvencies at the end of October year-on-year (+5.0% for 337 companies). Some sub-sectors are also fragile, such as wooden furniture (paper-wood) and clothing (textile) where liquidations have increased by 10% and 2.0% respectively. The fall in oil prices has not benefited plastics processing, where the number of legal proceedings has risen by 14.8% year-on-year. As a consequence of the fall in public expenditure, the public services sector is under pressure (+2.9%). Elsewhere, some sectors show a marked improvement, such as food-processing (-7.8%) and services to companies (-7.4%).

Coface assessment methodology for sector risk

Coface assessments are based on financial data published by listed French companies. Our statistical credit risk indicator simultaneously synthesises the evolutions of five financial indicators (changes in sales, profitability, net rate of indebtedness, cash flow and the claim rate observed by our network).

Graph n° 3.1

Automotive: Registrations of new vehicles, in thousands, twelve rolling months

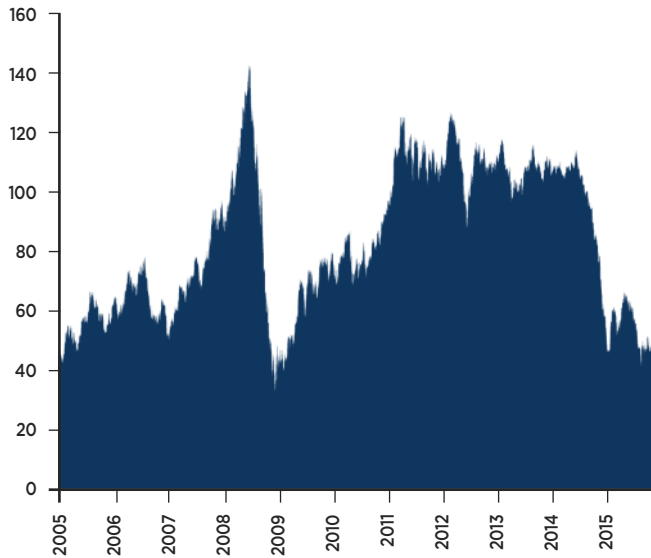


Source: CCFA

AUTOMOTIVE A recovering sector

The risk is high in the automotive sector, even though registrations of light vehicles rose by 4.9% over the first ten months of 2015. In fact, their level remains far from that of the pre-crisis era. Registrations of French-manufactured vehicles rose by 2.1% over the same period. The riskiest segment is that of automotive distribution and stores linked to repair and maintenance. Dealers are facing competition from automotive centres and independent car repairers. Repairers have suffered from the fall in expenditure on automotive maintenance services which, according to the INSEE, has fallen in volume by 1.6% per year, on average, between 2008 and 2014. Parts manufacturers and automotive sub-contractors have fared unevenly from the automotive upturn. The larger manufacturers of components, with their wider geographical bases, are benefiting from the dynamism of large markets, such as that of the United States. Sub-contractors are more fragile, due to their smaller size and high dependence on the recovering domestic market. As regards insolvencies, we note a 9.3% fall over the year to the end of October 2015, with 259 companies concerned.

Graph n° 3.2
Price of a barrel of Brent, \$/b

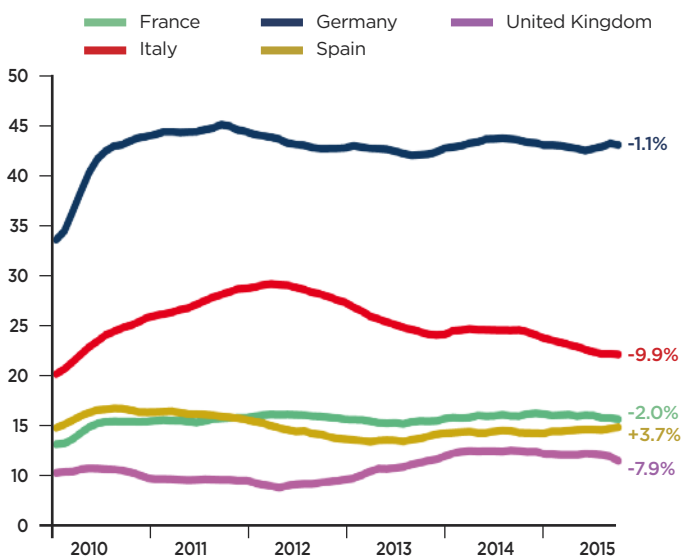


Source: ICIS Pricing

ENERGY Caution in the short term

As with other Western European countries, France's energy sector represents a high risk as the majority of companies are affected by the weakness in crude oil prices (around \$50 for a barrel of Brent) and structural changes in the consumption methods of refined products. Oil-related companies have particularly suffered from the fall in investments by exploration-production (E&P) companies. The companies in this segment have seen their order books reduced when investment decisions in E&P are cancelled, or delayed, due to falling cash flows resulting from the fall in prices. According to Wood-Mackenzie, the amount of these investment projects is estimated at close to \$200 billion in 2015 and 2016. The geophysics markets are the most affected, followed by onshore and offshore wells. The distribution of oil products (service stations) is being restructured to the benefit of major distribution brands but to the detriment of independent and legacy players. The combined effects of low margins and stagnating sales of road fuel (50.1 million m³ in 2014, compared to 51.8 in 2001) are affecting profitability, while tax disruptions in favour of petrol will require additional investments. We counted 67 insolvencies in the sector, year-on-year, as at the end of October 2015, compared to the previous period.

Graph n° 3.3
Annual production of steel (millions of tonnes, growth)



Source: World Steel Association

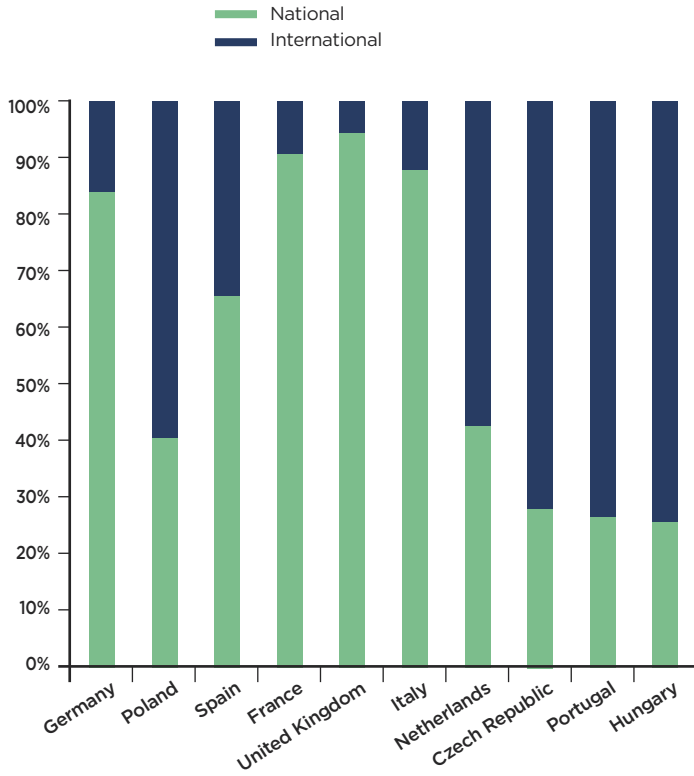
METALS A fragile situation based on very low prices

Base metal prices continue to fall, affecting the financial situation of companies in the sector. As an example, as at the end of October 2015, iron ore has lost 75% of its value since 2008. At the same time, China is unloading its steel onto the rest of the world. The EU has therefore imported 36% more steel over the first eight months of the year, than over the whole of 2014. In France, the third largest European producer, the production of steel fell by 2.0% at the end of September 2015, year-on-year. The number of insolvencies in the metals sector reached 1,040 companies, representing an annual fall of 6.7% (1.7% of the total insolvencies in France). In detail, the wholesale trade in machinery has seen its insolvencies increase by 2.8% (43% of insolvencies in metals). Corporate investment recovered in 2014, with an annual growth of 2.0%, but in Q3 2015 decreased to 0.7%. Activity slowly picked up in 2015, with industrial manufacturing production up by 0.4% at the end of September 2015, year-on-year. Nevertheless, this will not be sufficient to enable the sector to cope with its current difficulties.

TRANSPORT
France's sea, air and land transport segments are still experiencing more difficulties than their European counterparts

Graph n° 3.4

National and international road transport, 2013 (in %, on the basis of millions of tkm, laden journey). Ranked by decreasing order of the total of tkm (left being the highest)



Source: Eurostat

Whereas Coface assesses the sector risk in Western Europe as moderate, the risk linked to the transport of goods sector in France is high. The maritime transport connectivity index ⁽⁷⁾ ranks France in 12th place globally, behind Germany, the Netherlands, the United Kingdom, Belgium and Spain. Air transport is suffering from the competition caused by the evolutions of European carriers and Gulf companies. Finally, road haulage, which represents 85% of the total transport of goods ⁽⁸⁾, is in decline. While the fall in oil prices is helping companies in this sector, it is not sufficient to offset the sector's lack of competitiveness compared to its neighbours who are benefiting from the same good fortune. The index on domestic goods transport compared to GDP ⁽⁹⁾ ranked France in 25th place (2013) within the EU, with an index at 69.9 in 2012, compared to an average of 135 for the countries of Central Europe and Spain, 96.8 for Germany and 96 (on average) for the EU. French road haulage suffers from competition from the countries of Central Europe, which benefit from lower cost structures and a stronger international presence. In 2013, only 65% of the transportation of national goods was carried out under the French flag, compared to 78% in 1995 and 73% in 2000. Insolvencies in this sector fell by 9.9%, year-on-year, as at the end of October. However, in the north and in the Ile-de-France, insolvencies rose by 2.7% and 3.9% respectively. In the Ile de France, the rise is mainly due to chauffeur-driven tourist vehicles.

(7) UNCTAD.

(8) Ministry of sustainable development, 2013.

(9) Eurostat, growth in domestic transport of goods/growth in GDP.

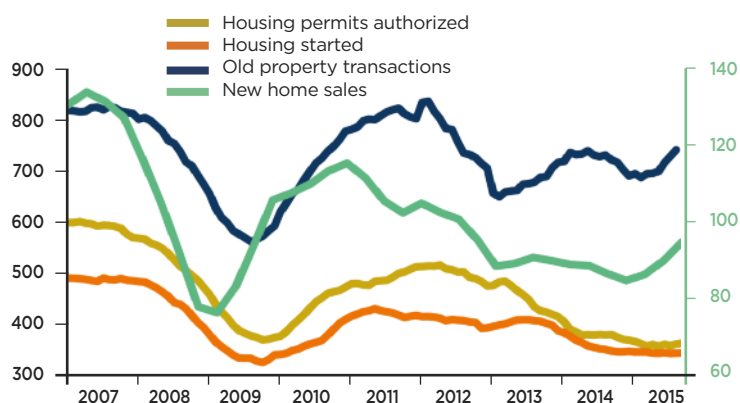
4

CONSTRUCTION IN 2016: STEPS TOWARDS A RECOVERY?

Since the start of 2015, the pace of sales of new and existing housing has increased. Building permits and new constructions have also stabilised. The Pinel measure adopted in September 2014 (and particularly the possibility to rent to a descendent or ascendant from January 2015), combined with the easing of borrowing conditions, have buoyed the sector. Company insolvencies

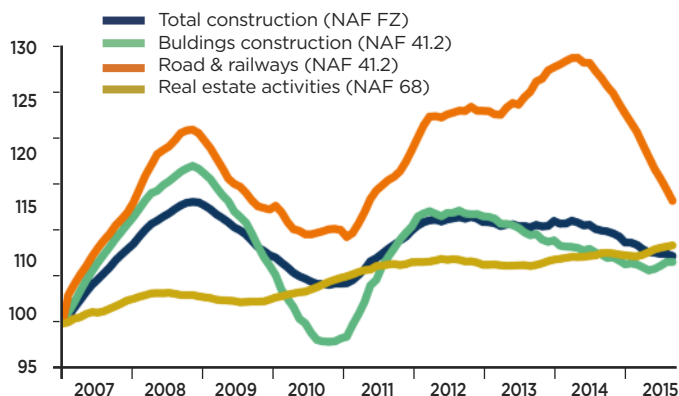
in construction fell by 4.4% year-on-year at the end of October 2015, to 19,589 companies. But at the same time, property prices continue to fall. The high level of unemployment is still restricting household spending. Young people, the potential first-time buyers, are the most affected. As regards companies, building work and general masonry remain in the red, as evidenced by the increase in company insolvencies in the Ile-de-France (see part 2, page 6).

Graph n° 4.1
Construction of residential housing, France (thousands of euros)



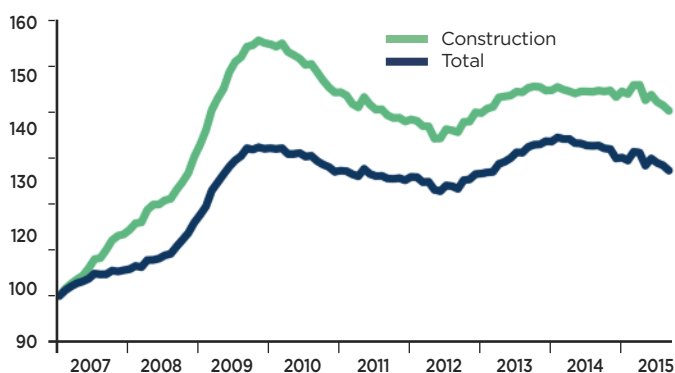
Source: Insee

Graph n° 4.2
Sales, France (100 = January 2007, annual average)



Source: Insee

Graph n° 4.3
Company insolvencies, France (100 = January 2007)



Sources: Scores & Décisions, Coface

The wounds of the crisis are omnipresent

The 2008 financial crisis led to the collapse of the property sector. Housing projects fell by 30%, building permits by 37% and transactions by 28% year-on-year at the end of 2009 (see graph n° 4.1). However there are some signs of recovery. Transactions in existing stock and sales of new housing rose respectively by 1.4% year-on-year at the end of September 2015 and 9.3% in Q2 2015. Despite this slight upturn, the volume of activity in the sector is still below its pre-crisis levels. The granting of new building permits and the number of housing units initiated remain sluggish (-4.3% and -1.2% respectively, year-on-year, at the end of September 2015). This context favours a reduction of the exposure on housing stock which affects companies in the sector. Stock stood at 97,486 units in Q2 2015, representing an annual fall of 8.8%. Stock clearing times have decreased, both for individual houses (4.5 quarters) and for apartments (3.8 quarters).

Sales related to construction have been falling since 2012 (see graph n° 4.2). The only survivor seems to have been the property services sector, as their sales grew despite the 28% fall in sales of existing housing between 2006 and 2009. The record rise in property prices has automatically increased their level of activity. In addition, rental activities, little affected by the recent fall in property prices, are included in this sub-sector.

The number of insolvencies in property services (NAF 68) doubled during the height of the crisis, to reach 2,482 companies in 2009. We note the slight recovery in building construction (+0.9% between April and August 2015), which is in line with the stabilisation of housing projects and with sales of new-build properties. In addition, public works have suffered from the fall in grants to local authorities. Their sales have been losing ground for 17 consecutive months.

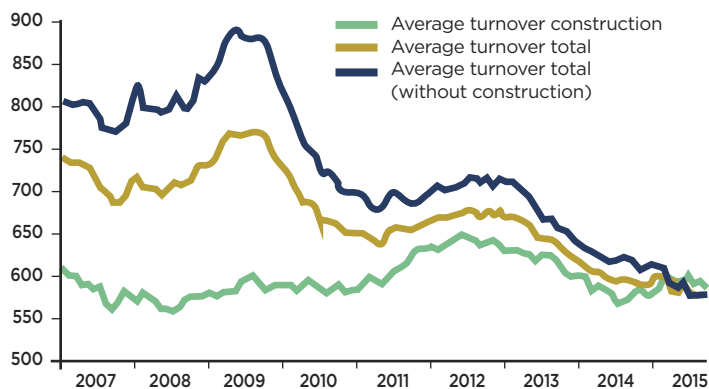
Unsurprisingly, the construction sector is the one that has been the most affected, with a 58% increase in insolvencies⁽¹⁰⁾ between 2006 and 2009, to reach 22,010 companies (see graph n° 4.3). Over the same period, insolvencies "only" increased by 24% for all of the sectors excluding construction. At the end of October 2015, insolvencies in construction affected 19,589 companies, which represents a 4.4% fall year-on-year.

(10) Companies declared insolvent.

The effects of the crisis on the sector have had a greater impact on smaller companies, in contrast to other sectors where companies were affected regardless of size. The average sales of construction companies remained stable between 2007 and 2010, at around €600,000

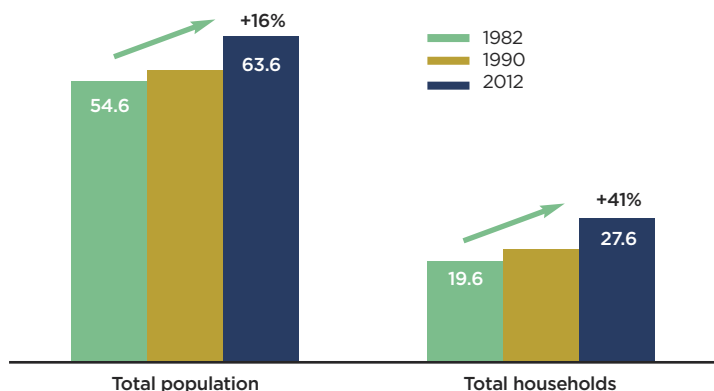
(see graph n° 4.4). During this period smaller companies, often the most vulnerable, were hit by legal proceedings. Between 2011 and 2015, the average sales of failed companies again increased, as with other sectors. Midsize companies were able to absorb the effects of the 2008 crisis, thanks to their reserves, but this second wave has devastated them. Finally, the recent increase in average sales since the end of 2014 was mainly due to major insolvencies in the public works segment.

Graph n° 4.4
Average sales (weighted annual average, reduced by 1% ⁽¹⁾, thousands of euros)



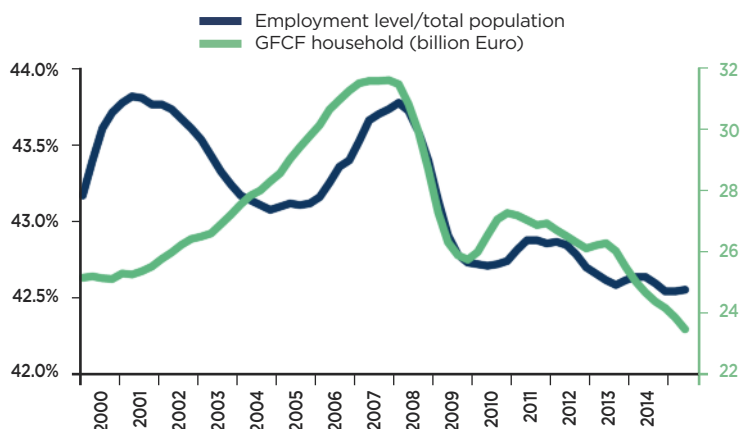
Sources: Scores & Décisions, Coface

Graph n° 4.5
Population, France (in millions)



Source: Insee

Graph n° 4.6
Salaried workforce and household investment, France



Source: Insee

A dynamic demography with a sluggish employment market

Housing demand is primarily driven by the population size. The ageing population and changing customs, which include an increase in the number of divorces, have resulted in a reduction in the number of occupants per residence from 2.7 people in 1982, to 2.25 in 2012. The number of people living alone per residence has also sharply increased, from 5.9 million in 1990 to 9.7 in 2012. Thus, linked with this trend of sole habitation, the French population is growing at a slower rate than the number of households, which increased by 41% between 1982 and 2012 (see graph n° 4.5). This dynamic has significantly increased the demand for housing. Principal residences increased by 39% over the same period, although this level is below the growth in the number of households.

Besides the increase in the number of households, their social and financial situations also affect the dynamics of the construction sector. To become a property owner, financial conditions need to be met. The growth recorded between 1994 and 2000 (2.7% on average) boosted household income. The better performance of the employment market substantially increased the number of employees, reaching 43.8% of the population in early 2008.

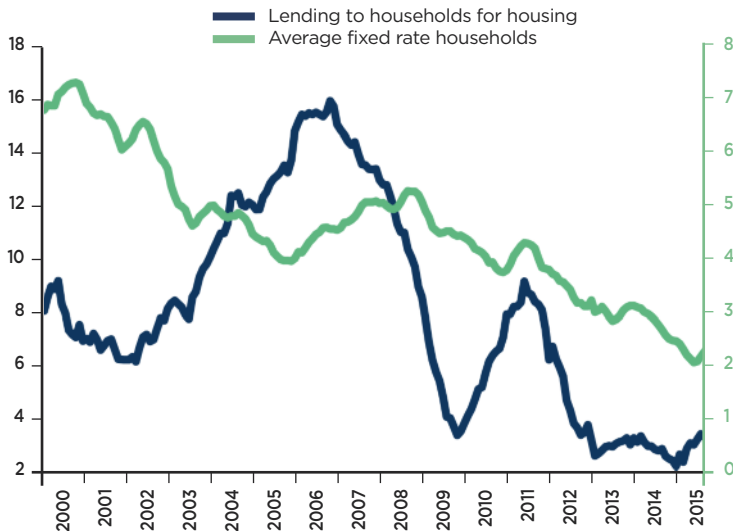
However, with the crisis, the unemployment rate rose from 7.1% in February 2008 to 10.7% in September 2015. Household investment (see graph n° 4.6) is affected by the performance of the employment market. Despite the slight upturn in the confidence of households, they have increased their precautionary savings. Savings have continued to increase since 2014, to reach 15.1% of disposable income in Q2 2015. While the employment market is essential in boosting housing demand, it also depends on borrowing conditions, which have eased.

(1) 1% of observations on extremes below or above the distribution are excluded to give a truer picture of the average sales.

The average interest rate for household property loans hit a record low in May 2015, down to 2.1% (see graph n° 4.7). At the same time, the average duration of debt increased to 212 months in Q2 2015, compared to 153 months in 1995. Households have thus seen their borrowing capacity, at identical monthly payments, increase by 69% between 1995 and 2015. Nevertheless, at the same time property prices rose by 140%, while wages

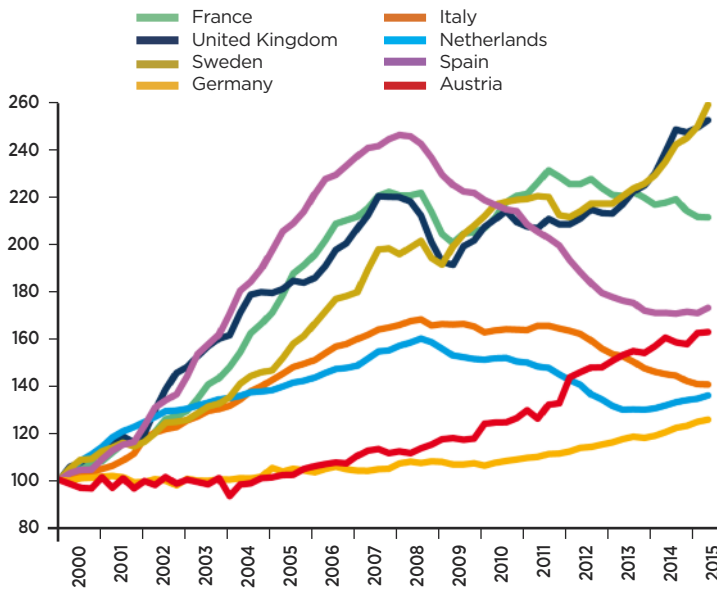
grew by 43.6%. While the average borrowing rate seems close to its lowest level, as it has increased since June 2015, the fall in housing prices since 2012 has improved the borrowing capacity of households. Thus, between January 2012 and September 2015, the borrowing capacity at identical monthly payments, increased by 10% and 17% (when taken into consideration the fall in property prices).

Graph n° 4.7
Property loans, France (in %)



Source: Insee

Graph n° 4.8
Change in property prices (100 = January 2000)



Source: Bank for International Settlements

Household debt, which has increased but remains at a moderate level, represented 86% of disposable income in 2014. However France is amongst the biggest increases in this domain, at +59% since 2000, behind Spain (+63%) and Italy (+86%). Nevertheless, non-performing property loans only amount to 1.7% of the total. The solvency of households thus appears acceptable.

Probable continuation of the fall in prices in 2016

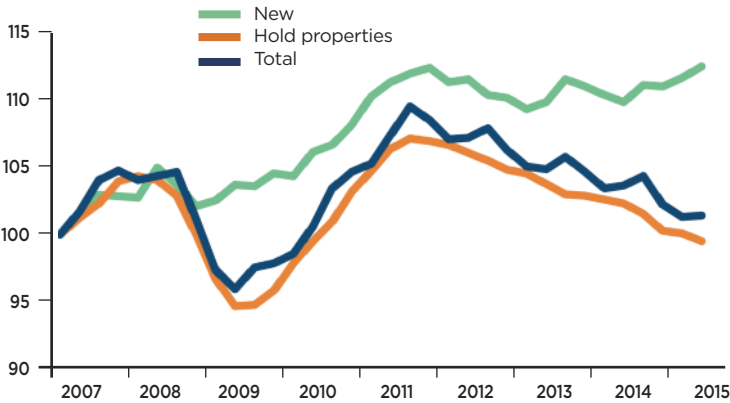
Faced with structurally high demand and buoyed by the increase in the number of households and the easing of borrowing conditions, the supply of housing proved insufficient from the mid-1990s, which led to higher prices. For previously owned homes, prices in the Ile-de-France increased by 151% between 1996 and 2007, and by as much as 161% in some other regions. In Europe, the situation was identical and of the same magnitude in the UK and Sweden (see graph n° 4.8). With the 2008 financial crisis, prices contracted in most countries, with the exception of Germany and Austria. The positive migratory balance of these countries increased due to their attractiveness. Foreigners in Austria now represent 13.4% of the population, compared to 8.7% in 2000. More generally, property prices have benefited from the improved economic fundamentals in these countries, such as better employment performance and low debt.

The rise in property prices seems inexorable, when the long term trends are considered. According to a study⁽¹²⁾ by the Federal Reserve Bank of Dallas, this is due to the increased scarcity of land and not to the rise in production costs. For 14 advanced countries, the price of agricultural land has doubled in real terms since 1900, due to the gradual implementation of new construction restrictions but also to the lack of development of transport networks. The expansion of transport networks, particularly railways, has considerably increased the supply of land for development, by bringing cities closer together. However, the length of the rail networks from this same sample reached its peak in 1930, before gradually decreasing. In France, 39,000 km of track was laid in 1960, compared to 29,200 in 2013. Over the same period, the urban population grew from 62% to 79%, which has contributed to the scarcity of land for development.

(12) Study on 14 advanced countries since 1870. "No price like home: global house prices, 1870-2012", Federal Reserve Bank of Dallas, October 2014.

Graph n° 4.9

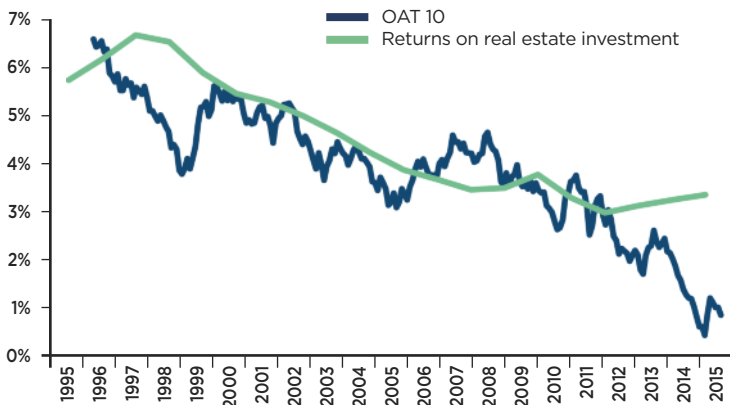
Change in property prices, France (100 = January 2007)



Source : Insee

Graph n° 4.10

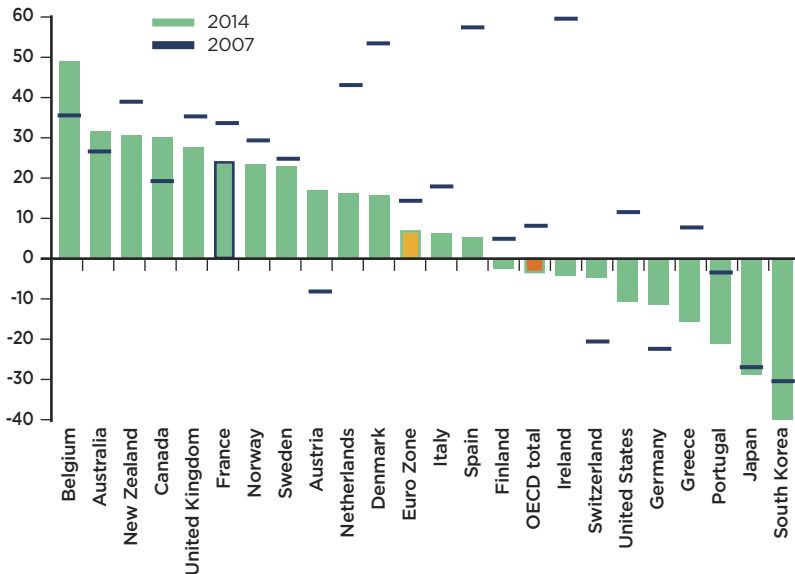
Yield from property ⁽¹⁵⁾, Paris, France



Source: OLAP, la chambre des notaires de Paris

Graph n° 4.11

Property prices in relation to household income (in %)



Source: OECD

In France, land prices increased by 7.8% in 2014 year-on-year, while those of property fell by 2.3%. In this context, new housing prices are growing faster than existing stock (*graph n° 4.9*). The change in production costs also affects new stock. Since the end of 2003, the production costs for residential buildings rose faster than inflation, by 3.3% annually on average until 2012, before stabilising. The simplification measures ⁽¹³⁾ for the sector, that have been progressively put into place since September 2014, seem to be limiting the rise in costs. The national building costs index (BT01) has also fallen since September 2014, down 0.5% at annual rate at the end of September. The prices of new housing could benefit from the fall in costs and stabilise in 2016.

Home ownership returns an explicit yield when it is rented, or implicit when it is inhabited. In comparison to other asset classes, a weak explicit performance reduces the interest that an investor has for a property purchase. This yield has been on a downwards trend since the late 1990s, buoyed by rising property prices. Between 2012 and 2014 the yield increased as the price per square metre contracted by 3.8%, while that of rentals increased by 3.2%. The difference in yield with that of 10-year treasury bonds (OATs) can be explained by the existence of a minimum yield performance ⁽¹⁴⁾ (*see graph n° 4.10*). Moreover, without a significant increase in housing supply, rental prices remain high. This shift thus provides an attractive explicit yield for property, which tends to boost demand and reasons for property purchases.

Since their record high in Q3 2011, property prices in France have fallen by 7.1%, while they remain stable for new-build properties (+0.5%). This raises the question of their potential overvaluation. If we compare property prices to household income, with a ratio of 124%, France is ranked sixth highest among the OECD countries where property is the most expensive (*see graph n° 4.11*). Overvaluation of prices is observed when the ratio exceeds the long-term average of 100. However, this ratio fell by nine points between 2014 and 2007 when the euro-zone contracted by 7 points and the OECD by 11 points. In other words, the level of prices is high and the correction since 2007 has been weak, but average.

(13) "50 simplification measures for the construction of housing," presented on 29 August 2014..

(14) "Property, pillar of growth or sword of Damocles," OFCE, October 2005

(15) Estimation of the annual yield calculated in relation to the average price in sq m from renting at the sale price.

Moving towards sector stabilisation in 2016

A fall in insolvencies of construction companies has been observed since May 2015 (-4.4% at the end of October 2015 year-on-year). But with a weighting of 32.6% of total insolvencies in October 2015, compared to 33.0% in May 2015, the sector

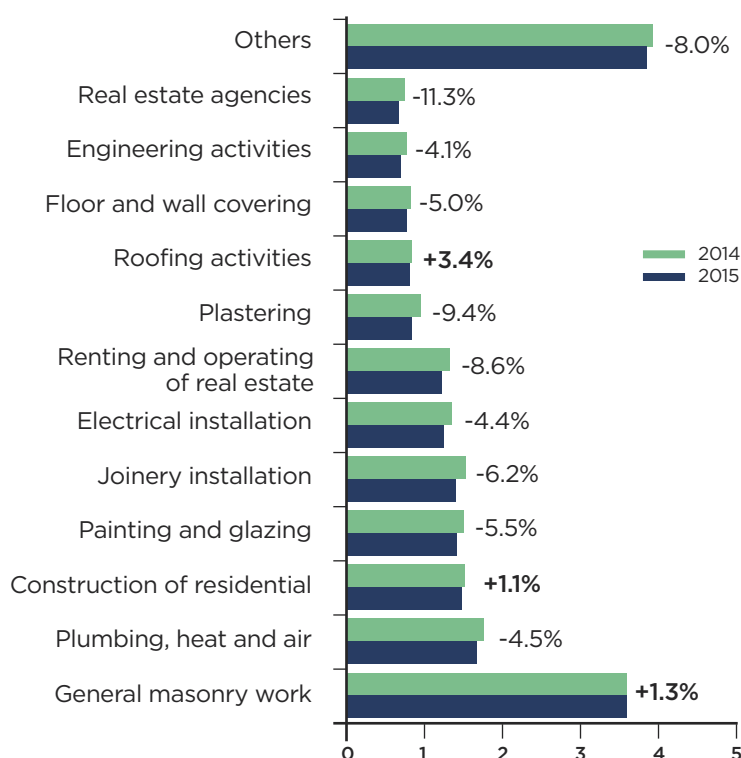
is still over-represented as it accounts for only 18% of added value⁽¹⁶⁾. In detail, differences can be seen between sub-sectors (see graph n° 4.12). Activities related to roofing work (+3.4%), building construction (+1.1%) and general masonry (+1.3%) continue to see rising insolvencies. Moreover, companies in Paris remain challenged, with a 5.95% increase in insolvencies as at the end of October 2015. The region represents 21.8% of total insolvencies in construction. Therefore not all of the signals are green.

The share of households that own their home has stagnated since 2010, to 57.7%. The acquisition of property remains constrained by the lack of significant improvements in the employment market and the high prices that are preventing poorer households from climbing onto the property ladder. Unemployment affected 10.7% of the working population at the end of September 2015 and is unlikely to fall below 10% in 2016. Demand will therefore remain sluggish. If borrowing rates do not fall further, property prices should continue to gradually lower.

This backdrop continues to affect the financial strength of construction companies. Negative signals from public works contractors will affect this sub-sector in 2016. To bring public deficit down to 3.3% of GDP in 2016, as compared to the 3.7% expected in 2015, the financial efforts made by local authorities will be similar to those made in 2015. Symptomatic of this situation, these companies are still over-represented in company insolvencies, despite the number of closures, and the average size of companies affected has increased since the end of 2014. 2016 will therefore be a year of stabilisation, rather than one of recovery.

Graph n° 4.12

Company insolvencies in construction, France
(year-on-year, in thousands, at the end of October 2015)



Sources: Scores & Décisions, Coface

(16) Same scope: construction + property services, in Q2 2015.

RESERVATION

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