PRESS RELEASE

Paris, September 15, 2016

French Economy: A Temporary Pause in Growth

- **Q2 results impacted by external shocks**
- **2016 growth forecast remains positive at 1.6%**
- **Upward momentum in non-financial corporate debt but far below alert thresholds**
- **Company insolvencies remain on a downward trend at -3.4 in 2016**
- **Sector risk is stabilizing. Out of 12 sectors, the agri-food industry has been downgraded and the automotive industry upgraded**

The Recovery Is Gaining Steam Amid a Backdrop of Political Tension

The French economy remains on a positive trend despite Q2 being impacted by external shocks. Flooding in the Paris area caused a local slowdown in business activity in the short term. Over the longer term, this will trigger a recovery rally in employment, particularly in construction. Strikes in refineries will also have a dual impact - creating a short-term shock but with a positive medium-term impact, as inventories are replenished on a large scale to avoid further shortages. Furthermore, political uncertainty in Europe has fueled market volatility. With political chaos in Spain, the forthcoming referendum in Italy, and Brexit, three of France's major trade partners are currently a source of political risk and are destabilizing the markets. As a result, Coface expects growth in France in the coming quarters to 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. Private consumer spending has increased significantly, despite a lower occupancy rate in the hotel industry and a more general slowdown in trade services.

Business Insolvencies Continue to Decline, Despite a Pause in 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 "Uberization" of the economy, particularly in the Paris area. 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

France the Only Major European Country Where Corporate Debt Is Increasing

France is the only major European country where corporate debt levels are on a rising trend, at +14.8 percentage points between 2008 and 2016. But the levels are still well below the critical 90% threshold (68.7%.)
Two time-frames 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 cash flow.
- 2013 – today: Cash flow has been restored but companies are benefitting from highly favorable interest rates, improved outflow (higher consumption, investments) and strong investor appetite in the markets where they can even borrow at negative rates (Sanofi.) This encourages them to invest without consuming their capital reserves.

Agri-food Downgraded to "High Risk" and Automotive Upgraded to "Low Risk"

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

- The **textile-clothing** sector 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."

NORTH AMERICA MEDIA CONTACT: Sue Hinton – sue.hinton@coface.com - +1 212 389 6484