

Atradius Country Report

France – June 2013



Overview

General information

Capital:	Paris
Government type:	Republic
Currency:	Euro (EUR)
Population:	65.8 million

Most important sectors (% of GDP, 2012)

Services:	79.8 %
Industry:	18.3 %
Agriculture:	1.9 %

Main import sources (2011, % of total)

Germany:	18.9 %
Belgium:	11.2 %
Italy:	7.7 %
The Netherlands:	7.5 %
Spain:	6.6 %
United Kingdom:	5.1 %

Main export markets (2011, % of total)

Germany:	16.6 %
Italy:	8.3 %
Belgium:	7.4 %
Spain:	7.4 %
United Kingdom:	6.7 %
USA:	5.6 %

Key indicators

	2009	2010	2011	2012	2013*
Real GDP growth (y-on-y, % change)	-3.1	1.6	2.0	0.0	-0.2
Consumer price inflation (y-on-y, % change)	0.1	1.5	2.1	2.0	1.1
Household consumption (y-on-y, % change)	0.2	1.5	0.5	-0.4	-0.1
Retail sales (y-on-y, % change)	-1.6	1.3	-0.3	-1.3	0.0
Manufacturing production (y-on-y, % change)	-16.0	4.5	3.7	-3.1	-2.4
Unemployment rate (%)	9.6	9.7	9.6	10.3	10.9
Business investment (y-on-y, % change)	-13.6	6.2	3.1	-1.9	-1.6
Export of goods and non-factor services (y-on-y, % change)	-11.8	9.2	5.5	2.5	0.1
Fiscal balance (% of GDP)	-7.5	-7.1	-5.3	-4.8	-3.9
Government debt (% of GDP)	75.0	81.1	86.0	89.4	92.0

* forecast Sources: Consensus Economics, IHS Global Insight

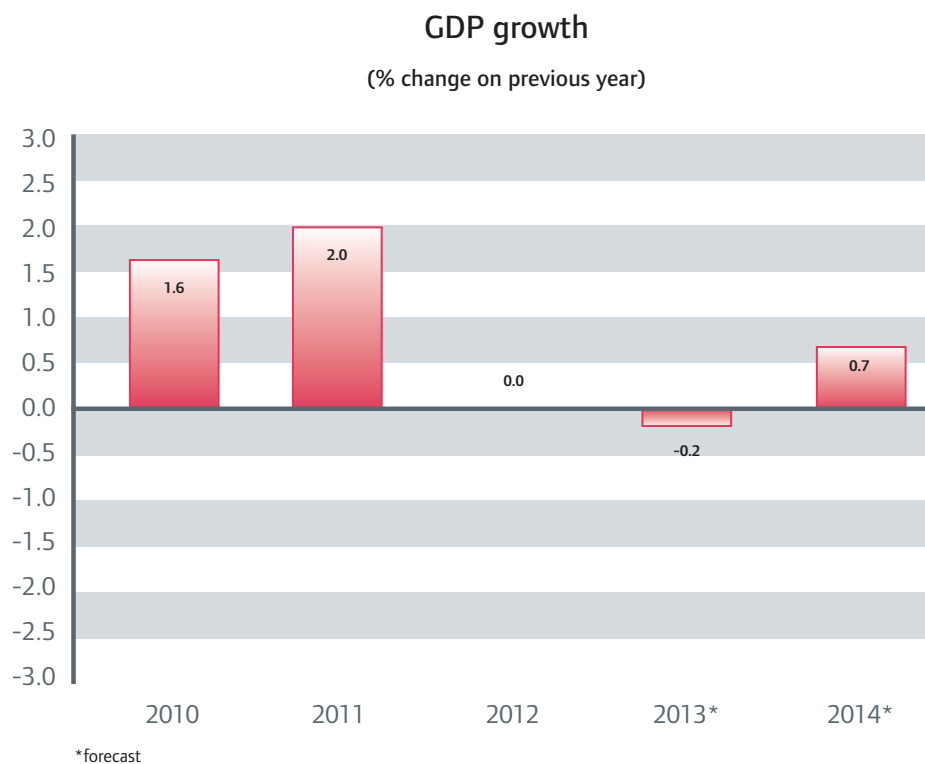
Main economic developments

French economy returns to recession

France has entered its second recession in four years after the economy decreased 0.2% in Q1 of 2013, according to a first estimate by the French National Institute of Statistics and Economic Studies (INSEE). A recession is defined as two consecutive quarters of negative growth. In Q4 of 2012 the French economy had contracted 0.2%.

In Q1 of 2013 domestic demand remained subdued, as household consumption stagnated and gross fixed capital formation (the value of acquisitions of fixed assets by businesses, governments and households less disposals of fixed assets) decreased again, by 0.9%. Additionally, net foreign trade contributed negatively to GDP (-0.2%) as exports (-0.5%) decreased while imports increased (+1.3%).

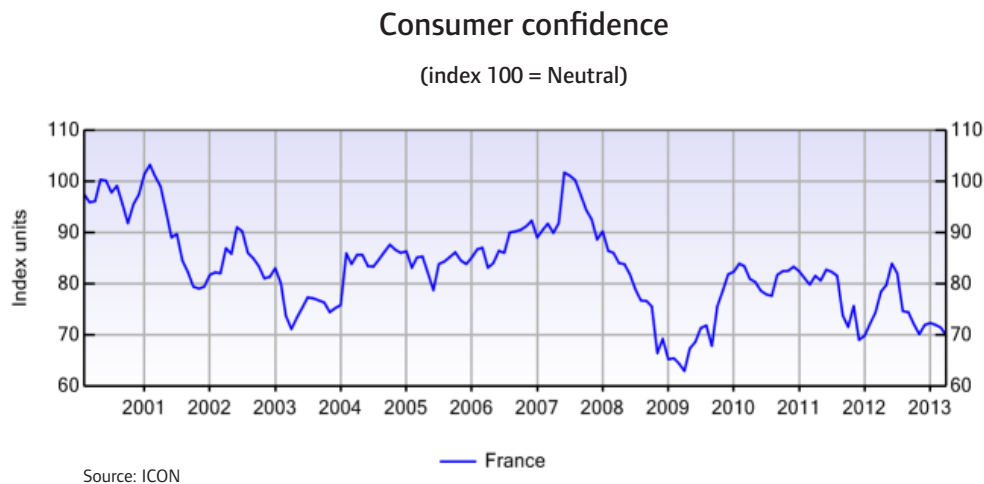
In 2012 France recorded zero economic growth and GDP is forecast to shrink slightly in 2013 because of fiscal consolidation, weak domestic demand and lower exports, followed by only a modest recovery in 2014 (see chart below).



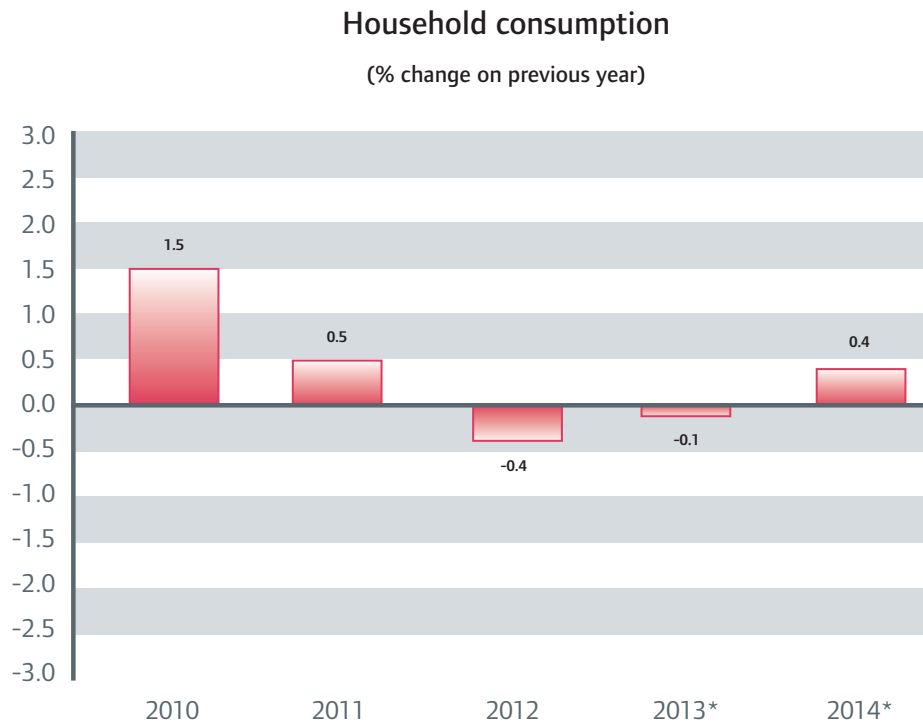
Source: Consensus Forecasts (Survey date 16 May 2013)

Subdued private consumption in 2013 hampers economic performance

Since mid-2012 consumer confidence has fallen sharply and this has continued into 2013 (see chart below). This is largely because of the weak economic outlook and fiscal consolidation (tax increases) which have deterred consumer spending. Another negative factor is unemployment, which increased to 10.6% in Q4 of 2012. The number of people actively looking for work rose further in the first quarter of 2013, to 3.2 million: a record high, according to the French Ministry of Labour.



This does not bode well for private consumption in 2013. According to INSEE, household spending on goods decreased 0.4% in Q1 of 2013 compared to the previous quarter. After a contraction in 2012, household consumption is forecast to decrease again in 2013, which means that what is traditionally a major contributor to French economic growth is now deteriorating (see chart below).



*forecast

Source: Consensus Forecasts (Survey date 16 May 2013)

Consumer price inflation rose 2.0 % in 2012, but has followed a downward trend since the end of last year. In April inflation rose just 0.7 % year-on-year and is forecast to increase only 1.1 % in 2013

Consumer price inflation

(Year-on-Year percentage change)



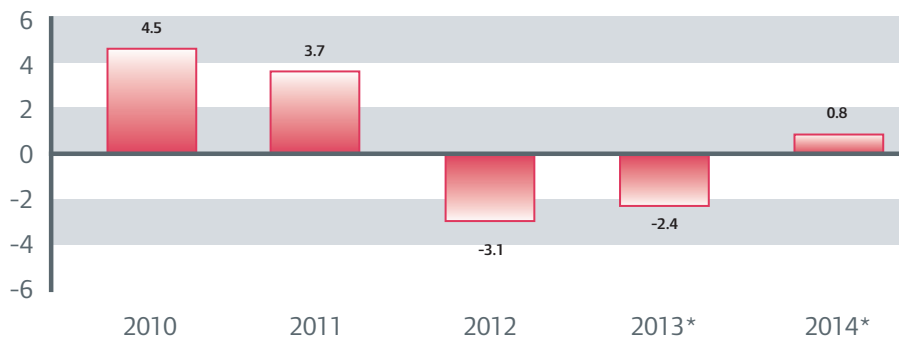
Sources: OECD; IHS Global Insight

Manufacturing production will again contract in 2013

In March 2013, manufacturing production decreased 4.2% year-on-year, while construction output fell 2.9%. In Q1 of 2013 manufacturing decreased 0.9% compared to Q4 of 2012, with construction down 3.8%. Forecasts for manufacturing production in 2013 have been revised downwards every month since January and now stand at a 2.4% decline (after a drop of 3.1% in 2012). Only a slight rebound of 0.8% is expected in 2014 (see chart below).

Manufacturing production

(% change on previous year)

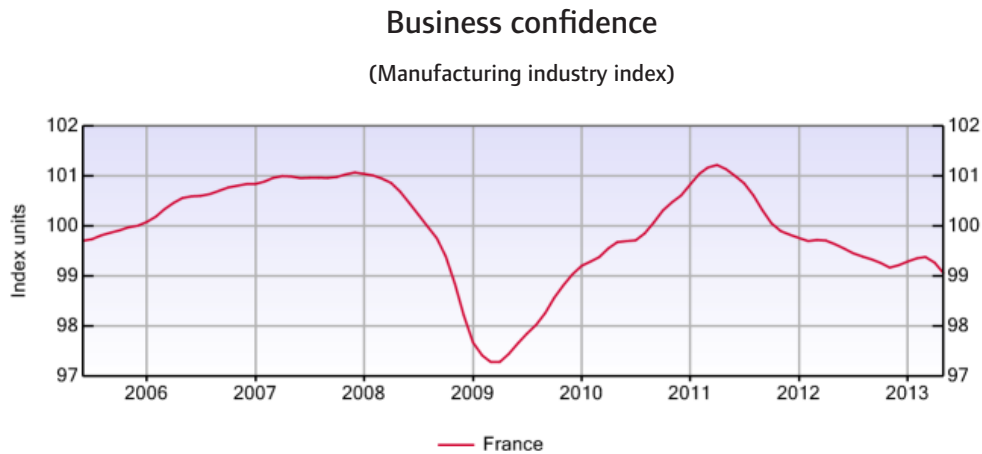


*forecast

Source: Consensus Forecasts (Survey date 16 May 2013)

Weaker exports due to decreasing competitiveness

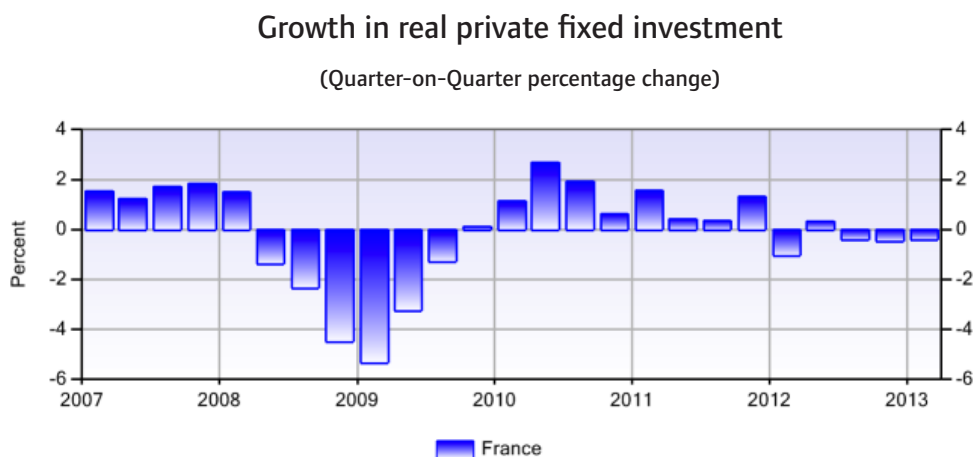
Businesses confidence generally remains subdued (see chart below). Manufacturers in particular are concerned about the slowdown in the domestic economy and weak exports. Following last year's 2.5 % rise, exports are expected to remain flat this year with manufacturing exports showing a distinctly worrying trend. As its international competitiveness lessens, France's share of global exports has decreased by a third since 2002.



Source: OECD (MEI)

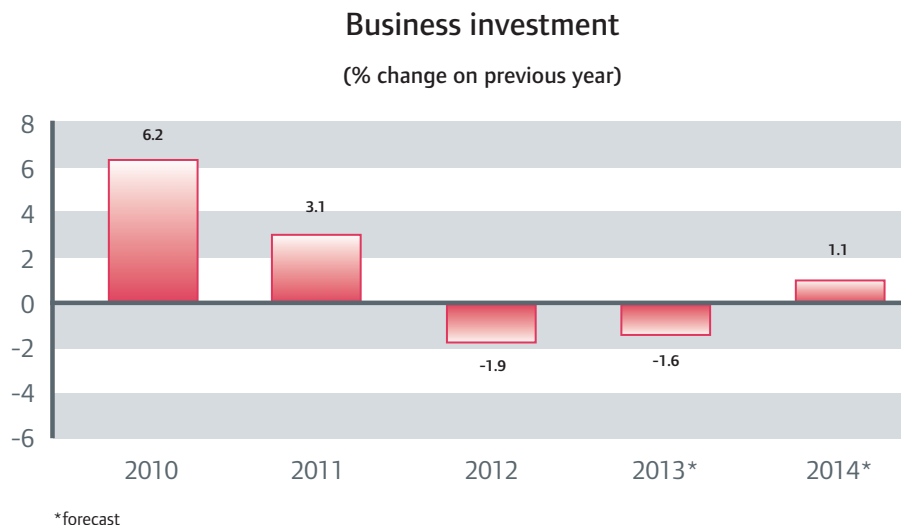
Decreasing business investment

Investments decreased in the second half of 2012 and in Q1 of 2013 (see chart below). Economic uncertainties and low profit margins are leading many French businesses to put investment on hold. In response, in May 2013 the government decided to cut the capital gains tax rate – which was raised only six months ago – for long-term investors, investors in companies less than 10 years old and family businesses.



Source: INSEE

However, business investment growth is forecast to shrink again in 2013, followed by an improvement in 2014 (see chart below).



Source: Consensus Economics (Survey date 16 May 2013)

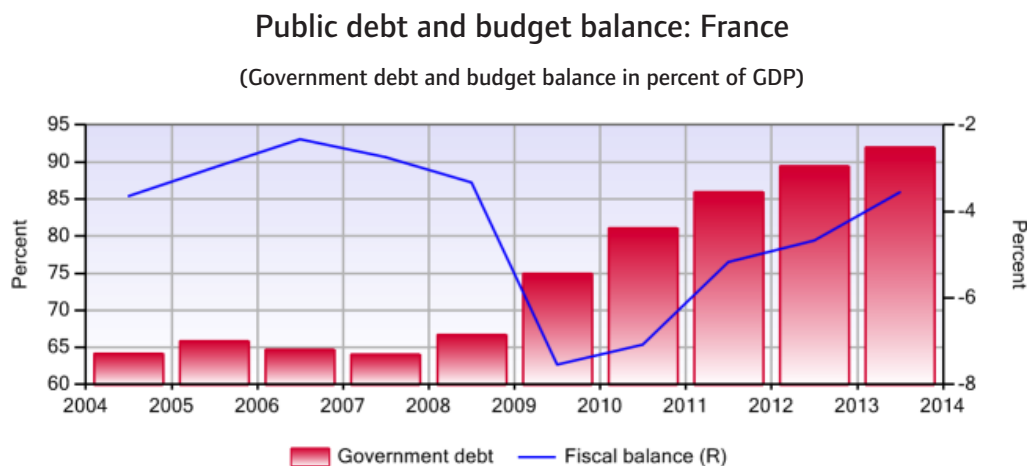
Public spending curbs pose a dilemma for the government

As a consequence of the credit crisis and government stimulus measures, public debt has increased sharply in recent years: to 75 % of GDP in 2009, 81 % in 2010 and 86 % in 2011. Despite some austerity measures and tax increases, the government's fiscal deficit in 2012 reduced to just 4.8 % of GDP: missing the target of 4.5 %.

In January last year Standard & Poor's downgraded France's AAA credit rating by one notch to AA+, followed by a Moody's downgrade from Aaa to Aa1 in November. To avoid any further negative sentiment in financial markets, the government must tackle the deficit issue and spur growth.

Originally it aimed for a deficit of 3% of GDP in 2013, to meet the Maastricht deficit threshold. However, due to the weak economic outlook, and despite France's finance minister Pierre Moscovici's promise to cut the deficit to 3.7% of GDP in 2013 and 2.9% in 2014, the expected figure for this year is 3.9% of GDP and 3.3% in 2014.

Whatever happens, government debt will rise above 90 % of GDP in 2013, necessitating more measures to curb public spending, especially as, at 57 % of GDP, public spending in France is the highest in the Eurozone.



Sources: French Ministry of Finance; Global Insight

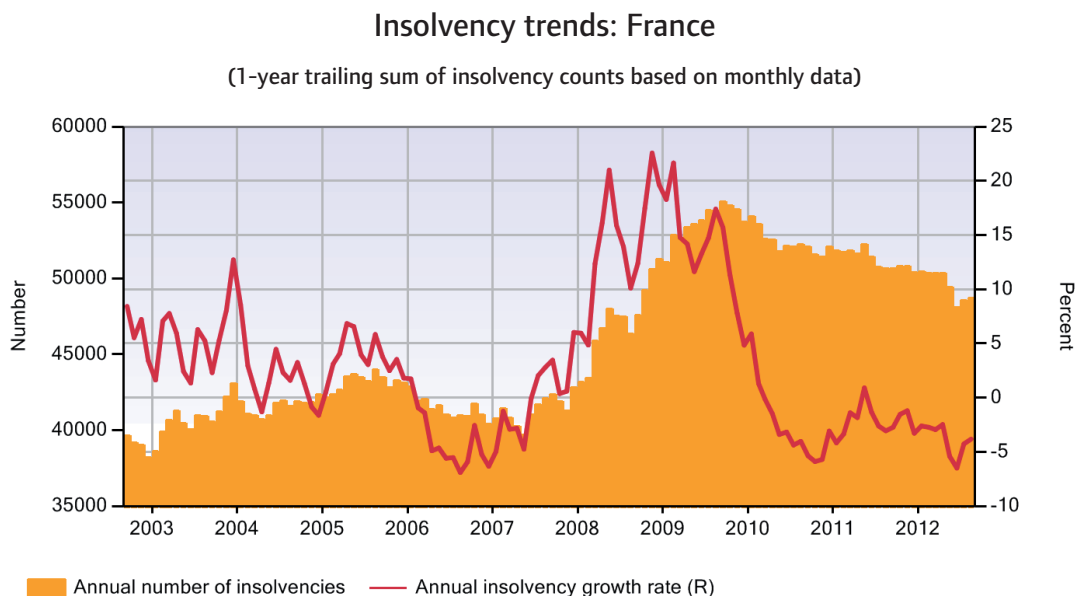
The government plans to reduce public spending by EUR 60 billion by 2017, including cutting EUR one billion in family allowances to the most well-off. To rebuild competitiveness it has also urged a reform of the labour market. In January this year, an agreement was reached between major unions and employers making it easier for companies to lay off workers and reorganise their production during downturns, in return for concessions on training, part-time work and more job security to workers on short-term contracts.

The government still faces the dilemma that more vital fiscal consolidation will hinder economic growth. Any reduction in government spending is felt directly, with a fall in demand for goods and services, while tax increases impact both consumer confidence and spending. In early May 2013 the EU Commission said that it would give France another two years to reduce its deficit to less than 3% of GDP, but also urged the French government to press ahead with structural reforms in the labour market and in the pension systems, as well as opening up closed professions and services markets.

The insolvency environment

French corporate insolvencies will increase again in 2013

After year-on-year increases from 2007 to 2009, the number of corporate insolvencies fell in 2010 and 2011, by 5% and 1% respectively.

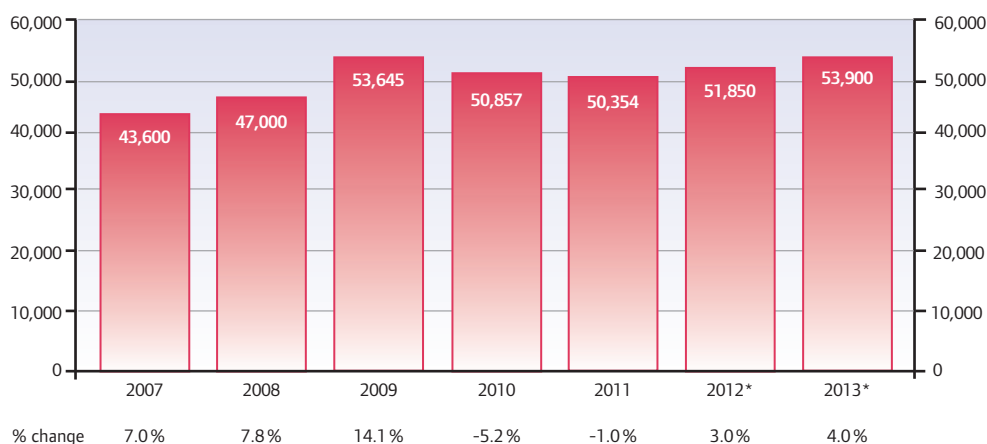


Sources: IHS Global Insight; INSEE

As the French economy stagnated in 2012 and will shrink slightly this year, we expect business insolvencies to have increased by 3% in 2012 and to rise by as much as 4% this year (see chart overleaf).

French business insolvencies

(year-on-year change)



*forecast

Sources: National Statistics Office; Atradius Economic Research

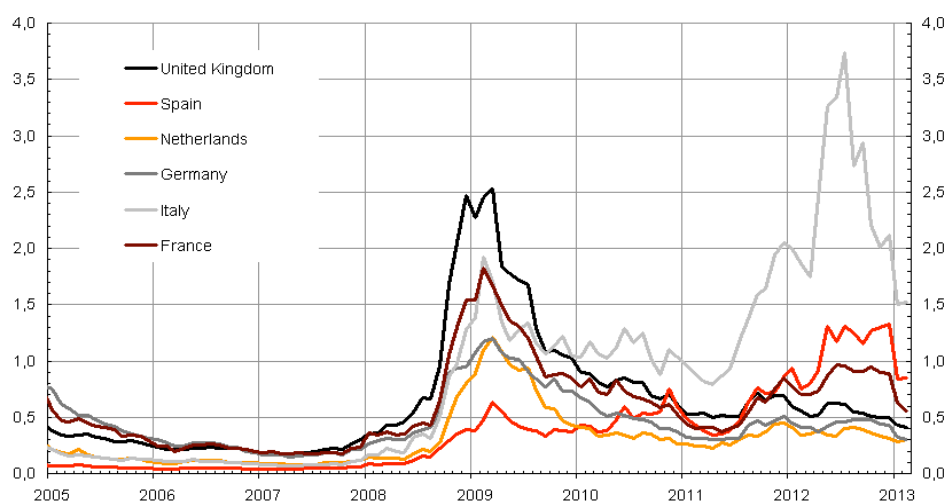
Note: Forecasts are based on the outcome of statistical models and expert opinion. The history of growth rates in the table represents estimates based on official insolvency statistics and model-based calculations. As such these rates should be treated as indicative. All views expressed here are those of Atradius Economic Research (date of final forecast: 8 April 2013).

Default risk for French listed firms remains higher than 2 years ago

Until mid-2011 the median Expected Default Frequency (EDF) for French listed companies continued its moderating trend, although at a slower rate than in 2010. However, in the second half of 2011, the Eurozone debt crisis led to a rise in French EDF levels. After a slight improvement in early 2012, the French EDF again rose as fears of a Greek exit – and even a Eurozone breakup – grew. This increase was much less than in Italy and Spain, but higher than in Germany and the Netherlands (see chart below). Earlier this year, the French EDF improved again, although the February 2013 figure of 0.56 % was still 16 basis points higher than in June 2011.

Median EDF evolution by country

(Expected default frequency, percentage points)



Source: KMV Credit Monitor and Atradius Economic Research

*The Expected Default Frequency (EDF) chart above is based on listed companies in the markets referred to, and the likelihood of default across all sectors within the next year. In this context, default is defined as a failure to make a scheduled payment, or the initiation of bankruptcy proceedings. Probability of default is calculated from three factors: market value of a company's assets, its volatility and its current capital structure. As a guide, the probability of one firm in a hundred defaulting on payment is shown as 1%.

French industries performance forecast

May 2013

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Construction Materials
				
Consumer Durables	Electronics/ICT	Financial Services	Food	Machines/ Engineering
				
Metals	Paper	Services	Steel	Textiles
				



Excellent



Good



Fair



Poor



Bleak

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