

**2**  
Overall  
trend

**4**  
Sectorial  
dynamic

**5**  
Regional  
dynamic

# PANORAMA

## COMPANY INSOLVENCIES

DECEMBER 2016

COFACE ECONOMIC PUBLICATIONS

By Coface Group Economists



**T**he number of insolvencies in France continued to fall in the twelve months to end-October 2016 (-1.0%). This good news should be confirmed for the whole year: Coface anticipates a fall of 3.8% in 2016. This positive figure is due to companies' ability to withstand weak growth. Thanks to a recovery in margins (32% of added value for non-financial companies forecast in 2016), they may register a slowdown in activity, like that observed since the second quarter.

As in 2016, company investment is expected to make little progress in 2017, partly owing to uncertainties relating to the presidential elections. Saving invested capital will at least be beneficial to companies in the short term. They will therefore see another year of declining insolvencies in 2017 (-1.0%).

While the results are encouraging overall, there are some disparities. Four sectors are considerably more loss-making than a year ago: clothing, agrofood, transport and personal

services. Conversely, the situation is encouraging in construction, which confirmed its downtrend in insolvencies in 2016. At regional level, Ile-de-France continues to generate more insolvencies than the national average. Several explanations for this have been put forward: the effect of the terrorist attacks or a natural consequence of the uberisation of the economy (see *Coface panorama of December 2016*), which first and foremost affects this region.

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FOR SAFER TRADE

DECEMBER 2016

# COMPANY INSOLVENCIES



**Paul CHOLLET**  
Head of sectors  
and insolvencies

## 2016 will be another year of falling insolvencies

In the twelve months to October 2016, 58,970 companies were declared insolvent (a fall of 1.0% over the period), a low since September 2012. After peaking in April 2014, company insolvencies in France have continued to fall.

However, the strong growth in company creation (328,331 at end-September, excluding self-employed entrepreneurs, i.e. an increase of 13% year-on-year) since 2015 will have a negative impact on growth in insolvencies in the short term. Three in every ten companies fail in their first three years according to INSEE <sup>(1)</sup>. This figure is similar to that seen before the crisis (340,686 new companies in August 2008), while the stock of enterprises has increased considerably (4.2 million companies recorded in 2015, i.e. 700,000 more than in 2006).

The total cost to the economy of these insolvencies, calculated as outstanding trade debts, has reached €3.78 billion, an increase of 2% year-on-year. The number of employees affected has also risen, by 1.4% to 186,000.

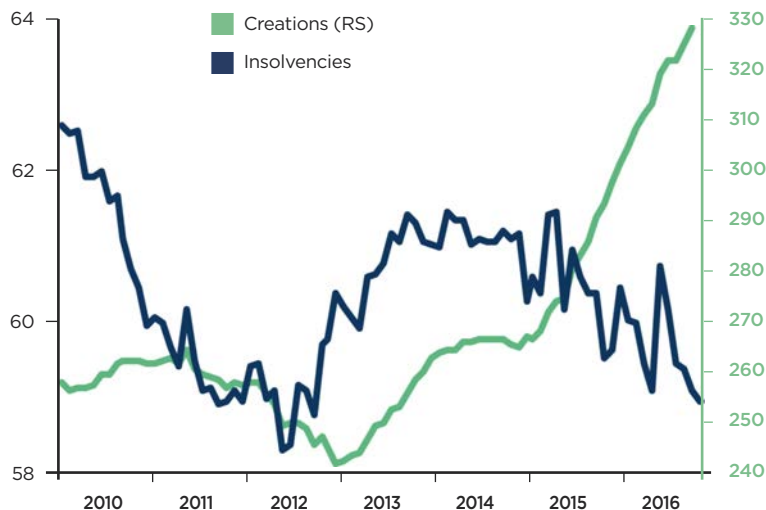
In October 2016, company insolvencies of 4,959 were recorded, a 3.3% fall on the same period in 2015.

## Increase in average insolvency size

Linked with the increase in supplier debt, even though it has been falling since 2012, the average size <sup>(2)</sup> of insolvencies, measured by turnover (TO), rose during 2016 to €543,000 at the end of October, a 1.2% increase year-on-year.

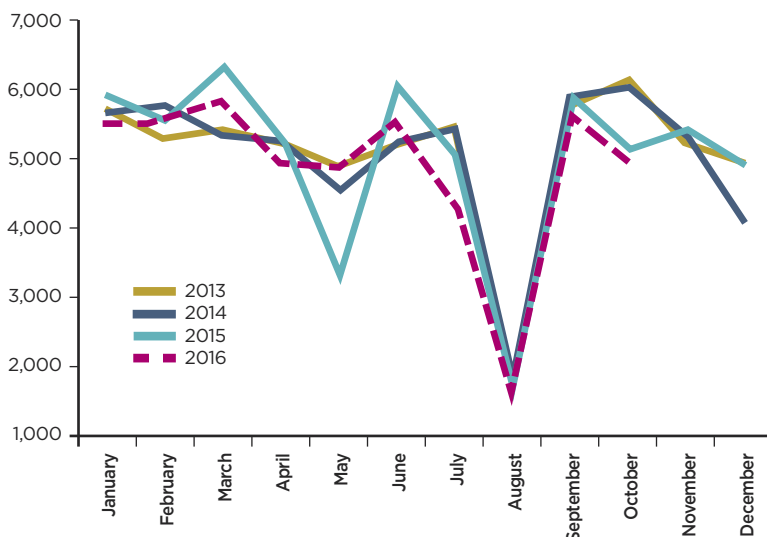
The metals sector appears partly to blame for this increase, with the size of its insolvencies rising by 25%. Over the first ten months, 3 of the 11 biggest insolvencies were in this sector. The companies in question, AVEYRONNAISE DE METALLURGIE, SOTRALENTZ CONSTRUCTION and FRANCAISE DE ROUES, generated turnover of €101 million, €81 million and €73 million respectively. The second sector by average size of its insolvencies (€597 million) and also up slightly year-on-year (+4.4%), electronics registered two of the biggest insolvencies in the first ten months of the year. The companies in question, ALTIS SEMICONDUCTOR and AVENIR

**Graph n°1**  
Company creations and insolvencies (in thousands, per annum)



Sources: Ellisphère, Insee, Coface

**Graph n°2**  
Monthly company insolvencies

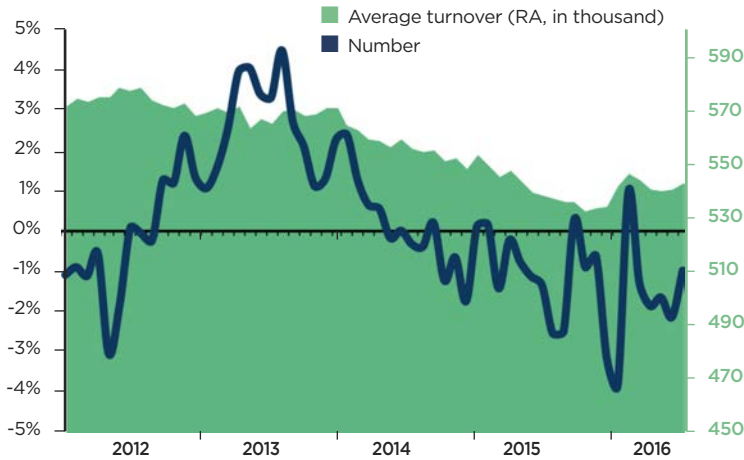


Sources: Scores & Décisions, Coface

(1) Insee première, n° 1543, April 2015

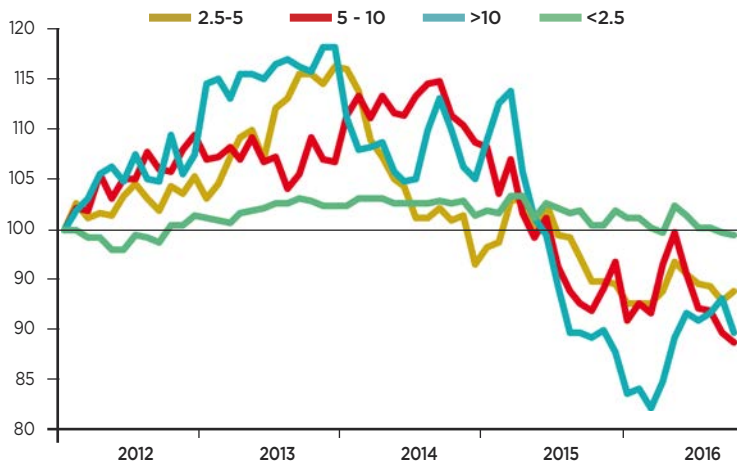
(2) Reduced weighted annual average; the top and bottom 1% of the distribution are excluded to give a more accurate image of average TO.

**Graph n°3**  
Yearly company insolvencies and average turnover (€k)



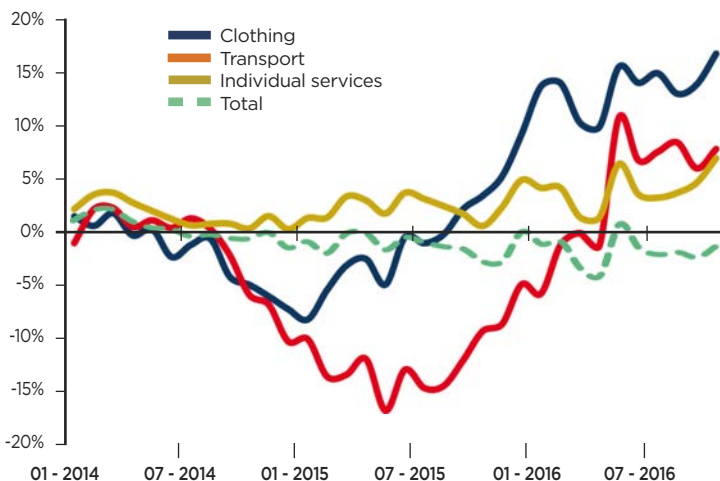
Sources: Ellisphère, Coface

**Graph n°4**  
Insolvencies by turnover range (€m, 100 = January 2012)



Sources: Ellisphère, Coface

**Graph n°5**  
Growth in insolvencies in the main sectors affected  
Annual average



Sources: Ellisphère, Insee, Coface

TELECOM, reported turnover of €125 million and €88 million. The biggest bankruptcy was that of the online retailer Pixmania (turnover of €295 million).

At the same time, the average age at which insolvencies are declared again grew, to 79.75 months at the end of October over one year. This is a record since 2011, which highlights the relative solidity of French companies seen through a recovery in profit margins (31.6%) and favourable financing conditions (average rate of a loan of longer than two years at 1.7% in July 2016, versus 3.6% in 2011).

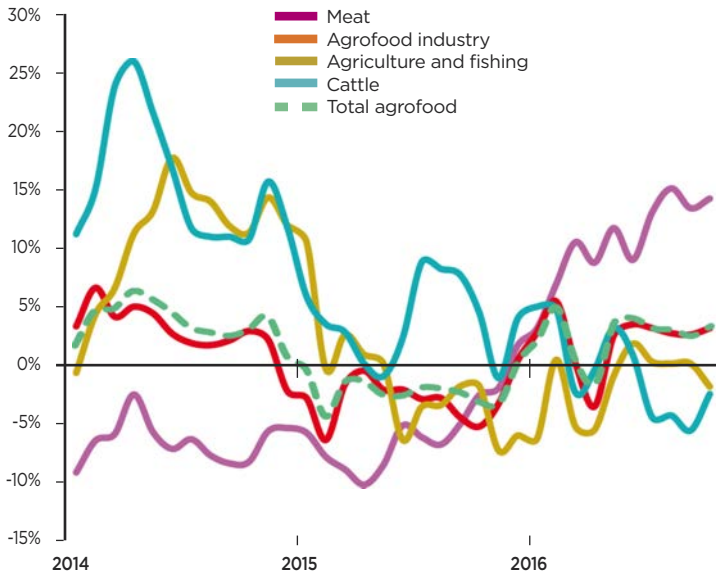
### A favourable trend for small companies

Companies with a turnover of less than €2.5 million have failed a rate lower than that recorded on 1 January 2012 for the first time since September 2012. They account for 97.8% of all insolvencies. Conversely, explaining the increase in the size (average turnover) of insolvencies, the rate for large companies (turnover of more than €10 million) has been growing since March 2016 (+9% year-on-year, to 227 insolvencies in October). These large companies are generally more sensitive to global economic trends, as they export part of their production. These difficulties mainly come from the slowdown in global trade (+1.7% in 2016, versus 3.5% on average between 2012 and 2014), and lacklustre growth in many emerging countries.

### Clothing still struggling

A number of sectors saw a significant rise in their insolvencies at the end of October: clothing (+17%), meat (+14.4%), transport (+8%), personal services (+7.1%) and computer hardware and software (+6.4%). Clothing thus appears to be the most loss-making sector in France. Over the last year, 2,106 companies have in fact gone into receivership or liquidation. The retail sale of clothing in specialised stores appears to be the Achilles heel of this sector. Its insolvencies account for nearly two thirds (62.3%) of those in the clothing sector, and increased by 15.5% as of the end of October. French companies in this sector are faced with tough competition (growth in turnover of Spanish group Inditex at 17% in the first half) and the sharp rise in online sales (16.7% of the entire spending of the French on clothing in the first half of 2016, up 1.3 point on the first half of 2015).

**Graph n°6**  
Growth in insolvencies in the agrofood sector  
Annual average



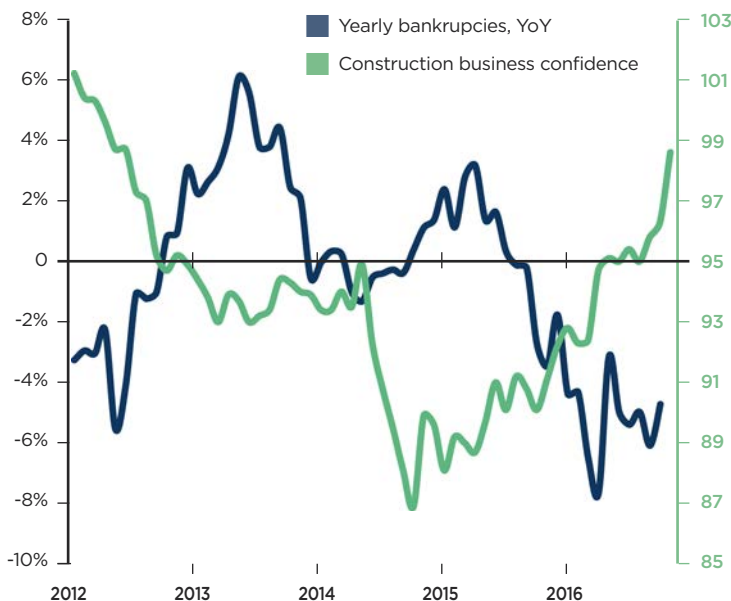
Sources: Ellisphère, Insee, Coface

In transport, insolvencies rose by 8%, largely due to the taxi sub-sector (81% of the increase), which registered 126 insolvencies in the sector in France over one year (from 1,570 companies to 1,696). In fact, 240 taxi companies closed over one year to the end of October, versus 138 a year previously. The competition of chauffeured-car operators seems to be partly responsible for this rise (see Coface panorama of December 2016).

Personal services also grew weaker, but the impact of the terrorist attacks and the uberisation of society seems to have a different impact on the national trend in insolvencies in the hotel industry (-4.7%) and the catering industry (+8.3%).

The rise in insolvencies in the agrofood sector is related to the agrofood industry (55% of insolvencies in the sector), France's biggest industrial sector. The rise was triggered by a bad year for fresh bakers (accounting for 52% of the sector; +4.6% over one year). This grain-consuming sector will suffer in 2017 as a result of upside pressure on prices from grain producers affected by the poor harvests in 2016. Finally, the meat sector and in particular that of butchers-charcutiers (+16% at end-October, 77% of the sector) are suffering in the same way as bakers. Consumption in France has stagnated in three of the last four quarters since the fourth quarter of 2015. The exceptional situation for our economy is affecting the sector.

**Graph n°7**  
Change in indicators in the construction industry

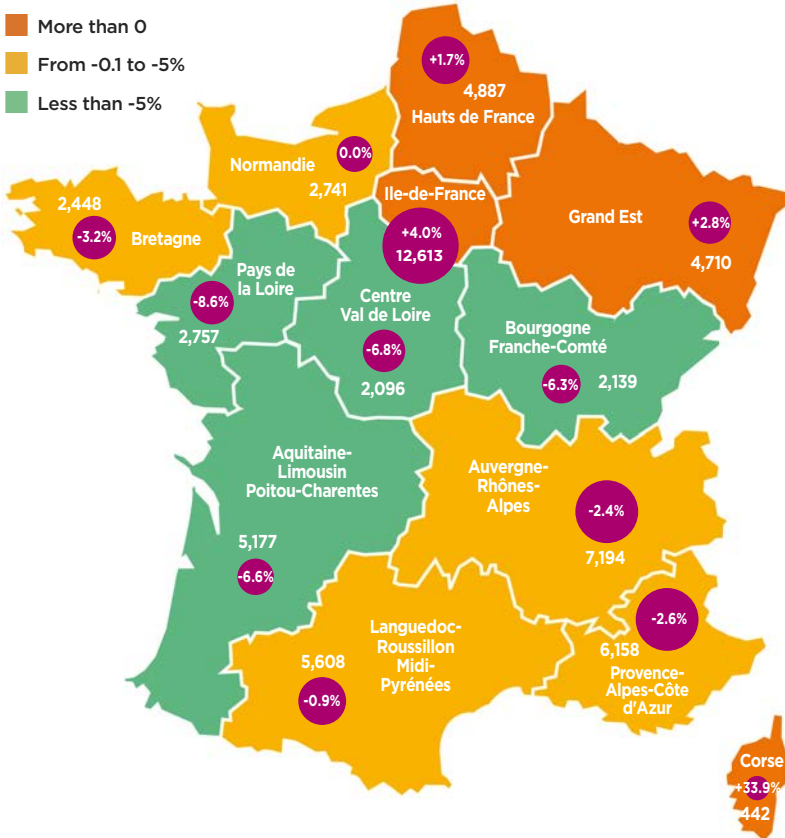


Sources: Ellisphère, Insee, Coface

### Construction confirms its recovery

The construction sector posted a sharp fall in insolvencies at the end of October (-4.7%). At the end of September, the number of authorised housing units (432,300) increased by 14.3%. This trend is favourable for the whole sector, since it reflects current pressure on order books. It is also seen in INSEE's monthly building survey. In November 2016, the business climate in this industry was at 99, a point lower than its long-term average, but a point higher than at June 2012. This confidence indicator was eight points lower in November 2015. In detail, woodworkers and electricians (respectively 8.3% and 6.9% of insolvencies in the sector) registered falls of 9.6% and 7.4% in insolvency numbers.

Graph n°8  
French insolvency map  
(year-on-year to October 2015)



Sources: Ellisphère, Coface

### More disparities by region

Over the 12 months to end-October 2016, company insolvencies increased in four regions: Hauts-de-France (+1.7%), Grand Est (+2.8%), Ile-de-France (+4%) and Corsica (+33.9%). Insolvencies were flat in Normandy (+0%), and fell sharply in four other regions: Bourgogne-Franche-Comté (-6.3%), Aquitaine-Limousin-Poitou-Charentes (-6.6%), Centre-Val de Loire (-6.8%) and Pays de Loire (-8.6%).

Ile-de-France accounted for 21.4% of insolvencies in mainland France, a figure similar to its proportion of companies in France. A rise in insolvencies across a number of sectors explains why this region is bucking the national trend. Personal services (+7.7%) and agrofood (+6.6%) posted greater increases than the national average (+7.1% and +3.4% respectively). Of greater cause for concern were the textile-clothing and transport sectors, in which insolvencies rose by nearly 16% and 24% over the twelve months to the end of October 2016. These figures were partly due to the consequences of the terrorist attacks in November 2015 in Paris and in the summer of 2016 in three French towns (Nice, Saint Etienne de Rouvray and Magnanville). Thus, according to INSEE, visitor numbers to collective accommodation in Ile-de-France were down by 12.4% in the summer of 2016 compared with the previous summer. Nevertheless, before these attacks, the transport sector had already been particularly loss-making in Ile-de-France. One explanation for this trend is the uberisation of society, which is particularly clear in the Paris area. Taxi companies in the region, for example, saw a rise of 165% in their insolvencies to the end of October.

## Company insolvency forecasts for 2017

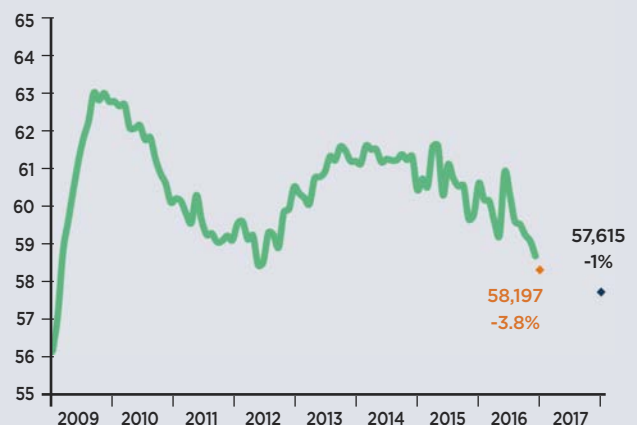
According to our forecast model, the rate of company insolvencies will fall by 3.8% in 2016, then by 1.0% in 2017, to a total of 57,600.

$$Def_t = a Marges_{t-2} + b Def_{t-1} + c PIB_t + \epsilon$$

This expected fall is due to the trend in GDP, but also to a slight fall in companies' profit margins to 31.6% at end-2017 versus 32% at end-2016.

Finally, lending to non-financial companies is also heading in the right direction, with average growth of 4.7% over the year to the end of September 2016. While this trend could slow, it will remain higher than the average of the last five years. It symbolises companies' capacity to finance or refinance themselves in a low-rate environment.

Graph n° 9  
Yearly company insolvencies (in thousands)



Sources: Ellisphère, Coface

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#### RESERVATION

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