

Euler Hermes France 2017 Barometer: Corporate investment & cash flow *2 out of 3 French companies to resume investing*

- Half of companies surveyed cite price wars as the main risk to profitability
- 1 in 3 companies plans to increase investment spending in 2017
- 9 out of 10 companies expect improved or stabilized cash flow in 2017

PARIS – 19 MAY 2017 – [Euler Hermes](#), the world's leading credit insurance company, drew on its 23 French regional offices to interview more than 1,000 French small-medium enterprises (SMEs) and large businesses about their investment intentions, cash flow status and January-April 2017 order books. The fourth edition of the annual investment barometer, against the backdrop of France's macroeconomic environment, provides an exclusive analysis of the current situation facing French companies, and of the demand and investment outlook for the next five years.

Investment: French companies hold all the cards

Household consumption will be the main driver of the French economy in 2017, contributing 1.1 percentage points to GDP growth, and is expected to increase by 2.1% in 2017 and by 2.3% in 2018 (+2.3% in 2016). French households are regaining confidence (the index is at 100, its best level since May 2007). Household investment is expected to increase by 3.6% in 2017 and by 4% in 2018, after +2.4% in 2016, in line with the upturn in the construction sector. Public investment will also be a strong element from 2018. It is expected to increase by 2% from 2018, after -0.7% in 2017 and -0.1% in 2016.

"All the components of investment are there," underlined Stéphane Colliac, Euler Hermes France chief economist. "After an increase of 2.8% in 2016, total investment is expected to accelerate to +3.2% in 2017."

For businesses, the renewed demand is welcome. Turnover in non-energy industries is expected to increase more rapidly in 2017 and 2018 to 2.2% (+1.3% in 2016), also driven by higher inflation (+1.1% in 2017 after 0.2% in 2016). On the other hand, corporate margins have stagnated at 31.4% for the last two quarters, while the impact of support measures (CICE) and cheap oil has diminished. Economic policies will have been major factors in the business investment upswing, which accelerated in 2016 (+3.6%), supported by the additional amortization measures which contributed up to half of the performance.

The lifting of the uncertainties surrounding the French Presidential election led Euler Hermes to raise its French growth scenario from +1.4% to +1.5% in 2017, and from +1.3 to +1.5% in 2018.

"Apart from confidence, the President's economic program should generate business investment through more demand, a fiscal countershock and a public investment plan," said Ludovic Subran, chief economist at Euler Hermes.

"First, the substitution of employee contributions with a 1.7 point increase in the CSG, and exemption from housing tax of 80% of the French population should support demand. And the reduction in corporation tax from 33.3% to 25% and the 6-point drop in employer social security contributions should boost margins. Finally, the five-year public investment plan of EUR 50 billion makes it unlikely to return to the level of EUR 85 billion recorded in 2012. Moreover, the public deficit continues at more than 3% of GDP (3.2% in 2018).

"Ultimately, business investment is expected to increase to +2.9% in 2017 and +3% in 2018. Despite this improvement, the investment gap remains difficult to absorb: it is 38 billion EUR¹, versus 40 billion EUR in 2015. At the current rate, it would take 15 years to catch up," concludes Ludovic Subran.

¹ This investment gap is based on the difference between the total amount of investment by businesses in the economy at the end of 2015 and the amount calculated on the basis of a quarterly growth assumption in investment of 0.7%, similar to the 2006 rate. This was 83 billion if using 1% or the 2000-07 trend. (Euler Hermes Barometer 2015).



According to the Euler Hermes barometer, pressure on prices is the major problem for one company in two, but the financial fundamentals have been strengthened

Half the respondents cited pressure on prices as the main risk to their profitability. The threat is most prevalent in the automotive (66%) and construction (55%) industries. Only 18% cite lack of activity, compared to 23% in 2015. Order book visibility is also better.

"The average visibility of companies has improved from five months in 2015 to 6.4 months in 2017," confirms Stéphane Colliac. "Some 35% of French companies believe they have more than six months visibility on their order books, compared to only 24% two years ago,".

When it comes to investment spending, companies remain concerned about market openings. For nearly 9 out of 10 companies, the outlook for domestic demand or exports is an important (or very important) determining factor for investment spending trends (75% in 2015). Additional factors include the renewal of production tools (54%, vs. 73% in 2015), the company's level of indebtedness (17%, vs. 53% in 2015) and financing conditions (16% vs. 47%). The latter has improved markedly.

Among the companies surveyed, cashflows have consolidated in 2017: 93% declared that they had stabilized or improved their cash flow. They do not report any specific financing issues, in line with the current low cost of bank financing, and rather restrained payment periods are confirmed by 8 out of 10 companies. Euler Hermes estimates that the cumulative cash available in the treasuries of large non-financial companies was around €355 billion in 2016. It remains a very high level and further increased by +3% compared to 2015.

One in three companies plans to increase investment spending in 2017; 1 in 2 will be proactive

With returning demand and strengthened treasuries, French companies are demonstrating an increasing trend towards investment.

"In 2017, 2 companies in 3 will invest at least as much as in 2016 (59% in 2015)," observed Hubert Leman, member of the Euler Hermes France Executive Committee and director of Risk Information. "Ultimately, 32% of French companies plan to increase their investment efforts compared to 2016."

Only 28% of French companies are not operating at full capacity; hence the desire to invest more to meet additional demand.

"In all, 53% of companies surveyed favor aggressive investment: increases in production capacity, launching new business, R & D expenditure, external growth -- vs 50% of companies in 2015. The service sectors (65%) and consumer goods (63%) seem the most aggressive about investment, perhaps compelled by the digital revolution," concludes Ludovic Subran.

Media Contacts:

Euler Hermes France

Maxime Demory +33 (0)1 84 11 35 43
maxime.demory@eulerhermes.com

Euler Hermes Group

Barry Gardner +33 (0) 6 63 60 43 14
barry.gardner@eulerhermes.com

Publicis Consultants

Romain Sulpice +33 (0)1 44 82 46 21
romain.sulpice@mslfrance.com

Euler Hermes is the global leader in trade credit insurance and a recognized specialist in the areas of bonding, guarantees and collections. With more than 100 years of experience, the company offers business-to-business (B2B) clients financial services to support cash and trade receivables management. Its proprietary intelligence network tracks and analyzes daily changes in corporate solvency among small, medium and multinational companies active in markets representing 92% of global GDP. Headquartered in Paris, the company is present in over 50 countries with 5,800+ employees. Euler Hermes is a subsidiary of Allianz, listed on Euronext Paris (ELE.PA) and rated AA- by Standard & Poor's and Dagong Europe. The company posted a consolidated turnover of €2.6 billion in 2016 and insured global business transactions for €883 billion in exposure at the end of 2016. Further information: www.eulerhermes.com. [LinkedIn](#) or Twitter [@eulerhermes](#).



Cautionary note regarding forward-looking statements: The statements contained herein may include statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words "may", "will", "should", "expects", "plans", "intends", "anticipates", "believes", "estimates", "predicts", "potential", or "continue" and similar expressions identify forward-looking statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, including in particular economic conditions in the Euler Hermes Group's core business and core markets, (ii) performance of financial markets, including emerging markets, and including market volatility, liquidity and credit events (iii) the frequency and severity of insured loss events, including from natural catastrophes and including the development of loss expenses, (iv) persistency levels, (v) the extent of credit defaults, (vi) interest rate levels, (vii) currency exchange rates including the Euro/U.S. Dollar exchange rate, (viii) changing levels of competition, (ix) changes in laws and regulations, including monetary convergence and the European Monetary Union, (x) changes in the policies of central banks and/or foreign governments, (xi) the impact of acquisitions, including related integration issues, (xii) reorganization measures, and (xiii) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences. The company assumes no obligation to update any forward-looking statement.