May 2015

PANORAMA INSOLVENCIES

COFACE ECONOMIC PUBLICATIONS

By Coface Group Economists

This barometer sets out the latest trends for company insolvencies for the first four months of 2015 in France. After a 2.9% fall recorded for 2014, a level not observed since 2010 (-3.8%), the first four months of the year were marked by a rebound in insolvencies (+1.6% compared with the same period in 2014). Nonetheless, this is partly the result of a catch-up effect following artificially low figures last December due to social movements in the commercial courts which moreover started again at the beginning of May.

Apart from this temporary effect, the trend remains favourable with an annual fall of 2.7% at end March 2015 year on year. The financial cost, i.e. total trade payables, is also declining (-16.6%) as is the number of employees affected (-4.6%). But this general trend masks significant sectoral differences. Insolvencies continue to increase, for example, in the construction sector. And while businesses are still benefitting from lower borrowing costs, some of them are suffering from still too weak demand. This is particularly the case for retail service activities, a sign that the recent recovery in household consumption remains fragile.

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MAY 2015

INSOLVENCIES BAROMETER

BY OUR ECONOMISTS

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- ↗ **The number of business insolvencies fell to 62,473 (-2.7%) year on year**
- ↗ **The number of employees affected continued to fall totalling 174,786 employees (-4.6% year on year)**
- ↗ **Insolvencies continued to rise in only 5 regions (Alsace, Basse-Normandie, Bourgogne, Île-de-France and Poitou-Charentes)**
- ↘ **At 23,149 insolvencies, insolvencies in the first four months of 2015 were up 1.6%, compared with the same period in 2014. Registration delays due to the strikes by the commercial courts in December 2014 seem to have had a significant impact.**
- ↘ **Rise in insolvencies in the construction, metal and services to individuals sectors.**

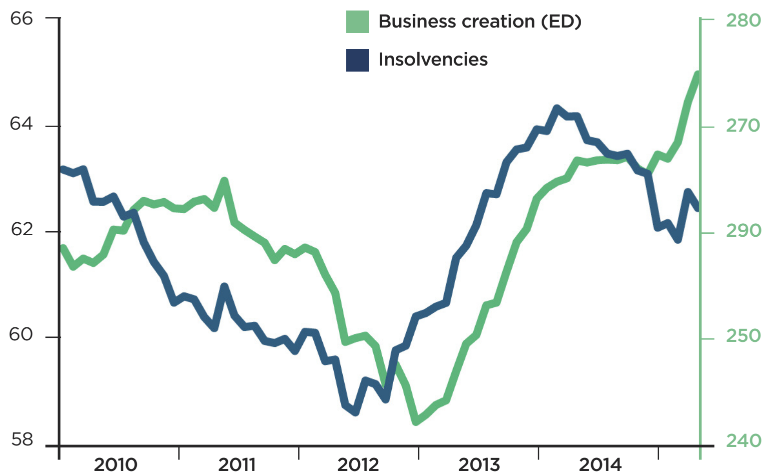
OVERALL ANALYSIS OF COMPANY INSOLVENCIES

Change in the number of insolvenciess

The number of business failures fell for the sixth consecutive time at the end of April 2015 to 62,473 business, representing an average annual trend of -2.7%. At the same time, the total cost (total trade payables of insolvent companies) amounted to €3.9 billion (-16.6%) affecting 174,786 employees (-4.6%).

Several factors support this positive trend begun in October 2014. First, household consumption accelerated in Q1 2015 with growth of 1.6% compared with Q4 2014. Transport costs (10% of a household's outgoings) were down by 5.5% at end March 2015 year on year [1] associated with the fall in the oil price. The resulting savings were reallocated to consumption given that the savings rate in relation to disposable income even fell in Q4 2014, dropping from 15.7% to 15.4%. Moreover, weak inflation (0.3%) continues to sustain spending. Nonetheless, the pace of the expansion of consumption is expected to moderate from Q2, as the downward

Chart n°1
Business insolvencies and creations, excluding sole traders (sliding 12-month period, April 2015, in thousands)

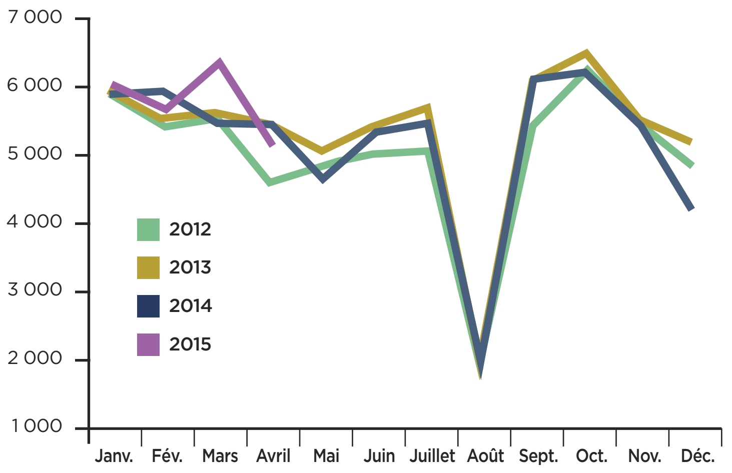


Sources: Scores & Décisions, INSEE, Coface

(1) Insee, Harmonised Index of Consumer Prices (HICP), transport, fuels and lubricants for personal vehicles

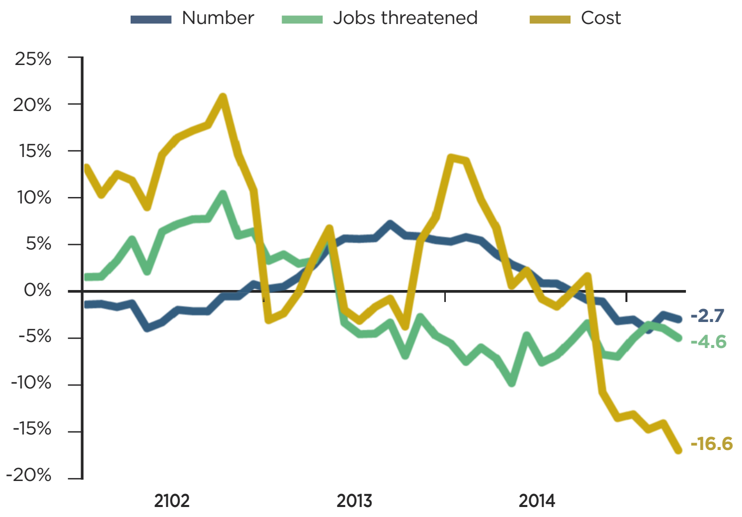
trend of inflation and especially energy prices will have ended. Meanwhile, in this context of moderate recovery, new business start-ups (excluding those of sole traders) have also increased (to 274,781 business creations over the year at end April 2015, +3.0% compared with end April 2014), which is likely to generate additional business failures by the end of 2015 *(see chart n° 1 page 2)*.

Chart n°2
Business insolvencies per month



Sources: Scores & Décisions, Coface

Chart n°3
Annual variation in business insolvencies



Sources: Scores & Décisions, Coface

As for non-financial businesses, credit growth is very strong (+4.0% in March 2015 year on year) and faster than that observed in Germany (+0.7%) or the United Kingdom (+0.1%). Average interest rates on loans granted to business observed by the Banque de France fell to 2.28% for loans above €1 million and 1.54% for lower amounts. If the cost of debt has fallen to historically low levels, the conditions for access to credit have also eased. Satisfaction rates regarding access to credit by SMEs reached 79% for cash loans and 93% for investment loans in Q4 2014, namely the highest level since the start of the survey in mid-2012 [(2)]. Apart from easier access to credit, French businesses have benefitted from the fall in the euro (especially the large exporting companies) and the oil price. But despite these bursts of oxygen, business confidence remains lower than in neighbouring European countries, particularly in the manufacturing sector, which is still suffering from significant overcapacities.

Let us note too that this downward trend was artificially sharpened by the strike action within the commercial courts in December 2014. These generated a 19.3% drop in the number of insolvencies for that month *(see chart n° 2)*. This context enabled a fall in insolvencies of 2.9% to be recorded at end December 2014 compared with 0.8% year on year in November 2014. Accordingly, for Q1 2015 3.0% additional insolvencies were recorded compared to the same period in 2014. Without being able to precisely measure the scope of the delayed registrations, these had a part to play in the increase in insolvencies in March 2015 (+16.1% compared to March 2014).

In February, March and April 2015, the most significant insolvencies were declared by Aristophil, a company investing in ancient manuscripts and letters, due to alleged fraud (turnover: €165 million, in receivership), the public works company Trabet (turnover: €71 million, in receivership) and the stationery wholesaler RP Diffusion (turnover: €58 million, in receivership).

(2) Banque de France, "Enquête trimestrielle auprès des entreprises sur leur accès au crédit en France : 4ème trimestre 2014", (Quarterly survey on access to bank lending, Q4 2014) 19 January 2015

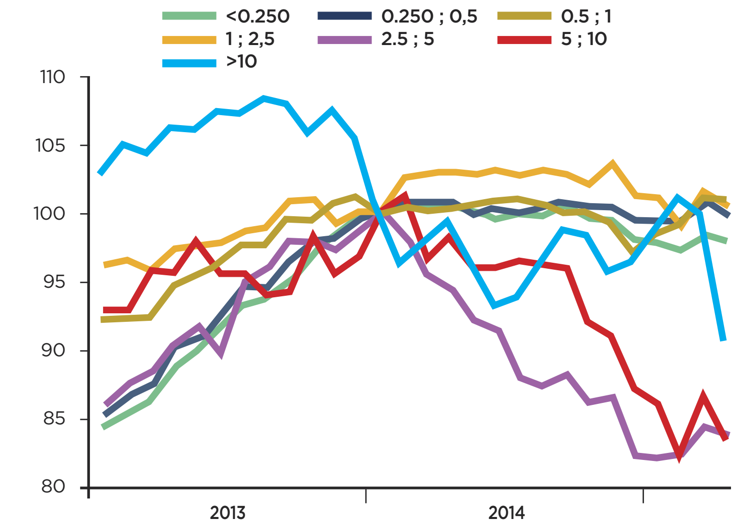
Failures by business size

Failures by microbusinesses (0 to 9 employees), which represent 93.2% of the total, declined by 2.8% in April 2015 year on year, as did failures of SMEs (-3.3%). Conversely, failures by VSEs (10 to 19 employees) rose by 1.6% to reach 2,675 businesses or 4.3% of the total. Only 26 MSEs (more than 250 employees) were concerned over the same period - these companies not only benefit from more diversified sources of finance, in particular through the securitisation of bank credit, but also from more favourable external factors (fall in the euro, more vigorous world demand), with MSEs realising an average of 19% of turnover through exporting, compared with 10% for SMEs [3] (10 to 249 employees).

Failures by turnover band highlight divergent trends *(chart n° 4)*. In 2013, failures by businesses of all sizes increased, except for those with turnover in excess of €10 million. Since 2014, failures of businesses with turnover of between €1 and €2.5 million are the only ones to have continued to increase (8.9% of insolvencies). But this was not enough to limit the fall in the average turnover of insolvent businesses which dropped €791,740 at end April 2015. Note too the decline in failures by companies with turnover between €2.5 and €10 million (3.9% of insolvencies). In contrast, those with turnover above €10 million have started to rise again since the beginning of 2015 (0.9% of insolvencies).

Chart n°4

Business insolvencies by turnover band (millions of euros, 100=January 2014, yr on yr)



Sources: Scores & Décisions, Coface

Carte de France des défaillances

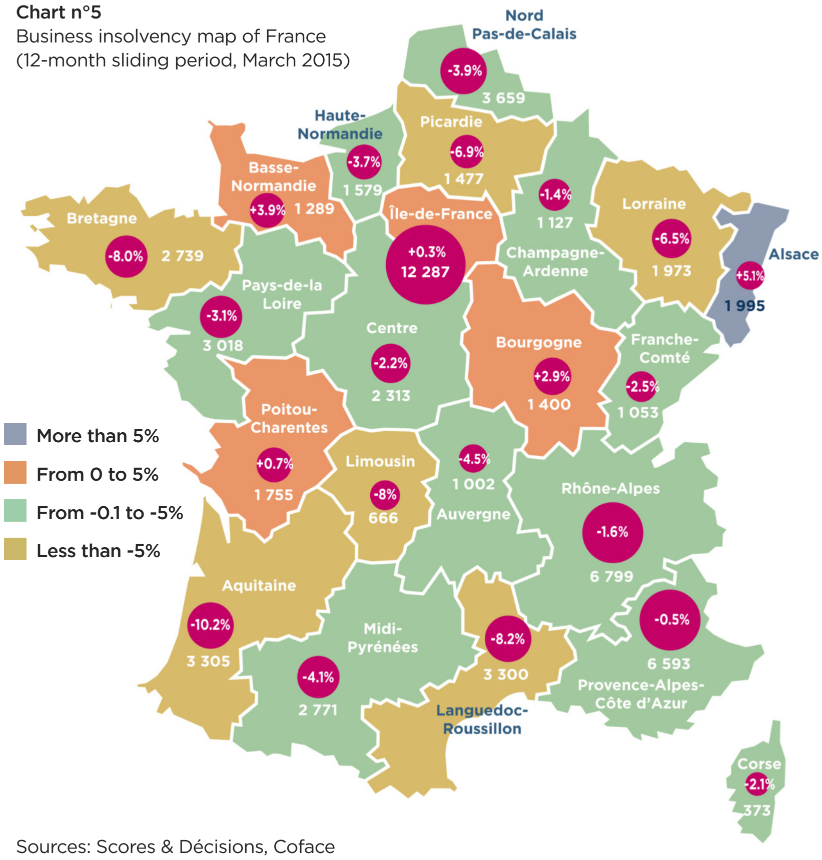
Over the ten months to the end of April 2015, only five regions show a rise in business failures: Alsace (+5.1%), Basse-Normandie (+3.9%), Bourgogne (+2.9%), Poitou-Charentes (0.7%) and Île-de-France (0.3%). Against this, the number of insolvencies fell by more than 5% in six regions, in particular in the Greater South West Region (-10.2% in Aquitaine and -8.0% in Limousin) and in the North: Picardie (-6.9%) North Pas-de-Calais (-3.9%).

In Île-de-France, business failures increased by 0.3%. 19.7% of the business failures in France are concentrated in the region, though it has only 13.7% of businesses as a whole. This higher level of failures is explained by the increased dynamism of the region since, in 2014 one new business start-up out of four was established in Ile-de-France. As for the sectors, Construction seems very affected in the Île de France region with a business failure increase of 8.2% (34.5% of failures in the region). In retail, it is the construction of individual houses that is most concerned with a rise of 10.3% in April 2015 (13.4% of insolvencies in the construction sector).

Finally, the Alsace region has registered the greatest increase (+5.1%). The construction sector (34.5% of the region's failures) and other services (13.1%) seem the most affected, with rises respectively of 8.2% and 2.5%. The Bank of France, moreover, notes that the business climate in the region appears to declining for market services [4].

Chart n°5

Business insolvency map of France (12-month sliding period, March 2015)



Sources: Scores & Décisions, Coface

(3) DG Trésor, "L'internationalisation des PME et ETI françaises : principaux chiffres", (The internationalisation of French SMEs and MSEs: key figures) 28 December 2014

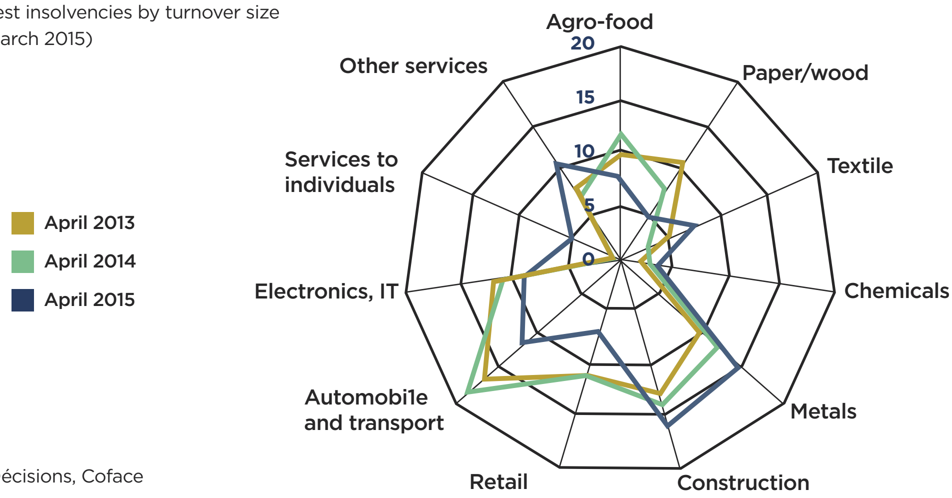
(4) Banque de France, "La conjoncture en Poitou-Charentes", (The economy of Poitou-Charentes) March 2015

ANALYSIS OF INSOLVENCIES BY SECTOR

Evolution of insolvencies by sctors

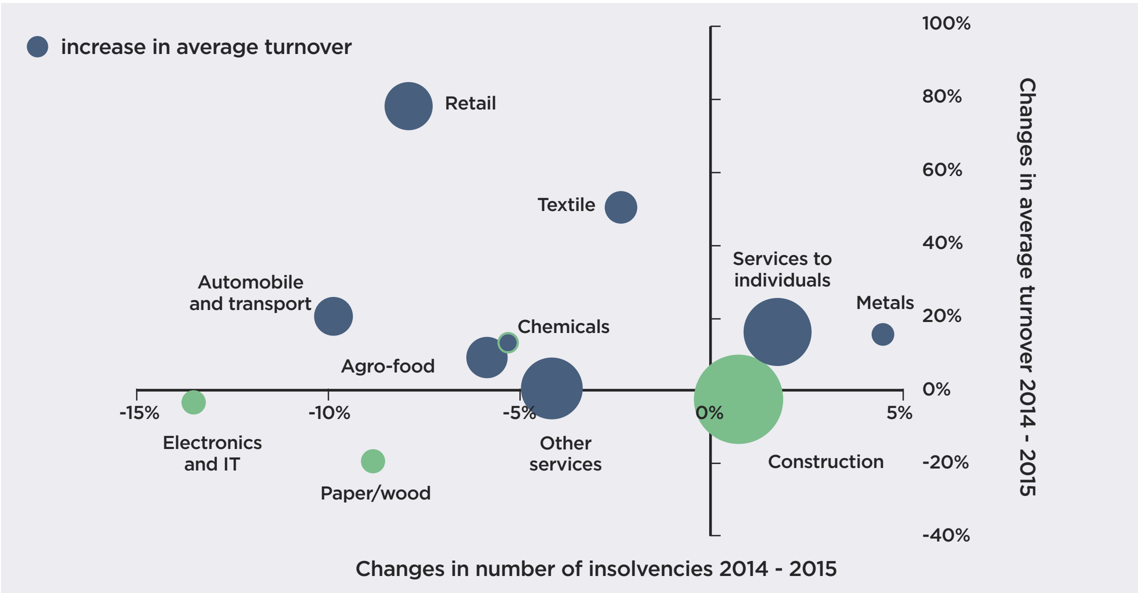
Three out of the eleven sectors analyzed, namely the metal industry [5] (+4.5%), services to individuals (+1.7%), and construction (+0.7%), witness a rise in insolvencies at the end of April 2015 on year. Metals are still under the threat of a lackluster demand and a drop in commodities prices. Moreover, 15 out of the 100 largest insolvencies belong to this sector *(see chart n° 6)*. Furthermore, the business climate [6] deteriorated in April in the housing and the services sectors. The services to individuals sector experiences a stronger degradation, which is measured by an 16.2% increase of the average turnover *(see chart n° 7)*. The retail sector [5] has the steepest increase of the average insolvent company turnover (+78.1%). But some sectors distinguish themselves with a net improvement : electronics (-13.5%), automobile and transports (-9.9%), and chemicals (-5.3%). These sectors are benefitting from the recent devaluation of the Euro, and the drops in commodities prices.

Chart n°6
TOP 100 of the largest insolvencies by turnover size
(12-month period, March 2015)



Sources: Scores & Décisions, Coface

Chart n°7
Sector risk analysis (12-month period, March 2015)



Sources: Scores & Décisions, Coface

(5) See our analyses on the retail, textile and metal sectors: Coface, "France: Trend in business insolvencies, Q4 2014".
(6) Insee, "Business climate indicators and turning point indicators – April 2015", 23 April 2015

CHEMICALS
Better news thanks to more robust pharmaceutical activity

Insolvencies fell by 5.3% at end April 2015 to reach 572 businesses, or 0.9% of total insolvencies in France. The increase in the average size of the failing business (+13.6%) is explained by the bankruptcy of the container glass manufacturer Stoelzle Masnieres (turnover of €75 million) in October 2014. Activity is restarting slowly: industrial manufacturing output was up 0.8% (7) in Q1 2015 compared with the preceding quarter. But although output volume fell for chemicals (-0.6%), it rose sharply for pharmaceuticals (+4.2%). This is because, with regard to the sub-sectors, trade in pharmaceutical products (24.5% of the insolvencies in the sector) is strongly represented in this general decline in business failures (-5.4%).
The Union des industries chimiques (UIC, Chemical Industries Union) stresses that chemical production grew by 2.9% in 2014, driven by activity in the automotives and aeronautics sectors. Businesses in the petrochemical sector are also benefitting from the fall in crude oil prices (-53% between July 2014 and May 2015), which is containing their production costs as well as making their products more competitive vis-à-vis North American competitors. The sector as a whole remains, therefore, on a positive trend, with business leaders anticipating a 7% increase in their investments in 2015 (8). Meanwhile, the Ile-de-France, where 21.2% of the sector's insolvencies are concentrated, recorded a 11.7% decline in the number of insolvent companies. Finally, 2,701 employees are at risk in the chemicals industry, which represents 1.5% of the total in metropolitan France.

CONSTRUCTION
A still difficult context and sluggish public-sector demand

The situation in the sector which contributed most to the number of business insolvencies continued to deteriorate in Q1 2015. As at end April, 20,649 business failures were recorded year on year representing a rise of 0.7%, directly affecting 53,062 employees or 30.4% of the total business failures. The prospects remain negative in the near term, as reflected in the number of building permits (-6.9% at end March 2015 year on year) and construction starts (-8.9%). In retail, several subsectors are under constraints: home developers and other building companies (+6.5% for 7.5% of the sector total) but also all major and minor works (+1.0% for 17.8% of the total). From a regional perspective, 13 out of the 22 French regions have seen their business failures increase. This is particularly true for Ile-de-France (+10.7% for 23.7% of the total total) and the Rhône-Alpes region (+13.1% for 9.9% of the total). The road builder, Trabet (€71 million turnover), has, for its part, been hit by public spending restraint, having been placed in receivership in February 2015.

ELECTRONICS
Return to historic lows

After a long and difficult period for the sector due to increased competition from internet sales, business failures in the retail (-17.8% for 25.3% of the sector total) and wholesale (-24.5% for 11.2% of the total) sectors are falling. This is one of the best-performing sectors (down 13.8%), namely the lowest rate since October 2008. At the same time, the average size of insolvent businesses has substantially reduced to reach €893,718 million in turnover terms (-2.8%). Nevertheless, there are still significant bankruptcies, like for example the going into receivership of Magma Distribution (turnover of €34 million). Let us note too the 1.7% increase (6.9% of the total) in the number of failures of mobile telephone retailers linked with the rising power of internet sales and increased competition from the sale of pay as you go mobiles. Following the closure of Phone House in 2013, it was the turn of the company Tel and Com (150 shops in France) to face difficulties.

SERVICES TO INDIVIDUALS
L'amélioration de la consommation des ménages ne profite pas encore au secteur

Although household consumption of goods accelerated in Q1 2015, spending on services grew less strongly (+0.7% in Q1). The insolvencies data confirm this gap: retail services were the sector most at risk at end April 2015 affecting 21,235 employees (+10.3%) or 12.1% of the total in metropolitan France. The number of businesses in difficulty rose by 1.7% (16.2% of the total) and average turnover size per failure was €307,472 (+16.2%). The importance of the whole sector in the economy increased by 11.1% at end April and thus represents €234 million of trade payables (6.0% of the total Although the business climate is still better than for other sectors, the turning point indicator which measures economic uncertainty has been in negative territory since November 2014 (9). Moreover, business failures in retail services have increased in 13 of the 22 regions. The catering and restaurant sector is chiefly responsible for the worsening sector risk, with a rise in failures of 5.6% (54,1% du total). Hotel businesses could be hit by the expansion in new forms of accommodation for individuals (3.4% increase in failures). The receivership of M Vacances (turnover of €19 million) in January 2015 illustrates this trend. But the most touristic areas seem little affected, as Ile-de-France represents only 6.3% of the total (-17.1% at end April).

LEXIQUE

- **Insolvency:** legal insolvency, namely receivership or liquidation by the court
- **Insolvency cost:** total trade payables of each insolvent company
- **Microbusiness:** fewer than 10 employees
- **VSE:** (very small enterprise): 10 to 19 employees
- **SME:** (small and medium-sized enterprises): 20 to 249 employees
- **MSE:** (medium-sized enterprise): 250 to 4,999 employees
- **Large:** over 4,999 employees
- **Age:** number of years elapsed between birth and date of the event (receivership or liquidation)

(7) Insee, "Index of industrial production – March 2015", 7 May 2015
(8) Insee, "Industrial investment survey – April 2015", 6 May 2015
(9) Insee, "Business climate indicators and turning point indicators – April 2015", 23 April 2015

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