

## FOCUS



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## Corporate insolvencies in France: micro-entreprises in the wave's trough

**D**uring the first four months of 2019, the rate of corporate insolvencies in France increased by +0.8%. This rate was particularly high during January and February, mainly due to the repercussions of the "*gilets jaunes*" (yellow vests) movement; however, the increasing rate of insolvencies declined in March and April. Nonetheless, Coface anticipates that, despite resilient economic growth, insolvencies will increase by +1.7% over the whole of 2019. This is due to an unfavourable international environment (caused by less dynamic growth of major partners and increased protectionism) and by significant supply constraints (for instance, production capacity utilisation rates and recruitment difficulties are at their highest since 2007). The main sectors responsible for defaults, with the notable exceptions of the construction and agri-food industries, continued to experience a decline at the beginning of this year. Despite government measures to increase their purchasing power, sectors dependent on household consumption have thus seen more defaults, such as personal service, automobile and non-specialised businesses.

Unsurprisingly, micro-enterprises are the first business types to be affected by the slowdown in growth: the increase in insolvencies can be attributed exclusively to those businesses with less than EUR 250,000 in turnover. Forecasts of declining activity in micro-enterprises are reflected in the increase in those companies' requests for cash credit and the decrease in investment credit requests. As a result, the average financial cost of defaults has remained on a declining trend. Moreover, the Ile-de-France region was particularly affected at the beginning of 2019, largely contributing to the increased rate of insolvencies.

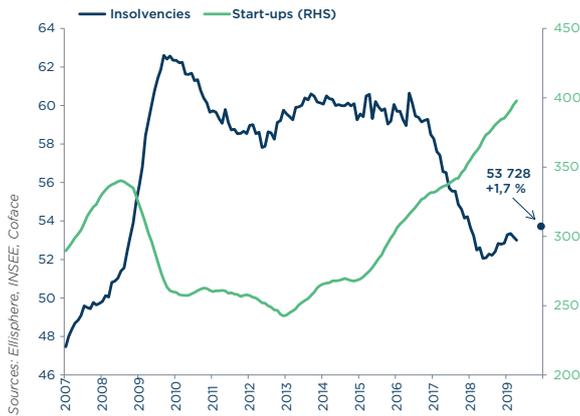
### A two-phase start to the year

By the end of April 2019, 53,000 business failures had been identified over a one year period (**Graph 1**). The upward trend in insolvencies (recorded since May 2018, when 52,063 insolvencies had been registered over the previous 12 months) continued in early 2019.

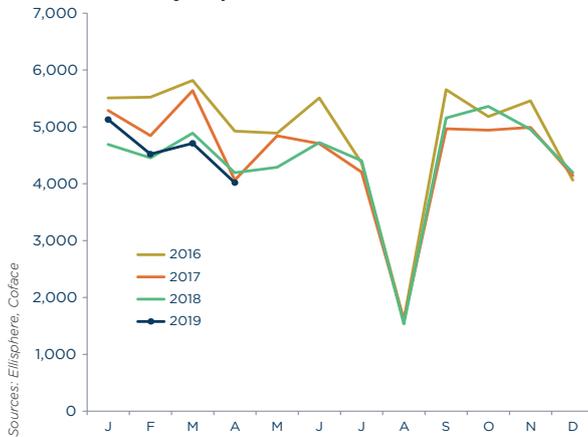
Two distinguishable periods can be identified from the first four months of 2019. Firstly, in an unfavourable economic environment, exacerbated by the ongoing "*gilets jaunes*" (yellow vests) movement, insolvencies

rose sharply in January (+9.3% compared to January 2018) and, to a lesser extent, in February (+1.4%). Conversely, March and April showed improvements compared to the same months in 2018 (**Graph 2**), with decreases of around 4% — a sign of the resilience of the French economy and the decreasing mobilization of the *gilets jaunes*. Despite this improvement, insolvencies increased by +0.8% compared to the same period last year, confirming the trend of the third and fourth quarters of 2018 (+3.1% in each period), after eight consecutive quarters of decline.

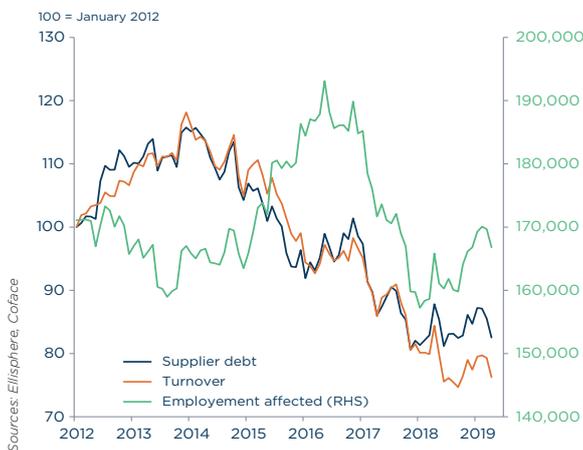
**GRAPH 1**  
Insolvencies and business start-ups  
(in thousands, annual)



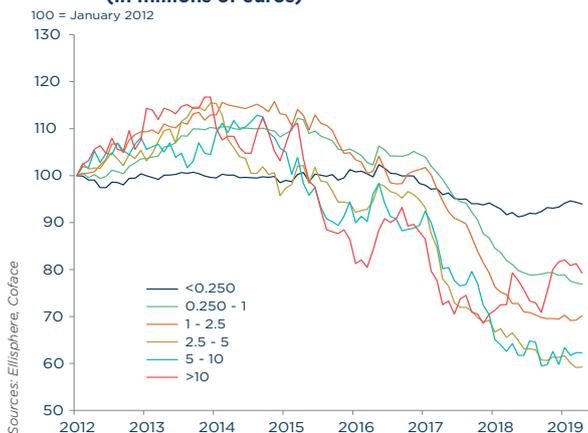
**GRAPH 2**  
Monthly corporate insolvencies



**GRAPH 3**  
Evolution of the cost of insolvencies



**GRAPH 4**  
Evolution of insolvencies by turnover bracket  
(in millions of euros)



The average age of a failing company (approximately 81 months) has remained consistent since the second quarter of 2017, after having until then experienced an upward trend since 2011 (when the average age was 68.8 months). This is in line with the long period of uninterrupted growth in activity during that time.

Furthermore, 137,571 companies — excluding sole traders and self-employed people — were created during the first four months of the year, an increase of 10% compared to the same period in 2018. When including sole traders and self-employed people in that statistic, the findings are even more remarkable: 265,827 companies were created between January and April of this year, up 19.5% from 2018. These trends recorded since 2013 (Graph 1) suggest that the rate of insolvencies will only increase, since typically only one in two companies is still active five years after being launched.

**As micro-enterprises are the main risks, the financial cost of defaults has been reduced**

The financial cost of defaults, measured by suppliers' outstanding debt, decreased over one year, as recorded at the end of April 2019: -6%, resulting in a total of EUR 3.2 billion (Graph 3). The average financial cost of a default has therefore decreased over the past 12 months (EUR 64,600 between May 2017 and April 2018, compared to EUR 60,300 between May 2018 and April 2019).

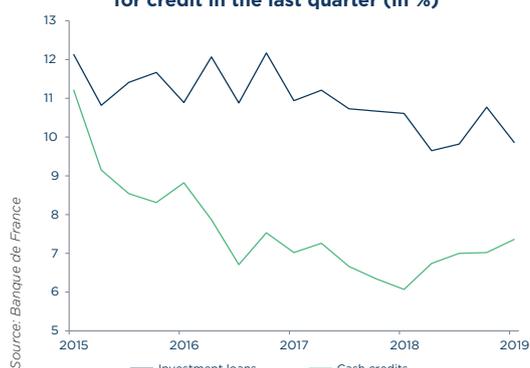
Over the same period, the average turnover of failing companies also fell (EUR 304,600, or -10% over one year). The decrease in the financial cost of defaults, despite the increase in their frequency, is explained by the fact that micro-enterprises are the most affected. Those with a turnover of less than EUR 250,000 (which accounts for 83% of failed micro-enterprises) recorded a 2% increase in the number of insolvencies over the past year. Conversely, all other categories of companies continued to see the number of insolvencies decline (Graph 4). The number of failed companies with a turnover of EUR 10 million or more, however, has remained unchanged (199 insolvencies recorded between May 2018 and April 2019).

The increasing rate of insolvent micro-enterprises is in line with the changing manner of those companies' credit requests. Indicative of this decline (or a slower increase) in micro-enterprises' turnover, cash credit requests from those companies have risen, after having reached a minimum in the first quarter of 2018 (Graph 5). Conversely, the proportion of very small businesses that have applied for investment credit is lower than in recent years, confirming their expectations of a decrease in activity<sup>1</sup>.

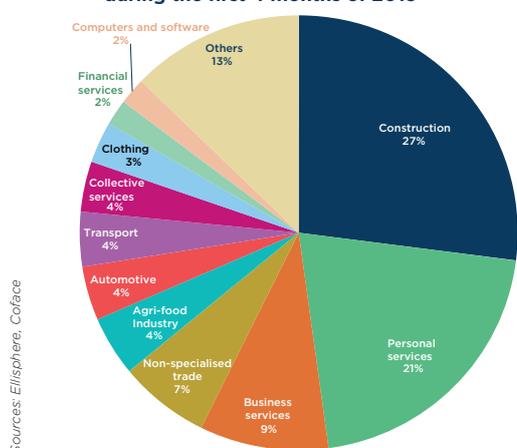
Paradoxically, the cost of insolvencies calculated in terms of affected jobs increased slightly (+0.6%) between May 2018 and April 2019: 166,800 jobs were affected by insolvencies, compared with 165,800 a year earlier. This trend, in apparent contradiction with the financial cost, is mainly attributed to the numerous failures of private security companies, which have a large number of employees and a limited turnover.

1 - Data for the first quarter of 2019 does not allow a clear trend to be identified for SME and ETI loan applications, which remain comparable to previous years' levels.

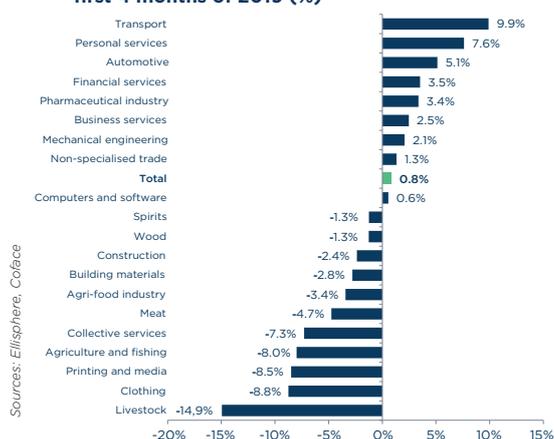
**GRAPH 5**  
Percentage of microenterprises that applied for credit in the last quarter (in %)



**GRAPH 6**  
Breakdown of insolvencies by sector during the first 4 months of 2019



**GRAPH 7**  
Annual growth in insolvencies by sector over the first 4 months of 2019 (%)



The beginning of 2019 notably saw the insolvency of ARJOWIGGINS, with four of the company's subsidiaries being among the eight largest insolvencies in terms of turnover: ARJOWIGGINS Coated Papers (EUR 222 million); ARJOWIGGINS Le Bourray (EUR 93 million); ARJOWIGGINS Security (EUR 85 million); and GREENFIELD (EUR 60 million). The company's insolvency is indicative of a struggling economic climate for the production of printing and writing paper. The industry's difficulties have been caused by a sharp rise in pulp prices in 2018 (+30%), as well as the boom in digital technologies, which has diminished the demand for physical newspapers, magazines and mail. The insolvency of the frozen product supplier TROUPARGEL

(EUR 241 million turnover) was another noteworthy event from the beginning of the year, as were those of the automotive parts manufacturer LA FONDERIE DU POITOU FONTE (EUR 92 million turnover), the luxury clothing manufacturer SONIA RYKIEL (EUR 84 million) and the ready-to-wear brand NEW LOOK (EUR 67 million) — the latter being an incumbent in a sector affected by the boom in e-commerce and the resulting decline in clothing sales in brick-and-mortar stores.

### Continued increase in insolvencies in all major sectors, with the notable exception of construction

During the first four months of 2019, the main defaulting sectors followed diverse trends. For instance, the construction industry, which accounts for more than a quarter of total insolvencies (Graph 6), recorded a decline in the total number of bankruptcies. While the number of insolvencies stagnated in the home and other building construction segments (in line with the 8.5% decline in building permits in the first quarter of 2019), the electrical installation and structural work segments were overall positive. The agri-food industry also experienced fewer insolvencies in 2018 (Graph 7), as a result of the fall in cereal prices at the beginning of the year, which helped to ease the pressure on bakers' and pastry chefs' costs.

### Limited effect of the yellow vests movement.

The "gilets jaunes" (yellow vest) movement seems to have had little effect on insolvencies, as per the data from the first four months of 2019. In fact, all sectors likely to have been affected by the movement improved on their performances from the second half of 2018 (with the exception of hairdressing). However, this largely positive data for the beginning of the year can be explained by the marked improvements reported in March and April. During January and February, all sectors experienced a sharp increase in defaults. The number of insolvencies in the retail sector — the sector most significantly exposed to disruptions — increased by 7% in the wholesale (business-to-business) segment and by 6% in the retail sector, compared to January and February of 2018, before finally showing relative stability over the first four months of 2019. The situation is similar in the traditional food service industry. While the impact in terms of defaults on tourism remains difficult to estimate due to a lack of data, it seems to have been limited to 112 hotel defaults — four more than a year earlier. Therefore, the repercussions on the economy as a whole in terms of defaults seem to have been minor and limited to January and February, despite the ongoing 'yellow vest' movement. Nevertheless, the measures to support traders affected by the movement, announced by the government last November, have been extended until the end of May (tax measures on payment terms), and may even be further extended until the end of June (staggering of social security payments).

**TABLE 1**  
Number of insolvencies in areas exposed to the impact of the "gilets jaunes" movement

	Number	Year-on-year change		
	January-April 2019	January-April 2019	January-February 2019	H2 2018
Retail trade	2,419	-1.6%	6.0%	-1.0%
Wholesale trade	869	1.8%	7.1%	-0.8%
Restaurant services of which fast food of which traditional	1,951 818 1,133	3.6% 12.7% -2.1%	10.5% 17.9% 5.5%	7.7% 20.7% 0.6%
Public houses	431	3.4%	8.5%	6.3%
Hotels	112	3.7%	12.1%	-38.1%
Hairdressing	390	20.0%	35.5%	4.8%
Beauty care	150	-2.0%	11.7%	9.6%
All sectors	18,376	0.8%	5.5%	3.1%

2 - Beyond the slowdown in household consumption, the decline in new car registrations was also due to other sector-specific factors, such as the implementation of new anti-pollution standards.

3 - The sharp increase in taxi driver insolvencies in recent years is partly explained by the rising number of private hire drivers, which leads to more companies in the sector and ultimately to insolvency procedures.

Conversely, the number of defaults continued to increase in other main sectors, despite measures being put in place to increase household purchasing power by a total of EUR 17 billion. Personal services and, to a lesser extent, distribution (non-specialised trade), were affected in January and February of this year by the ongoing gilets jaunes movement (see Insert, p. 3), as well as the low confidence in the housing sector (which was five points below its long-term average at the beginning of the year). This factor, reflected in a reluctance among consumers to make major purchases, also impacted the automotive sector: new car registrations fell by 0.3% in the first four months of 2019, having already fallen by 7%<sup>2</sup> in the last four months of 2018. Furthermore, defaults continued to rise sharply in the transport industry. This increase can be attributed to road freight transport (+10%) and taxi drivers (+21%<sup>3</sup>).

### Île-de-France region increases rate of insolvencies at the national level

Unsurprisingly, more than half of the regions in France experienced an increase in defaults in the first four months of 2019 (Graph 8). However, Ile-de-France — the region experiencing the highest proportion of insolvencies (one in five) — alone accounts for most of the increase in insolvencies at the national level<sup>4</sup>. The difficulties identified in Ile-de-France are mainly attributed to three sectors: non-specialised trade (+12%), transport (+19%; road freight transport, taxis) and personal service businesses (+12%; driving schools, fast food, bars, hairdressing, beauty treatments). While these sectors also performed poorly at the national level, the increased rate in insolvencies was more pronounced in Ile-de-France. As a result, insolvencies increased by 4% in all sectors combined, while the sector most responsible for this average rise, construction, recorded fewer insolvencies than a year earlier in Ile-de-France (-11%).

### Continued increase in corporate insolvencies for the rest of the year

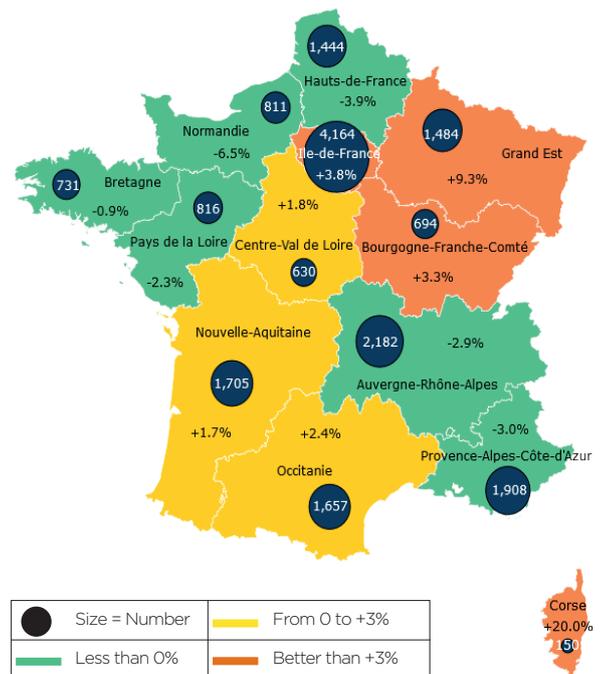
According to Coface's forecasting model, the number of company failures is expected to increase by 1.7% throughout 2019. A total of 53,728 defaults are expected to be identified over the year as a whole (Graph 1):

$$Ins_t = -404,2 GDP_{q-2} + 0,36 Ins_{q-1} - 171,5 ConfConstruction_{q-1} + \epsilon$$

(0,03)                      (0,02)                      (0,01)

According to Coface's forecast, GDP growth will slow down in 2019, from 1.6% to 1.4%, constrained by a less buoyant international environment (for instance, slowdown of the main partners and increased protectionism) and by the persistence of supply constraints in the French economy (e.g. production capacities and workforce). Furthermore, the construction confidence index should continue to decline by the end of the year, in the context of the cycle reversal in the sector already initiated in 2018.

**GRAPH 8**  
Insolvencies in France during the first 4 months of 2019 (annual growth and number)



Sources: Ellipse, Coface

#### DISCLAIMER

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4 - 153 additional insolvencies were recorded in the Ile-de-France region between January and April in 2019, compared with 149 throughout the country.  
5 - The variable 'change in the confidence index in the construction sector in the previous quarter' is significant within a confidence interval of 99%. Similarly, the variable 'GDP growth two quarters earlier' and 'change in defaults in the previous quarter' are significant in a confidence interval of 97% and 98% respectively. Therefore, the forecast model is significant within the standard 95% confidence interval.