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PANORAMA INSOLVENCIES

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By Coface Group Economists



The number of insolvencies at the end of October stood at 63,002 companies, a figure down by -0.9% over the last 12 months. This is the lowest level recorded since August 2013. However, the financial cost (total of trade payables over 12 month) has increased slightly (+0.5%), due to the recent insolvencies of medium-sized

enterprises (MSE). Has a cycle of fewer business failures finally begun? Restructuring in certain sectors such as automotive and transport, and the (relative) resilience of French consumption supports that assumption. Nevertheless, insolvencies are likely to remain at a very high level, as the growth in the number of new businesses since mid-2013 could, conversely, maintain the number of business insolvencies. Indeed, the first years

in the life of a business are associated with a high risk of default. Coface remains cautious, forecasting a decline in company insolvencies for the whole of 2014 of -1.2% to 62,800 and of -0.5% in 2015 to 62,500 business insolvencies. We should not forget that between 2007 and 2008 the average number of company failures amounted to 50,100.

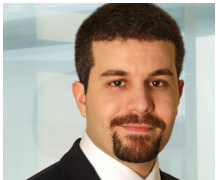
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DECEMBER 2014

INSOLVENCIES BAROMETER

BY OUR ECONOMISTS



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« With a decrease
in insolvencies by 0.9% activity
has not collapsed »

COMPANIES INSOLVENCIES

First year an year decline in insolvencies for 22 months

In October, the number of insolvencies over one year fell by -0.9% to 63,002 (*chart n° 2 page 3*), a level not observed since August 2013. This was the "best" month of October since 2011 with 6,052 insolvencies (*chart n°3 page 3*). Furthermore, those business failures are affecting fewer employees. The average number of employees per failure now stands at 2.92, almost as low as in 2008 (2.90).

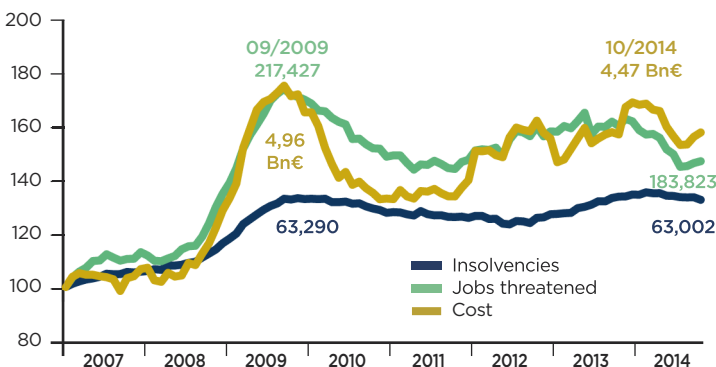
The economic context is probably in favour of a decrease in insolvencies: slight acceleration in private consumption (+0.6% in Q3 year on year) and in credit to non-financial businesses (annual rate of +0.8% at end October), and stabilisation in the volume of exports of goods and services (+2% in Q3 year on year). In other words, activity has not collapsed. The drop in the number of business start-ups until December 2012 to 242,497

(excluding "autoentrepreneur") may also have played a role in bringing down the number of insolvencies. A business' chance of survival is weakest after its first year of existence but then increases over time. In other words, a "peak" in business start-ups will trigger an increase in company failures with a time lag range between one and three years. Moreover, the financial crisis did not affect all activity sectors with the same vigour. Some sectors have carried restructuring plans and through mergers the number of weak companies has decreased. This is observed in the automotives sector, as in the automobile components sector whose turnover plummeted from €25 billion to €15 billion between 2007 and 2013 but which is finally expected to grow by 3 to 5% in France in 2014 (source: FIEV). But at the same time, the costs associated with insolvencies, i.e. total trade payables of the insolvent companies over 12 months, is up 0.5%.

New signs of weakness

While micro-enterprises represent the majority of business failures (92,4%), followed by VSEs (4%) and SSEs (2.5%), the failures among MSEs and large enterprises increased slightly at the end of October at an annual rate of 5.9% while for all other categories of business the number fell. Since September 2014, 28 failing MSEs and large enterprises were among the largest 100 insolvencies for 2014, compared with 12 recorded for 2013. We must recall that October is traditionally the "most catastrophic" month of the year (*chart n°3 page 3*). These "large" insolvencies include the legal insolvency of the *Union des coopérateurs d'alsace* (turnover of €493 million) and the Société d'exploitation RAPP (turnover of €362 million) which owns the Fly, Atlas and Crozatier brands.

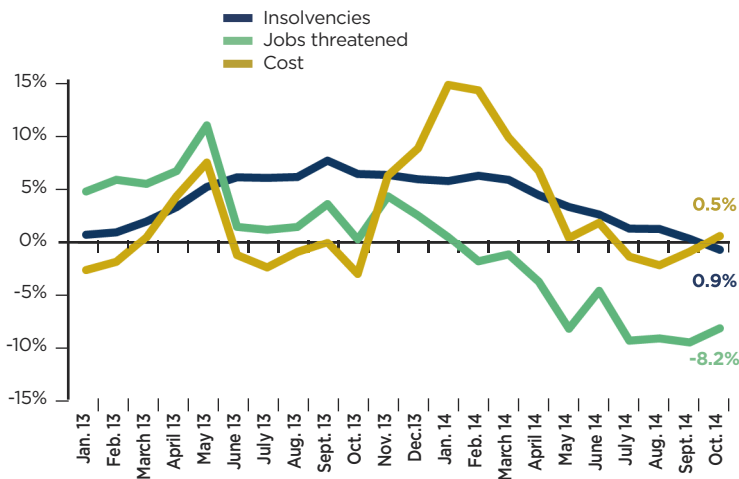
Chart n°1
Changes in companies insolvencies (12 rolling month, 100 = January 100)



Sources : Scores & Décisions, Coface

Chart n°2

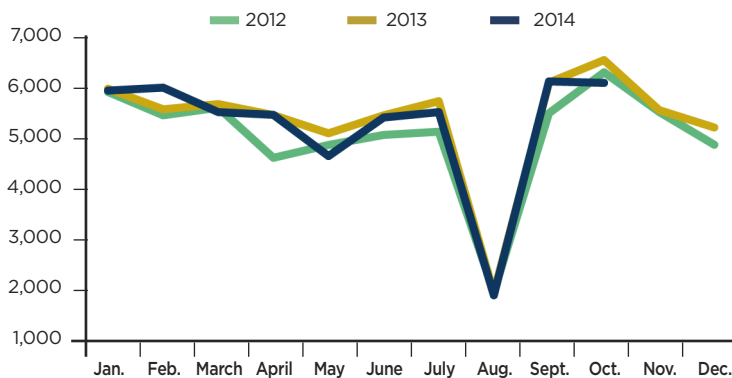
Changes in companies insolvencies (year on year, 12 rolling month)



Sources : Scores & Décisions, Coface

Chart n°3

Number of companies insolvencies per month



Sources : Scores & Décisions, Coface

The financial crisis affects the newest businesses as well as the oldest, which are on average bigger. Indeed, a context of dynamic economic growth can motivate rent-seeking behaviour some companies which does not foster innovation, business expansion or even a reduction in the concentration of the client portfolio, making them more vulnerable when a crisis occurs. Accordingly, since early 2009 the average age of insolvent companies has risen to 8 years and 7 months in October 2014 compared with a lowest level of 7 years at the end of 2008. This phenomenon requires special vigilance, all the more so as all sectors all sectors are concerned, with, in particular, "big" insolvencies in the metals sector.

Nuanced forecasts

Our growth forecasts for the French economy in 2015 are better oriented at 0.8% and sustained by private consumption, compared with 0.4% in 2014. This is admittedly slow growth as average growth between 2002 and 2007 stood at 2.0%. Although limited, it will be favourable to the pursuit of the decline in insolvencies. Nevertheless annual business start-ups were up significantly (+9.8%) in October 2014, compared to their lowest point in December 2012, reaching 266,337 enterprises.

In 2014, Coface forecasts a slight drop in the number of insolvencies to 62,800 or -1.2% compared with 2013 (63,560). This assumption relies on a reasonable growth rate in Q4 (0.2% year on year), moderate expansion in credit to businesses and a more positive business climate with business surveys up since October (+3.4) to reach 94.3 in November 2014.

In 2015 we forecast a moderate decline in the number of insolvencies, down to 62,500 or -0.5% compared with 2014. Indeed, despite the slight expected acceleration in activity, we consider that the increase in the number of start-ups observed in the past two years will limit the positive impact of the macro-economic environment.

ANALYSIS BY SECTOR

	Number			Cost (M€)			Jobs threatened		
	2014	YoY %	% total	2014	YoY %	% total	2014	YoY %	% total
Agro-food	4,578	2.7%	7.3%	258	-34.6%	5.8%	8,741	-32.1%	4.8%
Automotive and transport	4,078	-2.5%	6.5%	202	-27.2%	4.5%	19,457	5.6%	10.6%
Other services	9,351	-0.7%	14.8%	169	-26.3%	3.8%	32,510	-24.2%	17.7%
Chemical	560	-9.2%	0.9%	103	-48.0%	2.3%	2,678	-38.7%	1.5%
Construction	20,500	-0.8%	32.5%	470	51.0%	10.5%	50,752	-12.9%	27.6%
Retail	5,899	-1.2%	9.4%	1,124	-10.5%	25.2%	15,621	34.4%	8.5%
Electronics and IT	1,808	-5.9%	2.9%	592	35.4%	13.2%	8,531	0.8%	4.6%
Metals	1,108	-0.2%	1.8%	432	15.6%	9.7%	13,373	56.6%	7.3%
Paper-wood	1,669	-6.6%	2.6%	459	51.1%	10.3%	7,371	-24.9%	4.0%
Services to individuals	11,187	1.1%	17.8%	209	12.8%	4.7%	18,686	-3.8%	10.2%
Textiles and clothing	2,264	-4.4%	3.6%	448	-6.4%	10.0%	6,103	11.2%	3.3%
Total	63,002	-0.9%		4,466	0.4%		183,823	-8.2%	

Sources : Scores & Décisions, Coface

The number of insolvencies by sector reflects different developments across the various industries. For automotives, the drop in sales since 2008 has dragged all players in the sector into the storm, weakening particularly those at the end of the chain, namely the rank 2 and 3 part makers, as well as car dealers and distributors. As for transport, as activity is pro-cyclical, weak growth combined with high oil prices had the effect of reducing order books. For services to individuals, rising unemployment, which weakens lower income households, has had an adverse effect. At the end of October 2014, our comments on the sector are as follows:

AGRIFOOD: squeezed margins affecting companies in the upstream production chain

Agrifood insolvencies rose by 2.7%, year on year, at the end of October 2014. The most affected sub-sectors are bakeries and related activity (+9%), cereal crops (+47%), and livestock farming (+21%). This rise in insolvencies in the agrifood industries does not match the slight drop in company failures observed for the economy as a whole. How can we explain this paradox? Competition between the retail companies in a context of sluggish economic growth has dragged agrifood prices downwards, towards deflation. Thus, the industrial output indicator for the agrifood segment has been on a declining path since 2012, due to the loss of markets. This is reflected in the bankruptcy of the Tilly-Sabco abattoirs in September 2014 (turnover of €75 million).

CONSTRUCTION : demand still sluggish

Similarly to the economy as a whole, insolvencies in the construction sector fell by 0.8% as at end October 2014, year on year. Nonetheless, the associated costs exploded over the same period: +51%. At the end of October 2014, construction authorization were down 12.9%, over one year, and the same was true for housing starts (-12.0%). In INSEE's quarterly economic outlook, property developers indicate that they are anticipating a demand for housing to fall more steeply. So average confidence indicators are well below the (-54%) long-term indicators. This gloom is visible in certain segments such as land rents (+10%) and property development (+29%). However, the situation is more worrying for the construction activities (carpentry, plastering, and tiling), which have seen a 7.1% increase in insolvencies over one year. The placing in receivership of the builder SEE SIMEONI (turnover of €46 million) illustrates the sector's difficulties.

SERVICES TO INDIVIDUALS: local services are suffering from household prudence

Insolvencies in this sector rose by 1.1% as at end October 2014, year on year. Costs, meanwhile, exploded (+12.8%). The hardest hit segments were firms related to skin and hair-care products, which recorded a climb in insolvencies of 5.4% over one year but also the catering sector with a growth of 4.3% over the same period. The sector's performances rely chiefly on household consumption. As we know, the latter currently lacks dynamism and INSEE's household confidence indicator (86.9), although improving since June 2013 (79.7), is still well below its long-term average (95.8 since 2000). The unemployment rate, has been continuously rising to reach 10.4% in Q4 as defined by the ILO refers, against 10.1% in the previous quarter.

LEXICON

- **Insolvency:** legal insolvency, namely receivership or liquidation by the court. Excluding French overseas territories
- **Cost:** total trade payables of the insolvent companies
- **Micro enterprise:** less than 10 employees
- **VSE (very small enterprise):** 10 to 19 employees
- **SSE (small sized enterprise):** 20 to 249 employees
- **MSE (medium sized enterprise):** 250 to 4,999 employees
- **Age:** number of years elapsed between birth and date of the event (receivership or liquidation)

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