

## FOCUS

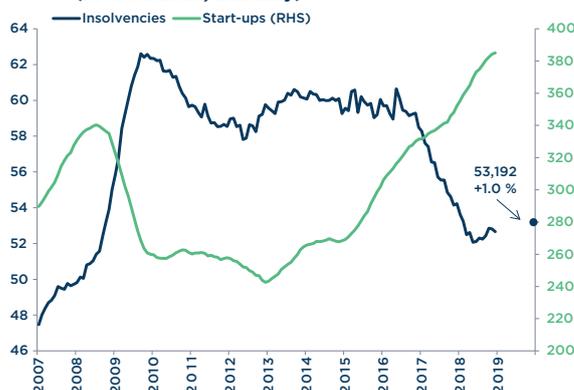


By Bruno De Moura Fernandes,  
Economist for France,  
North America & the United Kingdom  
based in France

## Corporate insolvencies in France: 2018 report and outlook for 2019

**T**he number of corporate insolvencies has increased since May 2018. Coface expects this trend to continue in 2019 (+1%), in a context of growth hampered both by a less favourable international environment (less dynamic growth in the rest of the world, greater protectionism), and by ongoing supply constraints (capacity utilisation rates and recruitment difficulties are at their highest since 2007). While the scale of this rise in the number of insolvency procedures is modest and nowhere near enough to cancel out the improvements observed between the start of 2017 and May 2018 (-11%), it is likely to affect a diverse and varied range of businesses. The sectors with the most insolvencies effectively saw their situation deteriorate in the second half of 2018. Apart from construction, the sectors reliant on consumption were also affected in the second half of the year, as were the automotive and personal services sectors, against a background of lower household confidence. Although the largest companies also experienced a rebound in insolvencies in the second half of the year, most of this increase is attributable to the difficulties experienced by micro-enterprises with revenue below EUR 250,000 and representing over 80% of bankruptcies. As a result, the average cost of insolvencies has continued to fall. Meanwhile, while eleven out of thirteen regions recorded fewer insolvencies in 2018, insolvencies in the Ile-de-France region rose sharply.

**CHART 1**  
Insolvencies and business start-ups  
(in thousands, annually)



Sources: Ellipse, INSEE, Coface

### 2018 – a year of contrasts

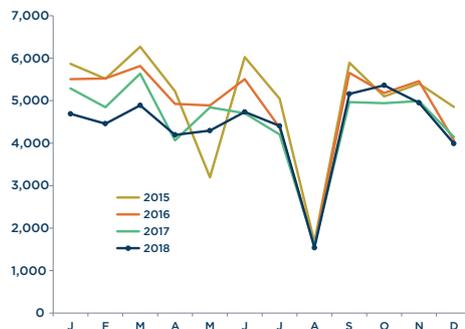
52,665 corporate insolvencies were recorded for the whole of 2018, i.e. 2.9% fewer than in 2017. Accordingly, insolvencies were at their lowest level last year since 2008. However, from May onwards, the trend points to a rebound in insolvencies, when 52,073 insolvencies were recorded for the previous 12 months (**Chart 1**).

Even though the first five months of the year – with the exception of April – saw a consistently lower monthly number of insolvencies year-on-year, the situation subsequently deteriorated, particularly in September and October (**Chart 2**).

As a result, although the last two months of the year were good, insolvencies rose in the third and fourth quarters of 2018 after eight consecutive quarters of decline (**Chart 3**). It is therefore appropriate to distinguish two periods in 2018: in the second half of the year insolvencies were up 2.3% compared with the second half of 2017, although in the first half of 2018 they had fallen 7.2%.

In addition, the average age of an insolvent company remained unchanged compared with 2017, standing at 81.1 months. The life expectancy of companies has therefore remained stable since the second quarter of 2017, after steadily increasing since 2011 (68.8 months).

**CHART 2**  
Monthly business insolvencies



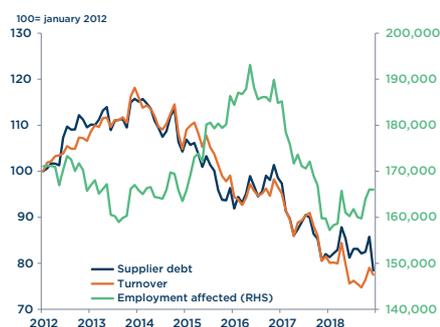
Sources: Ellisphere, Coface

**CHART 3**  
Quarterly business insolvencies (yearly growth)



Sources: Ellisphere, Coface

**CHART 4**  
Cost of insolvencies



Sources: Ellisphere, Coface

At the same time, there were 385,000 business start-ups – excluding autoentrepreneurs (self-employed) – in 2018, representing a 9% rise compared with 2017, which had already been a buoyant year (+6%). Nevertheless, these numerous start-ups are likely to be negatively reflected in the evolution of insolvencies in the medium-term, insofar as only one company in two is still in business after five years.

## Good times come to an end for micro-enterprises

The financial cost of insolvencies, measured by the sum of outstanding trade payables, also fell in 2018 (-4.4%) to total EUR 3 billion. As this drop was more marked than that of the number of insolvencies, the average financial cost of an insolvency was lower in 2018 (EUR 57,700 compared with EUR 58,600 in 2017). Conversely, the cost in job terms rose, with 166,000 jobs affected by insolvencies in the past year, compared with 159,000 in the previous year (**Chart 4**).

The average revenue of insolvent companies continued to fall (EUR 311,600, i.e. -2% year-on-year). The number of insolvent companies with revenue of less than EUR 250,000 (more than 80% of insolvencies) fell only slightly in 2018 (-1%). At the same time, all other company categories recorded a strong reduction (-10%). However, the rebound in the number of corporate insolvencies for companies with revenues above EUR 10 million (206 insolvencies recorded in 2018, i.e. +16%) must be noted (**Chart 5**).

The difference in the evolution of the average size of insolvencies in financial and job terms in 2018 can be attributed to large bankruptcies of private security companies with a large workforce and limited revenue.

In 2018, insolvencies were mainly concentrated in the distribution and agri-food sectors. Three out of five of the largest insolvencies were in the distribution sector. In the retail sector, the toy segment was particularly affected, notably due to the strength of e-commerce, as illustrated by the insolvencies of TOYS'R'US and LUDENDO (sales revenue of EUR 326.8 million and EUR 151.4 million respectively). On top of these two insolvencies in the distribution sector comes that of the telephone wholesaler AUDIM (sales revenue of EUR 143.1 million). The other large insolvencies during the year, in terms of sales revenue, were in the meat sector: DOUX (EUR 316.1 million), and the co-operative UKL-Arrée (EUR 216.5 million).

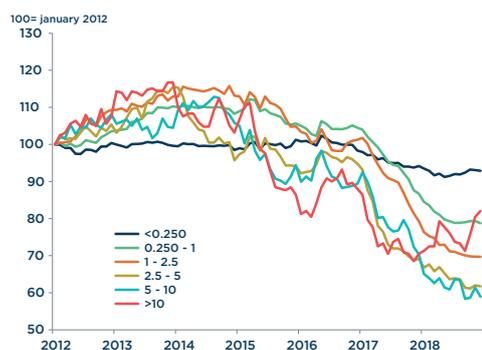
## The situation for all the key sectors deteriorated in the second half

All the key sectors for insolvencies – particularly construction and personal services, which alone account for almost half of total insolvencies (**Chart 6**) – followed similar trends in 2018, with a deterioration in the second half (**Charts 7 and 8**).

The cyclical reversal in construction, as illustrated by a 5.3% decline in building permits in the first 11 months of 2018, was reflected in a rebound in insolvencies in the second half of the year. Moreover, the slowdown

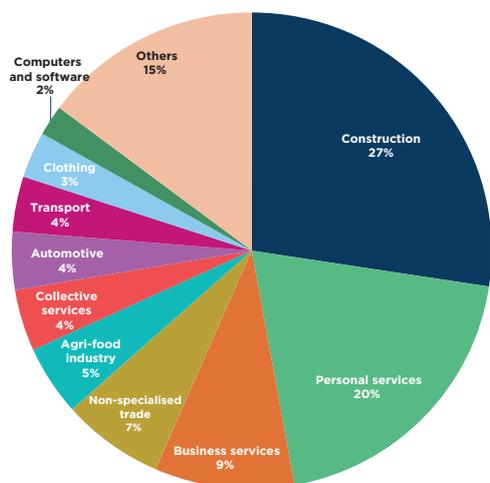
in household consumption – which appears to have grown by only 0.8% according to Coface forecasts, after growth of +1.1% in 2017, against a background of tumbling consumer confidence – mainly affected personal services, distribution (non-specialised trade) and, at the end of the year, automobiles, with new vehicle registrations down 8%<sup>1</sup> in the last four months of the year. While insolvencies also rose in road freight transport (+9%), over 90% of the increase in insolvencies in the transport sector can be explained by taxi drivers. Nonetheless, the strong climb in taxi insolvencies can be attributed to an increase in the number of drivers of private hire vehicles, which automatically brings more businesses into the segment and ultimately results in an increased number of insolvencies. Finally, agri-food recorded a rise in insolvencies due to the difficulties experienced by bakers in a context of climbing cereal prices following the drought in the summer and early autumn of 2018.

**CHART 5**  
Insolvencies by turnover brackets (in million euros)



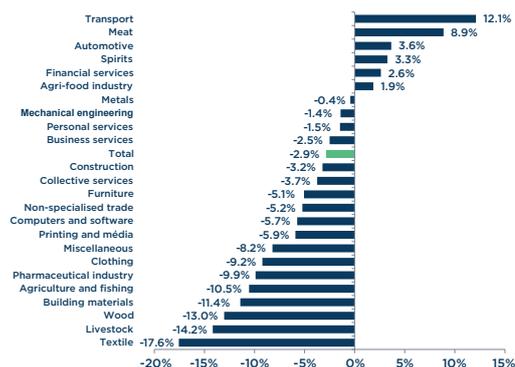
Sources: Ellisphere, Coface

**CHART 6**  
Breakdown of insolvencies by sector in 2018



Sources: Ellisphere, Coface

**CHART 7**  
Insolvencies in the key sectors in 2018 (over 12 months)



Sources: Ellisphere, Coface

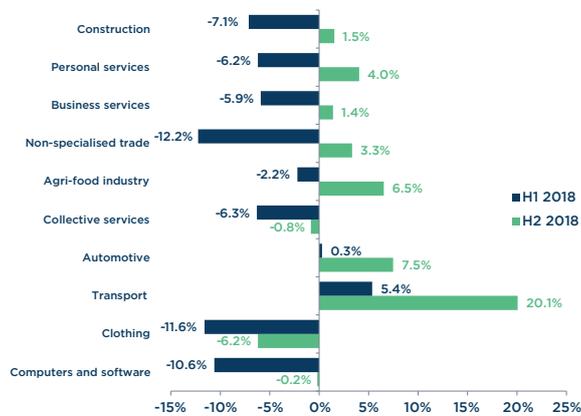
**Very limited effect of the *gilets jaunes* on insolvencies in late December 2018, with the exception of clothing retail**

The impact of the *gilets jaunes* (yellow vests) movement is hardly noticeable in the insolvency figures for December 2018, during which they were 3.6% lower than those recorded for December 2017. The number of trade insolvencies – trade being the sector most exposed to disruption – fell by 16% for wholesale (B2B) and by 1% for retail, compared with the same month in the previous year. The only sub-segment which seems to have been affected is that of clothing retail, which saw an increase of 22%, i.e. 15 more insolvencies than in December 2017 across the whole of France. Moreover, while the rise in insolvencies in the food service sector in December (+6%) followed the trend for the second half when they were up by 8%, the number of bars and cafes in financial difficulty was down (-7%). Tourism, the other sector exposed to the disruption caused by the *gilets jaunes* movement, seems to have been slightly affected, with 32 insolvencies in December compared with 23 in the previous year. Nonetheless, considering this small number of insolvencies, the movement cannot be considered as having had a significant effect, even on these sub-sectors. However, any potentially significant effects are likely to be more noticeable in the figures for January or even the months thereafter, if the movement continues in the long-term.

**TABLE 1**  
Number of insolvencies in the sectors exposed to the *gilets jaunes* movement.

	December 2017	December 2018	Growth in december (YOY)	Growth in H2 2018 (YOY)
Retail trade	524	519	-1%	-1%
of which clothing	69	84	22%	-6%
Wholesale trade	224	189	-16%	-1%
Food Services	418	443	6%	8%
Beverage establishments	107	100	-7%	6%
Hotels	23	32	39%	-39%
<b>All sectors</b>	<b>4,143</b>	<b>3,992</b>	<b>-4%</b>	<b>2%</b>

1 - Beyond the slowdown in household consumption, this fall in registrations is also attributable to other sector-specific factors, such as the implementation of new anti-pollution standards.

**CHART 8**  
Growth in insolvencies by sector in 2018

Sources: Ellisphere, Coface

### Insolvencies fall in all regions - with the exception of Hauts-de-France and, especially, Ile-de-France

The decline in insolvencies concerns the whole of France, with eleven out of thirteen regions reporting fewer corporate insolvencies in 2019 (Chart 9). Nonetheless, Ile-de-France is one of the two exceptions, and the main region for insolvencies: in keeping with its economic importance, more than one insolvency in five was recorded. While there was a slight rebound in insolvencies in Hauts-de-France, the increase was more marked in Ile-de-France. Several key Ile-de-France sectors saw their situation deteriorate in 2018: personal services (+13%, on account of traditional restaurants and especially fast food outlets, driving schools, hairdressers), construction (+2%, decorating, roofing, plastering) and automobiles (+21%, dealerships).

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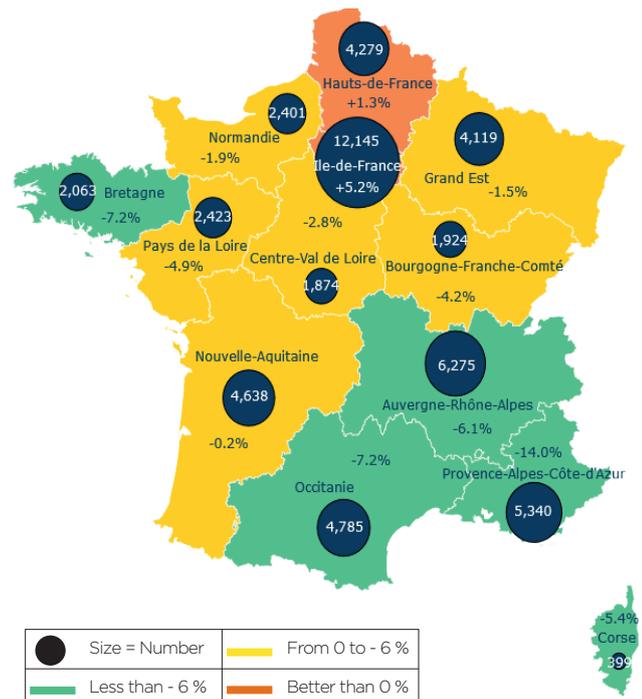
### Heading for a rise in business insolvencies in 2019

According to Coface's forecast model, 53,192 corporate insolvencies will be recorded in 2019, representing an increase of 1% compared with 2018 (Chart 1):

$$\text{Insolv}_t = -404.2 \text{ GDP}_{t-2} + 0.36 \text{ Insolv}_{t-1} - 171.5 \text{ ConfConstruction}_{t-1} + \epsilon$$

(0.03)                      (0.02)                      (0.01)

The rebound in the number of insolvencies in 2019 is attributable to all the model's variables<sup>2</sup>. Firstly, according to the Coface forecast, GDP growth will slow in 2019, falling from 1.5% to 1.4%, hit by a less promising international environment (slowdown of main partners, greater protectionism) and by supply constraints (production capacity and manpower). At the same time, with construction having begun a cyclical reversal last year, the confidence index for construction is expected to worsen gradually in 2019.

**CHART 9**  
Insolvencies in France in 2018

Sources: Ellisphere, Coface

<sup>2</sup> - The variable "change in the construction sector confidence index in the previous quarter" is significant within a 99% confidence interval. Likewise, the variables "GDP growth two quarters before" and "change in business insolvencies in the previous quarter" are significant in a confidence interval of 97% and 98% respectively. Therefore, the forecasting model is significant in the standard confidence interval of 95%.