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The construction sector, overrepresented among French company insolvencies, with risks that will continue to increase in 2014

Construction, the most “costly” sector for companies

The construction sector is currently in something of a paradoxical situation: More than one in three company insolvencies in France still come from this sector, despite the property market remaining relatively resilient during the 2008-2009 crisis. At the end of October 2013, this involve over 20,000 companies (+5% in a year), with 78% in building and public works. The situation in the property and construction services segments is less severe, but the decline was more marked (insolvencies were up +3.5% and +9% in a year).

Another significant difference following crisis: There are now increasing numbers of insolvencies among older and larger companies, made more vulnerable because of the length of the crisis.

Unsurprisingly, the cost¹ of these insolvencies continues to rise. With an increase of 9.6% in a year², they now account for almost 30% of the total cost of insolvencies in France, which makes the construction sector the most “expensive” sector, far ahead of the food industry and the distribution sector. The “social” cost is on the same worrying trend: around 60,000 jobs were under threat in construction, with an average loss of 2.88 jobs caused by each insolvency.

The level of financial vulnerability among companies worsened by lack of opportunities

The continuing growth in the number of insolvencies and in the cost is mainly due to the growing financial fragility of the sector, consisting at 95% of micro-companies. Profitability for construction companies has worsened substantially since 2009, and the rate of self-financing dropped 44% in 6 years, from a level that was twice as high as the average for French companies.

This vulnerability is made worse by the lack of business opportunities. The companies are facing weak demand, as can be seen with the slight decline in property prices, which Coface now estimates to be around 30% undervalued. This decline has an impact on activity through a slowdown in investment and household consumption.

The results of this are seen in the sharp rise in non-payments recorded by Coface since the 2nd quarter 2013 and credit risk remains high in the construction sector, close to that registered early 2009.

¹ Total outstandings to suppliers of each insolvent company

² Between November 2012 and October 2013



P R E S S R E L E A S E

2014: Coface is expecting a +7% increase in company insolvencies in the construction sector

Coface remains cautious about the outlook for the construction sector in 2014. Building approvals, which are tomorrow's worksites, were down -16% at the end of September 2013, meaning that there will not be any real and sustainable recovery for new builds before the 2nd quarter 2014. The traditionally more dynamic home improvement market is facing uncertainty, as households adopt a wait-and-see approach. Order books will continue to deteriorate for public works, suffering from the increasing scarcity of contracts.

Finally, Coface is expecting a continuation of the downwards trend in property prices. Using this hypothesis for the Coface statistical model, this shows that a -5% fall in property prices will trigger a +7% increase in the number of company insolvencies. Combined with the expectation of weak growth in France (+0.6% according to Coface), this would seem indicate that the number of insolvencies in the construction sector will be in the vicinity of 22,000 next year, an increase of almost +7%.

"The over-representation of company insolvencies from the construction sector in France is striking. It has been at least 30% of the total since 2006, compared with 19.4% in Germany, and regardless of any fluctuations in growth rates. On top of this, these insolvencies are increasing at a faster rate than the average for other sectors. This divergence will get bigger in 2014: +7% for construction, against a stabilisation, although at a high level, for company insolvencies as a whole", says Jennifer Forest, Economist with Coface.

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About Coface

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