Grant Thornton

An instinct for growth™

Focus on: *France*

Grant Thornton International Business Report 2014

Introduction

France is an advanced economy of more than 65m people. In 2012, its GDP was approximately US$2.6 trillion, making it the fifth largest economy in the world and the second largest in the eurozone behind Germany.

Drawing on data and insight from the Grant Thornton International Business Report (IBR), the Economist Intelligence Unit (EIU) and the International Monetary Fund (IMF), this short report considers the outlook for the economy, including the expectations of 300 business leaders interviewed in France, and more than 12,500 globally, over the past 12 months.

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300 business interviews

65 million inhabitants

Economy

Economy outlook remains delicately balanced

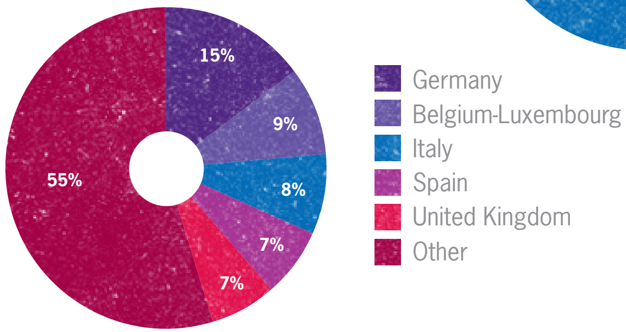
The economy of France continues to suffer as the eurozone crisis continues. Following a deep contraction in 2009, the economy recovered robustly, posting seven consecutive quarters of expansion.

However, France has stagnated over the past two years as problems in southern Europe intensified, with growth slowing as unemployment and government debt rise. Other economies in the eurozone, namely Germany, Belgium, Italy and Spain are key trade partners; principal exports include cars and aircraft. Business leaders remain relatively downbeat about growth prospects, but sentiment has broadly improved over the past 12 months.

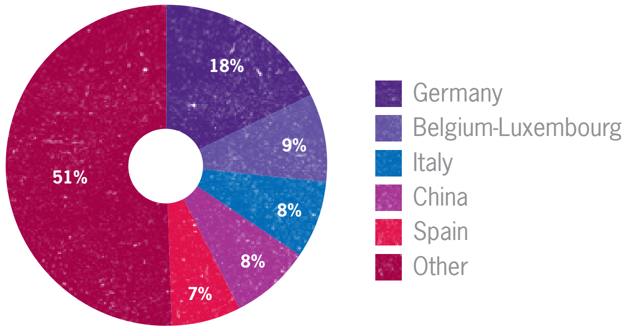
Key indicators

- the economy contracted by 0.1% in Q3-2013, down from growth of 0.5% in the previous quarter
- fixed investment declined by 0.6% in the third quarter, bringing the cumulative decline over the past seven quarters to 4.9%, wiping out most of the gains made in 2010-11
- exports contracted by 1.5% in Q3, while imports increased by 1%
- in the year to October 2013, exports fell by 2% to eurozone and 1.4% to non-eurozone countries, although the trade deficit declined to €5.8bn in October from a monthly average of €6.9bn
- construction activity declined by 4.0% in the third quarter from the previous three-month period, while industrial production fell by 1.3%

Main destinations of exports



Main origins of imports



Source: Observatory of Economic Complexity (2013)

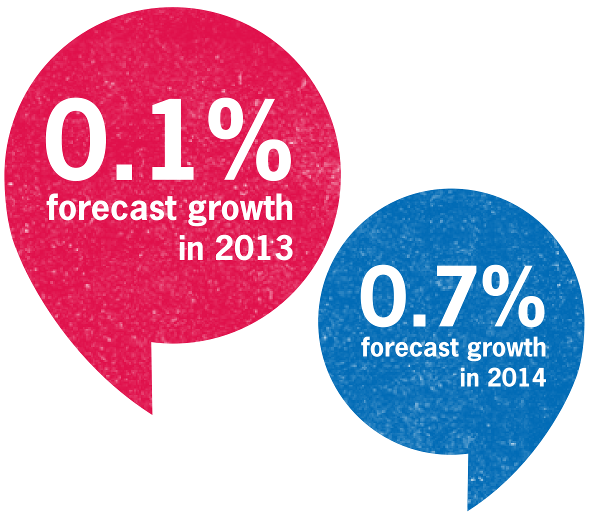
Economic outlook

The French economy is expected to have grown by just 0.1% in 2013, compared with 0.5% in Germany and 1.5% in the United Kingdom. However, expansion of 0.7% is expected in 2014, rising to 1.4% in 2015 as external conditions improve. Following a decline of 2.5% in 2013, improving sentiment should see investment activity move into positive territory again with expansion of 0.9% forecast in 2014, accelerating to 2.4% in 2015.

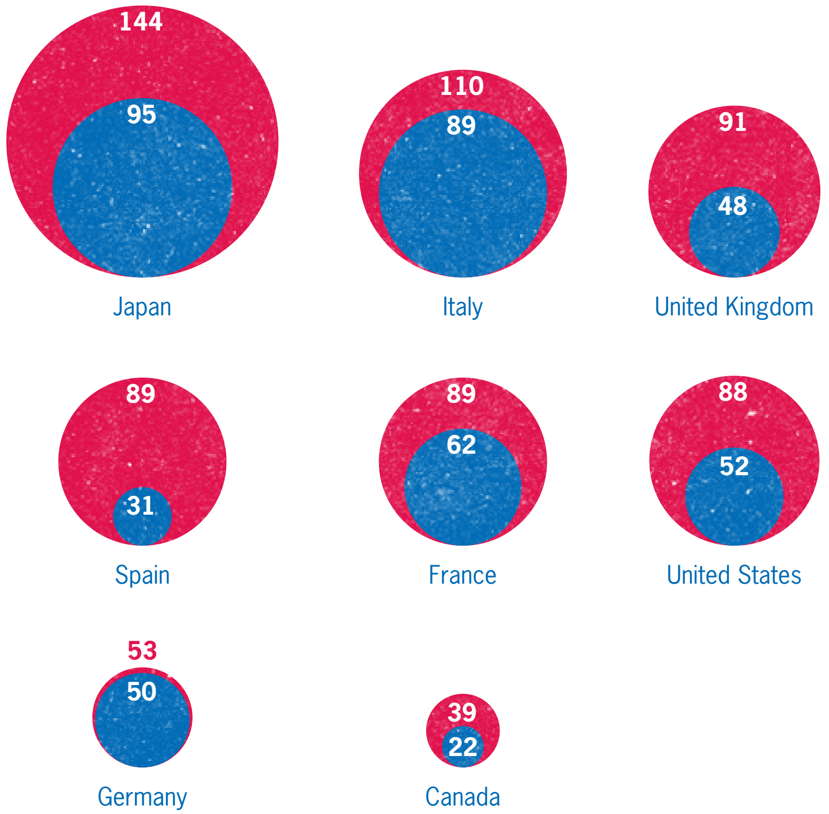
Exports are expected to rise from just 0.3% growth in 2013, to 2.8% in 2014 and 3.6% a year later. Large deficits on the merchandise trade balance are likely to persist but the current account deficit is expected to remain steady at around 2% of GDP owing to large surpluses on the services and income balances.

Efforts to meet the European Commission budget deficit targets are now unlikely to be reached before 2015, with a budget balance of -3.7% expected for 2014. Net government debt is expected to peak at 89% of GDP in 2015, up from 62% in 2008. President Hollande recently announced a series of measures including a €30bn cut in payroll taxes to boost both job creation and the economic recovery.

Aside from efforts to consolidate public finances and high labour costs dampening the competiveness of French firms, France is also grappling with an unemployment rate touching 11%. Rates in troubled southern European economies such as Italy and Spain are higher but even as the economic outlook improves in France, only minor improvements are expected with the proportion out of work not falling below 10% until 2017.



General government net debt (% GDP)



Source: International Monetary Fund (2013)

2008
2015

Business growth prospects

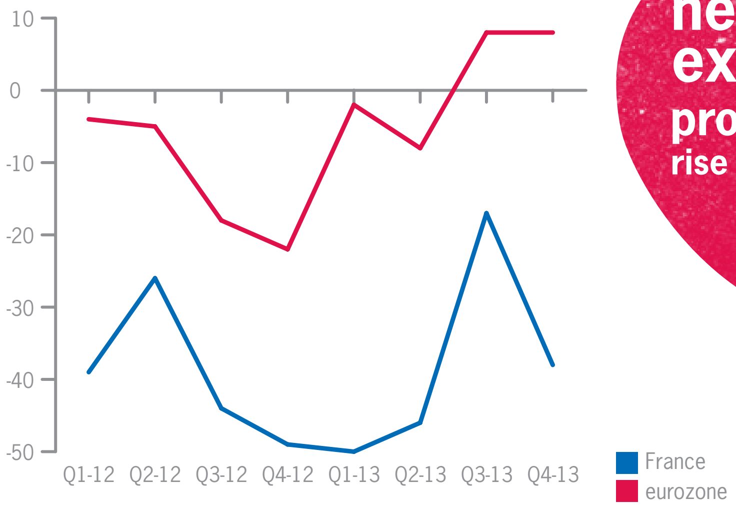
French business leaders are the most pessimistic in the world heading into 2014; net -38% express optimism about the year ahead (meaning the majority are pessimistic, as they have been for the past ten quarters consecutively). This comes as developed economy peers such as Germany, Japan, the UK and the US are surfing a wave of renewed optimism.

This lack of confidence in the economic outlook feeds into business leaders' own growth prospects. Just net 8% of French business leaders expect their profits to grow over the next 12 months, behind Italy (10%) and Thailand (16%) and the lowest in the 45-economy survey. Similarly profitability expectations fell to -4% in Q4, down from 30% in Q3 and level with Argentina and Italy as the least positive in this regard.

However, taking 2013 as a whole, the situation for French businesses has improved. On average over the course of 2013, net 17% expected to increase revenues, compared with just 9% in 2012. Profitability expectations were also up on an average annual basis from just 5% in 2012 to 16% in 2013.

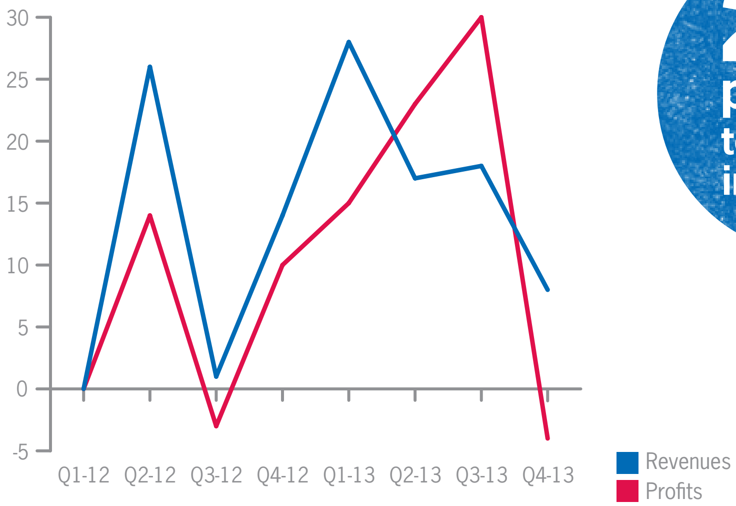
Investment plans also remain fairly robust, pointing to improved longer-term growth prospects. Net 25% of business leaders expect to invest in plant and machinery over the next 12 months, up from 19% in Q3 although well below the eurozone average (34%).

Net percentage of businesses optimistic for their economy (next 12 months)



Source: Grant Thornton IBR 2013

Net percentage of French businesses expecting an increase (next 12 months)



Source: Grant Thornton IBR 2013

Business growth constraints

Continuing economic uncertainty, driven by the ongoing eurozone crisis and the actions of a deeply unpopular president, is the top growth concern cited by business leaders in France. 64% businesses cite uncertainty as a constraint on their 2014 expansion prospects, up from 46% in the previous quarter. This is above the eurozone average (44%) and even above levels in troubled southern Europe (59%).

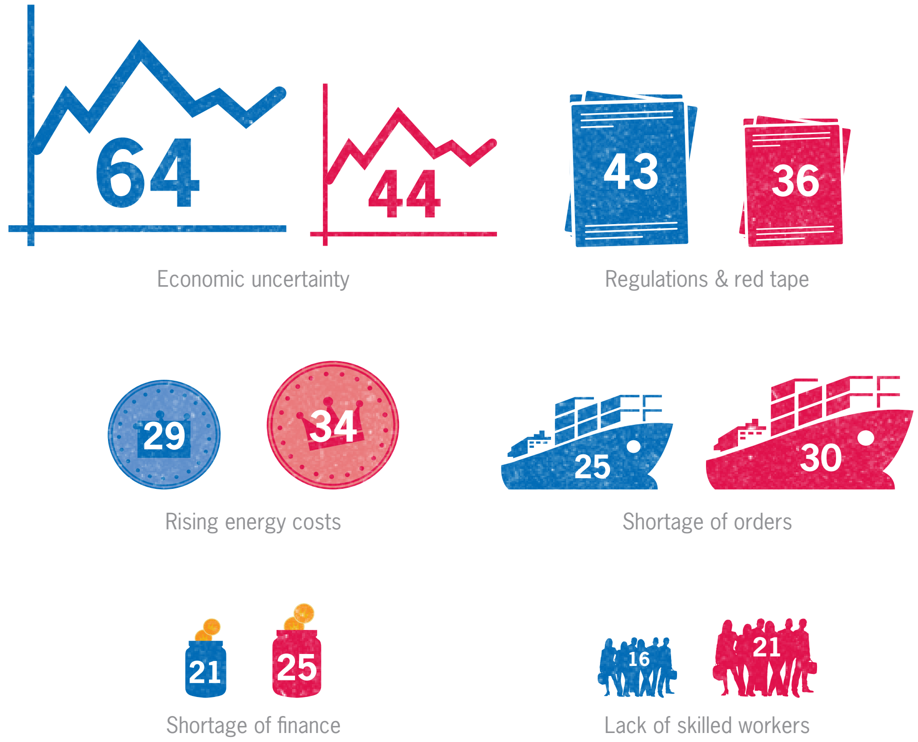
Regulations and red tape is cited by more than two in five business leaders as a constraint on their ability to grow their operations; at 43%, this is well above the eurozone average (36%). On average, this constraint has climbed for the past three years consecutively, from 33% in 2011 to 37% in 2012 to 39% in 2013, and is now close to double pre-crisis levels (24% in 2008).

A shortage of orders has affected more than a third of businesses in France over the past 12 months, but this dropped to a quarter in Q4-2013 and the annual average has now declined for the past five years from a peak of 58% in 2009.

Rising energy costs are a concern for 29% of businesses in France. However, this is below the eurozone average which is driven up by Germany (36%) where the government moved to phase out nuclear power following the Fukushima disaster in Japan.

With unemployment in double figures, business leaders in France are also comparatively untroubled by a lack of skilled workers (16%).

Percentage of businesses citing factor as a constraint on growth



Source: Grant Thornton IBR 2013

France
eurozone

A split at the heart of Europe

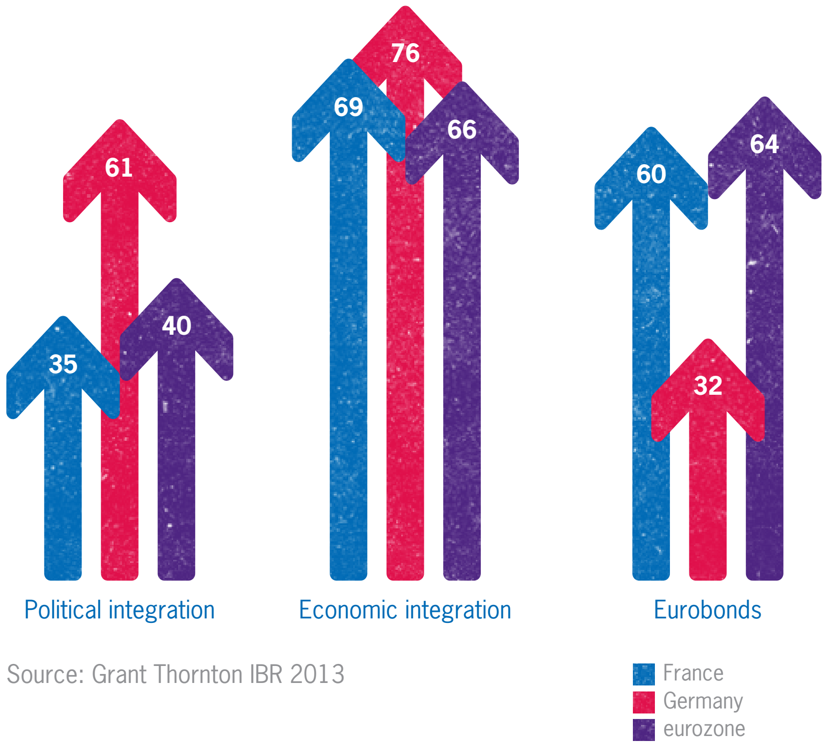
France and Germany sit together at the heart of Europe, at first as the architects of a project that looked to unite a continent ravaged by war, and now as its two largest economies. However, the sovereign debt crisis has placed a new strain on this relationship with France caught somewhere between the profligate southern European nations, such as Italy, Greece and Spain, and their more austere peers to the north, such as Germany, Finland and the Netherlands.

The divergence with Germany is of particular concern as it creates further uncertainty which damages business growth prospects. Politicians and business leaders in the two countries express very different visions for the currency bloc's future, largely driven by the very different economic situation they find themselves in. For example, Germany, which has remained competitive by keeping wages low and increasing its share of non-eurozone exports, is expected to grow by 1.4% in 2014, double the rate in France; unemployment in France stands at 10.7%, more than double the rate in Germany; and while Germany balanced its budget in 2013, France will not reach the 3% budget deficit target until 2015.

Given this economic backdrop, it is perhaps unsurprising that the gap in growth expectations of businesses on either side of the Rhine is so wide. France has the most pessimistic business community heading into 2014, Germany the 12th most optimistic globally, and the fourth most optimistic in Europe. Net 46% of business leaders in Germany expect to increase profits over the next 12 months, compared to -4% in France; 26% of German businesses expect to increase exports in 2014, compared to just 14% in France.

Business leaders also have very different ideas about how to solve the eurozone crisis. Businesses in Germany are far more open to further integration compared with their French counterparts, echoing German Chancellor Angela Merkel's calls for deeper union. 61% of German businesses support further political integration and 76% further economic integration, compared with 35% and 69% in France respectively. The two economies also have understandably different views on debt mutualisation: 60% of French businesses back so-called Eurobonds, compared to just 32% in Germany.

Percentage of businesses supportive of following initiatives



Source: Grant Thornton IBR 2013

IBR 2013 methodology

The Grant Thornton International Business Report (IBR) is the world's leading mid-market business survey, interviewing approximately 3,300 senior executives every quarter in listed and privately-held businesses all over the world. Launched in 1992 in nine European countries, the report now surveys more than 12,500 businesses leaders in 45 economies on an annual basis, providing insights on the economic and commercial issues affecting companies globally.

The data in this report are drawn from interviews with chief executive officers, managing directors, chairmen and other senior decision-makers from all industry sectors in businesses with 100-499 employees. Q4 data is drawn from 3,300 interviews globally (75 in France) conducted in November and December 2013. 2013 data is drawn from over 12,500 interviews (300 in France) conducted between January and December 2013.

To find out more about IBR, please visit: www.internationalbusinessreport.com.

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