Press release

Euler Hermes Barometer: an additional €44 billion in exports available to French companies by 2017

- **In 2016, the increase in exports by French companies is expected to fall to €10 billion, three times lower than it was in 2015 (€27 billion). But the export increase will rise to €34 billion by 2017**
- **Eight out of ten of the companies surveyed expect their export revenue to rise in 2016**
- **Unpaid invoices, currency risk and lack of financial information remain the three biggest obstacles to export for more than one out of every two companies**
- **The euro zone is regaining its position as the preferred destination of French exporters, who are seeking alternative ways of developing internationally (acquisitions and partnerships). The return of country risk is dampening enthusiasm: only one in four companies plans to invest more overseas in 2016, whereas in the previous barometer it was one in three**

PARIS – 31 MAY 2016 – With the help of its 23 regional branches covering the whole of France, Euler Hermes, the global leader in credit insurance, surveyed more than 900 French exporters about their international development plans. The results are in this exclusive barometer focusing on French companies and the export market.

In France, there is a dichotomy in 2016 between improving domestic demand (with investment supporting growth for the first time since 2011) and static external demand. France's economy is on the mend and becoming more competitive, but exports are generating less revenue because lower commodity prices have spread to other goods and the depreciation of emerging currencies has compounded this negative price effect. This is expected to result in a deepening of the trade deficit to €55 billion.

2017 should be less difficult for exports. Although global growth is expected to remain below 3%, price effects should have a more favorable impact.

I. 2016 is a difficult year for French exporters, but this is expected to be a temporary blip

- **Only €10 billion of additional exports available to French companies in 2016 because of a price effect...**

"French companies have partially passed on the fall in the oil price in their export prices, which has impacted the value of trade flows," explains Ludovic Subran, chief economist at Euler Hermes. "The depreciation of emerging currencies has compounded this price effect, leading to a decrease in the export prices charged by French companies between mid-2015 and Q1 2016. As a result, French exports are expected to grow by as little as €10 billion in 2016, almost three times more slowly than in 2015, when they increased by €27 billion."

This surplus demand will originate mainly in Germany (up €2.7 billion), Spain (up €1.5 billion) and the United States (up €1 billion). A major refocusing of French exports is expected on the euro zone in 2016, with this area, led by Germany, Spain, Belgium, Italy and the Netherlands, accounting for more than two-thirds of French export growth. Capital goods (+€3.1 billion), chemicals (+€1.9 billion) and automotive (+€1.9 billion) will benefit from this more directly than other sectors.

- **... but a bounce back is expected in 2017, with €34 billion in additional exports**

The weak growth in the value of French exports in 2016 appears to be just a temporary phenomenon. With global trade expected to grow by 3.4% in 2017 and more favorable price effects (the oil shock will be over), French exports are expected to grow by €34 billion - a rate more in line with the potential of French exporting companies. Exports will be more concentrated in Europe than previously as French exporters benefit from the upswing in European growth. At the same time, overseas markets will also stage a comeback, with China featuring among the ten biggest export destinations again (up €1.3 billion in 2017).

- **Geographic exposure that protects France against non-payment and currency risks**

The French export company insolvency index is expected to fall in 2016 (by 3.3%), as it did in 2014 and 2015. France is boosted in this area by its strong European exposure and the euro zone's economic recovery. "Western Europe is the only region where company insolvencies will continue to fall in 2016 (by 5%) and 2017 (by 3%), with very sharp decreases in Spain (10%) and Italy (8%)," explains Stéphane Colliac, economist for France at Euler Hermes. Moreover, the fact that the lion's share of exports are within the euro zone gives French companies excellent protection in a period of extreme currency market volatility, often combined with increased protectionism (more than 700 new protectionist measures worldwide in 2015).

"Non-payment risk remains high for French exporters. The expected number of insolvencies in western Europe is much higher in 2016 than it was before the crisis, the export insolvencies index having increased by 43% between 2007 and 2016," remarks Hubert Leman, Euler Hermes France Executive Committee member.

- **France is improving its competitiveness thanks to public policies**

The impact of reductions in charges on labor costs is beginning to emerge. France is becoming more competitive in relation to Germany, where salaries have increased: the difference between the cost of labor in the two countries' trade sectors is expected to contract from 10 points in 2012 to just 5 points by 2017, which will boost France's ability to capture European demand. "The advent of France's Responsibility Pact has enhanced the effects of the movement triggered by the CICE competitiveness and jobs tax credit: in 2015, France's economy began to catch up with Germany's in terms of competitiveness. These measures have cut costs for companies, without - as our European neighbors did - reducing salaries. This initiative corresponds to a reduction in labor costs of almost 3% at the end of 2015 and 5% by end-2017," continues Ludovic Subran.

II. Conscious of the risks associated with exports in 2016, the 900 SME and intermediate-sized companies surveyed were more apprehensive than in 2014 and prefer to concentrate on the euro zone

- **Almost eight out of ten of the companies surveyed expect to increase their export revenue**

Euler Hermes noted a slight decrease in the number of companies seeking to increase their export revenue, at 79% in 2016 compared with 83% in 2016, with firm intentions steady at 49% and probable intentions falling to 30% (from 34% in 2014). This decrease can be attributed to uncertainty at the international level, reflecting weak global economic growth, exchange rate volatility, persistent political risk and the rebound in company insolvencies globally. Long-distance opportunities are hard won.

Firm intentions are higher in the services (66%) and consumer goods (53%) sectors, which are taking advantage of households' increased purchasing power and continue to offer opportunities for French companies, particularly in Europe.

- **Non-payment risk still the biggest concern, with currency risk and political risk on the rise**

As in 2014, non-payment risk is the number-one concern for French exporters, 59% of which are worried that their clients will be unable to honor their commitments. "This risk perception is exacerbated by the difficulty of obtaining financial information on clients, a problem cited by 51% of survey respondents," stresses Hubert Leman. Underlying this fear is the resurgence in 2016 of company insolvencies at a global level (up 2%), the first rise since 2009.

It is worth noting that 55% of companies are concerned about currency risk, compared with 39% in 2014. The situation in emerging countries is worrying exporters. "The fall in commodity prices and the less accommodative US monetary policy have contributed to the massive depreciation of emerging currencies, alarming those who have seen currency risk adversely affecting their balance sheet," explains Stéphane Colliac.

Lastly, 41% of French exporters remain very sensitive to political risk, which has re-emerged at the international level. Euler Hermes downgraded the short-term country-risk rating of 11 economies, including those of China and Brazil, in early 2015.

Meanwhile, export-related trade receivables have become more difficult to manage, with 19% of French exporters reporting longer payment lead times over the last 12 months. "The transport sector is a striking example: 25% of companies in this sector reported lengthening payment lead times over the past year. This pressure stems from sluggish international trade and falling transport costs; the Baltic Dry index is four times lower today than its 2013 level. All of this has stymied corporate profit margins," claims Stéphane Colliac.

- **A desire to export, but not too far**

In terms of preferred destinations, French companies are refocusing on the euro zone, with Germany, Spain and Belgium at the top of the list. Italy has regained two positions to fourth place, ahead of the UK and the US. The resurgence of currency risk is making companies cautious.

Whereas Brazil, Algeria and India were leading the pack in terms of intended export destinations in 2015, the 2016-17 leader board has changed. "The United States is the most targeted destination over the upcoming quarters. French exporters have not enjoyed all the benefits of an uninterrupted eight-year run of average-2% growth that looks set to continue, and they want to catch up, starting this year," continues Ludovic Subran. Spain, meanwhile, has climbed to third position thanks to a resumption of economic growth (2.6% in 2016), among the strongest of all euro-zone countries.

Companies are reluctant to tackle new markets, however, with only one out of two French exporters prepared to take the plunge in 2017. "With an intensification of currency and political instability risks, only 29% of French exporters are targeting the BRIC countries, compared with 49% in 2014; it is fair to consider the BRICs as ‘fallen angels’, in this respect," comments Stéphane Colliac. At sector level, agrifood and capital goods are proving the least sensitive, thanks to their renewed competitiveness; in these sectors, more than half the companies surveyed are prepared to export to a new destination.

- **Exporting or investing abroad: which is the best strategy in a turbulent world?**

64% of companies prioritize exporting over local operations as an international development strategy. Their high concentration of exports in Europe means they do not have to contend with protectionist barriers. Moreover, the most export-led sectors are those that benefit fully from the single market (farming, agrifood).

36% of companies prioritize local operations. This choice is driven essentially by ease of access to the market and closeness to the consumer (51%) rather than the cost of labor (9%) or local taxation (4%). Service sector companies, for which trade barriers remain higher, are the ones that place greater priority on local operations. The figures for mergers and acquisitions, which increased by 19% in 2015, support the assumption that French companies are gaining in purchasing power despite experiencing mounting export difficulties. This more capitalistic international development is worth 1.2 GDP percentage points.

However, companies' willingness to commit to foreign investment is being affected by the return of country risk: only 26% of surveyed companies plan to invest more abroad in 2016 (compared with 32% in 2014) - the same proportion as intend to invest in France. Although exchange rates currently favor French companies, the perceived economic instability and the risks besetting assets are carrying the day.

\# # #

Press release

Contacts:

Euler Hermes France
Maxime Demory +33 (0)1 84 11 54 31
maxime.demory@eulerhermes.com

Publicis Consultants
Romain Sulpice +33 (0)1 44 82 46 21
romain.sulpice@mslfrance.com

Euler Hermes Group Media Relations
Rémi Calvet
+33 (0)1 84 11 61 41
remi.calvet@eulerhermes.com

Euler Hermes France
As the market leader for credit insurance in France, Euler Hermes France, a subsidiary of Euler Hermes Group, contributes to the profitable growth of companies by insuring their receivables. Its mission is to mitigate customer risk in France and abroad, collect late payments and indemnify losses incurred.

Euler Hermes is the global leader in trade credit insurance and a recognized specialist in the areas of bonding, guarantees and collections. With more than 100 years of experience, the company offers business-to-business (B2B) clients financial services to support cash and trade receivables management. Its proprietary intelligence network tracks and analyzes daily changes in corporate solvency among small, medium and multinational companies active in markets representing 92% of global GDP. Headquartered in Paris, the company is present in over 50 countries with 6,000+ employees. Euler Hermes is a subsidiary of Allianz, listed on Euronext Paris (ELE.PA) and rated AA- by Standard & Poor's and Dagong Europe. The company posted a consolidated turnover of €2.6 billion in 2015 and insured global business transactions for €890 billion in exposure at the end of 2015. Further information: www.eulerhermes.com, LinkedIn or Twitter @eulerhermes.