

## **Euler Hermes: Business failures in France remain at a record high in 2014**

- *Economic growth (+0.4% in 2014 and +0.8% in 2015) is not enough to reverse the curve of business failures, which remains high (63,400 in 2014 and 2015)*
- *One in two French regions has experienced a new increase in business failures*
- *Nine out of ten insolvency procedures ends in compulsory liquidation*

**PARIS - 24 NOVEMBER 2014** - [Euler Hermes](#), the global leader in trade credit insurance, delivers a comprehensive inventory of business failures in France in 2014.

### **1) Growth in France remains weak, preventing the stabilization of business failures**

At +0.4%, France's growth rate remains under 1% for the third year running, a situation not encountered since World War II. Household consumption remains sluggish and investment has been in decline since mid 2011 (11 cuts in the last 13 quarters). A slight improvement is, however, expected in 2015. Growth should reach +0.8%, thanks in particular to an automatic upswing in investment by businesses and slightly more dynamic external trade, based essentially on a scenario involving a sustained weakening of the euro.

This respite will not be enough to stem the rise of business failures: observations over a long period show that an average of +1.7% growth in GDP is needed to set in motion a real ebbing of business failures. They will therefore continue to rise in 2014 (+1%) and even reach a record high in terms of volume, greater than at the height of the crisis: 63,400 business failures expected in 2014 and 2015, compared to 62,714 in 2009.

The situation looks slightly better in terms of export: after a +5% increase in 2013, the Euler Hermes IDEX index, which tracks company insolvency trends among France's leading export partners, is expected to show a -15% reduction in risk in 2014 and -3% in 2015, mainly as a result of the emergence of major economies, such as Spain, from recession.

"The export outlook is favorable to French companies but they must remain vigilant: the default risk remains high in many countries as we head into 2015. The insolvency rate will remain 60% higher than pre-crisis levels in our key trading partners (2003-2007 average). Business failures increased by +10% in Italy and +4% in Brazil in 2014," said Maxime Lemerle, Head of Sector Research at Euler Hermes.

### **2) Insolvency among large enterprises remains high**

SMEs (with turnover of between 250,000 and 2 million euros) remain subject to a sharp rise in business failures: +3.7% in 2014<sup>1</sup>, after +7.2% in 2013 and +6.4% in 2012. They represent 21% of business failures in France, i.e. more than 13,000 businesses per year.

Things were starting to look up for large companies (more than 15 million euros in turnover) at the start of 2014, but there has been a new upturn in business failures since spring. In the last 12 months, (to end September), more than 180 large enterprises have entered into insolvency proceedings. This volume remains very high and has been rising steadily over the past ten years.

"Large company failures represent an aggregated turnover of 8.9 billion euros and an aggregated 1 billion euros in trade payables," noted Nicolas Delzant, chairman of the Board of Management of Euler Hermes France. "The slowdown in household consumption, combined with further pressure on prices and margins already squeezed, has proven too much for cash positions already shaky in the wake of recent years."



### **3) One in two French regions has experienced an increase in business failures over the past 12 months.**

In 2014<sup>ii</sup>, business failures increased by more than 1% in half of regions and by more than +6% in three of them: Corsica, Upper Normandy and Limousin. Overall, the number of business failures remains very high throughout France, including in regions where trends are more encouraging. Picardy, for example, has posted a fall in business failures of -7% in the past 12 months but still has a level of company insolvency more than 12% higher than in 2009, when the last peak was recorded. In total, 15 regions continue to post higher numbers of business failures than in 2009, with Upper Normandy and Champagne Ardenne, at +24% and +11% respectively, particularly badly hit.

This phenomenon also affects the Ile-de-France region (+2.5% in the past 12 months), which is no longer spared from the rise in business failures. It has managed to contain the number of failures since the crisis (-7.9% since 2009), but still represents almost one bankruptcy in five.

### **4) Almost all sectors are affected**

Several sectors post slightly fewer business failures over the past 12 months. However, apart from the wholesale sector, which has been posting a downward trend for the past ten years, the other sectors are also suffering: the number of business failures is now around the highest recorded since 2000, particularly in the retail sector. Hotels and restaurants, plus the construction sector, even posted a worrying increase in business failures in 2014.

"Construction is a key sector in our economy, accounting for 5% of GDP, 25% of investment and more than 5% of the active population in France. However, it also represents almost a quarter of bankruptcies and the situation seems to be have been getting significantly worse for several months now. It is essential that the sector emerges from crisis and appropriate support measures are required to relaunch major projects, housing renovation and new build," said Nicolas Delzant.

### **5) The opening of insolvency proceedings offers little chance of a favourable outcome**

From 2006-2011, more than 70% of companies that went into administration after running into difficulty were, in the end, subject to compulsory liquidation. Similarly, 40% of safeguard proceedings ended in liquidation, with or without administration. In other words, nine out of ten businesses that enter into insolvency proceedings end up being wound up, a rate that remains higher than before the crisis.

"Since its creation in 2007, the safeguard procedure is still only rarely used," said Maxime Lemerle. "It was intended to serve as a bulwark in order to give companies time to find their feet, but has not really taken off: 90% of businesses that enter into insolvency proceedings, and which are already in a very precarious situation, struggle to find a solution and end up in compulsory liquidation."

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#### **Media contacts:**

##### **Euler Hermes France**

Sophie Rémy +33 (0)1 84 11 54 31  
[Sophie.remy@eulerhermes.com](mailto:Sophie.remy@eulerhermes.com)

##### **Publicis Consultants**

Romain Sulpice +33 (0)1 44 82 46 21  
[romain.sulpice@mslfrance.com](mailto:romain.sulpice@mslfrance.com)

##### **Euler Hermes Group**

Rémi Calvet +33 (0)1 84 11 61 41  
[remi.calvet@eulerhermes.com](mailto:remi.calvet@eulerhermes.com)



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<sup>i</sup> Data year-to-date at end September 2014

<sup>ii</sup> Data year-to-date at end September 2014, adjusted at end October

## Images:

### P1

Rise in business failures in France (year-on-year data)

Trade partners                      weight (\*)

IDEX

Germany

Belgium

Italy

Spain

United Kingdom

United States

Netherlands

Switzerland

China

Russia

Japan

Turkey

Poland

Sweden

South Korea

Morocco

(NDT= Marco dans le tableau en français. A corriger dans le doc)

Singapore

Canada

Brazil

Portugal

### P2

Number of business failures in France in 2014

And variation compared to 2009 levels

Number of business failures per region

### P3

Construction

Retail

Business services

Hotels and restaurants

Personal services

Manufacturing

Finance, insurance and real estate

Wholesale

Automobile

Transport and storage

Information and communications

Agriculture, forestry and fishing

Water, electricity, gas and waste management