

Euler Hermes Barometer: an additional €30 billion available to French exporters in 2015

PARIS – 6 OCTOBER 2014 – In its fourth export barometer, [Euler Hermes](#), the global leader in credit insurance, compiled a panorama of French exporters' intentions for 2015. In mid-2014, Euler Hermes' 23 regional branches surveyed 800 French exporters, most of them small and medium-sized manufacturing companies, to learn more about their expansion plans and international operations.

In an environment of declining investment and anemic consumption, exports remain a key driver of economic growth. With France's leading European trading partners exiting the recession and the euro slipping against other currencies, the country's trade deficit is expected to gradually diminish to €21 billion by 2015, or less than one percentage point of GDP (for the first time since 2005). French exports nevertheless remain fragile, as they depend on key sectors and a few large corporations.

I. Exports or “export reversals”? Signs of a resurgence in French exports, but are the conditions in place for companies to seize the opportunity?

- 2015: €30 billion in additional demand available to French exporters

Based on economic growth estimates for France's trading partners, additional demand for French exports should record further gains, rising from €15 billion in 2014 to €30 billion in 2015. The renewed growth in imports of French goods and services will be strongest in Germany (+€4.4 billion), the United States (+€2.9 billion) and European emerging markets¹ (+€2.7 billion), making these markets the primary targets.

Certain sectors will benefit more directly from this new demand: industrial equipment (+€6.2 billion), chemicals (+€6 billion) and agri-business (+€3.8 billion).

- Price effect? Government support programs?

A sustained slide in the euro² would contribute to French growth (+0.2 percentage points of GDP), which is expected to reach +0.8% in 2015 after +0.4% in 2014. However, a weaker euro would result in a slower decline in the trade deficit, since at least half of France's exports stay within the euro zone, whereas a non-negligible portion of imports continues to be denominated in dollars.

“Of the €30 billion in export potential for 2015, €11 billion will result from a weaker euro,” notes Ludovic Subran, chief economist of Euler Hermes. “The sectors that stand to gain from this price effect include transportation equipment, motorized vehicles and chemical products.”

Meanwhile, the government support programs for companies will give French exports a renewed boost. First, the initial phase of the French Responsibility Pact will help to lower labor costs by around 2 to 3% in 2015, thereby strengthening the price-competitiveness of many companies. Second, all of the governmental support programs (in particular the tax credit for competitiveness and employment) have enabled companies to lower the proportion of regulated services in their structural costs by around 5%. Although these support measures seldom target exports specifically, they do provide indirect support to exporters.

- The business environment remains unsettled and the export framework remains fragile

After a 4% increase in 2013, the Euler Hermes Export Insolvencies Index (*l'Indice de Défaillances à l'EXport - IDEX*)³ recorded a modest improvement in 2014 as risks contracted by 11%, driven mainly

¹ Baltic countries, Hungary, Poland, Slovakia, Turkey

² Assumption of a 10% decline in the euro vs. the dollar (observed since the euro's high in May), reflecting an approximately 5% decline in the real effective exchange rate

³ The index summarizes the risk of company insolvencies among France's leading trading partners



by the end of massive losses in such countries as Spain and the Netherlands. It is expected to decline by another 3% in 2015, as the risk of unpaid invoices remains high in many countries.

“This slight improvement in our export insolvencies index was due to certain larger economies exiting the recession,” added Nicolas Delzant, chairman of the Board of Management at Euler Hermes France. “With our leading trading partners, however, the loss rate is nearly double the pre-crisis level. In 2014, insolvencies will increase by 3% in Italy, 2% in China and 9% in Brazil. Vigilance remains necessary.”

Aside from the ever-present risk of unpaid invoices, the country needs a solid export framework to capture these potential export gains. The number of French exporters has indeed increased slightly (120,700 in 2013 compared with 119,300 in 2012) but remains small compared with such countries as Germany (250,000) and Italy (200,000). Exports are still too reliant on a few large historical players: in 2013, the volume of large export contracts reached €38.5 billion, exceeding its pre-crisis level of €37.2 billion in 2007.

II. The 800 small and medium-sized (PME) and intermediate-sized (ETI) exporters surveyed want to find new customers in overseas markets but without having to launch a major investment program. They remain lucid as to the associated risks.

- Penetration of new export markets on the increase

Some 83% of French exporters currently plan to increase their export revenues in 2015. These intentions are firm among 49% of the companies surveyed and probable among 34%.

“For the consumer goods sector, nine out of ten companies plan to increase their export revenues in 2015. This confidence results from the fresh impetus provided by expectations of a falling euro. This modest improvement in competitiveness could, to some extent, enable companies to reap the benefits of the expanding middle class in Brazil or China,” says Frédéric Andres, economist for France at Euler Hermes.

- Emerging countries gaining in appeal?

In 2014, the companies’ preferred export markets included the same trio of countries as in the two previous barometers: Germany, Belgium and Spain. One noteworthy change is the steady drop in Italy’s position to number six, behind the United States and United Kingdom, where the economic recoveries are much stronger than in the euro zone.

“Whereas Germany, China and the United States were the clear favorites among export targets in our two previous barometers, the companies participating in this year’s survey cited the following countries as their preferred targets for 2015: Brazil, Algeria, India, China, the United Kingdom and Morocco. Overseas export markets are now attracting a growing number of French companies looking to take advantage of the increasing need for infrastructure and industrial equipment as well as the steadily growing appetite for French brands among foreign consumers,” explains Ludovic Subran.

- Unpaid invoices: the number 1 risk for exports, according to the companies surveyed

The risk of unpaid invoices remains at the top of the impediments mentioned by exporters, with 55% of companies surveyed expressing concern that their customers will not be able to honor their commitments. Some 46% of the companies surveyed consider transportation, logistics and customs costs to be hindrances to exports, while 45% said they lacked the human capital to develop exports. Meanwhile, financing risk is relatively low on the list of obstacles, affecting only one out of three companies, although this risk is more of a factor in small companies.

“Among factors heightening the risk of unpaid invoices, 47% of the surveyed companies said they lacked information on potential customers’ financial situation, 39% expressed concern over the volatility of the currency used by customers to pay invoices and 36% were sensitive to political risk



or arbitrary acts of state (confiscation and expropriation),” says Nicolas Delzant. “Along with these risks comes the pressure of long payment periods for exports, which tie up the company’s cash over lengthy periods. Only 5% of the companies surveyed expect their export payment deadlines to get shorter in 2015.”

- **More companies are receiving governmental support, but investment programs have yet to be engaged**

In 2014, 37% of companies surveyed have already benefited from governmental export support programs, compared with 23% in the 2012 barometer. However, the question of which companies benefit from such measures remains open, since two-thirds of the small companies are not using them.

Meanwhile, only one company in three will step up its export investments in 2015. That is more than the relative number of companies looking to invest on French soil (one in five), but it remains limited. Sectors recording the strongest investment activity include the automotive industry, agri-business and services.

“Aside from a simple matter of trade, which is sometimes risky, exports are also an opportunity for companies to innovate by gaining exposure to new consumers and new market practices. For exports to be sustainable, companies need to invest in research in development, occasionally create a subsidiary or team up with foreign partners. Despite the companies’ best intentions for 2015, our barometer also shows their reluctance to invest in exports, since one exporter in three has already decided not to do so in 2015,” concludes Ludovic Subran.

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