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

Hong Kong, 2 December 2015

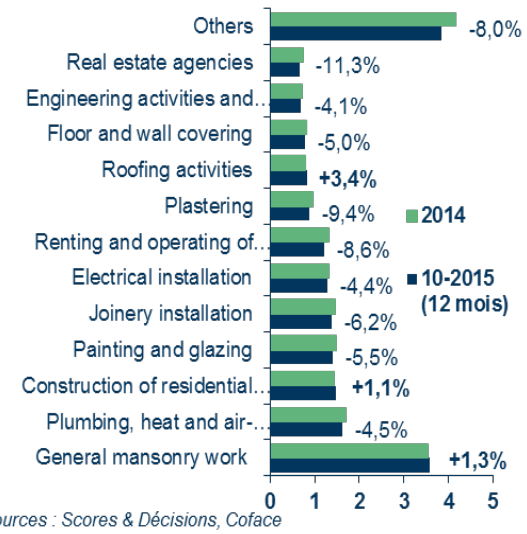
Construction: the Achilles' heel of the French economy

Following a long period of stagnation, construction in Europe is showing signs of recovery. In France it is the only sector, out of the fourteen studied by Coface, to be rated as very high risk. However confidence is slowly returning. The pace of new-build and pre-owned sales increased respectively by 1.4% year-on-year at the end of September 2015 and by 9.3% in the 2nd quarter of 2015. Nevertheless, despite this slight upturn, the volume of activity in the sector remains below its pre-crisis levels. Household demand remains weak, mainly due to high housing costs and the lack of dynamism in the labour market.

A sector that accounts for almost one third of insolvencies in France

The turnover of companies in the construction sector has been falling since 2012. The real estate services subsector is the only one to have enjoyed an upturn in activity, supported by the historic rise in property prices and the dynamic rental market.

Insolvencies in construction



Sources : Scores & Décisions, Coface

The construction sector accounts for almost one third of insolvencies in France (32.6% of the total), although it represents only 18% of the value. While small companies were the worst impacted by the 2008 crisis, the slowdown in growth between 2012 and 2013 was fatal for medium-sized companies. Thus, the average turnover of failing companies rose by 10% between January 2011 and June 2012, to 650,000 Euros.

Despite an improvement that began in May and continued through to October (a drop of 4.4%), some areas are still suffering. These include activities linked to roofing work (+3.4%) and building construction (+1.1%), as well as general masonry (+1.3%), especially in the Greater Parisian region, where insolvencies increased by 20%.

Positive signals in 2015, despite structural constraints

After falling continuously since 2011, sales of new homes accelerated in 2015. Sales were encouraged by the changes made to the Pinel legislation in January 2015 (with the possibility

of renting to a descendant or ascendant). Demand has also benefited from more favourable financing conditions, with average rates reaching an all-time low in May 2015. At the same time, prices for pre-owned homes have fallen by 7.1% since the end of 2011, while prices for new-builds have remained stable. Between January 2012 and September 2015, for the same monthly payments and surface areas, borrowing capacity increased by 10% in the new-build sector and by 17% in the pre-owned sector.

Nevertheless, household's investments continue to be influenced by their financial situations. In line with the lack of a noticeable improvement in the labour market, unemployment remains at a very high level in France (10.7% at the end of September 2015). In addition, prices still appear high and are a hindrance to first-time buyers climbing onto the property ladder. The proportion of owner households has remained unchanged since 2010, at 57.7%.

2016 will be the year when new-build prices decline and insolvency rates stabilise

The downward adjustment in property prices is still not enough for the market to stabilise in the long term. Within the OECD countries, France ranks as the sixth most overvalued property-price market in relation to household income. Without any real improvement in the labour market to support the lowest income households climbing onto the property ladder, the downward pressure on prices will continue in 2016.

"*This situation will continue to affect the financial soundness of construction companies. In a context of lower public spending, civil engineering companies will see their volume of activity continue to fall. It is symptomatic of this decline that, despite the large number of closures, these companies are still over-represented in the list of failing companies and their average size has been increasing since the end of 2014. 2016 will therefore be a year of stabilisation, rather than one of recovery*" explained Coface economist Guillaume Baqué.

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