Corporate investment and inventory

Investment by non-financial enterprises (NFE) accelerated in Q1 2017 (+1.9% after +0.9%), driven by expenditure on manufactured goods and services. Purchases of capital goods would seem to have been strongly stimulated in anticipation of the end of the one-off additional depreciation allowance. Investments in construction slowed, meanwhile. In Q2 2017, corporate investment should fall back slightly in reaction (–0.2%), before regaining momentum in H2 (+0.8% then +0.7% per quarter). On average in 2017, investment should thus increase by 2.7%, after a dynamic 2016 (+3.4.%). The investment rate is set to increase a little to 22.1% on average in 2017.

In H1 2017, the profile of changes in inventories is likely to be uneven, notably in transport equipment, due to fluctuations in export deliveries of these goods. In Q1 2017, changes in inventories made a positive contribution to growth (+0.7 points of gross domestic product), while their contribution should be clearly negative in Q2 (–0.5.points). In H2, changes in inventories should be almost neutral. All in all over the year, the contribution of changes in inventories to growth should become positive again (+0.4 points, after –0.1.points in 2016).

In Q1 2017, corporate investment accelerated sharply

In Q1 2017, investment by non-financial enterprises (NFE) increased markedly once again (+1.9%), more even than in Q4 2016 (+0.9%; *Table 1*). Investment in manufactured products accelerated strongly (+2.7% after +1.1%). More particularly, expenditure on capital goods was very dynamic, stimulated by anticipation of the end of the one-off additional depreciation allowance in mid-April 2017. Investment expenditure on services also accelerated significantly (+2.2% after +0.6%), whether in services to businesses or in information-communication. Investment in construction slowed, however (+0.4% after +1.0%), driven by expenditure on civil engineering which was affected by the poor weather conditions in January. The investment rate of NFEs reached 22.1% in Q1 2017 (*Graph 1*), exceeding its 2008 high, driven by the trend increase in investment in services in value added since the beginning of the 1980s (*Focus*).

Investment should fall back slightly in Q2 then regain momentum

For Q2 2017, the business tendency surveys are providing contrasting indications of investment by NFEs. According to the business tendency survey in industry, tensions in production capacity eased a little in Q1 2017 and the production capacity

Table 1

Investment by non-financial enterprises (NFEs)

at chain-link previous year prices, SA-WDA

	Quarterly changes												Annual changes		
	2015				**2016**				**2017**				**2015**	**2016**	**2017**
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**			
Manufactured products (34%)	1.1	0.9	1.6	3.5	3.2	–2.1	–2.6	1.1	2.7	–1.0	1.0	1.0	4.7	4.2	1.6
Construction (25%)	0.7	–0.2	0.6	0.8	0.3	0.9	–0.3	1.0	0.4	0.6	0.4	0.5	0.4	1.9	2.0
Other (41%)	1.3	0.9	0.1	1.0	1.1	0.5	1.9	0.6	2.2	0.0	0.8	0.7	3.0	3.7	4.4
All non-financial enterprises (100%)	**1.1**	**0.6**	**0.7**	**1.8**	**1.6**	**–0.3**	**–0.2**	**0.9**	**1.9**	**–0.2**	**0.8**	**0.7**	**2.9**	**3.4**	**2.9**

Forecast

Source: INSEE

utilisation rate fell slightly. However, the rate remains above its long-term average and production bottlenecks are increasing slightly. According to the survey of investments in industry, more business managers in industry than average are predicting a rise than a fall in their investment in H1 2017. They are also more optimistic about prospects for their investments in H2 2017 and have globally increased their investment forecast for the year as a whole (+6% in value). In services, however, the balance of opinion on investment prospects fell markedly in April, in particular in information-communication, and only rebounded weakly in May (*Graph 2*).

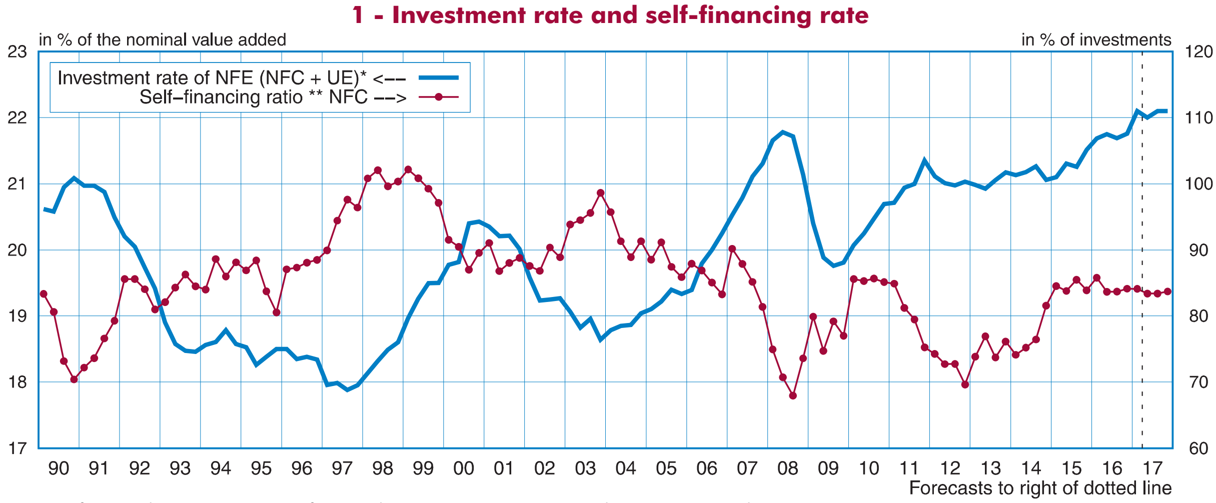
Financing terms remain favourable for corporate investment. Interest rates should remain low through to the end of 2017 after a slight rise at the start of the year. In addition, despite a rise in commodity prices, the margin rate of companies should fall only slightly, and this should not affect their investment capacity: the self-financing ratio of companies should remain high.

Corporate investment should slip a little in Q2 (–0.2%), in reaction to the dynamism of Q1, and then pick up again in H2: +0.8% then +0.7% per quarter. On average over the year, investment should slow in 2017 after a sharp rise last year (+2.9% after +3.4%). Growth in investment should once again outstrip that in added value, and the investment ratio of NFEs is set to increase again slightly (22.1% annual average in 2017).

Investment in manufactured goods set to slip back in the spring and then rebound

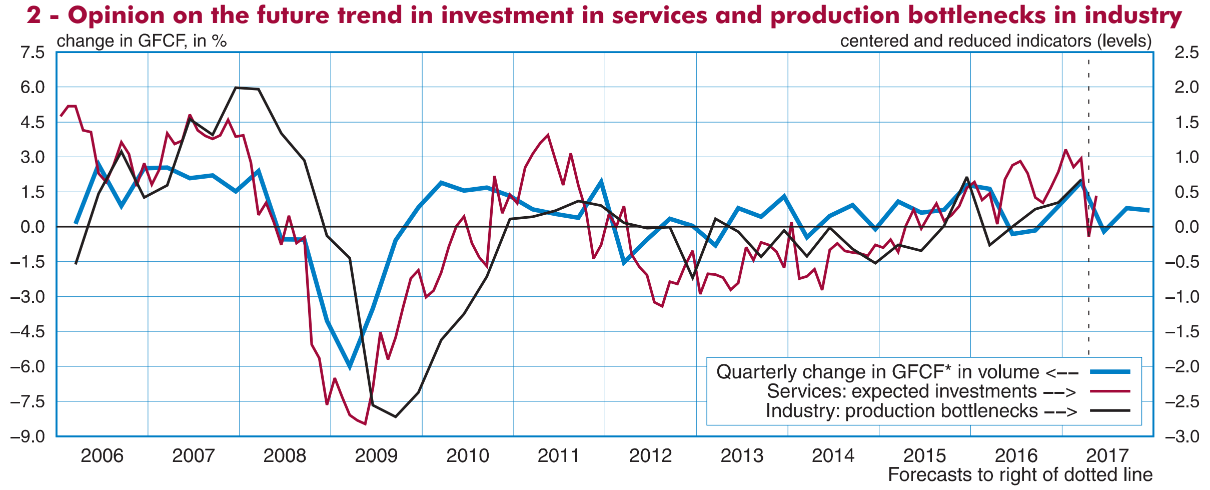
Investment by NFEs in manufactured products is likely to fall back in Q2 2017 (–1.0% after +2.7%). In particular, spending on capital goods should fall

1 - Investment rate and self-financing rate



* Non-financial enterprises: non-financial corporations (NFCs) and unincorporated enterprises (UEs)
** Self-financing rate: ratio of non-financial enterprises savings to their investments.
Source: INSEE, Quarterly national accounts

2 - Opinion on the future trend in investment in services and production bottlenecks in industry



*GFCF: Gross fixed capital formation
Sources: INSEE, monthly survey in services and industry, quarterly national accounts

markedly as they no longer benefit from the incentive of the one-off additional depreciation allowance that came to an end in mid-April. For H2, favourable financing terms for investment and a positive business climate in industry again suggest solid growth (+1.0% per quarter). On average over the year, investment in manufactured goods should increase by 1.6%, less sharply than in 2016 (+4.2%).

Investment in construction is likely to accelerate in the spring

Construction expenditure by companies should accelerate in Q2 2017 (+0.6% after +0.4%), due to the rebound in civil engineering spending from its low level in the winter. Following the timeline of building starts for non-residential buildings and collective housing, investment in building should increase moderately through to the end of 2017. As an annual average, investment in construction by companies should barely accelerate: +2.0% in 2017 after +1.9% in 2016.

Investments in services are at a standstill in the spring

Investments in services should stall in Q2 (0.0%), in reaction against the sharp increase in Q1 (+2.2%). They should return to higher growth in H2 and accelerate as an annual average (+4.4% after +3.7% in 2016).

On average over 2017, the contribution of changes in inventories should become positive again

After hampering growth in gross domestic product (GDP) in Q4 2016 (–0.2 points), the contribution of changes in inventories became clearly positive again in Q1 2017 (+0.7 points). Changes in inventories of manufactured products (+0.8 points after –0.4.points) explain most of this turnaround. For transport equipment in particular, they are the result of big fluctuations in export deliveries. The building up of inventory of agricultural products makes a more modest contribution (+0.1 points).

In the monthly business tendency survey in industry in May 2017, the level of inventories is still deemed to be lower than normal, signalling a propensity to build it up again. However, large deliveries of transport equipment are expected in the spring, with the result that inventories of manufactured products should make a negative contribution to growth in Q2 (–0.5 points), then a positive one by reaction in the following quarter (+0.2.points). In H2 2017, destocking of crude should weigh down slightly on growth (–0.1 points per quarter). All in all, the contribution of changes in inventories to growth in GDP should be negative in Q2 (–0.5 points), then almost neutral in H2. It should become positive again over the year as a whole: +0.4 points in 2017, after –0.1 points in 2016. ■

Table 2

Contribution of inventory changes to growth

in GDP points

	Quarterly changes												Annual changes		
	2015				2016				2017				2015	2016	2017
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Agricultural products	**0.0**	**–0.1**	**0.0**	**0.0**	**–0.1**	**0.0**	**0.1**	**0.1**	**0.1**	**0.0**	**–0.1**	**0.0**	**0.0**	**–0.1**	**0.2**
Manufactured products	**0.3**	**–0.2**	**0.4**	**0.3**	**0.0**	**–0.7**	**0.4**	**–0.4**	**0.8**	**–0.5**	**0.2**	**0.0**	**0.4**	**0.0**	**0.2**
Agrifood products	0.0	0.0	0.0	0.0	–0.1	0.0	–0.1	–0.1	–0.1						
Coke and refined petroleum products	0.2	–0.1	0.0	0.1	0.1	–0.1	0.0	–0.1	0.1						
Machinery and equipment goods	–0.1	0.1	0.0	0.1	–0.1	0.0	0.2	0.0	0.0						
Transport equipment	0.2	–0.1	0.2	0.0	0.2	–0.4	0.2	0.0	0.5						
Other industrial goods	–0.1	0.0	0.2	0.1	0.0	–0.1	0.1	–0.3	0.3						
Energy, water and waste	**0.0**	**–0.2**	**0.0**	**0.2**	**–0.2**	**–0.1**	**0.2**	**0.2**	**–0.1**	**0.0**	**–0.1**	**–0.1**	**0.0**	**0.0**	**0.0**
Others (construction, services)	**0.0**	**0.0**	**0.0**	**0.0**	**–0.1**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
TOTAL[1]	**0.3**	**–0.4**	**0.4**	**0.5**	**–0.4**	**–0.7**	**0.7**	**–0.2**	**0.7**	**–0.5**	**0.0**	**–0.1**	**0.3**	**–0.1**	**0.4**

Forecast

1. Changes in inventories include acquisitions net of sales of valuables.

Source: INSEE