Corporate investment and inventory

In Q3 2018, investment by non-financial enterprises (NFEs) grew by 1.6%, after +1.3% in Q2. It was driven by the acceleration of investment in transport equipment and services, whereas construction expenditure fell back (–0.4% after +1.1%). Corporate investment is expected to slow down (+0.1%) in Q4 2018 before regaining momentum in H1 2019 (+0.6% per quarter). On an annual average basis, investment is expected to slacken slightly in 2018 to +3.8%, after a very dynamic year in 2017 (+4.4%). For 2019, the annual carry-over effect should reach +2.2% at the mid-year point. The investment rate is likely to remain above 22.4% in Q4 2018, as in H1 2019.

In Q3 2018 changes in inventories made a negative contribution to growth (–0.3 GDP points) – a reversal of the results from the previous quarter (+0.2 points). Changes in inventories in manufactured goods (–0.4 points after +0.3 points), and particularly transport equipment, account for the majority of this turnaround. In Q4, the destocking tendency associated with major deliveries of transport equipment is likely to hamper growth once again. Throughout 2018 as a whole, changes in inventories should make a negative contribution to growth (–0.4 points). In H1 2019, their contribution is expected to be slightly positive.

Corporate investment remained buoyant in Q3 2018

In Q3 2018, investment by non-financial enterprises (NFEs) remained buoyant (+1.6%, after +1.3%; *Table 1*). Investment in manufactured products increased strongly again (+2.2% after +1.6% in the previous quarter): the acceleration of investment in transport equipment offset the slackening of investment in capital goods. Investment in services gathered pace (+2.2%, after +1.2%), driven by expenditure on information and communication. However, investment in construction edged down (–0.4% after +1.1%) due to a backlash effect from civil engineering expenditure. All in all, the investment rate of NFEs increased by 0.5 points over the first three quarters of 2018 and reached 22.6% In Q3 (*Graph 1*).

Corporate investment is set to slow temporarily at the end of 2018 before regaining momentum in 2019

In Q3 2018, the business tendency surveys showed signs of a slowdown in corporate investment expenditure. According to the October survey of investments in industry, business managers have reduced their investment forecasts for 2018; they now expect their investment to drop by 1% in value over the year as a whole. However, they have forecast a dynamic upswing in investments in 2019 (+4%). According to the survey on activity in industry, the production capacity utilisation rate fell slightly in October after reaching its highest level in ten years in January 2018. Significant production bottlenecks remain, after easing at the beginning of 2018: between July and October, there was no change in the number of business managers who considered that they could not produce more if they received more orders (*Graph 2*). In services, the balance of opinion on investment prospects edged down in both October and November, dropping below its long-term average.

In 2018, corporate financing terms appeared slightly less favourable than in 2017 but are expected to improve in early 2019. In 2018, corporate margins once again benefited from an increase in the Competitiveness and Employment Tax Credit (CICE) applicable to remunerations paid in 2017, from 6% to 7%. However, the rise in

Table 1

Investment by non-financial enterprises (NFEs)

at chain-link previous year prices, SA-WDA

	Quarterly changes										Annual changes		
	2017				2018				2019		2017	2018	2019 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Manufactured products (34%)	3.9	0.4	2.7	1.7	–1.6	1.6	2.2	–1.0	0.5	0.5	5.2	3.1	1.6
Construction (24%)	0.3	0.6	0.1	-0.3	–0.2	1.1	–0.4	0.0	–0.2	–0.2	1.0	0.4	–0.2
Other (42%)	3.1	0.3	1.5	1.8	1.6	1.2	2.2	1.0	1.0	1.0	5.7	6.2	3.9
All non-financial enterprises (100%)	**2.7**	**0.4**	**1.6**	**1.3**	**0.1**	**1.3**	**1.6**	**0.1**	**0.6**	**0.6**	**4.4**	**3.8**	**2.2**

Forecast

Source: INSEE

commodity prices and the increase in wages reduced their margin rates. At the beginning of 2019, enterprises should benefit from an exceptional combination of the CICE for remunerations paid in 2018 and its conversion into a long-term reduction in social charges (*Employment sheet Focus*). In addition, real unemployment rates look set to remain low through to mid-2019.

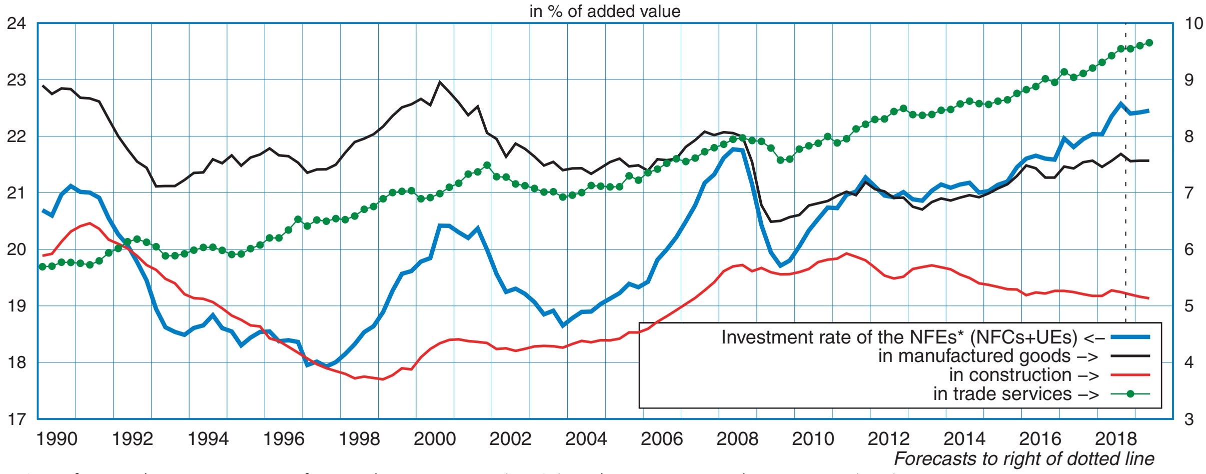
Investment expenditure by NFEs is expected to slow down (+0.1%) in Q4 2018 before regaining momentum in H1 2019 (+0.6% per quarter). On average over the year, NFE investment in 2018 is likely to grow more slowly than in 2017: +3.8% after +4.4%. For 2019, its annual carry-over effect should stand at +2.2% by mid-year. The NFE investment rate looks set to remain at a very high level: it is expected to be above 22.4% in Q4 2018 and in H1 2019.

Investment in manufactured products should edge down at the end of 2018, before bouncing back in 2019

Investment in manufactured products by NFEs is likely to edge down in Q4 2018 (–1.0% after +2.2%). Vehicle registrations recorded until October do indeed suggest a backlash effect in investments in transport equipment after accelerating in Q3 ahead of the change in the test procedure for new vehicles (WLTP). For H1 2019, the expectations of business leaders in the manufacturing industry concerning their investments in 2019, and the fact that production capacity tensions remain high, point towards an upturn in investment in manufactured products (+0.5% per quarter). On an annual average basis, investment in manufactured products is likely to slow down in 2018, (+3.1% after +5.2%). In 2019, its carry-over effect is expected to be +1.6% by mid-year.

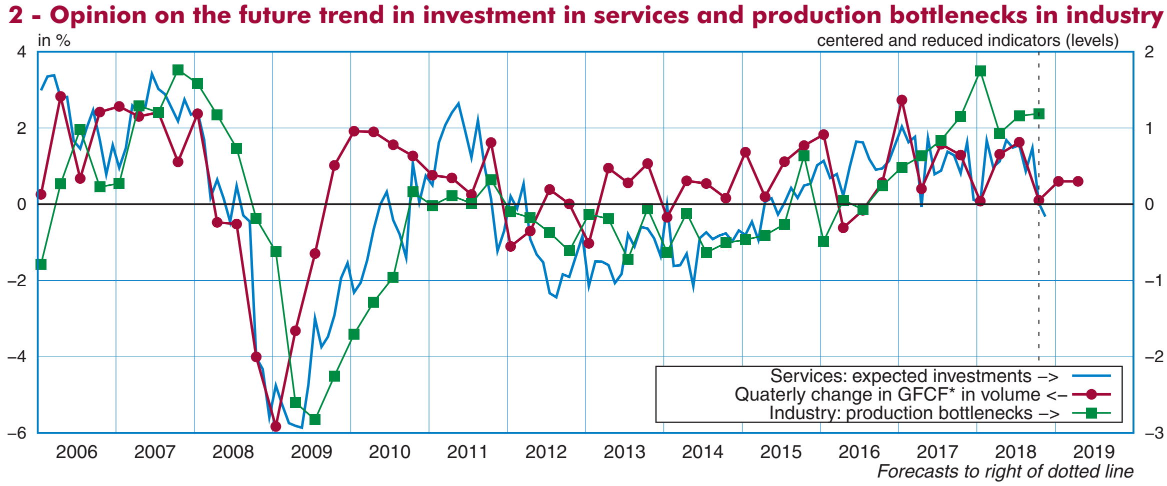
1- Investment rate of NFEs by type of product

in % of the value added



* 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

Investment in construction looks set to decline in early 2019

Corporate investment in construction is expected to remain stable in Q4 2018 and then drop in H1 2019 (–0.2% per quarter), due mainly to investment expenditure in the building sector. Indeed, non-residential building starts declined steadily throughout 2018, suggesting a downturn in NFE investment in the building sector. At the end of 2018, civil engineering enterprises remain confident about their business prospects. Investment in civil engineering should return to moderate growth in Q4 2018, after a downturn in Q3. On an annual average basis, corporate investment in construction is expected to slacken in 2018: +0.4% in 2018 after +1.0% in 2017. The carry-over effect for 2019 should stand at –0.2% at the mid-year point.

Investment in services should continue to increase briskly

Investment by NFEs in services was very dynamic in Q3 2018. For service sectors in which activity is dependent on investment expenditure (notably programming, consulting and other information technology activities), the business leaders interviewed in business tendency surveys remain optimistic about growth in their turnover. After a slight slowdown in Q4 2018, investment in services is expected to remain brisk through to mid-2019 (+1.0% per quarter). As an annual average, investment expenditure on services in 2018 is expected to increase even more briskly than in 2017 (+6.2% after +5.7%). In 2019, its carry-over effect is likely to be +3.9% by mid-year.

On average in 2018, the contribution of inventory change to growth should be negative

Changes in inventories made a negative contribution to growth in gross domestic product (GDP) in Q3 2018 (–0.3 points) – a reversal of the situation in the previous quarter (+0.2 points) – due to changes in inventories for transport equipment and "other industrial goods" (*Table 2*).

In Q4, changes in inventories should again contribute negatively to the growth of activity. The catch-up effect of aeronautical deliveries scheduled for the end of the year, along with the delivery of an ocean liner, are expected to lead to changes in transport equipment inventories making a negative contribution. Throughout 2018 as a whole, changes in inventories in companies are likely to make a negative contribution to growth (–0.4 points).

In Q1 2019, despite the delivery of another ocean liner, the return to normal of aeronautical deliveries should see changes in inventories making a positive contribution (+0.2 points). Thereafter, in Q2 2019, changes in inventories in enterprises should again contribute positively to growth (+0.1 points). Over H1 2019 as a whole, the contribution of inventories to growth looks likely to be slightly positive. ■

Table 2

Contribution of inventory changes to growth

in GDP points

	Quarterly changes										Annual changes		
	2017				2018				2019		2017	2018	2019 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Agricultural products	**0.1**	**0.0**	**0.0**	**0.1**	**0.0**	**0.0**	**0.1**	**0.0**	**0.0**	**0.0**	**0.2**	**0.0**	**0.0**
Manufactured products	**0.8**	**–0.7**	**0.3**	**–0.4**	**0.0**	**0.3**	**–0.4**	**–0.2**	**0.2**	**0.1**	**–0.1**	**–0.4**	**0.0**
Agrifood products	0.0	0.0	0.0	0.0	0.0	0.0	0.0						
Coke and refined petroleum products	0.1	–0.1	–0.1	0.0	0.0	0.0	0.0						
Machinery and equipment goods	–0.1	0.1	–0.1	–0.1	0.1	–0.1	0.0						
Transport equipment	0.5	–0.5	0.4	–0.2	0.1	0.3	–0.2						
Other industrial goods	0.3	–0.2	0.0	–0.1	–0.1	0.1	–0.2						
Energy, water and waste	–0.1	–0.1	–0.1	0.2	0.0	–0.1	0.1	0.0	0.0	0.0	0.1	0.0	0.0
Others (construction, services)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL[1]	0.8	–0.7	0.2	–0.2	–0.1	0.2	–0.3	–0.2	0.2	0.1	0.2	–0.4	0.0

Forecast

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

Source: INSEE