Corporate investment and inventory

Investment by non-financial enterprises (NFEs) slowed markedly in Q4 2018 (+0.2% after +1.7% in Q3), adversely affected by a sharp drop in investment in transport equipment. According to the business tendency surveys, the outlook would appear to be more conducive to investment at the beginning of 2019: corporate investment is expected to pick up in Q1 (+0.7%) and then accelerate slightly in Q2 (+0.8%) thanks to favourable financial conditions. The investment rate is expected to continue to rise, driven by investment in services.

In Q4 2019, enterprises' changes in inventories once again contributed negatively to growth (–0.2 percentage points of GDP). Substantial aeronautical deliveries at the end of the year were only partially offset by changes in automotive inventories. In Q1 2019, changes in inventories are expected to contribute positively to growth, especially due to the return to normal in aircraft deliveries. Then in Q2 changes in inventories of other transport equipment are expected to rise after two ocean liner deliveries at the end of 2018 and the beginning of 2019, meaning that the contribution of inventories to growth should remain slightly positive.

Corporate investment slowed in Q4 2018

In Q4 2018, investment by non-financial enterprises (NFEs) slowed sharply after a buoyant Q3 (+0.2% after +1.7%, *Table 1*). Investment in manufactured goods fell back (–1.9% after +2.2%), in reaction to investment in transport equipment. Investment in services slowed, but maintained a sustained pace (+1.6% after +2.3%), reflecting vigorous investment expenditure on information and communication.

Investment in construction regained some momentum (+0.7% after –0.1%), due to a recovery in civil engineering expenditure. After increasing vigorously during 2018 (+0.6 points over the year), the NFE investment rate stabilised at 22.6% at the end of the year (*Graph 1*).

Corporate investment should be dynamic in H1 2019

According to the business tendency surveys in Q1 2019, the context remains favourable to corporate investment. In the January survey on investment in industry, firms stated that they expect investment expenditure on tangible assets and software to be up 10% in nominal terms in 2019, the highest anticipated growth since 2011 at this time of year. According to the survey on industrial activity, the production capacity utilisation rate remains stable at a high level. Production bottlenecks are loosening slightly at the beginning of 2019, though they continue to nudge record levels: in January 2019, as many industrial firms as one year previously considered that they could not produce more even if they received more orders (*Graph 2*). In the service sector, the balance of opinion on expected investments has settled again at a higher level than its long-term average, after a downturn at the end of 2018.

Corporate financing terms also appear to be favourable at the beginning of 2019. The temporary dual benefit of the CICE (competitiveness and employment tax credit) on wages paid in 2018 and its transformation into an exemption from employer contributions is expected to sustain companies' margin rate and

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%)	4.0	0.4	2.5	1.8	–1.6	1.5	2.2	–1.9	0.5	0.6	5.2	2.8	1.0
Construction (24%)	0.4	0.7	0.3	–0.6	0.1	1.2	–0.1	0.7	0.1	0.2	1.0	1.0	1.1
Other (42%)	3.3	0.2	1.6	1.8	1.6	1.1	2.3	1.6	1.2	1.3	5.7	6.4	4.9
All non-financial enterprises (100%)	**2.8**	**0.4**	**1.6**	**1.2**	**0.1**	**1.3**	**1.7**	**0.2**	**0.7**	**0.8**	**4.4**	**3.9**	**2.7**

Forecast

Source: INSEE

self-financing ratio in H1 2019. In addition, real interest rates are expected to remain low through to mid-2019.

NFEs' investment expenditure is therefore expected to regain its vitality in Q1 2019 (+0.7%) and then continue to accelerate slightly in Q2 (+0.8%). The carry-over effect for 2019 is expected to be +2.7% by mid-year. The NFE investment rate should continue to rise, although at a much more moderate pace than in 2018.

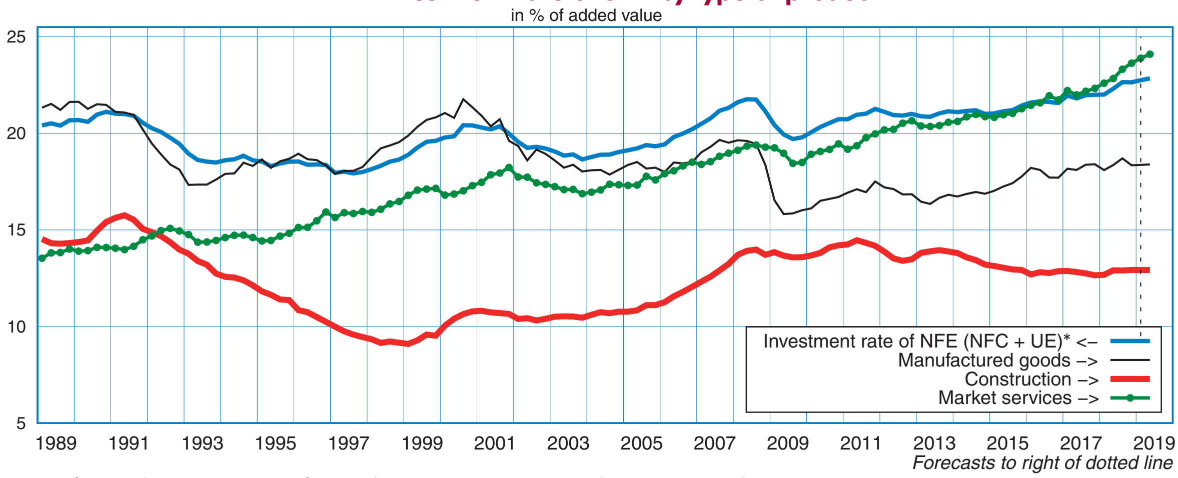
Investment in manufactured goods is expected to return to moderate growth

Investment by NFEs in manufactured goods is expected to bounce back in Q1 2019 (+0.5% after –1.9%). Investment in transport equipment should see a return to moderate growth after the disruptions of the end of 2018 due to the shift to the worldwide harmonised light vehicle test (WLTP). Investment in manufactured goods should maintain its momentum in Q2 2019 (+0.6%), with financial conditions favourable to investment. Its annual carry-over effect for 2019 is expected to be +1.0% by mid-year.

Investment in construction should remain moderate at the beginning of 2019

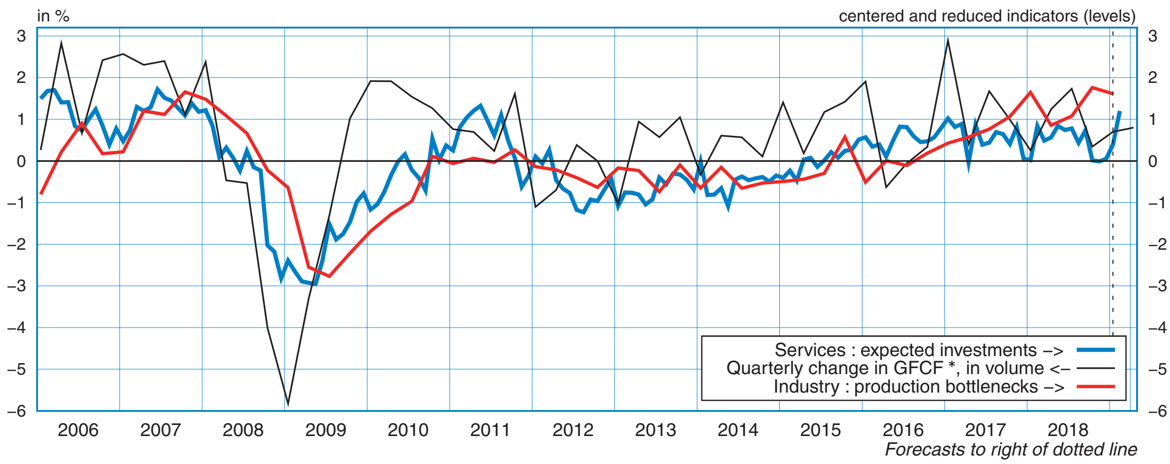
Corporate investment in construction is likely to be lacklustre in H1 2019 (+0.1% in Q1, then +0.2% in Q2). At the beginning of 2019, non-housing building starts have dipped, while major maintenance works other than on housing remain moderately buoyant. Civil engineering firms, however, remain confident in their business prospects. Investment in public works is expected to slow down but remain vigorous during H1 2019. The annual carry-over effect for NFE investment in construction is likely to settle around +1.1% by mid-2019, after an average annual increase of +1.0% in 2018.

1 - Investment rate of SNF by type of product



* 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 is services should remain vigorous

NFEs' investments in services increased sharply in 2018 (+6.4%). At the beginning of 2019, business leaders in the manufacturing and service sectors are optimistic about their investment plans. Against this favourable backdrop, investment in services should continue to grow fast through to mid-2019 (+1.2% in Q1 then +1.3% in Q2). For 2019, the carry-over effect is expected to stand at +4.9% by mid-year.

On average over 2018, the contribution of changes in inventories to growth was clearly negative

In Q4 2018, the contribution of change in inventories to GDP growth was negative once again (–0.2 percentage points of GDP), although to a lesser extent than in the previous quarter (–0.4 points). Aircraft deliveries at the end of the year were exceptionally high, but this substantial destocking was in part offset by an increase in changes in automotive inventories. Over 2018 as a whole, the contribution of change in inventories was clearly negative (–0.4 percentage points of GDP).

In Q1 2019, changes in inventories are once again expected to contribute positively to growth (+0.1 points), mainly due to the return to normal of the pace of aircraft deliveries. Then in Q2 changes in inventories of other transport equipment are expected to rise after two ocean liner deliveries at the end of 2018 and the beginning of 2019, meaning that the contribution of inventories to growth should remain slightly positive (+0.1 point). ■

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**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.2**	**0.0**	**0.0**
Manufactured products	**0.8**	**–0.7**	**0.3**	**–0.4**	**–0.1**	**0.3**	**–0.4**	**–0.3**	**0.1**	**0.1**	**–0.1**	**–0.4**	**–0.2**
Agrifood products	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			–0.1	0.0	
Coke and refined petroleum products	0.1	–0.1	–0.1	0.0	0.0	0.0	0.0	00			–0.1	0.0	
Machinery and equipment goods	–0.1	0.1	0.0	–0.1	0.1	–0.1	0.0	0.1			0.0	0.0	
Transport equipment	0.5	–0.5	0.4	–0.2	0.0	0.3	–0.2	–0.2			0.2	0.0	
Other industrial goods	0.3	–0.2	0.0	0.0	–0.1	0.0	–0.2	–0.1			–0.1	–0.3	
Energy, water and waste	**–0.1**	**–0.1**	**–0.1**	**0.2**	**0.0**	**–0.1**	**0.0**	**0.1**	**0.0**	**0.1**	**0.1**	**0.0**	**0.1**
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**	**0.3**	**–0.2**	**–0.1**	**0.2**	**–0.4**	**–0.2**	**0.1**	**0.1**	**0.2**	**–0.4**	**–0.1**

Forecast

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

Source: INSEE