Corporate investment and inventory

Investment by non-financial enterprises (NFEs) accelerated in Q3 2019 (+1.4% after +1.1% in Q2), driven once again by investment in services and buoyed by favourable financial terms. According to the business surveys, production capacity tensions continued to ease but remained high. In Q4, corporate investment is expected to slow down (+0.6%), due to the decline in spending on manufactured goods. In a macroeconomic context that is less favourable to investment, it should remain virtually unchanged in Q1 2020 (+0.7%) and in Q2 (+0.6%). On an annual average basis, overall investment by NFEs is expected to grow by +4.1% in constant euros in 2019, in keeping with 2018 (+3.9%), and then slow down through to mid-2020 (with a growth overhang of +2.6%). The investment rate should continue to rise and is likely to approach 25% over the forecasting period.

In Q3 2019, changes in inventories made a negative contribution to growth (–0.1 GDP points), due mainly to changes in inventories of "other industrial products". Inventories are expected to make a negative contribution to growth at the end of 2019 (–0.1 points), and then throughout H1 2020.

Corporate investment maintained a sustained pace in Q3 2019

In Q3 2019, investment by non-financial enterprises (NFEs) increased more vigorously than in the previous quarter (+1.4% after +1.1%, Table 1). NFE investment in services accelerated to +1.8% after +1.2%, boosted by investment in information and communication services (+3.4%). Investment in manufactured goods also picked up, to +1.5% after +1,0%, driven by investment in transport equipment. However, investment in construction slowed to +0.6% after +0.9% in Q2. Since NFE investment was more dynamic by value than value added in Q3 2019, the NFE investment rate increased again (*Graph 1*).

Corporate investment is likely to slacken in late 2019 and should maintain this pace in early 2020

According to the October 2019 business survey on investment in industry, business managers expect to increase their investment expenditure on tangible assets and software by 4% in value between 2018 and 2019. For 2020, business managers expect their investment to be virtual identical (–1%) to the 2019 level. This initial estimate for 2020 is below the first estimate given

Investment by non-financial enterprise (NFEs)

at chain-link previous year prices, SA-WDA

	Quarterly changes										Annual changes		
	2018				2019				2020		2018	2019	2020 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	T2			
Manufactured products (34%)	–2.3	1.4	1.4	0.0	1.5	1.0	1.5	–0.1	0.4	0.4	2.0	4.1	1.6
Construction (24%)	0.7	1.0	0.8	1.0	0.7	0.9	0.6	0.3	0.3	0.1	3.5	3.2	1.2
Other (42%)	1.3	1.0	1.8	1.9	–0.2	1.2	1.8	1.3	1.2	1.1	5.5	4.6	4.3
All non-financial enterprises (100%)	**–0.1**	**1.1**	**1.4**	**1.1**	**0.5**	**1.1**	**1.4**	**0.6**	**0.7**	**0.6**	**3.9**	**4.1**	**2.6**

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Source: INSEE

for 2019 in October 2018, but close to the initial investment estimate for 2018 provided by the October 2017 survey (*Graph 2*). This means that industrial business managers are less optimistic about their investments in the year ahead than at the same time last year. Since 2014, business managers' initial estimates of their future investments have been systematically lower than their actual investments: investment in 2020 therefore certainly promises to be lower than in 2019 but should nevertheless be more dynamic than its initial estimate (–1%).

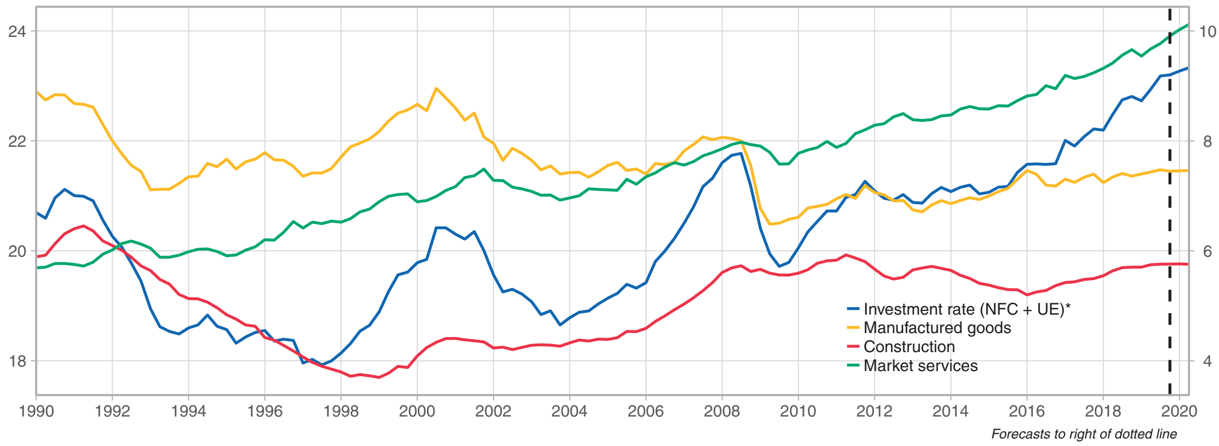
Production capacity pressures continue to ease but remain high. According to the quarterly business outlook survey on investment in industry, the production capacity utilisation rate, which stood at 83.2% in October 2019, is continuing its gradual decline after reaching a 10-year high in January 2018. Production bottlenecks are clearing again after a one-off increase in July, but remain at a high level (*Graph 3*). In the service sector, the balance of opinion on investment forecasts rebounded between July and November, and is well above its long-term average.

Financing terms at the beginning of 2020 are expected to be slightly less favourable to investment than in 2019. In particular, enterprises are no longer expected to benefit from the "double payment" of the competitiveness and employment tax credit (CICE) in 2020, now transformed into an exemption from employer contributions. The margin rate and the self-financing ratio of enterprises should therefore start falling in early 2020. In addition, real interest rates are expected to increase marginally.

NFEs' investment expenditure is therefore likely to remain vigorous but should slow down in Q4 2019 (+0.6%), and looks set to remain almost stable in Q1 2020 (+0.7%) and Q2 (+0.6%). As a result, NFE investment – driven by investment in services – is expected to grow by 4.1% in 2019, similar to the increase recorded in 2018 (+3.9%). Their investment rate should increase significantly.

1 - Investment rate of non-financial enterprises by type of product

in % of added value

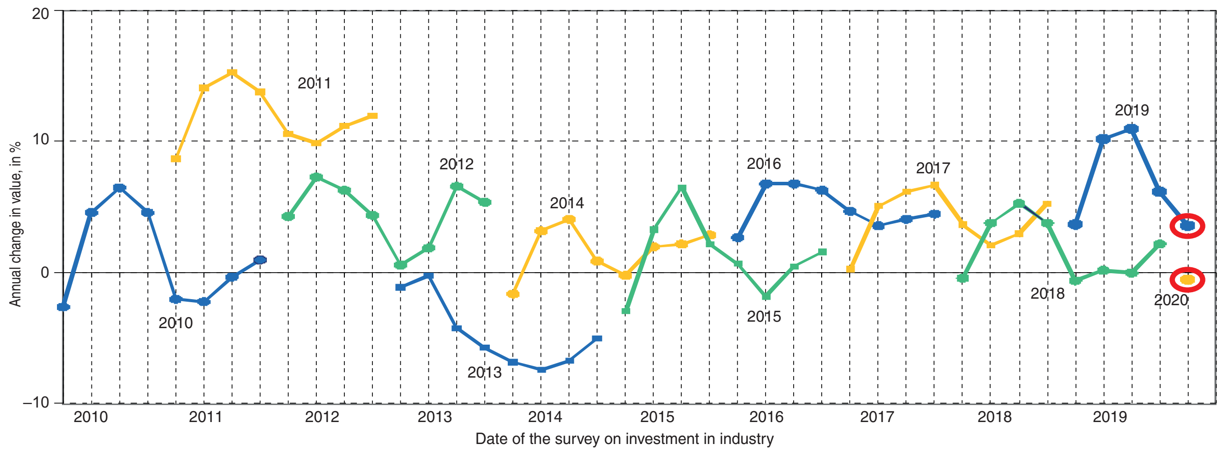


* Non-financial corporations (NFCs) = non-financial corporations (NFCs) and sole proprietorships (FS)

Source: INSEE

2 - Successive estimates of changes in investment in the manufacturing industry

in % centered and reduced indications (levels)



Note: Estimates from the last survey (October 2019) are surrounded. The growth in value of tangible capital expenditure and between 2018 and 2019 was successively estimated at 4% in October 2018, 10% in January 2019, 11% in April, 6% in July and 4% in October.

Source: INSEE

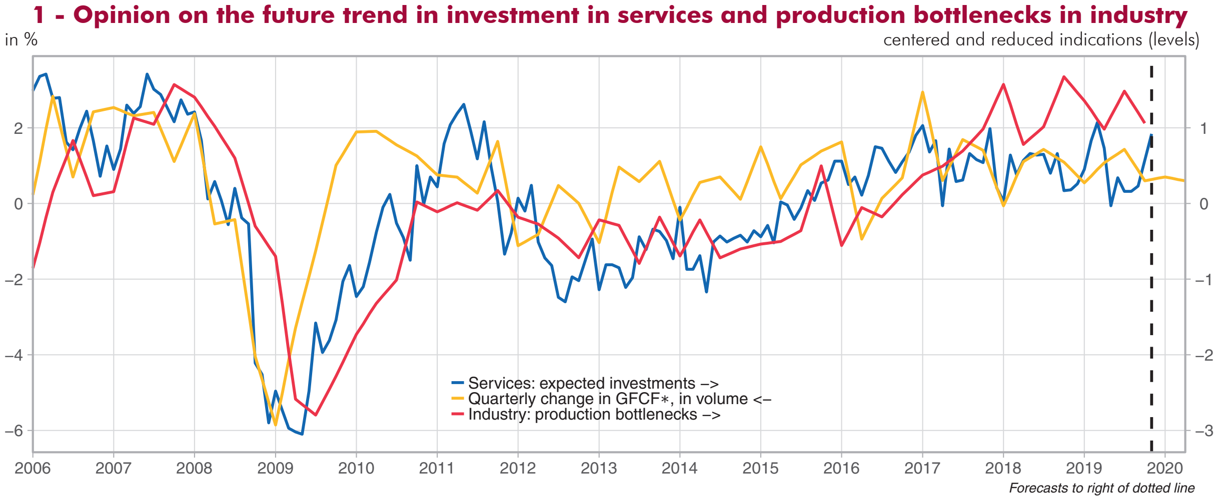
Investment in manufactured goods is set to slow sharply in Q4

The prospect of another change in the vehicle approval procedure (WLTP-RDE) on 1st September 2019 triggered a wave of registrations prior to this date, driving up investment in transport equipment (+2.6% in Q3 2019). This is likely to be counterbalanced in Q4 (–1.2%), driving down investment in manufactured goods (–0.1% after +1.5%). Over the year as a whole, NFE investment in manufactured goods is expected to grow by 4.1% in 2019, faster than in 2018 (+2.0%). It should then rise more moderately in H1 2020, still driven by the stabilisation of investment in cars and buoyant spending on capital goods.

Construction investment is likely to slacken in Q4 2019

The balances of opinion of civil engineering firms, based on their expected activity, weakened for both public and private clients in October. After initially bolstering government investment, the run-up to the municipal elections in March 2020 should lead to a slowdown (see Special Analysis entitled "The municipal election cycle"), dragging NFE investment down in its wake. Corporate investment in construction is therefore set to slacken in Q4 2019 (+0.3% after +0.6%), and then to maintain this pace in Q1 2020 before slowing again in Q2 (+0.1%). Growth in NFE investment in construction should stand at +3.2% in 2019, after a rise of +3.5% in 2018.

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



* GFCF: Gross fixed capital formation

Source: INSEE, monthly survey in services and industry, quarterly national accounts

In 2020, investment in services is expected to lose some momentum

NFE investment in services declined in early 2019 before starting to rise again in Q2. It is likely to increase by 1.3% in Q4 and, on an annual average basis, it should remain almost as buoyant in 2019 as in 2018 (+4.6% after +5.5%). Investment in IT services and research and development remains driven by an underlying trend. Nevertheless, growth in investment in services is likely to slow in Q1 2020 (+1.2%) and Q2 (+1.1%), coinciding with the end of the «double payment» of the competitiveness and employment tax credit and with the decline in production capacity utilisation rates.

On average over 2019, changes in inventories should make a negative contribution to growth

In Q3 2019, the contribution of changes in inventories to GDP growth was slightly negative (–0.1 GDP points). The buoyancy of exports of "other industrial products", lower output and the decline in refinery output accelerated the destocking of this type of product. However, imports of "other transport equipment" were dynamic, while exports stalled, meaning that inventory change in these products made a positive contribution to growth. Indeed, aircraft deliveries slowed down after reaching very high levels in Q2 2019.

In Q4 2019, the contribution of inventory change to growth in activity is set to be slightly negative (–0.1 points). The delivery of an ocean liner, the catch-up effect of aeronautical deliveries at the end of the year, and the return to normal of transport equipment imports should see transport equipment inventory changes making a negative contribution to growth. Over 2019 as a whole, inventories are likely to make a negative contribution (–0.3 points).

In H1 2020, aeronautical and naval deliveries should return to their trend level, with a new ocean liner delivery at the beginning of the year offsetting the slowdown in the aeronautical delivery rate. Inventory changes should make a positive contribution to growth (+0.1 points) in H1 and then become neutral in H2. Throughout H1 2020, inventories are expected to make a negative contribution to the mid-year overhang. ■

2 - Contribution of inventory changes to growth

in GDP points

	Quarterly changes										Annual changes		
	2018				2019				2020		2018	2019	2020 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Agricultural products	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**–0.1**	**0.1**	**0.0**
Manufactured products	**0.0**	**0.2**	**–0.4**	**–0.3**	**0.1**	**–0.1**	**0.0**	**–0.1**	**0.0**	**0.0**	**–0.2**	**–0.4**	**–0.1**
Agrifood products	0.1	0.1	0.0	0.0	0.0	0.0	0.0						
Coke and refined petroleum product	–0.1	0.0	0.0	–0.1	0.2	0.0	–0.1						
Machinery and equipment goods	0.0	0.0	0.0	0.1	0.0	–0.1	0.0						
Transport equipment	0.0	0.1	–0.3	–0.1	0.0	0.1	0.2						
Other industrial goods	0.0	0.0	–0.2	–0.1	0.1	–0.1	–0.1						
Energy, water and waste	**0.0**	**–0.1**	**0.0**	**0.0**	**0.1**	**–0.1**	**–0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**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]	**0.0**	**0.1**	**–0.4**	**–0.2**	**0.3**	**–0.2**	**–0.1**	**–0.1**	**0.1**	**0.0**	**–0.3**	**–0.3**	**–0.1**

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1. changes in inventories include acquisitions net of sales valuables

Source: INSEE