

Corporate investment

After a strong rebound in Q3 2020 (+20.7%), investment by non-financial enterprises (NFEs) increased further in late 2020 (+0.9%), driven by investment in services. As a result, investment by NFEs in Q4 2020 was 5% below the level in Q4 2019, before the start of the health crisis. As an annual average, overall investment by NFEs declined by 9.6% in 2020, a slightly larger drop than that in activity.

Information available at the start of this year, especially from business tendency surveys, suggests that NFE investment is likely to continue to bounce back: it is expected to be supported in Q1 2021 by investment in construction.

Gross fixed capital formation (GFCF) of non-financial enterprises (NFEs) held up better in 2020 than in 2009

In 2020, investment by NFEs declined by 9.6%. In Q2, at the height of the crisis, investment by NFEs in manufactured products plummeted, especially investment in transport equipment, hampered in particular by the closure of car dealerships (-47% compared to its level in Q4 2019, ► **figure 1**). Investment in services held up much better (-8% in Q2 2020, compared to the pre-crisis level), in a context where the need for digital technologies has become more significant.

NFE investment picked up significantly in Q3, returning to 6% below its pre-crisis level. Investment in “other industrial products” (mainly the installation and repair of machinery and equipment) and investment in services

are the components of investment that come closest to their pre-crisis level. In Q4, despite the second lockdown, NFE investment – again driven by investment in services – continued to rebound, settling at 5% below its level at the end of 2019.

The NFE investment rate is defined as the ratio of their investment to their value added. It would appear to have increased slightly as an annual average in 2020, standing at 23.2% after 22.9% in 2019. This slight increase during a year of unprecedented crisis is in sharp contrast to the change in the NFE investment rate during the 2009 economic and financial crisis: at this time the rate decreased by 2 points and only gradually returned to its original level. Perhaps part of the explanation lies in the specific nature of the decline in activity in 2020, motivated mainly by health factors.

When broken down by product, the NFE investment rate seems to deviate on average in 2020 from its pre-crisis trend (► **figure 2**). First, the rate of NFE investment in services increased even more strongly in 2020 than before the crisis, driven by investment in information and communication services (including computer software): it increased by 0.8 points in 2020, after 0.2 points per year on average from 2010 to 2019. In addition, the rate of NFE investment in manufactured products fell back in 2020, whereas between 2010 and 2019 it increased. Therefore, at the end of 2020 at least, the health crisis seems to have contributed to changing the distribution of NFE investments, in favour of services and to the detriment of manufactured goods and construction.

► 1. Investment by non-financial enterprise (NFEs)

Q4 2019 volume variance, in %

	Weight in Q4 2020	Difference at Q4 2019 level 2020			
		Q1	Q2	Q3	Q4
Manufactural products	32%	-14	-32	-7	-9
of which equipment goods	11%	-14	-29	-9	-7
of which transport material	10%	-21	-47	-9	-15
of which other industrial products	11%	-7	-20	-2	-4
Construction	22%	-15	-33	-7	-11
Services	46%	-2	-8	-4	1
of which Information and communication	25%	-1	-5	-4	2
of which corporate services	21%	-3	-10	-4	0
All NFEs	100%	-9	-22	-6	-5

Source: INSEE, quarterly national accounts in 2014 base

French economic outlook

The second lockdown affected NFE investment much less than expected

Investment by NFEs increased by 0.9% in Q4 2020, after the strong +20.7% rebound in Q3 (► [figure 3](#)). Only investment in services increased in Q4 (+5.6%), driven by information and communication services. Investment in construction fell back by 3.6% and investment in manufactured goods lost 2.0%, mainly due to the decline in vehicle registrations during the second lockdown.

NFE investment therefore resisted much better at the close of the year than the forecast in the December 2020 *Economic Outlook* suggested, as it rather expected a contraction in line with the lockdown. In fact, in the manufacture of capital goods, analysis of the business tendency surveys published since November shows that the businesses interviewed were pleasantly surprised by their sales in the last two months of 2020: in November, the balance of opinion on future sales fell dramatically, whereas in January and February the balance of opinion on sales actually achieved remained high. Enterprises in the information and communication services sector were also pleasantly surprised by their sales at the end of 2020. These surprises after the fact illustrate the high level of uncertainty inherent in the present situation.

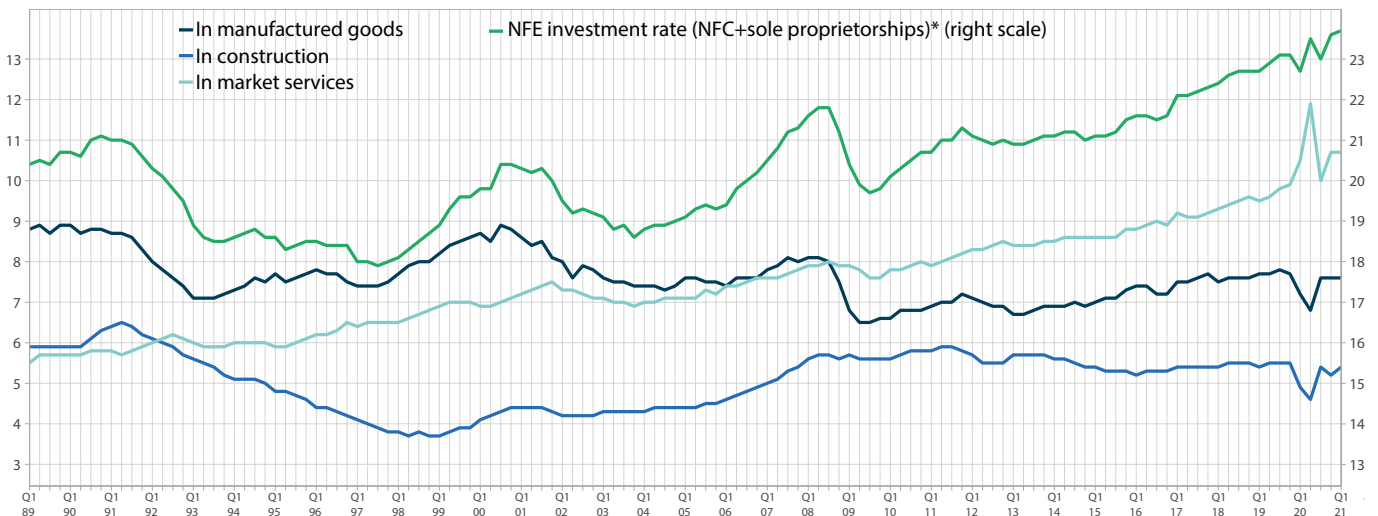
Opinions expressed by enterprises at the start of 2021 suggest that the rebound in investment will continue

The business outlook surveys in January 2021 provide information on companies' readiness to invest at the start of the year. They suggest that the rebound in investment will continue, even though, in industry for example, production capacity at this stage remains less in demand than before the crisis. Thus, according to the quarterly outlook survey on industry, the production capacity utilisation rate would seem to have increased to 79% in January, still below its January 2020 level (83%).

According to the January outlook survey on investment in industry, industrialists are expecting a 10% increase in value of their tangible investments and software in 2021, after they estimated a decline of -13% for 2020 (► [figure 4](#)). However, in this quarterly survey, the estimate given in January is often higher than the change ultimately observed a year later.

► 2. The non-financial enterprise investment rate continued its rise in 2020

in % of NFE value added



Note: the investment rate of non-financial enterprises is defined as the ratio of their GFCF in current euros to their value added in current euros. The value for Q1 2021 represents a forecast.

Source: INSEE, quarterly national accounts in 2014 base

In Q1 2021, corporate investment is expected to continue its rebound

Investment in manufactured goods should pick up in Q1 (+1%). Investment in transport equipment is of course expected to decline, as suggested by the strong fall in vehicle registrations in February. However, the business climate in the manufacture of capital goods, metallurgy, and the installation and repair of machinery and equipment sectors increased on average in January and February. In addition, the industrial production index rose in these three sectors in January.

Investment in construction is expected to grow significantly in Q1 (+3%). The balances of opinion on expected activity in the outlook surveys of companies in

building construction and civil engineering increased in January and February.

Investment in services is expected to increase slightly (+1%): investment in information and communication services is certainly increasing structurally, while investment in research and development is already back to its pre-crisis level and should now grow slowly.

All in all, NFE investment should increase in Q1 2021 (+2% forecast). At the end of this quarter, its growth overhang for 2021 is likely to be 8%, which means that with zero growth in volume over the rest of the year, NFE investment should still pick up by 8% in 2021 compared to 2020. ●

► 3. Investment by non-financial enterprise (NFEs)

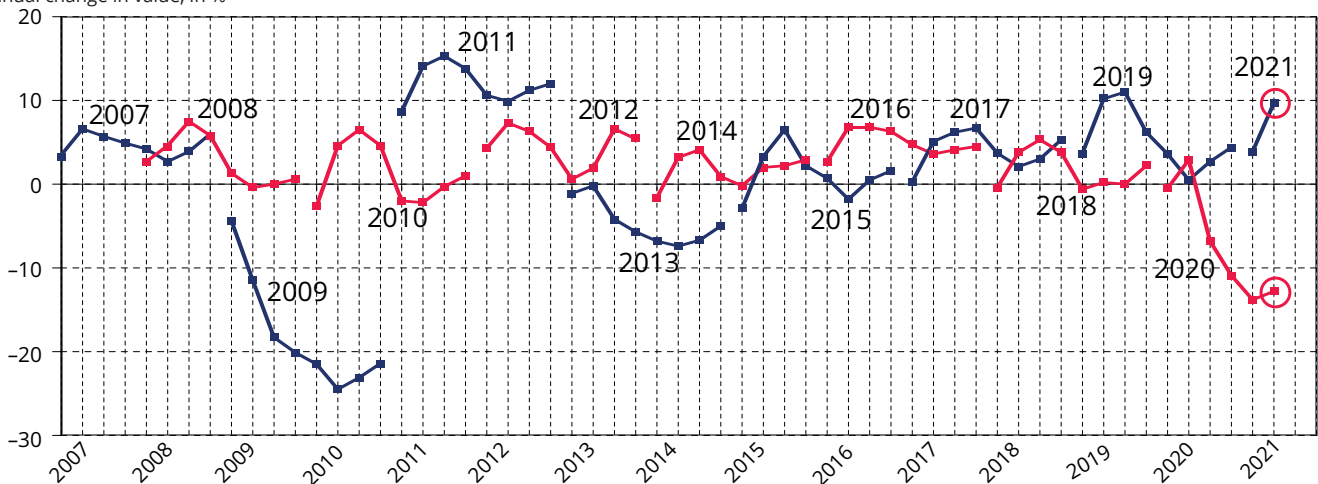
at previous year's prices, chain-linked, seasonally adjusted, in %.

	Quarterly changes								Annual changes			
	2019				2020				2021	2019	2020	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Manufactured product (32%)	2.4	1.0	1.2	-0.9	-14.2	-20.7	37.0	-2.0	1	4.3	-15.3	9
Construction (22%)	-0.6	1.1	0.5	-0.6	-15.2	-21.2	39.0	-3.6	3	1.1	-16.4	11
Services (46%)	0.5	1.2	1.7	1.1	-1.7	-6.4	4.1	5.6	1	4.9	-1.3	6
All NFEs (100%)	0.8	1.1	1.3	0.0	-9.1	-14.1	20.7	0.9	2	3.7	-9.6	8

■ Forecast
Source: INSEE

► 4. Successive estimates by industrialists of change in their investments

annual change in value, in %



Date de l'enquête sur les investissements dans l'industrie

Note: the quarterly survey of investment in industry estimates investments in a given year eight times, with enterprises revising their investment plans during the year. As can be seen from the regular shape of the curves for successive estimates of change in investments, for any given year, this revision follows a seasonal profile. For example, as a general rule, the second estimate is higher than the first. Estimates therefore cannot be compared unless they were produced in the same month.

How to read it: growth in value of spending on tangible investments and software between 2019 and 2020 was estimated at -1% in October 2019, +3% in January 2020, -7% in April, -11% in July, -14% in October, and -13% in January 2021. Estimates from the January 2021 survey are circled.

Source: INSEE, quarterly survey on investment in manufacturing