How do we account for the robustness of corporate investment in 2020?

Investment, or gross fixed capital formation (GFCF), is generally the most volatile component of GDP. Its cycles are much more pronounced than those of private consumption, and it amplifies variations in GDP. In 2009, for example, when GDP fell by 2.9%, total GFCF fell by 9.1%. In 2020, however, GDP and GFCF declined by similar amounts: –7.9% for GDP and –8.6% for total GFCF. In this article we consider the investment behaviour of non-financial corporations.

Numerous factors may be invoked to explain the surprising and relatively robust performance of GFCF by companies in 2020. The first is a composition effect, since the public health crisis has hit different branches of activity to different degrees, with a greater impact on those branches which usually invest the least. Companies' efforts to adapt to the public health context may also have stimulated investment in the equipment required for remote working (ICT, telecommunications etc.). The early assumption that the crisis would be short-lived may also have encouraged companies to maintain some of their investment projects. Finally, the massive amount of support available for businesses, not least through the short-time working scheme and subsidies from the Solidarity Fund, has considerably limited the damage to their income. As a result, the increase in the financing requirements of companies has been relatively limited.

Over the course of 2020, the investment rate of non-financial corporations increased in spite of the decline in their savings ratio

The resilience of GFCF in 2020 can be illustrated with reference to the variation in the investment rate of non-financial corporations (NFCs), i.e. their investment as a proportion of value added. In 2020, the investment rate of NFCs decreased slightly in the first quarter then increased continuously over the subsequent quarters, surpassing the level recorded at the end of 2019 during the third quarter. This increase in the investment rate indicates that investment by NFCs fell less rapidly in 2020 (−7.2% in value terms, ► **figure 1a**) than their value added (−8.5% in value terms). However, the gross operating surplus of NFCs, and particularly their gross savings, shrank during the first three quarters of 2020.

During the financial crisis of 2008-2009, on the contrary, investment by NFCs followed a similar trajectory to their gross operating surplus, subsiding considerably from Q3 2008 onwards (► **figure 1b**).

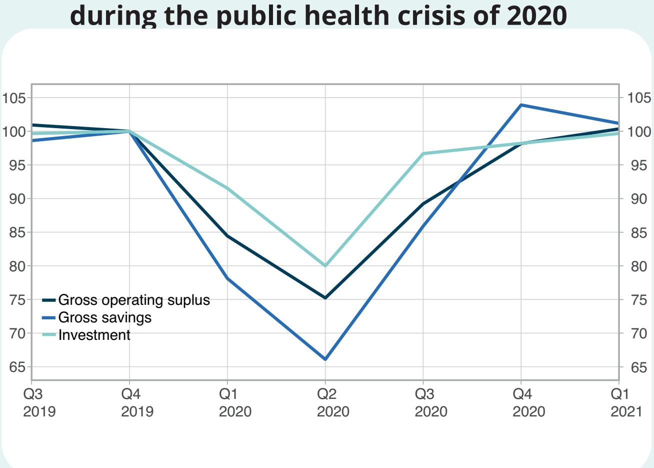
This resilience may be partly attributed to composition effects

The first factor explaining the resilience of investment by NFCs in 2020 is the sector-specific impact of the crisis on businesses. Those branches of activity which witnessed the biggest drop-off in activity in 2020 – particularly hotels, restaurants and transport services – are not the biggest investors in "normal" circumstances. Across the 17 branches of activity, almost 85% of the total decline in activity in 2020 was concentrated in just 8 branches, which in 2019 accounted for just 44% of gross fixed

► 1a. and 1b. Variation in the gross operating surplus, gross savings and investment of NFCs, in Euros at current value

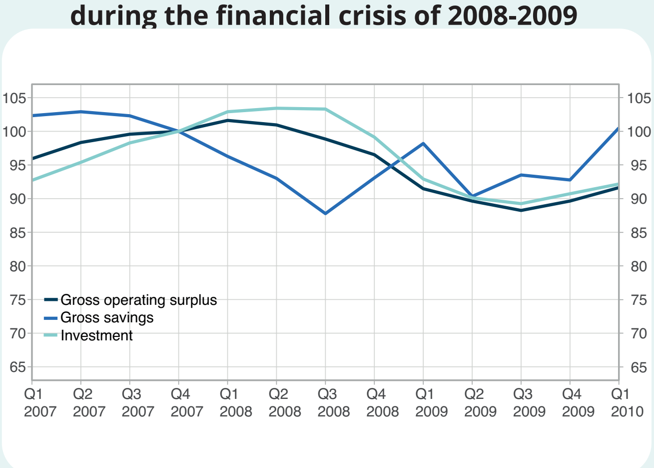
base 100 in Q4 2019

during the public health crisis of 2020



base 100 in Q4 2007

during the financial crisis of 2008-2009



Source: Quarterly accounts, base 2014, INSEE capital formation (► figure 2). On the contrary, some branches such as property services and information and communication, which accounted for a sizeable portion of total investment in 2019, have not seen a major fall in activity. It will be possible to estimate this composition effect once detailed data series for investment in the branches are published in the annual National Accounts , in late summer 2021.

Adapting to remote working has required specific investments

The public health restrictions put in place in March 2020 may also have driven companies to make unplanned purchases of certain products, particularly due to the rise of remote working: computers, software, modernisation and expansion of information systems etc. These acquisitions, which represent gross fixed capital formation[1], may thus have served to attenuate the decline in investment in 2020.

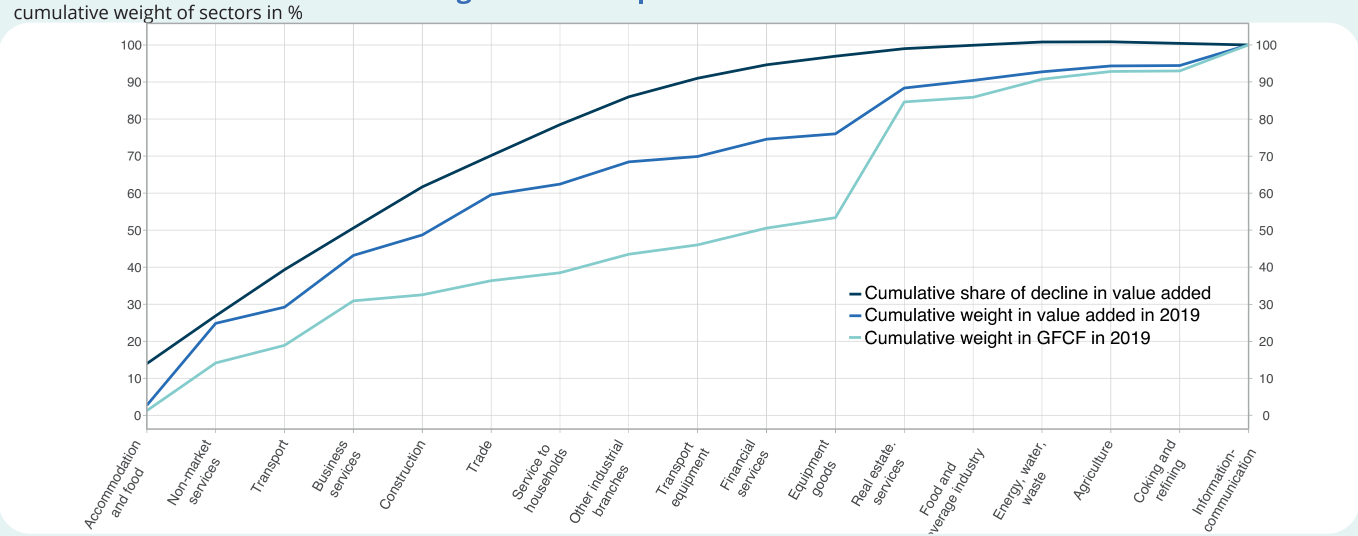
At time of writing, the available National Accounts data for 2020 cover investment in different products across the economy as a whole, at level A38 of the French classification of activities. These data reveal considerable heterogeneity in the decrease in investment for different products (► figure 3). In particular, investment in IT activities and information services, which had been very dynamic in previous years, slowed in 2020 but nonetheless continued to grow (+3.5% after +6.2% in 2019), most likely due to the boom in remote working and the digitalization of certain activities. Other outlook indicators allow us to estimate, indirectly but to a finer level of detail, investment in specific products over the course of the year.

The business tendency survey for the wholesale trade (► figure 4) thus allows us to gauge the increase in demand for certain items which are indispensable for remote working, such as “computers, IT hardware and software.” Indeed, the balance of opinion of companies

1 These assets are associated with production processes – not natural assets – and are used repeatedly or continuously in other production processes for a period of at least one year

► 2. Sector-by-sector contributions to the decline in value added in 2020, and cumulative weight of these sectors in value added and gross fixed capital formation in 2019

cumulative weight of sectors in %



How to read it: branches of activity are ranked from left to right by contribution to the loss of activity in 2020. These respective contributions allow us to construct the cumulative contribution of all branches to the decline in value added: hotels and restaurants, non-market services and transport thus accounted for 39% of the value added lost in 2020. However, in 2019 these branches only represented 19% of total gross fixed capital formation, compared with 29% of value added: traditionally, these are not the sectors which invest the greatest share of their income.

Note: These figures and this table cover all of the institutional sectors (households, general government etc.). Nevertheless, the majority of branches comprise only non-financial enterprises (NFEs – this category encompasses both NFCs and sole proprietors). Only financial services and non-market services contain practically no NFCs. In property services, investment is attributed to “pure” households (excluding sole proprietors), NFEs and general government.

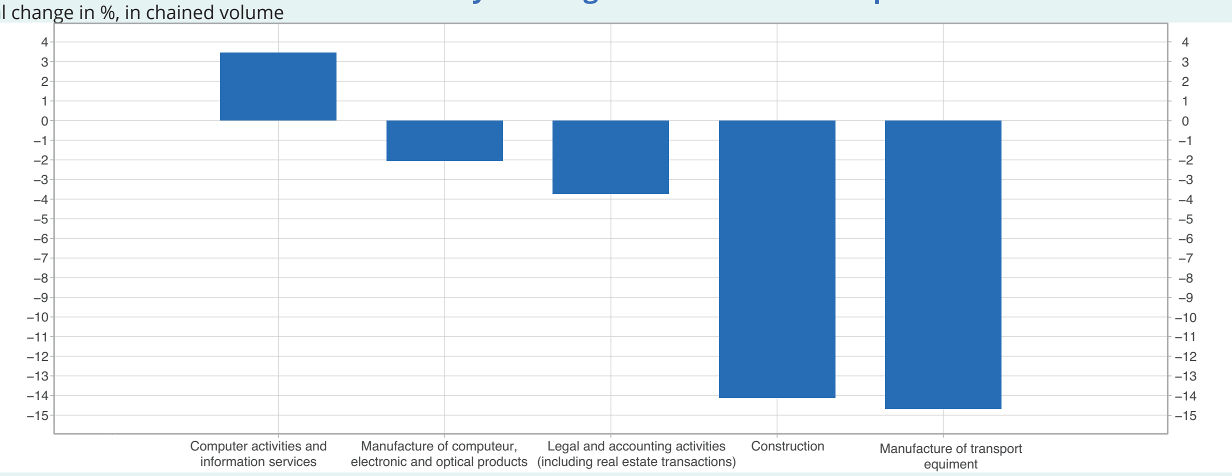
Source: Quarterly national cccounts, INSEE regarding their sales of these products increased substantially from July 2020 onwards, and has since remained at a level well above that seen in 2019. By the same token, the prolonged decline in the balance of opinion regarding sales of "office furniture" reflects the downturn in demand for physical business premises.

We can also use the services production index (IPS, ► **figure 5**), a monthly indicator which provides an indication of the volume of production undertaken on behalf of others in the service sector, as per the definitions used in the national accounts. GFCF accounts for a significant amount of the output of "Information and communication" services. Tracking the IPS enables us to monitor monthly investment in services which could potentially be used for remote working, at a highly disaggregated level. The data reveal that products such as "data processing, hosting and related activities, web portals" and "telecommunications," saw a significant increase in output in 2020, which began during the first lockdown (data processing) or else during the summer (telecommunications). On the contrary, the output of "legal activities", including the legal services provided by notaries during property transactions, considered as a form of investment, fell sharply in both the spring and the autumn of 2020.

The belief that the crisis would be short-lived may have prompted companies to stick to their investment programmes

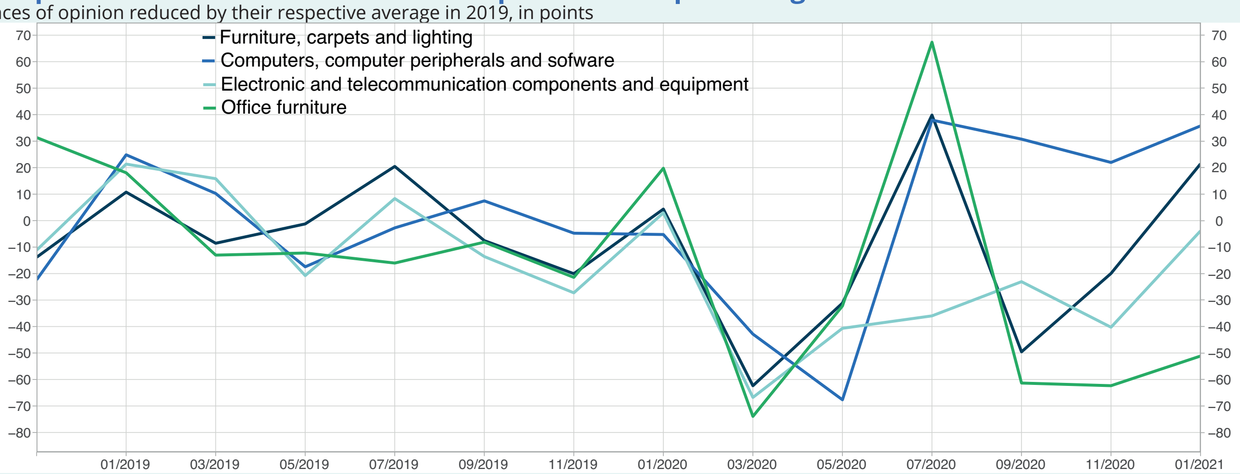
Following the first lockdown, a substantial proportion of businesses were relatively optimistic about the speed

► 3. The decline in GFCF in 2020 was very heterogeneous for different products
annual change in %, in chained volume



Source: Annual national accounts, INSEE

► 4. Opinion of wholesalers on sales completed in the preceding two months
balances of opinion reduced by their respective average in 2019, in points



Note: series corrected for seasonal variation.
Source: Survey in wholesaling, INSEE

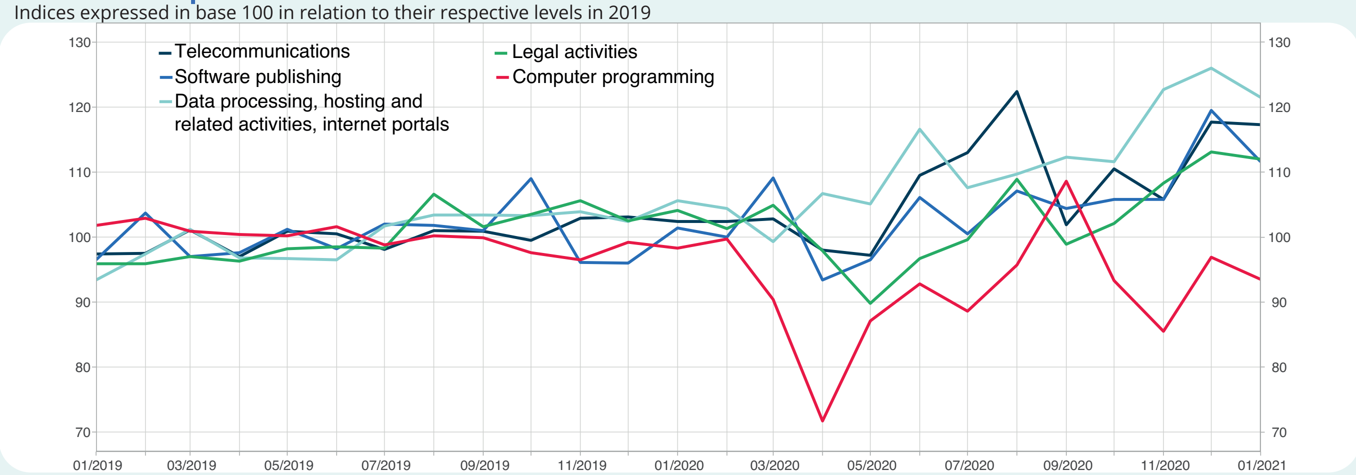
at which the pre-crisis status quo would return. In their responses to the Acemo-Covid survey conducted by DARES and INSEE in July 2020, 43.2% of businesses, across all sectors, reported that their activity levels had already returned to normal or that they expected them to do so within the next 3 months. Only 26.5% declared that this was clearly not the case[2].

Within the manufacturing industry in particular, the most optimistic branches with regard to the speed of the recovery also reported the smallest decline in their planned investments in the investment survey for the manufacturing industry in July 2020[3] (► **figure 6**). It is therefore possible that businesses in these sectors of activity largely went through with the investments they had initially planned, contributing to the resilience of GFCF.

2 The remaining companies responded "Don't know." This response is difficult to interpret. In fact, the proportion of "Don't know" varied very little between July and November 2020, in spite of further developments in the public health situation
3 Informations Rapides 2020 No. 210, "Business leaders in the manufacturing industry revise their investment forecasts for 2020 downwards again." 27/08/2020

► 5. Services production index

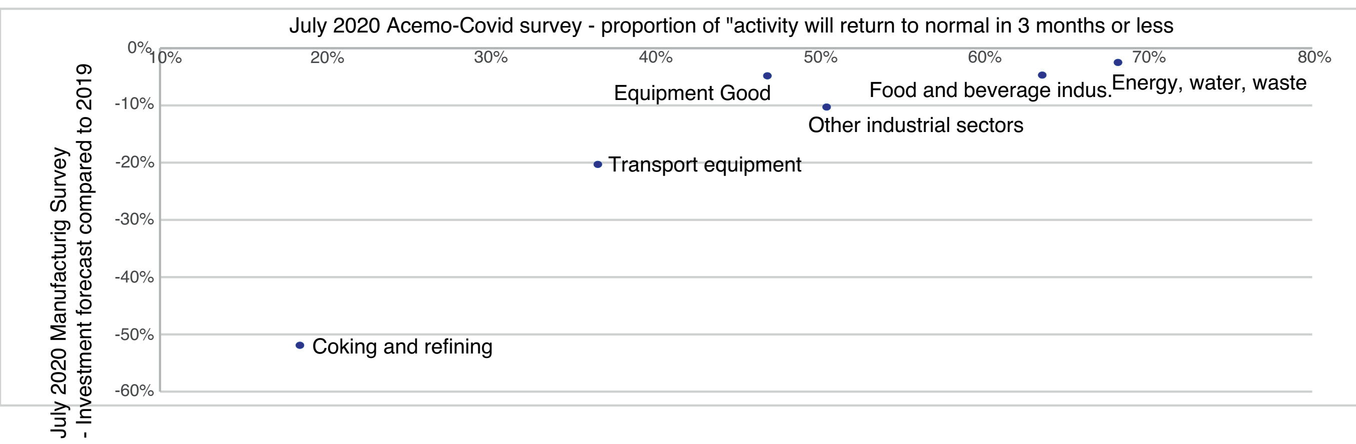
Indices expressed in base 100 in relation to their respective levels in 2019



Note: series corrected for seasonal variation and number of working days.
Source: Index of services production, INSEE

► 6. Responses from the manufacturing sector, in July 2020, regarding the perspective of a return to normal activity levels, and investment forecasts for the year

in %



Source: July 2020 economic survey on investments in manufacturing industry, INSEE. Survey Acemo-Covid, INSEE-DARES.

Budgetary support has offset a large proportion of the decline in the value added by NFCs

Analysis of the NFCs account suggests that the decline in GFCF in 2020 was also limited by the support measures put in place for businesses, which served to stifle the repercussions of the fall in value added. These measures provided considerable relief to households and businesses: the government covered between 70% and 80% of the total decline in national income in 2020, leaving businesses to shoulder the rest of the loss[4].

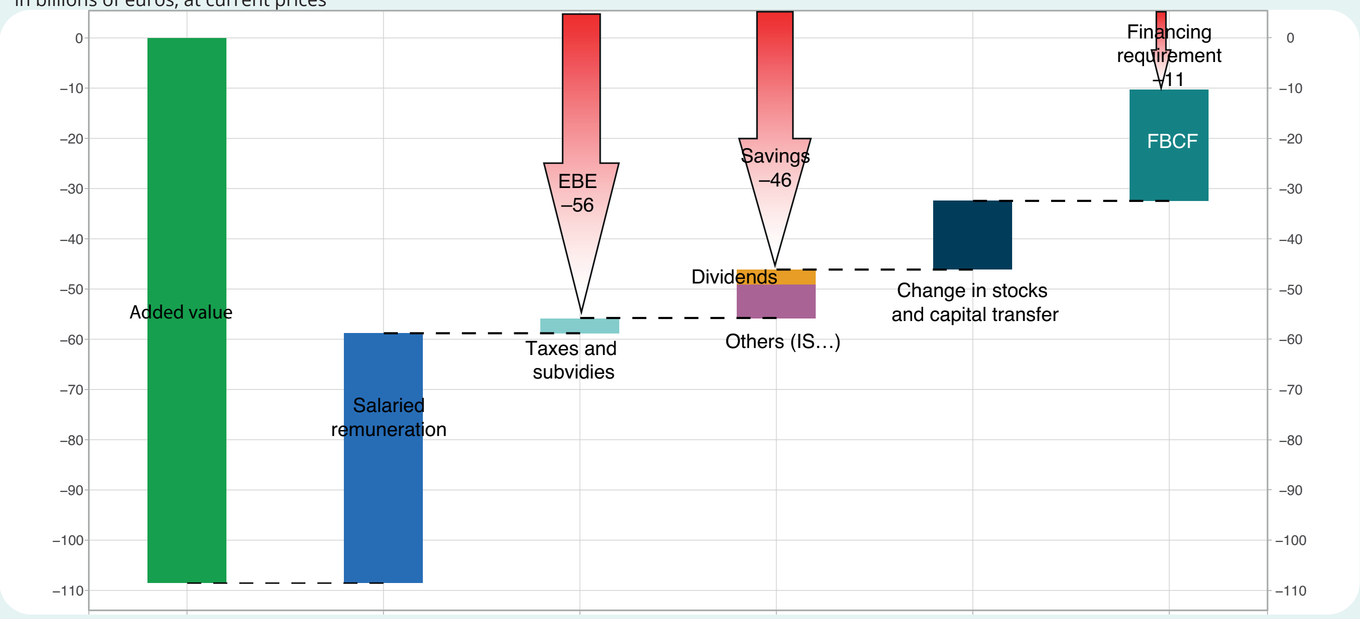
These measures took multiple forms, and their effects have been felt at different levels of the NFCs account. Firstly, while the value added by NFCs shrank by over 100 billion Euros in 2020, their gross operating surplus (GOS) was buoyed by the short-time working scheme (reducing their wage bill) and by subsidies received from the Solidarity Fund[5] (► **figure 7**). In total, the decline in the value added by NFCs was almost twice as substantial as the decline in their GOS. The decline in the gross savings of NFCs was further limited by the decrease in property income (dividends, interest payments etc.) and reductions to current taxes.

NFC also accumulated less inventory in 2020 than they did in 2019, which improved their financing capacity, while receiving more capital transfers[6]. In light of the limited reduction in GFCF, the financing requirements of NFCs did not explode in 2020. They nonetheless reached a level 50% above the mean value for the 3 preceding years (2017-2019). This deterioration in financing needs was relatively limited compared with the events of the financial crisis of 2008-2009: in 2009 the financing requirements of NFCs tripled in relation to their mean value for the period 2005-2007.

In the absence of these support measures, NFCs would probably have had to further reduce their investment spending or their payments of property income, or else to bear greater financing requirements. By way of an illustration, if the decline in the value added by NFCs had been passed on entirely to GFCF, the latter would have decreased by 35% instead of 7.2%.

4 "How has the macroeconomic cost of the public health crisis been shared?" INSEE, Nicolas Carnot, 28/05/2021.
5 Subsidies only increased by 2 billion Euros between 2019 and 2020, which may seem paradoxical given the large sums paid out in 2020 under the emergency measures. These measures actually served to offset the conversion of the CICE tax credit into a reduction in employers' social security contributions (INSEE Première, National Accounts 2020, 28/05/2021).
6 The increase in capital transfers accounts is two-thirds the value of the following figure from the national accounts. NFCs were allowed to carry over into 2021 the payment of a large portion of the taxes and social contributions calculated for 2020. Nevertheless, for the purposes of the national accounts, these payments were recorded in 2020. Since some of the money owed by NFC to the government will never be recovered, future unpaid taxes are estimated and entered into the accounts for 2020 as a capital transfer from general government in favour of NFCs (see Box 1 in the Appendix to Informations Rapides No. 082 "National Accounts for general government – initial results - Year 2020," 26 March 2021).

► 7. Summary account for non-financial corporations in 2020 compared with 2019
in billions of euros, at current prices



How to read it: the value added by NFCs fell by 109 billion Euros between 2019 and 2020. The decrease in payroll costs and taxes after subsidies meant that gross operating surplus fell by just 56 billion.
Source: Semi-final annual accounts for 2019 and provisional accounts for 2020, in base 2014, INSEE

Non-financial corporations looked to bank loans, including government-backed loans, to cover their cash flow and financing needs, which could impede future investments

In order to cover their financing needs, NFCs issued a substantial amount of debt securities in 2020, and also took out a large volume of bank loans (2.4 times more debt securities and bank loans than in 2019). In particular, government-backed loans accounted for the majority of bank loans taken out by NFCs: 130 billion Euros were issued to NFCs and sole proprietors in 2020 under this programme.

In 2020, the gross debt of NFCs thus increased by 217 billion Euros, an increase of 12%. Nevertheless, their net debt (gross debt less the value of financial assets, including liquidity) gives a more accurate idea of the degree to which companies are actually indebted: in 2020, net debt grew by “just” 17 billion Euros. But this increase came on top of a level of indebtedness which was already high before the crisis struck.

In 2009 and 2010, NFCs continued to rein in their investments as the cost of servicing their debt decreased, allowing them to pay down some of their debt. More generally, the level of indebtedness of a company may have a negative impact on its investment, and the increase in the debt borne by companies in 2020 could reduce investment by around 2% in relation to its long-term trend (Hadjibeyli et al. 2021).

This effect should not be immediate, or should affect only a minority of companies: according to the October 2020 survey focusing on investment in the manufacturing industry, a small majority of respondents in the industrial sector felt that their level of indebtedness would be conducive rather than prohibitive to investment in 2021. In October 2020, the balance of opinion for the year 2021 regarding the expected influence on debt levels on investment decisions was estimated at +3 (this means that a majority of companies reported that their current level of indebtedness would have a positive, rather than a negative, effect on their investment decisions in 2021). This is far superior to the values estimated in October 2008 for 2009 (−5) and October 2009 for 2010 (−11). ●

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