Corporate investment and inventory

Investment by non-financial enterprises (NFEs) increased sharply in Q4 2016 (+0.8% after –0.1%), due to a rebound in spending on manufactured goods (+1.7% after –2.9%), in particular spending on transport equipment. Over the year 2016 as a whole, NFE investment gathered pace once again (+4.0% after +2.7% in 2015 and +1.4% in 2014), thanks to the momentum in purchases of manufactured goods and the upturn in construction expenditure. On average over the year, the investment rate is expected to reach its highest level since 2008. In H1 2017, corporate investment is expected to remain dynamic (+0.9% in Q1 and +0.5% in Q2). It should be sustained by demand prospects and favourable financing terms, and, through to mid-April, by the additional depreciation allowance scheme. The carry-over effect at mid-year for 2017 is expected to reach +1.8%. In Q4 2016, changes in inventories hampered growth (–0.1 points of gross domestic product), as a fall in changes in inventories of manufactured goods was only partly offset by an increase in those of raw hydrocarbons and agricultural products. Over 2016 as a whole, the effect of these changes in inventories on growth was neutral. In Q1 2017, changes in inventories of manufactured and agricultural goods are expected to contribute positively to growth (+0.3 points). In Q2, destocking of crude oil and manufactured goods is expected to be the cause of a negative contribution of the same magnitude (–0.3 points).

Corporate investment gathered pace markedly at the end of 2016

In Q4 2016, investment by non-financial enterprises (NFEs) increased by 0.8%, after two quarters of virtual stagnation (*Table 1*). Enterprises substantially increased their expenditure on manufactured goods (+1.7% after –2.9%), most notably transport equipment (+6.1% after –6.6%). Investment expenditure on services slowed (+0.3%) after increasing vigorously in Q3 (+1.4%). Sustained purchases of IT services counterbalanced a slight downturn in those of business services. Over the year 2016 as a whole, NFE investment increased sharply (+4.0%), rising faster than in the previous two years (+2.7% in 2015 and +1.4% in 2014), thanks to purchases of manufactured goods and the upturn in construction expenditure. The NFE investment rate reached 21.7% on average over the first three quarters of 2016, to hit its highest level since 2008 (*Graph 1*).

Investment is likely to remain vigorous in H1 2017

For Q1 2017, the business tendency surveys suggest further sustained growth in corporate investment. According to the business tendency survey in industry, production capacity tensions have increased: in Q4 2016, the production capacity utilisation rate and production bottlenecks were higher than their long-term average (*Graph 2*). Far more business managers in industry are predicting an increase in their investments in

Table 1

Investment by non-financial enterprises (NFEs)

at chain-link previous year prices, SA-WDA

	Quarterly changes										Annual changes		
	2015				2016				2017		2015	2016	2017 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Manufactured products (%)	0.8	0.5	1.8	3.1	3.6	–0.6	–2.9	1.7	1.7	0.0	3.0	5.4	1.3
Construction (%)	–0.1	0.5	–0.1	1.4	1.2	0.4	1.3	0.4	0.0	0.6	–0.3	3.5	1.4
Other (%)	1.8	1.1	0.4	0.7	1.4	–0.1	1.4	0.3	0.9	0.8	4.2	3.1	2.4
All non-financial enterprises (100%)	**1.0**	**0.7**	**0.7**	**1.7**	**2.1**	**–0.1**	**–0.1**	**0.8**	**0.9**	**0.5**	**2.7**	**4.0**	**1.8**

Forecast

Source: INSEE

H1 2017 than a reduction. In services, the balances of opinion on investment, past and future, have been following an upward trend since 2012 and remain higher than their long-term average. The balance of opinion on expected investments reached its highest level since 2011 in January.

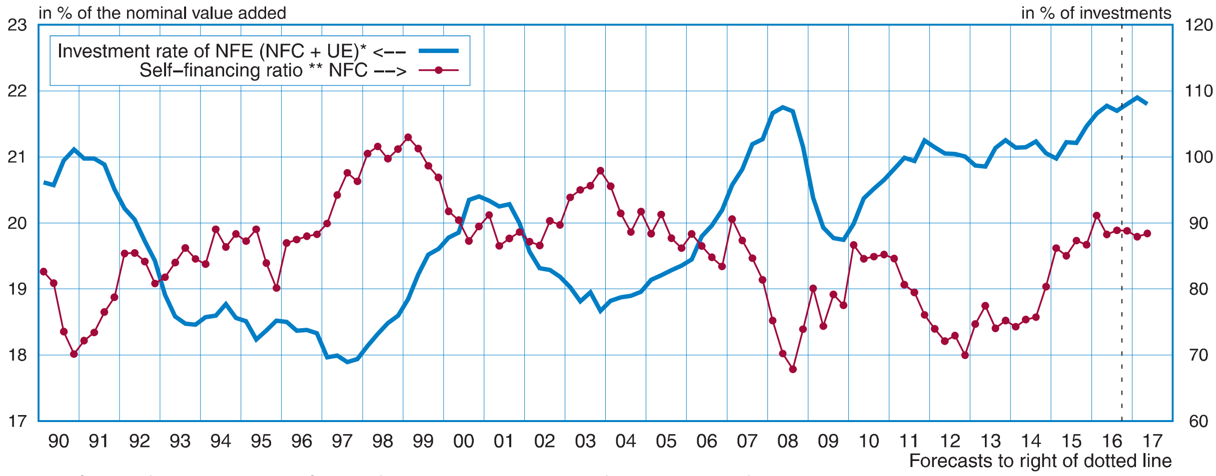
Financing conditions continue to favour investments. Interest rates are likely to increase a little, in the wake of sovereign yields, but should still remain low until mid-2017, and credit terms are expected to remain favourable. In addition, the self-financing ratio is expected to remain high in H1 2017.

As a result, NFE investment expenditure should gather pace slightly during Q1 2017 (+0.9% after +0.8%). It is expected to return to a level of growth close to its trend in Q2 (+0.5%). The annual carry-over effect is expected to be +1.8% in mid-year and the NFE investment rate should increase a little more (21.8% mid-2017).

Investments in manufactured goods is expected to remain buoyant then stagnate

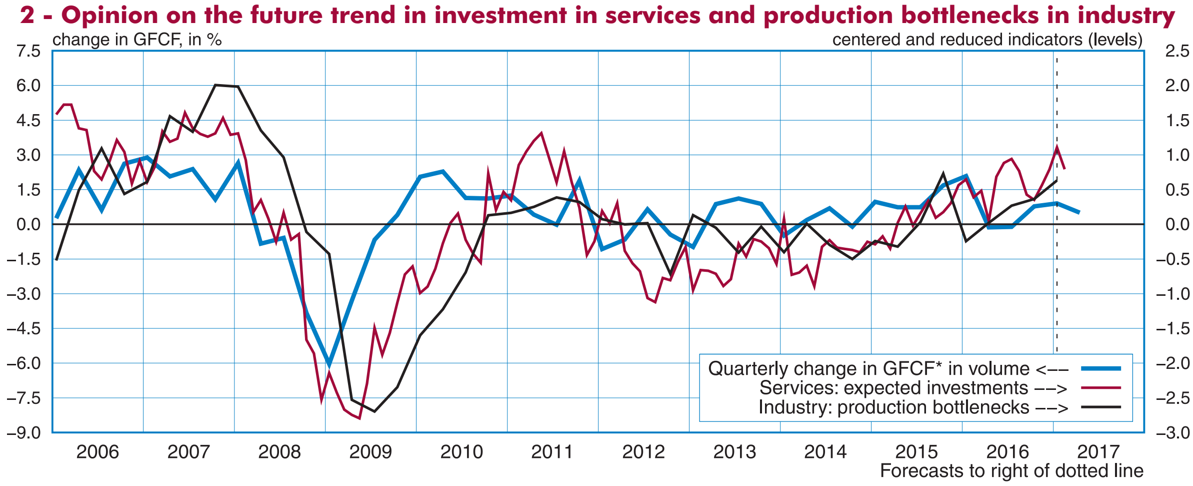
At the beginning of 2017, the quarterly profile of NFE investment in manufactured goods is expected to be impacted by the end of the additional depreciation allowance scheme. A proportion of capital expenditure will still benefit from this measure until mid-April 2017. Anticipation of this new deadline could lead to another increase in this type of investment. On the other hand, car registrations until February suggest a slowdown in investments in new vehicles after a sharp increase at the end of 2016. All in all, investment in manufactured goods is expected to remain

1 - NFE investment rate and self-financing rate



* 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

sustained in Q1 (+1.7% as in the previous quarter), with stagnation coming as an after-effect in Q2. The carry-over effect for 2017 is likely to be +1.3% at the end of Q1, after a very buoyant 2016 (+5.4%).

Construction investment is expected to suffer temporarily due to the cold weather

Expenditure on construction is expected to stall in Q1 2017, then regain its momentum in Q2 (+0.6%). Civil engineering investment is likely to suffer from January's low temperatures: it is expected to fall in Q1, then bounce back in the following quarter. Furthermore, according to the time series of non-residential building starts, building construction investment looks likely to slow in Q1 and to continue to grow moderately in the following quarter.

Investments in services are expected to return to their trend rate

Investments in services are expected to grow at their long-term average rate: +0.9% in Q1 2017, then +0.8% in Q2 2017. Their annual carry-over effect is expected to reach +2.4% mid-year.

In 2016, the effect of changes in inventories on growth was neutral

In Q4 2016 the contribution of the increase in destocking of manufactured goods (–0.4 points, *Table 2*) was partly offset by greater re-stocking of crude oil (+0.2 points) and agricultural products (+0.1 points). All in all, changes in inventories held back GDP growth slightly (–0.1 points). Over the year 2016 as a whole, after the quarterly jolts, changes in inventories had a neutral effect on growth: those in manufactured goods made a slightly positive contribution (+0.1 points), offset by those in agricultural products (–0.1 points).

In February 2017, business leaders in manufacturing industry considered that inventory levels were still a little below normal. The contribution of changes in inventories is expected to be positive in Q1 (+0.2 points on GDP growth) due especially to a weak level of aeronautical deliveries and exceptional levels of procurement in pharmaceuticals. The reconstitution of inventories of agricultural products is expected to amplify this movement (+0.1 points). In Q2, the recovery in aeronautical and shipbuilding deliveries is expected to lead to a negative contribution of changes in inventories in manufactured goods (–0.2 points), amplified by a period in which crude oil inventories are run down (–0.1 points). ■

Table 2

Contribution of inventory changes to growth

	Quarterly changes										Annual changes		
	2015				2016				2017		2015	2016	2017 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Agricultural and agrifood products	**0.0**	**–0.1**	**0.0**	**0.0**	**–0.1**	**0.0**	**0.1**	**0.1**	**0.1**	**0.0**	**0.0**	**–0.1**	**0.2**
Manufactured products	**0.3**	**–0.3**	**0.4**	**0.3**	**0.1**	**–0.7**	**0.4**	**–0.4**	**0.2**	**–0.2**	**0.1**	**0.1**	**–0.2**
Agrifood products	0.0	0.0	0.0	0.0	–0.1	–0.1	–0.1	0.0					
Coke and petroleum products	0.2	–0.2	0.0	0.1	0.1	–0.2	0.1	–0.1					
Machinery and equipment goods	–0.1	0.0	–0.1	0.1	–0.1	0.0	0.1	0.0					
Transport equipment	0.2	–0.2	0.3	0.0	0.3	–0.4	0.2	0.0					
Others industrial goods	–0.1	0.0	0.2	0.1	–0.1	–0.1	0.0	–0.3					
Energy, water and waste	**0.0**	**–0.1**	**0.0**	**0.2**	**–0.1**	**–0.1**	**0.2**	**0.2**	**0.0**	**–0.1**	**0.1**	**0.0**	**0.1**
Others (construction, services)	**0.0**	**0.0**	**0.0**	**0.0**	**–0.1**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
TOTAL[1]	**0.3**	**–0.5**	**0.4**	**0.5**	**–0.2**	**–0.7**	**0.7**	**–0.1**	**0.3**	**–0.3**	**0.1**	**0.0**	**0.2**

Forecast

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

Source: INSEE