Corporate investment and inventory

Corporate investment remained healthy in Q3 2017 (+1.1% after +1.2%). Investment in manufactured goods accelerated (+2.0% after +1.2%) and that in services slowed slightly while remaining sustained (+1.0% after +1.2%). However, investment in construction has slowed sharply (+0.2% after +1.0%) due to a backlash effect in civil engineering expenditure. The investment rate remains high.

Through to mid-2018, corporate investment should remain very buoyant (+1.2% at the end of 2017 then +1.1% in Q1 2018 and +0.9% in Q2), still sustained by favourable demand prospects and financing terms. As an average over the year as a whole, investment should increase by 4.4% in 2017, more than it did in 2016 (+3.4%). For 2018, the growth overhang at the mid-year point is expected to be +3.7%. The investment rate should increase further to reach 22.7% by mid-2018.

In Q3 2017 changes in inventories made a positive contribution on growth (+0.5 GDP points), a reversal of the results from the previous quarter (–0.5 points). Changes in inventories in manufactured goods (+0.6 points after –0.4 points), and particularly transport equipment, account for the majority of this turnaround. In Q4, the catch-up effect of deliveries in the aeronautical sector is expected to push the contribution of inventory change to growth back into the negative (–0.3 points overall). In spite of this effect, for 2017 as a whole changes in inventories should make a positive contribution to growth (+0.5 points). This contribution should be neutral in Q1 2018, then slightly positive in Q2 (+0.2 points).

In Q3 2017, corporate investment remained healthy

In Q3 2017, investment by non-financial enterprises (NFEs) grew at virtually the same robust pace as that recorded in Q2 (+1.1% after +1.2%; *Table 1*). Investment in manufactured goods picked up (+2.0% after +1.2%), despite the end of the one-off additional depreciation allowance in April. Investment in services increased again (+1.0% after +1.2%). This category was once again buoyed by investment expenditure on information and communication, which has slowed but remains dynamic (+1.6% after +3.3%). On the other hand, investment in construction came to a standstill (+0.2% after +1.0%) due to a backlash effect in civil engineering expenditure. Overall, the investment rate of NFEs remained high in Q3, at 22.3% (*Graph 1*). In early 2017 it exceeded the previous high, recorded in 2008, driven by the trend increase in investment in services in value added since the beginning of the1980s.

Investment should rise once again in late 2017 and remain sustained in H1 2018

According to the business tendency survey for industry, the demand placed on production capacities is increasing. The number of industrial firms reporting production bottlenecks increased in October, and is now well above the long-term average (*Graph 2*). According to the October survey of investments in industry, although business managers have reduced their investment forecasts for 2017, they remain positive (+4% in value in 2017 compared with 2016). The number of firms

Table 1

Investment by non-financial enterprises (NFEs)

at chain-link previous year prices, SA-WDA

	Quarterly changes										Annual changes		
	2016				2017				2018		2016	2017	2018 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Manufactured products (34%)	3.2	–1.5	–2.6	0.6	3.0	1.2	2.0	1.5	1.3	1.1	4.2	4.1	4.6
Construction (24%)	0.4	0.6	–0.1	0.8	0.4	1.0	0.2	0.8	0.8	0.4	1.9	2.1	2.1
Other (42%)	1.0	0.3	2.2	0.7	2.4	1.2	1.0	1.3	1.2	1.1	3.7	5.9	3.8
All non-financial enterprises (100%)	**1.6**	**–0.2**	**0.0**	**0.7**	**2.1**	**1.2**	**1.1**	**1.2**	**1.1**	**0.9**	**3.4**	**4.4**	**3.7**

Forecast

Source: INSEE

increasing their level of investment outstripped those reducing investments in H2 2017. In the service branches, the balances of opinion on past investments and investment prospects are well above their long-term average levels.

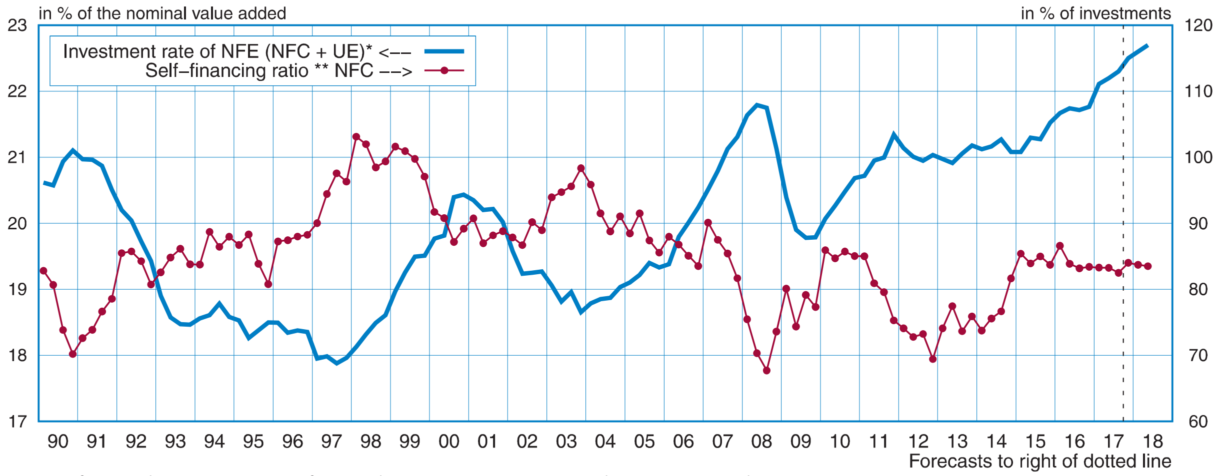
Financing terms are still favourable to investment in late 2017. On the one hand, corporate margins have benefited from robust activity and the decision to extend schemes aimed at reducing the cost of labour. Margins should rise again in 2018 thanks to the increase in the rate of the CICE, with the self-financing ratio remaining high. Additionally, real interest rates have returned to a particularly low level after a slight increase in late 2016 and early 2017, so credit terms remain conducive to investment.

Investment expenditure by NFEs is expected to grow steadily in Q4 2017 (+1.2%). This dynamism should continue in H1 2018 (+1.1% in Q1 then +0.9% in Q2). As an annual average, investment by NFEs should pick up pace in 2017: +4.4% after +3.4% in 2016. For 2018, the growth overhang at the mid-year point should be +3.7%. The investment rate of NFEs should see another slight increase to reach 22.7% by mid-2018.

Investment in manufactured goods should remain very solid between now and mid-2018

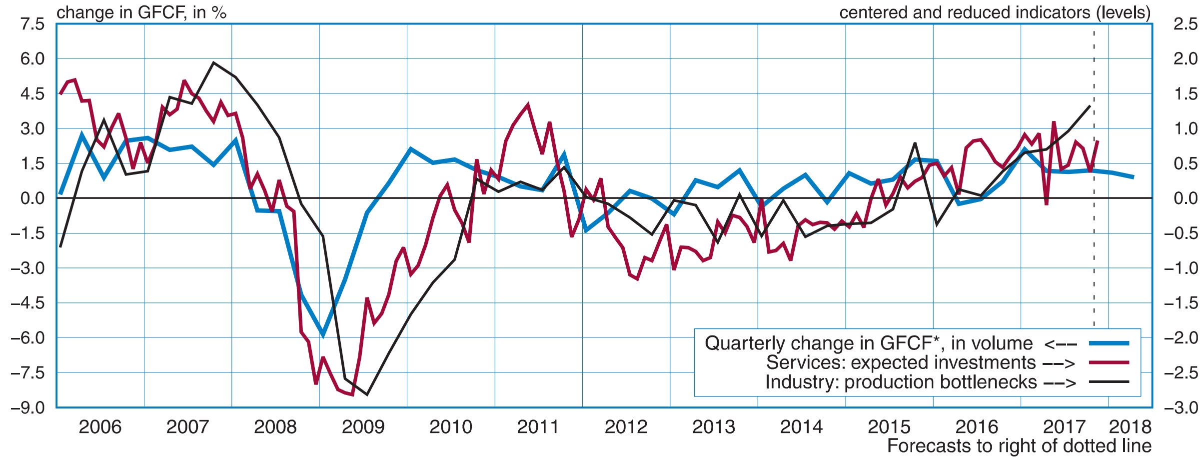
Investment in manufactured goods by NFEs is expected to slow slightly in Q4 2017 (+1.5% after +2.0%). Vehicle registrations recorded in October suggest a sharp upturn in investment in automobiles during Q4, but investment in other transport equipment is expected to shrink as an after-effect of the extremely vigorous figures seen in Q3. Investment in capital goods should slow down but remain buoyant, as the production capacity utilisation rate hits high levels. As an annual average, investment in manufactured goods should grow at a similar pace in 2017 to 2016 (+4.1% after +4.2%). In 2018, the growth overhang at the mid-year point should be +4.6%.

1 - 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

Investment in construction is expected to accelerate in Q4 then slow by mid-2018

Investment in construction by businesses should accelerate in Q4 2017 (+0.8% after +0.2%) then slow in H1 2018 (+0.8% in Q1 then +0.4% in Q2). Building starts have stabilised since the start of the year, but the past increase has led to a rise in the level of spending on construction for Q4 2017 and Q1 2018. This expenditure is expected to come to a standstill in Q2 2018. Investment in civil engineering work should bounce back in Q4 after declining in Q3, then remaining dynamic until mid-2018. Companies in this sector responding to the business tendency surveys have reported that their order books are very full. All in all, investment in construction should pick up slightly in 2017 (+2.1% after +1.9% in 2016). The growth overhang for 2018 should stand at +2.1% at the mid-year point.

Investment in services should remain robust through to mid-2018

Investment in services should continue to grow steadily. It is expected to increase again in Q4 (+1.3%) and only slow very slightly through to mid-2018 (+1.2% in Q1 then +1.1% in Q2). In 2017, investment in services should make a strong contribution to the overall acceleration of investment and the increase in the NFE investment rate. Average annual growth is expected to be 5.9%, after +3.7% in 2016. For 2018, the growth overhang at the mid-year point should be +3.8%.

As an average for the year 2017, the contribution of inventory change to growth should be clearly positive

After hindering growth of gross domestic product (GDP) in Q2 2017 (–0.5 points), the contribution of changes in inventory became clearly positive in Q3 2017 (+0.5 points), largely thanks to transport equipment.

In the monthly business tendency survey for industry conducted in November 2017, inventory levels are still deemed to be lower than normal: businesses therefore feel the need to increase their stocks of manufactured goods. Nonetheless, the catch-up effect of aeronautical deliveries scheduled for the end of the year should see inventory change make a negative impact on overall activity levels in Q4 (–0.3 points). In spite of this effect, for 2017 as a whole changes in inventory should make a clearly positive contribution to growth (+0.5 points), primarily *via* inventory change in transport equipment.

In Q1 2018 the contribution of inventory to growth is expected to be neutral, but this masks two contrasting trends: on the one hand, the return of aeronautical deliveries to normal levels should lead to a positive contribution from inventory change, and on the other hand the delivery of a large ocean liner should reduce inventory levels in the shipbuilding sector. In Q2, changes in inventory in shipbuilding should be positive in reaction to Q1, which explains the slightly positive contribution of inventory change to overall activity. ■

Table 2

Contribution of inventory changes to growth

in GDP points

	Quarterly changes										Annual changes		
	2016				2017				2018		2016	2017	2018 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Agricultural products	**–0.1**	**0.0**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**–0.1**	**0.1**	**–0.1**
Manufactured products	**–0.1**	**–0.6**	**0.4**	**–0.4**	**0.7**	**–0.4**	**0.6**	**–0.2**	**0.1**	**0.2**	**0.0**	**0.4**	**0.2**
Agrifood products	–0.1	0.0	–0.1	–0.1	–0.1	0.0	0.0						
Coke and refined petroleum products	0.1	–0.1	0.1	–0.1	0.1	0.0	–0.1						
Machinery and equipment goods	–0.1	0.0	0.2	0.0	0.0	0.1	0.0						
Transport equipment	0.1	–0.3	0.1	0.0	0.5	–0.4	0.7						
Other industrial goods	–0.1	–0.1	0.1	–0.3	0.3	0.0	0.0						
Energy, water and waste	**–0.2**	**–0.1**	**0.2**	**0.2**	**–0.1**	**–0.1**	**–0.1**	**–0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**–0.1**
Others (construction, services)	**–0.1**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
TOTAL[1]	**–0.4**	**–0.6**	**0.7**	**–0.2**	**0.7**	**–0.5**	**0.5**	**–0.3**	**0.0**	**0.2**	**–0.1**	**0.5**	**0.1**

Forecast

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

Source: INSEE