

# Corporate investment and inventory

Investment by non-financial enterprises (NFEs) increased sharply in Q4 2017 (+1.6% after +1.1%). Investment in services accelerated sharply (+2.3% after +1.2%) and that in manufactured goods continued to rise (+1.7% after +1.8%). Over the year 2017 as a whole, NFE investment gathered pace once again (+4.4% after +3.4% in 2016 and +2.9% in 2015), thanks to the buoyancy of spending on services and capital goods. The investment rate is at a high level and is continuing to rise (22.2% on average over the year, after 21.7% in 2016). In H1 2018, corporate investment is expected to remain steady (+1.1% in Q1 then +1.2% in Q2), still sustained by favourable demand prospects and financing terms. For 2018, the growth overhang at the mid-year point is expected to be +4.1%. The investment rate should increase further to reach 22.7% by mid-2018.

In Q4 2017, changes in inventories contributed negatively to growth (-0.4 GDP points), a reversal of the situation in the previous quarter (+0.3 points). Most of this reversal can be explained by changes in inventories in manufactured goods (contribution of -0.6 GDP points after +0.4 points), particularly transport equipment, following large deliveries of aircraft at the end of the year. In Q1 2018, the contribution of inventories to growth is expected to be neutral, with the return to normal in aeronautical deliveries being offset by the running down of crude oil inventories and the delivery of an ocean liner. In Q2, changes in inventories in shipbuilding are expected to increase in reaction to Q1 and the contribution of inventories to growth should then be positive (+0.2 points).

## Corporate investment gathered pace at the end of 2017

In Q4 2017, investment by non-financial enterprises (NFEs) accelerated (+1.6%, after +1.1%; *Table 1*). Investments in manufactured goods again grew at a brisk pace (+1.7% after +1.8%), whilst investment expenditure on services gathered pace markedly (+2.3% after +1.2%). Expenditure on information and communication services was buoyant once again and that on business services regained some momentum after shrinking in the previous quarter. Only investment in construction kept a weak growth (+0.2% after +0.1%), a new drop in civil engineering expenditure practically cancelling out an increase in spending on building.

Over the year 2017 as a whole, NFE investment increased sharply (+4.4%), faster than in the previous two years (+3.4% in 2016 and +2.9% in 2015), thanks to investment expenditure on services, especially IT services and purchases of capital goods. The investment rate of NFEs increased again to reach 22.4% at the end of 2017 (*Graph 1*). At the beginning of 2017, it exceeded the previous high, recorded in 2008, driven by the trend increase in investment in services in value added since the 1980s.

## Investment is likely to remain sustained in H1 2018

For Q1 2018, the business tendency surveys in industry suggest still-robust growth in investment expenditure. According to the survey on activity in industry, the demand placed on production capacities is indeed constantly increasing: the production capacity utilisation rate rose again at

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 ovh <sup>g</sup>
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Manufactured products (34%)	3.3	-1.6	-2.7	0.7	3.1	1.1	1.8	1.7	0.6	1.2	4.2	4.0	4.0
Construction (24%)	0.5	0.5	-0.2	0.7	0.1	0.7	0.1	0.2	1.0	0.6	1.9	1.3	1.8
Other (42%)	1.1	0.4	2.4	0.2	3.0	1.0	1.2	2.3	1.6	1.5	3.7	6.5	5.4
<b>All non-financial enterprises (100%)</b>	<b>1.7</b>	<b>-0.3</b>	<b>0.0</b>	<b>0.5</b>	<b>2.3</b>	<b>1.0</b>	<b>1.1</b>	<b>1.6</b>	<b>1.1</b>	<b>1.2</b>	<b>3.4</b>	<b>4.4</b>	<b>4.1</b>

Forecast

Source: INSEE

## French developments

the beginning of 2018. In addition, more and more industrial enterprises consider that they could not produce more if they received more orders: the proportion with production bottlenecks has been increasing since the end of 2016 and in January 2018 reached its highest level since 1990 (Graph 2). According to the January survey of investments in industry, more firms than average are planning to increase rather than reduce their investments in H1 2018.

The balances of opinion on investment are slightly less favourable in the service sector. The balance on planned investments fell in December and January before picking up again in February (Graph 2).

Financing terms continue to favour investments. On the one hand, corporate margins benefited from robust activity in 2017, and are expected to rise again at the beginning of 2018 thanks to the increase in the competitiveness and employment tax credit (CICE) from 6% to 7%, applicable to remunerations paid in 2017. On the other hand,

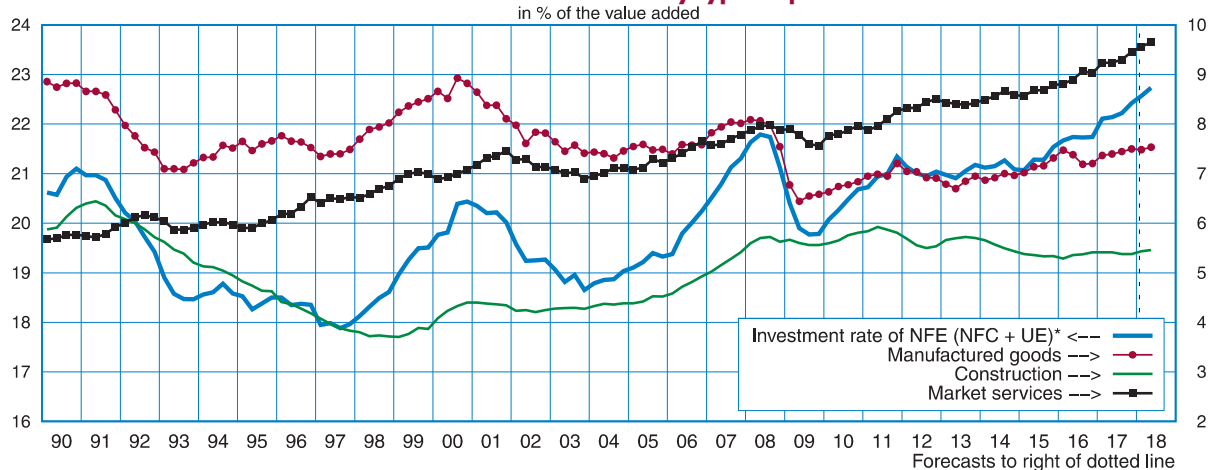
interest rates should remain low until mid-2018, in spite of a slight increase in the wake of sovereign yields. Enterprises' self-financing ratios are likely to fall slightly at the beginning of 2018, although they should remain high.

This means that investment expenditure by NFEs should remain vigorous in H1. It is expected to slow down in Q1 (+1.1% after +1.6%), due to a temporary dip in investment in automobiles, and pick up again slightly in Q2 (+1.2%). The annual growth overhang is expected to be high at the mid-year point (+4.1%), and the NFE investment rate should increase a little more (22.7% by mid-2018).

### Investment in manufactured goods should be buoyant in spite of a slowdown in Q1

At the beginning of 2018, the quarterly profile of NFE investment in manufactured goods is expected to be impacted by investment in automobiles. Vehicle registrations recorded until February do in

1 - Investment rate of SNF by type of product

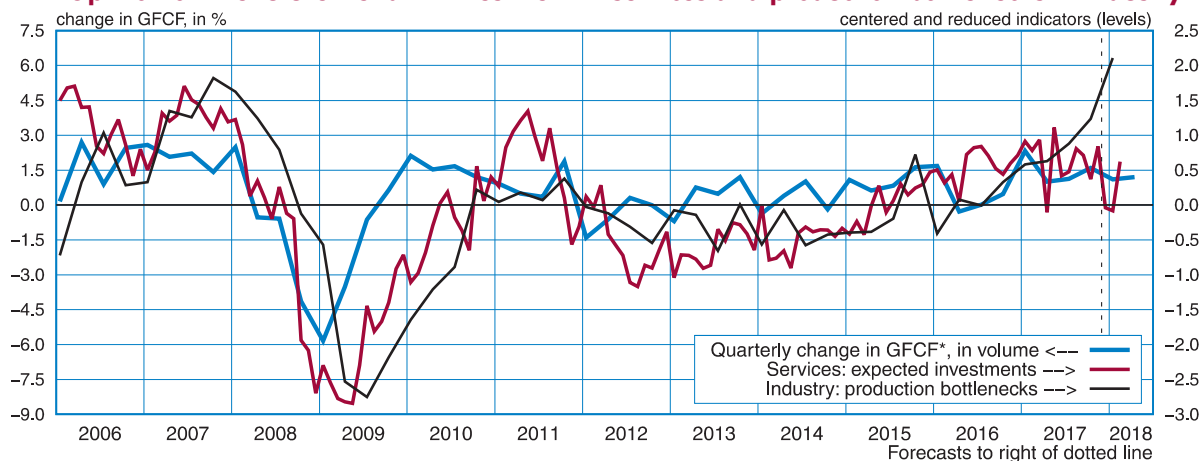


\* Non-financial enterprises: non-financial corporations (NFCs) and unincorporated enterprises (UEs)

\*\* 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

fact suggest a downturn in this type of investment in Q1 after a very vigorous Q4 2017. However, investment in capital goods and other industrial goods should remain buoyant in a context of high production capacity tensions.

All in all, NFE investment in manufactured goods is expected to slow down in Q1 (+0.6%), but then regain momentum in Q2 (+1.2%). Its growth overhang for 2018 should already be +4.0% at the end of H1, i.e. as high as its annual growth rate in 2017.

### The carry-over effect in investment in construction is already expected to reach +1.8% by mid-2018

Corporate investment in construction should gather pace in Q1 2018 (+1.0%), due to an upturn in civil engineering investment expenditure, and then slow in Q2 (+0.6%) with corporate investment in building.

On the one hand, civil engineering companies responding to the business tendency surveys report very full order books, which suggests an upswing in this type of investment in Q1 after two quarters of decline. On the other hand, non-residential building starts have stabilised since the beginning of 2017, and this slowdown is expected to initiate a knock-on effect on corporate investment in building in Q2. All in all, the growth overhang for investment in construction should stand at +1.8% by the end of H1 2018, after annual growth of 1.3% in 2017.

### Investment in services should continue to rise sharply in H1 2018

After a very dynamic 2017, NFE investment in services is expected to remain vigorous in H1 2018. According to the January and February business tendency surveys, the sectors whose activity depends on this type of expenditure are optimistic about growth in their turnover. Investment in services is expected to slow down after a very vigorous Q4 2017, but should see continued high levels of growth until mid-2018 (+1.6% in Q1 then +1.5% in Q2). Its growth overhang should be 5.4% by mid-year.

### On average over 2017, the contribution of changes in inventories to growth was clearly positive

In Q4 2017, the contribution of changes in inventory became clearly negative again (-0.4 points) essentially due to destocking of transport equipment (-0.4 points). Indeed, deliveries of aeronautical equipment were exceptionally high. However, over 2017 as a whole, the series of transport equipment deliveries and the rebuilding of inventories of agricultural produce led to a contribution by changes in inventories to growth that was clearly positive (+0.4 points; *Table 2*).

In Q1 2018, the contribution of changes in inventories to growth is expected to be nil as the delivery of an ocean liner and the running down of crude oil inventories should cancel out the effect of the return to normal in aircraft deliveries. In Q2, the after-effect of the delivery of the ocean liner in the previous quarter is expected to lead to another positive contribution of changes in inventories to growth (+0.2 points). ■

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			
<b>Agricultural products</b>	-0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.1	0.0
<b>Manufactured products</b>	-0.1	-0.6	0.4	-0.4	0.7	-0.4	0.4	-0.6	0.1	0.2	0.0	0.2	-0.2
Agrifood products	-0.1	0.0	-0.1	0.0	-0.1	0.0	0.0	-0.1					
Coke and refined petroleum products	0.1	-0.1	0.1	-0.1	0.0	0.0	-0.1	0.0					
Machinery and equipment goods	-0.1	0.0	0.2	0.0	0.0	0.1	0.0	-0.1					
Transport equipment	0.2	-0.3	0.2	0.0	0.5	-0.5	0.5	-0.4					
Other industrial goods	-0.1	-0.1	0.1	-0.2	0.3	0.0	0.0	0.0					
<b>Energy, water and waste</b>	-0.2	-0.1	0.2	0.2	-0.1	-0.1	-0.1	0.2	-0.1	0.0	0.0	0.1	0.0
<b>Others (construction, services)</b>	-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
<b>TOTAL<sup>1</sup></b>	-0.5	-0.6	0.7	-0.2	0.6	-0.5	0.3	-0.4	0.0	0.2	-0.1	0.4	-0.2

Forecast

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

Source: INSEE