Corporate investment and inventory

Investment by non-financial enterprises (NFEs) remained vigorous in Q1 (+0.7% after +0.8% at the end of 2018), after a very buoyant 2018 overall (+3.9% as an annual average). However, investment in services stalled at the start of 2019. According to the business outlook surveys, pressures on production equipment are still high but easing slightly. In Q2, corporate investment is likely to be sustained by a rebound in investment in services and should pick up slightly (+0.8%). It should then slow gradually over the course of H2 (+0.5% then +0.4% per quarter). The investment rate should continue to rise, although not as rapidly as in 2018.

In Q1 2019, changes in inventories made a positive contribution to growth (+0.3 percentage GDP points), due mainly to changes in inventories of refined petroleum products. Across the whole of 2019, the contribution of inventories to growth is expected to be slightly negative.

Corporate investment slowed very slightly in Q1 2019

In Q1 2019, investment by non-financial enterprises (NFEs) slowed very slightly, to +0.7% after +0.8% in Q4 2018 (Table 1). Their investment in services slipped back (–0.1%) for the first time in two years, mainly because of a downturn in spending on information technology. Conversely, investment in manufactured goods was buoyant (+2.0%), driven by the purchase of automobiles. The automotive market has returned to normal after being disrupted last autumn by the new antipollution standard WLTP (Worldwide Harmonised Light Vehicle Test Procedure). Investment in construction slowed (+0.3% after +0.7%) with the downturn in investment in building construction. Since NFE investment rose in value less quickly than value added in Q1 2019, the NFE investment rate declined slightly (*Graph 1*).

Corporate investment should remain buoyant in Q2 2019 then gradually slow

According to the April 2019 business tendency survey on investment in industry, business managers expect to increase their investment expenditure on tangible assets and software significantly in 2019. However, the balance of opinion on planned investments for the next half-year has fallen back sharply, to below its long-term average.

Pressures on production capacity remain strong, but are relaxing a little. According to the quarterly business outlook survey in industry, the production capacity utilisation rate, which stood at 84.4% in April 2019, is continuing its gradual decline after reaching a 10-year high in January 2018. Production bottlenecks have eased slightly since the start of the year, while still continuing to nudge record levels (*Graph 2*). In the service sector, the balance of opinion on investment forecasts fell back in April and May but remained above its long-term average.

Corporate financing terms should remain favourable in 2019. The temporary dual benefit of the competitiveness and employment tax credit (CICE) on wages paid in 2018 and its transformation into an exemption from employer contributions is expected to sustain companies' margin rate and self-financing ratio. The self-financing ratio of NFEs is expected to exceed 99% in H1 2019 then decrease gradually in H2. In addition, real interest rates should remain low until the end of 2019.

NFEs' investment expenditure is therefore expected to retain its momentum: it should be dynamic in Q2 2019 (+0.8%), then decelerate in H2 (+0.5% then +0.4%). NFE investment should therefore grow by +3.3% in 2019, a slowdown compared with 2018 (+3.9%). Their investment

Investment by non-financial enterprise (NFEs)

at chain-link previous year prices, SA-WDA

	Quarterly changes												Annual changes		
	2017				2018				2019				2017	2018	2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	T2	T3	T4			
Manufactured products (%)	3.1	0.0	2.0	2.1	–2.2	1.4	1.5	–0.5	2.0	0.9	0.3	0.2	3.1	2.0	3.7
Construction (%)	1.3	1.6	1.2	0.4	0.6	1.7	0.2	0.7	0.3	–0.3	0.0	0.1	4.5	3.5	1.2
Other (%)	3.8	0.8	1.4	1.5	1.2	1.0	1.9	1.8	–0.1	1.3	1.0	0.8	6.8	5.5	4.2
All non-financial enterprises (100 %)	**3.0**	**0.7**	**1.5**	**1.4**	**–0.1**	**1.3**	**1.3**	**0.8**	**0.7**	**0.8**	**0.5**	**0.4**	**5.0**	**3.9**	**3.3**

forecast

Source: INSEE

rate is expected to continue to increase, although at a much more moderate pace than in 2018.

Investment in manufactured goods is expected to return to moderate growth

NFE investment in manufactured goods should continue to increase during 2019 but at an increasingly slow pace. Investment in transport equipment is expected to return to a moderate pace of growth after the disruptions at the end of 2018, linked with the change in the test procedure for the approval of new vehicles (WLTP). All in all, NFE investment in manufactured goods should increase by 3.7% in 2019, a more vigorous rise than in 2018 (+2.0%).

Investment in construction is likely to fall back in Q2 2019

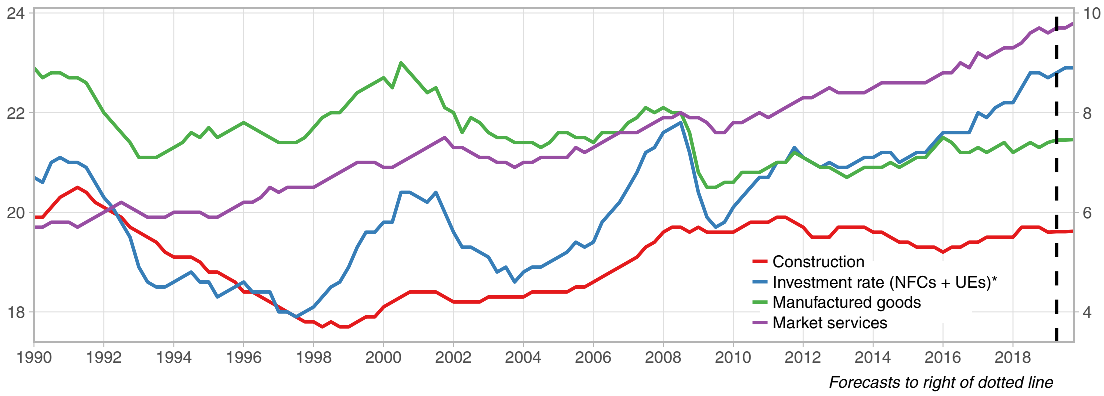
Corporate investment in construction is likely to decline in Q2 2019 (–0.3%) then remain almost unchanged in H2 (+0.0% then +0.1%). At the beginning of 2019, non-residential building starts were falling back slightly, while major maintenance work, apart from housing, remained sluggish. However, civil engineering firms remain confident about their business prospects. Investment in civil engineering is likely to see a one-off slowdown in Q2 but then regain momentum. Growth in NFE investment in construction should stand at +1.2% in 2019, after a rise of +3.5% in 2018 as an annual average.

Investment in services should recover its vigour

NFE investment in services stalled at the start of 2019 after a dynamic 2018 (+5.5%). Across 2019, this expenditure is nevertheless expected to remain vigorous (+4.2%), driven by a growing trend towards spending on IT services and research and development. Investment in services should rebound in Q2 2019 (+1.3%) then slow in H2 (+1.0% in Q3 then +0.8% in Q4).

1 - Investment rate of SNF by type of product

in % of added value

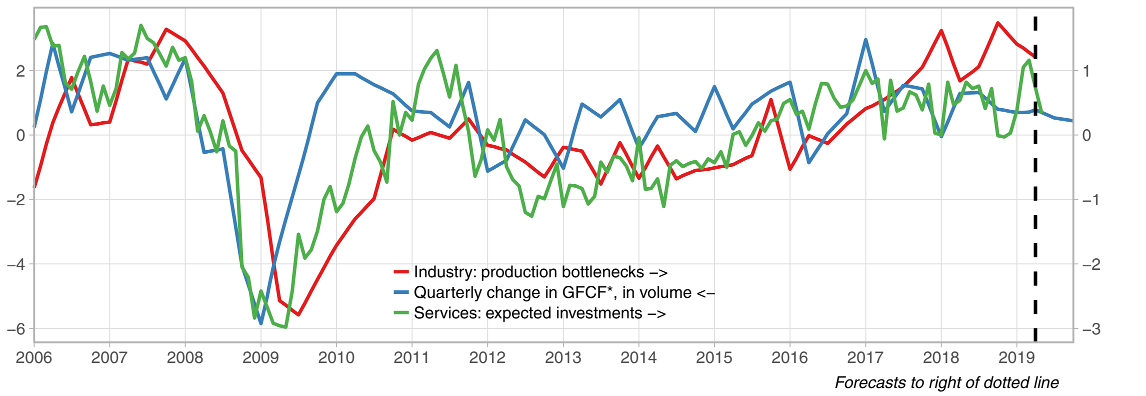


* Non-financial enterprises: non-financial corporations (NFCs) and unincrporated enterprises (UEs)

Source: INSEE, quarterly national accounts

2 - Opinion on the future trend in investment in services and production bottlenecks in industry

in % centered and reduced indications (levels)



* GFCF: Gross fixed capital formation

Source: INSEE, monthly survey in services and industry, quarterly national accounts

On average over 2019, the contribution of changes in inventories to growth is expected to be slightly negative

In Q1 2019, the contribution of changes in inventories to GDP growth was clearly positive (+0.3 GDP percentage points, *Table 2*). The drastic fall in exports of refined products and the ramping up of imports of these same products contributed to a large increase in inventories of this type of product. Naval deliveries did not have a significant effect on changes in inventories at the beginning of the year, as in the last quarter of 2018 they were followed by the delivery of an ocean liner and then another at the beginning of 2019.

In Q2 2019, in the absence of any large new naval deliveries, changes in inventories of transport equipment should increase. However, this increase is likely to be offset by changes in inventories of manufactured goods excluding transport equipment, and thus the total contribution of inventory change to growth is likely to be zero. It is expected to be slightly negative in Q3, while in Q4, the concentration of aeronautical deliveries is likely to result in a negative total contribution of inventory change (−0.1 points). For 2019 as a whole, this contribution is expected to be slightly negative, after a more strongly negative 2018. ■

2 - Contribution of inventory changes to growth

in GDP points

	Quarterly changes												Annual changes		
	2017				2018				2019				2017	2018	2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Agricultural products	**0.1**	**0.0**	**–0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**	**0.0**	**0.0**	**0.2**	**–0.1**	**0.1**
Manufactured products	**0.8**	**–0.5**	**0.3**	**–0.2**	**0.1**	**0.2**	**–0.5**	**–0.3**	**0.2**	**0.0**	**–0.1**	**–0.2**	**0.0**	**–0.2**	**–0.3**
Agrifood products	–0.1	0.0	0.1	0.0	0.1	0.1	0.0	0.0	0.0				–0.1	0.0	
Coke and refined petroleum product	0.1	0.0	–0.1	0.0	0.0	0.0	0.0	–0.1	0.2				–0.1	0.0	
Machinery and equipment goods	–0.1	0.1	0.0	–0.1	0.1	0.0	0.0	0.1	–0.1				0.0	0.0	
Transport equipment	0.5	–0.4	0.3	–0.1	0.0	0.0	–0.2	–0.2	0.0				0.2	–0.1	
Other industrial goods	0.3	–0.2	0.0	–0.1	0.0	0.1	–0.2	–0.1	0.0				–0.1	–0.3	
Energy, water and waste	**–0.1**	**–0.1**	**0.0**	**0.2**	**0.0**	**–0.1**	**0.0**	**0.0**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.1**
Others (construction, services)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
TOTAL[1]	**0.8**	**–0.6**	**0.2**	**–0.1**	**0.1**	**0.1**	**–0.4**	**–0.2**	**0.3**	**0.0**	**–0.1**	**–0.1**	**0.2**	**–0.3**	**–0.1**

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1. changes in inventories include acquisitions net of sales f valuables

Source: INSEE