

# Focus on: France

## International Business Report 2010 – Country focus series

### The recovery

France moved out of recession in the second quarter of 2009 but the recovery has been slow and patchy. Consumers spending and government stimulus have helped but exports in the eurozone have stagnated as the full scale of the problems facing some member states became apparent. Unfavourable labour market conditions and weaker income growth might finally push French consumers too far, removing the main pillar of growth in the economy.

The key indicators<sup>1</sup> are highlighted below:

- following the 0.5 per cent quarter-on-quarter increase observed in Q4 2009, GDP growth decelerated to just 0.1 per cent the three months to March 2010
- private consumption remained flat in the first quarter of 2010, following a 0.9 per cent increase in Q4 2009
- investment remains weak – the 0.8 per cent decline in gross fixed capital formation in the three months to March marked the eighth month of contraction
- signs appeared in the first three months of 2010 that trade has turned a corner with exports increasing by 3.9 per cent quarter-on-quarter, and imports up by two per cent
- the unemployment rate stood at 8.7 per cent in April 2010 but could go into double figures by the end of the year.

### Impact on businesses

The Grant Thornton International Business Report (IBR) 2010 surveyed the views of over 7,400 privately held businesses (PHBs) in 36 economies around the world. This report focuses on France, the experiences and attitudes of its businesses and how they have been affected by the economic crisis along with how they are dealing with the recovery, as illustrated in figure 1.

The IBR survey tells us that businesses in France are considerably more optimistic on the outlook for the economy over the next 12 months in 2010 than they were in 2009 and two-thirds expected to see an upturn in the global economy by the end of 2010. Expectations for revenue, profitability and employment growth are all slightly more positive this year but a shortage of orders/reduced demand remains a major constraint on potential expansion.



<sup>1</sup> source: International Monetary Fund, The Economist and Experian.

## Looking ahead

As the global economy recovers further in 2010, export orders should continue to recover and inventories to rebuild, although the travails of Greece represent a real risk to the future of the eurozone. Domestic demand is likely to remain weak, given excess capacity in the economy and rising unemployment. GDP growth is expected to be subdued in 2010 at around 1.4 per cent, increasing marginally to 1.7 per cent in 2011.

In the longer term, public spending may need to be reined in and stronger domestic demand should pull in imports but the French economy is expected to recover to around the usual trend of two per cent or above in 2012. Higher consumer spending and recovery in business and residential investment should combine to support economic activity. A bottoming out of the job market and labour market reforms should also start feeding through, allowing faster job creation together with higher productivity growth.

Figure 1: Key indicators for businesses

France compared to the EU average	2008	2009	2010	2010
	France	France	France	EU
<b>Outlook for the economy over the next 12 months</b>				
Balance of optimists over pessimists	+35%	-60%	-13%	+7%
<b>Change in employment levels</b>				
Balance of businesses expecting an increase over those expecting a reduction	+19%	-12%	-10%	-1%
<b>Constraints on expansion</b>				
Shortage of orders/reduced demand	38%	58%	48%	41%
Regulations/red tape	24%	35%	34%	34%

Source: Grant Thornton IBR 2010

As the economy exits recession, all businesses will face new challenges and will need to take advantage of new opportunities to achieve consolidated growth and lead the way to recovery.

Talk to us to find out how we can help you deal with the challenges of a new world economic order.

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# International Business Report results

The Grant Thornton IBR 2010 reveals that businesses in almost all countries are more optimistic about economic prospects for the year ahead. Businesses in France are more optimistic about prospects for 2010, although businesses remain pessimistic; their optimism/pessimism balance<sup>2</sup> has risen 47 percentage points from -60 per cent in 2009 to -13 per cent in 2010.

For the first time in six years, India has been overtaken as the most optimistic country by Chile. Chile now tops the league table with a net balance of +85 per cent (-24 per cent in 2009), India comes in a very close second with +84 per cent, whilst Japan remains at the bottom with a balance of -72 per cent.

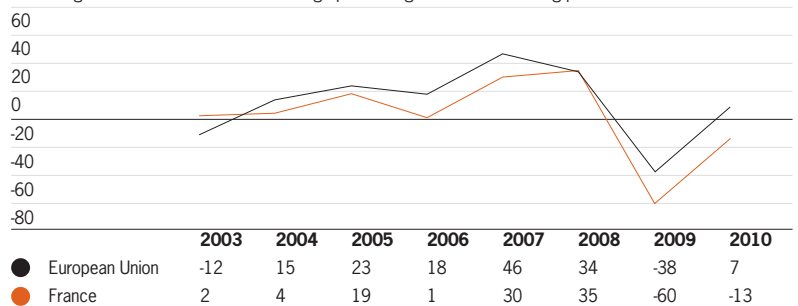
Overall optimism amongst businesses globally has risen from 2009; this year a balance of +24 per cent of businesses across all countries are positive about their country's economy – compared to a balance of -16 per cent in 2009.

## Optimism/pessimism

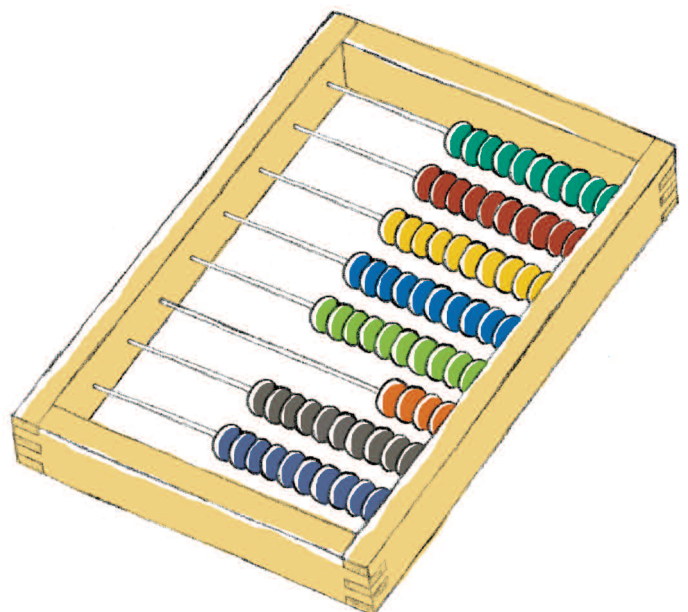
- businesses in France are less pessimistic about their country's economic outlook (-13 per cent) compared with 2009 (-60 per cent)
- this is considerably lower than the European Union<sup>3</sup> (EU) average of +7 per cent
- optimism levels in the EU have risen this year by 45 percentage points to +7 per cent from -38 per cent in 2009.

**Figure 2: Outlook for the economy over the next 12 months: 2003-2010**

Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2010



<sup>2</sup> the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

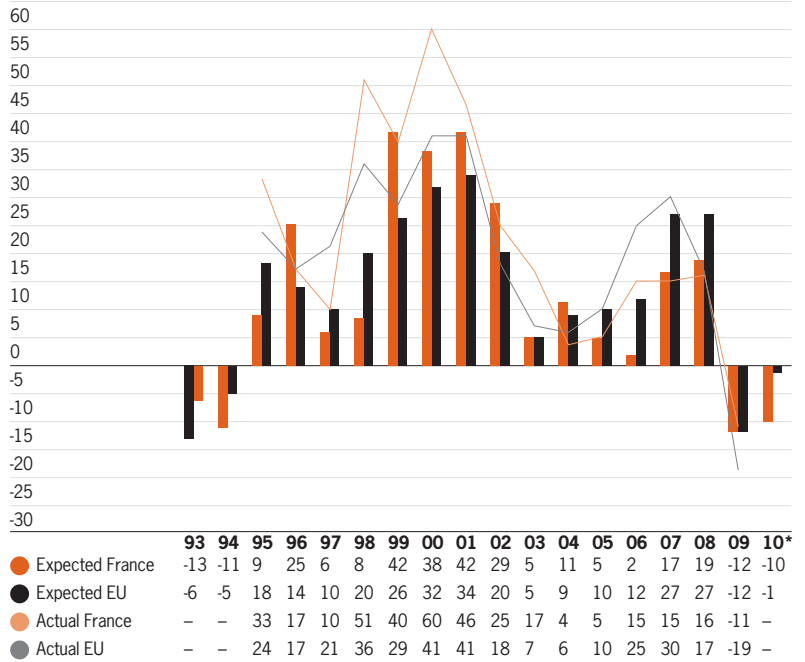
<sup>3</sup> for the purposes of IBR, the term 'EU' refers to those EU countries covered by our survey – Belgium, Denmark, France, Finland, Germany, Greece, Ireland, Italy, the Netherlands, Poland, Spain, Sweden and the United Kingdom.

### Employment

- a balance of -10 per cent of businesses in France expect employment to grow in 2010, lower than the EU average (-1 per cent)
- actual employment contraction reported by businesses in France in 2009 (-11 per cent) was similar to what was expected 12 months previously (-12 per cent)
- actual employment contraction across the EU as a whole (-19 per cent) was worse than expected (-12 per cent).

**Figure 3: Employment history: 1993-2010**

Percentage balance of businesses indicating an increase against those indicating a decrease



\*2010 data will be documented in IBR 2011

Please note that the expected values are represented by the bars and the actual values by the lines

Source: Grant Thornton IBR 2010

### Revenue expectations

- expectations for revenue prospects have risen by 19 percentage points; from -9 per cent in 2009 to +10 per cent this year
- the EU average has also risen, by 23 percentage points, from +5 per cent in 2009 to +28 per cent.

**Figure 4: Revenue expectations: 1993-2010**

Percentage balance of businesses indicating an increase against those indicating a decrease



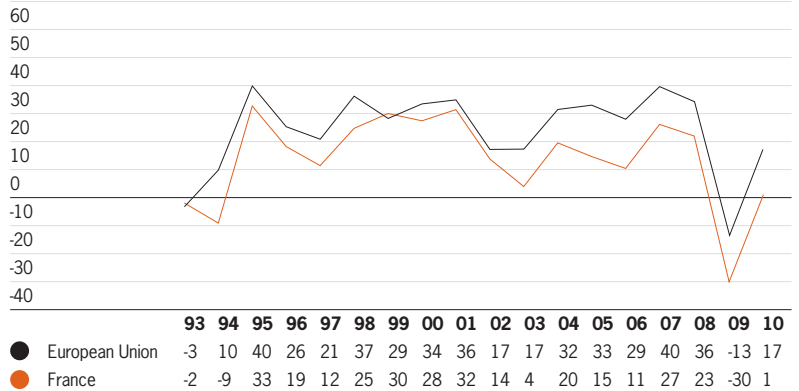
Source: Grant Thornton IBR 2010

### Profitability expectations

- profitability expectations amongst businesses in France have also observed a similar rise, an increase of 31 percentage points this year to +1 per cent
- the EU average has observed a similar rise of 30 percentage points, from -13 per cent in 2009 to +17 per cent this year.

**Figure 5: Profitability expectations: 1993-2010**

Percentage balance of businesses indicating an increase against those indicating a decrease



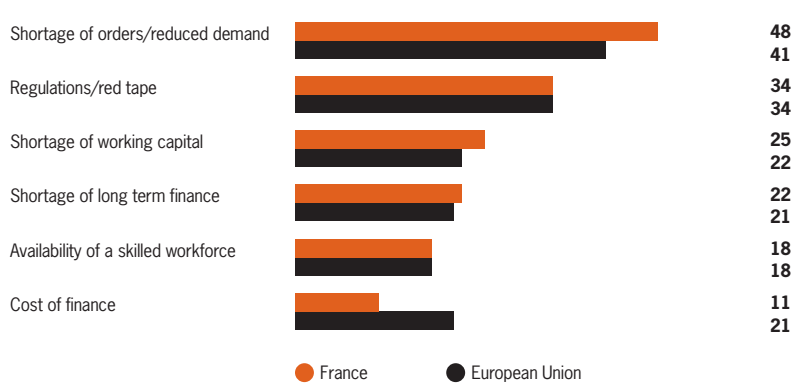
Source: Grant Thornton IBR 2010

### Constraints

- a shortage of orders/reduced demand is viewed as the most pressing constraint restricting expansion for businesses in France (48 per cent), and across the EU as a whole (41 per cent)
- the second most pressing constraint is regulations/red tape for both France and the EU (both 34 per cent)
- the cost of finance is of considerably lesser concern for businesses in France (11 per cent) compared to the EU average (21 per cent).

**Figure 6: Constraints on expansion**

Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



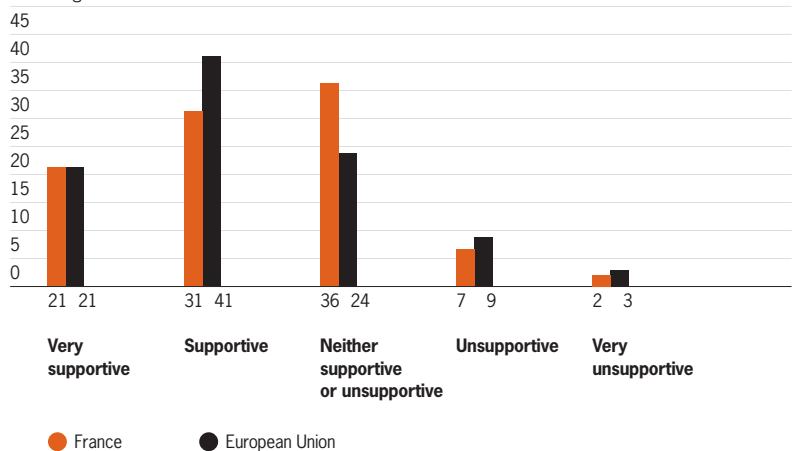
Source: Grant Thornton IBR 2010

### Support of lender

- the majority of businesses in France are happy with the level of support provided by lenders; 52 per cent class lenders as supportive or very supportive towards their business
- this compares with an EU average of 62 per cent
- nine per cent of businesses in France believe that lenders are unsupportive or very unsupportive of their business, compared to 12 per cent across the EU.

**Figure 7: Level of support provided by lenders**

Percentage of businesses

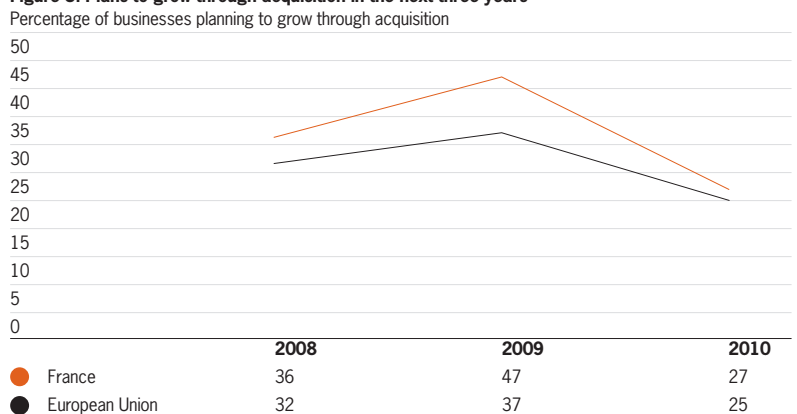


Source: Grant Thornton IBR 2010

### Mergers & acquisitions

- the proportion of businesses in France planning to grow through acquisition this year has fallen by 20 percentage points to 27 per cent, this follows an 11 per cent increase the previous year
- and compares to a decrease of 12 percentage points in the EU, from +37 per cent in 2009 to +25 per cent.

**Figure 8: Plans to grow through acquisition in the next three years**

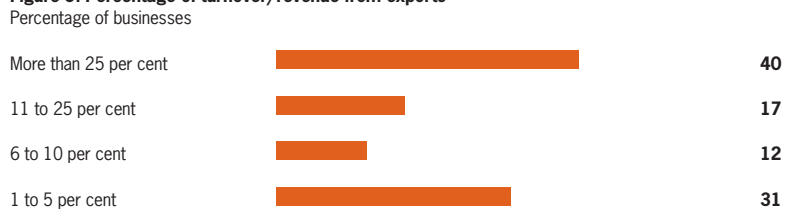


Source: Grant Thornton IBR 2010

### Exports

- 47 per cent of businesses in France cite that they export
- and of these businesses, two-fifths cite that more than 25 per cent of their revenue comes from exports
- 31 per cent cite that exports account for one to five per cent of revenue
- and the remainder, 29 per cent, cite that they get between six per cent and 25 per cent of their revenue from exports.

**Figure 9: Percentage of turnover/revenue from exports**



Source: Grant Thornton IBR 2010

### Whistleblowers

- over half (59 per cent) of businesses in France have measures in place to accommodate potential 'whistleblowers' within their organisation
- compared to 41 per cent that do not have measures in place.

**Figure 10: Do you currently have measures in place to accommodate potential 'whistleblowers' within your organisation?**



Source: Grant Thornton IBR 2010

### Business fraud

- the majority of businesses in France (77 per cent) do not have specialist staff who are responsible for preventing/detecting business fraud
- just 23 per cent cite that they do have specialist staff in place to combat business fraud.

**Figure 11: Businesses that have specialist staff responsible for preventing/detecting business fraud**



Source: Grant Thornton IBR 2010

