

Focus on: France

International Business Report 2011 – Economy focus series

The economy

In the face of strong economic headwinds, the French economy has held relatively well in 2011 with growth for the year forecast at 1.6%. However, with the eurozone expected to slip into recession in 2012 and France due to go through a raft of painful austerity measures to protect its AAA bond rating, the outlook looks fairly bleak. Unemployment remains well above 9% and will be a key battle ground in the Presidential election due for April-May 2012.

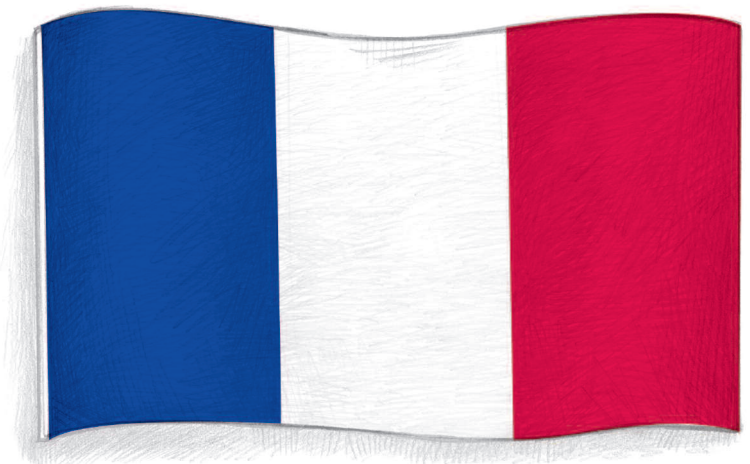
The key indicators¹ are highlighted below:

- the economy grew by 0.4% in Q3, although Q2 was revised downwards to show a 0.1% contraction, rather than the zero growth originally calculated
- private consumption, which had dropped by 0.8% in Q2 after car purchasing subsidies expired, rebounded by 0.3% on the quarter, boosted by a 0.2% recovery in spending on transport equipment and a 6.3% increase in energy and utilities outlays
- industrial production growth dropped to 2.3% year on year in September, down from 4.5% in August; manufacturing (-1.6%) and construction (-5.8%) also slipped back
- the unemployment rate edged downwards during the second quarter, although it remains stubbornly high at 9.6%.

Impact on privately held businesses

The Grant Thornton International Business Report (IBR) 2011 surveyed the views of over 11,000 privately held businesses (PHBs) in 39 economies around the world. This report focuses on the experiences of privately held businesses in France and their expectations for the next 12 months, as illustrated in figure 1.

The IBR survey tells us that PHBs in France are pessimistic about their economy over the next 12 months. Business expectations for revenue are above those of last year and expectations for profitability considerably above expectations from 2010. A shortage of orders and bureaucracy remain major constraints on potential expansion.



¹ Source: International Monetary Fund, The Economist and Experian.

Looking ahead

France is expected to enter a mild recession in late 2011/early 2012 as the eurozone debt crisis continues to disrupt financial markets and threaten the future of the single currency. With demand faltering in France's main export markets, persistently high unemployment and fiscal tightening weighing on domestic activity, growth for the year expected to be broadly flat.

As the path ahead for the region becomes clearer, France is expected to enter a below-average period of growth, averaging 1.3% in the period 2012-16. Higher consumer spending and recovery in business and residential investment should coalesce 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 PHBs

France compared to the EU average	2009	2010	2011	2011
	France	France	France	EU
Outlook for the economy over the next 12 months				
Balance of optimists over pessimists	-60%	-13%	-14%	0%
Change in employment levels				
Balance of PHBs expecting an increase over those expecting a reduction	-12%	-10%	+6%	+13%
Constraints on expansion				
Regulations/red tape	58%	48%	41%	29%
Lack of skilled workers	35%	34%	22%	29%

Source: Grant Thornton IBR 2011

French demographics should also support long-term growth. The outlook is quite positive compared with many other European countries. Total population is expected to continue growing over the period, and while the working-age population is expected to decline from 2012 onwards, its negative impact on growth potential should be checked by higher participation and employment rates.

Over the longer term, consumer demand is expected to grow while investment should benefit from higher spending on R&D to boost productivity. As a result, total investment should expand ahead of the overall economy.

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

Jean-Jacques Pichon

T +33 (0) 3 81 88 39 87

E jean-jacques.pichon@fr.gt.com

W www.grant-thornton.fr

International Business Report results

The Grant Thornton IBR 2011 reveals that global business optimism dipped sharply in the third quarter. Businesses sentiment in the France turned negative in Q3 with net -14% of businesses optimistic, down from net 49% in the previous quarter. Globally the quarter-on-quarter average declined from 31% to 3%.

Optimism dropped sharply in many markets across the globe including mainland China and India; net optimism fell by -29% in both markets. Optimism in North America as a whole fell by 40%, and by 35% in both the Eurozone and across the G7.

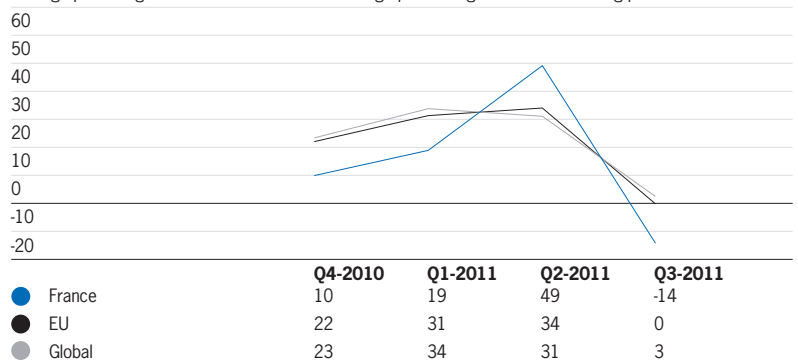
Year-on-year optimism amongst businesses has declined slightly from net 24% in 2010, to net 22% across 2011.

Optimism/pessimism

- business optimism in France declined drastically in the third quarter, dropping from 49% to -14%, its lowest levels since the depths of the recession in 2009
- across the EU³, sentiment dropped 34 percentage points with businesses now neutral about expectations for the year ahead
- globally, business sentiment dropped by 29 percentage points in Q3 to stand at just 3%.

Figure 2: Outlook for the economy over the next 12 months: Q4-2010 to Q3-2011

Average percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2011



² the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

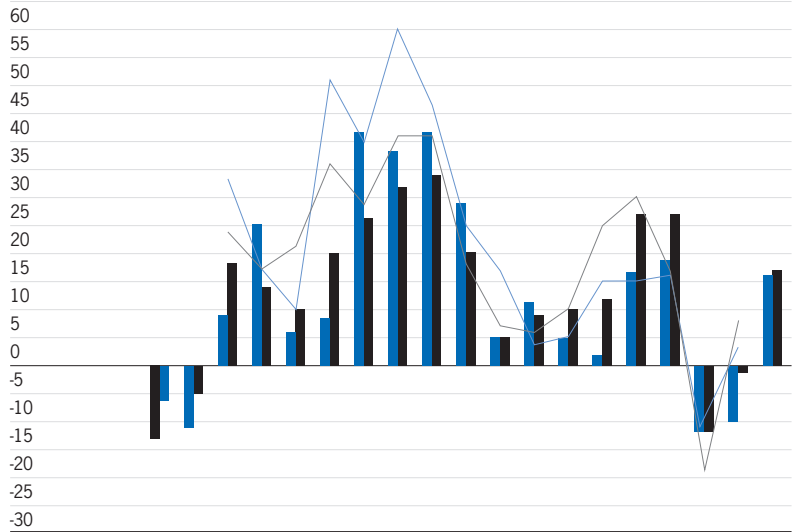
³ for the purposes of IBR, the term 'EU' refers to those EU countries covered by our survey – Belgium, Denmark, France, Finland, Germany, Greece, Ireland, Italy, the Netherlands, Poland, Spain, Sweden and the United Kingdom.

Employment

- a balance of +16% of businesses in France expect employment to grow in 2011, in-line with the EU average (+17%)
- actual employment growth reported by businesses in France in 2010 (+3%) was an improvement to what was expected 12 months previously (-10%)
- actual employment growth across the EU as a whole (+8%) was also better than expected (-1%).

Figure 3: Employment history: 1993-2011

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



	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11*
● Exp. France	-13	-11	9	25	6	8	42	38	42	29	5	11	5	2	17	19	-12	-10	16
● Exp. EU	-6	-5	18	14	10	20	26	32	34	20	5	9	10	12	27	27	-12	-1	17
● Act. France	-	-	33	17	10	51	40	60	46	25	17	4	5	15	15	16	-11	3	-
● Act. EU	-	-	24	17	21	36	29	41	41	18	7	6	10	25	30	17	-19	8	-

*2011 data will be documented in IBR 2012

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

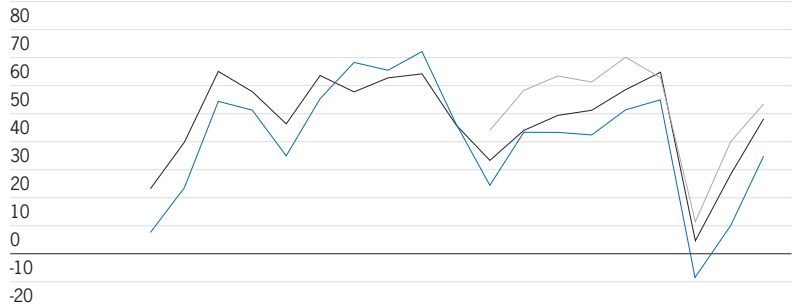
Source: Grant Thornton IBR 2011

Revenue expectations

- expectations for revenue prospects have risen by 25 percentage points; from +10% in 2010 to +35% this year
- the EU business average has also risen, by 20 percentage points, from +28% in 2010 to +48%
- globally expectations have also risen albeit by a smaller margin (from +40% to +53%)
- however, in the last quarter revenue expectations in France dropped to 27%, down from 41% in Q2.

Figure 4: Revenue expectations: 1993-2011

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



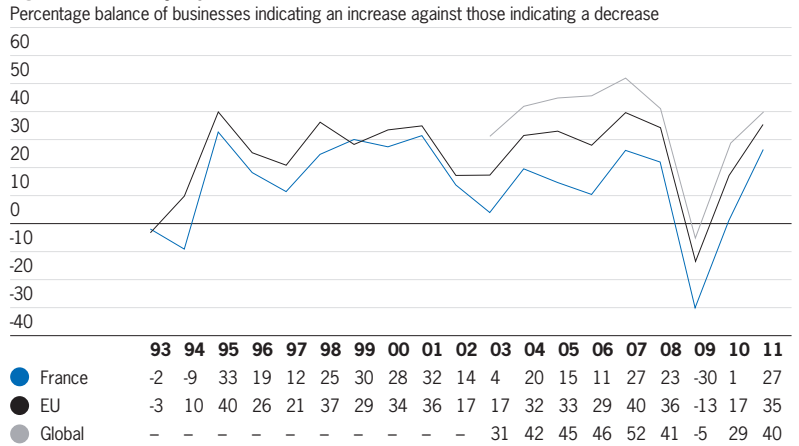
	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11
● France	8	23	54	51	35	56	68	66	72	46	24	43	43	42	51	55	-9	10	35
● EU	23	40	65	58	47	64	58	63	64	46	33	44	49	51	59	65	5	28	48
● Global	-	-	-	-	-	-	-	-	-	-	44	58	63	61	70	63	11	40	53

Source: Grant Thornton IBR 2011

Profitability expectations

- profitability expectations amongst businesses in France have also observed a similar rise, an increase of 26 percentage points this year to +27%
- the EU business average has observed a similar rise of 18 percentage points, from +17% in 2010 to +35% this year
- the global average has also increase from +29% in 2010 to +40% in 2011
- profitability expectations also slumped in the last quarter, falling from 34% in Q2 to just 13% in Q3.

Figure 5: Profitability expectations: 1993-2011



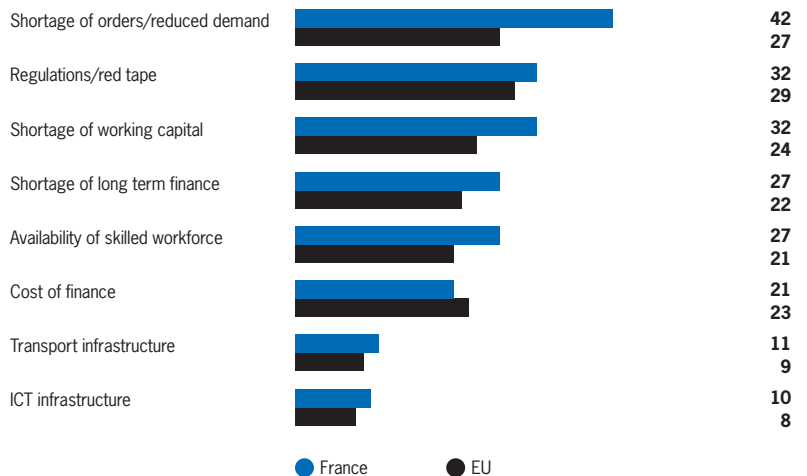
Source: Grant Thornton IBR 2011

Constraints

- a shortage of orders/reduced demand is viewed as the most pressing constraint restricting expansion for PHBs in France (42%)
- the second most pressing constraint is regulations/red tape and a shortage of working capital (both 32%)
- the cost of finance is of marginally more concern for businesses in the EU (23%) compared to France (21%).

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



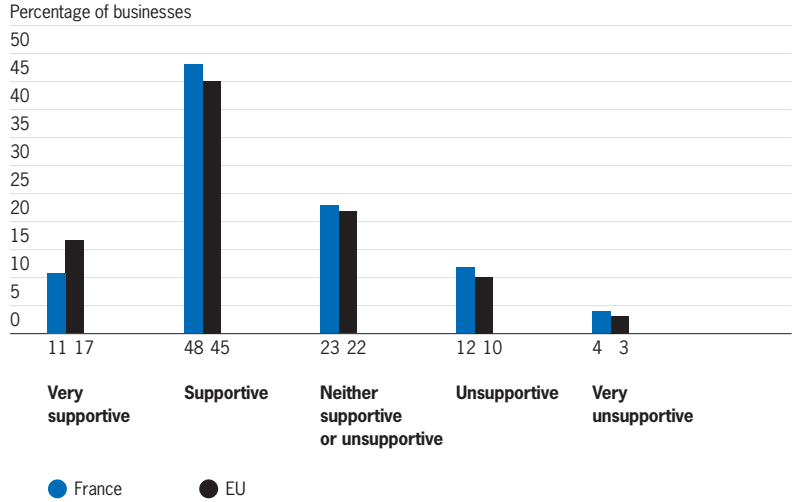
Source: Grant Thornton IBR 2011



Support of lender

- the majority of businesses in France are happy with the level of support provided by lenders; 59% class lenders as supportive or very supportive towards their business
- this compares with an EU average of 62%
- 16% of businesses in France believe that lenders are unsupportive or very unsupportive of their business, compared to 13% across the EU as a whole.

Figure 7: Level of support provided by lenders

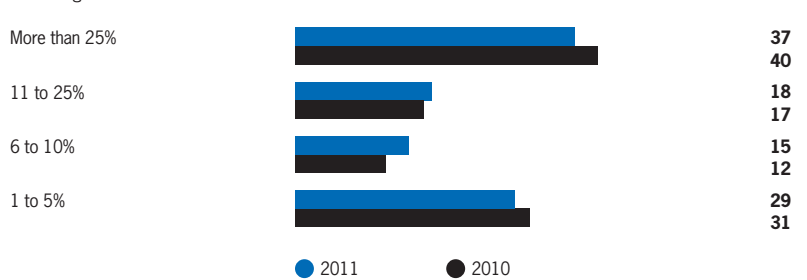


Source: Grant Thornton IBR 2011

Exports

- 46% of businesses in France cite that they export, very similar to 2010 (47%)
- and of these businesses, 37% cite that more than 25% of their revenue comes from exports, slightly lower than the level seen in 2010 (40%)
- for 29% of businesses exports account for just 1-5% of revenue.

Figure 8: Percentage of turnover/revenue that comes from exports of businesses that do export



Source: Grant Thornton IBR 2011

Whistleblowers

- over half (56%) of businesses in France have measures in place to accommodate potential 'whistleblowers' within their organisation
- this is slightly lower than the level seen in 2010 (59%).

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



Source: Grant Thornton IBR 2011

Business fraud

- the majority of businesses in France (71%) do not have specialist staff who are specifically responsible for preventing/detecting business fraud
- this represents an increase of 6% in the number of businesses that have these specialist staff from 2010 to 2011.

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



Source: Grant Thornton IBR 2011

The Grant Thornton International Business Report (IBR) is a quarterly survey of around 3,000 senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 11,000 PHBs in 39 economies on an annual basis providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy.

In France 388 businesses were surveyed across all industry sectors. These businesses ranged from small to medium in size with total employment of between 100 and 499. Data for this report were drawn from interviews conducted between November 2010 and September 2011.

To find out more about IBR and to obtain copies of reports and summaries visit: www.internationalbusinessreport.com. The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

Argentina	Malaysia
Armenia	Mexico
Australia	Netherlands
Belgium	New Zealand
Botswana	Philippines
Brazil	Poland
Canada	Russia
Chile	Singapore
Mainland China	South Africa
Denmark	Spain
Finland	Sweden
France	Switzerland
Georgia	Taiwan
Germany	Thailand
Greece	Turkey
Hong Kong	United Arab Emirates
India	United Kingdom
Ireland	United States
Italy	Vietnam
Japan	



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