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Short-term risk is reduced for the French automotive sector, but profound changes are ahead

- **The automotive sector has been upgraded to the best risk category**
- **Private buyers are returning to the car market, driving up sales of new vehicles, which are expected to increase by 5.6% in 2016**
- **Risks to be monitored in the longer term as French added value is falling**
- **Internationalisation of production and R&D seems to be an inevitable outcome**

The automotive sector considered low-risk in the short term

2016 seems less risky for the French automotive sector. This market, dominated by professionals and companies, is now being bolstered by household consumption which recovers confidence, thanks to the fall in unemployment and new financing methods. Sales of new vehicles increased in the period January-July and Coface predicts a 5.6% increase in 2016, followed by a smaller one, i.e. between 1.5% and 2.5%, in 2017.

For these reasons, the French automotive sector has been upgraded to the "low risk" category, nevertheless with some reservations with regard to the fragility of second- and third-tier equipment manufacturers. Currently, only two sectors of activity (automotive and retail) out of twelve analysed have this best short-term sector assessment.

Constrained internationalisation is gathering momentum

More broadly speaking, the French automotive industry is at a turning point. While France has undeniable strengths in terms of engineering, standard of living and ability to adapt to change, it is losing in terms of competitiveness. The sector's added value fell by 29% between 2008 and 2014, while that of French industry increased 3%. For the equipment manufacturers, this is also reflected by the erosion of the trade surplus. The carmakers have had to reduce unit costs per vehicle, by choosing job cuts and wage and hiring freezes, to cope with a fall in sales in the domestic market and therefore under-utilisation of their factories.

Will the internationalisation strategy adopted by a growing number of companies address these problems?

With a narrow market, mainly made up of the lower economy range vehicles, France cannot provide the required levels of profitability. Companies are encouraged by the vigour of sales cars worldwide, especially in emerging countries, and are internationalising their client portfolio. As an example, the first-tier equipment manufacturers that have been able to bounce back now have an operating margin of around 7.8%, 2 percentage points more than the carmakers. Another trend that must be taken into account: both carmakers and equipment manufacturers are establishing R&D centres in low-cost markets, after a phase when they relocated their production or assembly activities. At this stage, most of this function is concentrated in France,



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but the transfer of R&D activities to emerging countries could eventually gather momentum. The fundamental factor behind this phenomenon is the appearance of local automotive clusters that include carmakers, equipment manufacturers and subcontractors specialised in logistics, engineering and IT.

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