

Navigator

Now, next and how for business

France



France

Optimism prevails despite geopolitical concerns

Although the French economy slowed noticeably in the first half of 2018, the latest HSBC Navigator survey suggests that French firms remain upbeat with respect to the short-term trade outlook. Although sentiment has been dented by concerns about global slowdown and the potential for a further escalation in trade tensions, businesses are focussing on decent global growth prospects and technological developments to drive expansion.

What is happening now

French companies are optimistic on the global trade outlook

After a very dynamic 2017, French economic growth slowed down markedly in the first half of this year on the back of both sluggish net exports and the impact of higher taxes and inflation on consumer purchasing power. On the trade front, a recent decline in export orders reflects an unwind after large numbers of aircraft deliveries boosted export sales at the end of last year. Risks to the outlook are slightly tailored to the downside due to global economic deceleration and increasing trade war concerns, in particular the possible extension of US tariffs to the auto sector.

For now, French firms trading internationally seem to remain in the wave of optimism created by stronger global demand last year. The HSBC Navigator survey reveals that 82% of French firms have a positive outlook on the global trade environment, which is a higher share than the global average (78%). Positive expectations regarding global economic growth were most commonly cited as driving this optimism (27% of respondents), followed by the use of new technologies (20% of respondents). Only a relatively small share (14%) of French companies expressed pessimism regarding the global trade outlook, with the international political environment and commodity prices identified as the key concerns.

Future growth is expected to come from France's main Eurozone partners. Amongst survey respondents, Germany was the most commonly cited market where businesses were looking to expand (Fig. 1). The US and Belgium were ranked second and third respectively. Overall, 83% of French firms are confident that their company will succeed in the current trading environment, very close to the global average of 81%.

Fig. 1: Which are the top 3 markets where your business will look to expand in the next 3-5 years? (Share of respondents identifying each market)



Source: TNS Kantar

How your business can respond

- ◆ Map your supply chain to understand the direct and indirect impacts of new US tariffs and the risks from potential new protectionist measures.
- ◆ Firms trading with the UK should bolster their customs and trade knowledge to support operational activities in the wake of Brexit.

Policy Developments

Concerns over the impact of protectionism are growing

Increased protectionist measures are being felt amongst French businesses. The share of respondents that believe governments are becoming more protective of domestic businesses jumped by 13 percentage points from the last HSBC Navigator survey (conducted in late 2017) to 62%.

Conversely, the perceived impact of the regulatory environment was rather balanced between positive and negative outcomes. While 28% of French firms feel that regulations increase competitiveness, a similar proportion (27%) think complex approval systems make it harder to do business. Similarly, nearly a quarter of firms (23%) consider regulations in other markets create unfair advantages for local companies, yet the same proportion (23%) believe such regulations reduce the cost of sourcing raw materials.

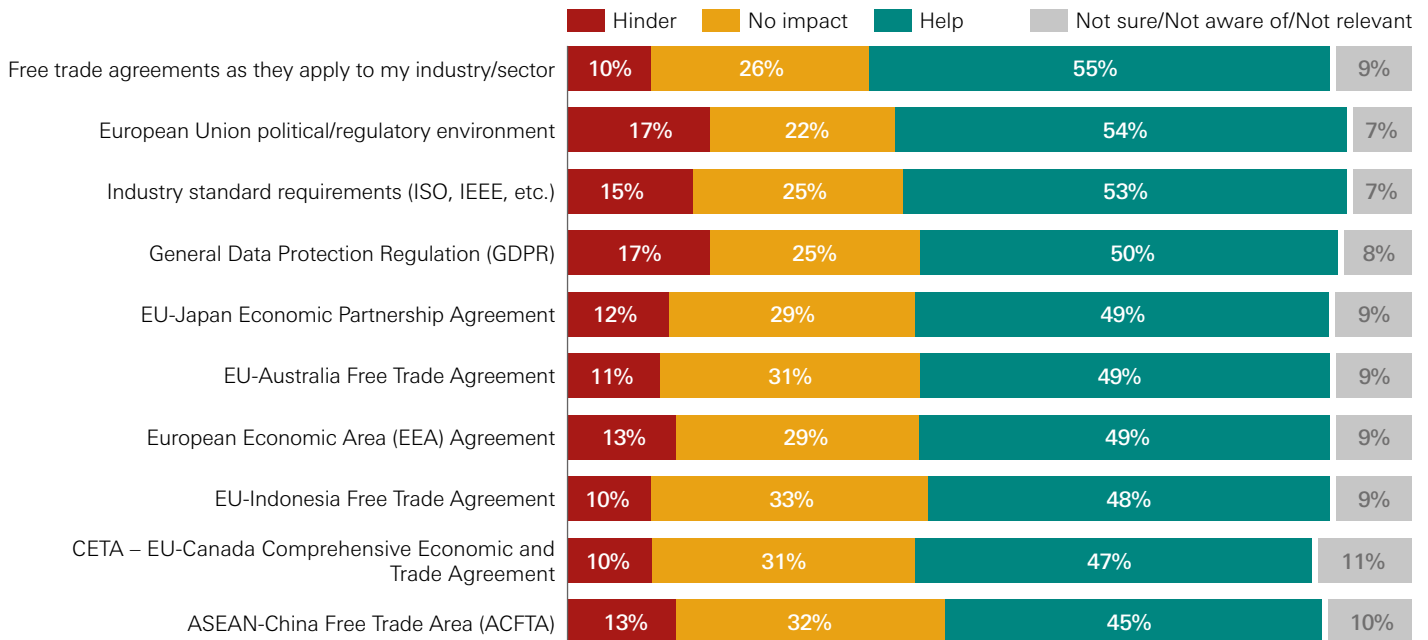
More than half (55%) of French respondents think that free-trade agreements relevant to their industry have a positive impact on their business (Fig. 2). Both the European Union political/regulatory environment (54%) and industry standard requirements (53%) were viewed favorably by most respondents. This suggests some confidence in EU institutions in preserving good conditions for business development.

Interestingly, 43% of French firms see Brexit as a supportive factor for their business, while only 21% see it as a threat. While 19% of respondents expect Brexit to disrupt trading relationships and 17% believe it will make it costlier to conduct business, a similar proportion (18%) feel it will create advantages for their business in other EU markets.

How your business can respond

- ◆ Ensure your company is investing skills so your workforce can harness the power of new technology.
- ◆ Ensure your business is compliant with GDPR to avoid the risk of heavy financial penalties.

Fig. 2: Relevance and impact of policy developments in the next 3 years



Source: TNS Kantar

*May not total 100% due to rounding

What is happening next for business strategy

Competitiveness and profitability drive firm strategies

Growing market share is considered by almost one-quarter (24%) of French firms as a key target for future company direction (Fig. 3). This is not surprising since the international market share of France has steadily decreased since the early 2000s due to a loss of competitiveness. Firms also intend to put more emphasis on productivity and skills development (24% of respondents), which may reflect the tightening in the labour market. With unemployment falling, employers have begun to report skill shortages as a factor limiting output.

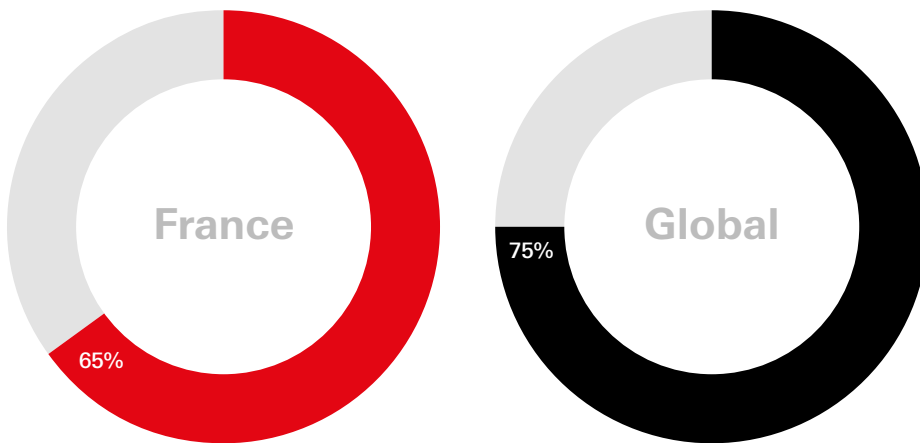
As illustrated by Fig. 4, French companies lag somewhat in digital innovation: only 65% of respondents currently exploit data to optimise performance, against a global average of 75%. The most common data sets utilised by French respondents are sales or transactions data, customer personal information and market data.

Fig. 3: Top 3 actions for future company direction



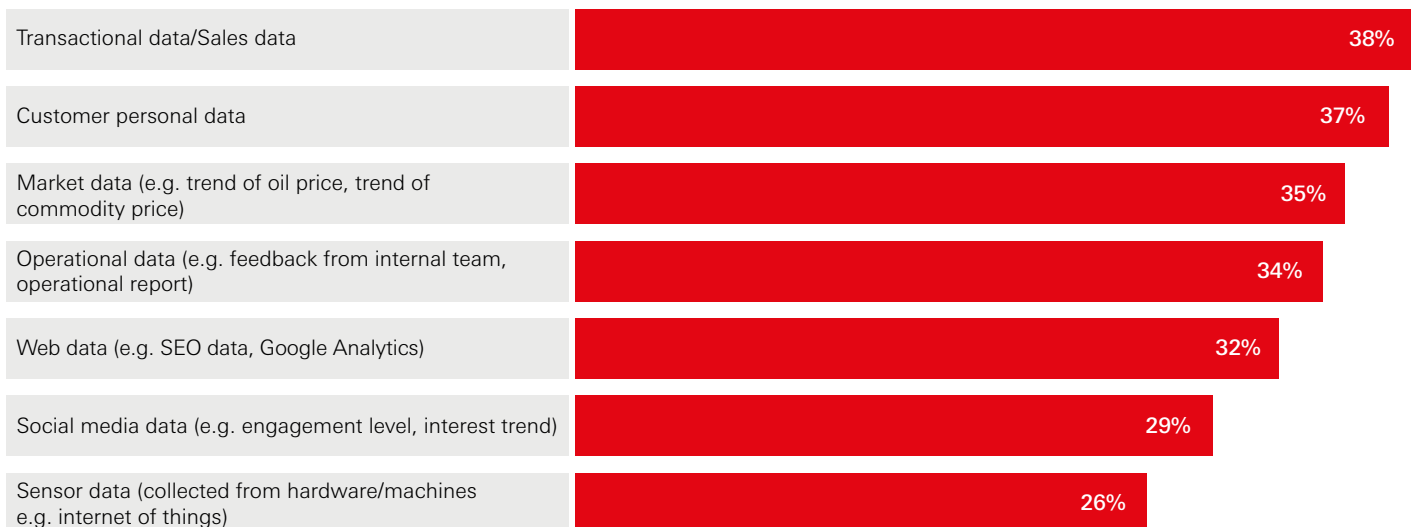
Fig. 4: Using data in business

Share of respondent firms using data to optimise performance



Source: TNS Kantar

Data sets currently being used



Source: TNS Kantar

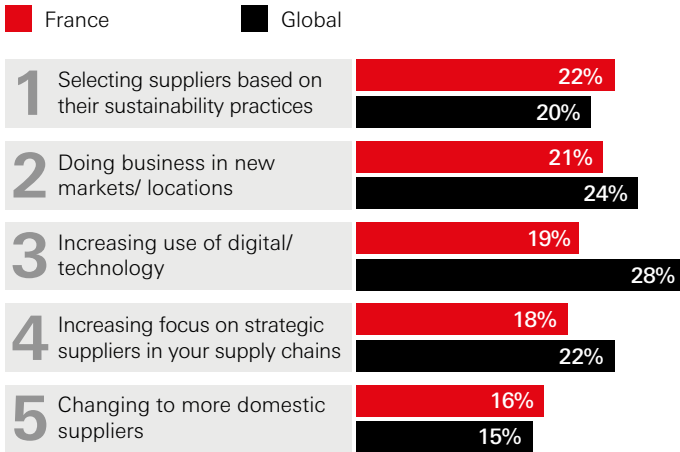
Still, data innovations are generally viewed positively. A majority of respondents (52%) view these developments as an opportunity to better meet customers' increasing demand for privacy and transparency. Respondents also generally had a favourable view of the business opportunities offered by innovations such as Artificial Intelligence (48%), wearables (47%) and the Internet of Things (45%). However, increased regulation around data compliance were identified as a key challenge by over a third (34%) of French firms. Worryingly, 29% of companies report that they are still only getting ready to fulfil data protection regulations such as GDPR.

Reducing costs among the top objectives for reshaping supply chain

Selecting suppliers based on their sustainability (22% of respondents), doing business in new locations (21%) and increasing digitalisation (19%) are the top changes planned by French firms in their supply chain for goods (Fig. 5). The main objectives refer to better meet trade partners' compliance (26%), reducing costs (26%) and increasing revenues (26%). This is in line with the main strategies for future directions mentioned earlier: increasing market share after decades of competitiveness loss, and strengthening profitability, notably by reducing costs.

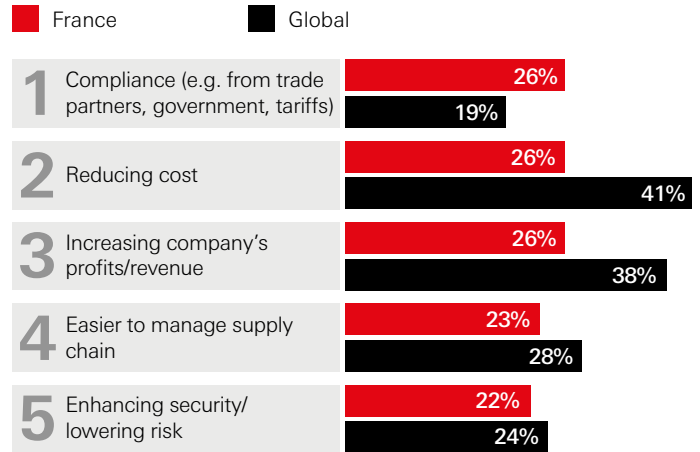
Fig. 5: Supply chain changes for goods

Top 5 planned supply chain changes in the next 3 years



Source: TNS Kantar

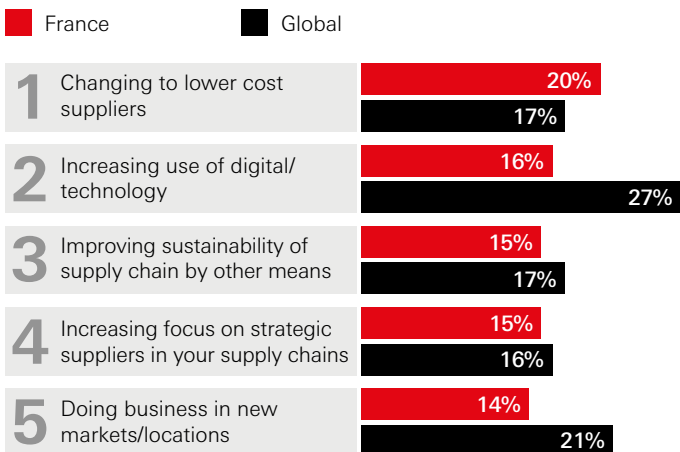
Top 5 objectives behind the changes



This finding is also reflected amongst respondents in the services sector (Fig. 6). The top change planned for supply chains in this sector is changing to lower cost suppliers (20% of firms) with the main objective of reducing cost (32%) and increasing revenue (24%).

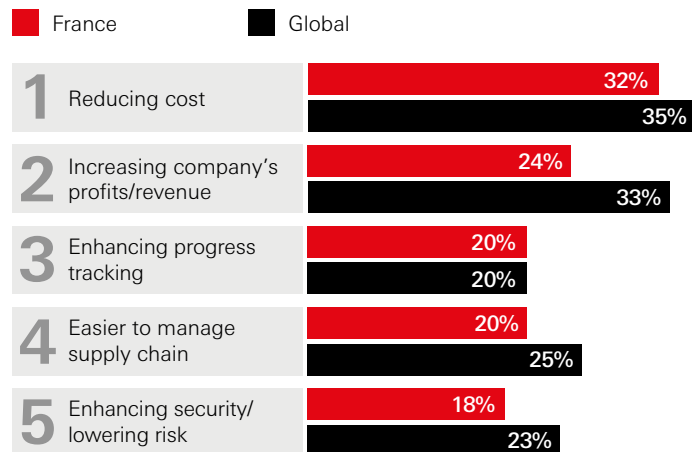
Fig. 6: Supply chain changes for services

Top 5 planned supply chain changes in the next 3 years



Source: TNS Kantar

Top 5 objectives behind the changes



About HSBC Navigator France

The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar TNS. It is compiled from responses by decision-makers at over 8,650 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 34 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results, 350 businesses were surveyed in France. Global results are based on an average of the 34 markets (using weights based on each market's share of world trade). The survey was conducted over a six week period from July to September 2018.

Interviewees were polled on a range of questions including expectations around future growth in trade, attitudes toward trade policy developments and strategic business plans. The survey represents a timely source of information on the fast-evolving international business environment.

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