

France Economic Outlook

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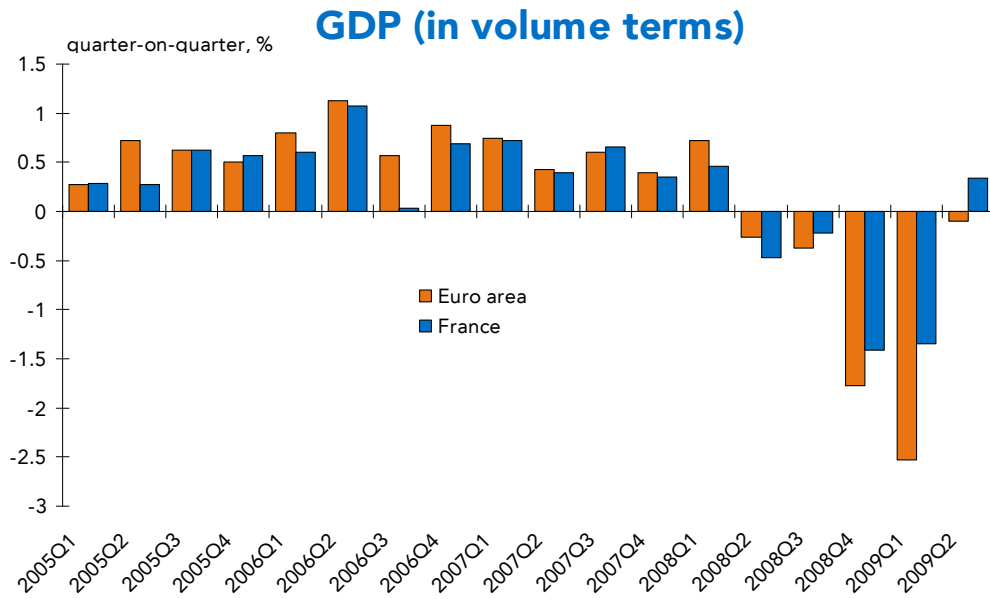
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Content

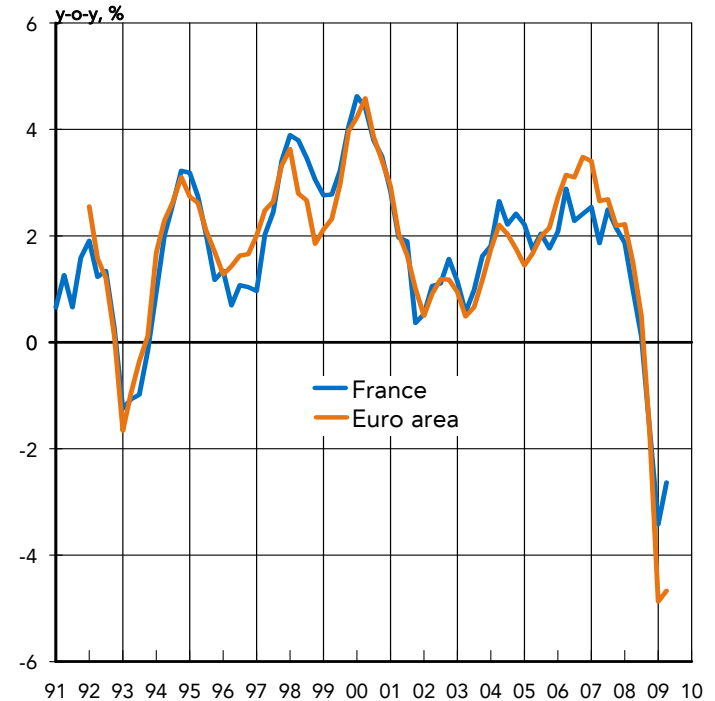
- ◆ Recent trends in the French economy
- ◆ Key questions for the near future
- ◆ What prospects for the labour market : a delayed adjustment or a smooth path compared to activity?
- ◆ Forecast for 2009-2010

1- Recent trends in the French economy

- After two quarters marked by a sharp decline, GDP increased somewhat in 2009Q2 (+0.3%)



GDP (in volume terms)



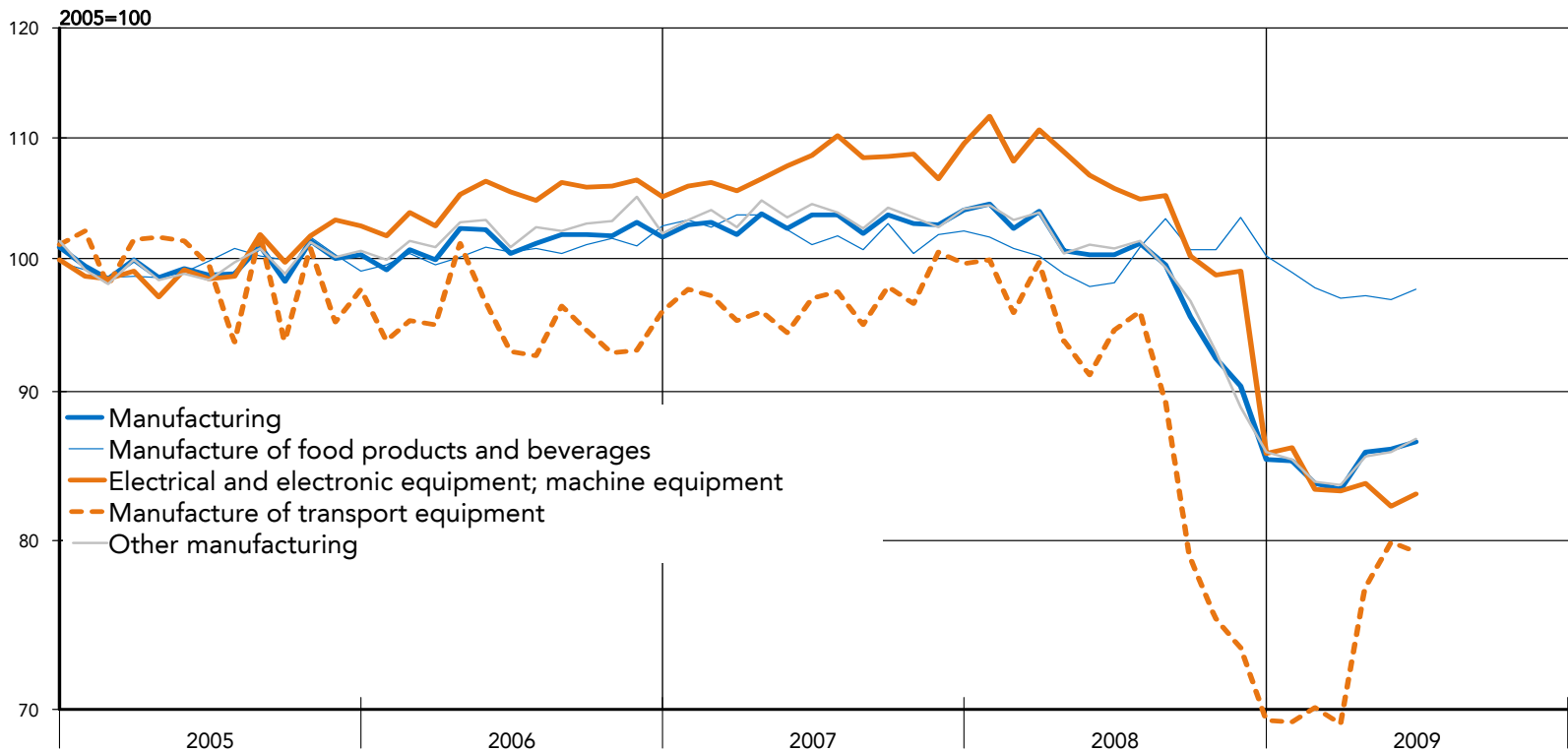
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- Main forces behind this modest growth:

- ◆ Resilience of households expenditures (+0.3% in 2009Q2 after +0.2% in 2009Q1)
- ◆ Strong positive net contribution from the external sector: exports returned to growth while imports continued to decline, although at a lower rate than in Q1
- ◆ Two negative forces remained: the contribution of inventories was still very negative and business investment contracted again, although less dramatically than in the previous quarter

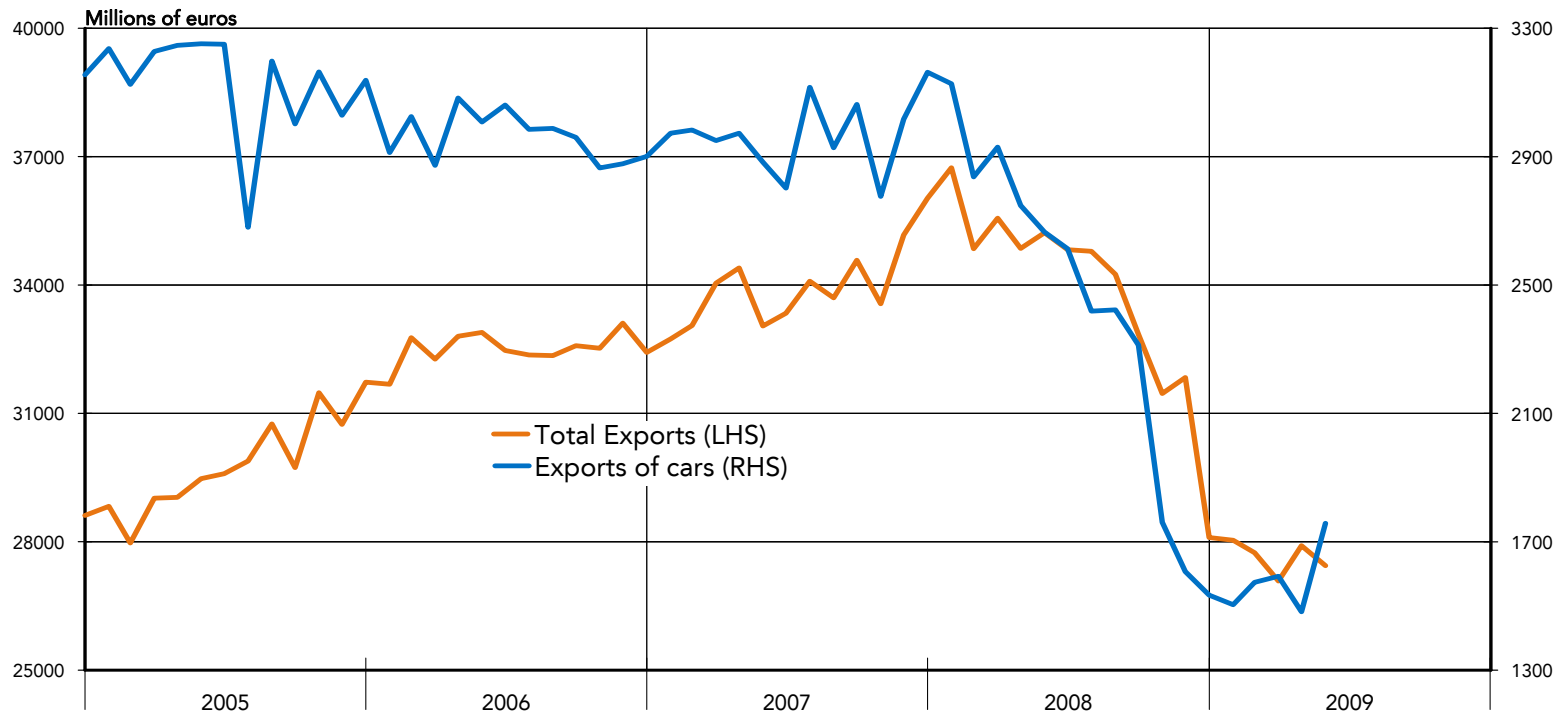
- Production of the main industrial sectors was on the rise in 2009Q2, but car industry showed the most pronounced upswing after a dramatic contraction

Industrial production index



- Wreckage premium in several European countries has stimulated French exports of cars

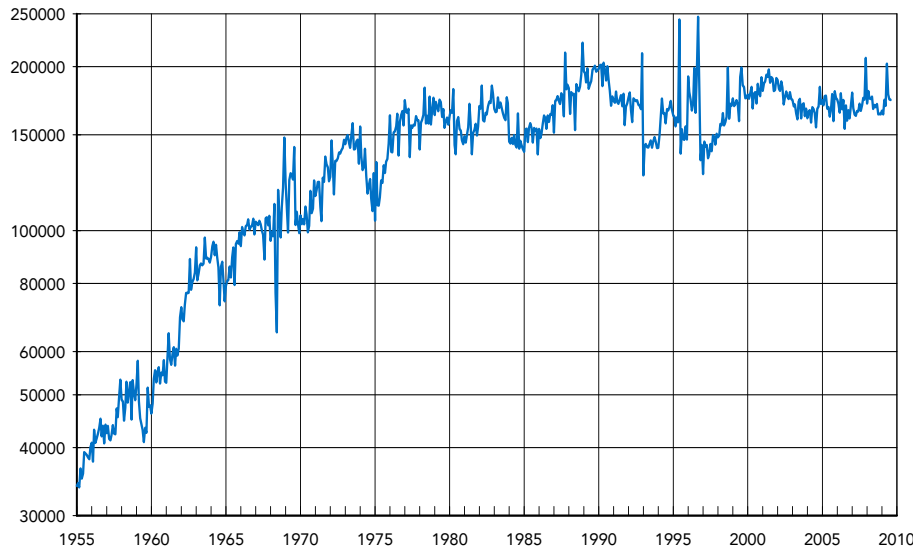
France: Total exports and exports of cars



- Historically, this kind of stimulation of the car market has led to anticipated sales, compensated later

In France, the trend for car sales is flat for the last 20 years

France: cars sales



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France: car sales
(thousands and change in per cent)

1991	2 063	-9.9%
1992	2 093	1.5%
1993	1 712	-18.2%
1994	1 955	14.2%
1995	1 932	-1.2%
1996	2 145	11.1%
1997	1 709	-20.3%
1998	1 951	14.1%
1999	2 127.6	9%

ON

OFF

ON

OFF

"Baladurette"

"Juppette"

(1994)

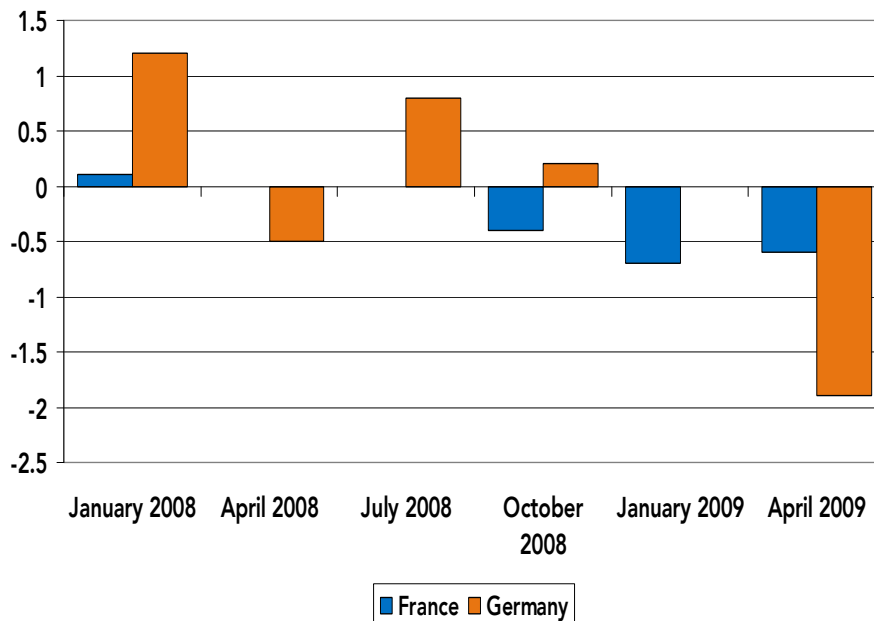
(1996)

2- Key questions for the near future

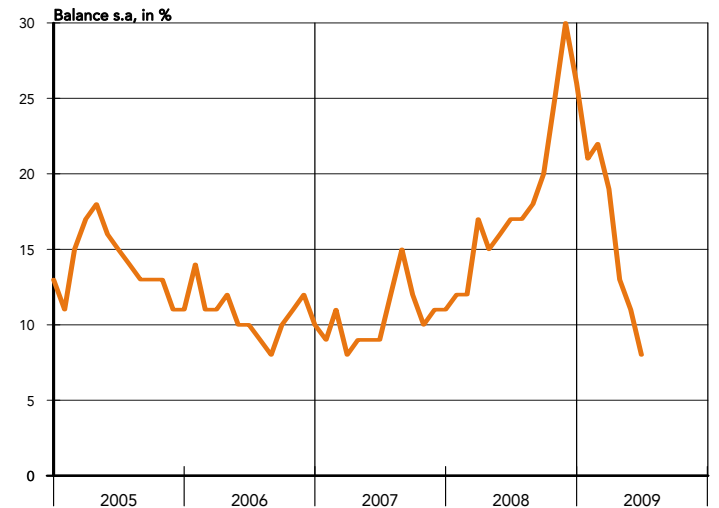
• Is the destocking process over?

In France, adjustment in inventories has taken three quarters (total adjustment 1.7% of GDP): it will probably come to an end soon. In industry, entrepreneurs mention that the level of inventories is back to the normal level.

Change in inventories: contribution to GDP growth



France: monthly business survey (goods-producing industries)
Finished-goods inventory level



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- What have been and what will be the effects of the stimulation package?
-

- ◆ Main measures have consisted in providing firms in cash in order to alleviate the cash flow constraint: on this point signs of improvement can be observed, mainly for big companies. Fiscal burden has been alleviated for firms.
- ◆ Public investment remained flat in 2009Q2: extra-support expected in the second half of the year
- ◆ Tax cuts for low income households has been already effective in 2009Q2 and will continue in 2009Q3

- **Will private consumption continue to be resilient?**

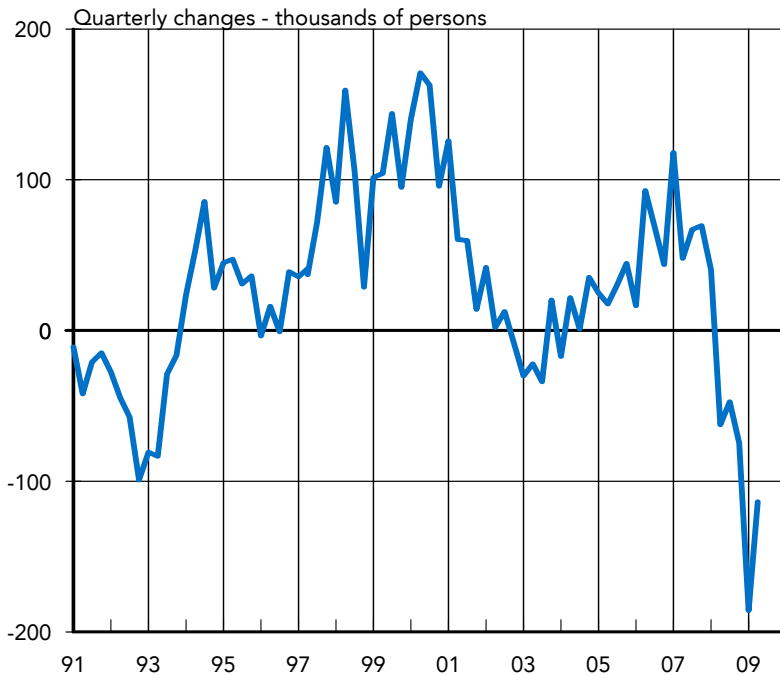
- ◆ 😊 The saving ratio is already high and signs of improvement of the housing market can support private consumption
- ◆ 😞 The process of disinflation is over, and inflation will probably be between 1.5 and 2% at the beginning of next year
- ◆ 😞 Moderation in car sales is expected to compensate the previous increase supported by the wreckage premium
- ◆ Interrogations on the labour market trend

3 - What prospects for the labour market: a delayed adjustment or a smooth path compared to activity?

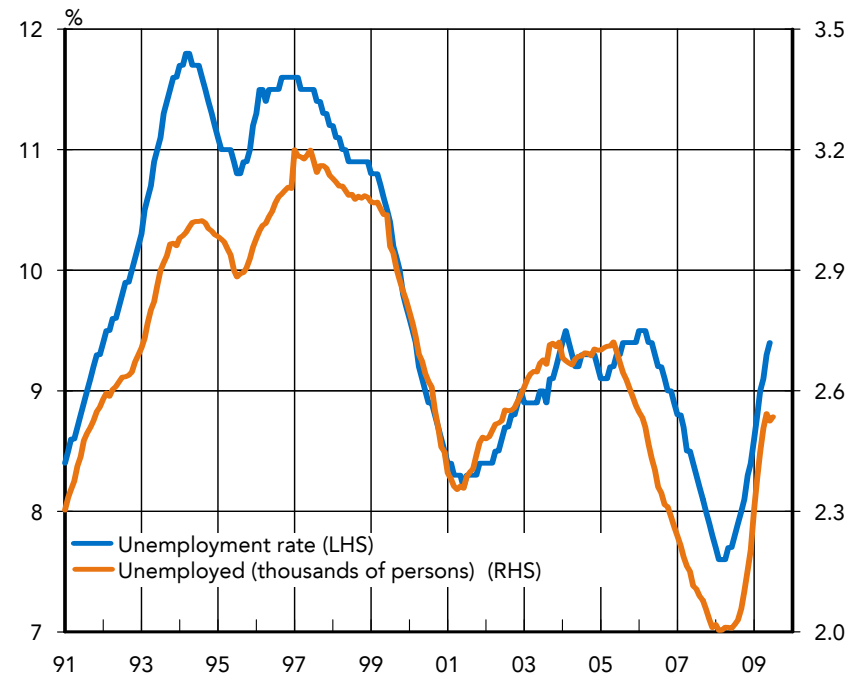
• The labour market is deteriorating

France

Employment - private sector

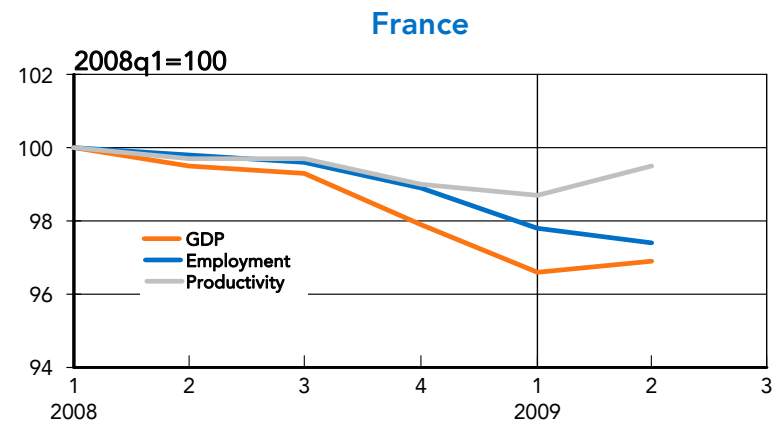
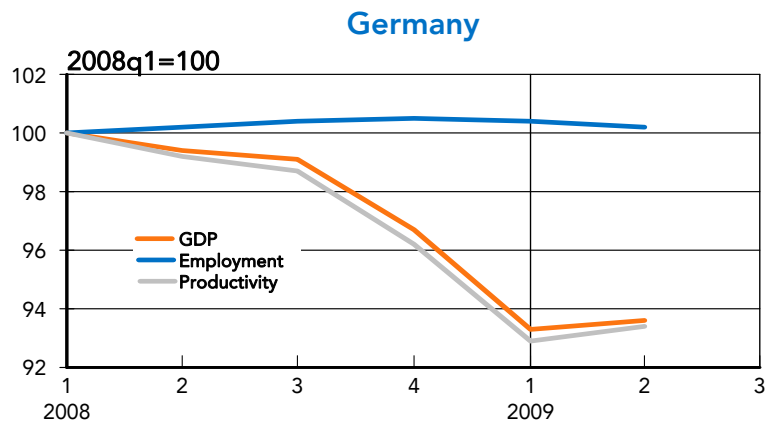
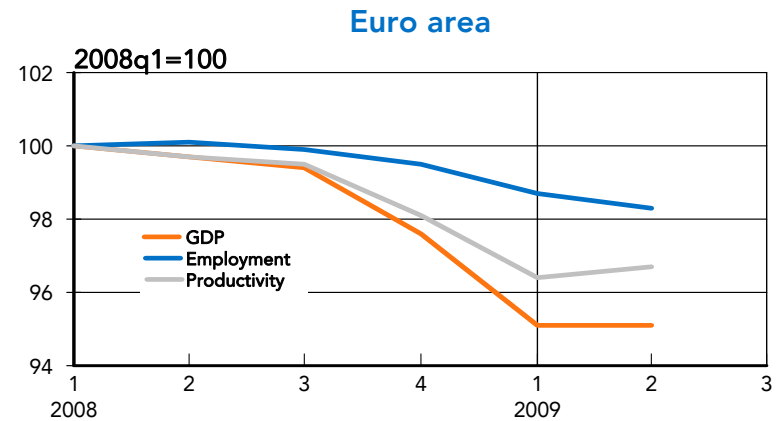
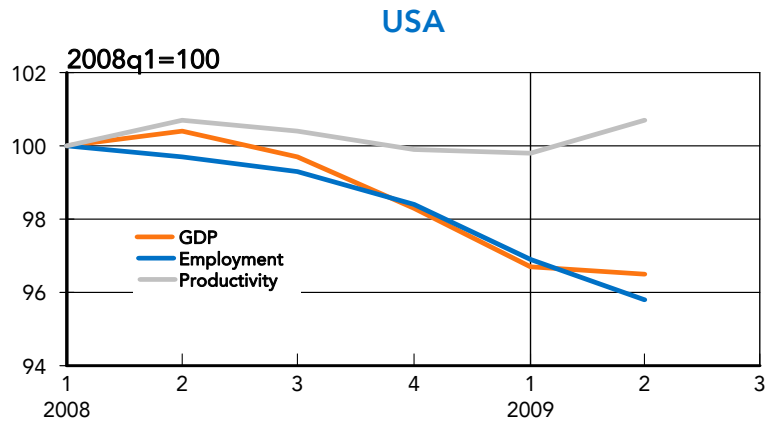


Unemployment



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- In France, productivity has almost already returned to the pre-crisis level

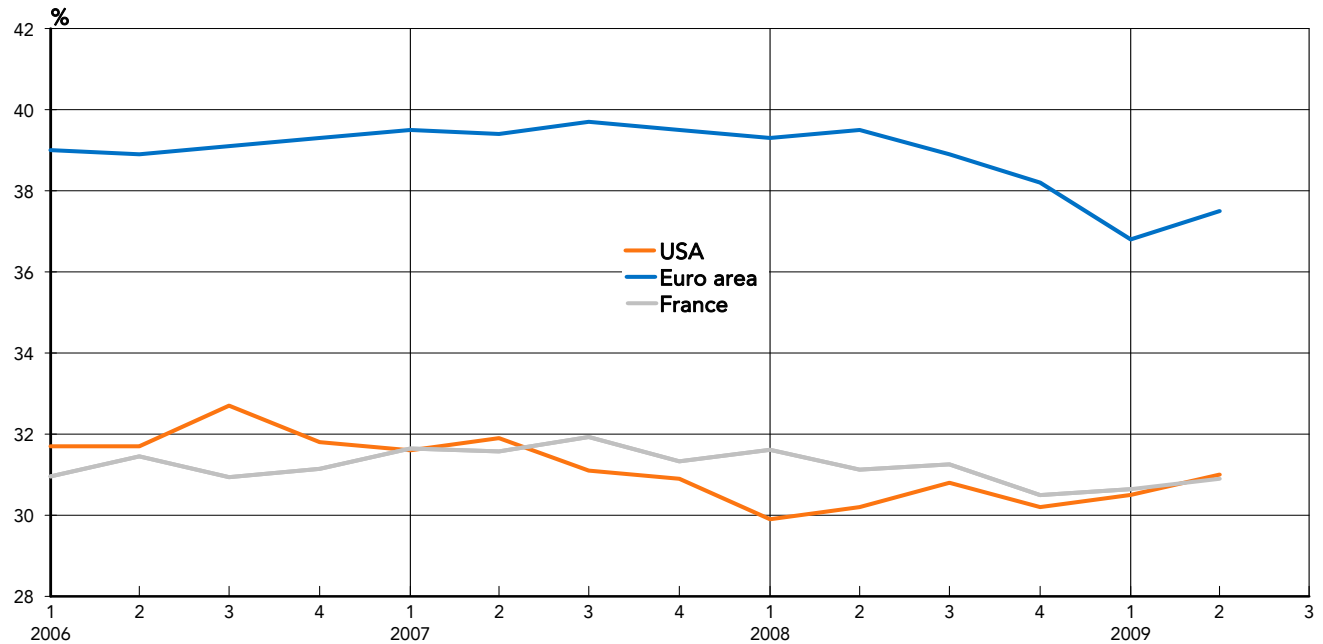


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- Share of profits in value-added: another way to sum up the adjustment of the labour market

The share of profits has declined in the Euro area until 2009Q1, but can be estimated on the rise in 2009Q2. In France, it would be already back to the pre-crisis level. In the U.S., there is a kind of over-adjustment of firms.

Share of profits in the value added (non financial corporations)



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- To sum up on the prospects of the labour market in France

- ◆ The adjustment of the labour market has been rather quick. This avoids major disequilibrium in companies' financial accounts
- ◆ Unemployment has been on the rise in the last months at a rate close to what was observed during the 1993 recession
- ◆ There is not a need to cut jobs dramatically. However, the level of activity will remain low in a number of industries, even if a recovery occurs in the next quarters. This means that there is not an urgent need to hire people. Unemployment will thus continue to increase.

4 – Forecast 2009-2010

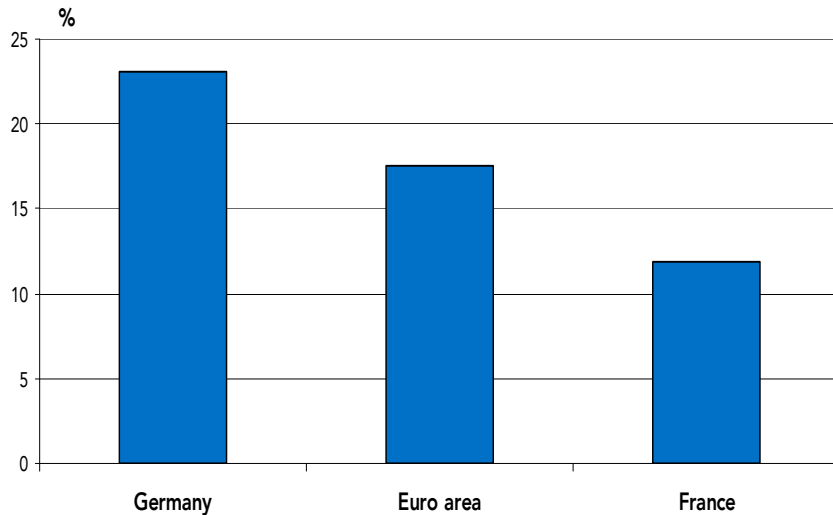
• France economic outlook

<i>Annual change (%) unless otherwise stated</i>	2008	2009	2010
GDP	0.3	-2.0	2.2
Private consumption	0.9	0.6	0.8
Total investment	0.5	-6.7	0.2
<i>Of which: business investment</i>	2.4	-7.9	-0.8
<i>Residential construction</i>	-1.4	-7.1	-0.7
Inventories change (contribution to GDP, %)	-0.2	-1.1	0.8
Exports	-0.6	-10.4	5.6
Imports	0.6	-9.1	4.0
Inflation (annual average, %)	2.8	0.2	1.5
Current account balance (% GDP)	-2.3	-2.1	-2.6
Public deficit (% GDP)	-3.4	-6.6	-6.1
Unemployment rate (average level, %)	7.4	9.2	9.9

- France and the crisis: a new model to follow or have structural weaknesses become temporary strengths? (1)

The share of industry in the economy is lower in France

Share of manufacturing industries in total economy (value added, 2008, current euros)



Manufacturing industries (more cyclical) have been more affected by the crisis than the service sector. The structure of the industrial sector has been less unfavourable in France than in other European countries

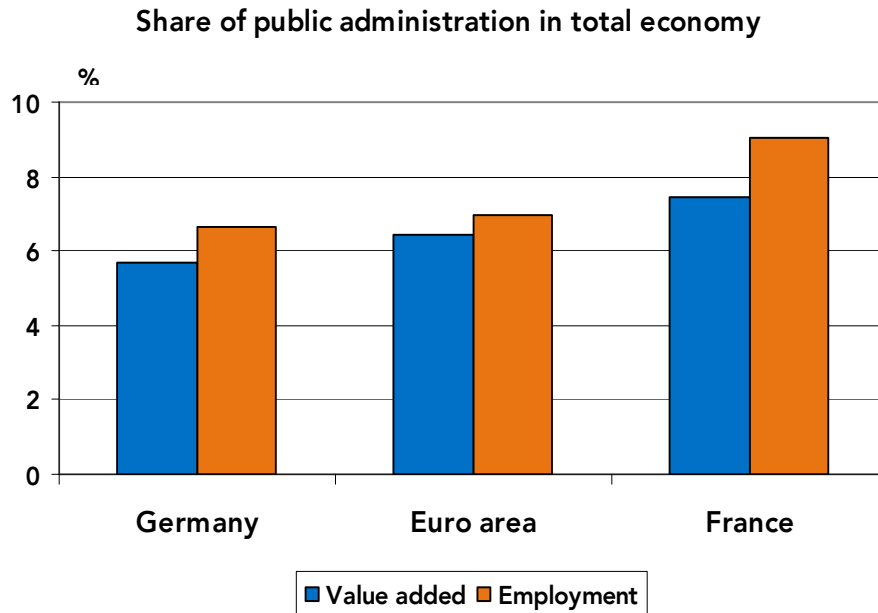
Value added in volume terms

Carry-over at the end of 2009Q2 (%)

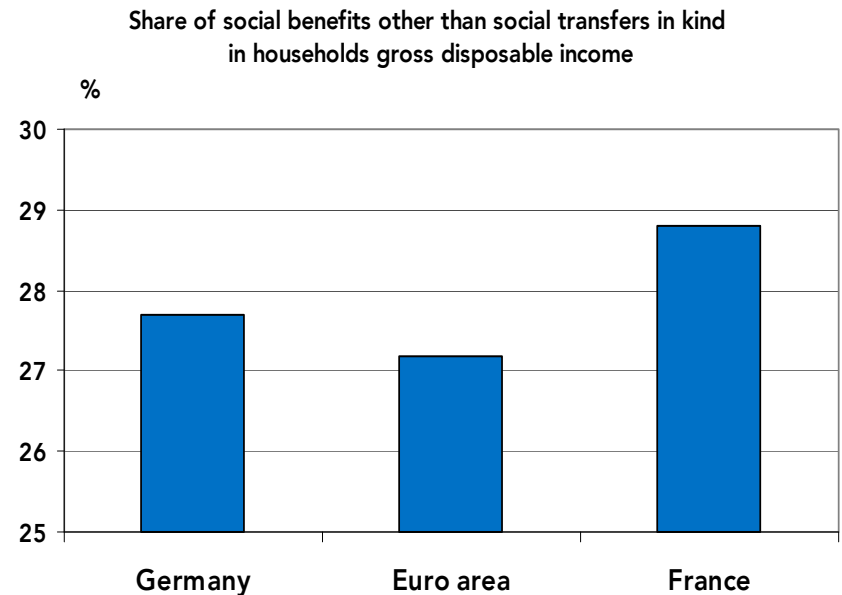
	Total	Manufacturing industries
Germany	-5,9	-19,9
Euro area	-4,1	-17,1
France	-2,0	-11,8

- France and the crisis: a new model to follow or have structural weaknesses become temporary strengths? (2)

The share of the public sector is higher in France than in other Euro area countries



The share of social benefits in disposable income is also a bit higher than in other Euro area countries



- France and the crisis: a new model to follow or have structural weaknesses become temporary strengths? (3)

Impact of the structure of the economy on growth differential between Germany and France in 2009	
<i>GDP carry-over at the end of 2009Q2</i>	
Germany	-5,4
France	-2,4
<i>Share of manufacturing industries in the economy</i>	-1,32
<i>Composition of manufacturing industries</i>	-0,96
<i>Share of the public sector</i>	-0,02
Impact of the structure of the economy	-2,3
Total growth differential	-3,0

- France and the crisis: a new model to follow or have structural weaknesses become temporary strengths? (4)

- ◆ France had not to correct major imbalances as in Anglo-Saxon countries (high indebtedness and low saving ratio for households) or in Spain (housing sector bubble)
- ◆ The structure of the French economy leads to lower growth when the world economy is booming, but implies a lower contraction when the world economy is depressed
- ◆ Not a model, but the historical heritage and sociological choices