

BY BAQ
SAVING TELEGRAM

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FRAME ECONOMIC

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TO FCO

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CONSULATES-GENERAL FRANCE

FRANCE : ECONOMIC REPORT FOR DECEMBER 1984

SUMMARY

1. There was a small improvement in some of the figures for the French economy published in December, following a bleak November, but prospects are not very good. There was a small balance of trade surplus in November, and the annual rate of inflation inched down again, but unemployment continued to rise, and company bankruptcies are running at a high level. Industrial production, which has held up well showed some signs of slackening slightly at the end of the year.

2. The small trade surplus in November is part of a general improvement in the balance of trade since July, but INSEE forecast a deterioration in the first half of next year, and a deficit for 1985 as a whole of F25 billion, i.e. no better than in 1984.

3. The performance of the French car industry, with the exception of Peugeot continues to give grounds for concern. The Government has pledged financial support for Renault and Peugeot.

4. December brought a double set-back to the hopes of government ministers, employers and moderate trade union leaders for a negotiated reduction of labour market rigidity. The employers' federation and the national leadership of the main non-communist trade unions reached agreement for a limited easing of employment protection, but the agreement was then rejected by militant union officials to the satisfaction of the communist union leaders. At the same time both communist and non-communist unions rejected a draft agreement on mobility and job reductions at Renault.

5. Unemployment continues to rise and INSEE forecast 2.5 million unemployed at the end of June 1985.

6. The growth in the money supply remains on target.

DETAIL

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FOREIGN TRADE AND THE BALANCE OF PAYMENTS

7. There was a balance of trade surplus of FO.803 billion seasonally adjusted in November. This reverses the deterioration in the monthly trade figures in October when there was a deficit of F3.888 billion and brings the trade deficit for the first 11 months of 1984 to F21.6 billion.

8. The improvement in November was due to a drop in imports of F3.43 billion to F73.754. Exports rose by only FO.75 to F74.557. Imports of energy at F16.9 billion were F1.5 billion lower than in October and only slightly above the monthly average for 1983 in spite of the approach of winter. Imports of semi-finished goods were also down in November from an exceptionally high level in October. Imports of other commodities remained fairly stable.

9. Figures published by INSEE show that over the first 9 months of 1984 the volume of exports increased more than the volume of imports, while export and import prices increased by about the same amount. On average since the beginning of 1984 the volume of exports per month has been 4.6% higher and imports 2.1% higher than in 1983, but INSEE cautions that exceptionally large exports of wheat to Eastern Europe in August and September have increased export volumes and lowered export prices.

10. A deficit of F22.4 billion over the first 6 months of 1984 has been followed by a surplus of FO.87 over the 5 months July to November. The improvement may prove to be short-lived. In December INSEE forecast that over the first 6 months of 1985 there would be a deficit of F16.2 billion and over the whole of 1985, a deficit of F25.2 billion, i.e. no improvement over 1984. This in stark contrast to the forecast by the Government in September that there would be a balance of trade surplus for the whole of 1985 of F2 billion. INSEE argues that the balance of trade deficit will persist at its current level in 1985 because increased growth in the French economy, and reduced growth in the economies of France's main trading partners will narrow the gap between them, and because there will be no further significant gains in French competitiveness.

11. Factors which will probably contribute to the deterioration in the balance of trade over the next few months are a drop in agricultural exports, from an exceptionally high level, an increase in energy imports and a further drop in revenue from large contracts won abroad by French firms which OFCE, the independent forecasting body, estimates will be F1 billion less per month in 1985 on average.

12. France's trade figures for December, not yet announced, will receive a boost from France's share of the payment of \$160 million (approx F1.5 billion) for 4 airbuses delivered to Pan Am as part of a larger contract signed in 1984.

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