

SAVING TELEGRAM

UNCLASSIFIED

FRAME ECONOMIC

FROM PARIS SAVING TELNO 1 OF 9 JANUARY 1986

TO FCO

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CONSULATES GENERAL FRANCE

FRANCE : ECONOMIC REPORT FOR DECEMBER 1985

SUMMARY

1. Results for the French economy published in December show that the improvement visible since the beginning of the autumn has continued. Unemployment has fallen again; the annual rate of inflation continues to decrease; there is a moderate improvement in the balance of trade, and, according to industrialists, the trend of industrial production is still rising. But there has been press speculation about a reduction in the parity of the franc.
2. Industrial production continues to increase and demand both in France and from abroad remains firm. Industrialists are optimistic. Turnover in the retail trade is substantially higher than a year ago.
3. Unemployment continues to diminish and the number of job losses in 1985 was significantly less than in 1984. The annual rate of inflation has decreased again and is below the EC average.
4. There was only a small balance of trade deficit in November and INSEE forecast that following a deficit of around F22 billion in 1985 there will be a small surplus in 1986 HI.
5. In December there was renewed speculation that the franc might soon be devalued against the deutschmark. Eurofranc interest rates thereupon increased.
6. The Stock Exchange had a bumper year : the value of transactions increased by a third and the CAC index rose by 45%.

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Foreign Trade and the Balance of Payments

7. In November there was a balance of trade deficit FOB/FOB of only F0.486 billion s.a. following a surplus of F0.982 billion in October. The results for October and November are an improvement over those for the first 9 months of 1985. The slight deterioration in November is due to a drop in the surplus on manufactured goods to F6.3 billion CIF/FOB s.a. from F8.4 billion in October. (Only CIF/FOB figures are available so far for goods.) The surplus on food and agricultural products and the deficit in energy remained virtually unchanged. There is a trade deficit for the first 11 months of 1985 of F20.351 billion.
8. In early December (before the November trade figures were available) INSEE had already forecast that there would be an improvement in the trade figures in the fourth quarter and that there would be a balance of trade deficit for 1985 of F22 billion, which is only just over F1 billion more than the deficit for the first 9 months of the year. INSEE predicted that the balance of trade would improve because of an increase in the surplus on food and agricultural products and manufactured goods and a decrease in the deficit on energy. In October and November as a result of a good harvest the monthly average trade surplus on food and agriculture rose to F4.2 billion CIF/FOB s.a. from F2.2 billion during the first 9 months of 1985. Over the same periods the monthly average deficit on energy fell to F14.0 billion from F15.4 billion because of the fall in oil prices and the depreciation of the dollar. In October the surplus on manufactured goods improved but the size of the November surplus was disappointing.
9. INSEE forecast that the improvement in the balance of trade will continue during the first half of 1986, to give a surplus of F2.7 billion, compared with a deficit of F14.4 billion for the first half of 1985. Their forecast is based on the franc/dollar exchange rate of mid-November of F8 (by the beginning of January the rate had fallen to around F7.50) and «spot» North Sea oil prices of \$27 per barrel in Q1 and \$26 in Q2.
10. INSEE predicts that in 1986 HI food and agricultural exports will continue at a high level and the value of energy imports will be F22 billion less than during the same period of 1985. They also predict that the export of manufactured goods will increase to the level of 1985 HI, because arms contracts signed for a record value in 1984 and a recovery in the level of contracts for large civil projects abroad signed in 1985 will begin to show in the export figures.
11. However, in December two of the largest French banks, the «Banque Nationale de Paris» and the «Banque de Paris et des Pays Bas» both pointed out that France's share of the world market in manufactured goods is slowly but steadily diminishing.

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