

SAVING TELEGRAM

UNCLASSIFIED

FRAME ECONOMIC

FROM PARIS SAVING TELNO 12 OF 11 FEBRUARY 1986

TO FCO

REPEATED FOR INFORMATION TO: BONN, BRUSSELS, DUBLIN, THE HAGUE,
COPENHAGEN, ATHENS, ROME, LUXEMBOURG, UKREP BRUSSELS, MADRID,
WASHINGTON, LISBON, TOKYO, UKDEL OECD, UKDEL STRASBOURG,
CONSULATES GENERAL FRANCE

FRANCE: ECONOMIC REPORT FOR JANUARY 1986

SUMMARY

1. Although the improvement in the French economy begun in the autumn has faltered, prospects are good provided that the lower oil price and the depreciation of the dollar are sustained. Although unemployment has fallen for the fourth month running and the annual rate of inflation continued to decrease, the recent improvement in the balance of trade was reversed in December and industrial production is falling.
2. At the end of December there were 2.322 million s.a. out of work. During 1985 unemployment decreased: the unadjusted figure fell by 88,600.
3. The annual rate of inflation fell again in December to reach 4.7% the lowest annual rate in France since 1967.
4. There was a large trade deficit for December, to give a 1985 trade deficit of F23.8 billion, i.e. no improvement over 1984. A substantial improvement is likely in 1986 if the price of oil and the value of the dollar do not rise much above present levels.
5. In December industrial production fell and although industrialists expect production to fall during the next few months they remain optimistic. The financial situation of companies is improving but much ground lost during a 10 year deterioration in companies finances has still to be recovered.
6. The joint electoral platform published by the UDF and RPR political parties on 16 January promised denationalisation, deregulation, lower public spending and lower taxation. It also promised to safeguard the existing social security system and defend the EC Common Agricultural Policy.

/DETAIL

DETAIL

Foreign Trade and the Balance of Payments

7. The trend towards an improvement in the monthly foreign trade figures was reversed in December when there was a deficit of F3.435 billion FOB/FOB s.a. following a deficit of only F0.486 billion in November and a surplus of F0.982 in October. INSEE had predicted that there would be an improvement over the whole of the last quarter (see paragraph 8 of the MER for December). The deterioration in December was due to a F1.387 billion increase in imports to F77.053 billion and a F1.562 billion decrease in exports to F73.618 billion.
8. More detailed figures, which at present are only available in CIF/FOB terms, show that in December compared with November, seasonally adjusted, the deficit in energy increased by F1.0 billion to F14.9 billion, the surplus on processed food fell by F1.1 billion to F0.6 billion, and the surplus on manufactured goods fell by F0.6 billion to F5.7 billion. The December surplus on manufactured goods was well below the monthly average for 1985 of F7.5 billion.
9. The balance of trade deficit for the whole of 1985 of F23.786 billion is only slightly less than the F24.450 deficit in 1984, and is substantially worse than the F12 to F15 billion deficit forecast by the government in September 1985.
10. In 1985 a F11.3 billion CIF/FOB improvement in the balance on agriculture, food and energy compensated for a F11.1 billion CIF/FOB deterioration in the balance on capital goods. Imports of capital goods increased by F17.8 billion CIF, probably as a result of the increase in the volume of investment in industry in 1985, estimated by INSEE at 9%; exports of capital goods increased by only F6.9 billion FOB. The surplus on agriculture and food increased by F5.5 billion CIF/FOB and the deficit on energy decreased by 5.8 billion CIF/FOB.
11. In 1985 France's balance of trade with the European Community and OPEC worsened, but it improved with the United States. France's total trade deficit CIF/FOB with the European Community increased by F4.0 billion to F60.9 billion, chiefly because of a F4.0 billion increase in its deficit with the Benelux to F8.6 billion, but the deficit with West Germany, France's most important trading partner, remained virtually unchanged at F28.1 billion. France's trade with non-OECD countries remained little changed, decreasing by only F0.7 billion to give a deficit of F14.6 billion CIF/FOB, but this includes an increase of F4.4 billion in its deficit with the OPEC countries. Imports from OPEC countries fell by F10.8 billion CIF but exports to OPEC countries fell by F15.2 billion FOB. France's trade balance CIF/FOB with the United States improved by F7.0 billion to give an annual surplus of F3.0 billion. This helped to reduce its deficit with OECD countries outside the European Community by F4.4 billion to F14.8 billion CIF/FOB.
12. Thus a F7.0 billion CIF/FOB improvement in France's trade with the United States almost compensated for a F8.4 billion CIF/FOB deterioration in its trade with the Benelux and the OPEC countries.