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THE FRENCH ECONOMY : FEBRUARY 1987

SUMMARY

1. A DISCOURAGING OUTLOOK FOR THE FRENCH ECONOMY. SOME IMPORTANT INDICATORS ARE MOVING IN THE WRONG DIRECTION, WITH LITTLE PROSPECT FOR SIGNIFICANT IMPROVEMENTS IN 1987. THE GOVERNMENT IS BEING PRESSED BY SOME OF ITS FRIENDS AS WELL AS ITS OPPONENTS TO BOOST THE ECONOMY, AND IN RESPONSE IS CONSIDERING A PROGRAMME OF PUBLIC WORKS.

DETAIL

2. THERE IS A GROWING CONSENSUS THAT ECONOMIC GROWTH WILL BE SLUGGISH IN 1987. OECD HAS FORECAST THAT GDP WILL GROW BY 2.1 PERCENT, THE SAME AS IN 1986 AND AT THE BOTTOM END OF THE GOVERNMENT'S RECENTLY REDUCED FORECAST OF 2 PERCENT TO 2.5 PERCENT. THE EUROPEAN COMMISSION'S FORECAST IS LOWER STILL: 1.8 PERCENT. INSEE, THE GOVERNMENT-FINANCED ECONOMIC AGENCY, HAS PUBLISHED A GLOOMY FORECAST FOR 1987H1. CONTRARY TO ITS NORMAL PRACTICE IT GIVES NO FIGURE FOR GDP GROWTH, PROBABLY BECAUSE IT WISHES TO AVOID PREDICTING A GROWTH RATE LOWER THAN THE GOVERNMENT FORECAST. INSEE GOES ON TO SAY THAT EVEN IN THE SECOND HALF OF THIS YEAR GROWTH WILL LACK VIGOUR.

3. INSEE PREDICTS A SMALL DECREASE IN INDUSTRIAL PRODUCTION IN 1987H1 BECAUSE COMPANIES ARE DE-STOCKING FOLLOWING SUBSTANTIAL STOCK-BUILDING IN 1986H2. STOCKS ACCUMULATED BECAUSE INDUSTRY MAINTAINED INCREASED PRODUCTION BETWEEN JULY AND NOVEMBER WHEN CONSUMER DEMAND AND INVESTMENT WERE BOTH FALLING.

4. THE MEDIOCRE INTERNATIONAL ENVIRONMENT ADDS TO THE DISCOMFORT OF THE FRENCH ECONOMY. FRANCE'S FOREIGN TRADE PERFORMANCE CONTINUES TO CAUSE CONCERN AND THERE WAS A DEFICIT OF F2.45 BILLION S.A. IN JANUARY. INSEE FORESEES NO IMPROVEMENT IN 1987H1, WHEN IT PREDICTS THAT FOREIGN TRADE WILL DO NO MORE THAN REMAIN IN BALANCE.

5. UNEMPLOYMENT, WHICH HAS RISEN STEADILY FOR ALMOST A YEAR, ROSE ABOVE 2.6 MILLION S.A. IN JANUARY, 10.9 PERCENT OF THE ACTIVE LABOUR FORCE. INSEE PREDICTS THAT THE INCREASE WILL CONTINUE UNTIL THE END OF 1987H1 WHEN THERE WILL BE A RESPIRE, BUT THE MINISTER FOR SOCIAL AFFAIRS, SEGUIN, HAS REMARKED GLOOMILY THAT INSEE'S FORECAST THAT IT WILL RISE TO 3.4 MILLION BY 1991 IS OPTIMISTIC. OECD BELIEVES THAT (RISING) FRENCH UNEMPLOYMENT WILL EXCEED (DECLINING) BRITISH UNEMPLOYMENT FOR THE FIRST TIME IN DECADES IN 1988H1.

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6. EVEN THE INFLATION FIGURES TOOK A TURN FOR THE WORSE IN JANUARY WHEN THE ANNUAL RATE ROSE TO 3.0 PERCENT FROM 2.1 PERCENT. BUT INSEE AGREES WITH THE GOVERNMENT'S ASSESSMENT THAT THIS WAS CAUSED BY EXCEPTIONAL FACTORS AND THAT THE RATE WILL SLOW AGAIN. NEVERTHELESS THE GOVERNMENT HAS BEEN FORCED TO REVISE ITS TARGET FOR INFLATION IN 1987 UPWARDS FROM 1.7 PERCENT TO 2.4 PERCENT (JANUARY TO DECEMBER).

7. THERE IS LITTLE OR NO PROSPECT OF THE BADLY NEEDED SURGE IN INVESTMENT. ALTHOUGH INSEE FORECASTS THAT, FOLLOWING A FALL IN 1986H2, INVESTMENT WILL INCREASE IN 1987H1, IT ALSO FORECASTS THAT THE TOTAL VOLUME OF INVESTMENT IN THE ECONOMY IN 1987 WILL BE ABOUT THE SAME AS IN 1986. TOTAL PRODUCTIVE INVESTMENT BY COMPANIES, WHICH INCREASED BY 3.5 PERCENT IN 1986 MAY INCREASE BY 4 PERCENT IN 1987.

8. THE GOVERNMENT HAS BEEN ASSAILED WITH DEMANDS FROM ALL SIDES, INCLUDING FROM MEMBERS OF ITS OWN PARLIAMENTARY MAJORITY, FOR AT LEAST A SELECTIVE REFLATION OF THE ECONOMY. THE EMPLOYERS' FEDERATION, THE CNPF, HAS SAID THAT THE ECONOMY NEEDS A BOOST. BARRE'S SUPPORTERS HAVE SUGGESTED THAT THE GOVERNMENT SHOULD ENCOURAGE INVESTMENT THROUGH TAX CONCESSIONS. SOME TRADE UNIONS HAVE PLEADED FOR SPECIAL HELP FOR THE TROUBLED CONSTRUCTION INDUSTRY. CHIRAC AND BALLADUR HAVE SO FAR PUBLICLY RESISTED THESE DEMANDS BUT JUPPE, THE MINISTER RESPONSIBLE FOR THE BUDGET, HAS SAID THAT HE IS IN FAVOUR OF STIMULATING ACTIVITY THROUGH A PROGRAMME OF PUBLIC WORKS AND IS REPORTED BY THE FINANCIAL PRESS TO BE LOOKING FOR WAYS OF FINANCING SUCH A PROGRAMME THROUGH CUTS IN PLANNED EXPENDITURE ELSEWHERE.

9. THIS DISCOURAGING OUTLOOK IS NOT HELPFUL FOR CHIRAC'S PRESIDENTIAL PROSPECTS. IT NOW SEEMS UNLIKELY THAT HE WILL HAVE A STRONG ECONOMIC RECORD ON WHICH TO FIGHT NEXT YEAR'S ELECTIONS, WHICH WILL BE THE MORE AWKWARD FOR HIM SINCE (BOTH BEFORE AND AFTER THE ELECTIONS LAST YEAR) HE ENCOURAGED EXPECTATIONS OF STRONGER GROWTH AND MORE JOB CREATION.

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