RESTRICTED
FM PARIS
TO PRIORITY FCO
TELNO 488 [CULL]
OF 151739Z MAY 87
INFO SAVING WASHINGTON, BONN, TOKYO, IMF/IBRD WASHINGTON

THE FRENCH ECONOMY : APRIL 1987

SUMMARY
1. THE ECONOMY IS LOOKING INCREASINGLY DREARY. IN A FORECAST PUBLISHED TODAY, 15 MAY, INSEE PREDICTS A LOWER RATE OF GROWTH THAN LAST YEAR'S MODEST 2.0 PERCENT, AND HAS RECENTLY DEMONSTRATED THAT ONE THIRD OF LAST YEAR'S GROWTH WAS DUE TO STOCKBUILDING. POOR FOREIGN TRADE FIGURES IN Q1 HAVE TAKEN THE GOVERNMENT BY SURPRISE. UNEMPLOYMENT CONTINUES TO RISE STEADILY AND, AS A PERCENTAGE OF THE LABOUR FORCE, IT OVERTOOK BRITAIN'S IN MARCH. THERE IS NO SIGN YET OF THE SIGNIFICANT INCREASE IN INVESTMENT WHICH IS AN IMPORTANT FEATURE OF THE GOVERNMENT'S ECONOMIC STRATEGY FOR 1987. THE LIKELIHOOD OF A MODEST RECOVERY IN H2 IS RECEDING. AS THE 1988 PRESIDENTIAL ELECTIONS APPROACH, THE GOVERNMENT HAS TO CHOOSE WHETHER TO BOOST DEMAND, AT THE RISK OF A BALANCE OF PAYMENTS CRISIS, OR TELL THE ELECTORATE PRESENT POLICIES WILL WORK IN THE LONGER TERM. BALLADUR IS DETERMINED TO KEEP HIS COLLEAGUES ON THE PATH OF VIRTUE AND IS DRAWING STRENGTH FROM THE EVIDENCE THAT VIRTUE IS BEING REWARDED BY SUCCESS IN THE UK.

DETAIL
2. TODAY, 15 MAY, INSEE, THE OFFICIAL FORECASTING AGENCY, HAS PUBLISHED A REVISED FORECAST FOR GDP GROWTH IN 1987. NO DOUBT UNDER POLITICAL PRESSURE, IT FAILS TO QUANTIFY ITS PREDICTION BUT POINTS TO A RATE CLOSE TO THE 1.4 PERCENT AND 1.6 PERCENT RECORDED IN 1985 AND 1984. THE SENIOR DOMESTIC FORECASTER AT THE AGENCY HAS TOLD US IN CONFIDENCE THAT HE PERSONALLY PREDICTS GROWTH OF ONLY 1.0 PERCENT OR EVEN SLIGHTLY LESS IN 1987. THIS IS FAR REMOVED FROM THE OPTIMISTIC FORECAST OF 2.8 PERCENT ON WHICH THE GOVERNMENT BASED THE 1987 BUDGET AND ONLY HALF ITS MARCH FORECAST OF 2.0 PERCENT. INSEE HAS RECENTLY PUBLISHED FIGURES SHOWING THAT THE APPARENT ACCELERATION IN GROWTH OF TRADED GDP IN 1986 TO 2.0 PERCENT, FROM 1.4 PERCENT IN 1985 WAS DUE ENTIRELY TO STOCKBUILDING.

3. A FOREIGN TRADE DEFICIT OF F3.3 BILLION S.A. FOB/FOB IN MARCH WAS AN UNPLEASANT SURPRISE FOR THE GOVERNMENT. IT GAVE A DEFICIT FOR 1987 Q1 OF F6.2 MILLION. FOLLOWING THE PUBLICATION OF THE MARCH FIGURE AN UNNAMED OFFICIAL IN THE MINISTRY OF EXTERNAL TRADE WAS QUOTED IN THE PRESS AS SAYING THAT HIS MINISTRY EXPECTED A DEFICIT OF F15-20 BILLION THIS YEAR. THE MINISTRY OF FINANCE PRIVATELY CONFIRM THIS, AND INSEE PREDICT THE SAME. ONLY 3 WEEKS AGO THE GOVERNMENT RENEWED ITS FORECAST OF A 1987 SURPLUS OF F1.0 BILLION, FOLLOWING A SURPLUS OF F0.5 BILLION IN 1986. THE RELENTLESS DETERIORATION IN TRADE IN MANUFACTURED GOODS HAS CONTINUED. IN 1987 Q1, IF ARMS SALES ARE EXCLUDED, THERE WAS A DEFICIT IN MANUFACTURED GOODS OF F2.2 BILLION S.A. CIF/FOB; AND IN MARCH, EVEN WITH ARMS SALES INCLUDED, THERE WAS A MONTHLY DEFICIT OF F1.9 BILLION, THE FIRST FOR 5 YEARS.

4. THE GOVERNMENT MUST ALSO BEGIN TO DOUBT ITS PREDICTION THAT IN 1987 INCREASED INVESTMENT BY COMPANIES WILL REPLACE PRIVATE CONSUMPTION AS THE MAIN ENGINE OF THE ECONOMY. ALTHOUGH IN Q1 PRIVATE CONSUMPTION HAS STABILISED AND MAY EVEN HAVE DECREASED SLIGHTLY, INSEE CONTINUE TO PREDICT A MODEST INCREASE IN INVESTMENT BY COMPANIES FOR THE WHOLE YEAR. IN PARTICULAR THE PROSPECTS FOR A MUCH NEEDED INCREASE IN INVESTMENT IN MANUFACTURING ARE POOR. WHOLESALERS REPORT A MARKED DECREASE IN SALES OF CAPITAL GOODS SINCE THE BEGINNING OF THE YEAR AND SEE LITTLE CHANCE OF AN IMPROVEMENT IN THE COMING MONTHS.

5. MEANWHILE UNEMPLOYMENT HAS CONTINUED TO RISE STEADILY AND REACHED 2,675,900 S.A. IN MARCH, 11.1 PERCENT OF THE LABOUR FORCE. THE FRENCH UNEMPLOYMENT RATE HAS THEREFORE OVERTAKEN BRITAIN'S (11.0 PERCENT IN MARCH). INSEE PREDICT THAT ON PRESENT POLICIES UNEMPLOYMENT WILL RISE TO AROUND 2.85 MILLION BY DECEMBER, BUT THE GOVERNMENT IS LIKELY TO INTRODUCE ADDITIONAL MEASURES WHICH WILL AT LEAST SLOW THIS RISE.

6. THE ANNUAL RATE OF INFLATION (CHANGE DURING 12 MONTHS) FELL FROM 3.4 PERCENT IN FEBRUARY TO 3.3 PERCENT IN MARCH AND IN PUBLIC THE GOVERNMENT IS STICKING TO ITS TARGET OF 2.4 PERCENT FOR 1987. BUT ITS SENIOR DOMESTIC FORECASTER TOLD US IN CONFIDENCE YESTERDAY THAT THEY ACCEPT THAT THE FIGURE OF 3.5 PERCENT PREDICTED BY INSEE IS PLAUSIBLE. THE FIGURE JUST ANNOUNCED FOR APRIL, 005 PERCENT, IS BAD.

7. TO ADD TO THE GOVERNMENT'S WORRIES THE SPECTRE OF YET ANOTHER RUN ON THE FRANC RAISED ITS HEAD IN THE WEEK ENDING 8 MAY WHEN THE BANK OF FRANCE HAD TO INTERVENE TEMPORARILY IN THE MONEY MARKETS TO SUPPORT THE FRANC AGAINST THE MARK.

8. BALLADUR CONTINUES TO RESIST PRESSURE FOR A BOOST TO THE ECONOMY. BY DETERRING INSEE FROM PUBLISHING THE FIGURE OF 1 PERCENT AS ITS FORECAST FOR GROWTH HE WILL HAVE MINIMISED THE POLITICAL PRESSURE ON HIM. IT WILL TAKE FAR MORE PRESSURE THAN WE HAVE SEEN SO FAR TO MAKE HIM SHIFT HIS STANCE TO ANY MAJOR EXTENT. HIS FORECASTERS HAVE TOLD US HE IS DRAWING ENCOURAGEMENT AND STRENGTH FROM THE GROWING EVIDENCE THAT VIRTUE IS BEING REWARDED BY SUCCESS IN THE UK. (OUR EFFORTS TO ACHIEVE RECOGNITION OF THIS SUCCESS HAVE QUITE SUDENLY BEGUN TO BEAR FRUIT AND ECONOMIC JOURNALISTS ARE SHOWING A NEW READINESS TO REFLECT DIRECTLY OUR BRIEFING IN WHAT THEY WRITE.) MEANWHILE THE GOVERNMENT IS STILL TRYING TO GET PUBLIC OPINION TO FORGET ITS EARLIER PROMISES OF QUICK ECONOMIC RESULTS AND THINK IN TERMS OF A LONG HAUL TO PUT THE ECONOMY RIGHT IN TIME FOR THE SINGLE EC MARKET IN 1992.

FRETWELL

YYYY

FCO PLEASE PASS SAVING ADDRESSEES
PCLNAN 9096

FINANCIAL
WED
ERD

(REPEATED AS REQUESTED)

RESTRICTED

SAVING TELEGRAM

SAVING TELEGRAM
UNCLASSIFIED [CULL]
FRAME ECONOMIC
FROM PARIS SAVING TELNO 15 OF 19 MAY 1987
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 APRIL 1987

SUMMARY

1. The economy is looking increasingly dreary. GDP growth is sluggish, the balance of trade is deteriorating, unemployment is increasing steadily and the annual rate of inflation is running well above the Goverment's target rate.

2. Three forecasts published in April predict GDP growth of only between 1.4% and 1.7% in 1987. Figures publshed by INSEE show that although marketed GDP grew by 2.0% in 1986, a third of this is due to stockbuilding.

3. The foreign trade figures for Q1 are poor and a return to deficit for 1987 as a whole seems likely. The relentless decline in the balance on manufactured goods has continued.

4. The steady rise in unemployment has continued and reached 2,675,400sa in March, 11.1% of the labour force, thus overtaking Britain's rate, which fell to 11.0%.

5. The annual rate of inflation stabilised at around 3.4% significantly above the Government's target for 1987 of 2.4%.

6. The Government will publish a plan for a further staged reduction on taxation and the budget deficit for 1989-91.

/INDEX

INDEX

	Paragraph Numbers
Summary	1 - 6
Economic Activity	
National Accounts figures for 1986	7 - 9
Investment prospects	10 - 14
Industrial Production	15 - 21
New Government spending in Lorraine on infrastructure	22
Company bankruptcies	23
Company creation	24
Consumption by households	25
Labour Market	
Unemployment	26 - 27
Job creations and losses	28
Inflation	29 - 30
Trade	
Balance of Trade	31 - 38
Financial Development	
Exchange Rates	39 - 40
Stock Exchange	41
Money supply	42
Fiscal Policy	43 - 48
Assessment of Economic Prospects	
Forecasts for the Economy	49 - 52
Likely receipts from the Government's privatisation programme	53

Annexes

1 Economic Activity
2 Labour Market
3 Prices and Earnings
4 Monetary Indicators
5 Trade
6 Trade
7 France: Trade with UK

IDETAIL.