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THE FRENCH ECONOMY

SUMMARY

1. THE ECONOMY LOOKS BETTER AS THE YEAR ENDS THAN IT HAS FOR SEVERAL MONTHS DESPITE THE STOCK MARKET SLUMP. GDP HAS GROWN FASTER THAN EXPECTED (1987 OUTTURN AROUND 2 PERCENT), INFLATION IS STABLE AT 3 PERCENT AND UNEMPLOYMENT DOWN SLIGHTLY TO 10.4 PERCENT, THOUGH THE UNDERLYING TREND MAY STILL BE UP. BUSINESS CONFIDENCE IS HOLDING UP, BUT FOREIGN TRADE PERFORMANCE REMAINS POOR, PARTICULARLY IN MANUFACTURED GOODS. A BETTER THAN EXPECTED ENTRY TO ELECTION YEAR, THEREFORE, BUT ROCKS NEVER FAR BELOW THE SURFACE.

DETAIL

2. MARKETED GDP NOW SEEMS LIKELY TO GROW BY 2.0 PERCENT OR POSSIBLY A LITTLE MORE IN 1987 FOLLOWING STRONGER THAN EXPECTED GROWTH IN THE SECOND AND THIRD QUARTERS. THIS CONTRASTS WITH INSEE'S JULY PREDICTION OF 1.3 PERCENT AND THE GOVERNMENT'S DOWNWARD REVISION IN SEPTEMBER TO 1.5 PERCENT.

3. THE MAIN EXPLANATION SEEMS TO BE BUOYANT HOUSEHOLD CONSUMPTION, WHICH INSTEAD OF STABILISING OR FAILING IN THE THIRD QUARTER AS EXPECTED, WAS MAINTAINED BY DRAWING DOWN SAVINGS AND INCREASING BORROWING (A RELATIVELY NEW DEVELOPMENT IN FRANCE). A RECENT INSEE SURVEY SUGGESTS THAT HOUSEHOLDS INTEND TO MAINTAIN CONSUMPTION LEVELS INTO NEXT YEAR. EQUALLY ENCOURAGING FOR THE GOVERNMENT, BUSINESS CONFIDENCE SEEMS TO BE HOLDING UP AFTER THE STOCK MARKET SLUMP TOO. INDUSTRIALISTS REPLYING TO INSEE'S NOVEMBER SURVEYS PREDICT THAT OUTPUT WILL CONTINUE TO INCREASE, ALTHOUGH AT A REDUCED RATE, UP TO THE END OF THE YEAR AND THEY REPORT PLANS TO INCREASE INVESTMENT NEXT YEAR BY AT LEAST AND POSSIBLY MORE THAN A PREDICTED 3 PERCENT TO 4 PERCENT INCREASE IN 1987.

4. THE GOVERNMENT CAN ALSO TAKE COMFORT FROM THE INFLATION AND EMPLOYMENT FIGURES. INFLATION HAS REMAINED STABLE AT AN ANNUAL RATE OF A LITTLE OVER 3 PERCENT SINCE THE SPRING (3.2 PERCENT IN OCTOBER) FOLLOWING A SURGE FROM 2.1 PERCENT AT THE END OF 1986 AS A RESULT OF

THE REMOVAL OF THE REMAINING PRICE CONTROLS. THE ANNUAL FIGURES SHOULD IMPROVE FURTHER IN FEBRUARY WHEN THE HIGH - 0.9 PERCENT - JANUARY 1987 FIGURE DROPS OUT OF THE INDEX. A STEADY INCREASE IN UNEMPLOYMENT WAS HALTED AT THE BEGINNING OF THIS YEAR, AND RECENT MONTHS HAVE SHOWN A FALL (FROM 2.68 MILLION IN MARCH - 10.7 PERCENT - TO 2.57 MILLION - 10.4 PERCENT - IN OCTOBER). BUT SPECIAL MEASURES HAVE PLAYED AN IMPORTANT PART IN CONOIRGJXIXLNSIPJ
DAS, AND THE
UNDERLYING TREND IS PROBABLY STILL UPWARDS.

5. THE FOREIGN TRADE PERFORMANCE, PARTICULARLY IN MANUFACTURED GOODS, REMAINS POOR HOWEVER. THERE IS A DEFICIT FOR THE FIRST ELEVEN MONTHS OF 1987 OF F31.2 BILLION AND THERE WILL ALMOST CERTAINLY BE A MANUFACTURED GOODS DEFICIT FOR THE FIRST TIME FOR MANY YEARS. AN EQUIVALENT OR LARGER DEFICIT FOR 1988 SEEMS LIKELY.

6. THE POOR PERFORMANCE OF MANUFACTURING INDUSTRY IS SATISFYING INTERNAL DEMAND AND IN COMPETING ABROAD CONTINES TO LEAD TO CALLS ON THE GOVERNMENT ARTIFICIALLY TO STIMILATE INVESTMENT. BALLADUR CONTINUES TO REJECT SUCH DEMANDS ARGUING THAT TAX CUTS ALREADY ANNOUNCED PLUS SUPPLY SIDE MEASURES TO LIBERALISE AND DEREGULATE THE ECONOMY SHOULD BE A SUFFICIENT INCENTIVE FOR BUSINESS. IMPROVEMENTS IN EXPORT ORDER BOOKS SUGGEST THESE MEASURES MAY BE BEGINNING TO WORK THROUGH. BALLADUR HAS, HOWEVER, RECENTLY ANNOUNCED THE INTRODUCTION OF TAX CONCESSIONS ON DEPRECIATION OF PLANT AND EQUIPMENT AND FOR FRENCH COMPANIES SETTING UP ABROAD.

7. THE GOVERNFMENT WILL THEREFORE GO INTO ELECTION YEAR IN BETTER SHAPE THAN HAD SEEMED LIKELY A FEW WEEKS AGO. THEY WILL WANT TO AVOID ANY FURTHER SHOCKS TO THE SYSTEM BETWEEN NOW AND THES PRING, AND IF POSSIBLE, TO RESUME THE PRIVATISATION PROGRAMME INTERRUPTED BY THE STOCK MARKET SLUMP. BUT THE ECONOMY, DESPITE THE RECENT IMPROVEMENT, REMAINS FRAGILE. FURTHER STOCK MARKET FALLS COULD DENT CONFIDENCE, AND A FURTHER FALL IN THE DOLLAR FACE THE GOVERNFMENT WITH THE NASTY CHOICE BETWEEN COSTLY MEASURES TO SUPPORT THE FRANC AGAINST THE MARK OR A POLITICALLY DAMAGING EMS REALIGNMENT. THE GOVERNMENT WILL NOT WELCOME A GLOOMY INSEE REPORT PUBLISHED TODAY WICH FORCAST A SLOWING OF GDP GROWTH IN THE FIRST SIX MONTHS OF NEXT YEAR.

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