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THE FRENCH ECONOMY

SUMMARY

1. AN UNEVEN PERFORMANCE IN 1987 GIVES WAY TO UNCERTAINTY FOR 1988, WITH LITTLE ROOM FOR MANOEUVER FOR THE GOVERNMENT. A FEW GIMMICKS PERHAPS AS THE SPRING PRESIDENTIAL ELECTIONS APPROACH.

DETIAL

2. 1987 WAS AN UNEVEN YEAR FOR THE FRENCH ECONOMY. GDP GREW BY AROUND 2.0 PERCENT, MUCH THE SAME AS IN 1986, AND WELL ABOVE THE MID-YEAR FORECAST OF AROUND 1.3 PERCENT. BUT IT WAS PATCHY, ALMOST NIL GROWTH IN THE FIRST AND LAST QUARTER SANDWICHING A MID-YEAR SURGE DUE LARGELY TO A RISE IN CONSUMER EXPENDITURE AND TO STOCK BUILDING. INVESTMENT CONTRIBUTED ONLY MODESTLY TO GROWTH, AND THE EFFECT OF THE EXTERNAL BALANCE WAS NEGATIVE. MANUFACTURING INDUSTRY LOST MARKET SHARE AT HOME AND ABROAD, AND THE BALANCE OF TRADE DETERIORATED.

3. INFLATION ON THE OTHER HAND REMAINED PRETTY WELL UNDER CONTROL AT 3.1 PERCENT FOR THE YEAR AS A WHOLE, AND UNEMPLOYMENT HAS FALLEN SINCE MARCH, REACHING 2.5 MILLION (10.4 PERCENT) IN NOVEMBER, THE LOWEST FIGURE FOR A YEAR.

4. THE STOCK MARKET SLUMP WAS THOROUGHLY UNWELCOME TO THE GOVERNMENT, CAUSING THE SUSPENSION OF THE AMBITIOUS, POPULAR AND, IN REVENUE TERMS, LUCRATIVE PRIVATISATION PROGRAMME (NOW TO BE RESUMED WITH THE SALE OF SHARES IN MATRA: OUR TELNO 74), PUTTING FURTHER PRESSURE ON THE FRANC WITHIN THE EMS, AND FURTHER WEAKENING THE ALREADY UNCERTAIN PROSPECTS FOR THE FRENCH ECONOMY IN 1988.

5. THE ECONOMIC OUTLOOK FOR 1988 REMAINS UNCERTAIN. INSEE PREDICT THAT THE SLOWING OF GROWTH AT THE END OF 1987 WILL CONTINUE INTO 1988, AND FORECAST A FIRST HALF GDP GROWTH OF ONLY 0.3 PERCENT OVER THE SECOND HALF OF 1987. THEY EXPECT A CONTINUED SLOWING OF HOUSEHOLD CONSUMPTION AND A WEAK BALANCE OF PAYMENTS TO OUTWEIGH THE MORE POSITIVE EFFECTS OF FURTHER STOCK BUILDING AND SOME PICK UP IN INVESTMENT. INSEE ARE COUTIOUS ABOUT THE AFTER EFFECT OF THE STOCK

MARKET SLUMP, WHICH THEY CLAIM IT IS STILL TOO EARLY TO PREDICT. (BUSINESS CONFIDENCE REMAINS GOOD, BUT ANECODOTAL EVIDENCE FROM BANKS SUGGEST THAT SOME COMPANIES AT LEAST ARE POSTPONING INVESTMENT DECISIONS.) THE BOURSE PICKED UP AFTER LAST WEEK'S BETTER THAN EXPECTED US TRADE FIGURES, BUT DEALING HAS BEEN THIN AND THE ATMOSPHERE GLOOMY. (THE MATRA SALE WILL BE A TEST). INFLATION MAY BEGIN TO RISE SHORTLY ON A SIX-MONTH BASIS, BUT THE YEAR ON YEAR FIGURES SHOULD IMPROVE NEXT MONTH AS THE BAD JANUARY 1987 FIGURES DROP OUT OF THE INDEX. THE GOVERNMENT WILL DO ALL IT CAN TO KEEP UNEMPLOYMENT CONSTANT OR FALLING UNTIL THE SPRING ELECTIONS, BUT A RISE THEREAFTER SEEMS LIKELY AS THE EFFECTS OF SPECIAL MEASURES TAKEN IN 19897 WEAR OFF.

6. BALLADUR MUST FEEL A BIT BOXED IN. THERE WILL CONTINUE TO BE PRESSURE ON HIM TO STIMULATE THE ECONOMY TO COUNTER THE EFFECTS OF A WORLDWIDE SLOWING OF GROWTH THIS YEAR AND NEXT, BUT HE WILL FEAR THE EFFECTS OF SUCH A COURSE ON IMPORTS, INFLATION AND THE FRANC. WITH OR WITHOUT THE COMPLICATING FACTOR OR THE ELECTION, HE MAY THEREFORE FEEL HE HAS LITTLE CHOICE BUT TO CONTINUE WITH PRESENT POLICIES OF CONTAINING POUBLIC EXPENDITURE AND REDUCING TAXES, COMBINED WITH MEASURES TO LIBERALISE THE ECONOMY AND TO BOOST INDUSTRIAL COMPETITIVENESS. HE WILL HOPE THAT THE ECONOMY RESPONDS MORE QUICKLY TO SUCH SUPPLY SIDE MEASURES OVER THE MONTHS AHEAD THAN IN THE RECENT PAST, AND THAT AS THE ELECTION APPROACHES THE GOVERNMENT'S RECORD WILL STAND ON ITS OWN. HE AND CHIRAC WILL BE ABLE TO STRESS THE GOOD INFLATION FIGURES, THE CUTS IN THE BUDGET DEFICIT AND IN TAXES, AND WILL NO DOUBT ARGUE THAT ONLY THEY CAN BE RELIED ON TO TAKE THE TOUGH MEASURES NEEDED TO MAKE FRENCH INDUSTRY COMPETITIVE BY 1992.

7. BUT THERE WILL NO DOUBT BE A SEARCH FOR EYE-CATCHING GIMICKS TOO. CHIRAC'S AND BALLADUR'S APPARENT ENTHUSIASM FOR A EUROPEAN CENTRAL BANK MAY FALL INTO THIS CATEGORY, WITH THE TRESOR STRESSING THAT BALLADUR IS ONLY PROPOSING A STUDY - AND WITHOUT COMMITMENT, AND WITH THE OTHER ELEMENTS IN BALLADUR'S MEMORANDUM TO EC FINANCE MINISTERS REFLECTING WELL-KNOWN FRENCH VIEWS ABOUT THE NEED FOR FURTHER EMS REFORM: WITH AN EMS REALIGNMENT REMAINING AN EVER PRESENT FEAR. ON THE OTHER HAND, THE PROPOSAL IS FIRMLY ON THE TABLE AND TO THAT FEXTENT THE FRENCH WILL EXPECT US TO TAKE IT SERIOUSLY

FERGUSSON

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