SAVING TELEGRAM
UNCLASSIFIED
FRAME ECONOMIC
FROM PARIS SAVING TELNO 13 OF 17 MARCH 1988
TO FCO
REPEATED FOR INFORMATION TO: BONN, BRUSSELS, DUBLIN, THE HAGUE
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CONSULATES GENERAL FRANCE

FRANCE: ECONOMIC REPORT FOR FEBRUARY 1988

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SUMMARY

1. Consumption by households remains buoyant. The official estimate for 1987 Q4 has been revised upwards slightly to an increase of 0.7% and the signs are that in January it gathered pace. Although INSEE forecasts a gradual stabilisation there is still plenty of scope for households to compensate for modest wage increases and increase spending significantly by continuing to draw on savings and by borrowing.

2. Industrial production continues to increase, but industrialists probably underestimated the strength of consumer spending in 1987 H2 and lost market shares in France to foreign competitors. This is in spite of the ending at the beginning of 1987 of a steady deterioration in the competitivity of French goods. In contrast French exporters of manufactured goods halted a steady decline in foreign market shares and made some gains in 1987 H2

and February
3. Inflation fell to 2.4% in January/and the underlying trend is even better.

4. The fall in unemployment between March and November has given way to a gradual increase. There were 2,577,800 unemployed sa in January (10.4%). The impact of special measures taken last year is wearing off.

5. The government has announced a tightening of the rules on takeover bids and a closer surveillance of the financial futures market (MATIF). It has announced that fixed commissions on the Bourse will be abolished as from 30 June 1989.

£12bn.
6. The budget deficit in 1987 was F120 billion, lower than the budget estimate of F129.4 billion.

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THE FRENCH ECONOMY

SUMMARY

1. THE MODEST IMPROVEMENT IN THE ECONOMY CONTINUES, THOUGH UNEMPLOYMENT IS MOVING UP AGAIN AND THE FRANC HAS THE JITTERS. CHIRAC AND BARRE FENCE WITH EACH OTHER, SEEKING TO PERSUADE THE ELECTORATE THERE IS MORE BETWEEN THEIR ECONOMIC POLICIES THAN THERE REALLY IS, WHILE WAITING FOR MITTERRAND TO DECLARE HIS CANDIDATURE. SAVE IN RHETORIC, AND IN THE PACE OF PRIVATISATION, MITTERRAND'S POLICIES ARE THEMSELVES UNLIKELY TO DIFFER GREATLY FROM THOSE OF THE RIGHT WING CANDIDATES.

DETAIL

2. LATEST INDICATORS SUGGEST THAT THE IMPROVEMENT IN THE FRENCH ECONOMY APPARENT SINCE THE LAST QUARTER OF 1987 IS CONTINUING. CONTRARY TO MARKET EXPECTATIONS THE DELAYED JANUARY TRADE FIGURES (CURRENT ACCOUNT DEFICIT OF F0.6 BN) WERE AN IMPROVEMENT OVER DECEMBER (F0.9 BN) AND OVER 1987 AS A WHOLE, HELPED BY LOW ENERGY IMPORTS IN A MILD WINTER AND BY GOOD AGRO-FOOD EXPORT FIGURES. THE ANNUAL RATE OF INFLATION FELL FROM 3.1 PER CENT IN DECEMBER TO 2.4 PER CENT IN JANUARY. THE LATEST SURVEY OF INVESTMENT INDICATIONS SUGGEST THAT INDUSTRIAL INVESTMENT MAY, IN REAL TERMS, GROW SLIGHTLY FASTER THAN LAST YEAR'S FIGURE OF 4 - 5 PER CENT. INSEE HAVE REVISED UPWARDS THEIR ESTIMATE OF THE RISE IN HOUSEHOLD CONSUMPTION IN THE 4TH QUARTER OF 1987 FROM 0.4 TO 0.7 PER CENT, AND HOUSEHOLD CONSUMPTION CONTINUES TO BE STRONG, WITH NEW CAR REGISTRATIONS UP 11 PER CENT IN JANUARY AND SALES OF CONSUMER GOODS UP 10 PER CENT. WITH A SAVINGS RATIO STILL ABOVE THE G7 AVERAGE, AND HOUSEHOLD BORROWING LOW, THERE SEEMS FURTHER SCOPE FOR CREDIT LED GROWTH IN HOUSEHOLD CONSUMPTION.

3. THE BOURSE PERKED UP IN FEBRUARY AS THE MARKET REALISED THAT A NUMBER OF ATTRACTIVE COMPANIES WERE VULNERABLE TO TAKE OVER BIDS. SHARES IN THESE COMPANIES ROSE, TAKING THE INDEX UP WITH THEM. BALLADUR WILL HAVE BEEN PLEASED THAT THE INDEX OF PRIVATISED COMPANIES MOVED ABOVE PAR IN FEBRUARY FOR THE FIRST TIME SINCE THE

OCTOBER SLUMP. BUT HE IS CLEARLY UNEASY, AT LEAST DURING AN ELECTION PERIOD, ABOUT THE CURRENT WAVE OF TAKEOVERS, PARTICULARLY BY FOREIGN COMPANIES, AS HIS ATTEMPTS TO BLOCK THE PEARSON PURCHASE OF LES ECHOS SHOW. IN A FURTHER MOVE TO MODERNISE THE BOURSE THE GOVERNMENT HAVE ANNOUNCED THAT FIXED COMMISSIONS WILL BE ABOLISHED FROM 30 JUNE 1989.

4. ON THE DOWN SIDE, UNEMPLOYMENT HAS RISEN SLIGHTLY IN RECENT MONTHS TO 2.58 MILLION (10.4 PER CENT), AS THE EFFECT OF SPECIAL MEASURES TAKEN LAST YEAR WEARS OFF MORE QUICKLY THAN EXPECTED. EQUALLY WORRYING FOR THE GOVERNMENT, ELECTORAL UNCERTAINTY IS NOW AFFECTING THE FRANC/MARK PARITY, WITH THE FRANC WEAKENING NOTICEABLY ON 10 MARCH. BANK OF FRANCE CONTACTS ASCRIBE THIS PRIVATELY TO (UNWORTHY) SPECULATION ABOUT A POSSIBLE REALIGNMENT AFTER THE PRESIDENTIAL ELECTIONS, AND DISCOUNT ANY SIGNIFICANT LINK WITH THE CURRENT STRENGTH OF THE POUND STERLING. THE AUTHORITIES WILL AWAIT NEXT WEEK'S US TRADE FIGURES ANXIOUSLY, FOR FEAR THAT A FALL IN THE DOLLAR COULD PUT FURTHER PRESSURE ON THE FRANC. THE LAST THING THAT THE GOVERNMENT WILL WANT IS PRESSURE FOR AN EMS REALIGNMENT BETWEEN NOW AND THE ELECTIONS.

THE ECONOMY IN THE ELECTION CAMPAIGN.

5. IN THE ABSENCE OF UNEXPECTED SHOCKS, AND WITH THE EXCEPTION OF UNEMPLOYMENT, THE CURRENT ECONOMIC SCENE LOOKS BETTER THAN SEEMED LIKELY A FEW MONTHS AGO. CHIRAC AND BALLADUR WILL NOT, HOWEVER, HAVE AN ALTOGETHER EASY RIDE WHEN THE ELECTION DEBATE HOTS UP ABOUT THE PRESENT GOVERNMENT'S ECONOMIC RECORD. THEY WILL BE ABLE TO POINT TO A GREATER THAN FORECAST FALL IN THE BUDGET DEFICIT, TAX CUTS (THOUGH TAX AND SOCIAL SECURITY CONTRIBUTIONS COMBINED ROSE SLIGHTLY IN 1987 AS A PERCENTAGE OF GDP), DEREGULATION, THE LIFTING OF PRICE AND EXCHANGE CONTROLS AND PRIVATIZATION AS SUCCESSFUL AND NECESSARY FIRST STEPS ON THE ROAD TO A COMPETITIVE FRANCE BY 1992. BUT MITTERRAND (DIRECTLY) AND BARRE (MORE ALLUSIVELY, SO AS NOT TO CONTRAVENE THE PACT THAT HE AND CHIRAC WILL NOT OPENLY ATTACK ONE ANOTHER) WILL BOTH MAKE MUCH OF THE RELATIVELY LOW GROWTH RATE (2.1 PER CENT IN 1986 AND 1987), RISING UNEMPLOYMENT AND THE ALLEGATIONS THAT IN PUBLIC APPOINTMENTS AND IN PUTTING TOGETHER THE HARD CORE OF PRIVATIZED COMPANIES, THE RPR HAVE FAVOURED THEIR OWN MEN. THE SOCIALISTS WILL PREDICTABLY MAKE MUCH OF THE ABOLITION OF THE WEALTH TAX, AS REINFORCING THEIR VIEW OF CHIRAC'S SECTIONAL INTEREST AND CONTRADICTING HIS EFFORTS TO PUT ACROSS AN IMAGE OF BROAD NATIONAL APPEAL.

6. MEANWHILE, THE CAMPAIGN IS STILL HANGING FIRE, A GAME OF TENNIS

WITH NO BALL. MITTERRAND IS AHEAD IN THE POLLS BUT SILENT, AND BARRE AND CHIRAC SEEKING TO PERSUADE A SCEPTICAL ELECTORATE THAT THEIR ECONOMIC POLICIES DIFFER FROM EACH OTHER. BARRE ARGUES THAT INVESTMENT INCENTIVES, COMBINED WITH FISCAL REFORM AND AN EMPHASIS ON EDUCATION AND TRAINING, ARE ESSENTIAL TO LIFT THE ECONOMY ON TO A HIGHER GROWTH PATH (3 TO 4 PER CENT): BUT HIS POLICIES ARE UNLIKELY TO DIFFER GREATLY FROM THOSE OF CHIRAC AND BALLADUR. SO INDEED ARE MITTERRAND'S, SAVE IN ONE OR TWO RESPECTS, SUCH AS THE PACE OF PRIVATISATION: THOUGH THE RHETORIC WILL BE DIFFERENT, WITH MUCH EMPHASIS ON SOCIAL JUSTICE. CHIRAC AND BARRE ARE BOTH STRIVING TO RESURRECT MEMORIES OF THE DISASTROUS EARLIER MITTERRAND YEARS, BUT NO-ONE REALLY BELIEVES THAT A RETURN TO THOSE POLICIES IS LIKELY.

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