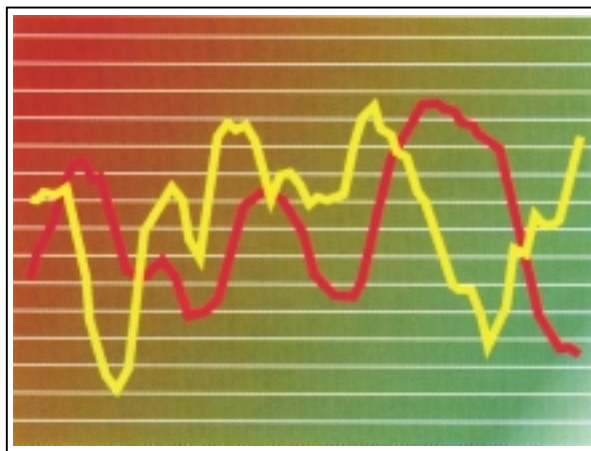


CONJONCTURE IN FRANCE

DECEMBER 2000



STABILISED GROWTH

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STABILISED GROWTH

The French economy pursued its expansion in 2000, with GDP growing by 3.2%. Two components of demand were particularly dynamic: exports, which benefited from strong world demand and a competitiveness situation that was highly favourable to the European economies; and investment, stimulated by the emergence of supply-side constraints. The latter may have temporarily curbed the expansion in activity and encouraged the exceptional growth in imports. The new element in the evolution of the economy has been the emergence since the spring of a slowdown in household consumption. This reflects the drain on purchasing power exerted by the rise in inflation due to the oil shock and the fall in the euro. Similar tendencies are to be seen in France's European neighbours.

The start of 2001 finds the euro zone's international environment slightly less buoyant. Growth has levelled off in the emerging countries, the oil producers are being cautious in the recycling of their income and, above all, the American economy is rapidly running out of steam. The downturn in world demand in 2001 will mean less rapid export growth for the euro zone. This phenomenon would intensify if the American "landing" were to mean a sharp rise in the euro versus the dollar. How-

ever, the downturn in external demand would be offset by a steady improvement in household consumption in the zone, partly because most countries have adopted programmes of tax reductions in 2001. At the same time, inflation should moderate, thanks to first a stabilisation and then a fall in the oil price in the spring, linked to the levelling off in world activity.

In France, the conditions are particularly favourable for a revival of consumption. Tax cuts will occur quite early. The continuing strong growth in employment is boosting earned income and underpinning household confidence. It is expected that 230,000 jobs will be created in H1 2001, compared with 560,000 in 2000, enabling the unemployment rate to fall to 8.7% in mid-year. Inflation, still somewhat below the euro-zone average, should ease back to 1.6% by June 2001. The acceleration in consumption would bolster business leaders' expectations. Investment is set to remain strong, given that supply-side pressures are still easing only slightly. Despite the fact that the contribution from external trade is now negative, and in the assumed absence of a major decline in American activity that would affect business expectations, growth is expected to continue to be at a rate of close to 3%.

The euro zone's international environment starting to weaken

World economic activity peaked in Q2 2000, before starting to weaken in the second half of the year. The Southeast Asian countries have now completed their exit from the crisis, but domestic demand has not entirely taken up the running from exports, while restructuring is still incomplete. In the major Western countries, the impact of past monetary tightening is starting to be felt. Above all, the virtually uninterrupted rise in the oil price since mid-1999 is leaving its mark on world activity.

The United States economy began to slow down in H2 2000. The rise in interest rates since last year has adversely affected the building sector. Disappointments over profits and the correction seen in the prices of new-technology stocks have held back investment, which had admittedly been growing at an exceptionally high rate for several years. At the same time, gains in household purchasing power have been eroded by the oil shock, with consumption growth falling from an annual rate of 5% in H1 to 3.5% in H2.

Household spending curbed by the oil levy

Activity in the euro zone, too, has slowed down since the summer, with the rise in the oil price bringing the growth rate back below 3% a year, having been 3.5% in H1. The main impact of the oil shock has taken the form of a slowdown in household consumption, with the rise in the dollar price, amplified by the depreciation in the euro, pushing inflation up and cutting into the rise in the purchasing power of income. However, with the slowdown in world activity only gradual, exports from the euro zone have remained very buoyant, benefiting from the competitiveness gains linked to the depreciation of the exchange rate in previous quarters. In addition, the severe pressures on productive capacity and the continuing favourable financing conditions have combined to keep investment rising at a firm rate.

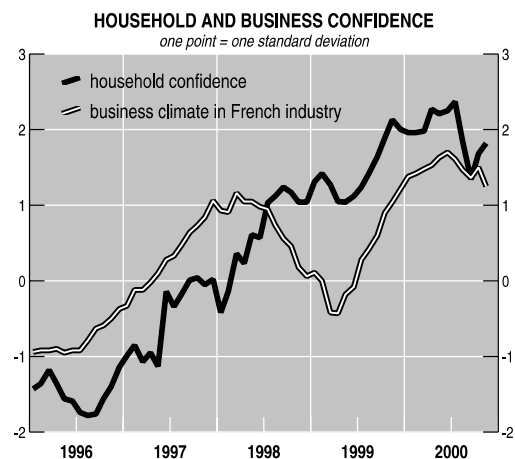
In France, as in the euro zone in general, the liveliness of consumption, which has now lasted virtually without interruption since the end of 1997, has weakened considerably under the impact of the surge in the price of petroleum products. Spending on energy was directly affected, falling in both Q2 and Q3. Households have reacted to the price rise by delaying purchases of heating oil



and reducing their consumption of motor fuels. In addition, the inflation induced by the oil shock has had an impact on purchasing power, with spending on manufactures slowing down appreciably during the year.

Company earnings have also felt the oil shock. If the energy branch is excluded, corporate margins have in fact deteriorated: the cost of inputs has increased, without this being passed on into the totality of selling prices. Wage growth, meanwhile, although accelerating slightly in the second half of the year, has remained restrained.

In all, overall demand, despite slowing down slightly, has remained firm and business expectations remain positive. The investment effort has continued in H2, especially as there had been difficulties in meeting demand in the early part of the year. The capacity utilisation rate reached a historic high and the duration of plant use has lengthened considerably. Against the background of the generalisation of the 35-hour week in establishments with more than 20 employees in H1, it could well be that these pressures contributed to the sharp rise in imports, especially early in the year.



CORPORATE PROFIT MARGINS

Despite the rise in the prices of oil and imported raw materials, firms managed to maintain their profit margins in 2000, with an average increase of 0.3 of a point for all firms combined.

However, there was a fall of 0.5 of a point if firms in the energy sector are excluded. This means that the overall evolution masks two different types of behaviour in reaction to the oil shock. Energy-producing firms raised their prices and improved their margins, while the energy-consuming branches did not pass on into their selling prices the rise in the cost of inputs and their margins narrowed accordingly.

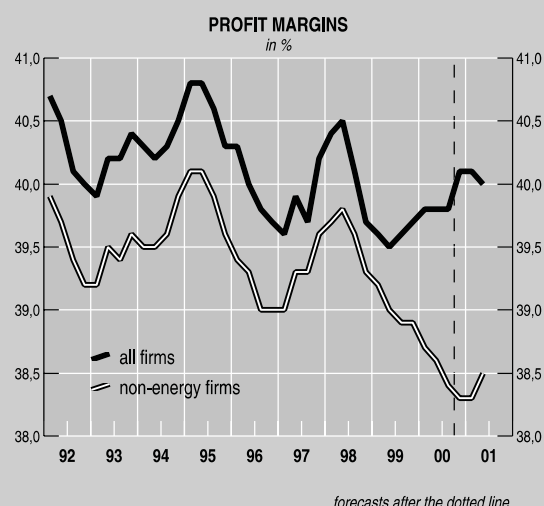
The cost of inputs rose strongly between Q2 1999 and Q3 2000, contributing roughly 1 percentage point a year to the fall in the average profit margin. However, starting in Q4 2000, the price of inputs seems to have slowed down, thanks to the stabilisation of commodity prices and the recovery in the euro, thus practically eliminating the contribution to the evolution in profit margins.

The graph on the opposite page shows the evolution in the profit margins for all firms, including and excluding energy-producers. The divergence in the two series occurred in Q2 1999, with the non-energy firms' margins continuing to narrow, whereas those of the energy branch have risen.

Firms in the energy sector and those with a production process closely dependent on it, such as intermediate goods and construction, passed the rise in their costs into their producer prices, but other firms did not. This difference in price behaviour explains most of the gap seen in terms of corporate earnings.

This is because other determinants of the profit margin moved in similar fashion in all sectors. The contribution of productivity to the evolution in the profit ratio is small for all firms. At the same time, nominal wage growth remained

moderate in all sectors, while most of the large firms benefited from the reductions in employers' social contributions linked to the introduction of shorter working hours at the beginning of the year 2000. ■



BREAKDOWN OF PROFIT MARGIN OF SNFEI⁽¹⁾

(% change t/t-1, adjusted for seasonal variations and number of working days)

| | 1999 | | | | 2000 | | | | 2001 | | 1999 | 2000 |
|---|------|------|------|------|------|------|------|------|------|------|------|------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | |
| Profit margin (%) | 39.6 | 39.5 | 39.6 | 39.7 | 39.8 | 39.8 | 39.8 | 40.1 | 40.1 | 40.0 | 39.6 | 39.9 |
| Variation in the profit margin | -0.1 | -0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.3 | 0.0 | -0.1 | -0.6 | 0.3 |
| Contributions to the variation in the profit margin | | | | | | | | | | | | |
| Productivity (+) | 0.1 | 0.1 | 0.3 | 0.4 | -0.1 | 0.0 | 0.1 | 0.0 | 0.1 | 0.1 | 0.5 | 0.4 |
| Cost of inputs (-) | 0.0 | 0.2 | 0.4 | 0.3 | 0.4 | 0.3 | 0.2 | 0.1 | 0.1 | -0.1 | 0.3 | 1.2 |
| Real wages (-) | 0.4 | -0.1 | -0.2 | 0.0 | -0.6 | -0.2 | -0.2 | -0.2 | 0.1 | 0.2 | 1.0 | -1.0 |
| Others elements (+) | 0.2 | -0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 | 0.2 | 0.1 |

BREAKDOWN OF PROFIT MARGIN OF SNFEI⁽¹⁾ EXCLUDING ENERGY

(% change t/t-1, adjusted for seasonal variations and number of working days)

| | 1999 | | | | 2000 | | | | 2001 | | 1999 | 2000 |
|---|------|------|------|------|------|------|------|------|------|------|------|------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | |
| Profit margin (%) | 39.2 | 39.0 | 38.9 | 38.9 | 38.7 | 38.6 | 38.4 | 38.3 | 38.3 | 38.5 | 39.0 | 38.5 |
| Variation in the profit margin | -0.1 | -0.2 | -0.1 | -0.1 | -0.2 | -0.1 | -0.2 | -0.1 | 0.0 | 0.2 | -0.6 | -0.5 |
| Contributions to the variation in the profit margin | | | | | | | | | | | | |
| Productivity (+) | 0.1 | 0.1 | 0.3 | 0.4 | -0.1 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.6 | 0.4 |
| Cost of inputs (-) | 0.0 | 0.2 | 0.4 | 0.3 | 0.4 | 0.4 | 0.3 | 0.2 | 0.1 | -0.2 | 0.3 | 1.5 |
| Real wages (-) | 0.4 | 0.1 | 0.0 | 0.2 | -0.4 | -0.2 | 0.0 | 0.0 | 0.0 | 0.1 | 1.0 | -0.4 |
| Others elements (+) | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | -0.2 | 0.1 | 0.1 | 0.0 | 0.0 | 0.1 | 0.2 |

(1) Sociétés non-financières, entreprises individuelles - non-financial companies and unincorporated enterprises.

However, with domestic demand slowing down, these supply-side difficulties seem to be easing in the final months of the year and delivery times have started to shorten throughout industry.

All in all, since Q2 2000 it is mainly household consumption that has been affected by the oil shock, with the other components of demand maintaining their previous momentum. In particular, exports have continued to benefit from the competitiveness gains, despite a gradual slowdown in external demand. The net result is that the French growth rate seems set to remain at slightly less than 3% in H2, giving annual average growth for 2000 of 3.2%.

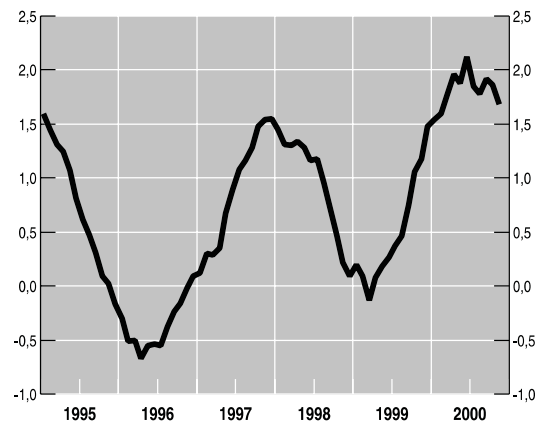
The world economic slowdown will continue in the early part of 2001

The slowdown in the United States seems likely to continue in the early part of 2001. Stock-market uncertainties and tensions on the corporate bond market can be expected to make it more difficult to finance investment. At the same time, household incomes, after absorbing the oil shock, will probably feel the effects of the slowdown in job growth. This would bring consumption back to a growth rate of 3% or less. Another factor is that the stagnation, or in some cases the actual fall, seen on the stock markets since mid-1999 means that wealth effects are likely to peter out. And this scenario assumes an easing of inflationary pressures, making it possible for the Fed to relax its monetary stance. However, there is still the risk of a rapid depreciation in the dollar, which would weaken the financial system and fuel imported inflation. In that unfavourable eventuality, the Fed would be faced with a dilemma and its room for manoeuvre much reduced.

In all the emerging regions, activity can be expected to continue to slow down in the early part of next year in the wake of the United States. No acceleration in Japanese activity is to be expected. Private consumption would have difficulty in taking over from the upturn in industry. As a result of the present restructuring, wage growth is likely to remain sluggish and the confidence climate is hardly going to improve sufficiently to launch a fall in the saving ratio.

In the United Kingdom, the tighter money and the unfavourable impact of the strong pound on exports have already brought about a slowdown in investment this year. However, private consumption has tended to grow at a brisk rate, thanks to the strong growth in wages at a time of tension on the

EUROZONE COMPOSITE CLIMATE INDICATOR



labour market. Looking ahead to mid-2001, the downturn in employment growth and the slackening of wealth effects due to the levelling-off in house prices can be expected to have an impact on household demand. However, these factors would be partly offset by a fiscal stimulus package. All things considered, the most likely scenario for the United Kingdom is a soft landing.

Euro-zone growth likely to show resistance

The euro zone's international environment can be expected to continue to deteriorate within the forecast period. However, this slowdown in external demand would be compensated by a recovery in household consumption.

This is because in H1 2001 purchasing power would strengthen, thanks to a levelling off of inflation, a slight acceleration in wage income and a more expansionary fiscal stance.

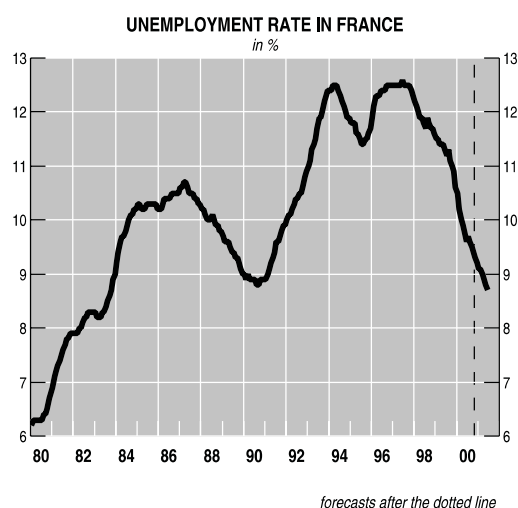
Inflation in the euro zone has levelled off at around 2.7% in the final quarter of 2000. The stabilisation in the oil price followed by a fall next spring, on top of a strengthening of the euro, should bring it down to 2.1% by June 2001. The oil shock will probably have been sufficiently brief not to trigger off a wage-price spiral. Admittedly, nominal wage growth is likely to pick up during 2001, following fresh wage negotiations in certain countries (Spain, Italy). But this growth would mainly be a case of making good purchasing power losses in countries where real wages have recently fallen. For the zone as a whole, the acceleration in wage growth would remain moderate. As a result, the increase in underlying inflation due to second-round effects would be small.

Households can be expected to benefit from tax cuts planned in several member countries. The general government balance (excluding sales of 3G mobile telephone licences) can be expected to stabilise, following the improvement recorded in 2000 at the level of the zone as a whole. Finally, job creation would remain strong in H1 2001, although slightly less than in 2000 because of the past weakening in activity.

All things considered, the deterioration in the international environment and the ending of the competitiveness gains would be offset by the upturn in domestic demand. The euro-zone economy would have finally absorbed the oil drain, with growth settling down at an annual rate of 2.5% in H1.

French household income accelerating at the end of 2000

In France, the acceleration in household consumption is expected to be more marked. On top of the liveliness of wage growth, income will already have been boosted at the end of this year by the fall in compulsory contributions, while purchasing power would also have the benefit of a slight slowdown in inflation.



The year 2000 will have set a new record for job creation, with total employment rising by around 560,000. Growth in H1 2001 is expected to be smaller — of the order of 230,000 — with the short-term effects of the reduction in working hours on employment diminishing and employment in the non-market sectors less firm. The unemployment rate would continue to fall, but at a slower pace, reaching 8.7% by the middle of the year, falling below its previous 1990 low point and to a level not seen since 1983.

The end of 2000 and the first half of 2001 should see individual wage incomes recovering slightly as the result of labour market pressures, despite

FRANCE : GROSS DOMESTIC PRODUCT (volume) BY TYPE OF EXPENDITURE

(at 1995 prices seasonally and working-day adjusted data, % change from previous period)

| | | 1999 | | | | 2000 | | | | 2001 | | 1999 | 2000 | 2001* |
|---|--------|------|------|------|------|------|-----|------|------|------|------|------|------|-------|
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | | |
| GDP | (100%) | 0.6 | 0.8 | 1.0 | 1.0 | 0.6 | 0.8 | 0.7 | 0.7 | 0.7 | 0.8 | 2.9 | 3.2 | 2.4 |
| Imports | (23%) | -0.8 | 2.2 | 1.9 | 3.8 | 4.0 | 3.5 | 4.1 | 1.4 | 2.7 | 2.0 | 3.8 | 14.1 | 8.3 |
| (of which merchandises) | (20%) | -0.8 | 2.3 | 2.3 | 4.1 | 4.8 | 3.5 | 4.6 | 1.4 | 2.8 | 2.1 | 4.7 | 15.6 | 8.8 |
| Consumption | (54%) | 0.1 | 0.7 | 0.9 | 0.6 | 0.7 | 0.2 | 0.4 | 0.6 | 0.7 | 0.7 | 2.3 | 2.3 | 2.0 |
| Public consumption | (23%) | 1.1 | 0.6 | 0.4 | 0.6 | 0.0 | 0.4 | 0.4 | 0.4 | 0.4 | 0.5 | 2.5 | 1.4 | 1.4 |
| Investment | (19%) | 2.5 | 1.3 | 1.4 | 1.2 | 1.7 | 1.7 | 1.5 | 1.5 | 1.4 | 1.3 | 7.3 | 6.3 | 4.7 |
| of which: | | | | | | | | | | | | | | |
| Non financial corporated and unincorporated enterprises | (10%) | 3.2 | 0.8 | 1.9 | 1.3 | 1.2 | 1.8 | 1.6 | 2.2 | 1.8 | 1.7 | 7.7 | 6.2 | 6.1 |
| Households | (4%) | 1.8 | 3.2 | 0.6 | 1.2 | 2.6 | 1.3 | 0.9 | 0.2 | 0.3 | 0.2 | 8.3 | 6.3 | 1.5 |
| Exports | (26%) | -0.2 | 2.4 | 4.2 | 2.2 | 3.5 | 4.0 | 2.3 | 2.7 | 2.0 | 1.6 | 3.8 | 13.3 | 7.5 |
| (of which merchandises) | (21%) | -0.3 | 2.5 | 5.0 | 1.9 | 4.3 | 3.8 | 2.2 | 3.0 | 2.2 | 1.7 | 3.8 | 14.2 | 7.9 |
| Domestic demand | | 0.8 | 0.8 | 0.9 | 0.7 | 0.8 | 0.6 | 0.6 | 0.7 | 0.8 | 0.7 | 3.3 | 2.9 | 2.4 |
| Contributions to growth | | | | | | | | | | | | | | |
| Internal demand excluding inventory changes | | 0.8 | 0.8 | 0.8 | 0.7 | 0.7 | 0.5 | 0.6 | 0.7 | 0.8 | 0.7 | 3.2 | 2.8 | 2.3 |
| Inventory changes | | -0.4 | -0.1 | -0.5 | 0.6 | -0.1 | 0.0 | 0.5 | -0.4 | 0.1 | 0.1 | -0.4 | 0.2 | 0.1 |
| Net foreign trade | | 0.2 | 0.1 | 0.6 | -0.3 | 0.0 | 0.2 | -0.4 | 0.4 | -0.1 | -0.1 | 0.1 | 0.1 | 0.0 |

■ Forecasts

* Carry over effect at Q2.

the wage restraint contained in the agreements on the reduction in working hours. In all, with wage growth accelerating slightly and employment rising not quite as fast, the growth in the total wage bill can be expected to remain firm in H1 2001.

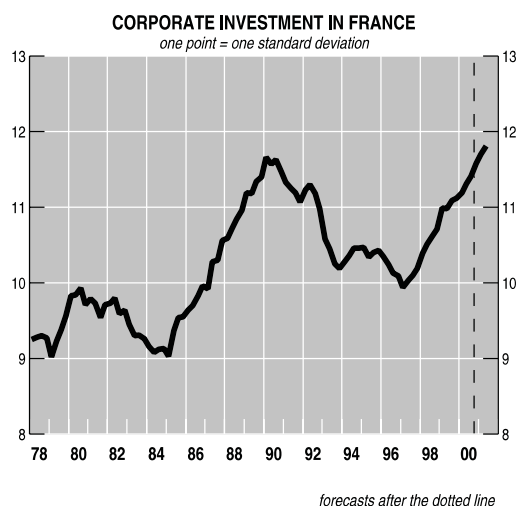
Finally, total household income will have the benefit of the tax reductions coming into force in the autumn and continuing next year. As of the end of 2000, the reduction in income tax and local taxes, as well as the abolition of road tax for private individuals, have eased total contributions by 30 billion francs. A further cut in income tax is planned for 2001 as well as a reduction in the rate of CSG (contribution sociale généralisée – special levy to help finance social security) for the lower incomes. This last measure is due to take effect at the beginning of the year. Having risen in 1998 and 1999, direct-tax pressure on household income is set to stabilise in 2000 before turning down in 2001.

The acceleration in income growth between now and mid-2001 is being accentuated in purchasing power terms by the slight fall in inflation. Having been 2.2% in November 2000, it is expected to fall to around 1.6% in Q2, thanks to the stabilisation and later decline in the oil price, as well as the slowdown in the import price rise due to the stronger euro. This fall in overall inflation masks a slight acceleration in underlying inflation linked to pressures on the labour market and on the productive system. However this tendency would remain moderate, as overall demand is not expected to accelerate in H1. Moreover, the impact of price pressures would be attenuated by the intensity of competition in industry and telecommunications.

All things considered, household purchasing power can be expected to show a notable acceleration around the turn of the year.

Revival in household consumption

The accelerated income growth would lead to a revival in consumption, bolstered by the steady decline in unemployment. After falling for two quarters, spending on energy products is expected to show an upturn already in Q4 2000, with households no longer able to delay their purchases of domestic fuel. Next year, they should benefit from the gradual decline in the price of fuels of all kinds. Car purchases, which have been relatively moderate in the final past year, should recover in the early part of 2001, the ending of the July date as the start of the new model year probably meaning a surge in purchases at the start of the calendar



year. Finally, the spread of “new technology” products can be expected to continue to play a locomotive role. Spending on telecommunications services, whose contribution to growth in total consumption amounts to more than 0.1 of a point each quarter, is set to remain highly dynamic.

Households, as is usual in an upswing phase, would nevertheless consume only part of this addition to income. In addition, saving could be encouraged by the recent rise in nominal interest rates. In this connection, the results of recent household surveys indicate that purchasing intentions are weakening slightly, whereas the belief in the desirability of saving has increased.

Growth in households’ investment in housing, which has been a mainstay of domestic demand throughout 2000, is expected to turn down in H1 2001, under the impact of higher mortgage rates, as well as the completion of the repair work made necessary by the December 1999 storms.

The acceleration in consumption will mean an improvement in business leaders’ expectations. Growth in productive investment is likely to remain firm. The corporate investment ratio should continue to rise, going beyond the high point reached at the end of the 1980s.

The early part of 2001 should therefore see domestic demand returning to an annual growth rate of close to 3%, as in 1998 and 1999, with the oil shock fully absorbed by the French economy.

The acceleration in domestic demand would compensate for the slowdown in foreign demand. The weakening of the international environment and the gradual disappearance of the competitiveness gains is likely in fact to mean a halving of the export growth rate by comparison with H1 2000.

REDUCTION IN WORKING HOURS AND LABOUR COSTS

N.B.: the calculation of the evolutions shown here has required numerous assumptions and approximations. The estimates are to be treated with caution, being liable to substantial revision. In particular, the evolutions in working hours are not derived from national accounts but estimated on the basis of the ACEMO survey as regards the past and, as regards the forecasts, on the number of workers becoming affected by negotiated arrangements for a reduction in working hours and an estimate of the impact of statutory provisions.

The introduction of the RTT (réduction du temps de travail — reduction in working hours) is automatically accompanied by an increase in hourly wage rates. Keeping monthly remuneration unchanged at a time when the number of hours worked is declining means a corresponding increase in the hourly wage. However, in order to assess the evolution in companies' wage costs in 2000 and 2001, account has to be taken of the additional reduction in social charges and taxes on labour from which they will now benefit: reduction in employers' social contributions and gradual elimination of the wagebill from the basis for the calculation of business tax.

When these factors have been taken into account, the estimates suggest that growth in nominal hourly wage costs accelerated by almost one and a half

points in the year 2000, giving an annual rate of 3.6%, after allowing for reductions in social contributions and business tax, compared with 2.0% previously. Given the evolution in hourly productivity accompanying the introduction of RTT and the firmness of activity, unit wage costs are likely to rise only slowly in 2000 and early 2001, at an annual rate of roughly 1%.

- Average wages per head are expected to show an annualised growth rate of roughly 2% in 2000 and 2.5% in 2001. In 2000, the impact of the rise in inflation and the sharp decline in unemployment have been cushioned by the wage restraint written into many of the RTT agreements. In 2001, nominal wage growth will accelerate slightly following the rise in inflation in 2000.

HOURLY WAGE COST (COMPETITIVE SECTOR, EB-EP BRANCHES)

(% change from previous period)

| | 1998 | | | | 1999 | | | | 2000 | | | | 2001 | | Yearly change | | |
|---|-------------|------------|-------------|------------|------------|------------|-------------|------------|------------|------------|------------|------------|------------|------------|---------------|------------|------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | 1998 | 1999 | 2000 |
| Average monthly wage ⁽¹⁾ | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 | 0.5 | 0.4 | 0.4 | 0.7 | 0.6 | 0.6 | 0.6 | 2.1 | 1.9 | 1.9 |
| - Working week (full-time equivalent) | -0.1 | -0.1 | -0.1 | 0.0 | -0.1 | -0.2 | -0.4 | -0.4 | -1.2 | -1.0 | -0.4 | -0.3 | -0.2 | -0.2 | -0.2 | -0.5 | -2.7 |
| = Hourly wage | 0.5 | 0.6 | 0.6 | 0.5 | 0.5 | 0.6 | 0.7 | 1.0 | 1.5 | 1.4 | 1.1 | 0.9 | 0.8 | 0.7 | 2.3 | 2.4 | 4.6 |
| + Contribution from reductions in charges | 0.0 | 0.0 | 0.0 | 0.1 | -0.1 | -0.1 | -0.1 | 0.1 | -0.3 | -0.1 | -0.3 | -0.3 | -0.2 | 0.0 | -0.1 | -0.1 | -0.6 |
| = Hourly wage cost (as defined for national accounts purposes) ^{(2), (3)} | 0.5 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 0.6 | 1.1 | 1.2 | 1.3 | 0.8 | 0.6 | 0.6 | 0.7 | 2.1 | 2.3 | 4.0 |
| + Contribution from the reduction in the "wagebill" element in the calculation of business tax ⁽⁴⁾ | 0.0 | 0.0 | 0.0 | 0.0 | -0.2 | 0.0 | 0.0 | -0.1 | 0.0 | -0.1 | -0.1 | -0.1 | 0.0 | 0.0 | 0.0 | -0.4 | -0.3 |
| = Consolidated hourly wage cost (including business tax change) | 0.5 | 0.6 | 0.6 | 0.6 | 0.2 | 0.4 | 0.6 | 1.0 | 1.2 | 1.2 | 0.7 | 0.5 | 0.6 | 0.7 | 2.1 | 1.9 | 3.7 |
| Value added [EB-EP] (+) | 1.1 | 1.1 | 0.5 | 0.4 | 0.6 | 0.9 | 1.0 | 1.1 | 0.5 | 0.8 | 0.8 | 0.7 | 0.7 | 0.9 | 4.0 | 2.9 | 3.2 |
| Full-time equivalent employment [EB-EP] (-) | 0.4 | 0.6 | 0.6 | 0.4 | 0.5 | 0.8 | 0.7 | 0.6 | 0.8 | 1.0 | 0.8 | 0.7 | 0.7 | 0.7 | 1.8 | 2.4 | 3.2 |
| Full-time working week (-) | -0.1 | -0.1 | -0.1 | 0.0 | -0.1 | -0.2 | -0.4 | -0.4 | -1.2 | -1.0 | -0.4 | -0.3 | -0.2 | -0.2 | -0.2 | -0.5 | -2.7 |
| - Hourly productivity | 0.7 | 0.6 | -0.1 | 0.0 | 0.1 | 0.3 | 0.6 | 0.9 | 0.8 | 0.9 | 0.4 | 0.3 | 0.2 | 0.4 | 2.3 | 1.0 | 2.8 |
| = Consolidated unit wage cost | -0.2 | 0.0 | 0.7 | 0.6 | 0.1 | 0.1 | -0.1 | 0.1 | 0.3 | 0.3 | 0.3 | 0.2 | 0.4 | 0.2 | -0.2 | 1.0 | 0.9 |

(1) Average monthly wage per head, full-time equivalent (and therefore adjusted for the increase in part-time working).

(2) (Employers' remuneration plus taxes on labor) / number of hours worked.

NB.: The contribution of business tax is not included in hourly wage cost by national account.

(3) The breakdown of the hourly cost was approximated by the combination of its different components.

(4) It is planned that the "wagebill" element for business tax purposes will continue to diminish by around 10 billion francs a year until 2003.

Having been slightly positive in H1 2000, the contribution of foreign trade to growth is likely to be neutral in H2 and negative in H1 2001.

As happened at the end of 1998, France would feel the impact of the downturn in world demand, but

would be slightly less exposed than its European partners, continuing to benefit from more dynamic job growth and a slightly earlier fiscal stimulus. In H1 2001, French economic growth should settle down at a rate close to 3%, slightly higher than in the rest of the euro zone. ■

- Because of the reduction in working hours, the hourly wage rate is set to show an increase of 5% in 2000, followed by 3% in the early part of 2001. The reduction in working hours was particularly marked in the first half (amounting to 2.2% for all employees in the competitive sectors). The forecasts for the reduction in working hours in the rest of the year and in the early part of 2001 take account of this initial shock, the inflow of the employees covered by negotiated reductions in working hours and the application, for workers not covered by an agreement, of the statutory provisions regarding overtime. The annual rate of reduction in working hours is going to be of the order of 3% for the whole of 2000, followed by 0.8% for H1 2001.
- When account is taken of the reduction in charges, the hourly wage cost as defined for national accounts purposes is thought to have risen by 4% in 2000, before rising by 2.5% in H1 2001. Additional reductions in employers' contributions are associated with the reduction in working hours. These reductions, which were of the order of 25 billion francs in 2000, helped to reduce by slightly less than 1% the evolution in hourly wage

costs, thus compensating for one-third of the impact on the hourly wage rate in 2000 of the reduction in working hours.

- Allowing also for the gradual elimination of the "wage bill" element in the calculation of business tax, the consolidated hourly wage cost is reckoned to have risen at a rate of the order of 3.5% in 2000, and to rise by less than 2.5% at the beginning of 2001. The planned elimination over five years of the "wage bill" element in the basis for business tax reduces the wage cost by slightly less than 0.5% a year between now and 2003.
- Taking into account the evolution in hourly productivity accompanying the introduction of RTT and the firmness of activity, unit wage costs are likely to rise only slowly, at an annual rate of roughly 1% in 2000 and the early part of 2001. Because of the buoyancy of industrial activity, hourly productivity rose at a rate of around 3.5% in H2 1999, later maintaining this rate in H1 2000, despite the slowdown in industry. It is now expected to slow down, returning to a rate of around 1.5% in mid-2000. ■

THE SITUATION IN INDUSTRY AS REFLECTED IN TWO COMPOSITE INDICATORS

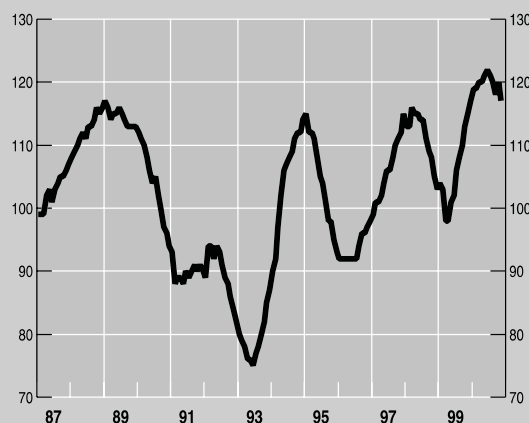
The composite business climate indicator has begun to decline in H2 2000, having reached a historic peak in June. Even so, it remains very high, well above the peaks of January 1989 and March 1998, demonstrating that industrial activity remains firm.

Interpretation. The composite business climate indicator is calculated using factorial analysis. This technique makes it possible to encapsulate the concomitant evolution in several variables, in this case the various balances of opinion reported in the monthly survey of industry, whose movements are highly correlated. The indicator describes, in a single variable, the common component of the selected balances. The higher the value of the indicator, the more favourable the view taken by industrial leaders of the situation. Its long-term mean value is 100; a 10-point variation corresponds to one standard deviation.

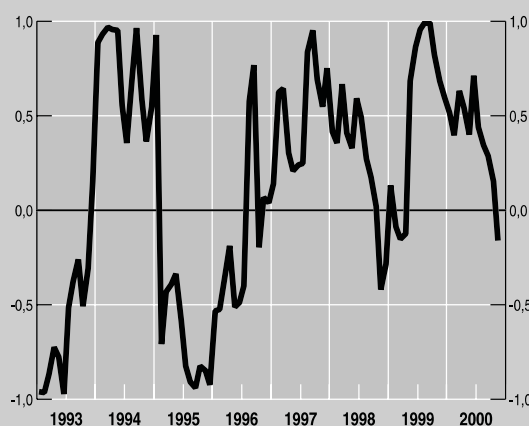
Since July, the cyclical turning point indicator has entered a zone of uncertainty regarding the economic situation. This diagnosis reflects the ambiguous nature of the signals coming out in recent monthly surveys of industry. Although headed downwards, these are still at historically very high levels, as the composite indicator shows. At this stage, the turning point indicator suggests that a moderate slowdown is now taking place.

Interpretation. The turning point indicator tries to identify with as long a lead-time as possible turning points in the industrial situation. It is a qualitative variable that is not directly observed, being calculated with the aid of the balances of opinion shown in the monthly survey of industry. The indicator is presented in the form of a curve, showing for each date the difference between the probability that the phase in the cycle is favourable and the probability that it is unfavourable. It therefore moves in the range between +1 and -1: a value very close to +1 (-1) indicates that activity is in a period of marked acceleration (deceleration). Times when the indicator is close to 0 are assimilated to phases of uncertainty, during which the signals received are widely contrasted and indicate no pronounced movement either upward or downward. The

COMPOSITE BUSINESS CLIMATE INDICATOR
manufacturing industry - November 2000



CYCLICAL TURNING POINT INDICATOR
manufacturing industry - November 2000



value of the indicator for a given month is liable to be revised the following month, making it desirable to wait for at least two consecutive months before interpreting a major variation as signalling a substantial cyclical change. ■