

CONJONCTURE IN FRANCE

DECEMBER 1996

GROWTH SET TO CONSOLIDATE IN THE FIRST HALF OF 1997

***H**elped by the re-convergence of exchange rates and the widespread fall in interest rates, the strengthening of activity in the European Union intensified during the second half of 1996, except in Italy, where the decline was merely interrupted. The upturn is taking place at different speeds in different countries: more rapidly in the United Kingdom and the Netherlands, where the return to growth has already been making itself felt in terms of employment and households' expectations; more gradually in France and Germany, although in this case the liveliness of external demand is producing rapid export growth.*

The improvement in business leaders' expectations is likely to be accompanied by a better outlook for prices and so stimulate a re-building of inventories and a revival of productive investment.

The growth acceleration will nevertheless have only a delayed impact on wage-earning employment, which seems likely to stabilize in Q2 and not start to move up until after the end of the time-frame of this note. This means that the unemployment rate is not about to stop rising. The moderate growth in household consumption is likely to match the renewed growth in purchasing power, at a time when inflation is still being kept well under control.

In these circumstances, underlying GDP growth in the first half of 1997 will probably be around 2.5%, annualized. It should be noted that accidents of the calendar will tend to make this growth appear smaller than the reality (see box on page 7).

The 1996 upturn slow to take effect in Europe

Narrowing of the cyclical leads and lags

After being affected in 1995 by the slowdown in world growth, the leading industrialized economies seem at the end of 1996 to be all back to growth rates that are closer to the long-term tendency. However, the revival was not simultaneous in all countries, being already well established at the beginning of the year in the United States and Japan, but hanging fire in Europe until the summer. The improvement in European business leaders' opinions regarding the levels of stocks and demand then enabled activity to start to pick up again, together with a return to greater international trade volumes. The developing economies, meanwhile, maintained their firm growth.

Early upturns in the United States and Japan

In the United States, growth was lively in the early part of the year, underpinned by strong demand, before slowing down to its long-term trend rate in the second half. Despite rapid growth in household borrowing, consumption and housing investment were both brisk, thanks to a high rate of job creation and an acceleration in wage increases during 1996 -- and also, to a small extent, to a "wealth effect" linked to the steady rise in stock market prices. Corporate investment again rose strongly, helped by rising pressures on productive capacity and by high earnings. With domestic demand moving strongly, imports into the United States also showed firm growth, while exports slowed down, affected by the rise in the dollar since the beginning of the year, partly offset by the productivity gains recorded in 1995 and by vigorous demand from Latin America and Asia.

In Japan, the marked acceleration in growth that had first become apparent in the second half of 1995 was mainly explained by the successive re-stimulus packages and by the reconstruction of the port of Kobe, but it was also in part due to growth in private demand. The building sector benefited considerably from the recovery in both public and private investment. Private consumption, which had been fairly lively early in the year despite a relatively high unemployment rate by Japanese standards, seems to have slowed down in the final months. Productive investment, possibly motivated by the need to renew an ageing capital stock, and taking advantage of extremely low interest rates, has been firm. On the other hand, despite the depreciation of the yen against the currencies of Japan's main trading partners, there was no external contribution to growth,

with imports, stimulated by the growing openness of the domestic market, continuing to grow faster than exports.

The delayed European revival

Activity in Europe in general slowed down appreciably on an annual average basis in 1996, with growth of 1.6%, compared with 2.6% in 1995. The re-appreciation of the peseta and, more recently, of the Italian lira and sterling has tended to even out the earlier disparities between European exchange rates. The absence of price pressures and the improved credibility of national policies, especially fiscal policies, permitted in countries other than the United Kingdom an easing of monetary policy to compensate for the generally tighter budgets. This in turn helped to create a climate that was more propitious for an upturn in economic activity, especially in France and Germany.

The first half of the year saw business leaders still gloomy regarding the outlook for demand and prices, leading them to maintain or even reduce their inventory levels and cut back on their planned investment. The de-stocking movement was particularly visible in Germany, Italy and the United Kingdom, as well as in France. Exports also slowed down, held back by the slackness of industrial demand in Europe itself.

After mid-year, however, Europe seems to have returned to a firmer growth rate, with business leaders' expectations and opinions, as reported in the business surveys, improving significantly in most countries. Producers seem to have come off the sidelines in the final months of the year, in response to the improved outlook for activity and prices. Inter-industry trade has tended to accelerate. In particular, the stabilization of prices of intermediate goods and the low level of inventories seem to have produced a turnaround in stock policies.

Productive investment in the European Union has also been reflecting the unsatisfactory production outlook, rising much more slowly than in 1995. However, the picture differs considerably from one European country to another: investment accelerated in the United Kingdom, but remained weak in Germany and Belgium and slowed down significantly in Italy and Spain.

Private demand, in contrast, has continued to grow at much the same rate as in 1995. It accelerated in Spain and the United Kingdom, bolstered by the improved employment situation, but slowed down in Germany

(despite the tax reductions at the beginning of the year), because of the rising unemployment and the prospect of cuts in certain social benefits, and in Italy, where it was probably affected by the deteriorating job situation and the announcement of tough fiscal measures.

The second half of the year seems to have been the occasion for a narrowing of the discrepancy between relatively brisk demand and a supply side that had continued to lag behind until the summer.

France back to firmer growth in the second half of the year

In France, annual average growth for the year 1996 is expected to come to 1.3%, lower than in 1995. Most sectors were involved in the slowdown, apart from transport and telecommunications, energy and agriculture. After being depressed by the powerful de-stocking movement in the first half of the year, activity gradually picked up as the year went on, with year-on-year GDP growth rising from 0.3% in December 1995 to 2.0% by the end of 1996.

Manufacturing industry particularly affected

The 1995 slowdown in activity was particularly marked in manufacturing industry, and this tendency continued at the beginning of 1996. Disregarding differences in the number of working days, which distorted the quarter-on-quarter variations, manufacturing output had by the middle of the year returned to a firmer growth rate.

Business leaders' opinions, as expressed in the surveys, reflect the improvement in their activity in the course of 1996, although the general climate has remained depressed throughout the year. Own-firm prospects for future production -- leaving aside the car sector⁽¹⁾ -- have been showing improvement since Q2, with the assessment of past activity improving some months later. The impact of the growth in European demand is quite perceptible, with foreign demand in general showing constant acceleration since the beginning of the year and apparently bringing overall demand along with it. After benefiting early in the year from brisk household consumption, manufacturing production in the later months was helped by the strength of trade with the rest of Europe and the upturn in inter-industry demand, closely linked to the start of the re-stocking of intermediate goods.

Sectors situated at earlier stages of the production process showed a marked slowdown on an annual average basis, but their activity in fact improved as the year went on. The intermediate goods sector, as so often in the past, was the one most affected and was then the one to show the greatest acceleration from mid-year on. After three quarters of increasingly intense de-stocking at a time of falling prices, the return to price stability -- linked to the upturn of European industrial activity -- then induced a turnaround in inventory policies. However, the extent of the actual re-stocking seems to have been restrained by firms' weaker cash positions.

The capital goods sector, boosted this year by the strength of exports, especially to Germany, also seems to have enjoyed stronger domestic demand, as the result of the gradual revival of French investment. The final out-turn for industrial companies' investment in 1996 is likely to show a rise of 4%, despite the absence of capacity pressures and the earlier persistent gloomy outlook. This revival will have been helped on by the fall in interest rates and probably also by the need to modernize productive equipment for the purpose of making productivity gains. Investment in the tertiary and building sectors, meanwhile, is expected to show a decline. Total corporate gross fixed capital formation is likely to show little overall change for the year as a whole.

The sectors that are most directly dependent on household demand have nevertheless failed to show particular dynamism during the year. Cars and land transport equipment are likely to show a slowdown compared with 1995, despite the strong demand for passenger cars, boosted by the "prime qualité". Apart from the impact created by the stagnation of heavy vehicle registrations, the sector has also suffered appreciable market-share losses, with the import penetration ratio for passenger cars reaching a record level of around 46% in Q2. Production of consumer goods is also likely to be down on 1995, despite strong demand for household durables. Meanwhile, export growth seems to have gone off the boil and variations in stocks are also thought to have had a negative impact on production growth.

The non-manufacturing sectors growing less strongly

Very few sectors managed to avoid the slowdown in activity in 1996. These few included: energy, helped early in the year by the hard weather conditions and later by the rise in world oil prices; telecommunications, under the impetus of the spread of innovative products and services; and agriculture, which recorded abundant harvests.

Despite the growth in sales of housing, the building and public works sector posted a marked slowdown in 1996. Weak prices and the large overhang of existing stocks held back the revival of starts. Corporate investment in building showed no increase, while public works activity declined as the result of attempts by local authorities to bring expenditure under control. The distribution sector was invigorated early in the year by the firmness of household consumption and later boosted, at wholesale level, by the revival of inter-industry demand. Even so, activity in the sector slowed down compared with 1995. Traded services also slowed down on the whole, despite the revival in services to industry towards the end of the year.

(1) In order to exclude the quarterly distortions due to the termination at the end of September of the "prime qualité" (the bonus for trading-in cars more than eight years old), the commentary here excludes this sector.

The labour market adversely affected by the first-half weakness in activity

Employment has been distinctly slowing down since mid-1995, with the stability seen in the first half of 1996 then replaced by a further reduction in the second, when it experienced the lagged effects of the slowdown in output -- as confirmed by the fact that the reduction in work-forces was particularly marked in the sectors most affected by the slowdown: manufacturing and -- to an even greater extent and for the second consecutive year -- construction. Job creations appear to have slowed down in both the traded and non-traded tertiary sectors. Taking the year as a whole, the numbers employed in the non-farm traded sectors seem set to show a decline for the year as a whole of 0.3%, with total employment down by 0.5%.

The impact of employment policies on the labour force was not sufficient to offset the fall. The emphasis this year has been on early retirement (ARPE⁽²⁾). In these circumstances, the unemployment rate will probably show a rise of one point for 1996, reaching around 12.7% by the year-end.

The stagnation of household purchasing power

Earned household income has been rising at a slower pace, with the operating surplus of the self-employed stagnating and the total wage bill slowing down because of the fall in numbers employed. Even so, wage growth accelerated in the first half. This tendency, surprising at first sight in view of the level and tendency of unemployment, may be a "catch-up effect" following the restraint shown in the latter part of 1995 or could be due to the higher year-on-year consumer price rises seen early in the year and to attempts to gain compensation for the increased compulsory contributions. The resulting increase in firms' unit wage costs was cushioned by the easing of employers' social security contributions.

Net property and entrepreneurial income also fell, partly because of the lower interest rates but also because of the sharp cuts in dividends. Social transfers in total appear to have grown at the same rate as in 1995, with the acceleration in retirement pensions and in unemployment benefits (associated with the slowdown in activity) compensating for a slowdown in other forms of transfer. The charges borne by households nevertheless accelerated, despite the moderate increase in social contributions and insurance premiums and the fall in interest payments, these factors being outweighed by a rise in taxes on income and wealth, by reason of the creation of the CRDS⁽³⁾. All in all, household income, with a nominal increase of 2.1%, would stagnate in purchasing power terms.

Continuing high household demand, nonetheless

In circumstances which might have been expected to encourage precautionary saving -- stagnation of real incomes, rising unemployment and particularly morose

household opinion -- household demand is expected to show an annual increase of 2.4%. This would represent a fall of almost two points in the saving ratio, to 12.5%, a movement confirmed by the fact that financial saving has dropped considerably. Possible reasons for the maintenance of the strong demand could include the lifting of uncertainties over the manner in which the reduction in the public debt would be effectuated, the fall in interest rates and the reduction in the overall returns on various forms of investment.

Other factors could include the impact of the "prime qualité" on car purchases, the tax incentives for the purchase of household durables and the possibility of early withdrawal from certain long-term savings plans in order to finance these purchases. On similar lines, the creation of zero-interest housing loans and the tax advantages for the purchase of rental property have helped to accelerate purchases of new housing -- a tendency also stimulated by the appreciable fall in the cost of housing loans.

Sturdy improvement in the trade surplus

One result of the discrepancy between a flat supply side and stronger demand has been to give foreign producers a greater share of the domestic market -- a tendency that was particularly noticeable in the car sector. Exports were propped up by non-EU demand and, in the second half, by the upturn in Europe and the improved price-competitiveness due to the appreciation of several European currencies and the greater efforts made to keep export margins down. In the end, however, both exports and imports slowed down by comparison with 1995. With the industrial and agricultural surpluses both rising, and despite the increase in the energy bill, the trade surplus is expected to reach FRF 120 billion in 1996, as against FRF 99 billion in 1995.

Producer prices still depressed, consumer price growth still only moderate

Import prices barely rose in 1996. Oil prices, admittedly, were well up on 1995 but prices of other imported commodities declined throughout the year, mainly because of cheaper industrial raw materials. As a result, the prices of manufacturing inputs fell substantially and this in turn, against a background of European slowdown, produced a decline in the prices of manufactured goods in the first half, followed by a stabilization towards the end of the year. The general moderation shown by producer prices enabled consumer prices, too, to slow down during the year from a year-on-year rise of 2.1% at the end of 1995 (still incorporating the August rise in the standard VAT rate) to 1.7% a year later, despite the higher oil price.■

(2) "Allocation de remplacement pour l'emploi" (a system associating early retirement with a matching recruitment).

(3) A levy on incomes for the purpose of repaying the social security debt, treated in the national accounts as a tax on income and wealth.

The main lines of the forecast for the first half of 1997

A buoyant international environment

France's international environment has been steadily improving in 1996 and growth in world trade can be expected to be maintained throughout the first half of 1997, with the non-OECD zone remaining especially dynamic. Within the OECD, the cyclical lags should continue to narrow, with growth returning to its long-term tendency in the United States and picking up in Europe. In the case of Japan, growth is expected to be firmer, but still somewhat slower than in the other leading industrialized countries, with the strength of private domestic demand being offset by the marked slowdown in public consumption.

Continuing moderate growth in the United States

Following the slowdown seen in mid-1996, growth in the United States economy will probably continue at a moderate rate. Exports can be expected to benefit from the firmness of world trade, despite the appreciation of the dollar since the beginning of 1996. With imports simultaneously slowing down, the external contribution to growth is set to turn positive again. Private consumption, after being particularly lively in 1996, could well be curbed by the high level of household indebtedness and so make a more modest contribution to domestic demand in the first half of 1997. Productive investment is likely to show a renewed slowdown, but only to a relatively high rate of growth, given the continuing excellent corporate financial situation.

Acceleration in Europe

The European business climate improved significantly in the second half of 1996, as demonstrated by the recovery in business leaders' expectations reported in the regular surveys. This improvement is likely to gather pace during the first half of 1997, with the cyclical leads and lags seen in 1996 gradually tending to disappear. The revival of inter-industry trade and the more positive inventory policies, together with the firmer outlook, can be expected to underpin the growth in activity. This tendency would be helped on by the return of exchange-rate parities to more normal levels and by "sympathetic" monetary policies. The only major country likely to see a tightening of monetary policy is the United Kingdom, where fears of inflationary pressures have re-surfaced. Even so, United Kingdom growth is still expected to exceed 3%.

The growth in activity is likely to receive support from the dynamism shown by exports, stimulated both by the revival of intra-EU trade and by the strength of non-EU demand. Germany, quite apart from the impact of the fall in the mark's effective exchange rate, is benefiting from the favourable climate in Eastern and Central Europe, although the tight fiscal policy stance could hold back domestic demand. Public spending is expected to slow down, especially in Germany, Italy and Spain. Household purchasing power will probably be affected by the fall in social benefits in Germany and the fiscal consolidation in Italy. With the exception of the United Kingdom, all the EU countries are likely to find private consumption curbed by the low level of household confidence. But consumption is likely in the end to grow moderately in Germany and Italy, and somewhat faster in Spain and in the United Kingdom, given the satisfactory outlook for incomes and for the evolution of the labour market. As regards investment, uncertainties remain over the scale of support it will give to growth. The steady improvement in the production outlook and the intensified demands this is likely to make on productive capacity can be expected at some stage to stimulate corporate investment. For the present, however, investment plans seem to be on the prudent side, especially in Germany and Italy.

All things considered, growth in the EU countries in the first half of 1997 is expected to be at an annualized rate of around 2.5%.

Employment still being adjusted downward in the early part of the year

The slowdown in activity that began in the early part of 1995 has led in 1996 first to a deceleration in employment and then to an actual decline. And the scale of the adjustment was probably reduced as the result of employment policies aimed at cutting labour costs (with the CIE⁽¹⁾ getting up to speed, cuts in employers' contributions for the lower-paid and for part-time employment). The delayed adjustment of employment to the lower level of activity that finally took effect in the first half of 1996 should come to an end in the first half of 1997. Job losses are expected to be smaller than in the second half of 1996 in manufacturing industry, in response to the gradual upturn in activity. In the traded tertiary sectors, job creations are still likely to be on a

(1) "Contrats-initiative-emploi" (programme in favour of the long-term unemployed).

Gross domestic product (volume) by type of expenditure

(yearly or half-yearly averages)

		1995		1996		1997	1994	1995	1996	1997 Carry-over at end Q2 ⁽²⁾
		H1	H2	H1	H2	H1				
GDP	(100%)	1.1	0.0	0.8	0.9	0.9	2.8	2.2	1.3	1.7
Imports	(28%)	3.4	-0.3	0.8	2.1	1.9	6.7	5.2	1.7	3.2
(of which merchandise)	(25%)	3.8	-0.1	0.1	2.7	2.0	7.3	6.0	1.4	3.7
Households' consumption	(60%)	0.8	0.6	1.9	0.3	0.3	1.4	1.8	2.4	0.6
General government consumption	(20%)	0.3	0.6	0.8	0.9	0.7	1.1	0.9	1.6	1.2
Total investment (GFCF)	(20%)	0.8	0.2	-1.2	1.2	0.7	1.3	2.5	-0.4	1.5
Corporate sector ⁽¹⁾	(11%)	1.7	-0.4	-1.2	2.4	0.9	1.7	3.7	-0.2	2.3
Households	(5%)	0.9	1.2	0.3	-0.8	1.7	2.0	3.0	0.5	1.4
Other sectors	(4%)	-2.0	0.9	-2.8	0.6	-0.7	-0.7	-1.1	-2.1	-0.4
Exports	(28%)	4.7	-1.9	2.8	2.3	2.6	6.0	5.9	3.0	4.5
(of which merchandise)	(23%)	5.7	-1.6	2.7	3.1	2.9	6.5	7.6	3.4	5.2
Domestic demand		0.8	0.5	0.2	0.9	0.7	3.0	2.0	0.9	1.3
Contributions										
Inventory changes		0.1	-0.1	-0.8	0.3	0.2	1.7	0.2	-0.7	0.4
Trade in goods and services		0.4	-0.5	0.6	0.1	0.2	-0.2	0.2	0.4	0.4
Domestic demand excluding inventories		0.7	0.6	1.1	0.6	0.5	1.3	1.8	1.7	0.9

(1) Corporate and quasi-corporate enterprises (including unincorporated enterprises).

(2) The statistical carry-over is the annual average growth rate that would result if growth were to be zero in Q3 and Q4 1997.

Forecasts

small scale. The overall result would then be a stabilization in Q2 of the numbers employed in the non-farm traded sectors, but with any actual increase occurring outside the time-frame of this note.

Unlike the position in 1996, employment policies would probably not compensate for the natural growth in the labour force (fewer training places, smaller increase in the numbers taking early retirement under the ARPE⁽²⁾). The most important influence on total available manpower resources is likely to come from the foreseeable reduction in the numbers engaged in national service. This being so, the unemployment rate (ILO definition) is expected to be close to 13% at the end of the first half of 1997.

Improved household purchasing power

Pay increases in the private sector are expected to be fairly modest in the first half of 1997. The minimum wage, in contrast to 1996, should not have to be adjusted before July, as the year-on-year consumer price rise will stay below the 2% threshold. With total numbers employed set to fall slightly, growth in the total wage bill of the non-farm traded sectors can be assumed to be only moderate. It could be somewhat faster in the civil service, with the earlier pay freeze unlikely to be prolonged. The upturn in activity is likely to mean an acceleration in the operating surplus of the self-employed in the first half of 1997. Property and entrepre-

neurial income should also move more positively. In the other direction, social benefits are set to slow down appreciably once the measures for the reform of the social security system take full effect.

The evolution in compulsory contributions should, on the other hand, help to accelerate growth in real household disposable income. The impact of the cuts in personal income tax and in the rate of sickness-insurance contributions in fact outweigh that of the raising of the rate of CSG⁽³⁾ contribution and the broadening of its recovery base.

Moreover, the consumer price rise is expected to be only moderate in the first half of 1997 and this too will contribute to the acceleration in purchasing power (on a year-on-year basis). The prices of manufactured goods should increase slightly, with those of private-sector services returning to their long-term tendency, following the marked slowdown seen at the end of 1996. The price of petroleum products should slow down somewhat, thanks to the easing of tension on the oil market. All in all, the year-on-year consumer-price rise is likely to be held at 1.6% in June 1997. The purchasing power of household incomes would then see a gradual acceleration, to a year-on-year increase of 1.2% in mid-1997, as compared with 0.3% at the end of 1996.

(2) "Allocation de remplacement pour l'emploi" (a system associating early retirement with a matching recruitment).

(3) "Contribution Sociale Généralisée", a general levy on incomes.

Moderate growth in private consumption

The year 1996 was marked by a sharp increase in household consumption, despite the stabilization in real incomes. The first half of 1997 is likely to see a return to a more moderate growth rate, roughly similar to that of purchasing power. New measures -- early payment of government bonuses on the small-saver plans opened in 1990 (FRF 15 billion) and, on a smaller scale, the ending of the tax reductions available on life-insurance contracts -- should help to underpin consumption, partly at the expense of saving. However, the impact is likely to be smaller than that of the measures taking effect in 1996, so that the household saving ratio can be expected to stabilize at its 1996 average of around 12.5%.

Meanwhile, the demand for individual housing seems set to go on rising at a firm rate in the early part of 1997, with buyers still taking advantage of the low interest rates and the various incentives (zero-interest loans, rapid depreciation for tax purposes of rental property under the so-called "Périssol" law).

Support for growth from the external sector

The gradual revival of activity in Europe led in the second half of 1996 to an acceleration in foreign trade flows. This tendency is likely to get up to full speed at the beginning of next year. With additional benefits coming from the high level of purchases by non-OECD countries, demand in world markets for French manufacturing exports can be expected to show a year-on-year rise of around 7% by the end of the first half of 1997. According to the regular opinion surveys, business leaders, especially those operating in the intermediate goods sectors, saw a distinct improvement in their export order books as early as Q3 1996, suggesting a marked acceleration in French exports in the first half of 1997 -- especially as they should by then be able to take full advantage of the competitiveness gains linked to the fall in the franc's effective exchange rate during 1996 and the considerable restraint shown by production costs. This revival of export growth could also be boosted by larger Airbus deliveries. Imports of manufactures would also tend to pick up speed, stimulated by the revival of activity and the ending of the de-stocking movement. The strength of inter-industry demand created by investment and stock policies (which has a high import content), would make up for the moderate growth in household consumption. The French economy is therefore likely to be helped by a small external contribution.

The continued recovery in productive investment

Productive investment recorded a sharp slowdown at the end of 1995 and in the early part of 1996. The deterioration in the outlook for activity naturally had a negative impact on investment plans, which were mostly cut back during the year. With the business climate gradually brightening since mid-1996, corporate investment has nevertheless gradually recovered

somewhat and should make moderate progress in the first half of 1997. In particular, plans for investment in industrial equipment, although naturally still fairly prudent, are likely to be given a boost by firm export demand and by the need for rationalization of the productive fabric. Furthermore, business leaders reported in the October 1996 investment survey that the financing conditions were generally favourable for the commitment of new expenditure and that their indebtedness levels were less of a constraint. Investment is expected to remain hesitant in the tertiary sector, where the outlook is still uncertain. Even so, it can be expected to benefit from a general improvement in activity, especially in the wholesale and industrial service sectors, profiting from the growing needs of industry. All in all, purchases of capital goods are expected to grow at a modest rate in the first half of 1997, with corporate investment in building continuing the recovery that began to take shape in the second half of 1996.

First signs of re-stocking

The second half of 1996 was marked by a considerable reduction in the de-stocking movement by comparison with the early part of the year. This was especially true of industry (mainly the intermediate goods branch), signalling an improvement in producers' expectations. The change in business leaders' opinions regarding inventory levels -- seen at the end of the year as being almost back to normal -- is further confirmation of this tendency and suggests that a re-stocking movement could be launched some time during the first half of 1997. This tendency could well even accelerate if producers' expectations, especially regarding prices, take a turn for the better.

Activity picking up

In response to stronger external demand, moderate growth in investment and slower de-stocking, industrial output in the early part of 1997 is likely to continue the recovery that began in mid-1996. Leaving aside calen-

The impact of accidents of the calendar on the measurement of GDP growth rates

National accounts figures are not adjusted to take account of the number of working days. Calendar effects differ from sector to sector and are therefore difficult to evaluate with any precision.

Within the time-frame of this note, these effects are relatively important and have to be taken into account in judging the pattern of growth over time. Q3 1996 and Q2 1997 contain an exceptionally large number of working days, whereas in Q1 1997 they are relatively few in number (with Easter Monday falling on 31 March).

The orders of magnitude of the corrections needing to be made in order to eliminate these calendar effects from the published data are as follows: for Q3 1996, a reduction of one quarter of a point; for Q3 1996 and Q1 1997, an increase of one quarter of a point; for Q2 1997, a reduction of one quarter of a point.

dar effects, the year-on-year increase should progress to around 4% at the end of the first half of 1997, with the intermediate goods industries benefiting from the acceleration in inter-industry demand and from a gradual return to re-stocking. The upturn in industrial investment in France, as well as in the rest of Europe, combined with increased activity in the aircraft sector, should help production of capital goods. Consumer goods, on the other hand, are likely to show more moderate growth, with household demand turning out to be less lively than in 1996. Following a dip at the end of 1996, production in the car industry should gradually return to a level close to the average for 1996.

In the tertiary sector, output growth is expected to remain moderate in the first half of 1997. Wholesale distribution should admittedly benefit from the stepping-up of inter-industry trade, while services to industry should also show improvement. But retailing, services to individuals and hotels and catering are not expected to show an acceleration, given the moderate growth in household consumption.

Finally, activity in the building industry is likely to recover only very slowly. The growth in sales of new housing should mean a slight easing of the overhang of existing units. Housing starts -- like those of non-residential buildings -- have remained flat up to the end of 1996, although there are faint signs of improvement. Despite the maintenance of certain major projects (the high-speed rail link to the Mediterranean coast, the motorway programme), the outlook for firms in the public works sector remains poor for the moment, given the slackness of demand from local authorities.

Overall unit costs are not expected to grow other than moderately in the period to mid-1997. The gradual recovery in the prices of raw materials and intermediate goods will probably be partly offset by an easing of energy prices. Unit wage costs are unlikely to rise appreciably, given the present pay restraint, the continuing adjustment of employment and the exemptions

The potential risks in this forecast

The principal uncertainty liable to affect the scenario set out here is on the upside.

This is because the forecast is based on the assumption that expectations of demand and prices will rise only very gradually. A more marked improvement in coming months cannot be ruled out, given the favourable interest-rate and exchange-rate environment. If this were to occur, re-stocking could well be more rapid and investment, especially in the tertiary sector, brisker than in the forecast.

Conversely, the return of marked instability on the financial and currency markets would increase the tendency to "wait and see".

from social security contributions. Profiting from the lagged effects of the slight fall in the franc's effective exchange rate in 1996 and taking comfort from the recovery in demand on both the home and export markets, domestic producers could be tempted to relax their efforts to curb margins to some extent. Corporate profit ratios would also benefit from the slowdown in taxes on production. The first half of 1997 should see a return to moderate growth in producer prices.

Annual growth close to 2.5%

All things considered, activity is expected to grow at much the same rate as in the second half of 1996, with the revival in demand from firms offsetting the moderation shown by household consumption. Year-on-year GDP growth would amount to 2.5% by the end of the first half of 1997. Half-yearly growth (annualized rate of 1.8%) will find itself diminished in the recorded statistics as a result of the carry-over effects of calendar differences (with both Q4 1996 and Q1 1997 unnaturally low).■