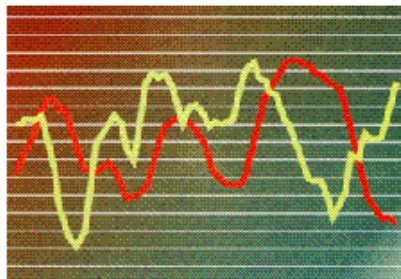


CONJONCTURE IN FRANCE



Growth set to remain firm in the second half of 1999

The second quarter marked the end of the slowdown phase for the French economy that had begun in the first half of 1998 under the influence of the Asian crisis. The first-half growth rate was of the order of 2%, which, for a low ebb, is relatively rapid, being explained by a rise in the growth rate of domestic demand excluding inventories to 2.5%. Household investment was exceptionally lively, while corporate investment was only slightly affected by the deterioration in the external climate. Household consumption progressed, given the continuing favourable tendency in its principal determinants: purchasing power, protected by the low and stable rate of inflation, continued to increase, boosted by the creation of 130,000 jobs in the traded sector during the half-year. The resulting fall in the unemployment rate also helped to maintain a favourable climate for household purchases. After falling towards the end of 1998 and in Q1 1999, exports picked up in Q2, benefiting from the improvement in the international environment.

The first half-year has in fact seen the return of growth in emerging Asia, while in Japan the recession has been halted for the present. Meanwhile, the United States has continued to prop up world activity. Above all, expectations on the part of euro-zone business leaders have improved again since April. The upturn in industrial output can be expected to gather pace throughout

the second half because of the positive tendency in demand: strengthening world trade, favourable exchange rate versus the dollar and the yen, interest rates still low despite an upward tendency, household expectations positive in the main.

In France, the most striking feature of the recent economic tendency has been the strength of demand since the summer. In particular, the improvement in expectations seems to be ensuring a reversal of inventory behaviour and an acceleration in corporate investment. At the same time, household consumption is rising thanks to a brisk increase in car purchases, while house buying is generating strong growth in the construction sector. All in all, even if an upturn in imports were to offset that of exports, GDP growth would show a considerable acceleration, reaching an average annual rate of over 3% in the second half, giving 2.4% on an annual average basis for 1999 as a whole. Dependent employment is expected to rise by 240,000 in 1999 in the traded sector, corresponding to a rise of 340,000 in total employment. The unemployment rate is likely to be cut by half a point over the year, bringing it close to 11% in December. Inflation, pushed up by the higher oil price but at the same time restrained by the depressed level of food prices, can therefore be expected to revive only very slowly. The year-on-year consumer price rise at the end of 1999 is expected to be 0.8%.

The euro-zone environment marked by the ending of the Asian crisis

The South-East Asian countries have been emerging from recession since the beginning of the year. In Korea, especially, there has been a decided upturn in industrial output. While not all the financial problems have been resolved, the ending of the Asian crisis constitutes the key element in the current upturn in demand in the developed countries' overseas markets. This, associated with the revival in demand from the oil-producing countries, which have benefited from the rise in the crude oil price, is largely offsetting the impact on world trade of the slowdown in South America.

In Japan, growth rebounded to an astonishing extent (+2%) in Q1, largely because of public support for demand. Although this progress was maintained to some extent in the second quarter (+0.2%), it is most likely that Japan, following the severe recession in 1998, is still not out of the wood. Private domestic demand remains de-

pressed and the very high level of the yen is continuing to hold back exports. GDP therefore seems set to stagnate in H2, posting annual average growth of the order of 1% for 1999.

Through its continuing high level of imports, the United States is still acting as the mainstay for world growth. Admittedly, domestic demand remained very strong in the first half, but demand for housing has levelled off because of the rise in mortgage rates. Moreover, consumption could well weaken, as it seems hard to envisage a further fall in the saving ratio. Conversely, the expansion of exports, notably towards the Pacific Rim, is underpinning a recovery in industrial output. The most likely outcome is that the American economy will see activity remaining firm in H2, giving GDP growth on an annual average basis of close to 4% in 1999 as in the two previous years. Nevertheless, factors liable to produce a weakening of domestic demand seem poised to become increasingly important. A possible sharp drop on the stock market, triggered off by the current high valuations, would have an impact on household consumption, but only after a time lag.

GROSS DOMESTIC PRODUCT (volume) BY TYPE OF EXPENDITURE

(at 1995 prices seasonally and working-day adjusted data ⁽¹⁾, % change from previous period)

		1998				1999				1997	1998	1999
		T1	T2	T3	T4	T1	T2	T3	T4			
GDP	(100%)	0,9	0,9	0,5	0,6	0,4	0,6	0,9	0,8	2,0	3,4	2,4
Imports	(23%)	2,7	1,2	0,6	0,9	-1,0	2,0	0,9	1,3	6,4	9,4	2,6
(of which merchandise)	(20%)	3,2	1,0	0,9	1,4	-0,5	1,6	0,8	1,3	6,7	10,3	3,1
Households' expenditures of consumption	(54%)	0,7	1,3	0,6	0,6	0,2	0,5	0,9	0,5	0,2	3,6	2,2
General government expenditures of consumption	(23%)	0,3	0,3	0,1	0,2	0,4	0,3	0,4	0,4	1,6	1,1	1,2
GFCF	(20%)	1,4	1,7	1,6	1,5	2,1	1,3	0,8	1,3	0,5	6,1	6,3
of which :												
Non financial corporated and unincorporated enterprises	(11%)	2,0	1,9	1,8	1,0	2,4	1,0	1,0	1,7	1,3	7,3	6,4
Households	(5%)	-0,4	1,9	0,7	2,9	2,2	2,5	0,2	0,4	0,6	3,4	7,4
Exports	(26%)	0,9	0,7	1,4	-1,1	-0,9	2,6	0,4	1,3	10,6	6,9	1,6
(of which merchandises)	(21%)	1,5	0,4	1,8	-1,3	-0,9	2,8	0,2	1,3	10,4	7,8	1,6
Domestic demand		1,4	1,0	0,3	1,2	0,4	0,4	1,1	0,8	0,9	3,9	2,7
Contributions to the growth of GDP												
Inventory changes ⁽²⁾		0,6	-0,1	-0,4	0,5	-0,2	-0,2	0,2	0,2	0,3	0,4	0,0
Net foreign trade		-0,4	-0,1	0,2	-0,5	0,0	0,2	-0,1	0,0	1,1	-0,4	-0,2
Internal demand excluding inventory changes ⁽²⁾		0,7	1,1	0,7	0,6	0,6	0,6	0,8	0,6	0,6	3,3	2,7

Forecasts

(1) National Quarterly Accounts evaluate growth at 1995 prices. Growth rates are usually slightly different once calculated at the prices of the preceeding year.

(2) Inventory changes include acquisitions net of sales of valuable.

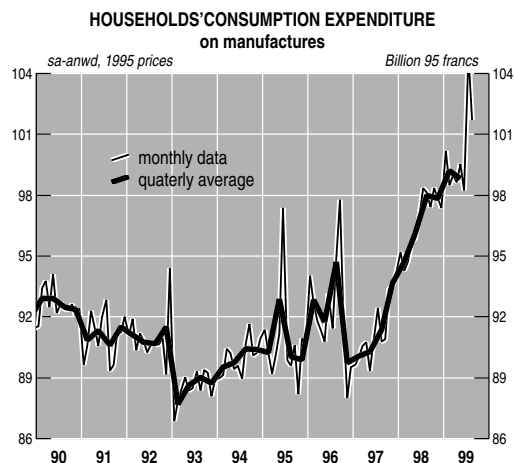
Acceleration in the euro zone

Because of de-stocking in Q1 and weak external demand, growth in the euro zone remained at an annualised rate of less than 2% in the first half of 1999, as in the preceding half-year. Reflecting the highly variable intensity of domestic demand, there has been a sharp divergence in the rates of activity posted by the different economies. Of the large countries, Spain remains distinctly the most dynamic economy, whereas growth appeared to be hesitant in Germany and Italy. Looking beyond these differences, the industrial performances remained in phase. After a dip in the winter, a rally emerged at the end of the first half, which then intensified in Q3, to judge from the latest business surveys. The improvement in the industrial climate stems from the upturn in the export outlook, linked as much to the acceleration in world demand as to the new highly favourable exchange-rate context. Above all, the recovery in euro-zone exports has led to similar movements in inter-industry exchanges within the zone, as shown by the marked upturn in the intermediate goods sector.

Euro-zone growth of close to 3% can be envisaged for the second half of the year, giving a GDP growth rate on an annual average basis of the order of 2% in 1999, this apparently low figure being the result of the statistical carry-over from the end of 1998. What we are seeing is a strengthening of corporate demand thanks to the return of positive inventory behaviour encouraged by the upturn in prices of industrial commodities and crude oil. The propensity to invest is finding support from the recovery in the production outlook. At the same time, the tendency shown by household confidence is in general of a kind to ensure continuing growth in consumption. In this respect, Germany stands somewhat apart, with consumption low in Q2 and household expectations showing signs of weakening. At the same time, however, German incomes are being boosted by substantial wage increases and this could incite households to increase their spending again. It should be noted that the upturn in the euro zone is taking place without inflationary pressure. The year-on-year price rise is increasing slowly under the impact of the rise in fuel prices, but was still only 1.2% in August.

France still enjoying a virtuous circle of employment-consumption-growth

In France, growth in dependent employment in the traded sector remained strong in the first half, weakening only slightly despite the slowdown in



activity in the early part of the year: +0.4% in Q2 following +0.6% in Q1, giving a total of 130,000 jobs created. These were mainly in services, while the industrial workforce continued to decline slightly. In the second half of the year, employment is expected to maintain a tendency close to that seen in the first, but with an acceleration towards the end of the period reflecting the delayed impact of the upturn in activity from Q3 on. In particular, the decline in the industrial workforce could well be halted. Growth in numbers employed in the tertiary sector, which had slowed down in Q2 as the result of the weakening of temporary-agency employment, is likely to pick up again. The construction sector can be expected to take on more workers. In total, dependent employment in the traded sector is expected to rise by 240,000 in 1999 (compared with 270,000 in 1998) and total employment by around 340,000. As a consequence, the unemployment rate would continue to fall but somewhat more slowly than in 1998. After last year's fall of 0.8 of a point, this year's would be half a point, bringing the rate to around 11% in December.

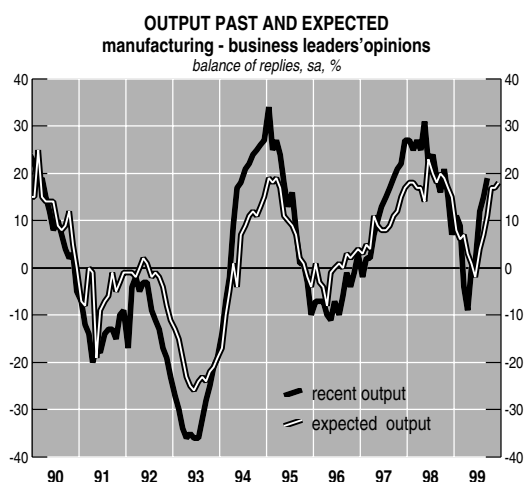
The other consequence of the expansion in employment is to ensure, via the increase in earned incomes, continuing solid progress in real incomes. Growth in nominal earnings is slowing down very gradually, given the past low rate of price rises and cautious behaviour on the part of firms at a time when the reduction in working hours is being negotiated. However, with inflation remaining very low, purchasing power gains are continuing to be recorded. For the year as a whole, real household income, backed by the rise in dependent employment, can therefore be expected to rise by more than 2.5%, as last year. However the end of the year is likely to see growth back to between 2% to 2.5%, with the price rise accelerating slightly under the impact of the higher fuel prices.

The other determinants of consumption remain positively headed. The low level of interest rates is facilitating a steady rise in loans to households. Household confidence is at a very high level and the foreseeable tendency on the labour market suggests that it will remain robust until the end of the year. This means that consumption is likely to rise at a rate at least equal to that of income. All in all, following a slowdown phase, consumption expenditure will probably rise at an annualised rate of close to 2.5% from Q2 on. Certain products can be expected to record very sharp increases in sales in 1999: computers and telephones, cars and household equipment. The last of these items is feeling the benefit of the steady rise in household investment, which is expected to reach 7% this year -- the highest rate since 1989.

Upturn in industry

While the construction sector has been showing appreciable progress, manufacturing output has recorded an annualised growth rate of well below 2% between mid-1998 and the beginning of Q2 1999. This was in fact the sector most affected by the direct and indirect consequences of the Asian crisis: falling exports due to the slowdown in world trade and to the loss of competitiveness vis-à-vis the Asian countries, slowdown in investment because of the downturn in growth prospects, de-stocking linked to the levelling-off in demand and especially to the sharp fall in commodity prices. In Q2, industry returned to a firmer growth rate (1% for the quarter), thanks notably to the revival in foreign trade. In the second half, industrial output is set to accelerate again, as most demand components, especially inventory formation, are positively headed. Business surveys are pointing to a growth rate for manufacturing output of close to 2% per quarter. The intermediate goods sector would be the principal beneficiary of this fresh acceleration.

After being affected in Q1 by the industrial slowdown and by a temporary levelling off in household demand, the service sector began to recover in Q2. Turnover can be expected to accelerate in the second half, especially for business services, where growth in activity is likely to be at an annualised rate of over 3%, as against 2% for services to households.



An acceleration is likely for all forms of corporate investment, with companies' GFCF showing a growth rate of close to 6% in the second half. Firms now regard their financial situations as satisfactory and financing conditions remain favourable, so that there is nothing to hinder the adjustment of the capital stock to the improved growth prospects.

Firm and inflation-free growth in the second half

The vigorous upturn in industry will lead to an acceleration in growth, bringing it to a rate above 3% in the second half. This would be mainly the result of the acceleration in corporate demand. For the year as a whole, GDP is expected to grow by 2.4%.

This firm growth is not likely to create inflationary pressure in the short term. Production costs remain restrained, foreign competition remains strong and the capacity utilisation rate is only slightly above its long-period average, building excepted. Underlying inflation, although set to show a moderately increasing tendency after almost two years of stability, is therefore expected to remain below 1%. The year-on-year price rise, pushed up by the rise in oil prices but curbed by the tendency in food prices, is expected to be 0.8% in December. ■

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