The French economy in 2009: a recession of unprecedented scale since the Second World War

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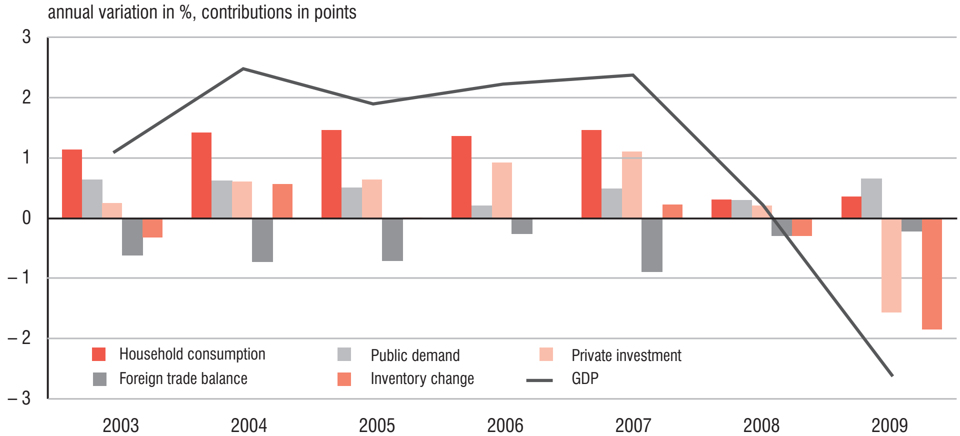
After virtually stagnating in 2008, the French economy suffered its biggest postwar recession in 2009. Volume of activity fell by 2.6% on average over the year (after + 0.2%), a far bigger drop than that which came after the first oil shock (– 1.0% in 1975) or the one in 1993 (– 0.9%). The fall in GDP started in spring 2008 and suddenly accelerated in autumn and winter 2009. Activity has recovered since then, but is still a long way off its pre-crisis level: at the end of the year it was still at a level close to that observed three years previously.

Against a backdrop of worldwide recession, the French economy was penalised by the very sharp contraction of exports, which fell by 12.4%, in line with the fall in world trade. After exports, the main reason for the decline in activity was the drop in demand from enterprises. Their level of investment fell back sharply (– 8.6% after + 2.9% in 2008), particularly in capital goods (– 11.9% after + 2.6%) and construction (– 6.1% after + 3.0%). Furthermore, they ran off stocks massively, and inventory change alone contributed 1.9 points to the downturn in activity *(figure 1)*. Household investment, which mainly goes towards the purchase of new houses, also declined substantially (– 8.7% after – 2.7%). On the other hand, household consumer spending held up reasonably well. Although it slowed considerably compared with the average rate prior to the crisis, it nonetheless progressed in 2009, by 0.6% after + 0.5% in

1. Contribution of the main aggregates to GDP growth



Note: government demand includes the consumer and investment expenditure of general government, and private investment includes investments by enterprises and households.
Source: Insee.

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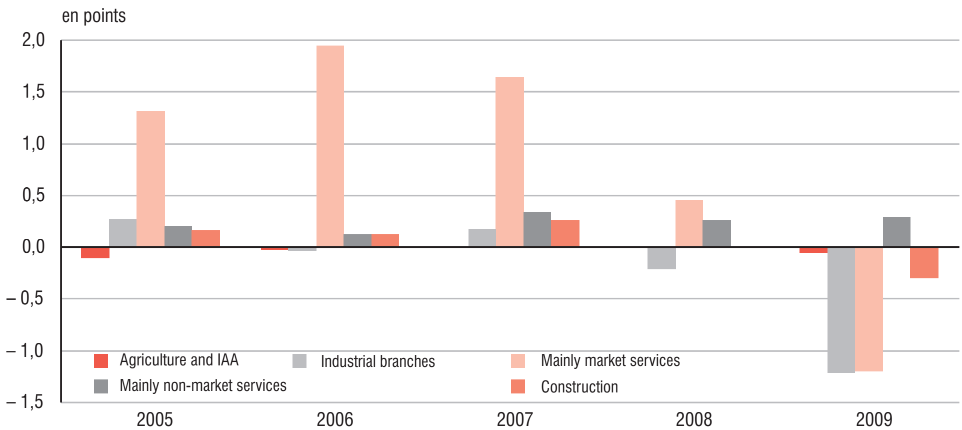
2008. Lastly, general government demand accelerated in 2009 and supported activity, notably by means of the stimulus plan.

The drop in total demand led to a fall in imports which was almost as marked as that in exports, to the extent that the contribution of foreign trade was only just negative (– 0.2 point).

1. The decline in output affected all sectors of activity

The downturn in activity affected all the market sectors *(figure 2)*: first the manufacturing branch, which suffered as early as Q2 2008; but also market services. Owing to their weight in the economy, market services contributed as much as the manufacturing industry to the drop in GDP. Activity in the construction sector decreased less sharply but remained in decline throughout 2009.

2. Contribution of the main branches to total value-added



Source: Insee.

1. a. The decline was particularly marked in the manufacturing industry, which was more exposed to the drop in world trade

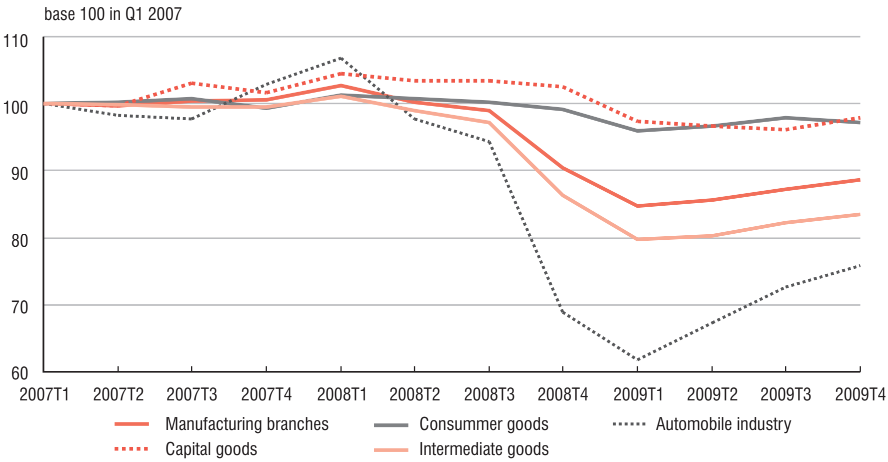
As is often the case in a marked economic cycle, the manufacturing industry was the main market sector to undergo the most pronounced changes: production fell by more than 10% after a first decrease of around 2% in 2008.

Within the manufacturing industry, the automobile branch was the most severely affected, suffering a drop of 23% after a fall of 10% in 2008. Despite representing relatively little weight in total value-added (less than 1%), the automobile industry played an important role in the dip in global activity: first directly, with the extent to which its production contracted, then indirectly, with the knock-on effect that the fall in automobile output rate exerted on other branches (in particular the intermediate goods sector and, to a lesser extent, the capital goods and services to businesses sectors). It can be estimated that the drop in value-added in the automobile industry ultimately had around three times more impact on GDP than its direct effect alone (see Focus, "Automobile production gearing down: its role in the recession", Conjoncture in France, March 2009).

Production in the intermediate goods industry also saw a substantial drop, of around 13% after a fall of around 3% in 2008. In the consumer goods and capital goods sectors, activity also declined in 2009, although less markedly.

The downturn in industrial production was concentrated between Q1 2008 and Q1 2009, and was particularly severe at the end of 2008. Industrial activity rebounded from Q2 2009, particularly in the automobile sector with the implementation of the scrappage allowance in many countries. It also benefited from the upturn in imports from the emerging countries. But at all events, industrial production at the end of 2009 was at a much lower level than that before the crisis (almost 14% below the level of Q1 2008, *figure 3*).

3. At end 2009, industrial production was still well below pre-crisis levels



Source: Insee.

1. b. The downturn in activity also affected market services, although to a lesser extent

The downturn in activity also affected market services. Although its scale (– 2.1% after + 0.7% in 2008) was more limited than that observed in industry, it was nonetheless the biggest downturn since the war. Three branches were mainly responsible. The trade and transport sectors suffered from the decline in purchases of intermediate and capital goods, as well as the contraction of exports. Services to businesses were penalised by the demand from the production apparatus.

Conversely, financial services enjoyed a modest rebound in 2009 (+ 2.0%) after a difficult 2008, thanks to the recovery of life-insurance activity (see below).

1. c. An odd cycle for housing: the turning-point was more gradual than in industry, but the crisis was prolonged and activity continued to fall in H2

Lastly, construction suffered greatly during the crisis, both in its building component and in public works. The turning-point actually dates back to 2008 (– 0.7%), but the decline in production worsened in 2009 (– 5.1%). More gradual than in the manufacturing industry, this decline lasted until the end of 2009.

The construction sector suffered because of the fall in building investment by households (– 8.0% after -1.6% in 2008) and enterprises (see below). This downturn was however softened by the impact of continuing building investments by general government in 2009 (+ 0.0%), backed up by the stimulus plan.

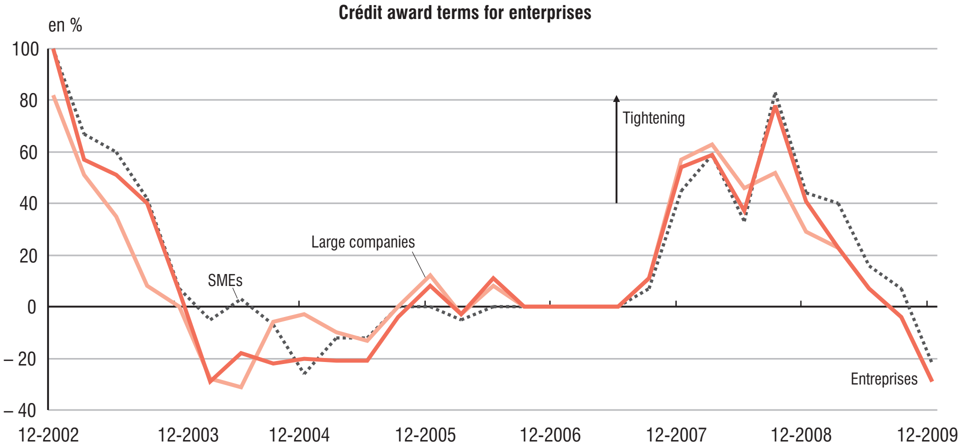
2. A drastic adjustment of corporate demand

With difficult financing conditions and the drop in outlets, corporate demand contracted sharply.

2. a. Financing conditions that took time to return to normal

Throughout 2009, financing conditions remained difficult for companies. It is true that after having increased sharply at the end of 2008, the yield on bonds started to fall in early 2009 and risk premiums gradually decreased. However, with respect to bank financing, the situation remained globally restrictive over the year as a whole. Although the interest rates on business loans came back down after reaching their peak at the end of 2008, the real rates were actually maintained at a high level until the end of 2009 if the drop in inflation is taken into account (see below). Above all, the credit award terms of banks – not just the rates but also the facility with which banks granted loans – continued to tighten until mid-2009, particularly for small and medium enterprises, as seen in the results of the Banque de France survey on credit distribution *(figure 4)*.

4. Difficult bank financing conditions



How to read the graph: the bank terms for awarding loans to enterprises are tighter on average for positive values. Conversely, they ease when the curve dips below 0.
Source: Banque de France.

2. b. In the face of fewer outlets, enterprises ran off stocks significantly in the first half of the year

As in previous major slowdowns or recessions (1975, 1981 and 1993), enterprises ran off stocks massively all year long. Indeed, in a context of falling numbers of outlets and poorly-oriented price perspectives, the exacerbation of the financial crisis in autumn 2008 incited companies to limit their cash requirements. The cashflow situation of enterprises only started to improve halfway through the year, as indicated by the Cashflow in Industry survey by Insee, and the trend of running down stocks only abated in the last quarter.

On average over 2009, inventory change was responsible for more than two-thirds of the drop in GDP (– 1.9 point for a drop of 2.6%). This very large contribution was concentrated in the two sectors where production fell the most: the automobile industry (contribution to GDP of – 0.7 point), which was hit hard at the end of 2008 before being boosted by the scrappage allowances in 2009, and the intermediate goods sector (contribution to GDP of – 0.8 point).

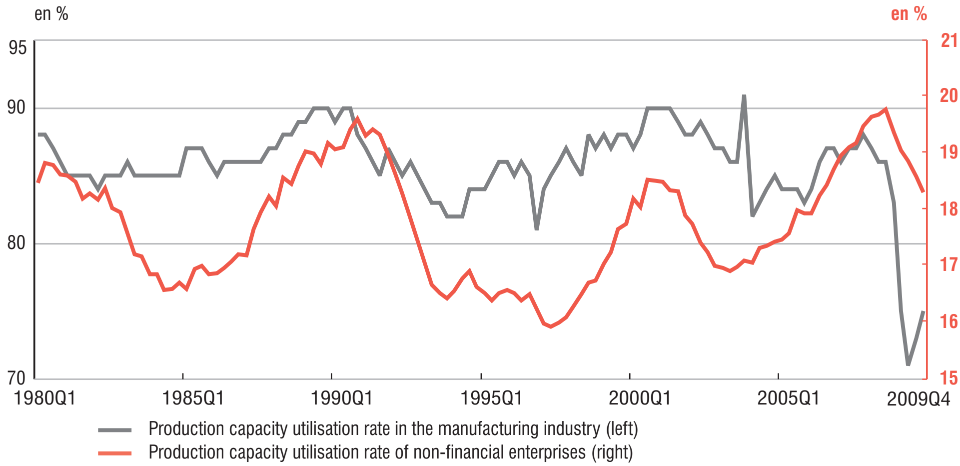
2.c. Decline in investment by non-financial enterprises

The drop in demand and the worsening financial conditions also led to a fall in investment by non-financial enterprises, especially since the production capacity utilisation rate fell to an all-time low over the first half of 2009 *(figure 5)*. All in all, investment by non-financial enterprises fell by 8.0% in 2009, after + 2.4% in 2008. Such extensive drops had only been observed three times in the postwar period: in 1952[1], in 1975 (first oil shock), and during the recession of 1993.

Product by product, the downturn had a particular affect on investment in capital goods (– 11.9% in 2009 after + 2.6% in 2008), in cars and commercial vehicles (– 11.5% after + 3.5%), and in construction (– 6.1% after + 3.0%). Investment in services, which accounts for almost 30% of the total, was slightly less affected.

At the end of 2009, investment by non-financial enterprises had still not turned around, despite the rebound of demand from Q2 onwards: it declined again, by 1.2% in Q4.

5. Corporate investment rate and production capacity utilisation rate



Source: Insee.

2.d. The margin ratio of non-financial enterprises fell sharply while their debt ratio increased once again

In 2009, the value-added of non-financial enterprises (NFE) declined substantially (– 3.9% in value). In the same period, remuneration of employees dropped less rapidly (– 1.4%). The fact that this decrease was smaller than that of value-added is a classic phenomenon in a recession, and is linked to the productivity cycle (see below). The gross operating surplus (GOS) of

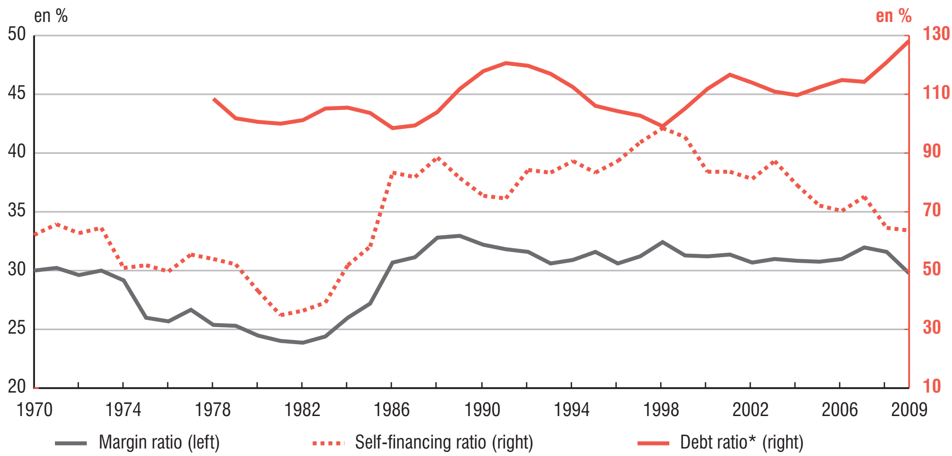
1. The fall in corporate investment in 1952 was the result of a combination of factors: the lack of commodities following the leap in prices during the Korean War; the lack of heavy equipment for private industry because the equipment industries were mobilised by the State for rearmament (public/private substitution); and a serious shortage of labour.

NFEs thus declined far less sharply than the value-added (– 9.4% after + 1.9%), to the extent that their margin ratios decreased considerably as an annual average (– 1.8 point), settling at 29.8%. This level is slightly lower than the range within which it has hovered over the last 20 years (between 30½% and 32½%, *figure 6*).

The fall of the GOS of NFEs was nonetheless almost totally compensated for by the huge drop in corporate tax that they paid (– 61.3%, i.e. – €28.1 bn), partly resulting from cashflow measures implemented as part of the stimulus plan (faster restitution by general government of the debt held by enterprises on the State for the research tax credit, as well as carry-back debts). The net balance of income from property paid to NFEs deteriorated: the dividends they received decreased while the dividends they paid increased slightly; the balance of their reinvested profits thus worsened.

All in all, the savings of NFEs continued to fall in line with the previous year (– 9.7% after – 9.6%). At the same time, they cut into their investment expenditure, so much so that their self-financing ratio (investment/savings ratio) was almost stable at just under 65%, after a fall of more than 10 points in 2008. Last, the debt ratio of NFEs continued to rise and approached 130% in 2009.

6. Margin ratio, self-financing ratio, debt ratio of non-financial enterprises



(*) Outstanding debt at the end of the year, in relation to annual value-added.
Sources: Insee, Banque de France, Insee calculations.

2.e. The activity of financial enterprises rebounded

After falling back slightly in 2008 (by – 0.3% after + 0.7% in 2007), the value-added of financial enterprises once again showed strong growth in 2009 (+ 9.1%). This rebound was firstly due to the banking institutions. The value-added of insurance companies declined for the third consecutive year, but far less sharply than in the previous years.

If the strong growth in the value-added of banks (+ 14.3%) is in line with the first results published by the major banking groups for 2009, those of the previous years (+ 4.5% in 2008 and + 1.9% in 2007) may appear to be a paradox in the context of the financial crisis. This stems from the fact that the measurement of value-added in banking by the national accounts does not include either the gains or, in this case, the losses in value of the financial assets they own. Bank production only includes the commissions received for interbank services and services invoiced to customers. It also includes indirectly measured financial intermediation services (SIFIM), corresponding to the margins that banks make on deposits and loans.

In 2009 as in 2008, invoiced services by banks were not very dynamic: they rose in value by + 0.8% (+ 0.2% in 2008) after two years of strong growth (+ 11% in 2007 and + 14% in 2006). However, with the drop in interest rates on the money markets and the relative inertia of the interest rates on loans awarded, SIFIM progressed strongly over the last two years (+ 20.5% in 2009 after + 10% in 2008), thereby contributing to the sharp rebound of production by banks in 2009 (+ 7.2%) and their value-added (+ 14.3%, or + 7.2 billion euros).

This renewed dynamism in banking activities can also be seen in the remuneration of the workforce. After a drop of – 1.3% in 2008, remuneration rose by + 4.6% in 2009, essentially under the effect of a substantial rebound in terms of profit-sharing. As the increase in value-added was largely superior to that in staff costs, the result was a sharp rise in the margin ratio which, at 35.2% in 2009 after 29.3% in 2008, returned to a comparable level to that of the early 2000s.

The new decline in the activity of insurance companies in 2009 (by – 1.6%, after respectively – 7.7% and – 6.9% in 2008 and 2007) marks a trend reversal in its two main components (life insurance and accident insurance). Life insurance enjoyed a significant upswing in 2009 with the lower rate of return of regulated savings plans (the "Livret A" in particular). Conversely, the accident insurance results were affected by a highly unfavourable loss level, independent of the exceptional compensation paid out to claimants following Hurricane Klaus.

3. Major deterioration of the labour market

With the sharp downturn in activity and the deteriorating financial situation of enterprises, the labour market worsened considerably in 2009. Job losses[2] came to 336 000 for the economy as a whole and to 392 000 for the non-agricultural market sector[3]. Despite the upturn in activity during the year, employment remained in a downward trend at the end of the year, since enterprises had not adjusted their workforce to the drop in activity during the recession.

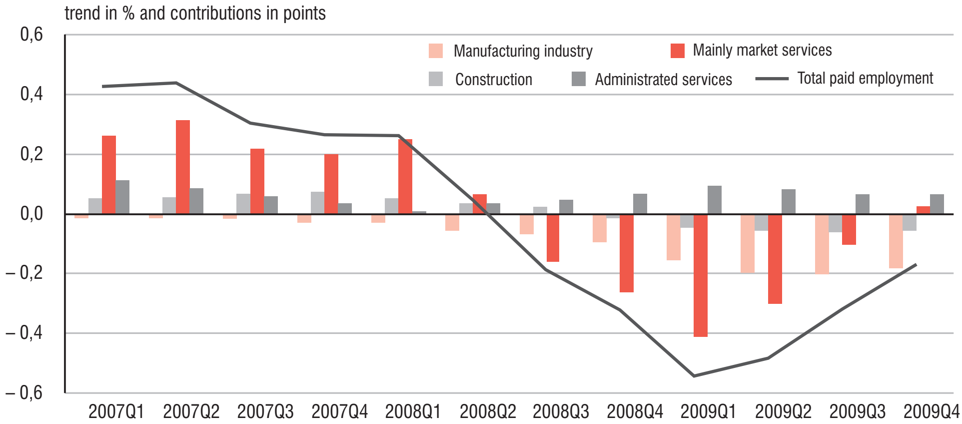
3.a. The downturn in employment hit all sectors of activity

Job losses in the non-agricultural market sector increased in 2009. As in H2 2008, the market tertiary sector made a large contribution to the drop in total paid employment *(figure 7)*. Most of the adjustment of employment in this sector can be explained by the adjustment of temporary work, which occurred faster at the start of the crisis than the other components of market employment. As a quarterly average, temporary employment lost almost 220 000 jobs between Q1 2008 and Q2 2009, of which almost two-thirds in industry. Although the temporary job market recovered somewhat over the second half of the year, in that respect following the rebound observed in the manufacturing industry, it was nonetheless a long way from its weight prior to the crisis: its proportion in the non-agricultural market sector as a whole was 3.1% at the end of 2009, against 4.0% two years previously.

Employment also suffered a sharp decline in industry, which is also the branch that most suffered from the crisis in 2008-2009. The adjustment of employment in this sector initially affected temporary employment, which started heading downwards as early as Q2 2008. As a result, until the end of the year industrial employment was able stay on the same course following a steady fall observed since 2002 (around 10 000 to 20 000 jobs per quarter). Job losses

2. The concept of employment used here is the employment of natural persons within the meaning assigned by the national accounts. It differs from employment as usually published by INSEE, mainly in terms of the period it covers: it is calculated as a quarterly (or annual) average whereas the published employment figures indicate employment at the end of a period (quarter or year).
3. The non-agricultural market sector includes industry, construction, and mainly market services.

7. Contribution to total paid employment by the different sectors of activity



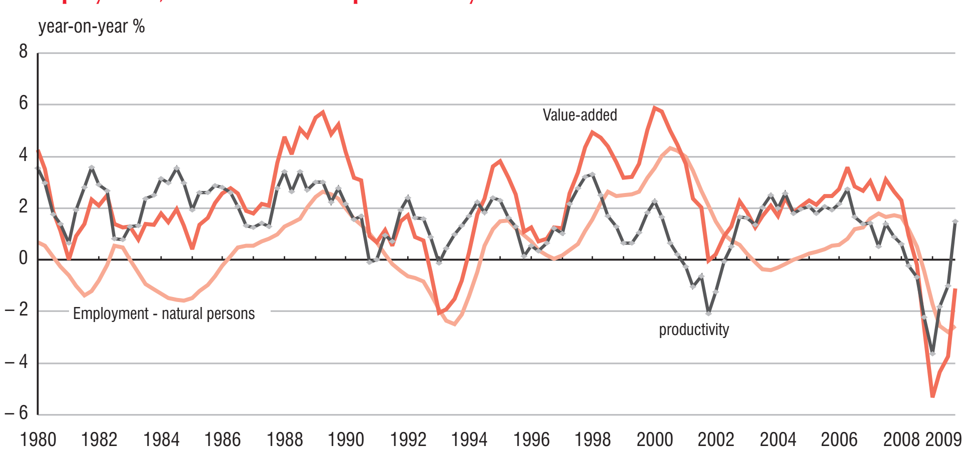
Source: Insee.

only really intensified from the end of 2008. Lastly, employment in construction reacted quite late, but showed a big loss for 2009 (see report, "The employment cycle", Conjoncture in France, March 2009).

Only the non-market services contributed positively to total employment in 2009. In particular, the number of beneficiaries of subsidised work contracts in the non-market sector increased sharply – by 60 000 between 31 December 2008 and 31 December 2009. The number of newcomers to the assisted work contract (CAE) scheme returned to the levels of 2006 and 2007: 258 000 people started a CAE in 2009, against 169 000 in 2008. These extra newcomers were concentrated in the "gateway" CAE, established in the framework of the action plan in aid of young people.

After the turning point towards a drop in activity in spring 2008, productivity in the non-agricultural market sector fell sharply *(figure 8)*. It lost almost 3.0% between Q1 2008 and 2009. This is a common phenomenon in that employment adjusts with a time-lag to variations in activity.

8. Employment, value-added and productivity of labour in the market sectors



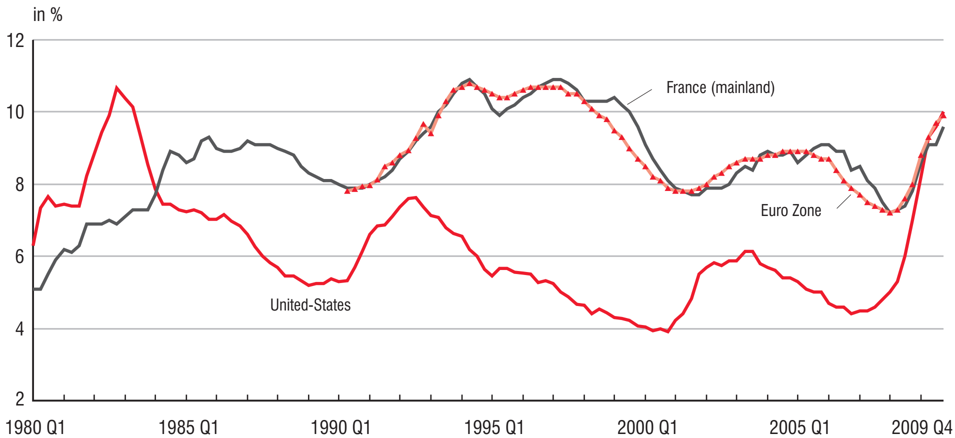
Source: Insee.

With the upturn that was underway in Q2 2009, as enterprises were continuing to adjust their employment to the previous drop in activity, productivity recovered substantially: year-on-year, it grew by 1.5% in Q4 2009.

3.b. A substantial rise in unemployment

With the deterioration of the labour market, the rate of unemployment started to rise as early as Q2 2008; it had reached a low point in the previous quarter (7.2% in Metropolitan France and 7.5% in France including overseas departments) after shrinking for two years. In 2009, as employment continued to fall, the unemployment rate continued to rise: in Q4 2009 it was at 10% in France including overseas departments, a level it had not reached since 1999. In Metropolitan France, the employment rate rose to 9.6% in Q4 2009, or just over 2.7 million jobseekers. The rise in unemployment particularly affected young people (15-24 years), for whom the rate increased by more than 6 points between Q1 2008 and Q4 2009, rising (in France including overseas departments) from 18.4% to 24.8%.

9. Sharp rise in the rate of unemployment



Sources: Insee, Eurostat.

This large rise in unemployment occurred in most of the developed economies *(figure 9)*, albeit in different proportions, with the notable exception of Germany where labour retention was very widespread. The increase was spectacular in the United States where the rate of unemployment reached 10% at the end of 2009, while it had been lower than 5% prior to the crisis.

3.c. A slowdown in the average wage per head

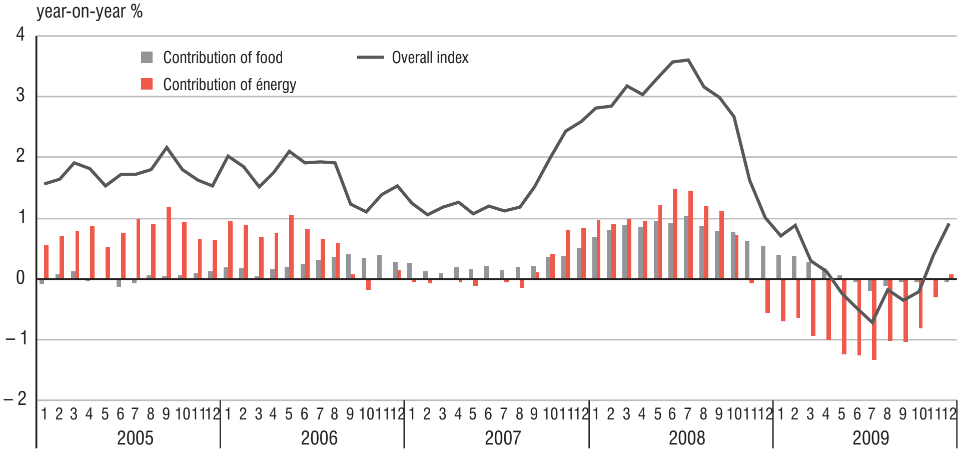
The nominal average wage per head (SMPT) in the non-agricultural market sector progressed by 1.3% in 2009, a clear slowdown compared to previous years (+ 2.7% in 2007 and + 2.5% in 2008). This slowdown was largely the result of an unprecedented decline in Q1 (– 0.7%), mainly owing to a decrease in the bonuses paid in certain service sectors. It also stemmed from a reduction in working time per employee via the decrease in overtime and the increase in partial unemployment. The SMPT then returned to growth over the rest of the year.

4. The drop in inflation sustained purchasing power, and household consumption bore up

With the deteriorating labour market, earned income (wages and gross operating surplus of sole proprietorships) slowed down considerably in 2009. But purchasing power accelerated, thanks to the fall in inflation.

Indeed, after a rise in 2008 to 2.8% as a yearly average, inflation (in the sense of the consumer price index – CPI) slowed sharply to reach 0.1% in 2009 *(figure 10)*. This is the most moderate rise since the start of the 1960s.

10. Virtually nil inflation in 2009



Source: Insee.

4.a. The nominal wage slowed in 2009…

Household income slowed sharply in 2009, owing to the dip in earned income. The slowdown of the average wage per head and the fall in employment led to a stagnation of wage income (+ 0.0% after + 3.1% in 2008). Furthermore, the income of sole proprietors slid back by almost 4% under the effect of the economic crisis, whereas it had risen by 1.5% in 2008.

Income from property also fell sharply in 2009. The net balance of interest received by households decreased considerably after having improved slightly in 2008. Indeed, the drop in the market rates was passed on more to the remuneration of household deposits than to the interests they paid on their loans, notably property loans. In addition, the dividends received by households decreased by 2.8% with the economic and financial crisis, after + 4.4% in 2008.

However, the built-in stabilisers (in particular the rise in unemployment benefit) and certain measures in the stimulus plan (in particular the active solidarity bonus paid out in Q2 and the suppression of the last two-thirds of income tax for modest households) shored up the disposable income of households. Social benefits rose (+ 5.3% after + 3.5% in 2008) and the taxes paid by households dropped by 4.4%, whereas they had increased by 5.0% in 2008.

4.b. … but inflation fell back even more sharply

On average, inflation in 2009 remained virtually nil (0.1%) after 2.8% in 2008.

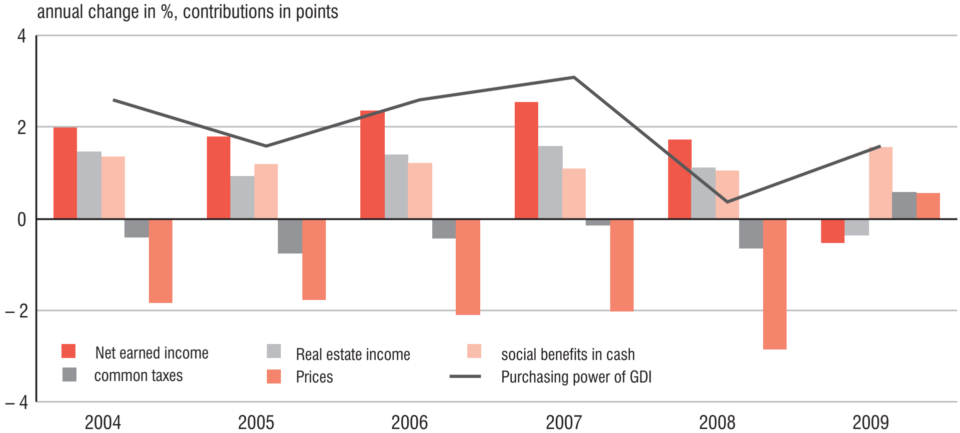
As in 2008, the growth of inflation as an annual average in 2009 masked highly contrasting trends in the course of the year. Year-on-year inflation experienced a substantial drop, as much as 0.7% in July, before rising back up to + 0.9% in December 2009 *(figure 10)*.

This profile was mainly dictated by that of energy and food inflation. Oil prices fell sharply, from $133 per barrel or Brent to $40 in December 2008. This decline brought down the prices of fuel and gas, which then increased in early 2009 without however getting back to the levels of 2008. Since July 2009, energy prices have risen rapidly in the wake of oil prices. Additionally, the prices of food commodities fell by 8.5% on average over 2009. This downturn combined with the reforms that took place in 2008 in the supermarket sector led to a clear slowdown in food prices, excluding seasonal produce.

The prices of industrial goods were stable in 2009, after a rise of 0.3% in 2008. The fall in demand took its toll on margins, while costs were dragged down by the knock-on effect of the drop in the prices of commodities, notably oil, in H2 2008.

The prices of services also slowed slightly in 2009 (+ 2.3% after + 2.4%), with the slowdown being more marked in the second half of the year. The prices of services were dragged down by the VAT cut in the catering industry, although this was only partially passed on to the consumer. Lastly, the moderation of wages owing to the deteriorating labour market gradually spread to the prices of most services.

11. Contributions to growth of the purchasing power of gross disposal income



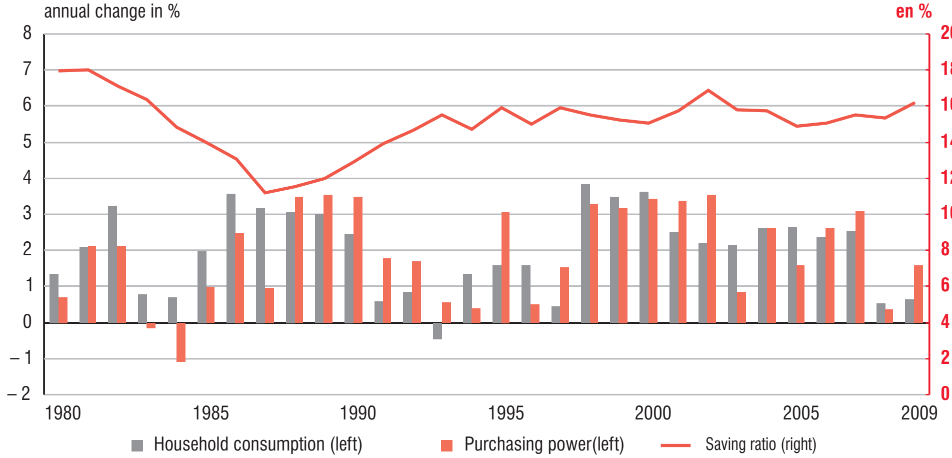
Source: Insee.

4.c. … so much so that purchasing power accelerated sharply

All in all, the consumption deflator fell by 0.6% in 2009[4], after rises of 2.0% in 2007 and 2.9% in 2008. So despite the slowdown in nominal household income, purchasing power (or real income) accelerated sharply in 2009, (+ 1.6% after + 0.4% in 2008, *figure 11*). Per consumption unit, it rose by 0.8%, after – 0.4%.

4. The consumption deflator in the national accounts differs from the consumer price index in that it includes indirectly measured financial intermediation services, the prices of which fell back sharply in 2009 following the cut in interest rates. This does not affect purchasing power because these services are counted both in income and in the final consumption expenditure of households.

12. Consumption held up and the savings ratio increased



Source: Insee.

4.d. Consumption stood firm despite a rise in the savings ratio of households

The good bearing of purchasing power combined with the support provided by the scrappage allowance enabled household consumption to hold firm: it increased by 0.6% after + 0.5% in 2008 *(figure 12)* and did not experience any major drop during the quarters of the recession. Consumption thus played the role of stabiliser for the French economy throughout the crisis.

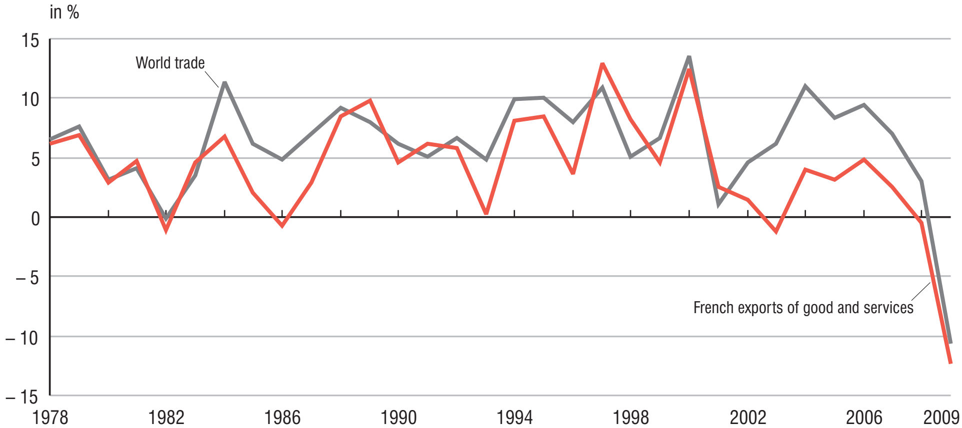
However, this climb was minor compared to the pre-crisis rate, of the order of + 2.5% per year. Additionally, the relatively good bearing of consumption came hand in hand with the formation of precautionary savings in response to the deteriorating labour market and revenue prospects. Savings thus increased by almost a point between 2008 and 2009, from 15.4% to 16.2% of gross disposable income. With the concomitant fall of housing purchases, the increase in financial savings was even more marked: it rose by 2.1 points, from 4.7% of GDI in 2008 to 6.8% in 2009.

The progress of consumption can mainly be ascribed to the dynamism of consumption in automobiles and financial services. Conversely, household energy consumption fell back sharply (– 1.9%), as did the consumption of many services, in particular transport and on-trade services.

With the support provided by the scrappage allowance from December 2008, automobile consumption rebounded (+ 4.7%, after – 4.1% in 2008) and alone contributed 0.3 point to the growth of total consumption, or half of its increase. Automobile consumption also accounted for all the progress of the manufacturing industry. Dynamic throughout 2009, it leaped forward at the end of the year (+ 7.9% in Q4 alone) as certain households brought forward their automobile purchases in order to make the most of the more advantageous scheme before the allowance tightened on 1st January 2010, with the bonus going down from €1 000 to €700.

Consumption of financial services also increased substantially (+ 5.7%) after a slight drop in 2008. This rebound was due to renewed interest in life-insurance policies, boosting consumption of insurance services (+ 8.6% after – 1.7% in 2008). Indeed, the big cut in the interest rates of regulated savings plans made these policies attractive in 2009.

13. World trade dragged down French exports



Sources: Insee, OCDE.

5. Foreign trade contracted sharply in 2009

In late 2008-early 2009, the slowdown in activity in the advanced economies, then the emerging countries, brought about an unprecedented downturn in world trade. Over 2009 as a whole, world trade fell by 10.7% *(figure 13)*, after slowing substantially in 2008. In its wake, with the fall in world demand for French products, French exports of goods and services contracted by12.4% in 2009[5]. This was the biggest drop in exports in France since the Second World War. It was however slightly less pronounced that the fall in exports in Germany and the rest of the Euro Zone.

5.a. The fall in French exports over 2009 as a whole masked a rebound starting in Q2

The sharp contraction of exports actually occurred in Q4 2008 and Q1 2009. As early as Q2 2009, French exports started to pick up again (+ 0.5%, then + 1.8% and + 0.0% in Q3 and Q4s). The upturn in exports can mainly be attributed to the dynamism of demand from the emerging countries, in particular the Asian countries. They recovered more quickly, bringing with them the exports of their closest trading partners and then, by a knock-on effect, those of the rest of the world (see report, "Can emerging Asia drive worldwide recovery?", *Conjoncture in France, March 2009*). The rebound of French exports in Q2 2009 was, however, less marked than that of Japanese, American and German exports, since their link with the emerging Asian countries is not so strong.

5.b. A drop mainly attributable to the downturn in exports of industrial goods

In 2009, all products were affected by the decline of world trade. However, the sharp contraction of industrial exports almost totally accounted for the drop in exports of goods and services[6].

5. French exports experienced a slight downturn in 2008, of 0.5%. They grew at an annual average rate of almost 4.0% between 2004 and 2007.
6. Industrial exports represented almost 70% of French exports of goods and services in 2008, and fell by more than 14%.

Among the industrial goods, exports of automobiles and intermediate goods suffered the biggest downturn in 2009 (respectively – 25.7% and – 16.8%). They had already declined sharply at the end of 2008, while exports of consumer goods and capital goods held up better. Following the implementation of the scrappage allowance in many countries, French automobile exports rebounded sharply in Q2 2009. Exports of capital goods shrank (– 14.0% in 2009), despite the support of big Airbus sales all year long. Their contribution to the drop in industrial exports was ultimately greater than that of automobile sales. Lastly, exports of consumer goods fell back less than other industrial goods (– 2.1% in 2009).

5.c. Imports fell too

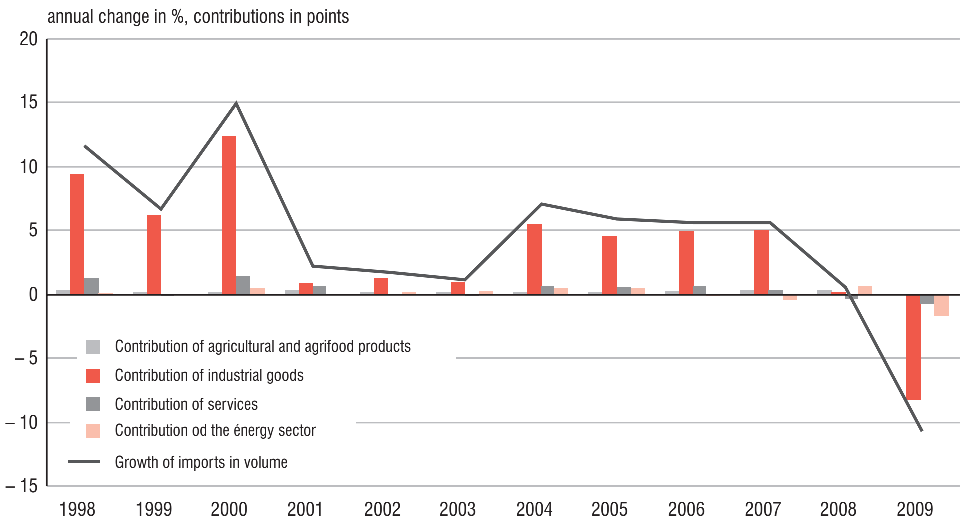
French imports of goods and services also contracted substantially in 2009 (– 10.7%) after a downturn in 2008 (+ 0.6%). They were mainly penalised by companies running off stocks and by the sharp fall in investment and exports[7] at the end of 2008 and start of 2009, while French consumption remained relatively dynamic.

Imports only saw renewed growth in Q3 2009, that is, a quarter later than exports. However, the return to growth of imports was more dynamic than that of exports at the end of the year. Imports were pulled up by the rise in consumption.

Over 2009 as a whole, the drop in imports is mainly ascribable to the fall in industrial imports *(figure 14)*, as the other items have less weight in the structure of total imports[8].

As with exports, imports of automobiles, capital goods and intermediate goods suffered the sharpest downturns, while imports of consumer goods dropped more moderately. The decline in imports of intermediate goods alone accounts for half of the decline in industrial imports.

14. Drop in imports in 2009



Source: Insee.

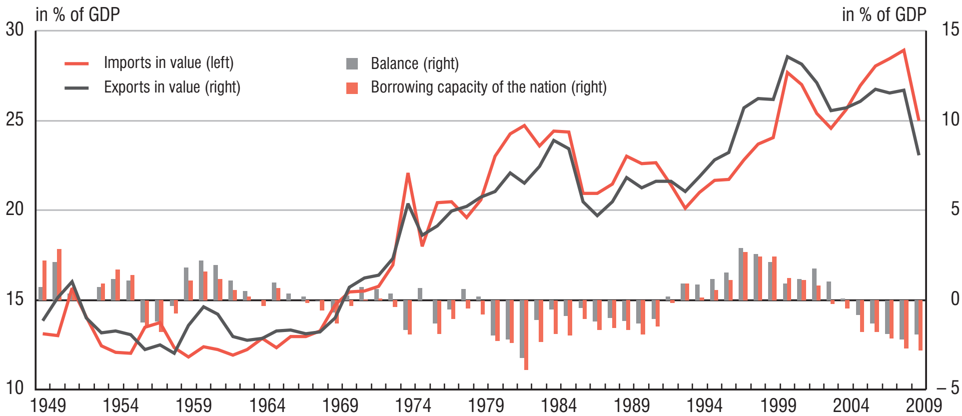
7. Via intermediate consumption incorporated into exports.
8. Imports of industrial goods accounted for more than 71% of all French imports of goods and services in 2008.

Over 2009 as a whole, the contribution of foreign trade to GDP growth was negative (0.2 point). This probably reflects the fact that the recession was deeper among France's main trading partners than in France itself.

5.d. In value, the trade balance recovered slightly with the downturn in energy prices

With the fall in trading prices during the crisis, exports and imports declined more sharply in value than in volume. Import prices decreased by 6.7% in 2009 and export prices by 3.7%. Owing to this, the trade deficit in value was reduced slightly in 2009 *(figure 15)*. It was essentially the improvement in the energy balance, carried by the fall in oil prices, that contributed to this reduction in value of the trade deficit.

15. Balance of foreign trade



Source: Insee.

6. Major deterioration of Public Finances

6.a. The public deficit in the sense of Maastricht reached 7.5% of GDP

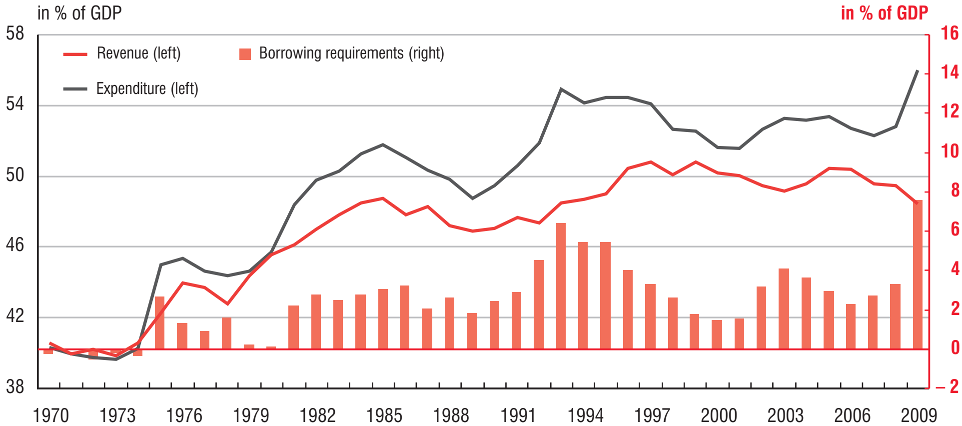
Under the effect of the economic crisis, the public deficit reached 7.5% of GDP in 2009 *(figure 16)*, the highest point since the end of the war, after 3.3% in 2008. This deterioration, representing almost 80 billion euros, came from the State and the social security administrations: the State deficit increased by 62.1 billion euros and that of the social security by 23.1 billion euros. The borrowing requirements of the various central government bodies (ODAC) and local government improved, respectively by 2.7 and 3.1 billion euros.

The deficit worsened owing to the recession: State revenue decreased drastically (– 4.2% in 2009 after + 2.6% in 2008), while expenditure continued to climb at a sustained pace (+ 3.8% in value, like the previous year). The public expenditure ratio reached 56.0% of GDP, another historic high, at the same time that the revenue ratio dropped to 48.4% of GDP.

6.b. General government revenue declined by 4.2% in value

In 2009, the general government tax revenues settled at 41.6%, that is, an exceptional decline of 1.3 point. The economic crisis weighed heavily on the State tax revenues, with,

16. Borrowing requirements of general government



Source: Insee.

among others, a sharp contraction of corporate tax revenues. The revenues of other government bodies stagnated.

The decline in the tax ratio can be explained by the spontaneous decline in fiscal and social revenues owing to the recession, and measures to ease the tax burden, most of which were decided in the framework of the stimulus plan. Notably, enterprises benefited from cashflow measures that brought down corporate tax by 9 billion euros. Households also benefited from tax relief, particularly the more modest households with the suppression of the provisional last two-thirds of income tax, for one billion euros. However, even in the absence of new fiscal and social measures, the tax burden would have dropped by 3.2%, a bigger decline in value than that of GDP (– 2.1%).

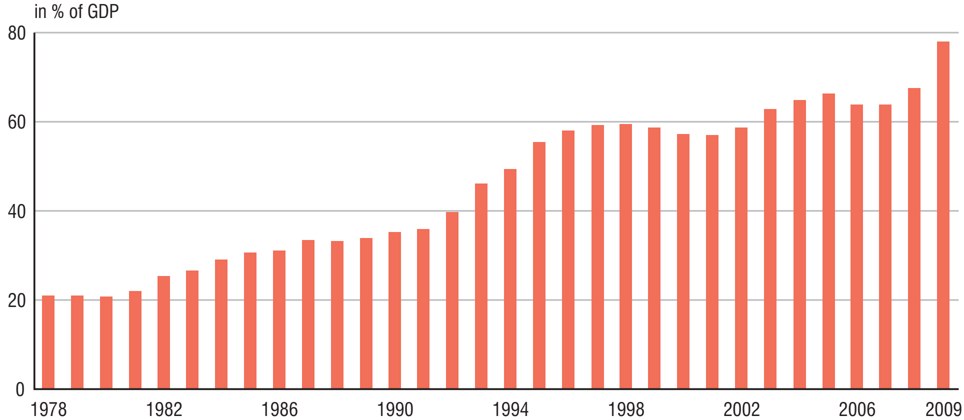
6.c. Public expenditure climbed by 3.8%

Central government expenditure (State and ODAC) increased by 4.2%. The wage bill rose only very slightly (+ 1.2%) owing to the drop in the workforce: partial non-replacement of civil servants reaching retirement age, transfer of ANPE staff to the social security administrations as part of the set-up of the Pôle Emploi, and continuing decentralisation measures. On the other hand, pensions paid by the State increased sharply (3.8%) with the arrival of larger numbers of people reaching the retirement age. Intermediate consumption (+ 6.5%) and investment expenditure (+ 19.6%, including investment aid) were very dynamic under the effect of the stimulus plan.

The rise in expenditure was more modest in the local authorities, where they continued to decelerate: + 3.0% in 2009, after + 4.2% in 2008 and + 7.2% in 2007. The wage bill grew more slowly (+ 4.4% in value after + 6.3% in 2008), due to the smaller scale of State staff transfers. After slowing sharply the previous year, local investment decreased this year (– 2.6% after + 0.8% in 2008 and + 8.9% in 2007). This break observed for the last two years is not unusual after municipal elections; the stimulus plan attenuated its effects somewhat.

Social security expenditure accelerated in 2009 (+ 4.5% after + 3.1% in 2008). Only old-age benefit fell back (+ 4.3% after + 5.0% in 2008). Unemployment benefit increased substantially (+ 16.8% after – 1.2%) with the rise in the number of jobseekers. Sickness benefit rose by 4.5% after + 4.0%.

17. Public debt in the sense of the Maastricht Treaty



Source: Insee.

6.d. Public debt climbed sharply due to the large borrowing requirements

Government debt in the sense of Maastricht reached 78.1% of GDP at the end of 2009, after 67.5% at the end of 2008, i.e. a climb of 10.6 points *(figure 17)*. Net public debt also rose, although not as quickly: it settled at 71.1% of GDP after 61.6% in 2008, an increase of 9.5 points.

State contribution to public debt grew by 126.4 billion euros, a bigger variation than its deficit, reaching 1 162.6 billion euros, or 61.0% of GDP. The main explanation for this further increase above borrowing requirements was the loans granted to the automobile sector, accounting for 6.3 billion euros. The debt of miscellaneous central government bodies reached 115.3 billion euros at the end of 2009, a rise of 19.9 billion euros under the effect of part of the debt of general government (16.9 billion euros) being taken by the CADES. Despite this, the contribution of the social security administrations to public debt also increased, by 18.9 billion euros, reaching 54.3 billion euros at the end of 2009. ■