

2001 in retrospect

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The year 2001 saw the French economic upswing level off. With a GDP growth of 2% (and the year-on-year figure was only 0.9%), the first year of the new century posted an out-turn that was distinctly less favourable than had been imagined when it began. Admittedly, the weakening of the United States economy was already perceptible in January, and then confirmed through the implementation of the vigorous monetary easing, but its repercussions on the whole of the world economy, and on Europe in particular, seemed likely to be only gradual and moderate. In the upshot, the outlook for activity as perceived by European business leaders rapidly weakened, showing that, quite apart from the expected effect associated with world trade, the American slowdown was having an adverse impact on the European economy via its impact on expectations.

A closer look at the national accounts figures for the various components of demand gives useful indications regarding the factors behind the slowdown in growth.

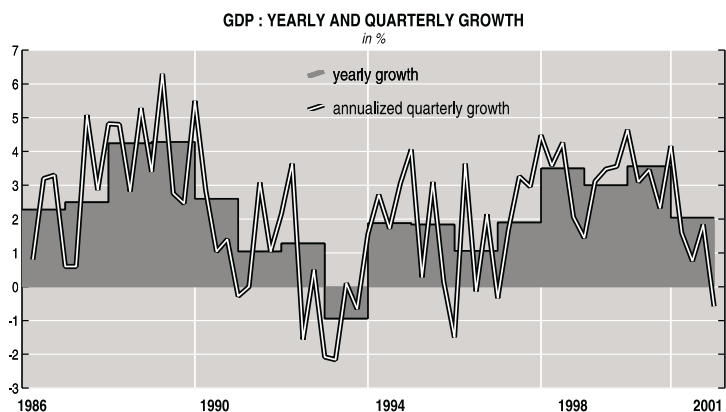
Exports contracted in 2001. The very small (1.1%) average increase for the year in fact masks a decline in each of the four quarters, a quite exceptional occurrence. This evolution is in contrast to the brisk (13.3%) rise in exports seen in 2000. The scale of the downturn means that it cannot be explained merely by a modification in competitiveness, which in fact changed very little, notably because the exchange rate for the euro against the dollar tended to level out. In reality, it corresponds to a contraction in world trade that is unprecedented in recent times, a movement in which France also participated, since French imports fell exactly in parallel with exports. The downturn in business leaders' expectations was in fact initially reflected in a sharp downturn in inter-firm trade, reflecting a major de-stocking tendency.

Stock changes in fact made a negative contribution of 1 percentage point to GDP growth in 2001, compared with a slightly positive con-

tribution the previous year. The slowdown in the economy, already perceptible in the winter, was intensified following the summer break with the realisation that the American economy was heading for recession and in reaction to the events of 11 September. The other component of demand to feel the impact of the adjustments made by business leaders was investment. At 3.8%, the rise in corporate GFCF was only half what it had been in 2000. In fact, investment growth at annualised rate, which was still as high as 9% in H2 2000, was virtually zero throughout 2001.

The only component of demand to rise as strongly in 2001 as in the previous year was household consumption (2.9% in both years). This tendency was, in the first place, the result of a very strong rise in incomes, linked to an acceleration in wage growth and to tax cuts, and leading in the end to a record increase in purchasing power, of the order of 4%. It was also due to the fact that households maintained a positive attitude toward consumption. Admittedly, the population at large has been relatively insensitive to the deterioration in the international economic cli-

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mate, as well as to the events of 11 September and their aftermath — to judge by their opinion regarding the outlook for their standard of living, generally a good reflection of their perception of the general climate. They were nevertheless somewhat worried about the evolution of prices, especially in connection with the changeover to the euro. However, the easing of the oil price tended to limit the year-on-year price change (1.4% in December). The main shift in household opinion related to the evolution of unemployment, in view of the rise in the number of job-seekers seen from Q3 on. By the end of the year, their opinion on this point was close to what it had been at the beginning of 1997, before the strong improvement on the labour market. In total, however, the deterioration in the household confidence indicator remained limited in 2001 and by the end of the year it was still above its long-term average.

As regards GDP, the annual average growth of 2% fails to bring out the scale of the slowdown during the year, from a tendency of better than 3% a year at end-2000 to slightly negative growth at end-2001. This pattern over time for the year 2001 stemmed notably from the fact that the world slowdown was in fact the superimposition of two separate tendencies: first, a traditional downswing that began in the United States in Q3 2000 and, second, another movement linked to the 11 September events, to the uncertainty these generated and to the particular difficulties created in certain sectors. At the very end of the year, there emerged the first signs of an upturn in business leaders' expectations.

The slowdown in growth tended to ease the pressures on the productive system that had been a feature of the previous year. In manufacturing industry, for example, the capacity utilisation rate, which had been close to its historic peak in Q4 2000, returned to its long-period average at the end of 2001. It was only in the building sector, where activity levelled off rather than in-

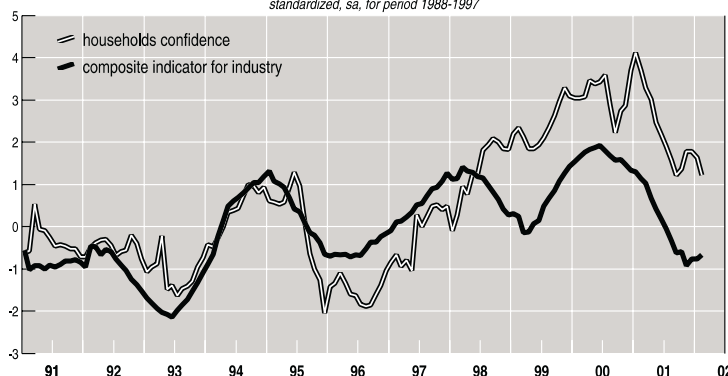
curing any real downturn, that production continued to be subject to constraints, notably in the form of recruitment difficulties. Against this background of appreciably reduced pressures, underlying inflation nevertheless continued to rise in 2001, continuing the movement seen in 2000 and rising from 1.3% in December 2000 to 2% a year later. Apart from an acceleration in unit wage costs, this movement reflected the gradual diffusion of the impact of earlier inflationary shocks: the sharp rise in oil prices in 1999 and 2000 and the substantial fall during the same years in the exchange rate of the euro versus the dollar. At the same time, the stabilisation of the oil price since the beginning of 2001, which in large part reflected the slowdown in the world economy, tended to moderate the year-on-year price rise (1.4% in December 2001 as against 1.6% a year earlier), leaving aside certain one-off spikes due to surges in food prices resulting from exceptional weather conditions and from animal health crises affecting the meat market.

Separate sections of this Note⁽¹⁾ contain detailed account of events in individual fields in the year 2001. Just four salient features of the past year will be stressed here:

- simultaneous pause in all the leading economies,
- greater reactivity on the part of firms,
- brisk consumption,
- end to the decline in unemployment.

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HOUSEHOLD'S CONFIDENCE AND BUSINESS CLIMATE IN FRANCE
standardized, sa, for period 1988-1997



A simultaneous pause in the leading economies

By the end of 2001, all major regions in the world economy had been affected by the slowdown: the United States, obviously, with low growth in Q4 following an actual fall in GDP in Q3; Europe, with negative growth of 0.2% in Q4 for the euro zone compared with +0.2% the previous quarter; Japan, which is going through a severe recession. The emerging economies are no better off. The Southeast Asian economies were the first to be affected by reason of their high degree of specialisation in the new technologies, since the trigger for the American slowdown had been the realisation of overinvestment in this type of product. Turkey and Argentina are in crisis, linked to the difficulty of financing their foreign debt. Mexico is paying a high price for its economic proximity to the United States giant. Only a handful of countries, like China and India, have been spared this halt to growth.

This situation has been accompanied by a sharp contraction in world trade, which has acted as both cause and consequence. It raises questions regarding the possible mechanisms for recovery, inasmuch as there had been no similar synchronisation in previous cyclical movements. For example, at the time of the 1993 recession in

(1) See French version

Europe, the United States had put the 1991 recession well behind it and was able to prop up world growth. The present situation also clearly demonstrates the importance of the “echo effect” in the transmission of the slowdown via world trade. The impact of a slowdown in the United States economy on activity in Europe is in fact much greater than the direct effect calculated simply on the basis of the importance of European exports to the United States (of the order of 2.5% of GDP for the euro zone). The decline on the American market weakens all economies, notably those of Asia, which then in turn reduce their purchases from Europe. In 2001, these indirect effects were rapid and massive. It has to be noted that the financial markets also took a hand in the diffusion of the slowdown, through the decisions taken by multinational firms and more generally through business leaders’ expectations.

Greater reactivity on the part of firms

While it is still too soon to draw lessons from the 2001 slowdown, an initial conclusion can be deduced from the behaviour of firms on both sides of the Atlantic. There are numerous signs of greater reactivity, notably in the form of the earlier timing than in the past of action relating to the means of production. This behaviour, which may be linked to the higher level of corporate debt, has tended to intensify the slowdown, but at the same time removed obstacles to the build-up of the recovery.

In the United States, the downswing took a different form from previous cycles. As early as Q3 2000, there was a noticeably severe cutback in investment at a time when other components of domestic demand were still headed upward and when, in contrast to past recessions, there were no apparent inflationary pressures. What occurred was rather a spontaneous adjustment to the capital stock, linked simply to less favourable expectations regarding the develop-

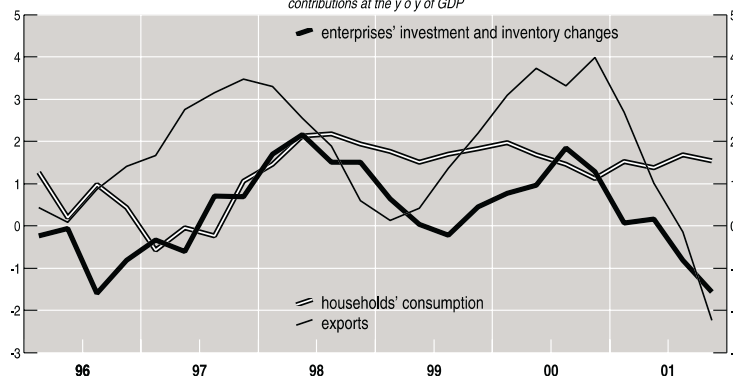
ment of the new technologies. Such a process is not surprising in itself: what is new is that it should be on such a scale as to trigger off a recessionary movement.

The second indicator of a different type of behaviour on the part of American firms is that labour productivity seems to have continued to rise substantially in H2 2001 in the United States, in the midst of a downswing phase, in contrast to what is usually seen in the productivity cycle. In practice, this meant that American firms cut back their workforces more rapidly than usual, without its being possible to infer from this an underlying tendency regarding productivity gains.

In Europe, the main indicator of more rapid reaction on the part of firms was the early timing of the cutback in investment. In France, for example, corporate GFCF, which had been very brisk at the end of 2000, virtually ceased to rise in Q1, at a time when domestic demand excluding stocks was still strong and the production outlook for the immediate future remained positive. However, expectations reflecting the general climate then began to turn down, in the wake of those of American business. In Europe, the synchronisation of the downturn in expectations in all countries is quite remarkable, as is that of the slight recovery seen at the very end of the year.

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DEMAND OF ENTERPRISES, EXPORTS AND CONSUMPTION IN FRANCE
contributions at the y o y of GDP



Brisk consumption

The evolutions seen in 2001 have put paid to the illusion that the creation of the single currency would protect the euro zone from all external shocks. The euro is a shield neither against a contraction in world trade nor against a reduction in corporate demand due to greater sensitivity of expectations to the world climate. Even so, had the single currency not existed, the downturn in growth in 2001 would probably have been more severe. The main virtue of the single currency is that it avoids the need to defend the exchange rates of individual national currencies, in contrast to the time when exchange rates were subjected to severe pressures whenever there was an external shock. This defence almost automatically implied a rise in short rates in certain countries — including France. The existence of the single currency made it possible in 2001 to maintain favourable monetary conditions and this in turn made it possible to limit the cutback in investment. Above all, the maintenance of relatively low interest rates helped to keep household demand strong, by leaving open the possibility of buying on credit and preventing short-term saving from becoming too attractive.

Incidentally, the changeover to the euro may in fact also have provided one-off support to consumption by bringing back into circulation sav-

ings hoarded in bank-note form by households. This has put a floor under activity and resulted in the maintenance of conditions permitting a rapid upturn when the international context becomes clearer. It should be remembered that consumption expenditure continued to grow at a rate of almost 3% in France throughout 2001. Obviously, this was due in the first place to the growth of purchasing power (and hence, in part also, to tax cuts). But all in all, the difference compared to the fall in consumption seen at the beginning of the 1993 recession is remarkable.

The halt to the decline in unemployment

The years 1998 to 2000 were marked by an unprecedented decline in the unemployment rate in France, from 12.1% in December 1997 to 9.0% in December 2000. Quite apart from the obvious social consequences, this tendency could

be seen also as a determining factor in the upswing of the French economy, via a virtuous circle in which the rise in employment built up confidence and hence consumption, which then underpinned growth and generated a further rise in employment. It is important to stress that this decline in unemployment was not accompanied by rapid wage growth, suggesting that the rate at the end of the period, of the order of 9%, is still probably above the NAIRU. Wage restraint, a positive factor in the substantial job creation, has prevailed throughout the past four years. However, the difficulties of recruiting skilled workers that have emerged in certain sectors such as construction have shown the scale of the training programmes needing to be implemented if labour supply and demand are to be properly matched. In 2001, the unemployment rate continued to decline until April (when it was 8.6%) before rising from Q3 on to end the year at the same level as in December 2000 (9%). This evolution reflected the slowdown in job

creation, in line with the time-pattern of growth. Following a rise in Q1, job creation fell sharply in subsequent quarters. In all, dependent employment in the market sector rose by 226,000 in 2001, compared with 566,000 the previous year. Comparison of the year-on-year increase (1.5%) with that of GDP over the same period (0.9%), even allowing for a time lag, shows that growth has remained labour-intensive. This is very different from the American experience. As regards employment, there seems to have been no increase in companies' reactivity as there was for investment. Temporary employment agencies have constituted a channel for adjustment in workforces. This partly explains why younger workers, of whom almost one in two has a fixed-term contract, have been the first to be affected by the rise in unemployment, as early as March. It is true that they had also been the principal beneficiaries of the previous phase of steep reduction in the number of job-seekers, notably thanks to special arrangements in their favour. ■