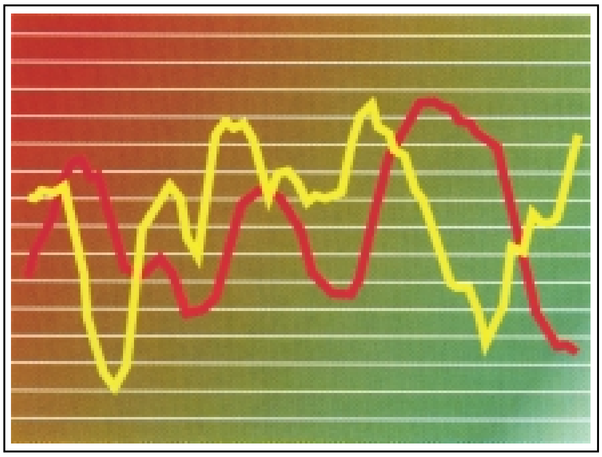
CONJONCTURE IN FRANCE

JUNE 2001



HEADWINDS

INSEE FRANCE

HEADWINDS

After four years of expansion, the French economy is facing headwinds. The distinct downturn in the growth rate in the early part of the year reflects the twofold impact on firms of the world slowdown: first, a sharp contraction in world trade that is holding back exports; second, a deterioration in expectations leading to de-stocking and more moderate investment.

The end of the first half of the year finds the euro zone's international environment still in the doldrums. The American economy is stumbling along and is showing no sign of rapid recovery, although the authorities have introduced numerous measures to support demand, in the form of repeated interest-rate cuts and the introduction of tax breaks. The Asian economies, which are particularly sensitive to the contraction in the world market for high-tech products, are finding their activity decelerating rapidly. Japan, already handicapped by its internal indebtedness problems, is sliding into recession. The Eastern European economies, which are less directly exposed to the slowdown emanating from United States, are being hit by the weakening in the German economic situation.

Growth in the euro zone, which had already slowed down in H2 2000 as the result of the oil price levy, has fallen still further and is now expected to approach an annualised rate of the order of 1.5% during the year. Against the background of the world slowdown and the consequent reduction in corporate demand, household consumption in the early part of year has not — except in France –provided the expected support, despite tax cuts introduced in several countries. The main reason for this is the persistent strong price rises in France's neighbour countries, which are eating into purchasing power. Inflation in the euro zone stood at 3.4% in May, driven by food prices and continuing high crude oil prices, whose impact is being amplified by the weakness of the euro. The end of the year is likely to see disinflation at a time of weak world demand, helping to stabilise oil prices. This would then be the key to stronger consumption, and hence growth, in Europe.

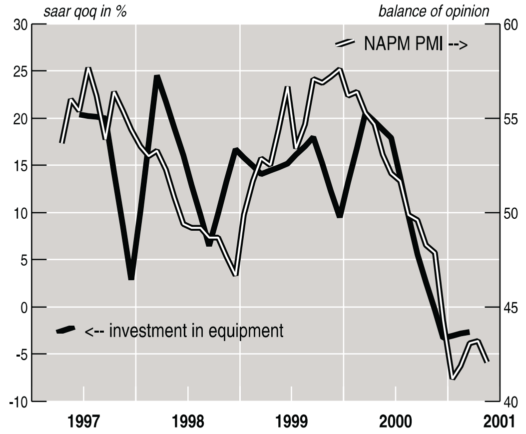
France stands out from its European neighbours because of the greater liveliness of household demand. Conditions are in place for a further substantial rise in consumption in H2 2001, providing an underpinning for growth. This is because nominal incomes can be expected to rise strongly as the result of slightly faster wage growth, accompanied by tax cuts. The gradual levelling-off in inflation (to 1.8% in December) should ensure purchasing power growth. At the same time, the expected increase in numbers employed, although distinctly slower than in recent past (250,000 additional jobs in the market sector in 2001), will be sufficient to mean a further slight fall in unemployment and so ward off a change in consumer behaviour. With exports held back by depressed world demand, French economic growth for the year as a whole would remain at a rate close to that of Q1, giving a 2.3% increase in GDP on an annual average basis.

The American slowdown drags on

Since the sudden downturn last summer, the American economy has posted three quarterly annualised growth rates of the order of 1.5%. The slowdown could intensify still further in the second quarter and growth is liable to remain low for the rest of the year.

Admittedly, the tightening of monetary policy that began in Q2 1999 has probably helped to generate the slowdown in American activity. But the Fed's past restrictive action cannot on its own explain this reversal of tendency, characterised by a sharp deterioration in corporate expectations. The collapse of the NASDAQ in Q1 2000 signalled a major revision of the profit expectations generated by the surge in the new technologies. The bursting of this bubble put a severe damper on investment in IT equipment, as well as a wave of investor mistrust towards precisely those sectors that had been driving American growth in the 1990s. The banking system, weakened by the stock market crash, initially restricted its supply of loans to firms and raised rates on them. After several years of double-digit growth, productive investment stagnated in the United States in H2 2000 and has fallen in the early part of this year.

BUSINESS SENTIMENT AND INVESTMENT IN THE UNITED-STATES



In traditional manner, the downturn was first felt in industry, which went into recession at the beginning of the past winter under the impact of de-stocking. Despite rapid and energetic action on the part of the Fed — the Fed Funds rate was cut from 6.5% to 4% in barely four months — expectations have failed to recover and the slowdown has spread to the rest of economy.

In addition, household consumption, although remaining brisk so far, has begun to show signs of weakness in Q2. After de-stocking and reducing their demand for capital goods, firms have now begun to reduce their demand for labour. The American unemployment rate has already risen by half a

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

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

		1999				2000				2001				1999	2000	2001
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP	(100%)	**0.8**	**0.9**	**1.0**	**1.1**	**0.6**	**0.7**	**0.8**	**0.8**	**0.5**	**0.4**	**0.4**	**0.5**	**3.0**	**3.3**	**2.3**
Imports	(27%)	0.1	1.5	2.4	3.2	4.7	4.1	4.1	3.0	-1.7	0.5	0.7	1.0	4.2	15.3	4.5
(of which merchandises)	(24%)	0.5	1.6	2.6	3.8	5.5	3.8	4.2	2.6	-1.9	0.7	0.6	0.8	5.2	16.7	3.9
Consumption	(54%)	0.4	0.9	1.2	0.7	0.7	0.4	0.8	0.1	1.3	0.7	0.7	0.7	3.1	2.7	2.9
Public consumption	(24%)	1.0	0.4	0.5	0.8	0.3	0.7	0.6	0.7	0.5	0.6	0.6	0.6	2.1	2.4	2.4
Investment	(20%)	2.0	1.5	0.9	1.8	1.6	1.9	1.5	2.3	0.7	0.5	0.1	0.5	6.2	6.7	4.2
of which:																
Non financial corporated and unincorporated enterprises	(11%)	2.1	1.1	1.1	2.5	1.4	2.1	2.4	3.2	0.4	0.6	0.5	0.8	6.0	7.9	5.4
Households	(5%)	2.6	2.8	0.1	0.9	2.1	1.5	-0.3	0.1	-0.1	-0.3	-0.9	-0.3	7.6	4.6	-0.5
Exports	(29%)	0.6	2.2	4.1	1.3	3.9	4.5	2.4	3.1	-0.6	-0.8	0.6	0.7	3.9	13.5	3.9
(of which merchandises)	(24%)	0.8	2.1	4.9	1.1	4.8	4.0	2.3	2.6	-0.4	-1.3	0.2	0.3	4.0	14.0	2.8
Domestic demand		0.8	0.9	1.0	0.9	0.8	0.8	0.9	0.7	1.0	0.6	0.6	0.6	3.4	3.4	3.0
Contributions to growth																
Internal demand excluding inventory changes		0.8	0.9	0.9	0.9	0.8	0.8	0.9	0.6	1.0	0.6	0.5	0.6	3.3	3.3	3.0
Inventory changes		-0.2	-0.2	-0.4	0.6	0.0	-0.3	0.3	0.0	-0.8	0.2	-0.1	0.0	-0.3	0.1	-0.6
Net foreign trade		0.1	0.2	0.5	-0.4	-0.1	0.2	-0.4	0.1	0.3	-0.4	0.0	-0.1	0.0	-0.1	-0.1

Forecasts

point – from a very low level, admittedly. Dependent employment in the private sector is now falling and no longer acting as a driving force for income growth. At the same time, the relatively high level of inflation (of the order of 3 1/2%) is holding down real wages. Admittedly, disposable income is set to benefit from the substantial tax cuts made by the Bush administration. As early as the summer, the tax authorities will begin sending out checks to taxpayers, for a total sum equivalent to 0.4 of a point of GDP. Nevertheless, at a time when rising unemployment and stock-market losses can be expected to lead American households to rebuild their savings, this cut in contributions is likely to benefit consumption only to a limited extent, without being able to compensate for the marked slowdown in total real earnings.

All things considered, the American economy can be expected to grow by roughly 1.5% in 2001. The easing of monetary policy is probably still too recent to have a significant impact on activity before the end of the year.

Asia badly hit, Latin America fragile

The Asian economies are highly vulnerable to the slowdown in United States and to the downturn in the new-technology sectors. Their exports have accordingly suddenly slowed down. This blow to foreign demand for their products in a key sector has dragged down with it the whole of manufacturing industry and their domestic demand seems incapable of taking up the running. In particular, the stagnation of income seen in Japan makes it impossible to envisage a recovery in consumption in that country. Companies' financing capacity continues to be impaired by the bursting of the stock-market and real-estate bubbles in the early 1990s in Japan and by the financial crisis that hit the Southeast Asian countries in 1997, and this is holding back investment. The slowdown in economic activity in the region can be expected to continue to the end of the year.

Leaving aside the case of Mexico, the low degree of openness of the Latin American economies is shielding them to a somewhat greater extent from the American slowdown. However, at a time of increased nervousness on the financial markets, these highly indebted countries remain vulnerable to a possible wave of mistrust on the part of investors. In the event of a depreciation of the South American countries' currencies — the Brazilian real lost 25% of its value against the dollar between January and the beginning of June— any monetary tightening aimed at bringing the country's external accounts more into balance could be harmful for the strength of the domestic demand.

Slowdown in the "out" European countries

The strength of household demand should enable the United Kingdom to cushion to some extent the depressive effects of the world economic situation. Private consumption, despite a dip early in the year, should remain underpinned by the strong growth in earnings, while domestic demand could also benefit from a more expansionary fiscal policy. Even so, foreign demand seems to be in a bad posture and investment looks like being cut back. Moreover, the British economy seems likely to suffer from its specialisation in financial services and from the consequences of the foot-and-mouth epidemic, particularly for tourism. All in all, it is likely that growth in the United Kingdom will slow down to close to 2% this year.

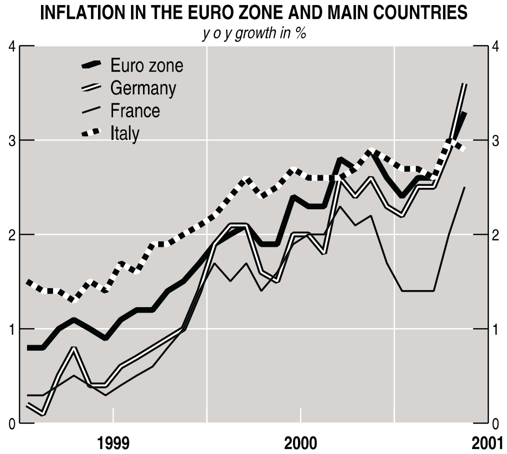
The Central and Eastern European countries are relatively unexposed to the American slowdown and to the downturn in demand for new-technology products. On the other hand, they are all the more likely to be hit by the downturn in Western Europe in that they are particularly exposed to the euro-zone economy that is currently doing least well, namely Germany. Given their relatively strong domestic demand, growth in these countries is likely to fall to around 3% from 4% last year.

Activity in the euro zone marking time

The euro zone, faced with a violent shock on the side of external demand, has failed to benefit from the upturn in consumption that was expected early in 2001. The climate has further dented business leaders' expectations, with the result that activity in Europe is marking time.

After rising at annual rates of more than 10% since mid-1999, euro-zone exports (including intra-zone trade) have stagnated in the early part of the year and are likely to grow only slowly between now and December.

Household consumption in the euro zone continued to progress at an annual rate of the order of 1.5% in Q1 2001. The tax cuts introduced in several of the leading countries are taking time to produce their full effect and the proceeds seem at present to be mainly going into saving. The slowdown in activity brought about by the oil-price



spurt in H2 2000 has probably had more substantial effects than expected on employment in certain countries, especially Germany. Above all, the slowdown in prices expected in Q1 2000 has turned out to be a disappointment. Inflation in the euro zone in fact began to move up again in Q2, under the combined impact of a shock on food prices and continuing high energy prices. By cutting a quarter of a point off its leading rates on 10 May, the ECB was intending to send out a message of confidence regarding the essentially temporary nature of these factors.

There was a remarkable coincidence between growth in household purchases and price movements, varying with the country, in the early part of the year. It is true that wage movements now seem less sensitive than in the past to short-term fluctuations in inflation. Consumption declined sharply in the Netherlands under the impact of a rise in the VAT rate, which brought Dutch inflation above the 5% level. It stagnated in Germany, where the year-on-year price rise has been greater than the euro-zone average. Conversely, it bounced back strongly in France in Q1, at a time when French inflation was falling back to around 1.5%.

The downturn in the rate of job creation is likely to continue in the zone until the end of the year, even though certain modifications introduced into the functioning of some labour markets (expansion of fixed-term contracts in Italy and in Spain, higher job-content of growth in France) should cushion the impact. The euro-zone unemployment rate continued to fall slightly in March and April and is likely to be fairly stable between now and the end of the year. Meanwhile, real wages may accelerate somewhat in Europe, as wage bargaining is likely to take into account the purchasing power losses incurred in 2000.

All things considered, the growth in total earnings, combined with cuts in taxes and contributions in a number of European countries, should be sufficient to ensure a moderate increase in European households' nominal incomes. Moreover, with the fading of the food price shock, and on the assumption that oil prices ease back in H2, inflation in the euro zone is expected to fall close to 2%, but without going below that level between now and the end of the year. The additional purchasing power gains resulting from this fall in inflation should help private consumption to recover, bringing it back to a growth rate of 2.5%, and hence underpin European activity.

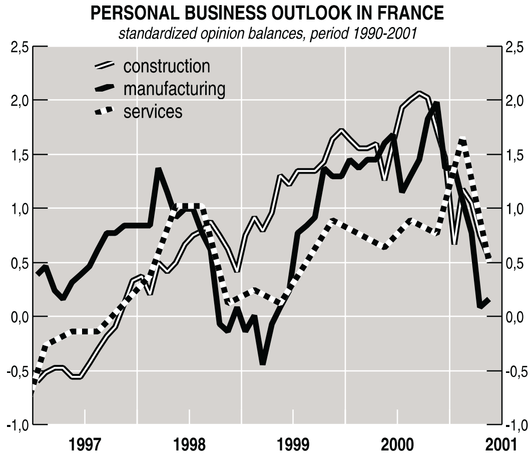
This does not alter the fact that the downturn in world demand and the relative failure of consumption to revive in the early part of the year have severely dented European entrepreneurs' expectations. De-stocking held back euro-zone growth in the first half. Above all, investment plans have been cut back, especially as capacity utilisation rates have begun to ease. Quite apart from the dip recorded in Q1 due to the very marked decline in German construction investment, the underlying tendency regarding productive investment is likely to be below that seen since 1998. It could nevertheless benefit in the second half of the year from the need to replace equipment in order to cope with the shift to the euro.

All things considered, the slowdown in activity in the euro zone has been intensifying in 2001. Growth is expected to bottom out in the middle of the year and rise only to around 1.5% by December, on the back of an upturn in household demand. Growth will have difficulty in reaching 2% on an annual average basis in 2001. The leading economies in the zone are expected to post modest rates: less than 1.5% in Germany, roughly 2% in Italy, less than 2.5% in France.

Weakening of French activity

In France, the early part of the year has been marked by a more rapid and more severe reaction than expected on the part of firms to the international slowdown.

Firms have sharply cut back their foreign purchases, trimmed their investment projects and drawn stocks down heavily. Each of these items was subject to a shock in Q1 2001. Imports dropped by 1.7%, having risen by around 4% a quarter in 2000. Corporate investment is growing at an annual rate of barely 2%, as against almost



12% in H2 2000. Even ignoring exceptional operations linked to sales of ships and aircraft, inventory changes have reduced growth in Q1 by 0.2%.

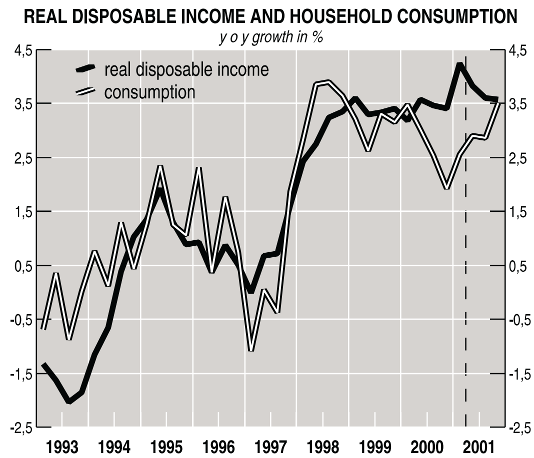
The sum total therefore is a weakening of growth. Growth in manufacturing industry is slowing down to an annual rate of 2%, as against almost 5% in H2 2000. Production in the intermediate goods branch, heavily exposed to the world industrial cycle, has actually fallen. Activity in consumer goods and cars, boosted by the strength of household consumption, has held up better. However, the slowdown is not confined to manufacturing industry. In Q1, it also involved activity in services, contrary to what business surveys would suggest. As for the food branch, it was hit in succession by the BSE and foot-and-mouth crises and has remained as depressed in the early part of 2001 as it was at the end of 2000. Foreign trade in food products, restricted by various embargoes, is likely to slide further until mid-2001. Only the building and public works sector has remained firm in the past winter, helped by the additional investment that traditionally precedes local elections.

All business surveys for Q2, in all sectors, show expectations to be declining. The outlook for activity is reported to be worsening substantially in manufacturing industry, suggesting that output could decline in Q2 and Q3. Exports of manufactures are expected to fall in view of the very depressed state of foreign demand. At a time of weakening activity, firms are expected to pass on the rise in their production costs only to a limited extent, as demonstrated by the decline in the outlook for prices. As a result, their margins will probably decline substantially and their demand remain limited. Most of the de-stocking cycle will be over by mid-year. Productive investment is expected to show annual average growth of 5.5%, although this will be mainly due to statistical carry over. The pace of growth will be slower than in recent years, the main supporting factory being continuing liveliness of consumption as well as the requirements linked to the shift to the euro.

On top of the slowdown in industry and services there will also be a similar tendency in building and public works, in contrast to what happened at the time of the “air pocket” in the autumn of 1998. Households’ investment in housing is likely to fall back somewhat. The various factors that had underpinned growth in the sector in the recent past are now fading: the reduction in VAT on maintenance work has already exerted its short-term stimulus effect and the bulk of the spending to repair the damage from the December 1999 storms has been carried out. Public works activity seems to have marked time since this spring’s municipal elections.

Production is likely to pick up somewhat in the food-processing branches in H2. Following the lifting of the embargo, foreign trade in food products is likely to revive. As this sector is a net exporter, this return to normal would partly make up for the downturn in exports of manufactures.

Everything considered, growth should be at a rate of barely 2% until the end of the year, slightly below potential.



forecasts after the dotted line

Household consumption set to remain firm

After slowing down towards the end of last year under the influence of the oil levy, household consumption bounced back strongly in France in Q1 2001. This regained vigour is explained by the rapid acceleration in purchasing power, which benefited from the tax cuts at the end of 2000 and the easing of inflation in the winter, as well as from the maintenance of strong employment and the acceleration in wage growth.

THE MACROECONOMIC EFFECTS OF THE SHIFT TO THE EURO

On 1 January 2002, 12 EU member states (Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain) will enter phase III of Economic and Monetary Union, involving the entry into circulation of notes and coins denominated in euros. In the French case, parallel circulation of francs and euros will last over the period from 1 January to 17 February, after which date only euros will be legal tender.

Given the imminence of this shift to the euro for all economic agents (households and firms), it is natural to ask questions regarding the possible macroeconomic consequences of such an event. However, it is difficult to predict the behaviour of either prices or demand, given the unprecedented scale of this operation (1).

Economic theory suggests no reason why a change in currency unit should modify economic behaviour, at least over the medium term. In the short term, however, a number of consequences of the move to the euro can be envisaged. This article will merely list them, in view of the impossibility of ranking them by order of likelihood, let alone importance.

Given the large number of products involved and the dispersion of the prices applied, the rules for rounding after conversion should not have any significant overall effect on inflation. However, in price matters it is agents' expectations that are crucial. In particular, at a time of greater uncertainty regarding competitors' behaviour, a firm will be led to modify its own price behaviour if it expects its suppliers and/or competitors to do likewise. In this respect, the attitude adopted by the large-scale retailers will be of major importance.

On top of this uncertainty regarding mark-up behaviour (which can be down as well as up) there is the question of the re-shaping of pricing schedules. In some branches (for example, clothing or electric household goods) the practice is to set "psychological" prices (round figures or just below). The move from the franc to the euro is likely to lead to the setting of new benchmark prices of this type, meaning price changes (up or down) greater than would result from straightforward conversion. However, these variations could be compensated by changes in the characteristics of the product. Moreover, the setting of these new benchmark prices could take place not at exactly the same date as the move to the euro, but before or after.

The shift to the euro could also in the short term produce a change in household demand.

Difficulties in appreciating the value of prices and wages denominated in euros could also generate additional purchases (in that the euro price of products may seem low by comparison with the price in francs) or, equally, additional saving (since wage packets would also look small).

Even in the absence of any money illusion, the disappearance of familiar orders of magnitude of prices is liable to upset consumer behaviour. In this respect, the shock could well be greater in France than in Germany or Italy. This is because, with the euro equal to 1.95583 DEM and 1936.27 ITL, a good approximation for the German or Italian consumer will consist of dividing by 2 or 2000 the prices expressed in the old currency, something that is much easier to do in one's head than the equivalent process for the French consumer (with one euro equal to 6.55957 francs, the first approximation is to divide by 6.5 or 20/3).

This temporary loss of notions of orders of magnitude of prices, possibly aggravated by fears of profiteering on the part of producers, could lead consumers to show considerable caution during the first weeks of the move to the euro and, conversely, additional purchases just before. The prospect of longer queues and increased time spent at checkouts (due to the need for consumers to accustom themselves to the new currency) could operate in the same direction.

Another factor that could affect household demand at the beginning of the move to the euro relates to the policy regarding the rollout of new products. This is because some firms could be prompted to curb the rate of introduction of new products in the first months of the new currency so as not to upset purchasing habits still further. This temporary modification regarding innovation in supply policies could be another factor damping down the liveliness of global consumption.

Finally, the fact that next winter the prescribed period of the sales in France coincides with that of parallel circulation of francs and euros could stimulate consumption. The incitement to purchase would be greater because of the prospect of the imminent disappearance of prices in francs, as well as by the opportunities given to the consumer to use his franc notes and coins and so avoid having to go to the banks to change them into euros.

In fact, the need to exchange all the notes held (2) , including those that are normally hoarded, could also be the occasion for dishoarding, thus temporarily stepping up consumption. There is in fact a decline already taking place in the circulation of notes and coins in France, as in the rest of the euro zone. However, this phenomenon in itself does not necessarily imply additional purchasing and may simply reflect the temporary modification in the payment methods used, with consumers led to use more frequently than normal liquid cash rather than their sight deposits (more liquid cash taken in by traders, and later by the banks, leads in the end to a decline in the circulation of notes and coins).

The forecasts made in this economic survey take no account of the various effects listed above, given the difficulty of knowing whether they will finally materialise and the even greater difficulty of quantifying them. However, as regards corporate behaviour, the move to the euro should lead, ceteris paribus, to additional investment (purchases of software, renewal or modification of slot-machines and automatic teller machines). This hypothesis explains the slight acceleration in productive investment expected in H2 2001. ■

(1) Earlier currency changes have included the move to the "new franc" in 1960 in France (with one new franc equal to 100 old francs), or the decimalization of sterling in Q1 1971 in the case of the United Kingdom. No notable effects of the move to new francs were recorded, either on prices or on demand. In the British case, decimalization coincided with a slight spurt in inflation (to 9.4% in 1971 from 6.4% in 1970), but it also took place at a time of monetary easing and expansionary fiscal policy, so that it is difficult to establish a relationship of causality between decimalization and what happened to prices.

(2) However, it should be remembered that the franc notes, which will no longer be legal tender after 17 February, can still be exchanged in offices of Banque de France for a period of 10 years.

The momentum built up by household income in the early part of the year ensures substantial progress for the year 2001, with further cuts in compulsory contributions helping to maintain this dynamism in H2. Even so, the downturn in growth can be expected to start to have an impact on the pattern of total earnings growth, with the slowdown in employment only partially compensated by the wage rises.

The weakening of growth can be expected to lead to a slowdown in job creation. Admittedly, given the time lags in the productivity cycle, the high level of job creation was maintained in Q1. But the first signs of a coming slowdown are already visible: employment through temporary agencies, which traditionally reacts fastest, has been sickly since February. The slowdown in dependent employment in the private sector is likely to be substantial, with the six-monthly growth rate falling from 1.2% to 0.5% between the first and second halves of the year. The impact of the reduction in the working week will also tend to decline. All things considered, following the record year in 2000 when almost 600,000 jobs were created, 2001 is likely to see the total workforce rise by 300,000. The unemployment rate, after falling sharply in Q1, would then ease back more slowly throughout the rest of the year, returning to 8.5% next December.

Nominal wages, meanwhile, are likely to continue the slight acceleration that began at the start of the year. Year-on-year growth in average wages per head in the private sector (non-financial corporations and unincorporated enterprises) is expected to be close to 3% at the end of 2001, half a point up on the end of 2000. This is because of the time taken before wages adjust to earlier falls in unemployment and price rises. Moreover, the mere application of the law implies rises in the minimum wage and in the guaranteed monthly remuneration (for workers on the minimum wage who have already gone over to the 35-hour week) that will be higher than last year. And the effects of the wage restraint linked to the implementation of the reduction in the working week are starting to fade.

The upturn in inflation in Q2 is linked to the surge in prices of foodstuffs and renewed tensions regarding energy prices. For the most part, these factors are likely to be only temporary. On the assumption that the price of Brent falls back to USD25 a barrel in the second half of the year, the overall index will slow down in the second half to a year-on-year rate of 1.8% in December. Meanwhile, underlying inflation would rise moderately, incorporating the final effects of the diffusion of the past rise in the oil price and the decline in the euro and reacting to the slight acceleration in wage growth. However, this rise in underlying inflation will probably be limited, being cushioned by the intensity of competition and the easing of pressures on the productive system as a result of the downturn in the economic situation.

All in all, purchasing power can be expected to rise strongly, by an annual average of 3.8% in 2001 following 3.4% in 2000, but the momentum of real earned income underpinning this tendency is likely to weaken during the year.

On the back of this rise in income, household consumption will probably remain robust until the end of the year, rising at a rate of 3%. This rise would be accompanied by a rise in the saving ratio of three-quarters of a point for the year, in accordance with the usual behaviour, since it helps to smooth out the acceleration in incomes.

Following a particularly lively first quarter, spending on manufactures is likely to remain buoyed up by car purchases. Consumption of textiles and clothing, badly hit in the spring by unfavourable weather conditions, should pick up again in the second part of the year. The global rise in spending on manufactures is likely to be above 3.5% in 2001. Consumption of services is likely to grow even more, underpinned mainly by spending on telecommunications services (mobile telephones, internet), which is not expected to slow down appreciably before the end of the year. Spending on transport services, affected in April by the strikes on the French railways, would recover distinctly in the second half.

Household confidence has declined in recent months. Starting from a record high in January, by May it was back where it had been in Q4 2000, at the height of the oil-price worries. It nevertheless remains very high by historic standards, probably reflecting the vigour of the income being received by households. With unemployment continuing to fall, even if at a much slower rate, household confidence is likely to be eroded only gradually in the second half of the year. The maintenance of a relatively high level of confidence is important at a time when household demand constitutes the principal driving force for activity.

In all, the French economy is expected to post annual average growth of 2.3% in 2001. This is slightly more than for the other leading countries of the euro zone, the reason being the more robust private consumption. ■