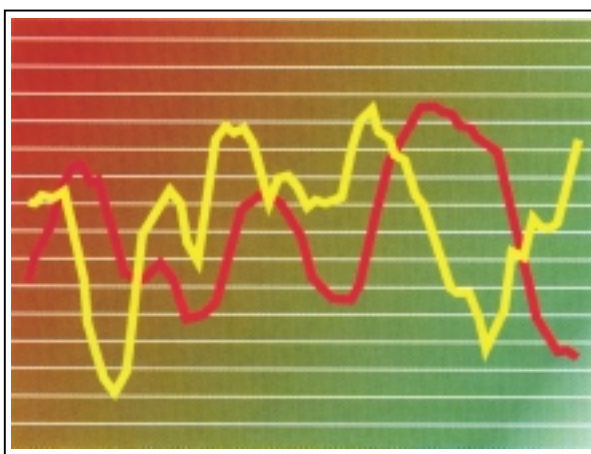


CONJONCTURE IN FRANCE

MARCH 2001



DARK CLOUDS IN THE WEST

DARK CLOUDS IN THE WEST

The year 2000 witnessed the continuation in France of an upswing phase that has already lasted longer than that of the late 1980s and has been marked by a very steep rise in employment. However, the salient feature of the economic situation in 2000 was the slowdown in household consumption in response to the rise in imported inflation. This impact of the higher oil price now seems to be a thing of the past. At present, the brakes are on a different growth motor, with world demand slowing down under the impact of the sudden downturn in the American economy.

In the early part of 2001, the euro zone's international environment has been marked by the difficulties experienced by the other two leading industrialised economies. Japan is bogged down in its public debt and bank-sector problems. Above all, however, the American economy has ceased growing. It undoubtedly has sufficient room for manoeuvre in the monetary and fiscal fields to enable it to return at some stage to a growth path. But the outlook for coming quarters is uncertain, mainly because of the setback suffered by the high-technology sector, which has been a motor for growth in recent years. The American slowdown has already reached emerging Asia and can be expected soon to af-

fect all of NAFTA. For the present, the impact on the euro zone is being offset by an acceleration in domestic demand and this is enabling it to maintain a growth rate of the order of 2.5% per year.

In France, the year has begun with domestic demand showing signs of considerable strength. Investment remains brisk against a background of strained productive capacity and still favourable financing conditions. Household consumption rebounded in Q1, this tendency being facilitated by the recent disinflation. The year-on-year price rise is set to stabilise and not exceed 1.5% in June, despite the pressure on food prices generated by the animal-health crisis. Growth in private dependent employment (200,000 in H1) and the accompanying fall in the unemployment rate (close to 8 1/2% in June 2001) can be expected to fuel the dynamism of the economy. In these conditions, with industrial output slowing down and activity in building and public works levelling off, but a rise in services, GDP growth is expected to be close to a trend rise of 3% in H1. Uncertainty linked to the impact of American turbulence on expectations has shifted to the second half of the year, although in no way diminished.

The euro-zone economy seems generally to have absorbed the 2000 oil shock

Growth in the euro zone came out at 3.4% in 2000. Following a very brisk first half, activity weakened under the impact of the higher oil price and the second half saw activity rise at a rate of less than 3%.

The brunt of the higher oil price was borne by households. This rise, coupled with the depreciation of the euro, tended to add to imported inflation throughout the past year. The rise in inflation in the euro zone, which peaked at 2.9% in November, ate into household purchasing power and consumption slowed down considerably, its growth rate falling to less than 1% in H2 from 3% in H1.

Despite this shock, wage restraint prevailed throughout the zone, to such an extent that no marked second-round effect of prices on wages was recorded. As a result, the decline in the oil price since December and the modest tendency for the euro to re-appreciate have led to a decline in inflation. The euro zone seems generally to have absorbed most of the impact of the oil shock by the end of 2000.

The sudden downturn in the United States

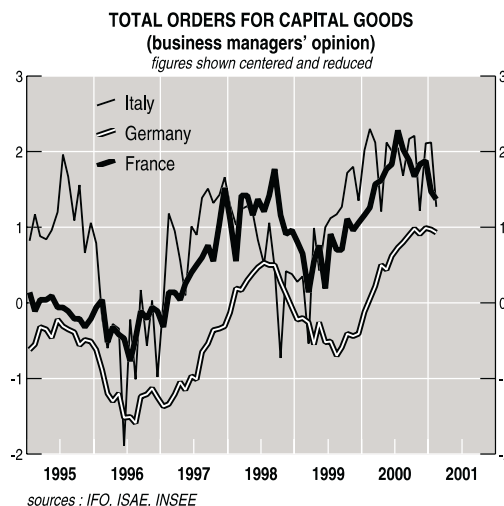
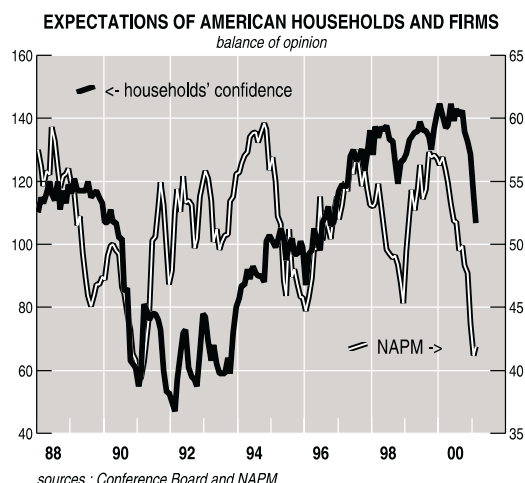
Activity in the United States slowed down distinctly in H2 2000, a movement that went well beyond the negative effects of the oil shock. The annualised growth rate in H2 was of the order of 1.5%, down from 5% in H1. While the downturn was expected, its scale and rapidity took observers by surprise, being directly linked to the tendency in domestic demand.

Investment was stopped in its tracks. Having risen by roughly 10% a year since 1996, it virtually stagnated in H2 2000. This sharp slowdown is partly due to the delayed impact of the monetary tightening carried out by the Fed from early 1999 to early 2000. This held back construction activity and helped to tighten the lending conditions granted to firms by banks and financial markets. Moreover, the slump on the NASDAQ in Q2 2000 at the same time eliminated the principal source of financing for high-tech firms. The bursting of this bubble marked the end of the optimism regarding the future profits to be generated by the new economy and brought about a drastic cutback in spend-

ing plans for IT equipment, which had been a particularly strong growth motor for the American economy in recent years.

Business leaders' expectations suddenly turned down in Q3 2000. The NAPM composite indicator is now back to much the same level as in 1990, suggesting that US industry entered recession towards the end of last year.

Household consumption has also contributed to the slowdown in American activity, although remaining robust, rising at an annualised rate of 3.5% in H2 compared with 5% in H1. This slowdown is explained by the tightening of lending conditions, as well as by the exhaustion of the wealth effects related to past rises on the stock market. In addition, slower job creation and rising inflation have restricted income growth. The sudden drop in household confidence towards the end of last year suggests that consumption could slow down still further. Combined with the weakness of productive investment, this slowdown would mean virtual stagnation for the American economy in H1 2001. Looking further ahead, Ameri-



can activity could well continue to feel the impact of low capital spending, should it turn out that the financial bubble surrounding high-tech stocks has been accompanied by overinvestment. The revival in activity will also depend on what happens to household confidence, which, despite its recent decline, remains for the moment at a relatively high level. However, there is a risk that it will continue to be eroded as the result of the deterioration on the labour market and the falls on the stock markets. The rapid action taken by the Fed, which has already cut the Fed Funds target rate by 1 1/2 points since January, could give the economy something of a breathing space towards the end of the year.

Contagion from the American slowdown spreading to Japan and emerging Asia

With their domestic demand showing persistent fragility, activity in Japan and the emerging Asian countries still remains highly dependent on the level of their export demand. With the United States its principal export market, Asia is vulnerable to a slowdown in that country. The importance of intra-zone Asian trade will add to the recessionary impact, as will the relative specialisation of these countries in the production of high-technology goods, for which the slowdown in demand is particularly marked.

Japan, like the South-East Asian countries, is still feeling the adverse effects of the bursting of speculative bubbles that occurred in the 1990s (stock market and real-estate crises in Japan in 1990, financial crisis in emerging Asia in 1997-1998), which have had a lasting impact on agents' financing capacity. Under the impact of the American slowdown, these economies are likely again to suffer near-stagnation in H1 2001.

The other emerging regions and the United Kingdom likely to be less affected

In Latin America other than Mexico, activity can be expected to remain buoyant. As these countries are less open to the outside world (the share of exports excluding intra-zone trade is of the order of 10% of GDP, as against 25% for emerging Asia), they can be expected to suffer less from the American slowdown, while the strength of their domestic demand should enable them to continue to post firm growth in H1 2001.

The impact of the American slowdown is likely to be smaller still on the CEECs, whose foreign trade is mainly with the euro zone. In H1 2001, brisk domestic demand and the strength of activity in the euro zone should therefore enable countries in the region to grow at an annualised rate of the order of 6%.

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			
GDP	(100%)	0.7	0.9	1.0	1.1	0.6	0.7	0.6	0.9	0.8	0.7	3.2	3.2	2.5
Imports	(27%)	-0.7	2.3	2.0	3.5	4.1	3.4	4.6	3.0	1.5	2.1	4.0	14.7	8.6
(of which merchandises)	(24%)	-0.7	2.3	2.5	3.7	4.8	3.2	4.7	2.9	1.6	2.2	4.9	15.9	8.8
Consumption	(54%)	0.3	0.8	0.9	0.6	0.8	0.1	0.5	0.4	1.1	0.8	2.7	2.3	2.3
Public consumption	(24%)	1.0	0.7	0.4	0.6	0.1	0.4	0.5	0.5	0.5	0.5	2.5	1.6	1.5
Investment	(20%)	2.6	1.5	1.1	1.3	1.9	1.5	1.9	2.4	1.6	1.0	7.3	6.7	5.7
of which:														
Non financial corporated and unincorporated enterprises	(11%)	3.5	1.0	1.4	1.4	1.7	1.5	2.9	3.3	2.3	1.8	7.7	7.2	8.2
Households	(5%)	1.6	3.2	0.5	1.6	2.4	1.2	0.0	0.5	0.0	-0.3	8.3	5.7	0.4
Exports	(29%)	0.0	2.5	4.2	1.9	3.6	4.0	2.6	3.7	1.1	1.5	4.0	13.6	7.4
(of which merchandises)	(24%)	0.1	2.6	5.2	1.3	4.3	3.7	2.5	3.2	1.2	1.4	4.0	14.0	6.9
Domestic demand		0.9	0.9	1.1	1.0	0.8	0.6	0.8	1.0	0.9	0.7	3.6	3.6	3.5
Contributions to growth														
Internal demand excluding inventory changes		0.9	0.9	0.8	0.7	0.8	0.4	0.8	0.8	1.0	0.8	3.24	3.0	2.7
Inventory changes		-0.4	-0.1	-0.5	0.7	-0.2	0.0	0.3	-0.1	-0.2	0.1	-0.3	0.2	0.0
Net foreign trade		0.2	0.1	0.6	-0.4	0.0	0.2	-0.4	0.3	-0.1	-0.1	0.1	0.1	-0.2

■ Forecasts

* Carry over effect at Q2.

Activity should remain firm in the United Kingdom, with consumption underpinned by substantial rises in income, while investment, following a disappointing year 2000, could well benefit from the easing of monetary policy. As a result, domestic demand can be expected to remain robust, compensating the downturn in exports due to the slowdown in activity at world level. All things considered, a soft-landing scenario seems most likely for the United Kingdom, with growth of the order of 2.5% in H1 2001.

Strong domestic demand should enable the euro zone to withstand the slowdown in world activity in the first half-year

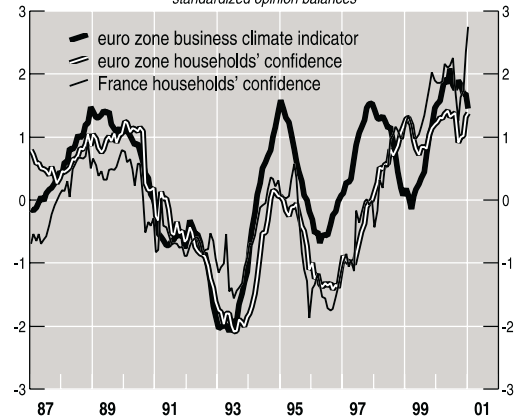
Despite the decline in demand in the euro zone's export markets, activity in the euro zone is expected to remain buoyant. The impact of the slowdown in the American economy via its effect on world trade will be spread over time and the strength of domestic demand in the zone should enable activity to withstand the slowdown in exports in H1 2001.

Against a background of continuing strong job creation, although not quite on the recent scale, household income should be buoyed up by a slightly more dynamic tendency in wages and by tax cuts in a number of countries (notably Germany, France and Italy). In addition, under the influence of the fall in the oil price and a gradual appreciation of the euro, inflation is likely to be close to 2% in June 2001, a fall of the order of half a point by comparison with end-2000. The combination of all these factors should permit an acceleration in purchasing power growth in H1 2001 and produce a distinct upturn in consumption. This tendency, which is expected to be relatively uniform throughout the zone, is also being underpinned by the high level of household confidence at a time of falling unemployment. H1 2000 should see European household consumption rising at an annualised rate of close to 3%.

The improved outlook for domestic demand in the euro zone should boost growth in productive investment. Other factors operating in the same direction include the fact that productive capacity is still regarded as inadequate by business leaders, while at the same time monetary conditions, despite a slight hardening, remain favourable. European capital goods producers remain very confident regarding the level of their order books.

Even so, the euro zone is not immune to the particularly marked slowdown in world activity, which can be expected to have an appreciable impact on

**HOUSEHOLDS' AND BUSINESS MANAGERS' CONFIDENCE
EURO ZONE AND FRANCE**
standardized opinion balances



export growth. Foreign demand, which has been one of the principal growth motors for continental Europe in 2000, can be expected to run out of steam. Imports into the zone are liable to be less affected, being underpinned by the more dynamic domestic demand. The external contribution to euro-zone growth is therefore likely to turn slightly negative.

All things considered, growth in the euro zone will probably stabilise at an annualised rate of close to 2.5% in H1. Industrial activity is likely to slow down somewhat, to a rate of the order of 4%. European industrial leaders' expectations, which fell back in H2 2000 under the impact of the slowdown brought about by the oil shock, are for the moment continuing to decline gently. This decline is more marked in the intermediate goods branch, whose cycle is closely synchronised with world activity, but it is small in the other branches. Activity in the services sector, which is more dependent on domestic demand, can be expected to hold up better.

French growth is likely to be slightly faster than in the rest of the euro zone, thanks to a more marked acceleration in consumption

The scenario operating in the euro zone as a whole is valid in its main lines also for France. However, the upturn in consumption in France is likely to be more marked, thanks to an acceleration in household income that is slightly more pronounced and has begun slightly earlier. This strength of domestic demand should enable French growth in H1 to be at a rate roughly half a point better than in the euro zone as a whole.

In France, job creation in H2 2000 remained at an exceptional level. Most of these new jobs were in the competitive sector (250,000 creations compared with 95,000 per half-year on average in 1994-1999), benefiting both from the strength of activity and the short-term impact of the reduction in working hours.

The rise in employment is expected to remain very strong in H1 2001, although weakening somewhat, mainly because of a fading of the impact of the 35-hour week. The rise in private dependent employment is expected to be 1.4% in the half-year, compared with 1.8% and 1.7% in H1 and H2 2000, respectively.

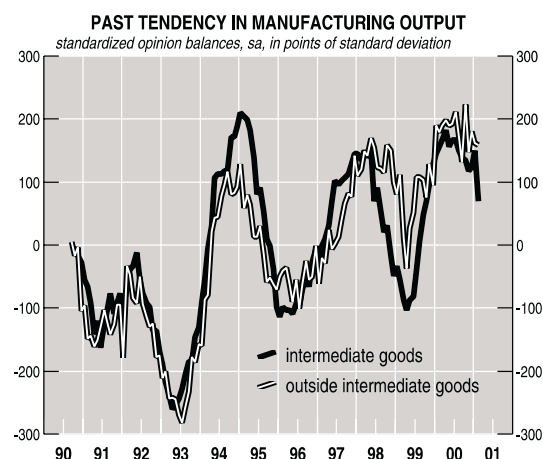
This strong job creation should enable unemployment to continue to fall. Having been 9.2% in December 2000, the rate is expected to be down to around 8 1/2% of the labour force at end-June, thus falling below its 1990 low and reaching a level not seen since 1983.

Against a background of steadily falling unemployment in the past 3 1/2 years, the nominal basic monthly wage can be expected to accelerate slightly, with the year-on-year rise moving up from 1.6% in mid-2000 to 2.2% in mid-2001. The implementation of the reduction in working hours, which is in most cases being accompanied by agreements at company level for wage restraint for a period of 1 to 2 years, no doubt partially explains the delayed nature of this acceleration.

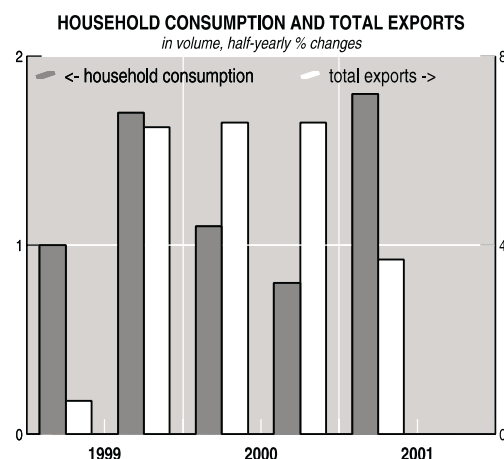
All in all, households' earned income can be expected to remain dynamic in H1 2001, with the buoyancy of the total wage bill still boosted mainly by the employment tendency.

In addition, households are benefiting from the cuts in taxes and social contributions introduced towards the end of last year: a decline in rates for the lower income-tax bands, cuts in local taxes, the elimination of personal vehicle tax. Other cuts are planned for 2001, mainly in the second half of the year (fall in unemployment insurance contributions as of 1 January, lowering of the income-tax schedule, so-called "employment bonus" in September).

Moreover, after rising steadily last year to peak at 2.4% in November, inflation fell back to 1.6% in December 2000, as a result of the lower oil price. In H1 2001, the year-on-year consumer price rise is expected to fluctuate around 1.4%. The stabilisation of the oil price at roughly USD 25/ barrel and the gradual re-appreciation of the euro should take some of the force out of imported inflation. Underlying inflation is expected to remain stable at around 1.3%. Food prices are likely to rise more



Interpretation:
output in the intermediate goods sector shows a cyclical tendency that is generally more pronounced than for the other branches of manufacturing.



strongly (year-on-year rise of close to 4%), driven upwards by the impact of the BSE and foot-and-mouth crises on meat prices.

The ebbing of inflation in H1 2001 should also help to bring about a marked acceleration in the growth of household purchasing power, likely to be around 3.5% in mid-year, ignoring quarterly fluctuations.

Firm domestic demand

Although growth in household spending seems to have been modest towards the end of last year, the acceleration in income started to make itself felt on household consumption as early as Q4 2000. The overall figure in fact masks particularly weak tendencies regarding food and energy, these traditionally being the most volatile sectors, and at

Transmission of the American slowdown to the world economy: the trade channel

Could the American economy possibly drag the euro zone, and France in particular, down into recession? Despite the expansion of international trade, the European and American economies are not as interdependent as one might think. Only 16% of the euro zone's GDP goes into exports outside the zone and of these only 17% go to the United States. This means that the American market is only a small part of the outlets for European firms. These considerations on their own would lead one to think that the American slowdown, however brutal, would be bound to have only a limited impact on the European economies. France, in particular, which is highly concentrated on its European trading partners, would be practically insulated from it.

However, this reasoning substantially underestimates the impact of the American slowdown. Quite apart from its direct impact, there is likely to be an indirect impact. This is because the downturn of exports to the American market will in the first place lead to a levelling off of activity in the principal trading partners of the United States (direct effect). In a second stage, however, in reaction to this levelling off, these countries will reduce their imports and this will diminish the demand for exports from their own trading partners, who will in turn see a downturn in activity. The multiple repetition of this process results in the American slowdown being propagated like an echo to the whole of the world economy.

The aim of this box is to give an order of magnitude to this echo effect. It turns out that, in fact, this could double or even treble the direct impact of the American slowdown, depending on the country. Its impact will be all the greater, the more the country is open to world trade, even if it is not greatly exposed to the American market itself.

This article will concentrate on the echo effect passing purely via international trade flows. The impact of an American slowdown can transit through a large number of other channels, whose quantitative evaluation is more uncertain. In particular, variations in exchange rates and commodity prices, the evolution in monetary conditions, and changes in agents' expectations are not taken into account here.

Let us begin by reproducing the usual approach. Table 1 shows exports from the principal economic regions as shares of GDP. The aim of this initial stage is to measure the openness of the principal economies to international trade. It emerges from these figures, in particular, that the three leading world economies (United States, euro zone and Japan) each constitute relatively closed zones. The tiny part taken by imports in American expenditure (13%) and the small share of exports in the output of European firms (17%) can, a priori, be assumed to cushion the direct impact of an American slowdown on the EMU countries. However, a second element has to be introduced to refine the analysis of this direct effect: the structure of world trade broken down by origin and destination. This is shown — for the major zones only — in Table 2. At world level there exist three large zones, whose individual

Table 1 : Degree of openness to international trade of the main world economies

*Ratio of exports and imports to GDP in value terms
(1997 figures)*

	Exports	Imports
Euro zone	16.6	13.8
Germany	27.8	26.5
Spain	26.8	25.8
France	25.5	22.5
Italy	26.4	22.4
Western Europe excluding Euro Zone	29.0	26.2
USA	11.6	12.7
Mexico	30.2	30.2
Canada	39.5	37.8
Japan	10.7	9.6
Asia excluding Japan	24.0	24.2
Latin America	10.0	11.6
CEEC	40.6	45.9
Oceania	20.4	18.4

Sources: Eurostat, CHELEM and OECD.

Calculation: Direction de la prévision, INSEE.

Table 2 : Structure of international trade by origin and destination

	Euro zone	Europe excluding Euro Zone	US	Mexico	Canada	Japan	Asia excluding Japan	Latin America	CEEC	Oceania
Euro zone	0.0	40.4	16.9	1.2	2.0	4.9	15.3	4.5	13.0	1.9
Europe excluding Euro Zone	62.9	0.0	13.3	0.5	2.1	3.6	9.4	1.6	4.6	1.9
USA	15.9	8.1	0.0	11.5	24.2	11.2	20.3	6.9	1.2	0.8
Mexico	2.9	1.0	87.3	0.0	2.0	1.1	0.9	3.8	0.0	0.9
Canada	3.5	1.8	79.5	0.4	0.0	3.8	4.0	1.2	0.5	5.2
Japan	12.0	4.8	30.1	1.1	2.2	0.0	44.9	1.8	0.6	2.5
Asia excluding Japan	19.6	7.2	38.0	1.0	2.7	23.9	0.0	1.9	2.3	3.3
Latin America	26.1	5.3	39.6	1.8	2.7	8.6	13.0	0.0	2.2	0.7
CEEC	63.8	11.3	6.4	0.2	1.0	4.2	12.2	1.0	0.0	0.1
Oceania	8.9	6.6	1.9	2.0	7.5	26.0	45.1	1.5	0.5	0.0

Legend: (in ligne) Share of each destination in total exports by value in 1997. In percentage points. Intra-zone excluded.

How to read the table: 40.4% of exports from the euro zone go to the rest of Western Europe.

Sources: CHELEM and OECD, Direction de la prévision and INSEE calculations.

member economies are highly interdependent: Asia, NAFTA and Europe. Asia is more open than Europe to the American market.

The two tables permit an assessment of the direct impact of a fall of one percentage point in United States GDP. We assume that such a fall is accompanied by a three-point decline in imports. A fall in American imports implies a decline in the exports of the other zones, which varies depending on their exposure to the American market (table 2). The impact of this diminution in exports on their GDP is obtained via the degree of openness of each of the zones (table 1)⁽¹⁾.

To take the example of Mexico, whose economy is highly dependent on the United States, the impact of an American slowdown amounting to 1 point of GDP is huge, of the order of 0.7 GDP points. In Japan, which is relatively closed but highly oriented towards the American market, the decline would be about 0.14 of a point of growth. As for the euro zone, the impact would be only 0.07 of a point — and with France slightly less exposed than the euro zone as a whole, the direct impact in this case would be slightly smaller. All the results for each zone and for the major countries of the euro zone are brought together in the first column of table 3.

The second stage of the reasoning consists of taking into account the echo effect. In an initial stage, one deduces from the estimate of the direct effect the impact on the imports of the various zones concerned. We assume that a decline of 1% of GDP leads to a decline of 2% in imports for all the countries concerned (except the United States, where this elasticity between imports and GDP is assumed to be equal to 3). This reasoning is then iterated when coming to study the direct effect. The fall in the imports of each of the zones leads to a fall in exports from

partner countries, which further reduces activity. This echo effect is then repeated a large number of times in order to arrive at the total effect on international trade.

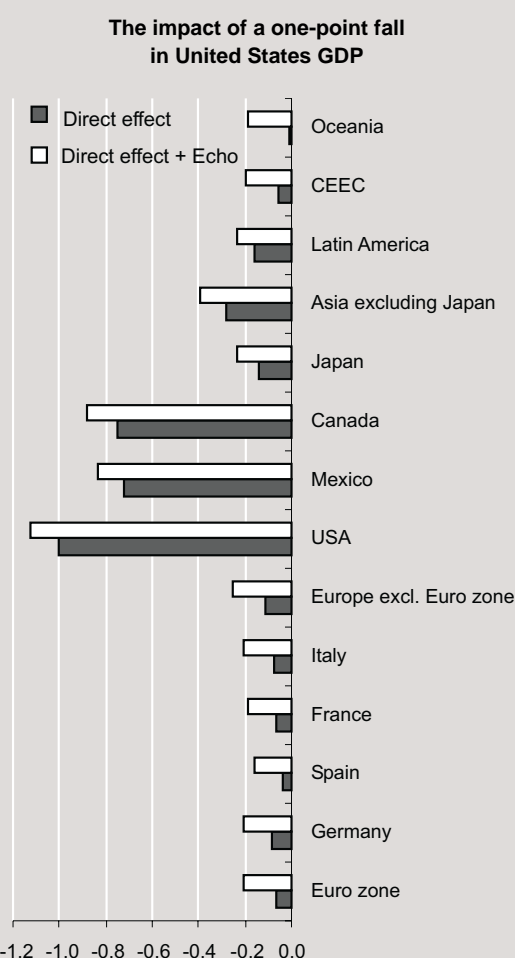
The results of this analysis are shown in the graph (and reproduced in the second column of table 3). The indirect repercussions of a 1% fall in United States growth are substantial and can double or even treble the impact due to direct exposure. This is true of the euro zone, whose growth declines by 0.2 of a point (as against 0.07 when only the direct effect is taken into account)⁽²⁾. In the case of Mexico and Canada, which export roughly 30% of their output to the United States, the direct effect is huge, but the indirect effect adds only 0.12 of a point of GDP. The United States itself sees its GDP fall by an additional 0.13 of a point as a result of the slowdown in international trade. Japan, and even more so, emerging Asia, are in the final analysis more affected than the euro zone.

The downturn is estimated to be of the same order of magnitude in France, Germany and Italy, although France would be slightly less affected, given the slightly more favourable orientation of its foreign trade. ■

Table 3: Impact of a one-point decline in American growth

	Direct effect	Direct effect + Echo
Euro Zone	-0.07	-0.20
Germany	-0.08	-0.21
Spain	-0.04	-0.16
France	-0.06	-0.19
Italy	-0.08	-0.21
Western Europe excluding Euro Zone	-0.11	-0.25
USA	-1.00	-1.13
Mexico	-0.72	-0.84
Canada	-0.75	-0.88
Japan	-0.14	-0.24
Asia excluding Japan	-0.28	-0.39
Latin America	-0.16	-0.23
CEEC	-0.06	-0.19
Oceania	-0.01	-0.19

Source: INSEE calculations.



(1) More precisely, an assumption remains to be made concerning the net impact of exports on activity. Ideally, account should be taken of the direct effect of exports but also of the induced supplementary effect on domestic demand (review of certain investment decisions and, to a smaller extent, impact on employment and consumption) and, conversely, the crowding-out effect (part of the slowdown in demand takes the form of a drop in imports). This is known as the multiplier effect. To estimate this, the assumption is made here that the propensity to consume is of the order of 0.5 and the elasticity of imports to GDP is 2. In the case of France, the multiplier resulting from this simple construct corresponds to the order of magnitude supplied by the macroeconomic model used by INSEE for its medium-term projections.

(2) Note that this result can equally well be obtained by summation of the figures obtained at the level of individual countries as by taking the euro zone as a whole. The creation of EMU has therefore not strengthened the protection of the euro zone countries against the effects of an American slowdown transiting via the trade channel. On the other hand, it eliminates possible negative effects related to excessive variations in intra-European exchange rates.

the same time a slight acceleration regarding manufactures and increased momentum for traded services as a whole.

H1 2001 is likely to be marked by an intensification of this tendency. Growth in household consumption of manufactures is liable to pick up to an annualised rate of the order of 6%. In particular, after declining in H2 2000 following the alterations to the rules regarding model years, car purchases are likely to return to much more rapid growth. Spending on services should continue to be very brisk, stimulated by the spread of telecommunications services and the continuous fall in prices in this sector.

The strength of consumption is likely to be accompanied by a continuing high saving ratio, as is normal at times of a sustained acceleration in income.

Against a background of continuing firm overall demand, productive investment, after accelerating distinctly in H1 2000, should continue its strong progress. Housing investment, for its part, is likely to slow down, given the impact on purchases of the rise in house prices and the slight hardening of financing conditions. Moreover, part of the slowdown would be attributable to the completion of the repair work connected with the gales at the end of 1999. Finally, investment in public works can also be expected to slow down, following the great dynamism shown in H2 2000 (which was marked by the run-up to the municipal elections).

Exports affected by the slowdown in world demand

In contrast to the acceleration in domestic demand, the slowdown at world level is likely to hold back demand in French export markets. This would mean a marked slowdown in exports in H1 2001, despite continuing firm demand from certain European trading partners. The annual growth rate for manufacturing exports is expected to be halved from one half-year to the next, i.e. from 12% to 7%. In addition, food exports can be expected to decline under the impact of the BSE and foot-and-mouth crises. As exports have a high import content, imports too can be expected to slow down, but to a smaller extent, given the strength of domestic demand. The external contribution to growth would be negative for the half year, by slightly less than half a point in annualised terms.

GDP growth set to come out at 3%

All things considered, the marked slowdown in external demand would be offset by an acceleration in domestic demand, with French growth amounting to 3% in H1 2001.

However, this strength in activity would mask differing situations in the main sectors of activity. The building and public works sector, whose strength underpinned growth in 1999 and 2000, is expected to slow down. Manufacturing industry is likely to do so as well, but still maintaining a solid growth rate, of the order of 3.5%. Distribution and services are likely to be very buoyant. ■