

The year 2000 in retrospect

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The year 2000 constituted an additional phase in the upswing that began in mid-1996, with growth, at 3.2%, being of the same order as in the three previous years. On the other hand, job creation reached fresh peaks. With 510,000 jobs created in the market sector, the unemployment rate fell by almost 1 1/2 point during the year.

Analysed on the basis of the contributions to growth recorded in the national accounts, the rise in activity, as in the previous year, was entirely based on domestic demand. But this should not be allowed to conceal the exceptional buoyancy of exports, which were up 13.6% thanks to strong world demand and a competitiveness situation that was highly positive for the European economies.

Imports also rose strongly (by 14.7%), this being related to the strength of domestic demand and increasing supply constraints. In industry, the capacity utilisation rate reached the maximum level attained in the previous upswing, while recruitment difficulties were distinctly greater. These pressures induced firms to invest, at a time when financing conditions were still favourable. The growth in investment (7.2%) was almost as high as in previous years. Investment by households also rose strongly (by 5.7%). The year 2000 was in fact an excellent one for the building industry, with output up by 5.2%, as in 1999.

The new feature in the year 2000 as regards the evolution of demand was the appearance starting in Q3 of a slowdown in household consumption, which fell back to a growth rate of below 2% a year, whereas it had been rising at a rate of 3% since Q2 1999. This slowdown in what appeared to be the main growth motor is to be related to the price rise induced by the sharp increase in the oil price and the fall in the euro. The main result of the acceleration in imported inflation was to erode households' purchasing power. Purchases of fuels were most affected, but purchases of manufactures also slowed down.

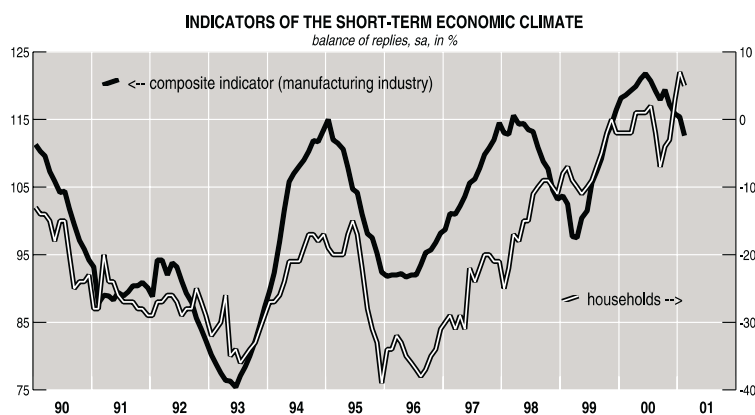
However, the end of the year saw an easing of inflation, opening up the prospect of stronger consumption, especially as tax cuts added to households' disposable income in Q4. Note also that imported inflation is being passed on into prices of other goods only to a small extent and that wage increases remain very moderate, a fact that is only partially explained by the undertakings contained in the agreements relating to the reduction in working hours.

Four distinctive features of the past year will be highlighted here:

- the buoyancy of the international environment, with, in particular, the peaking of the American expansion,
- the slowdown in consumption under the influence of imported inflation, despite highly favourable expectations on the part of households,
- the rise already referred to in supply pressures as the upswing continued,
- and, naturally, the largest number of job creations in the past thirty years.

A highly buoyant international environment

World growth peaked in H1 2000, before weakening towards the end of the year because of the American slowdown. The figure for 2000 was close to 5%, as against 3.6% the previous year. This performance was the result of growth that was common to all zones, both industrialised and emerging. Within the OECD zone, the United States economy grew by 5%, the euro zone by 3.4% and the United Kingdom by 3.1%. Even Japan's performance, although modest at first sight (1.7%), can be regarded as quite good, since it is certainly above the country's current trend growth. In emerging Asia, the scars of the 1997-1998 crisis were largely effaced by a vigorous upturn. Similarly, in Latin America, Brazil and its neighbours returned to growth. Only Argentina, weakened by its financial disequilibria, continued to lag behind. However



the sudden slowdown in growth in the United States towards the end of the year indicates that the US economy peaked last year and that world growth will not post as good a performance this year. In the case of the French economy, the impact of this lively world activity was amplified by the highly competitive position of the euro vis-à-vis the yen, the pound sterling and especially the dollar, which the prospects for high US company profits kept at a high level until mid-December. The positive impact on the French economy of this strong world growth was damped down by two directly related phenomena: the rise in interest rates and the increase in inflationary pressures. The first of these involved short rates, pushed up by the hikes imposed by the central banks. In the case of the European Central Bank, the main refinancing rate was raised from 3% to 4.75% during the year. However, long rates at the same time tended to moderate in the second part of the year because of a “flight to quality” related to disenchantment with equities. The yield on 10-year government securities in the euro zone fell by half a point in 2000, coming back to around 5% by the end of the year. All in all, even with the slight rise in lending rates, European firms enjoyed financing conditions that remained very favourable. The inflationary pressures mainly concerned energy supplies. The strong world demand associated with the simultaneous upswing in all re-

gions, against a background of renewed discipline among OPEC members, raised the price of crude to as much as USD 33 a barrel in September. Although this imported inflation was transmitted only to a small extent through the economy, it meant a decline in household purchasing power, via consumer prices

A relatively unexpected decline in consumption

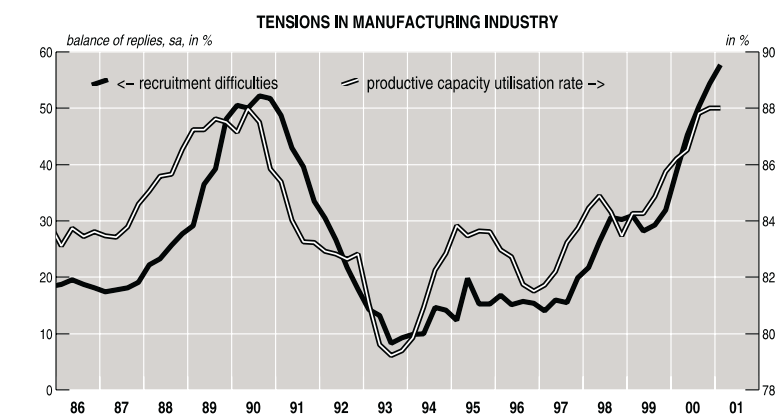
Household consumption, which had risen steadily at an annual rate of 3% until Q1 2000, stagnated in Q2 before rising at a rate of less than 2% in the second half. This phenomenon is explained by a natural reaction to the rise in imported inflation at a time when wage growth had stabilised at a very modest rate. In addition, fuel purchases were particularly affected and showed a fall for the year. Note also the upset caused to food consumption by animal health problems and a levelling off of car purchases in the second half, due to a modification in the pattern of demand over the year. But the fall in consumption came as a surprise for three reasons. First, evolutions in the two previous years had allowed the idea to develop that France, more than its neighbours, had installed a virtuous circle of employment-consumption-growth and that consumption, at a time when

the other two elements were moving favourably, was bound to progress. The second, which is linked to the first, was that households’ expectations, as measured in opinion surveys, remained high. However a special article (“households’ opinion and short-term economic analysis”, available only in the french version) clearly shows that household confidence is merely one determinant, and not the main one, of their consumption behaviour. The third and last point was that previous oil shocks had tended to be reflected in an initial stage in an acceleration in consumption. On this occasion, the rise in inflation remained limited, with no precautionary buying spree being observed.

Pressures related to the continuation of expansion

Demand for firms’ output was extremely high during 2000. GDP rose by 3.2% in the year, with virtually all sectors of the economy showing an upturn in Q4. Activity in manufacturing accelerated thanks to the contribution of foreign trade, which turned positive again. It was mainly exports, showing a sharp acceleration (up 15.1%, compared with 4.3% in 1999), that underpinned activity in the sector, benefiting from an exceptional international climate and from the competitiveness gains associated with the depreciation of the euro. Investment was very brisk throughout the year and this was certainly because of the sharp acceleration in supply. However, growth, while firm, failed to reach the levels that might have been envisaged. In all probability, activity was curbed by productive capacity pressures during the first half, which did not always present the same structure and the same intensity. The first half saw mainly an aggravation of production bottlenecks. These did not take the same form in all sectors. In the case of

industry the bottlenecks related to supplies, to capital equipment and to recruitment in similar proportions. The building sector, which suffers from few capital constraints, was affected almost exclusively by recruitment bottlenecks. A point common to the two sectors was that the percentage of firms encountering recruitment difficulties was greater than in the late 1980s (more than half in manufacturing industry, more than 80% in building). However, these recruitment difficulties did not necessarily lead to limitations on production, being reflected mainly in the lengthening of the times posts remained unfilled. Even so, one-third of firms in the building industry said they were being prevented from producing because of recruitment difficulties. In this branch, the limitations were probably reflected more in delays than in lost output. In addition, capital equipment and supply bottlenecks certainly curbed manufacturing output in the first half. These bottlenecks emerged in 1999, when firms were taken by surprise by the unexpectedly strong demand. The implementation of the reduction in working hours may also have produced difficulties linked to the re-organisation of the production process. All these difficulties seem to have been transitory and failed to engender price rises. In Q3 these pressures began to level off and it was the impact of the oil shock that held back



activity. The fourth quarter showed no further increase in these pressures.

The unprecedented rise in employment

The year 2000 confirmed and improved on the excellent performance of the year 1999, with the net creation of more than 500,000 dependent jobs (compared with almost 400,000 in 1999) in the competitive sectors. This is the strongest rise in employment since the end of the 1960s and results not only from a favourable economic environment but also from the impact of the reduction in working hours, which was particularly substantial in 2000. While the tertiary sector has remained the main growth motor as regards employ-

ment, the most striking feature of the year was the rise recorded in industry, which was on a scale not seen since 1973. More than 68,000 jobs were created in the sector, which since the crises of the 1970s had shown a regular trend loss in employment because of the sharp productivity gains. The building sector, which posted a steady increase throughout the year, also posted record net job creation.

These additional jobs enabled the unemployment rate (ILO definition) to fall below the symbolic threshold of 10% in Q2 2000, something that had not happened since 1992. In 2000, the fall in unemployment was also on a scale never previously reached, with the unemployment rate falling from 10.6% to 9.2%. ■