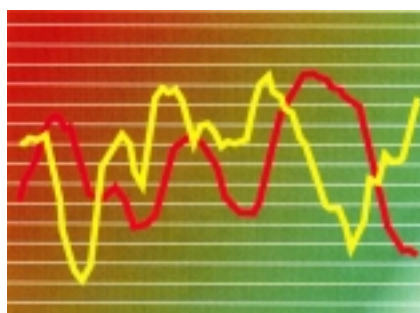


CONJONCTURE IN FRANCE



Year 2000: the shadow cast by the oil price

The first half of the year 2000 found the French economy on a growth path close to 3%. This rate, although still slightly above the economy's trend growth rate, was down on the 4% seen in H2 1999. Most of the components of demand, but especially corporate investment and exports, continued to show great vigour. However, some household demand items weakened in Q2. In particular, energy consumption fell, constituting the first tangible sign of the impact of the rise in oil prices. Some signs of increasing supply pressures were also visible. In certain branches of industry and in construction, the intensity of these pressures may have curbed the expansion of activity.

In the euro zone, where GDP growth was close to 3.5% in the first half of the year, a modification took place in the ranking of countries in terms of growth rates, with France and the Netherlands leaving the leading group and the German economy posting renewed strength. From the middle of the year on, business leaders' expectations turned down in the whole of the zone. This reflected, more than a marked turning point in demand, the effect on the business climate of the sharp rise in the oil price and the incipient industrial slowdown in the United States, linked to the tightening of monetary policy. In these circumstances, the euro zone can be

expected to show a growth pace of close to 3% in H2.

This same rate of 3% is also the one that the French economy is likely to record in H2, giving a GDP increase of 3.2% for 2000 as a whole. While the trend in investment seems unlikely to change in the short term, household behaviour could well be affected by the drain on purchasing power caused by higher oil prices, of which they have been the main sufferers until now. However, the rise in income that is now guaranteed for H2 as a result of the increase in employment and the tax cuts is such that it will enable consumption to grow at an annual rate of 2.5%, without households having to draw on savings. Moreover, the decline in unemployment, the principal determinant of household confidence, is continuing and the unemployment rate is heading for 9% by the end of the year. For 2000 as a whole, the number of people in work is expected to show a rise of almost 500,000.

The year-on-year price rise is expected to remain close to 2% until November, declining to 1.6% in December. Meanwhile, underlying inflation is rising only slowly, in the absence of any marked knock-on effect of energy prices to other sectors of consumption.

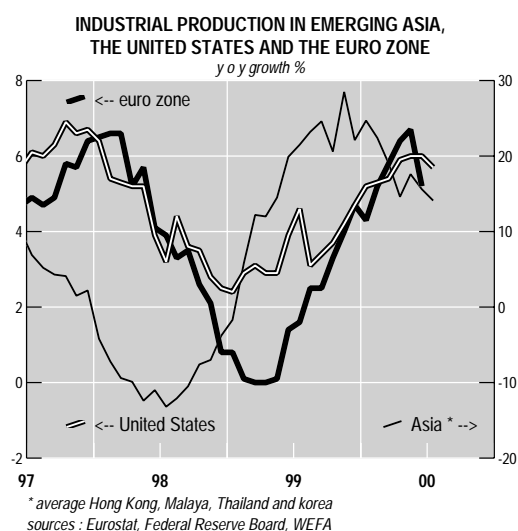
Industrial slowdown

The world industrial upswing seems to have peaked in H1 2000. The slowdown in H2 is a reflection of the petering out of the vigorous upturn that succeeded the crisis in the emerging countries, where growth is now back to a rate that is more compatible with the long-term potential. The weakening in world industrial activity has also been triggered by the combination of tighter monetary conditions and the rise in oil prices.

The levelling-off in Asian growth coincides with a distinct downturn in confidence on the part of American and British business leaders since Q2. In the United States, following the liveliness of the first half of the year, activity seems set to return to a growth path that is close to the economy's potential. In particular, household spending is liable to slow down, hit not only by the rise in petroleum prices, but also by the levelling-off seen on the stock market and the rise in interest rates. United Kingdom industry, for its part, seems to have begun to slow down somewhat earlier, under the impact of the sharp rise in sterling. This means that growth is expected to remain subdued, at around 2% (annualised rate) in H2.

In Japan, recovery could be jeopardised by the world industrial slowdown. The strong growth in

Q2 was based mainly on the strength of exports and the high level of public spending. Domestic demand, for its part, remains handicapped by the decline in investment and the virtual stagnation of household income. Recovery in the Japanese economy will therefore depend heavily on the strength of industrial exports. Given the scale of its trade with other countries in the region, the Japanese economy could suffer more than the other industrial as countries from the slowdown in emerging Asia.



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

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

		1999				2000				1998	1999	2000
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP	(100%)	0.6	0.8	1.0	1.0	0.7	0.7	0.8	0.7	3.2	2.9	3.2
Imports	(26%)	-1.0	2.1	2.5	3.5	3.9	3.1	1.7	2.1	11.3	3.8	12.6
(of which merchandises)	(23%)	-1.0	2.1	3.0	3.8	4.7	3.0	1.8	2.3	12.3	4.7	14.0
Consumption	(53%)	0.2	0.6	0.9	0.6	0.8	0.2	0.8	0.6	3.5	2.3	2.6
Public consumption	(24%)	1.0	0.6	0.5	0.6	0.1	0.4	0.4	0.5	0.3	2.5	1.6
Investment	(20%)	2.3	1.4	1.4	1.1	1.9	1.7	1.7	1.2	6.6	7.2	6.4
of which :												
Non financial corporated and unincorporated enterprises	(10%)	2.9	0.9	2.0	1.2	1.4	1.9	2.1	1.9	8.3	7.6	6.6
Households	(5%)	2.1	3.3	0.3	0.9	3.0	1.2	0.8	0.3	3.6	8.2	6.2
Exports	(29%)	0.0	2.3	4.6	1.9	3.6	3.9	0.9	2.0	7.7	3.8	12.1
(of which merchandises)	(25%)	-0.2	2.3	5.5	1.4	4.4	3.8	0.8	2.2	8.8	3.8	13.2
Domestic demand		0.4	0.7	0.4	1.4	0.7	0.4	1.0	0.7	3.9	2.9	3.1
Contributions to growth												
Internal demand excluding inventory changes		0.8	0.8	0.9	0.7	0.8	0.5	0.9	0.6	3.2	3.2	3.0
Inventory changes		-0.4	0.0	-0.5	0.7	-0.2	-0.1	0.1	0.0	0.6	-0.4	0.1
Net foreign trade		0.2	0.1	0.6	-0.3	0.0	0.3	-0.2	0.0	-0.6	0.1	0.2

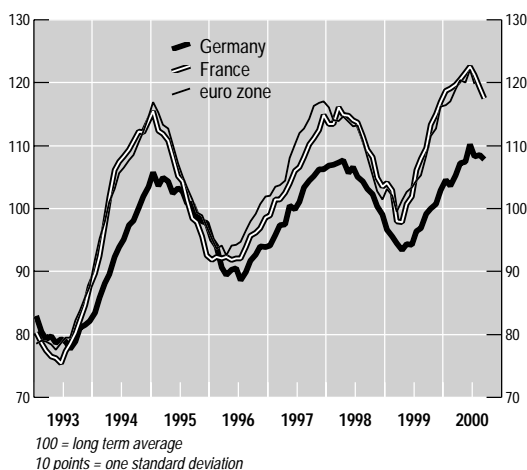
█ Forecasts

More moderate activity in the euro zone

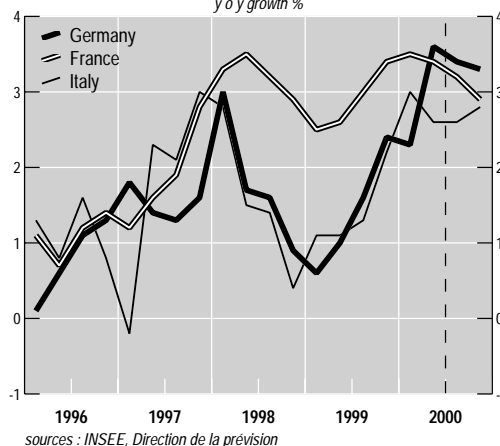
In H1 2000, activity in the euro zone continued to grow strongly, at a rate of more than 3.5%, as in the previous half-year. This vigour was founded mainly on a strengthening of domestic demand excluding stocks, while exports remained bolstered by the strength of world demand and the competitiveness gains resulting from the evolution in the euro exchange rate. In particular, the German and Italian economies, which had been the largest sufferers from the Asian crisis, benefited from more vigorous domestic demand. Private consumption continued to be underpinned by the improvement in the labour market situation, which permitted a consolidation in the improvement in household confidence seen since the summer of 1997. This economic dynamism was not accompanied by any marked inflationary pressures, with price movements mainly reflecting the higher prices of petroleum products. Although inflation came out at 2.3% in August, underlying inflation has in fact remained stable at around 1.3%.

H2 2000 is likely to see some easing in industrial activity, as indicated by the downturn in the results of business surveys since the summer. This would mean that industrial output would by the end of the year be rising at a rate close to 4%. The impact of the world economic situation, the rise in interest rates and the shock brought about by the continuing rise in oil prices are in fact taking the steam out of the industrial upswing. Exports are likely to rise at a less exceptional rate, even though they continue to benefit from the competitiveness gains linked to the situation on the currency markets. At the same time, the rise in inflation can be expected to have a negative impact on purchasing power and curb private consumption, although the

SYNTHETIC INDICATOR FOR THE MANUFACTURING INDUSTRY



GDP GROWTH
FOR THE MAIN EURO ZONE COUNTRIES
y o y growth %



forecasts after the dotted line

cuts in taxes on households announced in several countries could well cushion the effects.

Growth in the euro zone is therefore likely to show a 3% pace in H2. For the year as a whole, growth should amount to 3.5%, given the exceptional strength of activity recorded in Q1. This easing-off is being accompanied by a more even geographic balance, with Germany and Italy returning to a rate closer to that prevailing in France. Meanwhile, inflation in the euro zone should remain around 2.5%, before declining towards the end of the year, to reach 2.1% in December 2000. This slowdown, however, assumes a stabilisation of the oil price at its present level. Meanwhile, wage restraint is likely to be maintained until the end of the year. Against a more uncertain background in terms of activity and the evolution on the oil market, monetary policy would then take a more "wait-and-see" bias.

The rise in the oil price is denting the strength of domestic demand

Following the 4% posted at the end of 1999, French growth is now installed on an upward trend of the order of 3%.

In H1, growth was affected by several factors of a fairly one-off nature. In particular, activity in industry was less lively in France than in the rest of the euro zone. It is possible that the French economy was reaping less advantage than its partners from the upturn in the emerging countries and the depreciation of the euro, so that the industrial slowdown may have been felt at an earlier stage in the French case. And it is not impossible that certain supply difficulties held back production. Indicators of material pressures on the French productive system -- capacity utilisation rates, production bottlenecks, recruitment difficul-

ties -- have in fact intensified more than the demand indicators would suggest, regaining in Q2 the highs reached towards the end of the 1980s.

Domestic demand also suffered from certain exceptional factors in Q2. Household consumption rose by only 0.2%, with marked falls for certain notoriously volatile items like textiles and foodstuffs. These "blips" are likely to be compensated at a later stage.

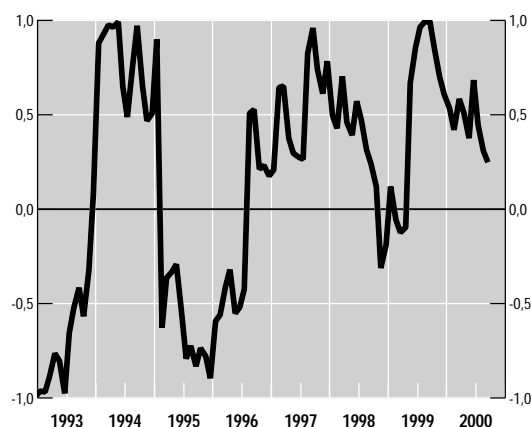
Leaving aside these exceptional aspects, the drain on purchasing power resulting from the higher oil price is probably starting to curb household spending. Its immediate effect has been a marked decline in the volume of energy consumed. More generally, higher inflation is having an adverse effect on household purchasing power and is affecting corporate margins. Domestic demand could therefore slow down somewhat.

Growth levelling off

Activity in industry is unlikely to rebound in H2 2000. In France as in the euro zone in general, business confidence reported downturns during the summer. This tendency followed declines in the corresponding indicators in the United States and United Kingdom. As a result, manufacturing production seems to be slowing down, reaching a growth rate of around 4% by the end of the year, in parallel to that of the euro zone. The exceptional strength of foreign trade is in fact likely to ease and inventory behaviour is not expected to contribute significantly to industrial activity.

Even so, the industrial downturn is not expected to dampen growth in the economy as a whole to any great extent. For the year 2000, growth is expected to average 3.2%. Domestic demand is likely to remain firm, with household consumption making up some of the ground lost because of the accidental factors that affected it during the spring, and household incomes benefiting from the strong performance of employment and the tax cuts. It should therefore increase at a rate comparable to that of the purchasing power of incomes, i.e. slightly above 2.5%.

LEADING INDICATOR FOR MANUFACTURING INDUSTRY
France



Meanwhile, corporate investment should continue to rise, given the considerable need for re-building productive capacity. The exceptional influences early in the year have not in fact impaired the momentum of capital accumulation that began some years ago. Corporate investment is therefore expected to rise by almost 7% in 2000. At the same time, total employment is likely to maintain its strong growth, adding more than 500,000 jobs in the year as a whole, and bringing the unemployment rate down to close to 9.2% by the end of the year.

On the inflation front, the year-on-year price rise is likely to remain close to 2% until November, under the impact of the persistent rise in the oil price. It should then decline to 1.6% in December, on the assumption that the price of oil crude stabilises at its present level. The knock-on effects of the higher energy prices are likely to be confined to the sectors that are the largest consumers of petroleum products (construction, transport, intermediate goods). The intensity of competition, especially in the telecommunications sector, and the wage restraint should nevertheless continue to hold down underlying inflation, which is likely to come out at around 1.5% in December, compared with 1.2% in June of this year. The inflationary pressures triggered by the additional imported inflation should therefore remain subdued, as long as there is no marked upturn in labour costs. ■

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