

Economy

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Will French consumers wake up in 2020?

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Are the French riven with anxiety as media reports persist in telling us at a time when pension reform, strikes and demonstrations continue to hog the headlines? Are they confident in their spending capacity and future financial situation as the monthly survey from the national statistics bureau suggests? Leaving aside perception, a number of objective facts should be borne in mind. Unemployment is on a clear downtrend since 2016. Inflation is low. Fiscal choices have been recalibrated in response to the “Yellow Vests” to support disposable income. All of this should normally be favourable to a firming of consumption.

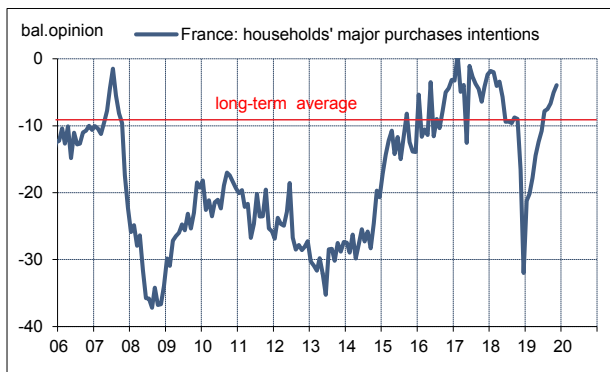
The fortnight’s focus

Blind panic seized French households end-2018 as the “Yellow Vests” movement took hold. In the space of two months, spending intentions for durable goods had fallen to almost the same low level as end-2008, i.e. the depths of the financial crisis. The reaction was exaggerated but it corrected rapidly (chart lhs). Over the past few weeks, the social climate has deteriorated further, with public transport drastically reduced or at a standstill to mark trade union opposition to the proposed pension reform (see p.2). This type of disruption can temporarily impact some sectors but never leaves a durable mark on employment or growth. This will not strike down France’s economy.

What is households’ situation? 2019 was marked by a certain weakness in personal expenditure, one point lower than the increase in purchasing power, but also by a recovery in investment-housing expenditure¹. This is more a sign of optimism than anything else. In short, households have so far saved what they had received in income support measures². Unless one assumes that the desired level of savings has increased structurally, household spending is expected to strengthen over time. The traditional determinants of consumption appear to be positive. After the “Yellow Vests” crisis, the government acknowledged that its initial objectives for reducing the public deficit were postponed. It is not going to change tack and hike taxes as Emmanuel Macron has entered the second half of his term. Moreover, labour market conditions remain very favourable (chart rhs). The rate of job creation is brisk, >250,000 per year since 2016. It will probably slow down, but it still would be enough to extend the decline in unemployment. INSEE and Banque de France agree on this point, despite their conservative growth forecasts. Consumption should accelerate in 2020.

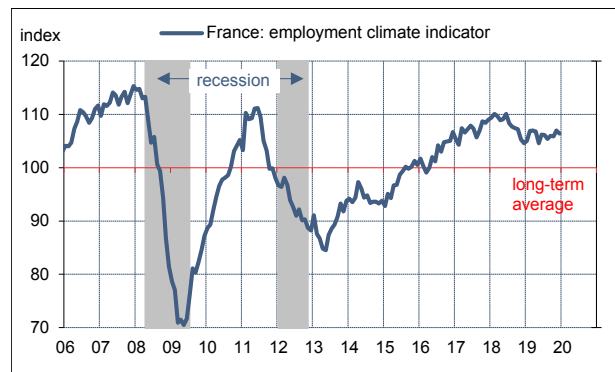
¹ See our *Focus-France* of 8 October 2019: “The French are moving house” – ² The main measures were the reduction in the council tax, the cancellation of the rise in the CSG social security tax for pensioners and of tax hikes on fuel, the exemption of overtime from tax and social contributions.

France: households’ major purchases intentions



Sources: INSEE, Oddo BHF Securities

France: employment climate



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The fortnight's economic newsflow

- The business climate in France is ending 2019 at a higher level than at end-2018. When making this comparison, bear in mind that France was going through a serious social crisis one year ago. The current disruption in transport is a much more standard dispute. Last year's sudden emergence of the "yellow vest", an unstructured protest movement with contradictory demands had taken everyone aback and weighed on sentiment. The negative shock could mainly be seen in two confidence indices, the INSEE consumer survey (-8.5 points in two months) and the Markit services survey (-7.5 points in three months). Since then, consumer confidence has more than made up the lost ground (+19 points from its trough) and the PMI-services has returned to the expansion zone (+4.5 points since its low point to 52.4). Overall, the INSEE business climate index, all sectors combined, stands at 106 points in December and the PMI-composite index at 52.0 points vs 101 and 48.7 respectively one year earlier. As is the case elsewhere in Europe, the manufacturing sector is struggling a little more. But in the case of France, we are above the historic average (INSEE index at 102) or just above the critical threshold (PMI at 50.3).
- It goes without saying that pension reform is at the forefront of everyone's minds at the moment due to its social and political ramifications. For further information about the general principle of the reform, please see our *Focus-France* of 13 November ("The pension reform will not take place"). Our analysis was (still is) that switching from the current system (complex and, in some respects, not egalitarian) to a single pension system (which is chemically pure and applies to everyone) raises two main issues which, until recently, were underestimated. The first is a financial one. Over the next 50 years, the key ratio of the number of contributors to the number of retirees will drop by around 25%. As a result, one of the following options will become inevitable - lower pensions, a longer working life with a later retirement age, or an increase in social charges. The reform's "purists" wanted to separate the systemic change (transition from the 42 systems today to a single system) from the possible parametric changes intended to guarantee financial equilibrium. After a long debate in the government, the Prime Minister announced on **11 December** that new parameters would be added to the draft reform. The legal age at which workers can retire on a pension would remain at 62, but a bonus-penalty system would be introduced around a "pivot age" of 64. This announcement triggered an indignant reaction from the so-called "reformer" trade unions.
- The second issue posed by the initial draft for the reform ("Delevoye report") is social. A project on this scale cannot be implemented without widespread public support and to gain this backing, a little more information from the government might have been useful. To our knowledge, no noted columnist has ventured to state that the government has clearly explained its intentions. In fact, it is mostly accused of a lack of transparency. Emmanuel Macron's unpopularity and the toxicity of social media are probably not helping, as was already the case with the "yellow-vest" movement. To be charitable, we will not say anything about the resignation on **16 December** of the reform's architect, Jean-Paul Delevoye, who apparently did not realise that combining a government post with other private occupations was not acceptable. Various opinion polls show that most people in France acknowledge that the current pension system must be reformed, accept the points system but reject most of the measures intended to restore financial equilibrium. That said, the strike by public sector employees to defend their "special regimes" (whose deficits are plugged by the general budget) is no more popular. According to the official figures, the three days of demonstrations mobilised 806,000 people in France on **5 December**, 339,000 on **10 December** and 615,000 on **17 December**. We have seen more stunning successes from the trade unions. What is happening today is a far cry from the major strikes of December 1995 which led to the complete surrender of the Chirac-Juppé government. At the time of writing of this document, our last of the year, the fight to win public opinion has not been decided.

Forthcoming events

- The Prime Minister announced that the pension reform bill would be presented on **22 January**, and debates in Parliament should start at the **end of February**. As the proposals stand, the reform, once adopted, would apply in 2025 with the switch to the new system for the generations born in and after 1975 (and not 1963 as initially planned). In the immediate future, the government's goal is to divide the unions, probably with fresh concessions, and blame the widespread disruption in public transport on the inflexibility of a privileged few. The usual mix of carrot and stick. This worked with the reform of the SNCF railway operator in 2018. After all, the French need to have trains so they can go on holiday. Cars and planes, as we know, cause much too much pollution.



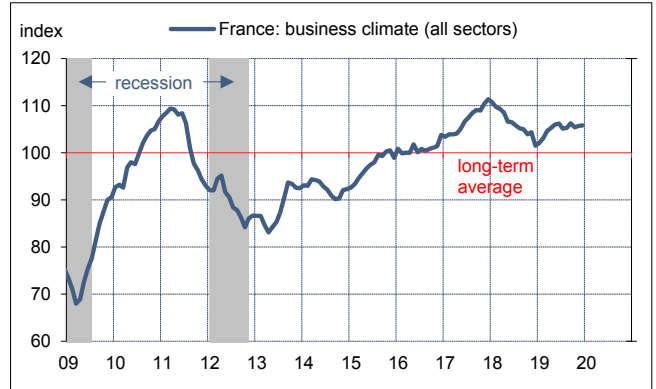
Appendix chart: business climate, confidence, households

Confidence indicators

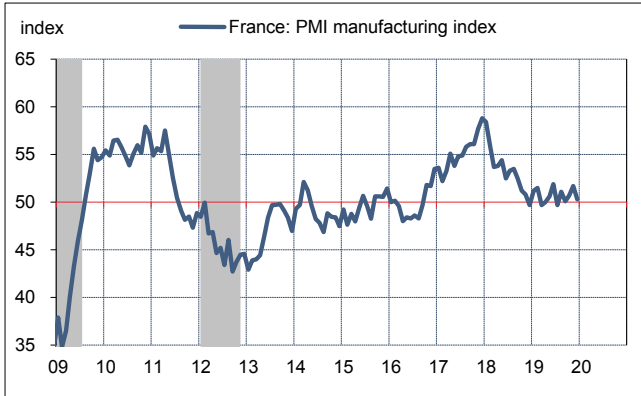
France: survey data and the business cycle						
Index	Current			Expansion	Recession*	
	Dec.	Nov.	Oct.		2008-09	1992-93
PMI manufacturing	50.3	51.7	50.7	52.0	42.6	-
PMI services (output)	52.4	52.2	52.9	55.2	46.8	-
PMI composite (output)	52.0	52.1	52.6	54.5	44.9	-
INSEE manufacturing	102	102	99	102	84	81
INSEE services	107	106	106	101	84	84
INSEE construction	111	112	112	103	102	85
INSEE retail sector	108	106	105	101	86	85
INSEE wholesale sector	-	105	106	101	85	87
INSEE consumer conf.	-	106	104	101	84	101
BdF manufacturing	-	97	98	103	79	86
BdF services	-	99	98	101	91	83

*from Q2 2008 to Q2 2009; and from Q2 1992 to Q2 1993

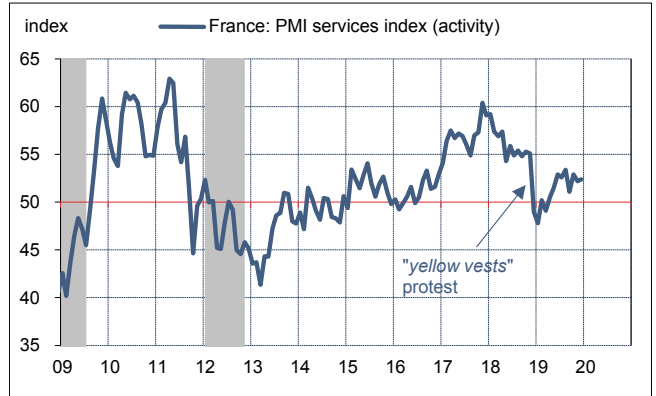
Business climate



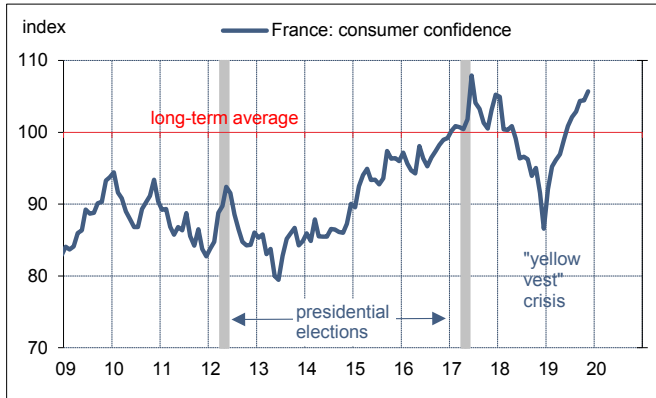
PMI-manufacturing survey



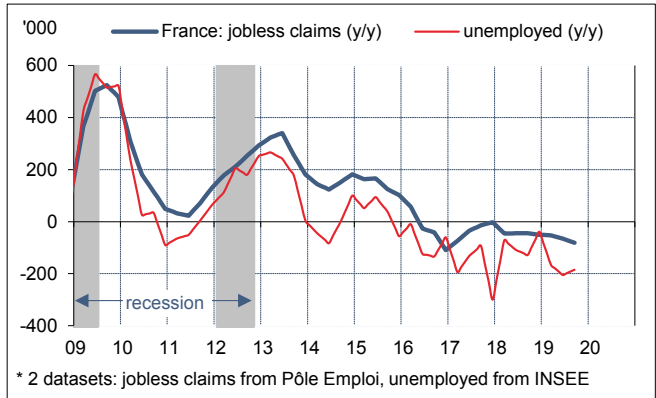
PMI services survey



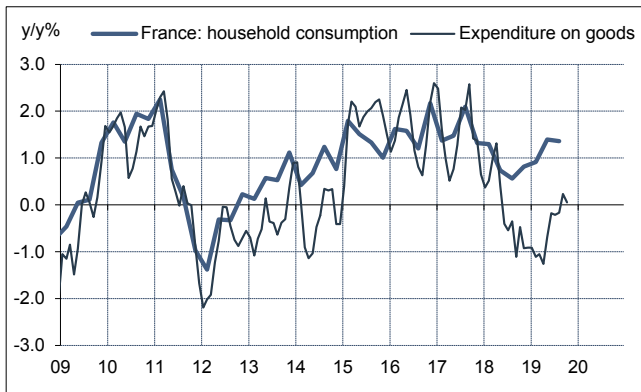
Consumer confidence



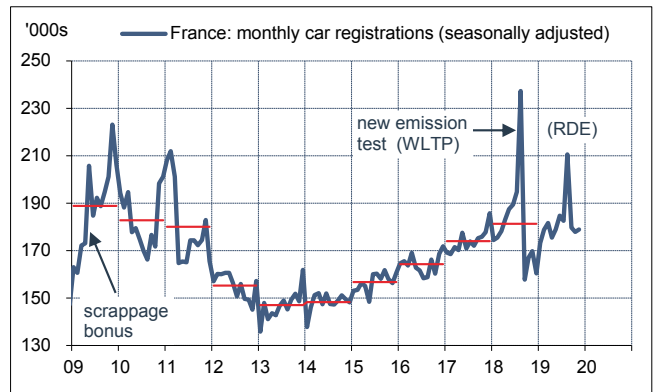
Jobless claims



Household spending



Vehicle sales

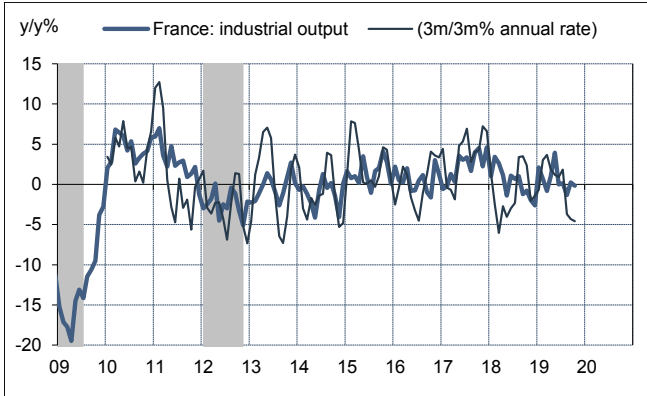


Sources: Thomson Reuters, Markit, ODDO BHF Securities

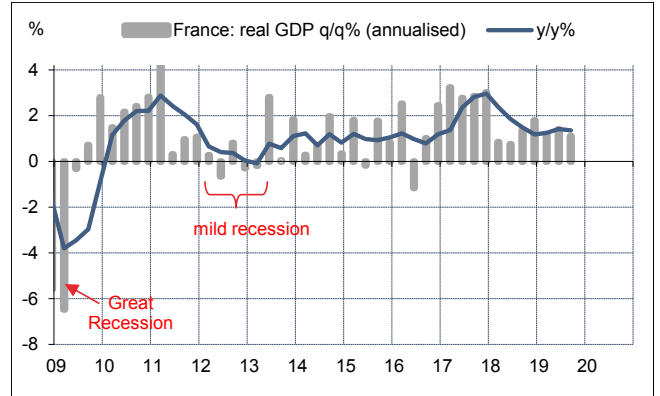


Appendix chart: activity, inflation, credit, finances

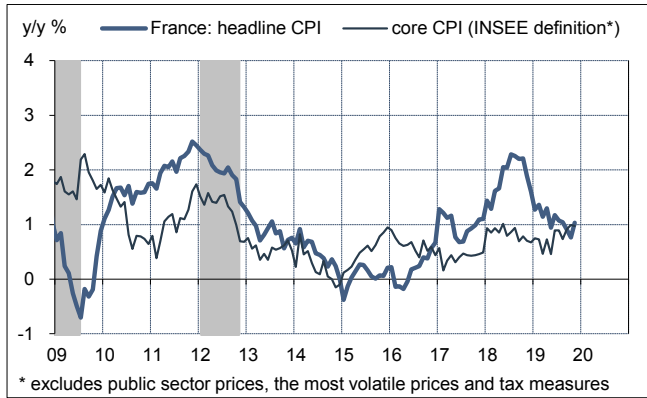
Industrial output



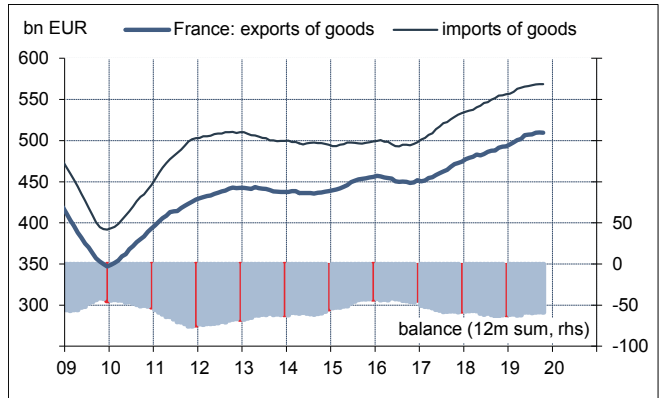
Real GDP



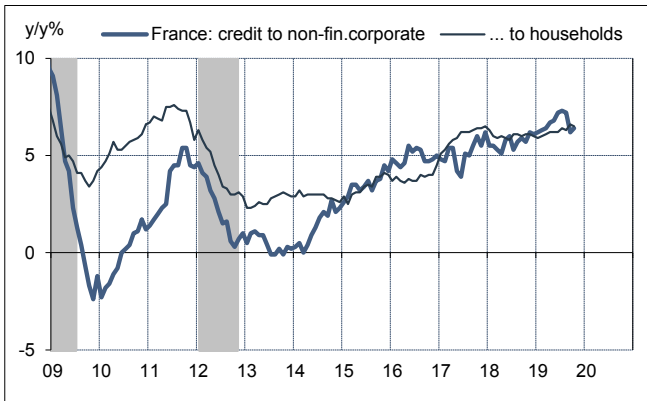
Headline and core inflation



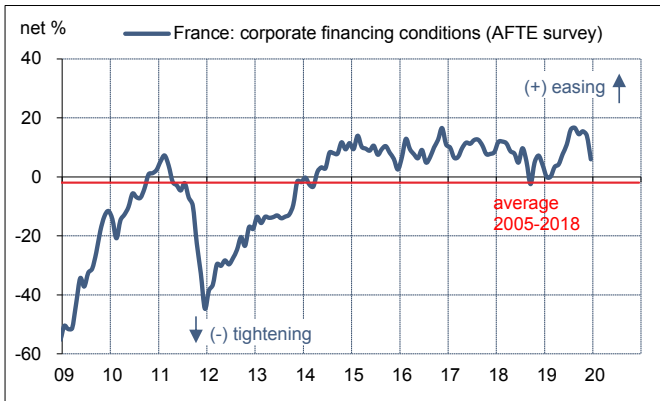
Trades of goods



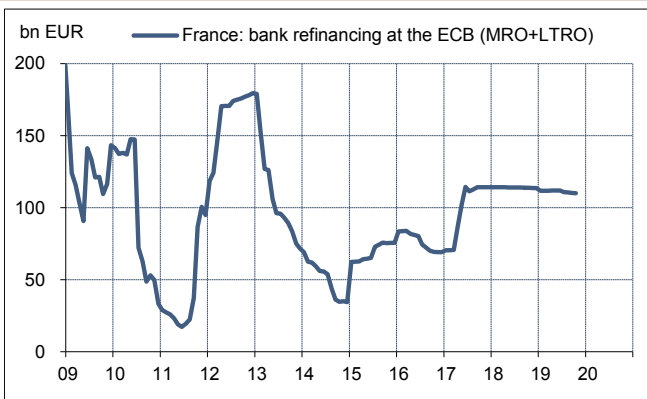
Private sector credit



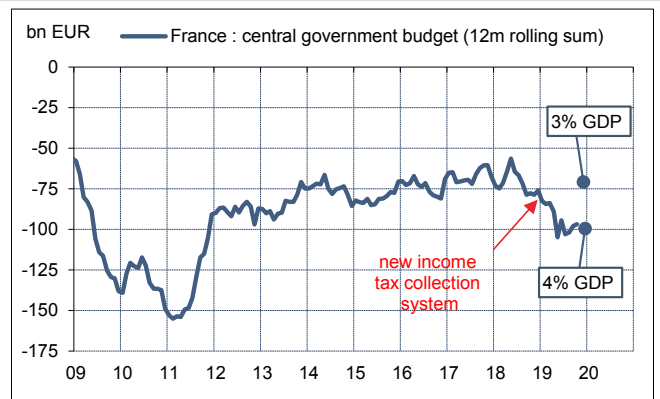
Credit conditions for businesses



Bank refinancing at the ECB



Government budget



Sources: Thomson Reuters, AFTE, ODDO BHF Securities



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