

Economy

Focus France

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France: "real" jobs to underpin growth

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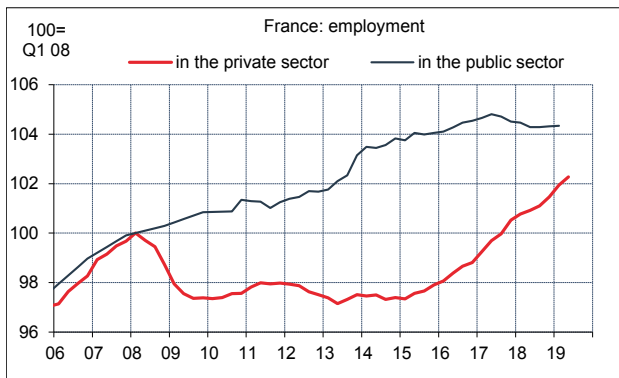
The growth of the French economy mid-year (+0.3% q-o-q in Q2) is not really exciting in absolute terms, but compared to that of neighbouring countries, it is enough to make some people envious. Over the same period, real GDP declined in Germany (-0.1%), Italy (-0.1%) and the UK (-0.2%) - three large economies that, in addition, are looking somewhat fragile in the short term. In France, the resilience of demand is largely due to the improvement in the labour market. Job creation in the private sector is strong, hiring intentions remain high and, as a result, households are less concerned about unemployment.

The fortnight's focus

"In the fight against unemployment, we have tried everything"... this is how, over twenty-five years ago, a president of the French Republic expressed his helplessness or resignation faced with the problem of unemployment, seen as a kind of fatality. At the time, in 1993, the unemployment rate had just hit a new high of over 10% of the labour force. "Trying everything" generally meant that the government had created a system of subsidised jobs to reduce the number of unemployed, if possible before the elections. Of course, such systems do not have a lasting effect, are expensive and may create unemployment traps. To reduce mass unemployment, it is more effective to address the root cause of the problem, i.e. review how the labour market functions (job protection, cost of labour) and labour-force training. Cases as different as the UK and Germany show that restoring full employment is possible.

The 2017 Pénicaud reform, following on from the 2016 El Khomri reform, amended the labour code to this end. These reforms were enacted at a time when, in addition, the economy was emerging from the torpor of the Great Recession of 2007-2009 and the 2011-2012 relapse. It is irrelevant whether the cause is cyclical or structural, the fact is that unemployment has been falling for four years. The peak was 10.5% in 2015, unemployment stood at 8.5% in Q2 2019 and the trend remains downward. Over this period, the rebound in employment was driven by the private sector alone, which represents three-quarters of salaried employment, whilst public-sector employment was virtually stagnant (chart lhs). Also of note was a marked upturn in hirings on "long contracts" (chart rhs). The temporary staffing sector contracted throughout 2018, playing its role of an adjustment variable during a slowdown, but appears to have more or less stabilised in H1 2019. Among businesses, the employment climate is in expansion territory. Meanwhile for households, unemployment fears are low by historical standards. Full employment remains a distant objective but the scenario of unemployment returning to its previous low point of 7-7.5% reached before the crisis does not appear unreasonable.

France: job creation (private vs public sector)



Sources: INSEE, Dares, Oddo BHF Securities

France: new hirings in long-term contracts



*permanent contracts (a.k.a. CDI) + fixed-term>1month

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The fortnight's economic newsflow

- According to the final national accounts, real GDP growth stands at 0.3% q-o-q in **Q2 2019** (initial: +0.2% q-o-q), which is the same result as in Q1 2019 and in H2 2018. The contribution from final internal demand – excluding changes in inventories and excluding foreign trade – is slightly stronger at +0.4pt (vs +0.3pt in Q1), thanks to accelerating investment spending by households and businesses. With more comprehensive information, INSEE has upgraded residential investment over several quarters, with the result that the 2019 carry-over is now in positive territory whereas the trend pointed towards a contraction three months ago. Business spending continues to trend upwards, and here again, at a clearer pace than three months ago. All told, unlike many other European countries, the French economy has more or less stabilized its growth rate of over the last few quarters (following a slowdown in 2018).

	2018				2019			2015	2016	2017	2018	2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	y/y%				carryover
Real GDP	0.2	0.2	0.3	0.4	0.3	0.3	-	1.0	1.0	2.4	1.7	1.1
- o/w Household consumption	0.2	-0.3	0.4	0.4	0.3	0.2	-	1.4	1.6	1.6	0.9	0.9
- o/w Household investment	0.1	0.7	0.3	-0.2	0.1	0.8	-	-1.5	2.8	6.6	2.0	0.8
- o/w Business investment	0.0	1.2	1.5	0.9	0.6	0.9	-	3.1	2.7	5.0	3.9	2.9
Private employment	0.2	0.2	0.2	0.4	0.5	0.3	-	0.2	0.9	1.4	1.1	0.9
Business climate INSEE (level)	110	107	105	103	103	106	105	97	101	107	106	105
PMI-composite index (level)	57.7	55.4	54.4	52.3	49.2	51.3	52.3	51.3	50.9	57.1	55.0	51.5

- Business climate indices continued to trend favourably over the summer. Over the last six months, the INSEE index has been virtually flat at a high level, 5% above its historical average. Meanwhile, the PMI indices, which had dipped sharply at the time of the “yellow vest” movement, continue to turn up. In **August**, the manufacturing sector index recovered to 51.1pt, with the services index rising to 53.3pt, which is a ten-month high. To recap, this index had slumped to 47.8pt in January. Few European countries show a better level of business sentiment than at end-2018.
- The situation for households also remains positive. Disposable income picked up rapidly in Q1 (+1% q-o-q) in the wake of the reduction in charges on overtime and the payment of exceptional year-end bonuses, and has since moderated in Q2 (+0.3% q-o-q). As a result, consumer spending slowed slightly, but spending on goods (+0.4% m-o-m) in **July** points to a re-acceleration in Q3. In **August**, consumer confidence improved once again, with the INSEE index pointing to 102 points, representing a rebound of 16 points since end-2018, more than wiping out the “yellow vest” impact. Fears regarding unemployment and inflation 12 months out are well below historic levels. The reverse is true of households' intentions regarding major purchases. The savings rate, boosted by stimulus measures at the beginning of the year was down in Q2. At 14.9% vs an average of 14% for the past five years, there is still scope to underpin consumption

Forthcoming events

- On average over various opinion surveys, President Macron's popularity rating stood at 33% at the end of the summer, revealing no major change over the past three years. Relative to the dip of last December (24%), this represents a spectacular recovery, although it remains ten points below the end-2017 level. The “yellow vest” crisis was a serious shot across the bows. From the social viewpoint, not all of the flashpoints have been extinguished, as reflected by the industrial action that has affected a vast number of the emergency departments in public hospitals for the past three months. The president and government are keen to avoid any more slip ups.
- Pension reform, presented as the key objective for the second half of the mandate, is therefore being conducted with the greatest of caution. The first phase of consultation resulted in the publication of the “Delevoye Report” on **18 July**. In order to guarantee the solvency of the future unified pension scheme, due to come into effect in 2025, the favoured option was to establish a pivot age of 64 years, whilst at the same time keeping the legal age at 62. On **26 August**, much to everyone's surprise, president Macron laid to rest this option, which had the added drawback of being rejected by all of the unions. The government appears to be leaning towards the extension in the duration of the contributions necessary to obtain full pension rights. A new consultation phase is due to begin in the coming days and it is likely that Jean-Paul Delevoye, the author of the aforementioned report, will enter government in order to defend the reforms before the parliament and public opinion. A date for the bill's presentation has yet to be officially set. There was talk of **end-2019**, but it could in fact be later, after the municipal elections in **March 2020**.



Appendix chart: business climate, confidence, households

Confidence indicators

France: survey data and the business cycle						
Index	Current			Expansion	Recession*	
	Aug	July	June		2008-09	1992-93
PMI manufacturing	51.1	49.7	51.9	52.0	42.6	-
PMI services (output)	53.3	52.6	52.9	55.2	46.8	-
PMI composite (output)	52.7	51.9	52.7	54.5	44.9	-
INSEE manufacturing	102	101	102	102	84	81
INSEE services	105	105	107	101	84	84
INSEE construction	111	111	111	103	103	85
INSEE retail sector	101	105	104	101	86	86
INSEE wholesale sector	106	106	106	101	85	87
INSEE consumer conf.	102	102	101	101	84	101
BdF manufacturing	-	95	95	103	79	86
BdF services	-	100	100	101	91	83

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

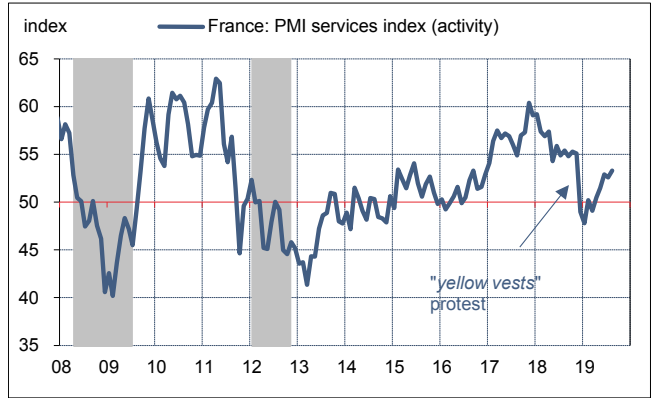
Business climate



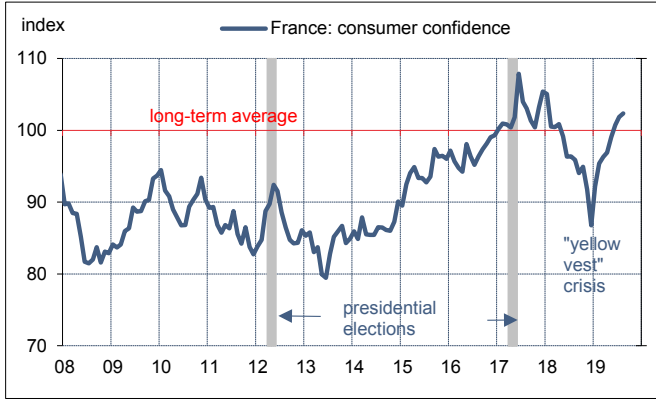
PMI-manufacturing survey



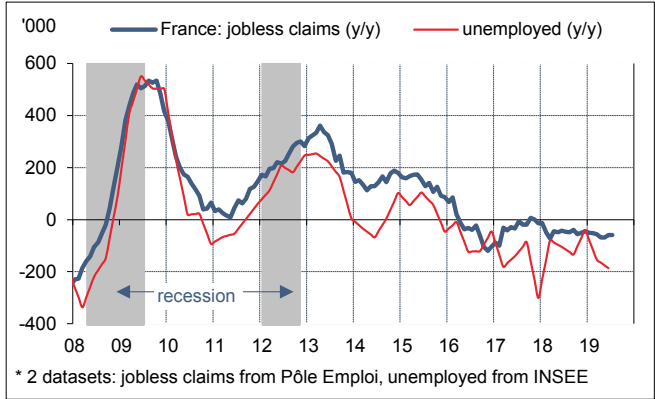
PMI services survey



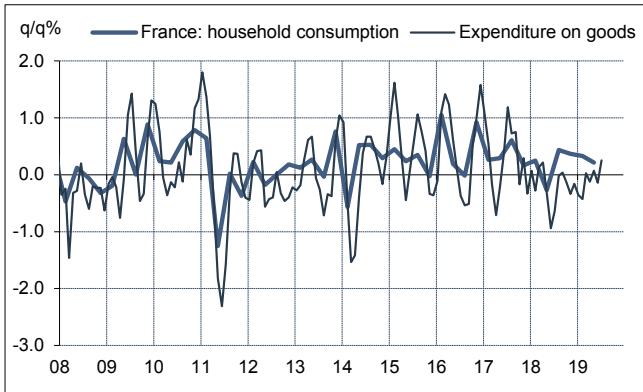
Consumer confidence



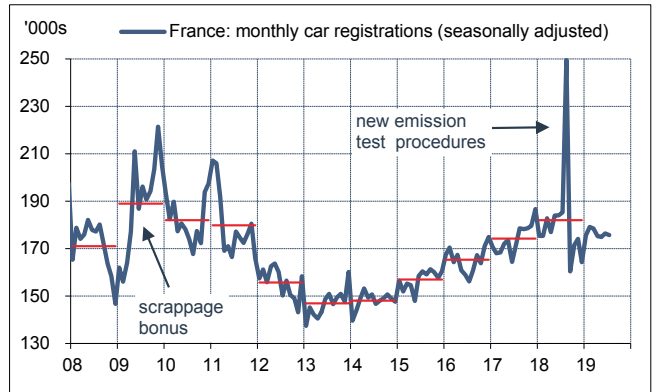
Jobless claims



Household spending



Vehicle sales

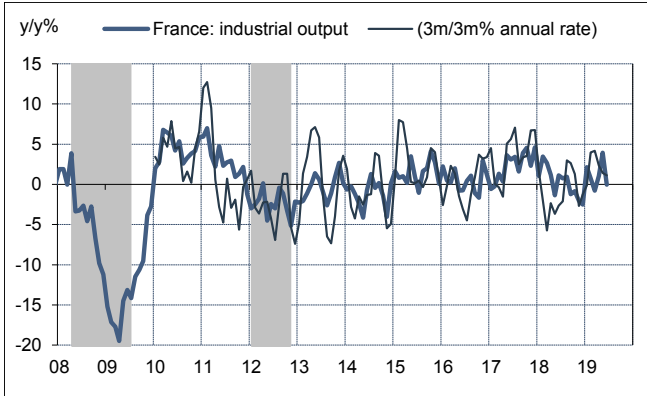


Sources : Thomson Reuters, Markit, Odfo BHF Securities

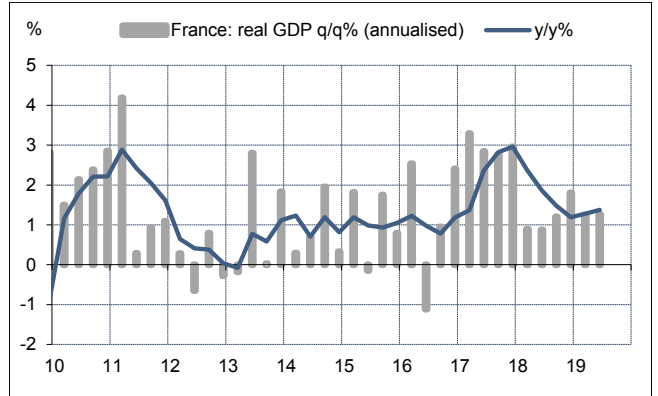


Appendix chart: activity, inflation, credit, finances

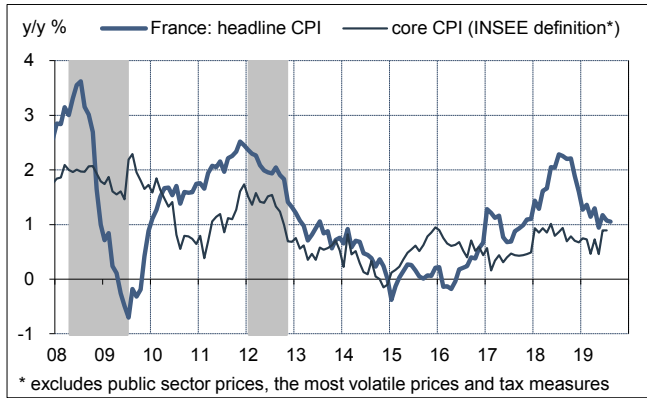
Industrial output



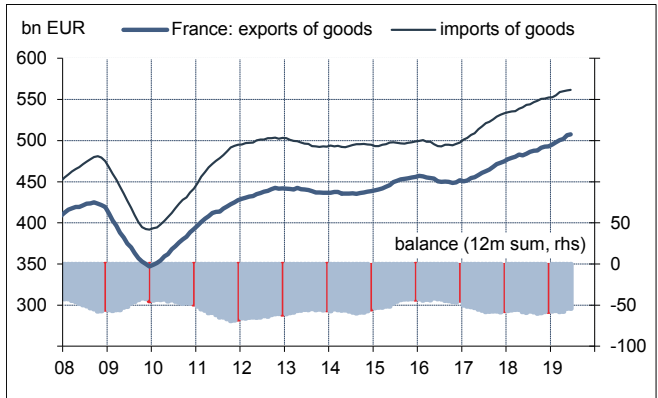
Real GDP



Headline and core inflation



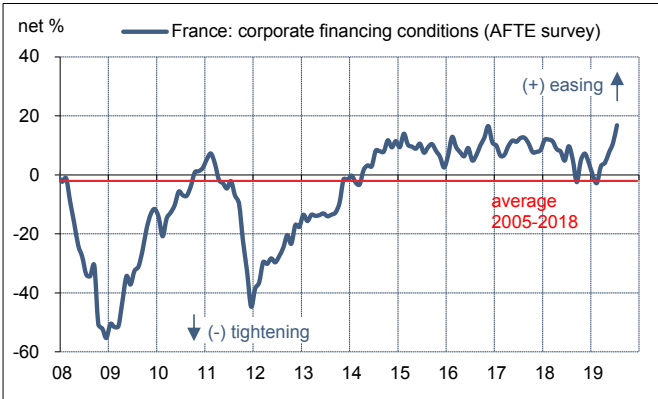
Trades of goods



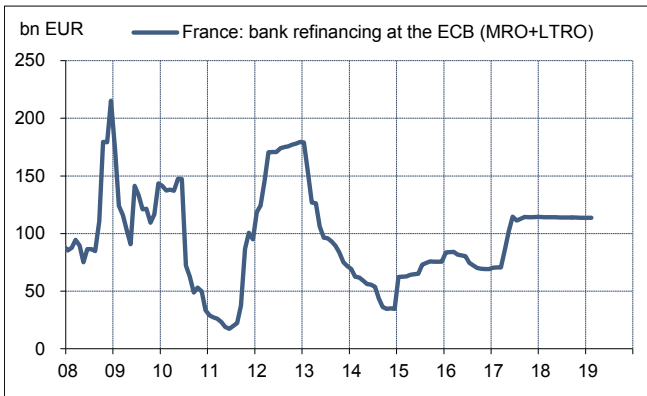
Private sector credit



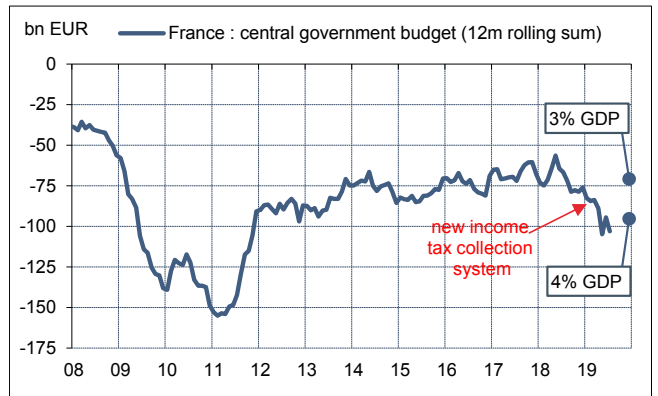
Credit conditions for businesses



Bank refinancing at the ECB



Government budget



Sources : Thomson Reuters, AFTE, Oddo BHF Securities



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