

Economy

Focus France

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France's economy after the strike

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The public transport strike in protest at the proposed pension reform has ended after seven weeks of disruption. The government did not withdraw but amended its reform plan. No progress has been made regarding the pension-funding issue. It is scheduled for debate at a social conference in the near future. It would be reasonable to assume that the French have understood, if not accepted, that more stringent conditions for retirement were inevitable. Apart from a negative (and temporary) impact on retail trade, this period of social turbulence has not worsened economic conditions, which remain positive.

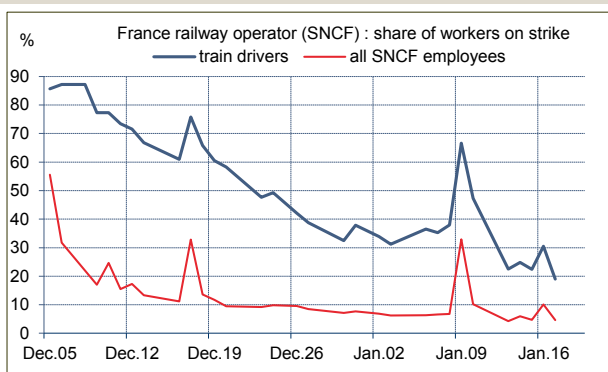
The fortnight's focus

From 5 December until the end of last week, the public transport sector (SNCF, RATP) was severely disrupted by strike action initiated by unions opposing the proposed pension reform. The situation has almost returned to normal (chart lhs). In what shape is the French economy following this event, what might the possible implications be in the political sphere?

The strike lasted longer than expected. There are certainly no winners in this labour dispute. The unions used their disruptive power to defend corporatist interests without garnering widespread popular support. The government maintains its draft reform plan, amended from the original, but it showed its lack of preparation (absence of precise figures) on a subject that it was supposed to have explored in detail over the past two years. It is hard to say what is the most pitiful aspect of this, alas, predictable story¹.

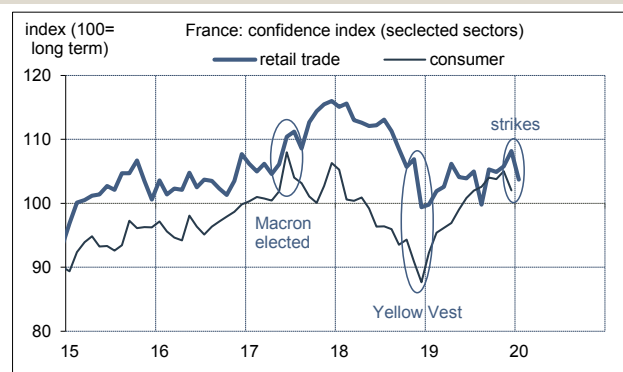
Business and households surveys provide the most immediate measure of the effects of this disruption on the economy. The impact on the business climate is almost indiscernible. In January, INSEE's synthetic index stood at 104.5 vs 105 on average over 2019. Industry confirms its stabilisation, with construction and services stable at high levels. Only retail trade reflected, unsurprisingly, a deterioration, albeit much less than in the "Yellow Vests" episode (chart rhs).

Share of SNCF employees on strike



Sources: SNCF, INSEE, ODDO BHF Securities

Confidence indicators



The pension issue involves two questions. One concerns the creation of a universal system, the other relates to how the system is financed. There is no hurry where the former is concerned. What is more, by dint of concessions, the future single pension regime will have so many exemptions, depending on the generations and categories of employees, that it can hardly be described as universal. The reform plan remains, however, since, after the "yellow vests" crisis, the French president was evidently keen to

¹See our Focus-France of 13 November 2019: "The pension reform will not take place".

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show that he was not shelving his reformist agenda (creating a universal pension system was one of his election promises in 2017). In public opinion surveys (not to be confused with voting intentions), Emmanuel Macron has an approval rating of 32% on average %, with no real change over the last six months. He began his mandate at 55% and sank to 24% in December 2018. The agitation surrounding the pension reform has not translated into any political gains for him. That said, none of the representatives of the opposition comes out of this social crisis really strengthened either.

As for the financial balance of the pension system, which already absorbs 14% of GDP, this is a question that could not be put off. According to the *Conseil d'Orientation des Retraites*, France's pension guidance council, future deficits are estimated at between € 8bn and € 17bn per year. However, surreptitiously introducing the financial debate into the planned reform proved to be a ham-fisted move. The so-called social partners (unions and employers) now have three months to find a solution. This is an impossible task, which will lead the government to take back the initiative. The concept of a pivot age (renamed equilibrium age) with a bonus-penalty system is provided for in the future system. Other ideas have been mentioned, such as bringing forward the timetable for raising the number of years of pension contributions, reallocating certain social security contributions to fund pensions, or even creating a new solidarity levy on high earners. In short, the government will be led to tighten up the conditions for obtaining a full pension. The return to calm on the social front may yet prove temporary.

Forthcoming events

- The first estimate of the Q4 2019 national accounts is expected on **31 January**. In its latest forecast published mid-December, INSEE expected a 0.3% q-o-q increase in real GDP. The Banque de France's model which uses this survey in industry points to 0.2% q-o-q in January. Compared with Q3, when GDP growth came to +0.3% q-o-q, some points are more encouraging: the business climate and household confidence were a little higher on average and production in the manufacturing sector bounced back (+0.8% q-o-q after -0.9% in Q3). In contrast, household spending on goods stagnated. December, marked by the long transport strike, took its toll on spending, particularly in the hotel and catering sector. Bear in mind that during the previous transport strike (which lasted for three months, but with breaks) in Q2 2018, household consumption contracted by 0.2% q-o-q (before rebounding the following quarter). At end-2018, Christmas spending had also been disrupted during the "yellow-vest" protests, but there was no trace on GDP or consumer expenditure.
- The draft bill for pension reform will be presented on **24 January**. The parliamentary debate will begin on **17 February** but will not include the financing part. A conference with the trade unions will be held on the subject until the **end of April** with the possibility of its findings being included in the reform bill's second reading. If there is no agreement, the government will decide on the appropriate measures to ensure that the future system is balanced. The final vote on the bill is expected before the summer. The new system is set to take effect in 2022 for the first generation impacted (born in 2004). Those born between 1975 and 2004 would switch to the new system in 2025.
- Local elections are to be held on **15-22 March** in the 35,000 municipalities in France. Half of the French population lives in cities containing over 10,000 inhabitants (2.85% of the total). The 42 towns with over 100,000 inhabitants (0.12% of the total) represent 15% of the total population. This is therefore a very fragmented vote with a strong local dimension from which it is no easy matter to extrapolate lessons for the nation as a whole. In rural areas, many candidates are running as independents. The general opinion is that matters do not bode well for Emmanuel Macron's LREM party. First, its recent creation means that it has not had time to build up strong local ties. It will be represented in less than half of the towns with over 10,000 inhabitants. Second, the "Macron" brand is no longer the symbol of political renewal that it was in 2017. Instead, it intends to inspire rejection in a large swathe of the country, as is frequently the case for ruling parties in times of social tension. Finally, in several large cities, an important part of the Macron voter base, the LREM is riven by internal divisions. Paris is emblematic of the situation. President Macron had won 35% of the vote in the first round of the 2017 presidential elections there and 90% in the second round. An LREM candidate seemed predestined to win in the present elections. But opinion polls do not indicate this today. All in all, the local elections are not likely to shore up the popularity of President Macron or his government in the short term. Marine Le Pen's RN is the main opposition party and also suffers from a representation deficit at local level. It generally scores lower than in the national elections. For the Macron-Le Pen rematch that is on the cards for 2022, we do not think that these elections will provide a meaningful signal.



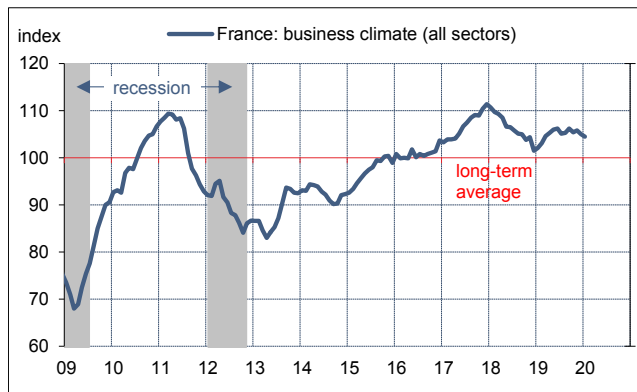
Appendix chart: business climate, confidence, households

Confidence indicators

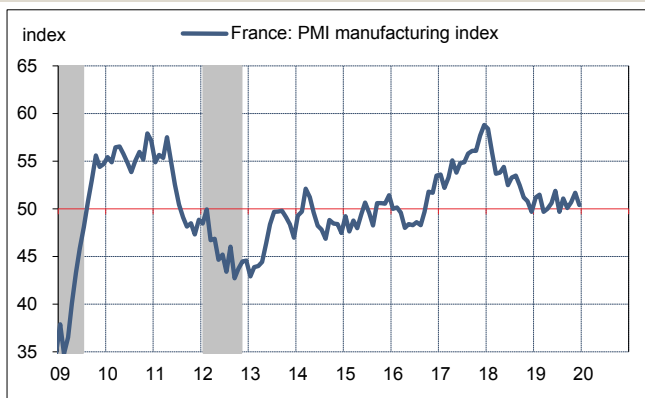
France: survey data and the business cycle							
Index	Current			Expansion	Recession*		
	Jan	Dec	Nov		2008-09	1992-93	
PMI manufacturing	-	50.4	51.7	52.0	42.6	-	
PMI services (output)	-	52.4	52.2	55.2	46.8	-	
PMI composite (output)	-	52.0	52.1	54.5	44.9	-	
INSEE manufacturing	100	98	102	102	84	81	
INSEE services	107	107	106	101	84	84	
INSEE construction	111	111	111	103	102	85	
INSEE retail sector	104	108	106	101	86	85	
INSEE wholesale sector	104	105	106	101	85	87	
INSEE consumer conf.	-	102	105	101	84	101	
BdF manufacturing	-	97	97	103	79	86	
BdF services	-	97	99	101	91	83	

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

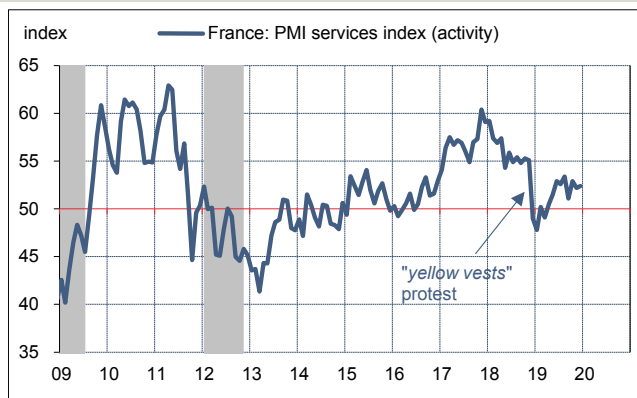
Business climate



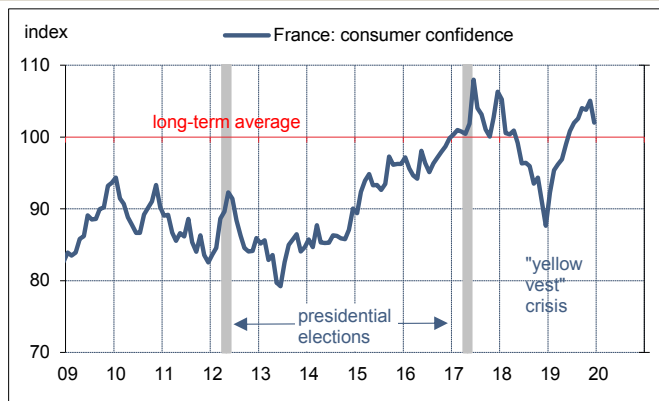
PMI-manufacturing survey



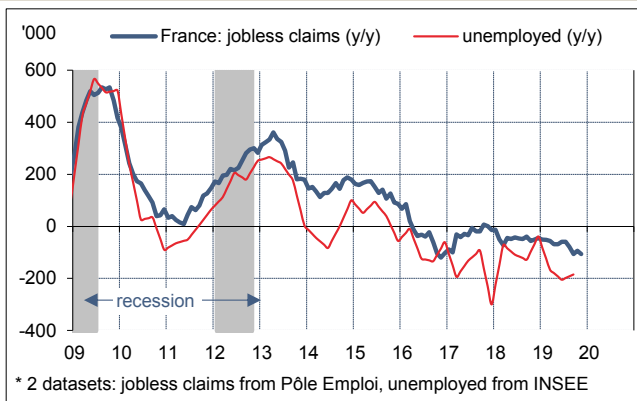
PMI services survey



Consumer confidence

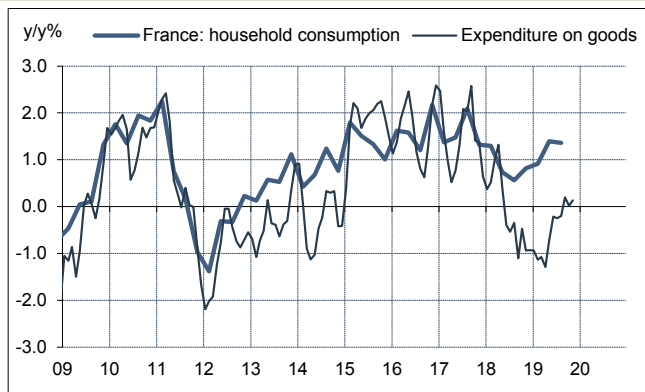


Jobless claims

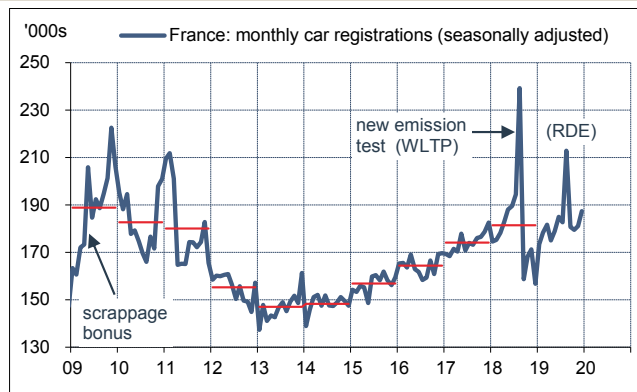


* 2 datasets: jobless claims from Pôle Emploi, unemployed from INSEE

Household spending



Vehicle sales

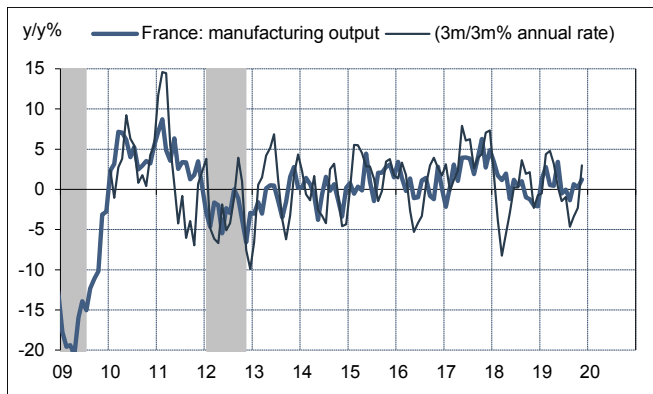


Sources: Thomson Reuters, Markit, Oddo BHF Securities

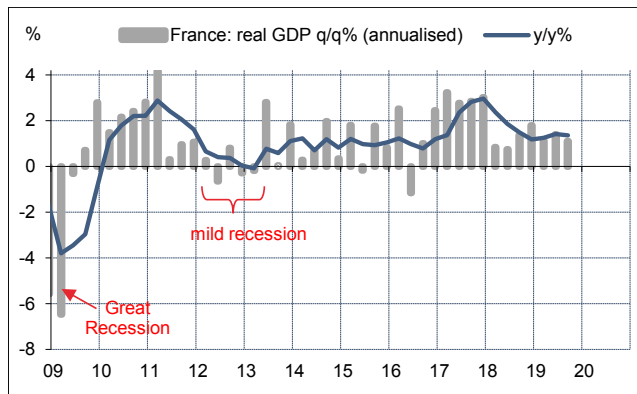


Appendix chart: activity, inflation, credit, finances

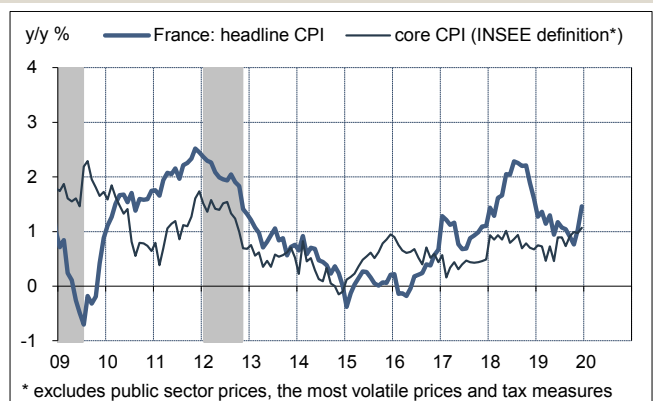
Industrial output



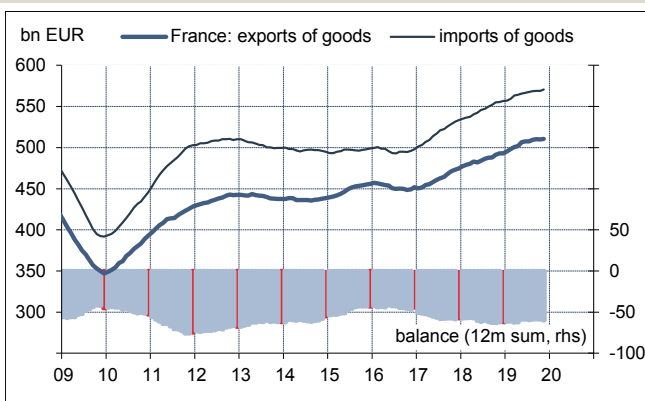
Real GDP



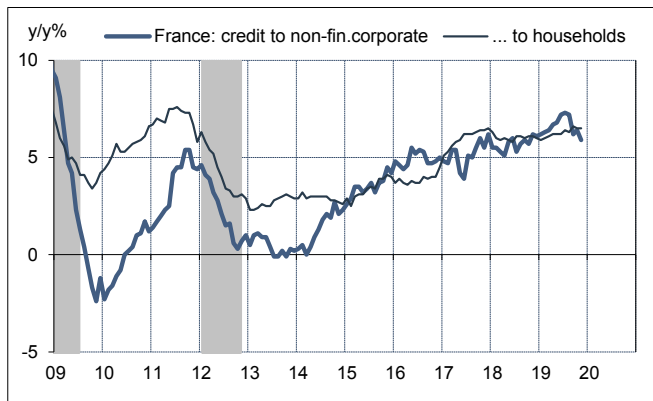
Headline and core inflation



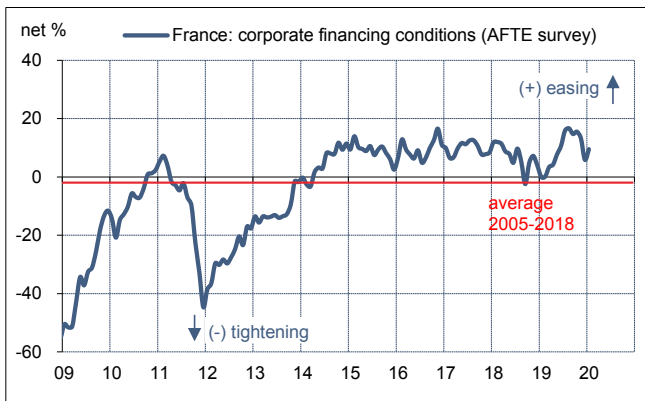
Trades of goods



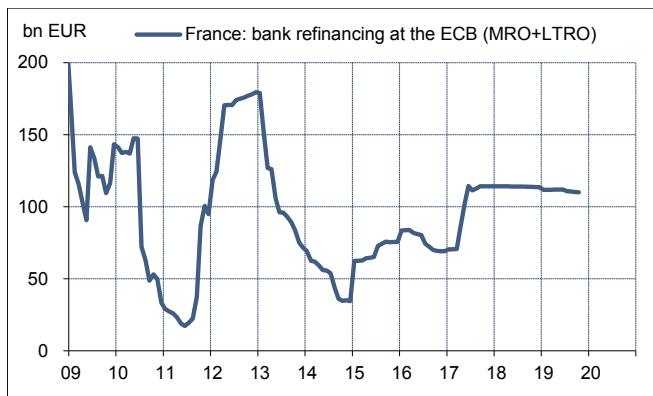
Private sector credit



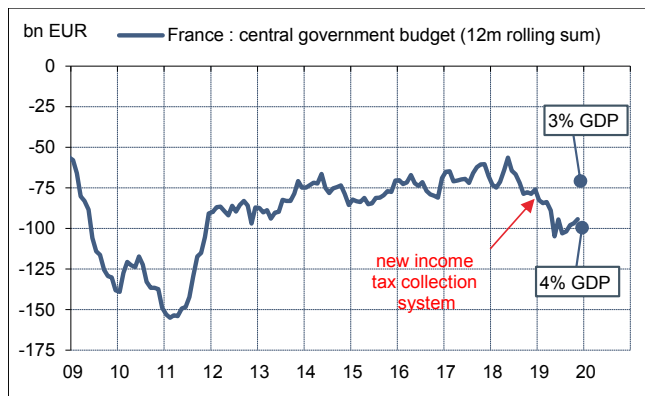
Credit conditions for businesses



Bank refinancing at the ECB



Government budget



Sources: Thomson Reuters, AFTE, Oddo BHF Securities



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