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RFD 406

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Division of International Finance

REVIEW OF FOREIGN DEVELOPMENTS

January 24, 1963

Recent Economic Developments in France:
Fourth Quarter, 1962

10 pages

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Summary

External economic developments in France continued to be favorable during the fourth quarter. In particular, a pick-up in exports in October brought the merchandise trade accounts for October and November into balance compared with a \$30 million monthly average deficit during the third quarter. For the quarter, official foreign exchange gains (adjusted for debt prepayments) were about \$200 million. For the year, the French surplus was about \$1.3 billion compared with \$1.2 billion in 1961. During 1962, reserves rose about \$700 million and debt prepayments were nearly \$600 million. France remains the one European country with a major surplus in its balance of payments at this time.

On the domestic side, the swift expansion in industrial output which began last spring continued into the fourth quarter. Between March and November, industrial output increased by 5.7 per cent or at an annual rate of about 8-1/2 per cent. An accelerated rise in consumer demand appears to have taken the place of export and investment demand which are no longer maintaining earlier rates of expansion. The reduced rate of expansion in investment is directly related to reduced business profit margins.

Prices and wages continue to climb upward but the Government has not found it necessary either to take a "tough" line in wage negotiations in the public services and State-owned enterprises or to introduce general anti-inflationary measures. Easy monetary conditions are being maintained: the balance of payments surplus permitted a rapid rise in bank credit during the course of 1962 without any increase, over the year as a whole, in recourse to the Bank of France by the banking system.

Consumer demand sparks continued output rise

The swift expansion of industrial output begun last spring continued into the fourth quarter of 1962, and seasonally-adjusted production rose 1 per cent in each of the months October and November. (See Table 1) In the eight months from March to November, industrial output increased 5.7 per cent, or at annual rate of about 8-1/2 per cent. Surveys of economic activity in the fourth quarter noted an acceleration of the rise in consumer demand, notably for automobiles, radio and T.V. sets, small electrical appliances, and furniture. In October, new car registrations continued to run 30 per cent over a year earlier. Paris department store sales, which exceeded the year-earlier level by 11 per cent in June-August, were up 20 per cent in September and 16 per cent in October. The main weak point in the internal economy was in the mechanical and electrical equipment industries. In these sectors, new orders were continuing to fall because of the much less vigorous expansion in business investment in 1962.

Investment slows down as profits are reduced

The latest estimates confirm earlier expectations that the 1962 national accounts would show a shift in demand from investment to consumption expenditures. For 1962, household consumption and total gross fixed investment are each expected to show increases in real terms of 5.8 per cent, compared with 5.4 and 8.0 per cent, respectively, in 1961. The contrast in the investment sector is greater in the case of gross fixed investment outlays by private business firms. These rose 13 per cent in volume in 1961, and the 1962 increase has now been put at 7 to 8 per cent. The decline here is directly linked to the reduction in profits in 1962. There are as yet no figures on 1962 profits, but recent official statements support earlier reports that there would be a cut in

Table 1. France: Selected Economic Indicators, 1961-62
(1958 = 100)

	1961					1962				
	Mar.	June	Sept.	Oct.	Nov.	Mar.	June	Sept.	Oct.	Nov.
<u>Industrial production</u> (seasonally-adjusted)	124	126	127	130	132	133	135	138	139	141
<u>Consumer prices</u>	111.9	111.4	113.5	114.8	115.8	117.5	118.7	119.4	119.9	121.0
<u>Wholesale prices</u>										
General index	108.9	107.2	110.1	111.4	112.3	112.8	112.0	111.9	111.9	113.4
Industrial prices	113.9	114.3	115.0	114.8	114.8	114.7	114.6	115.5	115.5	115.7
	Jan.	Apr.	July	Oct.		Jan.	Apr.	July	Oct.	
<u>Hourly wage rate</u>	117.5	119.6	122.2	124.1		126.9	129.3	132.5	135.2	

Table 2. France: Foreign Trade, 1961-62
(In millions of dollars; monthly average or month)

Total trade, seasonally-adjusted

	Exports	Imports c.i.f.	Balance
1961 - year	602	557	+45
Qtr. I	584	549	+35
II	605	552	+53
III	619	548	+71
IV	602	599	+3
1962 - Qtr. I	620	576	+44
II	603	587	+16
III	609	639	-30
September	606	672	-66
October	671	648	+23
November	633	659	-26

Trade by area, unadjusted

	1961				1962			
	I	II	III	Oct.-Nov.	I	II	III	Oct.-Nov.
<u>Foreign countries</u>								
Exports	426	450	426	474	487	496	449	550
Imports c.i.f.	425	450	391	451	471	479	457	537
Balance	+1	--	+35	+23	+16	+17	-8	+13
<u>Franc area</u>								
Exports	166	157	138	163	142	110	100	138
Imports c.i.f.	129	136	104	119	138	147	114	115
Balance	+37	+21	+34	+44	+4	-37	-14	+23

internal funds for reinvestment. Labor costs soared even faster in 1962, but competitive factors prevented a compensating rise in industrial prices.

According to a mid-January press report, the National Accounts Commission believes private investment will show an even smaller increase in 1963. As a result, the report continues, public investment in 1963 will be speeded up. The Government had already set up a commission to determine ways in which more funds can be raised on the capital market.

Price and wage trends still sharply upward

Consumer prices pushed upward again in the fourth quarter, rising 0.4 per cent in October and 0.9 per cent in November. (See Table 1) Several months of near-stability in wholesale prices were followed by a 1.3 per cent jump in wholesale prices in November that was partly seasonal. In November, consumer prices were up 4.4 per cent over a year earlier, and wholesale prices up 1.1 per cent. In the year ended November 1962, industrial prices rose only 0.8 per cent. The contrast between this figure and the movement of wages is the main explanation for lower profits in 1962.

The latest information on hourly wages in France (calculated quarterly) shows another sharp gain of 2.2 per cent between July and October. This compares with increases of 1.6 per cent in the like period of last year, and of 2.2, 2.0, and 2.5 per cent in the intervening 3-month periods. Wage rates increased 11.0 per cent in the year ended October 1962, following a rise of 7.5 per cent in the year-earlier period.

Pessimistic press comment over outlook for price stability

How long and how fast consumer prices will continue to rise, and when industrial prices will finally start to reflect the rapid wage increases, has

been the subject of speculation in the French press for many months. The Prime Minister and the Finance Minister have stated repeatedly over the past year that "expansion with stability" remains the crux of French economic policy. But no significant measures have been taken to halt the steady uptrend of consumer prices or to moderate the "wage push" which has contributed to it and to declining profit margins. The financial press is not optimistic over the chances of price stability; on January 2 Pierre Drouin, writing in Le Monde, doubted that anything would be done until such time as France might again find herself in balance of payments difficulties.^{1/}

The budget for 1963 contains a tacit admission by the government that revenues will benefit from a 2 per cent increase in "prices" (i.e., the national income deflator). The Le Monde editorial for last November 26 concluded that an increase of double that amount is more likely. The public is awaiting price increases in important areas in the public sector including railway rates, Paris transport fares and prices of electricity, coal and postage.

Government not disposed to "hard" line on wages

What happens to prices will depend greatly on wage developments. Upward pressure on wages will be alleviated by the influx of Algerian refugees, reductions in the armed forces, and the expansion of the labor force due to the rise in the birth rate in the early postwar years. These have already had some effect on the labor situation, and in September-December the number of registered job applicants averaged nearly 50,000 more than a year earlier. But part of this increase was matched by a rise of almost 25,000 in the average number of job vacancies.

^{1/} A favorite press reference is to a statement attributed to Mr. Wilfred Baumgartner, former Minister of Finance and former Governor of the Bank of France: "The important thing is not to commit more stupidities than your neighbors do."

The government itself has not been taking a "tough" line on wages, and does not appear disposed to take measures to abate the rise in labor costs. In recent months the government has:

1. Granted increases of 1 to 3.5 per cent in civil servants base pay effective October 1, and of 4.6 per cent effective January 1, 1963 in the salaries of its 1.3 million civil servants and career military personnel and in the pensions of 500,000 retired civil servants. Special one-time bonuses were also given these groups in November;

2. Raised the minimum wage 4.5 per cent effective November 1. This was a "voluntary" increase not made necessary by the tie to the retail price index, and had been "promised" last spring;

3. Raised family allowances 4 per cent effective December 1, and scheduled another 4 per cent rise for next August; and

4. Agreed on December 29 to give the 65,000 workers of the (nationalized) Renault automobile company a fourth week of paid vacation per year (each August). Before this agreement, only about one-fourth of the French labor force (supervisory personnel, civil servants, and hourly workers in non-manufacturing industries) enjoyed a four-week paid vacation. The government has stated that special conditions at Renault, including large productivity gains and the annual August shutdown, justified this move.

There is now much speculation as to what will happen in other industries and hence what this means for future labor costs. The four-week vacation for all workers is a prime objective of the unions, who will now be encouraged to press the matter. The government view is that the extension should be done gradually on a case by case basis, and should be limited to areas characterized by high productivity. But this move obviously is not a step in the direction of moderating the rise in wage costs.

France has yet to work out a "national wage policy." Last autumn a conference of government, management, and labor was organized to make a start on an "incomes policy." The talks bogged down in the inadequacy of French income statistics, and little has come from them. However, it is reported that the

government agreed to tie the minimum wage not only to prices but (in an unspecified way) to increases in national income as well. The government is still opposed to another goal of some unions, viz., a return to the 40-hour week.

Monetary ease maintained

In the last quarter of 1962 the note circulation rose 3.5 per cent (compared to 3.0 per cent in the same period in 1961) in response to both seasonal factors and continued rapid expansion of private bank credit. This brought the annual increase to 13 per cent for the second straight year. Since last August the money market has been easier than at any time since 1956, and day-to-day money rates have been at the "floor" constituted by the $3\frac{1}{2}$ per cent rediscount rate of the Bank of France. The seasonal increase in Bank of France rediscounts at the year-end caused no rise in rates, since the banks were not forced to re-discount at the penalty rates on rediscounts above the ceilings set by the monetary authorities. Money market ease reflects the large balance-of-payments surplus, which in 1962 was sufficient to finance both the rise in private bank credit and some decrease in Bank of France credit to the Treasury without any increase, over the year as a whole, in recourse to Bank of France credit by the banking system.

In October 1962, private bank credit outstanding was 20 per cent greater than a year earlier; this exceeded the 16 per cent rise in the year ended October 1961. Through the first eight months of 1962, private credit had expanded less than the year before, the rise in the required reserve ratio last February having reduced the banks' lending potential. But the $4\frac{1}{2}$ per cent expansion in private credit in September and October 1962 was greater than a year earlier.

Long-term bond yields resumed their downward trend in November and December, for a total decline in 1962 of 20 to 30 basis points.

Financial markets sensitive to political developments

The domestic political crisis that opened in early October, and the Cuban crisis later in the month, caused stock prices to fall 7 per cent from the end of September to early November, and gold coin prices to rise 6 per cent from end-September to October 24. Subsequently, the easing of international tensions and the unexpected victory of the Gaullist parties in the November Parliamentary elections reversed these movements, and the year-end found both stock and gold prices back at the end-September levels.

Trade balance improves

October saw a sudden reversal of the third-quarter deterioration in the French trade balance, but in November the balance again worsened. (See Table 2, Page 3.) In October, seasonally-adjusted exports rose 11 per cent over the September level, while imports dropped 4 per cent. In November, exports fell 6 per cent and imports rose 2 per cent. For October-November, trade was virtually balanced, in contrast with the sizable third-quarter deficit, because of a greater increase in exports than in imports. But the balance in October-November also contrasts with surpluses in January-June.

Compared with the year previous, trade with foreign countries shows imports in October-November up 19 per cent and exports up 16 per cent. On trade with the overseas franc area, imports were down 3 per cent and exports down 15 per cent.

Continued reserve gains

Reserve gains continued to be large in the fourth quarter, and at the end of December France made another debt prepayment of \$116.6 million to the

United States. Official gold and foreign exchange holdings increased \$86 million in October and \$103 million in November; there were no known special transactions in these months. Seasonal factors kept these increases below the level of reserve accruals during the summer.

In December, official reserves fell \$109 million, but would have risen \$8 million in the absence of the debt prepayment. Two other transactions which contributed to the drop in actual reserve holdings in December were (1) \$25.8 million of scheduled debt repayments to the United States, and (2) \$23 million of prepayments by the Simca automobile company on a \$31.5 million loan obtained in 1961 from a group of Swiss banks.

The December debt prepayment (which concerned a loan from the Export-Import Bank) brought to \$588 million the total of advance debt repayments by France in 1962 (compared with \$320 million of prepayments in 1961). Of the 1962 total, \$56.8 million was paid to the IBRD, \$62.5 million to Canada, and \$468.7 million to the United States. The advance repayments amounted to some 45 per cent of the 1962 French balance-of-payments surplus of approximately \$1,300 million (about the same as the \$1,234 million surplus in 1961). These offsets held the gain in official reserves last year to \$671 million; reserves at the end of 1962 were \$3,610 million.

Foreign-currency debt

France's public debt in foreign currencies is presently \$1,500 million. This figure takes account of the \$673 million of repayments (scheduled and advance) made in the year ending January 1, 1963.

Almost all of this debt is in U.S. dollars. The known dollar components as of this date total \$1,299 million, and are as follows:

1. Export-Import Bank loans, \$469 million.
2. Other U.S. Government loans, \$512 million.
3. IBRD loans, \$268 million.
4. Publicly-issued bonds of the Credit Foncier de France, \$50 million. (Guaranteed by French Govt.)

The other debts, of approximately \$200 million equivalent, were as follows as of last August 1:

1. Loans from other (non-U.S.) governments, \$135 million, of which about \$80 million to Canada.
2. Loans from the European Coal and Steel Community and the European Investment Bank, \$28 million.
3. Publicly-issued bonds, \$17 million.
4. Privately-placed debt, \$21 million.