

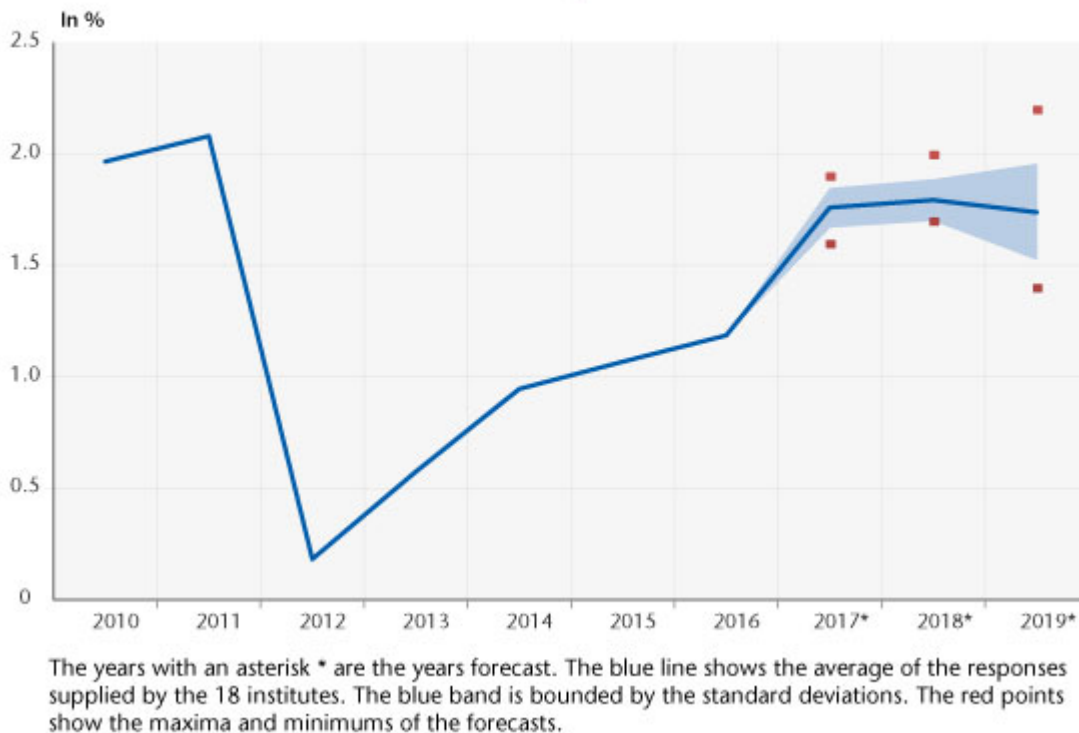
France's growth in 2018-2019: What the forecasters say ...

By [Sabine Le Bayon](#) and [Christine Rifflart](#)

Following the INSEE's publication of the [first version of the accounts for the fourth quarter of 2017](#) and a first estimate of annual growth, we have been considering the outlook for 2018 and 2019 based on a comparative analysis of forecasts made for France by 18 public and private institutes, including the OFCE, between September and December 2017. This post presents the highlights of this analysis, which are given in detail in [OFCE Policy Brief No. 32 of 8 February 2018](#) entitled, "A comparison of macroeconomic forecasts for France" and the associated [working paper \(No. 06-2018\)](#) (which contains the tables of the institutes' forecasts).

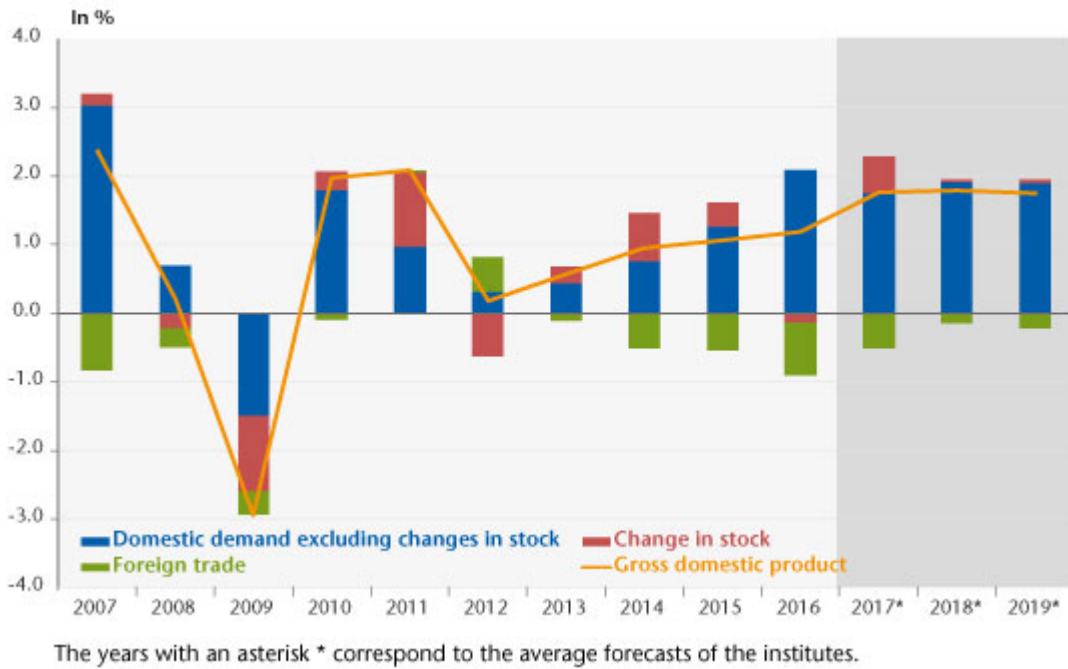
Following the deep recession of 2008-2009 and the euro zone crisis of 2011, the French economy started a slow recovery, which picked up pace in late 2016. The year 2017 was thus a year of recovery, with slightly higher growth than most forecasters had recently expected: 1.9% according to the INSEE's first estimate, compared to an average forecast of 1.8%. This momentum is expected to continue in 2018 and 2019, with the forecasts averaging 1.8% and 1.7%, respectively. The standard deviations are low (0.1 point in 2018 and 0.2 in 2019), and the forecasts are fairly close for 2018 but diverge more sharply in 2019 (ranging from a low of 1.4% to a high of 2.2%) (Figure 1). In 2019, 5 out of 15 institutes expect growth to accelerate while 8 foresee a slowdown.

**Figure 1. GDP growth in the forecasts
(forecasts conducted between September and December 2017)**



Overall, all but four of the institutes anticipate a rebalancing of the drivers of growth over the period, with trade having less of an adverse effect than in the past and domestic demand still buoyant (Figure 2). However, the recovery in foreign trade is under debate in light of the chronic losses in market shares recorded since the beginning of the 2000s. Indeed, it seems that the expected pick-up in exports in 2018 will be due more to a recovery in foreign demand for France's output and to the rundown of the export-oriented stocks accumulated in 2016 and 2017 in certain sectors (in particular transport equipment and aeronautics) than to any recovery in competitiveness. For 2019, there are differences in opinion about the impact of the supply policies implemented since 2013 on French companies' price and non-price competitiveness. Some institutes expect an improvement in export performance and thus a regain of market share by 2019, while others foresee a loss of share due to insufficient investment in high value-added sectors and labour costs that still burden business.

Figure 2. Contributions to GDP growth (in % points)



There is also debate over the forecasts for jobs and wages, in particular over the impact of the cutbacks in subsidized jobs, the effect of the policies to lower labour costs in 2019 (transformation of the CICE competitiveness tax credit into lower employer social contributions) and productivity (trend and cycle). On average, the unemployment rate should fall from 9.5% in 2017 to 8.8% in 2019, with forecasts ranging from 8.1% for the most optimistic to 9.2% for the most pessimistic. Some differences in the forecasts on wages can be attributed to differing assessments both of the degree of tension on the labour market and also of the impact on wages of the more decentralized collective bargaining set up in 2017. Wages are expected to rise by 1.8% in 2017 and on average by 1.9% in 2018 and 2% in 2019 (ranging from 1.3% for the lowest forecast to 2.6% for the highest).

In this context, growth will rise much faster than potential growth, which is estimated by most institutes at around 1.25% (some institutes expect an acceleration due to the positive impact of structural reforms and investment, while others foresee lower potential growth). While in 2017, the growth gap – the difference between observed GDP and potential GDP – is

clearly negative (between -2.2 and -0.7 points of potential GDP), this will close by 2019. Most of the institutes (from those that provided us with data or qualitative information) believe the output gap will close (close to 0 or clearly positive) and inflationary pressures could appear. For four institutes, the output gap will be around -0.7 point.

Finally, for all the institutes the budget deficit should fall below the threshold of 3% of GDP by 2017. France will exit the excessive deficit procedure in 2018. But despite the vigorous growth, and in the absence of stricter fiscal consolidation, for most of the institutes the public deficit will remain high over the period.

Which new path for raising labour productivity?

By [Bruno Ducoudré](#) and [Eric Heyer](#)

The industrialized countries are experiencing what seems to be a persistent slowdown in the growth of labour productivity since the second oil shock. This has been the subject of a great deal of analysis in the economic literature^[1] that considers the possible disappearance of the growth potential of the developed economies, and consequently their inability to return to a level of activity in line with their pre-crisis trajectories. In other words, could the industrialized countries have entered a phase of “secular stagnation”, making it more difficult to reduce public and private debt? The exhaustion of gains in productivity would also modify any diagnosis made of their conjunctural situation, particularly

as regards their labour markets.

Trend productivity gains are inherently unobservable; it is therefore necessary to decompose observed productivity into a trend component and a cyclical component that is linked to the more or less rapid adjustment of employment to changes in economic activity (the productivity cycle). In a [recent study published in the Revue de l'OFCE](#), we seek to highlight the slowdown in trend productivity gains and the productivity cycle in six major developed countries (Germany, Spain, the United States, France, Italy and the United Kingdom) using an econometric method – the Kalman filter – so as to allow the estimation of an equation for labour demand based on explicit theoretical underpinnings and the estimation of trend productivity gains.

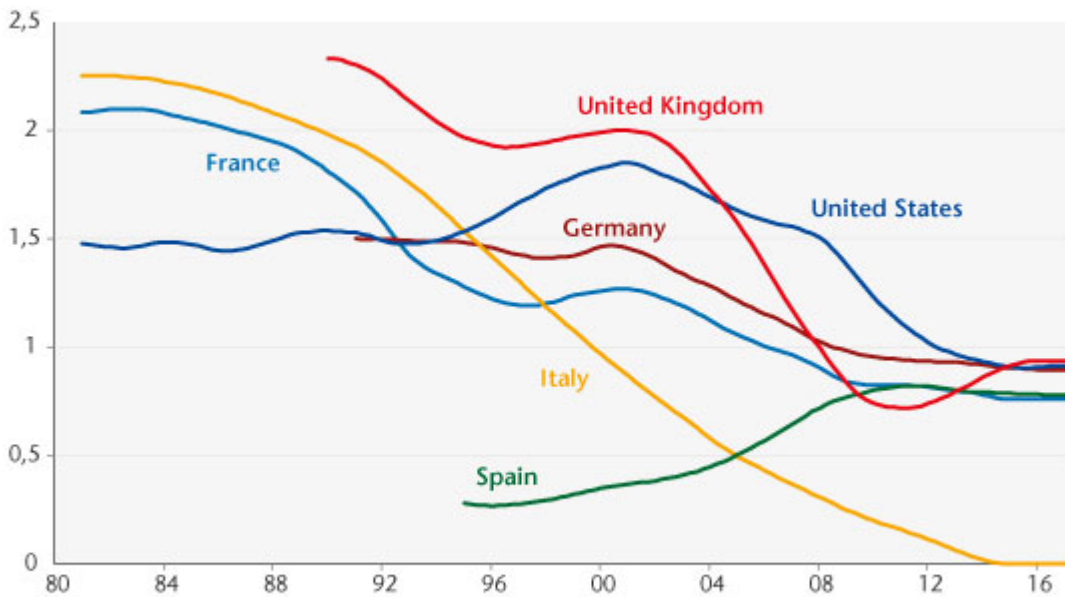
After reviewing the various possible explanations for the slowdown described in the economic literature, we present the theoretical modelling of the equation for labour demand and our strategy for an empirical estimation. This equation, derived from a CES-type production function [\[2\]](#), is based on the assumption of maximizing the profit of firms in monopolistic competition and on the assumption of a stable long-term capital-to-output ratio. This makes it possible to break down the trend and cyclical components in a single step, but makes productivity gains depend solely on labour [\[3\]](#).

The existing empirical studies usually rely on a log-linear estimate of the productivity trend and introduce fixed-date trend breaks [\[4\]](#). We propose an alternative method that consists of writing the employment equation in the form of a state-space model representing the underlying productivity trend. This model has the advantage of allowing a less bumpy depiction of trend productivity gains since it doesn't rely on ad-hoc break dates.

We then evaluate the new growth path for labour productivity and the productivity cycle for the six countries considered.

Our results confirm the slowdown in trend productivity gains (Figure 1).

Figure 1. Labour productivity growth



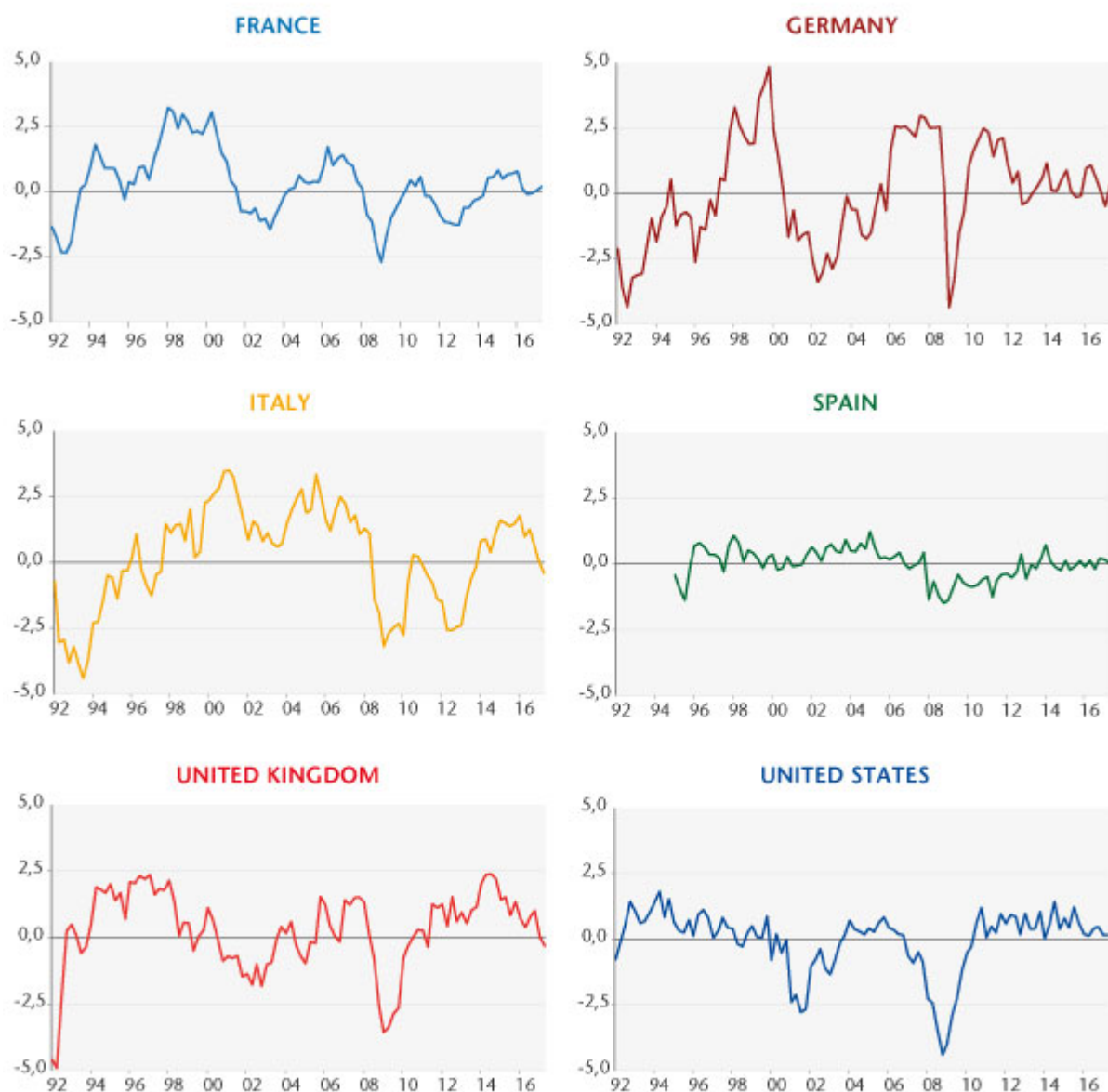
Note: year-on-year hourly trend productivity gains.
Source: authors' calculations.

The growth rate for trend productivity for five countries (France, Germany, Italy, the United States and the United Kingdom) shows a slow decline since the 1990s. Trend productivity, estimated at 1.5% in the United States in the 1980s, increased during the 1990s with the wave of new technologies, then gradually decreased to 0.9% at the end of the period. For France, Italy and Germany, the catch-up stopped during the 1990s (during the 2000s for Spain), even though the slowdown in trend productivity gains was interrupted briefly between the mid-1990s and the early 2000s. Leaving aside Italy, whose estimated trend productivity gains were zero at the end of the period, the trend growth rates converged in a range of between 0.8% and 1% in annual trend productivity gains.

The estimated productivity cycles are shown in Figure 2. They show the greatest fluctuations for France, Italy and Germany and the United Kingdom. A calculation of the average times for the adjustment of employment to demand indicates an adjustment

period of 4 to 5 quarters for these countries. The cycle fluctuates much less for the United States and Spain, indicating that the speed of adjustment of employment to economic activity is faster for these two countries, which is confirmed by the average time of adjustment to demand (respectively 2 and 3 quarters). Finally, the estimates indicate globally that the productivity cycle will have closed for each of the countries considered in the second quarter of 2017.

Figure 2. Productivity cycles



Source: authors' calculations.

[1] See, for example, A. Bergeaud, G. Cette and R. Lecat,

2016, "[Productivity Trends in Advanced Countries between 1890 and 2012](#)", *The Review of Income Wealth*, (62: 420-444) and N. Crafts and K. H. O'Rourke, 2013, "[Twentieth Century Growth](#)", *CEPR Discussion Papers*.

[2] See C. Allard-Prigent, C. Audenis, K. Berger, N. Carnot, S. Duchêne and F. Pesin, 2002, "[Présentation du modèle MESANGE](#)", French Ministère de l'Économie, des finances et de l'industrie, Forecasting Department, MINEFI, Working document.

[3] The equation for labour demand is based on a production function and an assumption of neutral technical progress in Harrod's sense.

[4] See M. Cochard, G. Cornilleau and E. Heyer, 2010, "[Les marchés du travail dans la crise](#)" [Labour Markets in Crisis], *Économie et Statistique*, (438: 181-204) and B. Ducoudré and M. Plane, 2015, "[Les demandes de facteurs de production en France](#)" [The Demand for Production Factors in France], *Revue de l'OFCE* (142: 21-53).

No love lost for Chinese investors!

By [Sarah Guillou](#)

In his [speech of 15 January 2017](#), France's Minister of Economy and Finance, Bruno Le Maire, speaks of "plundering investments", suspecting Chinese investors of wanting to "loot" French technology. These statements inscribe the Minister of the French Economy in line with economic patriotism from Colbert to Montebourg, but this time, they are part of a broader movement of distrust and resistance to

investment from China that is hitting all the Western countries. And while the French government is planning to expand the scope of decrees controlling foreign investment, many other countries are doing the same.

France is not the only country to want to modify its legislation to reinforce the grounds for controlling foreign investors. The inflow of foreign capital was primarily viewed as a contribution of financial resources and a sign of a territory's attractiveness. France has always been well placed in international rankings in these terms. In 2015, France ranked eleventh in the world in terms of foreign direct investment inflows, with USD 43 billion, mainly from developed countries (compared with USD 31 billion for Germany and 20 billion for Italy). And since French resident investors have invested USD 38 billion abroad (Germany and Italy, USD 14 and 25 billion respectively), the balance is in favor of productive capital inflows, which exceed capital outflows.

However, France has always distinguished itself by its greater political mistrust of foreign equity, especially when it comes to its "flagship" industries. But now this mistrust is being echoed in Western countries with regard to Chinese investors, and not only across the Atlantic where all the political actors have had to sing in tune with the economic patriotism of the Trump administration. Chinese investors are also perceived as predators by the Germans, the British, the Australians, and the Italians, to name just a few.

It must be said that China's industrial strategy is very proactive, and the external growth strategies of Chinese business is being supported by a policy aimed at moving upmarket and acquiring technology by any means. Moreover, the presence of the State behind the investors – it is characteristic of China to have private and public interests tightly interwoven as well as a strong State presence in the economy because of its communist past – creates potential conflicts of sovereignty. Finally, China is threatening more

and more sectors in which Western countries believed they had technological advantages, which is worrying governments (see the *Policy Brief de l'OFCE* by S. Guillou (no. 31, 2018), "Faut-il s'inquiéter de la stratégie industrielle de la Chine?" [Should we worry about China's industrial strategy]). Finally, China is not exactly exemplary in terms of taking in foreign investment, as it erects barriers and constraints often associated with technology transfer.

Western countries are reacting by increasing the scale of their controls: issues touching on national security and public order are being supplemented by strategic technologies and the ownership of databases on citizens. In France, the Minister of the Economy, Bruno Le Maire, announced that he wanted to extend this to the storage of digital data and to artificial intelligence. In Germany, the acquisition of Kuka, the manufacturer of industrial robots by the Chinese firm Midea, has led to strengthening German controls, and in particular the refusal of the purchase of the Aixtron semiconductor maker.

In the United States, it is on the grounds of the acquisition of banking data that the acquisition of MoneyGram by Ant Financial – an offshoot of Alibaba – led the Committee on Foreign Investment of the United States (CFIUS) to issue a negative opinion very recently. The European project to create a committee identical to the CFIUS has not yet been concluded, and it has not attracted the support of all EU members as some look kindly on Chinese investors.

This policy, while not coordinated, is at least common among the main recipients of Chinese investment. France is not the only one to hold this position. This kind of unanimity among the Western clan is rare, but it also involves risks.

The first is isolationism: too many barriers lead to giving up partnership opportunities, which in some areas are increasingly unavoidable, as well as opportunities for

strengthening Western companies. The second is the risk that equity bans will be circumvented by Chinese investors. Acquisitions are not always hostile, and companies that are being acquired are often ready for partnerships that can take other forms. Thus the failure of the merger of Alibaba with the American MoneyGram was offset by numerous agreements that the company sealed with European and American partners to facilitate the payments of Chinese tourists, in particular to allow the use of the Alipay payment platform. It will certainly seal a partnership of this type with MoneyGram. These partnerships lead to technology transfers and to sharing skills, or even data, without the counterpart of capital inflows. The third risk concerns the flow of Chinese capital into Asia and/or Africa, for example, allowing the capture of markets and resources that will handicap Western firms. Any Chinese capital available will have to be invested. The absence of Western partners will imply a loss of control and isolation that could be detrimental.

It is thus necessary to come back to the use of well-chosen but demanding controls, which are absent from the dichotomous reasoning that prevailed in the Minister's statements, if not his intentions. As long as French technology is attractive, this should be celebrated and the pluses and minuses of alliances need to be assessed. It will only be a matter of years before China's technology becomes as attractive as France's. And the Chinese will not fail to come and remind Mr. Le Maire of his position.