French Business Trends

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MORE STEEL BEHIND THE SMILE

INSIDE THIS ISSUE:

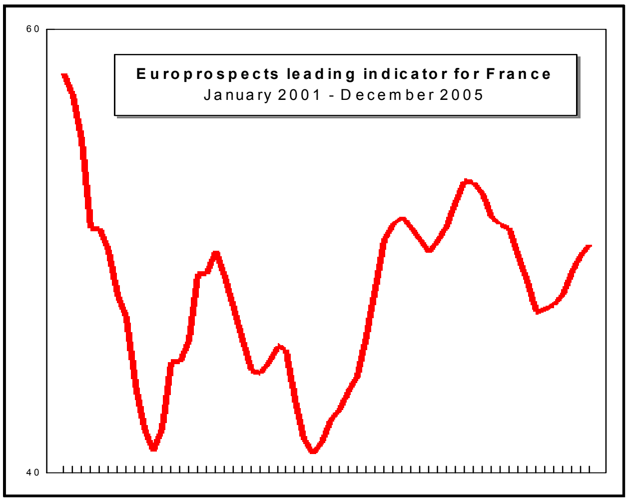
The record trade deficits and stagnant manufacturing revealed by the last data of 2005 and the Mittal bid for Arcelor highlight the challenges that globalisation issues to France. To what degree do these challenges require the country to adjust its economic model and institutions ? and to what degree is the French electorate willing to accept change ?

In answering these questions until recently Prime Minister Villepin was seeking to steer a middle course between the one proposed by Nicolas Sarkozy, who believes that radical change is necessary and that the electorate is ready for it, and the one of the Socialist opposition, which puts the emphasis on protecting the present model rather than challenging it.

Now, however, through actions as well as words, the Prime Minister is showing readiness to take a Sarkozy-like approach to reform. The evidence is in the main economic policy initiatives since mid-January. They include the launch of a controversial new labour contract for younger workers, the start of a review of labour law aimed at a reshaping of the entire labour contract legislation by mid-year, the decision to ignore the Unions on older workers, and the choice of a fiscal strategy which will require Parliament to approve an austere 2007 budget, a few months before the Presidential and National Assembly elections scheduled for the spring of next year.

By making the pre-electoral period one of incisive and controversial reform, Villepin shows that he agrees with the view that a large enough part of the French electorate does not fear reform but expects and supports it. The new policy has the added advantage of depriving Sarkozy of much of his policy appeal – but the Interior Minister will remain a formidable competitor in the 2007 presidential race, not least as a result of his overwhelming control of the largest French party machine, UMP.

Choosing the new strategy entailed big risks, but for the moment it has proved a successful decision. Unions and student organisations have failed to elicit the degree of support they sought in opposition the new labour contract. Public opinion seems perplexed but not hostile. In the meantime, unemployment keeps falling in spite of hesitant growth. The opposition has been unable to attack effectively – partly because the Socialists need to keep the complex internal policy equilibrium agreed at their last congress and are divided by personalities, as many hopefuls compete for the party presidential designation. Much could still go wrong for Villepin, and ultimate success will depend on the state of the economy, but the new strategy has had as felicitous a



VILLEPIN FINDS BACKBONE

The launch of the First Job Contract and the adoption of a stricter fiscal line show that the Government is genuine in its desire to make use of the remaining part of this legislature to make profound structural changes in French society and economy.

It is a change by comparison with the moderate strategy that had been chosen by Villepin during the first months of his premiership – as if to take an intermediate line between the Socialist defence of the French model and the radical reappraisal advocated by Nicolas Sarkozy.

It is also a change by comparison with the muddled message that the Government signalled after the urban riots, when it seemed that structural reform and competitiveness would be downgraded or at least qualified by a new emphasis on equal opportunity. It is emblematic of this change of line that the Government has introduced in Parliament its new job plan, comprising the First Job Contract, as a set of four amendments to the Equal Opportunity Bill. A bill which seemed to embody the downgrading of economic reform in favour of greater equality has become the vehicle for the next stage in the policy of structural change.

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The choice to make the most of the time available until the Presidential and Parliamentary elections of mid-2007 is arguably good for the country, since the need for reform is real and structural problems will worsen if unattended.

It may also be the best personal political strategy for Villepin. Everybody assumes that the Prime Minister will compete with Sarkozy to be the standard bearer of the centre-right at the next presidential race. In this context, the pursual of a bold reformist policy is aimed at showing that Villepin can start delivering immediately the changes that Sarkozy promises.

Villepin and his colleagues seem to have concluded that this policy may also be a vote winner – that, as Sarkozy has been arguing for some considerable time, French society far from resisting radical change demands it.

Whether or not this last assumption is correct is of particular importance. Fear of the sort of paralysing mass reaction that has forced earlier Governments to retreat has been the underlying cause of the timidity of recent Governments. Nor were these fears unfounded, as the Raffarin administration experienced on several occasions. It is possible that greater awareness of what globalisation implies and other recent developments (even including the Mittal bid for Arcelor) have helped to bring about a change of mood at least with respect to the sort of deep changes that Villepin is proposing, in the labour market and in public finance.

Public reaction to the Parliamentary debate on the New Job Contract will show to what degree opinion has moved. The verdict should be clear by the end of February. The Unions, student organisations and the opposition have decided to oppose this Government project with all their forces. Two of the largest French Unions, CGT and CFDT, will held their national congress between April and June and their leaderships are anxious to prove their effectiveness ahead of the internal tests. A victory on this front would also weaken the Government resistance to Union demands on public pay. The Socialist Party sees the issue as an unexpected chance of finding unity around a common theme and is determined to make the most of it. Student organisations proved their influence against the Fillon school reform, mild as it was. The organisation muscle is there, and so is the will to use it. It is true that the Government has sought to magnify its chances of success by timing the debate just before the start of the February school holiday period. But this will not be sufficient to avoid the spread of protest if opposition is sufficiently profound and widespread. The Government is optimistic, the more so in view of low participation in the first day of protest organised against CPE itself.

The direct stake is the First Job Contract, but the outcome of this confrontation will determine whether or not Villepin can proceed on other issues, such as public finance, and can make the next fifteen months a period in which new reforms are launched.

The First Job Contract (CPE) is the extension to young people of the New Job Contract (CNE) offered to smaller businesses four months ago. CNE applies to businesses with no more than twenty employees. CPE applies to larger businesses with respect the new hiring of workers aged up to 26. There are significant differences between the two contracts. But there is above all a similarity. Both extend the trial period to two years. This means that in both cases employers can dismiss the new employees at any time during the two years without the requirement to show a just cause.

Opponents argue that this reform will make work more precarious. The Government believes that the scheme opens job opportunities where there would have been none, and gives young workers a far greater chance of eventually obtaining a long term job, instead of a fixed-term contract. Critics are concerned that unless they act now and succeed in proving the existence of a determined mass opposition, the Government will be tempted to proceed further with the extension of the two-year test period to all new labour contracts. It is an extension that the Government has not ruled out. Talks are about to begin concerning in-depth reform of the labour contract. The project must be ready by mid-year. Its content and implementation will depend on what happens to CPE.

The announcement of CPE is not the only evidence of Government intention to proceed with determination. In January the Government also announced its decision to begin phasing out the Deladande contribution on the firing of older workers, in spite of the Union opposition to such a change, and the introduction by law of a new type of fixed-term work contract for workers agreed 57 or more)))). The Unions agreed the new contract with employers last October, but delayed ratification precisely in order to exert pressure on the Government on the Deladande contribution and on related issues. By proceding with the phasing out and with the legislation on the new contract, the Government has shown readiness to disregard Union consensus, in spite of the risk of inflaming the contrast on CPE and of harming ongoing or planned Union consultations on numerous other questions.

Similarly, the medium-term public finance plan announced in January consists not just of projects that will be implemented during the next Parliament. Implementation will begin with the 2007 budget, which will be published in early autumn, and whose preparation is beginning.

The plan aims to eliminate the public deficit completely by 2010, without any increase in taxation, but instead relying on a progressively tighter control of spending. Since the start of this Parliament there has been an effort to keep Central Government spending stable in real terms. Next year the aim will be more ambitious, to reduce current spending by 1% in volume. During the rest of the planning period the tightening would continue and by 2010 spending would be stabilised in current terms. The tightening would be progressively extended to local Government (whose spending rose by 8.8% last year) and to the Social Security.

For the Central Government such a programme implies a more ambitious aim regarding public employment cuts, as well as firmness on public pay. At present, and over the medium term, reducing public employment is easier than in the past because the number of retiring public employees is high. The Raffarin Government had started a policy of only partial replacement of retiring employees. In the first year of implementation this policy resulted in a net reduction of little more than 1,000 jobs. This was increased to 4,500 in 2004 and to 7,000 in 2005. But instead of rising further the figure for 2006 has been reduced to 5,000. Under the new plan there will have to be a marked increase with the next budget – and the decision would be particularly noteworthy for being implemented in an election year.

Between now and then the Government will seek to maintain its line on public pay. The Unions have insisted that base public pay should rise by at 1east 1.8% this year, in line with expected inflation. However, the Government has decided only two 0.5% rises, one to take place from July, the other from February 2007. This is less severe than might appear. Actual public pay will rise considerably faster because public employees benefit from pay rises due to length of employment and to increases in skills as well as due to base pay. The fact remains that on pay the Government has taken a line that puts it in conflict with the Unions. The strike called by the Unions on February 2 was to protest at public pay policies. It was a strike supported by all the Unions, including the three which in January signed a partial public sector labour agreement covering non-pay issues. The

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other Unions walked out of the negotiations when the Government refused to discuss pay.

By choosing its new line the Government has judged it to be not only appropriate for the country and politically viable, but also unlikely to face overwhelming opposition. The risk of opposition is not the institutional one. From this point of view the Government, which still has a big majority in the National Assembly, retains a solid position. The risk is the one of mass opposition in the country, of the kind that blocked the Juppé Government and forced Balladur to retreat on another bold labour market reform.

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Is the assessment correct ? Will this time opposition remain within manageable dimensions ? The initial signs are encouraging for the Government. Participation in the January 31 national protest day called by the CGT Union was limited. The February 2 demonstrations against public pay policy yielded mixed results for the Unions. Opposition against CPE seems to lack depth. It is firm among the political and Trade Union leadership but seems to have no wide popular base. Limited, as it is, to those below 26 years of age, this new contract has a narrower scope than CNE, which applies to all new employees of smaller businesses – and which did not trigger any real mass rejection. Almost two thirds of those in the age group 15 to 24 are still in education or not in the labour force for other reasons. Of the remaining 34% about 8% are unemployed and, of those in employment, less than half are in long term jobs.

Recent opinion polls are rather encouraging. A recent CSA poll shows that more than half of respondents believe that CPE will reduce unemployment among the young. An even larger number of respondents expects CPE to make work more precarious, but the overall picture is one of perplexity rather than of definite rejection. Another survey shows similar results among those aged less than 30. A BVA popularity survey carried out in the days following the announcement of CPE showed a two-point rise (to 48%) of the percentage of those having a favourable opinion of Villepin. At the same time negative opinion fell by three points (to 39%). Another opinion poll showed that Villepin would be elected President of the Republic, albeit with a narrow margin both against former Prime Minister Jospin and the rising star of the opinion polls, the chairman of the Poitou-Charente region, Mme Royal.

The Government must also hope that new figures, showing another fall in unemployment, will help. December figures show a seasonally-adjusted fall of about 20,000 units in headline unemployment. Over a year the fall exceeds 120,000 units for the internationally harmonised figures. The opposition contention that the fall is illusory has been authoritatively denied. The Socialist argument is that the fall is due to increases in cancellations from the unemployment lists due to non compliance, to a reduction in the size of the labour market caused by a large number or retirements and also to the launch of non-commercial job programmes by the Government. However, the labour force has in fact continued to expand, cancellations have not increased and non-market jobs did not greatly increase during the second half of 2005. Economists point to the lack of employment growth. But, it is argued, these figures are not fully representative because they do not include businesses with fewer than ten employees and new businesses. That is probably where employment may have been rising, without leaving a trace in the official statistics. The rise in employment may have contributed indirectly to the market improvement in consumer sentiment since late 2005, although respondents' confidence on the labour market outlook itself has not improved.

There is always a risk, perhaps especially in France, that social movement take a momentum of their own, not just unpredictable but also not easy to explain with the social context or with the substance of the matter at hand. But while the possibility exists, the probability seems low at present. Villepin is probably right in thinking that the electorate will look with some benevolence, or at least much tolerance, upon his new reformist programme. Whether in the end the policy will work or not electorally will still depend primarily on economic conditions and their perceived outlook. For the moment the centre-right benefits from persisting disarray in the Socialist camp, which is divided among numerous presidential hopefuls. The return to the fore of national politics of Lionel Jospin has complicated the equation further since he too could be a contender, and the emergence of Mme Royal as the polls' new favourites is also increasing tension, partly because Mme Royal is the partner of Socialist Party secretary general Hollande, himself a potential Presidential candidate. The more established candidates are seeking an early choice of the leading contenders in order to eliminate Royal from the race before she has a chance of building up a network of Party supporters. However, Hollande is determined to keep the present rules whereby the competition will be settled only in November – without any previous screening out . One of the consequences of the party infight is to prevent an effect recruitment campaign of new members, since each camp fears that the exercise can be used by rivals to boost the chances of winning the internal primary.

Conditions are somewhat simpler in the centre-right. Within the majority UMP party there remains only a two-man race, and one that has not yet been officially declared and which for the moment does not have nearly as disruptive consequences as the one within the Socialist Party. Interior Minister Sarkozy behaves as a loyal member of the cabinet, although he continues to shape UMP, of which he is chairman, as the instrument of his presidential ambition. In January party members voted with a majority of more than 95% in favour of the proposal that they will decide the official party candidate for the 2007 presidential vote. The choice will be made in January 2007. There is little doubt that it will be in favour of Sarkozy if, as all indicates, he will decide to stand. Already popular enough to secure an easy election at the head of UMP, during the last twelve months Sarkozy has managed to boost membership, almost doubling it. It is fair to assume that the vast majority of new members are attracted by his policies and will support him.

However, Villepin is not without ammunitions. He has established himself as serious rival of Sarkozy in the opinion polls and now, by adopting a number of the policies proposed by Sarkozy, may be undermining the appeal of his rival among senior politicians and in the general public. Sarkozy will retain control of the party apparatus and of its resources, but this may not be sufficient to secure victory, or even a larger number of votes at the first ballot.

Both Villepin and Sarkozy face the challenge of the UDC and its leaders Bayrou, who has countered a long-term threat to the independence of his party firstly with a systematic effort of differentiation within the majority, culminating with a vote against the budget in the autumn, and now with a proclamation of autonomy backed by party members at a special congress held in January. Bayrou too intends to stand for the presidency. But for the moment his presence seems to matter more because of its consequences on the vote given to the other two leading centre-right candidates than because of a genuine chance of final success.

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France's Agenda

A review of the current status of key projects, bills and debates

SECOND STAGE OF JOB PLAN IN PARLIAMENT - THIRD STAGE PROMISED SOON

The Government and its majority have decided to anticipate protesters. The debate on the new employment plan started in Parliament shortly before the February school holidays. But a showdown with the Unions and student organisations remains likely.

The plan was announced in mid-January by Prime Minister Villepin. It was the second prominent employment initiative of his Government, and in many respects an extension of the first, which was published last autumn.

The most controversial part of the project is the launch of a new version of the First Employment Contract (CNE), which, in turn, was the most controversial component of the first Villepin job plan. CNE allows businesses with up to twenty employees to hire new workers with an extended trial period of two years. This means that during the first two years after the hiring the new employees can be dismissed at any time without the requirement for the employer to show a just cause. It is not yet clear how much effect CNE has had, but responding to pressures from sections of his majority, and probably also out of the desire to appropriate some of the arguments of Nicolas Sarkozy, Villepin has decided to launch a similar contract, targeted to young people up to the age of 26. Named First Employment Contract (CPE), this new contact will also be characterised by a two-year trial period, and will be available to businesses with more than twenty employees. There will be differences between CPE and CNE. The former will include in the two years any time spent by the young employee in the business as a trainees or during a working stage. It will also benefit from a two month State-funded indemnity in case of interruption, while those dismissed from a CNE benefit from an indemnity of only one month.

The new job plan also includes:-

- the commitment to translate into law the October Union-employer agreement on the creation of a new fixed term labour contract reserved to workers aged 57 or more;
- the extension of employment benefits in the form of a three-year exemption from employer Social Security contributions on new hirings. Until now these incentives, introduced with the Fillon reform, were reserved to young people with low educational achievement. Under the new plan, they will be extended to those who have been out of work for at least six months;
- a medium-term plan to boost the number of apprentices from about 350,000 at present to 500,000 by 2009. It will be targeted to companies with 250 or more employees, which will be under pressure to offer a larger number of apprenticeship and alternance training contract. At present apprentices working under such contract amount to about 0.8% of total workers. The Government will request an early increase to at least 1%, followed by staged increases to 3% by 2009. Companies that fail to meet the targets will have to pay penalties on their employer training levies.

Initially the plan was to reach Parliament in mid-February, but in late January the Government changed the schedule. It decided that the plan will become part of the equality bill that the Government promised at the time of the recent urban riots, and which would be in Parliament in early February. During the month French schools will close for two-weeks periods. These will differ in different parts of the country. In some areas they started on February 4, in others as late as February 18. The holidays will prevent an effective mobilisation among school students during the crucial stages of the Parliamentary debate. The Unions held their protest day on February 7, with mixed results.

Villepin has also announced that his employment policies will have a third stage in the months ahead. The future package will include:

- a reform of labour contracts. The shape of this reform has not yet been decided. It might take on board the recommendations of the Camdessus report, which suggested the unification of the different types of statutory contracts into a single one, in which workers rights increase with the length of employment. An even more radical proposal, supported by the free market faction of the majority, would be the extension of the CNE to all businesses. Junior Labour Minister Gérard Larcher will soon invite Unions and employers to talks about the shape of this project;

- a more focussed legal reform concerning the conditions under which labour contracts are broken. The present rules give rise to a large amount of disputes. They also work against a consensual end of the contract, because employees leaving voluntarily do not qualify for unemployment benefits;

- the reform of employer Social Security contributions promised by President Chirac. At the start of the year the President indicated that, in order to help boost employment, the base on which employer contributions are calculated will be partly changed. Until now the contributions are based on wages; in future they would be partly based on value added. Also on this issue consultations will soon start. Employers are mostly hostile, but also divided since such a reform would help sectors with high labour intensity – such as textiles and retailing – and increase the burden on those with a high value added per employee, such as energy and finance.

  The Government will also need to consider the effects that the reform will have on the high technology sectors that it wants to encourage to boost long-term growth potential;

- a new reduction in the cost of overtime to employers. A temporary reduction was decided, for smaller businesses, by the Raffarin Government. Villepin has in mind a change which cuts employer costs but not employees' revenues – hence presumably reductions in Social Security contributions.

While Parliament debates the second package and the Government begins to prepare the third stage, the civil service will soon begin experimentation of the new intermediate labour contract, CTP, targeted to workers that have been made redundant by smaller businesses in crisis areas. The scheme was pushed through Parliament by the Government with no consultations with the Unions. These are critical of CTPs because they contain more favourable clauses than the ones that they negotiated last year for the generality of employees (more details: issue 2005 number 4 page 8). The scheme will be tested from March in six areas with a total of about 2,400 redundant employees..

Government produces own solution for older workers

Having agreed with the employers new labour policies for older workers, including the creation of a special fixed term labour contract for those aged 57 or more, late last year the Unions decided to postpone official signature of the deal in order to put pressure on the Government.

They knew that the Government was preparing to announce its own proposals on the issue, and that it wished to proceed with as much consensus as possible. They hoped that by delaying signature they would exercise a considerable influence on the content of the package. They wanted to avoid an intervention on the Deladande contribution that employers must pay when they dismiss older workers. They also wanted to prevent the Government from extending to younger workers the special fixed term contract they had agreed for older workers. The implicit threat was that if the Government did not listen to them, the Unions would withdraw their support from the October deal and deprive the executive of the consensus it sought.

However, these pressure do not seem to have fully worked. Among the Government proposals announced in mid-January is the phased abolition of the Deladande contribution. The rest of the package is less controversial and the Unions have already agreed to hold two consultation meetings on the proposals with Junior Labour Minister Larcher.

The common aim of Government, Unions and employers is to increase the activity rate among older workers. The Government has set the target of a rise from less than 40% at present to 50% over the next five years. In addition to the Deladande contribution, and to the acceptance of the plan to create the special fixed term contract, the Government has announced more than twenty other initiatives. These include:-

- limits to the use by Unions and employers of early retirement as a way of avoiding mass redundancies,

- a relaxation, for low-wage earners of the rule whereby those who continue to work beyond retirement age cannot have a total income higher than their last pre-retirement pay,

- an increase from 3% at present to 5% of the maximum pension rise that can be obtained by those who work after retirement age.

Talks with Unions and employers are mean to be completed by the end of February with a plan which the Government intends to translate into a bill for early submission to Parliament.

Convention opens door to Unedic review

Implementation of the Unedic convention for the next three years is now certain. In late January the executive council of the CGC Union overwhelmingly approved a proposal to ratify the agreement reached in December between employers and the representatives of three Unions, one of which was CGC. However, the other two Unions had rejected the plan. Until the council vote there remained a possibility that CGC would not only refuse to ratify the deal but also formally object to it jointly with the two Unions that had been opposed from the start. If that had happened, the agreement would have been without legal value. Conversely, acceptance by CGC makes the agreement unassailable.

The agreement regulates the operation of the French unemployment benefit board over the next three years. In order to accelerate the expected return to financial equilibrium after years of big deficits, it increases unemployment contributions by 0.08 points, dividing the rise equally between employers and employees, and reduces the duration of some unemployment benefits.

Unions and employers had already agreed that after completing their talks on the convention they would start discussion on a more fundamental reform of the unemployment benefit system and its relations with the State and with welfare benefits. CGC is keen for these new talks to start very soon. Other Unions believe that a longer preparatory time is needed. But all expect that the reappraisal of the system will be among the big issues on the agenda this year.

TREASURY FINALISES STRING OF BUSINESS REFORMS

Under the leadership of Thierry Breton, the Treasury is working on several economic reforms which are likely to be implemented or published during the next few weeks.

The first one is a reform of the Public Procurement Code aimed at giving better access to smaller businesses, whilst avoiding a conflict with the EU competition authorities. This reform is already in its final stages. The code can be modified by decree, that is, without the need of introducing a bill in Parliament. The Ministry has already prepared the decree, but at the moment the text is being examined by the State Council – France's supreme authority on administrative law. While details can and will change, the principal effects of this reform are clear. They will be:

- the subdivision of procurement contracts into allotments, allowing smaller businesses, which could not compete for the entire work, to bid for parts;
- the requirement that among the candidates admitted to compete for a contract a minimum quota consists of smaller businesses
- changes in references requirements to help smaller businesses
- greater flexibility in the level of expertise needed, tailoring the requisites to the size of the contract;
- monitoring of the percentage of procurement contracts awarded to smaller businesses.

The State Council is expected to complete its work soon, and the reform should be in place by March.

The Treasury is also working on a composite economic reform bill which is likely to contain, under the heading of consumer protection, numerous times. Among them will be:

- the rules for the full opening of the French gas and electricity market to competition from the middle of 2007, and
- the introduction in the French legal system of a limited version of the class action procedure.

As Breton recently told the press, the Treasury is also working on a reform of the French corporate income tax. The main question concerns the definition of revenue, and whether Ebidta would be preferable to net profits as a tax basis.

Sectors and Companies

Mittal turns Arcelor from hunter into prey

By battling hard with Thyssen-Krupp for the control of the Canadian steel group Dofasco, Arcelor, the second largest steel group in the world, thought that it was giving itself a better chance of rivalling with market leader Mittal. Instead, it ended up making itself an easier target for an unwelcome takeover bid from it.

Arcelor had little time to celebrate its victory over Thyssen-Krupp in gaining control of Dofasco in late January. Within two days it found itself at a receiving end of the Mittal takeover bid – an operation unexpected and, as far as Arcelor was concerned, unwelcome, but generally well received in the market.

if Mittal succeeds in taking over Arcelor it will become three times bigger than its largest rival. However, the world steel industry will remain very fragmented

Now Arcelor, which is legally a Luxembourg company but was created mostly with the assets of the old Usinor, is seeking to resist. French politicians, starting with Treasury Minister Breton, voice opposition against the Mittal project, but it is difficult to see financial or regulatory obstacles that could stop the bidder.

In different ways both Arcelor and Mittal are new players. Arcelor was created almost exactly four years ago from the merger of Usinor, Arbed of Luxembourg and Aceralia of Spain. The Mittal family's expansion in the steel market started more than thirty years ago in India, but the group has grown to world leadership only in recent years, mostly through a sequence of acquisitions.

At present Mittal has an annual production of almost sixty million tons of steel, while the Dofasco acquisition will allow Arcelor to move above the fifty million market. The third largest producer is only half the size of Mittal, and if Mittal succeeds in taking over Arcelor it will become three times bigger than its largest rival. However, the world steel industry will remain very fragmented with the twenty largest producers accounting for only a tenth of world steel output. Although Mittal has completely outgrown its Indian basis, no longer has plants in India and is legally a British company, it is 88% owned by the Mittal family and its growth can be viewed as a new aspect of globalisation whereby fast growing economies such as those of China and India begin to conquer position of world leadership in manufacturing and to make large direct investment in established industrial countries.

In order to win Dofasco, Arcelor, which had initially offered CA$ 56 per share, raised its offer in stages to CA$ 71, a price which values the business € 4 billion. Thyssen Krupp kept up the competition until the final stages, but did not respond to the last Arcelor offer. However, its approach had the support of the Dofasco board, and the Canadians had agreed to compensate it to the tune of CA$ 215 million if control fell to another company.

Through the Canadian campaign Arcelor stretched financially, weakened its already comparatively low stock market valuation, inadvertently made Thyssen Krupp into an ally of Mittal and allowed itself to be caught unprepared by the hostile bid.

Mittal can count on the support of Thyssen Krupp because the latter is still interested in acquiring Dofasco. For its part, Mittal would have to dispose of the Canadian company on competition ground, since, unlike Arcelor, it already has a strong position in North America. Furthermore, selling Dofasco would allow Mittal to raise most of the cash it would need to pay for Arcelor.

Mittal is reported to have agreed to sell Dofasco to Thyssen Krupp for € 3.8 billion. This is 80% of the maximum amount of cash, € 4.8 billion, that Mittal would have to pay for Arcelor. The bid values Arcelor € 16.8 billion and Arcelor shareholders can choose to be paid in Mittal shares, in cash or in a mixture of the two. However, the total cash payment cannot exceed 25% of the total payment – that is, € 4.8 billion.

The French steel industry used to be State owned, but that ended before the creation of Arcelor. At present the French public sector does not own any stake in the group. Nor is there a strong presence of the large French institutional or industrial investors on which the French State can exercise huge influence. In fact, 87% of the capital of Arcelor is floating. The largest shareholder is the Luxembourg state, with 5.6%. Group employees have a 2% stake, and Arcelor owns 4% of its own equity. Breton has recognised that the French public sector cannot intervene either as a shareholder – because it is not one – or as a regulator, because there are no regulatory grounds to stop the project. His criticism and reservations over the conduct of Mittal – accused above all of not having given adequate notice of its intentions to the authorities – seems mostly intended for public consumption. Deprived of the instruments of real action, Breton seems determined to show concern and to call to action those who are in the position to influence the outcome – the shareholders. But what sort of success are these calls likely to have ? In the financial market the Mittal move has been generally well received, and it is difficult to see which steel producers could challenge it – whilst being more welcome to the French. An acquisition would be attractive for its potential industrial synergies, and for this reason it is very unlikely that a financial group will bid against Mittal.

Unlike the French, the Spaniards and the Belgians – who are also affected by the project – have kept a low profile. The Luxembourg Government, by contrast, is even more concerned than the French, and has some means to exercise pressure on Mittal through its stake, but it may be more interested in extracting commitments about the future of the Luxembourg plants than in stopping the takeover altogether.

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SEB reorganises under Asian pressure

SEB's decision the close three of its thirteen French manufacturing plants during the next two years, with the loss of almost 900 jobs is the consequence of Asian competition and of a further erosion of market shares in France and the entire EU.

The leading small domestic equipment manufacturer has announced that the plant closures, and the downsizing of a fourth plant, will occur without any mandatory redundancy. Relocation to other plants, reindustrialisation of the sites abandoned, and, for older workers, early retirements, will be used to avoid redundancies, the company has indicated. Although unexpected in some of the plans concerned, in which production lines had recently been modernised, the loss of employment came as no surprise to many employees and observers, following periods of partial unemployment in 2005 and evidence of poor sales in France. The group has already lost about 1,200 jobs, a third of them in France, during the last three years.

In spite of the downsizing of the plants, about half of group employment will still be located in France after 2008. At present 54% of SEB's 14,400 employees and about half of the group's output is also manufactured in France, a country that accounts for only a quarter of SEB's sales.

The restructuring plan will cost almost more than €210 million and will lead to the abandonment of market segments in which the group feels unable to produce competitively in France. In spite of the downsizing of the plants, about half of group employment will still be located in France after 2008. At present 54% of SEB's 14,400 employees are French-based. About half of the group's output is also manufactured in France, a country that accounts for only a quarter of SEB's sales.

The decision to proceed to closures may seem at odd with the 2005 sale figures, published in late January and showing a 7.6% rise over 2004, to € 2.46 billion. In reality, however, almost all the growth was due to foreign exchange movements and to acquisitions. There were no new large acquisitions during 2005, but three important foreign purchases made in 2004 had been consolidated for only part of the year. These acquisitions also explain why sales in North and South America grew especially rapidly by comparison with the 2004 average.

Net of currency and acquisition effects, consolidated sales were only 0.6% higher than in 2004. In France sales were 5.3% lower than in 2004; in the rest of the EU they were 2.5% lower in spite of the effects of the 2004 acquisition of Lagostina, in Italy.

Sales and market shares in France have been declining since 2002, and in spite of the 7.6% posted rise nominal sales were no higher in 2005 than in 2002, the year in which SEB acquired its French rival Moulinex. Also, the 2005 sale increase is not believed to have produced a rise in operating results. In 2004 SEB made an operating profit of € 250 million and had a net profit of € 120 million. In the stock market SEB's share price fell by more than 3% after the publication of the 2005 sales figures and barely recovered after the plant closures were announced.

BESNIERS KEEPS EXPANDING LACTALIS IN THE FAMILY

A new joint-venture with Nestlé and the acquisition of the largest Italian cheese producer are likely to make Lactalis the biggest French dairy group, ahead of Danone, without modifying its nature of a fully family-owned business.

Lactalis, which until 1999 was named after the Besnier founding family which owns it, agreed in December to set up a joint-venture with Nestlé to which both groups will confer their European fresh dairy products. The joint-venture will cover yoghurts, fresh cheeses and dairy-based desserts, it will have an annual turnover of the order of € 1.3 billion and will be 60% controlled by Lactalis, which will thus be able to consolidate it in its accounts.

In January Lactalis agreed with the BC Partners investment fund the acquisition of Galbani, which is the Italian cheese market leader and has 3,000 employees and an annual turnover of € 1.3 billion. The acquisition price has not been announced but it was attractive enough to persuade BC Partners, which acquired the company from Danone in 2002 for € 1 billion, to sell directly to Lactalis instead of proceeding with a planned auction. A figure of between € 1.5 billion and € 2 billion has been mentioned in the press.

Last year Lactalis had a turnover of almost € 6 billion, while the dairy division of the Danone group had a € 6.5 billion turnover in 2004. The joint-venture and the acquisition – assuming that they are authorised by the competition authorities – will allow Lactalis to increase its turnover to € 9 billion in 2007, conquering sectoral leadership from Danone, assuming that this does not make large acquisitions.

Lactalis already has production facilities in Italy, where it also owns the Invernizzi brand. The Galbani agreement is part of a strategy to expand the group portfolio of well known brands and to widen access to distribution networks, in order to counter the pressure of discounters and of retailer brands. It puts an end to the alternative project that Lactalis studied in late 2005, concerning a bid for Dairy Crest, the British dairy leader. Acquiring both Galbani and Dairy Crest would require a rights issue and would thus end the present full control of the family, while the purchase of Galbani alone can be financed with a bond issue and, to a lesser degree, with available liquidity.

The joint-venture and the acquisition – assuming that they are authorised by the competition authorities – will allow Lactalis to increase its turnover to € 9 billion in 2007, conquering sectoral leadership from Danone.

ANGLO-SAXON SHAREHOLDERS THWART EURONEXT AMBITIONS

There are two big opportunities for Euronext to carry forth its plan to guide the consolidation of the European stock markets, but both are accompanied by such obstacles that the likeliest outcome may be stalemate.

Created in 2002 from the merger of the Paris, Amsterdam and Brussels stock market, Euronext has become second only to the London Stock Exchange (LSE) in terms of number of companies listed and trading turnover. Expecting that the economic integration of Europe will be accompanied by stock market consolidation, Euronext has two principal options to gain a decisive prominence. One is to bid for control of LSE, the other is to merge with its other big European rival, Germany's Deutsche Börse.

It focussed on the first option

Euronext seem to have turned back to the LSE project. However, the board ..is faced by the assertiveness of the Anglo-Saxon investment funds that now control two thirds of equity.

for much of 2005, after Deutsche Börse was prevented by its own shareholders from making an offer. LSE is currently the target of a hostile takeover bid by the Macquarie group of Australia, but the offer has been rejected by both the LSE board and, seemingly, the market, in which the LSE share price is well above the Macquarie offer. If it made a high enough bid Euronext would succeed where Deutsche Börse has failed and Macquarie is likely to. However, the LSE share price has risen steeply during the last twelve months, and a bid would therefore probably encounter even greater resistance among Euronext shareholders than the one that forced the retreat of Deutsche Börse. Furthermore, Euronext is likely to be reluctant to pay the price fixed by the British Competition Commission to authorise an acquisition of LSE, the reduction from 41.5% to less than 15% of the stake in the clearing company LCH.Clearnet. Unlike in the US, where such ties are prohibited, in Europe the main stock markets are closely linked to clearing and settlement companies.

Faced with these difficulties, in late 2005 Euronext turned to the alternative option, a merger with Deutsche Börse. Talks between the two companies seem to have started in December but quickly ran into serious dissent and broke off in mid-January. Partly because it has its own highly profitable clearing and settlement company, Eurex Clearing, Deutsche Börse has a much higher market capitalisation than Euronext, almost €11 billion, as compared to less than € 6 billion (and € 3 billion for the LSE). If the merger is carried out on the basis of the present capitalisation, the Euronext shareholders would receive a much smaller slice of the merged business than those of Deutsche Börse. A French proposal that Deutsche Börse restructures itself into a holding company that controls separately the trading and settlement companies, and that only the former merges with Euronext, has not been accepted by the Germans. There is also a conflict concerning the headquarters of a future merged company. The Germans want it in Frankfurt, French and Dutch insist on Amsterdam.

Having found that this road is also barred, in recent days Euronext seem to have turned back to the LSE project. However, the board and the remnants of the French institutional shareholders which initially exercised a leading influence on Euronext are faced by the assertiveness of the Anglo-Saxon investment funds that now control two thirds of equity. Three funds in particular, TCI, Atticus and Harris, have been open in their advocacy of the Deutsche Börse option and in expressing impatience with the objections to it. A number of French institutional shareholders sold Euronext shares about a year ago, when its price rose toward € 30. It is now clearly above € 50, and the remaining big French shareholders control only about 10% of equity. This means that Société Générale, BNP Paribas, Agricole and their Dutch (Fortis) and Portuguese (Espirito Santo) allies jointly have a collective stake no greater than that of TCI alone. The three funds together owns almost a quarter of Euronext. The French financial market authority AMF tightened reporting rules at the end of December and recently started proceedings to establish whether the three funds complied with the new reporting rules and, by jointly supporting the Deutsche Börse option, acted in concert. However, a similar attempt carried out by the German regulators when the funds opposed the Deutsche Börse plan for LSE failed. The French may be able to exercise a degree of influence on the Harris fund, which is a fully owned subsidiary of CDC Ixis and which recently announced a cut in its Euronext stake from 6.4% to 4.9%. But there are other funds, such as Fidelity, which have not yet spoken and which are likely to support the Deutsche Börse option – but not the French conditions to it.

Recent Data

Industrial production fell by 0.3% in December, adjusting after a big November rebound from the biggest monthly decline in more than two years. To a significant degree these swings are due to the car industry, which suffered the biggest decline of all principal sectors in October, made the biggest gains in November (with a 7.1% rise on October) and again led the charge in December, but in the opposite direction, declining by 4.7%. However, most other branches also declined in December. The principal exception was production of investment goods. Seasonally-adjusted production declined on average by 0.3% in the fourth quarter by comparison with the third. The production index behaviour during the last three known months suggests that there is still little if any underlying growth in French manufacturing. After declining by about 4% between 2000 and mid-2003, French industry rose back to the 2000 average between mid-2003 and early 2004, but has been hovering at about that level, although with some large monthly swings, since then. The production average of the last quarter of 2005 was 0.6% below the level of a year earlier.

The **construction industry** enjoyed another good month in December, when it moved close to the all-time peak it had reached in August, new figures show. After five months of steady and fast rise until August, production eased in September and October, but it then rose by 0.2% in both November and December. In the fourth quarter production was only 0.1% higher than in the third quarter, but 2.3% higher than a year earlier and almost 10% above the average of 2000.

Consumer purchases of manufactured consumer goods, an aggregate that has grown in volume by almost 15% since 2000 testifying to the resilience of consumer spending throughout the period, declined by 1% in December. The fall happened in spite of a rise in household durables, its fastest growing segment during the last three years. Car sales also rose, but textiles and clothing and other manufactured goods declined. Purchase volume rose by 0.2% on average in the fourth quarter, lowering the year-on-year growth rate to 1.9%, barely half the one of the third quarter.

Orders to French manufacturing have retreated from the high point they had reached in September, and during November and October were only about 2.5% higher than a year earlier by value. This happened although the total figure found support from its foreign component, which has kept rising and which was more than 10% higher, year-on-year, in October-November. Since foreign orders generate about half of total orders, the figures point to a fall in domestic market orders until October. In November total orders rose twice faster than foreign orders, implying a surge in domestic orders.

Headline **unemployment** fell for the ninth consecutive month in December, according to seasonally-adjusted data. The 0.8% monthly fall left the total figure, 2.31 million, 5.2% lower than a year earlier and 7.1% lower than in April, just before the start of the decline. Figures adjusted to ILO definitions show a higher absolute level, 2.61 million, but confirm that steady decline since the spring and in December (0.9% on November and 4.3% year-on-year). The unemployment rate declined from 9.6% in November to 9.5%. It stood at 10% in December 2004. Between July and November falls in unemployment went hand in hand with rises in new **job offers**. In December this indicator fell by 0.7%, but new vacancies were 12.7% higher than a year earlier.

The **price of commodities imported by France** rose by 1.8% in January, the fifth consecutive monthly increase, in a sequence totalling 16%. The index tracks the cost of thirty-six raw materials of which France is a long-term net importer. Since the middle of 2002 its rises have been moderated by the rise of the euro, which also helped to lower the rise in January. In spite of this, prices have risen on average by about 50% during the last three years, and by more than 30% since the start of 2005.

French **consumer prices** benefited from four months of lower crude oil prices in December. During the month oil prices rose by 2.4% in euro, but the falls of the earlier months were reflected in lower final energy product prices, which were on average 1.4% lower than in November. This helped keep the total price index only 0.1% higher than in November, although services and food prices rose by 0.4%. The year-on-year inflation rate was stable at 1.6%. Manufactured product prices – which have been weak for a year and a half – declined by 0.1% on November and were 0.6% lower than a year earlier.

French **exports** rose by 3.2% in December, seasonally-adjusted statistics show, in what seems to be part of an upturn, which, amidst substantial monthly swings, has been going on for about a year. **Imports** grew not as fast as exports, making a 3.0% gain on November, but showed accelerating momentum in a clear growth trend which started in early 2004. On a year-on-year basis exports were 11% higher, imports 11.8% higher. The difference is summarised by a widening trade deficit. In December the figure exceeded € 3 billion for the fourth time in 2005. During the fourth quarter exports rose by 1.7%, and imports by 3.7%, on the third quarter.

The French **Treasury deficit** ended 2005 € 400 million smaller than it had been a year earlier, at € 43.5 billion as compared to € 43.9 billion. One of the principal policies of the 2005 budget was stability of spending in real terms. In current terms this meant a rise of no more than 1.8%. The actual rise was only marginally above target, at 2.0%, helped by cuts in business and social transfers. Receipts rose by 2.5%, helped by increases in non-tax proceeds and by a reduction of the share of receipts transferred to local authorities and the EU.

Recent Data

Demand and output

GROSS DOMESTIC PRODUCT

		2002	2003	2004			2004			2005	
					q1	q2	q3	q4	q1	q2	q3
Total	Vol. index 2000=100	103.3	104.1	106.5	105.7	106.5	106.6	107.3	107.6	107.7	108.4
	Quarterly % rise				0.5	0.7	0.1	0.7	0.3	0.1	0.7
	Year-on-year % rise	1.2	0.8	2.3	1.6	2.8	1.8	2.0	1.8	1.2	1.8
Domestic Demand	Vol. index 2000=100	103.3	104.8	108.4	106.8	108.4	109.0	109.8	110.5	110.7	111.2
	Quarterly % rise				0.6	1.5	0.6	0.8	0.6	0.2	0.5
	Year-on-year % rise	1.3	1.5	3.4	2.2	3.7	3.4	3.4	3.4	2.2	2.0
Private consumpt. expend.	Vol. index 2000=100	104.8	106.3	108.5	108.1	109.0	108.7	110.1	110.8	110.7	111.5
	Quarterly % rise				0.7	0.8	-0.3	1.2	0.7	-0.1	0.7
	Year-on-year % rise	2.2	1.4	2.0	2.0	3.0	1.6	2.6	2.5	1.5	2.5
Public consumption	Vol. index 2000=100	104.9	107.0	109.9	109.2	110.1	110.1	110.8	110.9	110.9	112.2
	Quarterly % rise				0.6	0.9	-0.0	0.7	0.1	0.0	1.2
	Year-on-year % rise	2.9	2.0	2.7	3.0	3.3	2.4	2.1	1.6	0.7	1.9
Fixed investment	Vol. index 2000=100	100.6	103.4	105.9	104.8	105.8	105.4	106.8	108.4	108.3	109.2
	Quarterly % rise				-0.5	1.0	-0.3	1.3	1.5	-0.1	0.9
	Year-on-year % rise	-1.7	2.7	2.5	2.8	2.9	1.3	1.4	3.4	2.4	3.6
of which: businesses	Vol. index 2000=100	100.9	101.0	103.9	102.4	103.6	103.0	104.7	106.7	105.8	106.9
	Quarterly % rise				-0.6	1.2	-0.6	1.7	1.9	-0.8	1.1
	Year-on-year % rise	-2.9	0.1	2.9	2.5	3.7	1.6	1.7	4.2	2.1	3.8
of which: households	Vol. index 2000=100	102.5	106.5	109.9	108.0	109.8	110.4	111.2	111.9	113.2	113.7
	Quarterly % rise				0.4	1.6	0.5	0.7	0.7	1.1	0.5
	Year-on-year % rise	1.2	3.9	3.2	2.6	3.3	3.4	3.3	3.6	3.1	3.0
Change in stockbuilding	Percentage of GDP	-0.4	-0.1	0.8	0.1	0.6	0.8	-0.3	-0.1	0.3	-0.4
Exports (goods and services)	Vol. index 2000=100	104.0	102.2	105.4	103.7	104.8	104.6	105.8	105.5	106.5	109.9
	Quarterly % rise				0.0	1.1	-0.3	1.1	-0.2	1.0	3.1
	Year-on-year % rise	1.5	-1.7	3.1	1.0	3.4	2.1	2.0	1.7	1.6	5.1
Imports (goods and services)	Vol. index 2000=100	103.9	104.7	111.9	107.6	111.5	113.2	114.8	115.6	117.2	119.9
	Quarterly % rise				0.2	3.6	1.6	1.4	0.7	1.4	2.3
	Year-on-year % rise	1.7	0.7	6.9	3.0	6.7	7.7	6.9	7.4	5.1	5.9

OTHER ACTIVITY INDICATORS

		2002	2003	2004		2004			2005		
					q4	q1	q2	q3	q4	Nov.	Dec.
Industrial production	vol index 2000=100	100.0	99.7	101.0	101.7	101.6	101.4	101.4	101.1	102.2	101.9
	Quarterly/mly % rise				0.8	-0.1	-0.2	0.0	-0.3	3.1	-0.3
	Year-on-year % rise	-0.5	-0.3	1.3	1.5	1.3	0.4	0.5	-0.6	0.9	-0.4
Construction output	vol index 2000=100	104.3	104.1	107.2	107.0	107.0	106.9	109.3	109.4	109.4	109.6
	Quarterly/mly % rise				0.2	0.0	-0.1	2.2	0.1	0.2	0.2
	Year-on-year % rise	0.9	-0.2	3.0	0.5	-0.5	-0.6	2.3	2.3	1.8	2.5
Bankruptcies	Number	38150	39550	40583	9875	10769	10980				
(by judgement date)	Year-on-year % rise	1.8	3.7	2.6	0.6	5.1	8.3				
Real disposable income	Quarterly % rise				0.6	0.2	0.2	0.8			
(adjusted for benefits in kind)	Year-on-year % rise	2.5	2.5	3.3	1.6	1.8	1.2	1.8			
Savings ratio	% of disp. income	16.7	16.0	15.4	15.3	15.0	15.3	15.2			

		2002	2003	2004					2005		
					q4	q1	q2	q3	q4	Nov.	Dec.
Purchase of manuf. goods	vol. index 2000=100	104.8	106.9	110.1	111.8	111.9	111.5	113.7	113.9	114.6	113.4
	Quarterly/mly % rise				2.0	0.1	-0.4	2.0	0.2	0.7	-1.0
	Year-on-year % rise	1.1	2.0	3.0	4.2	2.7	1.2	3.7	1.9	2.7	1.4
Retail sales	vol. index 2000=100	103.3	104.3	107.0	107.6	107.5	107.3	107.6	102.5		
	Quarterly/mly % rise				0.2	-0.1	-0.2	0.3	-4.7		
	Year-on-year % rise	2.2	1.0	2.6	2.3	0.8	0.3	0.2	-0.4		
Inventory index	Value index q1-	110.0	107.9	106.3	104.8	105.9	106.3	105.9			
(finished products)	Quarterly/mly % rise				-2.9	1.0	0.4	-0.4			
		2.3	-1.9	-1.5	-1.9	0.1	0.3	-1.9			

The labour market

EMPLOYMENT

The national labour market

			2002	2003	2004	2004 q2	2004 q3	2004 q4	2005 q1	2005 q2	2005 q3
Employed in businesses with ten or more employees	Total, non-farm market sector	thousands	15,454	15,422	15,402	15,405	15,405	15,410	15,422	15,443	15,452
		Quarterly/mly %				0.1	0.0	0.0	0.1	0.1	0.1
		Year-on-year % rise	0.7	-0.2	-0.1	-0.1	0.2	0.1	0.2	0.2	0.3
	Manufact. and construction	thousands	5,354	5,282	5,201	5,205	5,178	5,166	5,146	5,137	5,120
		Quarterly/mly % rise				-0.4	-0.5	-0.2	-0.4	-0.2	-0.3
		Year-on-year % rise	-15.0	0.7	-1.5	-1.7	-1.4	-1.5	-1.5	-1.3	-1.1
	Market services	thousands	10,098	10,140	10,201	10,200	10,227	10,245	10,276	10,307	10,331
		Quarterly/mly % rise				0.4	0.3	0.2	0.3	0.3	0.2
		Year-on-year % rise	1.8	0.7	0.6	0.7	1.0	0.9	1.2	1.0	1.0

UNEMPLOYMENT

			2002 year	2003 year	2004 year	2005 q1	2005 q2	2005 q3	2005 q4	2005 Nov.	2005 Dec.
Observed unemployment*											
Category 1*	Seas. adj.	thousands	2,259	2,396	2,439	2,479	2,473	2,402	2,333	2,330	2,311
		Quarterly/mly % rise				1.5	-0.2	-2.9	-2.9	-1.2	-0.8
		Year-on-year % rise	6.4	6.1	1.8	2.4	1.1	-1.8	-4.4	-4.6	-5.2
Categ. 2&3*	Unadjusted	thousands	686.3	714.0	717.3	756	723	752	758	763	751
		Year-on-year % rise	3.5	4.0	0.5	5.9	5.4	4.2	1.4	1.1	0.0
Category 6*	Unadjusted	thousands	399.5	404.8	448.3	441.4	492.6	472	463	455	469
		Year-on-year % rise	-7.3	1.3	10.8	8.5	6.2	3.5	-0.7	-0.7	-1.6
Estimated unemployment*											
	Seas. adj.	thousands	2,447	2,662	2,727	2,769.	2,766.	2,703	2,637	2,634	2,611
		Quarterly/mly % rise				1.3	-0.1	-2.3	-2.4	-1.2	-0.9
		Year-on-year % rise	5.2	8.8	2.4	1.9	1.5	-1.1	-3.5	-3.7	-4.3
Estimated unempl. rate*		Total	9.0	9.7	9.9	10.1	10.2	9.9	9.6	9.6	9.5
	Seas. adj.	Male	8.0	8.7	9.0	9.2	9.3	9.0	8.8	8.8	8.7
		Female	10.2	10.9	10.9	11.2	11.2	10.9	10.6	10.6	10.5
		M+F under 25	19.4	20.8	21.8	23.0	23.4	23.0	22.8	22.8	22.7
Partial unemployment		tho.days, mthly	448.0	217.8	165.9	171.0	167.7			121	
	Seas. adj.	Quarterly/mly % rise				-0.4	-0.4			-23.5	
		Year-on-year % rise	119.9	-51.4	-23.8	3.9	3.9			-4.7	

VACANCIES

			2002 year	2003 year	2004 year	2005 q1	2005 q2	2005 q3	2005 q4	2005 Nov.	2005 Dec.
New vacancies*		thousands, mthly	245.8	241.6	256.0	264.8	268.8	278	295	300.5	298.5
		Quarterly/mly % rise				1.1	1.5	3.5	6.0	5.0	-0.7
		Year-on-year % rise	-3.4	-1.7	5.9	7.0	2.9	9.8	12.7	12.0	12.3

* Observed unemployment is the figure collected monthly by the ANPE national employment agency. Categories 1,2 and 3 include those who during the previous month either did not work at all, or worked for less than 78 hours and are seeking stable full time work (cat. 1) or stable part-time work (cat. 2) or temporary work (cat. 3). Category 6 includes those who are seeking stable full time work and who during the previous month worked more than 78 hours, whilst not being in full time employment. New vacancies include not only stable full time work, but also part time and temporary work. Estimated unemployment is calculated by INSEE on the basis of four indicators (except for the March figures, which are based on a sample survey). It is meant to show the level of unemployment based on the ILO definition and to

Recent Data

Inflation indicators

		2002	2003	2004				2005		
					q4	q1	q2	q3	q4	Nov.	Dec.
Consumer prices											
Total without tobacco	Index 1998=100		107.5	109.3	110.0	110.2	111.2	111.6	111.9	111.8	111.9
	Quarterly/mly % rise				0.5	0.2	0.9	0.4	0.3	-0.2	0.1
	Year-on-year % rise				1.9	1.8	1.7	1.9	1.7	1.6	1.6
	Index 1998=100	105.9	108.0	110.5	111.2	111.3	112.3	112.7	113.0	112.9	113.0
Total (incl. tobacco)	Quarterly/mly % rise				0.5	0.1	0.9	0.4	0.3	-0.2	0.1
	Year-on-year % rise	1.9	2.0	2.3	2.1	1.6	1.6	1.8	1.6	1.6	1.5
	Index 1998=100	110.7	113.2	113.9	113.1	114.1	114.7	113.4	113.7	113.7	114.2
Food & drink (excl. tobacco)	Quarterly/mly % rise				-0.2	0.9	0.5	-1.1	0.3	0.4	0.4
	Year-on-year % rise	2.6	2.2	0.6	-0.4	0.2	-0.3	0.1	0.5	0.5	0.7
	Index 1998=100	100.9	101.3	101.3	101.6	100.6	101.4	100.3	101.1	101.1	101.0
Manufactured products	Quarterly/mly % rise				0.7	-1.0	0.8	-1.1	0.8	0.0	-0.1
	Year-on-year % rise	0.7	0.3	0.0	-0.1	-0.2	-0.3	-0.6	-0.5	-0.5	-0.6
	Index 1998=100	106.2	109.0	111.8	112.6	113.7	114.4	115.6	115.4	115.2	115.7
Services	Quarterly/mly % rise				-0.1	1.0	0.6	1.0	-0.2	0.0	0.4
	Index 1998=100	3.0	2.6	2.6	2.6	2.7	2.8	2.6	2.5	2.4	
	Index 1998=100	109.7	111.0	117.7	123.2	122.4	127.0	134.2	134.9	134.2	132.3
Energy	Quarterly/mly % rise				3.8	-0.6	3.8	5.7	0.5	-2.8	-1.4
	Year-on-year % rise	-1.4	1.2	6.1	10.7	8.7	9.1	13.1	9.5	8.4	8.2

		2002	2003	2004			2004			2005	
					q3	q4	q1	q2	q3	Oct.	Nov.
Producer prices	Index 2000=100	101.0	102.0	104.0	104.8	105.2	105.7	106.6	107.5	108.6	108.2
	Quarterly/mly % rise				1.2	0.4	0.5	0.9	-0.7	0.3	-0.4
	Year-on-year % rise	-0.3	1.0	1.0	2.9	3.2	3.1	2.9	1.6	3.0	2.8

		2002	2003	2004						2005	2006
					q4	q1	q2	q3	q4	Dec.	Jan.
Imported raw material prices	Euro Index 2000=100	90.8	84.2	92.7	89.7	95.7	100.3	105.3	114.4	119.1	121.2
	Quarterly/mly % rise				-4.1	6.7	4.8	5.0	8.6	4.3	1.8
	Year-on-year % rise	2.9	-7.3	10.1	3.8	4.6	4.3	12.6	27.5	35.8	31.0

		2002	2002	2003			2004			2005	
					q1	q2	q3	q4	q1	q2	q3
Monthly wages	Index Dec 98=100	108.1	110.7	113.5	112.4	113.1	114.0	114.3	115.4	116.0	117.1
all private sector employees	Quarterly/mly % rise				0.8	0.6	0.8	0.3	0.9	0.5	1.0
	Year-on-year % rise	2.6	2.4	2.5	2.4	2.5	2.5	2.6	2.6	2.5	2.7

		2002	2003	2004			2004			2005	
Unit labour costs					q1	q2	q3	q4	q1	q2	q3
Non-financial companies	Quarterly/mly % rise				0.5	-0.5	0.5	0.3	0.6	0.4	0.2
	Year-on-year % rise	2.6	1.4	0.1	1.2	-0.8	0.4	0.8	0.9	1.8	1.5
Factors affecting the	...wages	2.3	1.8	2.8	0.9	0.6	0.7	0.7	0.9	0.5	0.7
quarterly changes in	…productivity rise(-)	-0.3	0.9	2.5	0.5	1.0	0.0	0.6	0.1	0.0	0.5
unit labour costs (rises in…)	…employer contrib.	0.0	0.5	-0.2	0.1	0.0	-0.2	0.2	-0.2	0.0	0.0

Trade balance

Customs basis, monthly averages seasonally-adjusted € million

		2002	2003	2004				2005			
					q4	q1	q2	q3	q4	Nov.	Dec.
Exports (fob)	€ million	27603	26929	28443	28684	28963	29509	29918	30426	30340	31308
	Quart./monthly % rise				0.7	1.0	1.9	1.4	1.7	2.4	3.2
	Year-on-year % rise	-0.2	-2.4	5.6	4.4	5.8	3.2	5.0	6.1	4.6	11.0
Imports (fob)	€ million	27017	26787	29090	30352	30502	31380	32195	33386	33398	34410
	Quart./monthly % rise				2.1	0.5	2.9	2.6	3.7	3.2	3.0
	Year-on-year % rise	-2.0	-0.9	8.6	11.8	12.2	8.3	8.3	10.0	10.9	11.8
Trade balance	€ million	586	142	-647	-1668	-1539	-1871	-2277	-2960	-3058	-3102

Balance of payments

Bank of France basis, unadjusted monthly averages; € million

A) Current account	Balance	2003	1281	403	793	-1802	-138	-922	-1742
of which:									
Goods	Exports			26617	28066	29037	26590	29839	28717
	Imports			26486	27635	29168	27616	31147	30368
	Balance	329	664	131	431	-131	-1027	-1308	-1651
Services	Exports			7305	6434	7534	7878	7193	7292
	Imports			6218	6269	6351	6855	6018	6385
	Balance	1660	1514	1087	164	1183	1023	1175	907
Factors income*	Receipts			6528	5941				
	Payments			5957	5167				
	Balance	1393	352	571	774	-1129	1696	659	695
Unilateral transfers* (net)		-1380	-1250	-1391	-577				
						Jan-Nov		Jan-Nov	
B) Capital account	Balance	-3127	-2083	-658	-2895				
of which:									
Unilateral transfers* (net)		-28	-16	-639	102				
Direct investment	From abroad into	4701	4330	3469	2932	1591		3073	
	From France	8080	4377	4229	3660	3455		5664	
	Balance	-3380	-47	-760	-728	-1855		-2591	
Portfolio investment	From abroad into	9918	6028	10118	9247	11291		14409	
	From France	7918	7709	10889	19545	18991		15309	
	Balance	2000	-1681	-771	-10298	-7700		-891	
Derivatives* (net)		232	459	-506	1243	536		736	
Other capital movements*		-1952	-799	2018	6787				
C) Change in official reserves		480	350	-181	324	-355		455	
Errors & Omissions (=A+B+C)		644	452	436	1778				

Factors income is the revenue from abroad of French capital and labour less French revenue payments of foreign capital and labour. It consists mostly of dividends, but also includes wages of French workers *resident in France* who work abroad (usually in border areas) less wages of foreign resident workers working in France. Wages of workers resident abroad are considered part of the economy in which the workers reside. Such workers affect the balance of payments mostly through unilateral transfers. **Unilateral transfers** are capital movements of non commercial nature - that is, that do not pay for products or acquire assets. Examples are international aid, EU regional and structural funds and money sent home by migrant workers. All these transfers are divided between current and capital account according to their function - they belong to the capital account if they are directed at increasing the country's capital base (as is the case of EU structural funds). Also part of capital account unilateral transfers are capitals brought in by foreigners when they become French residents. **Derivatives** include interest and margin payments and capital gains or losses. **Other capital movements** covers mostly bank loans and bank deposits. **Errors and Omissions**. In theory, the difference between current accounts and capital accounts should be exactly matched by changes in official reserves. In reality there are always differences, due to measurement and other problems. These differences go under the name of Errors and Omissions.

Treasury borrowing requirement

(€ billion)

						Cumulative since the start of the year					
	2001	2002	2003	2004	2005	2000	2001	2002	2003	2004	2005
January	-7.7	-6.1	-9.5	-11.7	-12.3	-4.2	-7.7	-6.1	-9.5	-11.7	-12.3
February	-3.3	-6.6	-6.0	-9.2	-7.3	-7.7	-11.0	-12.7	-15.5	-20.9	-19.6
March	-5.8	-5.8	-6.0	-5.1	-5.2	-12.5	-16.8	-18.4	-21.5	-26.0	-24.8
April	-9.3	-15.9	-16.2	-13.6	-17.5	-22.1	-26.1	-34.3	-39.7	-39.6	-42.3
May	-2.0	-1.2	3.3	-4.6	-9.2	-24.3	-28.1	-35.5	-44.2	-44.2	-51.5
June	12.1	9.3	8.0	12.2	15.8	-12.6	-16.0	-26.2	-36.2	-32.0	-35.7
July	-12.1	-11.0	-16.9	-14.2	-13.1	-25.4	-28.1	-37.2	-53.1	-46.2	-48.8
August	-9.8	-10.2	-10.7	-11.8	-13.9	-34.2	-37.9	-47.8	-63.8	-58.0	-62.7
September	10.0	-4.1	11.2	9.8	11.9	-22.4	-27.9	-51.9	-52.6	-47.2	-50.8
October	-2.2	1.1	-7.4	-3.8	-2.8	-28.0	-30.1	-50.8	-60.0	-51.0	-53.6
November	-7.1	-7.8	-5.1	-7.4	-5.0	-35.5	-37.2	-58.6	-65.1	-58.4	-58.6
December	5.2	9.3	8.2	14.5	15.1	-29.1	-32.0	-49.3	-56.9	-43.9	-43.5

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