French economy faces reduced rate of growth

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BY DAVID HOUSEGO IN PARIS

THE FRENCH Government yesterday forecast a gloomier prospect for the economy in announcing higher than expected inflation and lower growth, but signalled no change in policy.

The revised forecasts followed the announcement of a 0.9 per cent increase in the consumer price index in January – the largest monthly increase since July 1983. At the same time the number of jobless during the month rose by 1.5 per cent on an adjusted basis to 2.612m pushing up the unemployment rate from 10.7 to 10.9 per cent.

Mr Edouard Balladur, the Minister of Finance, speaking after a cabinet meeting which had reviewed the economic outlook, said the Government now expected inflation to rise to about 2.5 per cent as against the 2 per cent assumed in the budget and a year on year rate at the end of December last year of 2.1 per cent. He said that real GDP would also be below the 2.8 per cent included in the budget but above 2 per cent.

The downward revision in the growth figures is in line with that of private forecasting institutes – the French Employers' Federation this week predicted 2 per cent real growth for the year – and the official French forecasting institute Insee, which in a report published yesterday said it expected first half 1987 growth to be "not very robust."

Although the Government is under some pressure from within the coalition to stimulate investment, Mr Balladur said that there would be no change in economic policy. Underlining this the cabinet approved a freezing of FFr 7.5bn ($1.23bn) spending in this year's budget to offset anticipated increases in allocations for the long-term unemployed and the EEC. Mr Balladur said that the budget deficit would be cut to 2.5 per cent of GDP as planned, compared with 3 per cent last year.

Britain's short-term economic prospects were revised upwards by one of the more gloomy independent forecasters in the country, which halved an earlier estimate of the likely current account deficit this year. Output growth is forecast to rise and inflation to come down, Page 12.

The unexpectedly high increase in the January price figures was mainly due to the renewed rise in petrol prices (accounting for almost 0.5 per cent of the 0.9 per cent rise), the public sector strikes at the beginning of the year and the cold weather. A further factor was the sharp rise in the price of services following the ending of price controls.

Mr Balladur was at pains yesterday to demonstrate that the January figure was exceptional and did not mean an end to the disinflationary process. He received some comfort from Insee, which forecast a 1.4 per cent cumulative increase in French inflation over the first three months and 1.9 per cent for the first half. Insee said in its report yesterday that it regarded this acceleration as being a "transitory rough patch" which would not call into question French success over wage restraint.

With flat rate increases in the public sector having been set this year at about 1.7 per cent, many employees now stand to suffer a loss of purchasing power – with the possibility of union pressure for a renewal of wage negotiations.

Insee forecasts a modest economic pick-up from the second quarter stimulated by rising exports and investment. This will follow almost nine months of stagnant activity