

## French elections and the question of French competitiveness

**The presidential elections loom** - first and second ballots take place on 10 and 24 April, respectively - closely followed by parliamentary elections on 12 and 19 June. Pre-election debates have been sapped of interest by the Ukraine war and the fact the president now looks almost certain to be re-elected. Even so, the incoming government will have to grapple with some pressing economic challenges, which are worth discussing in the new geopolitical environment. The competitiveness of French companies is one such issue.

**The long-term decline of the French trade balance.** While France remains one of the world's major exporters (fifth-largest across all goods and services), its balance of trade has been drifting ever further into the red for more than 20 years. Several factors lie behind this deterioration: particularly strong consumption in France, heavy dependence on oil and gas imports (chart 1), and also a decline in the competitiveness of French companies compared to France's trading partners. The loss of competitiveness has been most evident in goods production and has gone hand in hand with a decline in the scale of French industry.

**For a long time, this was mainly explained by France's higher labour costs. But for some years now this has no longer been the case.** In 2000-2010, the French industry's weak competitiveness was explained by particularly high wage costs due to the size of French social provision: pensions and social security. Since then, a number of reforms have been put in place, including the CICE - tax credit to support competitiveness and jobs - in 2013, and these have successfully reversed the trend. However, the hollowing out of French industry has undermined competitiveness in ways unrelated to costs. Declining investment in innovation and training has led to a gradual loss of non-cost competitiveness.

**How does the Ukraine war change things?** The lingering Covid crisis took an especially heavy toll on French industry because of its high degree of specialisation (aviation, shipowners, tourism). European industrial companies were the first to be hit by rising energy costs due to their heavy reliance on Russian fuels (chart 2). But within Europe, French companies were slightly less exposed to the rise in costs, as France's energy mix makes French firms less dependent on Russia's gas. They are also benefiting from substantial government support to help absorb the shock.

Past performance should not be seen as a guarantee of future returns.

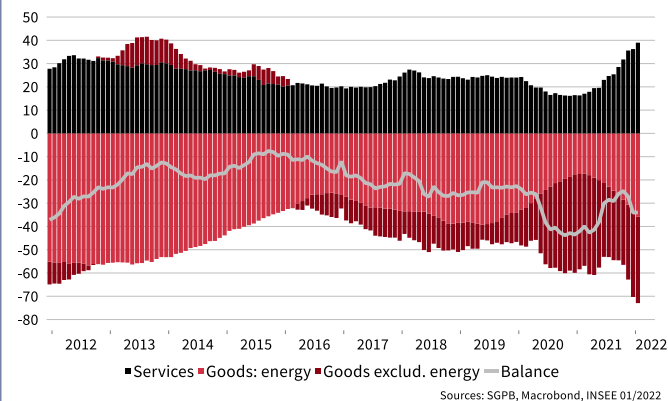
All data taken from Bloomberg, Macrobond, (01/04/2022). In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document. CA012/H1/2021



### The deterioration of the French trade balance partly explained by imports of hydrocarbons

Trade balance: cumulative 12 months, in billions of euros

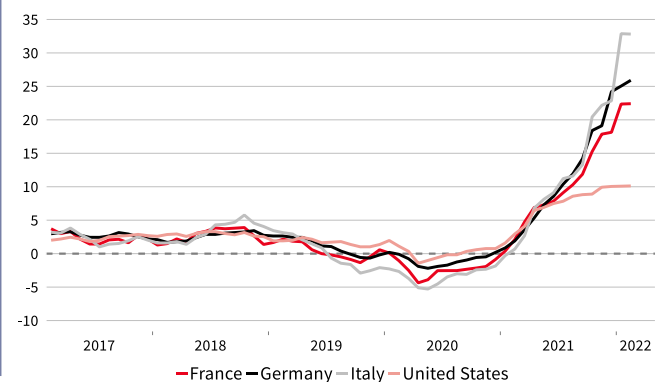
France : Trade balance (goods and services)



### Producer prices have exploded for European companies, France remaining relatively less affected

Producer price index: year on year variation, %

Producer Price Index



# OUR MACRO COMMENTS

## Events of the week



In the United States, the yield of 2-year Treasury bonds briefly exceeded that of 10-year bills. This inversion of the yield curve is widely considered as a sign of a future recession – this market move having preceded each of the last ten recessions in the United States. We should, however, keep in mind that not all yield curve inversions led to recessions.



Activity is contracting in China right now as authorities restrict mobility and close down production sites in many cities. In recent weeks, the various lockdowns of major production poles have penalized a Chinese economy already weakened by a staggering real estate sector. Consumer confidence is also severely affected.

## Figures of the week



- Inflation (in year on year variation, March)
- Core inflation (in year on year variation, March)



- Manufacturing PMI index (March)
- Non-manufacturing PMI index (March)



- GDP annualized (Q4)



- Inflation (in year on year variation, March)
- Retail sales (in year on year variation, February)



- GDP (in quarter on quarter variation, Q4)

	Current		Consensus	Previous
	7,5%	↑	6,6%	5,9%
	3%	↑	3,1%	2,7%
	49,5%	↓	49,9%	50,2%
	48,4%	↓	53,2%	51,6%
	6,9%	↓	7%	7%
	7,3%	↑	6,3%	5,1%
	7%	↓	6,1%	10,4%
	6,6%	↑	6,5%	6,5%

Sources : Bloomberg, on April 1st, 2022.

## The week ahead

### Tuesday



Composite PMI index (March)



Composite PMI index (March)

### Wednesday



Caixin services PMI index (March)



FOMC minutes

### Thursday



Retail sales (February)

# MARKETS PERFORMANCE

Interbank rate	Last.	-1W	-3M	YTD	-12M
€STER O/N	-0,58	-0,58	-0,58	-0,59	-0,57
USD SOFR O/N	0,30	0,27	0,05	0,05	0,01
JPY TONAR O/N	0,00	-0,01	-0,02	-0,02	-0,04
GBP SONIA O/N	0,69	0,69	0,19	0,19	0,05
CHF O/N	-0,78	-0,78	-0,78	-0,78	-0,79

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	1,09	0,94	0,19	0,20	-0,03
10Y Bund	0,65	0,47	-0,23	-0,21	-0,27
10Y BTP	2,14	2,00	1,15	1,17	0,70
10Y JGB	0,21	0,22	0,06	0,07	0,09
10Y Bonos	1,55	1,39	0,56	0,56	0,33
10Y Swiss	0,72	0,41	-0,16	-0,13	-0,27
10Y Gilt	1,67	1,66	1,01	1,02	0,83
10Y USTnote	2,35	2,32	1,55	1,52	1,74

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	1,25	1,13	0,33	0,33	0,16
EUR Corporate Baa	1,85	1,73	0,65	0,66	0,50
GBP Corporate Baa	2,44	2,48	1,57	1,52	1,22
USD Corporate Aaa	3,06	3,05	2,19	2,13	2,21
USD Corporate Baa	3,89	3,89	2,65	2,60	2,57
USD EM aggregate	5,65	5,74	4,35	4,33	4,05

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	112,66	-7,1%	42,2%	42,5%	78,9%
Or, USD/oz	1 933	-0,6%	7,2%	5,7%	13,2%
Copper, USD/metric ton	10 390	0,7%	8,0%	7,3%	17,5%
Platinum, USD/onz	984	-3,9%	1,3%	1,8%	-16,2%
Palladium, USD/onz	2 160	-15,8%	9,9%	9,2%	-17,8%
Silver, USD/onz	24,76	-1,0%	8,4%	7,2%	3,1%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,11	1,3%	-1,6%	-1,8%	-5,1%
EUR/CHF	1,03	0,4%	-0,7%	-0,6%	-6,9%
USD/GBP	0,76	0,3%	2,4%	2,8%	4,7%
USD/JPY	122,01	0,8%	6,1%	6,0%	10,4%
USD/BRL	4,76	-1,9%	-16,2%	-14,6%	-15,6%
USD/CNY	6,35	-0,4%	-0,3%	-0,1%	-3,0%
USD/RUB	84,31	-14,2%	13,6%	12,4%	11,7%

Equity indices	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	1 162	2,1%	0,1%	0,1%	8,2%
Eurostoxx 50	3 959	2,3%	-7,6%	-7,9%	1,0%
Dax 40	14 606	2,3%	-7,9%	-8,1%	-2,7%
CAC 40	6 742	2,4%	-5,9%	-5,8%	11,1%
FTSE 100	7 579	1,6%	2,1%	2,6%	12,9%
SMI	12 244	1,2%	-5,3%	-4,9%	10,8%
SP500	4 602	3,3%	-4,0%	-3,4%	15,8%
TOPIX	1 968	-0,6%	-1,6%	-1,2%	0,7%
iBovespa	120 260	2,4%	15,5%	14,7%	3,1%
Hang Seng	22 232	0,4%	-3,7%	-5,0%	-21,7%
Sensex 30	58 684	1,7%	1,5%	0,7%	18,5%
MOEX	-	-	-	-	-
CSI 300	4 254	-0,5%	-12,9%	-13,9%	-15,7%

Source: Macrobond, on April 1<sup>st</sup>, 2022.

1wk = 1-week change, 3mth = 3-month change, 12mth = 12-month change, YTD = year-to-date change, YoY = year-on-year change, BAML = Bank of America Merrill Lynch, JPM = JP Morgan, IG = Investment Grade, EM = emerging markets. \* Price return for MICEX equity index. Equities; total return in local currency. Government bonds = 3-7-year returns. Figures are rounded.

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