

STILL TOO SOON TO TALK ABOUT RECOVERY

The summer brought us good news. After four consecutive quarters of decline, France's gross domestic product progressed 0.3 % during the second quarter of 2009, in comparison to the preceding quarter. We are therefore no longer in recession, but does this mean the economic recovery has really begun?

As reassuring as this good news may be, we should interpret it not as a sign of true recovery, but as a sign that the economy's protracted deterioration is coming to an end. Soaring unemployment figures act as a sobering reminder that we should remain circumspect: In France in late June 2009, the ranks of the unemployed swelled by 400,000 more than in December 2008. The labour market will not begin improving until several months after the economic recovery is well under way, as labour market adjustments are not in sync with variations in economy activity. In periods of economic reversal, companies brace themselves to ride out the storm and will resort to partial unemployment before they lay off workers. It is only later, when productivity suffers —i.e. when production declines though the workforce remains the same— that companies downsize,

as is the case now. When recovery does indeed come about, companies remain cautious and only begin recruiting when it is clear that the improvement in business is to be long-lasting. Therefore, during the second quarter of 2009, employment figures were still down, (- 0.5 %), in spite of the fact that the gross domestic product rose slightly (+ 0.3 %).

The ups and downs of the jobs situation are a determining factor of consumption. With unemployment continuing to rise, households curtail their spending, not only because joblessness has a direct negative impact on the unemployed and their families, but also because of its negative psychological impact on employees who do have jobs. Thus, according to a study conducted by the Banque de France, from January to July 2009, total retail sales fell 3.2 % in value in comparison to the same period in 2008 .

Sales of fashion and textile products are no exception. During the month of July, spending dropped 8.8 % in value in comparison to July 2008. Not a single retail channel has remained unscathed by the despondency of the market.

Changes in earnings hover close to the average, falling between -12.8 % in value for hypermarkets and - 7.3 % for mass-market retailers. Notwithstanding the relatively success of the summer bargain sales, profits for the month of July were abysmal, mainly due to the bleak economic environment overall. Over the first seven months of the year as a whole, consumption of fashion and textile products fell 3.7 % in value in comparison to the same period last year. In addition, preliminary findings for the month of August confirm this trend: sales for the first eight months of 2009 promise to be approximately 4 % lower in value than for the same period in 2008¹.

This slump in consumption has led to a serious decrease in business for producers upstream in the industry. Retailers have taken to clearing out their stocks and increasing their sourcing in Asia to maintain their profit margins when faced with dwindling demand. Moreover, today price stands out as a crucial criterion in consumption behaviour, which makes long-distance imports ever more attractive. Consequently, during the first two quarters of 2009, textile production in the European Union has plummeted 22 %.

Most member countries have been affected: Italy has seen its production figures drop 25 % and in France production has nosedived 27 %.

Although during the second quarter of 2009 France's gross domestic product began to grow once again, it is important to remember that the GDP is still 2.6 % lower than during the second quarter 2008. This fall in consumption of fashion and textile articles will probably continue through the end of the year, as only real improvement in the jobs market will provide the solid base necessary to build recovery on.

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¹. Banque de France, Enquête mensuelle de conjoncture : conjoncture commerce de détail (Monthly economic survey: retail trade)