

A LASTING SLOW-DOWN FOR CONSUMPTION?

Over 2009 as a whole, France's gross domestic product should decrease by 2.2 % in volume in comparison to 2008. This decline in output is mostly due to the fall in investments (-6.2 %) as well as the drop in exports (- 11 %)¹. Household consumption, however, is holding firm and rising marginally (+0.7%). Unemployment has been increasing steadily since the beginning of 2008 and should remain at around 10 % until the end of 2009. Won't the high unemployment rate have a negative effect on consumption, the main driving force behind growth?

Macroeconomic forecasts are counting on recovery in 2010, with the French GDP progressing by approximately 0.9 %². This recovery should come about as deterioration in investments and exports eases and exports are back on a positive track after their precipitous fall in 2009. As for consumption, it will only increase at a pace similar to that of 2009, mostly as a result of the high unemployment rate. While consumption has certainly not flagged during the crisis, it will not be the driving force behind the recovery, which will mainly be attributable to improvement in world trade.

The stability of consumption on the macroeconomic level may, however, signal situations that are less rosy for the individual sectors concerned. Indeed, trends are much more divergent than the average changes in consumption alone can lead one to believe. In times of crisis, households tighten their belts and are much more selective about consumption. Thus, when certain spending categories are given priority, it is at the expense of other types of expenditures. It seems likely for example, that the "cash-for-clunkers" or "cash-for-scrap" programs have —somewhat artificially— boosted automobile consumption to the detriment of other spending categories.

As for consumption of fashion and textiles, it has been sliding downhill for three consecutive months. Indeed, retailers' turnover fell 8.8 % in July and 13.3 % in August. Profits for the month of September should follow the same trend, as the economic crisis and the Indian summer both took their toll on sales this autumn.

The drop in consumption in 2008 (- 3 % in value) was mainly a result of the lower prices of the articles purchased. Within this context of hard economic times, consumers cut back on their budgets but did not stop buying, as on average they purchased the same quantity of clothing in 2008 as in 2007. This year however, households appear to have cut back on their spending in terms of quantity and tended to buy lower priced items, which has helped speed up the fall in consumption that began this summer. For women especially, smaller quantities go hand-in-hand with lower prices for their purchases. This seems to be normal behaviour in times of crisis, as precisely the same attitude was prevalent during the crisis in 1993-1995.

For the year 2009 as a whole, consumption will in all likelihood fall more sharply than in 2008 and will no doubt exceed 3 % in value. One shouldn't paint too gloomy a picture however, because the results for the month of October may turn out to be more promising. The fact that October has one more Saturday this year than it did last year may contribute to sustaining sales somewhat. Preliminary data on the

beginning of the month show slight improvement in comparison to September, though this is by no means a recovery. The road ahead is unclear, which makes the end of the year particularly uncertain and leads retailers to control their stocks with an iron fist.

GILDAS MINVIELLE
gminvielle@ifm-paris.com



¹. Source: INSEE (French National Institute for Statistics and Economic Studies)

². Source: IMF