

SUMMARIES IN ENGLISH

La Revue de l'OFCE est référencée dans ECONLIT

An almost perfect world

Forecasts for the world economy in 2004 and 2005

Département analyse et prévision

In 2003, the world economy picked up again, after a bout of weakness in the first half of the year. Pulled by the US and the UK, growth spread to Asia, Latin America and Eastern Europe. It should stay over 4% in 2004 and 2005. The US should see their disequilibria (public and current deficits, household indebtedness) diminish. Growth should slow down from 4.5% in 2004 to 3.4% in 2005. By contrast, the euro zone should grow by only 1.4% and 2.1% in 2004 and 2005. The impact of the recent appreciation of euro (– 1 point of GDP growth in 2004) and a restrictive policy mix should hinder growth, whereas the economic situation — a trough as deep as in the early 80s and early 90s — should require an expansionary policy.

JEL Code: F01.

Misrecovery

Forecasts for the French economy in 2004 and 2005

Département analyse et prévision

With an annual rate of 0.2%, the French economy underwent in 2003 the lowest growth since the 1993 recession. For the first time since 1997, it also grew more slowly than the euro area owing to its asthenic external trade. However, France will benefit in 2004 from a record number of workable days and early retirement measures which will help the unemployed. Hence, the French economy may well take advantage of the international recovery to boost domestic demand and investment. Growth might, thus, be sustained enough for France to respect its public deficit obligations towards Brussels. Unfortunately, we forecast a more uneven path until 2005: the lagged effects of the appreciation of the euro

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and restrictive economic policies will depress an otherwise buoyant growth rate to some sluggish 1.5% in 2004 and a return to the long term potential of 2.3% in 2005.

JEL Code: F01.

Fiscal policy: Europe tied up

Département analyse et prévision

A loosening of the monetary stance and a strong fiscal impulse have favoured upturn of the US economy in 2003. The pro-cyclical fiscal stance will be maintained in 2004, supporting the reduction of the output gap. The worsening of public deficit will stop in 2005 under the effect of higher tax revenues.

In the euro zone most countries reacted to tighter monetary conditions with a pro-cyclical fiscal policy during stagnation. Nevertheless public deficits increased and budgetary positions deviated from those announced in the Stability Programmes, mainly as a result of the deterioration of their cyclical component. In 2004 and 2005 macroeconomic policy conditions will remain unsupportive of growth, which will attain its potential pace only in 2005. The absence of accommodative fiscal and monetary impulses will not hinder an increasing number of countries from exceeding the 3% reference value.

JEL Codes: F01, E6.

Monetary policy: moving standstill

Département analyse et prévision

Strong demand is as much important as easy financing conditions. With recovery gaining momentum, the last thing central banks want to do is to take a chance with it. Firms are now in a more sound shape but households' indebtedness is still high. And financial markets have become very sensitive to the way central banks communicate. A prudent tightening will be accompanied by a small rise of long term interest rates. The Federal Reserve will start raising rates at the end of 2004 and by only 125 bp over 2005. The Bank of England, already engaged in a tightening cycle since last November, will push them up further by 100 bp. The European Central Bank will follow the move in 2005, raising rates only once by 25 bp. The Bank of Japan will make no change to its quantitative policy.

JEL Codes: F01, E4, E5.

What drives the Euro/Dollar Exchange rate?

Département analyse et prévision

The euro/dollar exchange rate has undergone large changes in the last five years. Foreign exchange (FX) markets were volatile and often-times disconnected from economic fundamentals, giving way to speculative movements towards which Asian Central Banks also contributed. The dollar's weakness since 2002 is closely related to whether the twin deficits are deemed sustainable. Uncertainties on the FX markets led some actors to disregarding economic fundamentals for some mimicking behavior which, in turn, amplified this disconnection. We stress this speculative drift via an econometric analysis where a cointegrating relationship links the euro/dollar exchange rate to its theoretical determinants: these have fortunately fallen back into favor since early 2003 and the renewed attractiveness of the US (reduction of current deficit and growth dynamism), together with a potential tightening of the US monetary policy, incline towards a re-appreciation of the dollar's exchange rate.

JEL Codes: F01, F31, F37.

The effects of the euro's appreciation

Département analyse et prévision

Contribution of net exports to growth was markedly negative in 2003 in the euro area (– 0.6 percentage point). These evolutions have been caused — despite the recovery of the second semester — by the persistence of moderate growth rates of world exchanges observed since 2000 and by the euro's appreciation, the effect of which has become negative in 2003. Euro appreciation has reduced the growth rate of the euro area by 0.7 percentage point in 2003. Albeit our forecasts are based on a normalization of the euro/dollar exchange rate, lagged effects of the appreciation would reduce the growth rate of the euro area by 0.9 percentage point in 2004. These global results hide nevertheless heterogeneity in the performances of the member countries, resistance of Germany contrasting with the structural weaknesses of the international integration of e.g. France and Italy.

JEL Codes: F01, F4.

A leading indicator of UK output growth

Françoise Charpin and Catherine Mathieu

This paper presents a new leading indicator of UK output growth. The purpose of the indicator is to forecast quarterly GDP growth over a two-quarter horizon, using industrial production, capacity utilisation, the retail sales index, a wholesale trade survey factor, a financial survey factor and short-term interest rates. The indicator is built on a two-step regression-based approach. First, we estimate an equation for the quarterly GDP growth rate based on coincident and leading series. Second, we estimate monthly and/or quarterly equations which will be used to forecast the coincident and leading series showing a lead of up to six months. This enables us to predict GDP growth for the current and coming quarters. We check that the indicator would have produced reasonable forecasts over the last four years.

JEL Code: E37.

The new EU enlargement

Jérôme Creel and Sandrine Levasseur

The enlargement of the European Union (EU) to ten new members on 1st May 2004 constitutes a major event from both a political, economic and social viewpoint. While it is the greatest in terms of population since the inception of the European construction, this enlargement also encompasses mostly central and eastern European countries (CEECs) which are substantially lagging behind EU-15 in terms of GDP per capita. The challenges at hand are then numerous and related to issues like flexibility of the labour markets, the pensions reforms, the exchange rate regime including euroisation, the EU financing, the proposals of reforms for the stability and growth pact and the ones for the European system of central banks, as well as the economic geography. Moreover, in the event of future enlargements of the EU, the Turkish economy deserves a special attention.

JEL Codes: F02, F15, O52, F33, H87, J21.

Individual Wages and Macroeconomic Approach in France

Thierry Debrand and Anne-Gisèle Privat

This paper combines micro and macroeconomic approaches in analysing the determinants of long-term wage changes in France. Beginning with a descriptive analysis, our study draws attention to the inter and intra-generational wage differentials observed over the last fifty years. This is followed by the estimation of earning functions on individual careers by introducing macroeconomic variables. Results show that changes in wage formation are explained simultaneously by the impact of individual characteristics and the effects of the business cycle.

We use an administrative panel dataset of contributors to the Social Security System. The salaried workers affiliated to the basic scheme represents about two thirds of the french working population. Our sample contains nearly two million observations concerning more than 100,000 individuals from 1935 to 1979 birth cohorts, observed from 1947 to 2000.

JEL Codes: C24, C81, J31, E32.