

# *France–Germany:*

## Comparing 20 Years of Economic History

Like all crises, the present one provides a fertile breeding ground for dogmatic, cookie-cutter statements and clichés that don't always square with reality. So perhaps the best way to avoid making disastrous decisions on the momentous issues of today is to take a good, hard look at our past. This view was what prompted us to publish the following series of charts, which sum up twenty years of comparative economic history in France and Germany.

Growth, consumption, employment, real estate, debt, demographics, and foreign trade are the themes we have covered here, in the hope of offering the reader greater insight into the forces at work in the euro area's two leading economies.

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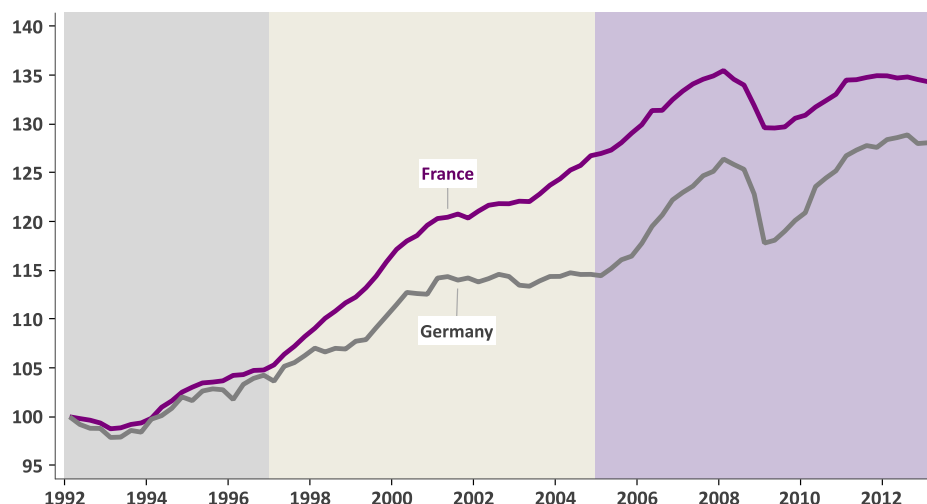
## Growth Deficit in Germany, Downslide in France

From 1992 to 2012, gross domestic product increased by 35 percent in France, a rate that was 7 percent higher than in Germany. **France therefore comes out ahead on a long-term basis.**

Actually, however, this twenty-year span encompasses three very distinct periods:

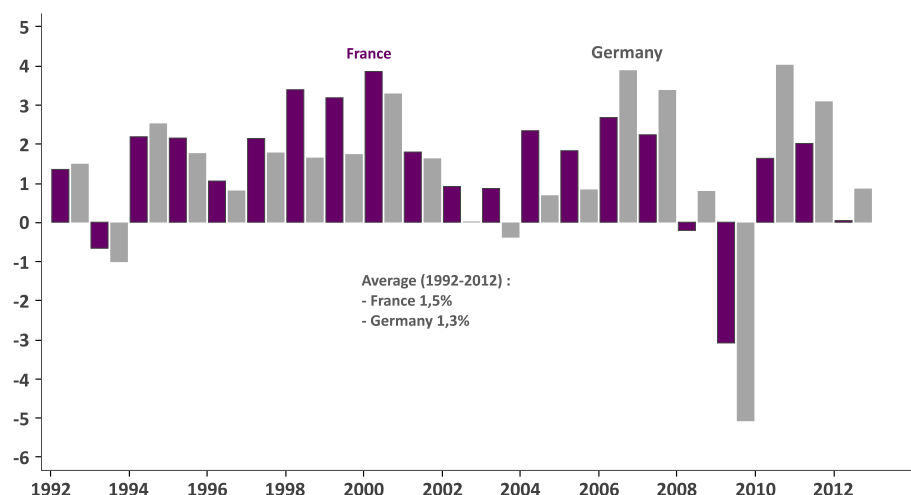
- From 1992 to 1997, the French and German economies experienced similar dynamics and performance, with average annual GDP growth in the vicinity of 1.5 percent on both sides of the Rhine.
- From 1998 to 2004, the German economy lost a fair amount of ground. Compared with France, the country had a 10-percent growth deficit, or an average of 1.4 percent a year.
- From 2005 to the present, the German economy recouped its previous losses, while the French economy fell increasingly behind. Between the start of 2005 and the end of 2012, GDP rose by 12 percent in Germany—twice as fast as in France. France's weaker performance is a fairly recent change that didn't wipe out the cumulative gains achieved up until 2008. But due to the country's more vibrant demographics, **it created a large gap in real GDP per capita between France and Germany that reached 4.3 percent by the end of 2012.**

Real GDP, 1990=100



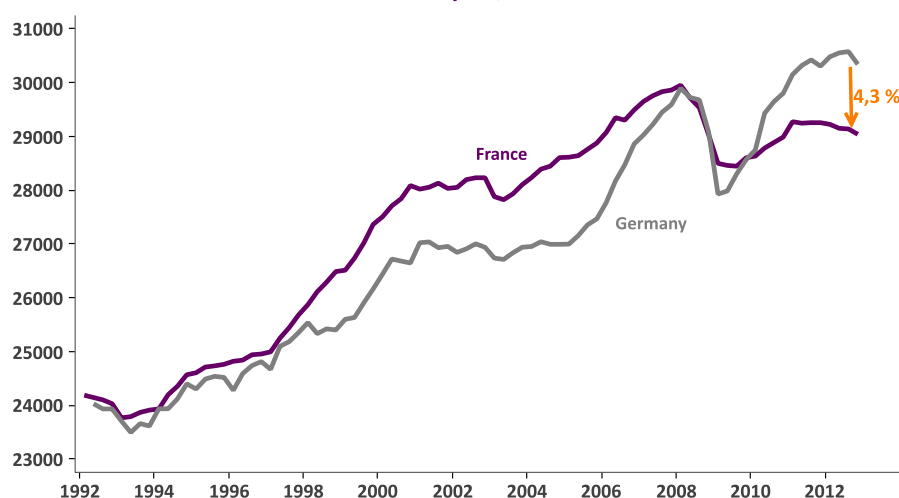
Sources: RichesFlores Research, Macrobond

Annual GDP Growth, Constant Prices



Sources: RichesFlores Research, Macrobond

Annual GDP Per Capita, in 2005 Euros



Sources: RichesFlores Research, Macrobond

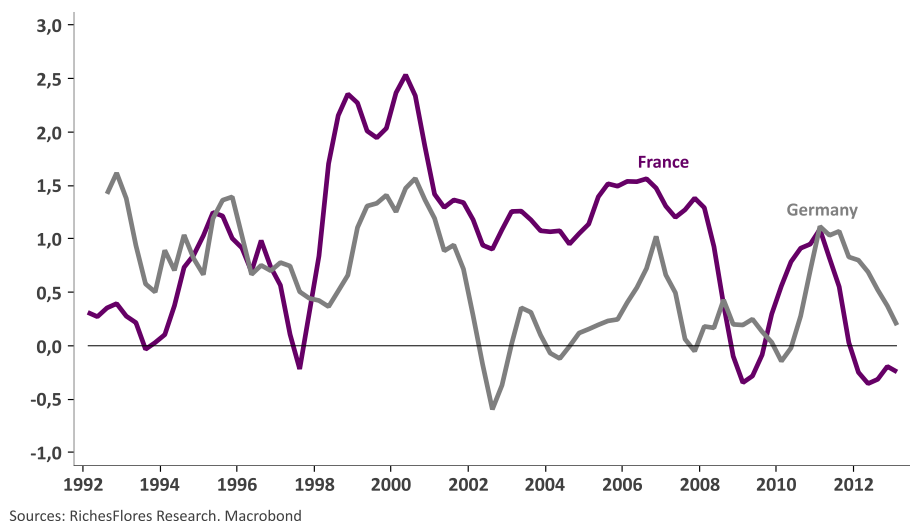
# French Consumers, German Exporters

A comparison of trends in the key aggregates highlights the existence of two very different growth models:

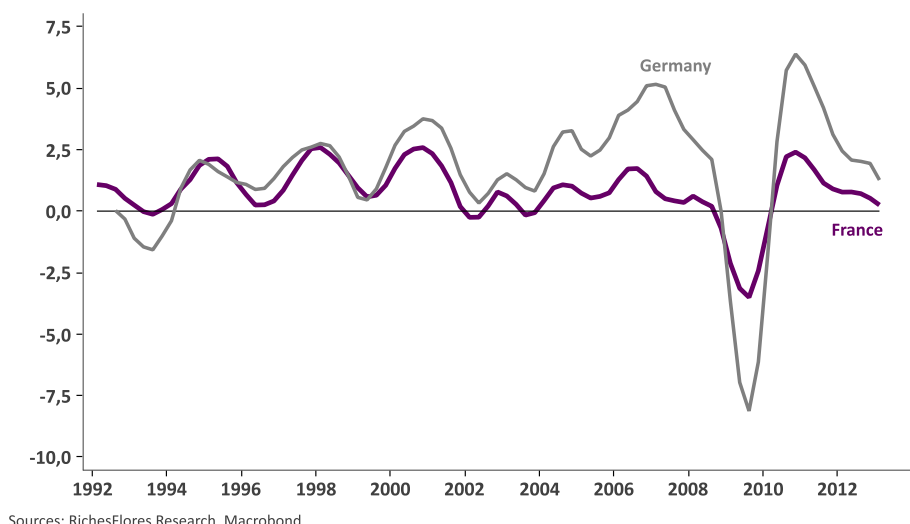
- In France, personal consumption was very much the predominant driver of growth until 2008, while exports of goods and services showed increasing weakness.
- In Germany, personal consumption has contributed very little to economic growth since the early 2000s, whereas exports play an increasingly important role.

**These differences bear witness to two models of growth that have gradually moved France and Germany away from each other on almost every count.**

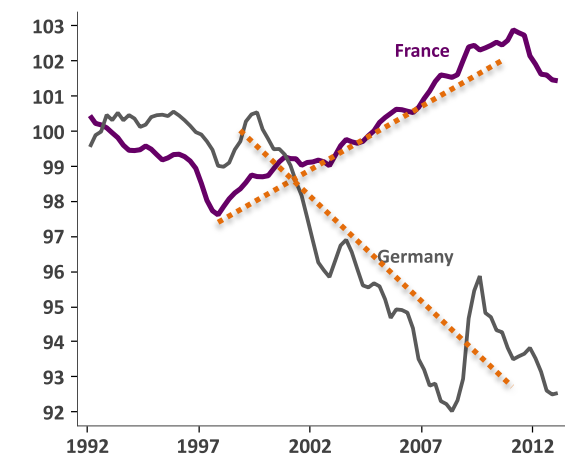
**Contribution of Consumption to Annual Growth in Real GDP**



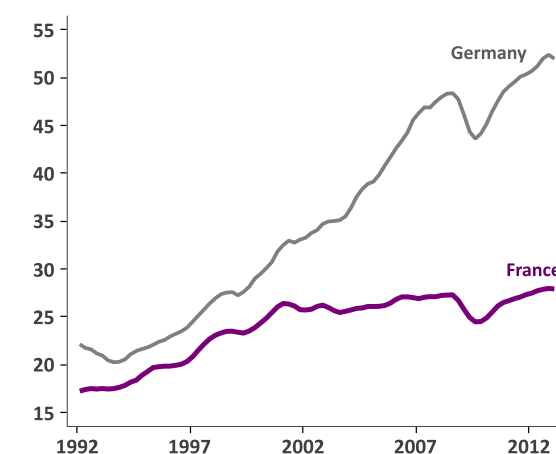
**Contribution of Exports (G&S) to Annual Growth in Real GDP**



**Share of Domestic Demand in GDP (%), Constant Prices**



**Share of Exports (G&S) in GDP (%), Constant Prices**



# German Consumers: The Triple Shock of the 2000s

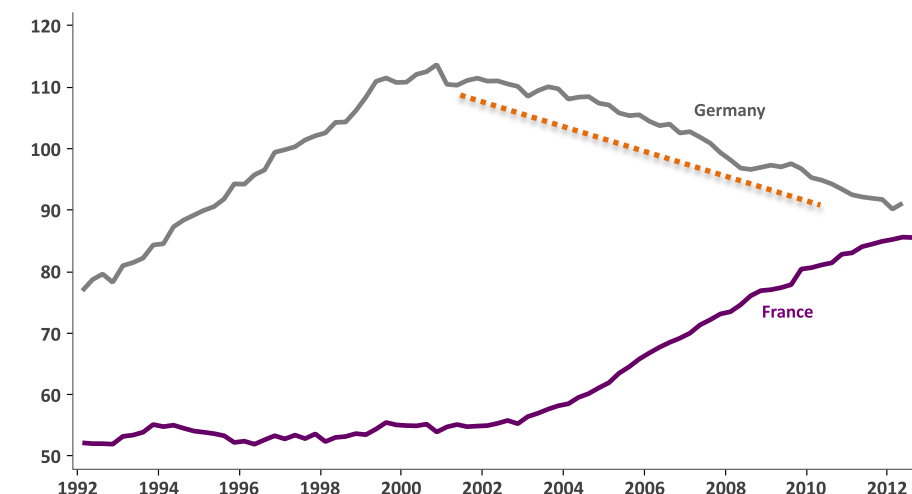
The stagnation of German consumer spending since the start of the new century reflects the combined effect of three simultaneous deflationary forces:

- When the real-estate bubble created by the post-unification boom burst, a decade of deleveraging ensued.

- Population aging as of the early 2000s further depressed consumer spending and amplified the impact of the real-estate slump on the construction industry.

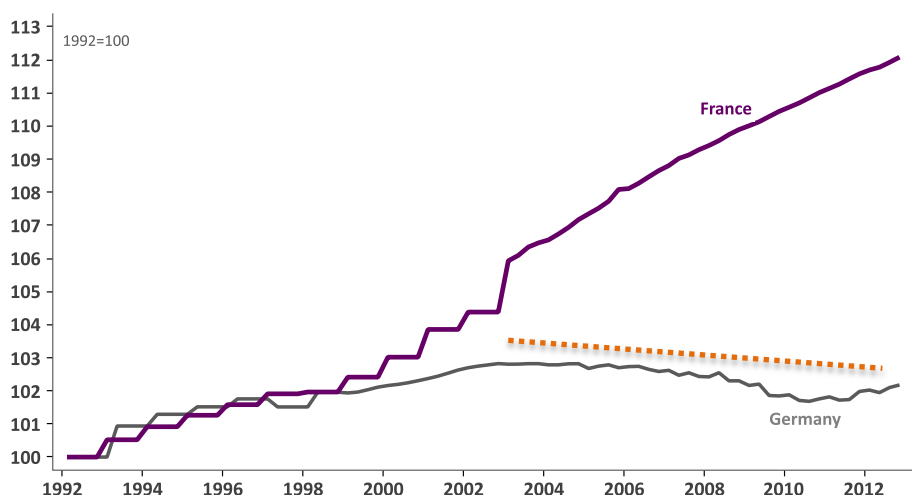
- The loss of competitiveness that hit German industry following the introduction of the euro (due to overvaluation of the deutsche mark) adversely affected employment and compensation.

Ratio of Household Debt to Disposable Income (%)



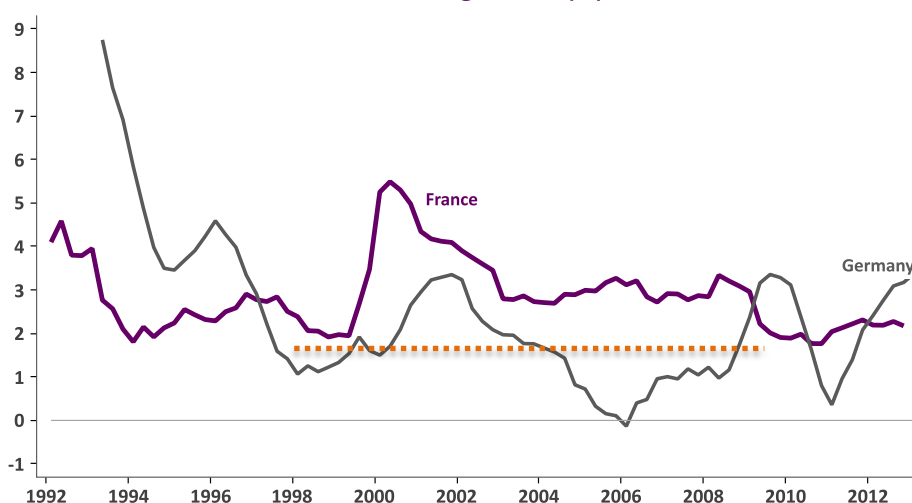
Sources: RichesFlores Research, Macrobond

Population Trends in France and Germany



Sources: RichesFlores Research, Macrobond

Annual Wage Rates (%)



Sources: RichesFlores Research, Macrobond

## The Resulting Sluggish Job Market

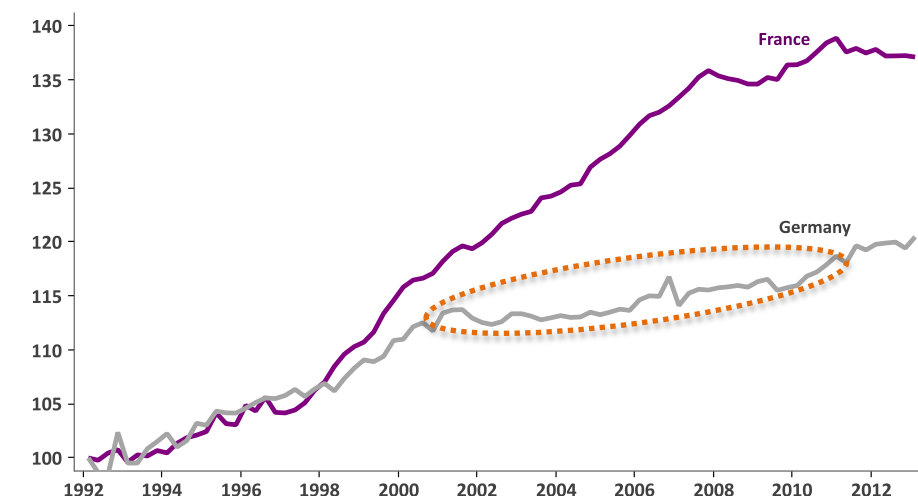
The combined effects of these shocks produced the following:

- Real spending by German households stagnated for close to a decade, just when domestic demand in France was growing strongly on the back of a real-estate boom and rising private-sector debt.

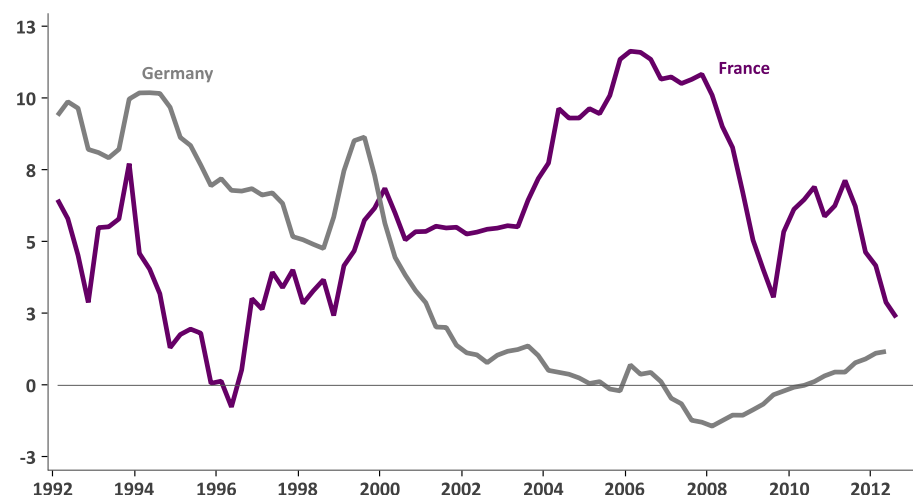
- Personal lending in Germany has been flat—at best—since 2002, in contrast to trends in most other developed economies other than Japan.

- Private-sector job creation has been so sluggish over a twenty-year period that compared with France, Germany has built up a 15-percent deficit in private-sector employment.

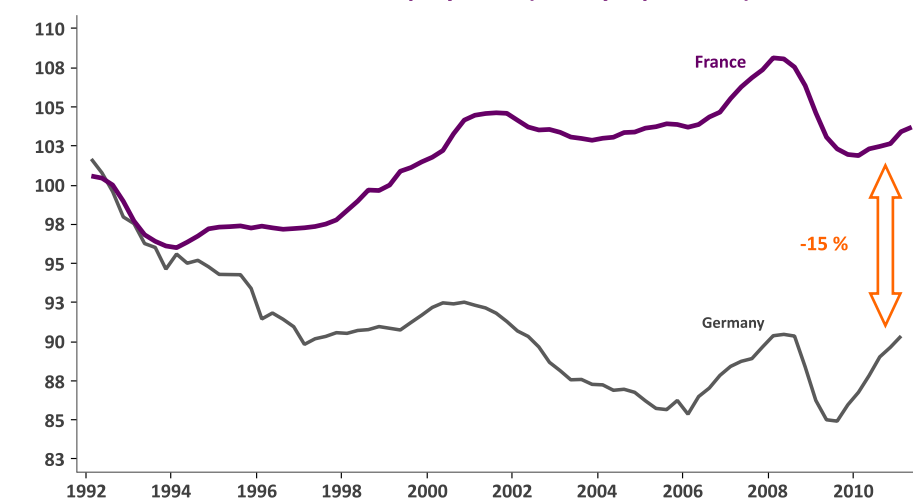
**Real Household Consumption in France and Germany; 1992=100**



**Annual Increase in Lending to Households (%)**



**Non-Farm Private-Sector Employment (Hourly Equivalent); 1992=10**

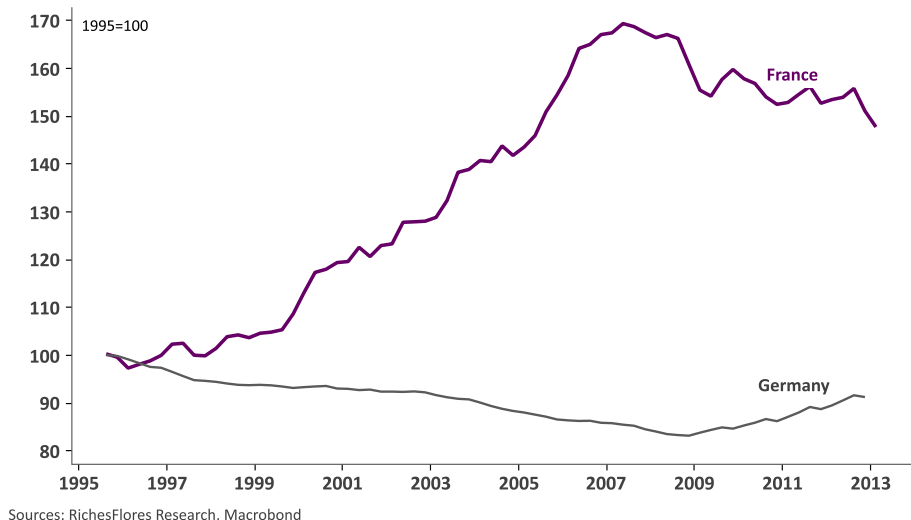


# Major Divergence in Real Estate

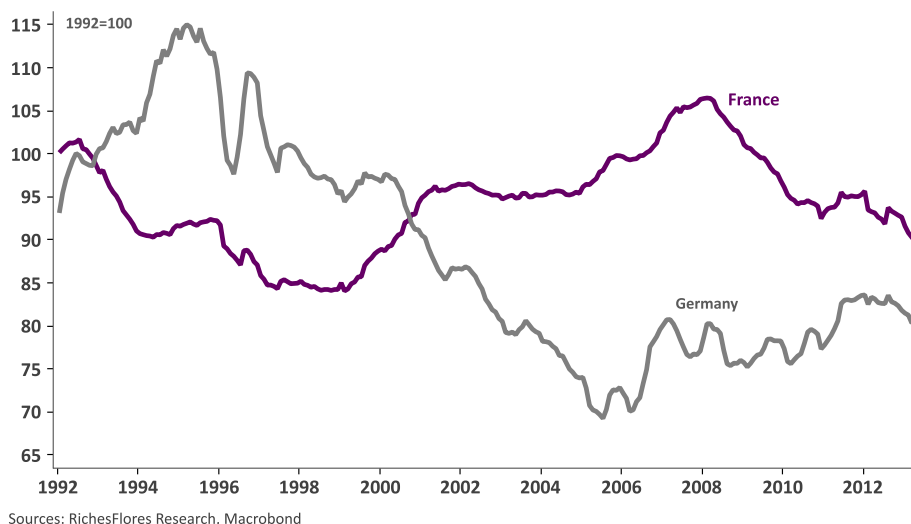
Differing real-estate market dynamics between France and Germany have had a considerable influence on economic developments in the two countries:

- Until the 2008 crisis, housing price trends buoyed consumer spending in France, whereas in Germany they had the opposite effect.
- The construction market, an essential contributor to French economic growth since 2000, shed half of its value in Germany from 1995 to 2006.
- These divergent trends were likewise reflected in the two countries' job markets. Germany lost half of its construction jobs, and the pace of job creation in private-sector services proved to be much slower than in France.

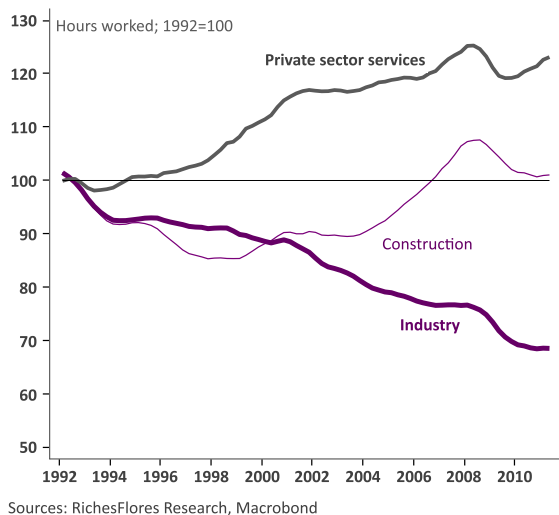
**Real Prices in Real Estate**



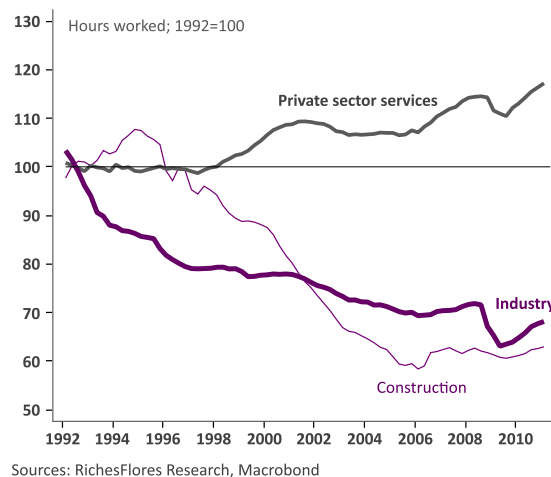
**Construction Output**



**French Private-Sector Employment by Sector**



**German Private-Sector Employment by Sector**



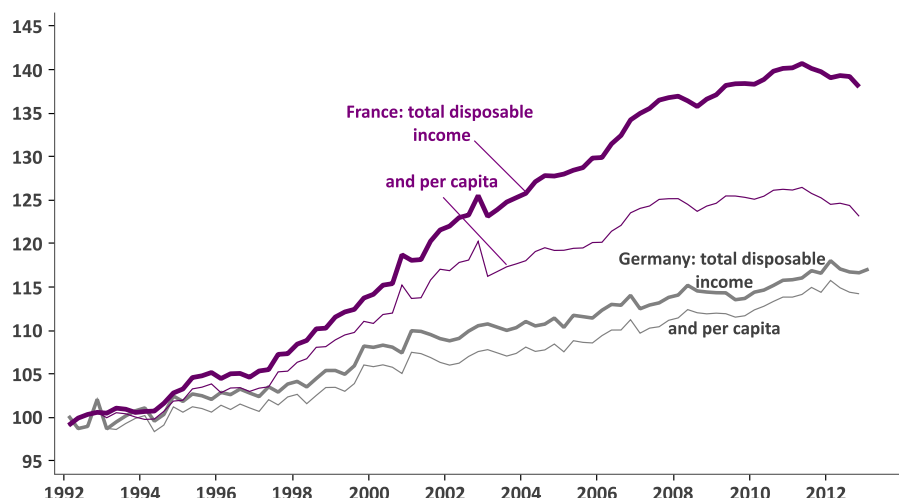
## France: Catching Up, Then Falling Behind

The salient feature of the last two decades is that France caught up with Germany in terms of per capita income and consumer spending, not only closing the initial gap, but eventually surpassing its neighbor in the first half of the 2000s.

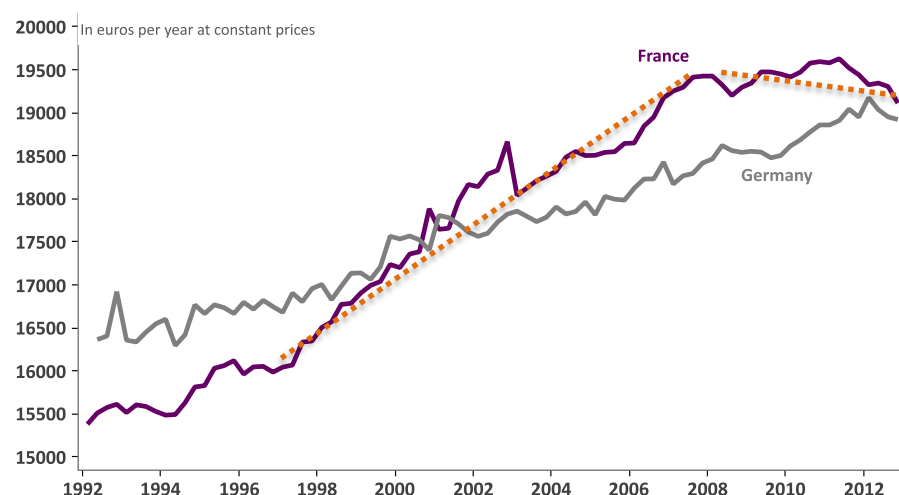
Even so, the progress achieved by France prior to 2008 has to a large extent been rolled back as a result of the crisis.

**By 2012, average income had declined practically to the level in Germany, and French consumer spending was once again lower than on the other side of the Rhine.**

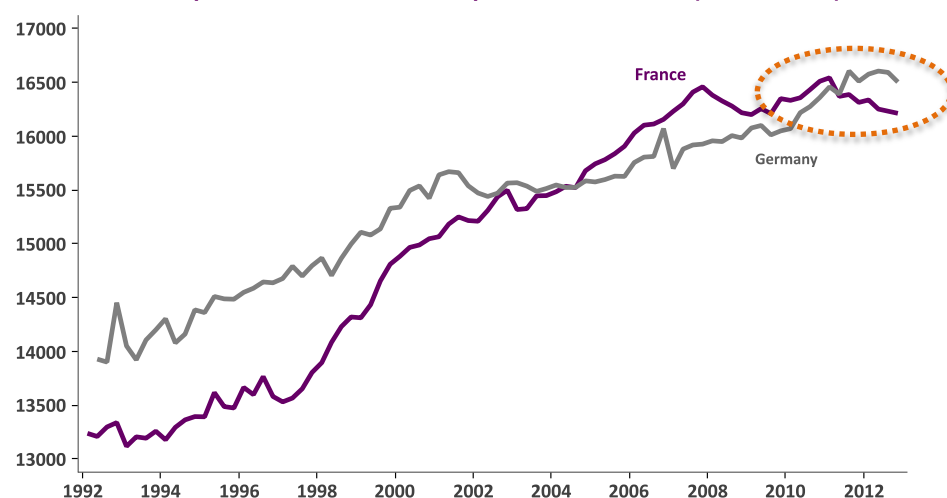
**Purchasing Power of Disposable Income in France and Germany**



**Gross Per Capita Disposable Income of French and German Households**



**Real Per Capita Household Consumption in € Per Year (2005 Prices)**



# The French–German Unemployment Paradox

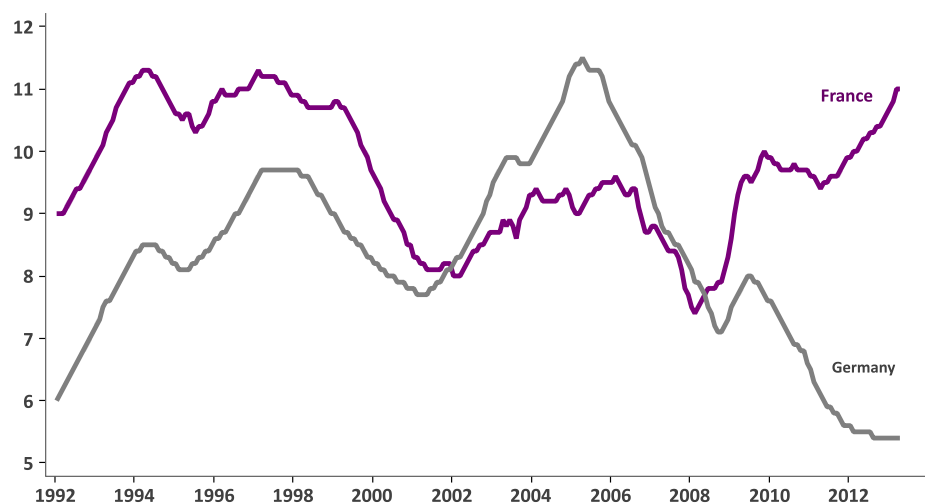
The French economy may have created more jobs, but the unemployment figures in the two countries tell an entirely different story: Germany's jobless rate today stands at a historic low, whereas France's is close to a record high.

Two concurrent developments underlie this apparent paradox:

- the labor force expanded twice as fast in France as in Germany over the period; and
- the number of part-time jobs jumped 30 percent in Germany following the Schröder and Hartz reforms, whereas it remained largely unchanged in France.

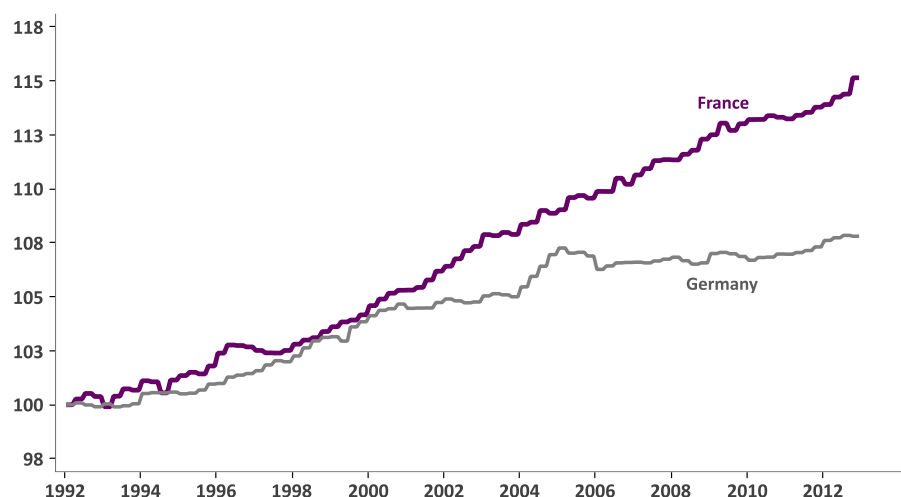
These trends are the primary explanation for the French–German unemployment gap until 2011. Only recently has the job creation differential between the two economies begun to affect their respective jobless rates.

Unemployment Rate in France and Germany



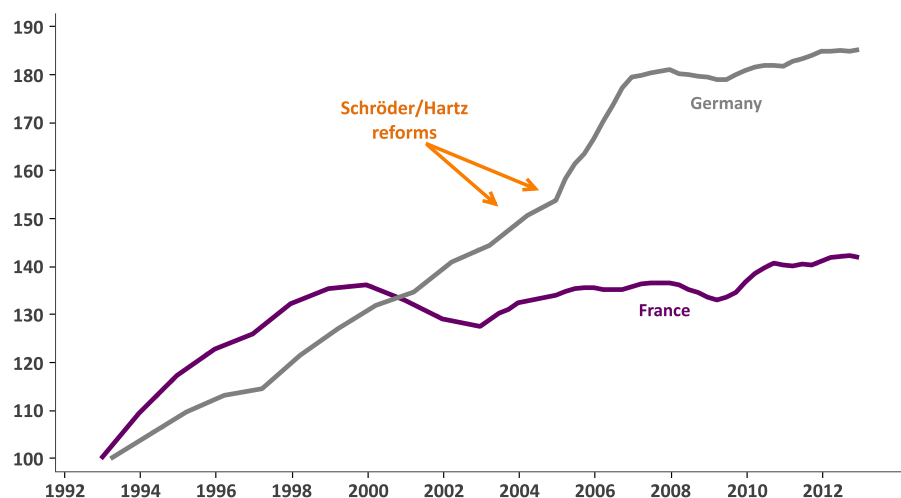
Sources: RichesFlores Research, Macrobond

Labor Force in France and Germany; 1992=100



Sources: RichesFlores Research, Macrobond

Part-Time Jobs in France and Germany; 1993=100



Sources: RichesFlores Research, Macrobond



# Demographics and Growth Models

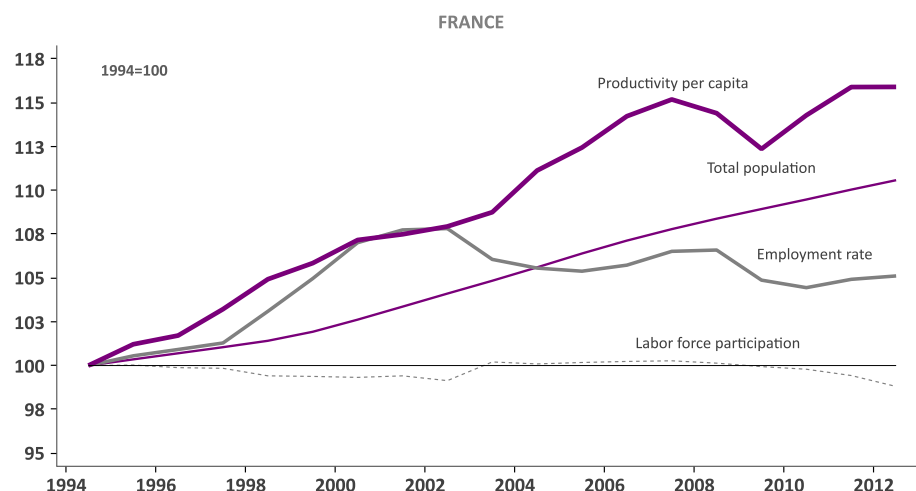
Divergent population trends have therefore had a considerable influence on developments in the two countries. This emerges clearly from the opposite charts, which break down GDP growth on the basis of demographic factors—total population growth, employment rate, labor force participation rate—and productivity gains.

Conventional wisdom notwithstanding, productivity rates are not the key differentiator; they have followed a similar trajectory in France and Germany since 1992.

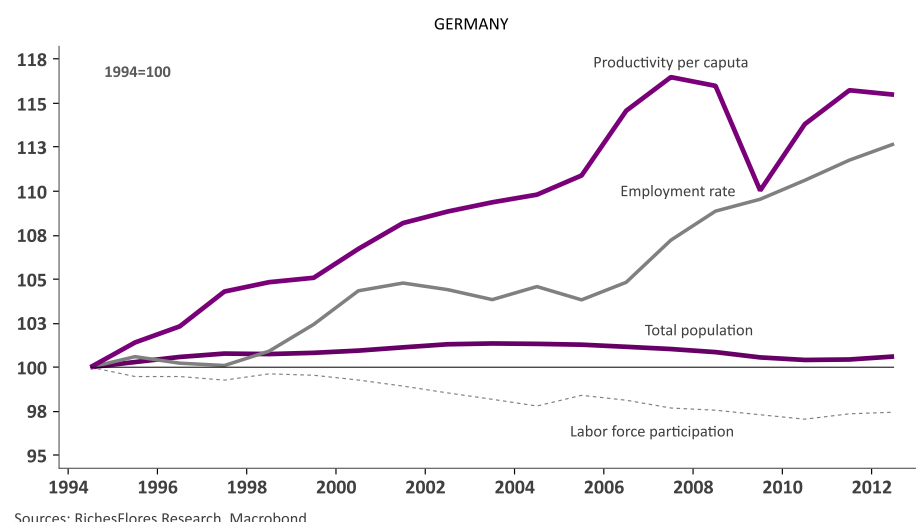
Demographic trends account much more clearly for the structural differences between the two economies and their respective weaknesses:

- Germany is characterized by demographic stagnation and declining labor force participation, partially offset by a rising employment rate in the last few years.
- France displays demographic dynamism that is undermined to a certain extent by sagging employment rates at the extreme ends of the working-age population distribution—the under-25 and the over-50 age groups.

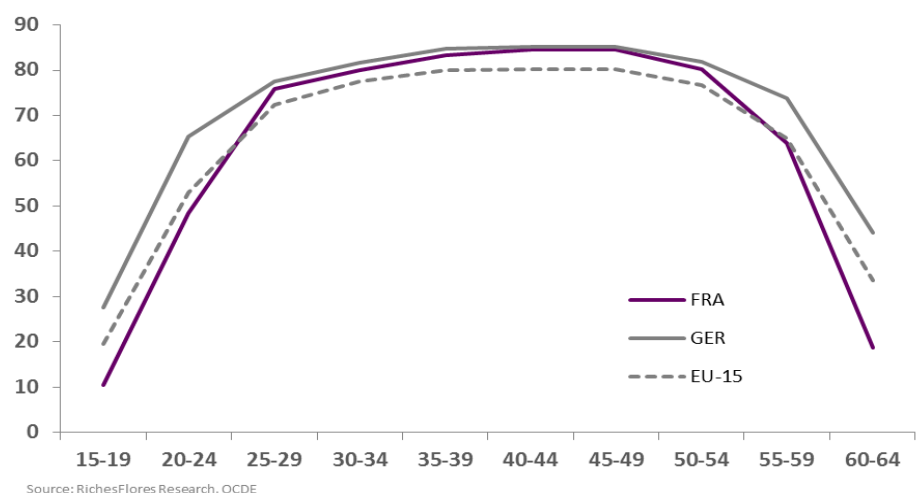
## Real GDP Broken Down on the Basis of Productivity and Demographic Factors



## Real GDP Broken Down on the Basis of Productivity and Demographic Factors



## Employment Rate by Age Group (2011)

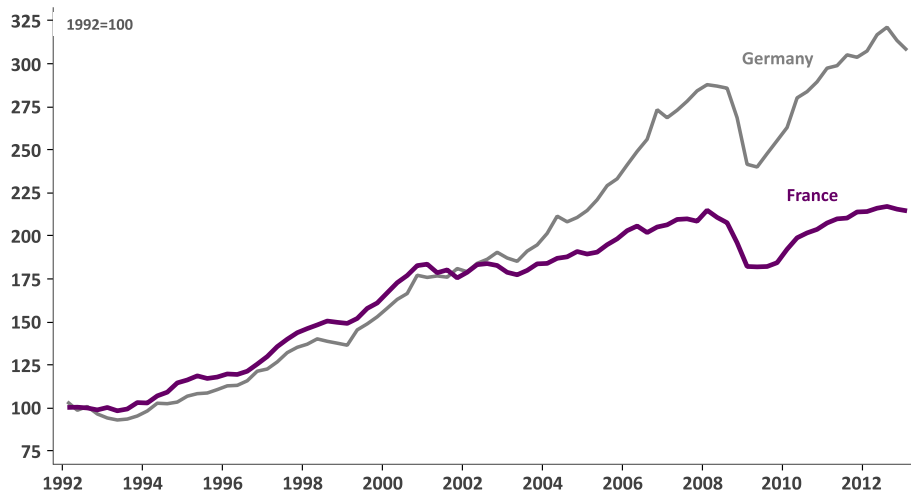


# Exports as Key to Germany's Comeback

Hampered by insufficient domestic demand, the German economy derived most of its growth, from the early 2000s up to the present, from exports and a rising current account surplus. This long-term trend was diametrically opposed to developments in the French economy.

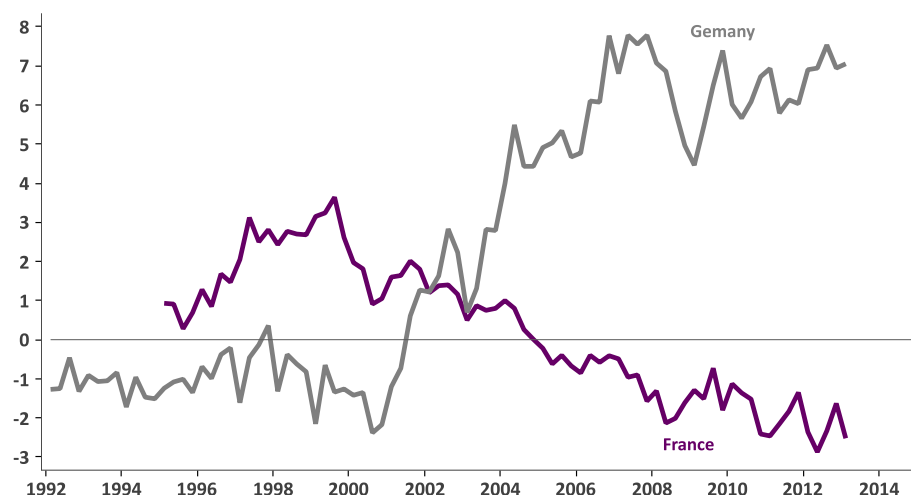
While in volume terms, French exports of goods and services have virtually stopped growing since 2000, German exports have increased by 75 percent over the last twelve years. **But note that since the 2008 crisis, net exports no longer contribute to Germany's medium-term growth, as illustrated by the graph on the left, below.**

Exports of Goods and Services, at Constant Prices



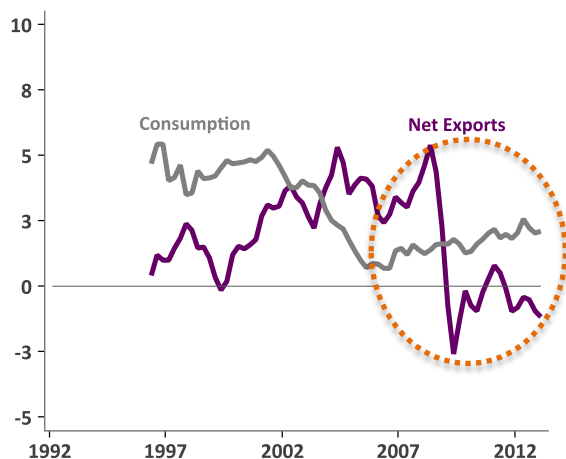
Sources: RichesFlores Research, Macrobond

Current Account, % of GDP



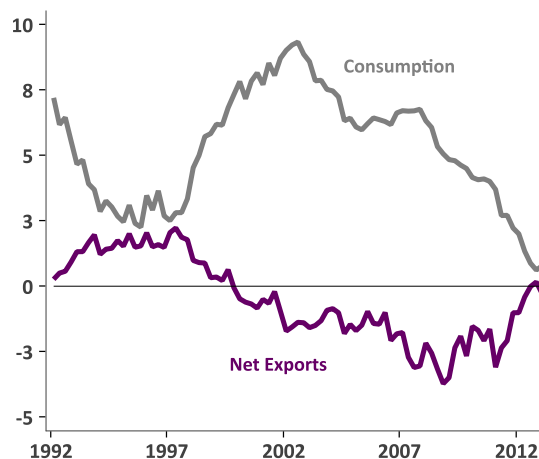
Sources: RichesFlores Research, Macrobond

Contribution to Growth of Germany's Real GDP, 5 Years



Sources: RichesFlores Research, Macrobond

Contribution to Growth of France's Real GDP, 5 Years



Sources: RichesFlores Research, Macrobond

## Cashing In On a Favorable International Environment

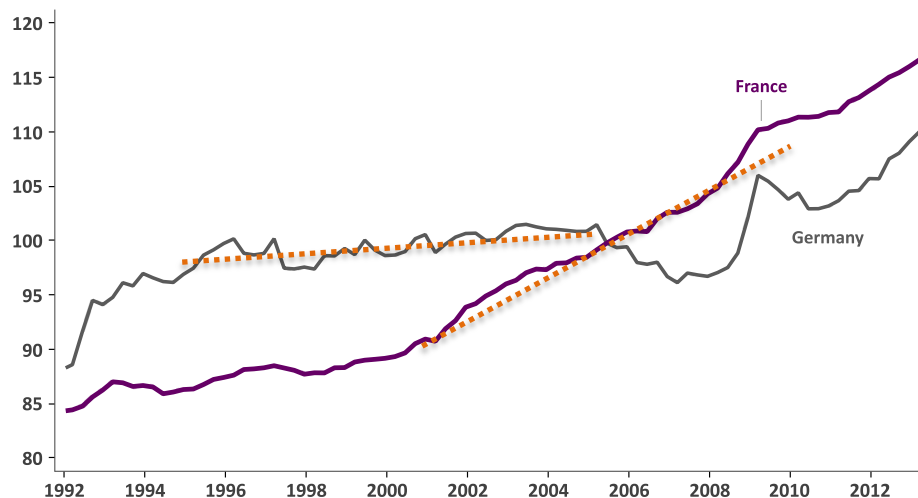
Germany's export performance was made possible by a combination of several favorable factors:

- Germany improved its competitive position, both through a concerted drive in the country and due to rising unit labor costs in most other economies.

- Europe offered rapidly expanding outlets, and has in fact absorbed two thirds of German exports since 2005.

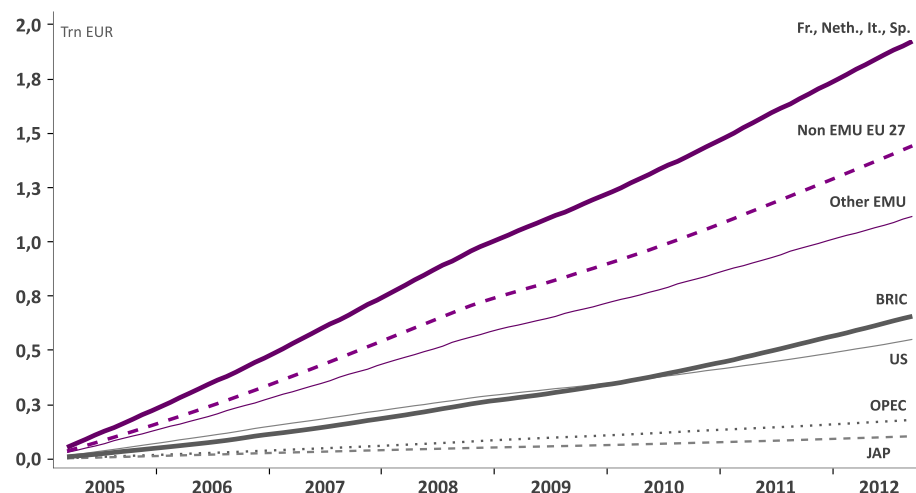
- German industry successfully leveraged booming international demand for capital goods, traditionally one of its strong suits.

Unit Labor Costs; 2005=100



Sources: RichesFlores Research, Macrobond

Cumulative German Exports by Primary Destination Since 2005



Sources: RichesFlores Research, Macrobond

Contribution of Capital Goods Exports to Worldwide Export Growth (%)

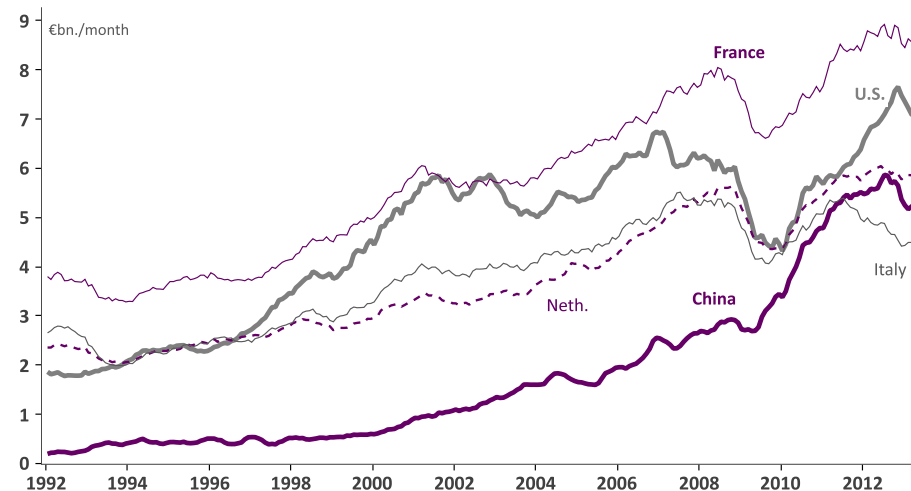


# Penetrating the Fastest-Growing Markets

Germany has maintained solid positions in high-growth markets. In less than ten years' time, China has become the number-three destination for its merchandise exports.

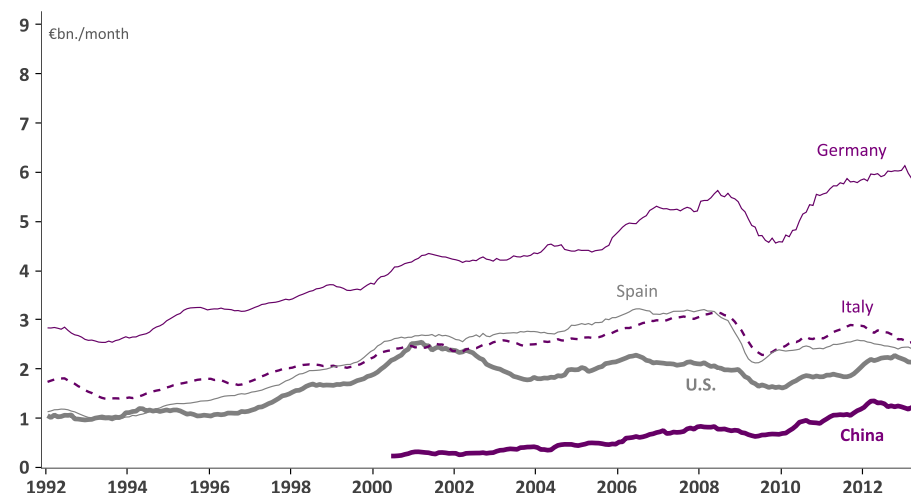
In contrast, French exporters are now selling less than before to the U.S. and have benefited to only a limited extent from the boom in emerging markets. French exports to China currently do not exceed €1 billion: this is just one fifth of the figure for Germany, whose growing exports ensure that every major sector of the country's industry continues to thrive.

**Germany's Exports to its Primary Markets**



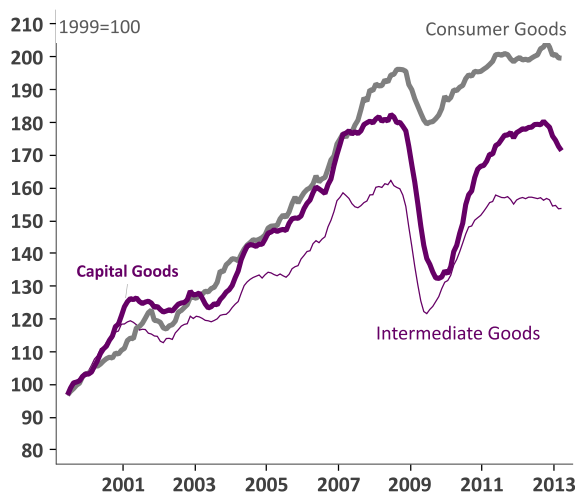
Sources: RichesFlores Research, Macrobond

**France's Exports to its Primary Markets**



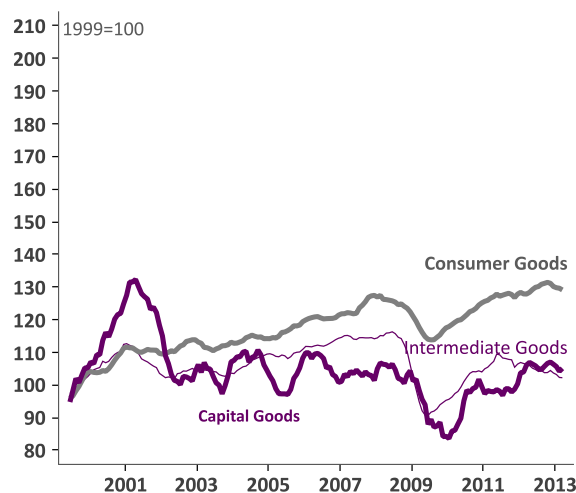
Sources: RichesFlores Research, Macrobond

**German Exports at Constant Prices**



Sources: RichesFlores Research, Macrobond

**French Exports at Constant Prices**



Sources: RichesFlores Research, Macrobond

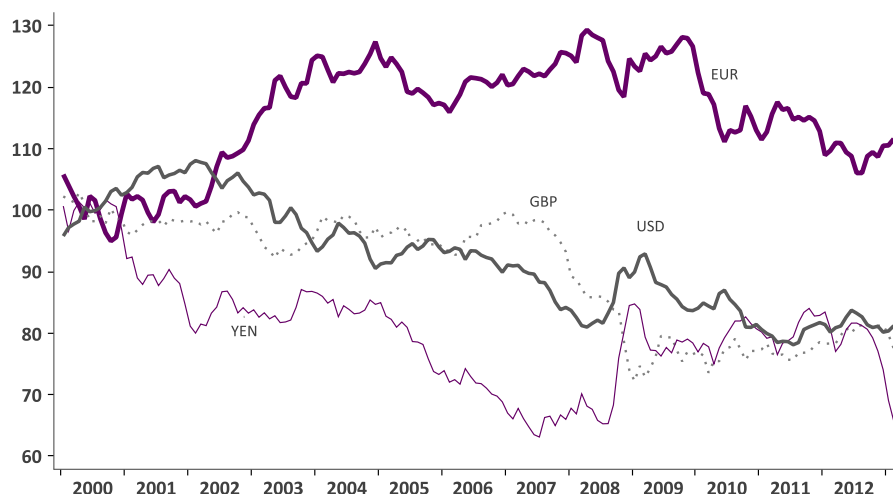
## A Country Less Vulnerable to Exchange Rate Appreciation

In an unfavorable exchange rate environment, the specialization of German industry and its reputation for high-quality products have created a powerful protective shield that is less available to other economies with a preponderance of lower value-added industries—the ones most exposed to mounting competition from new emerging market producers (primarily in Asia and Eastern Europe).

Greater specialization has made Germany's export firms less vulnerable to the appreciation of the euro and given it the kind of pricing power that French companies lack (see opposite graph).

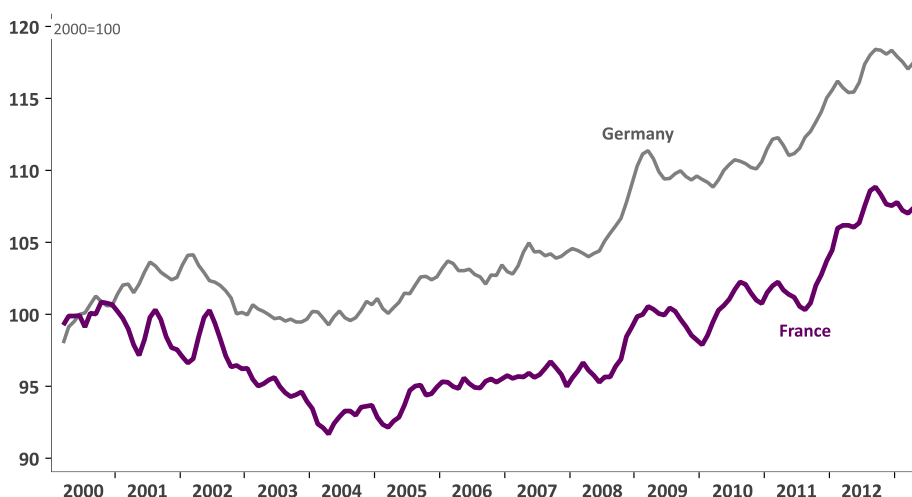
As a result, German exporters have succeeded in maintaining much more comfortable profit margins than their French counterparts—and this advantage has offset the difference in domestic demand between the two countries.

**Real Effective Exchange Rates; 2000=100**



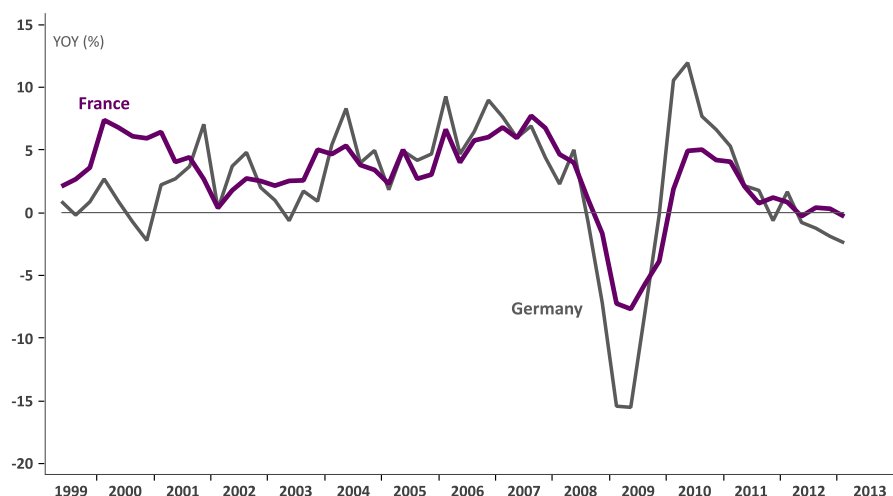
Sources: RichesFlores Research, Macrobond

**Unit Value of Extra-EU Capital Goods Exports**



Sources: RichesFlores Research, Macrobond

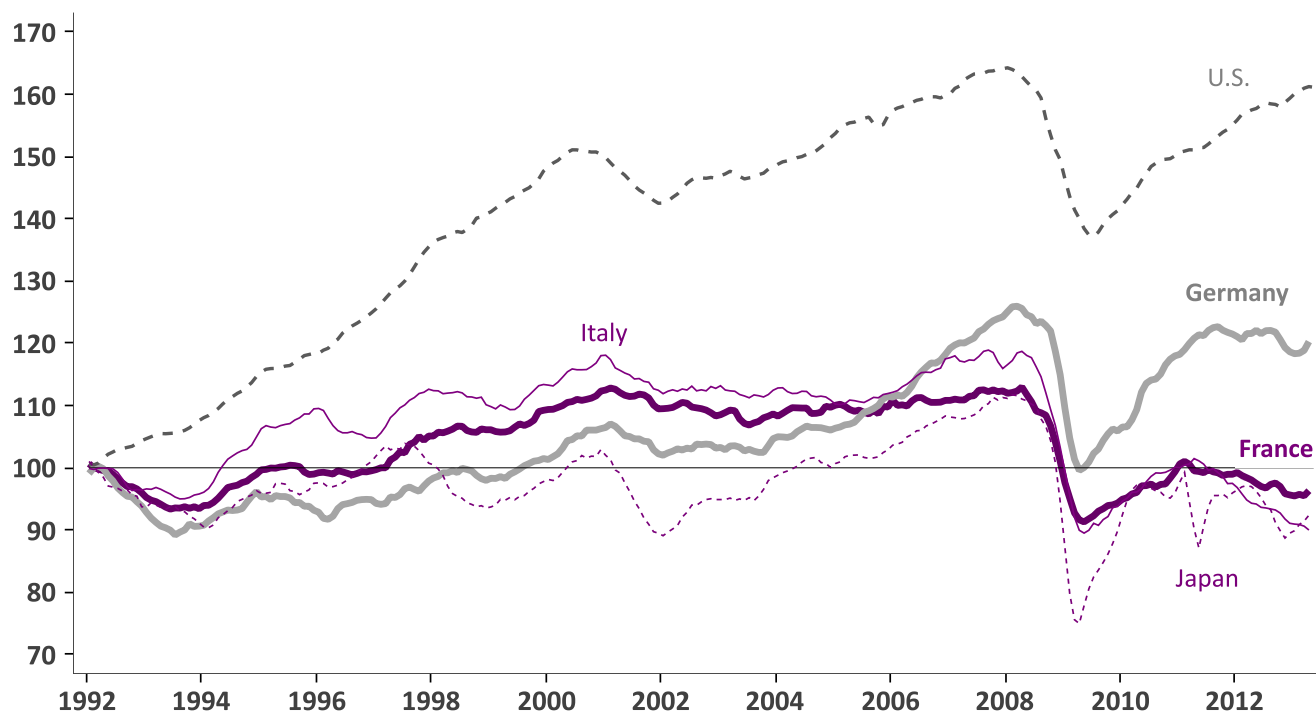
**Annual Growth in Gross Operating Revenue of Non-Financial Companies**



Sources: RichesFlores Research, Macrobond

## German Industry Has Escaped Decline; France Has Gone the Road of Most Other Countries, Excepting the U.S.

### Industrial Production, Main Industrialized Countries; 1992=100



Sources: RichesFlores Research, Macrobond

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