



# THE KEYS OF THE WEEK

April 29, 2024

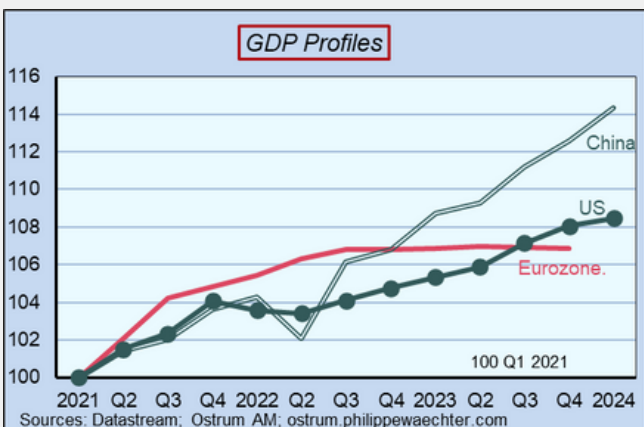


**The graph that I like or concern me this week:**

**Robust employment signals in EUro surveys**



**To be continued this week**  
**First quarter GDP in the Euro zone: catching up?**



## • Europe's new challenges Page 2, 3

The rules of the global economy are changing and the resulting balance is very different from the recent past. How should Europe define itself in this disrupted framework?

## • The climate and the risk of immobility Page 4

Government climate commitments are slow in coming

## • On the rating of France Page 4

Far from the drama but the questions remain asked

## • In France in April, the economy lacks momentum according to INSEE Page 5

Mixed signals in the survey conducted by INSEE among companies. Employment remains strong and will further raise questions about the pace of productivity.

## • In April, recovery in the Euro zone, the ECB must accentuate the movement Page 6

In the Eurozone, the April surveys by Standard and Poor's are rather optimistic. The zone is emerging from the risk of recession

## • USA - Slower growth in the first quarter but internal demand is robust. Limited concerns Page 7

The slowdown in American growth (+0.4%) mainly reflects a rapid increase in imports, a lagged effect of still solid internal demand.

## • Germany - The worst is over but this does not necessarily indicate a rapid recovery in 2024 Page 7

The improvement in the IFO index must be put into perspective. It is still very far from its historical average and employment remains a concern. The revision of growth expected in 2024 is premature.

## • The living wage - A macroeconomic upheaval? Pages 8 - 9

The Michelin firm offers to pay its employees a decent salary. Higher than the minimum wage, it should allow you to live and have a social life.



The question of the week of April 29, 2024

## Europe's new challenges

*The model of globalization is no longer as cooperative and coordinated as in the recent past. The rules are changing and many partners, competitors or enemies of Europe are freeing themselves from them. Therefore, Europe must redefine itself both economically and politically. The creation of an internal market, advocated by the former Italian Prime Minister, Enrico Letta, allows us to go further than the single market. To compete with the United States and China and perhaps India tomorrow, Europe must act collectively and no longer at the level of each country. Industrial policy and the Capital Markets Union must make it possible to resolve the equation posed.*

The world is changing and the rules on which it operated are being flouted by both Europe's partners and competitors. Should this remain conditioned by the world before or intervene in a new framework which is being constructed in a somewhat anarchic way?

This issue about the future of Europe is found in recent reports or in speeches. The reports from Mario Draghi and Enrico Letta question the economic dimension of the necessary renewal while Emmanuel Macron, in his speech at the Sorbonne on April 25, has a necessarily more political vision.

What emerges from these contributions is the necessary construction of a more autonomous Europe in its two economic and political dimensions. The junction point highlighted by the French President is the defense sector which must be invented on a strategic level, a very political dimension with, for example, a questioning of the role of French nuclear power, and a European defense industry so as not to depend on the Americans.

In a world in tension, is defense an essential product? Should the relocation of industries essential to the economy, semiconductors or batteries for example, also apply to political questions? Certainly.

In this great upheaval and by focusing on the economic question, the contribution of former Italian Prime Minister Enrico Letta is enlightening on the issues and challenges that Europe will have to face.

The major observation is that European institutions must go beyond what already exists. The major principle of European construction is the establishment of the single market in 1993. It works well but is an institutional framework of the world before, not the one in which we must now evolve.

### Enrico Letta and the need for a better constructed internal market

The single market concerns four freedoms: the freedom of movement of people, goods, services and capital. However, the implementation framework remains national.

Enrico Letta is campaigning for a real internal market. If the Americans and Chinese are so strong, have developed large-sized companies, leading technology companies, it is because the size of the domestic market has allowed significant economies of scale and considerable means of investment. As an illustration of the size of companies, the report highlights that of the 50 most valuable technology companies in the world, only 4 are European, including one English.

On the need to have an internal market in which companies have the opportunity to develop, the report cites telecommunications. There are more than 100 operators in Europe, each with a national rather than European dimension. An operator has on average 5 million customers compared to 107 million in the US and 467 in China.

To have innovative and competitive companies, the rules and forms of the telephone market cannot be local. From being a leader in this sector, Europe has become a follower and no longer has the capacity to impose its norms and standards. This is also one of the issues that applies to many sectors.

Due to a lack of capacity to guide the market, technological standards escape Europe and dependence on foreign technologies, American or Chinese, is exacerbated. This does not mean that what is currently happening is not effective on an international scale, as shown by Orange in Africa.



The question of the week of April 29, 2024

## Europe's new challenges

The scale to be adopted is above all that of Europe and no longer that of the country. Companies must be able to deploy quickly across the entire European territory based on European and not local rules. The same goes for industrial policy which can only have a European dimension. Developing national champions leads to an impasse which is the one we are facing. Consequently, competition rules, for example, must be based primarily on the European dimension and no longer national.

### *A new culture of growth*

The single market is based on the freedom of movement of people, capital, goods and services. To this Enrico Letta adds the need to create a network on innovation and research to facilitate the exchange of ideas within the European area. This idea inevitably brings to mind Joël Mokyr's thesis on the industrial revolution. In a recent work, "The culture of growth" published in France in 2020, he considers that since the Enlightenment the possibility of exchanging ideas, innovations and processes had allowed the establishment of the factors which led to the industrial Revolution. In the words of the former Italian Prime Minister we find this collective problem around ideas and culture as the cradle of European society and its success.

All this also means that industrial policy must be European and no longer defined by each country. This European industrial policy is then the level to define the framework which is transforming due to the energy transition and the commitment towards carbon neutrality in 2050. It is within this framework that defense policy must be included both on the strategic level, what type of defense, what role for military nuclear power, but also on the economic level with the establishment of a form of planning defining priorities and timetables.

The last point is the need to mobilize capital for local projects. Until now, Europe has abundant savings, as evidenced by its surplus current account balance. But we must create the conditions so that these savings, rather than going to the US and then coming back to buy European companies via American channels, invest directly in Europe.

European savings must be invested mainly in Europe. This is the meaning and the challenge of the Capital Markets Union. In the coordinated and cooperative world that prevailed, this dimension was important but not essential because technology transfers and political support worked well. It's not exactly the same anymore. To master its destiny, Europe must invest massively in order to chart its own path. The Capital Markets Union must make a major contribution to this.

This project by Enrico Letta is ambitious. He considers that to maintain its independence, Europe must be able to decide collectively and independently of national preferences.

Europe is falling behind the United States and is being strongly challenged by China. The issue posed by Enrico Letta and others is whether we should stand up collectively or in dispersed ranks. The former Italian Prime Minister advocates a collective dynamic, the only solution to have economic and political decision-making autonomy. In this period of upheaval, if each country decides in its own corner, the dispersion of resources and the divergence of results will be contrary to the expectations of European well-being.



## Two remarks

### *The climate and the risk of immobility*

In its letter addressed, on April 2, 2024, to the President of the Republic, the High Council for the Climate regrets the postponement, by the government, of essential decisions to allow France to converge towards the trajectory leading to carbon neutrality.

“...the High Council for the Climate notes that after several consultations and debates, neither the energy and climate programming law, nor the French energy and climate strategy, nor the 3rd National Low Carbon Strategy, nor the 3rd National Climate Plan adaptation to climate change, nor the 3rd Multi-annual Energy Program have been formally adopted, despite legislative obligations. (HCC letter)

These postponements are concerning for two reasons.

All these elements must allow France to respect its commitments both to the Paris agreement and to the European Commission. The 4.8% decline in GHG emissions in 2023 is not a guarantee of doing as well in 2024 and subsequent years.

The other point is that behind these postponements there is the adaptation of French society to the new framework which is emerging while facilitating the acceptance of the associated upheavals.

For each household, each company, the choices that will be made on automobiles, energy, real estate and work will have major and lasting consequences. The later the decisions are made, the more they will be made in haste at the risk of inconsistency and a lack of agility rhyming with immobility of behavior and political attitudes.

### *On the rating of France*

France's rating has escaped the turmoil of a downgrade.

A few comments

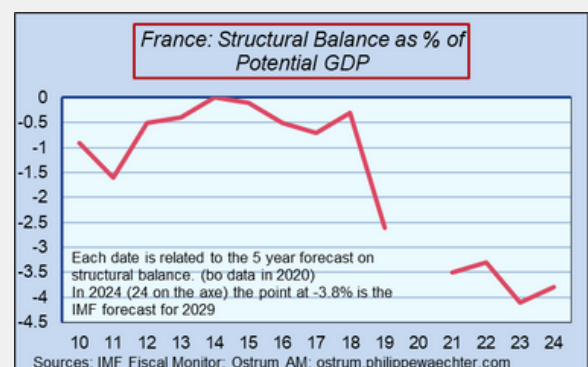
1 - In the days preceding the publications by Moody's and Fitch, a certain excitement could be perceived, as if France was not capable of honoring its commitments? This issue was never on the agenda and the comparison with Greece in 2015 was heresy.

2 - The difficulty of French public finances is to always believe that in the end growth will make it possible to resolve the imbalances. This has often worked well but this is no longer the case because French nominal growth is slowing down over time. The increase in inflation in 2022 and 2023 will only be transitory.

3 - This belief made it possible not to arbitrate on expenses and revenues. The reduction in taxation and the increase in spending have never been clearly arbitrated. Fiscal policy movements should systematically have a favorable effect on growth. It was not the case.

4- Whatever it costs, it weighs heavily on public finances. The graph reproduces the structural balance (when growth is at its potential) as a % of this potential GDP. Before covid, convergence towards 0 was difficult, it appears impossible now.

5 - Therefore, the measures to be taken to rebalance public finances are much more important than the 10 or 20 billion announced by the Minister of the Economy. To reduce the public deficit over time, these measures would need to be systematic over time.



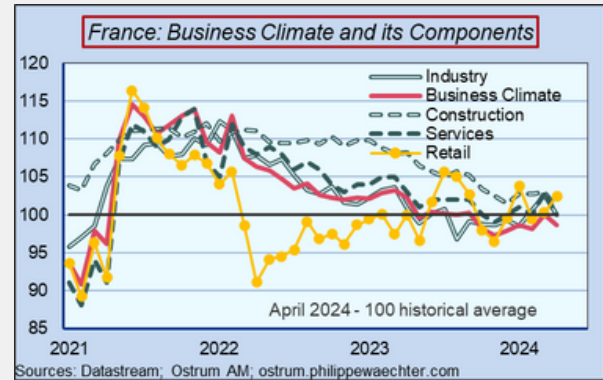


## In France in April, the economy lacks momentum according to INSEE

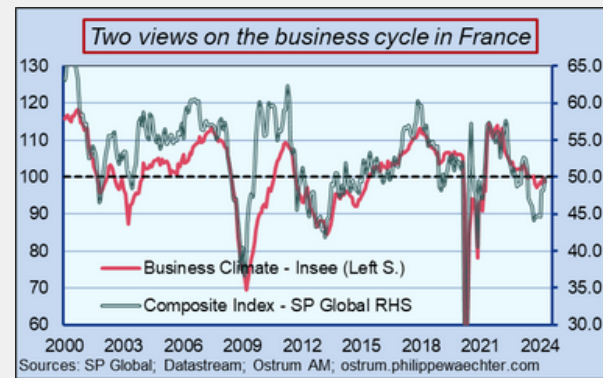
**The INSEE survey of business leaders does not validate expectations of a marked resumption of activity in the spring. Activity indices are falling. Little concern about prices and rebound in employment**



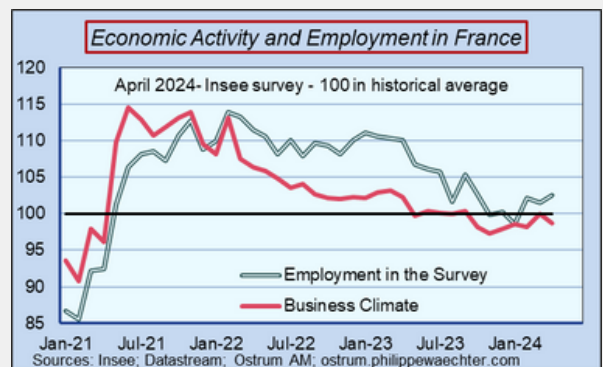
The business climate index measured by INSEE contracted slightly in April. It was at 100 in March, i.e. on its historical average, it fell to 98.7. This reflects a similar movement in industry and services which is not offset by the increase in activity in distribution.



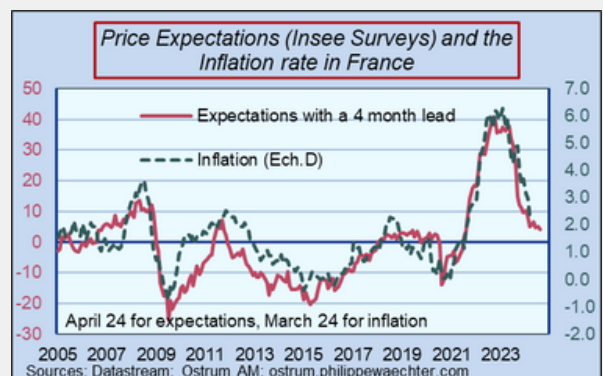
Comparison with the SP Global Index published on April 23 shows a similar but more volatile cycle for the SP Global. Over the recent period, the business climate index did not validate the high risk of recession observed in the SP Global survey. The improvement in this only reflects a catch-up and the correction of excessive pessimism.



The decline in the INSEE cyclical index does not, however, translate into an intention to reduce hiring. The employment index is at its highest level since October 22, eradicating a pessimistic period in the job market.



The measurement of anticipated prices in the different sectors suggest that inflation will remain reduced over the coming months. Inflation is not rebounding despite higher oil prices.





## In April, recovery in the Euro zone, the ECB must accentuate the movement

**The Eurozone activity index indicates a significant reduction in the risk of recession and suggests a recovery during the spring. The ECB must support and accentuate this movement.**

Activity rebounded in the Euro zone in April. The SP Global survey's synthetic index has risen above the threshold of 50, removing the risk of recession. GDP is expected to stagnate in Q1 (published April 30) but recover in Q2.

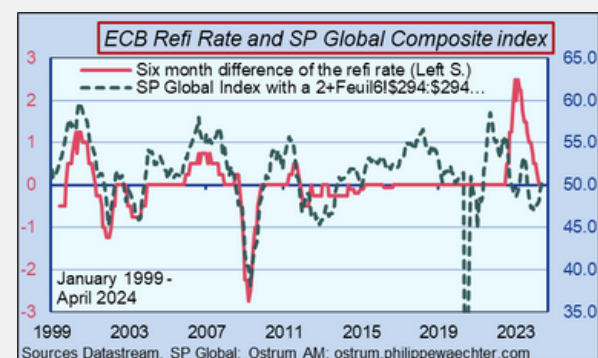
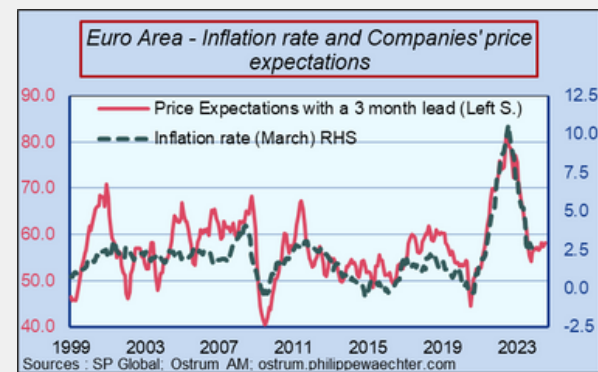
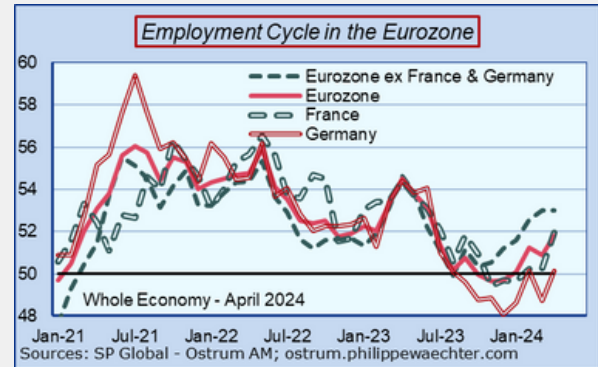
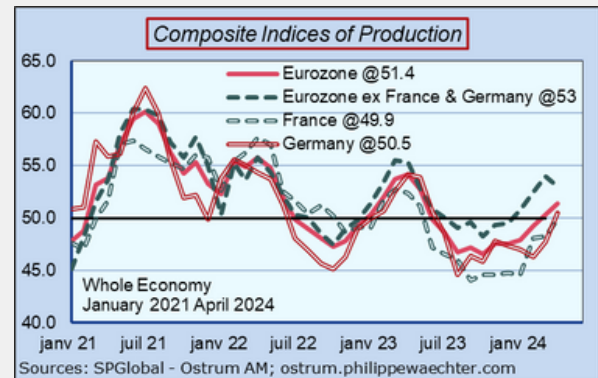
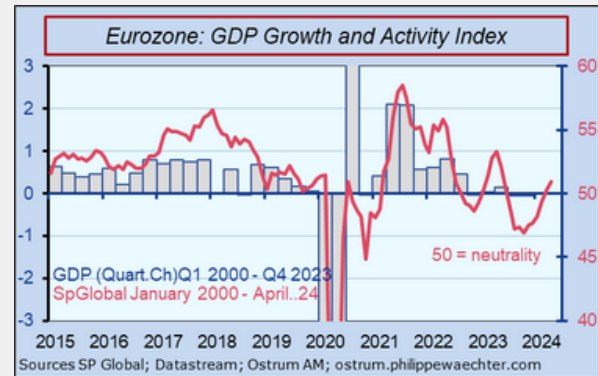
The geographical breakdown indicates that Germany and France could be on the way out of the slump that has characterized them since spring 2023.

This change in pace is reflected in the profile of employment indicators. Companies everywhere want to hire more. There is a real change in trend.

The price indicator is rising marginally and no longer suggests rapid convergence towards the 2% target. Pressures on the price of oil could explain this change.

This should not prevent the ECB from reducing its interest rates in June as it implicitly announced.

The economy is giving better signals but the uncertainties have not been resolved. The more accommodating monetary policy should help generate solid momentum to sustain this recovery.





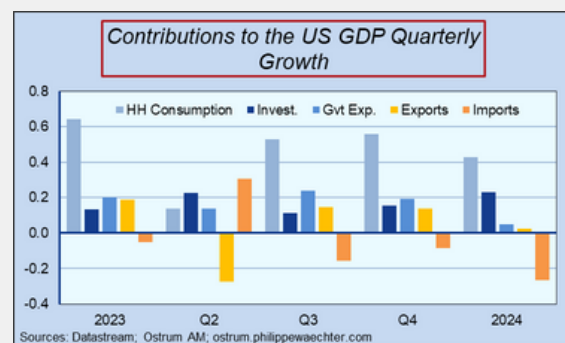
## USA - Slower growth in the first quarter but internal demand is robust. Limited concerns

US GDP grew by 0.4% during the first three months of the year. The figure compares with 0.6% in the first quarter of 2023 and 0.8% in the last quarter of last year.

The growth carryover for 2024 at the end of the first quarter is 1.8%.

If activity remained at the level of Q1 for the last 3 quarters of 2024, average annual growth would be 1.8%

Internal demand remains robust with a contribution of 0.7% over the first 3 months. The slowdown in growth comes from the rapid increase in imports which contribute negatively.

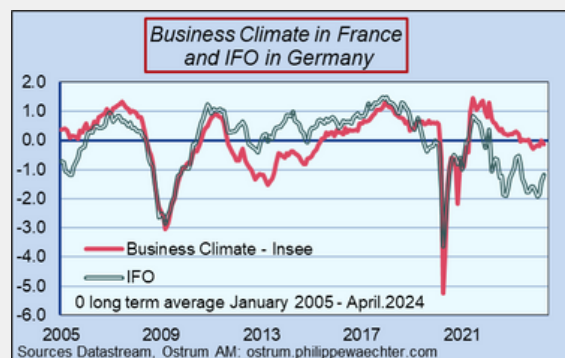


## Germany - The worst is over but this does not necessarily indicate a rapid recovery in 2024

The IFO index is improving but remains well below its historical average (0 on the graph).

The government plans to revise upwards its forecasts for 2024 (+0.2% for now). It is still premature even if the PMI index stabilized in April. One point does not make a trend.

Employment is always a concern. The indicator from the IFO survey indicates that the adjustment in the labor market is not yet complete. There will probably still be a bit of adjustment in the first half.





## Macroeconomic Turbulence #12

# The living wage - A macroeconomic upheaval?

*The tire manufacturer, Michelin, considers that the minimum wage is not sufficient to have a comfortable living environment. You must be able to make a living from your work but also have the means to participate in social life and be a citizen participating fully in the life of the city and the nation.*

*Michelin has thus defined a salary which, for a family of 4 people, makes it possible to satisfy these criteria while adjusting to the place of life. This decent wage is therefore defined locally, a city or a country. This salary will then evolve according to local economic conditions according to several criteria and not simply via indexation to inflation. Some thoughts on this theme and the microeconomic and macroeconomic effects.*

The question posed by the Michelin group is major. But this is not a recent question. Adam Smith already spoke about it and many economists have worked on this point.

The second remark is that the choice made by Michelin is not that recommended by the European Commission. In 2020, it issued a directive on the issue, to be transposed without obligation of implementation within 2 years from 2022, but had standardized it at 60% of the median gross salary.

The tire producer does not want to limit himself to such a mechanical vision. It is closer to the Anglo-Saxon approach which recommends a salary level that allows you to live decently while participating in social life.

This part is interesting because it repositions work within the employee's life as an element of it but not as a sole objective. Furthermore, this definition is more flexible because living conditions are not the same geographically, the decent salary will not be the same everywhere. Michelin differentiates the decent wage between Pais and Clermont Ferrand but also in Brazil or elsewhere.

The third point is that this definition of a decent salary must come from the company which must thus create the conditions so that the employee can be efficient and sufficiently productive so that the profitability of the company is not affected. By proposing such a measure, Michelin indicates that salary is not the enemy of employment when for too long it has been considered that salary must be very low to guarantee employment.

The fourth point is that by acting in this way, Michelin is choosing to retain its employees and not take the risk of seeing them leave elsewhere because of a more attractive salary. In aging economies, retaining experienced people is also a choice to maintain company productivity. On a microeconomic scale, the bet is to think that improving working conditions and establishing a decent salary will allow both attachment to the company for employees and high profitability for the company. The choices thus made start from the employee and their working conditions rather than from a framework in which the employee must fit.

The logic is not comparable on the macroeconomic scale. The question is more complex because it depends on the scale of implementation of this decent wage. We can, however, imagine that an attitude in favor of a decent wage, with the conditions attached to it, would make it possible to have a beneficial effect at the country level both on purchasing power and on productivity.

### *Rethinking business dynamics*

The question of a decent salary requires us to rethink the dynamics of the company. By positioning the employee at the start of the value chain construction process, the company is forced to think differently with regard to production and working conditions.

This also means that suppliers must follow this logic. The question of a decent salary starts with the employee by constructing his or her work framework and this can only be defined by the narrowness of the employee's job definition.





## Macroeconomic Turbulences

This must also have an impact on executive remuneration. Is it possible to develop the issue of a decent wage within a company while paying executives at a level close to indecency? This does not appear compatible and that is what is interesting about Michelin's approach.

The question of remuneration is raised within the company outside the more institutional framework defined by the rules desired by governments. It is thus a measure of the difference between a global company and a State whose field of action is limited to its borders. It's another way of thinking about the economy and thus redrawing a new framework and different dynamics that are probably more effective over time.

For France, the pawn pushed forward by Michelin must create the conditions so that broader reflection on work and wages can take place. This is an essential dimension as labor standards change across the wider world. Economists must seize this point forcefully.



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