Flash Economics

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Are the Euro zone and France currently suffering from a lack of demand or a lack of supply?

To judge whether the Euro zone or France suffer from a lack of demand or a lack of supply, we can look at:

- the current account balance;
- the survey on production limiting factors;
- the growth of prices (of GDP, i.e. of national output) and wages.

We can conclude that there is an ambiguity. In the Euro zone, there is an external surplus and yet recruitment difficulties, strong increases in the price of GDP and wages. In France, there is an external deficit but production limiting factors have disappeared, inflation and wage increases are decreasing. The difficulty is that, in both cases, the situation of the current account balance and the observation of production limiting factors as well as that of prices and wages lead to a different conclusion. If we ignore the current account balance, we conclude that the Euro zone is in a situation of excess demand for goods and services and labour, that France is in a situation of excess supply of goods and services (of lack of demand).

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It is important to know whether a country is in a situation of excess supply (of lack of demand) or of excess demand (of lack of supply)

Knowing the situation of the market for goods and services and the labour market is extremely important for deciding on the economic policies to be implemented.

If a country is in a **situation of lack of demand** (for goods and services and labour), it is necessary to stimulate demand by more expansionary economic policies; if, on the contrary, a country is in a **situation of excess demand**, it is necessary to stimulate the supply of goods and services (by policies that encourage firms to produce more) and the supply of labour (by increasing the employment rate or by resorting to immigration).

The situation of the Euro zone and France

To know whether there is excess supply or excess demand, we examine:

- **the situation of the current account balance;**
- **the survey on production limiting factors;**
- **the growth of the prices (of GDP,** i.e. of national output) and wages.

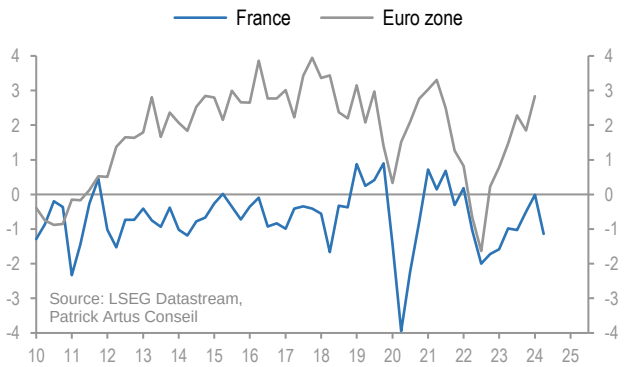
1. Situation of the current account balances

A surplus of the current account balance reveals an excess supply of goods and services, on the contrary a deficit of the current account balance reveals an excess demand for goods and services.

Chart 1 shows:

- **that the Euro zone is in a situation of excess supply of goods and services (of lack of demand);**
- **that France is on the contrary in a situation of excess demand for goods and services.**

Chart 1
Current account balance (as % of nominal GDP)



2. Survey on production limiting factors

Charts 2A/2B show **which factors limit production** (between recruitment difficulties, insufficient equipment available and insufficient demand) for industry and services **in the Euro zone**. **Charts 3A/3B** show the factors limiting production **in France**.

Chart 2A
Euro zone: Factors limiting production in the industrial sector (standard deviation from the average)

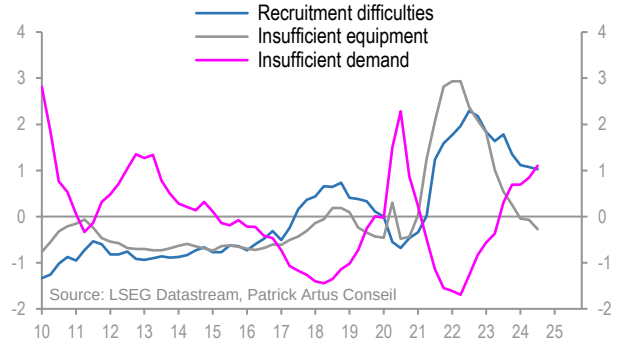


Chart 2B
Euro zone: Factors limiting production in the services sector (standard deviation from the average)

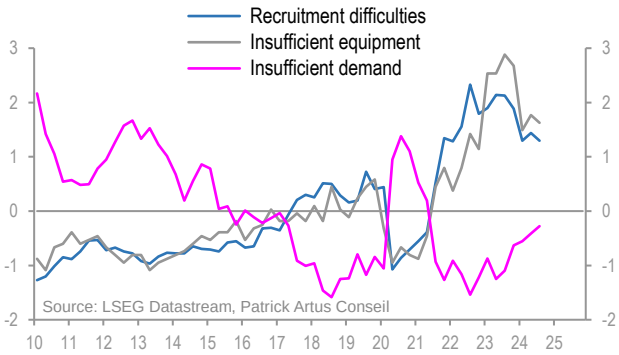


Chart 3A
France: Factors limiting production in the industrial sector (standard deviation from the average)

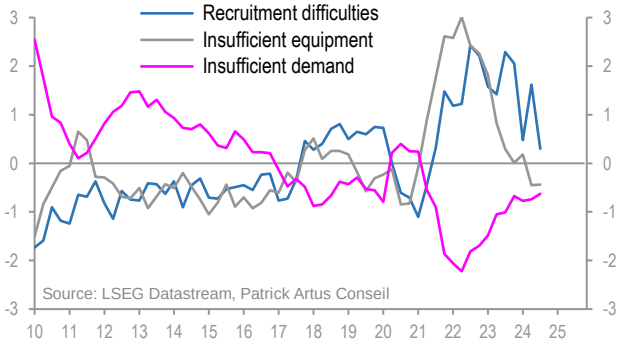
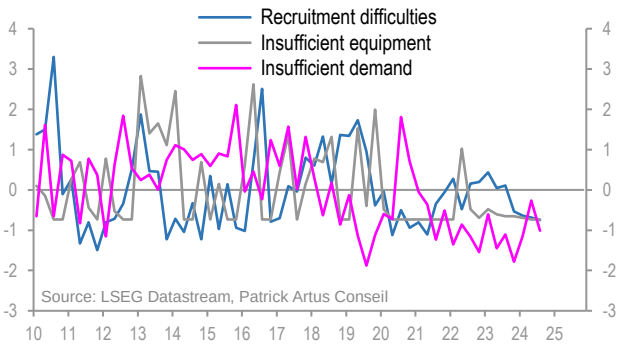


Chart 3B
France: Factors limiting production in the services sector (standard deviation from the average)



We see :

- in the **Euro zone** that industry suffers currently from insufficient demand and recruitment difficulties, that services suffer from recruitment difficulties and insufficient equipment;

- in **France** that industry suffers from recruitment difficulties, that services do not show factors limiting production.

3. Growth of the price of GDP and wages

A strong growth of the price of GDP (of the prices of domestic value added) reveals a lack of supply of goods and services. We see a rapid increase in the price of GDP in 2024 in the Euro zone but not in France **(Chart 4)**.

A strong growth of wages reveals a lack of supply of labour. We see:

- a strong increase in wages in the Euro zone (4.5% year-on-year at the beginning of 2024, **Chart 5**);
- a slowdown in wage growth in France (3% year-on-year at the beginning of 2024).

Chart 4
GDP deflator (Y/Y as %)

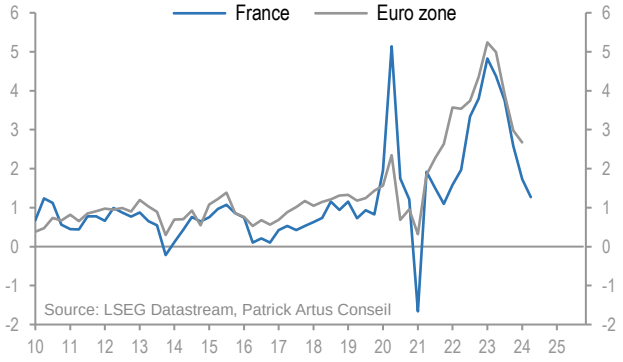
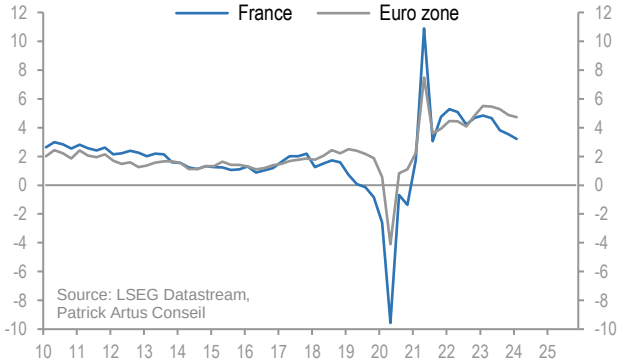


Chart 5
Nominal per capita wage (Y/Y as %)



Summary: is there currently a lack of supply or a lack of demand?

We focus on the recent period.

In **the Euro zone**:

- there is a surplus of the current account balance;
- in the whole economy there are recruitment difficulties;
- there is a rapid increase in the price of GDP and wages.

In total, there is an ambiguity: if we follow the current account balance, there is excess supply; if we follow the recruitment difficulties and wages, there is excess demand.

In **France**:

- there is a deficit of the current account balance;
- we do not identify factors that strongly limit production;
- the price of GDP and wages are slowing down rapidly.

In total, there is **in France an ambiguity opposite to that of the Euro zone**: if we follow the current account balance, there is excess demand; if we follow wages and prices, we see that the economy is moving towards a situation of excess supply (of lack of demand).

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