

INTERNATIONAL

Eurozone. Contrasting fortunes

# Start-ups spur France to outperform Germany

Tables turn as former laggard's domestic consumption and services strength prove a boon

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A modern commercial estate converted from old warehouses and television studios in the Paris suburb of Aubervilliers may hold the key to understanding why France's economy is outperforming compared with Germany, the eurozone's longstanding powerhouse.

In a modern office on the estate, 43-year-old entrepreneur Nicolas d'Hueppe's digital start-up Alchimie is investing in more staff and in expansion abroad.

"Paris has become number one for start-ups," said Mr d'Hueppe, whose company aggregates, digitises and curates video content on behalf of the rights owners, creating new channels for telecoms and television groups hungry for content to sell to viewers. "Today you can talk to British or American funds and they aren't terrified."

For years the German economy prospered as its companies benefited from growing global trade and freedom to export. France, with a much more domestically focused economy, was a laggard. But now the tables have turned.

In an environment of increasing trade hostility, France's strength in services

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and domestic consumption is proving a boon while German exports are suffering as a result of the country's dependence on the Chinese market for cars and industrial equipment.

French companies such as Alchimie — with more than 100 employees and €40m in turnover last year — are helping France to maintain an economic growth rate of about 1.5 per cent a year, while Germany flirts with recession. And French unemployment — while still far higher than in Germany — is down to 10-year lows.

Alchimie's growth is far from the only evidence that France is becoming more entrepreneurial while Germany stagnates. The number of French start-ups has been on a sharp upward trend for more than three years, while in Germany the numbers have been declining.

The contrasting fortunes of the eurozone's two largest economies have much to do with their different structures. Total exports account for 47 per cent of GDP in Germany compared with only 30 per cent in France.

"The Germany economy is tied in with the auto industry and the global equipment goods cycle," said Michala

Marcussen, Société Générale's chief economist. "In France what you've seen is that consumers have been holding up well, but investment spending is also coming through." In August the French service sector achieved its strongest performance in nine months, with IHS Markit's purchasing managers' index reaching 53.4, its fifth consecutive month above the 50-point level that divides business contraction from expansion.

Meanwhile in Germany, industrial production declined in July by a worse than expected 0.6 per cent.

"Clearly there is no denying that there is a positive trend happening in France right now, but the decoupling is more about the weakness of the German economy than the strength of the French economy," said Katharina Utermöhl, senior economist for Europe at German insurer Allianz.

German industrial production makes up 23 per cent of the country's economic value-added, compared with only 12 per cent for France, Ms Utermöhl said.

The crisis-hit German carmaking sector — which has suffered a 12 per cent annual drop in production — makes up 4.6 per cent of economic added value, compared with only 0.4 per cent in France.

And their trade with China has diverged: while Germany's capital goods exports have suffered from the slowdown in the world's second-largest economy, French exports of luxury goods and consumer products have been accelerating.

Also, Paris and Berlin have taken different approaches to economic policy and reform. French growth is sustained in part by €25bn of extra spending and tax cuts announced by President Emmanuel Macron since last year to appease the *gilets jaunes* protesters — a move that scuppered plans to slash the budget deficit but provided a stimulus in the face of the global slowdown.

Mr Macron's reform agenda could also help sustain France's outperformance, some economists say.


Ms Marcussen said France had made "important strides forward", while for a change it was Germany that found itself in the spotlight among its eurozone partners: "It's clear that Germany does need to do a number of reforms."

France's outperformance may not last, however. Economists and businesspeople caution that there is still a long way to go in terms of reform, and Germany remains an industrial superpower whose trade-related woes could prove merely temporary.

Mr d'Hueppe at Alchimie nevertheless gives Mr Macron credit for abandoning the hostile attitude to private business of some of his predecessors.

"We are still French," Mr d'Hueppe said of the local business community, "but we are starting to have a bit of an Anglo-Saxon veneer — and it's no longer considered exotic for an American fund to invest here."





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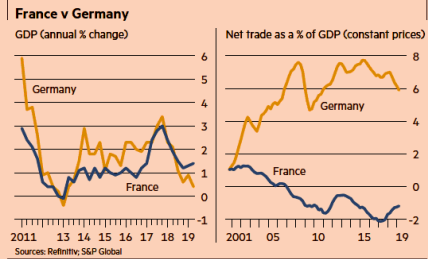
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EU budgets

## Brussels eschews revamp of fiscal rules

SAM FLEMING AND MEHREEN KHAN  
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Brussels is backing away from plans to rewrite the eurozone fiscal rule book, after finance ministers differed over how to make the framework simpler and the urgency for reforms.

European Commission officials have been conducting internal discussions over the merits of revamping the Stability and Growth Pact, which has been attacked for being highly complex and overly flexible when dealing with governments in breach of the rules.

Despite fears that the eurozone is heading for a fresh slowdown, finance ministers in Helsinki this weekend were divided over opening a Pandora's box of technical and sensitive reform talk.

"Today's discussion seems to confirm that we need to approach cautiously," said Valdis Dombrovskis, a commission vice-president. "We have to think if we can realistically change rules without opening legislation."

Bruno Le Maire, French finance minister, warned against rewriting the pact for fear of descending into a "difficult, long and uncertain debate". Instead, he said that he wanted to focus on boosting investment at the European level and within countries that had room to expand their deficits.

"If you open a debate on the budget rules... we will spend all our time discussing new rules," he added.

With global momentum slowing and central banks faced with depleted policy arsenals, richer European governments such as Germany and the Netherlands have been told to embark on more expansive fiscal policy. Mario Draghi, outgoing president of the European Central Bank, urged governments to "take charge" of sustaining the expansion by expanding budgets after introducing more stimulus last week.

But whereas many northern EU states favour a strict interpretation of the rules and sanctions, southern governments want flexibility and exemptions.