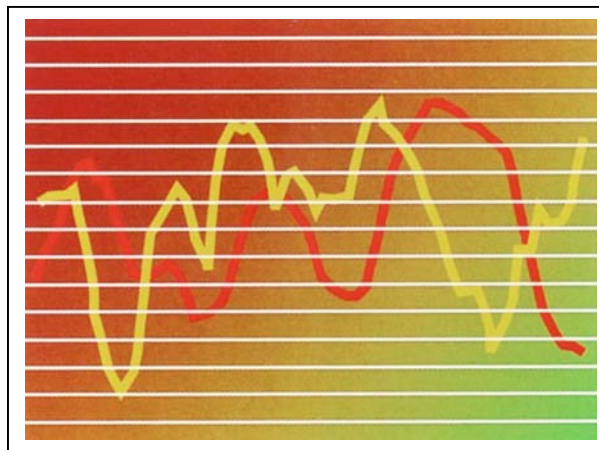


# ***CONJONCTURE* IN FRANCE**

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**HEADING TOWARDS THE END OF RECESSION?**



**JUNE 2009**

# HEADING TOWARDS THE END OF RECESSION?

<b>GENERAL OUTLOOK</b> .....	7
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<b>REVIEW OF THE PREVIOUS FORECAST</b> .....	17
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## **SPECIAL ANALYSIS**

Extracting the inflation trend: a comparison of core inflation measures in France	19
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## **FRENCH DEVELOPMENTS**

• France's international environment .....	35
• Consumer prices .....	41
• Employment .....	48
• Wages .....	51
• Household income .....	54
• Household consumption and investment .....	58
• Corporate investment and inventory .....	60

### **Focus**

• The Baltic Dry Index is not a reliable lead indicator of world trade .....	39
• The rise in food commodity prices: a big impact on consumer prices, but not an abnormal one .....	45

<b>STATISTICAL FRENCH APPENDIX</b> .....	63
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# Heading towards the end of recession?

*The world economic crisis would appear to have reached its peak in the first quarter of 2009. After a sharp drop in activity at the end of 2008, accentuated further in most countries in Q1 2009, less negative signals have emerged in Q2.*

*Concerns about the health of the banking sector have eased greatly and this has relaxed tensions on interbank money markets. Although risk premiums are still high, they have started to drop on the other financial markets. The sharp decline in world trade in late 2008 and early 2009 has since slowed considerably.*

*This relative improvement can be seen in the expectations of entrepreneurs: questioned in business tendency surveys, they are still expecting a decline in production, but not so great as at the start of the year. Activity should therefore fall less sharply in Q3 in all the advanced economies; in France, GDP should now only shrink by 0.6%, after -1.2% in Q1.*

*In H2, the recession should lessen in intensity in the advanced economies. As fears of loan refusals ease, businesses are unlikely to slash their investments as drastically as in H1. Furthermore, by the end of H1 they should have brought their inventory down to a level in line with a reduced demand, and this inventory should therefore not weigh on growth in H2. Last, the build up of the stimulus plans is likely to support public investment and household demand.*

*Nevertheless, activity should continue to fall in the main advanced economies in H2.*

*In particular, the large production losses recorded to date are likely to produce delayed effects. Firstly, the delayed fall in employment levels which has accompanied the drop in activity has barely started in some countries such as Germany and Italy; while in the countries where it is well underway, such as the Anglo-Saxon countries and France, it is far from over. Next, the sharp decline in activity has left companies with substantial excess capacity: although softened, the fall in investment levels should therefore continue in H2 in France and in the other advanced countries.*

*French GDP will therefore probably shrink once again in Q3 2009 (-0.2%) before stabilising in Q4. Over the year as a whole, the decline should reach 3.0%. The labour market is expected to continue to worsen and the unemployment rate could reach 10.1% in Q4 in Metropolitan France (10.5% including the Overseas Departments).*

*As the current recession is showing some hitherto-unseen characteristics, the uncertainties surrounding our scenario are unusually high. Historical precedents have shown that financial crises and worldwide recessions are generally slower to come to an end than other recessions; today, they have come simultaneously. This could be the case once again, in particular if the adjustment of employment and investment to the downturn in activity turns out to be more intense than the one in our scenario. However, historical precedents also do not preclude the scenario whereby growth returns earlier than expected, if, as is often the case in turning-point phases, a self-sustaining dynamic were to start up: the first signs of rebound may go hand in hand with a return of confidence, which in turn could encourage agents to start spending once more.*

## The advanced economies in deep recession

### *The advanced economies hit by a major recession*

In Q1 2009, the advanced economies contracted sharply once again (-2.1% after -1.9% in the previous quarter). In France, activity shrank by 1.2%, a marked decline but not as bad as its main partners.

In all the advanced countries, companies have been confronted with very poor business prospects, very high production overcapacities and still-difficult financing conditions. They have therefore cut back sharply on investments and workforce, and adjusted their inventory. The worsening labour market has also forced households to cut back their expenditure.

### *World trade is falling sharply*

The deepening recession in early 2009 brought with it an even greater drop in world trade than in the previous quarter (-11.3% after -5.8%, see *Graph 1*). This decline reached a historic level, with the fall in Q4 2008 already establishing a record over the last 40 years. Germany and Japan, whose growth is heavily dependent on foreign trade, were once again particularly hard-hit. Japanese exports shrank by 26% in Q1 2009 alone, bringing about a fall of 3.8% in GDP.

### *The reduction in demand has weighed heavily on the emerging economies*

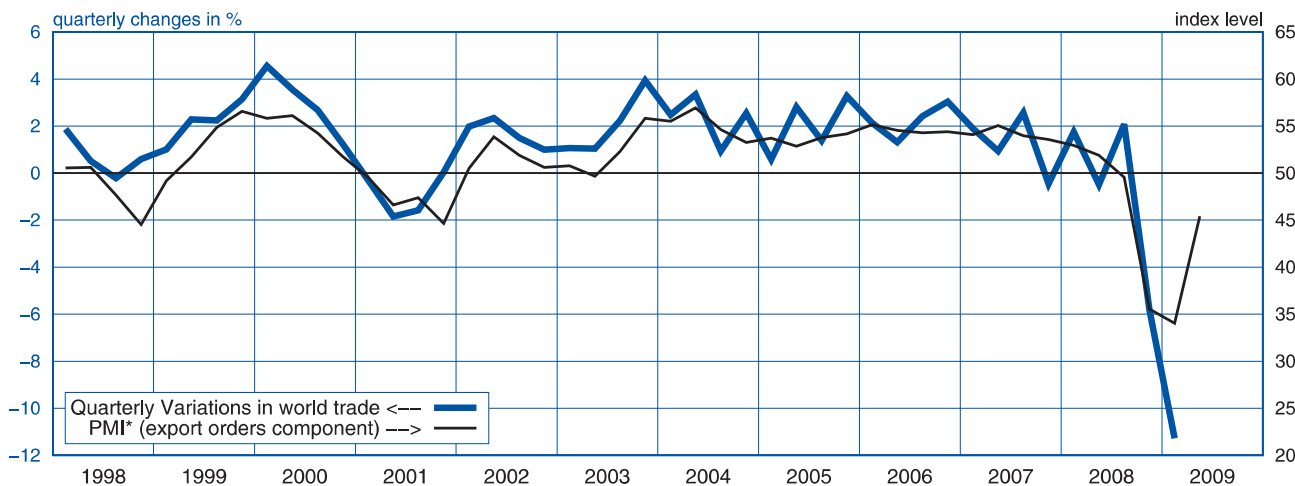
The sharp fall in export has also had a strong effect on activity in emerging countries, notably those in South-East Asia, where growth continued to slide at the start of the year, and in Russia. The contraction of Russian activity reached a level of 9.5% year-on-year in Q1. Chinese exports tumbled by 22.6% in April although domestic demand accelerated, mainly thanks to the boom in public investments. In South-East Asia, the drop in world demand caused a concomitant decline in corporate investment and in GDP. However, in these countries industrial output showed some timid signs of improvement during the last quarter.

## Financial markets are easing

### *Quantitative easing takes over from rate cuts*

To ease tensions on financial markets, the States intervened massively to provide backing for the banks, and the main central banks slashed their base rates. The Fed, the Bank of England and the Bank of Japan brought these rates down to 0%, thereby leaving no room for further cuts. To relax their monetary policy even more they are now turning to other instruments, in particular quantitative easing which consists in buying securities directly in order to bring down their interest rates. The Fed and the Bank of England have announced massive assets purchasing programmes, respectively representing 12.3 and 8.7 GDP points.

**1 - World trade and export orders (PMI)**



\* Overhang at the end of the month of May for Q2 2009  
Sources: CPB, JP Morgan

*Tensions are easing on the financial markets*

In the wake of these measures, the financial markets - both interbank and company financing - eased in early 2009. The 3-month rate spreads between money markets and public loan rates fell, both in the United States (USD-Libor) and in the Euro zone (Euribor). They are now not far off the levels of early August 2007 (see Graph 2). This narrowing of spreads is likely to continue for the rest of the year as fears surrounding the balance sheets of banks gradually ease. For non-financial enterprises, the long-term spreads are also pointing to a relative improvement, particularly in the United States and Germany. Additionally, although the banks have announced that their terms for awarding credit will continue to tighten, this is far less marked than in the three previous quarters. A relaxing of credit conditions is expected by the end of 2009. But despite this easing underway, these conditions should still remain unfavourable, weighing further on corporate investment and on real-estate markets.

*Difficult credit conditions still weighing heavily on real estate*

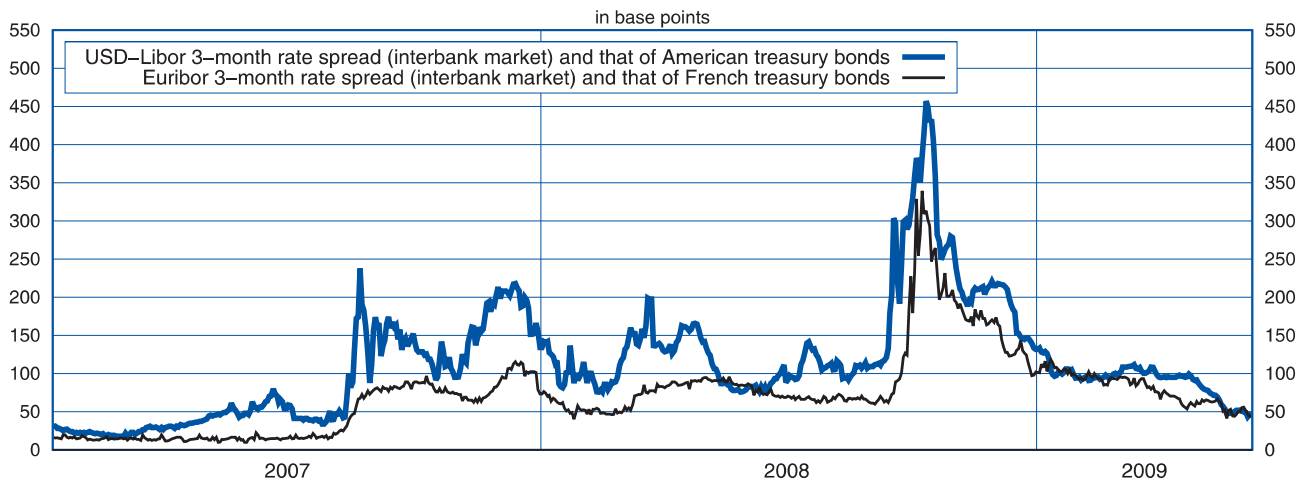
The real-estate crisis is continuing but should gradually abate and a few signs of improvement are already visible. In the United States prices are still going down, building permits and commencements are at low levels and housing stocks are high, but demand is benefiting from the progressive easing of the mortgage market. In Spain, the market has remained depressed. In France the situation has deteriorated less, but credit terms are still far more restrictive than they were a few years ago and the prospects of quick capital gains, which previously stimulated property purchases, have now disappeared. Last, the United Kingdom stands out as an exception: the real-estate business tendency surveys are picking up and house prices rose in May. The correction of the British property market could therefore come to an end in 2009.

**The drop in activity should gradually slow in France and the other main advanced countries**

*The worldwide recession and the decline in world trade should ease*

The latest business tendency surveys suggest that the decline in activity in the advanced economies (see Graph 3) and hence in world trade should gradually ease. For example, the business climate, although still poor, has started to improve. This can be attributed among other things to the easing of tensions on the financial markets and to the stimulus plans implemented both in the advanced economies and in the emerging countries. In particular, government measures in China have been brought in to support lending and investment, and Chinese activity should gradually pick up. This improvement in China and a less pronounced contraction of activity in the advanced countries are likely to support business in the emerging countries, notably in Asia.

**2 - Tensions on interbank markets are easing**



Sources: Banque de France, DataInsight

## General outlook

### *The drop in French exports should slow*

In line with the trends in world trade, the fall in world demand for French products should start to slow after the sharp contraction recorded at the start of 2009. French exports should follow a similar path: after sliding by 6.0% in Q1, they should fall by 3.8%, 1.8% and then 0.8% over the next three quarters. Overall, exports are expected to be down by 13.5% in 2009.

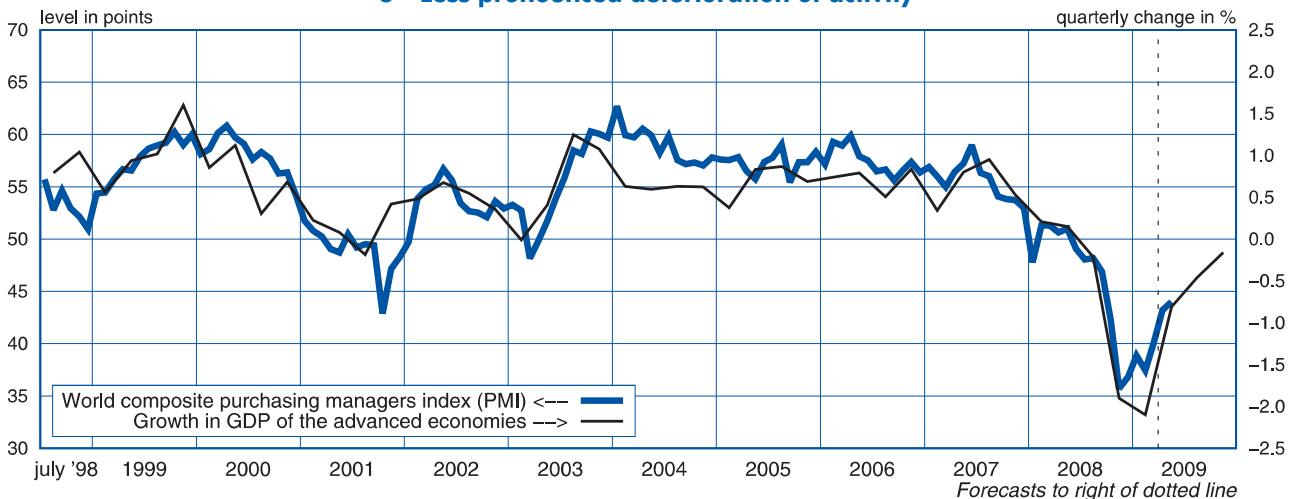
### *French industrial production gradually heading towards stabilisation*

French manufacturing production once again fell back in Q1 2009: -7.0% after -7.8% in Q4 2008. The automobile and intermediate goods sectors again experienced sharp drops (respectively -12.7% and -7.3%). This slide should gradually slow as the business climate would appear to indicate: although still poor, it started to improve in April (see Graph 4). Production could thus stabilise in Q4. Over 2009 as a whole, the drop in manufacturing output should nonetheless reach an unprecedented amplitude: -15.7%, after -1.8% in 2008.

### *The contraction of activity in services and construction should also ease*

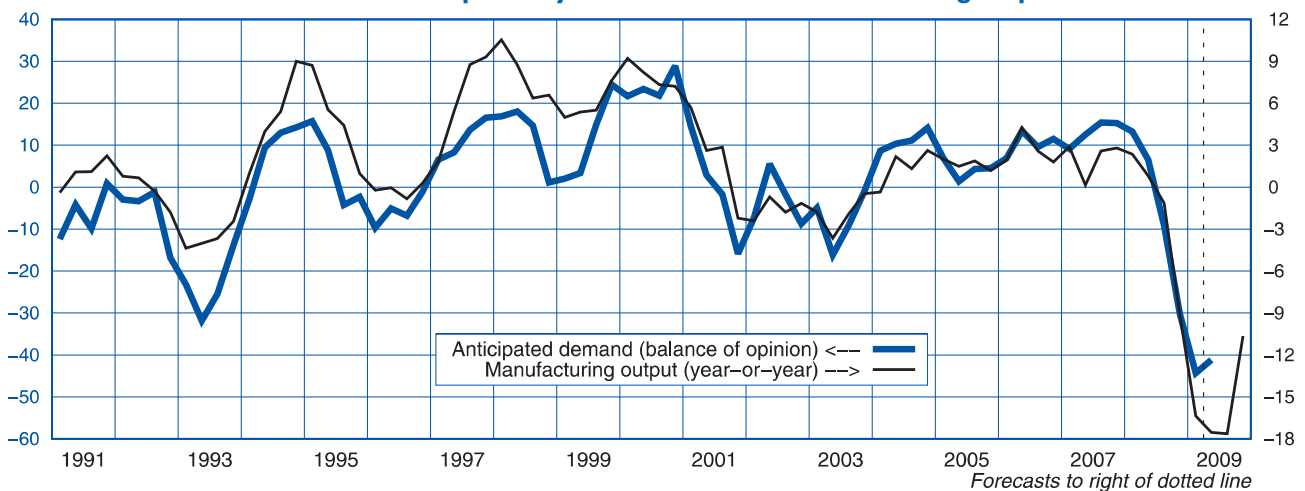
In Q1, activity also declined in market services and the construction industry. By the end of 2009, this decline should lessen in intensity. Household consumption should hold firm, business prospects look less gloomy in the service sector, and the stimulus plan for construction should start to bear fruit.

### 3 - Less pronounced deterioration of activity



Source: Data Insight, INSEE calculations

### 4 - Demand anticipated by industrialists and manufacturing output



Source: INSEE

*The decline in activity becoming gradually less pronounced in France*

In this context, French economic activity should continue to slide but at a progressively more moderate rate. After falling by 1.5% in Q4 2008 and 1.2% in Q1 2009, GDP should only drop by 0.6% and 0.2% over the next two quarters before stabilising in Q4 2009. Overall, GDP should fall back by 3.0% in 2009 after growing by 0.3% in 2008.

**Heading towards a very sharp decline in investments in 2009**

*Production capacity clearly under-utilised*

In 2009, corporate investment should fall back very sharply (-8.9%), as hinted at by the results of the survey of industrialists. The slide is likely to be particularly pronounced in the first two quarters (-2.7% after -3.2%). Indeed, firms are still confronted with large-scale under-utilisation of their production capacity (see Graph 5), poor demand prospects and difficult financing terms. However, in H2 the decline in investment should gradually slacken (-2.3% then -1.3% in Q3 and Q4), owing to the expected improvement in financing conditions and less negative business prospects.

*Household investment still heading downwards*

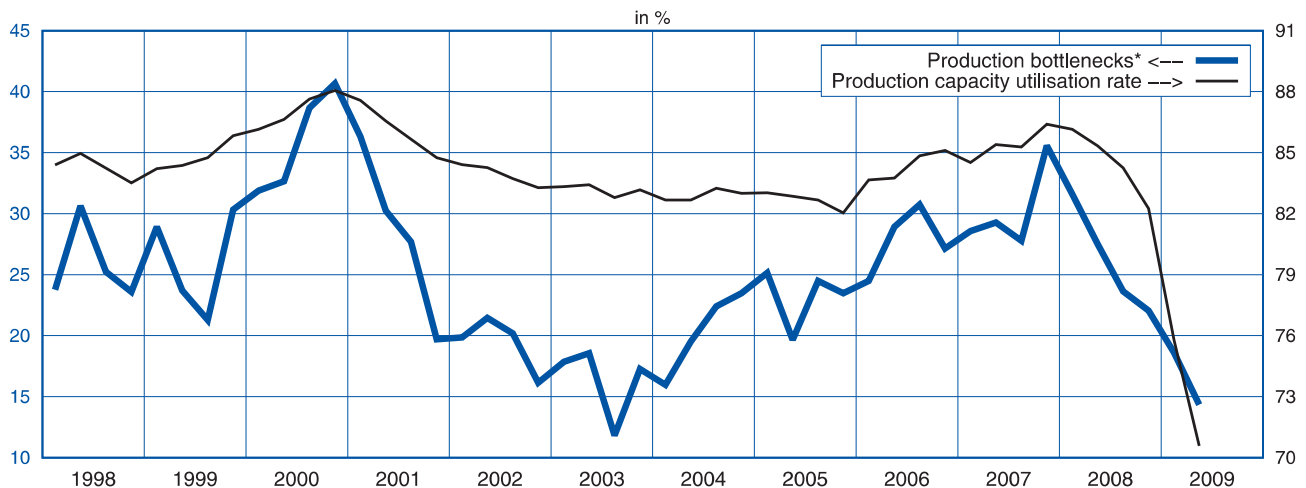
Investment in housing has suffered from the worsening financial situation of households and a tightening of access to credit. As these factors are still ongoing, household investment is expected to continue falling (-1.2% over the next three quarters), as indicated by the fall in housing starts observed since the beginning of the year.

**Core inflation set to decline further**

*A decline in core inflation rate*

In almost all the advanced economies, core inflation has tended to fall while remaining positive. The onset of a deflationary period should therefore be avoided within the time horizon of end 2009. The fall in inflation is due firstly to the low level of demand which, throughout the production and distribution chain, is forcing businesses to reduce their margins in order to hold on to clients. Furthermore, the previous fall in the prices of raw materials and the moderation of wage costs should continue to extend to consumer prices. As a result, disinflationary pressure appears to be at work all over the world. Core inflation should clearly decrease in the United States by the end of the year; its recent upswing can only be ascribed to the rise in tax on tobacco. In the Euro zone, core inflation should decrease substantially, down to +0.8% in December 2009 after +1.8% in April. France is likely to follow this basic trend: excluding energy,

**5 - Tensions on manufacturing output capacity**



\* Proportion of enterprises which, if they received more orders, could not produce more with their current facilities.  
Source: INSEE, quarterly survey on activity in industry

## General outlook

seasonal food products and public tariffs, and cancelling out the effect of the VAT cut in the restaurant sector, price rises by the end of 2009 should reach only 1.2% year-on-year, against 2.2% in July 2008 (see Graph 6).

### *The return of deflation confirmed in Japan*

Japan, however, is the exception: core inflation has become negative once again in this country. The combined drop in consumer prices, wage levels, activity and property prices indicates that deflation is back in Japan.

### *The oil barrel price should fluctuate around \$60*

Oil prices rebounded in early 2009: the upturn in Chinese demand led operators to anticipate tensions on the oil market, while in the short term the oil supply surplus continued to grow. Over Q2 2009 as a whole, a surplus is expected on the market owing to a drop in consumption by the developed countries. It should return to equilibrium in 2009, with oil demand boosted by the progressive improvement in worldwide growth. Oil prices should therefore stabilise at around \$60 per barrel of Brent within the time horizon of end 2009.

### *The profile of headline inflation dictated by energy prices*

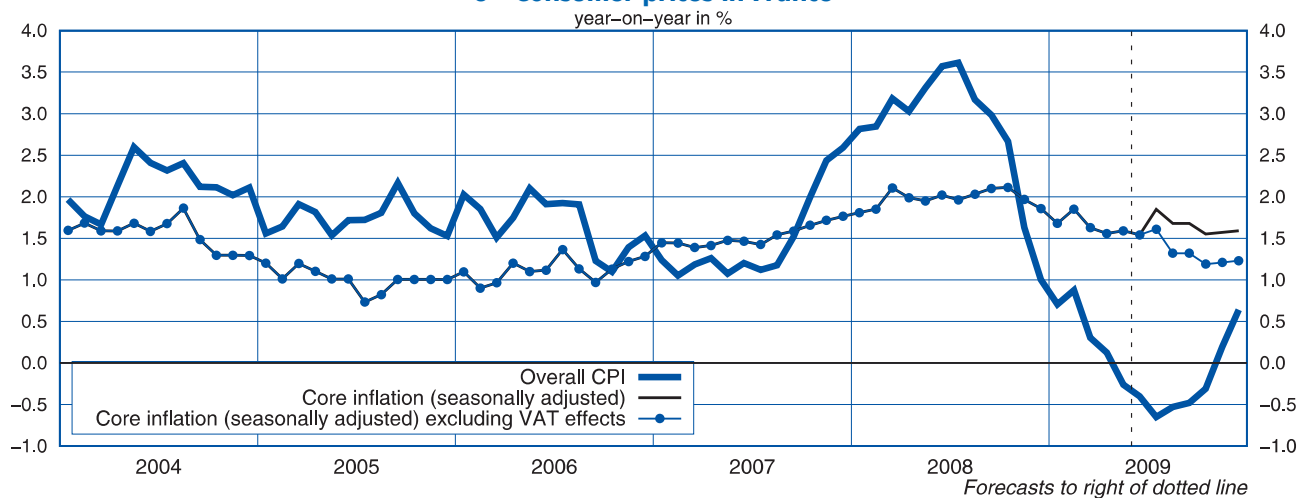
In France and in the Euro zone, year-on-year consumer prices should reach a low point in July 2009, at respectively -0.7% and -0.5%, under the effect of the fall in energy prices. Brent prices, forecast at around \$60 until the end of the year, are much lower than the high point of \$145 reached in July 2008. The VAT cut in the restaurant sector should also push inflation down in France from July onwards. At the end of the year, year-on-year prices should become positive again, at 0.6% in France and 0.8% in the Euro zone, with Brent prices higher than those at the end of last year.

## The recession weighing heavily on the labour market

### *A contraction on the job market in 2009*

The drop in activity between late 2008 and late 2009 is expected to lead to further sharp cuts in the workforce. All in all, employment levels should fall by more than 590,000 jobs in 2009 after more than 90,000 job losses in 2008. The non-agricultural market sectors are likely to lose almost 700,000 jobs in 2009, after 141,000 losses in 2008; and by the end of the year the number of people in employment should reach its lowest point since 2000. Employment will fall sharply in industry, construction and even in the market service sector excluding temporary work, a sector that had been spared in previous recessions. The decline in total employment should be very slightly attenuated by the growth in the non-market sectors where non-subsidised employment should remain dynamic and subsidised employment is expected to return to growth after two consecutive years of decline.

### 6 - Consumer prices in France



Source: INSEE



*Unemployment likely to continue its rapid rise*

The unemployment rate climbed sharply from Q2 2008 when the turning point occurred. It reached an average of 8.7% in Metropolitan France in Q1 (9.1% including Overseas Departments) against 7.2% a year previously (see Graph 7). Owing to the big job losses expected for the rest of 2009, the unemployment rate as defined by the ILO is expected to continue rising fast. It should hit 10.1% on average in Q4 2009, i.e. a rise of 2.5 points in the space of one year and 2.9 points compared with the previous low point of early 2008.

### Consumption set for moderate growth throughout 2009

*Purchasing power should accelerate in annual average terms but slow down as the year progresses*

In H1 2009, the purchasing power of all households should be up: the drop in earned income is expected to be more than compensated for by the fall in consumer prices, by the stimulus plan measures aiming to support household income involving tax cuts and payment of the *Prime de solidarité active*, and by the revaluation of social benefits. Purchasing power should then stagnate in H2 2009: it will no longer be sustained by price cuts, the fall in earned income should be accentuated with the slowdown in wages while job losses are likely to continue at the same pace, and social benefits are expected to progress more moderately. Over the year as a whole, household purchasing power should grow slightly more in 2009 (+1.1%) than in 2008 (+0.6%), mainly due to the drop in inflation.

*Consumption unlikely to grow in the second half of the year*

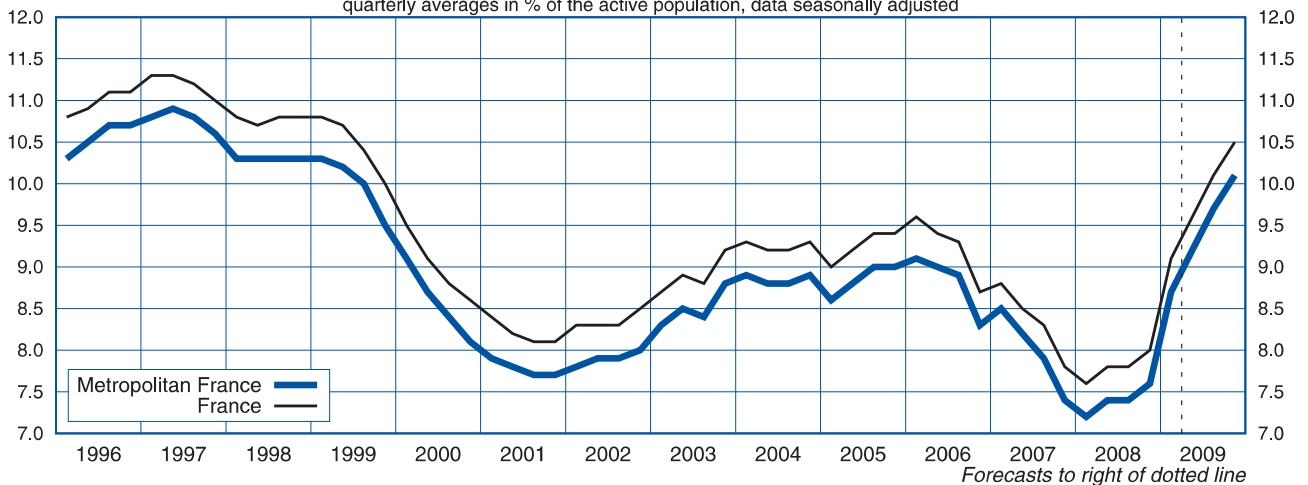
Faced with the ups and downs of purchasing power, households are likely to smooth their consumption. They are expected to increase their savings in Q2 then reduce them in H2. Overall in 2009, confronted with the rise in unemployment and uncertainty over their future income, households should increase their savings to 15.6%, after 15.3% in 2008. Household consumption should rise by 0.3% in Q2, then stagnate in H2 (+0.1% per quarter).

*The drop in imports should slow in the wake of domestic demand*

In Q1 2009, imports of goods and services once again fell back sharply: -5.3% after -3.0% in Q4 2008. Imports of non-energy industrial goods clearly declined, in particular intermediate goods and automobiles. From Q2, total imports should fall again until the end of the year, although at a slightly slower pace thanks to the more moderate decline in corporate investments and intermediate consumption incorporated into imports. Over 2009 as a whole, the drop should reach 10.1%.

### 7 - Rate of unemployment in the sense of the ILO

quarterly averages in % of the active population, data seasonally adjusted



How to read the chart: France = Metropolitan France + Overseas Departments  
 Scope: population of households, people aged 15 or over  
 Source: INSEE, Employment survey

### Forecasts marked by a high level of uncertainty

*The unusual nature of the current recession brings its uncertainties*

The current recession has characteristics that have not been seen before in recent economic history, making forecasts more difficult than usual. For example, the return to growth might come earlier and be more marked than expected if a self-sustaining dynamic were to be set in motion: the first signs of rebound may come hand-in-hand with a return of confidence which may in turn encourage agents to commit to new expenditure. However, we are simultaneously going through a financial crisis and a worldwide recession. Historical precedents have shown that both worldwide recessions and financial crises are generally slower to come to an end than other recessions.

*Uncertainty surrounding the speed at which labour markets will adjust to the downturn in activity*

The way employment will evolve is also a source of great uncertainty. In many countries employment has been slow to adjust to the drop in activity, and productivity has fallen. This delayed adjustment is particularly pronounced in Germany, the United Kingdom and Italy, and to a lesser extent in France. A period in which productivity is restored should therefore ensue. As the productivity gap that has built up is great, there is much uncertainty surrounding the pace at which it will be absorbed, and hence the variations in employment and unemployment in the advanced economies over the coming quarters. If the adjustment is quicker than in this forecast, it is likely to weigh on household income and encourage households to be even more prudent. This would take an even greater toll on activity. Conversely, a more gradual adjustment would limit the decline in GDP. ■

## Key figures: France and its international environment

seasonally adjusted / working-day adjusted data (for prices), quarterly or annual averages, as a %

	2007				2008				2009				2007	2008	2009
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<b>International environment</b>															
Advanced economy GDP	0.5	0.7	0.8	0.3	0.4	0.1	-0.3	-1.9	-2.1	-0.8	-0.5	-0.2	2.4	0.6	-4.6
Euro Zone GDP	0.7	0.4	0.6	0.4	0.7	-0.3	-0.4	-1.8	-2.5	-1.1	-0.6	-0.4	2.7	0.6	-5.2
Barrel of Brent oil (in dollars)	57.7	68.6	74.9	88.9	96.9	121.8	115.1	54.9	44.6	55.7	60.0	60.0	72.5	97.2	55.1
Euro-dollar exchange rate	1.31	1.35	1.38	1.45	1.5	1.56	1.5	1.32	1.30	1.34	1.35	1.35	1.37	1.47	1.34
World demand for French products	1.1	0.6	2.7	0.5	1.1	0.1	0.7	-5.8	-7.7	-4.2	-2.4	-1.3	5.0	1.9	-15.5
<b>France - supply and use</b>															
GDP	0.7	0.4	0.7	0.3	0.4	-0.4	-0.2	-1.5	-1.2	-0.6	-0.2	0.0	2.3	0.3	-3.0
Imports	1.0	1.8	1.8	-0.8	1.1	-1.0	0.5	-3.0	-5.3	-2.9	-1.2	-0.3	5.4	0.6	-10.1
Household consumption	0.7	0.6	0.9	0.5	-0.2	0.0	0.1	0.2	0.2	0.3	0.1	0.1	2.4	0.9	0.7
Public and NPISH consumption	0.4	0.5	0.3	0.1	0.2	0.4	0.6	0.3	0.1	0.5	0.5	0.5	1.6	1.3	1.4
Total GFCF	2.1	0.7	1.1	1.5	0.9	-1.5	-1.1	-2.4	-2.3	-1.8	-1.3	-0.9	6.5	0.4	-7.0
of which: NFEs	2.8	0.9	1.8	1.9	1.8	-1.5	-0.3	-2.7	-3.2	-2.7	-2.3	-1.3	8.6	2.4	-8.9
Households	1.5	0.8	0.8	1.2	0.1	-1.3	-2.8	-2.6	-1.5	-1.2	-1.2	-1.2	5.5	-1.4	-6.9
Exports	0.1	1.0	1.2	-0.1	2.0	-2.7	-0.1	-4.6	-6.0	-3.8	-1.8	-0.8	2.5	-0.5	-13.5
<b>Contributions</b>															
Domestic demand excluding change in inventories <sup>(1)</sup>	0.9	0.6	0.8	0.6	0.1	-0.2	0.0	-0.4	-0.4	-0.1	-0.1	0.0	3.0	0.9	-0.8
Change in inventories <sup>(1)</sup>	0.0	0.1	0.1	-0.5	0.0	0.2	0.0	-0.7	-0.8	-0.3	0.0	0.1	0.0	-0.3	-1.5
Net foreign trade	-0.2	-0.2	-0.2	0.2	0.2	-0.4	-0.2	-0.4	0.0	-0.1	-0.1	-0.1	-0.8	-0.3	-0.6
<b>France - situation of households</b>															
Total employment (variation at end of quarter) <sup>(2)</sup>	126	72	73	65	58	-35	-17	-98	-174	-149	-142	-127	336	-93	-592
Non-agricultural market sector employment <sup>(2)</sup>	108	59	64	58	42	-24	-42	-117	-193	-178	-177	-152	288	-141	-699
Unemployment rate (quarterly average)	8.5	8.2	7.9	7.4	7.2	7.4	7.4	7.6	8.7	9.2	9.7	10.1	8.0	7.4	9.4
Unemployment rate (quarterly average)	8.8	8.5	8.3	7.8	7.6	7.8	7.8	8.0	9.1	9.6	10.1	10.5	8.4	7.8	9.8
Consumer price index <sup>(3)</sup>	1.2	1.2	1.5	2.6	3.2	3.6	3.0	1.0	0.3	-0.4	-0.5	0.6	1.5	2.8	0.0
Core inflation <sup>(3)</sup>	1.4	1.5	1.6	1.8	2.1	2.0	2.1	1.9	1.6	1.5	1.7	1.6	1.5	2.0	1.6
Household purchasing power	0.4	0.7	0.6	0.4	0.0	-0.6	0.2	0.8	0.0	0.7	0.0	-0.2	3.0	0.6	1.1

Forecast

(1) Inventory changes include acquisitions net of sales of valuables

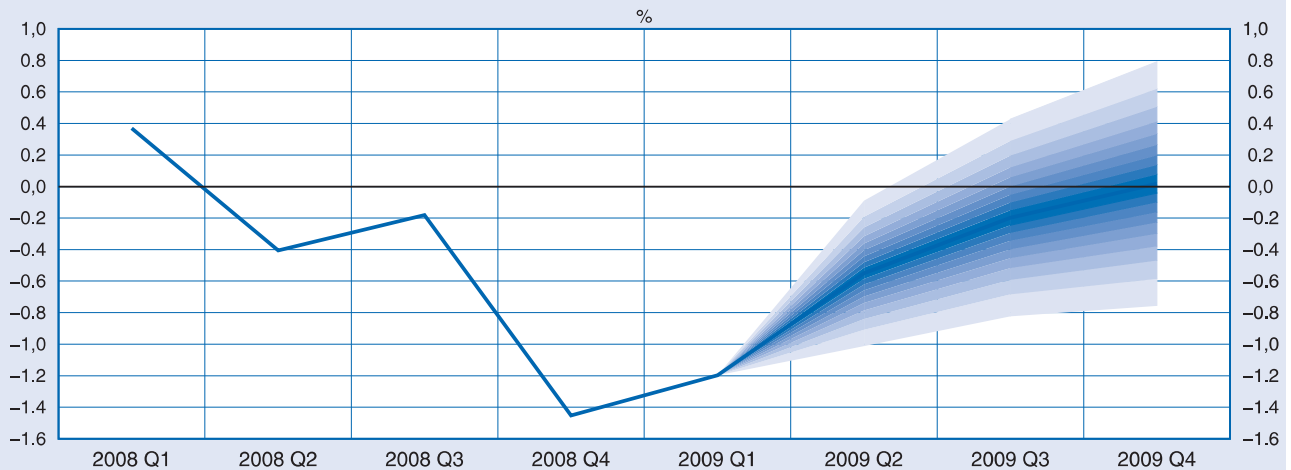
(2) End-of-quarter changes, in thousands

(3) Year on year on the last month of the quarter

Note: the volumes are calculated at the previous year's chain-linked prices, seasonally and working-day adjusted, quarterly and annual averages, as a %

Source: INSEE

## Fan chart for Conjoncture in France



Source: INSEE

How to read it: The fan chart plots 90% of the likely scenarios around the baseline forecast (blue line). The first and darkest band covers the likeliest scenarios around the baseline, which have a combined probability of 10%. The second band, which is a shade lighter, comprises two sub-bands just above and just below the central band. It contains the next most likely scenarios, raising the total probability of the first two bands to 20%. We can repeat the process, moving from the centre outwards and from the darkest band to the lightest, up to a 90% probability. As the bands widen, they therefore cover an ever-larger range of possible outcomes.

The width of these bands is based on the historical dispersion of INSEE forecasts at each of the time horizons at stake, summarised by their standard deviation (for further details about the method, readers may refer to the INSEE Conjoncture in France for June 2008, pages 15 to 18). To take account of the particularly great uncertainty which in our view surrounds this forecast, the standard

deviation calculated on the historical value for the last two quarters of 2009 has been increased, in the same way as for the previous two Conjoncture in France: for Q3, it was increased from 0.33 to 0.38 and for Q4 from 0.37 to 0.47.

It can therefore be estimated that the first result published by the quarterly accounts for Q2 2009 has a 50% chance of being between -0.7% (lower limit of the fifth band from the bottom) and -0.4% (upper limit of the fifth band from the top). Likewise, it has a 90% chance of being between -1.0% and -0.1% in Q2 2009. The probability of the published figure being positive is lower than 5%. In the same way, for Q3 2009 it can be estimated that the first result published by the quarterly accounts has a 50% chance of being between -0.5% and 0.1% and a 90% chance of being between -0.8% and +0.4%. Lastly, in Q4, uncertainty is particularly high, with growth in GDP having a 90% chance of being between -0.8% and +0.8%. ■

# Review of the previous forecast

*In Q1 2009, the contraction of GDP was not quite as pronounced as expected (-1.2% against -1.5% forecast in the March issue of Conjoncture in France). The drop in output in the manufacturing sector was correctly anticipated (-7.0%) but the decline was not quite as sharp as forecast in the construction and services sectors. Over H1 as a whole, the downturn should be slightly weaker than forecast in March.*

## As expected in March, manufacturing output dropped sharply once again in Q1

In Q1 2009, GDP shrank by 1.2%, slightly less than our March forecast (-1.5%). As expected, the drop in manufacturing output was once again very sharp (-7.0%). However, production in mainly market services fell slightly less markedly than anticipated (-0.8% against -1.1%). In the construction sector, the decline in production was also smaller than forecast (-1.2% against -1.9%). In the agricultural branches as a whole (agriculture and agrifood), production stagnated (-0.1% against the -0.5% forecast). These errors were to some extent offset by the overestimation of growth in production in the energy branch and the non-market branches.

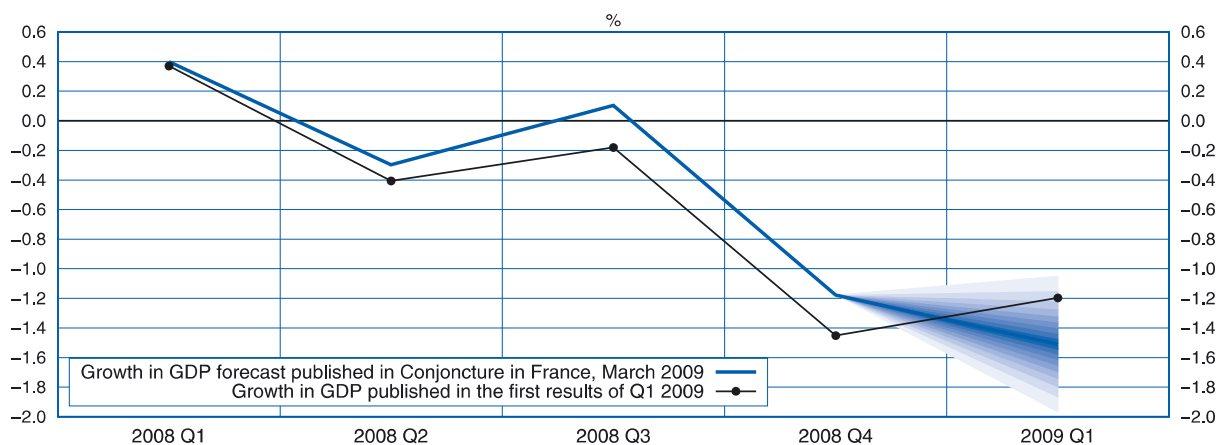
All in all, the total forecasting error (-0.3 point) is relatively small given the particularly high level of uncertainty currently hovering over the path of the world economy and given the intrinsic volatility of the series: the growth figure for Q1 remains within the confidence interval (see Graph 1).

In terms of demand (excluding inventory), the decline forecast in March has been confirmed (-0.4%). The growth in household consumption was in line with forecasts (+0.2%), and the underestimation of corporate investment (-3.2% against the forecast -5.1%) was compensated for by general government consumption which was less dynamic than expected (+0.1% against +0.9%).

The violent trend towards running down stocks which began in Q4 2008 continued in Q1 and was even greater than anticipated (contribution of -0.8 point against -0.6 point forecast). Imports shrank more sharply than expected (-5.3% against -3.3%), while exports declined at the anticipated rate (-6.0% against the forecast of -5.8%).

Lastly, as expected, the contraction of activity was not as marked in France as among its main European neighbours. The difference observed between them is actually even greater than expected: the German economy declined more sharply than anticipated (-3.8% against -2.3%

**1- Fan chart\* for Conjoncture in France for March 2009 and growth achieved in%**



\* The way the fan chart is constructed is explained in the box in the General Outlook.  
Source: INSEE

## Review of the previous forecast

forecast), and the same goes for Italy (-2.6% against -1.8%) and the United Kingdom (-1.9% against -1.5%).

### The downturn in activity in H2 should be a little less severe than that forecast in March

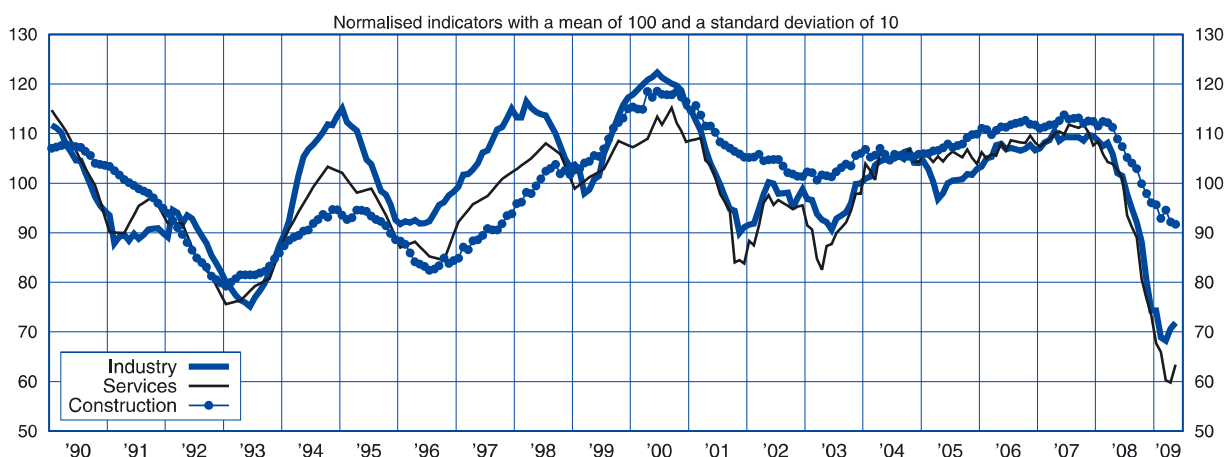
Over H1 2009, the downturn in activity in France should be slightly less sharp than was forecast in March. The growth overhang at the end of Q2 is, however, likely to remain unchanged, owing to the downwards revision of growth in activity in Q2, Q3 and Q4 2008 in the national accounts.

In Q2 2009, activity should decline once more (-0.6%, forecast unchanged), but in a less pronounced way than in the previous two quarters, when it contracted respectively by 1.5% and by 1.2%. Indeed, the business climate indicators

resulting from the business tendency surveys are still at very low levels (see *Graph 2*), well below their long-term average, although they have started to pick up.

Overall, the scenario presented in this *Conjoncture* in France for Q2 2009 is comparable to the one described in March: the manufacturing sector should once again be the most affected and output is expected to fall by 3.0% (forecast unchanged), while output in the construction and market services sectors should decrease less markedly than in Q1. Corporate investment is still expected to be heading downwards in Q2 (-2.7% against -3.4% forecast in March), and household consumption should progress slightly (+0.3%, against +0.1% forecast in March). However, exports should decline a little more sharply than anticipated in March (-3.8% against -2.5%), among other things because the poorer than expected Q1 results in Germany and Spain have led us to revise their imports downwards in Q2. ■

## 2 - Business climate in the industry, construction and services sectors



Source: INSEE, Business tendency surveys