France's international environment

Business activity in the advanced economies should continue to shrink in H1 2009, as signalled by the further sharp deterioration in the business tendency surveys. After a drop of 1.8% in Q4 2008, their GDP should decline by 1.7% in Q1. The fall should be less marked in Q2 (-0.7%), thanks to the impact of the stimulus plans brought in by the governments, among other things. The extent of this impact is the key uncertainty surrounding this forecast.

The decline in demand in Q4 2008...

In Q4 2008, the advanced economies experienced a sharp downturn (-1.8%). Trade outlets fell everywhere and businesses adjusted their production and inventory levels to this drop in demand. Their low production capacity utilisation rate led them to cut investment expenditure and employment. However, the fall in oil prices caused by the general drop in demand resulted in a clear fall in inflation, thereby softening the crisis somewhat.

The sharp downturn in demand has brought about a drop in world trade. Germany and Japan, whose growth is highly dependent on foreign trade, have been particularly hard hit. In parallel, the decline in world trade has brought a halt to activity in China and the new industrialized countries of South-East Asia.

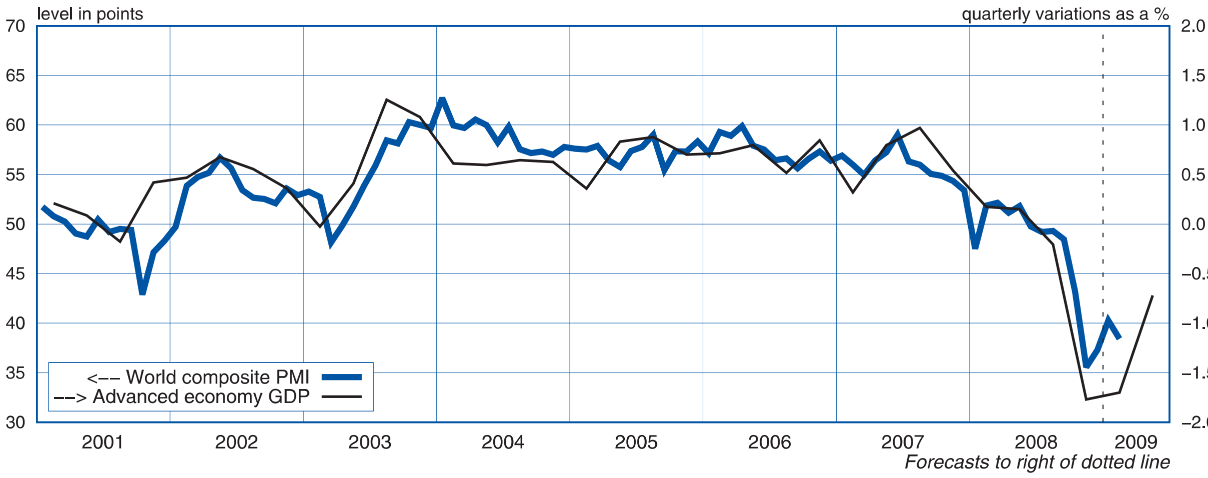
... is likely to continue in H1 2009

In the period covered by this forecast, the advanced economies will probably remain in recession. In February 2009, the purchasing managers once again indicated a sharp decrease in business prospects (see *Graph 1*). At the same time, world trade should shrink further, as attested to by the Baltic Dry Index which monitors the cost of maritime transport of dry raw materials, and the "export orders" component of the PMI survey (see Focus, "A better understanding of foreign trade by country using a world trade forecast").

Households are likely to continue to restrict their purchasing (see Table): first, the fall in employment and slowdown in wages would tend to reduce their purchasing power further; next, the generalised reversal of the property and financial markets has made inroads into their assets, which is likely to encourage them to bolster their savings; last, it has become more difficult to finance consumption through debt because of the tightening of credit conditions by the banks. Overall, households should save more, consume less and cut their housing investment expenditure.

Faced with worsening prospects in terms of demand, high inventory levels and tougher financing conditions, businesses are continuing to reduce their output. The under-utilisation of their production capacities should lead them to cut their

1 – The deterioration in activity set to continue



Sources: GlobalInsight, DataInsight, IMF, INSEE calculations investment expenditure and their workforce even further.

The oil-exporting countries will have difficulty adjusting their output to the decline in worldwide demand. The oil market should therefore continue to show a surplus and the price of Brent should not exceed $40 (*see Oil note*). The fall in the prices of raw materials, energy or otherwise, should continue to spread to the economy and bring down inflation in the advanced economies; and the slowdown in world activity should also have an impact, causing core inflation to drop in these countries in H1 2009. If we also consider that production is likely to move even further below its potential, then deflationary pressure may emerge. However, with the exception of Japan, the advanced economies will probably remain far removed from a situation of actual deflation within the forecasting period, with core inflation remaining positive, in particular.

In total, the GDP of the advanced economies should decline by 1.7% in Q1 2009. In Q2, it should fall back by 0.7%, assuming that the plans implemented by the governments sustain household demand and corporate investment.

A slight easing of tensions on the financial markets

Throughout Q4 2008, both the central banks and the States intervened massively in order to ease the tensions that had destabilised the financial markets after the bankruptcy of the investment bank Lehman Brothers.

The main central banks once again injected cash and made further interest-rate cuts, some deciding to purchase equities directly ("unconventional" monetary policy) in order to make up for their reduced room for manoeuvre in terms of interest rates. In parallel, there was large-scale intervention by the governments of the advanced economies in an attempt to bring the working of their financial systems back to normal, in particular buying stakes, making loans and guaranteeing debts, and even nationalising financial institutions.

The two-pronged action by governments has eased tensions on the money markets since October 2008. Nonetheless, risk aversion has stayed at a very high level, and tensions should remain very high in H1 2009. As a result, financing conditions for both households and businesses are likely to remain tight throughout the forecasting period.

Stimulus plans aiming to boost activity

As well as their support for the financial institutions in difficulty, the governments of the advanced economies decided to adopt substantial stimulus plans in order to combat the sharp decline in business activity. These plans include three types of measures: one-off support packages for certain industries (carmakers in France and the United States); tax cuts or direct transfers, which could have an immediate impact on demand; and major public works and investment programmes, which are longer to implement. The governments of the main emerging countries, particularly China and

Table 1

Industrialized countries: consolidated supply and use table

in real terms

	Quarterly changes, %										Annual changes, %		
	2007				2008				2009		2007	2008	2009 ovhg*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
GDP	**0.4**	**0.7**	**0.8**	**0.3**	**0.4**	**0.1**	**-0.3**	**-1.8**	**-1.7**	**-0.7**	**2.7**	**0.7**	**-3.7**
Private consumption	0.4	0.6	0.5	0.2	0.3	-0.1	-0.4	-0.9	-0.2	-0.1	2.1	0.5	-1.2
Public consumption	0.5	0.8	0.5	0.5	0.4	0.6	0.9	0.2	0.6	0.8	2.1	2.4	2.0
Investment	0.3	-0.1	0.3	-0.3	-0.5	-0.9	-1.3	-4.1	-5.9	-4.0	0.7	-3.5	-12.9
Exports	0.6	1.7	3.5	1.0	1.6	0.9	0.6	-7.7	-6.6	-3.6	6.7	3.6	-14.6
Imports	1.4	0.0	1.4	-0.3	0.6	-1.5	0.4	-3.8	-4.8	-2.6	2.9	-0.8	-9.7
Contributions to GDP growth													
Domestic demand excluding inventories	*0.5*	*0.5*	*0.5*	*0.2*	*0.2*	*-0.1*	*-0.3*	*-1.2*	*-1.1*	*-0.6*	*2.2*	*0.2*	*-2.7*
Inventories	*0.1*	*0.0*	*0.2*	*-0.2*	*0.0*	*-0.2*	*0.1*	*0.2*	*-0.2*	*0.0*	*-0.1*	*-0.1*	*-0.1*
Net exports	*-0.2*	*0.3*	*0.2*	*0.3*	*0.2*	*0.4*	*-0.1*	*-0.7*	*-0.3*	*-0.1*	*0.5*	*0.6*	*-0.9*

Forecasts — *ovhg: overhang

Sources: national statistical institutes; IMF; INSEE estimates

Russia, have also announced massive stimulus plans.

Activity will be sustained somewhat by these plans in H1. The positive effects of the incentives to replace old vehicles are already visible in France and Germany. Household consumption should fall less sharply in Q2, among other things thanks to the transfers of income to American households (increased benefits, tax cuts, etc.). Last, the increases announced in public investment could start to bear fruit.

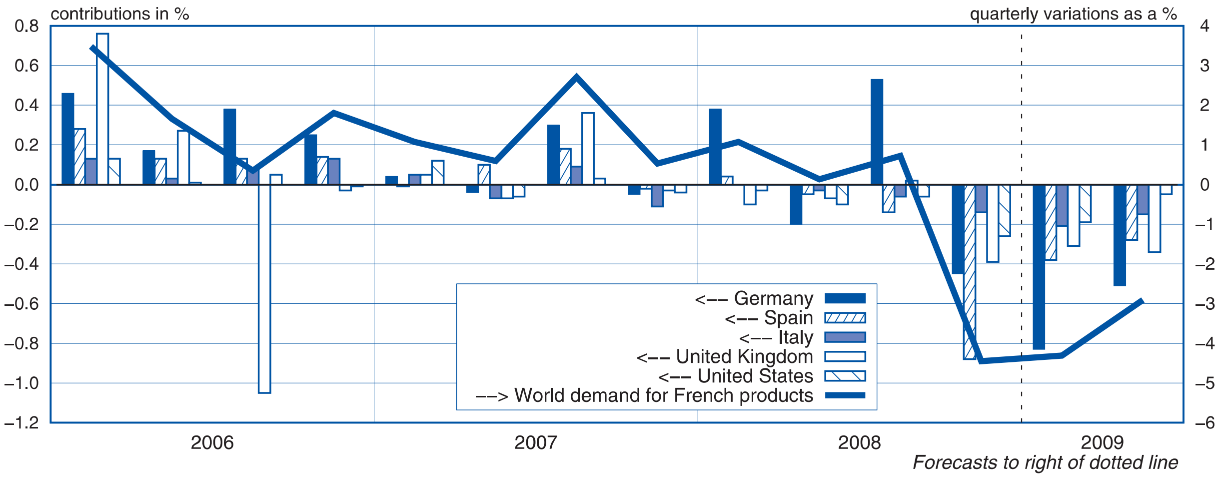
However, the impact of these plans on the economy is difficult to assess accurately. On the one hand, in these announcements of public investment it is often hard to tell the difference between what is really new expenditure and what is expenditure that would have been committed anyway. And the timelines for implementing these new expenditures are themselves very uncertain.

On the other hand, with regard to support for households, the breakdown between consumption and savings of the amounts that are paid out is not known *ex ante*. In particular, it is difficult to say to what extent households will increase their savings faced with the rapid rise in unemployment and the uncertainty surrounding their future income.

France's export outlets suffering a downturn

The decline in world trade should weigh heavily on France's export trade outlets: "world demand" for French products, that is, the imports of our partners weighted by their share in our exports, should fall once again in H1 2009 (-4.3% then -2.9% in Q1 and Q2 2009), after -4.4% in Q4 2008 (see *Graph 2*). ■

2 – Decline in the imports of France's main trading partners



Note: the curve represents the quarterly variation in world demand for French products. The bars represent the variations in the countries' imports in volume, weighted by their share in French exports (the total weight of these five countries represents almost half of French exports).
Sources: DataInsight, DGTPE, INSEE calculations

Focus - A better understanding of foreign trade trends by country using a world trade forecast

With the further opening up of borders, the trends in export outlets are an increasingly important determinant in a country's growth. To forecast trends in these outlets, the usual method is to forecast the imports of the main partners and aggregate them to form an indicator of "world demand" for the products of this country. Each country's imports are, however, themselves dependent on exports, notably through the intermediate consumption that is a part of them. To commence this iterative process, it is thus necessary to have a "starting" hypothesis for world trade. Here we present such a tool which, over the timescale of a quarter, can forecast world trade from business tendency surveys and therefore give an indication of the direction in which foreign trade is moving in each country. With the data available in November 2008, this tool could be used to trace the sharp downturn in world trade that occurred in Q4, even though it would underestimate its extent. For the first quarter, it indicates another major drop in world trade.

Forecasting world trade: the contribution of export orders

The "manufacturing industry export orders" component of the monthly Purchasing Managers' Index (PMI) survey, available in a great many countries, turns out to be a coincident, or even leading, indicator of world trade trends (*see Graph 1*), which can thus be used to forecast the orientation of international exchanges prior to publication of the quarterly national accounts.

The following calibration is used to forecast the quarterly variation in world trade (WT) based on the overhang of the PMI survey at the end of the second month of the quarter, which is the last known point when Conjoncture in France is compiled.

$$\Delta WT_t = \underset{(-6{,}6)}{-19{,}0} + \underset{(+7{,}4)}{0{,}4}\, PMI_t^{acquis\_m2} - \underset{(-2{,}8)}{0{,}3}\, \Delta WT_{t-3} \;;$$

ΔWT_t : quarterly variations in the world trade index calculated by the CPB (Netherlands Bureau for Economic Policy Analysis).

$PMI_t^{acquis\_m2}$: PMI survey overhang at the end of the second month of the quarter

Estimation period: Q1 1999-Q4 2007; R^2 adjusted = 0.62; DW = 2.0. In parentheses: Student tests.

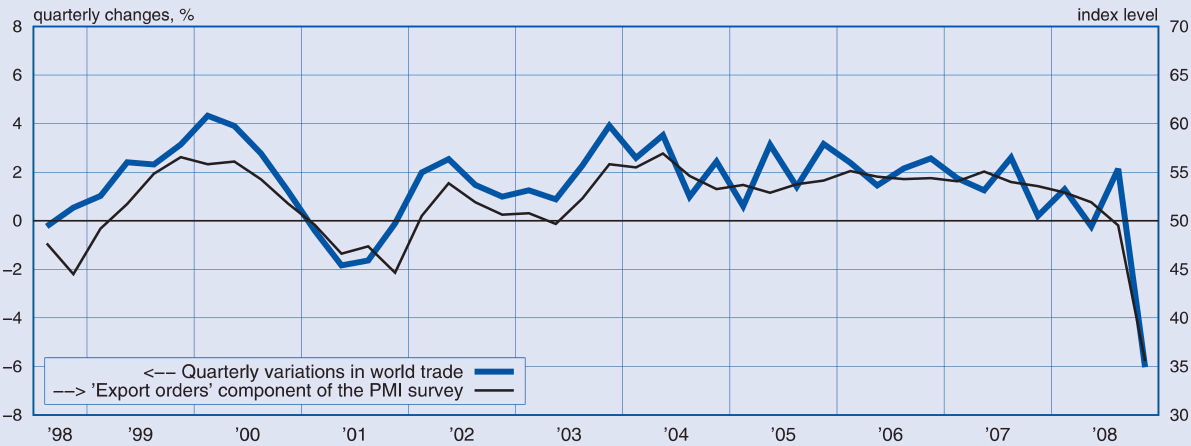
The calibration quite accurately plots the fall in world trade in Q4 2008

In Q4 2008, the calibration captured the decline in world trade fairly well (-6.0%) although it underestimated its extent: it indicated a drop of -4.6% in early December. This calibration enabled the announcement in early December of the decline in world trade which the Customs statistics and - naturally - the quarterly national accounts could not yet detect.

World trade is likely to continue to fall in Q1 2009

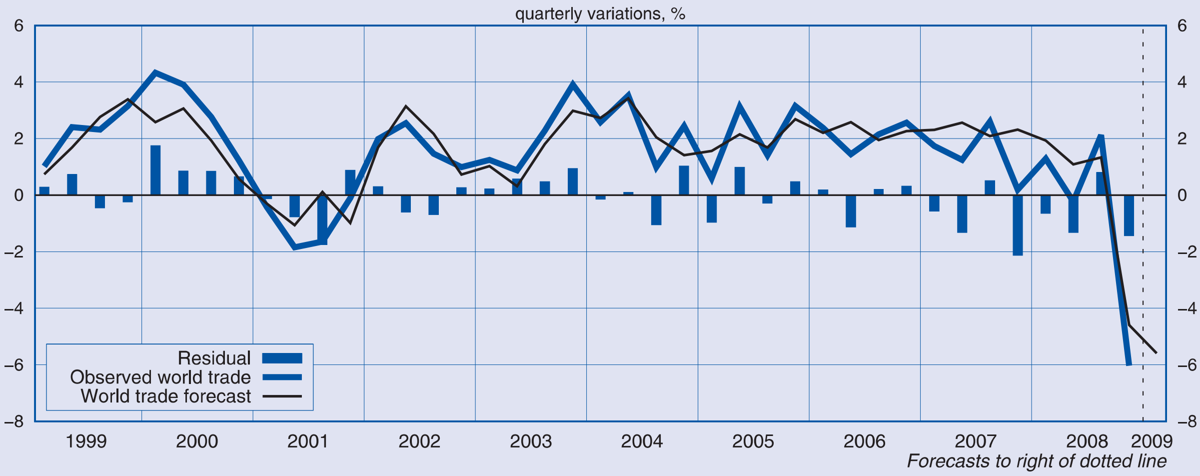
For Q1 2009, this instrument indicates a 5.6% contraction of world trade (*see Graph 2*). It gives rise to expectations of a new, sharp drop in foreign trade, and therefore in the world demand for French products that we included in our scenario. ■

1 – World trade and purchasing managers' index (PMI)



Sources: JP Morgan, CPB

2 – World trade forecasts based on the "manufacturing sector export orders" component of the PMI survey



Sources: JP Morgan, CPB, INSEE calculations

Consumer prices

On average over the year 2008, inflation showed a clear upswing (2.8%, after 1.5% in 2007) owing to the surge in oil prices and food raw materials in H1.

Nonetheless, since mid-2008, there has been a clear tendency towards lower inflation. First, oil prices fell, bringing about a cut in energy prices. Next, core inflation fell back: on the one hand the drop in oil prices, in conjunction with that of food raw materials, caused a decline in the price of intermediate consumption, which has gradually spread to the production chain as a whole; and on the other hand, shrinking demand has squeezed margins. Year-on-year, core inflation should progressively fall from 2.1% in October 2008 to 1.4% in June 2009.

Year-on-year trends in consumer prices are even likely to be temporarily negative, -0.6% in June, due to the extent of the drop in oil prices recorded since summer 2008.

Core inflation also set to fall back

Core inflation, which mainly excludes energy and seasonal food products,[1] should also be heading downwards: falling from 2.1% in October 2008 to 1.9% in February 2009, it should move to 1.4% in June, year-on-year (see *Graph 1*). Producer prices should see a sharp downturn: the drop in prices of energy and food raw materials will probably continue to spread and the decline in demand should continue to squeeze the margins of national producers. The prices of imported automobiles and consumer goods, suffering a slowdown abroad due to the same factors, may also contribute to the downturn in consumer prices in these sectors. Last, the Law on the Modernization of the Economy is likely to weigh heavily on distribution margins (see *Graph 2*). However, the drop in core inflation should remain moderate in H1, because it does not react quickly to the economic cycle, either downwards or upwards.

Energy prices contribute to falling inflation

Since summer 2008, the French economy has showed a clear move towards lower inflation.

Indeed, energy prices have fallen back sharply from their high point in July 2008, in the wake of Brent prices which plunged from $133 to $43 between July 2008 and February 2009. Under the assumption of a stable Brent price, forecast at $40 dollars (see *Oil note*), the drop in energy prices should continue for the forecasting period, as the sharp rises recorded in Spring 2008 are progressively phased out of the year-on-year figures (see *Table and Graph 3*). The extent of this decrease should exceed the contraction observed during the oil counter-shock of 1986: -19.9% year-on-year in June 2009, compared with -15.9% in August 1986.

Year-on-year, total inflation should even become temporarily negative in June, at -0.6%: the fall in energy prices (contributing to bringing the overall index down by 1.4 points) should only partly be compensated for by core inflation (the contribution of which to the overall index should be +0.8 point).

Drop in the prices of non-energy industrial goods

The slowdown in the prices of non-energy industrial goods is set to continue: in June 2009, they should have diminished over one year (-0.2%), while they were virtually stable in February. The 10% drop in prices of generic medication in 2009[2] is added to the factors already mentioned: spread of the plunging price of Brent to producer prices, and then to consumer prices, expected drop in demand, notably in the automobile industry, and decrease in the prices of imported goods.

Nonetheless, in June 2009 the year-on-year fall in prices compared with February should remain limited, as it will no longer include the sharp drop recorded in June 2008 in health products: the decision to switch 200 medication products to

(1) Core inflation excludes public tariffs and products with volatile prices from the calculation of inflation, as well as seasonal food products and energy. It is also corrected for tax measures. The core index does however incorporate 32% of food products.
(2) The Economic Health Products Committee (CEPS), responsible for regulating the prices of reimbursable medical products, has decided to bring the prices of generics down to 45% of those of original molecules (*princeps*), against 50% at present.

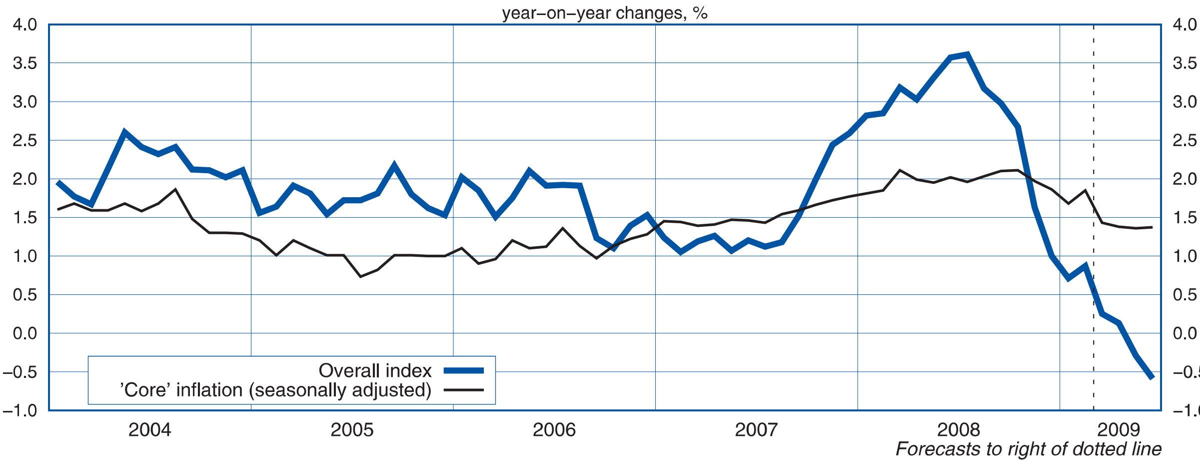
over-the-counter sale had brought about a sharp fall in their prices.

Slight slowdown in service inflation in the wake of transport services

In February 2009, service inflation recovered under the effect of the unusual rises in the prices of air transport and accommodation.

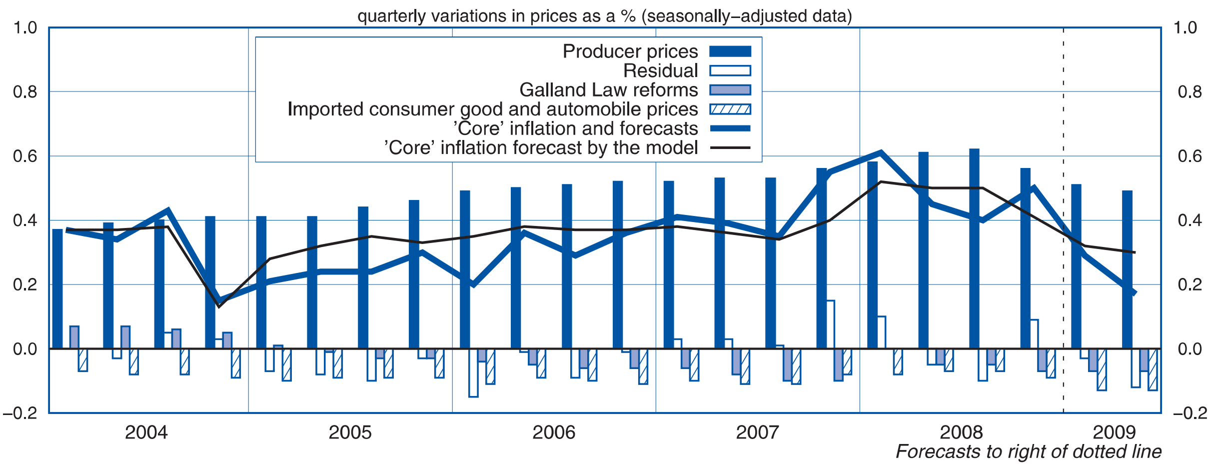
By mid-2009, service inflation should have gone down (to 2.5% year-on-year in June after 2.7% in February), in the wake of transport services. Indeed, by June the prices of plane tickets should be stable, whereas they had risen sharply last year: the airline companies had passed on the surge in oil prices of spring 2008 to their customers. Additionally, the collapse of the prices of food raw materials should partially be seen in catering prices. Year-on-year prices of services are likely to reach a low point in early spring, when last year's rise in mobile telephony prices is no longer included in the year-on-year figures.

1 - Consumer prices in France



Source: INSEE

2 - Contributions to "core" inflation



How to read the chart: The curve represents quarterly core inflation, which depends on the quarterly growth in producer prices in the market sector and the prices of imported consumer goods and automobiles. A supplementary variable is introduced ("Galland law reforms") in order to take into consideration the price-lowering effects caused by the successive reforms of the Galland law, initiated at the end of 2004. The relationship presented here is part of a wider model (price-wage loop) which also takes account of the role of inflation expectations in wage negotiations. The histograms represent the econometric contributions of the variables to core inflation. For example, in Q3 2007 core inflation was 0.35%; producer prices explain 0.55 point, and the "Galland law reforms" variable and the prices of imported consumer goods and automobiles contributed negatively (0.1 point each). The contribution of the residual is therefore nil for this quarter.
Source: INSEE

The fall in agricultural prices set to reduce food inflation

Food inflation is likely to continue to be moderate. Year-on-year prices should fall to 0.9% in June 2009 after 2.2% in February (see *Table*) and the high point of 6.4% in July 2008. Since spring 2008, the drop in agricultural producer prices has brought about a decrease in producer prices in the agrifood industry. This should continue to spread in H1 2009 to retail food prices, except seasonal products. Furthermore, price rises in the supermarket sector should continue to be moderate owing to the effects of the Law on the Modernization of the Economy. Last, as the full repercussions of the rise in the prices of food commodities took place in H1 2008, its impact on year-on-year prices should gradually disappear by June.

For seasonal food products, year-on-year prices should fall back between February and June. Last year, sharp prices rises followed the unusual drops in January and February. ■

Consumer prices

changes as a % and contributions in points

CPI* groups *(2009 weightings)*	February 2008		June 2008		February 2009		June 2009		Annual averages	
	ga	cga	ga	cga	ga	cga	ga	cga	2007	2008
Food (16.5%)	**4.8**	**0.8**	**5.5**	**0.9**	**2.2**	**0.4**	**0.9**	**0.1**	**1.4**	**4.9**
Tobacco (1.7%)	**6.3**	**0.1**	**6.2**	**0.1**	**0.6**	**0.0**	**0.6**	**0.0**	**2.6**	**3.9**
Non energy industrial goods (31.5%)	**0.3**	**0.1**	**0.2**	**0.1**	**0.1**	**0.0**	**-0.2**	**-0.1**	**0.0**	**0.3**
Energy (7.2%)	**11.4**	**0.9**	**18.8**	**1.5**	**-8.8**	**-0.6**	**-19.9**	**-1.4**	**1.7**	**10.8**
including: oil products (4.2%)	*17.6*	*0.8*	*28.0*	*1.3*	*-17.0*	*-0.8*	*-31.8*	*-1.3*	*1.5*	*14.8*
Services (43.0%)	**2.2**	**0.9**	**2.4**	**1.0**	**2.7**	**1.2**	**2.5**	**1.1**	**2.6**	**2.4**
including: rent-water (7.4%)	*2.9*	*0.2*	*2.3*	*0.2*	*2.7*	*0.2*	*2.8*	*0.2*	*3.5*	*2.5*
health services (5.1%)	*1.9*	*0.1*	*1.9*	*0.1*	*0.7*	*0.0*	*0.7*	*0.0*	*2.4*	*1.4*
transport-communications (5.2%)	*-0.1*	*0.0*	*2.0*	*0.1*	*3.5*	*0.2*	*2.2*	*0.1*	*0.6*	*1.6*
other services (25.2%)	*2.6*	*0.6*	*2.7*	*0.7*	*2.9*	*0.7*	*2.8*	*0.7*	*2.7*	*2.7*
All (100%)	**2.8**	**2.8**	**3.6**	**3.6**	**0.9**	**0.9**	**-0.6**	**-0.6**	**1.5**	**2.8**
All excluding energy (92.8%)	2.1	1.9	2.3	2.1	1.7	1.6	1.2	1.1	1.5	2.1
All excluding tobacco (98.3%)	2.8	2.7	3.5	3.5	0.9	0.9	-0.6	-0.6	1.5	2.8
"Core" inflation (61.9%)**	**1.9**	**1.1**	**2.0**	**1.2**	**1.9**	**1.1**	**1.4**	**0.8**	**1.5**	**2.0**
All HCPI*	**3.2**	**3.2**	**4.0**	**4.0**	**1.0**	**1.0**	**-0.7**	**-0.7**	**1.6**	**3.2**

Forecast

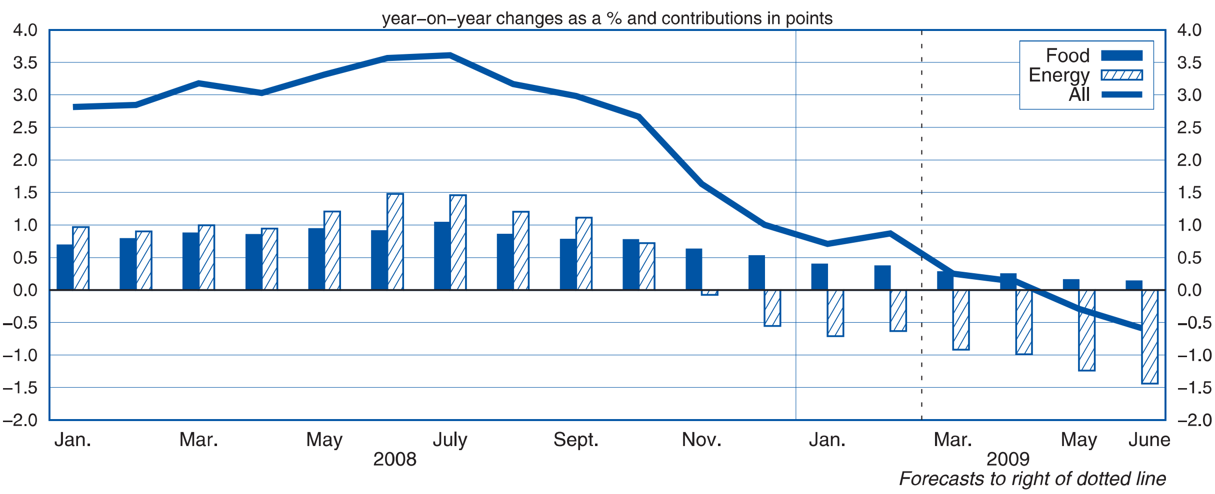
ga : year on year   cga : contribution to the year on year value of the overall index

* Consumer price index (CPI) and harmonised consumer price index (HCPI)

** Index excludes public tariffs and products with volatile prices, corrected for tax measures and seasonal variations

Source: INSEE

3 - Inflation in France: contributions of the most volatile items



Source: INSEE

Employment

Employment fell back in spring 2008, with the decline in activity. Since then, the market sectors have lost jobs, with temporary employment particularly hard hit. In H1 2009, job losses should accelerate with the sharp decline in activity recorded in Q4 2008 and forecast in Q1 2009. Non-agricultural market-sector employment should fall by 387,000 jobs in H1 2009, after 159,000 losses in H2 2008. On the other hand, paid employment in the non-market sectors should continue to grow, with non-subsidized employment remaining dynamic and subsidized employment remaining stable. In total, 330,000 jobs will probably be lost over the first six months of 2009, after 90,000 losses over 2008 as a whole.

The market sectors are likely to be hard hit by the crisis

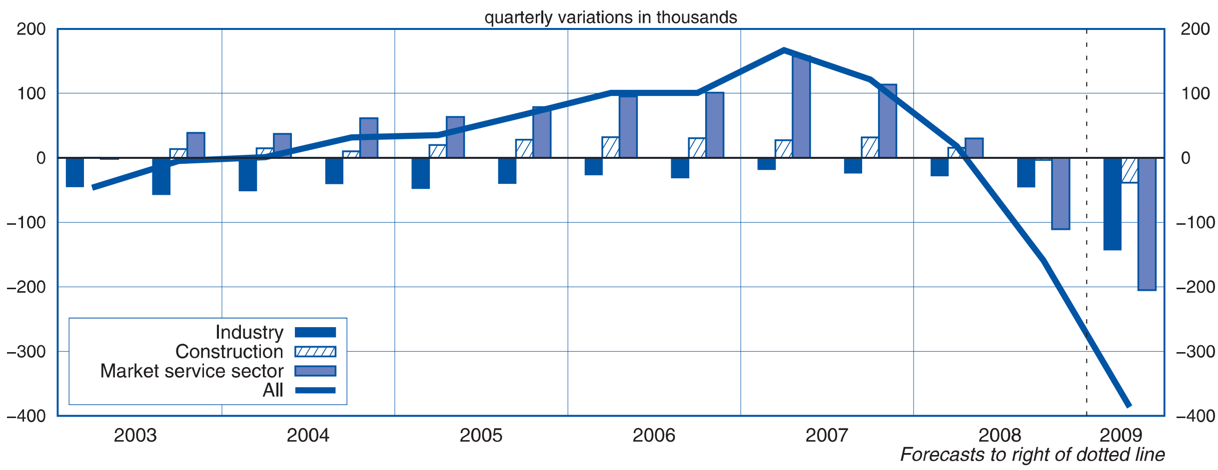
With the downturn in the economic situation in H2 2008, the market sectors started to lose jobs. This fall in employment has been accentuated over the ensuing quarters: non-agricultural market sector employment fell by 141,000 jobs in 2008 as a whole, with a drop of 159,000 in H2 (see *Table*). In H1 2009, the decline in activity is likely to continue and worsen, and employment in the market sectors should fall by 387,000 (see *Graphs 1 and 3*).

Services: a marked downturn in temporary employment

The sharp fall in market-sector jobs in H2 2008 can mainly be attributed to the tertiary market sectors, and essentially temporary work. Apart from temping, the rate of job creations has slackened but has remained positive. Over the year 2008, 139,000 jobs were lost in the temping sector while 59,000 jobs were created in the other tertiary sectors. This sharp decline in the temping industry is above all due to the drop in activity in industry and construction, which take on around 65% of temporary employees.

For the first half of 2009, business prospects are poor and entrepreneurs in the tertiary sector are pessimistic as to any rise in the workforce (see *Graph 2*). The fall in employment in the tertiary market sectors (including temping) should get worse, with 205,000 job losses in H1 2009.

1 - Paid job creations in the non-agricultural market sectors



Source: INSEE, employement estimations

Employment

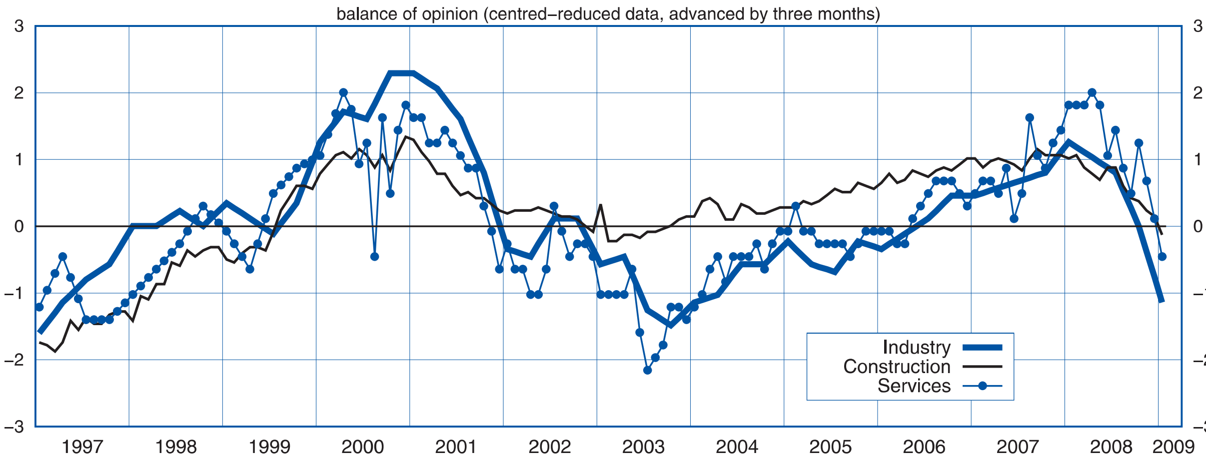
A sharp drop in industrial employment

In the industrial sectors, the growth in production since 2005 had limited job losses. However, at the end of 2008 the deteriorating industrial climate came hand in hand with an acceleration in job losses in the sector: total losses came to 73,000 over the year as a whole, after -42,000 in 2007 (see *Table*). Entrepreneurs are very pessimistic about increasing their workforce over the coming months (see *Graph 2*). As industrial activity is likely to continue its slide, employment in industry is set to drop by more than 140,000 jobs during H1 2009.

Construction sliding into the red in 2009

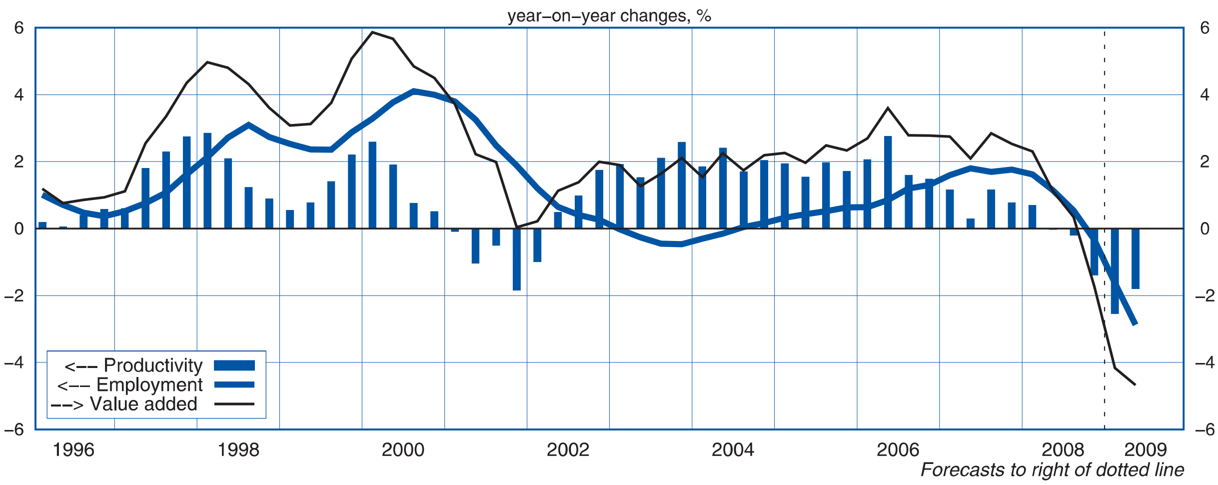
With only 13,000 jobs created, 2008 was the year of the slowdown in construction, after two years of sustained growth (see *Table*). In H1 2009, the workforce should fall sharply in this sector (-38,000 jobs), as anticipated by entrepreneurs (see *Graph 2*).

2 - Entrepreneur opinions on expected headcount trends



Source: INSEE, business tendency surveys

3 - Paid employment and value added in the non-agricultural market sectors



Source: INSEE

Non-market employment still on the rise

In 2008, 36,000 jobs were created in the non-market sectors. This increase is lower than in 2007 as the number of beneficiaries of subsidized work contracts diminished in 2008. At the same time, private employment in the non-market sectors (subsidized and non-subsidized) and public non-subsidized employment continued to grow at a similar pace to that of 2007.

In H1 2009, private employment in the non-market sectors, which does not react greatly to the economic cycle, should continue to progress (+23,000. *See Table*). Moreover, the large number of new subsidized contracts that are planned should make up for the fall in the number of beneficiaries observed in 2008, and even increase the total number. The non-market sectors as a whole should create 47,000 jobs in H1 2009. ■

Change in employment

	Job creations over the period (in thousands) seasonally adjusted				Change in employment over the period (%) seasonally adjusted				Level at the end of the period (in thousands) seasonally adjusted			
	2007	**2008 H1**	**2008 H2**	**2009 H1**	**2007**	**2008 H1**	**2008 H2**	**2009 H1**	**2007**	**2008 H1**	**2008 H2**	**2009 H1**
Competitive sector employees (1)+(2)	**330**	**34**	**-135**	**-364**	**1.9**	**0.2**	**-0.7**	**-2.0**	**18108**	**18143**	**18008**	**17644**
Mainly non-agricultural market sectors (1) including:	**288**	**18**	**-159**	**-387**	**1.8**	**0.1**	**-1.0**	**-2.4**	**16031**	**16048**	**15889**	**15503**
Industry :	-42	-28	-45	-143	-1.1	-0.8	-1.2	-4.0	3680	3652	3607	3464
including:												
Manufacturing industry	*-35*	*-26*	*-43*	*-112*	*-1.2*	*-0.9*	*-1.5*	*-4.0*	*2897*	*2871*	*2828*	*2716*
Construction	59	16	-3	-38	4.2	1.1	-0.2	-2.6	1474	1489	1486	1448
Essentially market services sectors	271	30	-111	-205	2.6	0.3	-1.0	-1.9	10877	10907	10796	10591
Mainly non-market sectors (2) (private establishments only)	**42**	**17**	**24**	**23**	**2.0**	**0.8**	**1.1**	**1.1**	**2078**	**2094**	**2118**	**2141**

	Job creations over the period (in thousands) seasonally adjuste				Change in employment over the period (%) seasonally adjusted			
	2007	**2008 H1**	**2008 H2**	**2009 H1**	**2007**	**2008 H1**	**2008 H2**	**2009 H1**
Mainly non-agricultural market sectors	**288**	**18**	**-159**	**-387**	**1.8**	**0.1**	**-1.0**	**-2.4**
Agricultural employees	**-12**	**0**	**0**	**0**	**-3.6**	**0.0**	**0.0**	**0.0**
Mainly non-market service sectors (including private establishments)	**44**	**-2**	**38**	**47**	**0.6**	**0.0**	**0.5**	**0.7**
Non-salaried	**16**	**8**	**8**	**8**	**0.7**	**0.3**	**0.3**	**0.3**
TOTAL EMPLOYMENT	**335**	**24**	**-113**	**-332**	**1.3**	**0.1**	**-0.4**	**-1.3**

Forecast
(1) Sectors EB to EP
(2) Sectors EQ and ER
How to read the chart: 135,000 jobs thought to have been destroyed in the competitive sector duing H2 2008. This corresponds to a fall of 0.7%. On 31 December 2008, this sector probably employed 18,008,000 people.
Source: INSEE

Wages

In 2008, the basic wage appears to have increased a little more than in 2007: +3.0% after +2.7%. However, the average wage per head in the non-agricultural market sector maintained the same dynamic: +2.9% after +3.0%. The rise in the remuneration for overtime work compensated for the slowdown attributable both to the financial sector, which paid much lower bonuses in 2008, and to the deteriorating economic situation. The slowdown in nominal wages should be accentuated in H1 2009.

In real terms, wages appear to have stagnated in 2008 owing to the sharp rise in prices until the summer: +0.2% for the basic wage and +0.1% for the average wage per head, against +1.2% and +1.5% respectively in 2007. However, they benefited from the drop in inflation from H2. Real wages are likely to have increased in Q4 2008 and should do so in H1 2009 (+1.1% for the basic wage, +0.6% for the average wage per head). At the end of Q2 2009, their growth overhang over the year should be positive (+1.8% for the mean wage, +1.3 % for the average wage per head).

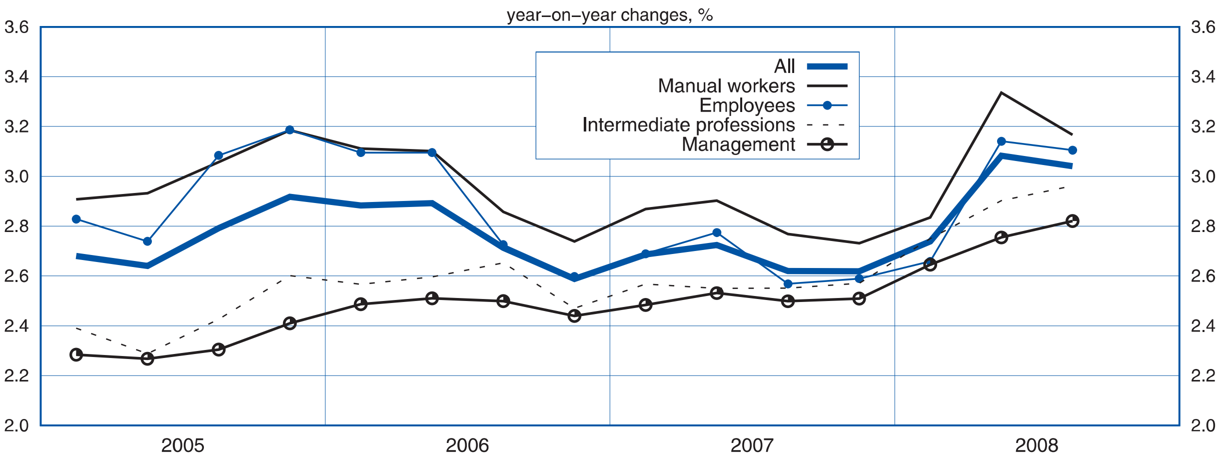
In general government, the average wage per head accelerated in 2008 (+3.0% in 2008 after +2.7% in 2007). But in real terms it stagnated (+0.2%), after a rise of 1.2% in 2007. In H1 2009, the average wage per head is likely to evolve at a comparable rhythm to that of Q4 2008, because of the absence of any new measures benefiting wages until H2.

A clear slowdown in the basic wage in 2009

Over the year 2008, the average monthly wage increased a little faster than in 2007 (+3.0% after +2.7%; see *Table*). The increase was mainly caused by the high inflation rate observed until summer 2008, which brought about, among others, an anticipated upgrading of the minimum wage on 1st May 2008. Overall, the minimum wage progressed by 3.2% in 2008 (after +2.3% in 2007). The improvements in the labour market until early 2008 also favoured the rise in nominal wages. The wages of manual workers and employees significantly accelerated in H1, as did those of the intermediate professions and management to a lesser extent (see *Graph 1*).

However, in early 2009, the basic wage is likely to fall significantly (see *Graph 2*), owing to the deterioration of the labour market and the drop in the inflation rate.

1 – Year on year basic monthly wage (SMB) by socioprofessional category



Sources: Dares, INSEE

The average wage per head should stagnate in early 2009

The average wage per head also includes bonuses and is sensitive to modifications in the employment structure (see Box). The bonuses paid by financial institutions were nowhere near as high in 2008 as the exceptional bonus levels of 2007. Conversely, the nominal average wage per head was sustained by the rise in the compensation for overtime work. Overall, it only slowed slightly in 2008 (+2.9% against +3.0% in 2007).

In early 2009, a major slowdown should begin and the average wage per head should stagnate. The drop in the inflation rate and the rise in unemployment are likely to curb the average wage per head (see *Graph 2*). Added to this, there will be more occasional factors such as the foreseeable drop in bonuses paid at the start of the year by financial institutions, owing to the poor results of the banking sector. The growth overhang of the average wage per head at the end of H1 2009 should therefore be low (+1.1%).

Real wages should level off in early 2009

Over 2008 as a whole, real wages appear to have stagnated, mainly due to the peak in the inflation rate in H1. The real basic wage barely rose (+0.2% after +1.2% in 2007) and the real average wage per head fell even further (+0.1% after +1.5%)

However, in 2009 the fall in the inflation rate should sustain the purchasing power of wages. It should more than compensate for the negative impact of the worsening labour market. The real basic wage should significantly rise over this period with an overhang of +1.8% for 2009 at the end of Q2. The real average wage per head should also rise but to a lesser extent, with a growth overhang of +1.3% at the end of Q2.

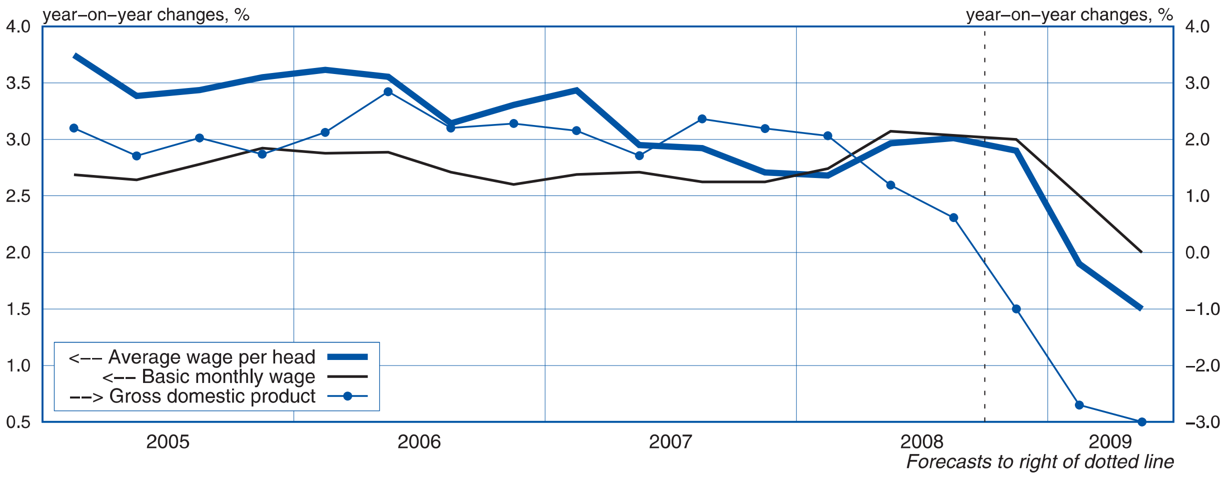
Real wages stagnating in 2008 in general government

In the course of 2008, the civil service index point increased by 0.5% at 1st March and 0.3% at 1st October. Furthermore, the minimum guaranteed index was raised by 5 points on 1st May, then 2 points on 1st July. Also, at the end of the year a bonus was paid to agents whose index-linked salary had grown less than inflation over the period 2003-2007 (introduction of the general purchasing power guarantee, GIPA). Overall, including the age-skills drift (GVT) effect, the average wage per head increased by 3.0% in 2008 in the civil service, slightly less than in 2007 (+2.7%).

In real terms, as prices had risen sharply in annual average between 2007 and 2008, the average wage per head of central government stagnated in 2008 (+0.2%, after +1.2% in 2007).

In 2009, the programmed upgrades are unlikely to have an effect until after H1 (effective from 1st July), in the same way as the category-related measures, except for managers of the National Education Ministry who receive performance related bonuses from January 2009. Thus, the nominal average wage per head should increase in H1 at a comparable pace to that of Q4 2008 and its growth overhang for 2009 should be 2.1% at the end of Q2. ■

2 – Change in average wage per head*, basic monthly wage and GDP



*Scope: non-agricultural market sector
Sources: Dares, INSEE

Wages

Change in basic monthly wage and average wage per head in the non-agricultural market sector and general government

change as a %

Seasonally-corrected data	Quarterly growth rates						Annual averages		
	2008				**2009**		**2007**	**2008**	**2009 ovhg***
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**			
Basic monthly wage	0.8	1	0.6	0.6	0.4	0.4	2.7	3	1.7
Average wage per head									
- in the non-agricultural market sector	1.2	0.4	0.6	0.7	0.1	0.1	3	2.9	1.1
- in general government	-	-	-	-	-	-	2.7	3	2.1
Household consumer price index	0.9	0.8	0.4	-0.3	-0.3	-0.1	1.5	2.8	-0.1
Real basic monthly wage	-0.1	0.2	0.2	0.9	0.6	0.5	1.2	0.2	1.8
Real average wage per head	0.3	-0.3	0.3	0.9	0.4	0.2	1.5	0.1	1.3
Real average wage per head	-	-	-	-	-	-	1.2	0.2	2.2

Forecasts – *ovhg: overhang
Source: INSEE

The basic wage and the average wage per head, the two wage indicators used in Conjoncture in France

The basic monthly wage: the constant-structure remuneration for work

The trends in the basic monthly wage reflect the mean variation in wages, at a constant qualification structure. This index is estimated from the quarterly Acemo survey by the Dares (survey on activity and employment conditions of the labour force). This quarterly survey concerns 20,000 to 30,000 establishments or enterprises of 10 employees or more in the non-agricultural market sector. The basic monthly wage is noted for 16 professional categories. Each establishment or enterprise declares the basic wage of a work position considered as representative of a professional category. This work position is monitored throughout the surveys. The basic monthly wage excludes bonuses and incentives of any nature, as well as the remuneration of overtime.

The average wage per head: the wages paid by all companies

Trends in the average wage per head, as calculated by the national accounts, reflect those of the wages paid by all companies. This indicator is the result of a comparison of the changes in total wage bill and in the number of paid employees, both of which are measured using exhaustive sources (tax data from enterprises). Compared with the basic wage, it takes account, notably, of very small companies, and integrates structure effects (trends in qualifications, in the share of part-time work), economic situation effects (overtime level) and seasonal effects (bonuses). ■

Household income

In 2008, the purchasing power of household income slowed sharply. It only progressed by 1.2% after +3.3% in 2007. It was burdened by the acceleration of consumer prices in the course of the year and by the fall in gross disposable income of households. At the end of the year, household income did indeed decelerate while taxes returned to normal growth levels after a one-off drop in 2007 linked to the recasting of the income tax scale.

In H1 2009, the purchasing power of household income should grow slightly more than in H2 2008 (+0.7% after +0.3%), thanks to the slowdown in inflation. However, income itself should only progress slightly in early 2009: the taxes paid by households should fall and social benefits should rise, but household income is likely to drop.

Table 1

Household gross disposable income

change as a %

	Half-yearly averages					Annual averages		
	2007		**2008**		**2009**	**2006**	**2007**	**2008**
	H1	**H2**	**H1**	**H2**	**H1**			
Gross disposable income (100%)	**2.5**	**2.8**	**2.0**	**1.0**	**0.6**	**4.8**	**5.4**	**3.9**
including :								
Income (70%)	*2.5*	*2.0*	*2.0*	*0.9*	*-0.6*	*4.0*	*4.6*	*3.5*
Gross wages (60%)	*2.5*	*1.8*	*2.0*	*0.9*	*-0.4*	*3.9*	*4.5*	*3.4*
GOS of individual entrepreneurs (10%)	*2.3*	*3.1*	*2.4*	*0.5*	*-1.8*	*4.3*	*5.1*	*4.2*
Cash social benefits (29%)	*2.0*	*1.8*	*1.9*	*2.0*	*2.7*	*4.4*	*3.6*	*3.8*
GOS of pure households (14%)	*4.7*	*4.4*	*2.0*	*2.5*	*1.5*	*8.2*	*9.3*	*5.5*
Property income (10%)(*)	*7.1*	*1.7*	*2.0*	*0.8*	*-0.3*	*5.2*	*4.5*	*3.3*
Social contribution and tax burden (-23%)(*)	*4.9*	*-0.7*	*1.9*	*2.8*	*-0.2*	*4.2*	*2.4*	*3.0*
Contributions by paid employees (-8%)	*2.0*	*1.4*	*0.2*	*1.1*	*0.3*	*5.2*	*3.9*	*1.4*
Contributions by the self-employed (-2%)	*1.4*	*2.5*	*1.7*	*2.1*	*1.3*	*7.8*	*3.8*	*4.1*
Income and wealth tax(including CSG and CRDS) (-13%)(*)	*7.2*	*-2.5*	*3.1*	*3.9*	*-0.8*	*3.2*	*1.2*	*3.8*
Income before taxes	3.0	2.2	2.1	1.3	0.4	4.6	4.9	3.9
Household consumer prices (quarterly national accounts)	**0.9**	**1.3**	**1.8**	**0.7**	**-0.1**	**2.2**	**2.0**	**2.8**
Purchasing power of gross disposable income	**1.6**	**1.5**	**0.3**	**0.3**	**0.7**	**2.6**	**3.3**	**1.2**
For information								
Property income (excluding accounts restatement of tax credit)	1.5	1.7	2.0	0.8	-0.3	10.9	4.5	3.3
Income and wealth tax (excluding accounts restatement of tax credit)	2.9	-2.5	3.1	3.9	-0.8	7.2	1.2	3.8

Forecast

Note: the figures in parentheses give the structure of the year 2007.

Comment on (*): the figures for Q1 2007 should be interpreted with caution. They mainly reflect the accounting consequences of the abolition of the tax credit. This abolition and its replacement by a new system have little effect on the actual income of households, but owing to the restatement of the tax credit by the national accounts, they do largely affect the changes noted. Refer to *Conjoncture* in France, June 2006, box page 82 for further information.

Source: INSEE

Income set to fall back in H1 2009

In 2008, the economic slowdown put a brake on income (+3.5% after +4.6% in 2007; *see Tables 1 and 2*). This deceleration, which started in the middle of the year, seems to reflect the slowdown in the total wages received by households (+3.4% after +4.5%). This latter item suffered from the fall in paid employment (*see Graph 1* and the "Employment" note). However, the gross operating surplus (GOS) of individual entrepreneurs(1) would appear to have maintained its progress (+4.2% in 2008 after +5.1%).

In H1 2009, income is likely to drop (-0.6% after +0.9% in H2 2008), affected by the fall in total wages received by households and the GOS of individual entrepreneurs.

Social benefits should grow strongly in H1 2009

In 2008, social cash benefits should have progressed at the same pace as the previous year (+3.8% after +3.6%; *see Table 3*). Social security benefits appear to have increased a little faster (+4.3% after +3.9% in 2007), because of the upswing in unemployment benefits following the deterioration of the labour market. Conversely, sickness benefit and family and old-age allowances would have slowed somewhat, despite the increase in the return-to-school grant and the upgrading of retirement pensions in September.

(1) The gross operating surplus (GOS) of individual entrepreneurs is the balance of the operating account of sole proprietorships. It is mixed income, as it remunerates the work performed by the owner of the sole proprietorship and, where applicable, members of his family, but also contains the profit achieved as an entrepreneur.

Elsewhere, social welfare benefits seem to have increased slightly in 2008 (+0.2% after -1.0% in 2007).

In H1 2009, social benefits will probably be dynamic (+2.7% as a half-year average, after +2.0% in H2 2008). Family and old-age allowances should accelerate because of the upgrading (in January and April respectively) due to higher than expected inflation in 2008. Furthermore, unemployment benefits will continue to rise. Last, social welfare benefits should rise steeply under the effect, among others, of the expected upgrading of the minimum integration income (in January), the allowance for disabled adults, and the solidarity allowance for the elderly (in April), as well as the payment of the active solidarity bonus in Q2.

The tax burden of households set to drop in early 2009

In 2008, the tax burden of households seemed to show more sustained growth than the previous year (+3.0% after +2.4%; *see Table 1*). The taxes paid by households were distributed at a faster pace (+3.8% after +1.2%): income tax (IRPP) returned to a more habitual rate of progress after the drop in 2007 which was due to the recasting of the scale. Conversely, the contributions paid by salaried workers appear to have decelerated clearly in 2008 (+1.4% after +3.9%). On the one hand, the exemptions on overtime once again had effects at the beginning of the year, and on the other the wage bill shrank at the end of the year. The other current taxes(2) were also less dynamic in 2008, after the changes made to the solidarity tax on wealth (ISF) by the TEPA law.

(2) These are mainly local taxes (accommodation tax, part of property tax on land), partly vehicle registration taxes, and the solidarity tax on wealth.

Table 2

From non-financial enterprise payroll to wages received by households

change as a %

	Half-yearly averages					Annual averages		
	2007		**2008**		**2009**	**2006**	**2007**	**2008**
	S1	**S2**	**S1**	**S2**	**S1**			
Non-financial enterprises (66%)	2.6	2.0	2.4	0.8	-1.2	4.3	4.7	3.8
including : Average wage per head	1.7	1.2	1.8	1.3	0.5	3.3	3.0	3.1
Financial corporations (5%)	3.2	0.2	2.3	0.7	-1.1	6.3	4.2	2.7
General government (24%)	2.0	1.3	0.7	1.1	1.6	2.8	3.6	2.0
Households excluding individual entrepreneurs (2%)	5.6	4.1	2.4	2.6	2.5	4.9	10.0	5.7
Total gross wages received by households (100%)	**2.5**	**1.8**	**2.0**	**0.9**	**-0.4**	**3.9**	**4.5**	**3.4**
including : Non-agricultural market sectors	*2.7*	*1.9*	*2.3*	*0.7*	*-1.2*	*4.4*	*4.8*	*3.6*

Forecast

Nota Bene: the figures in parentheses give the structure of the year 2007

Source: INSEE

In H1 2009, the tax burden of households is likely to slow considerably (-0.2% after +2.8% at end 2008), owing to the sharp drop in taxes (-0.8% after +3.9%); in particular, the IRPP should remain virtually stable after the sharp rise in H2 2008.

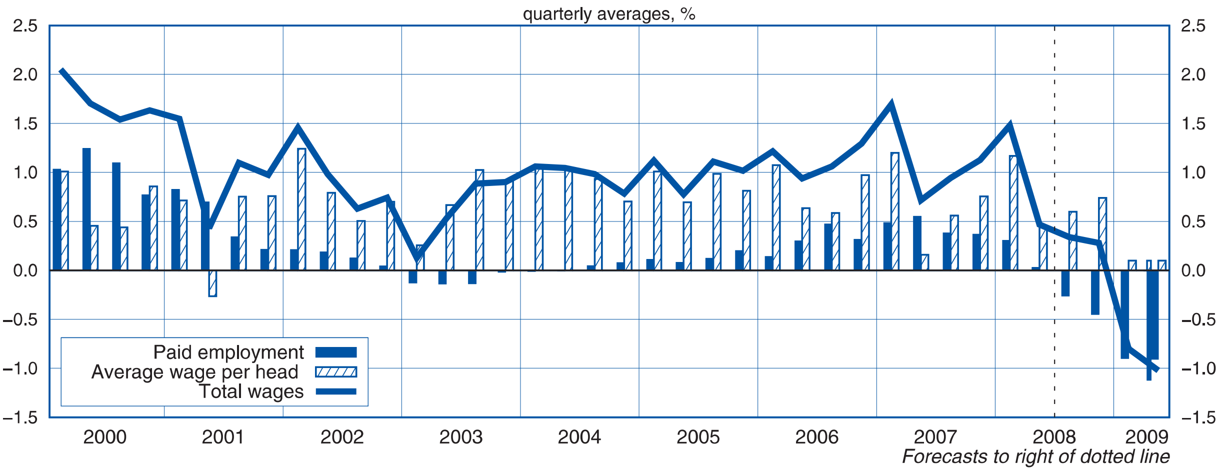
(3) These rents are what is called in the national accounts the GOS of "pure households". This corresponds to the rents that private homeowners would receive from their tenants if they put their home up for rent ("fictional" rent). The rents are corrected for property tax.

Property income set to fall in H1 2009

The other components of income were less dynamic in 2008 than in 2007. The rents received by pure households[3] only progressed by 5.5% (after +9,3% in 2007; see Table 1), because of the slowdown in rent rates. At the same time, property income has slowed slightly (+3.3% after +4.5%).

In H1 2009, the rents received should drop (+1.5% after +2.5% at end 2008) due to the downturn in activity, while property income should also fall (-0.3% after +0.8%) owing to the worsening results of enterprises.

1 - Breakdown of the total wages of households in the non-agricultural competitive sector



Source: INSEE

Table 3

The social transfers received and paid by households

change as a %

	Half-yearly averages					Annual averages		
	2007		2008		2009	2006	2007	2008
	S1	S2	S1	S2	S1			
Social cash benefits received by households (100%)	**2.0**	**1.8**	**1.9**	**2.0**	**2.7**	**4.4**	**3.6**	**3.8**
Social Security benefits (70%)	2.1	2.0	2.2	2.1	2.6	4.5	3.9	4.3
Private scheme benefits (7%)	2.0	2.0	1.6	2.1	2.4	7.0	4.2	3.7
Direct employer benefits (14%)	2.9	2.3	1.8	1.5	1.2	2.0	4.9	3.7
Social welfare benefits (9%)	-0.2	-1.2	0.2	1.3	5.9	5.2	-1.0	0.2
Total social contribution burden	**1.6**	**1.9**	**1.3**	**1.5**	**0.3**	**5.0**	**3.9**	**3.0**
Actual social contributions paid by households (100%)	1.6	1.9	1.0	1.4	0.2	5.4	3.9	2.7
including : Employer contributions[1] (64%)	*1.4*	*2.0*	*1.4*	*1.4*	*0.0*	*5.3*	*3.9*	*3.1*
Employee contributions (29%)	*2.0*	*1.4*	*0.2*	*1.1*	*0.3*	*5.2*	*3.9*	*1.4*
Self-employed contributions (7%)	*1.4*	*2.5*	*1.7*	*2.1*	*1.3*	*7.8*	*3.8*	*4.1*

Forecast

N.B.: the figures in parentheses give the structure of the year 2007.

(1) For accounting reasons, employer contributions are considered in both revenue and expenditure in the national accounts: they therefore have no effect on gross disposable income.

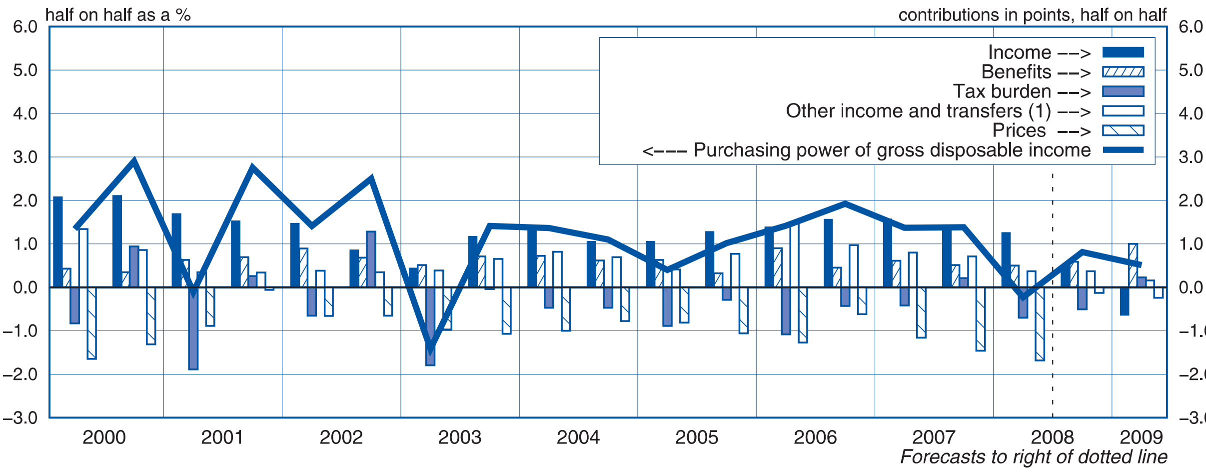
Source: INSEE

Purchasing power set for moderate progress in H1 2009

In H2 2008, nominal gross disposable income slowed sharply, only progressing by 1.0% (after +2.0% in H1). However, the slowdown in consumer prices (+0.7% after +1.8%) allowed purchasing power to remain stable at 0.3% as in the previous half-year. Over the year as a whole, purchasing power slid sharply (see *Graph 2*): it only increased by 1.2%, after +3.3% in 2007.

In H1 2009, household income will probably slow again (+0.6%). Purchasing power will however progress more than in the previous half-year (+0.7%), thanks to the fall in prices. ■

2 - Purchasing power of available income and contributions



(1) GOS of pure households, property income and current transfers (see note (3)).
Comment: these contributions are calculated "excluding accounts restatement of the tax credit".
Source: INSEE

Box - Different measurements of purchasing power

The household income that is presented and analysed in Conjoncture in France represents all the income received by all households. Indeed, it is this value which is relevant on the macroeconomic level, for example to build the balance between resources (GDP and imports) and uses (consumption, investment, exports, etc.) or to forecast GDP.

This value must be corrected if we wish to measure the mean purchasing power of the French people, in order to take account of both the growth in the number of households and the changes in their composition.

The most pertinent correction in this respect consists in dividing income by the number of consumption units in France. This concept takes account of demographic growth, but also of the fact that certain consumption items may be shared within a household (household appliances, for example). A large household therefore makes certain "economies of scale" compared to a smaller household. Over the period 2000-2007, mean growth in the number of consumption units per year is around 0.9% (as a comparison, mean growth in the number of inhabitants is 0.7% per year over the same period, and mean growth in the number of households is 1.3% per year).

In 2008, purchasing power per consumption unit was virtually stagnant (+0.3% after +2.4% in 2007). Per inhabitant, the rise was a little higher (+0.5% after +2.6% in 2007), and per household, purchasing power dropped very slightly (-0.1% after +2.0% in 2007). ■

Household consumption and investment

In 2008, households put a sharp brake on their consumption expenditure (+1.3%, after +2.5% in 2007), under the effect of the shortfall in their purchasing power. Nevertheless, in Q4 2008 consumption rebounded (+0.5% after three quarters of virtual stagnation).

In H1 2009, consumption should barely grow at all: on the one hand, any increase in the purchasing power of household income is likely to be limited; and on the other, households will probably increase their savings because of the sharp rise in unemployment and the uncertainty surrounding their future income. Consumption should therefore progress by 0.2% in Q1 and 0.1% in Q2.

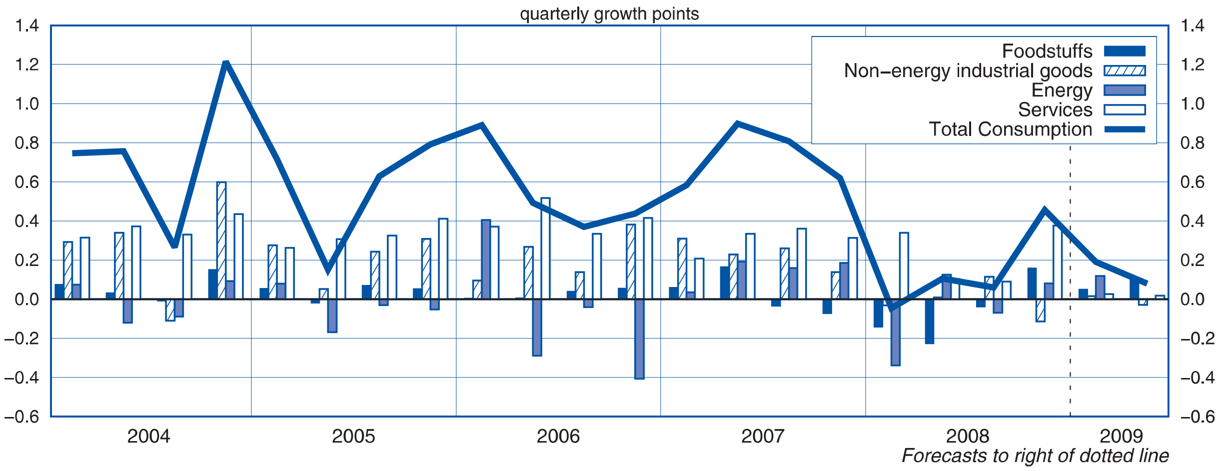
The rebound in Q4 2008 unlikely to last into Q1 2009

In 2008, total household consumption expenditure slowed down clearly (+1.3% after +2.5% in 2007, see Table). On one side it was affected by the cut in the purchasing power of households and on the other side by the increase in their precautionary savings owing to worsening job prospects from mid-2008. This slowdown in consumption can be seen in the consumption of non-energy industrial goods (+1.2% in 2008 after +4.4% in 2007). Consumption of food products fell sharply (-1.9% in 2008 after +1.2% in 2007) in reaction to the major price rises over the past year. Conversely, consumption of services, mainly market services, once again saw robust growth, although slowing slightly (+2.4% after +3.0%).

General government individual expenditure, mainly comprising education and health, remained dynamic in 2008 (+1.8% after +1.7% in 2007), in particular due to progress in health expenditure.

Household consumption was livelier in Q4 2008 (+0.5%) than in the three previous quarters, where it was stagnant (see Graph 1). It was sustained by the increase in purchasing power in late 2008 (+0.7%) and by the drop in inflation expectations, as attested to by the slight rise in consumer confidence since October. Conversely, it was slowed by the sharp rise in unemployment. The upturn in Q4 2008 can partly be attributed to the rise in the consumption of food products (+1.0%), under the effect of the drop in food prices. The consumption of energy products, notably gas and electricity, remained sustained in Q4 because of the cold winter. Last, consumption of mainly market-sector services was dynamic (+0.7% after +0.1% in Q3) under the effect, among others, of the unexpected upturn in hotel and restaurant expenditure after a pronounced slowdown for two quarters. However, consumption of non-energy industrial goods dropped in Q4 (-0.5% after

1 - Contributions of the various items to quarterly household consumption



Source: INSEE

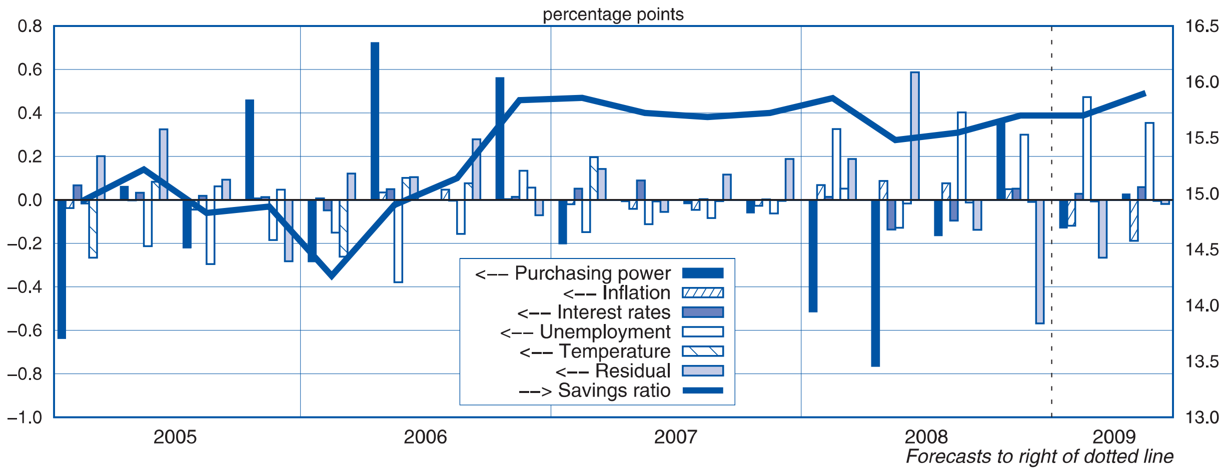
+0.5% in Q3). The introduction of the incentive to replace old vehicles on 4 December 2008 came too late to avoid a drop in household expenditure on automobiles in Q4 (-2.6%).

In Q1 2009, household consumption expenditure should once again mark time after the rebound in Q4 2008. Supported by the incentive to replace old vehicles, it is nonetheless likely to be slowed by the poor gains in purchasing power. As well as this, the sharp rise in unemployment should encourage households to boost their precautionary savings once again (*see Graph 2*). The savings rate should be slightly on the rise in H1 2009 (15.7% in Q1 2009 and 15.9% in Q2).

Household investment likely to diminish in H1 2009

Household investment, and mainly housing purchases, has fallen back since Q2 2008. It dropped by 1.1% in 2008 after +3.0% in 2007. It is slowed by three factors: the high level of prices in relation to income; the reversal of price-rise expectations, leaving no prospects for capital gains unlike in previous years; and the tightening of credit conditions, first because of the increase in interest rates by the ECB, then the financial crisis. The new drop in commencements at the end of 2008 and start of 2009 signals another fall in household investment in H1, in the order of 1% per quarter. ■

2 – Savings ratio and econometric contributions to its increase



Source: INSEE

Household consumption and investment expenditure

change as a %

	Quarterly changes														Annual changes			
	2006				2007				2008				2009		2006	2007	2008	2009
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2				
Total household consumption expenditure	0.9	0.5	0.4	0.4	0.6	0.9	0.8	0.6	0.0	0.1	0.1	0.5	0.2	0.1	2.5	2.5	1.3	0.6
including:																		
Food (17%)	*0.0*	*0.0*	*0.2*	*0.3*	*0.3*	*1.0*	*-0.2*	*-0.4*	*-0.8*	*-1.3*	*-0.2*	*1.0*	*0.3*	*0.6*	*0.6*	*1.2*	*-1.9*	*1.0*
Non-energy industrial goods (24%)	*0.4*	*1.1*	*0.5*	*1.5*	*1.3*	*0.9*	*1.0*	*0.6*	*-0.1*	*0.0*	*0.5*	*-0.5*	*0.1*	*-0.1*	*3.3*	*4.4*	*1.2*	*-0.1*
Energy (7%)	*5.7*	*-3.7*	*-0.6*	*-5.6*	*0.7*	*2.7*	*2.2*	*2.5*	*-4.5*	*1.7*	*-1.0*	*1.1*	*1.5*	*0.0*	*-0.4*	*-1.1*	*0.1*	*2.3*
Services (52%)	*0.7*	*1.0*	*0.7*	*0.8*	*0.4*	*0.7*	*0.7*	*0.6*	*0.7*	*0.2*	*0.2*	*0.7*	*0.1*	*0.0*	*3.2*	*2.7*	*2.1*	*0.8*
Government individual expenditure	0.6	0.5	0.1	0.6	0.5	0.5	0.3	0.3	0.4	0.5	1.1	0.0	0.7	0.6	1.6	1.7	1.8	1.9
Total actual consumption	0.8	0.5	0.3	0.5	0.6	0.8	0.7	0.5	0.0	0.2	0.3	0.4	0.3	0.2	2.3	2.3	1.4	0.9
Household investment	1.8	2.3	1.5	0.8	0.5	0.3	0.3	0.5	0.7	-2.7	-0.6	-0.3	-1.0	-1.1	7.1	3.0	-1.1	-3.1

Forecast

Source: INSEE

Corporate investment and inventory

In 2008, corporate investment only progressed by 1.5%, slowed by sluggish activity and the tightening of credit conditions. In H1 2009, the slowdown in capital expenditure is likely to be even more marked than in Q4 2008 because of the under-utilisation of existing capacities, and financing conditions and demand that are still unfavourable.

In Q4 2008, the contribution of inventory to growth was clearly negative (-0.9 point): the negative contribution of non-energy industrial goods, notably automobiles, was only slightly compensated for by the positive contribution of energy products. In 2008 as a whole, the contribution of inventory to growth fell back (-0.2 point, after +0.2 point in 2007). In H1 2009, the contribution of inventory to growth should still be negative, with industrial companies continuing to adjust their inventory to the low demand.

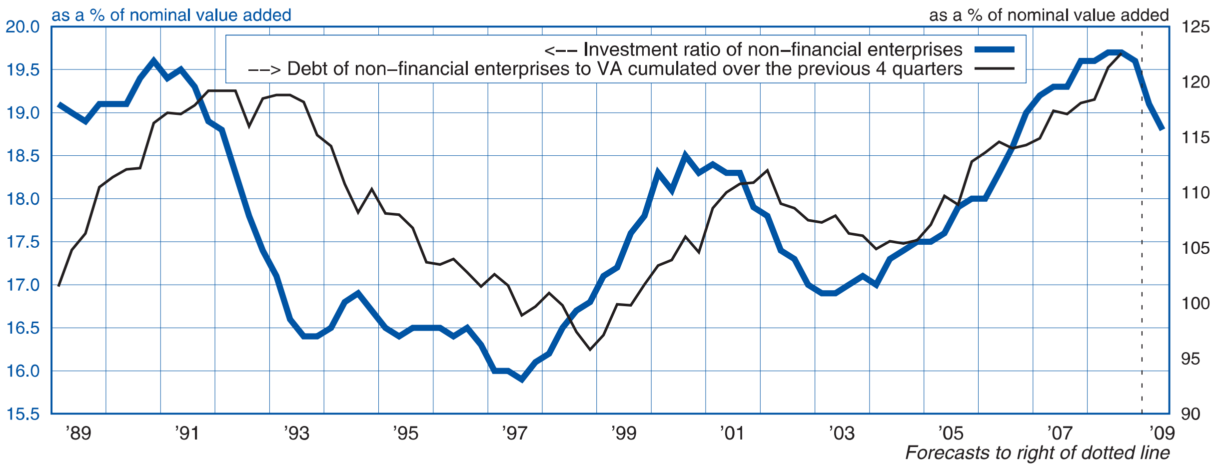
In 2008, a major slowdown in capital expenditure

In Q4 2008, the gross fixed capital formation (GFCF) of non-financial companies once again declined (-1.5% after +0.1% and -1.1%, *see Table 1*). Mediocre demand prospects, unfavourable financing conditions and the sharp fall in the production capacity utilisation rate all weighed heavily on investments by industrial enterprises.

Investment in non-energy industrial products shrank by 2.3%, mainly due to the sharp decline in automobile purchases (-5.7%) and to a lesser extent the reduction in capital goods expenditure (-1.4%). Investments in construction also continued to fall in Q4 2008 (-1.7%). The drop in building expenditure became sharper (-1.1% in Q4 after -0.1% in Q3), as did that in public works, which fell by 2.5%, partly because of the poor weather conditions.

Over 2008 as a whole, investments by non-financial companies therefore fell sharply (+1.5% after +7.3% in 2007). This clear slowdown concerned both building and public works expenditure (+0.1% after +9.3%) and that in manufactured products (+1.4% after +6.1%) and services (+3.1% after +7.2%). Despite this brake on capital expenditure, the debt ratio (ratio of debt to value added) of non-financial companies grew strongly, reaching 122.6% in Q3 (16 points above its long-term average). The investment ratio (ratio of GFCF to value added) of non-financial companies reached a record level, 19.7% in Q3 2008 (*see Graph 1*).

1 - Investment and debt ratios*



** Debt includes the loans of financial institutions and debt securities.*
Sources: INSEE, quarterly accounts and the Banque de France, quarterly and annual financial accounts back-calculated prior to 1994.

The drop in investments looks set to get worse in early 2009

In H1 2009, investment should drop even more sharply (-5.1% in Q1 then -3.4% in Q2). Indeed, as indicated by the business tendency surveys, business prospects are very weak and order books emptying, while production capacities are already underused. In January the production capacity utilisation rate in industry fell to 75.8% (against 82.2% in October), that is, 8 points below its long-term average (see *Graph 2*). And even though the banks intend to ease their loan award conditions, global financing conditions remain unfavourable to investment: real long-term interest rates have risen to levels similar to those in 2002 (see *Graph 3*). The investment ratio should start to fall and return to 18.8% at the end of H1 2009 (see *Graph 1*).

The sharp fall in capital expenditure is announced by the entrepreneurs questioned in the survey on Industrial Investment: the expected investment revision indicator[1] has recorded its biggest fall since Q3 1992, from 0.35 in Q4 2008 to -2.81 in Q1 2009.

Investment in non-energy industrial goods should fall back much further in the first two quarters of 2009 (-8.0% then -5.5%) than in Q4 2008 (-2.3%). Capital goods expenditure notably, which constitutes two-thirds of investment in non-energy industrial goods, should accentuate the drop. The bimonthly business tendency survey on the wholesale sector, conducted in January, emphasises that ordering intentions for capital goods, already severely weakened, should continue to be eroded.

(1) The investment revision indicator summarises the trends in the adjustments by companies between two successive surveys for the investments of the same year. It is centred and reduced. It generally appears to be well correlated with the quarterly growth in the GFCF of enterprises in the current quarter or the previous quarter (see report, "Forecasting corporate investment: an indicator for expectation adjustments in the survey on Industrial Investment" in *Conjoncture* in France, March 2005.).

Table 1

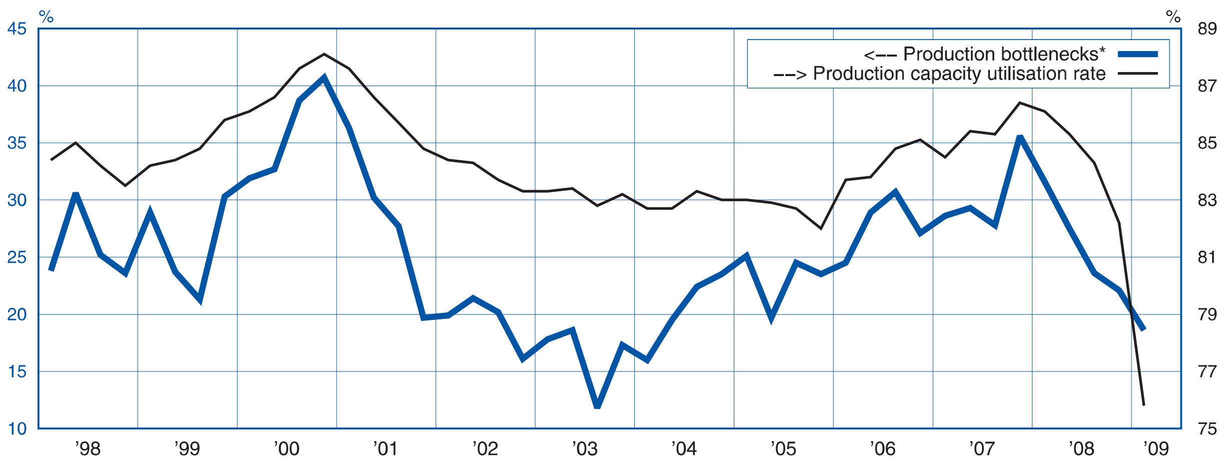
Investment by non-financial enterprises

Variations at previous year's chain-linked prices, as a %

	Quarterly variations										Annual variations		
	2007				2008				2009		2007	2008	2009 ovhg*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Non-energy industrial goods	2.1	0.7	1.8	0.6	1.4	-1.1	-0.1	-2.3	-8.0	-5.5	6.1	1.4	-13.6
Building and public works	2.5	1.7	0.2	2.5	-0.1	-2.1	-0.5	-1.7	-4.2	-2.0	9.3	0.1	-7.6
Services	0.5	1.9	1.7	1.7	0.2	-0.1	0.9	-0.3	-1.7	-1.7	7.2	3.1	-2.7
All non-financial enterprises	1.8	1.3	1.3	1.4	0.6	-1.1	0.1	-1.5	-5.1	-3.4	7.3	1.5	-8.8

Forecasts
*ovhg: overhang
Source: INSEE

2 - Tensions on production capacities in manufacturing industry



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

Corporate investment and inventory

Investment in construction should once again contract sharply in H1 2009 (-4.2% then -2.0%). The reduction should be particularly big in public works, mainly due to the unfavourable weather conditions in Q1 (-8.0%, then -1.0%): the entrepreneurs surveyed in January expect their activity to continue to worsen and their order books are getting sparser.

Last, enterprises are likely to reduce their “other investments”, mostly in IT services (-1.7% in Q1 and Q2). Prospects for the “IT activity” and “consultancy and assistance activity” sectors should indeed continue to worsen, according to the company chiefs.

Variations in inventory took its toll on growthin Q4 2008

In Q4 2008, variation in inventory made a strongly negative contribution to growth (-0.9 point, *see Table 2*). The negative contribution of non-energy industrial goods inventory (-1.1 point) was only slightly counterbalanced by the positive contribution of energy products (+0.2 point).

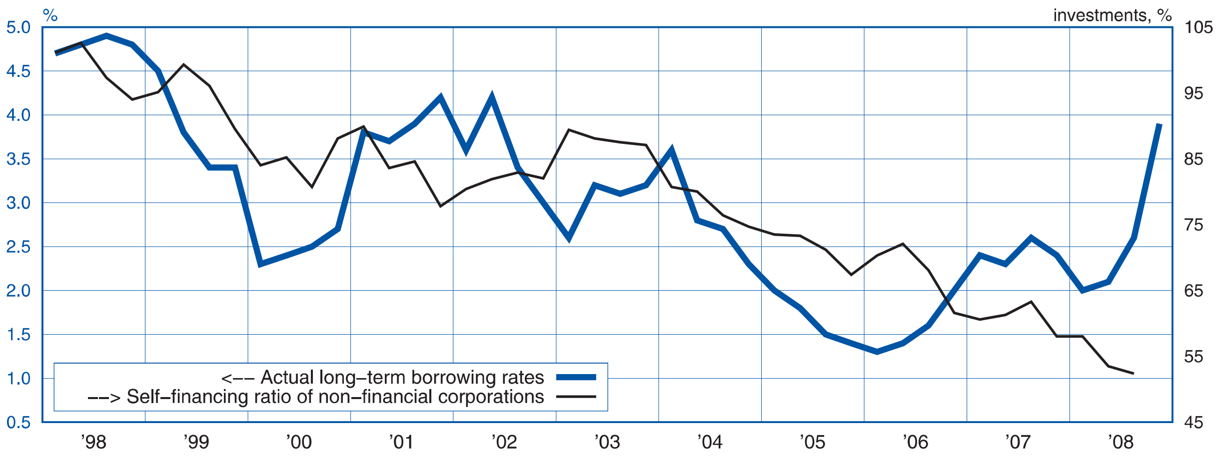
The negative contribution of non-energy industrial goods inventory essentially stems from the sudden reduction in the production and stocks of vehicles and intermediate goods in the face of severely worsening prospects in terms of demand. The positive contribution of energy product inventory to growth in Q4 2008 can mainly be explained by the sharp fall in exports (-3.1%), with imports in this sector at the same time progressing once again.

Over 2008 as a whole, the contribution of inventory to growth was negative (-0.2 point, after +0.2 point in 2007).

Inventory contribution negative again in H1 2009

After the major running-down of stocks at the end of 2008, the contribution of inventory to growth in H1 2009 is set to be clearly negative again (-0.6 point in Q1 and -0.2 point in Q2, *see Table 2*). This is the result of a new running-down of stocks of non-energy industrial goods: although the fall in short-term interest rates should bring down the cost of carrying of stock (see *“financial markets” note*), the very poor production and demand prospects are likely to encourage company chiefs to lighten their inventory even further. ■

3 - Self-financing ratio of non-financial corporations*and actual long-term borrowing rates**



** The self-financing ratio of non-financial corporations is the savings to investments ratio of non-financial corporations.*
*** Here, the actual rate is the interest rate on new loans to non-financial enterprises whereby the rate is either revisable at intervals of more than a year, or there is a fiwed rate for an initial duration of over one year. This rate is deflated by the producer price index for all goods and services.*
Sources: INSEE quarterly accounts and Banque de France

Table 2

Contribution of changes in inventory to growth

in GDP points

	Quarterly changes										Annual changes		
	2007				2008				2009		2007	2008	2009
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Agricultural and agrifood products	**0.0**	**0.0**	**0.0**	**0.1**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**
Non-energy industrial goods	**0.5**	**-0.3**	**0.3**	**-0.6**	**0.0**	**0.1**	**-0.1**	**-1.1**	**-0.6**	**-0.2**	**0.1**	**-0.6**	**-1.6**
Including: Consumer goods	0.1	0.0	0.0	-0.1	0.0	-0.1	0.1	0.1	-	-	0.1	-0.1	-
Automobile	0.2	-0.1	-0.1	0.1	0.0	-0.2	0.1	-0.8	-	-	0.0	-0.2	-
Capital goods	0.2	-0.3	0.5	-0.3	-0.1	0.3	-0.1	-0.1	-	-	0.0	0.0	-
Intermediate goods	0.0	0.1	-0.1	-0.3	0.1	0.0	-0.1	-0.3	-	-	0.0	-0.2	-
Energy products	**-0.2**	**0.2**	**-0.2**	**-0.1**	**0.1**	**0.2**	**0.0**	**0.2**	**0.0**	**0.0**	**0.0**	**0.2**	**0.3**
TOTAL (*)	**0.3**	**0.0**	**0.2**	**-0.6**	**0.2**	**0.3**	**0.0**	**-0.9**	**-0.6**	**-0.2**	**0.2**	**-0.2**	**-1.4**

Forecasts

(*) Inventory changes include acquisitions net of sales of valuables.

Source: INSEE