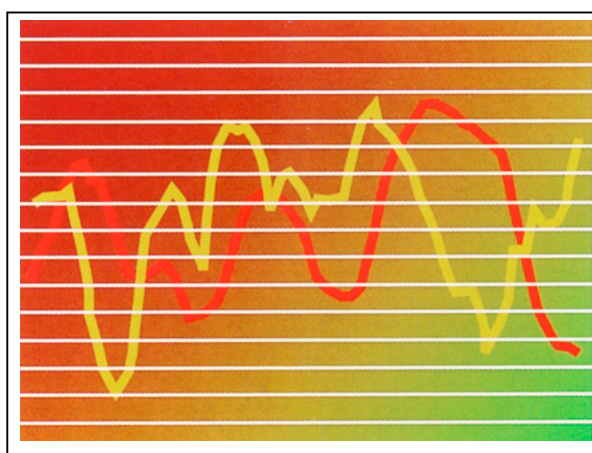


# ***CONJONCTURE IN FRANCE***

---

**MARCH 2010**



**SOFT DEMAND IN EUROPE**

This document is available on the INSEE Webserver <http://www.insee.fr>

# **CONJONCTURE IN FRANCE**

**March 2010**

**SOFT DEMAND IN EUROPE**

# SOFT DEMAND IN EUROPE

<b>GENERAL OUTLOOK</b> .....	7
------------------------------	---

<b>REVIEW OF THE PREVIOUS FORECAST</b> .....	17
--	----

## **SPECIAL ANALYSIS**

- The employment cycle  
*Small-sized companies were the first to cut their workforce during the crisis* . . . . 19

## **FRENCH DEVELOPMENTS**

- France's international environment . . . . . 37
- Consumer prices . . . . . 41
- Employment . . . . . 44
- Wages . . . . . 49
- Household income . . . . . 51
- Household consumption and investment . . . . . 55
- Corporate investment and inventory . . . . . 59

<b>STATISTICAL FRENCH APPENDIX</b> .....	63
--	----

## **Focus**

- The impact of market and non-market subsidised employment contracts in 2009 . . . . . 47
- French consumption in the crisis . . . . . 58

# Soft demand in Europe

*In Q4 2009, activity accelerated distinctly in the advanced economies as a whole. The scale of inventory change, however, suggests that this upturn should be placed in perspective: private demand remains sluggish. In the Euro Zone in particular, the weakness of domestic demand caused activity to almost level out at the end of 2009. In both these respects, Germany proved to be particularly disappointing.*

*In February 2010, the business tendency surveys remain lacklustre. In France notably, the outlook is still below the long-term average, and it has been improving slowly since last autumn. In the advanced economies, growth in activity therefore looks likely to be modest in H1, driven mainly by public policies.*

*Monetary policies remain exceptionally accommodating and their transmission channels would appear to be more effective. Corporate financing terms are thus easing gradually.*

*Budget policy support for growth looks set to be highly contrasted. In Europe, while Germany is reinforcing its stimulus measures in 2010, other major countries are entering a phase of neutral budgets (France, Italy) or of tighter policies (United Kingdom, Greece). In H1, with very modest growth in earned income, domestic demand in Europe is likely to benefit only from a slight impetus, unlike in the United States.*

*In France, for instance, the upturn in domestic demand is set to remain hesitant, and growth in GDP in our scenario should be moderate: 0.2% in Q1 and 0.3% in Q2.*

*Production facilities are still under little strain. In H1, however, companies are likely to make something of a move to resume the investment projects that were hit by the crisis, on the strength of the gradual improvement in their outlets and financing terms. The rate of job losses, which has been decreasing since last summer, should weaken even further in coming months. The rise in unemployment should therefore ease distinctly by mid-2010.*

*Household consumption should stagnate on the whole in H1 2010. It is likely to be hit by weak purchasing power and the after-effects of the scrappage allowance.*

*The forecasts remain surrounded by great uncertainty. French domestic demand could suffer more from the after-effects of the scrappage allowance or a slower return to normal of the property markets. Conversely, the "technical" upturn in stocks could be more pronounced than forecast in our scenario. However, part of the stock adjustment would seem to have taken place at the end of 2009, which limits potential for an upturn. Sources of growth are perhaps to be found in the emerging economies, notably in Asia. Dynamic activity there could provide some welcome additional external growth for the advanced economies, exceeding that envisaged in our scenario.*

## 2009: a deep recession followed by a timid upturn in activity

*2009 was marked by a deep recession*

All the advanced economies recorded a deep recession in 2009, with their activity declining by 3.5%. However, although this recession was global, its severity did vary from one country to another: the decline in activity was limited to 2.2% in France and to 2.4% in the United States; it was 3.6% in Spain and around 5% in Germany, Italy, the United Kingdom and Japan.

*The dynamism of the emerging economies triggered an upturn in trade in the course of the year...*

From Q2, the upturn in demand in emerging countries allowed world trade to level out after falling for two quarters. The dynamism of these economies, and particularly China, held up for the rest of the year, continuing to buoy up international trade considerably. In H1 2010, growth in the emerging zones is likely to be strong again, although it should ease somewhat: in China in particular, demand should be slightly less dynamic in the wake of the tighter monetary conditions brought in at the start of the year by the Chinese Central Bank.

*... which helped the advanced economies come out of the recession*

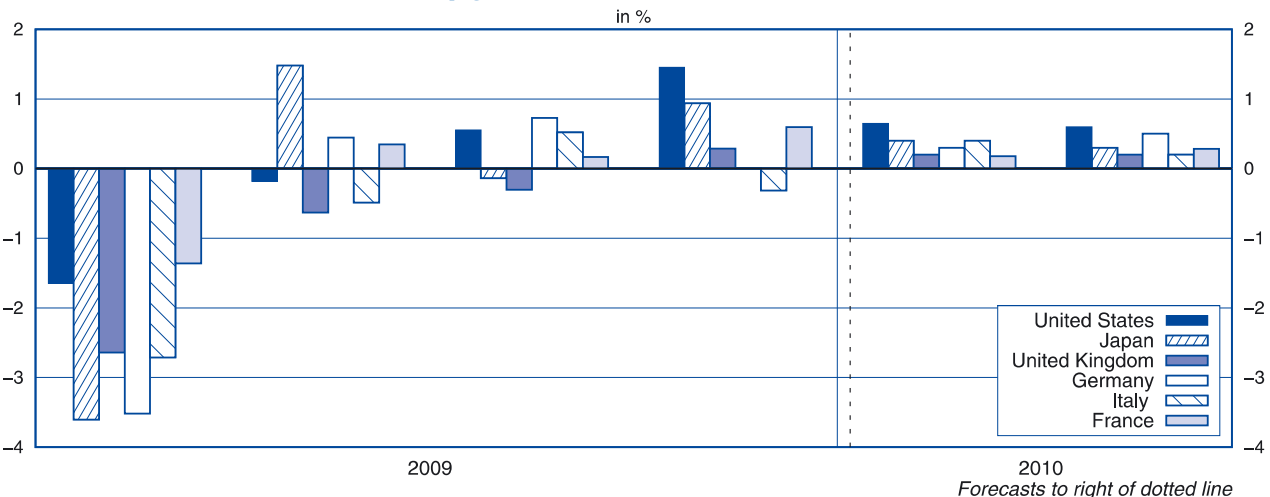
Via world trade, the restored dynamism of the emerging countries buoyed up activity in the advanced countries, and notably in those highly dependent on foreign trade, such as Germany and, to an even greater extent, Japan (see report, "Can the emerging Asian economies drive world recovery?"). For example, after being level in Q2 2009 (+0.1%), activity in the advanced economies bounced back in Q3 (+0.3%) and then gathered speed in Q4 (+0.8%). However, the recent amplitude of inventory changes suggests that this upturn should be placed in perspective: domestic demand remains sluggish. Above all, this upturn in activity was only limited when set against the plunge recorded at the start of 2009, and was not the same everywhere: some countries, such as Spain, are even struggling to emerge from recession at all (see graph 1).

## Stimulus plan withdrawal strategies are beginning to take form

*Financial and property markets easing*

Interbank money markets returned to normal in Q3. In their wake, tensions eased on the debt of non-financial enterprises, and the banks' credit terms began to become more flexible, notably in France. Financing terms should continue to ease in early 2010. In parallel, tensions seem to be easing on property markets, with the notable exception of Spain and Ireland, where the crisis continues. The construction sector is convalescent everywhere, however, with activity levels that are well below those prior to the crisis and growth prospects still remain limited.

**1 - Quarterly growth in the main advanced economies**



Source: national statistics institutes, INSEE forecasts

*Some countries are continuing to reinforce their stimulus measures...*

Although financial conditions are returning to normal and activity is beginning to resume, some countries will continue to ramp up their stimulus plans. In the United States, for example, household purchasing power should be strongly buoyed up in H1 by tax credits, as well as by the extension of unemployment benefits and grants for health insurance. Over in Germany, households should benefit from further tax reductions, but the after-effects of the end of the German scrappage allowance are likely to hold back consumption.

*... while others are already beginning to withdraw them*

In contrast, other countries are entering a phase of neutral budgets or even of tighter policies. From the start of 2010, the United Kingdom is bringing in measures to restore the state of public finances: raising VAT on 1<sup>st</sup> January, increasing taxes and reducing social benefits. In Spain, the withdrawal of measures to boost purchasing power has begun and tax on investment income has increased.

**The advanced economies at the start of 2010: moderate growth and disparities**

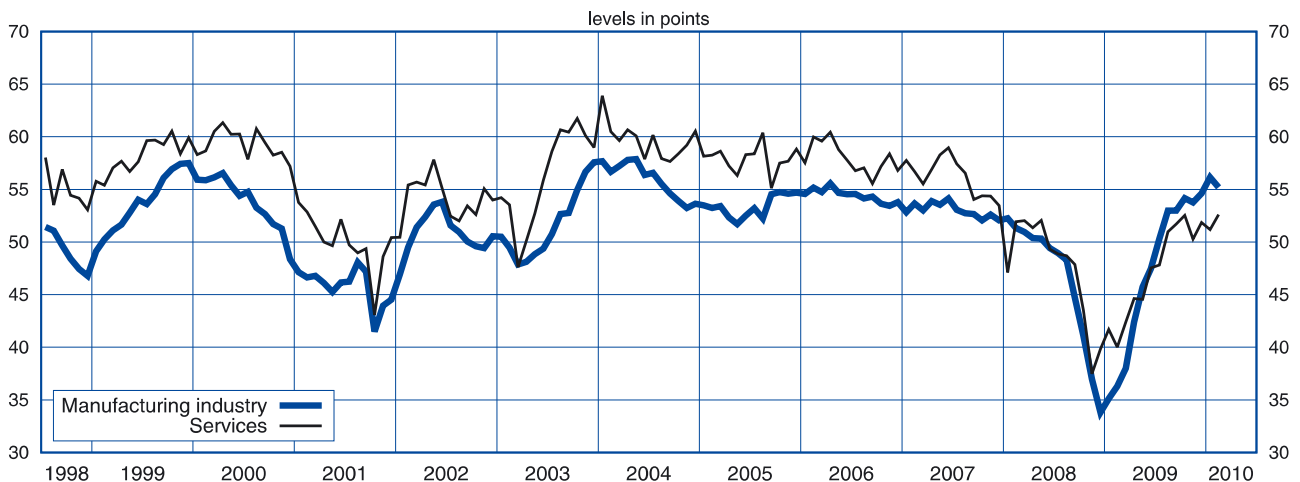
*Moderate growth in the advanced economies...*

In H1 2010, the overall business climate has settled in positive territory. The advanced economies should therefore continue to grow, although at a more moderate rate. This rise in activity should be more pronounced in industry than in services (see graph 2). However, growth in GDP should be down on Q4, notably as support from the stimulus plans fades out in many countries. In addition, stock movements should buoy activity up less. All in all, GDP in the advanced economies is likely to grow by 0.4% per quarter through to mid-2010 (after +0.8% in Q4). This moderate growth in the advanced economies is likely to weigh down on world trade, which should slow down.

*... conceals great disparities, notably in the Euro Zone*

In H1 2010, business outlooks are likely to diverge, with household demand being stronger in the United States than in other advanced economies. This is because the purchasing power of Americans should be buoyed up as stimulus measures are ramped up and as employment takes a turn for the better. In the Euro Zone, the upturn should be more hesitant and uneven. On the one hand, household demand should be flat as it suffers from the gradual withdrawal of stimulus measures and as employment struggles to recover. On the other hand, the upturn should be clearer in Germany, while Spain is likely to trail behind.

**2 – ‘Manufacturing’ and ‘services’ components of the global purchasing managers survey in the advanced economies**



Source: Markit

## General outlook

### *French exports show a moderate rise*

In the wake of world trade, foreign demand for French products is likely to slow down through to mid-2010, returning to its average growth. Consequently, French exports should grow moderately, at barely over 1% per quarter, with the rise in the Euro at the end of 2009 also hitting price competitiveness of French products. This effect should be lessened, however, by the recent slide in the Euro. All in all, after falling back sharply in 2009 (-11.2%), exports should still show a clearly positive growth overhang in mid-2010 (+3.4%).

### *In France, a slow rise in production in services...*

In H1 2010, service activity should be slow: according to entrepreneurs, the improvement in the business outlook in recent months has not been as pronounced as in H2 2009. In addition to this, the composite business climate indicator stands well below its long-term average.

### *... industrial production weakened by the after-effects of the scrappage allowance...*

Industrial production continued to progress in Q4 2009 (+1.7% after +2.0% in Q3), buoyed up notably by automobile production (+3.7% after +7.7%). However, the business climate in industry has improved very little since the end of 2009. For example, industrial production should increase at a distinctly lower rate in H1 2010 (+0.4% per quarter), affected in particular by the after-effects of the scrappage bonus (see *below*). All in all, industrial production should be a long way from returning to its pre-crisis level.

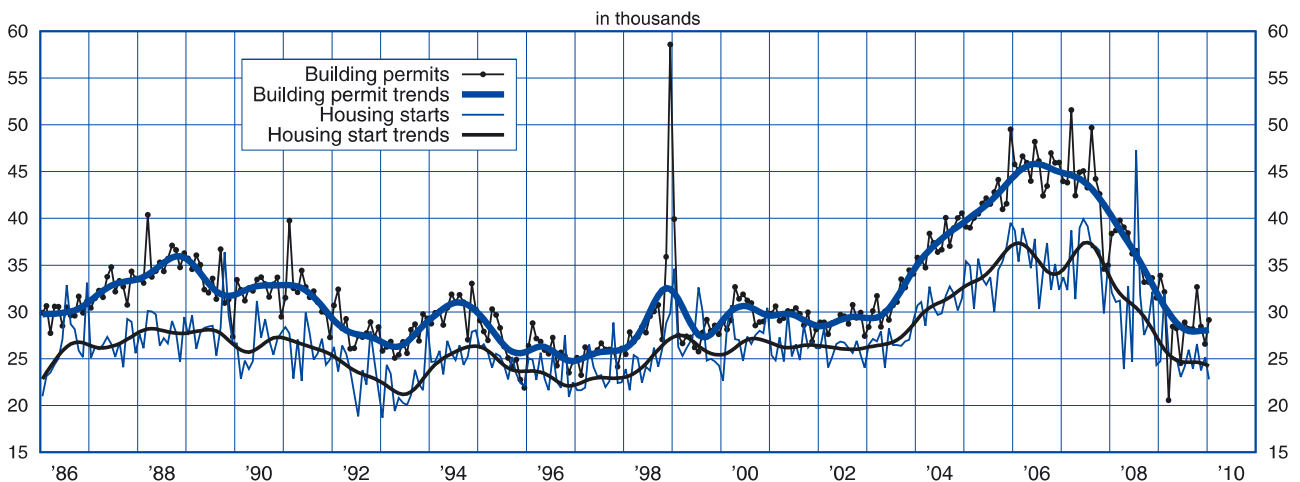
### *... and construction declining less, aside from the effects of the harsh winter*

Production in the construction sector contracted considerably once again in Q4: -1.6% after -1.8% in Q3 2009. This contraction hit building and public works alike. In new housing, however, housing starts levelled out, suggesting that the decline in activity is set to become less and less pronounced (see *graph 3*). The public works sector should be particularly affected by the wave of cold weather at the start of the year, which should weigh on activity in Q1 and then boost it when the knock-on effect comes in Q2 (see *focus on "Cold snaps: slight positive effects on activity"*). All in all, production in the construction sector should contract again in Q1 (-1.7%) then bounce back slightly in Q2 (+0.2%).

### *In France, growth should be moderate*

Consequently, French economic activity should show a moderate rise in H1 2010 (+0.2% in Q1 then +0.3% in Q2), placing France within the average for the Euro Zone. Growth overhang for 2010 at the end of Q2 should be positive (+1.0%), after the previous year's recession (-2.2%).

### 3 – Building permits and housing starts of new dwellings in France



Sources: Sitadel2 (SoeS), INSEE calculations

**A hesitant upturn in investment**

*Investment continues to fall until Q1*

At the beginning of 2010, entrepreneurs look likely to be hesitant about new investment projects, despite the improvement in their financing terms. Their demand prospects remain modest and their production capacities continue to be underused. Corporate investment should only start growing again modestly in Q2 (+0.6% after -0.4% the previous quarter).

**The trend towards lower inflation continues**

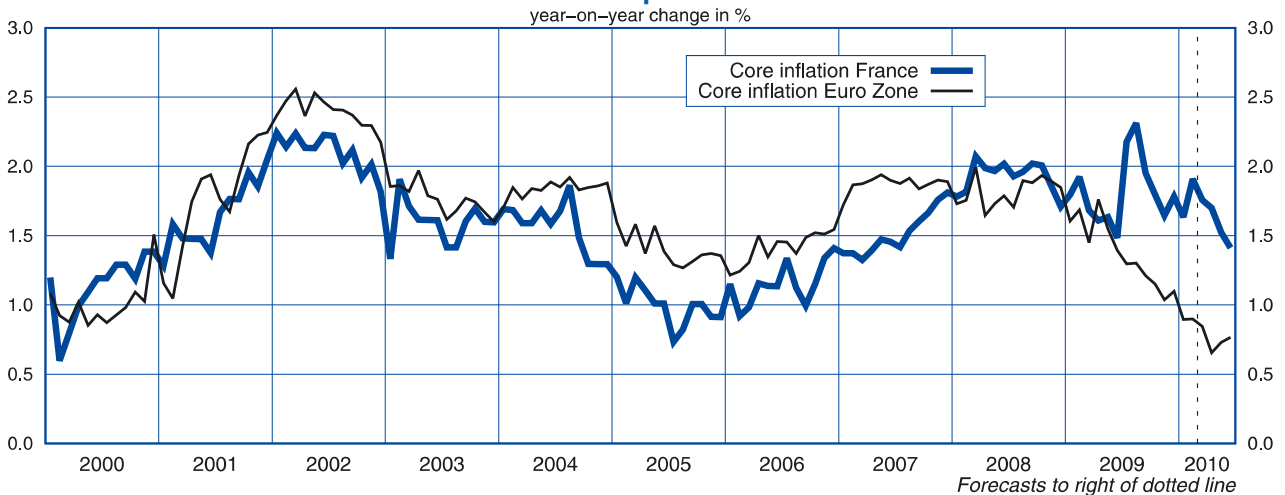
*A measured fall in core inflation*

In the advanced economies, “core” inflation is on a downward trend but remains positive everywhere, with two exceptions: Ireland, where it stands at -3.0% in December 2009, and Japan, still in the throes of deflation. The fall in inflation comes primarily from weak demand, forcing companies to keep their prices down to hold on to their clients. It also comes from the rise in unemployment and the moderate wage demands it leads to. However, the recent rise in commodity prices, and notably in oil, should limit this fall by working its way through gradually into consumer prices. As a result, the fall in core inflation should continue, but should be moderate. Core inflation should fall back to +1.4% in France in June 2010, from +1.6% in January; in the Euro Zone, it should stand at +0.8% in June 2010, after +0.9% in January (see graph 4).

*Headline inflation almost stable in France and the Euro Zone*

In France as in the Euro Zone, year-on-year prices are likely to be up only because the previous year’s sharp fall in seasonal food products is no longer taken into account in the calculation of year-on-year price changes. Energy inflation should be more or less stable year on year, assuming that oil prices settle around \$75 per barrel of Brent. On the whole, the year-on-year change in prices in June 2010 should be +1.3% in France, after +1.1% in January, and +0.8% in the Euro Zone, after +0.9% in January.

**4 – Core inflation continues to drop in France and in the Euro Zone**



Sources: Eurostat, INSEE



## The deterioration in labour markets eases

### *The decline in employment slowing down*

Although activity contracted sharply at the turn of the year 2009, the labour market only adjusted later, as usual. Corporate productivity therefore deteriorated substantially (see graph 5). Companies were able to set about restoring their productivity from Q2 2009 onwards, with employment continuing on a downward trend, despite the fact that the upturn in activity was already underway. As this upturn has continued, albeit at a very modest rate, the fall in employment should gradually ease. The non-agricultural market sectors should lose 80,000 jobs in H1 2010, after 100,000 in H2 2009 and almost 260,000 in H1 2009. In the non-market sectors, employment should level out, after being very dynamic in 2009, because the number of beneficiaries of State-aided contracts should fall. The number of people entering such contracts should be slightly lower than in 2009, but the number of people leaving them much higher, as a result of the increase in the number people starting these contracts in 2009. All in all, 74,000 jobs should be lost in H1 2010, after 36,000 in H2 2009.

### *Unemployment growing slightly*

Regarding unemployment, looking beyond the figures quarter by quarter, the rising trend has slowed down since Q2 2009. This less pronounced rise in unemployment is the result of the gradual upturn in activity, and should continue through coming quarters: the unemployment rate should reach 9.8% of the working population on average in Metropolitan France in Q2 2010 (10.2% including the overseas départements), after 9.6% in the last quarter of 2009 (10.0% including the overseas départements).

## The after-effects of the scrappage allowance hit consumption

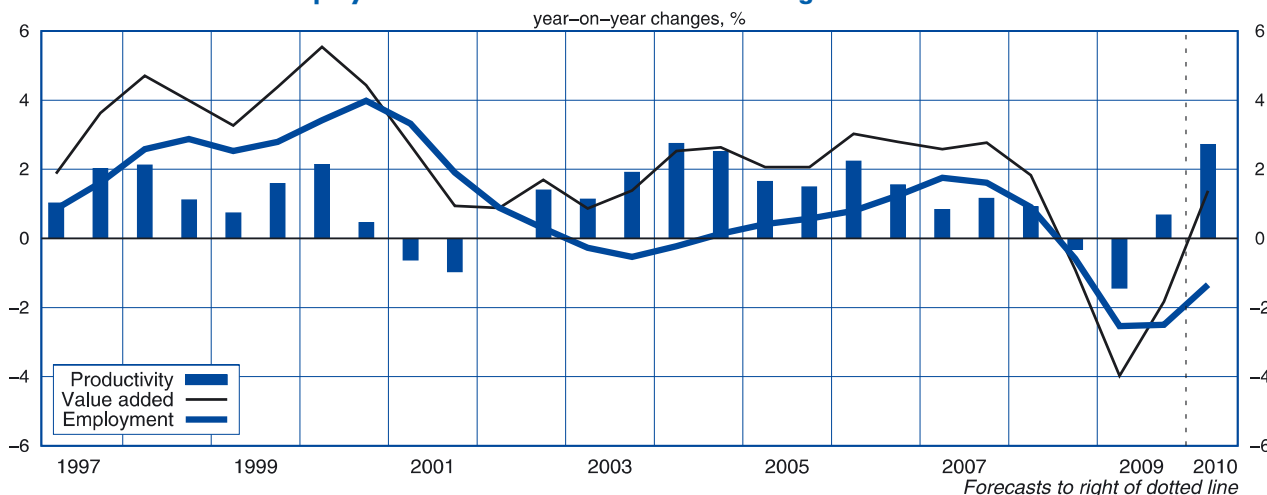
### *Small gains in purchasing power*

In H1 2010, purchasing power looks set to continue slowing down: gains in household purchasing power should be limited to 0.1% in Q1 then 0.3% in Q2. The reason for this is that earned income is unlikely to rise sufficiently to offset the acceleration in the tax burden, an after-effect of the tax reductions of 2009, and the slowdown in social benefits. Unemployment benefit, in particular, should be less dynamic due to the easing of the deterioration in the labour market.

### *Consumption hit by the after-effects of the scrappage allowance*

Household consumption has progressed little, but it has held up through the crisis. It should be adversely affected in H1 2010 by the weakness of purchasing power and the after-effects of the scrappage bonus. Household consumption had increased strongly in Q4 (+0.9%), boosted by car purchases: households were bringing their purchases forward to get full benefit of the scrappage allowance

**5 – Paid employment and value added of the non-agricultural market sectors**



Source: INSEE

and the environmental “bonus-malus” before these schemes became less generous. In H1 2010, this leap in automobiles should be followed by a negative reaction (see graph 6). Consumption should progress very slightly, however, in Q1 (+0.1%) as energy consumption is boosted by the waves of cold weather over the winter. As this factor no longer comes into play in Q2, consumption should then fall slightly (-0.2%).

*Towards stabilisation of household investment*

Since mid-2008, households have reduced their investment, made up mainly of acquisitions of new homes. Housing investments should continue to contract to the time horizon of this forecast, although that contraction should be less sharp, notably thanks to the improvement in financing terms: investment, which had fallen sharply in Q4 2009 (-2.7%), should be almost stable in Q2 2010 (-0.4%).

*Imports slow down*

Imports should also be affected in H1 2010 by the after-effects of the scrappage bonus. After increasing substantially in Q4 2009 (+3.3%), they should slow down markedly: +0.8% in Q1 then +0.5% in Q2.

**Uncertainties: stock could boost the upturn, property could hold it back**

*Stocking up could boost activity in France and abroad*

From the end of 2007 to mid-2009, stocks weighed down on activity on the whole in the advanced countries, and more particularly in H1 2009. They then buoyed up the economy, but without fully compensating for the previous movement. Consequently, companies could build up their stocks again more rapidly than anticipated. Such a movement towards stocking up could contribute to increasing growth, in France and abroad.

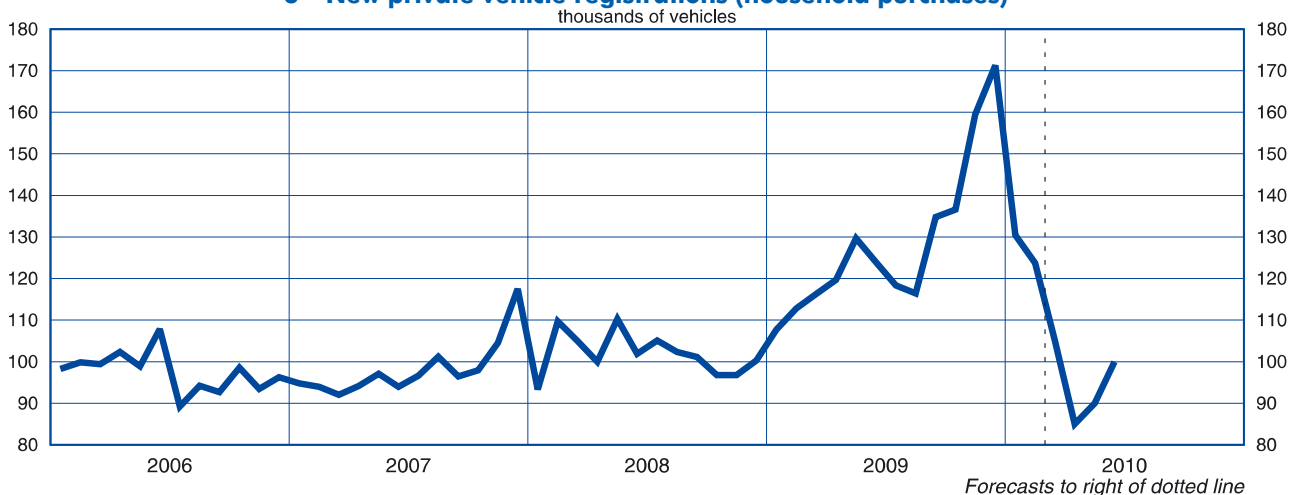
*The boost provided by the emerging economies could be stronger than expected*

The emerging economies, in particular in Asia, have already demonstrated their ability to pull the advanced economies out of the recession. If their activity should remain dynamic, it could also deliver some additional external growth to the advanced economies.

*The scale and profile of the after-effects of the scrappage allowance in France are uncertain*

In all the countries that introduced scrappage bonuses, these have considerably boosted automobile markets. The end of these measures could trigger a drop in household consumption of automobiles. However, the scale of this after-effect is highly uncertain: it was very pronounced in Germany but almost inexistent in the United States. In addition, its profile is also uncertain, as shown in France by the almost-stable registrations in February after the slide in January and before a probable decline in coming months.

**6 – New private vehicle registrations (household purchases)**



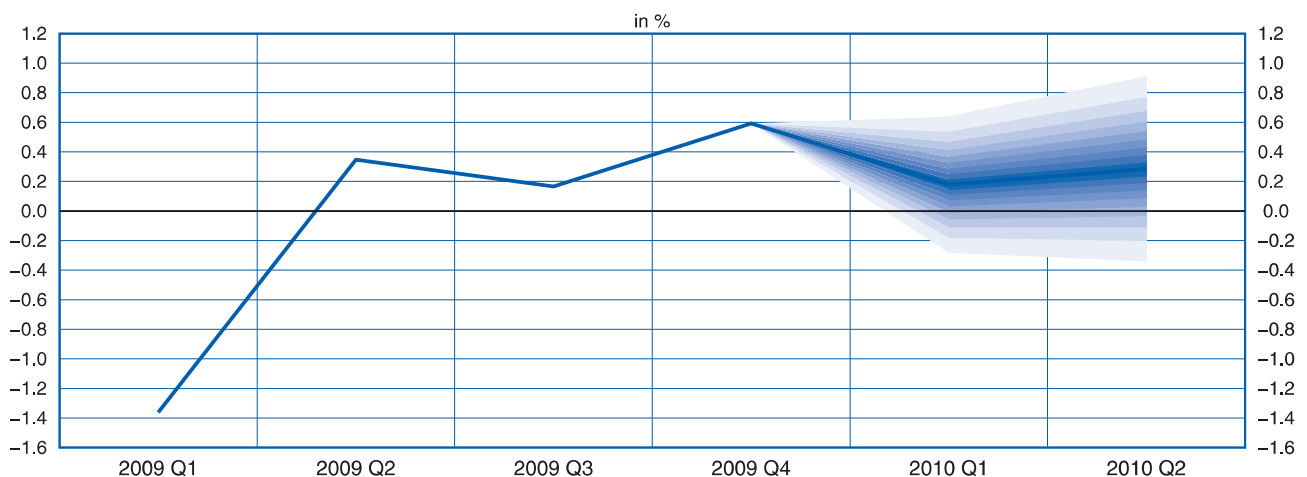
Source: INSEE, CCFA, SOeS

## General outlook

### *A new property market fall remains possible*

Property markets have shown signs of improvement, but continue to appear fragile. In the United States, for example, prices took an upward turn and sales bounced back in H2 2009; but sales are down once again at the start of this year. In other countries, those property markets that improved early could also take a new downturn. There are signs that the upturn is running out of steam in the United Kingdom, for example. The improvement in the French market could also take longer than expected, which could hold back activity in construction and could also affect household confidence. ■

7 - Fan chart for Conjoncture in France



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 (see the INSEE *Conjoncture in France* for June 2008, pages 15 to 18). It can therefore be estimated that the first result published by the quarterly accounts for Q1 2010 has a 50% chance of being between +0.0% (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 -0.3% and +0.6%. In Q2, the 90% confidence interval is [-0.3% ; +0.9%].

Source: INSEE

**Key figures: France and its international environment**

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

	2008				2009				2010		2008	2009	2010 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
<b>International environment</b>													
Advanced economy GDP	0.4	-0.1	-0.7	-1.8	-2.3	0.1	0.3	0.8	0.4	0.4	0.2	-3.5	1.6
Euro Zone GDP	0.8	-0.3	-0.4	-1.9	-2.5	-0.1	0.4	0.1	0.2	0.3	0.5	-4.0	0.7
Barrel of Brent oil (in dollars)	97	122	115	55	45	59	68	75	75	75	97	62	75
Euro-dollar exchange rate	1.5	1.6	1.5	1.3	1.3	1.4	1.4	1.5	1.4	1.4	1.5	1.4	1.4
World demand for French products	1.5	-0.2	-0.2	-6.0	-9.8	-1.4	4.0	2.2	1.9	1.4	1.6	-12.9	6.3
<b>France - supply and use</b>													
GDP	0.5	-0.4	-0.2	-1.5	-1.4	0.3	0.2	0.6	0.2	0.3	0.3	-2.2	1.0
Imports	1.5	-1.1	0.4	-4.0	-5.8	-2.6	0.3	3.3	0.8	0.5	0.6	-9.7	3.1
Household consumption	-0.2	0.1	0.3	0.0	0.2	0.3	0.1	0.9	0.1	-0.2	0.9	0.8	0.7
Public and NPISH consumption	0.3	0.3	0.6	0.4	0.1	0.6	0.6	0.7	0.4	0.5	1.3	1.7	1.8
Total GFCF	1.0	-1.5	-1.2	-2.6	-2.4	-1.0	-1.4	-1.2	-0.9	0.4	0.4	-6.9	-2.5
of which: NFEs	2.1	-1.4	-0.6	-3.1	-3.4	-1.2	-1.0	-0.8	-0.4	0.6	2.4	-7.7	-1.3
Households	0.1	-1.4	-2.8	-2.5	-1.7	-1.6	-2.3	-2.7	-1.9	-0.4	-1.4	-8.1	-5.6
Exports	2.3	-2.3	-0.4	-6.2	-7.3	0.5	1.8	0.5	1.2	1.1	-0.6	-11.2	3.4
<b>Contributions</b>													
Domestic demand excluding change in inventories	0.2	-0.2	0.0	-0.5	-0.4	0.1	-0.1	0.5	0.0	0.1	0.9	-0.6	0.4
Change in inventories	0.1	0.1	0.0	-0.5	-0.7	-0.6	-0.1	0.9	0.1	0.0	-0.3	-1.4	0.6
Net foreign trade	0.2	-0.3	-0.2	-0.5	-0.2	0.8	0.3	-0.7	0.1	0.1	-0.3	-0.2	0.0
<b>France - situation of households</b>													
Total employment (variation at end of quarter) <sup>(2)</sup>	80	-55	-48	-112	-145	-96	-45	10	-42	-32	-135	-276	-
Non-agricultural market sector employment <sup>(2)</sup>	68	-65	-57	-120	-158	-99	-80	-20	-50	-31	-174	-358	-
Unemployment rate (quarterly average)	7.2	7.3	7.4	7.8	8.6	9.1	9.1	9.6	9.7	9.8	7.8	9.6	-
Unemployment rate (quarterly average)	7.5	7.6	7.8	8.2	9.0	9.5	9.5	10.0	10.1	10.2	8.2	10.0	-
Consumer price index <sup>(1)</sup>	3.2	3.6	3.0	1.0	0.3	-0.5	-0.4	0.9	1.3	1.3	2.8	0.1	-
Core inflation <sup>(1)</sup>	2.1	2.0	2.1	1.9	1.6	1.5	2.0	1.8	1.8	1.4	2.0	1.8	-
Household purchasing power	0.0	-0.4	-0.1	1.1	0.4	1.1	0.6	0.2	0.1	0.3	0.7	2.2	1.0

Forecast

(\*) 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

# Review of the previous forecast

In Q4 2009, activity in France grew by 0.6%, a little more than forecast in the December *Conjoncture* in France. In particular, industrial production was more dynamic than anticipated. In the first part of 2010, inclusion of the latest indicators available does not call into question the moderate growth scenario envisaged in December. However, the after-effect of the drop in the scrappage allowance, which was greater than anticipated in the December issue, has led us to revise growth in Q1 downwards. Last, the energy production and construction profiles are revised because of the temperatures in Q1, which were well below the seasonal norms.

## The industrial sector has continued its revival, while construction is still on the slide

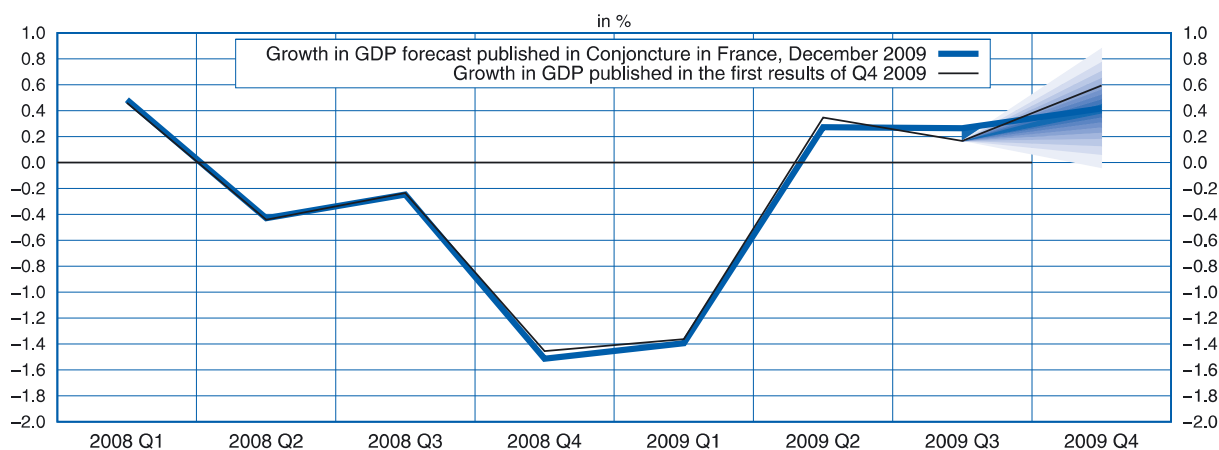
In Q4, GDP increased by 0.6% after +0.2% in Q3: activity therefore continued to pick up. The forecasting error in the December *Conjoncture* in France is low (0.2 point, see graph 1). It can mainly be ascribed to industrial production being more dynamic than predicted (+1.7% against the anticipated +0.9%). Mainly-market services (+0.7% against +0.6% forecast) contributed strongly to the dynamism in activity. Conversely, the construction sector once again fell heavily, as forecast (-1.6%, against a forecast in the previous issue of -1.5%): investment in construction by households and businesses did indeed continue to fall.

## The scrappage allowance has sustained demand

In Q4 2009, the 'automobile' effect clearly sustained demand and output. Households anticipated their purchases of vehicles before the conditions of the scrappage allowance and the 'bonus-malus' tightened on 1<sup>st</sup> January 2010. This rebound in automobile consumption, anticipated in the December *Conjoncture* in France, was slightly greater than predicted: household consumption of automobiles increased by almost 15% in Q4, bringing consumption of industrial products in its wake (+2.9% against +2.2% forecast). Furthermore, households in Italy also anticipated their automobile purchases before the end of the scrappage allowance at the end of 2009, a factor that favoured French exports. Ultimately, the dynamic demand for automobiles sustained industrial production by its direct effect (automobile production grew by 3.7% in Q4) and by the knock-on effect on other industrial sectors;<sup>(1)</sup> it also affected trade (+1.0% against +0.9% forecast).

(1) Thanks to its effect on other sectors via intermediate consumption, a rise in value added in the automobile branch should ultimately result in an impact that is around three times higher on GDP (see *Focus*, "The slowdown in automobile production: its role in the recession", *Conjoncture* in France, March 2009).

1- Fan chart for *Conjoncture* in France for December 2009 and growth achieved



Source: INSEE

## Review of the previous forecast

### The negative contribution of foreign trade was compensated by the positive contribution of inventories

The scrappage allowance also sustained imports of industrial products to a large extent. Growth in this respect was sharper than forecast (+5.8% against +2.4% forecast) and one-third of this growth came from automobile imports. All in all, foreign trade contributed negatively to activity in Q4 (-0.7 point), which was not anticipated. Set against this, the 'restocking' trend, clearly identified as a positive uncertainty in the previous issue, was quicker than expected. So the contribution of inventories was largely positive in Q4 (+0.9 point against the anticipated +0.1 point)<sup>(2)</sup>.

### In H1 2010, we maintain the hypothesis of modest constant growth

In H1 2010, our scenario remains globally the same as it was in the December *Conjoncture* in France: growth should remain moderate. The business climate in the industrial sector, after picking up sharply from its low point in early 2009, has barely progressed over the last few months (see *Production note*). In services, the business climate has continued to pick up little by little, while in construction it has not yet truly rebounded. For Q1 2010, the inclusion of several new data nonetheless leads to a slight revision downwards of our growth forecast.

(2) The major contribution of inventories to growth is partly linked to the growth in large export contracts. Deliveries reached very high levels in Q3, and then went back down to their usual level in Q4. As a result, there was a sharp slowdown in exports. As production did not stutter elsewhere, this slowdown in exports was compensated for in inventory changes.

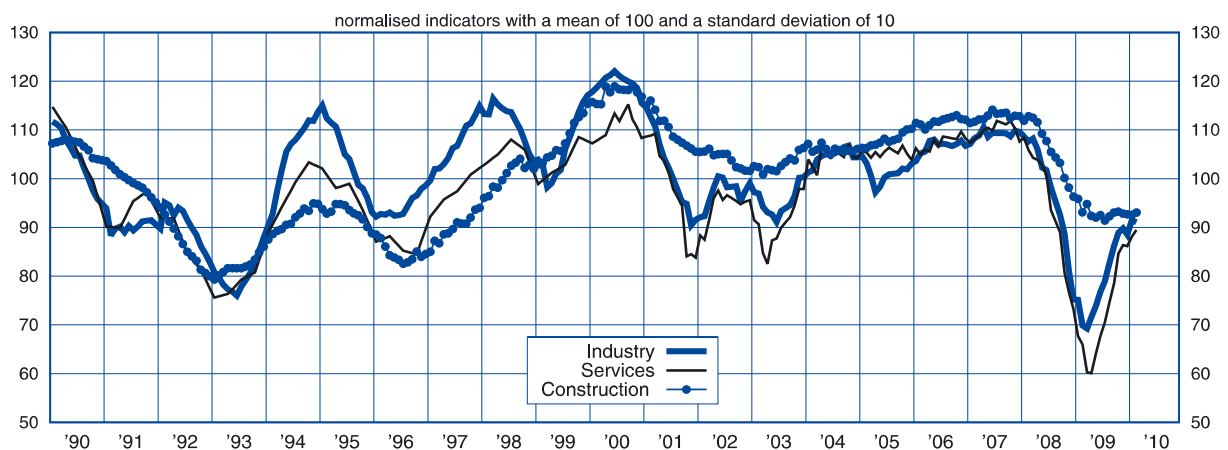
In our previous forecast we expected a gradual after-effect of automobile consumption in H1 2010. Indeed, the 2009 scrappage allowance and bonus-malus schemes remained valid for all orders placed before 31 December, and the delivery lead times led to expectations of a moderate after-effect in Q1 2010. In the light of the drop in registrations in January and February, a more marked after-effect appears to have occurred in Q1. All in all, household consumption is less dynamic in H1 in our new scenario.

Additionally, the swine flu vaccination campaign came to a halt earlier than forecast, with closure of the vaccination centres in January. The sharp rise in public health consumption in Q4 should therefore be followed by a bigger-than-expected after-effect in Q1 2010.

Last, the profiles of energy consumption - on the rise - and investment in public works - on the slide - are likely to be more pronounced in order to reflect temperatures that were well below the seasonal averages in January and February. Energy consumption and production should rebound strongly in Q1, while public works investment has been revised downwards. However, as these two effects largely compensate for each other, the harsh winter is likely to have only a small impact on the economy overall (see *Focus*, "Cold snaps: slight positive effects on activity").

All in all, the GDP forecast is revised slightly downwards in Q1, to +0.2% (against +0.4% in the previous issue) and left unchanged in Q2 2010 (+0.3%). ■

## 2 - Business climate in the industrial, construction and service sectors



Source: INSEE