

France's international Environment

In Q4 2009, growth in the advanced economies was stronger than forecast in the December issue of Conjoncture in France (+0.8% against +0.4%). The contribution of inventory change was greater than we had anticipated (+0.4 point), while demand excluding inventory was more in line with our forecast.

In H1 2010, the advanced economies should continue to grow, but at a more moderate pace: their GDP should increase by 0.4% per quarter. This growth rate is unlikely to be uniform across all countries, however. American demand should be boosted by the escalation of the stimulus plan. Conversely, European demand is likely to be penalised by the gradual withdrawal of stimulus plans. All in all, growth in world demand for French products should progressively slow down: +1.9% in Q1 then +1.4% in Q2, after +2.2% in Q4 2009.

Better financing conditions

In 2009, households and businesses had trouble obtaining loans. The financial crisis of 2008 led to a drastic tightening of credit award conditions by banks, and a rise in bank and bond interest rates. However, the action by the States and central banks gradually brought the interbank money markets, then the financial markets in general, back to normal. As a result, the financing terms for households and businesses greatly improved in the course of 2009, notably thanks to the drop in interest rates, even though they remained restrictive overall.

At the start of 2010, although credit award conditions are still strict, they are easing somewhat. Furthermore, the risk premiums applied to enterprises have returned to their pre-crisis level. The monetary authorities of the advanced economies are therefore preparing to freeze the emergency measures put in place at the height of the financial crisis. In the United States, for example, the mortgage backed securities (MBS) purchasing programme should come to an end during H1. However, the central banks are unlikely to sell these securities within the forecasting horizon. Additionally, they will probably leave their reference rates unchanged: the deficit in demand should remain high and core inflation should continue to slow.

Industrialized countries: consolidated supply and use table

in real terms

	Quarterly changes, %										Annual changes, %		
	2008				2009				2010		2008	2009	2010 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
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
Private consumption	0.2	-0.4	-0.4	-0.7	-0.4	0.0	0.3	0.3	0.3	0.3	0.0	-1.0	1.0
Public consumption	0.5	0.5	0.7	0.6	0.0	1.0	0.6	0.0	0.5	0.5	2.3	1.9	1.4
Investment	-0.2	-1.0	-1.9	-4.7	-8.3	-2.9	-0.8	0.1	-0.1	0.5	-3.2	-15.0	-0.8
Exports	1.3	0.9	-1.0	-7.4	-10.8	0.5	4.1	3.9	2.4	1.8	3.0	-13.0	9.0
Imports	0.6	-1.4	0.1	-4.0	-10.5	-3.5	4.0	2.4	2.3	1.6	-1.1	-13.5	6.7
Contributions to GDP growth													
Domestic demand excluding inventories	0.2	-0.3	-0.5	-1.2	-1.7	-0.3	0.2	0.2	0.3	0.4	-0.1	-3.0	0.9
Inventories	0.0	-0.2	0.1	0.1	-0.7	-0.4	0.2	0.4	0.1	0.0	-0.2	-0.7	0.5
Net exports	0.2	0.4	-0.3	-0.7	0.1	0.7	-0.1	0.2	0.0	0.0	0.6	0.2	0.2

Forecast

Sources: national statistical institutes; IMF; INSEE estimates and forecasts

Heading towards a gradual extinction of the stimulus measures

In 2009, the governments of the advanced economies implemented massive, coordinated stimulus plans. These plans largely supported activity in the majority of the advanced economies in the middle of the year. The impact of these measures should fade over the coming quarters. Their withdrawal is likely to follow very different schedules from one country to the next.

For example, in the United States and to a lesser extent in Germany, the stimulus plans should continue to be ramped up in early 2010. In the United States, household purchasing power looks set to remain sustained in H1, carried mainly by tax credits and by the extension of unemployment benefits and health insurance subsidies. Similarly, German households will likely benefit from new income tax cuts. However, the after-effect of the German scrappage allowance is likely to continue to weigh on consumption in Q1.

Conversely, the United Kingdom brought in measures in early 2010 in order to rectify the situation of its public accounts. For example, the rise in the VAT rate on 1st January should result in a downturn in consumption at the start of the year. Furthermore, tax rises and cuts in social benefits are scheduled for Q2 and these should weigh even more heavily on British demand. In Spain too, the withdrawal of the measures to support purchasing power, along with rises in taxes, should slow consumption in H1; but the rise in VAT planned for 1st July is likely to sustain it slightly in Q2, owing to the anticipated purchasing effect.

Lastly, in Japan and Italy, the stimulus measures are unlikely to sustain growth in H1. However, no significant after-effect is expected over this period. In Japan, the extension of the sector-specific

support measures (scrappage allowance and "eco-points" to encourage the purchase of "green" products) should continue to support consumption, although less and less. In Italy, the small budget allocated to the 2009 stimulus plan is making its withdrawal relatively painless.

Disparities between the United States and the Euro Zone in H1 2010

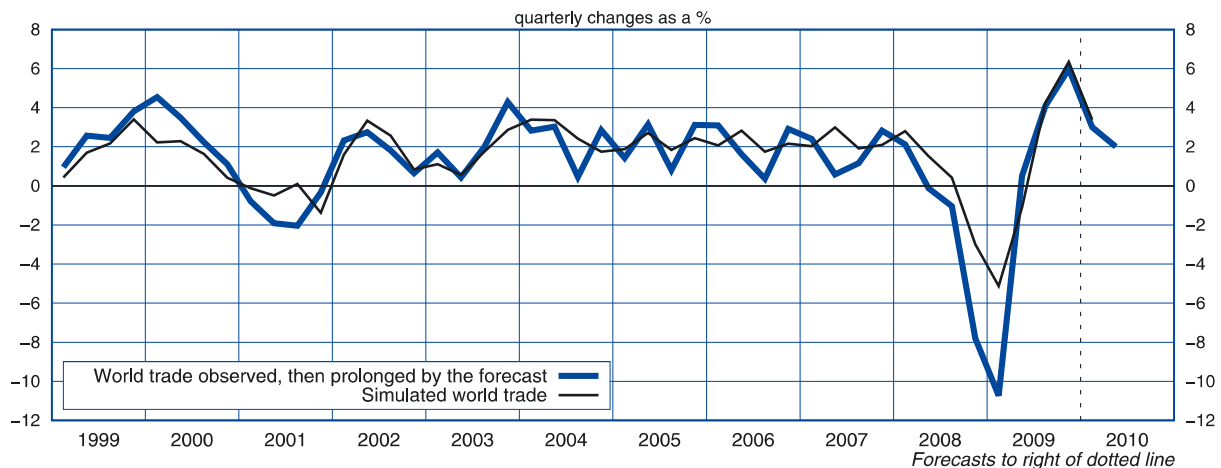
In mid-2009, the main advanced economies came out of recession at virtually the same time. To varying degrees, they all enjoyed a return to normal of the financial markets, the rebound of imports from the emerging countries, and the support of the stimulus plans. In this way, the economic situation was redressed synchronously, although GDP growth rates were heterogeneous.

In H1 2010, the economic outlooks of countries should diverge because household demand is likely to be more dynamic in the United States than in the other advanced economies. The purchasing power of American households should be boosted by the ramping up of the stimulus measures and by the labour market picking up. In the Euro Zone, household demand should stagnate: purchasing power is likely to suffer from the gradual withdrawal of the stimulus plans and employment does not yet look to be on the road to recovery. These disparities should also be seen in the dynamics of foreign trade: American imports look set to support European activity.

Slowdown in world trade

In 2009, world trade contracted sharply owing to the worldwide recession. However, this sharp drop

1 – World trade expected to level out progressively



Sources: CPB, Markit, INSEE calculations and forecasts

was concentrated in Q4 2008 and in Q1 2009, at the height of the crisis. In Q2 2009, the rebound in world trade, carried by the imports of the main emerging countries, helped the advanced economies out of recession more quickly, in particular Germany, France and Japan (see report, "Can the emerging Asian economies drive world recovery?"). In China, the implementation of the stimulus plan as early as Q4 2008 caused a rebound in Chinese imports which also boosted trade in South East Asia as a whole. In H2 2009, world trade leaped with the end of the recession in the advanced economies, while foreign trade in the emerging countries accentuated their dynamism.

In H1 2010, survey data, which generally provide an advanced indicator of world trade in the short term, show that the peak in trade looks to be behind us (see graph 1). The purchasing managers have pointed to a smaller rise in export orders in January and February. World trade therefore looks set to continue growing, but more moderately.

In H1 2010, the advanced economies should continue to grow, but at a more moderate pace. In February, the purchasing managers once again indicated growth in activity. This growth appears to be more marked in industry than in services (see graph 2). However, growth in GDP looks set to be down on Q4, in particular because the support of the stimulus plans should start to fade in many countries and the contribution of stocks is likely to be smaller. All in all, the advanced economies should grow by 0.4% per quarter within the forecasting timeframe (cf. table).

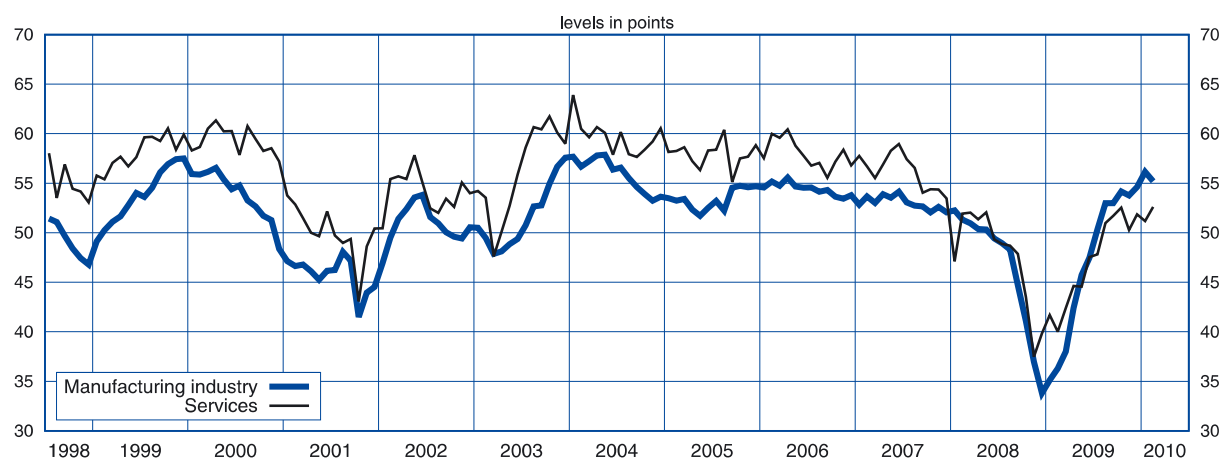
This slowdown in the other advanced economies compared with the end of 2009 is likely to weigh down on their imports. Consequently, world demand for French products⁽¹⁾ should increase less sharply in H1 2010 than in Q4 2009: +1.9% in Q1 then +1.4% in Q2, after +2.2% in Q4 2009 (see graph 3). ■

More moderate growth

In Q4 2009, the advanced economies grew faster than anticipated in the December *Conjoncture in France* (+0.8% against the +0.5% initially forecast). Indeed, consumption was stronger than predicted in Japan, and inventory contributed substantially to growth in the United States. In Europe, however, growth was more sluggish than forecast (+0.1% in the Euro Zone). With the exception of France, whose GDP grew by 0.6%, the main European economies fell back.

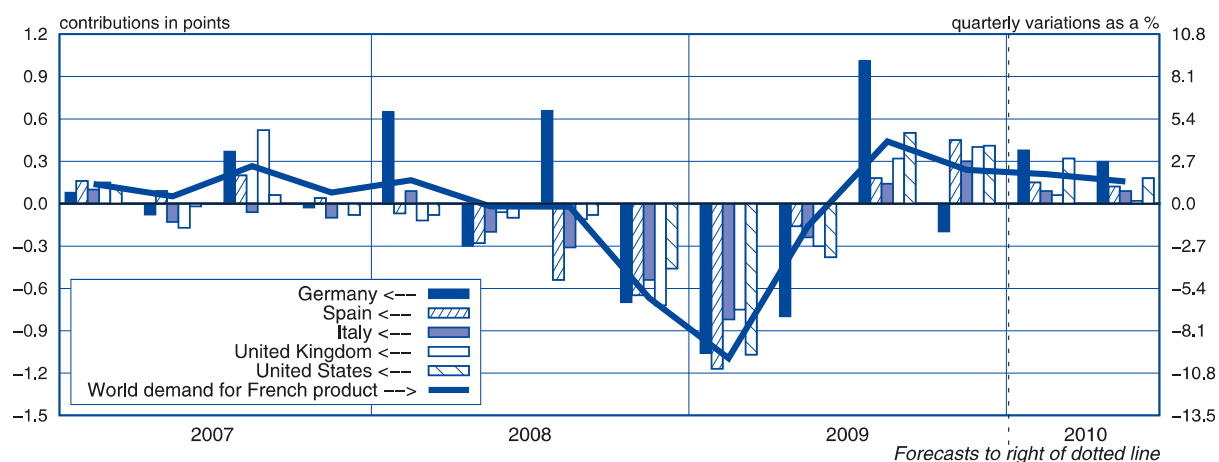
(1) World demand corresponds to the exports of our main trading partners weighted by their share in our exports.

2 - 'Manufacturing' and 'services' components of the global purchasing managers survey in the advanced economies



Source: Markit

3 - Moderation of imports by our 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: Data Insight, INSEE estimates and forecasts

Consumer prices

Core inflation should continue to fall through to June 2010, and settle at 1.4%. This trend towards lower inflation appears to be due to a still-high unemployment rate, which is tempering growth in wages, and to low levels of demand, levelling out the margins of businesses.

Headline inflation, however, should remain stable. It should reach 1.3% in June 2010, like in February, after +0.1% on average over 2009 as a whole. The renewed rise in the prices of seasonal food products should compensate for the downturn in core inflation.

Core inflation should fall in H1 2010, while headline inflation looks set to remain stable

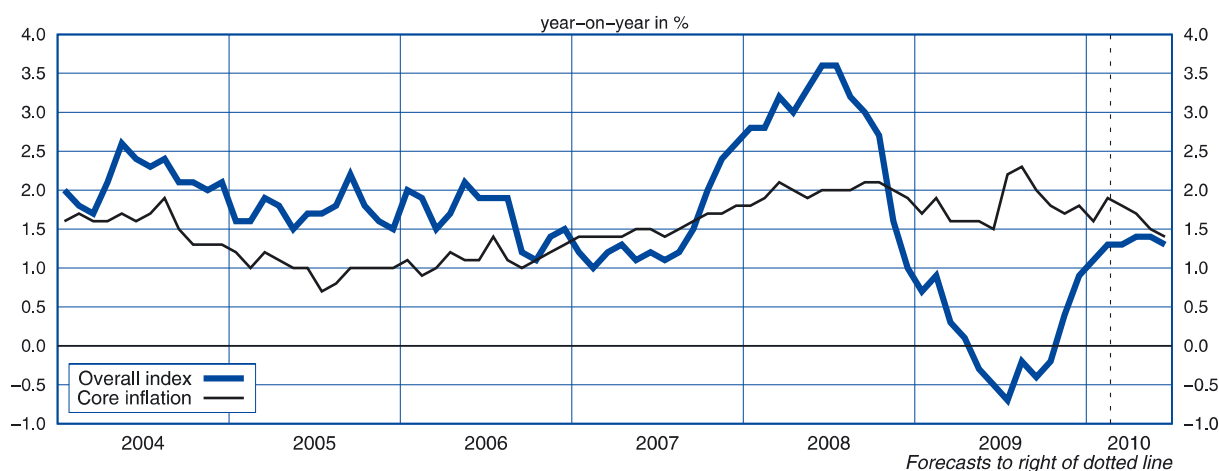
In H1 2010, core inflation looks set to continue to fall (see graph 1). Core inflation is calculated by subtracting the prices of energy goods, seasonal food products and public tariffs, and by correcting for tax measures. After 1.8% in December 2009, it settled at 1.6% in January then 1.9% in February; its month-on-month profile was affected by the shortening of the January sales period (see below). In the time horizon of June 2010, it should fall to 1.4% year-on-year: the low level of demand, and the high level of unemployment causing a lull in the growth of wages, should continue to affect prices.

However, headline inflation should remain stable in H1 2010. It should reach 1.3% in June 2010 as in February (see graph 2), under the effect of the rise in prices of seasonal food products.

The fall in prices of non-energy industrial goods likely to extend into H1 2010

The prices of non-energy industrial goods look likely to drop further in June, year-on-year: -0.3% (see table). This is because the low demand should continue to weigh on producer prices and then be passed on to consumer prices. Conversely, the rise in prices of raw materials caused by the resurgence of activity worldwide should gradually filter through to the prices of non-energy industrial goods. At the start of 2010, the year-on-year profile of the prices of non-energy goods was affected by the winter sales, which this year were confined to the month of January following the sales reform in 2008. Indeed, prices dropped more sharply than usual in January, bringing the year-on-year value to -0.5% after -0.1% in December, before rebounding earlier and more sharply in February and pushing the year-on-year value to +0.3%. This should then fall back in March: prices appear to have been restored to a large extent in February, while this occurred in March last year. Year on year, the prices

1 - Consumer prices in France



Source: INSEE

Consumer prices

of non-energy industrial goods should then stabilise by June.

inflation should reach +6.5% in June 2010 (see table and graph 3).

Inflation in services: a slight downturn

Inflation in services fell from 1.9% in December 2009 to 1.6% in February 2010.

In June 2010, year-on-year inflation of the prices of services should fall to 1.5%, notably under the effect of the rise in unemployment and the ensuing levelling-out of wage levels. The drop in unit wage costs in market services which occurred throughout 2009 should extend into H1 2010. Additionally, the rises in tariffs that took place in early 2009 in the insurance⁽¹⁾ and social protection⁽²⁾ sectors should quit the year-on-year figures and thus contribute to the slowdown in inflation in services.

Energy inflation likely to remain virtually stable

Year-on-year inflation of energy prices returned to positive values at the end of 2009. It reached +1.1% in December 2009 then +5.4% in February 2010. This sharp rise reflects the increase in oil prices in 2009. Assuming a stabilisation of oil prices at around \$75 per barrel of Brent, energy

Rise in prices of seasonal food products, moderation of prices of non-seasonal food products

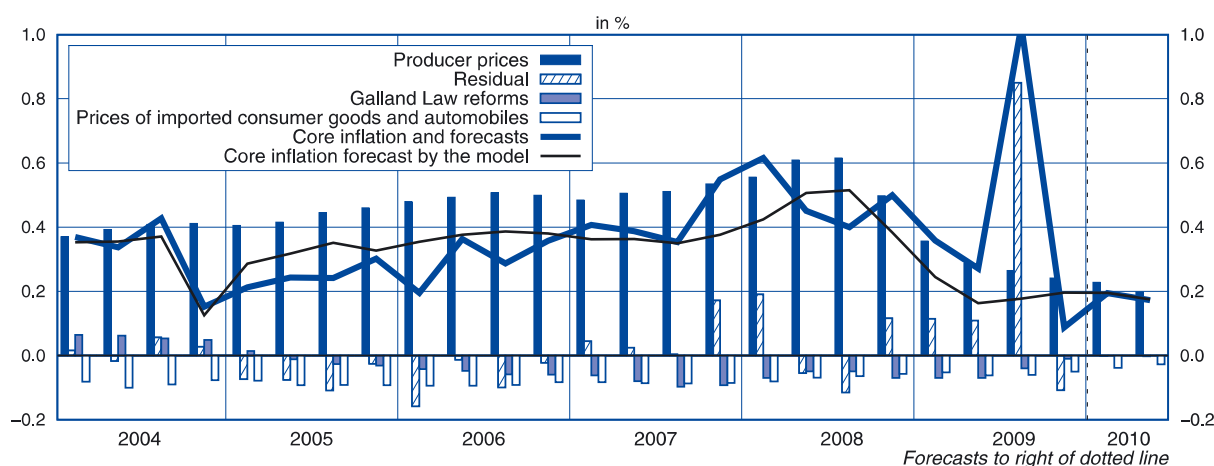
Food prices have started to rise again, year on year: +0.1% in January and February 2010 after -0.3% in December 2009. The prices of fresh vegetables have soared because the weather conditions made their production and transport particularly difficult this winter.

In June 2010, inflation in food should reach 1.1% (see table). The prices of seasonal food products should pick up clearly year on year: in June 2009, they dropped below the seasonal norms as the weather conditions had allowed abundant production. By June 2010, they should have increased more in line with their trend of recent years.

Nevertheless, excluding seasonal food products, inflation in the food industry fell over the year 2009 owing to the drop in producer prices in this sector. This fall should continue in H1 2010, moderating the rise in total food prices and contributing to the drop in core inflation. ■

- (1) Rise in the tariffs of home insurance and car insurance.
(2) Rise in the tariffs of retirement homes.

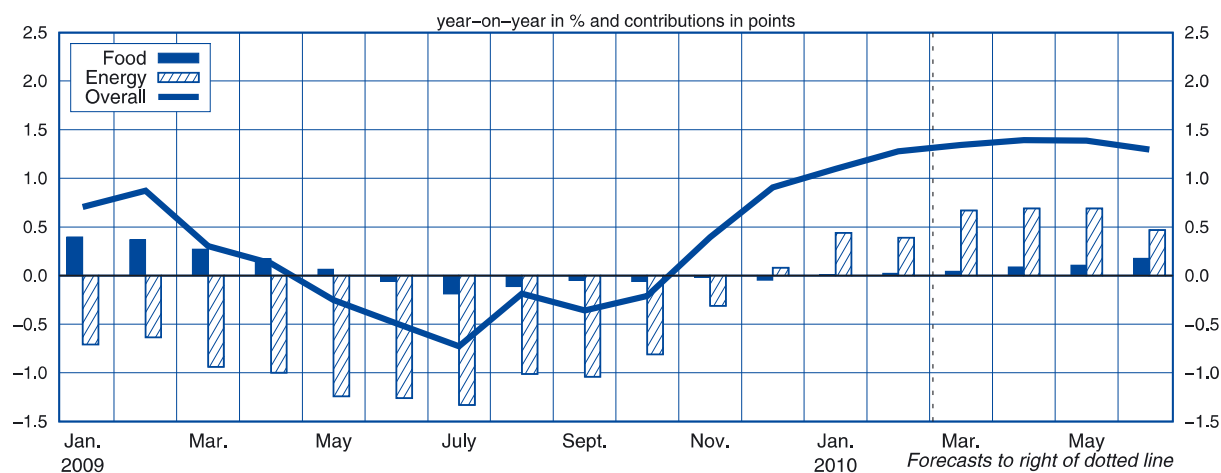
2 - Contributions to quarterly core inflation



How to read the chart: the thick curve represents quarterly core inflation, modeled by an econometric relationship involving 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 broader model (price-wage loop) which also includes the role of inflation anticipations during wage negotiations. The histograms represent the contributions of each of these variables to core inflation, as well as that of econometric residuals. For example, in Q4 2009 core inflation was 0.1%; producer prices explain 0.2 point, the prices of imported consumer goods and automobiles have a negative contribution (-0.1 point) and the "Galland law reforms" variable contributes negatively but only very slightly so. The contribution of the residual is therefore negative to -0.1 point for this quarter. The positive residual in Q3 2009 reflects the sharp rise in VAT-exclusive prices in the restaurant sector.

Source: INSEE

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



Source: INSEE

Consumer prices

changes as a % and contributions in points

CPI* groups (2009 weightings)	June 2009		December 2009		February 2009		June 2010		Annual averages	
	ga	cga	ga	cga	ga	cga	ga	cga	2008	2009
Food (16.25%)	-0.4	-0.1	-0.3	0.0	0.1	0.0	1.1	0.2	4.9	0.4
including: seasonal food products (1.95%)	-9.2	-0.2	-2.1	0.0	0.7	0.0	7.8	0.2	1.9	-4.2
excluding seasonal food products (14.30%)	1.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	5.4	1.0
Tobacco (1.75%)	0.8	0.0	6.0	0.1	6.0	0.1	5.8	0.1	3.9	1.4
Non energy industrial goods (31.1%)	0.0	0.0	-0.1	0.0	0.3	0.1	-0.3	-0.1	0.3	0.0
Energy (7.3%)	-17.4	-1.4	1.1	0.1	5.4	0.4	6.5	0.5	10.8	-12.0
including: oil products (4.28%)	-26.1	-1.3	3.6	0.2	11.3	0.5	10.2	0.4	14.8	-19.1
Services (43.6%)	2.5	1.1	1.9	0.8	1.6	0.7	1.5	0.6	2.4	2.3
including: rent-water (7.59%)	2.9	0.2	2.4	0.2	2.3	0.2	2.1	0.2	2.5	2.8
health services (5.21%)	0.9	0.0	0.9	0.0	1.0	0.1	1.3	0.1	1.4	0.8
transport-communications (5.33%)	2.3	0.1	0.6	0.0	0.3	0.0	-0.1	0.0	1.6	1.7
other services (25.47%)	2.8	0.7	2.2	0.6	1.7	0.4	1.6	0.4	2.7	2.5
All (100%)	-0.5	-0.5	0.9	0.9	1.3	1.3	1.3	1.3	2.8	0.1
All excluding energy (92.7%)	1.1	1.0	0.9	0.8	1.0	0.9	0.9	0.8	2.1	1.2
All excluding tobacco (98.25%)	-0.5	-0.5	0.8	0.8	1.2	1.2	1.2	1.2	2.8	0.1
"Core" inflation (62.6%)(1)	1.5	0.9	1.8	1.1	1.9	1.3	1.4	0.9	2.0	1.8
All HCPI*	-0.6	-0.6	1.0	1.0	1.4	1.4	1.4	1.4	3.2	0.1

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 (HICP).

(1) Index excludes public tariffs and products with volatile prices, corrected for tax measures.

Source: INSEE

Employment

In H2 2009, employment contracted less sharply than we forecast in the December issue of *Conjoncture in France*, partly due to a greater rise in activity: 35,700 jobs were lost (-0.1% against a forecast of -0.4%). In H1 2010, total employment should fall by 74,200. Non-agricultural market employment should continue to fall at a slightly slower pace than in H2 2009: 80,500 jobs cut after 357,600 over 2009 as a whole. By mid-2010, employment in the market sectors should be restored to its level of early 2001. In the non-market sectors, employment should stabilise after having been very dynamic in 2009.

A continuing drop in the number of paid workers in the market sectors

The workforce in the market sectors has been falling since Q2 2008. Between Q2 2008 and the end of 2009, almost 600,000 jobs were lost. In H2 2009, market-sector employment nonetheless dropped less sharply than in H1 (-0.6% after -1.6%), thanks to the improved economic outlook.

However, the fall in employment is not yet at an end: as there is a time lag in the adjustment of employment to the variations in activity, during an economic recovery phase employment only starts to rise again several quarters after activity. In Q4,

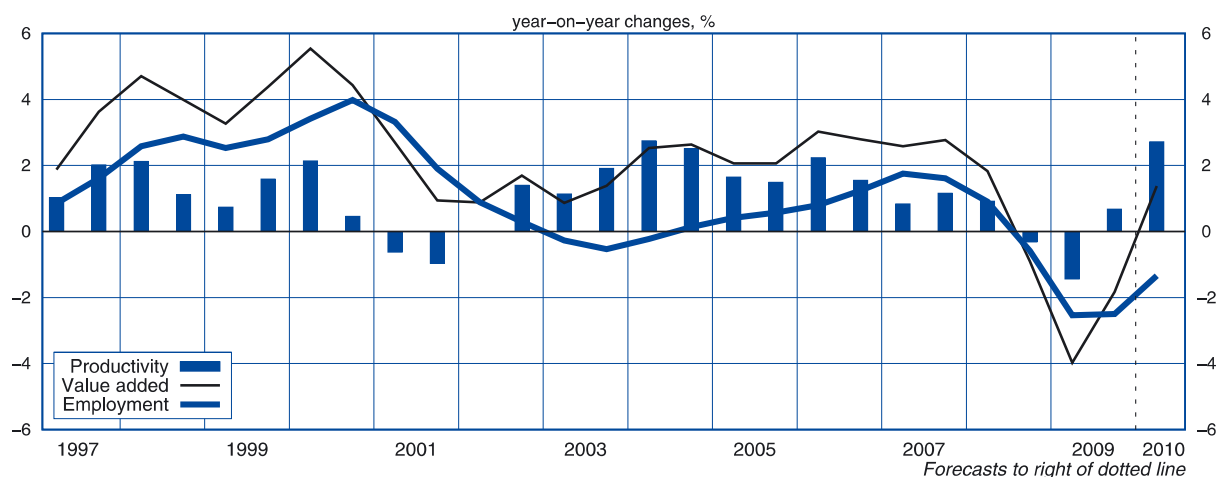
market-sector employment fell less sharply but a delay in productivity still needs to be made up (see graph 1). As a result, employment should continue to fall in H1 2010: 80,500 jobs lost, after -100,200 in H2 2009 (see table). Non-agricultural market employment should thus return to its early 2001 level by mid-2010 (see graph 2).

Industrial employment set to continue its sharp fall

Since the start of the 2000s, industry has been shedding jobs as part of an ongoing trend. But the crisis has aggravated this drop: 173,000 jobs were destroyed in this sector in 2009, twice the figure for 2008 (-82,300). The impact of the crisis on industrial employment is even greater when the drop in temporary employment is taken into account:⁽¹⁾ the number of temporary workers in industry was slashed in half between Q2 2008 and Q1 2009, with nearly 150,000 jobs lost in one year. Since Q2 2009, temporary work in industry has, however, started to rise again (+3.9% in Q2 and +7.7% in Q3).

(1) Temporary workers are counted in the tertiary sector even if they carry out an assignment in industry or construction (see below).

1 - Paid employment and value added of the non-agricultural market sectors



Source: INSEE

At the start of 2010, the contraction of employment in industry should continue, although at a slightly less sustained rate than at the end of 2009 (-63,300 jobs in H1 after -81,200 in H2 2009).

The construction industry still in crisis

Employment in construction shrank later than in the other sectors - the decline started in Q4 2008. In H1 2010, employment in construction should fall further (-18,600 jobs), but not as sharply as in H2 2009 (-26,400 jobs). The outlook in this sector is still poor and activity, which is still heading downwards in early 2010, should not stabilise until the middle of the year.

Employment in the tertiary market sector should rise slightly

Employment in the tertiary market sector very quickly adjusted during the recession, mainly because temporary work is included in the figures for it, irrespective of the sector in which the temporary assignments are carried out. In Q4 2008 and in Q1 2009, 152,500 temporary jobs were lost. However, temporary employment stabilised as early as Q2 2009, then rebounded in H2 (+ 10.9%).

Excluding temporary work, the drop in the workforce in the tertiary sector was more moderate (-8,000 in H2 2008 and -75,000 in H1 2009). In H1 2010, employment in the tertiary market sector should

Table 1

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			
	2008	2009 H1	2009 H2	2010 H1	2008	2009 H1	2009 H2	2010 H1	2008	2009 H1	2009 H2	2010 H1
Market sector employees (1)+(2)	-129.3	-244.5	-77.5	-62.5	-0.7	-1.4	-0.4	-0.4	18041	17797	17719	17656
Mainly non-agricultural market sectors (1) including:	-173.5	-257.4	-100.2	-80.5	-1.1	-1.6	-0.6	-0.5	16207	15949	15849	15769
Industry	-82.3	-91.8	-81.2	-63.3	-2.3	-2.6	-2.4	-1.9	3518	3426	3345	3282
including												
Manufacturing industry	-81.3	-94.4	-83.8	-56.2	-2.5	-3.0	-2.7	-1.9	3151	3057	2973	2917
Construction	7.0	-23.5	-26.4	-18.6	0.5	-1.6	-1.8	-1.3	1482	1458	1432	1413
Tertiary market sector	-98.3	-142.0	7.3	1.3	-0.9	-1.3	0.1	0.0	11207	11065	11072	11073
including												
Trade	6.9	-33.6	-16.7	-3.0	0.2	-1.1	-0.6	-0.1	3038	3004	2988	2985
Market services (including temping)	-123.6	-113.1	18.2	5.7	-1.8	-1.7	0.3	0.1	6817	6704	6723	6728
Mainly non-market sectors (2) (private establishments only)	44.2	12.9	22.7	18.0	2.5	0.7	1.2	0.9	1834	1847	1870	1888

	Job creations over the period (in thousands) seasonally adjusted				Change in employment over the period (%) seasonally adjusted			
	2008	2009 H1	2009 H2	2010 H1	2008	2009 H1	2009 H2	2010 H1
Mainly non-agricultural market sectors	-173.5	-257.4	-100.2	-80.5	-1.1	-1.6	-0.6	-0.5
Agricultural employees	-9.0	-5.0	-5.0	-5.0	-3.8	-2.2	-2.3	-2.3
Mainly non-market service sectors (including private establishments)	32.9	14.4	62.0	3.8	0.4	0.2	0.8	0.1
Self-employed	14.2	7.5	7.5	7.5	0.6	0.3	0.3	0.3
TOTAL EMPLOYMENT	-135.4	-240.5	-35.7	-74.2	-0.5	-0.9	-0.1	-0.3

Forecast

(1) Sectors DE to MN and RU

(2) Sectors OQ private

How to read the table: 62,500 jobs look set to be lost in the market sector during H1 2010. This corresponds to a fall of 0.4% over the half-year. At 30 June 2010, this sector should account for 17,656,000 paid employees.

Source: INSEE

Employment

stabilise (+1,300 jobs), after having increased slightly in the previous half-year (+7,300).

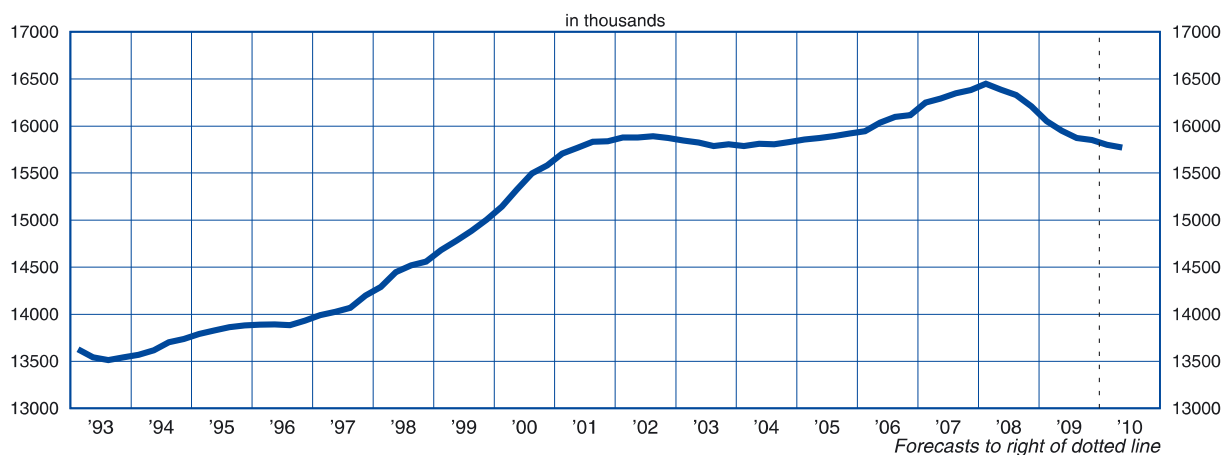
After a sharp rise in 2009, employment in the non-market tertiary sector is set to stabilise in H1 2010

In 2009, 76,400 jobs were created in the non-market sector, which is more than double the figure of 2008 (+32,900). This rebound is mainly due to subsidised employment contracts (*contrat d'accompagnement vers l'emploi* - CAE, *contrat d'avenir* - CAV), the number of beneficiaries of which increased in 2009 (see Focus, "The impact of market and non-market subsidised employment contracts in 2009"). However, the other

components of non-market employment (private employment and non-subsidised public employment) seem to have grown more moderately than in 2008.

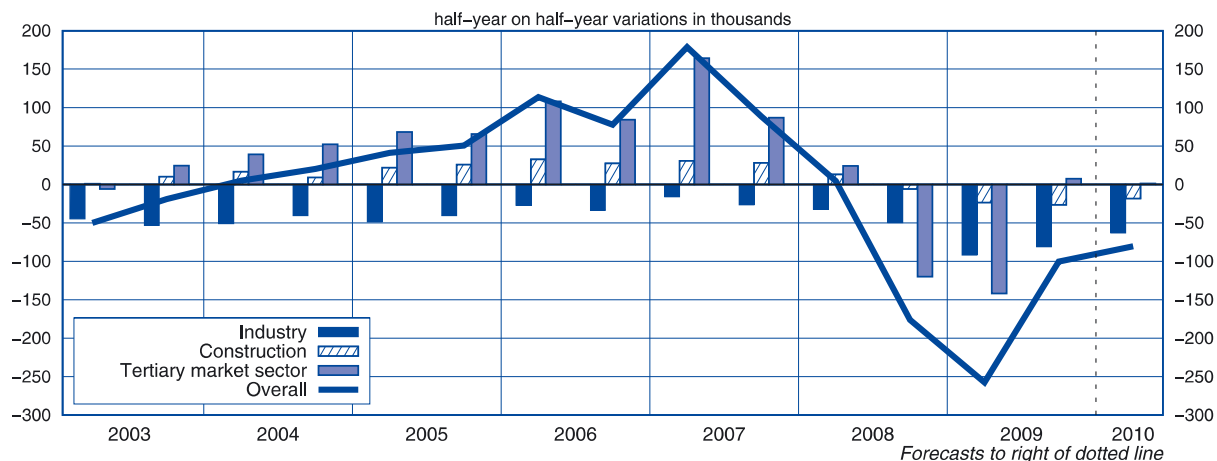
In H1 2010, employment in the non-market sector should stabilise (+3,800). It is likely to suffer, among other things, from the fall in the number of beneficiaries of the non-market integration contract (-13,000): indeed, the number of new beneficiaries of this contract, which replaces the CAE and the CAV from 1st January 2010, is a little lower than in 2009. Additionally, the number of people reaching the end of these schemes should be higher than in 2009. ■

2 - Non-agricultural market paid employment



Source: INSEE

3 - Changes in paid employment in the non-agricultural market sectors



Source: INSEE

Focus - The impact of market and non-market subsidised employment contracts in 2009

Subsidised employment contracts are regularly used in times of rising unemployment. In the framework of the stimulus plan for employment, the budget allocated to subsidised contracts in the non-market sector was increased for 2009. Furthermore, in summer 2009, a plan of action for young people was implemented with the effect of further increasing the number of workers taken on with market and non-market subsidised contracts.

The short-term impact of these contracts on employment varies according to whether they apply to the market sector or the non-market sector. In the non-market sector, the number of jobs is equal to the difference between the contracts signed or renewed and the contracts terminated in the course of the year. But in the market sector, part of the jobs performed in the framework of a subsidised contract scheme would have been created even if the scheme had not existed. This is where the term "knock-on effects" is used, and the extent of these effects can differ from one measure to the next. The effect of subsidised contracts on employment in the market sector is therefore lower than the variation in the number of beneficiaries.

The effect of subsidised contracts on employment is estimated from empirical studies (Dares, 1996). For this reason, the evaluations are flawed by a degree of incertitude. And in fact they are only validated short term. Long-term evaluations require that the following be taken into account:

- All the consequences of the schemes on the labour market (adjustment of wages, of the activity ratio, etc.),
- Their effects on human capital, in particular the modification of the beneficiaries' integration on the labour market,
- The impact on the economy of the way the schemes are funded.

The inclusion of these long-term effects is likely to modify somewhat the evaluations presented here.

A sharp rise in the number of beneficiaries of subsidised contracts in the non-market sector in 2009

In 2009, subsidised employment in the non-market sector increased by 60,000 jobs after two years of decline. The number of contracts signed or renewed was substantially higher than in 2008 (see table).

In particular, the number of new beneficiaries of the *Contrat d'accompagnement vers l'emploi* (CAE) returned to its level of 2006 and 2007: 258,000 people started a CAE in 2009 against 169,000 in 2008. These extra jobs mainly concern the "gateway" CAE, established as part of the action plan for young people in summer 2009. All in all, at the end of 2009, 173,000 people benefited from a CAE, 72,000 more than at

the end of 2008. However, the number of *Contrat d'avenir* (CAV) beneficiaries continued to fall in 2009, with 9,000 fewer.

There are fewer and fewer beneficiaries of the old contracts - *Contrat emploi solidarité*, *Contrat emploi consolidé* and *Emplois jeunes* - because there were no more newcomers; balanced against this, the number of people coming to an end of these contracts has become increasingly marginal.

Subsidised contracts in the market sector: a drop in the number of beneficiaries but a very minor effect on employment

In 2009, the effect of market-sector subsidised contracts⁽¹⁾ on employment was virtually nil: 5,000 jobs lost over the year, taking into account the knock-on and substitution effects. Since 2004, this effect has been minor. Barely positive between 2004 and 2006 (+6,000 jobs created in 2006), the effect appears to have been negative in 2007 and slightly negative in 2008.

Sandwich training courses account for the majority of subsidised contracts in the market sector: at the end of 2009, 607,000 people had an apprenticeship or professionalization contract, down 26,000 compared to 2008. There was a sharp fall in the number of newcomers to the scheme: -40,000 people, 32 000 of which for the professionalization contract and 8,000 for the apprenticeship contract.

Conversely, the number of new beneficiaries of the *Contrat initiative emploi* (CIE) rose sharply in 2009. The action plan for young people set up in summer 2009 resulted in some 50,000 further jobs. In this way, there were 99,000 new beneficiaries of the CIE, instead of the 50,000 initially planned for 2009 in the Budget Proposal. When the people finishing their contract are taken into account, particularly those under the former scheme (-18,000), the total number of CIE beneficiaries increased by 38,000 in 2009.

However, this surge of newcomers to the CIE does not compensate for the job losses in the other schemes designed to bring down wage costs. In particular the *Contrat jeune en entreprise* (CJE), discontinued since 1st January 2008, lost 55,000 beneficiaries in 2009. The other subsidised schemes in the market sector again lost ground in 2009: 6,000 fewer employees with contracts entitling employers to exemption of charges in Rural Regeneration Areas (ZRR) and Urban Rehabilitation Areas (ZRU); and 5,000 fewer with integration/minimum income contracts (CI-RMA). ■

Bibliography

Dares (1996), "40 ans de politique de l'emploi", December, *La Documentation française*.

(1) *Contrats initiative emploi* (CIE), sandwich courses (professionalization, apprenticeship, qualification...), exemption of social charges in ZRR in ZRU, youth work contracts, etc.

Employment

Subsidised employment contract schemes: flows and number of beneficiaries

in thousands, raw data

	Flows of newcomers (including contract renewals)				Variation in number of beneficiaries (y-o-y, end of year)				Number of beneficiaries (end of year stock)**			
	2006	2007	2008	2009	2006	2007	2008	2009	2006	2007	2008	2009
Subsidised employment in the market sector*	607	615	527	538	-51	-4	-90	-54	863	860	770	716
Reduction in wage costs	195	176	64	115	-92	-67	-101	-27	306	238	137	110
Exemptions from social charges (ZRR and ZRU)	14	15	13	7	2	1	-2	-6	13	14	12	7
Youth work contracts	78	94	0	0	3	16	-76	-55	119	135	59	4
Part-time work rebate	0	0	0	0	-69	0	0	0	0	0	0	0
Contrat initiative emploi (old formula)	0	0	0	0	-52	-29	-19	-18	72	43	24	6
Contrat initiative emploi (new formula)	80	38	36	99	13	-62	0	56	85	23	24	79
CI-RMA (old and new formula)	23	29	15	9	11	6	-4	-5	16	23	19	14
Sandwich training courses	412	439	463	423	41	64	11	-26	558	621	633	607
Including:												
Apprenticeship	271	273	290	281	23	16	1	4	390	406	407	410
Professionalization	141	166	174	141	79	52	11	-30	164	215	226	196
Subsidised employment in the non-market sector	374	364	276	355	23	-41	-63	60	289	248	184	244
Contrat d'accompagnement dans l'emploi	257	248	169	258	45	-17	-48	72	166	150	102	173
Contrat d'avenir	94	113	106	97	60	13	-10	-9	75	88	78	69
Contrat emploi solidarité	0	0	0	0	-21	0	0	0	0	0	0	0
Contrat emploi consolidé	19	1	0	0	-36	-19	-1	0	20	1	0	0
Emploi jeune	4	2	1	0	-25	-19	-4	-3	28	9	5	2

* Excluding general measures such as general reductions in social contributions and reduction of working time

** The annual number of beneficiaries of a measure is calculated from a flow of newcomers observed or forecast over the period, and the usual rates of termination of contracts; the effect on employment is measured from the variation in the number of beneficiaries, with any substitution and knock-on effects taken into account.

Sources: Dares, CNASEA

Wages

In 2009, the basic monthly wage (salaire mensuel de base - SMB) looks to have experienced slower nominal growth (+2.2%, after +3.0% in 2008), owing to the drop in inflation and the rise in unemployment. The average wage per head (salaire moyen par tête - SMPT) looks to have done the same (+1.9% after +3.0% in 2008), mainly due to the drop in bonuses. In H1 2010, this deceleration should continue, with a growth overhang for 2010 of +1.0% for the SMB and +1.4% for the SMPT by the end of Q2.

In real terms wages will have followed an inverse profile, as price fluctuations are passed on with a time lag: +2.3% for the SMB in 2009 after +0.2% in 2008, and +2.0% for the SMPT after +0.2% in 2008. Conversely, at the start of 2010, growth in real wages should slow sharply owing to the upturn in inflation and the levelling-out of nominal wages. By the end of Q2, the growth overhang should be barely positive for the real SMB (+0.2%) and moderate for the real SMPT (+0.5%).

In general government, growth in the nominal average wage per head seems to have slowed significantly in 2009 (+1.1% after +2.6% in 2008). However, as in the market sector, the real SMPT in general government seems to have

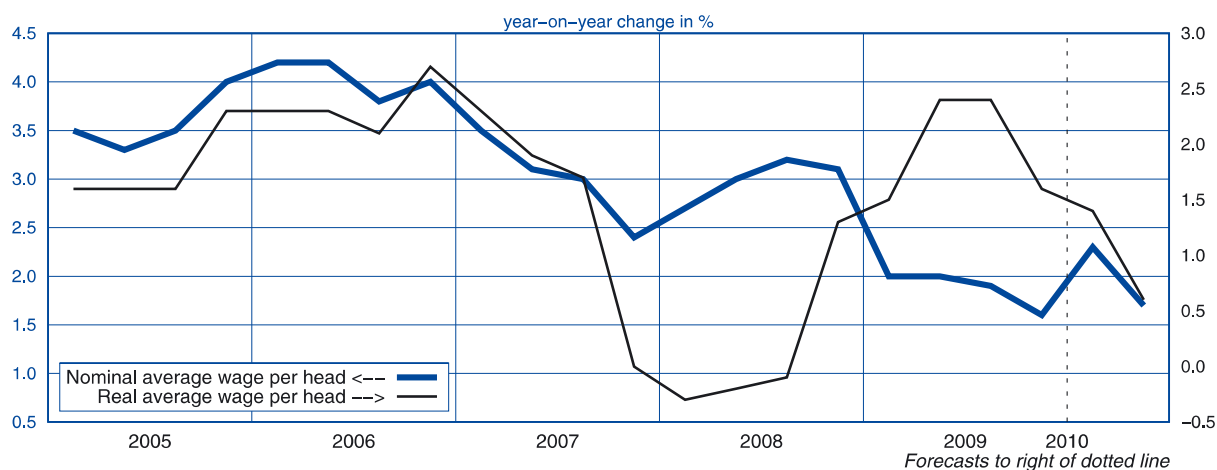
accelerated (+1.2%) after the slight drop in 2008 (-0.2%). At the start of 2010, the SMPT in general government should once again accelerate in nominal terms but decelerate in real terms.

Nominal wages set to slow once again in early 2010

In 2009, the nominal basic monthly wage (SMB) appears to have progressed more slowly than in 2008 (+2.2% after +3.0%, see table and graph). On the one hand, the worsening labour market took its toll on wages. On the other, nominal wages were slowed by the sharp downturn in prices from mid-2008 onwards (see *Consumer prices note*). In particular, the virtual stability of prices throughout 2009 limited the upgrade of the minimum wage on 1st July: year on year, it only increased by 1.3% at 1st July 2009, against 3.2% at 1st July 2008.

Similarly, the average wage per head (SMPT) appears to have slowed in 2009 (+1.9% against +3.0% in 2008). As well as the negative effects of rising unemployment and the downturn in inflation, both of which put a brake on the SMPT and the SMB, the bonuses paid in Q1 in the tertiary sector were drastically reduced.

Change in the nominal and real average wage per head



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

Wages

In H1 2010, growth of nominal wages should be moderated further. The rise in unemployment is likely to continue to weigh down on wages. Also, as wages are partially indexed to past inflation, the slowdown in inflation in 2009 should result in even slower growth in wages at the start of 2010. Conversely, the 0.5% upgrade of the minimum wage on 1st January should sustain growth in wages somewhat in H1. In total, the growth overhang for 2010 at the end of Q2 should be 1.0% for the SMB and 1.4% for the SMPT.

Real wages slowing sharply

In 2009, wages grew sharply in real terms: the SMB by 2.3%, after +0.2% in 2008, and the SMPT by 2.0% after +0.2% in 2008. Indeed, in 2009 nominal wages did not slow as much as inflation, as they are indexed partially, and with a time lag, to prices. However, in H1 2010 growth of real wages is likely to be slowed by inflation. For 2010, the growth overhang at the end of Q2 is likely to be low: +0.2% for the SMB and +0.5% for the SMPT in real term.

Wages in general government slowed in 2009

In parallel to the rise in the minimum wage, the minimum index of the civil service increased by 2 points on 1st July 2009. Additionally, the civil service index point was increased by +0.5% in July 2009, then +0.3% in October. Last, the Individual Purchasing Power Guarantee (*Garantie individuelle du pouvoir d'achat - GIPA*) bonus scheme was renewed at the end of the year. But despite these measures, the SMPT in general government appears to have grown more slowly in 2009 than in 2008 (+1.1% after +2.6%); however, in real terms, it rebounded thanks to the rise in inflation (+1.2% after -0.2% in 2008).

The trend looks set to reverse in early 2010: the nominal SMPT in general government should accelerate slightly and the real SMPT should slow down sharply. So at the end of Q2, the growth overhang should be +1.6% for the nominal SMPT and +0.7% for the real SMPT. ■

Growth of the basic monthly wage (SMB) and the average wage per head (SMPT) in the non-agricultural market sector and in general government

change as a %

Seasonally-corrected data	Quarterly growth rates						Annual averages		
	2009				2010		2008	2009	2010 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2			
Basic monthly wage (SMB)	0.6	0.4	0.4	0.5	0.2	0.2	3.0	2.2	1.0
Average wage per head (SMPT)									
- in the non-agricultural market sector (NAMS)	-0.3	0.9	0.7	0.4	0.3	0.3	3.0	1.9	1.4
- in general government (GG)	-	-	-	-	-	-	2.6	1.1	1.6
Household consumer price index	-0.4	0.0	0.2	0.3	0.4	0.2	2.8	-0.2	0.9
Real basic monthly wage	1.0	0.4	0.2	0.3	-0.2	0.0	0.2	2.3	0.2
Real average wage per head (NAMS)	0.1	0.9	0.5	0.1	-0.1	0.1	0.2	2.0	0.5
Real average wage per head (GG)	-	-	-	-	-	-	-0.2	1.2	0.7

■ Forecast
Sources: Dares, INSEE

Household income

In 2009, household purchasing power accelerated substantially: it is thought to have grown by 2.2%, after +0.7% in 2008. This dynamism was the result notably of the marked fall in inflation. Household gross disposable income, meanwhile, slowed down noticeably in 2009: earned income and income from property stagnated due to the recession. The built-in stabilisers and stimulus measures did soften the impact of the recession on household income, however.

In H1 2010, purchasing power should slow down markedly (+0.3% on average over the half, after +1.2% in H2 2009). The upturn in earned income is unlikely to offset the rise in the tax burden, an after-effect of the reductions in 2009, the slowdown in social benefits and the acceleration in consumer prices.

Purchasing power should slow down distinctly in early 2010

In 2009, nominal gross disposable income slowed down sharply (+2.0% after +3.5% in 2008) but this slowdown was more than made up for by the fall in inflation (-0.2% after +2.8% in 2008). Purchasing power therefore accelerated considerably in 2009 (+2.2% after +0.7% in 2008). Purchasing power per consumption unit, which takes account of demographic changes, also accelerated in 2009: it would appear to have grown by +1.5%, after being stable in 2008 (see box on "Different measurements of purchasing power").

In H1 2010, household income should grow by 0.9%. With inflation taking a slight upward turn, purchasing power should slow down significantly (+0.3% after +1.2% in H2 2009).

Table 1

Household gross disposable income

	change as a %							
	Half-yearly averages					Annual averages		
	2008		2009		2010	2007	2008	2009
	H1	H2	H1	H2	H1			
Gross disposable income (100%)	1.7	0.9	0.8	1.6	0.9	5.2	3.5	2.0
including :								
Income (68%)	1.9	0.9	-0.6	0.3	0.5	4.5	3.4	0.0
Gross wages (58%)	1.8	1.0	-0.5	0.4	0.5	4.4	3.3	0.2
GOS of sole proprietors (10%)	2.7	-0.1	-1.0	-0.3	0.4	4.9	4.2	-1.2
Social benefits in cash (30%)	1.6	2.2	2.5	2.5	2.1	3.6	3.5	4.9
GOS of "pure" households ⁽¹⁾ (14%)	1.8	1.4	0.8	1.6	1.6	8.1	4.3	2.3
Property income (10%)	2.1	0.5	-0.8	1.1	2.3	3.9	3.2	0.0
Social contribution and tax burden (-23%) ^(*)	2.3	2.5	-1.8	-1.3	2.3	2.1	3.5	-1.2
Contributions by paid employees (-8%)	0.7	0.6	-0.2	1.2	1.3	3.6	1.6	0.7
Contributions of self-employed persons (-2%)	2.9	0.1	2.0	1.9	0.8	2.0	3.8	3.0
Income and wealth tax (including CSG and CRDS) (-13%)	3.3	4.1	-3.2	-3.3	3.2	1.3	4.6	-2.9
Income before taxes	1.9	1.3	0.3	1.0	1.2	4.7	3.6	1.5
Household consumer prices (quarterly national accounts)	1.7	0.6	-0.7	0.4	0.6	2.1	2.8	-0.2
Purchasing power of gross disposable income	0.0	0.3	1.5	1.2	0.3	3.0	0.7	2.2

Forecast

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

(1) Households except sole proprietors.

Source: INSEE

Household income

Earned income should grow again in H1 2010

In 2009, the economic crisis weighed down on earned income which stagnated (+0.0% after +3.4% in 2008; see table 1). On the one hand, the total wages of households slowed sharply (+0.2% after +3.3% in 2008, see table 2): they dropped in particular at the start of the year in the non-agricultural market sectors (see graph 1) under the effect of the sharp drop in paid employment (see "Employment"). On the other hand, the gross operating surplus (GOS) of sole proprietors diminished (-1.2% after +4.2% in 2008) with the downturn in activity.

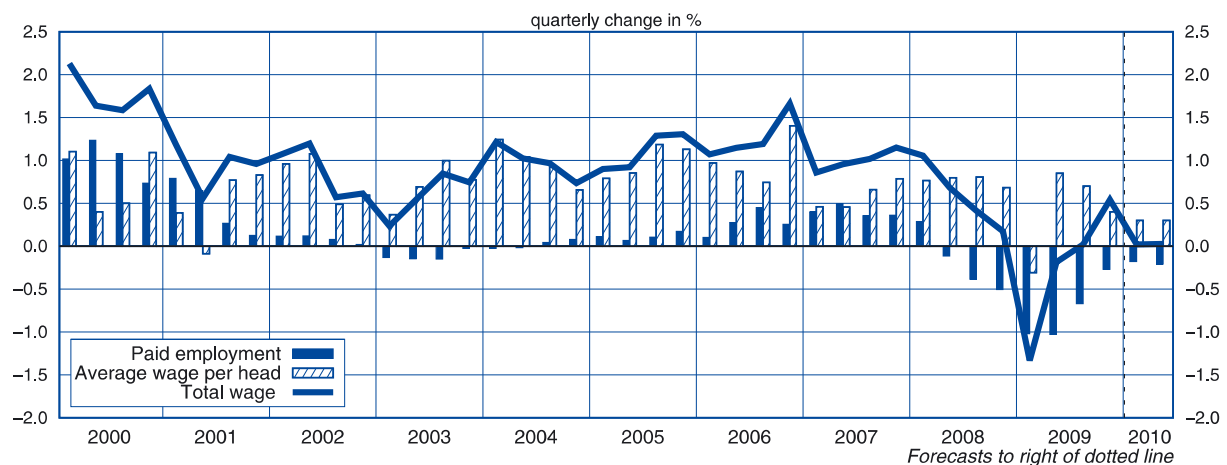
In H1 2010, the total wages received by households should continue to grow (+0.5% on average over the half, after +0.4% in H2 2009)

and the GOS of sole proprietors should rise (+0.4% after -0.3%). All in all, earned income should accelerate slightly (+0.5% after +0.3%).

Social benefits should slow down in early 2010 after their sharp rise in 2009

In 2009, social benefits in kind were very dynamic (+4.9% after +3.5% in 2008; see table 3). In particular, social welfare benefits increased sharply (+12.0% after -3.4% in 2008). Among other things, households received two one-off bonuses in H1 2009 as part of the stimulus package: the active solidarity bonus and the €150 bonus paid to beneficiaries of the return-to-school grant. The introduction of the active solidarity benefit also contributed to this progression. Finally, social

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



Source: INSEE

Table 2

From non-financial enterprise payroll to wages received by households

change as a %

	Half-yearly averages					Annual averages		
	2008		2009		2010	2007	2008	2009
	H1	H2	H1	H2	H1			
Non-financial enterprises (67%)	2.1	1.0	-1.5	0.0	0.2	4.8	3.8	-1.0
including : Average wage per head	1.7	1.7	0.2	1.3	0.7	3.2	3.3	1.8
Financial corporations (5%)	-0.7	-1.0	3.8	0.5	0.7	3.4	-0.7	3.5
General government (23%)	1.0	1.1	1.0	1.1	1.2	2.9	2.1	2.1
Households excluding sole proprietors (2%)	2.7	3.3	2.9	2.6	2.5	7.9	6.1	5.9
Total gross wages received by households (100%)	1.8	1.0	-0.5	0.4	0.5	4.4	3.3	0.2
including : Non-agricultural market sectors	2.0	0.8	-1.3	0.0	0.2	4.6	3.5	-0.9

Forecast

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

Source: INSEE

security benefits progressed in 2009 (+4.7% after +4.2% in 2008): unemployment benefit increased sharply owing to the deterioration of the labour market.

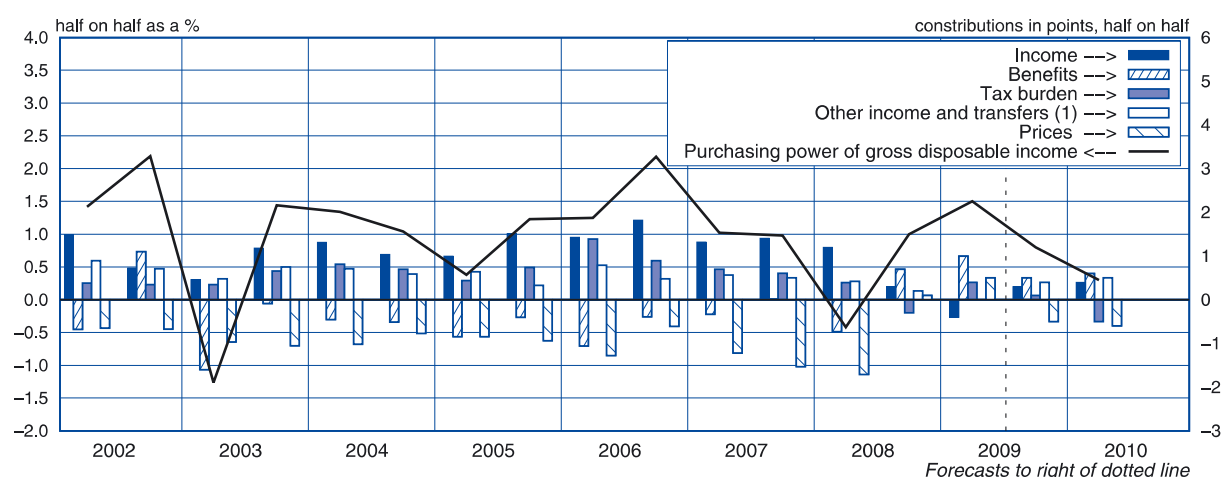
In H1 2010, growth of social benefits should become rather more moderate and return to its average trend (+2.1% after +2.5% in H2 2009). On the one hand, social security benefits should slow down, in particular unemployment benefits, as the labour market deteriorates less sharply. But

on the other hand, social welfare benefits should accelerate further to the after-effects in late 2009 of the one-off bonuses paid last spring.

After a clear fall in 2009, the tax burden should accelerate in early 2010

The tax burden decreased in 2009 (-1.2% after +3.5% in 2008). The taxes paid by households fell sharply (-2.9% after +4.6% in 2008). The drop in

2 - Purchasing power of available income and contributions



(1) GOS of "pure" households, property income and current transfers.
Source: INSEE

Table 3

The social transfers received and paid by households

	change as a %					Annual averages		
	Half-yearly averages					2007	2008	2009
	2008	2009	2010	2007	2008			
	H1	H2	H1	H2	H1			
Social cash benefits received by households (100%)	1.6	2.2	2.5	2.5	2.1	3.6	3.5	4.9
Social Security benefits in cash (71%)	2.0	2.4	2.0	2.9	2.1	3.9	4.2	4.7
Private funded social benefits (7%)	0.6	2.5	0.8	4.0	2.2	1.6	2.5	4.1
Unfunded employee social benefits (14%)	2.1	1.6	1.1	1.4	1.6	5.9	4.4	2.7
Social assistance benefits in cash (8%)	-2.5	1.0	11.6	-0.2	2.2	-0.5	-3.4	12.0
Total social contribution burden	1.7	0.6	-0.1	1.4	1.3	3.5	2.8	1.0
Actual social contributions paid by households (100%)	1.6	0.5	-0.3	1.4	1.3	3.4	2.6	0.6
including : Employers contributions ⁽¹⁾ (64%)	1.9	0.5	-0.6	1.4	1.4	3.5	2.9	0.3
Employees contributions (29%)	0.7	0.6	-0.2	1.2	1.3	3.6	1.6	0.7
Self-employed contributions (7%)	2.9	0.1	2.0	1.9	0.8	2.0	3.8	3.0

Forecast

Note: 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

Household income

income tax was the result on the one hand of the slowdown in income in 2008 and on the other hand of certain tax relief measures in the stimulus plan,⁽¹⁾ as well as of the dividend taxation reform.⁽²⁾ Additionally, the contributions paid by employees in 2009 did not progress as much (+0.7% after +1.6% in 2008), under the effect of the slowdown in total wages. The contributions paid by the self-employed also saw a slowdown (+3.0% in 2009 after +3.8% in 2008).

(1) Withdrawal of the last two thirds and the last monthly instalments for the less well-off taxpayers.

(2) The flat-rate withholding tax measure on dividends resulted in the tax that should have been paid in 2009 being paid early in 2008: payment was therefore made twice in 2008. In 2009, the amount paid returned to a normal level.

In H1 2010, the tax burden should start rising again (+2.3% after -1.3% in H2 2009), as the taxes paid by households increase (+3.2% after -3.3%). Income tax should no longer be pushed downwards by tax reduction measures, as was the case in 2009. ■

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. In 2008, the growth in the number of consumption units was 0.7% (as a comparison, the growth in the number of inhabitants was 0.5% and growth in the number of households 1.4%).

Therefore, in 2009, purchasing power per consumption unit should rise (+1.5% after 0.0% in 2008). Per inhabitant, the rise should be 1.7%, and +0.8% per household, after -0.8% in 2008. ■

Household consumption and investment

In Q4 2009, household consumption increased (+0.9% over the quarter after +0.1% in Q3). Households purchased vehicles in huge numbers to benefit from the most advantageous terms of the scrappage allowance and the environmental "bonus-malus". With purchasing power slowing down, households drew on their savings to finance this expenditure: their savings ratio therefore fell from 17.0% to 16.4%.

In Q1 2010, consumption should slow down markedly (+0.1%) due to the weakness of purchasing power and the after-effects of the scrappage bonus from 1st January 2010. These after-effects should be somewhat softened by an upturn in energy consumption as a consequence of the harsh winter. In Q2, the after-effects of the scrappage bonus should continue to have a negative impact on household consumption which should fall by 0.2%. Households are likely to save whatever gains there are in purchasing power in Q2, and the savings ratio should rise back up by 0.4 percentage points to 16.8%.

To the time horizon of our forecast, the fall in household investment that started in 2008 should ease gradually (-1.9% then -0.4% in Q1 and Q2 2010).

In Q4 2009, consumption benefited from the scrappage allowance scheme

In Q4 2009, household consumption increased sharply (+0.9%), after being close to stagnating in the first three quarters (see table). Households brought their automobile purchases forward to benefit fully from the scrappage allowance and the environmental "bonus-malus" before these two schemes became less generous. From 1st January 2010, the scrappage allowance was reduced (from €1,000 to €700) and the terms of the "bonus-malus" were tightened.

Households drew on their savings to finance these purchases as their purchasing power had slowed down in Q4. Their savings ratio therefore fell by 0.6 points to 16.4%, after reaching the record level of 17.0% in Q3.

The leap in automobile consumption (+14.9% after -1.3% in Q3) boosted consumption of non-energy industrial goods (+2.9% after -0.3% in Q3). Households made the most of mild temperatures in Q4 and their energy consumption only increased slightly (+0.7%), after falling for two quarters (-1.3% then -3.2%). Consumption of services accelerated slightly (+0.5% after +0.3% in Q3). Consumption of food products declined (-0.6%), however, after the significant rise in Q3 (+1.0%).

Household consumption and investment expenditure

change as a %													
	Quarterly changes										2008	2009	2010
	2008				2009				2010				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Total household consumption expenditure	-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
including:													
Food (17%)	0.0	-0.6	0.1	0.6	-0.7	0.8	1.0	-0.6	0.2	0.2	-0.1	0.6	0.6
Non-energy industrial goods (24%)	-1.1	-0.4	0.3	-1.3	0.6	1.0	-0.3	2.9	-2.0	-1.5	-0.6	1.0	-0.9
Energy (7%)	-4.4	1.7	0.8	0.9	-0.6	-1.3	-3.2	0.7	4.0	-1.5	0.4	-1.5	1.4
Services (52%)	0.5	0.0	0.0	0.2	0.5	0.3	0.3	0.5	0.4	0.5	1.2	1.1	1.4
Household investment	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

Forecast
Source: INSEE

Household consumption and investment

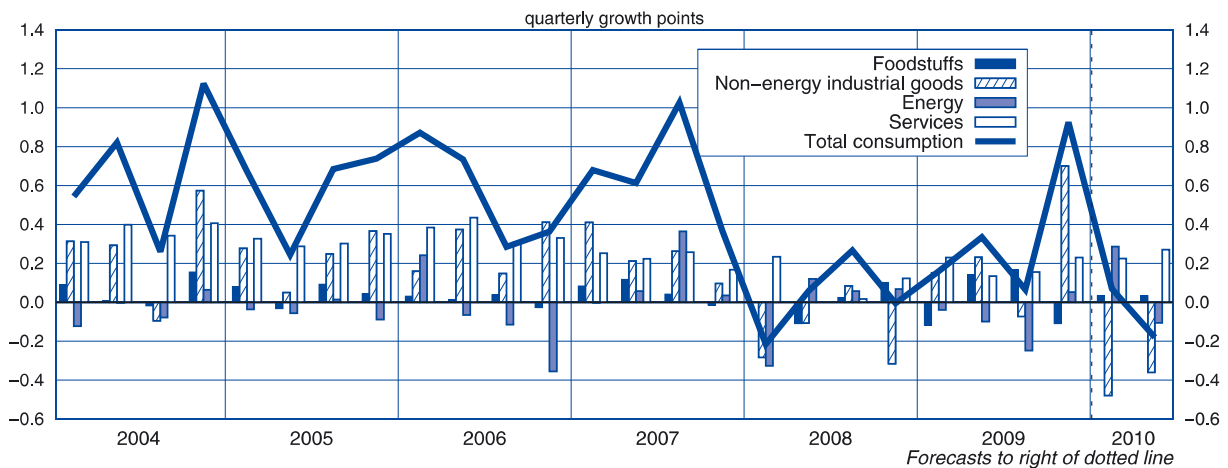
In H1, consumption is likely to be sluggish

In Q1 2010, consumption should stagnate (+0.1%). The weakness of purchasing power should weigh down on consumption, and the rise in automobile purchases in Q4 should be followed by an after-effect that is already perceptible in the fall in registrations at the start of this year (see graph 3). Non-energy industrial goods consumption should therefore be down substantially (-2.0% over Q1). In contrast, after a rather mild 2009, energy consumption should increase due to the particularly harsh winter (+4.0% in Q1). Consumer expenditure on services should remain strong (+0.4%).

In Q2, households should reduce their consumption slightly (-0.2%), as the after-effect of the scrappage bonus continues (see graph 3). Consequently, consumption of non-energy industrial goods should fall again sharply (-1.5%). In addition, energy expenditure should be down, after the upturn in Q1 (-1.5%). Consumer expenditure on services, however, should accelerate slightly (+0.5%) while consumer expenditure on food products should be almost stable (+0.2%).

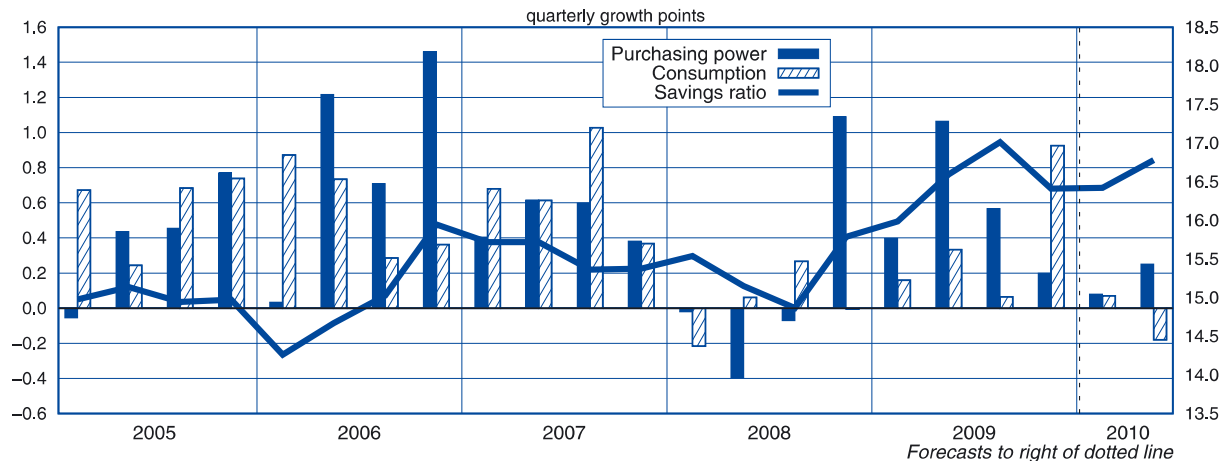
In Q2 2010, the savings ratio should reach 16.8%, close to the high point of Q3 2009 (see graph 2). One reason for this is that rising unemployment is likely to continue to encourage households to set aside a large savings cushion just in case.

1 - Contributions of the different items to quarterly household consumption



Source: INSEE

2 - Savings ratio and growth rate of consumption and the purchasing power of gross disposable income



Source: INSEE

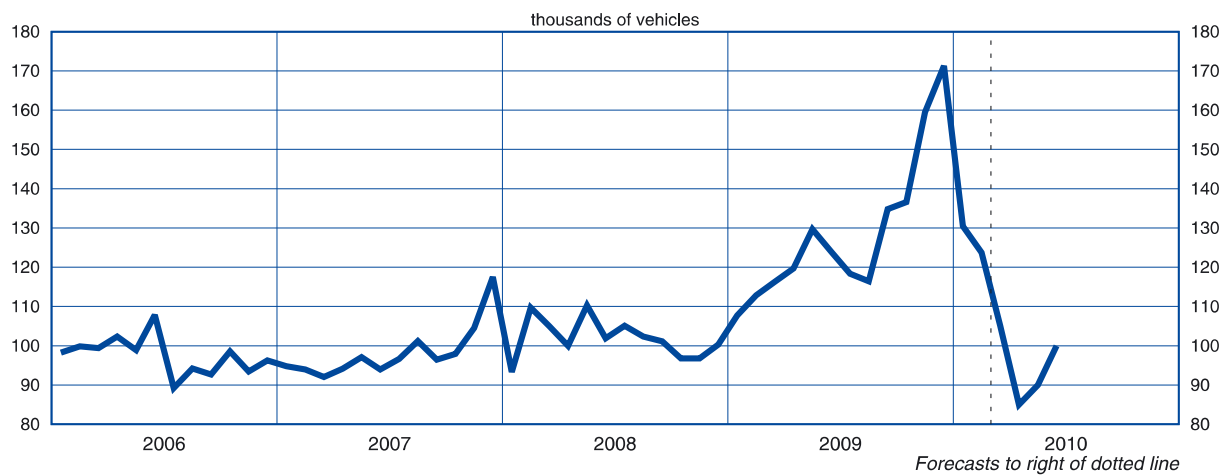
Household consumption and investment

Towards the stabilisation of household investment

Since mid-2008, households have been reducing their investment, which is mainly made up of buying new homes. Household investment should

continue to contract through to the time horizon of this forecast, but the fall should not be as sharp: it should go from -2.7% in Q4 2009 to somewhere close to stability (-0.4%) in Q2 2010. ■

3 – New private vehicle registrations (household purchases)



Sources: INSEE, CCFA, SOeS

Focus - French consumption in the crisis

Slower growth in consumption since the beginning of 2008

Since Q1 2008, the growth in French household consumption has slowed down considerably: between 2000 and 2007, it was equal to an average of +2.8% per year in volume; it was halved over the period 2008-2009, coming to +1.4%. To identify the items on which households have adjusted their consumption, we have compared the contributions of the different products to the growth in consumption before and after the crisis, and their average growth over these periods.

Savings on most expenditure items, with some differences

Faced with the crisis, and in particular rising unemployment, the French have shown themselves to be cautious in their purchasing. This caution can be seen on most consumption items, with variations that have been much less dynamic than prior to the crisis. The different products can be broken down into several categories, however:

1- "Sacrificed" products: the French have reduced their consumption of these products. They are: textiles-leather, paper-publishing, hardware-DIY, repairs-transport and other manufactured goods. These items represent about 23% of overall consumption and account for half of the slowdown in that consumption since 2008.

2- "Impacted" products: for these items, the rate of expenditure slowed down somewhat. These are larger items that represent 63% of overall household consumption. They are durable goods, food products and tobacco, built-in household expenses (rent, telecommunications, insurance, electricity, gas) and personal services and leisure (hotels, cafés, restaurants, cultural and sports activities and personal or domestic services). These products account for the other half of the variation in consumption. The sharp slowdown in built-in household expenses had already begun in 2007, however.

3- "Protected" products. During the crisis, households have maintained almost the same growth in their purchases of certain categories of products. Consumption of health products has been unaffected, for example. Consumption of services and automobiles even accelerated slightly.

The scrappage allowance boosted consumption in 2009

The case of automobiles is somewhat specific. In 2008, the French started reducing their vehicle purchases. In 2009, however, with the introduction of the scrappage allowance, this item once again boosted growth in total consumption, even more so than had been the case since 2000. ■

Contributions to annual growth of total consumption and average growth of each item

in volume

	Contributions			Average growth of the item	
	2000 to 2007	2008 to 2009	Difference in contribution	2000 to 2007	2008 to 2009
"Sacrificed" products					
Textiles-leather	0.1	-0.1	-0.2	2.0	-2.1
Paper-publishing	0.0	0.0	0.0	-0.3	-2.2
Hardware-DIY	0.1	-0.1	-0.2	2.6	-4.2
Other manufactured goods	0.1	0.0	-0.2	3.6	-0.2
Repairs-transport	0.1	-0.1	-0.2	0.6	-1.2
"Impacted" products					
Durable goods	0.7	0.6	-0.1	12.3	7.3
Food-tobacco	0.1	0.1	-0.1	0.7	0.4
Built-in expenses	0.9	0.5	-0.4	3.3	1.9
Personal and leisure services	0.3	0.0	-0.3	2.6	-0.2
"Protected" products					
Automobile	0.0	0.1	0.0	1.2	2.2
Health, hygiene	0.1	0.1	0.0	3.7	3.3
Other services	0.2	0.3	0.1	3.7	5.8
TOTAL	2.8	1.4	-1.5		

Source: INSEE

Corporate investment and inventory

In 2009, companies scaled back their investments by 7.7%, reducing investment in non-energy industrial goods drastically (-13.3%). At the beginning of 2010, entrepreneurs would seem to be hesitating to undertake new investment projects, despite the improvement in their financing terms. Demand prospects are still modest and their production capacities are still under-used. Corporate investment should therefore only improve in Q2, and even then modestly.

In Q4 2009, inventory changes buoyed up growth substantially (+0.9 point, after -0.1 point in Q3). Nevertheless, over the whole of 2009, stocks weighed down on growth by 1.4 point. Their effect on growth in H1 2010 should be almost neutral.

In 2009, corporate investment fell by 7.7%

In Q4 2009, the gross fixed capital formation (GFCF) of non-financial enterprises (NFE) continued to fall (-0.8% after -1.0% in Q3, see table 1). Production capacities continue to be little used (see graph 1) and demand prospects, as reported in the business tendency surveys, remain modest. Investment in non-energy industrial goods has fallen a little more (-0.5% after -0.3%); purchases of capital goods have continued to

decline (-3.4% after -1.7%) but this fall has been partly offset by the leap in investment in automobiles (+6.1%, after +2.8%). Like households, entrepreneurs have been seeking to benefit from the more advantageous terms of the scrappage bonus and the environmental "bonus-malus" scheme before they are tightened on 1st January. On the other hand, expenditure on construction and services declined less (-1.6% and -0.3% respectively, after -2.4% and -0.6% in Q3).

All in all, over 2009 as a whole, NFE investment fell by 7.7% on 2008. This slide mainly hit investment in non-energy industrial goods (-13.3%); investment in construction fell by 4.8% and other investments by 2.1 %. The investment ratio⁽¹⁾ of NFEs recorded a continuous fall at the same time: it stood at 18.3% at the end of 2009 (see graph 2), down from 19.4% at the end of 2008.

A moderate upturn from Q2 2010

Over the first part of the year, NFEs should only start investing again from Q2 2010 (+0.6%), after reducing their investments slightly in Q1 (-0.4%). The reason for this is that the factors influencing growth are mixed. On the one hand, financing terms are starting to ease, the criteria for granting loans to companies have been relaxed, profitability

(1) Ratio of GFCF to added value.

Table 1

Investment by non-financial enterprises (NFE)

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

	Quarterly variations										Annual variations		
	2008				2009				2010		2008	2009	2010
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Non-energy industrial goods (41%)	3.6	-1.7	-2.1	-5.5	-6.4	-2.2	-0.3	-0.5	0.6	0.8	1.7	-13.3	0.1
Building and public works (29%)	1.6	-1.8	0.2	-1.4	-1.7	-0.2	-2.4	-1.6	-2.5	0.4	3.6	-4.8	-4.6
Other (29%)	0.3	-0.6	1.0	-0.8	-1.0	-0.6	-0.6	-0.3	0.3	0.5	2.3	-2.1	0.0
All non-financial enterprises (100%)	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

Forecast
Source: INSEE

Corporate investment and inventory

is improving and should be buoyed up substantially in early 2010 by the reform of professional tax. On the other hand, prospects for activity remain modest, order book levels are low and production facilities continue to be little used, as shown in the business tendency surveys.

Investment in non-energy industrial goods should increase moderately in H1 (+0.6% in Q1 then +0.8% in Q2). According to wholesalers surveyed in January 2010, order intentions for capital goods, which represent two-thirds of investment in non-energy industrial goods, are still growing substantially, although they remain slightly lower than normal.

Investment in construction should fall back in Q1 (-2.5%), partly due to the harsher than usual winter. Entrepreneurs in the construction sector surveyed in

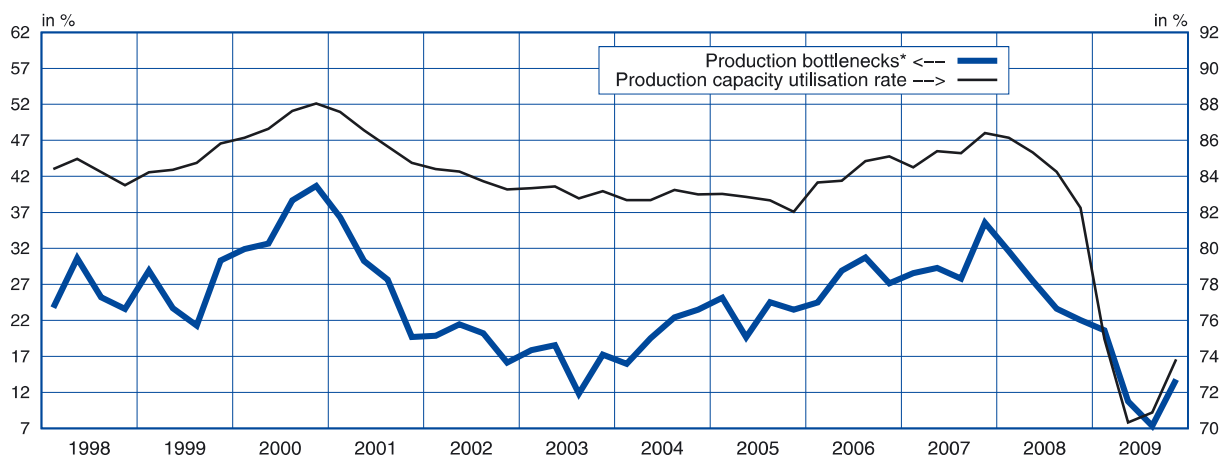
January 2010 foresee a continued fall in their activity. In reaction to this, construction investment should then rise slightly in Q2 (+0.4%).

Finally, prospects in the "information technology" and "consulting and assistance" sectors suggest that companies are also likely to limit their other investments (+0.3% in Q1 then +0.5% in Q2).

Inventory changes buoyed up growth substantially in Q4 2009

In Q4 2009, the contribution of changes in stock was clearly positive (+0.9 points, after -0.1 point in Q3, see table 2), mainly due to stock movements in the manufacturing industry.

1 - 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

Table 2

Contribution of inventory changes to growth in GDP points

	Quarterly changes										Annual changes		
	2008				2009				2010		2008	2009	2010
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Agricultural and agri-food products	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Manufactured products	0.2	0.2	-0.2	-0.9	-0.8	-0.4	0.0	0.7	0.1	0.1	-0.4	-1.6	0.6
Including:													
Consumer goods	0.0	0.0	0.0	0.0	-0.2	0.0	0.0	0.0			-0.1	-0.1	
Automobile	0.3	-0.3	0.0	-0.6	-0.2	-0.1	0.2	-0.1			-0.1	-0.7	
Capital goods	-0.1	0.4	-0.3	0.1	0.2	-0.1	-0.3	0.6			-0.1	0.1	
Intermediate goods	0.0	0.1	0.1	-0.3	-0.6	-0.2	0.1	0.3			-0.1	-0.8	
Energy products	0.0	-0.1	0.2	0.3	0.0	-0.1	0.0	0.1	0.0	0.0	0.1	0.1	0.0
Other (construction, services)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
TOTAL (*)	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

Forecast

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

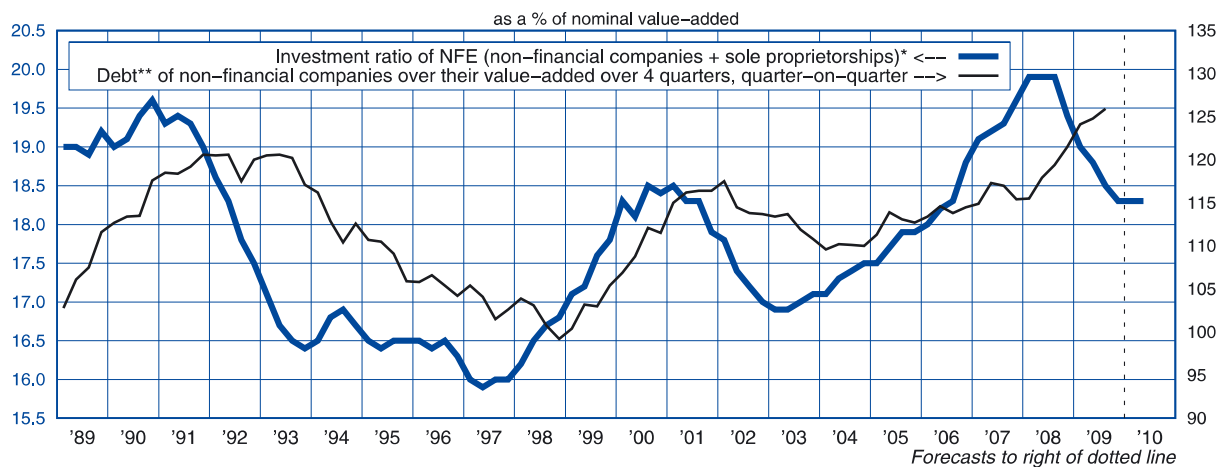
Source: INSEE

This positive contribution of stocks of manufactured products to growth is partly the result of the substantial fall in aeronautics, shipbuilding and rail exports, after two exceptional quarters, while production has continued to rise. In this case, stocks have played their role in absorbing shocks in production when there are fluctuations in demand. In the automobile sector, on the other hand, stocks have had an almost neutral effect on activity.

To the time horizon of our forecast, stocks should play an almost neutral role in growth

In H1 2010, stocks should play an almost neutral role in growth (see *table 2*). Although industrialists consider their stocks to be at low levels and the current easing of financial terms will reduce the cost of holding stock somewhat, overall demand and production prospects remain at low levels. ■

2 – Investment and debt ratios



* Non-financial enterprises (NFE) = non-financial companies + sole proprietorships.

** Debt includes credits from financial institutions and debt securities.

Sources: INSEE, quarterly accounts, and Banque de France, quarterly and annual financial accounts, retropolated before 1994