

# France's international Environment

*In Q1, the advanced economies grew less strongly than had been forecast in Conjoncture in France in March (+0.4% against +0.6%). Activity rebounded more robustly in the Euro Zone. In the United States, however, activity was held back by the bad weather conditions and government expenditure fell back, while in Japan, production fell more sharply than anticipated after the catastrophe of 11 March.*

*The global climate has deteriorated since March. In Q2 2011, the advanced economies appear to have been affected by a number of shocks. In Japan, output should remain severely disrupted, causing sourcing problems for some of the country's trading partners. The rise in commodity prices should continue to buoy up consumer prices with household demand suffering as a result. Demand from the emerging countries is likely to be more moderate under the effect of tighter economic policies aiming to rein in any inflationary overheat. All in all, including the effect of the earthquake in Japan, the activity of the advanced economies should stagnate in Q2.*

*In H2, these negative shocks should fade out and prospects should brighten for the advanced economies. Japanese production is set to bounce back as the country's production facilities gradually return to service and the reconstruction effort kicks in. Inflation should ease with the assumption being that commodity prices should stabilise at their recent level. Overall, the advanced economies should accelerate distinctly (+0.6% in Q3 and +0.8% in Q4).*

## Financial systems still fragile

In early 2011, the improvement observed on financial markets since summer 2010 came to an end with a deterioration in prospects for activity. The oil price continued its rise in Q1 and this inflation shock is holding back global demand. Also, the fall in Japanese production in the wake of the catastrophe of 11 March disrupted global manufacturing output. These two shocks come in a fragile context: the market for certain European sovereign debts remains very tense, the US property crisis continues and economic policies are getting tighter in the emerging countries and the Euro Zone.

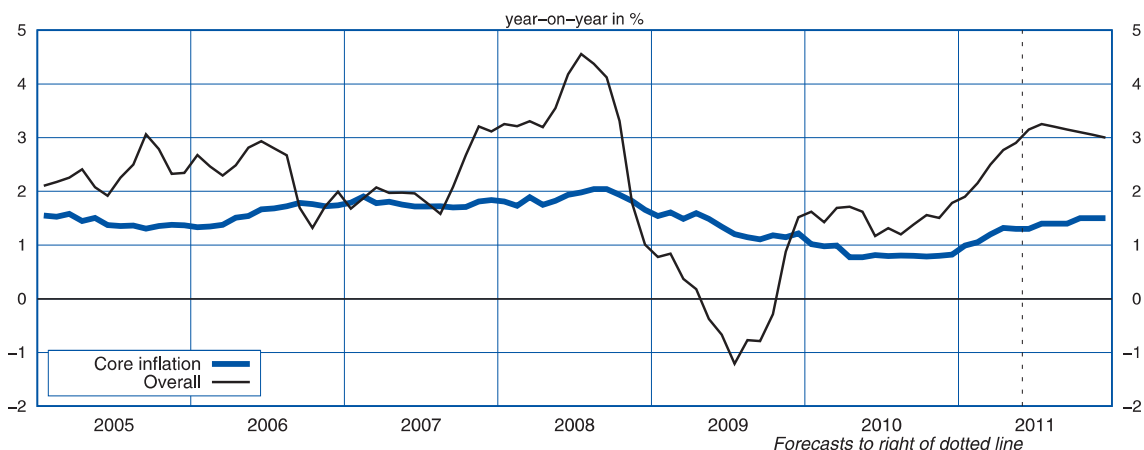
In the United States, financing terms for businesses are getting better: the banks state that they are gradually easing their terms on granting loans and interest rates are falling slightly in the wake of public rates. Consequently, corporate borrowing is improving. On the other hand, lending to households continues to fall as they reduce their debt levels.

In the Euro Zone, private agent financing terms vary. Bank credit access terms are easing in Germany, stable in France but tightening on average for the Euro Zone as a whole. In addition to this, outstanding corporate credit is declining.

## More restrictive macroeconomic policies in Europe and the United States

In Europe, economic policies should continue to tighten. On the one hand, the European Central

### 1 - Inflation should ease in the advanced economies, at the end of the year



Source: Markit

## French developments

Bank is likely to make two further rises to its base rates by the end of the year, by 25 base points, to address the rise in inflation. On the other, States are conducting restrictive fiscal policies to make their public finances sustainable again, against a backdrop of tensions surrounding the financing of the sovereign debt of certain Euro Zone States. These mainly imply increasing the tax burden, cutting social benefits and reducing other general government spending.

In the United States, the QE2 quantitative easing programme should end in June but monetary policy should remain accommodating on the whole. At the same time, American fiscal policy should provide less support for growth. Although households should continue to benefit from substantial budget support through to the end of the year, the expenditure of American general government should slow down, notably because the Federal Government has almost exhausted the financing capacities granted by Congress. In addition to this, the States and municipalities are reducing their expenditure as the property crisis weighs down on their income.

In Japan, meanwhile, economic policies should be very expansionist to support the reconstruction effort after the catastrophe of 11 March. For example, in April the Japanese State announced a first amount of 0.8 percentage points of GDP for the reconstruction of the affected areas, and the extent of the destruction, evaluated at more than 3% of Japanese GDP, suggests an upcoming increase in the reconstruction budget. In addition, the Bank of Japan has stepped up its quantitative easing measures to cope with the financing difficulties caused by the catastrophe of 11 March.

### Inflation should ease at the end of the year

Inflation has increased sharply in the advanced economies since summer 2010, in the wake of the upturn in international commodity prices. It rose from 1.2% to 2.2% between Q2 2010 and Q1 2011.

Recently, commodity prices have levelled out, after the sharp rise in H2 2010 and early 2011. For example, Brent oil fell back to \$115 in May, after reaching \$123 in April; it should fluctuate around the \$115 mark through to the end of 2011. The prices of other commodities have also levelled out or even fallen back in the last few months.

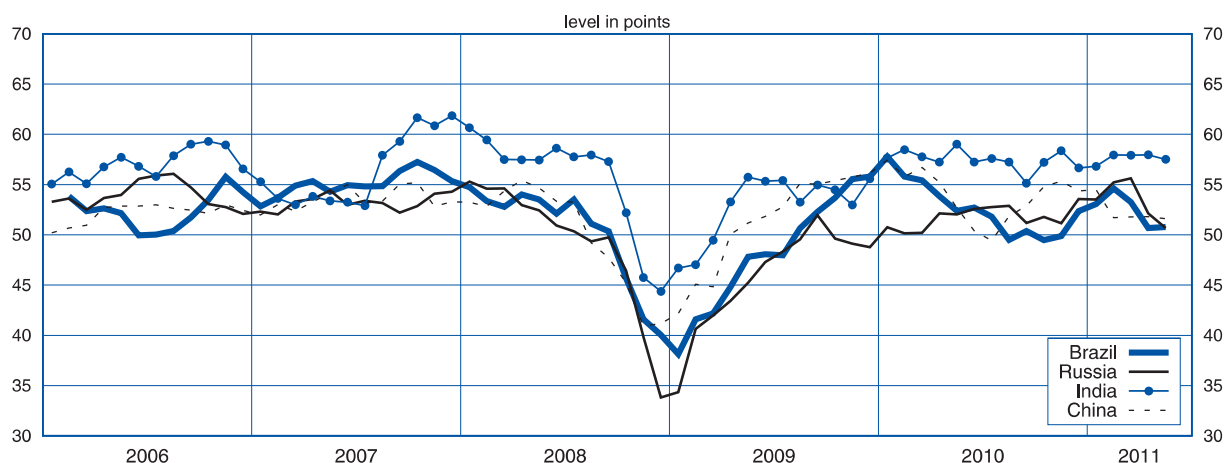
The rises in commodity prices are filtering through into consumer prices with a certain time lag. Inflation in the advanced economies should therefore continue to increase to 3.2% in Q3 before easing at the end of the year, thus reflecting the stabilisation of commodity prices (see graph 1).

Core inflation should remain moderate, however, as the continuing high level of unemployment holds back the transmission of commodity price rises through to the economy as a whole. It can be difficult for employees to negotiate sufficiently high wage rises to maintain the same real wages in countries where the unemployment rate is still high.

### To rein in inflation, the emerging countries continue to conduct restrictive economic policies

The main emerging countries are also faced with high inflation levels. The rise in commodity prices, and notably in prices of food commodities, are pushing consumer prices up. In addition to this, inflation is accentuated by tensions on production fa-

## 2 - The emerging countries should close to their trend growth rate



cilities. In these conditions, the central banks are continuing to tighten their monetary policies. Since the beginning of the year, interest rates have been raised several times in China, Brazil, India and Russia. Governments are also tightening their fiscal policies, especially in China and India.

Through to the time horizon of this forecast, the emerging countries should slow down, to close to their trend growth rate, as shown by the slide in the business climate over the last few months (see Graph 2). Tightening of economic policies may gradually weigh down on domestic demand and the slowdown in imports from the advanced economies should hold back their exports.

### Jolts in Japanese output likely to disrupt global production

The catastrophe of last 11 March profoundly damaged production capacities of Japan, making Japanese industrial output fall and causing sourcing difficulties for the country's trading partners. In the United States, industrial output in the automobile sector therefore fell back 10% in April, notably because the subsidiaries of Japanese groups reduced their activity. These interruptions of supplies should slow down global industrial activity in Q2. In H2, Japanese output should improve, thanks to the reconstruction efforts undertaken in Q2. Fed by the resumption of Japanese exports, sourcing channels are gradually returning to normal.

### In the advanced economies, the brakes go on in H1...

In Q1 2010, the advanced economies grew less strongly than expected (+0.4% against +0.6% in *Conjoncture in France* in March). On the one hand, American activity slowed down because bad weather conditions held back construction activity and general government expenditure declined. On the

other hand, Japanese output fell more strongly than expected further to the catastrophe of 11 March. However, activity in the Euro Zone was sustained by a catching-up effect in construction, by dynamic domestic demand in Germany and in France and by stock-building in France.

After the upturn at the end of 2010 and start of 2011, the global outlook has also deteriorated since March (see Graph 3). In Q2, activity in the advanced economies should stagnate (+0.1%, see table), with sharp contrasts between national outlooks. In Japan, activity should fall (-1.8%) due to production capacity losses after the earthquake of 11 March. In the United States, activity should slow down (+0.4%), hit by weak household demand and the interruptions in supplies from Japan. In the Euro Zone, activity should be more moderate (+0.4%) after a very dynamic Q1.

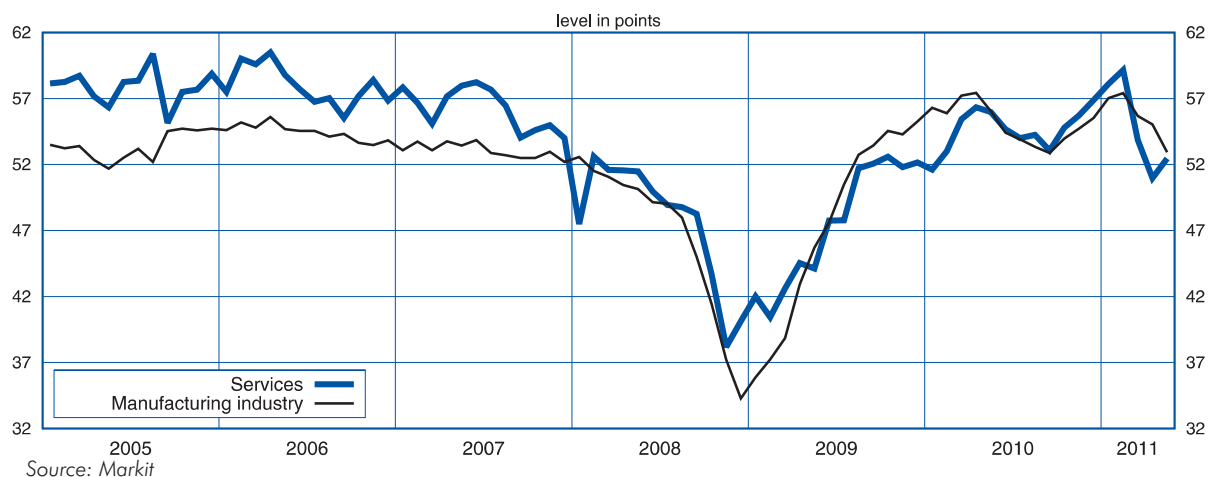
### ...before a rebound in H2

In H2, activity in the advanced economies should gain in dynamism (+0.6% then +0.8% per quarter), under the effect of the upturn in Japanese output. In Japan, the reconstruction efforts then the gradual resumption of production should result in a marked rebound in activity. In the United States, activity should accelerate slightly, buoyed up by household demand and corporate investment in production. In the Euro Zone, activity should continue to grow at the same rate.

### World demand for French products should slow down

In Q1 2011, world trade accelerated (+3.6% after +2.1% in Q3), driven by dynamic demand in emerging countries and by the upturn in American and German imports.

3 - The global economic climate slowed down since March



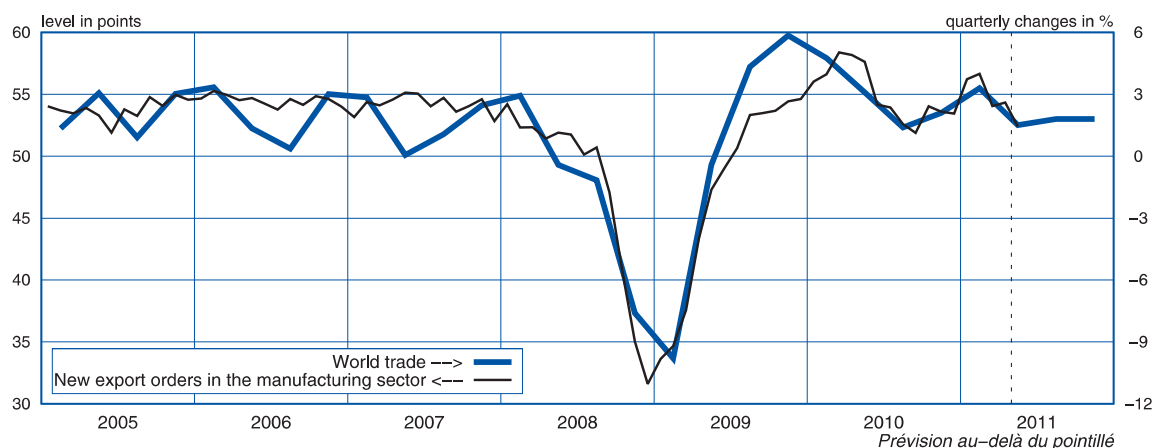
## French developments

In Q2 2011, the “new export order” components in the purchasing manager surveys show a slow-down in world trade (+1.5%, see graph 4). Although still dynamic in emerging countries, domestic demand should slow down in Europe and the United States. Moreover, the halt in Japanese automobile parts and electronic component production should slow down trade in these two sec-

tors. In Q2, world trade should accelerate slightly to return to its medium-term growth rate (+1.8% per quarter).

In the wake of world trade, world demand for French products should slow down in Q2 2011 (+1.4%) and then accelerate somewhat in H2 (+1.6% per quarter). ■

4 - In Q2 2011, the new export orders show a slow down in world trade



## Industrialized countries: consolidated supply and use table

in real terms

	Quarterly changes in %												Annual changes in %			
	2009				2010				2011				2008	2009	2010	2011
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
<b>GDP</b>	-2.3	0.1	0.2	0.9	0.9	0.6	0.6	0.3	0.4	0.1	0.6	0.8	-0.1	-3.8	2.5	1.6
Private consumption	-0.6	0.0	0.2	0.3	0.5	0.3	0.4	0.4	0.2	-0.1	0.4	0.5	-0.1	-1.4	1.4	1.1
Public consumption	0.0	1.0	0.5	0.0	-0.3	0.7	0.5	-0.1	-0.1	-0.1	-0.1	-0.1	2.2	2.0	0.9	0.0
Investment	-7.7	-2.6	-0.8	-0.4	0.6	2.8	1.3	0.4	0.5	2.2	1.6	1.6	-4.1	-14.9	1.7	4.7
Exports	-10.8	0.9	3.6	4.4	3.4	3.4	1.6	1.5	2.0	0.9	2.1	2.3	3.3	-12.8	12.8	7.2
Imports	-9.8	-3.1	3.8	1.4	3.1	5.4	2.7	-0.8	1.6	1.4	1.5	1.5	-1.0	-13.2	10.8	5.8
<b>Contributions to GDP growth</b>																
Domestic demand excluding inventories	-1.7	-0.3	0.0	0.1	0.3	0.8	0.4	0.3	0.2	0.3	0.5	0.6	-0.3	-3.2	1.3	1.5
Inventories	-0.5	-0.3	0.2	0.3	0.6	0.1	0.3	-0.4	0.1	-0.1	0.0	0.0	-0.4	-0.6	0.9	-0.1
Net exports	-0.1	0.7	-0.1	0.5	0.0	-0.3	-0.1	0.3	0.1	-0.1	0.1	0.1	0.6	0.2	0.2	0.3

Forecast

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

# Foreign trade

World demand for French products should slow in Q2, and exports should decline, before becoming a little more dynamic in H2 in the wake of world trade. They should be held back, however, by the sharp rise in value of the Euro making French products slightly less competitive at the end of the year. Over the year as a whole, exports are set to increase by 5.3% after +9.4% in 2010.

Imports should slow down distinctly in Q2, affected by the fall in household consumption. In H2, they should accelerate somewhat: the upturn in consumption and exports should offset the slowdown in investment. In 2011, imports should grow by 6.9% after +8.3% in 2010.

All in all, the contribution of foreign trade to growth should be inexistent through to the time horizon of this forecast. It should nevertheless be negative over the year as a whole (-0.6 points).

## Exports set to remain dynamic in 2011

In Q1 2011, French exports of goods and services progressed by 1.4% after a sluggish Q4 2010 (see Table). They benefitted from a stronger international environment. World trade and therefore world demand for French products accelerated in early 2011 (see graph 1). First of all, US imports boun-

ced back after falling in Q4. In addition, the acceleration in imports in Germany and Spain - two major trading partners of France - buoyed up the growth in demand for French exports.

Exports of non-energy industrial goods benefitted from a strong rebound of exports of refined oil products and chemicals, after the refinery strikes in Q4; there was also an upturn in capital goods. In the "energy, water and waste" sector, exports increased sharply, buoyed notably by an exceptional delivery of oil to the UK.<sup>(1)</sup>

In Q2, total exports should slow down (+1.0%) and world demand for French products level off, as demand from the developed countries weakens a little and that from emerging countries becomes less sustained, notably due to the increase in inflationary tensions in the Asian economies. Sales of industrial goods should slow down, notably those of refined oil products and chemicals, after the rebound in Q1. Likewise, after a very dynamic Q1, energy exports should fall back in Q2.

In H2, exports should accelerate somewhat (+1.4% per quarter). World demand for French products should grow slightly more rapidly, offsetting the effect of the rise in value of the Euro since the beginning of 2011 making French products

(1) According to Customs, this was a transfer of stock from the Dunkerque refinery.

## Foreign trade growth forecast

Changes in % to the chained prices of the previous year, contributions in points

	Quarterly changes								Annual changes		
	2010				2011				2009	2010	2011
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<b>Exports</b>											
All goods and services	4.7	3.1	2.0	0.3	1.4	1.0	1.4	1.4	-12.2	9.4	5.3
Non-energy industrial goods (75%*)	5.2	2.9	2.8	0.3	1.6	1.4	1.7	1.6	-12.9	11.0	6.3
<b>Imports</b>											
All goods and services	1.8	3.4	4.1	-0.7	2.7	1.0	1.3	1.3	-10.6	8.3	6.9
Non-energy industrial goods (73%)	2.0	3.1	4.5	0.5	2.7	1.5	1.7	1.6	-11.4	11.0	8.7
<b>Contribution of foreign trade to GDP</b>	0.7	-0.1	-0.6	0.3	-0.4	0.0	0.0	0.0	-0.2	0.1	-0.6

Forecast

\* Part of exports (resp. imports) of non-energy industrial goods in exports (resp. imports) in a whole in 2010.

Source: INSEE

## French developments

less competitive (see Graph 2). Energy exports should progress again, and exports of services should continue the upturn started in Q2.

All in all, exports of goods and services should increase on average by 5.3%, after +9.4% in 2010.

### Growth in imports should level out at the end of the year

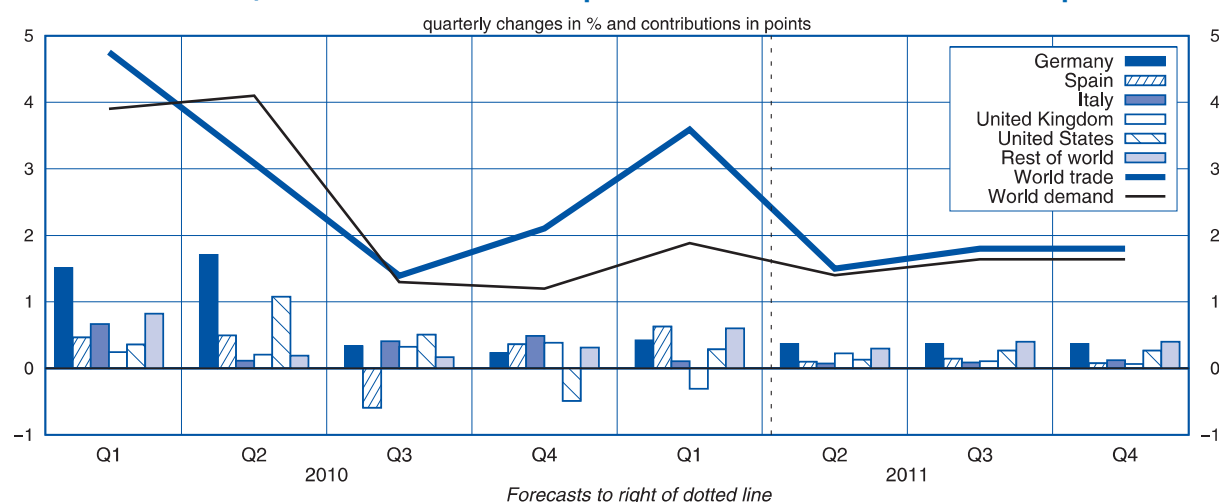
In Q1 2011, French imports of goods and services rebounded markedly (+2.7% after -0.7% in Q4 2010, see Table), due notably to the strong acceleration in imports of manufactured goods. Despite the end of the scrappage allowance on 31 December 2010, automobile imports were very dynamic in Q1, due to the delivery times required to satisfy the orders placed at the end of 2010. Purchases of capital goods and other industrial products also saw a pronounced upturn. Generally speaking, imports of non-energy industrial goods were also fed by the strong stock-building trend in Q1. Finally, energy, water and waste imports were strong after the blockades of the oil terminals at the end of 2010.

Through to the end of 2011, total and non-energy industrial goods imports should return to a growth rate in line with that of the components of demand, excluding stocks. In Q2, despite buoyant investment,<sup>(2)</sup> imports should slow down, held back by the fall in consumption due to the backlash after the end of the scrappage scheme (see Graph 3). The upturn in consumption and exports should then offset the slowdown in investment, and imports should accelerate a little through to the end of the year.

Also, the fall in imports of services should gradually ease up in 2011. Over 2011 as a whole, total imports should remain dynamic: they should increase by 6.9%, after +8.3% in 2010. All in all, the contribution of foreign trade to growth should be neutral over the forecast as a whole. As an annual average however, it should hold growth back in 2011, (-0.6 points). ■

(2) Via the imports content of the components of domestic and foreign demand.

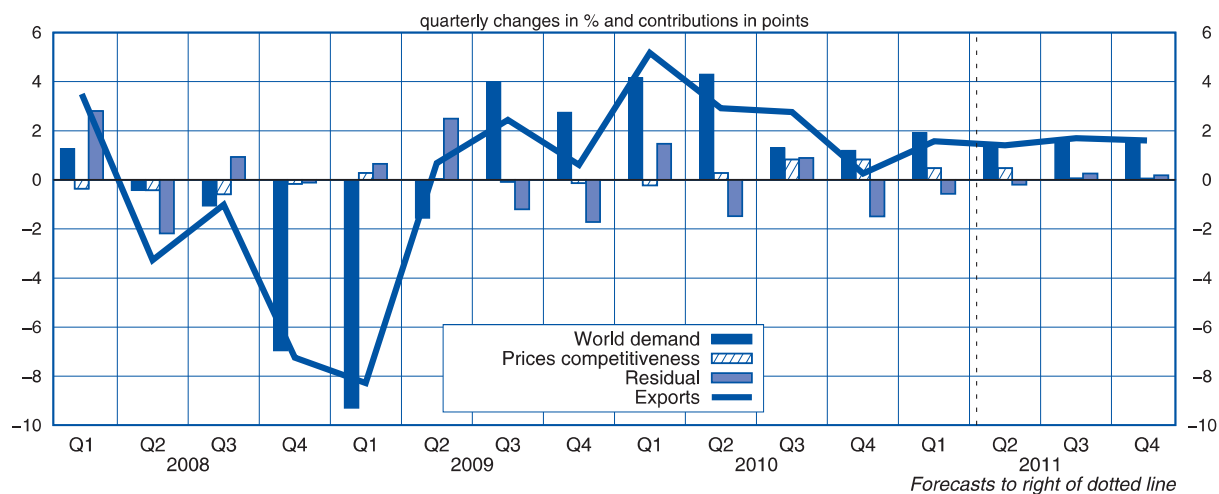
1 - World trade, world demand for French products and contributions of the main partners



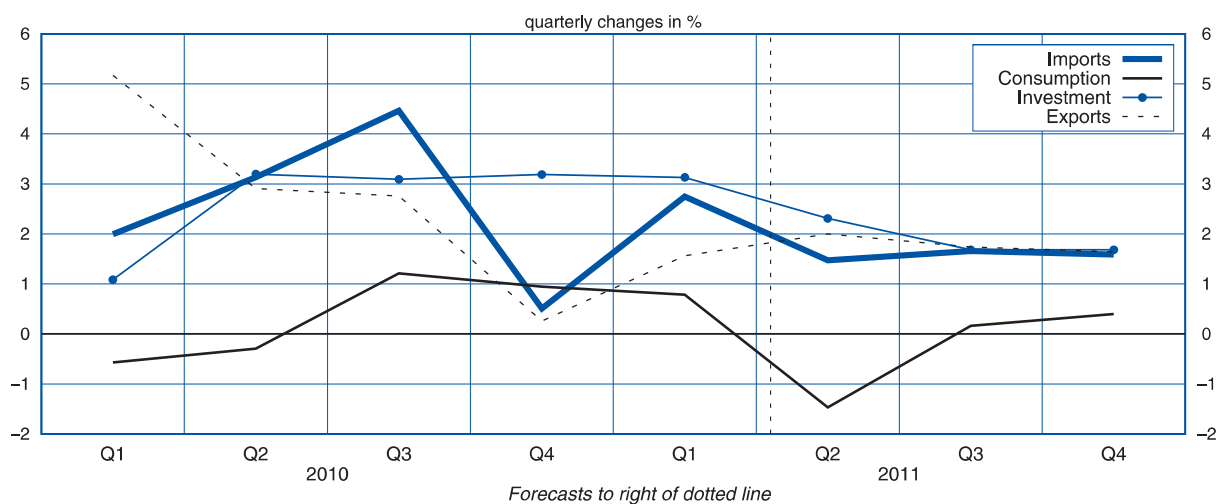
How to read it: the black and blue curves represent quarterly growth in world demand for French products and in world trade, respectively. The bars represent the contributions of the imports of the main trading partners to the growth rate of world demand. For example, in Q4 2010, world trade increased by 2.1%. World demand for French products increased by 1.2%: the impact of German imports on this demand is evaluated at 0.2 points, and that of Spanish imports 0.4 points.

Source: INSEE

## 2 - Exports of non-energy industrial goods and econometric contributions



## 3 - Imports and components of French demand for non-energy industrial goods





# Oil and raw materials

*In H2 2010, oil demand outstripped supply, but the rise in oil prices seems to have started weighing down on demand. In 2011, the situation of the oil market should return to a situation close to equilibrium on the whole. In each quarter, it should nonetheless be marked by major seasonal variations in demand.*

*The price of non-energy commodities, notably industrial materials, has slowed down since the start of the year. However, in May, the prices of food commodities began to increase again due to the resurgence of tensions on physical markets.*

## The rise in oil prices is starting to take its toll on demand

In H2 2010, oil demand was greater than supply. In Q1 2011, the oil market returned to equilibrium in a context of sharply rising prices, progressing by 21% after +13 % in Q4 2010. This sharp rise is no doubt beginning to weigh down on global oil demand.

In Q2 2011, world oil demand should fall sharply again (-1.1 million barrels per day (BPD), after -800,000 BPD in Q1). In the developed countries, demand has been falling seasonally with the end of

the winter, but this effect should be accentuated by the sharp rise in oil prices over the last few months (see Graph 1).

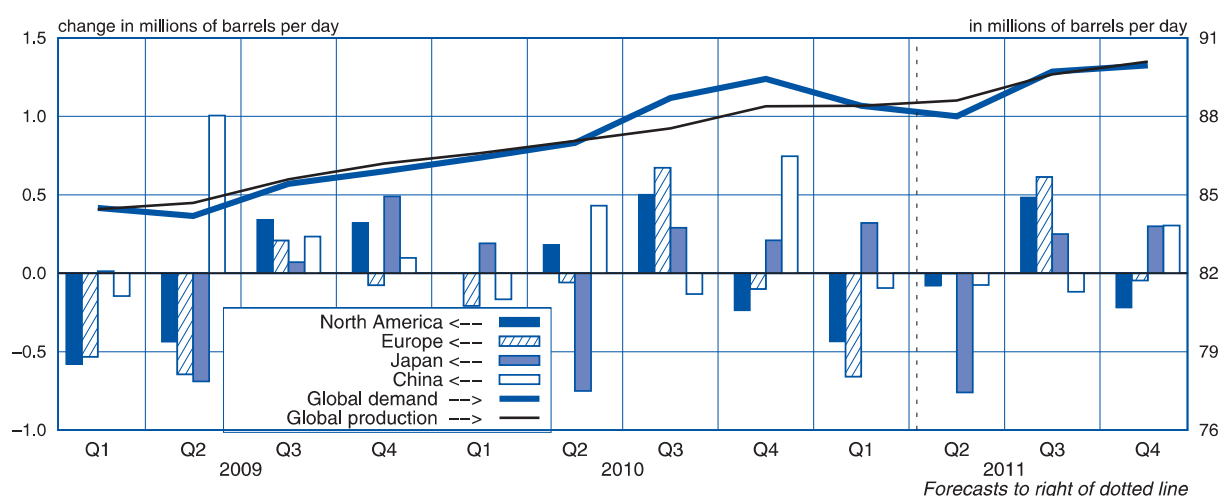
In the United States, oil demand thus fell in April. It should also slow down sharply in Japan, the world's third-largest oil consumer. The effect of the earthquake of 11 March on Japanese oil demand remains ambiguous: on the one hand, activity in Japan has been slowed down in the short term, and on the other, replacement energies for nuclear energy must be mobilized (oil and natural gas). The result is that the fall in Japanese demand in Q2 probably reflects a seasonal effect that is traditionally very pronounced at this time of year.

World supply, meanwhile, should increase by 200,000 BPD, due to the increasing production of biofuels. OPEC supply should be stable, with increases in Kuwait, the Emirates and Angola offsetting the fall in production from Libya. All in all, supply should exceed demand by 600,000 BPD.

## The oil market should return to equilibrium in H2 2011

In Q3 2011, world oil demand should progress more quickly than supply (+1.7 million BPD and +1.0 million BPD respectively), which should re-

**1 - Equilibrium on oil market and regional demand movements**



Sources: AIE and INSEE forecasts



duce the oil market surplus sharply in Q2. The rise in demand should be particularly strong in the developed countries (+1.3 millionBPD) with the holiday departures season. All in all, the market should be almost at equilibrium. In Q4, supply should remain dynamic (+500,000 BPD), buoyed by the rise in production of the non-OPEC countries, but world demand should decline sharply (+300,000 BPD), following the usual seasonal factors. The oil market should therefore remain at equilibrium at the end of 2011.

Our scenario is based on the assumption that oil prices fluctuate around the level observed recently, which is to say \$115 per barrel of Brent. This scenario is subject to major uncertainties that might push prices upwards or downwards. In particular, geopolitical tensions in the Middle East and North Africa could cause a further oil price rise. Conversely, the soaring prices since mid-2010 could weigh down on demand more severely than expected, which would accentuate the fall in prices observed in early May.

### Slowdown in industrial commodity prices

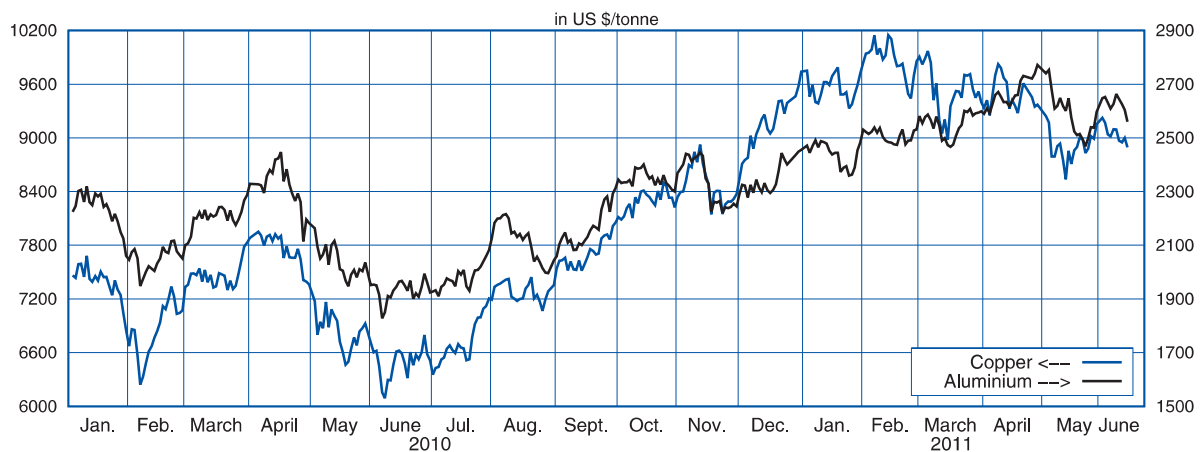
Since the beginning of the year, the prices of industrial commodities have slowed down. The prices of

industrial metals, and in particular copper and aluminium, levelled out after the sharp rise in the second half of 2010 (see *Graph 2*). At the beginning of Q2 2011, copper and aluminium prices even fell. Likewise, the prices of natural textile fibres which had risen sharply in Q1 started to fall. This was the case notably of cotton, down 11% since April, against +38% in Q1, due to the arrival of exceptionally large harvests from the southern hemisphere (Brazil and Australia).

In food commodities, wheat prices continued to grow at the beginning of 2011 before slowing down, too, with these trends filtering through into prices of corn, a cereal that can partly be a substitute for wheat (see *Graph 3*). However, poor weather conditions (drought in the US and Europe) are reducing harvest prospects and raising fears as to supply, which could lead to a new rise in prices, already visible in May.

To the time horizon of the forecast, non-energy commodity prices should stabilise at their current levels. However, a more marked slowdown in world growth could result in further falls in the prices of industrial commodities. Conversely, heightened tensions on supply in a context in which stocks are already low could lead to a new commodity price rise, notably in cereals. ■

### 2 - Prices of industrial metals



Source: London Metal Market

### 3 - Prices of food and agro-industrial commodities



Note: A bushel is equivalent to 60 pounds, or around 26 kilograms.  
 Source: *Public ledger and Chicagos and Liverpool markets*

# Consumer prices

To the time horizon of the forecast, core inflation should increase gradually to 1.3% in June 2011 and 1.7% in December 2011. The recent rises in industrial and agricultural commodities should continue to work through via producer prices. Nevertheless, the still-high unemployment rate which induces moderate wage costs is likely to attenuate this rise in core inflation.

Headline inflation should rise progressively through to October 2011 to 2.5% then fall to 2.3% in December 2011. It is likely to be driven by core inflation, but the movement should be partly offset by the slowdown in energy prices year on year.

## Rise in core inflation

Core inflation is measured by subtracting all the volatile components (energy, seasonal products) from the headline index, as well as public tariffs, and correcting for tax measures. Through to December 2011, core inflation should increase progressively: from 1.2 % year on year in May 2011, it should reach 1.3% in June 2011 then 1.7% in December 2011 (see Graph 1). The rise in core inflation should stem mainly from the noticeable inflation in agrifood products. Since the beginning of 2010, food commodity prices have increased sharply. These increases are set to continue working through into consumer prices to the time horizon of our forecast. Likewise, in 2011, the rises in

oil and industrial commodity prices should filter through progressively into core inflation via production costs. On the other hand, core inflation should be partly moderated by the still-high level of unemployment which is holding back wages.

Headline inflation should rise due to the increase in core inflation and stand at 2.1% in June 2011. It should increase to 2.5% in October, before easing slightly at the end of the year (2.3% in December 2011).

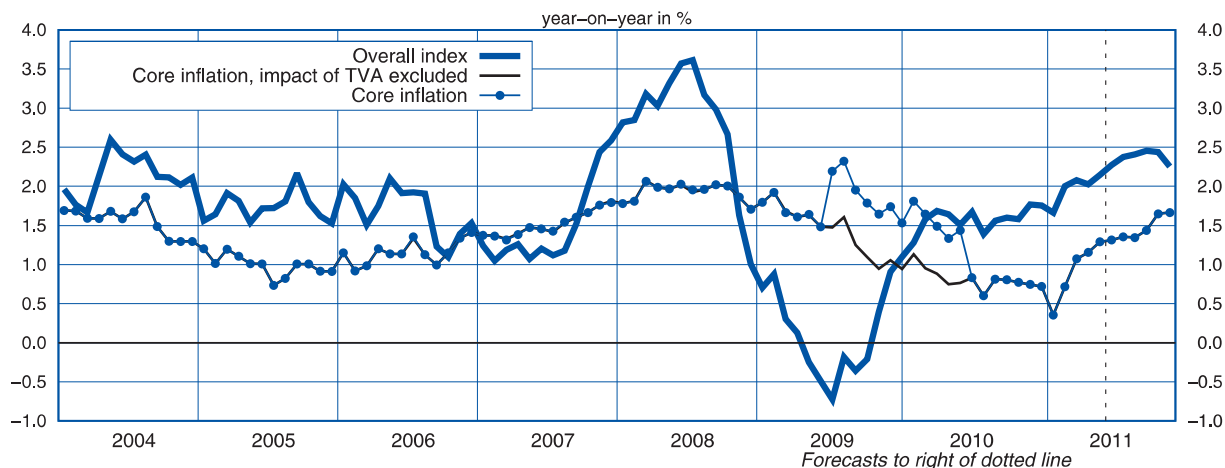
## Inflation of non-energy industrial goods slightly up through to the forecast time horizon

The year-on-year rise in non-energy industrial goods should increase progressively through to December 2011 (+0.4%, after +0.2% in May 2011, see Table). In particular, prices in clothing should increase due to the recent rise in cotton prices. For the manufacturing sector as a whole, the rise in commodity prices should thus have an influence on producer prices, but the moderate level of wage costs should contribute to limiting inflation.

## Inflation in services should be slightly up

Year-on-year inflation in prices of services should increase slightly until December 2011, to reach 2.0% (see Table), notably under the effect of the

1 - Consumer prices in France



Source: INSEE

## French developments

rise in transport and communication service prices. Like in the manufacturing sector, the leveling-off of wage costs should help restrict the prices of services.

### Year-on-year inflation in energy prices should fall slightly

For energy products as a whole, year-on-year inflation in prices should fall from 11.3% in May 2011 to 8.2% in December 2011. In the hypothesis that the price per barrel of Brent remains stable at around \$115, this fall would be an automatic one: it would be explained by the disappearance from the year-on-year figures of the various price rises at the end of 2010. The contribution of this item to headline inflation should therefore fade out gradually (see Graph 2).

### Inflation in food products buoyed by commodity price rises

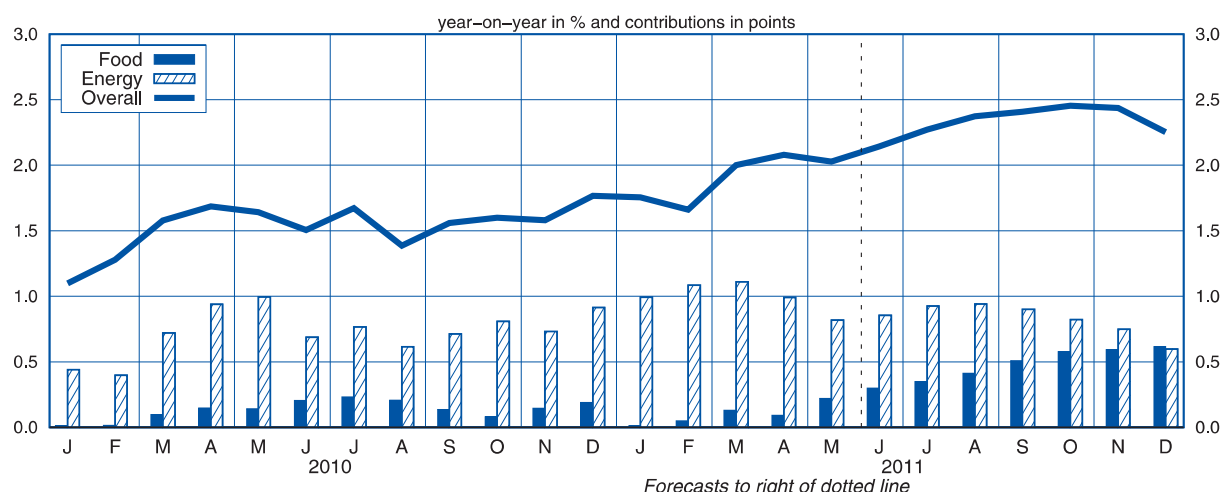
Finally, year-on-year inflation in food products should rise markedly through to December 2011. The rises in food commodity prices, notably wheat, filtered through into producer prices for foodstuffs on the French market from the start of 2010. Compared to other European countries, these rises worked through into consumer prices relatively late,<sup>(1)</sup> but the rise in food prices excluding seasonal products has been marked since March 2011 (see Graph 3). The rises in food commodity prices should continue to filter through into consumer pri-

ces in the course of H2 2011 and inflation of food products "excluding seasonal products" should be amplified through to December 2011 (see Table).

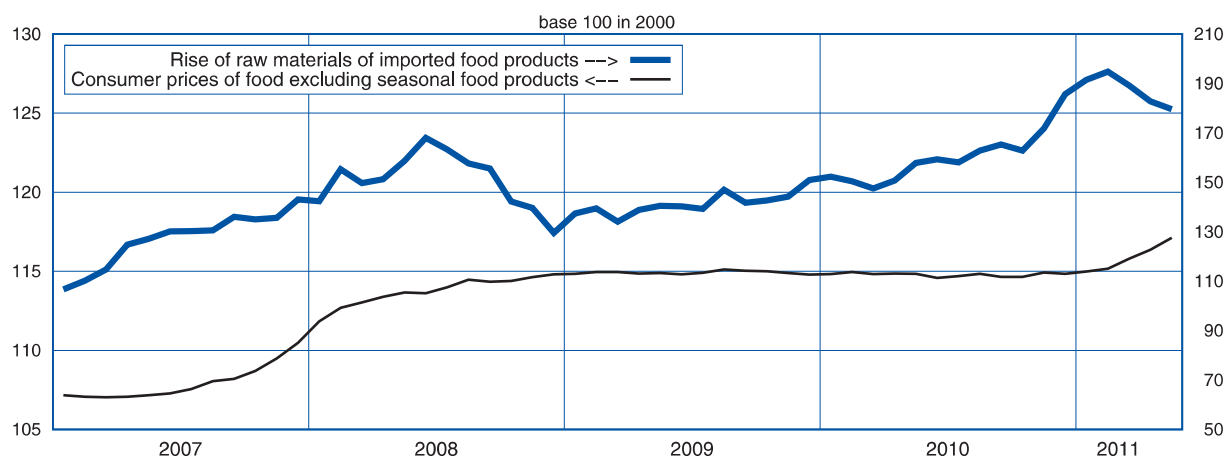
On the other hand, year-on-year inflation in "seasonal products" should fall until June and then increase through to December 2011. The sun and temperatures in recent months are likely to contribute to the fall in prices in H1 with products arriving in stores earlier. In H2 2011 output is set to suffer the effects of the current drought, which should cause a new rise in the price of "seasonal products" year on year. ■

(1) See "Conjoncture in France" of March 2011

## 2 - Inflation in France: contributions of the most volatile items



## 3 – Food prices in France



## Consumer prices

changes as %

CPI* groups* (2011 weightings)	April 2011		May 2011		June 2011		December 2011		Annual averages	
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	2010	2011
<b>Food (16.13%)</b>	<b>0.6</b>	<b>0.1</b>	<b>1.3</b>	<b>0.2</b>	<b>1.8</b>	<b>0.3</b>	<b>3.7</b>	<b>0.6</b>	<b>0.8</b>	<b>1.9</b>
including: seasonal food products (2.14%)	-4.1	-0.1	-2.8	-0.1	-3.4	-0.1	-1.3	0.0	7.6	-1.7
excluding seasonal food products (13.99%)	1.3	0.2	2.0	0.3	2.6	0.4	4.4	0.6	-0.1	2.5
<b>Tobacco (1.93%)</b>	<b>5.5</b>	<b>0.1</b>	<b>5.5</b>	<b>0.1</b>	<b>5.5</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>5.8</b>	<b>4.7</b>
<b>Non energy industrial goods (30.52%)</b>	<b>0.2</b>	<b>0.1</b>	<b>0.2</b>	<b>0.1</b>	<b>0.2</b>	<b>0.1</b>	<b>0.4</b>	<b>0.1</b>	<b>-0.1</b>	<b>0.1</b>
<b>Energy (8.12%)</b>	<b>13.7</b>	<b>1.0</b>	<b>11.3</b>	<b>0.8</b>	<b>11.8</b>	<b>0.9</b>	<b>8.2</b>	<b>0.6</b>	<b>10.0</b>	<b>12.3</b>
including:										
oil products (4.87%)	17.9	0.8	13.8	0.6	14.7	0.6	10.1	0.4	14.4	15.9
<b>Services (43.3%)</b>	<b>1.7</b>	<b>0.8</b>	<b>1.8</b>	<b>0.8</b>	<b>1.8</b>	<b>0.8</b>	<b>2.0</b>	<b>0.9</b>	<b>1.4</b>	<b>1.8</b>
including:										
rent-water (7.42%)	1.5	0.1	1.9	0.1	1.9	0.1	2.0	0.1	1.8	1.8
health services (5.29%)	1.2	0.1	1.2	0.1	1.2	0.1	1.4	0.1	0.6	1.2
transport-communications (5.33%)	0.3	0.0	0.0	0.0	0.3	0.0	1.1	0.1	-0.3	0.2
other services (25.26%)	2.2	0.6	2.3	0.6	2.2	0.6	2.3	0.6	1.8	2.2
<b>All (100%)</b>	<b>2.1</b>	<b>2.1</b>	<b>2.0</b>	<b>2.0</b>	<b>2.1</b>	<b>2.1</b>	<b>2.3</b>	<b>2.3</b>	<b>1.5</b>	<b>2.2</b>
All excluding energy (91.88%)	1.1	1.0	1.2	1.1	1.3	1.2	1.7	1.6	0.9	1.3
All excluding tobacco (98.07%)	2.0	2.0	2.0	1.9	2.1	2.0	2.3	2.2	1.5	2.1
<b>"Core" inflation (61.82%)(1)</b>	<b>1.1</b>	<b>0.7</b>	<b>1.2</b>	<b>0.7</b>	<b>1.3</b>	<b>0.8</b>	<b>1.7</b>	<b>1.0</b>	<b>1.2</b>	<b>1.2</b>
<b>All HCPI*</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>	<b>2.3</b>	<b>2.3</b>	<b>2.5</b>	<b>2.5</b>	<b>1.7</b>	<b>2.4</b>

Forecast

yoy : year-on-year cyoy : 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 2010, the rise in employment continued: 96,000 jobs were created, mainly thanks to the dynamism of the market sectors. In 2011, total employment should progress all year long (+225,000 jobs). In the wake of the rise in activity, the non-agricultural market sectors should continue to create jobs (+179,000 jobs), more than in 2010 (+141,000). More market jobs should be created in H1 2011 than in H2 (+106,000 jobs, then +73,000). In the non-market sectors, employment should increase slightly in H1 2011 (+3,000 jobs), despite the drop in newcomers to subsidised work contract schemes. The rise in non-market employment should then gather pace in H2 (+34,000), and for 2011 as whole, should be slightly down than on 2010.*

## Rise in the number of market-sector employees in 2011

Market-sector employment got back on track in 2010 (+141,000 jobs), after a 2009 marked by numerous job losses (-332,000 jobs). Employment held up surprisingly well during the crisis, given the deterioration in activity, and was also surprisingly dynamic as early as the start of 2010 (see Graph 1). This employment trend, atypical in that previous behaviour would have indicated otherwise, led to a sharp drop in productivity, which has been well below its pre-crisis level.<sup>(1)</sup> Since 2010, the productivity gains observed have not offset the loss suffered during the crisis.

Paid employment in the non-agricultural market sector should continue to progress throughout 2011, slightly more than a simulation based on past behaviour would indicate: it should increase by 106,000 jobs in H1 2011 and 73,000 in H2. By the end of 2011 it should therefore return to its level of end 2008, but below the peak level observed in Q1 2008 (see Graph 2).

## Stabilisation of employment in industry in 2011

In Q1 2011, and for the first time in ten years, employment rose slightly in industry,<sup>(2)</sup> thanks to the sharp rise in activity. As early as H2 2010, the rate of job destructions had clearly diminished in this sector.

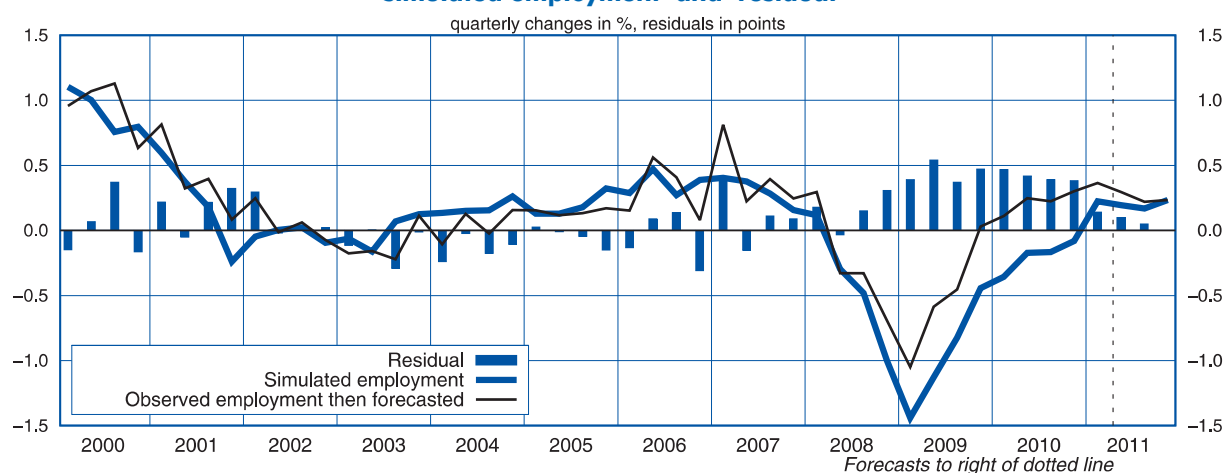
The improvement in the employment situation in industry can also be seen in the growth in the number of temporary employees working in the sector.<sup>(3)</sup> Temporary employment fell drastically in industry during the crisis, but rebounded as early as the start of 2009: industry regained 110,000 temporary

(1) See Report, 'How can the changes in the employment market since the start of the crisis be explained?' in *Conjoncture in France*, December 2010.

(2) The trend in industry was indeed one of job losses: 40,000 jobs per half-year between 2002 and 2008, and the crisis accentuated these losses (see Graph 3).

(3) In the sector-by-sector presentation of employment given here, as well as in the employment figures published by INSEE, temporary workers are counted in the tertiary sector even if they carry out an assignment in industry or construction.

**1 - Employment observed in the non-agricultural market sector, simulated employment and residual**



Source: INSEE

workers between Q1 2009 and Q1 2011 while 155,000 jobs had been lost during the recession. All in all, the volume of jobs in industry, including temporary, progressed slightly in 2010 (+8,000 jobs, or +0.2%). The rate of use of temporary staff has thus returned to its pre-crisis level (in the order of 7%, see Graph 4), leading to expectations of a slowdown in temporary work over the coming months.

As regards employment excluding temporary work in industry, perspectives appear to be well oriented for the rest of the year: employment should be stable in H1 2011 (+1,000 jobs) before increasing slightly in H2 (+5,000 jobs, or +0.2%). The business leaders questioned in the business tendency surveys expect an improvement in employment in industry over the coming months.

## Construction getting back on track

In construction, employment is struggling to return to growth: this sector continued to shed jobs in 2010, after an already-substantial decline in

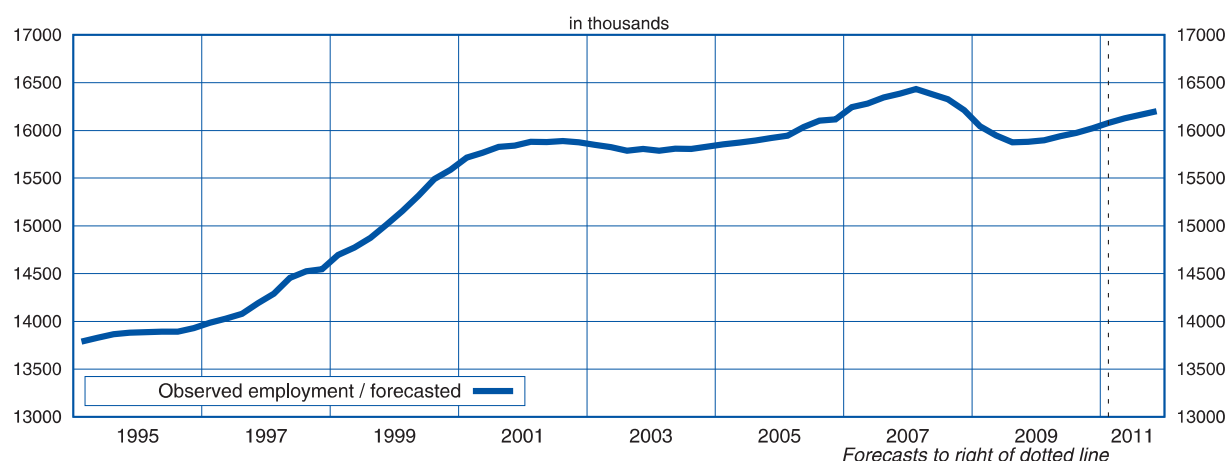
2009. In Q1 2011, for the first time since Q3 2008, employment in construction was up slightly (+3,000 jobs).

With the recovery of activity in the building sector, the renewed growth in job creations should be confirmed in H1 2011 (+6,000 jobs over the half-year, or +0.4%), and this rise should continue in H2 (+7,000 jobs, or +0.5%).

## Tertiary employment excluding temporary work should remain dynamic in 2011, while temporary employment slows

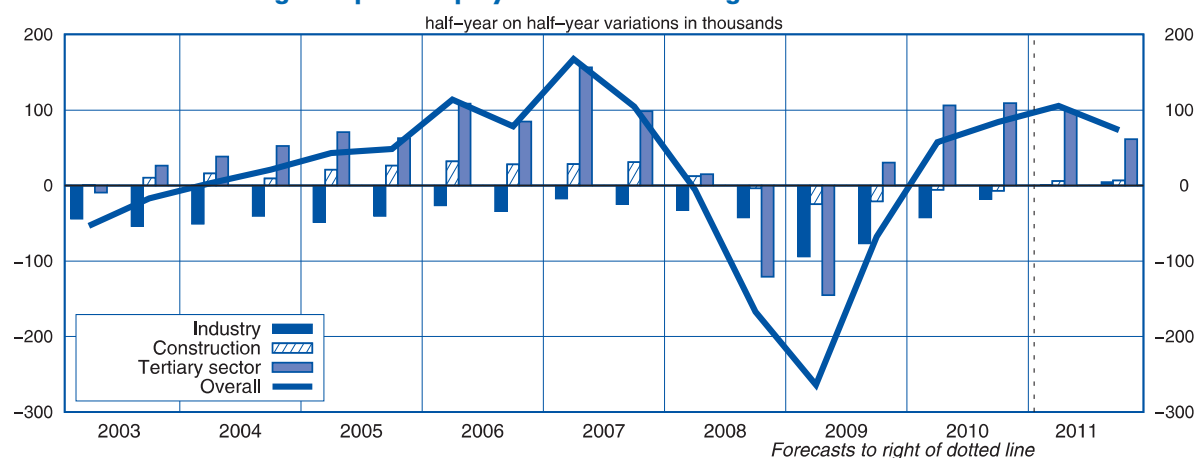
The market tertiary sector is usually the main driver of market employment during periods of growth. Service-sector employment recovered in 2010 (+215,000 jobs) after recording big job losses in 2009 (-115,000). Temporary work, which is counted in the service sector regardless of the sector in which the assignments are carried out, accounted for almost half of the job creations in the market tertiary sector in 2010: 97,000 of the 215,000

## 2 - Non-agricultural market paid employment



Source: INSEE

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



Source: INSEE



## French developments

jobs created. As the rate of use of temporary staff returned in 2010 to almost its pre-crisis level (see Graph 4), the rhythm of job creations in temporary work may slow down in 2011. Conversely, the rise in number of workers excluding temporary employment should intensify.

All in all, in 2011, job creations should be sustained in the market tertiary sector (+160,000, or +1.4%), although at a slower pace than in 2010. Jobs creations are set to continue in the same way in H1 2011 (+98,000), then slow in H2 (+62,000).

### Stabilisation of job creations in the non-market sector in 2011

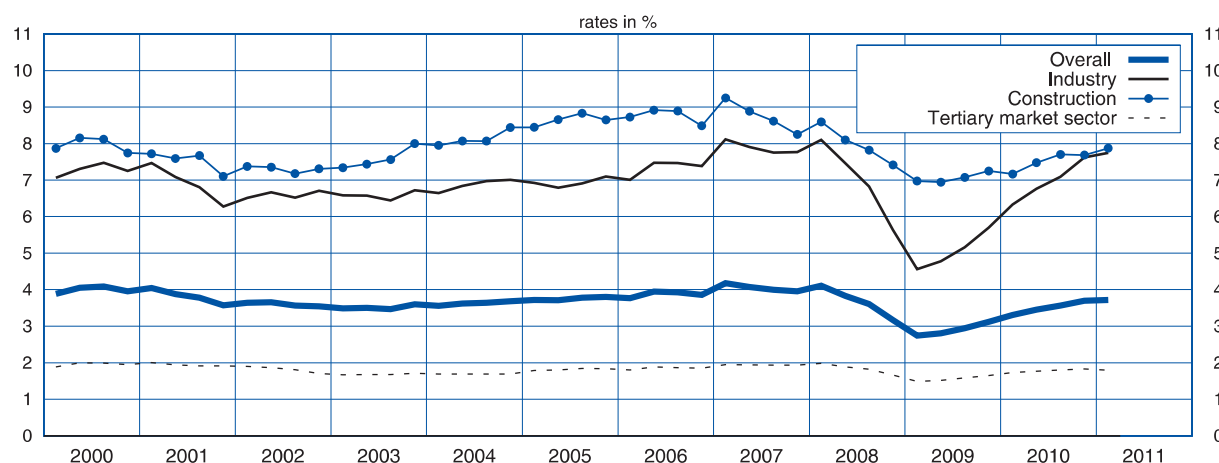
In 2010, 47,000 jobs were created in the non-market sector, after a very dynamic 2009 (+88,000). This slowdown mainly stems from the changes to subsidised work contracts. The

non-market sector integration contract (CUI-CAE) has now replaced the support towards employment contract (CAE) and the future contract (CAV); with all of these contracts, the increase in the number of beneficiaries was slower in 2010 than in 2009.

In 2011, the number of newcomers to subsidised contracts should be higher than in 2010 (392,000 newcomers are forecast for Metropolitan France, against 377,000 observed in 2010). The number of beneficiaries of these contracts should drop in H1 (-6,000, see Table 2) then rise again at the end of the year (+37,000 in H2).

All in all, over 2011, non-market employment should increase but at a less sustained rate than in 2010: +37,000 jobs after +47,000. In H1 2011, employment in the non-market sector should rise slightly (+3,000 jobs). The increase should then be sharper in H2 (+34,000). ■

4 - Rate of use of temporary work in different sectors



Source: INSEE

Table 1

## Change in employment

	Job creations over the period (in thousands) seasonally adjusted						Change in employment over the period (%) seasonally adjusted						Level of the end of the period (in thousands) seasonally adjusted		
	2009	2010	2011	2010 H2	2011 H1	2011 H2	2009	2010	2011	2010 H2	2011 H1	2011 H2	2009	2010	2011
<b>Market sector employees (1)+(2)</b>	-283	190	208	116	116	91	-1.6	1.1	1.2	0.7	0.6	0.5	17751	17941	18149
<b>Mainly non-agricultural market sectors (1) (private establishments only)</b>	49	49	29	32	11	18	2.7	2.6	1.5	1.7	0.6	0.9	1872	1920	1949
<b>Mainly non-market sectors (2) including:</b>	-332	141	179	84	106	73	-2.0	0.9	1.1	0.5	0.7	0.5	15880	16021	16200
Industry	-171	-61	6	-18	1	5	-4.9	-1.8	0.2	-0.6	0.0	0.2	3353	3292	3298
including:															
Manufacturing industry	-178	-64	4	-20	0	4	-5.6	-2.1	0.1	-0.7	0.0	0.2	2980	2916	2920
Construction	-46	-12	13	-7	6	7	-3.1	-0.9	0.9	-0.5	0.4	0.5	1439	1426	1439
Tertiary market sector	-115	215	160	109	98	62	-1.0	1.9	1.4	1.0	0.9	0.5	11088	11303	11463
including:															
Trade	-44	8	35	5	19	16	-1.4	0.3	1.2	0.2	0.6	0.5	2965	2973	3008
Market services (including temporary work)	-71	208	125	105	80	45	-0.9	2.6	1.5	1.3	1.0	0.5	8123	8330	8455

	Job creations over the period (in thousands)						Change in employment over the period (in %)					
	2009	2010	2011	2010 H2	2011 H1	2011 H2	2009	2010	2011	2010 H2	2011 H1	2011 H2
<b>Mainly non-agricultural market sectors</b>	-332	141	179	84	106	73	-2.0	0.9	1.1	0.5	0.7	0.5
<b>Agricultural employees</b>	-2	-10	-10	-5	-5	-5	-1.1	-4.6	-4.8	-2.3	-2.4	-2.4
<b>Mainly non-market service sectors (including private establishments)</b>	88	47	37	8	3	34	1.2	0.6	0.5	0.1	0.0	0.5
<b>Self-employed</b>	20	20	20	10	10	10	0.8	0.8	0.8	0.4	0.4	0.4
<b>Total Employment</b>	-227	198	225	96	113	112	-0.9	0.8	0.9	0.4	0.4	0.4

Forecast

(1) Sectors OQ private

(2) Sectors DE to MN and RU

How to read: 91 000 jobs should be created in the market sector during H2 2011. This corresponds to a rise of 0.5% over the half-year. This sector should employ 18,149,000 workers at 31 December 2011  
Source: INSEE

Table 2

## Subsidised employment in the non-market sector

in thousands

	2009	2010 H1	2010 H2	2010	2011 H1	2011 H2	2011
Consolidated Employment Contract	0	0	0	0	0	0	0
Single Integration Contract (CUI-CAE replaces CAE+CAV on 01/01/10)	-	178	65	242	3	39	42
Contract to Support Employment (CAE)	16	-84	-79	-163	-3	-2	-5
Contract for the Future (CAV)	-16	-46	-16	-63	-5	0	-5
Young worker's contract	-1	-1	-1	-2	0	0	0
<b>Total</b>	-1	46	-32	14	-6	37	31

Forecast

# Unemployment

*In Q1 2011, the unemployment rate came to 9.2% of the active population in Metropolitan France (9.7% including overseas departments). After a sharp increase between mid-2008 and end 2009, it has since fallen slightly.*

*The unemployment rate should fall slightly in Metropolitan France by the end of 2011, to 9.0% (9.4% including overseas departments), due to the dynamism of employment.*

## The unemployment rate came to 9.2% of the active population in Q1 2011

In Metropolitan France, the unemployment rate stood at 9.2% of the active population in Q1 2011, or 2.6 million unemployed (9.7% including overseas departments). It increased sharply between mid-2008 and end 2009, following the many job losses during the recession. It reached a peak of 9.6% at the end of 2009. Since the start of 2010 the unemployment rate has fallen slightly, with the upturn in job creations, particularly in the tertiary sector (see Graph 1).

## The drop in unemployment mainly concerns young people and older workers

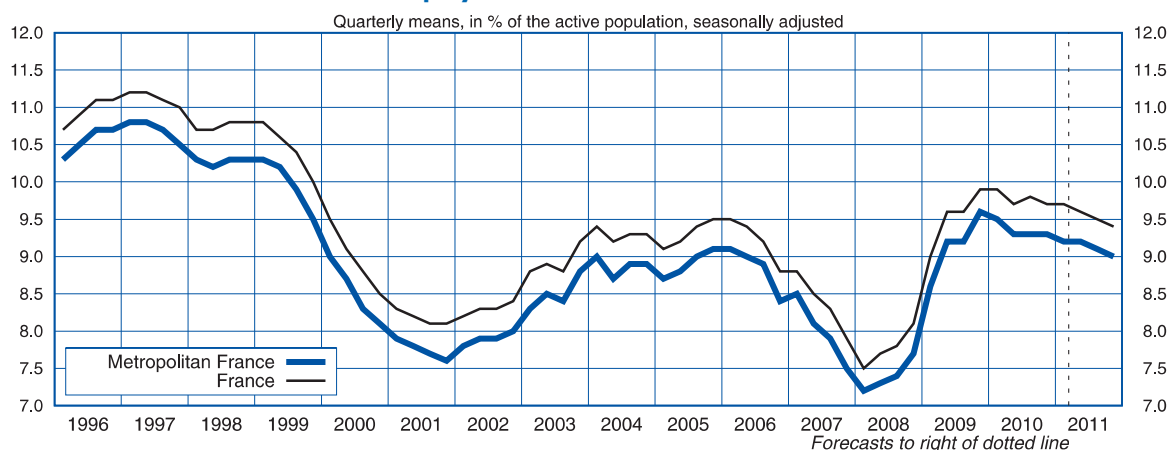
People in the under-25 age bracket were particularly hard-hit by the crisis. The unemployment rate of active people in the under-25 age bracket

increased by 6.3 points between the start of 2008 and end of 2009, standing at 23.6% (see Graph 2). Young people are more frequently employed on temporary assignments than their elders. They were thus affected more strongly by the sharp drop in temporary jobs at the start of the crisis, but also benefited from the recovery at the end of 2009. Their unemployment rate was 22.8% in Q1 2011.

The unemployment rate, which is a ratio of the number of unemployed to the active population, may be high for young people but should be set against their activity behaviour. A large number of under-25s are still studying and are thus not working. When the number of young unemployed people is related to the 15-24 population, the rate is much lower: it stands at 8.8% in Q1 2011, and is only 1.4 point above the unemployment level of the 25-49 age bracket.

All in all, since the end of 2009, the 0.4-point drop in the unemployment rate in Metropolitan France has been concentrated among the under-25 age bracket (-0.8 point) and to a lesser extent older workers (-0.3 point, for an unemployment rate of 6.3% in Q1 2011). The unemployment rate of the 25-49 age bracket has stabilised at 8.3% of the active population (see Graph 2).

## 1 - Unemployment rate in the sense of the ILO



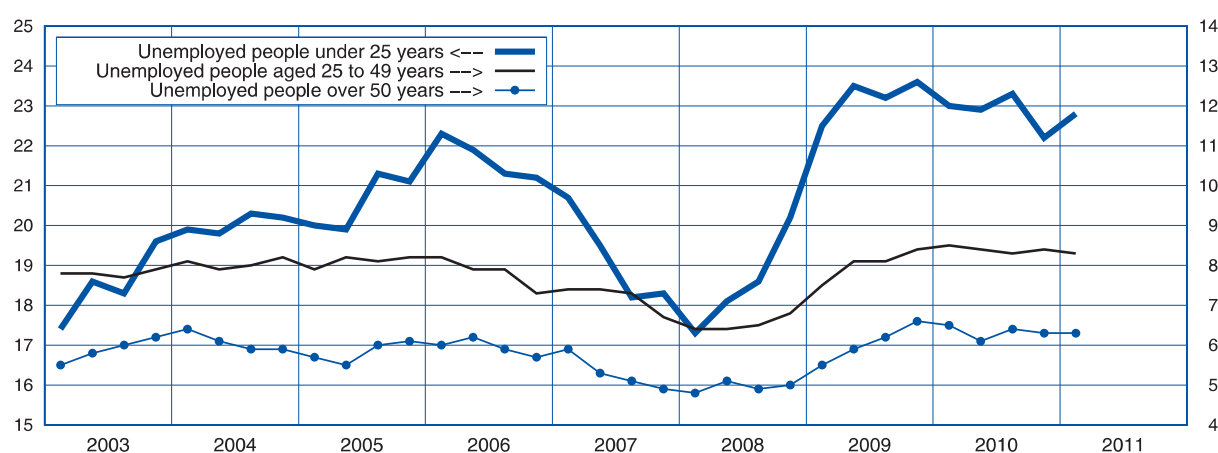
France = Metropolitan France + Overseas Departments  
Scope: Population of households, people aged 15 or over  
Source: INSEE, Employment Survey

## Unemployment should drop slightly by the end of 2011

Within the forecasting period, the unemployment rate should fall slightly (see *Graph 1*). It should stand at 9.0% of the active population in Metropolitan France (9.4% including overseas departments) at the end of 2011. Employment should grow a little faster than in 2010 (see *Employment note*): 95,000 jobs should be created in H1 2011, then 117,000 in H2 2011. This rise in employment is likely to be higher than that of the active popu-

lation, +72,000 in H1 and +81,000 in H2 (see *Table*). Compared with *Conjoncture In France* of March 2011, the active population is far more dynamic in 2011. This is due to the inclusion of the most recent forecasts, published in April (see *Focus*, 'INSEE's new forecasts of the active population'). ■

## 2 - Unemployment rate by age bracket



Scope: Population of households, people aged 15 and over

Source: INSEE, Employment Survey

## Box - Modifications in exploitation of the Employment survey

From June 2011, INSEE is adopting the age definition used by Eurostat for the publication of the Employment survey results. People's ages are now those declared at the moment of the survey, rather than at December 31st of the year, as previously. On the occasion of this publication, INSEE has also modified the way interns are processed in order to align itself with Eurostat practice. From now on, interns are considered as employed people if the internship is paid. Previously, an intern was considered as working if he or she performed tasks

of the same nature as those of their colleagues, whether they were paid or not. The consequence of these changes of concept is to bring down the unemployment rate in the 15-24 age bracket by around 0.5 point on average over the period 2003-2010, and that of the 25-49 age bracket by 0.1 point on average over the same period. However, the impact of these modifications on the unemployment rate of older workers or on quarter-to-quarter variations in unemployment rates by age group is very small. ■

## Changes to the active population, employment and unemployment in Metropolitan France

Quarterly means, in thousands

	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2008	2009	2010	2011
	Quarterly changes												Annual changes			
Population of the 15-64 age group	31	30	30	31	32	33	34	35	19	4	-7	-13	156	123	135	3
Population of the 15-59 age group	-31	-30	-28	-27	-26	-24	-23	-23	-12	-8	-6	-7	-98	-116	-96	-34
<b>Active population</b>	<b>126</b>	<b>61</b>	<b>-73</b>	<b>110</b>	<b>31</b>	<b>4</b>	<b>67</b>	<b>27</b>	<b>30</b>	<b>42</b>	<b>38</b>	<b>43</b>	<b>35</b>	<b>224</b>	<b>129</b>	<b>153</b>
including:																
(a) Contribution of the population and the trend participation rate	37	37	37	37	40	40	40	40	41	41	41	41	145	148	159	164
(b) Estimated bending effects	-3	-3	-2	0	1	1	1	1	1	2	2	2	0	-8	4	6
(c) Estimated effects of public policies	0	2	-3	3	0	-1	-5	1	0	-1	-5	0	-12	2	-5	-6
(d) Other short-term fluctuations (residual)	92	24	-106	70	-9	-36	30	-14	-12	0	0	0	-97	81	-29	-12
<b>Employment</b>	<b>-130</b>	<b>-113</b>	<b>-57</b>	<b>0</b>	<b>40</b>	<b>51</b>	<b>65</b>	<b>48</b>	<b>38</b>	<b>57</b>	<b>61</b>	<b>56</b>	<b>-55</b>	<b>-300</b>	<b>204</b>	<b>211</b>
Reminder: End-of-period employment (see "Employment" note)	-156	-70	-43	42	38	64	67	30	46	67	54	59	-134	-227	198	225
<b>ILO unemployment</b>	<b>256</b>	<b>174</b>	<b>-16</b>	<b>111</b>	<b>-9</b>	<b>-46</b>	<b>1</b>	<b>-21</b>	<b>-8</b>	<b>-14</b>	<b>-22</b>	<b>-14</b>	<b>89</b>	<b>524</b>	<b>-75</b>	<b>-58</b>
	Quarterly means												Means at last quarter of the period			
<b>ILO unemployment rate (%)</b>																
Metropolitan France	8,6	9,2	9,2	9,6	9,5	9,3	9,3	9,3	9,2	9,2	9,1	9,0	7,7	9,6	9,3	9,0
France (including overseas departments)	9,0	9,6	9,6	9,9	9,9	9,7	9,8	9,7	9,7	9,6	9,5	9,4	8,1	9,9	9,7	9,4

Forecast

How to read it: Employment and unemployment are not estimated here within strictly equivalent scopes: total population for employment, population of households (excluding collective) for unemployment. As the impact of this difference is very minor (the population outside of households represents less than 1% of the active population), it is neglected here for the unemployment forecasting exercise  
Source: INSEE

## Focus - The new active population projections by INSEE

From a cyclical, short-term perspective, a forecast of unemployment trends depends on the employment forecast on the one hand and on the forecasted active population trend, which includes all people working or unemployed, on the other.

At the end of April INSEE published a forecast of the active population to the time horizon of 2060, updating the one published in 2006. Carried out every 5 years, this exercise is used, for example, to elaborate potential growth scenarios, or to study the long-term balance of pension schemes. But it is also used in the INSEE's *Conjoncture in France* as a central part of the short-term forecast of the active population (in the 'Unemployment' note it is line (a) of the table plotting active population, employment and unemployment trends). To these long-term trends originating from projections, short-term effects are added for the cyclical forecast (including any short-term employment effects and the effects of public policies).

### Methods and assumptions of the new active population projections

The forecast of the active population to the horizon of 2060 is based on the demographic projections by INSEE (2010), to which projections of labour force participation rate by gender and by five-year age group are applied. For the age groups other than older workers (over 55s), we assume that the trends observed in activity behaviour continue to the time horizon of the projection.

For the projection of the participation rate of older workers, and in order to bear in mind the effects of successive pension reforms, we use the micro-simulation model 'Destinie' which takes account of the complex trade-offs that individuals make between staying at work and claiming their pension. The as-

sumptions retained are those that offer the best match with the information obtained following the successive pension reforms.

All in all, this new exercise in projection takes account of the 2010 pension reform, incorporates the effects of past reforms, and is based on a fertility rate assumption revised upwards, in line with the recent progress in fertility.

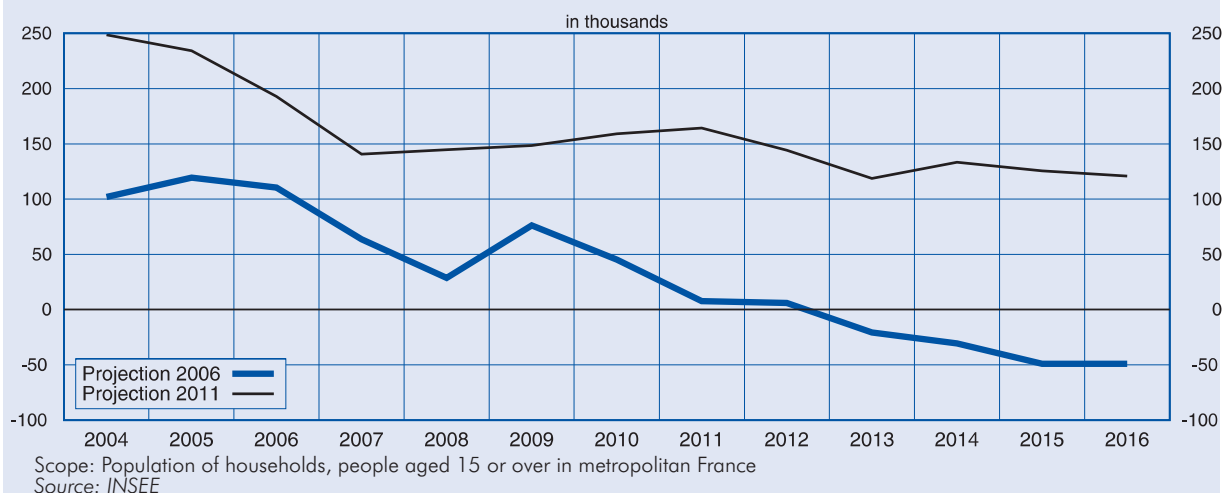
The projection comprises a central scenario based on assumptions extended from previous trends in terms of activity choice behaviour and demography, and a set of variants showing the sensitivity of the projections to the assumptions. For the short-term forecasting exercise, which uses shorter projections, it is the central scenario that is used.

### A dynamic active population, particularly in the period 2010-2015, due to the increase in the labour force participation rate of older workers

According to the central scenario of the projections, the active population should continue to grow strongly until 2020. It should then stabilise, before increasing once again from 2035, at a more moderate pace. The number of active people should exceed 31 million in 2060. Up to 2020, the dynamism of the active population is mainly due to the increase in the participation rate of older workers. This increase is explained by the successive pension reforms and the fact that schooling time has gradually increased, leading to pensions being claimed at an older age.

These projections are quite different to those of 2006. In the previous one, the number of active people slowed from 2006 (see Graph). Over the period 2010-2015, which is of particular interest to cyclical economists, the new projections are far more dynamic (on average, + 140,000 active workers per year until 2015). This difference can be almost totally ex-

### Active population projections in annual change



plained by the re-evaluation of the labour force participation rate of older workers, a significant part of which is linked to the inclusion of the 2010 pension reform.

### From trend projections to cyclical forecasts

For the short-term forecasting exercise, the active population is the sum of three components: the 'trend active population', taken from the projections, and two types of short-term fluctuations.

- On the one hand, the short-term economic situation may have an influence on people's decision to join the labour force or not (these are the 'short-term effects' modelled in line (b) of the table in the 'Unemployment' note);
- On the other hand, government policies not taken into account in the short-term scenario may also have an effect on the dynamic of the active population (estimated in line (c)).

Lastly, there is, as regards the past, a deviation between the observed active population and the sum of the three components: this is the residual (line (d) of the table) which results either from statistical uncertainties or from changes in behaviour. The new active population projections improve the diagnostic because they absorb part of the average residual over the most recent period. From 2008 to 2010, in the former projections, the cumulative residual reached almost 200,000 people, attesting to the strong dynamism of the ac-

tive population. This dynamic is now well plotted by the activity behaviour trend: the cumulative residual over these three years is low, in the order of -40,000, when the new projections are used.

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# Wages

*In 2011, nominal wages should be dynamic, driven by the strong rise in prices. The basic monthly wage (1) should thus increase by 2.3%, after a rise of 1.8% in 2010. The average wage per head should also accelerate (+2.9% after +2.1% in 2010).*

*However, the adjustment in wages in the face of inflation shocks is generally delayed. In 2011, indexation of wages on the rise in prices should therefore be partial, and real wages should slow down again, following on from 2010. Therefore, in real terms, the basic monthly wage should be almost stable in 2011 (+0.1% after +0.6%) and the average wage per head less dynamic than in 2010 (+0.6% after +0.9%).*

*In general government, the nominal average wage per head is set to slow down in 2011 (+1.3% against +1.5% in 2010). In real terms, this slowdown coupled with the acceleration in inflation should result in a marked fall in the average wage per head (-0.9% after +0.3% in 2010).*

## In 2011, nominal wages are likely to accelerate...

In 2011, nominal wages should rise markedly. For example, the basic monthly wage should accelerate: +2.3% after +1.8% in 2010 (see Table). Due to the usual indexation mechanisms, wages are set

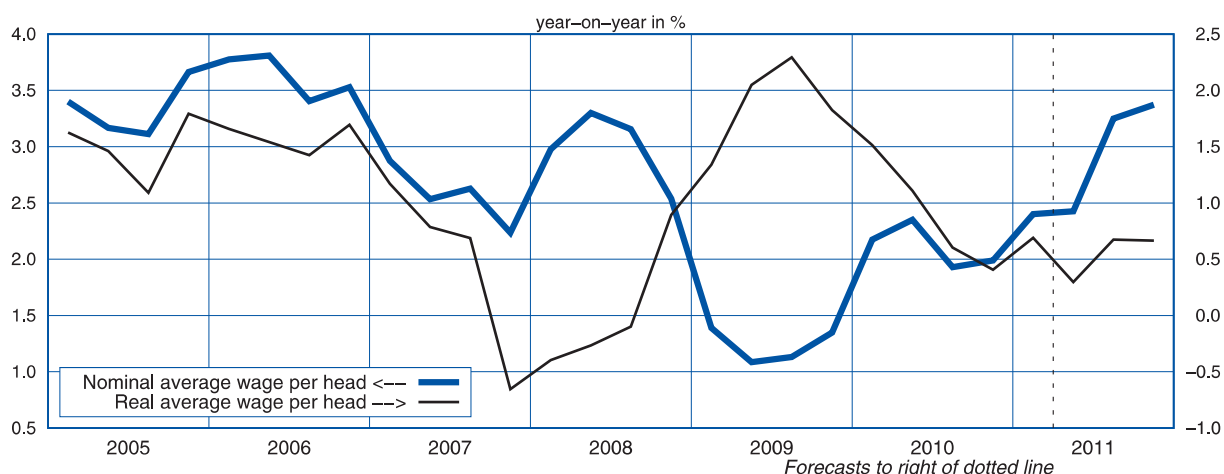
to be buoyed by the upturn in inflation since mid-2010. In particular, the annual rise in the minimum wage in January, based on inflation in the previous year, was greater in 2011 than in 2010 (+1.6% against +0.5%). Also, between November 2010 and June 2011, the rise in prices should be in excess of 2.0% and, in accordance with the legal provisions, a mechanical rise in the minimum wage (2) is to be expected for the summer: under the hypotheses taken for this forecast, it would be 2.0% and would occur in August.

The average wage per head should increase by 2.9% in 2011, after a rise of 2.1% in 2010. According to the available data, the effect of the rise in prices should be added to the payment of bonuses in H1 2011, which is likely to have boosted the average wage per head at the start of the year. There should then be a slight backlash in Q2, with a more moderate rise in the average wage per head. In addition, the Amending Finance Law for the social security has introduced a bonus for the employees of enterprises which have paid out in-

(1) For a definition of the terms basic monthly wage and average wage per head, see the glossary at the end of this issue: "Conjoncture in France words".

(2) When the consumer price index for urban households headed by a worker or employee reaches a level corresponding to a rise of at least 2.0% over the index observed on the last occasion when the minimum wage was calculated, then the minimum wage is increased by the same proportion as of the first day of the month following the publication of the index giving rise to this raise.

Change in the nominal and real average wage per head



\* Scope: non-agricultural market sector  
Source: DARES, INSEE

## French developments

creased dividends to shareholders. Payment of this bonus should buoy up the average wage per head in H2.

### ...but real wages should slow down

In the short term, indexation of wages on prices is generally delayed. This is particularly the case faced with an imported inflation shock, due to a rise in commodity prices. Consequently, faced with the acceleration in inflation forecast for 2011, indexation of wages should be partial and real wages should continue to slow down. Ultimately, in real terms, the basic monthly wage should level out in 2011 (+0.1%, after +0.6% in 2010) and the average wage per head should be slightly less dynamic than in 2010 (+0.6% after +0.9%). Year on year, it should stabilise at around +0.7% in H2 (see Graph).

(3) The individual purchasing power guarantee bonus scheme (GIPA) 2011 is a benefit that concerns civil servants and State agents who have lost purchasing power between 2006 and 2010. In 2011, the GIPA was only paid to civil servants blocked at the highest level of a grade for at least four years, from 2006 to 2010 and to those retiring in 2011 who had received it in 2009 and 2010.

### In general government, a fall in real wages

In the Civil Service, wages in 2011 should continue the slowdown started in 2010, due to the freeze of the value of the index point for 2011. However, the Civil Service minimum index increased by 3 points in January from 292 to 295 to keep up with the change in the minimum wage. Also, the individual purchasing power guarantee scheme (GIPA)<sup>(3)</sup> will be extended for 2011. All in all, the average wage per head in general government should increase slightly less quickly in 2011 than in 2010 (+1.3% after +1.5%). In real terms, the average wage per head should fall distinctly (-0.9%, after +0.3% in 2010), with the rise in inflation in 2011. ■

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

change as a %

Seasonally-corrected data	Quarterly growth rates								Annual averages		
	2010				2011				2009	2010	2011
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Basic monthly wage	0.4	0.5	0.3	0.5	0.7	0.6	0.6	0.6	2.2	1.8	2.3
Average wage per head in the non-agricultural market sector (NAMS)	0.6	0.6	0.2	0.6	1.0	0.6	1.0	0.7	1.2	2.1	2.9
Average wage per head in general government (GG)	-	-	-	-	-	-	-	-	2.4	1.5	1.3
Household consumer price index (quarterly national accounts)	0.5	0.3	0.2	0.5	0.6	0.7	0.6	0.6	-0.6	1.2	2.3
Real basic monthly wage	-0.1	0.2	0.1	0.0	0.1	-0.1	0.0	-0.1	2.9	0.6	0.1
Real average wage per head (NAMS)	0.1	0.3	0.0	0.1	0.4	-0.1	0.4	0.1	1.9	0.9	0.6
Real average wage per head (GG)	-	-	-	-	-	-	-	-	3.1	0.3	-0.9

Forecast

Source: INSEE

# Household income

*In 2011, the gross disposable income (GDI) of households should accelerate (+3.3% after +2.0%). It should be buoyed up mainly by more dynamic earned income in 2011 (+3.1%) than in 2010 (+2.0%). Growth in social benefits looks set to remain sustained, while taxes should accelerate sharply. Overall, despite the rise in consumer prices, the purchasing power of household income is likely to accelerate: +1.0% after +0.8% in 2010.*

## Earned income set to accelerate in 2011

In 2011, the earned income of households should be more dynamic than in 2010 (+3.1% after +2.0%, see table 1). Total wages received by households should grow at a higher rate (+3.3% after +2.0%), in particular in the non-agricultural market sectors (see Table 2). The upturn in employment

should continue and nominal wages should be more dynamic in 2011 than in 2010 (see Graph 1). The gross operating surplus (GOS) of sole proprietorships should also accelerate (+1.8% after +1.5% in 2010) in the wake of the upturn in activity.

In addition to this, property income should turn around in 2011 (+3.5% after -0.1%) while the gross operating surplus of pure households <sup>(1)</sup> should increase distinctly in H1 before easing in H2 (+3.4% in H1, after +2.2% in H2 2010, then +2.1% in H2 2011).

## Slight slowdown in social benefits in 2011

In 2011, social benefits in cash progressed at almost the same rate as in 2010 (+3.2% after +3.4%, see Table 3).

Table 1

### Household gross disposable income

change as %

	Half-yearly averages						Annual averages		
	2009		2010		2011		2009	2010	2011
	H1	H2	H1	H2	H1	H2			
<b>Gross disposable income (100%)</b>	<b>0.0</b>	<b>1.2</b>	<b>0.6</b>	<b>1.5</b>	<b>1.7</b>	<b>1.6</b>	<b>0.6</b>	<b>2.0</b>	<b>3.3</b>
including :									
Income (68%)	-1.1	0.3	1.3	1.1	1.7	1.8	-0.8	2.0	3.1
Gross wages (59%)	-0.7	0.5	1.2	1.0	1.8	1.9	0.0	2.0	3.3
GOS of sole proprietors (9%)	-4.0	-0.9	1.4	1.1	0.6	1.2	-5.5	1.5	1.8
Social benefits in cash (32%)	2.4	3.5	1.1	1.2	1.6	2.1	5.5	3.4	3.2
GOS of "pure" households <sup>(1)</sup> (12%)	-3.2	-1.5	-0.2	2.2	3.4	2.1	-4.1	0.1	5.7
Property income (10%)	-1.4	-1.0	-0.2	1.3	1.8	2.0	-1.7	-0.1	3.5
Social contribution and tax burden (-23%)	-3.1	-1.1	2.8	-0.1	2.3	3.2	-1.9	2.2	3.9
Contributions by paid employees (-8%)	-0.1	1.1	1.0	0.5	1.1	1.6	0.9	1.9	2.2
Contributions of self-employed persons (-2%)	3.5	0.4	1.3	0.6	0.9	1.1	4.7	1.8	1.7
Income and wealth tax (including CSG and CRDS) (-13%)	-6.0	-2.7	4.2	-0.6	3.4	4.5	-4.6	2.5	5.4
Income before taxes	-0.7	0.8	1.0	1.3	1.9	2.0	0.0	2.0	3.6
<b>Household consumer prices (quarterly national accounts)</b>	<b>-0.9</b>	<b>0.1</b>	<b>0.8</b>	<b>0.6</b>	<b>1.3</b>	<b>1.3</b>	<b>-0.6</b>	<b>1.2</b>	<b>2.3</b>
<b>Purchasing power of gross disposable income</b>	<b>0.9</b>	<b>1.1</b>	<b>-0.2</b>	<b>0.9</b>	<b>0.4</b>	<b>0.3</b>	<b>1.3</b>	<b>0.8</b>	<b>1.0</b>

Forecast

Note: the figures in parentheses give the structure of the year 2010.

(1) The gross operating surplus (GOS) of sole proprietors is the balance of the operating accounts of sole proprietorships. It is mixed income, because it remunerates the work performed by the sole proprietor, and possibly the members of his family, but also contains the profit achieved as an entrepreneur.

Source: INSEE

## French developments

Social benefits should be less dynamic than in 2010: +3.3% after +3.9%. While old age benefits are set to remain strong, unemployment benefits should fall back in 2011 as the labour market improves.

In contrast, social welfare benefits should rise in 2011, after 2010 which was marked by the fact that the measures taken in the 2009 stimulus plan were not renewed (+0.5%, after -0.7%). They should also be buoyed by the upgrade of disabled adult benefit (in April and September) and by the progression in the Active Solidarity Income and the Specific Solidarity Benefit.

nues from income tax should be sharp: +6.0% after +1.6%. On the one hand, income rebounded in 2010. On the other, the fiscal consolidation measures passed for 2011 should contribute to the rise in income tax in H2, in particular the additional contribution of 1.0% on higher incomes, the suppression of certain tax loopholes and the effects of the abolition of the professional tax.<sup>(2)</sup>

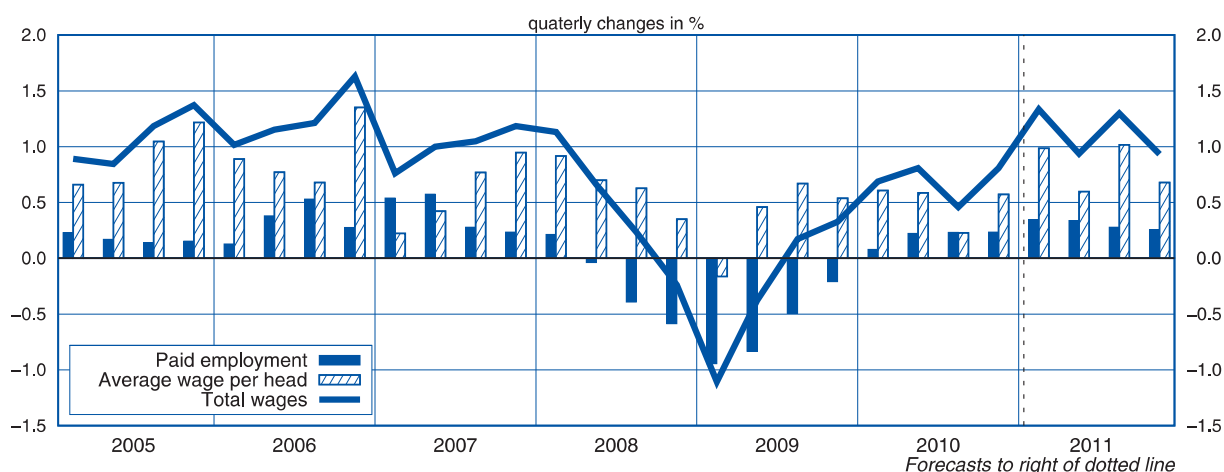
In addition, taxation during the term of life insurance should lead to a rise in CSG. The other current taxes should fall, however, in 2011 notably due to the fall in Wealth Tax decided on in Amending Finance Law.

### The tax burden likely to increase in 2011

The tax burden on households should increase by 3.9% in 2011, driven by the acceleration in taxes (+5.4% after +2.5% in 2010). The growth in reve-

(2) With the reform of Professional Tax, the profits of sole proprietorships are increased mechanically. Consequently, the income tax they pay is higher.

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		
	2009		2010		2011		2008	2009	2010
	H1	H2	H1	H2	H1	H2			
Non-financial enterprises (67%)	-1.8	0.1	1.3	1.4	2.3	2.2	-1.4	2.0	4.1
including : Average wage per head	-0.1	1.1	1.2	0.9	1.7	1.6	1.1	2.2	2.9
Financial corporations (5%)	4.2	0.6	1.1	-0.1	2.2	2.4	4.4	1.3	3.3
General government (23%)	1.1	1.3	0.9	0.5	0.6	0.7	2.3	1.8	1.2
Households excluding sole proprietors (2%)	0.6	1.4	2.6	0.2	1.0	2.3	2.8	3.4	2.2
<b>Total gross wages received by households (100%)</b>	<b>-0.7</b>	<b>0.5</b>	<b>1.2</b>	<b>1.0</b>	<b>1.8</b>	<b>1.9</b>	<b>0.0</b>	<b>2.0</b>	<b>3.3</b>
including : Non-agricultural market sectors	-1.4	0.1	1.3	1.3	2.2	2.2	-1.1	2.0	4.0

Forecast

Note: the figures in parentheses give the structure of the year 2010.

Source: INSEE

The contributions paid by employees in 2011 are set to accelerate (+2.2% after +1.9% in 2010) due to the marked growth in total wages. Also, the contributions paid by the self-employed should increase at the same rate as in 2010 (+1.7% after +1.8%).

## Purchasing power to accelerate in 2011

Household income should be boosted in 2011 by the progression in employment and nominal wages (see graph 2). In contrast, taxes should accelerate distinctly in 2011 due to the rebound in income in 2010 and the measures passed in the Fi-

nance Law that should have effects essentially in H2. Household disposable income should accelerate in 2011 (+3.3% after +2.0%), but this acceleration should be offset by the upturn in inflation: overall, household purchasing power should progress slightly more quickly in 2011 than in 2010 (+1.0% after +0.8%, see Graph 2). Purchasing power per consumption unit, which takes account of demographic change, should grow by +0.3% in 2011 whereas it was almost stable in 2010 (+0.1%, see Box). ■

Table 3

## The social transfers received and paid by households

	change as a %						Annual averages		
	Half-yearly averages								
	2009		2010		2011		2008	2009	2010
	H1	H2	H1	H2	H1	H2			
<b>Social cash benefits received by households (100%)</b>	<b>2.4</b>	<b>3.5</b>	<b>1.1</b>	<b>1.2</b>	<b>1.6</b>	<b>2.1</b>	<b>5.5</b>	<b>3.4</b>	<b>3.2</b>
Social Security benefits in cash (72%)	2.7	3.0	1.7	1.4	1.5	2.2	5.5	3.9	3.3
Private funded social benefits (7%)	0.4	2.5	0.6	2.1	2.6	2.3	2.3	2.8	4.9
Unfunded employee social benefits (13%)	1.3	1.7	1.9	1.7	1.8	1.9	2.9	3.6	3.6
Social assistance benefits in cash (8%)	4.2	12.9	-5.1	-2.8	1.0	1.9	13.2	-0.7	0.5
<b>Total social contribution burden</b>	<b>0.1</b>	<b>1.1</b>	<b>1.1</b>	<b>1.0</b>	<b>1.3</b>	<b>1.9</b>	<b>1.0</b>	<b>2.1</b>	<b>2.8</b>
Actual social contributions paid by households (100%)	-0.1	1.0	1.0	0.9	1.2	1.9	0.7	1.9	2.6
including : Employers contributions <sup>(1)</sup> (63%)	-0.5	1.0	1.0	1.1	1.3	2.2	0.2	2.0	3.0
Employees contributions (29%)	-0.1	1.1	1.0	0.5	1.1	1.6	0.9	1.9	2.2
Self-employed contributions (8%)	3.5	0.4	1.3	0.6	0.9	1.1	4.7	1.8	1.7

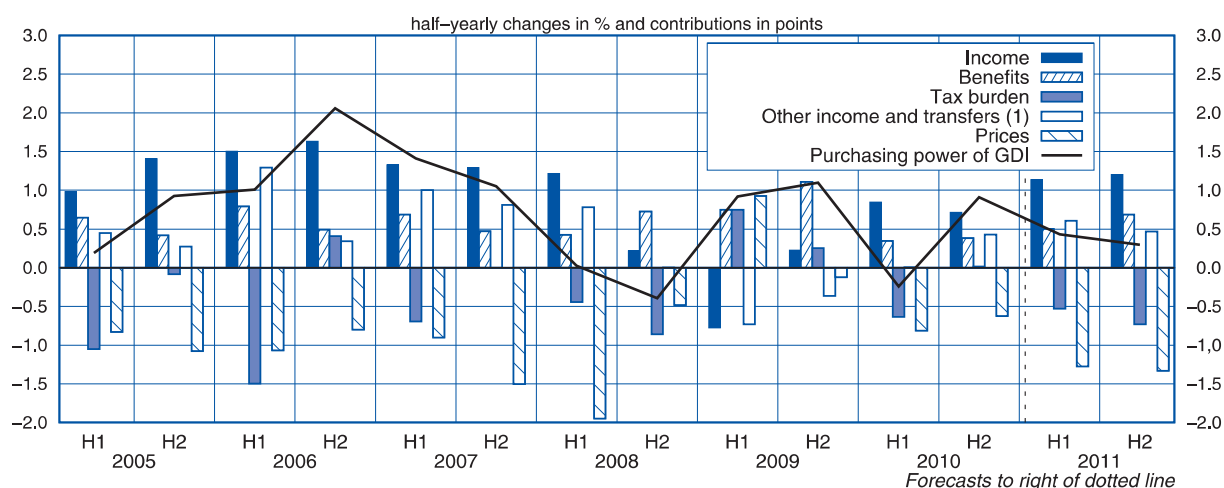
■ Forecast

Note: the figures in parentheses give the structure of the year 2010.

(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

## 2 - Purchasing power of disposable income and contributions



(1) GOS of pure households, property income and current transfers

Source: INSEE

### 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 2010, 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 the growth in the number of households +1.0%).

Therefore, in 2011, purchasing power per consumption unit slowed (+0.3% after 0.1% in 2010). Per inhabitant, the rise is 0.5%, and purchasing power per household rose by 0.0% ■

# Household consumption and investment

*In Q1 2011, household consumption remained at a sustained level (+0.6% after +0.4%), boosted among other things by the growth in consumption of services. The savings ratio of households appears to have fallen, from 16.1% to 15.8%.*

*Q2 is likely to be marked by a decline in consumption of non-energy industrial goods, particularly automobiles, with the end of the 'trailing effect' of the scrappage scheme. The expected purchasing power gains should contribute to the rebuilding of savings.*

*Over the rest of the year consumption should stay at a slightly lower level than that prior to the crisis. The savings ratio of households should stabilise at 16.0% in 2011, a level which is still higher than that before 2008.*

*The upswing in household investment which began in H2 2010 should be confirmed. Over the forecasting period as a whole, household investment should be dynamic. Over the year, it is set to grow by 2.7% after a decline of 1.4% in 2010.*

## In Q1 2011, strong expenditure on both goods and services

Household consumption was dynamic in Q1 2011 (+0.6% after +0.4%, see Table). As this consumption grew faster than purchasing power gains, hou-

seholds dipped into their savings a little: their savings ratio fell from 16.1% in Q4 2010 to 15.8% in Q1 2011.

Despite the withdrawal of the scrappage allowance on 31 December 2010, automobile purchases increased once again in Q1 2011, due to the delivery times required to honour past orders (+2.3% after +8.5%). Housing equipment expenditure was also dynamic, after a Q4 showing a slight decline (+2.4% after -0.2%). This rebound can be attributed mainly to mass-market electronic goods, the purchases of which were stimulated by the switch to 'digital TV only' in six more regions, including Ile-de-France. Leather and textile purchases also picked up after a Q4 which was marked by the after-effect of the 2010 summer sales (+1.5% after -1.2%). However, household expenditure on fuels dropped once again (-0.1% after -0.8%).

Energy expenditure (gas and electricity) also fell (-3.5% after +1.7%): temperatures at the start of the year were higher than the seasonal norms, whereas Q4 2010 had been very cold.

Last, after a slight decline in Q4 2010, consumption of services rebounded (+0.7% after -0.1%), particularly in transport. Household expenditure was affected at the end of 2010 by the strikes in October and the poor weather in December; it therefore progressed strongly in Q1. Accommodation and catering consumption, but also that of cultural and leisure services, also gathered pace. Lastly,

## Household consumption and investment expenditure

evolutions in %

	Quarterly changes								Annual changes	
	2010				2011				2010	2011
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
<b>Total household consumption expenditure</b>	0,1	0,1	0,6	0,4	0,6	-0,4	0,3	0,4	1,3	1,2
including:										
Food (3%)	-1,8	-0,6	-0,4	0,3	1,9	0,4	0,3	0,3	-2,2	2,3
Non-energy industrial goods (43%)	8,3	-1,1	-1,1	1,7	-3,5	-2,0	0,9	0,5	4,9	-4,0
Energy (4%)	-0,6	-0,3	1,2	0,9	0,8	-1,5	0,2	0,4	1,3	1,1
Services (50%)	0,0	0,4	0,4	-0,1	0,7	0,5	0,4	0,4	0,8	1,6
<b>Household consumption</b>	0,0	0,1	0,5	0,4	0,6	-0,3	0,3	0,4	1,3	1,2
<b>Household investment</b>	-0,5	0,1	1,9	0,8	-0,3	0,8	1,2	0,7	-1,4	2,7

Forecast  
Source: INSEE



## French developments

health services contributed to the rebound in consumption of services, as the flu epidemic came later this winter than in previous years.

### In Q2, consumption likely to slow

Consumption of non-energy industrial goods fell sharply in March (-1.4% compared with February) and April (-3.2% compared with March). Automobile purchases declined with the end of the 'trailing effect' of the scrappage allowance. At the end of April, the growth overhang for non-energy industrial goods consumption for Q2 was strongly negative: it came to -2.0% (see *Focus: "New info on monthly household consumption"*). Consumption of non-energy industrial goods should therefore drop in Q2 2011 (see *Graph 1*). In light of the new car registrations in May, automobile consumption should be sluggish over the end of the quarter. However, in June, consumption of leather and textiles should reap the benefits of the high number of days of sales this year, and certain purchases usually made in Q3 are likely to be brought forward to Q2. Lastly, expenditure on refined products should continue to fall, as the rise in oil prices takes its toll on volumes consumed.

Energy consumption fell sharply in April (-6.0%) under the effect of the clement temperatures which limited the use of heating energy. It should globally decline over the quarter as a whole.

Elsewhere, after the rebound in Q1, consumption of services should return to a more moderate rhythm.

All in all, household consumption expenditure is set to decline in Q2. The savings ratio should climb from 15.8% to 16.2% (see *Graph 2*). In H2, consumption sustained by services.

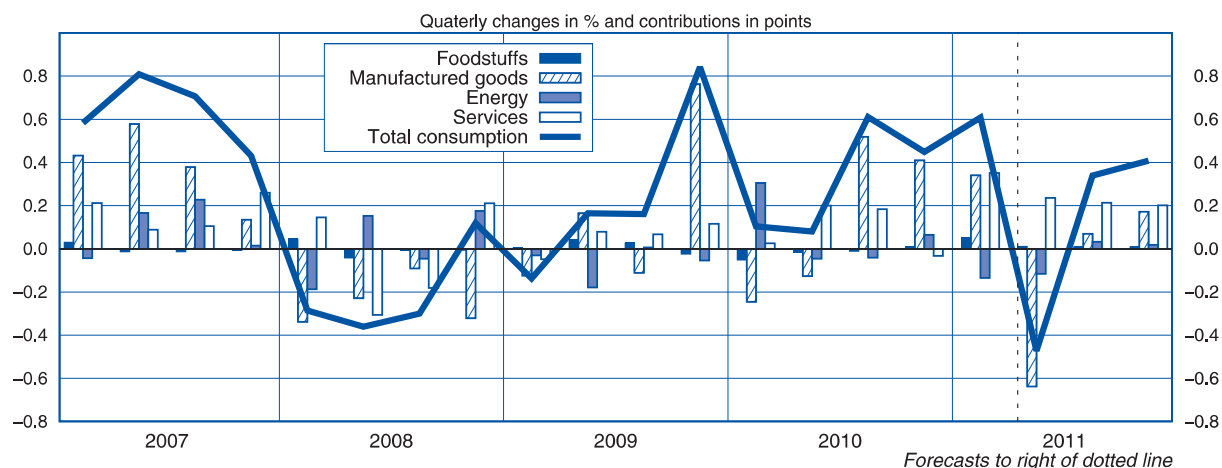
In H2, household consumption should return to a slightly lower growth rate than that prior to the crisis (+0.3% in Q3 and +0.4% in Q4). Faced with the still-high unemployment level, households should keep a high level of precautionary savings: in 2011, the savings ratio should remain stable, at 16.0%.

After a backlash in Q2 following the withdrawal of the scrappage scheme, automobile expenditure should no longer sustain consumption. So consumption of non-energy industrial goods is likely to regain its dynamism only very gradually. However, starting in Q3, consumption of services should return to a rate of progress close to that prior to the crisis (+0.4% each quarter). As an annual average over 2011, growth in consumption should be almost identical to that of 2010: +1.2% after +1.3%.

### Household investment showing a strong recovery

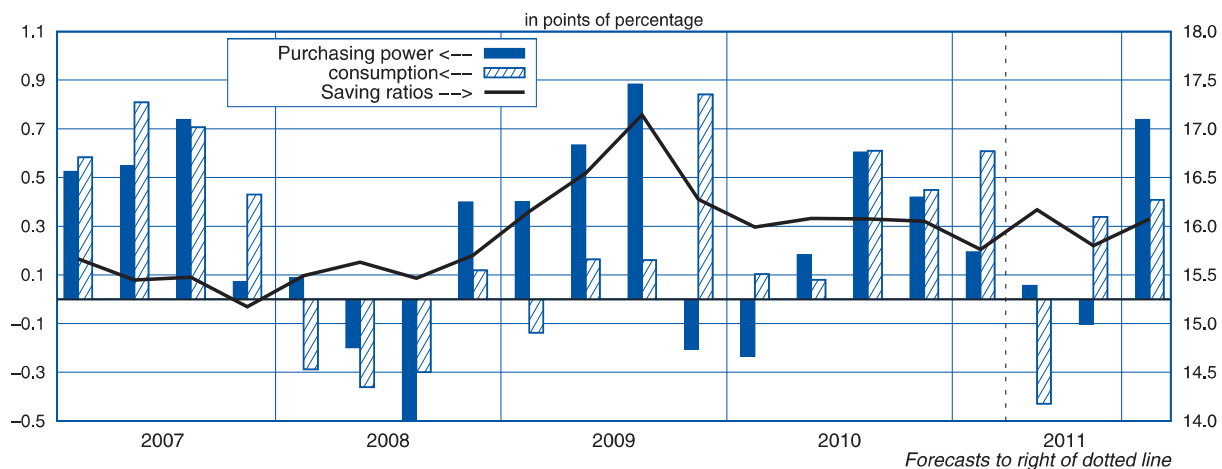
After a rebound in H2 2010, household investment declined in Q1 2011 (-0.3%). This decline is due on the one hand to a drop in expenditure on old property, which had been particularly dynamic at the end of 2010, and on the other hand to a slowdown in the construction of new buildings, in the wake of the housing starts observed throughout 2010. For the rest of 2011, household investment should see renewed growth in line with the recent recovery of housing starts. Over the year, household investment should rise by 2.7%, after a drop of 1.4% in 2010. ■

1 – Contributions of the different items to quartely household consumption



Source: INSEE

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



Source: INSEE

### Focus - New info on monthly household consumption

Starting from May 2011, each month the INSEE publishes short-term data on household consumption expenditure on goods.<sup>(1)</sup> The scope of household consumption expenditure on goods corresponds to product groupings in the new national accounts classification (2005 base), in accordance with a functional approach: <sup>(2)</sup> food, energy, and manufactured products (durables including automobiles, textiles, leather goods and clothing, other manufactured goods). This scope is twice as wide as that of expenditure on non-energy industrial goods as covered by the previous monthly publication (former classification, 2000 base): among other things, it has been extended to energy expenditure and food consumption. So household consumption expenditure on goods now represents almost half of all household consumption expenditure. The monthly series are consistent with those published in the quarterly national accounts. They are corrected for seasonal variations (CVS) and calendar effects (CJO), and are expressed in chain-linked volumes.<sup>(3)</sup>

Tracking household consumption of goods offers two advantages in terms of short-term economic analysis. On the one hand, the data related to this field are numerous and rapidly available.<sup>(4)</sup> On the other hand, expenditure on goods is more volatile than that on services. It therefore provides genuine short-term information and is an invaluable indicator for forecasting.

In April 2011, household consumption expenditure on goods fell by 1.8% in volume, after having dropped by 1.0% in March. This drop can be explained by a sharp decline in purchases of durables, particularly automobiles, and by a drop in energy expenditure (see *Graphs 1 and 2*). At the end of April, the growth overhang for consumption of goods in Q2 came to -2.2%. The April consumption of goods thus provides the first quantitative information on the effect of the end of the scrappage scheme. It has been included in our forecast: based on this information, household consumption in Q2 was revised downwards compared with the March edition of *Conjoncture in France*. ■

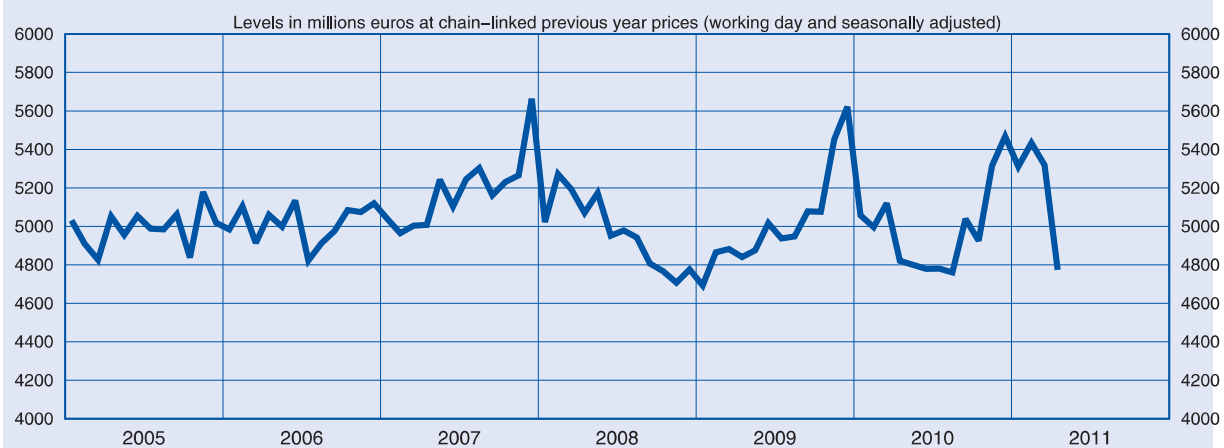
(1) Informations rapides, n° 134 - 31 May 2011, 'Household consumption expenditure on goods - April 2011'.

(2) See the simplified methodological note: [http://www.insee.fr/fr/indicateurs/ind19/method\\_idconj\\_19.pdf](http://www.insee.fr/fr/indicateurs/ind19/method_idconj_19.pdf)

(3) The growth in aggregates is independent of the price variation effects and is corrected for variations in the shopping basket structure

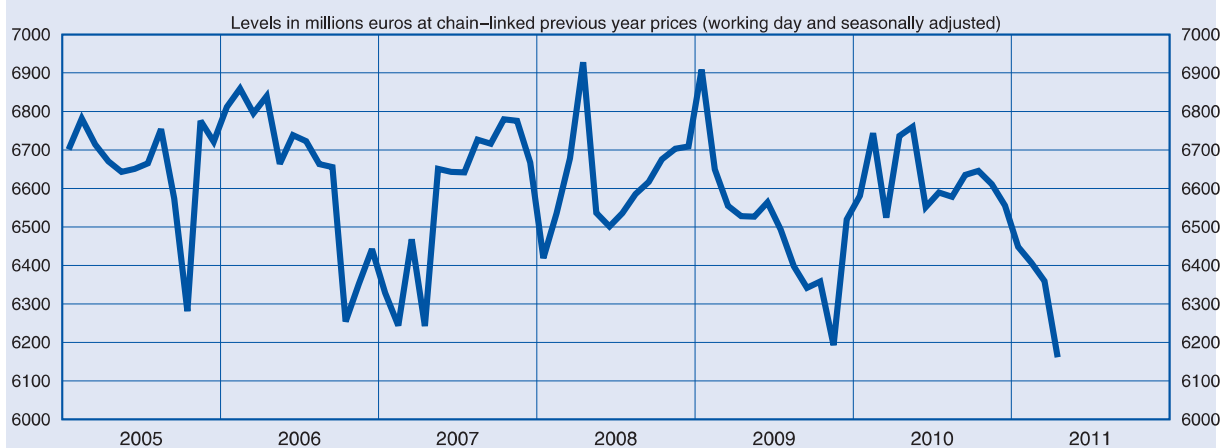
(4) The consumption index is built from various statistical sources drawn up by the Banque de France, the Observation and Statistics Department (SOES) of the Ministry for Infrastructure, the French Carmakers Committee, The Economic Observatory of the French Fashion Institute, the National Sickness Insurance Fund, the National Rubber and Plastics Syndicate, the Oil Producers Committee, GDF-Suez, RTE, GFK, SEITA, the International Automobile and Motorcycle Syndicate, the National Inter-profession Crop Office.

## 1 - Data mensly consumption automobiles



Source: INSEE

## 2 - Data mensly consumption energy



Source: INSEE

# Enterprises' earnings

After picking up in early 2010, principally due to the abolition of business tax, the margin rate of non-financial enterprises, measured at factor cost, fell slightly over the rest of the year. The rise in real wage costs and, at the end of the year, the deterioration of terms of trade, offset the positive impact of productivity gains, which incidentally were modest. At the end of 2010, the margin rate stood at 30.9%.

In 2011, the margin rate should remain stable: at the end of the year it should stand at 31.0%, that is, 1.0 point below its average level prior to the crisis and 0.6 point above its low point during the crisis. It should be sustained by the productivity gains achieved by enterprises, but penalised by terms of trade, which is unfavourable because of the rise in prices of imported commodities, the increase in real wage costs, and the rise of the taxes replacing the professional tax.

## After a rise in early 2010, the margin rate stabilised

In Q1 2010, the margin rate measured at cost factor picked up sharply (+ 0.6 point, to 31.0%) with the abolition of professional tax. The margin rate then remained stable until the end of 2010. Productivity gains offset the rise in real wage costs. Additionally, at the end of 2010, the slide in terms of trade began to take its toll on the margin ratio (-0.3 point), due to the rise in energy and commo-

dity prices. All in all, at the end of 2010 the margin rate stood at 30.9%, 0.5 point higher than one year previously.

## The margin rate progressing in early 2011...

In Q1 2011, the margin rate seems to have picked up sharply (+ 0.4 point, see Graph). With the rebound in activity, productivity accelerated (contribution of + 0.7 point, see Table). However, as in Q4 2010, terms of trade took its toll on the margin rate as the rise in energy prices continued (contribution of -0.2 point), as well as the rise in the taxes that replaced the professional tax<sup>(1)</sup> (contribution of -0.1 point),<sup>(2)</sup> and the increase in real wage costs (contribution of -0.2 point).

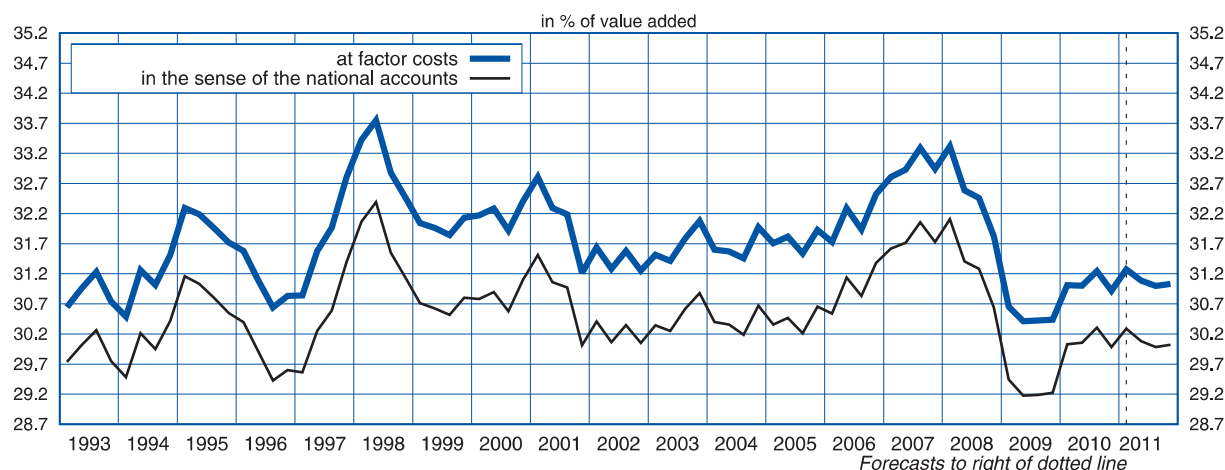
## ... then stabilising over the rest of the year

In Q2 2011, the margin rate should decline somewhat (-0.2 point). With the expected slowdown in activity, productivity gains should be low. Furthermore, terms of trade should continue to weigh down on the margin rate (contribution of -0.2

(1) Corporate land tax, value-added contribution, and flat-rate tax on network businesses.

(2) Its impact is counted in the 'ratio of the VA price at factor cost to the VA price' line.

Margin rate of non-financial enterprises (NFE)



Source: INSEE

## French developments

point). However, real wage costs should fall back slightly.

In H2, the margin rate should slip back a little further and return to its level of end 2010. The upturn in productivity gains should favour a rise in the margin rate (cumulative contributions of 0.5 point). Conversely, two factors are likely to lead to a drop. On the one hand, terms of trade should remain unfavourable (cumulative contributions of -0.2 point). On the other hand, social contributions should increase because of the annualisation

of tax relief on low wages, which should mainly have an impact in Q4 (contribution of -0.1 point over the half-year). Real wages should progress by the end of the year (contribution of -0.2 point), partly due to the employee bonus introduced by the social security amendment bill (see Wages note).

All in all, at the end of 2011 the margin rate measured at factor cost should stand at 31.0%, that is, 0.6 point above its low point since the start of the crisis and 1.0 point below its average level over the period 2000-2007. ■

### Breakdown of the margin rate of non-financial enterprises (NFE)

in % and in points

	2009				2010				2011				2009	2010	2011
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<b>Margin rate (in level)<sup>(1)</sup></b>	29.4	29.2	29.2	29.2	30.0	30.1	30.3	30.0	30.3	30.1	30.0	30.0	29.3	30.1	30.1
<b>Variation in margin rate</b>	-1.2	-0.3	0.0	0.0	0.8	0.0	0.3	-0.3	0.3	-0.2	-0.1	0.0	-2.1	0.8	0.0
<b>Margin rate at factor costs (in level)<sup>(2)</sup></b>	30.7	30.4	30.4	30.4	31.0	31.0	31.2	30.9	31.3	31.1	31.0	31.0	30.5	31.0	31.1
<b>Variation in margin rate at factor cost</b>	-1.2	-0.2	0.0	0.0	0.6	0.0	0.2	-0.3	0.4	-0.2	-0.1	0.0	-2.1	0.6	0.1
<b>Contributions to the variation margin rate at factor costs of</b>															
productivity gains	-1.3	0.3	0.4	0.5	0.0	0.3	0.2	-0.1	0.7	-0.1	0.2	0.3	-1.7	1.3	1.0
real wage per head	0.0	-0.4	-0.3	-0.2	0.0	-0.3	0.0	-0.1	-0.3	0.1	-0.2	0.0	-1.1	-0.6	-0.4
employer contribution ratio	-0.1	0.0	0.1	-0.2	0.1	0.0	-0.1	0.1	0.1	0.0	0.1	-0.2	0.0	0.0	0.1
ratio of the value-added price to the consumer price	0.4	0.0	-0.1	-0.1	-0.2	-0.1	0.1	-0.3	-0.2	-0.2	-0.1	-0.1	0.9	-0.4	-0.6
ratio of the value-added price at cost to the value-added price	-0.1	0.0	0.0	0.0	0.6	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	-0.1	0.4	-0.1

Forecast

(1) The margin rate measures the share of value-added which remunerates capital. Its variation is broken down in accounting terms between:

- productivity changes (Y/L), with Y value-added and L employment, and the ratio of the value-added price to the consumer price, or terms of trade (Pva/Pc), which play a positive role;
- changes to the real average wage per head (SMPT/Pc) and the employer contribution ratio (W/SMPT, where W represents all compensation), which play a negative role.
- a ratio of the value-added price at factor cost to the value-added price in the sense of the national accounts, this ratio increasing in 2010 because of the abolition of professional tax. This breakdown is summarised in the following equation (see Report, Conjoncture in France, June 2003):

$$TM = \frac{EBE}{VA} \approx 1 - \frac{W \cdot L}{Y \cdot P_{va}} = 1 - \frac{L}{Y} \cdot \frac{W}{SMPT} \cdot \frac{SMPT}{P_c} \cdot \frac{P_c}{P_{va}}$$

(2) Value-added at factor cost is obtained from gross value-added minus taxes on production net of operating subsidies. The margin rate (share of GOS in value-added) at factor cost is around 1% higher than the margin rate in the sense of the national accounts. In the MR breakdown above, only the terms VA and Pva are affected by this distinction.

Source : Insee

# Corporate investment and inventory

Corporate investment picked up sharply in Q1. Over the rest of the year, it should still be sustained but grow at a slightly slower pace. On the one hand, still-low interest rates and increasingly burdened production capacity should encourage entrepreneurs to increase their investment expenditure. On the other hand, demand perspectives are likely to be less favourable by the end of the year. All in all, corporate investment in 2011 should increase sharply (+5.9%).

In Q1 2011, inventory change contributed strongly to growth in activity (+0.7 point, after -0.3 point in the previous quarter), mainly due to stocking-up trends in the transport equipment sector. In Q2 2011, the contribution of inventory change to growth should be slightly positive, with the temporary sag in demand allowing enterprises to continue rebuilding their stocks. It should be nil thereafter.

## In Q1 2011, corporate investment accelerated

In Q1 2011, the gross fixed capital formation (GFCF) of non-financial enterprises (NFE) picked up sharply (+1.9% after +0.9% in Q4 2010, see Table 1). The investment ratio continued to recover, reaching 17.9% after a low point of 17.0% one year previously (see Graph 1). Expenditure on services was dynamic (+2.3% after +1.1%), particularly in information-communication. Expenditure on non-energy industrial goods continued to grow

at a sustained pace (+3.4% after +3.6%): purchases of capital goods, which represent almost 40% of investment in non-energy industrial goods, were once again sustained (+6.3%), as were automobile purchases (+4.0%) which benefited from the 'trailing effect' of the scrappage scheme. Lastly, the drop in investment in construction was smaller than in Q4 2010 (-0.5% after -2.7%). In civil engineering, certain works were postponed due to the poor weather conditions in December and difficulties sourcing bitumen following the industrial action at refineries in October. In Q1, the rebound in civil engineering expenditure therefore partially offset the drop in building investment.

## Investment set to remain dynamic for the rest of 2011

The rise in investments by NFEs should continue throughout the year at a relatively sustained pace: +1.3% in Q2 then +1.2% in Q3 and Q4. Industrialists surveyed in April about their investments confirmed that they expected a dynamic upturn in their investments in 2011. In services, business leaders also indicated that investments were holding up well.

Global financing conditions have remained positive overall: real interest rates are still low and, according to the banks, credit award terms remained stable in Q1 2011. Furthermore, production capacity tensions have increased somewhat (see Graph 2): in April, the production capacity utilisation rate in the manufacturing industry progressed

Table 1

### Investment by non-financial enterprises (NFE)

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

	Quarterly variations												Annual variations		
	2009				2010				2011				2009	2010	2011
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Non-energy industrial goods (49%)	-12.9	-4.6	0.8	2.4	1.4	3.8	3.6	3.6	3.4	2.5	1.8	1.8	-21.8	8.3	12.5
Building and public works (22%)	-1.6	-1.7	-2.3	-2.0	-2.2	-0.3	-1.9	-2.7	-0.5	-0.5	0.0	0.2	-5.6	-6.9	-3.9
Other (29%)	-0.6	-2.1	-1.4	0.6	0.7	4.6	1.9	1.1	2.3	1.5	1.5	1.5	-4.1	4.6	7.6
<b>All non-financial enterprises (100%)</b>	<b>-5.8</b>	<b>-2.9</b>	<b>-0.9</b>	<b>0.4</b>	<b>0.0</b>	<b>2.7</b>	<b>1.3</b>	<b>0.9</b>	<b>1.9</b>	<b>1.3</b>	<b>1.2</b>	<b>1.2</b>	<b>-11.9</b>	<b>2.0</b>	<b>5.9</b>

Forecast  
Source: INSEE

## French developments

further to reach 80.8%, after 80.2% in January. Similarly, the proportion of businesses encountering production bottlenecks has stabilised at a relatively high level (28% against 22% on average since 1978).

However, the slump in prospects should slow corporate investment to some extent. Surveyed in May, business leaders in industry and in services revised their business expectations slightly downwards: order books in industry are not quite so full and demand for services is not so positive.

The investment ratio should nonetheless continue to progress and should stand at 18.3% at the end of 2011.

### Slowdown in investments in non-energy industrial goods and in services

Increasing sharply since Q2 2010, investment in non-energy industrial goods should continue to grow throughout 2011, but at a more moderate rate (+2.5% in Q2 then +1.8% in Q3 and Q4). Order intentions for capital goods are still positive, according to the wholesalers surveyed in May.

Growth in other investments, mainly computer services and specialised activities, should tail off somewhat and return to a rhythm close to its trend (+1.5% from Q2 after +2.3% in Q1). Surveyed in May, business leaders in these sectors indicate a slowdown in activity over recent months, although prospects remain positive.

### Construction expenditure set to recover at the end of the year

Falling continuously since mid-2008, investment in construction is unlikely to recover until Q4 2011 (+0.2 % after a stabilisation in Q3 and -0.5% in Q2): investments in civil engineering should continue to pick up and, in parallel, other investments in construction should stabilise. Business prospects in civil engineering and building are indeed better oriented, and non-residential building starts have picked up over the last few months.

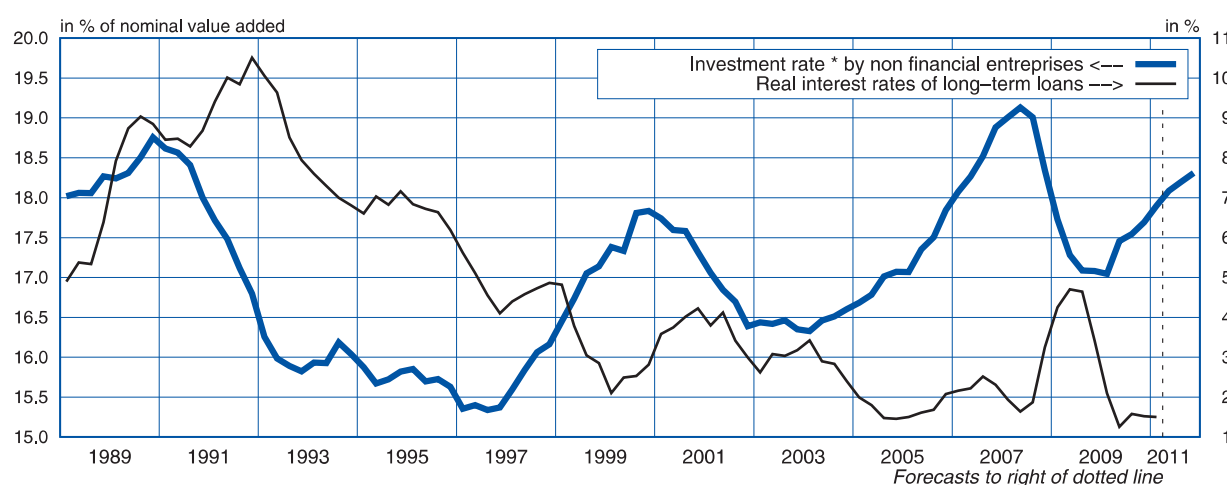
All in all, corporate investment should accelerate considerably in 2011: +5.9% as an annual average, after +2.0% in 2010. Investments in non-energy industrial goods (+12.5% after +8.3%) and other investments (+7.6% after +4.6%) should progress at a sustained pace. Expenditure on construction should slip back once again, but more moderately (-3.9% after -6.9%).

### Inventory change boosted growth in Q1 2011

In Q1 2011, inventory change made a strong contribution to growth in activity (+0.7 point, after -0.3 point in the previous quarter, see Table 2), mainly in non-energy industrial goods. This positive contribution is concentrated in transport equipment (+0.5 point), and to a lesser extent goods in other industrial sectors (+0.2 point) as well as coking and refinery (+0.1 point).

The increase in stocks in the transport equipment sector in Q1 2011 can mainly be explained by the sharp drop in foreign sales of aeronautical goods. Additionally, the rebound in imports of pharma-

## 1 - Investment rates and real interest rates of long-term loans



\* Investment rate is the ratio of the investment to nominal value-added

\*\* The self-financing ratio of non-financial corporations is the ratio of these non-financial corporations' savings to their investments.

Source: INSEE



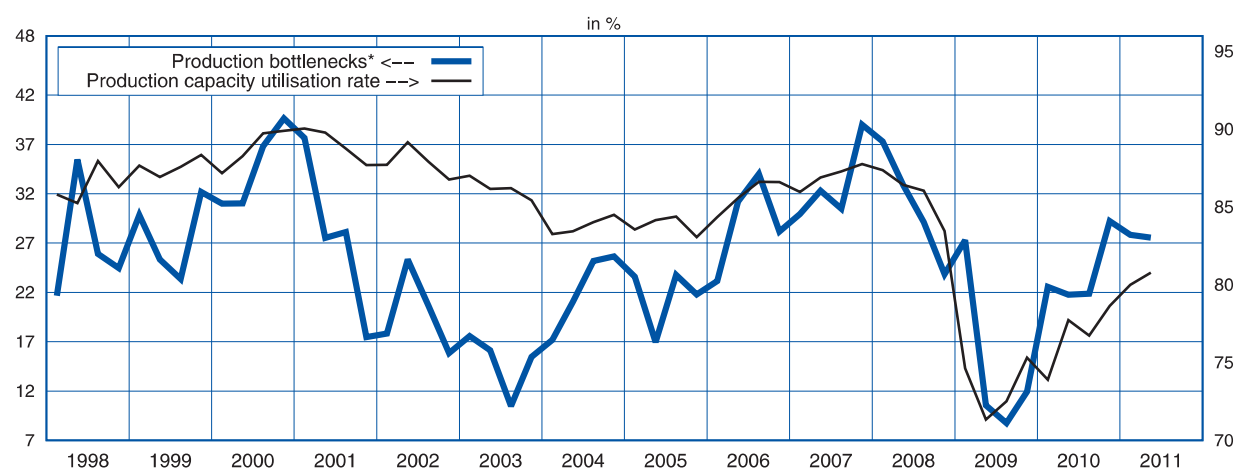
ceuticals contributed to the stocking-up trend observed in the other industrial sectors. Lastly, the large-scale restocking observed in the coking and refinery sector is essentially due to the exceptionally high level of output in Q1, after the strikes of last autumn.

are declining slightly, they are still positive and global demand expected by industrialists is maintained at a level well above average. Both these factors should encourage business leaders to continue rebuilding stocks. In H2 2011, the contribution of inventory change to growth should be nil. ■

### In Q2 2011, inventory change should sustain growth slightly.

Inventory should sustain growth somewhat in Q2 2011, mainly due to the continuing restocking trend in the manufacturing industry. In Q2 2011 industrialists say their inventory is higher than in Q1 2011. Additionally, although output perspectives

### 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 industrie

Table 2

### Contribution of inventory changes to growth

in GDP points

	2010				2011				Annual changes		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2009	2010	2011
<b>Agricultural and agrifood products</b>	-0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1	-0.1	0.0
<b>Manufactured products</b>	-0.2	0.2	0.2	-0.2	0.8	0.2	0.0	0.0	-1.1	0.6	1.0
including:											
Agricultural goods	-0.1	0.0	0.0	-0.1	0.0				0.1	-0.1	
Coke and petroleum products	0.1	-0.2	0.1	0.0	0.1				-0.2	0.0	
Machinery and equipment goods	0.1	0.1	-0.1	0.0	0.0				-0.2	0.2	
Transport equipment	-0.2	0.0	0.0	-0.1	0.5				-0.3	-0.1	
Others industrial goods	-0.1	0.3	0.1	0.0	0.2				-0.5	0.5	
<b>Energy, water and waste</b>	-0.1	0.1	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Other (construction, services)</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0
<b>TOTAL <sup>(1)</sup></b>	-0.4	0.3	0.4	-0.3	0.7	0.2	0.0	0.0	-1.2	0.5	1.0

Forecast

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

Source: INSEE

# Output

In Q1 2011, output of goods and services picked up strongly (+1.6%), after a sluggish Q4 2010 (+0.3%). This increase was far greater than anticipated in the March edition of *Conjoncture in France* (+0.8%). Activity in the manufacturing industry, most notably, saw an exceptional rebound (+3.4%), mainly due to certain sectors, in particular refining, catching up on output after the October strikes.

The business climate indicator climbed until April to its highest level for more than three years. It sagged slightly in May, although the 'France' turning-point indicator remained positive. According to the business tendency surveys among business leaders, output prospects have indeed weakened recently although they are still above their long-term average in both industry and services. In this context, output is unlikely to maintain its exceptional pace observed in Q1: it should slow in Q2 (+0.3%), and then pick up slightly in H2 (+0.5% then +0.6% respectively in Q3 and Q4).

Over the year 2011 as a whole, output should accelerate sharply (+2.8%, after +1.6% in 2010).

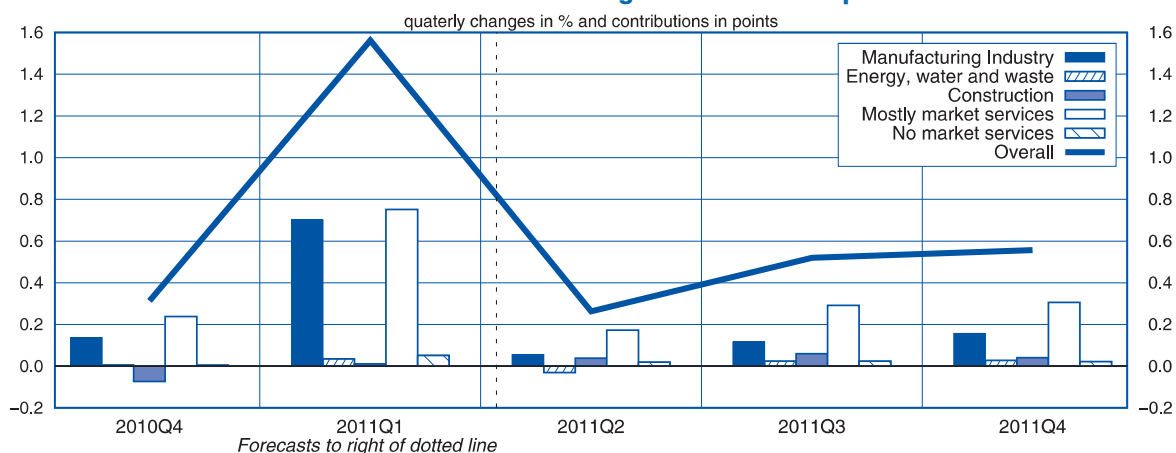
## Slowdown in output in Q2 2011

In Q1 2011, output of goods and services jumped sharply (+1.6% after +0.3% in Q4 2010). Manufacturing output in particular experienced an ex-

ceptional rebound: +3.4% after +0.7% in Q4 2011 (see Graph 1). Among other things, it benefited from the major catching-up effect in certain sectors which had been affected by difficulties in Q4 2010: the strikes at refineries had penalised energy output and the chemicals sector, while the poor weather conditions had taken their toll on the manufacture of building materials. Output also rebounded in the market services sector (+1.5%) and in trading (+1.5%), and the decline in construction came to an end (+0.1%, after -1.0% in the previous quarter). In the energy, water and waste sector, activity returned to sustained growth (+0.9%) due to the strong progress in industrial activity.

In Q2 2011, output should slow sharply (+0.3%). The France business climate indicator, built from business tendency surveys conducted among business leaders, fell slightly in May, to 108, a level that is nonetheless significantly higher than its long-term average (100) (see Graph 2). On the one hand, one-off catch-up factors which sustained growth in output in Q1 are unlikely to come into play in Q2. On the other hand, in industry and particularly the automobile sector, difficulties sourcing certain components following the earthquake of 11 March in Japan should slow certain production chains. In H2 2011, output should accelerate slightly (+0.5% then +0.6% respectively in Q3 and Q4). Indeed, activity prospects remain relatively positive in services and industry, albeit at a less sustained rate than at the start of the year.

1 - Sector contributions to growth in total output



Source: INSEE

All in all, output in all sectors should rise by +2.8% in 2011, after an increase of +1.6% in 2010.

### Manufacturing output sluggish after an exceptional Q1

Manufacturing output rebounded sharply in Q1 2011: +3.4%, after +0.7% in Q4 2010. This exceptional growth - the strongest for thirty years - was largely sustained by the coking and refinery sector (+24.7% after -17.6%).<sup>(1)</sup> In the capital goods and transport equipment sectors, output remained fairly strong in Q1 (+2.3% and +3.9% respectively), albeit down slightly from the previous quarter (+3.7% and +4.7%). In particular, automobile activity remained dynamic, still sustained by the trailing effects of the end of the scrappage allowance in December 2010. Output in the 'other industries' sector was also robust (+2.8% after +0.7%), due in particular to the catch-up effect in building materials. However, output remained sluggish in the agrifood industry, as in Q4 2010 (+0.3%, after +0.0%). All in all, the one-off re-

bound factors (the strikes and the 'cold' effect) accounted for more than two-thirds of the leap in manufacturing output in Q1 (see Table).

In Q2, manufacturing output should slow (+0.3%). Indeed, the composite business climate indicator has been falling gradually since April. In May, industrialists reported a slowdown in their output (see Graph 3). This is particularly the case of the automobile and coking-refinery sectors. Two explanations may be put forward for this. On the one hand, the catch-up effects observed in Q1 should come to an end. On the other hand, the automobile sector is likely to suffer a backlash following the end of the scrappage allowance. This sector may also be affected by sourcing problems following the earthquake in Japan which could slow down certain production chains.

Manufacturing output should then pick up again slightly to the time horizon of the forecast (+0.5% then +0.7% in Q3 and Q4 2011), as the personal output perspectives recently declared by entrepreneurs are still above their long-term average.

Over 2011 as a whole, industrial output should accelerate (+5.1%, after +4.3% in 2010).

(1) Owing to the weight of intermediate consumption in this sector, the impact on GDP is much smaller.

### Sector contributions to growth in manufactured products

contributions in points

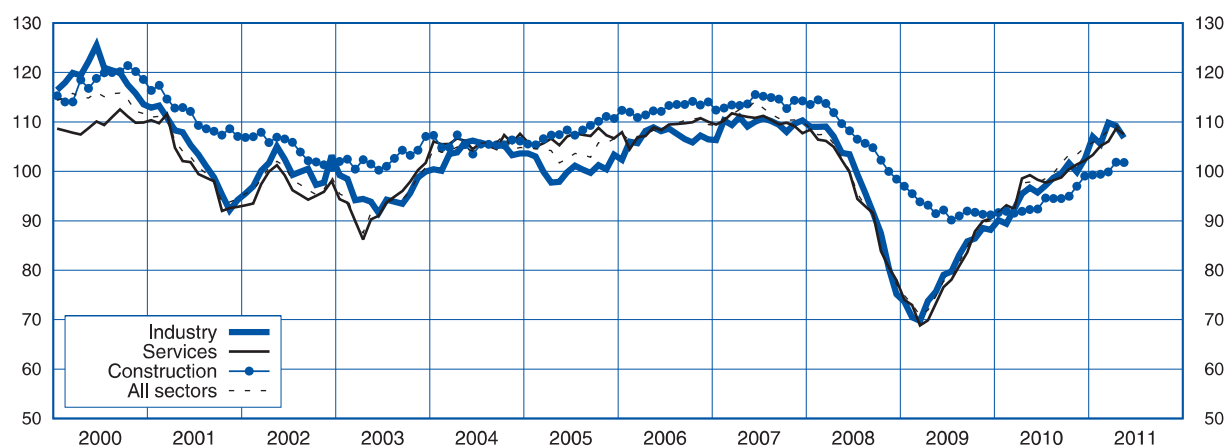
	2010 Q4	2011Q1
<b>Manufactured products</b>	<b>0.7</b>	<b>3.4</b>
Agricultural and agrifood product (C1) <sup>(1)</sup>	0.0	0.1
Coke and refined petroleum (C2)	-0.9	1.0
Machinery and equipment goods (C3)	0.5	0.3
Transport equipment (C4)	0.7	0.7
Other industrials goods (C5)*	0.3	1.3

(1) Note: The signs in parentheses indicate code A17 of the NAF Rev 2 classification.

\* This sector includes the manufacture of building materials, and chemicals

Source: INSEE

### 2 - Composite indicators in France: all sectors, in industry, services and construction



Source: INSEE

## French developments

### Upturn in construction activity

In Q1 2011, output returned to modest growth in the construction sector: +0.1% after -1.0% in Q4 2010. This upturn can partly be ascribed to the pick-up in civil engineering activity, mainly due to the catch-up effect following the poor weather conditions in Q4 2010. The pick-up in activity in construction should gather pace in Q2 2011, and output is set to accelerate (+0.5%). Despite order books that are still considered only moderately full in the latest surveys, building entrepreneurs do feel that their past output is more dynamic. In parallel, activity in civil engineering should continue to progress, as attested to by the perspectives declared by entrepreneurs in this sector (see Graph 4).

In H2 2011, construction activity is set to accelerate (+0.8% then +0.6%). Housing investment by households and businesses should indeed be more dynamic (see 'Household consumption and investment' and 'Corporate investment and inventory' notes).

All in all, output in the construction sector should remain stable in 2011 (-0.1%), after contracting sharply in 2010 (-5.6%).

### Market services: activity set to continue progressing until the end of the year, but at a slower pace than in Q1

Market service activity excluding trade surged in Q1 2011: +1.5% after +0.4% in Q4 2010. Activity picked up in virtually all sectors, especially in accommodation and catering (+1.3% after -0.2%), information and communication (+2.1% after +0.5%) and services to businesses (+1.9% after +0.5%). Only the transport sector saw a slow-down in activity (+0.3% after +0.4%).

Activity is likely to continue progressing in market services excluding trade up to the end of 2011, but at a slower rhythm than in Q1 (+0.5% in Q2 then +0.6% in Q3 and Q4). Business leaders surveyed in May report a stabilisation of the services market situation, after the very sharp improvement observed at the start of the year. In particular, entrepreneurs are expecting demand to drop off over the coming months. The composite business climate indicator has therefore fallen slightly and settled at 108 in May, a level which is nonetheless higher than its long-term average (100).

Over 2011 as a whole, output of market services excluding trade should grow by 3.0%, after a rise of 1.4% in 2010.

### Mainly non-market services: activity set to remain moderate until the end of 2011

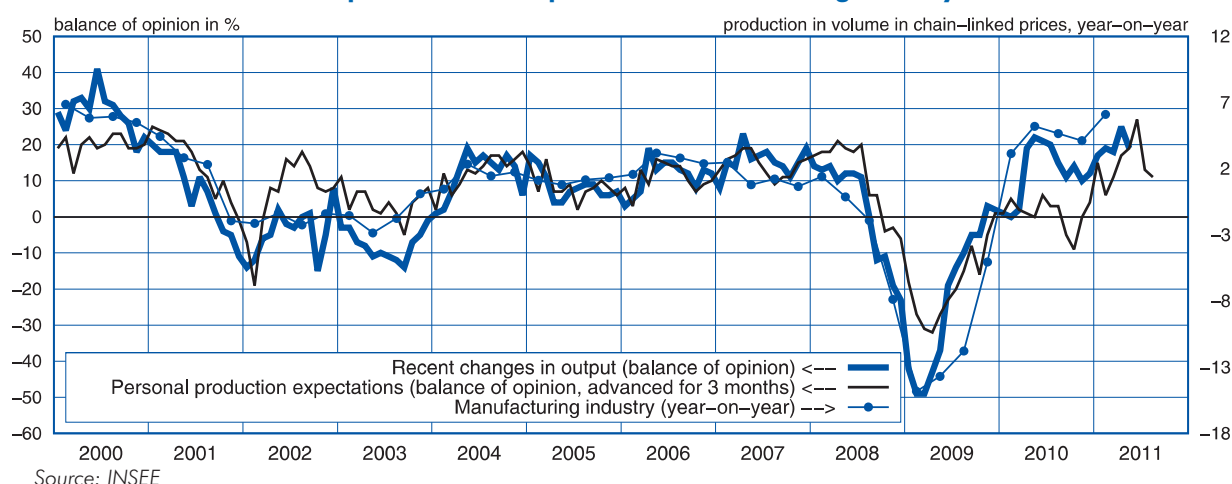
In mainly non-market services, output was sluggish once again in Q1 2011 (+0.3%). Growth is unlikely to progress much in Q2 (+0.1%) or within the forecasting period (+0.2% per quarter), as progress in government expenditure should remain moderate.

All in all, the output of this sector should increase by +0.7% in 2011, after a rise of +1.0% in 2010.

### Moderate growth in trade after the rebound in Q1

Trading activity rose sharply in Q1 2011 (+1.5% after +0.8% in Q4 2010). In the wholesale trade, the business climate showed renewed dynamism and the sales observed by business leaders over the first few months of the year were significantly higher than usual. In parallel, according to retail and automobile trade and repair entrepreneurs, sales

### 3 - Opinion about output in the manufacturing industry



were at higher levels than their long-term average during Q1, particularly in the automobile sector. This recovery can partly be ascribed to the robustness of household consumption expenditure on non-energy industrial goods in Q1 (+0.8%, see 'Household consumption' note).

In Q2 2011, trading activity should decline (-0.2%), owing to the sharp drop in household consumption expenditure on non-energy industrial goods in Q2 2011 (-1.5%). According to the wholesale entrepreneurs surveyed in May, the business climate is still positive but has levelled off somewhat: the rebound in sales observed in Q1 has tailed off slightly. In parallel, the business climate in retail and in automobile trade and repairs is stable in the surveys of April and May 2011: the composite indicator has remained slightly above its average level. While past and forecasted sales and order intentions in the food retailing industry remain vigorous, they are in sharp decline in the automobile trade, due to the end of the scrappage allowance. Trading activity should then gradually pick up over the forecasting period (+0.6% then +0.7% in Q3 and Q4), following the profile of household consumption expenditure on non-energy industrial goods

(+0.2% then +0.4% forecast for Q3 and Q4), and in line with the still-strong order intentions in the wholesale trade.

All in all, output in the trading sector should rise by +3.3% in 2011, after +2.9% in 2010.

### Return to an average growth rate in the energy, water and waste sector

Activity in the energy, water and waste sector (principally electricity and gas distribution) was sustained in Q1 2011 (+0.9%, after +0.1% in Q4 2010), carried by the dynamism of the industrial sector. It is likely to decline thereafter (-0.8% in Q2) because of the high temperatures in Q2, before returning to an average growth rate in H2 (+0.6% then +0.7% in Q3 and Q4). Over 2011 as a whole, output in this sector should grow by +1.4%, after an increase of +4.4% in 2010.

In the agricultural sectors, output picked up in Q1 2011 (+0.6%, after +0.1% in Q4 2010). It is now set to slow until the end of the forecasting period (+0.4% in Q2, then 0.3% in Q3 and Q4), penalised among other things by the drought. All in all, agricultural output should pick up in 2011 (+1.2%) after a downturn in 2010 (-1.2%). ■

### 4 - Expected activity in construction

