

France's international environment

Up to mid-2010, the advanced economies should continue to grow, although at a slower pace than in Q3. Their GDP should increase by an average of 0.4% over the next three quarters, after a rise of 0.5% in Q3. This slower growth can be attributed to the gradual decline of the impact of the stimulus packages, in particular with the after-effects of the scrappage allowances in Germany and the United States. World demand for French products is also likely to level off: it should progress by around 1.5% per quarter until mid-2010, after +2.4% in Q3.

The advanced economies rebounded in Q3

In Q3, the advanced economies enjoyed a return to growth after five quarters of recession. This rebound in activity, +0.5% after 0.0% in Q2, was the result of a marked rise in household demand. For example, consumption rose sharply in Japan and the United States, notably thanks to the support of the stimulus measures. In particular, the scrappage allowance implemented in the United

States for one month last summer generated a leap of 31% in American car registrations in Q3. Housing investment also progressed, particularly in the United States and the United Kingdom.

The advanced economies once again profited from the dynamism of imports by the main emerging countries. However, the rise in their activity also led to a rise in their own imports in Q3. For this reason, foreign trade weighed down slightly on growth of activity in Q2. Japan, a country where growth is highly dependent upon foreign trade, once again benefited from the dynamic imports by Asian countries, but also from the renewed growth in imports by the other advanced economies.

However, enterprises in the advanced economies continued to reduce their investment expenditure in Q3. Despite improved prospects in terms of trade outlets, they were still confronted with large production overcapacities and inventories they considered to be too high. Furthermore, credit award terms continued to get worse. Last, the commercial property market crisis, notably in the United States and in the United Kingdom, also weighed heavily on non-housing investment.

Industrialized countries: consolidated supply and use table

in real terms

	Quarterly changes, %										Annual changes, %			
	2008				2009				2010		2007	2008	2009	2010 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2				
GDP	0.4	-0.2	-0.6	-1.8	-2.0	0.0	0.5	0.5	0.4	0.4	2.4	0.3	-3.6	1.2
Private consumption	0.2	-0.4	-0.4	-0.7	-0.4	0.0	0.4	0.2	0.1	0.2	2.0	0.0	-1.0	0.5
Public consumption	0.5	0.6	0.7	0.6	0.0	1.0	0.4	0.7	0.7	0.6	1.8	2.3	2.1	2.2
Investment	-0.3	-1.0	-2.1	-4.4	-8.4	-2.8	-0.6	-0.4	0.1	0.6	1.3	-3.1	-14.9	-0.8
Exports	1.7	0.6	-1.1	-7.0	-10.4	-0.2	3.6	2.9	1.9	1.8	6.9	3.1	-14.7	7.1
Imports	0.8	-1.3	-0.1	-4.2	-10.0	-3.4	3.4	1.9	1.5	1.6	2.8	-1.1	-14.7	5.0
Contributions to GDP growth														
Domestic demand excluding inventories	0.2	-0.3	-0.6	-1.2	-1.6	-0.3	0.2	0.2	0.2	0.3	2.0	-0.1	-2.9	0.7
Inventories	0.1	-0.3	0.2	0.0	-0.5	-0.4	0.3	0.1	0.1	0.0	-0.1	-0.2	-0.7	0.2
Net exports	0.2	0.3	-0.2	-0.6	0.0	0.6	-0.1	0.2	0.0	0.0	0.5	0.6	0.1	0.3

Forecast

Sources: national statistical institutes; IMF; INSEE estimates

The effect of the stimulus plans should gradually wear off

In 2009, most governments in the advanced economies brought in stimulus plans which should continue to sustain activity within the forecasting horizon. However, the impact of these measures on growth should start to fade over the coming quarters. The main measures still likely to affect demand are those providing direct support for household purchasing power, the sectoral measures, and the increase in public investment expenditure.

In the United States, the measures to support purchasing power should maintain a strong impact until mid-2010. American households will likely continue to benefit from substantial tax credits; additionally, the eligibility periods for unemployment benefit have recently been prolonged and healthcare coverage for the unemployed has been extended. In Germany too, households should benefit from new income tax cuts in H1 2010. However, in the United Kingdom, the rise in the VAT rate planned for 1st January will likely weigh down on the purchasing power of British households. Lastly, in Spain, the distribution of cheques to the unemployed should provide some temporary support for households in Q4 2009; but the period of lower tax rates put in place in 2008 is set to come to an end in H1 2010, thus affecting purchasing power.

Sector-specific measures such as the scrappage allowances made their greatest impact on consumption in Q2 and Q3 2009. The after-effects of these measures, which came to an end during Q3 in the United States and Germany, are likely to take their toll on vehicle purchases. German automobile consumption in particular already experienced a sharp downturn in Q3. In Q4, the after-effect will probably continue in Germany and also weigh heavily on American household consumption. The extension of the scrappage allowance in Spain should postpone the after-effect by a few quarters and continue to sustain car registrations in that country. In the United States, the tax credit for house buyers, extended until Q2 2010, should also continue to shore up housing investment.

Last, the public investment expenditure programmed as part of the stimulus plans should continue to grow throughout the forecasting horizon. It will likely gather pace in the United States and increase at a sustained rate in Germany and Spain.

The financial markets have returned to normal but financing terms for private agents remain unfavourable

The interbank money markets returned fully to normal in Q3. For example, the risk premiums that banks charge to each other have returned to their level of early 2007 in the United States and are close to doing so in the euro zone. These premiums are measured by the rate spreads between the three-month loans granted to commercial banks and the three-month loans granted to States.

This normalisation of the money markets is gradually filtering through to the interest rates that banks offer households and businesses: they have dropped sharply since the high point reached after the bankruptcy of Lehman Brothers. Similarly, the number of banks that say they are tightening their financing terms has clearly diminished, although they are still in a majority in the United States and, to a lesser extent, in the euro zone.

The cost of corporate bond financing has stabilised since August. Both in Germany and in the United States, it is now below the level it was prior to the bankruptcy of Lehman Brothers, but is nonetheless higher than in early 2007.

All in all, financing conditions for businesses and households should continue to improve in Q4. However, they are set to remain far less favourable than they were before the crisis. The return to normal of the property markets, particularly in the United States and in the United Kingdom, should reduce the pressure on bank balance sheets and accelerate the return to normal of the financial system. Conversely, the increase in the number of defaults which has affected the financing of commercial property projects means there is still a risk of bank balance sheets deteriorating and hence of the financing terms granted to private agents becoming tighter.

The pick-up of world trade is being confirmed

In Q3 2009, international trade rebounded. In Q2, the resurgence of imports in emerging countries limited the contraction of world trade. In Q3, imports in the advanced economies in turn saw renewed growth, linked to the rebound of their domestic demand, while the foreign trade of emerging countries remained dynamic.

This rebound of world trade should continue in Q4, as attested to by the "export orders" component of the purchasing managers' survey. In November, these orders have continued to show marked growth in world trade. However, this growth is likely to slow gradually over the horizon of the forecast, in line with a slight slowdown in the activity of the main advanced economies.

Growth in the advanced economies is set to moderate somewhat

At the start of Q4 2009, companies in the advanced economies indicated that the business climate is still improving (Graph 1). In October, the purchasing managers once again reported an expansion of activity in both industry and services. However, GDP growth would appear to be slightly down on Q3, notably because the effect of the stimulus packages would seem to be fading. All in all, the GDP of the advanced economies seems set to grow by around 0.4% per quarter until mid-2010 (after +0.5% in Q3).

Adjustment of the factors of production appears to have come to an end

The adjustment of employment and demand in businesses underway since the start of the recession would appear to be less marked, mainly because trade outlets have continued to improve. In particular, employment has progressively stabilised in the United States, where businesses have almost completely restored their productivity. In countries where companies have widely used partial

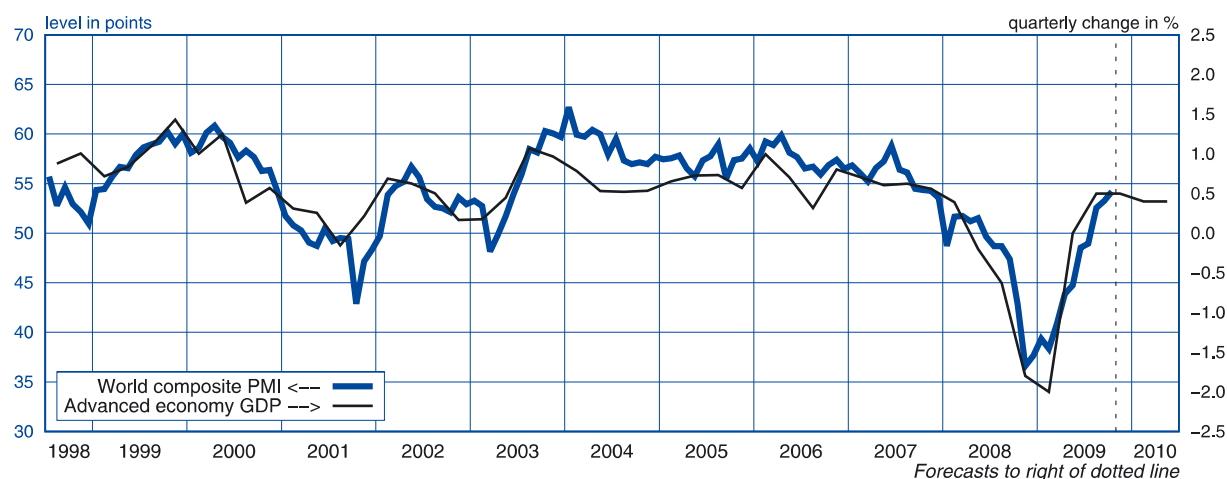
unemployment measures, such as Germany and Italy, employment should start to stabilise with the upturn in activity.

In parallel, the improved prospects of trade outlets and the easing of financing terms should encourage enterprises to stop reducing their stocks and to invest more. However, their demand is only likely to increase moderately because production overcapacity remains high and financing terms are still unfavourable, particularly for small enterprises whose financing mainly comes from banks.

Household demand showing moderate growth

After rebounding in Q3, household consumption in the advanced economies should grow more moderately by mid-2010. Indeed, household earned income will probably remain sluggish over the forecasting period, and inflation, although moderate, will likely weigh down on purchasing power. Furthermore, the impact of the stimulus measures should diminish in certain countries such as Spain, Japan and the United Kingdom. Last, the end of incentive measures which encouraged households to anticipate certain purchases is likely to produce a backlash on consumption. The expiry of the scrappage allowances should lead to a clear downturn in American car purchases in Q4 and should continue to affect German registrations in H1 2010. In the United Kingdom, the rise in the VAT rate on 1st January 2010 will likely sustain household consumption in Q4 as households will probably anticipate their purchases, but will also probably lead to a sharp downturn in consumption in Q1 2010.

1 - The recovery of the advanced economies is confirmed



Sources: Data Insight, Markit, INSEE calculations

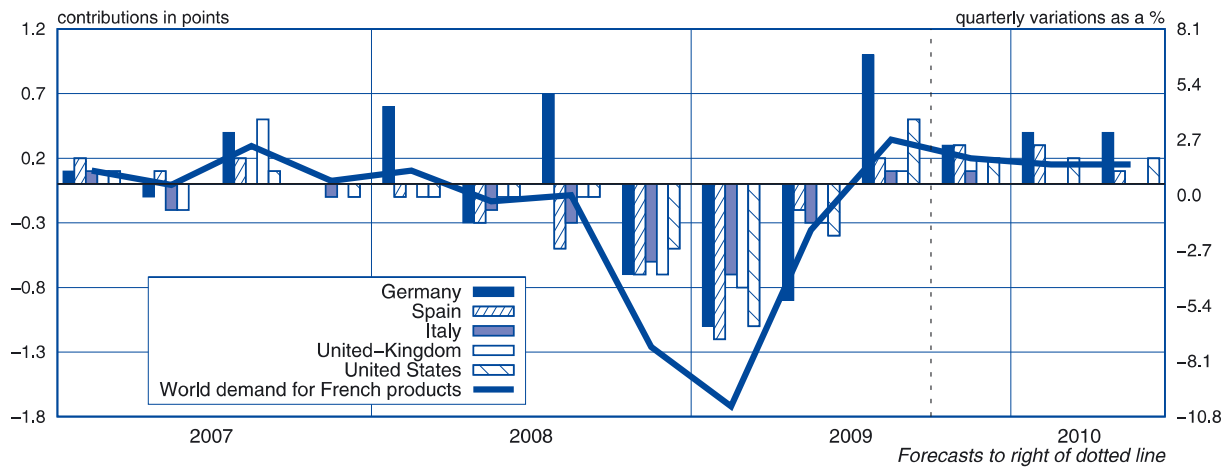
France's international environment

Rebound of world demand for French products

France should benefit from the dynamism of world trade in the period to Q2 2010 (see Graph 2). World demand for French products, that is, the imports of our trade partners weighted by their

importance in our exports, should continue to increase. However, growth in this respect should be more moderate than in Q3 2009, in line with the activity of our main trading partners. All in all, world demand for French products is set to grow over the forecasting horizon by around 1.5% per quarter, which is its long-term growth rate, after a rise of 2.4% in Q3. ■

2 - Rebound of imports by our main trading partners



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

Sources: Data Insight, INSEE calculations

Consumer prices

In October 2009, core inflation came down to 1.8% after 2.2% in July. It should remain stable until the end of the year and only come down slightly during H1 2010. On the one hand, two factors are still slowing down prices: the low level of demand and the high level of unemployment, keeping wage rises moderate. On the other hand, the prospects of a moderate rebound of activity should sustain the prices of raw materials. This increase combined with that of oil prices over the last few months should start to have a knock-on effect on the consumer prices of non-energy industrial goods.

Headline inflation, which rose to -0.2% in October, should rise to 1.0% in December 2009, then 1.5% in June 2010, mainly due to the pick-up of energy inflation. Additionally, application of the carbon tax on 1st January 2010 should bring headline inflation up by 0.3 of a percentage point.

Core inflation seems set to fall slightly in H1 2010, while headline inflation should rise sharply.

By the end of 2009, core inflation should stabilise at 1.8% year-on-year (see Table). Core inflation is measured by subtracting the prices of energy

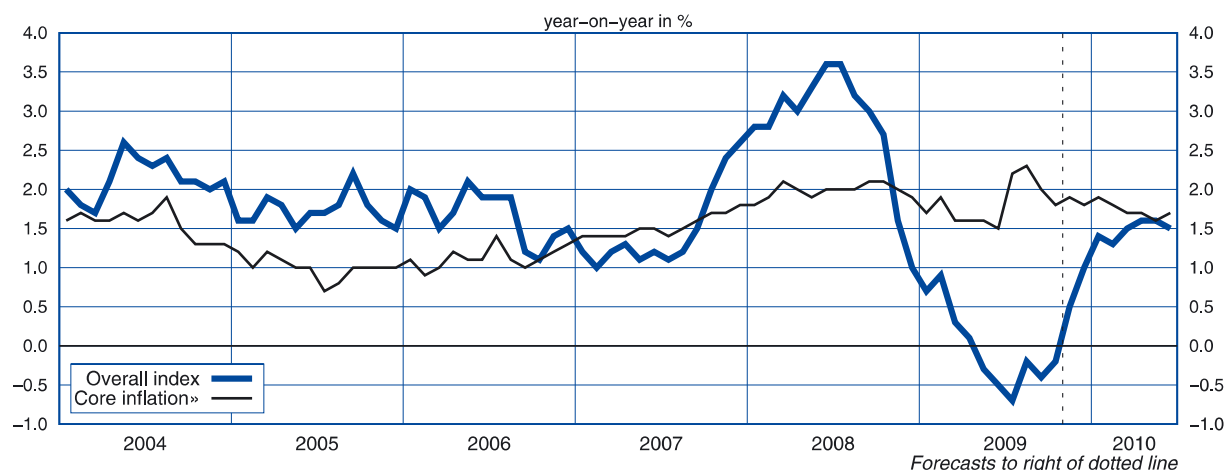
goods, seasonal food produce and public tariffs from the overall index and by correcting it for tax measures. It should barely fall in H1 2010, down to 1.7% by June (see Graph 1). Deflationary pressure is likely to continue to be exerted on prices: the level of demand is low and the rate of unemployment high, keeping wage rises moderate. Conversely, the resurgence of activity should bring about a rise in the prices of raw materials. This increase, along with that of oil prices underway since the start of the year, should gradually start to affect the consumer prices of non-energy industrial goods.

Headline inflation is set to rise sharply, reaching 1.0% at the end of 2009 (see Graph 2), notably because of the rise in oil prices. It should reach 1.5% year-on-year in June 2010, pushed up by the rise in the prices of energy goods and food products. Additionally, the application of the carbon tax on 1st January 2010 will likely contribute 0.3 of a point to inflation. This tax will be applied to fuel at the pump, domestic fuel and natural gas.

Inflation in non-energy industrial goods should stabilise in H1 2010

In October 2009, inflation in non-energy industrial goods fell to -0.2%, after 0.0% in June. The drop in

1 - Consumer prices in France



Source: INSEE

Consumer prices

the prices of Brent and industrial raw materials in H2 2008 is still forcing down inflation in non-energy industrial goods.

By June 2010, year-on-year prices of non-energy industrial goods should be stable at around -0.2% (see Table). The delayed effects of the collapse of Brent prices at the end of 2008 should be offset by those of the rebound in prices during Q2 2009. Additionally, the low level of demand is still weighing down on producer prices and is having a knock-on effect on consumer prices. Nevertheless, the rise in the prices of raw materials caused by the resurgence of activity should gradually spread to the prices of non-energy industrial goods.

Inflation in services should drop slightly

Between June and October 2009, inflation in services fell to 1.9% year-on-year. It should remain stable until the end of 2009 (see Table).

On 1st July, the VAT rate applied to the restaurant service was brought down from 19.6% to 5.5%. At present, around 30% of this cut has been transferred to prices in this sector (see box). Prices remained stable in September and October and no further transfer is expected. In the telecoms

services, the specific measures implemented to bring down prices started to produce effects in August and September: prices in this sector fell by 0.5% over two months. However, the prices of health services are likely to pick up at the end of the year and return to the average trends observed in the past.

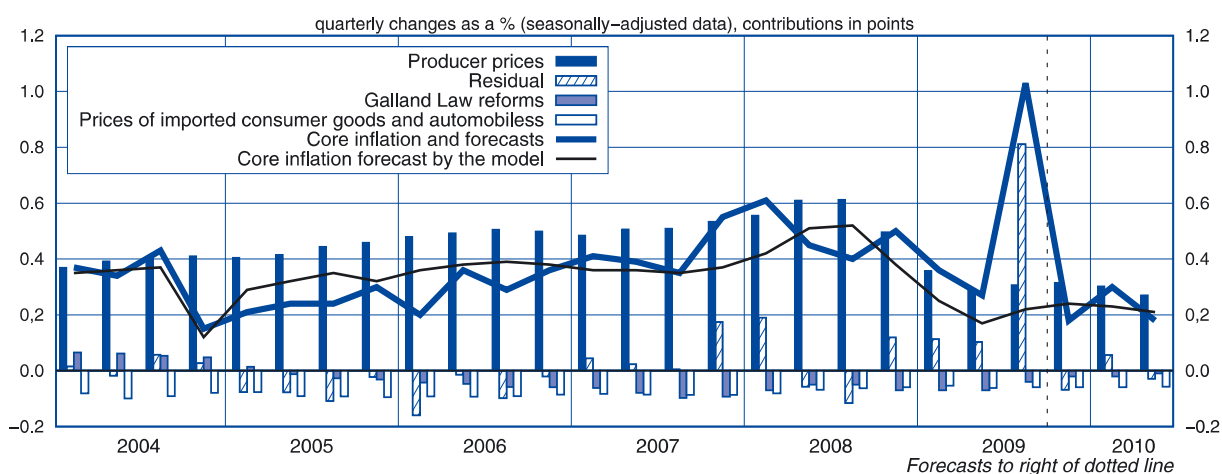
By mid-2010, year-on-year prices of services should fall back to 1.6%, among other things under the effect of the rise in unemployment and the subsequent moderation of wages.

Energy inflation should be sustained by the rise of oil prices and by the carbon tax

Year-on-year energy prices are likely to become positive once again at the end of the year, reaching 1.3% in December 2009 after -11.2% in October and -17.4% in June (see Table). This rise mainly reflects the increase in oil prices between end 2008 and end 2009 (see Graph 3).

In June 2010, energy inflation should rise to 6.8%. Application of the carbon tax on 1st January 2010 is likely to contribute 3.3 percentage points to this rise and 0.3 of a percentage point to the rise in headline inflation.

2 - Contributions to quarterly core inflation



How to read the chart: the thick curve represents quarterly core inflation, which depends on the quarterly growth in producer prices in the market sector and the prices of imported consumer goods and automobiles. A supplementary variable is introduced ("Galland law reforms") in order to take into consideration the price-lowering effects caused by the successive reforms of the Galland law, initiated at the end of 2004. The histograms represent the econometric contributions of the variables to core inflation. For example, in Q1 2009 core inflation was 0.36%; producer prices explain 0.36 point, and the "Galland law reforms" variable and the prices of imported consumer goods and automobiles contributed negatively (respectively, 0.07 and 0.05 point).

The contribution of the residual is therefore positive to 0.0 point for this quarter. The positive residual in Q3 2009 reflects the rise in VAT-exclusive prices in the restaurant sector.

Source: INSEE

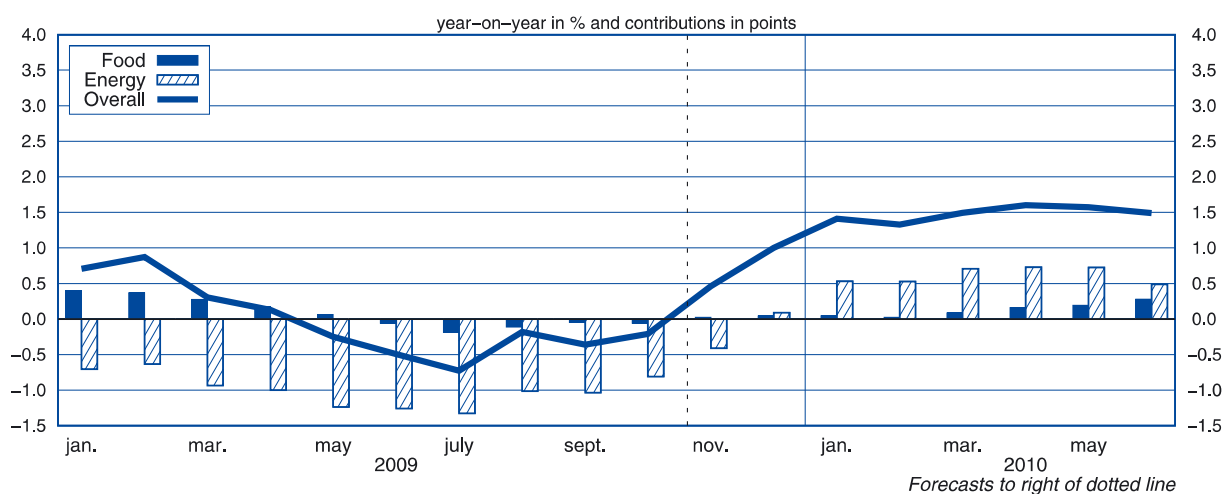
The rise in agricultural prices looks set to sustain inflation in food products

From June to October 2009, inflation in the food sector remained stable at -0.4% year-on-year. It should rise back to 0.3% at the end of the year. The highly favourable weather conditions in summer resulted in substantial production of seasonal food produce, while the demand for fruit and vegetables

was subdued. As a result, prices fell below the seasonal norms. Prices of seasonal food products should gradually be restored to more usual levels, which should bring about a rise in the year-on-year values.

In June 2010, inflation in this sector should pick up to reach 1.7% (see Table). The recent rebound of the prices of imported food commodities should also contribute to this price rise. ■

3 - Inflation in France: contribution of the main items



Source: INSEE

Consumer prices

changes as a % and contributions in points

CPI* groups (2009 weightings)	December 2008		June 2009		October 2009		December 2009		June 2010		Annual averages		
	ga	cga	ga	cga	ga	cga	ga	cga	ga	cga	2007	2008	2009
Food (16.5%)	3.2	0.5	-0.4	-0.1	-0.4	-0.1	0.3	0.0	1.7	0.3	1.4	4.9	0.4
Tobacco (1.7%)	0.6	0.0	0.8	0.0	0.3	0.0	6.4	0.1	6.1	0.1	2.6	3.9	1.4
Non energy industrial goods (31.5%)	0.1	0.0	0.0	0.0	-0.2	-0.1	-0.2	-0.1	-0.2	-0.1	0.0	0.3	0.0
Energy (7.2%)	-7.0	-0.6	-17.4	-1.4	-11.2	-0.8	1.3	0.1	6.8	0.5	1.7	10.8	-12.1
including: oil products (4.2%)	-14.9	-0.7	-26.1	-1.3	-16.6	-0.7	3.9	0.2	10.3	0.4	1.5	14.8	-19.3
Services (43.0%)	2.3	1.0	2.5	1.1	1.9	0.8	1.9	0.8	1.6	0.7	2.6	2.4	2.3
including: rent-water (7.4%)	2.5	0.2	2.9	0.2	2.6	0.2	2.4	0.2	2.4	0.2	3.5	2.5	2.8
health services (5.1%)	0.8	0.0	0.9	0.0	0.8	0.0	1.2	0.1	2.1	0.1	2.4	1.4	0.9
transport-communications (5.2%)	1.4	0.1	2.3	0.1	1.2	0.1	0.8	0.0	-0.2	0.0	0.6	1.6	1.7
other services (25.2%)	2.8	0.7	2.8	0.7	2.1	0.5	2.1	0.5	1.6	0.4	2.7	2.7	2.5
All (100%)	1.0	1.0	-0.5	-0.5	-0.2	-0.2	1.0	1.0	1.5	1.5	1.5	2.8	0.1
All excluding energy (92.8%)	1.7	1.6	1.1	1.0	0.8	0.7	1.0	0.9	1.1	1.0	1.5	2.1	1.2
All excluding tobacco (98.3%)	1.0	1.0	-0.5	-0.5	-0.2	-0.2	0.9	0.9	1.4	1.4	1.5	2.8	0.1
"Core" inflation (61.9%)(1)	1.9	1.1	1.5	0.9	1.8	1.1	1.8	1.1	1.7	1.1	1.5	2.0	1.8
All HCPI*	1.2	1.2	-0.6	-0.6	-0.2	-0.2	1.1	1.1	1.6	1.6	1.6	3.2	0.1

Forecast

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

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

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

Source: INSEE

Impact of the VAT cut in the restaurant sector

The VAT rate in the restaurant sector was cut from 19.6% to 5.5% on 1st July 2009. The new rate applies to a number of products, most of which are used to prepare a full meal.

If the VAT cut was passed on fully, the prices of the products concerned should fall by 11.8%, representing a drop of 6.7% in the cafés and restaurants sector bearing in mind the weighting of the products concerned in this item (among others, alcoholic drinks are excluded from the scope of this measure). This tax cut was accompanied by the withdrawal of the aid previously granted to the sector, so the actual transfer of the VAT cut could be lower than 100%.

Prices in this sector dropped in July (-1.1%), August (-0.2%) and September (-0.1%). They rose slightly in October (+0.1%). If there had been no VAT cut, it is estimated that prices in the sector would have progressed as in previous years, that is, a rise of 0.2% per month on average. So to judge the impact of the VAT cut, it is necessary to compare the cumulative drop in prices since (-1.3%) with the average rises in previous years over these same months.

All in all, the estimated drop in prices in the cafés and restaurants sector thus stands at 2.0%. This corresponds to a transfer to prices of around 30% of the VAT cut. ■

Employment

In H2 2009 and H1 2010, the non-agricultural market sectors are set to continue to suffer job losses. But the fall in employment should ease in line with the upswing in activity that started in Q2.

Over 2009 as a whole, non-agricultural market paid employment should fall by 451,000 jobs (after -145,000 jobs in 2008), then by 126,000 in H1. The employment level in the market sectors in mid-2010 should come back to the level of mid-2003. However, non-market paid employment is set to remain dynamic in H2 2009 (+51,000 jobs). In 2010, it should continue to grow, although less sharply because the number of beneficiaries of subsidised work contracts is likely to level off. All in all, 373,000 jobs are likely to be lost over 2009 as a whole and 109,000 in H1 2010.

quarter in Q2 and Q3, against double this figure in Q1.

Within the forecasting period, job losses are likely to continue but at a gradually slower rate (see Graph 1). The upturn in activity underway since Q2 2009 should gradually start to shore up employment, but is unlikely to be sufficient to stabilise it. Indeed, employment figures take time to adjust to variations in activity, so during economic recovery phases, employment only starts to recover after a few quarters.

As a result, employment in the market sectors should fall by 172,000 in H2 2009 and by 126,000 in H1 2010, after a drop of 279 000 jobs in H1 2009 (see Table 1). For example, the number of paid employees in the non-agricultural market sectors in mid-2010 should stand at its level of 2003 (see Graph 2).

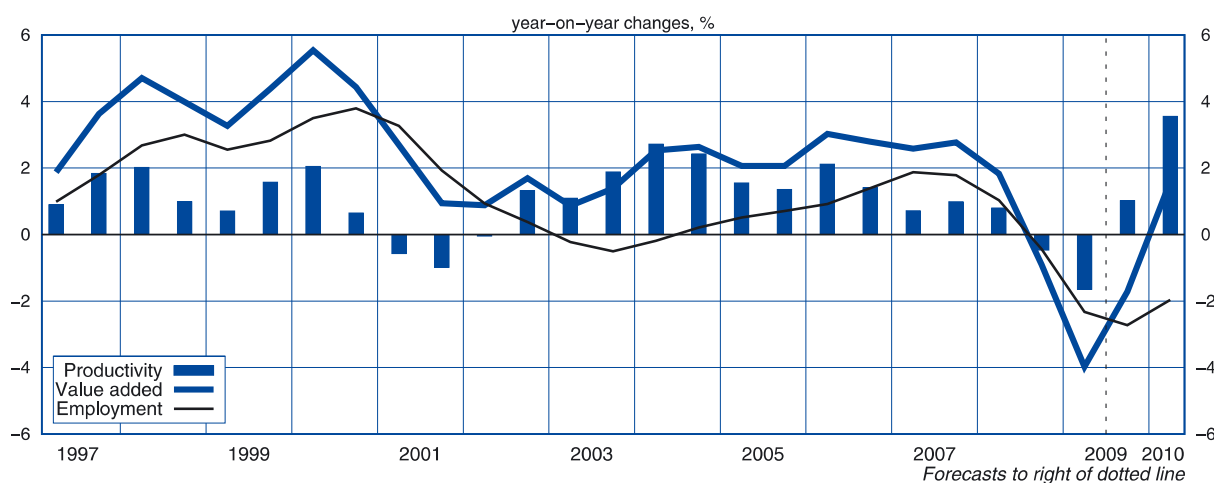
Fewer job losses in the market sector

Paid employment in the market sectors has dropped since Q2 2008. One year on, almost 400,000 jobs have been lost. This marked trend of job losses has eased since Q2, with market employment falling by more than 90,000 jobs per

Continuing job losses in industry

Industry is losing jobs structurally, but the recession has made this drop even sharper: 97,800 jobs were lost in H1 2009 alone, against 81,300 for the whole of 2008 (see Graph 3). The impact of the crisis on industrial employment would be even

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



Source: INSEE, quarterly accounts and employment estimates

Employment

greater if the fall in temporary employment were taken into account:⁽¹⁾ the number of temporary employees working in industry dropped very sharply in 2008 (-94,300 jobs) and in H1 2009 (-45 300).

The contraction of employment in industry should continue at the end of 2009 (-90,000 jobs in H2) and early 2010 (-63,000 in H1). The rebound of industrial activity should however result in an attenuation of job losses in this sector.

The construction industry still suffering from the crisis

Employment in construction started to suffer later than in the other sectors: the downturn in employment only began in Q4 2008. The adjustment of employment to the drop in activity is not over yet: for example, in Q3 2009 job losses accelerated once again in the construction industry (-16,100 after -11,800 in Q2). Over the forecasting period, employment in the construction sector should fall again (-30,500 and -24,400 respectively in H2 2009 and H1 2010). But this fall should level off as the downturn in this sector gradually eases (see "Production" note).

Employment in the market tertiary sector is set to continue to fall despite temporary employment getting back on track.

At the end 2008 and start of 2009, the adjustment of employment to the downturn in activity mainly took place via a drop in number of temporary

employees. These employees are counted as tertiary jobs, irrespective of the sector in which they carry out their assignments. Starting from 2008, temporary employment suffered a sharp drop (-92,900 jobs in H2 2008, then -84,800 in H1 2009). The tertiary sector excluding temporary work is likely to have lost jobs too, but to a lesser extent and only since the start of 2009 (-71,700 in H1 2009). In Q3 2009, temporary employment rose sharply. All in all, for employment in the market tertiary sector we forecast a drop in H2 2009 (-51,600) followed by a less pronounced fall in H1 2010 (-38,400 jobs).

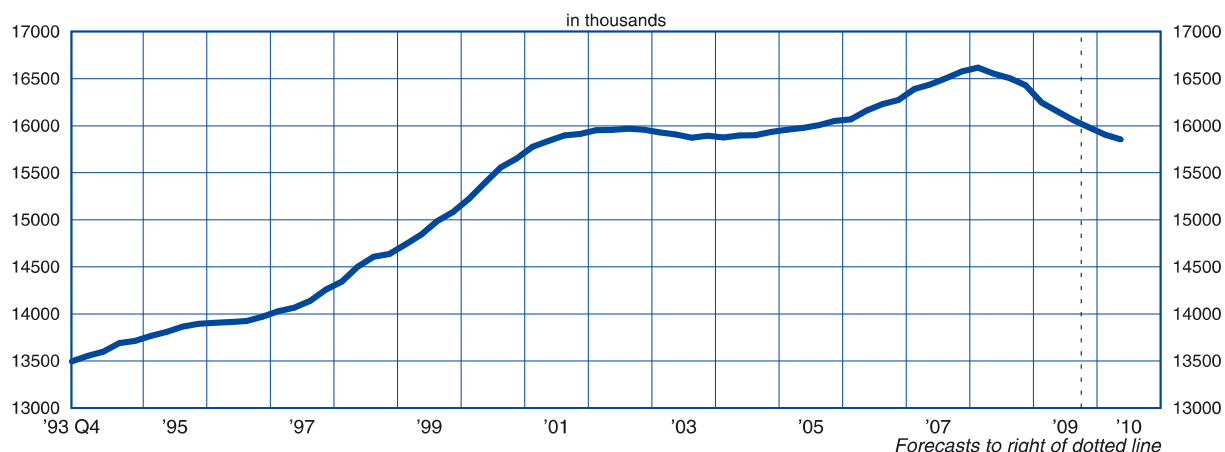
Conversely, the non-market sectors seem to be dynamic

In 2009, employment in the non-market sectors appears to have been very dynamic: 63,000 jobs created (after +30 000 in 2008). A large number of newcomers are forecast for the employment support contract (CAE), accentuated further by the creation in summer 2009 of a "gateway" CAE destined for young people. The number of beneficiaries of subsidised work contracts in the Social Cohesion Plan (CAE and the future contract - CAV) is likely to have progressed sharply by the end of 2009, whereas it had dropped in 2007 and 2008 (see Table 2). Additionally, private employment in the non-market sectors and non-subsidised public employment should grow in 2009.

In H1 2010, non-market employment should still grow, but at a less sustained rate than in the previous half-year: +9,000 jobs. Private employment in these sectors should increase further, while subsidised employment is set to level

(1) Temporary employees are indeed counted in the tertiary sector. See below

Non-agricultural market paid employment



Source: INSEE, employment estimates

off. In the year 2010, the single integration contract is to be implemented in the non-market sector (CUI-CAE), grouping together the CAE and the CAV. The number of people benefiting from one of the CUI-CAE contracts should remain stable in H1 2010, as the number of new employees forecast for CUI-CAE in 2010 is equivalent to that forecast for 2009. ■

Table 1

Change in employment

	Job creations over the period (in thousands) seasonally adjusted				Change in employment over the period (%) seasonally adjusted				Level at the end of the period (in thousands) seasonally adjusted			
	2008	2009 S1	2009 S2	2010 S1	2008	2009 S1	2009 S2	2010 S1	2008	2009 S1	2009 S2	2010 S1
Competitive sector employees (1)+(2)	-100	-266	-150	-108	-0.5	-1.5	-0.8	-0.6	18265	17999	17848	17741
Mainly non-agricultural market sectors (1) including:	-145	-279	-172	-126	-0.9	-1.7	-1.1	-0.8	16431	16152	15980	15854
Industry :	-81	-98	-90	-63	-2.3	-2.8	-2.6	-1.9	3513	3415	3325	3262
including:												
Manufacturing industry	-82	-100	-85	-56	-2.5	-3.2	-2.8	-1.9	3142	3042	2957	2902
Construction	9	-25	-30	-24	0.6	-1.7	-2.1	-1.7	1481	1456	1425	1401
Tertiary market sector	-72	-157	-52	-38	-0.6	-1.4	-0.5	-0.3	11437	11281	11229	11191
including												
Commerce	10	-34	-54	-22	0.3	-1.1	-1.8	-0.8	3018	2984	2930	2908
Market services (including temping)	-134	-141	-6	-39	-1.9	-2.1	-0.1	-0.6	6734	6594	6588	6549
Mainly non-market sectors (2) (private establishments only)	44	14	21	18	2.5	0.7	1.2	1.0	1834	1847	1869	1887

	Job creations over the period (in thousands) seasonally adjusted				Change in employment over the period (%) seasonally adjusted			
	2008	2009 S1	2009 S2	2010 S1	2008	2009 S1	2009 S2	2010 S1
Mainly non-agricultural market sectors	-145	-279	-172	-126	-0.9	-1.7	-1.1	-0.8
Agricultural employees	-10	0	0	0	-3.6	0.0	0.0	0.0
Mainly non-market service sectors (including private establishments)	30	12	51	9	0.4	0.2	0.7	0.1
Self-employed	15	8	8	8	0.6	0.3	0.3	0.3
TOTAL EMPLOYMENT	-109	-260	-114	-109	-0.4	-1.0	-0.4	-0.4

Forecast

(1) Sectors OQ private

(2) Sectors DE to MN and RU

How to read the table: 150,000 jobs are set to be lost in the market sector during H2 2009.

Source: INSEE

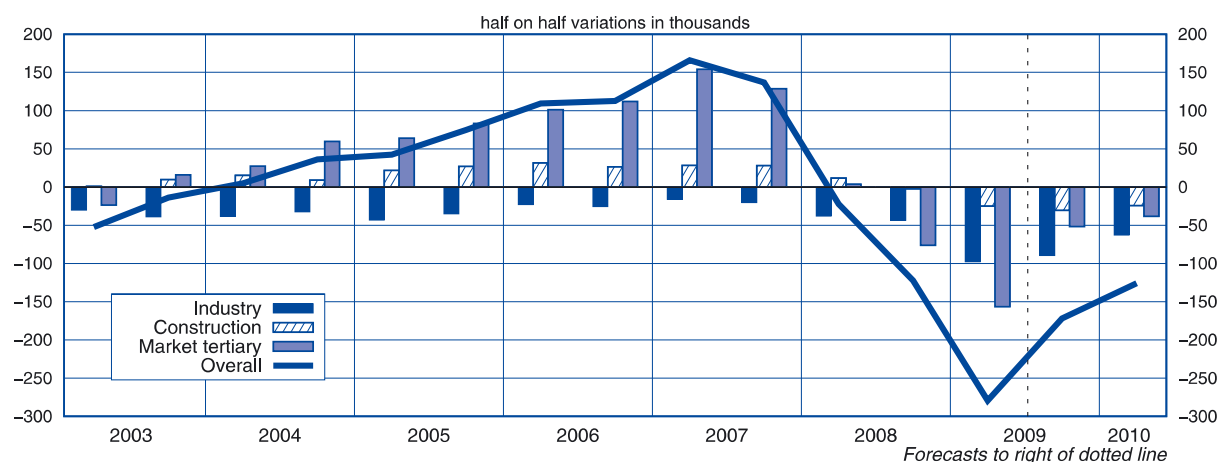
Employment

Table 2
Variation in the number of beneficiaries of subsidised contracts in the non-market sector

	<i>In thousands</i>				
	2006	2007	2008	2009	2010 S1
Employment and solidarity contracts	-21	-	-	-	-
Contrats emploi consolidé	-36	-19	-1	0	0
Non-market single integration contract	105	-4	-58	51	1
Contrats d'accompagnement dans l'emploi	45	-17	-48	54	-
Contrats d'avenir	60	13	-10	-3	-
Youth employment contracts	-25	-19	-4	-3	-1
Total	23	-41	-63	48	0

Forecast
Scope: Metropolitan France
Source: DARES, INSEE calculation

Changes in paid employment in the non-agricultural market sectors



Source: INSEE, employment estimates

Wages

In 2009, the basic monthly wage (SMB) experienced a slowdown: it appears to have increased by 2.2% after +3.0% in 2008, owing to the drop in inflation and the rise in unemployment. The average wage per head (SMPT) should also have slowed (+1.7% after +3.0% in 2008), with this slowdown including a drop in bonuses. This moderate growth is likely to continue in H1 2010. In real terms, wages are likely to have followed the opposite path, as price fluctuations are transferred with a time delay: +2.4% for the SMB in 2009 after +0.2% in 2008, and +1.9% for the SMPT after +0.2% in 2008. Conversely, at the start of 2010, growth of real wages should slow down sharply, owing to the pick-up of inflation from the end of 2009. At the end of Q1, the growth overhang should be virtually nil for the SMB and the SMPT (-0.1%). In general government, the average wage per head should also slow down considerably (+1.1% in 2009 against +2.6% in 2008). However, as in the market sector, the real SMPT in general government should accelerate (+1.3%) after the slight drop in 2008 (-0.2%). At the start of 2010, it is set to accelerate again in nominal terms but slow down in real terms.

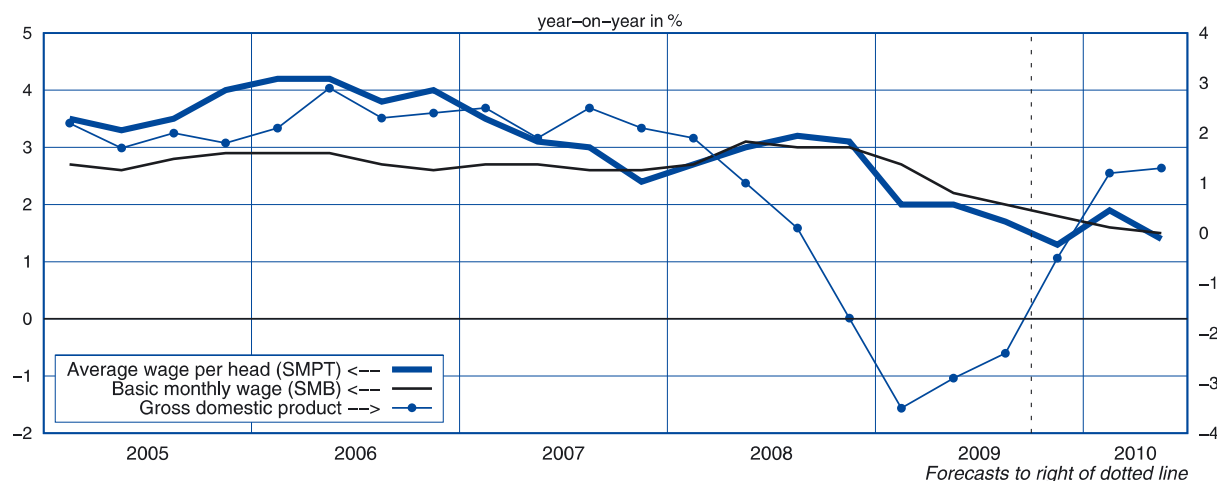
Nominal wages slowing down in 2009...

In 2009, the nominal basic monthly wage (SMB) is unlikely to have progressed as fast as in 2008 (+2.2% after +3.0%, see *Table and Graph*). On the one hand, the continuing deterioration of the labour market (see “*Employment*” and “*Unemployment*” notes) should have a negative effect on wages. On the other hand, the rise in nominal wages should be lower because of the sharp slowdown in prices observed since mid-2008 (see “*Consumer Prices*” notes).

In particular, the virtual stability of prices in 2009 limited the upgrade of the minimum wage on 1st July. This upgrade notably takes account of changes in prices from May to May. In this way, the minimum wage only increased year-on-year by 1.3% on 1st July 2009, against 3.2% on 1st July 2008.

Similarly, the average wage per head (SMPT) is likely to have slowed in 2009 (+1.7% against +3.0% in 2008). Aside from the negative effects of the rise in unemployment and the fall in inflation,

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



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

slowing both the SMPT and the SMB, the results-related bonuses paid in Q1 in the tertiary sector dropped sharply; notably, financial companies paid their executives lower bonuses in early 2009 than in previous years.

... but real wages rising sharply

In real terms, wages should accelerate very sharply in 2009: the SMB is set to increase by 2.4%, after +0.2% in 2008, and the SMPT by 1.9% after +0.2% in 2008. In 2009, nominal wages should slow less sharply than inflation, owing to the partial and delayed indexation of wages to prices. Real wages should therefore once again grow more strongly than in the previous year.

At the start of 2010, growth in wages should be very moderate

In H1 2010, nominal wages are likely to increase at a slightly slower rate than in the previous half-year. The rise in unemployment, although not as great as in H2 2009, should continue to weigh down on wages. Similarly, the drop in inflation which occurred in 2009 should have an effect on the progress of wages in early 2010. Conversely, starting from 2010, the minimum wage will be upgraded on 1st January. The increase, which would be around 0.35% if the strict upgrade according to the growth of inflation and workers'

wages were applied, should therefore sustain growth in wages somewhat over H1. All in all, the growth overhangs in H1 2010 should be positive: +1.2% for the SMB and for the SMPT.

However, in real terms wages are likely to be slowed by price increases which are set to continue in early 2010. Therefore, for 2010, the growth overhangs at the end of H1 are likely to be very low: -0.1% for both the SMB and the SMPT.

General government wages slowing down in 2009

In parallel to the rise in the minimum wage, the minimum civil service index increased by 2 points on 1st July 2009. Additionally, the civil service index point was upgraded by 0.5% in July 2009, then by 0.3% in October. Last, the general purchasing power guarantee (GIPA) should be renewed at the end of the year. Despite these measure, the SMPT in general government seems set to grow less quickly in 2009 than in 2008 (+1.1% after +2.6%); but in real terms, it should accelerate thanks to the drop in inflation (+1.3% after -0.2% in 2008).

The trend should be reversed in early 2010: the nominal SMPT in general government should accelerate slightly and the real SMPT should slow sharply. At the end of Q2 2010, the growth overhang should be +1.6% for the nominal SMPT and +0.3% for the real SMPT. ■

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

Seasonally-corrected data	change as a %						Annual averages		
	Quarterly growth rates								
	2009				2010		2008	2009	2010 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2			
Basic monthly wage (SMB)	0.5	0.4	0.4	0.4	0.3	0.3	3.0	2.2	1.2
Average wage per head (SMPT)									
- in the non-agricultural market sector (NAMS)	-0.4	0.8	0.5	0.3	0.3	0.3	3.0	1.7	1.2
- in general government (GG)	-	-	-	-	-	-	2.6	1.1	1.6
Household consumer price index	-0.3	-0.1	0.2	0.3	0.7	0.3	2.8	-0.2	1.3
Real basic monthly wage	0.8	0.5	0.2	0.1	-0.4	0.0	0.2	2.4	-0.1
Real average wage per head (NAMS)	-0.1	0.9	0.3	0.0	-0.4	0.0	0.2	1.9	-0.1
Real average wage per head (GG)	-	-	-	-	-	-	-0.2	1.3	0.3

Forecast
Sources: Dares, INSEE

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

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

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

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

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

Household income

In 2009, the purchasing power of household income accelerated: it rose to +2.2%, after +0.7% in 2008. This dynamism was due to the sharp drop in inflation. Indeed, the gross disposable income (GDI) of households slowed down clearly this year: it suffered from the sharp slowdown in earned income and income from property, due to the recession. However, household income was sustained by the built-in stabilisers and by the stimulus measures which dampened the impact of the recession.

In H1 2010, purchasing power should slow down sharply (+0.5% on average over the half-year after +1.2% in H2 2009), due to the rise in inflation. The GDI should grow at the same rate as in late 2009, as should earned income. On the one hand, the taxes paid by households should fall once again with the compensation for the new carbon contribution, but less so than at the end of 2009. On the other hand, social benefit amounts should slow.

Earned income should progress slightly in H1 2010

In 2009, the economic crisis took its toll on earned income, which stagnated (-0.1% after +3.4%; see Table 1). On the one hand, the total wages of households slowed sharply (+0.1% after +3.3% in 2008, see Table 2): they dropped in particular at the start of the year in the non-agricultural market sectors (see Graph 1) under the effect of the sharp drop in paid employment ("Employment" note). On the other hand, the gross operating surplus (GOS) of sole proprietors⁽¹⁾ diminished (-1.1% after +4.2% in 2008) with the downturn in activity.

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

Table 1

Household gross disposable income

change as a %

	Half-yearly averages					Annual averages		
	2008		2009		2010	2007	2008	2009
	H1	H2	H1	H2				
Gross disposable income (100%)	1.7	0.9	0.7	1.5	1.5	5.2	3.5	1.9
including :								
Income (68%)	1.9	0.9	-0.6	0.1	0.3	4.5	3.4	-0.1
Gross wages (58%)	1.8	1.1	-0.5	0.2	0.3	4.4	3.3	0.1
GOS of sole proprietors (10%)	2.7	0.0	-0.9	-0.5	0.5	4.9	4.2	-1.1
Social benefits in cash (30%)	1.6	2.2	2.5	2.5	2.2	3.6	3.5	4.9
GOS of "pure" households ⁽¹⁾ (14%)	1.8	1.5	0.6	1.9	2.2	8.1	4.3	2.3
Property income (10%)	2.1	0.5	-0.8	1.0	1.7	3.9	3.2	0.0
Social contribution and tax burden (-23%) ⁽¹⁾	2.3	2.5	-1.5	-1.6	-0.8	2.1	3.5	-1.1
Contributions by paid employees (-8%)	0.7	0.6	0.1	0.5	0.3	3.6	1.6	0.6
Contributions of self-employed persons (-2%)	2.8	0.3	2.4	0.8	-0.1	2.0	3.8	3.0
Income and wealth tax (including CSG and CRDS) (-13%)	3.3	4.1	-3.0	-3.3	-1.7	1.3	4.6	-2.7
Income before taxes	1.9	1.3	0.3	1.0	1.2	4.7	3.6	1.4
Household consumer prices (quarterly national accounts)	1.7	0.6	-0.7	0.4	1.0	2.1	2.8	-0.2
Purchasing power of gross disposable income	-0.1	0.3	1.4	1.2	0.5	3.0	0.7	2.2

Forecast

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

(1) Households except sole proprietors.

Source: INSEE

In H1 2010, earned income should pick up slightly (+0.3% on average over H1 after +0.1% in H2 2009), in the wake of the GOS of sole proprietors.

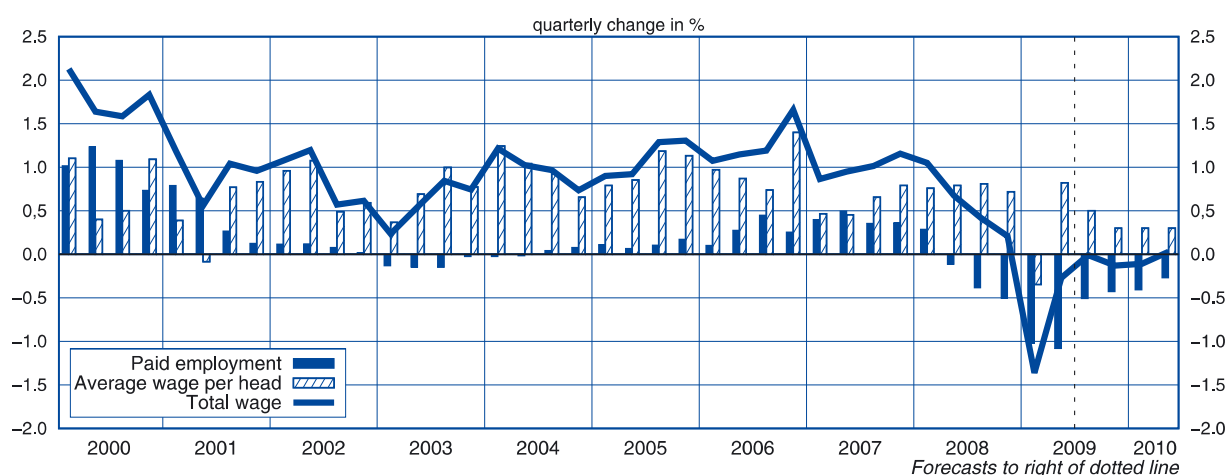
Social benefits should slow somewhat in early 2010

In 2009, social benefits in kind were very dynamic (+4.9% after +3.5% in 2008; see Table 3). In particular, social assistance benefits are likely to have increased sharply (+11.4% after -3.4% in 2008). Households benefited among other things from the payment of two one-off bonuses as part of the stimulus package: the active solidarity bonus paid in April and the €150 bonus paid to

beneficiaries of the return-to-school grant in June. Last, the active solidarity income was implemented in June. Additionally, social security benefits progressed in 2009 (+4.7% after +4.2% in 2008): unemployment benefit increased sharply owing to the deterioration of the labour market.

In H1 2010, growth of social benefits should return to its average trend (+2.2% after +2.5% in H2 2009). On the one hand, social security benefits are set to slow down, in particular unemployment benefits, as the labour market deteriorates less sharply. But on the other hand, social welfare benefits should accelerate after the after-effects in late 2009 of the one-off bonuses paid last spring.

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



Source: INSEE

Table 2
From non-financial enterprise payroll to wages received by households

	change as a %							
	Half-yearly averages					Annual averages		
	2008		2009		2010	2007	2008	2009
	H1	H2	H1	H2	H1			
Non-financial enterprises (67%)	2.1	1.0	-1.5	-0.2	-0.2	4.8	3.8	-1.1
including : Average wage per head	1.7	1.7	0.3	1.1	0.6	3.2	3.3	1.7
Financial corporations (5%)	-0.7	-1.0	3.3	0.5	0.5	3.4	-0.7	3.0
General government (23%)	0.9	1.2	1.2	0.8	1.2	2.9	2.1	2.2
Households excluding sole proprietors (2%)	2.8	3.2	3.1	2.7	2.5	7.9	6.1	6.1
Total gross wages received by households (100%)	1.8	1.1	-0.5	0.2	0.3	4.4	3.3	0.1
including : Non-agricultural market sectors	2.0	0.9	-1.4	-0.2	-0.2	4.6	3.5	-0.1

Forecast

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

Source: INSEE

Household income

The tax burden should continue to fall in early 2010

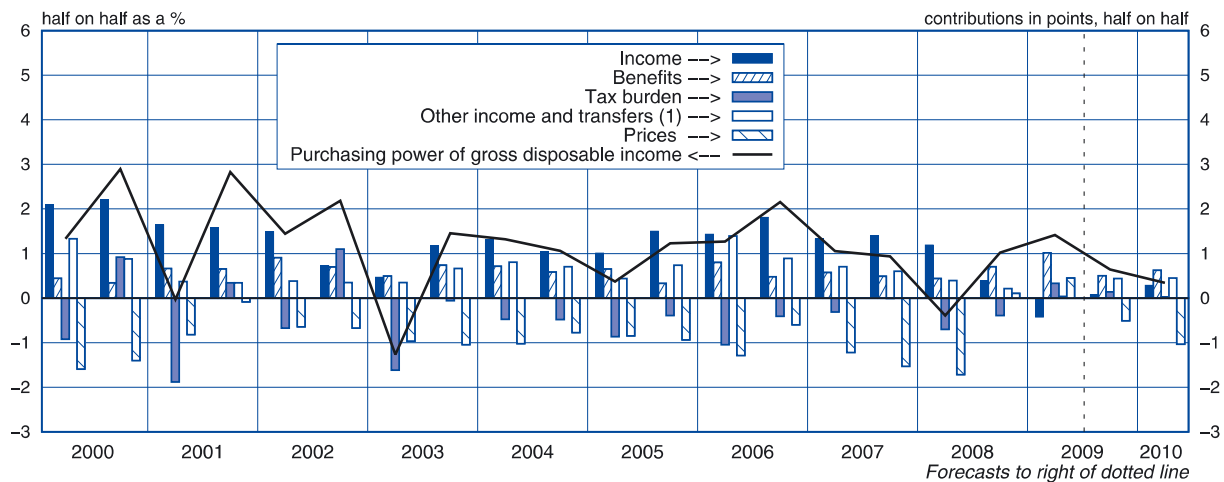
The tax burden dropped in 2009 (-1.1% after +3.5% in 2008). The taxes paid by households fell sharply (-2.7% after +4.6% in 2008). The drop in income tax (IRPP) is the result on the one hand of the fall in their income in 2008 and on the other hand of the effects of the stimulus plan,⁽²⁾ as well as the dividend taxation reform.⁽³⁾ Additionally, the contributions paid by employees in 2009 did not progress as much (+0.6% after +1.6%), under the effect of the slowdown in total wages. The contributions paid by the self-employed also saw a slowdown (+3.0% in 2009 after +3.8% in 2008).

In H1 2010, the tax burden should drop further, but less than at the end of 2009 (-0.8% after -1.6% at end 2009). The taxes paid by households should continue to fall (-1.7% after -3.3%), since at the start of the year households will receive the full compensation for the new carbon tax.

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

(3) The measure introducing lump-sum taxation of dividends at source made it possible to make early payment of the tax that would have been due in 2009 in 2008: the tax was therefore collected twice in 2008 and the amount collected will return to usual levels in 2009

2 - Purchasing power of available income and contributions



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

Comment: these contributions are calculated "excluding accounts restatement of the tax credit".

Source: INSEE

Table 3

The social transfers received and paid by households

	change as a %								
	Half-yearly averages						Annual averages		
	2008		2009		2010		2007	2008	2009
	H1	H2	H1	H2	H1				
Social cash benefits received by households (100%)	1.6	2.2	2.5	2.5	2.2	3.6	3.5	4.9	
Social Security benefits in cash (71%)	2.0	2.3	2.0	2.9	2.1	3.9	4.2	4.7	
Private funded social benefits (7%)	0.5	2.7	0.6	4.0	2.9	1.6	2.5	4.0	
Unfunded employee social benefits (14%)	2.1	1.6	1.1	1.4	1.6	5.9	4.4	2.6	
Social assistance benefits in cash (8%)	-2.6	1.1	11.4	-1.3	3.3	-0.5	-3.4	11.4	
Total social contribution burden	1.7	0.6	0.1	0.6	0.4	3.5	2.8	0.7	
Actual social contributions paid by households (100%)	1.6	0.5	-0.1	0.5	0.2	3.4	2.6	0.4	
including : Employers contributions ⁽¹⁾ (64%)	1.9	0.4	-0.5	0.5	0.2	3.5	2.9	0.0	
Employees contributions (29%)	0.7	0.6	0.1	0.5	0.3	3.6	1.6	0.6	
Self-employed contributions (7%)	2.8	0.3	2.4	0.8	-0.1	2.0	3.8	3.0	

Forecast

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

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

Source: INSEE

An uneven profile for purchasing power at the beginning of 2010, due to the carbon tax

In 2009, nominal gross disposable income (GDI) slowed sharply (+1.9% after +3.5% in 2008). But this slowdown should be more than offset by the clear fall in inflation (-0.2% after +2.8% in 2008), making purchasing power accelerate (+2.2% after +0.7% in 2008). Purchasing power per consumption unit, which takes account of demographic changes, also saw an upturn in 2009: it should reach +1.5%, after remaining stable in 2008 (see box).

In H1 2010, household income should progress by 1.5%. With inflation on the up once again, purchasing power should slow significantly (+0.5% after +1.2% in H2 2009).

Quarter by quarter, the profile of purchasing power should be particularly uneven under the effect of implementation of the carbon tax and its

compensation in early 2010. The scheme involves financial compensation in a single payment to households at the start of the year, so that they can cope with payment of the tax throughout 2010. In this context, the purchasing power of households should progress significantly in Q1 (+0.7%), then drop by 0.3% in Q2. Therefore, the implementation of the tax itself should push prices up by 0.3 point in Q1 (see Table 4). In Q1 2010, households should receive the full amount of the annual compensation planned for 2010, for a total of €2.7 bn. This payment should sustain household income by 0.8 point in Q1 and, as an after-effect, should slow it by 0.8 point in Q2. Over 2010 as a whole, this measure should have a neutral effect on the purchasing power of households.

All in all, excluding implementation of the carbon tax, the purchasing power of households will likely progress moderately, by 0.1% in Q1 2010 then 0.5% in Q2. ■

Table 4

Household income account

	Change Q/Q-1 (as a %) – data adjusted for seasonal variations and calendar effects					
	2009				2010	
	Q1	Q2	Q3	Q4	Q1	Q2
Consumer prices	-0.4	0.0	0.2	0.3	0.7	0.3
Consumer prices excluding carbon tax	-0.4	0.0	0.2	0.3	0.4	0.3
Impact of carbon tax prices	0.0	0.0	0.0	0.0	0.3	0.0
Nominal gross disposable income (GDI)	-0.1	1.0	0.9	0.3	1.4	0.0
Nominal gross disposable income excluding compensation for the carbon tax	-0.1	1.0	0.9	0.3	0.6	0.8
Compensation for the carbon tax	0.0	0.0	0.0	0.0	0.8	-0.8
Purchasing power of gross disposable income (GDI)	0.4	1.0	0.6	0.0	0.7	-0.3
Purchasing power of gross disposable income excluding carbon tax	0.4	1.0	0.6	0.0	0.1	0.5
Net impact of the carbon tax	0.0	0.0	0.0	0.0	0.6	-0.8

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

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

Household consumption and investment

In Q3 2009, household consumption remained stable. Most notably, vehicle purchases slowed. Although the purchasing power of households remained dynamic, households were prudent in the face of rising unemployment: their savings ratio increased to an all-time high.

In Q4, households appear to have increased their consumption expenditure somewhat (+0.7%). This increase partly originates from the renewed dynamism of vehicle purchases, with households encouraged to make the most of the scrappage allowance and the "bonus-malus" before these measures become less generous on 1st January 2010. As their purchasing power did not progress much, they financed this expenditure through the money saved over the previous quarters.

In H1 2010, consumption is set to slow (+0.3% in Q1, then 0.2% in Q2), notably because of the after-effect of anticipated vehicle purchases in the previous quarter. Over the forecasting period, the drop in household investment which started in 2008 should gradually level off (-3.1%, -1.8% and -0.2% over the next three quarters).

In Q3 2009, consumption stagnated and gave way to savings

In Q3 2009, household consumption was stable (+0.0%), after slight progress in H1 (+0.1% in Q1 and +0.3% in Q2, see Table). The purchasing power of households was relatively dynamic, sustained among other things by the drop in taxes. This increase in income was passed on fully to the savings ratio, which continued to rise (17.1% in Q3 2009 against 15.0% in Q3 2008).

The stability of total household consumption in Q3 stemmed from a balance between lower expenditure on non-energy goods and energy, and more dynamic expenditure on services and food (see Graph 1). Energy consumption fell sharply (-3.2% after -1.5% in Q2). Purchases of non-energy goods dropped slightly (-0.2% after +0.7% in Q2). This drop is mainly attributable to the sharp slowdown in automobile expenditure (+0.1% after +3.6% and +5.8%, in the first two quarters). However, consumption of services remained dynamic in Q3 (+0.5%, as in the previous quarter). Consumption of food products

Household consumption and investment expenditure

	change as a %													
	Quarterly changes										Annual changes			
	2008				2009				2010		2007	2008	2009	2010
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2				
Total household consumption expenditure	-0.2	0.1	0.2	0.1	0.1	0.3	0.0	0.7	0.3	0.2	2.4	0.9	0.7	1.1
including:														
Food (17%)	0.0	-0.7	0.2	0.6	-0.7	0.8	0.8	0.0	0.2	0.2	1.1	-0.1	0.7	0.8
Non-energy industrial goods (24%)	-1.4	-0.5	0.3	-0.9	0.2	0.7	-0.2	2.2	-0.2	-0.5	4.8	-0.6	0.5	1.1
Energy (7%)	-3.8	1.7	0.6	0.0	-0.3	-1.5	-3.2	0.5	1.0	0.2	-1.4	0.4	-2.1	-0.6
Services (52%)	0.5	0.1	-0.1	0.3	0.5	0.4	0.5	0.5	0.5	0.5	2.2	1.2	1.4	1.6
Government individual expenditure	0.4	0.4	0.9	0.4	-0.1	0.7	0.9	0.7	0.6	0.3	1.5	1.5	1.9	2.0
Total actual consumption	-0.1	0.1	0.3	0.2	0.1	0.4	0.2	0.7	0.4	0.2	2.2	1.1	1.0	1.3
Household investment	0.2	-1.4	-2.9	-2.8	-2.2	-2.2	-2.9	-3.1	-1.8	-0.2	5.5	-1.4	-9.6	-6.3

Forecast
Source: INSEE

Household consumption and investment

progressed further, +0.8%, notably under the effect of the drop in food prices (see "Consumer Prices" note).

Acceleration in Q4 2009 (+0.7%), then a return to a more moderate rate in early 2010

In Q4 2009, consumption looks set to rebound (+0.7%) under the effect of the rise in expenditure on non-energy goods (+2.2%) and energy (+0.5%). Households are likely to anticipate their vehicle purchases before the incentive measures become less generous on 1st January 2010: from that date, the scrappage allowance will shrink from €1000 to €700, and the conditions for enforcement of the ecological "bonus-malus" system will tighten. Additionally, after a slump lasting three quarters, energy consumption should return to slight growth at the end of the year, as the last months of the year have been mild.

At the same time, the purchasing power of income should stagnate (+0.0%, after +0.6% in Q3). Households will then finance their expenditure through the amounts saved in the previous quarter: the savings ratio should fall by 0.6 of a percentage point.

In H1 2010, consumption is likely to slow, notably owing to the after-effect of anticipated purchases of cars in the previous quarter: +0.3% in Q1, +0.2% in Q2. The savings ratio will have an

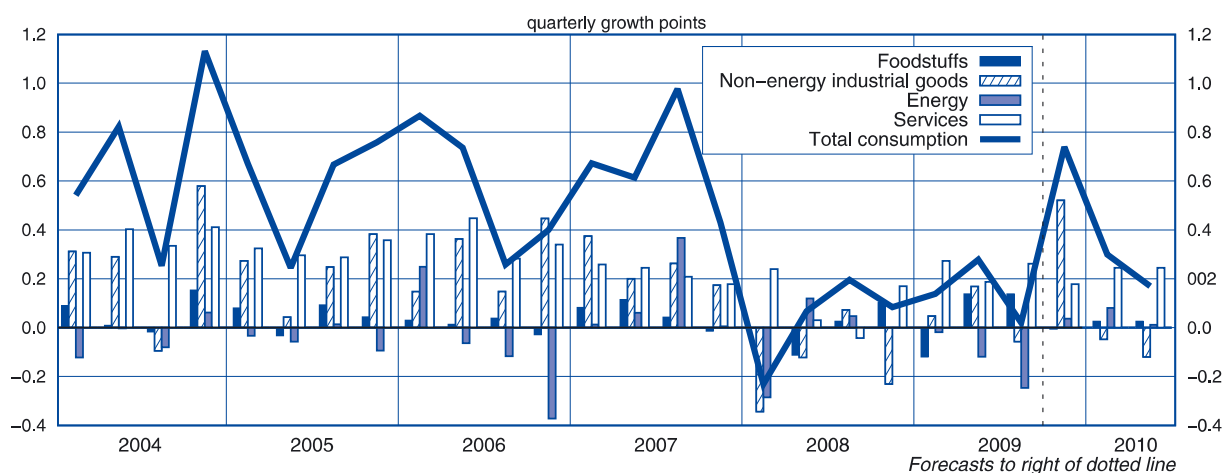
uneven profile in H1, pretty much in line with that of purchasing power. This latter should rise sharply in Q1 thanks to the one-off payment of the compensation for the carbon tax (see "Household Income" note). In Q2, this should have the opposite effect on growth in income. The savings ratio should therefore climb once again in Q1, before returning in mid-2010 to the level of late 2009.

Over the forecasting period as a whole, the savings ratio should stabilise on average at around 16.6% after an almost uninterrupted rise since Q3 2008 (see Graph 2). Indeed, according to the business tendency surveys, households are not anticipating a resurgence of inflation and their fears surrounding unemployment have stabilised.

Household investment should show an increasingly moderate drop

For six quarters, households have reduced their investments, which mainly comprise new housing purchases. They are likely to continue to reduce them within the forecasting period, but less and less markedly: -3.1% in Q4 2009 and -0.2% in Q2 2010 (see Focus, "Towards a stabilisation of the property market in France"). ■

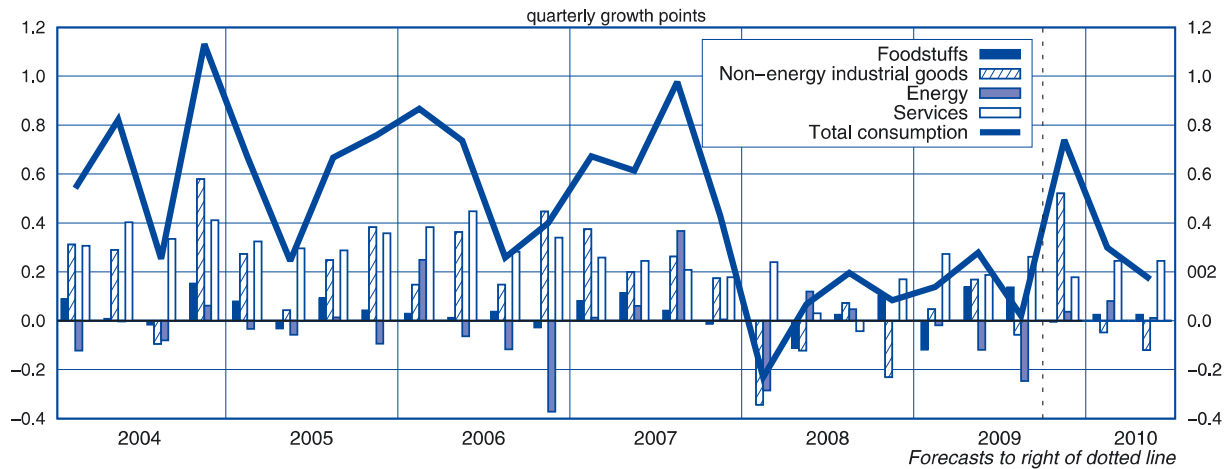
1 - Contributions of the different items to quarterly household consumption



Source: INSEE

Household consumption and investment

2 - Savings ratio and econometric contributions to its growth



Source: INSEE

Focus - Towards a stabilisation of the property market in France

After several years of sustained growth, the real-estate sector in France has gradually reversed. The financial crisis has accentuated this reversal with the tightening of loan award conditions. Household investment in housing has constantly diminished since Q2 2008: the cumulative drop reached 14% in Q3 2009, according to the latest data from the quarterly accounts. In parallel, business has contracted in the construction sector and, since mid-2008, the workforce in this sector has fallen continually after a constant rise since 1997.

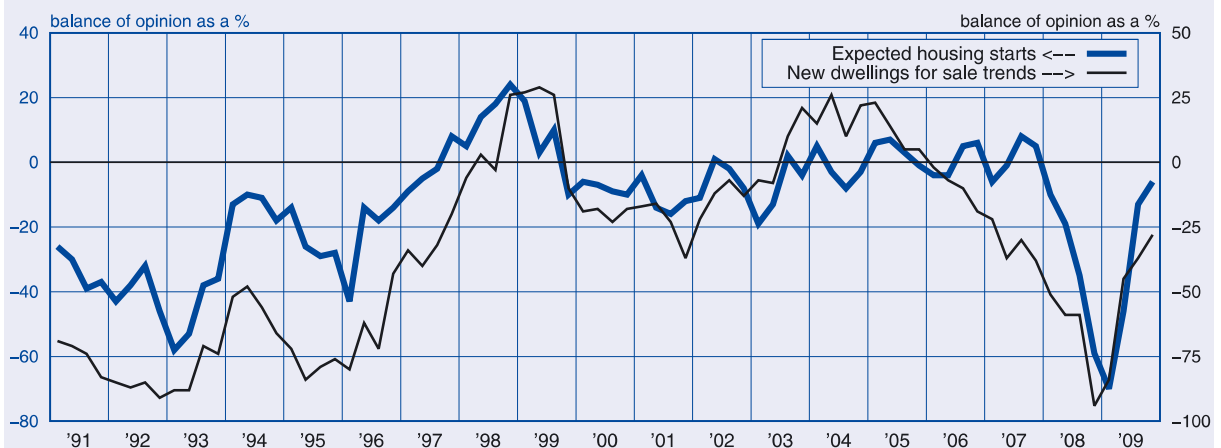
A stabilisation seems to have occurred in recent months, however. Although housing starts are still at a very low level, construction activity appears to be suffering less, new housing stocks are being run off more quickly and the fall in property prices was even interrupted in Q3 2009.

Business tendency surveys are pointing to a stabilisation of the market

The property market has now entered a stabilisation phase, after more than a year in crisis. This return to a more normal situation was recently highlighted in the business tendency surveys.

In the construction industry, the business leaders surveyed in November say that the sharp contraction in their business, which started in mid-2008, should gradually ease over the coming months. The business climate has not deteriorated since September 2009, even though it is still relatively low. Furthermore, the turning-point indicator, which was built with the aim of detecting the turning-point in the economic cycle of the building sector, has once again returned to the positive zone since September 2009.

1- Property development



Source: INSEE – business tendency survey in real-estate construction

Property development activity also seems to be suffering less, according to the responses from industry professionals. The prospects of housing starts started to diminish in early 2008; the demand for new housing had been on the wane since 2005 (see *Graph 1*). But since a low point reached at the end of 2008, the trend towards new dwellings to buy and expected housing starts have picked up considerably.

All real-estate services – including estate agencies and real-estate traders – seem to have benefited from this improvement in the economic outlook. The low point in terms of activity was reached at the end of 2008, according to the survey on services. Entrepreneurs point to significantly improved business since the start of 2009, as well as better prospects for the coming months.

The business tendency surveys are therefore pointing to a tendency towards improvement in real-estate activity. This is confirmed by quantitative data such as sales and housing starts of new dwellings, published by the Ministry for Infrastructure, as well as the prices of old dwellings.⁽¹⁾

New housing sales back on track and the prices of old dwellings stabilising

Sales of new apartments have indeed picked up since the start of 2009. After two consecutive years of falling sales, they have returned to the level of Q4 2007 (see *Graph 2*). The outstanding stock of new housing, which reached a historic peak in mid-2008, has begun to come down. Similarly, the timeline for reducing stocks of houses and apartments went down to 10.5 and 7.9 months respectively in Q3 2009, after reaching a high point of around 21 months in Q4 2008 (see *Graph 3*).

Although sales of new dwellings are gradually getting back on track, the construction of new dwellings is still depressed. However, the trough in the cycle seems to have come and gone recently (see *Graph 4*): the number of new building permits has started to climb slightly since June 2009, while the drop in housing starts observed since mid-2007 appears to have been interrupted. Housing starts should progress slightly in the coming months.⁽²⁾ This trend towards improvement can also be seen in old dwellings. Their prices stabilised in Q3 2009 (see *Graph 5*).

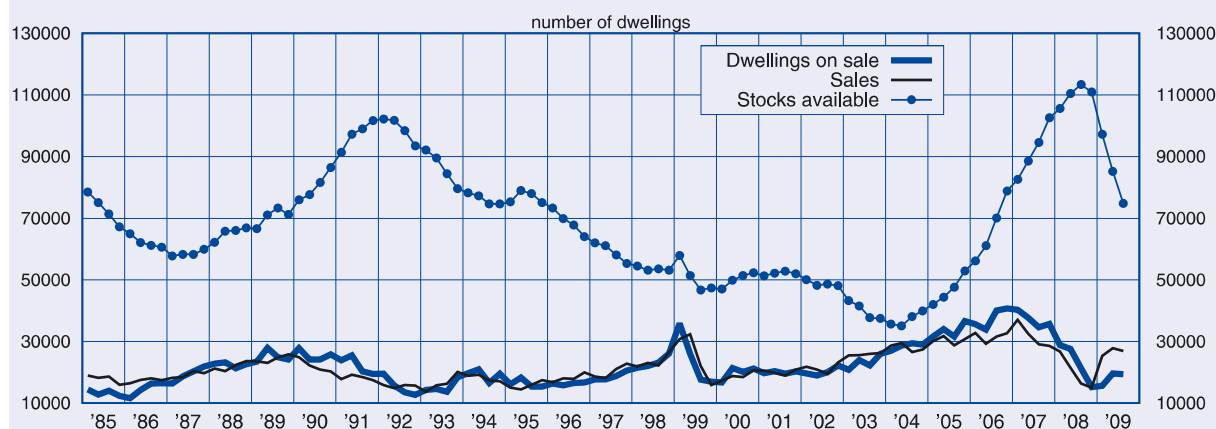
Household investment nonetheless remained firmly down in Q3 2009; after a fourth quarter that once again saw a drop, the situation should gradually ease and the fall should only be -0.2% at the end of H1 2010.

Developments in terms of housing starts have a delayed effect on household investment in housing, owing to the deadlines inherent to real-estate construction. Therefore, the quarterly accounts evaluate household investment by applying “deadline grids” to housing starts, taking account of the usual production deadlines in the industry. This is why the slight upturn in sales of new dwellings observed in the survey on the construction of new dwellings (ECLN) has not yet been observed in the household investment data published in the quarterly accounts. However, this improvement should be perceptible in H1 2010, with household investment in housing heading towards stabilisation. ■

(1) These figures are provided by the Notaries Index-Insee.

(2) These forecasts are established via calibrations on new building permits and housing starts, as well as the balances of activity forecast in new housing, coming from the business tendency surveys on the building industry.

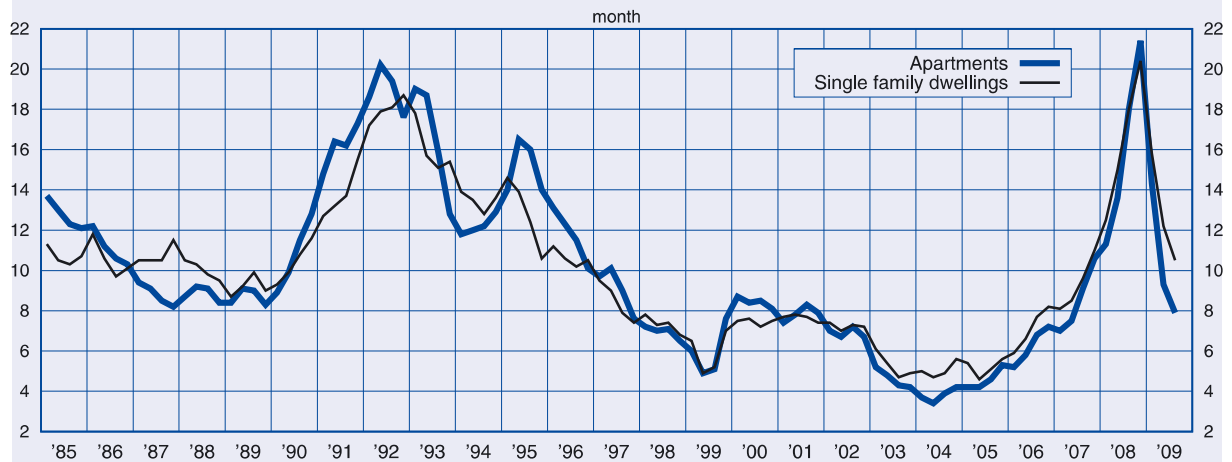
2 - Sales of apartments



Scope: developers in new housing programmes for the sale to private customers of at least five dwellings. Definitions: dwellings on sale: housing newly put on sale over the surveyed quarter. Dwellings sold: reserved housing, i.e. dwellings having been reserved with a deposit put down or sold without a prior reservation in the course of the elapsed quarter. Dwellings available for sale at the end of the quarter (Stocks available): calculated by the difference between dwellings put on sale and dwellings sold, to which are added stocks at the end of the previous quarter.

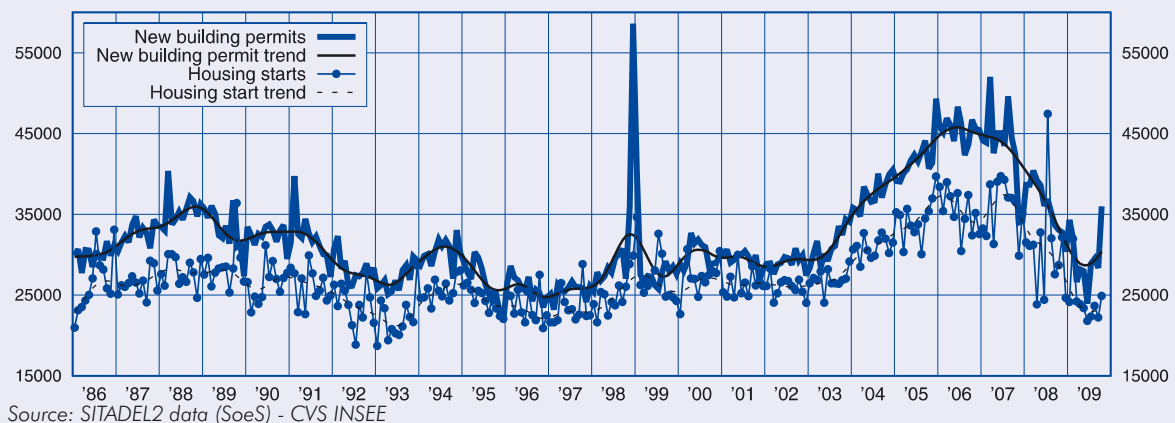
Source: Survey on the Construction of New Housing – ECLN (SoeS)

3 - Timelines for running off available stocks



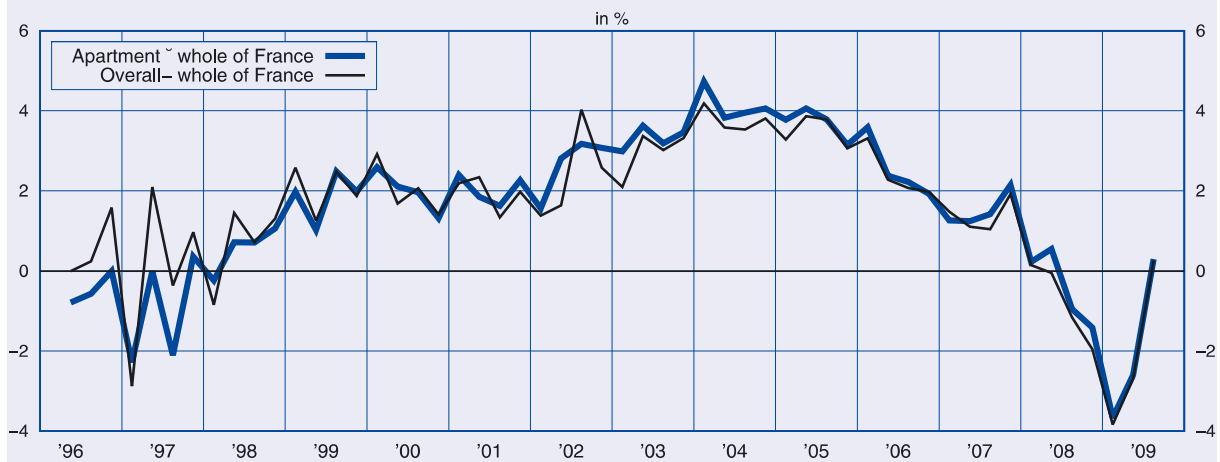
Source: Survey on the Construction of New Housing – ECLN (SoeS)

4 - New building permits and housing starts of new dwellings



Source: SITADEL2 data (SoeS) - CVS INSEE

5 - Quarterly changes in the price indices of old dwellings



Source: Notaries index - INSEE, base 100 in Q4 2000

Corporate investment and inventory

Corporate investment should pick up gradually over the forecasting period thanks to the return of activity since Q2 2009 and to less unfavourable financing conditions. This movement should however be limited initially by production capacities that are still under-utilised. So, after the sharp drop at the end of 2008 and start of 2009, investment should stabilise in Q4 2009 (-0.1%); then increase by 0.2% in Q1 2010 and by 0.6% in Q2.

In Q3 2009, the contribution of inventory to growth was also slightly negative (-0.1 point), after three quarters of strongly negative contributions. Over the forecasting period, this may be slightly positive, owing to a small readjustment of industrial goods inventories.

In Q4 2009, corporate investment should stabilise...

After an uninterrupted fall lasting a year and a half, investment by non-financial enterprises (ENF) should stabilise in Q4 2009 (-0.1%, see Table 1). Business prospects are getting back on track and financing terms for companies are gradually easing, notably on the financial markets. However, the business leaders surveyed in the business tendency surveys say that their business prospects

remain modest, with order books that they still consider insufficiently full. Furthermore, production facilities remain underused: in October, the production capacity utilisation rate in the manufacturing industry may have continued to pick up (72.9%), but it is still at a level way below its long-term average (see Graph 1).

The fall in building and public works expenditure is likely to continue to weigh on the investment of ENF, but this should be less pronounced (-0.7% in Q4 2009 after -2.5% in Q3). In both the public works and the building sectors, entrepreneurs who were surveyed in October and November respectively are anticipating a less marked contraction of business over the coming months.

Additionally, investment in industrial goods should stabilise in Q4 2009, after a slight downturn in Q3 (-0.3%). Other investment, mainly in IT services, should continue to progress: +0.5% in Q4 2009 after +0.4% in Q3. Business prospects in the "IT activity" and "Consultancy and assistance activity" sectors are continuing to pick up.

However, over 2009 as a whole, investment by ENF should fall sharply (-7.2%), mainly because of the big drop in investment in industrial goods (-13.1%). At the same time, investment expenditure in construction should fall back by 4.4% and the drop in expenditure on other services should be limited to 1%.

Table 1

Investment by non-financial enterprises (NFE)

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

	Quarterly variations										Annual variations		
	2008				2009				2010		2008	2009	2010
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Non-energy industrial goods	3.4	-1.7	-2.5	-4.8	-6.6	-2.3	-0.3	0.0	0.5	1.0	1.7	-13.1	0.5
Building and public works	1.7	-1.8	0.3	-1.6	-1.5	0.0	-2.5	-0.7	-0.7	-0.2	3.6	-4.4	-2.6
Services	0.4	-0.5	1.1	-1.1	-0.6	-0.4	0.4	0.5	0.6	0.8	2.3	-1.0	1.7
All non-financial enterprises	2.1	-1.4	-0.7	-2.9	-3.4	-1.0	-0.7	-0.1	0.2	0.6	2.4	-7.2	0.0

Forecast
Source: INSEE

... and pick up slightly in early 2010

Investments by ENF should gradually get back on track in H1 2010, thanks to the progressive pick-up of activity since Q2 2009 and the easing of financing terms for companies: +0.2% in Q1, then +0.6% in Q2 (see *Graph 2*). This recovery should mainly be dictated by that of investment in industrial goods (+0.5% then +1.0%). Capital goods expenditure, which accounts for almost two thirds of investment in industrial goods, should pick up slowly: according to the wholesalers surveyed in November 2009, order intentions for capital goods should progress slightly, although they are well below their normal level.

Construction expenditure should contract once again (-0.7% then -0.2%) while other investments should continue to pick up (+0.6% in Q1 2010, then +0.8% in Q2).

Inventory changes played an almost neutral role in growth in Q3 2009

In Q3 2009, the contribution of inventory to growth was slightly negative (-0.1 point), after three quarters in which the adjustment of inventory weighed heavily on growth (see *Table 2*). The massive reduction in stocks of industrial goods over

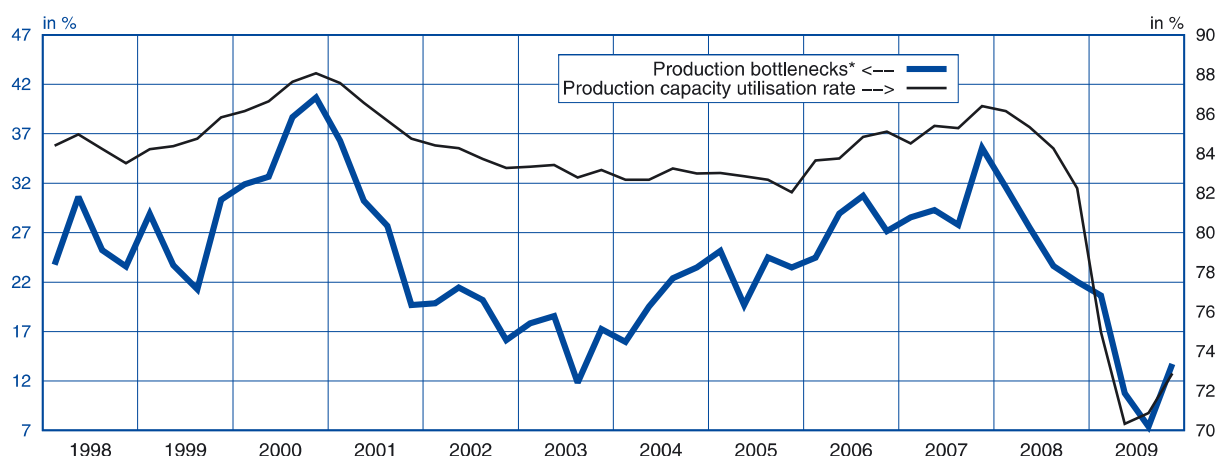
the last few quarters has almost stabilised and the contribution of industrial goods inventory to growth has been nil. However, the adjustment downwards of food inventories continued in Q3.

Within the scope of industrial goods, the contribution of capital goods inventory change to activity has been strongly negative. In particular, the delivery in July, as part of major export contracts, of ships and satellites resulted in large-scale reductions in stocks in the accounts of enterprises. However, this negative contribution was offset by the positive input of vehicle inventory.

Over the forecasting period, inventory should sustain growth somewhat

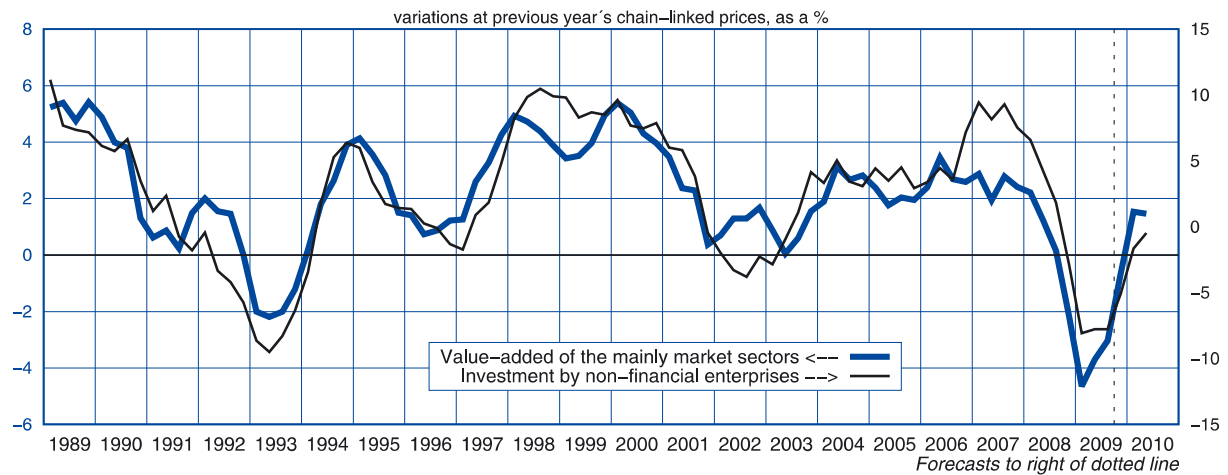
Inventories should support growth somewhat in Q4 2009 and Q1 2010 (see *Table 2*). Over the forecasting period, the traditional determinants of inventory behaviour should not change much. The production prospects expressed by industrialists in November suggest that growth in activity should stabilise. However, the current easing of financial conditions should lighten the cost of stock holding a little. The positive contribution of inventory to growth should come as a result of a readjustment of industrial goods inventories. ■

1 - Tensions on production capacities in manufacturing industry



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

2 - Investment and value-added



Source: INSEE

Table 2

Contribution of inventory changes to growth

in GDP points

	Quarterly changes										Annual changes		
	2008				2009				2010		2008	2009	2010
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Agricultural and agrifood products	0.0	0.0	0.0	0.0	0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Non-energy industrial goods	0.1	0.2	-0.2	-0.8	-0.8	-0.5	0.0	0.1	0.1	0.1	-0.4	-1.8	0.1
Including:													
Consumer goods	0.0	0.0	0.0	0.0	-0.1	0.0	0.0				-0.1		
Automobile	0.3	-0.3	0.0	-0.7	-0.2	-0.1	0.3				-0.1		
Capital goods	-0.2	0.4	-0.3	0.2	0.1	-0.1	-0.4				-0.1		
Intermediate goods	0.0	0.1	0.1	-0.3	-0.5	-0.3	0.1				-0.1		
Energy products	-0.1	-0.1	0.1	0.4	0.0	-0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.0
Other (construction, services)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
TOTAL (*)	0.1	0.1	0.0	-0.4	-0.8	-0.6	-0.1	0.1	0.1	0.1	-0.3	-1.6	0.0

Forecast

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

Source: INSEE