French developments

France's international Environment

In Q3 2011, the advanced economies rebounded (+0.5% after +0.2%) in line with the forecast in October's Conjoncture in France (+0.4%). Activity was a little stronger than expected in the United States and Japan, where domestic demand, and notably private consumption, was very dynamic. In the Euro zone, activity was in line with our forecasts (+0.2%). The major emerging economies, meanwhile, slowed down sharply under the effect of restrictive monetary policies seeking to control inflation.

In Q4 2011, activity in the advanced economies should slow down considerably (+0.2%). In the Euro zone, the deterioration in the outlook underway since spring should result in a drop in GDP for the first time since summer 2009. The rest of the world is likely to be affected by this fall in Europe, but domestic demand should buoy up activity in the United States and Japan. The financial markets are under less strain on the other side of the Atlantic and consumers should benefit from moderate inflation. The Japanese economy, meanwhile, should be boosted by the reconstruction effort after the earthquake of 11 March 2011. The emerging economies should remain on a moderate growth rate, below their average in recent years.

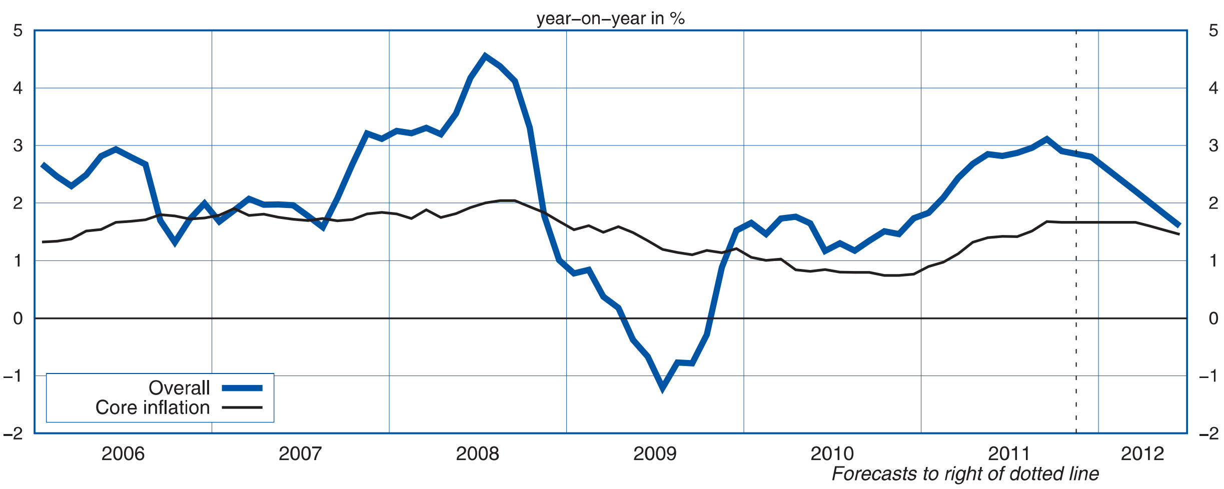
In H1 2012, activity in the advanced economies should remain sluggish (+0.2% then +0.3%). In the Euro zone, it should continue to contract in Q1 then level out in Q2. Tighter fiscal policies should weigh down on American household income, but activity should hold up in the United States. The Japanese economy should continue to be driven by the reconstruction effort in the wake of the third plan voted in November. Easing of inflationary pressures in the emerging economies should enable them to put their monetary and fiscal reserves into boosting their activity.

Financial uncertainty in the north, possible easing of monetary policies in the south

The Euro zone countries are facing considerable tensions on financial markets, due to sovereign debt worries and to the deterioration in economic prospects. These concerns are causing a rise in sovereign rates for some Euro zone countries and continuing tensions on interbank markets. Against this backdrop, financing terms for private agents are getting tighter in most of the countries in the zone.

For the moment, these tensions should only have a modest effect on American interbank markets and rates on US Treasury bonds remain at exceptionally low levels, benefiting from flight to quality phenomena and investor confidence in the world's number one economy. In the United States, corporate financing terms are levelling out after a pronounced improvement. Household demand for credit, meanwhile, is rising according to the October 2011 surveys, for the first time since 2005.

1 - Inflation should ease rapidly in all the advanced economies



Source: National statistical institute

Faced with these tensions, the main central banks have limited room for manoeuvre as their base rates are at the lowest levels. They should therefore continue to use mainly «non-conventional» instruments.

In the emerging countries, certain central banks might ease their monetary policy in the face of the slowdown in activity. Indonesia and Brazil have already decided to ease their monetary conditions. In China, several successive moves since January 2011 to tighten monetary policy have contributed to the fall in inflation underway since July. The Chinese monetary authorities may also facilitate access to credit in coming months.

Contrasting fiscal policies: Euro zone consolidation, Japanese reconstruction

In the United States, budget stimuli for households have been on a downward trend for several quarters now. In 2012, the withdrawal of these measures should be stepped up with the expiry of certain mechanisms voted in the 2009 and 2010 stimulus plans. The consolidation of government budgets which has been going on for a year now, notably on the local level, is also set to continue. In Europe, States are conducting restrictive fiscal policies to restore confidence in the sustainability of their public finances, against a backdrop of tension surrounding the sovereign debt of some countries. In France, Spain, Italy and the United Kingdom, ongoing consolidation is likely to hold back household purchasing power.

In Japan, meanwhile, the focus is on reconstruction after the catastrophe of 11 March. Three plans have been passed since May for a total of almost 16,000 billion Yen (2.8 points of GDP). About half the expenditure being committed is in the form of public investment, with the rest aiming to boost investment by households, corporations and local authorities. In China, an expansionist fiscal policy could be introduced to boost growth, notably through tax reductions. Through to the time horizon of this forecast, these fiscal stimuli should consolidate the upturn in Japan and go some way to driving growth throughout Asia.

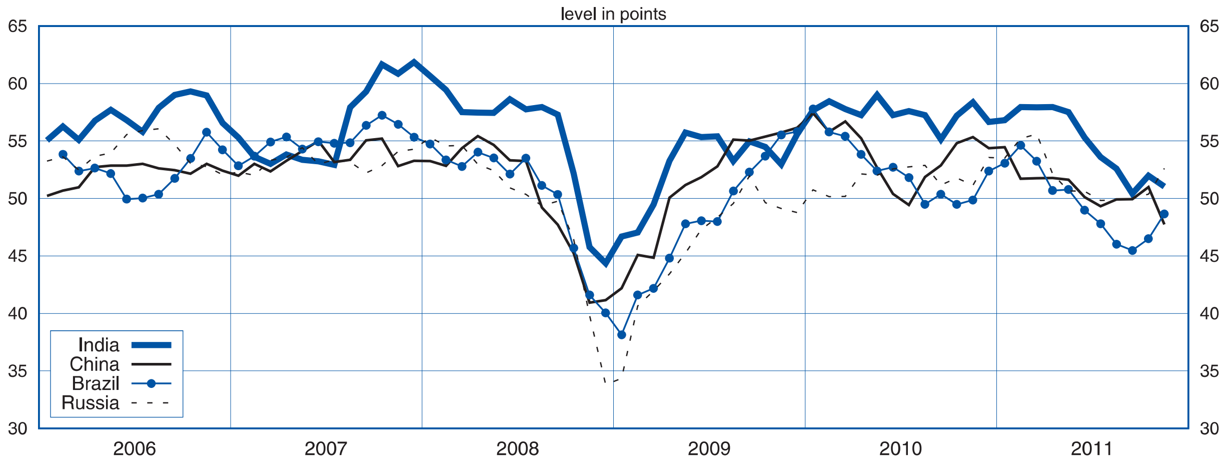
Inflation set to fall rapidly

Since summer 2010, inflation has increased sharply in the advanced economies in the wake of rising international commodity prices: from 1.2% in Q2 2010 to 2.9% in Q3 2011.

In the course of the coming quarters, inflation should ease quickly. Oil prices should continue to fall, as they have since April: supply should progress, notably in Libya, and demand slow down. In Q4 2011, the price per barrel of Brent should be fluctuating around the $110 mark, then around $105 in Q1 2012 and $100 in Q2. In addition to this, prices of other commodities have also fallen back over the last few months and are now mostly below their levels last January.

All in all, in Q4 2011, inflation in the advanced economies expressed year on year should stagnate at 2.9%. It should stand at 1.7% in mid-2012. Core inflation should peak in Q4 (1.7%) before easing through to the time horizon of the forecast (1.5%, *see graph 1*). Faced with unemployment remaining at high levels, employees are unlikely to be able to negotiate sufficiently large increases to maintain their real wages.

2 - The emerging countries slow down significantly



Source: Markit

In emerging countries, inflationary pressures have eased at the expense of a sharp slowdown in activity.

The outlook in the major emerging countries is very different from that in the advanced countries: they have largely exceeded their pre-crisis levels, to such an extent that their production systems are showing signs of overheating, and they have high inflation rates. Since early 2010, the central banks of the main emerging countries have been tightening their monetary policies and their governments cutting back their deficits, thereby contributing to a slowdown in these economies in Q3 2011 *(see graph 2)*.

In Q4, activity in the emerging countries should continue to slow down, with growth rates close to or even below the average rates observed prior to the crisis. However, the fight against inflation seems to be bearing fruit, with rates easing noticeably, especially in Russia, Brazil and China. In coming months, these countries may therefore ease their monetary and fiscal policies to boost domestic demand.

In Q4 2011, the advanced economies slow down significantly...

In Q3 2011, the advanced economies grew more strongly than forecast in October's Conjoncture in France (+0.5% against +0.4%). Consumption rebounded considerably, by a catch-up effect, after stalling in Q2. Investment accelerated and world trade returned to comparable growth rates to those observed in Q1.

The overall outlook in the advanced economies has deteriorated considerably, however, since its peak in early 2011 *(see graph 3)*. Since the summer, surveys of entrepreneurs in the advanced economies report stagnating activity in manufacturing industry, with the PMI index at around 50. The climate in services, meanwhile, indicates moderate growth (see graph 3). In our scenario, the advanced economies should decelerate distinctly in Q4 2011 (+0.2%, *see table*) and remain at the same growth rate in Q1 2012.

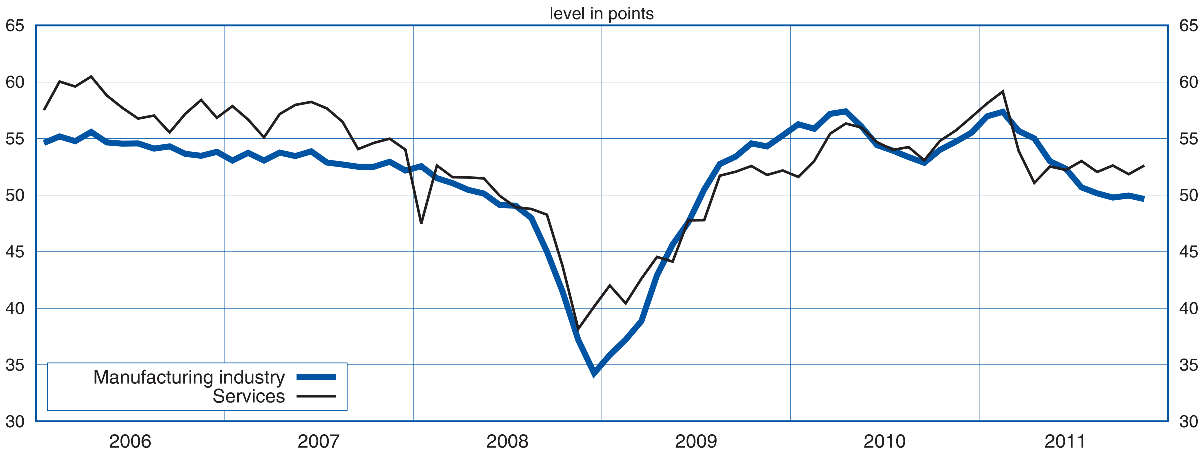
... due to the European crisis

This general slowdown does hide different outlook situations, however. The Euro zone should experience a short period of recession, with two consecutive quarters of falls in GDP: -0.3% in Q4 2011 then -0.1% in Q1 2012. Tensions on sovereign debt are now likely to affect the real economy via demand. Faced with weaker activity prospects and tighter credit terms, investment is likely to decline significantly. In addition, fiscal consolidation measures have been decided on in most Euro zone countries to meet public finance objectives for 2011 and 2012. Household consumption should therefore slow down under the effect of small gains in purchasing power. Also, the decline in activity in the Euro zone, the main trading partner of the UK, is likely to affect the British economy, already being slowed down by a restrictive fiscal policy.

... but the rest of the world should drive the upturn by mid-2012

Although the deterioration in the economic situation in Europe is likely to hold back world growth, the rest of the world should offset this shock to some extent. In the United States, activity should remain dynamic in Q4, driven by domestic demand. Tighter fiscal policies are likely to cause a slowdown in Q1 2012 but activity should hold up. Once past the shock of the rise in taxation on 1st January 2012, the US economy should accelerate in the spring. In addition, the fall in oil prices should boost household purchasing power. In Japan, the reconstruction effort should drive growth. The Euro zone should therefore benefit from support from world trade and return to modest growth in Q2 2012.

3 - The outlook in the advanced economies has been worsening since spring 2011



Source: Markit

The advanced economies should therefore accelerate slightly in Q2 2012 (+0.3%). All in all, they should grow by 1.3% in 2011 after 2.7% in 2010 and the growth overhang for 2012 should stand at 0.8% at the end of H1.

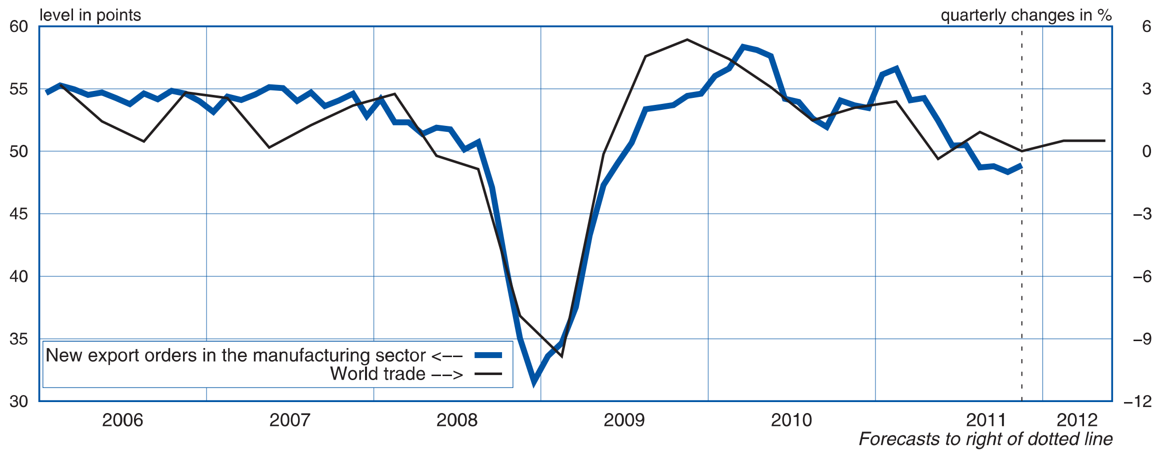
World demand for French products should fall in Q4 before bouncing back

In Q3 2011, world trade rebounded (+0.9% after -0.6%). Exports of the advanced economies benefited from higher demand from emerging countries and a catch-up effect after the Japanese tsunami.

However, the new export order components in PMI surveys of purchasing managers suggest sluggish world trade in Q4 *(see graph 4)*. The trends differ greatly between the major regions. In Japan and the United States, domestic demand should remain sustained and imports continue to progress. In Europe, the pronounced slowdown in activity should lead to a fall in imports. The emerging economies as a whole are likely to make no contribution to world trade. All in all, it should stagnate in Q4 2011. In H1 2012, world trade should rebound slightly (+0.5% a quarter), although remaining below its medium-term trend (+1.7% a quarter).

The fall in European demand should have a strong effect on world demand for French products which is set to decline in Q4 (-0.4% after +1.0%). In early 2012, it should stop falling, however, although still remaining sluggish (+0.1% in Q1 2012 then +0.2% in Q2). ■

4 - World trade remains sluggish



Sources: Markit. Centraal PlanBureau

Industrialized countries: consolidated supply and use table

in real terms

	Quarterly changes in %										Annual changes in %		
	2010				2011				2012		2010	2011	2012 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
GDP	**0.9**	**0.8**	**0.6**	**0.2**	**0.2**	**0.2**	**0.5**	**0.2**	**0.2**	**0.3**	**2.7**	**1.3**	**0.8**
Private consumption	0.5	0.4	0.5	0.4	0.2	-0.1	0.5	0.2	0.1	0.2	1.6	1.1	0.6
Public consumption	-0.3	0.7	0.2	-0.3	-0.5	0.1	0.1	0.0	-0.1	0.1	0.9	-0.4	0.0
Investment	0.4	2.7	1.3	0.4	0.5	1.2	1.5	0.7	0.8	0.9	1.1	3.6	3.2
Exports	2.8	3.8	1.9	1.5	1.6	0.0	1.8	0.2	0.6	0.7	12.6	5.6	2.2
Imports	3.1	4.5	2.4	0.2	1.3	0.3	0.9	0.3	0.3	0.7	10.7	4.5	1.6
Contributions to GDP growth													
Domestic demand excluding inventories	*0.4*	*0.8*	*0.4*	*0.3*	*0.1*	*0.1*	*0.5*	*0.2*	*0.1*	*0.3*	*1.3*	*1.2*	*0.8*
Inventories	*0.7*	*0.1*	*0.3*	*-0.2*	*0.0*	*0.0*	*-0.2*	*0.0*	*0.0*	*0.0*	*1.0*	*-0.1*	*-0.1*
Net exports	*-0.1*	*-0.1*	*-0.1*	*0.2*	*0.1*	*0.0*	*0.1*	*0.0*	*0.1*	*0.0*	*0.2*	*0.3*	*0.2*

Forecast

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

Foreign trade

In Q4 2011, exports are likely to suffer following the downturn in activity among our main European partners. They seem set to slip back (-0.5%) before picking up again slightly in H1 2012, following in the footsteps of foreign demand. In 2011, exports should grow by 4.0%, after +9.3% in 2010. At the end of H1 2012, the growth overhang of exports should be +0.7% for 2012.

Within the forecasting period, weak domestic demand combined with a trend towards inventory reduction should cause imports to slow. They should decline in Q4 then rise once again in early 2012 with the recovery of exports.(1) *In 2011, imports are set to increase by 5.0% after +8.3% in 2010. The growth overhang for 2012 should be + 0.4% at the end of H1.*

All in all, foreign trade should mirror the sharp deterioration in the economic climate in the Eurozone: the contribution of foreign trade to growth is set to become negative in Q4 2011, then nil in H1 2012.

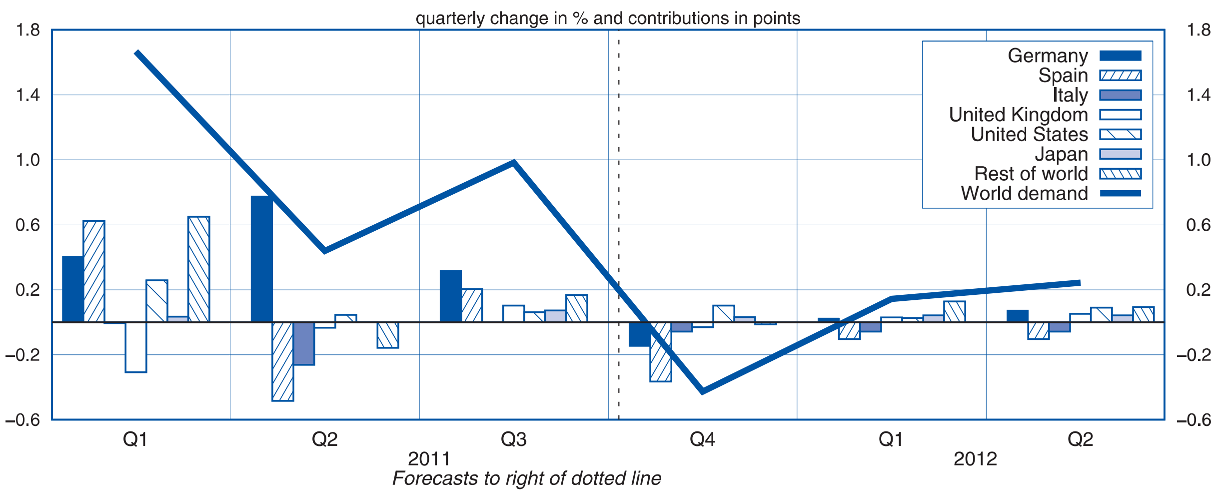
(1) Via the import content of exports

Exports feeling the effects of the slowdown in Europe

In Q3 2011, French exports of goods and services accelerated (+0.7% after +0.5% in Q2, see Table). Sales of agrifood products rebounded (+2.9% after -0.5%) and those of transport equipment, particularly for aeronautics and automobiles, also progressed: +3.4% after +1.4% in Q2. Exports benefited from the rise in world demand for French products: in particular, activity in Japan recovered after the earthquake of 11 March, pulling Asian demand with it. Additionally, demand from Eurozone countries rebounded sharply after stagnating in Q2.

In Q4 world trade is likely to stagnate. Only American and Japanese imports are likely to rise, thanks to the dynamic domestic demand in these countries. However, imports from emerging countries are likely to be sluggish and, above all, demand from France's European trading partners is set to slide *(see Graph 1)*: investment in capital goods and household consumption are set to fall in Italy, Spain and Germany. French exports should thus fall back (-0.5%), despite the positive effects of the recent depreciation of the euro *(see Graph 2)*.

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



Source: INSEE

At the start of 2012, exports should return to moderate growth thanks to the recovery of demand in Germany and the rebound in imports from emerging countries. Nonetheless, the weak demand in Italy and Spain will continue to adversely affect demand for French products. All in all, exports should grow by 0.2% then 0.4% in Q1 and Q2 2012.

Energy exports, which were very dynamic in Q3, are set to slip back at the end of the year, linked to the deterioration of world activity. Within the forecasting period, sales of services should pick up while exports of agricultural products, which rebounded in 2010, are likely to stagnate.

Overall in 2011, exports should grow by 4.0%, after +9.3% in 2010. The growth overhang for 2012 should be +0.7% at the end of H1.

Sluggish demand and a trend towards inventory reduction putting the brakes on imports

In spring and summer, imports followed the same profile as domestic demand, rebounding by 0.3% in Q3 2011 after losing 1.2% in Q2 *(see Table)*.

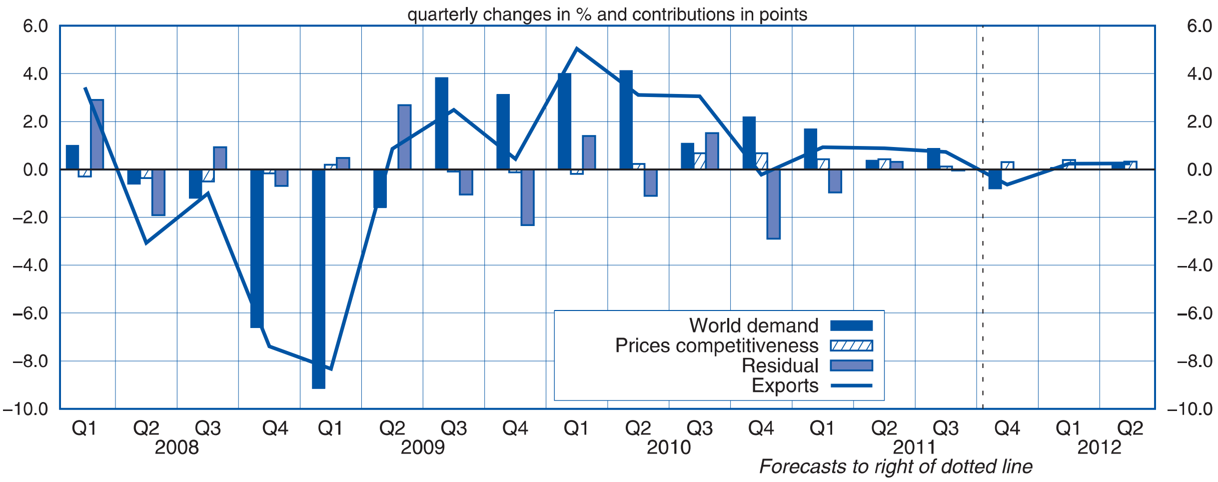
Within the forecasting period, imports are set to slow due to weak demand. In addition, the worsening economic climate is likely to encourage companies to reduce their inventory. Imports should therefore drop (-0.1%) in Q4 2011, then grow by 0.2% and 0.5% in Q1 and Q2 2012 *(see Graph 3)*.

Imports of energy products should fall in Q4 2011, after strong progress in Q3 linked to the upturn in natural gas purchases. Imports of agricultural products should also slip back before stabilising through to mid-2012. Lastly, imports of services should gradually accelerate through to mid-2012.

On average in 2011, total imports should grow by +5.0%. The growth overhang for 2012 at the end of H1 should stand at +0.4%.

The overall contribution of foreign trade to growth should once again be negative in Q4 2011 (-0.1 point), due to the sharp deterioration in the economic climate in the Eurozone. It should be negative over 2011 as a whole (-0.4 point). The contribution of trade to growth should return to neutral in early 2012. ■

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



How to read it: the curve shows quarterly growth in the volume of exports of non-energy industrial goods. This is modelled by an econometric relation involving world demand, the real effective exchange rate of France (price competitiveness indicator) and a time trend, the contribution of which is constant and is not shown here. The bars represent the contributions of each of these variables to the rate of growth in non-energy industrial goods exports. and the residual of the econometric equation. For example, in Q1 2011, exports of non-energy industrial goods increased by 0.9%: the impact of world demand is evaluated at +1.7 points and that of price competitiveness +0.4 point. The residual contributes -1.0 point.

Source: INSEE

Foreign trade growth forecast

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

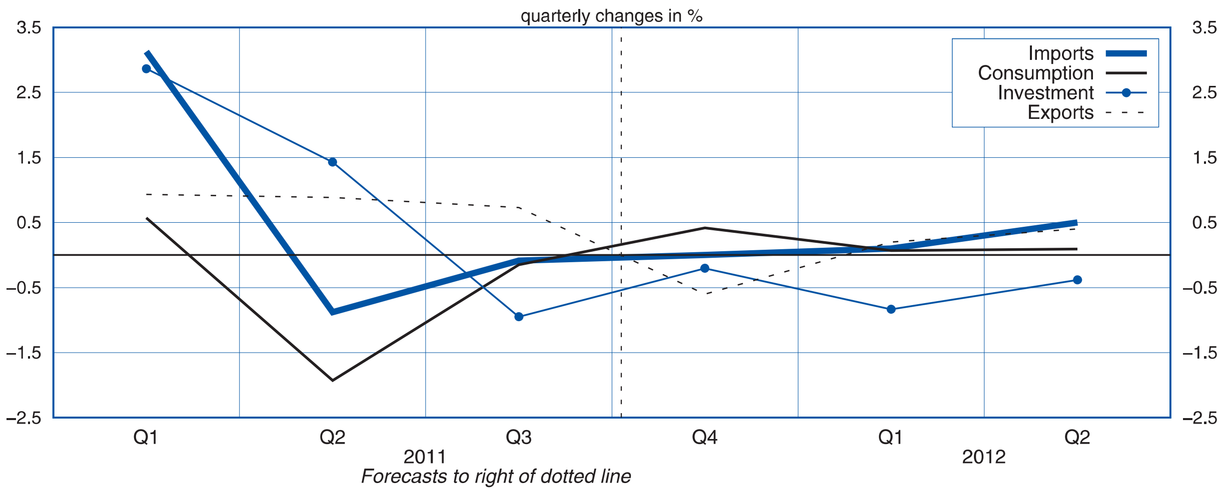
	Quarterly changes						Annual changes		
	2011				2012		2010	2011	2012 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2			
Exports									
All goods and services	1.3	0.5	0.7	-0.5	0.2	0.4	9.3	4.0	0.7
Non-energy industrial goods (75%*)	0.9	0.9	0.7	-0.6	0.2	0.4	11.0	4.0	0.6
Imports									
All goods and services	3.1	-1.2	0.3	-0.1	0.2	0.5	8.3	5.0	0.4
Non-energy industrial goods (73%)	3.1	-0.9	-0.1	0.0	0.1	0.5	11.0	6.0	0.2
Contribution of foreign trade to GDP	**-0.6**	**0.5**	**0.1**	**-0.1**	**0.0**	**0.0**	**0.1**	**-0.4**	**0.1**

Forecast

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

Source: INSEE

3 - Imports of non-energy industrial goods



Source: INSEE

Oil and raw materials

Through to mid-2012, the oil market should see a surplus emerge: demand is likely to slow down in the developed countries, except Japan, while the resumption of Libyan production should boost world supply. In this context, the oil price should fall progressively to $100 per barrel of Brent in Q2 2012.

Non-energy commodity prices, notably industrial commodities, have been showing sharp falls since the summer. While prices of industrial metals and textile fibres are now close to the levels observed in early 2010, those of cereals have levelled out since October at higher levels, despite easing tensions on the physical markets.

Oil demand set to run out of steam

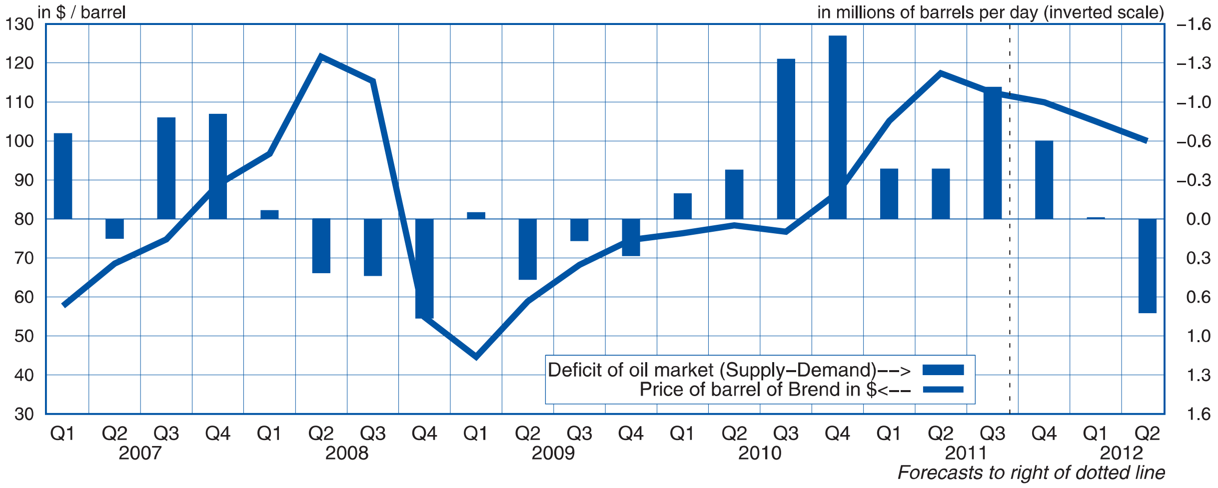
In Q4 2011, world oil demand should slow down distinctly in the wake of world growth, increasing almost three times more slowly than in the previous quarter: +600,000 barrels per day (bpd) after +1.7 million bpd. The rise in oil demand should come almost entirely from the increase in oil consumption in Japan: after the tsunami in March, the country is turning to replacements for nuclear energy and undertaking a huge reconstruction effort. Conversely, oil demand is set to stagnate in the United States after a disappointing holiday season, and should fall back in Europe. All in all, world oil demand should slow down distinctly in 2011, growing by 1.0% after +3.1% in 2010.

In Q1 2012, oil demand is likely to stagnate, at around 90.2 million bpd, as in Q4 2011. Oil demand should fall back in the developed countries, despite support from Japanese consumption. It should remain dynamic, however, in non-OECD countries, notably China. Finally, in Q2 2012, demand in the developed countries should decline further, as every year, these countries reduce their oil consumption at the end of winter. This fall should only be partly offset by the increase in demand from non-OECD countries, notably in China and the Middle East. Overall, world demand should fall sharply in Q2 (-800,000 bpd).

Conversely, supply should remain dynamic, driven by the resumption of Libyan production

In Q4 2011, oil supply should remain dynamic, progressing by 1.1 million bpd after +1.0 million bpd in Q3. Libyan production should recover to one-third of its pre-revolution level (about 400,000 bpd). Faced with this upturn in Libyan production, Saudi Arabia is likely to ease up its production, although OPEC supply should still be up

1 - Through to mid-2012, the improving situation on the physical market should drive a fall in oil prices



Sources: AIE and INSEE forecasts

overall. Production should also rebound in Europe with the end of maintenance operations in the North Sea.

In H1 2012, oil supply is set to remain robust. It should grow by 600,000 bpd in Q1, buoyed by the increase in American output and the ongoing resumption of production in Libya. In Q2, almost half of Libyan capacities should be back in production. The rise in OPEC production, however, should be offset by the seasonal fall in American and European production, with the start of North Sea maintenance operations and the bad weather season in the Gulf of Mexico. Overall, world oil supply should level out at 90.2 million bpd.

The market should therefore return to a surplus in mid-2012 and the oil price fall progressively

In Q4 2011, faced with the slowdown in demand, the oil market deficit should be almost halved to around 600,000 bpd. The market should return to equilibrium in Q1 2012 before showing a clear surplus (of 800 000 bpd) in Q2 2012, a situation that has not been seen since the end of 2008 *(see graph 1)*.

After an almost uninterrupted rise since summer 2010, the price of oil fell back in Q3 2011 (-4.3%, at $112.5 per barrel of Brent). Our scenario is based on the hypothesis of a gradual fall in oil prices through to mid-2012 as tensions on the physical market ease *(see graph 1)*. In Q4, the price of oil should stabilise at around $110 a barrel. It should then fall to $105 a barrel on average in Q1 2012 and $100 in Q2.

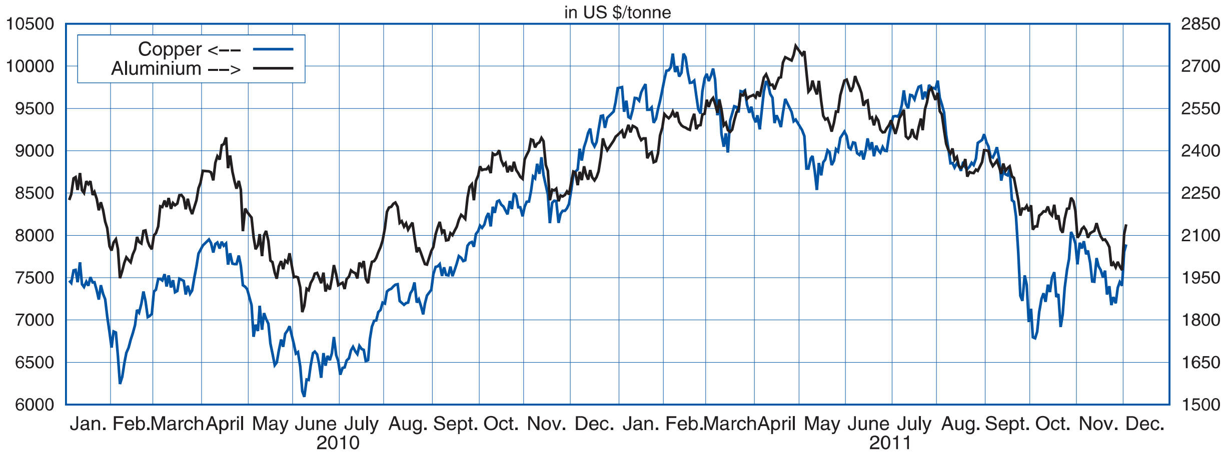
This scenario remains subject to great uncertainties, however, which could push prices either way. In particular, a greater reduction in Saudi oil output in response to the resumption of Libyan production could delay the return to equilibrium on the physical market and therefore the drop in oil prices. Conversely, a sharper slow down in world activity would boost the surplus in oil supply and accentuate the fall in prices.

Pronounced fall in commodity prices since the summer

Industrial commodity prices have recorded sharp falls since the summer. In particular, faced with gloomier growth prospects, the slide in industrial metal prices has been accentuated since September: copper fell by 11.6% in October, after -1.8 % in Q3, while aluminium was down 12.2% at the start of Q4 after -5.4% in Q3. After a slide of 33.6% in Q3, the fall in the price of cotton has slowed down since the beginning of Q4. All in all, industrial commodity prices have almost returned today to the level observed before their rise in mid-2010 *(see graph 2)*. They are forecast to stabilise at this level.

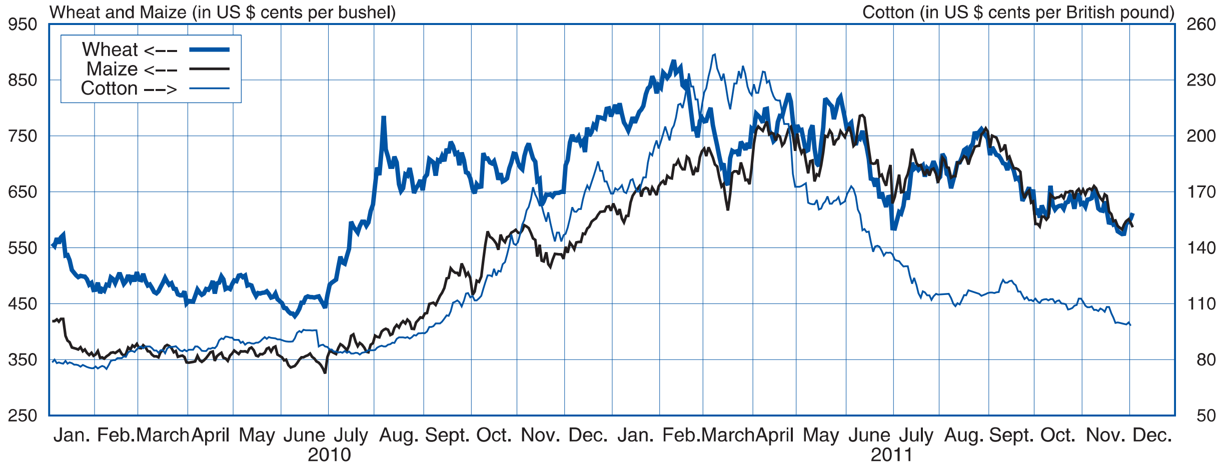
Thanks to the improvement in harvest prospects, food commodity prices have also fallen since the summer *(see graph 3)*. Wheat prices fell by 7.8% in Q3 and despite the stabilisation observed since October, the growth overhang at the end of November for Q4 is -10.4%. Through to the time horizon of the forecast, they should level out gradually and remain close to their current prices. ■

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

Through to June 2012, «core» inflation should decrease slightly to 1.1 % from 1.3 % in October. Imported food commodity prices, which increased sharply in 2010, have been on a downward trend since August 2011. To the time horizon of this forecast, these past price rises should stop working through into food prices. In addition, the high unemployment rate which induces moderation in wage costs should continue to limit inflationary pressures.

Headline inflation should ease considerably, standing at 1.4% in June 2012, after 2.3% in October: it should benefit from the very sharp drop in energy prices year on year. On the other hand, the rise in the reduced VAT rate should have an effect of around +0.1 point on headline inflation through to June 2012.

Fall in «core» inflation and headline inflation

«Core» inflation is measured by taking energy prices, seasonal food products and public prices out of the headline index and correcting for any fiscal measures, such as the rise in VAT in January 2012 (see focus). Through to the time horizon of this forecast, «core» inflation should fall to 1.1% from 1.3% in October *(see graph 1)*. Food inflation should fall back as the food commodity price rises observed until April stop working through into food prices.

«Core» inflation should also continue to be kept down by a high unemployment rate which should hold wages back.

After reaching a peak at 2.3% in October and November, headline inflation should ease to 1.4% in June 2012. The main contribution to this drop should come from energy inflation which should fall very significantly. In contrast, the announced rise in the reduced VAT rate from 5.5% to 7% in January 2012 should contribute 0.1% to headline inflation through to June 2012 *(see focus)*.

Inflation in non-energy industrial goods should decrease in Q1 2012 then rise again

Year-on-year non-energy industrial good prices should fall in Q1 2012 to -0.1% in March, and then rise from April, reaching 0.4% in June, a level close to that observed in October 2011 *(see table)*. This marked profile is mainly the result of that for clothing-footwear, with a sharp fall in January on account of the winter sales.[1] Year-on-year change in clothing-footwear prices should therefore be significantly negative in Q1, before rising thereafter.

(1) The application since early 2011 of a new European regulation on seasonal food products has consequences on the way they are measured and has resulted in great volatility over the last few months.

1 - Consumer prices in France

Source: INSEE

These jolts aside, low capacity utilisation rates and the high level of unemployment should contribute to holding back inflationary pressures in the manufacturing sector.

Inflation in services should be slightly up

Year-on-year change in prices of services decreased slightly in October to 1.4%. It should rise again slightly to 1.5% in June 2012 *(see table)*. It is in this sector that the announced rise in the reduced VAT rate should have the greatest impact *(see focus)*. It should contribute about 0.2 points to the rise in the price of services through to June 2012. VAT effect aside, the prices of services should follow the usual seasonal movements, with a rise in February, due among other things to prices of tourist accommodation, travel and air transport. The high level of unemployment should continue to hold back wages, which should contribute to keeping the prices of services down.

Energy inflation set to fall

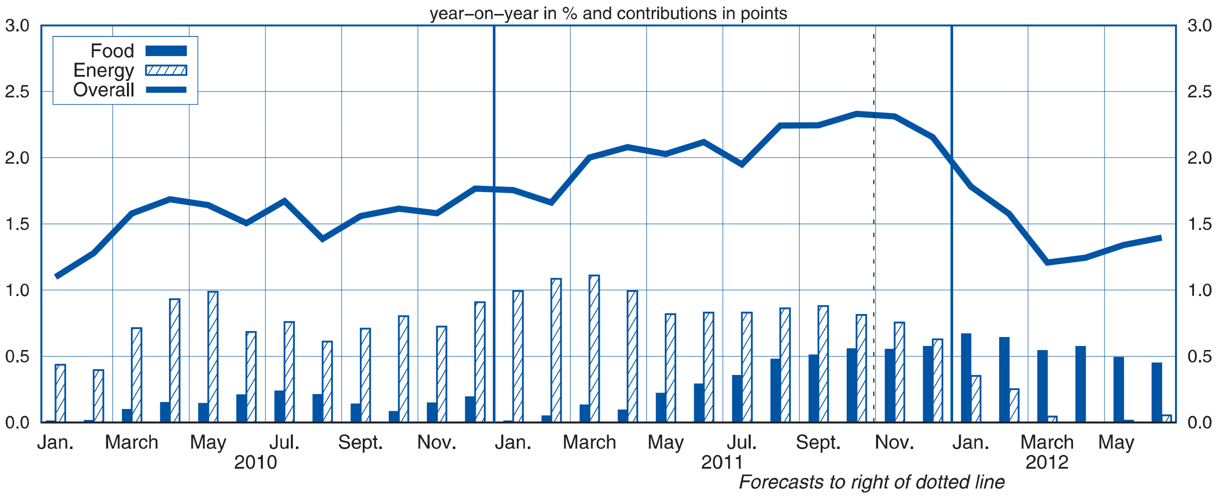
After 11.2% in October, year-on-year change in energy prices should fall significantly to stand at 0.7 % in June 2012. In a context of stabilisation of the price of the barrel of Brent at €80 in Q4 2011, then a slight fall in H1 2012, the removal of the sharp rises observed over the early months of 2011 from the year-on-year calculation should contribute automatically to the fall in energy inflation. The contribution of this item to headline inflation should be almost zero from March 2012 *(see graph 2)*.

Food product inflation should fall in 2012

Finally, year-on-year change in food prices should fall from February 2012, from 3.4% in October 2011 to 2.7% in June 2012 *(see table)*, as past rises in food commodity prices stop working through into food prices.

Year-on-year change in seasonal food products should increase to 2.5% in June 2012. In the absence of any future major event affecting production, prices of these products should return to their usual seasonal profile throughout H1 2012. ■

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



Source: INSEE

Consumer prices

changes as %

CPI* groups (2011 weightings)	June 2011		october 2011		December 2011		June 2012		Annual averages	
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	2010	2011
Food (16.13%)	**1.8**	**0.3**	**3.4**	**0.5**	**3.5**	**0.6**	**2.7**	**0.4**	**0.8**	**1.9**
including seasonal food products (2.14%)	*-3.8*	*-0.1*	*0.9*	*0.0*	*0.2*	*0.0*	*2.5*	*0.1*	*7.6*	*-0.9*
excluding seasonal food products(13.99%)	*2.6*	*0.4*	*3.7*	*0.5*	*4.0*	*0.6*	*2.8*	*0.4*	*-0.1*	*2.4*
Tobacco (1.93%)	**5.5**	**0.1**	**8.5**	**0.2**	**5.7**	**0.1**	**5.7**	**0.1**	**5.8**	**5.9**
Non energy industrial goods (30.52%)	**0.2**	**0.1**	**0.6**	**0.2**	**0.5**	**0.2**	**0.4**	**0.1**	**-0.1**	**0.0**
Energy (8.12%)	**11.5**	**0.9**	**11.2**	**0.9**	**8.7**	**0.7**	**0.7**	**0.1**	**10.0**	**12.1**
including oil products (4.87%)	*14.1*	*0.7*	*15.0*	*0.7*	*10.7*	*0.5*	*0.0*	*0.0*	*14.4*	*15.6*
Services (43.3%)	**1.8**	**0.8**	**1.4**	**0.6**	**1.4**	**0.6**	**1.5**	**0.7**	**1.4**	**1.6**
including:										
rent-water (7.42%)	*2.0*	*0.1*	*1.9*	*0.1*	*1.9*	*0.1*	*1.7*	*0.1*	*1.8*	*1.8*
health services (5.29%)	*1.1*	*0.1*	*1.1*	*0.1*	*1.1*	*0.1*	*0.5*	*0.0*	*0.6*	*1.1*
transport-communications (5.33%)	*-0.6*	*0.0*	*-0.8*	*0.0*	*-0.2*	*0.0*	*0.7*	*0.0*	*-0.3*	*-0.5*
other services (25.26%)	*2.4*	*0.6*	*1.7*	*0.4*	*1.7*	*0.4*	*1.8*	*0.5*	*1.8*	*2.1*
All (100%)	**2.1**	**2.1**	**2.3**	**2.3**	**2.2**	**2.2**	**1.4**	**1.4**	**1.5**	**2.1**
All excluding energy (91.88%)	1.3	1.2	1.6	1.5	1.6	1.5	1.5	1.3	0.9	1.2
All excluding tobacco (98.07%)	2.1	2.0	2.2	2.2	2.1	2.0	1.3	1.3	1.5	2.0
"Core" inflation (61.82%)(1)	**1.2**	**0.7**	**1.3**	**0.8**	**1.4**	**0.8**	**1.1**	**0.7**	**1.2**	**1.0**
All HCPI*	**2.3**	**2.3**	**2.5**	**2.5**	**2.4**	**2.4**	**1.5**	**1.5**	**1.7**	**2.3**

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

Focus: Evaluation of the impact of the rise in the reduced VAT rate

On 7 November 2011, the government announced a rise in the reduced VAT rate from 5.5% to 7% as of 1st January 2012. This rise will apply to all goods taxed at the reduced rate, except food products, subscriptions to gas, electricity and energy supply networks, and equipment and services for disabled people. The products concerned are therefore mainly services: accommodation, cafés and restaurants, cultural services, home maintenance and repair services and transport *(see table)*.

If the rise in VAT were passed on in full, the prices of those products directly affected would have to increase by 1.4%=(107-105.5)/105.5. The products concerned by this measure represent 12.7% of the headline index: the theoretical rise in the consumer price index would therefore be 0.18%.

In practice, past experience of changes in VAT rates reveals that the adjustment in prices is made gradually. The repercussion on prices is generally complete after a year. Our forecast supposes that 60% of the rise in VAT is passed on through to June 2012. All in all, it should therefore have an impact of 0.11 points on the headline index through to June 2012.

Finally, «core» inflation is an index exclusive of tax and therefore corrected for any fiscal measures. In practical terms, the VAT-inclusive prices that are observed are corrected for the rise in the rate of VAT: although this rise is only passed on gradually to VAT-inclusive prices, the whole rise is deducted to calculate «core» inflation from January (for -0.2 points). All other things being equal, this therefore causes a mechanical fall in «core» inflation .

In economic terms, this fall results from the margin behaviour of certain companies that do not immediately pass on the rise in VAT to their consumer prices. This means that in the short term, some companies lower their VAT-exclusive prices, at the expense of an effort on their margins, so as not to increase their VAT-inclusive prices. Analysis of past rises and decreases in VAT in France and abroad do show, however, that such behaviour is temporary. After a certain period of time, changes in indirect translation legislation are passed on in full to consumer prices (including VAT), suggesting that they do not have an impact on VAT-exclusive prices. «Core» inflation should therefore be down in January but rise again progressively over the months. ■

The items concerned by the rise in the reduced VAT rate

Categories of products			Sub-categories concerned by the rise in the reduced VAT rate
NON-ENERGY INDUSTRIAL GOODS	OTHER INDUSTRIAL GOODS	PRESS, BOOKS AND STATIONERY	Books
		HORTICULTURE	Plants and seeds including fertilizers
		SOLID FUELS	
	HEALTH PRODUCTS	PHARMACEUTICAL PRODUCTS	All except medicines eligible for reimbursement
		THERAPEUTIC APPARATUS AND EQUIPMENT	All except apparatus for the disabled
		PARA-MEDICINAL PRODUCTS	
SERVICES	OTHER SERVICES	ACCOMMODATION	Hotels, boarding houses School and university boarding accommodation Holiday accommodation
		CAFÉS, RESTAURANTS	Restaurants and cafés except alcoholic beverages Meals in corporate or administration restaurants
		CULTURAL SERVICES	Cinemas Live shows Monument or museum visits
		RECREATION AND SPORTS SERVICES	
		TELEVISION SERVICES	
		TRANSPORT AND COMMUNICATION	Road transport Combined transport Rail transport Maritime and river transport Air transport
	RENT, WATER AND HOUSEHOLD WASTE REMOVAL	SUPPLY OF WATER AND OTHER HOUSING-RELATED SERVICES	Water distribution Sewerage Other housing-related services, on homes over two years old
	HEALTH SERVICES	PRIVATE SPA TREATMENTS	

The items indicated here are not necessarily affected in their entirety by the rise in VAT.

Employment

The rhythm of job creations in the non-agricultural market sectors slowed markedly in Q3 2011. It was mainly the contraction of employment in the temporary work sector that caused this slowdown.

By mid-2012, the situation on the labour market is likely to deteriorate and employment is set to fall in the market sectors in H2 2011. This trend towards a decline in employment is likely to gather pace in 2012: 14,000 jobs lost in H2 2011 then 61,000 in H1 2012, after 137,000 new jobs in H1 2011. Over 2011 as a whole, market-sector job creations should be slightly down on 2010 (+123,000 after +129,000).

In the non-market sectors, employment should pick up through to mid-2012, due to the rise in the number of newcomers to the subsidised work contract measures. Non-market-sector employment should decrease slightly over 2011 as a whole (-3,000), and should then progress in H1 2012 (+35,000).

All in all, 130,000 market-sector and non-market sector jobs should be created over 2011 and 21,000 jobs are likely to be lost in H1 2012.

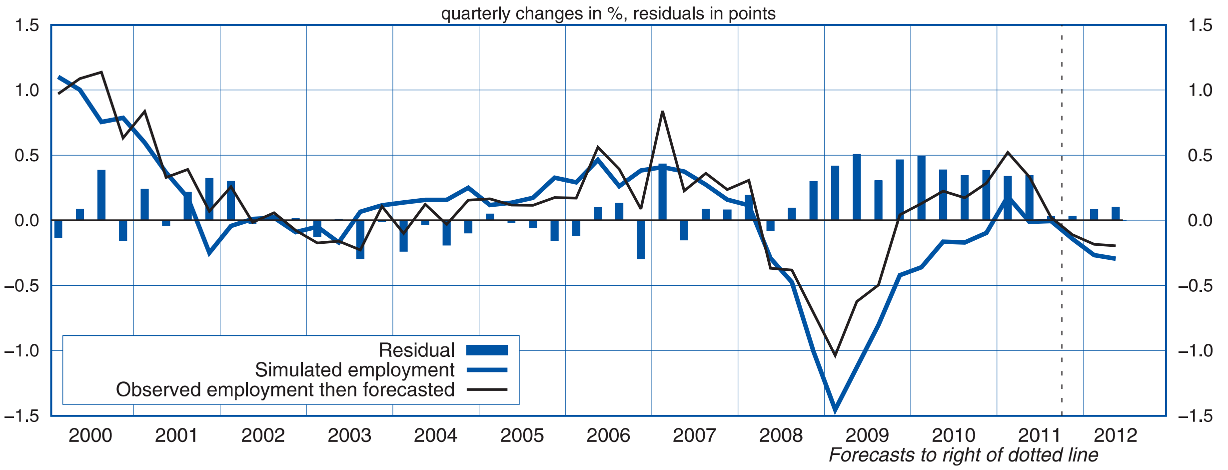
In the market sectors, employment set to fall in late 2011 and early 2012

Continually rising since the start of 2010, non-agricultural market-sector salaried employment was stable in Q3 2011. Market-sector employment held up surprisingly well during the crisis given the deterioration of activity, and was also surprisingly dynamic in early 2010 at the start of the recovery. Its trend since the end of 2008 has therefore been less negative than would be justified by previous behaviour *(see Graph 1)*. In Q3 2011 however, market-sector employment returned to a growth rate more in line with what past behaviour would lead us to expect. The forecast through to June 2012 assumes that as in Q3, employment will follow its pre-crisis trend and market-sector salaried employment should fall due to declining activity. 14,000 job losses are likely in H2 2011 and 61,000 in H1 2012. The employment rate should fall through to mid-2012 and thus return to its level of early 2011 *(see Graph 2)*.

Employment in industry on the slide once again

In H1 2011, and for the first time in ten years, industry did not suffer any job losses: thanks to the rise in industrial activity, employment increased by 0.2% (+7,000 jobs) *(see Graph 3)*.

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



Source: INSEE

However, with the gloomy output perspectives, employment in industry is set to fall through to mid-2012. Industrial employment (excluding temporary work) appears to have fallen in H2 2011 (-18,000 jobs, or -0.6%) and this drop is set to continue in H1 2012 (-21,000, or -0.7%). The decline should however be less marked than that observed on average since the start of the 2000s.[1]

The drop in industrial employment should be far less marked once the growth in the number of temporary staff working in the sector is taken into consideration.[2] Indeed, temporary work in industry rebounded (+67%) between Q1 2009 and Q1 2011, after being reduced almost by half during the crisis. Thanks to this rebound, the rate of use of temporary workers in industry returned in H1 2011 to its pre-crisis level, in the region of 7% *(see Graph 4)*. In Q2 2011, the number of industrial temporary workers declined (-2,000 jobs). This was accentuated in Q3 (-13,000 jobs). As is usually the case during economic slowdowns, the rate of recourse to temporary staff should drop over the forecasting period, and the decline in temporary work in the industrial sector should continue.

Stabilisation of the labour force in construction

In construction, the upturn in employment came later than in the other main economic sectors. Job losses continued throughout 2010 (-13,000 jobs over the year) and employment only rose slightly in H1 2011 (+1,000 jobs over the half-year, or +0.1%).

(1) Industry lost an average of 40,000 jobs per half-year between 2002 and 2008, and the crisis further sharpened this trend.
(2) In this sector-by-sector presentation of employment, in the same way as in the employment figures published by INSEE, temporary staff are counted in the tertiary sector even if their assignment is in industry or construction.

Employment in construction should increase slightly in H2 2011 (+4,000 jobs), and should remain stable in H1 2012 (-1,000 jobs). All in all, employment in this sector is set to progress moderately in 2011 (+5,000 jobs).

Job losses in the tertiary sector, particularly in temporary work

Temporary work, which is counted in the service sector regardless of the sector in which the assignments are carried out, made a strong contribution to the rise in employment during the recovery. On the rise since H1 2009, it accounted for almost half of the job creations in the market tertiary sector in 2010. In H1 2011, employment in the market tertiary sector remained very dynamic (+129,000 jobs, or +1.1%), although temporary work slowed (+16,000 jobs in H1 2011 after +96,000 in 2010). The number of temporary workers then fell sharply in Q3 2011 (-16,000 jobs, or -2.7%).

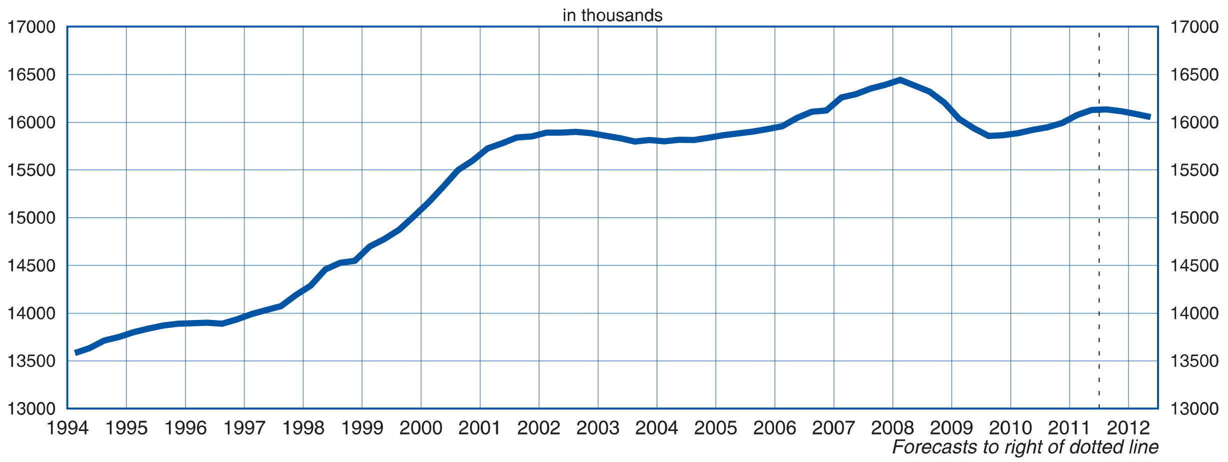
The rate of use of temporary staff, already falling in Q3 2011, should continue to drop over the forecasting period, as is usually the case during downturns *(see Graph 4)*. Temporary employment is set to decline through to mid-2012.

In the tertiary sector excluding temporary work, the workforce should grow once again in H2 2011, and should stabilise in H1 2012. All in all, employment in the market tertiary sector should remain virtually stable in H2 2011. It is likely to decline in H1 2012 (-39,000 jobs, or -0.3%).

Increase in non-market-sector employment

In 2011, 3,000 jobs are likely to have been lost in the non-market sector, after a sluggish 2010 (+19,000). The slowdown in non-market-sector

2 - Non-agricultural market paid employment



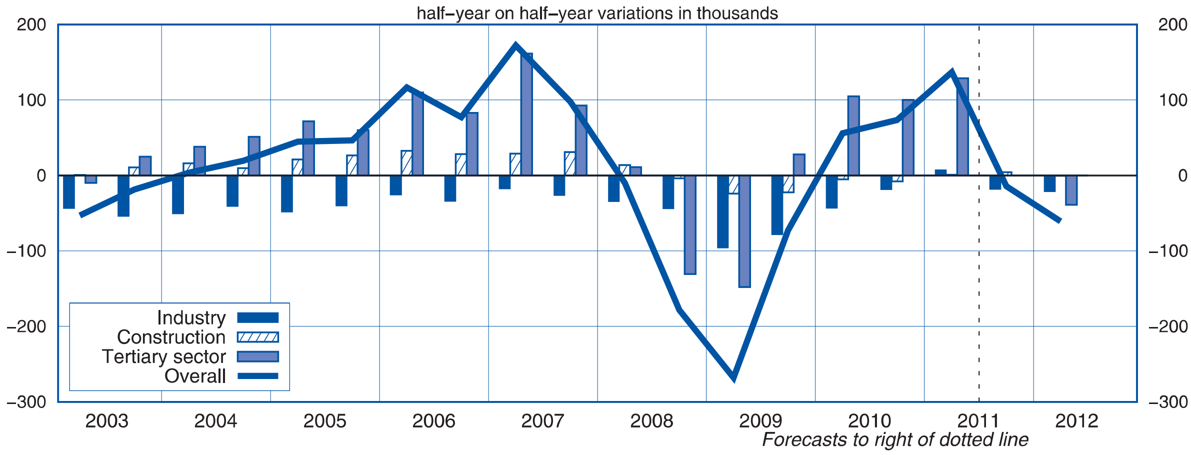
Source: INSEE

employment stems in part from the fall in subsidised contracts (-20,000 beneficiaries in the non-market sector in 2011, *see Table 2*), despite an acceleration in the number of newcomers to these schemes in H2 2011. The rhythm of newcomers to subsidised contracts should also be sustained in H1 2012.

After falling in H1 (-25,000 jobs), the number of beneficiaries of all non-market subsidised contracts is set to increase in H2 2011 (+5,000 jobs). In H1 2012, this dynamic is likely to continue, with 32,000 extra subsidised contracts.

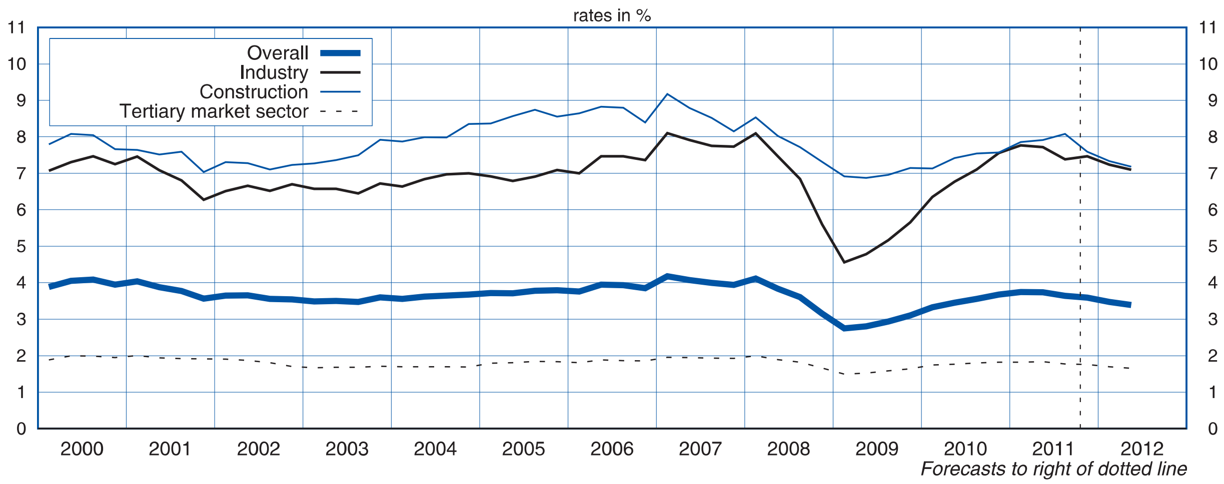
All in all, after a drop in H1 2011 (-15,000), non-market-sector employment should record an increase in H2 2011 (+12,000) and should pick up further in H1 2012 (+35,000). ■

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



Source: INSEE

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) seasonaly adjusted				
	2010	**2011**	**2011 H1**	**2010 H2**	**2012 H1**	**2010**	**2011**	**2011 H1**	**2011 H2**	**2012 H1**	**2010**	**2011**	**2011 H1**	**2011 H2**	**2012 H1**
Market sector employees (1)+(2)	**176**	**142**	**143**	**0**	**-43**	**1.0**	**0.8**	**0.8**	**0.0**	**-0.2**	**17914**	**18056**	**18056**	**18056**	**18013**
Mainly non-agricultural market sectors (1) (private establishments only)	**47**	**20**	**6**	**14**	**18**	**2.5**	**1.0**	**0.3**	**0.7**	**0.9**	**1921**	**1941**	**1927**	**1941**	**1959**
Mainly non-market sectors (2) including:	**129**	**123**	**137**	**-14**	**-61**	**0.8**	**0.8**	**0.9**	**-0.1**	**-0.4**	**15993**	**16115**	**16130**	**16115**	**16054**
Industry	-62	-11	7	-18	-21	-1.9	-0.3	0.2	-0.6	-0.7	3288	3277	3296	3277	3256
including:															
Manufacturing industry	*-64*	*-14*	*4*	*-18*	*-19*	*-2.2*	*-0.5*	*0.1*	*-0.6*	*-0.7*	*2921*	*2907*	*2924*	*2907*	*2887*
Construction	-13	5	1	4	-1	-0.9	0.4	0.1	0.3	0.0	1442	1447	1443	1447	1447
Tertiary market sector	205	129	129	0	-39	1.9	1.1	1.1	0.0	-0.3	11262	11391	11391	11391	11352
including:															
Trade	*6*	*26*	*24*	*3*	*-1*	*0.2*	*0.9*	*0.8*	*0.1*	*0.0*	*2997*	*3024*	*3021*	*3024*	*3022*
Market services (including temporary work)	*199*	*102*	*105*	*-3*	*-38*	*2.5*	*1.2*	*1.3*	*0.0*	*-0.5*	*8265*	*8367*	*8370*	*8367*	*8329*

	Job creations over the period (in thousands)					Change in employment over the period (in %)				
	2010	**2011**	**2011 H1**	**2011 H2**	**2012 H1**	**2010**	**2011**	**2011 H1**	**2011 H2**	**2012 H1**
Mainly non-agricultural market sectors	**129**	**123**	**137**	**-14**	**-61**	**0.8**	**0.8**	**0.9**	**-0.1**	**-0.4**
Agricultural employees	**-4**	**-10**	**-5**	**-5**	**-5**	**-1.6**	**-4.5**	**-2.3**	**-2.3**	**-2.4**
Mainly non-market service sectors (including private establishments)	**19**	**-3**	**-15**	**12**	**35**	**0.3**	**0.0**	**-0.2**	**0.2**	**0.5**
Self-employed	**20**	**20**	**10**	**10**	**10**	**0.8**	**0.8**	**0.4**	**0.4**	**0.4**
Total Employment	**165**	**130**	**127**	**2**	**-21**	**0.6**	**0.5**	**0.5**	**0.0**	**-0.1**

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 2012. This corresponds to a rise of 0.2% over the half-year. This sector should employ 18,013,000 workers at 30 June 2012.
Source: INSEE

Table 2

Subsidised employment in the non-market sector

in thousands

	2009	**2010**	**2011 H1**	**2011 H2**	**2011**	**2012 H1**
Single Integration Contract (CUI-CAE replaces CAE+CAV on 01/01/10)	-	241	-18	10	-8	33
Contract to Support Employment (CAE)	70	-163	-4	-3	-7	-1
Contract for the Future (CAV)	-10	-63	-3	-2	-5	0
Total	60	15	-25	5	-20	32

Forecast
Scope: Metropolitan France
Source : DARES, INSEE

Unemployment

In Q3 2011, the unemployment rate came to 9.3% of the active population in Metropolitan France (9.7% including overseas departments).

Owing to the sharp slowdown forecast for job creations, the unemployment rate should rise in Metropolitan France through to mid-2012, up to 9.6% (10.0% including overseas departments).

The unemployment rate was up in Q3 2011, to 9.3% of the active population

In Metropolitan France, the unemployment rate grew by 0.2 point in Q3 2011 and stood at 9.3% of the active population *(see Graph 1)*, i.e. 2.6 million unemployed (9.7% including overseas departments). It increased sharply between early 2008 and late 2009, following numerous job losses during the recession. In 2010 and up to mid-2011, the unemployment rate fell slightly, by 0.4 point, thanks to the dynamism of job creations.

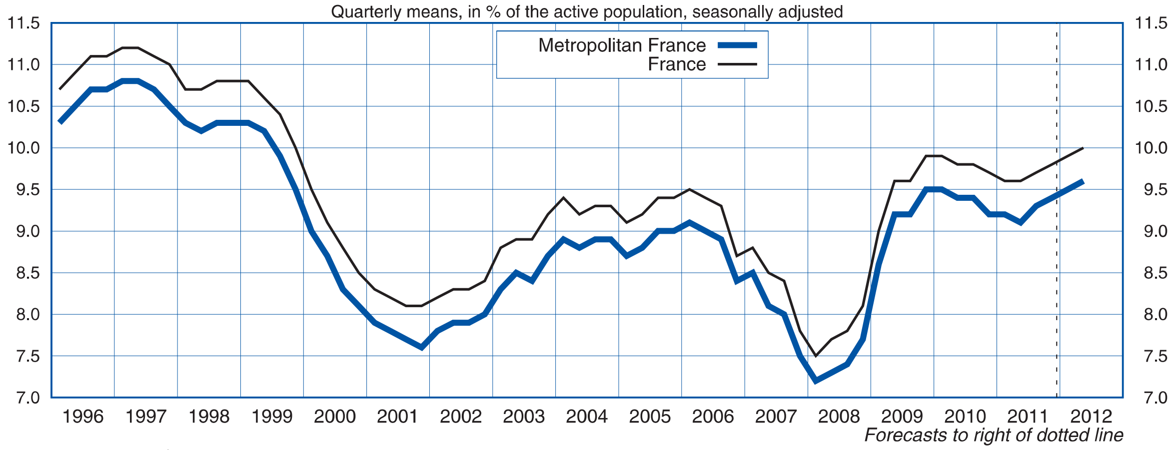
While unemployment continues to fall among young people, it is once again on the rise among older people

People in the under-25 age bracket were particularly hard-hit by the crisis *(see Graph 2)*. The unemployment rate of active people in the under-25 age bracket increased sharply between the start of 2008 and end 2009: young people are more frequently employed on temporary assignments than their elders, and they were thus affected more strongly by the sharp drop in temporary jobs at the start of the crisis. They also benefited from the recovery at the end of 2009, and their unemployment rate has been falling since then, standing at 21.6% in Q3 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 not working in the same time. When the number of young unemployed people is related to the 15-24 population, the rate is much lower: it stood at 8.3% in Q3 2011, just 0.8 point above the unemployment level of the 25-49 age bracket, while the unemployment rate of young people is 13.2 points higher than that of the 25-49 age group.

The unemployment rate in the 25-49 age group has been stable since the end of 2009, and came to 8.4% of the active population in Q3 2011. After a gradual fall lasting 18 months, unemployment among older people increased in Q3, by 0.3 point, thus returning to its level of end 2009 (6.6% of active people aged 50 or over).

1 - Unemployment rate in the sense of the ILO

Quarterly means, in % of the active population, seasonally adjusted



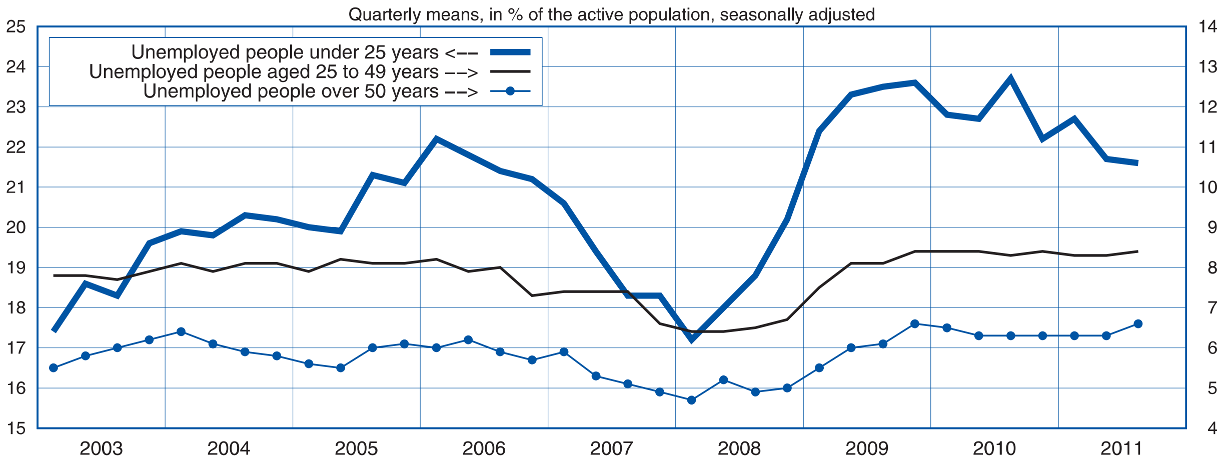
France = Metropolitan France + Overseas Departments
Scope: Population of households, people aged 15 or over
Source: INSEE, Employment Survey

Unemployment set to increase once again up to mid-2012

Within the forecasting period, the unemployment rate should increase again due to the deterioration in economic activity and employment. It should come to 9.4% of the active population in Metropolitan France (9.8% including overseas departments) at the end of 2011, then 9.6% in Metropolitan France in mid-2012 (10.0% including overseas departments). In the course of H2 2011, employment should grow far more slowly than the active population:(1) 20,000 jobs should be created, with 102,000 extra people joining the labour market. In H1 2012, total employment should drop (-6,000), while the active population is set to continue rising at a sustained rate (+70,000 people, *see Table*). ■

(1) For further information about the dynamics at work among the active population, see *Focus, «the new active population projections by INSEE»*, Conjoncture in France, June 2011.

2 - Unemployment rate by age braket



Scope: Population of households, people aged 15 or over

Source: INSEE, Employment Survey

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

Quarterly means, in thousands

	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2009	2010	2011	2012 H1
	Quarterly changes										**Annual changes**			
Population of the 15-64 age group	32	33	34	35	19	4	-7	-13	-16	-15	123	135	3	-31
Population of the 15-59 age group	-26	-24	-23	-23	-12	-8	-6	-7	-10	-13	-116	-96	-34	-23
Active population	**24**	**10**	**46**	**2**	**53**	**46**	**57**	**45**	**36**	**34**	**225**	**83**	**201**	**70**
including:														
(a) Contribution of the population and the trend participation rate	*40*	*40*	*40*	*40*	*41*	*41*	*41*	*41*	*36*	*36*	*148*	*159*	*164*	*72*
(b) Estimated bending effects	*0*	*1*	*1*	*1*	*1*	*2*	*1*	*0*	*0*	*0*	*-8*	*2*	*4*	*0*
(c) Estimated effects of public policies	*2*	*-1*	*-5*	*-1*	*-1*	*-2*	*-5*	*-2*	*-1*	*-2*	*0*	*-5*	*-10*	*-2*
(d) Other short-term fluctuations (residual)	*-17*	*-30*	*11*	*-37*	*12*	*5*	*21*	*5*	*0*	*0*	*84*	*-73*	*42*	*0*
Employment	**34**	**41**	**39**	**41**	**62**	**64**	**19**	**1**	**5**	**-11**	**-299**	**156**	**146**	**-6**
Reminder: End-of-period employment (see "Employment" note)	*37*	*45*	*33*	*49*	*75*	*52*	*-13*	*16*	*-6*	*-16*	*-233*	*165*	*130*	*-21*
ILO unemployment	**-10**	**-31**	**7**	**-39**	**-9**	**-17**	**38**	**43**	**31**	**45**	**524**	**-73**	**55**	**76**
	Quarterly changes										**Means at last quarter of the period**			
ILO unemployment rate (%)														
Metropolitan France	9.5	9.4	9.4	9.2	9.2	9.1	9.3	9.4	9.5	9.6	9.5	9.2	9.4	9.6
France (including overseas departments)	9.9	9.8	9.8	9.7	9.6	9.6	9.7	9.8	9.9	10.0	9.9	9.7	9.8	10.0

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.
To estimate unemployment, employment is counted in the middle of the quarter; in the Employment note, it is presented at the end of the quarter.
Source: INSEE

Wages

In 2011, the basic monthly wage should increase slightly in nominal terms (+2.2%, after +1.8% in 2010), as should the average wage per head (+2.8% after +2.1% in 2010): this acceleration is largely the result of wage index-linking mechanisms faced with the rise in inflation. In H1 2012, these mechanisms should continue to buoy up nominal wages, but the labour market situation is likely to restrict employee bargaining power. The growth overhang in 2012 at the end of Q2 should be +1.6% for the basic monthly wage and +1.3% for the average wage per head.

In real terms, the basic monthly wage should be almost stable in 2011 (+0.1% in 2011 after +0.6% in 2010). The real average wage per head should progress more clearly (+0.7% in 2011 after +0.9% in 2010). Real wages should slow down in early 2012 and the growth overhang at the end of Q2 should be +0.2% for the basic monthly wage and -0.1% for the average wage per head.

In general government, growth in the average wage per head in 2011 should be similar to that in 2010 (+1.6% against + 1.5% in 2010) but it is likely to decrease in real terms (-0.5% after +0.3% in 2010).

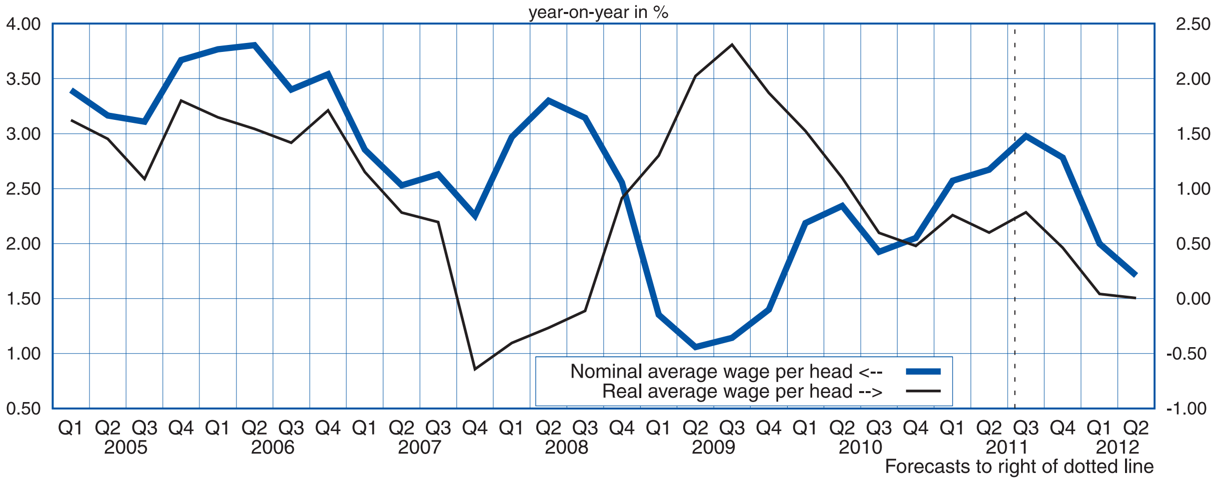
Nominal wages should accelerate in 2011 in the wake of inflation...

In 2011, the nominal basic monthly wage should be more dynamic than in 2010: +2.2% after +1.8% (*see table*). This acceleration should be the result of the gradual transmission of the rise in inflation observed since mid-2010. In addition to this, the increase in the minimum wage (SMIC) on 1st January 2011 was 1.6% after +0.5% on 1st January 2010[1] .

The average wage per head should accelerate even more clearly in 2011 (+2.8% after +2.1% in 2010). As for the basic monthly wage, the transmission of past rises in inflation came into play in 2011. Also, in H1, the average wage per head benefited from large bonus payments. In H2, the bonus system for employees of those companies paying out increased dividends also comes into force. Payment of this bonus in certain companies should contribute to the rise in the average wage per head through to the end of 2011.

(1) The legislation on the minimum wage (SMIC) changed from 2010; the annual adjustment is now made on 1st January and no longer on 1st July. As the annual adjustment of the minimum wage for 2009 was made on 1st July 2009, the adjustment on 1st January 2010 was moderate as it only took account of the changes in prices and the basic hourly wage for workers in H2.

Change in the nominal and real average wage per head



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

...but real wages set to slow down

In real terms, however, wages should slow down in 2011. The high level of unemployment should continue to limit employee bargaining power. This slowdown should be marked for the basic monthly wage, which will barely increase in 2011 (0.1% after 0.6% in 2010). It will be less pronounced for the average wage per head, which should continue to progress (0.7% after 0.9% in 2010).

Gains in real wages should be small in early 2012

In H1 2012, nominal wages should continue to be boosted by transmission of the past rise in inflation. They should benefit in particular from minimum wage index-linking mechanisms: the minimum wage was adjusted automatically on 1st December 2011 by 2.1%, in accordance with the legal provisions,(2) due to the sharp increase in inflation between November 2010 and October 2011. On 1st January 2012, the annual adjustment should be 0.1%. On the other hand, the backlash of the bonuses paid out at the end of 2011 should weigh down on the average wage per head in H1. In real terms, wages (basic monthly wage and average wage per head) should be almost stable in H1, notably due to the deterioration of the labour market situation.

In nominal terms, the growth overhang at the end of Q2 2012 should be +1.6% for the basic monthly wage and +1.3% for the average wage per head. In real terms, it should be +0.2% for the real basic monthly wage and -0.1% for the real average wage per head.

Real wages should decrease in 2011 in general government

The civil service minimum index increased by +1.0% on 1st January 2011 after not progressing at all in 2010. Also, the individual purchasing power guarantee bonus scheme (GIPA) (3) was renewed with a broader scope than in 2010, with the allocation method used in 2008 and 2009. On the other hand, the index point was not increased in 2011 (after +0.5% on 1st July 2010). All in all, the average wage per head in general government should pursue its rise in 2011 in constant Euros (+1.6% after +1.5% in 2010) but should fall in real terms (-0.5% after +0.3%).

In 2012, the fall in the real average wage per head in general government should continue: the growth overhang at the end of Q2 should be +0.9% for the nominal average wage per head and -0.6% for the real average wage per head.■

(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.
(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 2010, it was only paid to civil servants blocked at the highest level of a grade for at least four years. Terms of access to the scheme were widened 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		
	2011				2012		2010	2011	2012 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2			
Basic monthly wage	0,7	0,5	0,5	0,6	0,5	0,4	1,8	2,2	1,6
Average wage per head in the non-agricultural market sector (NAMS)	0,9	0,7	0,6	0,6	0,2	0,4	2,1	2,8	1,3
Average wage per head in general government (GG)	–	–	–	–	–	–	1,5	1,6	0,9
Household consumer price index (quarterly national accounts)	0,8	0,6	0,3	0,6	0,3	0,4	1,2	2,1	1,4
Real basic monthly wage	-0,1	0,0	0,2	0,0	0,1	0,1	0,6	0,1	0,2
Real average wage per head (NAMS)	0,2	0,1	0,2	-0,1	-0,2	0,1	0,9	0,7	-0,1
Real average wage per head (GG)	–	–	–	–	–	–	0,3	-0,5	-0,6

Forecast
Source: INSEE