Wages

In 2012, the basic monthly wage increased at the same pace as in 2011 in nominal terms (+2.1% after +2.2%) while the average wage per head slowed slightly (+2.1% after +2.5%). Inflation dropped and unemployment increased continually, but the larger minimum wage increases in 2012 than in 2011 sustained nominal wages. Thanks to the fall in inflation, the real average wage per head increased at the same pace as in 2011 (+0.4%) and the real basic monthly wage picked up slightly (+0.4% after +0.1%).

In H1 2013, the fall in inflation should gradually spread to nominal wages. Additionally the increase in the minimum wage on 1st January 2013 (+0.3%) was modest and the quarterly gains in real wages should be low. However, thanks to the gains in real wages in mid-2012, the growth overhangs at the end of Q2 2013 should be positive, with +0.6% for the basic monthly wage and +0.3% for the average wage per head.

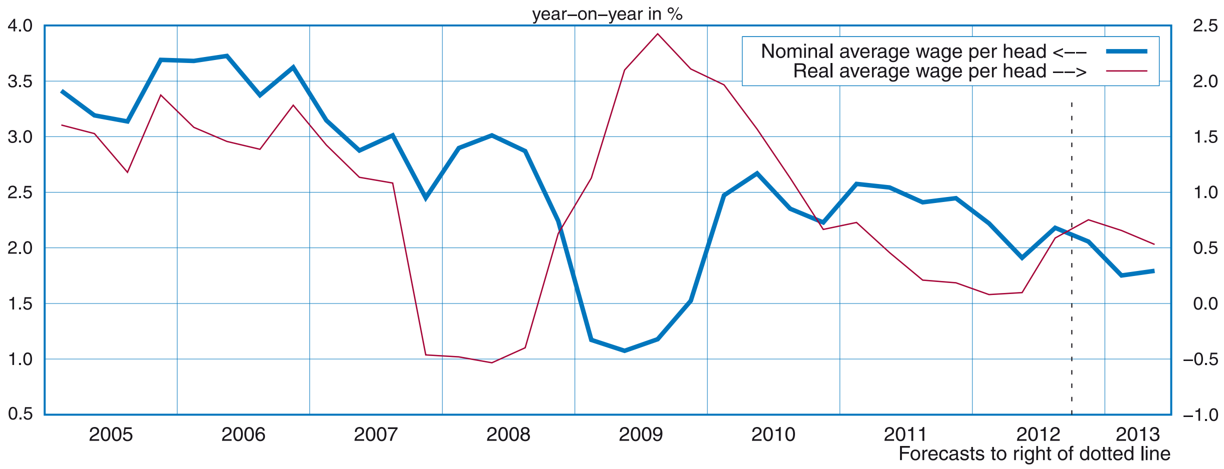
In general government, the nominal average wage per head slowed in 2012 (+1.2% after +1.8%). In real terms it fell back once again (-0.5% after -0.3%), and this decline should continue in early 2013 (-0.2% growth overhang in mid-2013 for the real average wage per head).

In 2012, wages increased at about the same rate as in 2011

In 2012, the basic monthly wage was almost as dynamic as in 2011 in nominal terms (+2.1% after +2.2%). It grew regularly over the course of the year: +0.5% each quarter. The average wage per head grew at the same pace as the basic monthly wage in 2012 (+2.1%), slowing slightly after the 2.5% rise in 2011. The rise in unemployment took its toll on the bargaining power of employees, but as wages are partly determined by past inflation, they benefited from its increase in 2011. In particular, the minimum wage rises further to the strong inflation observed in 2011 and the extra increase on 1st July 2012 sustained the growth in nominal wages. Indeed, the minimum wage was increased by 2.1% in December 2011, 0.3% in January 2012 but also 2.0% in July 2012, bringing the average rise in the minimum wage in 2012 to 3.3% against 1.8% in 2011.

In real terms the basic monthly wage picked up slightly (+0.4% in 2012 after +0.1% in 2011), with the nominal basic monthly wage increasing in 2012 at the same rate as in 2011 while inflation slowed slightly (+1.7% after +2.1%). The real average wage per head progressed in 2012 as it had in 2011 (+0.4%). Real wage gains were made mainly in Q2 and Q3 due to the sharp slowdown in

Change in the nominal and real average wage per head



Scope: non-agricultural market sector

Sources: DARES, INSEE

consumer prices, since wages adjust to inflation with a time lag. In Q4 2012, however, real wage gains appear to have been smaller.

Real wages should rise very slightly in H1 2013 in the market sector

At the start of 2013 the minimum wage was increased very slightly (+0.3% on 1st January) because the rise did not take account of the increase in consumer prices excluding tobacco observed between May and November 2012, with observed inflation between November 2011 and May 2012 already having been integrated in the minimum wage rise on 1st July 2012. Furthermore, unemployment is set to continue rising in H1 2013, thereby restricting the bargaining power of employees. In the wake of the fall in inflation, year-on-year annual wages should fall further *(see Graph)*, and real wage gains should be low in each quarter.

The growth overhangs at the end of Q2 2013 should stand at +1.6% for the nominal basic monthly wage and +1.4% for the nominal average wage per head. In real terms they should be +0.6% for the basic monthly wage and +0.3% for the average wage per head.

The average wage sliding in real terms in general government

In the civil service the fall in real wages continued, most notably because the index point was once again frozen in 2012 and because of a significant Noria effect linked to retirements. However, the civil service minimum index grew by 2.4% on 1st January 2012 then by 2.0% on 1st July 2012, in order to keep in line with the evolution of the minimum wage. Additionally, the individual purchasing power guarantee bonus scheme (GIPA)[1] was renewed in 2012. All in all, the average wage per head in general government increased in 2012 in constant euros (+1.2% after +1.8% in 2011) but continued to fall in real terms (-0.5% after -0.3%).

At the start of 2013, the index point is still frozen and the GIPA has been renewed. The nominal average wage per head in general government should slow very slightly and the growth overhang at the end of Q2 2013 should be +0.8% for the nominal average wage per head and - 0.2% for the real average wage per head. ■

(1) The individual purchasing power guarantee bonus scheme 2012 is a benefit that concerns civil servants and State agents who lost purchasing power between 2007 and 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		
	2012				**2013**		**2011**	**2012**	**2013 ovhg**
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**			
Basic monthly wage	0.5	0.5	0.5	0.5	0.5	0.5	2.2	2.1	1.6
Average wage per head in the non-agricultural market sector (NAMS)	0.7	0.4	0.6	0.4	0.4	0.4	2.5	2.1	1.4
Average wage per head in general government (GG)							1.8	1.2	0.8
Household consumer price index (quarterly national accounts)	0.6	0.2	0.1	0.3	0.4	0.3	2.1	1.7	1.1
Real basic monthly wage	-0.1	0.3	0.4	0.1	0.0	0.2	0.1	0.4	0.6
Real average wage per head (NAMS)	0.1	0.2	0.4	0.0	0.0	0.1	0.4	0.4	0.3
Real average wage per head (GG)							-0.3	-0.5	-0.2

Forecast
Source: INSEE

Household income

In 2012, household purchasing power will have declined (-0.2% after +0.5% in 2011), despite the slight drop in inflation (1.7% after 2.1% in 2011). Indeed, the growth of the gross disposable income of households should have slowed considerably (+1.5% after +2.6%) due to less dynamic earned income (+2.0% after +2.9%) and the pick-up in taxes (+9.3% after +6.6%).

Purchasing power should nonetheless increase in 2013 (+0.2 % in H1 2013 after -0.1 % in both semesters in 2012), mainly because of the tax-collecting calendar. Indeed, after a sharp rise in H2 2012 due to increases in the tax burden enacted by successive Finance Laws, tax revenue should remain stable in early 2013. Meanwhile earned income should continue to slow.

Earned income should continue its slowdown over the forecasting period

For 2012 as a whole the growth in earned income was less dynamic than it was in 2011 (+2.0 %, after +2.9% in 2011, see *Table 1*). In particular, the wages received by households slowed perceptibly (+1.9% after +2.9% in 2011; see *Table 2*) due to the deteriorating labour market. On the one hand, employment declined in the non-agricultural market sectors *(see Graph 1)*. On the other hand, despite the increase in the minimum wage at the end of 2011 and again in July 2012, the average wage per head was less dynamic than in 2011 (+2.1% after +2.5%).

Moreover, growth in the property income and gross operating surplus of pure households[1] was also lower in 2012 than in 2011. However, the income of sole proprietors did grow more rapidly in 2012 (+2.9% after +2.4%).

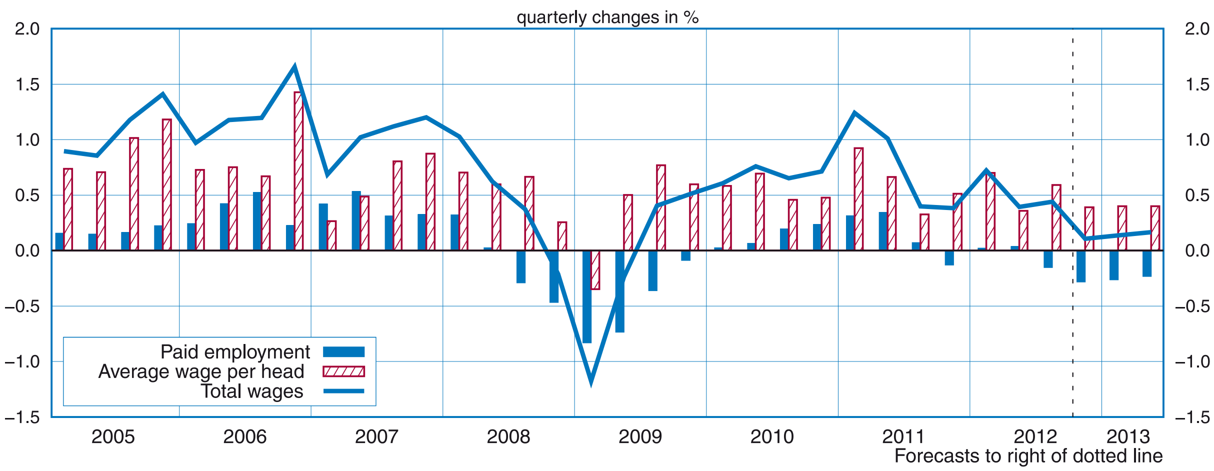
At the start of 2013, earned income is likely to continue decelerating (+0.4% in H1 after +0.9% in H2 2012). The payroll should grow slight more slowly than in the previous half-year (+0.4% after +0.8%) while the gross operating surplus of sole proprietors is also set to slow (+0.8% after +1.2%). Income from property should also slow down in H1 2013 (+0.4% after +0.6%) while the gross operating surplus of pure households should grow more quickly.

Social benefits still dynamic

In 2012, social benefits in cash received by households were slightly more dynamic than in 2011 (+3.6% after +3.2%, see *Table 3*). Social security benefits accelerated slightly (+3.7% after

(1) The GOS of pure households corresponds to the production of housing services minus the intermediate consumptions required for this production (most notably financial services linked to loans) and taxes (land tax). It corresponds to the rents that homeowners receive from their tenants or could receive if they put their dwelling up for rent ("imputed" rents).

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



Source: INSEE

+3.3%). They were sustained on the one hand by the sharp increase in the back-to-school allowance in summer (+25%), and on the other hand by the sharp acceleration in unemployment benefits due to the rise in the number of unemployed. Conversely, old-age allowances were slowed by the gradual effects of the 2010 pension reform, exacerbated by the Social Security Financing Act for 2012. Additionally, social assistance benefits accelerated sharply (+4.6% after +0.4%). They were sustained on the one hand by increases to the adult disability allowance in April and September (five-year plan to boost this allowance over the period 2007-2012). On the other hand, the number of people receiving the earned income supplement (RSA) and the specific welfare allowance increased.

In H1 2013, the increase in social benefits in cash is likely to slow slightly (+1.8% after +1.9%). Social security benefits should remain dynamic: unemployment benefits should continue to grow rapidly in line with the deterioration of conditions on the labour market. Social assistance benefits are likely to slow noticeably in early 2013 (+1.2% after +2.7% in H2 2012) due to the end of the five-year revaluation plan for the adult disability allowance.

Highly dynamic in 2012, the tax burden will remain practically stable in H1 2013

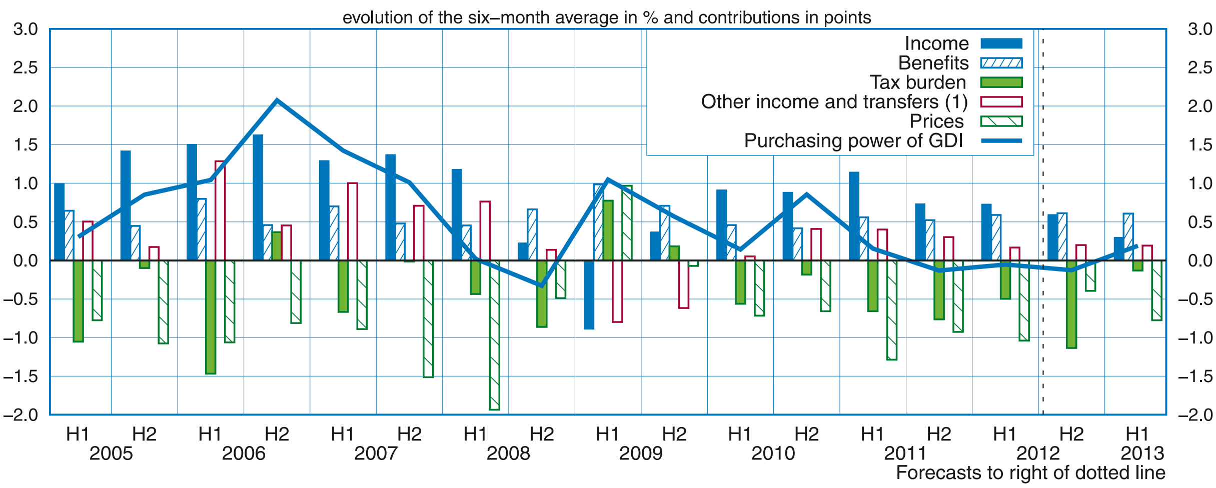
In 2012, total taxes paid by households progressed at a more sustained pace than in 2011 (+6.2% after +5.0%), driven by the acceleration of income tax and tax on assets (+9.3% after +6.6%). In particular, income tax revenues picked up strongly in H2 with the application of the measures voted in for 2012: de-indexation of the income tax rate for natural persons (IRRP), closing of certain tax loopholes and establishment of an exceptional contribution on very high incomes. The reinforcement of capital gains taxation and higher capital taxation also contributed to this acceleration. Lastly, other current taxes were sustained at the end of 2012 by an exceptional solidarity tax on wealth, a measure passed in the spring. Despite the abolition of exemptions on overtime, the progress in employee contributions weakened in 2012 (+2.4% after +3.3%) due to the slowdown in earned income.

In H1 2013, the total tax burden should remain practically stable (+0.5% after +4.7% in H2 2012). Indeed taxes on income and assets paid by households should drop off by 0.3% after a highly dynamic H2 2012 (+7.1%). As in 2012, the measures included in the Finance Law (de-indexation of the income tax thresholds, creation of a 45% bracket, lowering of the family quotient ceiling) will come into play mainly in H2 2013. However in H1 2013 contributions by the self-employed should increase sharply (+5.1% after +1.0% in H2 2012), notably because of the removal of the ceiling on sickness contributions and the abolition of the special allowance for professional costs, both measures included in the Social Security Financing Act for 2013.

Purchasing power slipped slightly in 2012

Over 2012 as a whole the gross disposable income of households slowed perceptibly: it grew by 1.5%, after 2.6% in 2011. Despite the slower growth of consumer prices (+1.7% after +2.1%), household purchasing power fell by 0.2% in 2012, the worst result since the decline recorded in 1984.

2 - Purchasing power of disposable income and contributions



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

Purchasing power per consumption unit, which accounts for demographic changes among other things, declined by 0.8% in 2012, whereas it was virtually stable in 2011 (-0.1%), *(see Box)*.

In H1 2013, the gross disposable income of households is likely to rebound (+1.0% after +0.3%) due to the stabilisation of taxes. Purchasing power should thus increase once again (+0.2% after -0.1% in each of the three preceding half-years), despite the acceleration of prices (+0.8% after +0.4% in H2 2012). In mid-2013 it should stand at 0.2 point below its mid-2012 level. ■

Table 1

Household gross disposable income

change as %

	Half-yearly averages					Annual averages		
	2011		2012		2013	2010	2011	2012
	H1	H2	H1	H2	H1			
Gross disposable income (100%)	**1.4**	**0.8**	**1.0**	**0.3**	**1.0**	**2.0**	**2.6**	**1.5**
including :								
Income (68%)	1.7	1.1	1.1	0.9	0.4	2.3	2.9	2.0
Gross wages (60%)	1.8	1.0	1.0	0.8	0.4	2.3	2.9	1.9
GOS of sole proprietors [1] (9%)	0.8	1.5	1.5	1.2	0.8	1.8	2.4	2.9
Social benefits in cash (32%)	1.7	1.6	1.8	1.9	1.8	3.2	3.2	3.6
GOS of "pure" households (12%)	2.1	1.5	1.2	1.1	1.2	-0.4	3.4	2.5
Property income (10%)	1.9	1.2	0.2	0.6	0.4	-0.9	3.7	1.1
Social contribution and tax burden (-23%)	2.9	3.3	2.1	4.7	0.5	2.5	5.0	6.2
Contributions by paid employees (-8%)	2.2	1.1	1.0	1.7	0.8	1.9	3.3	2.4
Contributions of self-employed persons (-2%)	0.6	1.3	0.4	1.0	5.1	3.1	1.7	1.6
Income and wealth tax (including CSG and CRDS) (-14%)	3.7	5.0	3.0	7.1	-0.3	2.8	6.6	9.3
Income before taxes	**1.7**	**1.3**	**1.2**	**1.1**	**0.8**	**2.0**	**3.1**	**2.4**
Household consumer prices (quarterly national accounts)	**1.3**	**0.9**	**1.0**	**0.4**	**0.8**	**1.1**	**2.1**	**1.7**
Purchasing power of gross disposable income	**0.2**	**-0.1**	**-0.1**	**-0.1**	**0.2**	**0.9**	**0.5**	**-0.2**
Household purchassing power by consumption	**-0.2**	**-0.4**	**-0.3**	**-0.5**	**-0.2**	**0.2**	**-0.1**	**-0.8**

Forecast

How to read it: The figures in parentheses give the structure of the year 2011.

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

Source: INSEE

Table 2

From the payroll of non-financial enterprises to that received by households

change as a %

	Half-yearly averages					Annual averages		
	2011		2012		2013	2010	2011	2012
	H1	H2	H1	H2	H1			
Non-financial enterprises (67%)	2.3	1.3	1.0	0.7	0.3	2.3	3.7	2.0
including : Average wage per head	1.6	1.1	1.1	1.1	0.9	2.8	2.8	2.2
Financial corporations (5%)	0.8	-0.6	2.9	0.6	0.3	2.2	0.4	2.8
General government (22%)	0.7	0.5	0.5	0.7	0.6	2.1	1.2	1.1
Households excluding sole proprietors (2%)	0.9	1.2	0.5	2.2	-0.1	3.0	1.8	2.2
Total gross wages received by households (100%)	**1.8**	**1.0**	**1.0**	**0.8**	**0.4**	**2.3**	**2.9**	**1.9**
including : Non-agricultural market sectors	2.1	1.1	1.1	0.7	0.3	2.2	3.4	2.0

Forecast

How to read it: The figures in parentheses give the structure of the year 2011.

Source: INSEE

Table 3

Social transfers received and paid by households

change as a %

	Half-yearly averages					Annual averages		
	2011		2012		2013	2010	2011	2012
	H1	H2	H1	H2	H1			
Social cash benefits received by households (100%)	**1.7**	**1.6**	**1.8**	**1.9**	**1.8**	**3.2**	**3.2**	**3.6**
Social Security benefits in cash (72%)	1.7	1.7	1.8	1.9	2.0	3.6	3.3	3.7
Private funded social benefits (7%)	1.5	0.7	1.1	1.2	1.4	2.9	2.5	2.0
Unfunded employee social benefits (13%)	2.9	2.1	1.5	1.6	1.6	2.9	5.0	3.4
Social assistance benefits in cash (8%)	0.3	0.7	2.9	2.7	1.2	0.6	0.4	4.6
Total social contribution burden	**2.6**	**1.8**	**0.8**	**1.3**	**1.1**	**2.1**	**4.1**	**2.3**
Actual social contributions paid by households (100%)	2.5	1.7	0.7	1.2	1.0	2.0	4.0	2.2
including : Employers contributions[1] (63%)	2.9	2.1	0.6	1.0	0.6	2.0	4.7	2.1
Employees contributions (29%)	2.2	1.1	1.0	1.7	0.8	1.9	3.3	2.4
Self-employed contributions (8%)	0.6	1.3	0.4	1.0	5.1	3.1	1.7	1.6

Forecast

How to read it: The figures in parentheses give the structure of the year 2011.

(1) Employer contributions are both received and paid by households in the national accounts: they therefore have no effect on gross disposable income.

Source: INSEE

Different ways of measuring purchasing power

The household income that is presented and analysed in Conjoncture in France includes all the income received by all households. This is the relevant reference in macro-economic terms, for example when constructing the balance between resources (GDP and imports) and uses (consumption, investment, exports...) or forecasting GDP. It must be corrected, however, if we want to measure the average purchasing power of the French, in order to take account both of growth in the number of households and changes to their composition. The most relevant correction in this respect consists in dividing income by the number of consumption units in France, thereby taking account of demographic growth and also of the fact that some consumption may be shared within the household (for example, household appliances). A large household therefore makes certain "economies of scale" in relation to a smaller household. In 2012, growth in the number of consumption units was 0.6% (as a comparison, growth in the population was 0.5% and growth in the number of households 1.0%).

Therefore, purchasing power per consumption unit is set to fall in 2012 (-0.8% after -0.1% in 2011). Per inhabitant, the fall should be 0.7% and per household it should be 1.2%.■

Household consumption and investment

In Q4 2012, household consumption rose once again (+0.2% after +0.3%). Expenditure on services and purchases of manufactured goods, particularly automobiles, continued to increase. Over 2012 as a whole household expenditure was stable (after +0.2% in 2011). Expenditure on services held up but expenditure on manufactured goods, and more specifically automobiles, slipped back (-0.7% after +0.9% in 2011).

Household consumption should remain almost stable in H1 2013 (0.0% then +0.1% in Q1 and Q2). In Q1 2013, automobile purchases should fall back significantly. However, energy expenditure should pick up due to the weather conditions in early 2013, before contracting in Q2. In mid-2013, the growth overhang for consumption in 2013 should stand at +0.3%.

Household purchasing power has fluctuated sharply from quarter to quarter, mainly due to the calendar set for the entry into force of tax rises. The quarterly profile of consumption should however be smoother, and the savings ratio should therefore have an uneven profile: after slumping to 15.5% in Q4 2012, it should rebound in H1 2013 to 15.8 % by mid-2013. Household investment slipped back in Q4 2012 (-0.8% after -0.1%), bringing to an end a year 2012 that was marked by a clear deceleration (+0.6% after +3.2%). This decline should gather pace in H1 2013.

In Q4 2012, consumption expenditure held up at the end of a year of stagnation

In Q4 2012, household consumption slowed slightly (+0.2% after +0.3%, see Table). At the same time household purchasing power dipped due to the rise in the tax burden and the slowdown in earned income. The savings ratio thus fell back sharply, to 15.5% after 16.2% in Q3 2012.

Consumption of manufactured goods increased slightly in Q4 (+0.1% after +0.6%, see Graph 1). Automobile purchases picked up (+1.0% after +0.5%), particularly in December 2012 as households anticipated the increase in the «malus» on the most polluting cars on 1st January 2013. Purchases of capital goods also accelerated (+3.4% after +0.3%). These two factors more than offset the drop in expenditure on agrifood products (-1.1% after +0.7% in Q3 2012). Consumption of services also rose slightly in Q4 2012, at the same pace as in summer (+0.2%), driven by the consumption of transport services which continued to show strong growth (+1.1% after +1.2%).

Over 2012 as a whole consumption of goods and services thus did not progress, for the first time since 1993. Expenditure on manufactured goods declined (-0.7% after +0.9% in 2011), mainly due to the sharp decrease in automobile purchases (-4.5% in 2012, after +0.6%) concentrated in Q1 2012. Despite the rebound in electricity and gas consumption (+6.0% after -9.0%), the

Household consumption and investment expenditure

	Quarterly changes in %										Annual changes in %		
	2011				2012				2013		2011	2012	2013 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Total household consumption expenditure	**0.0**	**-0.9**	**0.3**	**-0.1**	**0.1**	**-0.2**	**0.3**	**0.2**	**0.0**	**0.1**	**0.2**	**0.0**	**0.3**
including: Agriculture goods	0.8	0.2	-0.9	0.3	0.1	-1.7	-0.1	-0.5	0.3	0.0	0.6	-1.5	-0.6
Energy	-8.2	-4.4	3.8	-3.1	7.0	3.2	-3.3	0.2	2.5	-1.7	-9.0	6.0	0.4
Manufactured goods	0.4	-1.6	0.3	0.4	-0.6	-0.6	0.6	0.1	-0.7	0.2	0.9	-0.7	-0.4
Services	0.4	0.2	0.3	-0.1	0.2	-0.1	0.2	0.2	0.2	0.2	0.8	0.4	0.6
Goods	-0.4	-1.7	0.5	0.1	0.0	-0.3	0.2	0.0	-0.4	0.0	0.0	-0.2	-0.3
Household consumption	**0.1**	**-0.6**	**0.3**	**0.0**	**0.2**	**-0.1**	**0.3**	**0.2**	**0.1**	**0.2**	**0.5**	**0.3**	**0.5**
Household investment	**0.0**	**1.3**	**1.1**	**0.6**	**-0.4**	**0.0**	**-0.1**	**-0.8**	**-1.4**	**-1.6**	**3.2**	**0.6**	**-3.3**

Forecast
Source: INSEE

consumption of goods slipped back over 2012, by 0.2%, after stagnating in 2011. Consumption of services slowed (+0.4% after +0.8%); most notably, expenditure on accommodation and catering fell back.

In H1 2013, consumption should remain stable

The total consumption expenditure of households should increase slightly over the forecasting period (0.0% in Q1 2013 then +0.1% in Q2).

According to the car registration data available up to February 2013 *(see Graph 2)* automobile purchases should drop sharply over Q1 2013 further to the increase in the «malus» on the most polluting cars. Additionally, clothing expenditure should remain virtually stable in H1 2013. Purchases of manufactured goods should thus dip in Q1 (-0.7%) before rising slightly in Q2 2013 (+0.2%).

However, after a relatively mild month of December 2012, the cold snap at the start of the year is likely to cause a sharp acceleration in electricity and gas expenditure in Q1 2013 (+2.5% after +0.2%). This should then contract in Q2 (-1.7%). All in all, consumption of goods is likely to fall in Q1 2013 (-0.4%) then stabilise in Q2 (0.0%).

Consumption of services is set to continue growing slightly in H1 2013, at the same pace as at the end of 2012 (+0.2% per quarter): the increase in consumption of transport services should offset the poor level of consumption of accommodation and catering services.

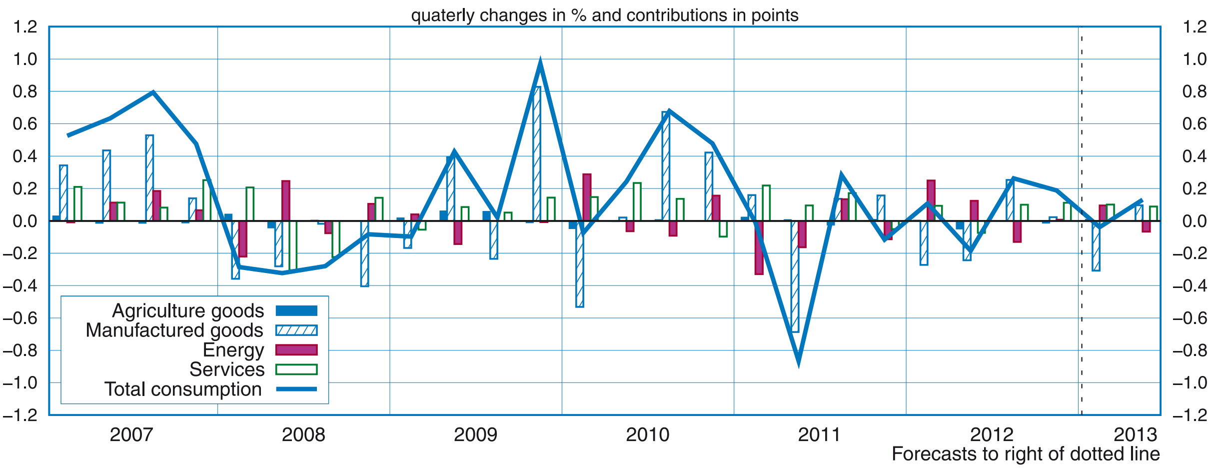
The savings ratio of households set to rebound in H1 2013

In H1 2013 households are likely to make the most of their higher purchasing power to bolster their savings ratio after reducing it at the end of 2012. The savings ratio should reach 15.8% in Q2 2013 after 15.5% in Q4 2012 *(see Graph 3)*, which is 0.6 point lower than a year earlier but higher than its average over the period 2000-2007.

Household investment set to slump

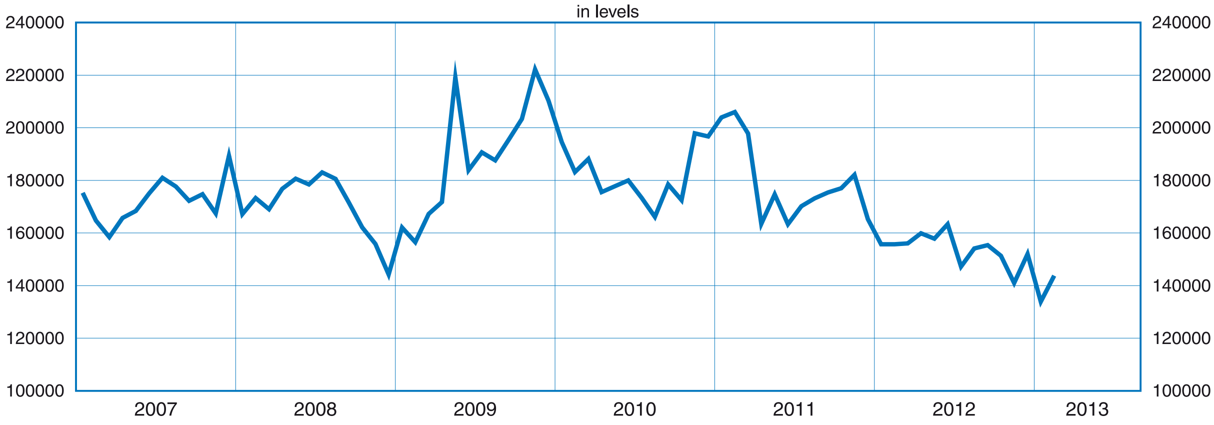
Household investment fell back in Q4 2012 (-0.8%). After rising to a peak at end 2011, housing starts declined sharply in 2012 *(see Graph 4)*. They have picked up very slightly since the end of the year but given the production lead times in construction, household investment is set to slump once again over the forecasting period. In mid-2013, the growth overhang in household investment for the year should stand at -3.3%. ■

1 - Contributions of the various items to quarterly household consumption



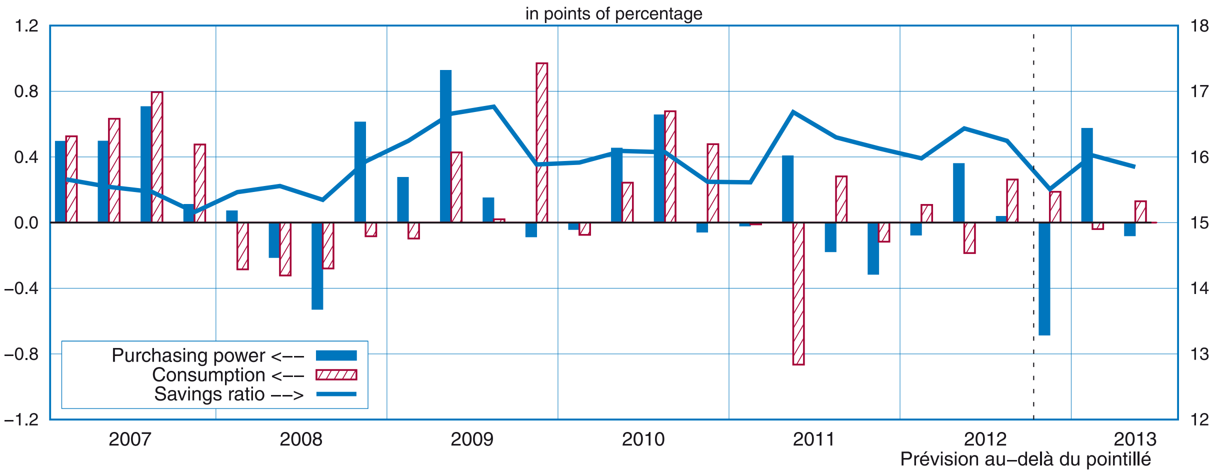
Source: INSEE

2 - Monthly registrations (corrected for seasonal variations and working days) of new private vehicles



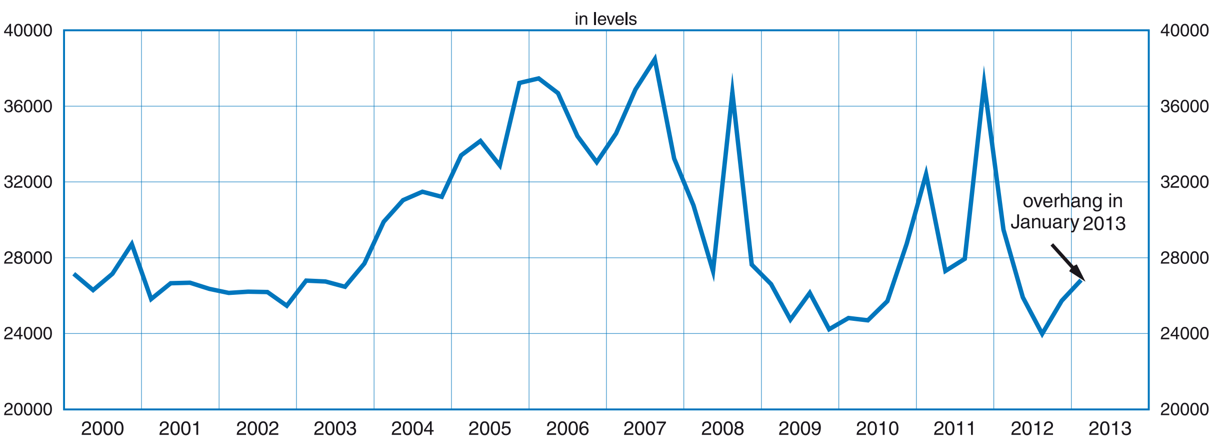
Source: SOeS

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



Source: INSEE

4 - Housing starts for all dwellings per quarter



Source: SOeS

Enterprises' earnings

In 2012 the margin rate of non-financial companies fell back once more: measured at factor costs, it reached 29.1% over the year after 29.6% in 2011. On the one hand productivity gains were nil in 2012, while wages per head progressed. On the other hand the rise in oil prices was partially absorbed by companies, and their margin rate suffered due to a slight deterioration in the terms of trade.

In H1 2013 productivity gains should pick up while real wages no longer grow: the margin rate should therefore recover slightly.

Since the start of 2012, the margin rate has stabilised at a low level

The margin rate of non-financial companies dropped continually between mid-2010 and Q1 2012: measured at factor costs, it reached 28.9% in Q1 2012 against 31.1% in Q3 2010 *(see Graph 1)*. This drop of more than two points was caused by an increase in import prices, particularly for energy goods (contribution of -1.6 point) and a faster increase in real wages than in productivity gains (contribution of -0.5 point).

However, the margin rate has stabilised since the start of 2012: it reached 29.0% in Q4 2012, a level slightly higher than that at the start of the year.

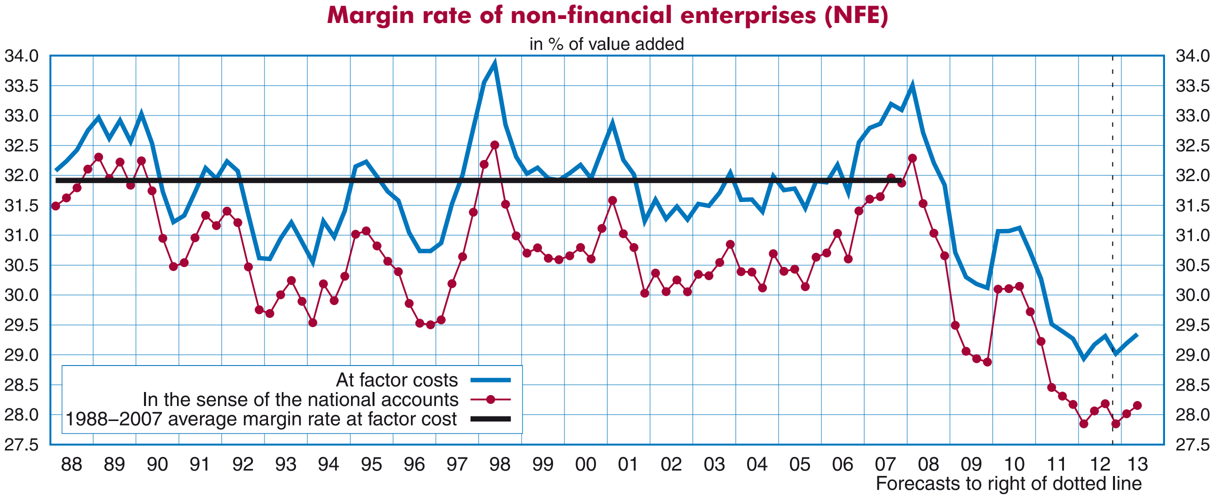
The decline in the average margin rate in 2012 against 2011 therefore reflects above all the sharp drop in the course of 2011.

The stabilisation of the margin rate since the start of 2012 is first and foremost the result of the slowdown in import prices, most notably of energy goods: the terms of trade have improved significantly since Q2 2012 *(see Graph 2)*. However, real wage trends have remained more dynamic than productivity gains.

The margin rate should pick up in H1 2013

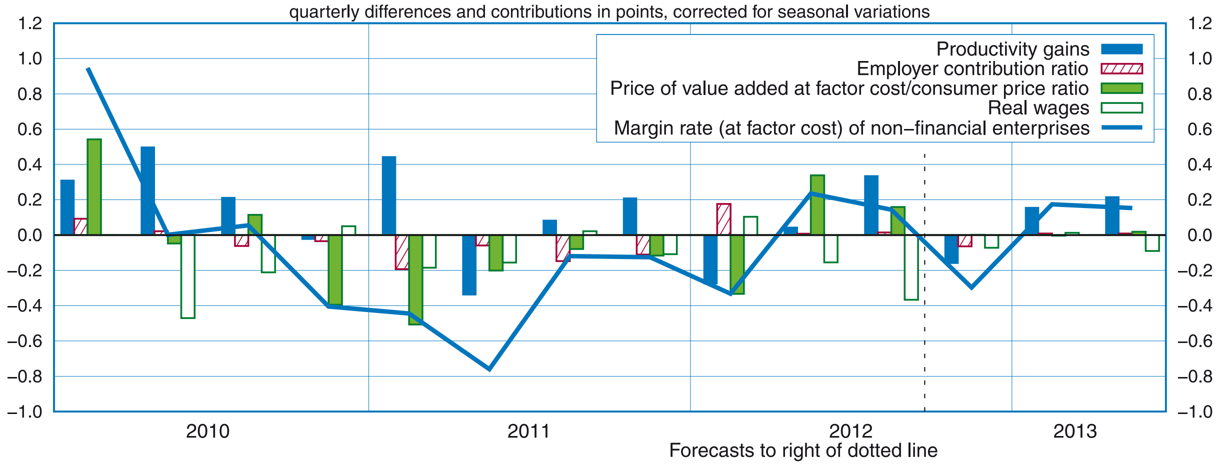
In H1 2013 the recovery of the margin rate should be confirmed: it should reach 29.3% in Q2 2013 after 29.0% at end 2012, i.e. 2.6 points below its average over the period 1988-2007. The key factor in this recovery should be the return of productivity gains (contribution of +0.4 point), progressing faster than real wages per head (contribution of -0.1 point). Indeed, despite the slight rebound in activity, job losses are likely to continue. In parallel the deterioration of the labour market should slow down progress in wages. However, with the stabilisation of oil prices, the terms of trade should no longer contribute to the recovery of the margin rate *(see Table)*. ■

Margin rate of non-financial enterprises (NFE)



Source: INSEE

2 - Contributions to the variation in the margin rate at factor cost of non-financial enterprises



Source: INSEE

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

in % and in points

	2011				2012				2013		2011	2012	2013
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Margin rate (in level)¹	29.2	28.5	28.3	28.2	27.8	28.1	28.2	27.8	28.0	28.2	28.5	28.0	28.1
Variation in margin rate	**-0.5**	**-0.8**	**-0.1**	**-0.1**	**-0.3**	**0.2**	**0.1**	**-0.3**	**0.1**	**0.1**	**-1.5**	**-0.6**	**0.1**
Margin rate at factor costs (in level) ²	**30.3**	**29.5**	**29.4**	**29.3**	**28.9**	**29.2**	**29.3**	**29.0**	**29.2**	**29.3**	**29.6**	**29.1**	**29.3**
Variation in margin rate at factor cost	**-0.4**	**-0.8**	**-0.1**	**-0.1**	**-0.3**	**0.2**	**0.1**	**-0.3**	**0.2**	**0.2**	**-1.4**	**-0.5**	**0.2**
Contributions to the variation margin rate at factor costs of													
Productivity gains	0.4	-0.3	0.1	0.2	-0.3	0.0	0.3	-0.2	0.2	0.2	0.5	0,0	0.4
Real wage per head	-0.2	-0.2	0.0	-0.1	0.1	-0.2	-0.4	-0.1	0.0	-0.1	-0.5	-0.3	-0.3
Employer contribution ratio	-0.2	-0.1	-0.1	-0.1	0.2	0.0	0.0	-0.1	0.0	0.0	-0.4	0.0	0.0
Ratio of the value-added price to the consumer price	-0.4	-0.2	0.0	-0.1	-0.3	0.4	0.2	0.1	0.0	0.0	-0.8	-0.1	0.2
Others factors	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	-0.2	-0.1	-0.1

Forecast

(1) The margin rate measures the share of value-added which remunerates capital. Its variation is broken down in accounting terms between:
- productivity changes (Y/L), with Y value-added and L employment, and the ratio of the value-added price to the consumer price, or terms of trade (Pva/Pc), which play a positive role;
- changes to the real average wage per head (SMPT/Pc) and the employer contribution ratio (W/SMPT, where W represents all compensation), which play a negative role.
- otehrs factors: it is a ratio of the value-added price at factor cost to the value-added price in the sense of the national accounts. This breakdown is summarised in the following equation (see *Report,* Conjoncture *in France, June 2003*):

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

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

Source: INSEE

Corporate investment and inventory

In Q4 2012, corporate investment dropped by 1.2% (after -0.8% in Q3). Expenditure on services picked up but the decline in investments on manufactured goods and construction accelerated. Over 2012 as a whole, corporate investment slipped back somewhat (-0.7% after +5.1% in 2011). Investment expenditure on manufactured goods contracted sharply (-3.6% after +7.6% in 2011) while expenditure on services and construction progressed (respectively +1.3% and +1.6%).

In H1 2013, the decline in corporate investment is likely to continue (-0.5% and -0.5% in Q1 and Q2). Indeed productive capacities are underused and prospects are sluggish in all sectors.

In Q4 2012, the contribution of inventory change to GDP growth was negative (-0.4 point) due to the trend towards increased destocking in the manufacturing industry, partially offset by the stocking of energy products. Over 2012 as a whole, inventory change weighed heavily on growth (-1.1 point after +0.8 in 2011). In H1 2013, the contribution of inventory change to growth should be virtually nil.

In 2012, a sharp decline in investments on manufactured goods and a slowdown in expenditure on services

In Q4 2012, corporate investment continued to deteriorate (-1.2% after - 0.8% in Q3, *see Table 1*). Investment in services picked up (+0.2% after -0.9% in Q3) but investment expenditure on manufactured goods and construction dipped more markedly than in the previous quarter (respectively -2.6% after -1.2% in Q3 and -0.7% after -0.1%).

All in all, over 2012 as a whole investment by non-financial enterprises (NFE) dipped (-0.7% after +5.1% in 2011). It was slowed by the substantial drop in expenditure on manufactured goods (-3.6% after +7.6% in 2011), particularly transport equipment (-9.4%). However, investment in construction held up (+1.3% after +1.6% in 2011) while expenditure on services slowed (+1.6% after +5.4% in 2011).

In H1 2013, corporate investment should contract once again. The service companies surveyed in January 2013 remain pessimistic about their expected activity and demand, and more of them predict a contraction in their future investments. The industrialists surveyed in January 2013 predict a drop in their investments in H1 2013 and expect them to be stable over 2013 as a whole. Furthermore, in the manufacturing industry companies report a drop in their production capacity utilisation rate in January 2013 *(see Graph 1)*, which stood at 78.6%, way below its long-term average. Lastly, while interest rates remain low, credit conditions tightened somewhat in Q4 2012 *(see Graph 2)*. The drop in corporate investment should therefore continue in H1 2013 (-0.5% in Q1 and Q2 2013).

Table 1

Investment by non-financial enterprises (NFE)

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

	Quarterly variations										Annual variations		
	2011				2012				2013		2011	2012	2013 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Non-energy industrial goods (43%)	3.2	-0.8	-1.4	3.3	-3.9	-0.1	-1.2	-2.6	-1.2	-1.2	7.6	-3.6	-4.7
Building and public works (28%))	1.2	0.8	0.9	1.0	-0.3	0.6	-0.1	-0.7	-0.4	-0.2	1.6	1.3	-0.9
Other (29%)	2.0	-0.8	0.1	1.3	0.7	0.7	-0.9	0.2	0.5	0.0	5.4	1.6	0.3
All non-financial enterprises (100%)	**2.2**	**-0.3**	**-0.3**	**2.1**	**-1.5**	**0.3**	**-0.8**	**-1.2**	**-0.5**	**-0.5**	**5.1**	**-0.7**	**-2.1**

Forecast

Source: INSEE

Activity prospects unfavourable to investment in manufactured goods

The decline in investment in manufactured goods is likely too continue in H1 2013 (-1.2% per quarter). The activity of capital goods wholesalers, accounting for 40% of investments on manufactured goods, is still unfavourable: sales slumped in January 2013 and order books are sparse. Automobile purchases should also continue to slow. Corporate expenditure on private and heavy-goods vehicles will likely remain low, according to the registration figures available up to February 2013.

In construction, investment set to keep falling in early 2013

In the building sector the entrepreneurs surveyed in February 2013 expect a new contraction in their activity over the coming months. They consider that activity has been poor in recent times and are pessimistic about the coming months. Bearing in mind the delayed effects of the drop in housing starts since the start of 2012, investments in building should slide. However, the order books of civil engineering companies, accounting for 20% of construction investments, are filling up slightly. Civil engineering activity should therefore pick up in early 2013. All in all, corporate expenditure on construction is set to decline in H1 2013 (-0.4% and -0.2% in Q1 and Q2).

Investments in services picking up in Q1 2013

Other investments, mainly in computer services and specialised activities, should still progress slightly in Q1 2013 and stabilise in Q2 2013. Surveyed in February, business leaders in these sectors mention a slowdown in activity and globally gloomy prospects.

The investment ratio set to fall again in 2013

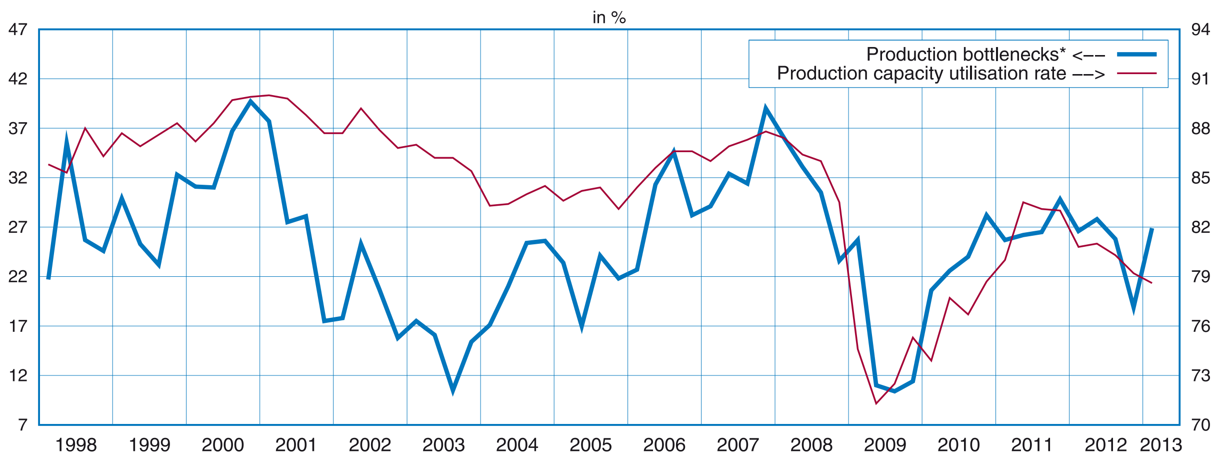
The investment ratio of NFEs stood at 18.4% at end 2012 *(see Graph 3)*, a figure significantly lower than the highpoint reached at end 2011 (18.9%). As usual, the investment cycle should be more marked than that of activity and the investment ratio should continue to slip back over the forecasting period, returning to18.1% in Q2 2013. This forecast is surrounded by various uncertainties. In particular, investment might be more dynamic if companies anticipate the effects of the tax credit for competitiveness and employment (CICE) in their work programme. Conversely, the decrease in corporation tax loopholes is a downward uncertainty, although a short-term impact is less likely as these measures target above all companies with the largest contribution capacities.

Inventory changes weighed negatively on growth in Q4 2012

In Q4 2012, inventory change contributed negatively to GDP growth (-0.4 point, after -0.3 point the previous quarter, *see Table 2*). The increased destocking of manufactured goods (-0.5 point) and lower level of stocking of agricultural products (-0.1 point) were only partially offset by an acceleration in the stocking of energy goods (+0.3 point).

The negative contribution of stocks of manufactured goods comes from the acceleration in the destocking of capital goods, transport

1 - Tensions on production capacities in manufacturing industry



* Proportion of enterprises which, if they received more orders, would not be able to produce more with their current means.

Source: INSEE, quaterly survey on activity in industry equipment and other industrial goods, as well as the slowdown in the stocking of coking and refining goods. However, the destocking of agrifood goods has halted.

Over the forecasting period the rhythm of destocking should stabilise

In Q1 2013, the contribution of inventory to growth should be slightly positive (+0.1%), as the destocking of manufactured goods should slow slightly. According to the monthly business tendency survey in industry in February 2013, industrialists judge their inventory to be slightly lower than usual. However, according to the quarterly business tendency survey in industry in January 2013, they are expecting weak demand and therefore have no incentive to increase it. In Q2 2013, the contribution of inventory to growth should be nil. ■

Table 2

Contribution of inventory changes to growth

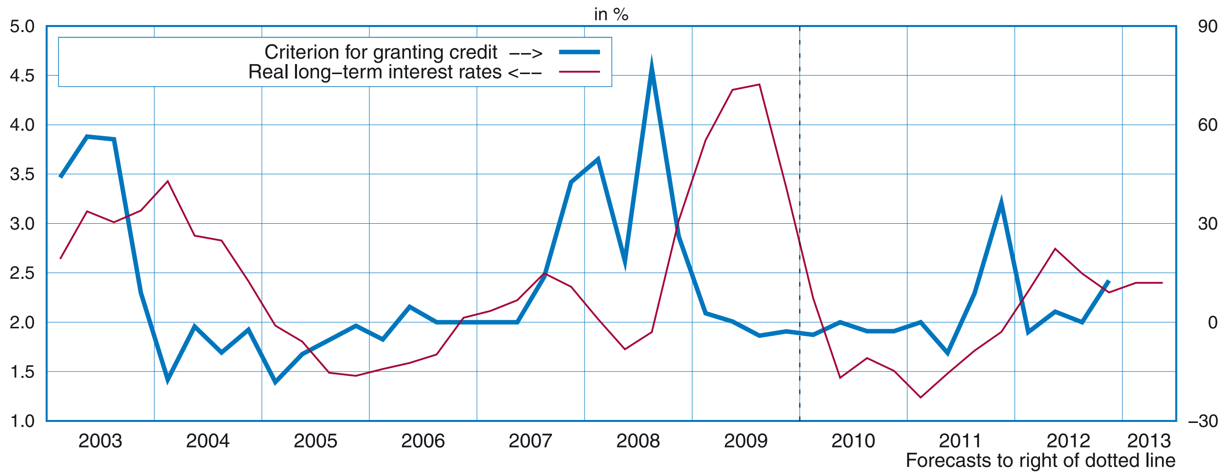
	Quaterly changes										Annual changes		
	2011				2012				2013		2011	2012	2013
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Agricultural and agrifood products	**0.0**	**0.0**	**0.0**	**-0.1**	**0.1**	**0.0**	**0.1**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Manufactured products	**1.1**	**0.0**	**-0.3**	**-0.9**	**-0.2**	**0.3**	**-0.4**	**-0.5**	**0.1**	**-0.1**	**0.7**	**-1.2**	**-0.5**
including:													
Agricultural goods	0.1	0.0	0.1	-0.1	-0.1	0.1	0.0	0.2					
Coke and petroleum products	0.1	0.1	-0.1	0.1	-0.1	0.1	0.1	-0.3					
Machinery and equipment goods	0.1	0.0	0.0	-0.2	-0.1	-0.1	0.0	-0.1					
Transport equipment	0.5	0.0	-0.2	-0.4	0.1	0.1	-0.5	-0.1					
Others industrial goods	0.3	-0.2	-0.1	-0.4	0.0	0.1	0.1	-0.3					
Energy, water and waste	**0.1**	**-0.1**	**0.0**	**0.0**	**0.1**	**-0.1**	**0.0**	**0.3**	**0.0**	**0.0**	**0.1**	**0.0**	**0.2**
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**	**0.0**	**0.0**
TOTAL [1]	**1.2**	**-0.1**	**-0.3**	**-0.9**	**-0.1**	**0.2**	**-0.3**	**-0.4**	**0.1**	**0.0**	**0.8**	**-1.1**	**-0.3**

Forecast

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

Source: INSEE

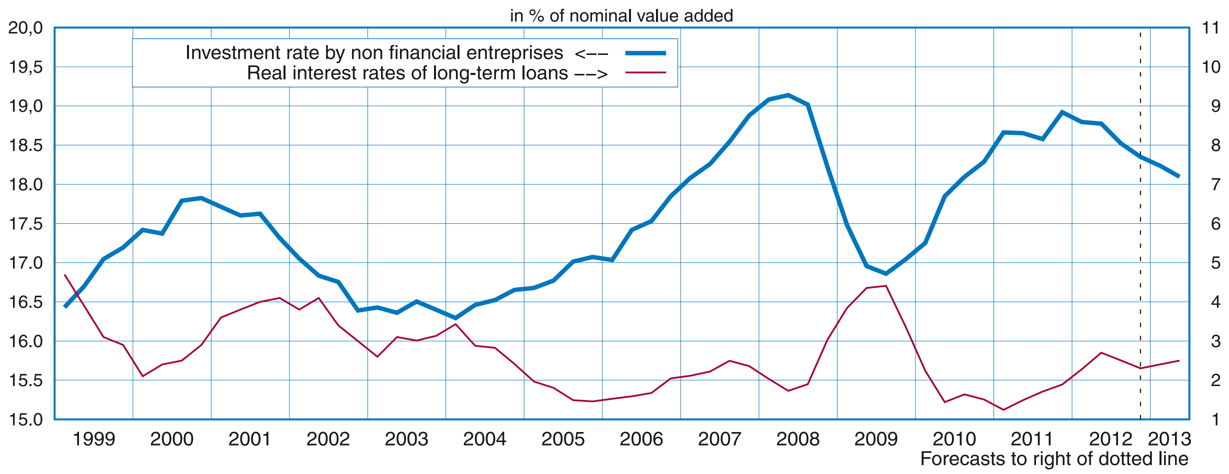
2 – Criterion for granting credit to businesses[1] and long-term actual borrowing rates[2]



(1) Criteria for granting credit: net balance of weighted responses = tightening - easing.
(2) Here, the real rate denotes the interest rate on new loans to non-financial companies, the rate of which is revisable at a frequency of more than one year, i.e. at a fixed rate for an initial period of more than one year. This rate is deflated by the producer price index of all goods and services.

Source: INSEE, quaterly survey on activity in industry

3 – Investment rate[3] and borrowing rate long-term real[2]



(3) Non-financial enterprises (NFE) = non-financial companies (NFC) and sole proprietorships.

Source: INSEE, quaterly survey on activity in industry

Output

After rebounding in the previous quarter, production of goods and services fell back in Q4 2012 (-0.5% after +0.3%). In particular, activity in the manufacturing industry declined sharply (-2.3% in Q4 2012 after +0.9%). At the same time the production of market services stagnated (0.0% after +0.3% in Q3) and activity in construction slipped back (-0.8% after 0.0%).

The business climate remains gloomy in France in February 2013. Production perspectives have picked up in industry, but the business climate fell back in services in February. Through to mid-2013 demand is likely to remain sluggish, and so activity will probably be lacking in dynamism over the forecasting period: the production of goods and services should drop slightly in Q1 2013 (-0.1%) then stabilise in Q2 (0.0%).

At the end of H1 2013 the growth overhang in production should be -0.3% after a rise of +0.1% in 2012.

Production set to stabilise in early 2013

In Q4 2012, the production of goods and services decreased (-0.5% after +0.3% in Q3 2012). Manufacturing output in particular declined sharply (-2.3% after +0.9%, *see Graph 1*). Activity also slumped in construction (-0.8% after 0.0%). At the same time, the production of market services stagnated (0.0% after +0.3%). Activity in the trade branch fell back particularly in Q4 2012 after the rebound observed in Q3 (-0.3% after +0.4%), mainly due to the decline in exports.

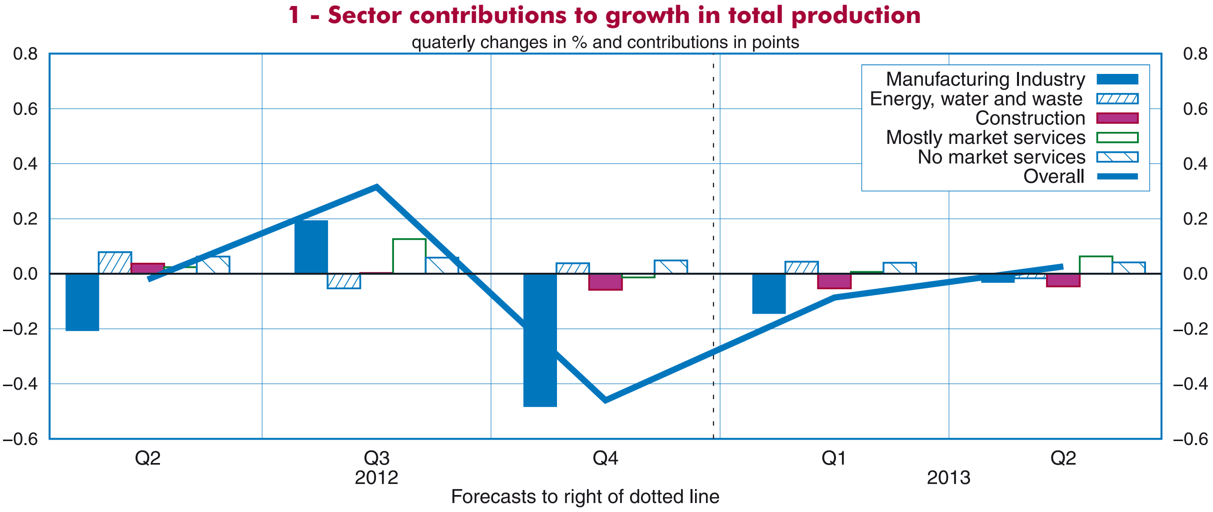
The business climate indicator in France, calculated from business tendency surveys conducted on business leaders, remains stable in February 2013 and stands at 87 points. It is still way below its long-term average *(see Graph 2)*, just like the sectoral indicators. Over the forecasting period, the production of goods and services is thus likely to be sluggish: virtually stable in H1 2013 (-0.1% in Q1, then 0.0% in Q2).

The growth overhang in production for 2013 should stand at -0.3% at the end of H1, after a rise of +0.1% in 2012.

Moderate drop in manufacturing output in H1 2013

Manufacturing output contracted sharply in Q4 2012: -2.3%, partly in reaction to the upswing of Q3 2012 (+0.9%). This was the biggest decline in activity recorded since Q1 2009. All the main branches of the manufacturing industry contributed to the decline in production, except for agrifood. The downturn was particularly marked in the transport equipment sector (-5.8% after +2.4%), mainly due to difficulties in the automobile industry and in the coking-refining branch (-8.3% after +6.0%), affected by the decline in activity at the Gonfreville and Petit-Couronne refineries in Normandy. Production

1 - Sector contributions to growth in total production



Source: INSEE

also slipped back in the capital goods branch (-2.4% after +1.6%) and in the «other manufacturing branches» (-1.5% after +0.0%).

The industrialists surveyed in February 2013 report still-weak domestic demand but note a slight improvement in foreign demand. On the supply side, business leaders remain pessimistic about activity: the corresponding balance of opinion is at a very low level compared to its long-term average *(see Graph 3)*. In January 2013, the industrial production index fell back in the manufacturing sector (-1.4% after 1.3% in December). However, personal production perspectives picked up compared with January, particularly in transport equipment.

Manufacturing output should therefore record a moderate decline in H1 2013 (-0.7% in Q1 then -0.2% in Q2). After a drop of -2.2% in 2012, the growth overhang in manufacturing output at the end of H1 2013 should come to -2.3%.

In construction, activity likely to continue falling

In Q4 2012, production in the construction sector fell back: -0.8% after 0.0% in Q3. This decline can be ascribed to the slowdown in activity in both building and civil engineering.

Production in the construction sector is likely to continue falling in H1 2013 (-0.7% and -0.6% in Q1 and Q2 2013), especially in building. Indeed building entrepreneurs report poor activity levels and order books which they still consider to be not as full as normal *(see Graph 4)*, while housing starts remain at very low levels. In civil engineering activity was poor in November and December 2012, but the opinion of entrepreneurs about expected activity picked up in January 2013 *(see Graph 4)*. Activity in civil engineering should therefore rebound somewhat.

In 2012, production in construction progressed by 1.3%; after slowing in early 2012, activity contracted at the end of the year. At the end of Q2 2013, the growth overhang for 2013 should be -1.6%.

Activity in market services likely to be moderate in early 2013

In Q4 2012, activity in market services excluding trade stagnated, after a rise of +0.2% in Q3. Sustained by household consumption expenditure, production was dynamic in the accommodation-catering sector (+0.6% after +0.2% in Q3), but slowed in financial activities (+0.2% after +0.7%) and real-estate (+0.2% after +0.3%). In information-communication and in transport, production stagnated in Q4 2012. Lastly, due to the sharp decline in manufacturing output, the production of services to businesses slipped back (-0.2% after +0.3%).

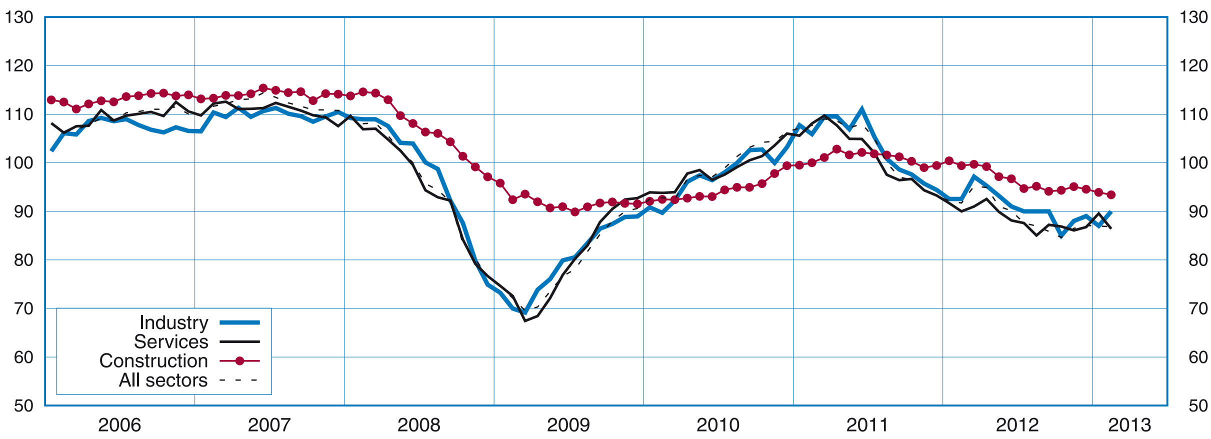
In H1 2013 activity should only pick up slightly: +0.1% per quarter. According to business leaders the situation in services remains poor: the business climate composite indicator stood at 86 in February 2013 *(see Graph 2)*, well below its long-term average. Entrepreneurs remain pessimistic about expected demand and activity *(see Graph 5)*.

In mid-2013, the growth overhang in production of market services excluding trade should be +0.3% after an increase of +0.7% in 2012.

Mainly non-market services still progressing

In mainly non-market services activity increased by +0.3% in Q4 2012, after +0.4% in Q3, and is likely to continue at this pace in H1 2013 (+0.3% per quarter).

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



Source: INSEE

Over the forecasting period, the growth overhang in production of non-market services should stand at +1.0% for 2013, after a rise of +1.2% in 2012.

Activity in trade set to stagnate

Activity in trade worsened significantly in Q4 2012 (-0.3% after +0.4%), mainly because of the slowdown in exports of manufactured goods (-1.5% after +1.3%) and the decline in corporate investment.

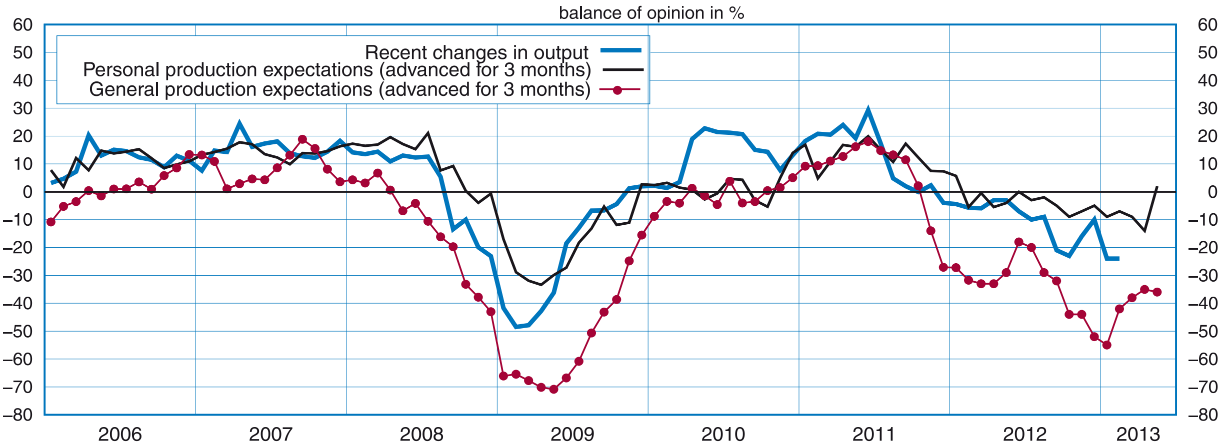
In Q1 2013, activity in trade should fall once again (-0.3%), in particular due to the fall in household consumption of manufactured goods (-0.7%). The business climate indicator in wholesale, calculated from business tendency surveys conducted on business leaders in the sector, also continued to fall in January 2013 and the balances of opinion about past activity dipped, most notably in the capital goods sector. In the retail trade, the business tendency survey of February 2013 also indicated a gloomy business climate. In Q2 2013 activity in trade should pick up somewhat (+0.2%), sustained by a slight rebound in household consumption of manufactured goods (+0.2%).

In mid-2013, the growth overhang in production in trade should be -0.2% (after +0.2% in 2012).

Energy production set to progress once more in early 2013

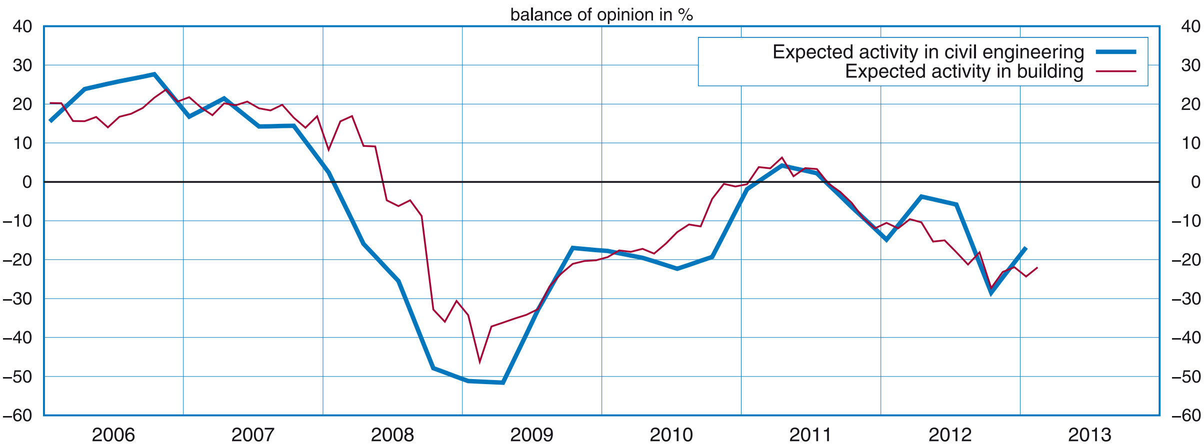
Energy production rebounded in Q4 2012 (+0.9% after -1.3%). This progress is likely to continue in Q1 2013 (+1.1%) under the effect, among other things, of the rise in household consumption expenditure, with high heating expenses due to the weather conditions at the start of the year. Assuming the weather stays true to seasonal norms, energy production should then fall in Q2 2013 (-0.4%). In mid-2013, the growth overhang in energy production should stand at +1.3% after a rise of +1.2% in 2012. ■

3 - Opinion on production in manufacturing industry



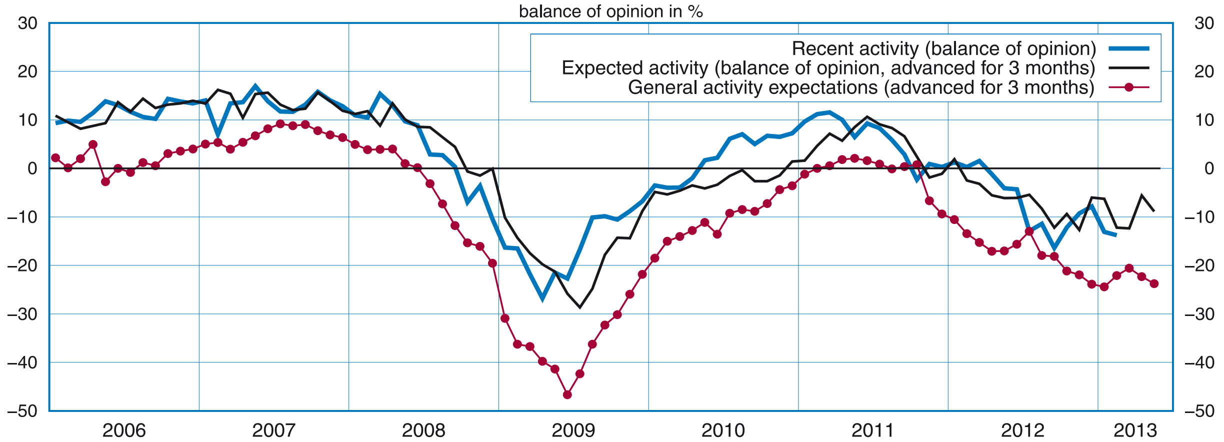
Source: INSEE

4 - Prospects for activity in construction



Source: INSEE

5 - Opinion on production in services



Source: INSEE