

# **F**rench developments



# France's international Environment

In Q4 2010, the advanced economies slowed, in line with our December forecast (+0.4% after +0.6%). This slowdown was mainly due to the bad weather that hit the Euro Zone and the United Kingdom, principally affecting service and construction businesses. In the United States however, private consumption grew more sharply and the economic climate has clearly improved since October.

At the start of 2011, the advanced economies are likely to be affected by a series of unfavourable events. The 11 March earthquake in Japan is set to bring down both output and demand in this country. The surge in the prices of raw materials since mid-2010 should push inflation up, and household purchasing power is likely to suffer. The Chinese economy is set to slow under the effect of more restrictive economic policies, thereby slowing the exports of the advanced economies somewhat. Last, households in the European countries should also be confronted with the effects of the fiscal consolidation measures.

But these adverse events are unlikely to stop the acceleration in activity, boosted since last autumn by a still very expansionist American economic policy. At the start of 2011, the improved economic climate is pointing to vigorous activity in the advanced economies:

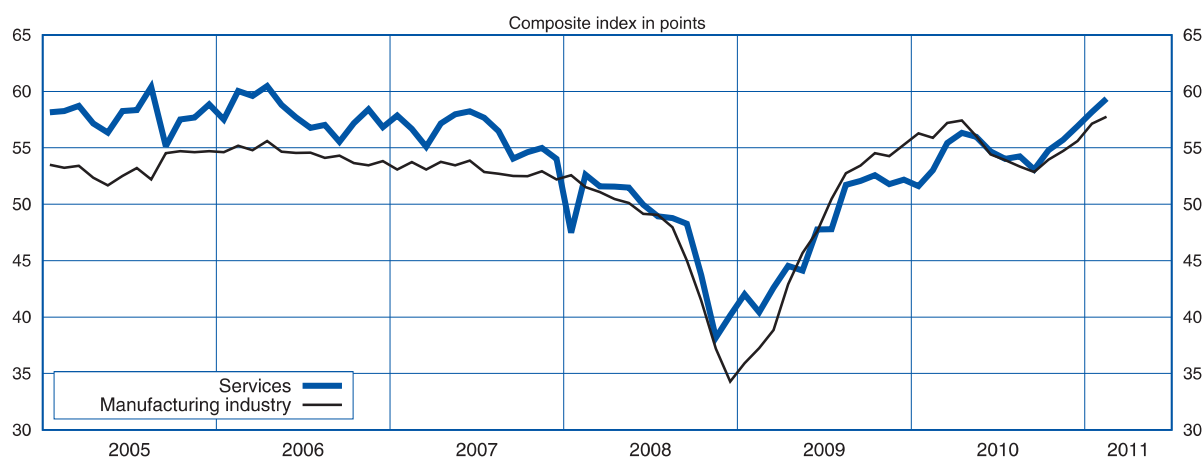
activity should progress strongly in Q1 2011 (+0.6% after +0.4%). It is likely to be carried by the buoyant domestic demand in the USA and by the rebound in construction investment expenditure in Europe. In Q2 the advanced economies should witness a slowdown, most notably under the effect of the decline in activity in Japan, as well as slowing domestic demand.

## Japan in a state of shock

The earthquake and ensuing tsunami of 11 March 2011 is likely to affect the Japanese economy and that of its trading partners. In Japan, production facilities were destroyed along the coast devastated by the tsunami, and disorganised over a much wider area; as a result, Japanese output is set to drop in H1.

The earthquake is likely to affect the activity of Japan's trading partners, through foreign trade. The drop in Japanese demand is likely to take its toll on their exports. Additionally, their production could suffer from bottlenecks owing to the shortages in supply of certain electronic goods which are only made in Japan. Conversely, it may receive more demand to compensate for the drop in Japanese supply in certain sectors.

## 1 - The global economic climate picked up at the start of 2011



Source: Markit

## France's international environment

### More hesitant financial markets after the rebound at the end of 2010

Since summer 2010, the financial markets have picked up in line with a clear improvement in world economic climate (see *Graph 1*). This has been confirmed by the renewed growth in long-term rates from autumn. Indeed, economic agents have demonstrated a lower risk aversion and have repositioned themselves on the stock markets. The main reference indices apart from the Nikkei and the CAC 40 have thus returned to above the levels reached prior to the bankruptcy of Lehman Brothers.

But the financial markets are still fragile at the start of 2011. First, the real estate crisis is continuing in the United States: stocks of vacant dwellings remain high compared to sales and house prices are still falling, weakening the financial situation of American households. Next, tensions surrounding sovereign debt are still high in the Euro Zone. Additionally, the geopolitical situation in North Africa and the Middle East have led to fears of a sustained rise in oil prices and, in its wake, a tightening of monetary policies in order to temper the inflationary tensions that this rise may bring. Last, the earthquake of 11 March has reduced the prospects of profit in certain key areas of the world economy: electronics, nuclear energy, banking and insurance.

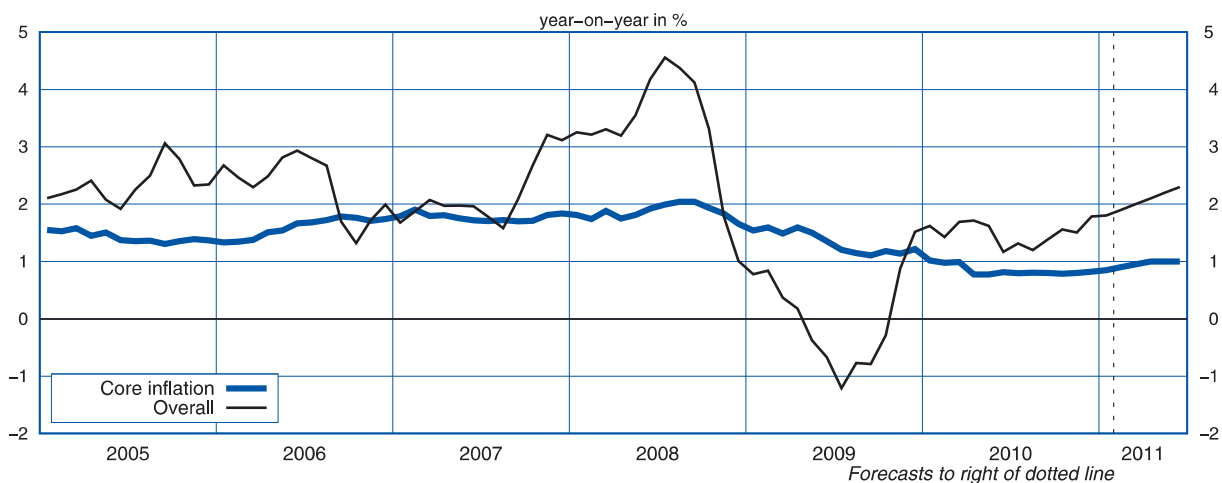
### A new rise in inflation in the wake of international prices of commodities

Since mid-2010, international prices of raw materials, in particular oil and wheat, have grown sharply. This rise has stemmed both from expectations of a more dynamic demand in the wake of the rebound in the global business climate, and from a tightened supply. For example, the wheat market has been affected by last year's heat-wave in Russia, while the geopolitical events in Africa and the Middle East have led to fears of oil supply shortages. In our scenario these tensions are assumed not to get worse, and hence the price of oil should fluctuate around \$110 per barrel of Brent until June 2011.

The rise in commodities prices has begun to boost consumer prices in the advanced economies: from 1.2% in September 2010, inflation reached 1.8% in December (see *Graph 2*). In H1 2011, the inflation spike is set to continue spreading and inflation should continue to rise, reaching 2.3% in Q2 2011.

The still-high unemployment level should nonetheless keep inflationary pressure moderate, as it will weigh on the bargaining power of the workers: at the start of 2011, real wages should stagnate. Consequently, core inflation should be stable at a low level (+1.0 %).

### 2 - Inflation should rise again in the advanced economies, in the wake of rises in the prices of commodities



Source: national statistical institutes; INSEE forecasts

## Emerging economies struggling to curb inflation

At the end of 2010, most emerging countries were showing signs of overheating, with a sharp rise in inflation. Since the start of 2010, the central banks of Brazil, India, China and the main emerging countries of East and South-East Asia have tightened their monetary policies in order to ease these inflationary pressures. After a sharp acceleration in Q4, their activity should slow in H1 2011, although their growth rate should remain well above that of the advanced economies.

But behind this overall trend the economic outlooks of individual nations seem likely to show big differences. In China, where the Central Bank has brought in several monetary tightening measures since October 2010, activity should slow sharply in Q1 2011, as witnessed by the decline in the business climate in the manufacturing sector (see Graph 3). Activity should also slow in Taiwan and in Hong-Kong, countries which are highly dependent on Chinese demand. However, activity in South Korea is more likely to accelerate, despite the tightening of the country's monetary policy. It should be sustained among other things by the rebound in American imports. In India, growth is set to shrink due to more restrictive economic policy. In Brazil, the rise in the prices of commodities since mid-2010 has sustained foreign currency inflows; as a result Brazilian activity should accelerate despite tighter monetary policy. Like Brazil, Russia has benefited from foreign currency inflows owing to rises in the prices of raw materials, and its activity should accelerate at the start of 2011.

## American macroeconomic policies still working in favour of activity

In the face of worldwide events, orientations in terms of economic policies look set to diverge somewhat between the United States and Europe.

In the United States, economic policy should remain clearly expansionist. Monetary policy should continue to sustain demand with the "QE2" quantitative easing. Its three main channels of action are supporting the prices of financial assets in order to consolidate the financial situation of private agents; a rise in inflation expectations to reduce the real cost of credit; and a depreciation of the dollar to make American products more competitive. On the other hand, fiscal support for households has been strengthened by the compromise of December 2010 between the Obama Administration and the Republican majority in Congress.

In Europe, macroeconomic policies are gradually tightening. The European states are implementing fiscal consolidation strategies to restore the sustainability of their public finances. These mainly involve rises in the tax burden, cuts in social benefits, and government spending cuts. For its part, the European Central Bank is gradually withdrawing the refinancing facilities put in place at the height of the financial crisis. Faced with the rise in inflation, the ECB is also likely to raise its rates by 25 base points in Q2 2011.

## Industrialized countries: consolidated supply and use table

in real terms

	Quarterly changes in %										Annual changes in %			
	2009				2010				2011		2008	2009	2010	2011 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2				
<b>GDP</b>	-2.4	0.2	0.2	0.9	0.8	0.7	0.6	0.4	0.6	0.3	-0.1	-3.8	2.5	1.6
Private consumption	-0.6	0.0	0.2	0.4	0.4	0.3	0.4	0.4	0.3	0.3	-0.1	-1.4	1.4	1.3
Public consumption	0.1	1.0	0.5	0.0	-0.2	0.7	0.6	-0.1	0.1	0.1	2.2	2.0	1.0	0.6
Investment	-7.6	-2.6	-0.8	-0.5	0.6	2.8	1.3	0.3	1.9	1.0	-4.1	-14.8	1.7	4.0
Exports	-10.8	0.9	3.6	4.3	3.1	3.5	1.8	1.5	2.2	1.1	3.3	-12.8	12.6	6.1
Imports	-9.7	-3.2	3.7	1.3	2.9	5.5	2.8	-0.9	3.0	1.7	-1.0	-13.2	10.6	6.6
<b>Contributions to GDP growth</b>														
Domestic demand excluding inventories	-1.7	-0.3	0.1	0.2	0.3	0.8	0.5	0.3	0.5	0.4	-0.3	-3.1	1.3	1.3
Inventories	-0.5	-0.3	0.1	0.3	0.6	0.2	0.2	-0.4	0.2	0.0	-0.4	-0.6	0.9	-0.2
Net exports	-0.1	0.7	0.0	0.5	-0.1	-0.2	-0.1	0.4	-0.1	-0.1	0.6	0.2	0.3	0.4

Forecast

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

### The advanced economies set to accelerate in Q1 2011

In Q4 2010 the advanced economies slowed, in line with our December forecast (+0.4% after +0.6% in Q3). Household consumption was more buoyant than expected, most notably in the United States, but the weather events took their toll on the construction and service activities in Europe (see Table).

From October 2010, the global economic climate picked up strongly after the slump of summer 2010 (see Graph 1). In Q1 2011, the advanced economies should gather pace once more (+0.6%), sustained by investment expenditure: construction should rebound in Europe after the decline in Q4 2010. Businesses are set to accelerate their purchases of capital goods in order to improve their production capacities and their stocks. In parallel, household consumption should remain dynamic in the United States, despite the rise in inflation.

In Q2 growth in the advanced economies looks likely to slow (+0.3%), mainly under the effect of the drop in activity in Japan and the more moderate corporate investment expenditure due to less favourable demand perspectives. This slowdown in investment should punctually be accentuated by the after-effect of the catch-up of construction in Europe in Q1.

Over the half-year as a whole, the upturn should grow in strength in the United States thanks to the support of economic policies: household purchasing power should be sustained by growth in employment, and household consumption should be buoyant despite the continued efforts to reduce debt. Activity in European countries should grow at a more moderate pace. Despite a slight rebound in Q1 with the catch-up of construction, household consumption should remain sluggish.

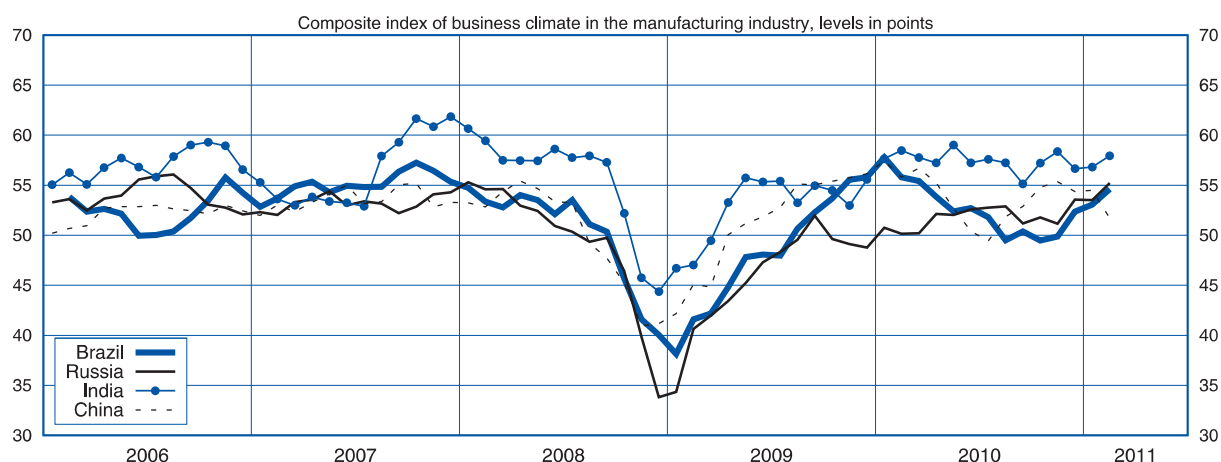
### Acceleration in world trade in Q1, then a slowdown in Q2 2011

In Q4 2010, world trade accelerated (+2.3% after +1.2%), boosted by the dynamic demand from the emerging countries. However, trade stuttered in the advanced economies due to the decline in American imports.

At the start of 2011, purchase managers report a sharp improvement in their export order books (see Graph 4). In Q1 2011, world trade should thus accelerate (+3.0%), sustained by the rebound in imports in the advanced economies, particularly the United States and Germany. In Q2 world trade should slow in line with activity in the advanced economies and the main emerging countries.

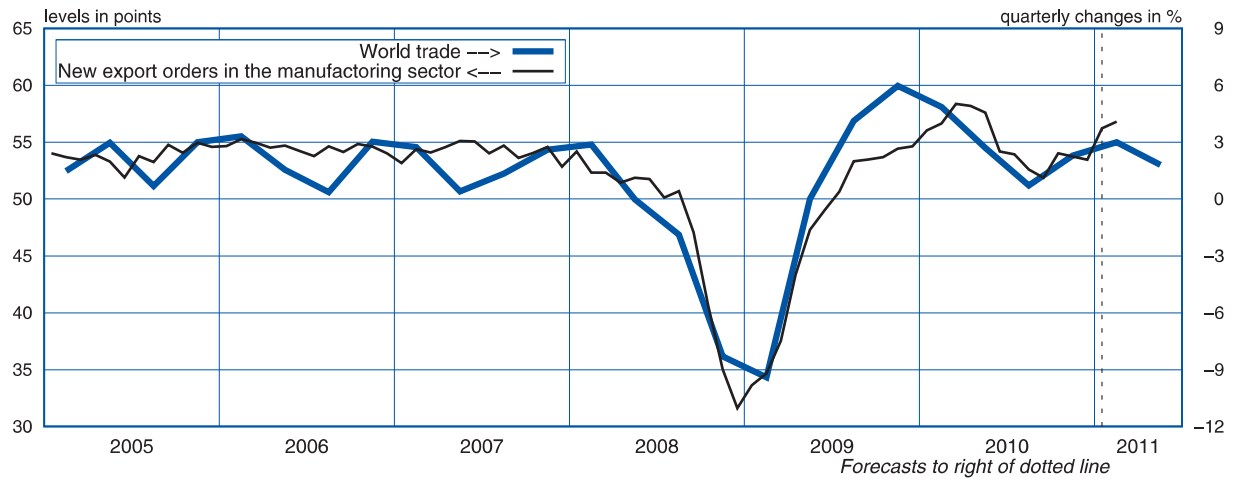
Following on from world trade, world demand for French products should pick up in Q1 (+2.1% after +1.2%) then slow down in Q2 (+1.7%). ■

### 3 - At the start of 2011, activity should slow in China and India, and accelerate in Brazil and Russia



Source: Markit

## 4 - In Q1 2011, new export orders point to a rebound in world trade



Source: Markit, Centraal PlanBureau

# Foreign trade

After a slowdown in Q4, foreign trade should gather pace at the start of 2011.

Within the forecasting period, exports should remain buoyant, sustained by foreign demand. In Q1 2011, the rebound in German and American demand should more than compensate for the slowdown in demand among our other European partners. In Q2 2011, foreign trade is nonetheless likely to be a little less promising. As well as the fiscal consolidation measures implemented in Europe, there is likely to be a slowdown in demand from the emerging countries. Furthermore, the positive effects of the recent depreciation of the euro seem set to fade. At the end of H1, the growth overhang for exports of goods and services should be 5.8% for 2011.

After a Q4 2010 in sharp decline, imports should rebound strongly in Q1 2011, sustained by the growth in domestic demand and exports. In Q2 2011, domestic demand is likely to slow, weighing down on imports. The growth overhang for imports at the end of H1 should be 5.1% for 2011.

All in all, the contribution of foreign trade to growth was strongly positive in Q4, because of

the sudden contraction of imports. This contribution should be slightly negative in Q1 2011, and nil in Q2.

## Buoyant exports at the start of 2011

In Q4 2010, French exports of goods and services slowed sharply, with +1.0% after +2.6% (see Table), under the effect of domestic and external factors. On the one hand, energy exports collapsed (-17.6%) following industrial action in the refineries and blockades at the oil terminals in October. Sales of certain non-energy industrial goods, particularly chemicals, also declined owing to the difficulties of sourcing refined petroleum products. On the other hand, world demand for French products only grew moderately in the last quarter (see Graph 1), because of the sharp drop in American imports and the downswing in activity in Germany. Gains in competitiveness following the depreciation of the euro in early 2010 did however offset this low demand from our partners somewhat (see Graph 2).

At the start of 2011, total exports look to be accelerating (+1.8% in Q1 then +1.5% in Q2), in the wake of exports of non-energy industrial goods. Additionally, in Q1 energy exports should re-

## Foreign trade growth forecast

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

	Quarterly variations										Annual variations		
	2009				2010				2011		2009	2010	2011 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
<b>Exports</b>													
All goods and services	-7.4	-0.7	1.3	0.9	4.8	3.0	2.6	1.0	1.8	1.5	-12.2	10.1	5.8
Non-energy industrial goods (64%*)	-9.2	0.3	3.2	1.5	5.4	2.9	3.2	1.7	2.4	2.0	-14.1	13.0	7.7
<b>Imports</b>													
All goods and services	-5.7	-3.2	-0.4	2.9	1.9	3.9	4.0	-1.2	2.1	1.3	-10.6	7.8	5.1
Non-energy industrial goods (63%*)	-7.0	-3.4	0.6	5.3	3.5	4.4	4.3	-1.3	2.5	1.8	-13.0	12.5	6.1
<b>Contribution of foreign trade to GDP</b>	-0.3	0.7	0.4	-0.5	0.6	-0.3	-0.4	0.6	-0.1	0.0	-0.2	0.4	0.0

Forecast

\* Part of exports (resp. imports) of non-energy industrial goods in exports (resp. imports) in a whole in 2009.

Source: INSEE

bound. The purchasing managers' export orders index <sup>(1)</sup> and the business tendency surveys indicate sustained growth for French exports at the start of 2011.

World trade should progress strongly at the start of 2011. Among other things, it is likely to be sustained by the buoyant demand from emerging countries, particularly in Asia, and by the rebound in American and German demand. World demand for French products, which is more sensitive to European economic trends, should however remain less dynamic than world trade. Indeed, despite the heightened demand from Germany, the domestic demand of several European countries should be slowed by the implementation of fiscal consolidation plans.

In Q2, the international environment is likely to be a little less promising, mainly due to growing inflationary tensions in the emerging Asian countries. World trade and world demand for French products should slow somewhat. Additionally, the favourable effects of price competitiveness on the export markets for France, generated by the depreciation of the euro, should start to fade. The appreciation of the euro at the end of 2010 should only play a marginal role to the horizon of this forecast.

Strongly penalised by the autumn strikes in the refineries, energy exports should rebound strongly at the start of the year. Conversely, sales of agricultural and agri-food products were dynamic in Q4, with deliveries under major cereals contracts; they are likely to decline in Q1 2011, then return to their

average growth rate. Lastly, exports of services should continue to grow moderately until mid-2011.

All in all, exports should remain buoyant until the end of the forecasting period. At the end of H1 2011, the growth overhang for 2011 should be +5.8%.

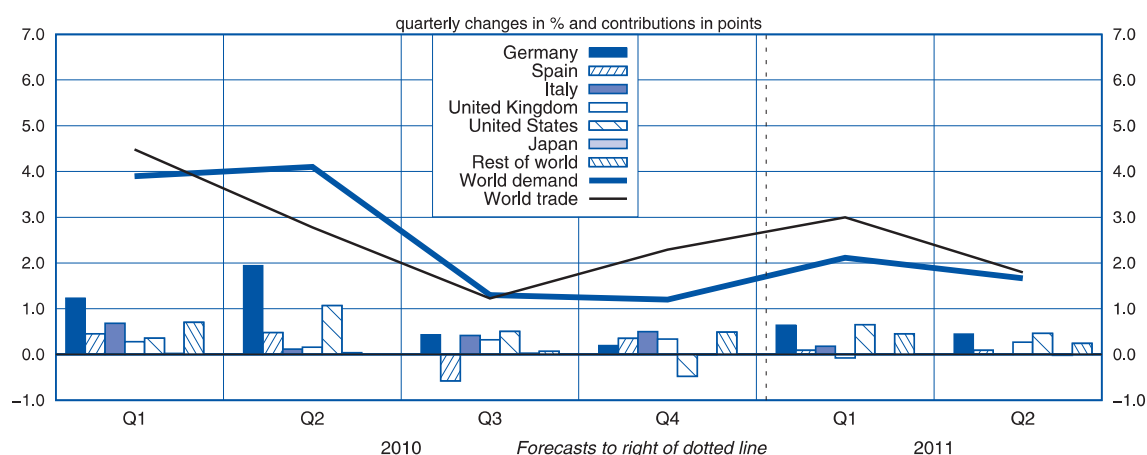
## Strong rebound in imports in Q1 2011, followed by a slowdown

After several quarters of growth thanks to the strength of final demand and a trend towards rebuilding stocks, French imports of goods and services declined sharply in Q4 2010, falling by 1.2% after +3.9% in Q2 and +4.0% in Q3 (see Table). Several factors explain this decline in imports. The rise in oil prices took its toll on the volumes of purchases of energy goods, but also on those of purchases of intermediate goods, which have a high energy content. Above all, the drop in imports, mainly concentrated on non-energy industrial goods, is the after-effect of exceptional volume of aeronautical and naval purchases in Q3 2010<sup>(2)</sup>. At

(1) Purchasing Managers Index Survey, source Markit

(2) According to customs data, aeronautical purchases increased sharply in Q3 2010, mainly from the United States and to a lesser extent from Brazil and Canada. Shipbuilding industry imports were also high: purchase of a container ship from South Korea and pleasure boats from the USA and the Caribbean in July and August.

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



How to read it: the black and blue curves represent respectively the quarterly growth rates of world demand for French products and world trade. The bars represent the contributions of imports from the main trading partners to the growth rate of world demand. For example, in Q4 2010 world trade increased by 2.3%. World demand for French products increased by 1.2%: the impact of German imports on this demand is evaluated at 0.2 point, and that of Spanish imports at 0.4 point.

Source: INSEE



## Foreign trade

the start of 2011, imports should therefore return to a growth rate in line with that of the components of demand.

Imports of goods and services should see a sharp rise (+2.1% in Q1 2011), following the rebound of industrial purchases. Exports, consumption and investment should be dynamic <sup>(3)</sup> (see Graph 3). Bearing in mind the delivery times required to honour orders placed at the end of last year, consumption and hence imports of automobiles should remain sustained in Q1: this is what is hinted at by the latest data on registrations and January customs data on automobile purchases. In Q2, growth in imports should slip back a little (+1.3%), with the slowdown in exports and the decline in manufacturing consumption due to the after-effect of the scrap-page allowance.

After a drop at the end of 2010, imports of energy goods seem likely to rebound in Q1 2011. They should then stabilise over the forecasting period.

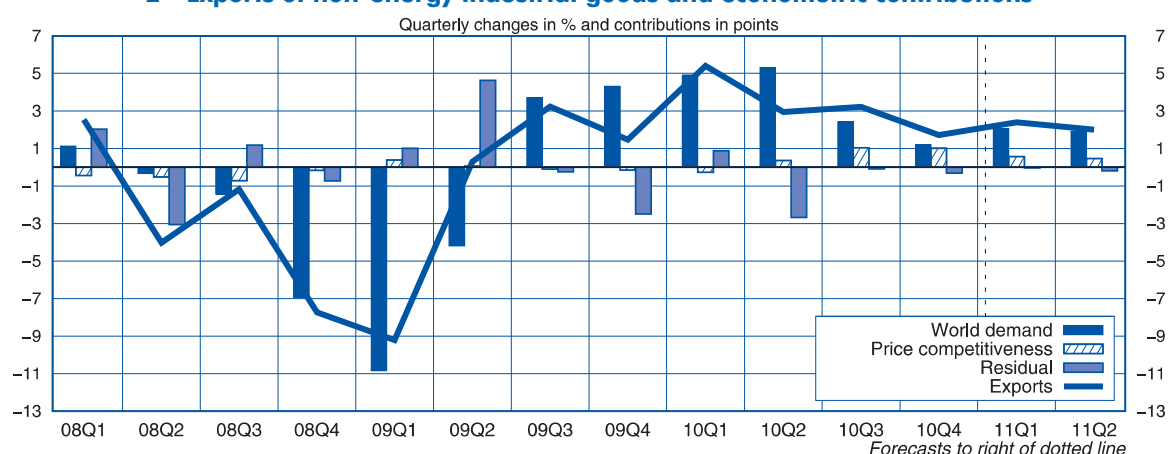
Lastly, imports of services and agricultural and agri-food products should continue to grow modestly until mid-2011.

All in all, in the same way as exports, the growth overhang for French imports of goods and services in mid-2011 should be high (+5.1%).

The contribution of foreign trade, which was clearly positive in Q4 2010, should be slightly negative at the start of 2011, due to the sharp rebound of imports. It should be neutral in Q2 2011. ■

(3) This depends on imports via the import contents of the components of domestic and foreign demand.

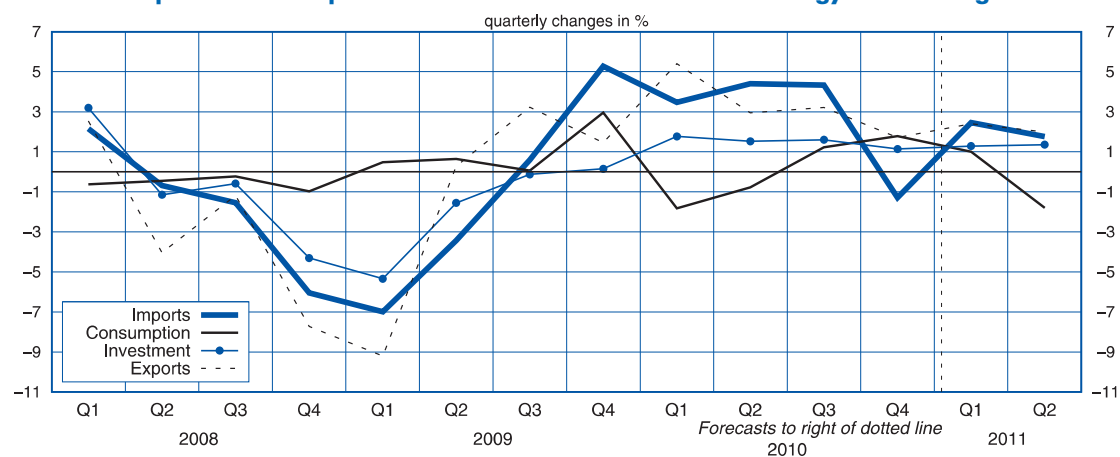
### 2 - Exports of non-energy industrial goods and econometric contributions



How to read it: the curve represents quarterly growth in volume of exports of non-energy industrial goods. It is modelled by an econometric relationship involving world demand, the real effective exchange rate for France (price competitiveness index) and a time trend whose constant contribution is not plotted here. The bars represent the contributions of each of these variables to the growth rate of manufacturing exports, as well as that of the econometric residuals. For example, in Q4 2010, exports of non-energy industrial goods increased by 1.7%: the impact of world demand is evaluated at 1.2 point, and that of price competitiveness at 1.0 point. The residual contributes -0.3 point.

Source: INSEE

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



Source: INSEE

# Oil and raw materials

Through to mid-2011, the price of the oil barrel is set to fluctuate around \$110. The oil market deficit should only be partially eliminated. The demand for oil is likely to be sustained by the dynamic activity in the advanced economies and in China. The uncertainties surrounding the geopolitical situation in the Middle East and the consequences of the earthquake in Japan could also provoke high oil price volatility in the coming months.

The prices of industrial raw materials slowed at the start of 2011, with a slowdown in the prices of base metals in particular. The rise in prices of food commodities was also moderate despite tensions on the physical market.

## Sharp rise in oil prices in Q1 2011

The price of oil has risen sharply in Q1 2011, sustained by world demand and the uncertainties surrounding the geopolitical situation in the Middle East. It accelerated in February (+7.4% after +5.1% in January) and went over \$110 in early March.

On the physical market, world demand for oil should be stable in Q1. The drop in European demand after the exceptionally low temperatures of December should be offset by the dynamism of

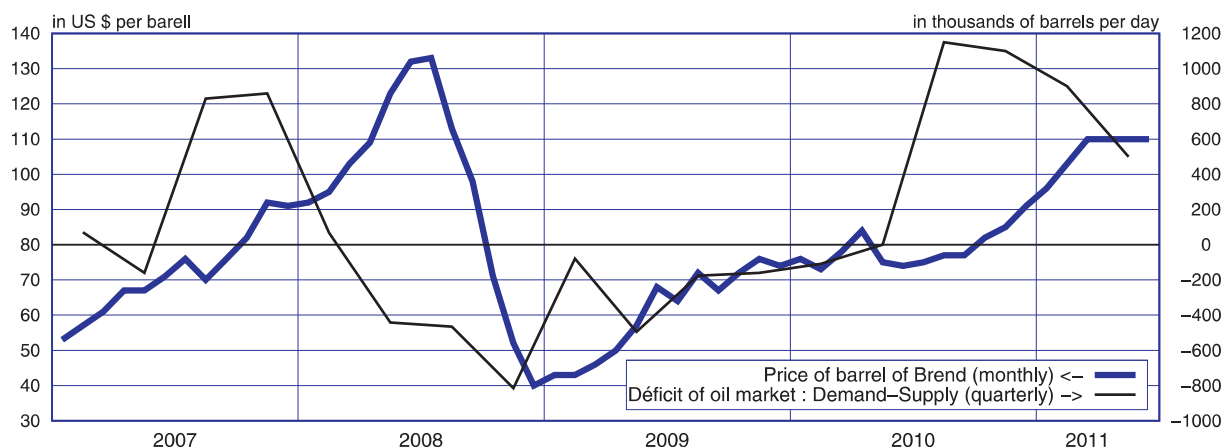
Chinese and American demand. In parallel, supply should increase by 200,000 barrels per day (bpd), due to the increased output of OPEC countries. This rise is unlikely to be sufficient to absorb the deficit on the oil market, which should settle at 900,000 bpd after 1.1 million bpd in Q4 (see Graph 1).

## The oil market still in deficit in Q2 2011

In Q2 2011, world supply should increase slightly (+100,000 bpd). As for world demand, it should fall by 300,000 bpd. The seasonal drop in demand for oil in the developed countries at the end of winter should only partly be offset by the increase in demand in non-OECD countries. All in all, the oil market deficit should continue to be marked: demand is likely to outstrip supply by 500,000 bpd. This deficit should sustain oil prices. In spite of large stocks of crude oil in the advanced countries, prices should remain high within our forecasting period, fluctuating around \$110 per barrel of Brent (see Graph 1).

This oil price scenario is subject to major uncertainties. The geopolitical tensions in the Middle East are still a factor of uncertainty. Similarly, the consequences of the earthquake in

## 1 - In the forecast, the persistent deficit on the oil market should sustain oil prices



Note: The oil price is known up to February 2011. The oil market deficit is known up to Q4 2010.  
Source: Financial Times, AIE and Insee forecasts

## Oil and raws materials

Japan, the world's third-biggest oil consumer, could also bring about high oil price volatility. The drop in Japanese demand due to the decline in economic activity could take its toll on oil prices. But the transfer of part of Japanese electricity output to thermal power plants could sustain prices.

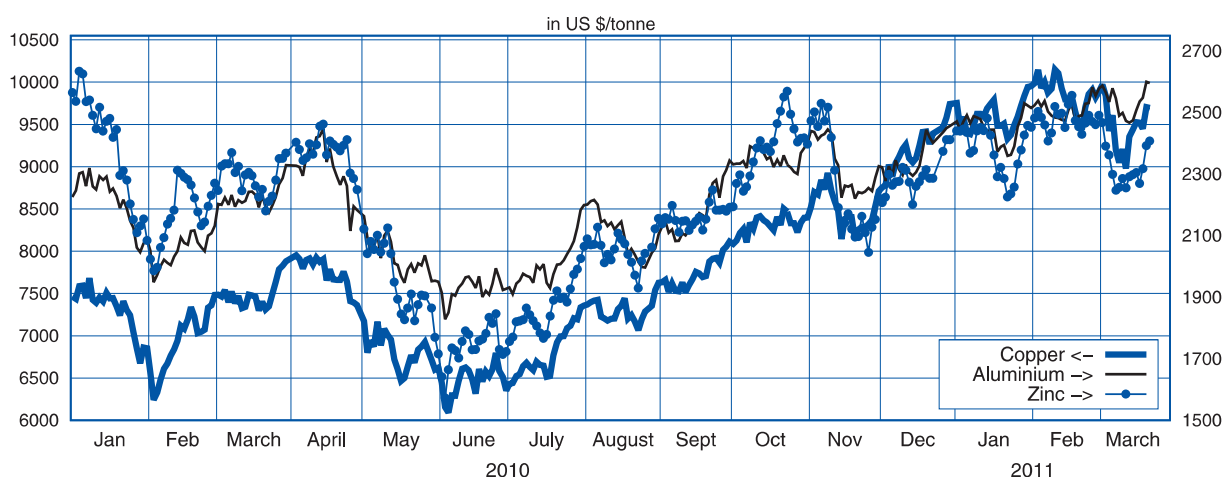
### Slowdown in the prices of industrial commodities

Since February 2011, the prices of industrial metals have slowed (see Graph 2). The prices of aluminium and copper, the two main industrial

metals imported into France, grew respectively by 2.8% and 3.3% in February, against +13.7% and +14.4% in January. The prices of textile fibres continued to grow at a sustained rate, particularly cotton (+19.1% in February): the flooding in Australia and Pakistan has increased supply tensions, while stocks are at their lowest level for 15 years. As for food raw materials, wheat prices have fallen sharply since the start of February. This cut has only partially been passed on to maize (see Graph 3).

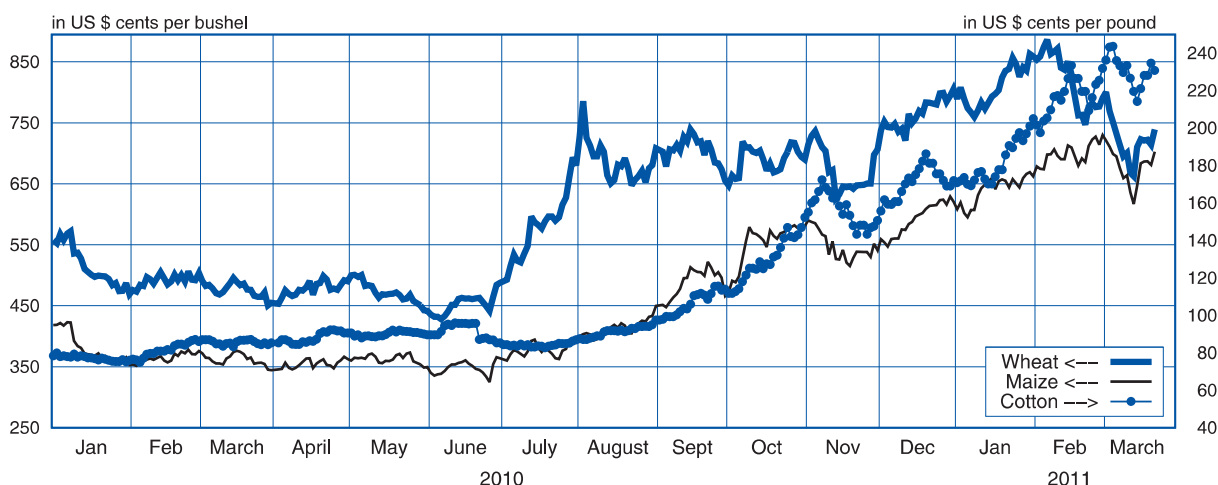
Within the forecasting period, against a backdrop of supply tensions and dynamic activity, the prices of non-energy raw materials should stabilise at their current prices. ■

### 2 - Prices of industrial metals



Last point: 24th, March 2011  
Source: London Metal Market

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



Last point: 24th, March 2011  
Note: A bushel is equivalent to 60 pounds, or around 26 kilograms.  
Source: Public ledger and Chicagos and Liverpool markets

# Consumer prices

Within the forecasting period, core inflation should rise and settle at 1.0% in June 2011. The recent rises in the prices of industrial and food commodities are likely to spread gradually, via production prices. However, the still-high unemployment rate keeping wage costs moderate should temper this rise in core inflation.

Headline inflation should increase very slightly, to 1.9% in June 2011. It is likely to be pushed up by core inflation, but this trend should be counterbalanced by a slight decline in the year-on-year prices of energy and seasonal products.

forecasting period. Similarly, in the course of H1 2011, the rises in the prices of oil and industrial commodities should filter through to core inflation via production costs. Conversely, core inflation should be tempered by the still-high level of unemployment, applying a brake on wages.

Headline inflation should increase slightly and stand at 1.9% in June 2011. At the start of 2011, inflation was higher in the Euro Zone, at 2.4% against 1.8% in France in February 2011 (harmonised indices). Indeed, the rise in the prices of food commodities has spread more rapidly in the Euro Zone over the last few months (see Graph 3). This gap should progressively close as food prices pick up in France.

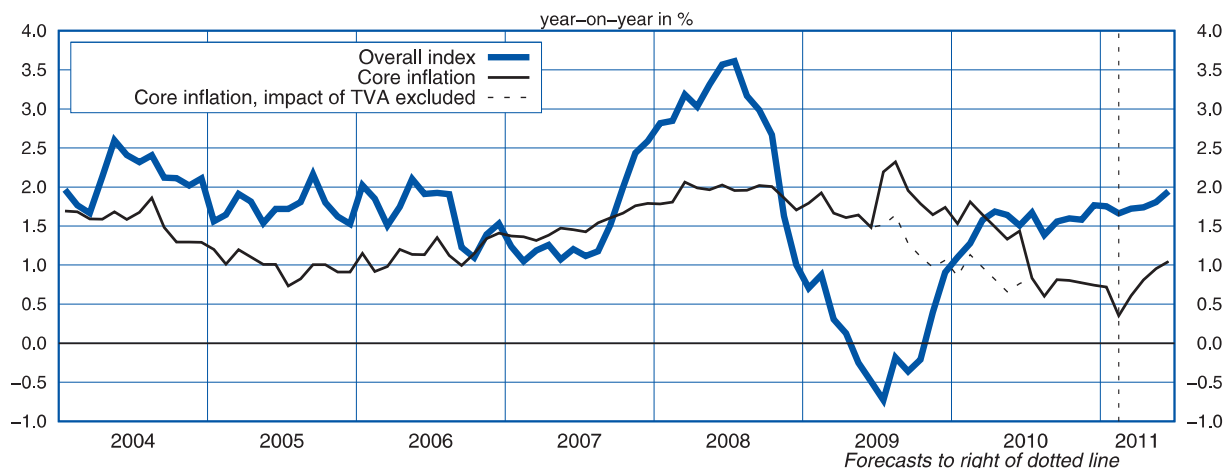
## Gradual rise of core inflation

Core inflation should gradually rise by 0.4% year-on-year in February 2011 and reach 1.0% in June 2011 (see Graph 1). Core inflation is measured by subtracting the index of all volatile components (energy, seasonal products) as well as public tariffs, and correcting for tax measures. The rise in core inflation is likely to stem from the rise in prices of non-energy industrial goods, after a marked effect of the sales in February, but above all the sharp rise in the prices of agrifood products. Since the start of 2010, the prices of food commodities have not been immediately passed on to consumer prices, but should be within this

## Slight increase in inflation of non-energy industrial goods

Year-on-year inflation of the prices of non-energy industrial goods fell from +0.2% in January 2011 to -0.9% in February. This drop is largely down to a temporary effect of the price cuts in clothing and footwear, due to the end of the sales period. This effect should be offset from March 2011. Next, the prices of non-energy industrial goods should remain globally stable up to June 2011 (+0.0%). The growth in the prices of imported commodities should spread to production costs. A simulation of the effects of a spike in the price of Brent

1 - Consumer prices in France



Source: INSEE

## Consumer prices

nonetheless suggests that these effects should be minor over the coming months (see *Focus*). Additionally, the moderate wage costs should contribute to restricting inflation in this sector.

### Inflation of services virtually stable

In February 2011, year-on-year inflation of the prices of services rose to 1.6% after 1.3% in January 2011. It should stabilise thereafter, at 1.5% in June 2011 (see *Table*). As in the industrial sector, the moderation of wage costs should contribute to containing the prices of services.

### Slight drop in energy prices

The year-on-year prices of energy products as a whole should fall slightly, from 15.0% in February 2011 to 12.8% in June 2011. On the assumption of a stable price of Brent, at around \$110 a barrel, this drop would be mechanical: it would be explained by the disappearance of the various prices rises that occurred in H1 2010 from the year-on-year values. The contribution of this item to headline inflation should therefore fade (see *Graph 2*), except in June 2011 when the disappearance of the price drop of June 2010 from the year-on-year values should contribute to a rise in energy inflation.

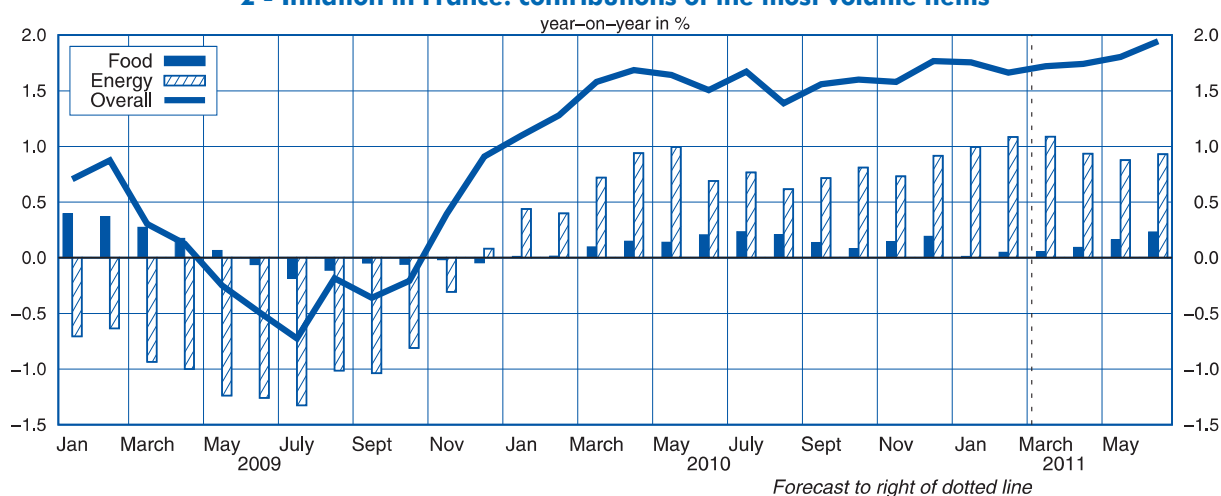
### Inflation of food products sustained by the rise in the prices of commodities

Lastly, the year-on-year prices of food products should pick up through to June 2011. The recent rises in the prices of food commodities, particularly wheat, started to filter through to production prices of foodstuffs on the French market from the beginning of 2010 (see *Graph 4*). In February 2011, this spread was nonetheless limited in the food consumer price index. While food prices have already accelerated in other sales outlets, they have not yet done so in the supermarket sector<sup>(1)</sup>. The transmission of rises in food commodities to consumer prices is likely to gather pace in H1 2011 and food inflation excluding seasonal products should grow up to June 2011.

However, year-on-year prices of seasonal products should drop through to June 2011. Last winter, the prices of these products climbed sharply owing to the difficult weather conditions. They should return to their usual seasonal profile in H1 2011. This "disappearance from year-on-year figures" effect should keep headline inflation moderate. ■

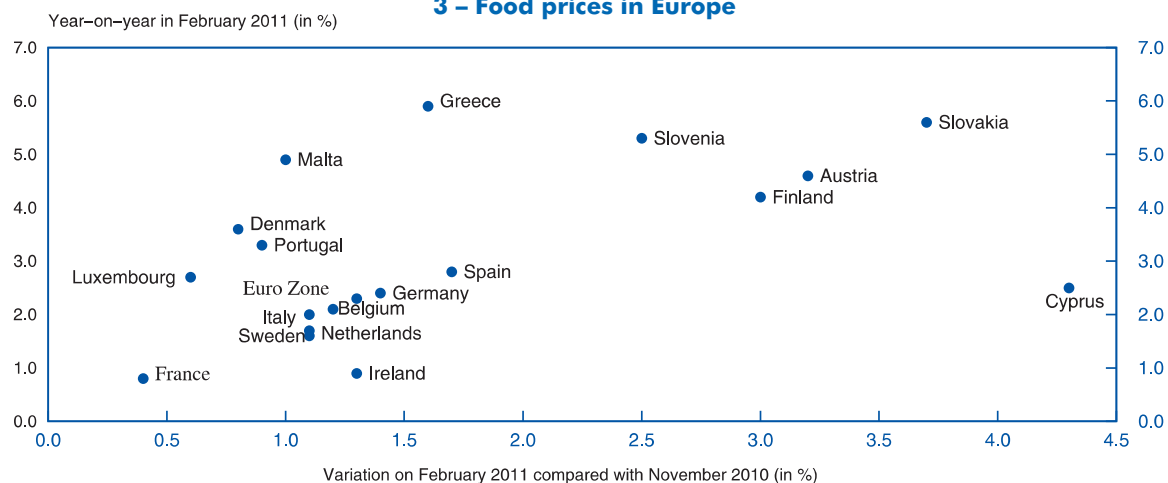
(1) (see Informations Rapides : indice des prix dans la grande distribution, <http://www.insee.fr/fr/themes/info-rapide.asp?id=103>)

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



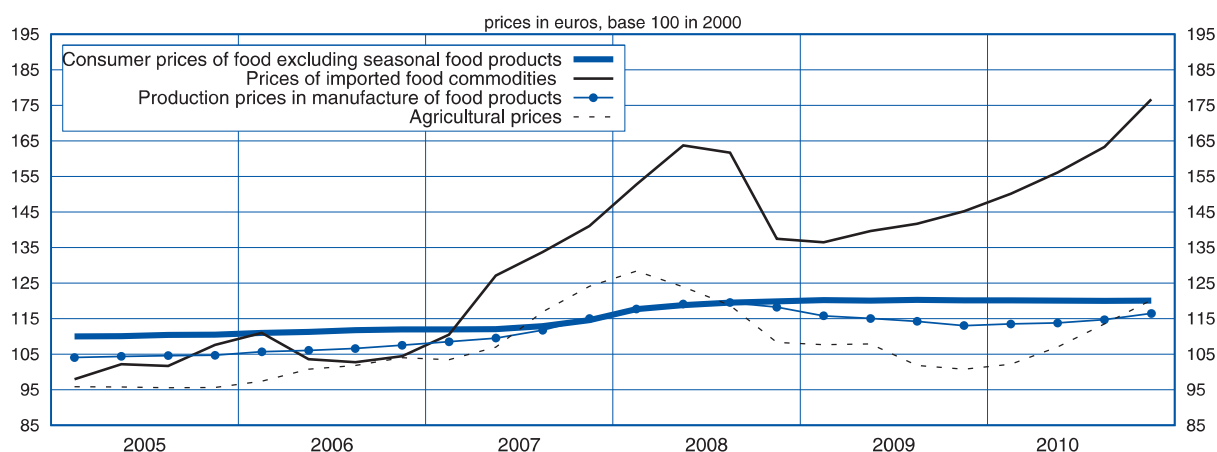
Source: INSEE

## 3 – Food prices in Europe



Note: How to read it: this chart sets year-on-year food prices in February 2011 against the variation of the previous three months. The year-on-year figure for food prices in France in February is 0.8%, well below that of the Eurozone as a whole, with the exception of Ireland. The variation in food prices between November 2010 and February 2011 in France is also the lowest in the Euro Zone.  
Source: Eurostat (harmonised indexes)

## 4 – Spread of the rise in prices of food commodities throughout the supply chain



Note: In 2007-2008, the rise in prices of food commodities filtered through to production prices, then to consumer prices; in 2010, this rise started to spread to production prices but has not yet spread to consumer prices.  
Source: INSEE

## Consumer prices

Consumer prices										
changes as % and contributions in points										
CPI* groups (2010 weightings)	December 2010		February 2011		March 2011		June 2011		Annual averages	
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	2009	2010
<b>Food (16.25%)</b>	<b>1.2</b>	<b>0.2</b>	<b>0.3</b>	<b>0.1</b>	<b>0.3</b>	<b>0.1</b>	<b>1.4</b>	<b>0.2</b>	<b>0.4</b>	<b>0.8</b>
including: seasonal food products (1.95%)	9.4	0.2	1.3	0.0	-1.6	0.0	-1.8	0.0	-4.2	7.6
excluding seasonal food products (14.30%)	0.1	0.0	0.2	0.0	0.6	0.1	1.9	0.3	1.0	-0.1
<b>Tobacco (1.75%)</b>	<b>5.6</b>	<b>0.1</b>	<b>5.5</b>	<b>0.1</b>	<b>5.5</b>	<b>0.1</b>	<b>5.5</b>	<b>0.1</b>	<b>1.4</b>	<b>5.8</b>
<b>Non energy industrial goods (31.1%)</b>	<b>-0.2</b>	<b>0.0</b>	<b>-0.9</b>	<b>-0.3</b>	<b>-0.4</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.1</b>
<b>Energy (7.3%)</b>	<b>12.5</b>	<b>0.9</b>	<b>15.0</b>	<b>1.1</b>	<b>15.0</b>	<b>1.1</b>	<b>12.8</b>	<b>0.9</b>	<b>-12.0</b>	<b>10.0</b>
including: oil products (4.28%)	16.5	0.7	19.1	0.8	19.4	0.8	16.6	0.7	-19.1	14.4
<b>Services (43.6%)</b>	<b>1.4</b>	<b>0.6</b>	<b>1.6</b>	<b>0.7</b>	<b>1.4</b>	<b>0.6</b>	<b>1.5</b>	<b>0.7</b>	<b>2.3</b>	<b>1.4</b>
including: rent-water (7.59%)	1.5	0.1	1.6	0.1	1.5	0.1	1.6	0.1	2.8	1.8
health services (5.21%)	0.4	0.0	1.0	0.1	1.1	0.1	1.2	0.1	0.8	0.6
transport-communications (5.33%)	-0.6	0.0	-0.1	0.0	-0.7	0.0	0.4	0.0	1.7	-0.3
other services (25.47%)	2.0	0.5	2.0	0.5	1.8	0.5	1.8	0.5	2.5	1.8
<b>All (100%)</b>	<b>1.8</b>	<b>1.8</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.9</b>	<b>1.9</b>	<b>0.1</b>	<b>1.5</b>
All excluding energy (92.7%)	0.9	0.8	0.6	0.6	0.7	0.6	1.1	1.0	1.2	0.9
All excluding tobacco (98.25%)	1.7	1.7	1.6	1.6	1.6	1.6	1.9	1.8	0.1	1.5
<b>"Core" inflation (62.6%)(1)</b>	<b>0.7</b>	<b>0.5</b>	<b>0.4</b>	<b>0.2</b>	<b>0.6</b>	<b>0.4</b>	<b>1.0</b>	<b>0.6</b>	<b>1.8</b>	<b>1.2</b>
<b>All HCPI*</b>	<b>2.0</b>	<b>2.0</b>	<b>1.8</b>	<b>1.8</b>	<b>1.9</b>	<b>1.9</b>	<b>2.1</b>	<b>2.1</b>	<b>0.1</b>	<b>1.7</b>

Forecast

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

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

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

Source: INSEE



### The effects of a rise in oil prices on consumer prices

The price formation dynamic in the economy plays a crucial role in the spread of an oil price shock. A rise in the price of crude directly influences consumer prices via the rise in energy consumption (known as the "first round" effect). It then spreads via the dynamic of wages, production prices and consumer prices (known as "second round" effects; see *Focus*, "The effects of an oil price rise on activity").

This dynamic can be modelled in the price-wage loop, which simultaneously describes:

- the formation of consumer prices according to import prices, including energy products, and production prices,
- the formation of wages according to consumer prices (headline and core) and conditions on the labour market (unemployment rate),
- the formation of production prices according to wage costs and the intermediate consumption cost.

This model allows us to illustrate the dynamic of the spread of a rise in the price of Brent. We simulate a shock of €20 on the barrel price. The increase in the price of the barrel of Brent first has an immediate and direct effect on energy prices (see

Table 1). In this case it leads to a cumulative effect on energy prices over one year of around 12.8%. The effects of the spread to consumer prices via production prices and intermediate consumption prices appear to be more moderate in the short term. Over one year, a €20 rise in the price of the barrel of Brent leads to a rise in core inflation in the order of 0.1 point (see Table 1).

#### The rise in Brent prices since the start of 2010 would have contributed to an increase of 0.7 point in the price level in Q1 2011.

To quantify the impact on inflation of the variations in Brent prices observed in 2010, we now determine their contributions to the growth in consumer prices, in deviation from a reference scenario where the barrel price would have stabilised at its level of end 2009. The variations in the prices of the barrel of Brent in 2010 and early 2011 would have contributed to a rise of 0.7 point in the level of prices in Q1 2011 (see Table 2). ■

**Table 1 : Response to a €20 rise in the price of the barrel of Brent**

*differences from the quarterly growth rate*

Impact in % on	Impact after...				total <sup>(1)</sup>
	1 quarter	2 quarters	3 quarters	4 quarters	1 year
Consumer prices of oil products	10,8	1,8	0,2	0,1	12,8
Consumer prices of energy products	6,5	1,1	0,1	0,0	7,7
Core inflation	0,0	0,0	0,0	0,0	0,1
Overall index	0,5	0,1	0,0	0,0	0,7

\* overhang with January and February 2011

(1) The cumulative total over a year is slightly different from the sum over the four quarters because of the rounding process.

**Table 2 - Response to the growth in the price of the barrel of Brent (in euro) over the year 2010**

*differences from the quarterly growth rate*

Changes in %	Impact					total <sup>(1)</sup>	
	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1	2010	5 quarters
Barrel of Brent in dollar	2,1	2,9	-2,2	12,8	16,5*	15,7	32,2
Barrel of Brent in euro	9,1	11,8	-3,6	7,4	16,7*	24,7	41,5
Impact in % on							
Consumer prices of oil products	3,0	4,1	-1,2	2,1	6,1	7,9	14,0
Consumer prices of energy products	1,8	2,5	-0,7	1,2	3,6	4,7	8,4
Core inflation	0,0	0,0	0,0	0,0	0,0	0,1	0,1
Overall index	0,2	0,2	0,0	0,1	0,3	0,4	0,7

(1) The cumulative total is slightly different from the sum over the four or five quarters because of the rounding process.

Source: INSEE data and estimations

# Employment

*In H2 2010, employment continued to rise: 70,000 jobs were created thanks to the dynamism of the market sectors. In H1 2011, employment should progress at the same rhythm as at the end of 2010 (+76,000 jobs). The non-agricultural market sectors should continue to create jobs in the wake of increased activity. There should be slightly more job creations in H1 2011 than in H2 2010 (+78,000 after +60,000). In the non market sectors, employment is set to decrease in H1 2011 (-7,000 jobs), due to the drop in newcomers to the subsidised work contract schemes.*

## The rise in employment in the market sectors set to continue at the start of 2011

Market sector employment took off in 2010 (+125,000 jobs) after numerous job losses in 2009 (-333,000 jobs) (see Graph 1). Since the start of the crisis the employment trend has been atypical. During the crisis, the adjustment of employment to the drop in activity was not as great as expected. The upturn in employment at the start of 2010 was also quicker than would have been justified by past behaviour. This relatively good showing led to a sharp drop in productivity to well below the pre-crisis level<sup>(1)</sup> (see Graph 2).

In our forecast this relative dynamism of employment should continue, a little more than might be expected with a simulation based on previous behaviour (see Graph 3).

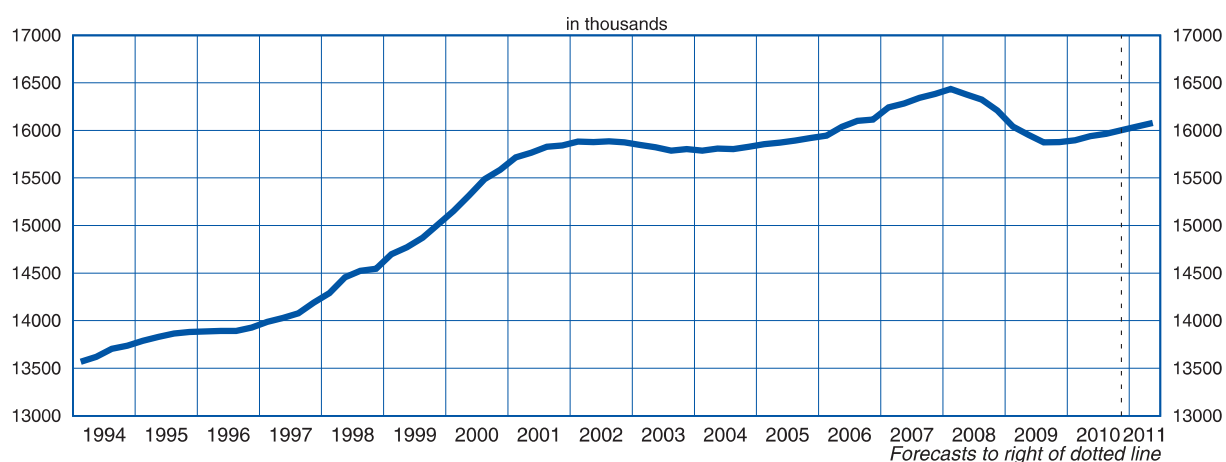
Market paid employment should thus increase by 78,000 jobs in H1 2011 (see Table).

## At the start of 2011, industrial employment set to decline less than in 2010

The trend in industry has been one of job losses since the start of the 2000s. Between 2002 and 2008, industrial employment decreased by around 40,000 jobs per half-year (see Graph 4). While they intensified during the recession, job losses in industry in early 2010 returned to a rhythm close to that prior to the crisis (-41,000 jobs in H1 2010). There were fewer losses in H2 (-20,000), with the pick-up of industrial activity. All in all, the drop in the workforce was far less marked in 2010 than in the previous year: -61,000 jobs, after -172,000 in 2009.

(1) see special analysis « Comment expliquer les évolutions de l'emploi depuis le début de la crise ? » of the « Note de conjoncture of December 2010 »

### 1 - Non-agricultural market paid employment



Source: INSEE

The improved outlook for employment in industry can also be seen in the growth in the number of temporary staff working in the sector<sup>(2)</sup>. The number of temporary staff dropped sharply during the crisis, but rebounded in early 2009: 105,000 jobs were created in industry between Q1 2009 and Q4 2010. However, the number of industrial temporary workers was still lower at the end of 2010 than the pre-crisis level. All in all, the volume of jobs in industry including temporary staff progressed in 2010 (+8,000 jobs, or +0.2%). It only dropped very slightly in H1 (-3,000 jobs or -0.1%) and increased in H2 (+11,000 jobs or +0.3%).

In our forecast, industrial employment excluding temporary work should continue to fall at the start of 2011, but at a less sustained pace than that observed before the crisis (-16,000 jobs in H1). Business leaders questioned in the business

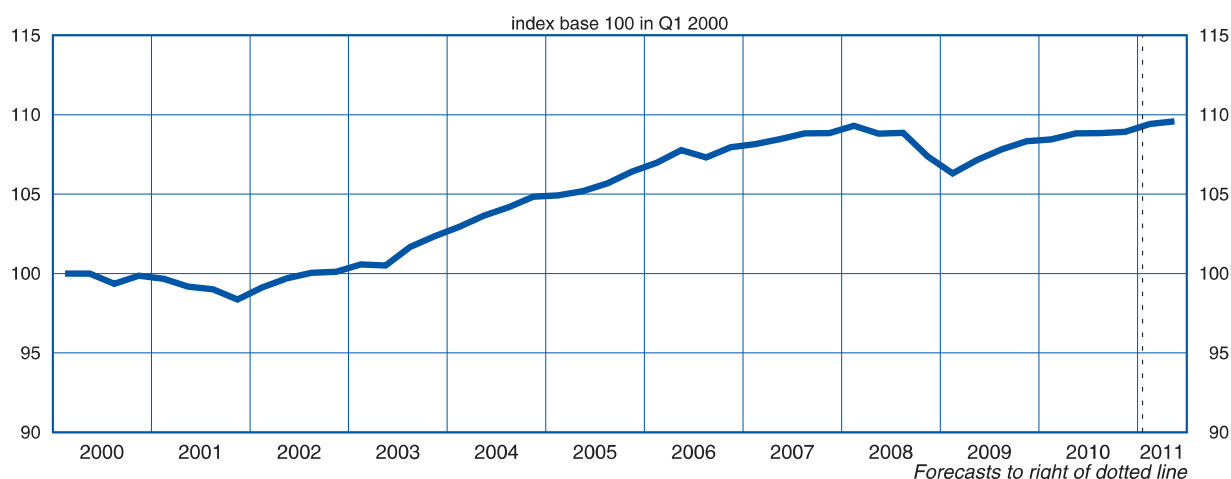
tendency surveys expect fewer job losses in industry over the coming months.

## Employment in construction set to rise

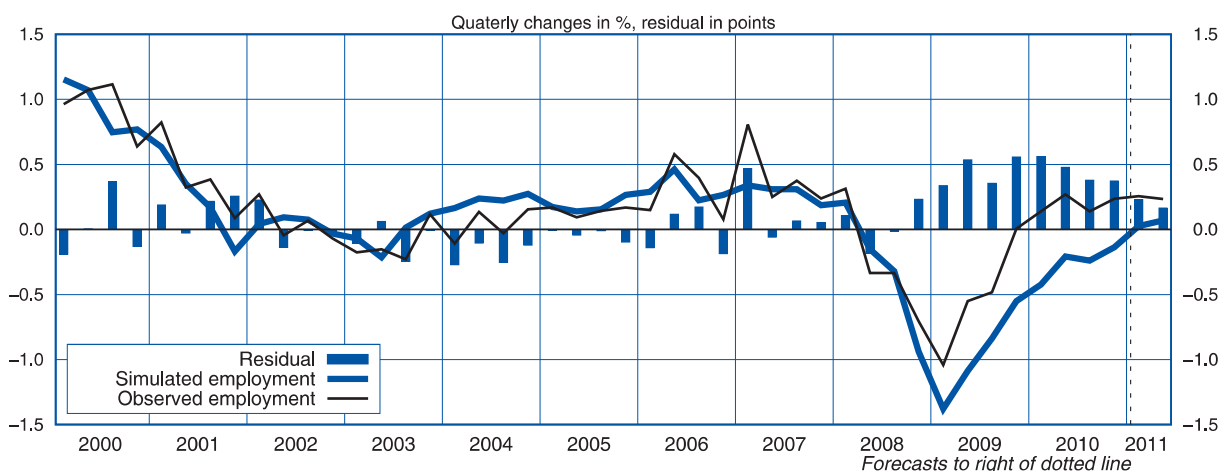
Employment in construction fell back during the year 2010 (-10,000 jobs or -0.7%). It had already contracted sharply in 2009 (-46,000 jobs, or -3.1%). Construction continued to shed jobs at the end of 2010. However, entrepreneurs in the sector questioned in the business tendency surveys expect an improvement in the employment situation at the start of 2011. We should therefore witness an

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

## 2 - Level of productivity in the non-agricultural market sectors



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



## Employment

upturn in job creations in H1 2011 (+7,000 jobs over the half-year).

### The increase in the workforce of the tertiary market sector still dynamic at the start of 2011

Temporary employment is included in the tertiary sector, irrespective of the sector in which the temporary work is carried out. With the recovery of temporary work, the tertiary sector was therefore the first to create jobs once again, as early as Q4 2009. Over the year 2010, employment in the market tertiary sector was very dynamic: 195,000 jobs were created, including 97,000 in temporary work, after 115,000 job destructions in 2009. In H2 2010, the share of temporary work in market-sector tertiary job creations was still high: around 50% (43,000 jobs out of the 85,000 created).

Within this forecasting period, the market tertiary sector should continue to be dynamic in H1 2011 (+88,000): non-temporary job creations should intensify while temporary work should slow (+31,000 jobs at the start of 2011).

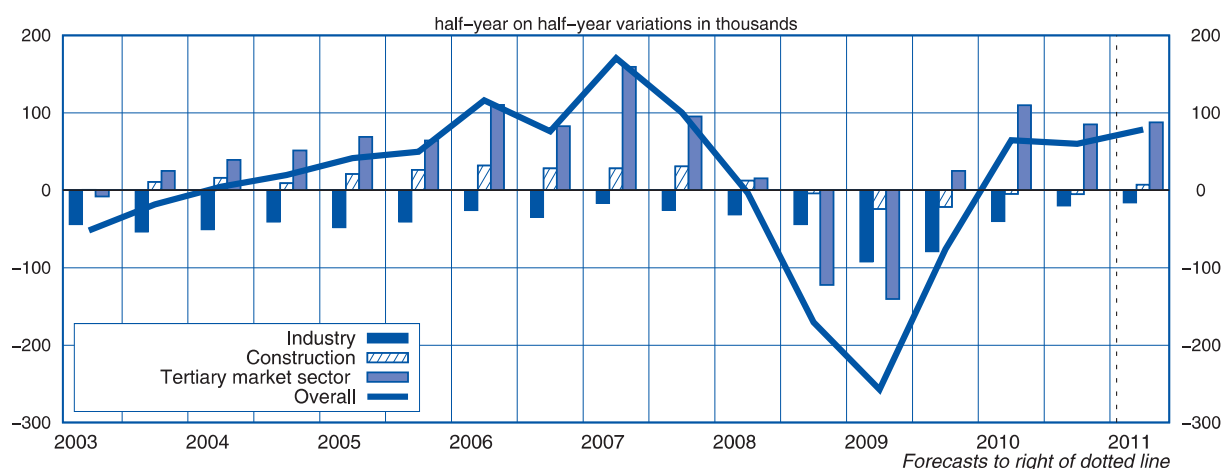
### With the drop in the number of newcomers to subsidised work contract schemes, non-market employment should decrease in H1 2011

In 2010, 46,000 jobs were created in the non-market sector, after a very dynamic 2009 (+87,000). This slowdown is mainly due to the trends in subsidised work contracts. The non-market Single Integration Contract (CUI-CAE, contrat unique d'insertion) has replaced the Contract to Support Employment (CAE, contrat d'accompagnement vers l'emploi) and the Contract for the Future (CAV, contrat d'avenir), and with all these contracts the increase in the number of beneficiaries was smaller in 2010 than in 2009 (see Focus, "The impact of market and non-market subsidised work contracts in 2010").

In 2011, the number of newcomers to subsidised contracts should be roughly the same as in 2010: 364,000 people starting a CUI-CAE are forecast in 2011 for Metropolitan France against 368,000 newcomers observed in 2010. But there should be fewer in H1 2011 (154,000 after 182,000 in H1 2010) and the number of beneficiaries of this contract is set to diminish over the half-year (-26,000, see Table 2).

All in all, after slowing sharply in H2 2010 (+6,000 after +41,000), employment in the non-market sector should decrease further at the start of 2011 (-7,000 jobs in H1 2011). ■

#### 4 - Changes in paid employment in the non-agricultural market 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 at the end of the period (in thousands) seasonally adjusted				
	2009	2010	2010 H1	2010 H2	2011 H1	2009	2010	2010 H1	2010 H2	2011 H1	2009	2010	2010 H1	2010 H2	2011 H1
<b>Market sector employees (1)+(2)</b>	-285	165	82	83	95	-1.6	0.9	0.5	0.5	0.5	17746	17911	17827	17911	18006
<b>Mainly non-agricultural market sectors (1) (private establishments only)</b>	48	40	17	24	17	2.6	2.2	0.9	1.3	0.9	1870	1910	1886	1910	1927
<b>Mainly non-market sectors (2) including:</b>	-333	125	65	60	78	-2.1	0.8	0.4	0.4	0.5	15876	16001	15941	16001	16079
Industry	-172	-61	-41	-20	-16	-4.9	-1.8	-1.2	-0.6	-0.5	3352	3292	3312	3292	3275
including															
Manufacturing industry	-178	-63	-42	-21	-15	-5.6	-2.1	-1.4	-0.7	-0.5	2979	2916	2937	2916	2902
Construction	-46	-10	-5	-5	7	-3.1	-0.7	-0.3	-0.4	0.5	1438	1428	1433	1428	1435
Tertiary market sector	-115	195	110	85	88	-1.0	1.8	1.0	0.8	0.8	11086	11281	11196	11281	11369
including															
Trade	-44	12	4	8	16	-1.5	0.4	0.1	0.3	0.5	2965	2976	2968	2976	2992
Market services (including temping)	-72	183	106	77	72	-0.9	2.3	1.3	0.9	0.9	8121	8304	8227	8304	8376

	Job creations over the period (in thousands)					Change in employment over the period (%)				
	2009	2010	2010 H1	2010 H2	2011 H1	2009	2010	2010 H1	2010 H2	2011 H1
<b>Mainly non-agricultural market sectors</b>	-333	125	65	60	78	-2.1	0.8	0.4	0.4	0.5
<b>Agricultural employees</b>	-2	-10	-5	-5	-5	-1.1	-4.6	-2.3	-2.3	-2.4
<b>Mainly non-market service sectors (including private establishments)</b>	87	46	41	6	-7	1.2	0.6	0.5	0.1	-0.1
<b>Self-employed</b>	20	20	10	10	10	0.8	0.8	0.4	0.4	0.4
<b>TOTAL EMPLOYMENT</b>	-228	181	110	70	76	-0.9	0.7	0.4	0.3	0.3

Forecast

(1) Sectors OQ private

(2) Sectors DE to MN and RU

Note: How to read the table: 95 000 jobs look set to be created in the market sector during H1 2011. This corresponds to an increase of 0.5% over the half-year. On 30 June 2011, this sector should account for 18 006 000 paid employees.

Table 2

## Subsidised employment in the non-market sector

	in thousands					
	2008	2009	2010 H1	2010 H2	2010	2011 H1
Consolidated Employment Contract	-1	0	0	0	0	0
Single Integration Contract (CUI-CAE replaces CAE+CAV on 01/01/10)	-	-	177	63	241	-26
Contract to Support Employment (CAE)	-48	70	-82	-67	-149	-3
Contract for the Future (CAV)	-10	-10	-46	-16	-63	-5
Young worker's contract	-4	-3	-1	-1	-2	0
<b>Total</b>	<b>-63</b>	<b>57</b>	<b>48</b>	<b>-21</b>	<b>27</b>	<b>-35</b>

Forecast

Scope: metropolitan France

Source : DARES, INSEE

### The impact of market and non-market subsidised work contracts in 2010

The single integration contract, established by the law of 1st December 2008 generalising the active solidarity income scheme, came into force on 1st January 2010. It replaced the contracts in force under the social cohesion plan (created by the programming law for social cohesion of 18 January 2005), and has a market section and a non-market section. In the market sector, the single integration contract (CUI-CIE) groups together the employment initiative contract (CIE) and the minimum income integration contract (CI-RMA). In the non-market sector, the single integration contract (CUI-CAE) replaces the support towards employment contract (CAE) and the future contract (CAV).

Subsidised contracts are often used counter-cyclically as a short-term device to combat the rise in unemployment: the volume of subsidised contracts can thus be increased to attenuate the effect of job losses due to economic turning points. The short-term impact of these contracts on employment is however not the same when applied to the market sector and to the non-market sector. In the non-market sector, the number of jobs created is simply equal to the difference between the contracts signed or renewed and the contracts terminated in the course of the year. In the market sector, some of the jobs generated under a subsidised scheme would have been created anyway, even if the scheme did not exist. In such cases we speak of deadweight effects, the scale of which may differ from one contract to the next. The effect on employment of subsidised contracts in the market sector is thus smaller than the variation in the number of beneficiaries. This effect is estimated via empirical studies (Dares, 1996, 2010).

In this respect evaluations are therefore mitigated by uncertainty. Additionally, they are only valid short-term. Long-term evaluations require the inclusion of:

- All the consequences that the schemes bring to the labour market (adjustment of wages, of participation rate, etc.),
- Their effects on human capital, notably a modification of the capacity to integrate beneficiaries into the labour market,
- The impact of the financing mode of the schemes on the economy.

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

#### A smaller rise in the number of beneficiaries of subsidised contracts in the non-market sector in 2010

In 2010, subsidised employment in the non-market sector increased by 27,000 jobs, after a rise of 57,000 jobs the previous year: 269,000 people benefited from these contracts at the end of 2010, against 241,000 a year earlier. The number of contracts signed or renewed increased slightly over 2009, from 358,000 to 368,000 in 2010 (see Table), while more people left the contracts in 2010 than in 2009 (341,000 against 301,000).

In 2010, all the newcomers to subsidised contracts in the non-market sector were taken on with the CUI. Therefore, new CAE and CAV contracts were interrupted and the number of people on these two contracts dropped in 2010: 23,000 at the end of the year for the CAE (against 172,000 beneficiaries at end 2009) and 5,000 for the CAV (68,000 at end 2009).

People on the old contracts - solidarity employment contracts, consolidated contracts, and youth contracts - were fewer and fewer, as there were no newcomers to these schemes; against this however, there were also fewer people leaving these schemes as time went by.

#### Subsidised contracts in the market sector: a drop in the number of beneficiaries but only a minor effect on employment in 2010

In 2010, the number of beneficiaries of subsidised contracts in the market sector was 642,000, a drop of 32,000 against 2009. The global effect of market sector subsidised contracts<sup>(1)</sup> on employment should be very small: 5,000 jobs lost if the deadweight and substitution effects are taken into account. In 2009, the effect of subsidised contracts on employment was already very limited (-8,000 jobs).

Almost 90% of subsidised contracts in the market sector are sandwich courses: at the end of 2010, 566,000 people were on apprenticeship or vocational training contracts, 6,000 fewer than in 2009. There was roughly the same number of newcomers to this scheme in 2010 as in 2009: 427,000 newcomers in 2010 against 425,000 in 2009. In 2010, the number of newcomers was stable for the apprenticeship contract (284,000 newcomers), and slightly on the rise for the vocational training contract (144,000 after 141,000 in 2009).

In 2010 there were 113,000 newcomers to the market-sector CUI, a slight drop against 2009 (118,000 newcomers to the CIE and the CI-RMA, both replaced by the CUI). The interruption of these two contracts in 2010 led to a drop in the number of beneficiaries due to those leaving the contracts in the course of the year. At the end of 2010, 8,000 people were on a CIE and a CI-RMA, against 91,000 beneficiaries a year earlier.

All in all, over the year 2010 the rise in the number of market-sector CUI beneficiaries (+61,000) did not compensate for the drop in beneficiaries of the two former contracts (-83,000). Additionally, the number of beneficiaries of other schemes, notably those designed to reduce wage costs, continued to drop in 2010: -1,000 for the exemption of charges in rural revitalisation zones (ZRR) or urban rehabilitation zones (ZRU) and -3,000 for the young workers' contract. ■

(1) Non-market Single Integration Contract (CUI-CAE), sandwich courses (professionalization, apprenticeship, qualification...), exemption of social charges in ZRR in ZRU, youth work contracts, etc.

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### Subsidised employment contract schemes: flows and number of beneficiaries

*in thousands, raw data*

	Flows of newcomers (including contract renewals)				Variation in number of beneficiaries (y-o-y, end of year)				Number of beneficiaries (end of year stock)**			
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
<b>Subsidised employment in the non-market sector</b>	<b>366</b>	<b>276</b>	<b>358</b>	<b>368</b>	<b>-41</b>	<b>-63</b>	<b>57</b>	<b>27</b>	<b>248</b>	<b>184</b>	<b>241</b>	<b>269</b>
<i>including:</i>												
Non-market CUI	0	0	0	368	0	0	0	241	0	0	0	241
Contract to Support Employment (CAE)	248	169	260	0	-17	-48	70	-149	150	102	172	23
Contract for the future (CAV)	113	106	98	0	13	-10	-10	-63	88	78	68	5
Young Worker's Contract	2	1	0	0	-19	-4	-3	-2	9	5	2	0
<b>Subsidised employment in the market sector*</b>	<b>615</b>	<b>543</b>	<b>550</b>	<b>547</b>	<b>-4</b>	<b>-118</b>	<b>-67</b>	<b>-32</b>	<b>859</b>	<b>741</b>	<b>674</b>	<b>642</b>
<b>Reduction in wage costs</b>	176	75	125	119	-67	-101	-35	-25	238	137	102	76
Market CUI	0	0	0	113	0	0	0	61	0	0	0	61
Exemptions from social charges (ZRR and ZRU)	15	13	7	6	1	-2	-6	-1	14	12	7	6
Youth Work Contract	94	0	0	0	16	-77	-54	-3	135	58	4	1
Employment Initiative Contract (old formula)	0	0	0	0	-29	-19	-18	-6	43	24	6	0
Employment Initiative Contract (new formula)	38	36	101	0	-62	0	51	-68	23	24	75	7
CI-RMA (old and new formula)	29	26	17	0	6	-4	-8	-9	23	19	10	1
<b>Sandwich training courses</b>	<b>439</b>	<b>468</b>	<b>425</b>	<b>427</b>	<b>64</b>	<b>-17</b>	<b>-31</b>	<b>-6</b>	<b>621</b>	<b>604</b>	<b>572</b>	<b>566</b>
<i>including:</i>												
Apprenticeship	273	293	284	284	15	2	-4	-4	405	407	404	400
Professionalization	166	175	141	144	52	-19	-28	-2	215	196	168	166

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

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

Sources: DARES, ASP



# Unemployment

*In Q4 2010, the unemployment rate came to 9.2% of the active population in Metropolitan France (9.6% including overseas departments). After rising sharply between mid-2008 and end 2009, it has since dropped slightly.*

*The unemployment rate should stabilise in Metropolitan France by mid-2011, at 9.1% (9.5% including overseas departments).*

## The unemployment rate stood at 9.2% of the active population in Q4 2010

In Metropolitan France, the unemployment rate came to 9.2% of the active population in Q4 2010, or 2.6 million unemployed (9.6% including overseas departments). It grew sharply between mid-2008 and end 2009 following the job losses during the recession. It reached a peak of 9.5% at the end of 2009, and showed a slight drop in 2010 with the upturn in job creations, in particular in the tertiary sector (see Graph).

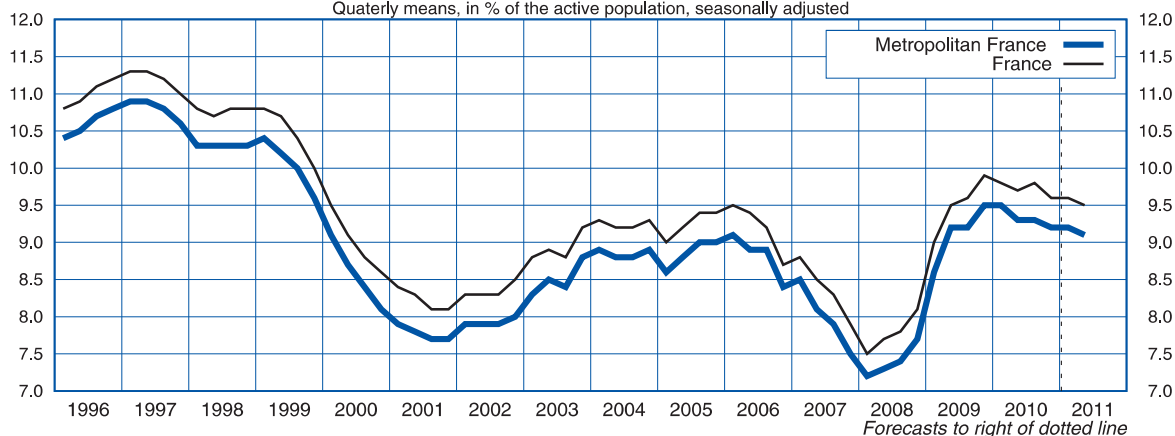
## Falling unemployment among young people

People under 25 were particularly hard-hit by the crisis. Their unemployment rate increased by 6.4 points between early 2008 and late 2009, reaching 24.1%. In 2010, young people were beneficiaries of the upswing in activity. In one year, the unemployment rate among young people fell by 1.8 point, down to 22.3% in Q4 2010. The unemployment rate, which is a ratio of the number of unemployed to the number of people currently in the labour force, may be high among young people but must be set against their activity. A large number of under-25s are still studying and are thus not working. When the number of young unemployed people is set against the 15-24 population, the rate is much lower: it was 7.9% in Q4 2010, that is, close to the level of unemployment in the 25-49 population (7.6%).

Between the end of 2009 and the end of 2010, the unemployment rate among people aged 25 to 49 stabilised, at 8.5% of the active population. Over the same period, the unemployment rate among older workers of 50 and over dropped slightly, by 0.3 point, but remained high compared with the early 2000s. At the end of 2010, it stood at 6.3% of the active population.

## 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

## Unemployment set to stabilise by mid-2011

Within the forecasting period, the unemployment rate should stabilise (see *Graph*). It should reach 9.1% of the active population in Metropolitan France (9.5% including overseas departments) at the end of Q2 2011. Employment should progress less quickly than in H2 2010 (see *Employment note*): 56,000 jobs should be created on average in H1 2011, after 99,000 in H2 2010. This rise in employment should be slightly higher than the rise in the active population.

In terms of governmental policies, the gradual withdrawal of the dispensation from seeking a job should sustain the active population.<sup>(1)</sup> The active population should grow slightly, in the order of 29,000 people in H1 2011 (see *Table*). ■

(1) A new prediction of the active population to the year 2060 is underway, and will include among other things the effects of the new law on retirement. It will be available soon.

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

quarterly means, in thousands

	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2008	2009	2010	2011 H1
	Quarterly changes											Annual changes			
Population of the 15-64 age group	32	31	30	30	30	8	-7	-19	-25	-27	-27	140	122	-42	-54
Population of the 15-59 age group	-30	-29	-28	-27	-27	-23	-20	-19	-20	-22	-25	-109	-111	-83	-47
<b>Active population</b>	<b>32</b>	<b>128</b>	<b>56</b>	<b>-57</b>	<b>97</b>	<b>28</b>	<b>10</b>	<b>77</b>	<b>-14</b>	<b>16</b>	<b>13</b>	<b>33</b>	<b>223</b>	<b>101</b>	<b>29</b>
including:															
(a) Contribution of the population and the trend participation rate	11	15	19	22	20	16	10	10	10	4	0	29	76	45	4
(b) Estimated bending effects	-3	-5	-5	-3	-1	2	3	4	3	2	3	1	-13	12	5
(c) Estimated effects of public policies	-3	3	5	0	6	6	5	2	7	10	10	-12	14	20	20
(d) Other short-term fluctuations (residual)	28	116	36	-77	71	4	-8	61	-33	0	0	16	147	24	0
<b>Employment</b>	<b>-76</b>	<b>-130</b>	<b>-109</b>	<b>-55</b>	<b>-5</b>	<b>40</b>	<b>55</b>	<b>64</b>	<b>35</b>	<b>18</b>	<b>38</b>	<b>-55</b>	<b>-299</b>	<b>194</b>	<b>56</b>
Reminder: End-of-period employment (see "Employment" note)	-106	-154	-64	-45	35	45	65	63	8	29	47	-135	-228	181	76
<b>ILO unemployment</b>	<b>108</b>	<b>258</b>	<b>165</b>	<b>-3</b>	<b>102</b>	<b>-12</b>	<b>-45</b>	<b>13</b>	<b>-49</b>	<b>-2</b>	<b>-25</b>	<b>88</b>	<b>522</b>	<b>-93</b>	<b>-27</b>
	Quarterly means											Mean at last quarter of the period			
<b>ILO unemployment rate (%)</b>															
Metropolitan France	7.7	8.6	9.2	9.2	9.5	9.5	9.3	9.3	9.2	9.2	9.1	7.7	9.5	9.2	9.1
France (including overseas departments)	8.1	9.0	9.5	9.6	9.9	9.8	9.7	9.8	9.6	9.6	9.5	8.1	9.9	9.6	9.5

### Forecast

How to read it: Here, employment and unemployment are not estimated over strictly equivalent scopes: total population for employment, population of households (excluding communities) for unemployment. As the impact of this difference in scope is very low (the population outside households represents less than 1% of the active population), it is ignored here for the unemployment forecast.

Source: INSEE

# Wages

In 2010, the basic monthly wage<sup>(1)</sup> experienced a slight slowdown in nominal terms (+1.8%), after +2.2% in 2009. While inflation sustained the basic monthly wage, this wage was checked by the still-high level of unemployment. Conversely, the nominal average wage per head accelerated in 2010 (+2.5% after +1.3% in 2009), mainly because the sharp fall in bonuses at the start of 2009 gave way to more usual increases in 2010. However, in real terms the basic monthly wage slowed sharply in 2010 (+0.6% in 2010 after +2.8% in 2009), bearing in mind the sharp rise in inflation. This slowdown was less marked in the average wage per head (+1.3% after +1.9% in 2009).

In H1 2011, nominal wages should remain relatively dynamic and the growth overhangs at the end of Q2 should reach +1.8% for the basic monthly wage and +2.0% for the average wage per head. But real wages should remain stagnant, with consumer prices increasing rapidly: at the end of Q2, the growth overhang should be +0.2% for the basic monthly wage and +0.4% for the average wage per head.

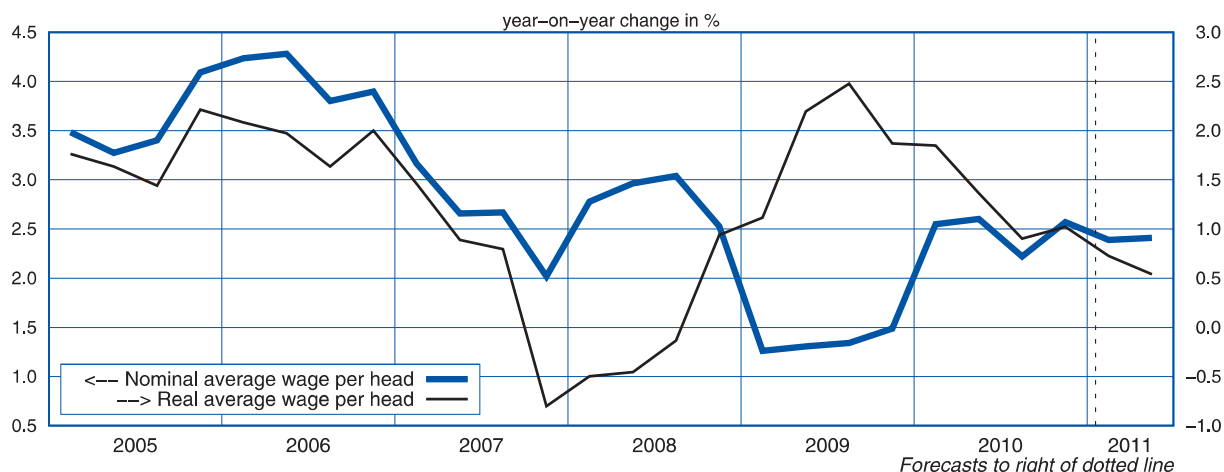
In general government, the nominal average wage per head decelerated in 2010 (+1.1% against +2.0% in 2009). In real terms it declined in 2010 (-0.1% after +2.6% in 2009).

## In 2010, contrasting fortunes for the basic monthly wage and the average wage per head

In 2010, the nominal basic monthly wage slowed: +1.8% after +2.2% in 2009 (see Table). First of all, the high unemployment rate took its toll on wages. Also, inflation contracted sharply in 2009, in the wake of oil prices. This sharp slowdown in prices in 2009 was passed on to wages at the start of 2010, slowing their progress. In particular, the upgrade of the minimum wage on 1st January 2010, which is based on the inflation observed in 2009, was limited (+0.5%). With a rise in inflation in 2010, the real basic monthly wage therefore slowed sharply in 2010 (+0.6 % after +2.8% in 2009).

The average wage per head presents quite a different dynamic. In nominal terms it grew rapidly in 2010 (+2.5% against +1.3 % in 2009). In particular, the big cut in results-linked bonuses in the tertiary sector in Q1 2009 gave way to more usual increases at the start of 2010, following the rebound in activity. This return to normal of bonuses partly offset the losses of real wages due to the return of inflation. All in all, the real average wage per head slowed less sharply than the real basic monthly wage (+1.3% in 2010 after +1.9% in 2009).

Change in the nominal and real average wage per head



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

## Wages

### Despite the rise in nominal wages, real wages set to be stable in H1 2011

In H1 2011, the mechanisms for adjusting wages to inflation should result in a rise in nominal wages. The upgrade of the minimum wage on 1st January 2010 was higher than that of the previous year (+1.6%). Unemployment should however remain high and this should weigh down on wages. All in all, the growth overhang at the end of Q2 2011 should be +1.8% for the basic monthly wage and +2.0% for the average wage per head.

In the short term, the indexation of wages to prices is nonetheless partial and partly delayed. This is especially the case when there is an inflation spike due to a rise in the prices of commodities. Given the expected rise in inflation in H1, real wages should stagnate in H1.

### Another slowdown in real wages in general government

In the civil service, real wages at the start of 2011 should continue the slowdown that began in 2010. The index point was upgraded by +0.5% on 1st July 2010, but the civil service minimum index has not progressed this year. Additionally, the individual purchasing power guarantee bonus scheme (GIPA)<sup>(2)</sup> was renewed in 2010 but in a more restricted way than in 2009. All in all, the average wage per head in general government increased less rapidly in 2010 than in 2009 (+1.1% after +2.0%); in real terms, the slowdown was far more marked (-0.1% after +2.6%) because of the new rise in inflation in 2010. At the start of 2011, the slowdown of the average wage per head in general government is likely to be more marked: the growth overhang at the end of Q2 should be +0.7% for the nominal average wage per head and -0.9% for the real average wage per head. ■

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

(2) The 2010 individual purchasing power guarantee is a compensation that concerns civil servants and government agents who suffered a loss in purchasing power between 2005 and 2009. In 2010 this guarantee will only be paid to civil servants who were blocked at the top of a pay scale for at least the four years from 2005 to 2009, and to those who retired in 2010 and were paid the guarantee in 2008 and 2009.

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

change as a %

Seasonally-corrected data	Quarterly growth rates						Annual averages		
	2010				2011		2009	2010	2011 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2			
Basic monthly wage (SMB)	0.4	0.5	0.3	0.6	0.6	0.6	2.2	1.8	1.8
Average wage per head (SMPT)									
- in the non-agricultural market sector (NAMS)	0.8	0.6	0.4	0.8	0.6	0.6	1.3	2.5	2.0
- in general government (GG)	-	-	-	-	-	-	2.0	1.1	0.7
Household consumer price index	0.6	0.3	0.2	0.5	0.7	0.5	-0.6	1.2	1.6
Real basic monthly wage	-0.2	0.2	0.1	0.1	-0.1	0.1	2.8	0.6	0.2
Real average wage per head (NAMS)	0.2	0.3	0.2	0.3	-0.1	0.1	1.9	1.3	0.4
Real average wage per head (GG)	-	-	-	-	-	-	2.6	-0.1	-0.9

■ Forecast  
Source: INSEE

# Household income

In 2010, the purchasing power of household income did not progress as much as in 2009 (+1.2% after +1.6%). This slowdown is the result of the rebound of consumer prices (+1.2% after -0.6%). In nominal terms, the gross disposable income (GDI) of households accelerated (+2.4% after +1.1% in 2009) with the recovery of earned income.

In H1 2011 the purchasing power of household income is likely to slow down (+0.4% after +1.1% in H2 2010) due to the increase in inflation, while growth in gross disposable income should be sustained. The rise in social and tax contributions should be offset by the good performance of earned income and the acceleration of social benefits.

## Earned income set to remain buoyant in H1 2011

In 2010, the earned income of households increased by 1.9%, after declining by 0.5% in 2009 under the effect of the crisis (see Table 1). On the one hand, the total wages received by households rose sharply, by 2.1% after +0.0% in 2009 (see Table 2), sustained by the recovery of paid employment and the dynamism of the average wage per head in the market sectors (see Graph 1). On the other hand, the gross operating surplus (GOS) of sole proprietorships saw renewed growth in 2010 (+0.8% after -3.9% in 2009). Additionally, property income also picked up, mainly thanks to the drop in the interest rate on

Table 1

### Household gross disposable income

change as %

	Half-yearly averages					Annual averages		
	2009		2010		2011	2008	2009	2010
	H1	H2	H1	H2	H1			
<b>Gross disposable income (100%)</b>	<b>0.4</b>	<b>1.1</b>	<b>1.0</b>	<b>1.7</b>	<b>1.6</b>	<b>3.2</b>	<b>1.1</b>	<b>2.4</b>
including :								
Income (67%)	-0.9	0.2	1.2	1.1	1.4	2.8	-0.5	1.9
Gross wages (58%)	-0.6	0.5	1.2	1.1	1.5	3.1	0.0	2.1
GOS of sole proprietors (9%)	-2.5	-1.6	1.1	0.9	1.2	1.4	-3.9	0.8
Social benefits in cash (31%)	3.0	2.3	1.2	1.2	1.5	3.5	5.3	3.0
GOS of "pure" households <sup>(1)</sup> (13%)	-2.3	0.5	2.4	1.9	1.4	5.0	-2.1	3.6
Property income (10%)	-1.1	-0.1	1.3	2.7	3.7	4.4	-0.8	2.6
Social contribution and tax burden (-22%)	-3.0	-0.9	3.0	-0.1	1.8	3.8	-1.8	2.5
Contributions by paid employees (-8%)	0.2	1.3	1.2	0.7	1.6	1.5	1.2	2.2
Contributions of self-employed persons (-2%)	1.5	0.8	1.3	1.1	1.3	6.0	2.9	2.3
Income and wealth tax (including CSG and CRDS) (-12%)	-5.6	-2.7	4.4	-0.7	2.0	5.0	-4.4	2.6
Income before taxes	-0.3	0.7	1.4	1.4	1.6	3.4	0.4	2.4
<b>Household consumer prices (quarterly national accounts)</b>	<b>-0.9</b>	<b>0.1</b>	<b>0.8</b>	<b>0.6</b>	<b>1.2</b>	<b>2.9</b>	<b>-0.6</b>	<b>1.2</b>
<b>Purchasing power of gross disposable income</b>	<b>1.3</b>	<b>1.0</b>	<b>0.2</b>	<b>1.1</b>	<b>0.4</b>	<b>0.3</b>	<b>1.6</b>	<b>1.2</b>

Forecast

Note: the figures in parentheses give the structure of the year 2009.

(1) The gross operating surplus (GOS) of sole proprietors is the balance of the (EBE) 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

## Household income

loans (+2.6% after -0.8% in 2009). Lastly, the gross operating surplus of pure households<sup>(1)</sup> rebounded sharply (+3.6% after -2.1% in 2009).

At the start of 2011, earned income should still be dynamic (+1.4% in H1 after +1.1% in H2 2010). The total wages received by households should grow at a slightly higher rate than in the previous half-year (+1.5% after +1.1% in H2 2010), as employment should continue to pick up and wages should be slightly more dynamic in nominal terms. The gross operating surplus (GOS) of sole proprietorships should also accelerate in H1 2011 (+1.2% after +0.9%), among other things because of the upturn in construction activity, as should property income (+3.7% after +2.7%).

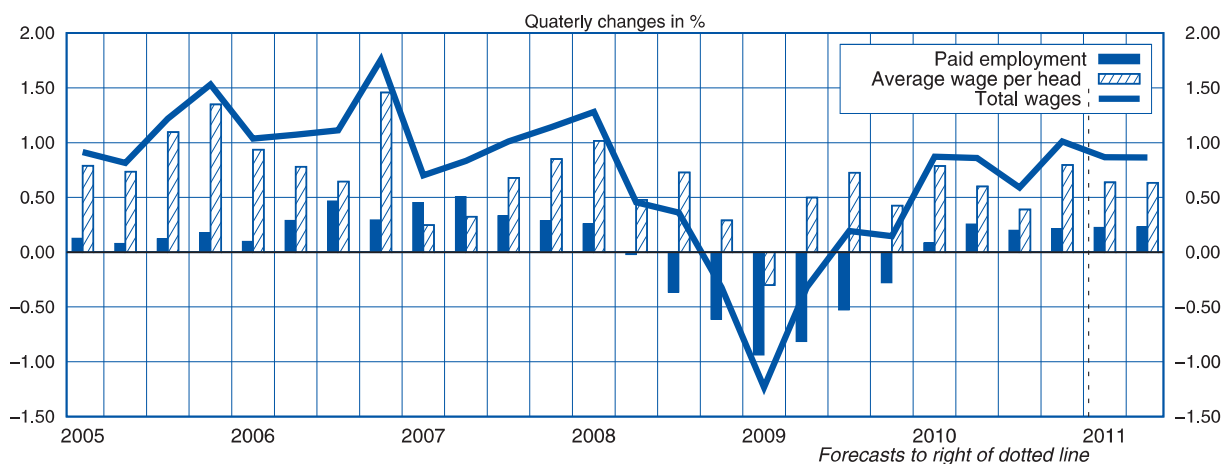
### Progress in social benefits at the start of 2011

In 2010, social benefits in kind slowed down after a particularly dynamic 2009: +3.0% after +5.3% (see Table 3). This slowdown is partly the result of the non-renewal of the support measures adopted as part of the stimulus plan in 2009<sup>(2)</sup>: social welfare benefits progressed by 0.5% in 2010 after +12.4% in 2009. Additionally, social security benefits were also a little less dynamic (+3.4% after +5.2% in 2009), because on the one hand

(1) Which corresponds to the rents that private owners of dwellings earn from their tenants or could earn if they let out their property (in which case they are called "assigned" rents).

(2) Two one-off bonuses were then created: the active solidarity bonus and a bonus for beneficiaries of the start-of-school-year allowance.

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



Source: INSEE

Table 2

### From non financial enterprise payroll to wages received by households

	Half-yearly averages					Annual averages		
	2009		2010		2011	2008	2009	2010
	H1	H2	H1	H2	H1			
Non-financial enterprises (67%)	-1.8	0.2	1.3	1.6	1.8	3.6	-1.4	2.2
including : Average wage per head	-0.2	1.3	1.2	1.2	1.3	3.2	1.1	2.5
Financial corporations (5%)	4.9	-0.1	3.2	-0.4	1.8	-1.2	4.3	2.9
General government (23%)	1.2	1.3	0.7	0.2	0.4	1.9	2.4	1.4
Households excluding sole proprietors (2%)	1.6	1.5	1.8	0.0	1.9	7.6	4.0	2.6
<b>Total gross wages received by households (100%)</b>	<b>-0.6</b>	<b>0.5</b>	<b>1.2</b>	<b>1.1</b>	<b>1.5</b>	<b>3.1</b>	<b>0.0</b>	<b>2.1</b>
including : Non-agricultural market sectors	-1.6	0.1	1.4	1.5	1.8	3.3	-1.3	2.2

Forecast

Note: the figures in parentheses give the structure of the year 2009.

Source: INSEE

unemployment benefit started to drop and on the other hand the family allowances were not upgraded in January 2010.

In H1 2011, social benefits should grow at a slightly faster rate than in H2 2010 (+1.5% after +1.2%). Social welfare should accelerate a little, particularly the specific solidarity benefit or the active solidarity income. Social security benefits should be boosted by the dynamism of old-age benefits and the upgrade of family allowances (+1.5% this year). Conversely, unemployment benefit should slip back slightly.

### Rise in the tax burden

The tax burden of households increased in 2010 (+2.5% after -1.8% in 2009): in particular, taxes rebounded (+2.6% after -4.4% in 2009), after the one-off tax relief granted as part of the stimulus plan in 2009. In H2 2010, income tax slipped back (-0.7%), due to the drop in income in 2009. Employee contributions also accelerated in 2010 (+2.2% after +1.2% in 2009), in line with the profile of the payroll.

In H1 2011, the tax burden looks set to rebound (+1.8% after -0.1% in H2 2010). The taxes paid by households should grow once again (+2.0% after -0.7%). The budgetary consolidation measures voted for 2011, notably the reduction of certain tax

likely to make themselves felt in H2, when the end-of-year tax adjustments are made. But taxes should be sustained by the rebound in income in 2010.

### Despite higher income, moderate purchasing power gains at the start of 2011

In 2010, the purchasing power of households progressed by 1.2% as an annual average, after bearing up during the crisis (+1.6% in 2009). The nominal gross disposable income (GDI) of households accelerated sharply (+2.4% after +1.1% in 2009). But this progress was offset by the rise in consumer prices (+1.2% after -0.6% in 2009). The progress of purchasing power per consumption unit, which includes demographic change, slipped from +0.8% in 2009 to +0.4% in 2010 (see *Focus*).

In H1 2011, household income should progress by 1.6%, which is a rate similar to that of H2 2010 (+1.7%). The rise in inflation should continue (+1.2% after +0.6%), in the wake of the rise in energy and commodities prices. As a result, the purchasing power gains of households should be slight: +0.4% as a half-yearly average after +1.1% in H2 2010 (see *Graph 2*). ■

Table 3

### The social transfers received and paid by households

	change as a %							
	Half-yearly averages					Annual averages		
	2009	2010	2011	2008	2009	2010	2008	2009
	H1	H2	H1	H2	H1			
<b>Social cash benefits received by households (100%)</b>	<b>3.0</b>	<b>2.3</b>	<b>1.2</b>	<b>1.2</b>	<b>1.5</b>	<b>3.5</b>	<b>5.3</b>	<b>3.0</b>
Social Security benefits in cash (72%)	2.6	2.7	1.4	1.2	1.5	4.1	5.2	3.4
Private funded social benefits (7%)	1.2	3.2	0.2	0.9	1.2	2.7	3.9	2.2
Unfunded employee social benefits (13%)	1.2	1.2	1.3	1.5	1.8	4.7	2.7	2.7
Social assistance benefits in cash (8%)	12.2	-0.1	0.2	0.8	1.4	-2.7	12.4	0.5
<b>Total social contribution burden</b>	<b>-0.2</b>	<b>1.2</b>	<b>1.5</b>	<b>1.2</b>	<b>1.4</b>	<b>3.0</b>	<b>0.8</b>	<b>2.7</b>
Actual social contributions paid by households (100%)	-0.3	1.2	1.5	1.2	1.4	2.8	0.5	2.7
including : Employers contributions <sup>(1)</sup> (63%)	-0.8	1.1	1.6	1.4	1.3	3.0	-0.1	2.9
Employees contributions (29%)	0.2	1.3	1.2	0.7	1.6	1.5	1.2	2.2
Self-employed contributions (8%)	1.5	0.8	1.3	1.1	1.3	6.0	2.9	2.3

Forecast

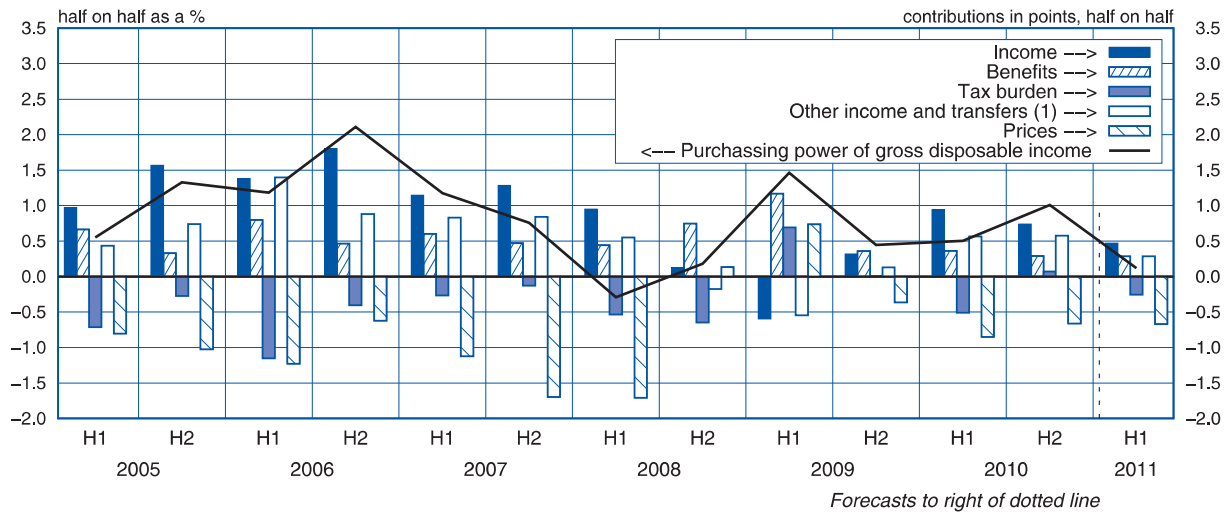
Note: the figures in parentheses give the structure of the year 2009.

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

Source: INSEE

loopholes, should have little effect in H1: they are

## 2 - Purchasing power of disposable income and contributions



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

## Different measurements of purchasing power

The household income that is presented and analysed in *Conjoncture in France* represents all the income received by all households. Indeed, it is this value which is relevant on the macroeconomic level, for example to build the balance between resources (GDP and imports) and uses (consumption, investment, exports, etc.) or to forecast GDP.

This value must be corrected if we wish to measure the mean purchasing power of the French people, in order to take account of both the growth in the number of households and the changes in their composition.

The most pertinent correction in this respect consists in dividing income by the number of consumption units in France. This concept takes account of demographic growth,

but also of the fact that certain consumption items may be shared within a household (household appliances, for example). A large household therefore makes certain "economies of scale" compared to a smaller household. In 2010, the growth in the number of consumption units was +0.8% (as a comparison, the growth in the number of inhabitants was 0.5% and the growth in the number of households 1.2%).

Therefore, in 2010, purchasing power per consumption unit slowed (+0.4% after 0.8% in 2009). Per inhabitant, the rise is be 0.7%, and purchasing power per household rose by 0.0% ■



# Household consumption and investment

In Q4 2010, household consumption was dynamic (+0.9% after +0.5%), bringing a year of fast growth to an end (+1.7% in 2010 after +0.6% in 2009). The household savings ratio decreased in Q4 (-0.5 point).

In 2011, the profile of consumption is likely to be marked by the effects of the withdrawal of the scrappage allowance at the end of 2010. In Q1, bearing in mind the lead times required to honour orders placed at the end of last year, household consumption should continue to progress (+0.5%). It should then decline due to the after-effects of this withdrawal in Q2 (-0.1%). With very moderate purchasing power gains over the half-year as a whole, households look likely to dip into their savings at the start of the year. Their savings ratio should then rise again in spring.

After renewed growth in spring 2010 for the first time for more than two years, household investment picked up strongly in H2 2010. It should continue to grow in H1 2011.

gains (+0.3%), households used some of their savings: their savings ratio slipped from 16.1% in Q3 to 15.6% at the end of the year (see Graph 1).

Automobile purchases grew strongly at the end of 2010 (+14.6% in Q4), just before the end of the scrappage allowance scheme on 31 December 2010. Household purchases of other non-energy industrial goods slowed, particularly in the textile and leather sector which in summer had enjoyed growth at a level not seen since the 1980s, thanks to the concentration of the summer sales in the month of July.

Q4 also saw a very sharp rise in energy expenditure (+2.7% after -3.2%), due to lower than normal seasonal temperatures, particularly in December. The industrial action in refineries in October had no discernable effect on fuel consumption, however.

Conversely, consumption of services slipped back slightly (+0.2% after +0.5%), notably transport services. Lastly, consumption of food products slowed slightly (+0.2% after +0.5%).

## In Q4 2010, dynamic expenditure in energy and automobiles

In Q4 2010, household consumption accelerated sharply, by +0.9% after +0.5% in Q3 (see Table). With purchasing power showing little in the way of

## Globally stable savings ratio in H1 2011

Consumption looks set to be sluggish over H1 2011, in line with the very low purchasing power gains (+0.1% then +0.3% in Q1 and Q2

### Household consumption and investment expenditure

	Quarterly changes in %										Annual changes in %		
	2009				2010				2011		2009	2010	2011 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
<b>Total household consumption expenditure</b>	0.1	0.2	0.3	1.0	0.0	0.3	0.5	0.9	0.5	-0.1	0.6	1.7	1.4
including:													
Food (17%)	-0.6	0.6	1.0	-0.7	0.3	0.6	0.5	0.2	0.1	0.2	0.4	1.2	0.8
Non-energy industrial goods (24%)	0.5	0.6	0.1	3.0	-1.8	-0.8	1.2	1.8	1.0	-1.8	0.8	1.0	1.4
Energy (7%)	-1.0	-1.3	-3.2	1.4	3.2	1.2	-3.2	2.7	-1.5	-0.3	-1.9	2.1	-1.0
Services (52%)	0.3	0.2	0.4	0.6	0.4	0.6	0.5	0.2	0.4	0.5	0.8	1.9	1.4
<b>Household investment</b>	-2.3	-1.9	-1.9	-1.4	-0.5	0.1	1.2	0.6	0.3	0.8	-8.7	-2.2	1.9

Forecast  
Source: INSEE



respectively); but its profile should be marked by the effects of the withdrawal of the scrappage allowance. In Q1 2011, given the "trailing" effect currently observed in automobile purchases, household consumption should remain buoyant, at +0.5% (see *Graph 2*). It should then suffer a backlash effect in Q2 (-0.1%). Households are likely to finance their consumption by dipping into their savings at the start of the year. The savings ratio should thus lose 0.3 point in Q1 before gaining 0.3 point and settling at 15.6% at the end of the forecasting period, which is a level close to that of end 2010.

### Dynamic consumption levels set to continue in Q1 2011...

In Q1 2011, consumption of non-energy industrial goods should remain buoyant (+1.0% after +1.8%) despite the withdrawal of the scrappage allowance on 1st January 2011. According to the latest available data, car registrations in Q1 were still at very high levels. Bearing in mind the delivery times required to honour orders placed at the end of last year, automobile consumption should remain on a high in Q1<sup>(1)</sup>, with a backlash expected in Q2. To a lesser extent, consumption of household electronic goods should also remain strong in Q1 with the switch to "digital only" television for six more regions, including Ile-de-France.

After strong growth in energy consumption expenditure at the end of last year, this item should fall back by 1.5% in Q1 2011, as temperatures return to their seasonal norms.

(1) Orders placed before 31 December may still benefit from the scrappage allowance, provided that the vehicle is delivered before 31 March.

(2) Household investment mainly comprises the purchase of new dwellings, but also includes the financial costs of transactions on the old property market.

(3) These fees are counted in household investment in services.

Lastly, consumption of services should accelerate slightly: +0.4% after +0.2% at end 2010.

### ... but slipping back in Q2 2011, with the after-effect of the scrappage allowance

In Q2 2011, consumption of non-energy industrial goods is likely to suffer from the after-effect of the scrappage allowance: a decline of 1.8% is forecast. Energy consumption should continue to retract (-0.3%). Consumption of food products should return to its trend rate for the forecasting period (+0.2%). Lastly, consumption of services should pick up once again (+0.5%). All in all, household consumption should see a decline of 0.1%.

### Household investment, dynamic at the end of 2010, looks set to slow in H1 2011

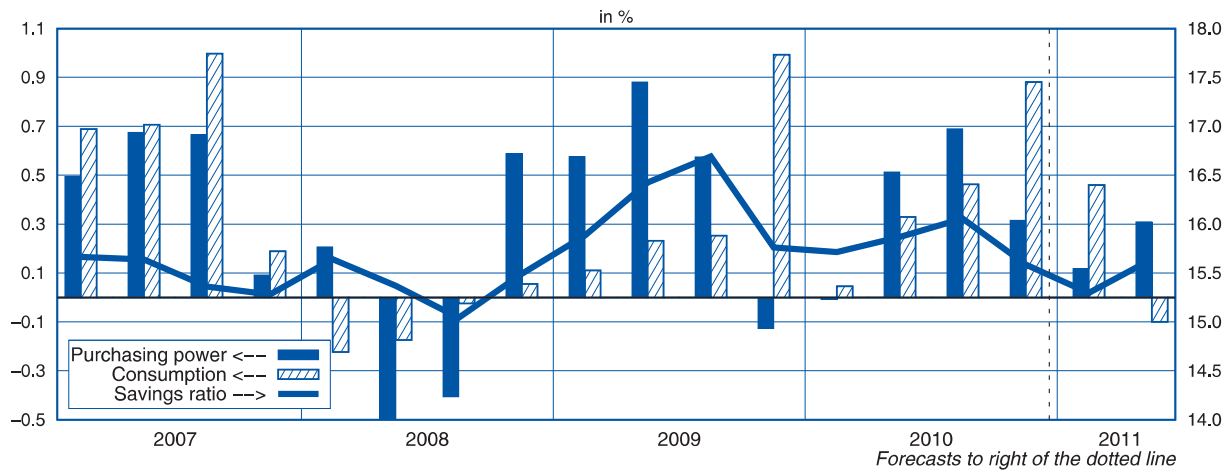
After falling for more than two years, household investment picked up strongly in H2 2010.<sup>(2)</sup> On the one hand, construction investment experienced a slight rise in the wake of increased housing starts. On the other hand, it also benefited from the upturn in the old property market since the start of the year, mainly via notary fees.<sup>(3)</sup> Household investment should see a slight slowdown in Q1 2011 (+0.3% after +0.6%) on both the new and the old property markets. It should return to a more dynamic rate in spring (0.8%).

Orders placed before 31 December may still benefit from the scrappage allowance, provided that the vehicle is delivered before 31 March.

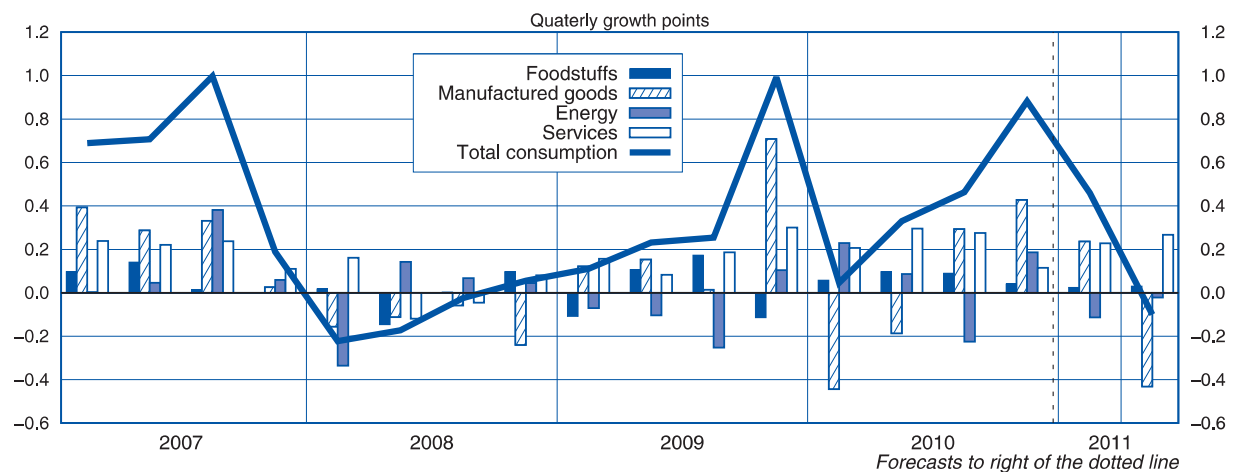
Household investment mainly comprises the purchase of new dwellings, but also includes the financial costs of transactions on the old property market. ■

# Household consumption and investment

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



## 2 - Contributions of the different items to quarterly household consumption



# Corporate investment and inventory

In 2010, corporate investment fell slightly, by 1.3% as an annual average after a sharp drop in 2009 (-7.9%). The significant decline in construction expenditure more than offset the upturn in productive investment and investments in services expenditure which occurred at the start of 2010. In H1 2011, the corporate investment dynamic looks set to stay on course. More specifically, construction expenditure should gradually recover. Production investments should grow at a sustained rate. Entrepreneurs are likely to invest more due to prospects of rising demand, more sustained use of production equipment, and favourable financing conditions.

In Q4 2010, the contribution of inventory change to growth was strongly negative (-0.9 point, after +0.2 point in the previous quarter), mainly due to the trend towards running down stock in capital goods and intermediate goods. Within our forecasting period, businesses should bring their inventory in line with demand, and inventory change should once again sustain growth.

## In spite of a dynamic year-end, corporate investment continued to decline in 2010

In Q4 2010, investments by non-financial enterprises (NFE) continued to pick up, by 0.5% after +0.4% in Q3 (see Table 1), boosted by the acceleration in expenditure on services (+2.4% after +1.0%) and progress in expenditure on non-energy industrial goods. The investment rate of non-financial enterprises rose to 18.4% at the end of 2010 (see Graph 1), after a low point of 18.2% in Q1 2010. Within non-energy industrial goods, expenditure on capital goods slowed (+0.2% after +3.0%) but automobile purchases increased sharply (+3.5% after -0.8%) before the expiry of the scrappage allowance on 31 December 2010. Conversely, construction expenditure once again fell sharply (-2.9% after -2.3%). However, this big drop partly reflects some one-off factors that penalised the civil engineering sector: difficulties sourcing bitumen due to the blockades at refineries in October, and poor weather conditions in December.

Table 1

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

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

	Quarterly variations										Annual variations		
	2009				2010				2011		2009	2010	2011 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Non-energy industrial goods (49%)	-5.9	-1.6	-0.1	0.0	1.7	1.5	1.6	1.2	1.4	1.5	-11.2	3.5	4.6
Building and public works (22%)	-1.1	-1.3	-3.6	-2.9	-4.6	-0.8	-2.3	-2.9	0.5	0.3	-6.0	-11.0	-2.8
Other (29%)	-0.7	-2.2	-1.3	-0.9	-0.2	2.9	1.0	2.4	1.5	1.5	-4.7	1.2	5.7
<b>All non-financial enterprises (100%)</b>	-3.0	-1.7	-1.5	-1.1	-0.6	1.3	0.4	0.5	1.2	1.2	-7.9	-1.3	3.0

Forecast  
Source: INSEE

## Corporate investment and inventory

All in all and over 2010 as a whole, NFE investment fell by 1.3%, but far less sharply than in 2009. The decline in construction investment (-11.0 %) far outstripped the renewed growth in investments in non-energy industrial goods (+3.5%) and services (+1.2%).

### At the start of 2011, a growing investment dynamic

In H1 2011, progress in investments by NFE should be a little more sustained (+1.2% per quarter). Service-sector business leaders surveyed in March once again indicated their good level of investment. And in the latest quarterly survey on investments in industry, business leaders expected bigger investments in H1 2011 than in H2 2010. Prospects for activity remain positive and the utilisation of production capacities has continued to pick up: in January the production capacity utilisation rate in industry reached 79.2%, after 78.7% last October and the low point of 71.3% in April 2009 (see Graph 2). Furthermore, in late 2010/early 2011, an increasing number of entrepreneurs have mentioned production bottlenecks. Lastly, overall financing terms remain favourable: banks have continued to ease their credit award criteria, and real interest rates are still low.

The investment rate should continue to rise, reaching 18.5% at the end of H1 2011. It should however remain at a much lower level than it was prior to the crisis (see Graph 1).

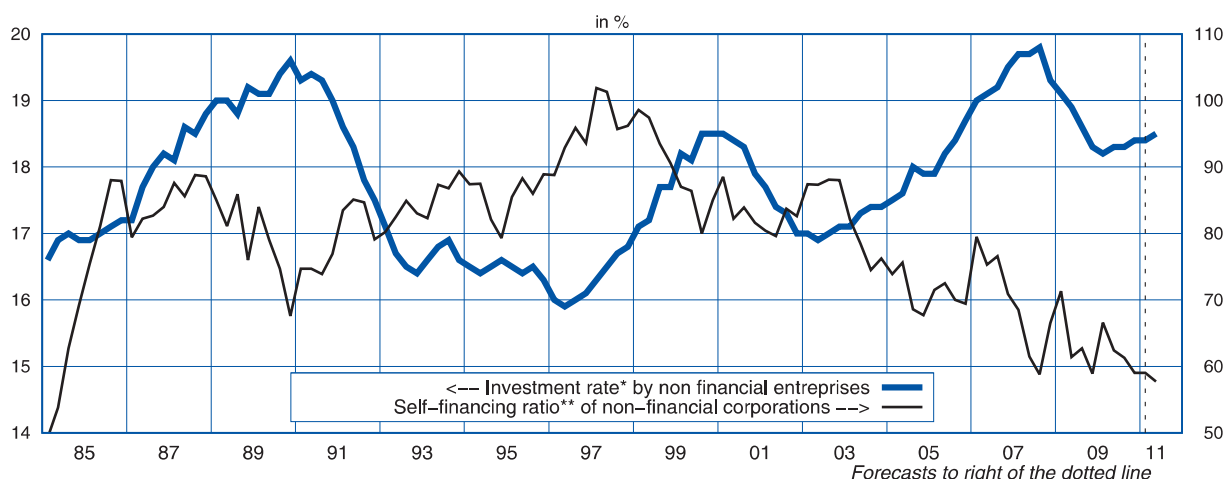
### Construction investment back on track...

On a continual downward slope since Q2 2008, corporate investment in construction should get back on track in Q1 2011 (+0.5%): expenditure on civil engineering works should rebound and the fall in building investment should ease. Investment in civil engineering works should benefit from the catch-up of part of the public works expenditure postponed in Q4 2010 due to the unfavourable weather conditions in December and the bitumen sourcing problems following the strikes in refineries in October. Civil engineering entrepreneurs also indicate better business prospects. In Q2 2011, civil engineering should suffer a backlash effect when activity returns to its usual level. However, housing starts have picked up over the last few months, pointing to an upturn in building investment through to mid-2011. All in all, the rise in construction expenditure should be moderate in Q2 (+0.3%)

### ...and investments in non-energy industrial goods and services still on the rise

Investments in non-energy industrial goods should continue to show progress (+1.4% in Q1 2011 then +1.5% in Q2). Wholesalers indicate that order intentions for capital goods, which represent two-thirds of investments in non-energy industrial goods, have progressed notably.

1 - Self-financing ratios and Investment rate



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

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

Source: INSEE

## Corporate investment and inventory

Growth in other investments, mainly IT services and specialised, scientific and technical activities, should slip back and return to a rhythm close to its trend (+1.5% in Q1 and in Q2). Prospects for activity in these sectors remain positive.

### Inventory change weighed heavily on growth in Q4 2010

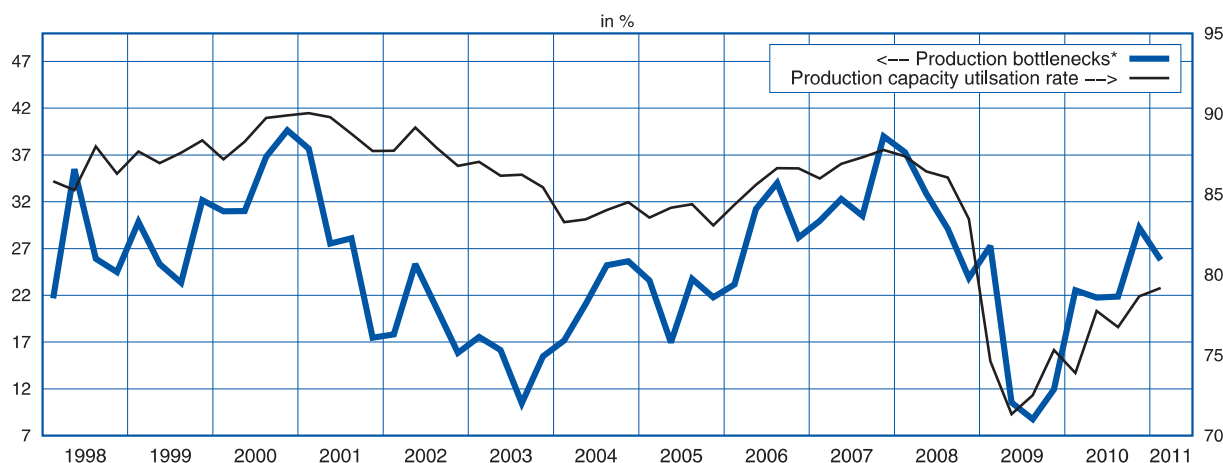
In Q4 2010, the contribution of inventory change was strongly negative, -0.9 point after +0.2 point in the previous quarter (see Table 2), and this was mainly focused on non-energy industrial goods (-0.7 point). This negative contribution was

concentrated on capital goods, particularly those in aeronautical construction and shipbuilding, and intermediate goods.

The fall in inventory in the aeronautical construction and shipbuilding sector in Q4 2010 can partly be explained by aeronautics sales abroad, which were more dynamic than in Q3, thus mechanically generating a movement towards running down stocks.

The strong trend of running down stocks observed in the intermediate goods sector partly translates the sharp drop in imports, after an exceptional Q3 (high levels of purchases of chemicals destined for the pharmaceutical industry).

## 2 - Tensions on production capacities in manufacturing industry



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

Table 2

### Contribution of inventory changes to growth

in GDP points

	2009				2010				2011		Annual changes		
											2009	2010	2011 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
<b>Agricultural and agrifood products</b>	0.1	-0.1	-0.2	0.0	-0.2	-0.1	0.0	-0.1	0.0	0.0	0.0	-0.4	-0.1
<b>Manufactured products</b>	-0.7	-0.3	-0.1	0.6	0.1	0.5	0.0	-0.7	0.1	0.1	-1.7	0.6	-0.2
including: Consumer goods	-0.2	-0.1	0.1	0.0	0.1	0.3	0.0	-0.1			-0.2	0.3	
Automobile	-0.2	0.0	0.2	-0.2	0.3	0.1	-0.1	0.1			-0.7	0.2	
Capital goods	0.2	0.0	-0.5	0.6	-0.5	0.0	0.0	-0.3			0.0	-0.3	
Intermediate goods	-0.5	-0.2	0.2	0.2	0.1	0.2	0.1	-0.3			-0.8	0.4	
<b>Energy products</b>	-0.2	-0.1	0.0	0.0	-0.1	0.0	0.2	-0.1	0.1	0.0	-0.2	-0.1	0.2
<b>Other (construction. services)</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
<b>TOTAL <sup>(1)</sup></b>	-0.9	-0.5	-0.3	0.6	-0.3	0.4	0.2	-0.9	0.2	0.1	-1.8	0.1	-0.1

Forecast

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

Source: INSEE

**Within this forecasting period, inventory change should sustain growth slightly.**

Inventory should sustain growth slightly in H1 2011, mainly due to a lower level of running-down of stocks in the manufacturing industry. Therefore, in Q1 2011, the opinion of industrialists on their inventory is improving but remains below its long-term average. Additionally, the high level of production perspectives and anticipated demand should encourage business leaders to run down stocks only moderately. ■

# Output

In Q4 2010, output of goods and services progressed at the same rate as in the previous quarter (0.3%) and slightly less strongly than had been forecast in the December Conjoncture in France (+0.4%). Activity in the manufacturing industry accelerated. It fell distinctly, however, in energy, hit by refinery strikes, and in construction, affected by bad weather conditions at the end of the year.

Output should accelerate considerably in Q1 2011 (+0.8%). The business climate indicator has continued its progression in early 2011, reaching a significantly higher level than its long-term average in March. The "France" turning point indicator has remained positive since mid-2009. In public works, refining and construction materials, output should benefit from a catch-up effect after the production shortfalls at the end of 2010. In Q2, it is likely to return to a more moderate growth rate (+0.5%), as the catch-up effects fade out on the one hand, and because trade activity is likely to be dragged down by the backlash after the end of the scrap-page bonus.

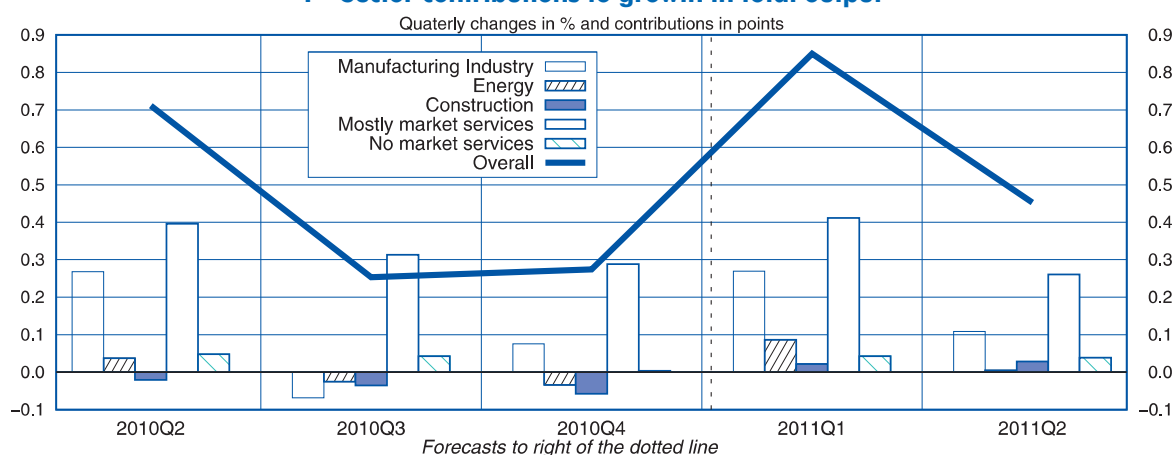
At the end of H1 2011, the growth overhang in output for 2011 should stand at +1.7%, after a rise of 1.9% in 2010.

## Output should accelerate in early 2011

In Q4 2010, output progressed by 0.3%, at the same rate as in the previous quarter (see associated account), which is slightly less than anticipated in December (+0.4%). Manufacturing output accelerated (+0.4% after -0.4% in Q3), benefiting notably from an upturn in the automobile sector, while growth remained dynamic in the market service sector (+0.6%) (see Graph 1). Conversely, in several sectors hit by exceptional factors, activity fell back at the end of 2010 (see Graph 2). Energy production fell, first of all, due to the autumn strikes in the refineries (-1.0% after -0.7%). Activity in construction was hit by bad weather conditions and also contracted considerably (-0.8%). Finally, in manufacturing production, construction materials output collapsed in December due to weather conditions.

In Q1 2011, production should accelerate noticeably (+0.8%). The rebound expected in the different sectors hit by production difficulties should have a positive effect on activity. The latest data on the industrial production index indicates a strong upturn in January in several of these sectors (see Graph 2). Furthermore, the business climate indicator in France, based on surveys of business leaders, has resumed its progression since December 2010 and is now well above its long-term average: it stands at 108 in March (see Graph 3).

**1 - Sector contributions to growth in total output**



Source: INSEE



## Output

In Q2 2011, output of all branches should slow down again (+0.5%). Although individual and general prospects for activity remain positive, the catch-up effects observed in several sectors should fade out. Also, production in trade should be dragged down by the backlash after the end of the scrappage bonus.

The output growth overhang for 2011 should stand at +1.7% at the end of H1 2011, after a rise of +1.9% in 2010.

### Acceleration in manufacturing output in Q1 2011, followed by a slowdown

Manufacturing output rose in Q4 2010: +0.4% after -0.4% in Q3. In particular, production accelerated strongly in the automobile industry (+6.5%), after what had already been a dynamic Q3 (+1.7%). This sector benefitted once again from a sharp progression in car orders before the end of the scrappage bonus at the end of 2010. Activity stopped falling in the intermediate goods sector (+0.4% after -0.6%). However, production declined noticeably in the sectors of capital goods (-0.9% after -1.7%) and consumer goods (-1.4% after +0.7%).

Industrialists surveyed in March 2011 report a continued high level of past production. Individual and general prospects have also been improving clearly since November 2010 (see Graph 4). This suggests that manufacturing output should accelerate in Q1 2011 (+1.5% on the previous quarter). More specifically, activity in construction materials should rebound strongly after the difficulties encountered in Q4. In the transport equipment sector, industrialists also report dynamic output in Q1. In particular, automobile activity should accelerate distinctly, as many of the vehicles ordered at the

end of 2010 still go into production. Finally, entrepreneurs in metallurgy report considerably higher activity in Q1.

Manufacturing output should then slow down in Q2 2011 (+0.6%). After growth of +4.7% in 2010, the annual growth overhang for manufacturing output should stand at +2.5% at the end of H1 2011.

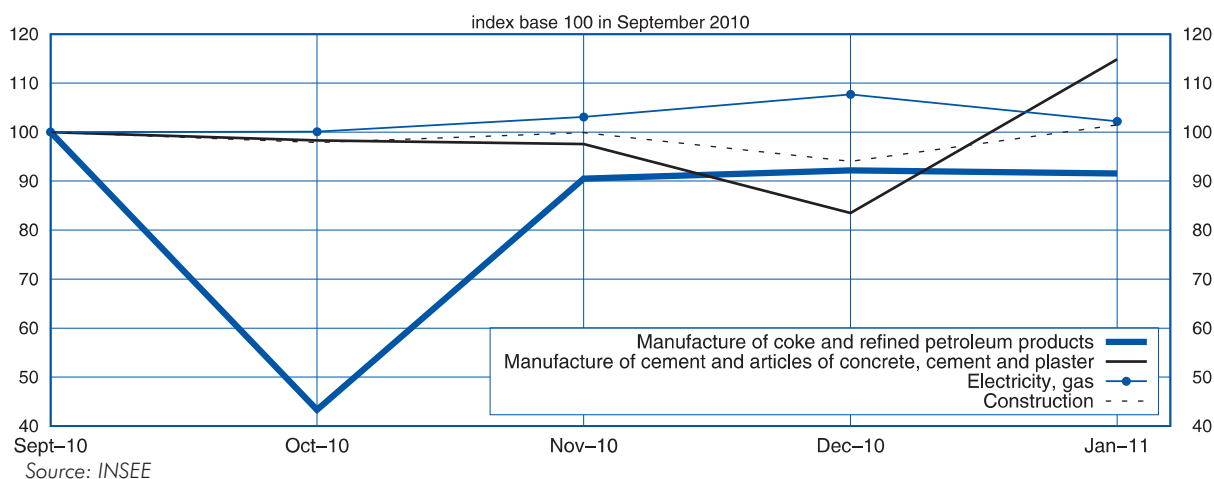
### Start of an upturn in activity in construction

In Q4 2010, output in the construction sector contracted again: -0.8%, after -0.5% in Q3 2010. This contraction was mainly down to the marked fall in activity in civil engineering works, hit hard by the bad weather conditions.

In H1 2011, construction sector output should improve slightly (+0.3 % then +0.4 % in Q1 and Q2). Public works activity should rebound, as reported by the entrepreneurs questioned in the last quarterly survey: this sector should benefit in particular from more clement temperatures and from catching up on the activity postponed at the end of 2010. Even if order books continue to be considered low, activity in building should improve progressively, as demonstrated by the output prospects declared by the entrepreneurs in this sector in March. In fact, housing starts have increased over the last few months.

All in all, after a marked contraction in 2010 (-5.0%), the annual growth overhang in construction-sector output should only be slightly negative (-0.3%) by the end of H1 2011.

2 - Industrial output index in several sectors hit by exceptional factors in Q4





### Activity should be sustained in market services in H1 2011

Activity in market services (real estate services, services to business and to individuals) accelerated in Q4 2010: +0.6%, after +0.4% in Q3. This acceleration came from the sector of services to business (+0.9% after +0.5% in Q3 2010) and more particularly consultancy and assistance services. In the real-estate sector, activity progressed at the same moderate rate (+0.4%) as in the previous quarter, while activity in services to individuals stagnated (+0.1%).

Activity should accelerate in Q1 2011 in market services (+0.8%) then remain sustained in Q2 (+0.7%). According to business leaders surveyed in March, the outlook is continuing to improve in services in early 2011 and they are revising their anticipations of activity in coming months slightly upwards. In parallel, the composite business climate indicator continues to rise and stands at 106 in March 2011. Services should benefit notably from the acceleration in activity in manufacturing industry.

At the end of Q2 2011, the growth overhang for market service output in 2011 should already be +2.2%, after progression of +2.3% in 2010.

### Mainly non-market services: activity should remain moderate in H1 2011

In mainly non-market services, production stagnated in Q4 2010 (+0.0% after +0.3% in Q3). Its growth has therefore remained moderate since the start of 2010 due to the slowdown in government spending. This should continue and activity should keep on progressing at a moderate rate in H1 2011 (+0.3% in Q1 and Q2).

All in all, output in this sector should have a growth overhang for 2011 of +0.7 %, after a rise of +1.2% in 2010.

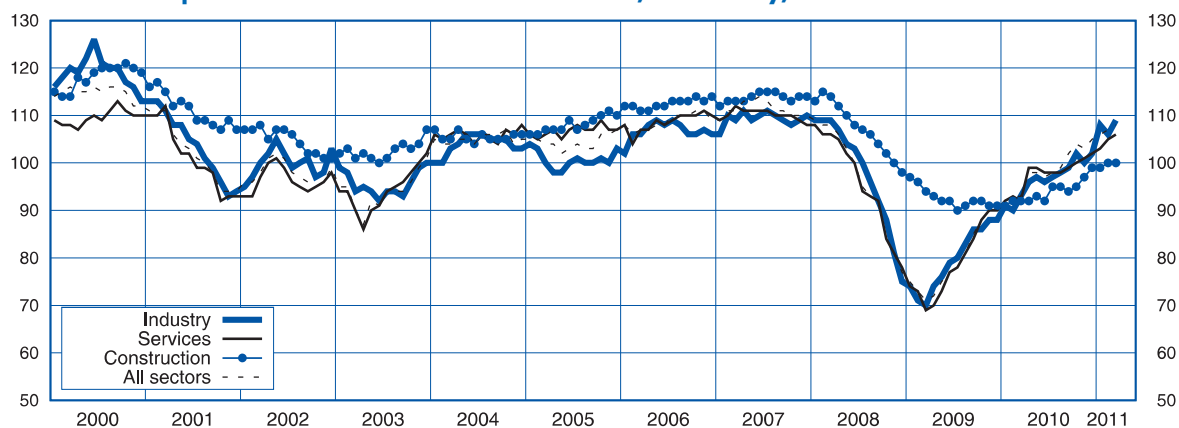
### Trade: acceleration followed by a backlash

Trade activity remained dynamic in Q4 2010 (+0.5%, after +0.7% in Q3), after a more hesitant start to the year. In wholesale trade, the outlook remained positive throughout H2 2010. In parallel, according to entrepreneurs in the retail trade and automobile trade and repairs, the growth in activity levelled out at quite a high level at the end of 2010, especially in the automobile trade. This sector benefited largely from dynamic new car purchases before the end of the scrappage bonus at the end of 2010.

Trade activity should accelerate notably in Q1 2011 (+0.8%), before levelling out in Q2 (+0.0%). In the wholesale trade, for example, the composite business climate indicator reached a significantly higher level than its long-term average in March. General prospects for activity are high, while order intentions continue to swell. In the retail and automobile trade, the climate also remained positive in Q1 according to entrepreneurs in the sector. Trade activity should then fall back slightly in Q2 with an expected fall in household consumption of non-energy industrial goods on account of the backlash after the end of the scrappage bonus (-1.8%). The forecasts made by companies in this sector in business tendency surveys are not particularly optimistic for Q2: general prospects for activity are down, as are order intentions.

At the end of Q2, trade activity should be showing a growth overhang of +1.7%, after growth of +1.7% in 2010.

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



Source: INSEE

## Output

### Recovery in transport

In transport, activity slowed down in Q4 2010 (+0.3% after +1.8% in Q3). It should progress at a moderate rate in H1 2011 (+0.6% then +0.4% in Q1 and Q2). Its annual growth overhang at the end of Q2 2011 should be +2.1%, after a progression of +2.0% in 2010.

### Rebound in energy and stability in agricultural activity

Energy output contracted sharply in Q4 2010 (-1.0%). It should rebound in Q1 2011 (+2.4%). This rebound conceals two phenomena. On the one hand, the strikes in refineries last autumn caused a fall in refined product output. As a reaction, activity should bounce back strongly in Q1. Conversely, electricity output increased in Q4 2010 due to the lower temperatures than normal. This softened the shock in the energy sector as a whole. With milder temperatures in Q1 2011, electricity output should slow down<sup>(1)</sup>.

Activity in the energy sector should then level out (+0.1% in Q2). All in all, its growth overhang for 2011 should be +1.7%, after growth of +2.1% in 2010.

In Q4 2010, output stagnated in the agricultural branches. It should accelerate only slightly to the time horizon of this forecast (+0.3% then +0.2% in Q1 and Q2 2011). ■

(1) The factors that influenced production should have the opposite effects on value added in the energy sector. Although production of refined products represents around 40% of energy output, the breakdown of value added is very different. As the refining sector uses a lot of intermediate consumption (crude oil in particular), its value added represents only around 10% of total value added in the energy sector. This explains that the value added in the energy sector increased in Q4, despite the fall in production of refined products. Conversely, it should fall slightly in Q1 2011.

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

