

CONJONCTURE IN FRANCE

March 2012

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■ Publication director

Jean-Luc Tavernier

■ Chief editors

Sandrine Duchêne
Jean-François Ouvrard
Noémie Jess
François Marical

■ Contributors

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Julie Argouarc'h
Charles Battesti
Anne Billaut
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Patrick Sillard
Hélène Soual
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Sophie Villaume
Émilie Vivas
Adrien Zakhartchouk

■ Editorial and pagesetting
secretariat

Catherine Fresson-Martinez
Moussa Blaibel
Jacqueline Courbet
Denise Maury-Duprey

■ Translation

Hancock Hutton

■ Secretariat

Nathalie Champion
Nelly Cousté

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THE FEVER HAS DROPPED BUT RECOVERY WILL BE SLOW

GENERAL OUTLOOK	7
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REVIEW OF THE PREVIOUS FORECAST	17
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SPECIAL ANALYSIS

• New leading and coincident indicators for French manufacturing output	23
• Uncertainty shocks slowing down business	33

FRENCH DEVELOPMENTS

• France's international environment	45
• Foreign trade	49
• Oil and raw materials	52
• Consumer prices	55
• Employment	60
• Unemployment	66
• Wages	68
• Household income	70
• Household consumption and investment	74
• Entreprises' earnings	81
• Corporate investment and inventory	83
• Output	87

INTERNATIONAL DEVELOPMENTS

• Financial markets	97
• Eurozone	100
• Germany	103
• Italy	106
• Spain	107
• United States	108
• United Kingdom	109
• Japan	110
• China and emerging Asia	111

FOCUS

• The effect of the tax rise on prices in January 2012	58
• Christmas shopping: French habits are changing	75
• Aeronautic construction and automobile construction, two sectors with a pronounced spill-over effect on the rest of the economy	89
• The effects of the cold weather on the construction sector in Germany	102

COUNTRIES ACCOUNTS	111
-------------------------------------	-----

STATISTICAL FRENCH APPENDIX	115
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The fever has dropped but recovery will be slow

Faced with renewed tensions in the Eurozone in autumn 2011, the European Central Bank massively injected cash into the financial system, thereby substantially easing these tensions. In particular, the sovereign yields of certain states that had been undermined by the crisis, such as Italy and Spain, came down sharply. The easing observed with regard to sovereign debt should gradually spread to the financing conditions of private agents.

The short-term outlook in the Eurozone remains gloomy. In the business tendency surveys the European business climate seemed to reach a low point at the end of 2011; but progress has been slow in early 2012 and the business climate is still hovering around the expansion threshold. Activity is therefore likely to remain lacklustre (-0.1% in Q1 2012, +0.1% in Q2), sustained almost exclusively by a modest rise in exports. Furthermore, divergences are likely to widen across the Eurozone, between Italy and Spain where domestic demand is set to slip back further, and Germany and France where it is more likely to hold firm.

In contrast, the environment outside the Eurozone seems more promising, and should feed the world trade dynamic through to summer 2012: the USA should be driven by robust employment and Japan by public aid for the rebuilding process. Torn between inflationary risk and the need to sustain domestic demand, the emerging countries are likely, however, to settle at a growth rate below that before the crisis.

In France, growth in H1 2012 should be slightly better than the Eurozone average but below its potential rate: nil in Q1 before picking up moderately in Q2 (+0.2%). Industrial output in particular is likely to slip

back at the start of the year, as the business surveys have suggested.

Domestic demand does indeed appear to be lacking in dynamism. Household consumption is likely to be sluggish: +0.2% in Q1 2012 and 0.0% in Q2. The purchasing power of income is set to fall back over the half-year, partly due to persistent inflation. Although the savings ratio is expected to drop, this will only slightly offset the consequences of weaker purchasing power on consumption: since 2008, households have shown a desire to keep a high level of precautionary savings. Additionally, the consumption profile is likely to be marked by the February rebound in energy expenditure due to the cold snap.

Reflecting the weak growth level, employment should continue to fall back in the market sectors, with almost 50,000 job losses in H1 2012; unemployment is set to continue rising.

As usual, our forecast involves a number of uncertainties. In the Eurozone, the recent intervention by the ECB seems to have averted the risk of a major systemic crisis, but persisting tensions in certain countries (Greece, Portugal) mean that the Eurozone is still not immune from new bouts of fever on the financial markets which would delay any European recovery. Conversely, restored confidence and the resultant easing of financial conditions could act more rapidly than forecast on activity in the Eurozone, fuelling a more favourable investment dynamic. Lastly, oil prices are once again at the mercy of a high level of geopolitical risk: if a new oil shock due to heightened geopolitical tensions were to occur, world growth would suffer; and the opposite would be true if the current tensions eased. ■

Activity slowed down clearly in the advanced economies in Q4 2011

Fall in activity in Europe

In the advanced economies as a whole, activity slowed down distinctly in Q4 2011: +0.2% after +0.5% in Q3. Activity fell back notably in the Eurozone (-0.3% after +0.1%). The upturn in financial tensions in the Eurozone since summer 2011 has worked through into the real economy: consumer and investor confidence has fallen and financing terms for private agents have deteriorated on the whole. Domestic demand therefore fell back sharply in Q4, which weighed heavily on trade within the Eurozone. All in all, activity fell in Germany (-0.2% after +0.6%), in Italy (-0.7% after -0.2%) and in Spain (-0.3% after 0.0%), while it held up better in France (+0.2% after +0.3%).

Dynamic US consumption

In Japan, activity fell distinctly (-0.2%): on the one hand, the announced reconstruction plans took time to be implemented and on the other, floods in Thailand temporarily disorganised some production chains in Asia. In contrast, activity remained dynamic in the United States (+0.7% after +0.5%), buoyed by the rise in household consumption and by a strong reduction of stocks.

Emerging Asia seeking its way

Activity also slowed down distinctly in the emerging Asian countries at the end of 2011, due to the restrictive monetary policy measures applied to get to grips with inflation. This slowdown was accentuated by the fall in European demand.

Acceleration in activity in the advanced countries at the start of 2012

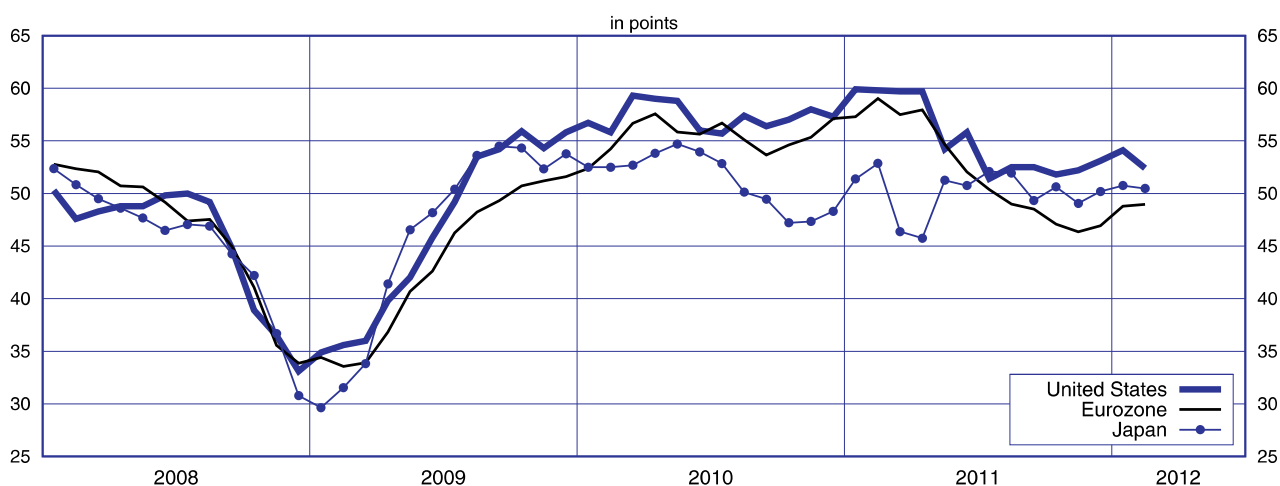
The business climate is improving on the whole in the advanced countries...

In February 2012, the business climate in industry remains well above the expansion threshold in the United States (see *Graph 1*). Likewise, after the ups and downs of the autumn, it has been above this threshold since December 2011 in Japan. In the Eurozone, however, the business climate remains poor in February 2012, although it has recovered from its low point in November 2011.

... but the divergences remain great

Activity should keep up a sustained rate of progression in the United States in Q1 2012 (+0.6% after +0.7%) and rebound distinctly in Japan (+0.6% after -0.2%). In the Eurozone, however, it should fall again slightly at the start of the year (-0.1% after -0.3%).

1 - PMI indices for manufacturing production



Sources : DataInsight, INSEE

Despite the progression in oil prices, the environment outside the Eurozone remains buoyant in early 2012

The oil price progresses sharply at the start of 2012

On the physical oil market, tensions have eased since the end of 2011: demand is slowing while world oil supply increased sharply at the end of 2011, thanks notably to the rapid resumption of Libyan output. However, the oil price is distinctly on the rise again at the start of 2012, reflecting geopolitical tensions affecting Iran in particular. Through to mid-2012, the oil price should fluctuate around \$120 a barrel for Brent, a distinctly higher level than that at the end of 2011 (\$109 on average in Q4 2011). In the emerging countries, this rise in the oil price is likely to drive inflationary risks again, thereby limiting the capacity of fiscal and monetary policies to support domestic demand. In the advanced countries, where the lack of demand that appeared during the crisis should normally go hand in hand with low inflationary pressure, the rise in energy prices should hinder the downward trend in inflation.

Lights are green in the United States

In the United States, activity should continue to progress in H1 2012 at a rate close to that observed at the end of 2011 (+0.6% per quarter in H1 2012). Job creations, which intensified markedly at the end of 2011, should remain dynamic. In this way, despite the upturn in inflation, American households should benefit from gains in purchasing power that should boost their consumer spending. Businesses are likely to increase their investments to cope with stronger sales outlets at home and abroad, notably in Asia, especially as with the increase in their margins since 2009, their financial situation has improved. In the absence of a significant short-term adjustment, the direction of fiscal policy should remain more conducive to activity in the United States than in the Eurozone.

Support for activity in Asia in H1 2012

In H1 2012, activity should accelerate in Asia. The zone should benefit from two positive factors. On the one hand, the fading out of the shock in Thailand should bring production conditions back to normal. On the other hand, the aid released for reconstruction in Japan should provide very considerable support for Japanese activity (+0.6% in Q1 then +0.5% in Q2).

Weak activity in the Eurozone in H1 2012

The European authorities have responded to the sovereign debt crisis...

Faced with the worsening of the sovereign debt crisis since summer 2011, the response of the European authorities has been twofold. On the one hand, States have sought to enhance the sustainability of their public finances: additional

2 - Drop in tensions on the interbank markets



* As the spread between the Libor or Euribor three-month yield and the swap yield

Source: DataInsight

deficit reduction plans were implemented in Italy, Spain and France at the end of 2011, while the European summit of 9 December 2011 reasserted the commitment of the European countries to fiscal discipline. On the other hand, the European Central Bank has intensified its recourse to unconventional measures, carrying out two exceptional, unlimited, 3-year maturity refinancing operations in December 2011 and February 2012. In addition, the agreement of 24 February on Greece enabled the reduction of the country's debt by at least €100 billion.

... and financial tensions are easing at the start of 2012...

Consequently, financial tensions in the Eurozone have eased since the start of 2012. For example, risk premiums in interbank markets have fallen (see Graph 2), stock index volatility has decreased sharply and the spread between the rates of Italian, Spanish and French bonds on the one hand, and German bonds on the other, has narrowed.

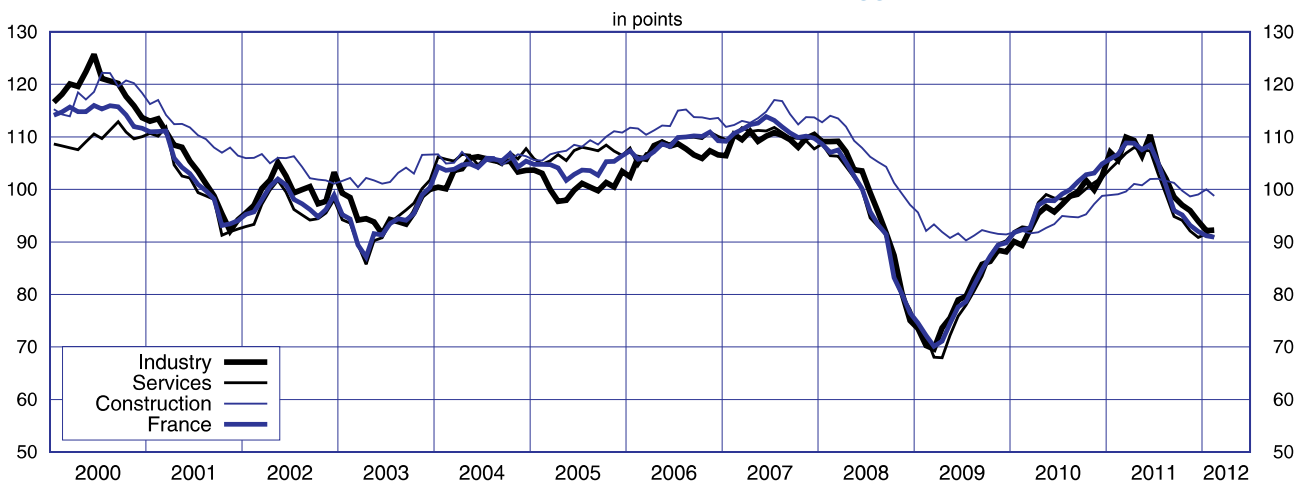
... but the crisis of summer 2011 continues to affect activity

However, the consequences of the crisis that occurred in summer 2011 are likely to continue affecting the European economies through to mid-2012. In certain countries, the easing observed at the start of the year on European sovereign bond markets has not yet worked through to lending terms, which is likely to limit the upturn in investment through to June 2012. Likewise, measures to control public deficits are likely to weigh down on household income, already hard hit by the deterioration in the labour market and the rise in the oil price. European household consumption should continue to fall back in H1 (-0.2% per quarter). This being the case, activity should fall back again slightly in the Eurozone in Q1 2012 (-0.1%) before rising again slightly in Q2 (+0.1%).

Sharp contrasts

The overall trend is likely to hide divergences within the Eurozone. In Germany, activity should rebound from Q1 (+0.2% then +0.4% in Q2 2012) as the motors of growth have been preserved there: household consumption buoyed by earned income should progress at a moderate rate and corporate investment should start up again through to mid-2012. German demand should boost Spanish and Italian exports, but in these countries, domestic demand is set to remain much weakened and the fall in activity is likely to continue throughout H1.

3 - The business climate in France is sluggish



Source: INSEE

In France, activity should be sluggish in early 2012

Activity progressed in France in Q4 2011

Although it fell for our main European trading partners, activity only slowed down slightly in France in Q4 2011 (+0.2% after +0.3% in Q3 2011). Manufacturing output rebounded (+0.6% after -0.4%) while commercial activity (+0.6% after +0.2%) and activity in services (+0.4% after +0.4%) continued to progress. However, due to mild temperatures in November and December 2011, energy production fell back distinctly (-1.1%).

Domestic demand and exports dynamic at the end of 2011

Regarding demand, activity was buoyed up by dynamic exports (+1.2%), despite the fall in demand in the Eurozone. In particular, record levels of aeronautics deliveries were recorded at the end of the year. Also, investment by non-financial enterprises rebounded clearly, in particular their purchases of automobiles, and household consumption continued to progress at a moderate rate (+0.2% after +0.2%).

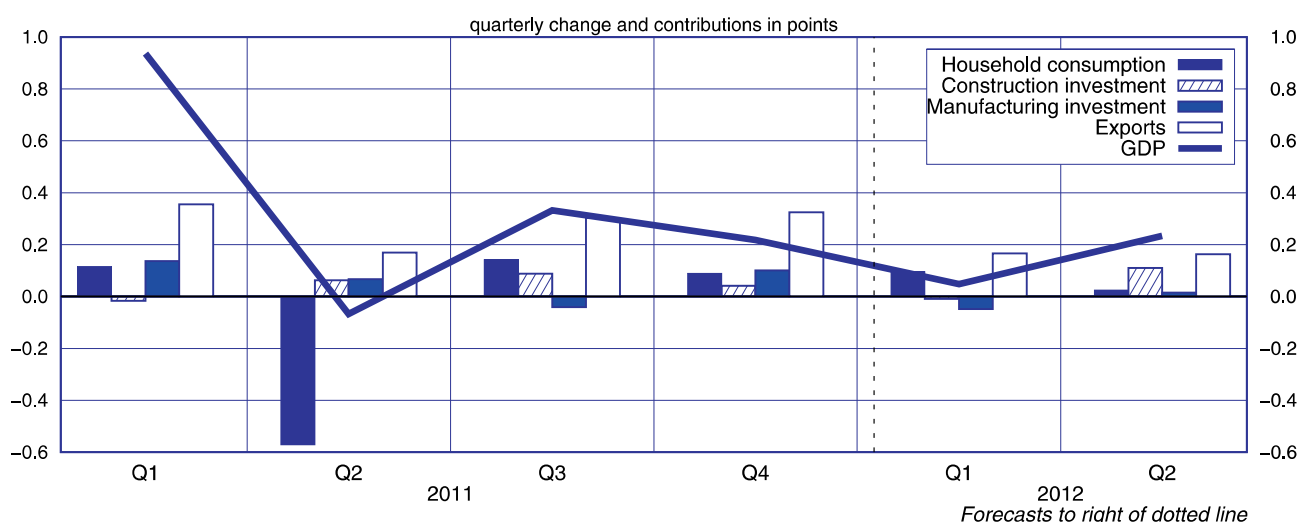
Business surveys stabilised at a low level in February...

In services and industry alike, the business climate as tracked by the business surveys stabilised in February 2012 at a level well below its long-term average (see Graph 3). In manufacturing industry, the assessment by business chiefs of their past activity continued to worsen in February. Personal production prospects improved slightly, although they still remained below their long-term average. Likewise, in services, the judgement of expected activity remains well below the long-term average and demand forecasts remain low.

... suggesting slow activity in early 2012

All in all, activity should be stable in France in Q1 2012 (0.0%): it should be held back in particular by the backlash of the temporary factors that buoyed it up in Q4 2011 (automobiles, aeronautics). It should then recover some dynamism in Q2 2012 (+0.2%). Manufacturing output should fall back in Q1 2012 (-0.5%), before rebounding slightly in Q2 2012 (+0.3%) and production of services should slow down (+0.1% in Q1 2012 then +0.3% after +0.4% in Q4 2011). The domestic drivers of growth, employment, consumption and investment are all set to be slow through to the time horizon of the forecast (see Graph 4).

4 - Domestic demand should be sluggish in early 2012



Source: INSEE

Deterioration of the labour market situation

The fall in market-sector employment should continue in early 2012

For the first time since H2 2009, employment in the non-agricultural market sectors fell in H2 2011 (-54,000), with a sharp contraction in particular in employment in the temporary work sector (-34,000). With the weakness of activity, the fall in employment should carry on through to mid-2012: 49,000 non-agricultural market-sector jobs are likely to be lost in H1 2012. Total employment should nonetheless be buoyed up by intensification of State-aided jobs.

Unemployment on the rise

The unemployment rate stood at 9.4% (9.8% respectively including the French overseas territories) of the active population in Q3 2011. It should increase to 9.7% by mid-2012 (10.1% respectively including the French overseas territories).

Slight fall in inflation through to mid-2012

Inflation should slip back slightly

The high level of unemployment and the limited degree of utilisation of production capacities are holding back inflationary pressures. Core inflation is therefore likely to level out at 1.4% in June 2012, the same level as in February 2012. The year-on-year change in the prices of manufactured products, which fell sharply at the start of the year notably in clothing-footwear, should rise again. Conversely, food prices should slow down in the wake of the fall in imported food commodity prices since mid-2011. In addition, with the rise in oil prices in early 2012, energy inflation should remain sustained (+7.7% year on year in June 2012). All in all, headline inflation should stand at 2.2% in June 2012, slightly below its level in February 2012.

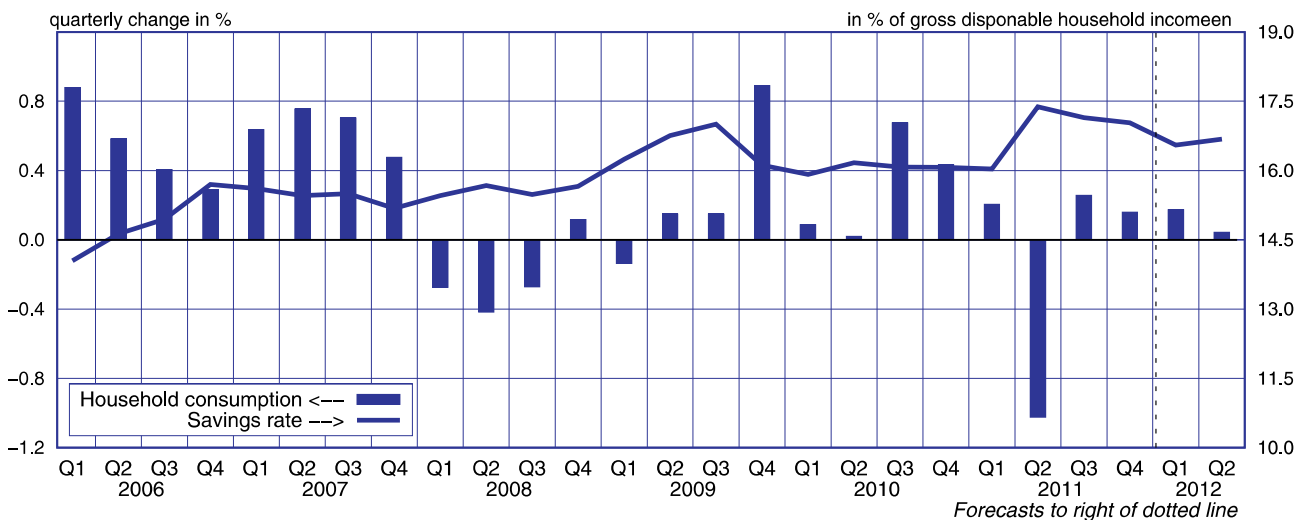
Household consumption progressing at a modest rate

Fall in real wages at the start of 2012...

Inflation in 2011 should continue to buoy up nominal wages at the start of 2012, with the rise in the minimum wage, in particular⁽¹⁾. Real wages should fall slightly, however, in H1: the deterioration of the labour market should weigh down on wage negotiations and the level of bonuses should be lower at the start of 2012 than at the start of 2011, notably in the financial sector.

(1) The minimum wage (SMIC) was increased by 2.1% on 1st December 2011 and 0.3% on 1st January 2012.

5 - Household savings and consumptions



Source: INSEE

...and fall in purchasing power

Purchasing power has slowed down since mid-2011 (+0.3% in H2 after +0.7% in H1 2011) and this trend is set to continue in early 2012: purchasing power should slip by 0.3% in H1 2012. It should suffer first from the relatively high level of inflation. Also, earned income is likely to slow down due to the deterioration in the labour market situation, while taxes are set to remain dynamic, buoyed by the measures passed in the Finance Law and which come into force in 2012.

The savings ratio to remain high

The household savings ratio stood at 17.1% in Q3 2011. Faced with deteriorating prospects for activity, households have set aside precautionary savings since the beginning of the crisis in 2008 (see *Graph 5*). Through to mid-2012, the savings ratio should remain at a high level. However, it should fall slightly as the new measures passed in the Finance Law are partly likely to affect income that usually goes into savings.

Household consumption likely to be sluggish through to mid-2012

Although buoyed by this drop in the savings ratio, household consumption should progress very slightly through to mid-2012. It should increase in Q1 (+0.2%), due to very high energy expenditure during the wave of cold weather in February. After a sharp rise at the end of 2011, however, automobile purchases should fall in Q1 2012. In Q2 2012, household consumption should be stable. Expenditure on manufactured products should progress again, but energy expenditure should fall back after the consumption peak in Q1.

Investment should progress weakly

Uneven corporate investment

The context is likely to remain unfavourable for investment through to mid-2012: prospects for activity appear morose, lending terms had tightened before the massive intervention of the ECB and the margin rate of companies is at an all-time low. In addition, one-off factors are likely to hold back corporate investment in Q1 2012: the wave of cold weather in February is likely to limit activity in public works and automobile purchases should fall after their dynamism at the end of 2011. Investment by non-financial enterprises should therefore fall back slightly in Q1 2012 (-0.4%), before rising again in Q2 (+0.8%).

Slowdown in exports after an exceptional Q4

The contribution of foreign trade to growth should become neutral again

The rate of growth in exports at the end of 2011 is unlikely to grow maintained in early 2012. Exports should slow down (+0.6% per quarter) to grow more closely in line with demand for French products. This demand should continue to suffer from weak demand in the Eurozone and therefore be less dynamic than world trade as a whole. After falling sharply in Q4 (-1.2%) imports should return to a growth rate that is more in line with domestic demand (+0.6% per quarter). The contribution of foreign trade to growth, which was clearly positive in Q4 2011, should become neutral through to the time horizon of the forecast.

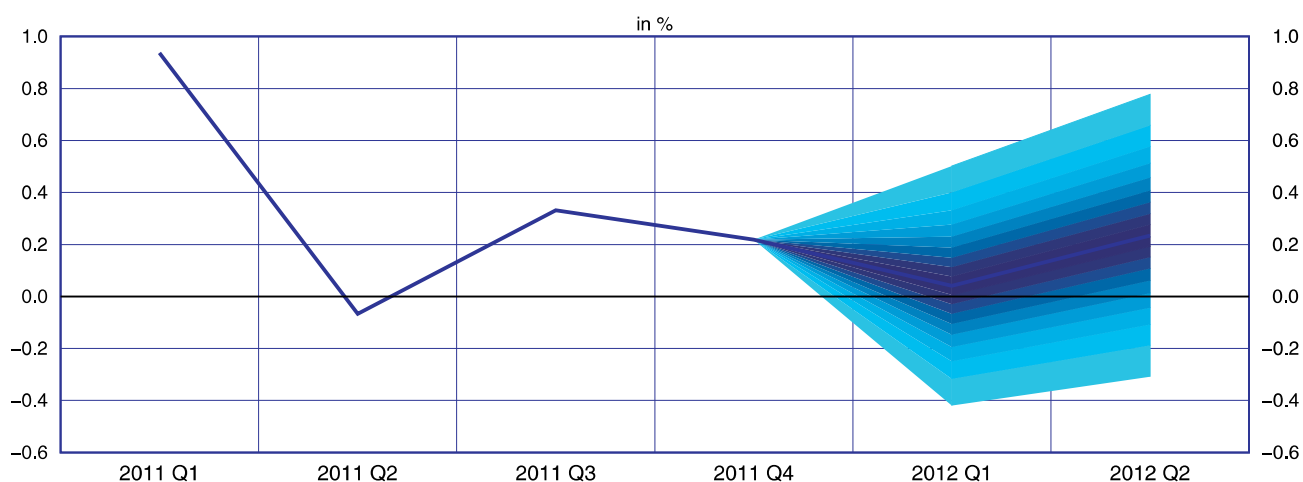
Uncertainties: financial tensions, oil prices

Financial tensions in the Eurozone

Financial tensions in the Eurozone are easing in early 2012. If this trend is amplified, it might trigger a more pronounced rebound in activity in the Eurozone through to June, notably in investment. Conversely, despite the current fall in tensions, the situation of certain European countries remains fragile: if it should worsen more than expected today by markets, these tensions might rise again and delay recovery in the Eurozone.

Oil prices Despite the restored balance of the physical market, oil prices remain at high levels at the start of March 2012, on account of a tense geopolitical context. Rapid easing of geopolitical tensions might cause the oil price to return to significantly lower levels than the hypothesis that we based ourselves on (\$120), which would boost growth in developed countries, and in particular in France. Conversely, heightened tensions leading to a greater increase in the price per barrel of Brent might reduce activity of developed countries. ■

6 - Fan chart for Conjoncture in France



How to read it: the fan chart plots 90% of the likely scenarios around the baseline forecast (blue line). The first and darkest band covers the likeliest scenarios around the baseline, which have a combined probability of 10%. The second band, which is a shade lighter, comprises two sub-bands just above and just below the central band. It contains the next most likely scenarios, raising the total probability of the first two bands to 20%. We can repeat the process, moving from the centre outwards and from the darkest band to the lightest, up to a 90% probability (see *INSEE Conjoncture in France for June 2008, pages 15 to 18*). It can therefore be estimated that the first result published by the quarterly accounts for Q1 2012 has a 50% chance of being between -0.1% (lower limit of the fifth band from the bottom) and +0.2% (upper limit of the fifth band from the top). Likewise, it has a 90% chance of being between -0.4% and +0.5%. In Q2 2012, the 90% confidence intervals is [-0.3% ; +0.8%].

Source: INSEE

Key figures: France and its international environment

seasonally adjusted / working-day adjusted data (except for prices), quarterly or annual averages, as a %

	2010				2011				2012		2010	2011	2012 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
International environment													
Advanced economy GDP	0.8	1.0	0.6	0.3	0.1	0.2	0.5	0.2	0.3	0.4	2.7	1.3	1.1
Eurozone GDP	0.4	0.9	0.4	0.3	0.8	0.2	0.1	-0.3	-0.1	0.1	1.8	1.5	-0.2
Barrel of Brent oil (in dollars)	76	78	77	87	105	118	113	109	117	120	80	111	118
Euro-dollar exchange rate	1.38	1.27	1.29	1.36	1.37	1.44	1.41	1.35	1.32	1.32	1.33	1.39	1.32
World demand for French products	3.7	4.5	1.7	2.1	1.8	0.4	0.8	-0.7	0.3	0.5	12.7	5.9	0.6
France - supply and use													
GDP													
Imports	1.5	3.3	3.8	0.2	2.8	-1.0	0.7	-1.2	0.6	0.6	8.3	5.0	0.3
Household consumption	0.1	0.0	0.7	0.4	0.2	-1.0	0.3	0.2	0.2	0.0	1.3	0.3	0.2
Public and NPISH consumption	-0.1	0.3	0.2	0.1	0.4	0.2	0.2	0.2	0.2	0.2	1.2	0.9	0.6
Total GFCF	-1.2	1.2	0.9	0.3	1.1	0.6	0.2	0.9	-0.4	0.7	-1.4	2.9	1.1
of which: NFEs	-0.1	2.9	1.4	0.6	1.9	0.3	-0.4	1.4	-0.4	0.8	2.0	4.2	1.1
Households	-0.5	0.1	1.7	0.7	-0.3	1.2	1.2	0.1	-0.5	0.4	-1.4	2.6	0.7
Exports	4.5	3.1	2.2	0.4	1.4	0.7	1.2	1.2	0.6	0.6	9.3	5.0	2.7
Contributions (in point)													
Domestic demand excluding change in inventories (**)	-0.2	0.3	0.6	0.3	0.4	-0.4	0.2	0.3	0.1	0.2	0.8	1.0	0.5
Change in inventories (**)	-0.4	0.3	0.3	0.0	1.0	-0.1	0.0	-0.8	0.0	0.0	0.5	0.9	-0.6
Net foreign trade	0.7	-0.1	-0.5	0.1	-0.5	0.5	0.1	0.7	0.0	0.0	0.1	-0.1	0.6
France - situation of households													
Total employment	17	30	38	39	73	42	-52	-18	-19	1	123	45	-
Non-agricultural market sector employment	9	24	33	35	74	47	-31	-23	-32	-17	102	67	-
Unemployment rate Metropolitan France	9.5	9.3	9.3	9.3	9.2	9.1	9.3	9.4	9.6	9.7	9.3	9.4	-
Unemployment rate France	9.9	9.7	9.7	9.7	9.7	9.5	9.7	9.8	10.0	10.1	9.7	9.8	-
Consumer price index (*)	1.6	1.5	1.6	1.8	2.0	2.1	2.2	2.5	2.0	2.2	1.5	2.1	-
Core inflation (*)	1.6	1.4	0.7	0.6	0.8	1.2	1.1	1.8	1.3	1.4	1.1	1.1	-
Household purchasing power	-0.2	0.3	0.6	0.4	0.2	0.6	0.0	0.0	-0.4	0.2	0.8	1.3	-0.1

Forecast

(*) Year on year on the last month of the quarter

(**) Inventory changes include acquisitions net of sales of valuable

Note: the volumes are calculated at the previous year's chain-linked prices, seasonally and working-day adjusted, quarterly and annual averages, as a %

Source: INSEE

Review of the previous forecast

In Q4 2011, activity progressed unexpectedly by +0.2%, when our forecast was anticipating a slight fall (-0.2%) in December's *Conjoncture in France*. Final domestic demand excluding inventory changes was more dynamic than expected, contributing +0.3 point to growth in GDP, against the expected +0.1 point. This difference can be explained by the dynamism of corporate investment, which came as a surprise. Likewise, exports grew strongly, although the expected drop in demand from France's European partners did occur. Regarding supply, production in the manufacturing sectors, services and construction progressed when it had been forecast to fall.

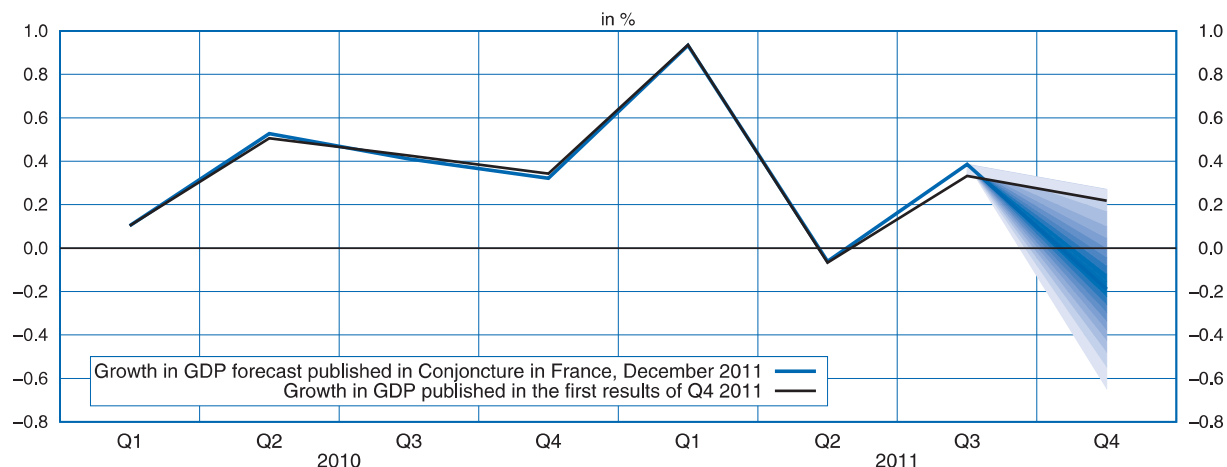
For H1 2012, the growth scenario has been revised slightly upwards: world trade should be more dynamic and domestic demand should increase slightly, whereas we had been expecting stagnation. Activity should be stable in Q1 2012, when our previous forecast had been a slight fall (-0.1%). Growth in activity should be more pronounced in Q2 (+0.2% against +0.1% forecast in December).

Activity progressed unexpectedly in Q4 2011

Activity continued to progress in Q4 2011 (+0.2% after +0.3% in Q3), whereas December's *Conjoncture in France* was forecasting a slight drop (-0.2%, see *Graph 1*). This result was unexpected on the basis of the business tendency surveys, which had been deteriorating until the end of 2011.

Manufacturing output grew by +0.6%; we had forecast a fall of 1.1%. This progression is explained essentially by that in production of transport equipment, which leapt by +4.6% (after -2.1% in Q3 2011), in particular in aeronautics and space (see *Focus on "Aeronautic construction" in "Output" note*). Conversely, production of equipment goods and "other industrial products" fell back. In addition to this, the drop in energy production due to mild temperatures at the end of 2011 was less pronounced than expected in December. Therefore, in the wake of this rise in manufacturing activity and the spill-over effect industry generally has on the rest of the economy, production of market services also grew: +0.5% against a forecast of -0.1%.

1- Fan chart for *Conjoncture in France* for December 2011 and growth achieved



Source: INSEE

Review of the previous forecast

Construction also held up better than expected, buoyed by dynamic investment. Activity thus progressed by +0.4%, against a forecast of -0.2%: investments in construction by households, businesses and the general government were more dynamic than expected. Finally, production of non-market services continued to grow weakly (+0.2% against +0.1% forecast), due to efforts to control public expenditure.

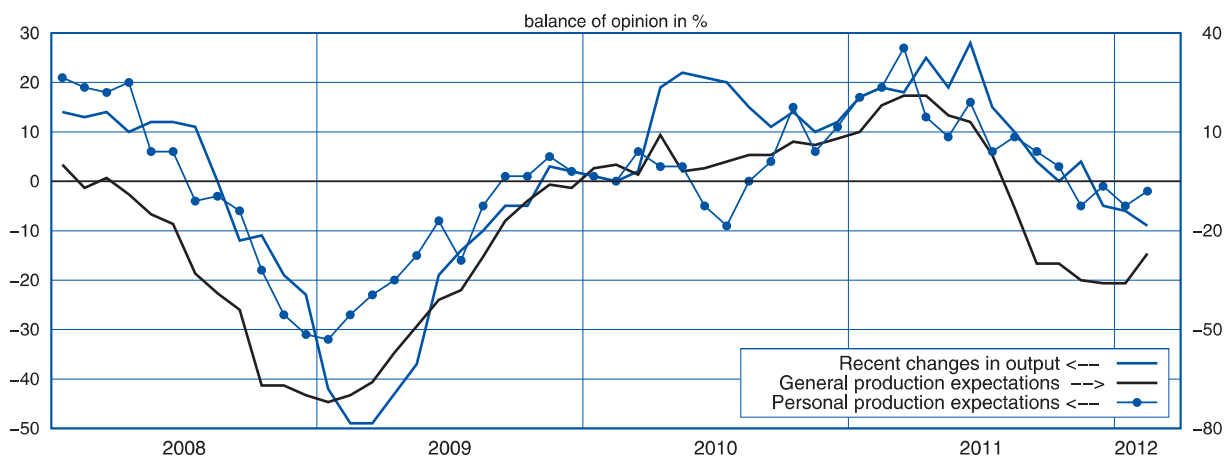
A marked rebound in investment by non-financial enterprises, dynamic exports

In Q4 2011, final domestic demand excluding stocks was more dynamic than expected in Conjoncture in France last December. Its contribution to growth in GDP was +0.3 point, against an expected figure of +0.1 point. This was due to the strong rebound in investment by non-financial enterprises (+1.4% against a forecast of -0.5%), explaining almost the whole of the difference (0.2 point of growth in GDP). This dynamic investment was mainly due to very strong growth in investment by non-financial enterprises in transport equipment (+8.4% after -3.8%) and notably automobiles. This rebound is due to a catch-up effect after the delivery delays of summer 2011, in the wake of the earthquake in Japan, and to anticipate purchases before the terms were tightened on some fiscal incentives on 1st January 2012. Investment in construction by businesses also progressed (+0.5% against a forecast of -0.4%), as did their investment in services (+1.1% against -1.0% forecast). On the contrary, the slowdown in investment by households was expected: it grew by +0.1%, against December's forecast of stability, after +1.2% in Q2 and Q3.

The evolution in household consumption was very close to that forecast in December's Conjoncture in France (+0.2% against a forecast of +0.1%). Consumption of manufactured goods rebounded as expected, by +0.5% (forecast +0.4%), after falling in Q2 and Q3. The dynamism of automobile purchases (+4.2% after +0.3%) and equipment goods (+3.0% after +1.4%) explain this rise in consumption of manufactured goods. The marked fall in energy expenditure forecast in December was observed, although it was slightly less pronounced than expected: -3.6% against -4.5% forecast. Consumption of agricultural products was also more dynamic than expected (+0.8% against +0.3% forecast). On the contrary, consumption of market services weakened (+0.1% against +0.3% forecast, after +0.3%). In particular, consumption of accommodation and food services remained almost stable (+0.1%), while consumption of financial services (-0.1%) and that of "other services to households" (-0.4%) fell.

Aside from domestic demand, activity was also strongly buoyed up by foreign trade. Exports progressed strongly (+1.2%, against -0.5% forecast), despite the drop in demand from the main European partners of France. This performance is explained by the acceleration at the end of 2011 in transport equipment exports (+7.9%), driven by big aeronautics deliveries to countries outside the Eurozone. Conversely, imports fell distinctly (-1.2% against -0.1% forecast), although domestic demand was continuing to grow. All in all, the accounting contribution of foreign trade to growth in GDP came to +0.7 point, against a forecast of -0.1 point. Conversely, Q4 2011 was marked by a strong trend to reduce stocks, notably in machinery and equipment goods, transport equipment and

2 - Recent changes, general and personal production expectations in the manufacturing industry



Source: INSEE, Business Survey

"other industrial products". The latter had been included in the December forecast scenario, but was much more pronounced than expected. The contribution of inventory changes to growth in activity was therefore -0.8 point, against a forecast of -0.2.

Our growth forecast for H1 is revised upwards

For Q1 2012, we now forecast that activity will remain stable (+0.0%) rather than the slight fall forecast previously (-0.1%). The overall forecast scenario changes little, however. In the business tendency surveys of February, entrepreneurs indicate that they still consider the outlook to be poor. In the manufacturing sector, increasing numbers of industrialists are reporting a decrease in their recent output (see *Graph 2*). Their expectations for coming months have slightly improved, however. Likewise, the composite indicator of activity in services has remained very low for several months. The profile of manufacturing production in Q1 2012 has therefore changed little (-0.5% against -0.7% forecast in December). Energy production should progress more strongly than forecast in December (+1.7%, against +0.2% forecast previously), on account of the cold spell in February. Production of market services should be stable, whereas it had been forecast slightly down in December (-0.1%).

These revisions should be reflected by slightly more dynamic domestic demand. The rebound in energy consumption, on account of weather conditions in February, should be much more marked. Manufacturing consumption, meanwhile, should fall back, notably automobile purchases, as suggested by the decline in registrations since the start of the year. Household consumption should grow by 0.2%, against +0.1% forecast previously. Investment should fall less than had been expected in December. This fall should mainly be due to the effects of the cold weather in February on construction and the backlash of the dynamic investments in manufactured goods at the end of 2011. Foreign trade should be more dynamic than forecast in December: imports should rebound (+0.6% against +0.2% forecast previously) and exports should be more strongly buoyed by demand from emerging countries, the United States and Germany (+0.6% against +0.2% forecast previously). All in all, the contribution of foreign trade to growth should be zero, as forecast in December. Finally, the strong stock reduction trend observed at the end of 2011 should come to a halt in early 2012.

Activity should grow moderately in Q2 2012 (+0.2% against +0.1% forecast in December), boosted by domestic demand which has been revised upwards and by a more supportive international environment. Household consumption is likely to stagnate, but investment by businesses should be more dynamic, notably in construction. ■