

Wages

In 2011, the basic monthly wage picked up slightly in nominal terms (+2.2% after +1.8% in 2010), as did the average wage per head (+2.5% after +2.1%). This acceleration is largely the result of the gradual spread of the rise in inflation to wages. However, the labour market situation took its toll on the bargaining power of employees. In real terms the basic monthly wage stagnated (+0.1% after +0.6%), while the average wage per head only grew slightly (+0.5% after +0.9%).

In H1 2012, nominal wages are likely to remain dynamic, in the wake of inflation. The growth overhang for 2012 at the end of Q2 should stand at +2.0% for the basic monthly wage and +1.6% for the average wage per head. However, real wages should be virtually unchanged. The growth overhang for 2012 should be +0.1% for the real basic monthly wage and -0.2% for the real average wage per head at the end of H1.

In general government, the nominal average wage per head in 2011 grew at the same rate as in 2010 (+1.6%). In real terms it slipped back (-0.5% after +0.4% in 2010), and this decline is set to continue at the start of 2012 (-1.0% growth overhang at mid-2012 for the real average wage per head).

Nominal wages picked up in 2011 but real wages stagnated

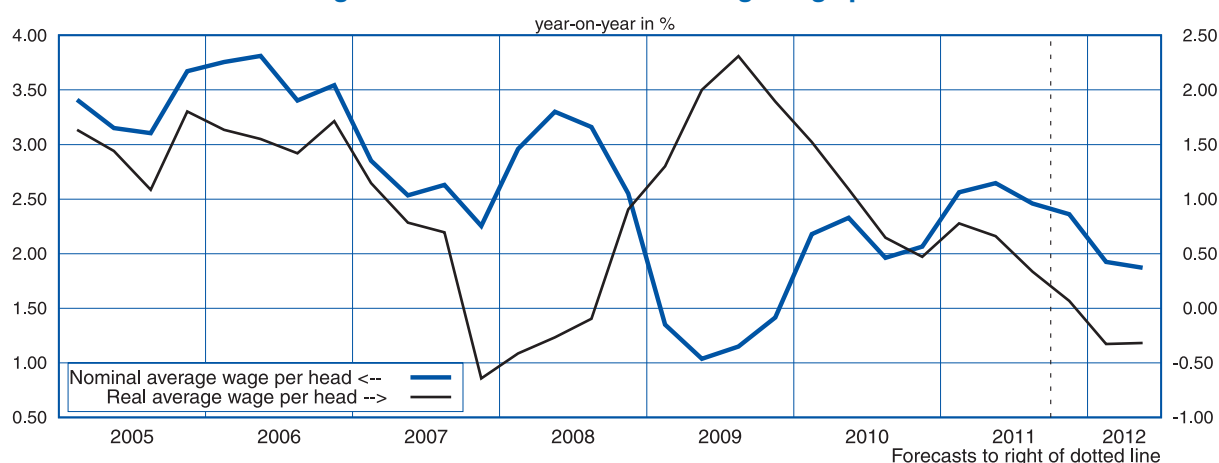
In 2011, the nominal basic monthly wage⁽¹⁾ accelerated: +2.2% after +1.8% in 2010 (see Table). The increase in inflation from mid-2010, following on from the rise in the prices of commodities, gradually had a knock-on effect on nominal wages. More specifically, the annual adjustment of the minimum wage on 1st January 2011 was higher than in 2010⁽²⁾ (+1.6% against +0.5%). The high rate of unemployment nonetheless reduced the bargaining power of employees and real wage gains were limited: the real basic monthly wage remained stable in 2011 (+0.1%).

The average wage per head followed a similar dynamic to the basic monthly wage in 2011 (see Graph). Additionally, in H1 the average wage per head benefited from large bonus payments. In H2, the bonus system for employees of companies whose dividends increase

(1) For a definition of the terms "basic monthly wage" and "average wage per head", see Glossary at the end of the report, "Economic outlook terms".

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

Change in the nominal and real average wage per head



* Scope: non-agricultural market sector

Sources: DARES, INSEE

contributed to sustaining the average wage per head. All in all, the average wage per head accelerated in nominal terms in 2011 (+2.5% after +2.1% in 2010), and the real average wage per head, although slowing in 2011, retained some of its dynamism (+0.5% after +0.9%).

Real wages set to remain stable in H1 2012

At the start of 2012, the mechanisms for adjusting wages to inflation should continue to sustain nominal wages. The adjustments of the minimum wage, by 2.1% on 1st December 2011⁽³⁾ then 0.3% on 1st January 2012, were higher than in the previous year (+1.6% on 1st January 2011). Conversely, the bonuses paid at the start of 2012 should be for lower amounts than in 2011, particularly in the financial sector. In nominal terms the growth overhang at the end of Q2 2012 should stand at +2.0% for the basic monthly wage and +1.6% for the average wage per head.

Given the new rise in inflation in H1 2012, real wages should stagnate. In the short term, the adjustment of wages to prices is delayed,

particularly when there is an imported inflation shock due to a rise in the prices of commodities. Additionally, the deterioration of the labour market is likely to hamper wage rises through to June 2012. Ultimately, the growth overhang at the end of H1 should stand at +0.1% for the real basic monthly wage and -0.2% for the real average wage per head.

Drop in real wages in general government

The civil service minimum index was raised by 1.0% on 1st January 2011 and the Individual purchasing power guarantee bonus scheme⁽⁴⁾ was renewed more extensively than in 2010. But the index point was frozen in 2011 (after +0.5% on 1st July 2010). So while the average wage per head in general government increased as fast in 2011 as in 2010 (+1.6% each year), it decreased in real terms (-0.5% after +0.4%).

At the start of 2012, the average wage per head in general government should slow and the growth overhang at the end of Q2 should stand at +0.9% for the nominal average wage per head and -1.0% for the real average wage per head.■

(3) When the consumer price index for urban households headed by a worker or employee reaches a level corresponding to a rise of at least 2% over the index observed on the last occasion when the minimum wage was calculated, then the minimum wage is increased by the same proportion as of the first day of the month following the publication of the index giving rise to this raise.

(4) The individual purchasing power guarantee bonus scheme 2011 is a benefit that concerns civil servants and State agents who lost purchasing power between 2006 and 2010. In 2010, it was only paid to civil servants blocked at the highest level of a grade for at least four years. Terms of access to the scheme were widened in 2011.

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

change as a %

Seasonally-corrected data	Quarterly growth rates						Annual averages		
	2011				2012		2010	2011	2012 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2			
Basic monthly wage	0.6	0.5	0.5	0.6	0.7	0.6	1.8	2.2	2.0
Average wage per head in the non-agricultural market sector (NAMS)	0.9	0.7	0.2	0.6	0.4	0.6	2.1	2.5	1.6
Average wage per head in general government (GG)							1.6	1.6	0.9
Household consumer price index (quarterly national accounts)	0.7	0.5	0.3	0.7	0.7	0.5	1.2	2.0	1.9
Real basic monthly wage	-0.1	0.0	0.2	-0.1	0.0	0.2	0.6	0.1	0.1
Real average wage per head (NAMS)	0.2	0.1	-0.2	-0.1	-0.2	0.1	0.9	0.5	-0.2
Real average wage per head (GG)							0.4	-0.5	-1.0

■ Forecast

Source: INSEE

Household income

In 2011, the purchasing power of household income accelerated (+1.3%, after +0.8%) despite the upturn in inflation (+2.0% after +1.2%). The rise in employment and in wages in H1 boosted household gross disposable income which increased by 3.4% in 2011 after +2.0% in 2010, even though the trend in the total tax burden tempered this acceleration somewhat. Purchasing power would appear to have slowed down in mid-2011 however (+0.3% in H2 after +0.7% in H1) and this slowdown looks set to continue in early 2012: purchasing power is likely to slip by 0.3% in H1 2012, hit by the upturn in inflation (+1.3% in H1 2012 after +1.0% in H2 2011) and the

slowdown in earned income (+0.8% after +1.1%) due to the deterioration in the labour market situation.

Slowdown in earned income in H1 2012...

Over 2011 as a whole, earned income accelerated (+2.9%, after +2.0% in 2010, see Table 1). In particular, overall wages received by households were dynamic (+3.1% in 2011 after +2.0% in 2010; see Table 2). On the one hand, the upturn in employment which had started in early 2010 continued through to the middle of 2011. On the other hand, the wages paid out were very dynamic in the market sectors in H1 2011 (see Graph 1). The gross operating surplus of sole

Table 1

Household gross disposable income

change as %

	Half-yearly averages					Annual averages		
	2010		2011		2012	2009	2010	2011
	H1	H2	H1	H2	H1			
Gross disposable income (100%)	0.7	1.6	1.9	1.2	1.0	0.6	2.0	3.4
including :								
Income (68%)	1.1	1.2	1.8	1.1	0.8	-0.8	2.0	2.9
Gross wages (59%)	1.1	1.2	1.9	1.1	0.8	0.0	2.0	3.1
GOS of sole proprietors ⁽¹⁾ (9%)	1.3	1.2	0.9	1.1	0.8	-5.5	1.5	2.0
Social benefits in cash (32%)	1.5	1.4	1.6	1.8	1.4	5.5	3.4	3.2
GOS of "pure" households (12%)	-0.2	2.3	3.4	2.0	1.8	-4.1	0.1	5.6
Property income (10%)	-0.3	1.5	3.2	2.6	2.1	-1.7	-0.1	5.3
Social contribution and tax burden (-23%)	2.3	0.6	2.4	2.7	2.1	-1.9	2.2	4.0
Contributions by paid employees (-8%)	0.8	0.9	1.3	1.1	0.9	0.9	1.9	2.3
Contributions of self-employed persons (-2%)	0.9	0.3	0.3	0.5	0.6	4.7	1.8	0.7
Income and wealth tax (including CSG and CRDS) (-13%)	3.5	0.4	3.4	4.0	3.1	-4.6	2.5	5.7
Income before taxes	1.0	1.4	2.1	1.6	1.2	0.0	2.0	3.6
Household consumer prices (quarterly national accounts)	0.8	0.6	1.2	1.0	1.3	-0.6	1.2	2.0
Purchasing power of gross disposable income	-0.1	0.9	0.7	0.3	-0.3	1.3	0.8	1.3
Purchasing power per consumption unit	-0.4	0.6	0.3	-0.1	-0.6	0.6	0.1	0.6

Forecast

Note: the figures in parentheses give the structure of the year 2010.

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

Source: INSEE

proprietorships also increased at a higher rate in 2011 than in 2010 (+2.0% after +1.5%). Finally, property income increased strongly (+5.3% in 2011 after -0.1% in 2010) in the wake of the rise in short-term interest rates and the gross operating surplus of pure households⁽¹⁾ progressed clearly (+5.6% in 2011 after +0.1% in 2010). The gross disposable income of households slowed down, however, over the year and this slowdown affected most of its components (see Table 1).

This deceleration looks set to continue in H1 2012. Earned income should rise slightly less quickly in H1 2012 than in H2 2011 (+0.8% after +1.1%). In particular, total wages should suffer from the deteriorating labour market (+0.8% after +1.1%): employment is likely to fall and wages should be less dynamic. Likewise, the gross operating surplus of sole proprietorships, property income and the gross operating surplus of pure households should slow down.

...and in social benefits

In 2011, social benefits in cash received by households followed almost the same rate as in 2010: they progressed by +3.2%, down from +3.4%. Social security benefits slowed down (+3.1% after +3.9%, see Table 3). This is because despite dynamic old-age benefits, unemployment benefit fell back in 2011 as the labour market situation improved in H1 2011. On the other hand, social assistance benefits rose again in

2011 (+0.9% after -0.7%), after a year 2010 marked by the non-renewal of the measures implemented in the stimulus plan in 2009.

In H1 2012, social benefits in cash should slow down slightly (+1.4% after +1.8% in H2 2011). Social assistance benefits should progress at the same rate as at the end of 2011 (+0.7% after +0.8%), but social security benefits should slow down (+1.4% after +1.9%). On the one hand, sick benefits should be held back by the loss of benefits for the first day of sick leave introduced for civil servants and by the modification of the ceiling on daily allowances. On the other hand, the rise in family benefits should be limited to 1.0% and should apply from 1st April instead of 1st January.

Dynamic total tax burden in early 2012

In 2011, the total tax burden on households increased by 4.0%. In particular, the growth in revenues from income tax was pronounced (+6.2% after +1.6% in 2010), due to the increase in incomes in 2010 and the tax increases passed for 2011⁽²⁾. Taxation of financial income also increased with the tax-on-earning system for life insurance income. Other current taxes slowed down, however, in 2011, notably due to the reduction in the solidarity tax on wealth (ISF). Finally, the contributions of the self-employed slowed down in 2011 (+0.7% in 2011 after +1.8% in 2010), while employees' contributions accelerated (+2.3% after +1.9%).

(1) This corresponds to the production of housing services, minus the intermediate consumptions required for this production (notably the financial services relating to borrowing) and taxes (land tax). The production corresponds to the rents that individual homeowners receive from their tenants or could receive if they rented out their home («imputed» rents).

(2) Notably the introduction of a 1% contribution on high revenues, the closure of certain tax loopholes and effects induced by the abolition of professional tax on sole proprietorships. These measures contributed to the progression in income tax in H2 2011.

Table 2
From non financial enterprise payroll to wages received by households
change as a %

	Half-yearly averages					Annual averages		
	2010		2011		2012	2009	2010	2011
	H1	H2	H1	H2	H1			
Non-financial enterprises (67%)	1.1	1.5	2.4	1.3	0.9	-1.4	2.0	3.9
including: Average wage per head	1.0	1.1	1.6	0.9	1.2	1.1	2.2	2.6
Financial corporations (5%)	0.8	0.6	2.7	1.5	0.9	4.4	1.3	3.8
General government (23%)	0.9	0.4	0.5	0.4	0.4	2.3	1.8	0.8
Households excluding sole proprietors (2%)	2.3	0.5	0.6	1.3	1.4	2.8	3.4	1.5
Total gross wages received by households (100%)	1.1	1.2	1.9	1.1	0.8	0.0	2.0	3.1
including: Non-agricultural market sectors	1.1	1.5	2.4	1.2	0.8	-1.1	2.0	3.7

Forecast

Note: the figures in parentheses give the structure of the year 2010.

Source: INSEE

French developments

In H1 2012, the total tax burden should remain dynamic (+2.1% after +2.7% in H2 2011). The taxes paid by households should progress by +3.1%, after +4.0% in H2 2011. In particular, the increase in the taxation on property capital gains and heavier taxation on capital should weigh down on household disposable income.

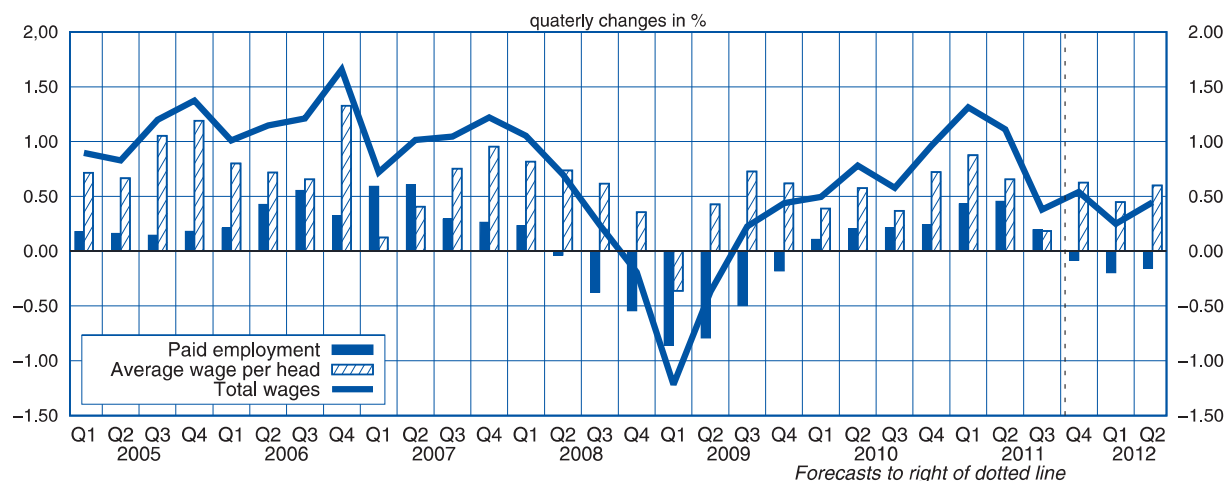
Purchasing power should slip back slightly in H1 2012

In 2011, the nominal gross disposable income of households accelerated: it would seem to have progressed by 3.4% after +2.0% in 2010. Despite the upturn in inflation (+2.0% after 1.2%), household purchasing power thus progressed more quickly in 2011 than in 2010 (+1.3% after +0.8%). Purchasing power per consumption unit,

which takes account notably of demographic changes, also accelerated in 2011: it grew by +0.6% after being practically stable in 2010 (+0.1%).

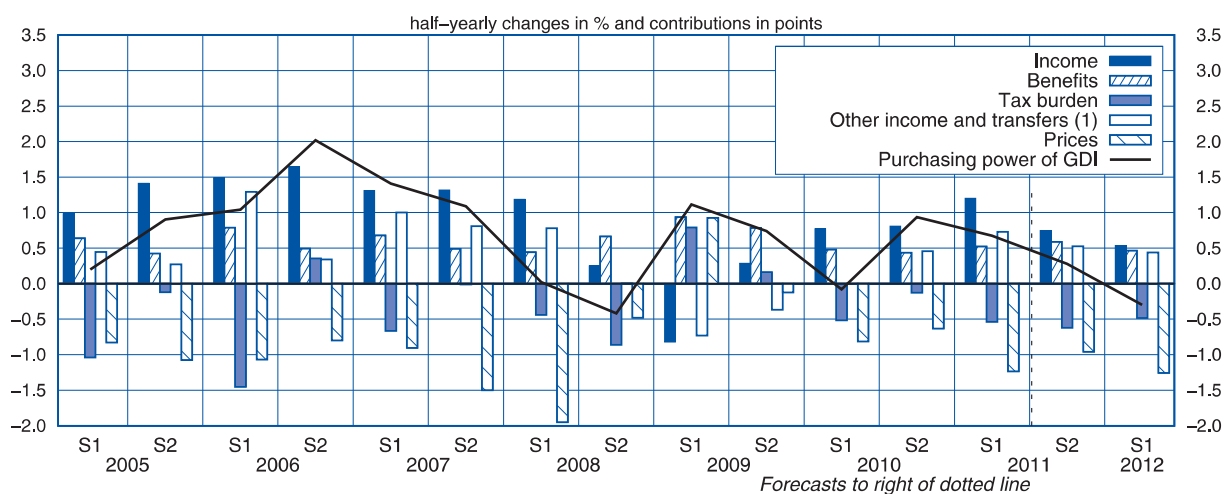
In H1 2012, household gross disposable income should progress by 1.0%, which is a slower rate than that in H2 2011 (+1.2%). Purchasing power should fall by 0.3% after increasing by 0.3% in H2 2011. Per consumption unit, it should fall by 0.6%.

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



Source: INSEE

2 - Purchasing power of disposable income and contributions



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

Table 3

The social transfers received and paid by households

change as a %

	Half-yearly averages					Annual averages		
	2010		2011		2012	2009	2010	2011
	H1	H2	H1	H2	H1			
Social cash benefits received by households (100%)	1.5	1.4	1.6	1.8	1.4	5.5	3.4	3.2
Social Security benefits in cash (72%)	1.8	1.4	1.4	1.9	1.4	5.5	3.9	3.1
Private funded social benefits (7%)	0.4	2.1	3.3	1.7	1.4	2.3	2.8	5.3
Unfunded employee social benefits (13%)	1.8	1.9	2.1	1.9	1.9	2.9	3.6	4.1
Social assistance benefits in cash (8%)	-0.3	-0.5	0.8	0.8	0.7	13.2	-0.7	0.9
Total social contribution burden	0.8	1.3	1.9	2.5	0.1	1.0	2.1	3.9
Actual social contributions paid by households (100%)	0.7	1.3	1.9	2.6	-0.1	0.7	1.9	3.8
including: Employers contributions ⁽¹⁾ (63%)	0.6	1.5	2.4	3.5	-0.6	0.2	2.0	4.9
Employees contributions (29%)	0.8	0.9	1.3	1.1	0.9	0.9	1.9	2.3
Self-employed contributions (8%)	0.9	0.3	0.3	0.5	0.6	4.7	1.8	0.7

Forecast

Note: the figures in parentheses give the structure of the year 2010.

(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

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 +0.7% (as a comparison, the growth in the number of inhabitants was 0.5% and the growth in the number of households +1.0%).

Therefore, in 2011, purchasing power per consumption unit slowed (+0.6% after 0.1% in 2010). Per inhabitant, the rise is 0.8%, and purchasing power per household rose by 0.3% ■

Household consumption and investment

In Q4 2011, household consumption decelerated slightly (+0.2% after +0.3%), bringing an end to a year that saw a marked slowdown (+0.3% in 2011 after +1.3% in 2010). While consumption of manufactured goods was dynamic, particularly automobile purchases at the end of 2011, energy expenditure fell back again after a sharp upturn in Q3.

In H1 2012, automobile purchases should fall sharply, as suggested by the data available to the end of February. The very cold spell in early February, meanwhile, should cause a marked upturn in energy consumption. All in all, household consumption should grow slightly in Q1 2012 (+0.2%) and then be stable in Q2. By mid-2012, the consumption growth overhang should stand at +0.2%. The household savings ratio should fall slightly at the start of the year but remain high, as households remain short on confidence in the future economic and unemployment situation.

After a pause in Q4 (+0.1% after +1.2%), household investment looks set to fall in Q1 2012 (-0.5%) and then rise in Q2 (+0.4%).

households reduced their savings ratio slightly, although it remains at a very high level (17.0% after 17.1% in Q3, see Graph 1).

In Q4 2011, energy expenditure fell (-3.6%) due to the very mild winter start. Automobile purchases had fallen sharply in Q2 (-11.5%), after the end of the scrappage bonus, but levelled out in Q3 (+0.3%) and rose again in Q4 (+4.2%). At the end of 2011, households were probably bringing forward some vehicle purchases before the ecological bonus criteria were tightened up from 1st January 2012.

Expenditure on textiles-clothing-leather surged in Q4 (+1.2%) after falling in Q3 (-2.6%). Driven by these textile and automobile purchases, expenditure on manufactured goods was dynamic in Q4 2011 (+0.5%), after falling for two consecutive quarters (-2.0% in Q2 2011, followed by -0.2%).

Consumption of services, which had been sluggish in Q3 2011, stabilised in Q4 (+0.1% after +0.3%). Finally, consumption of food products fell back again in Q4 2011 (-0.1% after -0.8% in Q3), notably due to the rise in tobacco prices in mid-October 2011.

In Q4 2011, strong automobile expenditure

In Q4 2011, household consumption slowed down slightly (+0.2% after +0.3%, see Table). Faced with stagnating purchasing power,

In H1 2012, consumption likely to sluggish

Overall household consumption should remain at the same growth rate in Q1 2012 (+0.2%, see Graph 2) then be stable in Q2.

Household consumption and investment expenditure

	Quarterly changes										Annual changes		
	2010				2011				2012		2010	2011	2012 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Total household consumption expenditure	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
including:	0.1	-0.5	1.1	0.9	0.0	-2.1	0.2	0.2	0.3	-0.1	1.4	-0.4	-0.1
Agriculture goods (3%)	-1.8	-0.7	-0.4	0.4	1.9	0.4	-1.4	0.8	0.5	0.0	-2.2	1.7	0.5
Energy (4%)	8.0	-2.2	-2.0	2.8	-7.5	-5.1	5.6	-3.6	7.2	-1.8	4.7	-9.0	4.3
Manufactured goods(43%)	-0.6	-0.3	1.5	0.7	0.7	-2.0	-0.2	0.5	-0.4	0.1	1.3	0.4	-0.5
Services (50%)	0.0	0.4	0.3	0.0	0.5	0.2	0.3	0.1	0.1	0.2	0.8	1.1	0.5
Household consumption	0.0	0.1	0.6	0.4	0.3	-0.7	0.3	0.2	0.2	0.1	1.3	0.5	0.3
Household investment	-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

Forecast
Source: INSEE

In Q1 2012, energy consumption should show a marked upturn (+7.2% after -3.6%) due to the wave of very cold weather in early February. In Q2 2012, energy consumption should fall (-1.8%) on the assumption that temperatures return to normal seasonal levels.

Consumption of manufactured goods should fall in Q1 (-0.4%), before growing moderately in Q2 (+0.1%). In particular, automobile consumption should fall in early 2012, as suggested by the growth overhang for the quarter (standing at -4.8% at the end of January) and the decline in registrations through to February 2012 (see *Graph 3*). Textiles consumption, for which the growth overhang at the end of January was -3.4%, should also fall in Q1. In Q2 2012, automobile consumption and expenditure on textiles should level out.

Food consumption should rise again in Q1 2012 (+0.5%) after falling for two consecutive quarters (-0.8% in Q3 2011 followed by -0.1%). It should level out in Q2 2012.

Finally, consumption of services should progress at a limited rate in H1 2012 (+0.2% in Q1 2012 followed by +0.1% in Q2).

The savings ratio of French households remains high

Faced with rising unemployment and a deteriorating economic situation, households are keeping their savings at a high level as a precaution. The savings

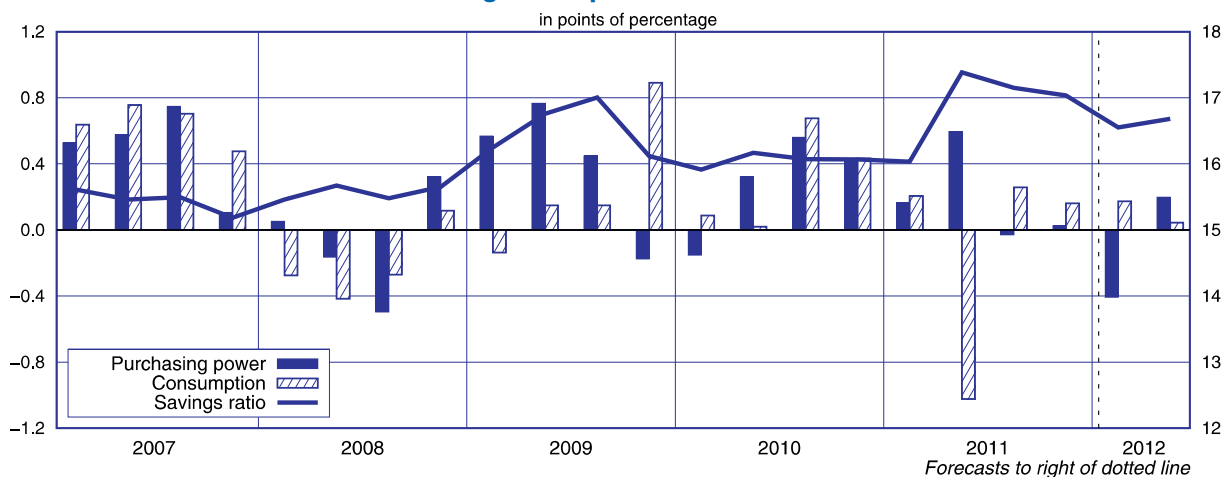
ratio of French households reached 17.4% in Q2 2011, its highest level since 1983. It then fell slightly to 17.0% in Q4 2011.

In H1 2012, the savings ratio should remain high, although falling back slightly to 16.6% in Q1 2012, before rising to 16.7% in Q2. One reason for this is that certain fiscal measures introduced in 2012 concern income which largely goes into savings (end of the rebate on real estate capital gains tax, increase in social contributions on capital). These measures should therefore result in an adjustment in the savings rate rather than in household consumption levels.

Stops and starts in household investment

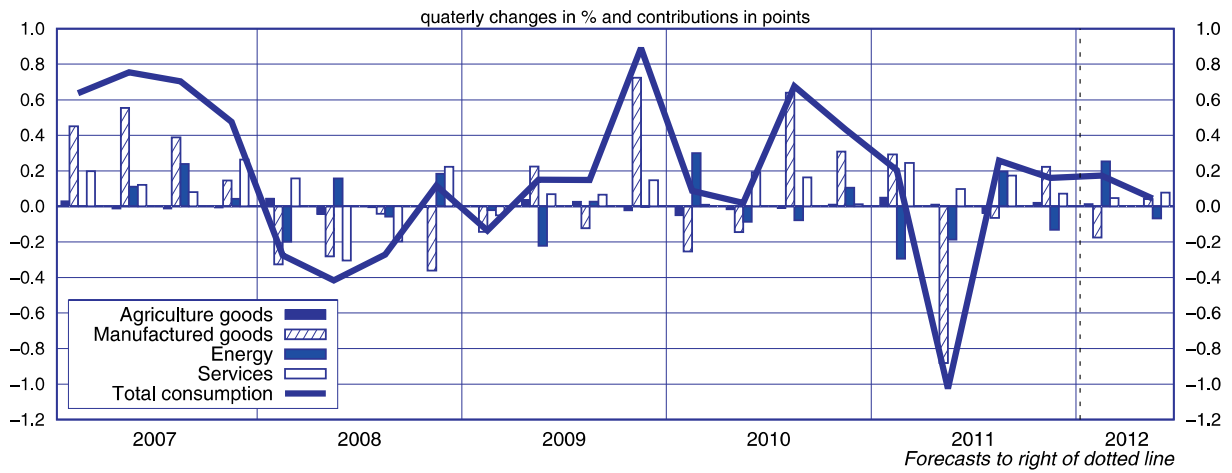
Due to production lead times in the construction sector, household investment follows changes in housing starts with a time lag (see *Graph 4*). Household investment was dynamic in Q2 and Q3 2011, following a peak in housing starts in Q1 2011. In Q4 2011, it stabilised (+0.1%) following the fall in starts from Q2 onwards (see *Graph 4*). This slowdown should continue and household investment should fall in Q1 2012 (-0.5%). It should then increase again slightly in Q2 2012 (+0.4%) in the wake of the rise in housing starts observed at the end of 2011. ■

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



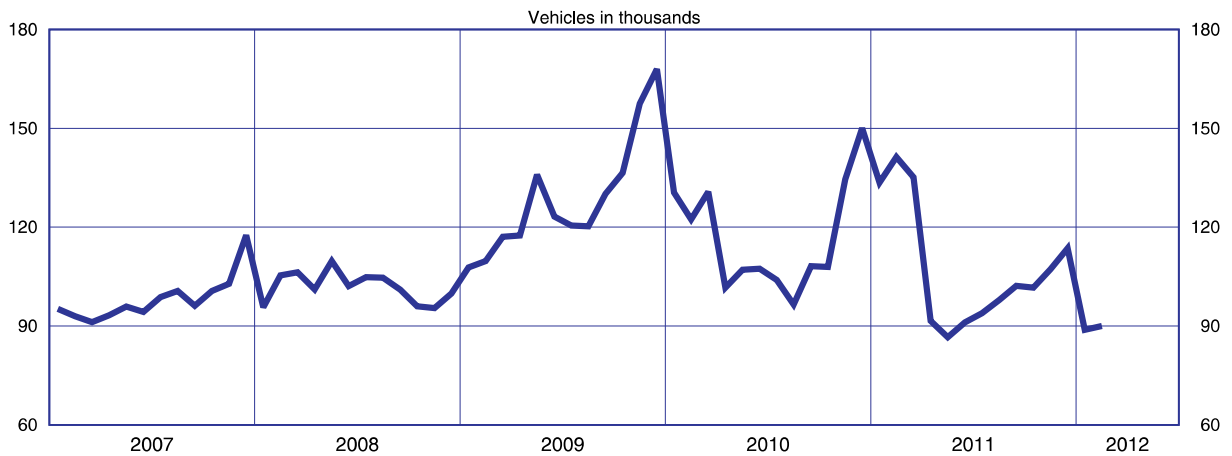
Source: INSEE

2 - Contributions of the different items to quarterly household consumption



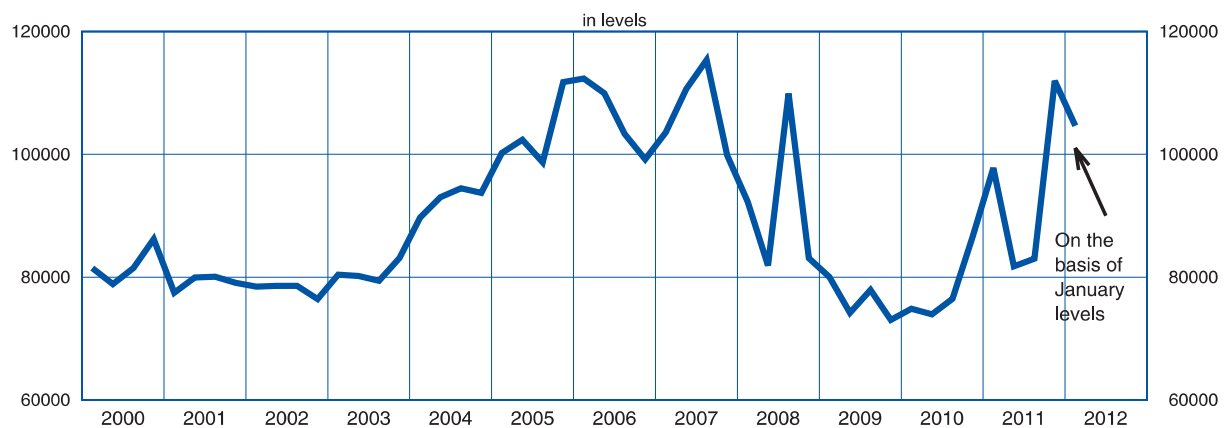
Source: INSEE

3 - New private vehicle registrations (household purchases)



Sources: INSEE, French Automobile Manufacturers' Committee (CCFA)

4 - All housing starts by quarter



Sources: SOeS

Focus - Christmas shopping: French habits are changing

The consumption data published by the INSEE is generally adjusted for seasonal effects and the number of working days ("SA-WDA"). This means that to provide real legibility from one month to the next or from one quarter to the next, the usual seasonal effects, such as sales, are taken out. However, it is interesting to study the raw data to measure and analyse those seasonal effects.

The end-of-year festive season is a particular one for household consumption, both in volume and composition. Family celebrations, traditional gifts and Christmas holidays give rise to higher expenditure than at other times of year. In the raw data, household expenditure⁽¹⁾ is thus 12.3% higher in December than in the other months of the year (on average since 2006).

Goods and services are not all affected in the same way by this seasonal effect. To study the main expenditure items and structure of Christmas buying, the gross value of consumption for various products was compared with the value once corrected for seasonal variations and the number of working days ("SA-WDA")⁽²⁾ (see *Table*). A raw to corrected data ratio of more than 1 in December indicates higher average consumption in that season.

"Overconsumption" of goods linked with gift buying

The major beneficiaries of the end-of-year festivities are the "clocks and watches" and "jewellery" items, on which expenditure in December is twice as high as average monthly consumption (see *Table*). The French also buy more electronic and IT goods, and more clothing, household electrical goods and furniture.

Book purchases are also greater in December, with the Christmas effect exceeding that of the start of the school year and literary season in September (see *Graph 1*). Expenditure on discs and videos-DVD in Q4 is also higher (respectively 61% and 50% higher than in an average quarter), but the precise Christmas effect is more difficult to identify in the absence of monthly information.

Seasonal dining also has its effect: expenditure on food and drinks and expenditure on meat products are respectively 21% and 12 % higher than their monthly averages (see *Table*).

A modest impact in transport

The peak in consumption of transport services comes during the summer holidays, but the effects of the end-of-year holidays are still perceptible amid traditionally low consumption levels of winter (see *Graph 2*).

(1) Household expenditure by volume excluding property, financial and non-market services.

(2) Seasonal adjustment coefficients eliminate changes in consumption that are purely season-related and working day adjustment coefficients those purely linked to the number of working days.

For air and road transport (tolls), expenditure in December is higher than that in November or January. Conversely, rail transport expenditure is lower: travel to work represents the greater part of this item and use of trains declines in December with the end-of-year holidays.

Santa Claus being modernised

Over the years, the French are adapting their consumption to new products and to growing discounting practices.

Some Christmas purchases losing ground to the January sales

Clothing products are frequent purchases at Christmas time. However, for several years, the effect of the January sales seems to have been gaining ground on that of Christmas. This might be partly due to more intense discounting (see *Graph 3*). For household appliances and consumer electronics, the Christmas effect continues to prevail over the sales, but the gap between the two has tended to narrow in recent years (see *Graphs 4 and 5*).

Discounts on high-tech products boost their consumption at Christmas

For optical and photographic products (essentially digital cameras) and computer equipment, the Christmas effect has been increasing since 2006 (see *Graph 6*). This could be partly linked to an increasingly pronounced fall in prices in December.

As soon as they appeared on shop shelves, satellite navigation systems established themselves as Christmas gifts. Their consumption is even higher in December than it is in July, the other consumption peak, before people leave on their summer holidays.

In 2011, the French preferred IT purchases

All these products that are consumed in great quantities at Christmas determine a large part of December's consumption profile. In 2011, the French gave preference to IT products over food products. Consumption of food products is increasingly even over the year (its raw to adjusted ratio is decreasing, see *Table*). In contrast, computers and optical and photographic equipment were particularly popular (their raw to adjusted ratio was higher in December 2011 than on average over the last five years, see *Table*). Changes in these "high-tech" gifts can also be observed: the ratios for satellite navigation systems and consumer electronics, including mainly televisions, fell in 2011. Finally, consumption of watches, books and clothing is increasingly focused on December, so the future of Christmas shopping is not entirely based on high-technology products! ■

French developments

Raw to seasonally and working-day adjusted ratio in December for various products

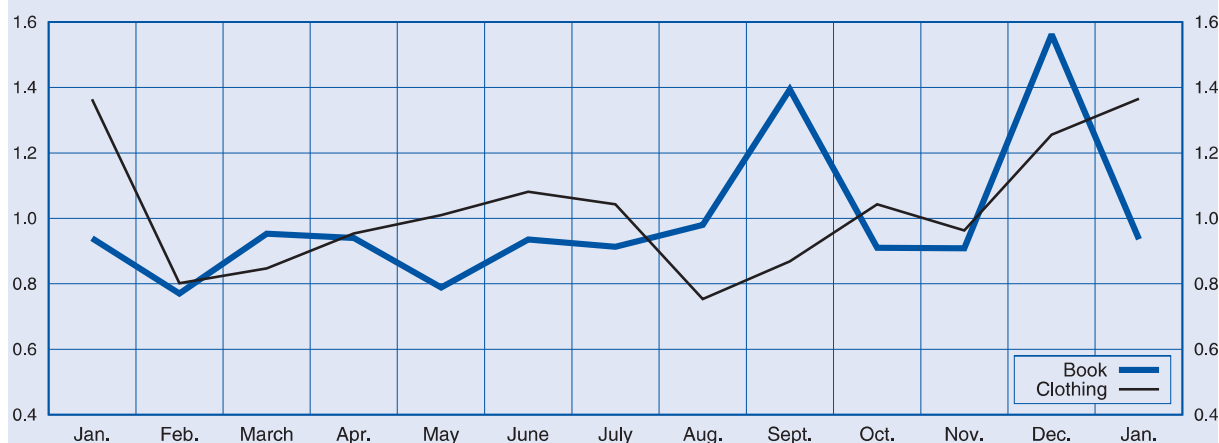
Products	2006-2010 Average	2011
Clocks and watches	2.04	2.11
Jewellery	1.95	1.96
Satellite navigation	1.92	1.89
Consumer electronics	1.65	1.59
Books	1.56	1.66
Computers and peripherals	1.48	1.57
Optical and photographic equipment	1.33	1.40
Clothing	1.26	1.30
Foodstuffs and beverages*	1.21	1.16
Meat products	1.12	1.14
Household equipment	1.09	1.10
Furniture	1.08	1.08
Leather goods-leather-footwear	0.94	0.98
Road transport (tolls)	0.93	0.93
Rail transport	0.89	0.90
Air transport	0.89	nc

*excluding meat, dairy products, bread-pastries and pasta

Note: A raw/adjusted for seasonal variation and working days ratio of over 1 in December shows consumption that is usually high in this season. For example, for consumer electronics, the raw to adjusted ratio is 1.65. This means that on average over five years (2006 - 2010), raw consumption of consumer electronics in December was 65% higher than that usually measured in the accounts (seasonally and working-day adjusted). This ratio was estimated for products for which an effect related to the festive season has been identified. Other traditionally high expenditure in December but which is less freely chosen and not directly linked to the festive season, was taken out of the analysis: energy expenditure (heating), health spending (flu epidemic), etc.

Source: INSEE

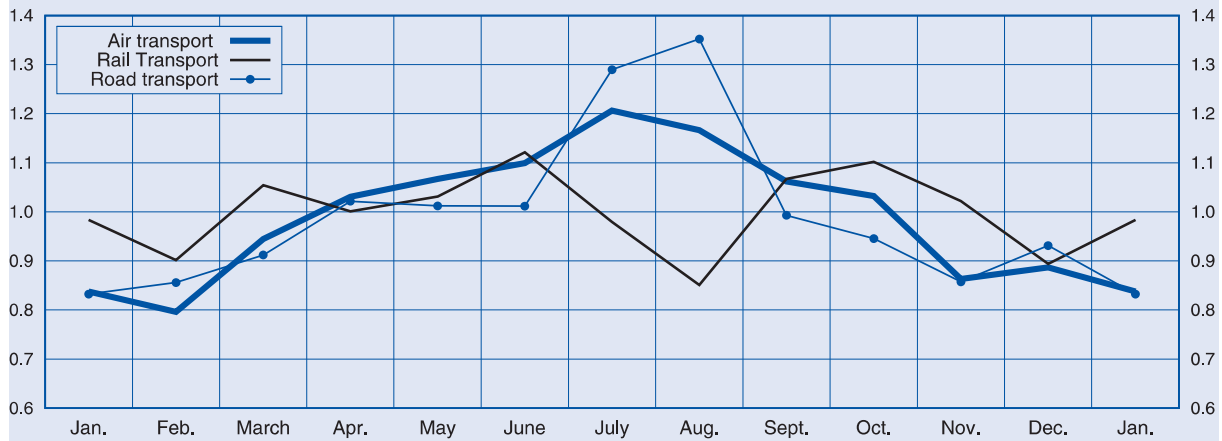
1 - Raw to seasonally and working-day adjusted ratio for books and clothing on average over five years (2006-2010)



Note: On average over the five years (2006-2010), book consumption in December was almost 1.6 times higher than average consumption (seasonally and working-day adjusted). This ratio is higher than that in September (1.4).

Source: INSEE

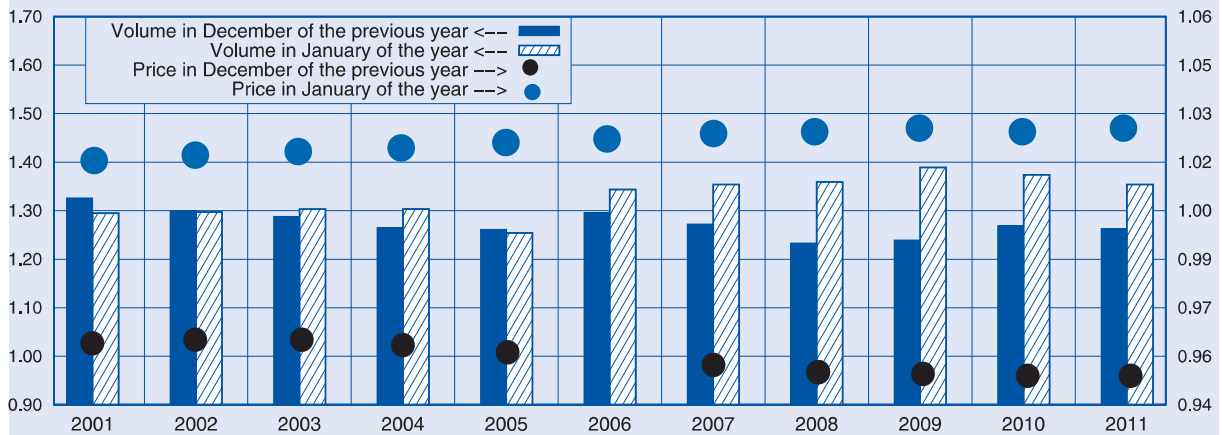
2 - Raw to seasonally and working-day adjusted ratio for air, rail and road transport on average over five years (2006 - 2010)



Note: On average over the five years (2006-2010), air and road transport consumption rose slightly in December, but remained below average consumption (seasonally and working-day adjusted). Rail transport fell in December, however.

Source: INSEE

3 - In clothing, the effect of the January sales seems to be gaining ground on that of Christmas, due to more intense discounting



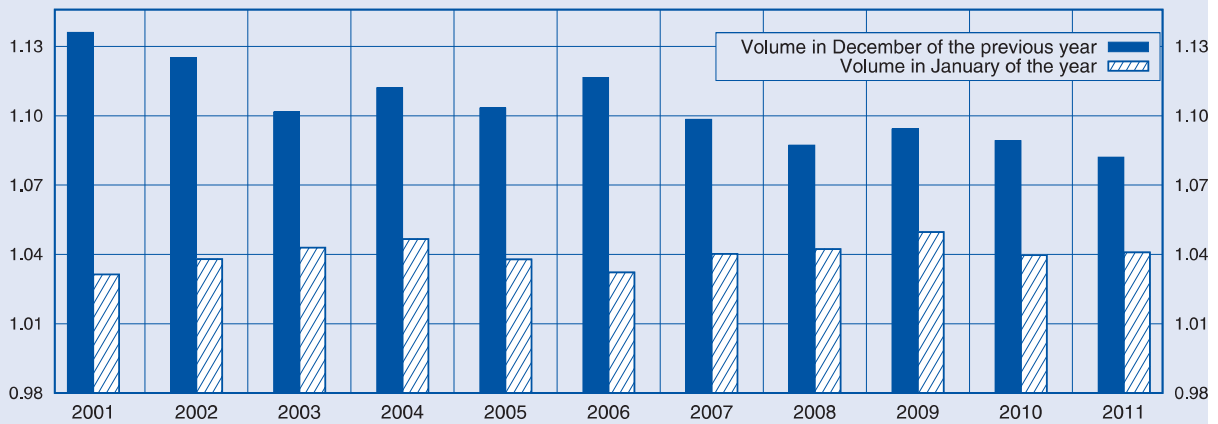
Note: For volumes, the raw to seasonally and working-day adjusted ratios are greater than 1 in December and January. This shows that clothing product consumption is usually high in both months; in December, this is the reflection of the festive season and in January of the sales. Over the last ten years, the effect of the sales has increased (the January ratios are higher and higher) at the expense of the Christmas season (December ratios decreasing).

For prices, the raw to seasonally and working-day adjusted ratios are less than 1 in January, indicating that prices in clothing are usually lower at this time of year on account of the sales. Raw to seasonally and working-day adjusted ratios for prices in December are slightly higher than 1, indicating that prices are slightly higher at this time of year. However, the difference between the two months has been widening regularly since 2001, largely due to increasingly intense discounting in recent years.

Source: INSEE

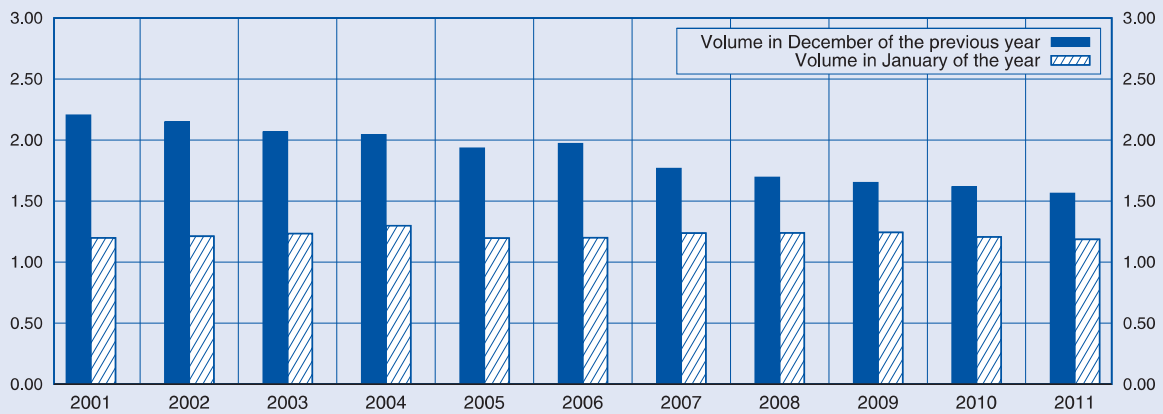
French developments

4 - For household appliances, the Christmas effect continues to predominate over the sales, but the gap has had a tendency to narrow...



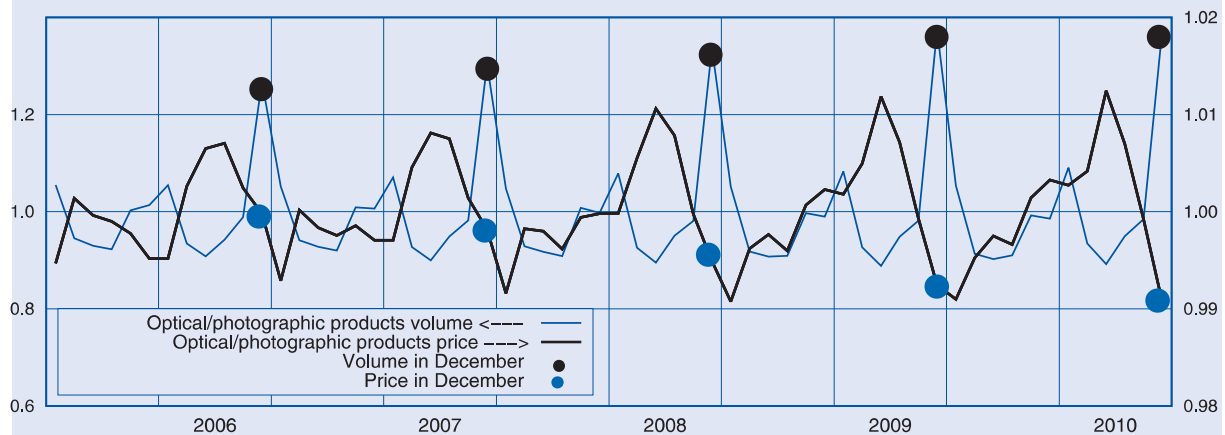
Source: INSEE

5 - ... and the same applies to consumer electronics



Source: INSEE

6 - Raw to seasonally and working-day adjusted ratio for optical and photographic products over five years (2006 - 2010)



Note: Since 2006, spending on optical and photographic products has been increasingly focused on the month of December. In addition to this, the prices of these products have been falling increasingly in December.

Source: INSEE

Enterprises' earnings

In 2011, the margin rate of non-financial enterprises fell markedly: measured at factor cost, it reached 30.3%⁽¹⁾ over the year, after 31.0% in 2010. It was boosted only by gains in productivity, while the increase in wage costs weighed down on company margins. On the one hand, real wages progressed, notably at the start of the year. On the other, employer contributions increased due to the measure to annualise employers' contribution rebates: this measure applied in full to the fourth quarter. Finally, with soaring energy prices, the margin rate of businesses suffered from the worsening of terms of trade.

In Q1 2012, the effect of the annualisation of social contribution rebates should disappear and the margin rate should rise again mechanically (+0.6 points). It should rise in Q2 (+0.1 points), again buoyed by productivity gains.

In 2011, the margin rate fell markedly

In 2011, the margin rate of non-financial enterprises fell markedly. Measured at factor cost, it slipped to 30.3% over the year, down from 31.0% in 2010 (see Table), a historically low level (see Graph 1). This drop in the margin rate was the result primarily of the increase in real wage costs. Indeed, employers' social contributions (contribution of -0.4 point) increased in 2011 on the account of the annualisation of social

contribution rebates, the effect of which was visible in Q4⁽²⁾. The rise in real wages per head (see "Wages" note) also contributed to squeezing margins of businesses (contribution of -0.4 point). Finally, deteriorating terms of trade accentuated the drop in margin rate (contribution of -0.4 point): companies thus bore part of the cost of the oil shock that occurred in H1 2011.

All in all, only employee productivity gains contributed to boosting the margins of non-financial enterprises in 2011 (contribution of +0.6 point).

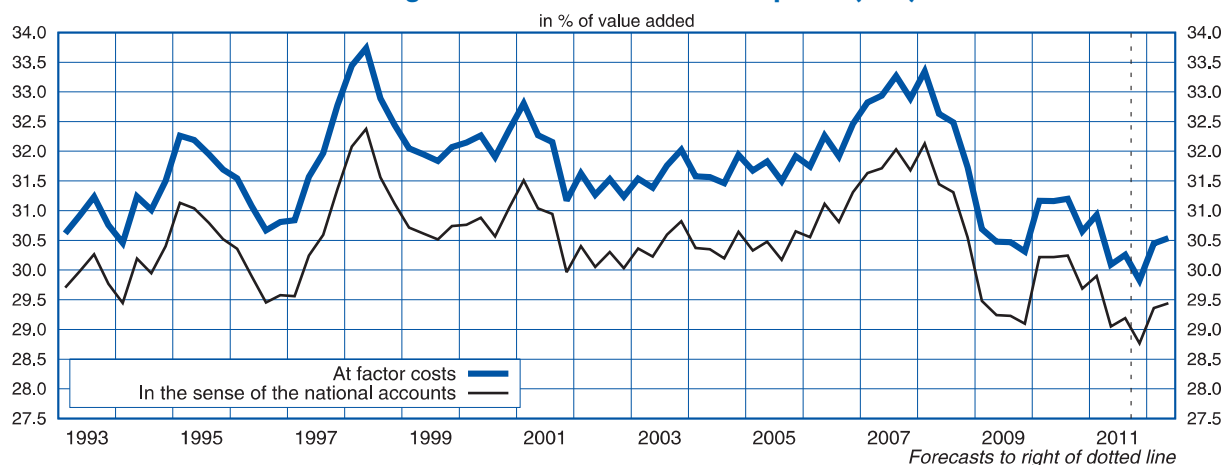
The margin rate should rise again in H1 2012

In Q1 2012, the margin rate should rise again to stand at 30.4%, after 29.8% at the end of 2011. Employers' social contributions should return to a more "usual" level after the one-off acceleration in Q4 2011 on the account of the regularisations of social contributions. This should be the main factor in the upturn in margin rates in Q1 (contribution of +0.6 point, see Graph 2). In contrast, with the rise in energy prices and the increase in the reduced VAT rate in services, the terms of trade should continue to weigh down on corporate margins (contribution of -0.2 point), this effect being somewhat softened by the fall in real wages (contribution of +0.1 point).

(1) Provisional annual figure with Q4 still a forecast.

(2) See Box on "Enterprises' earnings note" in *Conjoncture in France*, December 2011.

1 - Margin rate of non-financial enterprises (NFE)



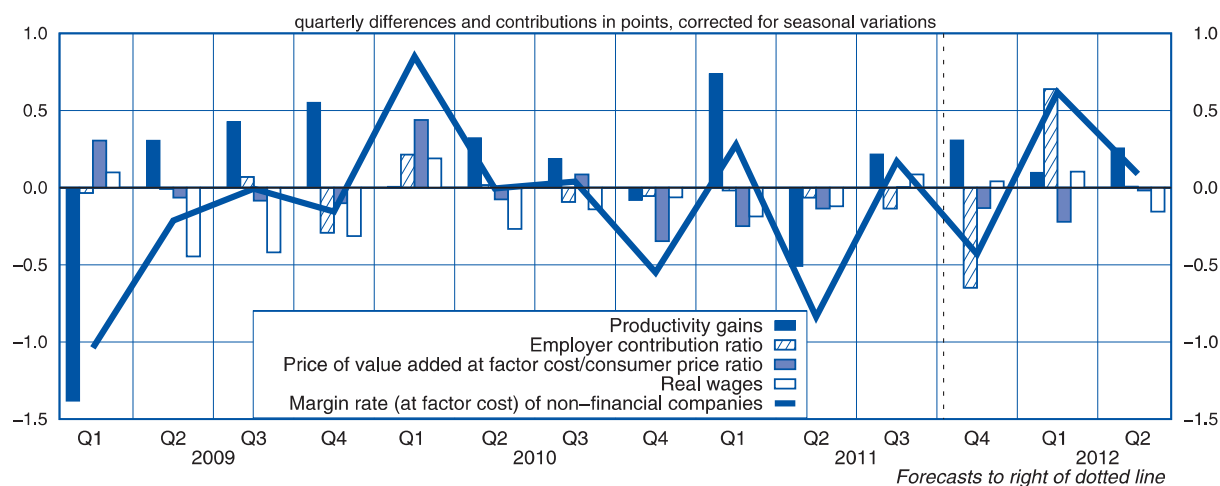
Source: INSEE

French developments

In Q2 2012, the margin rate should increase again (+0.1 point). Margins should be boosted by productivity gains (contribution of +0.3 point), as employment in non-financial enterprises continues to fall but their activity progresses. Conversely, the increase in real wages per head should moderate the increase in the margin rate (contribution of -0.2 point).

All in all, the margin rate at factor cost should reach 30.5% in Q2 2012, still well below its level at the start of 2011 (30.9%). It should be at the same level as that observed on average during the recession in 2009 (30.5%). ■

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



Source: INSEE

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

in % and in points

	2010				2011				2012		2010	2011	2012 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Margin rate (in level)⁽¹⁾	30.2	30.2	30.2	29.7	29.9	29.0	29.2	28.8	29.4	29.4	30.1	29.2	29.4
Variation in margin rate	1.1	0.0	0.0	-0.6	0.2	-0.8	0.1	-0.4	0.6	0.1	0.8	-0.9	0.2
Margin rate at factor costs (in level)⁽²⁾	31.2	31.2	31.2	30.6	30.9	30.1	30.3	29.8	30.4	30.5	31.0	30.3	30.5
Variation in margin rate at factor cost	0.8	0.0	0.0	-0.6	0.3	-0.8	0.2	-0.4	0.6	0.1	0.6	-0.8	0.2
Contributions to the variation margin rate at factor costs of													
Productivity gains	0.0	0.3	0.2	-0.1	0.7	-0.5	0.2	0.3	0.1	0.3	1.0	0.6	0.5
Real wage per head	0.2	-0.3	-0.1	-0.1	-0.2	-0.1	0.1	0.0	0.1	-0.2	-0.7	-0.4	0.0
Employer contributions ratio	0.2	0.0	-0.1	-0.1	0.0	-0.1	-0.1	-0.6	0.6	0.0	0.0	-0.4	0.1
Ratio of the value-added price to the consumer price	-0.2	-0.1	0.1	-0.3	-0.2	-0.1	0.0	-0.1	-0.2	0.0	-0.4	-0.4	-0.3
Other factors	0.6	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.6	-0.2	0.0

Forecast

(1) The margin rate measures the share of value-added which remunerates capital. Its variation is broken down in accounting terms between:

- productivity changes (Y/L), with Y value-added and L employment, and the ratio of the value-added price to the consumer price, or terms of trade (P_{va}/P_c), which play a positive role,
- changes to the real average wage per head ($SMPT/P_c$) and the employer contribution ratio ($W/SMPT$, where W represents all compensation), which play a negative role,
- others factors: it is the ratio of the value-added price at factor cost to the value-added price in the sense of the national accounts.

This breakdown is summarised in the following equation (see *Report, Conjoncture in France*, June 2003),

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

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

Source : INSEE

Corporate investment and inventory

In 2011, corporate investment picked up: +4.2% after +2.0% in 2010. Investments in manufactured goods and in services were more dynamic than in 2010 and construction expenditure contracted less sharply. In H1 2012, corporate investment should progress at a more moderate pace. Production capacity is still underused, access to credit has tightened somewhat since the end of 2011, and business prospects are likely to remain unfavourable through to mid-2012. Additionally, one-off factors should slow down investment at the start of the year: the consequences of the cold snap on civil engineering work and the backlash in automobile purchases after a sharp increase at the end of 2011. Corporate investment should therefore slow slightly in Q1 2012 (-0.4%), then rebound in Q2 (+0.8%), driven mainly by the acceleration in construction expenditure.

In Q4 2011, inventory change had a negative effect on GDP growth (contribution of -0.8 point), due to the trend towards destocking in the manufacturing industry excluding coking and refining. Over 2011 as a whole, the change in industrial inventory nonetheless contributed positively to growth (+0.7 point after +0.6 point in 2010). In H1 2012, the contribution of inventory change to growth should be nil.

In 2011, a sharp acceleration in investments in manufactured goods and in services

In Q4 2011, investments by non-financial enterprises (NFE) rebounded (+1.4% after -0.4% in Q3 (see Table 1), driven by the upturn in

investments in manufactured goods (+2.4% after -1.0%) and in construction (+0.5% after -0.1%) and by the acceleration in expenditure on services (+1.1% after +0.1%). The dynamism of investments in manufactured products was the result of a very sharp increase in purchases of transport equipment (+8.4% after -3.8%), most notably automobiles. This rebound stemmed from the catch-up effect after delivery delays in summer due to the difficulties in sourcing from Japan, and the anticipation effect prior to the tightening on 1st January 2012 of certain tax relief schemes.⁽¹⁾

All in all, in 2011 investments by NFEs accelerated sharply (+4.2% after +2.0% in 2010). Expenditure increased on manufactured goods (+10.1% after +8.3%) and on services (+6.4% after +4.6%), while construction expenditure continued to decline, although at a slower pace (-5.2% after -6.9%). At the end of 2011, the investment rate settled at 17.9%, close to the high point reached in Q2 2011 (see Graph 1).

At the start of 2012, investment likely to grow in fits and starts

In early 2012, the economic and financial environment is not conducive to investment projects. Global financing conditions for companies tightened somewhat at the end of 2011: real interest rates climbed slightly and above all, the conditions for awarding loans tightened, according to the banks (see Graph 2).

(1) Tougher bonus-malus conditions on 1st January 2012 and an increase in the tax on the most polluting company vehicles.

Table 1

Investment by non-financial enterprises (NFE)

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

	Quarterly variations										Annual variations		
	2010				2011				2012		2010	2011	2012 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Non-energy industrial goods (43%)	1.2	4.1	3.7	3.3	3.3	1.5	-1.0	2.4	-1.8	0.3	8.3	10.1	0.0
Building and public works (26%)	-2.1	-0.3	-2.0	-2.7	-1.5	-0.9	-0.1	0.5	0.6	1.9	-6.9	-5.2	2.1
Other (31%)	0.6	4.9	2.0	0.6	3.4	-0.1	0.1	1.1	0.5	0.5	4.6	6.4	1.6
All non-financial enterprises (100%)	-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

Forecast
Source: INSEE

French developments

An unfavourable environment for investment

The business leaders who responded to the business tendency surveys in early 2012 are predicting moderate growth in their investments for the start of 2012. In H1 2012, investments by NFEs should therefore be globally sluggish. They will also grow in fits and starts, affected in Q1 by one-off factors (cold snap, backlash in the automobile sector) which should then fade (-0.4% in Q1 2012 then +0.8% in Q2). In mid-2012, the investment rate should once again stand at 17.9%.

In parallel, production capacities remain underused (see *Graph 3*): in January 2012, manufacturing companies even reported a drop in their production capacity utilisation rate and fewer of them reported production bottlenecks. Lastly, business prospects are still gloomy: order books in industry are still far from full and expectations of demand in services were still negative in February.

Automobile expenditure set to fall in Q1 2012

Automobile purchases, which were a growth driver at the end of 2011, should fall back sharply in Q1 2012, causing a drop in corporate investment in manufactured goods (-1.8%). Company vehicle registrations did indeed plummet at the start of 2012. In parallel, order intentions for capital goods, representing almost 40% of investments in manufactured goods, remain at lower levels than their long-term average. Investments in manufactured goods should then pick up slightly in Q2 2012 (+0.3%).

Confirmation of the recovery of construction expenditure

The strong growth in housing starts observed at the end of 2011 suggests that corporate investment in property is likely to accelerate in H1. However, the cold snap in February is likely to postpone certain construction works and to have a temporarily adverse effect on civil engineering in Q1 2012. The upturn in investments on construction should therefore not gather pace until Q2 2012, (+0.6% in Q1 2012 then +1.9% in Q2).

Progress in other investments, mainly IT services and specialised, scientific and technical activities, is likely to be moderate (+0.5% in Q1 and Q2 2012). Professionals in these sectors are expecting sluggish activity.

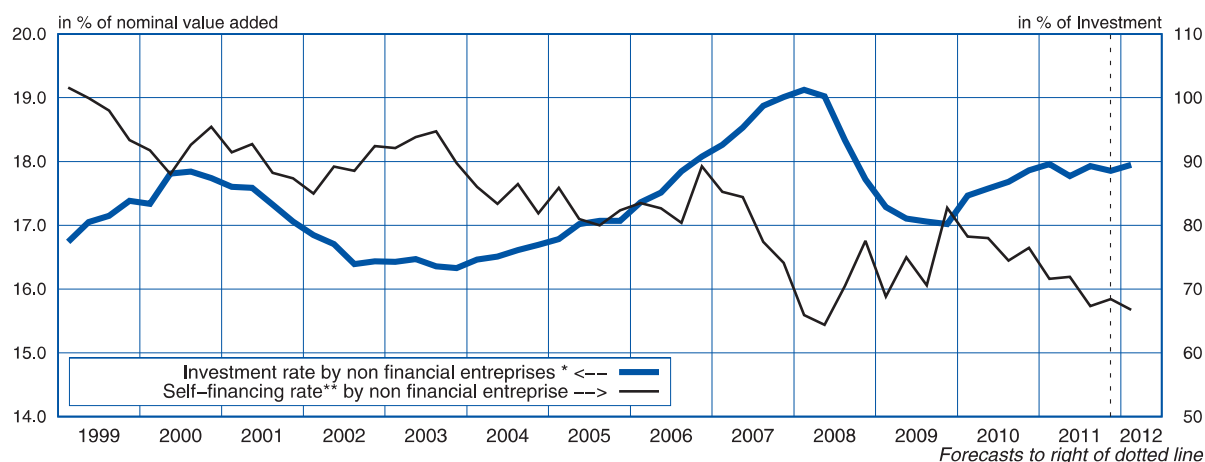
Inventory change took its toll on growth in Q4 2011

In Q4 2011, the contribution of inventory change to GDP growth was strongly negative (-0.8 point, see *Table 2*). This result is mainly due to the destocking of manufactured goods (-0.7 point), along with reduced stocking of agricultural goods (-0.1 point).

Within manufacturing products, more than half of the negative contribution of inventory stems from the destocking of transport equipment, linked to the very dynamic aeronautics sales in Q4 2011.

Industrial companies also destocked capital goods and stocked fewer other industrial goods. However, the dynamic output in the coking and refining sector led to increased stocking of these goods.

1 - Investment rate and self-financing ratio



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

** The self-financing ratio is the ratio of the savings of non-financial companies to their investments.

Source: INSEE

Over 2011 as a whole, the contribution of inventory to growth was nonetheless positive (+0.9 point after +0.5 point en 2010).

The destocking of manufactured goods set to continue in H1 2012

In Q1, the contribution of inventory to growth should be nil. In the manufacturing sector industrial companies are likely to step up slightly their destocking of manufactured goods, thus

continuing the adjustment of their inventory to weak demand. In Q1 2012, the opinion of industrialists on their inventory levels is still well above its long-term average, most notably in the automobile branch.

In Q2 2012, the rhythm of destocking should stabilise in the manufacturing industry and the contribution of inventory to growth should be neutral. ■

Table 2

Contribution of inventory changes to growth

in GDP points

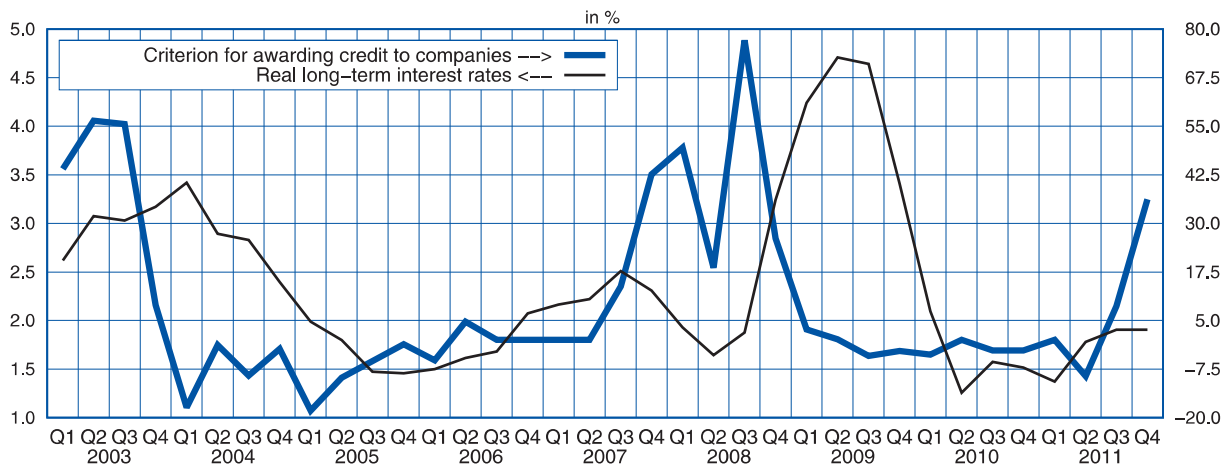
	Quarterly changes										Annual changes		
	2010				2011				2012		2010	2011	2012 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Agricultural goods	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	-0.1	0.0	0.0
Manufactured products	-0.3	0.2	0.1	0.0	0.9	-0.1	-0.1	-0.7	0.0	0.0	0.6	0.7	-0.7
<i>including:</i>													
<i>Agrifood products</i>	-0.1	0.0	0.0	-0.1	0.0	0.0	0.1	0.0			-0.1	0.0	
<i>Coke and refined petroleum</i>	0.1	-0.2	0.1	0.0	0.1	0.0	0.0	0.2			0.0	0.1	
<i>Machinery and equipment goods</i>	0.1	0.1	-0.1	0.0	0.0	0.0	0.0	-0.2			0.2	-0.1	
<i>Transport equipment</i>	-0.2	0.1	0.0	0.0	0.5	0.0	-0.1	-0.4			-0.1	0.3	
<i>Others industrial goods</i>	-0.1	0.3	0.1	0.1	0.2	-0.1	-0.1	-0.3			0.5	0.2	
Energy, water and waste	-0.1	0.1	0.2	-0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.1
Other (construction, services)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL ⁽¹⁾	-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

Forecast

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

Source: INSEE

2 - Criterion for awarding credit to companies* and real long-term interest rates**

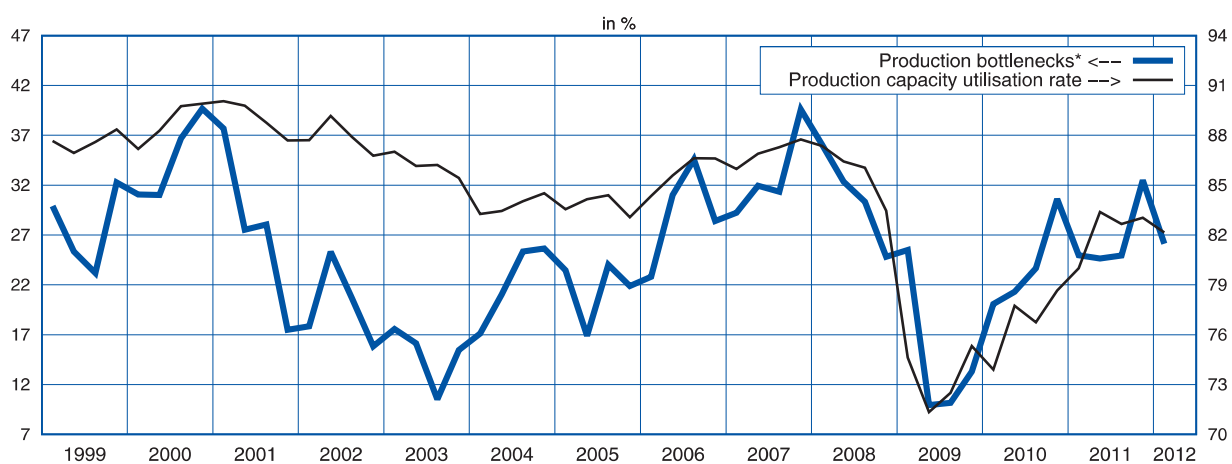


* Criteria for awarding credit: net balance of weighted responses = tightening - easing.

** Here, the real rate denotes the interest rate on new loans to non-financial companies, the rate of which is revisable at a frequency of more than one year, i.e. at a fixed rate for an initial period of more than one year. This rate is deflated by the producer price index of all goods and services.

Source: INSEE

3 - 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

Output

In Q4 2011, production of goods and services accelerated slightly (+0.4% after +0.3% in the previous quarter), mainly due to the rebound in manufacturing production and the rise in production in trade and market services.

Production should be stable in Q1 2012, before rising again in Q2 (+0.2%). After declining for several consecutive months, the business climate in France stabilised in February, although it remains well below its long-term average. Activity prospects remain sluggish in industry and services. At the end of H1 2012, the growth overhang for 2012 should be +0.6% for production of goods and services, after a rise of 2.2% in 2011.

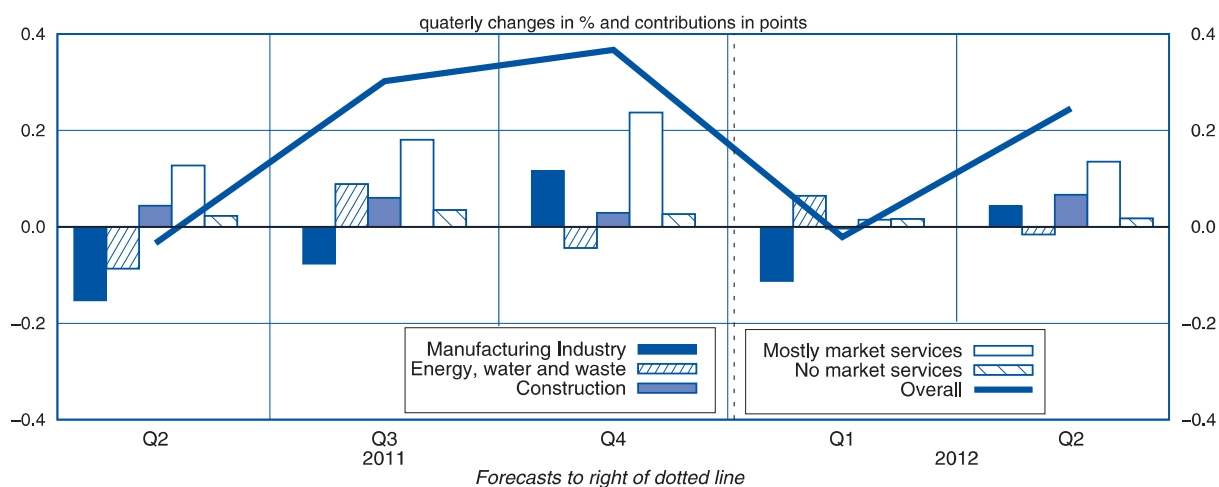
Production should progress slightly at the start of 2012

In Q4 2011, production progressed at a rate close to that in the previous quarter: +0.4% after +0.3% in Q3 2011 (see Graph 1). The main sectors contributing to production were market services (0.2 point) and manufacturing industry (0.1 point). Manufacturing production rebounded (+0.6% after -0.4% in Q3), thanks to dynamic activity in the

transport equipment branch. On account of the particularly mild temperatures, energy production fell in Q4 2011 (-1.1% after +2.3%). Activity in the trade branch accelerated (+0.6% after +0.2%), buoyed by the rebound in household consumption of manufactured products and by dynamic exports. In the wake of manufacturing production and trade, activity remained dynamic in market services (+0.4%, as in Q3).

After falling continuously from summer 2011 onwards, the business climate indicator in France levelled out in February 2012 (see Graph 2), but is still at a much lower level than its long-term average. In manufacturing industry, the assessment of past activity continued to deteriorate in February, while individual production prospects were still below their long-term average. Likewise, in services, the judgement of expected activity remained well below its long-term average and expected demand remained low. Production should therefore be sluggish in H1 2012. It is likely to be stable in Q1 then to increase moderately in Q2 2012 (+0.2%). At the end of H1, the growth overhang in production for 2012 should be +0.6%, after a rise of 2.2% in 2011.

1 - Sector contributions to growth in total output



Source: INSEE

French developments

Manufacturing production set to fall in early 2012

After falling for two consecutive quarters (-0.7% in Q2 2011 and -0.4% in Q3), manufacturing production rebounded in Q4 2011: +0.6%. This was driven mainly by the transport equipment sector (+4.6% after -2.1%). Thus, in aeronautics and space construction (see *Focus*), activity was very dynamic, driven by exceptional levels of exports. In automobile construction, activity was buoyed by the strength of demand from businesses and the public at the end of the year. Activity was also very dynamic in the coke and petroleum refining sector (+3.9% after -1.5%). On the contrary, it fell back considerably in the capital goods sector (-1.3% after +1.5%) and in the "other industrial goods" sector; it fell slightly in agri-food (-0.1% after +0.6%).

While the business climate in industry stabilised in February, it remains at a very low level (see *Graph 2*). A large number of industrialists continue to report a fall in their past activity. Their production prospects for the coming months remain poor, both individually and for their sector as a whole (see *Graph 3*), although they did recover a little in February. In Q1 2012, manufacturing production should fall back (-0.5%).

The contraction in activity should be particularly pronounced in the automobile sector, where domestic and foreign order books are at low levels. Prospects for activity remain positive, however, in other transport equipment, which includes aeronautics among other things. Manufacturing production should progress slightly in Q2 2012 (+0.2): it should benefit from support from exports, while domestic demand for manufactured

products should stop falling. All in all, after a progression of 3.0% in 2011, the annual growth overhang for manufacturing production should be -0.3% at the end of H1 2012.

Uneven activity in construction

In Q4 2011, production slowed down in the construction sector: +0.4%, after +0.8% in Q3 2011. This slowdown was marked in building and in public works.

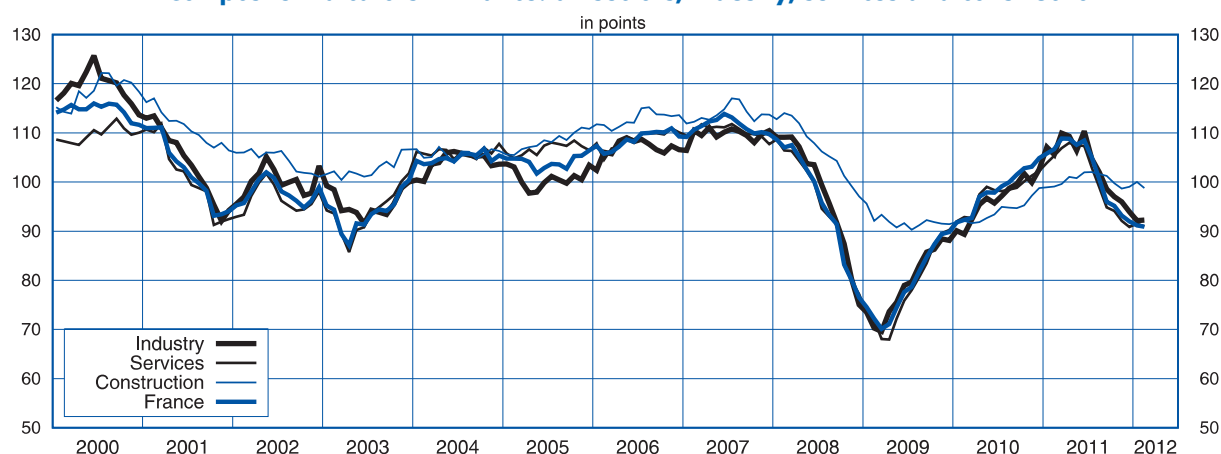
In Q1 2012, production in construction should fall slightly (-0.1%). The entrepreneurs in public works and building, surveyed respectively in January and February, reported slow activity (see *Graph 4*), and order books are still considered below normal in building. In addition to this, activity in construction, in particular in public works, is likely to have been affected by the cold snap in February. In Q2 2012, activity in construction should see a marked upturn (+0.9%) thanks to a positive reaction in the public works sector.

In 2011, production in the construction sector progressed by 0.2%. At the end of Q2 2012, the growth overhang for 2012 should be +1.5%.

Market services: activity set to slow down in Q1 2012

In Q4 2011, activity in market services excluding trade progressed at the same rate as in Q3 (+0.4%). Production accelerated in the specialised, scientific and technical activities sector and in administrative and support services (+0.6% after +0.1% in Q3), in the wake of dynamic industrial activity. It rose again in accommodation and restaurants (+0.2% after -0.1%) and remained dynamic in property activities

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



Source: INSEE

and in information-communication (respectively +0.3% and +0.8%, as in Q3). In the transport and financial activity sectors, production slowed down (respectively +0.3% after +0.5% and +0.4% after +0.8%). Over the year 211 as a whole, production of market services excluding trade increased by 2.8%, after +1.4% in 2010.

At the beginning of 2012, according to business chiefs, the outlook in services is morose: in February, the composite business climate indicator levelled out significantly below its long-term average. The expectations of entrepreneurs in terms of demand and activity remain low (see Graph 5). In particular, the slowdown in industrial activity is likely to hold back activities in services to businesses. All in all, production of market services should slow down in Q1 2012 (+0.1% after +0.4%). It should accelerate somewhat in Q2 (+0.3%). At the end of Q2 2012, the growth overhang for 2012 should be +0.9%.

Commercial activity set to progress very weakly

Commercial activity accelerated in Q4 2011 (+0.6% after +0.2%), driven both by household consumption of manufactured products (+0.5% after -0.2%) and by dynamic exports (+1.2%).

In Q1 2012, activity in trade should deteriorate (-0.2%), held back by the fall in household consumption of manufactured goods and the slowdown in exports. In wholesale trade, the composite indicator continued to fall in January, as did the balance of opinion relating to foreign sales, notably in the capital goods sector. In retail trade

and automobile repairs, the business tendency survey in February indicates an upturn in activity in large-scale distribution. But car traders report deteriorating sales and the composite business climate indicator remains very low.

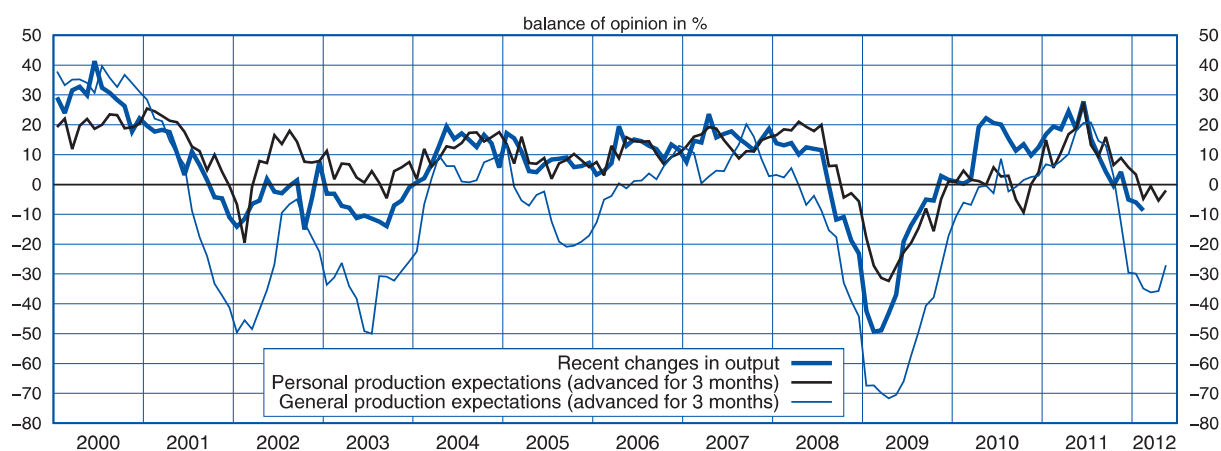
In Q2 2012, commercial activity should recover somewhat (+0.2%), supported notably by a slight upturn in household consumption of manufactured goods. In mid-2012, the growth overhang should be +0.5% (after +2.9% in 2011).

In early 2012, energy production to rebound and agricultural activity to remain stable

On account of the particularly mild temperatures at the end of the year, energy production fell in Q4 2011 (-1.1% after +2.3%). It should rise again in Q1 2012 (+1.7%), buoyed by the consumption peaks recorded during the wave of cold weather in February. By reaction, it should fall again in Q2 (-0.4%). At the end of H1, the growth overhang in the energy branch should be +1.1% (after -0.9% in 2011).

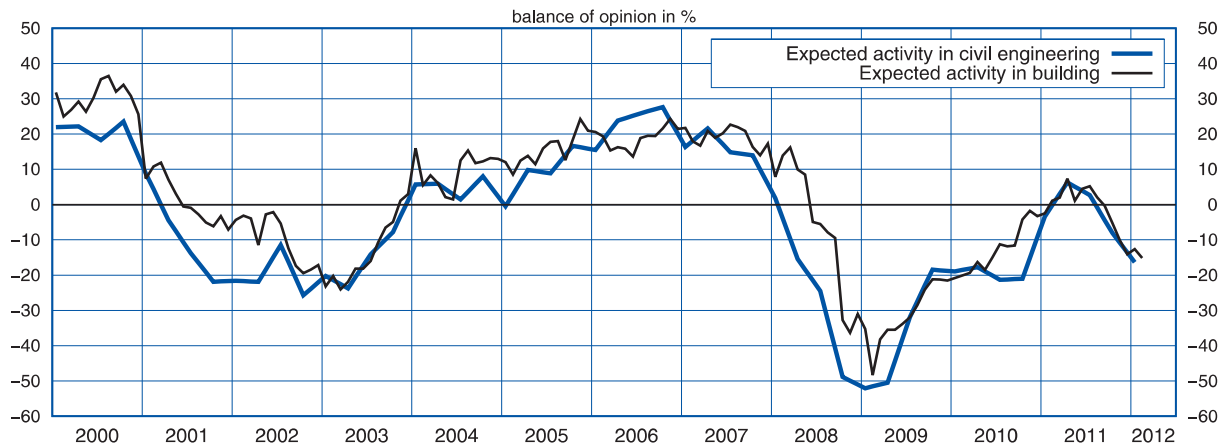
In Q4 2011, production in the agriculture and agri-food branches slowed down (+0.1% after +0.6% in the previous quarter). It should be stable through to mid-2012 and the growth overhang for 2012 should be +0.4% (after +2.2%).■

3 - Opinion about output in the manufacturing industry



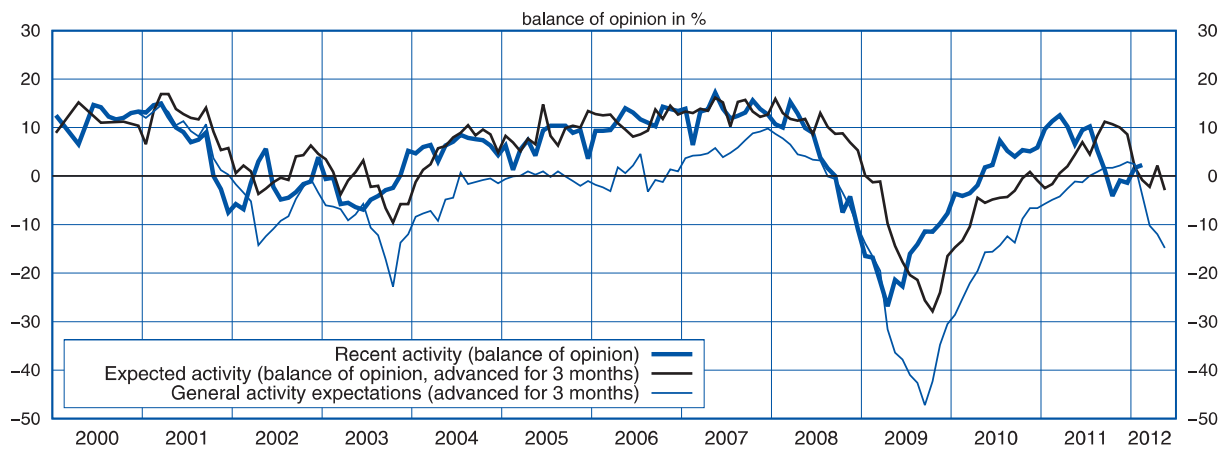
Source: INSEE

4 – Activity prospects in construction



Source: INSEE

5 – Activity prospects in services



Source: INSEE

Focus - Aeronautic construction and automobile construction, two sectors with a pronounced spill-over effect on the rest of the economy

The rise in activity in France in Q4 2011 was due notably to the upturn in the transport equipment sector (+4.6% after -2.1% in Q3 2011), a sector that includes aeronautics and space construction and automobile construction. At the end of 2011, it was more precisely aeronautics and space construction that drove activity. This boost was all the greater in that the aeronautics and space construction sector, like that of automobile construction, traditionally has a more pronounced spill-over effect on the economy than most other industrial sectors.

Segmentation of the aeronautics and automobile production chains between different sectors

The aeronautics and space construction sector and the automobile sector play an important role in the outlook and dynamics of the French economy. On the one hand, both sectors are very present in exports. On the other, they involve many sectors of the national economy and therefore have strong spill-over effects on the rest of the economy.

For example, the aircraft production chain involves several players: engine manufacturers, equipment manufacturers, subcontracting businesses and service providers, etc. The segmentation of the aeronautics added-value chain between sectors is therefore particularly great. In addition, the intermediate consumption used by this sector often has high added value. This being the case, any shock affecting the aeronautics industry induces considerable indirect effects in many other sectors, thus amplifying the effect of the initial shock.

Aeronautics and automobiles, two sectors with strong effects on the rest of the economy

To quantify the contribution of these sectors to activity, a distinction is made between two effects:

- a direct effect: the accounting contribution of added value from the sector to the progression in total added value.
- an indirect effect that takes account of the spill-over effects on other economic sectors.

The conversion from direct contribution to total contribution including direct and indirect effects is carried out by using an added-value (AV) multiplier: this measures, per additional unit of added value in a sector, the number of units of added value produced overall in the economy ⁽¹⁾. This multiplier will be all the higher when the production process uses a large proportion of intermediate consumption and when that consumption is rich in added value and poor in imports. This multiplier can be calculated for all the sectors of the economy (see *Table 1*). The aeronautics and space construction sector and that of automobile construction have the highest AV multipliers: these two sectors therefore have powerful spill-over effects on the rest of the economy.

Calculating contributions to activity in the transport equipment sector

To calculate the total (direct and indirect) contribution of a sector to activity, we need its value added multiplier and the evolution in the added value of the sector. However, the quarterly accounts do not give the added value of the aeronautics and space construction sector or that for automobile construction. Only the overall aggregate figure is published. Therefore, only the total contribution of this sector to activity can be calculated (see *Graph 1*).

To isolate the contribution of the automobile (C29) and aeronautics and space construction (C30C) branches to growth, an indirect indicator of the change in the added value of these sectors is used: the industrial production index (IPI) which is available at a finer level than the quarterly accounts. The two sources are consistent with each other: by adding the contributions of the automobile and other transport equipment sectors calculated using the IPI data, a result is obtained that is close to that obtained directly from the series of quarterly accounts for the transport equipment sector as a whole (see *Graph 1*).

(1) For the details of the method, see *Focus in Conjoncture in France, March 2009*, "Automobile production gearing down: its role in the recession".

Table 1

Added value multipliers by sector (excluding coke and refining)

Sectors	Agriculture (CZ)	Agri-food industry products (C1)	Capital goods (C3)	Automobile (C29)	Aeronautics and space construction (C30C)	Other transport equipment (excluding aeronautics)	Other industrial products (C5)	Energy, water, waste (DE)	Construction (FZ)	Trade, services
Multipliers	2.3	2.8	2.3	4.1	4.8	3	2.3	2.1	2	1.5

Note: when the automobile (C29) sector generates one unit of added value directly, it generates more than four units of added value via the intermediate consumption produced domestically.

Source: INSEE data and calculations

French developments

In this way, in Q4 2011, the direct contribution of the transport equipment sector to growth was almost zero. The total contribution taking account of the added value multiplier of 4.1 in this sector, was +0.1 point.

Aeronautics and space construction, a key driver of growth at the end of 2011

In Q4 2011, the aeronautics and space construction sector contributed 0.2 point to growth in total added value, representing almost all the growth that was observed (see Table 2). The large orders for aircraft received in 2011 (see Graph 2) and size of deliveries at the end of 2011 boosted production in the sector and, by a spill-over effect, in all the sectors involved in the aeronautics production chain.

Given the upturn in orders at the end of 2011, production should remain at a high level in early 2012, although it is not certain that such a sustained rate of growth can be kept up.

Automobiles, a sector that contributed much to the 2008 recession

This approach can also analyse the contributions of the aeronautics and automobile sectors to trends in the outlook in past years (see Table 2).

The 2008 crisis particularly affected the automobile industry and its subcontractors. The contraction in the sector itself was very pronounced (see Graph 3) and made a direct contribution of -0.2 point to the fall in GDP in Q4 2008 and -0.1 point in Q1 2009. Taking account of the indirect effects on other sectors, the contribution of this sector to the downturn was -0.6 point in Q4 2008 and -0.3 point in Q1 2009, for falls in GDP of 1.5 point then 1.6 point respectively.

Aeronautics and space construction, resilient during the recession

In aeronautics, on the other hand, the fall in production was much smaller (see Graph 3) and the total contribution of the aeronautics sector to the decline in activity in 2008 was ultimately limited (see Table 2).

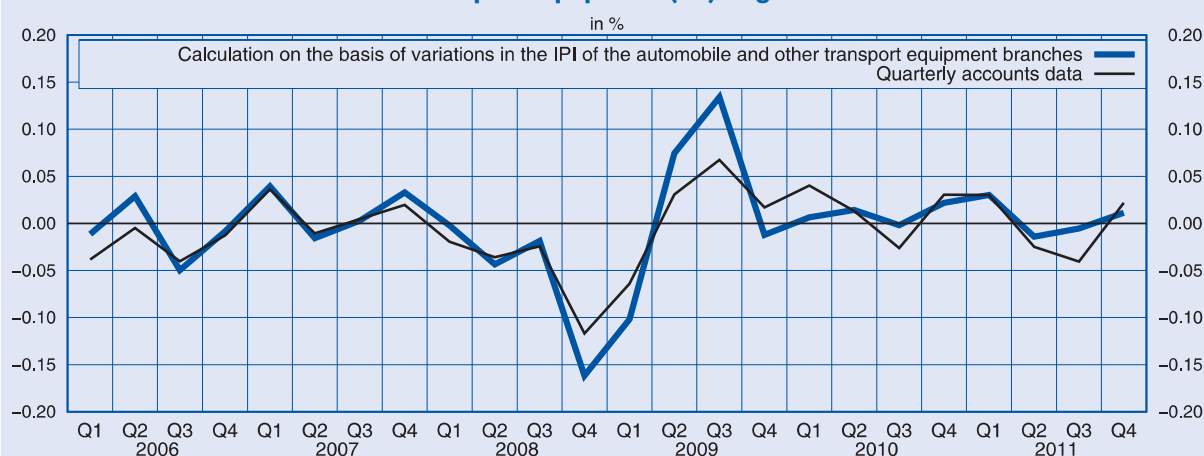
However, the contraction in the volume of net aircraft orders in 2008 and in 2009 was highly significant for Europe's aircraft manufacturer Airbus (see Graph 2). This fall in orders was a response to the pronounced decline in world air traffic, in particular freight traffic (see Graph 2).

However, the French aircraft industry was able to benefit from the all-time high levels of orders recorded before the crisis to sustain its production level (see Graph 2). The aeronautics and space construction sector is little affected by short-term shocks due to its very long production lead times, and it tends to follow the long-term trend in world air traffic. ■

Bibliography

INSEE, 2009, "Automobile production gearing down: its role in the recession", Focus in *Conjoncture in France*, March 2009,.

1 - Contribution of transport equipment (C4) to growth in added value



Source: INSEE

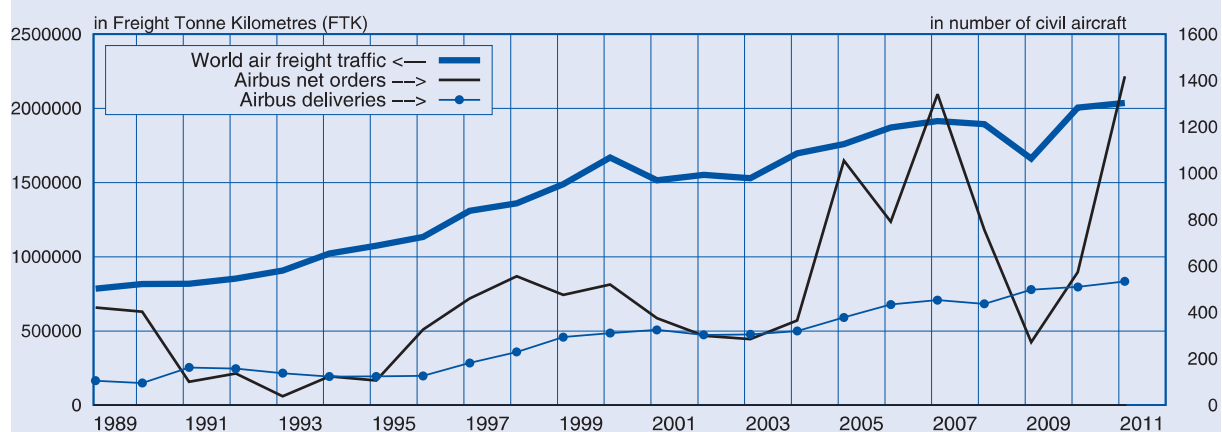
Table 2
"Direct" and "total" contribution to growth in activity of the automobile and aeronautics and space construction sectors

Date	Aeronautics and space construction		Automobile construction		GDP growth rate (chain-linked prices)
	Direct contribution	Total contribution	Direct contribution	Total contribution	
2008Q1	0.0	0.1	0.0	0.0	0.35
2008Q2	0.0	0.0	0.0	-0.2	-0.67
2008Q3	0.0	0.1	0.0	-0.1	-0.32
2008Q4	0.0	0.1	-0.2	-0.6	-1.47
2009Q1	0.0	-0.1	-0.1	-0.3	-1.55
2009Q2	0.0	0.0	0.1	0.3	0.08
2009Q3	0.0	0.1	0.1	0.5	0.25
2009Q4	0.0	0.0	0.0	0.0	0.60
2010Q1	0.0	0.0	0.0	0.0	0.10
2010Q2	0.0	0.1	0.0	-0.1	0.51
2010Q3	0.0	-0.1	0.0	0.0	0.43
2010Q4	0.0	-0.1	0.0	0.1	0.34
2011Q1	0.0	0.1	0.0	0.0	0.94
2011Q2	0.0	0.0	0.0	-0.1	-0.07
2011Q3	0.0	0.0	0.0	0.0	0.33
2011Q4	0.0	0.2	0.0	-0.1	0.22

Note: In Q4 2008, the automobile sector made a direct contribution of 0.2% to the fall in GDP of -1.47% and of 0.6% all in all, once the indirect effects linked to intermediate consumption produced domestically were taken into account.

Source: INSEE data and calculations

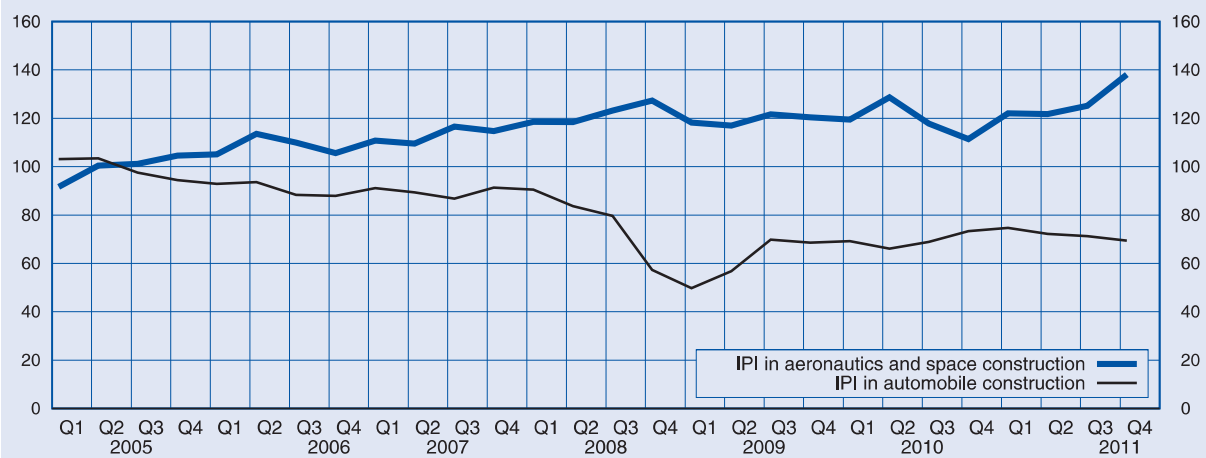
2 - Trends in Airbus orders and deliveries and in air freight traffic



Note: In 2011, Airbus delivered 534 civil aircraft and recorded 1,419 net orders. In 2011, world air freight traffic was 2,036,350 FTK (Freight Tonne Kilometres).

Sources: DataInsight - Airbus data, INSEE calculations (annualised, seasonally-adjusted data)

3 - Industrial production index in the aeronautics and space construction (C30C) and automobile construction (C29) sectors



Source: INSEE