# Wages

*In 2012, the basic monthly wage and the average wage per head should increase by 2.1% after respective rises of 2.2% and 2.4% in 2011. Wages were sustained in 2012 by the increases in the minimum wage in December 2011 and July 2012 but were slowed by the drop in inflation and the rise in unemployment.*

*In the absence of a discretionary hike, the minimum wage increase in January 2013 should be limited and nominal wages are thus likely to grow moderately in H1 2013.*

*In real terms, thanks to more moderate inflation in 2012 than in 2011, the basic monthly wage in constant euros should accelerate slightly (+0.3% after +0.1%). However, the real average wage per head should grow at the same pace as in 2011 (+0.3%). At the start of 2013 real wages should be sustained by the continuing fall in inflation: at the end of Q2, the growth overhang should be +0.7% for the basic monthly wage and +0.4% for the average wage per head.*

*In general government, the nominal average wage per head slipped back in 2012 (+1.2% against +1.8% in 2011). This slowdown should lead to a new reduction in constant euros (-0.6% after -0.3% in 2011).*

(1) For a definition of the terms "basic monthly wage" and "average wage per head", *see the glossary, "Economic outlook terms"*.

## Slight slowdown in nominal wages in 2012...

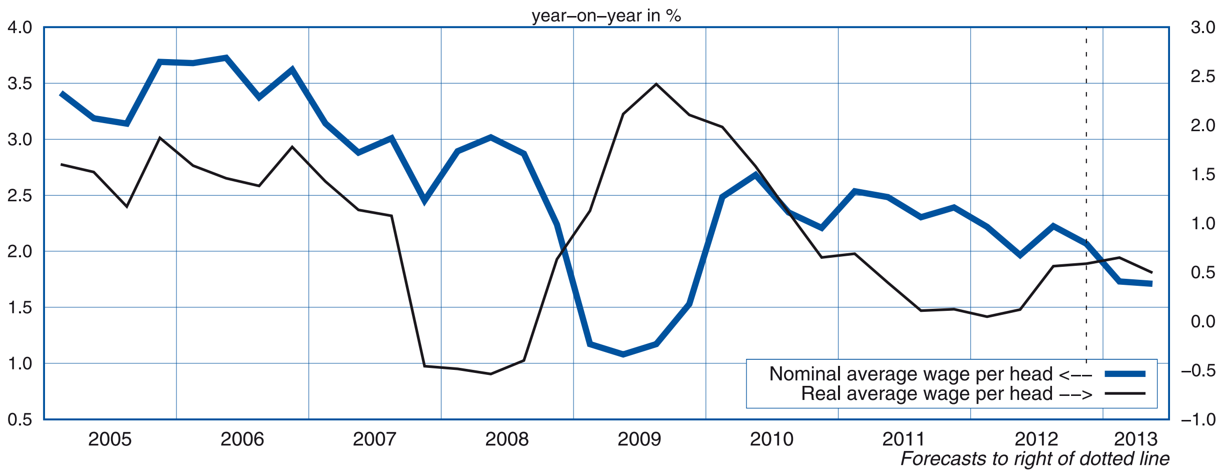
In 2012, the nominal basic monthly wage[1] should be almost as dynamic as in 2011 (+2.1% after +2.2%). As wages are partly determined by past inflation, they should benefit from the rise in inflation in 2011 against 2010. In particular, the increase in the minimum wage at the end of 2011 and start of 2012 (+2.1% on 1st December 2011 then +0.3% on 1st January 2012) was bigger than that at the start of 2011 (+1.6% on 1st January 2011). In H2 2012, the nominal basic monthly wage was also sustained by the 2.0% increase in the minimum wage on 1st July 2012. Conversely, the uninterrupted rise in unemployment is likely to take its toll on the bargaining power of employees and limit the global increase in wages.

The average wage per head should slow in 2012 (+2.1% after +2.4%). As with the basic monthly wage, the transmission of previous rises in inflation worked in its favour in 2012, despite the deterioration of the labour market.

## ... not observed in real wages

The drop in inflation in 2012, mainly under the effect of lower commodity prices, was not passed on in full to nominal wages. In the short term there is a time lag as wages adjust to inflation. So the inflexion of wages should still be partial in 2012. The basic monthly wage in constant euros should

**Change in the nominal and real average wage per head**




* Scope: non-agricultural market sector

*Sources: DARES, INSEE*

thus accelerate over the year (+0.3% after +0.1%). However, the real average wage per head should increase at the same pace as in 2011 (+0.3%) because bonuses were less dynamic (see *Graph*).

## At the start of 2013, real wage gains are likely to be limited

In H1 2013, in the absence of a discretionary hike, the annual minimum wage increase on 1st January is likely to be modest. It should take account of rises in consumer prices excluding tobacco observed between May and November 2012, with inflation observed between November 2011 and May 2012 already taken into account in the minimum wage increase of 1st July 2012. Furthermore, the purchasing power gains of the manual worker's basic hourly wage, which partly determine the level of the annual minimum wage increase, were low in 2012. The downward adjustment of wages to inflation in early 2013 is only likely to occur with a time lag and real wages (basic monthly wage and average wage per head) should increase slightly in H1 2013.

In nominal terms the growth overhangs at the end of Q2 2013 should be +1.6% for the basic monthly wage and +1.4% for the average wage per head. In real terms they should be +0.7% for the basic monthly wage and +0.4% for the average wage per head.

## Real wages set to slide further in 2012 in general government

In the civil service the fall in real wages is likely to continue, most notably because the index point was once again frozen in 2012. However, the civil service minimum index grew by 2.4% on 1st January 2012 then 2.0% on 1st July 2012, in order to keep in line with the evolution of the minimum wage. Additionally, the individual purchasing power guarantee bonus scheme (GIPA)[2] was renewed in 2012. All in all, the average wage per head in general government should increase in 2012 in constant euros (+1.2% after +1.8% in 2011) but continue to fall in real terms (-0.6% after -0.3%).

At the start of 2013, assuming the index point is once again frozen and the GIPA scheme renewed, the nominal average wage per head in general government should slow very slightly. The growth overhang at the end of Q2 should be +0.9% for the nominal average wage per head and -0.1% for the real average wage per head. ■

(2) The individual purchasing power guarantee bonus scheme 2012 is a benefit that concerns civil servants and State agents who lost purchasing power between 2007 and 2011.

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

*change as a %*

| Seasonally-corrected data | Quarterly growth rates | | | | | | Annual averages | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2012 | | | | 2013 | | 2011 | 2012 | 2013 |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | | |
| Basic monthly wage | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 2.2 | 2.1 | 1.6 |
| Average wage per head in the non-agricultural market sector (NAMS) | 0.7 | 0.4 | 0.5 | 0.4 | 0.4 | 0.4 | 2.4 | 2.1 | 1.4 |
| Average wage per head in general government (GG) | | | | | | | 1.8 | 1.2 | 0.9 |
| Household consumer price index (quarterly national accounts) | 0.7 | 0.2 | 0.2 | 0.4 | 0.3 | 0.3 | 2.1 | 1.8 | 1.0 |
| Real basic monthly wage | -0.1 | 0.3 | 0.3 | 0.1 | 0.2 | 0.2 | 0.1 | 0.3 | 0.7 |
| Real average wage per head (NAMS) | 0.1 | 0.2 | 0.3 | 0.0 | 0.1 | 0.1 | 0.3 | 0.3 | 0.4 |
| Real average wage per head (GG) | | | | | | | -0.3 | -0.6 | -0.1 |

Forecast

*Source: INSEE*

# Household income

*In 2012, household purchasing power will have declined (-0.2% after +0.5% in 2011), despite the slight slowdown in consumer prices. Indeed, the gross disposable income of households should progress at a slightly slower pace than in 2011 (+1.6% after +2.6%) due to less dynamic earned income (+2.0% after +2.9%) and the pick-up in taxes (+8.0% after +6.6%).*

*Over the forecasting period, the half-yearly profile of purchasing power growth is likely to be uneven, mainly because of the tax-collecting calendar. It should drop in H2 2012 (-0.3%) then pick up in H1 2013 (+0.3%). At the start of 2013, earned income should continue to slow but taxes, after the sharp rebound caused by the adjustment of income tax and wealth tax at the end of 2012, should be stable.*

## Earned income set to continue its slowdown

In 2012, growth in earned income should be less sustained than in 2011 (+2.0%, after +2.9% in 2011), (see *Table 1*). The wages received by households should slow slightly (+1.9% after +2.9% in 2011) due to the deteriorating labour market (see *Table 2*). Employment in the non-agricultural market sectors is set to decline and, despite the increase in the minimum wage at the end of 2011 then in July 2012, the average wage per head should be less dynamic than in 2011 (see *Graph 1*). Growth in the property income and gross operating surplus of pure households[1] should also be lower in 2012 than in 2011. However, the gross operating surplus of sole proprietors should grow more quickly than in 2011.

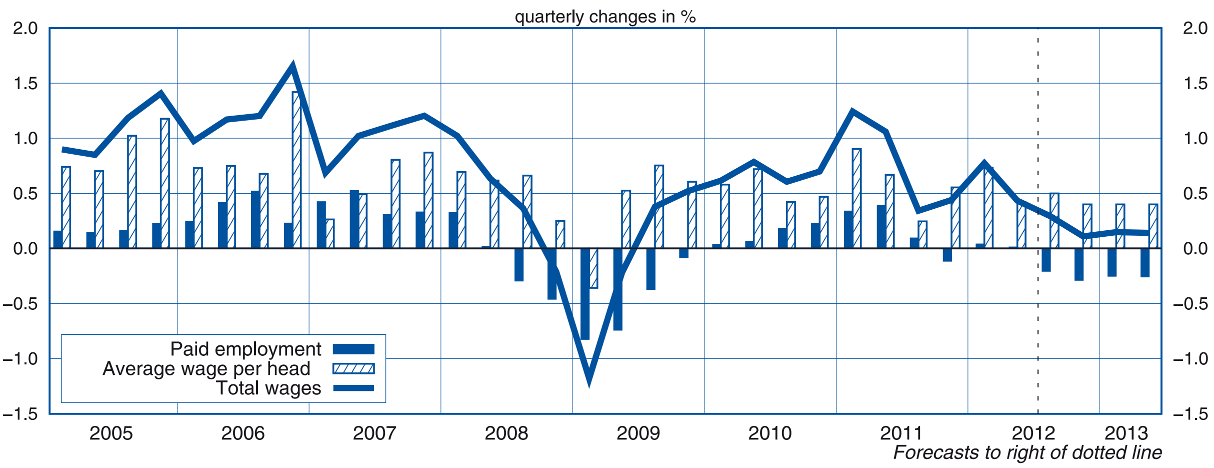
At the start of 2013, earned income is likely to continue decelerating (+0.4% in H1 after +0.7% in H2 2012). The payroll should grow slight more slowly than in the previous half-year while the gross operating surplus of sole proprietors is also set to slow (+1.0% after +1.8%), in line with the income of farm operators, most notably.

## Social benefits still dynamic

In 2012, social benefits in cash should be as dynamic as in 2011 (+3.4% after +3.2%), (see *Table 3*). Social security benefits should remain dynamic (+3.5% after +3.3%), sustained on the one hand by the sharp increase in the back-to-school allowance in summer (+25%), and on the other hand by the sharp acceleration in unemployment benefits due to the rise in the number of unemployed. Conversely, old-age allowances are set to slow due to the gradual effects of the 2010 pension reform, exacerbated by the Social Security Financing Act for 2012. Additionally, social assistance benefits should accelerate sharply (+4.5% after +0.4%),

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

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




Source: INSEE

sustained by the dynamism of the adult disability allowance, the earned income supplement (RSA) and the specific welfare allowance.

In H1 2013, social benefits in cash are likely to progress at the same rhythm as at the end of 2012: +1.8% after +1.9% in H2 de 2012. Social security benefits should remain dynamic (+2.0%). In particular, the extension of the early retirement scheme for long careers should lead to greater dynamism in old-age allowances. On the other hand, social assistance benefits are likely to slow at the start of 2013 (+1.1% after +2.6%) due to the end of the benefit revaluation plan (increase of 25% over five years from 2007 to 2012).

## The tax burden set to be very dynamic in 2012 before temporarily stabilising at the start of 2013

In 2012, total taxes paid by households are set to progress at a more sustained pace than in 2011 (+5.4% after +5.0%) (*see Graph 2*), driven by the acceleration of taxes (+8.0% after +6.6%). In particular, income tax revenues should pick up in H2 with the application of the measures voted in for 2012: deindexation of the income tax rate for natural persons (IRRP), closing of certain tax loopholes and establishment of an exceptional contribution on very high incomes. Furthermore, the reinforcement of capital gains taxation and higher capital taxation should also contribute to the dynamism of the tax burden. Lastly, other current taxes should be sustained at the end of 2012 by an exceptional solidarity tax on wealth contribution.

Despite the abolition of exemptions on overtime, the progress in employee contributions should weaken in 2012 (+2.0% after +3.3%) due to the slowdown in earned income.

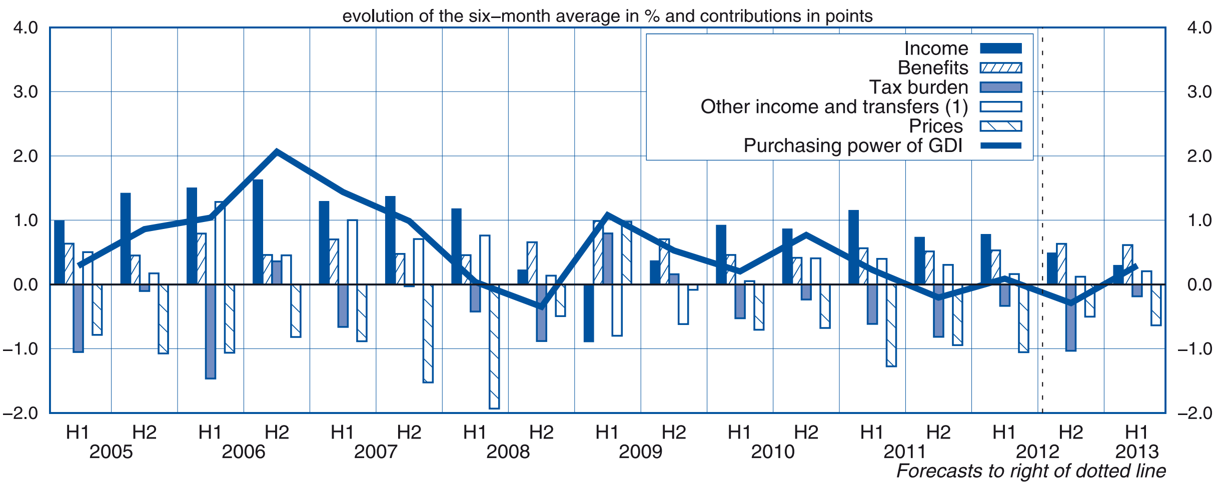
In H1 2013, the total tax burden should slow sharply (+0.7% after +4.3% in H2 2012). Taxes paid by households should stabilise (+0.7%) after a very dynamic H2 2012 (+6.6%). The new tax measures provided by the draft Finance Law for 2013 (capital income taxes at the IRRP rate, creation of a 45% bracket, lowering of the family quotient ceiling) will come into play mainly in H2 2013, in the same way that the 2012 tax rises were mainly implemented in H2. In H1 2013, contributions by the self-employed should however increase sharply (+2.2% after +1.5% in H2 2012), notably because of the removal of the ceiling on sickness contributions by the self-employed, as provided by the draft Social Security Financing Act for 2013.

## Purchasing power set to slip back slightly in 2012

All in all, the nominal gross disposable income of households should slow slightly in 2012, growing by +1.6% after +2.6% in 2011. Despite the moderation of inflation (+1.8% after +2.1%), the purchasing power of gross disposable income should therefore slip back in 2012 (-0.2% after +0.5% in 2011). Purchasing power per consumption unit, which accounts for demographic changes among other things, is set to decline by 0.8% in 2012, whereas it was virtually stable in 2011 (-0.1%), (*see Box* ).

In H1 2013, the gross disposable income of households is likely to rebound (+ 0.9% after +0.2%) due to the stabilisation of taxes. Purchasing power should thus increase once again (+0.3% after -0.3% in H2 2012) despite the slight acceleration of prices (+0.6% after +0.5% in H2 2012). In mid-2013 it should stand at 0.2 point below its level of mid-2012. ■

**2 - Purchasing power of disposable income and contributions**




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

Table 1

## Household gross disposable income

*change as %*

| | Half-yearly averages | | | | | Annual averages | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | 2010 | 2011 | 2012 |
| | H1 | H2 | H1 | H2 | H1 | | | |
| **Gross disposable income (100%)** | **1.5** | **0.7** | **1.1** | **0.2** | **0.9** | **2.0** | **2.6** | **1.6** |
| including : | | | | | | | | |
| Income (68%) | 1.7 | 1.1 | 1.1 | 0.7 | 0.4 | 2.3 | 2.9 | 2.0 |
| *Gross wages (60%)* | *1.8* | *1.0* | *1.1* | *0.6* | *0.4* | *2.3* | *2.9* | *1.9* |
| *GOS of sole proprietors [1] (9%)* | *0.9* | *1.4* | *1.5* | *1.8* | *1.0* | *1.8* | *2.4* | *3.1* |
| Social benefits in cash (32%) | 1.7 | 1.6 | 1.6 | 1.9 | 1.8 | 3.2 | 3.2 | 3.4 |
| GOS of "pure" households (12%) | 2.2 | 1.4 | 1.2 | 1.1 | 1.4 | -0.4 | 3.4 | 2.5 |
| Property income (10%) | 1.9 | 1.2 | 0.1 | -0.3 | 0.2 | -0.9 | 3.7 | 0.6 |
| Social contribution and tax burden (-23%) | 2.7 | 3.5 | 1.4 | 4.3 | 0.7 | 2.5 | 5.0 | 5.4 |
| *Contributions by paid employees (-8%)* | *2.1* | *1.3* | *0.7* | *1.3* | *0.5* | *1.9* | *3.3* | *2.0* |
| *Contributions of self-employed persons (-2%)* | *0.7* | *1.1* | *0.3* | *1.5* | *2.2* | *3.1* | *1.7* | *1.6* |
| *Income and wealth tax (including CSG and CRDS) (-14%)* | *3.4* | *5.3* | *2.0* | *6.6* | *0.7* | *2.8* | *6.6* | *8.0* |
| **Income before taxes** | **1.7** | **1.3** | **1.2** | **1.0** | **0.9** | **2.0** | **3.1** | **2.4** |
| **Household consumer prices (quarterly national accounts)** | **1.3** | **0.9** | **1.1** | **0.5** | **0.6** | **1.1** | **2.1** | **1.8** |
| **Purchasing power of gross disposable income** | **0.2** | **-0.2** | **0.1** | **-0.3** | **0.3** | **0.9** | **0.5** | **-0.2** |
| **Household purchassing power by consumption** | **-0.1** | **-0.5** | **-0.2** | **-0.6** | **0.0** | **0.2** | **-0.1** | **-0.8** |

Forecast

How to read it: The figures in parentheses give the structure of the year 2011.
(1) The gross operating surplus (GOS) of sole proprietors is the balance of the operating accounts of sole proprietorships. It is mixed income, because it remunerates the work performed by the sole proprietor, and possibly the members of his family, but also contains the profit achieved as an entrepreneur.

*Source: INSEE*

Table 2

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

*change as a %*

| | Half-yearly averages | | | | | Annual averages | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | 2010 | 2011 | 2012 |
| | H1 | H2 | H1 | H2 | H1 | | | |
| Non-financial enterprises (67%) | 2.3 | 1.3 | 1.1 | 0.6 | 0.3 | 2.3 | 3.7 | 2.0 |
| *including : Average wage per head* | *1.6* | *1.0* | *1.2* | *1.0* | *0.9* | *2.8* | *2.7* | *2.2* |
| Financial corporations (5%) | 0.8 | -0.6 | 3.1 | 0.7 | 0.3 | 2.2 | 0.4 | 3.1 |
| General government (22%) | 0.6 | 0.5 | 0.6 | 0.6 | 0.6 | 2.1 | 1.2 | 1.1 |
| Households excluding sole proprietors (2%) | 0.9 | 1.2 | 0.8 | 0.2 | 0.2 | 3.0 | 1.8 | 1.4 |
| **Total gross wages received by households (100%)** | **1.8** | **1.0** | **1.1** | **0.6** | **0.4** | **2.3** | **2.9** | **1.9** |
| *including : Non-agricultural market sectors* | 2.1 | 1.1 | 1.2 | 0.6 | 0.3 | 2.2 | 3.4 | 2.1 |

Forecast

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

*Source: INSEE*

Table 3

## Social transfers received and paid by households

*change as a %*

| | Half-yearly averages | | | | | Annual averages | | |
|---|---|---|---|---|---|---|---|---|
| | **2011** | | **2012** | | **2013** | **2010** | **2011** | **2012** |
| | **H1** | **H2** | **H1** | **H2** | **H1** | | | |
| **Social cash benefits received by households (100%)** | **1.7** | **1.6** | **1.6** | **1.9** | **1.8** | **3.2** | **3.2** | **3.4** |
| Social Security benefits in cash (72%) | 1.7 | 1.7 | 1.6 | 2.0 | 2.0 | 3.6 | 3.3 | 3.5 |
| Private funded social benefits (7%) | 1.4 | 0.8 | 0.9 | 1.6 | 1.5 | 2.9 | 2.5 | 2.1 |
| Unfunded employee social benefits (13%) | 2.9 | 2.0 | 1.4 | 1.5 | 1.7 | 2.9 | 5.0 | 3.2 |
| Social assistance benefits in cash (8%) | 0.3 | 0.7 | 2.8 | 2.6 | 1.1 | 0.6 | 0.4 | 4.5 |
| **Total social contribution burden** | **2.5** | **1.9** | **0.7** | **1.2** | **0.7** | **2.1** | **4.1** | **2.2** |
| Actual social contributions paid by households (100%) | 2.5 | 1.8 | 0.5 | 1.2 | 0.6 | 2.0 | 4.0 | 2.0 |
| *including : Employers contributions[1] (63%)* | *2.9* | *2.2* | *0.5* | *1.1* | *0.4* | *2.0* | *4.7* | *2.1* |
| *Employees contributions (29%)* | *2.1* | *1.3* | *0.7* | *1.3* | *0.5* | *1.9* | *3.3* | *2.0* |
| *Self-employed contributions (8%)* | *0.7* | *1.1* | *0.3* | *1.5* | *2.2* | *3.1* | *1.7* | *1.6* |

Forecast

How to read it: The figures in parentheses give the structure of the year 2011.
(1) Employer contributions are both received and paid by households in the national accounts: they therefore have no effect on gross disposable income.

*Source: INSEE*

## Different ways of measuring purchasing power

The household income that is presented and analysed in Conjoncture in France includes all the income received by all households. This is the relevant reference in macro-economic terms, for example when constructing the balance between resources (GDP and imports) and uses (consumption, investment, exports...) or forecasting GDP. It must be corrected, however, if we want to measure the average purchasing power of the French, in order to take account both of growth in the number of households and changes to their composition. The most relevant correction in this respect consists in dividing income by the number of consumption units in France, thereby taking account of demographic growth and also of the fact that some consumption may be shared within the household (for example, household appliances). A large household therefore makes certain "economies of scale" in relation to a smaller household. In 2011, growth in the number of consumption units was 0.6% (as a comparison, growth in the population was 0.5% and growth in the number of households 1.0%).

Therefore, purchasing power per consumption unit is set to fall in 2012 (-0.8% after -0.1% in 2011). Per inhabitant, the fall should be 1.1% and per household it should be 1.2%.■

# Household consumption and investment

*In Q3 2012, household consumption rebounded (+0.3% after -0.2%): the upturn in expenditure on manufactured products, mainly driven by expenditure on clothing and foodstuffs, more than offset the fall in spending on energy.*

*Household purchasing power has experienced some sharp quarterly ups and downs, notably due to the tax rise application calendar. The quarterly household consumption profile, meanwhile, appears much smoother and the savings profile is therefore likely to have an uneven profile. In H2 2012, the household savings ratio should therefore fall distinctly to 15.7% at the end of the year. It is then likely to rebound in H1 2013 to 16.1% in mid-2013.*

*All in all, household consumption should fall slightly in Q4 2012 then be stable in H1 2013. Over 2012 as a whole, household consumption should be at a standstill, after a slight progression in 2011 (0.0% after +0.2%). In mid-2013, the growth overhang in consumption should be +0.1%.*

*Household investment fell slightly in Q3 2012 (-0.1% after 0.0%) and this fall should be amplified in Q4 2012 (-0.6%) then in H1 2013 (-1.2% and -1.1%).*

## In Q3 2012, spending on manufactured products saw an upturn

In Q3 2012, household consumption rebounded (+0.3% after -0.2%) (*see table*). Given the fall in purchasing power, households must therefore have reduced their savings ratio which is likely to stand at 16.1% (after 16.5% in Q2 2012).

The rebound in clothing expenditure in Q3 (+3.9% after -5.9%), mainly due to the late summer sales dates, was the main factor in the dynamic overall consumption of manufactured goods (+0.7% after -0.5%). Automobile purchases confirmed their progression in Q2 (+1. 1% after +1. 0%) after a sharp fall at the start of the year, and foodstuff purchases rebounded (+0. 9% after -0. 1%), returning to their level of Q3 2011. On the other hand, energy spending fell in Q3 (-3,8%) by a backlash after the rises in consumption in the first two quarters (7.5% and +3.7%) which had been due to the cold temperatures in February and then April.

Consumption of services, which had been almost stable in Q2 (-0.1%), rose slightly in Q3 (+0.2%): spending on accommodation-catering and transport services, which were down in the spring, rose again in the summer.

**Household consumption and investment expenditure**

| | Quarterly changes in % | | | | | | | | | | Annual changes in % | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | | 2012 | | | | 2013 | | 2011 | 2012 | 2013 |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | | |
| **Total household consumption expenditure** | **0.0** | **-0.8** | **0.3** | **-0.1** | **0.1** | **-0.2** | **0.3** | **-0.1** | **0.0** | **0.0** | **0.2** | **0.0** | **0.1** |
| *including: Agriculture goods* | *0.8* | *0.1* | *-0.8* | *0.4* | *0.2* | *-2.0* | *0.0* | *-0.4* | *0.1* | *0.0* | *0.6* | *-1.4* | *-0.7* |
| *Energy* | *-8.1* | *-4.2* | *3.5* | *-3.1* | *7.5* | *3.7* | *-3.8* | *-0.7* | *0.5* | *0.2* | *-9.0* | *6.3* | *-0.9* |
| *Manufactured goods* | *0.4* | *-1.5* | *0.4* | *0.3* | *-0.7* | *-0.5* | *0.7* | *-0.4* | *0.0* | *-0.1* | *0.9* | *-0.8* | *-0.1* |
| *Services* | *0.4* | *0.2* | *0.3* | *0.0* | *0.2* | *-0.1* | *0.2* | *0.1* | *0.1* | *0.1* | *0.8* | *0.3* | *0.3* |
| *Goods* | *-0.3* | *-1.7* | *0.5* | *0.0* | *0.1* | *-0.2* | *0.2* | *-0.4* | *0.0* | *0.0* | *0.0* | *-0.2* | *-0.3* |
| **Household consumption** | **0.1** | **-0.6** | **0.3** | **0.0** | **0.2** | **0.0** | **0.3** | **0.0** | **0.1** | **0.1** | **0.5** | **0.3** | **0.4** |
| **Household investment** | **0.0** | **1.3** | **1.2** | **0.5** | **-0.4** | **0.0** | **-0.1** | **-0.6** | **-1.2** | **-1.1** | **3.2** | **0.6** | **-2.5** |

Forecast
*Source: INSEE*

### The savings ratio is likely to fall...

Household purchasing power should fall back on the whole over the forecasting period, which is likely to hold back consumer spending (*see Graph 1*). However, the new measures increasing the tax burden should have some effect on income that is generally saved, and households are therefore likely to soften their consequences by reducing their savings ratio, which should fall from 16.5% in Q2 2012 to 16.1% in Q2 2013.

### ... with ups and downs

Purchasing power is likely to experience some severe ups and downs, notably linked with the tax rise calendar: after progressing in H1 2012, it should fall back distinctly in H2. Households tend to smooth out the consequences of these jolts on their consumer spending which should fall slightly in Q4 2012.

The savings ratio should decline significantly in Q4 2012 to 15.7%. Conversely, in early 2013, the rise in purchasing power in Q1 should result in a real rise in the savings ratio to 16.1%. Despite this rebound, it should therefore remain 0.4 points below its level one year previously.

### In Q4 2012, consumption should fall slightly...

The slight fall in total household consumption in Q4 2012 is likely to hide some contrasting trends between the different broad items (*see graph 2*). For instance, household consumer spending on energy, mainly for heating, continued to decline in October, and if temperatures remain in line with seasonal norms over the quarter as a whole, energy consumption should be down again in Q4 (-0.7% after -3.8%).

Consumer spending on manufactured products should fall back (-0. 4% after +0.7%). At the end of October, the growth overhang for Q4 stood at -0. 3% under the effect of the fall in tobacco purchases in October. In addition to this, private vehicle registrations fell back distinctly in November (-6.8%). After the ups and downs of the summer, spending on clothing-textiles-leather should return to the downward trend observed since 2007 and then level out at the beginning of 2013. Finally, food consumption should be stable in Q4 2012 (+0.1%).

Consumption of services, however, should continue to progress at a moderate rate in Q4 2012 (+0.1% after +0.2%).

### ... and be sluggish in H1 2013

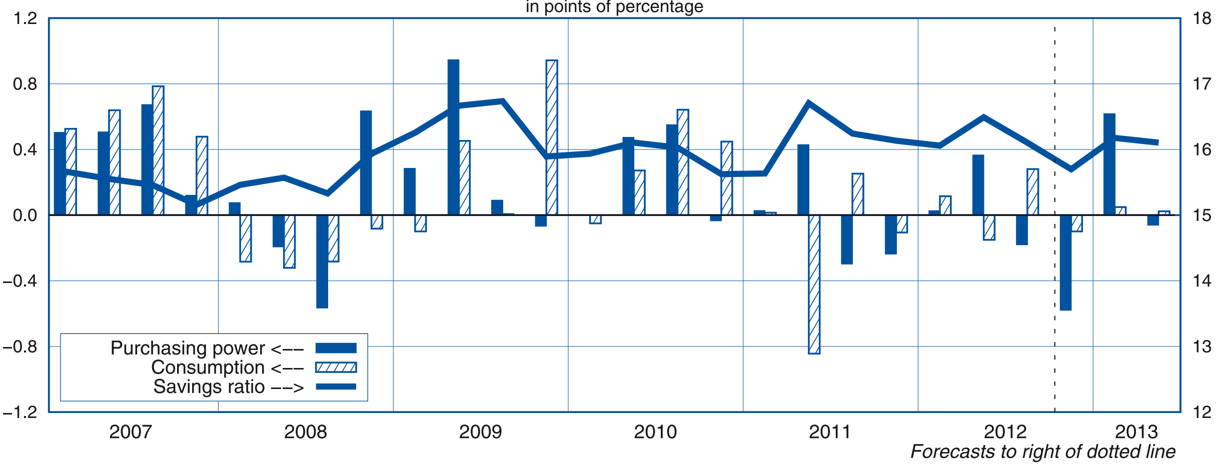
In H1 2013, the slight fall in expenditure on manufactured products should be offset by the weak upturn in energy spending and consumption of goods should be stable on the whole. Likewise, consumption of services should be sluggish, while expenditure on recreation services (accommodation-catering, services for households...) should fall back, although slightly.

### Household investment set to decline sharply

Household investment was almost stable in Q3 2012 (-0.1%). In Q4 2012 then in H1 2013, household investment should decline more sharply, due to the fall in housing starts observed since the start of 2012. Over 2012 as a whole, household investment should slow down clearly (+0.6%) after a dynamic 2011 (+3.2%). ■

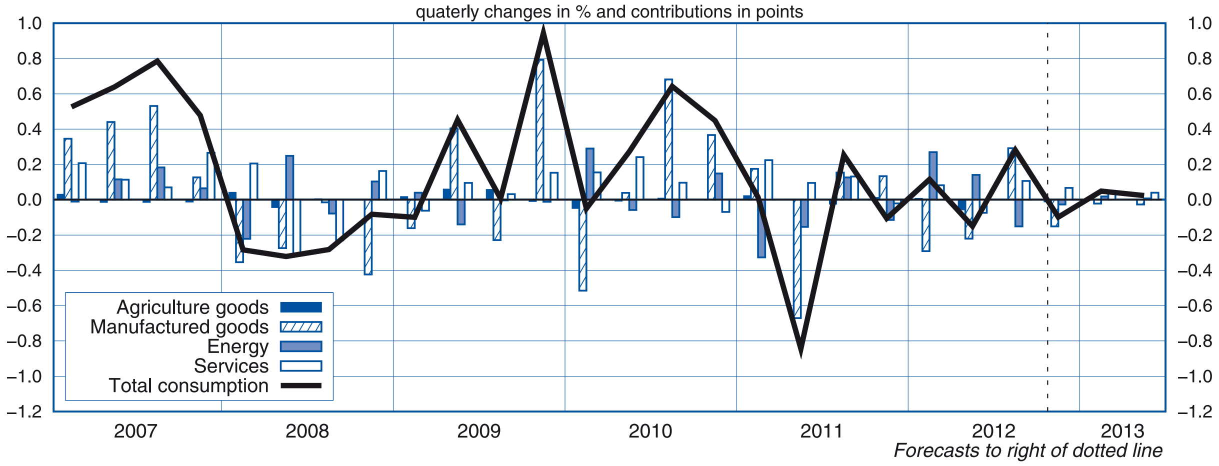
**1 - Savings ratio and growth rate of consumption and purchasing power of gross disposable income**

in points of percentage




*Source: INSEE*

**2 - Contributions of the various items to quarterly household consumption**




*Source: INSEE*

## The weight of pre-engaged expenditure has not progressed since 2009

### Households' pre-engaged expenditure is now available quarterly

Since 2008, the rate of progression in household consumption has declined clearly and households have therefore had to make trade-offs in their consumption.[1] But while it is easy to choose not to go out to the restaurant or on holiday, it is more difficult in the short term to renegotiate expenditure that is subject to contracts (internet subscriptions, etc). It therefore appears useful to have information on those parts of household consumer spending that are more or less easily "traded off" in the short term.

To report on household spending within the framework of a contract that is difficult to renegotiate in the short term, INSEE has developed the notion of "pre-engaged expenditure". This covers spending relating to housing (rent, water, energy), telecommunications services, canteen spending, television services (TV licence, subscriptions), insurance (other than life insurance) and financial services. This pre-engaged expenditure was published and analysed on an annual basis hitherto, but is now available in value at quarterly intervals.[2]

(1) See also the Dossier in *Conjoncture in France, June 2012: "Household consumption in the crisis"*.
(2) Pre-engaged expenditure is published at the following address on the insee.fr website in the "Institutional Sectors" heading of the "Quarterly National Accounts" theme.

### The weight of households' pre-engaged expenditure as a proportion of overall consumer spending grew until 2008 but has levelled out since

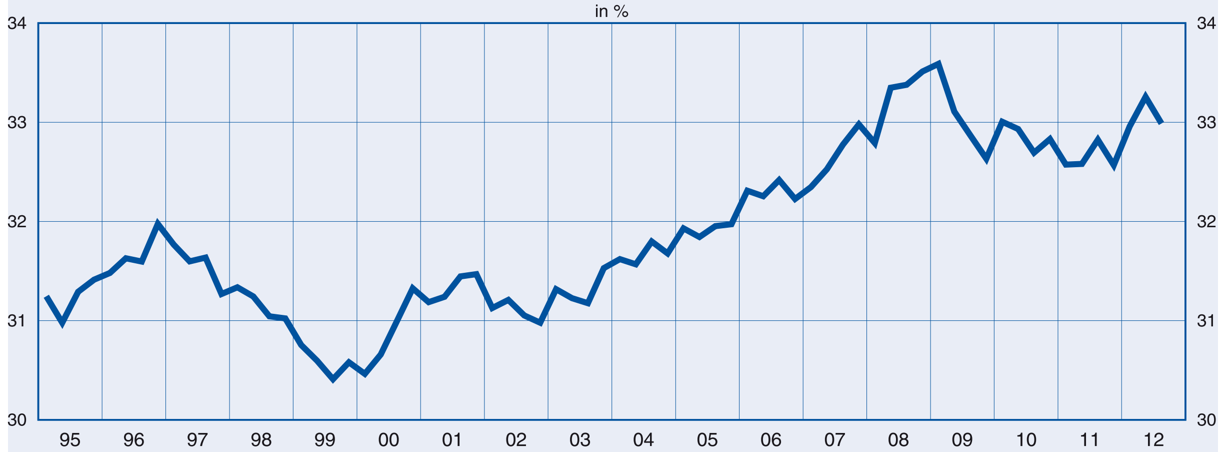
Over the long term, the weight of pre-engaged expenditure is growing slightly in the household budget (*see graph 1*). The proportion it represents in final consumer spending thus increased from 31% in 1995 to around 33% since.

This rise is mainly due to the rise in spending related to housing (including water and energy) which represents about 75% of pre-engaged expenditure (*see graph 2*). Spending relating to housing is affected notably by variations in heating expenditure which is in turn dependent on weather conditions.

However, the proportion of spending on telecommunications services, the weight of which was growing in the early 2000s with the development of internet and mobile phones, is now falling. This decline comes notably from the drop in mobile telecommunications prices at a time when their penetration rate is now growing more slowly.

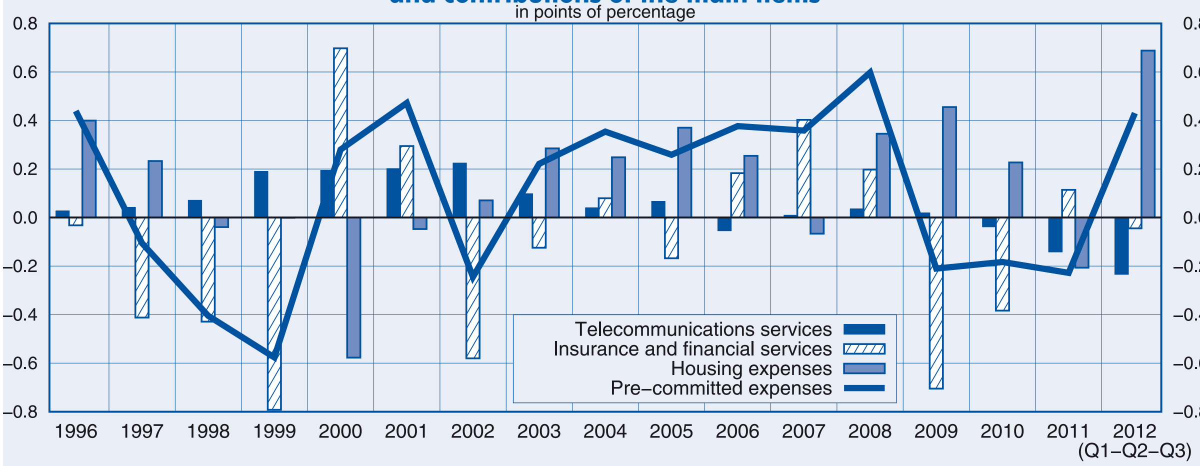
Finally, spending on insurance and financial services shows widely contrasted trends, notably driven by the margins of financial institutions on household deposits. ■

**1 - Proportion of pre-engaged expenditure in households' final consumer spending**




*Source: INSEE*

**2 - Annual variation in the proportion of pre-engaged expenditure in total consumption and contributions of the main items**




*Source: INSEE*

# Enterprises' earnings

*After falling throughout 2011, the margin rate of non-financial companies stabilised in H1 2012. Measured at factor costs, it reached 29.3% in mid-2012, 1.4 point lower than its level at the end of 2010. This deterioration is due to both the rises in oil prices at the start of 2011 and the start of 2012, partly absorbed by companies, and weak productivity gains which were lower than the increase in real wages. This downward trend should now come to a halt. On the one hand the terms of trade should stop deteriorating with the stabilisation of oil prices. On the other hand productivity gains should now grow slightly faster than real wages. The margin rate should stand at 29.5% at the end of 2012 then 29.8% in mid-2013, almost four points below its peak at the end of 2007.*

## The margin rate stabilised in H1 2012

In decline since mid-2010, the margin rate of non-financial companies measured at factor costs fell once again, by 0.2 point in Q1 2012 to stand at 29.0% (see *Graph 1*). This drop is mainly due to the deteriorating terms of trade (contribution of -0.3 point): because of the sharp rise in energy consumer prices, the prices of value-added were less dynamic than those of consumption. Additionally, as employment held firm in Q1 2012, particularly in market services, productivity slipped back and was only partially offset by the drop in the real wage per head. However, employers' contributions fell back sharply (contribution of +0.2 point), after several dynamic quarters, due to the annualisation of rebates on low wages.In Q2 2012, the margin rate picked up (+0.3 point): the drop in the prices of imports, particularly energy products, contributed to a clear improvement in the terms of trade (contribution of +0.3 point). However, real wages remained slightly more dynamic than productivity.

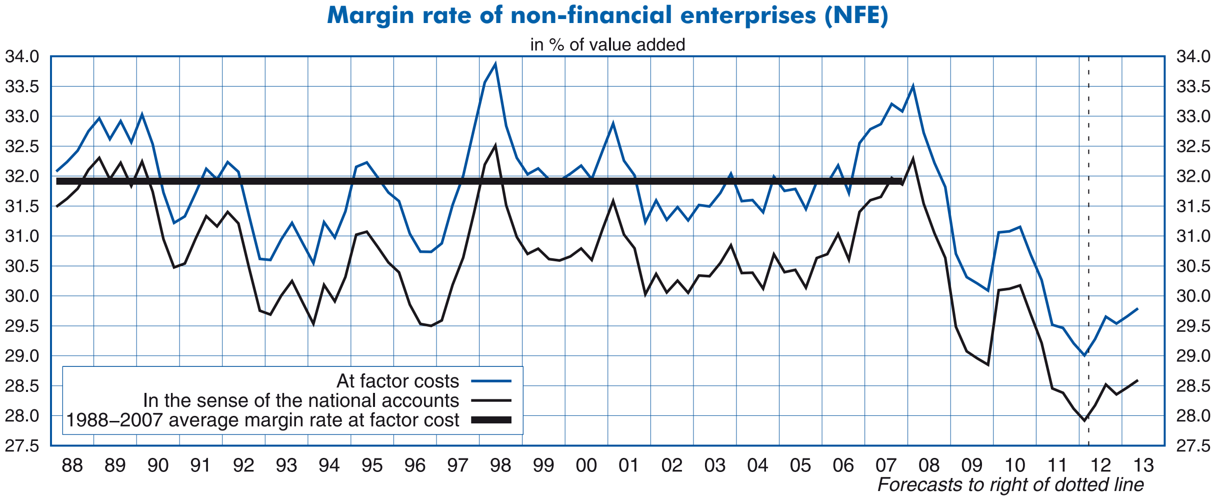
## The margin rate should grow in H2 2012...

The recovery of the margin rate should be confirmed in H2. Productivity gains are likely to progress faster than real wages. This should be especially the case in Q3 2012 when, despite a slight rebound in activity, job losses were extensive. With the stabilisation of oil prices, the terms of trade are also likely to support the recover of the margin rate over the half-year as a whole (see *Graph 2*).

## ... and again, slightly, in H1 2013

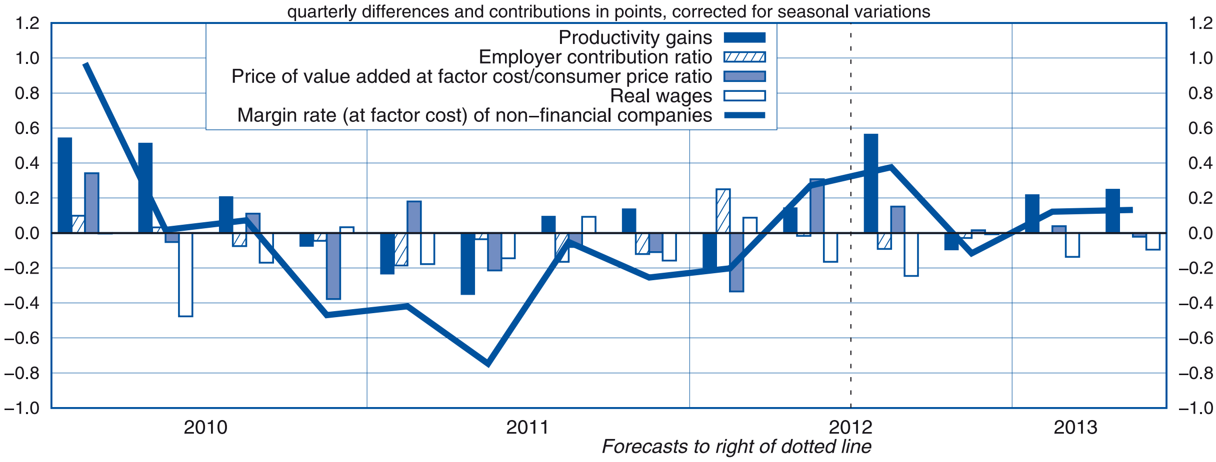
The growth in the margin rate in H1 2013 should only reflect the relative dynamism of productivity and real wages. The other factors (fiscal measures, domestic terms of trade) are unlikely to contribute. Over the half-year as a whole, the margin rate should progress by 0.2 point. Productivity gains should maintain a slightly higher growth rate than that of real wages. The margin rate at factor costs should reach 29.8% in mid-2013, i.e. 2.2 points below its long-term average. ■

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




*Source: INSEE*

## 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*

| | 2011 | | | | 2012 | | | | 2013 | | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | | |
| **Margin rate (in level)[1]** | 29.2 | 28.5 | 28.4 | 28.1 | 27.9 | 28.2 | 28.5 | 28.4 | 28.5 | 28.6 | 28.5 | 28.2 | 28.6 |
| **Variation in margin rate** | -0.5 | -0.8 | -0.1 | -0.3 | -0.2 | 0.3 | 0.3 | -0.2 | 0.1 | 0.1 | -1.5 | -0.3 | 0.3 |
| **Margin rate at factor costs (in level) [2]** | 30.3 | 29.5 | 29.5 | 29.2 | 29.0 | 29.3 | 29.7 | 29.5 | 29.7 | 29.8 | 29.6 | 29.4 | 29.8 |
| **Variation in margin rate at factor cost** | -0.4 | -0.7 | -0.1 | -0.3 | -0.2 | 0.3 | 0.4 | -0.1 | 0.1 | 0.1 | -1.4 | -0.2 | 0.4 |
| **Contributions to the variation margin rate at factor costs of** | | | | | | | | | | | | | |
| *Productivity gains* | *0.5* | *-0.4* | *0.1* | *0.1* | *-0.2* | *0.1* | *0.6* | *-0.1* | *0.2* | *0.2* | *0.5* | *0.2* | *0.6* |
| *Real wage per head* | *-0.2* | *-0.1* | *0.1* | *-0.2* | *0.1* | *-0.2* | *-0.2* | *0.0* | *-0.1* | *-0.1* | *-0.5* | *-0.3* | *-0.4* |
| *Employer contribution ratio* | *-0.2* | *0.0* | *-0.2* | *-0.1* | *0.2* | *0.0* | *-0.1* | *0.0* | *0.0* | *0.0* | *-0.4* | *0.0* | *-0.1* |
| *Ratio of the value-added price to the consumer price* | *-0.4* | *-0.2* | *0.0* | *-0.1* | *-0.3* | *0.3* | *0.2* | *0.1* | *0.0* | *0.0* | *-0.8* | *-0.1* | *0.3* |
| *Others factors* | *-0.1* | *0.0* | *0.0* | *0.0* | *0.0* | *0.0* | *0.0* | *-0.1* | *0.0* | *0.0* | *-0.2* | *-0.1* | *-0.1* |

Forecast

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

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

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

*Source: INSEE*

# Corporate investment and inventory

*In Q3 2012, corporate investment dropped by 0.4% (after +0.6% in Q2). Investment in construction stabilised but investment expenditure on services and manufactured products fell. It is likely to decline further in Q4 2012 then gradually stabilise in H1 2013. The environment does not point to a pick-up in expenditure. Production capacity is under-used and business prospects remain mediocre. Additionally, the financial situation of companies has deteriorated since 2008 and the conditions for access to credit have not eased.*

*In 2012, corporate investment should be stable (-0.2% on 2011). The downturn in expenditure on manufactured goods (-2.7%) should be offset by progress in investments in construction and services.*

*In Q3 2012, the contribution of inventory change to GDP growth was negative (-0.3 point after +0.1 point and +0.2 point in Q1 and Q2 2012). The strong destocking trend in manufactured goods was only partly offset by the stocking of agricultural products. In Q4 2012, the contribution of inventory change should remain negative due to an acceleration in destocking in the manufacturing industry.*

## In Q3 2012, corporate investment declined slightly

Investment by non-financial enterprises fell by 0.4% in Q3 2012 (see *Table 1*). Investment in manufactured goods declined by 0.3%, mainly due to the drop in expenditure on transport equipment. Showing strong growth since the end of 2010, expenditure on services contracted by 0.9%. Investment in construction stabilised, however (+0.1% after +0.6% in Q2). The investment ratio stood at 18.6%, which is relatively high given the position of the French economy in the cycle (see *Graph 1*).

Investment should be globally sluggish over the forecasting period

The industrialists surveyed in October 2012 predict a 2% drop in their investments in H1 2013. The service companies surveyed in November 2012 are however less pessimistic about their future investment. Generally speaking, companies do not expect any improvement in their activity and would therefore hesitate to undertake any investment projects. Additionally, production capacity tensions (see *Graph 2*) are continuing to ease. In October the production capacity utilisation rate stood at 79%, well below its long-term average. Lastly, despite the easing of financial tensions and interest rates heading downwards, credit terms remained stable in Q3. The drop in investment by non-financial enterprises should thus continue in Q4 2012 (-0.3%) before moderating in Q1 2013 (-0.2%). Investment should stabilise in Q2 (0.0%).

## Decline in investments in manufactured products at end 2012

The drop in investment by non-financial enterprises in manufactured products is likely to worsen in Q4 2012 (-0.7%). It is set to fall further in Q1 2013 (-0.2%) then stabilise in Q2 (+0.1%). Investment should be limited by weak business prospects. According to the wholesalers surveyed in

Table 1

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

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

| | Quarterly variations | | | | | | | | | | Annual variations | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | | 2012 | | | | 2013 | | 2011 | 2012 | 2013 |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | | |
| Non-energy industrial goods (43%) | 3.3 | -0.4 | -1.1 | 2.5 | -3.8 | 0.4 | -0.3 | -0.7 | -0.2 | 0.1 | 7.6 | -2.7 | -0.7 |
| Building and public works (28%)) | 1.3 | 0.8 | 0.9 | 0.9 | -0.3 | 0.6 | 0.1 | -0.3 | -0.3 | -0.3 | 1.6 | 1.4 | -0.6 |
| Other (29%) | 2.0 | -0.6 | -0.3 | 1.5 | 0.7 | 0.9 | -0.9 | 0.3 | 0.0 | 0.3 | 5.4 | 1.9 | 0.2 |
| **All non-financial enterprises (100%)** | **2.3** | **-0.1** | **-0.3** | **1.7** | **-1.5** | **0.6** | **-0.4** | **-0.3** | **-0.2** | **0.0** | **5.1** | **-0.2** | **-0.4** |

Forecast

Source: *INSEE*

November, order intentions for capital goods, which represent 40% of investments in manufactured goods, should pick up while nonetheless remaining poor.

### In construction, investment set to decline

In the building sector the entrepreneurs surveyed in November expect the contraction of their activity to continue for the coming months. Bearing in mind the delayed effects of the drop in housing starts that has been underway since the start of the year, production in building should fall. In parallel, civil engineering entrepreneurs surveyed in October report a deterioration in their expected activity. Therefore, expenditure on construction by companies is set to decline until Q2 2013 (-0.3% per quarter over the forecasting period).

### Investment in services holding firm

Other investments, mainly in computer services and specialised activities, are likely to rebound slightly in Q4 2012 (+0.3%). These sectors' business leaders surveyed in November mention a slowdown in their activity and globally poor prospects. Other investments should remain virtually stable in H1 2013 (0.0% then +0.3%).

### The investment ratio stable in H1 2013

Over the year 2012, the investment expenditure of non-financial enterprises should be slightly lower than that of 2011 (-0.2%). The decline in investments in manufactured products (-2.7%) should be offset by the rise in expenditure on construction (+1.4%) and services (+1.9%). The investment ratio of non-financial enterprises should reach 18.5% at the end of 2012. It is likely to be virtually stable over the forecasting period.

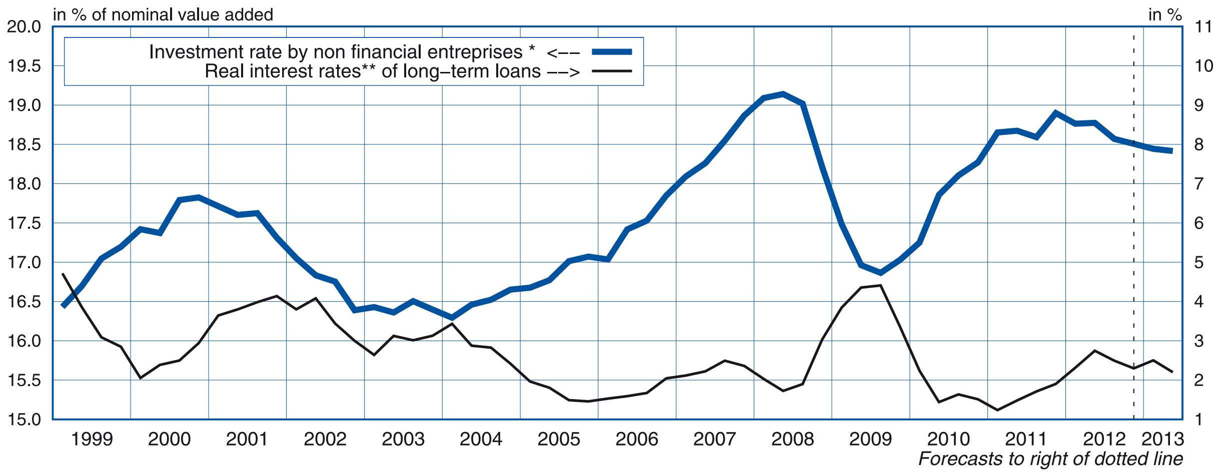
### Inventory change negatively affected growth in Q3 2012

In Q3 2012, inventory change made a negative contribution to GDP growth (-0.3 point, after +0.2 point the previous quarter), (see *Table 2*). 0.5 point of this trend is accounted for by the sharp acceleration in aeronautical exports on one hand and the destocking of the drilling rig imported the previous quarter on the other. Corrected for these two effects, inventory change made a positive contribution to production in Q3.

### Over the forecasting period, destocking of manufactured products gathering pace

In Q4 2012, the contribution of inventory to growth should be negative once again (-0.2 point). According to the November 2012 business tendency survey in industry, industrialists still think their inventory is too high, particularly in the automobile industry where opinion is that inventory is well above its long-term average. Additionally, both the business tendency surveys and the IPI results indicate a drop in manufacturing production in Q4, while demand seems to be holding up better.In H1 2013, the destocking rate should stabilise. ■

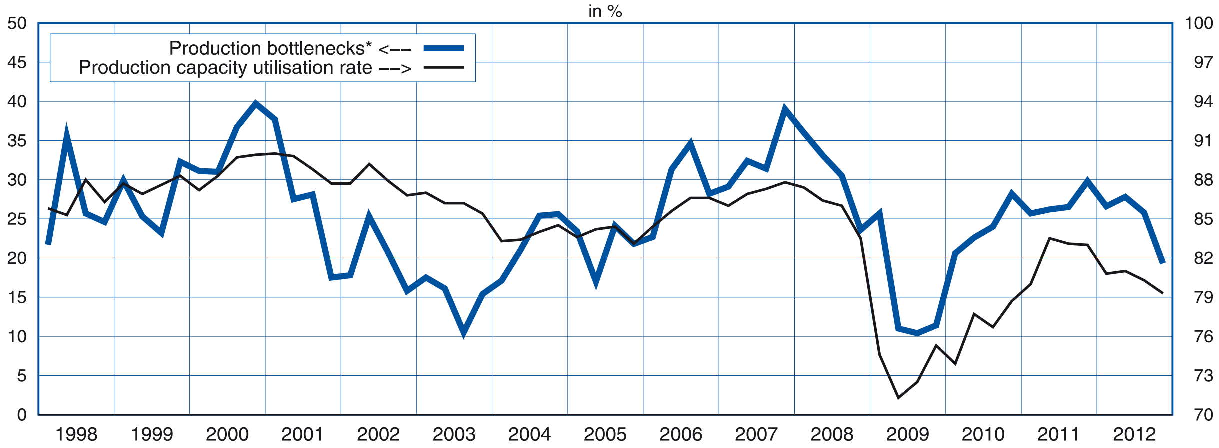
**1 - Investment rate and self-financing ratio**




* Non-financial enterprises (NFE) = non-financial companies (NFC) and sole proprietorships.
** Here, the real rate refers to the interest rate on new loans to non-financial enterprises with a rate that is either revised at intervals of more than one year or fixed for an initial period of more than one year. This rate is deflated the index of production prices of all goods and services.

*Source: INSEE, quaterly accounts and Bank de France*

### 2 - Tensions on production capacities in manufacturing industry*




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

*Source: INSEE, quaterly survey on activity in industry*

Table 2

## Contribution of inventory changes to growth

| | Quaterly changes | | | | | | | | | | Annual changes | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | | 2012 | | | | 2013 | | 2011 | 2012 | 2013 |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | | |
| **Agricultural and agrifood products** | 0.0 | 0.0 | 0.0 | -0.1 | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 |
| **Manufactured products** | 1.2 | 0.0 | -0.4 | -1.0 | 0.0 | 0.3 | -0.4 | -0.2 | 0.0 | 0.0 | 0.7 | -1.0 | -0.3 |
| *including:* | | | | | | | | | | | | | |
| *Agricultural goods* | *0.0* | *0.0* | *0.0* | *0.0* | *-0.1* | *0.1* | *-0.1* | | | | | | |
| *Coke and petroleum products* | *0.1* | *0.1* | *-0.1* | *0.0* | *0.0* | *0.1* | *0.1* | | | | | | |
| *Machinery and equipment goods* | *0.1* | *0.0* | *0.0* | *-0.2* | *-0.1* | *-0.1* | *-0.1* | | | | | | |
| *Transport equipment* | *0.6* | *0.0* | *-0.2* | *-0.5* | *0.1* | *0.1* | *-0.5* | | | | | | |
| *Others industrial goods* | *0.3* | *-0.1* | *-0.1* | *-0.4* | *0.0* | *0.1* | *0.0* | | | | | | |
| **Energy, water and waste** | 0.1 | -0.1 | 0.0 | 0.0 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| **Other (construction. services)** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **TOTAL [1]** | 1.2 | 0.0 | -0.3 | -1.1 | 0.1 | 0.2 | -0.3 | -0.2 | 0.0 | 0.0 | 0.8 | -0.9 | -0.2 |

Forecast

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

*Source: INSEE*

# Output

*After two quarters of stagnation, production of goods and services rebounded in Q3 2012 (+0.4%). In particular, activity in manufacturing industry recorded a distinct acceleration (+1.0% after -1.0% in the first two quarters of 2012), thanks to the rebound in transport equipment and coke and refined petroleum products branches. In the wake of manufacturing production, production was also more dynamic in market services (+0.4% after +0.2% in Q2).*

*The business climate nonetheless remained weak in France in November. According to the business tendency surveys, production prospects remain moderate in industry and services alike and demand is set to remain sluggish through to mid-2013. Activity is therefore likely to remain slow over the forecasting period: production of goods and service should fall back in Q4 2012 (-0.4%) and then increase slightly in H1 2013 (+0.1% per quarter).*

*At the end of H1, the growth overhang in production for 2013 should be zero, after a rise of 0.3% in 2012.*

## Production should fall at the end of 2012 and increase slightly in early 2013

In Q3 2012, production of goods and services progressed (+0.4% after 0.0% in Q1 and Q2 2012), (*see graph 1*). In particular, manufacturing production accelerated distinctly (+1.0% after -1.0%) pulling market service production in its wake (+0.4% after +0.1% in Q2). Activity in retail and wholesale trade also progressed in Q2 (+0.5% after -0.1%) thanks to an upturn in household consumption and buoyant exports. Production slowed down, however, in construction (+0.1% after +0.5%). Q2 had been marked by catch-up effects in public works, after limited activity in Q1 under the effect of exceptionally low February temperatures. Finally, production in the energy branch fell (-1.4%) as a backlash after the strong increase recorded in Q2 due to the cold spell in April (+2.2%).

The business climate indicator in France from the business tendency surveys among business leaders improved slightly in November, but remained well below its long-term average (*see graph 2*), as did the sector indicators. Over the forecasting period, production of goods and services is therefore likely to remain weak: it should fall in Q4 2012 (-0.4%) before progressing slightly in the first two quarters (+0.1% per quarter).

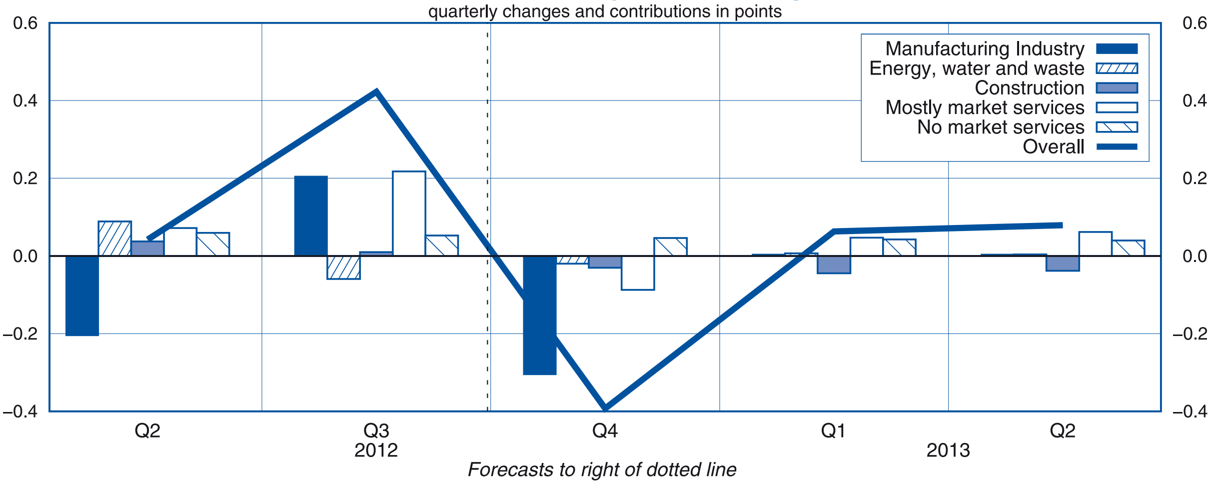
The growth overhang in production for 2013 should be zero after H1, after a rise of 0.3% in 2012.

## After a pronounced fall in the final quarter of 2012, manufacturing production set to stagnate

Manufacturing production progressed strongly in Q3 2012: +1.0% after -1.0% in Q1 and Q2. This acceleration can be explained in particular by the rebound in activity in the transport equipment branches (+3.2% after -3.2% in Q2), which

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

quarterly changes and contributions in points




*Source: INSEE*

reached a peak in August. In addition to this, with the resumption of activity at the Petit-Couronne refinery, production in coke and refined petroleum products rebounded (+5.5% after -2.0%). Production of capital goods also accelerated (+1.5% after -2.0%) and production in the other industrial branches also became more dynamic (+0.1% after -0.4%). Activity in the agrifood sector, meanwhile, saw a fall (-0.2% after +0.4%).

The industrialists surveyed in November 2012 nonetheless reveal a deteriorated outlook. On the supply side, business leaders remain pessimistic about their past activity: the corresponding balance was up in November but remained well below its long-term average (*see graph 3*). Personal prospects also remained poor and general prospects, although better in November, remained very low. In fact, since August, the industrial production index has fallen back (*see graph 4*). In October 2012, the growth overhang in manufacturing production for Q4 was thus negative (-2.5%). Manufacturing production should therefore fall in the last quarter of 2012 (-1.5%) before stagnating in H1 2013 (0.0% per quarter). After a drop of -1.9% in 2012, the growth overhang in manufacturing production at the end of H1 2013 should stand at -0.8%.

## In construction, activity is likely to fall in late 2012 and early 2013

In Q3 2012, production in construction slowed down: +0.1%, after +0.5% in Q2 2012. This slowdown was concentrated in public works, by a backlash after the catch-up effect of Q2. Production in building, meanwhile, grew at the same rate (+0.2%).

Production in the construction sector is now likely to fall clearly (-0.4% in Q4 2012 then -0.6% and -0.5% in Q1 and Q2 2013), in particular in building. Since the beginning of 2012, building business leaders have been reporting weak activity and lower-than-usual order books (*see graph 5*) while housing starts have fallen sharply, which should weigh down on production from now on, given their delayed effect on activity.

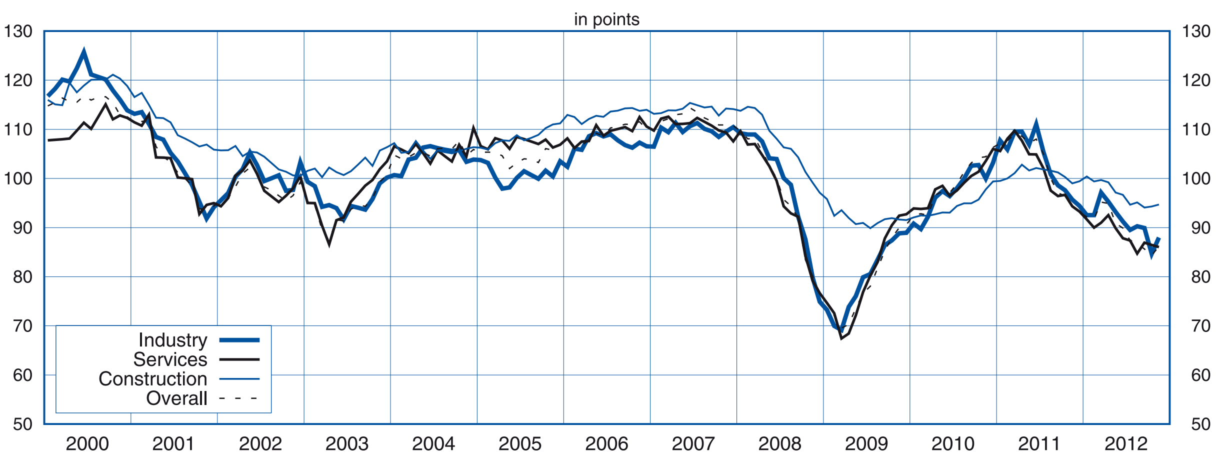
Over 2012 as a whole, construction-sector production is likely to increase by 1.5%. In mid-2013, its growth overhang for 2013 should be -1.1%.

## Over the forecasting period, activity in market services is likely to be weak

In Q3 2012, activity in the market services excluding retail and wholesale trade increased by 0.4% after +0.2% in Q2 2012. Buoyed up by household consumer spending, the accommodation-catering branch rebounded slightly after a pronounced fall in Q2 (+0.3% after -1.2%). Production of transport services also progressed (+0.7% after +0.0%), as did that of financial services (+0.7% after +0.4%). In the wake of manufacturing production, production of services for businesses accelerated (+0.5% after +0.3%). Production in the information-communication branch, meanwhile, slowed down sharply (0.0% after +0.7%), on account notably of the fall in corporate investment in services.

In Q4 2012, activity in the market services excluding retail and wholesale trade is set to fall slightly (-0.1%), hit by the decline in manufacturing production and the slowdown in household consumption. It should then pick up again slowly in H1 2013: +0.1% in Q1 and Q2. According to business leaders, the outlook in services has remained weak in recent months: the composite business climate indicator stood at 86 points in November (*see graph 2*), well below its long-term average. Business leaders also remain pessimistic in their expectations of demand and activity. These

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




*Source: INSEE*

expectations are in line with the expected weakness of manufacturing production and household consumption.

In mid-2013, the growth overhang of production in the market services excluding retail and wholesale trade sector should be +0.3% after a progression of 0.9% in 2012.

### Mainly non-market services: the progression in activity set to remain moderate

In mainly non-market services, activity progressed in Q3 2012 (+0.4%, as in Q2). Activity should slow down slightly in Q4 (+0.3%) and then continue at this rate in 2013.

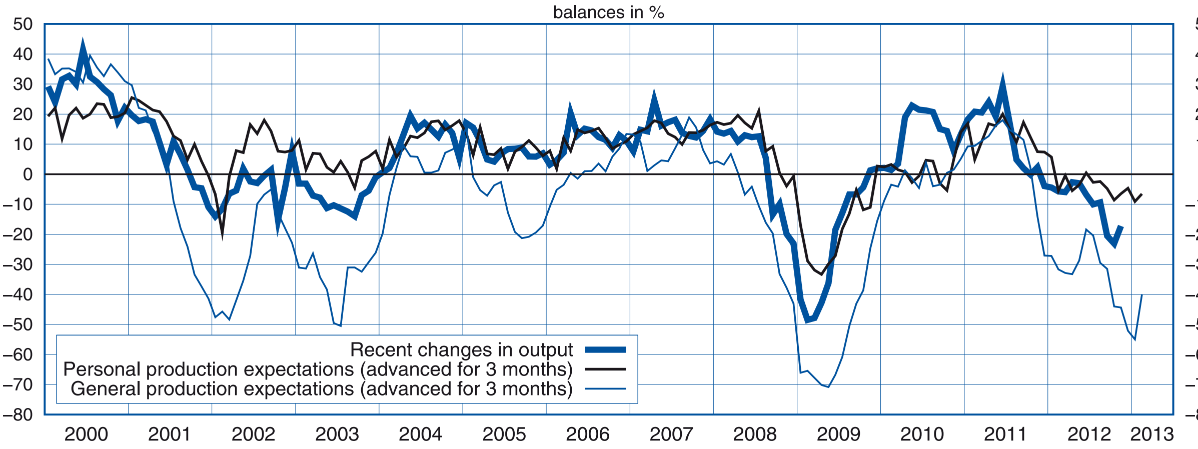
Over the forecasting period, the growth overhang in mainly non-market services should be 1.0% for 2013, after a rise of 1.2% in 2012.

### Retail and wholesale trade activity set to stagnate

Retail and wholesale trade activity improved in Q3 2012 (+0.5% after -0.1% in Q2), driven by the growth in household consumption.

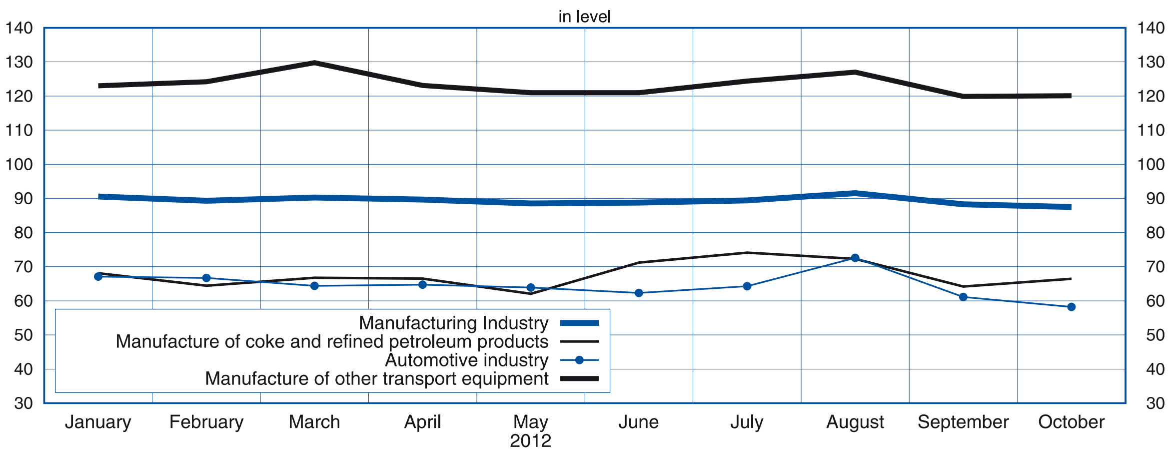
Retail and wholesale trade activity is likely to fall in Q4 2012 (-0.3%), due to the slowdown in household consumption. In wholesale trade, for example, the composite business climate indicator in November was well below its long-term average. The balance of opinion on past sales fell distinctly, while that on deliveries received fell slightly and overall ordering intentions stabilised, buoyed up by a slightly stronger capital goods sector. In retail trade and trade and repair of motor vehicles, the business climate was contrasted: although very poor in specialised retail trade and motor vehicle repairs, it was strong in general retail trade. Through to the end of H1 2013, retail and

**3 - Opinion on production in manufacturing industry**




Source: INSEE

**4 - Industrial production index**




Source: INSEE

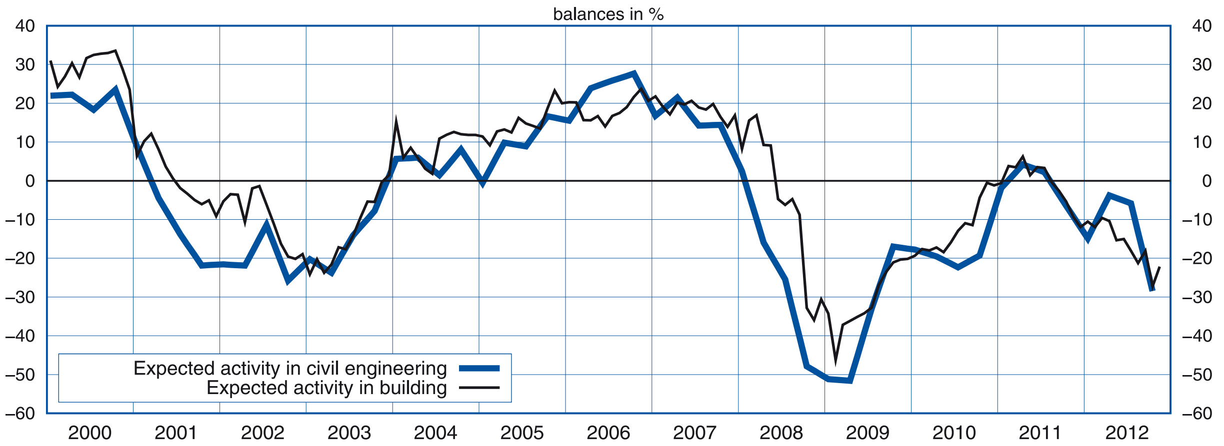
wholesale trade activity should become only slightly firmer (+0.1% in Q1 and Q2 2013), due to sluggish household consumption.

All in all, the growth overhang in production in trade activities at the end of H1 2013 should stand at +0.2% after a growth of 0.4% recorded in 2012.

## Energy production should continue to fall

Energy production fell in Q3 2012 (-1.4%) due to a return to normal seasonal temperatures after a cold spring. This should continue in Q4 2012 (-0.5%), both because industrial production is likely to be weak and because household consumption is likely to decline again. In the hypothesis of weather conditions within the seasonal norms, energy production should then level out in H1 2013 (+0.2% then +0.1% in Q1 and Q2). In mid-2013, the energy production growth overhang for 2013 should stand at -0.3% after a rise of 1.1% recorded in 2012. ■

**5 - Prospects for activity in construction**




*Source: INSEE*