

French developments



Review of the previous forecast

In Q4 2013, activity rebounded sharply, as predicted (+0.3%, against our forecast of +0.4%). The contribution of final domestic demand excluding inventory to GDP growth was greater than predicted, at +0.4 points in Q4, against +0.3 points forecast. The respective contributions of foreign trade and inventory change were, however, slightly overestimated (+0.2 and -0.3 against +0.3 and -0.2 forecast). Despite slightly weaker activity than forecast, market-sector employment progressed whereas a slight fall had been anticipated (+15,000 jobs against -7,000 forecast). For H1 2014, our forecast remains virtually unchanged: GDP should grow by an average of 0.2% per quarter and employment should stabilise.

Activity rebounded slightly less than predicted in Q4 2013

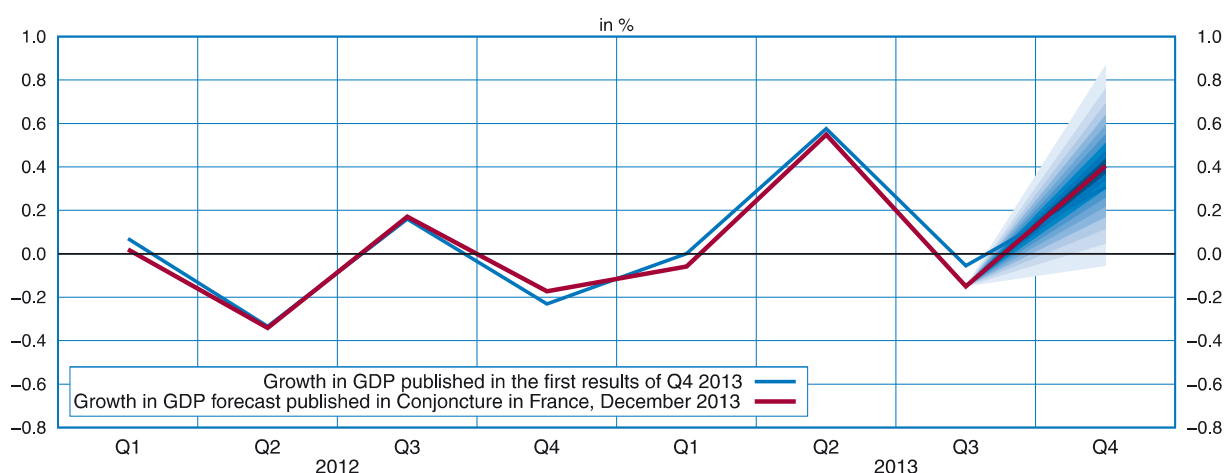
After stabilising in Q3 2013 activity clearly rebounded in Q4, almost as much as forecast (+0.3% against +0.4% in December's *Conjoncture in France*, see *Graph 1*). On the one hand activity was less dynamic than predicted in the service sector, and more markedly so in industry. In the manufacturing industry, growth was weaker than expected (+0.4% in value added, against +0.7% forecast), due in particular to a less dynamic performance from the «other transport equipment» branch. Energy production declined again in Q4 2013, further than anticipated (-1.1% against -0.3% forecast). On the other hand, the

improvement in the construction sector was more pronounced than expected (production grew by +0.3%, against 0.0% forecast): in addition to renovation work brought forward to avoid the increase in the VAT rate, and the delayed impact of the increased number of housing starts in early 2013, which were taken into account in the forecast, the unexpected dynamism of civil engineering investment also helped sustain activity in this sector.

Manufacturing consumption grew unexpectedly

In Q4 2013, final domestic demand excluding inventory was more dynamic than expected: its contribution to growth was +0.4 points, against +0.3 points forecast in December. This can be primarily attributed to household consumption, which rose by 0.4% against +0.3% forecast. The dynamism of engineered goods consumption, particularly as a result of the more stringent vehicle «malus» scheme on 1st January 2014 and the freeing up of money from employee savings plans, was more accurately predicted (+1.3% against +1.2%, see the «*Household Consumption*» Focus). However, the dynamism of food consumption was not anticipated (+0.8% against +0.2% forecast) and the energy, waste supply and waste management consumption declined by less than predicted (-1.4% against -3.0% in December's forecast).

1- Fan chart for *Conjoncture in France* for December 2013 and growth achieved



Source: INSEE

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Corporate investment grew by slightly more than forecast in Q4 (+0.9% against +0.7% forecast). While investment in manufacturing was in line with our forecast (+1.2%), investment in construction saw an unexpected increase Q4 (+0.6% against -0.2% forecast). This unexpected rebound is probably linked to the limited number of sub-zero days in Q4.

As forecast in December, exports increased more than imports. The dynamism of imports was weaker than expected (+0.7% against +1.1% forecast), particularly as a result of a larger-than-expected slump in imported energy products (-5.2% against -0.7% forecast). The decline in production in the coking and refining branch, a result of maintenance work and unanticipated strike action, also contributed to this slump. Imports of agricultural products also declined, contrary to expectations (-2.9% against +2.0% in December's Conjoncture in France forecast). Moreover, exports bounced back by less than expected (+1.3% against +2.3% in December's forecast, after -1.1% in Q3). We were expecting significant growth in the manufacturing branch, with a rebound from the slump in exports of transport equipment in Q3 (-6.8%). This rebound did materialise, but was smaller than expected (+3.7% in Q4) and, all in all, exports of manufactured goods did not grow by as much as predicted (+1.5% against +3.1% predicted in December's forecast). Changes in inventory of manufactured goods, which offset the rebound in exports, contributed -0.2 points to growth in Q4. Exports of agricultural products increased by 2.4% in Q4, while in December we had predicted that they would remain stable.

Lastly, although activity dropped unexpectedly, employment in the non-agricultural market branches increased (+15,000 jobs), while we had predicted a slight decrease (-7,000). The unemployment rate thus fell by 0.1 points, while we had expected it to remain stable.

Our growth forecast for H1 2014 remains essentially unchanged

Our growth forecast for H1 2014 is maintained at an average of +0.2% per quarter. In March, the business climate as measured by the business tendency surveys is at more or less the same level as in December. Nonetheless, we now expect to see weaker growth in Q1 than in Q2 (+0.1% then +0.3%), impeded on the one hand by the decline in energy production, a result of the mild temperatures seen this winter, and on the other hand by the slowdown in the commercial and civil engineering branches in reaction to the dynamism of Q4. Conversely, the rebuilding of stocks in the manufacturing industry in Q1 should offset the sluggishness of demand. Lastly, inflation over this forecasting period should be slightly below the levels predicted in December's Conjoncture in France (+0.9% against +1.1% forecast), as a result of a downward revision of energy price forecasts. Our assumption is based on the expectation that the price of Brent crude will stand at around €78 per barrel over the forecasting period, down from the €82 forecast in December. On the other hand, our predictions regarding the effects of the CICE tax credit and the increase of the VAT rates remain unchanged. ■

Output

Production of goods and services rebounded in Q4 2013 (+0.2%) after slipping back in Q3 (-0.2%). Activity in the manufacturing industry stabilised (0.0% after -1.1%). Production of market services accelerated slightly (+0.4% after +0.2%) and activity in the construction sector picked up (+0.3% after -0.4%).

Since November 2013, the business climate has stabilised in France. Production of goods and services should see a moderate upturn in H1 2014 (+0.3% in Q1 and +0.4% in Q2).

A steady increase in the production of goods and services in H1 2014

In Q4 2013, production of goods and services saw a rebound (+0.2% after -0.2% in Q3 2013). This improvement was lower than the corresponding increase in value added, a result of lacklustre activity in the energy and coking branches, major consumer of intermediate consumption. According to the French business climate indicator derived from the business tendency surveys, business leaders do not expect to see any signs of improvement in early 2014: in March this indicator stood at 95 points, having spent three months at 94 points. The indicator remains below its long-term average across all sectors except industry, having fallen again in the services and construction sectors (see Graph 1). In H1 2014, production of goods and services should follow the same curve as GDP (+0.3% then

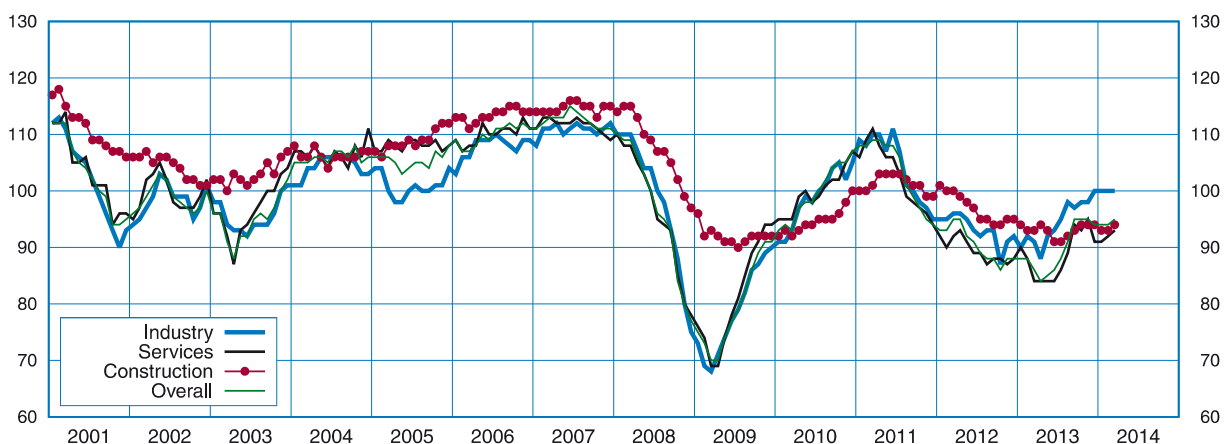
+0.4%), while remaining slightly less dynamic on average as the manufacturing branch, a major source of intermediate consumption, should grow more rapidly than the rest of the economy (see Graph 2).

Manufacturing output should rebound in H1 2014

After a marked decline in the preceding quarter (-1.1%), manufacturing production stabilised in Q4 2013 (0.0%). The only branch to record a clear decrease in activity was coking and refining (-8.2%), where the decline can be attributed to the shut-down of several refineries for maintenance purposes or on account of strikes. Activity stabilised in the agrifood industries (0.0%); while growing slightly in transport equipment (+0.4%), and "other industrial branches" (+0.6%) and more substantially in the capital goods branch (+1.6%).

The business climate indicator for industry returned to its long-term average in December 2013, and the industrialists surveyed in March 2014 (see Graph 3) remain relatively optimistic, with the balance of opinion now standing very close to its long-term average. The increase in manufacturing production (+0.9% in Q1 2014) should thus be close to the overhang at the end of January, with the positive contribution of inventory compensating for the weakness of demand. This weakness should persist in Q2, causing the growth in production to slow (+0.3%).

1 - Composite indicators in France: all sectors, in industry, services and building
Last point: March 2014



Source: INSEE

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The annual growth overhang for 2014 should thus stand at +1.1% at the end of H1.

Activity in the construction sector should drop off in H1 2014

In Q4 2013, production in the construction sector improved (+0.3% after -0.4% in Q3 2013), the result of a combination of factors: the delayed effect of the rebound of new housing starts in early 2013, the bringing forward of some maintenance and housing expenditure to avoid the rise in VAT on 1st January and the sharp increase in civil engineering work, most likely linked to the local election cycle.

Production in the construction sector should fall again in H1 2014 (-0.7% in Q1 and -0.7% in Q2). The number of new housing starts declined in Q3 and Q4 2013 and, given the delayed impact of variations in activity in this sector, production

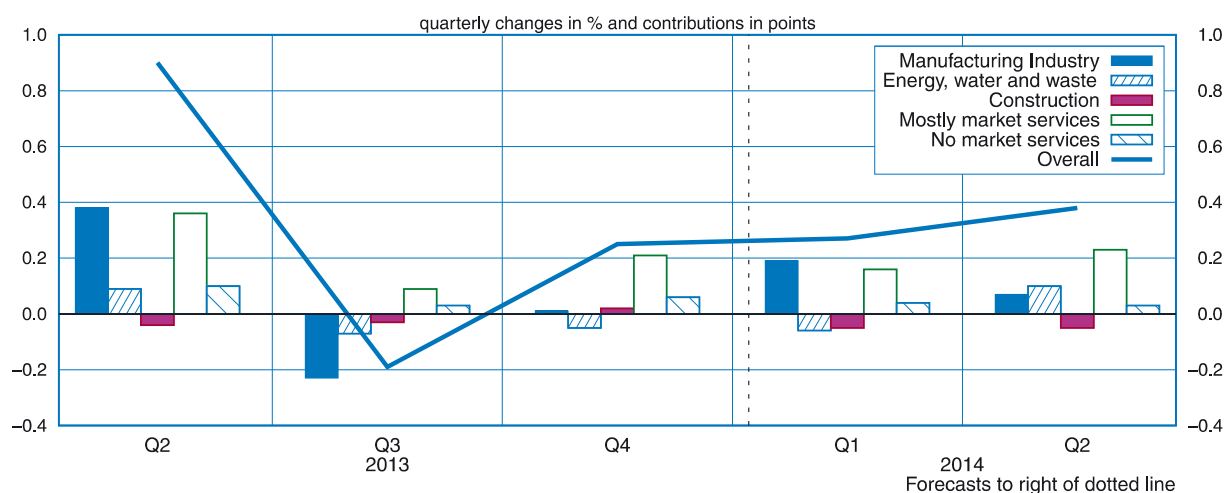
should decline in H1 2014. As such the opinions on expected activity among professionals in the building sector remain low in 2014 (see Graph 4). This is also the case in the civil engineering sector, where production should suffer from a post-local election slump.

Over 2013 as a whole, production in the construction sector fell by 2.2%. In mid-2014, the growth overhang for 2014 should stand at -1.3%.

Market services excluding retail should continue to grow in H1 2014

In Q4 2013, market services excluding retail grew slightly (+0.4% after +0.2% in the preceding quarter). This acceleration was particularly pronounced in the services to enterprises (+0.5% after -0.1%) and ICT sectors (+0.6% after -0.7%), which profited from the rebound in industrial demand and investment in services. Real estate

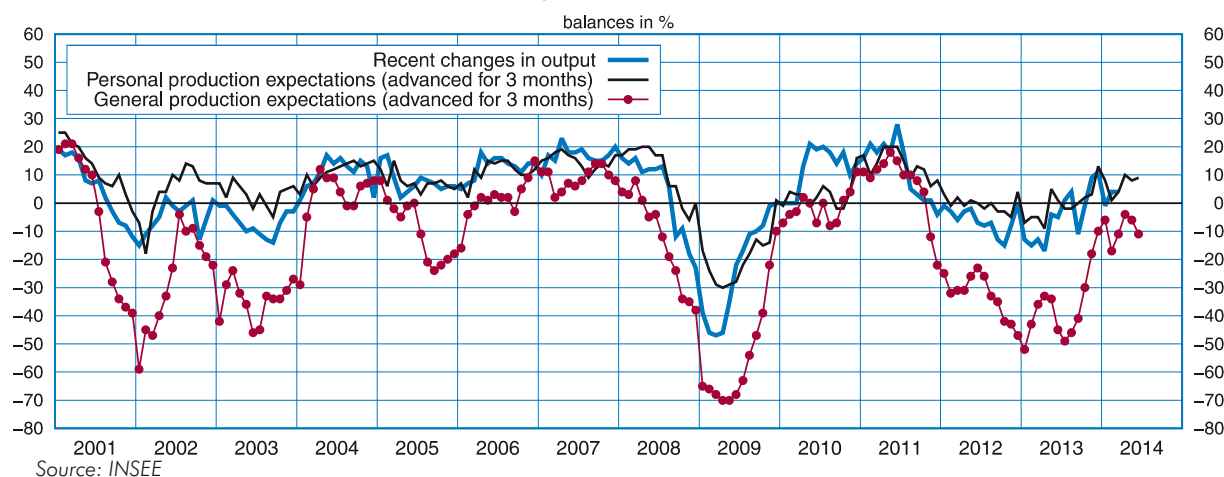
2 - Sector contributions to growth in total production



Source: INSEE

3 - Opinion on production in manufacturing industry

Last point: March 2014



service activities grew at a rate similar to that seen in the preceding quarter (+0.3% after +0.2%) as did financial activities (+0.8% after +0.8%), while transport services stagnated (0.0% after +1.1%).

According to the business leaders surveyed, the short-term outlook in the service sector has stabilised in recent months: the composite business climate indicator stood at 93 in March, below its long-term average (100). In H1 2014, activity should continue to grow moderately (an average of +0.4% per quarter), in line with the predicted growth in demand from industry and investment in services (+0.5% per quarter).

By mid-2014, the growth overhang for production in the market service sector excluding retail should stand at +1.3%, having grown by 1.1% in 2013.

The growth of mainly non-market services should continue

As for mainly non-market services, activity grew by 0.4% in Q4 2013, after +0.2% in Q3. This trend should continue in H1 2014 (+0.2% per quarter).

Over the forecasting period, the growth overhang for production of non-market services should be +1.0% for the year 2014, down from +1.5% in 2013.

Commercial activity should be dynamic in H1 2014

Trade made clear progress in Q4 2013 (+0.6% after +0.2%), thanks in no small part to the upturn in exports of manufactured goods (+1.5% after -2.0%) and the acceleration of household consumption of manufactured goods (+0.9% after +0.4%).

In Q1 2014 commercial activity should be lacklustre (+0.1%), due largely to a decrease in household consumption of manufactured goods (-0.5%). According to the business tendency surveys for wholesale and retail (March 2014), the business climate appears to be tense in both branches. Both balances of opinion regarding past activity remain poor, and below their long-term averages. While the past activity situation varies from sector to sector in the wholesale branch (improvements in the food and drink and capital goods sectors, decline for household goods), the retail and automobile branches both remain pessimistic.

In Q2 2014, commercial activity should pick up (+0.4%), sustained by a rebound in household consumption of manufactured goods (+0.5%).

By mid-2014, the growth overhang for production in trade should be +1.1% (after +0.3% for the year 2013).

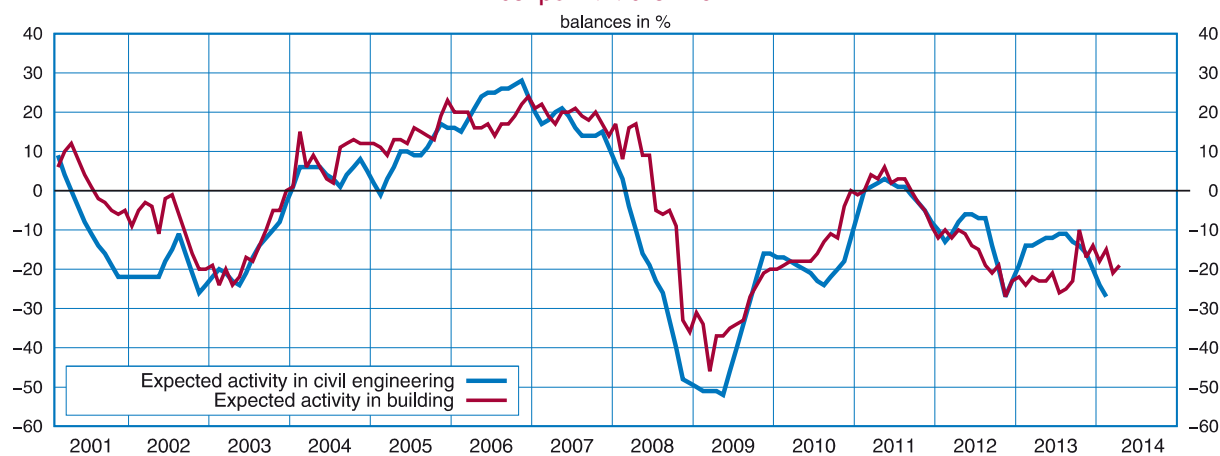
Energy production limited again in Q1 by mild temperatures

Energy production dropped off in Q4 2013 (-1.1%), due to a particularly mild start to the winter. Production should fall again in Q1 2014 (-1.5%), for the same reason. Assuming that weather conditions conform to the seasonal averages, energy production should pick up again in Q2 (+2.4%), boosted by more dynamic household energy consumption (+4.6%).

By mid-2014, the growth overhang for energy production should stand at -0.8%, following an increase of 1.7% in 2013. ■

4 - Prospects for activity in construction

Last point: March 2014



Source: INSEE

How will businesses use the Tax Credit for encouraging Competitiveness and jobs (CICE) in 2014?

CICE is a tax credit comparable to a reduction in social security contributions

The CICE is a tax credit, applicable to the proportion of a company's total wage bill made up of salaries below 2.5x the minimum wage. While in some respects it can be compared to a reduction in the social security contributions levied on low and medium wages, it is difficult to predict how this measure will be received by businesses, and thus the impact it will have in 2014 (see the *INSEE focus report 'What effects should we expect from the Employment and Competitiveness Tax Credit (CICE) in 2014?'*, December 2013). By improving the financial situation of businesses, the CICE may have an influence on their behaviour: they may cut prices, increase their investment expenditure or expand the total wage bill, creating new jobs or paying higher salaries. Thanks to new questions added to the business tendency surveys, initial indications of how companies will use their CICE savings in 2014 are now available.

New questions added to the business tendency surveys

In January 2014, around eight thousand businesses in the service¹ and industrial² sectors were asked about their plans for the money saved thanks to the CICE. The scope covered by this survey accounts for over 50% of the theoretical total CICE payout.³

The questions asked were as follows:

Employment and competitiveness tax credit (CICE)

In your opinion, how much will you receive in 2014 under the CICE scheme?
..... thousands of euro

Concerning your company, please indicate whether by the end of 2014 the CICE will have an effect on:

(Put a cross in the appropriate box)

	yes	no
1 - level of employment	<input type="checkbox"/>	<input type="checkbox"/>
2 - level of investment	<input type="checkbox"/>	<input type="checkbox"/>
3 - level of wages	<input type="checkbox"/>	<input type="checkbox"/>
4 - level of sale prices	<input type="checkbox"/>	<input type="checkbox"/>

Lastly, what proportion of the CICE will be used to increase or preserve your margins? about..... %

The rate of response to these questions was below the general response rate seen in these surveys. There are several possible explanations for this. Firstly, it is always more difficult to answer new, unfamiliar questions. Secondly, the questions regarding the CICE are more complex than the standard questions: it is not simply a matter of predicting the rise or fall of certain indicators, but of determining the effect of a specific measure on these indicators. Finally, in January 2014 some businesses did not yet have a sufficient understanding of this new financial allowance, which has not yet been received by

most companies. All in all, the rate of response was around 50% for industrial firms and 40% for service sector companies.

For the most part, companies plan to use the CICE money to increase investment and recruitment

Businesses report that their primary intention for the money saved thanks to the CICE is to invest: about half of the companies who responded said that the CICE would have an effect on their level of investment (53% in the service sector and 46% in industry, see Table). This impact is even more pronounced among companies specialising in administrative and support services, accommodation and food services, other transport equipment and the food and agricultural sectors.

The CICE should also allow companies to recruit more in 2014. 43% of service sector companies believed that this measure would have an effect on their workforce numbers, compared to 31% of industrial firms. In the real estate sector, companies planning to use the CICE to recruit new employees outnumber those planning to increase investments.

The effect of the CICE on wages and sale prices should be limited. Among service sector companies, 38% plan to use the CICE to raise salaries, particularly in the accommodation and food services sector. 29% plan to use it to cut prices. Among industrial firms, 20% plan to use part of the CICE money to increase salaries while 21% plan to use it to cut prices.

Finally, if we break down the answers by company size we find that the larger the business, the more likely it is to use the CICE to invest, recruit and reduce sale prices.

The effect on profits is difficult to assess

On average, the companies polled say they plan to use 50% of their CICE savings to increase or maintain their profit margins. This average figure conceals a substantial disparity: 32% of companies said that they would use the CICE exclusively to increase margins, while 29% say that they would not use the money for this purpose at all. This discrepancy can perhaps be attributed to differing interpretations of the question in different companies.⁴ The effect of the CICE on companies' profits alone can therefore not be assessed on the basis of their response to a question about the proportion of the CICE to be allocated to improving margins.

(1) Excluding transport

(2) Only companies with more than twenty employees

(3) The main sectors not surveyed are retail, transport and construction.

(4) In particular, certain companies may have considered that hiring staff thanks to the CICE would allow them to increase or protect their margins as part of a dynamic vision.

Characteristics of those companies making the greatest use of the CICE

By comparing this information with companies' responses to the usual questions contained in the business tendency surveys, it is possible to formulate answers to the following questions (see Graph).

Is CICE use linked to the short-term business outlook?

Generally speaking, a favourable short-term outlook does indeed seem to have a positive effect on CICE usage. In the industrial and service sectors, those companies with a positive attitude regarding the development of activity in their sector are more likely to report that they will use the CICE, and the difference is particularly evident when it comes to recruitment. This observation also holds true, although to a slightly lesser extent,⁵ among companies declaring an increase in their turnover in the last six months.

Will the CICE influence companies' investment decisions?

It appears that those companies planning the biggest increases in investment in the coming months are also more likely than other companies to use the CICE to invest. Furthermore, those industrial firms who report that they cannot produce anymore with their current production capacities are also the most likely to report that they will use the CICE to invest.

Does a company's cash flow situation have an effect on its CICE plans?

Industrial firms reporting cash flows problems are less likely to use the CICE to invest, increase wages or cut prices. Understandably, they would prefer to use the money to

improve their cash flow situation. In the service sector, the results are less clear-cut: those companies declaring their cash flow situation to be difficult would be less likely to use the CICE to increase their wage bill, however they would also be more likely to invest the money or cut prices than those companies in a more favourable cash flow situation.

Under what circumstances is the CICE most likely to lead to a decrease in prices?

Industrial firms who feel that their competitive position on the European market has deteriorated in recent years, along with those who predict a fall in prices in the sector, would be more likely to use the CICE to cut sale prices.

Of all the sectors surveyed about their intentions for the CICE money, the accommodation and food services industry was in the unique position of being affected by a 3-point rise in VAT as of 1st January 2014 (compared to just 0.4 points in other sectors⁶). In theory, the CICE could therefore have a more significant effect on prices in this sector, in order to partially offset the VAT increase. But in reality no such effect was observed in the responses: as in other sectors, the majority of companies plan to use the money to invest (68%), with only 22% expecting to use it to cut prices. Nonetheless, there are major disparities within the sector. Those companies whose turnover has declined or who feel that their business prospects have deteriorated over the past six months would be more likely to use the CICE to reduce sale prices (over 40%) than to invest or recruit. They may thus seek to compensate for the VAT rise, in the hope of maintaining or increasing their activity. ■

(5) Most notably, in industry, relatively fewer companies whose production is growing will lower their sale price under the effect of the CICE.

(6) Construction and transport, also affected by the 3-point rise in the VAT rate, were not surveyed on the CICE.

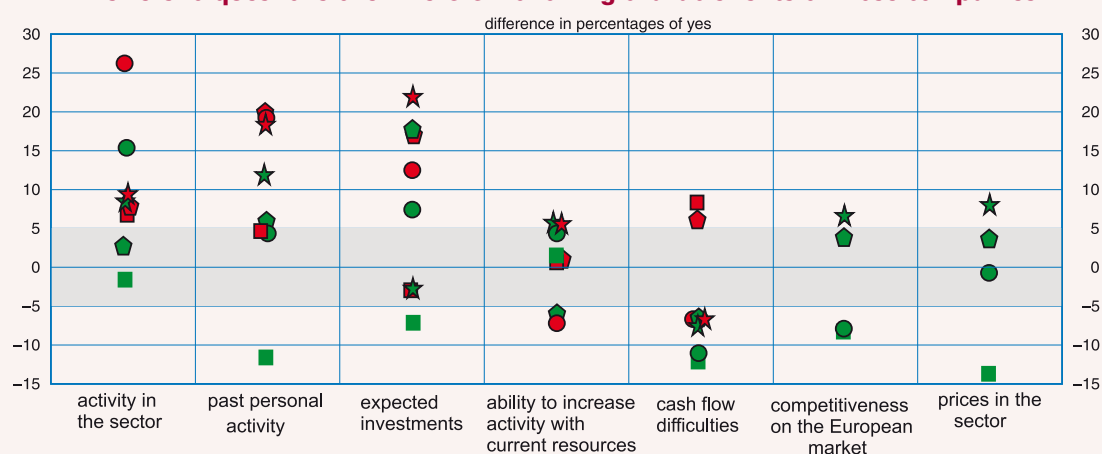
Answers to questions over the CICE by sector

Level A21	Effect on (% of yes)			
	Employment	Investment	Wages	Sale prices
I: Accommodation and food service activities	36	68	38	22
J: Information and communication	37	50	27	15
L: Real estate activities	29	10	18	4
M: Professional, scientific and technical activities	30	36	29	16
N: Administrative and support service activities	68	75	57	57
Total services	43	53	38	29
29: Vehicles	14	27	10	24
30: Other transport equipment	44	70	36	62
C1: Manufacture of food products and beverages	29	58	22	21
C3: Electrical and electronic equipment; machine equipment	32	48	22	28
C5: Other manufacturing	36	50	21	18
Total industry	31	46	20	21

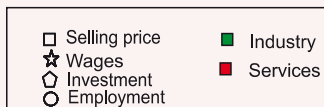
How to read it: In the automotive sector, 27% of enterprises consider that the CICE will have an impact on their investment level in 2014, and 24% that the CICE will have an impact on their price level in 2014. The sum of the four percentages may exceed 100% because the CICE can be used to invest, increase payroll, or lower sale prices at the same time.

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Answers to questions over the CICE following characteristics of those companies



Note: If the point is located in the significantly positive area (difference in the percentage of "yes" responses exceeding 5), then relatively more of the companies that responded "increasing" or positively to the question are making use of the CICE than those that answered "decreasing" or negatively. If the point is in the significantly negative area, then the opposite is true.



For example, relatively more of the industrial companies that answered in January that they expected the volume of industrial production to increase over the next three months are using the CICE to recruit personnel than those that answered that volume was going to decrease: in the "activity in the sector" column, the green circle corresponding to employment in industry is in the significantly positive part of the graph. For example, between those industrial companies that see the sector increasing and those whose opinion is that it is decreasing, there is a difference of 15 points in the share of companies answering "yes" on the effect of the CICE on employment in 2014.

The questions asked of companies in industry (or in services, respectively) in the outlook surveys are as follows:

- activity in the sector: what is the likely trend in the volume of industrial production (of activity in your sector, respectively) over the next three months? (increasing, unchanged, decreasing)

- past personal activity: what has been the trend in your production (sales, respectively) over the last three months? (increasing, unchanged, decreasing)

- expected investments: what has been the trend in your investments between H2 2013 and H1 2014 (between Q4 2013 and Q1 2014, respectively)? (increasing, unchanged, decreasing)

- ability to increase activity with current resources: if you were to receive more orders (if demand were to increase, respectively), could you produce more (could you increase the volume of your activity, respectively) with your current resources? (increasing, unchanged, decreasing)

- cash flow difficulties: are you currently encountering cash flow difficulties? (yes or no) (respectively, for the time of year, is your cash flow situation currently easy, normal or difficult?)

- competitiveness on the European market: trend in your competitive position on foreign markets within the European Union over the next three months? (increasing, unchanged, decreasing)

- prices in the sector: likely trend of the general price level for industrial products over the next three months? (increasing, unchanged, decreasing).

France's International Environment

In Q4 2013, activity continued to grow strongly in the advanced economies (+0.6% after +0.6%). According to the business tendency surveys, which are now showing strong results, and particularly so in Europe, activity should remain dynamic in H1 (+0.5% in Q1 then +0.3% in Q2). This quarterly profile should be disrupted by the effects of the VAT rise in Japan in April.

After rebounding in H2 2013, the emerging economies are once again experiencing a period of monetary turbulence. After an initial period of instability last spring, their currencies are now depreciating again as American quantitative easing slows, and their central banks continue to tighten their monetary policies. All in all, with the exception of the economies of the European Union's easternmost members, which should remain vigorous, activity in the emerging economies should slow down, as should their imports.

Sustained by demand from the advanced economies, world trade should maintain a moderate rate of growth.

Fed and BoE react to the fall in unemployment

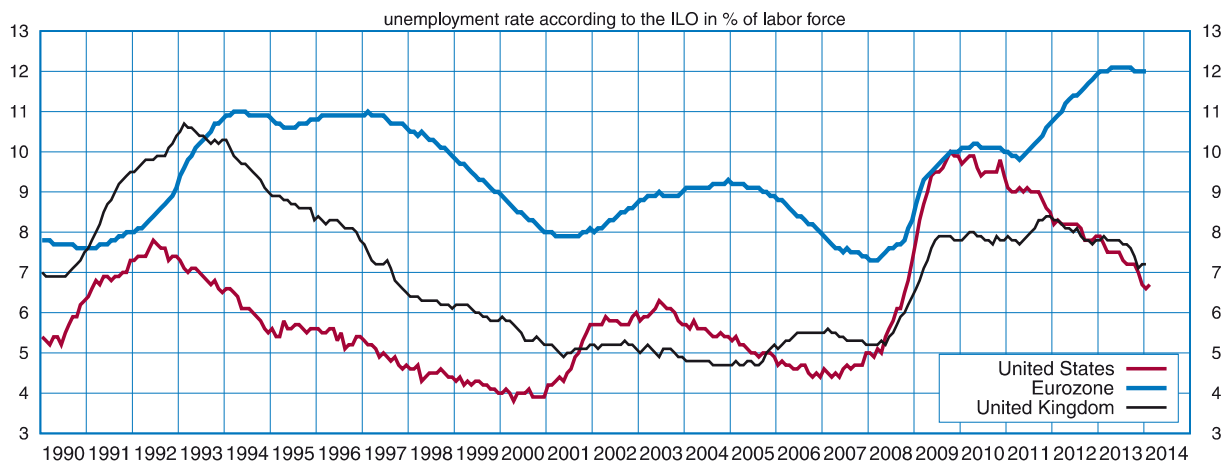
The central banks in the advanced economies have limited room for manoeuvre, their base rates

currently standing at the lowest possible level. For the past three years, they have been using non-standard measures to further ease their monetary policies. Nonetheless, the Fed has slowed down its securities buying and should continue to reduce these purchases by \$10 billion per month until the summer. Furthermore, the rapid fall in unemployment (see Graph 1) has prompted the British and American central banks to adjust their forward guidance. In the Eurozone, tensions on the sovereign debt markets have eased considerably. The European Central Bank continues to adopt a very accommodating policy, further reducing its base interest rate in early November. On the other hand the ECB's balance sheet has been reduced substantially, as the banks have already paid back 40% of the loans granted during the exceptional refinancing operations conducted in late 2011 and early 2012.

The emerging economies face a currency crisis

The perspective of a slowdown in money creation in the USA provoked a first wave of repatriation of capital invested in emerging countries and a depreciation of their currencies in summer 2013, particularly those countries with a high current deficit. After a period of calm in H2, capital withdrawal picked up again in December, sparking a further decline in the financial and currency markets, particularly in Argentina, Russia and

1 - Unemployment decrease quickly in Anglo-Saxon countries



Sources: BLS, ONS, Eurostat

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Turkey. The central banks then stepped in on the currency market, once again tightening their monetary policies against a backdrop of inflationary tension.

Fiscal consolidation efforts should slow on both sides of the Atlantic

In the United States, the general direction of budgetary policy was decidedly restrictive in 2013: taxes increased sharply and government spending contracted rapidly. The public deficit was thus cut from 9.3% of GDP in 2012 to 6.4% of GDP in 2013. However, following the approval of the 2014 budget by Congress in January, the rate of fiscal consolidation should slow significantly. In the Eurozone, the general orientation of fiscal policy should be less strict in 2014 than it was in 2013. In Japan, on the other hand, fiscal policy is set to become considerably more restrictive: VAT increased by 3 points on 1st April, and public investment in economic stimulus initiatives should decline over the forecasting period.

Inflation should remain low in the advanced economies

Since late 2011, inflation has been kept low by the decline in commodity prices. In Q4 2013, the increase of consumer prices in the advanced economies thus stood at just +1.1% as a year-on-year average. Assuming that oil prices should stabilise at around \$108 per barrel, inflation should recover under the influence of the base effect, and thanks to the VAT hike in Japan in Q2 (+1.5%).

Since early 2012 core inflation has been shrinking, all the more so as the stubbornly high rate of unemployment restricts employees' bargaining

power. In Q4, year-on-year core inflation stood at +1.2%. The improvement of the general outlook should see this rate increase slightly.

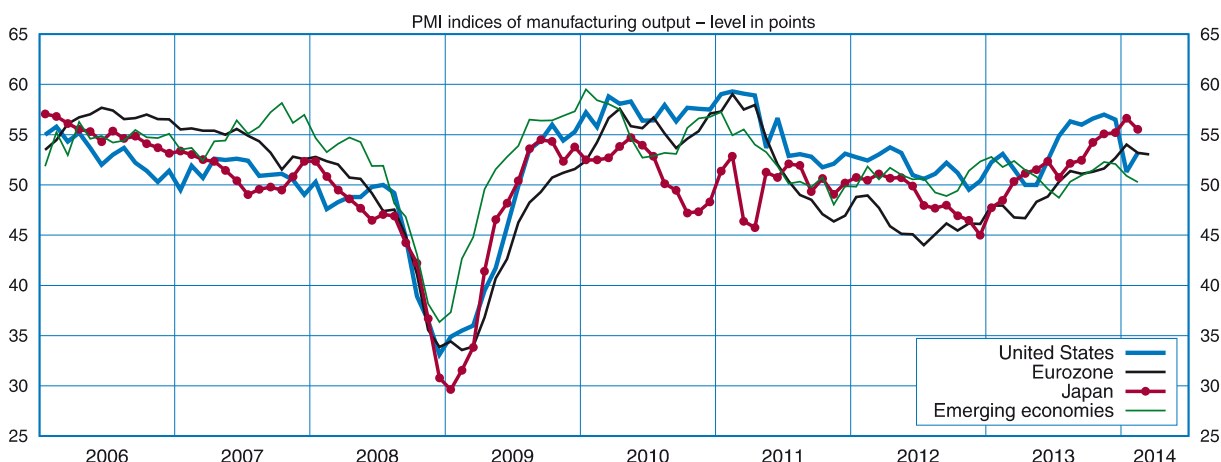
Activity expected to slow in the emerging economies

In H2 2013 activity generally accelerated in the emerging economies, particularly in the CEE nations and China, and imports picked up (see Table). However in 2014, under the influence of further currency devaluations and tighter monetary conditions, the business climate has stalled again and remains at a very low level in comparison with the average seen in the previous decade. Activity is thus expected to slow in the emerging economies in H1 2014. With the exception of the central European countries, who should be carried along by the general upturn in activity on the continent, this slowdown is likely to be general. In China, the business climate deteriorated at the start of the year and outstanding loans, which had been growing strongly, seem to be slowing. In South America and the emerging Asian economies, monetary constraints coupled with significant currency devaluation should place greater strain on borrowers, whose debts are largely contracted in dollars, and activity should remain sluggish.

The upturn continues in the advanced economies...

In Q4 2013, growth remained steady in the advanced economies (+0.6% after +0.6%). Domestic demand was particularly dynamic, and exports began to rise once again. And yet, as an average over the year 2013 as a whole, activity did not actually accelerate (+1.3% after +1.4% in 2012) on account of the overhang effect (stagnation of GDP in the last three quarters of

2 - The economic climate remains well oriented in advanced economies Last point : February 2014 (March for the Eurozone)



Sources: Markit, Institute for Supply Management

2012), although in reality activity has been growing fairly vigorously since the start of 2013. The general business climate improved significantly between mid-2013 and the end of the year, and remains at a high level: activity in the advanced economies should remain dynamic in Q1 2014 (+0.5%), before slowing slightly in Q2 2014 (+0.3%), primarily as a result of the VAT rise in Japan.

... particularly in Europe

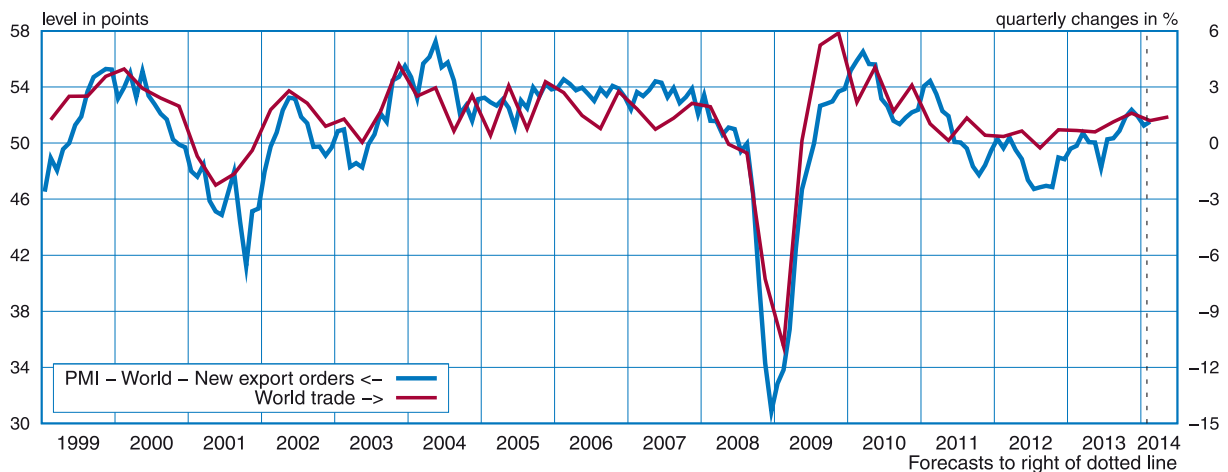
Cyclical divergences, which were fairly substantial in early 2013, should tend to narrow over the forecasting period (see Graph 2). In the USA and the UK, domestic demand should continue to grow vigorously, particularly private sector consumption, stimulated by the decline in unemployment and corresponding wealth effects. In the Eurozone,

activity should pick up momentum in Italy and Spain and accelerate further in Germany.

Acceleration of world demand for French products

In Q4 2013, world trade picked up pace (+1.6% after +1.1%). For the global economy as a whole, the indicator for new export orders contained in the PMI surveys saw a slight decline in early 2014 (see Graph 3). Furthermore, according to Asian customs statistics, trade should slow down in Q1, particularly demand from emerging economies. All in all, trade should increase by 1.2% in Q1, then 1.4% in Q2. In H1 2014 the acceleration of imports to the advanced economies, particularly in Europe, should bolster world demand for French products, which should grow at the same rate as world trade in general. ■

3 - World trade should accelerate by mid 2014



Source: Markit, Centraal PlanBureau, INSEE forecasts

International scenario summary

	Quarterly change in %										Annual change in %			
	2012				2013				2014		2011	2012	2013	2014
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2				
GDP of advanced economies	0.6	0.0	0.2	0.0	0.3	0.6	0.6	0.6	0.5	0.3	1.7	1.4	1.3	1.6
World trade	0.3	0.6	-0.3	0.7	0.7	0.6	1.1	1.6	1.2	1.4	6.2	1.9	2.7	4.2
Imports of advanced economies	-0.1	0.0	-0.1	-1.4	-0.2	0.5	0.9	0.4	1.2	1.1	3.6	-0.4	-0.3	3.0
Imports of emerging economies	0.6	0.6	-0.2	3.9	1.1	0.6	1.8	2.2	1.2	1.7	9.2	4.5	6.1	5.3

forecast

Reading note: imports, exports and world trade data concern only goods.

Sources: National statistical institutes, Centraal PlanBureau, International Monetary Fund, INSEE forecast

Foreign trade

Through to mid-2014, world demand for French products should be fairly dynamic (+1.2%, then +1.4% in the first two quarters), following the slow patch in Q4 (+0.6%), thanks to a rebound in imports in the advanced economies, particularly the Eurozone. Exports recovered in Q4 2013 (+1.3%) thanks to an increase in sales of transport equipment (+3.7%). They should continue to grow at a reduced rate in H1 2014 (+0.9% and +0.8% in Q1 and Q2 2014), more slowly than the increase in international demand as a result of residual losses in non-price competitiveness and past appreciation of the Euro.

Under the effect of the weakness of final demand, French imports should remain sluggish (+0.8% per quarter).

All in all, the contribution of foreign trade to growth should be neutral in H1 2014.

Exports set to slow slightly in H1 2014

In Q4 2013, French exports of goods and services rebounded (+1.3% after -1.1%, *see Table*). Despite a slowdown in world demand for French products (+0.6% after +1.2%, *see Graph 1*), exports were dynamic as a result of the rebound in sales in the transport equipment sector (+3.7% after -5.4%).

Exports of other industrial goods also increased in Q4 2013 (+1.2% up from -0.3%). Moreover, exports of capital goods and coking and refining products grew slightly. All in all, exports of manufactured goods picked up considerably in Q4 (+1.5% after -2.0%). Furthermore, sales of agricultural products gained momentum (+2.4% after +0.7%). On the other hand, energy-water-waste exports shrank (-1.9% after +7.0%), while exports of services stagnated.

In early 2014, world trade should maintain a level of growth close to its long-term average (*see Graph 2*), thanks in particular to the advanced economies, whereas trade with the emerging economies should slow after a highly dynamic Q4. Due to the geographical distribution of French exports it should be the advanced countries, and particularly those in the Eurozone where domestic demand should be relatively dynamic over this forecasting period, that do the most to sustain world demand for French products. This demand should thus grow by 1.2% and 1.4% in Q1 and Q2 respectively. This recovery of international demand is particularly evident in the most recent business tendency surveys (overseas order books in industry and volume of overseas sales in the wholesale sector).

However, exports should be less dynamic (+0.9% then +0.8% in Q1 and Q2 2014) as a result of residual losses in non-price competitiveness and the effects of appreciation of the Euro. Exports of manufactured goods should increase by 1.1% per

Foreign trade growth forecast

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

	Quarterly changes						Annual changes		
	2013				2014		2012	2013	2014 ovhg
	T1	T2	T3	T4	T1	T2			
Exports									
All goods and services	-0.5	2.3	-1.1	1.3	0.9	0.8	2.5	0.8	2.5
Manufactured products (75%*)	-0.7	2.8	-2.0	1.5	1.1	1.1	3.0	0.1	2.8
Imports									
All goods and services	-0.1	1.4	0.9	0.7	0.8	0.8	-0.9	0.8	2.8
Manufactured products (77% *)	-0.1	1.4	1.4	1.4	0.9	1.1	0.3	0.4	3.9
Contribution of foreign trade to GDP	-0.1	0.2	-0.6	0.2	0.0	0.0	1.0	0.0	-0.1

Forecast

Reading note: part of exports (resp. imports) of non-energy industrial goods in exports (resp. imports) in a whole in 2012.

Source: INSEE

quarter (see Graph 3). Sales of agricultural goods should slow (+2.0%). Exports of energy products should pick up (+1.0%), while exports of services will see a very slight increase (+0.2% per quarter).

By mid-2014, the growth overhang of exports for the year should be +2.5%, up from +0.8% in 2013. Over the forecasting period, France's market share should shrink slightly (see Graph 4).

Imports expected to be sluggish in H1 2014

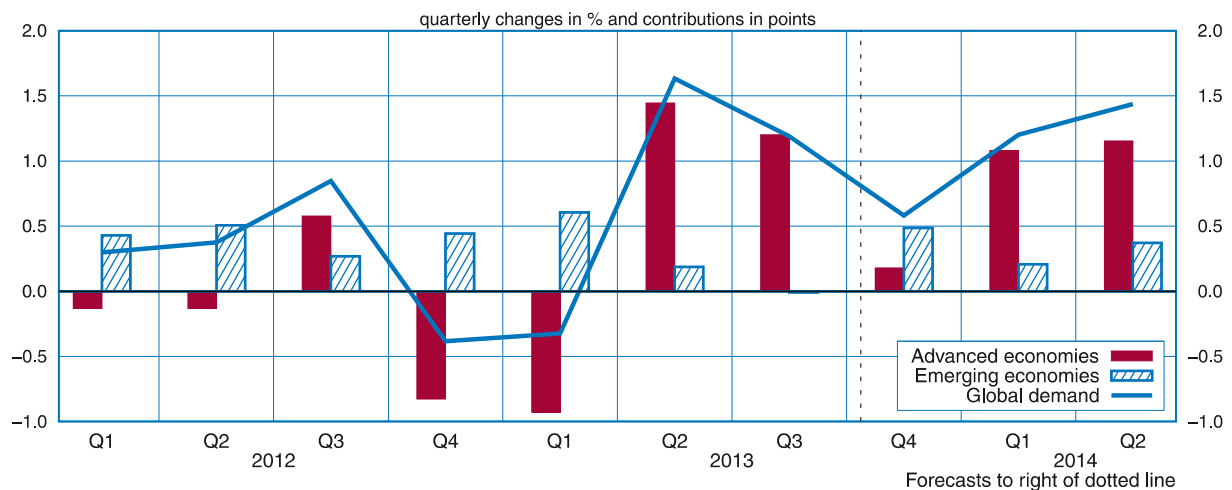
Imports of goods and services slowed again in Q4 2013 (+0.7% after +0.9%). Purchases of manufactured goods were dynamic (+1.4% after +1.4%). Progress was seen in the sales of agrifood products, capital goods and other industrial products. On the other hand, purchases of transport equipment and coking and refining

products slowed. Furthermore, purchases of agricultural products fell sharply after progressing in the previous quarter (-2.9% after +4.9%). Raw energy purchases dropped off more sharply than they had done in the previous quarter (-5.2% after -3.7%).

Imports should remain sluggish in H1 2014 (+0.8% per quarter), mirroring domestic demand, while corporate investment and consumption should decline in Q1. Exports should, however, prop up purchases.¹ Imports of manufactured goods should slow slightly (+0.9% then +1.1% per quarter), while energy imports should increase (+2.0% in Q1 2014) in line with the upturn in coking and refining production, before stabilising thereafter. Furthermore, purchases of services

(1) Via the import content of exports

1 - World demand for French products and contributions of the main partners



Sources: INSEE, DG Trésor, Centraal PlanBureau

2 - World demand for French products and world trade



Sources: INSEE, DG Trésor, Centraal PlanBureau

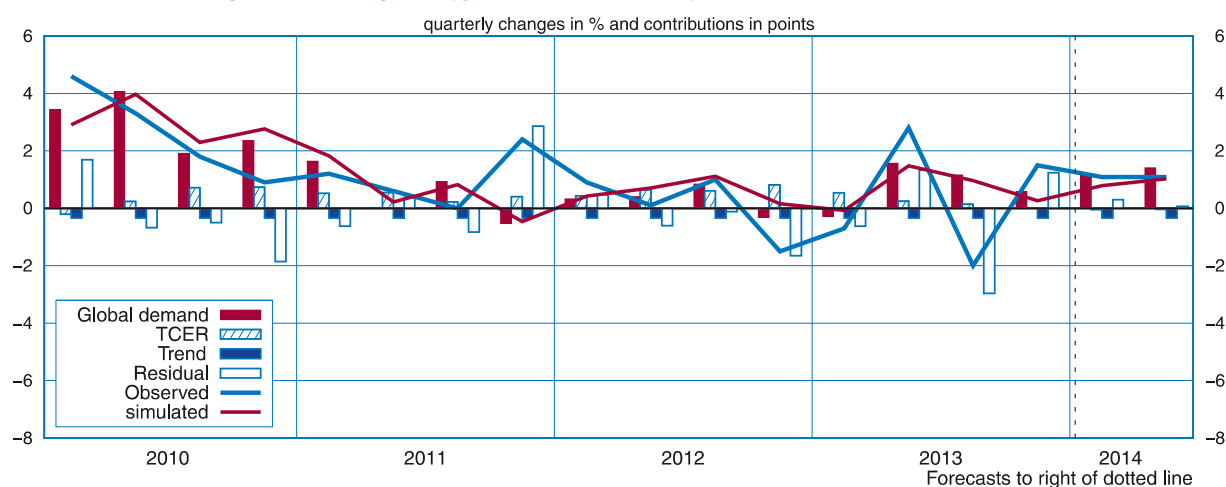
French developments

should drop off over the forecasting period (-0.3% in Q1). Imports of agricultural products, after falling in 2012 and rebounding strongly in 2013, should return to their long-term trend (+1.0% per quarter).

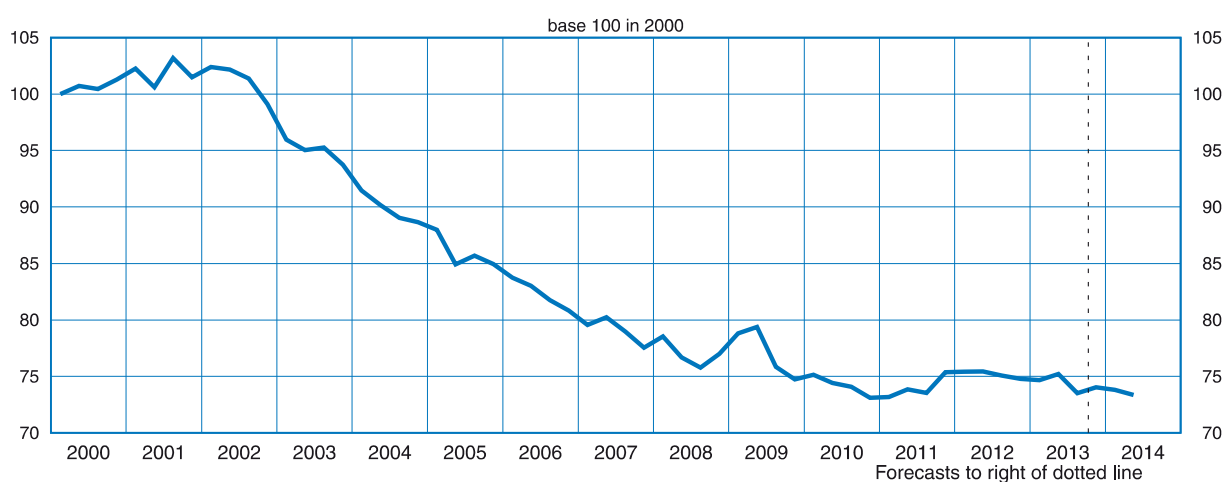
In 2014, the growth overhang for imports at the end of H1 should be +2.8%, up from +0.8% in 2013.

For 2013 as a whole the contribution of foreign trade to growth was negative (-0.1 points): exports were slightly less dynamic than imports. Over the forecasting period, the contribution of foreign trade to growth should be neutral. ■

3 - Equation of exports (goods and services) and econometric contributions



4 - Market share of France



Employment

In H2 2013, employment in the market sectors excluding agriculture stabilised (+5,000 jobs after -68,000 in H1 2013 and -94,000 in H2 2012), thanks largely to an increase in temporary employment. By mid-2014, the rebound in activity should only be sufficient to compensate for increases in productivity, even if these increases should be attenuated by the effect of the CICE employment tax credit. Market sector employment should register hardly any progress (+4,000 jobs in H1 2014).

In the non-market sectors, employment should continue to grow (+42,000 in H1 2014), largely due to the increase in the number of employees on future contracts (« Emplois d'avenir »).

All in all, job creation should continue in H1 2014 at the same rate seen in H2 2013 (+53,000 jobs after +66,000), essentially as a result of the increase in subsidised employment.

Number of market sector employees likely to stabilise in early 2014

Market sector employment declined in 2013 (-62,000 jobs, see Table 1), but less substantially than in 2012 (-106,000 jobs).

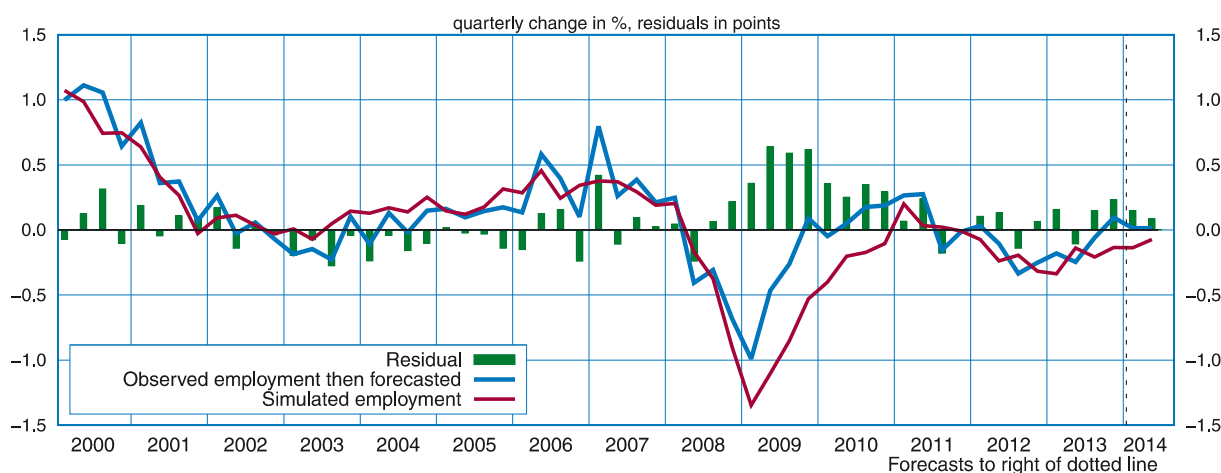
Over these two years, the evolution of employment from half-year to half-year was fairly pronounced: employment numbers decreased sharply in H2 2012 (-94,000 jobs) then again in H1 2013 (-68,000 jobs). In H2 2013, however, market sector employment increased slightly (+5,000 jobs, see Graph 1).

In H1 2014, market sector employment should continue to increase slightly, still hindered by the weakness of recent activity, but bolstered by the effects of the CICE employment tax credit (+30,000 new jobs recorded in H1 2014). By mid-2014, market sector employment should thus be back to its mid-2005 level (see Graph 2).

Temporary employment set to increase slightly, along with tertiary sector employment excluding temporary work

In Q4 2013, employment in the tertiary sector increased by 32,000 jobs. This increase is essentially due to the rebound in temporary employment. Indeed temporary employment, which is counted as tertiary sector employment regardless of the actual sector in which the work takes place, added 24,000 jobs in Q4 2013. The

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



How to read it: The equation residual for employment is the spread between the observed employment growth rate and the simulated employment growth rate. A positive residual, such as that observed at the beginning of 2012, indicates that observed employment showed better growth than past behaviour would lead us to expect.

Source: INSEE

French developments

increase in temporary employment should continue at a less dynamic pace in H1 2014 (+9,000 jobs).

In the tertiary sector, excluding temporary work, employment increased slightly in late 2013 (+ 15,000 jobs in H2) and should progress at the same rate in H1 2014 (+ 17,000 jobs).

All in all, the increase in market-sector tertiary employment including temporary work should be a little less pronounced in H1 2014 than it was in the second half of 2013 (+26,000 jobs, down from +42,000 in H2 2013).

Employment down in the industrial sector

In 2013, despite the stabilisation of activity, industrial employment (excluding temporary workers employed in this sector) shrank by more than it did in 2012 (-53,000 jobs after -28,000, *see Graph 3*). These job losses should continue at a more moderate rate in H1 2014 (-13,000 jobs).

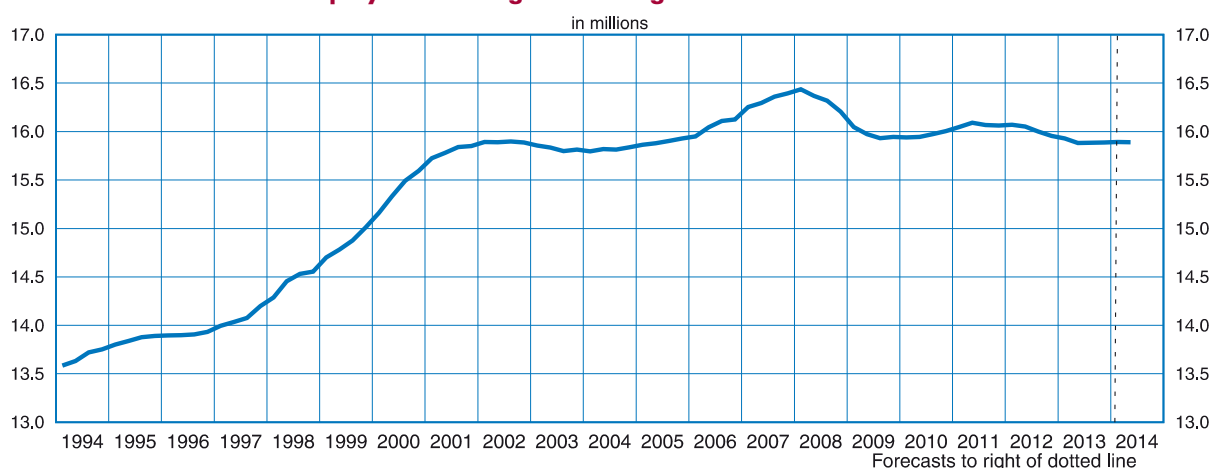
If we count temporary employees deployed in the industrial sector, the total decline in industrial employment should be slightly less dramatic: over the forecasting period, the rate of temporary employment in the industrial sector should return to its level of early 2012, i.e. 6.9% (*see Graph 4*).

All in all, industrial employment (including temporary workers deployed in the sector) should shed another 9,000 jobs in H1 2014.

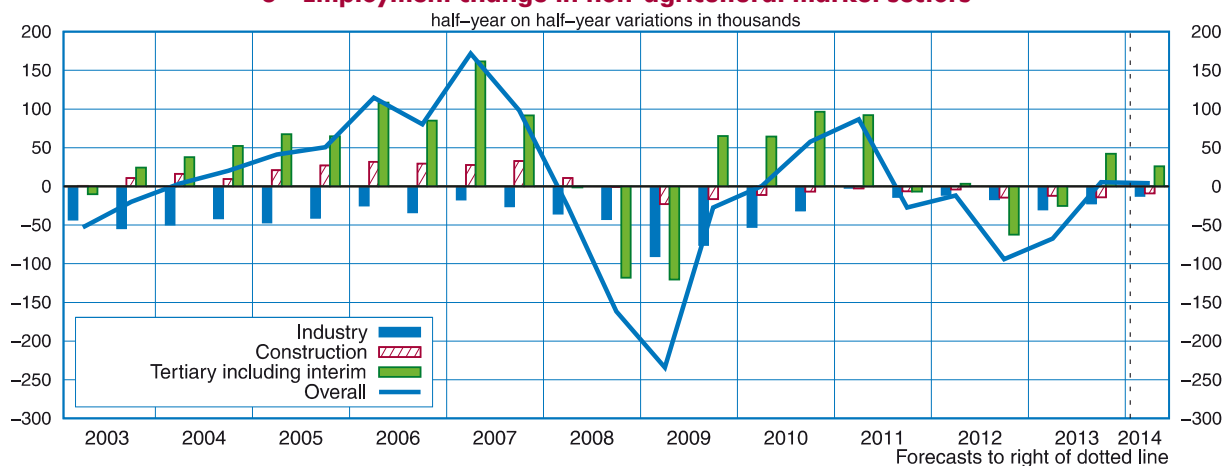
Employment in the construction sector declines further

In the construction sector, employment has not recovered since the onset of the crisis in 2008. Job losses continued in 2013 (-26,000 jobs), with employment declining at a steady rate across the two half-years, and this decline should slow in H1 2014 (-9,000 jobs).

2 - Employment change in non-agricultural market sectors



3 - Employment change in non-agricultural market sectors

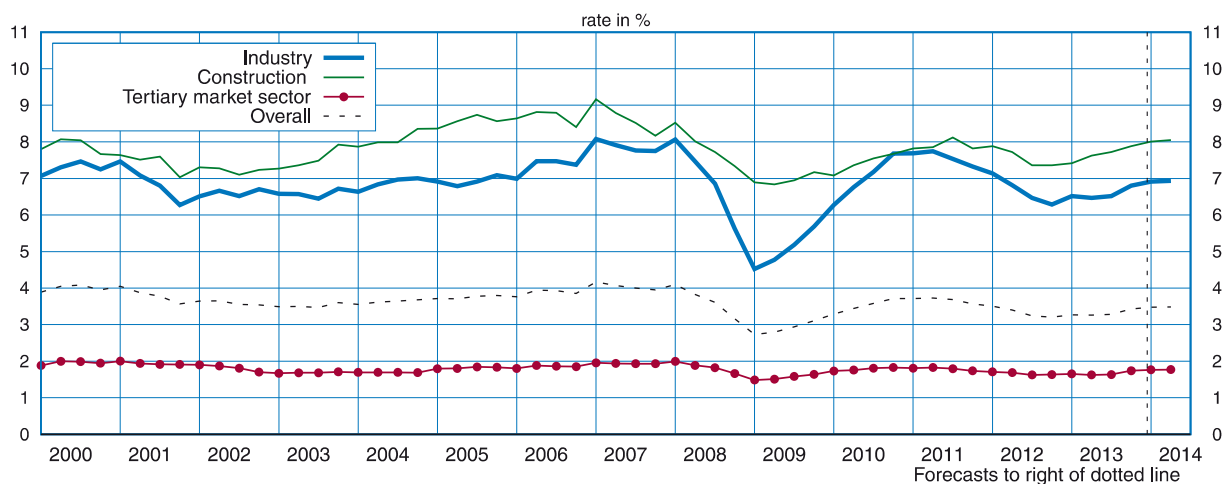


Employment in non-market sectors should continue to increase thanks to subsidised jobs

In 2013, 42,000 new jobs were created in the non-market sector. This increase can be partly attributed to rising employment levels in private facilities in the medical-social sector, and to a greater extent to the development of subsidised jobs: the number of beneficiaries of these subsidised contracts grew steadily throughout the first three quarters of 2013, with a sharp increase in Q4 (see Table 2).

The 2014 budget includes plans for 377,000 new subsidised contracts (of which 69,000 designated future contracts), after the 427,000 created in 2013 in Metropolitan France. These new contracts should be spread evenly across the year. Despite the reduction in the total number of new jobs, the increase in the average length of these subsidised contracts should allow for an increase in the total number of beneficiaries. Future contracts should thus help to support non-market sector employment and, all in all, after an increase in H2 2013 (+46,000 jobs), the number of jobs in the non-market sectors should see a similarly dynamic increase in H1 2014 (+42,000 jobs). ■

4 - Temporary work resort ratio by sectors



French developments

Table 1

Change in employment

	Job creations over the period (in thousands) seasonally adjusted								Change in employment over the period (in %) seasonally adjusted								*
	2013				2014				2013				2014				
	Q1	Q2	Q3	Q4	Q1	Q2	2013	2014 H1	Q1	Q2	Q3	Q4	Q1	Q2	2013	2014 H1	
Market sector employees (1)+(2)	-31	-36	-7	31	6	6	-42	12	-0.2	-0.2	0.0	0.2	0.0	0.0	-0.2	0.1	17913
Mainly market sectors (1) (private establishments only)	-2	3	3	16	4	4	20	8	-0.1	0.2	0.1	0.8	0.2	0.2	1.0	0.4	1956
Mainly non-agricultural non-market sectors (2)	-29	-39	-10	15	2	2	-62	4	-0.2	-0.2	-0.1	0.1	0.0	0.0	-0.4	0.0	15957
Industry	-11	-19	-13	-10	-7	-6	-53	-13	-0.3	-0.6	-0.4	-0.3	-0.2	-0.2	-1.6	-0.4	3228
including: Manufacturing industry	-11	-19	-12	-9	-6	-5	-52	-11	-0.4	-0.7	-0.4	-0.3	-0.2	-0.2	-1.8	-0.4	2861
Construction	-7	-5	-6	-8	-5	-4	-26	-9	-0.5	-0.4	-0.5	-0.5	-0.4	-0.3	-1.8	-0.7	1418
Tertiary market sector	-10	-15	10	32	14	12	17	26	-0.1	-0.1	0.1	0.3	0.1	0.1	0.1	0.2	11311
including: Trade	-4	-11	-4	7	2	3	-12	5	-0.1	-0.3	-0.1	0.2	0.1	0.1	-0.4	0.2	3017
Market services (including temporary work)	-6	-4	14	26	13	9	29	21	-0.1	-0.1	0.2	0.3	0.2	0.1	0.4	0.3	8293

* level at the end of 2012 (in thousands)

	Job creations over the period (in thousands)								Change in employment over the period (in %)							
	2013				2014				2013				2014			
	Q1	Q2	Q3	Q4	Q1	Q2	2013	2014 H1	Q1	Q2	Q3	Q4	Q1	Q2	2013	2014 H1
Mainly non-agricultural market sectors	-29	-39	-10	15	2	2	-62	4	-0.2	-0.2	-0.1	0.1	0.0	0.0	-0.4	0.0
Mainly non-market service sectors (including private establishments)	-14	10	9	37	28	14	42	42	-0.2	0.1	0.1	0.5	0.4	0.2	0.5	0.5
Self-employed	5	5	5	5	4	4	20	8	0.2	0.2	0.2	0.2	0.1	0.1	0.8	0.3
TOTAL EMPLOYMENT	-35	-21	6	59	34	19	10	53	-0.1	-0.1	0.0	0.2	0.1	0.1	0.0	0.2

Forecast

How to read it: 12,000 jobs should be created in the market sector during H1 2014. This corresponds to a decrease of 0.1% over the half-year. This sector should employ 17,913,000 payroll employees at December 31st 2012.

(1) Sectors OQ (private workers)

(2) Sectors DE to MN and RU

Source: INSEE

Table 2

Change in subsidised employment in the non-market sector

in thousands

	2012				2013				2014		2011	2012	2013	2014 H1
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2				
"Emplois d'Avenir"	0	0	0	1	8	14	20	15	20	19	0	1	58	39
CUI-CAE (replaces CAE+CAV on 01/01/10)	18	7	-23	-4	0	-1	-6	27	26	-3	-37	-1	20	23
Contract to Support Employment (CAE)	0	0	0	0	0	0	0	0	0	0	-8	0	0	0
Contract for the Future (CAV)	0	0	0	0	0	0	0	0	0	0	-5	0	0	0
Young worker's contract	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	18	7	-23	-3	8	13	15	42	46	16	-50	0	78	63

Forecast

Reading note: including renewal addenda

Scope: Metropolitan France

Sources: DARES, INSEE calculations

Subsidised jobs in 2013: the growing importance of future contracts

Subsidised contracts, based on direct or indirect subsidies, reduce the cost to employers of hiring or training certain workers. Generally speaking, these subsidised jobs are aimed primarily at certain target groups, such as young people or those with the greatest difficulty finding employment. In 2013, not including sandwich contracts, the beneficiaries of subsidised contracts were in the great majority signed up to single integration contracts (CUI), more often in the non-market sectors (223,000 by the end of 2013 in Metropolitan France) than in the market sectors (32,000 jobs), with a smaller number of new workers on future contracts. This latter scheme, introduced in November 2012, was expanded in 2013 to create 59,000 jobs in the non-market sectors and 12,000 in the market sectors by the end of the year (in Metropolitan France).

Future contracts are aimed at young people with few or no qualifications, primarily in sensitive urban areas or rural regeneration zones. These contracts are predominantly found in the non-market sectors (e.g. the social, medical-social and education sectors), but can also be found in market sectors such as ecological development, digital technologies and tourism. The proportion of the subsidies is, however, lower for future contracts in the market sectors than for those in the non-market sectors. The great majority of future contracts are for posts in associations or public sector institutions (local authorities, the school system). Market-sector integration contracts (CUI-CIE) and their non-market-sector equivalents (CUI-CAE) are aimed at a broader spectrum of people experiencing trouble finding employment (job applications systematically rejected etc.), regardless of their age or place of residence.

Subsidised contracts are often deployed to counteract the economic cycle: during times of economic slowdown, the volume of subsidised contracts may thus be rapidly increased in order to mitigate the effects of jobs losses and the resulting increase in the unemployment rate.

The short term effect of these contracts on employment depends on whether the jobs in question are in the market or non-market sectors. In the non-market sectors, the number of jobs created is simply equivalent to the difference between the number of contracts signed or extended and the number of contracts reaching their conclusion in the year. However, in the market sector, a certain number of the jobs performed by workers on subsidised contracts would have been created even if this scheme did not exist. In such cases there is a «free gift» or substitution effect, whose scale can vary from one contract to the next. The effect of subsidised contracts on market-sector employment is thus less substantial than the variation in the number of beneficiaries. The scale of this effect is estimated on the basis of empirical studies (DARES, 1996). These estimates are thus subject to a certain degree of uncertainty.

(1) Single integration contracts (CUI), sandwich contracts (apprenticeship programmes, apprenticeship or professional...), future contracts, social security exemption in ZRR and ZRU.

Furthermore, these assessments are only valid in the short term. Long-term assessments would need to take into account:

- All of the consequences of such initiatives on the labour market (wage adjustment, labour force participation rate etc.)
- The effects on human capital, particularly the effect on the beneficiaries' capacity for integration into the labour market,
- The economic impact of the way these initiatives are financed.

Finally, as these jobs are aimed primarily at those people who are the furthest removed from the labour market, they constitute a «pull factor»: the increase in the number of subsidised jobs leads to an increase in the labour force participation rate among the demographic groups targeted.

The number of beneficiaries of subsidised contracts in the non-market sectors increased significantly in 2013

After a stable 2012, subsidised employment in the non-market sectors picked up sharply in 2013, with 282,000 beneficiaries of subsidised contracts in Metropolitan France by the end of the year (up from 204,000 at the end of 2012). Firstly, the total number of subsidised contracts signed or extended in non-market sectors over the course of the year was greater than the total for the preceding year, with 431,000 such contracts in 2013 compared to 403,000 in 2012 (see Table), thanks in large part to the expansion of the future contracts programme in 2013. Meanwhile, fewer subsidised contracts in the non-market sectors came to an end in 2013 than had been the case in 2012, largely because the term of new contracts has been extended. Of these subsidised jobs, 61,000 are non-market-sector future contracts (including future contracts for teachers).

A reduction in the number of sandwich contracts in the market sectors in 2013

At the end of 2013, the number of beneficiaries of subsidised contracts¹ in the market sectors stood at 590,000, a decrease of 25,000 from the 2012 figures. This reduction can be attributed to the decline in sandwich contracts, and particularly in apprenticeship programmes. The overall effect of market-sector subsidised contracts on the general employment trend is believed to have been slightly negative in 2013 (-8,000 jobs), once substitution effects are taken into account.

Over 90% of subsidised contracts in the market sectors are sandwich programmes: at the end of 2013, 541,000 people were enrolled on apprenticeship or professional training schemes, a reduction of 43,000 compared to 2012. New enrolments on these schemes were much less numerous in 2013 than they had been in 2012: 413,000 and 445,000 respectively. The number of enrolments also declined for

French developments

professional training contracts (143,000, 8,000 fewer than in 2012), and particularly for work/study sandwich programmes (270,000, 24,000 fewer than in 2012).

Other subsidised contracts in the market sectors, which also have the effect of cutting the cost of wages, had 49,000 beneficiaries at the end of 2013, 19,000 fewer than at the end of 2012. The CUI still accounts for the majority of these contracts, although 2013 saw an increase in future contracts in the market sectors, accounting for a total of 12,000 jobs by the end of the year. The number of new CUI contracts registered in the market sectors (50,000) was unchanged from the previous years, but fewer contracts came to an end during the year. Furthermore, the number of beneficiaries of social security exemption programmes in rural regeneration

zones (ZRR) and urban renewal zones (ZRU) has been stable for the past four years (5,000 beneficiaries at the end of 2013). ■

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Subsidised employment initiatives: variations and number of beneficiaries

In thousands, not seasonally adjusted

	New beneficiaries (including contract extensions)					Variation in the number of beneficiaries (year-on-year changes at end of year)					Number of beneficiaries (total at end of year)				
	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013
Employment in the non-market sector	359	377	357	403	431	57	13	-50	0	78	241	255	205	204	282
dont :															
CUI	0	377	357	402	370	0	241	-37	-1	20	0	241	204	203	223
Contract to Support Employment	260	0	0	0	0	70	-163	-8	0	0	172	8	0	0	0
"Emplois d'avenir"***	0	0	0	1	61	0	0	0	1	58	0	0	0	1	59
Contract for the Future	98	0	0	0	0	-10	-63	-5	0	0	68	5	0	0	0
Young worker's contract	0	0	0	0	0	-3	-2	0	0	0	2	0	0	0	0
Employment in the market sector*	550	547	519	502	481	-69	-35	8	-28	-25	669	634	642	615	590
Lowering labor costs	124	119	60	57	68	-35	-32	-19	-19	19	101	69	50	30	49
CUI	0	113	53	52	50	0	55	-11	-18	7	0	55	44	26	32
"Emplois d'avenir"	0	0	0	0	12	0	0	0	0	12	0	0	0	0	12
Social security exemption (ZRR and ZRU)	7	6	6	5	5	-6	-1	0	-1	0	7	6	6	5	5
Young worker's contract	0	0	0	0	0	-54	-3	-1	0	0	4	1	0	0	0
Employment initiative contract (old and new formulas)	100	0	0	0	0	33	-74	-6	0	0	80	6	0	0	0
CI-RMA (old and new formulas)	17	0	0	0	0	-8	-9	-1	0	0	10	1	0	0	0
Dual training	425	428	459	445	413	-34	-3	28	-9	-43	568	565	593	584	541
Apprenticeship	284	284	290	294	270	-4	0	8	4	-29	402	402	410	414	385
Apprenticeship programmes	141	144	169	151	143	-30	-2	20	-13	-15	165	163	183	170	155

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

** including jobs of the future "teachers"

Sources : Dares, Agence de services et de paiement

Unemployment

In Q4 2013 the unemployment rate stood at 10.2% of the labour force (9.8% in Metropolitan France), 0.1 points down on Q3. In Metropolitan France, this rate has been virtually stable since late 2012, after an increase of 1.0 points between mid-2011 and late 2012.

This stability should persist over the current forecasting period: in mid-2014, the unemployment rate should remain at 10.2% (9.8% in Metropolitan France, see Box).

In Q4 2013, the unemployment rate stood at 10.2% of the labour force

In Q4 2013, the number of registered unemployed in France fell by 41,000 (see Table), having already fallen by 16,000 in Q3. Although the increase in employment in H2 2013 was modest (+26,000), more workers left the labour market (-31,000). The slight drop (0.1 points) in the unemployment rate in Q4 followed a period of stability that had lasted since Q1 2013 (see Graph).

In 2013 the rate of unemployment among young people fell...

In late 2012, the unemployment rate among 15-24 year olds exceeded 25% of the active population. This rate then declined throughout

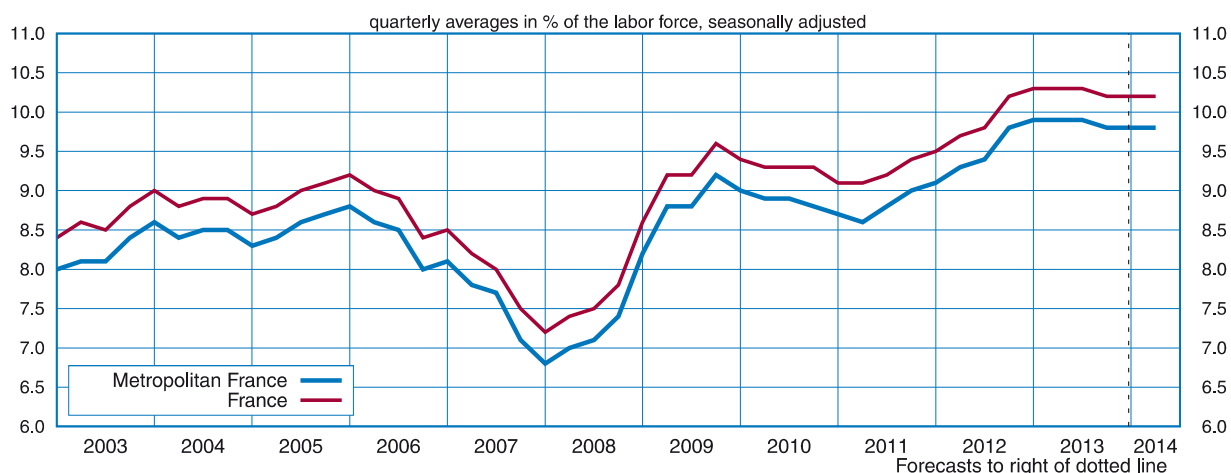
2013. In Q4 2013 it stood at 22.8%. There are several factors which could explain this reduction. On the one hand, the future contracts (« *Emplois d'avenir* ») scheme has given young people with few or no qualifications the chance to find work. On the other hand, the upturn in temporary work in late 2013 may also have benefited younger workers, who are more likely to be on temporary contracts than their older colleagues.

In 2013, the unemployment rate among 25-49 year olds was stable from Q2 onwards, standing at 9.2% of the active population. Over the whole year, this rate was up by 0.4 points. The unemployment rate of workers aged 50 and over fell slightly in Q4 2013 to stand at 6.4%.

... and among men

Since late 2011, the unemployment rate among men has generally been higher than that among women. In late 2012, these rates stood at 9.9% and 9.6% respectively, the unemployment rate among men having risen by approximately 2 points in 2011 and 2012, an increase four times greater than that seen among women. In 2013, however, only men benefited from the fall in unemployment (-0.1% compared to +0.1%). This disparity was also in evidence among young people: the reduction in employment was more substantial among young men than it was among young

1 - Unemployment rate in the sense of the ILO



France = Metropolitan France + Overseas Departments
 Scope: Population of households, people aged 15 or over

Source: INSEE, Employment Survey

French developments

women, for whom the unemployment rate is now once again higher than that among young men. This can be partly attributed to the creation of new temporary contracts, posts more frequently occupied by men.

Fewer under-50s in employment in 2013

In 2013, the labour force shrank by 41,000.

This decline in the active population can be ascribed primarily to the reduction in the labour force participation rate among the under-25s. The labour force participation rate among young people fell by 0.7 points between Q4 2012 and Q4 2013, while the rate among those aged 25-49 remained virtually stable.

However, the number of over-50s in activity continued to increase in 2013, driven by the increase in the labour force participation rate in this category (+0.4 points for the year, reaching

62.1% in Q4). There was, nonetheless, an increase in the number of retirements in the first three quarters of the year, bolstered by the increased number of early retirements for workers with long careers, a consequence of the revised terms for workers who started work before the age of twenty (decree of 2nd July 2012). However, in Q4 these retirements were cancelled out by the first effects of the later retirement dates imposed by the increase in the retirement age to 61 years and 2 months.

Unemployment should remain virtually stable over the forecasting period

In 2014, the labour force should resume its trend of growth. Over the forecasting period, net job creation should be on a comparable scale to that of the predicted growth in the labour force. All in all, the unemployment rate in Metropolitan France should stabilise at 9.8% in H1 2014. ■

Recasting of the Labour Force Survey used to measure unemployment as defined by the ILO

In Q1 2013, the Labour Force Survey questionnaire was recast, among other things in order to make the survey easier to conduct in the field, with simpler phrasing of questions so as to limit the need to rephrase when the people surveyed do not understand. Some of this rephrasing had an effect on the responses given by a section of the population surveyed, particularly those whose situation on the labour market is on the borderline between unemployment and inactivity. This has an impact on the measurement of the level of the main indicators. In particular, the unemployment rate calculated

with the new questionnaire is 0.5 points lower than the rate calculated with the old questionnaire. The survey complies with the European regulation on labour force surveys and matches the criteria of activity as defined by the ILO. Since the publication of 6 March 2014, the main indicators of activity, employment and unemployment as defined by the ILO have integrated the impact of the recasting of this questionnaire. New, retropolated long series are available and are used for this *Conjoncture in France*. ■

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

	quarterly changes										annual changes				
	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2010	2011	2012	2013	2014 H1
Population of the 15-64 age group	-20	-22	-21	-21	-21	-21	-21	-21	-12	-11	131	20	-84	-83	-24
Population of the 15-59 age group	-12	-14	-16	-19	-20	-20	-20	-19	-5	-6	-117	-70	-61	-79	-11
Labor force	65	81	-4	71	14	-24	-23	-8	42	36	48	210	214	-41	78
including:															
(a) Contribution of the population and the trend participation rate	36	36	36	36	30	30	30	30	34	34	160	165	146	120	68
(b) Estimated bending effects	9	2	2	2	-4	5	4	2	8	2	-66	-6	14	7	10
(c) Other short-term fluctuations (residual)	20	43	-42	32	-12	-59	-57	-40	0	0	-46	50	54	-168	0
Employment	22	18	-38	-43	-31	-28	-7	33	38	27	137	165	-41	-33	64
Reminder: End-of-period employment (see "Employment" note)	52	-16	-60	-27	-35	-21	6	59	34	19	138	125	-51	10	53
ILO unemployment	43	63	34	115	45	4	-16	-41	4	9	-89	45	255	-8	13
	quarterly average										Average in the last quarter of the period				
ILO unemployment rate (%)															
Metropolitan France	9.1	9.3	9.4	9.8	9.9	9.9	9.9	9.8	9.8	9.8	8.8	9.0	9.8	9.8	9.8
France (including overseas departments)	9.5	9.7	9.8	10.2	10.3	10.3	10.3	10.2	10.2	10.2	9.3	9.4	10.2	10.2	10.2

Forecast

How to read it:

- the Employment line presents variations in the number of people in employment as a quarterly average, for consistency with the other data in the table.
- employment and unemployment are not estimated here within strictly equivalent scopes: total population for employment, population of households (excluding collective) for unemployment. As the impact of this difference is very minor (the population outside of households represents less than 1% of the active population), it is neglected here for the unemployment forecasting exercise.

Source: INSEE