Consumer prices

Year-on-year change in consumer prices should stand at +0.9% in June 2014 (against +0.7% in December). Looking beyond the monthly ups and downs due notably to the sales, the underlying trend in inflation should indeed be very moderate, although headline inflation is likely to be pushed upwards by energy prices: the latter slipped back in spring 2013 before rising again thereafter. The rise in VAT rates on 1st January 2014, about half of which is likely to have been passed on in prices by the end of February, should be partly offset by the disinflationary effect of the tax credit for competitiveness and employment (CICE) through to mid-2014.

Stability in headline inflation

Year-on-year change in consumer prices should stand at +0.9% in June 2014 (against +0.7% in December, *see graph 1*). Core inflation[1] meanwhile, should remain very limited (+0.6% year on year in June); the trend is likely to show monthly ups and downs due notably to the sales (*see graph 2*). Headline inflation should be slightly higher than core inflation due to the 20-cent increase in the price of tobacco on 1st January 2014, which was only partly due to the rise in VAT and, most importantly due to the increase in energy inflation, by a base effect[2].

Energy inflation up

After a 1.3-point rise in February, year-on-year change in energy prices should increase again to +1.6% in June. Based on the conventional hypothesis of prices per barrel of Brent stabilising at €78.3 ($108) over the forecasting period, the removal from the calculation of the sharp rises observed in spring 2013 should contribute to an automatic increase in energy inflation. The VAT rate changes on 1st January 2014, meanwhile, should only contribute +0.1 points to the rise in petroleum product prices. On the whole, energy is likely to contribute 0.2 points to the increase in headline inflation through to June 2014.

Foodstuff prices should fall in 2014 by a base effect

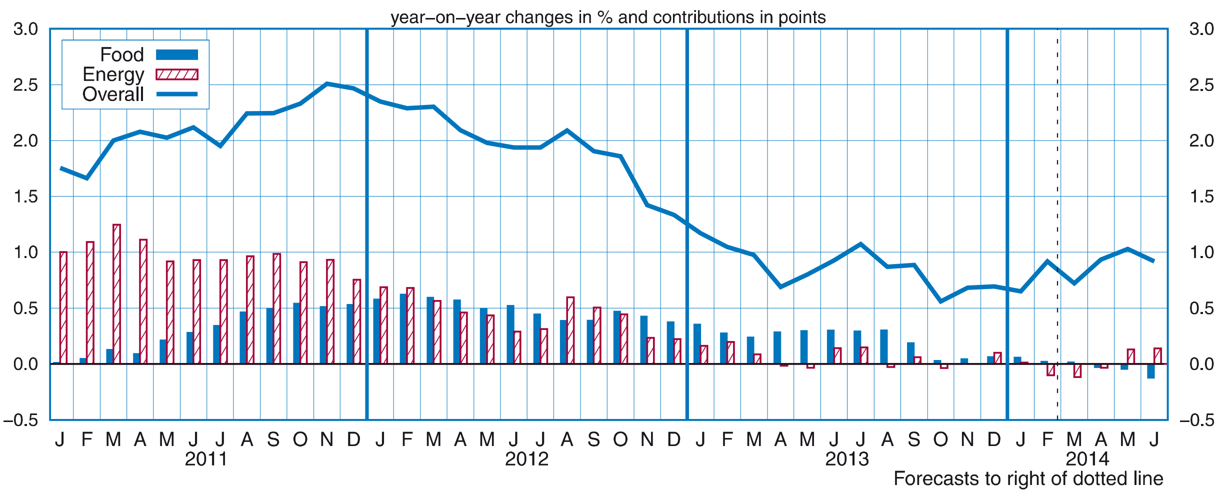
In the absence of any shocks in fresh product production, year-on-year change in prices in the food sector should fall mechanically over the forecasting period to -0.8% in June, after +0.1% in February (*see table 1*), as the sharp price rises in fresh products in the spring of 2013 slip out of the calculation.

Fall in manufactured goods prices

Year-on-year change in the prices of manufactured products, at -0.1% in February, should fall to -0.8% in June 2014. Year-on-year change in prices in the clothing and footwear sector was particularly low in January (-4.0%) and rebounded to +2.5% in February on account of the particular data-collection calendar in 2014. It is likely to stand at -0.5% in June. These ups and downs

(1) see "Economic outlook terminology"
(2) Energy prices are assumed to be stable over the forecasting period, but because of the fact that they fell in H1 2013, the year-on-year values for June 2014 will be higher than those at the start of 2014.

1 - Inflation in France



Source: INSEE

aside, low capacity utilisation rates, sluggish import prices and high unemployment levels, along with better gains in productivity, should continue to limit inflationary pressures in the manufacturing sector. In addition, the prices of health products (-2.6% in February) should fall even further over the forecasting period, (to -3.3% in June), in line with the measures in the Law on Social Security Financing for 2014. This fall should contribute -0.1% to the variation in year-on-year manufactured goods prices.

Inflation in services set to increase slightly

Year-on-year change in the prices of services, at +1.9% in February, should increase slightly to +2.1% in June 2014. The year-on-year change in insurance service prices is likely to increase as the sharp fall in car insurance rates observed in March 2013 slips out of the year-on-year calculation. Finally, the modifications in VAT rates on 1st January 2014, taking account of the CICE effect, should have a net impact of +0.2 points on the prices of services (*see table 2*). ■

Consumer prices

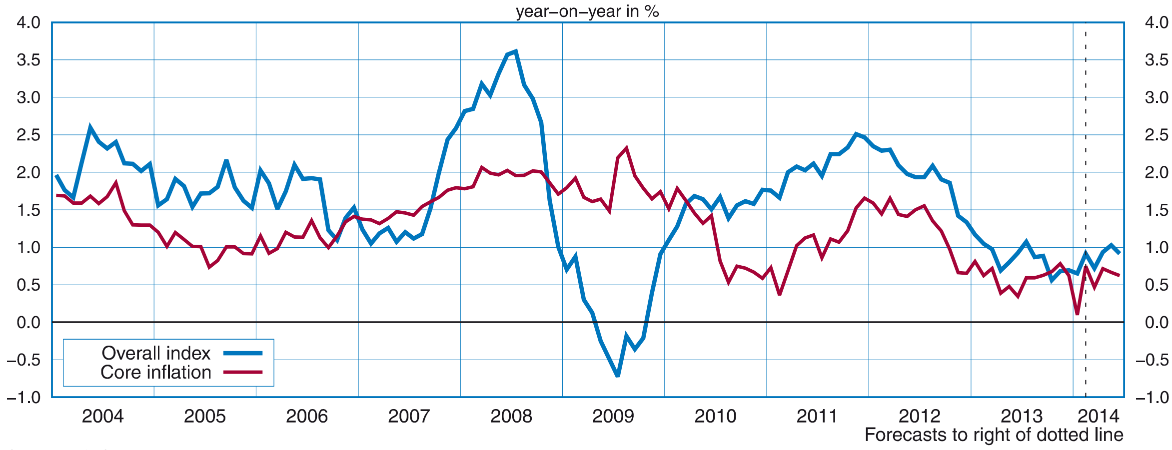
changes as %

CPI* groups (2014 weightings)	January 2014		February 2014		March 2014		June 2014		Annual averages	
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	2012	2013
Food (16.5%)	**0.4**	**0.1**	**0.1**	**0.0**	**0.1**	**0.0**	**-0.8**	**-0.1**	**3.0**	**1.4**
including:										
seasonal food products (2.1%)	*0.1*	*0.0*	*-1.2*	*0.0*	*-1.2*	*0.0*	*-7.3*	*-0.2*	*5.2*	*4.4*
excluding seasonal food products (14.4%)	*0.4*	*0.1*	*0.3*	*0.0*	*0.3*	*0.0*	*0.3*	*0.0*	*2.7*	*0.9*
Tobacco (2.0%)	**5.6**	**0.1**	**7.0**	**0.1**	**7.0**	**0.1**	**6.9**	**0.1**	**6.2**	**6.8**
Manufactured products (26.6%)	**-1.2**	**-0.3**	**-0.1**	**0.0**	**-0.6**	**-0.2**	**-0.8**	**-0.2**	**0.7**	**-0.4**
Energy (8.5%)	**0.1**	**0.0**	**-1.2**	**-0.1**	**-1.4**	**-0.1**	**1.6**	**0.1**	**5.2**	**0.8**
including:										
oil products (4.8%)	*-3.1*	*-0.1*	*-5.4*	*-0.3*	*-5.6*	*-0.3*	*-0.7*	*0.0*	*5.8*	*-2.3*
Services (46.4%)	**1.7**	**0.8**	**1.9**	**0.9**	**1.8**	**0.8**	**2.1**	**1.0**	**1.6**	**1.2**
including:										
rent-water (7.5%)	*1.7*	*0.1*	*1.6*	*0.1*	*1.7*	*0.1*	*1.7*	*0.1*	*2.0*	*1.8*
health services (5.5%)	*0.2*	*0.0*	*0.1*	*0.0*	*0.2*	*0.0*	*0.3*	*0.0*	*0.9*	*0.8*
transport-communications (5.0%)	*0.6*	*0.0*	*2.6*	*0.1*	*1.9*	*0.1*	*2.0*	*0.1*	*-3.7*	*-4.2*
other services (28.4%)	*2.2*	*0.6*	*2.2*	*0.6*	*2.1*	*0.6*	*2.5*	*0.7*	*2.7*	*2.1*
All (100%)	**0.7**	**0.7**	**0.9**	**0.9**	**0.7**	**0.7**	**0.9**	**0.9**	**2.0**	**0.9**
All excluding energy (91.5%)	0.7	0.6	1.1	1.0	0.9	0.8	0.9	0.8	1.6	0.9
All excluding tobacco (98.0%)	0.5	0.5	0.8	0.8	0.6	0.6	0.8	0.8	1.9	0.7
Core inflation (60.5%)[1]	**0.1**	**0.1**	**0.7**	**0.5**	**0.5**	**0.3**	**0.6**	**0.4**	**1.3**	**0.6**

Forecast
yoy : year-on-year
cyoy : contribution to the year-on-year value of the overall index
*Consumer price index (CPI)
(1) Index excludes public tariffs and products with volatile prices, corrected for tax measures

Source: INSEE

2 - Consumer prices in France



Source: INSEE

Table 2

Impact net VAT CICE

	on the first half 2014	from March to June 2014
Food	**-0.1**	**-0.1**
including		
Fresh food	*0.0*	*0.0*
Excluding fresh food supply	*-0.1*	*-0.1*
Tabacco	**1.8**	**0.0**
Manufacturing products	**0.0**	**0.0**
including		
Clothings, shoes	*-0.1*	*-0.1*
Health Products	*0.1*	*0.1*
Others manufacturing products	*-0.1*	*-0.1*
Energy	**0.2**	**0.1**
including		
Petroleum products	*0.2*	*0.1*
Services	**0.4**	**0.2**
including		
Rent, water, garbage	*0.2*	*0.1*
Health services	*0.0*	*0.0*
Transport communications	*0.6*	*0.3*
Others services	*0.4*	*0.2*
All	**0.2**	**0.1**
Core	-0.4	0.1

Wages

In 2013 the average wage per head (AWPH) slowed in nominal terms (+1.5% after +1.9% in 2013). The sharp drop in inflation and the more moderate increase in the minimum wage (+1.3% as an annual average after +3.3%) slowed nominal wages somewhat. As is usually the case, the drop in inflation was not fully passed on to wages and the average wage per head accelerated in real terms (+0.9% after 0.0%).

In H1 2014, the wage inertia observed in France in recent years is likely to continue. However, the poor labour market situation and the small increase in the minimum wage on 1st January (+1.1%) should lead to a slight deceleration of nominal wages. Nevertheless, the weak level of inflation should allow real wages to progress very slightly. The growth overhang for 2014 at the end of Q2 should stand at +0.6% for the real average wage per head.

In general government the nominal average wage per head slowed sharply in 2013 (+1.0% after +2.0%). In real terms it rose slightly thanks to the drop in inflation (+0.3% after +0.1%). In early 2014, wages should slip back in real terms (-0.4% growth overhang in mid-2014).

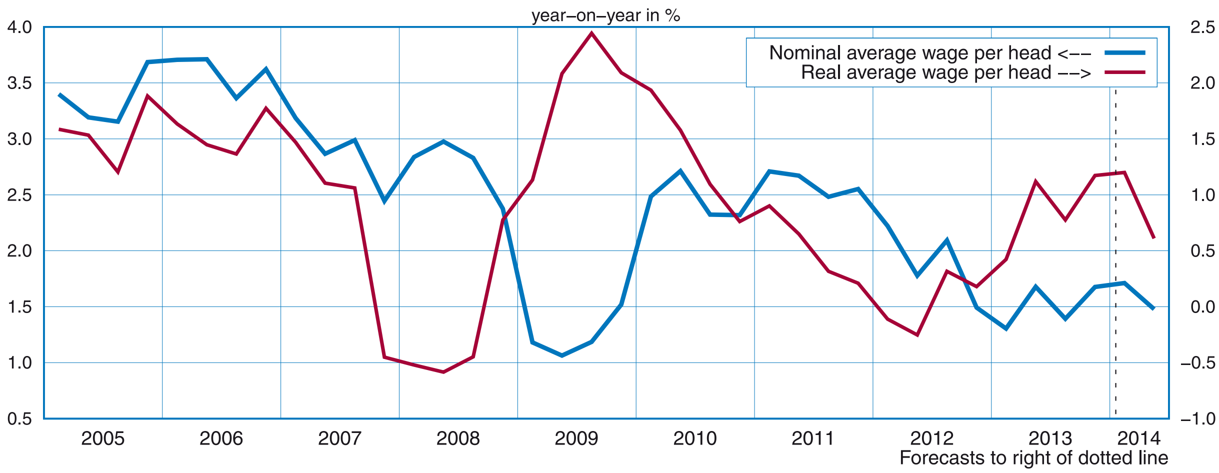
In 2013, the nominal basic monthly wage declined but the rise in the average wage per head stabilised

In 2013 the basic monthly wage[1] (BMW) was less dynamic than in 2012 in nominal terms (+1.7% after +2.1%, see Table). The average wage per head, which includes bonuses, also slowed (+1.5% in 2013 after +1.9% in 2012). In 2013 the high level of unemployment continued to take its toll on the purchasing power of employees. Furthermore, the increase in the minimum wage on 1st January was small (+0.3%), far lower than previous rises (+1.3% as an annual average in 2013 after +3.3% in 2012). However, as wages are partly determined by past inflation, they were stimulated by the 2012 level, which was higher than inflation in 2013 (+1.9% against +0.6%).

In real terms the basic monthly wage and the average wage per head also benefited from the drop in inflation in 2013. The real basic monthly wage increased by 1.1% in 2013 (after +0.3% in 2012) and the real average wage per head by 0.9% (after stagnating in 2012). These gains in real wages were mainly made in H1 2013, due to weak inflation and dynamic bonuses in Q2.

(1) For a definition of BMW and AWPH, see on insee.fr website "Economic outlook terminology"

Change in the nominal and real average wage per head



Scope: non-agricultural market sector

Sources: DARES, INSEE

French developments

Real wages in the market sector only likely to increase very slightly in H1 2014

Nominal wages should continue to increase at the same pace as in 2013. On the one hand, at the start of 2014 the minimum wage was increased by 1.1%, against +0.3% on 1st January 2013. However, as the unemployment rate is set to remain high in H1 2014, it will likely take its toll on wage rises. At the end of H1 2014, the growth overhang should be +1.3% for the basic monthly wage and +1.4% for the average wage per head. In real terms wages should slow in early 2014 (*see Graph*): the growth overhang should stand at +0.5% for the basic monthly wage and +0.6% for the average wage per head at the end of Q2.

Real wages in general government set to fall slightly in H1 2014

In the civil service, nominal wages slowed in 2013: +1.0% after +2.0%. More specifically, the civil service minimum index rose by just 1.3% in 2013 after +3.4% in 2012. However, the sharp drop in inflation led to a 0.3% rise in real wages after +0.1% in 2012.

In early 2014, the index point is still frozen and the GIPA[2] scheme has been renewed. However, the nominal average wage per head in general government should slow slightly in H1 and the growth overhang at the end of Q2 2014 should stand at +0.3% for the nominal average wage per head and -0.4% for the real average wage per head. ■

(2) The 2013 individual purchasing power guarantee is a compensation awarded to civil servants and certain State employees who suffered a loss in purchasing power between 2008 and 2012.

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		
	2013				2014		2013	2013	2014 ovgh
	Q1	Q2	Q3	Q4	Q1	Q2			
Basic monthly wage	0.4	0.4	0.3	0.4	0.4	0.4	2.1	1.7	1,3
Average wage per head in the non-agricultural market sector (NAMS)	0.4	0.6	0.3	0.5	0.4	0.3	1.9	1.5	1.4
Average wage per head in general government (GG)							2.0	1.0	0.3
Household consumer price index (quarterly national accounts)	0.3	-0.1	0.2	0.1	0.3	0.3	1,9	0,6	0,7
Real basic monthly wage	0.1	0.5	0.2	0.3	0.1	0.1	0.3	1.1	0.5
Real average wage per head (NAMS)	0.1	0.6	0.1	0.4	0.1	0.0	0.0	0.9	0.6
Real average wage per head (GG)							0.1	0.3	-0.4

Forecast

Source: INSEE

Household income

In 2013, household purchasing power showed an upturn (+0.3% after -0.9% in 2012), mainly thanks to the deceleration in consumer prices (+0.6% after +1.9% in 2012). Gross household disposable income progressed at the same rate as in 2012 (+0.9% after +0.9%), with the slowdown in earned income (+1.0% after +1.8% in 2012) being offset by the lesser increase in the tax burden (+4.3% after +7.4% in 2012).

In H1 2014, purchasing power should show an upturn (+1.0% then +0.1% in the first two quarters) after falling back slightly at the end of 2013 (-0.2% in Q4). At the beginning of 2014, earned income should progress at a stabilised rate, while taxes should fall back in Q1 as an after-effect of the rises at the end of 2013.

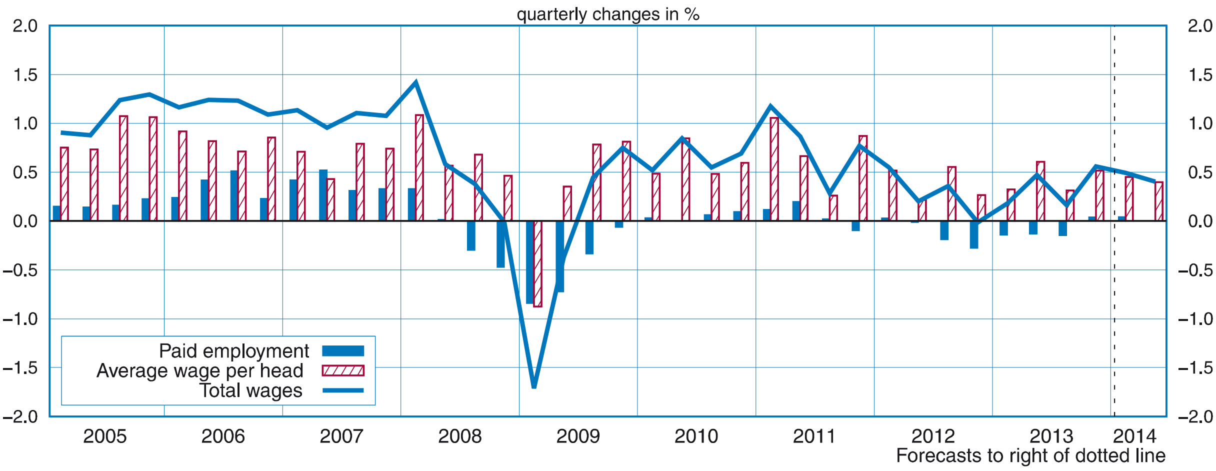
After a slowdown in 2013, earned income should progress at a stabilised rate in early 2014

Over 2013 as a whole, earned income was less dynamic than in 2012 (+1.0% after +1.8% in 2012, *see Table 1*). In particular, the payroll received by households decelerated (+1.3% after +1.9% in 2012, *see Table 2*), due to the fall in employment, which was accentuated, as an annual average, in the non-agricultural market sectors (-0.6% in 2013 after -0.2% in 2012)[1]. In addition to this, the gross operating surplus of sole proprietors decelerated markedly (-0.6% after +1.6% in 2012), due to a deterioration in earned income in agriculture and construction. Property income also slowed down in 2013 (0.0% after +0.6% in 2012), mainly driven by a fall in the returns from regulated savings. The gross operating surplus of pure households, however, which had been held back in 2012 by the fall in interest rates, accelerated in 2013 (+2.2% after +1.4% in 2012)[2].

In H1 2014, growth in earned income should stabilise (+0.3% then + 0.4% in Q1 and Q2 2014 after +0.5% in Q4 2013), as should payroll received by households (*see Graph*). Likewise, the gross operating surplus of sole proprietorships should return to growth in Q4 2013 (+0.3%) and continue on average at the same rate in the first two quarters of 2014 (-0.3% then +0.6%).

(1) For the record, the decline of yoy employment would conversely be twice lower in 2013 than in 2012 (see *Employment Note*).
(2) 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). In 2012, the interbank lending rates saw a greater decrease than mortgage lending rates, and financial intermediation services thus became proportionally more expensive.

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



Source: INSEE

Social benefits should continue to slow down

In 2013, social benefits in cash were less dynamic than in 2012 (+3.0% after +4.0%, see Table 3), as social security benefits slowed down (+3.2% after +4.2%). On the one hand, the top-up pensions paid out by AGIRC-ARRCO were increased less than in previous years, further to the agreement of March 2013. Family benefits also progressed at a rate close to their trend, after being buoyed up in 2012 by the sharp increase in the back-to-school allowance. However, social assistance benefits slowed down in 2013 (+3.2% after +4.2% in 2012), further notably to the slowdown in the disabled adult allowance (AAH), despite the dynamism of the earned income supplement (RSA), in particular thanks to its adjustment on 1st January.

In H1 2014, social benefits in cash should slow anew down. In particular, social security benefits should decelerate: +0.8% then 0.0% in Q1 and Q2 2014, after +0.8% at the end of 2013. In particular in 2014, pensions in the basic regimes (except for the Solidarity Allowance for the Elderly (ASPA) and disability pensions) were not adjusted as they were in previous years on 1st April, with those adjustments being postponed to 1st October. Also, the AGIRC-ARRCO pensions that are usually adjusted on 1st April will not be adjusted at all in 2014. Finally, social assistance benefits are set to slow down (+0.8% in the first two quarters of 2014 after +1.1% at the end of 2013), especially those paid for the earned income supplement (RSA), as the worsening of the labour market eases.

Household tax burden still dynamic in 2013, almost stable in early 2014

Over 2013 as a whole, the tax burden upon households increased less than in 2012 (+4.3 % after +7.4%). The amount of the new measures was comparable to that in 2012, but spontaneous growth in the tax burden was less than in the previous year, notably on account of the slowdown in earned income in 2012. In particular, the proceeds of taxes on income and assets slowed down over the year as a whole (+4.1% in 2013 after +10.2% in 2012). Contributions on wages accelerated (+4.5% in 2013 after +3.4% in 2012), while those of the self-employed continued

Table 1

Household gross disposable income

	2012				2013				2014		2012	2013	2014 ovgh
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Gross disposable income (100%)	**0.3**	**0.4**	**0.0**	**-0.9**	**1.3**	**0.4**	**-0.1**	**-0.1**	**1.3**	**0.4**	**0.9**	**0.9**	**1.5**
including :													
Earned income (69%)	0.6	0.3	0.4	0.0	0.2	0.4	0.1	0.5	0.3	0.4	1.8	1.0	1.2
Gross wages (60%)	*0.6*	*0.3*	*0.5*	*0.1*	*0.3*	*0.5*	*0.2*	*0.5*	*0.4*	*0.4*	*1.9*	*1.3*	*1.3*
GOS of sole proprietors[1] (9%)	*0.5*	*0.4*	*0.1*	*-0.5*	*-0.6*	*0.4*	*-0.3*	*0.3*	*-0.3*	*0.6*	*1.6*	*-0.6*	*0.3*
Social benefits in cash (33%)	*1.3*	*1.1*	*1.0*	*0.7*	*0.5*	*0.7*	*0.7*	*0.9*	*0.7*	*0.1*	*4.0*	*3.0*	*2.1*
GOS of "pure" households (12%)	0.3	0.3	0.2	0.6	0.7	0.7	0.5	0.5	0.9	0.5	1.4	2.2	2.1
Property income (10%)	-0.5	-0.3	0.2	0.6	-0.1	-0.4	-0.5	0.6	0.9	1.0	0.6	0.0	1.8
Social contribution and tax burden (-25%)	1.8	0.5	2.8	5.1	-3.3	0.8	1.6	3.5	-2.1	0.4	7.4	4.3	1.7
Contributions by paid employees (-8%)	*0.9*	*0.5*	*1.0*	*2.7*	*0.8*	*0.8*	*0.7*	*0.4*	*0.4*	*0.4*	*3.4*	*4.5*	*1.5*
Contributions of self-employed persons (-2%)	*6.5*	*0.9*	*1.6*	*1.2*	*0.7*	*1.0*	*0.4*	*4.2*	*-1.4*	*0.0*	*5.9*	*4.8*	*2.1*
Income and wealth tax (including CSG and CRDS) (-14%)	*1.6*	*0.4*	*4.1*	*7.2*	*-6.1*	*0.8*	*2.4*	*5.2*	*-3.7*	*0.5*	*10.2*	*4.1*	*1.7*
Income before taxes	0.5	0.4	0.5	0.1	0.3	0.5	0.3	0.6	0.6	0.4	2.0	1.3	1.6
Household consumer prices (quarterly national accounts)	**0.7**	**0.3**	**0.1**	**0.2**	**0.3**	**-0.1**	**0.2**	**0.1**	**0.3**	**0.3**	**1.9**	**0.6**	**0.7**
Purchasing power of gross disposable income	**-0.4**	**0.1**	**-0.1**	**-1.1**	**1.0**	**0.5**	**-0.2**	**-0.2**	**1.0**	**0.1**	**-0.9**	**0.3**	**0.9**
Household purchasing power by consumption	**-0.5**	**0.0**	**-0.3**	**-1.2**	**0.8**	**0.3**	**-0.4**	**-0.4**	**0.8**	**-0.1**	**-1.5**	**-0.3**	**0.3**

Forecast

How to read it: The figures in parentheses give the structure of the year 2012.

(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

to grow at a sustained rate (+4.8% after +5.9%), especially due to the removal of the ceiling on sickness contributions and the abolition of the special allowance for professional costs.

The new tax measures on income and assets in 2013 (notably the de-indexation of income tax thresholds, creation of a 45% bracket, lowering of the family quotient ceiling) mainly applied to H2, when income tax notices were received. The tax profile is therefore uneven, with a rise in Q3 (+2.4%) followed by an acceleration in Q4 (+5.2%). An after-effect of this is that a fall is expected in Q1 2014 (-3.7%). The contributions paid by households should also return to a rate close to their trend in H1 2014. All in all, the tax burden should fall markedly in Q1 (-2.1%), then progress slightly in Q2 (+0.4%).

Purchasing power returns to growth in 2013

The nominal gross disposable income (GDI) of households progressed by 0.9% in 2013, like in 2012. At the same time, consumer prices slowed down markedly (+0.6% against +1.9%). The purchasing power of GDI therefore accelerated distinctly, progressing by 0.3% in 2013, after -0.9% in 2012. Purchasing power per consumption unit, taking account of demographic trends, fell back slightly in 2013 (-0.3%) after recording its sharpest fall since 1984 in 2012 (-1.5%, see box).

At the beginning of 2014, due to the specific profile of taxation, the GDI of households should show an upturn (+1.3% in Q1 then +0.4% in Q2), after being almost stable at the end of 2013 (-0.1% in Q4). Purchasing power should increase less strongly (+1.0% then +0.1% in early 2014 after -0.2% at the end of 2013), due to the expected acceleration in prices. In mid-2014, it should be 0.6% higher than one year earlier, however. ■

Table 2
From the payroll of non-financial enterprises to that received by households

	2012				2013				2014		2012	2013	2014 ovhg
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**			
Non-financial enterprises (67%)	0.5	0.2	0.4	0.0	0.2	0.5	0.2	0.6	0.5	0.4	1.8	1.0	1.4
including :													
Average wage per head	*0.5*	*0.2*	*0.5*	*0.3*	*0.3*	*0.6*	*0.3*	*0.5*	*0.5*	*0.4*	*1.8*	*1.5*	*1.4*
Financial corporations (5%)	1.0	0.1	0.7	-0.7	1.1	0.5	-0.2	0.4	0.7	0.5	1.2	1.3	1.4
General government (22%)	0.4	0.5	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.1	1.4	1.1	0.5
Households excluding sole proprietors (2%)	-0.2	0.0	1.9	0.3	-0.8	0.4	0.4	0.3	0.4	0.4	1.6	0.9	1.1
Total gross wages received by households (100%)	**0.6**	**0.3**	**0.5**	**0.1**	**0.3**	**0.5**	**0.2**	**0.5**	**0.4**	**0.4**	**1.9**	**1.3**	**1.3**
including :													
Non-agricultural market sectors	*0.6*	*0.2*	*0.3*	*-0.1*	*0.2*	*0.4*	*0.1*	*0.5*	*0.4*	*0.3*	*1.7*	*0.9*	*1.3*

Forecast

How to read it: The figures in parentheses give the structure of the year 2012.

Source: INSEE

Table 3

Social transfers received and paid by households

	2012				2013				2014		2012	2013	2014 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Social cash benefits received by households (100%)	**1.3**	**1.1**	**1.0**	**0.7**	**0.5**	**0.7**	**0.7**	**0.9**	**0.7**	**0.1**	**4.0**	**3.0**	**2.1**
Social Security benefits in cash (72%)	1.3	1.2	1.1	0.8	0.6	0.7	0.7	0.8	0.8	0.0	4.2	3.2	2.0
Private funded social benefits (7%)	1.3	-0.1	0.6	0.3	-0.1	1.7	0.0	1.4	0.5	0.5	2.2	2.1	2.3
Unfunded employee social benefits (13%)	1.0	0.8	0.8	0.6	0.6	0.6	0.6	0.8	0.7	0.1	3.7	2.6	1.9
Social assistance benefits in cash (8%)	1.7	1.6	0.8	0.5	0.5	0.6	1.5	1.1	0.8	0.8	4.2	3.2	3.2
Total social contribution burden	**0.9**	**0.6**	**0.6**	**1.4**	**0.3**	**0.7**	**0.8**	**0.5**	**0.4**	**0.4**	**3.1**	**2.9**	**1.7**
Actual social contributions paid by households (100%)	0.9	0.5	0.5	1.6	0.3	0.7	0.9	0.5	0.3	0.4	3.0	3.0	1.6
including :													
Employers contributions[1] (63%)	*0.3*	*0.5*	*0.2*	*1.1*	*0.0*	*0.6*	*1.0*	*0.1*	*0.5*	*0.5*	*2.5*	*2.0*	*1.6*
Employees contributions (29%)	*0.9*	*0.5*	*1.0*	*2.7*	*0.8*	*0.8*	*0.7*	*0.4*	*0.4*	*0.4*	*3.4*	*4.5*	*1.5*
Self-employed contributions (8%)	*6.5*	*0.9*	*1.6*	*1.2*	*0.7*	*1.0*	*0.4*	*4.2*	*-1.4*	*0.0*	*5.9*	*4.8*	*2.1*

Forecast

How to read it: The figures in parentheses give the structure of the year 2012.

(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. The purchasing power of all households, which represents the quantity of goods and services that households can purchase with their income, is calculated as income corrected for the growth in consumer prices. In order to measure the average purchasing power of the French population, this value has to be corrected in order to account for both the growth in the number of households and 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 2013, 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 2013 (-0.3% after -1.5% in 2012). Per household, the fall should be 0.7% and per inhabitant it should be 0.2%. ■

Household consumption and investment

In Q4 2013, household consumption picked up (+0.4% after remaining stable), particularly automobile expenditure due to public anticipation of the more stringent "malus" on 1st January 2014, and expenditure on food products. Additionally, the drop in energy expenditure was far smaller than in Q3. Consumption of services only increased slightly, however.

In Q1 2014 consumption of manufactured goods is likely to suffer a reaction to the one-off effects that occurred at the end of 2013: it should fall sharply, most notably automobile purchases. Energy consumption, particularly for heating, should decline again due to the higher than average temperatures. All in all, consumption should slip back by 0.3%, driven by the drop in consumption of goods (-1.0%). In Q2 2014 the after-effect of the automobile "malus" (carbon emission tax) should fade while energy consumption is likely to rebound mechanically; total consumption should grow by 0.6%.

Leaving aside quarter-to-quarter jolts, the savings ratio should fall slightly over one year, to 15.8% in Q2 2014 against 15.9% in Q2 2013.

In Q4 2013, consumption of goods picked up

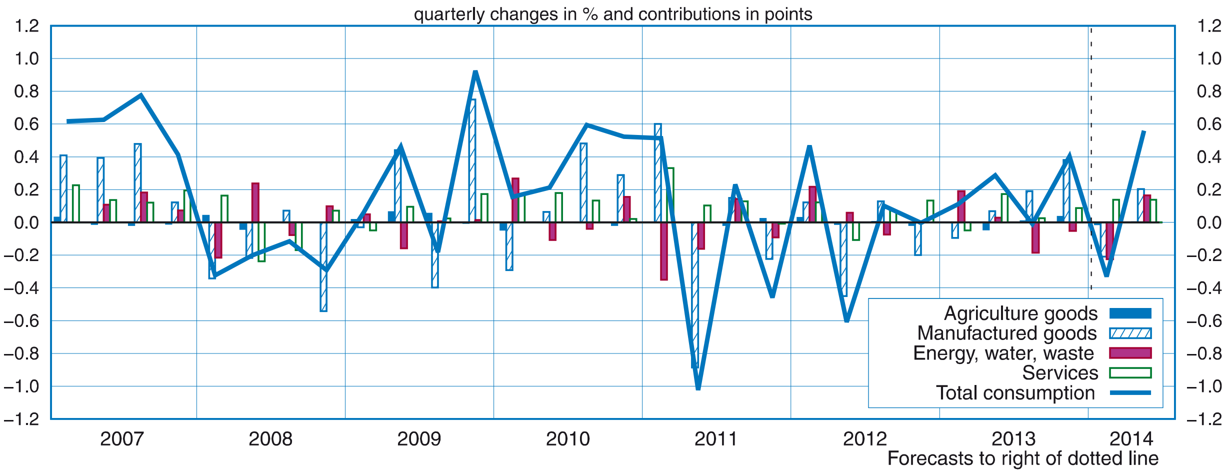
In Q4 2013, household consumption accelerated (+0.4% after remaining stable, see Table and Graph 1) thanks to expenditure on goods (+0.7% after remaining stable). Food expenditure grew to offset the decline at the start of the year (-0.3% as an annual average in 2013).

Expenditure on engineered goods remained dynamic at the end of the year (+1.3% after +0.9%) and contributed to half of the total acceleration (see Focus). On the one hand, automobile purchases continued to progress (+2.3% after +0.7%) in anticipation of the more stringent "malus" on 1st January 2014. On the other hand, consumption of machinery and equipment rose sharply (+3.4% after +1.9%). Lastly, consumption of services increased slightly (+0.2% after remaining stable).

In Q1 2014, consumption of manufactured goods to suffer a backlash effect

Total household consumption is likely to be erratic in H1 2014 (-0.3% and +0.6%, see Graph 2). With temperatures above the seasonal norms this winter, energy consumption is likely to dip once again in Q1 (-4.0% after -0.9%). Furthermore, consumption of engineered goods should fall back (-0.2% after +1.3%), particularly machinery and equipment and automobiles (in reaction to the more stringent "malus", see Graph 3). However, textile-clothing-leather expenditure should pick up a little with a slightly more favourable January-sales effect than in previous years. Lastly, consumption of services should accelerate slightly in Q1 2014 (+0.3%).

1 - Contributions of the various items to quarterly household consumption



Source: INSEE

In Q2 2014, expenditure on engineered goods is likely to recover as the after-effect of the automobile "malus" fades. Expenditure on machinery and equipment should rebound, driven mainly by the customary peak in sales of televisions (and associated equipment) when the football World Cup takes place (see Focus in Conjoncture in France, June 2010). Expenditure on services should remain sluggish. All in all, the growth overhang for household consumption expenditure should stand at +0.5% in mid-2014, after +0.3% over the year 2013 as a whole.

Savings ratio also likely to fall year-on-year

The savings ratio should reach 15.8% in Q2 2014, i.e. 0.1 points lower than one year previously. This slight drop masks an erratic quarterly profile. Given the drops in purchasing power in H2 2013, linked to the new measures affecting household tax, the unblocking of employee savings and anticipated expenditure, the savings ratio fell by 0.5 points in Q4 2013, down to 15.2%. It should rebound by 1.0 point in Q1 2014, partly due to the recovery of purchasing power, but also the drop in consumption in reaction to the anticipated purchases of the previous quarter. Lastly, the savings ratio should slip back by 0.4 points in Q2 to settle at a lower level than that of Q3 2013. The improvement in economic prospects should bring a slight drop in precautionary savings.

Household investment falling further in early 2014

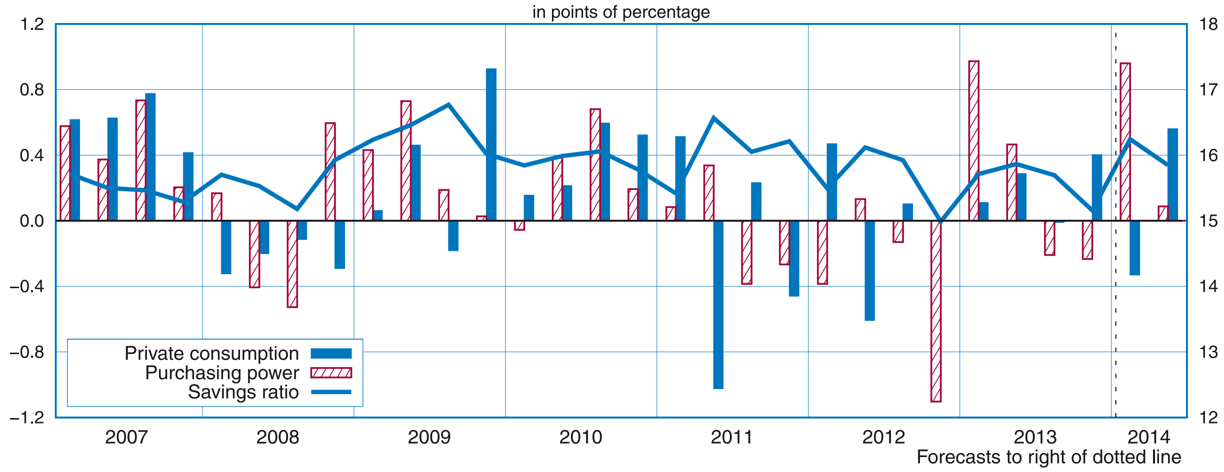
In Q4 2013, the drop in household investment slowed (-0.4% after -0.7%). However, household investment should decline once again in H1 2014 (-0.9% and -1.4%). Housing starts, of which there were more in early 2013, once again declined in H2 2013 and the VAT rise could adversely affect housing maintenance expenditure in spring (as exemptions postponed the impact of the VAT rise). The growth overhang for household investment should stand at -3.0% in mid-2014, after a drop of 3.8% over the year 2013 as a whole.■

Household consumption and investment expenditure

	Quarterly changes in %										Annual changes in %		
	2012				2013				2014		2012	2013	2014 ovgh
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Total household consumption expenditures (B+S)	**0.5**	**-0.6**	**0.1**	**0.0**	**0.1**	**0.3**	**0.0**	**0.4**	**-0.3**	**0.6**	**-0.4**	**0.3**	**0.5**
Services (S)	**0.2**	**-0.2**	**0.1**	**0.3**	**-0.1**	**0.3**	**0.0**	**0.2**	**0.3**	**0.3**	**0.4**	**0.4**	**0.7**
Goods (G)	**0.8**	**-0.8**	**0.1**	**-0.4**	**0.3**	**0.1**	**0.0**	**0.7**	**-1.0**	**0.8**	**-0.5**	**0.0**	**0.1**
including													
Food (AZ-C1)	**1.2**	**-0.7**	**0.4**	**-1.2**	**0.9**	**-1.0**	**0.4**	**0.8**	**-0.5**	**0.1**	**0.2**	**-0.3**	**0.1**
Agriculture goods (AZ)	1.0	-0.4	0.2	-0.6	-0.1	-1.6	0.3	1.3	-0.5	0.1	0.9	-1.3	0.3
Agri-food products (C1)	1.2	-0.8	0.5	-1.3	1.1	-0.9	0.4	0.7	-0.5	0.1	0.0	-0.1	0.1
Energy (DE-C2)	**3.6**	**0.6**	**-1.4**	**0.3**	**2.3**	**1.7**	**-3.1**	**-0.9**	**-4.0**	**2.9**	**1.5**	**1.4**	**-3.8**
Energy, water, waste (DE)	6.1	1.5	-1.9	0.2	5.0	0.7	-4.6	-1.4	-6.0	4.6	5.2	2.3	-5.9
Coke and refined petroleum(C2)	1.4	-0.4	-1.0	0.4	-0.3	2.6	-1.7	-0.4	-1.9	1.2	-1.8	0.5	-1.6
Engineered goods (C3 à C5)	**-0.5**	**-1.4**	**0.5**	**-0.1**	**-1.1**	**0.4**	**0.9**	**1.3**	**-0.2**	**0.6**	**-1.9**	**-0.3**	**1.8**
Manufactured products (C1 à C5)	***0.3***	***-1.0***	***0.3***	***-0.5***	***-0.2***	***0.2***	***0.4***	***0.9***	***-0.5***	***0.5***	***-1.2***	***-0.1***	***0.8***
Investment expenditure	-0.7	0.0	-0.5	-1.0	-1.3	-1.5	-0.7	-0.4	-0.9	-1.4	-0.4	-3.8	-3.0

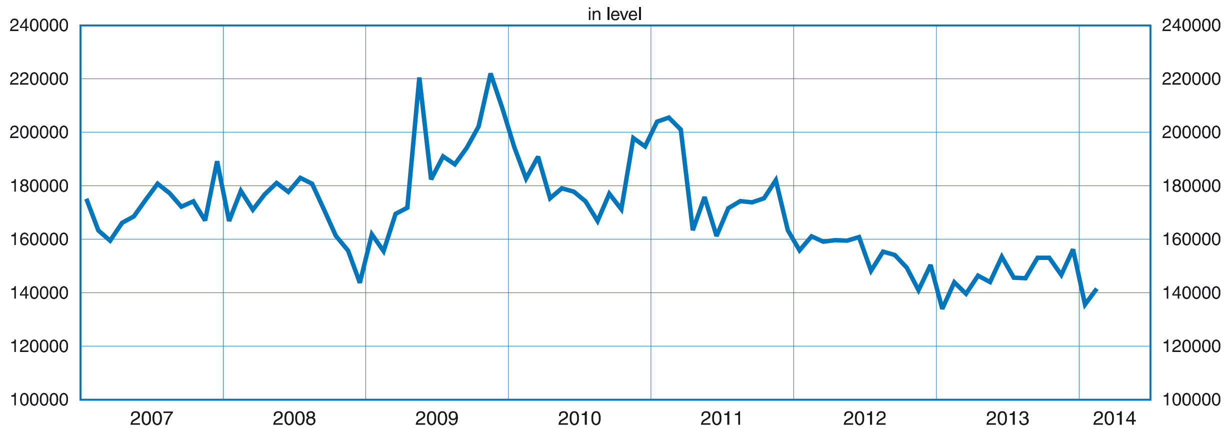
Forecast
Source: INSEE

2 - Savings rate and consumption growth rate and the purchasing power of gross disposable income



Source: INSEE

3 - Monthly registrations of new private vehicules (wd and sa)
Last point: February 2014



Source: SOeS

How to explain the dynamic consumption of engineered goods in Q4?

Consumption of engineered goods (manufactured goods excluding refinery and agrifood products) was dynamic in Q4 2013 (+1.3% after +0.9% in Q3). This rebound was incidentally correctly forecast in our December scenario (+1.2% expected). This dynamism may come as a surprise given that purchasing power progressed very little in 2013 (+0.3%) and that consumption of engineered goods had not exceeded +1.0% of growth since Q1 2011 and has declined by 0.1% per quarter on average over the last two years.

Consumption of durables and automobiles was particularly strong

This acceleration is largely ascribable to the sharp increase in consumption of durables (+2.3% after +0.9%), especially automobiles (+2.3% after +0.7%) and housing equipment (+2.9% after +1.2%). Two main factors can explain the good performance of consumption of engineered goods in Q4, particularly in December: the release of employee shareholding funds in H2 2013, and anticipation of a more stringent automobile "malus" on 1st January 2014[1].

The unblocking of employee savings allowed households to release two billion euros

The Law of June 2013[2] exempted all or part of unblocked employee savings (mainly employee shareholding funds) from income tax. This measure is similar to several unblocking authorisations in recent years, notably in H2 2004 and in H1 2008. Valid for six months starting from 1st July 2013, the H2 2013 measure was however different from its predecessors in two ways. First, in order to avoid these sums being transferred to other savings accounts, the unblocking was targeted: in the event of a tax inspection, employees have to produce proof of purchase of goods or services. Second, the amount was capped at a higher level: 20,000 euros, i.e. twice as much as in 2004 and 2008. According to the first available estimates[3] just over two billion euros appear to have been released (*see Table*). Nearly 500,000 people withdrew an average of 4500 euros each. 30% of amounts released appearing in household consumption

Assuming that the proportion of these unblocked funds devoted to consumption is in line with what was observed in 2004 with the same type of measure,4 the effect on consumption should be around 570 millions euros, mainly the consumption of engineered goods[5]. This amount represents 0.9 points of this consumption. The effect of the measure on the level of consumption of engineered goods should be +0.2 points in Q3, +0.5 points in Q4 and +0.2 points in Q1 2014. For engineered goods, the measure is likely to contribute 0.2 and then 0.3 growth points in Q3 and Q4 2013 and -0.3 then -0.2 in the first two quarters of 2014.

Anticipation of the automobile "malus" on 1st January 2014 encouraged households to bring forward their automobile purchases in Q4 2013

Added to this effect is the fact that automobile consumption was sustained by anticipation of the more stringent automobile "malus" (carbon emission tax) in 2014. It has increased for all vehicle models; it rose on 1st January 2014 from 100 to 250 euros for models that emit between 136 and 140 gCO2/km, 300 to 500 euros for models that emit between 141 and 145 gCO2/km and 6,000 to 8,000 euros for models that emit more than 201 gCO2/km. Lastly, a new malus of 150 euros came into force for models emitting between 131 and 135 gCO2/km. In light of the behaviours observed previously with measures linked to the bonus-malus system[6] the effect of this anticipation on household consumption of automobiles is estimated at around +1.0%. The effect of consumption of engineered goods on growth should thus be +0.25 points in Q4 and, in a backlash effect, -0.5 points in Q1 2014 and +0.25 points in Q2. These effects are consistent with the variations observed in private vehicle registrations, which progressed by 2.7% in Q4 2013 (after +0.1% in Q3) and which showed a quarterly growth overhang in February of -8.2%.

All in all, the effect of these two measures on the level of consumption of engineered goods in Q4 2013 should be +0.8 points after +0.2 points in Q3 2013. The forecast for Q1 2014 is -0.1 points. Excluding these effects, household consumption of engineered goods should progress by +0.6% then +0.5% in Q1 and Q2 2014 after +0.7% in Q3 and Q4 2013. ■

(1) Anticipation of the VAT rise on 1st January should have had a limited effect on the dynamism of consumption of engineered goods in Q4 because this VAT rate only rose by 0.4 points (from 19.6% to 20.0%) for most of these products.
(2) Law n° 2013-561 of 28 June 2013 on the one-off unblocking of shareholding and profit-sharing funds.
(3) Source: Association Française de Gestion financière
4) For example the 2004 measure led to the release of seven billion euros, of which around two billion was used for consumption. See Focus, "Effect of the 2004 measures to sustain consumption", Conjoncture in France, March 2005. However, it has not been possible to identify an effect on consumption of the release scheme in spring 2008.
(5) In theory, the unblocking of employee savings could affect consumption of services, mainly catering, accommodation and transport. However, this effect has been excluded here: consumption of services is usually less sensitive to short-term variations. Furthermore, no acceleration in consumption in these branches has been observed for Q4.
(6) The "malus" and bonus were reinforced on 1st January 2012, 1st August 2012 and 1st January 2013

Survey on one-off releases of shareholding and profit sharing funds

	Lower 1 000 €	From 1 000 € to 4 999 €	From 5 000 € to 9 999 €	From 10 000 € to 14 999 €	From 15 000 € to 49 999 €	Top 50 000 €	Total
Number of applicants	101 826	227 326	81 280	31 664	19 047	9 491	**470 634**
Cumulative unblocked amounts (€ Millions)	55	577	566	380	339	193	**2 108**
Average amount unblocked	537	2537	6961	11985	17777	20282	**4479**

Source: Association française de gestion financière

Enterprises' earnings

In 2013, the margin rate of non-financial companies fell back again to 28.1% on average over the year, after 28.3% in 2012. It was buoyed by the improvement in terms of trade, but gains in real wages per head exceeded productivity gains and taxes on production increased.

Over H1 2014, the margin rate is likely to level out: the acceleration in productivity should offset the progression in wages. If the accounting effect of the CICE is added in (+1.1 points), it should rise to 29.1%.

In 2013, the margin rate reached its lowest since 1985

The margin rate of non-financial companies fell almost continually between mid-2010 and Q3 2013, reaching 27.9%, its lowest level since 1985 (*see Graph 1*). In Q4 2013, the margin rate increased by 0.1 points thanks to an improvement in terms of trade, while gains in productivity and the rise in real wages per head offset each other (*see Table*).

Over 2013 as a whole, the margin rate of non-financial companies reached an annual average of 28.1%, which is 0.2 points less than in 2012. The rise in real wages per head (contribution of -0.6 points, *see Graph 2)* exceeded the progression in productivity (contribution of +0.4 points). These gains in productivity are the result of stability in activity and a fall in employment in non-financial companies (-0.6%). In 2013, taxes on production weighed down on the margin rate (contribution of -0.2 points): on the one hand, the increase in the rate of the social contribution at the end of 2012 from 8% to 20% had its full effect in 2013; on the other, the tax on wages was amended on 1st January 2013 (tax base extended and creation of an additional top rate).

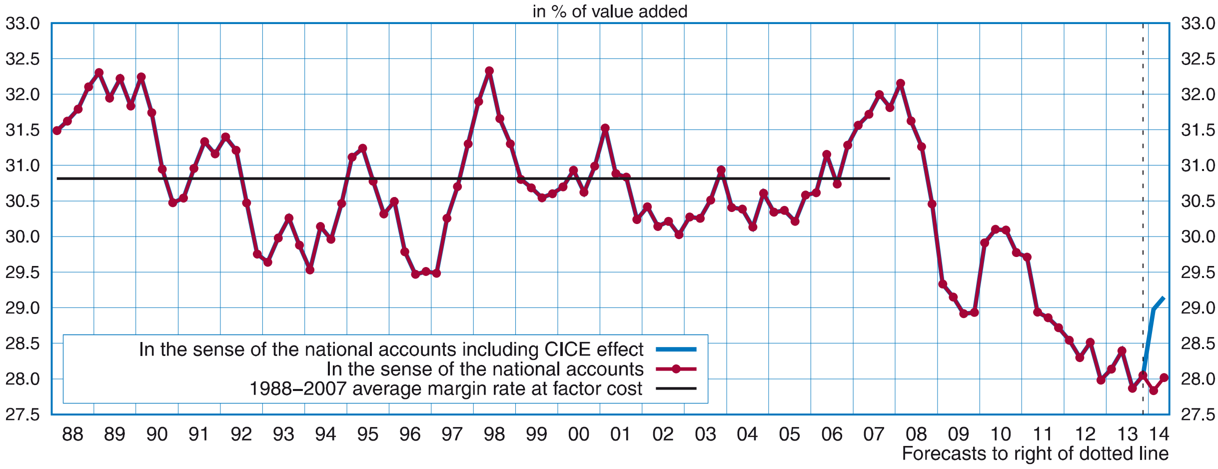
In H1 2014, the margin rate is likely to be affected by the CICE and the rise in VAT

In H1 2014, the progression in spontaneous productivity gains should contribute to an upturn in the margin rate. The latter is likely to be reduced however, by the effects of the introduction of the CICE and the rise in VAT on 1st January. First, the CICE should boost growth in employment and therefore hold back the upturn in productivity (by -0.2 points, see focus in the December 2013 Conjoncture in France on employment). It should also contribute to postponing the passing on to prices of the rise in VAT rates on 1st January: companies are likely to absorb a part of that through to the end of June, representing a contribution of -0.3 points to their margin rate.

All in all, the margin rate should reach 28.0% in mid-2014, as at the end of 2013. If the accounting effect of the CICE[1] were added in (+1.1 points), it would rise to 29.1% in mid-2014, which is 1.1 points above the level reached at the end of 2013.■

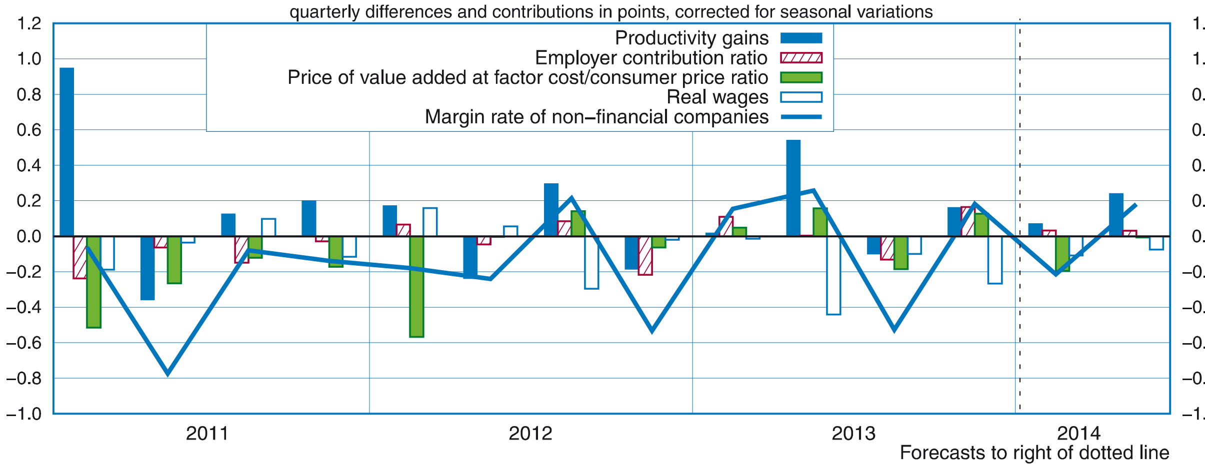
(1) Here the CICE is counted as a lower amount of corporation tax, and the sums paid under the CICE scheme are therefore counted in the savings ratio of companies rather than in their margin rate.

1 - Margin rate of non-financial companies (NFC)



Source: INSEE

2 - Contributions to the variation in the margin rate of non-financial companies (NFC)



Source: INSEE

Breakdown of the margin rate of non-financial companies (NFC)

	2012				2013				2014		2012	2013	2014 ovgh
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Margin rate (in level)[1]	28.5	28.3	28.5	28.0	28.1	28.2	27.9	28.2	28.0	28.1	28.3	28.1	28.1
Variation in margin rate	-0.2	-0.2	0.2	-0.5	0.2	0.3	-0.5	0.2	-0.2	0.2	-0.7	-0.2	-0.1
Contributions to the variation margin rate													
Productivity gains	0.2	-0.2	0.3	-0.2	0.0	0.5	-0.1	0.2	0.1	0.2	0.2	0.4	0.5
Real wage per head	0.2	0.1	-0.3	0.0	0.0	-0.4	-0.1	-0.3	-0.1	-0.1	0.0	-0.6	-0.5
Employer contribution ratio	0.1	0.0	0.1	-0.2	0.1	0.0	-0.1	0.2	0.0	0.0	-0.1	0.0	0.1
Ratio of the value-added price to the consumer price	-0.6	0.0	0.2	0.0	0.1	0.2	-0.2	0.1	-0.2	0.0	-0.6	0.3	-0.1
Other factors	0.0	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	-0.2	-0.1
Margin rate corrected to include CICE effect (in level)	28.5	28.3	28.5	28.0	28.1	28.4	27.9	28.0	29.0	29.1	28.3	28.1	29.1
Variation in margin rate corrected to include CICE effect	-0.2	-0.2	0.2	-0.5	0.2	0.3	-0.5	0.2	0.9	0.2	-0.7	-0.2	1.0

Forecast

(1) The margin rate measures the share of value-added which remunerates capital. Its variation is broken down in accounting terms between:
- productivity changes (Y/L), with Y value-added and L employment, and the ratio of the value-added price to the consumer price, or terms of trade (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.
- others factors: including taxes on production net of operating subsidies.

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

Source: INSEE

Corporate investment and inventory

In Q4 2013, corporate investment progressed by 0.9%, after contracting for seven consecutive quarters. In particular, investment in manufactured goods showed an upturn from mid-year onwards (+1.2% in Q3 and Q4 2013), buoyed by purchases of heavy goods vehicles being brought forwards before the expected introduction of tighter anti-pollution standards.

In Q1 2014, investments by companies is likely to fall (-0.2%) caused by the backlash in heavy goods vehicles sales and a marked drop in investments in construction. It should then rebound in Q2 2014 (+0.2%).

In Q4 2013, the contribution of inventory change to growth in GDP was negative (-0.3 points) as destocking increased in manufacturing industry. In Q1 2014, the contribution to growth in activity of inventory change should be positive (+0.3 points), as businesses build up their stocks in industry.

In 2013, a marked fall in investment in manufactured products and in construction

In Q4 2013, corporate investment showed an upturn for the first time in two years (+0.9% after -0.3% in Q3, see *Table 1*). This rise was mainly driven by the upturn in investment expenditure in manufactured goods (+1.2% in Q3 and Q4 2013). In particular, due to anticipation of the rise in heavy goods vehicle prices in 2014 (on account of the Euro 6 standard), investment in transport equipment progressed sharply at the end of the year (+3.9%): heavy goods vehicle registrations increased by 19.0% in the last quarter of 2013. Investment in services also progressed (+0.7% after -1.9% in Q3). Finally, after falling for eight consecutive quarters, investment in construction increased in Q4 2013 (+0.6%) thanks to dynamic investment in civil engineering, while all other types of construction were almost stable (-0.1%).

All in all, over 2013 as a whole, investment by non-financial enterprises (NFE) again slipped back clearly (-2.3% after -1.9% in 2012). On the one hand, the fall in construction spending deepened (-3.8% after -2.2%) and investment expenditure in services decreased for the first time since 2009 (-0.3%). On the other, spending on manufactured goods fell again, although at a slower rate than in 2012 (-2.4% after -3.7%); this effect was particularly marked in the transport equipment sector (-4.8% after -10.5%).

The investment rate among NFEs stood at 17.7% at the end of 2013, 0.2 points above the low point reached in Q2 2013 (*see Graph 1*) and at a level that does not seem particularly low in relation to historic averages.

In Q1 2014, corporate investment set to fall

Business leaders in the services sector surveyed in March 2014 consider that their investment expenditure is likely to fall in coming months. Industrialists surveyed in January 2014, meanwhile, expect their investment to progress in H1 2014 and foresee a rise of 3% in their investment over 2014 as a whole. The revision indicator of investment in manufacturing industry became positive again (*see Graph 2*).

Financing terms should buoy up investment over the forecasting period. First of all, the margin rate of non-financial enterprises should level out through to mid-2014. Company cash flow should

Table 1

Investment by non-financial enterprises (NFE)

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

	Quarterly changes										Annual changes		
	2012				2013				2014		2012	2013	2014 ovgh
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Manufactured products (43%)	-3.7	-0.9	-1.1	-1.9	-0.7	-0.4	1.2	1.2	-0.3	0.4	-3.7	-2.4	1.4
Building and public works (28%))	-1.1	-0.3	-1.0	-1.8	-1.3	-0.6	-0.7	0.6	-0.7	-0.4	-2.2	-3.8	-1.1
Other (29%)	1.5	-0.1	-0.2	0.9	-0.6	0.8	-1.9	0.7	0.5	0.5	1.2	-0.3	0.6
All non-financial enterprises (100%)	**-1.5**	**-0.5**	**-0.9**	**-1.1**	**-0.9**	**-0.1**	**-0.3**	**0.9**	**-0.2**	**0.2**	**-1.9**	**-2.3**	**0.4**

Forecast

Source: INSEE

benefit from the favourable effect of the tax credit for competitiveness and employment (CICE). After increasing sharply in 2013 under the effect of the unexpected fall in inflation, the real interest rate should continue to fall through to June 2014. Also, according to the available data, bank lending terms have stopped tightening (see Graph 3). The low level of production capacity utilisation rates, which are still not progressing in January 2014 and remain at 80.0%, are likely to limit the upturn in investment.

Investment should also be dragged downwards in Q1 2014 (-0.2%) by the backlash in heavy goods vehicle purchases and a sharp fall in construction expenditure (-0.7%). It is likely to rebound in Q2 2014 (+0.2%). The investment rate of NFEs should therefore fall slightly over H1 2014 (17.6%).

Investment in manufactured goods set to fall in early 2014

After a fall in Q1 2014 (-0.3%) as an after-effect of the sharp rise in Q4 2013, investment in manufactured products should progress again in Q2 (+0.4%). This growth is likely to remain limited, as indicated by capital goods wholesalers who represent 40% of investments in manufactured goods: past sales remain on a negative trend in March, while order books are also low. In Q1, there should be a sharp backlash in transport equipment (-10.5% overhang in heavy goods vehicle registrations for Q1 2014).

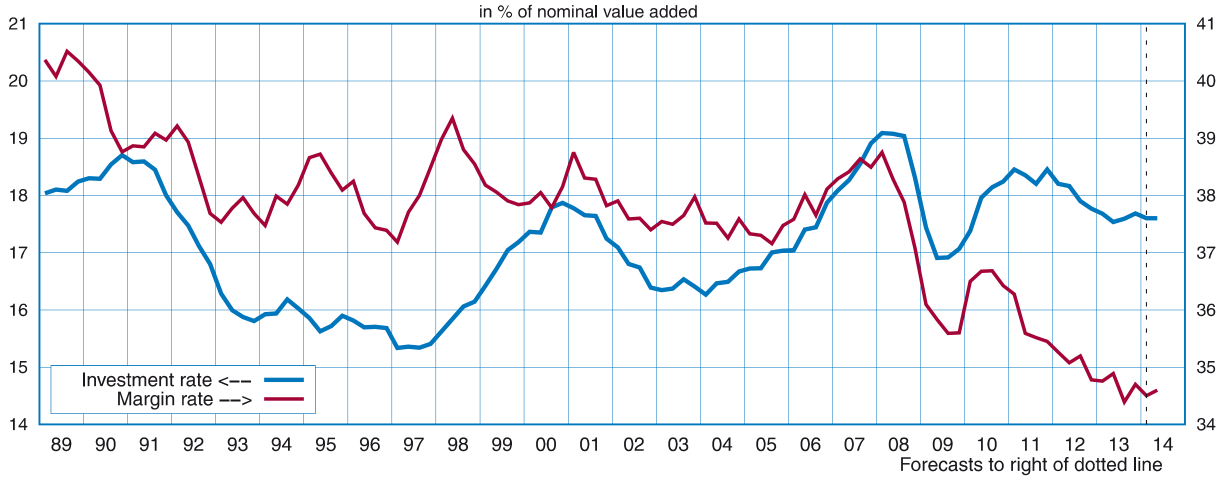
In construction, investment should weaken in Q1 2014

As suggested by responses of company leaders to business tendency surveys, construction expenditure by companies is likely to fall in H1 2014 (-0.7% and -0.4% in Q1 and Q2).

Investments in services set to increase moderately

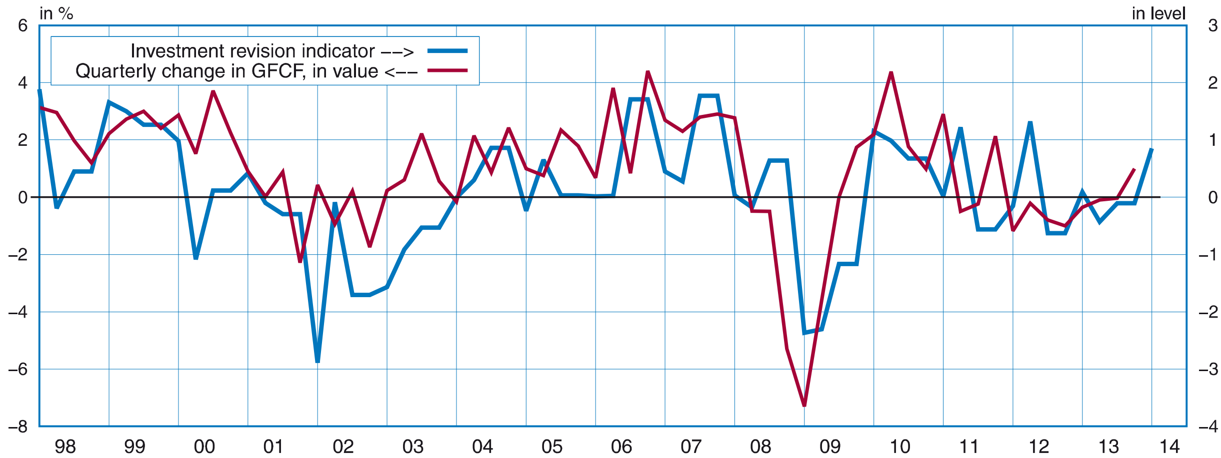
Other investments, essentially in IT services and specialised activities, should progress in H1 2014 (+0.5% in each quarter). Surveyed in March,

1 - Investment rate and margin rate



Source: INSEE, quaterly accounts

2 - Investment revision indicator in manufacturing industry



Source: INSEE, quaterly survey on investments in industry, quarterly accounts business leaders in these sectors mention a slight improvement in their past activity, but are less optimistic about coming months.

Variations in stocks weighed negatively on growth in Q4 2013

In Q4 2013, variations in stocks contributed negatively to growth in GDP (-0.3 points, after +0.5 points in the previous quarter, see Table 2) on account of increased destocking in manufactured goods. Stocks of transport equipment decreased markedly due to the upturn in aeronautics exports and sales of heavy and light vehicles. In addition to this, stocks of coking-refining products fell, driven by one-off closures of several refineries.

In Q1 2014, inventory change should buoy up growth

In Q1 2014, the contribution of inventory to growth is likely to be positive (+0.3), as destocking in manufactured goods eases. According to the monthly outlook survey in industry in March 2014, industrialists consider their stocks to be slightly below normal. Also, according to the quarterly outlook survey in industry in January 2014, they expect demand to improve. They therefore have an incentive to increase their inventory. Also, according to the data available for Q1, manufacturing production should progress again, while demand excluding stocks is likely to stagnate. In Q2 2014, the contribution of inventory to growth is expected to be zero.■

Table 2

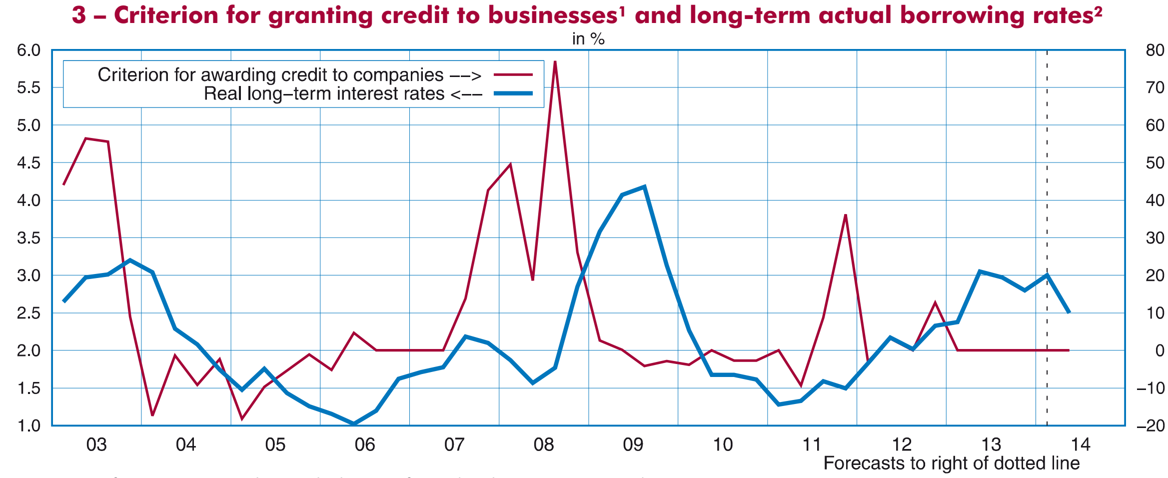
Contribution of inventory changes to growth

in GDP points

	Quaterly changes										Annual changes		
	2012				2013				2014		2012	2013	2014
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Agricultural and agrifood products	0.1	0.0	0.1	-0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.1	0.0	0.0
Manufactured products	-0.2	0.1	-0.1	-0.3	0.3	0.0	0.4	-0.2	0.3	0.0	-1.0	0.2	0.3
including:													
Agricultural goods	-0.1	0.0	0.0	0.2	-0.1	0.1	0.0	-0.1					
Coke and petroleum products	-0.1	0.1	0.1	-0.3	0.2	0.0	0.0	-0.1					
Machinery and equipment goods	-0.1	0.0	0.0	0.0	0.1	-0.1	0.0	0.0					
Transport equipment	0.1	0.0	-0.3	-0.1	0.1	0.1	0.3	-0.1					
Others industrial goods	0.0	0.0	0.1	-0.2	0.0	-0.1	0.1	0.0					
Energy, water and waste	0.1	-0.2	0.1	0.1	-0.2	0.0	0.1	-0.1	0.0	0.0	0.0	-0.1	0.1
Other (construction, services)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL [1]	0.0	-0.1	0.0	-0.3	0.1	0.1	0.5	-0.3	0.3	0.0	-0.8	0.1	0.4

Forecast
(1) Inventory changes include acquisitions net of sales of valuables.
Source: INSEE

3 – Criterion for granting credit to businesses[1] and long-term actual borrowing rates[2]



(1) Criteria for granting credit: net balance of weighted responses = tightening - easing.
(2) Here, the real rate denotes the interest rate on new loans to non-financial companies, the rate of which is revisable at a frequency of more than one year, i.e. at a fixed rate for an initial period of more than one year. This rate is deflated by the producer price index of all goods and services.

Sources: INSEE, quaterly accounts and Bank of France