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IN FRANCE

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Growth returns, but does not take off

While the improvement in the business climate at the end of 2013 announced a consolidation in the upturn in the advanced economies, 2014 got off to a rather disappointing start. With the notable exception of Germany, activity on the whole was less dynamic than expected in the advanced economies, while the announced slowdown in the emerging economies was confirmed. World trade contracted markedly, for the first time since 2009. Consequently, French exports slowed down sharply, notably those to our partners outside Europe. The weakness of activity in many countries was partly the result of one-off factors. For example, the US economy was handicapped by the harsh winter. Likewise, the emerging countries suffered from further withdrawals of foreign capital. In France, activity stagnated in Q1 due to some specific factors in addition to the contraction in world demand: in particular, the backlash after vehicle purchases were brought forward to before the end of 2013 and the drop in energy expenditure on account of a particularly mild winter.

In spring 2014, these one-off negative factors should fade, allowing a slight upturn. In France, as in the Eurozone, the upturn in activity is however likely to be modest (+0.3% in Q2) as certain lingering factors continue to limit its extent. Households' purchasing power is indeed increasing too modestly to drive a significant acceleration in households' consumption and to prevent a continuing slide in investment in new housing. Faced with demand that is still not taking off, and with margin rates that are improving but still low, companies are not inclined to invest. Finally, French exports are unlikely to profit fully from the expected acceleration in world trade, penalised as they are by the past rise in the Euro. Therefore, the business climate as indicated by the business tendency surveys, which hasn't improve for nine months now, remains at a lower level than its long-term average.

In H2 2014, growth in France should be consolidated, but remain modest (+0.3% per quarter). On average over the year, GDP is likely to grow by 0.7% in 2014, after +0.4% in 2012 and 2013. Within the Eurozone, Italy is set to emerge slowly from the recession, while the upturn should be stronger in Spain. For these two countries, the construction sector is suffering from the poor business climate as it is in France. On the contrary, this sector is more dynamic in both Germany and the UK, thus contributing to a better global outlook in these two countries. The weakness of growth in France suggests that no significant improvement can be expected on the employment front; the slight rise expected in total employment is likely to be driven exclusively by the increase of assisted employment in general government. This is unlikely to be enough to offset the rise in the active population and the unemployment rate should increase slightly through to the end of the year, at 10.2% in France.

The main uncertainty is the trajectory of inflation. The scenario taken here assumes that the return of growth and resulting fall in unemployment in the Eurozone should stabilise inflation. It is possible, however, that the factors that explain the faster than expected fall in inflation in recent months might continue to push it downwards. Conversely, inflation could rise again, notably if the measures announced by the ECB at the beginning of June succeed in lowering the level of the Euro. The activity scenario will also depend on the response of businesses to the new economic policy measures announced by the government. Finally, there are also great uncertainties surrounding the behaviour of European households as regards savings. The assumption here is that the recent fall in their saving rate is not sustainable over the longer term and will therefore ease up gradually, although the improvement in the labour market that seems to be taking form could continue to favour a decrease in precautionary savings. Conversely, it is also possible that households may profit from the improvement in their income to begin building up their savings again and reducing their debt. ■

In the emerging economies, foreign trade surprised by its weakness

Activity slowed down in the advanced economies

The Eurozone maintained some impetus

In France, domestic demand excluding inventory held growth back

Despite a physical market with there is little tension, oil prices remain high

Activity in the emerging economies set to remain at a slower rate

Activity slowed down in most economies in Q1 2014

In Q1 2014, activity have maintained a moderate growth rate in the emerging economies: +1.1% after +1.2% in Q4 2013, against +1.7% on average between 2000 and 2010. Industrial production slowed down sharply (+0.5% after +1.4%, according to the CPB). While this sluggish activity was expected, foreign trade was much less dynamic than forecast: exports fell back (-2.5% after +3.2%), in particular in Asia, and imports levelled off (-0.1% after +2.1%).

In Q1 2014, activity slowed down in the advanced economies (+0.3% after +0.5%), more sharply than forecast in *Conjoncture in France* in March 2014 (+0.5%). In the United States, it contracted under the effect of poor weather conditions and unexpectedly weak investment (-0.2% after +0.7%). In Japan, activity accelerated temporarily, boosted by pre-tax hike rush demand before the rise in VAT on 1st April.

In Q1 2014, the slow economic upturn was confirmed in the Eurozone (+0.2% after +0.3%). Activity accelerated in Germany, notably due to the mild winter (+0.8% after +0.4%), and in Spain (+0.4% after +0.2%). It remained sluggish in the rest of the Eurozone, however, notably in France (0.0%) and Italy (-0.1%).

In France, activity stagnated in Q1 2014

Activity stagnated in France in Q1 2014, when a slight progression (+0.1%) had been anticipated in *Conjoncture in France* in March. Foreign trade made a negative contribution to growth (-0.2 points), with the slowdown in exports (+0.3% after +1.6%). Domestic demand excluding inventory fell markedly (contribution of -0.4 points). Consumption fell (-0.5%), in particular in manufactured products (-0.7%) after growing strongly in Q4 2013 (+0.9%). In addition to this, total investment fell sharply (-0.9%), particularly in construction (-1.8%). It should be stressed, however, that the change in base has resulted in a revision of the quarterly profile of this type of investment which now shows a clear downturn at the end of 2013 (see *Focus*, "The quarterly accounts switch to the 2010 base").

Oil prices remain high

Since the beginning of 2014, the price of Brent has stood at a high level of around \$108 (€79.4) on average. This high level is no doubt partly due to geopolitical tensions which remain high, although those on the physical market are weak: demand is rising with the world upturn, but at a moderate rate, and oil supply is also increasing, driven by growth in production in North America. Through to the end of the year, tensions should remain low on the physical market: demand should progress slightly, held back by the relative weakness of the emerging economies, while supply should grow as US output increases and certain OPEC countries (Libya, Saudi Arabia) are set to increase their production levels. All in all, as the rises in supply and demand are relatively similar, the price per barrel of Brent is likely to be stable through to the end of the year, set by convention close to the latest observed price (\$108).

The outlook should remain favourable in the advanced economies through to the end of 2014

After being shaken last spring, the currencies of the countries with high current deficits (Argentina, Brazil, Indonesia, Turkey), and also the Russian Ruble, fell again at the beginning of 2014, linked with the winding down of quantitative easing in the US. To deal with this, their central banks continued to tighten their monetary policies. The business tendency surveys, which had shown an

The advanced economies set to return to a relatively dynamic growth rate

improvement in summer 2013, have been on a downward trend since November 2013 and were still at low levels in May 2014. Although past depreciations should continue to favour the price competitiveness of these economies, activity should remain at a slower level. Consequently, their imports are likely to progress at a distinctly weaker rate than prior to the crisis (about +1.6% per quarter, against +2.2% on average between 2000 and 2008).

In the advanced economies, the business tendency surveys showed a clear upturn in summer 2013 and remained at quite a high level in May 2014 (see Graph 1). Activity is likely to remain relatively dynamic through to the end of the year: +0.4% in Q2, then +0.5% per quarter in H2. The outlook is more singular in Japan where activity is set to contract in Q2, due to the rise in VAT. Conversely, in the United States, activity should rebound significantly in Q2 by a catch-up effect: purchases that were postponed on account of the bad weather conditions at the start of the year are likely to boost consumption and investment. In H2, activity should grow more moderately. In the UK, the upturn is set to continue at a strong rate, although domestic demand should slow down slightly in H2 as the real-estate market becomes more reasonable.

Through to the end of 2014, Eurozone activity should grow modestly

Monetary policy at the crossroads in the advanced economies

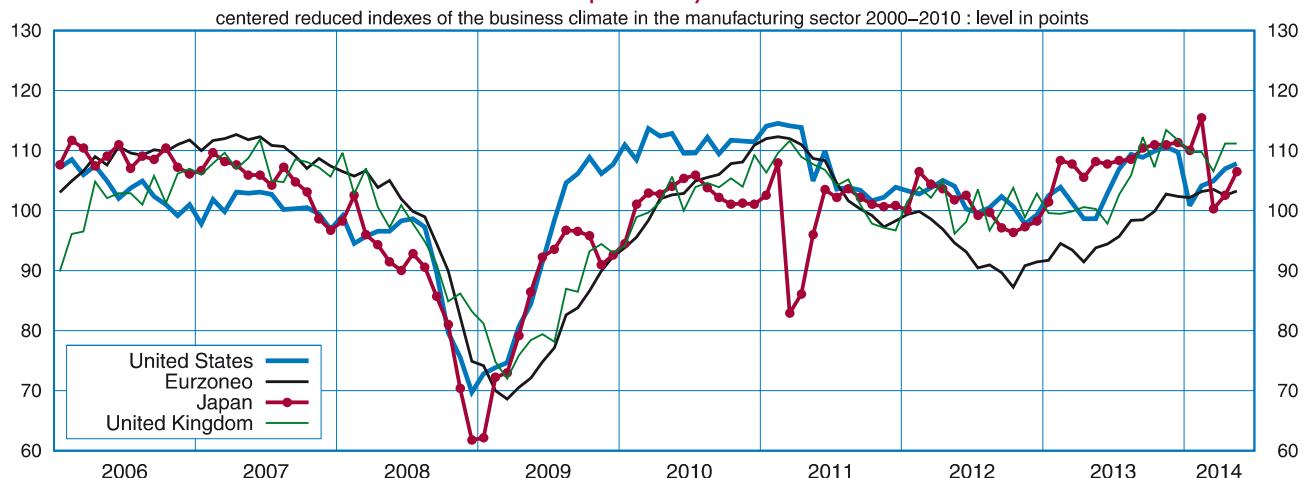
Against the backdrop of an improving economy, the question of monetary policy strategy is of acute importance on both sides of the Atlantic, although in different ways. In the US and in the UK, the central banks have pinned their credibility on maintaining an accommodating monetary policy with low rates over the "long" term, despite the return to growth picking up speed. For the moment, the Federal Reserve, faced with a robust upturn and sustained performance of the labour market, is pursuing its strategy of winding down its quantitative easing programme by reducing the amount of its monthly securities purchases. The Bank of England has maintained its interest rates and the size of its balance sheet until now.

The ECB, meanwhile, is faced with weak inflation, a continuing contraction in lending to the private sector and the high level of the Euro which is weighing down on the competitiveness of the Monetary Union.

The ECB lowered its key interest rates in June and announced further unconventional policy measures: it proposes to supply liquidity to those banks that increase their lending to SMEs and households (excluding real-estate loans) and declares that it is ready to invest in securities backed by loans to businesses.

1 - The outlook remained favourable in most advanced economies

Last point: May 2014



Sources: Institute for Supply Management, Shoko Chukin Bank, Commission Européenne

General outlook

Growth set to remain moderate in the Eurozone

The weakness of this market is partly due to demand factors (non-financial private agents are still cutting back their debts), but also due to the poor transmission of the ECB's accommodating monetary policy.

European households likely to reduce their precautionary savings slightly

After showing an improvement in H2 2013, Eurozone business tendency surveys have levelled out at close to their long-term average, a sign that growth is likely to remain moderate (+0.3% per quarter) through to the end of 2014.

In the Eurozone, purchasing power is likely to increase weakly (+0.2% per quarter), due to the slower fall in employment and more moderate tax hikes, in particular in Italy. Through to the end of the year, prospects in terms of activity and employment should improve and households reduce their precautionary savings. Consumption is therefore likely to accelerate slightly (+0.3% per quarter) and the saving ratio fall a little more moderately than previously, from 13.0% in Q1 2014 to 12.8% at the end of 2014.

Corporate investment should still be dynamic in the Eurozone

The growth in activity and the need to renew production capacities after a marked phase of adjustment should continue to support the upturn in investment in equipment, which is likely to progress by 6.4% on average in 2014. In construction, after a temporary backlash in the spring after the mild winter which had boosted the sector in Germany, activity should level out in H2 2014 after falling for five years. This improvement hides some widely varying trends within the Eurozone: construction is set to buoy up growth considerably in Germany, while it is likely to hold it back in France, Spain and Italy (see Graph 2).

World trade likely to grow again, but the upturn to be moderate through to end 2014

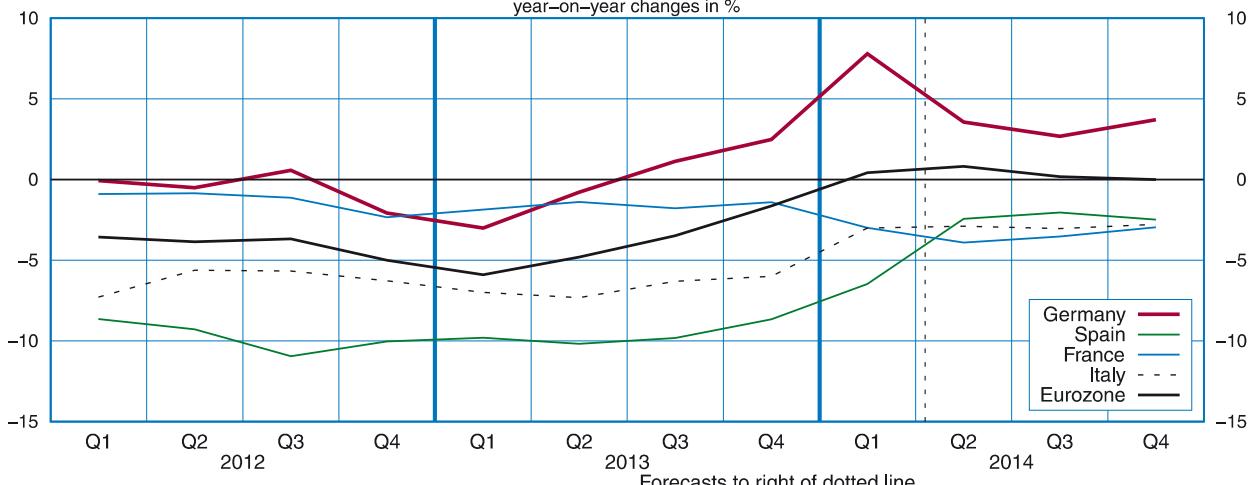
In Q1 2014, world trade contracted unexpectedly (-0.8% after +1.5%), under the effect of the cold spell on the Chinese and US economies. World trade should progress by 1.3% in Q2 2014, with the upturn in trade in the emerging countries, notably in Asia. It should then slow down slightly in H2 to +1.2% per quarter, as the improvement in trade in the Eurozone is likely to be timid.

The progression in French exports is likely to be limited, however

The upturn in the advanced economies should buoy up French exports

In Q1 2014, French exports slowed down sharply (+0.3% after +1.6%). The dynamism of the imports of France's trading partners was less than expected and the demand for French products progressed weakly, especially that from non-European countries. Through to the end of the year, foreign demand for French products is likely to be buoyed up by the upturn in the advanced economies and increase in line with world trade (+1.2% then +1.0% per quarter). The growth in French exports should be more modest, however (+0.6% on average per quarter), being held back by the downward trend in market share and the past rise in the value of the Euro.

2 - The dynamic of investment in construction is very varying within the Eurozone



Sources: Eurostat, INSEE calculations

The French economy set to progress at a moderate rate through to the end of the year

The business climate has not progressed for nine months now in France

After a marked rebound in all sectors in summer 2013, the business climate in France has been almost stable for nine months (at 94 in May against 95 last September) and is still below its long-term average (see Graph 3). In industry and commerce, the business climate remains close to its long-term level. Conversely, the composite indicator remains at a level well below its average in building (at 94 in May) and it is even falling in services where it stands at a low level (90 in May 2014 against 95 in November 2013).

Manufacturing production to increase in Q2 2014, then slow down

In manufacturing industry, production grew slightly in April (+0.3%). In INSEE's May business tendency survey, the responses of entrepreneurs remained relatively optimistic as regards their past activity. The balance on production prospects, however, showed a marked fall. Manufacturing production should therefore progress in Q2 2014 (+0.4%), and then slow down again in H2 (+0.1% per quarter), in line with the weak growth in demand and an increasing penetration rate.

More positive factors for energy production

With the mild winter, energy production fell back significantly in Q1 (-1.4%). It should rebound by a backlash effect in Q2 (+2.1%) and remain dynamic in Q3 (+2.1%), notably if there is a return to normal in heating expenditure. After a sharp fall in Q1 (-1.5%), activity in construction should continue to fall in the spring (-0.7%) and summer (-0.6%) and then tend to level out at the end of the year. The fall in the number of housing starts, at their lowest level in 15 years, does seem to be easing and the number of building permits seems to have stopped falling. In addition to this, the public works sector is progressing again, after stalling in Q1 2014 on account of the municipal election cycle. All in all, the French economy is likely to grow at a moderate rate through to the end of the year (+0.3% per quarter).

Growth should come to +0.7% in 2014, after +0.4% in 2012 and 2013

As an annual average in 2014, GDP should progress by 0.7%, representing a slight acceleration after two years of very modest growth: +0.4% in 2012 and 2013 (corrected for the number of business days¹). The acceleration in activity should be driven in particular by manufacturing industry (+1.2%, after -0.6% in 2013 and -2.1% in 2012). In contrast, construction is likely to fall for the third consecutive year (-2.6%, after -1.2% in 2013 and -1.7% in 2012).

(1) In raw data (as published in the annual accounts), GDP progressed by 0.3% in 2012 and in 2013. In 2014, the effect of working days should be neutral on growth in GDP.

3 - The business climate is stable in France for nine months, below its long-term average

Last point: May 2014



Source: INSEE

Total employment and unemployment set to increase slightly through to the end of the year

Market-sector employment should be stable to the end of 2014

Employment in the non-agricultural market sectors fell in Q1 2014 (-22,000 jobs), hit by the drop in temporary employment. Through to the end of the year, the expected rise in activity is likely to be too modest for employment to show an improvement; it is likely to level out, however, buoyed by the increase in the growth in jobs that the tax credit for competitiveness and employment (CICE) should give rise to.

Total employment should progress, driven by subsidised jobs

In 2014, non-market sector employment is likely to rise in both H1 (+22,000) and H2 (+38,000). The number of beneficiaries of assisted contracts should progress by 16,000 in H1, essentially driven by the ramp-up of the "emplois d'avenir". It should increase slightly more in H2: in addition to the "emplois d'avenir" that continue to be created, there will also be those of the new single "CUI" contracts. Due to this dynamism of assisted employment, total employment should progress by 54,000 jobs in 2014, after growing by 55,000 in 2013.

Unemployment to rise slightly through to the end of 2014

In Q1 2014, the unemployment rate levelled out at 10.1% of the active population in France on average (9.7% in Metropolitan France). In Q2, the unemployment rate should increase again slightly, to 10.2% (9.8% in Metropolitan France) and then, with the slight rise expected in total employment, it should level out at this level in H2.

Inflation likely to remain below 1% through to the end of 2014

Inflation should remain weak to the end of 2014

In May 2014, consumer prices were up 0.7% year-on-year. Inflation has remained contained at below +1.0% since last summer and is likely to remain at this very moderate rate through to the end of the year. At the end of 2014, year-on-year consumer prices should stand at +0.7%. Looking beyond the ups and downs from one month to the next, core inflation should fall to +0.2% in December 2014, notably due to the slowdown in telecommunication prices. This moderation is all the more notable given the rise in VAT rates on 1st January 2014; the effect of that rise seems to have been partly absorbed by corporate margins which have been increased by the effect of the tax credit for competitiveness and employment (CICE). Headline inflation, on the other hand, should be up slightly, due to the acceleration in food and energy prices. On the assumption of a Brent oil price stable at €79.4 (\$108), the year on year change in energy prices should increase to +1.4% in December 2014 (after +1.1% in May), notably due to the rise in electricity prices.

Purchasing power should return to growth in 2014

Growth in real wages set to remain sustained

The mean wage per head would appear to have accelerated slightly in Q1 2014 (+0.6% after +0.4%), probably due to temporary factors, as shown by the lesser progression in the basic monthly wage (+0.3% after +0.4%). The average wage per head should slow down by a backlash effect in Q2 (+0.3%). On average in 2014, real wages should accelerate slightly (+1.0% after +0.8% in 2013).

Purchasing power set for a return to growth

After a marked fall in 2012 (-0.9%) linked with the increase in the tax burden, household purchasing power stabilised in 2013, mainly due to the fall in inflation (+0.6% after +1.4% in 2012). In 2014, the purchasing power of household

gross disposable income should accelerate again (+0.7%), notably thanks to less dynamic taxes and contributions (+2.5% after +4.2% in 2013, *see Graph 4*). Social benefits should slow down (+2.4% after +2.8%), under the effect of the postponement of the increase in general pensions (from 1st April to 1st October) and then the pensions freeze. This should be more than offset by the slight acceleration in earned income (+1.4% after +1.0%). The quarterly profile of disposable income is likely to be marked by that in tax, with ups and downs as new measures come into force: while earned income should progress at a globally stabilised rate throughout the year, taxes, after the rises at the end of 2013, should fall back symmetrically in Q1, before rebounding in H2.

Household consumption set to increase in line with their purchasing power

The quarterly profile of consumption is likely to show ups and downs due to one-off factors

In Q1 2014, household consumption decreased (-0.5%). More particularly, spending on automobiles fell, after being boosted at the end of 2013 as people brought their purchases forward before the tighter terms of the "malus" (carbon emission tax) came into force on 1st January 2014. Also, the fall in energy expenditure was sharper than in Q4 2013, due to temperatures that were well above the seasonal norms. In Q2, consumption of manufactured products should increase (+0.6%), notably of automobiles. With the mild spring, energy consumption should rebound slightly in Q2 (+1.2%) and then accelerate in Q3 (+1.9%). In H2 2014, household consumption should increase by 0.4% then 0.3%, in line with the average progression in their purchasing power, making an increase of +0.3% on average in 2014, as in 2013.

Despite the quarterly ups and downs, the savings ratio is forecast to be stable

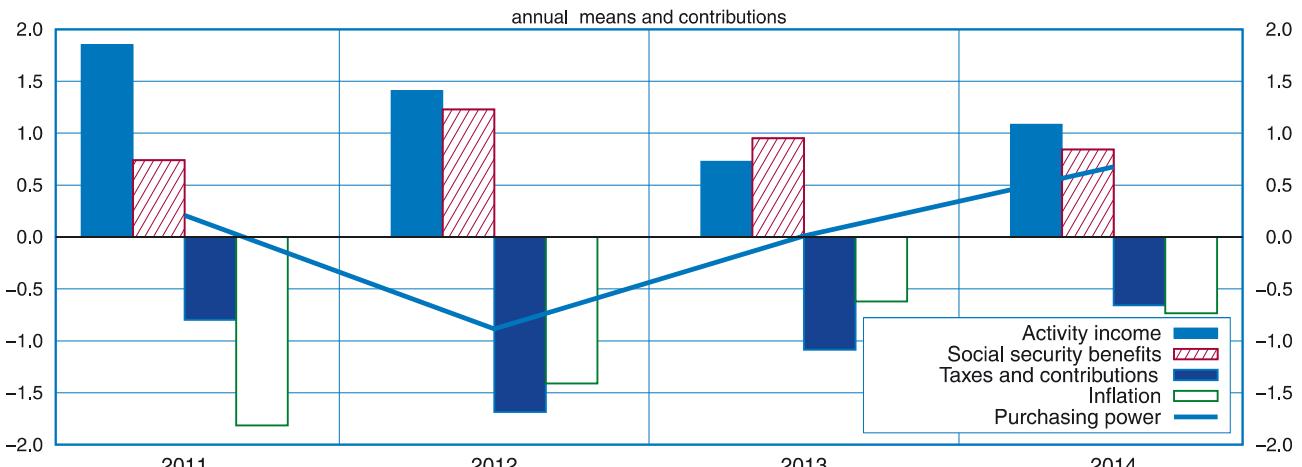
In Q1 2014, thanks to an upturn in purchasing power, the savings ratio would appear to have rebounded by 1.4 points to 16.1%, the highest level since spring 2011. Given the expected profile of the purchasing power of income, the savings ratio should fall progressively over the rest of 2014, to stand at 14.7% in Q4, the same level as one year earlier (*see Graph 5*). On an annual average, it should progress by 0.3 points to 15.4%.

Public consumption set to slow down slightly in 2014

Public expenditure should slow down in 2014

Public consumption should progress by 0.3% per quarter through to the end of 2014; the rise on average over the year should be 1.6%, slower than in 2013 (+1.9%). Public investment fell back in Q1, after the peak in public works at the end of 2013 linked to the electoral cycle. It should stabilise through to the end of 2014.

4 - In 2014, the purchasing power of gross household disposable income should progress again



Source: INSEE

General outlook

Household investment likely to fall back, while corporate investment should rebound moderately

The fall in household investment is likely to be accentuated

In Q1 2014, household investment, especially in new housing, continued to fall for the ninth consecutive quarter (-2.6% after -2.2%). This fall should ease moderately in the course of the year and level out at the end of 2014. Given the overhang in Q1 2014, the fall in household investment should be accentuated in 2014 (-6.7% after -3.1% in 2013), the sharpest fall since 2009.

Corporate investment set to progress slightly

Corporate investment contracted again in Q1 2014 (-0.5% after +0.8%). Expenditures in services held up, but that in construction fell back (-1.1%). Investment in manufactured products also fell (-0.9%), by a backlash effect after companies brought forward their purchases of heavy goods vehicles before the entry into force of new anti-pollution standards on 1st January 2014. Through to the end of 2014, corporate investment should progress at a moderate rate (+0.2% on average per quarter), against a backdrop of weak demand and despite the favourable effects of the CICE and the improvement in financing conditions. Over the whole of 2014, corporate investment expenditure should rebound moderately (+0.7% after -0.6% in 2013), in the wake of activity.

France set to grow at the average rate for the Eurozone through to the end of the year

France and the Eurozone to grow at the same rate

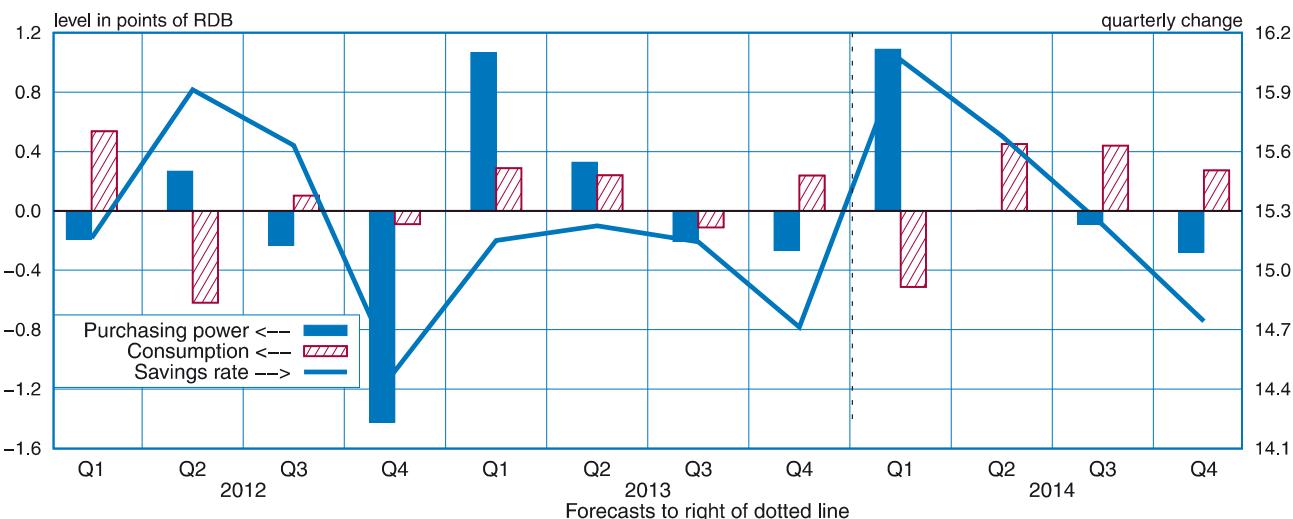
Through to the end of 2014, quarterly growth should be the same in France as the average for the Eurozone (+0.3% per quarter). The drivers are likely to differ, however, with more consumption in France and more dynamic investment in the rest of the Eurozone.

Uncertainties: effects of economic policies and savings behaviour

Effect of economic policies in the Eurozone and France

The main uncertainty in this scenario is the trajectory of inflation. In the scenario taken here, the return of growth, improving labour market and monetary policy measures and announcements should allow the Euro and inflation in the Eurozone to stabilise. It is possible, however, that the factors that explain the faster-than-expected fall in recent months might continue to weigh on inflation. Conversely, inflation could grow again, notably if the measures announced by the ECB succeed in bringing the Euro down.

5 - Despite quarterly ups and downs, the savings ratio appears to be stable year on year



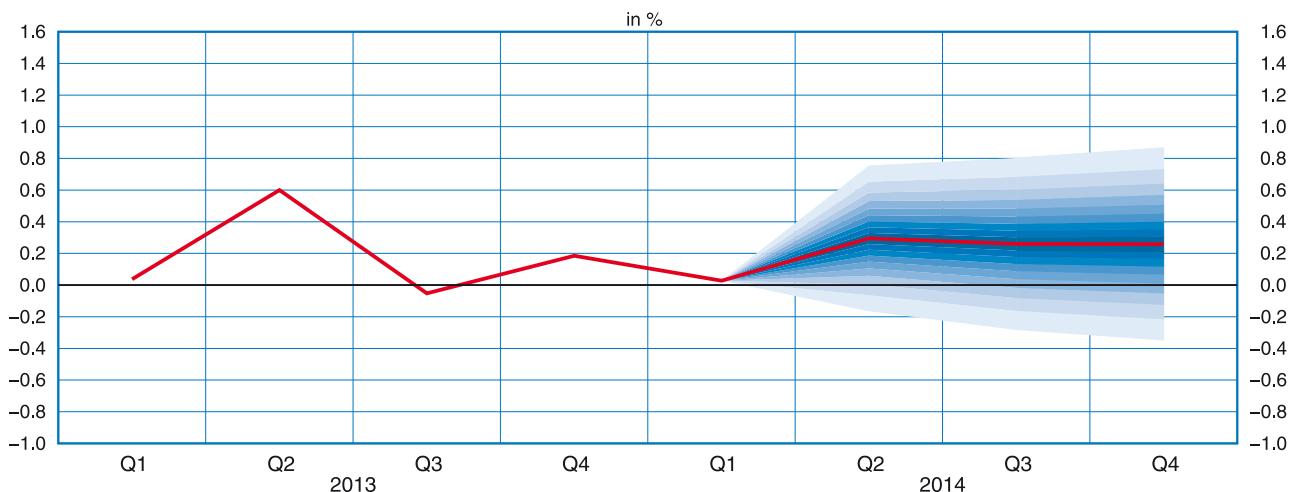
Source: INSEE

In addition, the scenario for activity in France will depend on the response of businesses to the set of economic policy measures taken and announced by the government. Depending on their perception of them, their behaviour in terms of investment and inventory might be more or less dynamic.

Savings behaviour of European households

There are also greater uncertainties than usual around the trade-off between household consumption and savings. In the scenario taken for this *Conjoncture in France*, the fall observed recently in the household savings ratios of France's main trading partners continues but at a lesser rate. However, European households might choose to profit more in the future from the improvement in their income to build up their savings again, and thus reduce their debt. Conversely, the fall in the savings ratio might not ease, especially in the short term, thereby having a positive impact on demand for French products. The savings behaviour of French households is also a subject of uncertainty and could vary in either direction.■

6 - Fan chart for *Conjoncture in France*



How to read it: the fan chart plots 90% of the likely scenarios around the baseline forecast (red line). The first and darkest band covers the likeliest scenarios around the baseline, which have a combined probability of 10%. The second band, which is a shade lighter, comprises two sub-bands just above and just below the central band. It contains the next most likely scenarios, raising the total probability of the first two bands to 20%. We can repeat the process, moving from the centre outwards and from the darkest band to the lightest, up to a 90% probability (see *INSEE Conjoncture in France* for June 2008, pages 15 to 18). It can therefore be estimated that the first result published by the quarterly accounts for Q2 2014 has a 50% chance of being between +0.1% (lower limit of the fifth band from the bottom) and +0.5% (upper limit of the fifth band from the top). Likewise, it has a 90% chance of being between -0.2% and +0.8%. In Q3 2014, the 90% confidence intervals is [-0.3% ; +0.8%].

Source: INSEE

The quarterly accounts have switched to the 2010 base

On 15th May 2014 the national accounts changed calculation base, coinciding with the publication of the initial results for Q1 2014. The accounts have now switched to the "2010 base". Every year the annual growth estimates for the macroeconomic aggregates are updated for the past three years, to reflect new information which has become available since the previous publication. However, on 15th May 2014, all aggregate figures since 1949 were updated. Changing base means reviewing the methods, classifications and statistical sources used to compile the national accounts, in order to better reflect the economic reality.

The transition to the 2010 base thus provided an opportunity to make a certain number of conceptual changes, mostly related to the 2010 change in European accounting methods⁽¹⁾ (transition from "ESA 95" to "ESA 2010"), along with certain methodological adjustments, as is always the case when changing calculation base. These changes are outlined in the detailed explanation published in L'Économie Française, and available on the website insee.fr (the "2010 base" web file).

The overall methodology used to compile the quarterly accounts has not changed: the principles remain the same as those which underpinned the previous calculation base, with the exception of a few conceptual modifications.

A comparative analysis of the two bases reveals that the resulting revisions to GDP statistics and the principal aggregate indicators of demand (consumption, investment, foreign trade etc.) are relatively small when set against the variability of data series and the changes seen in previous base transitions. Broadly speaking, in terms of growth rates, the differences involved are on the same scale as the variation generally encountered in the usual annual updates. Therefore, the general picture of economic developments since the war, and particularly since the onset of the

economic crisis in 2008, remains largely unchanged. This consistency between the estimates generated by the two bases is not a foregone conclusion and, although welcome, is not immediate. Changing base is a complex statistical operation, and the results at the aggregated level are difficult to predict and control, as the changes are made at a very precise level of detail.

GDP level increased by 62 billion €

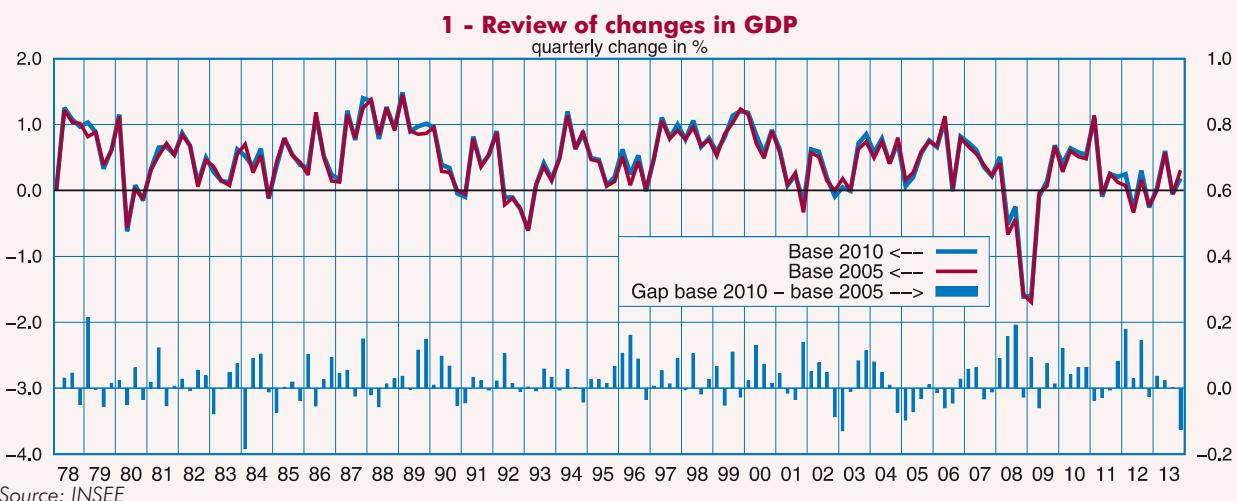
GDP now stands at 1,998 billion Euros € for 2010, an upward revision of 3.2% compared to the figures given by the 2005 base. The reclassification of research and development spending (R&D) as investment, which increases GDP by 41.5 billion €, accounts for two-thirds of this change (+61.8 billion €).

A comparison of the fluctuations in GDP growth and the various demand factors reveals that the revisions required to the 2005 base figures are relatively minor (see Graph 1).

For the recent past, the overall narrative remains unchanged: after five successive quarters of shrinking GDP (from Q2 2008 to Q2 2009), activity grew strongly for seven quarters (up until Q1 2011) then slowed sharply, growing by only 1.2% for the last three years (up until Q1 2014).

While the outline of these phases of recession and recovery remain unchanged, the revised overall development since 2008 paints a slightly less negative picture of the dynamism of economic activity since the onset of the crisis (see Graph 2). In the 2010 base, GDP had returned to its pre-crisis level by Q1 2011. In Q4 2013 GDP stood at 1.1 points above its Q1 2008 peak, while the 2005 base gave it as 0.1 points below this pre-crisis highpoint at the same date. These revisions result both from the usual revisions which take place at this time of year - involving the integration into the annual accounts of the detailed information from the structural business statistics, which only become available three years after the end of the year which they cover - and the conceptual changes which can be attributed to the evolution of the ESA framework.

(1) At European level, consistency across the various national accounting systems is ensured by the European System of Accounts (ESA), adopted by the member states of the European Union. ESA 2010 will be in application in all EU nations by September 2014.



A strong increase in investment expenditure

The total value of investment has been substantially revised. The 2010 base counts as investment by companies and general government certain forms of expenditure which were previously considered as intermediate consumption: R&D spending or databases and capital goods with purely military applications (this latter form of investment concerns only the government).

Total investment has thus been revised upwards, by just over 63 billion€ per annum for 2010. The rate of investment by non-financial companies (NFCs) thus increases from 21.1% in Q4 using the 2005 base to 24.3% in the 2010 base. The most significant modifications concern the last few years: investment by NFCs in the 2010 base thus falls slightly in 2012 and 2013 (-0.7% between the end of 2011 and the end of 2013), while the 2005 base had this figure dropping off sharply over the same period (-4.3%); on the one hand this demonstrates the impact of R&D investment, which was more dynamic than other forms of investment during this period; on the other hand it reflects the effects of the integration of data from the definitive, semi-definitive and provisional accounts, which always takes place at this time of year. The result is that at the end of 2013 NFC investment was down 6.2 points from its pre-crisis level, while the 2005 base gave this decline at 11.5 points.

The scope of "investment by households" is modified by the introduction of a new indicator

Furthermore, the change of base provided an opportunity to incorporate new indicators of spending on housing (by households and NFCs). These indicators are estimated directly by the Observation and Statistics Department (SOeS) at the Ministry for Sustainable Development, based on statistics for housing starts and using "delivery schedules" for their completion which depend on the region and the type of housing in question, and vary in response to the current climate in the construction sector. Previously, projections for all new construction projects were made using the same aggregated, fixed delivery schedules. The new indicators are thus more consistent with the method used to calculate the annual housing figures. But they do engender a noticeable change in the contours of this sector's development over the past few years.

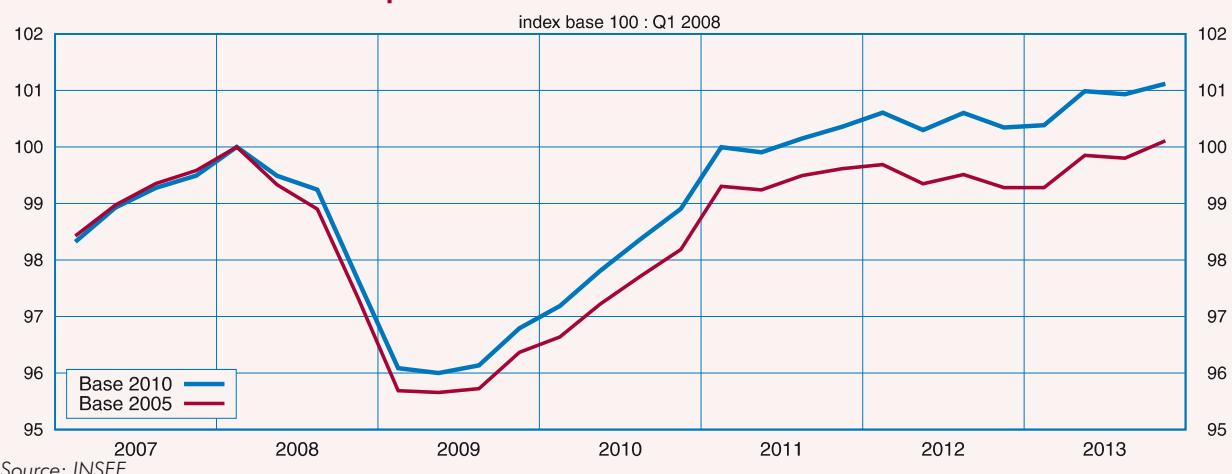
As such, in comparison to the previous estimates, investment by households (more than 80% of which is investment in construction) enjoyed a more robust rebound in early 2010 but fell back again from Q1 2011 onwards; in 2013 it fell very sharply in H2 (see Graph 3), reflecting the earlier fall in the housing start.

Several modifications affect the import and export figures

The data series for imports and exports have also been revised, with noticeable changes in quantity but only minor changes in terms of the contours of their trend. The first major revision is the integration of two significant conceptual changes. International trading (buying and reselling goods on the international market without changing them in any way) is now included in the category "goods exports", whereas it was previously classified as a commercial service. This has caused service exports to fall by 10 billion Euros for 2010, in favour of goods exports. The second modification concerns commissioned work (when a company subcontracts operations to a foreign company, providing all the intermediate resources required for the process), which in the 2005 base generated both exports and imports of goods. In the 2010 base this flow of goods is no longer recorded, with the whole operation now counted as an import of services to the country from which the order originates. This change brings a fall in the total volume of imports and exports equivalent to just below 10 billion Euros for 2010. Furthermore, revisions to the estimates of the balance of payments have led to a marked increase in the volume of exports (+34 billion € in 2010) and imports (+27 billion €) of services.

All in all, while the levels of exports and imports have changed significantly, the overarching narrative of recent years is not significantly altered. As with GDP, exports and imports bounced back more strongly after the crisis than the 2005 base figures suggested: +5.4% between Q1 2008 and Q4 2013 for exports (compared to just +2.2% in 2005 base) and +5.3% over the same period for imports (compared to +3.0% in 2005 base). Once again, these changes are a result of both conceptual changes and the customary revisions made at this time of year.

2 - Comparison of GDP between 2005 and 2010 bases

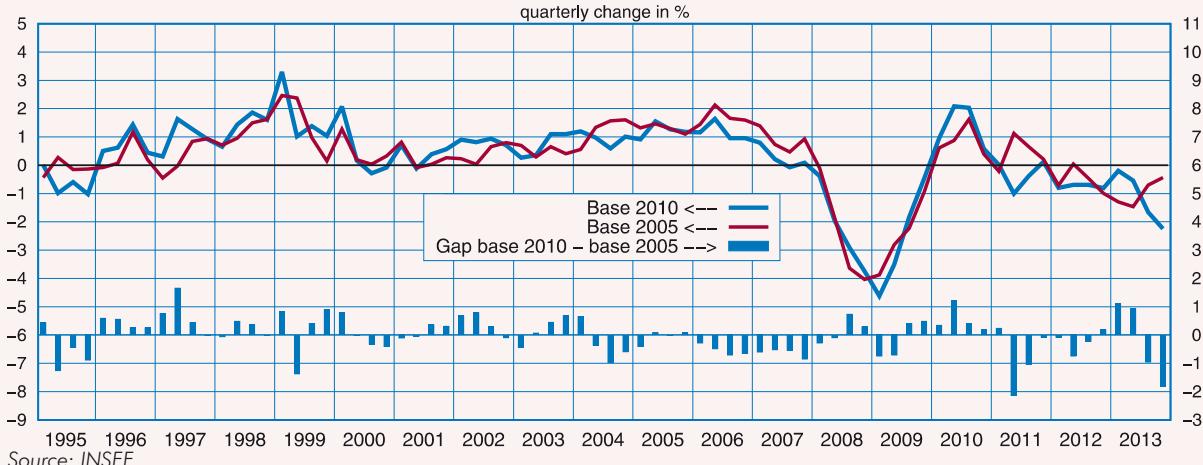


The margin rate is increased

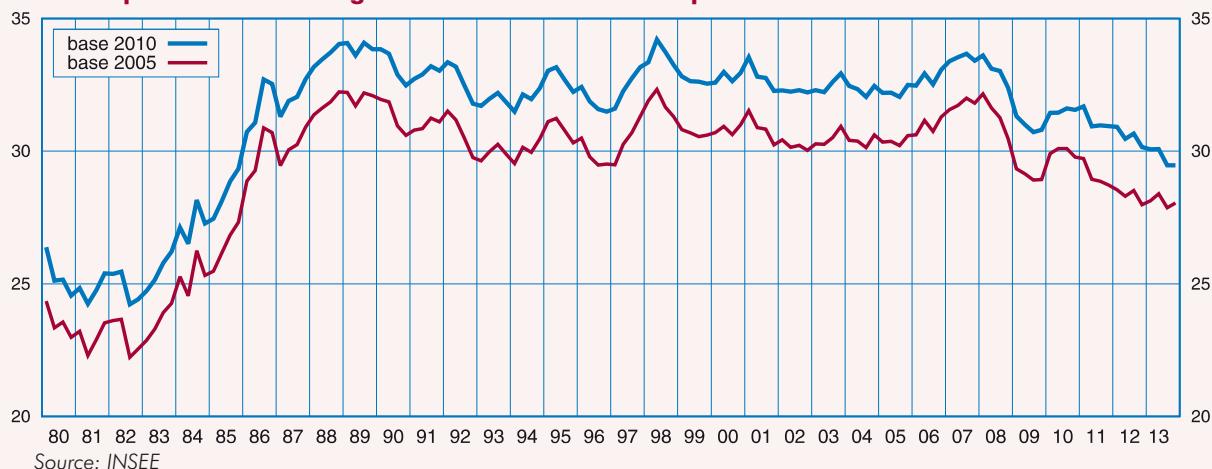
The revisions to GDP, and by extension to value added, resulting from the redefinition of R&D are largely to be found in the increased operating surplus of companies. As a result, the margin rate of French businesses is increased. The margin rate of NFCs is also increased, from 28.0% in Q4 2013 in the 2005 base to

29.5% in the 2010 base figures (see Graph 4). Once again, the effect on the proportional variation from one quarter to the next is however very limited. Finally, the self-financing ratio of NFCs shows little variation between the two bases: the greatest discrepancies result from the integration of information on the balance of property income in recent years.

3 - Household investment since 1995



4- Comparison of the margin rate of non-financial corporations between 2005 and 2010 bases



The breakdown of GDP using the demand approach is very similar in both bases

Finally, GDP can be broken down using one of several approaches (income, demand, production). For each of these approaches we can compare the 2005 and 2010 bases with regard to the relative contribution of their primary components, i.e. average level of GDP, average growth and average variance.

Our analysis using the demand approach reveals very few discrepancies between the two bases (see Tables). Most notably, the proportion attributable to business demand, via the contribution of inventory and investment expenditure, accounts for 64% of the volatility of GDP in both the 2005 and 2010 bases. Breaking down GDP using the production approach also reveals a great consistency between the results returned by both bases. ■

Breakdown of GDP using the demand approach, and contributions to its average level, development and fluctuations						
Base 2010			Quarterly changes in average		Quarterly changes in average	
	1950-1973	1974-2013	1950-1973	1974-2013	1951-1973	1974-2013
GDP			1.31	0.49	1.39	0.31
	middle weight (total = 100%)		Contributions (total = 100%)		Contributions to the variance (total = 100%)	
Changes in inventories	2	0	1	-1	35	40
Final domestic demand (excluding inventories)	97	99	100	99	57	68
<i>including</i>						
consumption expenditure of households	56	54	55	55	24	32
consumption expenditure of general government	16	22	14	26	3	0
<i>individualized consumption of general government</i>	9	13	9	17	2	1
<i>collective consumption of general government</i>	7	9	5	8	1	-1
GFCF of non-financial companies	13	12	15	12	21	24
GFCF of households	6	6	10	0	4	9
GFCF of general government	4	4	6	3	4	2
Trade balance	1	0	-1	2	8	-7
<i>including</i>						
exports	14	23	22	51	35	50
imports (-)	13	23	23	49	27	57

Base 2005			Quarterly changes in average		Quarterly changes in average	
	1950-1973	1974-2010	1950-1973	1974-2010	1951-1973	1974-2010
GDP			1.31	0.50	1.49	0.31
	middle weight (total = 100%)		Contributions (total = 100%)		Contributions to the variance (total = 100%)	
Changes in inventories	2	0	1	-1	36	42
Final domestic demand (excluding inventories)	97	100	100	100	55	65
<i>including</i>						
consumption expenditure of households	58	55	56	58	23	32
consumption expenditure of general government	16	23	14	26	3	0
<i>individualized consumption of general government</i>	9	14	9	18	2	1
<i>collective consumption of general government</i>	7	9	5	9	1	-1
GFCF of non-financial companies	12	10	14	10	21	22
GFCF of households	6	6	10	1	3	8
GFCF of general government	3	3	4	2	4	2
Trade balance	1	0	-1	0	9	-9
<i>including</i>						
exports	14	23	22	49	35	52
imports (-)	13	23	23	49	27	61

Source: INSEE

Key figures: France and its international environment

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

	2012				2013				2014				2012	2013	2014
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
	0.6	0.0	0.3	0.0	0.3	0.6	0.6	0.5	0.3	0.4	0.5	0.5	1.4	1.3	1.8
International environment															
Advanced economy GDP	-0.1	-0.3	-0.2	-0.5	-0.2	0.3	0.1	0.3	0.2	0.3	0.3	0.3	-0.6	-0.4	1.0
Eurozone GDP	118	110	109	110	113	103	110	109	108	109	108	108	112	109	108
Barrel of Brent oil (in dollars)	1.31	1.28	1.25	1.30	1.32	1.31	1.32	1.36	1.37	1.37	1.36	1.36	1.28	1.33	1.36
Euro-dollar exchange rate	0.4	0.3	0.8	-0.4	-0.3	1.9	0.9	0.4	0.4	1.2	1.0	1.0	0.9	1.8	3.3
World demand for French products	0.6	0.0	0.3	0.0	0.3	0.6	0.6	0.5	0.3	0.4	0.5	0.5	1.4	1.3	1.8
France - supply and use															
GDP	0.2	-0.3	0.3	-0.3	0.0	0.6	-0.1	0.2	0.0	0.3	0.3	0.3	0.4	0.4	0.7
Imports	0.6	-0.2	0.0	-0.8	0.5	1.7	1.2	0.5	1.0	0.2	0.7	0.5	-1.2	1.9	3.0
Household consumption	0.5	-0.6	0.1	-0.1	0.3	0.2	-0.1	0.2	-0.5	0.5	0.4	0.3	-0.5	0.3	0.3
Public and NPISH consumption	0.6	0.4	0.4	0.4	0.5	0.7	0.3	0.5	0.4	0.3	0.3	0.3	1.7	1.9	1.6
Total GFCF	-0.2	-0.2	0.0	-0.5	-0.4	0.2	-0.2	-0.1	-0.9	-0.1	-0.1	0.2	0.3	-0.8	-1.2
of which: NFEs	-0.5	-0.3	0.0	-0.7	-0.6	0.5	0.2	0.8	-0.5	0.2	0.2	0.3	0.3	-0.6	0.7
Households	-0.8	-0.7	-0.7	-0.8	-0.2	-0.5	-1.7	-2.2	-2.6	-1.5	-0.9	-0.1	-2.2	-3.1	-6.7
Exports	-0.5	0.1	0.4	-0.5	0.3	2.7	-0.4	1.6	0.3	0.8	0.5	0.5	1.2	2.4	3.0
Contributions (in point)	0.4	-0.3	0.1	0.0	0.2	0.4	0.0	0.2	-0.4	0.3	0.3	0.3	0.3	0.5	0.3
Domestic demand excluding change in inventories *	0.1	-0.1	0.0	-0.3	-0.1	0.0	0.4	-0.3	0.6	-0.1	0.0	0.0	-0.6	-0.2	0.5
Change in inventories *	-0.3	0.1	0.1	0.1	-0.1	0.2	-0.5	0.3	-0.2	0.1	0.0	0.0	0.7	0.1	0.0
France - situation of households															
Total employment	54	-16	-53	-37	-17	-15	13	74	-5	13	22	23	-52	55	54
Non-agricultural market sector employment	4	-15	-52	-43	-30	-37	-7	21	-22	0	0	0	-107	-53	-22
Unemployment rate Metropolitan France **	9.1	9.3	9.4	9.7	9.9	9.9	9.9	9.7	9.7	9.8	9.8	9.8	9.7	9.7	9.8
Unemployment rate France ***	9.5	9.7	9.8	10.1	10.3	10.3	10.3	10.1	10.1	10.2	10.2	10.2	10.1	10.1	10.2
Consumer price index ***	2.3	1.9	1.9	1.3	1.0	0.9	0.9	0.7	0.6	0.5	0.5	0.7	2.0	0.9	0.7
Core inflation ***	1.7	1.5	1.2	0.7	0.7	0.3	0.6	0.6	0.4	0.2	0.2	0.2	1.3	0.6	0.3
Household purchasing power	-0.2	0.3	-0.2	-1.4	1.1	0.3	-0.2	-0.3	1.1	0.0	-0.1	-0.3	-0.9	0.0	0.7

Forecast

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

(**) For annual data. unemployment rate is that of the last quarter of the year

(***) Year-on-year on the last month of the quarter and annual averages

How to read it: the volumes are calculated at the previous year's chain-linked prices. seasonally and working-day adjusted. quarterly and annual averages. as a %.

Source: INSEE