

French developments



Review of the previous forecast

In Q1 2014, activity stagnated whereas we had expected a slight progression (+0.1%) in the Conjoncture in France of March 2014. Foreign trade contributed negatively to growth (-0.2 points) whereas we had forecast a zero contribution. Exports slowed down more than expected (+0.3% against +0.9% forecast, after +1.6%). Furthermore, domestic demand excluding inventory fell back more than expected (a contribution of -0.4 points against -0.2 points forecast) but restocking was more substantial than expected (a contribution of +0.6 points against +0.3 points forecast).

Paid employment in the non-agricultural market sector fell back (-22,000 jobs), whereas we had expected a slight rise (+6,000 forecast). Headline inflation at the end of Q1 2014 stood at +0.6%, against +0.7% forecast.

For Q2 2014, our growth forecast remains unchanged (+0.3%). Paid employment in the non-agricultural market sector should be stable (against +6,000 forecast in March), and inflation in mid-2014 should be lower (+0.5% against +0.9%).

Activity stagnated in Q1 2014, whereas we had predicted a slight rise

In Q1 2014, GDP stagnated, after progressing by 0.2% in the previous quarter, whereas we had expected a slight increase (+0.1%). This small error is found in total production (+0.2% against

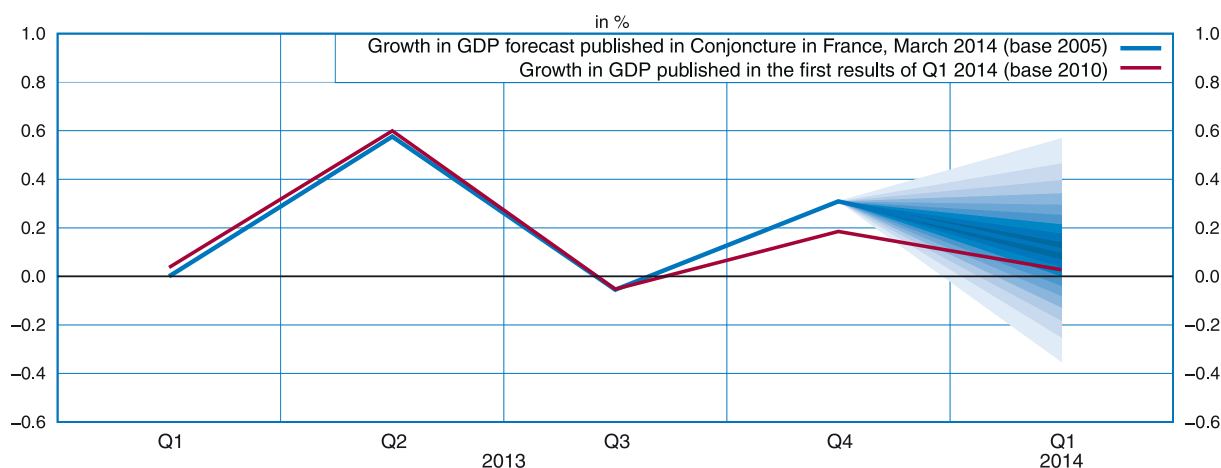
+0.3% forecast), particularly of market services (+0.3% against +0.4% forecast). In addition, production in the construction industry fell much more sharply than we had expected (-1.5% against -0.7% forecast). Investment in construction fell back by 1.8% in Q1 2014 whereas we had predicted -0.9%.

Production was as dynamic as expected in the manufacturing industry (+1.0% against +0.9% forecast) and more dynamic than expected in non-market services (+0.5% against +0.2% forecast). Furthermore, activity in the "energy-water-waste" branch declined sharply, as expected (-1.4% against -1.5% forecast) and production of trade services progressed by 0.1%, as we expected.

Final domestic demand excluding inventory slipped back more than forecast

Final domestic demand excluding inventory fell, as expected. But this decline was more marked than forecast. On the one hand, consumption fell back more than forecast (-0.5% against -0.3% expected), particularly that of manufactured products (-0.7% against -0.5%) after strong growth in Q4 2013 (+0.9%). On the other hand, total investment declined somewhat more sharply than we expected (-0.9% against -0.5%) across all institutional sectors. Investment in construction explains significant share of this differential. All the same, it should be emphasised that a change in the base led

1- Fan chart for Conjoncture in France for March 2014 and growth achieved



Source: INSEE

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to a revision of the quarterly profile of this type of investment over the recent period (see Focus, "Quarterly accounts switch to the 2010 base").

Slowdown in exports more marked than expected

In Q1 2014, exports slowed down markedly (+0.3% after +1.6%). Manufacturing exports progressed by only 0.4% whereas we had expected an increase of 1.1%, after +1.8% in Q4 2013. Moreover, exports of agricultural products fell back sharply (-2.8%) whereas we had expected a rise (+2.0%). Our March forecast had banked on a perceptible progression in demand for French products in Q1 (+1.2%), but this did not occur (0.0%). In particular, exports to countries outside the European Union shrank. The error in the imports forecast was, however, much smaller (+1.0% against +0.8% expected). All in all, the accounting contribution of foreign trade to GDP variation was therefore negative (-0.2 points), whereas we had expected it to be neutral. Lastly, the contribution of inventory change was considerably bigger than forecast, at +0.6 points against +0.3 points expected.

Surprising fall in temporary work

Paid employment fell back slightly, contrary to what we expected in March (net loss of 22,000 jobs in the non-agricultural market sector, against +6,000 jobs forecast). This discrepancy is mainly due to the fact that temporary work fell back by 26,000 jobs, cancelling out the progression of the previous quarter, whereas we had predicted a slight rise. Lastly, headline inflation at the end of

Q1 2014 was lower by 0.1 points than our forecast (+0.6% against +0.7% expected). Core inflation settled at +0.4%, against +0.5% expected. This difference is attributable in particular to the prices of catering and accommodation services, which rose less than forecast in March. In Q1, the unemployment rate stabilised as expected. It stands at 9.7% in Metropolitan France.

Our growth forecast for Q2 is unchanged

Our GDP growth forecast for Q2 2014 is unchanged (+0.3%). According to the business tendency surveys and available activity data, manufacturing production should be slightly more dynamic than forecast in March (+0.4% against +0.3% previously). For domestic demand the forecast changes only slightly. Household consumption should progress by 0.5% (against +0.6% forecast in March) and investment slip back by 0.1% (against -0.3% forecast in March). However, contrary to what we predicted in March, the sharpness of the fall in household investment should start decreasing already in Q2 (-1.5% after -2.6%). The contribution of foreign trade should be slightly positive, whereas we had expected a zero contribution in March. Indeed, imports should be less dynamic (+0.2% against +0.8% previously) while our exports forecast is unchanged (+0.8%). Paid employment should be stable in Q2 in the non-agricultural market sector, against an increase of 6,000 in our March prediction. Lastly, inflation at the end of Q2 2014 should be lower than forecast in March (+0.5% against +0.9% expected), as should core inflation (+0.2% against +0.6%).■

Output

In Q1 2014, production of goods and services increased slightly once again (+0.2%, as in Q4 2013) and GDP stabilised (after +0.2%). Activity in the manufacturing industry rebounded (+1.0% after 0.0%). Production in market services progressed again (+0.3% after +0.3%). But activity in construction fell back sharply (-1.5% after -0.3%).

In May, the business climate is stable in France for the ninth consecutive month and remains below its long-term level. From this point, activity should progress moderately in the spring and then in H2: overall production of goods and services should progress by 0.4% in Q2 and then by 0.3% per quarter in H2, which would drive annual growth to +1.0% in 2014, after +0.5% in 2013.

Production of goods and services should continue to increase moderately between now and the end of the year

In Q1 2014, production of goods and services continued its slow progression (+0.2%, as in Q4 2013). The French business climate indicator, derived from business tendency surveys carried out on business leaders, shows no signs of improvement: in May, for the ninth consecutive month, it fluctuated between 94 and 95 points and remained below its long-term average. To varying degrees, this is also the case of the business climate indicator in each sector (see Graph 1). These

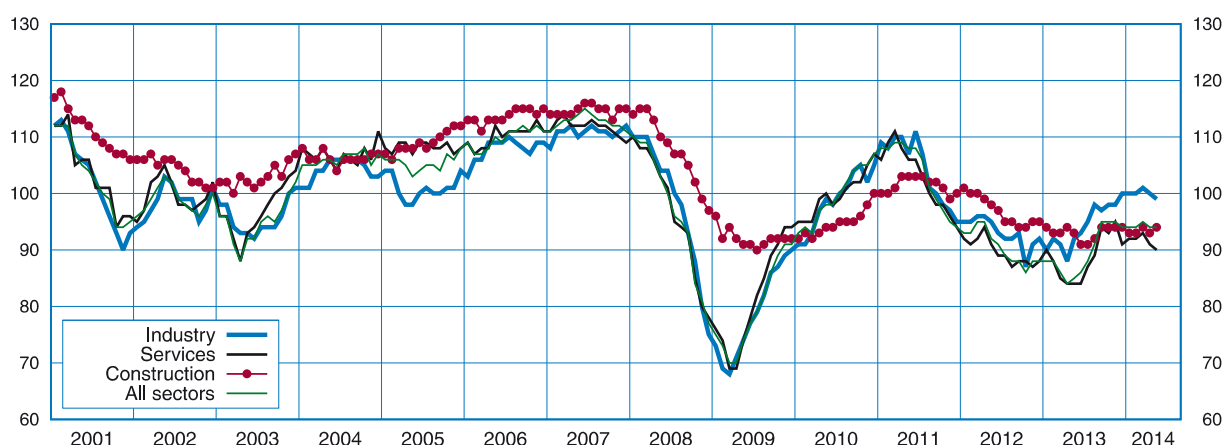
surveys do not suggest any short-term acceleration: production of goods and services should continue its moderate progression, from +0.4% in Q2 and then +0.3% per quarter (see Graph 2). On average for the year, production of goods and services should accelerate slightly, increasing by 1.0% in 2014 after +0.5% in 2013.

Manufacturing production set to slow down in H2

Manufacturing production picked up in Q1 2014 (+1.0%), taking advantage of an upswing in activity in the coking and refining branch (+8.5%) after two quarters of sharp decline (-9.0% in Q3 and then -8.2% in Q4) due to the temporary closure of refineries for maintenance and then industrial action. Activity accelerated slightly in the agri-food industries (+0.4% after +0.2%), in the transport equipment sector (+0.3% after +0.1%) and in "other industries" (+0.9% after +0.8%). Conversely, production of capital goods fell back sharply (-1.6% after +1.3%). In Q1 2014, the production rebound is to be found in the positive contribution of inventory of manufactured products, whereas all other components of demand contributed negatively.

In Q2 2014, the business climate in industry remains close to its long-term average: industrialists consider their order book levels as still low and their production prospects deteriorated, but they believe their past activity has progressed (see Graph 3). So the moderate recovery in

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



Source: INSEE

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domestic and external demand for manufactured products should allow only a slight progression in production in the manufacturing branches (+0.4%). In H2, the deterioration in expectations expressed by industrialists suggests another slowdown in manufacturing production (+0.1% per quarter). This sluggishness would be consistent with that of demand in manufactured products. For 2014 as a whole, manufacturing production is expected to progress by 1.2%, after -0.6% in 2013.

In construction, the decline in activity should ease

In Q1 2014, construction activity continued to deteriorate: -1.5%, after -0.3% in Q4 2013. This decline is perceptible both in building and in civil engineering.

At the beginning of the year, housing starts for new homes continued to fall, but the number of building permits seemed to have stopped falling back. In May, building contractors reported a deterioration in activity and order books that were still less full than usual (see Graph 4). In civil engineering, entrepreneurs' opinions on expected activity also worsened again in April. These different indicators point to a continued decline in production in the construction industry in Q2 (-0.7%) and Q3 (-0.6%), before it stabilises in Q4.

For 2014 as a whole, production in the construction industry is expected to fall by 2.6%, after a decline of 1.2% in 2013.

Trade should rebound in the spring and then progress moderately

Trade slowed in Q1 2014 (+0.1% after +0.9% in Q4 2013), attributable in particular to the decline in household consumption (-0.5% after +0.2%).

According to business leaders surveyed in May, past activity remained sluggish overall. In both wholesale and retail, the business climate remains

stable, slightly below its average level. However, the prospects for wholesale activity are slightly improved. Likewise, according to automobile dealers, their activity should progress during the coming months, as indicated by the healthy state of order intentions, with the balance returning to the level of late 2010.

These improvements, attributable to the catch-up effect of household consumption of manufactured products in Q2 (+0.6% after -0.7%), suggest a rebound in trade which should increase by 0.5% in Q2. In H2, it is expected to grow more moderately (+0.2% per quarter), giving an increase of +1.7% for the year.

Market services excluding trade should grow moderately between now and the end of 2014

In Q1 2014, activity in market services excluding trade progressed (+0.3%). Activity rebounded in catering and accommodation (+0.5% after -0.4%) and in transport services (+0.2% after -0.3%). It remained dynamic in information and communication (+0.8% after +0.7%), as well as in financial activities (+0.5%) and real estate (+0.3%). However, production stagnated in services to enterprises (after +0.5%).

Activity in market services excluding trade should continue to progress moderately through to the end of 2014 (+0.4% per quarter), well below its long-term average (+0.7% per quarter between 1988 and 2013). According to business leaders, the short-term outlook in services remained gloomy in recent months: the improvement that began in H2 2013 was halted in early 2014 and the composite business climate indicator settled at 90 in May, well below its long-term average (100).

For 2014 as a whole, production of market services excluding trade is expected to grow by 1.4%, after +1.0% in 2013.

Industry production at prices of the previous year chained

seasonally and working-day adjusted data, in %

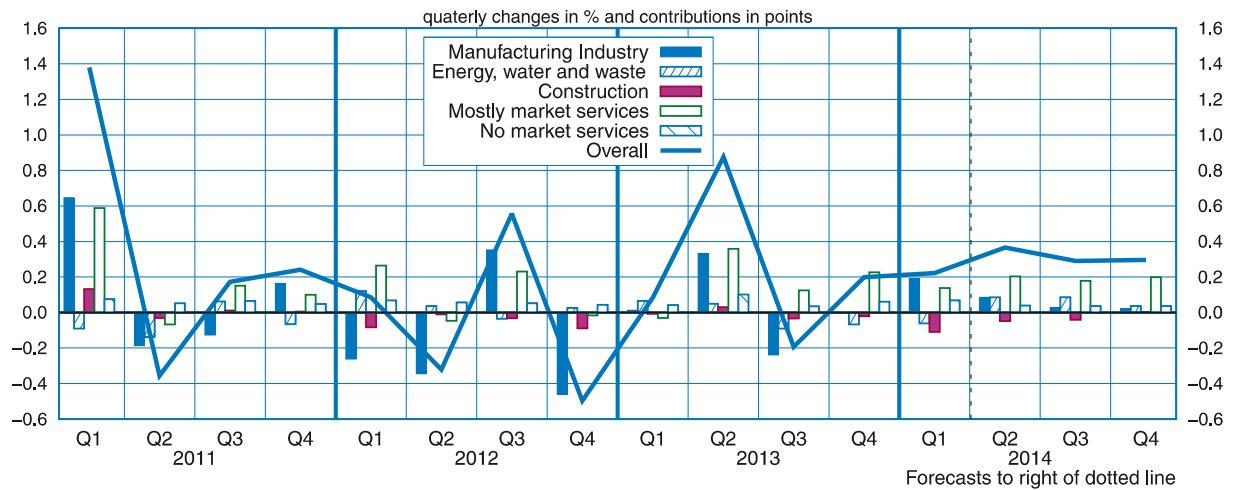
	quarterly changes												annual variations		
	2012				2013				2014				2012	2013	2014
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Agriculture (2%)	-0.9	-0.6	-0.6	0.0	0.1	0.2	0.5	0.1	-0.2	0.0	0.0	0.0	-1.7	0.1	0.2
Manufacturing industry (20%)	-1.3	-1.7	1.7	-2.3	0.1	1.7	-1.2	-0.0	1.0	0.4	0.1	0.1	-2.1	-0.6	1.2
Energy, Water and Waste (4%)	3.1	0.9	-0.8	0.6	1.6	1.2	-2.2	-1.6	-1.4	2.1	2.1	0.9	2.1	1.2	-0.7
Construction (8%)	-1.1	-0.1	-0.4	-1.2	-0.1	0.4	-0.5	-0.3	-1.5	-0.7	-0.6	0.0	-1.7	-1.2	-2.6
Trade (10%)	0.1	-0.4	0.4	-0.6	0.0	0.7	0.2	0.9	0.1	0.5	0.2	0.2	0.1	0.6	1.7
Tradable services excluding trade (41%)	0.6	-0.0	0.5	0.1	-0.1	0.7	0.3	0.3	0.3	0.4	0.4	0.4	1.1	1.0	1.4
Non Tradable services (15%)	0.5	0.4	0.4	0.3	0.3	0.7	0.2	0.4	0.5	0.3	0.2	0.2	1.6	1.5	1.4
Total (100%)	0.1	-0.3	0.6	-0.5	0.1	0.9	-0.2	0.2	0.2	0.4	0.3	0.3	0.2	0.5	1.0

Forecast

Weights constructed from the annual production value in 2010.

Source: INSEE

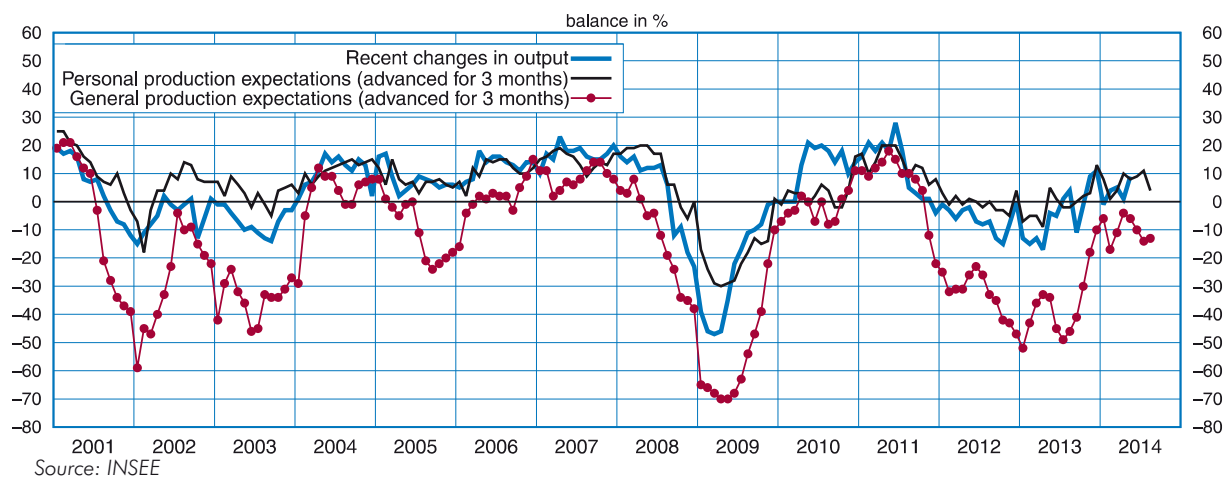
2 - Sector contributions to growth in total production



Source: INSEE

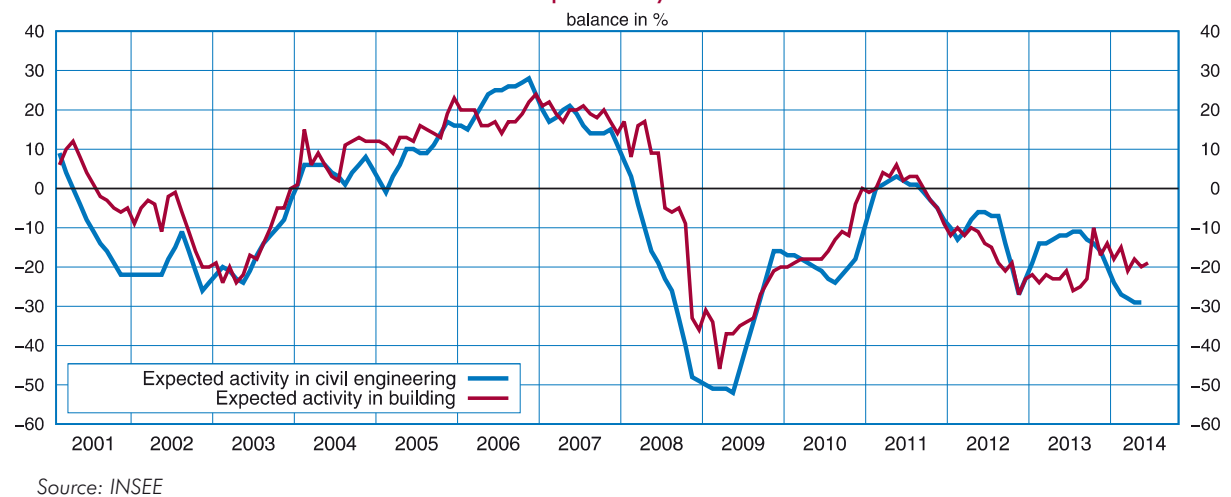
3 - Opinion on production in manufacturing industry

Last point: May 2014



4 - Prospects for activity in construction

Last point: May 2014



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In mainly non-market services, activity should gradually slow

In mainly non-market services, activity increased slightly in Q1 2014 (+0.5%, after +0.4% in Q4 2013). Activity should slow gradually over the rest of the year (+0.3% in Q2, then +0.2% per quarter in H2).

All in all, production in this branch is expected to increase by 1.4% in 2014, after +1.5% in 2013.

Energy production set to rebound in the spring

Production of energy-water-waste fell back in Q1 (-1.4%), for the third consecutive quarter, due to an unseasonably mild winter. It should rebound in the spring (+2.1%) and remain dynamic in Q3 (+2.1%), assuming in particular a return to normal heating expenditure. On average for the year, energy production is expected to decline by 0.7% in 2014, after +1.2% in 2013.■

France's International Environment

In Q1 2014, economic activity slowed in the advanced economies (+0.3% after +0.5%), more substantially than was predicted in the Conjoncture in France report published in March 2014 (+0.5%), and international trade shrank, most notably in Asia. Activity saw a marked slowdown in the United States due to the effects of adverse weather conditions and unexpectedly weak levels of investment. Nonetheless, the results of the business tendency surveys, which saw a significant upturn in summer 2013, remained strong in May 2014. Activity should thus regain momentum by the end of the year, with growth of 0.4% in Q2 followed by 0.5% per quarter in the second half of the year.

In the emerging economies activity slowed once again in Q1, particularly in China and Russia. Despite calmer conditions on the financial markets, the business outlook was still poor in May: past monetary pressures should continue to weigh heavily on activity.

The ECB confronted with the risk of deflation

The central banks in the advanced economies have limited room for manoeuvre, their base rates currently standing at the lowest possible level. For the past three years, they have been using non-standard measures to further ease their monetary policies. Nonetheless, the Fed has slowed down its securities purchasing scheme and should continue to reduce these purchases by \$10

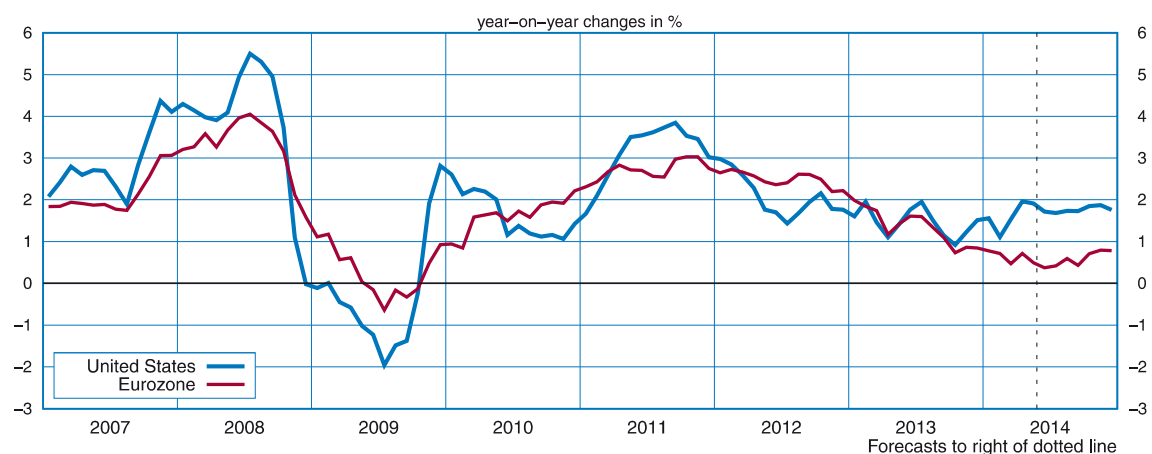
billion per month until the end of the year. Furthermore, the rapid fall in unemployment has prompted the British and American central banks to bring forward their planned tightening of monetary policy, although the Fed has issued assurances that interest rates will remain at their current level until at least early next year.

On the other hand, the Eurozone saw high unemployment and low inflation (+0.5%) in May, compared with +1.9% in the USA. The gap should remain greater than one point throughout the rest of the year (see Graph 1). In an attempt to stave off the risk of deflation and bolster activity, the European Central Bank (ECB) once again cut its base rate in early June and announced further non-standard measures. However, the central bank's balance sheet has been substantially reduced, as the banks have already paid back half of the loans issued as part of the refinancing operations conducted in late 2011 and early 2012.

Fiscal consolidation efforts should slow down on both sides of the Atlantic

In the United States, the general direction of budgetary policy was decidedly restrictive in 2013: taxes increased sharply and government spending contracted rapidly. The public deficit was thus cut from 9.3% of GDP in 2012 to 6.4% of GDP in 2013. However, following the approval of the 2014 budget by Congress in January, the rate of fiscal consolidation should slow significantly. In the Eurozone, the general orientation of fiscal policy

1 - Inflation is very low in the Eurozone



Sources: Bureau of Labor Statistics, Eurostat

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should be less stringent in 2014 than it was in 2013. In Japan, on the other hand, fiscal policy is set to become considerably more restrictive: VAT increased by 3 points on 1st April, and public investment in economic stimulus initiatives should continue to decline.

The emerging economies still progressing in slow motion...

The business climate has deteriorated considerably in the emerging economies since the start of 2013 (see Graph 2). Activity progressed only modestly in H1 2013. In H2 overall activity picked up pace, particularly in Central and Eastern Europe and in China, while imports to emerging nations also recovered. Nonetheless, since the start of 2014, due to the effects of further currency devaluation and tighter monetary conditions, the business climate has stalled again and in May it remained at a very low level in comparison with the average seen in the previous decade. Activity, which grew by 1.1% in Q1 (compared with a quarterly average of +1.7% between 1999 and 2011), should continue to grow at a reduced rate.

... without exception

No emerging economy appears to have been spared by this general sluggishness. GDP growth may be accelerating in China, after slowing down more dramatically than usual during the New Year festivities, but the business climate remains weak and all indications suggest that the construction sector, which has thus far propped up activity, is beginning to run out of steam. In South America and the emerging Asian economies, the combined effects of tighter monetary conditions and significant currency devaluation should weigh heavily on borrowers, whose debts are largely contracted in dollars, and activity should thus remain sluggish. In Russia, the Ukraine crisis has prompted a massive withdrawal of capital and a

pronounced slowdown in investment. This has had a knock-on effect on the business climate in Eastern Europe, which has seen a marked slump since February, after a year of vigorous improvement.

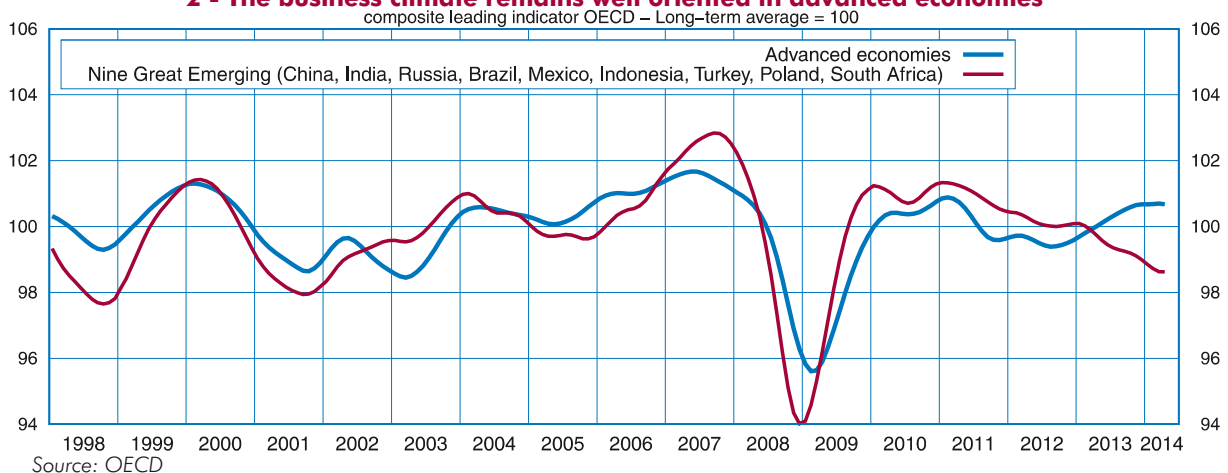
The business outlook remains strong in the advanced economies

In Q1 2014, growth was weaker than expected in the advanced economies (+0.3% after +0.5%), particularly the United States. Domestic demand has not fallen, but exports shrank in line with the downturn in demand from the emerging economies: the contribution of foreign trade was thus negative in almost all of the major advanced economies. With the exception of Japan, where it is suffering from the effects of the VAT increase, the business outlook remained strong in May 2014, both in the manufacturing industry (see Graph 3) and the service sector. All in all, activity in the advanced economies should be relatively dynamic between now and the end of 2014 (+0.4% in Q2 followed by +0.5% per quarter in H2). For 2014 as a whole growth should average out at +1.8%, up from +1.3% in 2013 and +1.4% in 2012.

Europe bounces back

Domestic demand should continue to rise in the United States and the United Kingdom, largely as a result of private sector consumption, stimulated by the decline in unemployment and corresponding wealth effects. Activity should also pick up a bit of momentum in the Eurozone, particularly in Spain, thanks to an increase in capital goods investment and the acceleration of household consumption, bolstered by the increase in purchasing power. On the other hand, the construction sector is still an obstacle to the tentative recovery of activity in Southern Europe. All in all, 2014 should see a sustained rise in activity in Germany and the United Kingdom and, to a lesser extent, in Spain. The upturn should be more modest in France and Italy.

2 - The business climate remains well oriented in advanced economies

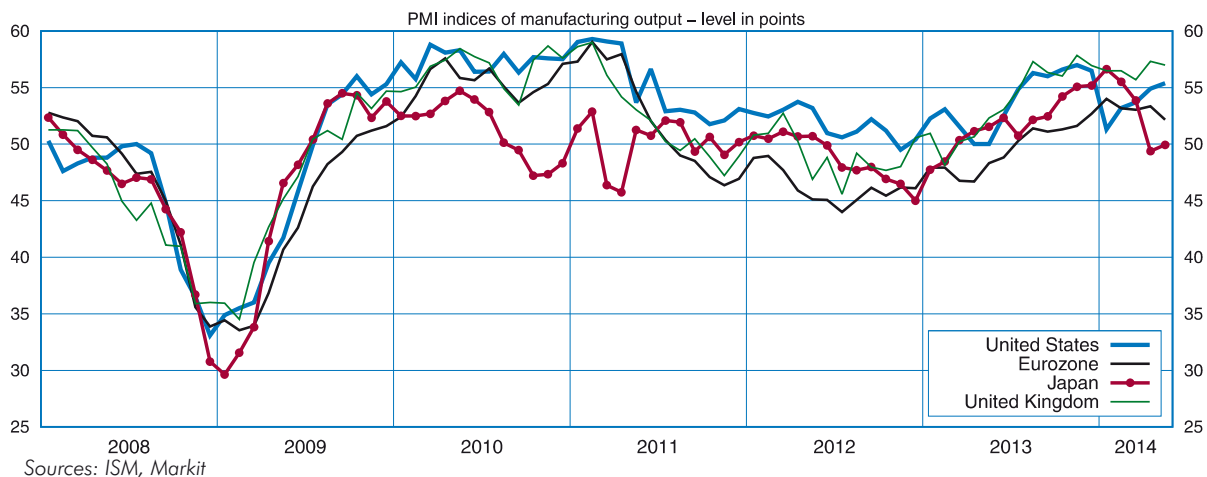


An upturn in world demand for French products

World trade contracted sharply and unexpectedly in Q1 2014, for the first time since 2009 (-0.8% after +1.5%, *see Table*), impacted by the slowdown in the Chinese and American economies. For the global economy as a whole, the new export order figures derived from the PMI surveys indicate an upturn in May. Similarly, preliminary customs data from Asia

lead us to expect a slight rebound in world trade in Q2, boosted by demand from the emerging economies (*see Focus*). All in all, world trade should therefore bounce back in Q2 (+1.3%), a dynamic which should endure to a slightly reduced extent until the end of the year (+1.2% per quarter). The acceleration of imports to the advanced economies, particularly in Europe, should bolster world demand for French products, which should grow at virtually the same rate as world trade in general. ■

3 -The business climate remains well oriented in the most advanced economies



International scenario summary

	2013				2014				2013	2014
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
GDP of advanced economies	0.3	0.6	0.6	0.5	0.3	0.4	0.5	0.5	1.3	1.8
World trade	0.8	0.5	1.2	1.5	-0.8	1.3	1.2	1.2	2.7	2.9
Imports of advanced economies	-0.4	0.7	0.9	0.4	0.0	1.0	0.9	0.9	-0.4	2.4
Imports of emerging economies	1.3	0.4	2.0	2.1	-0.1	1.6	1.5	1.5	6.2	4.9

forecast

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

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

Asian trade statistics provide the first reliable indications of total world trade

Forecasting international trade is important for our short-term analyses

The export forecasts given in the *Conjoncture in France* reports represent an important resource when analysing the economic outlook. The standard method for calculating these forecasts is based on predicting the imports of France's main trading partners. Nonetheless, to the extent that a country's imports necessarily depend on the exports and thus imports of other countries, it is crucial that the starting point for this forecasting exercise be rooted in an external reality, i.e. a direct prediction of the levels of world trade.¹ This article looks at the various techniques used to arrive at this external reference framework.

The different indicators used to determine the external reference figures

Every month the CPB publishes data on the global trade of goods². These monthly figures go back as far as January 1991, and are available two months after the end of the month in question: for example, the data for April are published at the end of June. During our forecasting operations, no monthly data for the first forecasting quarter is available. The forecasting exercise requires, as a starting input, a prediction for international trade. There are three main types of indicator which allow us to construct such an external reference framework: advance indicators from surveys; coincident indicators constructed using variables impacted by world trade; and finally the first available data for foreign trade. In these categories we shall consider, respectively: PMI and Ifo surveys; the Brent crude index, commodity prices and the maritime transport indicators (RWI/ISL and the Baltic Dry Index); Asian customs data.

These indicators may be of varying predictive utility depending on the date within the quarter on which they are employed. For our purposes, at the outset of the compilation of the *Conjoncture in France* report, we find ourselves at the start of the second month in the quarter. World trade data for the second month of the preceding quarter are therefore available. Commodity price data are available in real time. The PMI survey, the RWI/ISL index and the Baltic Dry index are available for the first month of the current quarter. Last quarter's Ifo survey, focusing on the following quarter, is also available. Finally, Asian trade figures are available for the first month of the current quarter or the final month of the preceding quarter.

(1) See in-depth explanation in the *Conjoncture in France* report for March 2009: "Better understanding of the evolution of individual countries' foreign trade with the help of world trade forecasts."

(2) The Centraal Planbureau (CPB) is an independent body attached to the Netherlands' Ministry for Economic Affairs. It is the only institution to produce comprehensive monthly figures on world trade.

Several advances indicators serve as useful reflections of developments in world trade

a) Commodity prices

Commodity prices may be considered a good indicator of world trade, as they are available in real time and liable to increase in line with global imports. Indeed the majority of commodities are used for intermediate consumption purposes, and thus react in the same way as imports to the fluctuations of world demand. However, with the exception of the extraordinary economic period known as the Great Recession, the figures for international trade and commodity prices (excluding energy) actually diverge. There is also considerable divergence between world trade figures and the figures for "rare earth" exports from China and global silicon shipments, two materials which are essential ingredients in many manufactured goods.

As with commodity prices, the going rate for a barrel of Brent crude is available in real time, with price records stretching back a long way. Oil also accounts for a significant, if falling, proportion of intermediate consumption. Since the 2000s oil prices have appeared to be pretty well correlated with world trade, although this correlation is not perfect (see [Graph 1](#)).

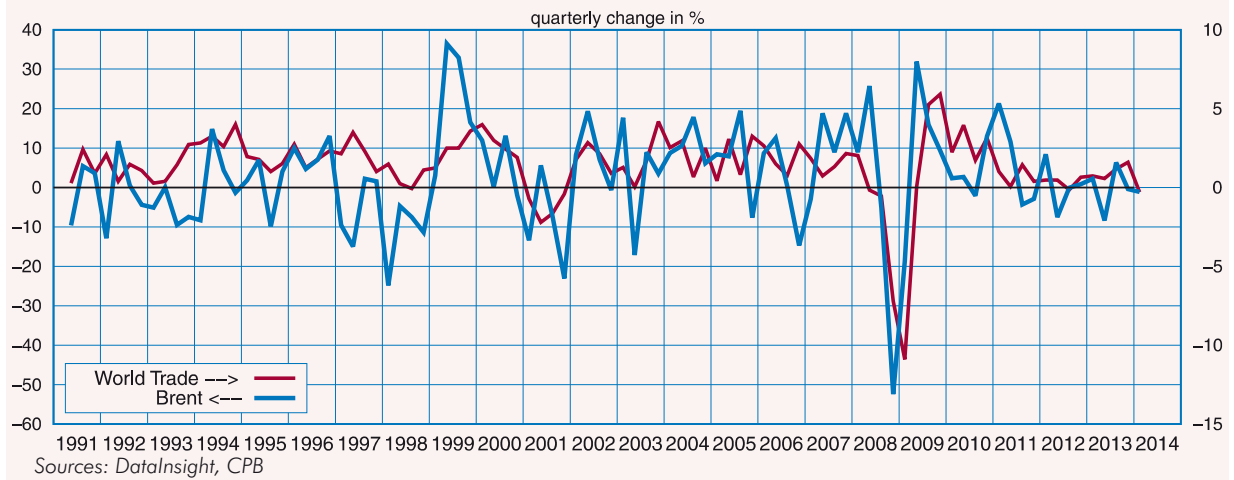
b) The maritime transport indexes

As a large proportion of world trade involves transportation by sea (80% of trade by volume, cf. Review of Maritime Transport, 2013, CNUCED), indicators of the current state of shipping are likely to be of use when forecasting developments in world trade.

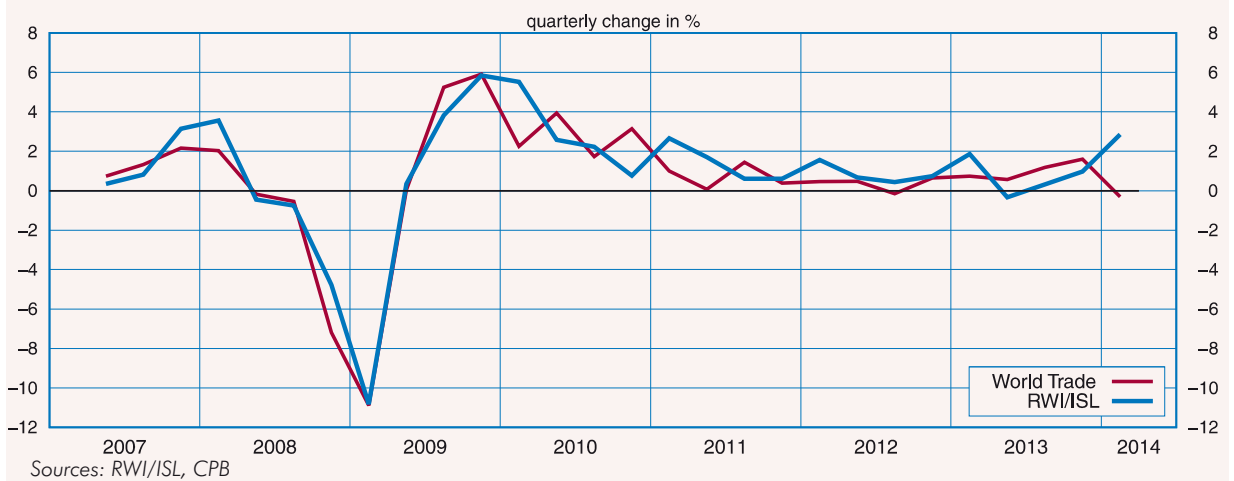
The RWI/ISL index (provided by the German institutions RWI and the Institute of Shipping Economics and Logistics) is constructed using data from 73 container ports, representing 60% of the world's container traffic (see [Graph 2](#)). However, while this information is made available more rapidly than the CPB's world trade data (one month later), the indicator has only existed since 2007.

Another indicator which may potentially reflect developments in world trade is the Baltic Dry Index (see [Graph 3](#)), an indicator of the variations in the spot price of transporting major dry commodities (thus excluding petrol) in bulk by sea, on 24 main world trade lines. Derived from a comparison of the supply and demand of ships available to transport such commodities, the Baltic Dry Index can be seen as a gauge of international economic activity and, by extension, of world trade. Indeed, since the supply of cargo ships is inelastic in the short term this indicator should give us a reliable idea of the demand for commodities, and thus reflect the future direction of production and world trade. The Baltic Dry Index is published monthly, one month before the world trade indicator becomes available, but displays greater volatility and, ultimately, a fairly poor correlation with the world trade figures.

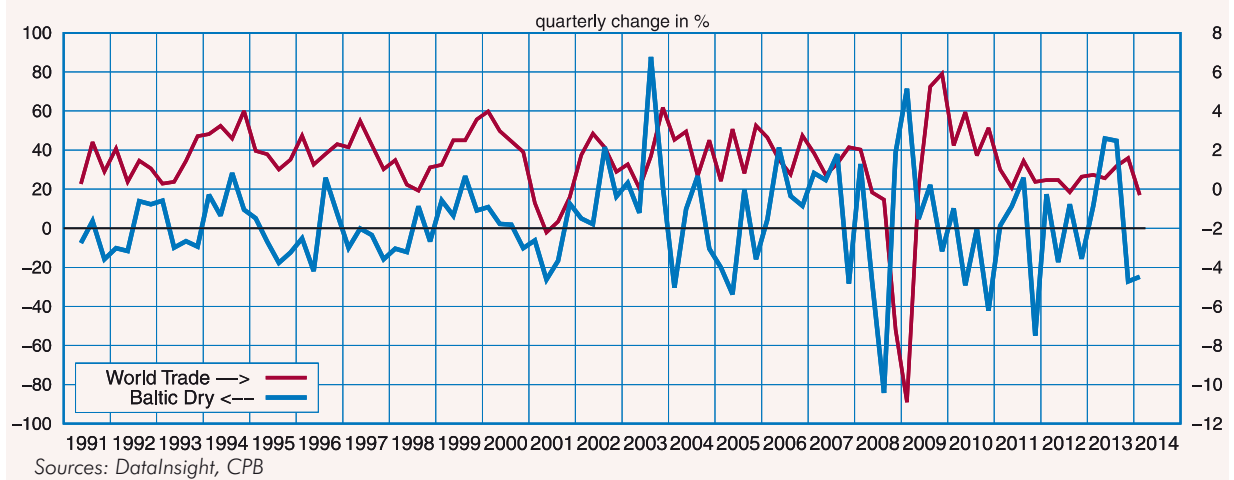
1 - Price of Brent and global trade



2 - The RWI / ISL index



3 - The Baltic Dry Index



c) The PMI index for export orders

A more direct indicator of world trade is provided by the "new export orders" section of the Purchasing Managers' Index (PMI), published by Markit: in each country these new orders will result, within a more or less brief timeframe, in exports. The country-by-country figures can thus be aggregated to give an advance indicator of world trade. In practice, it turns out to be more of a coincident indicator (see Graph 4). The threshold figure of 50 more or less corresponds to a situation of zero growth in world trade: above this level we can expect world trade to grow, below 50 we can expect it to shrink. One advantage of the PMI index is its rapid availability ³.

d) Asian customs data

Customs data from Asian countries can also be of use (see Graph 5). Value figures published by the customs authorities in South Korea, Taiwan, Singapore and Japan possess the considerable advantage of being the first available direct measurements of trade. These countries account for an increasingly substantial share of world trade, a proportion which grew from 23% to 32% of total international trade between 2003 and 2012⁴. Furthermore, Asia acts as a driving force in the development of world trade on account of its knock-on effects for the rest of the world. Although geographically distant, Europe is thus affected by the indirect

ripple effects, partly as a result of Germany's stronger ties with Asia.⁵

e) The Ifo survey

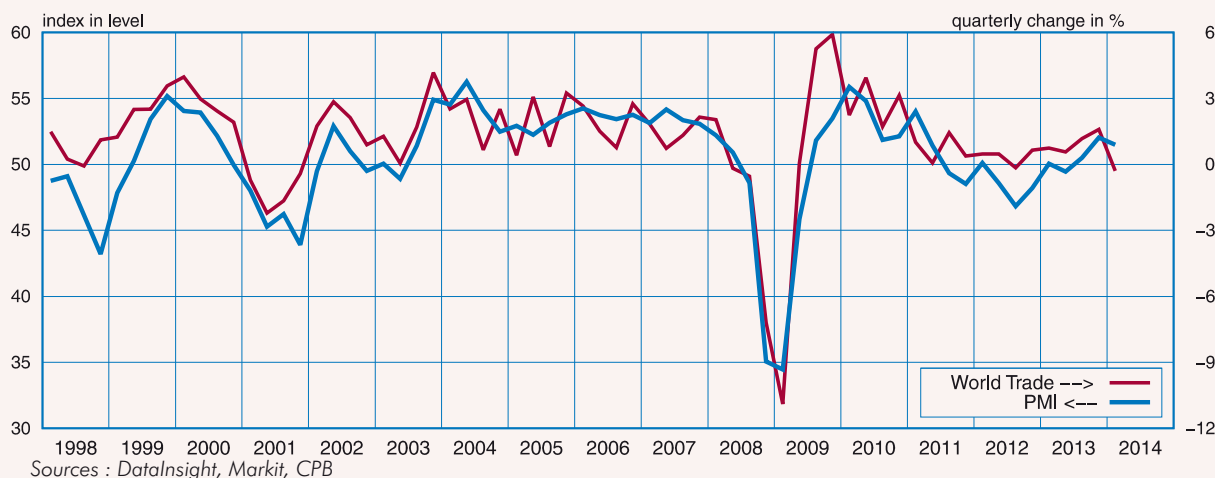
The six-month business tendency survey produced by the German agency Ifo is based on the predictions of a panel of forecasters. This information can thus be considered to reflect a certain consensus: it is neither "hard data" (objective figures), nor data based on economic agents' perception of their current situation or future plans. This survey implicitly synthesises all of the available forecasts, and as such is supposed to represent a synthesis of all available information. The results thus appear to be well-correlated with the year-on-year development of world trade. Moreover, the forecasting period of this survey covers the next two quarters, thus allowing us to make initial predictions for the following quarter.

(3) see focus of the *Note de conjoncture* december 2010: "INSEE outlook surveys and PMI indicators: advanced tools for monitoring the economic outlook".

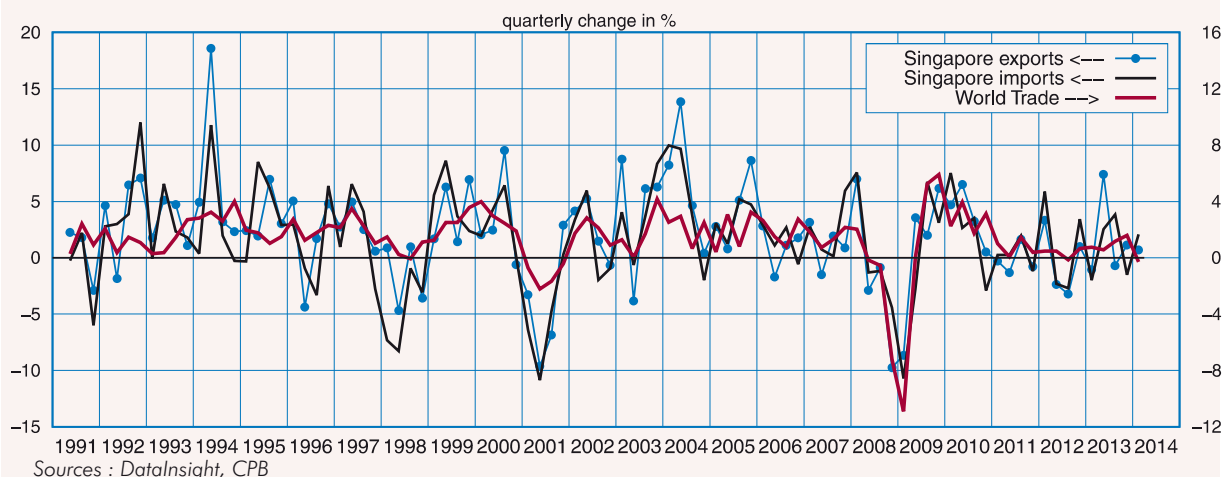
(4) source : WTO

(5) see Lalanne G. and Mauro L., « L'Asie émergente peut-elle tirer la reprise mondiale ? », *Note de conjoncture* March 2010.

4 - The PMI index



5 - Asian Customs Data



Selecting a model to forecast world trade

Based on this initial analysis, three principal indicators are retained: the international PMI index for export orders, Asian customs data and the Ifo index business climate forecast. The other indicators either offer insufficient historical depth to be of use (the RWI/ISL index), or have limited predictive capacity (Brent and the Baltic Dry Index⁽⁷⁾), or else are simply too poorly correlated with the actual fluctuations in world trade (commodity prices excluding oil).

As for forecasts covering the current quarter, two types of model may be considered: the unconnected use of two data sources (surveys and customs data, for example), which has the merit of maintaining a certain independence, or else the cross-comparison of different data sources. In order to identify the best models, a process of automatic variable selection has been put in place⁽⁸⁾.

(7) see in-depth explanation in the *Conjoncture in France* report for June 2009: "The Baltic Dry Index is not a reliable lead indicator of world trade".

(8) This "Gets" method is employed in the Grocer package used in the Scilab programme, <http://dubois.ensae.net/grocer.html>

1- World trade forecast model using Asian customs data

Variable	Coeff	t-stat	p-value
cte	-0.055	4.4	0.0%
ske_1	0.079	2.3	2.3%
sge_0	0.293	4.3	0.0%
twe_0	0.087	1.8	7.6%
lags (twe_Q)	0.054	2.1	4.4%
lags (2,World_trade)	-0.490	3.1	0.4%
lags (3,World_trade)	-0.490	-2.4	2.2%

- ske_1: South Korea's export overhang in the first month of the quarter
- sge_0: Singapore's export overhang at the end of the preceding quarter
- twe_0: Taiwan's export overhang at the end of the preceding quarter
- lags(i,X): shortfall (i) in the variable

The first model retained for our purposes is based on the export order figures from the international Purchasing Managers' Index (including the PMI data for the first month in the forecasting period, the PMI quarterly growth overhang, the final month of the preceding quarter and previous quarterly levels). This model is then compared with a second model whose variables are derived from the selection performed on the Asian customs data (see Table 1). Finally, the Ifo index allows us to construct a third model which, while not entirely satisfactory, gives some indication as to the direction in which things will head in the second forecasting quarter.

The first two models satisfy all the standard tests (autocorrelation, homoscedasticity, normality of residuals and stability). The second model, based on customs statistics from several Asian countries, is more precise than the model based on global PMI results (see Table 2).

Asian customs figures thus represent the most pertinent advance data when producing forecasts of world trade in the current quarter.

For Q1 2014, at the start of the forecasting operation the model based on PMI results suggested an increase of just below 2%. The model based on Asian customs data predicted a rise of closer to 1%. World trade actually shrank by 0.8% in this period. For Q2 2014 both models yield similar predictions (+1.6%), slightly exceeding the forecast we settled on: in the light of customs data which have since become available, we expect to see a +1.3% upturn in world trade..■

2 - Comparison of the statistical precision of the various models

	PMI	Asian Customs Data
R ² -adjusted	0.52	0.69
DW	1.6	2.2
SER	1.0%	0.8%
$\sum e(i)^2$	0.33%	0.19%
Forecast of T1 2014	+2.0%	+1.0%
Forecast of T2 2014	+1.6%	+1.6%

6 - Calibration of world trade



Sources: CPB, DataInsight, INSEE calculations

Foreign trade

In Q1 2014, world trade declined by 0.8% and world demand for French products increased weakly: the imports of France's trading partners were slow, in particular with a decline in demand from outside Europe. France's exports thus slowed considerably (+0.3% after +1.6%). In Q2, world demand for French products should again rise. Exports should therefore gain momentum (+0.8%), and then grow a little less dynamically in Q2 (+0.5% per quarter). Overall in 2014, exports should increase by 3.0%, after +2.4% in 2013.

After accelerating in Q1 2014 (+1.0% after +0.5%), imports are set to slow down in Q2 (+0.2%), and then progress at a sluggish rate in H2 (+0.7% then +0.5%) linked to the components of demand. For the year as a whole, imports are set to increase by 3.0%, after +1.9% in 2013.

All in all, after having a negative effect in Q1 2014 (-0.2 points), foreign trade should make a positive contribution in Q2 (+0.1 points) then have a neutral effect on growth through to the end of the year. On average in 2014, the contribution of foreign trade should be nil, after +0.1 points in 2013.

In 2014, exports are set to accelerate slightly (+3.0% after +2.4%)

In Q1 2014, French exports of goods and services slowed down (+0.3% after +1.6%, *see Table*). Demand for French products increased slightly, with the drop in non-European demand offsetting the increase in exports to our European partners.

Exports of manufactured products thus progressed by only 0.4%, after +1.8%. Particularly, sales of "other industrial products" slowed substantially (+0.5% after +1.8%), due to the poor performance of the clothing-textiles and pharmaceutical industries. Sales of transport equipment contracted (-1.0% after +3.9%); automobile exports increased whereas exports in the aeronautics sector showed a one-off fall. Conversely, sales of other manufactured products (agrifood products, refined oil products and capital goods) accelerated.

In addition, sales of agricultural products dropped (-2.8%) due to the decrease in wheat exports to Africa, as did energy sales (-2.6%), with a sharp reduction in sales of industrial waste. Exports of services also slowed (+0.3% after +0.9%).

By late 2014, exports should pick up, improving by 0.8% in Q2 then by 0.5% per quarter in H2. They should be buoyed by an upturn in world trade: an

Foreign trade growth forecast

	quarterly changes								annual changes	
	2013				2014				2013	2014
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Exports										
All goods and services	0.3	2.7	-0.4	1.6	0.3	0.8	0.5	0.5	2.4	3.0
Manufactured products (75%*)	0.2	3.1	-1.9	1.8	0.4	0.8	0.4	0.5	1.5	2.5
Imports										
All goods and services	0.5	1.7	1.2	0.5	1.0	0.2	0.7	0.5	1.9	3.0
Manufactured products (77% *)	0.4	1.7	1.4	1.3	0.9	0.0	0.6	0.6	1.3	3.5
Contribution of foreign trade to GDP	-0.1	0.2	-0.5	0.3	-0.2	0.1	0.0	0.0	0.1	0.0

Forecast

Reading note: part of exports (resp. imports) of non-energy industrial goods in exports (resp. imports) in a whole in 2013.

Source: INSEE

increase of 1.3% in Q2 then 1.2% per quarter (see *Focus on the "International environment"*). Demand for French products should be in line with world trade (see *Graph 1*). It should show a clear increase in Q2 (+1.2% after 0.4%) as a result of the rebound in imports in emerging countries and the strong growth in imports in advanced countries (see *Graph 2*). It should then slow down slightly, despite sustained demand from Eurozone partners, particularly Germany. After an increase over several quarters, the exchange rate is set to stabilise, but its recent appreciation should further penalise exports (see *Graph 3*).

Exports of manufactured products should increase by 0.8% in Q2. They should then progress moderately in Q2 (+0.4% then +0.5%). Exports of

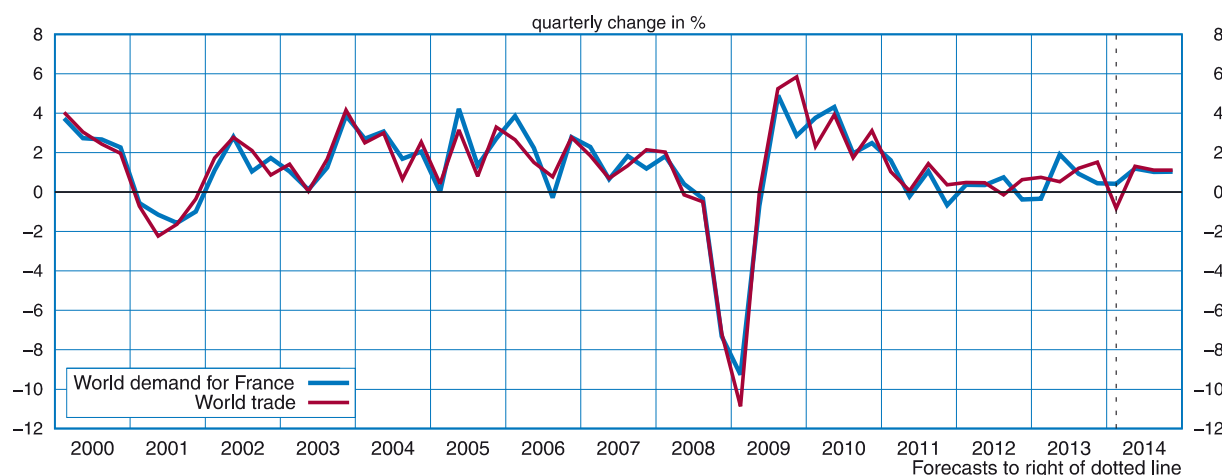
other goods (agriculture, energy) and services are set to rise slightly in Q2 before returning to a rate that is closer to their trend.

All in all, in 2014 exports should accelerate slightly (+3.0%, after +2.4% in 2013). French market share should decrease slightly through to late 2014, particularly due to the past appreciation of the Euro in 2013 (see *Graph 4*).

Imports set to slow slightly by late 2014

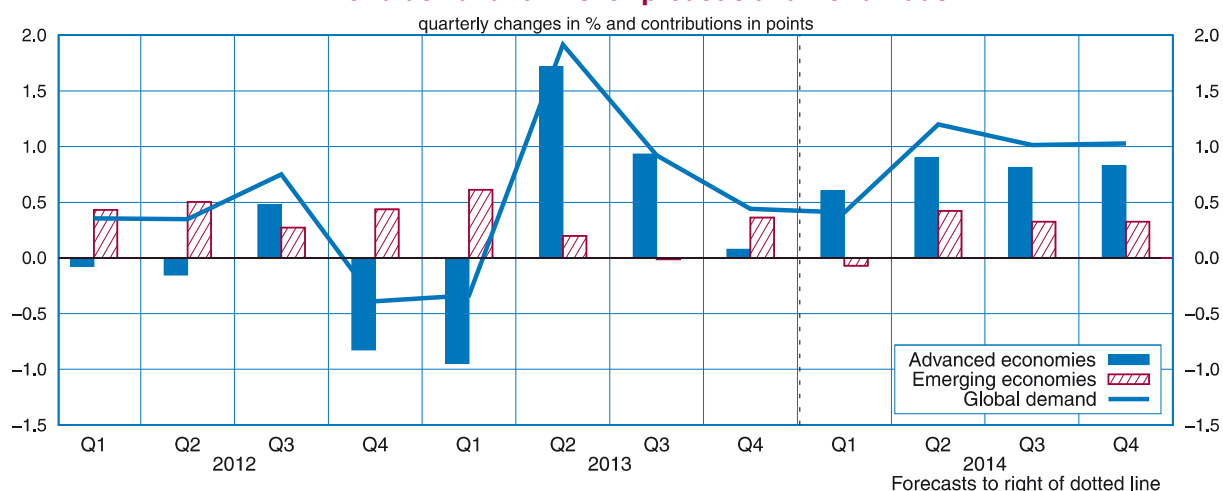
In Q1 2014, imports of goods and services picked up (+1.0% after +0.5%), as expected. However, purchases in manufactured goods slowed down slightly (+0.9% after +1.3%). Purchases accelerated for agrifood products (+1.9% after

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



Sources: INSEE, DG Trésor, Centraal PlanBureau

2 - World demand for French products and world trade



Sources: INSEE, DG Trésor, Centraal PlanBureau

French developments

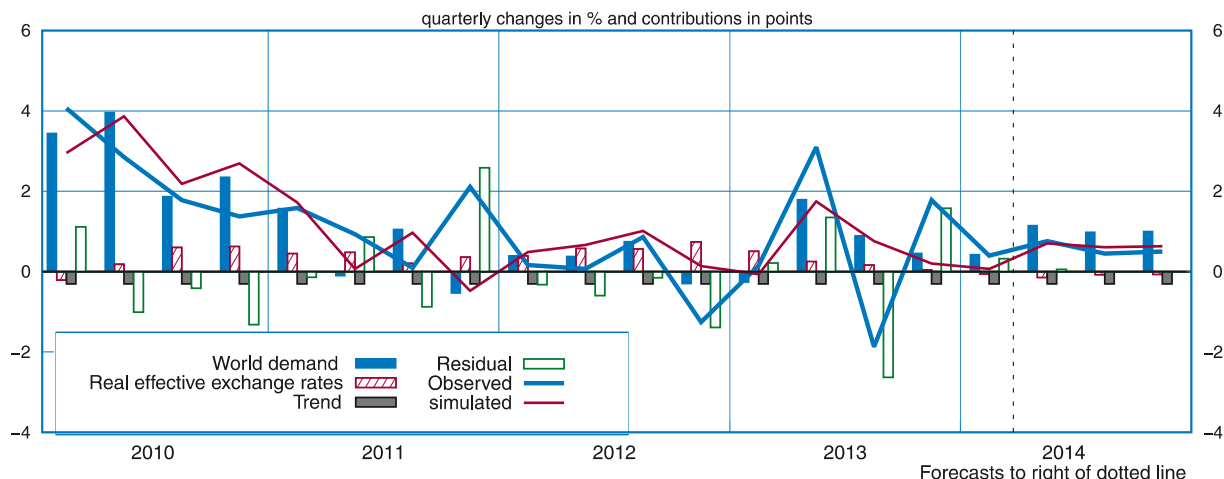
0.0%), capital goods (+1.6% after +0.9%) and "other industrial products" (+2.9% after +1.5%): purchases of chemical products, particularly pharmaceuticals, leapt up. On the other hand, purchases decreased for transport equipment (-3.8% after +1.8%) and refined oil products (-3.7% after +1.8%). Purchases of raw energy and agricultural products (fruit and vegetables) picked up and expenditure on services was dynamic.

In Q2 2014, imports should slow down (+0.2% particularly because of an expected backlash in chemicals and pharmacy purchases) then accelerate in H2 (+0.7% then +0.5%), in line with the expected profile of domestic demand.

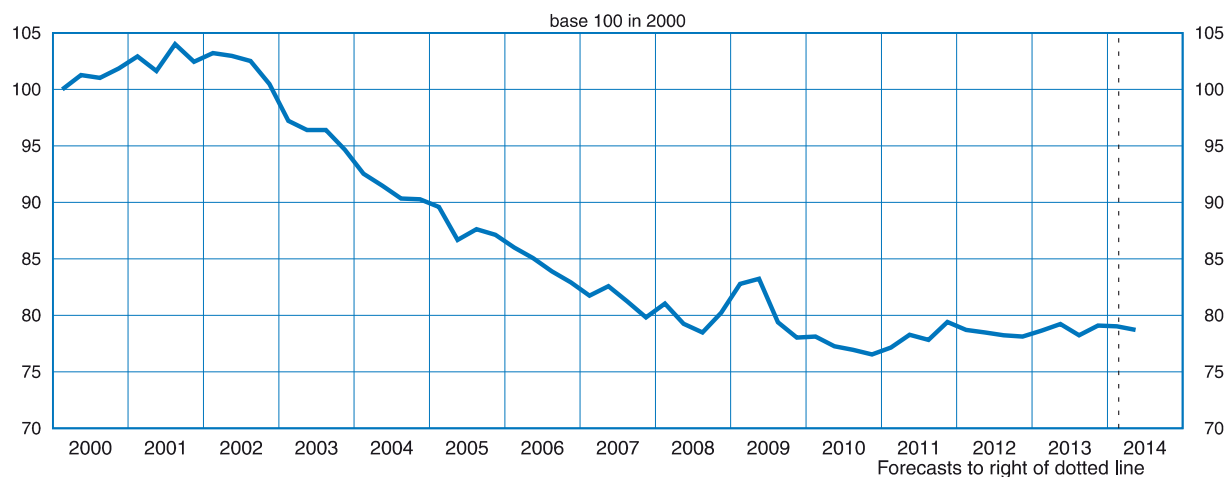
Purchases of manufactured products should increase by 0.6% per quarter in H2. Energy purchases should follow their downward trend (-0.5% per quarter), and purchases of agricultural products are likely to remain on their upward trend (+2.0% then +1.0% per quarter). Finally, imports of services should slow slightly.

On average for the year 2014, imports of goods and services should increase more noticeably (+3.0%) than in 2013 (+1.9%). Negative in Q1 (-0.2 points), the contribution of foreign trade to GDP should be close to zero through to the end of the year; on average, it should be nil in 2014 after +0.1 points in 2013.■

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



4 - Market share of France



Employment

After a significant downturn in H1, employment in the non-agricultural market sectors picked up in H2 2013 (+14,000 jobs). In Q1 2014 it slipped back, impacted by the decline in temporary employment. Over the rest of the year, the increase in activity should be modest, and in spite of the improved growth in jobs generated by tax credits for competitiveness and employment (CICE), employment is likely to stagnate. All in all, employment should again decrease in these sectors in 2014 (-22,000 jobs), after -53,000 jobs in 2013.

At the same time, employment should increase in the non-market sectors (+60,000 jobs, after +76,000 in 2013) largely thanks to the ramping up of «Emplois d'avenir». All in all, total employment should progress by 54,000 jobs in 2014, after increasing by 55,000 in 2013.

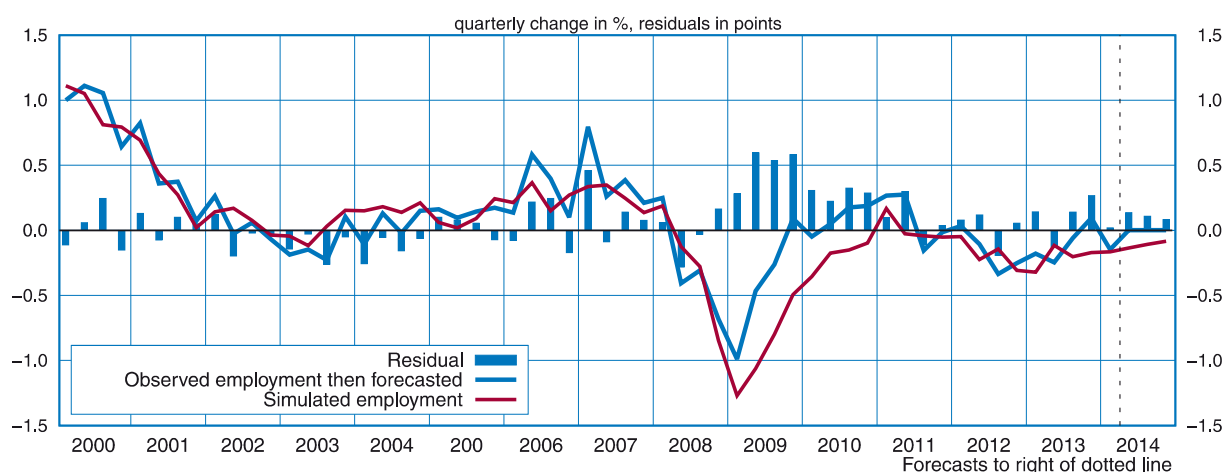
The number of paid employees in the market sectors should fall in 2014

In 2013, paid employment in the non-agricultural market sectors declined (-53,000 jobs, *see Table 1*). The fall occurred in H1 (-67,000), with numbers improving in the second half of the year (+14,000).

This development is fairly consistent with the usual employment determinants (*see Graph 1*). The downturn in activity beginning in spring 2011 was transmitted to employment progressively, although apparent labour productivity has itself slowed considerably since 2012.

In Q1 2014, market-sector employment fell again, impacted particularly by the temporary employment sector, which had increased substantially in late 2013. Through to the end of the year, the expected growth in activity should be too modest to enable employment to pick up significantly. However, it should stabilise (*see Graph 2*), sustained by the effects of the improved growth in employment as a result of the tax credits for competitiveness and employment (estimated at more than 30,000 jobs per half-year, *see Focus "What to expect from the CICE in 2014?"* in the December 2013 *Conjoncture in France*). All in all, employment in the non-agricultural market sectors should decline by 22,000 jobs in 2014.

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



How to read it: The equation residual for employment is the spread between the observed employment growth rate and the simulated employment growth rate. A positive residual, such as that observed at the end of 2013, indicates that observed employment showed better growth than past behaviour would lead us to expect.

Source: INSEE

French developments

Temporary employment should stabilise by the end of 2014, while non-temporary tertiary sector employment should increase slightly

In 2013, tertiary market-sector employment increased (+23,000 jobs), benefiting from a turning point in H2 (+46,000 jobs after -23,000). This upturn was driven by the tertiary sector excluding temporary work (+20,000 jobs after -31,000) and in the increase in temporary work (+25,000 jobs after +8,000).

In Q1 2014, the fall in temporary employment (-26,000 jobs) cancelled out the improvement of late 2013, but employment increased slightly in the non-temporary market tertiary sector (+16,000). The temporary work resort ratio in the different user sectors should stabilise at the low level observed since early 2013, with the result that the number of temporarily employed people should remain virtually unchanged between now and late 2014. Influenced by weak activity, non-temporary employment should increase only slightly: +24,000 jobs in H1 and +16,000 in H2.

All in all, market sector tertiary employment should decrease by 2,000 jobs in H1 and increase by 23,000 in H2.

The fall in industrial employment set to continue, though at a more moderate pace in 2014

In 2013 as a whole, industrial employment declined (-35,000). Non temporary work¹ fell by 51,000 jobs, with 30,000 job losses in H1 and 20,000 in H2. Temporary work in industry rose slightly (+15,000 jobs) and the rate of recourse to temporary work in the sector grew from 6,3% to 6,8%.

(1) In the figures published by the INSEE, temporary workers are counted in the tertiary sector even if they are working in industry or construction.

(2) In addition to about 120,000 contracts in the overseas departments, the market sector and national education, with 40,000 future contracts.

After a rebound in the spring, industrial activity should remain sluggish in H2 and total industrial employment, including temporary work in the sector, should therefore continue to fall at a rapid pace in 2014 (-20,000 in H1 then -8,000 in H2). Non-temporary industrial job losses should be on a comparable scale in both half-years (-9,000 in H1 then -11,000 in H2).

Net job losses should continue at the same rate in construction

Net job losses in construction continued in 2013 (-25,000, after -18,000 in 2012).

In Q1 2014, employment continued to fall at the same rate as at the end of the previous year. With the business tendency surveys failing to indicate any improvement in employment perspectives in this sector, employment should continue to drop at the same rate through to late 2014 (-10,000 in H1 then -11,000 in H2).

Non-market sector employment should continue to increase thanks to future contracts

In 2013, the non-market sector labour force increased more (+76,000 jobs) than in the previous year (+21,000 jobs). This upturn is due mainly to subsidised employment (+71,000 after stability in 2012), other non-market and non-subsidised employment having slowed down.

In 2014, non-market employment should rise in both H1 (+22,000) and H2 (+38,000). Non-market subsidised contracts should represent 372,000 new arrivals in 2014 in Metropolitan France² of which 55,000 in « Emplois d'avenir », after 426,000 in 2013. This should translate into a variation of 16,000 in the number of beneficiaries in H1, mainly thanks to « Emplois d'avenir » (see Table 2). It should increase a little more in H2 (+29,000): in addition to the continued creation of « Emplois d'avenir » (+10,000), there should be positive net arrivals on integration contracts (CUI-CAE +19,000 jobs). For 2014, the number of beneficiaries of subsidised contracts in the non market sector should thus increase by 45,000, after +71,000 in 2013. ■

2- Employment change in non-agricultural market sectors

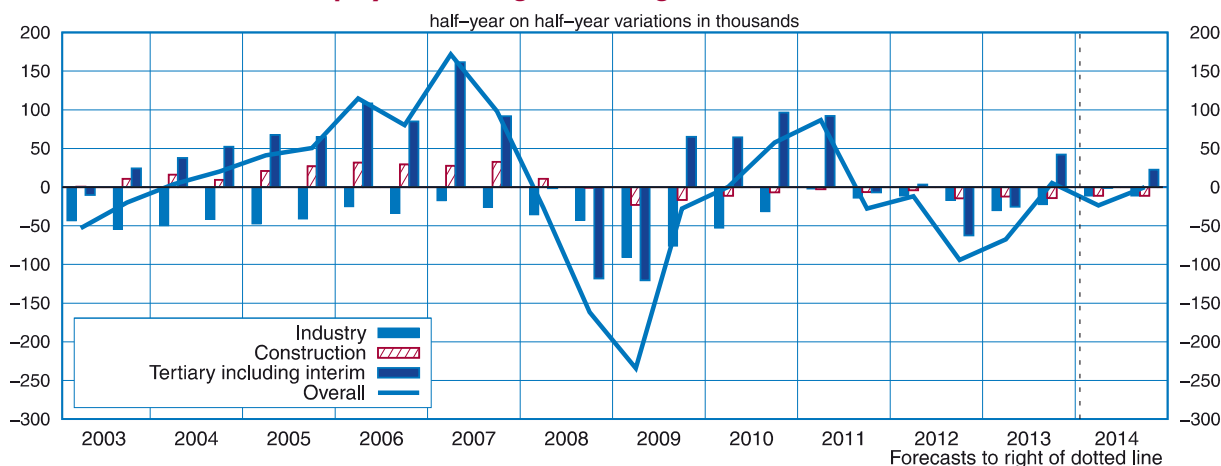


Table 1

Change in employment

	2013		2014				2013		2014		2012	2013	2014
	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2	H1	H2			
Market sector employees (1)+(2)	-7	41	-25	6	6	6	-64	35	-19	12	-83	-29	-7
Mainly market sectors (1) (private establishments only)	0	20	-3	6	6	6	3	21	3	12	23	24	15
Mainly non-agricultural non-market sectors (2)	-7	21	-22	0	0	0	-67	14	-22	0	-107	-53	-22
Industry	-12	-9	-7	-2	-7	-5	-30	-20	-9	-11	-28	-51	-21
including: Manufacturing industry	-11	-8	-8	-2	-6	-4	-31	-19	-10	-10	-33	-50	-20
Construction	-6	-6	-4	-6	-6	-6	-13	-12	-10	-11	-18	-25	-21
Tertiary market sector	11	35	-10	8	12	10	-23	46	-2	23	-60	23	20
including: Trade	-3	9	3	2	2	2	-15	5	5	4	-12	-10	9
Market services (including temporary work)	14	26	-13	6	10	8	-8	40	-7	18	-48	32	11

	2013		2014				2013		2014		2012	2013	2014
	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2	H1	H2			
Mainly non-agricultural market sectors	-7	21	-22	0	0	0	-67	14	-22	0	-107	-53	-22
Agricultural workers	3	3	0	0	0	0	6	6	0	0	4	12	0
Mainly non-market service sectors (including private establishments)	13	45	13	9	18	20	18	57	22	38	21	76	60
Self-employed	5	5	4	4	4	4	10	10	8	8	30	20	15
TOTAL EMPLOYMENT	13	74	-5	13	22	23	-32	87	8	45	-52	55	54

Forecast

How to read it: 12. 000 jobs should be created in the market sector during H2 2014.

(1) Sectors OQ (private workers)

(2) Sectors DE to MN and RU

Source: INSEE

Table 2

Change in subsidised employment in the non-market sector

in thousands

	2013		2014				2013		2014		2012	2013	2014
	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2	H1	H2			
"Emplois d'Avenir"	18	14	8	8	5	5	21	32	16	10	1	53	26
CUI-CAE (replaces CAE+CAV on 01/01/10)	-7	26	13	-12	8	11	-1	19	1	19	-1	18	19
Total	11	40	21	-4	13	16	20	51	16	29	0	71	45

Forecast

Scope: Metropolitan France

Sources: DARES, INSEE calculations

Unemployment

In Q1 2014, the unemployment rate stood at 10.1% of the active population (9.7% in Metropolitan France). It stabilised in relation to Q4 2013, in spite of an increase of 23,000 in the number of unemployed in Metropolitan France.

In Q2, the unemployment rate should again increase slightly: by mid-2014, it should stand at 10.2% (9.8% in Metropolitan France), then, with the expected slight increase in total employment, it should stabilise at this level in the course of H2.

In Q1 2014, the unemployment rate stood at 9.7% in Metropolitan France

In Q1 2014, the number of unemployed increased by 23,000 in Metropolitan France, after an annual change fall of 28,000 at the end of 2013 (see Table). Over the same period, employment increased by 35,000, with the stabilisation in market-sector employment being offset by the dynamism of subsidised employment. All in all, the unemployment rate stabilised at 9.7% in Metropolitan France (see Graph) compared to the previous quarter.

Year on year, it dropped by 0.2 points: it declined a little more for women (0.3 points) than for men (0.1 points).

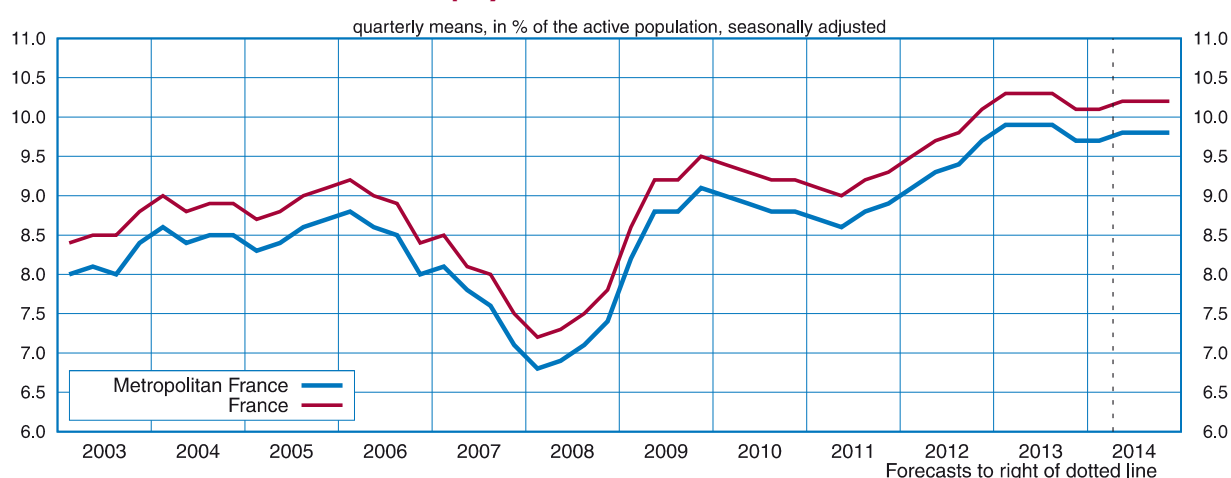
The unemployment rate for 15-24 year olds stabilised in early 2014

After peaking at 25.3% of the active population in late 2012, the unemployment rate among 15-24 year olds declined throughout 2013 before levelling out at 22.9% in early 2014. Young people benefited particularly from the support provided by "future jobs" (emplois d'avenir) for young people with few or no qualifications. The unemployment rate among 25-49 year olds declined slightly in Q1 2014 to stand at 9.0%. It remained virtually stable year on year (-0.1 points). However, the unemployment rate for workers aged 50 and over increased by 0.3 points back to the level of Q3 2013.

There was a one-off fall in the active population in 2013

In 2013 the active population decreased by 28,000. This contrasts sharply with what is suggested by the usual medium-term determinants (demography and participation trend, for an impact evaluated at +120,000) and the effect of public policies (training, subsidised employment and post-2011 retirement reforms representing -13,000). This divergence can be explained by three main factors. First of all, it is important to bear in mind that unemployment figures are the result of a survey that is subject to some uncertainties as to the sampling procedure. However, the divergence

1 - Unemployment rate in the sense of the ILO



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

Source: INSEE, Employment Survey

seems to be too great to be caused purely by these uncertainties. Next, the estimations of the trends and impacts of public policies are based on models. They are therefore, by their nature, surrounded by uncertainties and are not designed to chart the fluctuations in the active population precisely from one year to the next. Lastly, the approach used here does not take into account the fact that, in a period when the outlook is deteriorating, the unemployed may despair of finding work and withdraw from the labour market, or the non-working population may delay their arrival on the market: this is the phenomenon known as the "discouraged worker effect" of the economic outlook. Until 2012, the models describing this behaviour were integrated into the *Conjoncture in France* forecasts. But since the 2008-2009 crisis, these effects seem to have become negligible (see "The crisis modified the effects of the outlook on labour force participation", *Conjoncture in France* for March 2013). However, it is not out of the question that in 2013, after three years of a poor outlook, the effects of the despondency may be influencing trends in the active population.

Unemployment should rise slightly in 2014

In 2014, assuming a return to the usual determinants, the labour force should again rise (+124,000). This should be particularly supported by the extension of the legal retirement age to 61 years and 2 months. However, this increase should be limited by retirements of those who have had long careers (see "Estimated bending effects" in *Table 1*). With improved models of the ages at which people end their studies, the downward impact of this measure on the active population should be more pronounced than anticipated in the previous *Conjoncture in France*.

The active population should thus increase more rapidly (+124,000) than the net number of total job creations (+79,000). The number of unemployed should increase in H1, and then remain globally stable in H2, with the unemployment rate levelling out at 9.8% in Q2 2014 in Metropolitan France (10.2% including the French Overseas Departments) then remaining stable at that level until the end of the year. ■

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

	quarterly changes										annual changes				
	2012		2013				2014				2010	2011	2012	2013	2014
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4					
Population of the 15-64 age group	-24	-23	-23	-23	-22	-22	-22	-22	-22	-22	127	8	-95	-90	-89
Population of the 15-59 age group	-20	-22	-21	-17	-14	-11	-9	-9	-9	-11	-121	-80	-76	-63	-38
Labor force	0	63	16	-3	-7	-34	58	23	23	20	45	214	214	-28	124
including:															
(a) Contribution of the population and the trend participation rate	36	36	30	30	30	30	34	34	34	34	160	165	146	120	135
(b) Estimated bending effects	2	-1	-4	-2	-3	-5	0	-3	-3	-6	-66	-6	23	-13	-11
(c) Other short-term fluctuations (residual)	-39	27	-10	-32	-34	-60	23	-8	-8	-8	-49	54	45	-135	0
Employment	-34	-45	-27	-16	-1	44	35	4	18	23	136	165	-42	0	79
Reminder: End-of-period employment (see "Employment" note)	-53	-37	-17	-15	13	74	-5	13	22	23	138	125	-52	55	54
ILO unemployment	34	108	43	13	-6	-78	23	19	6	-3	-92	49	255	-28	45
	quarterly average										Average in the last quarter of the period				
ILO unemployment rate (%)															
Metropolitan France	9,4	9,7	9,9	9,9	9,9	9,7	9,7	9,8	9,8	9,8	8,8	8,9	9,7	9,7	9,8
France (including overseas departments)	9,8	10,1	10,3	10,3	10,3	10,1	10,1	10,2	10,2	10,2	9,2	9,3	10,1	10,1	10,2

Forecast

How to read it:

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

Source: INSEE