Consumer prices

In May 2014, consumer prices increased by 0.7% year-on-year. Inflation has been contained at less than +1.0% since last summer, and should remain at that very moderate rate through to the end of the year. By the end of 2014, year-on-year consumer prices should thus be stable at +0.7%.

In the absence of inflationary pressure and because of falls in telecommunications prices, core inflation should drop to +0.2% in December 2014, after +0.3% in May. Inflation should additionally be moderated by the decline in the prices of healthcare products and the slowdown in tobacco prices. However, the prices of energy products should increase again. Likewise, the rise in the prices of food commodities should begin to transfer to consumer prices between now and the end of the year, and the fall in the prices of seasonal products is likely to fade out.

Headline inflation still very moderate

Since the beginning of 2013, inflation has remained very moderate. The year-on-year price increase has not exceeded +1.0% since the end of last summer. It reached +0.7% in May 2014 (*see Graph 1*). This moderation is all the more notable as VAT rates went up again on 1st January 2014. As expected, part of the impact was absorbed in the margins of businesses, which were improved by the Tax Credit for Competitiveness and Employment (CICE) (*see Focus in Conjoncture in France, December 2013, "Rise in VAT rates and effect of the CICE: opposite impacts on inflation"*).

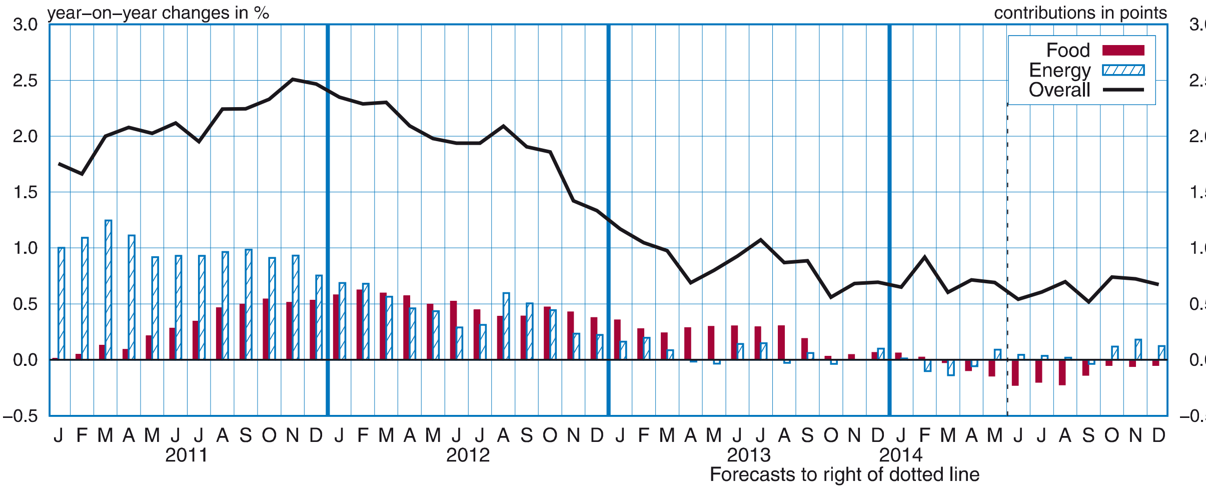
Through to the end of the year, inflation should remain extremely contained and the year-on-year increase in consumer prices is expected to settle at +0.7% in December 2014 (*see Table*). Core inflation[1] should diminish slightly from +0.3% in May 2014 to +0.2% at the end of the year, in spite of month-on-month jolts due in particular to the effect of the specific collection schedule at the time of the summer sales (*see Graph 2*). This differential between headline inflation and core inflation results essentially of the expected rise in the prices of energy and seasonal products, which should offset the fall of inflation in services.

Rising energy inflation

After a low point in March 2014 (-1.6%), year-on-year energy prices have picked up (+1.1% in May) and should increase slightly to settle at +1.4% in December. Indeed, assuming a stable Brent price at around €79.40 ($108) between now and December 2014, the exits of sharp drops from the year-on-year figures observed in October and November 2013 should contribute, in a base effect, to a rise in prices of oil

(1) Core inflation is estimated by removing energy prices, fresh products and public tariffs from the headline index, and correcting for tax measures.

1 - Inflation in France



Source: INSEE

products. Conversely, the regulated prices of gas should decrease gradually through to the end of the year (-2.0 points between May and December). Lastly, the increase in electricity prices in August should contribute to an overall rise in energy prices.

Rising food inflation

The one-off rise in the prices of imported food commodities in early 2014 should spread to food prices excluding seasonal products by the end of the year. Conversely, in the absence of any major production problems for seasonal products, the year-on-year change in this sector should fall to -10.0% in August (after +0.4% at the end of 2013), in a base effect (exits of the sharp rises from the year-on-year prices of seasonal products in mid-2013), then pick up again to -5.0% over the forecasting period. All in all, the year-on-year prices of food products should pick up in December 2014, to -0.3% after -0.9% in May, and should contribute an increase of +0.1 points to overall inflation.

Decline in prices of manufactured products

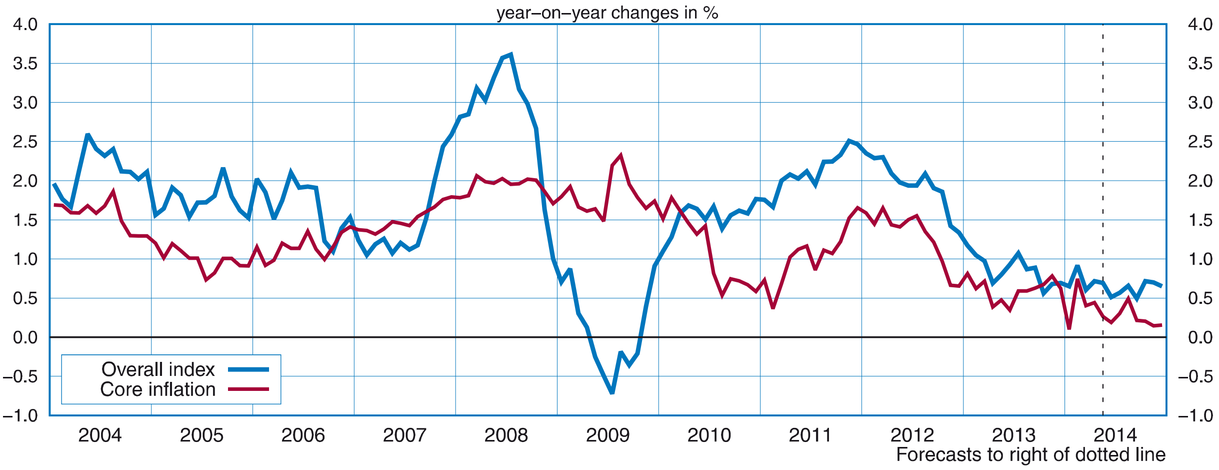
The year-on-year change in the prices of manufactured products, at -0.8% in May, is likely to slip back slightly, to -0.9% at the end of 2014. Inflationary pressures in the manufacturing sector should be limited by the low level of the production capacity utilisation rate, the still high level of unemployment, and the productivity gains in this sector. Furthermore, the prices of healthcare products should continue to fall through to the end of the year, to -3.9% (after -2.6% in May). On the one hand, this is the consequence of moderating measures in the Social Security Financing Act for 2014. On the other hand, this drop should be accentuated by the effect of the «Consumption» law (*see Box*). The «healthcare» item should contribute -0.2 points to the year-on-year variations in the prices of manufactured products.

Inflation in the clothing and footwear sector is likely to be almost stable, however: irrespective of month-on-month jolts due in particular to the summer sales, the year-on-year change in the prices of clothing and footwear should be +0.5% in December, after +0.2% in May.

Slowdown in prices of services

The rise in prices of services, to +1.8% year-on-year in May, should fall to +1.6% in December. Telecommunications prices should continue to fall month-on-month between now and December, and because of exits of the sharp rises from the year-on-year prices observed in September 2013 (linked to the disappearance of advantageous subscription packages), the year-on-year variation in prices of telecommunications should fall to -5.6% in December 2014, after +1.4% in May 2014. This sharp decline should therefore contribute -0.3 points to the slowdown in services inflation. Nevertheless, it should be partly offset by the acceleration in air transport prices, in reaction to the sharp fall in May. ■

2 - Consumer prices in France



Source: INSEE

Consumer prices

changes as %

CPI* groups (2014 weightings)	April 2014 yoy	April 2014 cyoy	May 2014 yoy	May 2014 cyoy	June 2014 yoy	June 2014 cyoy	December 2014 yoy	December 2014 cyoy	Annual averages 2013	Annual averages 2014
Food (16.5%)	**-0.6**	**-0.1**	**-0.9**	**-0.1**	**-1.4**	**-0.2**	**-0.3**	**-0.1**	**1.4**	**-0.6**
including:										
seasonal food products (2.1%)	*-6.2*	*-0.1*	*-7.6*	*-0.2*	*-10.2*	*-0.2*	*-5.0*	*-0.1*	*4.4*	*-5.7*
excluding seasonal food products (14.4%)	*0.3*	*0.0*	*0.2*	*0.0*	*0.1*	*0.0*	*0.4*	*0.1*	*0.9*	*0.2*
Tobacco (2.0%)	**6.9**	**0.1**	**6.9**	**0.1**	**6.9**	**0.1**	**3.5**	**0.1**	**6.8**	**5.2**
Manufactured products (26.6%)	**-0.7**	**-0.2**	**-0.8**	**-0.2**	**-1.0**	**-0.3**	**-0.9**	**-0.2**	**-0.4**	**-0.8**
Energy (8.5%)	**-0.7**	**-0.1**	**1.1**	**0.1**	**0.5**	**0.0**	**1.4**	**0.1**	**0.8**	**0.3**
including:										
oil products (4.8%)	*-4.7*	*-0.2*	*-1.5*	*-0.1*	*-2.1*	*-0.1*	*-0.5*	*0.0*	*-2.3*	*-2.7*
Services (46.4%)	**2.0**	**0.9**	**1.8**	**0.8**	**1.8**	**0.9**	**1.6**	**0.7**	**1.2**	**1.8**
including:										
rent-water (7.5%)	*1.5*	*0.1*	*1.5*	*0.1*	*1.5*	*0.1*	*1.5*	*0.1*	*1.8*	*1.5*
health services (5.5%)	*0.2*	*0.0*	*0.2*	*0.0*	*0.1*	*0.0*	*0.2*	*0.0*	*0.8*	*0.2*
transport-communications (5.0%)	*3.0*	*0.2*	*1.3*	*0.1*	*1.3*	*0.1*	*-1.0*	*0.0*	*-4.2*	*0.8*
other services (28.4%)	*2.3*	*0.6*	*2.3*	*0.6*	*2.3*	*0.7*	*2.4*	*0.7*	*2.1*	*2.3*
All (100%)	**0.7**	**0.7**	**0.7**	**0.7**	**0.5**	**0.5**	**0.7**	**0.7**	**0.9**	**0.7**
All excluding energy (91.5%)	0.8	0.8	0.7	0.6	0.5	0.5	0.6	0.5	0.9	0.7
All excluding tobacco (98.0%)	0.6	0.6	0.6	0.5	0.4	0.4	0.6	0.6	0.7	0.6
Core inflation (60.5%)[1]	**0.4**	**0.3**	**0.3**	**0.2**	**0.2**	**0.1**	**0.2**	**0.1**	**0.6**	**0.3**

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

Source: INSEE

The «Consumption» Law

Between now and the end of 2014, the entry into force of the law of March 2014 on consumption should facilitate the online sale of glasses and contact lenses: prescriptions provided by doctors must indicate the distance between the pupils so that glasses ordered on the Internet can be adapted. The aim of these measures is to lower prices by about 25%.

While not all of these new types of sales are tracked for these goods in the consumer price index, their development will probably have an indirect impact, *via* the competitive pressure that these new products will exert on the sales of high-street opticians.

Opticians' margins should allow them to lower their prices faced with this increased competition. The assumed scenario is where this measure would have a gradual effect on the prices of glasses and lenses, lowering them by 3% between now and the end of the year, contributing to a year-on-year change of -0.4 points in the price of healthcare products over this period. ■

Wages

In 2014, against a backdrop of moderately stabilised inflation, nominal wages in the market sector should progress more or less at the same rate as in 2013: +1.5% after +1.7% for the basic monthly wage, and +1.7% after +1.5% for the average wage per head, as annual averages.

In spite of an unemployment rate that is likely to continue to prohibit wage rises, real wages should progress (+1.0% for the real average wage per head after +0.8% in 2013), in line with the slight acceleration expected in apparent labour productivity.

In general government, the nominal average wage per head should accelerate in 2014 (+1.2% after +0.9%), enabling a rise in real wages (+0.5% after +0.3% in 2013) thanks to low inflation.

In 2014, nominal wages should progress at almost the same rate as in 2013

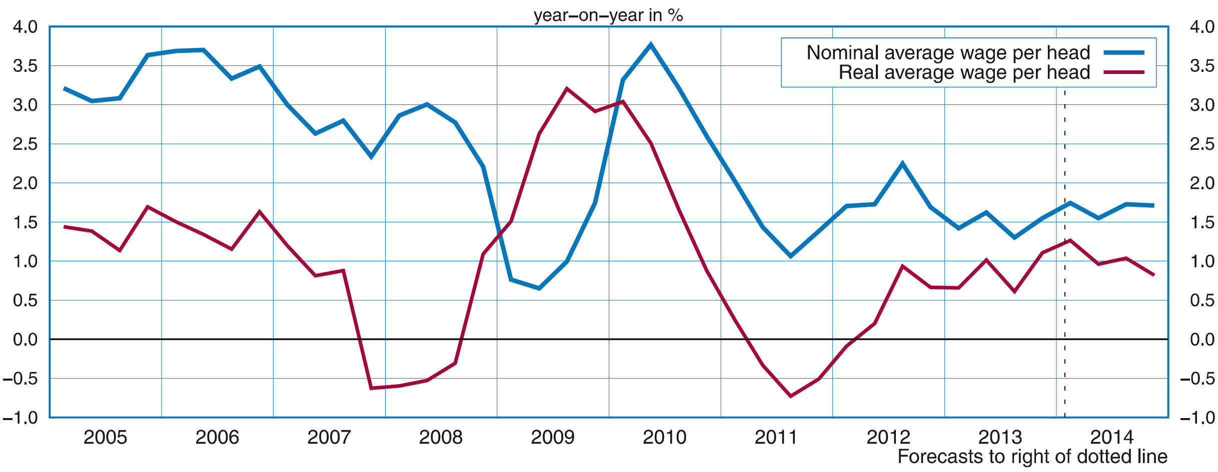
At the beginning of 2014, the increase in the minimum wage was modest (+1.1%) in comparison with previous years, albeit higher than the rise on 1st January 2013 (+0.3%). In a context of limited inflation, the high unemployment rate should however continue to weigh down on employees' bargaining power and to limit global wages increases.

ConsequeIn Q1 2014 the nominal wage indicators in the market sector are giving out contrasting signals. While the basic monthly wage[1] is growing weakly (+0.3% in data corrected for seasonal variations), the average wage per head indicator estimated by the ACOSS and the URSSAF is picking up sharply (+0.7% after +0.2%). This suggests an acceleration in the average wage per head (AWPH) in the national accounts (+0.6% after +0.4%). This divergence between short-term indicators probably translates, at least in part, the payment of wages in the form of start-of-year bonuses.

Consequently, while the basic monthly wage should increase at the same rate over the rest of the year (+0.4% per quarter), the average wage per head is likely to suffer a slight reaction in Q2 (+0.3%). In H2, with prices progressing moderately (+0.3% then +0.2%) per quarter, in data corrected for seasonal variations), the rise in nominal wages would be barely more dynamic (+0.4% per quarter): while the unemployment rate continues to take its toll on employees' bargaining power, the slight acceleration expected in labour productivity should allow this wage rise in real terms.

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

Change in the nominal and real average wage per head



Scope: non-agricultural market sector

Sources: DARES, INSEE

All in all in 2014, in a context of stabilised and moderate inflation (with consumer prices progressing by +0.7% as an annual average after +0.6%), the basic monthly wage should progress modestly, as in 2013 (+1.5% after +1.7%, *see Table*). The rise in the average wage per head should also be more or less stabilised (+1.7% after +1.5%).

In real terms, the average wage per head should accelerate slightly in the market sector as an annual average (+1.0% after +0.8%), in line with the small acceleration expected in labour productivity. Nevertheless, year-on-year, after regaining some dynamism in early 2014, probably attributable to temporary factors (bonus payments), the real average wage per head should slow by the end of the year (*see Graph*).

Real wages in general government set to progress moderately in 2014

In the civil service, the index point is frozen in 2014 for the fourth consecutive year. Pending a modification of salary grids at the lower end of the scale, the civil service minimum index was not increased on 1st January 2014, leading to the payment of a differential allowance to the agents concerned in order to ensure they were paid more than the minimum wage in January. The increase in salary grids for category C employees and certain category B employees took place on 1st February 2014 and guarantees each employee a wage higher than the minimum wage. Lastly, the Individual Purchasing Power Guarantee[2] should be renewed in 2014 according to the same terms as in 2013; it should contribute, in part, to the acceleration of the overall average wage per head.

All in all, the nominal average wage per head in general government should increase by 1.2% in 2014 after +0.9% in 2013. In real terms, the average wage per head should rise by 0.5% in 2014 (after a rise of 0.3% in 2013), bearing in mind the slight rise in inflation. ■

(2) The 2014 individual purchasing power guarantee is a compensation awarded to civil servants and certain State employees who suffered a loss in purchasing power between 2009 and 2013.

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

change as a %

Seasonally-corrected data	Quarterly growth rates								Annual averages		
	2013				2014						
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2013	2013	2014
Basic monthly wage	0.4	0.4	0.3	0.4	0.3	0.4	0.4	0.4	2,1	1,7	1,5
Average wage per head in the non-agricultural market sector (NAMS)	0.4	0.5	0.2	0.4	0.6	0.3	0.4	0.4	1,8	1,5	1,7
Average wage per head in general government (GG)									2,0	0.9	1,2
Household consumer price index (quarterly national accounts)	0.3	0.0	0.2	0.0	0.3	0.1	0.3	0.2	1,4	0.6	0.7
Real basic monthly wage	0.1	0.5	0.1	0.3	0.0	0.3	0.1	0.2	0.7	1,1	0.8
Real average wage per head (NAMS)	0.1	0.5	0.1	0.4	0.3	0.2	0.1	0.2	0.4	0.8	1.0
Real average wage per head (GG)									0.6	0.3	0.5

Forecast
Source: INSEE

Household income

Stable in 2013, the purchasing power of household income should pick up in 2014 (+0.7%). In nominal terms, households' gross disposable income (GDI) should accelerate (+1.4% in 2014 after +0.6% in 2013), due to a lower total tax burden (+2.5% after +4.2%) and a slight acceleration in earned income (+1.3% after +0.9%), and in spite of a slowdown in social benefits (+2.4% after +2.8%).

Earned income set to accelerate in 2014

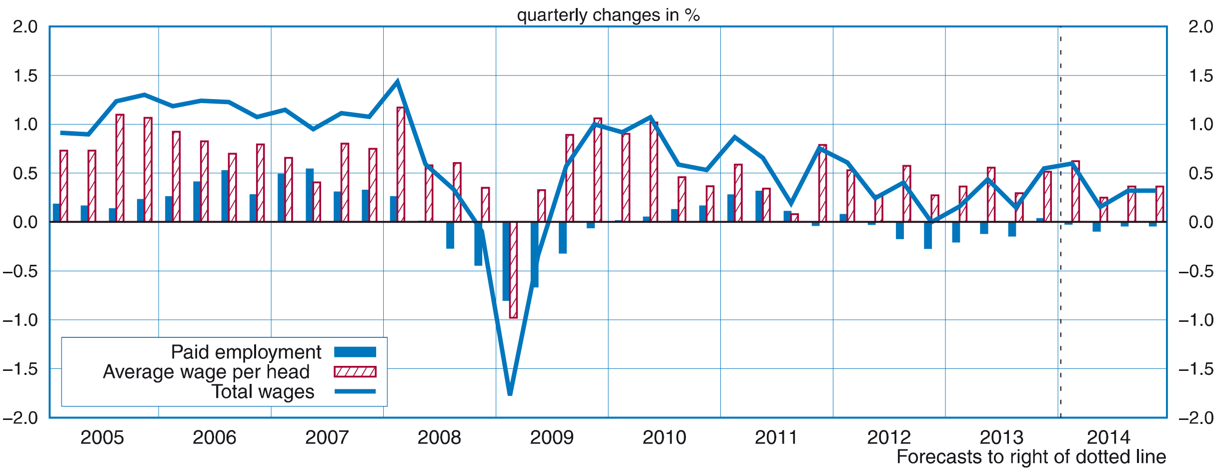
In 2014, earned income received by households should be more dynamic than in 2013 (+1.3% after +0.9%, *see Table 1*). Gross wages received by households should accelerate (+1.4% after +1.0% in 2013, *see Table 2*), due in particular to the slowing fall in employment in the non-agricultural market sector (-0.2% after -0.7%) and to a slight acceleration in the average wage per head in that sector (*see Graph*). The gross operating surplus of sole proprietors should also accelerate in 2014, in a slightly more pronounced way than activity as a whole (+0.7% after 0.0% in 2013), as should property income (+1.7% after +1.0%). The gross operating surplus of pure households[1] should progress as in 2013 (+1.1% after +1.0%).

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

Social benefits, partly frozen in 2014, should continue to slow down

In 2014, social benefits in cash received by households should be slightly less dynamic than they were in 2013 (+2.4% after +2.8%, *see Table 3*). In particular, social security benefits should slow down (+2.4% after +3.1%), notably in Q2. Firstly, supplementary pensions paid by the Agirc-Arrco were not increased on 1st April, in compliance with the agreement of March 2013; the same applies to general pension scheme, for which planned increases were first deferred from 1st April to 1st October, and then partly frozen in 2014 as part of the plan to save €50 billion between now and 2017 (only pensions below €1,200 per month are expected to be increased on 1st October). Secondly, family benefits were increased less in 2014 (+0.6% on 1st April) than in previous years (+1.3% on average during the five previous years). Lastly, after increasing markedly in 2013, unemployment benefit should slow down considerably, due in particular to the new unemployment insurance agreement which should enter into force on 1st July 2014. However, social assistance should accelerate in 2014 (+3.3% after +1.9% in 2013), sustained by the dynamism of the Specific Solidarity Allocation (ASS) and by the Earned Income Supplement (RSA). The RSA was increased on 1st January and should be again on 1st September, as part of the plan to fight against poverty and for social inclusion (which aims to increase it by 10% between now and 2017). All in all, after a slowdown in Q2 (+0.1% after +0.7% in

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



Source: INSEE

Q1), social benefits in cash should return to a growth closer to their trend in H2 (+0.7% per quarter).

The household tax burden should slow down in 2014

For 2014 as a whole, the household tax burden should slow down (+2.5% after +4.2%): household social contributions (+1.8% after +4.7%) should dip a little more than revenue from income and property tax (+3.0% after +3.9%). For the latter, the spontaneous broadening of the tax base should be added to the effects of new measures for 2014: particularly the cancellation of tax exemption for dependency pension increases, the cancellation of tax exemption for employer payments of supplementary insurance contributions, and the lowering of the ceiling for the dependents allowance. The effect of these measures in 2014 should, however, be lower than that of the measures adopted in 2013. In addition, the measure to reduce tax for modest household incomes, announced in the spring of 2014, should limit the scale of the overall rise.

As in previous years, these new tax measures should take place mainly in H2, when tax notifications are received. Because of this, the effects of the taxes should be uneven: in early 2014, income tax fell back (-4.2%) in a reaction to the dynamism of late 2013; it should increase slightly in the spring (+1.0%) then accelerate again in H2 (+2.0% in Q3 and +3.3% in Q4).

Purchasing power should return to growth in 2014

All in all, the nominal gross disposable income (GDI) of households should increase more quickly than in 2013 (+1.4% after +0.6%), with the reduction of the tax burden and the rise in earned income winning out over the deceleration in benefits. At the same time, consumer prices should increase at the same rate as in 2013 (+0.7% after +0.6%) and the purchasing power of GDI should pick up: stable in 2013, it should increase by 0.7% in 2014. Brought to an individual level to take into account demographic changes, purchasing power per consumption unit should be almost stable in 2014 (+0.1%), after a decline in 2013 (-0.6%, see Box). The profile for the year should be mainly marked by the impact of taxes: purchasing power should increase in H1 2014 in reaction to sharp rises in taxes at the end of 2013. In H2, it should decrease, due to the implementation of the extra tax rises planned for 2014. ■

Table 1

Household gross disposable income

	2013				2014				2012	2013	2014
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross disposable income (100%)	1.3	0.3	0.0	-0.2	1.4	0.1	0.2	0.0	0.5	0.6	1.4
including :											
Earned income (70%)	0.2	0.4	0.1	0.4	0.5	0.2	0.3	0.4	1.7	0.9	1.3
Gross wages (62%)	0.2	0.4	0.2	0.4	0.5	0.2	0.3	0.3	1.8	1.0	1.4
GOS of sole proprietors[1] (9%)	-0.1	0.4	-0.3	0.0	0.1	0.4	0.4	0.5	0.9	0.0	0.7
Social benefits in cash (34%)	0.5	0.7	0.7	0.9	0.7	0.1	0.7	0.7	3.8	2.8	2.4
GOS of "pure" households (13%)	0.3	0.2	0.1	0.2	0.5	0.2	0.4	0.2	1.8	1.0	1.1
Property income (8%)	0.7	0.1	0.0	0.8	0.4	0.4	0.4	0.3	-4.4	1.0	1.7
Social contribution and tax burden (-25%)	-3.6	1.0	1.3	3.2	-2.6	0.8	1.4	2.2	7.0	4.2	2.5
Contributions of househol (-11%)	0.8	0.8	0.7	1.0	-0.3	0.5	0.6	0.6	4.2	4.7	1.8
Income and wealth tax (including CSG and CRDS) (-14%)	-6.5	1.1	1.8	4.8	-4.2	1.0	2.0	3.3	9.0	3.9	3.0
Income before taxes	0.2	0.4	0.2	0.5	0.6	0.2	0.4	0.4	1.6	1.1	1.6
Household consumer prices (quarterly national accounts)	0.3	0.0	0.2	0.0	0.3	0.1	0.3	0.2	1.4	0.6	0.7
Purchasing power of gross disposable income	1,1	0.3	-0.2	-0.3	1.1	0.0	-0.1	-0.3	-0.9	0.0	0.7
Household purchasing power by consumption	0.9	0.2	-0.4	-0.4	0.9	-0.2	-0.3	-0.5	-1.5	-0.6	0.2

Forecast

How to read it: The figures in parentheses give the structure of the year 2013.

(1) The gross operating surplus (GOS) of sole proprietors is the balance of the operating accounts of sole proprietorships. It is mixed income, because it remunerates the work performed by the sole proprietor, and possibly the members of his family, but also contains the profit achieved as an entrepreneur.

Source: INSEE

Table 2

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

	2013				2014				2012	2013	2014 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Non-financial enterprises (67%)	0.2	0.4	0.2	0.5	0.6	0.2	0.3	0.3	1.8	1.0	1.6
including: Average wage per head	0.3	0.5	0.3	0.5	0.6	0.3	0.4	0.4	1.7	1.5	1.7
Financial corporations (5%)	0.5	-0.1	-0.2	-0.8	0.7	0.2	0.5	0.5	1.7	-0.6	0.5
General government (22%)	0.2	0.3	0.3	0.3	0.3	0.4	0.4	0.4	1.4	1.1	1.3
Households excluding sole proprietors (2%)	0.0	0.8	-0.1	-1.0	0.2	0.4	0.4	0.4	2.6	0.2	0.1
Total gross wages received by households (100%)	0.2	0.4	0.2	0.4	0.5	0.2	0.3	0.3	1.8	1.0	1.4
including: Non-agricultural market sectors	0.2	0.4	0.1	0.5	0.6	0.2	0.4	0.4	1.9	0.8	1.5

Forecast

How to read it: The figures in parentheses give the structure of the year 2013.

Source: INSEE

Table 3

Social transfers received and paid by households

	2013				2014				2012	2013	2014
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Social cash benefits received by households (100%)	0.5	0.7	0.7	0.9	0.7	0.1	0.7	0.7	3.8	2.8	2.4
Social Security benefits in cash (72%)	0.6	0.7	0.8	0.9	0.6	0.0	0.7	0.7	3.5	3.1	2.4
Other social insurance benefits (20%)	0.1	0.8	0.3	0.9	0.7	0.1	0.8	0.5	4.9	2.3	2.4
Social assistance benefits in cash (8%)	0.2	0.3	0.9	0.6	1.3	0.7	0.7	0.7	3.7	1.9	3.3
Total social contribution burden	0.4	0.7	0.9	0.3	0.3	0.4	0.5	0.5	3.2	2.9	1.8
Actual social contributions paid by households (100%)	0.4	0.7	0.9	0.2	0.6	0.3	0.4	0.4	3.1	3.0	1.9
including: Employers contributions[1] (63%)	0.1	0.6	1.0	-0.2	0.6	0.3	0.4	0.4	2.6	2.1	1.6
Contributions of househol (37%)	0.8	0.8	0.7	1.0	-0.3	0.5	0.6	0.6	4.2	4.7	1.8

Forecast

How to read it: The figures in parentheses give the structure of the year 2013.

(1) Employer contributions are both received and paid by households in the national accounts: they therefore have no effect on gross disposable income.

Source: INSEE

Different ways of measuring purchasing power

The household income that is presented and analysed in Conjoncture in France includes all the income received by all households. This is the relevant reference in macro-economic terms, for example when constructing the balance between resources (GDP and imports) and uses (consumption, investment, exports...) or forecasting GDP. The purchasing power of all households, which represents the quantity of goods and services that households can purchase with their income, is calculated as income corrected for the growth in consumer prices. In order to measure the average purchasing power of the French population, this value has to be corrected in order to account for both the growth in the number of households and their composition. The most relevant correction in this respect consists in dividing income by the number of consumption units in France, thereby taking account of demographic growth and also of the fact that some consumption may be shared within the household (for example, household appliances). A large household therefore makes certain "economies of scale" in relation to a smaller household. In 2013, growth in the number of consumption units was +0.6% (as a comparison, growth in the population was +0.4% and growth in the number of households +0.9%).

Therefore, purchasing power per consumption unit is set to fall in 2014 (0.1% after -0.6% in 2013). Per household, the fall should be 0.3% and per inhabitant it should be 0.2%. ■

Household consumption and investment

In Q1 2014, household consumption slipped back (-0.5% after +0.2%). Automobile expenditure in particular fell back (-1.2%), after having been dynamic in late 2013 due to public anticipation of the more stringent «malus» of 1st January 2014 (+2.6%). In addition, the decrease in energy spending intensified as a result of the mild winter. Services consumption increased slightly (+0.2% after +0.1%).

In Q2 2014, consumption of manufactured goods should rebound (+0.6% after -0.7% in Q1), particularly in the automobile sector. After declining over three consecutive quarters, and a particularly mild winter, energy consumption should rebound in Q2 (+1.2%) and should climb in Q3 (+1.9%). In H2 2014, household consumption should slow down slightly (+0.4% then +0.3%), bringing the increase over the whole year to +0.3%, as in 2013.

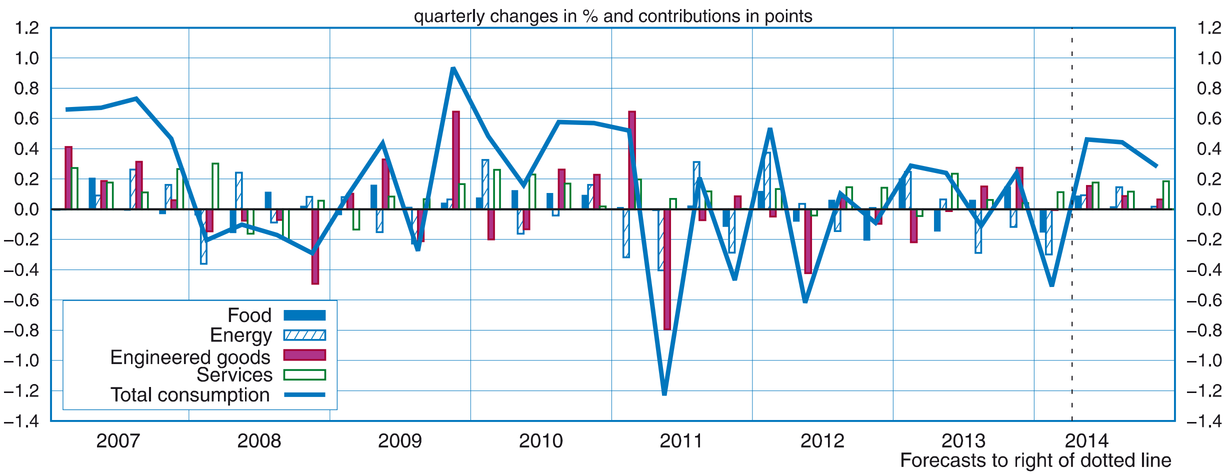
In Q1 2014, thanks to an upswing in purchasing power, the savings ratio appears to have jumped, by 1.4 points up to 16.1%, the highest level since spring 2011. Taking into account the expected profile of the purchasing power of income, the savings ratio should decline progressively over the rest of the year 2014, standing at 14.7% in Q4, level as the previous year. As an annual average, it should rise by 0.3 points to 15.4%.

In Q1 2014, consumption of manufactured goods declined

In Q1 2014, household consumption declined (-0.5% after +0.2%, *see Table and Graph 1*), due to a drop in expenditure on goods (-1.0% after +0.6%). Food expenditure declined sharply after increasing at the end of 2013 (-0.9% after +0.8%): the rise in the price of cigarettes particularly contributed to the reduction in the volume of tobacco consumed. With the mild winter, the decline in energy-water-waste expenditure - consisting mainly of gas and electricity for heating purposes - intensified (-5.0% after -2.2%).

Expenditure on manufactured products stabilised (after +1.3%). Automobile purchases fell (-1.3%) after picking up in late 2013 (+2.5%) due to public anticipation of the more stringent «malus» of 1st January 2014. However, expenditure on clothing and housing equipment slowed although it did continue to grow. Finally, consumption of services remained sluggish (+0.2% after +0.1%): expenditure was in a negative trend in transport, services, automobile repairs and housing maintenance; however, it picked up in accommodation-catering and information-communication.

1 - Contributions of the various items to quarterly household consumption



Source: INSEE

In Q2 2014, consumption should rebound

Total household consumption should rebound in Q2 2014 (+0.5% after -0.5%, see Graph 2). As temperatures return progressively to seasonal norms, energy-water-waste consumption should rebound (+2.0% after -5.0%). In addition, consumption of engineered goods should rebound (+0.7% after stability), with two effects: on the one hand, in the automobile sector the effects of the stricter «malus» should begin to fade; on the other, expenditure on «capital goods» should be dynamic, boosted particularly by a peak in the sale of televisions (and associated products), which is usual during the football World Cup (see *Focus in Conjoncture in France for June 2010*). Lastly, consumption of services should pick up slightly (+0.3% after +0.2%).

In H2 2014, consumption expenditure should return to a relatively moderate growth rate, whether for manufactured products (+0.2% in Q3 then +0.1% in Q4) or services (+0.2% then +0.3%). Only energy-water-waste expenditure is set to increase (+4.5%), assuming a return to normal heating expenditure. All in all, household consumption expenditure should grow by 0.4% in Q3 then by 0.3% in late 2014; as an annual average, the increase should be 0.3% in 2014, the same as in 2013.

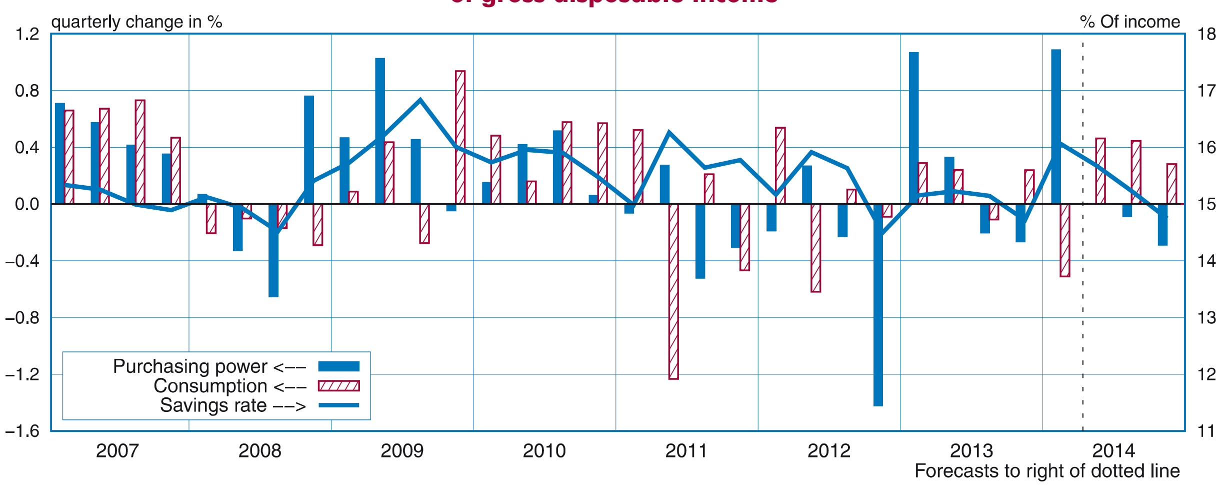
At end 2014, the savings ratio set to return to its level of late 2013

With the fall in purchasing power in H2 2013, linked to new measures affecting household taxes, the savings ratio declined by 0.4 points in Q4 2013, to 14.7%. In Q1 2014, diverging developments in purchasing power and consumption should result into a rebound of 1.4 points, to 16.1%. This is the highest level since spring 2011. Taking into account the expected profile of the purchasing power of income by the end of the year, the savings ratio should decline (between -0.4% and -0.5 points per quarter). It should reach 14.7% at the end of the year, the same level as late 2013, with households smoothing the jolts in their income linked to the new tax measures. On average over the year, the savings ratio should progress by 0.3 points to 15.4%.

Household investment set to decline sharply over the year

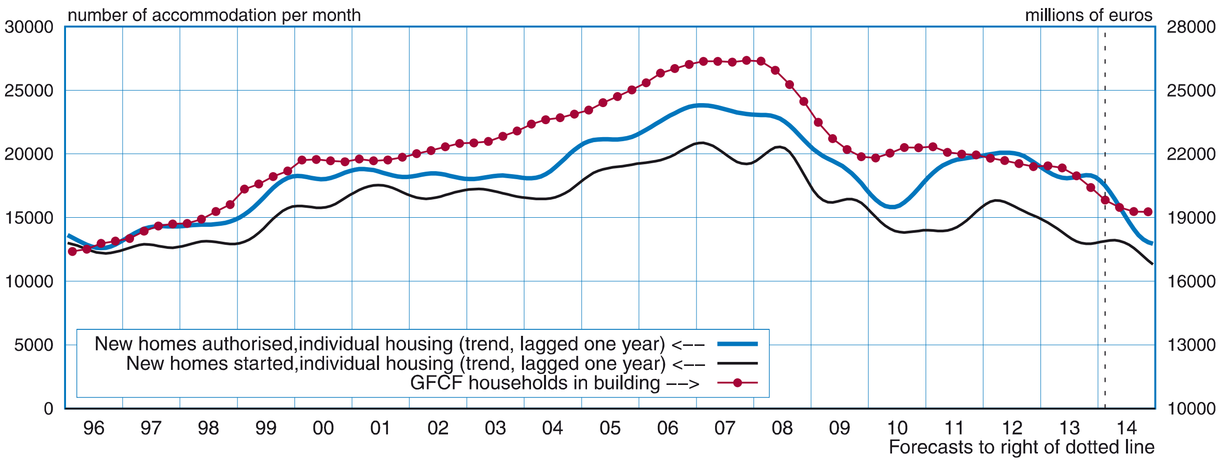
In Q1 2014, household investment, mainly in housing, continued to decline for the ninth consecutive quarter (-2.6% after -2.2%). It is its lowest level since 1999. Although housing authorisations seem to have stabilised at the beginning of the year, the decline in house starts in Q2 2013 does not suggest a rapid improvement (see Graph 3). Expenditure in the maintenance-improvement sector should also feel the effects of the increase in VAT from 7% to 10% in Q1. Housing expenditure should thus continue to decline, though less steeply in Q2 (-1.5%) and Q3 (-0.9%), before stabilising (-0.1%) in late 2014. Over the year as a whole, household investment should decline very sharply (-6.7% in 2014 after -3.1% in 2013), the biggest drop since 2009. ■

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



Source: INSEE

3 - Household investment on construction and housing starts.
Last point: February 2014



Source: SOeS

Household consumption and investment expenditure

	Quarterly changes in %												Annual changes in %		
	2012				**2013**				**2014**				**2012**	**2013**	**2014**
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**			
Total household consumption expenditures (B+S)	**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**
Tourism balance	6.9	12.8	1.8	-5.7	-6.7	-10.2	6.4	9.9	11.7	5.0	-5.0	-1.5	56.8	-9.5	21.2
Services (S)	**0.2**	**-0.1**	**0.3**	**0.3**	**-0.1**	**0.4**	**0.1**	**0.1**	**0.2**	**0.3**	**0.2**	**0.3**	**0.5**	**0.6**	**0.9**
Goods (G)	**1.0**	**-0.9**	**0.0**	**-0.6**	**0.6**	**-0.2**	**-0.2**	**0.6**	**-1.0**	**0.7**	**0.6**	**0.2**	**-0.8**	**-0.3**	**0.1**
including:															
Food (AZ-C1)	**0.7**	**-0.4**	**0.3**	**-1.2**	**1.2**	**-0.8**	**0.3**	**0.8**	**-0.9**	**0.5**	**0.1**	**0.0**	**-0.2**	**0.1**	**0.1**
Agriculture goods (AZ)	0.2	-0.9	-0.3	-0.6	2.1	-0.8	0.4	1.2	0.4	0.5	0.1	0.0	-1.5	1.2	1.7
Agri-food products (C1)	0.8	-0.4	0.4	-1.3	1.0	-0.8	0.3	0.8	-1.1	0.5	0.1	0.0	0.0	-0.1	-0.1
Energy (DE-C2)	**4.8**	**0.4**	**-1.8**	**0.1**	**3.1**	**0.8**	**-3.5**	**-1.5**	**-3.8**	**1.2**	**1.9**	**0.2**	**2.1**	**0.8**	**-4.5**
Energy, water, waste (DE)	8.3	1.3	-2.2	-0.3	7.3	-1.2	-5.1	-2.2	-5.0	2.0	4.5	0.6	6.5	2.0	-5.7
Coke and refined petroleum(C2)	1.6	-0.4	-1.3	0.5	-1.1	3.0	-1.8	-0.7	-2.3	0.4	-0.8	-0.2	-2.0	-0.4	-3.2
Engineered goods (C3 à C5)	**-0.2**	**-1.9**	**0.4**	**-0.4**	**-1.0**	**-0.1**	**0.7**	**1.3**	**0.0**	**0.7**	**0.4**	**0.3**	**-2.3**	**-1.0**	**2.1**
Manufactured goods (C1 à C5)	**0.3**	**-1.2**	**0.2**	**-0.6**	**-0.3**	**0.0**	**0.3**	**0.9**	**-0.7**	**0.6**	**0.2**	**0.1**	**-1.5**	**-0.6**	**0.7**
Investment expenditure	**-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**

Forecast
Source: INSEE

Enterprises' earnings

In 2013, the margin rate of non-financial companies fell back once again: it reached an annual average of 29.8% after 30.5% in 2012. This is its lowest level since 1985. Once again, the rise in real wages slightly exceeded productivity gains. The margin rate suffered from a deterioration in terms of trade (effect of -0.1 points on the margin rate), and tax and social security contributions on wages accounted for 0.5 points.

In Q1 2014, the margin rate should pick up considerably due to the impact of the CICE (Tax Credit for Competitiveness and Employment). Then it should continue progressing until the end of the year as a result of productivity gains that are bigger than the rise in real wages. At the end of 2014 it should reach 30.8%, or 1.3 points more than the year before. Averaged over the year, the rise should be more limited: +0.8 points to 30.5%.

In 2013, the margin rate reached its lowest level since 1985

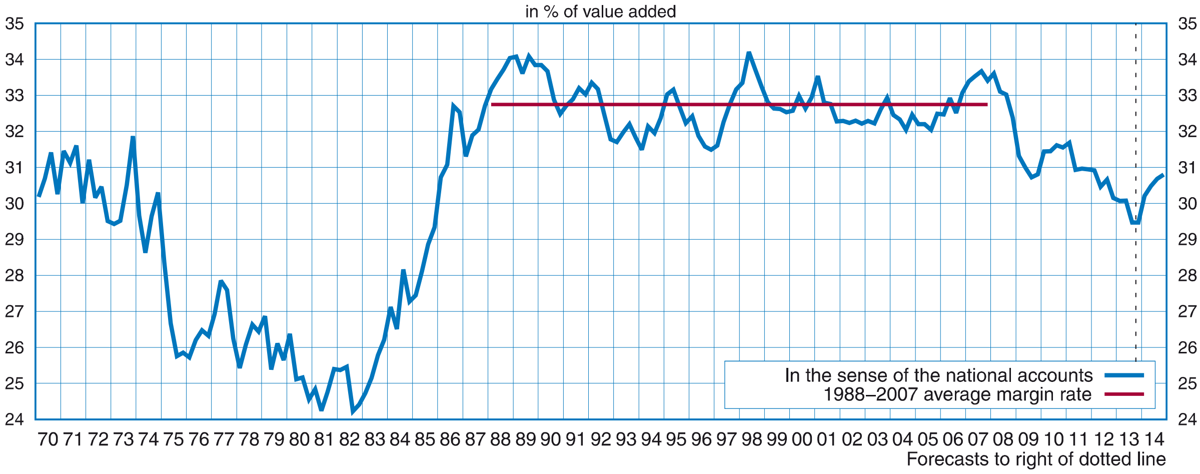
The margin rate of non-financial companies fell almost continuously between 2011 and the end of 2013: it reached 29.5% in Q4 2013, its lowest level since the end of 1985 (*see Graph 1*). Over 2013 as a whole, the average margin rate of non-financial companies was 29.8%, or 0.8 points less than in 2012. The rise in real wages per head (contribution of -0.5 points, *see Table*) was only partially offset by the rise in apparent labour productivity (contribution of +0.4 points). Furthermore, labour and payroll taxes (contribution of -0.3 points) and employer contributions (-0.2 points) had a negative effect (*see Graph 2*).

In 2014, the margin rate should increase markedly

In Q1 2014, the CICE, recorded in the national accounts as wage subsidies, contributed in accounting terms to raising the margin rate by 1.1 points.[1] Conversely, businesses absorbed part of the VAT rise on 1st January (which partly funds the CICE) in their margins, which translated to a negative contribution (-0.2 points) of value-added prices to the margin rate. In addition, real wages have continued to progress (contribution of -0.2 points), more quickly than productivity, which stabilised. All in all, the margin rate seems to have progressed by 0.7 points in Q1 2014, to 30.2%.

(1) In national accounts, in compliance with international regulations, the CICE, as a tax credit, is recorded as an expenditure, or more precisely as a «production subsidy» (and not as lower revenue from corporation tax). It is based on the wages paid in 2013 but, bearing in mind its management methods, and particularly the moment when the amount of the debt is made known, the taxable event is when businesses notify the tax authorities, in 2014. In the quarterly accounts, corrected for seasonal variations, this translates to a first step in Q1 2014 and payments of the same amount each quarter.

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

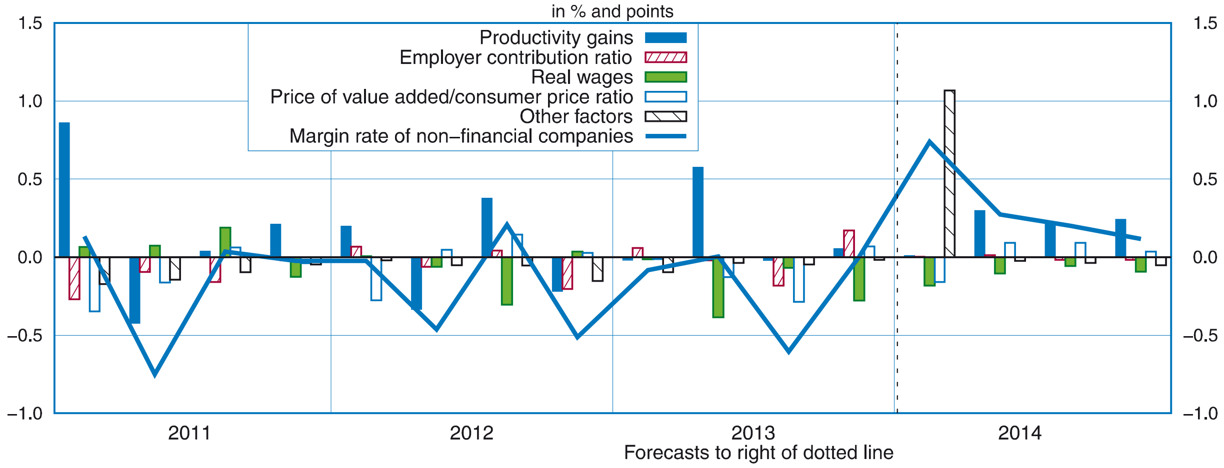


Source: INSEE

Over the rest of the year, productivity should progress a little faster than real wages, which should contribute to the margin rate picking up. Moreover, the gradual spread of the VAT rise to consumer prices, via a rise in value-added prices, should result in a marginally positive contribution to the margin rate. All in all, the margin rate should increase again by 0.6 points over the final three quarters, reaching 30.8% at the end of 2014 (against 29.5% at the end of 2013).

On average for 2014, the margin rate should regain its 2012 level, reaching 30.5% after 29.8% in 2013. This level is 2.2 points less than its average for the period 1988-2007. ■

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



Source: INSEE

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

in % and in points

	2012				2013				2014				2012	2013	2014
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Margin rate (in level)[1]	30.9	30.5	30.7	30.2	30.1	30.1	29.5	29.5	30.2	30.5	30.7	30.8	30.5	29.8	30.5
Variation in margin rate	0.0	-0.5	0.2	-0.5	-0.1	0.0	-0.6	0.0	0.7	0.3	0.2	0.1	-0.6	-0.8	0.8
Contributions to the variation margin rate															
Productivity gains	0.2	-0.3	0.4	-0.2	0.0	0.6	0.0	0.1	0.0	0.3	0.2	0.2	0.1	0.4	0.6
Real wage per head	0.0	-0.1	-0.3	0.0	0.0	-0.4	-0.1	-0.3	-0.2	-0.1	-0.1	-0.1	-0.2	-0.5	-0.7
Employer contribution ratio	0.1	-0.1	0.0	-0.2	0.1	0.0	-0.2	0.2	0.0	0.0	0.0	0.0	-0.1	-0.2	0.0
Ratio of the value-added price to the consumer price	-0.3	0.0	0.1	0.0	0.0	-0.1	-0.3	0.1	-0.2	0.1	0.1	0.0	-0.2	-0.1	-0.2
Other factors	0.0	-0.1	-0.1	-0.2	-0.1	0.0	0.0	0.0	1.1	0.0	0.0	-0.1	-0.2	-0.3	1.0

Forecast

(1) The margin rate measures the share of value-added which remunerates capital. Its variation is broken down in accounting terms between:
- productivity changes (Y/L), with Y value-added and L employment, and the ratio of the value-added price to the consumer price, or terms of trade (Pva/Pc), which play a positive role;
- changes to the real average wage per head (SMPT/Pc) and the employer contribution ratio (W/SMPT, where W represents all compensation), which play a negative role.
- others factors: including taxes on production net of operating subsidies.

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

Source: INSEE

Corporate investment and inventory

Corporate investment shrank in Q1 2014 (-0.5% after +0.8%). Corporate expenditure on services held firm but expenditure on manufactured products (-0.9%) and construction (-1.1%) dropped. The decline in investment in manufactured products is due mainly to the expected backlash in the purchase of heavy goods vehicles, caused by new anti-pollution standards coming into force at the beginning of the year.

In Q2 2014, investment should increase slightly (+0.2%) then remain at the same level in H2. In 2014 on the whole, corporate investment expenditure should rebound moderately (+0.7% after -0.6% in 2013).

In Q1 2014, inventory change contributed greatly to GDP growth (+0.6 points after -0.3 points in Q4 2013). This contribution comes essentially from stocks of manufactured products. In Q2 2014 the contribution of inventory change to activity should be slightly negative (-0.1 point) and should then be neutral over the rest of the year. All in all for the year, corporate stocking behaviour should thus contribute +0.4 points to GDP growth and should be the principal growth factor in 2014 (+0.7%).

In Q1 2014, corporate investment declined again

The investment by non-financial enterprises (NFE) dropped by 0.5% in Q1 2014 (*see Table 1*), after an increase of 0.8% in Q4 2013. NFEs thus reduced their investment in manufactured products (-0.9% after +1.5% in Q4 2013). Expenditure on capital goods increased (+2.0% after +0.8%), but that on transport equipment fell (-6.7%) although it had been boosted in 2013 (+5.3%) by early purchases in order to avoid the increase of 1st January 2014 in the cost of heavy goods vehicles (in order to respect the new "Euro 6" standards). Registrations of heavy goods vehicles thus increased by 18% in Q4 2013 then fell by 16% in Q1 2014 in reaction.

The fall in expenditure on construction, which was interrupted in late 2013, resumed in early 2014 (-1.1% in Q1 2014 after +0.3%), thus following the jolts in investment in public works. In terms of level, expenditure in construction reached its lowest level since late 2006. Finally, expenditure on services slowed (+0.2% after +0.6%) with a contrasting profile between well-oriented expenditure on IT services and a drop in expenditure on services to companies. All in all, the investment rate of NFEs declined slightly to 20.9%[1] in Q1 2014 (*see Graph 1*).

Investment should increase slightly in 2014

In Q2 then in H2, investment should increase at a moderate rate. This is specifically what the business tendency surveys in industry suggest: questioned in April, industrialists anticipated an increase in value of 4% in their investment in 2014 and the revision indicator of investment in manufacturing industry

(1) The level of the investment rate has been affected by the change of base in the national accounts (see *Focus: "The quarterly accounts switch to 2010 base"*).

Table 1

Investment by non-financial enterprises (NFE)

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

	Quarterly changes												Annual changes		
	2012				2013				2014				2012	2013	2014
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Manufactured products (43%)	-2.7	-0.3	-0.4	-1.2	-0.5	0.0	1.2	1.5	-0.9	0.5	0.6	0.3	-1.5	-0.7	-1.5
Building and public works (28%))	-1.8	-0.9	-1.2	-1.8	-0.3	0.0	-0.4	0.3	-1.1	-0.3	-0.5	0.0	-4.1	-2.6	-1.5
Other (29%)	2.2	0.0	1.2	0.5	-1.0	1.2	-0.3	0.6	0.2	0.4	0.3	0.5	4.9	0.9	1.3
All non-financial enterprises (100%)	-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

Forecast

Source: INSEE

was high (see Graph 2). In services, however, business leaders' judgement of their investments has deteriorated since the beginning of the year.

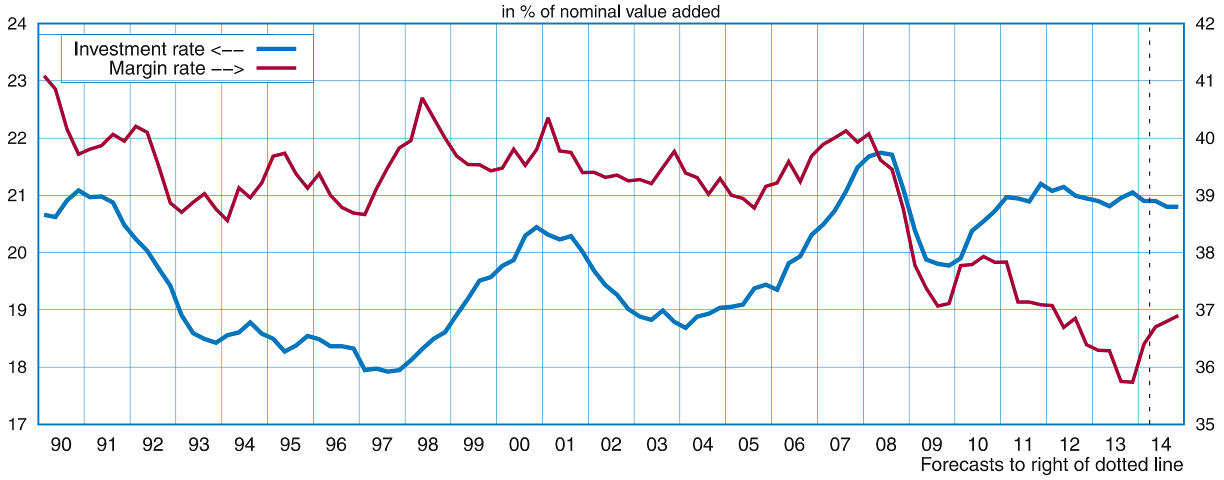
Financing terms should continue to buoy up investment. The margin rate of NFEs should progress sharply in 2014, with company cash flow benefiting from CICE payments. After increasing in 2013 as a result of the unexpected reduction in inflation, the real interest rate should continue to decline until December 2014. In addition, the balance of opinion on credit terms indicates that they have remained stable for nearly two years. However, demand prospects remain low and production capacity utilisation rates, which still did not progress in April and remain at a low level (80.0%), should limit the investment rebound.

Investment should see renewed growth in Q2 (+0.2%) but at a moderate rate over the forecasting period: +0.2% in Q3 and +0.3% in Q4 2014. The investment rate of NFEs should be virtually stable in H2 2014, at 20.8%, the same level as in Q2 2013, which is not particularly low in relation to historic averages.

Moderate increase in expenditure on manufactured products

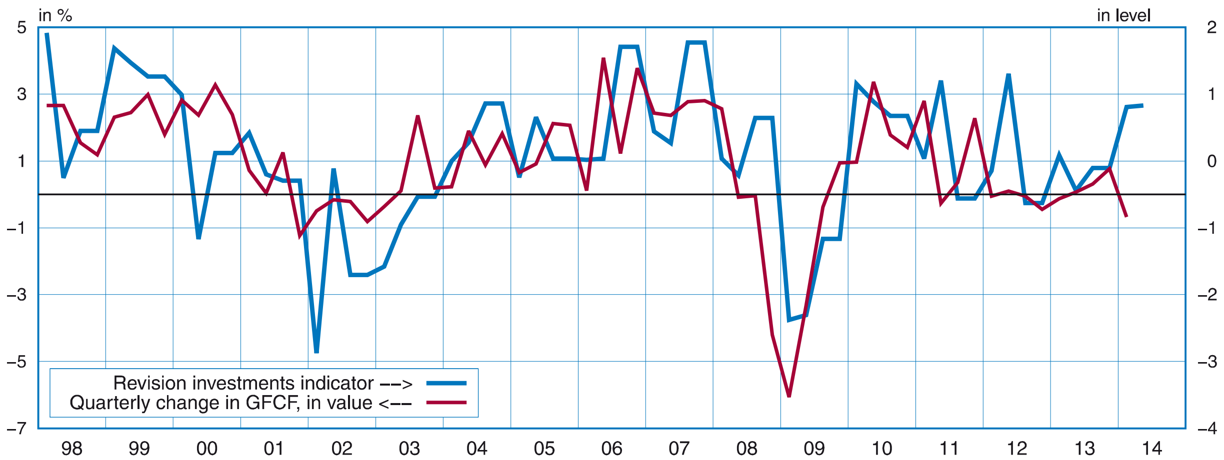
NFE investment in manufactured products should rebound moderately in spring (+0.5%) and should grow at a comparable rate in H2: +0.6% in Q3 then +0.3% in Q4. This moderate growth is endorsed by the opinion of wholesalers in capital goods (40% of investments in manufactured goods): in May, the wholesalers questioned in the business tendency surveys indicated that sales of computers and information-communication hardware had improved considerably since the beginning of the year, and order intentions had stabilised. Moreover, automobile purchases should be stable in Q2: the rebound in registrations of private vehicles in April should

1 - Investment rate and margin rate



Source: INSEE, quarterly accounts

2 - Investment revision indicator in manufacturing industry



Source: INSEE, quarterly survey on investments in industry, quarterly accounts compensate for the new drop in registrations of heavy goods vehicles. In H2, growth in activity should be too modest to force an increase in investment in manufactured products.

Toward a stabilisation of investment in construction

In the building sector, the entrepreneurs surveyed in May reported a slight improvement in their activity, at a level that is nevertheless still poor. The growth in building permits for housing and the increase in building starts for non-residential buildings suggest a less marked decline in NFE investments in building (-0.3% in Q2 2014, -0.5% in Q3), and even a stabilisation at the end of the year.

Investments in services should increase

Other investments, mainly in specialised scientific and technical activities (including research and development) and in IT services, should progress at a rate in line with their average increase over recent years: +0.4% in Q2, +0.3% in Q3 then +0.5% in Q4.

On average for the year 2014, NFE investment expenditure should progress by 0.7% (after -0.7% in 2013): manufactured products expenditure should increase again (+1.5% after -0.7%) and services expenditure should pick up (+1.3% after +0.9%); the downturn in construction expenditure should be less pronounced (-1.5% after -2.6%).

Inventory change contributed strongly to growth in Q1 2014

In Q1 2014, inventory change contributed greatly to GDP growth (+0.6 points, after -0.3 points in the previous quarter, *see Table 2*). This positive contribution can be almost exclusively attributed to inventory change in manufactured products (+0.6 points), particularly in pharmaceutics and chemistry.

In addition, the renewed activity in the coke and petroleum products branch led to a restocking of refined products.

Inventory change in manufactured products should stabilise

In Q2, the contribution to growth of stocks of manufactured products should be slightly negative (-0.1%). In the monthly business tendency survey in industry in May 2014, inventory is considered to be stable at a level slightly lower than normal. The pace of inventory change should thus stabilise as of Q3 2014. All in all, over the year, the stocking behaviour of enterprises should thus contribute +0.4 points to GDP growth, and should constitute the main growth factor in 2014 (+0.7%). ■

Table 2

Contribution of inventory changes to growth (in points of GDP)

	Quarterly changes										Annual changes		
	2012		2013				2014				2012	2013	2014
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Agricultural and agrifood products	0,1	-0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Manufactured products	-0.1	-0.4	0.1	0.0	0.3	-0.2	0.6	-0.1	0.0	0.0	-0.6	-0.1	0.5
including:													
Agro-food products	0.0	0.2	-0.1	0.1	0.0	0.0	0.1						
Coke and petroleum products	0.1	-0.3	0.3	0.0	0.0	-0.2	0.2						
Machinery and equipment goods	0.0	0.0	0.1	-0.1	0.0	0.0	0.0						
Transport equipment	-0.2	-0.1	-0.1	0.2	0.4	-0.1	0.0						
Others industrial goods	0.0	-0.1	0.0	-0.1	0.0	0.1	0.4						
Energy. water and waste	0.1	0.1	-0.1	0.0	0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	-0.0
TOTAL [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	0.4

Forecast

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

Source: INSEE