



# **CONJONCTURE IN FRANCE**

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Laurent Clavel  
Jocelyn Boussard  
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■ Contributors  
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■ Editorial and pagesetting secretariat  
Myriam Broin  
Moussa Blaibel  
Jacqueline Courbet  
Denise Maury-Duprey

■ Secretariat  
Nathalie Champion

■ Translation  
Hancock Hutton

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# The recovery spreads through the Eurozone

2015 got off to an unexpectedly chilly start outside the Eurozone, with American activity falling back again, disappointing UK growth and, most importantly, world trade contracting sharply. However, the advanced economies should soon be out of this air pocket. First of all, because Eurozone activity maintained the same pace of growth as at the end of the previous year, accelerating a little more than expected in France, Spain and Italy, despite a slowdown in Germany. Next, because the fundamentals of growth in the advanced countries now seem sounder, as shown by the positive trend in the business climate; the American and British economies should therefore rebound in Q2. Finally, because world trade should recover in the spring. The continuing slowdown in the emerging economies, and notably China, Brazil and Russia, is the only cloud on an otherwise sunny horizon in terms of growth.

Although recent upturns have corrected the sharp fall in the Euro and oil prices, their respective prices in mid-2015 remain well below their mid-2014 levels. These past falls are therefore continuing to work through into the Eurozone economies via an acceleration in purchasing power and household consumption on the one hand, and an increase in exports on the other. In this positive overall context, the French economy was buoyant in Q1 (+0.6%), although a part of that is the result of one-off factors: a rebound in energy production driven by a simple return to normal of heating expenditure, and an exceptional rise in manufacturing output. In Q2, these factors should fade and activity should slow. However, the pace of growth in GDP should remain higher (+0.3%) than its average since spring 2011 (+0.1% per quarter). Although slowing down, household consumption should again be the main factor of this rise, boosted by recent increases in purchasing power.

In H2, corporate expenditure should accelerate in turn. Demand prospects are on the up, as indicated by the improvement in the business climate in almost all sectors. Internal financing conditions are improving with the rise in margin rates driven by the

fall in oil prices, the ramp-up of the CICE and the launch of the Responsibility Pact. In addition to this, by conducting a highly accommodating monetary policy, the European Central Bank is facilitating access to credit. As a result, business leaders report that they are significantly more inclined than they were at the start of the year to increase the pace of their investment expenditure, not only in industry, but also now in services. Household investment in housing, however, is unlikely to drag itself out of the rut and is should continue to weigh down on growth.

All in all, the rise in GDP should remain at +0.3% in Q3 and then rise a little at the end of the year (+0.4%). In Q4 2015, GDP should therefore have increased by 1.6% from its level at the end of 2014. Over the year on average, growth should stand at +1.2% (after +0.2% in 2014), the highest rise since 2011.

The acceleration in activity combined with policies to foster the creation of jobs by that growth should boost employment, which should be 114,000 jobs higher at the end of 2015 than at the end of 2014. The rise in H2 should even stabilise unemployment in France at 10.4% of the labour force at the end of the year, or even cause it to fall if the labour force is once again lower than forecast.

The main uncertainty in this scenario concerns corporate expenditure, in which a marked acceleration is expected in H2: if the production capacity utilisation rate does not rise, this scenario will no longer apply; conversely, the recently-introduced one-off depreciation allowance could encourage entrepreneurs to bring forward their purchasing decisions more than expected. There are also uncertainties surrounding the international environment: on the one hand, the slowdown in the emerging economies could surprise once again; on the other, our scenario is based on the assumption that an agreement is found between Greece and its creditors to preserve Eurozone stability of the monetary union, but if it should prove otherwise, prospects for the Eurozone would be darker.

### At the start of 2015, both advanced and emerging economies slowed down

*The advanced economies slowed down slightly in Q1 2015*

In Q1 2015, the advanced economies grew by 0.3%, slightly more slowly than in H2 2014 (+0.6% then +0.5%). In particular, activity dropped back in the United States (-0.2% after +0.5%), hit by the harsh winter, and GDP slowed down in the United Kingdom (+0.3% after +0.5%). The Japanese economy, meanwhile, picked up significantly (+1.0% after +0.3%), although without making up for the sharp contraction (-1.7% then -0.5% in Q2 and Q3 2014) in the wake of the VAT hike on 1<sup>st</sup> April 2014.

*The emerging economies slowed down again*

In Q1 2015, the emerging economies as a whole slowed down again. In particular, China showed a further slowdown (+1.3% after +1.5% in the previous quarter). GDP contracted in Brazil (-0.2%) and more distinctly in Russia (-1.9%), where domestic demand was hit by soaring prices and tighter monetary policies aimed at halting the fall in the Ruble. In contrast, the Indian economy enjoyed an upturn and the Central European countries do not seem to have suffered from the tensions caused by the Ukrainian crisis.

*Eurozone GDP continued at the same pace of growth as at the end of 2014*

In the Eurozone, however, growth in Q1 2015 remained at the same pace as at the end of the previous year (+0.4%, as forecast in *Conjoncture in France* in March, after +0.4%), driven notably by household consumption (+0.5% after +0.4%), despite strong imports. Activity accelerated particularly in France (+0.6% after 0.0%) and in Italy (+0.3% after 0.0%). Growth was again very strong in Spain (+0.9% after +0.7%), while the German economy slowed down (+0.3% after +0.7%).

### In France, activity rebounded clearly in Q1 2015

*In France, GDP accelerated clearly in Q1*

In France, activity accelerated clearly in Q1 (+0.6% after 0.0%), more than had been forecast in *Conjoncture in France* in March 2015 (+0.4% after +0.1%). This rise was driven by dynamic manufacturing output (+1.3% after +0.1%) and to a lesser extent by the expected rebound in energy-water-waste production (+3.8% after -2.5%). In construction, however, production slowed down markedly once again (-1.0% after -0.9%). Household consumption accelerated strongly (+0.8% after +0.1%), while foreign trade made a negative contribution to growth (-0.5 points), matched by change in inventories (+0.5 points), notably in transport equipment.

### World trade and the past fall in oil prices set to buoy up activity in 2015

*World trade likely to be relatively dynamic through to the end of the year*

World trade contracted sharply in Q1 2015 (-1.5% after +1.2%), in proportions not seen since the 2009 world recession. This fall was mainly due to trade in the Asian countries and the United States, partly on account of the dockers' strike on the west coast. In Q2, world trade should rebound in reaction (+1.8%), then grow by 1.3% in Q3 and 1.5% in Q4, still a slightly lower rate than its pre-crisis average (+1.6% per quarter between 2000 and 2007).

*After a sharp fall, oil prices showed an upturn in Q1*

The slide in oil prices since June 2014, when the price of Brent stood at an average of \$111.8 (€82.2), continued through to mid-January 2015, when it reached \$47 (€39.6), its lowest since March 2009. In Q1 2015, the oil price then rose again, before hovering at around \$65 (€59.1) from the end of April onwards. This rebound has been driven, among other things, by oil company announcements that they would be scaling back investments and the fall in the rig count in the United States, a sign that the market is still in search of its equilibrium price. The oil price is assumed to be stable at the same level in our forecast (\$65).



**The short-term outlook is positive in the advanced economies but remains poor in the emerging countries**

*Despite the jolt at the start of the year, the upturn should remain robust in the advanced economies*

In the advanced economies, the short-term outlook remains positive in Q2 2015, with a pronounced rebound in the United States and United Kingdom, despite the jolt at the start of the year (Graph 1). The advanced economies should therefore return to a more sustained growth rate from Q2 (+0.5%), remaining at that level in H2 (+0.5% then +0.6%). The US economy in particular should show a rebound (+0.5% in Q2 then +0.6% per quarter) thanks to robust consumption buoyed by falling unemployment, purchasing power that is holding up well and corporate investment boosted by favourable demand prospects. The United Kingdom should also return to a faster rate of growth (+0.6% in Q2, then +0.5% per quarter in H2), driven by dynamic consumption in line with the expected rise in purchasing power. In Japan, activity is set to progress again (+0.5% in Q2 then +0.6% per quarter), thanks to a slight acceleration in domestic demand.

*The emerging economies set to slow again*

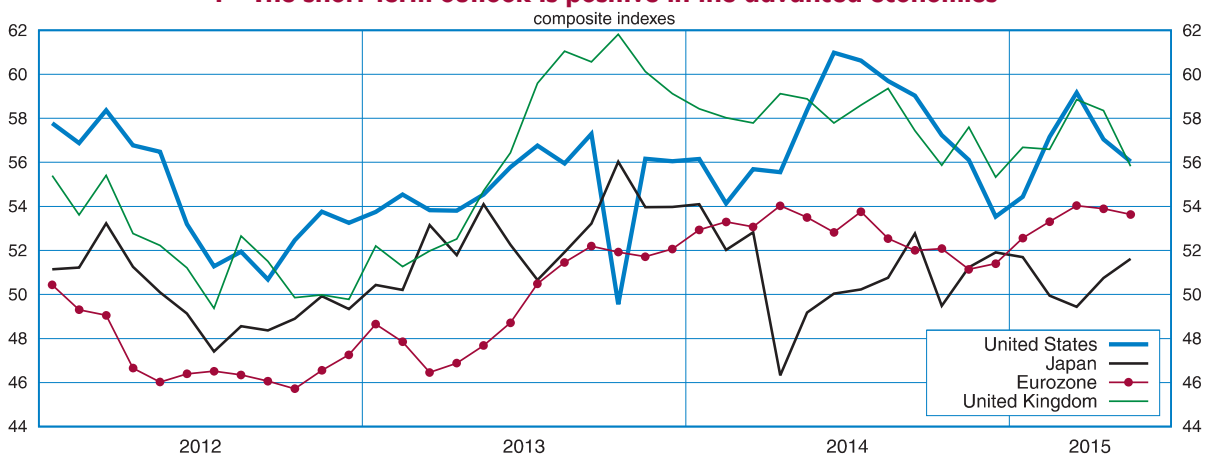
The business tendency surveys remain poor in most of the major emerging countries, however. In China, activity should slow again, due among other things to a further slowdown in investment: taking the annual average, growth is once again set to be at its lowest since 1990. In Brazil, the business climate is at its weakest since 1998 and activity is set to contract on average year on year. The situation is also very poor in Russia, but the upturn in the Ruble and falling inflation have enabled the central bank to lower its base rate; the rapid improvement in the business climate suggests that the country should emerge from recession before the end of the year. All in all, imports in the emerging countries should slow down sharply in 2015 (+1.2% after +4.0% in 2014).

**The recovery should spread through the Eurozone by the end of 2015**

*Monetary policies could diverge once again*

After six years of stability at a very low level, the Fed is likely to increase its base rates before the end of the year in the light of inflation prospects and the regular improvement in the labour market. In the United Kingdom, despite an expected acceleration in the course of the year, the low level of wage rises is likely to postpone monetary tightening to post-2015. In Japan, monetary policy is likely to remain highly expansionist. In the Eurozone, the European Central Bank has been engaged in quantitative easing since March, making massive asset purchases, including government debt. These operations have put a halt to the fall in the inflation expectations of the market and have driven sovereign rates downwards.

**1 - The short-term outlook is positive in the advanced economies**



Source: Markit

## General outlook

*The credit market is gradually improving in the Eurozone*

After falling for three years, the outstanding credit of non-financial corporations in the Eurozone levelled out in March 2015. Deleveraging among companies in Italy and Spain has been easing up since early 2015 and the moderate rise in outstanding credit in France and Germany has been confirmed since summer 2014. The great disparity in bank lending rates for companies in the Eurozone has partly narrowed, with falls in the rates in Italy then in Spain, a sign that the capital market is less fragmented. In anticipation of monetary policies on both sides of the Atlantic, the Euro has slipped significantly, from \$1.37 in May 2014 to less than \$1.10 in March 2015. In this forecast, the bilateral exchange rates have been set to \$1.12, 140 Yen and £0.73 to the Euro.

*The recovery should spread through the Eurozone by the end of the year*

In the large countries of the Eurozone, the business climate has recently showed an upturn, particularly in Italy, at its highest since 2007, and in Spain, at a level not seen since the beginning of the 2000s. Boosted by the fall in oil prices, domestic demand should remain sustained, and thanks to the past fall in the Euro, growth should hold up in Q2 (+0.4%), then increase in H2 (+0.5% per quarter). Growth rates vary from one country to another, although the divergence between them should narrow slightly: Spain (+0.9% in Q2, then +0.8% a quarter in H2) and Germany (+0.5% per quarter) are set to remain the main powerhouses of the Eurozone, while growth is likely to be more modest in Italy (+0.2% in Q2, then +0.3% per quarter).

*Eurozone household consumption should progress soundly*

In the Eurozone, growth in household consumption should remain firm (+0.4% in Q2 then +0.5% per quarter), thanks to the sharp acceleration of European household purchasing power in 2015 (+2.1% annual average, after +0.9% in 2014). In particular, consumption should progress strongly in Spain (+1.0% per quarter), where there is a clear improvement in the labour market, and in Germany (+0.4% in Q2, +0.6% then +0.7% in H2), where income has been boosted by the introduction of a minimum wage.

*Corporate investment set to accelerate gradually in the Eurozone*

Productive investment should accelerate gradually in the Eurozone through to the end of 2015 (+0.9% in Q2, then +1.3% and +1.5% in H2), buoyed by the upturn in activity and improved financing terms. In construction, however, investment is likely to remain slow in 2015 (+0.6% after -0.2% in 2014).

### **French exports should be buoyed by the past depreciation of the Euro and more dynamic world demand**

*French exports set to accelerate significantly in 2015*

Due to the geographical composition of French exports, with limited sales to Asian countries, world demand for French products should be less uneven than world trade in H1 2015 (+1.0% in Q2 after +0.8%). In H2, it should remain dynamic (+1.2% per quarter) and combined with the effects of the past depreciation in the Euro, it should buoy up French exports (+1.4% then +1.2% per quarter) which should therefore accelerate significantly in 2015 (+5.2% after +2.4% in 2014).

### **The French economy to accelerate in 2015**

*The business climate in France improved again in the spring*

The business climate in France remained globally stable from September 2013 to February 2015 at around 94, well below its long-term average (100). Since then, the business climate has progressed by 3 points (97 in May 2015), driven in particular by the improvement in industry where the composite indicator rose to 103 in May, a level not seen since summer 2011 (*Graph 2*). The business climate has also improved regularly in retail trade, to 106 in May, its highest since early 2011. Although they have improved recently, the composite indicators remain very poor in services (94) and building (89).

## Manufacturing output should accelerate sharply in 2015

In manufacturing industry, output should continue to increase in Q2, although at a slower rate than in the previous quarter (+0.3% after +1.3%). The balance of opinion on production prospects remains above its long-term average and manufacturing output should therefore grow again in H2 (+0.3% then +0.4%). Over the year as a whole, manufacturing output should accelerate sharply (+2.0% after +0.3% in 2014), turning in its highest growth since 2011.

## Contrasted trends in the other branches of the French economy

According to the business leaders surveyed in May, the short-term outlook in services has been on a more positive trend since the start of the year and activity should pick up through to the end of 2015 (+0.4% in Q2, +0.5% then +0.6% in H2). After the sharp rebound in Q1 2015 (+3.8%), energy production should fall slightly in Q2 (-0.8%), then progress moderately in H2 (+0.4% then +0.5%). Finally, after a further sharp fall in Q2 (-0.7%), the decline in activity in construction should ease in H2 (-0.4% then -0.2%).

## French growth should stand at +1.2% in 2015

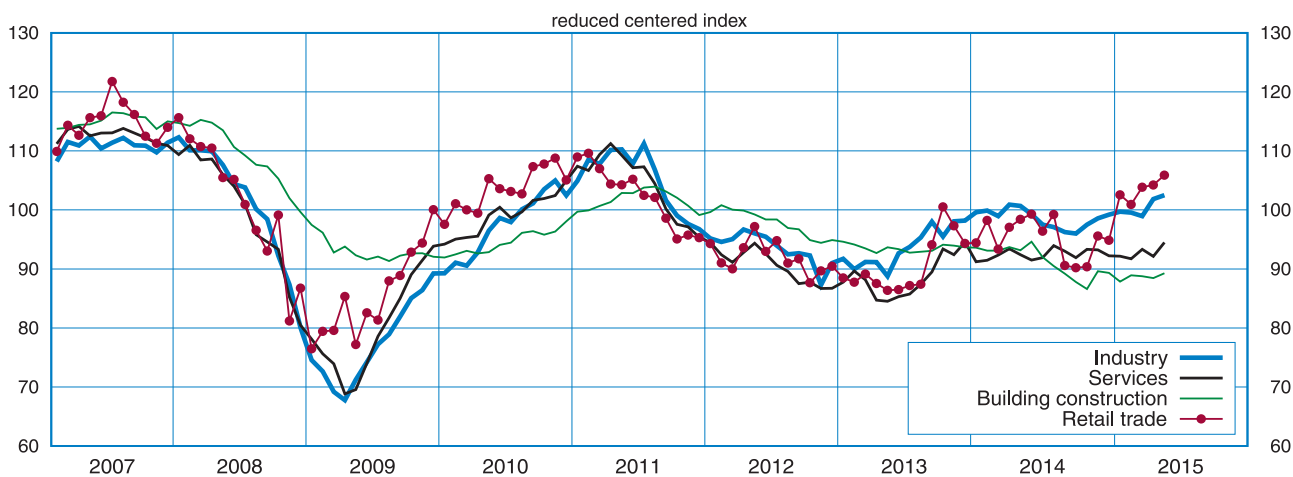
All in all, GDP growth should remain relatively sustained through to the end of 2015 (+0.3% in Q2 and Q3, then +0.4% in Q4). It should come to +1.2% on average over the year as a whole, and +1.6% year-on-year at the end of 2015. This marked acceleration in GDP, after three very sluggish years (+0.4% a year on average), should be driven by manufacturing industry (+2.0% after +0.3% in 2014), the rebound in energy (+2.6% after -3.5%) and market-sector services (+1.6% after +1.1%). In terms of demand, it is mainly the acceleration in household purchasing power and therefore in household consumption that should drive this upturn in growth over the year (Graph 3). However, GDP is unlikely to return to its growth level of 2010 (+1.9%) and 2011 (+2.1%), mainly due to the still-modest upturn in corporate investment (+1.0% in 2015 against +4.0% on average in 2010 and 2011) and the sharp fall in household investment (-4.7% in 2015 against +1.5% in 2010 and +1.0% in 2011).

## Market-sector employment set to accelerate and unemployment to level out in H2 2015

### The CICE and the Responsibility Pact should boost market sector employment in 2015

After almost levelling out in Q1, market-sector employment should show an upturn from Q2 then accelerate in H2. All in all, it should increase by 41,000 jobs in 2015 (after -45,000 in 2014), driven by stronger trends in activity and the boost to growth-driven job creation provided by the Tax Credit for Competitiveness and Employment (CICE) and the Responsibility and Solidarity Pact.

## 2 - The business climate is once again on a more positive trend in industry and retail trade



Source: INSEE

# General outlook

*Still driven by subsidised employment, total employment should accelerate significantly in 2015*

In 2014, non-market sector employment grew significantly (+67,000), largely due to subsidised contracts. The same should apply to 2015: +53,000, including +24,000 in subsidised contracts. Including self-employment, total employment should progress by 114,000 jobs in 2015 (after +41,000 in 2014), with a marked acceleration in H2 (+71,000 after +43,000 in H1) driven by the market sector.

*Unemployment set to level out in H2 2015*

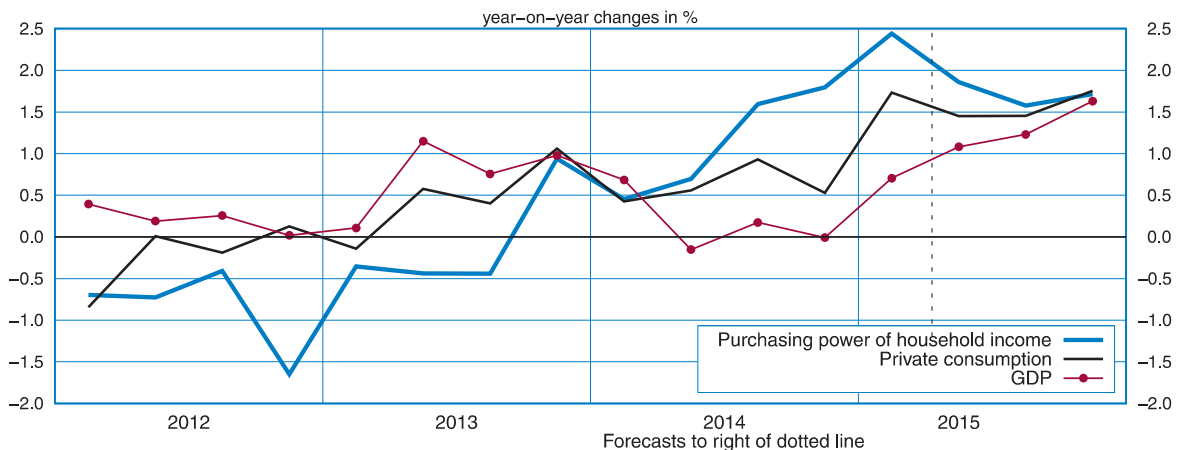
In Q1 2015, the unemployment rate (ILO definition) fell slightly, to 10.3% of the labour force on average (10.0% in Metropolitan France), in particular due to the fall in the number of older unemployed people. In Q2 2015, job creations were still too weak to offset the rise in the labour force; the expected rise in employment in H2, however, should be strong enough to stabilise unemployment at 10.4%, the same level as in mid-2015 and late 2014 (Graph 4). Unemployment might even fall if older jobseekers continue to feel discouraged.

## Inflation likely to remain low through to the end of 2015

*Inflation set to increase but remain low through to the end of 2015*

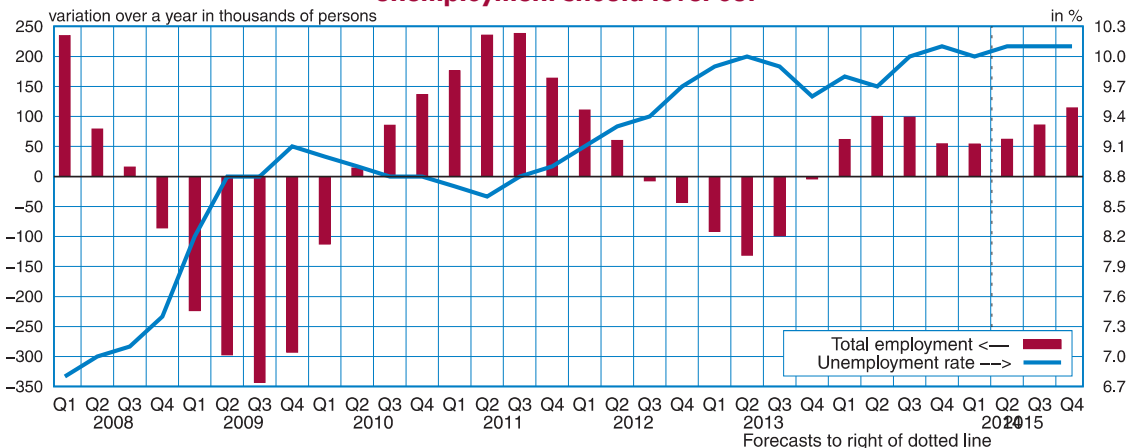
After three months of falling prices year-on-year, headline inflation became slightly positive again in April and May (+0.1% then +0.3% year-on-year). It should continue rising through to the end of 2015, to +0.6% in December, mainly due to the rise in energy prices (Graph 5). Core inflation, which has been

### 3 - GDP set to accelerate significantly in 2015 thanks to the acceleration in household purchasing power and consumption



Source: INSEE

### 4 - In H2 2015, the expected rise in employment should offset the rise in the labour force and unemployment should level out



Source: INSEE

falling almost continuously since mid-2012, has also risen again, to +0.6% in May, partly driven by the effect of the past fall in the Euro on imported products. Core inflation should remain moderate through to the end of 2015 (+0.4% in December 2015), with the low level of utilisation of production capacities and high level of unemployment restricting inflationary pressures.

## Purchasing power should progress sharply in 2015

*Nominal wages set to slow down in 2015, in the wake of inflation*

In Q1 2015, while basic wages continued to adjust to inflation with a certain time lag, the average wage per capita in nominal terms, which takes account of bonuses and overtime, would appear to have accelerated in the market-sector branches (+0.8% after +0.3%). It is likely to stagnate in Q2 (making +0.8% over the half year, after +0.6% in the second half of 2014). In H2 2015, following the slight upturn in inflation at the start of the year, the average wage per capita should progress by 0.6%. All in all, nominal wages should slow down slightly in 2015 (+1.4% after +1.6% in 2014).

*Household purchasing power to accelerate sharply in 2015*

In 2015, the purchasing power of household income should continue to accelerate, increasing by 1.9% (after +1.1% in 2014 and -0.1% in 2013), which would be its biggest rise since 2007. It should be driven most notably by the slower rise in taxes and social contributions (+1.2% after +2.0%) and the upturn in property income (+0.9% after -2.2%), notably from dividends.

## Household consumption should accelerate significantly in 2015

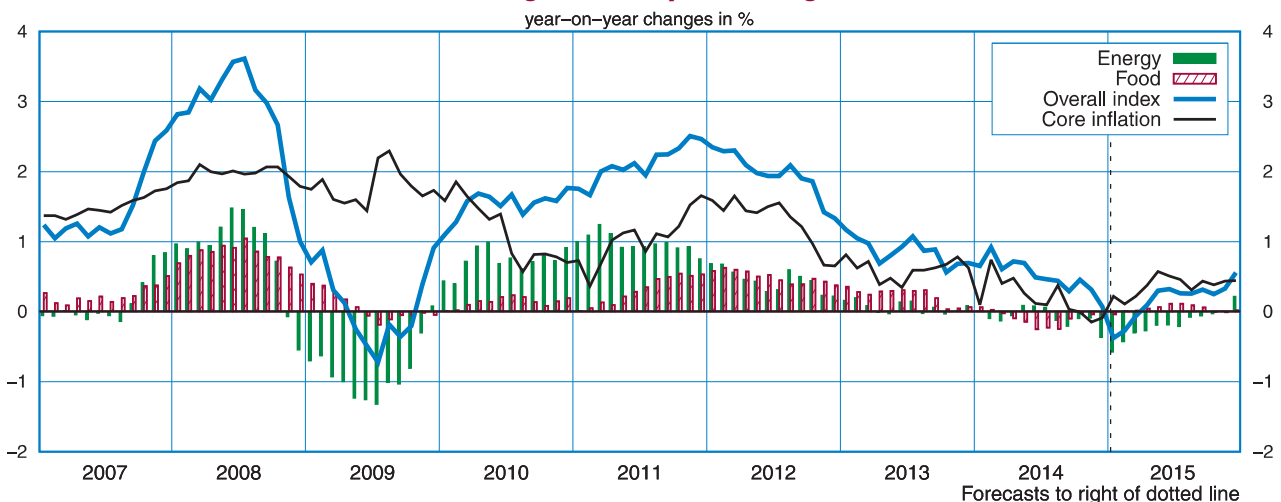
*Growth in household consumption should remain relatively sustained through to the end of 2015*

After a sharp rebound in Q1 2015 (+0.8%), due to the return to normal of heating expenditure and also strong purchases of manufactured goods, household consumption should slow down in Q2 (+0.2%), notably on account of a backlash effect on energy (-3.0% after +8.4%). Consumption should then accelerate gradually through H2 (+0.3% then +0.4%), driven by the gains in purchasing power. Over the year as a whole, household consumption should show a marked acceleration (+1.6% after +0.6%).

*At the end of 2015, the savings ratio should be almost stable year-on-year*

While the strength of household purchasing power buoyed household consumption in Q1, it also fed their savings (0.5-point rise in the ratio). Through to the end of the year, as households smooth out fluctuations in their purchasing power, the savings ratio should fall back gradually: at the end of 2015, it should fall back to 15.1%, as one year earlier.

## 5 - Inflation should rise again but stay low through to the end of 2015



Source: INSEE

### **In 2015, household investment likely to fall sharply while corporate investment accelerates gradually**

#### *Household investment set to fall again sharply in 2015*

After levelling out in 2014, the number of building permits fell at the end of the year and in early 2015, in particular for individual homes. Household investment should fall again sharply in Q2 2015 (-1.2% after -1.4%), although the fall should ease up in H2 (-1.0% then -0.6%) thanks to an upturn in sales by property developers.

#### *Corporate investment to accelerate in H2 2015*

Many conditions are now fulfilled to drive an upturn in corporate investment: domestic and foreign demand prospects are more positive, the margin rate should increase significantly thanks to the CICE, the Responsibility Pact and the fall in oil prices and, finally, external financing terms have eased further. These improvements are gradually showing through in the business tendency surveys: investment prospects in manufacturing industry are higher and balances of opinion on investment among entrepreneurs in services have been above their long-term average since April. Corporate investment should therefore accelerate slightly in Q2 (+0.3%), as production capacity utilisation is not yet at a high level, and then more markedly in H2 (+0.6% then +0.8%).

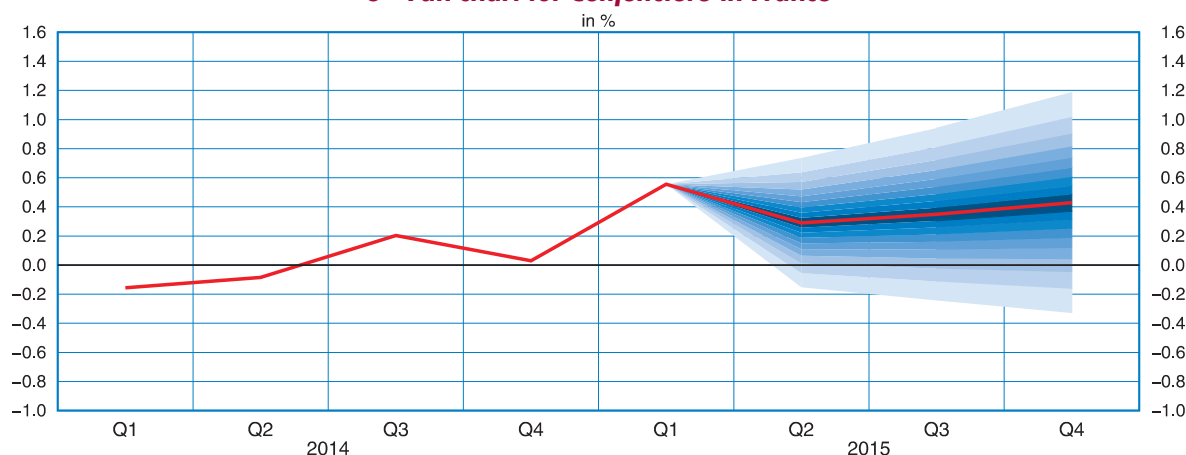
### **Uncertainties: business confidence and the international environment**

#### *Business confidence*

In our scenario, French corporate investment should accelerate, moderately at first in Q2 and then more significantly in H2. There have been a number of positive factors since the beginning of 2015 and the business tendency surveys have been showing signs of this more recently. Tensions on production capacity remain limited, however, as shown by the low level of the capacity utilisation rates; the acceleration in investment could therefore be more sluggish than in our forecast. Conversely, recent measures aimed at increasing the rate of certain investment expenditure through the possibility of a 40% one-off additional depreciation allowance, could lead to an even sharper acceleration than in our forecast.

#### *International environment*

In our scenario, the emerging economies should slow down again, although without a sudden deterioration. If there were to be such a deterioration, the impact on the advanced economies could be considerable, in particular given the growing weight of the emerging countries in world trade since the 1990s. Conversely, the slowdown in the emerging countries could reduce world oil demand expectations and therefore the price of Brent, which would be favourable for the advanced economies. Finally, our scenario is based on the assumption that whatever the outcome of the negotiations between Greece and its creditors, the stability of the monetary union is not affected. If it should prove otherwise, prospects for the Eurozone would be less positive. ■

6 - Fan chart for *Conjoncture in France*

How to read it: the fan chart plots 90% of the likely scenarios around the baseline forecast (red line). The first and darkest band covers the likeliest scenarios around the baseline, which have a combined probability of 10%. The second band, which is a shade lighter, comprises two sub-bands just above and just below the central band. It contains the next most likely scenarios, raising the total probability of the first two bands to 20%. We can repeat the process, moving from the centre outwards and from the darkest band to the lightest, up to a 90% probability (see *INSEE Conjoncture in France* for June 2008, pages 15 to 18). It can therefore be estimated that the first result published by the quarterly accounts for Q2 2015 has a 50% chance of being between +0.1% (lower limit of the fifth band from the bottom) and +0.5% (upper limit of the fifth band from the top). Likewise, it has a 90% chance of being between -0.1% and +0.7%. In Q3 2015, the 90% confidence intervals is [-0.2% ; +1.0%].

Source: INSEE

### What level of GDP growth would stabilise unemployment in France?

#### As a long-term average, the rate of growth capable of stabilising unemployment is estimated at around +1.6% per year

As a long term average, labour productivity increases every year: value added must therefore grow more rapidly than this upward trend in productivity in order for employment to grow. In the equation used to predict non-farm market sector employment in the *Conjoncture in France* reports, trend productivity growth, excluding the effects of policies to boost employment (subsidised jobs, social security exemptions and reductions in the number of hours worked), is estimated at around +1.6% per year since the early 1990s (Argouarc'h and *al.*, 2010). However, since the crisis of 2008-2009 the employment figures have been consistently more dynamic than their long term determinants, by around 0.1 points per quarter. This indicates that in recent years the trend gains in apparent productivity in the non-farm market sector have been just +1.2% per year. Furthermore, the annual productivity gains recorded for employment as a whole (including self-employment and non-market employment) are around 0.1 points below the corresponding increases in the non-farm market sector (Lequien & Montaut, 2014). Putting aside cyclical effects and the effects of policies aimed at boosting job creation, annual GDP growth of +1.1% would be required in order to stabilise total employment.

However, a higher rate of growth is actually required to stabilise employment, as a result of the increase in the labour force, with more people entering than leaving the labour market each year. The scenario used in this issue of *Conjoncture in France* is based on trend growth of the labour force by 130,000 workers in 2015, equivalent to +0.5 points of total employment. Without taking

account of cyclical effects, and the effects of policies focused on jobs, the GDP growth required to stabilise unemployment is thus in the region of +1.6%. This estimate should nonetheless be treated with precaution, given the uncertainties inherent to this type of evaluation (for example, Chantrel and *al.* 2014).

#### In the short term, as activity picks up pace, the effects of the productivity cycle impede net job creations...

During a turnaround in the short-term outlook, employment generally catches up to variations in activity with a time lag: this is known as the productivity cycle. When the economy went into recession in late 2008, French companies did not immediately react to the fall in demand by reducing their workforce; they first allowed their productivity to decline. Inversely, when activity begins to pick up pace there is generally a transitional period of accelerated productivity. All other things being equal, the stabilisation of unemployment thus requires a rate of growth higher than +1.6% during the recovery phase.

#### ... while government policies to boost employment serve to reduce the level of growth required to stabilise employment

The reduction in the cost of labour made possible by the tax credit for encouraging competitiveness and jobs (CICE) and the Responsibility and Solidarity Pact (PRS) is boosting job creation: the combined impact of these measures in 2015 is estimated at around 20,000 extra jobs created per quarter (the Focus "In 2015, the CICE is set to ramp up and the Responsibility and Solidarity Pact (PRS) is introduced" in the *Conjoncture in France*

## General outlook

report for December 2014). The effects of the CICE and PRS in 2015 should thus serve to reduce by 0.5 points the annual growth required to stabilise unemployment.

Similarly, policies designed to boost employment in the non-market branches serve to bring this threshold down further still. By the end of 2015 the number of beneficiaries of such contracts should be up by 24,000 on the previous year, adding a further 0.1 points to the growth of GDP in jobs.

### Fluctuations in the size of the workforce can be significant in the short term

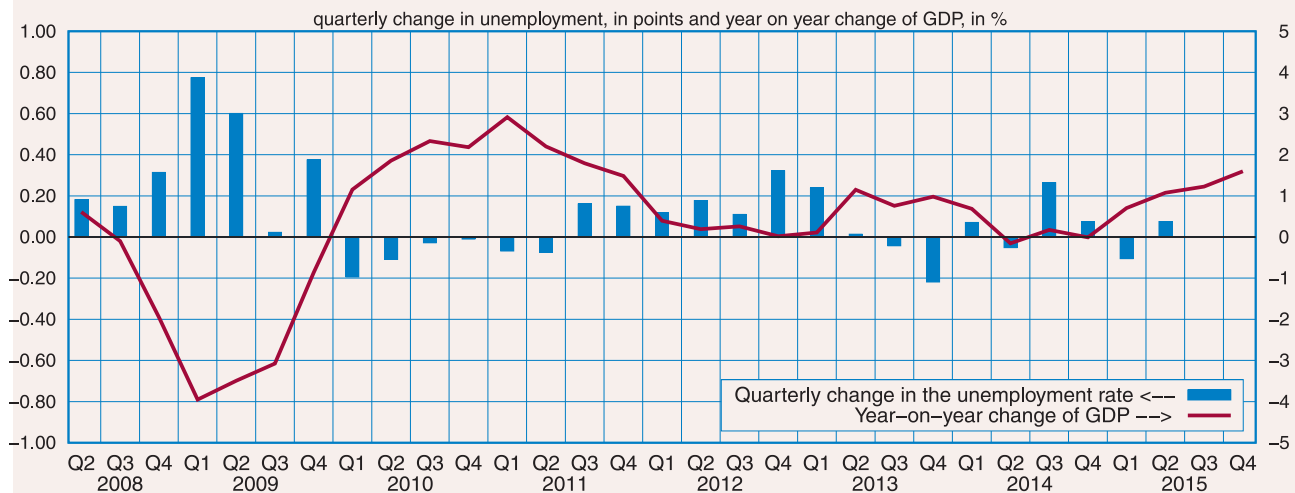
Certain short-term effects, particularly the impact of successive pension reforms, also have an impact on the size of the workforce. For example, the increase in the age at which workers are eligible for pensions to 61 years and 2 months at the start of 2014 led to an increase of around 1.8 points in the labour force participation rate of the 50-64 age group between late 2013 and early 2014. This increase will persist as the retirement age is pushed up further, as scheduled. However, the reform of the special provisions for workers with long careers has reduced the labour force participation rate of the 51-64 age group. For

forecasting purposes, the various reforms affecting the labour force are considered in terms of trends: however, their effects may actually be subject to jolts which make the relationship between activity and unemployment more complex in the short term. Finally, the high level of unemployment may have the effect of impeding the growth of the labour force, with unemployed workers becoming 'discouraged' and no longer "actively" seeking work.

### All in all, unemployment should stabilise in H2 2015, with annual growth of between +1.0% and +1.5%

After the rebound in growth seen in Q1 2015 (+0.6% after 0.0%), GDP is expected to grow relatively strongly compared with the average for the past three years: +0.3% in Q2 and Q3 2015, then +0.4% in Q4, giving an annual growth rate of between +1.0% and +1.5%. Taking into account all of the effects described above, this increase in activity should be sufficient to stabilise unemployment in H2, at 10.1% in Metropolitan France and 10.4% for the country as a whole (Graph). ■

### Unemployment quarterly change and year-on-year change



### Bibliography

Argouarc'h J., Debauche É., Leblanc P. and Ourliac B. (2010), "Comment expliquer les évolutions de l'emploi depuis le début de la crise ?", *Note de conjoncture*, INSEE, December.

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## Key figures: France and its international environment

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

	2013				2014				2015				2013	2014	2015
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<b>International environment</b>															
Advanced economy GDP	0.4	0.5	0.7	0.6	0.2	0.4	0.6	0.5	0.3	0.5	0.6	0.6	1.4	1.8	1.9
Eurozone GDP	-0.4	0.4	0.2	0.3	0.2	0.1	0.2	0.4	0.4	0.4	0.5	0.5	-0.3	0.9	1.4
Barrel of Brent oil (in dollars)	113	104	110	109	108	110	104	77	55	63	65	65	108.8	100	62
Euro-dollar exchange rate	1.32	1.31	1.32	1.36	1.37	1.37	1.33	1.25	1.13	1.10	1.12	1.12	1.33	1.33	1.12
World demand for French products	0.8	2.4	1.0	-0.1	0.5	0.5	1.7	0.9	0.8	1.0	1.2	1.2	3.0	3.0	4.1
<b>France - supply and use</b>															
<b>GDP</b>															
GDP	0.1	0.8	-0.1	0.2	-0.2	-0.1	0.2	0.0	0.6	0.3	0.3	0.4	0.7	0.2	1.2
Imports	0.2	1.8	1.1	0.3	0.7	0.9	1.8	1.5	2.3	0.3	1.0	1.1	1.8	3.9	5.6
Household consumption	0.2	0.3	0.0	0.5	-0.4	0.5	0.3	0.1	0.8	0.2	0.3	0.4	0.5	0.6	1.6
Public and NPISH consumption	0.4	0.6	0.3	0.4	0.3	0.4	0.5	0.5	0.4	0.4	0.4	0.4	1.6	1.6	1.7
Total GFCF	-0.3	0.4	0.1	0.1	-0.6	-0.6	-0.5	-0.4	-0.2	-0.1	0.1	0.3	-0.4	-1.2	-0.8
<i>of which:</i>															
NFEs	-0.3	0.9	0.8	1.5	0.0	0.2	0.2	-0.1	0.2	0.3	0.6	0.8	0.8	2.0	1.0
Households	0.4	0.1	-0.9	-1.8	-1.6	-1.5	-1.3	-1.1	-1.4	-1.2	-1.0	-0.6	-1.5	-5.3	-4.7
General government	0.1	0.1	-0.4	-1.9	-2.3	-2.8	-2.1	-0.3	0.3	0.2	0.3	0.2	0.2	-6.9	-1.4
Exports	0.0	2.6	-1.2	0.9	0.5	0.2	0.9	2.5	0.9	1.4	1.2	1.2	1.8	2.4	5.2
<b>Contributions (in point)</b>															
Domestic demand excluding changes in inventories *	0.2	0.4	0.1	0.4	-0.3	0.2	0.2	0.1	0.5	0.2	0.3	0.4	0.6	0.5	1.1
Changes in inventories *	0.0	0.2	0.5	-0.4	0.2	-0.1	0.3	-0.3	0.5	-0.2	0.0	0.0	0.2	0.2	0.3
Net foreign trade	0.0	0.2	-0.7	0.2	-0.1	-0.2	-0.3	0.2	-0.5	0.3	0.0	0.0	0.0	-0.5	-0.2
<b>France - situation of households</b>															
Total employment	-24	-25	31	71	-6	34	-31	44	20	23	28	43	53	41	114
Non-agricultural market sector employment	-36	-45	11	4	-27	13	-50	19	-1	7	14	21	-66	-45	41
Unemployment rate Metropolitan France **	10.0	10.0	9.9	9.7	9.8	9.7	10.0	10.1	10.0	10.1	10.1	10.1	9.7	10.1	10.1
Unemployment rate France **	10.3	10.3	10.3	10.1	10.2	10.1	10.4	10.4	10.3	10.4	10.4	10.4	10.1	10.4	10.4
Consumer price index ***	1.0	0.9	0.9	0.7	0.6	0.5	0.3	0.1	-0.1	0.3	0.3	0.6	0.9	0.5	0.2
Core inflation ***	0.6	0.4	0.6	0.5	0.4	0.1	0.0	-0.1	0.2	0.5	0.4	0.4	0.6	0.2	0.4
Household purchasing power	1.2	0.2	-0.3	-0.2	0.8	0.4	0.6	0.0	1.4	-0.2	0.3	0.1	-0.1	1.1	1.9

Forecast

(\*) Changes in inventories include acquisitions net of sales of valuable

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

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

GDP: Gross Domestic Product

GFCF: Gross Fixed Capital Formation

NFE: Non-financial enterprise

NPISH: Non-profit Institutions Serving Households

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

Source: INSEE