Consumer prices

Since April 2015, consumer prices have been rising again (+0.1% over one year to April, +0.3% in May), after three consecutive months of decline. Headline inflation is expected to rise again through to the end of the year, to +0.6% in December 2015, essentially due to the rise in energy prices resulting from the rebound in oil prices.

Core inflation is expected to be virtually stable through to the end of 2015: +0.4% in December 2015, after +0.6% in May.

Inflation has returned to positive since April

Since early 2012, inflation has fallen steadily in France as it has in the Eurozone. Since summer 2013 it has been lower than +1.0% (year-on-year) and even entered negative territory in Q1 2015. Due to a rebound in energy prices, inflation has been slightly positive again since April 2015 (*Graph 1*). It is expected to rise again slightly through to the end of the year (+0.6% in December 2015).

Core inflation,[1] in almost continual decline since mid-2012, should be virtually stable over the forecasting period, at +0.4% in December 2015 after +0.6% in May. Although the low production capacity utilisation rate and the high level of unemployment continue to limit inflationary pressures, the rise in the prices of imports - linked to the earlier depreciation of the Euro and the rebound of Brent crude - is pushing up the prices of manufactured goods. The likelihood of core inflation being negative in December 2015 is estimated at less than 10% (*Graph 2*); in December 2014, the equivalent likelihood for June 2015 was estimated at 30%.[2]

Energy inflation picking up

After a low point in January 2015 (-7.1%) due to the fall in oil prices, energy inflation picked up in May (-2.4%). On the assumption that the price of a barrel of Brent crude remains stable at around €58 ($65), year-on-year growth in energy prices should pick up again by the end of the year (+2.7% in December 2015). The possible rise in electricity prices in August is also expected to contribute to pushing up energy prices, but this rise should be limited by the downturn in gas prices, the sourcing costs of which are likely to drop between now and the end of the year.

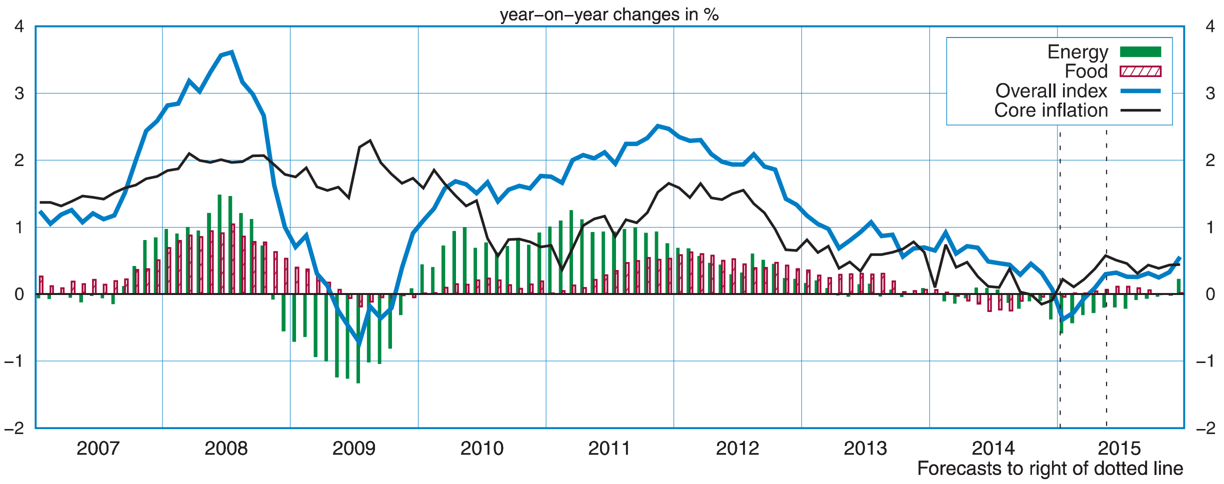
Virtual stability of food inflation

In the context of a"price war" amongst major food retailers, the rise in the prices of raw foodstuffs imported since early 2014 is only likely to

(1)The core inflation indicator calculated by INSEE is estimated by excluding the prices of energy, fresh food, public tariffs from the overall index. This indicator is corrected for tax measures and is seasonally-adjusted.

(2) "Contribution from Google Trends for forecasting the short-term economic outlook in France: limited avenues", *Conjoncture in France,* December 2014.

1 - Inflation in France



Source: INSEE

moderately affect the price of food products (excluding fresh food). Moreover, the price of milk has fallen back sharply, partly due to the abolition of "milk quotas" on 1st April 2015 and the saturation of the European market due to the Russian embargo. Food prices excluding those of fresh food products should therefore continue falling through to the end of the year, to -0.2% over one year to December, after -0.5% in May (*Table*).

In Q1 2014, fresh fruit and vegetable supply had been stimulated by favourable climatic conditions, bringing prices to a particularly low level. In the absence of a climate-related crisis affecting the production of fresh produce, year-on year growth in this sector is likely to remain high in June (+8.2%, after +6.4% in May), then fall gradually (+1.9% in December 2015).

All in all, food inflation is expected to remain slightly positive through to the end of 2015, to +0.1% in December, after +0.4% in May.

The fall in the prices of manufactured goods is set to continue at the same pace

In May 2015, the prices of manufactured goods fell back by 0.7% over one year, as the fall has eased since the end of 2014 (-1.2%): import prices bounced back, driven by the leap in Brent crude and the earlier depreciation of the Euro. This drop is likely to continue at the same pace through to the end of the year (-0.7% in December 2015). In particular, the low production capacity utilisation rate and the high level of unemployment are expected to limit inflationary pressures.

Clothing and footwear prices in particular are expected to be virtually stable through to the end of the year: aside from jolts mainly due to the change in legislation on sales,[3] they are likely to slip back by 0.1% over one year to December 2015, after 0.0% in May.

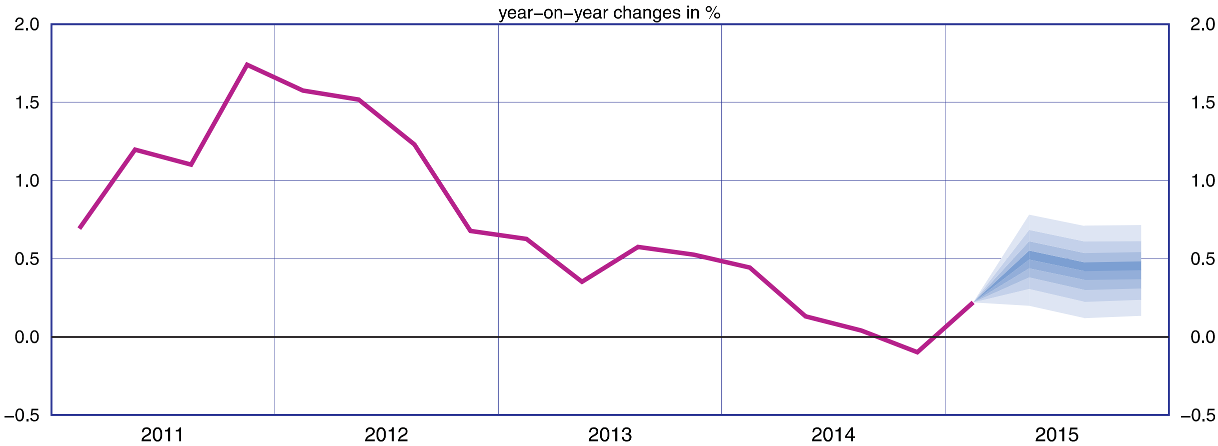
The prices of healthcare products should continue to fall through to the end of 2015, by -3.1% over one year to December, as in May. This fall is likely to be due on the one hand to price control measures introduced in the Social Security Financing Act for 2015, and on the other hand to the drop in the price of glasses and contact lenses, as a result of the "Consumption" law of March 2014.

Inflation in services should fall back

Service prices are expected to slow through to the end of 2015 (by +1.3% over one year to May 2015 to +1.0% in December), for virtually all products in this sector. Rents in particular are likely to slip back due to indexation to changes in the rent reference index, and transportation prices are likely to be driven down by the introduction of the "All zones Navigo Pass" in the Île-de-France region next September.■

(3) Extension of the number of days of fixed-date sales from 5 to 6 weeks and abolition of the floating-date sales.

2 - The core inflation forecast for France and risks around the forecast



Source: INSEE

How to read it: the fan chart plots 80% of the likely scenarios around the baseline forecast. The first and darkest band covers the likeliest scenarios around the baseline, which have a combined probability of 20%. 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 40%. We can repeat the process, moving from the centre outwards and from the darkest band to the lightest, up to a 80% probability.

Consumer prices

changes as %

CPI* groups (2014 weightings)	April 2015 yoy	April 2015 cyoy	May 2015 yoy	May 2015 cyoy	June 2015 yoy	June 2015 cyoy	December 2015 yoy	December 2015 cyoy	Annual averages 2014	Annual averages 2015
Food (16.6%)	**0.3**	**0.0**	**0.4**	**0.1**	**0.7**	**0.1**	**0.1**	**0.0**	**-0.6**	**0.2**
including:										
seasonal food products (2.1%)	*6.2*	*0.1*	*6.4*	*0.1*	*8.2*	*0.2*	*1.9*	*0.0*	*-4.1*	*4.7*
excluding seasonal food products (14.4%)	*-0.6*	*-0.1*	*-0.5*	*-0.1*	*-0.4*	*-0.1*	*-0.2*	*0.0*	*-0.1*	*-0.4*
Tobacco (2.0%)	**0.3**	**0.0**	**0.3**	**0.0**	**0.3**	**0.0**	**0.3**	**0.0**	**5.2**	**0.3**
Manufactured products (25.8%)	**-0.9**	**-0.2**	**-0.7**	**-0.2**	**-0.7**	**-0.2**	**-0.7**	**-0.2**	**-0.9**	**-1.0**
Energy (8.2%)	**-3.4**	**-0.3**	**-2.4**	**-0.2**	**-2.3**	**-0.2**	**2.7**	**0.2**	**-0.9**	**-2.2**
including:										
oil products (4.2%)	*-8.2*	*-0.4*	*-6.3*	*-0.3*	*-6.4*	*-0.3*	*5.0*	*0.2*	*-4.2*	*-6.1*
Services (47.4%)	**1.2**	**0.6**	**1.3**	**0.6**	**1.2**	**0.6**	**1.0**	**0.5**	**1.7**	**1.2**
including:										
rent-water (7.7%)	*0.9*	*0.1*	*1.0*	*0.1*	*0.9*	*0.1*	*0.8*	*0.1*	*1.5*	*0.9*
health services (5.7%)	*0.4*	*0.0*	*0.6*	*0.0*	*0.6*	*0.0*	*0.6*	*0.0*	*0.3*	*0.6*
transport-communications (5.1%)	*1.1*	*0.1*	*1.6*	*0.1*	*1.6*	*0.1*	*0.6*	*0.0*	*1.1*	*1.0*
other services (29.0%)	*1.5*	*0.4*	*1.5*	*0.4*	*1.4*	*0.4*	*1.3*	*0.4*	*2.2*	*1.4*
All (100%)	**0.1**	**0.1**	**0.3**	**0.3**	**0.3**	**0.3**	**0.6**	**0.6**	**0.5**	**0.2**
All excluding energy (91.9%)	0.4	0.4	0.5	0.5	0.6	0.5	0.4	0.3	0.6	0.4
All excluding tobacco (98.0%)	0.1	0.1	0.3	0.3	0.3	0.3	0.6	0.6	0.4	0.2
Core inflation (60.4%)[1]	**0.4**	**0.2**	**0.6**	**0.3**	**0.5**	**0.3**	**0.4**	**0.3**	**0.2**	**0.4**

Forecast

yoy : year-on-year

cyoy : contribution to the year-on-year value of the overall index

*Consumer price index (CPI)

(1) Index excluding public tariffs and products with volatile prices, corrected for tax measures

Source: INSEE

Wages

In 2015, nominal wages should slow down: +1.0% after +1.4% in 2014 for the nominal basic monthly wage and +1.4% after +1.6% for the average wage per capita.

Due to the near stability of prices in 2014 and 2015, the slowdown is also likely to be perceptible in real terms: +0.9% after +1.4% for the basic monthly wage and +1.4% after +1.6% for the average wage per capita.

In general government, the average wage per capita is expected to continue growing in 2015 in both nominal terms (an annual average of +0.7% after +0.2%) and real terms (+0.7% after +0.3%).

Nominal wages are expected to slow in 2015

In 2015, low inflation (an annual average of +0.1% after 0.0% in 2014), and a still-high level of unemployment restricting employees' bargaining power, are likely to limit wages increases. Moreover, the minimum wage rose less in 2015 than in 2014 (+0.8% after +1.1%).

However, in Q1 2015, although basic wages[1] continued to slow, the average wage per capita, which covers a broader scope of remuneration (bonuses, profit-sharing, and overtime payments), accelerated sharply in nominal terms in the market sectors (+0.8% after +0.3%). In Q2 it is expected to stagnate in response (for a total of +0.8% in H1 2015, after + 0.6% in H2 2014). In H2 2015, as a result of earlier low inflation, the average wage per capita is likely to slow down once again (+0.6%).

All in all, in nominal terms, the basic monthly wage in the non-agricultural market sectors is expected to be less dynamic in 2015 (+1.0% as a yearly average) than in 2014 (+1.4%). The average wage per capita is expected to slow down more moderately (+1.4% after +1.6% in 2014).

In real terms, wages are also expected to slow in 2015

With inflation being virtually stable on average in 2015, real wages are also expected to slow in the market sectors: +1.4% after +1.6% for the average wage per capita and +0.9% after +1.4% for the basic monthly wage.

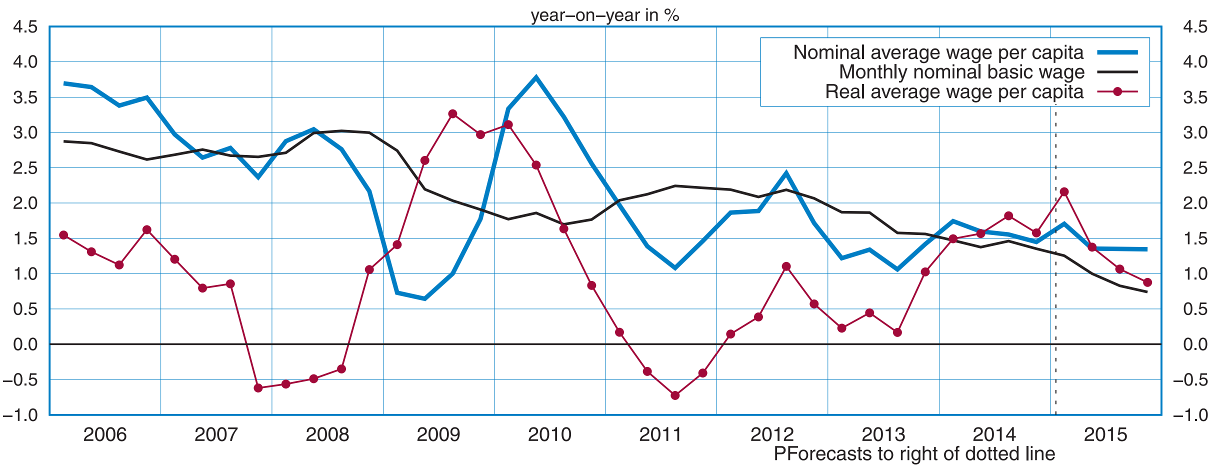
This slowdown is expected to be increasingly sharp over the course of the year. In H1 2015, the average wage per capita in real terms is expected to increase by 0.6% half-year by half-year after +0.8% in H2 2014. Then, with inflation likely to remain moderate in H2 2015, growth in real wages should ease again (+0.3% in H2 2015).

In the Civil Service, nominal wages are expected to continue rising in 2015

In general government, the index point has been frozen since 1st July 2010. However, new wage scales came into force on 1st January 2015, raising the index for entry levels of certain employee categories in local government. The average wage per capita is expected to rise again in 2015 in both nominal terms (0.7% after +0.2%) and real terms (+0.7% after +0.3%). ■

(1) For a definition of BMW and AWPC, see on insee.fr webqide "Economic Outlook terminology"

Change in the nominal and real average wage per capita and basic wage



Scope: non-agricultural market sector
Source: INSEE

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

Seasonally-ajusted data	*quarterly growth rates*								*annual averages*		
	2014				2015				2013	2014	2015
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Basic monthly wage	0.3	0.4	0.4	0.3	0.2	0.1	0.2	0.2	1.7	1.4	1.0
Average wage per capita in the non-agricultural market sector (NAMS)	0.5	0.3	0.3	0.3	0.8	0.0	0.3	0.3	1.3	1.6	1.4
Average wage per capita in general government (GG)									0.6	0.2	0.7
Household consumer price index (quarterly national accounts)	0.2	-0.1	-0.2	-0.1	-0.1	0.3	0.1	0.1	0.8	0.0	0.1
Real basic monthly wage	0.1	0.5	0.5	0.3	0.4	-0.2	0.1	0.1	0.9	1.4	0.9
Real average wage per capita (NAMS)	0.3	0.4	0.4	0.4	0.9	-0.4	0.1	0.2	0.5	1.6	1.4
Real average wage per capita (GG)									-0.2	0.3	0.7

Forecast

Source: INSEE

Household income

In 2015, the purchasing power of household income is likely to continue to gather pace (+1.9% after +1.1% in 2014), against a backdrop of global price stability. In nominal terms, the acceleration in household income is linked to a slowdown in taxes and social contributions (+1.2% after +2.0%) and an expected rebound in property income; earned income, however, should increase at a similar pace to 2014 (+1.4%).

Earned income should continue to grow at the same pace in 2015

In 2015, households' earned income is likely to increase at the same pace as in 2014 (+1.4%, *Table 1*). Gross wages received by households should hardly slow at all (+1.5% after +1.6%, *Table 2*) and the same goes for the average wage per capita. Bearing in mind the carry-over at the beginning of 2015 and despite an acceleration in the course of the year, employment in the non-agricultural market sector is set to fall slightly on average over the year, at virtually the same pace as in 2014 (-0.1% after -0.2%, *Graph*). In addition, the gross operating surplus of sole proprietors is likely to derive benefit from the general upswing in activity (+0.3% after -0.3%).

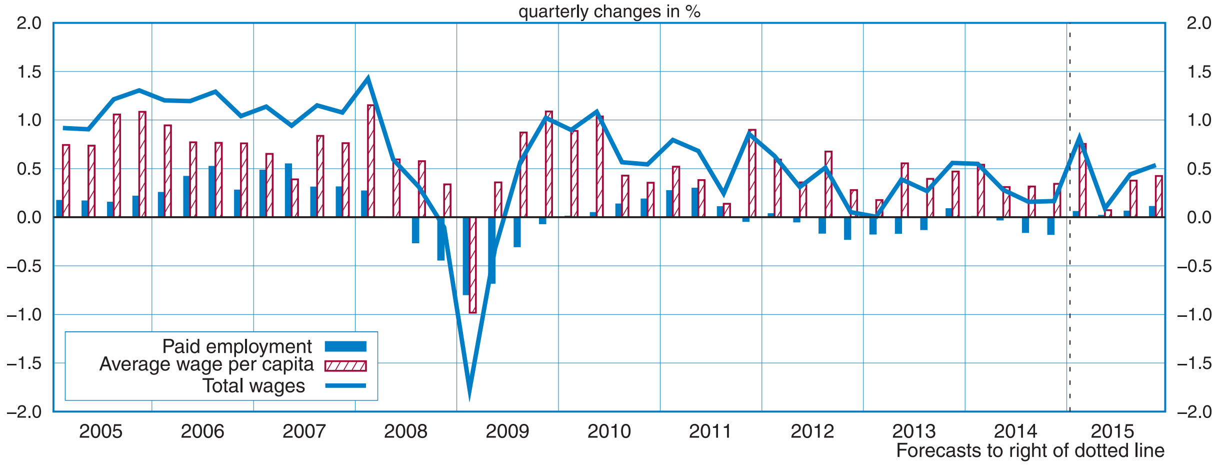
Property income should also bounce back in 2015 (+0.9% after -2.2%), mainly driven by dividends. Finally, the gross operating surplus of pure households[1] is likely to pick up (+1.9% after +0.6% in 2014), with the drop in mortgage rates.

Social benefits expected to pick up once again

In 2015, social benefits in cash received by households are likely to increase at a slightly faster pace than in 2014 (+2.6% after +2.3%). Social Security benefits should see similar growth (+2.4% after +2.3%, *Table 3*), given that there was no increase in supplementary pensions paid by the AGIRC and the ARRCO on 1st April and assuming that there will be no increase in the general pension scheme and the aligned schemes on 1st October 2015. Family benefits are likely to drop overall in 2015, since there was no increase on 1st April and measures to reduce public spending are likely to produce an effect, in particular the drop in family allowances for well-off families from 1st July 2015. Social assistance benefits are likely to remain very buoyant in 2015 (+4.1% after +3.7%), especially the earned income supplement (RSA). Indeed, the RSA was increased on 1st January (+0.9%), and should be increased once again on 1st September (+2.0%) as part of the initiative to combat poverty and promote social inclusion.

(1) In the national accounts, the gross operating surplus of pure households takes account, among other things, of housing services: the added value is the difference between the rent (actually paid by tenants or imputed for home owners) and the intermediate consumption of the owners, notably banking margins on real-estate loans.

Breakdown of the total gross wages received by households in the competitive non-agricultural sector



Source: INSEE

Taxes and social contributions should slow

Across the whole of 2015, taxes and social contributions paid by households are likely to slow (+1.2% after +2.0%), especially social contributions (+0.8% after +3.0%).

In the framework of the Responsibility and Solidarity Pact, the self-employed have benefitted since the beginning of the year from an exemption from social security contributions (representing about 1 billion Euros); this has more than offset the measure that now obliges French residents working in Switzerland to contribute to the French health insurance fund (about 160 million Euros). In addition, in 2015, taxes on income and wealth should increase at the same pace as in 2014 (+1.4%), due to the rise in income in the previous year and despite the abolition of the first income tax bracket. The other current taxes are also likely to rise at the same pace as in 2014: the acceleration in the local residence tax will probably be offset by the slowdown in the wealth tax.

The quarterly profile of taxes and social contributions is once again likely to be uneven: income taxes fell back at the start of 2015, probably in reaction to their strong momentum at the end of 2014, and they are likely to fall back once again in Q3, as a result of the measure to abolish the first tax bracket, to which is added the drop in contributions by the self-employed in Q1.

The biggest rise in purchasing power since 2007

On average over the year, the nominal gross disposable income of households is likely to gain ground more rapidly in 2015 (+2.0%) than in 2014 (+1.1%) because of the slowdown in taxes and social contributions and the rebound in property income. At the same time, inflation is set to remain virtually unchanged (+0.1% in 2015 after 0.0%), with the result that the purchasing power of gross disposable income is also set to accelerate: it is expected to increase by 1.9% in 2015 (after +1.1%), which would be the biggest increase since 2007. When adjusted to individual level in order to take demographic changes into account, purchasing power per consumption unit should increase by 1.4%, after +0.7% in 2014 (*Box*).■

Table 1

Household gross disposable income

change as %

	2014				2015				2014	2015
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Gross disposable income (100%)	**0.9**	**0.3**	**0.5**	**0.0**	**1.3**	**0.2**	**0.5**	**0.3**	**1.1**	**2.0**
including :										
Earned income (70%)	0.5	0.3	0.2	0.2	0.6	0.2	0.4	0.4	1.4	1.4
Gross wages and salaries(62%)	*0.5*	*0.4*	*0.3*	*0.3*	*0.7*	*0.1*	*0.4*	*0.5*	*1.6*	*1.5*
GOS of sole proprietors[1] (9%)	*0.3*	*-0.5*	*0.0*	*-0.1*	*0.2*	*0.3*	*0.1*	*0.2*	*-0.3*	*0.3*
Social benefits in cash (34%)	0.5	0.4	0.9	0.9	0.7	0.5	0.6	0.4	2.3	2.6
GOS of "pure" households (13%)	0.2	0.1	0.2	0.5	0.5	0.6	0.6	0.6	0.6	1.9
Property income (8%)	-1.7	0.2	-0.5	0.4	0.4	0.1	0.5	0.8	-2.2	0.9
Social contributions and taxes (-25%)	-2.0	0.2	0.0	2.4	-1.7	0.8	0.3	1.2	2.0	1.2
Contributions of households (-11%)	*0.8*	*0.7*	*0.5*	*0.4*	*-0.4*	*0.2*	*0.4*	*0.5*	*3.0*	*0.8*
Income and wealth tax (including CSG and CRDS) (-14%)	*-3.9*	*-0.2*	*-0.3*	*3.8*	*-2.5*	*1.2*	*0.2*	*1.7*	*1.4*	*1.4*
Income before taxes	0.3	0.2	0.4	0.5	0.7	0.3	0.4	0.5	1.1	1.9
Household consumer prices (quarterly national accounts)	**0.2**	**-0.1**	**-0.2**	**-0.1**	**-0.1**	**0.3**	**0.1**	**0.1**	**0.0**	**0.1**
Purchasing power of gross disposable income	**0.8**	**0.4**	**0.6**	**0.0**	**1.4**	**-0.2**	**0.3**	**0.1**	**1.1**	**1.9**
Household purchasing power by consumption	**0.6**	**0.3**	**0.5**	**-0.1**	**1.3**	**-0.3**	**0.2**	**0.0**	**0.7**	**1.4**

Forecast

How to read it: The figures in parentheses give the structure of the year 2014.

(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

change as a %

	2014				2015				2014	2015
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Non-financial enterprises (67%)	0.5	0.3	0.2	0.2	0.8	0.1	0.4	0.5	1.5	1.5
including: Average wage per capita	0.5	0.3	0.3	0.3	0.7	0.0	0.3	0.4	1.6	1.5
Financial corporations (4%)	0.0	0.3	-0.1	0.1	1.2	0.2	0.6	0.7	0.1	1.9
General government (22%)	0.5	0.4	0.5	0.4	0.4	0.2	0.3	0.3	1.7	1.4
Households excluding sole proprietors (2%)	-0.4	0.7	0.6	-0.3	-1.4	0.0	0.0	0.0	0.3	-1.2
Total gross wages received by households (100%)	**0.5**	**0.4**	**0.3**	**0.3**	**0.7**	**0.1**	**0.4**	**0.5**	**1.6**	**1.5**
including: Non-agricultural market sectors	*0.5*	*0.3*	*0.1*	*0.1*	*0.8*	*0.0*	*0.3*	*0.4*	*1.4*	*1.4*

Forecast

How to read it: The figures in parentheses give the structure of the year 2014.

Source: INSEE

Table 3

Social transfers received and paid by households

change as a %

	2014				2015				2014	2015
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Social cash benefits received by households (100%)	**0.5**	**0.4**	**0.9**	**0.9**	**0.7**	**0.5**	**0.6**	**0.4**	**2.3**	**2.6**
Social Security benefits in cash (72%)	0.5	0.2	0.9	0.9	0.6	0.4	0.4	0.3	2.3	2.4
Other social insurance benefits (20%)	0.4	0.6	0.8	0.8	0.8	0.4	0.5	0.5	2.0	2.7
Social assistance benefits in cash (8%)	0.7	1.1	1.3	0.9	0.5	1.1	1.6	1.1	3.7	4.1
Total social contribution burden	**0.8**	**0.5**	**0.5**	**0.6**	**-0.3**	**0.2**	**0.4**	**0.5**	**2.5**	**1.0**
Actual social contributions paid by households (100%)	1.0	0.4	0.4	0.6	-0.5	0.2	0.4	0.5	2.6	0.8
including: Employers contributions[1] (63%)	*1.0*	*0.4*	*0.4*	*0.6*	*-0.5*	*0.2*	*0.4*	*0.5*	*2.4*	*0.7*
Contributions of households (37%)	*0.8*	*0.7*	*0.5*	*0.4*	*-0.4*	*0.2*	*0.4*	*0.5*	*3.0*	*0.8*

Forecast

How to read it: The figures in parentheses give the structure of the year 2014.

(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 2014, growth in the number of consumption units was +0.4% (as a comparison, growth in the population was +0.4% and growth in the number of households +0.7%).

Therefore, on the assumption that these trends will continue, purchasing power per consumption unit in 2015 should rise by 1.4% (after +0.7% in 2014). Per inhabitant, the rise should be 1.4% and per household it should be 1.2%. ■

Household consumption and investment

In Q1 2015, household consumption picked up sharply (+0.8% after +0.1% in Q4 2014). Energy expenditure in particular bounced back vigorously (+3.9% after -1.7%), as temperatures returned to seasonal norms after a particularly mild Q4 2014. Automobile purchases also picked up significantly (+2.2% after -0.8 percent), while food consumption slowed slightly (+0.1% after +0.3%).

In Q2 2015, household consumption is expected to slow down (+0.2% after +0.8%), mainly due to energy expenditure, declining after a sharp rebound, and expenditure on engineered goods. Consumption should then pick up slightly in H2 (+0.3% in Q3 then +0.4% in Q4), stimulated by growth in purchasing power. Over 2015 as a whole, consumption is likely to pick up significantly: +1.6% after +0.6% in 2014, which would be the highest annual rise since 2010.

In Q1 2015, the household savings ratio is expected to have increased by 0.5 points to 15.6%, given the strong growth in purchasing power and despite the rebound in consumption. When this surplus purchasing power is smoothed over the rest of the year, the savings ratio is expected to drop a little, reaching 15.1% in Q4, the same level as one year earlier. As an annual average, it should increase by 0.3 points (15.4% after 15.1% in 2014).

In Q1 2015, expenditure on energy bounced back strongly

In Q1 2015, household consumption picked up sharply (+0.8% after +0.1%, *Table* and *Graph 1*), particularly that of goods (+1.4% after +0.1%). This acceleration is essentially the result of the strong rebound in energy expenditure (+3.9% after -1.7%). In particular, household expenditure on energy, water and waste - mainly gas and electricity for heating - picked up strongly (+8.4% after -3.7%), as temperatures were close to seasonal norms after a relatively mild autumn. In addition to energy, purchases of engineered goods (automobiles in particular) also grew strongly in Q1 2015 (+1.4% after +0.5%). On the other hand, food consumption slowed slightly (+0.1% after +0.3%).

Finally, household consumption of services, notably leisure, accommodation and catering services, accelerated moderately in Q1 (+0.3% after +0.1%).

Consumption expected to slow in Q2 2015

Household consumption is expected to slow in Q2 2015 (+0.2% after +0.8%, *Graph 2*), mainly in a backlash effect: as temperatures in April and May were closer to their seasonal norms, energy expenditure is likely to drop slightly (-1.6%) after

Household consumption and investment expenditure

	Quarterly changes in %												Annual changes in %		
	2013				2014				2015				2013	2014	2015
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Total household consumption expenditures (B+S)	**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**
Tourism balance	-0.5	-6.9	-5.2	-9.2	-14.2	-16.9	-16.9	-12.8	-0.7	-0.5	-0.5	-0.5	-3.6	-40.6	-24.0
Services (S)	**0.0**	**0.5**	**0.2**	**0.2**	**0.1**	**0.1**	**0.2**	**0.1**	**0.3**	**0.3**	**0.4**	**0.5**	**1.0**	**0.7**	**1.1**
Goods (G)	**0.5**	**0.0**	**-0.4**	**0.8**	**-1.2**	**0.6**	**0.2**	**0.1**	**1.4**	**0.0**	**0.3**	**0.4**	**-0.2**	**-0.2**	**1.9**
including:															
Food (AZ-C1)	**1.5**	**-1.0**	**0.3**	**1.1**	**-1.1**	**0.7**	**-0.2**	**0.3**	**0.1**	**0.4**	**0.1**	**0.1**	**0.4**	**0.2**	**0.9**
Agriculture goods (AZ)	3.2	-2.5	0.8	3.5	-0.4	1.9	-1.9	-1.3	-0.8	0.4	0.4	0.4	1.9	2.0	-1.6
Agri-food products (C1)	1.1	-0.7	0.2	0.7	-1.2	0.5	0.1	0.7	0.3	0.4	0.1	0.1	0.1	-0.2	1.3
Energy (DE-C2)	**2.4**	**1.1**	**-4.4**	**-0.6**	**-4.7**	**1.9**	**1.0**	**-1.7**	**3.9**	**-1.6**	**-0.4**	**-0.1**	**0.5**	**-5.7**	**2.1**
Energy, water, waste (DE)	5.4	0.1	-5.6	-1.2	-7.0	2.6	1.7	-3.7	8.4	-3.0	0.1	0.1	1.9	-8.8	4.6
Coke and refined petroleum(C2)	-0.5	2.2	-3.1	0.0	-2.2	1.1	0.3	0.4	-0.9	0.0	-0.9	-0.3	-0.9	-2.1	-0.7
Engineered goods (C3 à C5)	**-1.2**	**0.3**	**0.8**	**1.1**	**0.3**	**-0.1**	**0.3**	**0.5**	**1.4**	**0.4**	**0.6**	**0.8**	**-1.0**	**1.9**	2.7
Manufactured goods (C1 à C5)	**-0.2**	**0.2**	**0.1**	**0.8**	**-0.5**	**0.3**	**0.2**	**0.6**	**0.7**	**0.3**	**0.3**	**0.4**	**-0.6**	**0.6**	1.8
Investment expenditure	**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

Forecast
Source: INSEE

the sharp rebound in Q1 (+3.9%). Likewise, initial figures for expenditure on goods in April indicate that purchases of engineered goods are likely to slow over the quarter (+0.4% after +1.4%), in particular those of housing equipment and textiles-clothing. However, expenditure on food products, which was weak in Q1, should pick up a little (+0.4% after +0.1%). Consumption of services is expected to increase in Q2 at the same rate as in Q1: +0.3%.

In H2 2015, household consumption is expected to pick up gradually, buoyed by purchasing power gains (+0.3% in Q3, then +0.4% in Q4). All in all, household consumption expenditure should accelerate to a yearly average of +1.6%, the strongest growth since 2010.

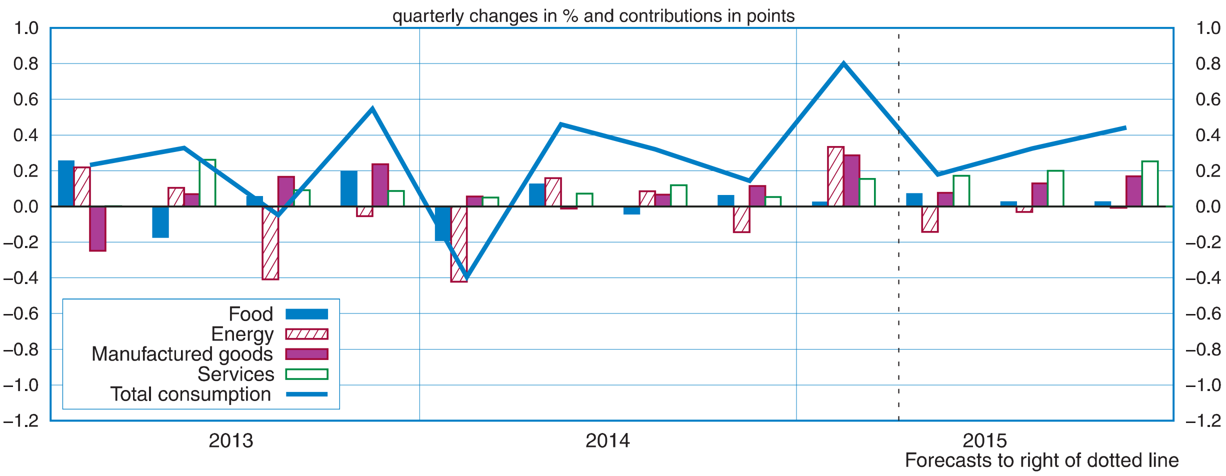
At the end of 2015 the savings ratio is expected to be at the same level as at end 2014

In Q1 2015, purchasing power is expected to have rebounded even more than consumption: the savings ratio is therefore also expected to have risen, by 0.5 points to 15.6%. Over the rest of the year, purchasing power is likely to be affected by jolts in the profile of taxes and social contributions: households are expected to smooth these jolts in their consumption and gradually reduce their savings. In Q4, their savings ratio should settle at 15.1%, the same level as one year earlier; on average over the year, it should rise by 0.3 points (15.4% after 15.1% in 2014).

Household investment expected to continue its decline in 2015

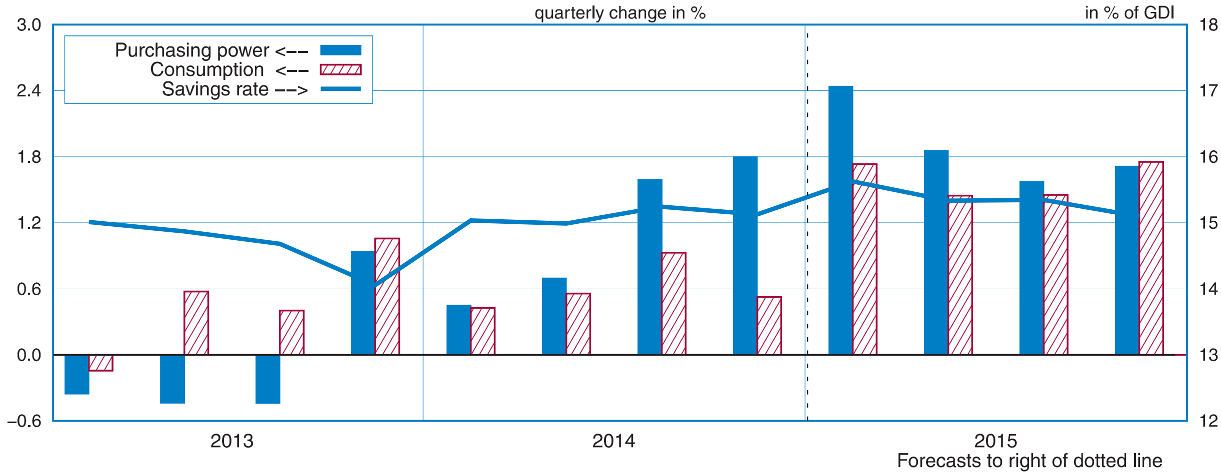
In Q1 2015, the decline in household investment on housing gathered pace (-1.4% after -1.1%, *Graph 3*). This was the seventh consecutive quarter of decline. After a similar drop in Q2 (-1.2%), taking into account the profile of housing starts up to April, expenditure on housing is expected to fall back more moderately in H2 (-1.0% in Q3 and -0.6% in Q4), thanks to an upturn in sales by property developers since the beginning of the year. On average over the year, household investment is expected to decline less sharply, albeit barely, in 2015 (-4.7%) than in 2014 (-5.3%).■

1 - Contributions of the various items to quarterly household consumption



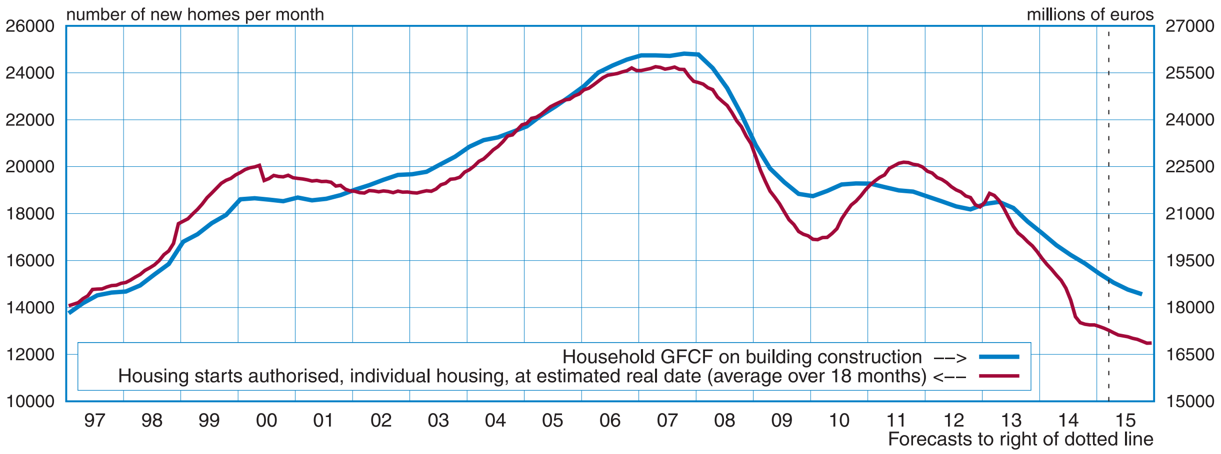
Source: INSEE

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



Source: INSEE

3 - Household investment on construction and housing starts



Sources: INSEE, SOeS

Enterprises' earnings

In Q2 2014, the margin rate of non-financial corporations picked up slightly (+0.2 points per quarter) to reach 29.7% at the end of 2014, mainly due to the favourable effect of the fall in oil prices. However, as an average over 2014, the margin rate decreased by 0.3 points, despite the introduction of the tax credit for encouraging competitiveness and jobs (CICE), as real wages increased more than productivity gains. At 29.5%, it reached its lowest level since 1985.

In Q1 2015, the margin rate increased sharply (+1.3 point), to 31.0%, due to the ramp-up of the CICE, the implementation of the Responsibility and Solidarity Pact and further improvement in the terms of trade and despite the fact that real wages were buoyant at that time. In Q2 2015, the margin rate is likely to increase slightly due to a slowdown in wages after a marked rise in Q1. Over 2015, the average margin rate for NFCs should reach 31.2%, its highest level since 2010; but still be lower than the pre-crisis average (32.7% for the period 1988-2007).

In 2014, the margin rate reached its lowest level since 1985

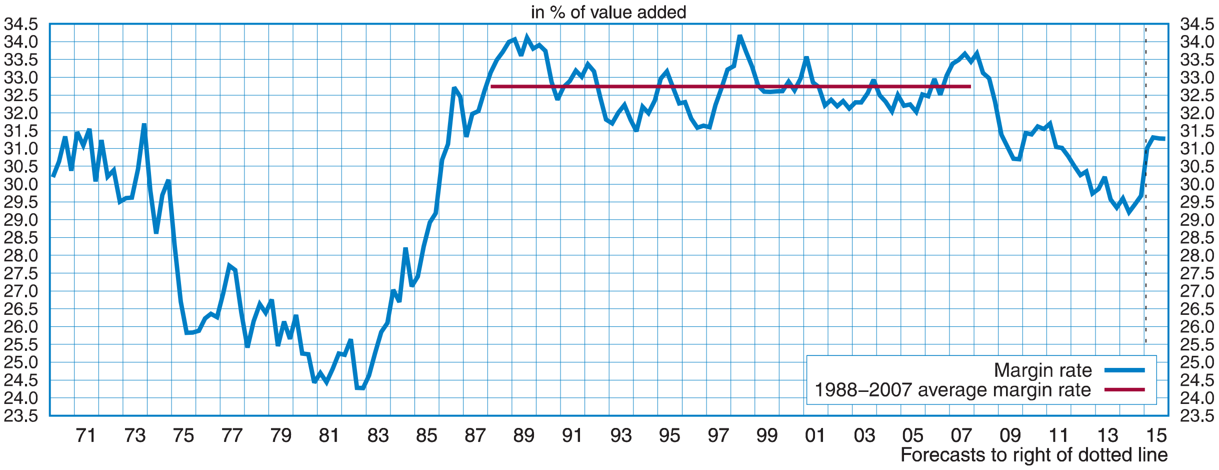
After having fallen almost continuously since the end of 2010 (-2.3 points up to mid-2014), the margin rate of non-financial corporations (NFC) picked up slightly in H2 2014, moving up by 0.4 points (*Graph 1*). The drop in oil prices contributed +0.9 points of this, by reducing the prices of inputs of French companies. However, as an average over 2014, the margin rate decreased by 0.3 points, despite the introduction of the CICE, which contributed +0.7 points to this variation: the increase in real wages was greater (contribution of -1.1 points) than the productivity gains, which saw a sharp slowdown (contribution of +0.1 points). At 29.5% in 2014, the margin rate had dropped to its lowest level since 1985.

The margin rate picking up strongly at the beginning of 2015

In Q1 2015, the margin rate stood at 31.0%, up by 1.3 points. The increase in the rate of the CICE, from 4% to 6%, had a positive effect on employment subsidies paid to companies and is thought to have contributed to raising the margin rate of NFCs by 0.7 points. In addition, the drop in oil prices continued to improve the terms of trade, contributing +0.5 points. Finally, the further reductions in employers' social contributions under the terms of the Responsibility and Solidarity Pact are thought to have raised the margin rate by 0.3 points. At the same time, the increase in per capita real wages (contribution of -0.6 points) should outstrip the rise in productivity (contribution of +0.4 points) though to a lesser extent than in 2014.

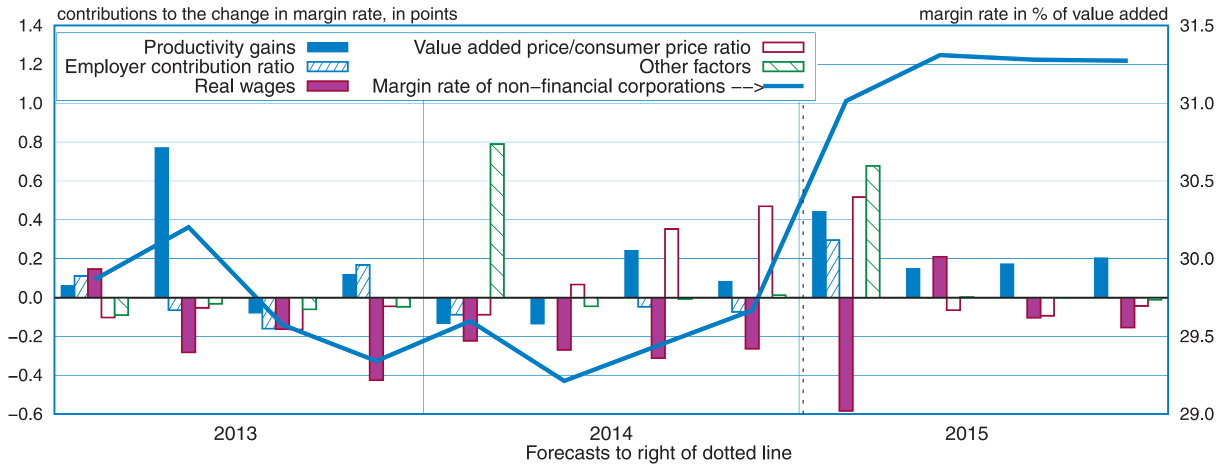
In Q2, the margin rate is set to rise once again (+0.3 points, to 31.3%). The slowdown in wages, as a reaction to Q1, is likely to contribute positively. In H2, the increase in productivity and the rise in real wages will probably offset each other almost completely leaving the margin rate virtually unchanged. As an average over the year, it should reach 31.2%, its highest level since 2010. It should nevertheless remain lower than its pre-crisis average (32.7% over the period 1988-2007).■

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



Source: INSEE

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



Source: INSEE

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

in % and in points

	2013				2014				2015				2013	2014	2015
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**			
Margin rate (in level)[1]	29.9	30.2	29.6	29.3	29.6	29.2	29.4	29.7	31.0	31.3	31.2	31.2	29.7	29.5	31.2
Variation in margin rate	0.1	0.3	-0.6	-0.2	0.3	-0.4	0.2	0.2	1.3	0.3	0.0	0.0	-0.5	-0.3	1.7
Contributions to the variation margin rate															
Productivity gains	0.1	0.8	-0.1	0.1	-0.1	-0.1	0.2	0.1	0.4	0.1	0.2	0.2	0.7	0.1	0.9
Real wage per capita	0.1	-0.3	-0.2	-0.4	-0.2	-0.3	-0.3	-0.3	-0.6	0.2	-0.1	-0.2	-0.4	-1.1	-0.9
Employer contribution ratio	0.1	-0.1	-0.2	0.2	-0.1	0.0	0.0	-0.1	0.3	0.0	0.0	0.0	-0.2	-0.1	0.2
Ratio of the value-added price to the consumer price	-0.1	-0.1	-0.2	0.0	-0.1	0.1	0.4	0.5	0.5	-0.1	-0.1	0.0	-0.3	0.1	1.0
Other factors	-0.1	0.0	-0.1	0.0	0.8	0.0	0.0	0.0	0.7	0.0	0.0	0.0	-0.3	0.7	0.7

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.

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

* The CICE reduces companies' corporation tax, but in the national accounts it is treated as a subsidy to companies as recommended in the European system of accounts (ESA 2010).
Source:INSEE

Corporate investment and inventory

Corporate investment remained almost unchanged in Q1 2015 (+0.2% after -0.1%). Expenditure on manufactured goods bounced back significantly (+1.0% after -0.3%) and investment in services picked up slightly (+0.5% after +0.2%). However, the decline in construction expenditure gathered pace (-1.2% after -0.4%).

Investment is set to increase only moderately once again in Q2 (+0.3%), then accelerate in H2 (+0.6% in Q3 and +0.8% in Q4). Product by product, this growth is likely to cause investment in construction to stabilise and at the same time lead to a gradual acceleration in other types of investment. On average over the year, investment should increase by 1.0% in 2015 after +2.0%; in the course of the year, however, investment should pick up sharply, from +0.2% over the year to the end of 2014 to +1.9% one year later.

In Q1 2015, stockpiling contributed positively to GDP growth, with +0.5 points of GDP, after a negative contribution in the previous quarter (-0.3 points). Transport equipment inventory, especially in aeronautics, is the primary component (around +0.4 GDP points). In Q2 2015 the contribution of inventory to activity is likely to produce a negative backlash (-0.2 points), then become neutral by the end of 2015. All in all, over the year, stockpiling should contribute +0.3 points to GDP growth.

In Q1 2015, corporate investment remained virtually stable

Investment by non-financial enterprises (NFE) remained almost unchanged in Q1 2015 (+0.2% after -0.1% the previous quarter, *Table 1*). Product by product, the drop in construction expenditure (-1.2% after -0.4%) has been offset by the substantial increase in expenditure on manufactured goods (+1.0% after -0.3%) and the more moderate rise in investment in services (+0.5% after +0.2%).

The increased investment in manufactured goods is due to the strong acceleration in purchases of transport equipment (+4.8% after +1.2%) while expenditure on capital goods fell once again (-1.0% after -0.9%). Regarding investment in services, expenditure on information-communication picked up (+1.5% after +0.1%) whereas spending on services to businesses fell back (-0.6% after +0.2%). All in all, the NFE investment rate dropped slightly (-0.3 points), reaching 21.1% in Q1 2015 (*Graph 1*).

Investment likely to pick up gradually over the coming quarters

In Q2 2015, the business tendency surveys gave pointers that were favourable overall about NFE investment. In the April 2015 survey on investment in industry, more industrialists predicted a rise than a fall in their investment between H1 and H2 2015.

Table 1

Investment by non-financial enterprises (NFE)

	Quarterly changes												Annual changes		
	2013				2014				2015				2013	2014	2015
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Manufactured products (43%)	-0.3	0.0	1.8	2.4	-0.6	0.0	0.6	-0.3	1.0	0.8	1.2	1.4	0.6	2.3	2.6
Construction (26%))	0.7	1.6	1.5	1.8	0.8	0.0	-0.5	-0.4	-1.2	-0.6	-0.2	0.0	1.3	3.0	-2.3
Other (31%)	-1.0	1.1	-0.4	0.6	0.0	0.5	0.3	0.2	0.5	0.6	0.7	0.8	0.7	1.1	1.9
All non-financial enterprises (100%)	**-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**

Forecast

Source: INSEE

They expect to see a 7% increase in their investment expenditure in value for the year as a whole (compared with +3% in the January survey); the investment revision indicator in the manufacturing industry remains firmly positive (*Graph 2*). In addition, since April the balance of opinion on previous investment and the prospects for investment by business leaders in the service sector have moved back above their long-term average.

Financing terms should also continue to sustain investment. The sharp rise expected in the corporate margin rate should enable companies to self-financing their purchases more; in addition, real interest rates, which fell in 2014, should remain very low in 2015 against a backdrop of the accommodating monetary policy maintained by the ECB. However, despite a slight upturn in April compared with January, the production capacity utilisation rate remains low (81.8% in industry compared with 84.6% on average over the long term) which is likely to restrict any increase in investment.

All in all, investment by NFEs is set to increase at a moderate pace in Q2 (+0.3%), then more sharply (+0.6% in Q3 and +0.8% in Q4). As an average over the year, NFE investment should increase by 1.0% in 2015, after +2.0% on average in 2014. In the course of the year, however, investment is likely to increase from +0.2% at the end of 2014 to +1.9% one year later. The NFE investment rate should remain virtually unchanged, between 21.1% in Q1 2015 and 21.2% in Q4 2015, a level that is still higher than the long-term average (19.6% between 1980 and 2014).

Expenditure on manufactured goods should continue to rise

In reaction to the substantial increase in Q1 2015 (+1.0%), NFE investment in manufactured goods is likely to slow slightly in Q2 (+0.8%). The increase should be maintained by the upturn in investment in capital goods: according to the May 2015 business tendency survey, the balance of opinion among wholesalers in this sector on past sales and order intentions is clearly showing an upturn. In addition, vehicle registrations for April suggest that investment in automobiles is likely to remain buoyant in Q2 2015. In H2, investment is set to accelerate once again (+1.2% in Q3 and +1.4% in Q4): in addition to the usual accelerator effect associated with the upturn in activity and demand prospects, at the end of the year there are also likely to be effects attributable to the additional depreciation measure introduced for certain capital goods (*Box*).

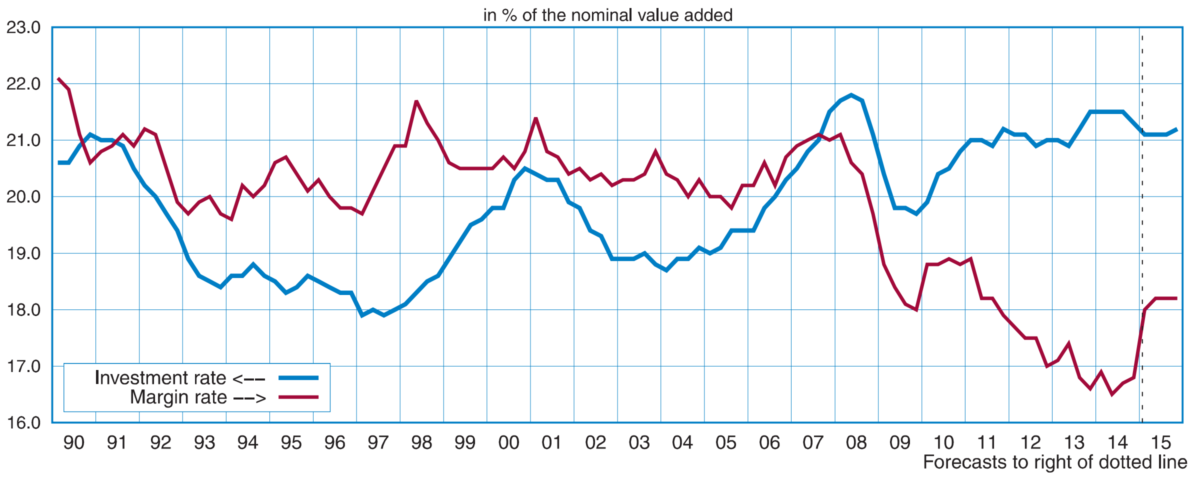
Investment in construction likely to continue its decline in Q2, before stabilising in H2

In Q2 2015, construction expenditure looks set to continue its decline (-0.6%), before stabilising by the end of the year (-0.2% in Q3 and 0.0% in Q4), partly because of expenditure on major maintenance of non-residential buildings. Indeed, although order books remain low in the building industry, the balance of opinion on activity in building maintenance, excluding housing, from the survey on the building trades sector has picked up significantly since the beginning of the year. In addition, demand for civil engineering is likely to stabilise: even though it remains at a very low level, the balance of opinion on activity expected by civil engineering entrepreneurs has picked up slightly since January.

Investment in services likely to accelerate slightly

Investment in services, essentially specialised scientific and technical activities (including research and development) and IT services, should pick up gradually to achieve a similar pace to its trend of recent years: +0.6% in Q2 2015, then +0.7% in Q3 and +0.8% in Q4.

1 - NFE investment rate and margin rate*



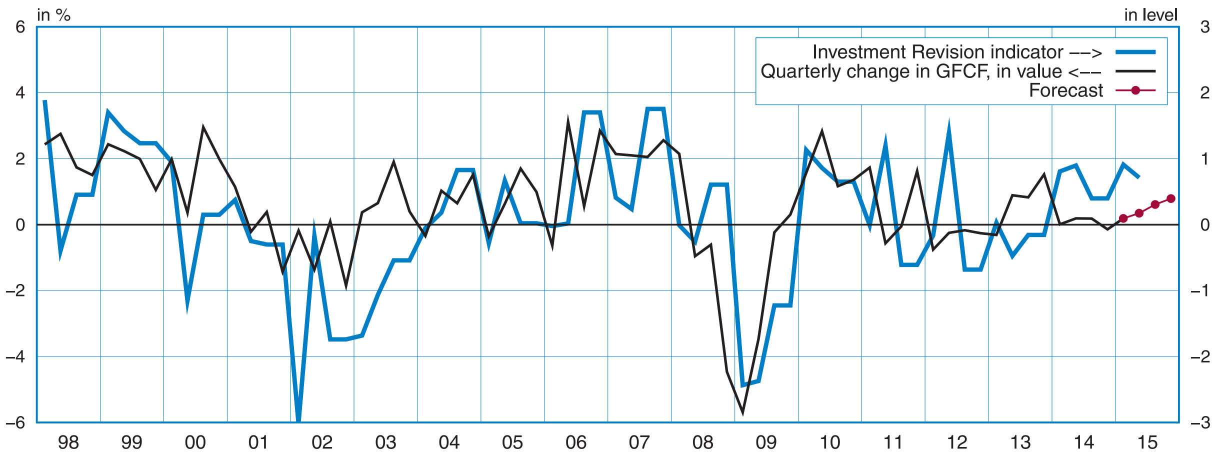
** Non-financial enterprises =non-financial corporations and unincorporated enterprises*
Source: INSEE

Change in inventories made a strong contribution to growth in Q1 2015

Change in inventories rebounded in Q1 2015, with a strongly positive contribution to GDP growth (+0.5 points), after a negative contribution in Q4 2014 (-0.3 points; *Table 2*). This contribution derives mainly from that made by transport equipment (+0.4 points), especially in aeronautics; this is the counterparty to the exceptionally dynamic imports in Q1.

Mainly as a backlash to this one-off effect, the contribution of inventory to growth is likely to be negative in Q2 2015 (-0.2 points). In addition, in the monthly business tendency survey for May 2015, the level of inventory was once again considered to be below normal, suggesting that leaving aside the effects specific to transport equipment, stockpiling should be favourable overall to activity growth. In H2 2015, stockpiling is expected to make a neutral contribution to growth once again. All in all, as an annual average, it is likely to contribute +0.3 points to GDP growth, against +0.2 points in 2014.■

2 - Investment revision indicator in manufacturing industry



Source: INSEE, quarterly survey on investments in industry, quarterly accounts

Table 2

Contribution of inventory changes to growth

	Quarterly changes												Annual changes		
	2013				2014				2015				2013	2014	2015
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Agricultural and agrifood products	-0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	-0.1
Manufactured products	0.1	0.1	0.3	-0.3	0.1	-0.1	0.4	-0.3	0.4	-0.1	0.0	0.0	0.3	0.1	0.3
including:															
Agrifood products	*-0.1*	*0.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*-0.1*	*0.0*						
Coke and petroleum products	*0.2*	*0.0*	*-0.1*	*-0.1*	*0.1*	*0.0*	*0.1*	*-0.1*	*0.2*						
Machinery and equipment goods	*0.1*	*-0.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*	*-0.1*						
Transport equipment	*-0.2*	*0.2*	*0.2*	*0.0*	*-0.3*	*0.1*	*0.5*	*-0.6*	*0.4*						
Others industrial goods	*0.1*	*-0.1*	*0.1*	*-0.2*	*0.2*	*-0.1*	*-0.2*	*0.3*	*-0.1*						
Energy, water and waste	-0.1	0.0	0.2	-0.1	0.0	0.0	0.0	0.0	0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL [1]	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

Forecast

(1) Changes in inventories include acquisitions net of sales of valuables.

Source: INSEE

The one-off additional depreciation allowance should boost corporate investment in capital goods

A one-off additional depreciation allowance for industrial equipment was announced by the Government in April 2015, with a view to speeding along businesses' investment decisions. This mechanism was adopted as part of the Growth and Activity Bill of 16 April 2015. It is a temporary tax incentive in favour of productive investment: companies are entitled to deduct from their corporate income tax base an additional depreciation allowance that amounts to 40% of the cost price of investments made between 15 April 2015 and 14 April 2016. This exceptional deduction must be spread linearly over the useful life of the equipment, even if a declining balance method of depreciation is used. The total impact of this measure on the public finances has been estimated at 2.5 billion Euros for the period 2015-2017.

Eligible investments should account for expenditure of around 25 billion Euros per year

This additional depreciation allowance is primarily focused on purchases of machines used by firms for industrial, manufacturing, processing and handling operations, for a total investment of 21.2 billion Euros in 2013 (figures taken from the national accounts). The scope of this measure also covers heat, energy and steam-generating systems, water purification and air-filtering units, and equipment used for R&D purposes. The total value of eligible investments should thus be around 25 billion Euros, equivalent to 15% of total corporate investment excluding construction.

This one-off additional depreciation allowance corresponds to a reduction in the cost of investment of between 7% and 20%

If a firm paying corporation tax at the standard rate (33.33%) buys machinery for a value of €100,000, the firm's tax bill can be reduced by €46,667 over the lifespan of these capital goods, compared with a reduction of €33,333 without additional depreciation allowance. Across the whole life span of the capital goods, ignoring discounting, the additional depreciation allowance thus amounts to a 20% cut in the cost of investment for companies paying corporation tax at the standard rate; the reduction is equivalent to 7% for companies taxed exclusively at the reduced rate (15%). If we consider the average rate of corporation tax to be 25%, the reduction in the cost of investment is 13%.

The additional depreciation allowance should boost corporate investment in manufactured goods by 0.6 points in H2 2015

In the different macroeconomic models generated for productive investment, a decrease in the usage cost of capital leads to a rise in investment. In the equation given in the 'Real estate prices appear to have no direct effect on investment in productive assets' analysis in this *Conjoncture in France* report, the elasticity of investment to usage costs is -0.6 in the long term; an average price decrease of 13% for 15% would thus ultimately lead to a 1.2% increase in investment.

In the short term, the usual effects of a lasting reduction in prices are more limited: the same equation predicts a boost in corporate investment (excluding construction) of 0.1 points in H2 2015, with an increase of +0.2 points in the manufacturing sector alone.

Given the temporary nature of this measure, by bringing forward certain investments which would otherwise have been made at a later date, this tax incentive could have a more significant impact: the overall effect of the additional depreciation allowance predicted for the purposes of this Conjoncture in France report is an increase in the investment of non-financial corporations in manufactured goods worth +0.2 points in Q3 and +0.4 points in Q4 2015.

Nevertheless, this impact could be mitigated by several factors. Firstly, the full effect of the reduction in the cost of capital would only be felt by firms at the end of the period of depreciation. But, for the capital goods covered by this measure, the period of depreciation is generally more than five years. Moreover, this one-off additional depreciation allowance can only be calculated linearly: therefore, firms cannot apply a declining balance method of depreciation and thus cannot take advantage of this measure more rapidly. To benefit from this scheme firms must be profitable, and hence eligible for corporation tax. Finally, the effects of this measure may only become fully apparent in 2016, given the delays involved in ordering capital goods of this nature, which often demand a reorganisation of production.

Conversely, the limited duration of this measure represents an upside risk for the estimation of its short-term impact: companies may increase their capital goods purchases by more than anticipated in order to benefit from this measure. By way of an example, in anticipation of an increase in the price of new trucks - the result of the introduction of a new technical standard on 1st January 2014 ('Euro 6') - corporate investment in transport equipment increased sharply in Q4 2013 (+7.0%). Although it may well be easier to bring forward the purchase of a vehicle than the acquisition of new machinery, this example nonetheless illustrates the potential for firms to react to measures which have a definite effect on the prices of their acquisitions. ■