French developments

Review of the previous forecast

In Q3 2013 activity slipped back slightly, by 0.1%, whereas we had forecast a stabilisation in our Conjoncture in France of October 2013. The contribution of final domestic demand excluding inventory to GDP growth is nil in Q3, against +0.1 points forecast.

The contribution of foreign trade fell back sharply (-0.7 points against -0.1 points forecast). This development should be set against the positive contribution of inventory in Q3 (+0.5 points against 0.0 points forecast). Transport equipment added 0.3 GDP points to this contribution by inventory, largely offsetting the negative contribution of the balance of trade in these goods (-0.4 points).

Despite weaker activity than forecast, job losses were lower than expected in Q3 (-16,000 jobs against -24,000 forecast). For Q4, our forecast remains virtually unchanged: GDP should grow by 0.4% and the fall in market-sector employment is likely to ease further.

Activity slipped back in Q3, whereas we had forecast stability

After strong growth in Q2 (+0.5%), activity fell back slightly in Q3 (-0.1%) whereas in the October Conjoncture in France we had expected it to remain stable (*see Graph 1*). Firstly, manufacturing output was surprisingly weak in August after a sharp drop in July. It thus fell back sharply over Q3 as a whole (-1.0%) whereas we had forecast a more moderate drop (-0.4%). While all the main

manufacturing branches grew in Q2, they all declined in Q3 apart from the "transport equipment" branch which remained stable after taking off in Q2. The coking/refining branch fell back sharply (-8.8%).

The fall in manufacturing output made a contribution *via* a drop in corporate demand to the decline in activity in market services (-0.1% against +0.2 % forecast). As expected, energy production declined in Q3 2013 (-1.5% against -0.8% forecast) due to a return to normal after two quarters in which temperatures had been lower than the seasonal norms. In construction, activity slipped back further than forecast (-0.5% against -0.1% expected). Lastly, production in the non-market branch slowed as forecast, in reaction to the previous quarter in which healthcare had been dynamic.

Slump in manufacturing exports

In Q3 2013 final domestic demand excluding inventory was slightly weaker than expected: its contribution to growth in activity was nil, against +0.1 points forecast in October. This differential can mainly be ascribed to investment, down 0.6% against 0.2% forecast. While investment in manufactured goods rebounded (+0.9% after falling for 6 quarters), corporate investment in services fell back sharply (-2.8%) whereas we had expected it to rise. Additionally, investment in construction declined slightly more than forecast.

As forecast in October, imports were dynamic in Q3 (+1.0% against +0.7% forecast). On the other hand, exports fell back by 1.5%, whereas we

1- Fan chart for *Conjoncture in France* for December 2013 and growth achieved

Source: INSEE
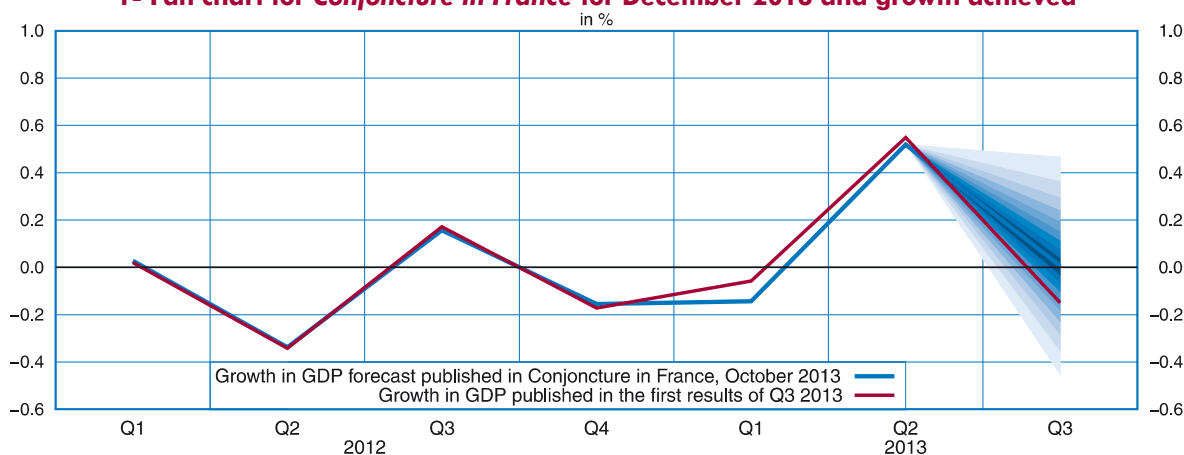
French developments

expected an increase of 0.6%. Exports of transport equipment in particular declined sharply (-5.7%) due to the slump in exports of aeronautical equipment. All in all, the contribution of foreign trade to growth was -0.7 points, against -0.1 points forecast. This contribution can be linked with that of inventory change, which contributed +0.5 points to growth in activity, against 0.0 forecast. Although activity was surprisingly weak, job losses in the non-agricultural market branches were lower than expected, with -16,000 jobs against -24,000 forecast in October.

Our growth forecast for Q4 2013 is unchanged

Our growth forecast for Q4 2013 is maintained at +0.4%. In November the business climate as measured by the business tendency surveys was more or less at the same level as in September. On the supply side, our output forecasts for manufacturing, energy and market services excluding trade are thus virtually unchanged. In construction, we have however revised our activity

forecast downwards (0.0% against +0.3% forecast), linked with the decline in housing starts in recent months. Growth in domestic demand excluding inventory is unchanged.

Foreign trade should make a positive contribution to growth in Q4 (+0.3 points) due to the strong recovery anticipated in exports (+2.3% against +0.9% forecast in October) in reaction to the one-off fall in Q3, most notably in the aeronautical industry. In the same way as in Q3 2013, inventory change should partly offset export trends, particularly in the transport equipment branch. The contribution of inventory change in Q4 should be -0.2 points, against +0.1 forecast in October. Non-agricultural market-sector employment should remain in line with our October scenario: 7,000 job losses in Q4, as expected.

Lastly, inflation at end 2013 should be lower than forecast in the October Conjoncture in France (+0.8% against +1.1% expected), with the differential concentrated in the prices of fuel and seasonal products. ∎

Output

Production of goods and services fell in Q3 2013 (-0.3%) after rebounding in Q2 (+0.9%). The drop in GDP was slightly less pronounced (-0.1% after +0.5%). Activity in manufacturing industry fell back (-1.0% after +0.5% and +2.0% in the first two quarters of 2013). Production in market-sector services stagnated (-0.1% after +0.7%) and activity in construction continued to slip back (-0.5% after -0.7% and -0.6% in Q1 and Q2 2013).

In November, the improvement in the business climate observed since the end of the summer 2013 marked a pause. Production should show an upturn in Q4 (+0.5%) but slow down thereafter (+0.2% then +0.3% in Q1 and Q2 2014), due to the moderate progression in demand.

Production should increase at a moderate rate through to mid-2014

In Q3 2013, production of goods and services contracted (-0.3% after +0.9% in Q2 2013). The fall in GDP was a little less pronounced (-0.1% after +0.5%). The business climate indicator in France, according to the business tendency surveys among business leaders, levelled out in October and November at 95 points (*see Graph 1*), after improving sharply from May to September with an 11 points increase. Production of goods and services should therefore show an upturn in Q4

(+0.5%, *see Graph 2*) and then slow down in H1 2014 (+0.2% then +0.3% in Q1 and Q2 2014), due to slow demand.

The production growth overhang for 2014 is set to be +0.9% after H1 (+0.7% for GDP), after a rise of 0.6% in 2013 (+0.2% for GDP).

Manufacturing production should rebound in Q4 2013

Manufacturing production fell back in Q3 2013 (-1.0%), after rebounding sharply in Q2 (+2.0%). All the main branches in manufacturing industry contributed to this fall, except for the transport equipment branch which was almost stable (+0.4% after +8.1%). The fall was particularly pronounced in coking and refining (-8.8%), after two very dynamic quarters. In the agrifood industries, capital goods and the other industrial branches, the fall was homogenous (-0.6%).

Industrialists surveyed in November 2013 (*see Graph 3*) report a marked improvement in their past activity, suggesting an upturn in manufacturing production in Q4 2013 (+0.8%). However, general and personal prospects for production deteriorated slightly again and industrialists' opinions of order book levels remain poor, indicating that this upturn should ease considerably (+0.2% in Q1 and Q2 2014).

1 - Composite indicators in France: all sectors, in industry, services and building
Last point: November 2013

in points
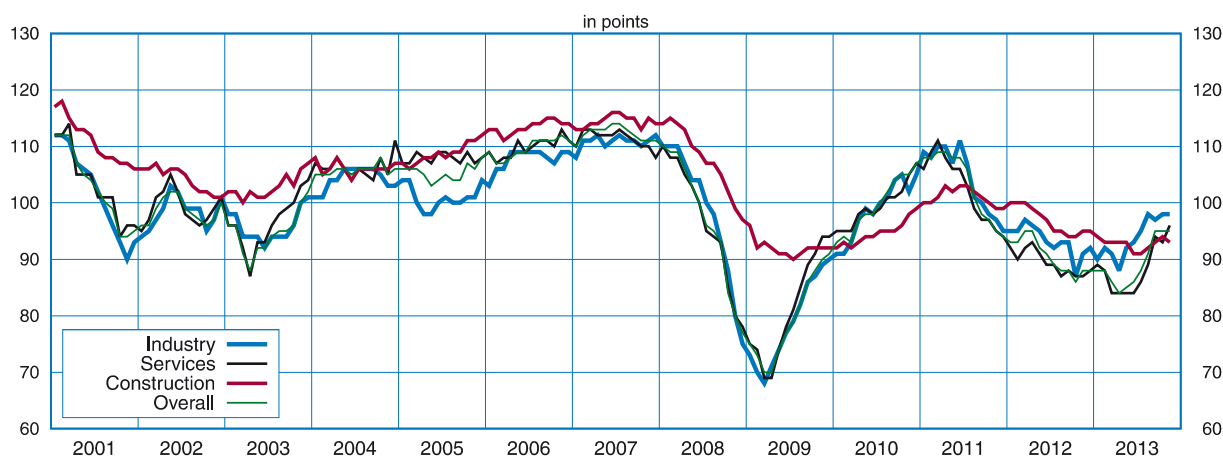
Source: INSEE

French developments

Manufacturing industry should progress by 0.5% in 2013 and the annual growth overhang for 2014 should stand at +1.0% at the end of H1.

In construction, activity should level out at the end of 2013 before falling back in early 2014

In Q3 2013, production in the construction sector continued to worsen (-0.5%, after -0.6% in Q2 2013), due to a downturn in activity in new building. Public works activity improved, however.

Production in the construction sector should be stable in Q4 2013 (0.0%). Starts rebounded at the beginning of the year and some building maintenance expenditure is likely to be brought forward before VAT increases on 1st January. Opinions on expected activity among entrepreneurs in the building sector have been improving slightly since September 2013, in particular in home maintenance (see Graph 4). The building permit trend has been declining since
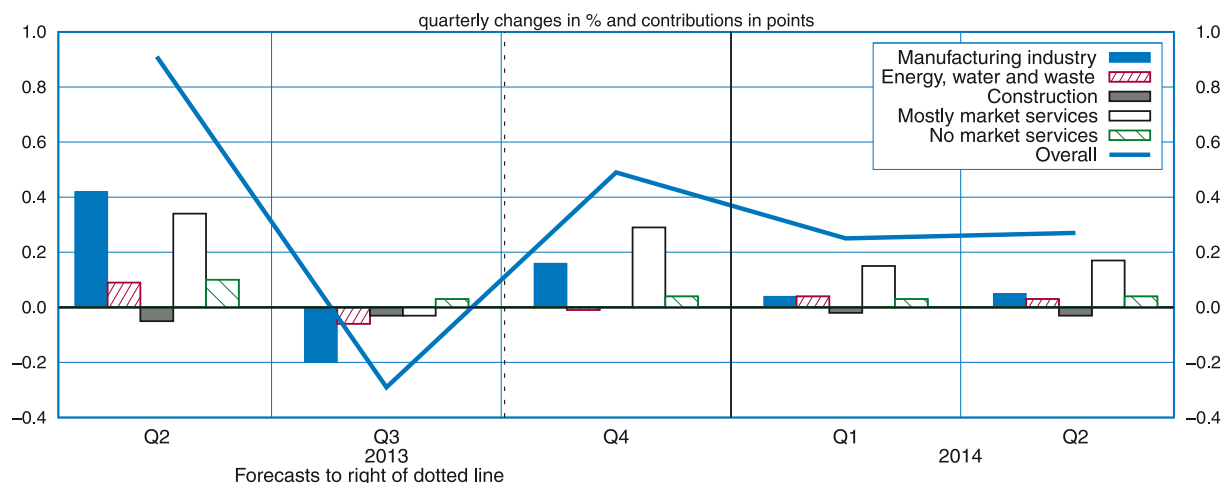
the beginning of the year and the number of building starts fell in Q3, suggesting a likely fall in production in H1 2014 (-0.3% then -0.5% in Q1 and Q2).

Over 2013 as a whole, construction-sector production should fall by 2.3%. In mid-2014, its growth overhang should be -1.0%.

Market services excluding trade: activity set to rebound in Q4 2013

Production of market services excluding trade dipped in Q3 (-0.1%), after rebounding in Q2 (+0.7%). This fall in activity particularly concerned services to business (-0.5% after +1.4%), hit by the fall in manufacturing activity, and information-communication (-0.4% after +0.7%) driven by the fall in investment in services. Activity slowed down in financial services (+0.4% after +0.9%) and in accommodation-catering (0.0% after +0.7%). Real-estate services progressed at a rate close to that in the previous quarter (+0.2% after +0.3%).

2 - Sector contributions to growth in total production

quarterly changes in % and contributions in points

Manufacturing industry
Energy, water and waste
Construction
Mostly market services
No market services
Overall

Forecasts to right of dotted line

Source: INSEE

3 - Opinion on production in manufacturing industry
Last point: November 2013

balances in %

Recent changes in output
Personal production expectations (advanced for 3 months)
General production expectations (advanced for 3 months)

Source: INSEE
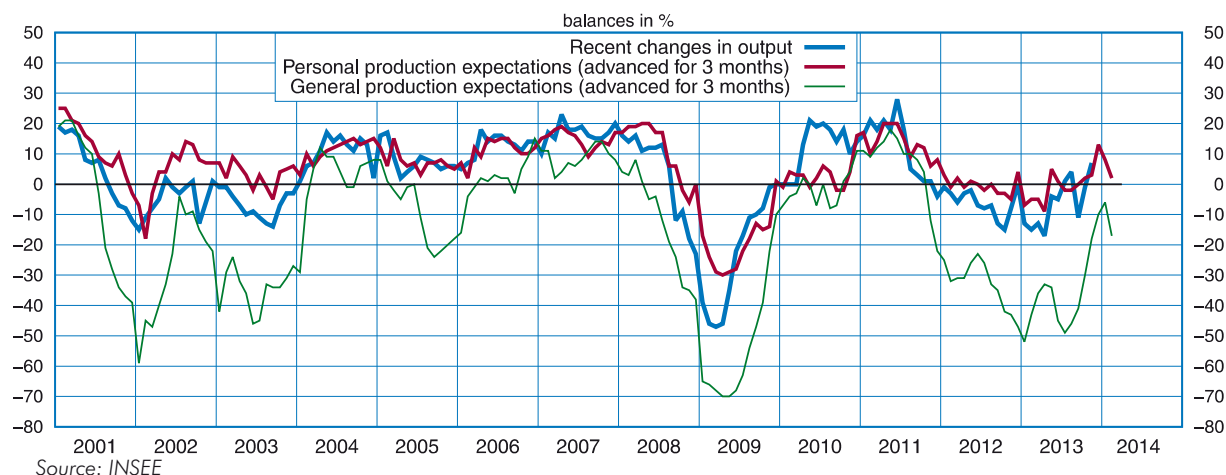
In Q4 2013, activity is set to show an upturn in market services excluding trade (+0.5% after -0.1%), driven by rises in investment in services (+1.0% after -2.9%) and in manufacturing production (+0.8% after -1.0%). Service-sector business chiefs surveyed in November thus report an improvement in the outlook. The compound business climate indicator gained three points in November, at 96 (up 13 points on May), although it remains below its long-term average (100).

Activity should continue to progress through H1 2014 (+0.3% in Q1 and +0.4% in Q2), although at a slower rate due to sluggish household consumption.

Over 2013 as a whole, production of market services excluding trade should grow by 1.0%, after a rise of 0.4% in 2012. At the end of Q2 2014, the growth overhang should be +1.1%.

Mainly non-market services: progression in activity should remain moderate

In mainly non-market services, production slowed down in Q3 2013 (+0.2%) as a backlash after the previous quarter (+0.7%) when demand for care was particularly dynamic. Growth should remain moderate in Q4 2013 and H1 2014 (+0.3% in Q4 2013 then +0.2% and +0.3% in Q1 and Q2 2014).

Production in this sector should increase by 1.5% in 2013, after a rise of 1.2% in 2012. At the end of Q2 2014, the growth overhang should be +0.9%.

After a very dynamic Q4, commercial activity should increase slightly in early 2014.

Commercial activity was stable in Q3 2013 (0.0% after +0.4% in Q2).
It should show a clear upturn in Q4 2013 (+0.8%), driven by household consumption.

In wholesale trade, the compound business climate indicator continued to rise in November. Balances of opinion on past sales and exports were on a more positive trend than in September. Balances on overall order intentions remained at levels close to their average, while that on orders for delivery abroad showed a clear upturn.

In retail trade and automobile trade and repairs, business chiefs declare themselves to be less and less pessimistic as regards their past activity or their forecasts: the general trend in balances of opinion has been rising since H1 2013 and in November they were close to their long-term averages. The improvement in the short-term climate is visible not only in the retail trade, but also in the automobile trade, due to the expected growth in household consumption of manufactured goods in Q4 (+0.5%).

Commercial activity is set to slow down sharply in H1 2014 (+0.1% in Q1 2014 and +0.2% in Q2 2014), notably on account of sluggish consumption of manufactured goods.

All in all, the growth overhang in production in trade at the end of H1 2014 is set to stand at +1.0% after growth of +0.1% recorded in 2013.

Energy production set to be almost stable in Q4 2013

Energy production fell in Q3 2013 (-1.5%), due to a return to normal seasonal temperatures after a particularly cold H1. Energy production should fall in Q4 2013 (-0.3%), with the upturn in industrial activity being offset by more clement temperatures in October. If weather conditions are in line with seasonal norms, energy production should increase in H1 2014 (+1.0% then +0.7% in Q1 and Q2). In mid-2014, the growth overhang in energy production should stand at +1.1% after a rise of 1.8% recorded in 2013.■

4 - Prospects for activity in construction
Last point: November 2013
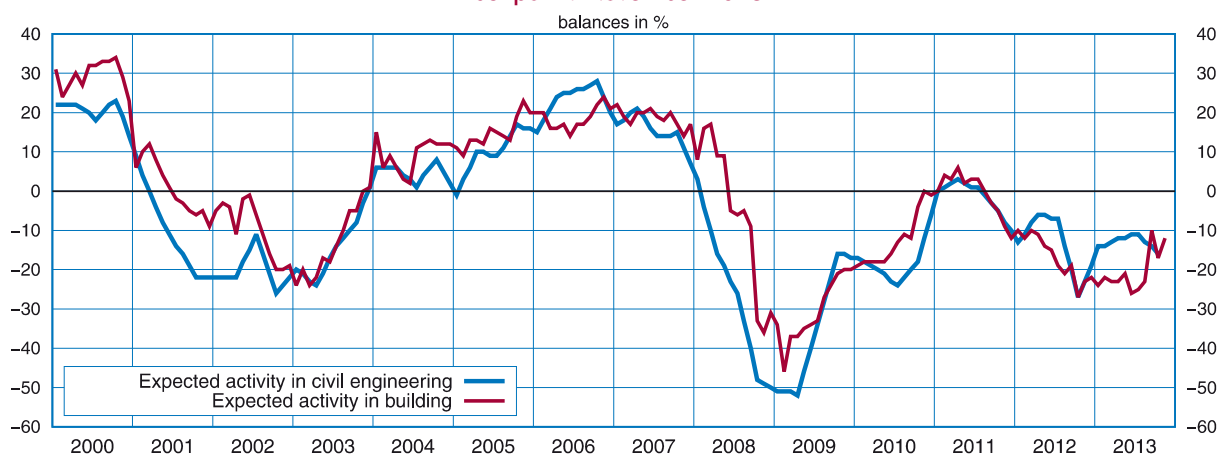
Source: INSEE

France's International Environment

In Q3 2013, activity remained dynamic in the advanced economies (+0.5% after +0.6%), a little more than expected in October's Conjoncture in France. In emerging economies, activity saw some impetus restored.

In the advanced economies, the outlook surveys which picked up clearly over the summer remain at a high level in November and activity here should remain dynamic through to early 2014 (+0.4%, +0.5% then +0.3%). The changing quarterly profile can probably be put down to the increase in VAT in Japan in April.

Divergences remain between the emerging economies: activity should progress again in China, driven by the rise in credit, and in the CEECs, buoyed by the European upturn. In the other emerging economies, meanwhile, central banks have tightened their monetary policies and activity should continue at a slowed rate. The growth in world trade should thus be buoyant (+1.5% per quarter), although slightly below its pre-crisis average.

## An exit announced from quantitative easing

The central banks of the advanced economies have reduced room for manoeuvre, as their base rates have been at their lowest since 2009. They have been making use of unconventional instruments for several years: in the United States, the Fed is buying $85 billion in securities each month and in Japan, the aim of the central bank is to double the money base in the space of two years. However, the Fed is expected to slow down the rate of its purchases, probably in H1 2014. This prospect has already triggered a rise in interest rates in the United States this summer and a sharp fall in the emerging currencies, in particular in those countries with large current account deficits. Faced with this slide, the central banks of these countries have tightened their monetary policies against a backdrop of inflationary tensions.

Fiscal consolidation should ease on both sides of the Atlantic

In the United States, fiscal policy was very restrictive in 2013: tax rises since January, sequesters since March and the shutdown of all Federal services for 16 days in October. However, subject to an agreement being found between Congress and the President at the start of the year, fiscal policy should be distinctly less restrictive in 2014. In the Eurozone, fiscal policy has been making a very negative contribution to activity since 2011, but new measures for 2014 are more limited in scale than in 2013. However, after buoying up activity strongly over the past year, fiscal policy should take a more restrictive turn in Japan: fiscal stimulus plans are likely to become less intense and the VAT rate is set to rise by 3 points in April 2014.

1 - Inflation set to continue falling in the advanced economies

year–on–year changes in %

Forecasts to right of dotted line
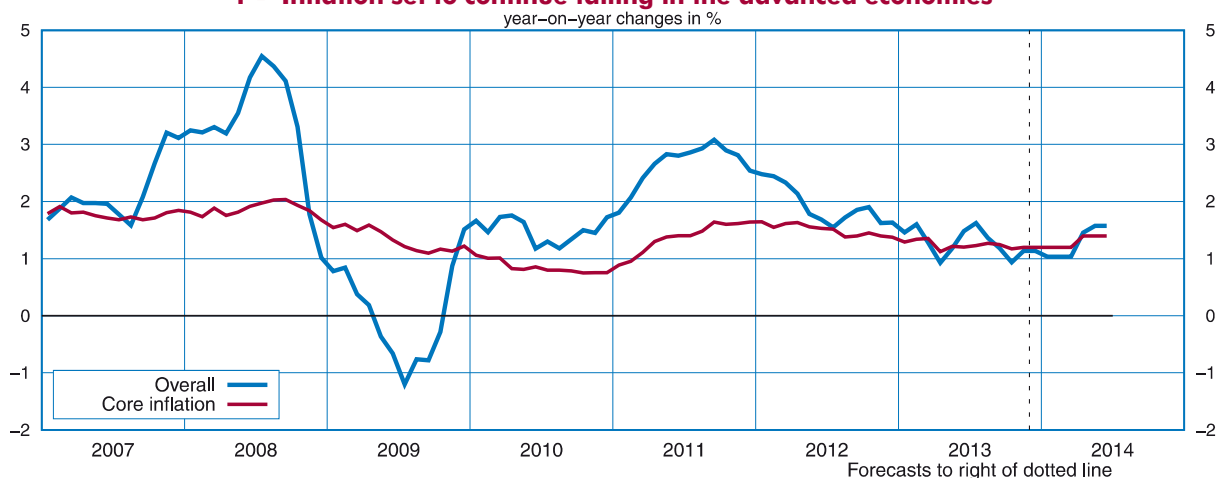
Source: National Statistical Institutes, INSEE calculations and forecasts

French developments

Inflation should remain low in the advanced economies

Since the end of 2011, inflation has eased thanks to the downturn in commodity prices. In Q3 2013, the rise in consumer prices in the advanced countries stood at +1.4% year on year. The stabilisation in the oil price at around $110 should contribute, in the light of the falls in H1 2013, to an upturn in year-on-year inflation, as should the rise in VAT in Japan in Q2. Inflation should thus stand at +1.6% year on year in Q2 2014 (*see Graph 1*).

The rise in industrial and energy commodities in 2010 worked through into core inflation in 2011 after a time-lag, but since the beginning of 2012, core inflation has been falling back as commodity prices have stopped increasing and the still-high level of unemployment weighs down on the bargaining power of employees. The core index stood at +1.2% in Q3 2013 and should remain at this level over the forecasting period, excluding the effect of the rise in VAT in Japan.

Differences between the emerging economies

The business climate deteriorated considerably from January through to July in the emerging economies (*see Graph 2*) and activity progressed modestly in H1 2013. Since August, the surveys have been improving slightly and activity accelerated in Q3 in the CEEC and China, although it remained at a slower rate in emerging Asia and Latin America. Through to mid-2014, these divergences should continue. The continuing rise in outstanding credit should boost the Chinese property sector and Chinese growth in the short term, against a backdrop of strong housing price rises. Eastern Europe and, to a lesser extent, Turkey, should benefit from the improvement in demand

from Europe. Conversely, in Brazil and throughout emerging Asia, tighter monetary policies coupled with sharp falls in currencies are likely to weigh heavily on debtors who have extensive debts in dollars, and growth there is likely to be modest.

The upturn confirmed in the advanced economies

In Q3 2013, activity remained sound in the advanced economies (+0.5%), as in the previous quarter. The global outlook improved clearly this summer and remains at a high level in November: in services as in industry, it has returned to its early-2011 levels (*see Graph 2*). Activity should remain dynamic through to the start of 2014, driven in particular by household consumption (+0.4% in Q4 then +0.5% in Q1 2014). Under the effect of the rise in VAT in Japan, it should slow down in Q2 2014 (+0.3%).

The Eurozone returns to growth

This overall situation does hide some differing situations in terms of outlook. In the Eurozone, easing fiscal consolidation, improved expectations and the need to renew production capacities, after the marked adjustment in investment, should allow moderate growth, despite a labour market that remains weak. In the UK, the upturn should remain particularly strong: investment in consumption should show a marked rise, thanks notably to the upturn in the property market. In the United States, household consumption and corporate investment should continue to buoy up activity, but the past rise in interest rates is likely to trigger a slowdown in the property market and public-sector consumption should contract in Q4 under the effect of the shutdown. The Japanese economy is likely to be boosted for six months as people bring purchases

2 - The economic climate remains generally well oriented in advanced economies
Last point : november 2013

PMI indices of manufacturing output – level in points
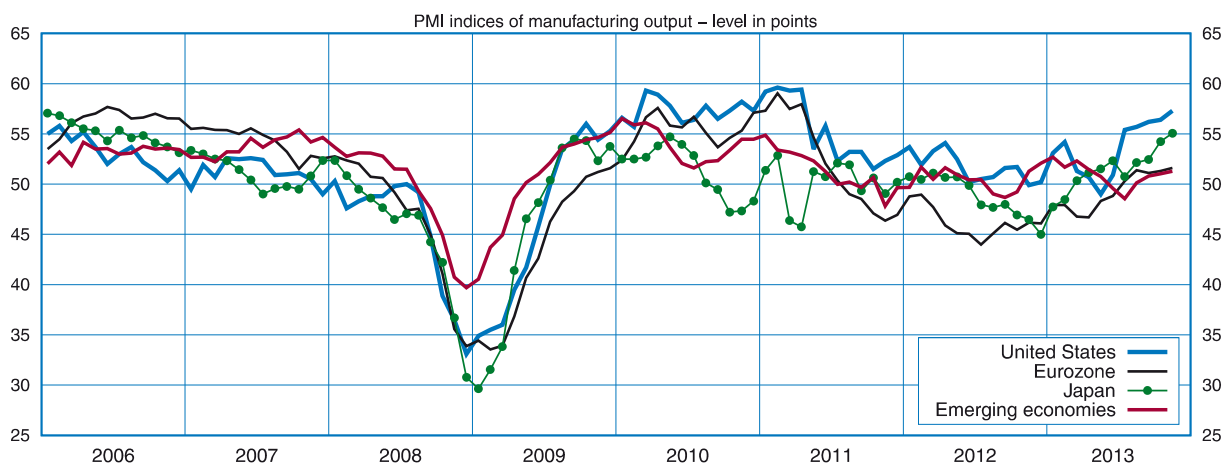
Sources: Markit, Institute for Supply Management

forward, before contracting in Q2 in the wake of the rise in VAT on 1st April 2014.

## Acceleration in world demand for French goods and services

In Q3 2013, world trade accelerated (+1.1%). Imports of goods in the emerging economies progressed by 1.6% and those in advanced economies by 0.9% (*see table*).

For the world economy as a whole, the new export orders component in the PMI surveys has risen significantly since its low point in July 2012 and

stood at 52.8 in November, its highest since early 2011 (*see Graph 3*). World trade should therefore accelerate over the forecasting period (+1.5% per quarter).

The acceleration in the imports of advanced countries, notably in Europe, allowed a clear upturn in world demand for French goods and services from Q2 2013. The latter should continue to progress at a rate close to that in world trade through to mid-2014 (+1.3%, then +1.3% and +1.4%). ∎

3 - World trade should accelerate by mid 2014
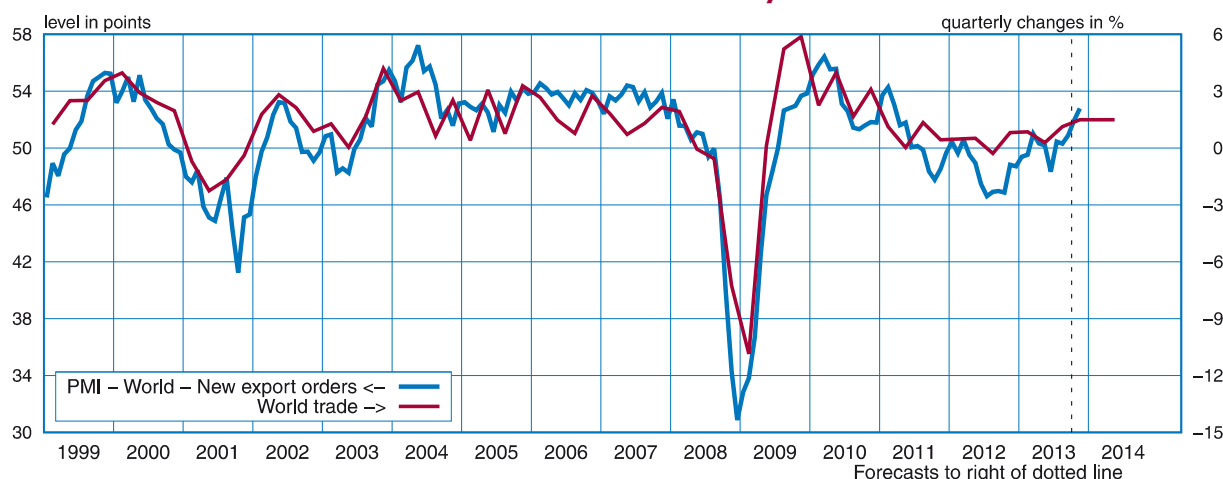
Source: Markit, Centraal PlanBureau, INSEE forecasts

International scenario summary

	Quarterly change in %										Annual change in %			
	2012				**2013**				**2014**		2011	2012	2013	2014
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2				
GDP of advanced economies	0.6	0.0	0.2	0.0	0.3	0.6	0.5	0.4	0.5	0.3	1.7	1.4	1.2	1.5
World trade	0.5	0.5	-0.3	0.8	0.9	0.3	1.1	1.5	1.5	1.5	6.2	1.9	2.6	4.4
Imports of advanced economies	0.0	0.0	-0.1	-1.4	-0.3	0.5	0.9	1.3	1.4	1.1	3.6	-0.3	-0.3	3.8
Imports of emerging economies	0.9	0.4	-0.2	4.2	1.6	-0.1	1.6	1.7	1.6	1.9	9.2	4.6	6.1	5.2

forecast

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

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

Foreign trade

Through to mid-2014, world demand for French products should be fairly dynamic (+1.3%, then +1.3% and +1.4%) after the slowdown of Q3 (+1.1%). However, the past appreciation of the euro (almost 10% in effective terms since summer 2012) is likely to take its toll on competitiveness, and although trend drops in market share have slowed since 2008, they should persist. After the expected return to normal of aeronautical exports in Q4, exports should grow moderately in H1 2014, by +0.7% per quarter.

Under the effect of the rebound in final demand, French imports should grow by +1.1% in Q4, then +0.7% per quarter in H1.

All in all, the contribution of foreign trade to growth should be positive in Q4 (+0.3 points), balanced by an equivalent destocking trend, then neutral over the forecasting period.

Exports set to rebound in Q4 2013

In Q3 2013 French exports of goods and services shrank (-1.5% after +1.9%, *see Table*). This decline is mainly ascribable to the slowdown in world demand for French products on the one hand (+1.1% after +1.6%, *see Graph 1*), and to the one-off slump in exports of aeronautical equipment on the other, counterbalanced by a trend to build up stocks equivalent to 1.1 points of exports.

Sales of transport equipment dropped sharply in Q4 (-5.7% after +4.2%). As exports of other products (coking and refining, capital goods and agrifood products) also contracted, exports of manufactured goods declined sharply in Q3 (-1.9% after +2.8%). Additionally, exports of services stagnated after rising for two quarters (+0.9% per quarter).

Conversely, exports of energy-water-waste picked up (+9.1% after +7.2%), and sales of agricultural products declined far less sharply than in the previous quarter (-1.5% after -8.3%).

In Q4 2013, world trade is likely to pick up somewhat (*see Graph 2*), as much thanks to the advanced economies, notably the Eurozone, as to the emerging economies. Due to the geographical distribution of French exports, it should be the advanced countries that do the most to sustain world demand for French products (*see Graph 1*).

Furthermore, total exports should progress far more swiftly (+2.3%) than world demand for French products due to the return to normal of aeronautical exports.

In H1 2014, exports likely to experience moderate growth

At the start of 2014, exports should grow by 0.7% per quarter, i.e. more slowly than the rise in foreign demand. The appreciation of the euro (almost 10% since mid-2012) is likely to penalise exports once again, and the trend drop in market share, which has nonetheless eased since 2008, should persist.

Foreign trade growth forecast
Changes in % to the chained prices of the previous year, contributions in points

	Quarterly changes						Annual changes		
	2013				**2014**		**2012**	**2013**	**2014 ovhg**
	T1	**T2**	**T3**	**T4**	**T1**	**T2**			
Exports									
All goods and services	-0.4	1.9	-1.5	2.3	0.7	0.7	2.5	0.6	2.7
Manufactured products (75%*)	-0.6	2.8	-1.9	3.1	0.9	0.9	3.0	0.7	3.6
Imports									
All goods and services	0.1	1.6	1.0	1.1	0.7	0.7	-0.9	1.2	2.9
Manufactured products (77% *)	0.0	1.6	1.6	1.5	0.8	0.8	0.3	1.0	3.7
Contribution of foreign trade to GDP	-0.1	0.0	-0.7	0.3	0.0	0.0	1.0	-0.2	-0.1

Forecast

Reading note: part of exports (resp. imports) of non-energy industrial goods in exports (resp. imports) in a whole in 2012.

Source: INSEE

French developments

Exports are thus likely to grow only moderately, in both manufactured goods (+0.9% per quarter) and services (+0.3% then +0.8%).

As an average over 2013, exports should grow by 0.6% after +2.5% in 2012. The growth overhang for 2014 should be +2.7% at the end of H1. France's market share should fall slightly in early 2014 after the ups and downs of H2 2013 (*see Graph 3*), in line with its downward trend, although this has slowed since the crisis (*see the report in Conjoncture* in France, June 2013, "How to explain the recent shift in balance-of-trade trends in Europe?").

Imports set to slow in H1 2014

In Q3 2013, imports of goods and services slowed slightly (+1.0% after +1.6%). Purchases of manufactured goods held firm (+1.6% in the last two quarters). They slowed for capital goods, agrifood products and "other industrial goods". However, the relatively good showing by imports stems from the acceleration in purchases of transport equipment and the recovery of coking/refining purchases. Raw energy purchases contracted slightly (-2.9% after +1.1%), while purchases of agricultural products picked up (+6.8% after +4.9%).

In Q4 2013 according to the business tendency surveys, imports should remain dynamic (+1.1%), due to the rebound in final demand.

Through to mid-2014, imports are likely to slow (+0.7% per quarter) in line with the profile of final demand (*see Graph 4).*

On average over 2013, imports are only likely to grow by 1.2% after -0.9% in 2012. The 2014 growth overhang for imports at the end of H1 should stand at +2.9%.

All in all, the contribution of foreign trade to growth should be positive in Q4 2013, counterbalanced by an equivalent destocking trend, but negative over 2013 as a whole (-0.2 points). It should be neutral in H1 2014.■

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

quarterly changes in % and contributions in points

Forecasts to right of dotted line
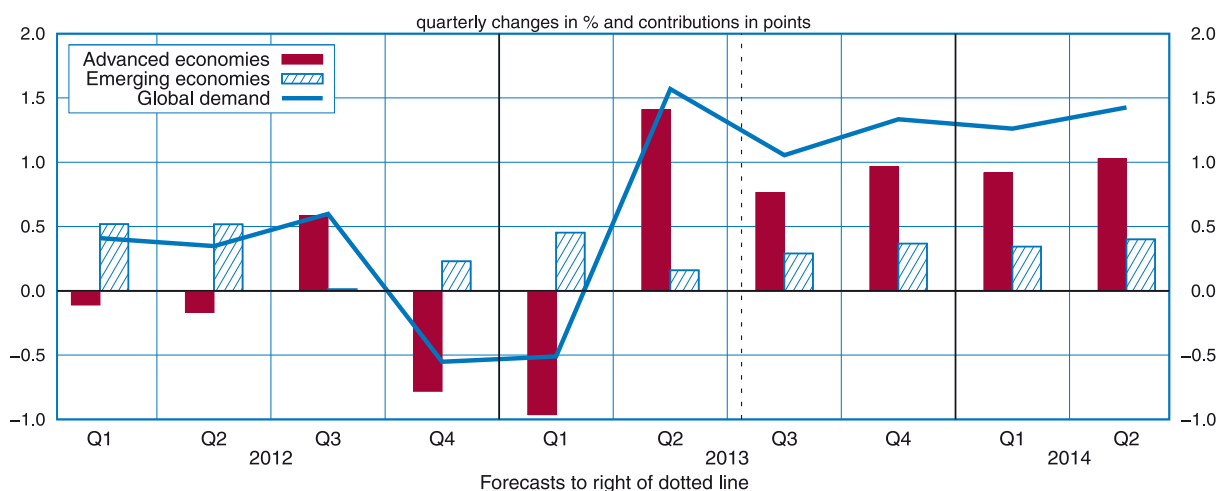
Sources: INSEE, Trésor, Centraal PlanBureau

2 - World demand for French products and world trade

quarterly changes in %

Forecasts to right of dotted line
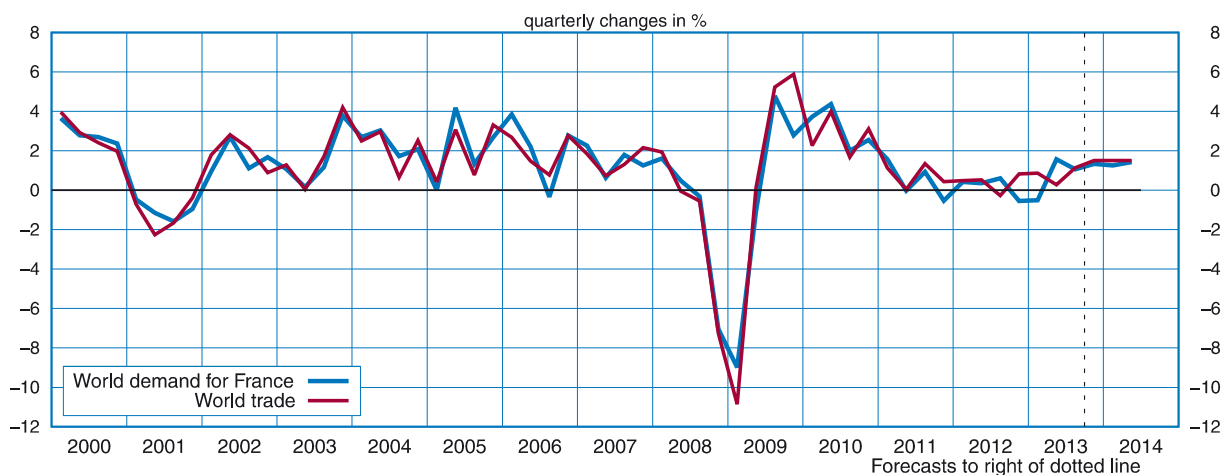
Sources: INSEE, Trésor, Centraal PlanBureau

3 - Market share of France

base 100 in 2000

Forecasts to right of dotted line
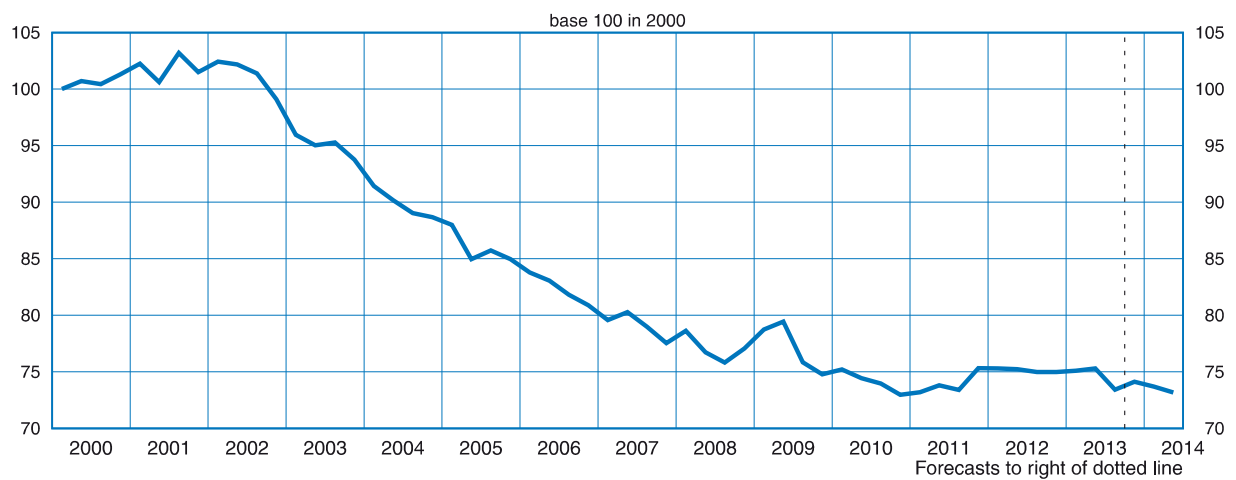
Sources: INSEE, Trésor

4 - Equation of imports (goods and services) and econometric contributions

quarterly changes in % and contributions in points

Internal demand
Exports
Trend
Residual
Observed
Simulated

Forecasts to right of dotted line
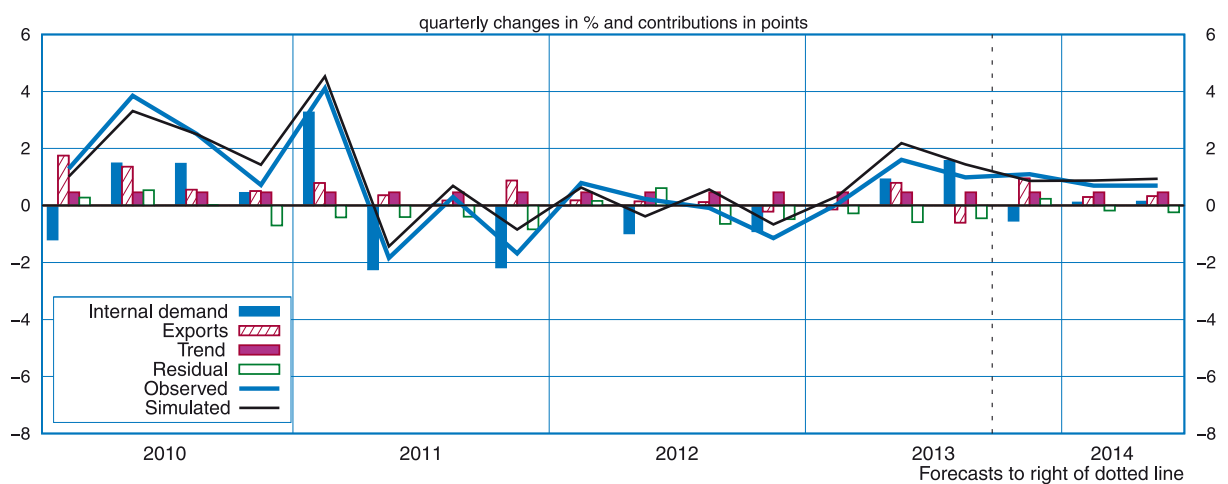
Source: INSEE

Employment

Employment in the market sectors continued to fall in Q3 2013 (-16,000 jobs), particularly in the industrial sector. Over the forecasting period, an upturn in activity and the effects of the CICE, Tax Credit for Encouraging Competitiveness and Jobs, should allow employment in the market sectors to stabilise (-4,000 jobs in Q1 2014).

For 2013 as a whole, the decrease in employment levels in the non-agricultural market sectors (-87,000 jobs) should prove to be substantially smaller than that seen in 2012 (-112,000). This decrease is likely to be concentrated largely on the industrial sector (-54,000 jobs) and in construction (-23,000 jobs).

In the non-market sectors, employment should continue to rise in H1 2014, particularly due to the increase in the number of subsidised jobs. After an increase of 20,000 jobs in 2012, employment in the non-market sectors should increase by 80,000 in 2013 and 33,000 in H1 2014.

All in all, 14,000 new jobs should be created across the whole economy in 2013 (after a decrease of 58,000 in 2012) and 36,000 in H1 2014.

Number of market sector employees likely to stabilise in this forecasting period

In 2012, employment in the market sectors declined sharply (by 112,000 jobs), after rising in 2011. The evolution of employment levels over the year followed a dramatic curve: total payroll headcount dropped slightly in H1 2012 (-12,000 people) then severely in H2 (-100,000). In 2013, these job losses seemed to slow down (-80,000 total over the first three quarters).

This conformed relatively closely to the indications provided by the usual determinants of employment (*see Graph 1*). The slowdown in activity since early 2011, accentuated in 2012, was thus gradually reflected in the employment figures. Conversely, the improvement seen in the employment figures since the start of 2013 can be attributed to an upturn in activity.

Between now and 2014 the continuation of this upturn in activity, coupled with the effects of the CICE (*see "Employment" Focus*), should allow for a virtual stabilisation of employment in the market sectors: 7,000 jobs should be lost in Q4 2013 and 4,000 in H1 2014 (*see Graph 2*).

1- Employment observed in the non-agricultural market sector, simulated and residual employment
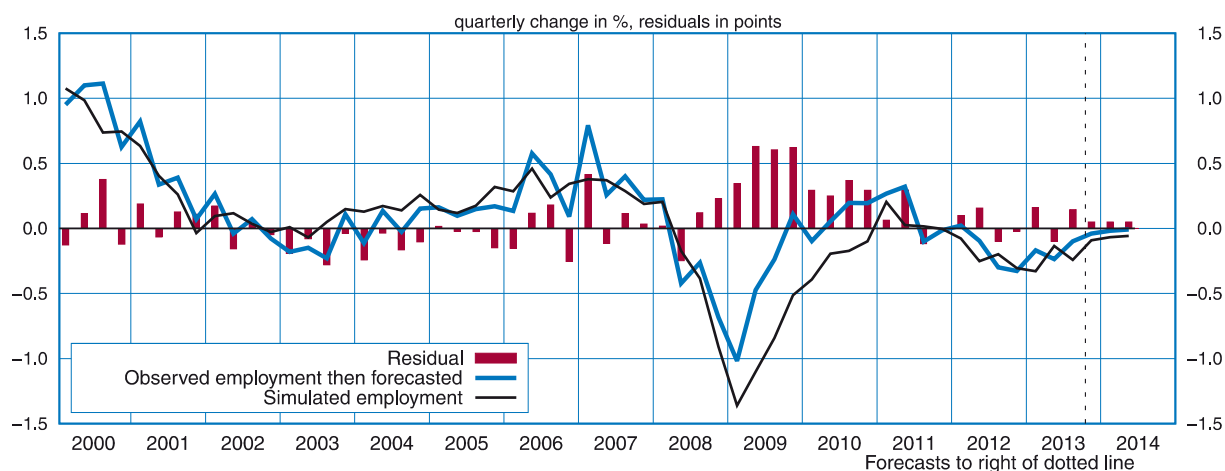
How to read it: The equation residual for employment is the spread between the observed employment growth rate and the simulated employment growth rate. A positive residual, such as that observed at the beginning of 2012, indicates that observed employment showed better growth than past behaviour would lead us to expect.

Source: INSEE

Table 1

Change in employment

	Job creations over the period (in thousands) seasonally adjusted								Change in employment over the period (in %) seasonally adjusted								*
	2013				2014		2013	2014 H1	2013				2014		2013	2014 H1	2012
	Q1	Q2	Q3	Q4	Q1	Q2			Q1	Q2	Q3	Q4	Q1	Q2			
Market sector employees (1)+(2)	-28	-33	-11	6	3	5	-66	8	-0.2	-0.2	-0.1	0.0	0.0	0.0	-0.4	0.0	17924
Mainly market sectors (1) (private establishments only)	-1	5	4	13	6	6	21	12	0.0	0.2	0.2	0.7	0.3	0.3	1.1	0.6	1956
Mainly non-agricultural non-market sectors (2)	-27	-38	-16	-7	-3	-1	-87	-4	-0.2	-0.2	-0.1	0.0	0.0	0.0	-0.5	0.0	15968
Industry	-12	-19	-15	-9	-13	-6	-54	-19	-0.4	-0.6	-0.5	-0.3	-0.4	-0.2	-1.7	-0.6	3242
including: Manufacturing industry	-12	-19	-14	-8	-12	-5	-53	-17	-0.4	-0.7	-0.5	-0.3	-0.4	-0.2	-1.8	-0.6	2871
Construction	-9	-4	-7	-4	-5	-3	-23	-8	-0.6	-0.3	-0.5	-0.3	-0.3	-0.3	-1.7	-0.6	1417
Tertiary market sector	-6	-15	6	6	15	8	-10	23	-0.1	-0.1	0.0	0.1	0.1	0.1	-0.1	0.2	11308
including: Trade	-6	-14	-8	1	2	3	-27	4	-0.2	-0.5	-0.3	0.0	0.1	0.1	-0.9	0.1	3018
Market services (including temporary work)	0	-1	14	5	14	5	18	19	0.0	0.0	0.2	0.1	0.2	0.1	0.2	0.2	8290

* level at the end of 2012 (in thousands)

	Job creations over the period (in thousands)								Change in employment over the period (in %)							
	2013				2014		2013	2014 H1	2013				2014		2013	2104 H1
	Q1	Q2	Q3	Q4	Q1	Q2			Q1	Q2	Q3	Q4	Q1	Q2		
Mainly non-agricultural market sectors	-27	-38	-16	-7	-3	-1	-87	-4	-0.2	-0.2	-0.1	0.0	0.0	0.0	-0.5	0.0
Mainly non-market service sectors (including private establishments)	-6	17	15	54	25	8	80	33	-0.1	0.2	0.2	0.7	0.3	0.1	1.1	0.4
Self-employed	5	5	5	5	4	4	20	8	0.2	0.2	0.2	0.2	0.2	0.1	0.8	0.3
TOTAL EMPLOYMENT	-27	-16	5	52	26	10	14	36	-0.1	-0.1	0.0	0.2	0.1	0.0	0.1	0.1

Forecast

(1) Sectors OQ (private workers)
(2) Sectors DE to MN and RU

How to read it: 8, 000 jobs should be created in the market sector during H1 2014. This corresponds to a decrease of 0.0% over the half-year. This sector should employ 17,924,000 workers at December 31st 2013

Source: INSEE

Table 2

Change in subsidised employment in the non-market sector

in thousands

	2012				2013				2014		2011	2012	2013	2014 H1
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2				
"Emplois d'Avenir"	0	0	0	1	8	13	19	38	11	10	0	1	79	22
CUI-CAE (replaces CAE+CAV on 01/01/10)	18	7	-23	-4	0	0	0	38	27	-8	-37	-2	37	18
Contract to Support Employment (CAE)	0	0	0	0	0	0	0	0	0	0	-8	0	0	0
Contract for the Future (CAV)	0	0	0	0	0	0	0	0	0	0	-5	0	0	0
Total	18	7	-23	-3	8	13	19	76	38	2	-50	-1	116	40

Forecast

Reading note: including renewal addenda

Scope: Metropolitan France

Sources: DARES, INSEE calculations

French developments

Temporary employment should increase slightly, along with tertiary sector employment excluding temporary work

In the employment statistics, temporary work is included in the figures for the tertiary sector, regardless of the sector in which the work is actually performed. For all sectors, the rate of temporary work has been on the up since Q1 2013 (*see Graph 3*). It should continue to rise over the forecasting period: temporary employment should thus add 8,000 jobs in H1 2014.

Employment in the market tertiary sector, excluding temporary work, was down in H1 2013 (- 27,000 jobs). It should grow slightly in H2 2013 (+4,000 jobs), thus benefiting from the moderate resurgence in economic activity in H1 2014 (+15,000 jobs).

All in all, employment in the tertiary sector, including temporary work, should grow slightly in H2 2013 (+11,000 jobs), then more substantially in H1 2014 (+23,000 jobs).

Employment in the industrial sector expected to continue its decline in 2013

Since mid-2012, job losses in the industrial sector have been gradually intensifying. These losses should continue over the current forecasting period, albeit at a slower rate. Industrial employment (excluding temporary work) should shed 9,000 jobs in Q4 2013 (the sector has been losing an average of 13,000 jobs per quarter since mid-2012) then 19,000 in H1 2014 (*see Graph 4*).

All in all, industrial employment (including the adjustment for temporary work in this sector) should decrease by 20,000 jobs in H2 2013, then 16,000 in H1 2014. This decrease should be broadly comparable to the general trend observed since the turn of the millennium, despite a short-term outlook which is bleaker now than it was in the middle of the previous decade. This would appear to indicate a certain resilience in manufacturing employment, observed since 2009.

2- Employment change in non-agricultural market sectors

Source: INSEE
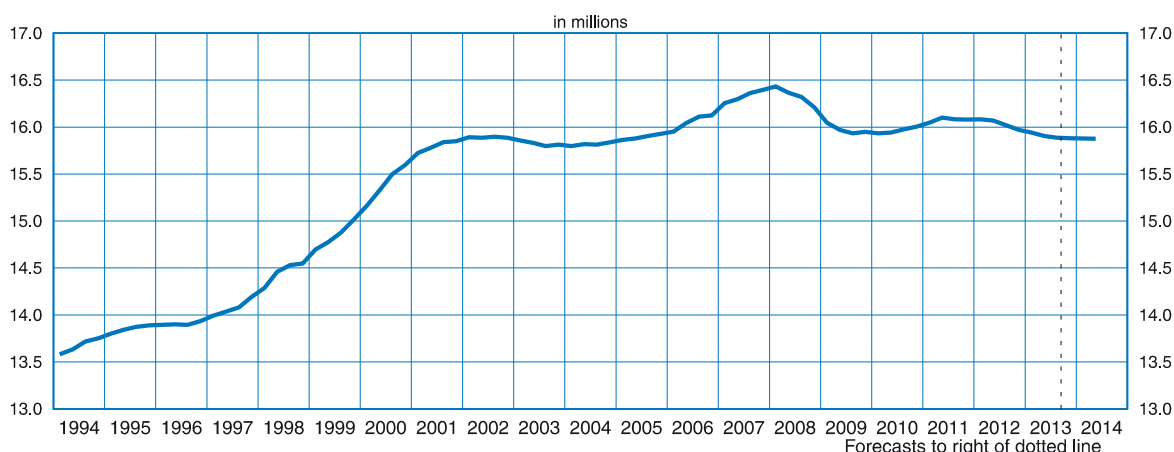
3 - Temporary work resort ratio by sectors

Source: INSEE
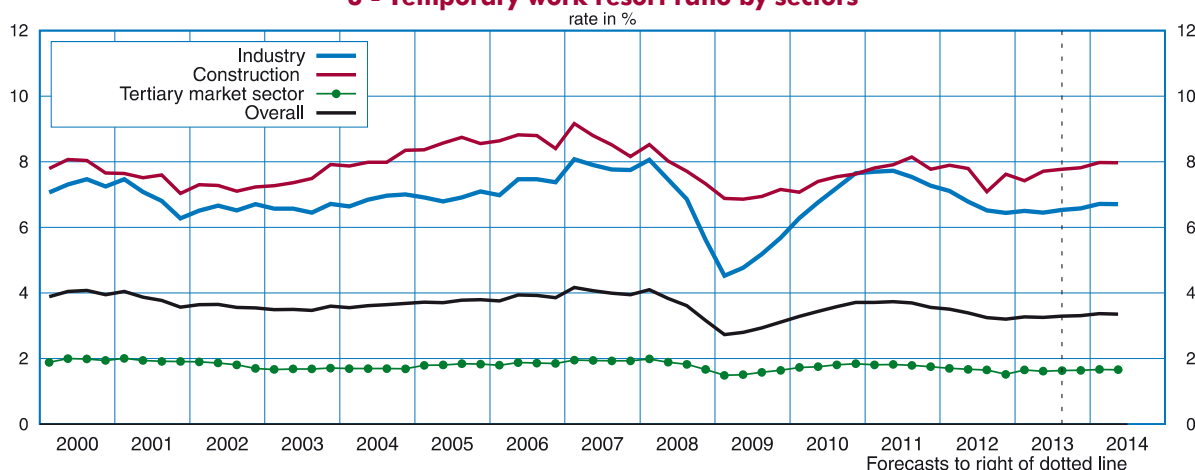
### Employment in the construction sector expected to decline again in 2013

Paid employment in the construction sector has been falling almost continuously since 2008. The sector lost 13,000 jobs in H1 2013. Over the forecasting period, this decline is expected to continue: 10,000 jobs should be lost in H2 2013, then 8,000 in H1 2014.

Employment in the non-market sectors should increase thanks to subsidised jobs

Employment in the non-market sectors should add 80,000 jobs in 2013. It should continue to grow at a brisk rate in H1 2014 (+33,000 jobs).

With the exception of subsidised jobs, employment in non-market sectors should decline slightly due to the drop-off in public sector employment. The upturn in non-market employment should thus be driven essentially by the increase in the number of subsidised jobs. On the one hand, registrations for the subsidised job programme should gather pace in 2013 compared to 2012, due to the new jobs created in the budget and the additional subsidised contracts announced by the government in June (a total of 465,000 contracts should be signed in 2013, up from 403,000 in 2012). On the other hand, despite a decrease in the number of new contracts created by the proposed 2014 budget, the increase in the average duration of these contracts should allow for a new rise in the number of beneficiaries in H1 2014. All in all, the number of beneficiaries should increase by 116,000 in 2013 then 40,000 in H1 2014.■

4 - Employment change in non-agricultural market sectors

Source: INSEE
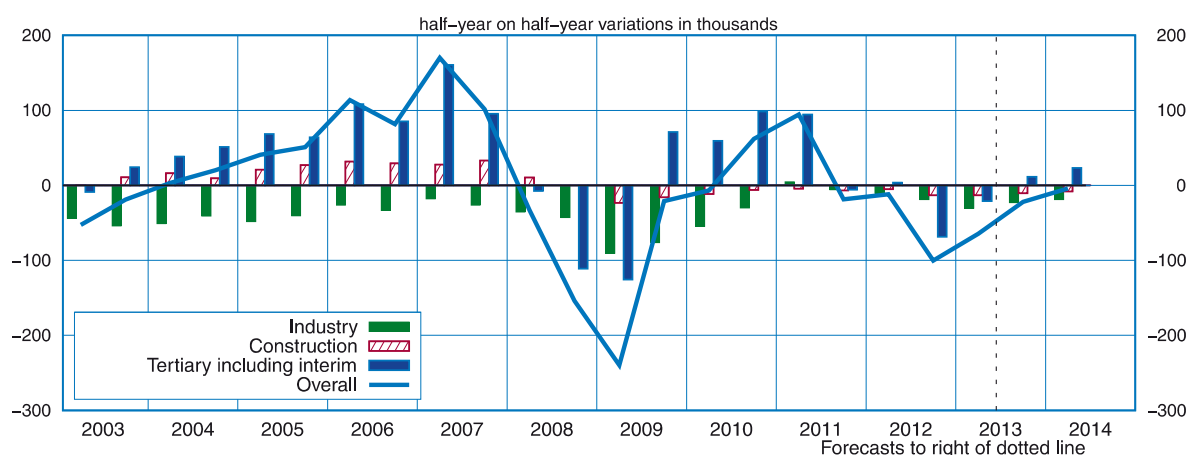
**What effects should we expect from
the Tax Credit for Encouraging Competitiveness and Jobs (CICE) in 2014?**

CICE is a tax credit comparable to a reduction in social security contributions

CICE is a tax credit which can, in certain respects, be compared to a reduction of the social security contributions levied on low and medium wages...

The Tax Credit for Encouraging Competitiveness and Jobs (CICE), announced in November 2012 and approved by parliament the following month[1], is a tax credit available to all businesses (except microenterprises and self-employed "auto-entrepreneurs"), irrespective of their legal status, sector of activity or the tax regime to which their profits are subject[2].

The CICE applies to all gross wages paid within the current year, up to a limit of 2.5 x the minimum wage. Wages falling within this bracket qualify for a 4% subsidy paid for 2013, and 6% for wages paid in the following years (representing 13 and 20 billion Euros respectively).

... but with several subtle differences

Starting on 1st January 2013, the impact of the CICE will be equivalent to reducing the cost of labour to businesses by 1.8%, and this reduction will increase to 2.7% on 1st January 2014. The CICE differs from a reduction in social security contributions in two respects: these contributions are not reduced, in fact businesses receive a tax cut proportional to their wage bill, deducted from their corporation tax or the tax on their profits[3]; this tax reduction is not applied at the

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(1) Article 66 of Law n° 2012-1510 of 29th December 2012 amending the public finances for 2012.
(2) The CICE will mostly concern companies subject to corporation tax. However, companies subject to income tax will also benefit from the CICE.
(3) The figures given in the *Conjoncture in France* report on the financial situation of companies are thus based on the standard assumption that the CICE will be imputed in the same manner as other tax credits to businesses (such as the research tax credit, for example), i.e. on the taxes paid by companies in 2014; therefore neither the remuneration of labour nor the margin rate given are affected.

moment the wages are paid, but retrospectively. Unless businesses successfully apply for an advance (this should only account for about €1 billion of the reductions awarded in 2013, 7% of the total eligible sums[4]), the CICE for wages paid in 2013 will not be paid until 2014. Indeed the CICE reduction, calculated on the basis of wages paid in 2013, will be applied to companies' tax bills for the 2013 fiscal year, due for payment in 2014. Nonetheless, the total tax credit for the past year can only be claimed up to the value of the company's annual tax bill, and the CICE for salaries paid in 2013 will thus be staggered between now and 2016 (see timetable of the CICE's impact on the budget).

The estimate of the effects of the CICE on employment levels in 2014 is highly uncertain

It is not yet sure how this initiative will be received by businesses, which will determine its concrete impact

Various mechanisms are at work here (see Graph). Firstly, the CICE will improve the financial situation of businesses. €20 billion represents something like the equivalent of 1.8 margin rate points, compensating for half of the fall in the margin rate experienced between 2007 and 2013.

This improved financial situation may subsequently influence companies' behaviour, allowing them to reduce prices[5] or increase their payroll, creating new jobs or paying higher wages, or encouraging companies to increase their investment expenditure. In practice, companies will of course react very differently to these new circumstances, but at the macroeconomic level these are the four outcomes we can expect to see when the CICE comes into force.

If we simulate a uniform reduction in social security contributions using the Mésange macro-econometric model[6], the result of a 2.7% decrease in the cost of labour would be a rise in employment, somewhere in the region of 250,000 jobs.

However, this simulation does not take into account the fact that the CICE is targeted at salaries below 2.5x the minimum wage. And yet the effects of cutting social security contributions are felt all the more strongly when the cut specifically targets wages in this lower bracket, particularly since the demand for labour at this lower end is more sensitive to questions of cost[7]. Basing our calculations on the existing estimates of the distribution of the elasticity of demand for labour to wage level[8], we can predict that this specific targeting of wages below 2.5x the minimum wage would put the actual number of jobs created somewhere between 300,000 and 400,000, with the results generated by the Mésange model serving as a conservative lower estimate[9].

As we can see from the results of simulation models such as this one, the full effects of the CICE will be felt only gradually. According to the Mésange model, it will take five years for the effects on employment to be felt in full.

The annual average for 2014, derived from the Mésange model, would see 100,000 new jobs created as a result of this initiative (after 50,000 in 2013). This figure includes, in addition to the accelerated growth of employment, the additional impact of the increase in economic activity caused

by the CICE. This is based on the assumption that companies will act as if the CICE was paid in 2013, in the manner of a direct reduction in social security contributions. In practice, the actual effect of the CICE will be less dramatic for a number of reasons.

Firstly, the CICE comes into effect in 2013 at a time when the margin rate is at its lowest, particularly since employment has not evolved as expected since 2008; financial constraints may therefore be felt more strongly than they were in the years leading up to the crisis, prompting businesses to use more of the money saved thanks to the CICE to improve their financial situation than our assessments based on the 1990s and 2000s would suggest. Furthermore, the fact that payment of the CICE credit is deferred may cause some companies to similarly defer their recruitment activities, due to cash flow constraints, lending difficulties or an unwillingness to raise debt levels. Finally, in terms of companies' accounts, the effects of the CICE can be recorded in the balance sheet as current assets, and therefore may not appear in the operating statement; for companies choosing to record the CICE in their accounts in this manner, there is a risk that the link with wages will not be immediately obvious: as such, companies' decisions regarding investment and recruitment may not take into account, at least not immediately, the impact of the CICE[10]. These effects, which will reduce the impact of the CICE on employment, should be less important in the long term. Indeed, companies who heed the fact that from now on recruiting an employee on a salary below 2.5x the minimum wage will be less expensive than it was previously will ultimately possess, all other things being equal, a competitive advantage over those companies who fail to take these new circumstances into account. In the long term, the majority of businesses should adapt their behaviour to avoid conceding a competitive edge to their rivals.

15,000 new jobs per quarter in H1 2014, excluding feedback effects

In the long term, it seems likely that the effect of the CICE on employment will be somewhat less substantial than 300,000 new jobs.

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(4) CGSP (2013). The report of the Monitoring Committee for the Tax Credit for Encouraging Competitiveness and Jobs .

(5) In certain cases, this reduction is the result of contracts in-dex-linking sale prices to production costs.

(6) C. Klein, O. Simon (2010): the Mésange model re-estimated for the 2000 base. Volume 1 - Version with volumes calculated at constant prices.

(7) Malinvaud (1998): Les cotisations sociales à la charge des employeurs: analyse économique (Employers' Social Security Contributions: an economic analysis), Report to the CAE.

(8) The Steering Committee for Employment (2006): Report to the Prime Minister regarding public subsidies.

(9) These figures take account of the fact that the CICE is a tax cre-dit, and it therefore does not expand the tax base of the corresponding tax, which, all other things being equal, increases its impact on economic activity compared to a simple reduction in contributions.

(10) This could be particularly true of certain foreign businesses hoping to establish a presence in France, who are at a disadvan-tage in terms of information compared to companies already present in France.

For the forecasts given in the *Conjoncture in France* quarterly outlook, we based our calculations on the assumption that the enhanced growth in employment figures will be reflected in the creation of 15,000 new jobs per quarter in H1 2014 (following an annual total of 30,000 in 2013). However we do not explicitly take account of the additional effects linked to the upturn in economic activity stimulated by the CICE, which, if it exists, should be detected by the business tendency surveys on which our forecasts are largely based. However

we do explicitly integrate the effect on prices, which should partially offset the effects of the rise in VAT, to the tune of 0.2 points over this forecasting period.■

Ramp up of the CICE (in € billion)

	2013	2014	2015	2016	2017	2018
Related to the wages on which the tax credit is based	-13	-20	-20	-20	-20	-20
For corporate cash flow	-1	-9	-16	-17	-19	-20

How to read it : For easier reading, the CICE tax base is considered constant

Source : INSEE

Diagram showing the different economic mechanisms expected of a fall in the unit labour cost
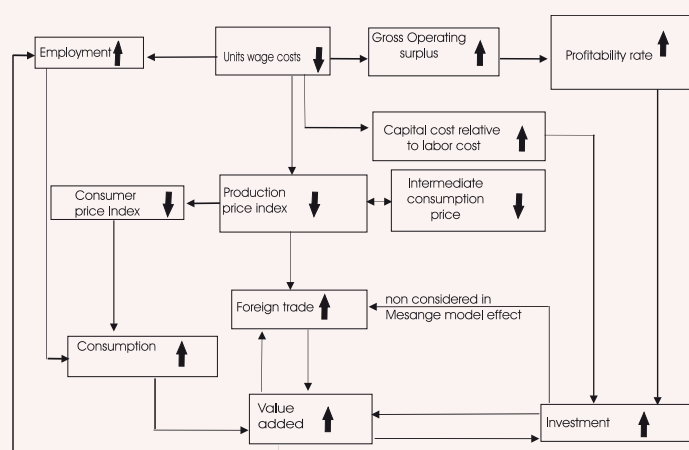
Unemployment

In Q3 2013, the unemployment rate stood at 10.9% of the active population (10.5% in Metropolitan France), 0.1 points up on Q2 (see Box for methodological precautions). Since mid-2011, the unemployment rate has increased by 1.4 points. It is likely to rise over the forecasting period, by 0.1 points. In mid-2014 it should stand at 11.0% (10.6% in Metropolitan France).

In Q3 2013, the unemployment rate stood at 10.9% of the labor force

In Q3 2013, the number of unemployed rose by 31,000 after virtual stabilisation in Q2 (+4,000)[1]. Employment fell less in Q3 (-6,000 after -21,000), and the labor force grew at a sustained rate in Q3 2013 (+26,000) after a one-off decline in Q2 (-17,000) (*see Table*). The unemployment rate thus rose by 0.1 points in Q3 after stability in Q2 2013 (*see Graph 1*).

The unemployment rate among young people fell slightly in 2013...

At the end of 2012, the unemployment rate among 15-24 year-olds stood at 25%. It then fell by a point through to Q3 2013 to stand at 24.5%. 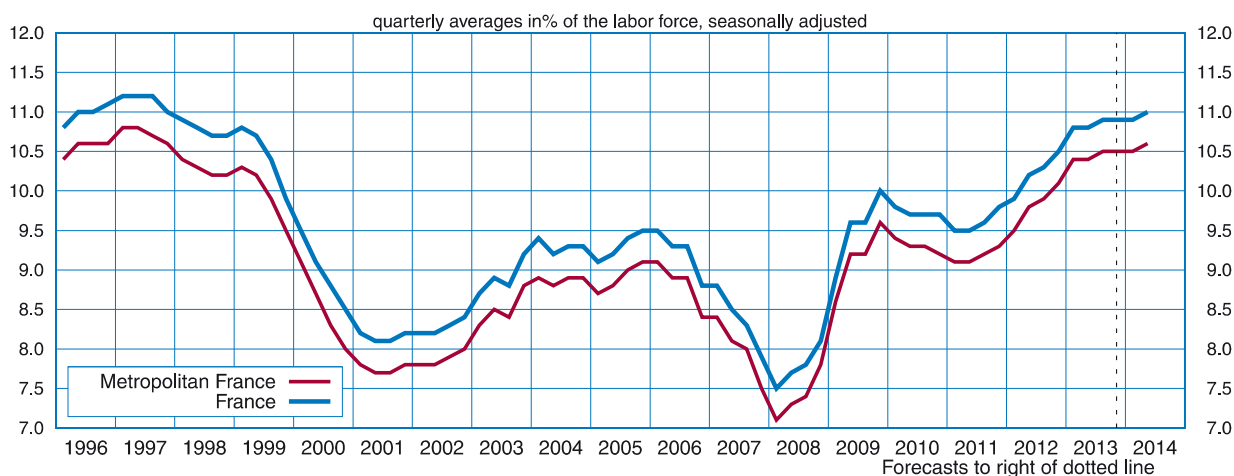On the one hand, part of the drop in unemployment among young people, in the order of a tenth of a point per quarter since the start of the year, can be ascribed to the implementation in late 2012 of "future job" (*Emplois d'avenir*) contracts designed to allow unqualified or little-qualified young people to get a job. On the other hand and to a lesser extent, job creations in the temporary work sector also benefited young people, who more often have temporary jobs than their elders. The unemployment rate among young people is very high, but this population's labour market behaviour is very specific. A large number of people aged 25 or less pursue their studies without working at the same time and are thus inactive. Hence when the number of young unemployed is set against the 15-24 year-old population, the resultant measure indicates a rate of unemployment among 15 to 24 year-olds of 9.0%, i.e. only 0.6 points above the share of unemployed in the 25-49 age bracket.

... while that of the over-50s rose sharply

The unemployment rate among active people aged 50 or over has increased by almost a point since the end of 2012, reaching 8.0% in Q3 2013.

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(1) These figures are from the Continuous Labour Force Survey and therefore concern only Metropolitan France.

1 - Unemployment rate in the sense of the ILO

quarterly averages in% of the labor force, seasonally adjusted

Metropolitan France
France

Forecasts to right of dotted line

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

Source: INSEE, Employment Survey

The unemployment rate among older people thus rose twice as fast as that of 25-49 year-olds (+0.4 points since end 2012, to 9.5% in Q3 2013).

Over the forecasting period, unemployment should rise very slightly

Between Q3 2013 and Q2 2014, the unemployment rate should increase by 0.1 points, settling at 11.0% at the end of H1 2014 (10.6% in Metropolitan France). Over the three quarters of the forecasting period, net job creations (+76,000) are unlikely to be sufficient to absorb the expected rise in the labor force (+113,000).

The trend labour force[2] should indeed continue to rise at a sustained pace (+68,000 people in H1 2014, after +60,000 in H2 2013), mainly due to the rise in the labor force participation rates, while demography should contribute once again: since 2011, fewer people have entered the 15-64 age group than have left it.

Additionally, the active population should be slightly more dynamic than its trend, because the increase in the number of subsidised work contracts allows people outside the labour market to join it. However, we consider that the net effect of pension reforms prior to the trend labor force forecasts[3] will be negligible over the forecasting period.■

(2) The underlying labor force corresponds to the labor force as estimated in active population projections. For further information on active population projections: *Insee Première n°1345, April 2011, O. Filatriau*.
(3) One entering into force in November 2012 and allowing those who have had a long career to retire at 60, the other pushing back the retirement pension entitlement age by one month for those persons born after 1st January 1952, as of the second half of 2012

Box - Renovation of the Employment Survey used to measure unemployment within the meaning of the ILO

In Q1 2013 the questionnaire used in the Employment Survey was recast, among other things to facilitate the conduct of the survey on the ground. Additionally, new employment conditions for investigators were implemented on 1st January 2013, leading to organisational difficulties in the network of investigators and, as things stand, a drop in the response rate. A methodological assessment was carried out to quantify the impacts of these changes on the estimates derived from the Employment Survey data.

Certain rewordings in the new questionnaire have impacted the content of responses among a limited proportion of the surveyed population. This has had an impact on the measure in level form of the main indicators. The effects of the change of questionnaire and protocol have been neutralised so that the results presented in this file are directly comparable to those of Q4 2012 and to the long time series currently available. This treatment guarantees that indicator trends are relevant in short-term analysis terms. The detailed impact of the rewordings on the survey results is presented in the document titled "Compléments méthodologiques" associated with the *Informations Rapides* of 5 September 2013 presenting the results of the Employment Survey of Q2 2013.

Derived from the Q4 2013 results which will be published in March 2014, the main indicators of activity, employment and unemployment within the meaning of the ILO will be included in the impact of the renovation of the questionnaire, and new retropolated long series (the values of which will be revised slightly downwards) will be produced.■

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

	quarterly changes										annual variations				
	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2010	2011	2012	2013	2014 H1
Population of the 15-64 age group	-20	-22	-21	-21	-21	-21	-21	-21	-12	-11	131	20	-84	-83	-24
Population of the 15-59 age group	-12	-14	-16	-19	-20	-20	-20	-19	-5	-6	-117	-70	-61	-79	-11
Labor force	**81**	**82**	**2**	**46**	**37**	**-17**	**25**	**37**	**38**	**38**	**79**	**158**	**211**	**83**	**76**
including: *(a) Contribution of the population and the trend participation rate*	*36*	*36*	*36*	*36*	*30*	*30*	*30*	*30*	*34*	*34*	*160*	*165*	*146*	*120*	*68*
(b) Estimated bending effects	*9*	*2*	*1*	*2*	*-4*	*5*	*5*	*7*	*4*	*4*	*-66*	*-6*	*14*	*13*	*8*
(c) Other short-term fluctuations (residual)	*36*	*44*	*-36*	*7*	*11*	*-52*	*-9*	*0*	*0*	*0*	*-15*	*-2*	*51*	*-50*	*0*
Employment	**23**	**12**	**-41**	**-41**	**-24**	**-21**	**-6**	**29**	**30**	**18**	**169**	**117**	**-47**	**-22**	**48**
Reminder: End-of-period employment (see "Employment" note)	45	-21	-60	-22	-26	-16	5	52	26	10	132	100	-58	15	36
ILO unemployment	**58**	**70**	**42**	**87**	**61**	**4**	**31**	**9**	**9**	**20**	**-89**	**40**	**258**	**106**	**28**
	quarterly average										Average in the last quarter of the period				
ILO unemployment rate (%)															
Metropolitan France	9.5	9.8	9.9	10.1	10.4	10.4	10.5	10.5	10.5	10.6	9.2	9.3	10.1	10.5	10.6
France (including overseas departments)	9.9	10.2	10.3	10.5	10.8	10.8	10.9	10.9	10.9	11.0	9.7	9.8	10.5	10.9	11.0

▢ Forecast

How to read it:

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

Source: INSEE