# Consumer prices

*Headline inflation should rise gradually, from 0.7% in November 2013 to 1.1% in June 2014, under the effect of several one-off factors. In particular, the recovery of telecommunications prices should contribute +0.1 points, and the rise in the VAT rate on 1st January 2014 (net of the effect of the Tax Credit for Encouraging Competitiveness and Jobs CICE) +0.2 points. Additionally, year-on-year energy prices should rise due to the base effect,[1] and contribute +0.2 point.*

## Rise in headline inflation

Over the forecasting period, headline inflation should increase from 0.7% at end November 2013 to 1.1% at end June 2014 (see Graph 1). Core inflation[2] remains stable, to +0.8% year-on-year. This divergence essentially stems from the increase in the VAT rates on 1st January 2014: it should contribute (net of the CICE effect) +0.2 points to the rise in headline inflation, and -0.4 points to core inflation, which the INSEE calculates exclusive of taxes (see Focus). To a lesser extent, the 20-cent rise in the price of tobacco, only partially due to the VAT rise, and the increase in energy inflation through the base effect, should also contribute to the divergence between growth in headline inflation and that of core inflation.

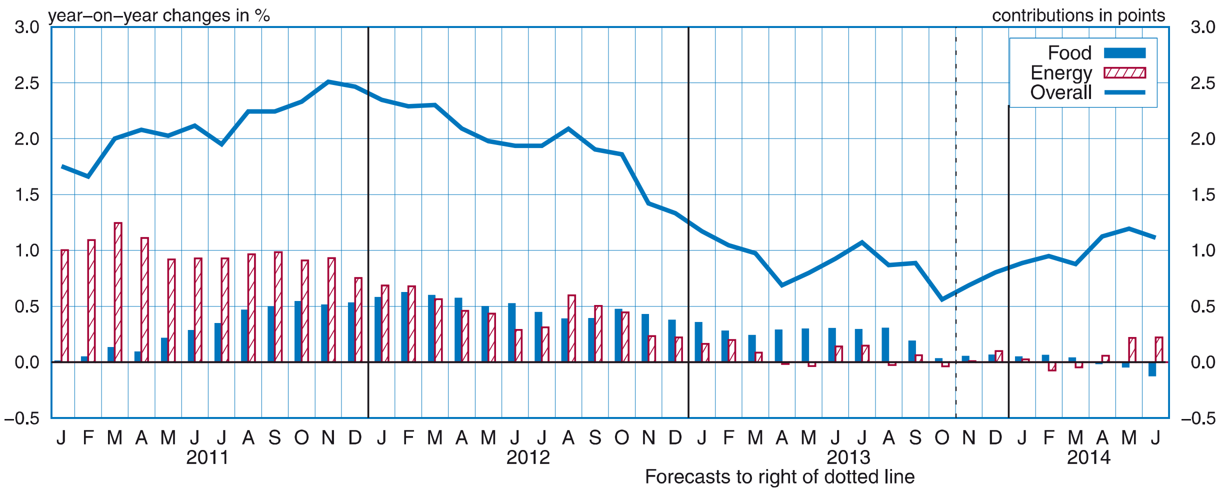
Additionally, the base effect should increase inflation after the one-off drops in communication services prices in 2013 (+0.1 points on headline inflation, +0.2 points on core inflation).

## Inflation in manufactured products slightly negative

Year-on-year inflation in prices of manufacturing goods, standing at -0.5% in November, should rise to -0.3% in June 2014. The changes to the VAT rates on 1st January 2014 should have an impact of +0.2 points on year-on-year prices of manufacturing goods over the forecasting period (see Box) while the introduction of the CICE should make an impact of -0.3 points in this sector. The low production capacity utilisation rate, sluggish price of imports, high unemployment rate and improved productivity gains are all likely to restrict inflationary pressure in manufacturing. Nonetheless, year-on-year prices of clothing and footwear should rise to +1.0%, after +0.8% in November, due to the recovery of cotton prices since the start of 2012. Additionally, year-on-year inflation in healthcare products, standing at -3.2% in November, should remain virtually stable over the forecasting period because, as in 2013, sharp drops are forecast in the 2014 Social Security Draft Financing Bill.

(1) Energy prices are assumed to be stable over the forecasting period, but due to the fall of these prices in H1 2013, year-on-year inflation at end June 2014 will be higher than year-on-year values at end 2013.
(2) See on insee.fr website "Economic outlook terminology"

**1 - Consumer prices in France**




Source: INSEE

## Inflation in services set to rise

Year-on-year inflation in the prices of services, at +1.5% in November, should rise to +2.1% in June 2014. The rise in the prices of services should be driven by the increase in the VAT rate (0.4 points net of the CICE) and the stabilisation of telecoms services prices, after the sharp drops following the arrival of a new mobile phone operator in January 2012.

## Energy prices set to rise through the base effect

After +0.1% in November, year-on-year energy prices should increase to reach +2.7% in June 2014. Assuming the price of Brent stabilises at €81.50 ($110) over the forecasting period, the exits of the sharp drops noted in spring 2013 from the year-on-year figures should mechanically contribute to the rise in energy inflation. The changes to the VAT rise in January 2014 are only likely to contribute +0.2 points to the rise in energy prices. Overall, energy should contribute 0.2 points to the rise in headline inflation through to June 2014 (*see Graph 2*).

## Food prices likely to fall in 2014 via the base effect

Provided there is no shock on output of seasonal food products, year-on-year inflation in food prices should come down over the forecasting period, with -0.8% (*see Table*) due to the sharp rises in the prices of seasonal food products in H1 2013 and the very limited impact of VAT rises in this sector. ■

**Consumer prices**

*changes as %*

| CPI* groups (2012 weightings) | June 2013 | | November 2013 | | December 2013 | | June 2014 | | Annual averages | |
|---|---|---|---|---|---|---|---|---|---|---|
| | yoy | cyoy | yoy | cyoy | yoy | cyoy | yoy | cyoy | 2012 | 2013 ovhg |
| **Food (16.6%)** | 1.8 | 0.3 | 0.3 | 0.0 | 0.4 | 0.1 | -0.8 | -0.1 | 3.0 | 1.3 |
| including: | | | | | | | | | | |
| *seasonal food products (2.1%)* | 7.3 | 0.2 | -1.2 | 0.0 | -0.7 | 0.0 | -7.7 | -0.2 | 5.2 | 4.3 |
| *excluding seasonal food products (14.5%)* | 1.0 | 0.1 | 0.5 | 0.1 | 0.5 | 0.1 | 0.3 | 0.0 | 2.7 | 0.9 |
| **Tobacco (2.1%)** | 7.0 | 0.1 | 3.5 | 0.1 | 3.5 | 0.1 | 6.4 | 0.1 | 6.2 | 6.8 |
| **Manufactured products (27.4%)** | -0.4 | -0.1 | -0.5 | -0.1 | -0.4 | -0.1 | -0.3 | -0.1 | 0.7 | -0.4 |
| **Energy (8.2%)** | 1.7 | 0.1 | 0.1 | 0.0 | 1.2 | 0.1 | 2.7 | 0.2 | 5.2 | 0.8 |
| including: | | | | | | | | | | |
| *oil products (5.0%)* | -0.9 | 0.0 | -3.4 | -0.2 | -1.4 | -0.1 | 1.6 | 0.1 | 5.8 | -2.3 |
| **Services (45.8%)** | 1.0 | 0.5 | 1.5 | 0.7 | 1.5 | 0.7 | 2.1 | 1.0 | 1.6 | 1.2 |
| including: | | | | | | | | | | |
| *rent-water (7.5%)* | 1.7 | 0.1 | 1.5 | 0.1 | 1.5 | 0.1 | 1.7 | 0.1 | 2.0 | 1.8 |
| *health services (5.4%)* | 1.1 | 0.1 | 0.4 | 0.0 | 0.3 | 0.0 | 0.4 | 0.0 | 0.9 | 0.8 |
| *transport-communications (5.1%)* | -5.8 | -0.3 | 0.5 | 0.0 | -0.2 | 0.0 | 3.5 | 0.2 | -3.7 | -4.2 |
| *other services (27.8%)* | 2.1 | 0.6 | 1.9 | 0.5 | 2.0 | 0.6 | 2.4 | 0.7 | 2.7 | 2.1 |
| **All (100%)** | 0.9 | 0.9 | 0.7 | 0.7 | 0.8 | 0.8 | 1.1 | 1.1 | 2.0 | 0.9 |
| All excluding energy (91.8%) | 0.8 | 0.8 | 0.7 | 0.7 | 0.8 | 0.7 | 1.0 | 0.9 | 1.6 | 0.9 |
| All excluding tobacco (97.9%) | 0.8 | 0.8 | 0.6 | 0.6 | 0.7 | 0.7 | 1.0 | 1.0 | 1.9 | 0.8 |
| **Core inflation (60.8%)[1]** | 0.3 | 0.2 | 0.8 | 0.5 | 0.8 | 0.5 | 0.8 | 0.5 | 1.3 | 0.6 |

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

*Source: INSEE*

**2 - Inflation in France: contributions of the most volatile items**


*Source: INSEE*

## Rise in VAT rates and effect of the CICE: opposite impacts on inflation

On 1st January 2014, the normal VAT rate will go up from 19.6% to 20% and the intermediate rate from 7% to 10%. The reduced rate (5.5%), the super-reduced rate (2.1%) and the zero rate are not expected to change. Lastly, the applicable rate in Corsica will rise from 8 to 10%. Prices of services will therefore be the most affected: accommodation and food services, housing maintenance[1], cultural services, transport (*see Table*).

If the VAT rise were to be passed on in full, the prices of products at the normal VAT rate would increase by 0.3% and the prices of products at the intermediate rate by 2.8%, hence a 0.5-point increase in headline inflation.

In practice, previous experience of variations in the VAT rate has shown that prices adjust gradually, so an impact in the order of 0.4% is expected by end June 2014 (*see Graph*). In economic terms this delayed transmission translates the behaviours of certain companies as regards their profit margins; they do not immediately pass on the VAT rise to consumer prices. In the short term certain enterprises lower their price exclusive of VAT, thus making an effort on their margins, in order not to cut their prices including VAT. These behaviours are however transitional: an observation of VAT rises or reductions in France and elsewhere shows that changes in legislation on indirect taxes are passed on to consumer prices (including VAT) after a certain time lag, suggesting that they ultimately have no effect on prices exclusive of VAT.

Additionally, as the VAT rise will be in 2014 concomitantly with the implementation of the CICE, the transmission is likely to be less significant than in previous VAT rises, and the effect on year-on-year inflation at end June 2014 should only be +0.2 points (*see Table*).

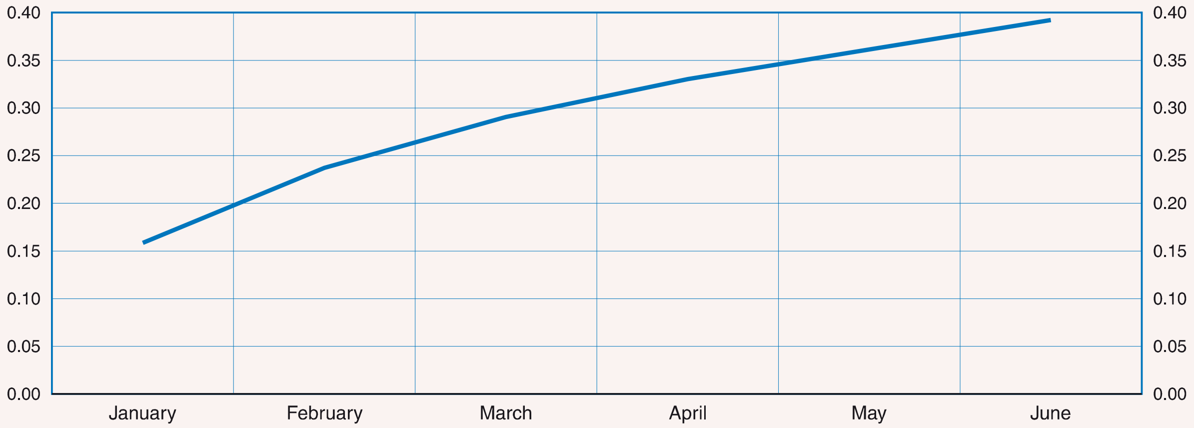
Core inflation is adjusted for tax measures. The theoretical impact of VAT rises would be a negative contribution to core inflation as early as January 2014 (0.6 points). As VAT variations are, in practice, only passed on gradually to prices, the rise on 1st January 2014 will reduce core inflation in accounting terms. ■

(1) Most housing maintenance expenditure is however considered in the national accounts as household investment.

**Impact on consumer price indexes of the VAT rises of 1st January 2014 and the introduction of the CICE**

| Sector | Weight of the sector | Impact of VAT rate changes to consumer prices | Impact of the CICE on year-on-year consumer prices | Total impact |
|---|---|---|---|---|
| **Food** | **1658** | **0.0** | **-0.1** | **-0.1** |
| Seasonal food products | 210 | 0.0 | 0.0 | 0.0 |
| Food excluding seasonal food products | 1448 | 0.0 | -0.2 | -0.1 |
| **Tobacco** | **206** | **1.5** | **0.0** | **1.5** |
| **Manufactured products** | **2738** | **0.2** | **-0.3** | **0.0** |
| Clothing and footwear | 458 | 0.2 | -0.3 | -0.1 |
| Medical products | 455 | 0.2 | 0.0 | 0.2 |
| Other manufactured products | 1825 | 0.3 | -0.3 | -0.1 |
| **Energy** | **822** | **0.2** | **0.0** | **0.2** |
| Petroleum products | 495 | 0.2 | 0.0 | 0.2 |
| **Services** | **4576** | **0.6** | **-0.2** | **0.4** |
| Actual rentals and services for dwellings | 748 | 0.1 | 0.0 | 0.1 |
| Medical services | 542 | 0.0 | 0.0 | 0.0 |
| Transport and communication services | 506 | 1.3 | -0.3 | 1.0 |
| Other services | 2780 | 0.7 | -0.3 | 0.4 |
| **All items** | **10000** | **0.4** | **-0.2** | **0.2** |
| *All items "Core inflation"* | *6085* | *-0.1* | *-0.3* | *-0.4* |

**Impact of the VAT rise on year-on-year headline inflation between January and June 2014**




*Source: INSEE*

# Wages

*In 2013, the basic monthly wage and the average wage per head will have grown at the same rhythm as in 2012. Despite a smaller increase in the minimum wage on 1st January 2013, inflation, which was close to 2.0% in 2012, sustained nominal wages. Unless there is a one-off extra increase, the rise in the minimum wage should be limited in January 2014 (+1.1%), due to the low level of inflation observed over the last year or so. As the high rate of unemployment should continue to negatively affect the bargaining power of the workforce, nominal wages are likely to stay at a moderate growth rate in H1 2014 (+0.5% then +0.4% per quarter).*

*In real terms, thanks to the fall in inflation, wages in constant euros will have picked up in 2013: the basic monthly wage should increase by 1.1% after +0.3% in 2012 and the average wage per head by 1.3% after stagnating in 2012. In early 2014 however, the rise in inflation is likely to erode the gains in nominal wages: the real average wage per head is unlikely to grow in H1.*

*In general government, the drop in inflation should also result in a temporary acceleration in wages in constant euros in 2013 (+0.7% after +0.1% in 2012).*

## In 2013, the basic monthly wage has slowed while the average wage per head has picked up slightly

In 2013 the nominal basic monthly wage[1] should be slightly less dynamic than in 2012 (+1.7% after +2.1%). The rising unemployment rate should continue to weigh down on the bargaining power of employees and limit the overall rise in wages. Additionally, the increase in the minimum wage was lower in 2013 (+0.3% at 1st January, i.e. +1.3% as an annual average) than in 2012 (+0.3% on 1st January 2012 and +2.0% on 1st July 2012, after +2.1% on 1st December 2011, i.e. +3.2% as an annual average in 2012).

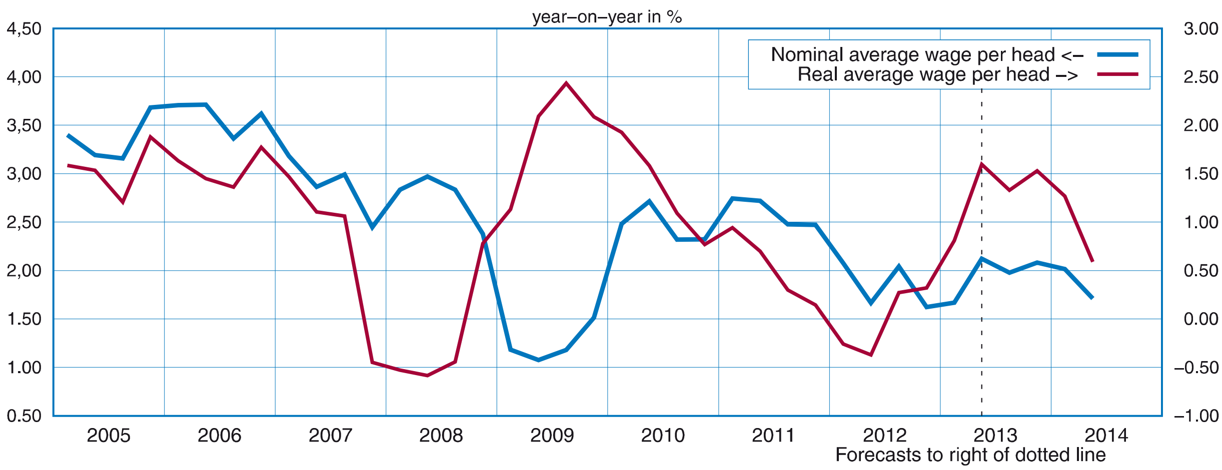
The nominal average wage per head, which includes bonuses, incentives and overtime payments, should pick up slightly in 2013 (+2.0% after +1.8%), mainly under the effect of the one-off payment of bonuses in Q2.

## The sharp drop in inflation in 2013 resulted in real wage gains

The sharp drop in inflation in 2013 (+0.6% after +1.9%) barely filtered through to nominal wages, probably because it had not been anticipated (it should be recalled that the inflation assumption in the 2013 Finance Law Draft was +1.8%). Therefore, the basic monthly wage in constant

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

**Change in the nominal and real average wage per head**




Scope: non-agricultural market sector

*Sources: DARES, INSEE*

euros should accelerate over the year as a whole (+1.1% after +0.3%). The real average wage per head should pick up more sharply than the basic monthly wage (+1.3% after 0.0%) because bonuses were more dynamic (*see Graph*).

### At the start of 2014, the rise in inflation should erode all gains in nominal wages

On 1st January 2014, the increase in the minimum wage, with no one-off extra rise, should be moderate (+1.1 %) due to the low level of inflation observed in 2013. Wage negotiations should start to integrate the 2013 fall in inflation and the labour market situation should remain poor; wages are thus likely to increase at a moderate rate in nominal terms and the 2014 growth overhangs at the end of Q2 should be +1.3% for the basic monthly wage and +1.5% for the average wage per head.

The higher level of inflation than in 2013 should erode all these gains in nominal wages. So in real terms the basic monthly wage should fall slightly while the average wage per head is likely to stagnate (*see Table*). The 2014 growth overhangs at the end of Q2 should be +0.4% for the basic monthly wage and +0.6% for the average wage per head.

### Real wages saw a temporary acceleration in 2013 in general government

Nominal wages are expected to slow in the civil service in 2013 (+1.3% after +2.0% in 2012). In the civil service the index point, which has been frozen since 1st July 2010, was not increased in 2013. Furthermore, the civil service minimum index was only raised by 0.3% on 1st January 2013, in line with the rise in the minimum wage. Civil servants should however continue to benefit from the individual purchasing power guarantee (GIPA)[2] which was renewed in 2013 under the same conditions as in 2012. As in the market sector, the sharp drop in inflation should result in a rise in real wages of 0.7%, after +0.1% in 2012.

In early 2014, assuming the index point is frozen once again and the GIPA scheme is renewed, the nominal average wage per head in general government is likely to slow. The growth overhang after Q2 should be +0.8% (-0.1% in real terms). ■

(2) The 2013 individual purchasing power guarantee is a compensation awarded to civil servants and certain State employees who suffered a loss in purchasing power between 2008 and 2012.

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

*change as a %*

| Seasonally-corrected data | Quarterly growth rates | | | | | | Annual averages | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | | | 2014 | | 2013 | 2013 | 2014 ovgh |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | | |
| Basic monthly wage | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 2.1 | 1.7 | 1.3 |
| Average wage per head in the non-agricultural market sector (NAMS) | 0.6 | 0.7 | 0.4 | 0.4 | 0.5 | 0.4 | 1.8 | 2.0 | 1.5 |
| Average wage per head in general government (GG) | | | | | | | 2.0 | 1.3 | 0.8 |
| Household consumer price index (quarterly national accounts) | 0.3 | -0.1 | 0.2 | 0.1 | 0.5 | 0.3 | 1.9 | . | 0.9 |
| Real basic monthly wage | 0.1 | 0.5 | 0.1 | 0.3 | -0.1 | 0.1 | 0.3 | 1.1 | 0.4 |
| Real average wage per head (NAMS) | 0.3 | 0.8 | 0.2 | 0.3 | 0.0 | 0.1 | 0.0 | 1.3 | . |
| Real average wage per head (GG) | | | | | | | 0.1 | 0.7 | -0.1 |

Forecast

*Source: INSEE*

# Household income

*In 2013, household purchasing power should pick up (+0.5% after -0.9% in 2012), thanks largely to the slowdown in the rise of consumer prices (+0.6%, down from +1.9% in 2012). The gross disposable income of households should also grow at a slightly quicker rate (+1.1%, up from +0.9% in 2012) due to the deceleration in the rate of tax increases (+4.5%, down from +7.4% in 2012) and despite the slowdown in the growth of earned income (+1.3%, after +1.8% in 2012).*

*Over the forecasting period the half-yearly changes to purchasing power will be uneven, principally as a result of the tax collection calendar. Purchasing power is expected to decline in H2 2013, before rebounding in H1 2014. In early 2014 earned income should grow at a steadier rate, while taxes, after rising in late 2013 when the balance of the annual income tax fell due, should drop off again at the start of next year.*

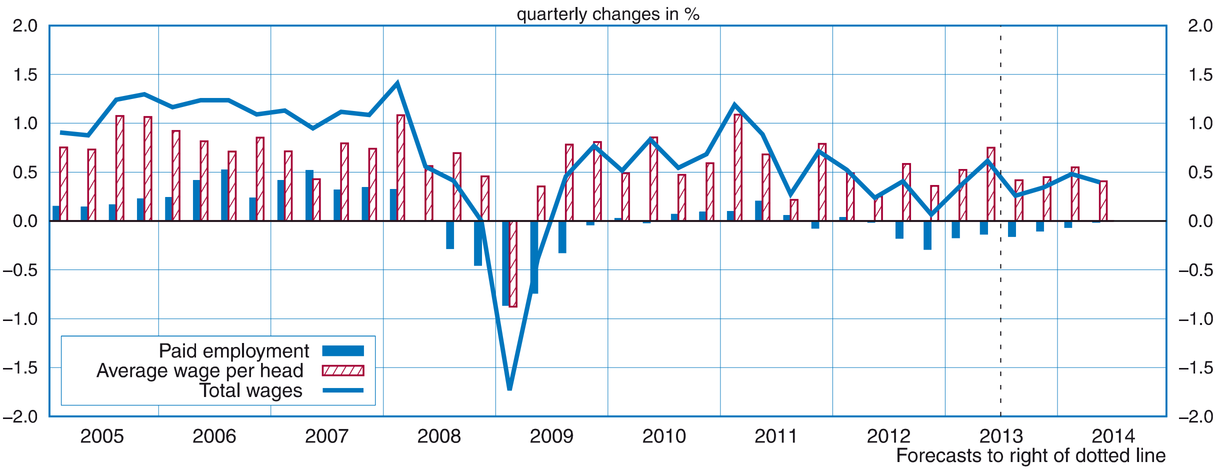
## After slowing down in 2013, earned income should grow at a steadier rate in early 2014

The growth of earned income is expected to slow down in 2013 (+1.3%, after +1.8% in 2012, *see Table 1*). The expansion of wages received by households should be less rapid (+1.5%, after +1.9% in 2012, *see Table 2*), largely due to the decline in employment figures, a trend which looks set to continue in the non-agricultural market sectors (-0.7%, after -0.1%, *see Graph*[1]). Furthermore, the gross operating surplus of sole proprietors should see its growth slow dramatically (-0.2% after +1.7% in 2012), due to the decline in earned income in the agricultural and construction sectors. Moreover, property income is expected to slow down markedly in 2013 (-0.2% after +0.6% in 2012), primarily due to the reduction in base interest rates. Finally, the gross operating surplus of pure households, stunted in 2012 by the fall in interest rates, should grow more rapidly (+2.2%, up from +1.4% in 2012).[2]

In H1 2014, the growth in earned income should stabilise (+0.4% in the first two quarters of 2014, after +0.3% in Q4 2013), gross wages increase. We should also see a return to growth for the gross operating surplus of sole proprietors in Q4 (+0.2%, up from -0.2%), with GOS continuing to grow at this rate throughout H1 2014.

(1) For the record, the decline of yoy employment would conversely be twice lower in 2013 than in 2012 (see *Employment Note*).
(2) The GOS of pure households corresponds to the production of housing services minus the intermediate consumptions required for this production (most notably financial services linked to loans) and taxes (land tax). It corresponds to the rents that homeowners receive from their tenants or could receive if they put their dwelling up for rent ("imputed" rents). In 2012, the interbank lending rates saw a greater decrease than mortgage lending rates, and financial intermediation services thus became proportionally more expensive.

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




*Source: INSEE*

## Social benefits should continue to fall

Over 2013 as a whole, social benefits in cash should prove to be less dynamic than they were in 2012 (+3.3%, down from +4.0%, *see Table 3*). Social security benefits are expected to slow (+3.2%, down from +4.2%). On the one hand, supplementary pensions paid out by Agirc-Arrco should see only a slight increase, following an agreement reached in March 2013. Family benefits should return to a normal rate of growth, having risen substantially in 2012 due to the marked increase in the "back to school" allowance. However, social assistance benefits should continue to accelerate in 2013 (+5.5%, up from +4.2% in 2012): despite the slowdown in the adult disability allowance (AAH), these benefits should continue to grow due to the dynamism of the active solidarity income (RSA), particularly due to an increase on 1st January, and the specific solidarity allocation (ASS).

The increase in social benefits in cash should slow again in H1 2014. Indeed, social security benefits are expected to decelerate (+0.8% and +0.9% in the last two quarters of 2013, then +0.7% and +0.0% in the first two quarters of 2014). Most notably, in 2014 the programmed increases in the basic pensions (with the exception of the solidarity allocation for senior citizens (ASPA) and invalidity pensions) will not take place as usual on 1st April, but will instead be pushed back to 1st October. Furthermore, following an agreement reached in 2013, the increase in pension payments by Agirc-Arrco on 1st April 2014 should be less substantial. Furthermore, social assistance benefits are expected to slow down slightly, largely because the dynamism of the active solidarity income (RSA) is expected to wane in H1 2014 as conditions on the labour market become less bleak.

## Taxes still dynamic in 2013, should slow in early 2014

Over 2013 as a whole, the total tax burden on households is expected to increase by less than it did in 2012 (+4.5%, after +7.4%). New measures will be comparable in value to those implemented in 2012, but the spontaneous growth of tax revenue will be weaker than it was last year, due largely to the slowdown in the growth of earned income in 2012. In particular, revenue generated by income tax and tax on assets is expected to slow down across the whole year (+5.3%, down from +10.2%). Taxes on wages in 2013 should continue to grow at the same rate seen in 2012 (+3.3%, down slightly from +3.4%). Contributions by the self-employed should also continue to grow at a steady pace (+4.0% in 2013, after +5.9% in 2012), due notably to the removal of the cap on sickness contributions and the abolition of the special allowance for professional costs, both measures included in the Social Security Finance Law for 2013.

The new tax initiatives scheduled for 2013 (particularly the de-indexation of the income tax thresholds, the creation of a 45% bracket and the lowering of the family quotient ceiling) will mostly come into effect in the second half of the year, when the annual tax bills are sent out. This is reflected in the evolution of tax revenue across the year, with the usual rise expected in Q3 (+1.8%) followed by an acceleration in Q4 (+4.3%), and a subsequent drop in Q1 2014 (-2.8%). Furthermore, social security contributions by households should accelerate slightly in H1 2014. All in all, total tax revenue should decline in Q1 (-1.4%), then grow slightly in Q2 (+0.6%).

## Purchasing power should return to growth in 2013

The nominal gross disposable income (GDI) of households is expected to accelerate its growth slightly in 2013 (+1.1%, after +0.9% in 2012). At the same time, consumer prices will slow down markedly (+0.6%, down from +1.9%). The purchasing power of GDI should thus increase at a faster rate, growing by 0.5% in 2013 after a -0.9% decrease in 2012. Purchasing power per unit of consumption, which takes demographic developments into account, will be practically stable in 2013 (-0.1%) after falling in 2012 (-1.5%, *see Box*).

In early 2014, as a result of the tax collection calendar, household GDI should pick up again (+1.1% in Q1 then +0.4% in Q2), whereas in 2013 it is expected to be more or less stable (+0.1% in Q3 then 0.0% in Q4). Purchasing power should grow more slowly (+0.6% then 0.1% in H1 2014, recovering from -0.1% in Q3 and Q4 2013), due to an expected acceleration in price rises. In mid-2014, purchasing power should be 0.5% greater than its mid-2013 level. ■

Table 1

## Household gross disposable income

| | 2012 | | | | 2013 | | | | 2014 | | 2012 | 2013 | 2014 ovgh |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | | |
| **Gross disposable income (100%)** | **0.3** | **0.4** | **-0.2** | **-0.7** | **1.2** | **0.4** | **0.1** | **0.0** | **1.1** | **0.4** | **0.9** | **1.1** | **1.5** |
| including : | | | | | | | | | | | | | |
| Earned income (69%) | 0.6 | 0.3 | 0.5 | 0.1 | 0.3 | 0.5 | 0.2 | 0.3 | 0.4 | 0.4 | 1.8 | 1.3 | 1.2 |
| *Gross wages (60%)* | *0.6* | *0.3* | *0.5* | *0.2* | *0.4* | *0.5* | *0.3* | *0.4* | *0.5* | *0.4* | *1.9* | *1.5* | *1.3* |
| *GOS of sole proprietors[1] (9%)* | *0.5* | *0.4* | *0.2* | *-0.4* | *-0.4* | *0.5* | *-0.2* | *0.2* | *0.0* | *0.3* | *1.7* | *-0.2* | *0.4* |
| Social benefits in cash (33%) | 1.2 | 1.1 | 1.0 | 0.8 | 0.6 | 0.8 | 0.8 | 0.9 | 0.7 | 0.2 | 4.0 | 3.3 | 2.2 |
| GOS of "pure" households (12%) | 0.2 | 0.3 | 0.2 | 0.6 | 0.6 | 0.6 | 0.5 | 0.7 | 0.8 | 0.5 | 1.4 | 2.2 | 2.2 |
| Property income (10%) | -0.6 | -0.3 | 0.1 | 0.7 | -0.1 | -0.4 | -0.6 | 0.1 | 1.0 | 1.0 | 0.6 | -0.2 | 1.5 |
| Social contribution and tax burden (-25%) | 1.6 | 0.6 | 3.4 | 4.7 | -2.8 | 1.0 | 1.3 | 2.7 | -1.4 | 0.6 | 7.4 | 4.5 | 1.8 |
| *Contributions by paid employees (-8%)* | *1.1* | *0.5* | *0.9* | *2.0* | *0.5* | *0.6* | *0.4* | *0.4* | *0.5* | *0.4* | *3.4* | *3.3* | *1.3* |
| *Contributions of self-employed persons (-2%)* | *4.7* | *1.5* | *1.7* | *2.4* | *-0.5* | *0.6* | *1.7* | *0.5* | *0.5* | *0.5* | *5.9* | *4.0* | *2.3* |
| *Income and wealth tax (including CSG and CRDS) (-14%)* | *1.5* | *0.5* | *5.1* | *6.6* | *-5.0* | *1.3* | *1.8* | *4.3* | *-2.8* | *0.7* | *10.2* | *5.3* | *2.1* |
| Income before taxes | **0.5** | **0.4** | **0.5** | **0.2** | **0.4** | **0.5** | **0.3** | **0.5** | **0.6** | **0.4** | **2.0** | **1.6** | **1.6** |
| **Household consumer prices (quarterly national accounts)** | **0.8** | **0.2** | **0.1** | **0.2** | **0.3** | **-0.1** | **0.2** | **0.1** | **0.5** | **0.3** | **1.9** | **0.6** | **0.9** |
| **Purchasing power of gross disposable income** | **-0.4** | **0.2** | **-0.3** | **-0.9** | **0.9** | **0.5** | **-0.1** | **-0.1** | **0.6** | **0.1** | **-0.9** | **0.5** | **0.6** |
| **Household purchasing power by consumption** | **-0.6** | **0.0** | **-0.4** | **-1.0** | **0.8** | **0.3** | **-0.3** | **-0.3** | **0.5** | **-0.2** | **-1.5** | **-0.1** | **0.0** |

Forecast

How to read it: The figures in parentheses give the structure of the year 2012.

(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

| | 2012 | | | | 2013 | | | | 2014 | | 2012 | 2013 | 2014 ovhg |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | | |
| Non-financial enterprises (67%) | 0.5 | 0.2 | 0.4 | 0.1 | 0.4 | 0.6 | 0.3 | 0.3 | 0.5 | 0.4 | 1.8 | 1.3 | 1.3 |
| *including :* | | | | | | | | | | | | | |
| *Average wage per head* | *0.5* | *0.3* | *0.6* | *0.4* | *0.5* | *0.7* | *0.4* | *0.4* | *0.5* | *0.4* | *1.9* | *2.0* | *1.5* |
| Financial corporations (5%) | 1.0 | 0.3 | 0.3 | -0.5 | 1.2 | 0.3 | 0.5 | 0.5 | 0.6 | 0.5 | 1.2 | 1.7 | 1.7 |
| General government (22%) | 0.4 | 0.5 | 0.4 | 0.4 | 0.3 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 1.4 | 1.3 | 0.9 |
| Households excluding sole proprietors (2%) | -0.2 | 0.0 | 1.9 | 0.3 | -0.8 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 1.6 | 0.9 | 1.2 |
| **Total gross wages received by households (100%)** | **0.6** | **0.3** | **0.5** | **0.2** | **0.4** | **0.5** | **0.3** | **0.4** | **0.5** | **0.4** | **1.9** | **1.5** | **1.3** |
| *including :* | | | | | | | | | | | | | |
| *Non-agricultural market sectors* | *0.6* | *0.2* | *0.4* | *0.0* | *0.4* | *0.6* | *0.2* | *0.3* | *0.5* | *0.4* | *1.7* | *1.3* | *1.3* |

Forecast

How to read it: The figures in parentheses give the structure of the year 2012.

*Source: INSEE*

Table 3

**Social transfers received and paid by households**

| | 2012 | | | | 2013 | | | | 2014 | | 2011 | 2012 | 2013 ovhg |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | | |
| **Social cash benefits received by households (100%)** | **1.2** | **1.1** | **1.0** | **0.8** | **0.6** | **0.8** | **0.8** | **0.9** | **0.7** | **0.2** | **4.0** | **3.3** | **2.2** |
| Social Security benefits in cash (72%) | 1.2 | 1.2 | 1.1 | 0.9 | 0.6 | 0.6 | 0.8 | 0.9 | 0.7 | 0.0 | 4.2 | 3.2 | 2.0 |
| Private funded social benefits (7%) | 1.2 | 0.0 | 0.6 | 0.4 | 0.2 | 1.9 | 0.0 | 1.0 | 0.5 | 0.4 | 2.2 | 2.5 | 2.0 |
| Unfunded employee social benefits (13%) | 1.0 | 0.9 | 0.8 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.6 | 3.7 | 2.8 | 2.2 |
| Social assistance benefits in cash (8%) | 1.5 | 1.6 | 1.3 | 1.2 | 1.4 | 1.2 | 1.8 | 1.2 | 0.8 | 0.8 | 4.2 | 5.5 | 3.6 |
| **Total social contribution burden** | **0.9** | **0.6** | **0.7** | **1.1** | **0.2** | **0.7** | **0.4** | **0.5** | **0.5** | **0.5** | **3.1** | **2.4** | **1.6** |
| Actual social contributions paid by households (100%) | 0.9 | 0.5 | 0.7 | 1.2 | 0.1 | 0.7 | 0.4 | 0.4 | 0.5 | 0.4 | 3.0 | 2.4 | 1.6 |
| including : | | | | | | | | | | | | | |
| *Employers contributions[1] (63%)* | *0.4* | *0.4* | *0.5* | *0.7* | *0.0* | *0.7* | *0.3* | *0.5* | *0.5* | *0.5* | *2.5* | *1.7* | *1.6* |
| *Employees contributions (29%)* | *1.1* | *0.5* | *0.9* | *2.0* | *0.5* | *0.6* | *0.4* | *0.4* | *0.5* | *0.4* | *3.4* | *3.3* | *1.3* |
| *Self-employed contributions (8%)* | *4.7* | *1.5* | *1.7* | *2.4* | *-0.5* | *0.6* | *1.7* | *0.5* | *0.5* | *0.5* | *5.9* | *4.0* | *2.3* |

Forecast

How to read it: The figures in parentheses give the structure of the year 2012.

(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 2012, growth in the number of consumption units was 0.6% (as a comparison, growth in the population was 0.5% and growth in the number of households 1.0%).

Therefore, purchasing power per consumption unit is set to fall in 2013 (-0.1% after -1.5% in 2012). Per household, the fall should be 0.5% and per inhabitant it should be stable. ■

# Household consumption and investment

*In Q3 2013, household consumption slowed down slightly (+0.2% after +0.4%). In particular, energy expenditure fell back significantly and consumption of services slowed down. However, spending on foodstuffs rebounded and that on manufactured goods was dynamic again.*

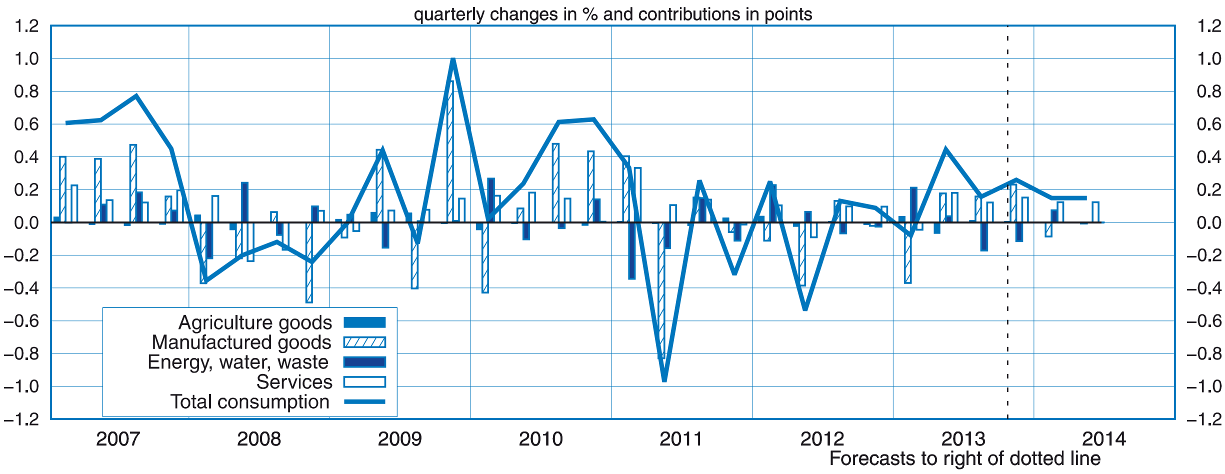
*Consumption of manufactured goods should remain dynamic in Q4 2013, as households bring purchases forward in anticipation of the tighter terms on the automobile "malus" scheme at the beginning of 2014 and the release of employee saving schemes. Consumption of goods should therefore rebound. The profile of consumption in home maintenance services could also be affected by people anticipating the rise in VAT in January 2014. Consumption of services should therefore also increase, with total consumption rising by 0.3%. In the light of their purchasing power prospects, household consumption is likely to slow down again in H1 2014 (+0.1% per quarter). Households are likely to smooth out the shocks in their purchasing power and the savings ratio is therefore likely to show ups and downs (15.7% in Q3 2013 then 15.3% in Q4, before rebounding slightly in H1 2014 to stand at 15.6% in mid-2014).*

## In Q3 2013, energy expenditure fell back significantly

In Q3 2013, household consumption slowed down slightly (+0.2% after +0.4%, see *Table*), due to the fall in expenditures on energy (-3.0%, see *Graph 1*), showing a return to normal after two dynamic quarters (+2.0% then +2.5%) due to temperatures below the seasonal norms. Expenditures on food returned to a growth rate closer to its trend (+0.4%), after falling in the spring (-1.1%) due notably to the effect of Easter weekend coming earlier than usual.

Engineered goods expenditures remained dynamic. On the one hand, purchases of automobiles continued to progress (+1.1% after +2.1%) after a fall at the start of the year (-5.5%) caused by the tighter terms on the "malus" system on 1st January 2013.Textile-clothing-leather consumption also rebounded (+1.6%) after falling for two consecutive quarters. Finally, consumption of services slowed down (+0.2% after +0.4%). In particular, spending on accommodation and food services was almost stable this summer, after rising in the spring.

**1 - Contributions of the various items to quarterly household consumption**




*Source: INSEE*

## In Q4 2013, consumption of manufactured goods set to remain dynamic

Total household consumption should rise again in Q4 2013, at a rate similar to Q3 (+0.3% after +0.2%). If temperatures remain close to normal in December, after a milder-than-average month of October, energy consumption should fall sharply over Q4 as a whole (-2.2% after -3.0%). Consumption of engineered goods should also remain dynamic (+1.2%), buoyed in particular by the release of profit-sharing schemes and by automobile purchases being brought forward in anticipation of the tighter terms on the automobile ecological "malus" scheme as of 1st January 2014. However, textile-clothing-leather expenditure is likely to fall again, following the trend since 2006. Likewise, consumption of foodstuffs should return to a more moderate rise in Q4 2013 (+0.2% after +0.4%). Finally, consumption of services should continue to progress in Q4 2013, at a rate close to that in Q3 (+0.3% after +0.2%), as people anticipate the rise in VAT in construction from January 2014, boosting consumption of home maintenance services.

## In H1 2014, consumption is likely to slow down

Through the gradual price rises they are likely to generate, the rises in the VAT rates that come into force on 1st January 2014 should continue to limit the increase in household consumption in H1 2014, which should slow down to +0.1% per quarter (after +0.3% in Q4 2013).

Consumption of goods should also be affected by the tighter terms on the automobile ecological "malus", which are likely to bring purchases of new automobiles down. In Q2 2014, the fall in spending on engineeed goods should continue due to the fall in spending on clothing, but should be limited by the rebound in sales of televisions linked to the football World Cup (see *focus in Conjoncture* in France*, June 2010*). For services, those items that are the hardest hit by the rise in VAT (accommodation and food services, transport and home cleaning and maintenance), should show a sharper slowdown. Total consumption of services is thus likely to increase by 0.2% in Q1 and Q2 2014, after +0.3% in Q4 2013.

## In mid-2014, the savings ratio is 0.3 points below its mid-2013 level

All in all, household consumption should increase in 2013 (+0.4%), slightly less than household purchasing power (+0.5%). The savings ratio should reach 15.7% on average over the year, after 15.6% in 2012 (see Graph 2). This near-stability in fact hides ups and downs from one quarter to another. Households do tend to smooth out any shocks in their purchasing power by adjusting their savings. In the light of the expected falls in purchasing power in H2 2013, linked to the new measures affecting households' tax for 2013, the

**Household consumption and investment expenditure**

| | Quarterly changes in % | | | | | | | | | | Annual changes in % | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | | | | 2013 | | | | 2014 | | 2012 | 2013 | 2014 ovgh |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | | |
| **Total household consumption expenditures (B+S)** | **0.2** | **-0.5** | **0.1** | **0.1** | **-0.1** | **0.4** | **0.2** | **0.3** | **0.1** | **0.1** | **-0.4** | **0.4** | **0.6** |
| **Services (S)** | **0.2** | **-0.2** | **0.2** | **0.2** | **-0.1** | **0.4** | **0.2** | **0.3** | **0.2** | **0.2** | **0.4** | **0.6** | **0.8** |
| **Goods (G)** | **0.4** | **-0.7** | **0.1** | **-0.1** | **-0.1** | **0.3** | **-0.1** | **0.2** | **0.0** | **0.0** | **-0.5** | **-0.1** | **0.2** |
| *including* | | | | | | | | | | | | | |
| **Food (AZ-C1)** | **1.0** | **-0.7** | **0.5** | **-0.9** | **1.0** | **-1.1** | **0.4** | **0.2** | **0.1** | **0.1** | **0.2** | **-0.2** | **0.3** |
| Agriculture goods (AZ) | 1.3 | -0.8 | 0.2 | -0.5 | 1.2 | -2.3 | 0.4 | 0.2 | 0.1 | 0.1 | 0.9 | -0.7 | -0.1 |
| Agri-food products (C1) | 0.9 | -0.7 | 0.5 | -1.0 | 1.0 | -0.9 | 0.4 | 0.2 | 0.1 | 0.1 | 0.0 | -0.1 | 0.3 |
| **Energy (DE-C2)** | **3.3** | **1.1** | **-1.3** | **0.0** | **2.0** | **2.5** | **-3.0** | **-2.2** | **0.8** | **-0.2** | **1.5** | **1.4** | **-2.0** |
| Energy, water, waste (DE) | 6.4 | 1.7 | -1.7 | -0.7 | 5.6 | 0.9 | -4.3 | -3.0 | 2.0 | 0.0 | 5.2 | 2.3 | -2.3 |
| Coke and refined petroleum(C2) | 0.5 | 0.5 | -0.8 | 0.6 | -1.4 | 4.1 | -1.8 | -1.4 | -0.3 | -0.5 | -1.8 | 0.5 | -1.6 |
| **Engineered goods (C3 à C5)** | **-1.1** | **-1.3** | **0.4** | **0.5** | **-2.0** | **0.6** | **0.8** | **1.2** | **-0.4** | **0.0** | **-1.9** | **-0.7** | **1.0** |
| ***Manufactured products (C1 à C5)*** | ***-0.3*** | ***-0.9*** | ***0.3*** | ***0.0*** | ***-0.9*** | ***0.4*** | ***0.4*** | ***0.5*** | ***-0.2*** | ***0.0*** | ***-1.2*** | ***-0.3*** | ***0.5*** |
| Investment expenditure | -0.7 | -0.1 | -0.4 | -1.0 | -1.3 | -1.7 | -0.6 | 0.0 | -0.3 | -0.6 | -0.4 | -3.7 | -1.4 |

Prévision

*Source : Insee*

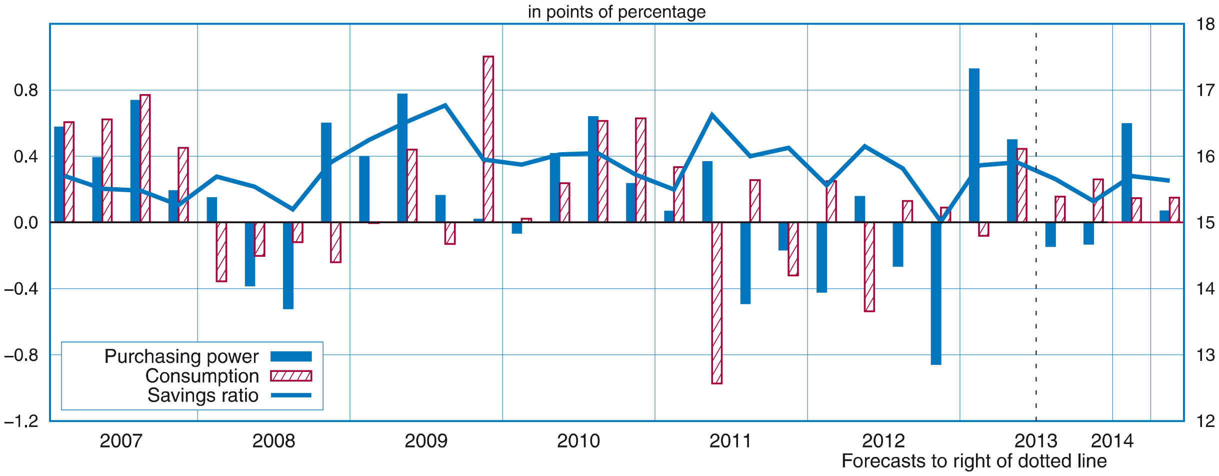
savings ratio should fall slightly in Q3 (15.7% after 15.9% in mid-2013), then more sharply in Q4 (15.3%). For the same reasons, the upturn in purchasing power in Q1 2014 should lead to an upturn in the savings ratio by 0.4 points, before the latter slips again to stand at 15.6% in mid-2014, which is 0.3 points below its level in mid-2013. This fall will be down to a decrease in precautionary saving by households as activity prospects look better.

## Household investment set to level out in Q4, before falling again

Household investment fell less sharply in Q3 2013 (-0.6%) than in previous quarters and should level out in Q4 2013, as housing starts rebounded at the start of the year (*see Graph 3*) and some spending on home maintenance is brought forward in anticipation of the rise in VAT on 1st January 2014.

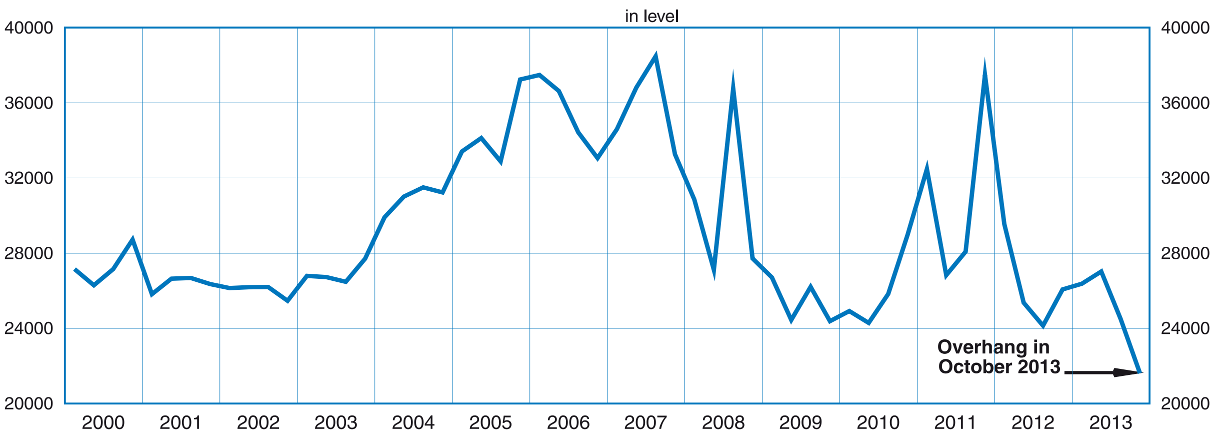
Housing starts fell in Q3 2013 and the first data available on Q4 does not suggest any short-term improvement to be likely. Consequently, in H1 2014, household investment should fall again (-0.3% and -0.6%), also hit to a lesser extent by the rise in VAT on home maintenance. Over 2013 as a whole, household investment should fall clearly (-3.7%) after being almost stable in 2012 (-0.4%). The growth overhang in household investment should stand at -1.4% in mid-2014. ■

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




*Source: INSEE*

**3 - Housing starts for all dwellings per quarter**




*Source: SOeS*

# Enterprises' earnings

*In 2013, the margin rate of non-financial companies is expected to continue falling: it should reach its lowest level since 1985, i.e. 28.1% on average over the year after 28.3% in 2012. Indeed the increase in the wage per head in real terms and the rise in social contributions should only be partly offset by the rise in productivity gains and the improved terms of trade.*
*At the end of H1 2014 the margin rate should stand at 28.1% (29.2% when adjusted to integrate the accounting impact of the Tax Credit for Encouraging Competitiveness and Jobs CICE tax credit).*

## The margin rate down to its lowest level since 1985

Falling continuously since mid-2010, the margin rate of non-financial companies picked up slightly in H1 2013 to reach 28.2% in mid-2013 (*see Graph 1*), thanks to the decrease in the prices of imports and hence a more favourable contribution from the terms of trade (+0.2 points).

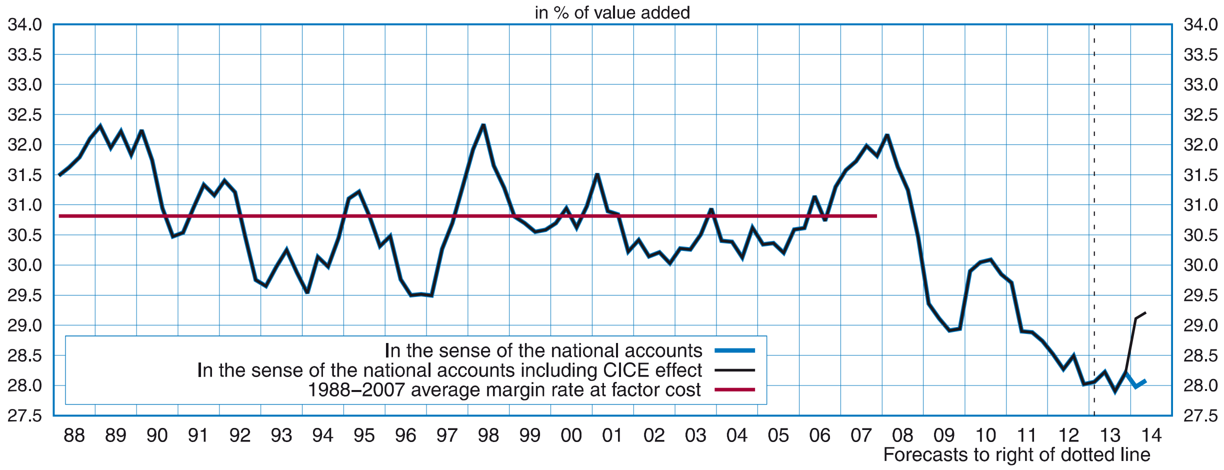
## The margin rate no longer deteriorating in H2 2013

In Q3 2013 the margin rate appears to have dropped (-0.3 points) and then picked up in Q4 to stand at 28.2% by the end of 2013. The quarterly profile of the margin rate should principally reflect the activity profile of non-financial companies: productivity gains should contribute +0.3 points in Q4 after -0.2 points in Q2 (*see Graph 2*). Over the half-year as a whole these effects should be fully offset by a rise in real wages per head: contribution of -0.2 points in Q4 after -0.1 points in Q3.

## In 2014 the margin rate likely to be affected by the CICE and the rise in VAT

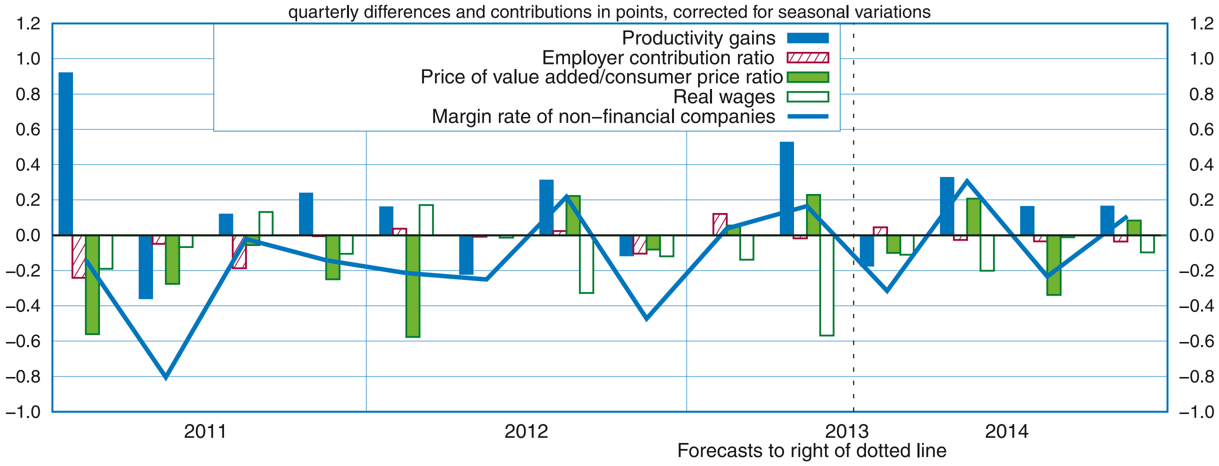
In H1 2014 progress in spontaneous productivity gains at the same time that real wages stagnate should contribute to a recovery of the margin rate. But it should also be affected by the introduction of the CICE and the VAT rise on 1st January. On the one hand, the CICE is likely to slow down the recovery of productivity gains (for a value of -0.2 points in H1, *see Employment Focus*). On the other hand it should contribute to postponing the repercussions on prices of the VAT rise of 1st January: companies should absorb 60% of it through to the end of June, i.e. a contribution of -0.3 points on their margin rate. All in all, the margin rate should stand at 28.1% in Q2 2014, after 28.2% in Q4 2013 (*see Table*). Adjusted in order to integrate the accounting impact of the CICE, the margin rate should come to 29.2% in Q2 2014, a rise of 1.0 points against the end of 2013. ■

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




*Source: INSEE*

## 2 - Contributions to the variation in the margin rate of non-financial companies




Source: INSEE

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

| | 2012 | | | | 2013 | | | | 2014 | | 2012 | 2013 | 2014 ovgh |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | | |
| **Margin rate (in level)[1]** | **28.5** | **28.3** | **28.5** | **28.0** | **28.1** | **28.2** | **27.9** | **28.2** | **28.0** | **28.1** | **28.3** | **28.1** | **28.1** |
| **Variation in margin rate** | **-0.2** | **-0.3** | **0.2** | **-0.5** | **0.0** | **0.2** | **-0.3** | **0.3** | **-0.2** | **0.1** | **-0.7** | **-0.2** | **0.0** |
| **Contributions to the variation margin rate** | | | | | | | | | | | | | |
| *Productivity gains* | *0.2* | *-0.2* | *0.3* | *-0.1* | *0.0* | *0.5* | *-0.2* | *0.3* | *0.2* | *0.2* | *0.3* | *0.4* | *0.6* |
| *Real wage per head* | *0.2* | *0.0* | *-0.3* | *-0.1* | *-0.1* | *-0.6* | *-0.1* | *-0.2* | *0.0* | *-0.1* | *-0.1* | *-0.9* | *-0.4* |
| *Employer contribution ratio* | *0.0* | *0.0* | *0.0* | *-0.1* | *0.1* | *0.0* | *0.0* | *0.0* | *0.0* | *0.0* | *-0.1* | *0.1* | *-0.1* |
| *Ratio of the value-added price to the consumer price* | *-0.6* | *0.0* | *0.3* | *0.0* | *0.1* | *0.2* | *-0.1* | *0.2* | *-0.3* | *0.1* | *-0.6* | *0.4* | *-0.1* |
| *Others factors* | *0.0* | *0.0* | *0.0* | *-0.2* | *0.0* | *0.0* | *0.0* | *0.0* | *0.0* | *0.0* | *-0.2* | *-0.2* | *-0.1* |
| **Margin rate corrected to include CICE effect (in level)** | **28.5** | **28.3** | **28.5** | **28.0** | **28.1** | **28.2** | **27.9** | **28.2** | **29.1** | **29.2** | **28.3** | **28.1** | **29.2** |
| **Variation in margin rate corrected to include CICE effect** | **-0.2** | **-0.3** | **0.2** | **-0.5** | **0.0** | **0.2** | **-0.3** | **0.3** | **0.9** | **0.1** | **-0.7** | **-0.2** | **1.1** |

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.

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

Source: INSEE

# Corporate investment and inventory

*In Q3 2013, corporate investment fell by 0.6% (after +0.1% in Q2). Investment in manufactured goods grew (+0.9%) after shrinking for six consecutive quarters. Conversely, corporate expenditure on construction fell once again (-0.5%) and investment in services slumped unusually sharply (-2.8%). The expected reaction by this latter item should see corporate investment rebound in Q4 2013, a rise that is then likely to continue at a slower rate in H1 2014, linked to the activity profile.*

*In H1 2014, corporate investment should show a growth overhang of +0.7% at end June.*

*In Q3 2013 the destocking trend slowed sharply (0.5 GDP points), mainly due to a strong trend towards building up stocks in the aeronautical industry (accounting for +0.3 points), with an expected reaction effect in Q4 2013: destocking should accelerate once again (for a contribution to GDP of -0.2 points). The contribution of inventory should be nil in H1 2014.*

## In Q3 2013, corporate investment fell once again

Investment by non-financial enterprises (NFEs) declined in Q3 2013 by 0.6% (*see Table 1*), after stabilising in Q2 (+0.1%). This fall was essentially due to the slump in investment in services, which was unusually sharp (-2.8%). The decline in construction expenditure, which had been uninterrupted since the end of 2011 but which came to a halt in Q2 2013 (0.0%), resumed in Q3 (-0.5%). However, investment in manufactured goods progressed by 0.9%, mainly in transport equipment (+2.4%). Capital goods expenditures rose (+0.6%). All in all, the investment rate remained stable at 17.6% in Q3 2013 (*see Graph 1*).

## In Q4 2013, investment set to resume

The business tendency surveys suggest an increase in investment at the end of the year. The industrialists surveyed in October 2013 predict a rise in their investments in H2 2013. In services, business leaders consider that their investment expenditure has risen in recent months. They are less optimistic about their future investments, however. Furthermore, tensions on production capacity (*see Graph 2*) are still low. In October the production capacity utilisation rate in manufacturing stood at 81%, well below its long-term average of 85%.

Financing conditions should improve over the forecasting period. Firstly, the margin rate of non-financial companies, which dropped once again in Q3 2013, should pick up in Q4 2013 then stabilise in H1 2014, while the cash-flow of enterprises should benefit from the favourable effect of the new Tax Credit for Encouraging Competitiveness and Jobs (CICE). After increasing sharply in 2013 under the effect of the large drop in inflation, the real lending rate should fall back over

Table 1

**Investment by non-financial enterprises (NFE)**

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

| | Quarterly variations | | | | | | | | | | Annual variations | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2012** | | | | **2013** | | | | **2014** | | **2012** | **2013** | **2014 ovgh** |
| | **Q1** | **Q2** | **Q3** | **Q4** | **Q1** | **Q2** | **Q3** | **Q4** | **Q1** | **Q2** | | | |
| Manufactured products (43%) | -3.9 | -1.1 | -1.5 | -1.1 | -1.1 | -0.4 | 0.9 | 1.2 | 0.6 | 0.6 | -3.7 | -2.5 | 2.4 |
| Building and public works (28%)) | -1.4 | -0.3 | -0.8 | -0.8 | -0.5 | 0.0 | -0.5 | -0.2 | -0.4 | -0.6 | -2.2 | -1.9 | -1.3 |
| Other (29%) | 1.4 | -0.1 | -0.2 | 0.8 | -0.7 | 0.9 | -2.8 | 1.0 | 0.5 | 0.5 | 1.2 | -0.7 | 0.4 |
| **All non-financial enterprises (100%)** | -1.7 | -0.6 | -0.9 | -0.5 | -0.8 | 0.1 | -0.6 | 0.7 | 0.2 | 0.2 | -1.9 | -1.8 | 0.7 |

Forecast

*Source: INSEE*

the forecasting period. Additionally, according to the available data bank lending conditions have stopped tightening (*see Graph 3*).

The increase in investment by NFEs should gather pace in Q4 2013 (+0.7%) with a rebound in investment in the service sector in reaction to the slump in Q3. It is then likely to weaken in H1 2014 (+0.2% per quarter) due to the slowdown in activity. The investment rate, which has fallen slightly since the start of 2011, should stabilise at around 17.6% by mid-2014.

## Investments in manufactured goods should continue to grow

After a rise in Q3 (+0.9%), investment by NFEs in manufactured goods should accelerate in Q4 2013 (+1.2%), then slow over the coming quarters (+0.6% and +0.6%). Company vehicle registration data up to November give rise to expectations of sharp growth in automobile purchases in Q4. The rise in capital goods expenditures - which account for almost 40% of investment in manufactured goods - is likely to continue: in November, the wholesalers questioned in the business tendency survey indicated that both sales and order intentions in capital goods were progressing.

## In construction, investment likely to decline once again

In the building sector the entrepreneurs surveyed in November expect the contraction in their activity to continue over the coming months. Bearing in mind the slump in building permits since Q2 2013, housing starts are likely to remain in a downward trend. Corporate expenditure on construction should therefore decline through to Q2 2014 (-0.2% in Q4 2013, -0.4% in Q1 2014 and -0.6% in Q2 2014).

## Investments in services set to rebound in Q4 2013

Other investments, mainly in IT services and specialised, scientific and technical activities, should rise by 1.0% in Q4 2013. The business leaders in these sectors surveyed in November predict a stabilisation of their activity, but the unusual drop in investments in services in Q3 2013 points to an adjustment at the end of the year, followed by more moderate growth in the following quarters (+0.5% in Q1 and Q2 2014).

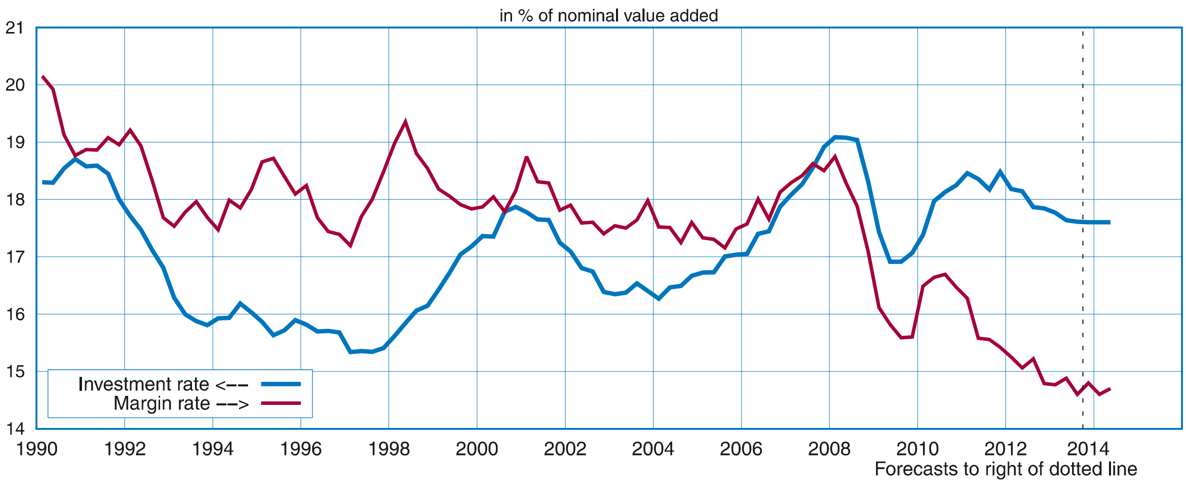
## Halt in the slide in the investment rate

Over the year 2013 as a whole, investment expenditures by NFEs should be lower than in 2012 (-1.8%). The decline in investment in manufactured goods (-2.5%) is likely to be offset by a lesser drop in spending on services (-0.7%) and construction (-0.8%). The investment rate of NFEs should reach 17.6% at end 2013 and remain at this level over the forecasting period.

## Destocking of manufactured goods slowed sharply in Q3 2013

In Q3 2013, the destocking trend in manufactured goods slowed sharply, to the extent that the contribution of inventory was +0.5 GDP points, after +0.1 points in the previous quarter (*see Table 2*). Added to this slower destocking of manufactured goods (+0.4 points) is that of

**1 - Investment rate and margin rate**




*Source: INSEE quaterly accounts*

energy, water and waste products (+0.1 point) and the pick-up in the building up of stocks in agricultural products (+0.1 point)[1].

In transport equipment, enterprises built up stock extensively in Q3 2013, mainly due to the sharp fall in aeronautical exports. Aeronautical deliveries declined against Q2 and, in the business tendency survey in industry, industrialists in the other transport equipment sector indicate that their stocks are high.

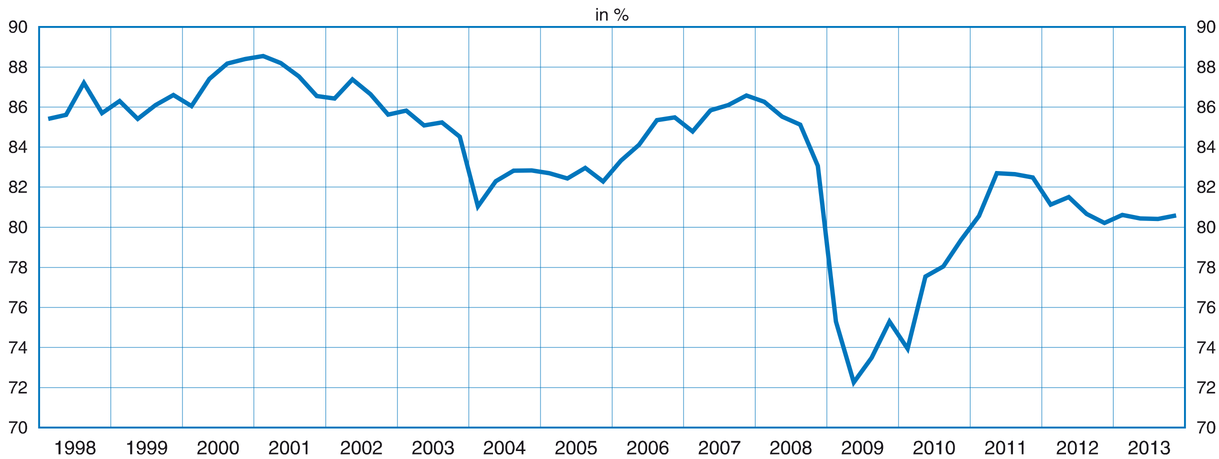
(1) In practice, as fuel stocks are imported rather than produced, and as the estimate in the agricultural quarterly accounts follows an annual forecast, inventory change measured in these two sectors have no effect on GDP.

## In Q4 2013, the contribution of inventory is likely to be negative due to destocking in the aeronautical industry

In Q4 2013 the contribution of inventory to growth should be negative (-0.2 points): aeronautical exports should see a positive reaction after the downturn in Q3, leading to a lesser tendency to build up stocks.

In H1 2014 the rate at which stocks are built up should stabilise (zero contribution to growth in Q1 and Q2). ■

**2 - Production capacity utilisation rate in manufacturing industry**




*Source: INSEE, quaterly survey on activity in industry*

Table 2

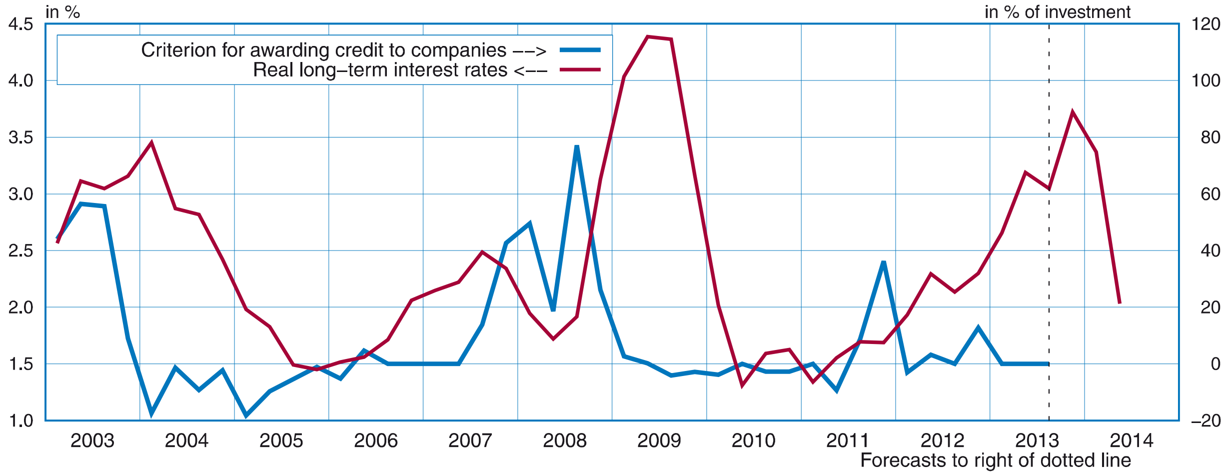
**Contribution of inventory changes to growth**

in points of GDP

| | Quaterly changes | | | | | | | | | | Annual changes | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | | | | 2013 | | | | 2014 | | 2012 | 2013 | 2014 ovhg |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | | |
| **Agricultural and agrifood products** | 0.1 | 0.0 | 0.1 | -0.1 | -0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 |
| **Manufactured products** | -0.1 | 0.1 | -0.2 | -0.4 | 0.4 | 0.1 | 0.4 | -0.2 | 0.0 | 0.0 | -1.0 | 0.3 | 0.1 |
| *including:* | | | | | | | | | | | | | |
| *Agro-food products* | -0.1 | 0.0 | 0.0 | 0.2 | -0.1 | 0.1 | 0.0 | | | | | | |
| *Coke and petroleum products* | -0.1 | 0.1 | 0.1 | -0.3 | 0.3 | -0.1 | 0.0 | | | | | | |
| *Machinery and equipment goods* | -0.1 | 0.0 | 0.0 | 0.0 | 0.1 | -0.1 | 0.0 | | | | | | |
| *Transport equipment* | 0.1 | 0.1 | -0.3 | -0.1 | 0.1 | 0.2 | 0.3 | | | | | | |
| *Others industrial goods* | 0.0 | 0.0 | 0.1 | -0.2 | 0.1 | 0.0 | 0.0 | | | | | | |
| **Energy. water and waste** | 0.1 | -0.2 | 0.1 | 0.1 | -0.2 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 | 0.1 |
| **Other (construction. services)** | 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]** | 0.1 | -0.1 | 0.1 | -0.4 | 0.2 | 0.1 | 0.5 | -0.2 | 0.0 | 0.0 | -0.8 | 0.2 | 0.2 |

Forecast
(1) Inventory changes include acquisitions net of sales of valuables.
*Source: INSEE*

**3 – Criterion for granting credit to businesses[1] and long-term actual borrowing rates[2]**




(1) Criteria for granting credit: net balance of weighted responses = tightening - easing.

(2) Here, the real rate denotes the interest rate on new loans to non-financial companies, the rate of which is revisable at a frequency of more than one year, i.e. at a fixed rate for an initial period of more than one year. This rate is deflated by the producer price index of all goods and services.