French developments

France's International Environment

In Q1 2012, the advanced economies accelerated slightly (+0.3% after +0.2%), as forecast in March. Activity saw a pronounced upturn in Japan and remained sound in the United States. Conversely, it contracted again in the United Kingdom and was stable in the Eurozone.

In Q2, activity in the advanced economies should slow down (+0.2%). According to the business tendency surveys, business leaders report a deterioration in the business climate, notably because financial tensions are flaring up again in Europe. In the Eurozone, activity is likely to contract (-0.2%) with domestic demand remaining depressed. In contrast, domestic demand should buoy up activity in the United States and Japan.

In H2 2012, activity in the advanced economies should accelerate modestly (+0.4% per quarter) notably thanks to the acceleration in demand from emerging countries. Over the year as a whole, the divergence in trends should be great: the Eurozone (-0.3% in 2012 after +1.5% in 2011) and the United Kingdom (+0.1% after +0.7%) should experience a marked slowdown in activity, while GDP should accelerate in the United States (+2.2% after +1.7%) and in Japan (+2.6% after -0.7%).

In Q1, the emerging countries benefited from the upturn in world trade, with the stabilisation of trade in Asia as the shock caused by the floods in Thailand faded out. In addition to this, the tighter monetary policies conducted to control inflationary tensions have borne fruit and inflation has fallen back. The emerging economies have settled into a slower growth rate in recent quarters than their long-term trend. With the easing of fiscal and monetary policies, demand in these economies should accelerate in H2.

In this sluggish international environment, world demand for French exports is likely to be stable in Q2 (+0.0%) and then grow moderately in H2 (+0.5% per quarter).

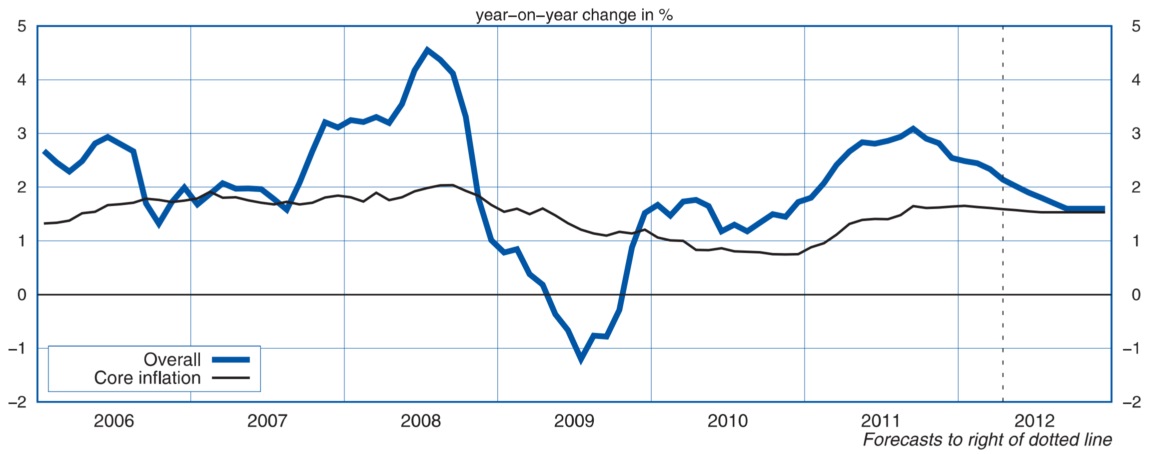
Rising financial tensions and easing of monetary policies

In the Eurozone, tensions on the sovereign debt market flared up again in April 2012, after easing markedly in Q1 thanks, among other things, to the long-term financing operations conducted by the European Central Bank (ECB). Sovereign rate spreads between the countries with the best signatures (Germany, Netherlands) and the lowest-rated countries (Portugal, Ireland, Spain and Italy in particular) widened considerably once again. They are now at levels not seen since the creation of the Eurozone.

After easing significantly in Q4 2011, financing terms for private agents stabilised in Q1 2012 thanks to the action of the ECB. However, growing tensions on sovereign debt markets are likely to put an end to the improvement in lending terms for the rest of 2012.

Outside the Eurozone, sovereign rates continue to stand at exceptionally low rates. In the United

1 - Inflation to fall in the advanced economies change



Source: National Statistical Institutes, INSEE calculations

States, financing terms for businesses are easing and demand for loans is on the up. In Japan, the central bank decided on new non-conventional measures at the end of April to limit the rise in the Yen. The Bank of England, meanwhile, continued the public debt buying operation it started in autumn 2011.

In the emerging countries, the central banks have distinctly eased their monetary policies since the beginning of 2012, after the slowdown in activity and the significant fall in inflation. The monetary authorities are likely to continue easing their monetary policies to facilitate access to loans.

Fiscal policies still contrasted

Fiscal policies should be expansionist in Japan and in many emerging countries, but restrictive in the United States, United Kingdom and Eurozone.

In Japan, four reconstruction plans have been passed for a total of 18,500 billion Yen (3.8 points of GDP). These fiscal stimulus measures contributed to the clear upturn in activity in Q1 2012. The fiscal stimulus should continue to support the upturn in Japan through to the time horizon of the forecast.

In China, the central government wants to foster the development of twenty strategic sectors, including the automotive sector with a new subsidy for purchases of small cars. Faced with a fall in industrial production for a year, the Brazilian government, meanwhile, has announced a stimulus plan combining tax cuts and protectionist measures. Among the BRIC countries, only India is likely to be an exception: fiscal consolidation measures (a reduction in petrol subsidies, among others) should be introduced to reduce the high deficit.

In the United States, the trend in public finances should remain restrictive in 2012. Current account transfers have no longer been supporting the progression in household revenues for several quarters and the withdrawal of the support measures implemented since 2009 should continue at the same pace in 2012 as in 2011. In addition to this, the consolidation of public budgets, notably local budgets and national defence, which has been underway for a year, should continue. Public spending should thus fall by 2.0% in 2012, as in 2011.

In Europe, the effort to consolidate public finances should intensify in 2012. In most countries, new measures came into application in 2012 and they should weigh down in particular on household purchasing power. In 2012, for example, purchasing power should fall in Spain and Italy (by -4.3% and -2.7% respectively). Purchasing power should increase, meanwhile, in Germany and the United Kingdom.

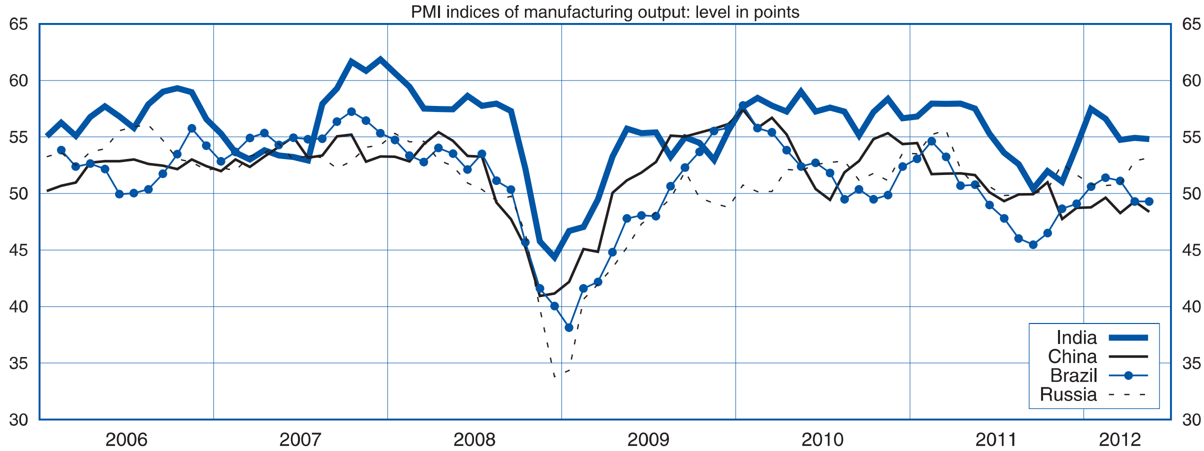
Inflation should fall significantly thanks to the drop in oil prices

From summer 2010, inflation increased sharply in the advanced economies, in the wake of the surge in international commodity prices: it rose from 1.2% in Q2 2010 to 2.9% in Q3 2011 *(see Graph 1)*. Since then, inflation has eased quickly thanks to the drop in commodity prices. It should continue to fall through to the time horizon of the forecast : the return of oil prices to somewhere around $100 per barrel of Brent, after peaking at $125 a barrel in March, and the stability of other commodity prices should allow a drop in energy and food product inflation. All in all, inflation in the advanced economies, expressed year on year, should fall to 2.0% in Q2 2012 and then stand at 1.6% at the end of the year, against 2.4% in Q1.

In the emerging countries, fiscal and monetary stimuli should boost activity in H2

In Q1 2012, activity in emerging countries remained at a lower growth rate than the average rates observed prior to the crisis and activity slowed

2 - Moderate expansion in emerging economies



Sources: Markit

down in China. For Q2, according to the business tendency surveys, entrepreneurs are again reporting moderate expansion in activity in the manufacturing sector (see *Graph 2*), again at lower rates than in the 2000s. However, the easing of monetary policies since the start of the year by the central banks in India, China and Brazil, and the fiscal stimulus measures that have been announced should enable an acceleration in activity in H2 2012.

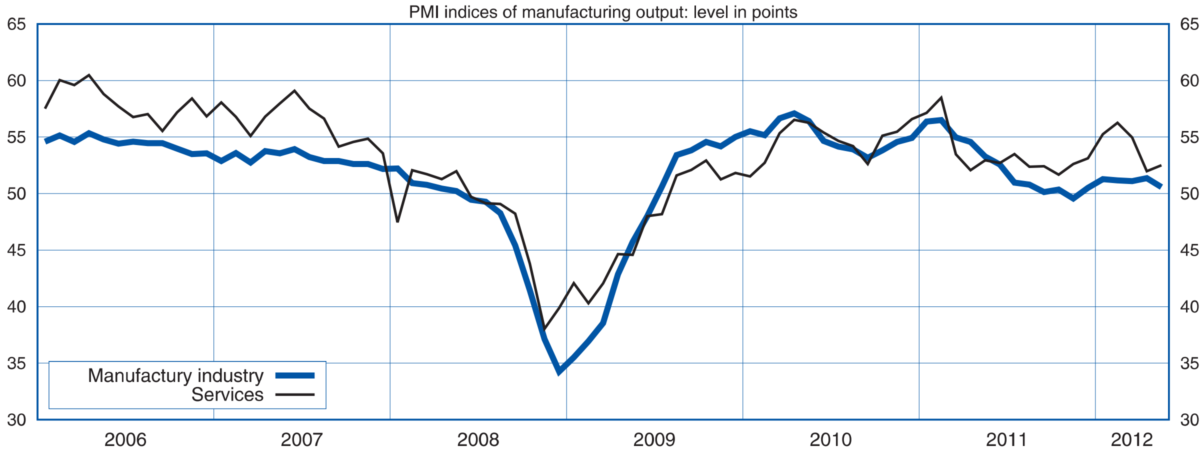
The progression in activity should remain modest in the advanced economies...

In Q1 2012, activity accelerated in all the advanced economies: household consumption increased and exports benefited from the upturn in world trade. On the other hand, investment fell due to the financial tensions that continue to weigh down on financing terms, particularly in Europe. Finally, fiscal consolidation measures continued to hold activity back.

From the peak in February 2012, the global outlook deteriorated in April and May. The fall was very pronounced in services and less so in the manufacturing sector (see *Graph 3*). In both sectors, however, the PMI remains in the expansion zone. Activity in the advanced economies should therefore slow down, but slightly (+0.2%), in Q2. Domestic demand should continue to progress at a moderate rate. Private consumption should slow down slightly in the United States and more clearly in Japan. It should fall back in Europe. Investment should remain dynamic in the United States and bounce back in Japan. Exports should slow down considerably (+0.9% after +1.6%) as demand from the emerging countries becomes less dynamic than in Q1.

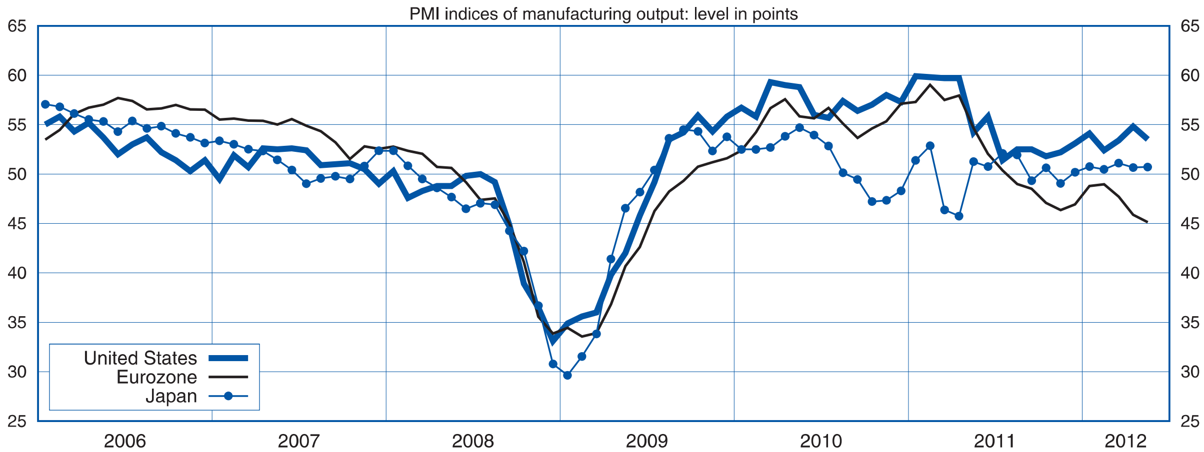
If financial tensions are not exacerbated, activity should grow at a rate of 0.4% per quarter in H2 2012. Growth in the advanced countries as a whole should benefit notably from the acceleration in demand from the emerging countries.

3 - The business climate in the advanced economies remains feverish



Sources: Markit

4 - The Eurozone falls behind



Sources: Markit

...still hit by the weakness of the Eurozone

This overall situation hides some very different outlooks (*see Graph 4*).

In the United States and Japan, domestic demand is supporting activity. American households are benefiting from a strong labour market and consumption is progressing. Financing terms also remain favourable and the property market seems to be on the road to recovery. The only thing holding activity back is fiscal consolidation resulting in a pronounced fall in public expenditure. The Japanese economy is benefiting from the support of its reconstruction plans, which are boosting public investment and automobile purchases.

Conversely, domestic demand remains depressed in the Eurozone. Tighter lending terms and poor prospects for activity are contributing to sluggish investment, while the deterioration of the labour market and fiscal consolidation measures are hitting household purchasing power. The United Kingdom should benefit from the spinoffs of the Olympic Games this summer and emerge from the recession. It should continue to be hit, however, by weak demand from the Eurozone.

All in all, the advanced economies should grow by +1.3% in 2012, as in 2011. The decorrelation between Europe and the rest of the advanced economies should be obvious. Activity is set to contract in the Eurozone (-0.3% after +1.5%) and to be stable in the United Kingdom (+0.1% after +0.7%). In contrast, it should surge in Japan (+2.6% after -0.7%) and accelerate in the United States (+2.2% after +1.7%)

World demand for French exports should slow down sharply over 2012

In Q1 2012, world trade saw a marked upturn (+1.6% after 0.0%), in line with our March forecast. Imports in advanced countries rose, particularly in Europe, and exports from emerging countries rebounded after the disruptions caused by the floods in Thailand.

In the surveys of purchasing managers (PMI), the new export order components suggest modest growth in world trade in Q2 (*see Graph 5*). World trade should thus progress by + 0.8% in Q2, then by +1.3% per quarter in H2, remaining below its medium-term growth rate (+1.7% per quarter). The trends differ between the main geographical areas: in Japan and the United States, domestic demand should remain sustained and imports continue to progress. In Europe, activity should remain depressed and imports progress only modestly over the forecast horizon. The emerging economies as a whole should have more dynamic imports than exports, thus making a positive contribution to net demand for products from the advanced economies. All in all, the rise in trade should be just +3.9% in 2012 after +5.7% in 2011.

Hit by weak European demand, world demand for French exports should be less dynamic than world trade as a whole. In Q2 2012, world demand for French products should be stable (+0.0%). In H2, it should benefit from accelerating demand from the emerging countries (+0.5% per quarter). All in all, it should be much less dynamic in 2012 (+0.9%) than in 2011 (+6,0%). ■

5 - World trade set to slow down in Q2

Sources: Markit, Centraal Bureau, INSEE forecast and calculations

Table1
Balance of resources and uses of the advanced economies, by volume

	Quarterly changes in %												Annual changes in %		
	2010				2011				2012				2010	2011	2012
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP	**0.8**	**1.0**	**0.6**	**0.3**	**0.0**	**0.1**	**0.6**	**0.2**	**0.3**	**0.2**	**0.4**	**0.4**	**2.8**	**1.3**	**1.3**
Private consumption	0.5	0.5	0.5	0.6	-0.1	0.0	0.4	0.2	0.5	0.2	0.2	0.3	1.7	1.0	1.2
Public consumption	-0.3	0.8	0.2	-0.3	-0.7	0.0	-0.1	-0.4	-0.2	-0.2	-0.2	-0.2	0.9	-0.8	-0.8
Investment	0.5	2.8	1.3	0.4	0.6	1.1	1.5	1.0	0.0	0.8	1.0	1.0	1.3	3.7	3.2
Exports	2.6	3.7	2.1	1.7	1.4	-0.2	2.2	-0.3	1.6	0.9	1.1	1.1	12.7	5.5	3.9
Imports	3.0	4.7	2.3	0.3	1.2	0.3	0.9	0.0	1.0	0.7	0.9	0.9	11.0	4.5	2.8
Contributions to GDP growth															
Domestic demand excluding inventories	0.3	0.9	0.4	0.4	-0.1	0.1	0.4	0.2	0.3	0.2	0.3	0.3	1.5	1.0	1.1
Inventories	0.6	0.2	0.2	-0.2	0.0	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	1.1	0.0	-0.1
Net exports	-0.1	-0.1	0.0	0.2	0.1	-0.1	0.3	0.0	0.1	0.0	0.1	0.0	0.2	0.3	0.3

Forecast

Sources: National statistical institutes; IMF; INSEE estimates and forecasts

Foreign trade

In Q1 2012, exports of goods and services slowed sharply (+0.3% after +1.1%). Exports of manufactured goods remained buoyant (+1.5% after +1.5%), but sales of agricultural products plummeted (-16.1%). In Q2, exports are once again likely to grow only slightly (+0.3%), then pick up somewhat in H2, sustained by a slight acceleration in foreign demand and the recent depreciation of the euro. Over 2012 as a whole, exports should increase by 2.9% after +5.5% in 2011.

After falling back sharply at the end of 2011, imports rebounded in Q1 2012 (+0.7% after -1.4%). They are set to continue rising, accelerating slightly at the end of the year in the wake of exports. Over the year as a whole, imports should grow by 0.8%, after +5.2% in 2011.

All in all, the contribution of foreign trade to growth in activity should be slightly negative in Q2 2012 (-0.1 points) then nil in H2. It should be clearly positive as an annual average (+0.6 points).

Exports likely to be sustained by demand from Germany and countries outside the Eurozone

In Q1 2012, exports progressed (+0.3%) less sharply than in the previous quarter (+1.1%, see *Table*). Sales of manufactured goods increased by 1.5%, buoyed by the recovery of world demand for French products (see *Graph 1*). Demand from Eurozone countries stabilised while that from the emerging countries rebounded. However, exports of agricultural products, particularly to North Africa, contracted sharply (-16.1%), and exports of energy goods declined.

In Q2, growth in exports is likely to remain low (+0.3% after +0.3%). Sales of agricultural products should pick up somewhat after the very sharp drop in the previous quarter (+2.0% after -16.1%), and energy exports should do likewise. However, sales of manufactured goods are likely to grow more moderately than in Q1 (+0.4% after +1.5%). Demand for French products is likely to slow in Q2: imports by the emerging economies should slow down slightly and trade is likely to remain sluggish within the Eurozone. Demand for French products should still be less dynamic than world trade (see *Graph 2*): the difficult economic situation in Spain and Italy, two important trading partners of France, is likely to continue to penalise the French economy more than the rest of the world on average. However, the depreciation of the euro since the start of 2012 should contribute to an improvement in the price-competitiveness of France and should help sustain exports (*see Graph 3*).

In H2 2012, exports should pick up slightly (+0.8% in Q3 then +0.9% in Q4). Exports of manufactured goods are likely to benefit from the growing buoyancy of demand for French products from Germany, the United States and the rest of the world. Additionally, the favourable effects of the depreciation of the euro should be confirmed.

In the wake of sales of manufactured goods, exports of services should pick up. Sales of energy and agricultural products should stabilise.

Foreign trade growth forecast

Changes in % to the chained prices of the previous year, contributions in points

	Quarterly changes								*Annual means*	
	2011				**2012**				**2011**	**2012**
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**		
Exports										
All goods and services	1.2	0.9	1.4	1.1	0.3	0.3	0.8	0.9	5.5	2.9
Non-energy industrial goods (75%*)	0.5	0.7	1.4	1.5	1.5	0.4	1.0	1.1	4.5	4.7
Imports										
All goods and services	3.1	-0.6	0.4	-1.4	0.7	0.6	0.8	0.8	5.2	0.8
Non-energy industrial goods (77% *)	3.4	0.2	0.1	-2.0	1.6	0.8	1.0	1.0	6.7	1.5
Contribution of foreign trade to GDP	**-0.6**	**0.4**	**0.2**	**0.7**	**-0.1**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.6**

Forecast

* Part of exports (resp. imports) of non-energy industrial goods in exports (resp. imports) in a whole in 2011.

Source: INSEE

Over the year, exports of goods and services are set to increase by 2.9% in 2012, after +5.5% in 2011.

Imports showing slight growth in 2012

In Q1 2012, imports rebounded (+0.7% after -1.4% in Q4 2011), particularly imports of manufactured goods (+1.6% after -2.0%). Imports of coke and refined petroleum products saw a sharp increase, offsetting a drop in activity due to maintenance work at certain French refineries. This drop in activity also contributed to the contraction of crude oil imports.

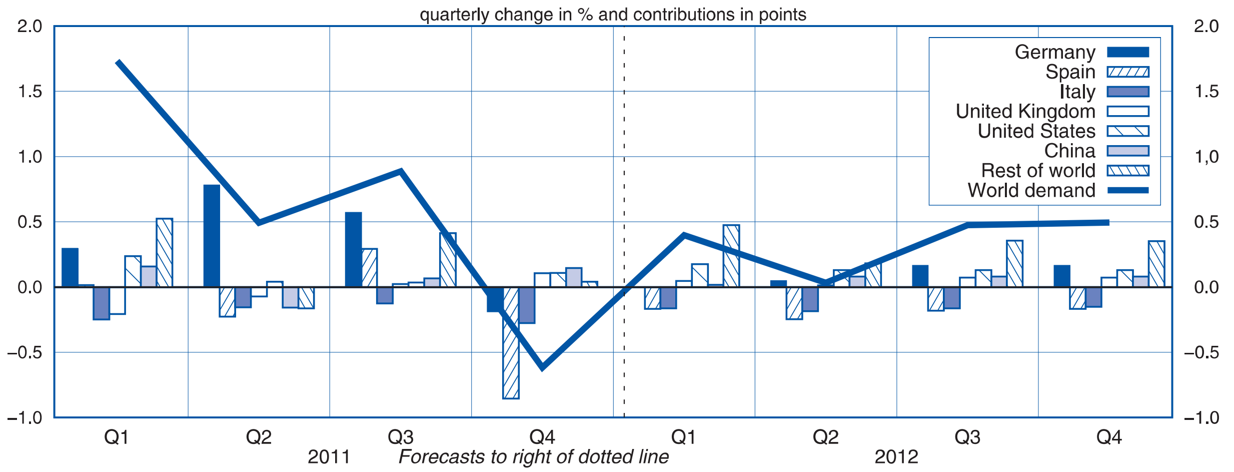
In Q2 2012, manufactured imports are set to slow (+0.8% after +1.6%). They are likely to be adversely affected by the decline in household consumption and corporate investment in manufactured goods. They should then pick up slightly in H2, following on from the acceleration in exports[1] and the gradual recovery of domestic demand (*see Graph 4*).

Energy purchases are set to grow in Q2 (+1.1%), sustained by falling oil prices, before stabilising in H2. Imports of agricultural products should be stable through to the end of the year, and imports of services should continue to rise. All in all, imports of goods and services should mark time in 2012 (+0.8% after +5.2% in 2011).

The contribution of foreign trade to growth in activity should be negative in Q2 then nil in H2. However, as an annual average it should be strongly positive in 2012 (+0.6 points), due to a significant contribution in Q4 2011.■

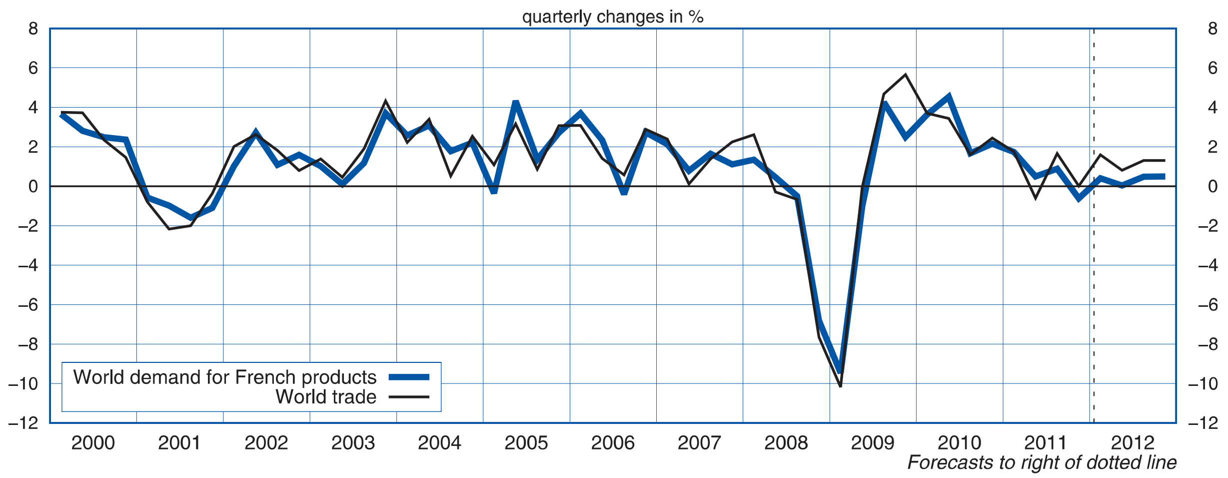
(1) *Via* the import content in exports

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



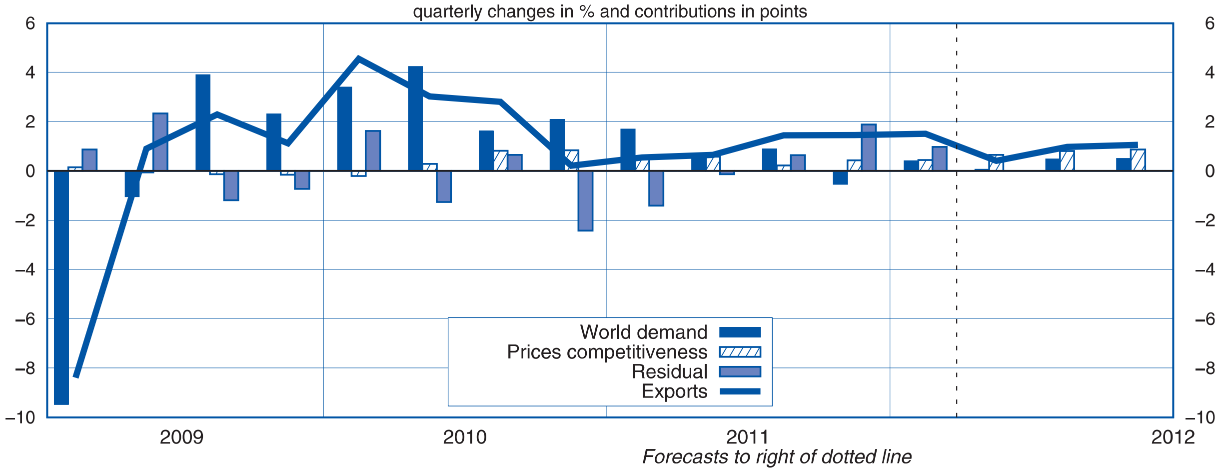
Source: INSEE, Centraal Plan Bureau

2 - World demand for French products and world trade



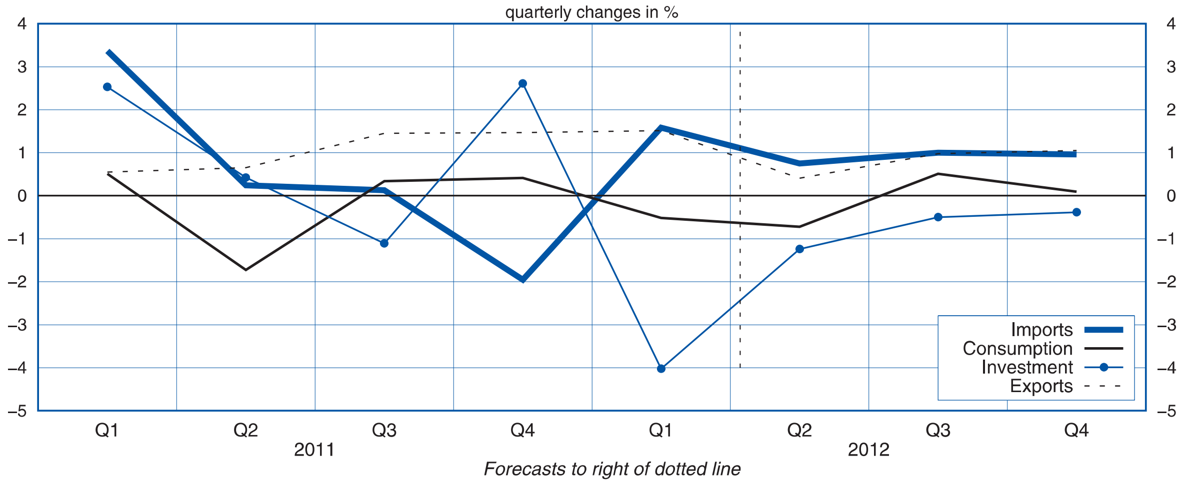
Source: INSEE, Centraal Plan Bureau

3 - Exports of manufactured goods and econometric contributions



Source: INSEE

4 - Imports and components of French demand for manufactured goods



Source: INSEE

Oil and raw materials

Due to strong supply, notably from OPEC countries, and the slowdown in demand from developed countries, the oil market should show a large surplus over the year. Seasonal effects should be pronounced, however. With the end of winter, the supply surplus that appeared in Q1 2012 should grow in Q2. The market should come close to equilibrium in H2 2012 as consumption increases sharply in developed countries with departures for the summer holidays. Through to the end of 2012, oil prices should fluctuate around $100 a barrel of Brent, a significantly lower level than their peak in March ($125). Over 2012 as a whole, oil prices should fall on 2011 (-3.4%), after rising sharply last year (+39.6% on 2010).

After the rise recorded in Q1 2012, commodity prices excluding energy have been easing since April 2012. In particular, the slowdown in economic activity in emerging countries and weak growth prospects in Europe are bringing industrial commodity prices down. Cereals prices are also falling, but less sharply

A large oil market surplus in Q1 2012

After a deficit throughout 2011 (800,000 barrels per day, bpd, on average), a large surplus emerged on the oil market in Q1 2012 (1.2 million bpd), for the first time since 2005. Supply increased sharply (+1.2 million bpd) thanks to record crude oil and liquefied natural gas production in the OPEC countries. Output in Libya returned to 80% of its pre-revolution levels in Q1 and the continuing rise in prices encouraged Saudi Arabia to increase production.

At the same time, oil demand fell back (-500,000 bpd), notably in Europe, due to the slowdown in activity. Demand also fell in the United States, with stocks there reaching a much higher level than the average in recent years. Consumption remained dynamic in Japan, where an increase in oil and gas imports is necessary to make up for the stoppage of nuclear energy production.

The surplus should grow in Q2...

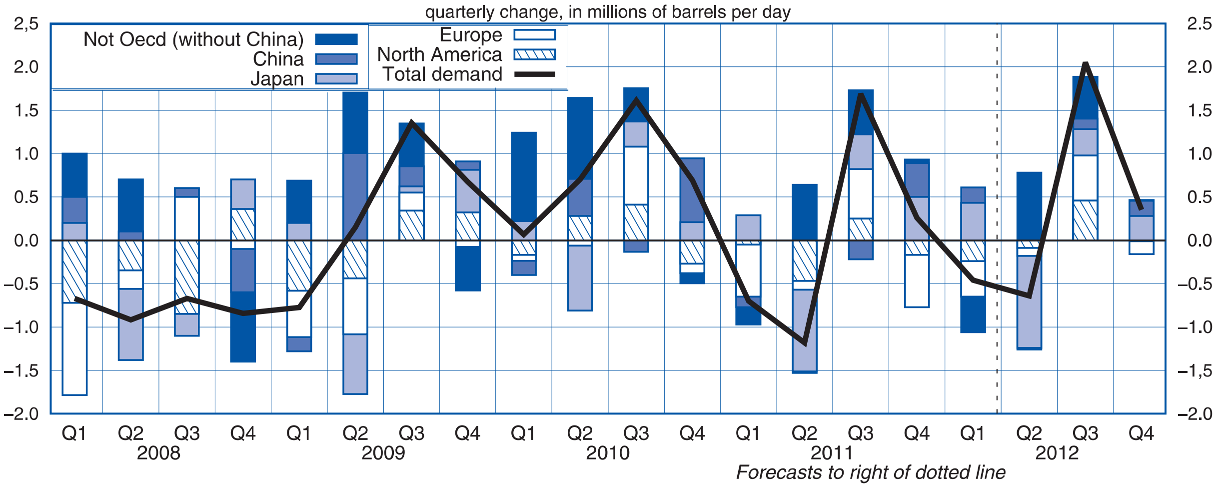
The physical market surplus should be accentuated in Q2 2012. Oil supply should remain at a high level, thanks to dynamic output in OPEC countries. Saudi production should remain at a record level, buoyed by still-high oil prices and the prospect of increased demand when the European embargo on Iranian imports comes into force on 1st July 2012.

Conversely, with the end of winter, oil consumption is set to fall in the developed countries, mainly Japan (see *Graph 1*). All in all, in Q2 2012, supply should exceed demand by 1.7 million bpd.

... then be partly absorbed by the end of 2012

In Q3 2012, oil demand should show a marked upturn (+2.1 million bpd) while supply is set to progress more slowly (+400,000 bpd): the market surplus should therefore be absorbed. The rise in demand is likely to come mainly from the

1 - Large seasonal on oil demand effects



Sources: AIE, INSEE

developed countries (+1.5 million bpd) where consumption usually rises as people depart for the holidays (*see Graph 1*). On the supply side, the seasonal rise in biofuels production and the increase in liquefied natural gas output in OPEC countries should be partly offset by the fall in European production due to maintenance work in the North Sea.

In Q4 2012, the oil market should return to a slight surplus (300,000 bpd). With the end of the seasonal restrictions on European and American output, supply should progress more quickly than demand.

Easing of the physical market to bring down crude oil prices

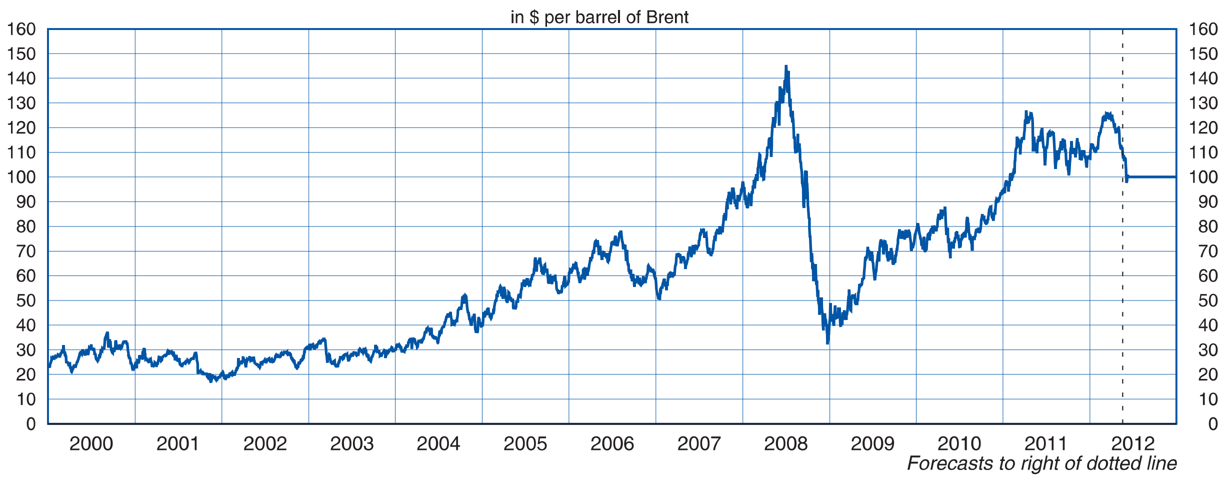
Oil prices increased sharply in Q1 2012, despite the surplus on the physical market. Against a backdrop of geopolitical tensions with Iran, the price of Brent was $118 per barrel on average, up 8.1% on Q4 2011. Since April, easing of these geopolitical tensions, the surplus on the physical market and fears for the economic situation in the Eurozone have brought oil prices down (*see Graph 2*). The price of Brent fell by 3.1% in April then by 7.4% in May, falling under $100 in early June, its lowest level since February 2011.

Through to the end of the year, oil prices should fluctuate around the $100 a barrel of Brent. The physical market surplus should consolidate the recent fall in prices, although supply tensions do still remain: additional capacity in the OPEC countries is at a three-year low and the geopolitical risks are still great.

Non-energy commodity prices falling

Like oil prices, non-energy commodity prices fell back in April, after the rises recorded at the start of 2012. In particular, with the slowdown in activity in Europe and China, industrial commodity prices are at a standstill (*see Graph 3*). At the beginning of June, the copper price growth overhang for Q2 2012 was -5.5% (after +10.9% in Q1). Likewise, aluminium prices have already dropped by 8.3% on Q1 2012. Regarding food commodity prices, cereals prices are also down (*see Graph 4*). Thanks to good harvest prospects, wheat and corn prices fell by 2.8% and 2.6% respectively in April, and the growth overhang for Q2 is -1.9% for wheat prices and -4.9% for corn.■

2 - Falling oil prices since April

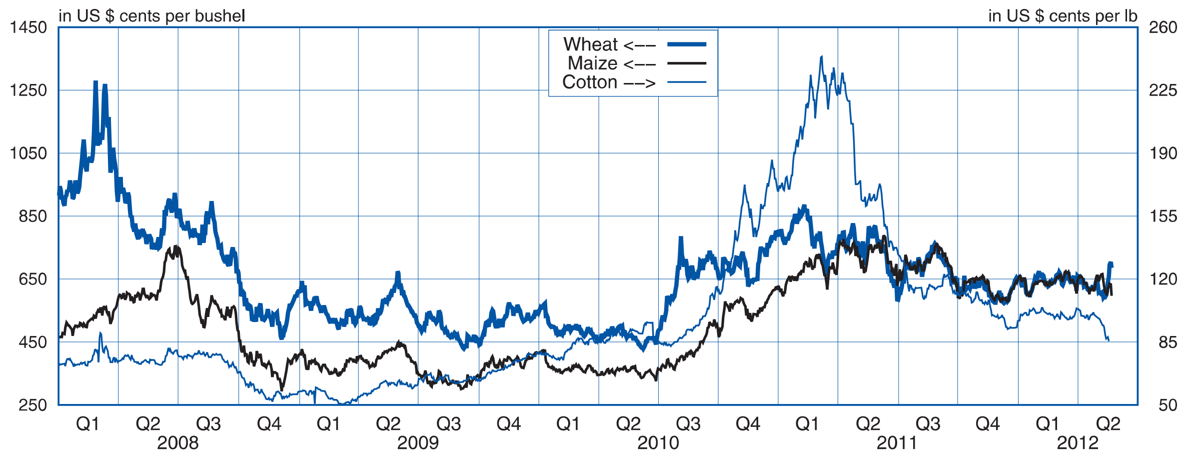


Source: Financial Times, INSEE

3 - Prices of industrials metals

Source: London Metal Market

4 - Prices of food and agro-industrials commodity



Source: DataInsight

Consumer prices

To the time horizon of the forecast, the high unemployment rate is likely to continue restricting inflationary pressure, and core inflation should remain below 1.5% in H2 2012. Non-seasonal food prices should slow under the effect of the stabilising prices of food commodities. Inflation in services should rise slightly by the end of 2012, because year-on-year telecommunications prices, very low in April following the price cuts at the start of the year, should pick up.

Headline inflation should fall back sharply, to 1.4% in December 2012, after 2.0% in May: it should benefit from the sharp decline in the year-on-year energy and food prices.

Core inflation stable, headline inflation down

Core inflation is measured by taking all volatile components, (such as energy and seasonal food products) and public prices out of the headline index and by correcting for any fiscal measures. Through to December 2012, core inflation should drop to 1.3% (see *Graph 1*). Core inflation should be checked by a high unemployment rate holding back wages, and by the fall in commodity prices from Q2 2011. However, year-on-year it should show barely any change: the big vehicle promotions in H2 2011 will no longer be included in the calculation.

After reaching a peak at 2.5% in November and December 2011, headline inflation should slip back over the rest of the year: from 2.0% year-on-year in May 2012, it is likely to lose 0.6 points and fall to 1.4% in December 2012 (see *Graph 2*). The main contribution to this fall is likely to come from the decline in inflation in energy, due to dropcuts in oil prices. Food prices should also decline sharply, both in seasonal products and in non-seasonal products.

Inflation in manufactured goods stable throughout the forecasting period

The year-on-year change in prices of manufactured goods should be stable through to the end of the year: it should stand at +0.8% in December 2012, as in April 2012 (see *Table*). The low production capacity utilisation rate and the moderate wage costs should contribute to restricting inflation in this sector.

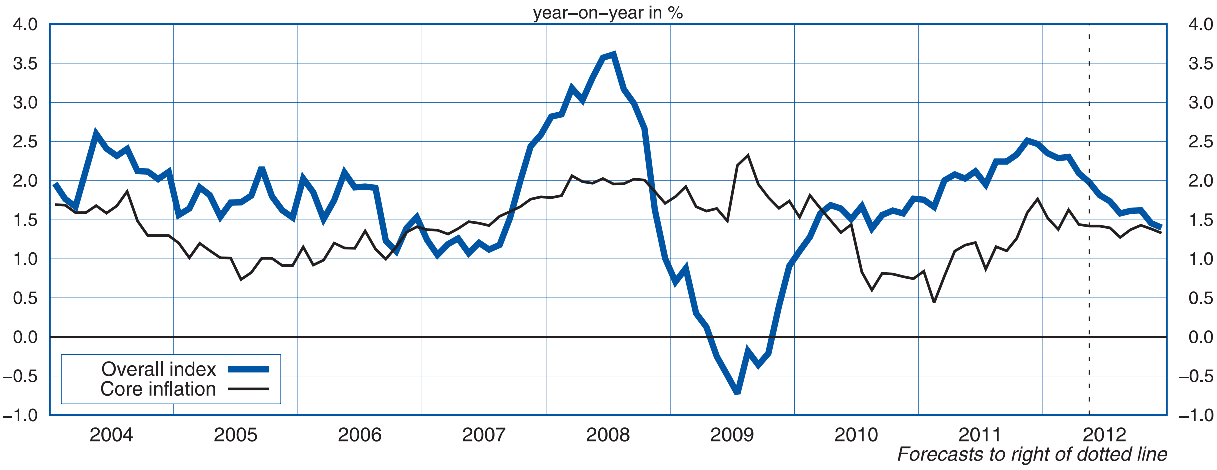
Clothing prices are likely to slow sharply through to December 2012, thanks to the significant drop in cotton prices since the end of Q1 2011: from 163 euros per pound in March 2011 to 69 euros per pound in May 2012. The year-on-year change in clothing and footwear prices should stand at 1.2% in December, against 2.3% in May 2012.

The year-on-year change in prices of "other manufactured goods" should be virtually stable in December (1.4%).

Inflation in services showing a small rise

The year-on-year change in prices of services should increase slightly, from 1.5% in May to 1.7% in December 2012. The sharp drops in telecommunications prices at the end of 2011 and

1 - Consumer prices in France



Source: INSEE

the start of 2012 are likely to continue at a more moderate pace over the rest of the year. The year-on-year change in prices of telecommunications, although still negative, should pick up slightly. The prices of other services should experience usual seasonal changes. They should increase in July for accommodation, travel and air transport, then fall back in September.

Inflation in energy falling sharply

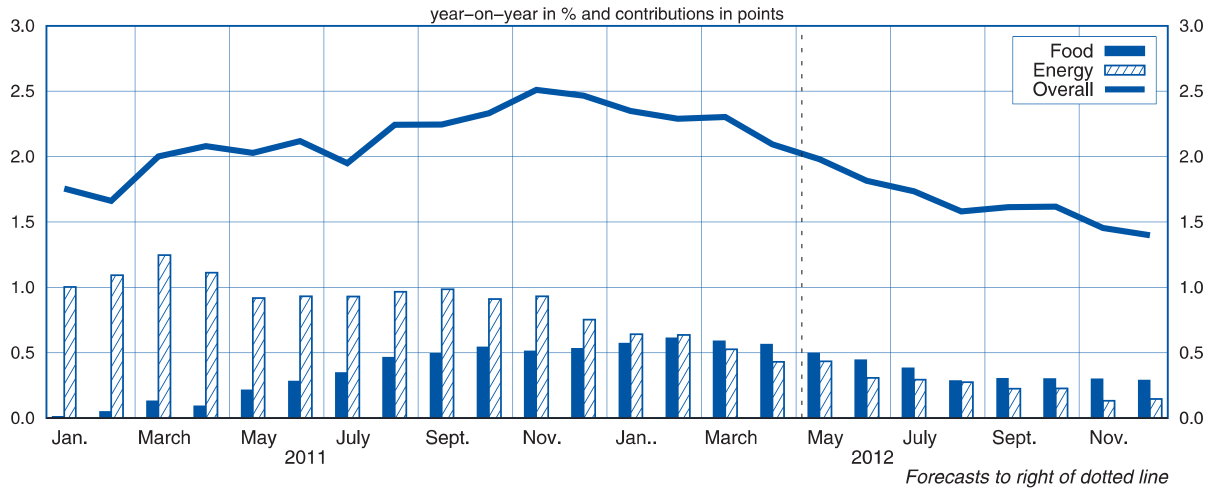
Assuming stability in the price of the Brent barrel, forecast at 81 euros, the year-on-year change in energy prices should fall sharply, from 5.0% in May to 1.7% in December: it should thus continue to fall from the peak of 15.3% reached in March 2011 (see *Graph 3*). This drop should however be checked by the rise in the contribution to public service electricity on 1st July 2012.

Food product prices falling

The prices of imported food commodities rose sharply throughout 2010 and early 2011. They then fell significantly starting in March 2011. They are likely to stabilise from April 2012, at a level lower than that of early 2011, and previous rises should no longer spread to food prices. The year-on-year change in prices of non-seasonal products should continue to fall through to December 2012: from 2.9% in May to 1.9%.

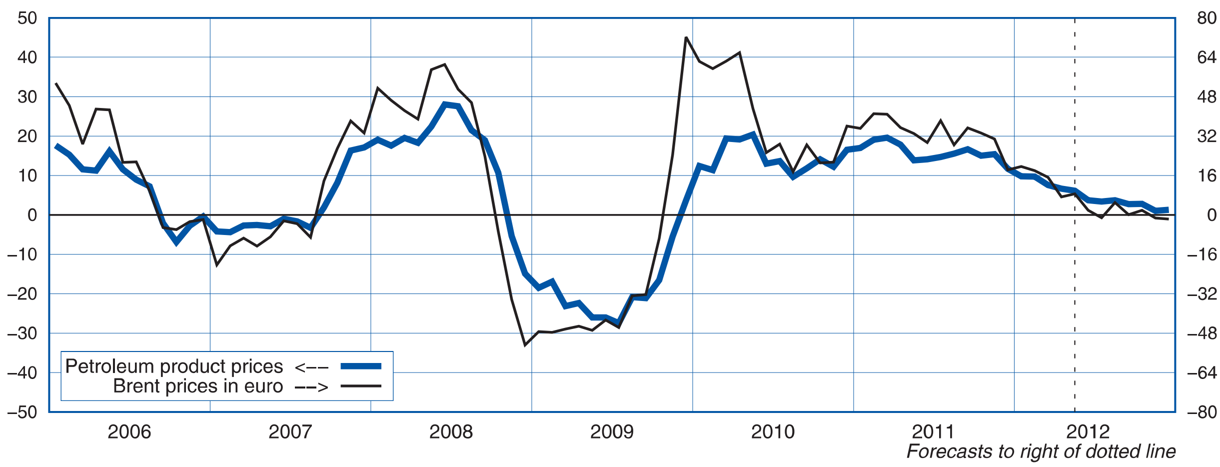
The year-on-year change in prices of seasonal products should also drop through to December 2012. It should fall sharply in July and August, as the fall in seasonal products prices in summer 2011 was particularly small.■

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



Source: INSEE

3 - Year-on-year change in prices of petroleum products and Brent



Source: INSEE

Consumer prices

changes as %

CPI* groups* (2012 weightings)	April 2012		May 2012		June 2012		December 2012		Annual averages	
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	2011	2012
Food (16.4%)	**3.5**	**0.6**	**3.0**	**0.5**	**2.7**	**0.4**	**1.8**	**0.3**	**1.9**	**2.6**
including: seasonal food products (2.1%)	*4.2*	*0.1*	*3.9*	*0.1*	*3.3*	*0.1*	*0.7*	*0.0*	*-1.2*	*1.6*
excluding seasonal food products(14.3%)	*3.4*	*0.5*	*2.9*	*0.4*	*2.6*	*0.4*	*1.9*	*0.3*	*2.4*	*2.8*
Tobacco (2.0%)	**5.7**	**0.1**	**5.7**	**0.1**	**5.7**	**0.1**	**0.0**	**0.0**	**5.9**	**4.4**
Non energy industrial goods (29.9%)	**0.8**	**0.2**	**1.0**	**0.3**	**0.9**	**0.3**	**0.8**	**0.2**	**0.1**	**0.8**
Energy (8.7%)	**5.3**	**0.5**	**5.0**	**0.4**	**3.5**	**0.3**	**1.7**	**0.1**	**12.3**	**4.2**
including: oil products (5.2%)	*6.7*	*0.3*	*6.1*	*0.3*	*3.7*	*0.2*	*1.3*	*0.1*	*15.8*	*4.8*
Services (43,1%)	**1.6**	**0.7**	**1.5**	**0.6**	**1.6**	**0.7**	**1.7**	**0.7**	**1.7**	**1.7**
including: rent-water (7.4%)	*2.3*	*0.2*	*2.0*	*0.2*	*2.1*	*0.2*	*2.1*	*0.2*	*1.8*	*2.1*
health services (5.3%)	*0.5*	*0.0*	*0.5*	*0.0*	*0.5*	*0.0*	*0.7*	*0.0*	*1.1*	*0.5*
transport-communications (5.2%)	*-2.9*	*-0.2*	*-3.8*	*-0.2*	*-3.2*	*-0.2*	*-2.6*	*-0.1*	*-0.5*	*-2.9*
other services (25.2%)	*2.7*	*0.7*	*2.6*	*0.7*	*2.7*	*0.7*	*2.7*	*0.7*	*2.2*	*2.7*
All (100%)	**2.1**	**2.1**	**2.0**	**2.0**	**1.8**	**1.8**	**1.4**	**1.4**	**2.1**	**1.9**
All excluding energy (91.3%)	1.8	1.6	1.7	1.5	1.7	1.5	1.4	1.3	1.3	1.6
All excluding tobacco (98.0%)	2.0	2.0	1.9	1.9	1.7	1.7	1.4	1.4	2.1	1.8
"Core" inflation (61.0%)(1)	**1.4**	**0.9**	**1.4**	**0.9**	**1.4**	**0.9**	**1.3**	**0.8**	**1.1**	**1.4**
All HCPI*	**2.7**	**2.7**	**2.6**	**2.6**	**2.6**	**2.6**	**2.2**	**2.2**	**2.3**	**2.0**

Forecast

yoy : year-on-year

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

Source: INSEE

Employment

In H2 2011, employment in the non-agricultural market sectors dropped for the first time since the end of 2009: 36,000 jobs were lost in these sectors. Owing to weak activity, market sector employment should continue to fall in 2012 (-25,000 jobs).

Thanks to the job creations observed in Q1, market sector employment should be up slightly in H1, before slipping back again in H2.

In the non-market sectors, the number of newcomers to the subsidised contract schemes is likely to rise slightly in 2012. Non-market sector employment should progress in H1 2012 (+23,000), then stabilise in H2 (-1,000).

All in all, employment should increase slightly in H1 (+34,000), then fall back sharply in H2 (-36,000). It should remain stable over 2012 as a whole after a two-year rise (+61,000 in 2011 and +124,000 in 2010).

The number of employees falling in the market sectors in 2012

In 2011, paid employment in the non-agricultural market sectors continued to progress, but at a slower pace than in 2010: 77,000 jobs were created after +103,000 the previous year. The employment profile over the course of the year was strongly marked: the workforce increased significantly in H1 2011 (+114,000 jobs), then fell back in H2 (-36,000 jobs).

Despite the slowdown in activity, market sector employment rose once again in Q1 2012. It thus showed more dynamism than past behaviour would have led us to expect (see *Graph* 1).

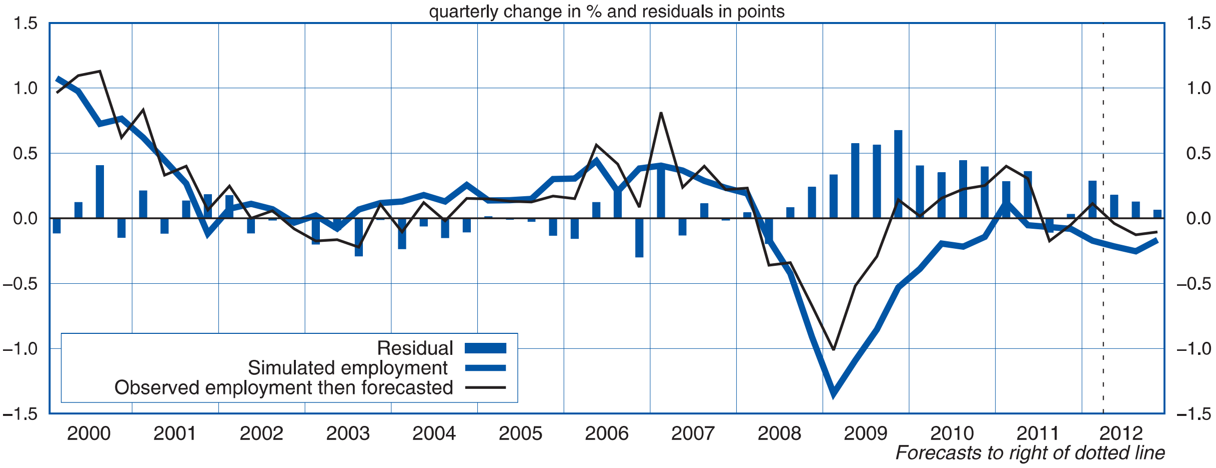
ver the rest of the year, non-agricultural market sector employment should decline (see *Table* 1), but following on from Q1, we assume that it should fall less sharply than past behaviour would lead us to expect, in line with what the business tendency surveys report. Market-sector paid employment should increase slightly in H1 2012 (+12,000), before declining in H2 (-37,000 jobs). At the end of 2012, market sector employment should thus return to the level of early 2011 (see *Graph 2*).

Most job losses in 2012 concentrated in industry

In 2011, industrial employment excluding temporary work [1] stabilised (-2,000 jobs over the year). Industrial job creations in early 2011 (+6,000) were almost equivalent to the losses in H2 (-7,000 jobs). Industrial job losses excluding temporary work should increase in 2012. In the

(1) In the employment figures published by INSEE, temporary workers are counted in the tertiary sector even if they carry out their assigment in industry or construction.

1- Employment observed in the non-agricultural market sector, simulated and residual



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 2011, indicates that observed employment showed better growth than past behaviour would lead us to expect.
Source: INSEE

business tendency surveys, business prospects for the sector deteriorated in early 2012 and business leaders are pessimistic about their order books. So industrial employment should fall back once again in H1 2012 to a pace close to that observed on average over the last ten years (-17,000 jobs; *see Graph 3)* (2).This decline should gather pace in H2 (-29,000). All in all, industrial employment excluding temporary work should fall sharply in 2012 (-1.4%; or -46,000 jobs) after being stable in 2011.

While industrial employment excluding temporary work was stable in 2011, the volume of employment (3) used in this sector nonetheless declined when the drop in the number of industrial temporary jobs is included (-15,000). The rate of recourse to temporary employment in industry therefore fell: from 7.7% in Q1 2011, it slipped back to7.1% in Q1 2012 (*see Graph 4*). It should continue to fall, down to 7.0% at the end of 2012. Industry should thus continue to lose temporary jobs in 2012 (-12,000 jobs).

(2) On average, 20,000 jobs were destroyed each half-year between 2001 and 2010.

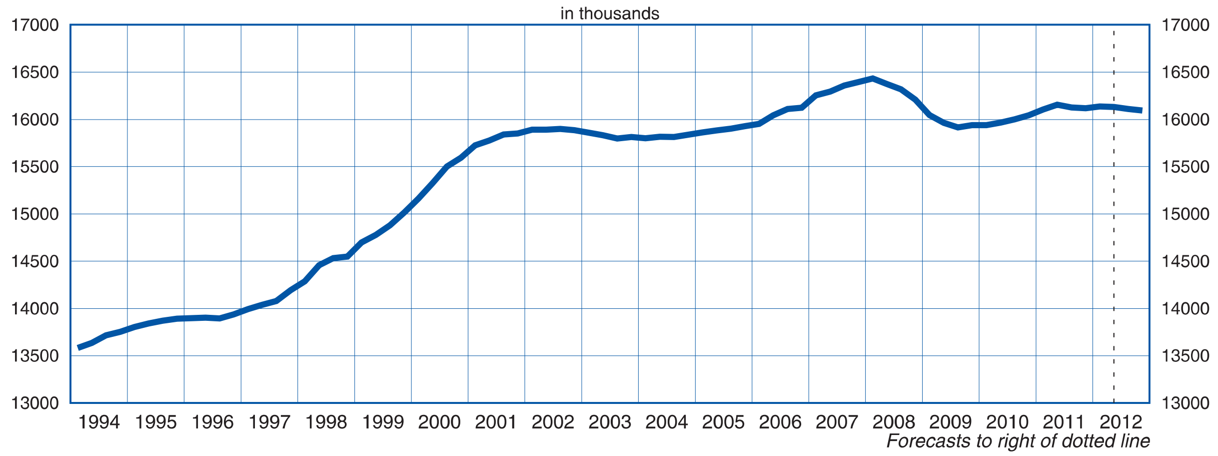
(3) Employment, including temporary work.

Job losses set to continue in construction

In the construction industry, job losses continued in 2011 at a rate close to that of 2010: 11,000 jobs lost after 13,000 the previous year. This drop was concentrated in H2 (-7,000).

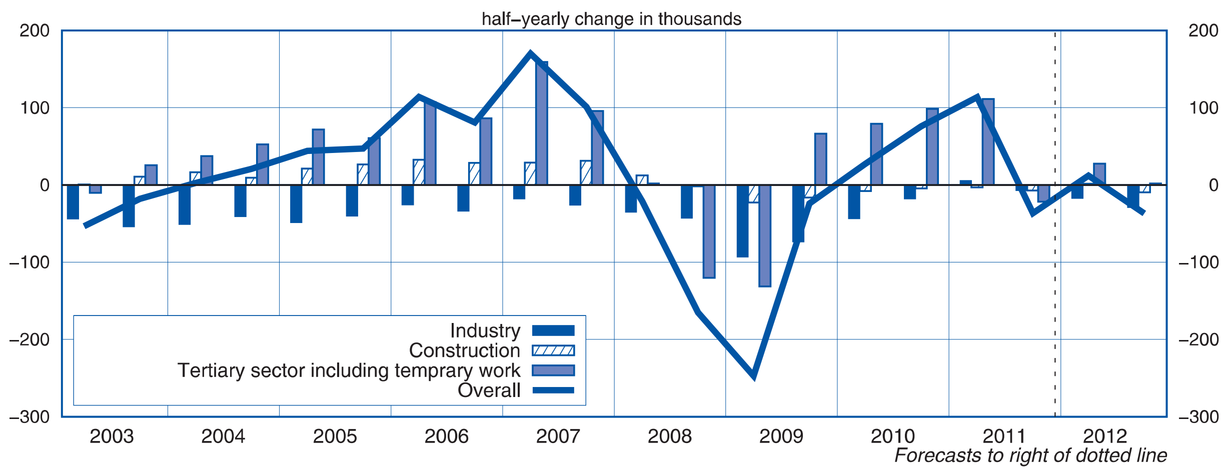
In Q1 2012, employment in construction increased but is likely to fall through to the end of the year. The business leaders questioned in the business tendency surveys do not expect an improvement in the labour market in construction. All in all, employment in construction should rise slightly in H1 2012 (+2,000) before declining in H2 (-10,000).

2- Non-agricultural market paid employment



Source: INSEE

3 - Changes in paid employment in the non-agricultural market sectors



Source: INSEE

Fewer job creations in the market tertiary sectors in 2012

In the market tertiary sector, the half-year profile of employment was strongly marked in 2011: after a sharp rise in H1 (+111,000), tertiary employment slipped back in H2 (-22,000). There were fewer job creations in the market tertiary sector in 2011 than in 2010 (+90,000 jobs against +177,000 the previous year). This decline in H2 can be attributed on the one hand to the reversal in temporary employment at the end of 2011 (-35,000 jobs in H2 after +13,000 in H1), and on the other hand to fewer job creations excluding temporary work at the end of 2011 (+13,000 after +98,000 in H1 2011).

In Q1 2012, temporary employment stabilised and employment in the market tertiary sector picked up (+19,000). Throught to the end of the year, temporary work should decline and the rate of recourse to temporary employment, falling since H2 2011, should continue to slide. Over the year, the number of temporary job losses should be comparable to that observed the previous year: -24,000 after -22,000 in 2011.

Excluding temporary work, employment in the tertiary sector is likely to suffer from the effects of weak activity. It should nonetheless progress over the year notably thanks to the job creations registered in Q1. Over the year as a whole, there should be fewer job creations than in 2011: +39,000 in H1 then +14,000 in H2.

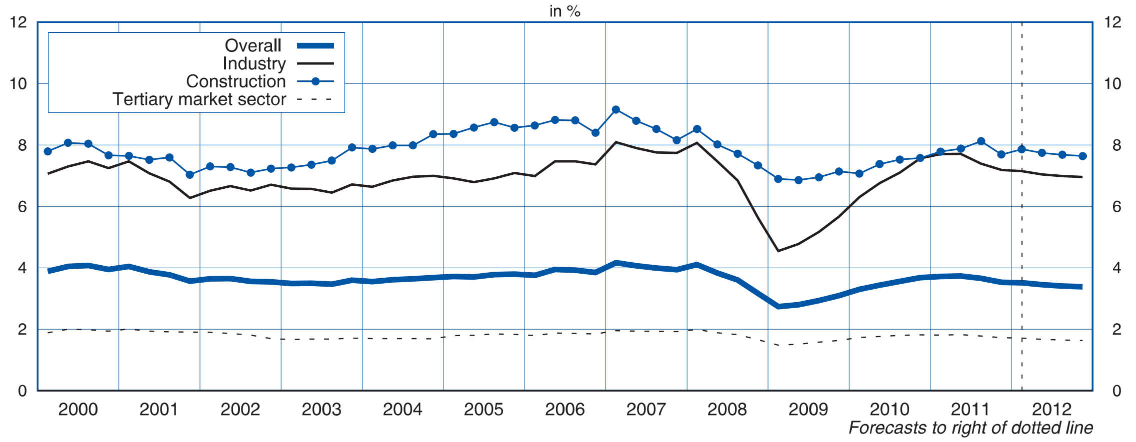
All in all, the number of job creations should continue to fall in the market tertiary sector, since only 29,000 jobs are expected to be created in 2012. These creations should mainly be concentrated in H1 (+28,000 jobs).

Non-market sector employment on the rise

In 2011, the workforce in the non-market sector was down (-16,000), for the first time since 1990. This was partly due to the lower number of subsidised work contracts (-50,000 beneficiaries in 2011) for which there were both fewer newcomers over the year and a sharp increase in people leaving these contracts.

In 2012, the number of new subsidised contracts thanks to the contracs provided for by the Finance Bill and the additional contracts announced by the government at the end of June in Metropolitan France should rise slightly (+366,000 after 356,000 in 2011). The number of beneficiaries should rise by 21,000 (see *Table 2*) at the start of the year thanks to the high number of newcomers in H1 (195,000). In H2 2012, there are likely to be fewer newcomers than at the start of the year and the number of beneficiaries should fall back (-22,000). Over the year, the number of beneficiaries of subsidised work contracts should remain virtually stable (-1,000 jobs). Non-market sector employment should progress over the year as a whole (+ 24,000), under the effect of the upward trend of non-subsidised non-market employment.■

4 - Rate of use of temporary work in different sectors



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						Level of the end of the period (in thousands) seasonaly adjusted		
	2010	2011	2012	2011 H2	2012 H1	2012 H2	2010	2011	2012	2011 H2	2012 H1	2012 H2	2010	2011	2012
Market sector employees (1)+(2)	**149**	**92**	**-1**	**-31**	**24**	**-25**	**0.8**	**0.5**	**0.0**	**-0.2**	**0.1**	**-0.1**	**17959**	**18050**	**18049**
Mainly non-agricultural market sectors (1) (private establishments only)	**46**	**14**	**24**	**6**	**12**	**12**	**2.5**	**0.7**	**1.2**	**0.3**	**0.6**	**0.6**	**1918**	**1932**	**1955**
Mainly non-market sectors (2)	**103**	**77**	**-25**	**-36**	**12**	**-37**	**0.6**	**0.5**	**-0.2**	**-0.2**	**0.1**	**-0.2**	**16041**	**16118**	**16093**
Industry	-62	-2	-46	-7	-17	-29	-1.8	0.0	-1.4	-0.2	-0.5	-0.9	3297	3295	3249
including: Manufacturing industry	*-65*	*-7*	*-42*	*-9*	*-16*	*-26*	*-2.2*	*-0.2*	*-1.4*	*-0.3*	*-0.5*	*-0.9*	*2932*	*2924*	*2883*
Construction	-13	-11	-8	-7	2	-10	-0.9	-0.7	-0.6	-0.5	0.1	-0.7	1451	1440	1432
Tertiary market sector	177	90	29	-22	28	2	1.6	0.8	0.3	-0.2	0.2	0.0	11294	11383	11412
including: Trade	*3*	*21*	*11*	*1*	*7*	*4*	*0.1*	*0.7*	*0.4*	*0.0*	*0.2*	*0.1*	*3004*	*3026*	*3037*
Market services (including temporary work)	*174*	*68*	*19*	*-22*	*21*	*-2*	*2.1*	*0.8*	*0.2*	*-0.3*	*0.2*	*0.0*	*8289*	*8357*	*8376*

	Job creations over the period (in thousands)						Change in employment over the period (in %)					
	2010	2011	2012	2011 H2	2012 H1	2012 H2	2010	2011	2012	2011 H2	2012 H1	2012 H2
Mainly non-agricultural market sectors	**103**	**77**	**-25**	**-36**	**12**	**-37**	**0.6**	**0.5**	**-0.2**	**-0.2**	**0.1**	**-0.2**
Agricultural employees	**-4**	**-6**	**-6**	**-3**	**-3**	**-3**	**-1.6**	**-2.7**	**-2.8**	**-1.4**	**-1.4**	**-1.4**
Mainly non-market service sectors (including private establishments)	**19**	**-16**	**24**	**-9**	**23**	**1**	**0.3**	**-0.2**	**0.3**	**-0.1**	**0.3**	**0.0**
Self-employed	**6**	**6**	**6**	**3**	**3**	**3**	**0.2**	**0.2**	**0.2**	**0.1**	**0.1**	**0.1**
Total Employment	**124**	**61**	**-1**	**-45**	**34**	**-36**	**0.5**	**0.2**	**0.0**	**-0.2**	**0.1**	**-0.1**

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

How to read it: 25,000 jobs should be created in the market sector during H2 2012. This corresponds to a rise of 0.1% over the half-year. This sector should employ 18,049,000 workers at December 31th 2012
Source: INSEE

Table 2

Change in subsidised employment in the non-market sector

in thousands

	2010	2011 H1	2011 H2	2011	2012 H1	2012 H2	2012
Single Integration Contract (CUI-CAE replaces CAE+CAV on 01/01/10)	241	-19	-19	-37	21	-22	-1
Contract to Support Employment (CAE)	-163	-4	-4	-8	0	0	0
Contract for the Future (CAV)	-63	-3	-2	-5	0	0	0
Young worker's contract	-2	0	0	0	0	0	0
Total	**13**	**-26**	**-24**	**-50**	**21**	**-22**	**-1**

Forecast
Scope: Metropolitan France
Source : DARES, INSEE

Unemployment

In Q1 2012, the unemployment rate increased for the third consecutive quarter. It stood at 9.6% of the active population in Metropolitan France (10.0% including overseas departments), after 9.3% (9.8% including overseas departments) in Q4 2011.

The rise in unemployment should continue throughout 2012. The active population should continue to grow, while employment remains stable. At the end of 2012, the unemployment rate should stand at 9.9% in Metropolitan France (10.3% including overseas departments).

In Q1 2012, the unemployment rate reached 9.6% of the economically active population

After falling back by 0.4 points between early 2010 and mid-2011, the unemployment rate in Metropolitan France has since risen sharply. It increased by 0.3 points in Q1 2012, after +0.2points in H2 2011 *(see Graph 1)*. It stood at 9.6% of the economically active population (10.0% including overseas departments), or 0.5 points above the previous low point recorded in mid-2011.

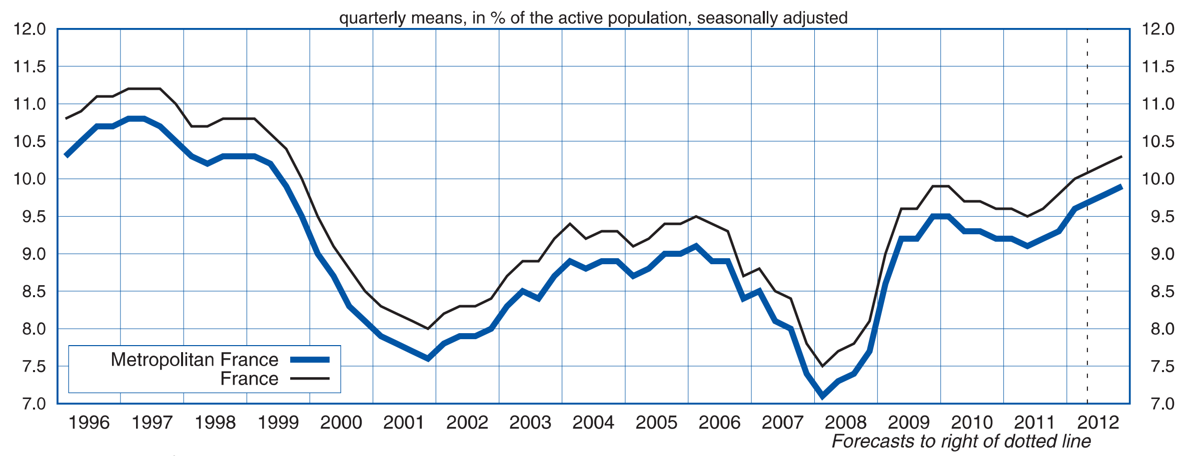
The recent rise in unemployment mainly affects men

Since mid-2011, the rise in unemployment has mainly affected men, whose unemployment rate has increased by 1.0 points (+0.5 points in Q1 2012 alone). Conversely, the unemployment rate among women remained stable over the period (*see Graph 2*). It was exactly the same as that of men at the start of 2012, for the first time for several decades. The change in the gap between men and women unemployment rate can be explained in the short term mainly by fluctuations in employment in temporary work and construction, two sectors where men are overrepresented. Very small at the end of 2009, the unemployment gap between women and men increased to reach 1.4 points at the end of 2010 due to dynamic job creations in temporary work. Symmetrically, from the end of 2011 to early 2012, job losses mainly concerned temporary workers in industry and construction *(see "Employment" note)*. The unemployment rate difference between men and women thus came down.

The unemployment rate among people aged 25 to 49 increased by 0.3 points in Q1 2012, after an increase of 0.4 points in H2 2011. It stood at 8.9% in Q1 2012, higher than the peak of end 2009. This increase concerned men more than women: the unemployment rate among men aged 25 to 49 rose by 0.6 points in Q1 2012, while that among women of the same age only increased by 0.2 points.

The unemployment rate among active people under 25 rose by 0.2 points in Q1 2012, settling at 22.5%. This population has a highly specific activity behaviour. A large number of under-25s are still studying without working in parallel. They are thus inactive. When the number of young unemployed people is related to the 15-24 population as a whole, the rate is lower than their

1 - Rate of unemployment in the sense of the ILO



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

unemployment rate. It stood at 8.5% in Q1 2012, or just 0.6 points above the proportion of unemployed in the 25-49 age group. In comparison, the unemployment rate among young people is 13.6 points higher than that of the 25-49 age group.

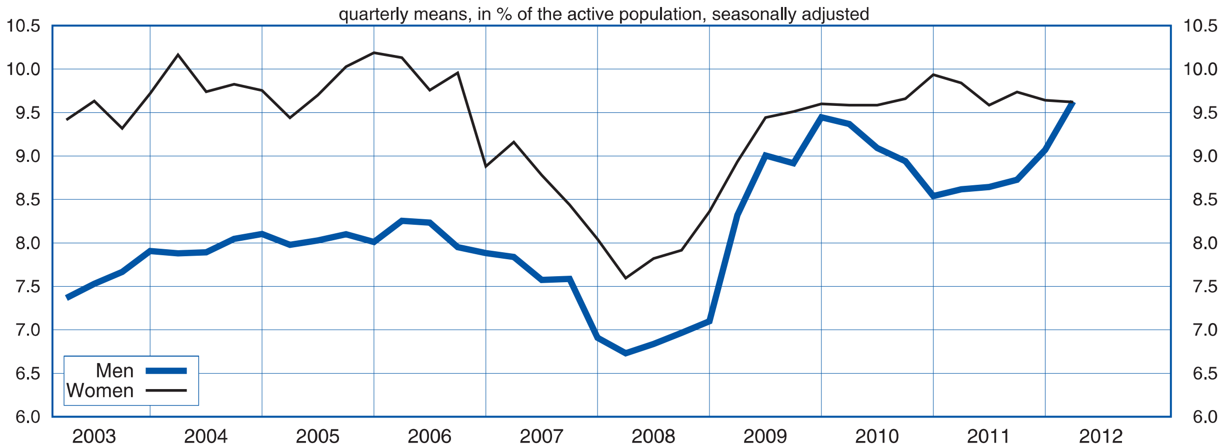
The unemployment rate among people aged 50 or over rose very slightly in Q1 2012 (+ 0.2 points). Since mid-2011, it has risen by 0.4 points and now stands at 6.6% of the active population. As was the case during the turning-point of 2008, men over 50 are no longer being spared by the economic crisis.

Unemployment set to continue to rise in 2012

Within the forecasting period, the unemployment rate should continue to rise. It should reach 9.7% in Metropolitan France in mid-2012 (10.1% including overseas departments). In Q2 2012, progress in total employment (+17,000) is unlikely to be sufficient to absorb the growth in the economically active population (+33,000, *see Table*). In H2 2012, total employment is set to decline and the active population should continue to grow. Growth in the active population should follow the economicallyactive population trend forecasts of the INSEE in Q3 (1). In Q4, two effects are likely to be added to the current trend. On the one hand, the enforcement of the new measures allowing people to retire at 60 is likely to slow down growth in the active population. On the other hand, the Decree of 29 December 2011 postponing by one month the age of entitlement to pensions for people born from 1st January 1952 is likely to increase participation among older workers on the labour market over this same quarter. All in all, bearing in mind the uncertainties surrounding the behaviour of older workers on the labour market in reaction to recent reforms, the scenario assumes that these two mechanisms are similar in scale and therefore will not influence the growth of the active population in Q4 2012. The active population should thus grow in Q4 at a rate close to that of Q3 (+ 27,000). The unemployment rate should then stand at 9.9% in Q4 (10.3% including overseas departments). ■

(1) The effect of pension reforms up to 2010 was modelled in the last active population forecast finalised in 2011, *see "Focus: the new active population forecasts by INSEE"», Conjoncture* in France, June 2011.

2 - Rate of unemployment in the sense of the ILO by sex



Scope: Population of households in Metropolitan France, people aged 15 or over

Source: INSEE, Employment Survey

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

Quarterly means, in thousands

	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2009	2010	2011	2012
	Quarterly changes												Annual changes			
Population of the 15-64 age group	33	38	41	39	31	17	2	-9	-16	-15	-15	-15	110	150	41	-61
Population of the 15-59 age group	-27	-26	-25	-24	-21	-16	-12	-9	-10	-13	-14	-13	-120	-102	-58	-49
Active population	**20**	**-23**	**25**	**16**	**55**	**24**	**34**	**23**	**103**	**33**	**30**	**27**	**238**	**38**	**136**	**193**
including:																
(a) Contribution of the population and the trend participation rate	40	40	40	40	41	41	41	41	36	36	36	36	148	159	164	144
(b) Estimated bending effects	0	0	0	0	1	1	0	-1	1	1	0	0	-7	1	2	1
(c) Estimated effects of public policies	38	-16	-11	-18	-32	-4	-4	-9	-4	-4	-5	-9	7	-8	-49	-22
(d) Other short-term fluctuations (residual)	-58	-47	-3	-6	45	-15	-3	-9	71	0	0	0	89	-114	18	70
Employment	**22**	**21**	**35**	**42**	**53**	**53**	**-1**	**-23**	**17**	**17**	**-11**	**-18**	**-290**	**120**	**83**	**4**
Reminder: End-of-period employment (see "Employment" note)	11	30	40	43	64	43	-45	0	34	1	-24	-12	-223	124	61	-1
ILO unemployment	**-3**	**-43**	**-10**	**-26**	**2**	**-30**	**35**	**45**	**87**	**15**	**42**	**45**	**528**	**-81**	**52**	**188**
	Quarterly means												*Means at last quarter of the period*			
ILO unemployment rate (%)																
Metropolitan France	**9.5**	**9.3**	**9.3**	**9.2**	**9.2**	**9.1**	**9.2**	**9.3**	**9.6**	**9.7**	**9.8**	**9.9**	**9.5**	**9.2**	**9.3**	**9,9**
France (including overseas departments)	**9.9**	**9.7**	**9.7**	**9.6**	**9.6**	**9.5**	**9.6**	**9.8**	**10.0**	**10.1**	**10.2**	**10.3**	**9.9**	**9.6**	**9.8**	**10,3**

Forecast

How to read it: 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.
To estimate unemployment, employment is counted in the middle of the quarter; in the Employment note, it is presented at the end of the quarter.

Source: INSEE