

French developments



Review of the previous forecast

In Q1 2013, activity fell back for the second consecutive quarter. It slipped by 0.2%, as in Q4 2012, whereas we had forecast that it would be stable in the March 2013 Conjoncture in France.

The foreign trade contribution was weaker than expected (-0.2 points against 0.0). The difference can be put down to exports falling by 0.5%, while we were expecting an increase of 0.6%: they were hit by the unexpected fall in German and British imports. Final domestic demand excluding inventory fell slightly (-0.1 points), as expected.

Despite the unexpected drop in activity, non-agricultural market employment fell less than expected (-8,000 jobs against an expected -39,000). Finally, headline inflation at the end of Q1 2013 stood at +1.0%, against a forecast of +0.9%.

For Q2 2013, our growth forecast is revised slightly upwards (+0.2% against +0.1%). Manufacturing production would be more dynamic than forecast in March (+0.9% in Q2, against -0.2% previously). Non-agricultural market employment should also fall less than in our March forecast (-29,000 against -35,000 previously), and inflation at the end of Q2 should be significantly lower than previously forecast (+0.8% against a forecast of +1.2%), notably due to the fall in oil prices.

Activity fell by 0.2% in Q1 2013, as in the previous quarter, when we had forecast it to be stable

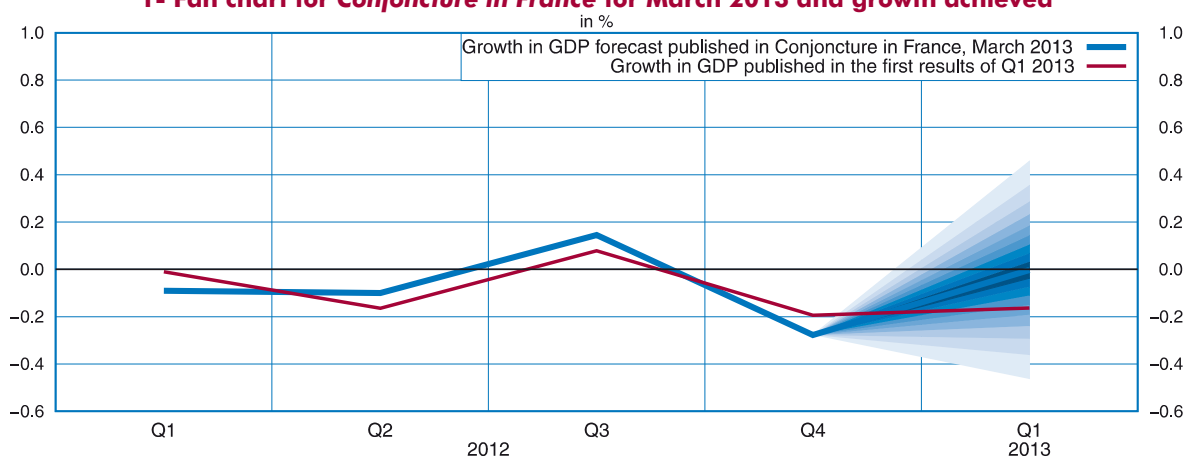
In Q1 2013, GDP fell by 0.2%, as in the previous quarter, whereas we had forecast that it would be stable. Although total production was in line with our forecasts (-0.1%), companies increased their intermediate consumption more than expected.

In market services, production was stable, as expected, but value added fell slightly (-0.1%) when we had been expecting it to be stable. It fell particularly in accommodation and catering, driven by the fall in household demand.

In the manufacturing branch, production dropped by 0.3%, against an expected -0.7%. In particular, industrial production in coking and refining rebounded (+5.6% after -8.0%), but this industry uses a lot of intermediate consumption (oil) and its contribution to added value is small. All in all, added value fell by 0.7%, as forecast.

Finally, activity in the energy-water-waste branch increased little (+0.4% against +1.1% forecast), despite the rise in energy consumption linked to the harsh temperatures.

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



Source: INSEE

A slight fall in domestic demand, as forecast

Final domestic demand excluding stocks fell, as expected. Investment dropped slightly more than expected (-0.9% against a forecast of -0.7%), due to the greater-than-expected fall in investment by non-financial enterprises (-0.8% against -0.5% forecast). Household consumption slipped by 0.1% when we had been expecting it to be stable: consumption of market services, in particular, fell by 0.1%, when we were expecting it to be up by 0.2%.

An unexpected fall in exports

In Q1 2013, exports fell back again, by 0.5%, against a forecast of +0.6%. Our March forecast was based on a marked increase in demand for French products in Q1 (+0.9%) which did not occur (-0.3%) due to the unexpected fall in German and British imports. Imports were also lower than expected, but to a lesser extent (+0.1% against +0.6% forecast).

All in all, the accounting contribution of foreign trade to the change in GDP was therefore negative (-0.2 points), when we were expecting it to be neutral. Finally, the contribution of changes in stocks was slightly positive, at +0.1 points, as expected.

A smaller-than-expected fall in employment

Despite weaker-than-expected activity, salaried employment fell less than the March forecast: 8,000 jobs were lost in the non-agricultural market sectors, against an expected -39,000. The difference was mainly due to temporary employment, which increased by 13,000 jobs, against an expected fall of 18,000.

Finally, headline inflation at the end of Q1 2013 was 0.1 points higher than our forecast (+1.0% against an expected +0.9%). Core inflation stood at 0.7%, against an expected 0.5%. This difference can be explained mainly by the price of clothing-shoes, which increased more than expected in March.

Our growth forecast for Q2 is revised slightly upwards

Our GDP forecast for Q2 2013 is revised slightly upwards (+0.2% against +0.1%). According to the business tendency surveys and the available activity data, manufacturing production should be more dynamic than expected in March (+0.9% against -0.2% previously).

The forecast for domestic demand changes little. Consumption should progress by 0.1% (as previously) and investment should contract at a rate close to that given in March (-0.5% against -0.7% previously). Foreign trade should buoy activity up slightly, as forecast in March, although trade should be more dynamic. Imports should progress by 1.0%, against 0.5% previously, and exports by 1.3% against 0.7% forecast in March. The contribution of foreign trade to growth should amount to +0.1 points, as previously.

Our employment forecast is revised slightly upwards: 29,000 salaried jobs should be lost in the non-agricultural market sectors in Q2, against -35,000 in our March forecast, as the fall in service-sector employment is likely to be less pronounced.

Finally, inflation at the end of Q2 2013 should be significantly lower than was forecast in March (+0.8% against an expected +1.2%). The core inflation forecast remains unchanged (+0.4%). Energy inflation in April and May 2013, however, was lower than forecast. ■

Output

Production of goods and services fell back slightly in Q1 2013 (-0.1% after -0.4% in Q4 2012). The drop in GDP was slightly more pronounced (-0.2% after -0.2%). Activity in the manufacturing industry fell slightly (-0.3% after -2.2%) and production of market-sector services was almost stable (+0.1% after +0.3%). At the same time, activity in construction fell back significantly once again (-0.8% after -0.9%).

In May, the business climate remained poor on the whole in France, although it picked up in manufacturing industry. Production should rise in Q2 (+0.3%), driven by the rebound in exports and the need to build up stocks in industry. Through to 2013, final demand is likely to remain sluggish and production should therefore be stable (0.0% in Q3 then +0.1% in Q4).

Over 2013 as a whole, production should be stable and GDP fall by 0.1%.

Production set to remain at a standstill in 2013

In Q1 2013, production of goods and services was flat (-0.1% after -0.4% in Q4 2012). The business climate indicator for France, according to the business tendency surveys among business leaders, is showing no sign of improvement in Q2, remaining stable in May at 84 points, well below its long-term average (see Graph 1). In Q2, production of goods and services should pick up,

however (+0.3%), stimulated by the upturn in exports and the need to build up stocks in manufacturing industry. It should be almost stable again, however, in Q3 and Q4 2013 (0.0% then +0.1%, see Graph 2), against a backdrop of sluggish demand.

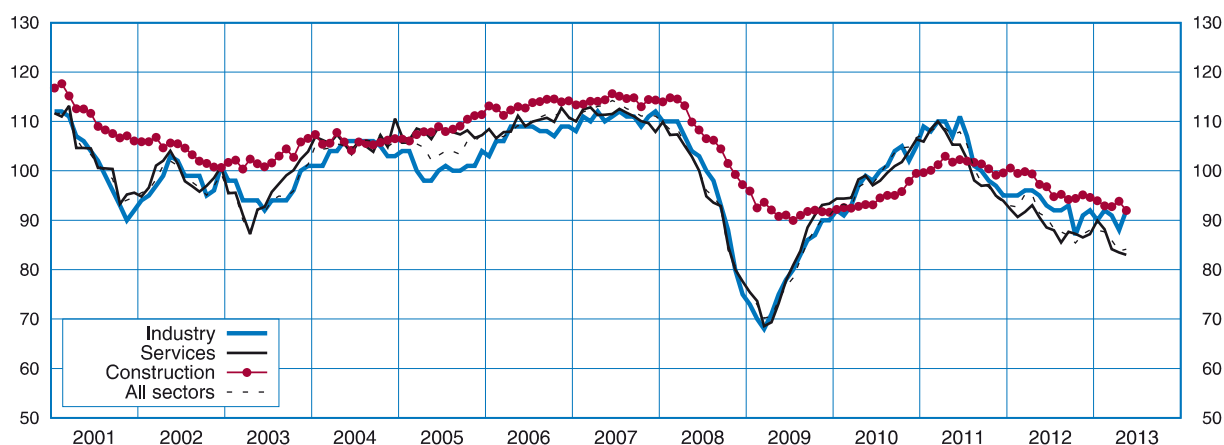
Over 2013 as a whole, production should be stable, after -0.3% in 2012.

Manufacturing production set to fall back slightly in early 2013

After a marked fall in Q4 2012 (-2.2%), manufacturing production fell at a less pronounced rate in Q1 2013 (-0.3%), notably due to the upturn in activity in coking and refining (+5.6% after -8.0%). The fall in activity did remain particularly pronounced, however, in transport equipment (-2.1%). Production in the agrifood industry and in capital goods also fell back (-1.1% and -1.0%).

The industrialists surveyed in May 2013 report poor demand, although noting a slight improvement in domestic demand. On the supply side, business leaders appear much more optimistic, however, regarding their past activity: the corresponding balance leapt very significantly (see Graph 3). Individual production prospects were at the same level as the judgement of past performance, although down on the high-point reached in February. Activity data available at the end of April delivered an even more positive

1 - Composite indicators in France: all sectors, in industry, services and building



Source: INSEE

French developments

message, with production rebounding in Q2 (+0.9%), before returning to a rate more in line with the trend in the surveys (-0.3% in Q3 and 0.0% in Q4).

Over 2013 as a whole, manufacturing production should fall by 1.3% (after -2.8% in 2012).

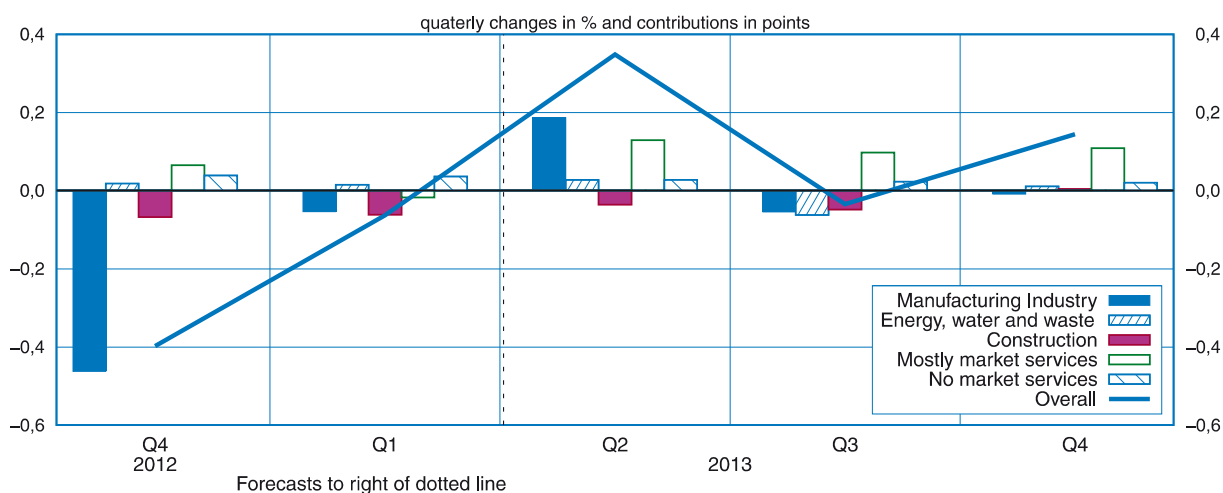
In construction, activity should continue to fall back and then pick up slightly in Q4 2013

In Q1 2013, production in the construction sector fell (-0.8%, after -0.9% in Q4 2012). In the wake of the low level of housing starts observed in 2012, activity in building continued to fall back and activity in public works was hit by harsh temperatures, especially in March.

Production in the construction sector should continue to fall back in Q2 and Q3 2013 (-0.5% in Q2 then -0.7%). However, it should level out at the end of the year (+0.1% in Q4). Business people in building report poor activity and order books that remain below their normal levels (see Graph 4). However, the upturn in housing starts since the beginning of 2013 suggests that the slide in activity in building, which is likely to remain pronounced in Q2 and Q3, should come to an end, at least temporarily, at the end of the year. In public works, the opinion on expected activity among entrepreneurs in the sector continued to rise in April 2013 and activity should be buoyed up here and there by work to catch up the delays caused in works by the harsh temperatures in March.

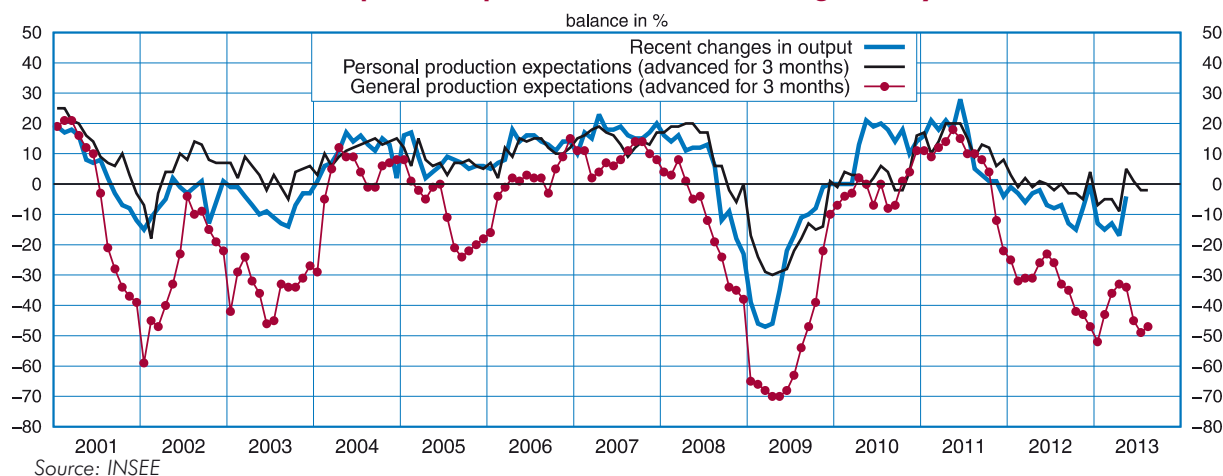
Over 2013 as a whole, production in the construction sector should fall by 2.4%, after -0.7% in 2012.

2 - Sector contributions to growth in total production



Source: INSEE

3 - Opinion on production in manufacturing industry



Market services: activity set to grow again moderately in 2013

In Q1 2013, market service activity excluding trade increased by 0.1% after +0.3% in Q4 2012. Activity held up in real-estate activities (+0.2% after +0.1% in Q4 2012), financial activities (+0.9% after +0.8%) and in information-communication (+0.6% after +0.8%). In the other sub-sectors, production fell back, notably in transport (-0.4% after +1.0%) and in accomodation and food services (-1.3% after -0.2%), driven by a drop in household spending on services.

Activity in market services excluding trade should remain sluggish through to the end of 2013 (+0.2% per quarter). According to business chiefs, the outlook in services has remained morose in recent months: the compound business climate indicator stood at 83 in May, well below its long-term average. In May, however, entrepreneurs revised their activity expectations upwards for the coming months. The upturn in manufacturing industry production should thus result in more intermediate consumption of services.

Over 2013 as a whole, production of market services excluding trade should increase by 0.6%, after progressing by 0.4% in 2012.

Mainly non-market services: activity should maintain its rate of growth

In mainly non-market services, activity slowed down in Q1 2013 (+0.2%, after +0.3% in Q4 2012). Its rate of growth should stabilise at +0.2% in Q2 and Q3 2013, then fall to 0.1% in Q4. All in all, production in this sector should increase by 1.0% in 2013, after a rise of 1.2% in 2012.

After a drop in Q1 2013, trade activity should level out over the rest of the year

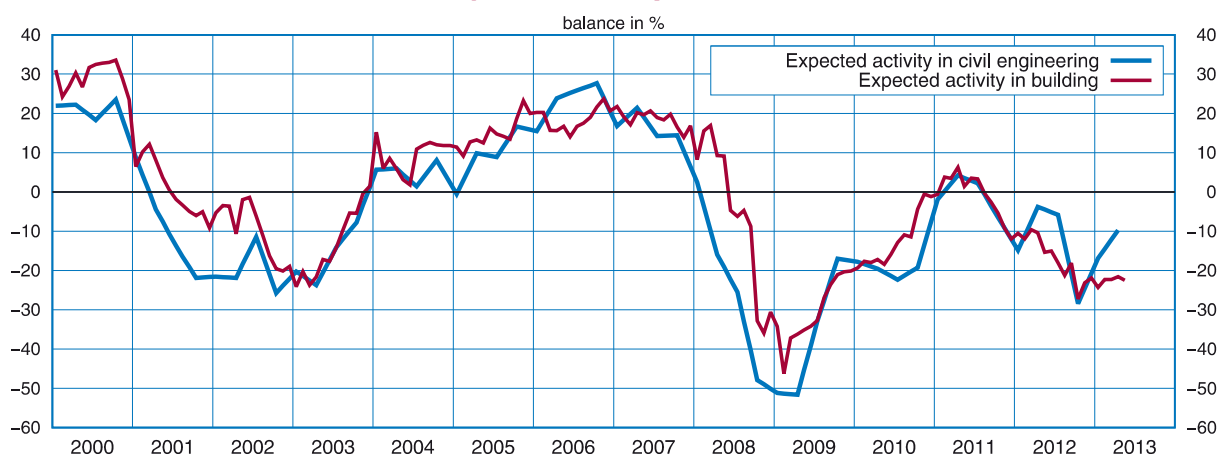
Trade activity fell back again in Q1 2013 (-0.4%, as in Q4 2012), affected in particular by sluggish household consumption and the drop in exports.

According to the wholesale trade entrepreneurs surveyed in May, the business climate is deteriorating in this sector, although order intentions have levelled out and orders from abroad are on a better trend than in March. Likewise, in the retail automobile trade, the business climate indicator remained poor in May 2013. Trade activity should continue to be hit by sluggish household consumer spending and the drop in investment. It should benefit, however, from the upturn in exports. All in all, it should barely progress through to the end of the year (0.3% in Q2 then +0.1% in Q3 and Q4). Over 2013 as a whole, production in trade is set to fall back by 0.3% (after +0.1% in 2012).

Energy production to level out in Q2 2013

Energy production progressed at the start of 2013 at the same rate as at the end of 2012 (+0.4%) under the effect notably of the sharp increase in household heating expenditure in Q1. Energy production should continue to grow in Q2 2013 (0.6%), as household energy expenditure should remain high on account of lower temperatures than usual. The return of household energy consumption to the seasonal norm should lead to a fall in energy production in Q3. In 2013 as a whole, it should increase by 0.4% after a rise of 1.6% in 2012. ■

4 - Prospects for activity in construction



Source: INSEE

France's International Environment

In Q1 2013 activity rebounded in the advanced economies (+0.4% after 0.0%), as predicted in the March issue of *Conjoncture in France*. In most of the emerging economies activity was less dynamic than the improved business tendency surveys had led observers to expect. Through to the end of 2013, growth should remain moderate in these economies. In the advanced economies the continued implementation of highly accommodating policies should lead to growth in domestic demand, especially as inflation is set to fall once again by the end of the year (+1.0% at end 2013). In particular, the effects of fiscal consolidation should be restricted thanks to the wealth effects in the United States and, to a lesser extent, in the United Kingdom. Buoyed by the rebound in demand from the advanced countries, world trade should return to a growth rate close to its long-term average (+1.3% per quarter).

Increasingly expansionist monetary policies

The central banks of the advanced economies have little room for manoeuvre as their base rates are already at a historic low. They are making increasingly extensive use, however, of non-standard instruments. The balance sheets of the central banks of the United States and Japan should continue to increase rapidly over the forecasting period, with the Fed purchasing \$85 Bn in securities each month and the Bank of Japan

setting itself the target of doubling the monetary base within two years. In the emerging countries the easing of monetary policy throughout 2012 helped stimulate activity. However, inflationary tensions are reappearing and certain central banks have started to tighten their monetary policy somewhat.

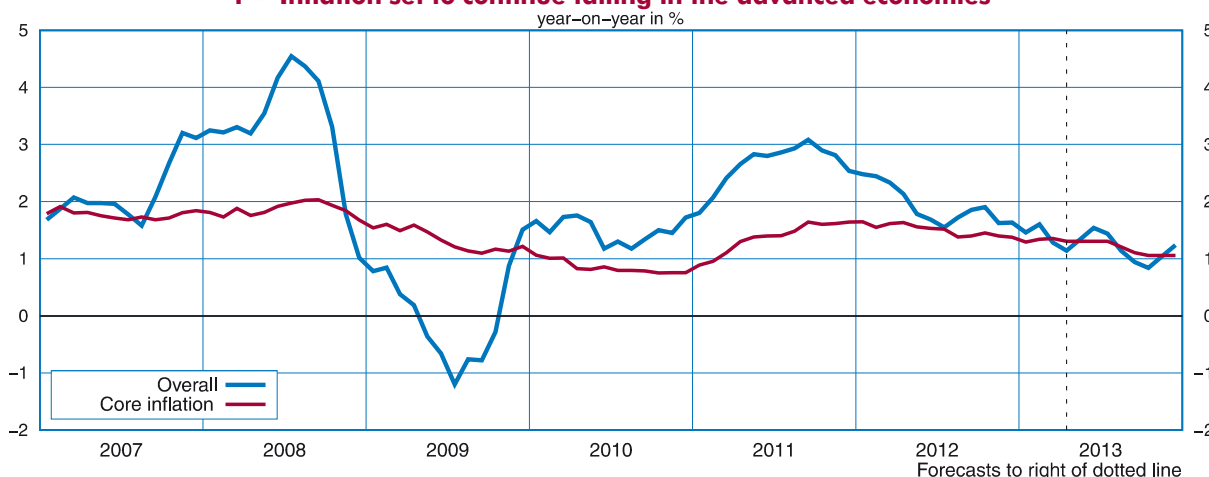
America consolidates

In the United States fiscal policy has become far more restrictive over the last six months. The tax burden on households increased sharply on 1st January 2013 while public expenditure, which has been declining for two quarters, is set to continue falling with the implementation of the sequestration measure since 1st March. In the Eurozone fiscal consolidation is likely to continue, albeit at a much reduced scale in Italy. Conversely, in Japan the new stimulus plan representing around 2 GDP points voted in by Parliament in February 2013 should buoy up activity significantly over the short term.

Inflation set to continue falling in the advanced economies

Since the end of 2011, inflation has moderated under the effect of falling commodity prices. In Q1 2013 the increase in consumer prices in the advanced countries was just 1.5% year-on-year. Assuming that oil prices stabilise (at around \$104 per Brent barrel), inflation should continue to fall (+1.0% at the end of the year, *see Graph 1*).

1 - Inflation set to continue falling in the advanced economies



Source: National Statistical Institutes, INSEE calculations and forecasts

French developments

The rise in industrial and energy commodity prices in 2010 was passed on with a time lag to core inflation in 2011. But since the beginning of 2012 core inflation has been falling, especially as the still-high level of unemployment is weighing down on the bargaining power of employees. The core index should therefore continue to fall (from +1.3% year-on-year in Q1 2013 to +1.1% in Q4). This drop in inflation is sustaining household purchasing power.

Tentative recovery in the emerging economies

Growth in the emerging economies has been more moderate over the last six months than was hoped for in view of the vastly improved business tendency surveys. In April and May the short-term climate deteriorated slightly in the main emerging economies. Fiscal and monetary policies nonetheless remain very expansionist and should continue to shore up domestic demand through to the end of 2013. Activity should therefore gain in momentum in these economies, although without returning to the growth rate of the 2000s. Imports in these countries are likely to grow by 1.5% per quarter, after +1.1% in Q1 2013.

The upturn set to continue through to the end of 2013 in the advanced economies

In Q1 2013 the advanced economies rebounded (+0.4% after 0.0%). In all these countries private domestic demand progressed slightly and exports picked up after the contraction in Q4 2012. Above all, after the extensive destocking in Q4 2012, the contribution of inventory has been positive. The short-term climate is still more favourable than the low point reached in 2012, despite a slight decline

in manufacturing (see Graph 2). Activity in the advanced economies should thus remain sustained through to the end of 2013 (+0.4% per quarter).

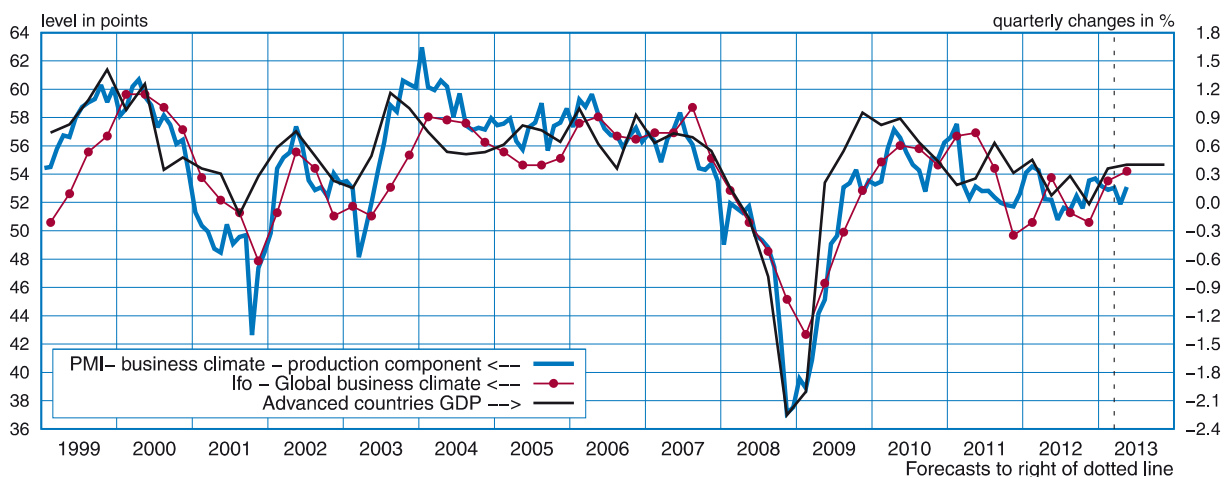
Slow recovery in the Eurozone

This overall outlook hides some diverging local situations. In the United States and to a lesser extent the United Kingdom, domestic demand is set to sustain activity once again, despite fiscal consolidation. Indeed the rise in equity prices should generate wealth effects, all the more so as the drop in rates and improving financing conditions have led to an upswing in credit. The Japanese economy should see rapid growth once again under the effect of the strong depreciation of the yen and the stimulus plan voted in by the Abe government. After six consecutive quarters of decline in activity the Eurozone should see a return of slight growth. In Germany activity should accelerate sharply thanks to the rebound in investment and exports. In Spain and Italy, GDP is likely to slip back again in Q2 and Q3 but activity should stabilise at the end of the year. In France activity is set to grow weakly as domestic demand is lacking in dynamism.

Sharp rebound in world demand for French products through to the end of 2013

In Q1 2013 world trade grew at a slightly slower rate than that anticipated in the *March Conjoncture in France* (+0.7%). Imports from the emerging economies progressed by 1.1% while those from the advanced economies stagnated (-0.1%, see Table).

2 - The economic climate remains generally well oriented



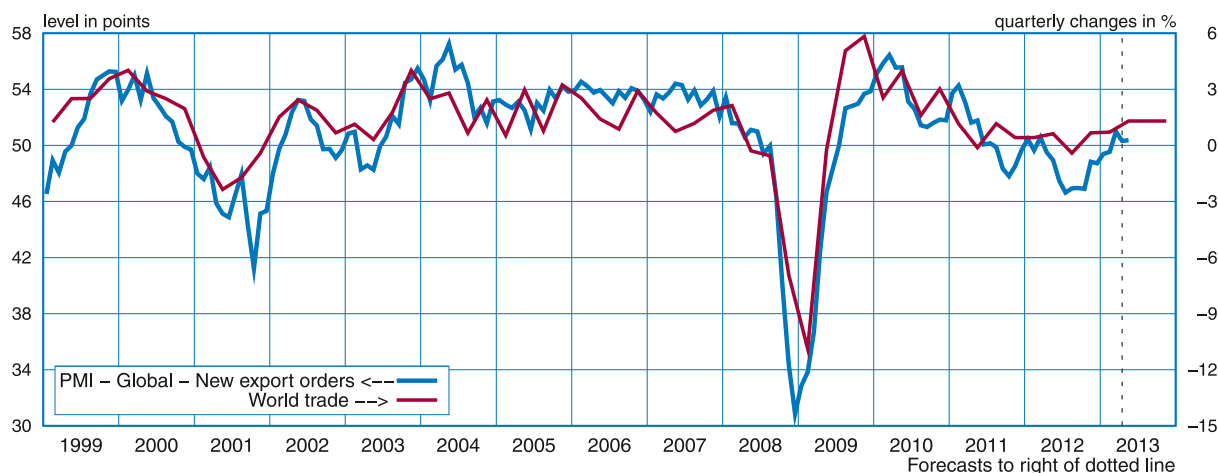
Source: Markit, IFO, INSEE forecasts

French developments

For the world economy as a whole, the new export orders component in PMI surveys has recovered clearly since its low point reached in July 2012 and has exceeded the expansion threshold since March (see Graph 3). World trade should thus grow sharply over the forecasting period (+1.3% per quarter).

The rise in the imports of advanced countries, most notably in Europe, should also bring a sharp rebound in world demand for French products in H1 2013: after contracting in Q1 2013 (-0.3%), this demand is likely to progress at a rate of around 1% per quarter through to the end of the year. ■

3 - World trade should accelerate until the end of the year 2013



Source: Markit, Centraal PlanBureau, INSEE forecasts

International scenario summary

	Quarterly change in %												Annual change in %		
	2011				2012				2013				2011	2012	2013
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP of advanced economies	0.2	0.3	0.6	0.3	0.5	0.1	0.3	0.0	0.4	0.4	0.4	0.4	1.7	1.3	1.1
World trade	1.2	-0.1	1.2	0.4	0.4	0.6	-0.4	0.7	0.7	1.3	1.3	1.3	5.9	1.7	3.1
Imports of advanced economies	0.9	-0.4	0.6	-0.2	0.2	-0.2	-0.1	-1.6	-0.1	1.0	1.0	1.0	3.7	-0.4	0.0
Imports of emerging economies	2.0	0.1	1.2	1.8	0.5	0.9	-0.1	3.8	1.1	1.5	1.5	1.5	8.4	4.1	6.5

forecast

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

Foreign trade

Despite the progress in world trade (+0.7% in Q4 2012 and Q1 2013), exports shrank once again in Q1 2013 (-0.5% after -0.7%). They were penalised in particular by the decline in demand from Germany and the United Kingdom. In Q2 2013, exports are likely to grow by 1.3%: demand for French products should accelerate thanks to the upturn in imports from the advanced countries, particularly Germany. Conversely, it is likely that the adverse effects of the recent appreciation of the euro will increase slightly. Exports should then grow by +0.6% per quarter in H2; across 2013 as a whole, they are likely to grow by only 0.8% after +2.5% in 2012.

After a sharp decline towards the end of 2012, imports stabilised in Q1 2013 (+0.1% after -1.3%). They should accelerate in Q2 (+1.0%), then continue to grow towards the end of the year, in the wake of exports. Across the whole of the year, imports should grow by 0.4%, after falling by 0.9% in 2012.

All in all, the contribution of foreign trade to growth in activity should be slightly positive then nil until year's end. On average in 2013, it should be neutral: +0.1 points after +1.0 points in 2012.

Exports sustained by the rebound in demand from Germany and the global acceleration in world trade

In Q1 2013, French exports of goods and services contracted once again (-0.5% after -0.7%, *see Table*). World demand for French products slipped

back for the second consecutive quarter (-0.3% after -0.5%). In particular, it suffered as a result of the fall in demand from Germany and the United Kingdom (*see Graph 1*).

Exports of manufactured goods slipped back by 0.4% in Q1 2013. This drop can mainly be explained by the sharp fall in sales of products from coking and refining (-12.4% after +11.6%), and also in "other industrial goods" (-0.7% after -0.2%). On the other hand, sales of transport equipment rose (+1.4% after -5.2%), sustained by major deliveries of Airbus aircraft and an ocean liner to Panama. Furthermore, energy-water-waste exports fell back sharply at the beginning of the year (-15.7% after +0.4%), mainly in a backlash to strong sales of industrial waste in December 2012. After big sales of cereals at the end of 2012, sales of agricultural products slowed (+3.3% after +12.4%). Finally, exports of services continued to grow (+0.5%).

Over the forecasting period exports should pick up, growing by 1.3% in Q2 then by 0.6% per quarter in H2. They should be sustained by the progress in world trade (*see Graph 2*), which should return to a higher rate of growth (+1.3% per quarter). Demand for French products should however remain less dynamic than world trade (*see Graph 2*), especially as demand from Spain and Italy continues to fall. However, from Q2 they should benefit from the rebound in German imports and accelerate sharply (+1.0% in Q2 2013 after -0.3% in Q1). Elsewhere, the recent appreciation of the euro should offset the favourable effects of past depreciations and

Foreign trade growth forecast

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

	Quarterly changes								Annual changes	
	2012				2013				2012	2013
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Exports										
All goods and services	0.1	0.9	0.5	-0.7	-0.5	1.3	0.6	0.6	2.5	0.8
Non-energy industrial goods (75%*)	0.9	0.9	0.5	-1.5	-0.4	1.8	0.7	0.7	3.0	0.8
Imports										
All goods and services	0.9	0.2	0.1	-1.3	0.1	1.0	0.6	0.6	-0.9	0.4
Non-energy industrial goods (77%*)	1.5	1.6	-1.1	-1.5	0.2	1.1	0.7	0.7	0.3	0.2
Contribution of foreign trade to GDP	-0.2	0.2	0.1	0.2	-0.2	0.1	0.0	0.0	1.0	0.1

Forecast

* Part of exports (resp. imports) of non-energy industrial goods in exports (resp. imports) in a whole in 2012.

Source: INSEE

French developments

price-competitiveness is less likely to buoy up exports in 2013 than in 2012 (see Graph 3).

Exports of manufactured goods should increase by 1.8% in Q2, rebounding sharply from Q1. They should then grow by 0.7% per quarter until the end of the year. Exports of services should maintain a similar growth rate to that observed at the beginning of 2013 (+0.2% then +0.6% per quarter). Agricultural exports, on the other hand, are likely to shrink in Q2 2013 (-1.7%), then stabilise until the end of the year. Finally, energy-water-waste sales should pick up somewhat in Q2, after the sharp drop in the previous quarter, then stabilise over the forecasting period.

In all, in 2013 exports should grow by +0.8%, a clear slowdown compared with 2012 (+2.5%). France's market share is likely to fall back a little before the end of 2013, after taking advantage of the depreciation of the euro in the course of 2012 (see Graph 4).

In the wake of exports, imports should gradually return to growth

In Q1 2013, imports of goods and services stabilised (+0.1% after -1.3%). Purchases of manufactured goods grew (+0.2% after -1.5%), especially purchases of capital goods (+1.8%) and products from coking and refining (+1.7%). These increases were offset by the drop in purchases of "other industrial goods" (-0.7%).

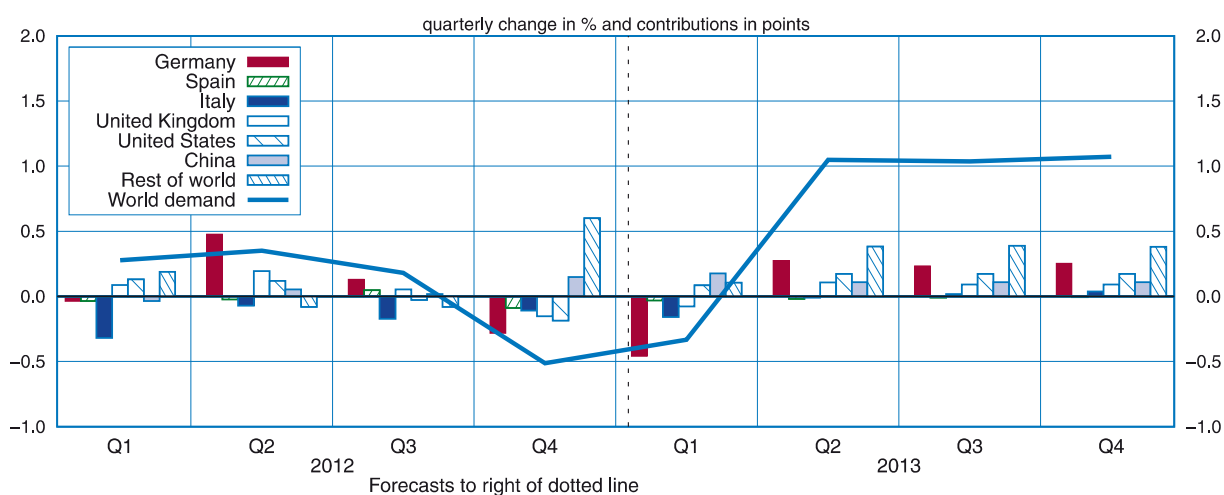
Elsewhere, imports of agricultural products and market services picked up (+2.5% and +2.1% respectively). Finally, energy purchases fell once again (-2.6% after -3.1%). Overall, purchases from the EU were weak, as were purchases from the rest of the world (-0.1% and +0.4% respectively).

In Q2 2013 imports should be dynamic, sustained by the upturn in purchases of manufactured goods (+1.0%), energy (+1.0%) and services (+0.5%). Imports are then likely to slow (+0.6% per quarter), especially manufactured goods, in the wake of exports¹. They will suffer as a result of weak domestic demand. Energy purchases should increase slightly in Q2 2013 then stabilise, whereas purchases of agricultural products should grow slightly over the forecasting period. Finally, imports of services should maintain a rhythm of growth of +0.6% until the end of the year.

On average over 2013, imports of goods and services, like exports, should rise slightly (+0.4%) after falling back in 2012 (-0.9%). The contribution of foreign trade to GDP growth should be slightly positive in Q2 then remain neutral until the end of the year; on average over 2013 it should be slightly positive. ■

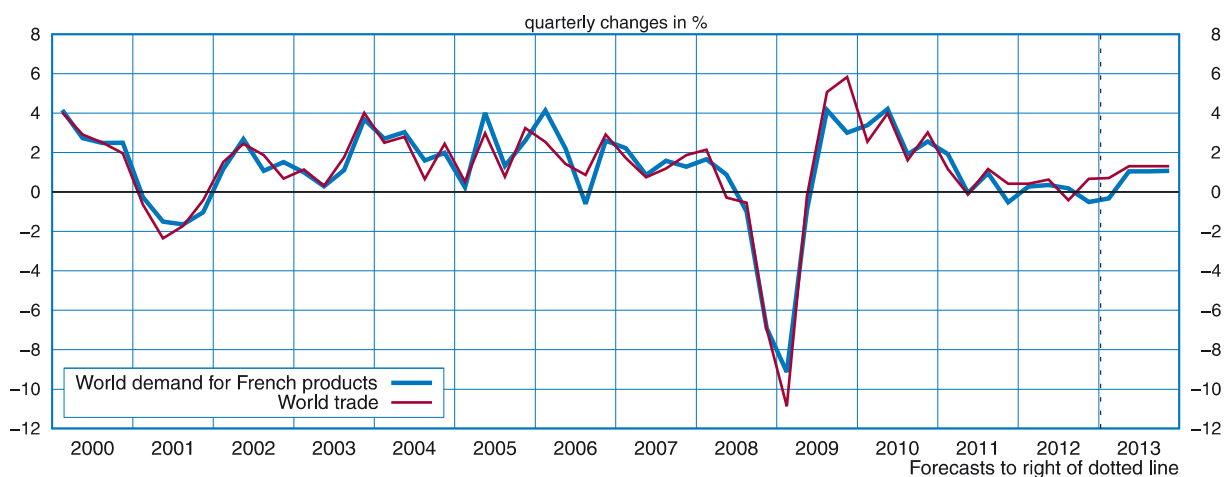
(1) via the import content of exports

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



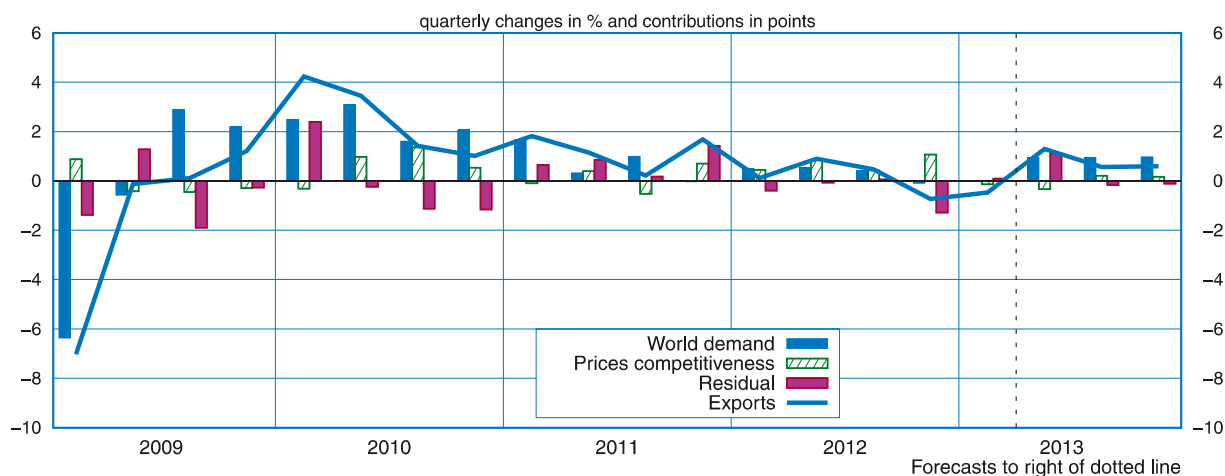
Sources: INSEE, Centraal PlanBureau

2 - World demand for French products and world trade



Sources: INSEE, Centraal PlanBureau

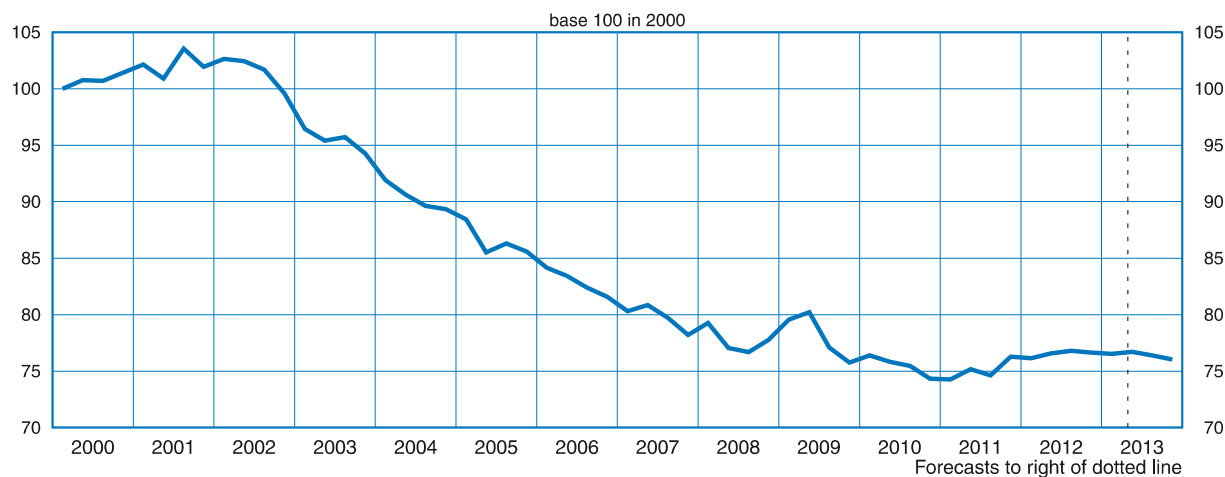
3 - Manufactured exports and econometric contributions



How to read it: For the sake of legibility the contribution of the loss-of-market-share trend, which is equal to -0.4% each quarter, has not been represented here.

Source: INSEE

4 - Market share of France*



* Market share is defined here as the report between French exports and world demand for French products

Sources: INSEE, DG Trésor

Employment

Employment in the non-agricultural market sectors decreased sharply in H2 2012 (-82,000 jobs) and, due to weak activity, seems set to keep falling rapidly in 2013 (-113,000 jobs). Productivity gains should remain positive but moderate (+0.3% after +0.4% in 2012).

In the non-market sectors, on the other hand, employment should increase substantially in 2013 (+85,000 jobs, after +19,000 jobs in 2012), thanks to the creation of subsidised jobs. This rise is likely to be greater in H2 2013 (+71,000 jobs) than in H1 (+14,000).

Total employment should be more or less stable throughout 2013, in contrast with the strong decline in 2012 (-51,000).

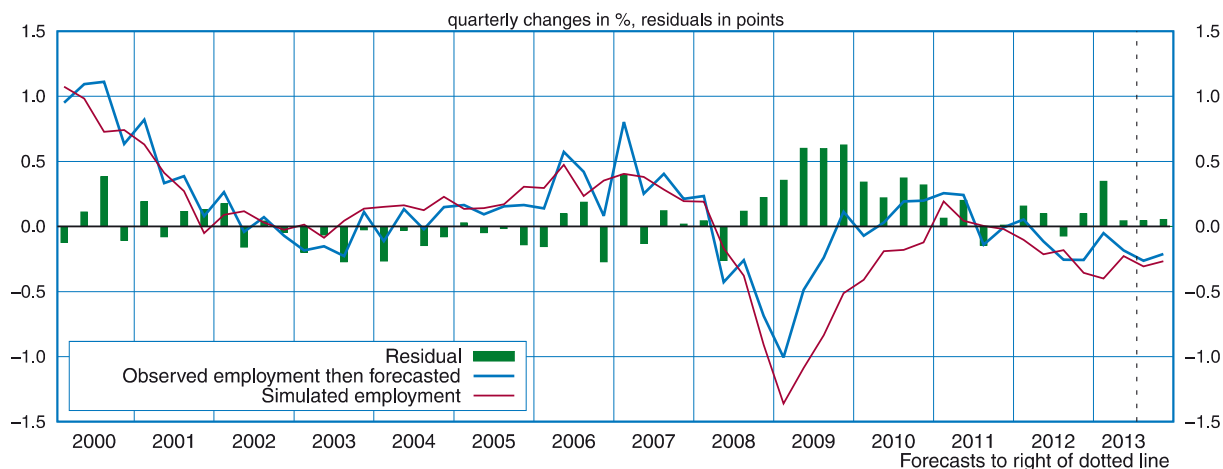
The number of market sector employees likely to fall in 2013

In 2012, paid employment in the non-agricultural market sectors fell sharply (by 92,000 jobs, see Table 1), whereas it had risen during 2011. The profile of employment over the year was very marked: the numbers in work decreased slightly in H1 2012 (-10,000 jobs), then fell sharply in H2 (-82,000). This development was fairly consistent with what had been expected given the changes in

the usual determinants of employment (see Graph 1). The downturn in activity since the beginning of 2011, which became more marked in 2012, gradually transferred to employment and, after falling back at the beginning of 2012, the apparent productivity of labour picked up very slightly in H2 2012.

Market employment fell once again in Q1 2013 (-8,000 jobs), a variation that was nevertheless much better than what was expected given the decline in activity (see Graph 1). Over the forecasting period, market employment is likely to suffer further as a result of the low level of activity and the decline is set to continue, even though the first effects of the tax credit for competitiveness and employment should temper this drop to some extent (15,000 jobs listed in H1 and 17,000 further jobs in H2 2013). All in all, market employment should shed 38,000 jobs in H1 2013 and 76,000 in H2.

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



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

Source: INSEE

Temporary work should stabilise in 2013, but the tertiary sector excluding temporary work set to decline

In the tertiary market sector, employment declined in 2012, with a clearly defined half-yearly profile (see Graph 2). After increasing slightly in H1 (+5,000), it fell back sharply in H2 (-53,000). There were many job losses at the end of the year both in temporary work (-37,000 jobs in H2 after -24,000 in H1) and in the tertiary sector excluding temporary work (-16,000 in H2, after +29,000 in H1).

In Q1 2013, temporary employment picked up once more (+13,000), but employment excluding temporary work decreased slightly (-2,000). The rate of recourse to temporary employment, which had been falling since H2 2011, stabilised at the beginning of 2013 (see Graph 3). It should stay at this low level, and the number of temporary workers should fall back only slightly between now and the end of the year. On the other hand, due to the low level of activity, employment excluding temporary work is likely to fall (-8,000 jobs in H1 then -23,000 in H2).

All in all, market-sector tertiary employment is likely to shed 6,000 jobs in H1 then 24,000 in H2.

Industrial employment to fall in 2013

Across the whole of 2012, industrial employment declined (-72,000 jobs). Employment excluding the temporary sector¹ decreased by 31,000 jobs, with a comparable scale of job losses in H1 (-13,000 jobs) and H2 (-18,000). The number of

(1) In this sector-by-sector presentation of employment, in the same way as in the employment figures published by INSEE, temporary workers are counted in the tertiary sector even if they carry out their assignment in industry or construction (see below).

temporary workers in industry fell back sharply (-41,000 jobs) and the rate of recourse to temporary employment in this sector dropped from 7.3% to 6.2%.

Industrial activity is likely to remain sluggish over the forecasting period and total industrial employment, including temporary workers employed in the sector, should continue to experience a high rate of decline in 2013 (-19,000 in H1 2013 then -39,000 in H2 2013). However, in contrast to 2012, job losses should essentially concern industrial employment excluding temporary workers (-28,000 in H1 2013 then -38,000 in H2 2013). After being used as an employment adjustment variable, temporary work should remain stable.

Job losses in construction to increase in 2013

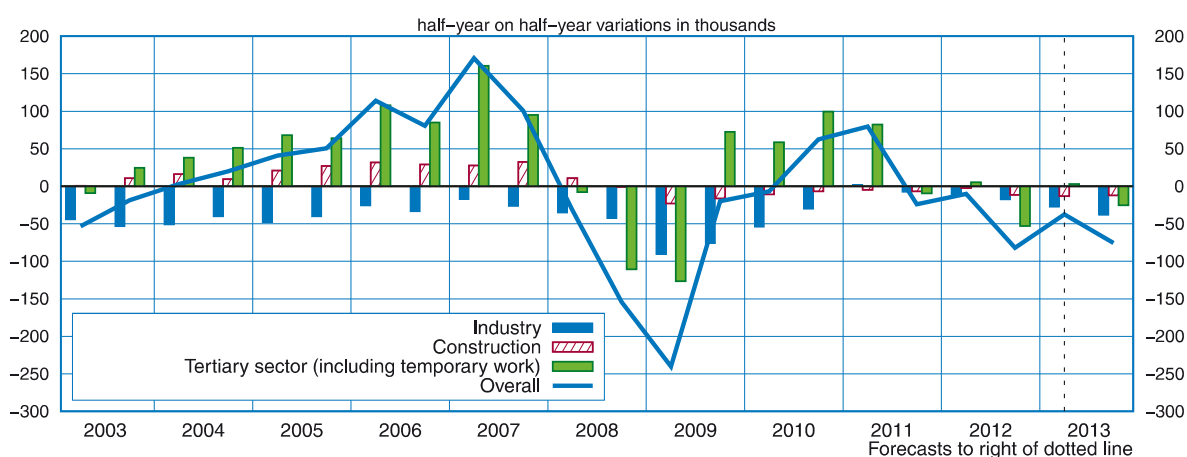
In the construction sector, job losses continued throughout 2012 (-14,000), at a similar rhythm to that of 2011 (-11,000). This decline was concentrated in the second half of the year (-11,000 jobs).

In Q1 2013, employment in construction continued to decline at the same pace as in 2012. According to the business tendency surveys, no improvement is forecast for the construction job market, and employment is likely to fall over the last three quarters of 2013. It should fall back at a similar rhythm in H1 2013 (-13,000) and H2 (-12,000).

Non-market employment likely to rise once again due to "Emplois d'avenir"

In 2012, the number of workers in the non-market sector increased (+18,000), after a sharp decline in 2011 (-32,000 jobs). This increase was the

2- Employment change in non-agricultural market sectors



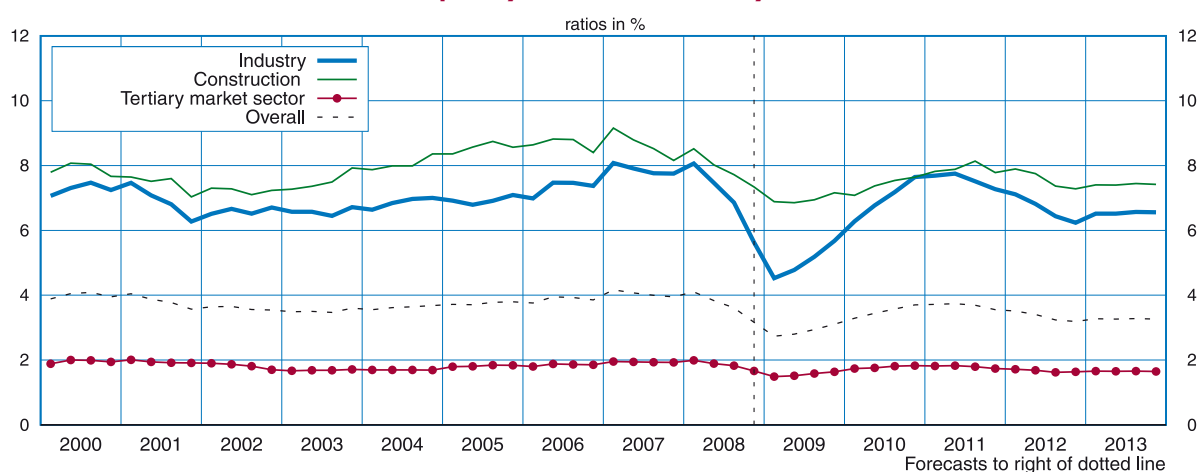
French developments

result mainly of private job creations in the non-market sector (+23,000 salaried workers in 2012).

In 2013, non-market employment should increase in H1 (+14,000) and also in H2 (+71,000). The 2013 Finance Law provides for 403,000 newcomers to the non-market subsidised contract schemes in Metropolitan France, including 92,000 for "Emplois d'avenir" contracts, after 395,000 observed in 2012. 92,000 further single integration contracts (CUI) have been announced for the non-market sector for Metropolitan France

by the end of May 2013. The number of subsidised contract beneficiaries should thus increase by 19,000 in H1, +29,000 of which will come thanks to the introduction of "Emplois d'avenir" contracts (see Table 2). In H2, the growing importance of "Emplois d'avenir" and increased CUI recruitment should lead to a sharp increase in numbers in the subsidised contract schemes, and most of these contracts will not yet have expired at the end of the year; the number of beneficiaries should increase by 108,000 in H2 2013. Over the year, the number of beneficiaries of subsidised contracts in the non-market sector is likely to rise by 126,000. ■

3 - Temporary work resort ratio by sectors



Source: INSEE

Table 1

Change in employment

	Job creations over the period (in thousands) seasonally adjusted						Change in employment over the period (%) seasonally adjusted						Level of the end of the period (in thousands) seasonally adjusted		
	2011	2012	2013	2012 H2	2013 H1	2013 H2	2012	2012	2013	2012 H2	2013 H1	2013 H2	2011	2012	2013
Market sector employees (1)+(2)	71	-70	-99	-72	-35	-64	0.4	-0.4	-0.6	-0.4	-0.2	-0.4	17994	17924	17825
Mainly non-agricultural market sectors (1) (private establishments only)	15	22	14	10	2	12	0.8	1.1	0.7	0.5	0.1	0.6	1933	1955	1970
Mainly non-market sectors (2)	56	-92	-113	-82	-38	-76	0.3	-0.6	-0.7	-0.5	-0.2	-0.5	16061	15969	15855
Industry	-6	-31	-66	-18	-28	-38	-0.2	-0.9	-2.0	-0.6	-0.9	-1.2	3267	3237	3171
including: Manufacturing industry	-11	-35	-60	-19	-26	-34	-0.4	-1.2	-2.1	-0.6	-0.9	-1.2	2901	2866	2806
Construction	-11	-14	-25	-11	-13	-12	-0.8	-1.0	-1.8	-0.8	-0.9	-0.8	1435	1421	1396
Tertiary market sector	73	-48	-22	-53	3	-25	0.6	-0.4	-0.2	-0.5	0.0	-0.2	11359	11311	11289
including: Trade	20	-18	-13	-14	-6	-6	0.7	-0.6	-0.4	-0.5	-0.2	-0.2	3029	3010	2998
Market services (including temporary work)	52	-29	-10	-39	9	-19	0.6	-0.4	-0.1	-0.5	0.1	-0.2	8330	8301	8291

	Job creations over the period (in thousands)						Change in employment over the period (in %)					
	2011	2012	2013	2012 H2	2013 H1	2013 H2	2011	2012	2013	2012 H2	2013 H1	2013 H2
Mainly non-agricultural market sectors	56	-92	-113	-82	-38	-76	0.3	-0.6	-0.7	-0.5	-0.2	-0.5
Agricultural employees	-4	-4	-4	-2	-2	-2	-1.6	-1.8	-1.9	-0.9	-0.9	-0.9
Mainly non-market service sectors (including private establishments)	-32	18	85	-6	14	71	-0.4	0.2	1.1	-0.1	0.2	0.9
Self-employed	62	25	20	13	10	10	2.5	1.0	0.8	0.5	0.4	0.4
Total Employment	83	-53	-12	-77	-15	3	0.3	-0.2	0.0	-0.3	-0.1	0.0

Forecast

(1) Sectors OQ (private workers)

(2) Sectors DE to MN and RU

How to read it: 64,000 jobs should be destroyed in the market sector during H1 2013. This corresponds to a decrease of 0.4% over the half-year. This sector should employ 17,825,000 workers at December 31st 2013

Source: INSEE

Table 2

Change in subsidised employment in the non-market sector

in thousands

	2011	2012H1	2012H2	2012	2013H1	2013H2	2013
"Emplois d'avenir"	0	0	1	1	29	50	79
(CUI-CAE replaces CAE+CAV on 01/01/10)	-37	25	-28	-3	-10	57	47
Contract to Support Employment (CAE)	-8	0	0	0	0	0	0
Contract for the Future (CAV)	-5	0	0	0	0	0	0
Total	-50	25	-27	-3	19	108	126

Forecast

Sources: DARES, INSEE

Unemployment

For Q1 2013, the unemployment rate is estimated at 10.8% of the active population (10.4% in Metropolitan France), up 0.3% on the previous quarter. For the time being this estimate is more uncertain than usual on account of an unusually low rate of response to the survey, and certain changes in the methods used in the processing of the Employment survey which serve to establish the unemployment figures as defined by the International Labour Organization (ILO, see Box). Since mid-2011 the rate of unemployment has increased by 1.3 points in Metropolitan France, and is expected to keep on rising over the forecasting period, albeit at a reduced pace. By the end of 2013 it should stand at 11.1% (10.7% in Metropolitan France).

In Q1 2013, the unemployment rate is estimated at 10.8% of the active population

In 2013, the rate of unemployment rose for the seventh consecutive quarter (see Graph 1), reaching 10.8% (10.4% in Metropolitan France).

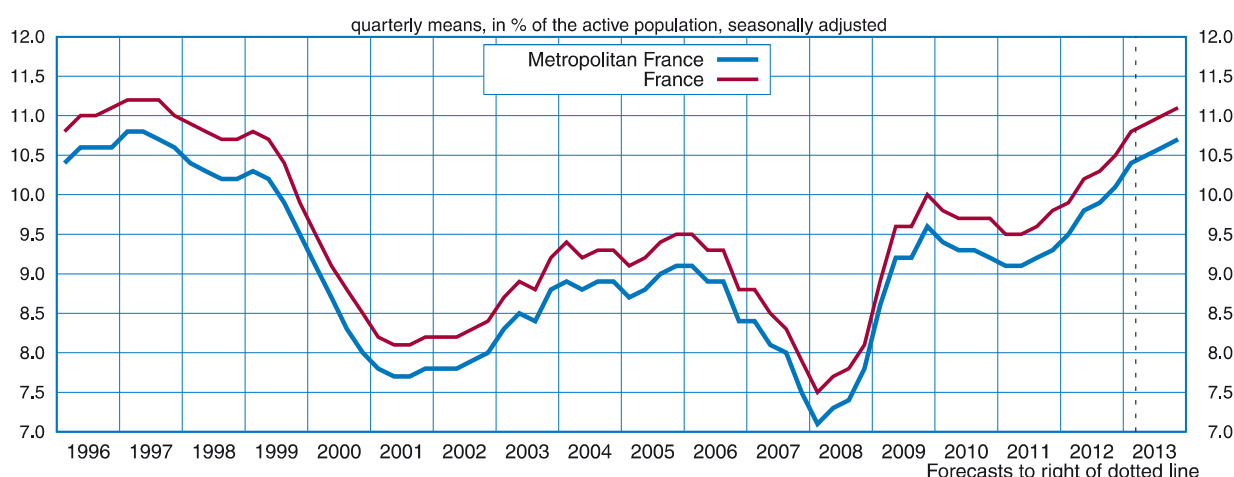
Unemployment is expected to keep on rising until the end of 2013

Over the forecasting period, the unemployment rate should keep on rising. It should reach 10.7% in Q4 (11.1% including overseas territories), due to a fall in employment (-32,000 total jobs lost year-on-year in Q4 2013) and an active population which should continue to grow (+137,000).

The fall in total employment (-32,000) should be mostly driven by the fall in market employment. In contrast, non-market employment should remain dynamic throughout this year, particularly in H2 2013 thanks to a large rise in subsidised employment.

The growth trend in the active population should be weaker in 2013 than it was in 2012: the active population is expected to increase by 119,000 people in 2013, following on from an increase of 144,000 in 2012. Since 2011 the first members of the baby boom generation have passed the full retirement age (65 years and four months), and since then the demography of the working age

1 - Unemployment rate in the sense of the ILO



How to read it: The estimate for Q1 2013 is provisional because the impact of wide-ranging changes to the survey system, the questionnaire and the processing methods for the Employment survey is still under analysis (see Box).

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

Source: INSEE, Labor Force Survey

population has been less dynamic overall, thus having a negative effect on the evolution of the active population: there are fewer people entering the 15-64 age group than leaving it. Two additional effects may also contribute to this trend, reflecting the impact of the 2010 pension reforms. In November 2012 the decree issued on 2nd July 2012 came into force, introducing new measures which allow those who have worked for a certain number of years to retire at 60; this should slow down the growth of the active population. On the

other hand, the decree of 29th December 2011 adding an extra month to the age at which those born after 1st January 1952 can claim a pension has had the effect of increasing the number of older workers still present in the labour market in H2 2012. In 2013, these measures should only affect the infra-annual development of the active population, without impacting the end-of-year figures. The overall effect of public policy on the active population level should be minimal in 2013 (see Table 1). ■

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

Annual changes, in thousands

	2008	2009	2010	2011	2012	2013
Population of the 15-64 age group	153	103	131	20	-84	-83
Population of the 15-59 age group	-101	-126	-117	-70	-61	-79
Active population	10	247	46	145	224	137
including:						
(a) Contribution of the population and the trend participation rate	145	148	159	164	144	119
(b) Estimated bending effects	-25	48	-57	1	21	-10
(c) Other short-term fluctuations (residual)	-110	51	-56	-20	59	28
Employment	-72	-277	135	105	-34	-32
Reminder: End-of-period employment (see "Employment" note)	-146	-216	138	83	-51	-12
ILO unemployment	83	525	-89	40	258	169
Average in the last quarter of the period						
ILO unemployment rate (%)						
Metropolitan France	7.8	9.6	9.2	9.3	10.1	10.7
France (including overseas departments)	8.1	10.0	9.7	9.8	10.5	11.1

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.

Source: INSEE

Box: Estimates of the unemployment rate as defined by the ILO affected by increased uncertainty in Q1 2013

The unemployment statistics and complementary labour market indicators are produced via what is known as a "continuous" Employment survey conducted on a representative sample of the population in Metropolitan France, completed by an annual survey in the French Overseas Departments. On 6 June 2013 the INSEE published an estimate of the Q1 unemployment rate as defined by the International Labour Organisation (ILO), but not all the unemployment statistics (as defined by the ILO) for Q1 2013 were produced before this Conjoncture in France was finalised.

Over and above the statistical uncertainty inherent to any survey conducted by sampling, specific factors have affected the results of the Q1 Employment survey.

On the one hand, the implementation of new working conditions for INSEE investigators on 1st January 2013 resulted in a transition period during which there were not

enough investigators available to cover the whole of the French territory in a uniform manner. This generated a rise in the number of non-responses, thus increasing the survey's margin of uncertainty.

On the other hand, this situation coincided with the recasting of the Employment survey production process: improvements to the questionnaire and redrafting of the processing chain for the data collected.

In order to achieve the fullest possible exploitation of the results of the Q1 Employment survey, the INSEE is currently conducting an in-depth methodological assessment of the change in protocol for the survey, is proceeding to new checks on the processing chain, and is integrating supplementary data on non-respondents to the Q1 Employment survey. ■