French developments

Review of the previous forecast

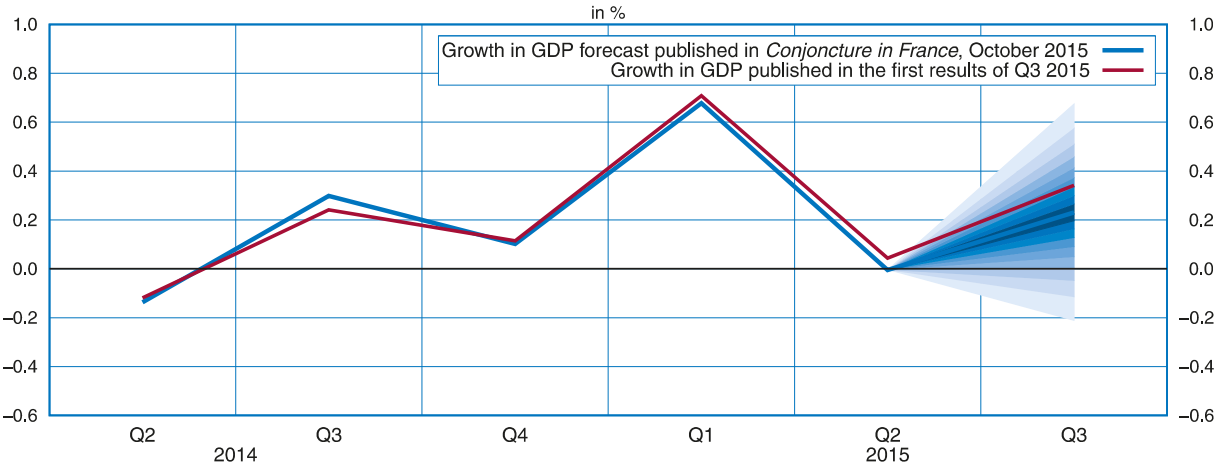
In Q3 2015 GDP grew (+0.3%) a little more than forecast (+0.2%) in the October issue of Conjoncture in France. Consumption and investment picked up, contributing, as expected, +0.3 points to growth in Q3. However, foreign trade had a greater negative effect (–0.7.point) than forecast (–0.2.points). This was offset by changes in inventories which contributed around +0.7 GDP points while the forecast had been for a contribution of +0.1 points. For Q4, the growth forecast has been revised slightly downwards, in particular due to lower domestic demand, as the fears generated by the 13 November terrorist attacks have had a negative effect on the consumption of certain services.

In Q3 market-sector employment stagnated (–1,000), whereas a slight increase had been expected (+9,000). The unemployment rate increased to 10.2% in Metropolitan France whereas it had been forecast to remain stable at 10.0%. In November 2015, consumer prices were stable over one year (compared to +0.1% forecast). For December 2015, the forecast for prices has been revised slightly downward (by 0.1 points to +0.2%).

In Q3 2015, activity bounced back a little more than forecast.

In Q3 2015, GDP was slightly more buoyant than forecast in the October 2015 Conjoncture in France (+0.3% compared to +0.2% forecast). This forecasting error is lower than the mean absolute deviation since 2000 (Focus). Indeed, total output grew a little more strongly (+0.4%) than forecast (+0.2%). This difference is due mainly to manufacturing industry, whose output was expected to fall (–0.2%), but in fact increased slightly (+0.3%). Energy-water-waste output grew a little more strongly than forecast (+0.4% compared to +0.3%). Similarly, the output of services also saw a surprising upturn. Firstly, output in trade was more vigorous than expected (+0.7% compared to +0.4%), in particular thanks to growth in merchanting. Secondly, output in other market services increased more than forecast (+0.6% compared to +0.4%), driven by manufacturing activity. However, output in construction has continued to disappoint, falling back more than expected (–0.8% compared to –0.4%).

Fan chart for *Conjoncture in France* for October 2015 and growth achieved



Source: INSEE

French developments

Domestic demand gathered pace as forecast

Domestic demand excluding inventories contributed +0.3 points to growth in Q3, as forecast. Household consumption was slightly less buoyant (+0.3%) than forecast (+0.4%): in spite of a stronger than expected increase in the consumption of goods, consumption of services saw a surprising dip.

Total investment virtually stabilised, as forecast (+0.1%). However, corporate investment was slightly more vigorous (+0.7%) than expected (+0.5%) and household investment shrank less (–0.5%) than forecast (–1.0%). These surprise rises offset the unexpected dip in government investment (–1.0% compared to +0.3%) resulting from further shrinkage in civil engineering.

The trade balance affected activity far more adversely than forecast (–0.7 points compared to –0.2), due to a fall in exports (–0.6% compared to +0.7% forecast), in particular in the aeronautical sector. Furthermore, imports grew slightly more than expected (+1.7% compared to +1.4%), particularly those of manufactured goods. This contribution of foreign trade was offset by that of changes in inventories (+0.7 points compared to +0.1 points forecast).

The growth forecast for Q4 2015 has been revised downwards

The forecast for GDP growth for Q4 2015 in this Conjoncture in France (+0.2%) is lower than that of the last issue (+0.4%).

Total output is expected to increase by 0.2% compared to the +0.4% forecast in the last Conjoncture in France. Manufacturing output is likely to be only slightly less vigorous (+0.4% compared to +0.5%) and output in construction is expected to remain stable (0.0% compared to –0.4%). On the other hand, output in market services is expected to fall back (+0.3% compared to +0.6% forecast in October), while energy output looks set to see a downturn (–0.7% compared to +0.1% previously forecast).

Domestic demand is likely to contribute less (+0.2. points) than forecast in the October Conjoncture in France (+0.3 points). Household consumption is expected to stall (–0.1% compared to +0.4% previously forecast), due in particular to the fall in household energy consumption (–0.8% compared to +0.5%) and the expected weak spending on services, as a result of the fears raised by the 13 November terrorist attacks. However, total investment is expected to grow slightly more (+0.5%) than forecast in October (+0.2%). Investment by non-financial enterprises is expected to pick up more strongly (+0.8% compared to +0.6%), whilst household investments are likely to be virtually stable (–0.1% compared to –0.6% forecast).

Foreign trade is not expected to contribute to growth (0.0 compared to +0.1 points expected). Exports are expected to grow less strongly than forecast in the Point (+0.6% compared to +1.2%). Likewise imports (+0.6% compared to +0.9%). The contribution of inventories to GDP is likely to be neutral, as forecast in October.

The situation on the employment market is more unfavourable than expected

In Q32015, market-sector employment was stagnant (–1,000) whereas it had been expected to pick up (+9,000). Employment slipped back further than expected in industry and construction (–15,000 and –10,000 respectively compared to–8,000 forecast in each of the two sectors). Employment in the tertiary sector, though, was in line with forecasts: +24,000 compared to+25,000 forecast in the last issue. In fact the unexpected buoyancy of temporary work (+16,000 compared to +4,000 forecast) was offset by a lower than expected increase in non-temporary tertiary employment (+8,000 compared to +22,000 expected). At the same time, the unemployment rate rose (up to 10.2% from 10.0% in Metropolitan France and 10.6% from 10.4% for the whole of France) whereas relative stability had been forecast. The higher increase in the number of unemployed was however offset to some extent by an unusual fall in the halo of unemployment, more precisely in the number of so-called discouraged unemployed (classified as "inactive" as they did not actively look for work).

In Q4, employment is expected to be more vigorous than forecast in October's Conjoncture in France: +25,000 compared to +16,000. Following the increase in Q3, the unemployment rate is expected to fall back again in Q4, but at 10.5% in France, it is likely to remain 0.2 points higher than forecast in October.

Forecasts for headline and core inflation virtually unchanged

In November 2015, consumer prices were stable whereas a slight increase had been forecast (+0.1%); core inflation, as forecast, came out at +0.7%.

In December 2015, consumer prices are expected to rise slightly less than forecast in October: the headline index looks set to rise by 0.2% (compared to 0.3% previously forecast). Conversely, core inflation is likely to rise faster than forecast (+0.8% over one year compared to +0.7% previously forecast), due in particular to a stronger than expected impact of the earlier depreciation of the Euro. As for energy inflation, the forecast has been revised downward: indeed, the fall in the price of Brent crude oil led to its price being fixed in the forecast at a lower level than before (€41.7 compared to €44.6 in the last scenario). ■

Understanding growth forecasting errors and putting them into perspective

Every quarter, *Conjoncture in France* presents a gross domestic product growth forecast for the current quarter. Over the period 2000–2015, the mean absolute deviation between this forecast and the first results published was 0.2 points. The first GDP quarterly growth results for a given quarter are themselves adjusted over time: the average revision is in the order of 0.2 points after three years. This deviation is close to those measured in other countries.

Every growth scenario presented in *Conjoncture in France* is surrounded by uncertainty

Every quarter, *Conjoncture in France* presents a growth forecast for the current quarter and the next one or two quarters. The expected growth for Q4 2015 is 0.2% in this December 2015 edition of *Conjoncture in France*. This is the central scenario: this forecast represents the most likely growth rate of the economy, based on the information available at the time of publication.

However, this forecast is surrounded by uncertainties, with different factors that can take the figures up or down. The short-term forecast given in *Conjoncture in France* is put together above all on the basis of business leaders' responses to the business tendency surveys: these have an undisputed predictive capacity, but they are not perfect and cannot detect every variation in quarterly activity. The uncertainties often involve unexpected external shocks, such as variations in oil prices or exchanges rates[1]. They can also be due to surprising behaviours on the part of different agents; these behaviours are not entirely explained by their usual determinants in the past, hence the presence of residuals in estimates, and they can change over time.

Since 2000 the mean absolute deviation of the GDP growth forecast has been 0.2 points

One way of approaching forecasting error is to consider the mean deviation over the period (*Table 1*). This makes it possible to check that there are no systematic errors, either upwards or downwards, in the GDP growth forecast: over the period 2000–2015, the mean of the forecasts has been virtually nil, which means that they do not contain a systematic bias.

Another way of approaching the forecasting error is to consider the mean absolute deviation over the period. Since 2000 the mean absolute deviation between the growth forecast for the first quarter of the forecast period and the first results for that quarter has been 0.22 points. For the last three fiscal years in particular, the error is comparable to the mean error in Q1 2015 (first growth estimate +0.6% compared to +0.4% forecast), a little higher in Q2 (0.0% compared to +0.3% forecast) and lower in Q3 (+0.3% for +0.2% forecast).

Since 2000 the forecasting error in *Conjoncture in France* has first increased, then fallen. The profile of the deviation between the first results and the forecast can be explained by that of the volatility of GDP growth in the first results (*Graph 1*). Between 2000 and 2004, the mean absolute deviation stood at 0.19 points and the standard deviation of GDP growth in the first results at 0.31.points. Between 2005 and 2011, the deviation from the forecast grew, to reach an average of 0.27 points[2], at the same time as the volatility of GDP in the

[1] "Effects of the recent Euro depreciation and oil price drop", *Conjoncture in France*, December 2014, p. 15-16.
[2] Even excluding the largest forecasting error on this sample, concerning the second quarter of 2009, forecast at –0.6% in the *Conjoncture in France* of June 2009 and estimated at +0.3% in the first results.

Table 1 – GDP growth : deviation between the first quarterly accounts results and the forecast

	Mean deviation	Absolute deviation	Standard deviation of first results
2000 - 2015	**–0.03**	**0.22**	**0.42**
Of which 2000 - 2004	–0.07	0.19	0.31
Of which 2005 - 2011	–0.01	0.27	0.52
Of which 2012 - 2015	–0.03	0.15	0.25

How to read it: The **absolute deviation** is the absolute value of the difference between the estimated growth for the first results and the growth forecast for the first quarter of the period covered by the revision. On average over the period 2000–2015, the forecasting error is 0.22 in absolute value. The **mean deviation** is the average difference between the estimated growth for the first results and the forecast growth. On average over the period, the estimated growth was 0.03 points lower than the forecast growth. **Standard deviation** is a measurement of dispersion, calculated as the square root of the variance. It is calculated in this table on the series of quarterly GDP variances in the first results.
Source: INSEE

first results (0.52 points): this is probably due to the disconnect between activity and the responses given by business leaders that can be traced in the outlook surveys (*Graph 2*). Since 2012, these fluctuations have been reduced: the mean absolute deviation is now slightly lower than its level at the beginning of the 2000s and the first results are less volatile, with a mean standard deviation of 0.25 points over the period.

A "risks graph" to illustrate the uncertainty around the GDP growth forecast

Beyond mean forecasting errors, it is useful to examine the dispersion of these errors. Between 2000 and 2014, the maximum error was 0.8 points (*Conjoncture in France*, June 2009); 90% of the errors were smaller than 0.4 points in absolute value and 50% of errors were smaller than 0.2 points.

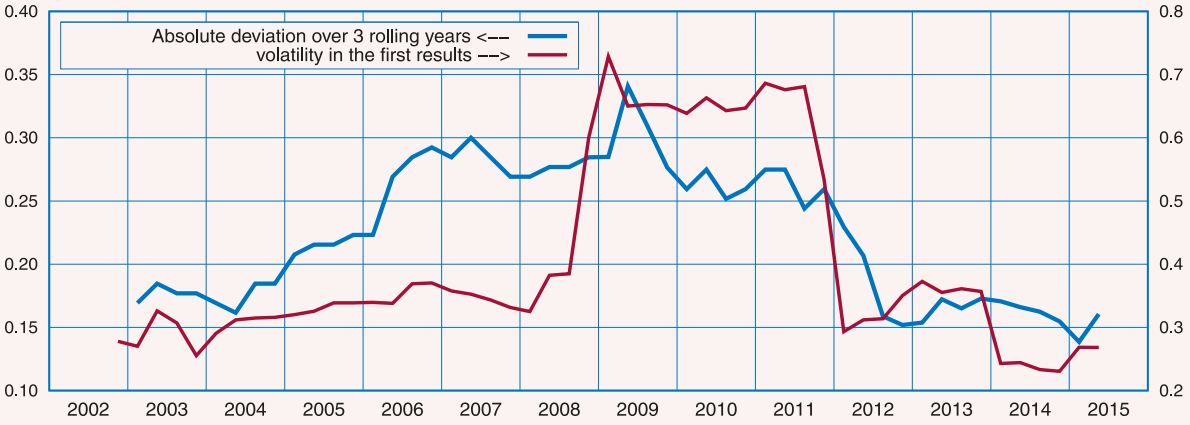
Assuming that the distribution of forecasting errors is a good measure of the distribution of future errors, the history of past forecasting errors associated with *Conjoncture in France* between 2000 and 2014 allows a graph of the risks associated with the forecast to be modelled – also known as a fan chart – which has been published in *Conjoncture in France* since 2008[3].

The fan chart covers all the most likely scenarios. The first bands around the central scenario represent the scenarios with a 10% probability of being realised. The addition of another band on either side of this interval illustrates the scenarios with a 20% chance of being realised and so on to the interval covering the scenarios with a 90% probability of being realised (*Graph 3*).

The confidence intervals are calculated using the forecasting errors measured, such as the difference between the growth forecast for the quarter in question in the forecasting period in each *Conjoncture in France* and the first estimate of the quarterly national accounts published approximately 45 days after the end of the quarter, all of this being over the period 2000–2014.

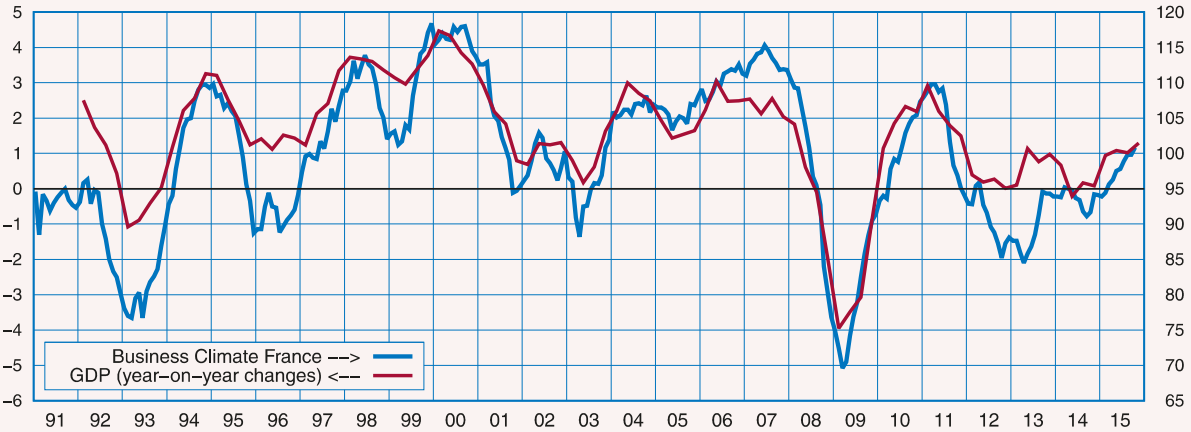
[3] "Assessing uncertainty over the forecast", *Conjoncture in France*, June 2008, p.14-16.

1 – Mean absolute deviation between GDP growth forecast and first results, volatility of GDP growth in the first results



How to read it: this graph shows the mean absolute deviation for the difference between the first results and the corresponding forecast in the previous *Conjoncture in France*, over the previous three years. This is 0.2 for the first results for Q2 2015, forecast in the *Conjoncture in France* of June 2015. The volatility is calculated as the standard deviation over 3 rolling years of the quarterly GDP variance in the first results.
Source: INSEE

2 – Year-on-year GDP growth and business climate



Source: INSEE

To construct a fan chart, the errors are presumed to follow a normal distribution of zero and a standard deviation of 0.27% for the first quarter, 0.37% for the second and 0.46% for the third quarter of the forecast. In other words, there is a 70% chance that growth in the current quarter will be situated within an interval of +/– 0.27 points around the GDP growth forecast in *Conjoncture in France*.

The first GDP growth figures for a quarter are themselves adjusted by 0.2 points on average after three years

The mean forecasting errors and the scale of the uncertainty surrounding the forecast scenarios may seem high. However, the volatility of the GDP produced in the first results of the quarterly accounts is higher: the standard deviation of GDP growth published in the first results is 0.4 points for the period 2000–2015. Furthermore, the mean error is comparable to the average adjustment made between the first results of the quarterly accounts published and the accounts published two or three years later.

The quarterly accounts are in fact regularly revised. First of all, the national accountants are not in possession of complete information 45 days after the end of a quarter. Certain indicators are incomplete for the quarter and are extrapolated to publish the first results; in subsequent publications, these extrapolations are replaced by the values observed. After that, the short-term indicators used to draw up the quarterly accounts may themselves be revised for the past quarters, in particular when businesses' responses are only belatedly known in a given short-term data source. In addition, the annual accounts are prepared in several stages, with more and more comprehensive structural data sources being gradually added in; the last three annual reviews are re-estimated once a year. The quarterly accounts, which are aligned with the annual accounts published with one year's extra data, are modified accordingly. Furthermore, the corrected seasonal variation (CVS) and working day (CJO) coefficients applied to these indicators are regularly re-estimated to take account of the most recent data. Finally, approximately every five years, the national accounts change base, which can affect the GDP revisions[4]. In practice, it is a complex matter to separate out the different sources of revisions. The deviations presented here do not differentiate between these factors.

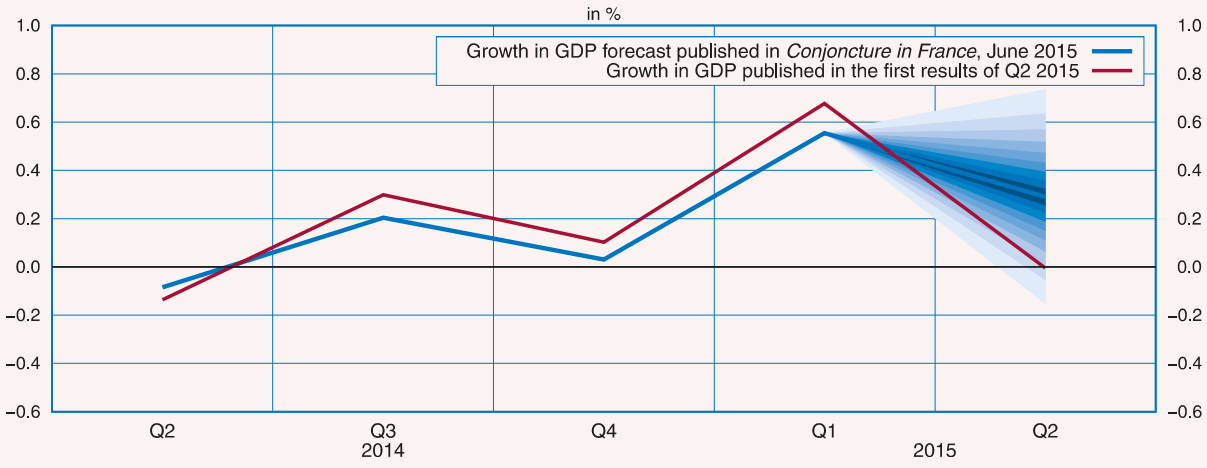
Between 1991 and 2013, the mean absolute deviation in the quarterly GDP growth forecasts was 0.06 points between the first estimate, published in the "first results" and the second, published in the "detailed results". Between the initial estimation of quarterly GDP growth and the figure published a year later, the mean absolute revision is 0.15 points over the same period. The mean absolute revision is 0.19 points after two years and 0.24 points after three years.

Revisions close to those measured in other countries

The scale of the successive revisions of quarterly GDP growth is close to those measured in other countries (*Table 2*). Thus in Spain over the period 1994–2013, the revisions of GDP growth reached an average of 0.22 points between the first estimate and that published three years later. In the United Kingdom, over the same period, this deviation reached 0.23 points on average. In the United States, the mean deviation between the first estimate (at 30 days) and the estimate three years later is 0.28 points. In Germany, the deviation between the first estimate at 60 days and the estimate three years later is 0.32. France is therefore towards the bottom of the range on revision[5]. ■

[4] "The quarterly accounts have switched to the 2010 base", *Conjoncture in France*, June 2014, p.16-19.
[5] Zwijnenburg, J. (2015), "Revisions of quarterly GDP in selected OECD countries", *OECD Statistics Brief* n°22.

3 – Fan chart for June 2015 *Conjoncture in France* and first results



How to read it: In June 2015, the GDP growth forecast was +0.3% and the first result had a 90% chance of being between –0.1% and +0.7%. The first result published in August 2015 (0.0%) was within this interval.
Source: INSEE

Table 2 - Estimate of quarterly GDP growth: mean deviation and mean absolute deviation for different OECD countries between 1994 and 2013

	Mean deviation		Mean absolute deviation	
	between the first estimate and the estimate 5 months later	between the first estimate and the estimate 3 years later	between the first estimate and the estimate 5 months later	between the first estimate and the estimate 3 years late
Canada	0.01	0.05	0.08	0.21
Spain	0.00	0.07	0.08	0.22
France	**–0.02**	**0.02**	**0.10**	**0.23**
Italy	0.02	0.04	0.09	0.23
United Kingdom	0.02	0.05	0.13	0.23
USA	0.01	–0.07	0.14	0.28
Switzerland	0.00	0.08	0.14	0.30
Germany	0.04	0.02	0.10	0.32
Australia	0.04	0.11	0.15	0.34
Belgium	0.03	0.07	0.13	0.37
Netherlands	–0.01	0.10	0.19	0.39
Mean	**0.02**	**0.06**	**0.18**	**0.40**
South Korea	0.00	0.07	0.23	0.49
New Zealand	0.01	0.11	0.18	0.49
Portugal	–0.01	0.01	0.19	0.55
Japan	–0.02	0.10	0.29	0.57
Finland	0.05	0.13	0.34	0.59
Denmark	0.16	0.09	0.34	0.63
Norway	–0.03	–0.01	0.32	0.71

How to read it: the countries are classified according to the mean absolute deviation between the first estimate and the estimate three years later.
Source: Zwijnenburg (2015)

Output

In Q3 2015, GDP bounced back in France, with a 0.3% increase after strong growth in Q1 and stagnation in Q2. Total output of goods and services also saw an upturn (+0.4%, after –0.1%). Activity gathered pace in virtually all branches.

In Q4, the business climate again improved in France and rose above its long-term average: in November, the indicator stood at 102. The improvement occurred across all sectors, with the exception of the building industry, where the outlook remains poor.

Consequently, output of goods and services is likely to continue growing in Q4, although at a slightly slower pace (+0.2%): it is expected to slow down in services, affected by the fears raised by the terrorist attacks, and in energy, due to the mild temperatures. On the other hand, manufacturing output should continue to grow and construction activity should stabilise after two years of decline. In Q1 2016, output is expected to pick up slightly (+0.4% per quarter) due to a rebound in energy-water-waste, and then a gradual brightening of the outlook in services.

Output of goods and services expected to remain vigorous until June 2016

In Q3 2015, output of goods and services bounced back (+0.4%) after having virtually stagnated in Q2 (–0.1%). Since then, the business climate has improved again: in November, the indicator stood at 102, above its long-term average (100) and eight points higher than its January level. The improvement has occurred in most sectors (*Graph 1*): only the building sector business climate indicator (91) remains well below its long-term level.

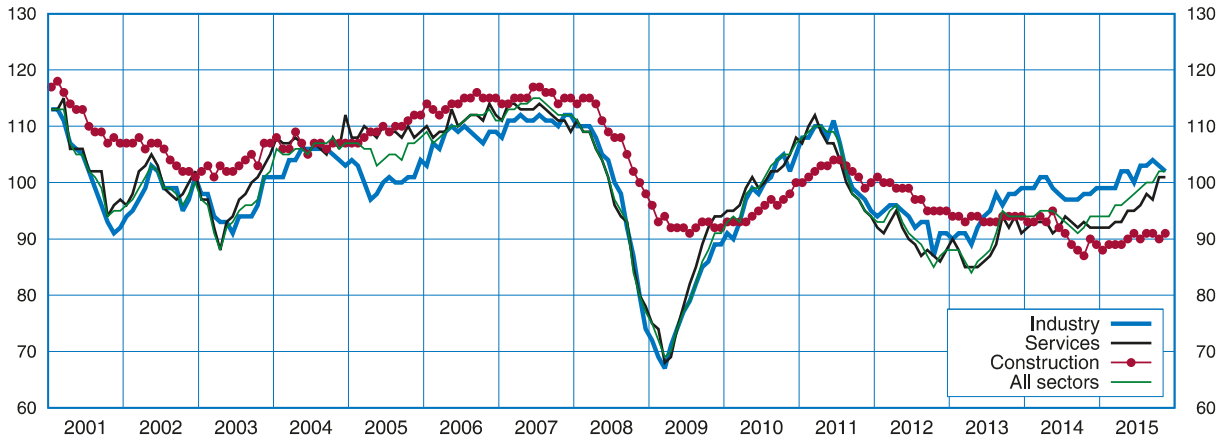
Thus, overall output should continue to grow in Q4, although at a slightly slower pace (+0.2%): indeed, it is likely to slow down in services and a downturn is expected in the energy sector, although it is expected to improve in the manufacturing and construction industries. In Q1 2016, activity should again pick up slightly (+0.4% per quarter) thanks to an upturn in service activities and a rebound in energy-water-waste.

On average over the year, output of goods and services is expected to grow more in 2015 (+1.3%) than in 2014 (+0.7%); at mid-2016, the carry-over effect for 2016 is expected to be +1.0%.

Market services excluding trade: activity expected to slow down substantially in Q4

In Q3 2015, output of market services excluding trade gathered pace (+0.6% after +0.3%). Activity bounced back in transport (+0.8% after 0.0%) and in specialised activities (+0.6% after +0.1%).

1 - Business climate: all sectors in industry, services and construction



Source: INSEE

However, it slowed slightly in accommodation and catering (+0.1% after +0.2%). The pace of growth remained close to that of the previous quarter in information-communication (+0.8% after +0.7%) and stagnated in financial activities (+0.6%), real estate (+0.3%) and the other service sectors (+0.4%).

This new-found buoyancy has come hand-in-hand with a marked improvement in the short-term outlook in this sector since summer 2015: in October and November, the business climate indicator reached a level slightly above its long-term average (100), its highest level since August 2011, whereas it had been stagnating between 91 and 94 since September 2013.

In Q4 2015, activity in market services excluding trade is expected to fall back considerably, due to a sharp drop in visitor numbers in accommodation and catering and in transport, after the 13 November terrorist attacks (+0.3% after +0.6% in Q3; see Focus in the Consumption report). The effects are expected to fade without any permanent repercussions, and activity should then pick up in H1 2016 (+0.5% in Q1 then +0.6% in Q2).

Across the whole of 2015, the output of market services excluding trade is expected to have grown by 1.8%, a larger increase than in 2014 (+1.1%). By mid-2016, the carry-over effect for the year is already expected to be +1.5%.

Trade should remain buoyant, but is expected to slow in Q4

In Q3 2015, trade activity picked up (+0.7% after +0.2% in Q2), driven in particular by household consumption of manufactured goods (+0.7% after +0.3%).

Since January 2015 the business climate indicator for the retail trade has been above its average level; the indicator for wholesale went over its average level in May. In these two sectors, general business prospects before the 13 November terrorist attacks in France were still optimistic. This optimism could be weakened by the potential consequences for the retail sector of these attacks. In Q4 2015, trade activity is likely to slow slightly (+0.4%) due to an expected fall in household consumption of manufactured goods (–0.2%) and in spite of a recovery in exports of these goods (+0.6% after –1.0%). In H1 2016, trade is likely to see a moderate upturn (+0.6% in Q1, then +0.5% in Q2). All in all, the carry-over effect in output in trade at the end of H1 2016 is likely to stand at +1.8% after growth reached +2.6% in 2015.

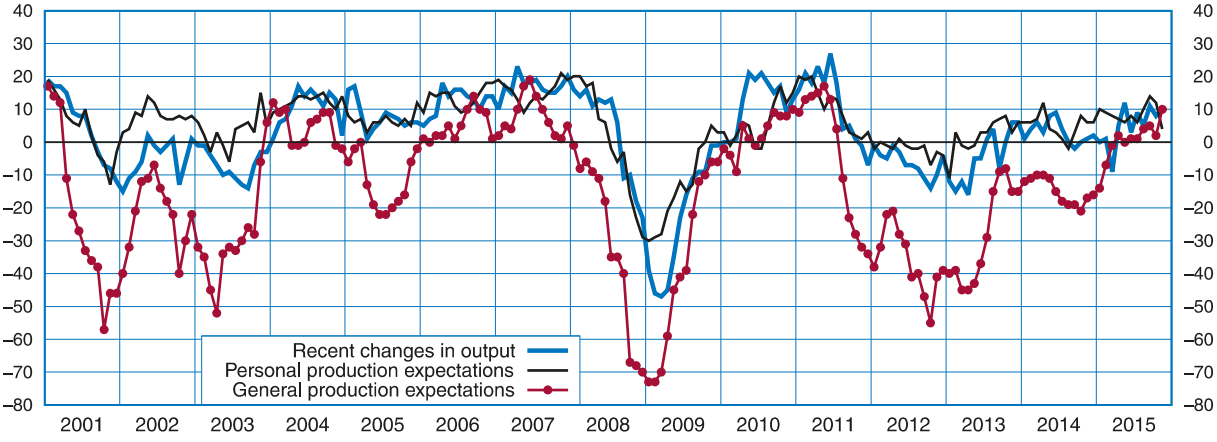
Mainly non-market services: growth remains moderate

The growth in activity in mainly non-market services remained unchanged in Q3 2015 (+0.3%). This pace of growth is forecast to continue (+0.3% per quarter until Q2 2016). Overall over the year, output is expected to grow 1.2% in 2015 in these branches, after +1.3% in 2014. By mid-2016, the carry-over effect is expected to be +0.9%.

After a jolt at the end of 2015, energy output is expected to stabilise by June 2016

In Q3 2015, energy production grew slightly (+0.4%),after a marked drop in the previous quarter (–1.7%). In Q4, it is likely to fall back again (–0.7%) due to the mild temperatures in November, before picking up again in H1 2016, assuming that temperatures return to their seasonal norms (+0.5% then +0.3% in Q1 and Q2). Over the year 2015, energy output is expected to bounce back, increasing 1.5%, after a –3.5% drop in 2014. By mid-2016, the carry-over effect for 2016 is already expected to be –0.1%.

2 – Opinion on output in manufacturing industry



Source: INSEE

After bouncing back in the summer, manufacturing output is expected to grow again

In Q3 2015, manufacturing output grew slightly (+0.3%), after a marked drop in the previous quarter (–0.6%). Output increased in particular in transport equipment (+0.5%) and "other industries" (+0.4%), although these increases were partly offset by a fall in output in the capital goods branch (–0.5%).

In Q4 2015, manufacturing activity is expected to increase at virtually the same pace (+0.4%). Indeed, in the business tendency survey carried out on industry business managers in November, the balance of opinion on general output prospects leapt (*Graph 2*) to its highest level since June 2011, and that on past output – already above its average – improved again. In addition, the carry-over effect in Q4 of the industrial output index was positive at the end of October (+0.2%). Manufacturing output is expected to maintain virtually the same pace of growth over H1 2016 (+0.3% per quarter). Indeed, the balance of opinion among industry business managers on their personal output prospects remains positive at the end of 2015.

Over the whole of 2015, manufacturing output is expected to have grown by 1.3% (after +0.3% in 2014). The carry-over effect for 2016 is expected to be +0.8 % by the end of H1.

In construction, activity is expected to stabilise from Q4 2015 onwards

In Q3 2015 output in the construction sector continued to fall (–0.8%, after –0.9% in Q2), activity having declined in both the building sector and civil engineering.

In civil engineering on the one hand, the opinion of business managers about activity forecasts has been improving since July 2015, even though activity is still deemed to be lower than normal (*Graph 3*). On the other hand, although business managers in the construction sector report activity at an even lower level, the outlook has improved slightly since January in firms with more than 20 employees, and even more so for construction. Furthermore, the number of building permits for housing, both collective and individual, has been increasing again since Q2 and the number of housing starts began to pick up again in Q3. The opinions of property developers on housing demand and the prospects for housing starts confirm this improvement. Given the time lag between obtaining a building permit, starting the work and producing the housing units, output in construction can be expected to stabilise in Q4 and then in H1 2016, after eight consecutive quarters of decline.

Over 2015 as a whole, output in the construction sector is expected to have fallen substantially: –2.9% after –2.2% in 2014. By mid-2016, the carry-over effect for 2016 is expected to be –0.8%. ■

Output by branch at the previous year's chain-linked prices

Q/Q-1 variations (as a %), CJO-CVS data

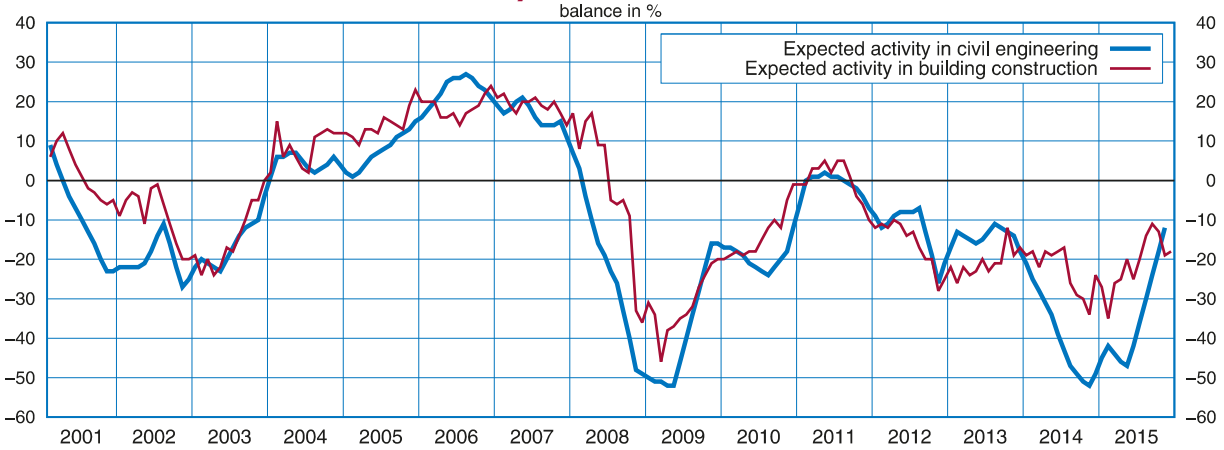
	Quarterly changes										Annual variations		
	2014				2015				2016		2014	2015	2016 oghv
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Agriculture (2%)	1.9	1.5	0.9	–0.3	–0.7	–0.4	–0.4	–0.4	–0.2	–0.2	5.4	–0.8	–0.9
Manufacturing industry (20.%)	0.2	–0.6	0.7	–0.1	1.3	–0.6	0.3	0.4	0.3	0.3	0.3	1.3	0.8
Energy. Water. Waste (4%)	–2.5	1.1	1.3	–2.5	3.9	–1.7	0.4	–0.7	0.5	0.3	–3.5	1.5	–0.1
Construction (8%)	–0.9	–1.3	–0.7	–0.6	–0.6	–0.9	–0.8	0.0	–0.1	0.0	–2.2	–2.9	–0.8
Trade (10%)	0.0	0.1	0.8	0.4	1.3	0.2	0.7	0.4	0.6	0.5	1.4	2.6	1.8
Market services excluding trade (41%)	0.3	0.1	0.4	0.4	0.7	0.3	0.6	0.3	0.5	0.6	1.1	1.8	1.5
Non-market services (15%)	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	1.3	1.2	0.9
Total (100%)	**0.1**	**0.0**	**0.4**	**0.1**	**0.8**	**–0.1**	**0.4**	**0.2**	**0.4**	**0.4**	**0.7**	**1.3**	**1.0**

Forecast

Weights constructed from the annual production value in 2010.

Source: INSEE

3 – Activity forecast for construction



Source: INSEE

France's International Environment

In Q3 2015, activity remained buoyant in the advanced economies (+0.5% after +0.5%). In the emerging countries, the outlook has continued to be weak, especially in China, where the pace of activity has remained weak compared to the average in the 2000s. Nevertheless world trade bounced back after two quarters in the doldrums, sustained by a recovery in imports in Asia.

In the emerging economies, activity is expected to continue to idle: in Russia, activity is struggling to get back on its feet, whilst in China growth is expected to stabilise at its lowest level since 1990.

In the advanced countries, the high level of the business climates suggests that a period of growth can be anticipated through to the end of H1 2016. Activity should be sustained in particular by a new-found dynamism in household consumption.

World trade should regain a degree of vitality, but through to mid-2016 is expected to grow at a notably slower pace than its long-term average.

The situation is expected to remain poor in the emerging countries

The business climate remains poor in the emerging countries (*Graph 1*). The fall in the price of commodities continues to penalise major exporters such as Brazil, which is sinking into an economic crisis, and Russia. However, after four quarters of contraction, the Russian economy now seems to be stabilising. But with high inflation and anaemic domestic demand, the recovery is expected to be sluggish.

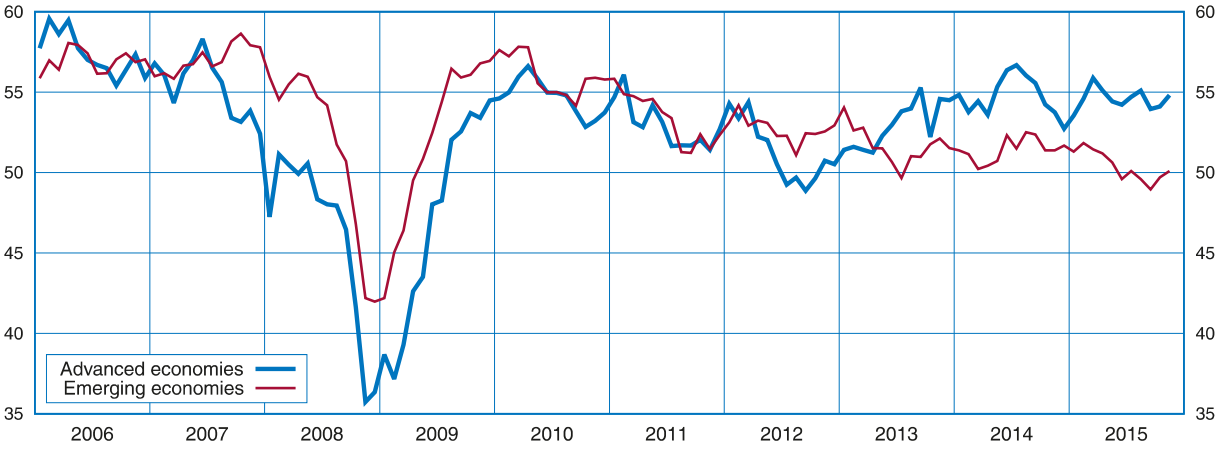
In Q3, growth in Chinese activity remained at a slower pace (+1.8%) than in the 2000s (+2.5% per quarter on average). The Chinese national statistics office (NBSC) announced a year-on-year GDP growth figure under 7% for the first time since 2009. In Q4, activity is expected to slow again, before flattening out in H1 at its weakest pace since 1990.

In the face of the general gloom, a few countries have held up well. In India in particular, the predominance of the tertiary sector over the industrial sector has limited its exposure to the slowdown in world trade, with activity growing 7.4% year on year. Central and Eastern Europe countries have benefited from the recovery in the Eurozone, in spite of the geopolitical tensions in Ukraine and the contraction of the Russian economy (see Focus in the Emerging Economies report).

Growing divergence between the monetary policies of the ECB and the Fed

In the advanced countries, central banks are facing contrasting situations. In the United States, with an unemployment rate virtually at its structural level (*Graph 2*) and an encouraging outlook on inflation, the Federal Reserve (Fed) is in the process of raising its base rates.

1 – Business climate



Source: Markit

Conversely, inflation in the Eurozone remains flat (*Graph 3*). Consequently, the European Central Bank (ECB) has ramped up its accommodating monetary policy by extending its asset purchase programme and lowering one of its key interest rates. This divergence between the monetary policies of the Fed and the ECB is expected to keep the Euro at its lowest level against the dollar since 2003.

The business climate still conveying a positive message in the advanced economies

In this international context, the main advanced economies seem to be relatively resilient. Growth has remained vigorous in these economies (+0.5% after +0.5%) in spite of a slowdown in the United States and a slight dip in the Eurozone: domestic demand has not weakened, but exports have contracted, in particular those to the emerging countries. The contribution of foreign trade was therefore negative in virtually all the major advanced economies.

The short-term outlook remained at a high level in November 2015 in most of the advanced countries. All in all, activity in the advanced economies is expected to hold up at +0.5% per quarter until mid-2016. Over the whole of 2015, growth is expected to stand at +1.9%, after +1.8% in 2014 and +1.2% in 2013.

Private consumption, mainstay of the advanced economies

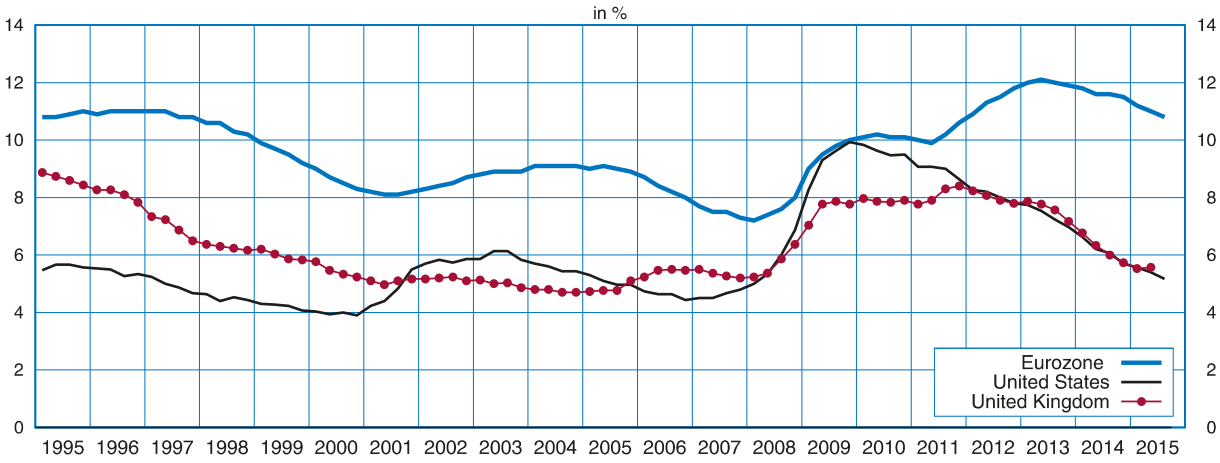
In the United States, vigorous household consumption is expected to boost economic activity, which should reach its long-term pace of growth (+0.6% per quarter). The appreciation of the dollar is likely to continue to take a toll on exports, whilst imports are expected to gather pace as domestic demand performs well. In the United Kingdom, private consumption is expected to slow slightly, but still remain buoyant. In particular it is likely to be driven by improved purchasing power due to an acceleration in wages and low inflation.

In the Eurozone, a gradual recovery in employment is expected to lead to an increase in household purchasing power. In Spain especially, unemployment remains high, but is falling at a steady pace. Wages, which are taking off again against a backdrop of low inflation, should also contribute to an increase in household purchasing power. All in all, the pace of growth is gradually aligning between the main Eurozone countries, which is a sign that the recovery in the zone is being spread more evenly. However, foreign trade is not expected to contribute much to growth in the Eurozone. The positive effect of the depreciation of the Euro on exports is likely to be cancelled out by the higher imports due to buoyant domestic demand.

World trade is regaining a degree of vitality, but is likely to grow at a significantly slower pace than its long-term average

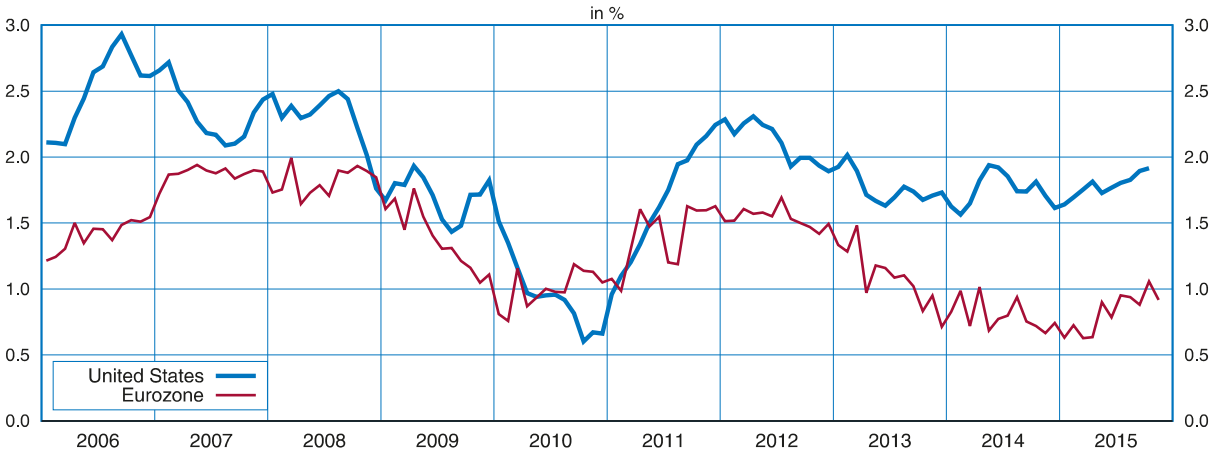
After two quarters of decline, world trade bounced back in Q3 2015, in particular in the emerging Asian countries. With the imports of the advanced countries looking likely to remain solid, world trade should maintain relatively dynamic growth until mid-2016. The imports of the emerging countries are expected to see a return to growth in line with economic activity, in Russia and China in particular. Over the whole of 2015, the imports of advanced countries are expected to growth by 3.7% after +3.1% in 2014. Against this backdrop, world demand for French products is expected to grow by 1.0% per quarter through to the end of H1 2016. ■

2 – Unemployment rate



Sources: BEA, Eurostat, ONS

3 - Core inflation



Source: INSEE

International scenario summary

	2015				2016		2014	2015	2016
	T1	T2	T3	T4	T1	T2			
GDP of advanced economies	**0.4**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**1.8**	**1.9**	**2.0**
World trade	**–0.8**	**–1.0**	**1.1**	**1.0**	**1.0**	**1.0**	**3.3**	**1.2**	**2.8**
Imports of advanced economies	1.8	–1.2	1.5	1.3	1.2	1.2	3.1	3.7	3.6
Imports of emerging economies	–4.4	–1.0	1.8	0.7	0.8	0.8	3.7	–2.1	2.6
World demand for French products	**0.5**	**–0.2**	**1.5**	**1.0**	**1.0**	**1.0**	**4.0**	**3.2**	**3.3**

Forecast

Note: imports, exports and world trade data concern only goods.
Sources: National statistical institutes, Centraal PlanBureau, International Monetary Fund, INSEE forecast

Foreign trade

After shrinking in Q3 2015 (–0.6%), French exports are expected to pick up in Q4 (+0.7%), in particular manufactured goods. They should remain vigorous in H1 2016 (+1.0% on average), in line with world demand for French goods. Imports, after gathering pace significantly in Q3 (+1.7%), are expected to slow in Q4 (+0.6%). They are then expected to return to a steadier pace of growth (+1.0% per quarter in H1 2016), in the wake of rising domestic demand.

All in all, after a negative contribution in Q3 2015 (–0.7 points), foreign trade should be neutral at the end of 2015 and during the first half of 2016. On average over the year, foreign trade is likely to have held back growth slightly in 2015 (–0.1 points), markedly less than in 2014 (–0.5 points).

World trade expected to regain momentum by mid-2016

World trade picked up in Q3 2015 (+1.1%). It had fallen back in the two previous quarters (–1.0% on average), reflecting the sharp drop in trade between the emerging economies, especially in Asia. In Q4, the trade flows of the emerging economies are expected to return to a level of growth more consistent with that of their domestic demand and world trade should grow by 1.0%. In H1 2016, it is expected to continue growing at a pace (+1.0% per quarter) below its pre-crisis average (+1.5% per quarter between 2000 and 2007). Indeed, the imports of advanced countries are likely to remain buoyant, but activity and demand in emerging countries are expected to remain below the average of the 2000s. World demand for French goods held up in spite of the marked downturn in world trade (see Graph 1), thank to France's main trading partners, the advanced economies. With the recovery in world trade, foreign demand for French goods is expected to grow by 1.0% per quarter at the end of 2015 and in the first half of 2016.

Foreign trade growth forecast

	Quarterly changes						Annual changes		
	2015				2016		2014	2015	2016
	T1	T2	T3	T4	T1	T2			
Exports									
All goods and services	1.5	1.9	–0.6	0.7	0.9	1.0	2.4	5.5	2.3
Manufactured products (69 %) *	1.2	2.2	–1.0	0.6	1.0	1.1	1.8	5.0	2.3
Imports									
All goods and services	1.9	0.5	1.7	0.6	1.0	1.0	3.9	5.6	3.1
Manufactured products (68 %) *	1.4	1.2	2.0	0.6	1.2	1.2	3.7	5.2	3.9
Contribution of foreign trade to GDP	**–0.2**	**0.4**	**–0.7**	**0.0**	**0.0**	**0.0**	**–0.5**	**–0.1**	**–0.3**

Forecast

* Part of exports (resp. imports) of non-energy industrial goods in exports (resp. imports) in a whole in 2014.

Source: INSEE

Exports should bounce back in Q4 2015

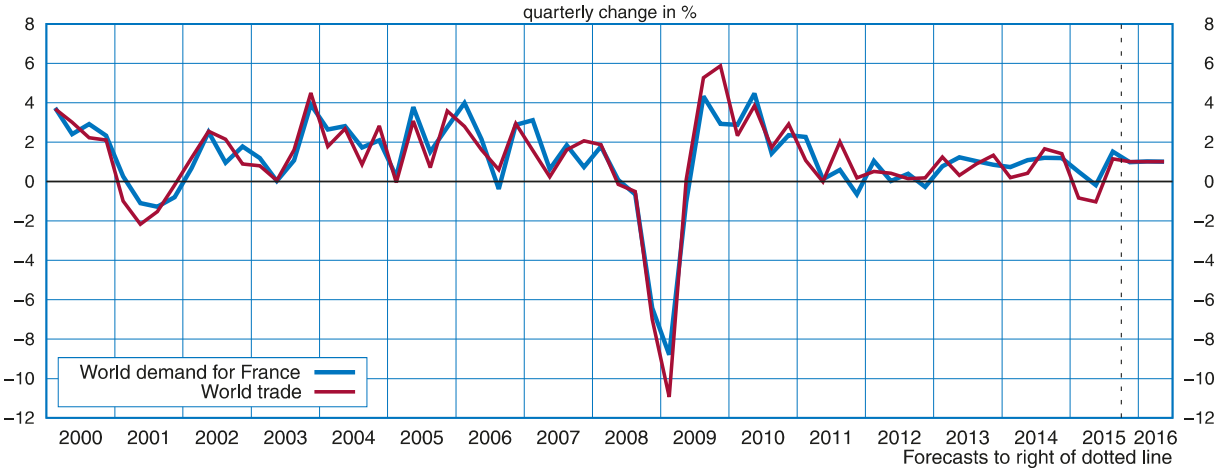
In Q3 2015, total French exports fell (–0.6%) after four very vigorous quarters. This drop is mainly ascribable to exports of manufactured goods (–1.0% after +2.2%), specifically an after-effect of high transport equipment sales in Q2 (–5.5% after +8.5%). Sales of capital goods also shrank (–0.2% after +0.9%) and sales of other manufactured goods stalled (0.0% after +0.6%).

In Q4, exports of manufactured goods are expected to pick up again (+0.6%), growing a little less than world demand for French goods. Sales should pick up for all manufactured goods, in particular in the aeronautical and naval sector. On the other hand, tourism is likely to suffer as a result of the 13 November terrorist attacks. Finally, exports of services are expected to be a little more buoyant (+0.9%), although at a slightly lower level than their trend.

In H1 2016, world demand for French products is likely to be sustained mainly by the advanced countries once again (see Graph 2). Manufacturing exports should pick up slightly compared to Q4 2015, with a 1.0% average rise per quarter (see Graph 3). Services are expected to continue growing at the same pace as at the end of 2015 (+0.9% per quarter). All in all, exports should rise by 0.9% in Q1 2016, then by 1.0% in Q2 2016.

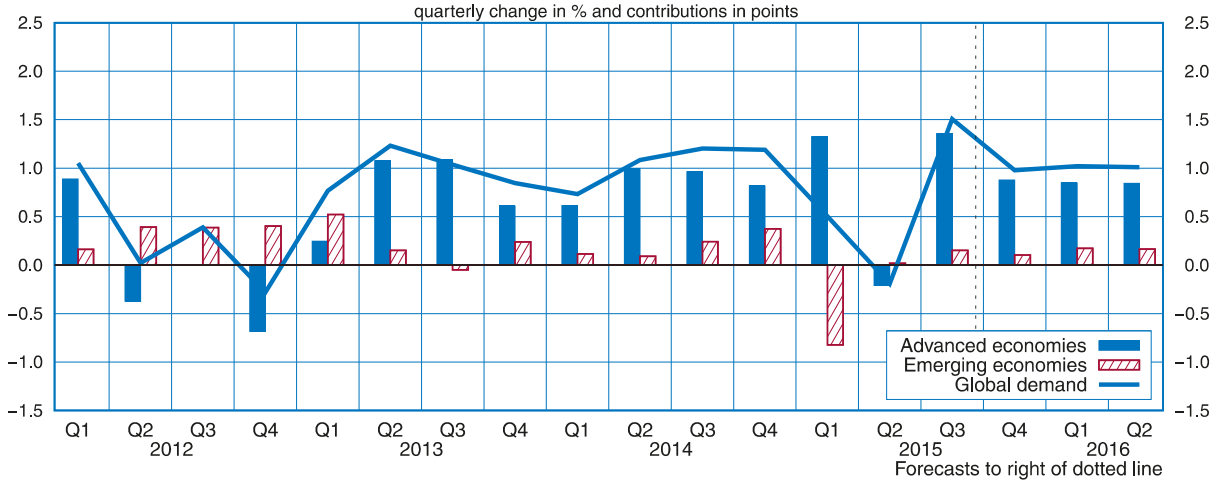
The average annual increase in exports should be significant for 2015 (+5.5% after +2.4% in 2014). The carry-over effect for 2016 is expected to be a +2.3% rise in growth by the end of H1.

1 – World demand for French products and world trade



Sources: INSEE, DG Trésor, Centraal PlanBureau

2 – World demand for French products and contributions of the main partners



Sources: INSEE, DG Trésor

Imports should slow down in Q4 2015

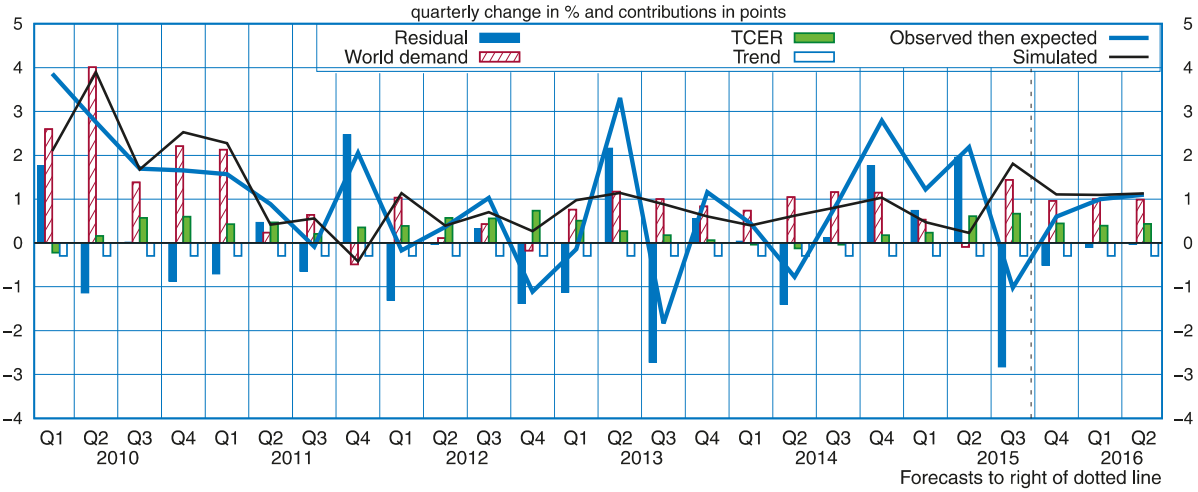
In Q3 2015, the rise in French imports gathered pace strongly (+1.7% after 0.5%). This vigour is due mainly to purchases of manufactured goods (+2.0% after +1.2%), in particular coke and refined petroleum products (+11.7% after +8.1%), but also capital goods (+1.3% after +0.6%) and other manufactured goods (+1.2% after –0.1%).

In Q4, imports of manufactured goods should slow down (+0.6%). In particular, purchases of refined petroleum products, which have been very sustained for two quarters, are likely to drop off as a result of a recovery in output at French refineries and a drop in consumption.

In H1 2016, imports of manufactured goods are expected to pick up again (+1.2% per quarter), in the wake of domestic demand. All in all, they should grow by 1.0% per quarter in the first half of 2016. Average yearly imports should see a marked acceleration: +5.6% in 2015 after +3.9% in 2014. The carry-over effect for 2016 is expected to be +3.1% by the end of H1.

In all, the contribution of foreign trade to GDP is likely to have been slightly negative in 2015 (–0.1 points), but nonetheless less than in 2014 (–0.5 points). For the carry-over effect to mid-year 2016, the contribution of foreign trade is likely to remain negative (–0.3 points). ■

3 - Equation of exports (goods and services) and econometric contributions



Source: INSEE

Employment

Employment in the non-agricultural market sector has gradually picked up since autumn 2014 (+9,000 per quarter on average). It is expected to gather pace through to mid-2016, driven by slightly more vigorous activity. In addition, it will probably continue to benefit from the impact of increased job growth generated by the tax credit for encouraging competitiveness and jobs and by the Responsibility and Solidarity Pact. All in all, 46,000 market-sector jobs should be created in 2015, then 35,000 during the first half of 2016. In the non-market sectors, employment is unlikely to weaken at the beginning of 2016 (+21,000 in H1, after +16,000 in H2 2015).

All in all, 127,000 jobs should be created in 2015 and 73,000 in H1 2016.

Market-sector employment should continue to rise in H1 2016

After three consecutive years of decline, employment in the non-agricultural market sector looks set to rise in 2015 (+46,000 jobs). It should accelerate slightly between H2 2015 (+24,000) and the first half of 2016 (+35,000).

In 2014, employment in the non-agricultural market sectors fell by 63,000 jobs. Since the autumn of 2014, however, it has gradually picked up (+9,000 jobs per quarter, on average), with the increase in the tertiary sector workforce more than offset by the decline in the workforces in industry and construction.

Market-sector employment should continue to rise in H1 2016 (*Graph 1*). It will probably benefit from activity that is a little more buoyant and from the impact of increased job growth resulting from the tax credit for encouraging competitiveness and jobs (CICE) and the Responsibility and Solidarity Pact (PRS). However, these effects are likely to be rather weaker in H1 2016 (+25,000) than in H2 2015 (+40,000): on the one hand, the CICE is now fully ramped up; on the other hand, the new reductions in social contributions under the terms of the PRS will probably have less impact on employment because they are not targeting low-paid workers[1] and they are not due to be implemented until 1st April 2016.

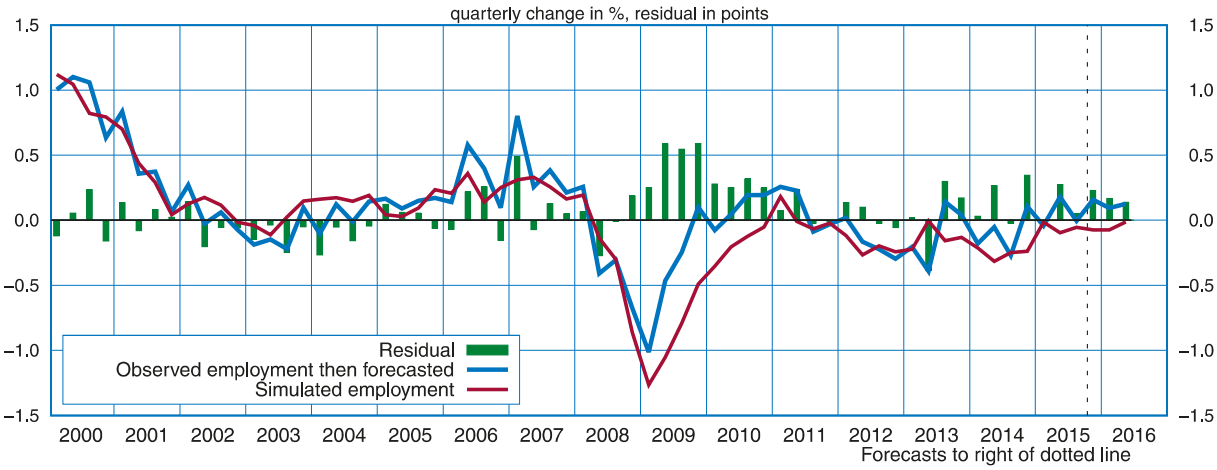
Temporary employment and tertiary employment excluding temporary work should continue to grow

The pace of job creation in the tertiary sector (including temporary work) looks to have continued in H1 and H2 2015 (+61,000 then +66,000). It should also extend to the first half of 2016 (+64,000).

After fluctuating sharply around the point of stability for two years, temporary employment rose significantly once again during Q2 and Q3 2015 (+20,000 then +16,000, after –11,000 in Q1).

[1] After a first round of reductions in 2015 on wages below 1.6 times the minimum wage (SMIC), the extension of this measure into 2016 will include wages between 1.6 and 3.5 times the minimum wage.

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



Note: 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 end of 2014. indicates that observed employment showed better growth than past behaviour would lead us to expect. Estimation period: 1984-2009

Source: INSEE

Given the improvement in job prospects announced by business leaders in the sector, this momentum looks set to continue over the coming quarters.

Employment in the tertiary sector, excluding temporary work, rose in H1 2015 (+52,000). After slowing in Q3, it looks set to pick up once again at the end of the year, as business leaders remain optimistic about growth in their workforce. Throughout H2, 36,000 jobs should be created in this sector. This pace is expected to be maintained in the first half of 2016 (+34,000, *Graphs 2 and 3*): activity in the service sector should be sustained a little more but the expected effects of the CICE and the PRS are likely to be slightly lower than at the end of 2015.

The decline in industrial employment is expected to ease a little

Net job losses in the industrial sector continued in H1 2015 (–9,000 per quarter), then intensified once again in Q3 (–15,000). Nevertheless, the expectations of industrialists in terms of employment suggest a smaller decline in workforces in Q4 (–10,000). In H1 2016, job losses are likely to continue at a similar pace (–17,000).

Employment in construction expected to drop less sharply

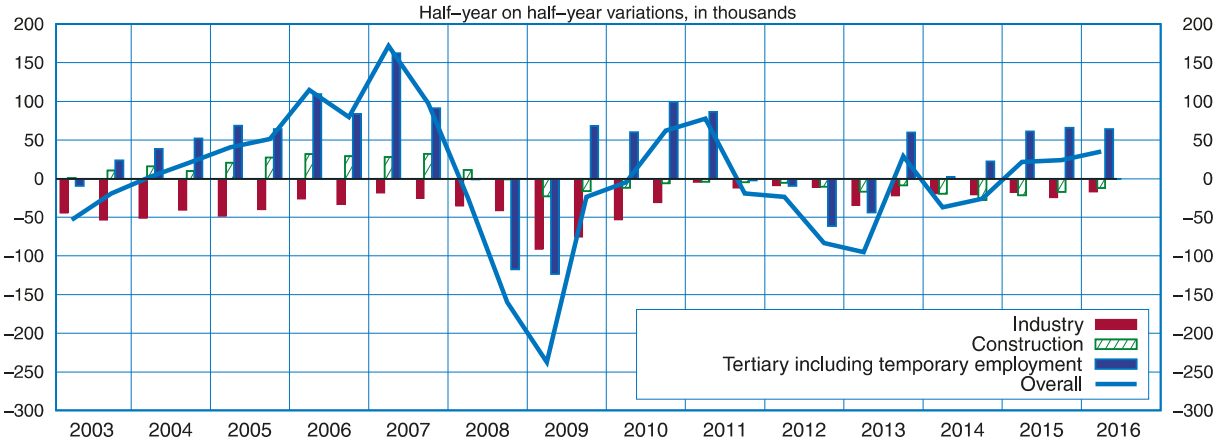
Payroll employment in construction has fallen almost continually since the end of 2008. The sector lost 47,000 jobs in 2014 and 22,000 in H1 2015, while in Q3 2015, 10,000 jobs were lost. In the business tendency surveys, prospects are improving in both the building crafts sector and in civil engineering. In this context, the decline in workforces is forecast to be a little less sharp (–7,000 in Q4 2015, then –6,000 per quarter in H1 2016).

Job creations look set to continue

In 2015, non-market employment is expected to grow by 48,000 jobs (after +52,000 in 2014), mainly driven by subsidised contracts (+22,000, *Table 2*).

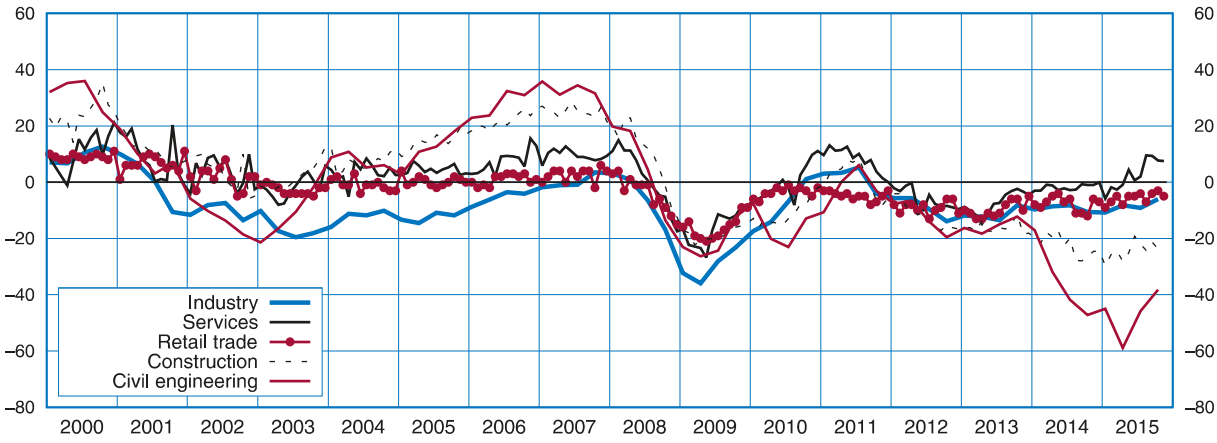
It is unlikely to decline in H1 2016. On the one hand, even though the budget for subsidised contracts set by the Finance Law has been reduced (about 300,000 in Metropolitan France, after a

2- Employment change in non-agricultural market sectors



Source: INSEE

3- Balance of opinion of busniness leaders on expected numbers



Source: INSEE, Business tendency surveys

little over 400,000 in 2015), both for CUI-CAE[2] and for jobs through Contrats d'avenir (Future contracts), it is expected that there will be a large number of newcomers in H1 2016. The number of subsidised contracts should therefore be virtually stable throughout H1 2016, as it was in H2 2015. On the other hand, the civic service scheme is expected to continue to make a bigger contribution.

All in all, non-market employment is expected to increase by 21,000 in H1 2016, after 16,000 in H2 2015.

Total employment is set to rise by 73,000 jobs in H1 2016

In 2015, including the self-employed and agricultural employees, total employment is set to rise by 127,000 jobs (after +32,000 in 2014), with a slight deceleration in H2 (+57,000, after +70,000). It should increase again at a more sustained pace at the beginning of 2016 (+73,000). On the one hand, market-sector employment is set to accelerate slightly: the impact of job growth boosted by the CICE and the PRS is likely to lessen, but activity should be more sustained. On the other hand, non-market employment is unlikely to weaken. ■

[2] Since July 2014, recruitment by integration workshops and sites (ACI) no longer takes the form of a CUI–CAE (*Contrat unique d'insertion – Contrat d'accompagnement dans l'emploi* – Single integration contract – Employment support contract) but instead a CDDI (*Contrat à durée déterminée d'insertion* - Fixed-term integration contract). Nevertheless, in order to ensure that the scope of this analysis remains constant when tracking subsidised jobs, the CUI–CAE forecasts given here include ACIs.

Table 1

Change in employment

	2015				2016		2015 H1	2015 H2	2016 H1	2014	2015	Level end 2014
	Q1	Q2	Q3	Q4	Q1	Q2						
Mainly non-agricultural market sectors (1)	–7	28	-1	25	15	20	22	24	35	–63	46	15,827
Industry	–9	–9	–15	–10	–9	–8	–18	–25	–17	–40	–42	3,140
Construction	–11	–11	–10	–7	–6	–6	–22	–17	–12	–47	–39	1,350
Temporary employment	–11	20	16	13	16	14	9	29	30	0	38	541
Market services excl. tempory employment	25	28	8	29	14	20	52	36	34	24	89	10,796
Agricultural workers	2	2	2	2	2	2	3	4	4	7	7	
Mainly non–market service sectors	16	16	10	7	13	8	32	16	21	52	48	
Self–employed	6	6	6	6	6	6	13	13	13	36	25	
TOTAL EMPLOYMENT	**17**	**52**	**17**	**41**	**37**	**36**	**70**	**57**	**73**	**32**	**127**	

Forecast

* In thousands

(1) Sectors DE to MN and RU

Source: INSEE

Table 2

Change in subsidised employment in the non–market sector

in thousands

	2015				2016		2015 H1	2015 H2	2016 H1	2014	2015
	Q1	Q2	Q3	Q4	Q1	Q2					
"*Emplois d'Avenir*"	3	2	1	1	–1	–4	5	2	–5	30	7
CUI–CAE incl. ACI (1)	10	8	2	–5	7	1	18	–3	7	21	15
Total	**12**	**10**	**3**	**–4**	**6**	**–4**	**22**	**–1**	**2**	**51**	**22**

Forecast

Scope: Metropolitan France

(1) CUI–CAE : contrats uniques d'insertion – contrats d'accompagnement dans l'emploi ; ACI : ateliers et chantiers d'insertion

Sources: DARES, INSEE calculations

CICE ramped up in 2015

Since 2014, enterprises have been surveyed each quarter on their use of the CICE

The tax credit for encouraging competitiveness and jobs (Crédit d'impôt pour la compétitivité et l'emploi – CICE), introduced in 2013, was ramped up in 2015. In 2014, this corporation tax relief, equivalent to a reduction in social contributions on low and medium wages, stood at 4% of the 2013 company payroll for wages of less than 2.5 times the minimum wage. In 2015, it represented 6% of the 2014 payroll for wages less than 2.5 times the minimum wage: at a given wage, this raises the tax credit by 50%.

Since January 2014, new questions have been added to the business tendency surveys: industrial and service enterprises, excluding transport, are surveyed every quarter about the annual amount of CICE they receive and how they plan to use it. They are asked if the CICE will allow them to recruit staff or increase wages, whether it is to be used to bring sales prices down, what proportion will be used to increase their operating incomes and whether it will be mostly allocated to investment. The scope of the survey represents about 50% of the total CICE payout to enterprises in 2014.

In 2015, enterprises seemed to have a good understanding of the workings of the CICE. In the April survey, more than 90% of companies in industry and 74% in services indicated the amount of CICE they had received that year. This difference between the industrial and services sectors is due to the characteristics of the business tendency surveys: in the industrial sector, only enterprises with more than 20 employees are surveyed and respondents are more used to replying to quantitative questions as they are also interviewed every quarter about the amount they invest.

The CICE represents 1,149 euros per employee in industrial enterprises and 839 euros in services

In 2015, the CICE represents 1,149 euros per employee in industry on average, and 839 euros in services, according to the responses from enterprises surveyed in October 2015 (*Table 1*). From one end of the scale to the other, the CICE represents 1,235 euros per employee in the automobile sector and 538 euros per employee in real estate activities. In the service sector, the greater the company's turnover, the smaller the amount of CICE per employee (*Table 2*). In industry, this effect is much less pronounced; however, large industrial enterprises, with over 500 employees, declare that they receive 14% less CICE per employee than the smallest enterprises.

Between the 2014 and 2015 surveys, about eight out of ten enterprises said that the amount of CICE that they would receive for 2015 would be more than in 2014. For about 40% of enterprises, this would be an increase of 50% or more – as the CICE rate increased from 4% to 6% in 2015, this threshold represents the effect of the measure assuming the payroll remains unchanged.

The majority of service enterprises said they used the CICE to recruit new employees

In most sectors, enterprises replied that they used the CICE to recruit staff more than to reduce prices or increase wages. This priority was more pronounced in the services sector where 53% said that the CICE enabled them to take on staff; conversely, 42% said that they used it to improve wages and 24% to reduce prices[1]. This hierarchy in the uses of the CICE is also found in service sub–sectors, with the exception of accommodation and food service activities where companies said they use it as much for increasing pay as for taking on staff. In particular, many administrative and support service companies use the system to

[1] Enterprises can give multiple replies.

Table 1 – Responses by sector of activity

	Amount of CICE received (in €)	Allocated to			Share used to increase operating incomes... (in %)	...allocated mainly to investment (in %)
		employment (in %)	wages (in %)	sales prices (in %)		
Services	839	53	42	24	49	60
Accommodation and food service activities	997	43	44	18	37	66
Information and communication	921	47	36	18	47	54
Professional scientific and technical activities	980	44	39	25	41	55
Administrative and support service activities	677	70	47	30	58	60
Real estate	538	24	18	9	60	62
Industry	1,149	37	32	36	53	64
Manufacture of motor vehicles trailers and semi-trailers	1,235	26	18	37	64	55
Manufacture of food products and beverage	1,214	41	37	36	52	71
Machinery and equipment goods	1,021	41	34	35	47	69
Manufacture of other transport equipment	880	44	39	39	36	59
Other manufacturing	1,177	37	31	37	54	63

Source: INSEE

increase headcount or wages, although in this case the CICE represents a lower amount per employee than the average for services. The higher the company's turnover, the more it reported using the CICE to bring prices down.

In industry, the CICE is used both to hire new employees and to reduce prices

In industry, companies said they use the CICE to increase headcount (37%) almost as much as to reduce their sales prices (36%). In the other transport equipment, capital goods and agrifood industries, more enterprises used the CICE to increase their level of employment than to reduce their prices. Conversely, 37% of automobile enterprises planned to use the CICE to reduce their prices and 26% said they would use it to recruit staff. Small industrial enterprises said that they used the CICE more often to increase their workforce and increase wages.

The responses from enterprises on their use of the CICE were fairly stable from one survey to the next and from year to year. However, in 2015 slightly more service enterprises than in 2014 said that they used the CICE to increase their headcount and fewer said they intended to reduce their sales prices (*Table 3*). In industry, more enterprises said they would use the CICE to increase wages or to bring down their sales prices in 2015 compared with 2014.

Dynamic enterprises are more likely to increase employment through the CICE

Enterprises that plan to use the CICE to take on staff tend to be dynamic and to have recently been active and with strong investments. In services, companies have a positive view of their situation; in industry, demand from abroad is on the increase. In services, companies are usually large; in industry, on the other hand, company size has no bearing.

In contrast, enterprises that use the CICE to bring down their sales prices are in a less favourable situation. In industry, they are more likely to see a decline in their operating incomes in the course of H2 2015, investments on the decline in 2015 and sluggish demand from abroad, and are likely to see a reduction in their workforce in the next few months. These companies, more than the others, may reply that their sales prices have affected their operating incomes. In services, they are usually large companies that belong to a group and that had lowered their sales prices in recent months.

Companies said they also use the CICE to increase investment

In 2015, companies reported that they used about half of the CICE to increase their operating income. This type of use is not uniform across all companies: about one in three say that they use all of the CICE to improve their operating income and the same number consider that it is not used at all for this purpose. Enterprises in the automobile sector (64%), real estate (60%) and administrative and support services (58%) say they would use a much greater proportion than other transport equipment (36%) and accommodation and food service activities (37%). In services, this share increases significantly with the size of the business.

When they were then asked about allocating this share, a large number of enterprises said that they put most of it into investment: 60% of service enterprises confirm this and 64% in industry. These high figures are found in virtually all sub–sectors of industry and services.

From survey to survey, the share of the CICE to be used to increase operating income has remained fairly stable. However, more and more enterprises replied that they mainly use this share for investment: in industry, this was the case for 64% in October 2015 whereas it had only been 58% in July 2014. Similarly, 60% of service enterprises surveyed in October 2015 thought that they would use the majority of the CICE for investment, compared with 52% in July 2014.

Most companies that said they would use the majority of the CICE to be used for increasing operating incomes for investment are large enterprises. Usually, when they say that they use the CICE for investment, they also report that their past and future investments have increased. In industry, these are more likely to be enterprises that say they have no cash–flow problems and that intend to increase their workforce. In services, these enterprises are much more likely to have been involved in recent dynamic activity. ■

Table 2 - Responses by turnover or size bracket

	Amount of CICE received (in €)	Allocated to			Share used to increase operating incomes... (in %)	...allocated mainly to investment (in %)
		employment (in %)	wages (in %)	sales prices (in %)		
Services	**839**	**53**	**42**	**24**	**49**	**60**
Turnover of less than €10,000k	985	44	46	17	43	55
Turnover between €10,000k and €45,000k	920	54	34	29	52	55
Turnover higher than €45,000k	581	66	40	31	56	70
Industry	**1,149**	**37**	**32**	**36**	**53**	**64**
Workforce between 20 and 99	1,218	41	38	35	52	59
Workforce between100 and 499	1,226	39	35	40	53	67
Workforce of over 500	1,044	34	26	35	53	66

Source: INSEE

Table 3 – Change in responses in different versions of the survey

Surveys	Amount of CICE declared (per employee in €)	Allocated to (% of YES)			Share used to increase operating incomes... (in%)	...allocated mainly to investment (in%)
		employment	wages	sales prices		
Services						
July 2014	653	48	41	32	46	52
October 2014	635	48	41	28	48	57
January 2015	880	47	45	26	52	54
April 2015	885	56	47	26	49	54
July 2015	884	54	46	25	53	61
October 2015	839	53	42	24	49	60
Industry						
July 2014	877	34	26	30	52	58
October 2014	908	34	27	33	51	58
January 2015	1,137	34	33	36	50	61
April 2015	1,174	36	33	38	51	64
July 2015	1,169	36	31	35	52	65
October 2015	1,149	37	32	36	53	64

Source: INSEE

Unemployment

In Q3 2015, the number of unemployed rose by 75,000 in Metropolitan France and the average ILO unemployment rate increased: it stood at 10.2% of the labour force, after 10.0% the previous quarter. Including the French overseas departments, it settled at 10.6%, after 10.4% in Q2.

Over the upcoming quarters, the expected rise in employment should be higher than the variation in the labour force, and the number of unemployed should again decrease. In mid-2016, the unemployment rate should stand at 10.4% (10.0% in Metropolitan France), and therefore return to its level of the previous year.

The unemployment rate increased in Q3 2015

In Q3 2015, the number of unemployed in Metropolitan France rose by 75,000 after declining in H1 (–34,000, Table). The rate settled at 10.2% of the labour force, i.e. 0.2 points more than the previous quarter and one year before (*Graph 1*).

Unemployment rose across all age brackets, and particularly young people (+29,000). Their unemployment rate rose continuously between late 2013 and early 2015. It then fell momentarily in Q2 (–0.4 points), before rising again in Q3 (+1.0 points to 24.6%), primarily among men (–1.7 points in Q2, then +1.9 points).

In Q3 2015, 10.8% of active men were unemployed and 9.7% of active women. Since mid-2012, this gap has been growing. Over this period, employment declined more strongly in industry and construction (see *Employment report*), sectors that primarily employ men.

In Q3 the halo of unemployment diminished, especially among 25-49 year-olds.

In Q3 2015 the rise in unemployment (+75,000 unemployed, Graph 2) was accompanied by a drop in the number of people in the halo[1] of unemployment (–64,000), particularly 25 to 49 year-olds (+30,000 unemployed and –44,000 people in the halo).

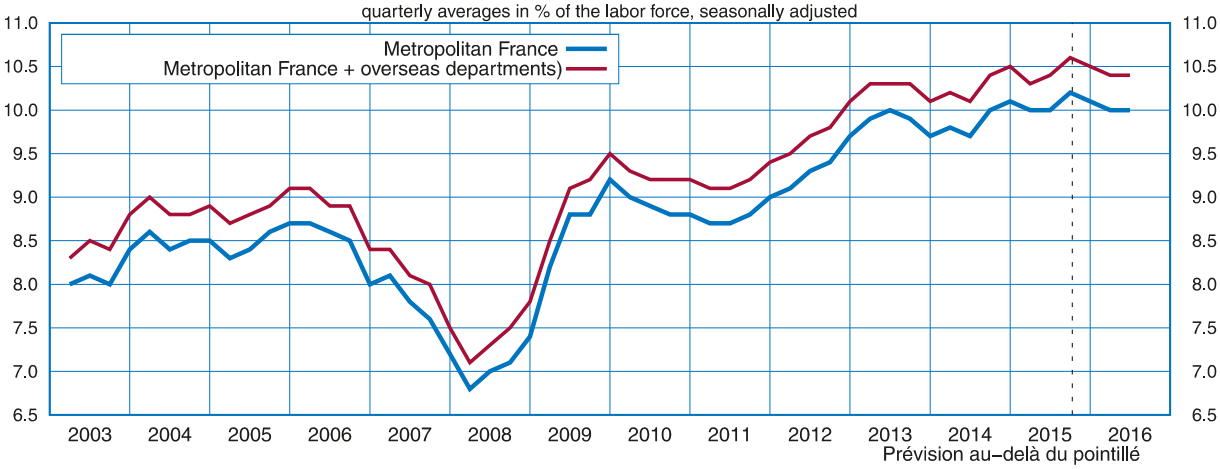
The reduction in the halo primarily concerns those referred to as "discouraged unemployed", namely people who wish to work and are available, but who have not actively sought employment during the past month.

The unemployment rate should decrease through to mid-2016

In 2015, the labour force should rise again (+129,000 people, after 174,000 in 2014), primarily in the 50-64 age group. This rise should be mainly attributable to trend variations in the working age population and in activity behaviour. It should be further strengthened by the effect of the increase in the legal retirement age, which was set

[1] The halo of unemployment is made up of economically inactive persons as defined bi the International Labour Office (ILO): it refers to people who are seeking employment but who are not available and people who wish to work but are not seeking employment, whether they are available or not.

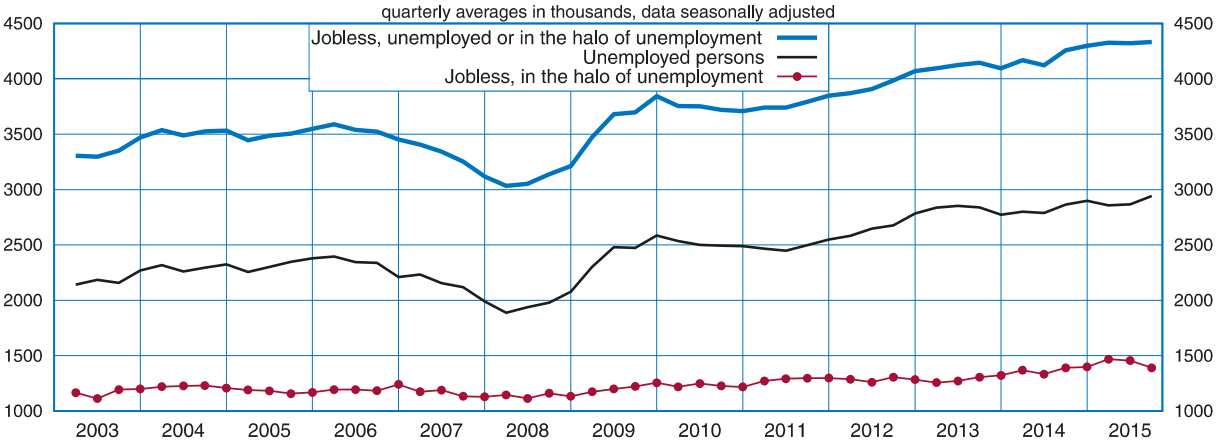
1 – Unemployment rate (ILO definition)



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

at 61 years and 7 months in mid-2015. This increase should be limited by anticipated retirements, linked to the specific "long careers" scheme, revised in 2012. This scheme is expected to have a similar effect in 2016. During the first half of 2016, the labour force should return to its growth trend (+51,000). Net job creations (+75 000) are therefore expected to surpass the anticipated growth of the labour force. As a result, the unemployment rate should decrease through to mid-2016: it should settle at 10.4% of the labour force (10.0% in Metropolitan France) and thus return to its mid-2015 level. ■

2 – Jobless unemployed within the meaning of the ILO or in the halo of unemployment



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

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

	Quarterly changes										Annual changes			
	2014				2015				2016		2013	2014	2015	2016 H1
	Q1	Q2	QT3	Q4	Q1	Q2	Q3	Q4	Q1	Q2				
Population of the 15-64 age group	–23	–22	–21	–20	–20	–19	–19	–20	–14	–14	–100	–86	–78	–27
Population of the 15-59 age group	–12	–12	–14	–15	–16	–16	–15	–15	–5	–5	–72	–52	–61	–10
Labor force	**61**	**–7**	**72**	**48**	**–13**	**44**	**109**	**–11**	**26**	**25**	**–8**	**174**	**129**	**51**
including :														
(a) Contribution of the population and the trend poarticipation rate	*34*	*34*	*34*	*34*	*32*	*32*	*32*	*32*	*31*	*31*	*120*	*135*	*128*	*61*
(b) Estimated bending effects	*–3*	*–4*	*–4*	*–4*	*–2*	*–1*	*–1*	*–3*	*–5*	*–5*	*–29*	*–14*	*–7*	*–10*
(c) Other short-term fluctuations (residual)	*30*	*–37*	*42*	*18*	*–43*	*13*	*78*	*–40*	*0*	*0*	*–99*	*53*	*8*	*0*
Employment	**35**	**4**	**–3**	**11**	**30**	**35**	**35**	**29**	**39**	**36**	**2**	**47**	**128**	**75**
Reminder : End-of-period employment *(see "Employment" note)*	–4	13	–19	42	17	52	17	41	37	36	52	32	127	73
ILO unemployment	**26**	**–11**	**76**	**37**	**–43**	**9**	**75**	**–40**	**–13**	**–11**	**–10**	**127**	**2**	**–24**
	Quarterly average										Average in the last quarter of the period			
ILO unemployment rate (%)														
Metropolitan France	9.8	9.7	10.0	10.1	10.0	10.0	10.2	10.1	10.0	10.0	9.7	10.1	10.1	10.0
France (including overseas departments)	10.2	10.1	10.4	10.5	10.3	10.4	10.6	10.5	10.4	10.4	10.1	10.5	10.5	10.4

Forecast

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