Consumer prices

In November 2014, consumer prices were up by 0.3% year-on-year. Headline inflation should be virtually nil through to mid-2015. The effects of the rise in VAT rates which came into force on 1st January 2014 should gradually dissipate in the year-on-year figures, but the ensuing fall should be partly offset by forecast rises in certain energy prices and the end of the decline in telecommunication prices.

In 2014, core inflation reached its lowest level (-0.2% for the year) since records began (1990). It should pick up in January 2015 (+0.3%), largely as a result of the corrections made to ensure that the indicator reflects a constant legal context. Thereafter, core inflation should drop off to reach +0.1% in June 2015.

Energy inflation should remain negative over the forecasting period, as a result of the decline in oil prices and in spite of the increase in fuel and gas duties and electricity prices.

Headline inflation and core inflation remain very restrained

Since early 2013 inflation has remained very modest. The year-on-year change in consumer prices has not exceeded +1.0% since summer 2013, falling to +0.3% in November 2014 (*Graph 1 and Table*). This moderation is all the more remarkable as VAT rates went up on 1st January 2014. This VAT rise, partly absorbed by companies' margins, gradually came to be felt over the course of the year. Through to mid-2015 inflation should be virtually nil. The VAT increase should have no further impact on headline inflation.

This November, core inflation[1] reached its lowest level (-0.2% for the year) since records began. It should pick up in January 2015 (+0.3%), as the corrections made since January 2014 to ensure that the indicator reflects a constant legal context come to an end (accounting for 0.6 points of the acceleration, see *Graph 2*). Thereafter, core inflation should decrease to reach +0.1% in June 2015, largely as a result of the end of the year-on-year effect of the VAT increase in H1 2014. This slowdown will be partially offset by the gradual increase in the price of telecommunication services, which were down by 3.4% year-on-year in November 2014.

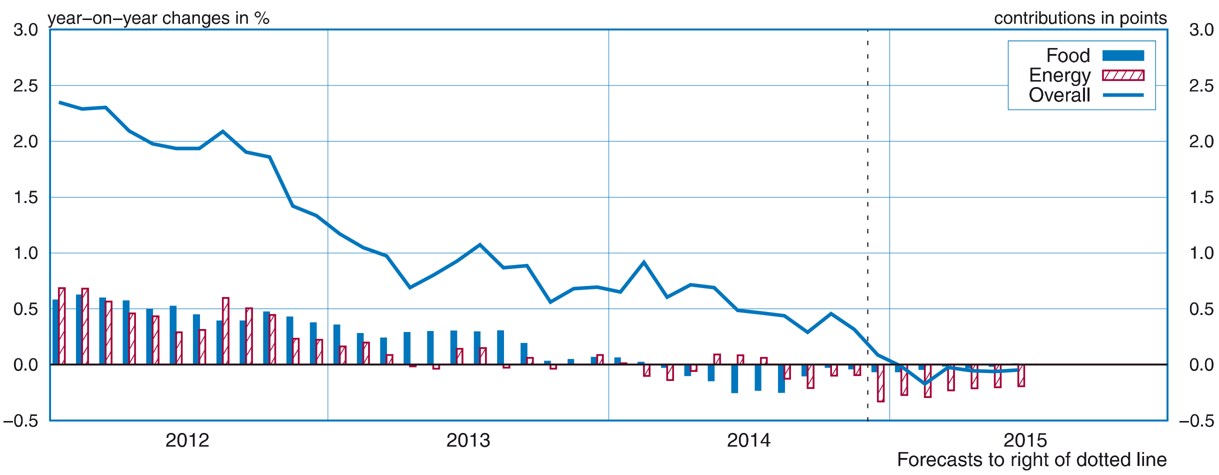
In June 2015, headline inflation should thus be slightly lower (0.0%) than core inflation (+0.1%), as a result of the substantial decline in energy prices.

Major drop in the cost of petroleum products

Energy prices should continue to fall (-2.3% in June 2015 compared with -1.1% in November 2014, year-on-year figures). The fall in oil prices seen between June and November, based on the assumption that this price should stabilise at €56.90 ($70) over the forecasting period, should contribute -6.1 points to this decrease. This should be counteracted by various factors, including the increase in domestic taxes on the consumption of energy products and natural gas which comes into force in January 2015 (*see Box*) and the increase in electricity prices, as a result of the reassessment of the compulsory electricity levy.

(1) Index excluding public tariffs and products with high price volatility, corrected for fiscal measures.

1 - Inflation in France



Source: INSEE

Inflation of food prices increases slightly

As wheat prices have dropped off, and against the backdrop of a "price war" between the supermarkets, the short-term spike in the price of imported food products observed in early 2014 should have a weak impact on prices in the food sector (excluding fresh products), which should remain stable between now and June 2015 (-0.3% year on year). In the absence of major production problems, the price of seasonal products should increase slightly through to mid-2015 (+2.4% in June, up from +0.9% in November, in year-on-year figures). All in all, inflation in the food sector should be nil for June 2015, after -0.2% in November 2014.

The fall in the price of manufactured goods looks set to continue

The decline in the price of manufactured goods should accelerate slightly (-1.3% in June 2015 after -1.2% in November 2014, year-on-year figures). Unused production capacities, the high rate of unemployment and increases in productivity should continue to restrain inflationary pressures in this sector.

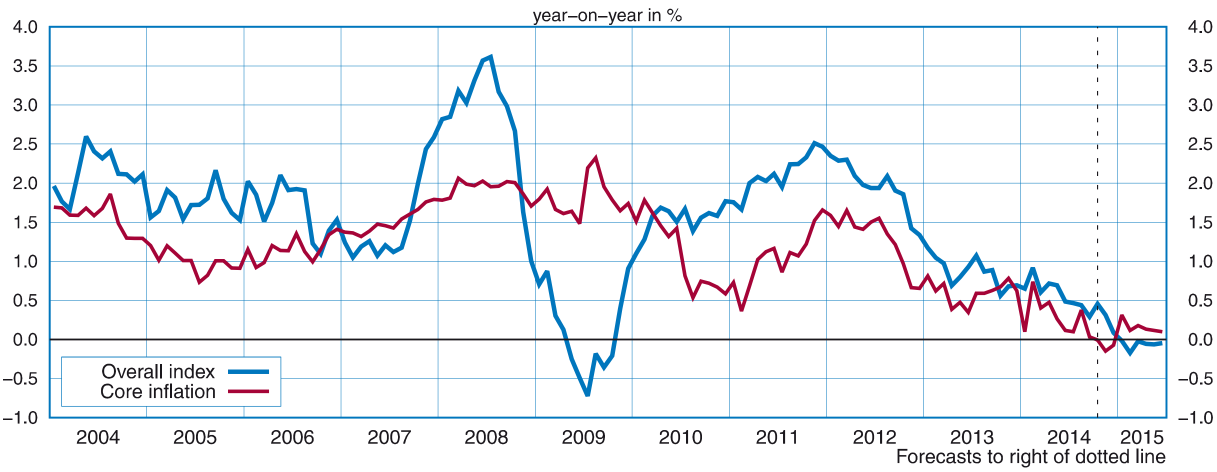
Furthermore, in addition to the month-to-month fluctuations caused by changes in the legislation regarding sales, prices in the clothing and footwear sector should be pulled downwards by the slight decrease in cotton prices since the start of the year. These prices should drop off slightly in year-to-year terms, -0.1% in June compared with +0.2% in November.

Elsewhere, the fall in the prices of healthcare products should continue through to mid-2015. This is a result of the price control measures included in the Social Security Draft Financing Bill for 2015. This decrease should also be accentuated by the drop in the price of glasses and contact lenses arising as a result of the "Consumption" law. Year-on-year prices in this sector should thus fall by -3.3% in June 2015, compared with -3.0% in November 2014.

Inflation in the price of services should drop off slightly

The increase in the price of services should drop off (+1.1% year-on-year in June 2015, compared to +1.5% in November), as the year-on-year effects of the VAT increase from January 2014 cease to be felt. Nevertheless, this decrease should be partly offset by the price of telecommunication services, which should stabilise after a sharp decrease in November (-3.4%). ■

2 - Consumer prices in France



Source: INSEE

Consumer prices

changes as %

CPI* groups (2014 weightings)	June 2014		November 2014		December 2014		June 2015		Annual averages	
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	2013	2014
Food (16.5%)	**-1.5**	**-0.3**	**-0.2**	**0.0**	**-0.4**	**-0.1**	**0.0**	**0.0**	**1.4**	**-0.6**
including:										
seasonal food products (2.1%)	-10.6	-0.2	0.9	0.0	-0.6	0.0	2.4	0.1	4.4	-4.1
excluding seasonal food products (14.4%)	-0.1	0.0	-0.4	-0.1	-0.4	-0.1	-0.3	0.0	0.9	-0.1
Tobacco (2.0%)	**6.9**	**0.1**	**3.5**	**0.1**	**3.5**	**0.1**	**0.0**	**0.0**	**6.8**	**5.2**
Manufactured products (26.6%)	**-1.2**	**-0.3**	**-1.2**	**-0.3**	**-1.1**	**-0.3**	**-1.3**	**-0.4**	**-0.4**	**-0.9**
Energy (8.5%)	**1.0**	**0.1**	**-1.1**	**-0.1**	**-3.9**	**-0.3**	**-2.3**	**-0.2**	**0.8**	**-0.9**
including:										
oil products (4.8%)	-1.3	-0.1	-5.1	-0.2	-9.7	-0.5	-8.2	-0.4	-2.3	-4.2
Services (46.4%)	**1.8**	**0.8**	**1.5**	**0.7**	**1.5**	**0.7**	**1.1**	**0.5**	**1.2**	**1.7**
including:										
rent-water (7.5%)	1.5	0.1	1.5	0.1	1.4	0.1	1.3	0.1	1.8	1.5
health services (5.5%)	0.2	0.0	0.4	0.0	0.4	0.0	0.3	0.0	0.8	0.3
transport-communications (5.0%)	1.7	0.1	-0.1	0.0	-0.2	0.0	0.6	0.0	-4.2	1.1
other services (28.4%)	2.2	0.6	2.1	0.6	2.0	0.6	1.2	0.3	2.1	2.2
All (100%)	0.5	0.5	0.3	0.3	0.1	0.1	0.0	0.0	0.9	0.5
All excluding energy (91.5%)	0.4	0.4	0.5	0.4	0.5	0.4	0.2	0.2	0.9	0.6
All excluding tobacco (98.0%)	0.3	0.3	0.3	0.3	0.0	0.0	0.0	0.0	0.7	0.4
Core inflation (60.5%)[1]	0.1	0.1	-0.2	-0.1	-0.1	0.0	0.1	0.1	0.6	0.2

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

Source: INSEE

Inset - Fiscal measures will impact upon energy prices in January 2015

An increase in the duty on fuel (TICPE) is predicted for January 2015. To begin with, under the Draft Finance Bill for 2015, TICPE would be increased by 2 cents per litre of diesel, in order to make up for the suspension of the "ecotax" in October. This rise will be enhanced by the mechanical increase in the energy climate levy (CCE), amounting to 2 cents per litre of diesel and around 1.7 cents per litre of unleaded petrol (exc. VAT). All in all, these increases should have an impact of +2.7 points on the price of oil-based products in January. Moreover, an increase in the duty on natural gas (TICGN) has been mooted, and should contribute 2.4% to the increase in gas prices scheduled for January.Electricity prices should also rise between now and June 2015. After an increase of 2.5% in November 2014 (of which 0.9 points will go to offset the abandonment of the price increase originally scheduled for August 2014), prices should rise again by 3.2% in January 2015: on the one hand, as per the Draft Finance Bill for 2015, the increase of €3 to the unitary value of the compulsory electricity levy (which would thus stand at €19.50) should contribute +1.7 points to the increase in electricity prices in January; on the other hand, that portion of the price linked to per-unit electricity production cost should contribute +1.5 points.■

Wages

In 2014, the basic monthly wage in the market sector branches slowed moderately both in nominal terms (+1.4% as an annual average after +1.7%) and also in constant Euros (+1.0% after +1.1%). The average wage per head, on the other hand, which covers a wider range of remunerations, is likely to be more dynamic in 2014 (+1.7% as an annual average) than in 2013 (+1.5%).

At an infra-annual level, the average wage per head is likely to slow in the course of the year. Given the low inflation rate, the increase in the minimum wage on 1st January 2015 (+0.9%), which is less than usual at this time of year, and unemployment set to rise, nominal wages will probably continue to slow slightly during H1 2015.

In real terms, after a rise of 0.7% half-year-on-half-year in H2 2014, the average wage per head is likely to slow substantially in H1 2015 (+0.3%). The growth overhang for 2015 at the end of Q2 should stand at +0.7%, against +1.0% the previous year.

In general government the nominal average wage per head has accelerated in 2014 in real terms: +0.9% after +0.3%. The annual growth overhang should settle at +1.1% at the end of Q2 2015.

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

In 2014, the nominal average wage per head is likely to accelerate

As an annual average, the basic monthly wage[1] in the market sectors branches excluding agriculture is likely to be slightly less dynamic in 2014 (+1.4%) than in 2013 (+1.7%) in nominal terms. The average wage per head on the other hand, which covers a wider range of remunerations, should accelerate: +1.7% after +1.5% in 2013.

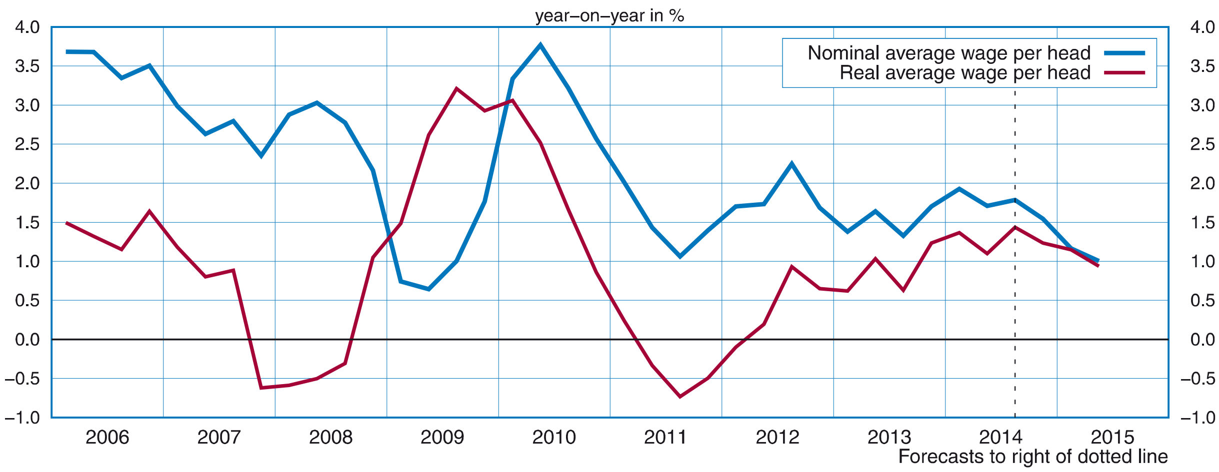
In real terms, wages have benefited from the deceleration in prices: the average wage per head increased by 0.9% in 2013 as an annual average, then by 0.6% in the course of H1 2014 half-year-on-half-year, despite high unemployment which continues to impact on employees' bargaining power.

In H2 2014, prices continued to slow (-0.1% half-year-on-half-year, against a 0.4% increase in H1). The nominal average wage per head is likely to slow, adjusting with a time-lag to changes in price index: +0.6% over H2 after +1.0% in H1. Gains in real terms should be similar in H1 and H2 2015 (+0.6% then +0.7% half-year-on-half-year).

Real wages likely to slow down in H1 2015

At the beginning of 2015, the minimum wage is likely to be increased by +0.9%, a little less than at the beginning of 2014 (+1.1%) and unemployment should continue to increase in H1 2015. Inflation too is likely to accelerate slightly (+0.1% across the half-year). In all, nominal wages should continue to adjust to the previous fall

Change in the nominal and real average wage per head



Scope: non-agricultural market sector

Source: INSEE

in inflation and decelerate slightly in H1 (+0.4%). The trend will be along the same lines in real terms: +0.3% in H1 2015 after +0.7%.

The annual growth overhang at the end of Q2 2015 is likely to be +0.8% for the nominal average wage per head, against +1.5% the previous year. In real terms, the slowdown is likely to be slightly weaker: +0.7% mid-2015 against +1.0% a year earlier.

In the civil service, nominal wages set to accelerate in 2014 then slow at the start of 2015

In the civil service, nominal wages look set to accelerate in 2014: +1.4% after +0.9%. The first reason for the increase is the "seniority-qualification"effect. In addition, on 1st February 2014, the indices for remunerations of Category B and Category C local government employees have been raised. However, there are other factors that contribute to curbing the rise in the nominal wage: the index point for the civil service has been frozen since 1st July 2010 and their minimum index was not revised in 2014 although it had been increased by +0.3% on 1st January 2013. In real terms, the slowdown in prices is likely to accentuate the acceleration of wages in 2014 (+0.9% after +0.3%).

No rise in the index point has so far been announced for the beginning of 2015. However, new wage scales come into force on 1st January 2015, increasing the index by 2.4% for the first grade of category B in local government, for example. The nominal average wage per head in general government should nevertheless increase at the same rate in H1 and the growth overhang at the end of Q2 2015 should stand at +1.2% for the nominal average wage per head (as it was a year ago) and +1.1% for the real average wage per head (against +0.7% a year earlier).■

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

change as a %

Seasonally-corrected data	*quarterly growth rates*						*annual averages*		
	2014				**2015**		**2013**	**2014**	**2015 ovhg**
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**			
Basic monthly wage	0.3	0.3	0.4	0.3	0.2	0.2	1.7	1.4	0.8
Average wage per head in the non-agricultural market sector (NAMS)	0.6	0.4	0.3	0.3	0.2	0.2	1.5	1.7	0.8
Average wage per head in general government (GG)							0.9	1.4	1.2
Household consumer price index (quarterly national accounts)	0.4	0.0	-0.1	0.0	0.1	0.1	0.6	0.5	0.1
Real basic monthly wage	0.0	0.3	0.4	0.3	0.1	0.1	1.1	1.0	0.7
Real average wage per head (NAMS)	0.2	0.3	0.4	0.3	0.1	0.1	0.9	1.3	0.7
Real average wage per head (GG)							0.3	0.9	1.1

Forecast
Source: INSEE

Household income

Stable in 2013, the purchasing power of household income should pick up in 2014 (+1.2%). In nominal terms household gross disposable income should accelerate (+1.6% after +0.6% in 2013), boosted by the acceleration of earned income (+1.3% after +0.9%) and the slowdown in taxes and social contributions (+2.0% after +4.2%). Social benefits should however slip back slightly (+2.5% after +2.8%).

In H2 2014 purchasing power should slow down (+0.3% half-year-on-half-year, after +1.4%), mainly because of the acceleration of taxes due to the new measures intended to increase their yield at the end of the year. At the start of 2015 taxes should slow down in reaction, while earned income should continue to grow at a stable pace. All in all, purchasing power should recover (+1.0% in H1 2015).

After picking up in early 2014, earned income set to slow

In 2014, the earned income of households should pick up (+1.3% after +0.9% in 2013, *Table 1*). The pay received by households should be more dynamic (+1.6% after +1.0% in 2013, *Table 2*), mainly because of a slower decline in non-agricultural market-sector employment (-0.2% after -0.7% in 2013, *Graph 1*). Additionally, net property income should rise in 2014 (+2.4% after +1.0% in 2013), mainly because of the fall in interest paid by households with mortgages. However, the gross operating surplus of unincorporated enterprises should fall (-0.7% after 0.0% in 2013). Lastly, the gross operating surplus of pure households is likely to progress at the same rhythm as in 2013 (+1.0%)[1]

In sub-annual terms, wage income is set to slow in H2 2014 (+0.5% half-year-on-half-year, after +0.9%). Then, in H1 2015, wage income should continue to rise at the same pace as in H2, with a slight pick-up in employment offsetting a slight deceleration of the per-capita wage. The gross operating surplus of unincorporated enterprises should stabilise appears to have stabilised in H2 2014, and should progress slightly in early 2015.

Social benefits still slowing

In 2014, social benefits in cash should increase slightly less than in 2013 (+2.5% after +2.8%, *Table 3*). Social security allowances should slow (+2.1% after +3.1%). Old-age insurance benefits contributed to this slowdown in H1, because the effect of lower increases for the vast majority of pensions was greater than that of the higher number of retirements brought about by the relaxing of conditions in July 2012. Family allowances have also increased less in 2014 (+0.6% on 1st April) than in previous years (+1.3% on average over the last five years), due to lower inflation. Lastly, after strong growth in 2013, unemployment benefits should slow sharply in 2014, mainly under the effect of the new terms of the unemployment insurance agreement in force on 1st July 2014. However, social assistance benefits appear to have continued their acceleration in 2014 (+3.9% after +1.9% in

(1) The GOS of pure households corresponds to the production of housing services minus the intermediate consumptions required for this production (most notably financial services linked to loans) and taxes (land tax). It corresponds to the rents that homeowners receive from their tenants or could receive if they put their dwelling up for rent ("imputed" rents).

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

Source: INSEE

2013); they should be sustained by the active solidarity income (RSA[2]) and the specific solidarity benefit (ASS), because of the higher number of long-term unemployed.

After an acceleration in H2 2014 (+1.7% half-year-on-half-year, after +1.0%), social benefits in cash should slow once again in H1 2015 (+0.9%). Social security allowances should be the principal factor, slowing due to smaller increases. Family allowances should only rise slightly on 1st April 2015 (+0.3%), due to disinflation. Similarly, the pensions paid by Agirc-Arrco are unlikely to be increased on 1st April 2015, in accordance with the terms of the agreement between the social partners signed in March 2013. Lastly, the RSA scale should be raised by only +0.9% on 1st January, a lower figure than increases in recent years.

Taxes and social contributions, less dynamic in 2014 than in 2013, are likely to slow at the start of 2015

Over 2014 as a whole, taxes and social contributions paid by households should continue to rise (+2.0%), but less than in 2013 (+4.2%). The slowdown concerns income and wealth taxes (+1.5% after +3.9%) as well as social contributions by households (+2.6% after +4.7%) and is the result of fewer measures intended to increase their yield.

The new income and wealth tax measures for 2014 (notably the abolition of income tax exemptions on pension bonuses for family dependents, the reduction of the cap on the family quotient, and the abolition of the tax exemption on payment by employers of a proportion of supplementary pension contributions) came in mainly in H2; their impact has been limited by lower taxes on the income of the most modest households. Ultimately, a slight rise in the income tax and wealth tax on households is expected in Q3 (+0.3%) followed by a sharp acceleration in Q4 (+4.2%). It should fall back in reaction in Q1 2015 (-2.3%). Additionally, the contributions paid by households should be less dynamic than earned income in H1 2015 because of the exemption for the self-employed as part of the Responsibility and Solidarity Pact, for an

(2) In 2014 as in 2013, the RSA scale rose by 2% on 1st September (on top of the increase of 1st January), in accordance with the undertakings of the antipoverty and social inclusion plan of December 2012.

Table 1

Household gross disposable income

change as %

	2013				2014				2015		2013	2014	2015 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Gross disposable income (100%)	**1.5**	**0.3**	**-0.1**	**-0.3**	**1.3**	**0.5**	**0.5**	**-0.2**	**0.9**	**0.3**	**0.6**	**1.6**	**1.3**
including :													
Earned income (70%)	0.1	0.4	0.1	0.4	0.5	0.3	0.3	0.2	0.2	0.2	0.9	1.3	0.8
Gross wages (62%)	*0.2*	*0.4*	*0.2*	*0.5*	*0.5*	*0.4*	*0.3*	*0.2*	*0.2*	*0.3*	*1.0*	*1.6*	*0.9*
GOS of sole proprietors[1] (9%)	*-0.1*	*0.4*	*-0.4*	*-0.2*	*0.0*	*-0.6*	*0.0*	*0.1*	*0.2*	*0.1*	*0.0*	*-0.7*	*0.2*
Social benefits in cash (34%)	0.5	0.8	0.6	0.6	0.6	0.4	1.0	0.7	0.5	0.4	2.8	2.5	1.9
GOS of "pure" households (13%)	0.2	0.3	0.0	0.2	0.4	0.1	0.2	0.7	0.5	0.4	1.0	1.0	1.5
Property income (8%)	0.7	0.2	0.0	0.8	0.1	1.8	0.1	0.8	0.9	0.5	1.0	2.4	2.4
Social contribution and tax burden (-25%)	-4.2	1.1	1.7	3.3	-2.4	0.0	0.5	2.6	-1.5	0.6	4.2	2.0	1.1
Contributions of househol (-11%)	*0.4*	*1.1*	*0.9*	*0.6*	*0.4*	*0.7*	*0.8*	*0.4*	*-0.3*	*0.4*	*4.7*	*2.6*	*0.8*
Income and wealth tax (including CSG and CRDS) (-14%)	*-7.1*	*1.1*	*2.2*	*5.2*	*-4.4*	*-0.5*	*0.3*	*4.2*	*-2.3*	*0.7*	*3.9*	*1.5*	*1.3*
Income before taxes	0.3	0.4	0.2	0.5	0.5	0.3	0.4	0.4	0.5	0.3	1.1	1.6	1.3
Household consumer prices (quarterly national accounts)	**0.3**	**0.0**	**0.2**	**0.1**	**0.4**	**0.0**	**-0.1**	**0.0**	**0.1**	**0.1**	**0.6**	**0.5**	**0.1**
Purchasing power of gross disposable income	**1.2**	**0.3**	**-0.3**	**-0.3**	**0.9**	**0.5**	**0.5**	**-0.2**	**0.8**	**0.2**	**0.0**	**1.2**	**1.2**
Household purchasing power by consumption	**1.1**	**0.2**	**-0.5**	**-0.5**	**0.8**	**0.3**	**0.4**	**-0.3**	**0.7**	**0.0**	**-0.6**	**0.5**	**0.6**

Forecast

How to read it: The figures in parentheses give the structure of the year 2013.

(1) The gross operating surplus (GOS) of sole proprietors is the balance of the operating accounts of sole proprietorships. It is mixed income, because it remunerates the work performed by the sole proprietor, and possibly the members of his family, but also contains the profit achieved as an entrepreneur.

Source: INSEE

amount estimated at €1 Bn in 2015. All in all, the taxes and social contributions should fall in Q1 2015 (-1.5%), then rise again slightly in Q2 (+0.6%).

Purchasing power set to pick up in early 2015

The nominal gross disposable income (GDI) of households seems should accelerate in 2014 (+1.6% after +0.6% in 2013). In parallel, consumer prices have slowed slightly (+0.5% after +0.6%). As a result, the purchasing power of GDI should pick up sharply, to +1.2% in 2014 after a stagnation in 2013. Purchasing power per consumption unit, which takes account of demographic variations, therefore seems set to rebound in 2014 (+0.5% after -0.6% in 2013).

At the start of 2015, thanks to the specific profile of taxes, the GDI of households should accelerate (+1.2% half-year-on-half-year, after +0.3% in H2 2014). Against a backdrop of low inflation, purchasing power should rise again in H1 2015 (+1.0%, after +0.3% in H2 2014). The growth overhang for mid-2015 should stand at +1.2%.■

Table 2

From the payroll of non-financial enterprises to that received by households

change as a %

	2013				2014				2015		2013	2014	2015 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Non-financial enterprises (67%)	0.1	0.5	0.1	0.6	0.6	0.4	0.2	0.2	0.2	0.2	1.0	1.6	0.7
including: Average wage per head	*0.2*	*0.6*	*0.3*	*0.5*	*0.5*	*0.3*	*0.3*	*0.4*	*0.3*	*0.3*	*1.5*	*1.7*	*1.0*
Financial corporations (5%)	0.6	-0.4	0.0	0.7	0.4	0.3	0.3	0.2	0.3	0.3	-0.6	1.3	0.9
General government (22%)	0.1	0.2	0.3	0.4	0.5	0.4	0.3	0.3	0.4	0.4	1.1	1.5	1.1
Households excluding sole proprietors (2%)	-0.1	0.0	0.4	-1.2	-0.7	0.7	0.2	0.2	0.6	0.6	0.2	-0.7	1.5
Total gross wages received by households (100%)	**0.2**	**0.4**	**0.2**	**0.5**	**0.5**	**0.4**	**0.3**	**0.2**	**0.2**	**0.3**	**1.0**	**1.6**	**0.9**
including: Non-agricultural market sectors	*0.1*	*0.4*	*0.1*	*0.6*	*0.6*	*0.3*	*0.1*	*0.1*	*0.1*	*0.2*	*0.8*	*1.5*	*0.5*

Forecast

How to read it: The figures in parentheses give the structure of the year 2013.

Source: INSEE

Table 3

Social transfers received and paid by households

change as a %

	2013				2014				2015		2013	2014	2015 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Social cash benefits received by households (100%)	**0.5**	**0.8**	**0.6**	**0.6**	**0.6**	**0.4**	**1.0**	**0.7**	**0.5**	**0.4**	**2.8**	**2.5**	**1.9**
Social Security benefits in cash (72%)	0.6	0.8	0.7	0.6	0.4	0.1	0.8	0.7	0.5	0.3	3.1	2.1	1.7
Other social insurance benefits (20%)	0.1	0.9	0.2	0.8	0.9	0.9	1.4	0.6	0.5	0.5	2.3	3.4	2.2
Social assistance benefits in cash (8%)	0.4	0.3	0.9	-0.1	1.4	1.1	1.6	1.4	0.5	0.9	1.9	3.9	3.2
Total social contribution burden	**0.1**	**0.9**	**0.9**	**0.1**	**0.7**	**0.3**	**0.8**	**0.3**	**0.1**	**0.4**	**2.9**	**2.2**	**1.1**
Actual social contributions paid by households (100%)	0.0	0.9	0.9	0.1	0.9	0.0	0.8	0.3	0.3	0.3	3.0	2.1	1.0
including: Employers contributions[1] (63%)	*-0.1*	*0.8*	*0.9*	*-0.3*	*0.9*	*0.0*	*0.8*	*0.3*	*0.3*	*0.3*	*2.1*	*1.9*	*1.1*
Contributions of househol (37%)	*0.4*	*1.1*	*0.9*	*0.6*	*0.4*	*0.7*	*0.8*	*0.4*	*-0.3*	*0.4*	*4.7*	*2.6*	*0.8*

Forecast

How to read it: The figures in parentheses give the structure of the year 2013.

(1) Employer contributions are both received and paid by households in the national accounts: they therefore have no effect on gross disposable income.

Source: INSEE

Household consumption and investment

In Q3 2014, household consumption slowed slightly (+0.2% after +0.3%). Food expenditure in particular fell back (-0.3%) after sustained growth in Q2 (+0.9%). In contrast, expenditure on housing equipment accelerated (+3.4% after +2.4%).

In Q4 2014, household expenditure should continue to slow (+0.1%), especially on energy with the very mild autumn, and on automobiles. In Q1 2015, household consumption is likely to accelerate (+0.4% after +0.1%) due to a rebound in energy expenditure, assuming that temperatures will return to their seasonal norms. It should then maintain a similar pace (+0.3%), sustained by the increase in purchasing power.

By mid-2015 the household savings ratio should reach a slightly higher level (16.0%) than that of mid-2014 and the end of 2014 (15.7%).

In Q3 2014, food expenditure fell back

In Q3 2014, household consumption slowed slightly (+0.2% after +0.3%, see *Table*). Food expenditure fell back (-0.3% after +0.9%) as did automobile purchases (-0.9% after +0.5%).

Energy consumption increased once again in Q3 (+1.2% after +2.2%) with a return to the seasonal norms for spending on heating. The mild temperatures in autumn 2013 and winter 2014 had kept energy expenditure at an exceptionally low level. Thus by simply returning to the seasonal norms, energy consumption rebounded, in two steps, once in spring and again in summer.

Expenditure on housing equipment picked up once again (+3.4% after +2.4%), but clothing expenditure declined further, although to a lesser degree (-0.3% after -2.2%).

In Q4 2014, energy consumption likely to fall back

Total household consumption should slow slightly in Q4 2014: +0.1% after +0.2% in Q3 (see *Graph 1*). Assuming temperatures are close to seasonal norms in December, after a much milder October and November than average, energy consumption is very likely to fall back significantly in Q4: -2.0% after +1.2%. In addition, purchases of goods are likely to slow for engineered goods (+0.2% after +0.4%), especially automobiles. Food consumption, on the other hand, should rebound slightly (+0.5% after -0.3%). Similarly, overall consumption of services should accelerate slightly in Q4 (+0.3% after +0.2%), with a return to normal consumption of transport services, after disruption in September due to strikes.

Household consumption and investment expenditure

	Quarterly changes in %										Annual changes in %		
	2013				2014				2015		2013	2014	2015 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Total household consumption expenditures (B+S)	0.2	0.3	0.0	0.4	-0.4	0.3	0.2	0.1	0.4	0.3	0.3	0.3	0.9
Tourism balance	-2.9	-7.8	-4.8	-5.6	-0.7	3.9	1.2	0.7	-0.4	-0.7	-9.5	-6.0	1.1
Services (S)	-0.1	0.4	0.1	0.1	0.2	0.1	0.2	0.3	0.2	0.4	0.6	0.6	0.9
Goods (G)	0.5	0.0	-0.3	0.6	-1.1	0.6	0.3	-0.1	0.5	0.2	-0.3	-0.2	0.9
including:													
Food (AZ-C1)	1.1	-0.9	0.4	0.9	-1.0	0.9	-0.3	0.5	0.1	0.1	0.1	0.3	0.7
Agriculture goods (AZ)	1.9	-0.9	0.5	1.3	0.3	1.5	-1.4	0.5	0.1	0.1	1.1	1.8	0.2
Agri-food products (C1)	0.9	-0.9	0.4	0.9	-1.3	0.8	-0.1	0.5	0.1	0.1	-0.1	0.0	0.7
Energy (DE-C2)	2.7	1.7	-3.9	-1.6	-3.8	2.2	1.2	-2.0	2.5	0.2	0.8	-4.8	2.3
Energy, water, waste (DE)	6.9	0.1	-5.7	-2.6	-5.0	2.4	1.8	-2.9	4.0	0.3	2.0	-7.8	3.5
Coke and refined petroleum(C2)	-1.5	3.5	-2.0	-0.7	-2.5	2.0	0.7	-1.0	0.8	0.0	-0.4	-1.6	0.9
Engineered goods (C3 à C5)	-1.0	0.0	0.7	1.3	0.1	-0.2	0.4	0.2	0.1	0.3	-1.0	1.4	0.6
Manufactured goods (C1 à C5)	-0.4	0.0	0.3	0.9	-0.7	0.4	0.2	0.2	0.2	0.2	-0.6	0.6	0.7
Investment expenditure	-0.3	-0.4	-1.0	-1.8	-1.9	-1.9	-1.7	-1.3	-0.7	-0.1	-3.1	-6.3	-3.1

Forecast
Source: INSEE

In Q1 2015, consumption is set to pick up

Household consumption is likely to accelerate in Q1 2015 (+0.4%), due mainly to energy expenditure which is set to rebound (+2.5% after -2.0%), assuming temperatures are close to seasonal norms. Total expenditure, excluding energy, is likely to increase by 0.2% in Q1 2015, as it did at the end of 2014.

In Q2 2015, energy consumption should slow and return to its trend. Purchases of other goods and services should accelerate somewhat, as a result of the gradual acceleration in the purchasing power of household income (+0.3% after +0.2%).

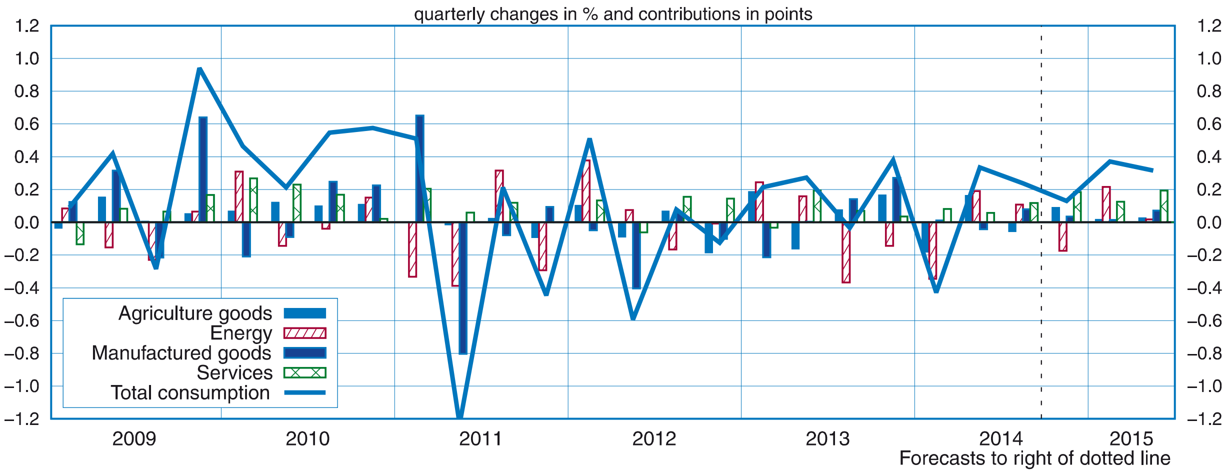
Mid-2015, savings ratio should be slightly higher than its mid-2014 and end of 2014 levels

Overall, household consumption is likely to increase slightly in 2014 (+0.3%), considerably less than purchasing power (+1.1%), with the result that the savings ratio should go up, from 15.1% in 2013 to 15.8% in 2014 as an annual average (*Graph 2*). This increase reflects precautionary savings triggered by the deteriorating labour market and household confidence. The quarterly profile is sometimes likely to be uneven, matching that for expenditure on heating, and also because households spread their consumption in order to smooth fluctuations in their purchasing power. In Q3 2014, purchasing power seems to have increased considerably more than consumption, resulting in a savings ratio of 16.0%. At the end of the year, the reverse should happen: household purchasing power is likely to decrease, due to the rise in taxes, while consumption should increase slightly (+0.1%). Thus the savings ratio should fall back to its mid-2014 level. After this, in H1 2015, purchasing power should increase a little more quickly than consumption; the household savings ratio should therefore rise slightly, by 0.3 points, to reach 16.0% by mid-2015, slightly higher than its level in mid-2014.

Household investment should stabilise in H1 2015

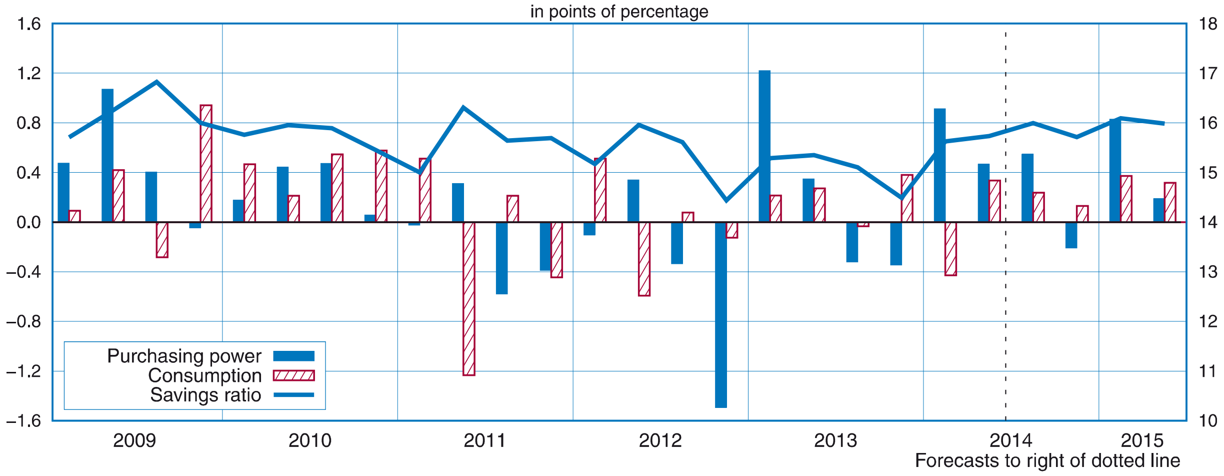
In Q3 2014, the decline in household investment eased slightly (-1.7% after -1.9%). The delayed effects of the sharp drop in building permits in 2013, which then stabilised in the course of 2014 (*Graph 3*), should no longer affect new housing investment. Moreover, housing maintenance-improvement expenditure is likely to follow a slightly downward trend. All in all, household investment is likely to fall back to a lesser extent in Q4 2014 (-1.3%) before gradually stabilising: -0.7% in Q1 2015 then -0.1% in Q2. The annual average for household investment is set to fall back very strongly in 2014: -6.3% (after -3.1% in 2013), which is likely to impact on annual GDP growth by -0.3 points. The annual growth overhang for household investment is likely to stand at -3.1% in mid-2015. ■

1 - Contributions of the various items to quarterly household consumption



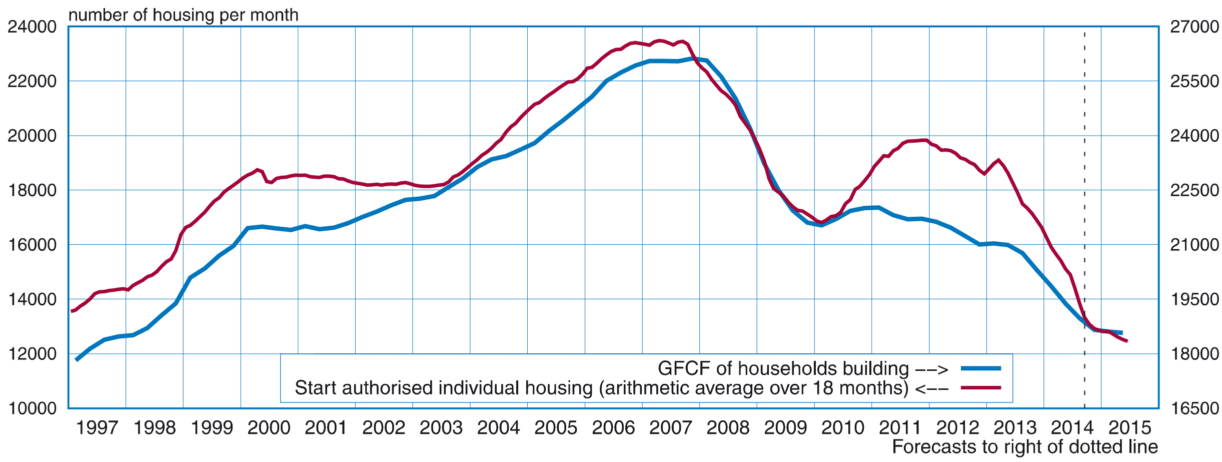
Source: INSEE

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



Source: INSEE

3 - Household investment on construction and housing starts.



Sources: INSEE, SOeS

Enterprises' earnings

At the end of 2014, the margin rate of non-financial corporations should be slightly higher (29.6%) than that recorded at the end of 2013 (29.4%), the lowest since 1985. The quarter-by-quarter variation in the margin rate was uneven in H1 2014: it increased by 0.5 points in Q1, primarily as a result of the implementation of the employment and competitiveness tax credit (CICE); in Q2 it returned to its late-2013 level (29.4%) as real wages increased while productivity declined. After remaining virtually stable in Q3, it should increase slightly in Q4 (+0.2 points) as a result of the positive effects of the fall in oil prices.

In Q1 2015 the margin rate should pick up significantly (+1.2 points) to 30.8%, thanks to the conjunction of three principal factors: the effects of the CICE and the implementation of the Responsibility and Solidarity Pact, increased productivity gains, and a dip in real wages. The margin rate should then stabilise at this level during the second quarter.

At the end of 2014, the margin rate should be slightly higher than it was at the end of 2013

Falling steadily since 2011, at the end of 2013 the margin rate of non-financial corporations reached its lowest level since 1985 (*Graph 1*). In Q1 2014, the margin rate bounced back by 0.5 points. The implementation of the employment and competitiveness tax credit (CICE) made a contribution of +0.8 points (*Table*). However, businesses have partly absorbed the VAT increase in their margins, which has had a pronounced effect on the terms of trade. In Q2 2014 the margin rate declined: real wages increased while productivity decreased (*Graph 2*).

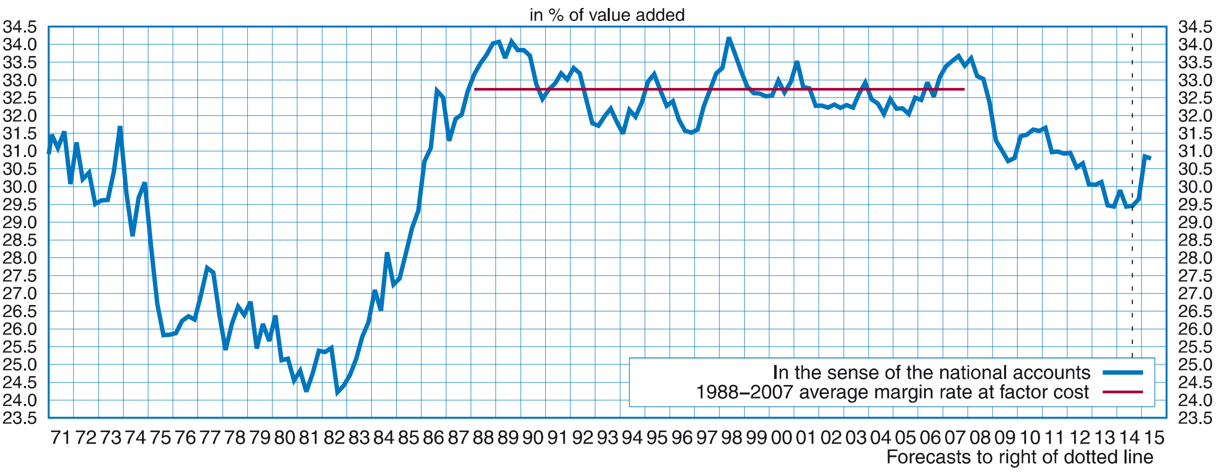
In Q3 the margin rate seems to have been virtually stable, with changes in the apparent productivity of labour and real wages per capita more or less cancelling each other out. In Q4 the margin rate should pick up slightly to 29.6%, largely as a result of the decrease in oil prices, which will have a positive impact on the terms of trade.

Overall, after a 0.6 point year-on-year reduction at the end of 2013 (from 30.1% to 29.4%), the margin rate of non-financial corporations should increase by 0.2 points by the end of 2014, to reach 29.6%: the favourable impact of the CICE will be largely offset by an increase in real wages which should outweigh the increase in productivity, as well as the effects of the VAT increase.

In H1 2015, the margin rate should increase significantly

The margin rate should increase significantly, from 29.6% at the end of 2014 to 30.8% by mid-2015. Firstly, the increase in the rate of the CICE, from 4% to 6%, should see €5 billion in additional employment subsidies for firms (see *the Employment focus for more details*); this should help to boost companies' margin rate by 0.6 points in H1 2015. Furthermore, under the terms of the Responsibility and Solidarity Pact, the reduction in employers' social security contributions will be increased, making a further contribution of 0.4 points to the margin rate.

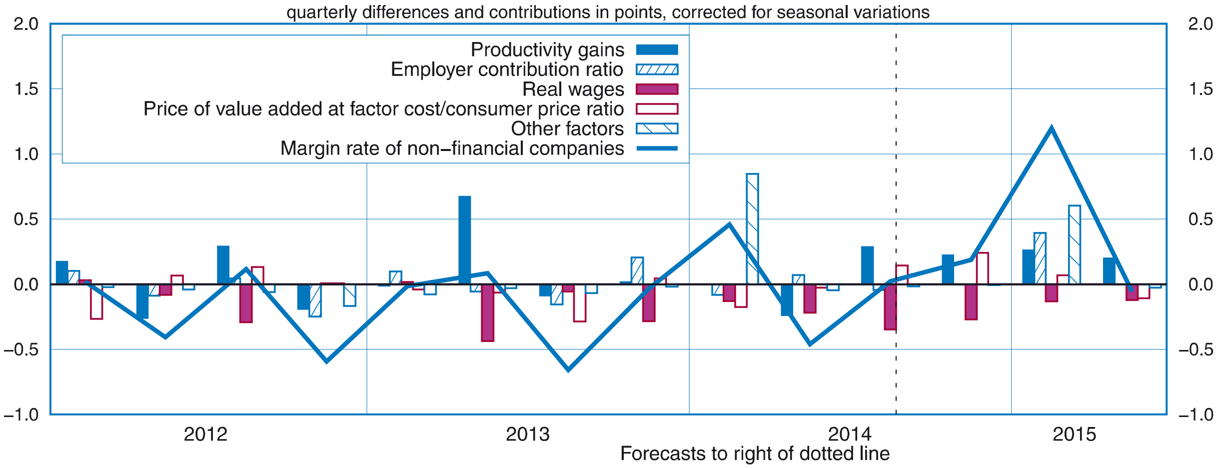
1 - Margin rate of non-financial companies (NFC)



Source: INSEE

Finally, productivity gains should increase while real wages per capita should slow, which should add a further 0.2 points to the margin rate in Q1. Overall, the margin rate should stand at 30.8% in Q1 2015, an increase of 1.2 points on its late-2014 level. In Q2, with real wages and the apparent productivity of labour continuing to rise at comparable rates, the margin rate should remain virtually stable. ■

2 - Contributions to the variation in the margin rate of non-financial companies (NFC)



Source: INSEE

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

in % and in points

	2013				2014				2015		2013	2014	2015 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Margin rate (in level)[1]	30.0	30.1	29.5	29.4	29.9	29.4	29.5	29.6	30.8	30.8	29.8	29.6	30.8
Variation in margin rate	0.0	0.1	-0.7	0.0	0.5	-0.5	0.0	0.2	1.2	-0.1	-0.8	-0.2	1.2
Contributions to the variation margin rate													
Productivity gains	*0.0*	*0.7*	*-0.1*	*0.0*	*0.0*	*-0.2*	*0.3*	*0.2*	*0.3*	*0.2*	*0.4*	*0.2*	*0.7*
Real wage per head	*0.0*	*-0.4*	*-0.1*	*-0.3*	*-0.1*	*-0.2*	*-0.3*	*-0.3*	*-0.1*	*-0.1*	*-0.6*	*-0.9*	*-0.7*
Employer contribution ratio	*0.1*	*-0.1*	*-0.2*	*0.2*	*-0.1*	*0.1*	*0.0*	*0.0*	*0.4*	*0.0*	*-0.2*	*0.0*	*0.4*
Ratio of the value-added price to the consumer price	*0.0*	*-0.1*	*-0.3*	*0.0*	*-0.2*	*0.0*	*0.1*	*0.2*	*0.1*	*-0.1*	*-0.1*	*-0.2*	*0.2*
Other factors	*-0.1*	*0.0*	*-0.1*	*0.0*	*0.8*	*0.0*	*0.0*	*0.0*	*0.6*	*0.0*	*-0.3*	*0.7*	*0.6*

Forecast

(1) The margin rate measures the share of value-added which remunerates capital. Its variation is broken down in accounting terms between:

- productivity changes (Y/L), with Y value-added and L employment, and the ratio of the value-added price to the consumer price, or terms of trade (Pva/Pc), which play a positive role;
- changes to the real average wage per head (SMPT/Pc) and the employer contribution ratio (W/SMPT, where W represents all compensation), which play a negative role.
- others factors: including taxes on production net of operating subsidies.

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

* The CICE reduces companies' corporation tax, but in the national accounts it is treated as a subsidy on their production.
Source:INSEE

Corporate investment and inventory

Corporate investment contracted slightly once again in Q3 2014 (-0.1% after -0.5%). Construction expenditure continued to fall sharply (-1.0% after -1.1%). The slight increase in investment in services (+0.1%) and in manufactured goods (+0.4%) only partly offset this decline.

In Q4 2014, investment is likely to stabilise then increase slightly in the course of H1 2015 (+0.1% per quarter), in line with the improved demand prospects as outlined in the business tendency surveys. Across 2014 as a whole, corporate investment expenditure should decrease by 0.2% (after -0.6% in 2013). The mid-year overhang for 2015 is likely to be zero.

Inventory change increased sharply in Q3 2014, by around +0.3 GDP points. A strong trend towards building up stocks of transport equipment - especially aeronautical - is the main component (around +0.5 GDP points). A backlash is expected in Q4, for a total contribution by inventory change to GDP of -0.2 points. All in all for 2014, stocking behaviour by companies should contribute +0.3 points to GDP growth and is likely to provide the main boost. In H1 2015, the contribution of inventory to GDP is likely to be zero.

In Q3 2014, corporate investment dropped slightly

Investment by non-financial enterprises (NFE) fell once again in Q3 2014, but by slightly less (-0.1% after -0.5%, *Table 1*). This decline stems from lower construction spending(-1.0% in Q3, after -1.1%), both in the building industry—residential and non-residential—and, even more strongly, in civil engineering.

The decrease in construction spending by NFEs is partly compensated by a slight rebound in investment in manufactured goods (+0.4% after -0.9% in Q2) and a slight increase in investment in services (+0.1% after +0.2%). Spending on capital goods rebounded (+0.6% after -1.1%), especially in transport equipment (+0.8% after -1.5%). For investment in services, spending on IT stabilised (0.0% after -0.5%); investments in services to businesses - which include research and development - continue to grow but at a more moderate pace (+0.3% after +0.8%). All in all, the investment rate of NFEs was stable at 20.8% in Q3 2014 (*Graph 1*).

Investment likely to increase slightly over the next few quarters

In Q4 2014, the business tendency surveys in industry suggest that investment by NFEs is likely to stabilise. When surveyed in October, industrialists were evenly divided over whether they planned to increase or decrease their investment between H1 and H2 2014. The investment revision indicator in the manufacturing industry remains positive, even though the opinion of business leaders on their investment has deteriorated somewhat compared with April (*Graph 2*).

Financing terms should continue to sustain investment. After increasing in 2013 following the unexpected drop in inflation, real interest rates remain low. However, the poor demand prospects and the low production capacity utilisation rate (81.0% in industry) are likely to put a check on the rebound in investment.

On average over 2014, investment expenditure by NFEs is set to decline by 0.2% (after -0.6% in 2013): the decline in construction investment will only be partly offset by the slight increase in spending on manufactured goods and services.

Table 1

Investment by non-financial enterprises (NFE)

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

	Quarterly changes										Annual changes		
	2013				**2013**				**2013**		**2013**	**201 4**	**2015 ovhg**
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**			
Manufactured products (43%)	-0.4	0.1	1.2	1.5	-1.0	-0.9	0.4	0.3	0.3	0.3	-0.7	0.3	0.7
Building and public works (28%))	-0.6	0.0	0.0	0.4	-0.9	-1.1	-1.0	-0.9	-0.8	-0.8	-2.6	-2.1	-2.8
Other (29%)	-0.8	1.0	-0.2	0.3	-0.1	0.2	0.1	0.4	0.5	0.5	0.9	0.6	1.3
All non-financial enterprises (100%)	**-0.6**	**0.4**	**0.3**	**0.7**	**-0.6**	**-0.5**	**-0.1**	**0.0**	**0.1**	**0.1**	**-0.6**	**-0.2**	**0.0**

Forecast
Source: INSEE

All in all, investment by NFEs should rise at a very moderate pace in the course of H1 2015 (+0.1% per quarter). For 2015, the growth overhang mid-year is likely to be zero.

The investment rate of NFEs is set to fall back slightly, dropping from 20.8% in Q3 2014 to 20.6% in Q2 2015 - but still a higher level than the long-term average (19.6% since 1980. *Graph 1*).

Spending on manufactured goods set to progress moderately

Investment by NFEs in manufactured goods is set to rise (+0.3% per quarter in Q4 2014 and H1 2015) at a slightly slower pace than in Q3 2014 (+0.4%). On the one hand, purchases of capital goods are likely to increase, which suggests a slight upturn in balances of opinion on previous sales and order intentions by wholesalers surveyed in the November business tendency survey. On the other hand, purchases of transport equipment are likely to pick up, given the first figures for registrations from Q4.

Fall in construction investment likely to continue

Although entrepreneurs in the building industry surveyed in November described their activity as improving slightly, it still remains very much in decline. The slight rebound in building permits for collective dwellings and the start of work on non-residential buildings in Q3 suggest that investment in building by NFEs could decline less in the course of the coming quarters. However, demand for civil engineering work looks set to fall further. All in all, there is likely to be a further sharp decline in construction expenditure by companies over the coming quarters (-0.9% in Q4 2014 then -0.8% in each quarter in H1 2015).

Investments in services should continue to increase at the same rate

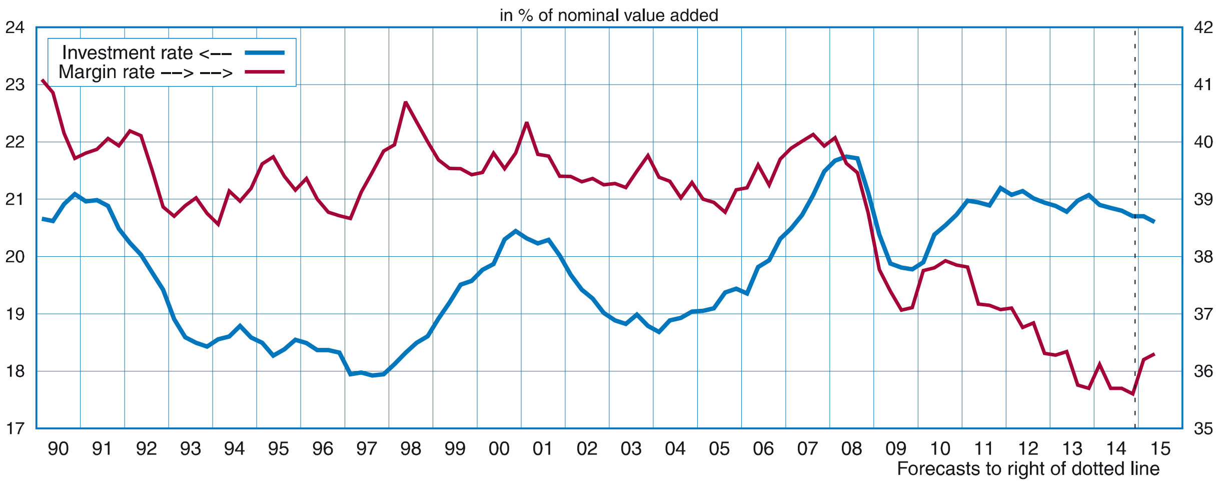
Investments in services, mainly in specialised, scientific and technical activities (including research and development) and in IT services, should progress at a similar rate to their trend in recent years: +0.4% in Q4 2014 and +0.5% per quarter in H1 2015.

Inventory change increased sharply in Q3 2014 but a backlash is likely to see it fall back in Q4

In Q3 2014, inventory change increased sharply, by 0.3 GDP points (*Table 2*). This positive contribution was due mainly to inventory change in transport equipment (+0.5 points), especially aeronautics: this reflects the gap between aeronautical equipment exports, which fell in in Q3, and imports, which were dynamic.

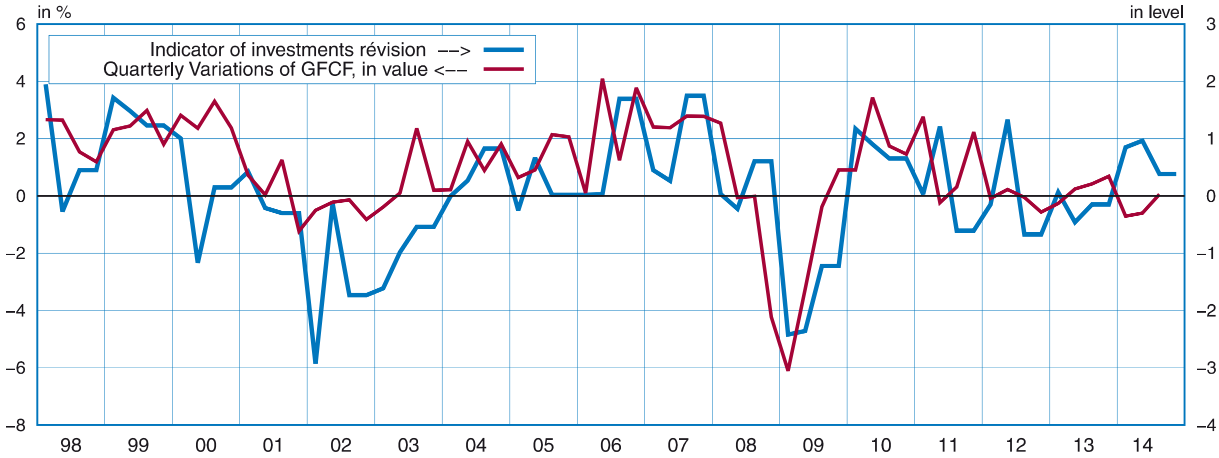
In Q4, this correction of disparities in trade flows in aeronautics stocks is likely to make a negative contribution to growth (-0.2 points). According to the November 2014 monthly business tendency survey in industry, the level of stocks is considered stable and slightly less than normal, which suggests a zero contribution without the after-effects in aeronautics. Across the whole of 2014, companies' stocking-up behaviour will probably have contributed +0.3 points to GDP growth. The contribution of inventory to GDP in H1 2015 is then likely to be zero.■

1 - Investment rate and margin rate*



** Non-financial enterprises =non-financial corporations and unincorporated interprises*
Source: INSEE, quarterly accounts

2 - Investment revision indicator in manufacturing industry



Source: INSEE, quarterly survey on investments in industry, quarterly accounts

Table 2

Contribution of inventory changes to growth (in points of GDP)

in GDP points

	Quarterly changes										Annual changes		
	2013				**2014**				**2015**		**2013**	**2014**	**2015 ovhg**
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**			
Agricultural and agrifood products	**0.0**	**0.1**	**0.0**	**0.0**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**
Manufactured products	0.1	0.0	0.1	-0.2	0.4	-0.1	0.4	-0.3	0.0	0.0	-0.1	0.3	-0.1
including:													
Agro-food products	-0.1	0.1	0.0	0.0	0.1	0.0	0.0						
Coke and petroleum products	0.3	-0.1	-0.1	-0.1	0.2	-0.1	0.1						
Machinery and equipment goods	0.1	-0.1	0.0	0.0	0.0	0.0	0.0						
Transport equipment	-0.1	0.2	0.2	-0.1	-0.1	0.0	0.5						
Others industrial goods	-0.1	-0.2	0.1	0.0	0.3	-0.1	-0.2						
Energy. water and waste	**-0.1**	**0.0**	**0.1**	**-0.1**	**-0.1**	**0.0**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.1**	**0.0**
Others	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
TOTAL [1]	**-0.1**	**0.0**	**0.3**	**-0.3**	**0.4**	**-0.1**	**0.3**	**-0.2**	**0.0**	**0.0**	**-0.2**	**0.3**	**-0.1**

Forecast

(1) Inventory changes include acquisitions net of sales of valuables.

Source: INSEE

International developments