

# Consumer prices

In February 2016, according to provisional estimates, inflation is negative once again (-0.2% year-on-year, after +0.2% in January), essentially due to the drop in energy prices in the wake of the falling price of Brent crude. Through to mid-2016 the fall in energy prices should continue to hinder inflation, which is expected to stand at -0.1% year-on-year in June. Core inflation<sup>1</sup>, for its part, has gradually recovered, rising from +0.3% at the beginning of 2015 to +0.9% in January 2016. It is expected to be virtually stable by mid-2016 (+0.7% in June 2016): the earlier depreciation of the Euro is expected to sustain the prices of imported goods, but the fall in the prices of commodities is expected to continue to spread.

## Inflation expected to remain slightly negative until mid-2016

Since January 2016, a provisional estimate of the consumer price index has been published at the end of the month concerned. This innovation has accompanied the change in base, including some methodological changes, in particular in the calculation of the consumer price index for fresh produce (Box).

In February, according to this provisional estimate, headline inflation is negative once again (-0.2% year-on-year (Graph 1)). The prices of food products (+0.1% year-on-year) and services

(+0.8%) are still increasing at a moderate pace, while those of manufactured goods (-0.2%) and energy products (-6.8%) are falling again.

Between now and June 2016, headline inflation is expected to remain slightly negative (-0.1% year-on-year), with the drop in energy prices continuing to keep it down.

## Energy prices should continue to fall

In February 2016, energy prices fell by 6.8% year-on-year, driven by the drop in the price of Brent crude, and in spite of increases in the taxes on fuels, gas and electricity at the beginning of the year. On the conventional assumption that the price of a barrel of Brent crude will stabilise at around \$40 (€36.4), the fall in energy prices should continue (-5.4% year-on-year in June 2016).

## Moderate increase in the price of food products

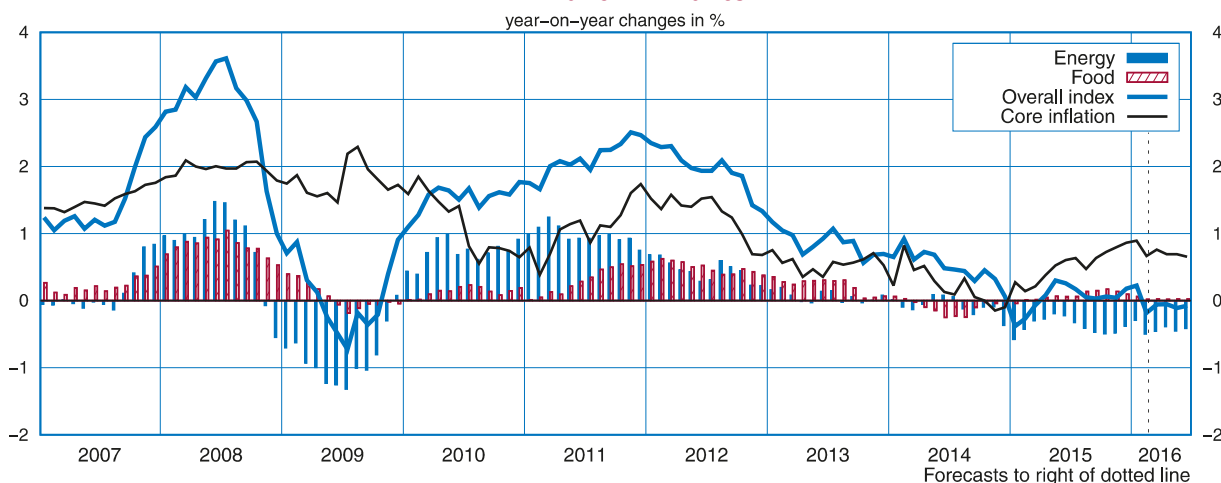
In June 2016, prices of food products should be virtually stable: +0.1% year-on-year, as in February 2016.

Thanks to weather conditions favourable to production at the end of 2015, prices of fresh food should stay steady: +0.4% year-on-year in June, after 0.0% in February 2016.

Food prices (excluding fresh produce) are expected to be held back by falls in the prices of numerous products: those of meat in particular are expected to partly follow the reductions in domestic trading prices. In addition, against a backdrop of a supermarket price war, the earlier depreciation of the

1. The core inflation indicator calculated by INSEE is estimated by excluding the prices of energy, fresh food, public tariffs from the overall index. This indicator is corrected for tax measures and is seasonally-adjusted.

1 - Inflation in France



Source: INSEE

Euro is only likely to have a slight effect on the prices of these products: they are expected to increase by 0.1% year-on-year in June 2016, as in February.

### Prices of manufactured good are expected to fall again

For manufactured goods, the progressive spread of earlier falls in the prices of commodities and the high level of unemployment are expected to continue to limit inflationary pressures. On the other hand, the earlier depreciation of the Euro is likely to continue to bolster the prices of imported goods, in particular electronic goods and household appliances. All in all, prices of manufactured goods are expected to fall by 0.4% year-on-year to June 2016, after -0.2% in February.

Leaving aside month-to-month jolts caused by ever bigger reductions during the sales, clothing and footwear prices are expected to be sustained through to mid-2016 by the increase in textile fibre prices that began at the end of 2014. So they are expected to have risen again year-on-year in June 2016 (+0.3%), after falling back by 0.6% in January.

Furthermore, the fall in prices of healthcare goods is expected to continue until mid-2016 (-3.4% year-on-year to June 2016, after -3.7% in January 2016). This is a result of the moderation measures included in the social security finance bill for 2016.

It is expected to be further accentuated by the decline in the price of spectacles and contact lenses resulting from the 2014 «Consumption» law.

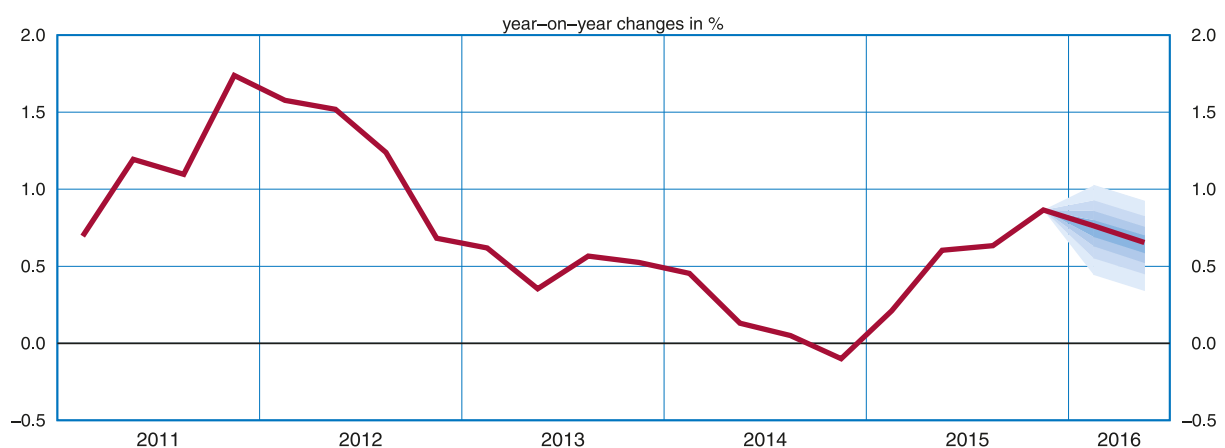
### Prices rises in services expected to remain moderate

After a modest rise in February (+0.8% over one year to +1.1% in January), due to the school holidays in Zone C being moved back, the increase in the prices of services is not expected to be much higher in June (+0.9% year-on-year). This increase should be limited by rents and communication services. Indeed, rents are expected to drop due to the time lag in their indexing to the rent reference index, whilst communications are expected to decrease due to the exit of the February and June 2015 price rises from the year-on-year figures.

### Core inflation expected to be virtually stable

Core inflation has picked up over the last year, reaching +0.9% in January 2016 against +0.3% a year earlier (*Table*). In particular, there has been a rise in the cost of imported goods which was the result of the earlier depreciation of the Euro. By mid-2016, core inflation is expected to virtually stabilise (+0.7% in June 2016). The likelihood of core inflation being below +0.4% in June 2016 is estimated at about 20% (*Graph 2*). ■

## 2 - The core inflation forecast for France and risks around the forecast



How to read it: the fan chart plots 80% of the likely scenarios around the baseline forecast. The first and darkest band covers the likeliest scenarios around the baseline, which have a combined probability of 20%. The second band, which is a shade lighter, comprises two sub-bands just above and just below the central band. It contains the next most likely scenarios, raising the total probability of the first two bands to 40%. We can repeat the process, moving from the centre outwards and from the darkest band to the lightest, up to a 80% probability.

Source: INSEE

## French developments

### Consumer prices

changes as %

CPI* groups (2016 weightings)	December 2015		January 2016		February 2016		June 2016		Annual averages	
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	2014	2015
<b>Food (16.2%)</b>	<b>0.6</b>	<b>0.1</b>	<b>0.4</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>	<b>-0.6</b>	<b>0.5</b>
including:										
fresh food (2.2%)	3.1	0.1	1.8	0.0	0.0	0.0	0.4	0.0	-4.1	5.3
excluding:										
fresh food (14.0%)	0.2	0.0	0.2	0.0	0.1	0.0	0.1	0.0	-0.1	-0.2
<b>Tobacco (2.0%)</b>	<b>0.3</b>	<b>0.0</b>	<b>0.3</b>	<b>0.0</b>	<b>0.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>5.2</b>	<b>0.3</b>
<b>Manufactured products (26.5%)</b>	<b>-0.3</b>	<b>-0.1</b>	<b>-0.1</b>	<b>0.0</b>	<b>-0.2</b>	<b>-0.1</b>	<b>-0.4</b>	<b>-0.1</b>	<b>-0.9</b>	<b>-0.9</b>
including:										
clothing and footwear (4.1%)	-0.3	0.0	-0.6	0.0	-0.6	0.0	0.3	0.0	0.0	-0.9
medical products (4.7%)	-4.0	-0.2	-3.7	-0.2	-3.7	-0.2	-3.4	-0.2	-2.8	-3.5
other manufactured products (17.7%)	0.6	0.1	0.6	0.1	0.4	0.1	0.2	0.0	-0.6	-0.3
<b>Energy (7.7%)</b>	<b>-4.7</b>	<b>-0.4</b>	<b>-3.8</b>	<b>-0.3</b>	<b>-6.8</b>	<b>-0.5</b>	<b>-5.4</b>	<b>-0.4</b>	<b>-0.9</b>	<b>-4.7</b>
including:										
oil products (4.2%)	-9.7	-0.4	-7.4	-0.3	-12.9	-0.5	-10.2	-0.4	-4.2	-10.8
<b>Services (47.7%)</b>	<b>1.1</b>	<b>0.5</b>	<b>1.1</b>	<b>0.5</b>	<b>0.8</b>	<b>0.4</b>	<b>0.9</b>	<b>0.4</b>	<b>1.7</b>	<b>1.2</b>
including:										
rent-water (7.7%)	0.7	0.1	0.6	0.0	0.6	0.0	0.5	0.0	1.5	0.9
health services (6.0%)	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.5
transport (2.8%)	-1.2	0.0	-1.7	0.0	-2.4	-0.1	-1.4	0.0	1.8	0.9
communications (2.5%)	1.8	0.0	1.0	0.0	0.1	0.0	-0.9	0.0	0.2	1.2
other services (28.8%)	1.6	0.5	1.7	0.5	1.5	0.4	1.6	0.5	2.2	1.5
<b>All (100%)</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.1</b>	<b>-0.1</b>	<b>0.5</b>	<b>0.0</b>
All excluding energy (92.3%)	0.6	0.6	0.6	0.6	0.4	0.4	0.4	0.4	0.6	0.5
All excluding tobacco (98.1%)	0.2	0.2	0.2	0.2	-0.2	-0.2	-0.1	-0.1	0.4	0.0
<b>Core inflation (60.8%)<sup>1</sup></b>	<b>0.9</b>	<b>0.5</b>	<b>0.9</b>	<b>0.5</b>	<b>0.7</b>	<b>0.4</b>	<b>0.7</b>	<b>0.4</b>	<b>0.2</b>	<b>0.5</b>

Provisional

Forecast

yoy : year-on-year

cyoy : contribution to the year-on-year value of the overall index

\*Consumer price index (CPI)

1. Index excluding public tariffs and products with volatile prices, corrected for tax measures.

Source: INSEE

## A brand new base for the Consumer Price Index

Since January 2016 the Consumer Price Index (CPI) has switched to the "2015 base", updating from the "1998 base". This is first and foremost a change of reference year. The consumer price index is calculated with reference to a base year whose average level is fixed at 100. From January 2016 onwards, this reference year will be 2015. The mean value of the price index for the year 2015 is thus defined as 100. A change of base also serves as an opportunity to introduce certain methodological changes, while alerting users to the potential breaks in series that such changes may induce.

### The change of base for the CPI provides an opportunity to obtain more detailed results

The CPI is calculated and published using a double classification system. On the one hand, for the purposes of short-term forecasting, the CPI covers the specific categories used in economic analysis (food, energy, tobacco, manufactured goods, services etc.). This classification remains unaffected by the change of calculation base.

On the other hand, the CPI is also calculated using a classification of different household needs or "consumption purposes", the COICOP or Classification of Individual Consumption by Purpose, which goes into great detail. Previously, this classification was standardised by the UN and organised by Eurostat in

such a way that household consumption was broken down into 86 groupings corresponding to three levels of disaggregation. For the purposes of the French CPI, INSEE added two further levels of disaggregation to arrive at 161 groupings covered by a monthly publication, and 306 items included in the yearly publication.

In order to facilitate cross-comparison of the various European HICPs, Eurostat has introduced a fourth level of disaggregation which applies to all Member States of the European Union. During the change of base, the French CPI has been updated to incorporate this fourth, harmonised level of disaggregation which is more detailed than before: 256 groupings are now tracked every month by the CPI.

Backcasting, using the most detailed data collected under the previous base, serves to construct long series stretching back to 1990 for the majority of these data series.

### The sample of agglomerations in which prices are measured has been updated

In order to calculate the consumer price index, INSEE price collectors record almost 200,000 prices each month in different retail outlets, with 180,000 more prices recorded centrally in our offices.

The INSEE price collectors measure prices in a sample of urban units deemed to be representative of France's consumption habits and locations. For reasons of

practical organisation in the field, and because the distribution of consumption across the country changes slowly, the geographical make-up of the sample generally remains unchanged throughout the lifetime of a base. For example, the sample of urban units monitored under the 1998 base was constructed using the 1990 census, the most recent census available when the previous base was introduced. The sample of urban units surveyed has been updated for the 2015 base. The relative weight of small towns (urban units with fewer than 20,000 inhabitants) has been increased, as has that of the Paris agglomeration.

The change of base also provided an opportunity to optimise the number of price collections per category, in order to increase the accuracy of the index. The number of food product prices collected has been increased, while the number of price collections in the clothing category has been reduced.

### The method used to calculate the indices for fresh food has been improved

In the 1998 base, the method used to calculate the fresh food index was different from that used for other food categories, in order to take the seasonality of these products into account: an index known as the "Rothwell index" was used to change the sample basket of fresh food from one month to the next, while the basket used for other products included in the CPI remained unchanged throughout the year. However, the monthly make-up of the fresh food basket and the monthly weighting of these products were both fixed for the whole lifetime of the base, while the weightings assigned to other products in the CPI were revised each year. For example, the Rothwell index allowed us to include strawberries in the overall index, but only in the months in which they were available; nonetheless, new categories of fruit which were not widely consumed in 1998, for example organic fruit, were not covered by the index because the variable basket of fresh food products could not be updated during the lifetime of the base.

In the 2015 base, used from 2016 onwards, the Rothwell method has been abandoned. Fresh food products are now aggregated like other products. Their seasonalities are treated in the same way as those of other seasonal

goods: variations in the prices of fresh fruits outside of their relevant season are imputed based on the changes in prices for fresh fruit in general. Henceforth, the sample basket of fresh food products can be updated during the base, in order to be adjusted to the changing consumption habits of French households.

In practice, using a method similar to that used for other varieties of products does not lead to any shift in the fresh food index over the long term, as we can see from the simulations generated ahead of the change of base. However, the new treatment of fresh food products will have an impact on the seasonal variability of the index: year-on-year comparisons of fresh food products will be affected in 2016, because for the years prior to 2016 the figures calculated using the 2015 base have been aggregated using the Rothwell method.

### The change of base also allows the use of updated sources

The weightings used in the CPI were entirely updated for the change of base (see Table). In order to aggregate the detailed indices at variety level and calculate an overall consumer price index, a system of weighting is required. This system is updated annually and calibrated with data from the national accounts, when such data is available in sufficient detail.

The change of base provided an opportunity to completely recalibrate the weightings used in the 2010-base national accounts, thoroughly revising the table used to make the transition from the national accounts data (classified by product) to the classification by purpose required for the CPI.

When the national accounts do not provide sufficiently detailed information, other sources are used. This applies particularly to price indices for the overseas departments, and the indices by household category, which now use data from the most recent Household Budget Survey (2011).

The change of base has included other methodological modifications, which may affect the seasonality of certain indices: for example, in categories such as accommodation services or passenger transport by sea, the use of online price collection robots provides better tracking of variations in supply and prices throughout the course of each month. ■

### CPI weightings by major category of consumption

CPI groups	in %	
	1998 base	2015 base
	2015	2016
<b>Food</b>	<b>16.6</b>	<b>16.2</b>
fresh food	2.1	2.2
excluding fresh food	14.5	14.0
<b>Tobacco</b>	<b>2.0</b>	<b>2.0</b>
<b>Manufactured products</b>	<b>25.8</b>	<b>26.5</b>
clothing and footwear	4.4	4.1
medical products	4.3	4.7
other manufactured products	17.2	17.7
<b>Energy</b>	<b>8.2</b>	<b>7.7</b>
including oil products	4.2	4.2
<b>Services</b>	<b>47.4</b>	<b>47.7</b>
rent, water and waste	7.7	7.7
health services	5.7	6.0
transports	2.7	2.8
communication services	2.4	2.5
other services	29.0	28.8
<b>All</b>	<b>100.0</b>	<b>100.0</b>

Source: INSEE

# Wages

In 2015, the average nominal wage per capita in the market sectors is expected to increase, as in 2014 (+1.6% as an annual average), while the basic monthly wage slowed slightly (+1.2% as an annual average after +1.4% in 2014). Since prices have remained virtually unchanged, wages are likely to increase almost identically in real terms and nominal terms (+1.7% in 2015 after +1.6% in 2014 for the average wage per capita).

In H1 2016, the average nominal wage per capita is expected to slow slightly (+0.5% half-year on half-year after +0.7% in H2 2015) as a result of the earlier fall in inflation and the increase in the minimum wage on 1st January 2016 (+0.6%), which was less than in previous years. Since prices are expected to remain stable in H1 2016, wages are likely to increase at the same pace in real and nominal terms.

In general government, the average nominal wage per capita is expected to accelerate in 2015 due to statutory measures, but its growth is likely to be lower than in the private sector. The carry-over effect at midyear for 2016 is expected to reach +0.6%, after +0.7% one year earlier. Real wages are expected to increase at the same pace as one year earlier (+0.7%).

**In 2015, the average wage per capita is expected to see the same increase as in 2014**

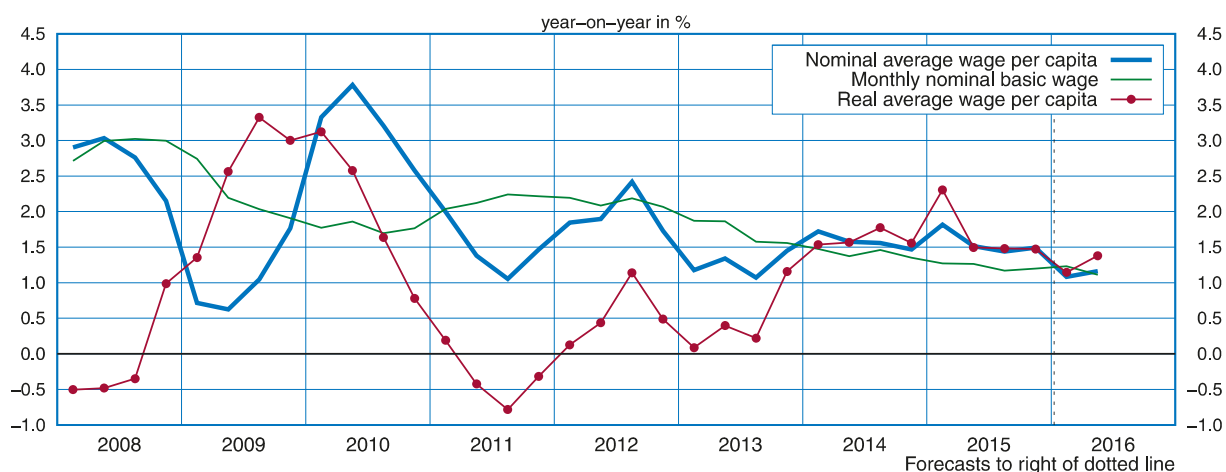
In 2015, the basic monthly wage<sup>1</sup> in the non-agricultural market sectors slowed once again: +1.2% as an annual average after +1.4% in 2014 and +1.7% in 2013 (Table). However, the average wage per capita, which covers a broader scope of remunerations (bonuses, profit-sharing, overtime payments), should increase as it did in 2014 (+1.6%), despite low inflation and high unemployment which adversely affect employee bargaining power.

In 2015, as in 2014, wage rises are expected to be virtually identical in real terms since prices are set to remain almost unchanged:<sup>2</sup> +1.7% in 2015 after +1.6% in 2014 for the average wage per capita; +1.3% in 2015 after +1.4% in 2014 for the basic monthly wage.

1. For a definition of *basic minimum wage* and *nominal average wage per capita*, see "Economic Outlook terminology" on the insee.fr website.

2. Inflation is measured here by the variation in household consumer prices, provided by the quarterly national accounts.

**Change in the nominal and real average wage per capita and basic wage**



Scope: non-agricultural market sector  
Sources: INSEE, Dares, Acoss

In H1 2015, the rise in the average wage per capita (+0.8% half-year on half-year; *Graph*) was driven by the large amounts in bonuses, profit-sharing and shares given out at the beginning of the year. In H2, the average nominal wage per capita is likely to slow very slightly to +0.7%, a rate more in line with its main determinants.

However, due to the nominal wage rigidities and the fall in prices (-0.2% over the half year), the purchasing power of the average wage per capita appears to have increased more rapidly in H2 2015 (+0.9%) than in H1 (+0.6%).

### Nominal wages set to slow slightly at the start of 2016

At the beginning of 2016, the increase in the minimum wage was a little lower (+0.6% on 1<sup>st</sup> January) than one year earlier (+0.8%), inflation (0.0% expected half-year on half-year) was kept low by energy prices, and unemployment remained high. As a result, the average nominal wage per capita is expected to slow again in H1 2016 (+0.5% after +0.7%). It is also likely to slow in real terms: +0.5% in H1 2016 after +0.9% in H2 2015.

By mid-2016, the annual carry-over effect of the nominal average wage per capita should settle at +0.9% compared with +1.3% one year earlier. In real terms, the slowdown is likely to be similar: +1.0% compared with +1.4% one year earlier.

### In the civil service, wages are likely to increase moderately once again

In general government, the index point has been frozen since 1<sup>st</sup> July 2010. However, the civil servants' purchasing power guarantee scheme was renewed for 2015 and new salary scales came into force on 1<sup>st</sup> January 2015, raising the index for the entry-level grades of certain categories of local government employees. In 2015, the average wage per capita in general government is therefore expected to accelerate in nominal terms: +0.8% after +0.2% in 2014. It is likely to increase with a similar momentum in real terms (+0.9% after +0.2%), as inflation is very low.

The October 2015 agreement on "professional career paths, careers and remunerations" is not expected to have any effect in H1 2016 as pay rises will mainly be given by converting bonuses into index points. All in all, assuming that there will be no increase in the index point for H1 2016, the annual carry-over effect of the average wage per capita is expected to reach +0.6% in nominal terms by mid-2016, against +0.7% one year earlier. The purchasing power of civil servants' wages is therefore likely to increase moderately (+0.7% annual carry-over effect at mid-year, the same as one year earlier), and prices are expected to remain stable. ■

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

Seasonally-adjusted data	Quarterly growth rates						Annual averages		
	2015				2016		2014	2015	2016
	Q1	Q2	Q3	Q4	Q1	Q2			
Basic monthly wage	0.3	0.3	0.3	0.3	0.3	0.2	1.4	1.2	0.9
Average wage per capita in the non-agricultural market sector (NAMS)	0.8	0.0	0.2	0.4	0.4	0.1	1.6	1.6	0.9
Average wage per capita in general government (GG)							0.2	0.8	0.6
Household consumer price index (quarterly national accounts)	-0.1	0.3	-0.2	0.0	-0.2	0.2	0.0	-0.1	-0.1
Real basic monthly wage	0.4	0.0	0.5	0.3	0.5	0.0	1.4	1.3	1.0
Real average wage per capita (NAMS)	0.9	-0.3	0.5	0.4	0.6	-0.1	1.6	1.7	1.0
Real average wage per capita (GG)							0.2	0.9	0.7

Forecast  
Sources: Dares, INSEE

# Household income

In 2015, the purchasing power of household income picked up, and looks to have risen by +1.7% after +1.1% in 2014. This upturn stems from households' gross disposable income (+1.6% after +1.1% in 2014), as prices are virtually unchanged. This is due mainly to the slowdown in taxes and social contributions (+1.6% after +2.0% in 2014); earned income, on the other hand, is likely to pick up slightly (+1.5% after +1.4%), whereas social benefits look set to slow (+1.8% after +2.3%).

At the start of 2016, earned income is unlikely to weaken but taxes and social contributions should increase a little more quickly due to new measures to increase their yield. All in all, thanks to the drop in prices, purchasing power is likely to pick up once again in Q1 2016 (+0.8% after +0.2% in Q4 2015) before stabilising in Q2. By mid-2016, the increase should stand at 1.7% over the year.

## Earned income should continue to rise at the start of 2016

Across the whole of 2015, households' earned income is expected to accelerate slightly (+1.5% after +1.4% in 2014, *Table 1*). Employment in the non-agricultural market sectors stabilised (0.0% after -0.2% in 2014, *Graph 1*), and the average wage per capita is likely to increase at the same pace as in 2014 (+1.6%). All in all, gross wages received by households are expected to increase with virtually the same momentum as in 2014 (+1.6% after +1.4%, *Table 2*). The income of the self-employed is also set to bounce back (+0.5% after -0.3% in 2014) as their activity has picked up. In H1 2016, earned income looks set to increase as it did in H2 2015 (+0.8%), due to a further rise in employment and wages.

In 2015, net property income should rebound sharply (+1.5% after -2.2% in 2014) and the gross operating surplus of pure households<sup>1</sup> should accelerate (+1.8% after +0.6%): borrowing households in particular benefitted from the drop in interest rates in 2015, as a result of extensive renegotiations of housing loans rates.

1. In the national accounts, the gross operating surplus of pure households takes account, among other things, of housing services: the added value is the difference between the rent (actually paid by tenants or imputed for home owners) and the intermediate consumption of the owners, notably banking margins on real-estate loans.

**Breakdown of the total gross wages received by households in the competitive non-agricultural sector**



Source: INSEE

### Social benefits expected to increase at the same pace

In 2015, social benefits in cash are expected to increase less than in 2014 (+1.8% after +2.3%, *Table 3*), especially Social Security benefits (+1.5% after +2.3%). Family benefits are even expected to have declined on average over the year, as a result of measures to modulate family allowances for well-off families from July 2015, and in the absence of any increase throughout the year. Old-age insurance benefits have also contributed to this slowdown: pension increases were small, against a backdrop of almost zero inflation, and long-career retirements<sup>2</sup> slowed. Social assistance benefits, on the other hand, look set to rise in 2015 (+3.6%) at a similar pace to 2014 (+3.7%), buoyed by earned income supplement payments (RSA<sup>3</sup>), which are still dynamic.

In H1 2016, social benefits should increase at the same pace as in H2 2015 (+0.8%). Growth in family benefits is likely to return closer to trend, after a downturn in 2015. However, delays in benefit revaluations are likely to curb any rise in benefits in 2016: the RSA is to be increased on 1<sup>st</sup> April instead of 1<sup>st</sup> January, and supplementary pensions paid by the AGIRC and the ARRCO on 1<sup>st</sup> November instead of 1<sup>st</sup> April. On 1<sup>st</sup> January 2016, the employment bonus and the activity RSA merged to create the new "activity bonus". For all households, and assuming at this stage that half of potential beneficiaries apply, the amounts

awarded for this bonus overall in 2016 are expected to be equivalent to the activity RSA and the employment bonus combined.

### Taxes and social contributions set to accelerate at the start of 2016

Across the whole of 2015, taxes and social contributions paid by households are likely to slow (+1.6% after +2.0% in 2014). In particular, the lowest-earning households benefitted from new measures to reduce their taxes (abolition of the first income tax bracket and adjustment of tax relief).

As every year, measures relating to taxes on income and wealth that have been decided for 2015 affect the quarterly tax profile in H2. Because of the income tax reductions benefitting less well-off households, households' income tax and wealth tax decreased in Q3 (-1.1%), but are likely to pick up in Q4 (+1.9%). The increase in local residence tax rates voted by local authorities looks set to further amplify the rebound of contributions at the end of the year. In reaction to this, a slight downturn is expected in Q1 2016 (-0.2%). Taxes are likely to see growth that is more in line with their usual trend in Q2 (+1.2%).

2. The conditions for long-career retirement were relaxed in July 2012.  
3. In 2015, as in the two previous years, the RSA scale was increased by 2% on 1st September (in addition to the revision on 1st January), in accordance with the December 2012 initiative to combat poverty and promote social inclusion.

Table 1

#### Household gross disposable income

	2014				2015				2016		2014	2015	2016 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
<b>Gross disposable income (100%)</b>	0.9	0.2	0.4	0.1	0.9	0.1	0.6	0.2	0.5	0.2	1.1	1.6	1.1
including :													
Earned income (70%)	0.4	0.2	0.2	0.3	0.7	0.1	0.4	0.4	0.5	0.3	1.4	1.5	1.2
Gross wages and salaries (62%)	0.5	0.3	0.3	0.3	0.7	0.2	0.4	0.4	0.5	0.2	1.6	1.6	1.2
GOS of sole proprietors <sup>1</sup> (8%)	0.2	-0.5	0.0	-0.1	0.6	-0.3	0.3	0.3	0.6	0.4	-0.3	0.5	1.3
Social benefits in cash (35%)	0.6	0.3	1.0	0.5	0.3	0.3	0.3	0.5	0.4	0.4	2.3	1.8	1.3
GOS of "pure" households (13%)	0.2	0.1	0.3	0.5	0.6	0.3	0.4	0.7	0.5	0.4	0.6	1.8	1.6
Property income (8%)	-1.2	-0.2	-1.0	-0.2	0.7	1.1	0.9	0.9	0.2	0.7	-2.2	1.5	2.1
Social contributions and taxes (-27%)	-1.6	0.3	0.3	1.4	-0.6	0.9	-0.3	1.4	0.1	1.0	2.0	1.6	2.1
Contributions of households (-11%)	2.0	0.8	0.3	0.0	0.5	1.0	0.9	0.8	0.7	0.6	3.0	2.3	2.4
Income and wealth tax (including CSG and CRDS) (-16%)	-3.9	0.0	0.2	2.4	-1.3	0.9	-1.1	1.9	-0.2	1.2	1.4	1.2	1.8
Income before taxes	0.2	0.2	0.4	0.4	0.6	0.2	0.3	0.4	0.4	0.3	1.1	1.5	1.2
<b>Household consumer prices (quarterly national accounts)</b>	0.3	-0.1	-0.2	0.0	-0.1	0.3	-0.2	0.0	-0.2	0.2	0.0	-0.1	-0.1
<b>Purchasing power of gross disposable income</b>	0.6	0.3	0.6	0.1	1.0	-0.3	0.8	0.2	0.8	0.0	1.1	1.7	1.2
<b>Household purchasing power by consumption</b>	0.5	0.2	0.5	0.0	0.9	-0.4	0.7	0.1	0.6	-0.1	0.7	1.3	0.8

Forecast

How to read it: The figures in parentheses give the structure of the year 2014.

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



## French developments

Furthermore, household contributions are likely to increase strongly again in H1 2016 (+1.3% after +1.7%) due to the increase in pension contribution rates.<sup>4</sup>

All in all, taxes and social contributions are likely to increase by 1.1% in H1 2016, a slightly larger increase than that in household pre-tax income (+0.8%).

### In H1 2016, purchasing power should see strong growth once again

Households' nominal gross disposable income (GDI) appears to have increased more in 2015 (+1.6%) than in 2014 (+1.1%). Over the same

period, prices remained virtually unchanged. As a result, the purchasing power of GDI accelerated and is expected to rise by +1.7% in 2015 (after +1.1% in 2014), the highest rise since 2007. When adjusted to individual level in order to take demographic changes into account, purchasing power per consumption unit also looks set to pick up in 2015 (+1.3% after +0.7% in 2014).

With low inflation, purchasing power is likely to grow at virtually the same pace in H1 2016 (+0.8%) as in H2 2015 (+1.0%). Year-on-year, purchasing power looks set to increase by 1.7% in Q2 2016 (against +1.4% mid-2015). ■

4. The contribution rate increased by 0.05 points for employees in the private sector and by 0.4 points for civil servants on 1st January 2016. However, the rate for farmers fell by 7 points.

**Table 2**  
**From the payroll of non-financial enterprises to that received by households**

	2014				2015				2016		2014	2015	2016 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Non-financial enterprises (67%)	0.5	0.3	0.2	0.3	0.8	0.1	0.4	0.4	0.5	0.2	1.5	1.6	1.3
including: Average wage per capita	0.5	0.3	0.3	0.4	0.8	0.0	0.2	0.4	0.4	0.1	1.6	1.5	0.8
Financial corporations (5%)	-0.1	0.1	0.0	0.7	0.6	0.9	0.6	0.2	0.8	0.5	0.1	2.1	1.8
General government (22%)	0.5	0.4	0.5	0.4	0.3	0.2	0.2	0.2	0.3	0.3	1.7	1.3	0.8
Households excluding sole proprietors (2%)	0.0	0.7	-0.1	-1.5	-0.4	0.3	-0.1	0.3	0.0	0.0	0.3	-1.2	0.3
<b>Total gross wages received by households (100%)</b>	<b>0.5</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.7</b>	<b>0.2</b>	<b>0.4</b>	<b>0.4</b>	<b>0.5</b>	<b>0.2</b>	<b>1.6</b>	<b>1.6</b>	<b>1.2</b>
including: Non-agricultural market sectors	0.4	0.2	0.2	0.3	0.8	0.1	0.3	0.5	0.5	0.2	1.4	1.6	1.3

Forecast

How to read it: The figures in parentheses give the structure of the year 2014.

Source: INSEE

**Table 3**  
**Social transfers received and paid by households**

	2014				2015				2016		2014	2015	2016 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
<b>Social cash benefits received by households (100%)</b>	<b>0.6</b>	<b>0.3</b>	<b>1.0</b>	<b>0.5</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>	<b>2.3</b>	<b>1.8</b>	<b>1.3</b>
Social Security benefits in cash (72%)	0.5	0.2	1.1	0.4	0.2	0.2	0.2	0.5	0.5	0.4	2.3	1.5	1.3
Other social insurance benefits (20%)	0.5	0.5	0.7	0.7	0.5	0.3	0.4	0.5	0.4	0.3	2.0	2.0	1.3
Social assistance benefits in cash (8%)	0.9	1.1	1.3	0.8	0.7	1.0	0.9	0.6	0.2	0.9	3.7	3.6	2.1
<b>Total social contribution burden by households (100%)</b>	<b>1.4</b>	<b>0.5</b>	<b>0.3</b>	<b>0.3</b>	<b>0.1</b>	<b>0.6</b>	<b>0.7</b>	<b>0.7</b>	<b>0.6</b>	<b>-0.4</b>	<b>2.5</b>	<b>1.6</b>	<b>1.3</b>
Actual social contributions paid	1.5	0.5	0.2	0.3	0.0	0.7	0.8	0.7	0.6	-0.5	2.6	1.6	1.3
including: Employers contributions <sup>1</sup> (63%)	1.3	0.3	0.2	0.5	-0.2	0.5	0.7	0.7	0.5	-1.2	2.4	1.2	0.6
Contributions of households (37%)	2.0	0.8	0.3	0.0	0.5	1.0	0.9	0.8	0.7	0.6	3.0	2.3	2.4

Forecast

How to read it: The figures in parentheses give the structure of the year 2014.

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 Q4 2015, household consumption fell back (–0.2% after +0.5%), with a notable decline in spending on energy, engineered goods and accommodation and food services.

In Q1 2016, consumption should rebound (+0.8%). Energy expenditure should pick back up as temperatures return to their seasonal norms. Purchases of manufactured goods should recover, with spending on household equipment given a boost by the change in television broadcasting formats in early April, and a rebound in expenditure on clothing and cars. Finally, consumption of services should pick up pace, particularly since spending on accommodation and food services is not expected to decline any further. In Q2 2016 household consumption should remain steady (+0.4%), bolstered by increases in purchasing power. Purchasing power picked up noticeably in 2015 (+1.7%) and should continue to grow vigorously in H1 2016. Only a part of this purchasing power increase is likely to be allocated to consumption, leading to an increase in the savings ratio, expected to be higher in mid-2016 (15.3%) than it was last year (15.1%).

Finally, the slump in the number of building permits issued since autumn 2015 points to a further decline in household investment in early 2016, albeit a limited one.

## In Q4 2015 consumption fell, particularly spending on energy and engineered goods

In Q4 2015, household consumption slipped back (–0.2% after +0.5%, *Table*), particularly consumption of goods (–0.5% after +0.7%) due to a downturn in expenditure on energy (–2.4% after +1.7%) clothing (–3.2% after +2.2%) and, to a lesser extent, cars (–0.7% after +0.4%).

The slowdown in energy consumption is explained in large part by the fall in heating expenditure as a result of the exceptionally mild temperatures in November and December, whereas September and October had been fairly cold compared with the seasonal averages. The decline in clothing expenditure is also partly a result of the mild autumnal temperatures, which affected sales of winter clothes. However, expenditure on food picked up again (+0.4% after –0.1%).

As for services, consumption of accommodation and food services declined (–0.8%) as a result of the fears aroused by the terrorist attacks of 13<sup>th</sup> November (see Focus); this has had a negative impact on market services in general (+0.1%).

## Household consumption and investment expenditure

	Quarterly changes in %										Annual changes in %		
	2014				2015				2016		2014	2015	2016 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
<b>Total household consumption expenditures (B+S)</b>	–0.5	0.3	0.4	0.4	0.7	0.0	0.5	–0.2	0.8	0.4	0.6	1.4	1.2
Tourism balance	–13.2	–14.5	–27.2	–6.9	18.5	0.8	2.6	–3.5	–6.3	6.3	–40.6	–9.3	–3.1
<b>Services (S)</b>	0.0	0.0	0.2	0.3	0.3	0.2	0.2	0.1	0.3	0.4	0.7	1.0	0.8
<b>Goods (G)</b>	–1.3	0.5	0.2	0.4	1.2	–0.2	0.7	–0.5	1.3	0.4	–0.2	1.8	1.6
including:													
<b>Food (AZ-C1)</b>	–1.1	0.5	0.1	0.3	0.2	0.7	–0.1	0.4	0.5	0.2	0.2	1.1	1.1
Agriculture goods (AZ)	–0.5	1.4	–1.3	–1.4	–0.9	0.4	–1.0	–0.5	0.5	0.2	2.0	–2.5	–0.1
Agri-food products (C1)	–1.2	0.3	0.3	0.6	0.4	0.7	0.1	0.6	0.5	0.2	–0.2	1.8	1.3
<b>Energy (DE-C2)</b>	–4.8	2.0	0.3	–1.2	3.6	–2.5	1.7	–2.4	0.8	0.9	–5.7	1.7	–0.2
Energy, water, waste (DE)	–7.3	3.1	0.7	–3.3	7.9	–4.5	1.5	–2.2	1.6	1.5	–8.9	2.9	0.5
Coke and refined petroleum (C2)	–2.0	0.9	–0.2	1.0	–0.8	–0.1	1.8	–2.5	–0.1	0.0	–2.1	0.3	–1.1
<b>Engineered goods (C3-C5)</b>	–0.1	–0.2	0.3	1.1	1.2	0.0	1.0	–0.5	2.2	0.4	1.9	2.5	2.6
<b>Manufactured goods (C1-C5)</b>	–0.7	0.1	0.3	0.9	0.7	0.3	0.7	–0.3	1.3	0.3	0.6	2.0	1.8
<b>Investment expenditure</b>	–1.9	–1.4	–1.1	–0.5	–0.7	–1.1	–0.6	–1.0	–0.5	–0.4	–5.3	–3.3	–2.2

Forecast

Source: INSEE

## French developments

### In H1 2016, consumption should pick up again

Overall household consumption should bounce back in Q1 2016: +0.8% after -0.2% (*Graph 1*).

Purchases of goods should pick back up thanks to a clear recovery in the consumption of manufactured goods (+1.3% after -0.3%). Consumption of household equipment should receive a boost from the changeover in television broadcasting formats;<sup>1</sup> automobile sales should pick up after two sluggish quarters; finally, spending on clothing should grow again after a sharp decrease. Food consumption should gather pace, boosted by the fact that Easter comes early this year. On the assumption that temperatures should be close to their seasonal averages in Q1, household spending on energy should bounce back (+0.8% after -2.4%), particularly on gas and electricity (+1.6% after -2.2%). Furthermore, overall consumption of services should get stronger (+0.3% after +0.1%), especially since the decline in accommodation and food services expenditure should come to an end.

In Q2 2016, household consumption should remain robust (+0.4%), sustained by increases in purchasing power. Consumption of accommodation and food services and transport should receive a clear boost when France hosts the Euro 2016 tournament. This event could also enhance the impact of the changeover in television broadcasting formats on purchases of communication equipment. However, spending on food, clothing and cars should slow down.

1. The standard television broadcasting format will change on 5 April 2016. This changeover will render certain equipment obsolete, requiring an upgrade or the purchase of a new TNT-HD box; the effect could be similar in magnitude to that seen when terrestrial television switched to all-digital broadcasting in 2010.

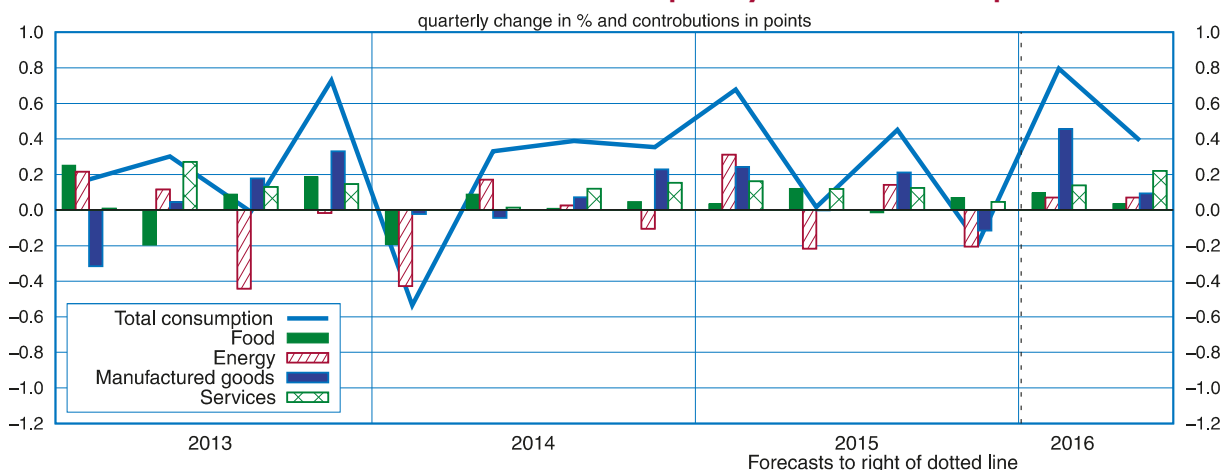
### In mid-2016 the savings ratio should stand at 15.3%, slightly up year-on-year

In 2015 household consumption grew by 1.4% as an annual average, hence at a slightly slower pace than purchasing power (+1.7%). The household savings ratio thus increased again, from an average of 15.1% in 2014 to 15.4% in 2015 (*Graph 2*). The ratio varies considerably from quarter to quarter as a result of the seasonally-dependent nature of heating consumption, and because households smooth their consumption in response to fluctuations in their purchasing power. In Q4 2015, purchasing power is expected to have declined less substantially than consumption. The savings ratio is therefore likely to have risen to 15.7%, up by 0.3 points since Q3 to reach its highest level since spring 2012. In H1 2016, consumption and purchasing power should grow at a similar rate; the household savings ratio should thus remain stable and stand at 15.3% in mid-2016, i.e. 0.2 points higher than at the same time a year before.

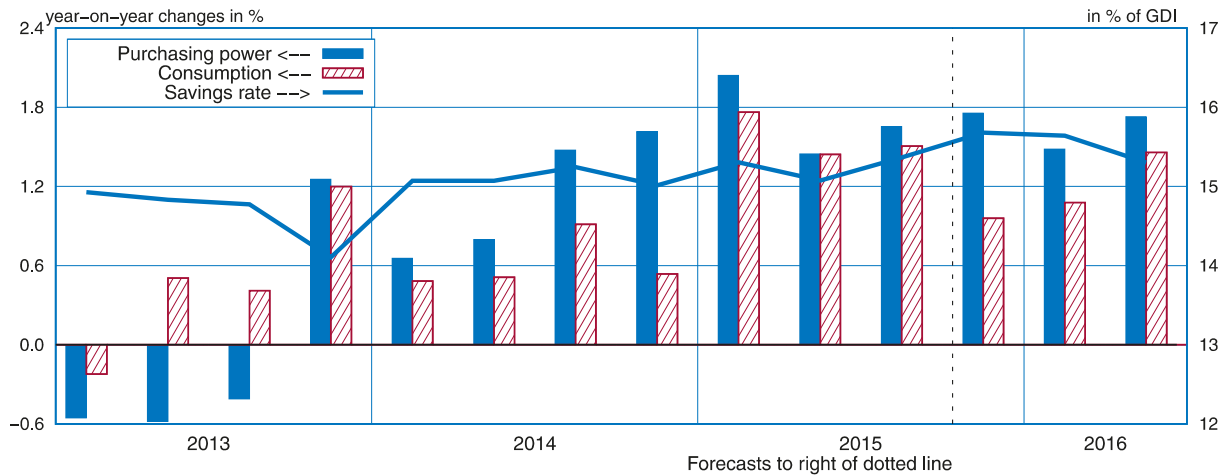
### Household investment set to decline once again

In Q4 2015, household investment once again slipped back (-1,0%), for the tenth consecutive quarter. The number of authorised housing starts declined once more at the end of 2015 (*Graph 3*) after rising in spring and summer. Assuming it stabilises and bearing in mind the usual time lags between authorisations and actual construction work, household investment is likely to continue declining in H1 2016, albeit more moderately. As an annual average, household investment declined less in 2015 (-3.3%) than in 2014 (-5.3%), and the slump should be further attenuated in H1 2016, with a mid-year growth overhang of -2.2%, against -2.8% one year earlier. ■

1 - Contributions of the various items to quarterly household consumption

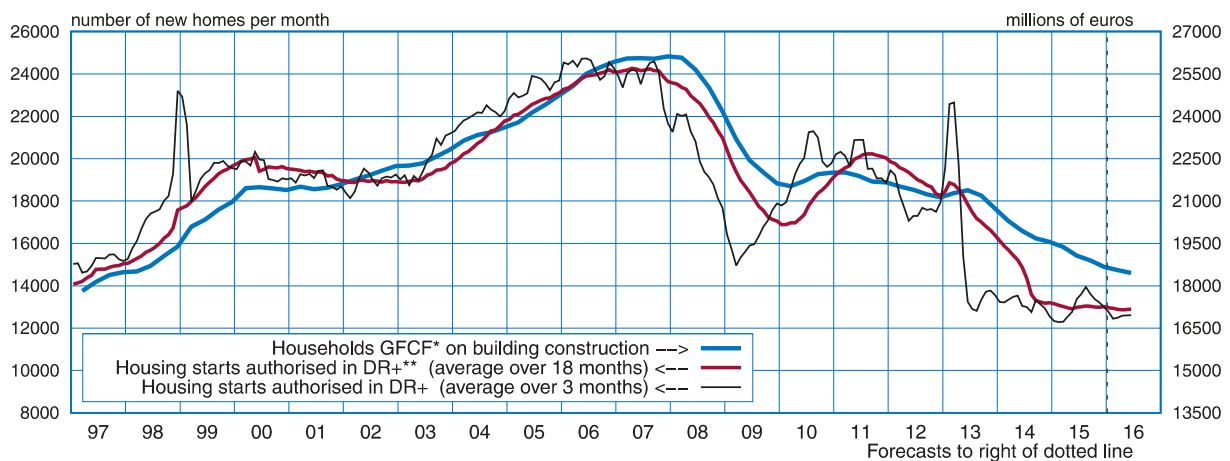


## 2 - Savings rate, consumption growth rate and purchasing power of gross disposable income



Source: INSEE

## 3 - Household investment on construction and housing starts



\*GFCF: gross fixed capital formation  
 \*\*DR+: actual estimated dates

Sources: INSEE, SOeS

### After the attacks, consumption of market services should gradually recover during H1 2016

**The second estimation of the quarterly accounts confirms a slowdown in household expenditure on market services, due in particular to the fears aroused by the terrorist attacks of 13th November in Paris. The first indicators available for January suggest that consumption will only gradually return to the level seen before the attacks over the course of H1 2016, in terms of both spending on accommodation and food services and on air travel.**

**In Q4 2015, household consumption of services was dented by the attacks of 13th November, especially spending on accommodation and food services**

The quarterly accounts reveal a slowdown in household consumption expenditure on market services (excluding trade) in Q4 2015 (+0.1% after +0.3%, *Graph 1*), due in large part to a more acute downturn in spending on accommodation and food services (-0.8% after -0.5%). However, overall consumption of transport services did not suffer (+0.3% after +0.2%), mostly because the sharp decline in air traffic was offset by an increase in spending on other types of transport (road and rail). Moreover, the growth in expenditure on services to households has remained virtually stable (+0.2% after +0.3%) because the decrease in expenditure on creative, artistic and entertainment activities has been more than offset by a sharp rise in spending on gambling.

All in all, the variation in household consumption of market services excluding trade has been slightly more positive than anticipated (0.0% after +0.2% in December's *Conjoncture in France*), thanks to the more buoyant performance of sectors unaffected by the attacks. But the scale of the downturn in the activities most directly affected tends to confirm the assumptions contained in the last *Conjoncture in*

France, based on the analysis of previous attacks, leading to a general reduction in activity equivalent to around 0.1 GDP points in Q4 2015.<sup>1</sup>

In H1 2016, how rapidly will the affected activities return to their pre-attack levels? The first quantitative information available for January leads us to predict a gradual return to normality as part of the scenario envisioned by this issue of *Conjoncture in France*.

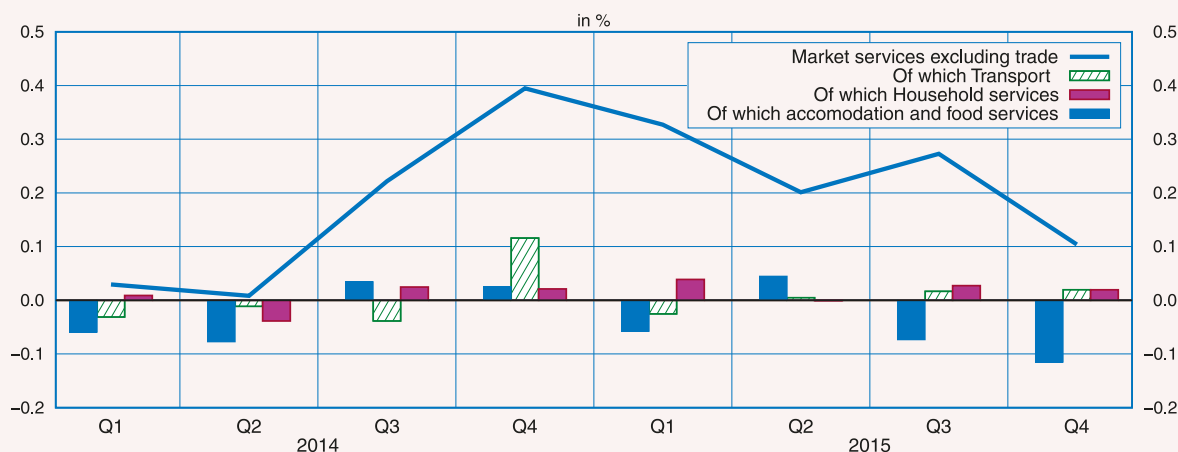
**In Q1 2016, spending on accommodation and food services should stop declining, but without yet returning to its pre-attack level**

Based on the indicators of sales volumes for accommodation and food services used to draw up the quarterly accounts, the catering sector was generally not much affected by the drop in customer numbers: the volume of sales dropped off in November but, thanks in particular to the contribution of fast food restaurants and services, bounced back in December to return to levels last seen in summer 2015. However, sales volumes dropped noticeably in the accommodation sector into December.

Indicators on hotel occupancy rates reveal the scale of the decline in accommodation activities and serve to pinpoint its sources. Between November 2015 and January 2016, total overnight stays (for business and leisure) fell by 3% in Metropolitan France and by 15% in Paris, compared with the figures for the previous year (see Table). In Paris, tourist numbers dropped noticeably in December (-18%) and in January 2016 (-14%). The decline was less noticeable in November (-12%) because it only started after the attacks, in the second half of the month. Elsewhere in the Île-de-France region the number of overnight stays also declined, particularly in December, but less

1. "The impact of the terrorist attacks of 13 November 2015", *Conjoncture in France*, December 2015, p. 100.

**1 - Household expenditure on market services excluding trade, and contribution of some categories**



Source: INSEE

strongly so than in Paris. Elsewhere in France, tourist numbers maintained a slight increase in December before stagnating in January.

The number of foreign clients has decreased more significantly than the number of French clients, with a clear decrease in the number of European and Japanese visitors. This downturn has thus had less of an effect on the total consumption of French households than it has on the export of tourist services.

Daily figures on the hotel occupancy rate in Paris provide an even clearer picture of the effects of the attacks, and give the first indications as to the speed of the recovery of hotel occupancy (*Graph 2*). While the number of occupied rooms increased in the first 12 days of November (+3%) compared with the same period in 2014, this figure plummeted immediately after the attacks: during the second half of November, the decrease reached 25%. The COP21 conference then attenuated the downturn in hotel occupancy: between 29 November and 10 December, the number of occupied rooms was down by just 7% on the

previous year. The downturn was more pronounced in the following week (-12%), and particularly over the festive period (-29% for the period between 19th and 31st December). The decrease was still substantial in early January (-18% for the first 9 days of the year), but less significant thereafter (-6% for the rest of the month). Nevertheless, this improvement needs to be seen in context: hotel occupancy rates in January 2015 were affected by the terrorist attacks on Charlie Hebdo and the Hyper Cacher store; the occupancy rate for the last 22 days of January 2015 was 12% below that recorded in 2014.

Despite a slight improvement in January, hotel occupancy appears to have suffered a lasting blow as a result of the fears aroused by the terrorist attacks of 13th November, particularly among foreign tourists. While activity does not seem likely to slow down any further, the recovery could be very slow and a return to pre-attack levels is not expected before the spring. France's hosting of the Euro 2016 tournament could serve as a catalyst for this return to normality.

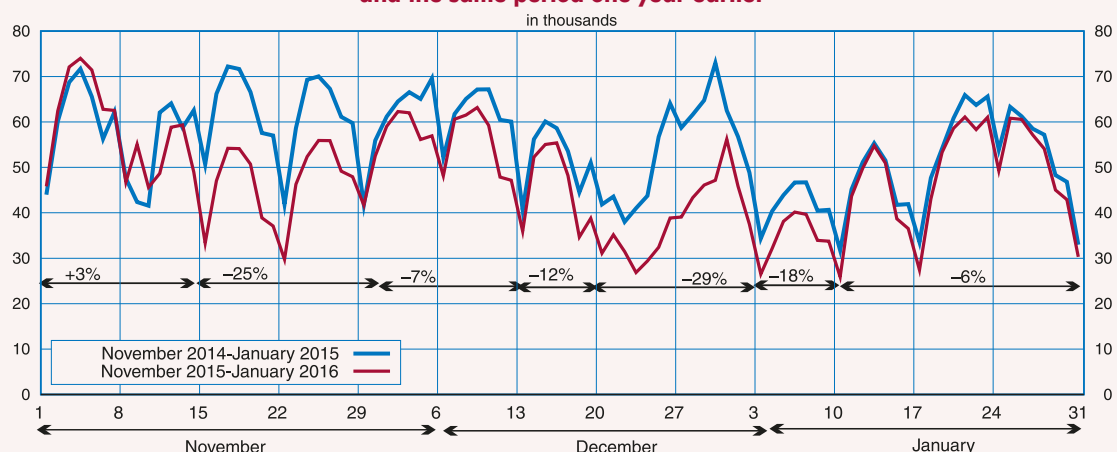
### Hotel occupancy by region

	Levels (in billions)		Annual change (in %)							
	Number of nights - Total	spent by foreigners	Number of nights - Total				spent by foreigners		spent by French	
			November 2015 to January 2016	November 2015	December 2015	January 2016	Nov. 2015 - Jan. 2016	Nov. 2015 - Jan. 2016	Nov. 2015 - Jan. 2016	Nov. 2015 - Jan. 2016
Paris	6.7	3.9	-12	-18	-14	-15	-20	-8		
Rest of Île-de-France	6.4	2.4	-1	-10	-5	-5	-6	-5		
Provincial France	22.4	4.3	2	2	1	1	-1	2		
<b>Metropolitan France</b>	<b>35.5</b>	<b>10.5</b>	<b>-2</b>	<b>-5</b>	<b>-3</b>	<b>-3</b>	<b>-10</b>	<b>0</b>		

Scope: Metropolitan France

Source: INSEE, Hotel occupancy survey

**2 - Hotel rooms occupied in Paris between November 2015 and January 2016, and the same period one year earlier**



How to read it: The X-axis corresponds to the day of the month over the period November 2015 to January 2016. As hotel occupancy varies greatly according to the day of the week, we therefore compare Sunday 15 November 2015 and Sunday 16 November 2014. The scale is therefore offset by one day for November 2014 (from 0 to 29).

Notes: - Daily data is available only on the rooms occupied.

- Changes are calculated using the same period of the previous year as the reference.

Sources: INSEE, Hotel occupancy survey

## French developments

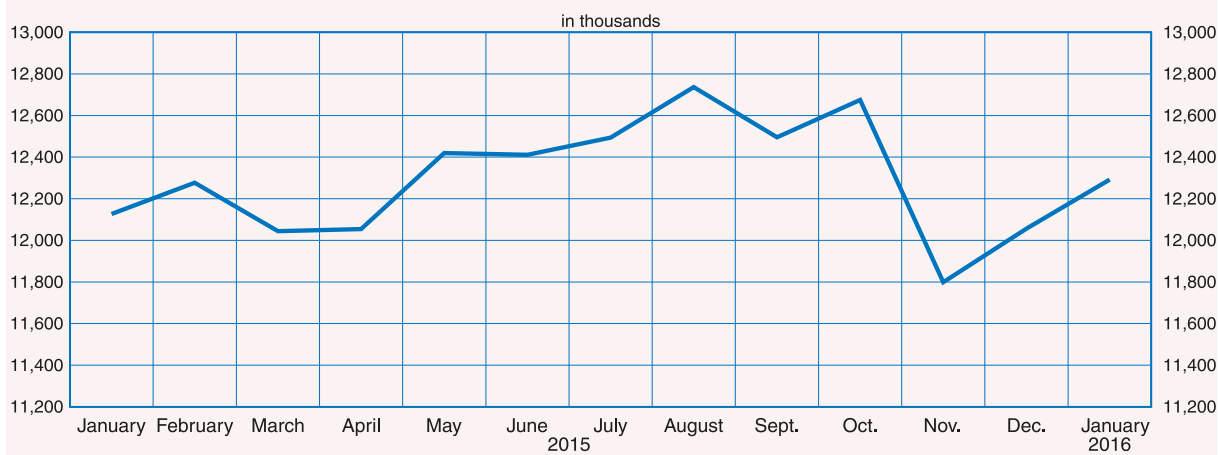
### The number of passengers in airports has shrunk since November, and is not expected to return to its pre-attack level until spring 2016

In Q4 2015, the number of passengers passing through French airports dropped off noticeably: passenger numbers fell by 3.2%, with the majority of this decline concentrated in November (-6.9% for the month). In December 2015 and January 2016, air traffic recovered some of its momentum but failed to return to the levels seen in October (*Graph 3*).

The recovery looks set to be slow: air passenger numbers should only return to their pre-attack level in spring 2016.

All in all, taking into account the available indicators and the assumptions regarding a return to normality in these key sectors, household consumption of market services (excluding trade) should pick up pace only gradually in H1 2016: +0.3% in Q1 then +0.4% in Q2 2016. ■

3 - Number of passengers in France's 14 largest airports



Sources: SOeS (carriage of passengers, INSEE calculations) and DGAC (carriage of passengers to 20 days) for the last month (INSEE calculations).

# Enterprises' earnings

At the end of 2015, the margin rate of non-financial corporations (NFC) is likely to have reached 31.4%, a level markedly higher than the figure at the end of 2014 (29.6%). A rise of this scale (+1.8 points) would be unprecedented since 1986. This increase has been driven since the beginning of 2015 by the fall in the price of oil, the ramp-up of the CICE (tax credit for encouraging competitiveness and jobs) and the reduction in employers' social contributions under the Responsibility and Solidarity Pact (PRS). The margin rate of NFCs has therefore moved considerably closer to its average pre-crisis level (32.7% between 1998 and 2007), and in industry has even exceeded it since mid-2015.

In H1 2016, the margin rate is expected to increase again, as the full effect of the PRS begins to be felt and the recent emergency plan for employment comes into effect, in addition to the recent fall in oil prices: by mid-year, it is expected to settle at 32.5%, which would be its highest level since the end of 2008.

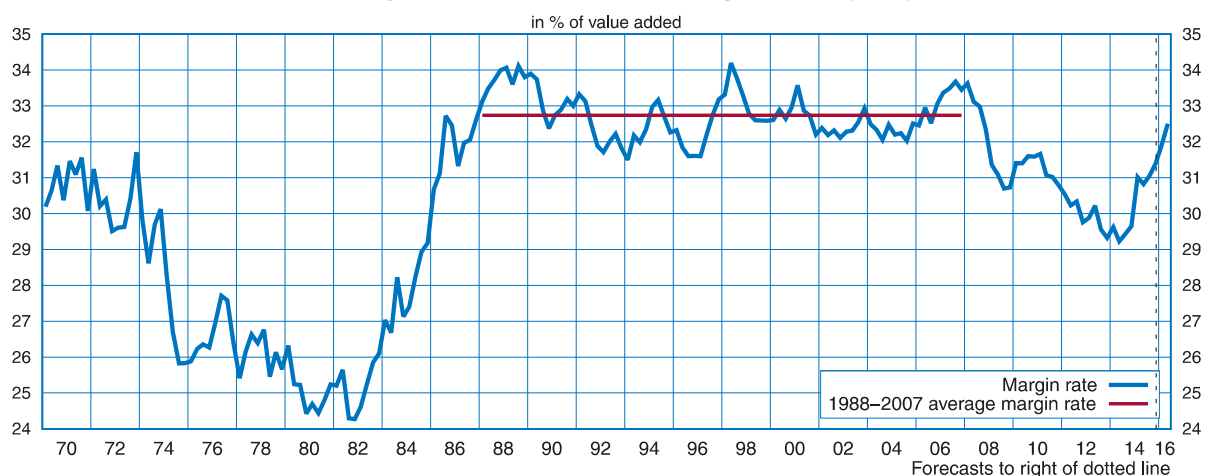
## The margin rate increased sharply in 2015

In decline since 2011, the margin rate of non-financial corporations improved considerably in 2015 (Table). It had increased sharply in Q1 2015 (+1.4 points to 31.0%; *Graph 1*), due mainly to the increase in the rate of the CICE and

reductions in employer social contributions under the Responsibility and Solidarity Pact (PRS), contributing a total of +1.1 points. The margin rate of non-financial corporations remained virtually stable in Q2, then rose in the summer (to 31.1%), thanks to the fall in oil prices (with terms of trade accounting for +0.5 points), and in spite of real wages rising faster than productivity (total contribution of -0.2 points). In Q4 2015, the margin rate looks to have risen again to reach 31.4%, due in particular to further falls in commodity prices (contribution of +0.3 points).

On average over the year, the margin rate is expected to have risen by 1.6 points in 2015, to 31.1%, its highest level since 2011. The fall in the price of oil is likely to have contributed +1.1 points to this increase. The reduction of the cost of labour, resulting especially from the increase in the rate of the CICE and the widening of the scope of the reductions in social contributions on low wages, is likely to have contributed +0.9 points. However, the growth in real wages, compared to the rate of productivity gains, probably held back the overall increase, contributing -0.3 points. Since the beginning of 2015, the margin rate has improved particularly in industry, where it had already reached its average pre-crisis level by mid-2015; this has not been the case in the service sector (*Graph 2*).

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



Source: INSEE, Quarterly national accounts



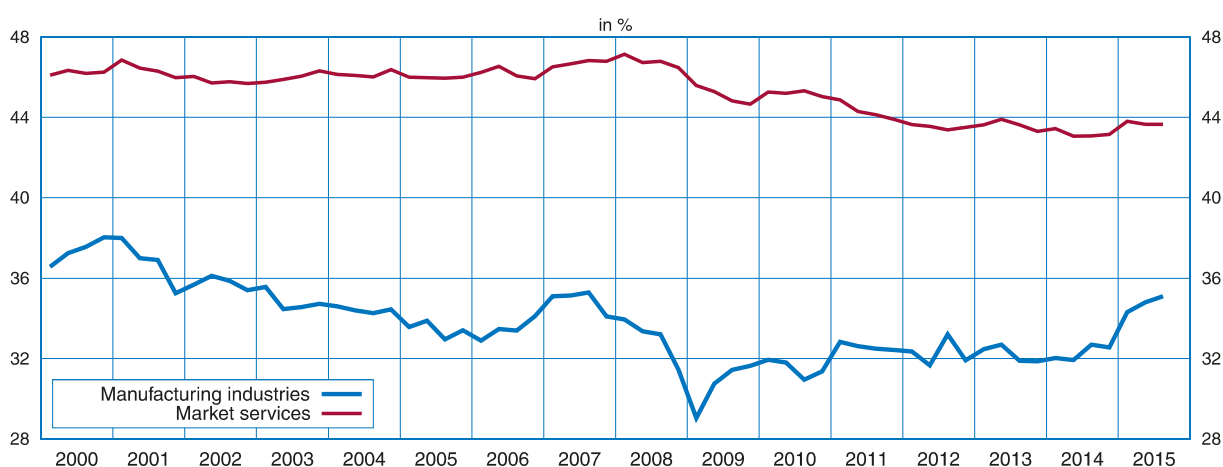
## French developments

### The margin rate is expected to continue rising in H1 2016

In H1 2016, the margin rate is expected to rise sharply (+1.1 points), driven by favourable terms of trade once again (contribution of +0.5 points over the half-year). The measures taken to reduce the cost of labour are expected to contribute a total of +0.5 points. On the one hand there is the effect of the PRS ramping up, with the reduction in the

additional social solidarity levy in Q1 and the additional reduction in family contributions from Q2. On the other, there is the consequence of the introduction of the emergency plan for employment, reducing the cost of labour for SMEs, from Q1. Finally, the contribution of real wages net of productivity gains is likely to be virtually neutral (+0.1 points). All in all, the margin rate is expected to reach 32.5% by mid-2016, which would be its highest level since 2008. ■

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



Source: INSEE, Quarterly national accounts

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

in % and in points

	2014				2015				2016		2014	2015	2016 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
<b>Margin rate (in level)</b>	29.6	29.2	29.4	29.6	31.0	30.8	31.1	31.4	31.9	32.5	29.5	31.1	32.4
<b>Variation in margin rate</b>	0.3	-0.4	0.2	0.2	1.4	-0.2	0.2	0.4	0.5	0.6	-0.3	1.6	1.3
<b>Contributions to the variation margin rate</b>													
Productivity gains	-0.1	-0.2	0.3	0.0	0.6	-0.1	0.1	0.3	0.2	0.2	0.1	0.8	0.6
Real wage per capita	-0.1	-0.3	-0.3	-0.3	-0.6	0.2	-0.3	-0.2	-0.4	0.1	-1.1	-1.1	-0.6
Employer contribution ratio	-0.2	0.0	0.0	0.0	0.2	-0.1	-0.1	-0.1	0.0	0.3	-0.1	0.1	0.2
Ratio of the value-added price to the consumer price	-0.1	0.1	0.2	0.5	0.4	-0.2	0.5	0.3	0.6	-0.1	0.1	1.1	1.0
Other factors	0.8	0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.2	0.0	0.7	0.7	0.2

Forecast

Note: The margin rate (TM) 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 (P<sub>va</sub>/P<sub>c</sub>), which play a positive role;
- changes to the real average wage per head (SMPT/P<sub>c</sub>) and the employer contribution ratio (W/SMPT, where W represents all compensation), which play a negative role.
- others factors: taxes on production net of operating subsidies, including CICE and the emergency plan for employment:<sup>1</sup>

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

1. The CICE reduces companies' corporation tax, but in the national accounts it is recorded as a subsidy to companies, as recommended in the latest version of the European System of Account (ESA 2010). Likewise, aid paid under the emergency plan for employment scheme is also likely to be considered as subsidies.

Source: INSEE

# Corporate investment and inventory

Corporate investment accelerated sharply in Q4 2015 (+1.3% after +0.5%), in manufactured goods (+1.8% after +1.0%), services (+0.9% after +0.5%) and construction (+1.0% after 0.0%). In particular, purchases of light vehicles and expenditure on civil engineering increased substantially. On average over the year, investment grew by 2.0% in 2015, as it had done in 2014.

In reaction to this, investment is likely to slow in Q1 2016 (+0.7%), before accelerating slightly in Q2 (+0.8%). By mid-year, the carry-over for 2016 (+2.6%) already looks set to be higher than the average increase in 2015.

The contribution of changes in inventories to GDP growth was once again strongly positive in Q4 2015 (+0.7 points after +0.7 points already the previous quarter), especially in capital goods and refined oil products. Across the whole of 2015, companies' changes in inventories contributed +0.3 points to GDP growth, after +0.2 points in 2014. In H1 2016, the contribution to GDP of changes in inventories is likely to become negative as a backlash (-0.2 points in Q1 and -0.1 points in Q2).

## In Q4 2015, corporate investment accelerated

In Q4 2015, investment by non-financial enterprises (NFE) increased more rapidly than in Q3 (+1.3% after +0.5%, [Table 1](#)). Product by product, enterprises substantially increased their expenditure on construction (+1.0% after 0.0%), especially in civil engineering projects. Spending on manufactured goods accelerated once again (+1.8% after +1.0%), most notably on transport equipment (+5.2% after +0.4%), and mainly on light vehicles. Lastly, investment in services remained buoyant (+0.9% after +0.5%): the increase in spending on information-communication (+2.2% after +0.5%) more than compensated for the downturn in purchases of specialised services (-0.3% after +0.6%). As investment expenditure in value has increased at almost the same pace as value added, the NFE investment rate has remained virtually unchanged since the beginning of 2015 ([Graph 1](#)).

On average over 2015, NFE investment increased by 2.0% in volume, as it had done in 2014. However, the trend was towards a pick-up: by the end of 2015, investment by NFEs had increased by 3.2% compared with the last quarter of the previous year, whereas the year before the increase had been only 0.5%.

Table 1

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

	Quarterly changes										Annual changes		
	2014				2015				2016		2014	2015	2016 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Manufactured products (43%)	-0.5	-0.1	0.8	-0.7	1.2	0.2	1.0	1.8	0.9	1.0	2.3	2.1	3.6
Construction (26%)	0.6	0.0	0.0	0.2	0.0	0.0	0.0	1.0	0.1	0.3	3.0	0.5	1.1
Other (31%)	-0.2	0.4	0.7	0.0	1.3	1.0	0.5	0.9	0.9	0.9	1.1	3.0	2.8
<b>All non-financial enterprises (100%)</b>	<b>-0.1</b>	<b>0.2</b>	<b>0.6</b>	<b>-0.2</b>	<b>0.9</b>	<b>0.5</b>	<b>0.5</b>	<b>1.3</b>	<b>0.7</b>	<b>0.8</b>	<b>2.0</b>	<b>2.0</b>	<b>2.6</b>

Forecast

Source: INSEE

## French developments

### Investment is set to slow a little during H1 2016

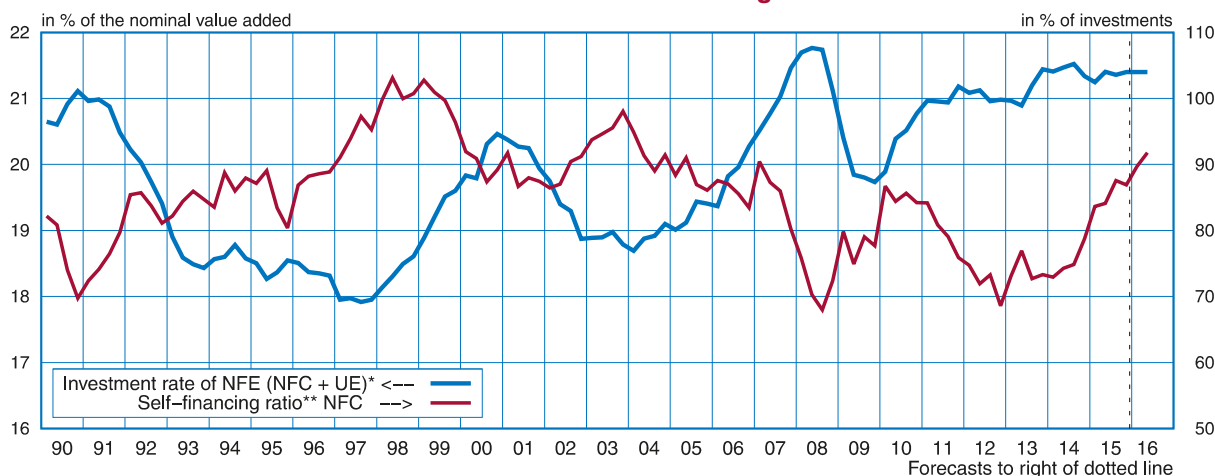
For Q1 2016, the business tendency surveys give some fairly favourable pointers about NFE investment. Although in industry, production capacity tensions eased in January, in particular the production capacity utilisation rate and production bottlenecks (*Graph 2*), the investment revision indicator nonetheless became positive once again and industrialists stated that they were fairly well inclined to invest in H1. In services, the balances of opinion on past investment and on investment prospects remained above their long-term average. Financing terms continue to be favourable for investment. On the one hand, the corporate margin rate looks set to continue to rise and by mid-2016 should reach its highest level since 2008, enabling enterprises to self-finance their purchases to a greater extent. The self-financing ratio would then be at its highest since the beginning of 2005. On the other hand, real interest rates will probably remain very low

until mid-2016 while credit terms remain accommodating. Finally, it is likely that investment in capital goods will still be stimulated by the additional depreciation allowance, although a little less substantially than anticipated in the December 2015 *Conjoncture in France*,<sup>1</sup> as the extension of the allowance beyond April is likely to smooth its impact.

All in all, NFE investment is forecast to slow but should remain sustained: +0.7% and +0.8% in Q1 and Q2 2016 respectively, i.e. once again a dynamic pace for the year through to mid-2016 (+3.3% year-on-year). The carry-over at mid-2016 should be +2.6%, already higher than the average change in 2015. The NFE investment rate is likely to remain high (21.4% mid-2016, the same as a year earlier).

1. "One-off additional depreciation allowance sustains manufacturing investment", *Conjoncture in France*, December 2015, p. 107.

1 - NFE investment rate and margin rate\*

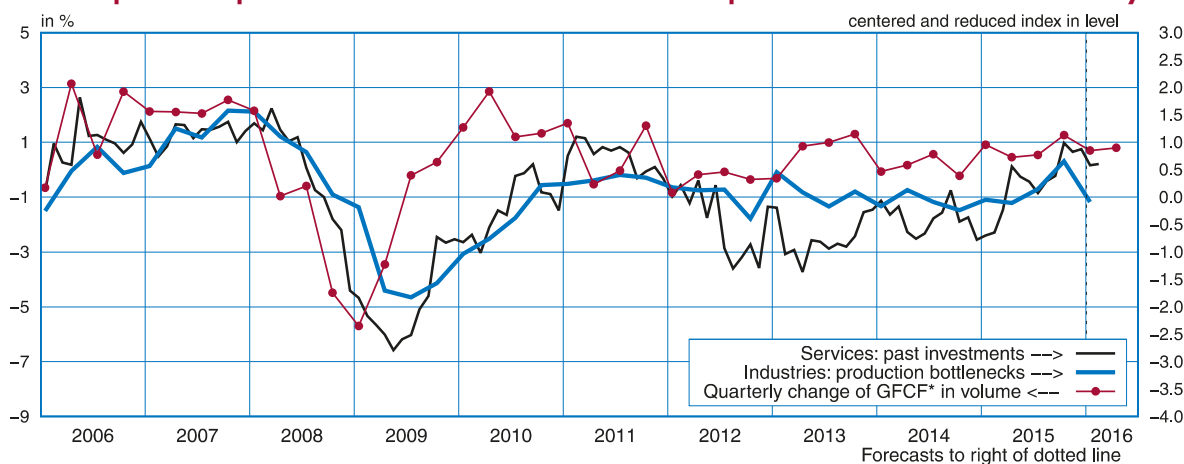


\* Non-financial enterprises: non-financial corporations and unincorporated enterprises

\*\* Self-financing rate: ratio of non-financial enterprises savings to their investments.

Source: INSEE, Quarterly national accounts

2 - Opinion on past trend of investment in services and production bottlenecks in industry



\*GFCF: Gross fixed capital formation

Sources: INSEE, monthly survey in services and industry, Quarterly national accounts

### Expenditure on manufactured goods should continue to grow strongly, although a little more slowly than previously

Investment by NFEs in manufactured goods looks set to slow in Q1 2016 (+0.9% after +1.8%). The rise in vehicle registrations at the beginning of the year does indeed suggest that investment in automobiles could increase further in Q1, although less strongly than at the end of 2015. Expenditure on capital goods, on the other hand, should continue to benefit from the additional depreciation allowance and thus increase strongly. Investment in manufactured goods should therefore continue to enjoy solid growth into Q2 (+1.0%).

### Investment in construction up slightly

Expenditure on construction is forecast to grow slightly through to mid-2016 (+0.1% in Q1 then +0.3% in Q2).

Given the past record of non-residential building housing starts, investment in building is likely to decline slightly in Q1 then pick up a little in Q2.

In civil engineering, activity is set to slow sharply, after the significant acceleration at the end of 2015. In January, prospects in the sector were gloomy once again, according to business leaders. Expenditure should increase moderately in Q1 and Q2 2016.

### Investment in services should continue to rise at a sustained pace

Investment in services should continue to rise at a similar pace to its trend in recent years: +0.9% in Q1 and Q2 2016. Although balances of opinion relating to activity in services to businesses fell back at the beginning of the year, their current level is still among the highest in the last three years.

### At the end of 2015, the contribution of changes in inventories was strongly positive once again

Changes in inventories made a substantial contribution to GDP growth in Q4 2015 (+0.7 points), as they had done in Q3 2015 (+0.7 points, *Table 2*). This series of contributions greater than +0.3 points in two consecutive quarters has not been seen since 2004. The positive contribution in Q3 was mainly due to inventories of transport equipment, whereas it was inventory changes in capital goods and refined oil products that explain the new positive contribution at the end of 2015. However, across the whole of 2015, changes in inventories contributed only +0.3 points to GDP growth.

In H1 2016, a backlash is expected and changes in inventories are likely to make a negative contribution to GDP growth: -0.2 points in Q1 and -0.1 points in Q2. ■

Table 2

Contribution of inventory changes to growth (in GDP points)

	Quarterly changes										Annual changes		
	2014				2015				2016		2014	2015	2016 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
<b>Agricultural and agrifood products</b>	0.1	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0
<b>Manufactured products</b>	0.3	-0.1	0.2	-0.4	0.3	-0.4	0.6	0.6	-0.2	-0.1	0.1	0.3	0.4
Agrifood products	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.1					
Coke and petroleum products	0.2	0.0	0.1	-0.1	0.1	-0.1	0.1	0.2					
Machinery and equipment goods	0.0	0.0	0.0	0.1	-0.1	0.1	0.0	0.2					
Transport equipment	-0.2	0.0	0.5	-0.6	0.3	-0.4	0.4	0.1					
Others industrial goods	0.3	-0.1	-0.3	0.2	0.0	0.0	0.2	0.1					
<b>Energy, water and waste</b>	0.1	0.0	-0.1	0.0	0.1	0.0	0.0	0.1	-0.1	0.0	0.0	0.1	0.0
<b>Others (construction, services)</b>	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
<b>TOTAL<sup>1</sup></b>	0.4	-0.1	0.2	-0.5	0.4	-0.5	0.7	0.7	-0.2	-0.1	0.2	0.3	0.4

Forecast

1. Changes in inventories include acquisitions net of sales of valuables.

Source: INSEE