

A new addition to the *Insee References* collection The French Economy – 2015 Edition

Based on the national accounts, the 2015 edition of the *Insee References* report 'The French Economy: Accounts and Dossiers' analyses the major economic developments of 2014, in France and elsewhere in the world.

The report comprises three in-depth dossiers:

- **'Comparing the performances of French businesses in the domestic market and overseas'** demonstrates the connection between the performance of industrial firms in the domestic market and in foreign markets.
- **'Since the crisis of 2008, households have cut down on those goods and services purchases which are easiest to postpone or do without'** analyses the consequences of the crisis on the structure of household expenditure.
- **'GDP and well-being in Europe over the past twenty years'** examines the evolution of well-being in Europe, measured in various ways.

As usual, the General Outlook chapter offers an overview of the French economy in 2014:

'The evolution of the French economy in 2014' analyses the faltering return to growth, stymied by the sluggishness of domestic demand, export results and the construction sector. This dossier also looks at the increase in public sector spending as a proportion of GDP, linked to the introduction of the tax credit for encouraging competitiveness and jobs (CICE),

These analyses are followed by more than twenty updates on specific themes, incorporating the key information from the national accounts for households, businesses and government.

The evolution of the French economy in 2014

Growth still penalised by sluggish domestic demand and the poor performance of French exports.

Household purchasing power is on the rise (+0.8%) for the first time since 2011. And yet **household consumption expenditure has seen only a tentative increase** (+0.6% in volume, up from +0.4% in 2013), although the decline in automobile sales has finally been reversed.

Exports are picking up pace (+2.4% in volume after +1.7%), but are still progressing more slowly than global demand for French goods. Moreover, **the volume of imports has bounced back strongly (+3.8% after +1.7%), progressing much more rapidly than domestic demand.**

The construction sector continues to struggle

The overall contraction of investment in 2014 conceals substantial variations from one sector to the next: investment excluding construction grew by 0.8% in volume after a poor 2013 (-0.6%).

On the other hand, **investment in construction fell once again (-3.4% in 2014). Housing construction and civil engineering work were hit hardest.**

The increase in public spending as a proportion of GDP is connected to the introduction of the CICE tax credit. The public deficit shrank slightly in 2014 (4.0% of GDP, after 4.1% in 2013). The tax credit for encouraging competitiveness and jobs (CICE) increased public spending as a proportion of GDP by 0.4 points, thus accounting for the majority of the increase recorded for this indicator in

2014. If we exclude imputed operations, and particularly the impact of tax credits, public spending remained virtually stable as a proportion of GDP.

Comparing the performances of French businesses in the domestic market and overseas

The export performance of the French economy saw a significant decline, with only a slight decline in the domestic market.

Export performances have been slipping over the past 15 years, particularly between 2002 and 2008. Corrected for the broader trend applicable to all of the advanced economies, **this decline is cut in half. Meanwhile, the performance of French businesses on the domestic market was virtually stable over this period.**

This divergent dynamic may be a result of:

- The intensification of competition in overseas markets
- The positioning of French businesses in terms of their products
- The performance on the domestic market may have a knock-on effect on French exports.

Overall, there is only a weak negative correlation between export performances and the domestic market.

For the period 2003-2012, factors suggesting that sales in these two markets might offset one another prevailed slightly over factors suggesting a relationship of complementarity.

Particularly among SMEs in the industrial sectors, it appears that a positive domestic demand shock has a beneficial impact on sales in both the domestic market and the export market.

Upon further analysis, it appears that a positive demand shock from the domestic market also allows companies to increase their export sales. Success in one market is a positive sign which makes it easier for businesses to obtain external financing, thus allowing them to boost sales in the other market.

As such, **the deterioration of France's trade balance in the mid-2000s should not be attributed to the resilience of domestic demand.**

Since the crisis of 2008, households have cut down on those goods and services purchases which are easiest to postpone or do without

Spending on food and housing has barely been affected by the crisis.

Spending on immediate priorities is difficult to moderate in the short term, and such spending has slowed down only slightly if at all since the onset of the crisis. For example, **housing** remains the largest item of household expenditure; this spending has remained dynamic in value, bolstered by increases in the prices of rentals (partly as a result of the downturn in property transactions) and energy. Similarly, spending on food has barely been affected by the slowdown in purchasing power: it rose by an average of 0.4% per annum in volume between 2007 and 2014, down from +0.6% between 2000 and 2007.

Other forms of expenditure have been more exposed to the effects of the crisis, particularly transport, clothing, communication, culture and leisure activities.

The adjustment of consumption expenditure and the marked slowdown in income has impacted upon those forms of expenditure which are not considered immediate priorities, and which can thus be postponed.

Household consumption of transport has been falling since 2008 (-1.3% per annum on average), impeded by the fall in vehicle purchases (-2.7% per annum) and the decline in spending on vehicle usage (-1.6%).

Household consumption of clothing and footwear has also declined since 2008 (-1.0% per annum in volume terms), in spite of a rebound in 2014.

Since 2008, **household consumption of communication services, leisure activities and culture** has been growing less rapidly, increasing by 1.2% per annum in volume, down from the average annual growth of 5% observed in the 2000s. Technological innovations and the sharp fall in prices have not been able to restore the overall dynamism of this consumption.

Consumption of health and social services has been underpinned by substantial public spending.

Actual consumption of goods and services in the **healthcare** sector, of which 3/4 comes from social security, **has slowed in value, but in volume continues to grow at the same rate recorded between 1994 and 2007** (+2.8%, compared with +2.9%). Actual consumption of **social services** (crèches, childcare assistants, retirement homes etc.) **grew more slowly in volume between 2007 and 2014 than it had done in the early 2000s, but this rate of growth remains higher** than that observed for actual consumption as a whole (+1.8% p.a. compared with an overall average of +0.8%).

GDP and well-being in Europe over the past twenty years

Between 1995 and 2007, GDP per capita grew by an average of around one third in Europe. Since the onset of the crisis, Europe's national economies have followed highly divergent trajectories. Nevertheless, the development of a nation's economic income does not necessarily reflect the well-being of households, as the Stiglitz-Sen-Fitoussi report makes clear.

Measurements of subjective well-being lead us to identify three distinct groups of countries.

Between 1995 and 2007, subjective well-being increased less rapidly than GDP per capita: this phenomenon is known as the 'Easterlin paradox'. Since the crisis, subjective well-being has declined or, at best, stagnated.

Three distinct groups emerge:

- Southern European nations, where well-being has dropped off significantly
- Eastern European nations, where this decline has been less substantial
- Other nations, where well-being has generally remained stable.

Nonetheless, **these measurements of subjective well-being** have their limits: sensitivity to the psychology of respondents, the bounded nature of the scales used and the occasionally divergent results produced by different studies.

Measuring household utility allows us to get a better idea of subjective well-being.

In addition to our measurements of GDP and subjective well-being, we can also measure the economic utility of households by **taking into account not only their actual consumption, but also their leisure time and the impact of household size.** In the period of growth which stretched from 1995 to 2007, the median growth rate of this utility was 1.0% per annum, half of the median growth rate of GDP (2.4%). Since the onset of the crisis, utility has stagnated while GDP per capita has dropped off more noticeably (-0.6%). Overall, across these two periods, the evolution of leisure time and household size has changed little: **these two variables combine to make utility less sensitive than GDP to the influence of the economic cycle.**

Taking into account actual consumption, household size and leisure time allows us to more accurately represent the development of subjective well-being.



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