

French developments



Review of the previous forecast

In Q3 2016, gross domestic product (GDP) progressed as expected in the *Conjoncture in France* of October 2016 (+0.2%). Domestic demand excluding inventories made a weak contribution to growth (+0.1 points): household consumption stagnated, almost as forecast (+0.1% forecast) and corporate investment showed a surprising fall (−0.4% against +0.1%), while residential investment (+0.6% against +0.1%) and government investment (+1.1% against −1.3%) were more vigorous than forecast. Foreign trade made a more negative contribution (−0.6 points) to growth than expected (−0.2 points). Changes in inventory, on the other hand, contributed more (+0.7 points) than expected (+0.3 points). The growth forecast for Q4 remains unchanged from October's *Conjoncture in France* (+0.4%).

In Q3, market-sector employment was more dynamic than anticipated: +51,000 against a forecast of +32,000. At the same time, the unemployment rate in Metropolitan France stood at 9.7%, against an expected figure of 9.6%. In November 2016, headline inflation stood at +0.5% according to the provisional estimate, as forecast. The forecast for December has been revised slightly upwards (+0.7% against +0.6%).

In Q3, activity progressed as forecast

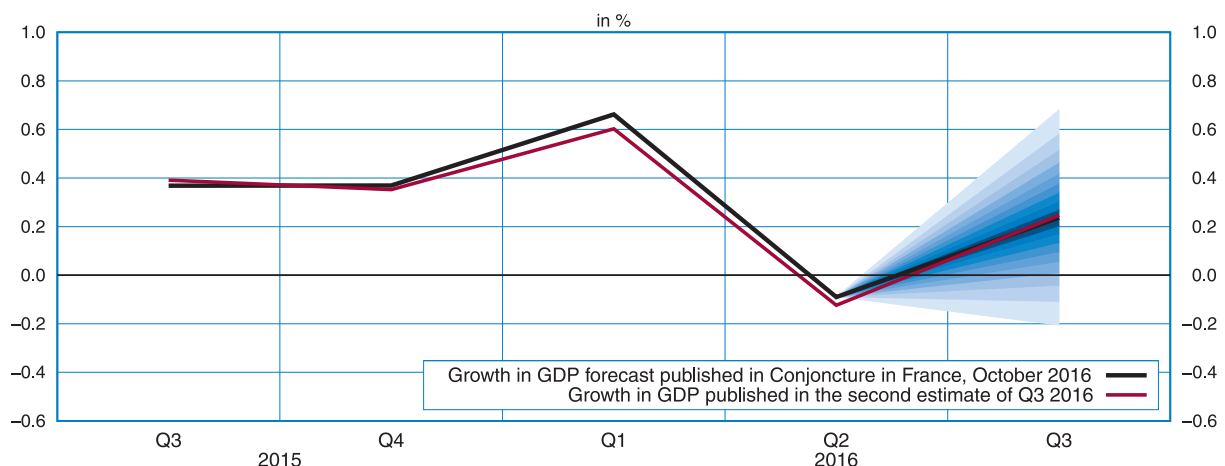
In Q3 2016, gross domestic product increased slightly, as expected in *Conjoncture in France* in October 2016 (+0.2% after −0.1%). Production increased a little more than forecast (+0.5% against +0.4%). It disappointed in manufacturing industry (+0.6% against an expected +1.0%), agriculture (−0.5% against +0.4%) and energy, waste and water (−2.5% against −0.7%). It was surprisingly high in construction, posting its strongest quarterly growth since mid-2013 (+1.0% against a forecast of −0.1%). Production of market-sector services (excluding trade) also increased more than expected (+0.9% against +0.5%).

Domestic demand make a weak contribution to growth, as forecast

The contribution to growth of domestic demand excluding inventory proved to be very weak (+0.1 points), as forecast. Household consumption stagnated, close to what was expected (0.1%): the slight difference stemmed mainly from consumption of manufactured goods (−0.1% against an expected +0.1%) and energy, waste and water (−3.4% against −2.8%). Consumption of market services, however, was almost in line with the forecast (+0.4% against +0.3%).

Household investment increased more than anticipated (+0.6% against +0.1%), with that difference coming mainly from a significant revision of the indicator on new housing which proved to be more dynamic in the past quarters. Government investment proved a surprise by

Fan chart for *Conjoncture in France* for October 2016 and growth achieved



Source: INSEE

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accelerating (+1.1% against -1.3%), notably in civil engineering. On the other hand, total investment by non-financial enterprises disappointed slightly (-0.4% against +0.1%): their expenditure on manufactured products fell considerably more than expected and this was not completely offset by their purchases in construction and services, which were more buoyant than expected.

The foreign trade balance had a more negative impact than expected on activity (-0.6 points against -0.2 points). Imports were once again stronger than forecast (+2.5% against a forecast of +0.7%), both in goods (+3.4% against +1.3%) and in services (-0.6% against -1.2%). Exports also increased surprisingly, although much more moderately (+0.5% against +0.1%). Exports of goods were in line with the forecast (+0.5%): the better performance of exports of manufactured products offset a sharper-than-expected fall in sales of agricultural products, caused by this summer's poor harvests. Exports of services, meanwhile, showed a surprising rise (+0.4% against -1.0%), and changes in inventory made a stronger contribution to growth than expected (+0.7 points against +0.3 points).

The growth forecast for Q4 2016 remains unchanged

The growth forecast for Q4 2016 remains unchanged from that in October's *Conjoncture* in France (+0.4%).

In Q4, manufacturing output should grow less than forecast in October's *Conjoncture* in France (+0.1% against +0.4%). More specifically, production of the refining branch is likely to be hit by the progressive shutdown of the La Mède site for its conversion. The forecast for manufacturing value added has been lowered slightly (+0.3% against +0.4%).

Domestic demand should drive growth as forecast in October's *Conjoncture* in France (+0.5 points). The forecast of total household consumption is unchanged (+0.5%): it remains unchanged in manufactured goods (+0.6%), has been lowered slightly in services (+0.3% against +0.4%), and raised slightly in energy (+1.9% against 0.0%). The corporate investment forecast has been revised downwards slightly (+0.5% against +0.8%). However, the forecast for household investment

has been revised upwards (+0.6% against +0.3%) while that for investment by general government remains unchanged (+0.3%).

Foreign trade should be neutral for activity, when a slightly negative contribution had been forecast in October's *Conjoncture* in France (-0.1 points). Imports should be less dynamic than expected (+0.2% against +1.0%), essentially due to imports of manufactured products. The downwards revision of exports is less marked (+0.3% against +0.8%). More specifically, energy, waste and water exports should contract sharply (-10.0% against +0.2%), and manufacturing exports should increase less than forecast in October's *Conjoncture* in France. On the other hand, the contribution of changes in inventory should be slightly negative (-0.1 points), whereas a neutral contribution had been forecast in October.

Market-sector employment was more dynamic than expected

In Q3 2016, market-sector employment was more dynamic than anticipated: +51,000 against a forecast of +32,000. This surprise was caused almost solely by temporary employment which was much more buoyant than expected (+30,000 against +12,000). At the same time, the unemployment rate in Metropolitan France increased slightly to 9.7%, when it had been forecast to be stable at 9.6% in October's scenario.

In Q4, employment should be a little less dynamic than initially anticipated in *Conjoncture* in France in October (+29,000 against +34,000). The unemployment rate should be 9.6% in Metropolitan France, against the forecast of 9.5% in October's *Conjoncture* in France.

The headline inflation forecast for December is almost unchanged

In November 2016, headline inflation stood at +0.5% according to the provisional estimate, as had been forecast. For the end of the year, the headline inflation forecast has been revised upwards slightly (+0.7% in December, against +0.6%), while core inflation should be a little lower than forecast in October (+0.5% against +0.6%), mainly due to automobile prices falling more than expected in the autumn. ■

Output

In Q3 2016, gross domestic product bounced back slightly, progressing by 0.2% after being almost flat in Q2 (–0.1%). Total production of goods and services showed a more significant upturn (+0.5% after –0.2%) in almost all branches of activity.

The business climate is stable this autumn, at a level above its long-term average. In November, it is above its average in industry and services, and is continuing to improve in the building industry.

Total production of goods and services should therefore increase by 0.4% in Q4 2016. Affected by refinery shutdowns, it should then weaken slightly in Q1 2017 (+0.3%) before progressing more strongly in Q2 (+0.5%).

Production of goods and services to progress moderately through to mid-2017

After falling back in Q2 2016 (–0.2%), total production of goods and services showed an upturn in Q3 (+0.5%), driven by greater dynamism in construction (+1.0% after –0.3%), market sector services excluding trade (+0.9% after –0.1%) and manufacturing industry (+0.6% after –1.0%; *Table*). Since mid-2015, the general business climate in France has remained slightly above its long-term average (102 in November; *Graph 1*). In November, business climates in

industry and services are at higher-than-normal levels, while that in the building industry came closer to its normal level.

Total production of goods and services is likely to increase again in Q4 2016, at a similar rate to that in late 2015-early 2016 (+0.4%). It should weaken again slightly (+0.3%) due to a fall in manufacturing production in Q1 2017, before accelerating again in the spring (+0.5%). Activity in construction, trade and services should progress at a regular rate from the end of 2016 through to mid-2017.

On average in 2016, total production of goods and services should grow slightly more than in 2015 (+1.4% after +1.3%). With the rebound in construction, the agriculture branch is likely to be the only branch that is down in 2016, hit by the poor climate conditions in the spring (*Focus*). For 2017, the growth overhang in total production should be +1.2% by mid-year.

Manufacturing production almost stable at the end of 2016

After falling in Q2 2016 (–1.0%), manufacturing production showed an upturn in Q3 2016 (+0.6%). This rebound was driven mainly by coke and refined petroleum products (+13.6% after –12.8%) and “other manufacturing” (+0.7% after –0.4%), branches which had been hit by social movements in Q2. Production of transport equipment fell back, however (–3.2% after +1.4%).

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

Q/Q-1 variations (as a %), SA-WDA data

	Quarterly changes										Annual changes		
	2015				2016				2017		2015	2016	2017 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Agriculture (2%)	–1.3	–1.1	–0.8	–0.9	–1.0	–0.4	–0.5	1.3	2.6	1.9	–2.2	–2.6	4.8
Manufacturing industry (20%)	0.9	–0.2	0.4	0.7	0.1	–1.0	0.6	0.1	–0.2	0.7	1.5	0.3	0.5
Energy, water, waste (4%)	3.7	–1.8	1.3	–0.2	0.8	0.8	–2.5	0.0	0.3	0.2	1.8	0.2	–0.6
Construction (8%)	–0.5	–0.2	–0.7	0.6	0.4	–0.3	1.0	0.4	0.3	0.4	–2.2	0.8	1.4
Trade (10%)	1.1	0.4	0.7	0.5	1.2	–0.4	0.2	0.5	0.4	0.5	3.0	2.0	1.2
Market services excluding trade (41%)	0.5	0.1	0.5	0.7	0.9	–0.1	0.9	0.5	0.4	0.5	1.6	2.2	1.6
Non-market services (15%)	0.3	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3	1.0	1.2	0.9
Total (100%)	0.6	0.0	0.4	0.5	0.6	–0.2	0.5	0.4	0.3	0.5	1.3	1.4	1.2

Forecast

Weights constructed from the annual production value in 2015.

Source: INSEE

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In Q4 2016, manufacturing activity should be close to stable (+0.1%). In October, the quarterly growth overhang of the industrial production index (IPI) was clearly in negative territory. The business climate was favourable in industry, however, with balances of opinion on personal activity, in particular, being well above their long-term average. At sub-sector level, activity is set to rebound in transport equipment (+1.5% after -3.2%), with the sub-sector business climate being well above its long-term average. It should grow at the same rate as in Q3 in machinery and equipment (+0.6%), with the corresponding business climate returning to its long-term average. Activity should be almost stable in food products and beverages (+0.1%) and "other manufacturing" (+0.1%), with the related business climates being stable in November. However, the shutdown of one refinery in November held back manufacturing output as a whole: coke and refined petroleum production should slip by 3.4%, contributing -0.2 points to the change in manufacturing production.

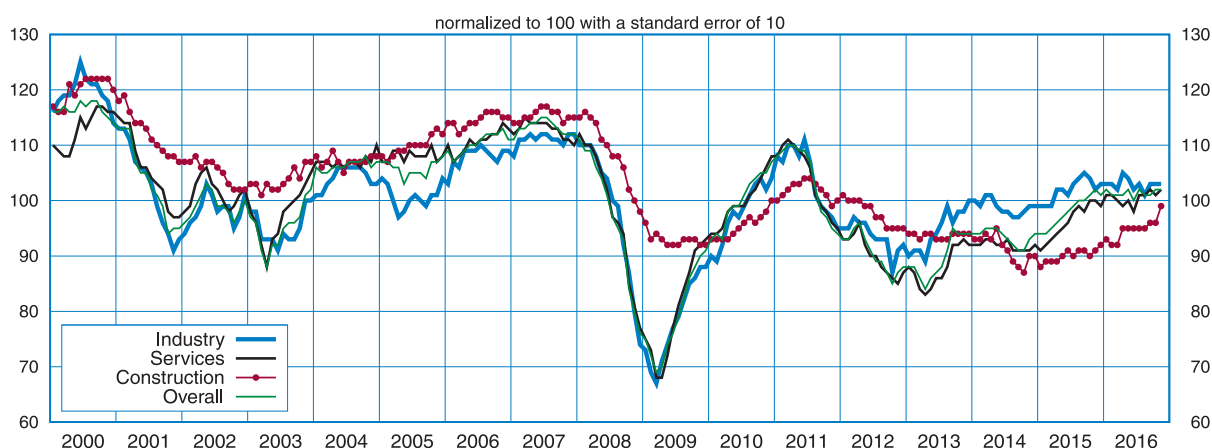
In H1 2017, the pace of activity in refineries should influence the overall profile: manufacturing activity is set to stall in Q1 (-0.2%) and then rebound in Q2 (+0.7%).

On average, manufacturing production should slow down significantly in 2016: +0.3% after +1.5%, notably due to the fall in food products and beverages and coke and refined petroleum products. The growth overhang for 2017 should be +0.5% at the end of Q2.

After a marked slip in Q3 2016, energy production to stagnate at the end of 2016

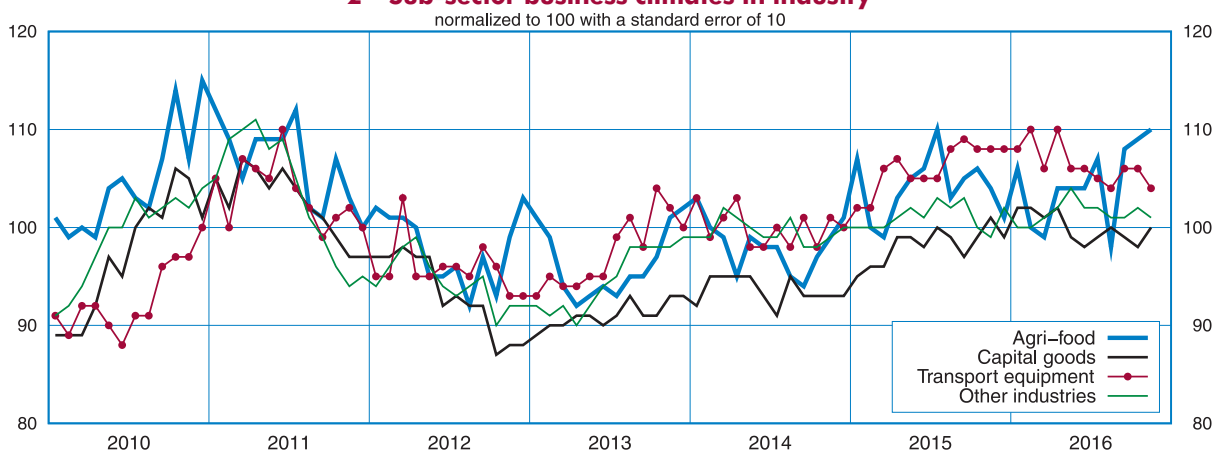
Energy production, the profile of which depends greatly on heating expenditure, was dynamic in H1 2016 (+0.8% per quarter), on account of lower-than-normal temperatures; it then fell back markedly in Q3 (-2.5%), as temperatures returned to normal before becoming mild for the season in September. In Q4 2016, it should stagnate, as a temporary shutdown of several reactors

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



Source: INSEE

2 - Sub-sector business climates in industry



Source: INSEE

significantly limits the export capacity of the branch. If climate conditions are normal, it should increase slightly in H1 2017 (+0.3% in Q1 then +0.2% in Q2). Over 2016 as a whole, energy production is likely to progress less quickly than in 2015 (+0.2% after +1.8%). In mid-2017, the annual growth overhang for 2017 is likely to be -0.6%.

In construction, activity returned to growth in 2016 and should continue to increase in early 2017

In Q3 2016, production in construction rebounded (+1.0% after -0.3%), especially in civil engineering. Activity in the building industry also accelerated to a lesser extent.

The number of building permits has been recovering since early 2015. In the outlook survey among building-sector business leaders, the balance of opinion on activity forecasts has moved back above its long-term average since spring 2016 (Graph 3). However, activity prospects are looking a little gloomier in the building crafts sector. In civil engineering, entrepreneurs' opinions of their activity are deteriorating slightly, although the balance should remain above its long-term average. In addition, the number of months of work represented by their current orders fell in the sector in Q4. Consequently, a slowdown is expected in civil engineering. Total production in construction is likely to decelerate in Q4 2016 (+0.4%) and then progress at close to this rate in H1 2017 (+0.3% in Q1 then +0.4% in Q2).

Over 2016 as a whole, production in construction is set to rebound (+0.8%) after falling sharply for two years (-2.7% in 2014, -2.2% in 2015). By mid-2017, the growth overhang for the year should be +1.4%.

In market-sector services excluding trade, activity to decelerate while remaining robust

In Q3 2016, production in market-sector services excluding trade accelerated significantly (+0.9%), after being almost stagnant in Q2. It accelerated in transport (+1.1% after +0.1%) and in information-communication (+1.4% after 0.0%). It rebounded in services to business (+0.8% after -0.2%) and in accommodation and food services (+0.8% after -0.4%), and showed a slight upturn in other service activities (+0.3% after -1.0%).

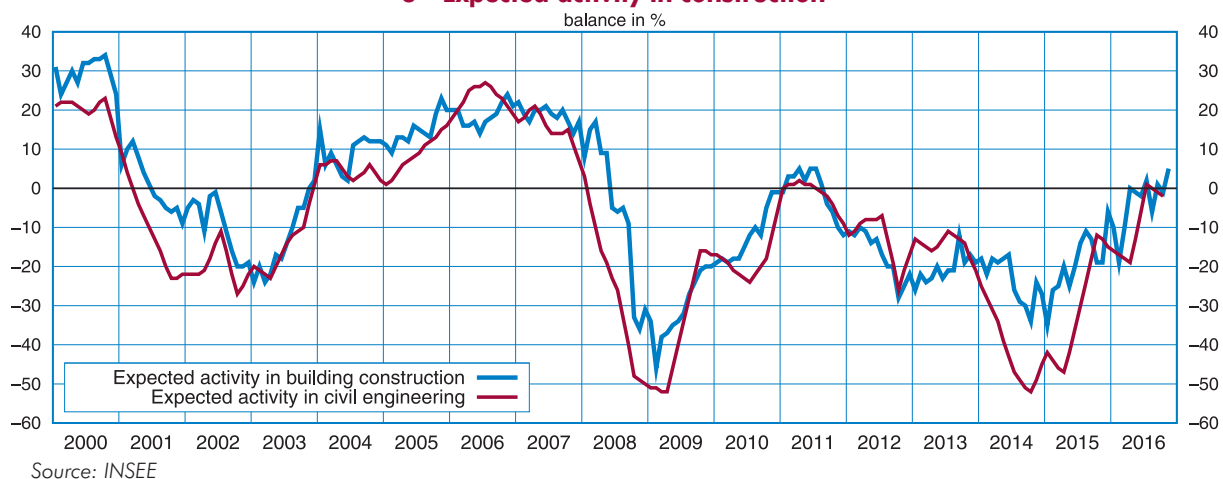
After oscillating around its long-term average (100) since the end of 2015, the business climate in services improved slightly to 102 in November. Thanks to the rebound in accommodation and food services, the business climate is no longer below normal in any sub-sector (Graph 4). In Q4, activity in market-sector services excluding trade should slow down, while remaining robust (+0.5%). It should then progress at a similar rate in H1 2017 (+0.4% in Q1, +0.5% in Q2). Over 2016 as a whole, production of market-sector services excluding trade should increase by 2.2%, posting a greater rise than that in 2015 (+1.6%). By mid-2017, the growth overhang for the year should be +1.6%.

Trade activity to accelerate a little at the end of 2016, then remain at a moderate pace in early 2017

In Q3 2016, trade activity rebounded slightly (+0.2% after -0.4%), notably thanks to margins on manufactured product exports.

In November, the business climate weakened in wholesale trade. That in the retail trade and automobiles showed an upturn, meanwhile. It has been above its average level since 2015, driven mainly by the automobile trade.

3 - Expected activity in construction



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Wholesalers and retail traders are quite optimistic as to their activity prospects. In wholesale trade, balances of opinion on expected activity, both in France and internationally, remain at or above their average levels. In retail trade, sales prospects and order intentions are also on a positive trend.

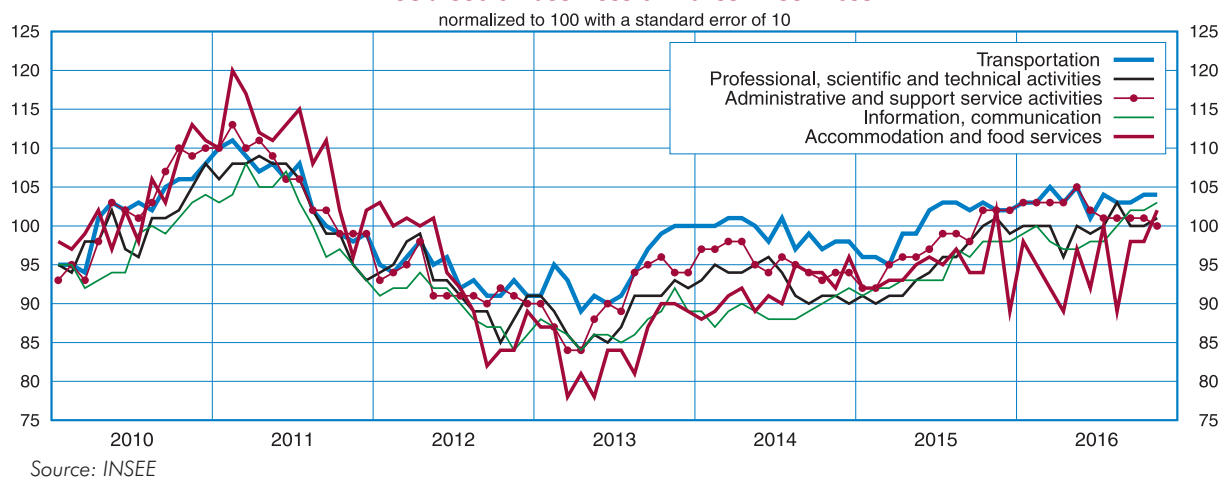
In this context, activity in trade should accelerate a little at the end of 2016 (+0.6%), driven by an upturn in household expenditure on manufacturing products. Trade activity should continue to grow at a moderate pace in H1 2017 (+0.4% in Q1 then +0.5% in Q2).

As an annual average, production of commercial services is likely to slow down in 2016: +2.0% after +3.0%. The annual growth overhang at the end of H1 2017 should stand at +1.2%.

Mainly non-market services: activity to increase moderately

Growth in mainly non-market services held up in Q3 2016 (+0.3%). It should continue to do so in Q4 (+0.3%) and keep up that pace in H1 2017. Over the year as a whole, the activity of the non-market branches should grow by 1.2% in 2016, after +1.0% in 2015. In mid-2017, the annual growth overhang should be +0.9%. ■

4 – Sub-sector business climates in services



Poor harvests could bring down annual growth by 0.2 points in 2016

In 2016, agricultural production is likely to decline sharply

In 2016, production in the agricultural branch is likely to decline sharply, by an average of 6.3% over the year,¹ after falling by 2.2% in 2015. This decline stems primarily from crop production (*Graph 1*), which accounts for approximately 60% of agricultural production and is expected to decrease by an average of 10% over the year² (after -4% in 2015).

In particular, cereal crop production (approximately one quarter of all crop production) should fall by nearly 25% in 2016, after remaining almost stable in 2015. Most significantly, common wheat yields should drop by almost one third due to the lack of heat and light and excessive rainfall in May, its flowering period. To a lesser extent, barley production is likely to fall due to strong pest pressure this year. In addition, wine production (approximately one quarter of crop production) should drop by 9% in 2016 (after -1% in 2015), mainly because of the spring frost and mildew, which affected several wine-producing areas (Champagne, Burgundy and Val de Loire), in addition to the drought in the Mediterranean region. Damage caused by hailstorms in Charente, Burgundy-Beaujolais and Languedoc-Roussillon also reduced the production potential.

The other types of crop production (industrial and fodder crops, potatoes, fruits and vegetables) are also likely to fall in 2016, but to a much lesser extent (-2%). They had declined significantly in 2015 (-7%), but this was after exceptional harvests in 2014.

Livestock production, representing approximately one third of the agricultural branch, should drop much more moderately; its growth overhang for 2016 settled at -0.6% in Q3.

A decline similar to that of 2003

In 2016, agricultural production should decrease somewhat less sharply than in 2003 (-6.3% compared to -8.0%), a year that was marked by a severe summer drought. In particular, the decline in crop production should be not quite as sharp as in 2003 (-10% compared to -13%). While the level of the cereal harvests in 2016 is likely to be almost as low as in 2003, the level of other crop productions should be higher than 13 years ago.

Assuming normal weather conditions, agricultural production should bounce back in 2017

After two years of decline, production in the agricultural branch has the potential to bounce back in 2017. Assuming a return to normal weather conditions, production should rise by 5.7%. Similarly, it bounced back strongly in 2004 (+12.0% after -8.0%), driven by crop production (*Graph 1*).

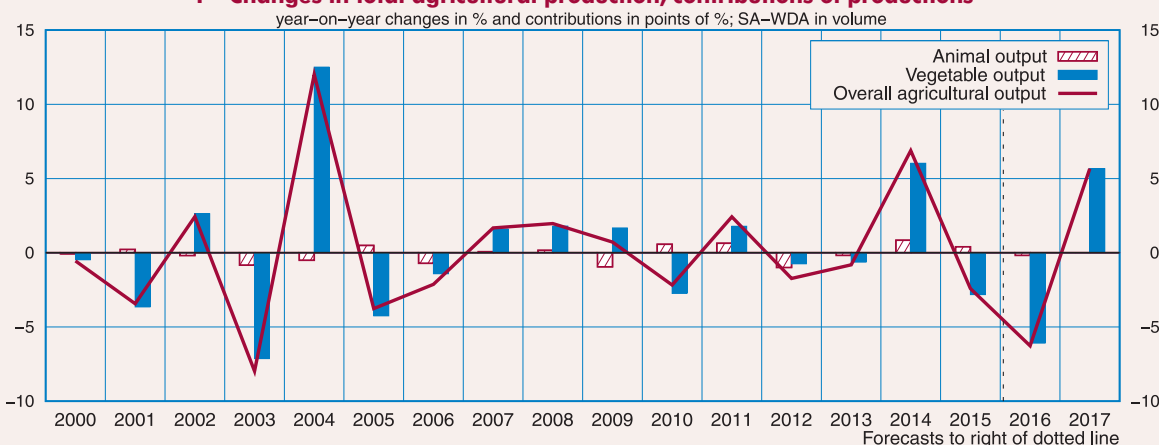
The rebound in the value added of the agricultural branch could be more substantial

The intermediate consumptions of the agricultural branch are, by their very nature, less volatile than its production, whose variations are largely dependent on exogenous factors (weather conditions, diseases, pests). The fluctuations in the branch's value added are therefore generally more substantial (*Graph 2*). For example, in 2003, while agricultural production decreased by 8.0%, agricultural value added plummeted by 15.2%. In 2016, value added is likely to decline by 13.0%, roughly twice the decline in production. In 2017, assuming a return to normal weather conditions, value added should bounce back twice as much (+11%) as production (+5.7%).

1. These estimates of agricultural production are based on "Les comptes prévisionnels de l'agriculture pour 2016", Insee Première of December 2016. A proportion of the decline in agricultural production in 2016 is already included in the quarterly national accounts. All the available information will be incorporated into the publication of the detailed Q3 results on 23 December 2016.

2. Date by volume at constant prices evaluated at the producer price.

1 - Changes in total agricultural production, contributions of productions



Source: INSEE

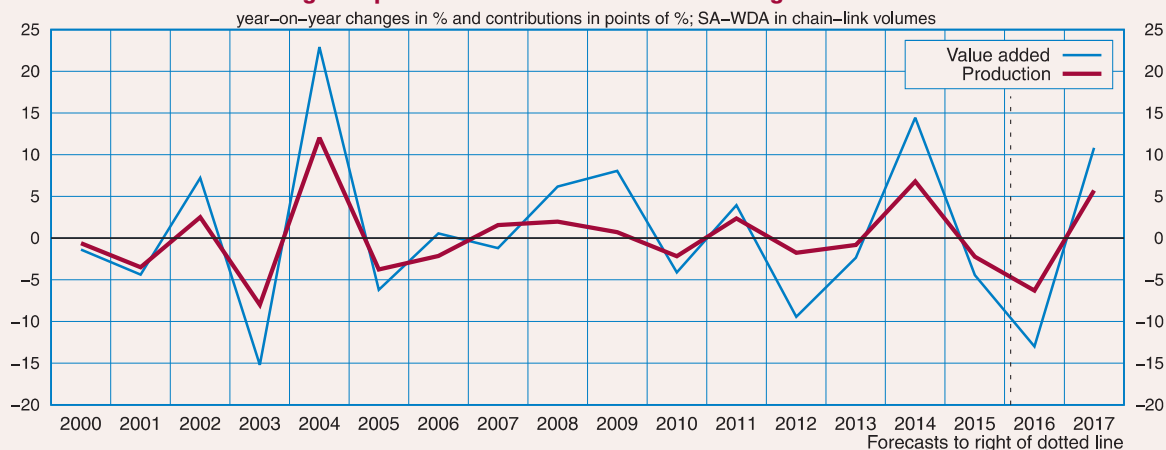
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After cutting growth by 0.1 points in 2015 and 0.2 points in 2016, the agricultural branch could contribute to an acceleration in GDP in 2017

In 2015, the downturn in agricultural production cut growth in gross domestic product (GDP) by approximately 0.1 points (Graph 3). The branch should weigh even more heavily on growth in 2016, by

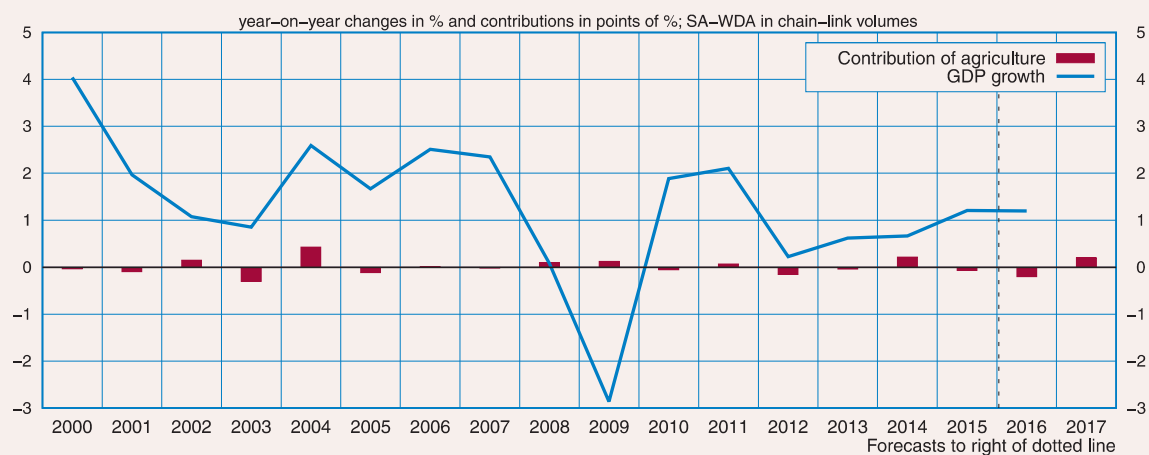
around -0.2 points. In 2017, assuming a return to normal weather conditions, the agricultural branch should make a +0.2-point contribution to annual GDP growth, i.e. a +0.4 point-contribution to GDP acceleration. However, the effect is not likely to be as strong as 13 years ago when agricultural production made a +0.7-point contribution to a 1.7-point GDP acceleration between 2003 and 2004. ■

2 - Changes in production and value added in the agricultural branch



Source: INSEE

3 - Changes in GDP, contribution of the agricultural branch



Source: INSEE

France's International Environment

In the emerging economies, the business climate is improving little by little. Their imports should rise gradually through to mid-2017, contributing to a tentative recovery in world trade. In the advanced economies, the business climate is holding up despite political uncertainties and growth is likely to remain sound.

With the stabilisation in oil prices, inflation is rising in almost all the advanced economies. In the United States, the rise in prices is likely to exceed the 2% threshold and the Federal Reserve is expected to increase its base rates gradually. In the United Kingdom, prices should rise more rapidly due to the depreciation of sterling since the Brexit vote. In the Eurozone, inflation should continue to be contained, at around 1.2% year on year, and should only moderately erode the purchasing power of households who should benefit from a more dynamic labour market. Their investment expenditure on housing and consumption is likely to remain robust. Corporate investment should be buoyant, meanwhile, thanks to favourable financing terms. Growth in world demand for French products should therefore be driven mainly by the dynamism of its main Eurozone trading partners.

The situation in the emerging countries should improve through to mid-2017

The business climate in the emerging countries has been improving since the summer (*Graph 1*). Thanks to the stabilisation of commodity prices, the currencies of the producer countries (Russia and

Brazil in particular) have halted their slide, inflation has become more moderate and losses in household purchasing power have eased. The emerging economies should therefore pick up through to mid-2017, although remaining much less vigorous than through the noughties. In China, activity should remain robust thanks to powerful public support boosting investment in construction, in particular. In Brazil the recession is set to continue, while becoming less severe, and activity in Russia should stabilise after contracting significantly in 2015. In Turkey, after stalling in the summer in the wake of the aborted coup d'état, activity should progressively become stronger. Finally, growth in the Eastern European countries and India is likely to remain dynamic.

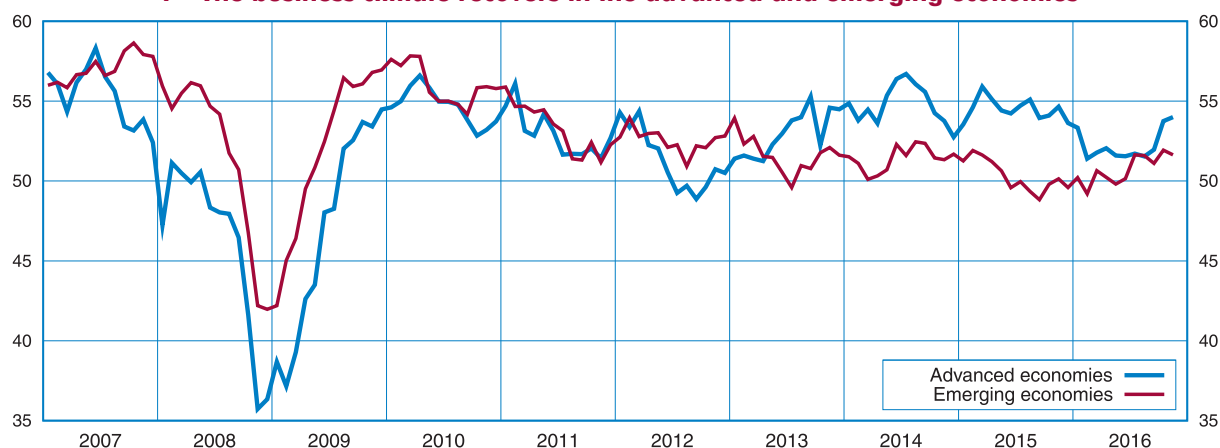
World trade shows a modest recovery

World trade fell back in Q1 2016 (-0.5%) and then recovered modestly in Q2 (+0.7%), hit by the ongoing sluggishness of the emerging economies and the pronounced slowdown in US imports. In Q3, world trade improved weakly (+0.3%). It should now accelerate to +0.8% per quarter through to mid-2017, thanks to the recovery in demand in the emerging countries and the US, and despite the slowdown in the UK. All in all, after a rise of just 1.2% in 2016, the growth overhang in world trade for 2017 should be +2.4% by mid-year.

Oil prices set to remain almost stable at around \$50 a barrel

After falling sharply in Q1 2016, Brent prices oscillated around the \$47 mark throughout Q2

1 – The business climate recovers in the advanced and emerging economies



Source: Markit

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and Q3. In Q3, OPEC output increased sharply, particularly in Saudi Arabia, Iraq and Iran. If the cartel does manage to apply the agreement it announced this autumn, that output should level out in H1 2017. In the United States, oil production is likely to continue falling due to the past collapse in the rig count. With the rise in output from the other oil-producing countries, supply should be stable through to mid-2017, while demand should continue to grow at its trend rate. This tightening of the physical market is unlikely to push prices up, due to the high levels of stocks, especially in the US. Over the forecasting period, the price of Brent has therefore been set to its latest known level at the beginning of December (\$50).

Monetary policies diverging

The stabilisation of oil prices is triggering an upturn in inflation in the advanced economies, except in Japan where the sharp rise in the yen is keeping inflation at a low level. In the United States, core inflation (i.e. excluding energy and food products) has moved above the 2% threshold since the beginning of 2016, and headline inflation should also exceed this threshold by mid-2017. As the labour market remains strong, this situation is likely to lead the Federal Reserve to increase its base interest rates gradually through to mid-2017. In the Eurozone, inflation should increase at an annual rate of close to +1.2% (Graph 2), which is still too low for the European Central Bank to modify its monetary policy.

Activity to slow down in the United Kingdom

Headline inflation in the UK is likely to increase again significantly, driven by its energy component and the depreciation of sterling since the Brexit vote in June, making imports more expensive. This rise in inflation is likely to trigger an inflection in the purchasing power of British households and then in their consumption. In business, the tendency

surveys indicate a marked fall in investment intentions. Domestic demand should therefore slow down sharply through to mid-2017. After growth of 2.0% in 2016, the overhang for UK activity is likely to be just +1.1% in mid-year.

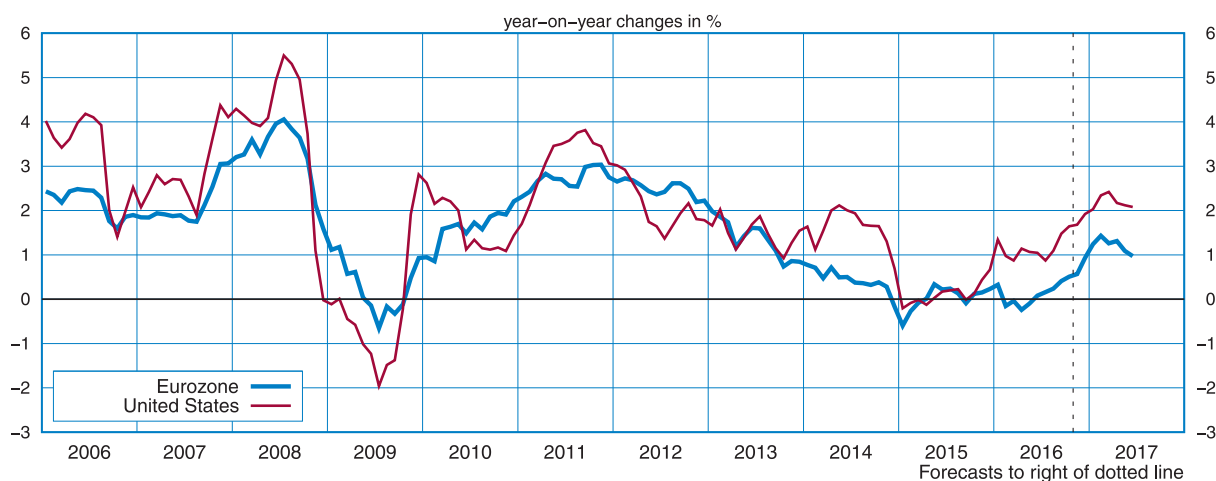
Growth to return to its trend rate in the United States

In Q3 2016, activity accelerated in the United States (+0.8% after +0.4%), driven notably by the recovery in corporate demand (investment and changes in inventories). In Q4, US GDP should grow by almost as much (+0.6%), due to domestic demand, notably the continuing restocking trend. Over the year as a whole, however, activity is likely to slow down significantly (+1.6% after +2.6% in 2015), hit by the fall in corporate investment (-0.6% after +2.1%) and a strong destocking trend (contribution of -0.4.points). Imports are therefore likely to slow sharply (+0.7% after +4.6%). In H1 2017, activity should slow down slightly to return to its trend rate (+0.5% per quarter). Household consumption is likely to decelerate slightly, in line with household purchasing power, as precautionary saving has already slipped back significantly with the fall in unemployment to a low level. Conversely, corporate investment should pick up tentatively in early 2017, despite the expected tightening of lending terms.

Eurozone growth to increase slightly

In the Eurozone, growth remained moderate in Q3 (+0.3%). Through to mid-2017, activity is set to accelerate a little (+0.4% per quarter), driven by vigorous domestic demand, especially in Germany. The political uncertainties both internal to the European Union (the refugee crisis, prolonged lack of a government in Spain, consequences of the referendum in Italy, elections in France and Germany) and external to it (consequence of the Brexit vote and the US

2 – Inflation should rise with the stabilisation of oil prices



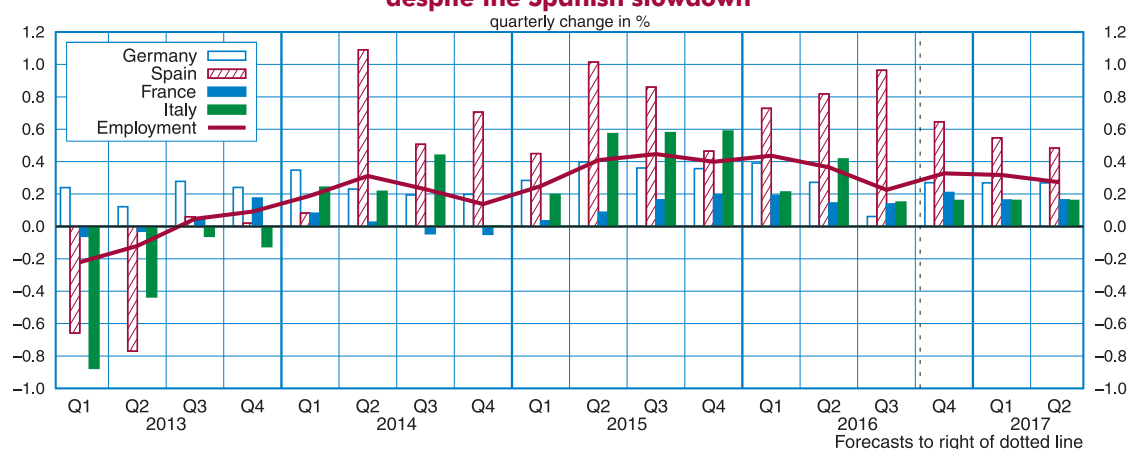
Sources: BLS, Eurostat

presidential election) do not seem to have hit the business climate, which remains high. Corporate investment should therefore increase strongly in early 2017. Household consumption should continue to grow significantly, despite a slight weakening of purchasing power. Indeed, employment should continue to progress, notably thanks to dynamic labour markets in Germany and in Spain (Graph 3), while the unemployment rate should stand at 9.7% in mid-2017, against 10.1% one year earlier. Finally, investment expenditure on construction is set to carry on rising in all the Eurozone countries, after returning to growth in 2016 in France and in Italy.

World demand for French products to remain buoyant, especially demand from the Eurozone

In this international context, world demand for French products should increase strongly (+0.8% per quarter after -0.1% in Q3 2016). This strong performance should be driven by the Eurozone and most notably Germany. ■

3 - Payroll employment in the Eurozone should increase significantly again despite the Spanish slowdown



Sources: INSEE, Destatis, Istat, INE, Eurostat

International environment

levels ; percentage changes from previous period

	2015				2016				2017		2015	2016	2017 ovhg
	T1	T2	T3	T4	T1	T2	T3	T4	T1	T2			
Euro-dollar exchange rate	1.13	1.10	1.11	1.10	1.10	1.13	1.12	1.08	1.06	1.06	1.11	1.11	1.06
Barrel of Brent oil (in dollars)	55	63	51	45	35	47	47	50	50	50	53	45	50
World trade	0.4	0.1	0.7	0.5	-0.5	0.7	0.3	0.8	0.8	0.8	2.4	1.2	2.4
Imports of advanced economies	1.8	0.0	0.7	1.0	0.2	0.3	0.4	0.8	0.8	0.8	4.0	1.9	2.3
Imports of emerging economies	-2.6	0.4	0.7	-0.5	-1.9	1.3	0.1	0.8	0.8	0.8	-1.0	-0.5	2.4
World demand for French products	1.1	0.1	0.6	0.9	-0.1	1.2	-0.1	0.8	0.8	0.8	3.4	2.0	2.2
Gross domestic product of advanced economies	0.6	0.3	0.5	0.3	0.4	0.3	0.6	0.5	0.4	0.4	2.1	1.6	1.4
United States	0.5	0.6	0.5	0.2	0.2	0.4	0.8	0.6	0.5	0.5	2.6	1.6	1.8
Japan	1.5	-0.1	0.2	-0.4	0.7	0.5	0.3	0.2	0.2	0.3	1.2	1.0	0.9
United Kingdom	0.3	0.5	0.3	0.7	0.4	0.7	0.5	0.3	0.3	0.2	2.2	2.0	1.1
Eurozone¹	0.4	0.4	0.3	0.5	0.5	0.3	0.3	0.4	0.4	0.4	1.5	1.6	1.3
Germany	0.2	0.5	0.2	0.4	0.7	0.4	0.2	0.5	0.5	0.5	1.5	1.8	1.6
Spain	1.0	0.8	0.9	0.8	0.8	0.8	0.7	0.7	0.6	0.5	3.2	3.2	2.1
Italy	0.3	0.3	0.1	0.2	0.4	0.1	0.3	0.1	0.2	0.2	0.6	0.9	0.6
Consumer prices in Eurozone ²	-0.3	0.2	0.1	0.2	0.1	-0.1	0.3	0.7	1.3	1.1	0.0	0.2	1.2
ILO unemployment rate in the Eurozone	11.2	11.0	10.7	10.5	10.3	10.1	10.0	9.9	9.8	9.7	10.9	10.1	9.7

Forecast

1. Eurozone excluding Ireland, as this country's accounts present a break in series in Q1 2015

2. Year-on-year on the last month of the quarter and annual averages

Source: INSEE

Foreign trade

In Q3 2016 world trade grew moderately once again (+0.3% after +0.7%), but world demand for French goods stalled (–0.1% after +1.2%). French exports bounced back (+0.5% after –0.1%), in particular with the acceleration in manufactured goods (+1.1% after +0.8%). In Q4 they are expected to increase only slightly (+0.3%), hit by the fall in electricity exports. In H1 2017 they should rise more markedly (+1.1% per quarter), benefiting among other things from deliveries of large military and shipbuilding contracts.

Imports bounced back sharply in Q3 (+2.5% after –1.7%), particularly imports of manufactured goods (+1.9% after –1.1%) and raw hydrocarbons (+24.9% after –13.9%). In Q4 they are expected to slow considerably in reaction (+0.2%), then in H1 2017 they should settle at a pace of growth more in line with domestic demand (+0.6% at end 2016, then +1.0% per quarter on average).

After adversely affecting growth in Q3 2016 (–0.6 points), foreign trade's contribution is expected to become neutral again from Q4 on. On average for the year 2016, foreign trade is likely to have held back growth by 0.7 points, i.e. more markedly than in 2015 (–0.3 points).

World trade is expected to regain its momentum by mid-2017

World trade grew moderately again in Q3 (+0.3% after +0.7%, *Graph 1*), after a first quarter that saw a decline in global imports (–0.5%). Indeed, the imports of the advanced countries picked up slightly in the summer, in particular outside the

Eurozone. However, those of the emerging countries slowed considerably. By mid-2017, world trade is expected to grow by 0.8% per quarter on average, thanks to increased vigour in the imports of the advanced countries, the United States in particular, and a gradual acceleration in those of the emerging countries. On average over the year, world trade has slowed considerably in 2016 and its growth is likely to be the lowest since 2009 (+1.2% after +2.4% in 2015); it should regain momentum in 2017 (+2.3% carry-over effect at mid-year).

World demand for French goods stalled in Q3 (–0.1% after +1.2%, *Graph 2*), due to the downturn in Spanish and British imports. Through to mid-2017, world demand for French goods is expected to grow at the same pace as world trade (+0.8% per quarter). Given the geographical make-up of French exports, world demand for French goods is expected to come above all from its partners in the Eurozone.

Exports are expected to grow slowly again in Q4 2016

In Q3 2016 total French exports bounced back modestly (+0.5% after –0.1%). Indeed, exports of manufactured goods grew a little faster (+1.1% after +0.8%), with a notable rebound in «other industrial products» (+1.7% after –0.9%), agri-food products (+3.7% after –0.6%) and refined petroleum products (+6.3% after –13.0%). However, exports of transport equipment shrank (–1.7% after +8.9%), mainly as an after-effect of the delivery of the *Harmony of the Seas* cruise ship in Q2. Finally, agricultural sales collapsed due to poor harvests (–17.5%).

1 – World demand for French products and world trade



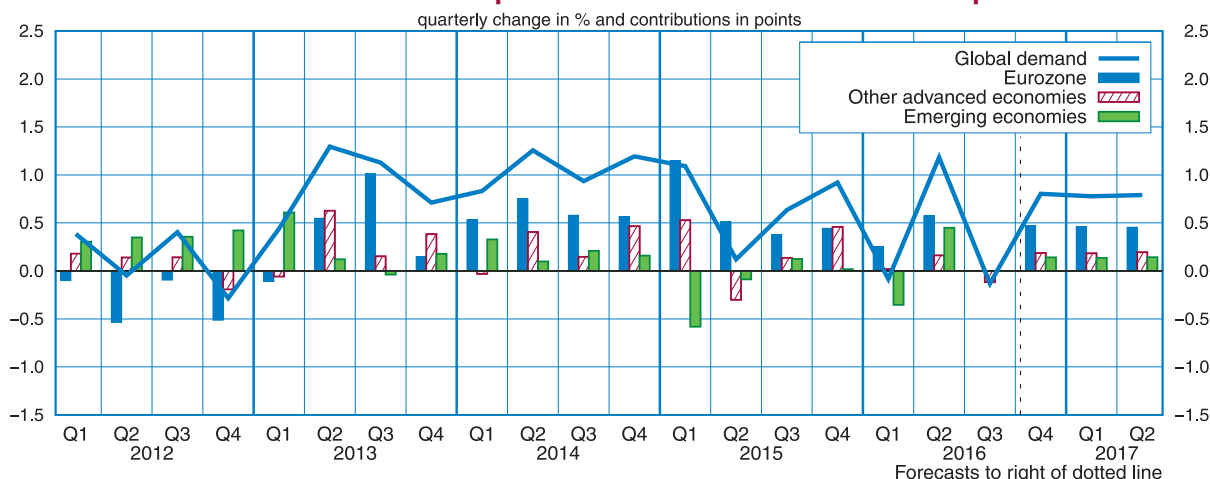
Sources: INSEE, DG Trésor, Centraal PlanBureau

On average over the year, exports are likely to have slowed considerably in 2016 (+0.6% after +6.0% in 2015), but should regain a little vigour in 2017: at the end of H1, the carry-over effect is expected to be +2.4%.

Imports should slow down considerably in Q4 2016

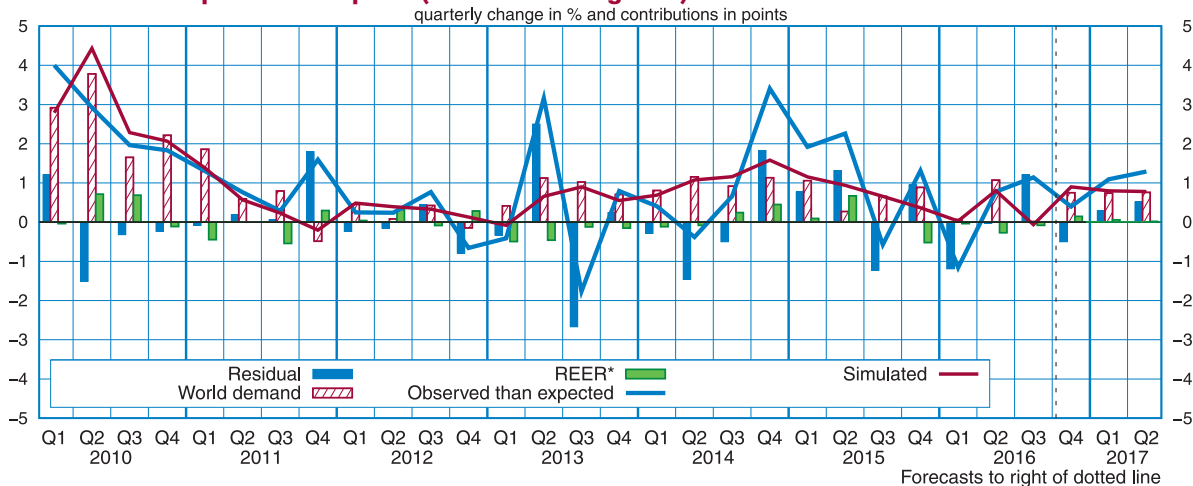
In H1 2017, imports are set to increase by 1.0% per quarter on average, returning to a pace more in line with growth in domestic demand.

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



Sources: INSEE, DG Trésor

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



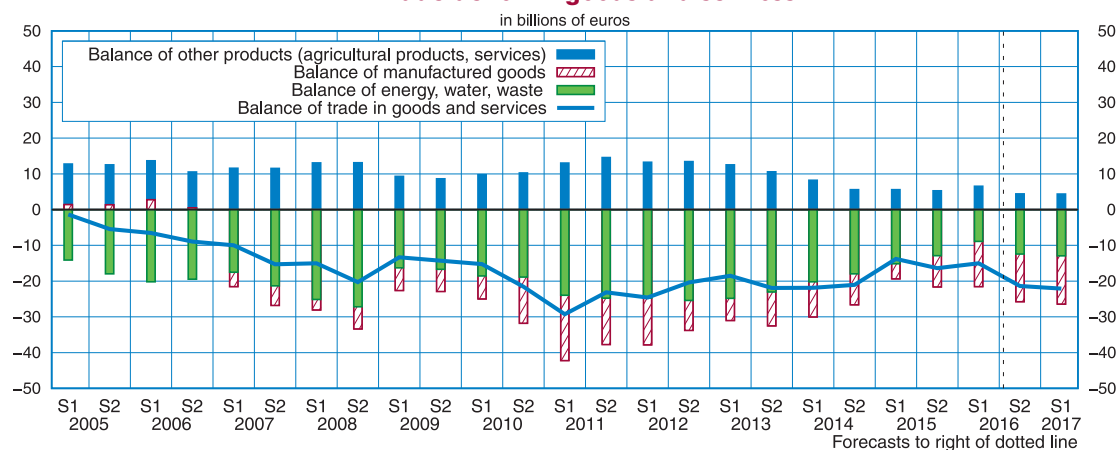
*REER: real effective exchange rate
Sources: INSEE, DG Trésor

French developments

On average over the year, imports are expected to have slowed in 2016 (+2.8% after +6.4% in 2015), but nonetheless significantly less than exports. Foreign trade is therefore likely to have had a negative effect on growth in 2016 (−0.7 points after −0.3 points in 2015). Through to mid-2017, its contribution to growth is expected to be neutral each quarter (*Table*).

In 2016 and through to mid-2017, the trade deficit in value of goods and services is not expected to subside, as the balance of trade in manufactured goods is likely to worsen (*Graph 4*). ■

4 - Trade deficit in goods and services



Source: INSEE

Foreign trade growth forecast

variations in % at chain-linked previous year prices, contributions in points

	Quarterly changes						Annual changes		
	2016				2017		2015	2016	2017 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2			
Exports									
All goods and services	−0.5	−0.1	0.5	0.3	1.1	1.1	6.0	0.6	2.4
Manufactured products (68%)*	−1.2	0.8	1.1	0.4	1.1	1.3	6.6	1.4	3.2
Imports									
All goods and services	0.3	−1.7	2.5	0.2	0.9	1.1	6.4	2.8	2.7
Manufactured products (68%)*	1.3	−1.1	1.9	0.2	1.2	1.2	6.4	4.9	3.0
Contribution of foreign trade to GDP	−0.2	0.5	−0.6	0.0	0.0	0.0	−0.3	−0.7	−0.1

Forecast

*Part of exports (resp. imports) of non-energy industrial goods in exports (resp. imports) in a whole in 2015.

Source: INSEE

Employment

Non-agricultural market employment picked up a little in Q3 2016 (+51,000 jobs, after +29,000 in Q2), driven mainly by temporary employment. It should slow slightly through to mid-2017 as the effect of higher employment intensity of growth linked with measures to reduce the cost of labour is likely to weaken. All in all, 157,000 market sector jobs are expected to have been created in this way year-on-year by the end of 2016 (after a rise of 99,000 in 2015), then 60,000 during H1 2017.

In the non-market sectors, employment should continue to rise moderately in H1 2017 (+8,000, as in H2 2016): the number of subsidised employment contracts is likely to remain almost unchanged and non-assisted public sector employment is expected to continue to fall, but private sector employment should remain buoyant. All in all, 188,000 jobs are set to be created in 2016 and 70,000 in H1 2017.

Market-sector employment expected to slow slightly in H1 2017

In Q2 2016, non-agricultural market employment increased by 29,000 before picking up slightly in Q3 (+51,000) thanks to temporary employment. From Q4 2016, it should more or less return to its former pace (+30,000 on average per quarter, [Table 1](#)). The number of temporary workers is

expected to stabilise, while job creations should keep their momentum in the tertiary sector excluding temporary work. In addition, employment is likely to increase slowly in the construction sector and there should be only moderate job losses in industry.

The rise in employment in the market sectors is expected to weaken slightly in H1 2017 compared with the average in 2016 ([Graph 1](#)). The tax credit for encouraging competitiveness and jobs (CICE) and the Responsibility and Solidarity Pact (PRS) are likely to boost job growth a little less in H1 2017 (around 20,000 jobs) than in H2 2016 (around 30,000 jobs). On the one hand, the effect on employment of increasing the CICE rate from 6% to 7% on January 1st 2017 is likely to be small before mid-2017; and on the other hand, extending the reductions in social contributions under the PRS to 1st April 2016 is expected to have a limited effect because they do not target low-paid employees (between 1.6 and 3.5 times the minimum wage). However, the hiring premium for SMEs, which will be maintained until 2017, should continue to boost growth with almost 20,000 extra jobs in H1 2017. All in all, policies to encourage employment growth should generate 40,000 jobs in H1 2017 against 50,000 in H2 2016. Thus after growing by 80,000 jobs in H2 2016, market employment should increase by 60,000 in H1 2017.

Table 1

Change in employment

in thousands, SA

	2016				2017		2016 H1	2016 H2	2017 H1	2015	2016	Level end 2015
	Q1	Q2	Q3	Q4	Q1	Q2						
Mainly non-agricultural market sectors (1)	47	29	51	29	29	30	76	80	60	99	157	15968
Industry	-6	-8	-5	-6	-6	-6	-14	-11	-12	-36	-25	3122
Construction	-2	-2	0	1	1	1	-4	1	2	-34	-3	1314
Temporary employment	1	0	30	0	2	3	1	30	5	50	30	585
Market services excl. temporary employment	54	39	27	34	32	32	93	61	65	119	154	10946
Agricultural workers	1	1	1	1	1	1	2	2	2	2	4	
Mainly non-market service sectors	13	10	3	5	4	5	23	8	8	24	31	
Self-employed	-1	-1	-1	-1	0	0	-2	-2	0	-8	-4	
TOTAL EMPLOYMENT	60	39	54	34	34	36	99	88	70	116	188	

Forecast

(1) Sectors DE to MN and RU

Source: INSEE

French developments

Temporary employment should stabilise and tertiary employment excluding temporary work should remain positive

After stabilising in H1 2016 (+1,000), temporary employment increased substantially in Q3 (+30,000). Given the employment prospects described by business leaders in the sector, temporary employment should stabilise at the end of 2016 before picking up modestly at the beginning of 2017.

In the tertiary market sector excluding temporary employment, business leaders believe that prospects for change in their workforce remain favourable. Employment should therefore increase at a similar pace in H2 2016 (+61,000) and in H1 2017 (+65,000, *Graphs 2 and 3*).

All in all, tertiary employment (including temporary work) is expected to continue to increase at the same pace in H2 2016 (+90,000 after +94,000 in H1). It should slow a little in H1 2017, with +70,000 jobs.

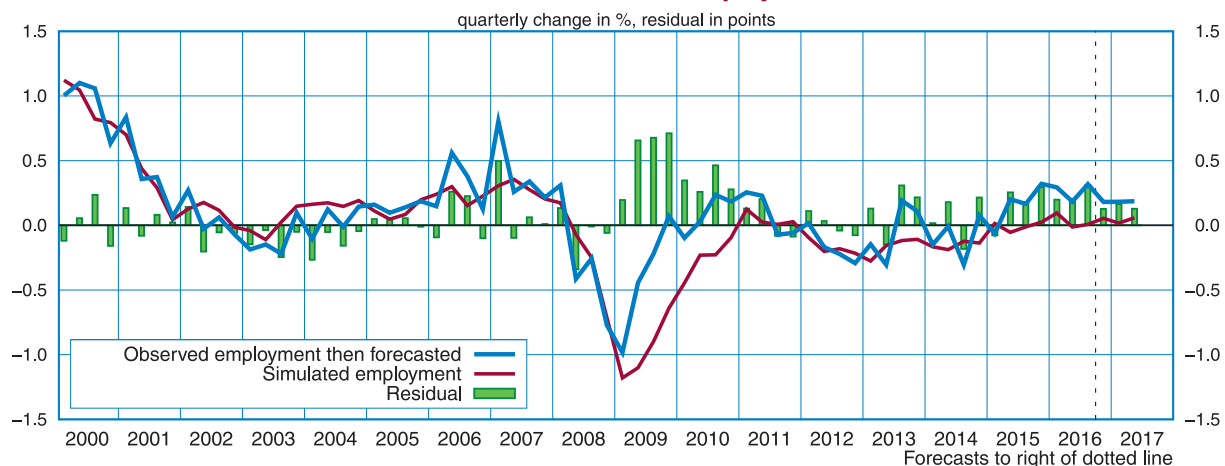
Job destructions in industry should remain moderate

Net losses of industrial jobs continued in Q3 2016, although they were a little less pronounced than in H1 (-5,000, after -14,000 in H1). The expectations of industrialists in terms of employment suggest that job destructions are likely to maintain a similar pace in Q4 2016 and H1 2017 (-6,000 on average per quarter).

Employment in construction is no longer declining

Payroll employment in construction has fallen almost continuously since the end of 2008. The sector lost 34,000 jobs in 2015 and 4,000 in H1 2016. In Q3 2016, it stabilised. In the business

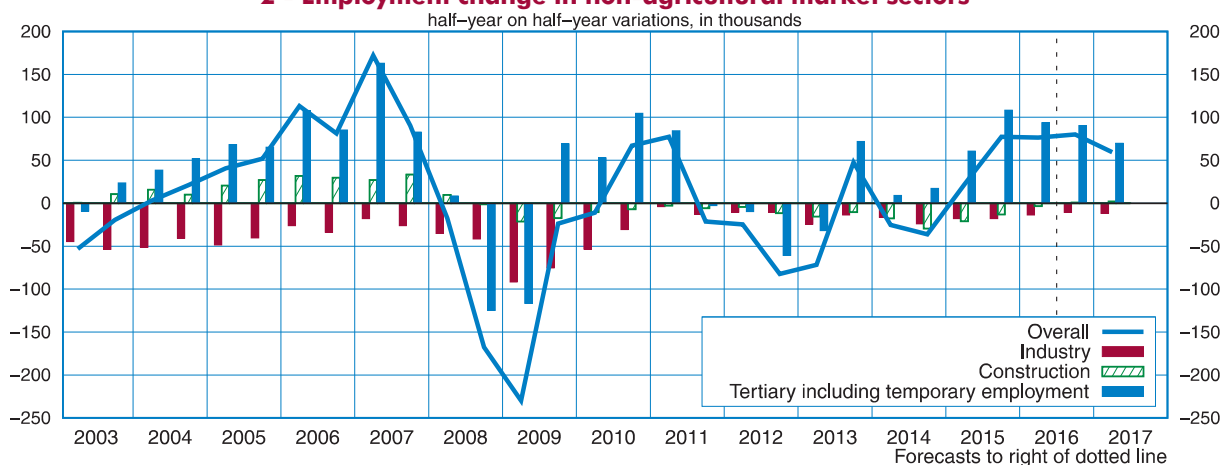
1 - Employment observed in the non-agricultural market sector, simulated and residual employment



Note: The equation residual for employment is the spread between the observed employment and the simulated employment from past and current variations in employment and activity and from effects of employment policies (included, over the recent period, the effects of the CICE, the PRS and the employment plan). A positive residual, such as that observed in 2015, indicates that observed employment showed better growth than past behaviour would lead us to expect. Estimation period: 1984-2009.

Source: INSEE

2 - Employment change in non-agricultural market sectors



Source: INSEE

tendency surveys, the balances of opinion on planned workforce numbers continue to pick up in civil engineering and are substantially higher in the building sector than they were in spring. In this context, workforce numbers should tentatively rise in construction by mid-2017 (+1,000 per quarter).

Non-market employment should increase moderately due to its private component

Non-market employment is expected to increase by 31,000 in 2016 (after +24,000 in 2015), driven by subsidised contracts (+16,000, [Table 2](#)).

It should continue to rise moderately in H1 2017 (+8,000 jobs, the same as in H2 2016). On the one hand, given the number of newcomers expected on subsidised contracts, such as the CUI-CAE¹ (*contrat unique d'insertion - contrat d'accompagnement dans l'emploi* i.e. Single Integration Contract - Contract for Support in Employment) and the *emplois d'avenir* programme (about 200,000 in Metropolitan France, after more than 230,000 in H2 2016), the number of subsidised contract beneficiaries should remain virtually unchanged H1 2017 (-1,000, the same

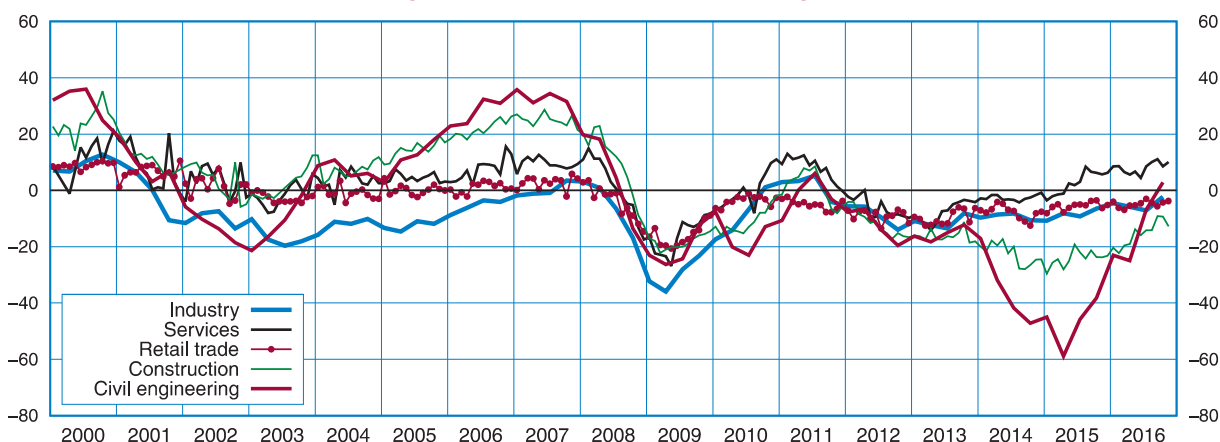
as in H2 2016). At the same time, the number of people in civic service should stabilise. As for non-subsidised public employment, it is expected to decline moderately, especially in local government. However, the private component of non-market employment (teaching, healthcare establishments, etc.) should continue to increase steadily.

Total employment is set to increase by 70,000 in H1 2017

Taking into account self-employed and agricultural jobs, total employment, all sectors combined, is set to increase by 188,000 in 2016 (after +116,000 in 2015), with a slight slowdown in H2 (+88,000, after +99,000). It is expected to be a little less dynamic in H1 2017 (+70,000) as market sector employment is likely to slow slightly as the effects of high employment intensity of growth associated with CICE and PRS lessen slightly. On the other hand, non-market employment should rise moderately once again thanks to its private component. ■

1. "Subsidised contracts in 2015", *Conjoncture in France*, March 2016, p. 80-81.

3 - Balance of opinion of business leaders on expected workforce



Source: INSEE, Business tendency surveys

Table 2

Change in subsidised employment and civic service in the non-market sector

in thousands

	2016				2017		2016		2017 H1	2015	2016
	Q1	Q2	Q3	Q4	Q1	Q2	H1	H2			
"Future Jobs"	-2	-4	-4	-1	1	1	-6	-4	1	5	-11
CUI-CAE incl. ACI*	16	7	1	3	-2	-1	23	4	-3	17	26
Civic service contracts	2	2	3	4	0	0	4	7	0	8	11
Total	16	5	0	6	-2	0	20	6	-2	30	26

Forecast

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

Scope: Metropolitan France

Sources: DARES, INSEE calculations

Unemployment

After falling sharply in Q2 2016, the number of unemployed rose slightly in Q3 (+31,000 in Metropolitan France). The ILO unemployment rate stood at 9.7% of the labour force, after 9.6% in Q2 and 10.1% one year earlier. Including the French overseas departments, the rate was 10.0%, after 9.9% in the previous quarter and 10.5% one year before.

Over the forecasting period, the unemployment rate is expected to drop again slightly and should stand at 9.5% for Metropolitan France in mid-2017 (9.8% for the whole of France excluding Mayotte).

The unemployment rate rose slightly in Q3 2016 but remains lower than one year previously

In Q3 2016, the number of unemployed in Metropolitan France increased by 31,000, after dropping by 69,000 the previous quarter (Table). Unemployment stood at 9.7% of the labour force, after 9.6% in Q2 2016 (Graph). Year on year, the number of unemployed fell by 118,000 in Q3, corresponding to -0.4 points. Throughout the whole of France (excluding Mayotte) the unemployment rate was 10.0%, after 9.9% in Q2 2016 and 10.5% one year earlier. The halo of unemployment¹ decreased by 26,000 people between Q2 and Q3 2016; as compared to Q3 2015, it had increased by 70,000 people.

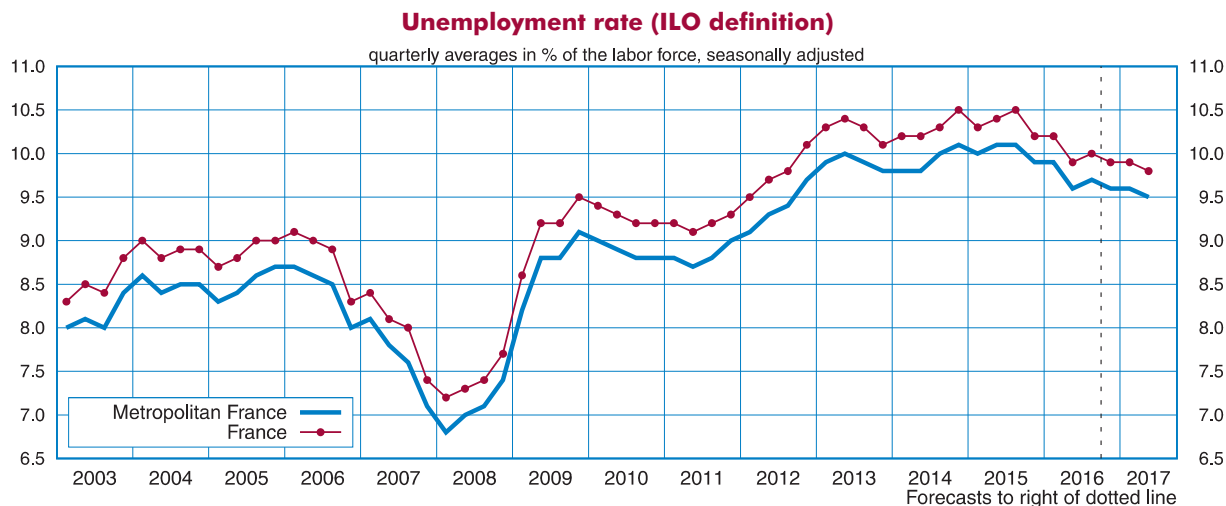
1. The halo of unemployment is made up of economically inactive persons as defined by the International Labour Office (ILO): it refers to people who are seeking employment but who are not available and people who wish to work but are not seeking employment, whether they are available or not.

The male unemployment rate continues to fall

Between Q2 and Q3 2016 the unemployment rate rose for women (+0.4 points) and fell for men (-0.2 points). The year-on-year variations also differ: between Q3 2015 and Q3 2016, the male unemployment rate dropped by 1.0 points, while the female rate increased by 0.2 points. In Q3 2016, the male unemployment rate matched the female rate (9.7%), whereas it had been higher since mid-2012, with the gap rising to +1.2 points in Q3 2015. Since the economic crisis of 2008-2009, the male unemployment rate had increased faster than the female rate, as job destructions were more numerous in industry and construction – sectors characterised by predominantly male employment. Over the past year, however, the relative employment dynamics per sector, and especially the improved short-term outlook for the construction sector in which job destructions have ceased (Employment sheet), are more beneficial to men than women.

The youth unemployment rate rises again

The unemployment rate for 15-24-year-olds rose by 1.2 points between Q2 and Q3 2016, and by 0.8 points compared to Q3 2015. It stood at 25.1% in Q3 2016: close to the peak level reached in late 2012 (25.4%). Youth employment was partly penalised by the decline in the number of beneficiaries of emplois d'avenir («future jobs») employment contracts, aimed at young people with few or no qualifications.



French developments

The unemployment rate for the over 50s rose by 0.5 points against the previous quarter and has returned to the level seen in the summer of 2015 (7.0%). Conversely, the unemployment rate for 25-49-year-olds fell by 0.2 points between Q2 and Q3 2016. It dropped by 0.8 points year on year.

The unemployment rate should fall through to mid-2017

In 2016, the labour force is expected to rise by 126,000, after +39,000 in 2015. The increase in the labour force stems primarily from the trend increase in the working age population; however, it should slow down due to people continuing to take

early retirement, in the scheme specifically applying to long careers, and by the jobseekers' training plan announced in early 2016, which has been ramped up since the spring. In H1 2017, although the impact of these two schemes is expected to wane, the labour force should rise again, although not quite as fast (+49,000) as its spontaneous increase (+60,000). All in all, net job creations (+69,000 in H1 2017) should slightly exceed the anticipated rise in the labour force, and the unemployment rate should fall again: in mid-2017, it should stand at 9.5% of the labour force in Metropolitan France, and 9.8% for the whole of France (excluding Mayotte). ■

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

in thousands, SA, and in %

	Quarterly changes										Annual changes				
	2015				2016				2017						
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	2013	2014	2015	2016	2017 H1
Population of the 15-64 age bracket	-17	-15	-12	-10	-9	-8	-9	-10	2	2	-81	-78	-54	-36	4
Population of the 15-59 age bracket	-13	-9	-5	-1	1	1	1	-1	0	0	-57	-49	-28	1	0
Labor force	-42	64	51	-33	52	-19	78	16	24	25	126	149	39	126	49
including:															
(a) Contribution of the population and the trend participation rate	32	32	32	32	31	31	31	31	30	30	120	135	128	123	60
(b) Estimated bending effects	-2	-2	-2	-1	-4	-9	-18	-15	-6	-5	-22	-18	-8	-46	-10
(c) Other short-term fluctuations (residual)	-72	34	21	-64	25	-40	64	0	0	0	28	32	-80	50	0
Employment	14	18	30	40	60	50	47	44	34	35	124	25	102	200	69
Reminder: End-of-period employment (see "Employment" note)	-3	40	20	59	60	39	54	34	34	36	180	-4	116	188	70
ILO unemployment	-56	45	21	-73	-8	-69	31	-28	-10	-10	2	124	-63	-74	-20
ILO unemployment rate (%)	Quarterly average										Average in the last quarter of the period				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	2013	2014	2015	2016	2017 H1
Metropolitan France	10.0	10.1	10.1	9.9	9.9	9.6	9.7	9.6	9.6	9.5	9.8	10.1	9.9	9.6	9.5
France (including overseas departments)	10.4	10.4	10.5	10.2	10.2	9.9	10.0	9.9	9.9	9.8	10.1	10.5	10.2	9.9	9.8

Forecast

How to read it:

- the Employment line presents variations in the number of people in employment as a quarterly average, for consistency with the other data in the table,
- employment and unemployment are not estimated here within strictly equivalent scopes: total population for employment. population of households (excluding collective) for unemployment. As the impact of this difference is very minor (the population outside of households represents less than 1% of the active population), it is neglected here for the unemployment forecasting exercise,
- in (a), the contribution of demographics and of trend activity behaviour includes all the effects of pensions reforms up to and including that in 2010.

Source: INSEE