Disinflation is on the right track

Economic outlook

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Measuring, understanding

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At the end of 2023, European growth is at its lowest point

In 2023, the main world economies saw different trajectories. Europe –and especially Germany– was more exposed to the energy price shock, whereas the US economy benefited from solid fiscal support measures, among others. Meanwhile, the Chinese rebound was not as strong as expected, with the traditional drivers of growth (real estate, investment) appearing to be running out of steam.

In Europe, the energy shock is now fading and inflation has started to decline gradually, giving household consumption a little breathing space. At the same time, interest rate levels are affecting investment and credit spending. At the end of 2023, growth in the Eurozone could be at its lowest point: activity looks set to be sluggish in Q4 2023, but the recent turnaround in the business tendency surveys in German industry suggests that a rebound is possible in H1 2024, against the background of a moderate upturn in world trade. The difference in growth in the main Eurozone economies could therefore narrow.

Decline in inflationary tensions

The inflationary episode was more of a “bump in the road” for France but a much stronger “peak” for its main partners. These differences can be explained in part by the calendar and the methods used to limit price increases, such as the price cap in France. Overall, and compared to its main partners, the cumulative price increase since 2019 appears at this stage to be a little lower in France (almost +16% in October 2023 compared to 2019, according to the Harmonised Index of Consumer Prices, against almost +19% for the Eurozone as a whole, almost +20% in the United States and more than +22% in the United Kingdom).

While the inflationary surge was greater and longer-lived than had been generally expected two years ago, the latest available figures nonetheless suggest that this are not a self-sustaining dynamic, like that of the 1970s: in services in particular, where a price-wage spiral is most likely to be generated as it is determined by the cost of labour, inflation was lower than expected until November. It should continue to be sustained somewhat in the coming months but without picking up further.

Advanced indicators (producer prices, business tendency survey balances of opinion) suggest that the slowdown in inflation will continue into the coming months in France, although it may not necessarily be continuous. Thus the year-on-year increase in consumer prices is expected be around 2.5% from spring 2024 (and a little less for core inflation). After the drop in energy inflation, inflation in food and manufactured goods should also fall substantially –although prices may not necessarily come down.

Towards a rebound in purchasing power

After slowing in Q3 2023, the average wage per capita (AWPC) in the market sectors is expected to accelerate towards the end of the year, due mainly to large payouts in the form of profit-sharing bonuses. The year-on-year increase should then once again be greater than that of the consumer price index and should remain so throughout the forecasting period (to mid-2024), despite a slowdown of the AWPC in the spring as a result of slowing prices. The automatic increase in the minimum wage at the start of 2024 is likely to be around +1.1%.

The purchasing power of household gross disposable income (GDI) is expected to bounce back in Q4 2023, driven by earned income, and should then remain dynamic at the start of 2024 with the effect of social benefits, notably the index-linking of basic pensions to inflation. All in all, improvements in purchasing power in 2023 would seem to be in line with growth (+0.8%, or +0.3% per consumption unit –CU), with a significant contribution from wealth income, mainly as a result of higher interest rates which boost payments to savers. Household purchasing power should be more dynamic in 2024 (+1.2% overhang by mid-2024, or +0.8% per CU).

On the business side, the increase in the real cost of labour is likely to have an impact on changes in the margin rate at the end of 2023. However, this margin rate should bounce back in H1 2024 as a result of the reduction in the business value added contribution rate and a small increase in productivity. It is expected to stand at 32.8% in spring 2024, which is slightly higher than its level before the health crisis.

In France, growth is expected to be tentative towards the end of 2023, then a little more robust in H1 2024

In November, INSEE's business tendency surveys once again revealed a decline in both the business climate and the employment climate. At the same time, the first definitive indicators for October (household consumption of goods, industrial production) suggest sluggish growth for Q4 2023. After bouncing back this summer, household consumption appears not to have increased this autumn, partly due to the mild weather which resulted in lower expenditure on energy. Industrial production also appears to be virtually stable, whereas investment is expected to weaken. Conversely, exports should benefit this quarter from significant deliveries in the aeronautical and naval sectors. All in all over the quarter, zero growth is expected (0.0% after -0.1% in Q3). Annual growth in 2023 is expected to be +0.8%.

Activity could then accelerate a little in H1 2024 (+0.2% forecast per quarter), helped by disinflation and a moderate upswing in world trade, although the effects of past monetary tightening will probably continue to be felt in investment, hitting the construction sector particularly hard. Both consumption and industrial production are therefore likely to rise again, with corporate investment just about remaining steady. The mid-year growth overhang for 2024 is expected to be relatively modest, at around +0.5%.

The unemployment rate is expected to increase slightly

Employment has continued to rise since the start of 2023, although it slowed in the wake of economic activity. In the forecast, work-study contracts, which contributed significantly to the overall increase between 2020 and 2022, should remain stable, as should payroll employment excluding work-study programmes, despite a slight acceleration in Q2 2024, in line with activity. By mid-2024, the year-on-year rise in the number of jobs created should therefore reach 0.3%, against 1.1% between mid-2022 and mid-2023.

Assuming a moderate increase in the labour force, mainly as a result of the pension reform affecting pensioners' activity, the unemployment rate is expected to increase by 0.1 points in Q4 2023 and Q1 2024, up to 7.6% of the labour force, then stabilise in the spring.

There are still many variables that could affect the main scenario

While the main scenario is presented in this *Economic outlook*, other adjacent trajectories are obviously possible with regard to economic growth and also inflation. Fluctuations in oil prices and geopolitical developments more generally may, of course, affect inflation forecasts, both upwards and downwards. The impact of monetary tightening on European economies is still difficult to predict exactly. Lastly, the trade-off between household consumption and saving may also make a difference. ●

French economic outlook

Consumer prices for services, mainly determined by the cost of labour, are expected to remain buoyant in 2024 but without picking up further

While inflation has been in decline since mid-2023, notably due to the significant slowdown in food prices, the prices of services remain relatively dynamic. Thus, taking into account their weight in the household consumer basket (around 50%), services have been the main contributors to headline inflation since October 2023. As a result, changes in the prices of services, where the cost of labour plays a major role, can provide information on the risk of a runaway wage-price spiral.

The sharp increase in the consumer prices of energy products in 2021 and 2022 was followed first by strong inflation in food products (and to a lesser extent in manufactured products). The increase in the prices of services came later and was more contained. These differences can be explained by the nature of the price shock, which was essentially imported. Clearly, the shock spread to domestic prices, but the extent and timing of this spread depended mainly on the structure of the inputs of each sector (majority of commodities or majority of labour force), and on other factors (degree of competition, types of contract upstream and downstream of production, etc.).

This Focus models changes in the consumer prices of services. Although services represent almost 50% of the consumer price index basket, the scope chosen for this Focus is limited to a services sub-field which accounts for most of the variation in the prices of services; in particular, administered prices or prices that are too volatile have been removed. This sub-field therefore includes, on the one hand, accommodation-catering and on the other hand, a set of services called, for the purposes of this Focus, “miscellaneous services” (maintenance and repair services, IT, legal, cultural and recreational services, aesthetic services, etc.). The price of “miscellaneous services” increased by around 5% in 2023 compared to 2022 and by about 9.4% compared to 2021. According to the model used here, the cost of labour would appear to account for almost 65% of the increase in prices in “miscellaneous services” between 2021 and 2023. In accommodation-catering, agrifood products –whose prices were particularly dynamic across the time period– are important inputs, alongside labour force. Thus the cost of labour would appear to account for a little over 45% of the increase in accommodation and catering prices between 2021 and 2023 (which was around +10%), while the increase in agrifood products would appear to account for almost 25%. The model suggests that consumer prices of services probably evolve according to their “historical behaviour”, without the wage-price spiral spinning out of control.

The model selected here suggests two main reasons why the prices of services continue to rise (around +1% per quarter since the beginning of 2023) and why this rise is delayed. First, the predominant weight of the labour factor in the function of production: the dynamism of the price of services occurs later as wages lag behind in adjusting to inflation. In addition, delays in passing on the price of services are structurally lengthy: the earlier increase in the cost of labour does not yet seem to have been entirely passed on to prices. This would justify forecasting an increase in prices of “miscellaneous services” and accommodation-catering of around +1% per quarter, but without them picking up further in 2024.

Narjis Benchekara et Guillaume Roulleau

Since the beginning of 2023, the year-on-year variation in consumer prices for services has remained at around 3%, i.e. much less than for food or energy. Yet services make a significant contribution to headline inflation, as they represent 50% of the consumer price index (CPI) basket.

Within the services sector, price variations can differ widely (► **Figure 1**). Some prices appear to be increasing substantially (+5.9% forecast in transport services across the whole of 2023, compared to 2022), while others are decreasing (-3.8% forecast in communication services).

In fact, services are made up of very varied “products”, with prices not always obeying the same determinants. The prices of some services are “administered” (i.e. they are largely set by public authorities, such as health services) or they may be regulated (e.g. residential rent adjustments may not exceed the rent reference index). In other services prices are very volatile due to the concentration of players involved (in telecommunications services, for example, where a price change by one operator can have a significant impact on the entire item) or to the price-fixing methods used (in air transport, for example, prices depend mainly on oil prices, but also on the optimisation techniques –known as *yield management*– that companies apply).

French economic outlook

The purpose of this analysis is to gain a better understanding of the economic determinants involved in price variations in services. Those services where prices are administered or too volatile and would require modelling that is too complex or not sufficiently dependent on economic determinants are therefore excluded from the scope of the study. Thus the study covers the short-term grouping known as "other services" –i.e. excluding "rent, water, waste", health services, communication and transport services. Within this group, administered and/or volatile prices (broadcasting licence, etc.) are excluded. What remains is a sub-field of "other services", covering some relatively diverse products.

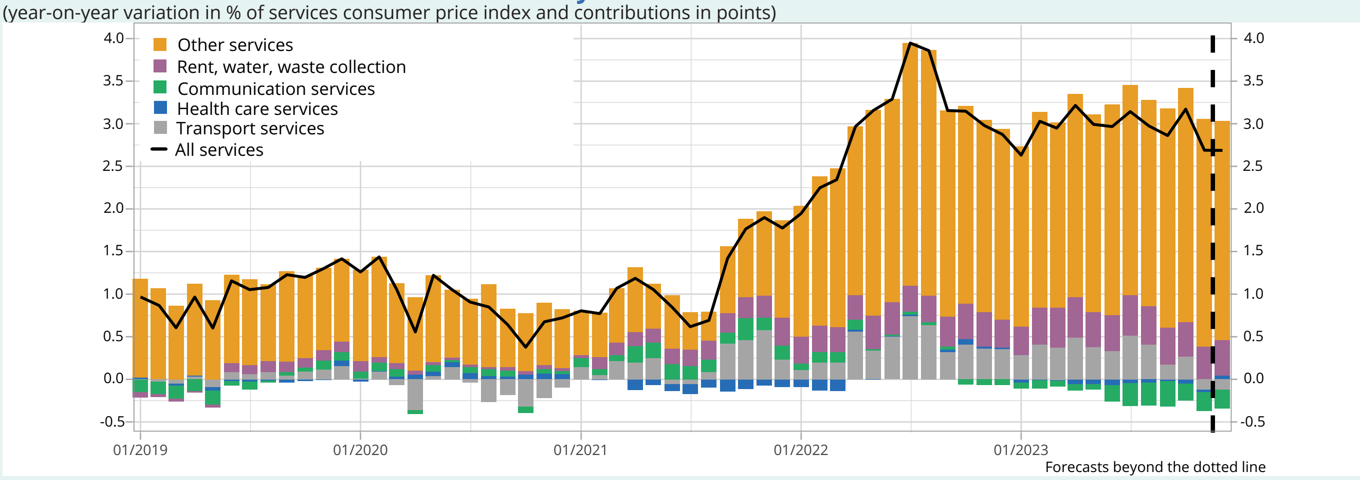
Within this sub-field, this analysis is divided between accommodation-catering services, given their weight in household consumption (16% of the CPI for all services, ►**Figure 2**), and the rest, hereafter described as "miscellaneous services". These are taken as a whole, even though they also include some widely differing services, especially maintenance and repair services for personal vehicles (about 8% of the CPI for all services), housing (5%) or objects (1.5%), also legal services (3%), cultural and recreational services (3%) and aesthetic services (1.6%). All in all, the services modelled in this study represent 20% of the CPI as a whole and 40% of the services CPI. In 2023, they appear to account for almost 70% of inflation in all services.

Prices in "other services" have been picking up since the beginning of 2021: their year-on-year variation rose from +0.9% in January 2021 to +2.6% in January 2022 then from +3.5% in January 2023 to +4.3% in November. The dynamics of wage costs is one of the factors contributing to this acceleration and the aim of this analysis is to demonstrate how they are passed on to consumer prices. In fact, "other services" are particularly labour intensive in their content: in 2019, for example, employee remuneration represented over 60% of value added in accommodation-catering services and the repair of automobiles and motorcycles and up to 70% for other service activities (against 54% in industry).

Logically, inflation in "other services" was slow to react to the increase in commodity prices, both in agriculture and energy, which began in 2021 then intensified in 2022 with the outbreak of war in Ukraine. ►**Figure 3** shows the long time

►1. Inflation in services and contribution by the sector's sub-fields

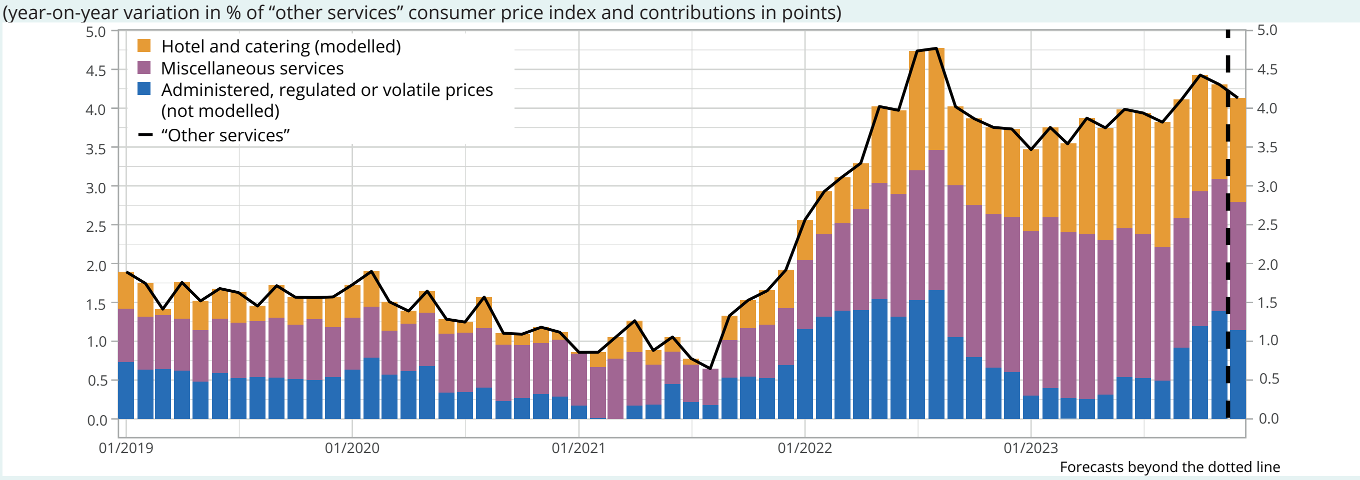
(year-on-year variation in % of services consumer price index and contributions in points)



Last point: December 2023.
How to read it: in December 2023, inflation in services is expected to be 2.7%.
Source: INSEE.

►2. Breakdown of inflation in "other services"

(year-on-year variation in % of "other services" consumer price index and contributions in points)



Last point: December 2023.
How to read it: in December 2023, inflation in "other services" is expected to be 4.1%.
Source: INSEE.

delay between the increase in the price of imported commodities, the cost of labour in market services and finally, the prices of "other services". Since mid-2021, the momentum of the price of "other services" has lagged behind that of the cost of labour.

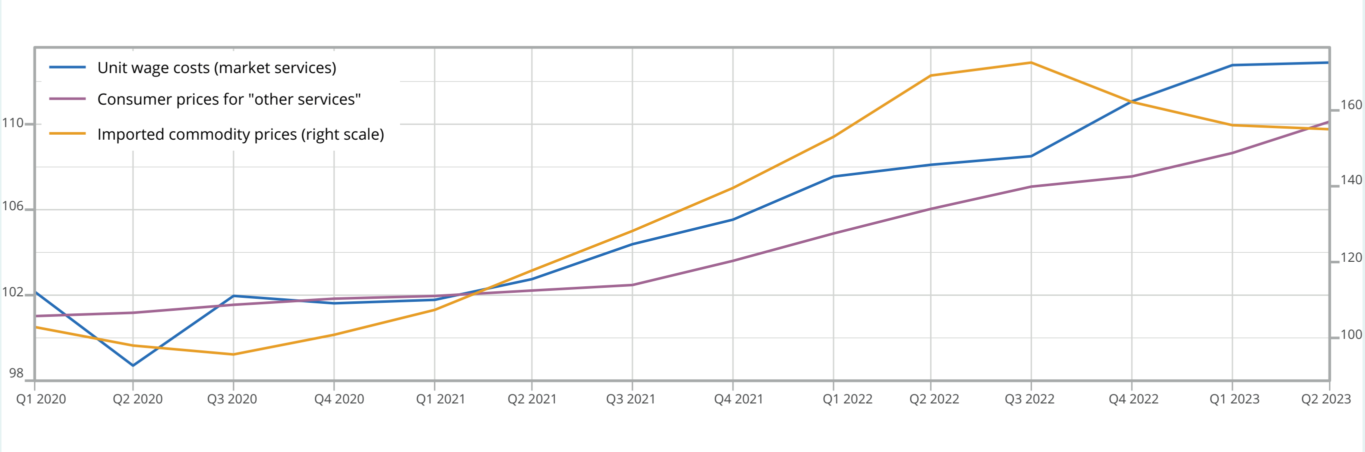
The increase in the cost of labour seems far from being passed on fully to consumer prices of "miscellaneous services"

Cumulatively between 2021 and 2023,[1] consumer prices for "miscellaneous services" increased by 9.4%. An econometric model of the dynamics of these prices is presented here, with the cost of labour as the main determinant (*via* unit wage cost in market services, ►**Method box** for more details on the different models). In particular, it is assumed that in the long term, the prices of "miscellaneous services" are indexed unitarily to unit wage costs in market services. However, it should be noted that in 2019, unit wage costs declined facially –due to the transformation of the Competitiveness and Employment Tax Credit (CICE) into a reduction in employers' social contributions– with no impact on prices. All in all, and according to this model, the increase in "miscellaneous services" prices between 2021 and 2023 appears to result mainly (almost 65%) from the increase in the cost of labour (►**figure 4**).

1 Here consumer prices are observed up to November 2023 then forecast for December.

►3. Change in consumer prices of "other services" compared to unit wage costs in market services and prices of imported agricultural commodities

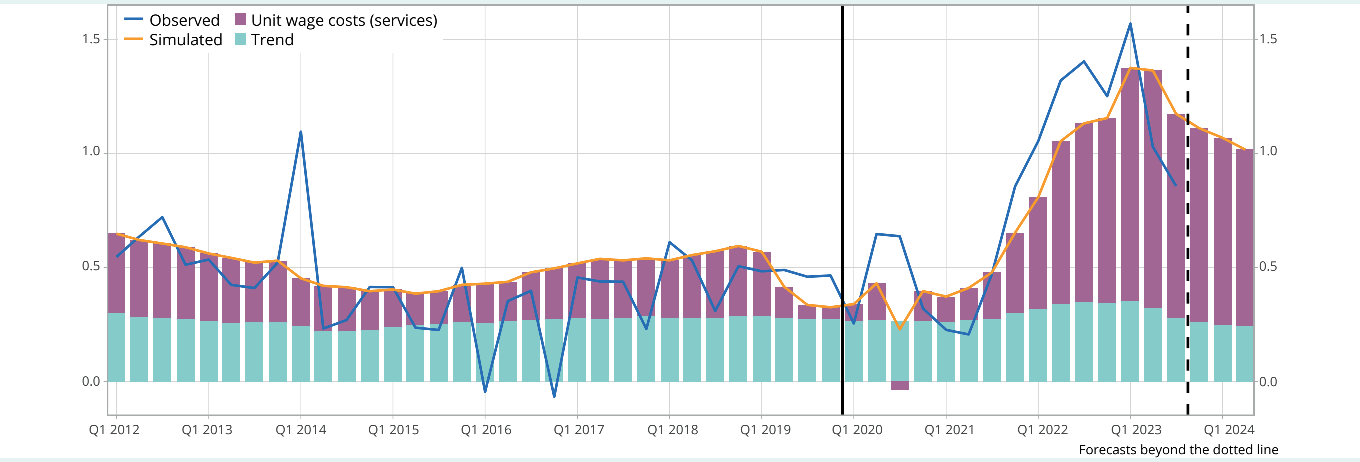
(base 100 in 2019; seasonally-adjusted data)



Last point: Q2 2023.
How to read it: in Q2 2023, the consumer price index for "other services" (seasonally adjusted) reached 111 points, which corresponds to an 11% increase compared to its 2019 average, while the price of agricultural commodities rose by 55%.
Source: INSEE.

►4. Variation in consumer prices of "miscellaneous services" and econometric contributions of its determinants

(quarterly variations in % of "miscellaneous services" consumer prices, and contributions in points)



Last point: Q2 2024. End of the estimation period to the right of the solid line.
Note: the model was estimated between Q1 1998 and Q4 2019. The yellow curve corresponds to the model simulation, the blue curve to observed then forecast quarterly variations. Beyond the dotted line, as a forecast, the blue curve (observed) corresponds to the model forecasts (yellow curve). The consumer price of "miscellaneous services" corresponds to the CPI category "other services", but without accommodation-catering and services whose prices are administered or are too volatile.
How to read it: in Q1 2023, the prices of "miscellaneous services" rose by about 1.6% while the model of these prices forecast an increase of 1.4%. Unit wage costs could probably account for almost 65% of this price rise.
Source: INSEE, INSEE calculation.

Due to the assumption of long-term unit indexation, a permanent 10% increase in unit wage costs translates in the long term into a 10% increase in the prices of "miscellaneous services". However, the estimated transmission times are long: after 2 years, only 60% of the shock appears to be passed on to the consumer prices of "miscellaneous services" (► **Box**: Price-response function modelled to an increase in the cost of labour). The restoring force to return the price to its long-term target is slower than those estimated in the food production chain (► **Benchekara, Marquis and Roulleau, 2023**). This result is consistent with the literature, especially in microeconomics, on sectoral variations in price rigidity: for example, ► **Dias and al., 2011** consider that (all other things being equal) service sector companies modify their prices much less often than manufacturing industries.

By looking at levels (rather than variations) of observed and simulated prices of "miscellaneous services", it can be seen that the price set by these branches is systematically below the long-term price target (► **Figure 5**). In fact, the model used here assumes that the prices of "miscellaneous services" fluctuate in the short term around a "long-term target" determined unitarily by unit wage costs. The fact that observed and simulated prices are below this long-term target suggests that as yet not all of the past increase in the cost of labour has been transmitted to the consumer prices of "miscellaneous services". Furthermore, the superposition of the two curves of observed and simulated prices also suggests that these branches have adopted a price-fixing behaviour consistent with their "historical behaviour": thus there would appear to be no momentum in the price of "miscellaneous services" that is not explained by the model and that could suggest a surge in the wage-price spiral. This analysis was carried out on "miscellaneous services" taken as a whole and may therefore mask disparities within this sub-field.

Given the dynamism of the cost of labour during 2023 and taking into account the delay in its transmission to consumer prices, it is likely that "miscellaneous services" prices will continue to pass on recent wage increases. As a result, as a forecast for 2024, the prices of "miscellaneous services" (seasonally adjusted) should remain relatively strong, with an increase of around +1% per quarter.

In accommodation-catering, consumer prices are expected to be boosted by the momentum of wage costs but also by the increase in the price of agrifood products

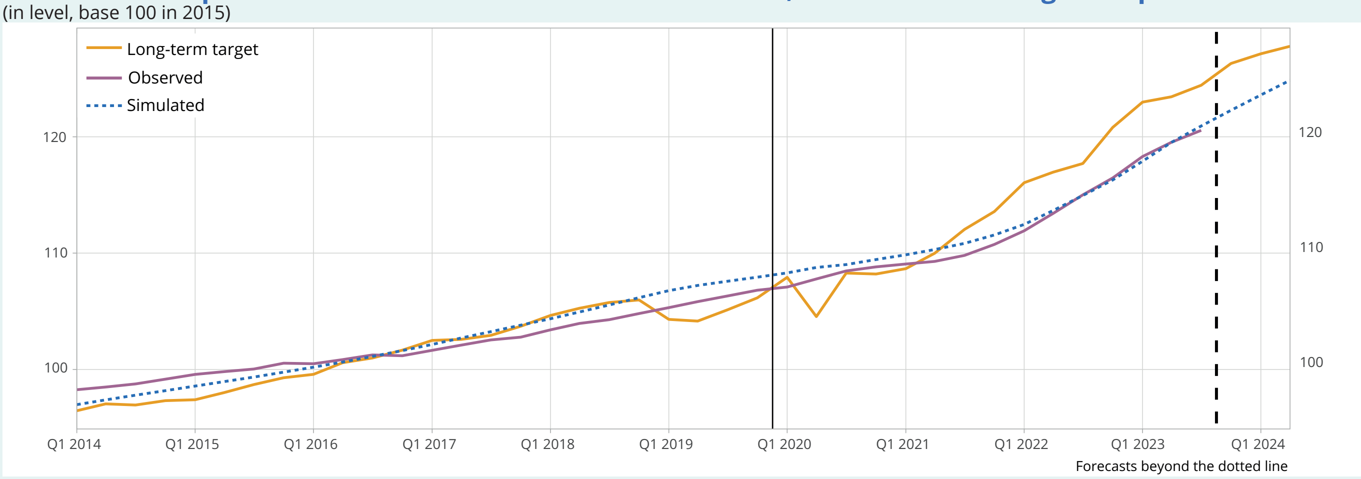
As consumer prices in accommodation-catering are very strongly seasonal (prices increase during school holidays due to increased demand), the model presented here concerns the consumption deflator (seasonally adjusted) for accommodation-catering services. This indicator, based on the quarterly accounts, is a good approximation of the seasonally adjusted CPI for accommodation-catering services.[2] Between 2021 and 2023, the price of accommodation-catering services increased by about 10%. However, its momentum differs from that of the prices of "miscellaneous services" modelled previously.

After some upheavals during the health crisis when the sector was particularly badly affected by the restrictions on activity, the prices of accommodation-catering services were especially dynamic from the end of 2021, whereas the increase in prices of "miscellaneous services" was more gradual. Econometric modelling suggests that, unlike

2 For convenience, this deflator will be called the "price of accommodation-catering services". The results are robust for the use of the seasonally adjusted CPI for accommodation-catering services.

► 5. Consumer prices of "miscellaneous services": observed, simulated and long-term price

(in level, base 100 in 2015)



Last point: Q2 2024. End of the estimation period to the right of the solid line.
How to read it: the observed level of prices in "miscellaneous services" was 118, the same as the simulated level. However, the "long-term price" is expected to reach 123.
Source: INSEE, INSEE calculation.

"miscellaneous services", prices in accommodation-catering depend not only on the cost of labour (proxied by the average wage per capita in market services) but also on the price of the inputs used in these sectors, i.e. energy and agrifood products (► **Figure 6**).

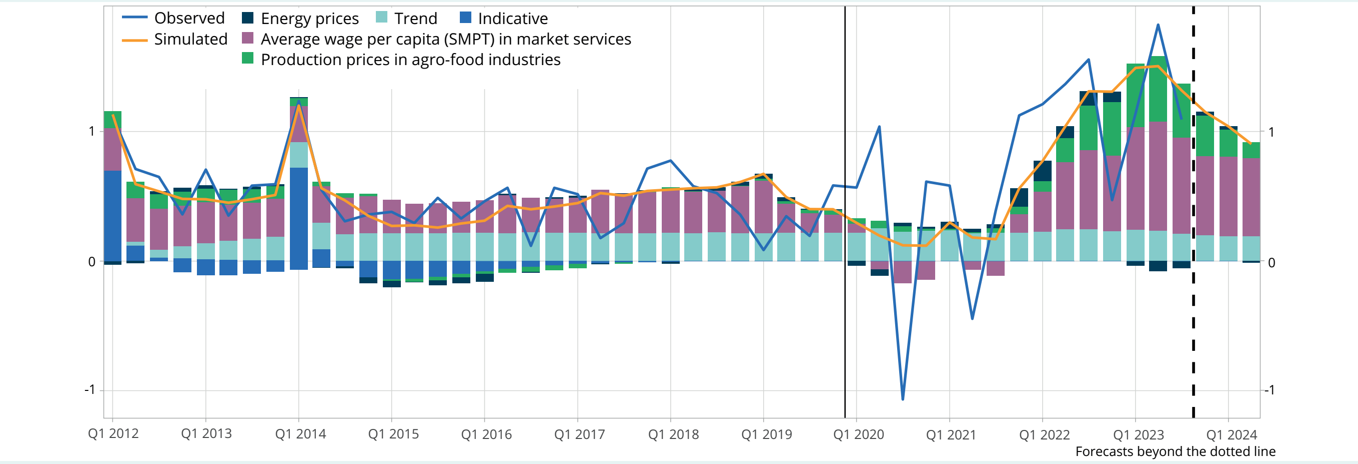
Thus, on average in 2022, compared to 2021, the contribution of energy prices to the variation in accommodation-catering prices would appear to be of the same order of magnitude as that of the cost of labour (about 25%). Across 2023, the rise in producer prices in the agrifood industries (► **Benchekara, Marquis and Roulleau, 2023**) would seem to account for a large proportion of the momentum in accommodation-catering prices (around 40% every quarter). On average between 2021 and 2023, the cost of labour is likely to remain the main determinant for the increase in the price of accommodation-catering services, accounting for almost 45%, although this is less than for the increase in prices of "miscellaneous services". Energy input prices are expected to contribute 5% and food input prices 25%.

The delays in passing on the increase in the cost of labour appear to be shorter in accommodation-catering than in "miscellaneous services". After 2 years, 85% of a permanent increase in the cost of labour is expected to be passed on (against 60% for "miscellaneous services"). In the long term, a permanent rise of 10% in the cost of labour appears to lead to a price rise in accommodation-catering of over 8%.

As in the analysis of "miscellaneous services" prices, the difference between the observed selling price in accommodation-catering and the "long-term target" can provide information on the scale of past cost increases which would still have to be passed on in prices (► **Figure 7**). Since mid-2021, both observed and simulated prices in accommodation-catering have

► 6. Variation in consumer prices of accommodation-catering services and econometric contributions of its determinants

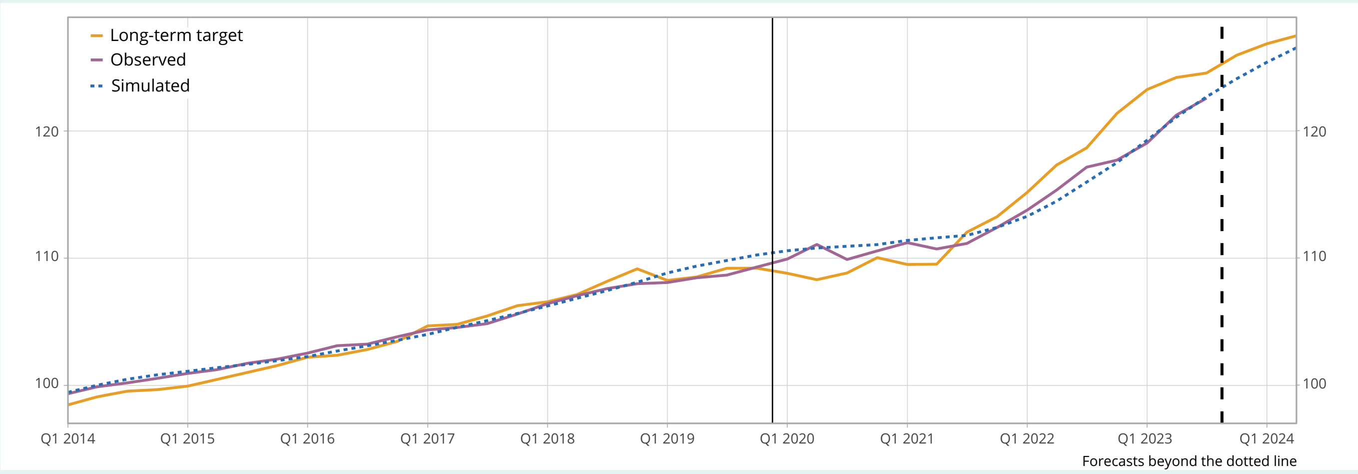
(quarterly variations in the consumption deflator for accommodation-catering services in %, contributions in points)



Last point: Q2 2024. End of the estimation period to the right of the solid line.
Note: the model was estimated between Q1 1995 and Q4 2019. The yellow curve corresponds to the model simulation, the blue curve to observed then forecast quarterly variations. Beyond the dotted line, as a forecast, the blue curve (observed) corresponds to the model forecasts (yellow curve).
How to read it: in Q1 2023, prices of accommodation-catering services rose by about 1% while the model of these prices forecast an increase of 1.2%. Average wages per capita probably account for almost 76% of this price rise.
Source: INSEE, INSEE calculation.

► 7. Consumer prices in accommodation-catering: observed, simulated and long-term price

(consumption deflator for accommodation-catering services, by level, base 100 in 2014)



Last point: Q2 2024.
How to read it: in Q1 2023, the observed level of consumer prices in accommodation-catering was 119, the same as the simulated level. However, the "long-term price" is expected to reach 123.
Source: INSEE, INSEE calculation.

been well below long-term prices, which would suggest that transmission of the cumulative increase in the cost of labour is still not complete. In addition, the fact that the simulated and observed price levels are relatively similar also suggests that the price-fixing behaviour in accommodation-catering is consistent with "average behaviour" in this branch in the past: there would appear to be no unexplained momentum in these prices, as in "miscellaneous services" prices.

The difference between observed prices on the one hand and long-term prices on the other could possibly be interpreted as a normal and transitory phenomenon of weakening margins in the sector during the inflationary period. The ongoing catch-up between prices and their long-term target would then correspond to a "normalisation" of the sector's margin rate. While this interpretation is the result of potential imperfections in the selected model, it is nevertheless corroborated by results from the national quarterly accounts: the margin rate for accommodation-catering does appear to have been in a continuous decline since 2021 and until early 2023, when it began to pick up (► **Figure 8**).

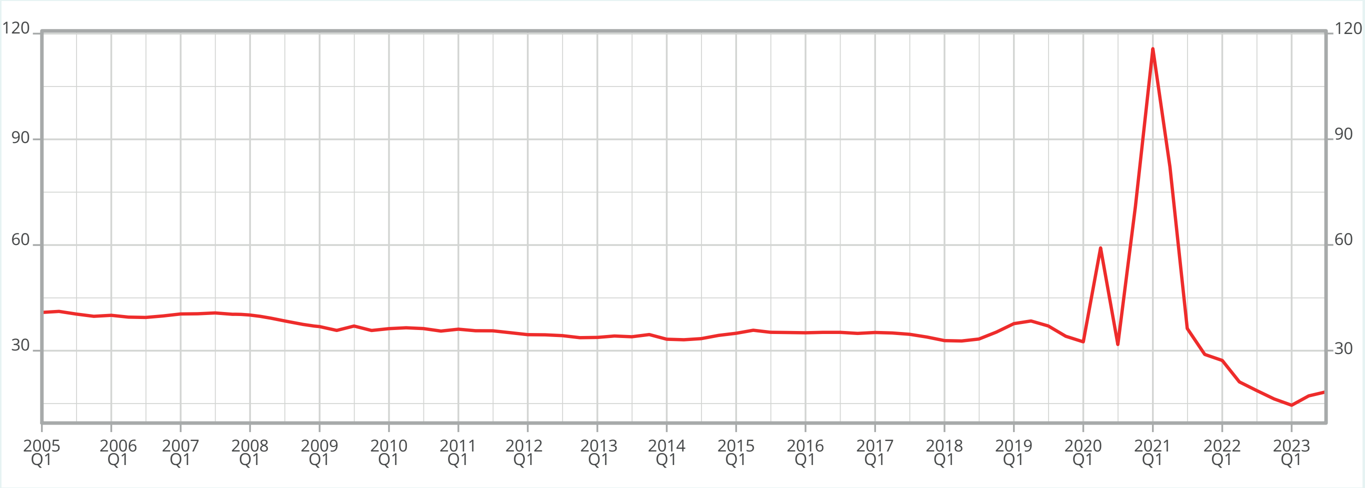
According to the 2024 forecast, the decline in energy prices from the end of 2022 and the drop in producer prices in the agrifood industries from H2 2023 should alleviate upward pressure on prices in accommodation-catering services. However, earlier increases in food product prices have not yet been fully passed on through accommodation-catering selling prices. Their residual repercussions along with moderately buoyant wages could account for an increase in selling prices of close to +1% per quarter in 2024 (in seasonally adjusted data), in deceleration.

To conclude, between 2021 and 2023, inflation in "other services" was more contained than that in energy or food, but nevertheless increased continuously, or almost. Econometric modelling suggests that in the "miscellaneous services" sub-field and in accommodation-catering also, labour is the main explanatory factor for the rise in consumer prices. Also, the increase in the cost of labour since 2021 could account for almost 65% of the increase in consumer prices in "miscellaneous services" and almost 45% for those in accommodation-catering.

In addition, at this stage, accommodation-catering businesses and those in "miscellaneous services" do not appear to have passed on all of the increase in the cost of labour throughout the period. Thus, prices in the services studied here could remain dynamic into 2024, rising by about 1% per quarter, but without picking up further. ●

► 8. Margin rate in accommodation-catering

(in % of value added)



Last point: Q3 2023.
How to read it: in Q2 2023, the margin rate in accommodation-catering (gross operating surplus of the branch divided by its value added) is expected to be 17% against almost 38% over the period 1995-2019. The atypical movements in 2020 and 2021 are caused by production subsidies paid during the health crisis (especially the Solidarity Fund).
Source: INSEE, INSEE calculation.

Method box

The modelling of consumer prices in accommodation-catering and in "miscellaneous services" is based on error correction models (ECM), using similar techniques to those presented in an earlier focus (**▶Benchekara, Marquis and Roulleau, 2023**) to model producer prices and the consumption of food products. This type of modelling is used to estimate the links between prices and their determinants by establishing a long-term relationship (adjustment against an "equilibrium price") and the short-term dynamic.

Thus the underlying theory assumes that the different branches aim for an "equilibrium price" (or "long-term target") stabilising their unit margins[1]. However, adjustment to the long-term target does not happen immediately, but depends on a certain momentum, which can be estimated. Formally, let Pt be the price of services and Cmt the marginal costs of production, then the general form of the estimated equations is as follows:

$$\Delta\log(P_t)=\underbrace{\alpha+\beta_1\Delta\log(P_{t-1})+\beta_2\Delta\log(C_{mt})}_{\text{short-term dynamics}}-\rho\left[\underbrace{\log(P_{t-1})-\mu-\log(C_{m_{t-1}})}_{\text{long-term dynamics}}\right]+\epsilon_t \quad (1)$$

ECMs are often applied when modelling inflation (see, for example **▶Milin,2017**, **▶Charsonville and al., 2017** or **▶Ulgazi and Vertier, 2022**). The difficulty with modelling lies in the fact that the elasticities governing relationships between price and cost of inputs are estimated over time periods when inflation is low (from the end of the 1990s to 2019), which may detract from the model's predictive quality in a context of high inflation.

Thus it is implicitly assumed that, in the current period, companies' reaction to an increase in the price of inputs is the same as during the estimation period, when inflation was much lower. However, price adjustment is potentially faster in a period of high inflation (**▶Borio and al., 2023** and **▶Cavallo et al., 2023**). As in **▶Benchekara, Marquis and Roulleau, 2023**, the error correction models presented here assume that the stronger price diffusion in times of high inflation can be captured using data from the business tendency surveys, in particular the balance of opinion on expected change in selling prices in the sector concerned.

Econometric modelling of price changes in "miscellaneous services"

In the long term, the model assumes that the price of "miscellaneous services" is to be indexed on a unitary basis on unit wage costs in market services. In fact, the elasticity estimated by the long-term relationship is significantly higher than the unit measurement, which is difficult to justify theoretically and detracts from the forecasting qualities of the model. A linear trend is also added over the period. Even if the long-term equation does not respect the stationarity condition for the residual at the 10% threshold, the model's performances remain very good.[2] The short-term dynamic includes the delayed variations in the price of "miscellaneous services". Finally, the restoring force of the model is weighted by the absolute value of the balance of opinion on expected change in selling prices in retail trade,[3] derived from the monthly outlook surveys, in order to take into account the non-linear effect of a period of high inflation on price transmission. The selected model is therefore as follows:

$$\Delta p_t^a=0.31+0.27\,\Delta p_{t-1}^a+0.19\,\Delta p_{t-2}^a-0.06\times(1+s_t^{GZ})\times[p_{t-1}^a-csu_t^{DSM}\underset{(33)}{-0.003}\,t]+\epsilon_t^a$$

Estimation : 1998Q1-2019Q4 , R^2 = 0.51 , DW = 2.0 , $\sigma^2_{p^a}=0.08$, RMSE = 0.01

where:

- p^a is the logarithm of the consumer price of "miscellaneous services", excluding accommodation-catering (source: INSEE);
- csu^{dsm} is the logarithm of unit wage costs in market services, defined as employee pay divided by the value added of the sector by volume (source: national quarterly accounts, INSEE);
- s^{GZ} is the absolute value of the balance of opinion on expected change in retail trade selling prices (source: monthly

1 Even though, empirically, a branch's margin rate may not respect this assumption of stationarity, in the event of a change in its competitive intensity, for example..
2 Note that the hypothesis of non-stationarity of the residual is rejected at a threshold of 11% in a stationarity test of the usual Dickey-Fuller type.
3 In the NAF classification of activities, "miscellaneous services" corresponds to a combination of the trade branch (e.g. for automobile repair) and the services branches (e.g. hairdressers). Thus the balances of opinion on expected change in both retail trade selling prices and services would be potential candidates. The balance in retail trade was the one that was ultimately chosen due to its better predictive performance.

tendency survey in retail trade, INSEE). The average of this balance of opinion over the estimation period is very close to 0 (-5%), the balance was at its minimum in 2004 (-46.6% in September 2004) and at its maximum in March 2023 (+63.2%).

Econometric modelling of accommodation-catering prices

A long-term relationship is estimated between the consumer price in accommodation-catering, the cost of labour[4] and producer prices in the agrifood industries. A linear trend is added after 2012 to ensure that the residual is stationary. The short-term momentum is based on the delayed variation in prices in accommodation-catering, and also on the variation in the price of energy[5] (defined as a weighted sum of oil and gas prices by including contracts specific to the sector, ►**Benchekara, Marquis and Roulleau, 2023** for more details). Several dummies are added, mainly to capture changes in the VAT rate in catering (change from 19.5% to 5.5% in Q3 2009, then to 7% in Q1 2012 and 10% in Q1 2014). As when modelling the prices of "miscellaneous services", the restoring force of the model is weighted by the absolute value of the balance of opinion in accommodation-catering on expected change in selling prices, the aim being to incorporate the non-linear effect of a period of high inflation on the speed at which prices are transmitted. The selected model is therefore as follows:

$$\Delta p_t^{HCR} = -0.23 + 0.25\,\Delta p_{t-1}^{HCR} + 0.12\,\Delta p_{t-2}^{HCR} + 0.01\,\Delta nrj_t + INDICATRICE - 0.12 \times (1 + s_t^{HCR}) \times (p_{t-1}^{HCR} - 0.82\,csu_{t-1}^{DSM} - 0.15\,p_{t-1}^{C1} - 0.002\,t\,1_{t>2012}) + \epsilon_t^{HCR}$$

Estimation : 1995Q1-2019Q4 , $R^2 = 0.69$, DW = 2.0 , $\sigma_{p^a}^2 = 0.08$, RMSE = 0.01

where:

- p^{HCR} is the logarithm of the deflator of consumption in accommodation-catering services (source: national quarterly accounts, INSEE);
- p^{C1} is the logarithm of the deflator of production by agrifood industries (source: national quarterly accounts, INSEE);
- $smpt^{dsm}$ is the logarithm of the average wage per capita adjusted for short-time working in market services (source: national quarterly accounts, INSEE);
- *nrj* is the logarithm of the price of energy in accommodation-catering (source: INSEE);
- *INDICATRICE* is a set of dummies to take aberrant quarters into account (specifically: Q1 2002, Q4 2003, Q3 2009, Q1 2012 and Q1 2014);
- s^{HCR} is the absolute value of the balance of opinion on expected change in selling prices in accommodation-catering (source: monthly tendency survey in services, INSEE). The average of this balance of opinion over the estimation period is very close to 0 (2.5%), the balance reached its minimum during the health crisis (-35.5% in April 2020) and its maximum in January 2023 (+36.6%).

Price-response function modelled to an increase in the cost of labour

The error correction model can be used to simulate the effect of an exogenous shock on the different prices of services to assess the speed of diffusion of the shock. The simulation exercise consists in permanently increasing the cost of labour in market services by 10% in order to study change in the price of services across several years. As the cost of labour is not approximated in the same way in the different equations, a 10% increase in unit wage costs is simulated here, assuming that this corresponds to a 10% rise in average wage per capita. In addition, there are no loopback effects in these simulations: thus the fact that the increase in inflation in services caused by the rise in the cost of labour in turn generates a wage revision is disregarded. Finally, the balance of opinion in the business tendency surveys on probable price changes is assumed to be equal to its long-term average, thus cancelling out its impact on the speed of diffusion of the shocks in the simulations.

A +10% shock on the cost of labour leads, in the long term, to a 10% increase in "miscellaneous services" prices and an 8.2% rise in accommodation-catering prices. The speed of diffusion of the shock is significantly higher in accommodation-catering: after one year, the accommodation-catering sector would appear to have transmitted almost 40% of the shock, against 22% for "miscellaneous services". ●

4 Here, average wage per capita in market services is preferred to unit wage costs for better stationarity of the residual and model performance.
5 The price of energy does not have a significant impact in the long-term equation.

►9. Response to a permanent +10% increase in the cost of labour

(cumulated impact in %)

Quarter	1	2	3	4	5	6	7	8	9	10	LT
Prices of “miscellaneous services”	0.00	0.63	1.38	2.22	3.05	3.84	4.56	5.21	5.58	6.32	10.00
Prices in accommodation-catering	0.00	1.00	2.10	3.24	4.43	5.13	5.84	6.42	6.86	7.20	8.20

Note: the simulated increase in the cost of labour corresponds in this simulation to a 10% rise in unit wage costs in market services for the “miscellaneous services” prices against a 10% rise in the average wage per capita adjusted for short-time working in market services for the accommodation-catering prices. The simulations do not include loopback effects resulting from wage increases (the fact that the rise in the price of services contributes in turn to a rise in the cost of labour). The permanent increase takes place in Q1.
How to read it: in response to a permanent 10% rise in the cost of labour, “miscellaneous services” prices are expected to increase by 3.05% after five quarters, and accommodation-catering prices by 4.43%.
Source: INSEE.

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Economic activity

In Q3 2023, French GDP weakened slightly (-0.1%, according to the detailed results in the quarterly accounts), after a significant increase in Q2 (+0.6%, ►**Figure 1**). While household consumption bounced back, corporate investment, in contrast, decelerated and foreign trade declined, hampering any improvement in GDP (►**Figure 2**). At the same time, activity in the manufacturing industry fell back a little, in the wake of the decline in agrifood and the manufacture of transport equipment, as did activity in services, notably transport services. Meanwhile, activity in the construction sector continued to decline, for the fourth consecutive quarter.

According to the business tendency surveys, the economic outlook remains sluggish. The business climate indicator dropped below its long-term average in October, reaching its lowest level since the end of the health crisis, and it continued to weaken in November. After remaining very high for a long time, the employment climate is also in decline, while household confidence in the economic situation is picking up, but only slowly (►**Figure 3a**). The decline in the

►1. Goods and services: resources-uses balance at chain-linked prices for the previous year, in quarterly and annual change

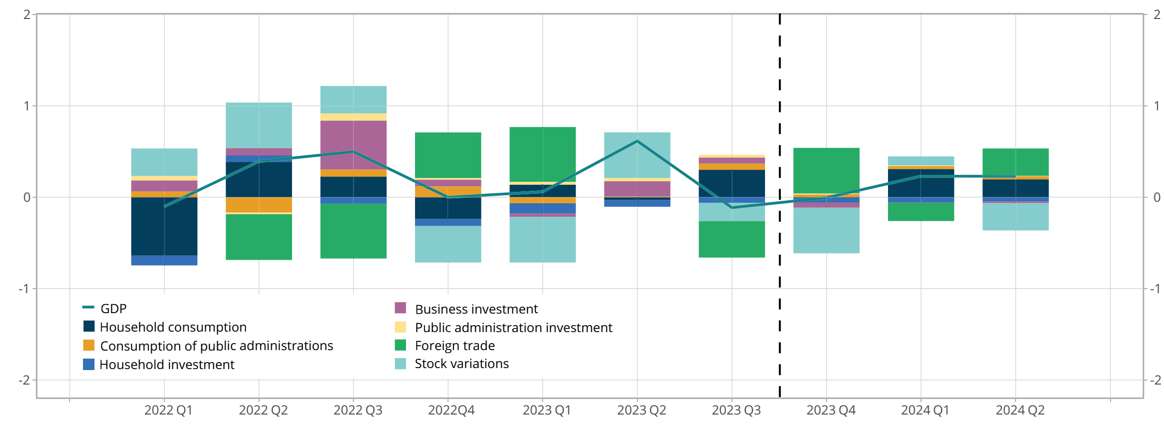
(quarterly and annual changes, in %; seasonally and working-day adjusted data)

	2022				2023				2024		2022	2023	2024 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Gross domestic product	**-0.1**	**0.4**	**0.5**	**0.0**	**0.1**	**0.6**	**-0.1**	**0.0**	**0.2**	**0.2**	**2.5**	**0.8**	**0.5**
Imports	1.6	0.3	4.8	-0.8	-3.1	2.4	0.1	0.2	0.6	0.5	8.8	0.5	1.8
Total resources	0.5	0.6	1.3	-0.1	-0.2	1.1	0.0	0.0	0.3	0.3	4.3	1.3	0.8
Household consumption expenditure	-1.3	0.8	0.4	-0.5	0.3	-0.1	0.6	0.0	0.6	0.4	2.1	0.6	1.2
General government consumption expenditure*	0.4	-0.4	0.3	0.6	-0.3	0.2	0.5	0.3	0.2	0.2	2.9	0.6	0.8
of which individual general government expenditure	*0.4*	*-1.1*	*0.4*	*0.7*	*-0.5*	*0.0*	*0.4*	*0.1*	*0.2*	*0.2*	*2.9*	*0.2*	*0.6*
of which collective general government expenditure	*0.5*	*0.8*	*0.1*	*0.6*	*-0.1*	*0.4*	*0.6*	*0.5*	*0.2*	*0.2*	*1.8*	*1.3*	*1.2*
Gross fixed capital formation (GFCF)	0.4	0.6	2.4	0.1	-0.5	0.5	0.2	-0.4	-0.2	-0.2	2.3	1.3	-0.4
of which Non-financial enterprises (NFE)	*0.9*	*0.6*	*4.0*	*0.5*	*-0.3*	*1.2*	*0.5*	*-0.4*	*0.0*	*-0.1*	*3.8*	*3.2*	*0.1*
Households	*-1.8*	*1.3*	*-1.2*	*-1.3*	*-1.8*	*-1.3*	*-1.1*	*-1.0*	*-1.0*	*-0.8*	*-1.2*	*-4.8*	*-3.2*
General government	*1.4*	*-0.6*	*2.3*	*0.5*	*0.8*	*0.9*	*0.8*	*0.3*	*0.2*	*0.1*	*1.5*	*3.4*	*1.1*
Exports	1.8	-1.3	3.1	0.6	-1.7	2.5	-1.0	1.6	0.3	1.4	7.4	1.7	2.7
Contributions (in points)													
*Domestic demand excluding inventory***	*-0.5*	*0.4*	*0.9*	*-0.1*	*-0.1*	*0.1*	*0.5*	*0.0*	*0.3*	*0.2*	*2.4*	*0.8*	*0.7*
*Changes in inventories***	*0.3*	*0.5*	*0.3*	*-0.4*	*-0.5*	*0.5*	*-0.2*	*-0.5*	*0.1*	*-0.3*	*0.7*	*-0.4*	*-0.5*
Foreign trade	*0.0*	*-0.5*	*-0.6*	*0.5*	*0.6*	*0.0*	*-0.4*	*0.5*	*-0.2*	*0.3*	*-0.6*	*0.4*	*0.2*

Forecast.
* Consumption expenditure of general government and non-profit institutions serving households (NPISH).
** Changes in inventories include acquisitions net of valuable items.
How to read it: in Q3 2023, exports declined by 1.0%. They are expected to increase by 1.6% in Q4 2023 with foreign trade contributing +0.5 points to GDP change.
Source: INSEE.

►2. Quarterly variations in GDP and contributions of main demand items

(quarterly variations in % and contributions in points)



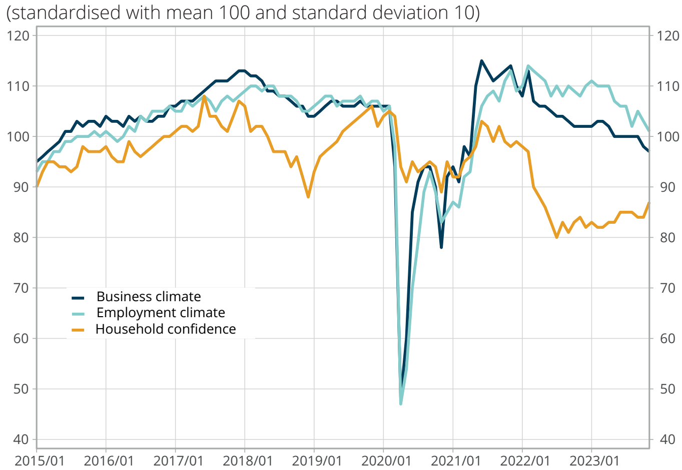
How to read it: in Q3 2023, declined by 0.1% compared to Q2 2023; foreign trade contributed -0.4 points.
Source: INSEE.

business climate reflects the deterioration in the economic outlook in all sectors of activity. In industry, business leaders are particularly pessimistic in agrifood and "other industries", which mainly include the most energy- intensive branches (▶**Figure 3b**). In the building construction sector, expectations for activity continue to deteriorate, especially in new housing (▶**Figure 3c**). Although supply chain problems have for the most part been resolved, there are still significant problems with hiring. At the same time, difficulties on the demand side are on the increase, especially in industry (▶**Figure 3d**).

Given this fairly unpromising situation, GDP is expected to remain stable (0.0% forecast) in Q4 2023. After a decline in Q3, activity in the manufacturing industry should pick up very slightly, sustained by a technical rebound in the manufacture of transport equipment (▶**Figure 4**). After being at a standstill, energy production, and especially electricity production, is expected to fall back, mainly as a result of the mild weather this autumn. Meanwhile, market services look set to grow only modestly, mainly due to the relative buoyancy of the information-communication sector. Finally, activity in construction is expected to decline further, especially the building of new housing.

▶3a. Business climate, employment climate and household confidence in France

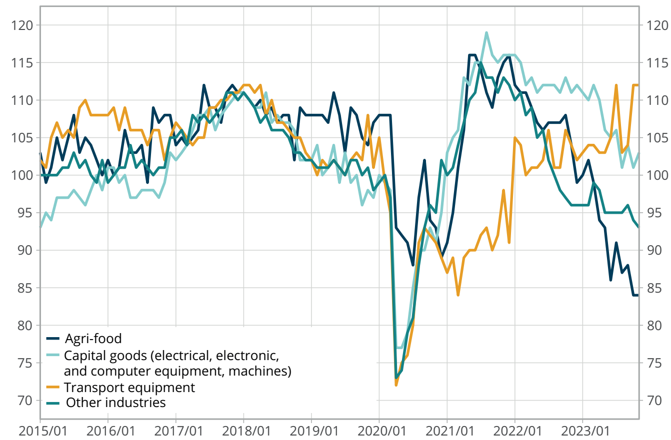
(standardised with mean 100 and standard deviation 10)



Last point: November 2023.
How to read it: in November 2023, the business climate in France stood at 97 points, below its long-term average (100).
Source: business and household surveys, INSEE.

▶3b. Business climate in the main manufacturing industry sub-sectors

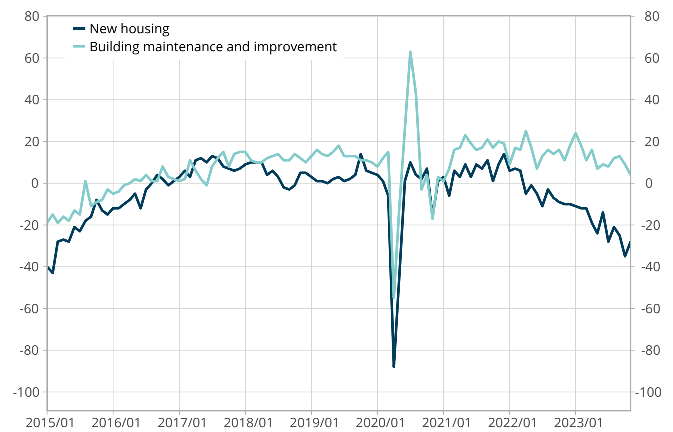
(standardised with mean 100 and standard deviation 10)



Last point: November 2023.
How to read it: in November 2023, the business climate in agrifood industries stood at 84 points, below its long-term average.
Source: monthly business survey for industry, INSEE.

▶3c. Balances of opinion on prospects for activity over the next three months in new housing and building maintenance and improvement

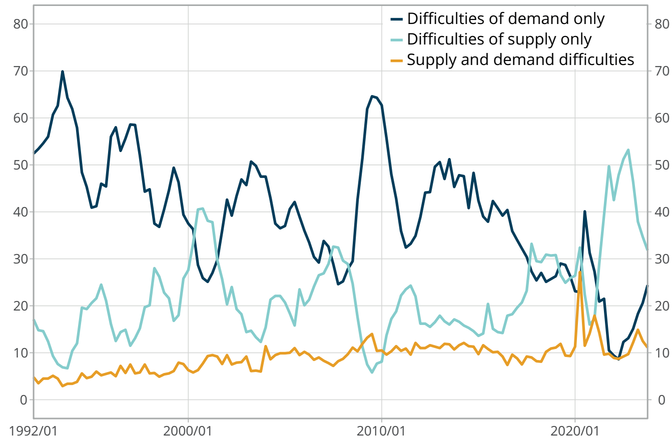
(balances of opinion, seasonally adjusted)



Last point: November 2023.
How to read it: in November 2023, the balance of opinion on prospects for activity over the next three months in new housing stood at -28 points.
Source: monthly business survey in the building industry, INSEE.

▶3d. Supply and demand difficulties in French industry

(% of companies concerned)



Last point: October 2023.
How to read it: in October 2023, 11% of manufacturing industry businesses reported difficulties with both supply and demand.
Source: quarterly business survey in industry, INSEE.

Looking at the main demand categories, household consumption would appear to be stable in Q4 2023. While energy consumption is expected to decline substantially and consumption of food products to fall back a little, consumption of services looks set to increase. Against a less favourable backdrop of rising interest rates, corporate investment is expected to fall, especially investments in goods and construction. Household investment too is expected to decline, despite some buoyancy in investment in home renovation-improvement. Finally, despite sluggish demand from overseas, foreign trade should make a positive contribution to activity with deliveries in the aeronautical and naval sectors at the end of the year.

In H1 2024, activity should accelerate somewhat (+0.2% forecast per quarter), as a result of disinflation and despite high interest rates. In industry in particular it should bounce back, in the wake of energy production. Meanwhile, construction is expected to continue its decline, although at a more moderate pace. On the demand side, household consumption looks set to increase as prices begin to ease. While household investment continues to fall as a result of high interest rates, corporate investment is expected to just about maintain its levels. In addition, imports are expected to be buoyant, driven by growing domestic demand, whereas exports will depend more on foreign demand, as their profile from quarter to quarter continues to be affected by deliveries in the aeronautical and naval sectors.

All in all, annual growth for 2023 is expected to reach +0.8%, after +2.5% in 2022. The mid-year growth overhang for 2024 is therefore likely to be modest, at +0.5% (►**Figure 5**). This forecast remains very uncertain, especially regarding monetary policy decisions and the effects these have on the real economy, and also on the buoyancy of France's trading partners. New geopolitical tensions could again threaten growth, especially if oil prices were to rise. Conversely, positive effects from the slowdown in prices and a possible decline in the household savings ratio, which is still high, could be additional factors to boost growth. ●

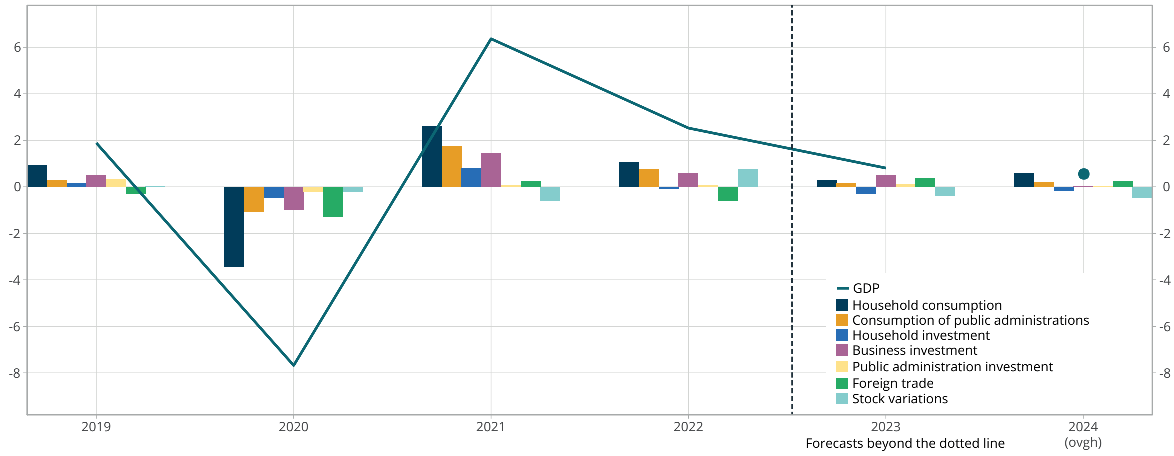
►4. Quarterly changes in economic activity by industry
(quarterly changes in %)

Branch	weight in %	2022				2023				2024	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Agriculture, forestry and fishing	**1.7**	**2.7**	**2.1**	**1.9**	**1.4**	**0.6**	**0.8**	**0.4**	**0.4**	**0.0**	**0.0**
Industry	**13.9**	**-0.7**	**-0.9**	**0.0**	**0.5**	**0.8**	**1.3**	**-0.3**	**-0.2**	**0.4**	**0.4**
Manufacturing industry	11.3	1.1	0.2	0.8	-0.5	0.8	1.1	-0.3	0.2	0.3	0.4
Manufacture of food products, beverages and tobacco-based products	2.1	0.2	-0.7	0.1	-0.6	0.1	1.2	-1.1	-0.2	-	-
Coke and refined petroleum	0.1	60.6	8.8	4.5	-8.2	9.6	1.7	7.5	1.3	-	-
Manufacture of electrical, electronic. computer equipment; manufacture of machinery	1.5	-0.1	-0.1	2.2	-0.5	2.4	1.0	-1.0	-0.2	-	-
Manufacture of transport equipment	1.6	-3.1	4.8	4.2	0.5	2.0	3.2	-2.4	2.1	-	-
Manufacture of other industrial products	5.9	1.8	-0.5	-0.1	-0.3	0.0	0.7	-0.2	-0.1	-	-
Extractive industries, energy. water, waste treatment and decontamination	2.6	-7.1	-5.3	-3.2	4.9	0.5	2.1	0.0	-1.6	0.7	0.5
Construction	**5.7**	**-0.3**	**0.0**	**0.2**	**-0.1**	**-0.6**	**-0.5**	**-0.9**	**-0.7**	**-0.5**	**-0.4**
Mainly market services	**56.8**	**0.0**	**1.0**	**0.8**	**0.0**	**-0.1**	**0.8**	**-0.2**	**0.1**	**0.3**	**0.3**
Trade; repair of automobiles and motorcycles	10.4	-1.8	-0.9	0.6	-0.9	-0.4	1.0	0.0	0.0	-	-
Transport and storage	4.6	0.8	0.8	-1.1	0.6	-1.0	0.1	-3.5	-0.3	-	-
Financial and insurance activities	3.8	-1.9	-0.5	-0.4	0.2	1.0	0.8	-0.1	0.0	-	-
Real estate activities	12.8	0.2	0.4	0.3	0.1	0.2	0.3	0.1	0.2	-	-
Accomodation and catering	2.9	2.8	12.1	2.5	0.5	-0.8	1.0	-0.6	0.2	-	-
Information and communication	5.4	0.8	1.4	3.3	0.7	0.8	2.2	0.8	0.6	-	-
Scientific and technical activities; administrative and support services	14.1	1.0	1.2	0.9	-0.1	-0.1	1.0	0.2	0.2	-	-
Other service activities	2.9	0.3	2.4	0.8	0.8	0.7	0.1	0.5	0.5	-	-
Mainly non-market services	**21.9**	**0.5**	**-0.4**	**0.1**	**0.0**	**0.3**	**0.2**	**0.3**	**0.2**	**0.0**	**0.1**
Total VA	**100.0**	**0.1**	**0.4**	**0.5**	**0.1**	**0.1**	**0.7**	**-0.1**	**0.0**	**0.2**	**0.2**
Taxes and subsidies		*-1.4*	*0.1*	*0.3*	*-0.8*	*-0.3*	*0.0*	*-0.2*	*-0.5*	*0.4*	*0.2*
GDP		**-0.1**	**0.4**	**0.5**	**0.0**	**0.1**	**0.6**	**-0.1**	**0.0**	**0.2**	**0.2**

■ Forecast
How to read it: in Q3 2023, value added of the manufacture of transport equipment branch decreased by 2.4%. It is expected to rise by 2.1% in Q4 2023.
Source: INSEE.

►5. Annual variations in GDP and contributions of main demand items

(annual variations in %; contributions in points)



Note: general government consumption also includes consumption by non-profit institutions serving households (NPISH).
How to read it: in 2022, GDP increased by 2.5%; the contribution of household consumption amounted to +1.1 points. In 2023, GDP is expected to increase by 0.8% with foreign trade contributing +0.4 points to this change, and household investment -0.3 points.
Source: INSEE.

Foreign trade

Foreign trade has increased moderately since the start of 2023, reflecting sluggish world demand and relatively modest growth in final domestic demand. In Q3 2023, foreign trade hampered GDP growth (-0.4 points, ►**Figure 1**), as the decrease in exports was much more pronounced than that in imports. To a large extent, this decline in exports (-1.0% after +2.5% in Q2) reflects a backlash effect after the significant deliveries in the aeronautical and naval sectors in Q2 (►**Figure 2**). The decline in imports was more moderate (+0.1% after +2.4%), and mainly driven by manufactured goods; meanwhile, imports of energy products and services, and spending by French tourists overseas, were relatively dynamic (►**Figure 3**).

In Q4 2023, exports are expected to bounce back (+1.6% forecast), although this will mask a less vigorous underlying trend, linked to the moderate growth in world demand for French products over the forecasting period. This rebound is likely to be driven mainly by the aeronautical and naval sector, notably the delivery of a cruise liner, and the improvement in the external balance for electricity. All in all, foreign trade should boost GDP in Q4, by +0.5 points.

In H1 2024, it is likely that the quarterly export figures will once again be affected by aeronautical and naval deliveries: after a backlash effect expected in Q1 2024, there will probably be a strong rebound in the spring. Imports are expected to pick up (+0.6% forecast in Q1 then +0.5% in Q2) as a result of domestic demand. Purchases by French tourists overseas should increase, especially in H1, returning gradually to their pre-Covid levels (in Q3 2023, imports from tourism were 13.4% below their Q4 2019 level). All in all, foreign trade is likely to impact on GDP growth a little in Q1 (-0.2 points) then contribute positively in Q2 (+0.3 points). ●

►1. French foreign trade

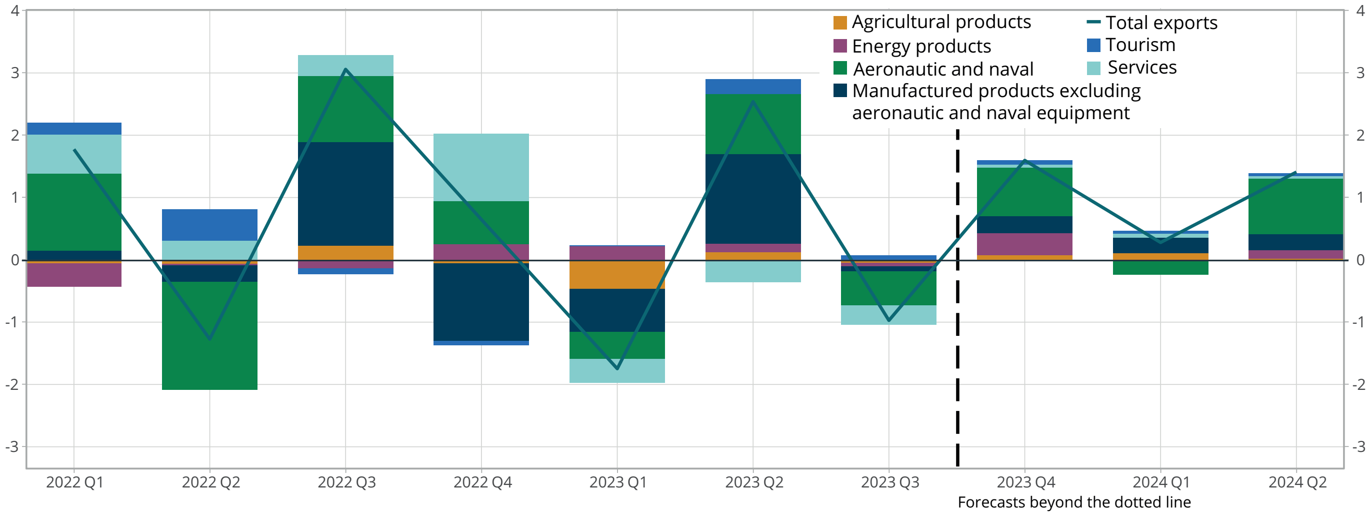
(variation in %, volumes of previous year's chained prices, contributions in points)

	Quarterly variations										Annual variations		
	2022				2023				2024		2022	2023	2024 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Exports													
Total	1.8	-1.3	3.1	0.6	-1.7	2.5	-1.0	1.6	0.3	1.4	7.4	1.7	2.7
Manufactured products (66%*)	2.1	-3.2	4.4	-0.9	-1.8	3.9	-1.0	1.7	0.0	1.8	3.2	1.6	3.1
Imports													
Total	1.6	0.3	4.8	-0.8	-3.1	2.4	0.1	0.2	0.6	0.5	8.8	0.5	1.8
Manufactured products (70%*)	0.3	-0.8	4.6	-0.5	-3.1	2.6	-1.7	-0.7	0.6	0.6	4.9	-0.6	0.3
Contribution of foreign trade to GDP	**0.0**	**-0.5**	**-0.6**	**0.5**	**0.6**	**0.0**	**-0.4**	**0.5**	**-0.2**	**0.3**	**-0.6**	**0.4**	**0.2**

■ Forecast.
* Share of exports (or imports) of manufactured products in total exports (or imports), in 2021.
How to read it: in Q4 2023, French exports are expected to rise by 1.6%.
Source: INSEE.

►2. Contributions of different products to exports

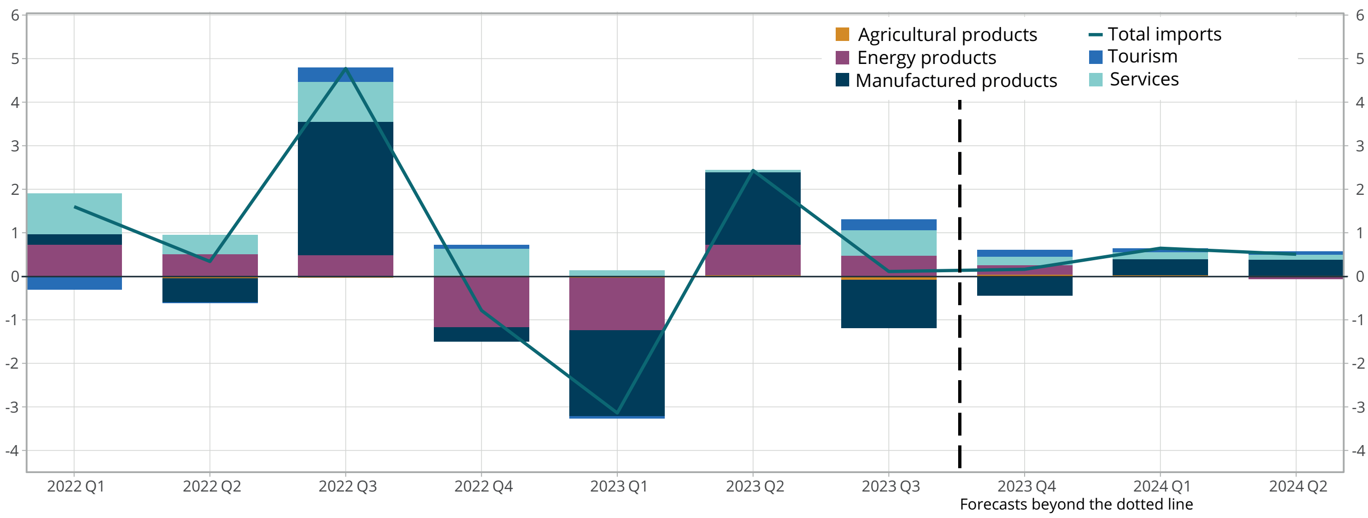
(quarterly changes in total exports, in %, and contributions of individual products, in points)



How to read it: French exports fell by 1.0% in Q3 2023. Exports of aeronautical and naval equipment contributed by -0.5 points.
Source: INSEE.

►3. Contributions of different products to imports

(quarterly changes in total imports, in %, and contributions of individual products, in points)



How to read it: French imports rose slightly (+0.1%) in Q3 2023. Imports of manufactured goods contributed contributed -1.1 percentage points.
Source: INSEE.

Employment

Payroll employment has slowed substantially since the beginning of 2023 (+0.3% in Q1 2023 then +0.1% in Q2 and Q3 2023), after a very dynamic 2021 (+0.8% on average per quarter) and a slightly less dynamic 2022 (+0.3% on average per quarter). In Q3 2023, payroll employment stood at 4.8% above its level of the end of 2019, which represents a little over 1.2 million additional jobs. The overall slowdown is the result mainly of the slowdown in the tertiary sector, excluding temporary workers.

In Q3 2023, payroll employment rose by 0.2% in the market tertiary sector, excluding temporary workers, and by 0.4% in industry. In contrast, it fell back for the third consecutive quarter for temporary workers (-2.1% in Q3 2023), and for the second consecutive quarter in construction (-0.3%).

Work-study programmes made a significant contribution to earlier increases (accounting for about one third of increases between the end of 2019 and the end of 2022) then stabilised, and they are forecast to remain stable. This concerns about 1.1 million young people. Payroll employment excluding temporary workers is also expected to be at a standstill, although with a slight acceleration in Q2 2024, in line with activity. Given the fairly modest increase in economic activity, apparent labour productivity per capita is expected to pick up very slightly over the three quarters covered by the forecast. By mid 2024, however, it will probably still be well below its pre-health crisis level, especially in construction and industry.

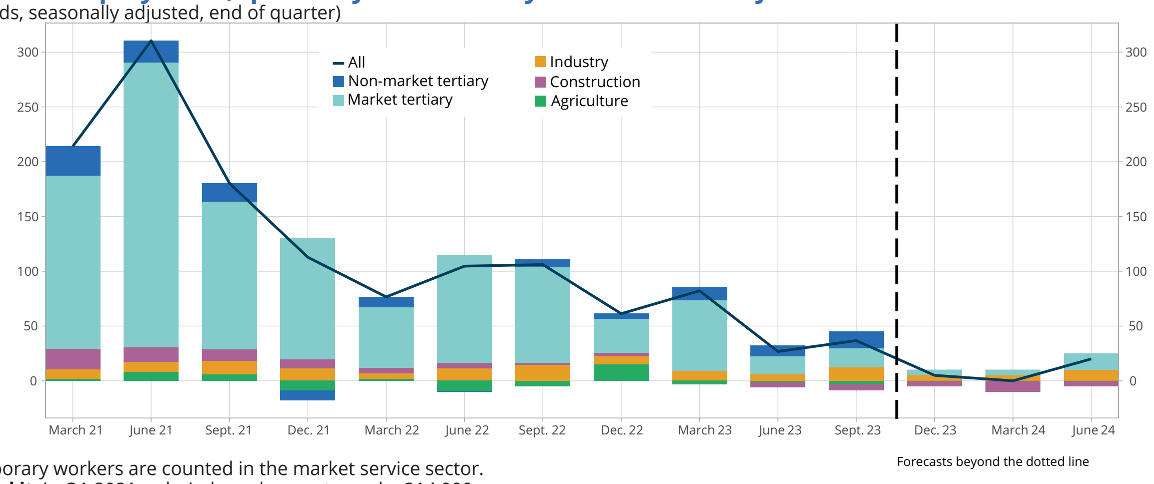
Finally, when the slight rise forecast in self-employment is also taken into account, total employment is expected to remain more or less stable. In June 2024, the increase in the number of jobs created over the year should reach +0.3% (or +82,000 jobs), a sharp decline after the rise that could still be observed one year earlier (+1.1% or +337,000 jobs from mid-2022 to mid-2023).

►1. Change in payroll employment
(in thousand, seasonally adjusted, at the end of the period)

	Evolution over 3 months										Evolution over 1 year			
	2022				2023				2024		2021	2022	2023	2024
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q4	Q4	Q4	Q2
Payroll employment	**77**	**105**	**106**	**61**	**82**	**27**	**37**	**5**	**0**	**20**	**818**	**349**	**150**	**62**
	0.3%	**0.4%**	**0.4%**	**0.2%**	**0.3%**	**0.1%**	**0.1%**	**0.0%**	**0.0%**	**0.1%**	**3.2%**	**1.3%**	**0.6%**	**0.2%**
Agriculture	2	-10	-5	15	-3	-1	-3	0	0	0	7	2	-7	-3
Industry	5	11	14	8	9	6	12	5	5	10	41	39	31	32
Construction	5	5	2	3	0	-5	-6	-5	-10	-5	51	14	-15	-26
Market tertiary	55	99	87	31	65	17	17	5	5	15	665	272	103	42
Non-market tertiary	10	0	8	5	12	10	16	0	0	0	55	22	38	16
Self-employment	**25**	**25**	**25**	**25**	**5**	**5**	**5**	**5**	**5**	**5**	**225**	**100**	**20**	**20**
All	**102**	**130**	**131**	**86**	**87**	**32**	**42**	**10**	**5**	**25**	**1,043**	**449**	**170**	**82**
	0.3%	**0.4%**	**0.4%**	**0.3%**	**0.3%**	**0.1%**	**0.1%**	**0.0%**	**0.0%**	**0.1%**	**3.6%**	**1.5%**	**0.6%**	**0.3%**

Forecast.
Note: in this table, temporary workers are counted in the commercial tertiary sector.
How to read it: in Q3 2023, payroll employment increase by 0.1%, or 37,000 net new jobs.
Scope: France (excluding Mayotte).
Source: INSEE.

►2. Payroll employment, quarterly evolution by sector of activity
(in thousands, seasonally adjusted, end of quarter)



Note: temporary workers are counted in the market service sector.
How to read it: in Q1 2021, salaried employment rose by 214,000.
Scope: France (excluding Mayotte).
Source: INSEE.

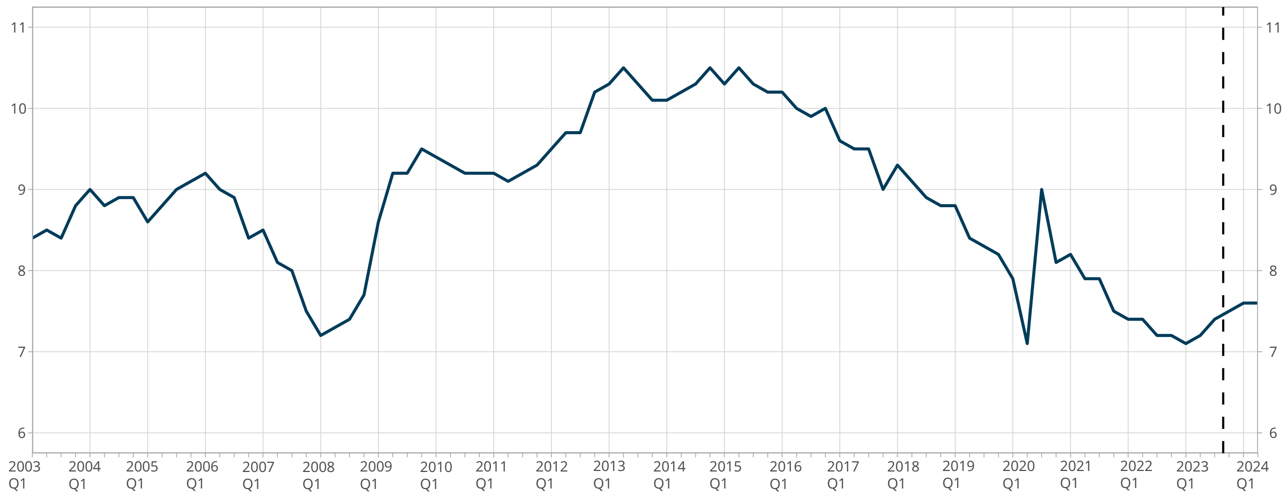
Unemployment

In Q3 2023, the unemployment rate according to the ILO definition rose by 0.2 points compared to the previous quarter, to 7.4% of the labour force (▶ **Figure 1**). This rate was 0.2 points above its level one year earlier and the same as in Q2 2022, although it is still well below its mid-2015 peak (-3.1 points). The rise in Q3 2023 was primarily the result of the slowdown in employment, although the labour force remained fairly dynamic: 37,000 net jobs were created in Q3 as a quarterly average (after +59,000 in Q2 and +87,000 in Q1) for 100,000 additional workers (a similar increase to previous quarters).

In Q4 2023 and H1 2024, the labour force should continue to increase, mainly as a result of the pension reform. Given that employment looks set to be virtually stagnant, the unemployment rate is expected to rise by 0.1 points in Q4 2023 and Q1 2024, to 7.6% of the labour force, then remain stable in Q2 (▶ **Figure 2**). It would then be at its highest level since Q3 2021. ●

▶ 1. Unemployment rate (ILO definition)

(quarterly average as % of labour force, SA data)



Scope: France (excluding Mayotte), persons aged 15 or over living in ordinary housing.
Source: INSEE, Labour Force Survey.

▶ 2. Change in employment, unemployment and the active population

(variation in quarterly average in thousands, SA data)

	Evolution over 3 months										Evolution over 1 year			
	2022				2023				2024		2021	2022	2023	2024
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q4	Q4	Q4	Q2
Employment (1)	**135**	**116**	**130**	**109**	**87**	**59**	**37**	**26**	**8**	**15**	**962**	**490**	**209**	**85**
reminder: employment at the end of the period	102	130	131	86	87	32	42	10	5	25	1,043	449	170	82
Unemployment (2)	**-14**	**11**	**-47**	**-21**	**-6**	**28**	**63**	**16**	**31**	**25**	**-153**	**-71**	**102**	**136**
Active population = (1) + (2)	**121**	**126**	**84**	**88**	**80**	**88**	**100**	**42**	**39**	**40**	**810**	**419**	**310**	**221**
Trend labour force (a)	6	7	8	9	11	9	23	39	38	38	31	30	82	139
Short-term flexion effect (b)	14	12	13	11	9	6	4	3	1	2	96	49	21	8
Effect of work-linked training on youth activity (c)	12	18	33	23	7	12	8	0	0	0	131	86	27	9
Residue (d)	91	89	30	44	54	61	65	0	0	0	551	254	179	65
Variation in unemployment rate	**-0.1**	**0.0**	**-0.2**	**0.0**	**-0.1**	**0.1**	**0.2**	**0.1**	**0.1**	**0.0**	**-0.6**	**-0.3**	**0.3**	**0.4**
Unemployment rate	7.4	7.4	7.2	7.2	7.1	7.2	7.4	7.5	7.6	7.6				

■ Forecast
(a) Trend based on adjusted 2022 active population projections.
(b) This flexibility effect represents the fact that new workers enter the labour market when the employment situation improves.
(c) Effect based on sandwich contract numbers from DARES, calculations by INSEE.
Note: employment corresponds here to total employment (payroll employment including sandwich contracts + self-employment), measured as a quarterly average.
How to read it: between Q2 2023 and Q3 2023, employment increased by 37,000 on average, unemployment by 63,000 and the labour force increased by 100,000. The unemployment rate increased by 0.2 points to 7.4%.
Scope: France (excluding Mayotte), persons aged 15 or over.
Source: INSEE, Labour Force Survey, Quarterly employment estimates.

Consumer prices

After plateauing for almost a year at around +6%, year-on-year consumer prices in France have dropped sharply since the spring, mainly because of the slowdown in the prices of petroleum products and food products (►Figure 1). The year-on-year difference is still relatively high, however, because prices were so buoyant last year (+3.4% in November according to the provisional estimate). The annual average for inflation is expected to be +4.9% in 2023, after +5.2% in 2022 (►Figure 2).

The advance indicators (production prices, ►Figure 4, balances of opinion in the business tendency surveys, ►Figure 5) suggest that this slowdown will be maintained over the coming months, although it may not necessarily be continuous. In June 2024, assuming that the price of a barrel of Brent remains constant over the forecasting period at €75, then inflation would be +2.6% year-on-year. This uneven trend slowdown would be partly the result of "base effects", especially given the buoyancy in consumer prices in early 2023 (►Figure 3).

Assuming that the price of Brent crude remains stable at €75 a barrel, and considering the exit of price limitation measures from the 2022 year-on-year figures, notably the varying discounts at the pump, the contribution of energy to headline inflation is likely to remain modest. Based on this assumption, petroleum product prices should remain stable until the end of the forecasting period (**►Focus Rising prices at the pump since 2022 reflect crude oil price trends as well as the increase in refining costs and the cost of fuel transport and distribution**). Regulated electricity prices are expected to rise in February 2024.

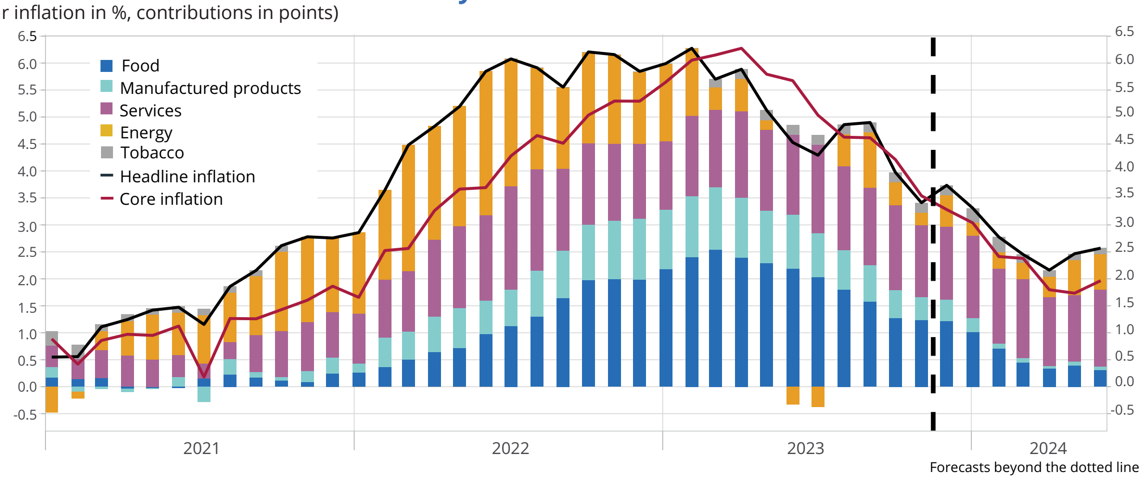
Food was the main contributor to headline inflation between September 2022 and September 2023. Since April, the prices of food products have slowed significantly and this trend is expected to continue throughout the forecasting period, in the wake of the decline in producer prices in the agrifood industries. However, it should be borne in mind that current trade negotiations may affect this trajectory, in either direction. Changes in the prices of fresh produce are expected to follow the same seasonality that we saw before the pandemic. All in all, food inflation is expected to decrease substantially throughout the forecasting period, dropping from +7.6% year-on-year in November 2023 to about +1.9% in June 2024, which is the smallest year-on-year change since January 2022.

Consumer prices of manufactured goods should also continue to slow, with their year-on-year change dropping from +1.9% in November 2023 to +0.3% in June 2024. Production prices in industry (excluding agrifood and energy) have in fact remained relatively stable in recent months, having previously increased significantly. In addition, in the tendency survey in industry, the balance of opinion on expected change in selling prices has been on the decline for several months.

Services account for about half of the consumer basket used to measure the consumer price index, and they are expected to be the foremost contributors to headline inflation, representing around 1.5 points throughout the forecasting period. The year-on-year increase in the price of services is likely to vary between around +2.5% and +3.5%. This relative stability

►1. Headline inflation and contributions by item

(year-on-year inflation in %, contributions in points)



Note: for November 2023, headline inflation is a provisional estimate, while core inflation is a forecast.
How to read it: in November 2023, according to the provisional estimate, headline inflation is expected to be +3.4%, with food prices contributing +1.2 points and services contributing +1.3 points.
Source: INSEE.

in inflation in services is expected to come firstly from the slower transmission of input prices (►**Focus Consumer prices for services, mainly determined by the cost of labour, are expected to remain buoyant in 2024 but without picking up further**). In addition, the weight of payroll is greater in services and wage increases are likely to remain relatively sustained throughout the forecasting period (►**Sheet: Wages**).

Lastly, tobacco prices are expected to increase by 4.7% over the month of January 2024, as the tax on tobacco is indexed to inflation. Year-on-year, tobacco prices are expected to increase by 14.8% in January 2024 before slowing to +6.0% in June 2024 as a result of the base effect.

Like headline inflation, core inflation is expected to fall back by June 2024, reaching +2.0% year-on-year, against +3.5% in November 2023. The reason for this decline is that most items included in the core price index, especially food (excluding fresh produce) have themselves declined. ●

► 2. Headline inflation, past and forecast

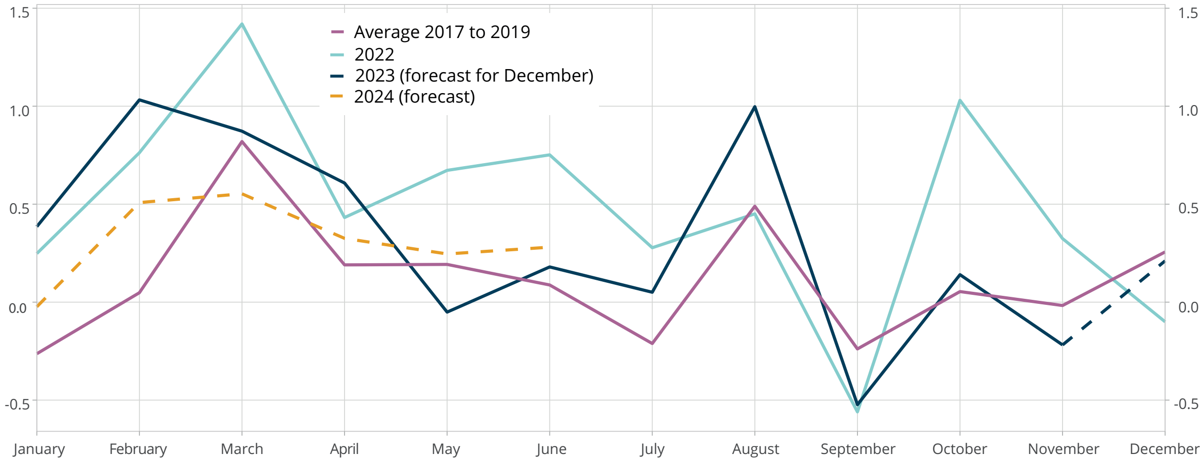
(change in %, contributions in points)

CPI groups* (2023 weightings)	Oct. 2023		Nov. 2023		Dec. 2023		Jan. 2024		March 2024		June 2024		Annual averages	
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	2022	2023
Food (16.2%)	**7,8**	**1,3**	**7,6**	**1,2**	**7,5**	**1,2**	**6,2**	**1,0**	**2,7**	**0,4**	**1,9**	**0,3**	**6,8**	**11,8**
fresh food (2.4%)	1,1	0,0	6,6	0,2	9,9	0,2	9,2	0,2	-0,1	0,0	6,0	0,1	7,7	9,6
excluding fresh food (13.9%)	9,1	1,3	7,8	1,1	7,1	1,0	5,7	0,8	3,2	0,5	1,2	0,2	6,6	12,2
Tabacco (1.9%)	**9,9**	**0,2**	**9,8**	**0,2**	**9,8**	**0,2**	**14,8**	**0,3**	**8,0**	**0,1**	**6,0**	**0,1**	**0,1**	**8,0**
Manufactured products (23.2%)	**2,2**	**0,5**	**1,9**	**0,4**	**1,7**	**0,4**	**1,2**	**0,3**	**0,4**	**0,1**	**0,3**	**0,1**	**3,0**	**3,5**
clothing and footwear (3.4%)	1,9	0,1	1,8	0,1	1,8	0,1	1,8	0,1	1,8	0,1	1,8	0,1	2,7	2,6
medical products (3.8%)	-0,9	0,0	-0,8	0,0	-0,9	0,0	-0,8	0,0	-1,4	-0,1	-1,1	0,0	-1,2	-0,7
other manufactured products (16.0%)	3,0	0,5	2,5	0,4	2,3	0,4	1,5	0,2	0,5	0,1	0,3	0,0	4,1	4,7
Energy (8.6%)	**5,2**	**0,4**	**3,1**	**0,2**	**6,9**	**0,6**	**2,8**	**0,3**	**3,5**	**0,3**	**7,9**	**0,7**	**23,1**	**5,7**
oil products (4.3%)	1,8	0,1	-1,3	-0,1	2,3	0,1	-4,6	-0,2	-3,7	-0,2	2,2	0,1	29,0	-1,6
Services (50.1%)	**3,2**	**1,6**	**2,7**	**1,3**	**2,7**	**1,3**	**3,0**	**1,5**	**2,9**	**1,5**	**3,0**	**1,5**	**3,0**	**2,9**
rent-water and household refuse collection (7.4%)	2,7	0,2	2,6	0,2	2,8	0,2	2,8	0,2	2,5	0,2	2,5	0,2	2,0	2,8
health services (6.4%)	-0,4	0,0	-0,3	0,0	0,3	0,0	0,9	0,1	0,9	0,1	0,7	0,0	-0,1	-0,3
transport (3.0%)	5,4	0,1	-1,4	-0,1	-2,1	-0,1	0,9	0,0	2,5	0,1	3,7	0,1	10,4	5,9
communications (2.1%)	-4,7	-0,1	-5,3	-0,1	-5,3	-0,1	-5,1	-0,1	-5,7	-0,1	-3,0	-0,1	0,6	-3,8
other services (31.2%)	4,4	1,4	4,3	1,3	4,1	1,3	4,3	1,3	4,1	1,3	3,8	1,2	3,7	3,9
All (100%)	**4,0**	**4,0**	**3,4**	**3,4**	**3,7**	**3,7**	**3,3**	**3,3**	**2,4**	**2,4**	**2,6**	**2,6**	**5,2**	**4,9**
All excluding energy (91.4%)	3,9	3,5	3,5	3,2	3,4	3,1	3,4	3,1	2,3	2,1	2,1	1,9	3,6	4,8
All excluding tabacco (98.2%)	3,9	3,8	3,3	3,2	3,6	3,6	3,1	3,0	2,3	2,3	2,5	2,5	5,3	4,8
Core inflation (60.6%)**	**4,2**	**2,5**	**3,5**	**2,1**	**3,3**	**1,9**	**3,0**	**1,8**	**2,4**	**1,4**	**2,0**	**1,2**	**3,9**	**5,1**

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

►3. Monthly variations in headline inflation from 2022 to 2024 and the 2017-201 average

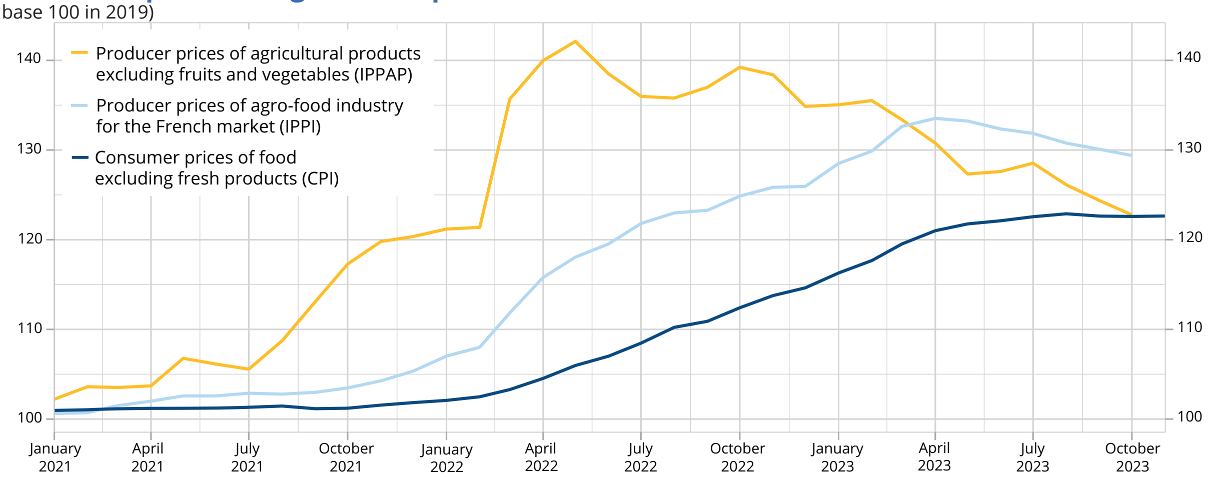
(monthly changes in %)



How to read it: compared to the previous month, consumer prices are expected to remain stable (-0.0%) in January 2024. They increased by 0.4% in January 2023, by 0.2% in January 2022 and fell by 0.3% on average between 2017 and 2019.
Source: INSEE.

►4. Variation in prices along the food production chain

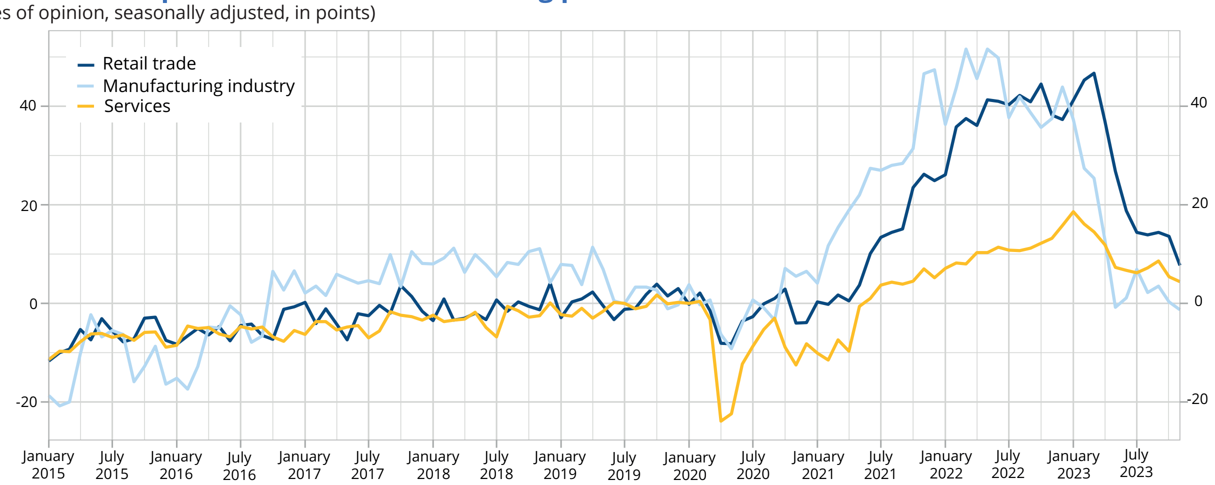
(in level, base 100 in 2019)



Last point: October 2023 for IPPAP and IPPI, November 2023 for the CPI.
How to read it: in October 2023, compared to their 2019 average, consumer prices of food products excluding fresh produce increased by 22.6%, agrifood industry producer prices for the French market by 29.3% and agricultural producer prices (excluding fruit and vegetables) by 22.8%.
Source: IPPAP, IPPI, CPI, INSEE.

►5. Balances of opinion on variations in selling prices over the next 3 months

(balances of opinion, seasonally adjusted, in points)



Last point: November 2023.
How to read it: in November 2023, the balance of opinion on variations in selling prices was -1.3 in the manufacturing industry, +4.4 in services and +7.7 in retail trade.
Source: monthly business surveys, INSEE.

Rising prices at the pump since 2022 reflect crude oil price trends as well as the increase in refining costs and the cost of fuel transport and distribution

Since 2022, in a context of strong geopolitical tensions and imbalance between oil supply and demand, fuel prices at the pump are reaching much higher levels than before the health crisis. The pump price of a litre of fuel was €1.82 in November 2023 against €1.47 on average between 2018 and 2019. This Focus study breaks down the price of a litre of petrol at the pump, taking into account fluctuations in the price of crude oil, the costs of refining fuels (defined as the difference between the price of refined products and the price of crude), transport-distribution costs (defined as the difference between prices at the pump excluding tax and the price of refined products) and taxes.

The high pump prices observed since 2022 are due to the rise in the price of crude oil (+17 euro cents per litre for the period January 2022-November 2023 compared to the 2018-2019 average) and the increase in the price gap between crude oil and refined products (+12 cents). Transport and distribution costs have increased more moderately since 2022 (+9 cents per litre). Regarding fuel taxes, excise duty (formerly TICPE) is frozen at its 2018 level. Only revenue from VAT, which varies depending on the price of the product excluding tax, has increased (+5 cents per litre) but much less than the price of crude oil.

While the increase in crude oil prices has repercussions on prices after refining and on distribution costs, econometric modelling shows that part of the increase in pump prices remains unexplained by these price fluctuations alone. Since 2022, prices of refined petroleum products have averaged 18% above the modelled price, given crude oil prices. This difference may reflect other energy costs linked to environmental goals or an increase in net refining margins in Europe, explained, among other things, by tensions in oil refining capacities. The difference between prices at the pump and simulated prices, given the prices of refined products, has been less pronounced since 2022 (+6%). This gap may represent an increased burden in transport-distribution costs (such as energy, compliance with regulatory constraints or payroll), and possibly an increase in net margin. The analysis is still surrounded by the uncertainty inherent in modelling fuel prices. In addition, since the end of September 2023, the fall in oil prices and the cost-price sales strategies employed by distributors have led to a more pronounced drop in pump prices in hyper- and supermarkets than in outlets of the major brands.

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Fuel prices at the pump are still higher in 2023 than before the health crisis

After plummeting in 2020 as a result of the lockdowns, the price of crude oil was once again above its pre-crisis level (considered as the average between 2018 and 2019) in summer 2021, then soared in early 2022 in a context of strong geopolitical tensions and an upturn in global oil demand (►**IEA report**).

Although the price of crude oil fell back partially from summer 2022, it took off again in summer 2023 as a result of the cutting of production quotas by OPEC+. Despite the resurgence in geopolitical tensions in the Middle East since 7 October, the price of crude oil stabilised in November at around $80 per barrel, or 48 euro cents per litre of petrol, against a backdrop of fears over global demand (►**Figure 1**).

The rise in crude oil prices impacts directly on pump prices. Thus, in November 2023, the price of a litre of fuel at the pump reached €1.82 per litre against an average of €1.47 between 2018 and 2019.

The sharp rise in pump prices since 2022 compared to the pre-crisis level (+24%) was nevertheless much less pronounced than the rise in the price of crude oil (+47%). In fact, the price of oil accounts for only about a quarter of the price of fuel. Another quarter of fuel price represents first, the price difference between crude oil and refined petroleum products and second, transport-distribution costs. Finally, half of the price of fuel consists of taxes on energy products (excise duty, former TICPE) or on value added (VAT, ►**Figure 2**), with excise duty being a flat-rate tax, independent of the prices excluding taxes.

Fuel refining costs and transport-distribution costs have increased more, proportionally, than the price of crude oil

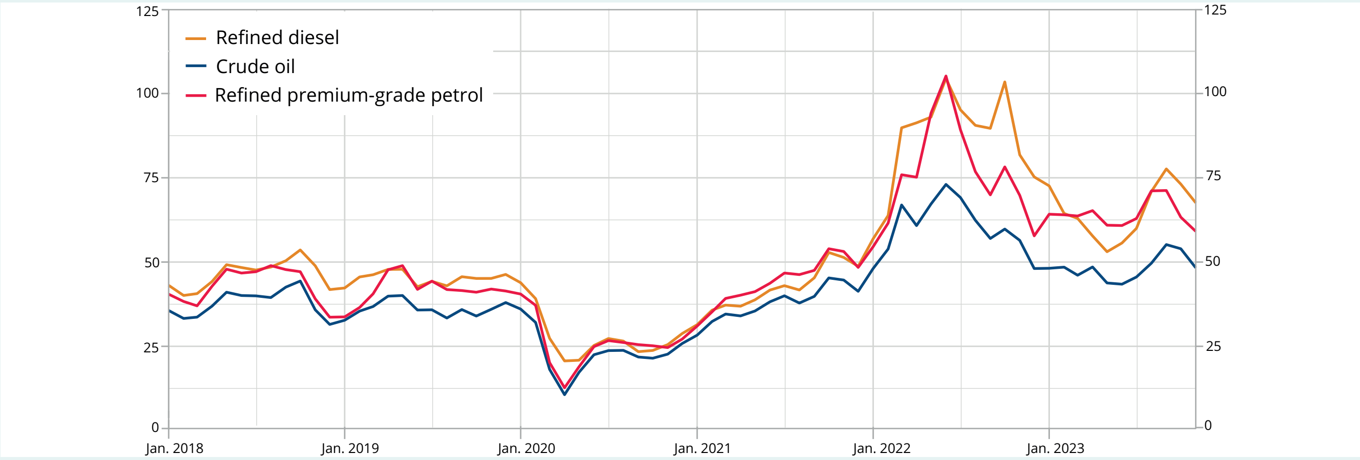
The fuel refining costs considered here (diesel and premium-grade petrol) correspond to the difference between the price of refined fuel and the price of crude oil listed in Rotterdam for the European market. They are distinct from the notion of gross refining margin on Brent which corresponds to the difference between the valuation of a basket of refined petroleum products (including other products than the fuels considered in this Focus study) and the price of Brent.

These costs have more than doubled since 2022, representing, for all fuels as a whole, 19 euro cents on average per litre against 7 euro cents on average in 2018-2019 (▶ **Figure 3**). Several factors may have contributed to this increase, notably the disruption of world petroleum product markets following the Russian invasion of Ukraine, and the trend increase in the prices of emission allowances in the European Union's Emissions Trading System (EU ETS). This increase may also be due to a rise in the net refining margin on petroleum products in the face of relatively inelastic demand for oil (▶ **Bonnet and al., 2023**).

Transport-distribution costs, defined as the difference between the price of fuels excluding tax and the price of refined products listed in Rotterdam for the European market, have increased since 2022 by 61% compared to the 2018-2019 average. At the end of 2023, this cost is 23 euro cents per litre on average for all fuels compared to 14 euro cents between 2018 and 2023. This increase in cost may reflect increases in transport and storage costs, also wage increases in transport or trade services (▶ **Prices of services**). Other regulatory and environmental factors may also have contributed to this rise, such as increased costs linked to the French energy saving certificate mechanism (CEE) or the incorporation of biofuels and ethanol produced from plant material, the prices of which increased in 2022 because of tensions on the agriculture commodities markets. Finally, the net transport-distribution margin may also have increased since 2022.

▶ 1. Crude oil prices and prices of petroleum products listed in Rotterdam since 2018

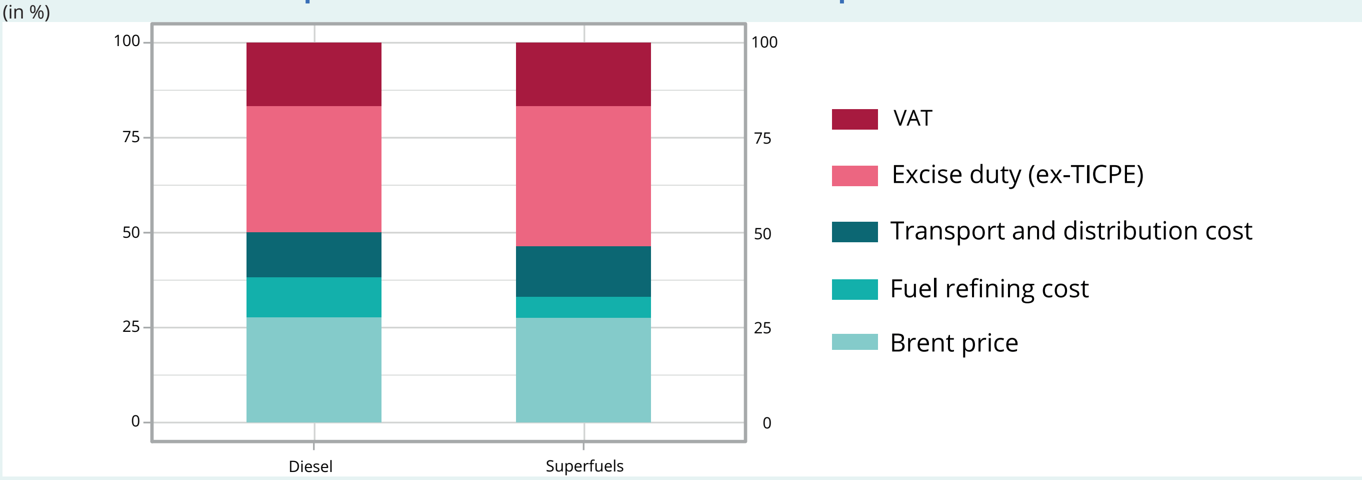
(in cents of euro per litre of fuel)



Last point: November 2023.
How to read it: in November 2023, crude oil represented 48 euro cents per litre of fuel. The price of refined premium-grade petrol was 59 euro cents per litre and that of diesel 68 euro cents per litre.
Source: Reuters, INSEE.

▶ 2. Breakdown of the price of a litre of diesel and of unleaded petrol in November 2023

(in %)



How to read it: in November 2023, fuel refining costs and transport-distribution costs represent 10% and 12% respectively of the price of a litre of diesel.
Source: DGEC, Reuters, INSEE calculation.

Fuel subsidies helped ease rising pump prices in 2022

Taxes and subsidies on fuel had a moderating effect on the surge in prices at the pump. Firstly, excise duty on fuel (formerly TICPE) depends on volumes consumed and not on the market value of the fuel (▶**INSEE, 2017**). Since 2018, in the absence of any revaluation, the duty for each type of fuel has remained constant and represents on average 64 euro cents per litre of fuel (▶**Figure 3**). VAT, on the other hand, is proportional to price, including excise duty, at a rate of 20%. Thus an increase in the price of oil means an increase in VAT at the pump. All in all, the increase in the amount of tax on fuels since 2022 is 6% compared to the 2018-2019 average, i.e. a much smaller increase than that in oil prices (+47%). Thus the inertia of the excise duty on fuels has partly cushioned the rise in oil prices.

At the same time, fuel subsidies in 2022 have had a downward impact on fuel prices. The reduction at the pump, including tax, was 18 cents per litre between April and August 2022, then 30 cents between September and mid-November 2022 before dropping to 10 cents until the end of 2022. Since 2023, a means-tested fuel allowance with a lower budgetary cost has replaced the subsidy at the pump. This allowance is recorded as a social benefit in the national accounts (▶**Household income**).

Although this accounting breakdown highlights a widening of the gap between the price of oil and that of refined products, and also higher transport-distribution costs, it is not possible to estimate net margins for refining and transport-distribution, i.e. price variations once the increase in intermediate production costs is taken into account.

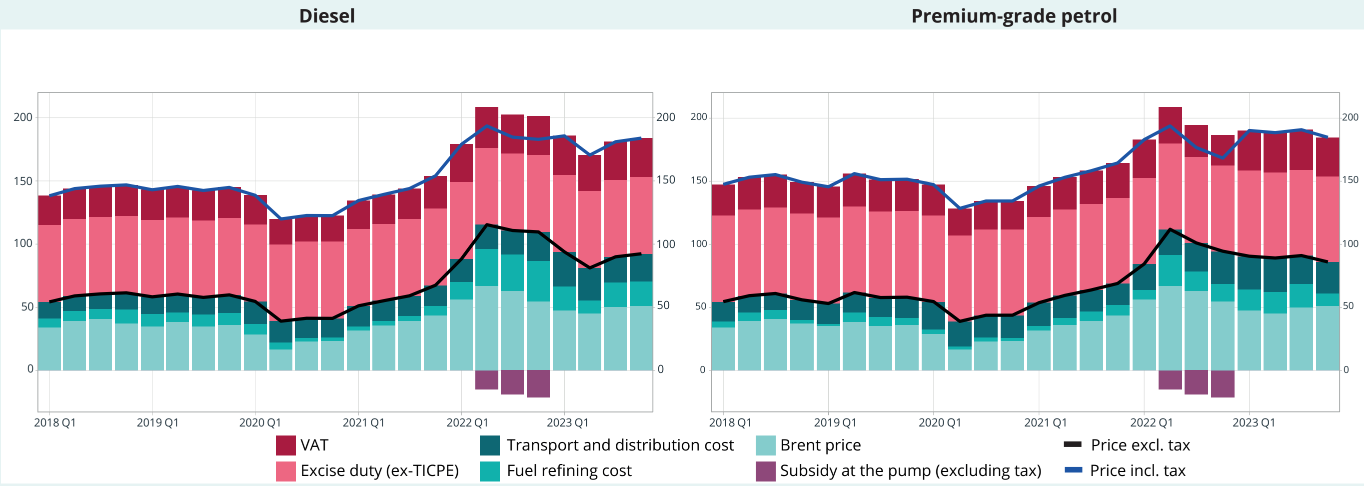
Since 2022, increases in prices of refined petroleum products and in prices at the pump (excluding tax) have been more pronounced than simulated increases based only on the market price of crude oil

Long-term econometric modelling of fuel prices reveals a possible gap between observed prices and those expected solely due to crude oil prices (▶**Method box**). Modelling is in two stages. First, the equation for the price of refined oil listed in Rotterdam is linked to the price of crude oil, an input in the refining process, and in this way it is possible to compare the refiners' selling price to the expected price, given the listed value. Second, using the equation for fuel prices excluding tax, linked to the price of refined petroleum products, the distributors' selling price can be compared to the expected price, given the acquisition cost of refined fuel.

According to the model chosen here, the price of refined oil first contracted compared to the simulated price during the health crisis (-7% on average in 2020-2021) before bouncing back more strongly, higher than the simulated price since 2022. Since then the prices of refined petroleum products have been, on average, 19% above the price modelled for premium-grade petrol (▶**Figure 4a**) and 18% above for diesel (▶**Figure 4b**). Over the entire period 2020-2023, the prices of refined products have been 5% above the simulated price based on crude oil prices, compared to the relationship estimated over the period 2007-2019. This difference may reflect the increase in energy and environmental costs not taken into account in the model, especially the increase in prices of emission allowances in the ETS. It may also reflect margin behaviours.

▶3. Breakdown of the price of a litre of diesel and of premium-grade petrol since 2018

(in cents of euro per litre of fuel)



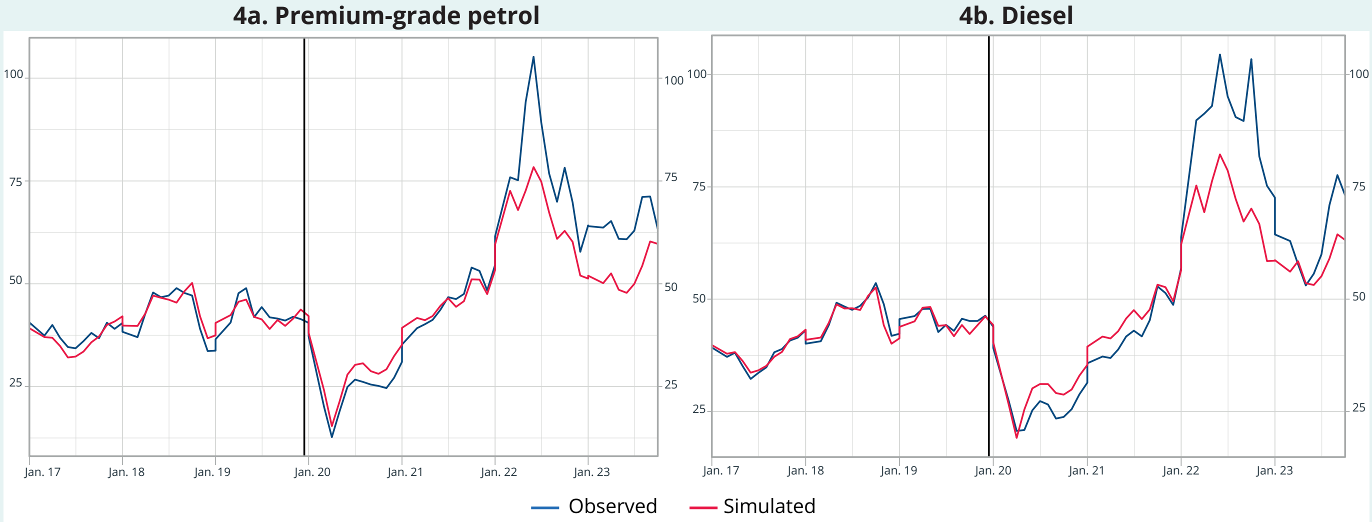
Note: Q4 2023 (data to end of November 2023).
How to read it: in Q4 2023, fuel refining costs and transport-distribution costs represent 19 and 22 euro cents respectively of the price of a litre of diesel.
Source: DGEC, Reuters, INSEE.

Similarly, since 2022, according to the model used here, the price at the pump, excluding tax, as sold by the distributors has been higher than the simulated price (+6%), given the prices of refined oil products. This difference is less pronounced than that for the refining industry prices. It is slightly higher for premium-grade petrol (► **Figure 5a**) than for diesel (► **Figure 5b**) and has been partially absorbed at the end of 2023. Again, this difference reflects factors not taken into account in the model, especially those linked to regulatory obligations (energy saving certificate, incorporation of biofuels), but also the increase in the cost of other normal operating costs in trade and transport services, such as the increase in payroll. This rise may also correspond to margin behaviours.

In autumn 2023, cost-price sales strategies led to a greater drop in prices at the pump in the major supermarkets

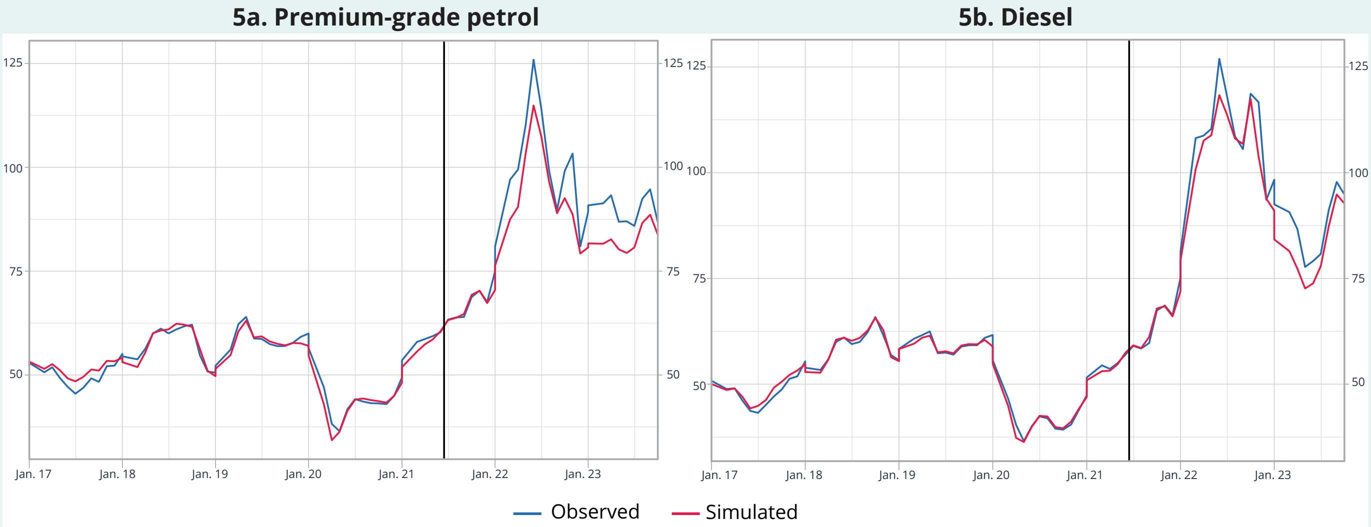
At the end of September 2023, the government encouraged distributors to sell their fuels at cost price. In order to study the potential effect of this measure according to category of distributor, we analyse the

► 4. Price of refined oil listed in Rotterdam, simulated and observed
(in cents of euro per litre of fuel)



Last point: November 2023.
Note: estimation period to the left of the vertical line.
How to read it: in November 2023, the observed price of refined premium-grade petrol (or refined diesel) listed in Rotterdam was 59 (or 68) euro cents whereas, according to the econometric model selected, the simulated price was 54 (or 58) euro cents per litre, or a difference of +10% (or +17%) compared to the theoretical long-run equilibrium price.
Source: Reuters, INSEE modelling.

► 5. Price of refined oil, excluding tax, simulated and observed
(in cents of euro per litre of fuel)



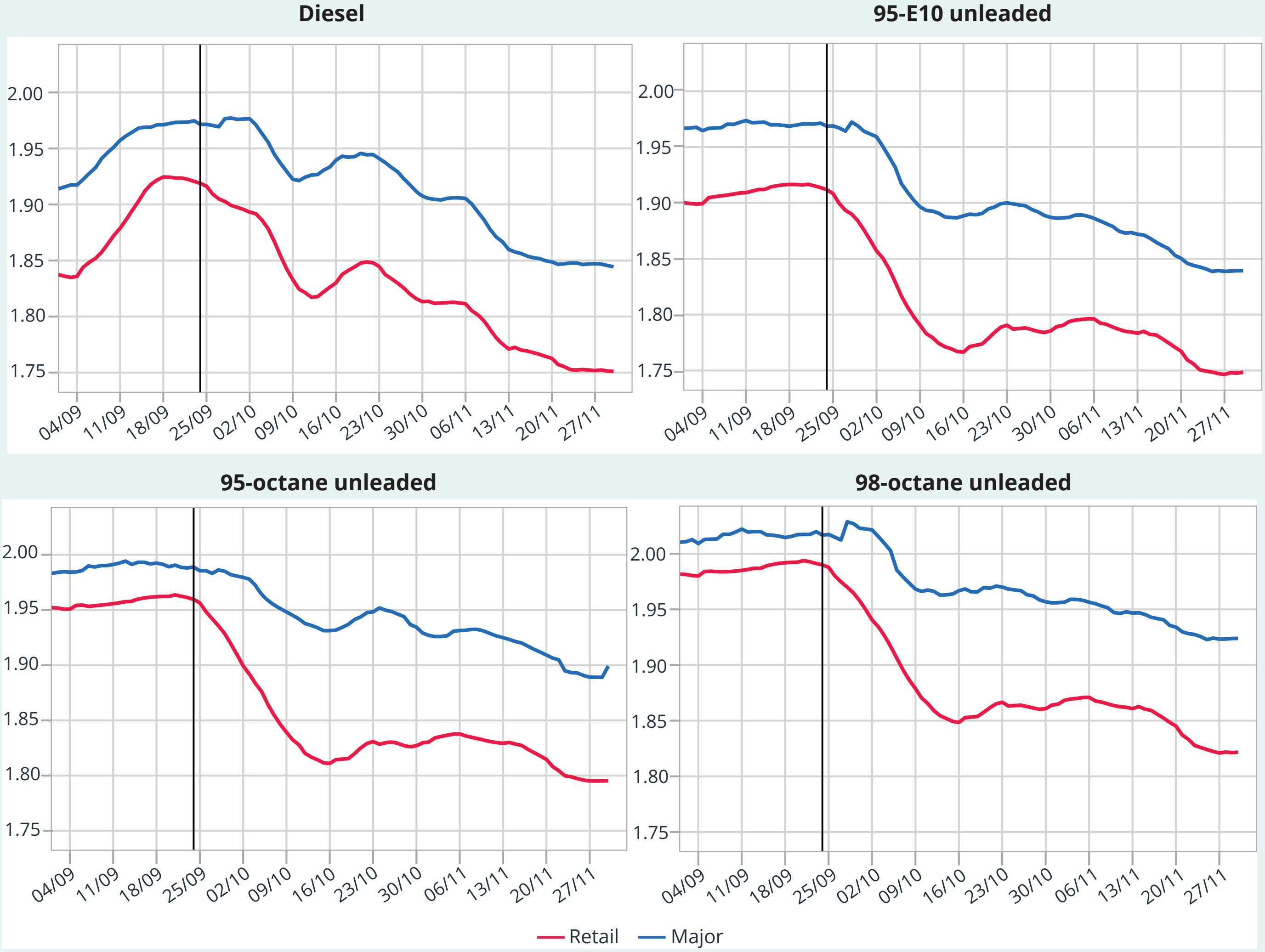
Last point: November 2023.
Note: estimation period to the left of the vertical line.
How to read it: in November 2023, the observed price of premium-grade petrol (or diesel) excluding tax was 85 (or 90) euro cents per litre whereas, according to the econometric model selected, the simulated price was 79 (or 87) euro cents per litre, or a difference of +7% (or +3%) compared to the simulated price.
Source: DGEC, Reuters, INSEE modelling.

daily fuel price statements from several thousand petrol stations run by major petrol brands or by hyper- and supermarket retail chains. Fuel prices are usually lower in the large supermarkets than in outlets run by the major brands, reflecting not only the location of the petrol stations but also the intensity of the competition and the sales strategies employed by the brands (▶**Gautier and al., 2017**). In particular, the major brands are much more present than supermarkets on motorway service areas and therefore find themselves in an oligopolistic situation. However, the costs of operating a motorway service station are higher. In addition, in hyper- and supermarkets, fuel can also be considered temporarily as a loss leader, which can lead to a compression of the net distribution margin.

Since the end of September 2023, prices at the pump in hyper- and supermarkets have fallen by 11 euro cents per litre, against 7 euro cents per litre with the major brands (▶**Figure 6**). However, this drop takes place in a context of declining refined oil prices (-8 cents per litre on average since the end of September). It is more pronounced in unleaded petrol than diesel in hyper- and supermarkets, mainly reflecting downward movements in the markets. For the major brands, pump prices fell much less than the prices of refined oil products, which may be due to a later price adjustment when market values were trending downwards rather than upwards (▶**Audenis and al., 2002**) for the brands in an oligopolistic situation. ●

▶6. Pump price of fuels, including tax, by category of distributor

(in euro per litre of fuel)



Last point: 30 November, 2023.
Method: prices are a weekly moving average of daily readings taken in 3,900 hyper- and supermarket chains and 2,700 major brand outlets. These data by category of distributor are the result of matching data on the government website on fuel prices by service station (https://prix-carburants.gouv.fr/) and a list of brand outlets obtained by scraping data from the https://carburants.org/ website. Outliers where the price at the pump per litre, including tax, is less than €1 or more than €3 are excluded from the sample for analysis.
Note: the vertical bar corresponds to 24 September 2023, date when the government encouraged distributors to sell their fuel at cost price.
How to read it: On 30 November 2023, the pump price of a litre of 95-E10 unleaded was €1.75 in hyper- and supermarkets compared to €1.84 for the major brands.
Source: "prix-des-carburants.gouv.fr" (co-managed by the DGEC and the DGCCRF), INSEE calculation.

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Method box: econometric modelling of prices of refined products then prices at the pump excluding tax

The data used for this Focus study are based in part on the market values for oil listed in Rotterdam for the European market (prices of crude oil and refined petroleum products). Weekly prices including tax and excluding tax are published by the Directorate General for Energy and Climate (DGEC). Prices of unleaded petrol are an aggregate of the prices of 95-octane unleaded, 95-E10 unleaded and 98-octane unleaded according to the annual consumption structure of the consumer price index. Aggregated fuel prices reflect the respective annual weighting of premium-grade petrol and diesel.

Econometric modelling of the prices of refined oil products and the prices of fuels at the pump, excluding tax, was based on ►**Bortoli and Milin, 2016** and ►**Bessone, Meyer and Subran, 2005**.

Modelling the price of refined oil products sold by the refining industry

The expected price of refined oil products is estimated by regressing the price of refined products listed in Rotterdam against the price of crude oil using an error correction model. The model assumes that the only long-term economic determinant of the factory gate price of refined products is the price of crude oil. It does not take into account other factors, such as the price of the emissions allowance in the ETS. This relationship is estimated monthly, differentiating diesel and unleaded fuel, and takes the following form:

$$\Delta P_t^{Raffinage} = cst + \Delta P_{t-1}^{Raffinage} + \sum_{i=0}^{1} \Delta\left(Brent_{t-i}\right) + \lambda_1\left(P_{t-1}^{Raffinage} - Brent_{t-1}\right) + \epsilon_t$$

With :

$P_t^{Raffinage}$: the factory gate price of refined fuel listed in Rotterdam for the European market in euro cents per litre.

$Brent_t$: the price of crude oil listed in Rotterdam for the European market in euro cents per litre of fuel.

Estimation period: January 2007–December 2019.

The long-term econometric relationship seems relevant as it is stationary, and the restoring force is significant. Thus the difference between the observed price of refined products and the simulated price is not explained by the variation in the price of crude oil but by other factors not taken into account in the model (in particular the price of the emissions allowance in the ETS).

Modelling the selling price at the pump, excluding tax, sold by distributors

Modelling the distributors' selling price at the pump highlights two long-term determinants of the pump price, excluding tax. First, the factory gate prices of refined products correspond to the acquisition cost by the transporters. Second, long-term gross transport-distribution costs have been structurally increasing since the mid-2010s. By adding a positive trend over the estimation period, this change can be controlled over a long period, and it is then possible to partly capture the effect of regulatory constraints (incorporating biofuels and energy saving certificate).
The net transport-distribution margin is also estimated monthly and separately for diesel and unleaded..

$$\Delta P_t^{HT} = cst + \Delta P_{t-1}^{HT} + \sum_{i=0}^{1} \Delta \left(P_{t-i}^{Raffinage}\right) + \lambda_1 \left(P_{t-1}^{HT} - P_{t-1}^{Raffinage} - Tendance_{t-1}\right) + \epsilon_t$$

With :

P_t^{HT} : the pump price of fuel, excluding tax, in euro cents per litre.

$P_t^{Raffinage}$: the factory gate price of refined fuel listed in Rotterdam for the European market in euro cents per litre.

Tendance: a positive trend reflecting the structural increase in transport-distribution costs over the estimation period.

Estimation period: January 2014–June 2021.

The long-term econometric relationship linking the pump price, excluding tax, to refined product prices and to the trend mentioned above appears stationary, and the restoring force is also significant. Thus the difference between the observed price of refined products and the simulated price is not explained by the variation in the price of refined products but by other factors not taken into account in the model. For example, this may be due to the fact that the long-term trend imperfectly models the impact of regulatory constraints linked to the energy saving certificate and the incorporation of biofuels. ●

►7. Modelling the price of refined oil listed in Rotterdam against the price of crude oil

	Explained variable			
	Premium-grade petrol		Diesel	
	ECM	LT relation	ECM	LT relation
$\Delta P_{t-1}^{Raffinage}$	0.128		0.009	
	(0.081)		(0.080)	
ΔBrent$_t$	1.118***		1.035***	
	(0.060)		(0.038)	
ΔBrent$_{t-1}$	0.004		-0.036	
	(0.112)		(0.095)	
λ_1	-0.265***		-0.189***	
	(0.055)		(0.046)	
Brent$_t$		1.088***		1.134***
		(0.025)		(0.018)
Constant$_t$	-0.006	9.577***	0.002	5.231***
	(0.162)	(0.994)	(0.103)	(0.735)
RMSE	1.98	3.18	1.26	2.35
Stat. DW	1.959		1.988	
Observations	154	156	154	156
R^2	0.762	0.925	0.853	0.961
R^2 Adjusted	0.756	0.925	0.849	0.961
Test F	119.577*** (df = 4; 149)	1,902.960*** (df = 1; 154)	216.093*** (df = 4; 149)	3,788.854*** (df = 1; 154)

Note : *p<0.1; **p<0.05; ***p<0.01.

►8. Modelling the price at the pump, excluding tax, against the price of refined oil listed in Rotterdam

	Explained variable			
	Premium-grade petrol		Diesel	
	ECM	LT relation	ECM	LT relation
ΔP_{t-1}^{HT}	0.087		-0.074	
	(0.081)		(0.082)	
$\Delta P_{t}^{Raffinage}$	0.562***		0.743***	
	(0.025)		(0.025)	
$\Delta P_{t-1}^{Raffinage}$	0.077		0.177**	
	(0.062)		(0.082)	
λ_1	-0.274***		-0.431***	
	(0.071)		(0.099)	
$P_{t}^{Raffinage}$		0.783***		0.940***
		(0.021)		(0.013)
$Tendance_t$		0.094***		0.106***
		(0.009)		(0.005)
$Constant_t$	0.042	5.173***	0.070	-1.133
	(0.105)	(1.792)	(0.081)	(1.039)
RMSE	0.95	1.81	0.72	1.14
Stat. DW	2.003		2.007	
Observations	87	89	87	89
R^2	0.907	0.943	0.941	0.983
R^2 Adjusted	0.902	0.942	0.939	0.983
Test F	198.984*** (df = 4; 82)	712.828*** (df = 2; 86)	329.495*** (df = 4; 82)	2,505.764*** (df = 2; 86)

Note : *p<0.1; **p<0.05; ***p<0.01.

Wages

In Q3 2023, the average wage per capita (SMPT) increased by 0.6%, after +0.8% the previous quarter (►Figure 1). The basic monthly wage (SMB[1]) also slowed (+0.6% after +0.9%), in a context of lower inflation.

In Q4, the SMB is expected to maintain its rate of increase (+0.6% forecast) while the SMPT is expected to accelerate (+1.3%), driven by very large payments under the value sharing bonus (PPV) scheme at the end of the year, like last year. This scheme enables employers to pay out bonuses of up to 6,000 euros per employee and per year, under certain conditions, which are exempt from tax and social contributions (►Focus "Value sharing bonus: massive payouts at the end of 2022, with potential windfall effects", *Economic Outlook* of 15 March 2023). PPV payouts are expected to be even larger at the end of 2023, because from 2024 onwards the scheme will be less advantageous, mainly because the bonus will be taxed.

In Q1 2024, the SMB is expected to accelerate (+1.1% forecast quarter-on-quarter), driven by the fact that inflation is taken into account in wage negotiations at the beginning of the year and by the automatic revision of the minimum wage in January (forecast to be around +1.1%). On the other hand, the SMPT is expected to slow (+0.8%) with fewer PPV payouts at the beginning of the year. In Q2, wages are likely to decelerate, in line with the slowdown in prices and the forecast rise in the unemployment rate: +0.6% forecast for the SMB and +0.5% for the SMPT.

Over the year, the nominal increase in the SMPT in Q3 2023 (+4.2%) remained lower than the year-on-year change in consumer prices, with the result that real wages (as measured by the CPI) fell back by 0.4% (►Figures 1 and 2). The SMPT is expected to become more buoyant than prices over the forecasting period: in Q2 2024, the rise in the real SMPT should reach +0.7% year-on-year. All in all, the real SMPT is expected to fall back in 2023 (-0.3% on average) but the 2024 mid-year growth overhang should be positive (+0.6%).

In general government, the nominal SMPT is expected to increase by an average of 4.0% in 2023 (after +4.3% in 2022), notably due to category-specific measures in favour of teachers and the revision of the index point by 1.5% on 1st July. However, the purchasing power of the SMPT in general government is likely to decline in 2023 (-0.9% forecast as an annual average, the same as in 2022). At the start of 2024, the SMPT in general government is expected to continue to decline in real terms: the mid-year growth overhang is expected to be -0.1%. ●

1 The SMB corresponds to the core component of the SMPT, alongside the short-term component which was affected mainly by value sharing bonus payouts.

►1. Variation in the average wage per capita (SMPT) and the basic monthly wage (SMB)

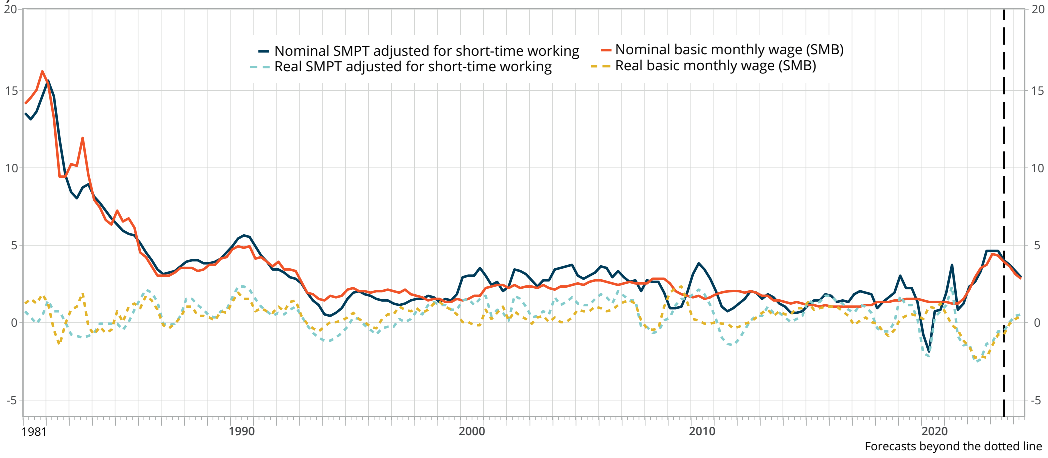
(changes in %, seasonally adjusted data)

	Quarterly growth rates						Year-on-year growth						Average annual change		
	2023				2024		2023				2024		2022	2023	2024 (ovhg)
	Q1	Q2	Q3	Q4	Q1	Q2	Q1	Q2	Q3	Q4	Q1	Q2			
Average wage per capita (SMPT) in non-agricultural market branches	1.1	0.8	0.6	1.3	0.8	0.5	5.2	4.9	4.2	3.9	3.5	3.1	5.7	4.5	2.6
Basic monthly wage (SMB)	1.6	0.9	0.6	0.6	1.1	0.6	4.6	4.5	4.1	3.8	3.3	3.0	3.2	4.3	2.6
SMPT in general government													4.3	4.0	1.9
Real SMPT* in the non-agricultural market branches	-0.3	-0.2	-0.3	0.9	0.2	-0.1	-0.7	-0.3	-0.4	0.2	0.6	0.7	0.4	-0.3	0.6
Real SMB*	0.2	-0.1	-0.2	0.2	0.5	0.0	-1.3	-0.6	-0.6	0.1	0.4	0.6	-1.9	-0.6	0.6
Real SMPT* in general government													-0.9	-0.9	-0.1

■ Forecast.
* in the sense of the CPI - household consumption price index.
Note: the sharp rise in the SMPT in 2022 was automatic, resulting from the decline in the use of short-term working compared to the still high level in 2021, and these payments were not counted as wages. Excluding this automatic effect, the SMPT fell in 2022 in real terms by 1.8%, a similar decline to the SMB.
How to read it: in Q2 2024, the basic monthly wage (SMB) would grow by 0.6% compared to the previous quarter.
Source : DARES, INSEE.

►2. Nominal and real changes* in average wage per capita (SMPT) adjusted for the effect of short-term working, and in basic monthly wage (SMB)

(year-on-year, in %)



* in the household consumption price sense (quarterly national accounts).

Note: here, the SMPT is adjusted for short-term working: these payments are not counted as wages, and therefore led to some very wide variations when the SMPT was not adjusted during the health crisis, see blog post on wage indicators https://blog.insee.fr/mesurer-l-evolution-des-salaires-a-court-terme/.

How to read it: in Q2 2024, year-on-year growth in nominal SMPT would be 3.0%.

Scope: non-agricultural market sector.

Source: DARES, INSEE.

Household income

In Q3 2023, household gross disposable income (GDI) decelerated (+0.9% after +1.5% in Q2), with earned income and wealth income slowing, although the latter still remained relatively buoyant. At the same time, household consumer prices also slowed but were sustained nevertheless (+1.0%). Thus the purchasing power of household GDI per consumption unit contracted slightly (-0.2%) in Q3.

In Q4 2023, household GDI is expected to accelerate (+1.3%), driven notably by the dynamism of earned income (large payouts under the value sharing bonus (PPV) scheme and a one-off purchasing power bonus for civil servants). Social benefits are expected to increase, bolstered mainly by the revision of supplementary pensions. Meanwhile, household consumer prices are likely to slow (+0.7%), with the result that purchasing power of GDI per consumption unit looks set to bounce back (+0.4%).

Over the whole of 2023, overall purchasing power is expected to increase moderately (+0.8%), and gains in purchasing power per consumption unit (CU) look set to be positive but modest (+0.3%), in a context of high inflation. In nominal terms, earned income in 2023 is still expected to be the main contributor to change in GDI (▶Figure 3). In real terms, GDI purchasing power gains are expected to be bolstered more by income from wealth (▶Focus In 2023, wealth income is expected to be dynamic, driven by the rise in interest rates) than by earned income or social benefits.

In H1 2024, household GDI should remain dynamic across Q1 (+1.2%), then slow in Q2 (+0.6%). GDI growth at the start of the year is expected to reflect mainly the rise in social benefits (+2.8%), especially as a result of indexing basic pensions to inflation and the payment of a means-tested fuel allowance. Meanwhile, earned income is expected to remain virtually stable in Q1, in reaction to the sizeable bonus payouts in the previous quarter. It is likely to accelerate only modestly in Q2, due to the slowdown in wages and virtual stability forecast for employment. Wealth income is also expected to slow, assuming that the increase in the ECB base interest rate comes to an end. However, household consumer prices are also expected to decelerate in H1, with the result that purchasing power per consumption unit should pick up again in Q1 (+0.5%), before coming to a standstill in Q2 (+0.1%).

For 2024, the mid-year growth overhang for purchasing power (i.e. the annual variation forecast if purchasing power in H2 were to remain fixed at the level forecast for Q2) is expected to be relatively dynamic (+1.2%, or +0.8% per consumption unit) compared to GDP growth. However, this mid-year overhang is not a prediction of change in purchasing power across the whole of 2024 because, by definition, it does not include possible movements in GDI and consumer prices in H2. ●

▶1. Components of household gross disposable income

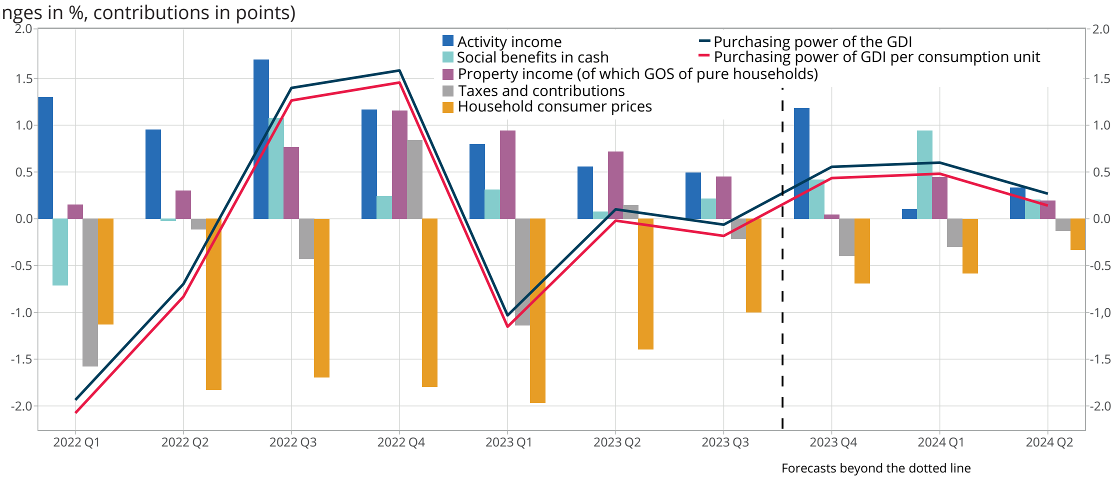
(variations in %)

	Quarterly changes										Annual changes		
	2022				2023				2024		2022	2023	2024 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Gross disposable income (100%)	**-0.8**	**1.1**	**3.1**	**3.4**	**0.9**	**1.5**	**0.9**	**1.3**	**1.2**	**0.6**	**5.1**	**7.4**	**3.5**
including:													
Earned income (73%)	1.8	1.3	2.3	1.6	1.1	0.8	0.7	1.7	0.1	0.5	7.7	5.2	2.3
Gross wages and salaries (65%)	1.7	1.5	2.2	1.7	1.2	0.8	0.8	1.9	0.1	0.5	8.3	5.6	2.5
GOS of sole proprietors* (8%)	2.8	0.0	3.0	0.6	0.4	0.4	-0.1	0.0	0.4	0.1	3.3	2.6	0.5
Social benefits in cash (34%)	-2.0	-0.1	3.1	0.7	0.9	0.2	0.6	1.3	2.8	0.6	0.4	3.9	4.7
Property income, of which GOS of pure households (20%)	0.8	1.5	3.9	5.9	4.7	3.4	2.1	0.2	2.1	0.9	7.3	15.9	4.9
Social contributions and taxes (–26%)	6.2	0.4	1.6	-3.2	4.6	-0.6	0.9	1.6	1.2	0.5	7.7	3.4	3.1
Household consumer prices	1.1	1.8	1.7	1.8	2.0	1.4	1.0	0.7	0.6	0.3	4.9	6.5	2.2
Purchasing power of gross disposable income	**-1.9**	**-0.7**	**1.4**	**1.6**	**-1.0**	**0.1**	**-0.1**	**0.6**	**0.6**	**0.3**	**0.2**	**0.8**	**1.2**
Purchasing power per consumption unit	**-2.1**	**-0.8**	**1.3**	**1.5**	**-1.2**	**0.0**	**-0.2**	**0.4**	**0.5**	**0.1**	**-0.4**	**0.3**	**0.8**

Forecast.
* the gross operating surplus (GOS) of sole proprietors is the balance of the operating account of sole proprietorships. This is mixed income as it remunerates work carried out by the owner of the sole proprietorship, and possibly members of their family, but it also contains profit made as a sole proprietor.
Note: figures in brackets give the structure for 2022.
How to read it: after an increase of 0.9% in Q3 2023, household gross disposable income would rise more sharply in Q4 (+1.3%).
Source: INSEE.

►2. Quarterly variation in purchasing power of household gross disposable income (GDI) and its main contributions to variations in GDI

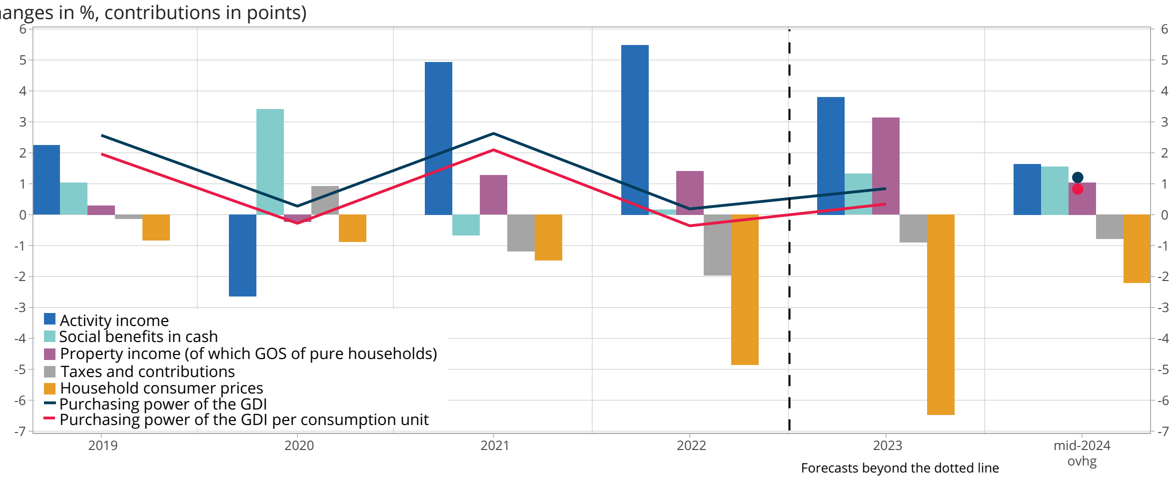
(quarterly changes in %, contributions in points)



How to read it: the purchasing power of household GDI per consumption unit is expected to rise by 0.4% in Q4 2023. Activity income would contribute +1.2 points to this rise.
Source: INSEE.

►3. Annual variation in purchasing power of household gross disposable income (GDI) and its main contributions to variations in GDI

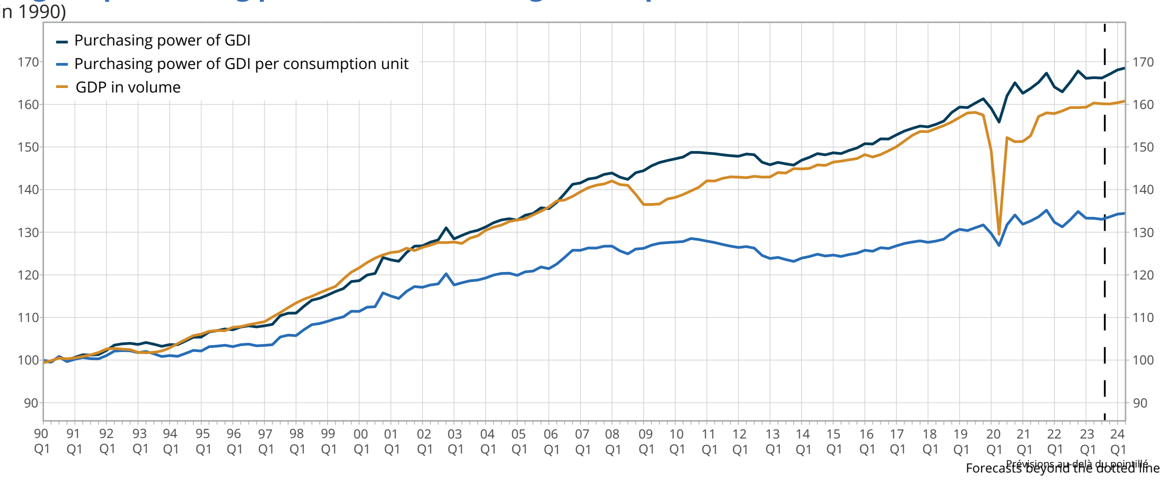
(annual changes in %, contributions in points)



How to read it: the purchasing power of household GDI per consumption unit is expected to rise by 0.3% on average in 2023. Activity income would contribute +3.8 points to this rise.
Source: INSEE.

►4. Change in purchasing power of household gross disposable income (GDI) and of GDP since 1990

(base 100 in 1990)



Source: INSEE.

In 2023, wealth income is expected to be dynamic, driven by the rise in interest rates

Within the scope of national accounting, wealth income includes households' income from property and real estate. Households' property income corresponds to interest received on their deposits net of that paid on their loans, and also dividends and income from other investments (mainly life insurance). Real estate income includes real rents (for household landlords) or imputed rents (for owner-occupiers) received by individual homeowners, from which charges and property taxes are deducted. The national accounts record as interest paid or received by households any "pure" interest, calculated at the banks' refinancing rate, then enters the difference between this pure interest and the interest actually paid or received by households as a payment to the bank for a financial intermediation service indirectly measured (FISIM).

In 2023, wealth income in current euros is expected to increase by +15.8% and should contribute 3.1 points to growth of 7.4% in household gross disposable income (GDI). However, part of the growth in wealth income is due to the adjustment for FISIM. Without FISIM, wealth income is expected to increase by +9.0%, after +6.5% in 2022. This acceleration would appear to be due to the increase in net interest actually received, which should contribute +2.9 points in 2023 after +1.5 points in 2022. Growth in net interest income excluding FISIM is more pronounced in France than among our European neighbours, as savings, which are mainly regulated, have partially followed inflation, while outstanding property loans are largely set at fixed rates, and were contracted at a time when interest rates were low. Dividends and other investment income are expected to remain very dynamic, contributing +1.9 and +2.6 points respectively to growth in wealth income in 2023. Finally, the contribution of the real estate income of individual homeowners is expected to be more moderate in 2023 (+1.5 points), with weak annual growth (+2.2%) which can be explained by the capping of rent increases since 2022. Growth in property income in 2023 remains surrounded by forecasting uncertainty, however, especially for payments of other investment income.

In nominal terms and excluding FISIM, wealth income should contribute 1.7 points to the 6% increase in household GDI in 2023, with the main contribution still that of earned income (up to 3.8 points). In real terms, however, wealth income excluding the FISIM effect, is expected to be the main contributor to growth in the purchasing power of household GDI excluding FISIM in 2023, at around +0.8 points, while earned income should contribute +0.2 points.

Benjamin Quévat et Gaston Vermersch

Wealth income comprises property income, real estate income and financial institution margins on deposits and loans excluding housing

Net wealth income received by households includes on the one hand income from property, namely interest received on deposits net of that paid on loans, dividends and other investment income (mainly life insurance). On the other hand, wealth income also includes the gross operating surplus (GOS) of individual homeowners. This income corresponds to rents received by owners, whether real (landlord) or imputed (rents they would receive if they were to rent out their properties), and adjusted for intermediate consumption and taxes net of subsidies (mainly property tax).

In addition, part of the services provided by financial institutions, connecting lenders and borrowers, is not invoiced to customers in the form of commissions or bank charges, but is incorporated into the interest collected or received. In order to measure this intermediation margin, other property income is thus imputed to households, called Financial Intermediation Service Indirectly Measured (FISIM). This imputation amounts to acting as if interest on bank deposits and loans were calculated at the interbank refinancing rate, which generally results in a surplus of disposable income. This surplus is then used by the holders of the loans or deposits to pay for consumption of financial services, also imputed, corresponding to the margins that financial institutions make on deposits and loans (difference between the interbank refinancing rate and the rate actually paid on bank deposits or loans). As imputed income and imputed consumption are equal, FISIM is neutral on the savings of economic agents.

The FISIM adjustment enhanced the dynamism of wealth income in 2023

Between July 2022 and September 2023, the ECB gradually increased its refinancing from 0% to 4.5%, significantly increasing interbank rates and hence interest received and paid within the meaning of the national accounts.

Concerning deposits, the interest actually received by households has not increased as sharply as the interbank rates since they are largely regulated or fixed. Thus, the FISIM consumed by households on their deposits and the "pure" interest they receive increase substantially, which also increases GDI and households' final consumption. This increase in GDI does not therefore result in an increase in the purchasing power of households' GDI, because this income is entirely consumed by households as a product of financial intermediation services, the price of which is increased accordingly, leading to an increase in the household consumption deflator. This adjustment is also neutral regarding household savings, as the surplus imputed GDI is fully consumed.

In contrast, concerning loans excluding housing loans, the margin has contracted since 2022, since the interbank refinancing rate has evolved faster than the average rate paid by households, the result being a drop in FISIM consumed by households on these loans. "Pure" interest paid by households then increases, having a downward impact on GDI, but this decline only slightly alleviates the sharp increase in deposits, as the mass of non-housing loans is significantly less than that of deposits.

Concerning housing loans, the margin also contracts, with the average rate on outstanding amounts evolving much more sluggishly than the interbank rates since real estate loans have for the most part been established at a fixed rate throughout the borrowing period. However, unlike deposits and loans other than housing, this drop in the intermediation margin does not affect household gross disposable income (GDI). In fact, these intermediation services are consumed by households as intermediate consumption in their housing service production activity. The decline in the intermediation margin then results in a drop in this intermediate consumption, and therefore an increase in real estate income via the GOS of pure households, which is completely offset by an equivalent drop in imputed property income.

All in all, the FISIM adjustment is expected to contribute 7.3 points to nominal growth in wealth income in 2023 (+15.8%), or almost half of the contribution.

Excluding FISIM integration, property income is expected to be dynamic again in 2023

Excluding the FISIM effect, wealth income in current euros is expected to pick up by +9% in 2023 after +6.4% in 2022 (►**Figure 1**). This acceleration, after two already vigorous years, takes place in a context of high inflation and a sudden rise in the ECB's base interest rates. It is driven by income net of interest from household loans and deposits, which are expected to contribute around +2.9 points to the rise in 2023 (after +1.5 points in 2022). The contribution of dividends and other investment income looks set to maintain its high level (+4.5 points after +4 points in 2022). The contribution of the GOS of pure households, reflecting income drawn from real estate assets (real or imputed rents), is expected to be more moderate and increase only a little in 2023 (+1.5 points, after +0.9 points in 2022).

Excluding the FISIM effect, net interest received by households increased sharply in 2023

Interest received excluding the FISIM effect is expected to be up by +80% compared to 2022 (►**Figure 2**). This rise is due mainly to the upturn in the rates paid on households' deposits since 2022, especially for regulated savings. After hitting a historic low of 0.5% before 2022, the interest rate for the Livret A savings account was significantly increased in 2022 and 2023, affected by the rise in inflation, and reaching 3% in February 2023. The average rate of return on all deposits also recovered in 2022 and 2023, in the wake of the Livret A, but with rather less vigour (►**Figure 3a**). Interest rates for some deposits are fixed and do not change according to inflation or interbank rates: this is particularly the case for cash deposits, or for Housing Savings Plans (PEL).

Interest paid by households is expected to increase much more moderately. This interest mainly includes

►1. Contributions to annual growth in wealth income (excluding FISIM effect)

(in percentage points)

How to read it: in 2023, net interest, excluding the FISIM effect, contributed 2.9 points to growth in wealth income excluding FISIM.
Source: National accounts and INSEE forecasts.

interest on home loans (which represent about 90% of outstanding household loans). Although rates on new housing loans have picked up substantially since 2022, reaching 3.8% in Q3 2023, the average rate on all home loans is increasing much more slowly (►**Figure 3b**) since in France the majority of loans for housing are fixed loans: their rate is defined when the loan is taken out and remains unchanged throughout the duration of the loan. Regarding other loans (mainly consumer loans), the average rate is also less dynamic than the increase in base interest rates, although the rates for consumer loans adjust more quickly than those for home loans.

The rise in inflation and interest rates in 2022 and 2023 therefore concerns the stock (or at least part of the stock) of deposits, although it mainly concerns only the flow

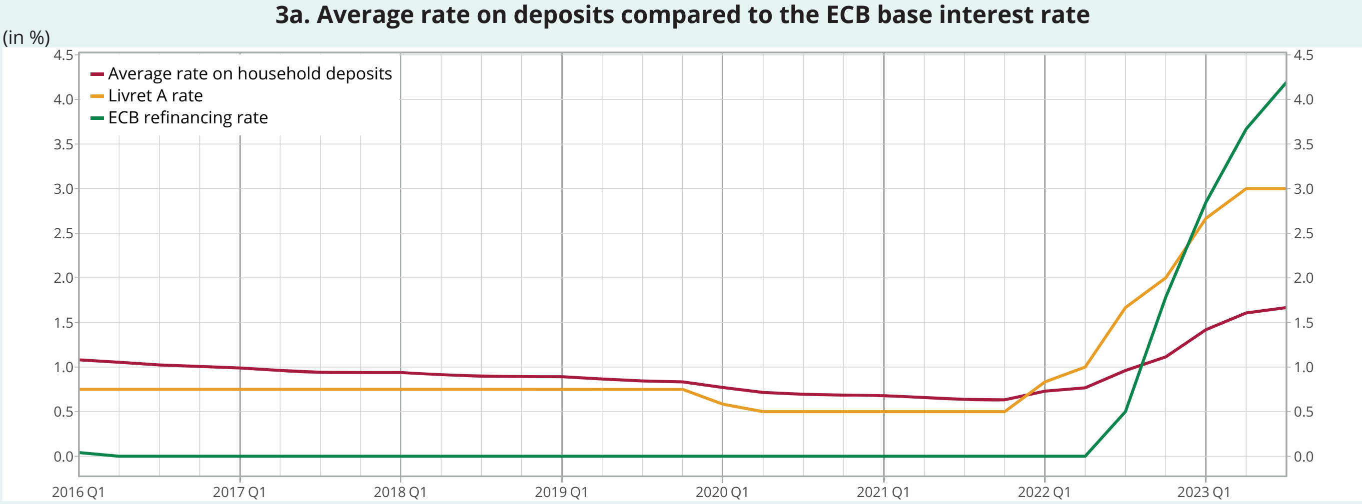
►2. Wealth income by level and annual growth since 2019

	levels (in billions of euros)					Annual growth (%)				
	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
Wealth income including FISIM	**284**	**281**	**300**	**322**	**372**	**1.4**	**-1.2**	**6.8**	**7.2**	**15.8**
Wealth income excluding FISIM	278	276	296	315	343	1.6	-0.9	7.3	6.4	9.0
Of which net interest excluding FISIM	-16	-16	-16	-12	-2	6.7	-2.2	0.4	27.4	80.1
Of which dividends	42	40	56	61	67	5.0	-5.3	39.8	10.0	10.0
Of which other investment income	42	39	39	45	53	-9.0	-8.9	1.2	15.6	17.8
Of which GOS of pure households excluding FISIM	209	213	217	220	224	2.7	1.9	1.7	1.5	2.2
FISIM adjustment	6	5	4	7	30	-3.3	-14.0	-17.8	68.0	321.8

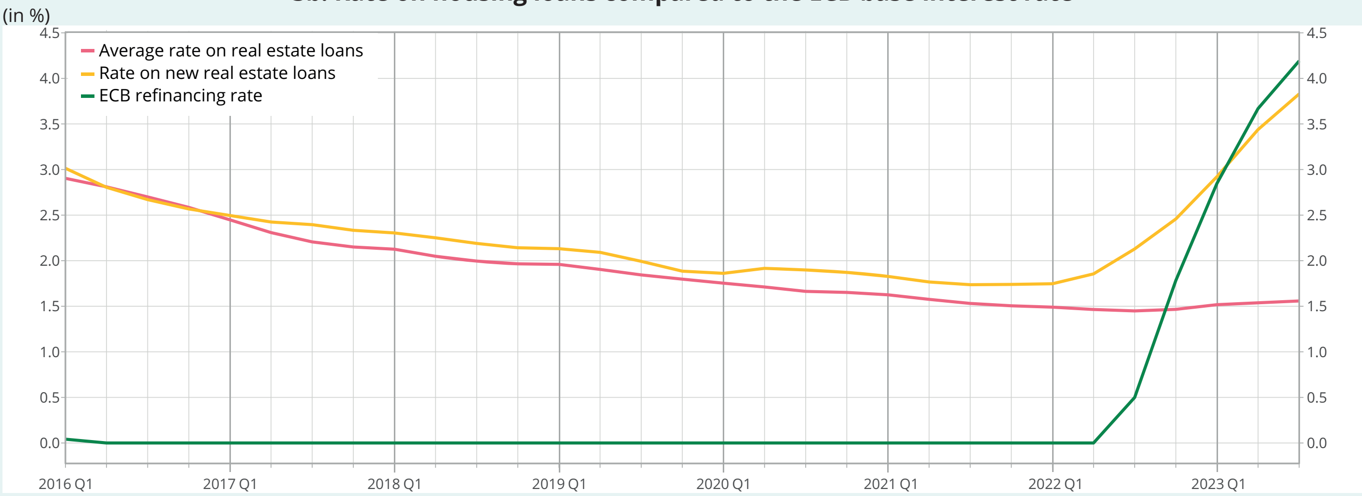
forecast.
How to read it: in 2019, dividends received by households amounted to 42 billion euros.
Source: National accounts and INSEE forecasts.

►3. Average rates and new rates on deposits and housing loans compared to the ECB refinancing rate

3a. Average rate on deposits compared to the ECB base interest rate



3b. Rate on housing loans compared to the ECB base interest rate



Last point: Q3 2023.
How to read it: in Q3 2023, the average interest rate on housing loans to households was 1.6% while the rate on newly contracted housing loans was 3.8%.
Source: Banque de France.

of new loans (especially new home loans). Thus interest received has bounced back strongly, while interest paid increased only slightly. However, it began to slow in late 2023, and is likely to be significantly less dynamic at the start of 2024, as the rise in interest rates is starting to be reflected in interest paid, whereas the rates for regulated savings are for the most part frozen (case of the Livret A in particular).

The buoyancy of net interest income is unusual in France compared to other European countries

In France, the growth in interest received by households net of payments was stronger than in neighbouring European countries. On the one hand, interest received bounced back from the start of 2022 in France and Italy, while this upward trend began at the end of 2022 or the beginning of 2023 in Germany and Spain (▶**Figure 4a**). This earlier increase in France can be explained by the greater proportion of regulated savings. Notably, the rate for the Livret A savings account was partially indexed to inflation at the start of 2022, even before the rise in base interest rates. In addition, the rebound in interest paid was much more moderate in France than in its European neighbours (▶**Figure 4b**). Here, housing loans are for the most part set at a fixed rate, which is much less the case in Germany and especially in Spain and Italy, where loans are mainly taken out at a variable rate (▶**Focus**). Thus, in France, the increase in interest paid comes mainly from the flow of new loans, while in Spain and Italy, it is the entire stock of loans that drives up the interest paid.

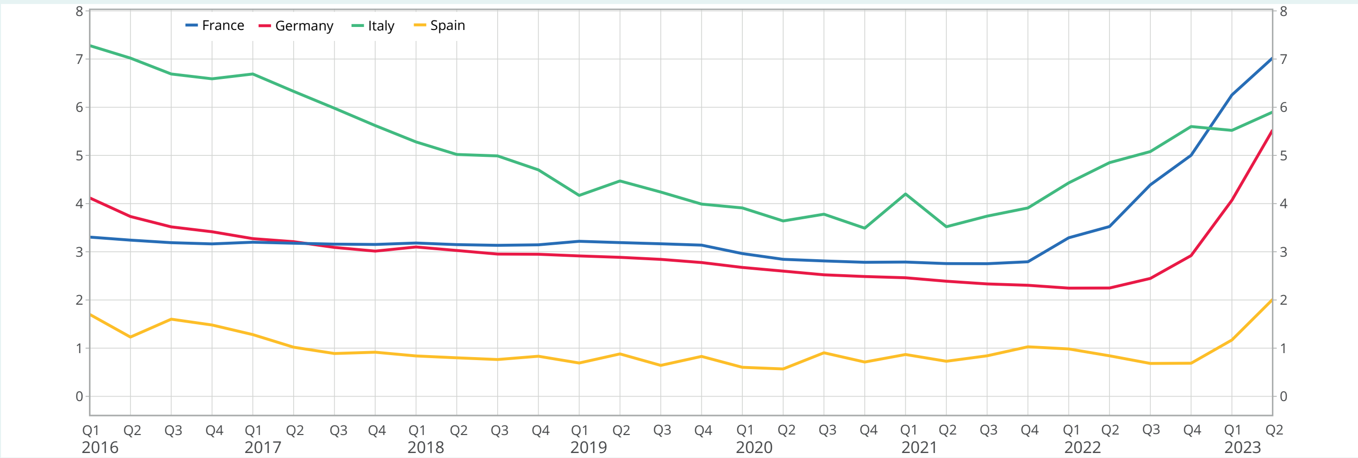
Dividends and other investment income are likely to remain dynamic in 2023

Dividends received by households rebounded very strongly in 2021 (+39.8%) after their decline during the 2020 recession (5.3%). They remained dynamic in 2022 (+10%) and this is expected to continue in 2023 (+10% forecast) (▶**Figure 5a**). Other investment income,

▶4. Interest excluding FISIM effect received and paid in different European countries since 2019

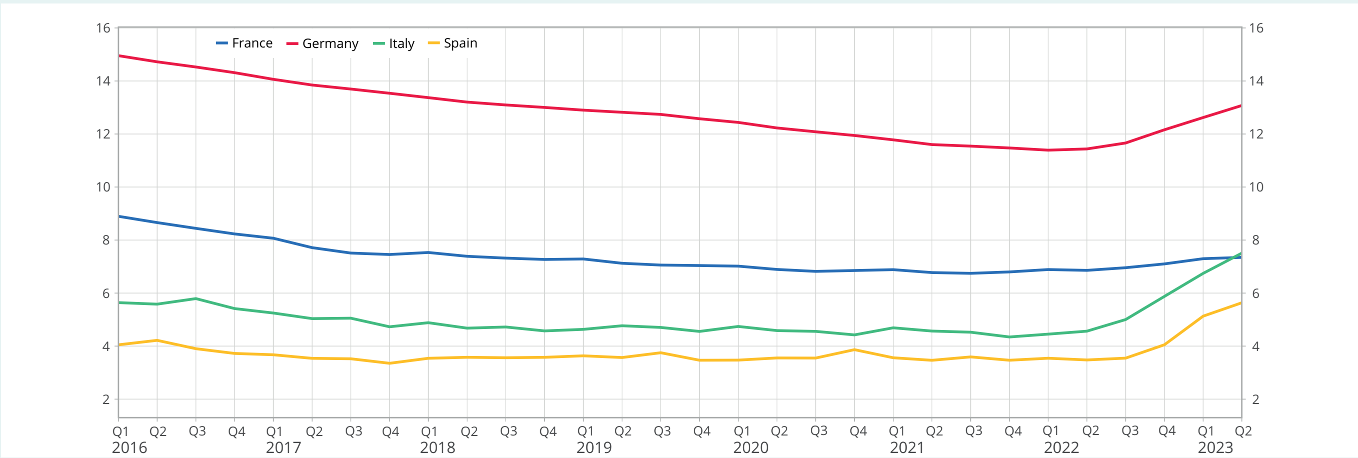
4a. Non-FISIM interest received

(in billions of euros, seasonally adjusted)



4b. Interest paid excluding FISIM

(in billions of euros, seasonally adjusted)



Last point: Q2 2023.
How to read it: in Q2 2023, interest excluding the FISIM effect received by households and NPISHs reached 7 billion euros in France. Interest paid excluding FISIM was 7 billion euros in France.
Source: Eurostat, INSEE calculations.

notably including life insurance, bounced back in 2022 after almost a decade of decline (►Figure 5b). In an environment of rising interest rates (interbank, fungible Treasury bonds), financial bodies have significantly increased the rates used in life insurance contracts and this rise in rates is likely to continue. Ultimately, despite the drop in funds collected from life insurance products, "other investment income" should remain very buoyant in 2023 (+18%). These changes that are forecast are nevertheless surrounded by uncertainty as they depend mainly on dividend distribution choices that are difficult to anticipate and on the multi-year provisioning decisions of bodies that can affect the upward or downward movement of rates paid.

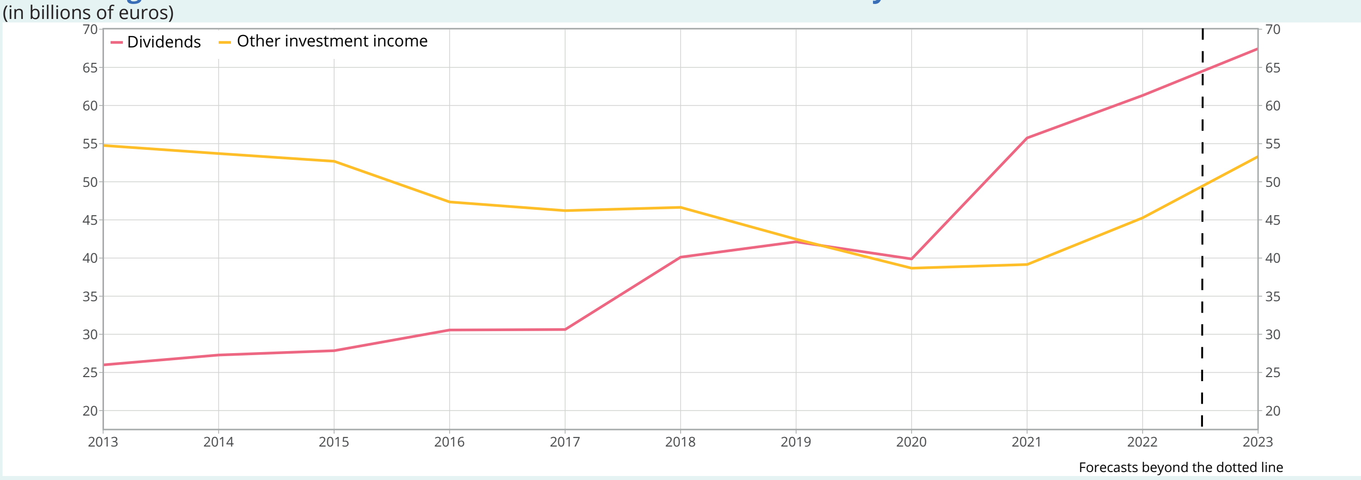
Excluding the FISIM effect, income from real estate wealth is expected to increase much more moderately in 2023 than other property income

The gross operating surplus of pure households corresponds to the income drawn by household owner-occupiers from their housing service production activity, whether this housing is rented (real rent) or not (imputed rent), after deducting intermediate consumption and taxes net of subsidies. With the capping of rent increases for current leases since 2022,[1] homeowners' rents (whether received or imputed) have picked up only slowly. In addition, real estate income is likely to be affected in 2023 by a strong rebound in the property tax,

1 Article 12 of Law no. 2022-1158 of 16 August 2022 capping rent increases for current leases at 3.5% for mainland France and 2.5% in the overseas departments.

►5. Change in dividends and other investment income received by households since 2013 in France

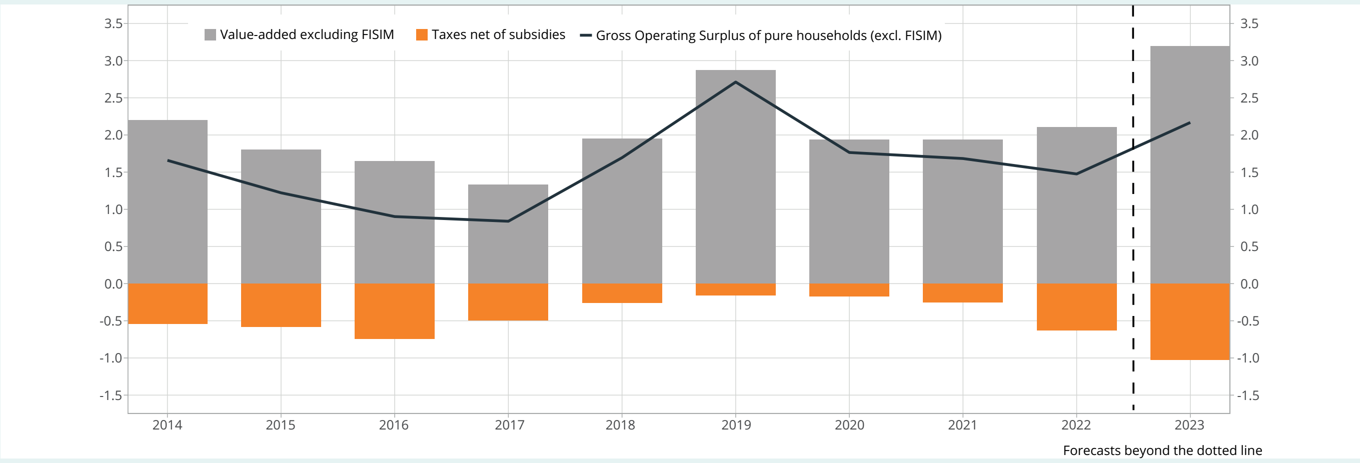
(in billions of euros)



How to read it: in 2019, dividends received by households represented 42 billion euros.
Source: National accounts and INSEE forecasts.

►6. Contributions to growth of the Gross Operating Surplus of pure households excluding FISIM

(in percentage points)



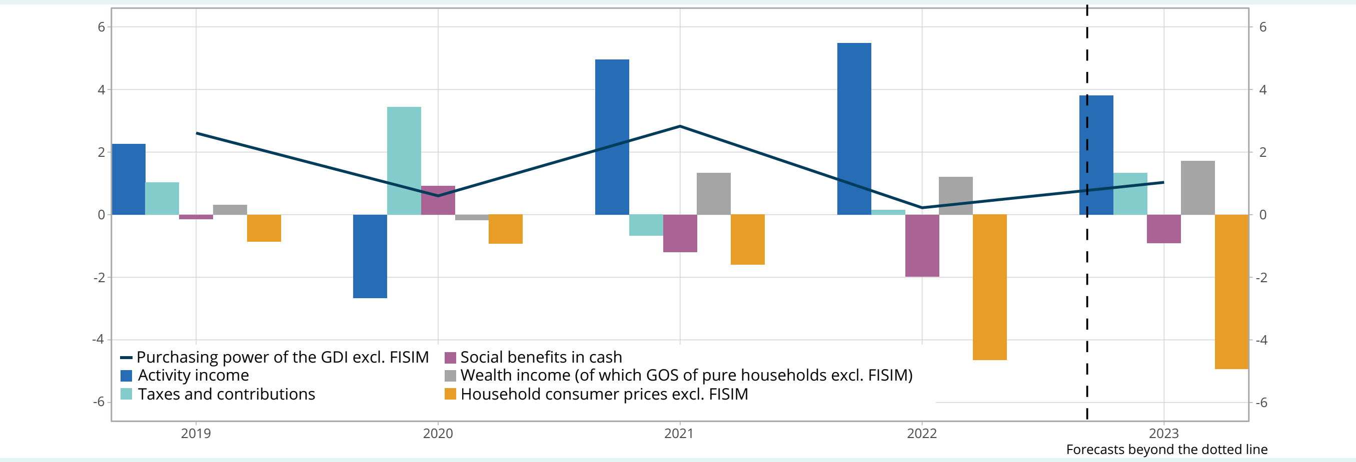
Note: the Gross Operating Surplus (GOS) of pure households corresponds to income drawn from the production of a housing service and therefore does not include their mixed income
How to read it: in 2023, taxes net of subsidies are expected to contribute around -1 points to annual GOS growth for pure households excluding FISIM.
Source: National accounts and INSEE forecasts.

affected by the 7.1% revision of rental values to which are added rate increases voted in some municipalities. Finally, the gross operating surplus of pure households (excluding the FISIM effect) is expected to increase in current euros by +2.2% in 2023 after +1.5% in 2022 (▶ **Figure 6**).

Excluding the FISIM effect, wealth income is expected to make the largest contribution to gains in the purchasing power of GDI in 2023

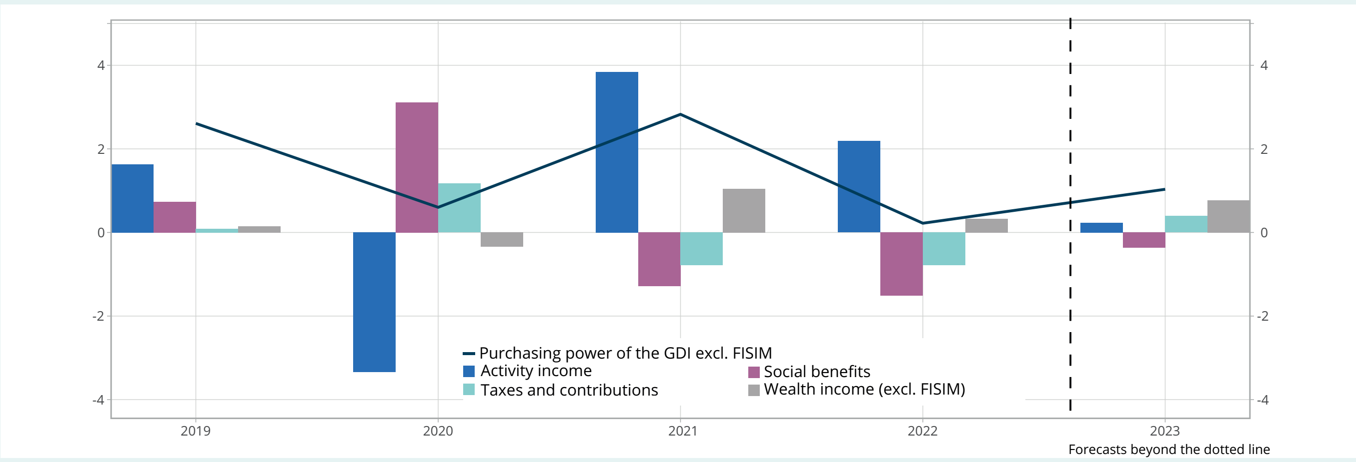
Since the imputation of FISIM increases the contribution of wealth income to variations in households' GDI, this dropped from 3.1 points to 1.7 points in 2023 when FISIM is subtracted from wealth income (▶ **Figure 7**). The momentum of the household consumption deflator is also very much reduced when FISIM is excluded from consumption, dropping from 6.5% to 4.9% as an annual average for 2023, i.e. a very similar change to that in inflation within the meaning of the Consumer Price Index. Finally, wealth income, expressed as a real value should increase more briskly (+4%) than earned income (+0.3%). Wealth income should therefore make the main contribution (+0.8 points) to gains in the purchasing power of households' GDI excluding the FISIM effect in 2023 (+1 point), whereas earned income is expected to contribute only 0.2 points (▶ **Figure 8**).

▶ 7. Variation in purchasing power excluding FISIM and contributions to variations in GDI excluding FISIM
(percentage points)



How to read it: in 2023, wealth income excluding the FISIM effect is expected to contribute 1.7 points to growth in household GDI excluding FISIM.
Source: National accounts and INSEE forecasts.

▶ 8. Contributions to change in the purchasing power of household GDI excluding FISIM
(percentage points)



How to read it: in 2023, real wealth income, excluding the FISIM effect is expected to contribute 0.8 points to growth in the purchasing power of household GDI excluding FISIM.
Source: National accounts and INSEE forecasts.

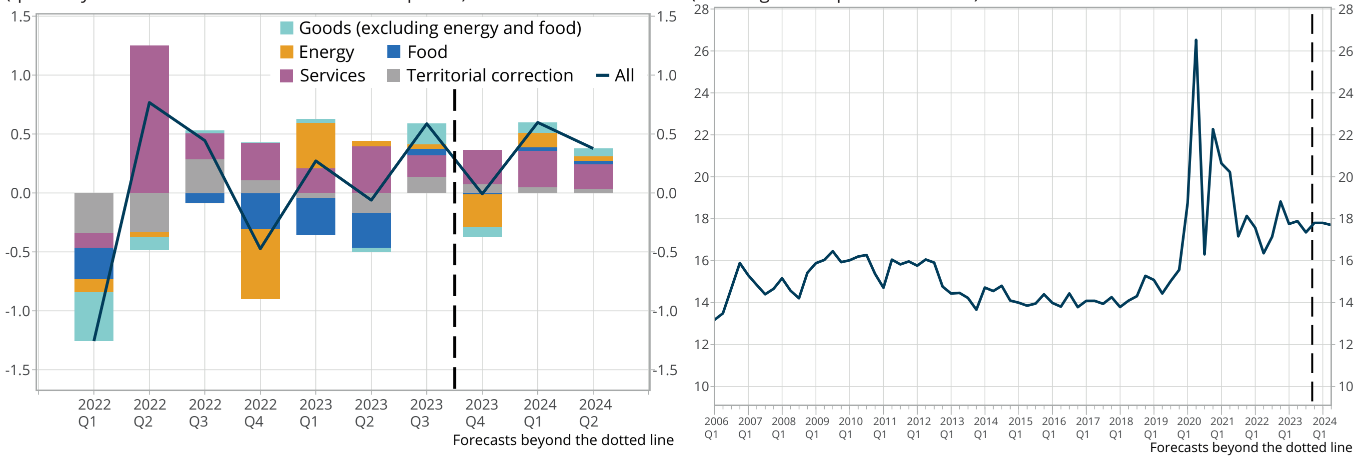
Household consumption and investment

In Q3 2023, household consumption bounced back (+0.6%), after being virtually stable in the previous quarter (▶**Figure 1**). For the first time since the start of 2021, purchases of goods (including energy and food) contributed more to the growth in consumption than purchases of services. The catch-up in automobile purchases continued, although they are still below their pre-health crisis level. In addition, for the first time since mid-2021, the consumption of food products picked up, linked to the major slowdown in food prices over the period. Meanwhile, the consumption of services decelerated and was at a standstill, notably in sectors linked to leisure (accommodation-catering, services to households).

In Q4 2023, with household confidence in the economic situation having improved somewhat, although still low, consumption is expected to be stable (0.0% forecast), held back mainly by the decline in electricity and gas consumption. Although temperatures were relatively mild in October, this accounts for only part of the drop in electricity consumption expected for the quarter (▶**Figure 2**), with moderating behaviour also playing a part, perhaps linked to price levels: in September, over 50% of households reported that they had changed their behaviour regarding energy consumption in

▶1. Past and expected quarterly consumption (left) and household savings ratio (right)

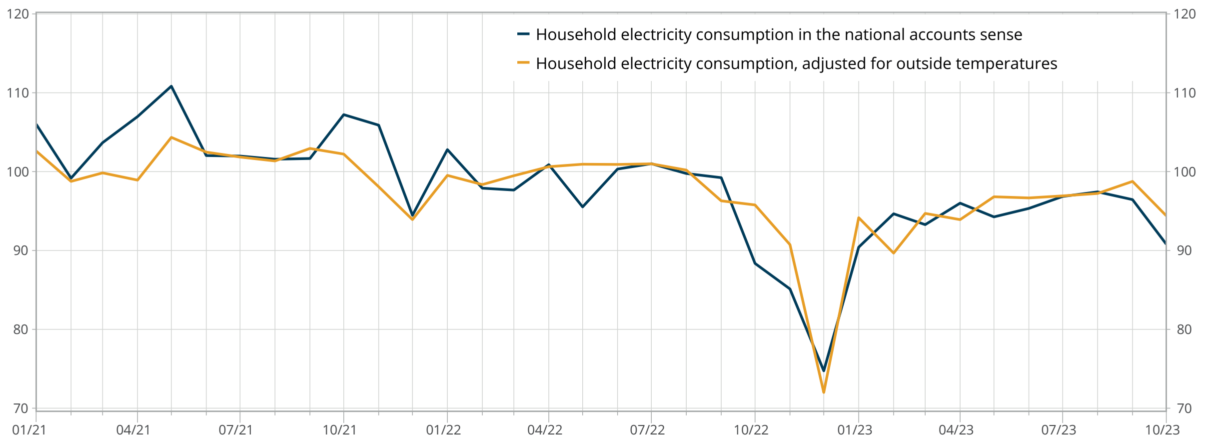
(quarterly variations in % and contributions in points) (in % of gross disposable income)



Note: territorial correction represents purchases made by French residents abroad (also counted in imports) minus purchases by non-residents made in France (counted in exports). The other contributions to household consumption (food, energy, etc.) refer exclusively to consumption in France.
How to read it: in Q4 2023, household consumption is expected to be stable compared to the previous quarter. The household savings rate is expected to rise by 17.8% of gross disposable income.
Source: INSEE.

▶2. Monthly household electricity consumption, with and without correction for outside temperatures

(SA-WDA data, base 100 in Q3 2022)



Last point: October 2023.
How to read it: in October 2023, household electricity consumption was 9% less than its average level in Q3 2022. Adjusted for the effects of weather conditions (slightly milder than seasonal norms), consumption would have been 6% lower than in the Q3 2022.
Source: INSEE.

the home over the last twelve months (▶**Focus** from the October 2023 *Economic Outlook*). Assuming that this moderating behaviour persists into Q4 and taking seasonal variations into account, a sharp decline is expected in electricity and gas consumption (-5.8%, ▶**Figure 3**). Food consumption looks set to move downwards slightly: despite the slowdown in food product prices, consumer data already available for October suggest a further decline in purchases in this sector. Regarding services, momentum is expected to be sustained mainly by consumption in accommodation-catering, where CB bank card transaction data suggest a positive change in the course of October. With purchasing power relatively dynamic (+0.6% forecast in Q4), the stability forecast for consumption should result in a rise in the savings ratio, which would then be well above its pre-health crisis level (▶**Focus** covering households' opinion on their savings ratio).

In H1 2024, household consumption should be relatively dynamic (+0.6% forecast in Q1 then +0.4% in Q2). In Q1, electricity and gas consumption looks set to bounce back in reaction to its sharp decline the previous quarter. Food consumption is expected to pick up moderately across the half-year, in line with the fall in inflation forecast in this sector. Consumption is expected to continue to increase in services, slowing slightly in Q2 2024. The savings ratio will probably be stable in Q1 2024 then decline slightly in Q2, against a backdrop of purchasing power remaining buoyant in Q1 and improving only moderately in Q2.

Household investment is likely to continue its decline (▶**Figure 4**), in a context where access to credit is tightening. Despite the fact that investment in renovation and improvement work on the home is expected to recover, housing space produced has fallen substantially since the start of 2022, and looks set to continue this decline over the entire forecasting period (▶**Figure 5**). ●

▶3. Estimated and projected quarterly household consumption

(quarterly and annual variations, in %, SA-WDA)

Products	weight(1)	2022				2023				2024		2022	2023	2024 ovhg
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Agricultural products	**3%**	**-2.0**	**-0.6**	**0.0**	**-3.2**	**-0.3**	**0.7**	**0.3**	**-0.4**	**0.1**	**0.0**	**-6.1**	**-2.3**	**0.1**
Manufactured products	**40%**	**-1.6**	**-0.2**	**-0.2**	**-0.5**	**-0.7**	**-0.9**	**0.6**	**-0.2**	**0.3**	**0.2**	**-1.8**	**-1.7**	**0.4**
Food products	15%	-1.4	0.1	-0.6	-1.4	-2.0	-2.2	0.3	0.0	0.2	0.2	-3.0	-4.8	0.0
Coke and refined petroleum	4%	-2.5	-2.7	1.9	-1.7	1.4	-0.7	-0.6	-0.8	-0.1	0.0	-0.7	-0.6	-1.2
Capital goods	3%	0.0	-0.2	0.4	-1.5	-0.4	-0.9	3.1	-0.5	1.0	0.3	-3.7	-0.7	2.2
Transport equipment	6%	-1.3	-1.0	1.0	2.7	1.8	1.3	2.0	0.4	0.8	0.6	-2.8	6.4	2.9
Other industrial products	12%	-2.1	0.4	-0.9	-0.3	-0.9	-0.5	0.1	-0.5	0.2	0.2	0.2	-1.9	-0.1
Energy, water, waste	**5%**	**-2.2**	**-0.9**	**0.0**	**-12.5**	**9.3**	**1.0**	**0.8**	**-5.8**	**2.7**	**0.9**	**-6.5**	**-1.9**	**-0.6**
Construction	**2%**	**-0.6**	**2.4**	**-2.7**	**1.0**	**-0.8**	**-2.9**	**-0.7**	**0.0**	**-0.1**	**0.0**	**2.5**	**-3.3**	**-1.2**
Trade(2)	**1%**	**-1.1**	**-1.0**	**-0.4**	**1.7**	**-0.3**	**0.0**	**-1.7**	**0.9**	**0.0**	**0.0**	**-0.1**	**-0.1**	**-0.2**
Market services excluding trade	**46%**	**-0.2**	**2.6**	**0.6**	**0.5**	**0.5**	**0.9**	**0.4**	**0.6**	**0.6**	**0.4**	**9.7**	**2.9**	**1.8**
Transport	4%	-0.4	5.3	1.9	2.3	0.9	2.5	0.6	0.6	0.7	0.5	29.9	7.3	2.5
Accommodation and food services	8%	-2.2	11.8	0.6	0.4	-0.2	1.9	-0.1	1.0	1.0	0.3	37.1	4.7	2.4
Information-communication	3%	0.4	-0.4	1.3	-0.1	1.3	0.2	2.0	0.2	0.5	0.5	3.2	3.0	2.1
Financial services	5%	-0.2	-0.1	0.1	0.3	0.4	0.5	0.4	0.5	0.6	0.6	0.3	1.4	1.8
Real estate services	19%	0.3	0.3	0.2	0.4	0.3	0.4	0.4	0.4	0.4	0.4	1.3	1.4	1.3
Business services	2%	1.2	0.2	0.9	0.4	0.6	0.2	0.4	0.7	0.6	0.4	8.6	1.9	1.7
Household services	4%	-0.6	2.2	1.4	0.8	1.8	1.0	0.1	1.0	1.0	0.2	19.2	4.7	2.2
Non-market services	**5%**	**0.1**	**0.4**	**-0.1**	**0.7**	**0.1**	**0.7**	**0.2**	**0.1**	**0.2**	**0.3**	**2.8**	**1.2**	**0.8**
Territorial correction	*-1%*	*24.5*	*18.9*	*-13.9*	*-6.2*	*2.5*	*9.7*	*-7.1*	*-4.1*	*-2.9*	*-2.1*	*149.0*	*-3.4*	*-8.7*
Imports of tourism services		*-6.4*	*-0.6*	*9*	*2.3*	*-1.4*	*-0.3*	*6.6*	*4.0*	*2.5*	*2.0*	*20.7*	*8.8*	*10.4*
Exports of tourism services		*4.1*	*7.3*	*-1.3*	*-1.0*	*0.1*	*3.5*	*1.1*	*1.0*	*0.6*	*0.6*	*52.6*	*3.8*	*3.2*
Total	**100%**	**-1.3**	**0.8**	**0.4**	**-0.5**	**0.3**	**-0.1**	**0.6**	**0.0**	**0.6**	**0.4**	**2.1**	**0.6**	**1.2**

■ Forecast.
(1) weight in household final consumption expenditure in current euros in Q4 2019.
(2) this item corresponds to sale and repair of motor vehicles and motorbikes. Expenditure in retail trade excluding motor vehicles and motorbikes is allocated to the corresponding products.
How to read it: in Q4 2023, household consumption of energy, water and waste is expected to fall by 5.8% compared to the previous quarter.
Source: INSEE.

►4. Household consumption, investment and savings ratio

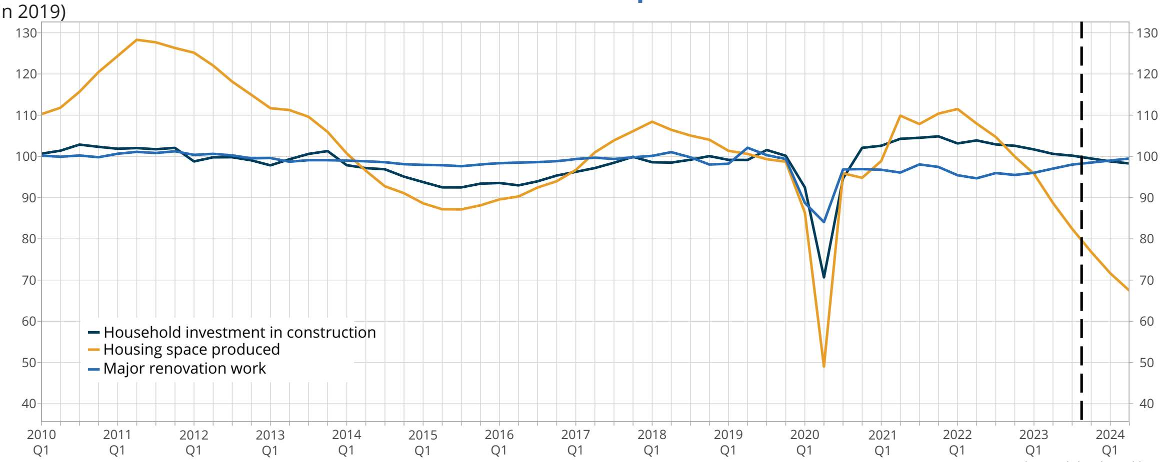
(quarterly changes and difference to Q4 2019, in %)

	2022				2023				2024		2022*	2023*	2024* ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Consumption: *quarterly changes*	-1.3	0.8	0.4	-0.5	0.3	-0.1	0.6	0.0	0.6	0.4	2.1	0.6	1.2
difference to Q4 2019	-0.7	0.1	0.5	0.0	0.3	0.2	0.8	0.8	1.4	1.8	0.1	0.7	1.9
Savings ratio: *as % of gross disposable income*	17.6	16.4	17.1	18.8	17.8	17.9	17.4	17.8	17.8	17.7	17.5	17.7	17.8
difference in points to Q4 2019	2.0	0.8	1.5	3.2	2.2	2.3	1.8	2.2	2.2	2.1	1.9	2.1	2.2
Investment: *quarterly changes*	-1.8	1.3	-1.2	-1.3	-1.8	-1.3	-1.1	-1.0	-1.0	-0.8	-1.2	-4.8	-3.2
difference to Q4 2019	2.8	4.1	2.8	1.5	-0.4	-1.6	-2.7	-3.7	-4.6	-5.4	3.7	-1.3	-4.4

Forecast.
* annual variations for the last three columns (apart from the annual average for savings ratio).
Source: INSEE.

►5. Household investment in construction and its components

(base 100 in 2019)



Note: the two components of household investment in construction are housing space produced and major maintenance work. Housing space produced in a given quarter is distinct from housing starts in that quarter as it is based on considering the distribution over time of investments made while the construction work is in progress. In the national accounts, a housing space is not considered as fully produced at the time of the housing start, but its value is spread over the duration of the work, estimated statistically. Major renovation work is measured based on turnover in the sector, adjusted for variation in production prices.
How to read it: in Q4 2023, household investment in construction -expressed as base 100 in 2019- is expected to reach 99.5.
Source: INSEE.

Compared to before the health crisis, the balance of opinion among the most more modest households on their ability to save than those wealthier households

The household savings ratio has risen to particularly high levels since the health crisis. Although down in Q3 2023, it is still significantly above its pre-crisis level. However, it is possible that this average rate masks disparities, depending on households' standard of living. Although there is no savings ratio per category of household available sub-annually, households' balance of opinion on their saving capacity, published from INSEE's Monthly Consumer Confidence Survey, can be used to analyse differences in households' reported behaviour according to their standard of living. Since 2021, the least well-off categories have contributed less than the wealthiest to upward movements in this balance of opinion, and more to downward trends. At the end of 2023, the balance of opinion of the least well-off households on their saving capacity was significantly below its level before the health crisis, whereas for the wealthier households, it was closer to, or even slightly above this level. These disparities between categories of household may help explain why, on average, households' balance of opinion on their saving capacity is nearer to its pre-health crisis level than their savings ratio.

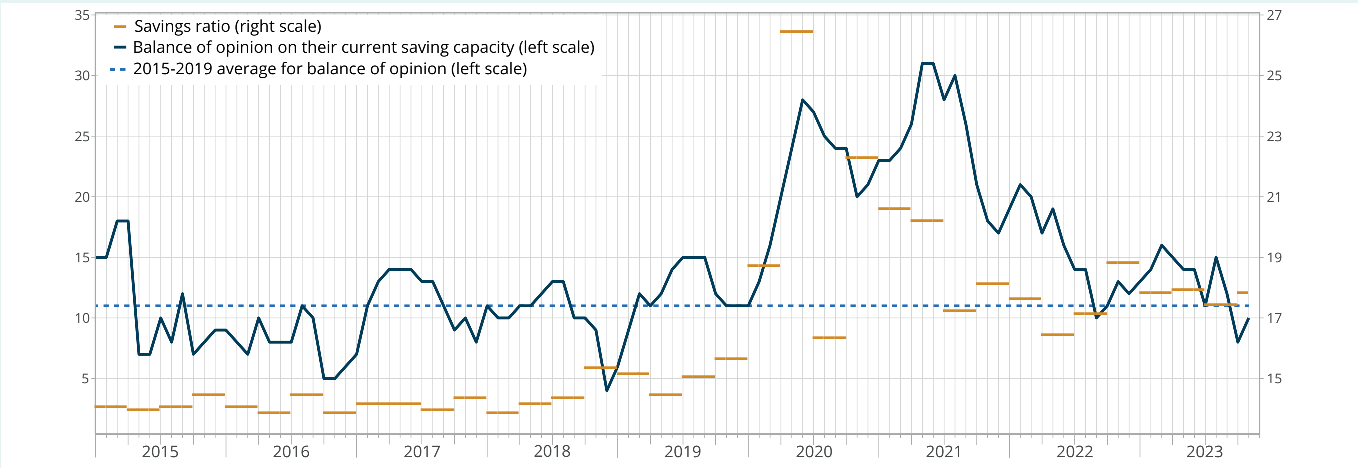
Émilie Cupillard, Nicolas Palomé

At the end of 2023, households' savings ratio exceeded its pre-health crisis level, while the balance of opinion on their saving capacity was closer to it

In Q3 2023, the savings ratio of households in France was 17.4%, almost 2 points higher than its Q4 2019 level (► **Figure 1**). In the course of 2020, changes in savings ratio were particularly irregular, with the pace set by periods of lockdown and health restrictions: after rising to almost 27% in Q2 2020, the savings ratio returned to around 16% in the following quarter. In Q4 2020 and H1 2021, still affected by restrictions on activity and curfews, the savings ratio remained particularly high, at over 20%. Since mid-2021, fluctuations in the savings ratio have been reduced, but it is still at a high level, an average of around 17.5%, with the average savings ratio historically not exceeding 15%.

Households' balance of opinion on their saving capacity (► **Methodology box**) also increased very sharply at the start of the health crisis (in Q2 2020, the difference between this level and the 2015-2019 average reached +13 points). After falling back in Q2 and Q3 2020, the balance recovered significantly again in H1 2021. Since its high point in June 2021, the balance has generally been on a downward trend, approaching its pre-crisis average, despite rallying strongly between the end of 2022 and the start of 2023. In Q3 2023, the balance was 2 points above its level before the health crisis.

► 1. Households' balance of opinion on their current saving capacity and savings ratio
(balance of opinion in % points – left scale, savings ratio in % – right scale)



Last point: November 2023 for the balance of opinion; Q4 2023 for the savings ratio (forecast for this last point).
Note: the balance shown here is not seasonally adjusted, unlike the series commented on in Informations rapides on the Monthly Consumer Confidence Survey (CAMME). However, by comparing the seasonally adjusted series with this non-adjusted one, both of them published in the macroeconomic database on the INSEE website, we can see that seasonal variations affect the balance of opinion on current saving capacity slightly.
How to read it: in November 2023, households' balance of opinion on their saving capacity is 10 points. For Q4 2023, households' savings ratio is expected to be 17.8%.
Scope: for the balance of opinion: households living in mainland France in ordinary housing; for the savings ratio: households living on French territory within the meaning of the national accounts.
Source: INSEE , monthly consumer confidence survey (Camme) and quarterly national accounts.

In Q4 2023 –for which the quarterly accounts are not yet available–, the savings ratio obtained from purchasing power and consumption forecasts should remain significantly higher than its 2015-2019 average (+3.5 points). Conversely, households' balance of opinion on their saving capacity has fallen again in recent months, returning to a level close to its 2015-2019 average, and even slightly below (on average over October and November 2023, the balance was a little less than two points below its 2015-2019 average).

In 2022 and 2023, downturns in the balance of opinion on saving capacity originated mainly from the least well-off households

Households' savings ratio and the balance of opinion on their saving capacity do not always align. In Q4 2022, the savings ratio was already well above its 2015-2019 average (+4.3 points), whereas the balance of opinion was relatively close to its pre-health crisis average (+1 point), having declined more or less continuously between March and September 2022.

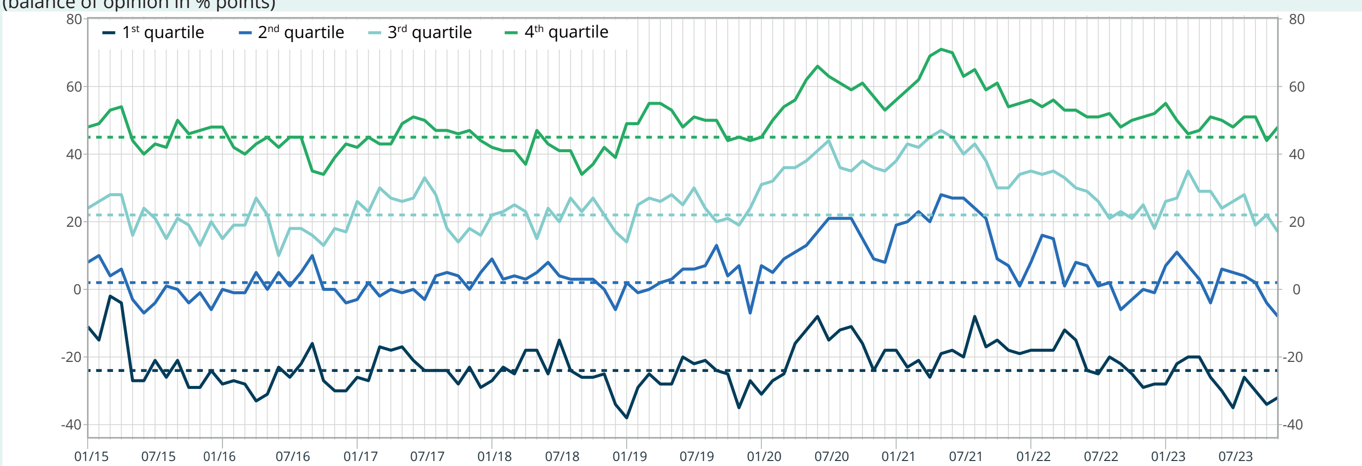
There may be several reasons for a relatively low balance of opinion on saving capacity in a context where the savings ratio is clearly well above its long-term average. Firstly, performing the comparison between data on the national accounting scale and households' opinion on their financial situation has its own limitations. For example, households may not report the fact that they "have money left to save" in an inflationary context where the feeling that savings are losing their value due to rising prices may be ever-present, even if a large proportion of the household income remains unspent, compared to past times. In addition, the share of households that say they save may remain constant, but we can imagine a higher savings ratio if those households who are saving increase the proportion of their income that they put aside. However, with the data available here, it is not possible to test this type of hypothesis.

A disconnect between the savings ratio and households' balance of opinion on their saving capacity may also be explained by different behaviours from one income category to another. The balance of opinion automatically declines if the share of households saying that they save declines and/or if the share of households saying that they are dipping into their savings or getting into debt increases. However, if, for example, the share of households that say they save decreases mainly in the less well-off household categories, who, structurally, save a smaller proportion of their income, then the savings ratio, at a macroeconomic level, will decline significantly less than the balance of opinion.

In fact, in 2022, the balance of opinion tumbled in Q2 and Q3 (-10 points between March and September 2022), driven down mainly by the sharp decline in the balance of opinion of households in the second quartile of the standard of living scale (-22 points for this category of household; (► **Figure 2** and ► **Methodology box**). Overall, across 2022, the decline in the balance of opinion concerns all categories of household, but there was a significantly smaller decline for those in the top quartile of the standard of living scale (-4 points between January and December 2022, against -10 points for the first quartile of the scale, -9 for the second, -17 for the third). In 2022, improvements in standards of living offset between 80 and 85% of the rise in spending linked to inflation for the least well-off 80% of households, against

► 2. Households' balance of opinion on their current saving capacity, by standard of living quartile

(balance of opinion in % points)



Last point: November 2023
Note: the dotted lines correspond to the balance of opinion averages over the period 2015-2019.
How to read it: in November 2023, households' balance of opinion in the first quartile of the standard of living scale (the least well-off 25% of households) stood at -32 points.
Scope: households living in mainland France in ordinary housing.
Source: INSEE , monthly consumer confidence survey (Camme).

95 and 110% respectively for households in the 9th and 10th deciles of the living standards scale (►**Abdouni and al., 2003)**.

In 2023, the decline in the balance of opinion since the start of Q2 (-5 points between April and November 2023) was also not distributed uniformly among standard of living categories: households in the first quartile of the standard of living scale (the least well-off 25% of households) experienced the most pronounced decline (-13 points). Thus, households' balance of opinion in the first half of the scale is well below its pre-crisis level (-9 points for households in the first quartile of the standard of living scale on average in October and November 2023, -8 points for those in the second quartile), while that of the wealthiest households is closer to its pre-crisis level (-2 points for households in the third quartile, +1 point for households in the fourth quartile).

Symmetrically, the least well-off households are less affected by upward movements in the balance of opinion on saving capacity

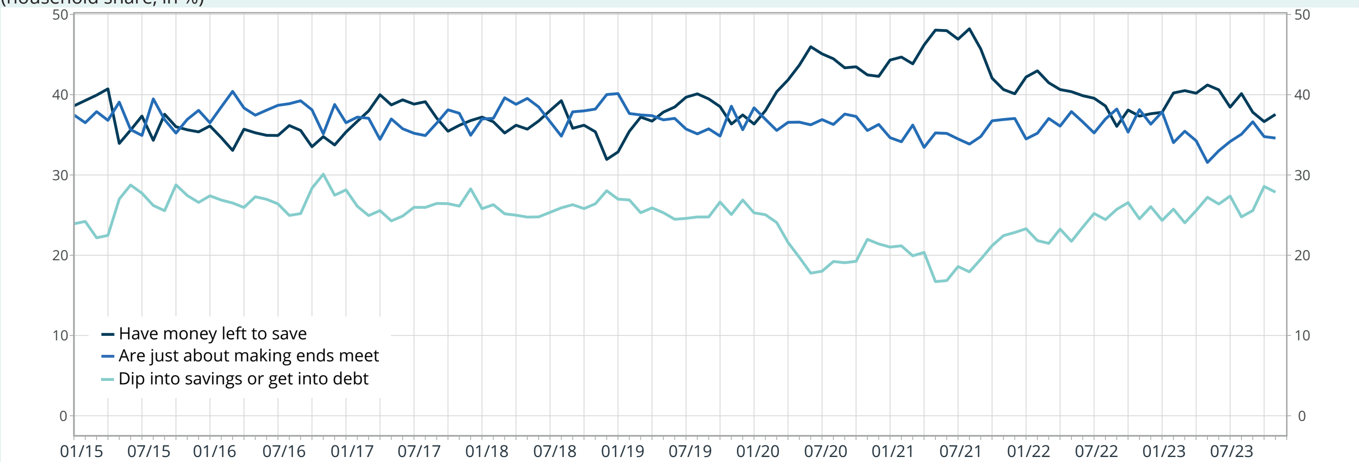
During 2020, changes were observed in the balance of opinion on saving capacity, with an upward trend between March and July, then moving downwards between August and November 2020, for each standard of living category. However, in H1 2021, with some health restrictions still in place, the rebound in the balance of opinion was not observed for the 25% of households with the lowest standard of living, although it was apparent for the other three standard of living categories.

Between Q4 2022 and Q1 2023, households' balance of opinion on their saving capacity picked up (+6 points between September 2022 and March 2023), which is consistent with the sharp increase in the savings ratio in Q4 2022 –driven both by a very dynamic purchasing power (+1.6%) and household consumption in steep decline (-0.5%)– then with its relative stability in Q1 2023. However, the balance of opinion did not recover uniformly from one category of households to another. The increase in the balance of opinion was in fact significantly more pronounced for "middle classes" of households, in the second and third quartiles of the standard of living scale (+14 points and +12 points respectively between September 2022 and March 2023). Overall, the increase in the balance of opinion over this period can be explained more by an increase in the share of households saying that they are able to save (+5 points) than by a drop in the share of households saying that they have dipped into their savings or got into debt (-2 points, ►**Figure 3**).

In Q4 2023 (as an average over October and November, i.e. the last months available when this study was being finalised), the share of households reporting that they had got into debt or dipped into their savings was greater than before the health crisis (+2 points between the October-November 2023 average and the 2015-2019 average). The households most concerned by this increase are those in the first half of the standard of living scale. Specifically, the least well-off 25% of households are now more likely to say they are getting into debt (+4 points between the average share in 2015-2019 and the

►3. Share of households saying that they have money left to save, are just about making ends meet or are getting into debt/dipping into savings

(household share, in %)



Note: the "Money to save" curve groups together the questionnaire modalities: "you have a lot of money left to save" and "you have some money left to save". Similarly, the "Dip into savings or get into debt" curve groups together "you are dipping into your savings" and "you are getting into debt". Over the period under consideration here, the two extreme modalities ("you have a lot of money left to save" and "you are getting into debt") are relatively stable on average in all households, so that movement in the balance of opinion is mainly driven by the other three modalities.
How to read it: in November 2023, 38% of households said they had some money to save.
Scope: households living in mainland France in ordinary housing.
Source: INSEE , monthly consumer confidence survey (Camme).

average share in October-November 2023, ►**Figure 4**) and fewer are saying that they have a little money to put aside (-5 points). For their part, more households in the second quartile of the standard of living scale are dipping into their savings a little (+6 points between the average share in 2015-2019 and the average share in October-November 2023) and report less frequently that they put a little money aside (-3 points).

The fact that the increases in balances of opinion on saving capacity have tended to be concentrated recently in the wealthiest categories –whose marginal propensity to consume is relatively low (►**Crawley and Kuchler, 2021**)– may help explain, at the macroeconomic level, the relative sluggishness of household consumption and why the savings ratio remains above its pre-health crisis level (►**Household consumption and investment**).

►4a. Proportion of households saying that they have money left to save, are just about making ends meet or are getting into debt/dipping into their savings, before the health crisis and in Q4 2023

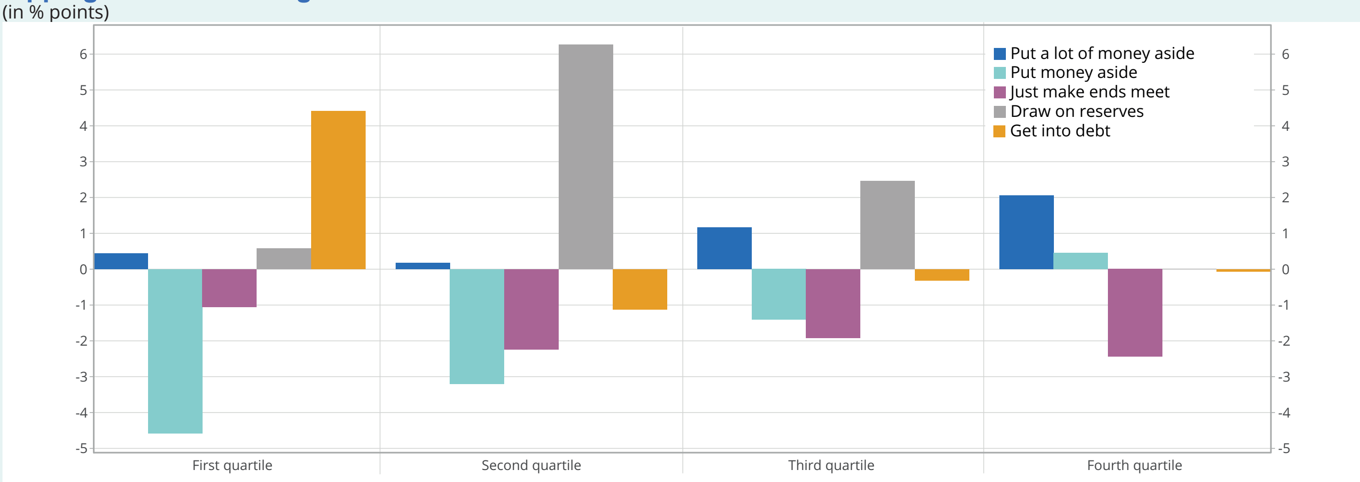
(in %)

	First quartile		Second quartile		Third quartile		Fourth quartile	
	Average 2015-19	Average Oct-Nov 2023	Average 2015-19	Average Oct-Nov 2023	Average 2015-19	Average Oct-Nov 2023	Average 2015-19	Average Oct-Nov 2023
Save a lot of money aside	0	1	1	1	1	2	4	6
Put some money aside	16	12	30	26	42	40	56	56
Just make ends meet	43	42	42	40	36	34	25	22
Draw on reserves	29	29	24	30	19	21	14	14
Get into debt	12	16	4	3	2	2	2	2
All	100	100	100	100	100	100	100	100

Lecture : among households in the first quartile of the standard of living scale, on average across all months between 2025 and 2019, 12% said they were getting into debt. This proportion was 16% on average in October and November 2023.
Champ : households living in mainland France in ordinary housing.
Source: INSEE , monthly consumer confidence survey (Camme).

►4b. Changes (in percentage points) between pre-health crisis (2015-2019) and Q4 2023 in proportions of households saying they have money left to save, are just about making ends meet or are getting into debt/ dipping into their savings

(in % points)



Lecture : the graph shows the differences in proportions measured between the October-November 2023 average and the 2015-2019 average. Thus, on average during October and November 2023, the share of households in the first quartile of the standard of living scale who say they are getting into debt exceeds its average value between 2015 and 2019 by 4 points.
Champ : households living in mainland France in ordinary housing.
Source: INSEE , monthly consumer confidence survey (Camme).

Methodology – Households' balance of opinion on their saving capacity and construction of the standard of living categories, from the CAMME survey

As part of the Monthly Consumer Confidence Survey of households (CAMME survey), every month INSEE collects the responses of around 2,000 households on their opinion about their economic environment and their personal situation. This survey is harmonised at European level.

Households' balance of opinion on their saving capacity is calculated from responses to the question "Which of these statements best describes the current financial situation of your household?". Five response modalities are offered: "You have a lot of money left to save", "You have some money left to save", "You just about make ends meet", "You are dipping into your savings", "You are getting into debt". The balance is the difference between the share of households saying they save a little or a lot of money and the share that say they are dipping into their savings or getting into debt.

Households are also asked about the amount of their income, with the following question: "What is the average total monthly income of your household? Take all types of income into account: wages, retirement pensions, unemployment benefits, family allowances, etc. Give the amount before taxes are deducted".

They are also interviewed about the composition of their household. Combined with the information on their income, this fact can be used to calculate a standard of living for each household, i.e. income per consumption unit.

This household standard of living may differ from the definition of standard of living usually used by INSEE. First, the amount given by households is not supposed to be net of income tax deducted at source, which is different from the definition of "disposable income" that INSEE usually uses to calculate standard of living. Second, the standard of living calculated here is based only on respondents' declarations, which may not be fully in line with the tax classification for sources of income.

To classify households on the standard of living scale, the values of the quartiles are then calculated by calendar year, by weighting households according to weights specific to this survey. Households are then ranked on the standard of living scale, by comparing the value of their standard of living with that of the quartiles. As the quartile values are calculated over the entire year, the distribution of respondents from month to month may deviate slightly from the four equal shares calculated over the whole year. For example, in November 2023, respondents on the last quartile of the standard of living scale represent 28% of the sample. In addition, information on income and size of household is not always available, and some households may therefore not be classified on the standard of living scale (in November 2023, this information was missing for 8% of survey respondents). The results presented by standard of living are calculated based on the restricted scope of households that can be ranked on the standard of living scale, while the overall results are calculated based on all survey respondents.

The results presented here differ in several ways from those published by the Directorate-General for Economic and Financial Affairs of the European Commission (DG-ECFIN), despite being calculated from the same source. Firstly, the method used by the DG-ECFIN to calculate the balance of opinion consists in considering "positive responses" as the share of households that say they have "a lot" of money left to save added to the share that say they have "some" money left to save. The share of "negative responses", calculated symmetrically, are then subtracted from these positive responses. Also, survey results are presented by the DG-ECFIN by income quartile and not by standard of living quartile. ●

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Entreprises’ earnings

In H1 2023, the margin rate of non-financial corporations (NFCs) increased due to the decline in the real cost of labour per capita and the improvement in domestic terms of trade, with the price of value added having increased more quickly than consumer prices. In contrast, productivity hampered any increase in the margin rate, especially at the beginning of 2023. In Q3 2023, the margin rate remained virtually stable, at 33.0%: the effects of the drop in productivity and the decline in the real cost of labour offset each other.

In Q4 2023, the NFC margin rate is expected to lose 0.8 points, settling at 32.2% of value added. This reduction is likely to be due mainly to the rise in the real cost of labour, with some sizeable value sharing bonus payouts, and to the rise in production taxes, *via* the increase in property tax on professional buildings.

As an average for 2023, the NFC margin rate is expected to be 32.5% of value added, up from the 2022 level (31.7%), and higher than the average before the health crisis (31.5% in 2018[1]).

In H1 2024, the NFC margin rate is expected to bounce back to 32.8%, in the wake of the rebound forecast in economic activity and as a result of the reduction in the corporate value added contribution rate. The real cost of labour is expected to remain stable in H1 2024, and the contribution of change in productivity to change in margin rate should be slightly positive. ●

1 2018 can be considered as a suitable reference year for margin rate. From 2019 to 2021, margin rate experienced some upheavals due to the simultaneous accounting of the Competitiveness and Employment Tax Credit (CICE) and the reduction in social contributions in 2019, and then to the health crisis.

►1. Decomposition of margin rate of non-financial corporations (NFC)

(margin rate in %, variation and contributions in points)

	Quarterly average										Annual average		
	2022				2023				2024		2022	2023	2024 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Margin rate	**31.3**	**31.8**	**32.3**	**31.4**	**31.6**	**33.1**	**33.0**	**32.2**	**32.8**	**32.8**	**31.7**	**32.5**	**32.8**
Variation in margin rate*	**-0.4**	**0.5**	**0.6**	**-0.9**	**0.1**	**1.5**	**-0.1**	**-0.8**	**0.6**	**0.1**	**-2.2**	**0.7**	**0.4**
Productivity (+)	-0.1	0.0	0.1	-0.5	-0.5	0.3	-0.1	-0.1	0.2	0.1	-0.1	-0.6	0.2
Real per capita labour cost (-)	-0.2	0.7	0.8	-0.2	0.3	0.4	0.5	-0.3	0.0	0.0	-0.2	1.1	0.0
Of which real wages per head(-)	*-0.1*	*0.4*	*0.2*	*0.1*	*0.4*	*0.3*	*0.3*	*-0.5*	*0.0*	*-0.1*	*-0.7*	*1.0*	*-0.2*
Of which Employer’s contribution rate(-)	*-0.1*	*0.3*	*0.5*	*-0.3*	*-0.1*	*0.0*	*0.2*	*0.2*	*-0.1*	*0.0*	*0.5*	*0.2*	*0.2*
VA price/consumer price ratio (+)	0.3	0.2	-0.2	-0.3	0.2	1.0	-0.5	0.0	0.1	0.1	0.0	0.4	0.1
Other items	-0.4	-0.4	-0.1	0.0	0.1	-0.2	-0.1	-0.4	0.4	-0.1	-1.9	-0.2	0.0

Forecast.

Note: the margin rate (*MR*) measures the share of value added that remunerates the capital.

This variation can be broken down additionally into:

- changes in productivity (*Y/L*), where *Y* is value added and *L* is employment, and in the ratio of the price of value added to consumer prices, or terms of trade *(Pva/Pc)*, which have a positive effect;
- changes in the real cost of labour (*W/Pc*, where *W* represents the cost of labour per capita), which have a negative effect on the margin rate;
- other factors: these are mainly taxes on production net of subsidies, including the Solidarity Fund.

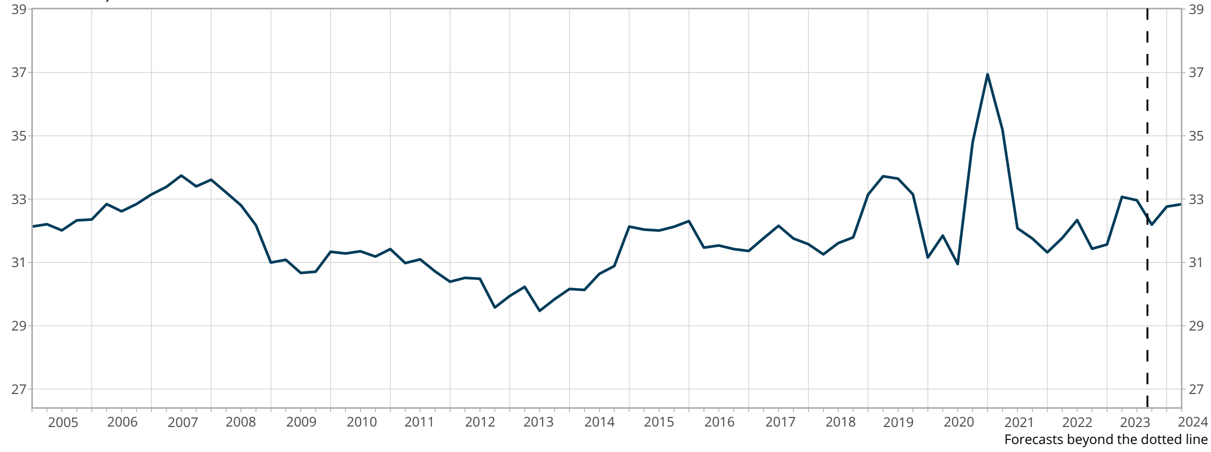
This breakdown can be synthesised in the equation:

$$TM=\frac{GOS}{VA}\approx 1-\frac{WL}{Y\,P_{VA}}+other\ factors=1-\frac{L}{Y}\frac{W}{P_C}\frac{P_C}{P_{VA}}+other\ factors$$

Source: INSEE.

►2. Margin rate of non-financial corporations (NFC)

(in % of value added)



Source: INSEE.

Corporate investment

Investment by non-financial enterprises (NFEs) slowed markedly in Q3 2023 (+0.5% after +1.2% in Q2, ►**Figure 1**), with growth driven by services and manufactured products. Investment in services has, for the most part, remained very buoyant since the end of the health crisis, driven by information-communication (►**Figure 2**). Investment in manufactured products has followed a more turbulent course, but with some growth peaks, mirroring its rise in Q3 2023 (+1.4%). This rise was due to a rebound in investment in capital goods and to major purchases of transport equipment (professional vehicles, trucks), probably a catch-up effect. Finally, investment in construction fell back substantially (-2.4% in Q3 2023): the decline in non-residential building construction starts was only partly offset by the relative buoyancy in investment in building maintenance and improvement.

Overall, the significant increase in the cost of capital, which began in 2022, does not seem so far to have had a major effect on investment in services and manufactured products (►**Focus Lending conditions for businesses are tightening in all the Eurozone countries**). However, it would seem that fewer new loans are being granted for investment. In addition, since Q1 2022, slightly more respondents to the business tendency surveys are reporting financial difficulties, although this increase is still contained at this stage.

These effects could start to be felt from the end of 2023: total investment by NFEs is expected to weaken (-0.4% forecast in Q4). Investment in construction is likely to continue its decline (-0.8%) and investment in manufactured products looks set to slip back (-1.7%), a reaction to the substantial purchases of transport equipment in Q3, but also the result of a lack of vigour in activity in industry. Investment in services should continue to grow, but at a more moderate pace than in the summer and this will not be sufficient to offset the decline in the other sectors. All in all across 2023, investment by NFEs is expected to increase by 3.2% as an annual average, after a significant increase (+3.8%) in 2022.

In H1 2024, with the economy still fairly sluggish and taking into account the continuing restrictive conditions for financing, investment is expected to decline very slightly (0.0% and -0.1% in Q2). It is likely that investment in services will continue to slow (+0.6% forecast in Q1 2024 then +0.4% in Q2). Investment in manufactured products should continue to fall back, reflecting the weak dynamics in activity. Investment in construction is also expected to remain in decline, affected by the steady fall in non-residential building construction starts and the lack of buoyancy in building maintenance and improvement. All in all, the mid-year growth overhang should be just about positive (+0.1%).●

►1. Investment by non-financial enterprise (NFEs)

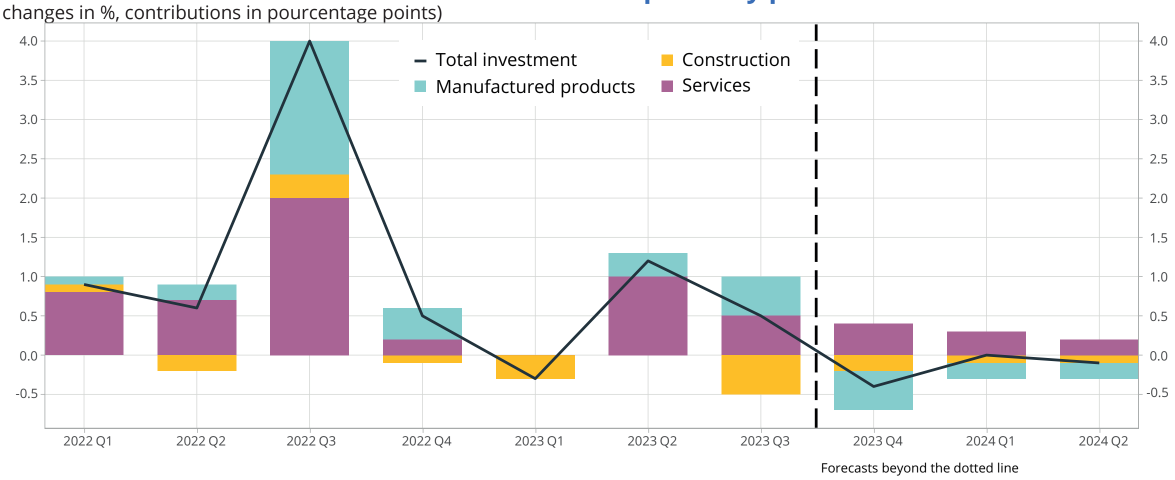
(quarterly and annual changes, in %, seasonally and working day adjusted)

	Quaterly changes										Annual changes		
	2022				2023				2024		2022	2023	2024 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Manufactured product (32%)	0.1	0.3	5.5	1.2	0.0	0.8	1.4	-1.7	-0.5	-0.5	1.4	4.7	-1.2
Construction (21%)	0.3	-1.0	1.3	-0.4	-1.4	0.0	-2.4	-0.8	-0.7	-0.7	0.2	-2.7	-3.0
Services (47%)	1.8	1.7	4.3	0.5	0.1	2.0	1.1	0.8	0.6	0.4	7.4	5.2	2.6
All products (100%)	**0.9**	**0.6**	**4.0**	**0.5**	**-0.3**	**1.2**	**0.5**	**-0.4**	**0.0**	**-0.1**	**3.8**	**3.2**	**0.1**

Forecast.
Source: INSEE.

►2. Contributions to investment of non-financial enterprises by product

(quarterly changes in %, contributions in pourcentage points)



Source: INSEE.

International economic outlook

International synthesis

The dynamism of the Chinese and USA economies in Q3 is in sharp contrast to the contraction in the Euro-zone, against a general backdrop of falling inflation. Commodity prices and especially gas prices continue to hold back European economies, with the price of gas in Europe still much higher than on the North American market. The tightening of monetary policies, which began in 2022, would seem to have plateaued at the end of 2023, in line with the decline in inflation. Despite the rise in interest rates, household consumption has proved to be relatively resistant in most countries, apart from Germany. However, investment is slowing, or even falling back in most countries.

Both the Chinese and USA economies accelerated in Q3 2023 (with +1.3% growth), after slowing in Q2 (+0.5% in both countries). However, the rebound in China is against a backdrop of a slowdown in growth compared to its pre-pandemic trend, as the real estate crisis continues and household confidence remains very damaged. In the United States, the rebound was driven by household consumption, which was particularly dynamic. In contrast, the Eurozone contracted in Q3 2023 (-0.1%). The French and German economies faltered in Q3 (-0.1%); activity saw modest growth in Italy (+0.1%) and continued its post-pandemic catch-up in Spain (+0.3%). In the United Kingdom, it remained stable. In addition to the greater impact felt in the European economies because of the war in Ukraine, the difference between the Eurozone and the United States could also be due to differences in budgetary policy: public consumption and investment have been particularly buoyant in the United States, especially in the context of the Inflation Reduction Act.

Investment slowed or fell back in most of the major western economies: total investment fell from Q2 2023 onwards in Italy and in Q3 in Spain. Recovery plans in Italy and Spain are struggling to reverse the trend, with delays building up. Corporate investment saw modest growth this summer in the United States, but contracted in the United Kingdom. In France, it slowed compared to Q2 in a context of high interest rates, which increased the cost of credit (**▶Focus Lending conditions for businesses are tightening in all the Eurozone countries**). In Q3 in Germany, total investment bounced back, in contrast to the contraction experienced in Q2.

World trade remained sluggish in 2023 (**▶Figure 1**): the rebound in Q2 and Q3 2023 was due to the rise in imports by the emerging economies and, this summer, to the modest upturn in imports by the advanced economies, which had been in decline globally since late 2022. Q3 benefited notably from the buoyancy of Chinese and US imports.

In most western economies, inflation has been falling since the start of 2023, while China stands out with its ongoing deflationary pressures. Global inflation remains strongly linked to variations in energy inflation, although its contribution has declined significantly in the majority of countries. Food inflation and core inflation are also in decline (**▶Focus International inflation**). At the end of 2023 and the beginning of 2024, inflation is expected to continue its slowing trend in all the major western economies. Food prices should continue to decelerate, or even slip back. Core inflation is expected to be in slight decline in all countries. This pace is slower than for food inflation, probably due to the dynamism of wages, which are mainly expected to stimulate prices in services (**▶Focus International inflation**).

Across 2023 as a whole, private consumption is expected to draw GDP growth upwards in all the world's main economies, except for Germany, despite high inflation as an annual average. GDP in the USA should grow by 2.5% year-on-year, driven by private consumption, which looks set to contribute +1.7 points (**▶Figure 2**). Activity is expected to improve more modestly in France, Italy and the United Kingdom (+0.8%, +0.7% and +0.6% respectively). The Spanish economy should once again benefit from catch-up effects, with growth of +2.4% forecast, also driven by private consumption (contribution of +1.3 points). In Germany, however, private consumption is expected to continue to hamper activity: growth is expected to be -0.1%.

In Q4 2023 then H1 2024, the USA is expected to improve at an average pace, mainly as a result of budgetary support and despite a slowdown forecast in consumption (**▶Figure 3**). Against the backdrop of the real estate crisis, China is unlikely to recover its pre-Covid pace of growth. Meanwhile, activity in the United Kingdom is expected to increase modestly, driven by domestic demand. Within the Eurozone, activity looks set to remain sluggish at the end of 2023 and listless in early 2024 in Germany after shrinking in Q3. In Italy, growth should remain at a modest level due to weak domestic demand. It is expected to slow in Spain compared to H1 2023, as the potential for post-pandemic catch-up dwindles. ●

International economic outlook

►1. World trade is expected to remain sluggish at the end of 2023 and the start of 2024

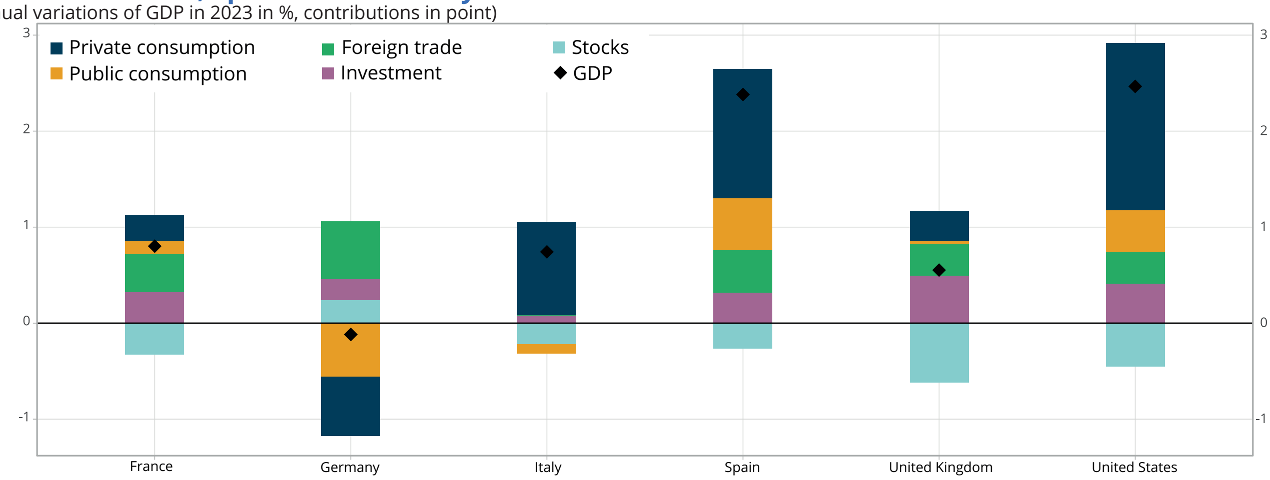
(levels, quarterly variations in %; annual variations in % for the last three columns)

	2022				2023				2024		2022	2023	2024 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Euro-dollar exchange rate	1.12	1.06	1.01	1.02	1.07	1.09	1.09	1.08	1.09	1.09	1.05	1.08	1.09
Barrel of Brent (in dollars)	100.8	113.6	100.6	88.6	81.2	78.1	86.6	85.2	82.0	82.0	100.9	82.8	82.0
Barrel of Brent (in euros)	89.9	106.8	100.0	86.8	75.6	71.7	79.5	79.3	75.2	75.2	95.7	76.6	75.2
World trade (variations)	1.2	1.1	1.5	-0.8	-0.1	0.8	0.3	0.5	0.5	0.5	6.3	1.2	1.6
Imports by advanced economies	2.4	1.4	0.9	-1.0	-0.3	-0.8	0.1	0.2	0.2	0.2	7.8	-0.7	0.3
Imports by emerging economies	-2.0	0.5	2.9	-0.2	0.4	5.0	1.0	1.4	1.2	1.2	2.5	6.5	4.9
World demand for French products (variations)	1.6	1.1	1.1	-0.8	0.0	0.2	-0.4	0.3	0.4	0.4	6.7	0.2	0.7

Forecast.
Source : Commodity Research Bureau, IHS Markit, Statistiques équilibrées du commerce (OCDE), CHELEM – Commerce international (CEPII), INSEE calculations.

►2. Private consumption looks set to make a positive contribution to growth in the majority of western economies in 2023, apart from Germany

(annual variations of GDP in 2023 in %, contributions in point)



Note: growth for 2023 includes INSEE's forecast for Q4 2023 for all countries
How to read it: in the United States, in 2023, GDP is expected to improve by 2.5% and private consumption is expected to contribute 1.7 points to this growth.
Source: INSEE, Destatis, Istat, INE, ONS, BEA.

►3. Past and forecast GDP growth in the main western economies

(quarterly and annual –for the last three columns– variations in %)

	2022				2023				2024		2022	2023	2024 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
France	-0.1	0.4	0.5	0.0	0.1	0.6	-0.1	0.0	0.2	0.2	2.5	0.8	0.5
Germany	1.0	-0.1	0.4	-0.4	0.0	0.1	-0.1	0.0	0.2	0.2	1.9	-0.1	0.3
Italy	0.1	1.4	0.3	-0.2	0.6	-0.4	0.1	0.1	0.2	0.2	3.9	0.7	0.3
Spain	0.3	2.5	0.5	0.5	0.6	0.4	0.3	0.3	0.3	0.3	5.8	2.4	1.0
United Kingdom	0.5	0.1	-0.1	0.1	0.3	0.2	0.0	0.1	0.2	0.2	4.3	0.6	0.5
United States	-0.5	-0.1	0.7	0.6	0.6	0.5	1.3	0.4	0.4	0.4	1.9	2.5	1.8
China	0.8	-2.3	3.7	0.8	2.3	0.5	1.3	0.4	1.1	1.1	3.0	5.4	3.0

Forecast.
Source: INSEE, Destatis, Istat, INE, ONS, BEA, NBSC, INSEE forecast.

Lending conditions for businesses are tightening in all the Eurozone countries

In the main Eurozone economies, the consequences of the increases in base interest rates since mid-2022 are now being felt in corporate loans. These increases have led to a tightening of bank lending conditions for non-financial enterprises and a fall in demand for loans, especially investment loans. French banks seem to be feeling this decline less keenly than their European counterparts: in France, the drop in demand for investment loans is considered to be less pronounced and survey data suggest there could be a slight rebound in Q3 2023, although with demand still in decline. Bank loans for corporate investment remain buoyant, but they are slowing compared to the end of 2022 (►**Banque de France, 2023**). The perception that the tightening of credit conditions is delayed in French banks could be because the characteristics of the credit market are different from other Eurozone countries: in particular, the proportion of fixed-rate and long-term loans in the liabilities of non-financial enterprises appears to be higher in France (►**Gueuder M., Ray S., 2022**). However, corporate investment slowed in France in Q3 2023, which could suggest tightening credit conditions.

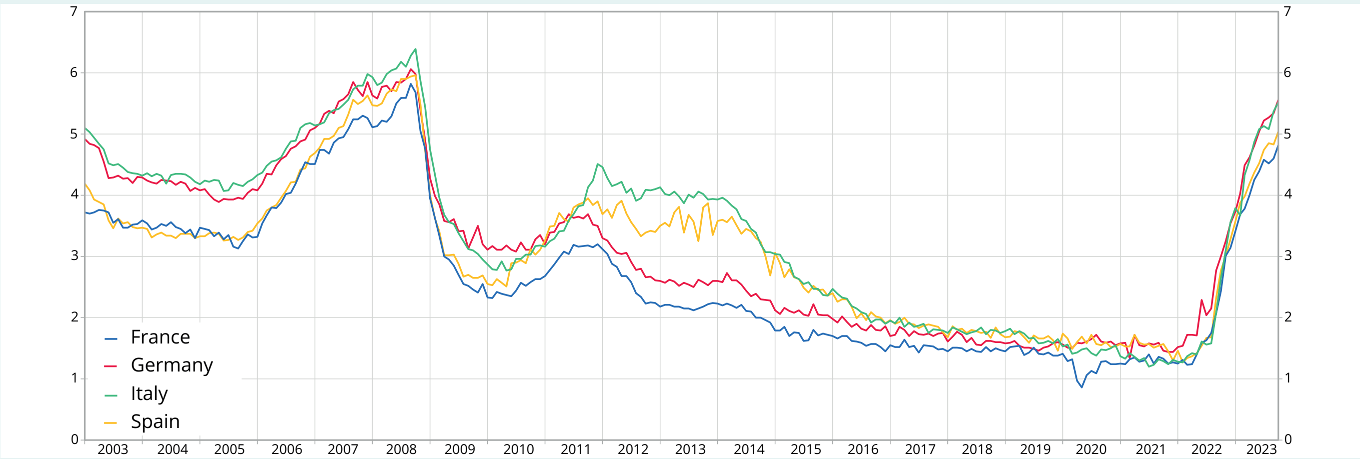
Raphaële Adjerad

Monetary tightening in the Eurozone has repercussions on businesses' access to credit

In order to curb inflation in the western economies, most of the central banks began a monetary tightening policy during 2022. Following the Federal Reserve's increase in base interest rates at the start of 2022, the European Central Bank (ECB) started to raise its rates gradually from mid-2022. The rise in base interest rates resulted in an increase in the cost of financing commercial banks by central banks, and this increase has impacted the rates at which the commercial banks can lend to non-financial enterprises. Thus the cost of corporate credit has risen substantially since summer 2022, from 1.6% in June 2022 to 4.8% in October 2023 in France (►**Figure 1**). The cost of credit was lowest in France across the entire period, although the European countries have now tended to move closer together since the ECB first put up its base interest rate in summer 2022. Over the long term, the high point of 2023 is still below the peak reached during the 2008 crisis (4.8% in October 2023 against 5.8% in September 2008 in France).

The rise in the cost of credit was accompanied by a tightening of bank lending conditions for corporate loans, according to the outlook surveys of banks carried out in the Eurozone (►**Figure 2**). Banks are seeing a tightening of lending conditions for corporate loans in the main Eurozone economies, which they attribute mainly to the increase in their financing costs (►**ECB, 2023**). However, the rise in rates does not happen at the same speed in all countries. The higher the proportion of short term corporate debt at a variable interest rate, the faster the rise in rates is passed on. Thus Spain and Italy were exposed earlier to the tightening of access to corporate loans because in these countries the proportion of loans with variable rates and short-term maturity is

►1. The cost of business loans has increased significantly throughout the Eurozone since mid-2022
(cost of loans for non-financial enterprises, in %)



Last point: October 2023.
How to read it: in October 2023, the cost of loans for non-financial enterprises in France was 4.8%.
Source: European Central Bank.

much greater than in France and Germany (the share of corporate debt at a fixed rate is 83% in France and 80% in Germany, compared to 47% in Italy and 62% in Spain, after ▶**Gueuder M., Ray S., 2022**). Banks continue to expect a tightening of lending conditions for Q4 2023; however, this anticipated tightening is easing compared to early 2023. In France, the corresponding balance of opinion has caught up with the Italian and Spanish levels. For comparison, in the United States, the survey by the Federal Reserve on lending conditions shows similar results: according to the banks, lending conditions continued to become tougher in Q3 2023 but this tightening seems to be easing. In addition, the tightening of access to credit was accompanied by tougher conditions attached to granting loans: increased demands for collateral, hardening in terms of maturity period and the size of loans (▶**ECB, 2023**).

Tighter access to credit is hampering demand for loans, especially for investment

The drop in demand for corporate loans is evident from business tendency surveys carried out in banks in the Eurozone. The balance of opinion on demand for loans for investment fell sharply from the beginning of 2022 (▶**Figure 3**). However, it has bounced back since the start of 2023, with the turnaround being slightly stronger in France than in the other countries. In this regard, the growth rate of bank loans for investment remains dynamic in France and higher than for the period 2012-2016, but these loans are slowing down compared to the end of 2022 (▶**Banque de France, 2023**).

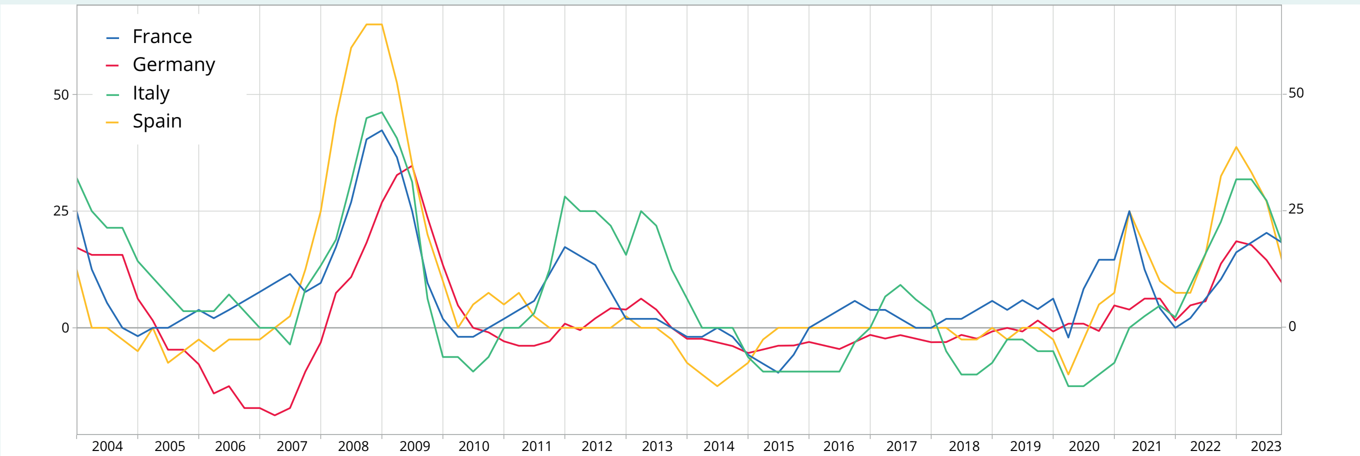
In addition, the decline in demand for loans in the Eurozone is not limited to investment loans only. According to the ECB, in Q2 2023 the balance of opinion of banks relating to overall demand for loans reached its lowest point since the survey began in 2003. The rise in interest rates is one of the main factors put forward to account for this decline, which has also been observed in the United States, according to the Federal Reserve survey on credit conditions.

The deterioration in lending conditions for businesses and the decline in the demand for loans do not appear to be perceived at this stage as major obstacles to production in France. The proportion of businesses reporting financial constraints that hamper production in industry has increased relatively little since mid-2022 (▶**Figure 4**). This proportion remains well below the levels observed during the 2008 crisis and has remained stable since the increase began in 2022. In October 2023, France was at similar levels to the Eurozone as a whole.

Corporate investment is nevertheless showing signs of weakness. Total investment is slowing down, or even falling back, in most major western economies: despite recovery plans in Italy and Spain, it has declined in Italy since Q2 2023, and in Spain since Q3. In Germany in Q3, total investment experienced a rebound compared to the contraction in Q2. For comparison, both total investment and corporate investment contracted in the United Kingdom in Q3, while in the United States total investment slowed but remained dynamic and corporate investment experienced very modest growth compared to H1 2023. In France, corporate investment also showed signs of slowing in Q3 (+0.5% after +1.2% in Q2). ●

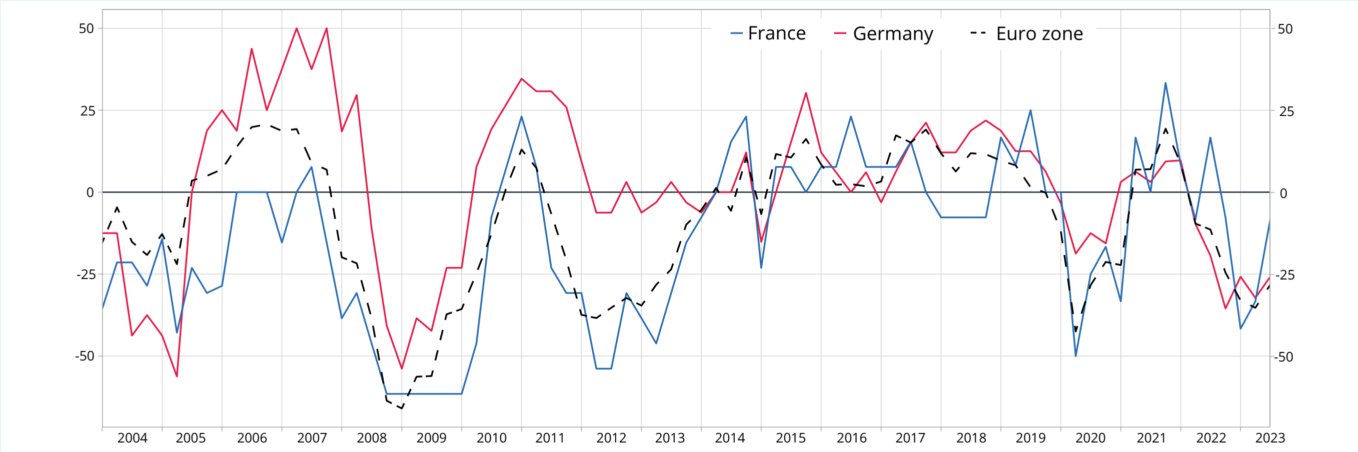
▶ 2. Banks continue to anticipate a tightening of lending conditions in Q4 2023, although this tightening is easing

(moving average over four quarters of balances of opinion by country)



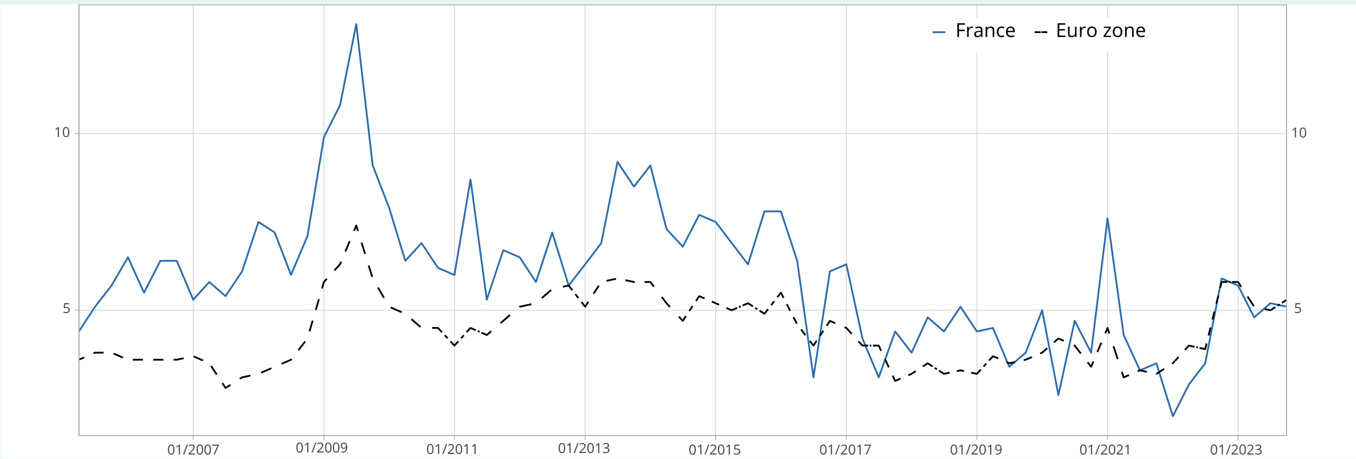
Last point: Q4 2023.
Note: a positive balance means an expected tightening of bank lending conditions (a negative balance means a relaxation of these criteria).
How to read it: in Germany, banks still anticipate a tightening of credit criteria in Q4 2023; nevertheless, slightly fewer banks anticipate this tightening than in Q3.
Source: European Central Bank, Euro Area Bank Lending Survey.

►3. Demand for investment loans has been falling since the beginning of 2022, but the decline is easing, especially in France since the beginning of 2023
(balances of opinion by country)



Last point: Q3 2023.
Note: a positive balance means that the demand for investment loans is increasing (a negative balance means a decline in demand).
Source: European Central Bank, Euro Area Bank Lending Survey.

►4. Financial constraints hampering production in industry
(share of companies reporting financial constraints, in %)



Last point: Q4 2023.
Hox to read: in Q4 2023, 5% of companies report financial constraints that could hamper production in industry in France.
Source: European Central Bank, Euro Area Bank Lending Survey.

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The inflationary episode was more of a "bump in the road" for France but a "peak" for its partner countries

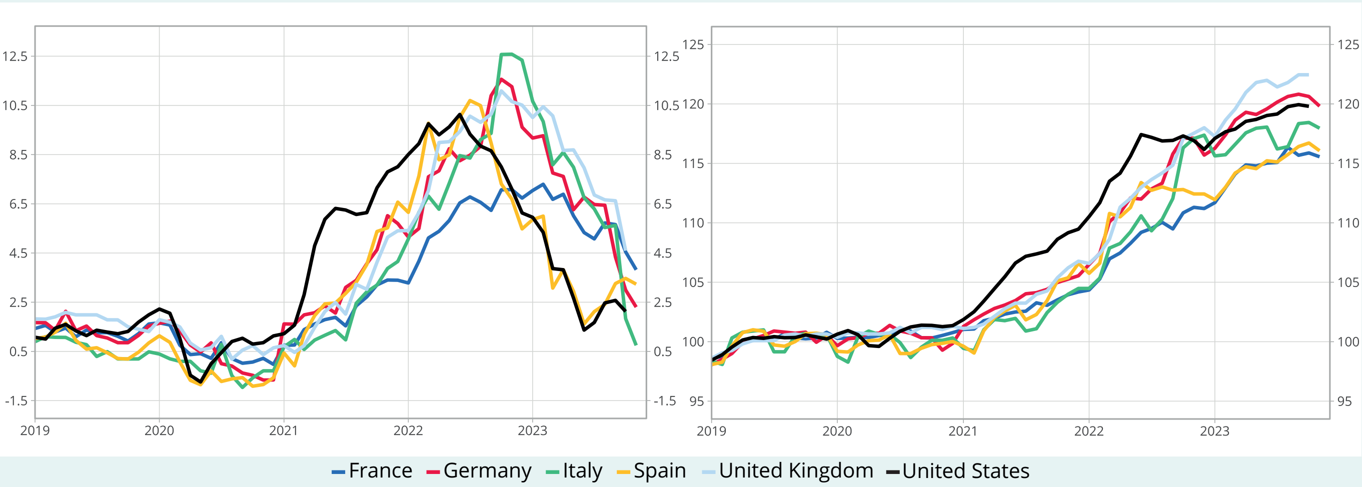
In 2023, inflation declined in the main European economies. The contribution of energy products to inflation fell markedly, with the scale of the reduction reflecting prices on the energy markets. Also relevant are the specific features of national pricing methods, the mix of energies in the average consumer basket, and price limitation measures that have now expired or ended but which will affect year-on-year price variations ("base effects"). Consumer prices of food products also continue to slow, following the slowing momentum in agricultural prices and producer prices in the agrifood industries. Inflation excluding energy and food products has also shown signs of moderation in recent months, although it remains more buoyed up than headline inflation. All in all, compared to its main partners, France has experienced a "smoother" change in inflation over the last few years, and the cumulative price increase since 2019 appears to be somewhat lower at this stage, as does growth in average wage per capita. In fact, the tariff shield on electricity and gas prices helped significantly to mitigate the increase in year-on-year variation in France in 2022 and 2023.

Gabriele Carboni, Pauline Meinzel, Mathilde Niay

The contrasts between inflation levels currently measured (within the meaning of the Harmonised Index of Consumer Prices – HICP) in the main European economies can be explained largely by price movements that occurred a year earlier. In the summer of 2022, inflation was high in all countries, mainly because of the rise in energy prices. However, the year-on-year variation in the price index was lower in France, as a result of the tariff shield, which kept gas and electricity prices in check, and the reductions at the pump (►**Figure 1**). At the end of summer 2022, inflation began to fall back significantly in Spain and remained stable in France, but continued to climb in the other main European countries. Then from the end of 2022, year-on-year consumer prices in the United Kingdom, Germany and Italy began to fall back in turn, mainly due to base effects. This slowdown in inflation did not wipe out the cumulative increase in prices since 2019: in October 2023, the HICP in the United Kingdom was 22.4% above its 2019 average, in Germany this figure was 20.6% and in the United States 19.8%. The cumulative increase in the price index over the same period was less in Italy (18.4%), Spain (16.7%) and France (15.9%). All in all, over the last three years, the inflationary episode appears to have been "smoothest" in France, with the graph taking the shape of a "bump", whereas it more closely resembles a "peak" of varying steepness in the partner countries.

Excluding energy and food, where prices are most volatile, inflation in the main European economies has increased significantly since mid-2021, only starting to fall back recently (►**Figure 2 left**). The United Kingdom stands out with a cumulative increase since 2019 that is much higher than in other countries (►**Figure 2 right**), due mainly to the prices of services.

►1. Harmonised Index of Consumer Prices in the main European economies and the United States
(year-on-year as % of HICP)



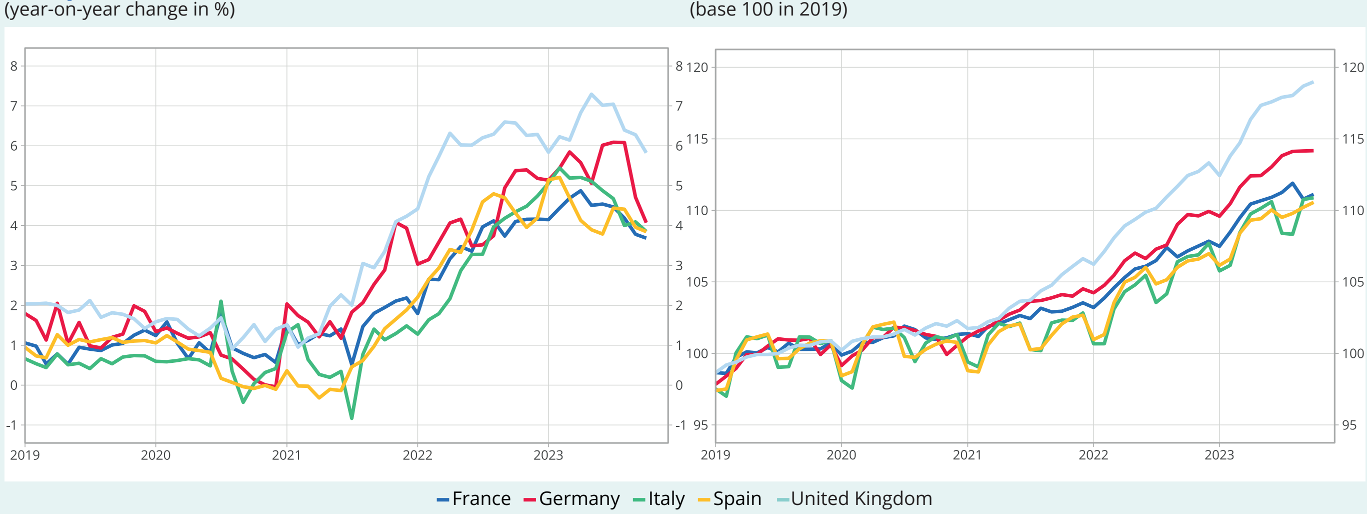
Last point: November 2023 for France, Germany, Italy and Spain, October 2023 for the United States and the United Kingdom.
Source: Eurostat, INSEE, Destatis, Istat, INE, ONS, calculs Insee.

In October 2023, the last month for which detailed indices are available for all countries, consumer prices slowed down considerably year-on-year in most of the countries studied (►**Figure 3**). Inflation declined sharply this month in Italy (+1.8% after +5.6% year-on-year) and the United Kingdom (+4.6% after +6.7%, year-on-year) associated with sizeable base effects due to energy. In October 2022, these two countries experienced a vigorous increase in some energy prices: in Italy following the revision of regulated gas and electricity prices, and in the United Kingdom following the increase in the energy regulator's price cap. In October 2023, inflation also fell in Germany, for the second consecutive month (+3.0% in October, after +4.3% in September), due to the base effect: prices rose considerably in September 2022 following the end of measures to limit prices (lower taxes on fuel and temporary reductions on local transport tickets). It also decreased in France, but to a lesser extent (+4.5% after +5.7%), again partly due to energy base effects (in October 2022, fuel prices increased because of strikes in the refineries). Conversely, year-on-year price variations continued to increase in Spain (+3.5% after +3.3%), as they have done since July, given the smaller reductions in electricity prices.

In November 2023, and according to the provisional estimate, inflation continues to fall in most of the main European economies, partly due to base effects linked to energy prices in late 2022, but also to the slowdown in food prices. This decline is pronounced in Italy (where the year-on-year variation, at +0.7%, is at its lowest since March 2021), France and Germany (+3.8% and +2.3% respectively year-on-year). In Spain, the drop in inflation is less compared to other countries (+3.2% year-on-year), and follows on from an increase since July; measures to limit increases in energy prices (reduction in VAT on energy) had been put in place a year earlier.

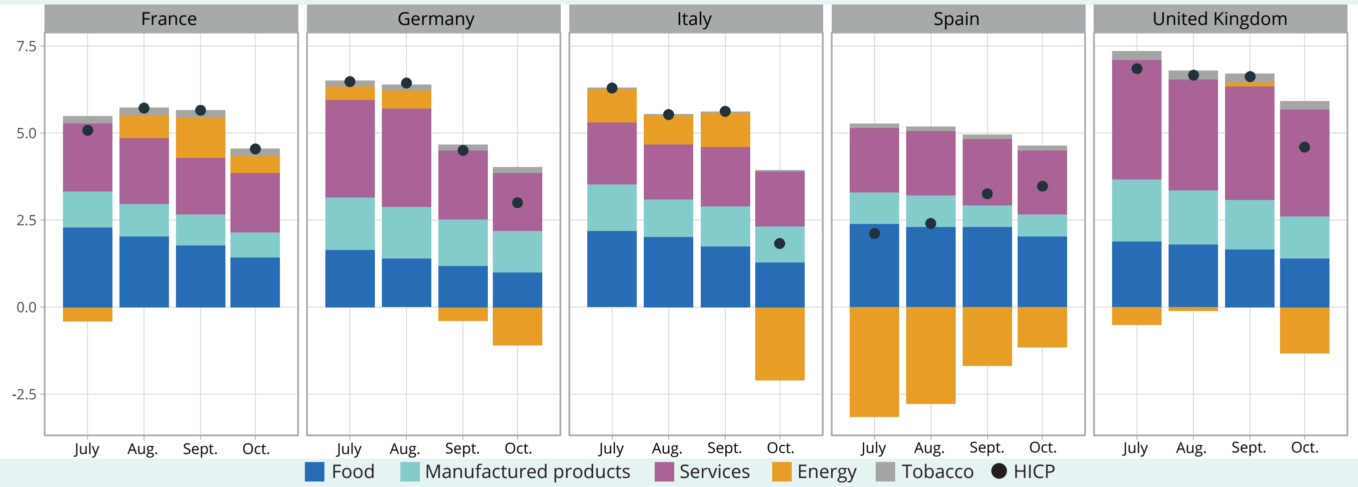
At the end of 2023 or the beginning of 2024, headline inflation is expected to trend downwards in all the countries monitored. Price levels look set to slow significantly in Italy and the United Kingdom, again due to the energy base effect and the slight decline in inflation excluding energy and food, and they should slow more moderately in Spain, France, the United States and Germany. Food prices are expected to decelerate, following the slower momentum in producer prices in the agrifood industries. In all these countries, inflation excluding energy and food is expected to fall back slightly. This decline is more tempered because of the momentum in wages, which are likely to stimulate prices, especially in services (►**Box**). In most countries, energy prices are considered to be more or less stable throughout the period. In the United Kingdom, a slight decline is expected in Q4 due to a further reduction in the price cap set by the energy regulator. In France, there is likely to be a rise in regulated electricity prices in February 2024. ●

►2. Consumer price indices excluding energy and food (within the meaning of the HICP) in the main European economies



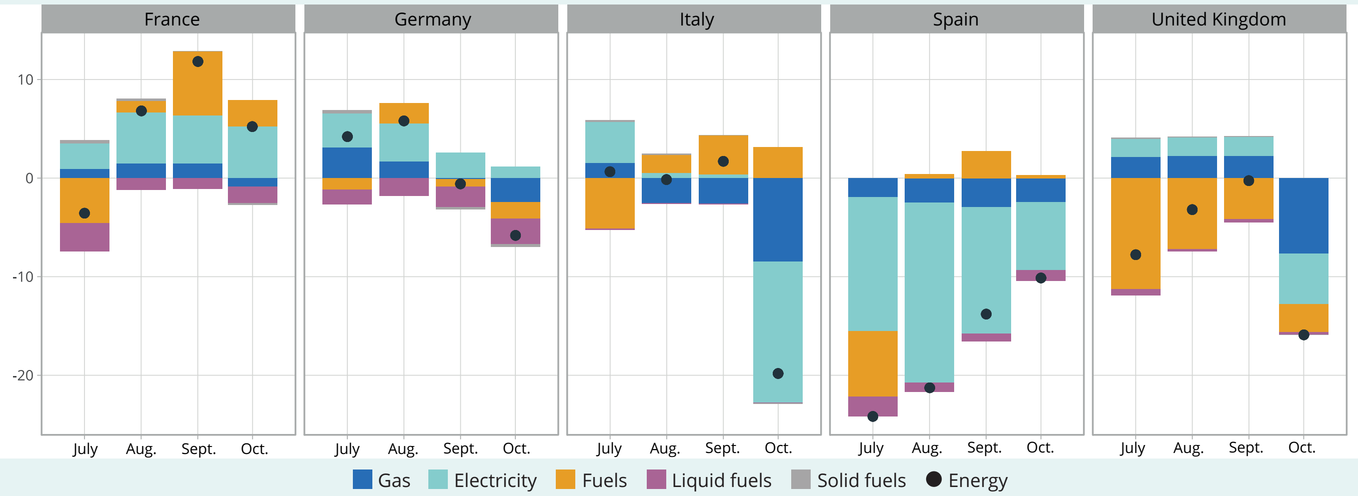
Last point: October 2023.
Source: Eurostat, INSEE, Destatis, Istat, INE, ONS, INSEE calculations.

►3. Inflation (within the meaning of the HICP) in the European countries and contributions by item
(year-on-year change in the HICP in % and contribution of items in points)



Last point: October 2023.
How to read it: in France, in October 2023, the Harmonised Index of Consumer Prices increased by 4.5% year-on-year, with a contribution of 0.5 points for energy products.
Source: INSEE, Destatis, Istat, INE, ONS, INSEE calculations.

►4. Energy inflation (within the meaning of the HICP) in the European countries and contributions by item
(year-on-year change in the HICP in % and contribution of items in points)



Last point: October 2023.
How to read it: in France, in October 2023, energy inflation within the meaning of the HICP was 5.2% year-on-year, with fuels contributing 2.7 points.
Source: INSEE, Destatis, Istat, INE, ONS, INSEE calculations.

Wages catch up to prices in the different European countries

High inflation since the start of 2021 has had an impact on wage levels, with different timeframes and magnitudes in the countries monitored (▶ **Figure 5**). Here we analyse wages within the meaning of average wage per capita (AWPC), which relates payroll to the number of jobs. An analysis of wages within the meaning of the hourly labour cost index gives similar results.

In Belgium, where wages are institutionally indexed to inflation (via a "health index" for the public sector and wage agreements for the private sector), they have increased substantially since mid-2021 and have accelerated since mid-2022, in the wake of inflation. On the other hand, the country is experiencing strong inflation in services, where prices have been stimulated by wage rises. In Spain, wage levels have also increased significantly, with increases being driven by revisions to the minimum wage. In Germany, clear but irregular growth can be seen, following the calendar of wage reviews via wage agreements, but there are also occasional bonuses. In France, nominal wages have also grown, but less rapidly than in Germany. Wage rises are driven by increases in the minimum wage, also by measures specific to the public sector (increase in the index point, category-specific bonuses) and occasional bonuses (in the public and private sectors, such as the value sharing bonus). Finally, in Italy, growth in wage levels seems to be lagging further behind that of inflation.

Ultimately, the year-on-year change in AWPC remained below that of prices during the inflationary surge, although in some countries it has come close to this level or has even exceeded: from Q1 2023 in Spain and Belgium, and in Q3 2023 in Germany. For the first two countries, the significant increase in year-on-year change in AWPC has enabled them to catch up with the cumulative price rises, while for the other countries there are still differences in these levels (▶ **Figure 5**). ●

▶ 5. Average wage per capita and inflation in the main European economies

(in level, base 100 in 2019)

Last point: Q3 2023.
Note: average wage per capita is calculated across the whole economy.
How to read it: in France, in Q3 2023, the AWPC was 11.9% higher compared to its 2019 average, the overall HICP was 15.7% higher and the HICP in services was 11.5% higher.
Source: national statistical institutes.

Energy and commodities

After a sharp decline at the end of 2022 and the beginning of 2023, oil and gas prices rose once again at the start of H2 2023. Prices of non-energy commodities also fell back but followed contrasting trajectories –especially among food commodities– and are still, for the most part, higher than before the health crisis. Overall, although fears of a slowdown in economic activity persist and are affecting prices, markets are also subject to other uncertainties, especially geopolitical and climate tensions, which add to the volatility of some prices.

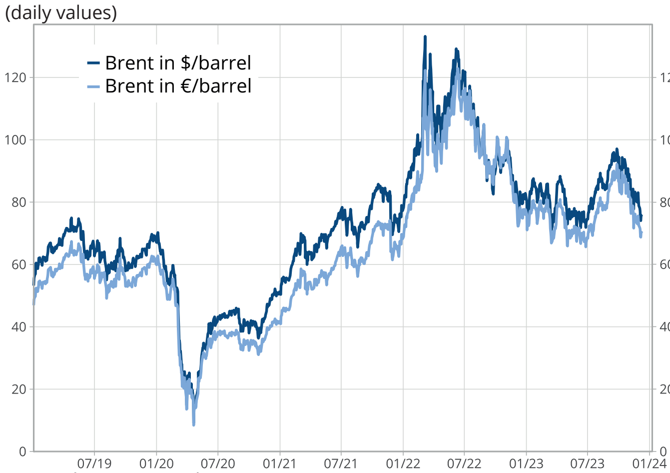
The price of oil (Brent crude) stood at $86.6 in Q3 2023 (after $78.1 in Q2, ▶ **Figure 1**). Problems with supply, notably Saudi Arabia's decision to extend their production cut of one million barrels per day until the end of 2023, then the outbreak of war between Israel and Hamas at the start of October, pushed the price above $90 a barrel several times during September. However, the effect on prices of this increasing geopolitical uncertainty in the Middle East appears to be under control, at least at this stage. Over the forecasting period (to mid-2024), it is assumed that oil prices will remain constant, set at $82 per barrel (or €75 assuming a euro-dollar exchange rate of 1.09 dollars for 1 euro). While supply is expected to be lower than demand until the end of 2023 and OPEP+ has announced a further reduction in production for the start of 2024, the prospect of a slowdown in global demand in 2024 seems to be weighing heavily on the markets.

The price of gas on the European market (TTF), after settling at €33.8/MWh on average in Q3 2023 (▶ **Figure 2**), increased again following the outbreak of the Israel-Hamas war on 7 October. There was certainly a fear that the conflict would spread throughout the Middle East, raising concerns over risks to LNG supplies, especially from Qatar. At the beginning of November the price was around €50/MWh, two and a half times higher than before the health crisis and well above the price of gas on the North American market (Henry Hub), despite full inventories (▶ **Figure 3**) and temperatures that were mild for the season in Europe. Finally, the price of carbon dioxide (CO_2) on the European Union Emissions Trading System (▶ **Figure 4**) has remained at around €80 per tonne since the end of January 2023. A reform of this market, announced by the European Union at the end of 2022, was confirmed in April 2023; in particular, the aim is to speed up the rate of reduction of annual emissions allowances and gradually end free emissions allowances by 2034.

Global commodity prices (excluding energy) have followed contrasting trends since the beginning of 2023. Prices of agro-industrial and mineral commodities have returned overall to their mid-2021 levels, although they are still 20 to 40% higher than before the health crisis (▶ **Figure 5**). Meanwhile, food commodity price trends are very varied. While prices that were affected by the outbreak of war in Ukraine (wheat, maize, sunflower oil) have mostly fallen back, olive oil and sugar prices have risen substantially in recent months (+78% and +37% respectively year-on-year in October, ▶ **Figure 6**). In fact, production of these items was hit particularly hard by extreme climate events (prolonged periods of drought in Spain, the El Niño phenomenon in the South Pacific, etc.). ●

►1. Price of oil (Brent) in dollars and euros

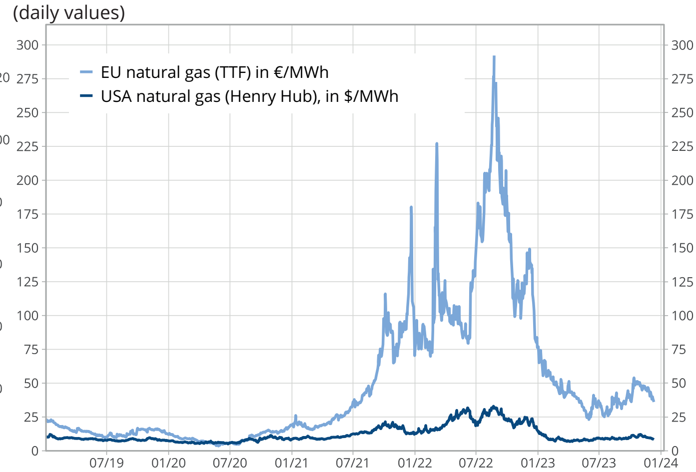
(daily values)



Last point: 11 December 2023.
How to read it: on 11 December 2023, the price of a barrel of Brent was $76.0.
Source : Commodity Research Bureau.

►2. Prices of natural gas in Europe and the United States

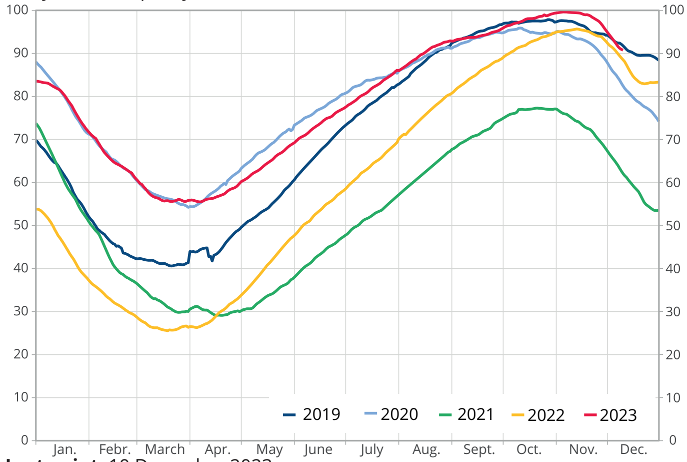
(daily values)



Last point: 11 December 2023.
How to read it: on 11 December 2023, the value of natural gas futures contracts at the next expiry date in the Netherlands (TTF) is €36.1 per megawatt-hour.
Source: ICE Futures Europe, New York Mercantile Exchange.

►3. Natural gas inventory in the European Union

(daily values, capacity rate, in %)



Last point: 10 December 2023.
How to read it: on 10 December 2023, natural gas inventory in the European Union countries stood at 90.8% of total inventory capacity.
Source: Gas Infrastructure Europe – AGSI+.

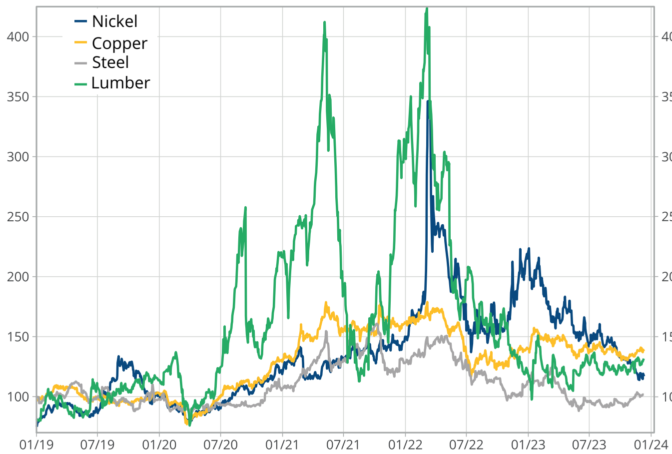
►4.Price of a tonne of CO_2 on the European Union Emissions Trading System

(daily values, in euros)

Last point: 11 December 2023.
How to read it: on 11 December 2023, the price of a tonne of CO_2 on the European Union Emissions Trading System was €67.3.
Source: ICE Futures Europe.

►5. Prices of nickel, copper, steel and lumber

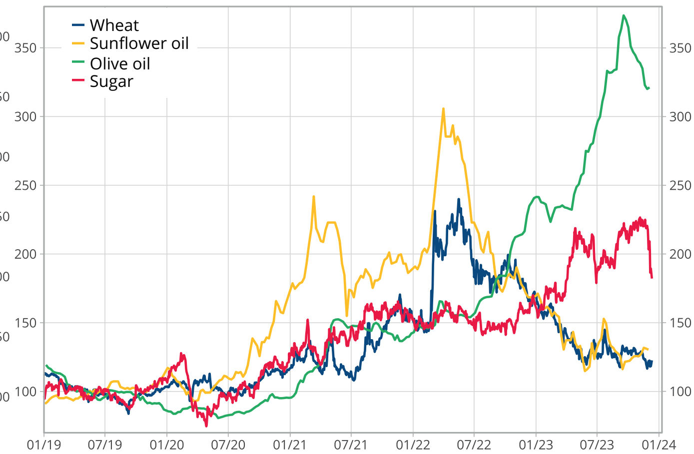
(daily index – base 100=2019)



Last point: 11 December 2023.
Note: the indices measure price changes in euros.
How to read it: in 11 December 2023, the price of copper in euros was 37.9% above its 2019 average.
Source: London Metal Exchange, Chicago Mercantile Exchange, Shanghai Futures Exchange.

►6. Prices of wheat, sunflower oil, olive oil and sugar

(daily index - base 100=2019)



Last point: 11 December 2023.
Note: the indices measure price changes in euros.
How to read it: on 11 December 2023, the price of wheat in euros was 22.6% above its 2019 average.
Source: Euronext Paris, APK-Inform, Spanish Ministry of Agriculture, ICE Futures US.

Eurozone

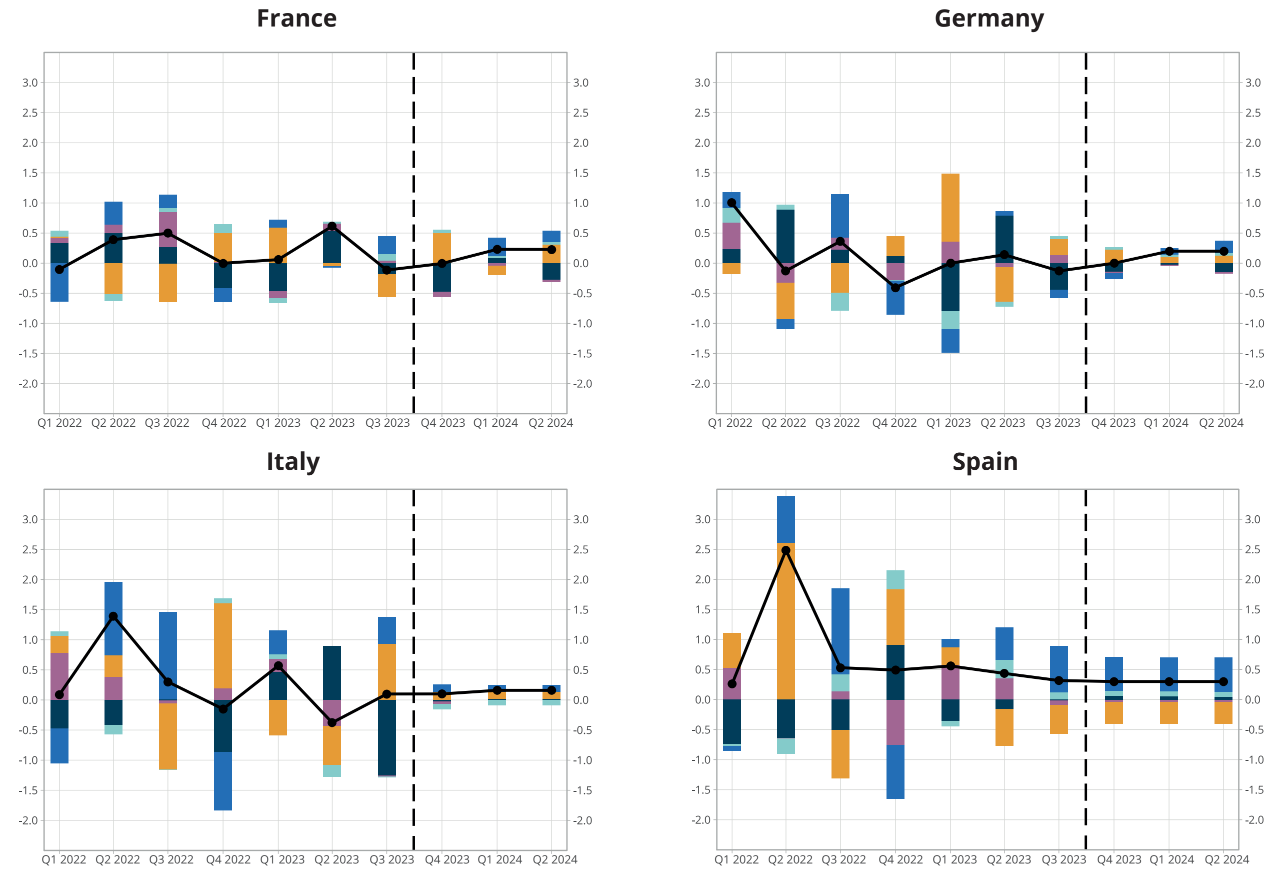
In Q3 2023, activity generally declined in the Eurozone

In Q3 2023, activity declined slightly in the Eurozone (-0.1% after +0.1%), with inflation edging down, although still buoyant, and high interest rates curbing investment. Activity fell back in Germany (-0.1%), after two quarters of virtual stability, as it did in France (-0.1%), after a dynamic Q2 (+0.6%). The Spanish economy slowed only a little (+0.3% after +0.4%), with the country still apparently experiencing some catch-up effects. Finally, activity remained sluggish in Italy (+0.1%), after a sharp decline in Q2 (-0.4%, ►**Figure 1**).

Domestic demand bolstered growth in Spain, France and Italy. Private consumption in all three countries was buoyant in Q3 2023. The continuing dynamism of private consumption in Spain (+1.4% after +1.0%) was matched by increasing purchasing power, sustained from the start of the year. In France, consumption bounced back after a sluggish quarter (+0.6% after -0.1%), boosted by a rebound in purchases of goods, especially food –with food inflation falling sharply (►**Focus International inflation**). Consumption rebounded in Italy too, after a sluggish quarter (+0.7% after 0.0%), as a result of the dynamism of wages this summer and despite inflation remaining high. Meanwhile, private consumption in Germany fell back, probably due to inflation weighing on household purchasing power.

Investment in the Eurozone countries was penalised everywhere by high interest rates, but was nevertheless able to hold out in some countries (►**Focus Lending conditions for businesses are tightening in all the Eurozone countries**). In Spain it fell back in Q3 2023 after two very dynamic quarters, while in Italy it was fairly stable after a poor Q2. In both these countries the schedule for implementing the Europe recovery and resilience plan (*NextGenerationEU*) may be a

►1.Quarterly variations in GDP and contributions of demand items
(quarterly variations in % and contributions in points)



Note: forecasts beyond the dotted line
How to read it: in France, in Q3 2023, GDP fell compared with Q2 2023 (-0.1%), and the foreign trade contributed -0.4 points to this decrease.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

key factor to account for fluctuations in investment. Investment slowed in France (+0.2% after +0.5%), as a result of the further decline in the GFCF in construction. It improved in Germany, driven by investment in machinery and equipment.

In Q3, foreign trade in France and Spain made a negative contribution to growth, due especially to the decline in exports. In Germany and Italy foreign trade had a positive effect, with exports up slightly. Imports fell back in all four of these countries, reflecting a relatively sluggish domestic demand. All in all in 2023, foreign trade is expected to have a positive effect on growth in France, but less so than domestic demand (▶**International synthesis sheet**). This is also the case for Spain. In Germany, foreign trade should boost growth while conversely, domestic demand is likely to hamper it. Finally, foreign trade is not expected to contribute to Italian growth in 2023.

The easing of inflation combined with wage increases are giving households a little purchasing power

Since spring, inflation has fallen back in the main Eurozone countries: a significant decline in Italy, after very high energy inflation last year, a smaller decline in France, where energy prices had increased less, as was also the case in Germany. It is only in Spain that inflation has risen since June (▶**Focus International inflation**).

Wages are expected to follow different trends, given the disparities in inflation (▶**Box wages in international inflation Focus**). In Germany, where wages have risen substantially since the beginning of the year (+6.0% year-on-year in Q3), they should continue to increase in H1 2024: wage negotiations linked to the high inflation rate resulted in major pay reviews and one-off bonuses, in both the private and public sectors. In France and Spain, the year-on-year variation in wages is gradually catching up to that in prices, but with some delay. In Italy, on the other hand, where there is no minimum wage and limited indexing mechanisms, wages do not seem to be following the same trend as inflation.

The active population should continue to increase in France, although employment is expected to be at a standstill, whereas in Spain, employment should continue to increase, in the wake of government measures to combat unemployment, especially among young people. In Germany, the recent immigration laws should result in a rise in the active population and boost incomes. In Italy, previous government measures bolstered household income (end-of-year bonus for low-income households) but this trend seems to have been reversed in recent months with reductions in aid payments.

Bearing these facts in mind, purchasing power is expected to be dynamic in Germany in Q4 2023, stimulated by wage increases and a slowdown in prices. In Spain too it is expected to be well supported, despite the rise in inflation. In France, purchasing power should benefit from payouts under the value sharing bonus scheme (PPV) at the end of the year. However, in Italy it is expected to be less dynamic, driven only by the substantial decline in inflation.

The manufacturing industry is awaiting an upswing, after the easing of constraints over supply chains and energy prices

Regarding businesses, industrial activity is still not doing particularly well. In the four main Eurozone countries, PMI levels are low and still dropping. In Germany, however, it would seem that the trough of the wave, which was more pronounced here, has already been reached, in July 2023 (▶**Figure 2a**).

In terms of “hard data”, industrial activity is still fairly sluggish overall. Despite the slowdown in energy prices, production in the energy-intensive branches has remained depressed and is still hampering activity generally, especially in Germany. The catch-up in automobile production activity measured in H1 2023 continued into Q3 in Spain and Italy (▶**Figure 3**). In France and Germany, dwindling order books have penalised activity and production fell back in Q3. The chemical industry, paper and cardboard industry and metallurgy are also struggling to get back to the production levels of before the energy crisis. Only the production of “other transport equipment” has been dynamic in Italy, Germany and, to a lesser extent, Spain. In France, activity in this branch remains well below its pre-crisis level.

Supply chain difficulties, which peaked in H1 2022, and were especially serious in Germany, continued to diminish (▶**Figure 2b**). However, with the PMI well below its level at the beginning of 2022, the shortage of new orders could hold back production in the coming months and affect the industrial sector.

International economic outlook

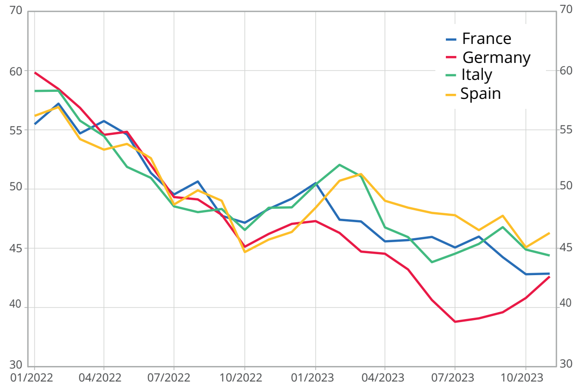
In Q4 2023, economic activity is expected to be sluggish in the main Eurozone economies and should get going again gently at the start of 2024

In Q4 2023, activity is expected to be stable in Germany and France, with the dynamism of household purchasing power not enough to revive domestic demand. Activity should improve modestly in Italy, spurred on by private consumption, which is itself boosted by low inflation and support measures (such as the solidarity card for purchasing basic necessities). It should increase a little more sustainably in Spain.

In H1 2024, activity is expected to improve moderately in France and Germany, driven by private consumption in a context of declining inflation and dynamic wages. In Germany, on the other hand, investment is likely to remain sluggish, weakened by costly financing, high prices and a lack of new orders, especially in construction. In Italy and Spain, activity looks set to improve a little more, as a result of recovery and resilience plans, whose effects are beginning to be felt. ●

► 2a. PMI production indices in the manufacturing industry

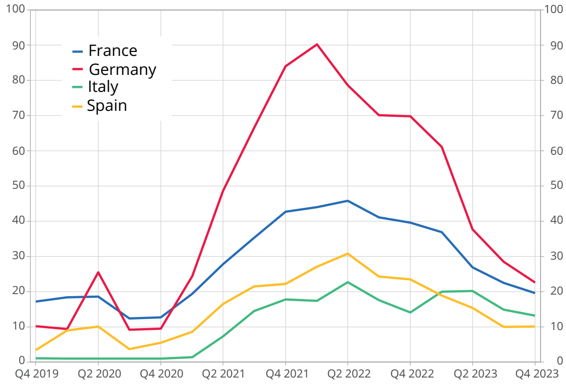
(in level)



Last point: November 2023.
Source: Purchasing Manager's Index, S&P Global.

► 2b. Proportion of companies reporting that production is hampered by supply chain difficulties

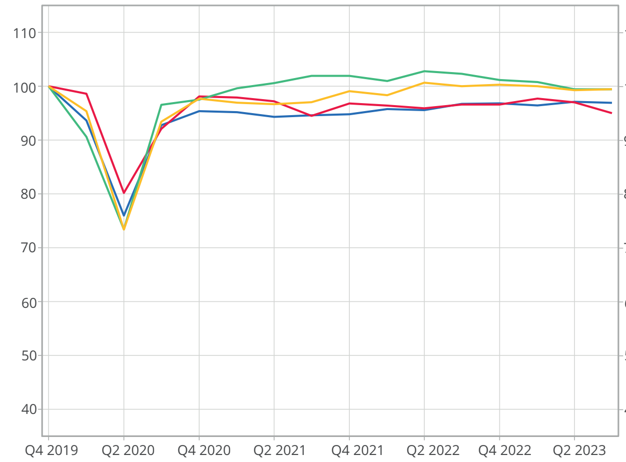
(in %)



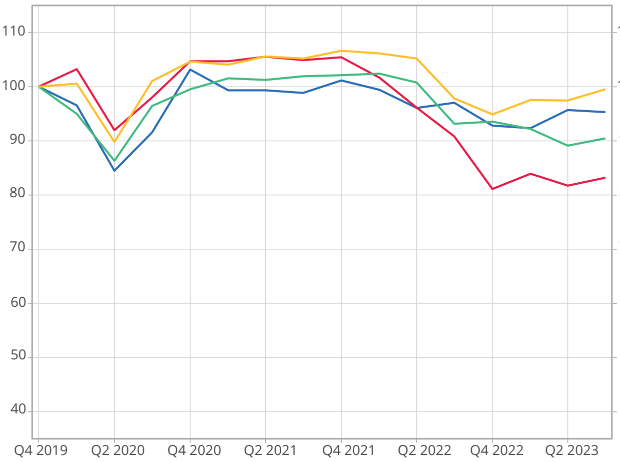
Last point: Q4 2023.
How to read it: in Germany, in Q3 2023, 22.6% of industrial companies questioned said they were hampered in their production activity because of supply chain difficulties
Source: DGECFIN surveys, Eurostat.

►3. Production in the manufacturing industry and in some energy-intensive industrial branches
(industrial production index as a quarterly average, deviation from Q4 2019 level, seasonally and workind-day adjusted data)

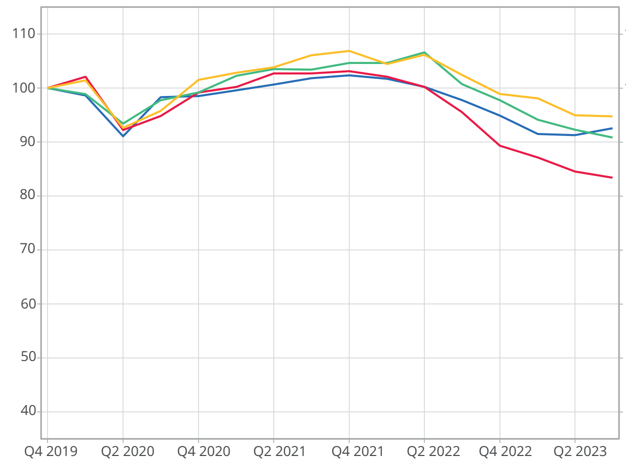
Manufacturing industry



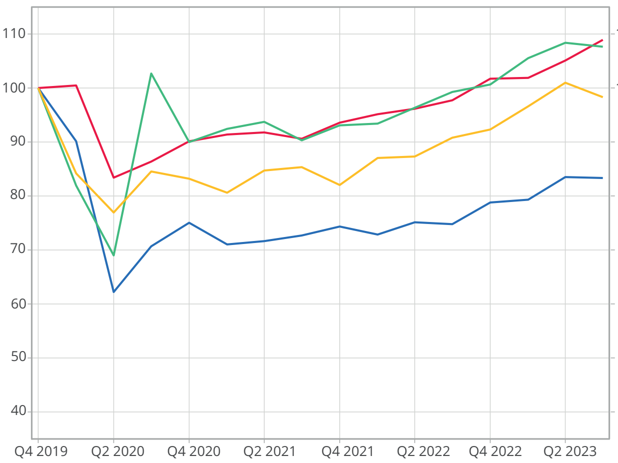
Chemical industry



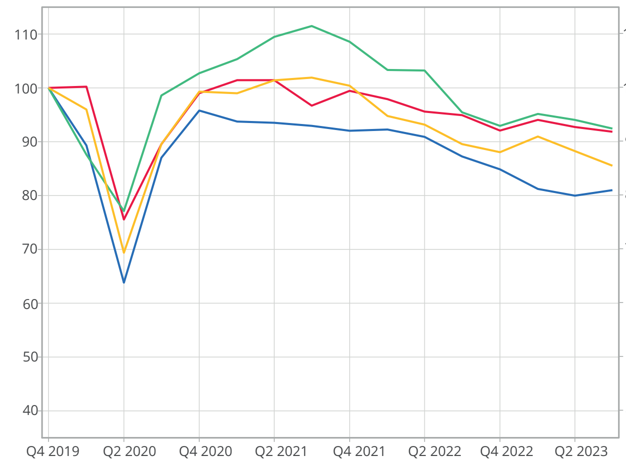
Manufacture of paper and paper products



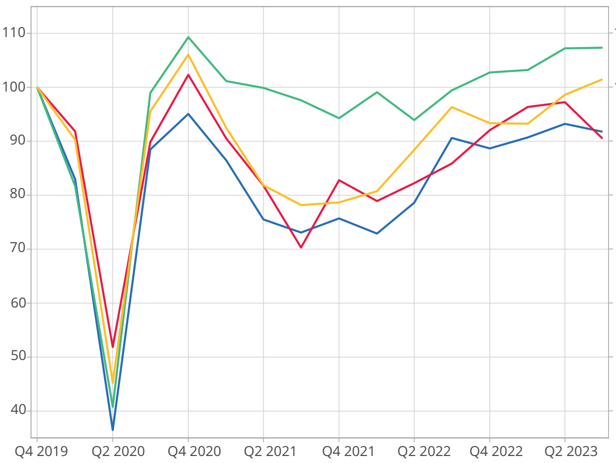
Manufacture of "other transport equipment"



Metallurgy



Automotive industry



Last point: Q3 2023.
How to read it: in Germany, in Q3 2023, production in the manufacturing industry was 5% below its Q4 2019 level.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

United Kingdom

The UK economy is going through a period of limited growth, and activity is tending to slow down, mainly due to the impact of interest rates. After modest growth of 0.2% in Q2 2023, GDP remained stable in Q3 (▶ **Figure 1**). However, the overall performance of the UK economy since the health crisis has been adjusted upwards following a revision of the accounts by the UK Office for National Statistics (linked to methodological improvements): until now, GDP has been estimated at below its pre-crisis level, but now, at the end of Q3, it is measured at 1.8% above its Q4 2019 level.

Domestic demand was still buoyant in H1, but in Q3 2023 it was struggling. Exports increased (+0.5%, sustained mainly by exports of services), but imports fell back (-0.8%) as a backlash after the strong rise in the spring (+2.2%) but also linked to the decline in the consumption of goods. Household consumption did indeed slip back (-0.4%, after some good performances in H1 2023), as did government consumption (-0.5%, hampered by strikes this summer in the hospital sector). In addition, total investment fell back significantly (-2.0%), affected by high interest rates. Corporate investment overall resisted fairly well in Q2, despite the ending of the Super deduction scheme (+4.1%, partly due to one-off factors, notably the purchase of planes), but it deteriorated in Q3 (-4.2%).

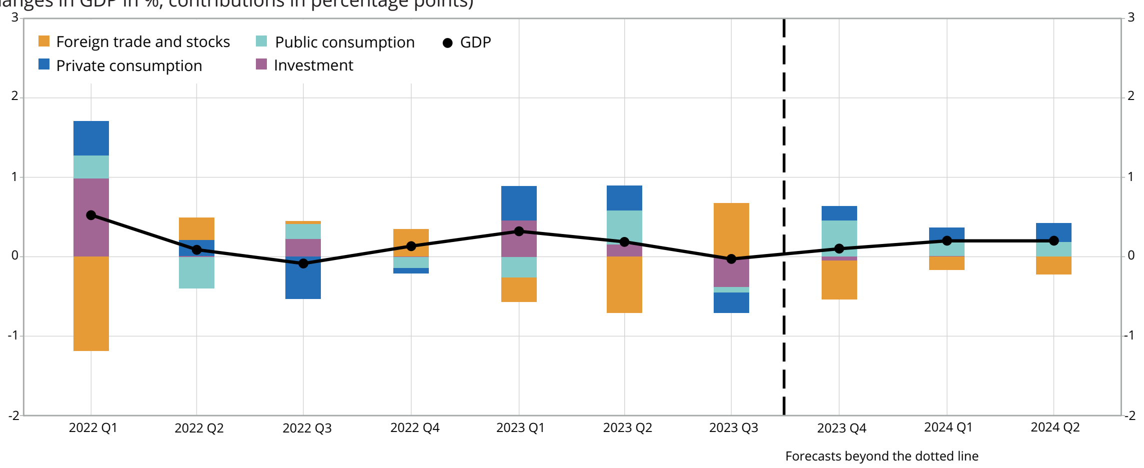
In October 2023, the decline in inflation intensified, at +4.6% year-on-year after +6.7% in September (▶ **Figure 2**). This sharp decline in inflation is mainly due to base effects in energy, as well as the slight reduction in the cap on electricity and gas prices (in October 2022, the major increase in this cap brought headline inflation to +11.1% year-on-year). Core inflation (excluding energy and food) is down slightly (+5.7% year-on-year). In fact, core inflation trends are still partly determined by the buoyancy of wages, which were up 7.2% year-on-year in October, including bonuses. The decline in inflation is expected to continue into Q4 2023.

The rapid rise in wages compared to that in consumer prices should mean that household purchasing power continues to increase in Q4 2023 and should support consumption. In the employment market, which until now has been suffering from a manpower shortage, the situation is expected to continue to ease slightly. The number of job vacancies continues to decline and hiring difficulties are reduced.

In this context, activity is expected to bounce back slightly (+0.1% forecast in Q4 2023, then +0.2% in each of the first two quarters of 2024). This modest growth should result in a relative upswing in domestic demand. On the one hand, consumption is expected to improve moderately, although this recovery is expected to be a little slower compared to H1. On the other hand, the tightening of monetary policy is expected to penalise corporate investment rather less as companies should start to derive benefit from the effects of Full Expensing (tax reduction for businesses decided in April 2023 following the end of the Super deduction scheme and extended in the autumn budget). Both imports and exports should be a little more vigorous. ●

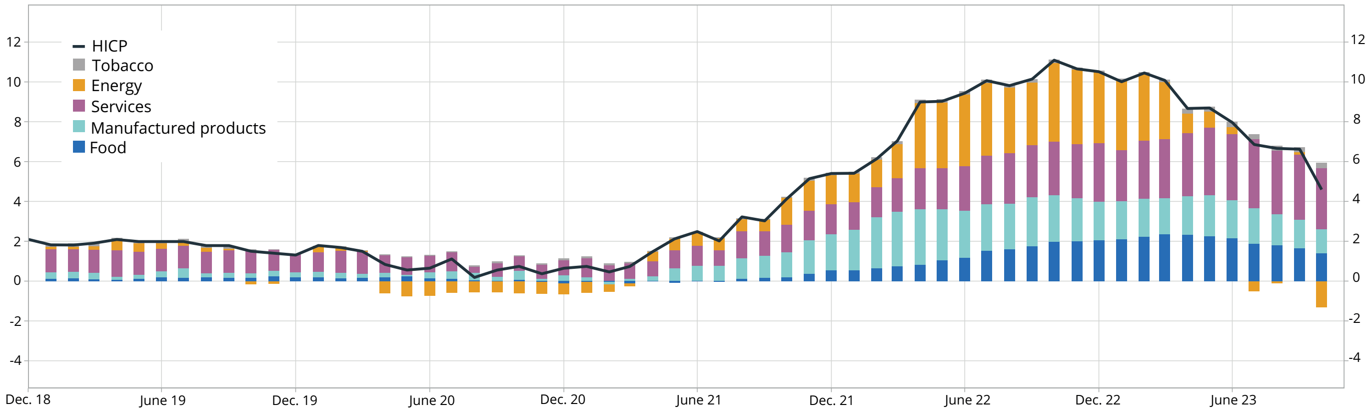
▶ 1. In Q3 2023, UK growth was struggling with the decline in domestic demand

(quarterly changes in GDP in %, contributions in percentage points)



How to read it: in Q3 2023, GDP remained stable and investment contributed -0.4 points to this stability.
Source: ONS, INSEE calculations.

►2. Inflation has generally fallen back since the end of 2022
(year-on-year change of HCPI in %, contributions in percentage points)



Last point: October 2023.
How to read it: in October 2023, consumer prices (according to the HICP) increased by 4.6% year-on-year, with food contributing 1.4 points to this growth.
Source: ONS, INSEE calculations.

United States

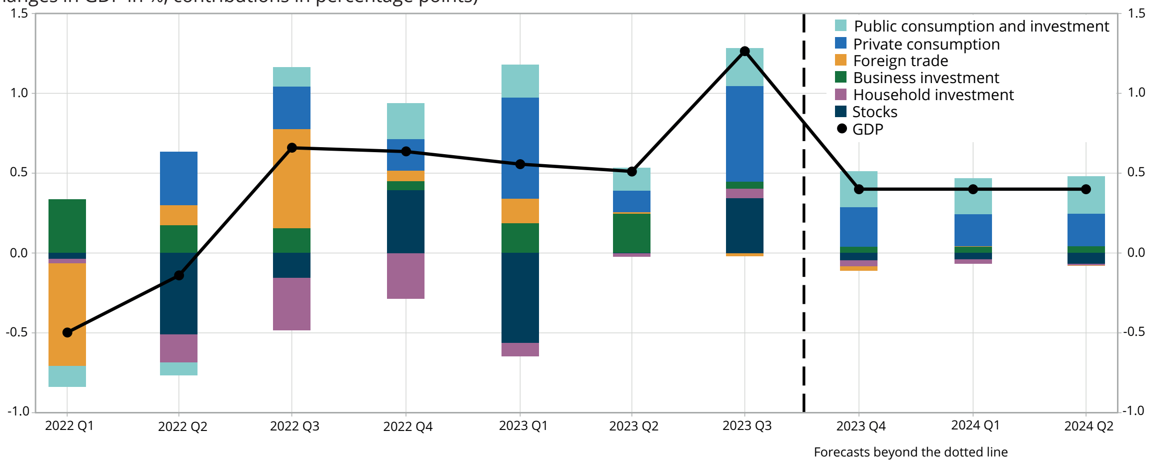
The American economy proved to be relatively dynamic in 2023, despite the monetary tightening imposed by the Federal Reserve since the start of 2022. Thus GDP increased by 1.3% in Q3 2023, after +0.5% in Q2 and +0.6% in Q1 (►**Figure 1**). Most of the items that make up domestic demand (consumption and investment, both public and private) have shown a degree of resistance. The rebound in household consumption in Q3 was mainly the result of a strong contribution by the consumption of household durables and services, especially rents (►**Figure 2**). At the same time, the household savings ratio declined, from 5.1% in Q2 to 4.0% in Q3. The momentum of the labour market was able to support these trends.

At the same time, the slowdown in prices that began mid-2022 continued in Q3 2023 (►**Figure 3**). Inflation increased slightly from July to September, driven by the prices of energy and rents (+3.7% year-on-year in August and September, after +3.2% in July). However, it fell back once again in October (+3.2% year-on-year). In addition, food inflation and core inflation, which both fell in Q3 (+3.7% and +4.1% respectively in September), continued to decline (+3.3% and +4.0% respectively in October).

Corporate investment contributed close to zero to GDP growth in Q3 2023, after making a strong contribution in H1. In the summer, equipment investment fell back (-0.9%), cancelling out to some extent the rise in investment in infrastructure (+1.7%) and intellectual property (+0.7%). This slowdown in corporate investment could be due to the effect of high interest rates. Meanwhile, home investment by households bounced back by 1.5% in Q3, after a continuous decline over nine quarters. It is still very low compared to 2021 (in Q3 2023, it was almost 20% below its Q1 2021 level). Against a backdrop of high borrowing rates, the second-hand real estate market ran out of steam in H1 2023 (with households deciding not to sell their property to buy another home and thus have to take on further debt at a higher rate), while the market for new dwellings remained vigorous.

Given this context, economic activity should pick up towards the end of 2023 and the start of 2024 at an average pace. Private consumption could slow from Q4 2023 onwards, as could imports, linked to the expected weak growth in purchasing power and high interest rates making consumer loans more expensive. Home investment looks set to continue its decline, after rebounding in Q3, due to high borrowing rates. However, public consumption and investment should maintain a certain momentum. Exports were up 1.5% in Q3 and should progress at a slower pace from Q4. All in all, GDP is expected to grow at an annual average of 2.5% in 2023, with the mid-year growth overhang for 2024 coming in at +1.8%. ●

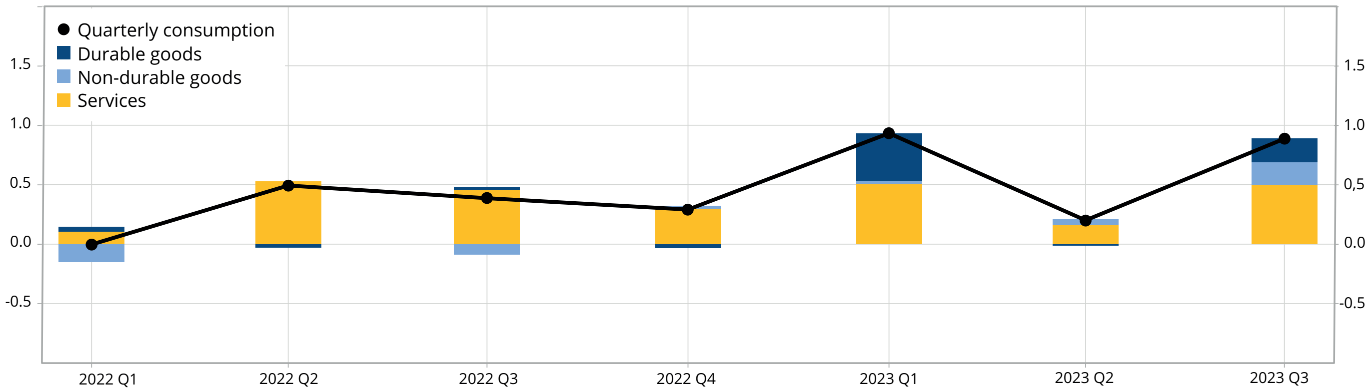
►1. The US economy is growing at a dynamic pace due to household consumption
(quarterly changes in GDP in %, contributions in percentage points)



How to read it: in Q3 2023, GDP grew by 1.3% and private consumption contributed +0.6 points to this growth.
Source: Bureau of Economic Analysis.

►2. In Q3, household consumption was driven by services

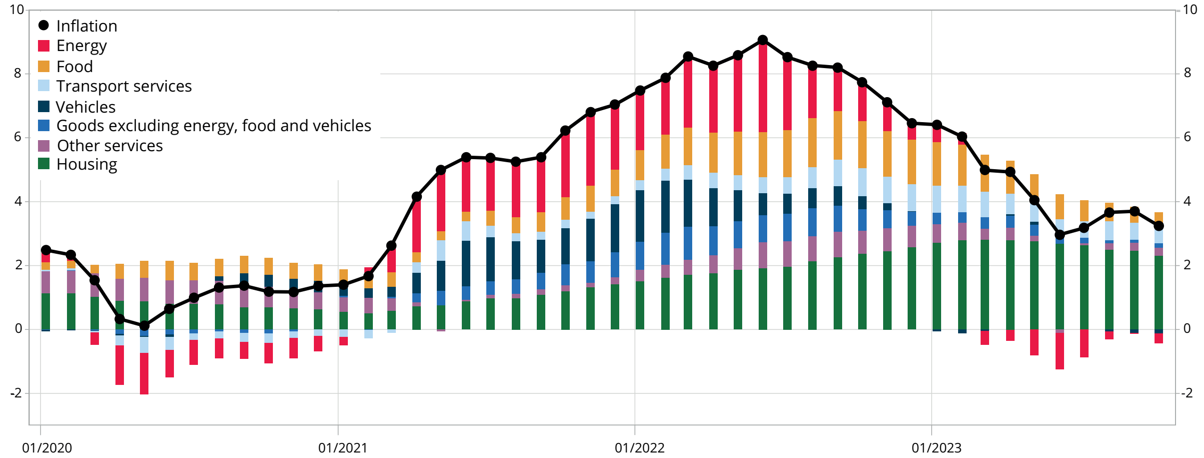
(quarterly variations in consumption in %, contributions in percentage points)



How to read it: in Q3 2023, private consumption increased by 0.9%, and consumption of durable goods contributed 0.2 points to this change.
Source: Bureau of Economic Analysis.

►3. Year-on-year variation in the consumer price index

(year-on-year change in the CPI in %, contributions in percentage points)



Last point: October 2023.
Note: the "Housing" item in the consumer price index (CPI) in the United States includes the price of rents, particularly imputed rents (which is not the case in the French CPI, where only actual rents are taken into account). This is not the case in the French CPI, where only actual rents are taken into account). The Harmonised Indices of Consumer Prices (HICPs) presented in the The Harmonised Indices of Consumer Prices (HICPs) presented in the inflation section of this *Economic Outlook* Report cover only actual rents, allowing comparisons to be made between countries.
How to read it: in October 2023, consumer prices rose by 3.2% year-on-year, with housing prices accounting for 2.3 percentage points of this increase.
Source: Bureau of Labor Statistics.

China

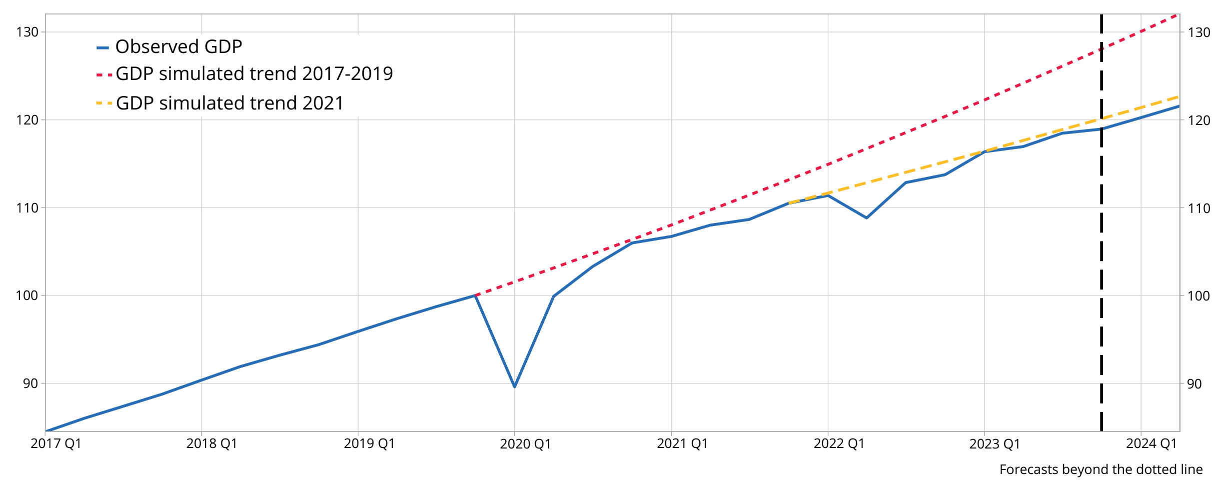
After the Chinese economy reopened towards the end of 2022, the rebound was less vigorous than expected and the traditional drivers of growth (real estate, investment) appeared to be struggling. After slowing in spring 2023, economic activity in China managed to accelerate in Q3 (+1.3% after +0.5%, ►**Figure 1**). The real estate sector shows little sign of bouncing back: in October 2023, housing starts were more than 60% below their 2019 average. Meanwhile, real estate transactions were almost 35% below their pre-pandemic level (►**Figure 2**). This real estate crisis has destabilised provinces that had become vulnerable as a result of their debt burden and their heavy exposure to this sector. Faced with these difficulties, the Chinese government has taken measures to bolster the economy. In particular, it eased the policy restricting access to the purchase of real estate and the People's Bank of China cut interest rates and injected liquidity into the financial system. These measures helped to boost momentum in Q3.

Regarding prices, China is the exception as its deflationary pressures persist (►**Figure 3**) and consumer prices declined 0.5% year-on-year in November. This weak inflation is due in part to the difficulty for consumption to bounce back after the health crisis, but also to the absence of an energy price shock like that experienced in Europe. In the shorter term, it is caused by the sharp drop in food prices (-4.2% year-on-year in November), especially the price of pork. The reason for this decline is the substantial increase in the price index for pork in H2 2022 –pork prices increased sharply in H2 2022 while the market had been struggling with swine fever for several years. As demand drops off, production prices in the industry are also turning downwards (-3.0% year-on-year in November).

Households' confidence has been shaken and this is also likely to hamper imports, which are expected to decelerate from Q3 onwards after rebounding in Q2. Exports could continue the slowdown that started in spring, with tensions continuing over China's trade relationship with the United States and the sluggish state of world demand. Thus the Chinese economy could slow at the end of 2023 and the beginning of 2024. Any upturn in momentum in Q3 2023 would therefore be short-lived. China's GDP is expected to improve with an annual average of 5.4% in 2023, and the mid-year growth hangover for 2024 would then be +3.0%. ●

►1. Chinese growth remains below its pre-health crisis trend

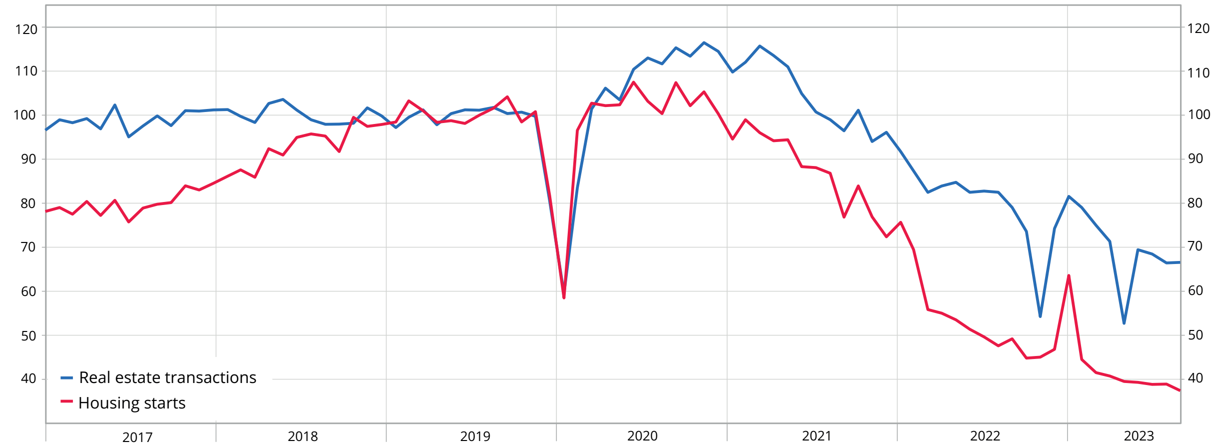
(GDP, base 100 in Q4 2019)



Last point: Q2 2024 (forecast from Q4 2023).
Note: the trend curve for 2017-2019 has been constructed by extending the GDP series at a constant quarterly rate from Q1 2020, equal to average quarterly GDP growth over the period 2017-2019.
Source: NBSC, INSEE calculations.

►2.The real estate crisis continues

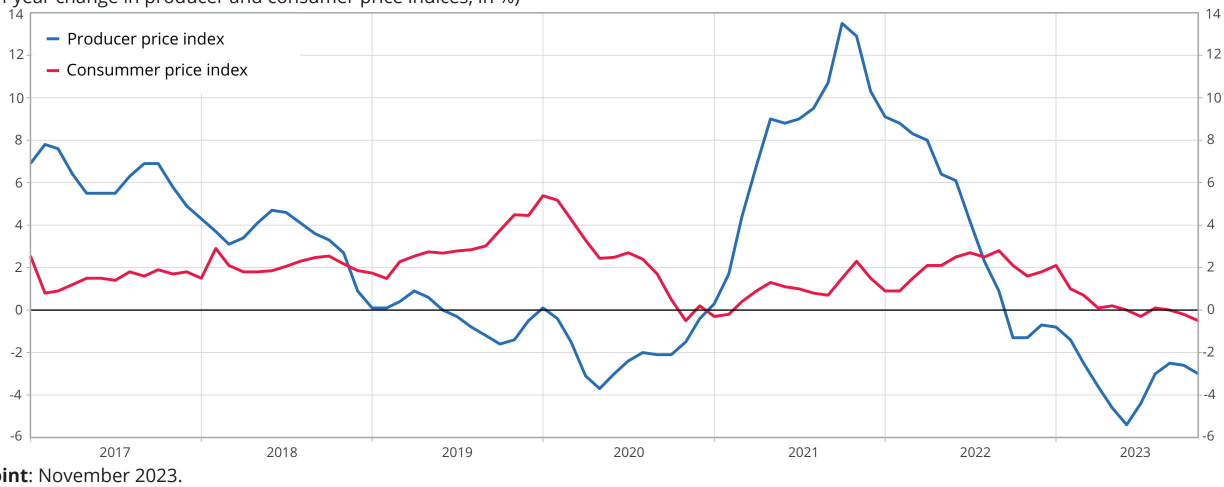
(seasonally adjusted series, property transactions and housing starts in base 100 = 2019 average)



Last point: October 2023.
How to read it: in October 2023, real estate transactions were almost 35% below their 2019 average.
Source: NBSC, INSEE calculations.

►3. Deflationary pressures persist

(year-on-year change in producer and consumer price indices, in %)



Last point: November 2023.
How to read it: in November 2023, production prices in industry fell by 3.0% year-on-year.
Source: NBSC, INSEE calculations.