# Growth, Games and unknown factors

Economic outlook

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Measuring, understanding

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The circumstances surrounding publication of this *Economic Outlook* are somewhat unusual. Originally scheduled for 18 June 2024, it was postponed until 9 July 2024 in order to respect what is called the "reserve period", the required period of electoral silence surrounding elections. The forecasts used are based on indicators available to date, including the June business tendency surveys, which, it should be noted, were mainly collected before 9 June. Any measures that a new government may take are not included, nor are the effects of an extended wait-and-see period in the event that the direction of economic policy remains uncertain in the long term.

## In 2024, the Eurozone is coming out of its rut

In 2023, while US growth held up (+2.5%), activity in the Eurozone remained flat overall (+0.6%), hampered by high energy prices and the effects of monetary tightening. However, since the start of the year, European economies seem to be slowly recovering: the Eurozone (+0.3%) and the United Kingdom (+0.7%) returned to growth in Q1. For the moment this growth is mainly due to foreign trade, while the contribution of domestic demand remains modest. Conversely, growth in the United States (+0.4% in Q1) was still driven by robust internal dynamics, and in particular by a favourable budgetary policy direction.

Domestic demand is expected to gradually take over in supporting European growth. Inflation has fallen back significantly and real wages are picking up after two years of decline, which bodes well for household consumption. However, improvement in investment is likely to remain limited, with funding conditions remaining restrictive overall despite easing slightly. Within the Eurozone, cyclical divergences look set to remain in place throughout the spring: the German economy is expected to continue to slide while Spanish growth is unlikely to weaken much. In H2, situations are expected to converge somewhat, as consumption and investment in Germany start to recover. On the other side of the Atlantic, strong job creations are likely to continue to keep consumption dynamic until the end of the year. Expressed as a year-on-year variation, growth in the Eurozone at the end of the year (+1.1%) looks set to remain below that of the United States (+1.9%).

## Olympic summer in France

In France, there was a moderate improvement in activity over two quarters (+0.2% in Q1 2024 after +0.3% at the end of 2023). As elsewhere in Europe, this growth was the result of a powerful contribution from foreign trade. In June 2024, the business climate remained a little below its long-term average, suggesting that, for the moment, growth would keep to a similar trend and is expected to settle at +0.3% in Q2. In H2, the quarterly profile for activity is expected to be significantly affected by the hosting of the Olympic and Paralympic Games in Paris this summer, which should boost growth by 0.3 points in Q3 (to +0.5%): as well as ticket sales and broadcasting rights generated as the Games take place there is also expected to be a surge in tourist activity. As this is a one-off effect, activity is then expected to react and come to a standstill by the end of the year (-0.1%). Across the whole of 2024, growth should reach +1.1%, i.e. as much as in 2023.

## Households recover a little of their purchasing power

Inflation has fallen back sharply, to +2.1% year-on-year in June 2024 against +4.5% a year earlier. Note that the composition of inflation has changed considerably: prices of food and manufactured products have stabilised and inflation is now driven mainly by the price of services. In this sector companies pass on previous increases in their wage costs to their customers. Wage rises remain moderate, however, and are not generating a wage-price spiral: after two years of decline (in 2022 and 2023), real wages are expected to rise only modestly in 2024.

In addition to real wage gains, households are also receiving increased benefits, primarily pensions and, to a lesser extent, property income which is still dynamic. All in all, the purchasing power of gross disposable income per consumption unit is likely to increase by +0.9% in 2024 after +0.3% in 2023 and -0.3% in 2022. This rise in purchasing power occurred mainly in Q1 2024, with most increases happening at the beginning of the year.

## Consumption looks set to gather momentum

Consumption has increased modestly over the last six months (+0.1% after +0.2%) and is expected to accelerate by the end of the year, driven by improved purchasing power. However, although household confidence has been improving since its low point of mid-2022, it remains well below its long-term average. Thus the rise in consumption is not expected to exceed that in purchasing power and the savings ratio is likely to stabilise at a high level at the end of the year, at around two to three points above that observed in 2019. The quarterly consumption profile will probably be very much affected by the Olympic and Paralympic Games, with two thirds of the expected spectators being French residents.

## Towards a positive contribution from foreign trade in 2024

Exports were vigorous at the end of 2023 and the beginning of 2024, driven by the recovery of world trade. By the end of this year they are expected to improve in fits and starts in line with aeronautical and naval deliveries. On average in 2024 they should improve (+3.5%) much more rapidly than imports (+0.8%), with the result that the contribution of foreign trade to growth should be distinctly positive (+0.9 points). On the other hand, part of this contribution is expected to derive from changes in inventory levels, which companies considered to be too high overall at the end of 2023. In addition to destocking, it reflects the short-term contrast between France and the rest of the world, the gradual recovery of aeronautical sales and a one-off effect of the tourist activity resulting from the Olympic and Paralympic Games. Thus the economy is expected to regain some export market share in 2024, although without wiping out all the losses that have occurred since 2019, due in part to the increase in energy prices.

## Investment is expected to stabilise, between uncertainty and financial constraints

Investment has fallen back sharply since the end of 2023. Concerning households, where the decline has been continuous for two years, the end of the tunnel is perhaps in sight: housing starts have stabilised in recent months (at a low level) and housing purchase intentions expressed before the election process got underway have picked up slightly. Regarding corporate investment, the tightening of financing conditions has led to a substantial turnaround in investments since mid-2023. According to the business tendency surveys, in April, companies were slightly less pessimistic about their purchasing intentions than in January, due to demand prospects. Company margins have certainly remained a little higher than in 2019, but this is a very mixed observation as it is based mainly on industry, and on the energy sector in particular. In addition, these extra margins have been absorbed by the increase in financial costs, limiting the self-funding of projects. Finally, since 9 June, financial markets have become more volatile, suggesting a possible effect of uncertainty, which may generate a type of wait-and-see attitude. All in all, corporate investment is expected to stabilise, caught between the slight improvement in demand prospects, in a context of uncertainty, and difficult financial conditions.

## Slight rise in unemployment

After solid growth in Q1 (+0.3%), employment is expected to slow a little, with companies rather less optimistic in June about their past and future hiring. Across the year, employment is expected to increase by +0.6% (or around +185,000 jobs), a similar rate to last year. Per capita productivity should continue to pick up, and get back to its pre-Covid trend, although without making up for the losses recorded since 2019. Meanwhile, the labour force is expected to increase a little more quickly (about +230,000), especially with the further ramping up of the retirement pension reform. The unemployment rate stood at 7.5% at the start of 2024, and is expected to rise a little, to 7.6% by the end of the year.

Uncertainties: the political situation in France

This forecast is currently up to date: it is based on an analysis of short-term economic indicators, the most recent of which cover May 2024, and on responses to the business tendency surveys collected from economic stakeholders in June, mainly before the dissolution of the French National Assembly was announced. Any change in the political situation in France is thus a major uncertainty in the scenario, and any measures that may be taken by a new Government are not taken into account. Regarding the budgetary impetus, the forecast is based only on measures that have been voted, notably the credit cancellations decided early in the year. In addition to budgetary policy, a new political context may modify behaviour: for households, major electoral episodes in the past often resulted in a temporary rise in optimism, however, the current situation is somewhat unprecedented; for companies, changes in the financial indices reflect increased uncertainty, which may generate a kind of wait-and-see attitude, especially over investment decisions. However, any impact may prove to be on a larger scale than suggested here. For the time being, the difference in borrowing rates between the different Eurozone countries has resulted in a drop in German rates rather than an increase in rates in the other countries, a sign that tensions are relatively well contained at the time this *Economic Outlook* is being finalised. ●

# French economic outlook

# Since the invasion of Ukraine, the French defence industry has seen in-creased orders and has stepped up production, however, it is coming up against supply constraints

The French Defence Industrial and Technological Base (BITD), as studied by the Defence Industries Businesses (EID) survey carried out by the French Ministry of the Armed Forces, defined a relevant group of French companies to constitute the defence industries: by studying their responses to INSEE's monthly surveys, short-term economic developments in the defence sector can be identified since 2005.

The invasion of Ukraine by the Russian army in February 2022 and the resulting geopolitical situation have led to major demands being made on the French defence industrial apparatus, in the form of material aid to Ukraine, the equipment needs of the French army and more broadly, the increased defence needs in Europe. Since the beginning of 2022, the short-term situation in the defence industry has therefore been considerably better than in the rest of industry. In particular, the opinion of defence industrialists based on their order books picked up significantly between the end of 2021 and the start of 2022 and has remained at a high level since then. The defence industry output has increased gradually and at the beginning of 2024 was 10% above its 2022 average. However, tensions surrounding supply have increased substantially, in contrast to the change in the rest of industry: supply chain difficulties are greater and the productive capacity is in greater demand.

Bruno Bjai, Nicolas Bignon, Cédric Zimmer

## A general increase in military spending in Europe since the invasion of Ukraine

The recent international context has been marked by rising geopolitical tensions, notably the invasion of Ukraine, signalling the return of armed conflicts on European soil. As well as the warring countries, many others have announced their wish to increase their defence capabilities in order to face this new, more unstable security environment, especially in Europe.

This development is of particular importance for France, which plays a major role in the military industry in Europe and throughout the world. It ranks among the ten most important countries in terms of the amount of military spending and is the second largest arms exporter globally, a long way behind the United States, but ahead of Russia and China, according to the latest data from the Stockholm International Peace Research Institute (SIPRI, technical fact sheets on Trends in world military expenditure and Trends in international arms transfers). France has also committed to increasing its defence spending to achieve the target of 2% of GDP set by NATO as, according to estimates by the North Atlantic Alliance, this spending stood at 1.9% of French GDP in 2023, after around 1.8% between 2014 and 2019. These commitments were formalised in the latest French military programming Act (LPM), with more than €400 billion in military spending allocated to the period 2024-2030 (▶ booklet presenting the LPM).

In this context, the French military industry must meet the national demand for military materials with a view to modernising and renewing the equipment of the French army, and also a specific demand within the framework

of material aid for Ukraine, and lastly, more broadly, a growing international demand, especially in Europe, due to the new security context. The production capacity of these defence industries is therefore in high demand and is likely to remain so in the coming years.

## The scope of the defence industry can be reconstructed from the 2018 EID survey

The industrial branches linked to military and defence activities are numerous and varied. In addition to the production of weapons and war materials, where the entire output can be considered as equivalent to the military industry, many branches have activities that can be partially linked to defence. This is the case, for example, for the manufacture of transport equipment, which includes civilian vehicles as well as troop transport vehicles, military ships and combat aircraft. Defence industries also have numerous subcontractors throughout industry, whose activity is at least partially linked to the military industry.

From the current classification of French activities (NAF rev. 2) it is not possible to identify all defence industries. Defining a relevant scope therefore requires additional analyses and the mobilisation of auxiliary data sources.

The Economic Observatory for Defence (OED) of the French Armed Forces is based on the notion of the French Defence Industrial and Technological Base (BITD) as constituting the relevant scope for industrial defence businesses.

The Defence Industries Businesses survey (EID) is used to define this field.[1] According to its results, in 2017, defence businesses consisted of almost 2,000 legal units generating

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[1] In what follows, the BITD will include all businesses that declared a defence activity in the 2018 EID survey. This is a simplification as the notion of BITD is more fluctuating.

around €30 billion in military turnover. The majority of these activities were carried out by large companies (over 5,000 employees and/or €1.5 billion turnover) and intermediate-sized companies. This scope includes both companies whose entire activity is devoted to the arms industry and companies which are concerned for only part of their turnover. It is limited to industrial companies and therefore excludes services companies.

## Most of the businesses that make up the BITD are covered by INSEE's monthly surveys (business tendency and industrial production)

Every month, INSEE conducts an economic tendency survey of around 4,000 industrial companies, to collect information on recent and future developments in their activity or their recruitment or difficulties they may face regarding their recruitment, their supply chain or insufficient demand. The survey sample, which is exhaustive for the largest industrial entities, includes a large proportion of legal units from the scope of the EID survey and in particular the largest of these companies: almost 300 legal units covering about 90% of the turnover of the defence industries in 2017 responded to the business tendency survey. This source can therefore be used to reconstitute developments in the short-term situation of defence industries.

This exercise provides an overview over a long period: data from the business tendency surveys are available from the 1970s for industry, thus the analysis can theoretically be carried out from this date. In practice, a retropolation is needed, in order to reconstitute the sample of relevant companies year by year. In fact, a certain number of legal units from 2018 may be the result of a restructuring of earlier entities, and it will therefore be necessary, at least for the largest units, to reconstruct the histories of the groups concerned. The analysis presented here goes back to 2005, as data before this date were more difficult to use. On this date there were approximately 100 legal units from the BITD covering about 50% of the total turnover of the BITD, which can still be considered as representative. In the middle of the period, the number of legal units from the BITD present in the monthly business tendency survey in industry as well as the share of their military turnover within the total turnover are close to what is observed currently. Over the entire study period, the scope therefore corresponds to that of the EID survey in 2017. Any businesses leaving the survey between 2000 and 2017 within the scope of defence industries are not taken into account.

At level A38, apart from agrifood, refining and wood/paper/printing, all sub-sectors of industry are represented in the defence industries. Weighted by military turnover, about

half of the legal units in the BITD that were found in the business tendency surveys fall into the manufacture of transport equipment sector, excluding automobiles. The manufacture of electronic, computer and optical products represents a quarter of total military turnover in 2024, metallurgy a little over 10%.

Once the sample has been compiled, the individual responses from the businesses concerned are aggregated in order to reconstruct the balances of opinion, like those published monthly across the entire scope of the manufacturing industry and its different branches: this aggregation is carried out in one step, by weighting the different units according to their turnover in the military field, based on data from the EID survey. It is thus a question of simplification but several precautions need to be taken in interpretation:

- the reconstructed balances reflect the opinion of companies with military activity, but this opinion does not only cover their military activity, as companies are responding to the survey in respect of all their activity;
- in the business tendency surveys, companies declare their turnover each year but the military share is identified in a fixed fashion based on responses to the EID survey covering 2017, the only known point of reference.

From these balances of opinion, a composite business climate indicator is reconstituted for the scope of the defence industry. This indicator is constructed as a weighted sum of the main balances of opinion, then restandardised (mean equal to 100, standard deviation equal to 10): the balances involved in the calculation of this climate and the weight assigned to them are those of the business climate in industry.

INSEE also carries out monthly branch surveys of companies (EMB), in order to calculate a monthly industrial production index (IPI), using an approach via branches and products. An "IPI Defence" can be constructed by selecting only the branches and products concerned in military production.[2] For most of these branches, it is possible to distinguish precisely the products that are for military use from those for civilian use or, failing that, for a given product keep only the responses from companies identified in the EID survey as having a very large proportion of military turnover. For some branches, on the other hand, it is not possible to distinguish between civilian and military production or to isolate companies over a sufficiently long time. In this case, the product included in the calculation of the "IPI Defence" is in fact a "mixed" product. The resulting elementary indices by product are calculated by mobilising the responses of 40 large defence industry businesses. These elementary indices are then aggregated using weightings that represent the value

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[2] Some branches in the classification of activities (especially 2013A Enrichment and reprocessing of nuclear materials, 2446Z Production and transformation of nuclear materials and 3040Z Construction of military combat vehicles) are not monitored in the EMB and are therefore not included in the reconstructed IPI Defence. However, companies in these sub-classes represent a limited proportion of defence industries according to the EID survey data.

added associated with the military products. All in all, the resulting IPI Defence covers 87% of the value added of the BITD and could be calculated from 2013.

## The business climate in the defence industry has improved significantly since the invasion of Ukraine, driven by the sharp increase in orders

The business climate reconstructed on the basis of the EID summarises the short-term situation in the defence industry, and puts it into perspective with that of the manufacturing industry as a whole. Thus from 2005, the indicator highlights different short-term cycles, some of them in phase with the overall cycle and others more specific to the defence industries (►Figure 1). For example, the financial crisis of 2008-2009 resulted in a short-term economic deterioration for the defence industries, although this effect came later and was less pronounced for the rest of industry. Similarly, the 2020 health crisis constituted an economic low point for the defence industries, and for the rest of the economy.

Over the recent period, the indicator conversely shows a significant improvement in the short-term economic situation in the defence industries from the end of 2021, and which continued throughout 2022. The contrast with the rest of industry appears in particular at the beginning of 2022: while the economic situation in the defence industries continued to improve, that in the rest of industry continued to deteriorate. The business climate in the defence industries even reached unprecedented levels in the summer of 2023. At the beginning of 2024, the situation remained very favourable (the indicator reached 111 in June for a long-term average of 100), but very slightly down compared to the peak in summer 2023, due mainly to the weakening of the balances of opinion on the order books.

Over a long period, the climate mainly reflects fluctuations in balances of opinion on global and foreign order books. General expectations develop in a very similar way, with notably a sharp decline in 2009. Conversely, balances relating to output, both recent and expected, present more specific changes: although they reached high levels recently, they were only slightly affected during the financial crisis. Finally, the balance on inventories makes only a relatively minor contribution to variations in the business climate indicator (►Figure 2).

Concerning the industrial production index, the findings are similar to those observed for the business climate (►Figure 3). The increase in production in the defence industries, which was gradual throughout 2023, logically appears a little later than that of the business climate, which rather reflects variations in orders. In addition, since the beginning of 2023, production in the defence industries has been more dynamic than that in the manufacturing industry as a whole. At the start of 2024, production in the defence industries stood at around 10% above its 2022 average.

## Defence industries facing supply chain constraints and relative tension over their production capacities

In addition to constituting a business climate that can provide a summary of the economic situation in the arms industry, the wealth of data in the business tendency surveys can be exploited to study the factors limiting output in these industries. In particular, INSEE interviews industrialists every quarter on their production capacity utilisation rate (CUR). This question is used to assess companies' capacity to increase their production and it provides information on the possible saturation of production capacity.

### ►1. Business climate in the manufacturing industry and the defence industries
(average 100 and standard deviation 10)
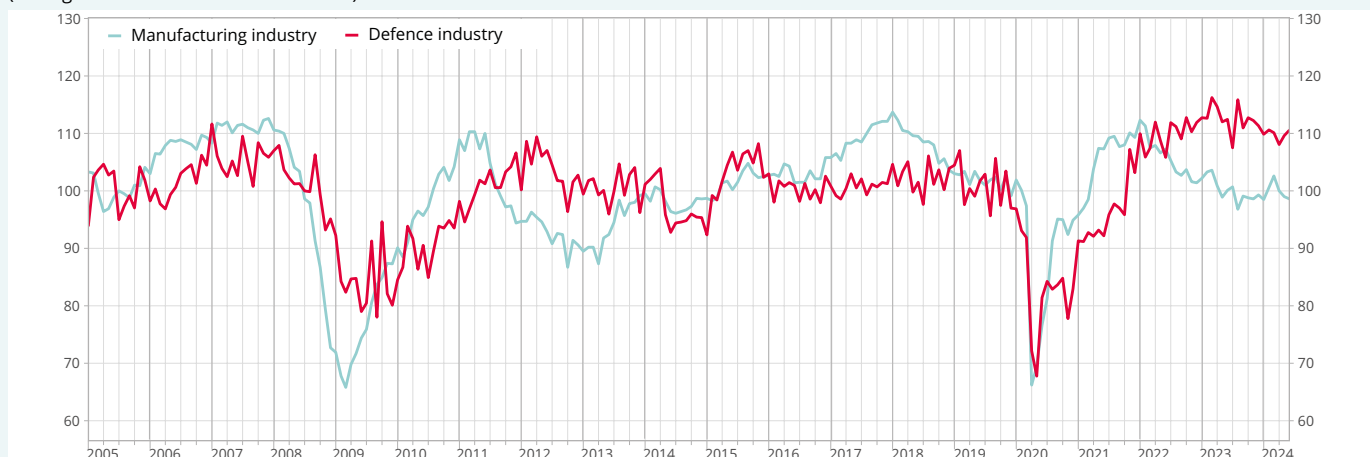


**Last point**: June 2024.
**How to read it**: in June 2024, the business climate in the defence industries stood at 111 points, above its long-term average.
**Source**: monthly industry survey, INSEE, OED, survey of Defense Industry Companies (EID) 2018.

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Historically, the CUR of the defence industries remains higher than in the rest of industry, although during the 2010s there was a tendency to converge with that of other industries. This movement has been interrupted since mid-2021 (►**Figure 4**). The CUR of the defence industries rose significantly, reaching levels higher than 90% at the start of 2024, similar to those observed at the start of the 2010s in these industries and about 10 points above the rest of industry.

This increase in the CUR of the defence industries mainly represents a significant increase in demand for defence companies over the last two years. Unlike many industrial branches, defence companies are reporting less and less often that they are experiencing demand difficulties

(►**Figure 5**). Since the beginning of 2022, the share of companies reporting this kind of difficulty has remained generally stable, at a level well below its historic average.

On the other hand, defence industry businesses are facing increasing difficulties over supply. In particular, supply chain difficulties for defence companies, which reached a peak in early 2022, have receded since mid-2022 but levels still remained very high at the beginning of 2024, whereas they had fallen back much more quickly in the rest of industry. At the start of 2024, there were twice as many companies reporting such difficulties in the defence sector as in the rest of industry. Recruitment difficulties are also significant in the defence industries, although not very much different from the rest of industry. ●

►**2. Main balances of opinion in defence industries**
(SA response balances, in points)



**Last point**: June 2024.
**How to read it**: in June 2024, the balance of opinion on the general expectations for activity stood at +15 points in defence industries.
**Source**: INSEE, monthly industry survey, EID 2018.

## ►3. Industrial production index in the manufacturing industry and in defence industries
(base 100 in 2021)



— Manufacturing industry — Defence industry
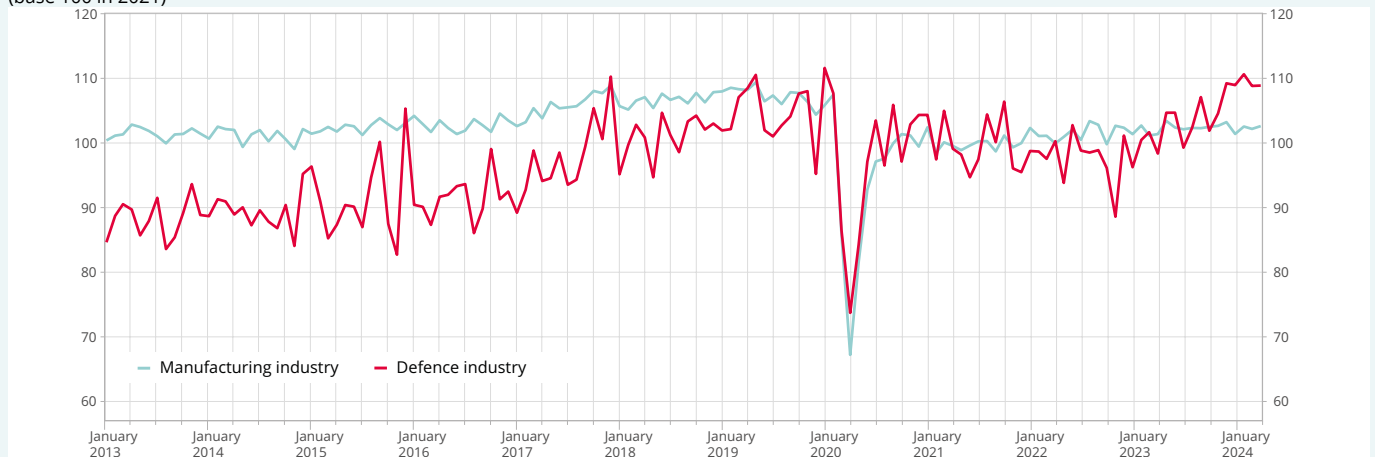
**Last point**: April 2024.
**How to read it**: in April 2024, the industrial production index stood at 109 in the defence industries.
**Source**: INSEE, SSP, SDES, EID 2018.

## ►4. Production capacity utilisation rate
(in %)



— CUR manufacturing industry — CUR defence industry
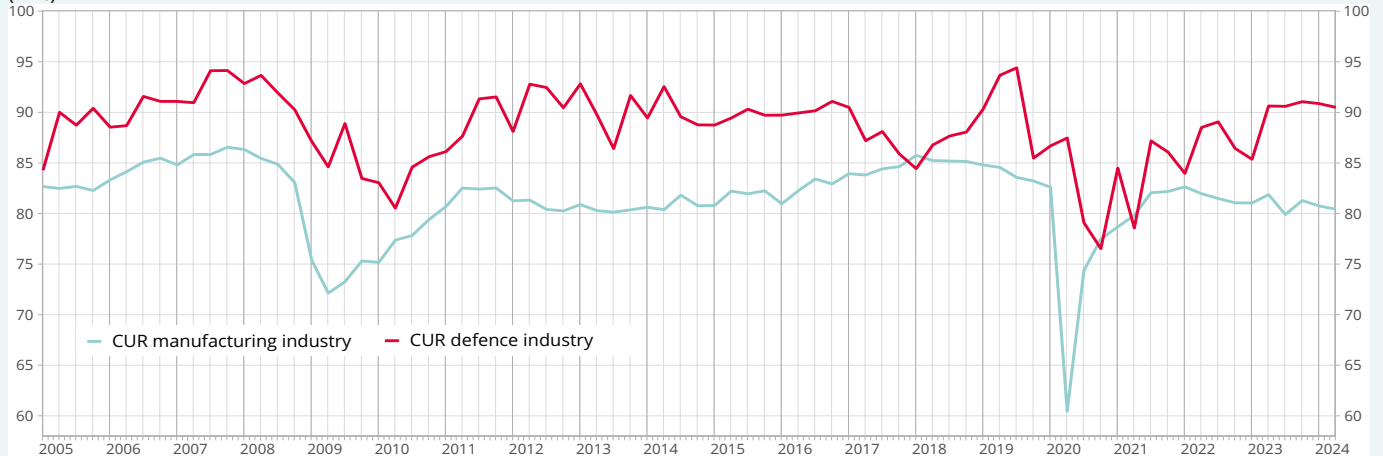
**Last point**: April 2024.
**How to read it**: in April 2024, the production capacity utilisation rate in defence industries stood at 91%.
**Source**: INSEE, quarterly industry survey, EID 2018.

## ►5. Declared difficulties in the manufacturing industry and defence industries
(in % of companies concerned)

### Companies limited by insufficient demand



— Demand in the manufacturing industry
— Demand in the defence industry

### Supply difficulties



— Supply in the manufacturing industry
— Supply in the defence industry

### Hiring difficulties



— Recruitment in the manufacturing industry
— Recruitment in the defence industry
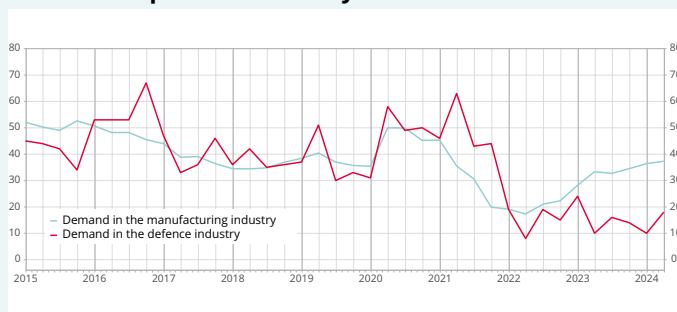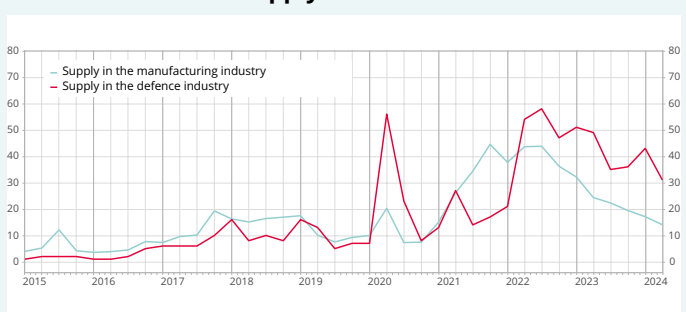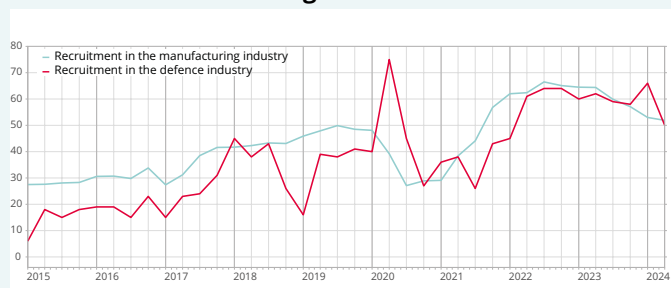
**Last point**: April 2024.
**How to read it**: 18% of defence industry companies report that they are limited by insufficient demand.
**Source**: INSEE, quarterly industry survey, EID 2018.

# French economic outlook

# A "Paris Olympics effect" on growth of around 0.3 GDP points in Q3

The Olympic and Paralympic Games are among the major sporting events likely to generate a significant economic impact for the host country. According to the literature, activity, where it exists, can be boosted through several channels. Capital expenditure prior to the event benefits the construction sector, and during the competition, the influx of visitors generates increased demand in the service sectors, particularly those linked to tourism (accommodation, food services, transport, etc.). However, the extent of these effects is open to debate: they may prove to be relatively small in countries that are already highly attractive to tourists, due to crowding-out effects.

The London 2012 Olympic and Paralympic Games provide a relevant basis of comparison for analysing the possible economic impacts of this summer's Olympics in Paris on the French economy. In Q3 2012, the United Kingdom recorded actual GDP growth of 1.0%. The Olympic and Paralympic Games are estimated to have contributed between +0.2 and +0.4 points to this growth, depending on the available sources.

The situation in France is likely to be quite similar in the summer of 2024. Although the increase in activity due to infrastructure construction is already largely behind us, sales of tickets and audiovisual broadcasting rights are expected to contribute 0.25 points to growth in Q3 2024. The knock-on effects in other tourism sectors are more uncertain, but could boost growth by up to an additional 0.05 points. This support is expected to be non-recurring, disappearing at the end of the year and leading to a sharp slowdown in activity in Q4.

Julie Kiren, Mathilde Niay, Guillaume Roulleau

## There is no consensus in the literature on whether the organisation of major sporting events has a positive impact on the host country's economic activity

The impacts of organising major events such as the Olympic and Paralympic Games (OPG) on a country's economic activity are likely to be felt over several years, especially in the run-up to the Games and during the sporting events themselves. Different types of effects are observed. The build-up to the Games is often marked by the construction of infrastructure and preliminary expenditure linked to the organisation. The period when the Games are actually held is marked by the income generated by tourism. Finally, the impact of the Games after they have been staged is reflected by the legacy effects (long-term use of infrastructure) and the long-term enhancement of tourist appeal. The enduring impact of the economic effects depends mainly on the use of the resources generated after the Games, even though many of the benefits are temporary. For example, ▶C. Vierhaus, 2018 estimates that promotion of tourism linked to the organisation of the Summer Olympic Games considerably increases international tourist arrivals in the eight years preceding and for twenty years after the event.

However, there is no consensus in the literature on the extent of the impact, even transitory, on the host country's overall economy. These positive effects may also be relatively weak in countries that are already highly attractive to tourists, as these countries benefit less from the tourism promotion effect generated by the sporting event: according to ▶I. Drapkin, S. Ivan, Z. Ilya, 2023, events organised in the United States and Europe (two already popular tourist destinations in normal times) will not have a net positive effect on tourism, in contrast to those organised in Asia or Africa. The problems caused caused by these major events (saturated infrastructures, overcrowding, higher accommodation costs, etc.) makes them less attractive to ordinary tourists. This crowding-out effect could cause the sporting event to have mixed effects on tourism in the short term. According to these authors, of the major sporting events organised between 1995 and 2019, only the Football World Cups organised by Japan and Korea in 2002 and by South Africa in 2010 have led to a significant increase in tourist arrivals in the host countries.

In 1976, the International Olympic Committee stressed the need to develop objective analyses to assess the ex ante impacts of the Games and the obligation for countries to present them in their candidature files. These studies are regularly criticised for tending to greatly overestimate the positive effects of the Games while underestimating the costs (▶H. Preuss, 2005): over time, the studies reveal increasingly modest results. For example, the ex ante analysis report on the London Olympic Games, commissioned by the UK Department for Culture, Media and Sport (▶A. Blake, 2005) points out that the studies often downplay negative consequences such as the crowding-out effects on ordinary tourists.

## The London Olympic and Paralympic Games provide a frame of reference for anticipating the effects of Paris 2024

The London 2012 Olympic and Paralympic Games provide a relevant basis of comparison for analysing the possible economic impacts of this summer's Olympics in Paris on the French economy, as this was a relatively recent event, organised by a city with similar characteristics: London and Paris are two major European capitals with highly developed economies, tourism industries and established urban infrastructures. Comparisons with the editions organised by Rio de Janeiro in 2016 and Tokyo in 2021 (during the COVID pandemic) appear to be less relevant.

Several studies have assessed the contribution of the London Games to the UK economy. The budget amounted to $14.9 billion, corresponding to an overrun of approximately 76% (►Flyvbjerg et al. 2016) making the London Games one of the most expensive in history, alongside Beijing (2008) and Sydney (2000).

Ex ante assessments were carried out. The study carried out in ►A.Blake, 2005, estimated that the Games would increase the UK's GDP by £1.9 billion over the 2005-2016 period compared with a counterfactual scenario in which the Games were not staged.[1] Around half of these gains were expected to be realised in 2012 (£0.2 bn before the event, £1.1 bn in 2012 and £0.6 bn afterwards). The impact on annual UK growth in 2012 was therefore estimated, ex ante, at around +0.1 points (or +0.3 points based on growth in Q3 2012). The Economic and Social Sciences Research Council also proposed an initial status report (►ESRC, 2008) which listed a panel of environmental, economic and social indicators devised ex ante to measure the impact of the Games. In this context, the UK's national statistical institute – the Office for National Statistics (ONS) – had produced a report setting out how the effect of the Games (construction and infrastructure, ticket sales, television rights, sponsorship and advertising, athletes' travel and tourism) could be recorded in the national accounts, but without quantifying the overall impact (►ONS, 2012). The institute had identified various categories as being accounting measurement issues, based on previous experience of the Sydney Games in 2000 and reports from the Australian Bureau of Statistics (ABS).

## The effects on the construction industry were expected to materialise in the UK in 2010 and 2011

Some of the positive effects of the London Games were realised in the run-up to the event. This is applies to the construction projects completed before the start of the Olympic and Paralympic Games, whose economic impact had already been recorded in the UK national accounts by the ONS (►ONS, 2012) via estimates of output in the construction sector on the resources side, and in gross fixed capital formation on the use side.

As a result, activity in the construction sector started ramping up significantly in the UK at the start of 2010. While it is difficult to distinguish precisely between the effect of the London Olympics and the automatic rebound from the financial crisis, the high levels of activity attained towards the end of 2011 are compatible with the timetable for the organisation of the Games. Similarly, activity in this sector in the UK contracted by almost 10% in Q1 and Q2 2012: this decline may have been be linked to the end of construction work for the Games (►Bank of England, Inflation Report, 2012), although other production constraints may also have come into play, such as the weather and the Queen's Jubilee.

## UK growth bounced back strongly in Q3 2012, with the London Games contributing between 0.2 and 0.4 percentage points

With regard to the organisation of the event itself, the UK saw real GDP growth of +1.0% in Q3 2012, one of the highest values attained in the 2010s (►Figure 1). However, this result was not entirely due to the organisation of the Olympic and Paralympic Games. Activity bounced back automatically after Q2 2012 and the Queen's Jubilee festivities, for which an additional public holiday, not accounted for in the ONS working day adjustment, had been granted. According to ►M. Hardie and F. Perry, 2013 the Jubilee is estimated to have cost between 0.3 and 0.4 points of GDP in Q2, and to have made a positive contribution of a similar magnitude to growth in Q3.

## Most of this effect would appear to have been channelled through ticket sales...

The most easily quantifiable impact of the London Olympic and Paralympic Games on business was the revenue generated by ticket sales. Although the majority of tickets were sold in Q2 2011, the ONS recorded this expenditure in the UK National Accounts in Q3 2012, when spectators actually attended the Olympic events (►Figure 2). Most of this expenditure was recorded as final household consumption expenditure (►ONS, 2012). ►M.Hardie and F.Perry, 2013 estimate that this effect represented a 0.2 point increase in GDP growth in Q3, amounting to around £0.6 bn. This was reflected in an increase in the production of recreational services of around 25% between June and August 2012, an aspect which faded away completely in the following months.

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[1] The impact on GDP in London alone was estimated at £5.9 bn – greater than the impact on national GDP – due to inter-regional transfers benefiting the capital region to the detriment of the rest of the country.

# French economic outlook

## ... with more uncertain impacts on tourism due to strong crowding-out effects

The London Olympic and Paralympic Games are also likely to have affected tourism, but these effects were probably much more diffuse: in order to meet the analytical requirements, the ONS extended its International Passenger Survey (IPS) sample in 2012 to provide information on foreign visitors and their associated spending. For example, according to the ONS, the number of visits to the UK in 2012 compared with 2011 fell in Q3 and increased in the other quarters of the year (▶Figure 4.b, and ▶Travel trends, ONS 2012). In terms of visitor numbers, the London OPG Games therefore had a very strong crowding-out effect (greater than 1). According to the "Visitor Attraction Monitor" survey by London and Partners, London's main attractions recorded a sharp decline in visitor numbers in the summer of 2012 (▶London Tourism Report 2012/13 and 2013/14): notable examples were the British Museum, the National Gallery and the Natural History Museum, where visitor numbers fell by 24%, 28% and 7% respectively year on year in July/August 2012 (▶M. Delaplace, A. Schaffar, 2022 and ▶Figure 3).

In contrast, spending per visitor was much higher in 2012, especially in London (▶Figure 4.a). According to ▶Delaplace, 2020, tourists coming to the London Olympic and Paralympic Games spent around three times more per day than ordinary tourists. All in all, in Q3 2012, total tourism revenues rose by around 10% compared with the previous year (▶Figure 4.b). In addition to ticket sales, this increase in tourism revenue mainly benefited the accommodation, food services and transport services sectors (▶Figure 5). It was inconsistent across the country, but also within the City of London: according to A. Blake, 2012, the increase in tourism was mainly concentrated in central and west London, where the Olympic venues were located.

All in all, these indirect effects are less immediately measurable than those linked to ticket sales: the Bank of England estimated that they represented a gain in growth of around 0.2 GDP points in Q3 2012 (▶Bank of England, Inflation Report, 2012).

Consequently, the effect of the London Olympic and Paralympic Games on UK growth is estimated to have been between 0.2 and 0.4 points in Q3 2012: while the effect of ticket sales is accounted for, the knock-on effects on other tourism sectors are more uncertain. Quite logically, UK GDP edged down in Q4 2012 (-0.2%).

### ▶1. Quarterly GDP growth in the UK during the 2010s
(quarterly changes in %)
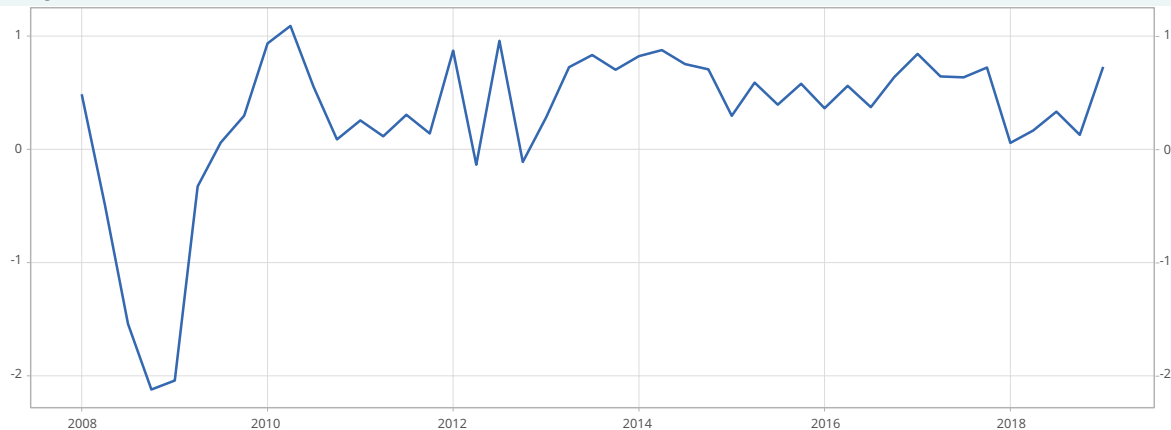


**Source**: ONS.

### ▶2. Output in the sports, recreation and leisure sector and in services as a whole in the UK
(in base 100= 2009)
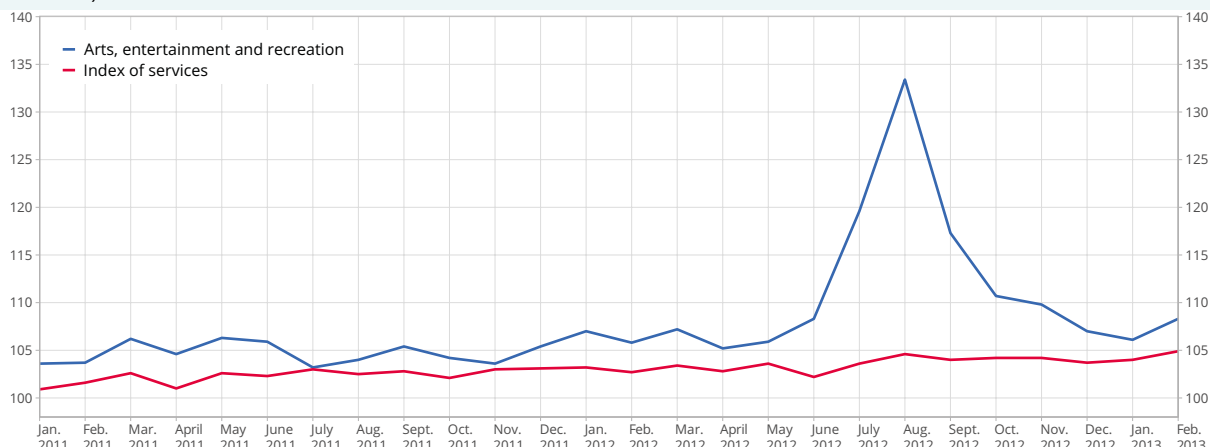


**Source**: ONS.

## The impact of the Paris Olympic and Paralympic Games on economic activity in the summer is expected to be around +0.3 GDP points, as in London in 2012

The main results of London's experience in 2012 can be used to produce an ex ante estimation of the impact of the organisation of the Paris Olympic and Paralympic Games on French growth, both upstream and when the events are actually held. The estimate below draws on available data, especially the ex ante impact studies carried out by the French Centre for Sports Law and Economics (CDES) (►CDES, 2016, 2024, see Appendix). It provides an initial assessment of how the national accounts could reflect the effects of the event, particularly in Q3 2024. However, this is only a forecast: ex post evaluations, in which INSEE is participating, of all the economic, social and environmental effects of the Olympic Games will be published.

## Some of these positive effects have already been seen, notably in the construction sector

For the construction sector, ►Biausque and Le Fillâtre, 2023 have estimated the volume of hours worked and the employment sectors involved in the delivery of Olympic facilities: 45.4 million working hours were generated for the delivery of these facilities, either directly (via construction companies) or indirectly (via the construction sector's intermediate consumption of industrial products, legal, accounting and architectural services, etc.). These hours worked were concentrated primarily during the 2020-2023 period: the construction of Olympic facilities is estimated to have increased activity by around €2 billion over this period. In full-time equivalent terms, it is estimated that the delivery of Olympic facilities involved 4,300 jobs in 2023 compared with 1,600 in 2024: the contribution to growth has therefore been somewhat negative in 2024, although the construction of temporary infrastructure could limit this decline.

### ►3. Number of monthly visitors to London's three main museums
(in number of visits)
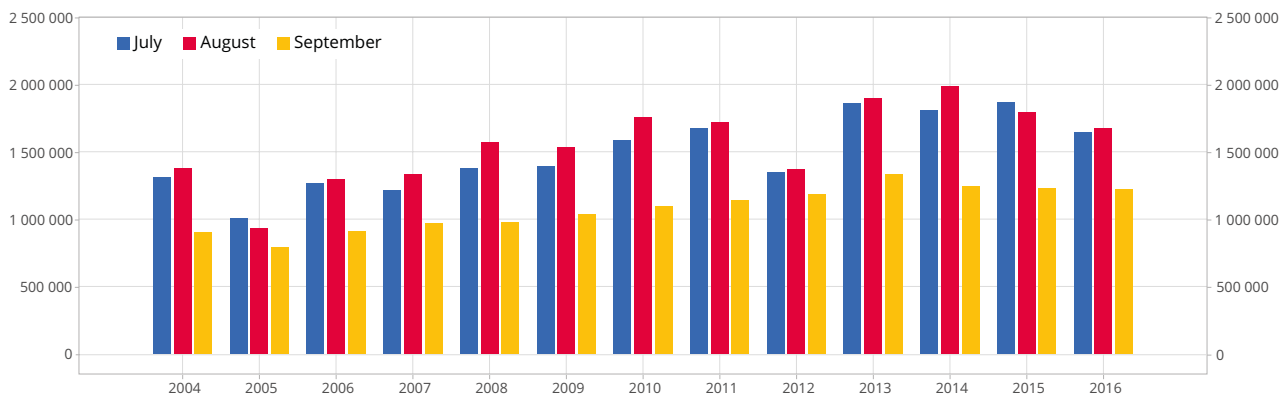


**Note**: visitor data for London's three main museums (British museum, National Gallery and Natural History Museum).
**Source**: DCMS-Sponsored Museums and Galleries Monthly Visits.

### ►4.a. Tourist spending per overnight stay in London
(in pounds)



### ►4.b. Number of tourists and spending by foreign visitors throughout the UK
(year-on-year)
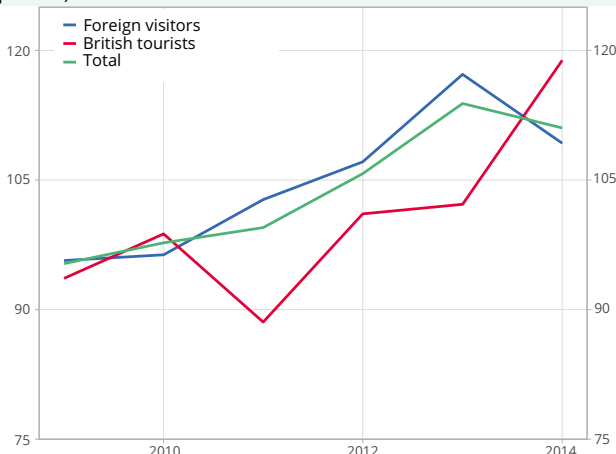


**Note**: On the left-hand side, the data is expressed in financial years, i.e. starting on 6 April of the current year and ending on 5 April of the following year.
**Source**: London Tourism Report 2014-2015, IPS (ONS).
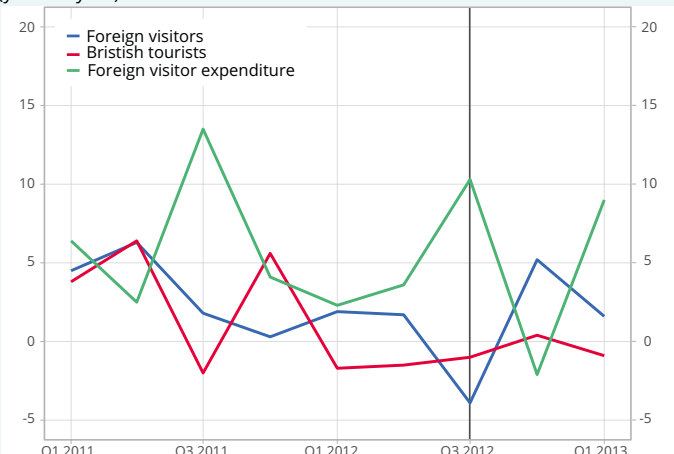
# French economic outlook

**Ticket sales and broadcasting revenues have a direct positive effect on activity**

As for the London Olympic and Paralympic Games, the main impact on activity to be expected in Q3 2024 – when the events are actually held – corresponds to ticketing receipts: adopting a similar approach to that used by the ONS in 2012, ticketing receipts are recorded in the national accounts as sports recreation services at the moment the events are held, even though the ticketing system for the Paris Olympic Games was set up in 2023. This is because the activity of sports recreation services is measured at the moment of their consumption by the public: this consumption should therefore increase significantly in Q3 2024 (ticket sales for the Paris Olympic and Paralympic Games are expected to contribute almost €1.2 billion to the resources of the Organising Committee for the Olympic and Paralympic Games – OCOPG). The net effect is likely to be slightly lower due to crowding-out effects (other cultural activities such as the museums and shows normally consumed by tourists are expected to decline, as in London in 2012), but these effects are secondary to the accounting effect of the recording of ticket sales. In this way, the Olympic and Paralympic Games, at which around two thirds of spectators are expected to be French residents, should account for an 8% increase in quarterly consumption of "other household services" (i.e. +0.15 GDP points in Q3 2024), with an equivalent backlash occurring in Q4 2024.

As with ticket sales, the recording of the OCOPG's audiovisual broadcasting revenues (approximately €750 million) in Q3 2024 should have a direct impact on activity measured. In fact, the sale of broadcasting rights corresponds to the production of services offset, on the use side, by exports from France to broadcasters in the rest of the world (with sales to French broadcasters being marginal). Exports of services are therefore set to rise in Q3 (contributing around +0.1 points of GDP), with an equivalent contraction at the end of the year.

**In the spring, accommodation and food-service companies in the Île-de-France region were optimistic about their three-month business expectations, pointing towards an "OPG" effect in the sector**

Estimating the impact of the Paris Olympic and Paralympic Games on the accommodation and food services sector is more complicated and depends on the assumption made concerning the extent of the crowding-out effect on tourist flows: while the London precedent argues for a relatively strong effect, the CDES, in its impact assessment, assumes a more limited effect, of approximately 22%. Meanwhile, INSEE's Business Tendency Surveys in the accommodation and food services sector convey a fairly favourable message (►Figure 6). In May and June, activity forecasts for the next three months (the period covering the OPG) were much higher than in previous months, with hotel and restaurant owners in the Paris Region (20% of the sector's national activity) being more optimistic than the others, adjusting for the usual seasonality. The difference between the responses of businesses in the Île-de-France region and others was consistent with major events in the past: from December 2015 to the end of 2016, businesses in the accommodation and food services sector in the Île-de-France region were much more pessimistic, reflecting the decline in the attractiveness of Paris as a destination following the terrorist attacks. In H1 2023, the increased optimism in the Île-de-France region reflected the reopening of international air routes, particularly with Asia.

All in all, the improvement in the business climate in the accommodation and food services sector in the spring, assuming that it was attributable to the Olympic Games, is likely to result in an increase in activity in the sector in the summer, as the business climate correlates closely with the year-on-year change in consumption in the sector (►Figure 7). The consumption of accommodation and food services could therefore be boosted by +0.6 points in Q3 2024, with an equivalent impact in Q4 2024.

**►5. Production index in services for various sectors in the United Kingdom**
(in base 100= 2009)



Legend:
- Distribution, hotels and restaurants
- Transport, storage and communication
- Business services and finance
- Government and other services
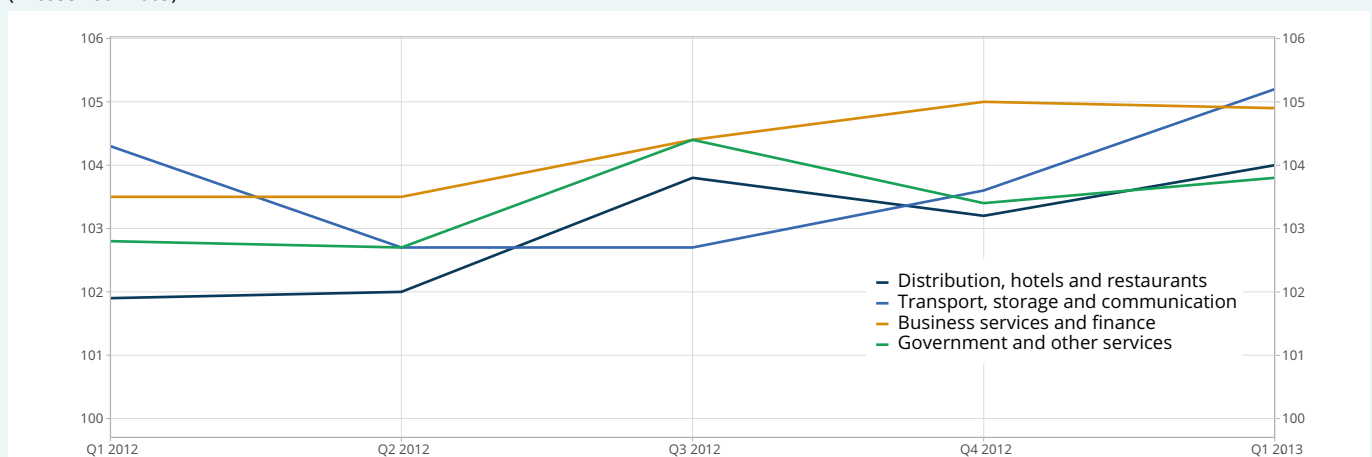
**Source** : ONS.

In addition to INSEE's Business Tendency Surveys, France Travail's "Besoin de Main-d'Oeuvre" (Labour Needs) survey points towards a 4% increase in recruitment intentions in the accommodation and food services sector in the Île-de-France region (including an 8.7% increase in Paris) in 2024, compared with a 1.3% increase for the sector as a whole. Accommodation offered by private individuals via platforms (Airbnb, for example), which is particularly buoyant in the context of the Paris Olympic and Paralympic Games, is given special treatment in the national accounts (▶**Askenazy and Bourgeois, 2024**); as a result, this type of accommodation should not to have a significant accounting impact on activity.

**Transport consumption is set to rise sharply compared with a normal summer**
The Paris OPG could generate a significant increase in public transport activity compared with the usual tourist flows, given the geographical dispersion of the events in the Île-de-France region and the significance of Île-de-France public transport within national transport services. According to

Île-de-France Mobilités, public transport services in the Île-de-France region should see a one-off increase of 15% over the period of the Games. In addition to public transport, long-distance rail traffic is also set to increase this summer: firstly, some of the events are taking place outside the Paris region and, secondly, the probable increase in teleworking should generate additional mobility. With this in mind, the French state rail network (SNCF) has increased its capacity by around 400,000 seats on long-distance routes for the summer of 2024. The total impact on transport consumption attributable to the Olympic Games should therefore amount to around +1.4 points in Q3 2024.

**Bonuses paid to civil servants reflect an increase in the production of non-market services**
The Paris Olympic and Paralympic Games are also expected to increase the value added by the non-market services provided by general government (mobilisation of the gendarmes and police, health services, etc.): the exceptional bonuses paid out to the civil servants involved should have a directly quantifiable impact on activity in the

**▶6. Opinion on expected activity in the accommodation and food services sector in Île-de-France versus outside the Île-de-France region**
(balance of opinion, seasonally adjusted)
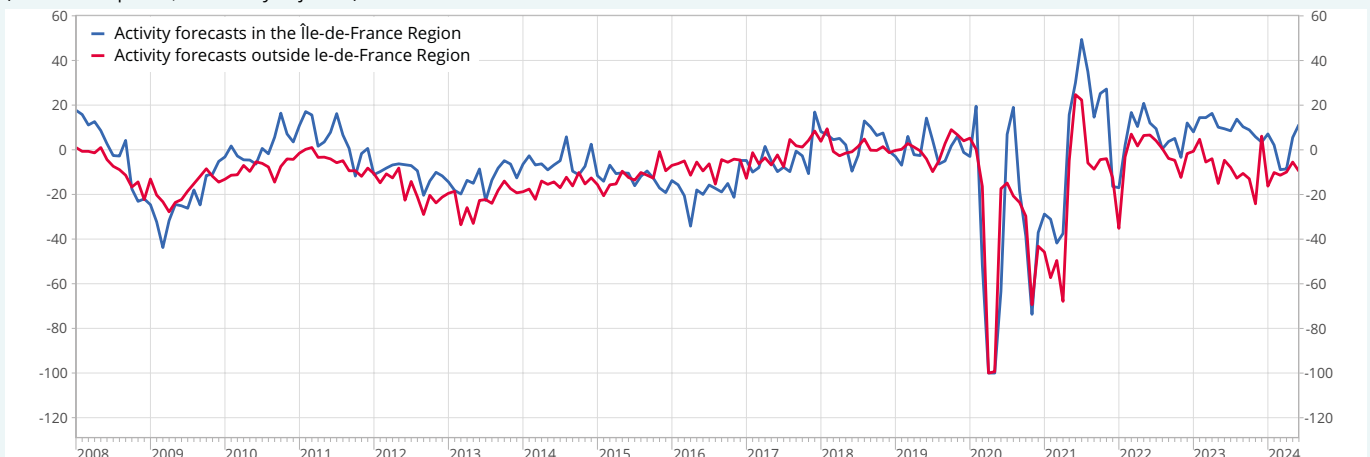


**Last point**: June 2024.
**Source**: monthly business survey in services, INSEE.

**▶7. Business climate and consumption in the French accommodation and food services sector**
(year-on-year, in %)                                                                 (quarterly centered-reduced average at 100)
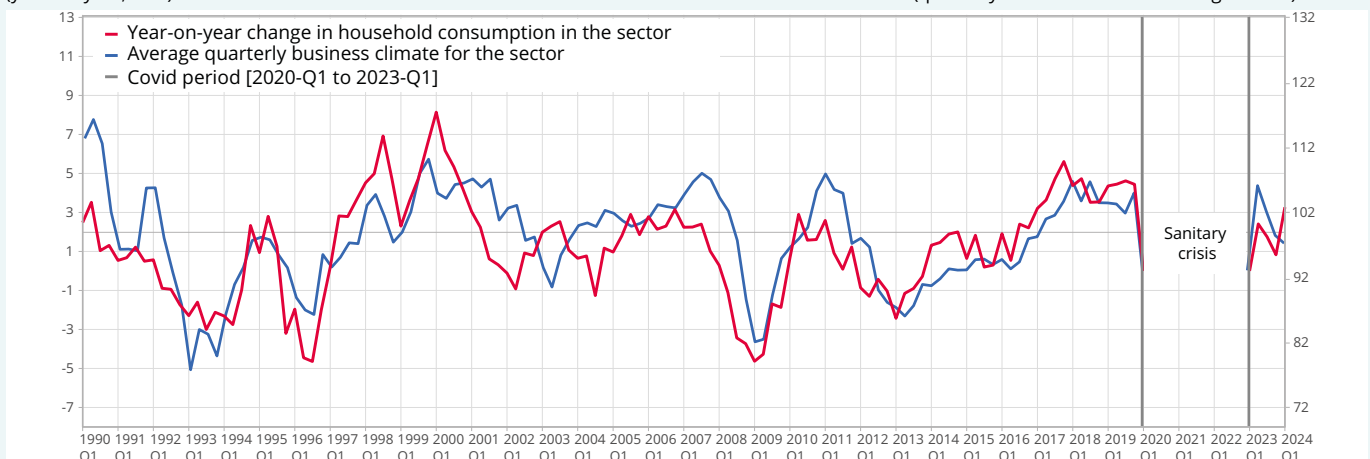


**Last point**: Q1 2024.
**Source**: monthly business survey in services, quarterly national accounts, INSEE.

# French economic outlook

branch, reflecting the additional service provided by the public authorities during this period. However, this impact, of around €0.4 bn, could be spread over several quarters.

### Other effects, of limited scope, could appear

Lastly, certain indirect effects on household consumption of household equipment could be considered: ►Insee, 2010 suggests that Football World Cup tournaments have a positive effect on the consumption of television sets. However, this effect is not systematic and is combined with a substitution effect on other products. In this *Economic Outlook*, no such effect has been identified.

Finally, the demand shock generated by the OCOPG via its orders to suppliers – mainly services (security, marketing, insurance, etc.) – is likely to have already occurred, at least in part. Its impact in H2 2024 will probably be difficult to quantify and in any case limited. In national accounting terms, the OCOPG's expenditure corresponds mainly to intermediate consumptions, which certainly increase the value added by the suppliers but reduce that of the OCOPG by the same amount: the net effect on GDP ultimately corresponds to the production of recreational services by the OCOPG (sales of tickets and TV rights).

All in all, hosting the Olympic and Paralympic Games is expected to boost French growth in Q3 2024 (►Figures 8.a and 8.b): the impact of ticket sales and rebroadcasting rights should amount to around +0.25 GDP points, to which knock-on effects should be added, especially in tourism (accommodation, catering and transport), in addition to bonuses for civil servants, which will be present throughout the Games: these effects are more uncertain but could add a further +0.05 points to quarterly growth this summer. As a backlash, activity is expected to come to a standstill at the end of the year. On the demand side, the counterpart to this increase in activity is divided equally between household consumption and exports of services (including tourism). These direct, short-term effects on growth are not directly comparable with the economic impact of the event as measured by the CDES (►see Box). ●

### ►8.a. Forecasts for GDP, household consumption and exports in France

| | 2023 | | | | 2024 | | | | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | |
| Gross domestic product | 0.1 | 0.7 | 0.1 | 0.3 | 0.2 | 0.3 | 0.5 | -0.1 | 1.1 | 1.1 |
| Household consumption expenditure | 0.2 | 0.0 | 0.5 | 0.2 | 0.1 | 0.5 | 0.7 | 0.1 | 0.9 | 1.3 |
| Exportations | -1.4 | 3.0 | -1.1 | 1.0 | 1.2 | 1.4 | 0.8 | -0.5 | 2.5 | 3.5 |

**Source** : INSEE.

### ►8.b. Forecasts for GDP, household consumption and exports in France in the absence of the Olympic Games

| | 2023 | | | | 2024 | | | | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | |
| Gross domestic product | 0.1 | 0.7 | 0.1 | 0.3 | 0.2 | 0.3 | 0.2 | 0.2 | 1.1 | 1.0 |
| Household consumption expenditure | 0.2 | 0.0 | 0.5 | 0.2 | 0.1 | 0.5 | 0.4 | 0.4 | 0.9 | 1.2 |
| Exportations | -1.4 | 3.0 | -1.1 | 1.0 | 1.2 | 1.4 | 0.3 | 0.1 | 2.5 | 3.4 |

**Source** : INSEE.

## Economic impact assessment of the Paris 2024 Olympic Games

Ex ante impact assessments have considered the macroeconomic benefits of the Paris Olympic Games in terms of business activity. Following an initial evaluation in 2016, the French Centre for Sports Law and Economics (▶ **CDES, 2024**) proposed three scenarios in May 2024, describing the timing of the shock as well as some major channels through which the shock could be propagated: tourism, construction and the organisational expenditure of the Organising Committee for the Olympic and Paralympic Games (OCOPG). According to this study, the Olympic Games are likely to have an economic impact of between €6.7 bn and €11.1 bn, with a central value of €9.0 bn. However, these figures are not directly comparable with the impacts on short-term growth estimated in this Focus, for a number of reasons:

• These figures cover the 2018-2034 period and pay particular attention to residual effects once the event is over, which are not examined in this report;

• They only concern the Île-de-France region and not the whole of France; however, some of the economic benefits for the Île-de-France Region may originate from national players based outside the region: such inter-regional flows have no impact on the French economy as a whole. This applies, for example, to the expected economic effects in terms of tourism: the CDES assumes a spectator breakdown of around one third Parisians, one third non-Parisians and one third foreign visitors, and counts the spending of the latter two categories as tourism revenue. However, spending by French residents outside the Paris region during the Games is likely to be only slightly additional, and could, on the contrary, replace spending by residents that would have occurred in France anyway. However, this substitution effect might be at least partly offset by an additionality effect for foreign tourists: the saturation of tourism in the Île-de-France region could trigger shifts of visitors to other tourist sites in France not affected by the Games.

• The CDES figures include multiplier effects to take account of the macroeconomic impact of the additional activity generated by the organisation of the Games, whereas only the direct short-term effect is considered in this report.

• The CDES figures include all of the OCOPG's expenditure in the "organisation" category. However, in the national accounts, some of this expenditure corresponds to transfers between agents, with no direct impact on GDP. It also includes orders to suppliers, mainly for services (security, marketing, insurance, etc.), whose impact on GDP is already likely to have occurred and which in any case would be complex to identify in the national accounts series. ●

# French economic outlook

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# Economic activity

In Q1 2024, activity retained a moderate pace of growth (+0.2% after +0.3%, ►Figure 1). Domestic demand was still sluggish (contribution to GDP growth was +0.1 points after 0.0), with the slight improvement in household consumption (+0.1% after +0.2%) offset by the continuing downturn in both corporate and household investment (-0.4% after -1.0%, ►Figure 2). As was the case at the end of 2023, the contribution of foreign trade to activity was positive (+0.2 points after +1.0), offset by a reduction in inventories. Exports in particular continue to grow vigorously (+1.2% after +1.0%).

On the supply side, activity faltered in the manufacturing industry, but with strong sectoral disparities: value added in the agrifood sector was very dynamic, while occasional production stoppages and supply problems affected automobile production. At the same time, activity continued to decline in construction, for the third consecutive quarter. Meanwhile, activity in market services decelerated (+0.2% after +0.5%), especially in accommodation-catering.

## ►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 adjusted data - YTD)

| | 2022 | | | | 2023 | | | | 2024 | | | | 2022 | 2023 | 2024 |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
| **Gross domestic product** | **-0.1** | **0.4** | **0.5** | **0.0** | **0.1** | **0.7** | **0.1** | **0.3** | **0.2** | **0.3** | **0.5** | **-0.1** | **2.6** | **1.1** | **1.1** |
| Imports | 2.0 | 0.6 | 4.6 | -0.2 | -1.9 | 1.6 | -0.7 | -1.7 | 0.4 | 1.7 | 0.5 | 0.4 | 9.1 | 0.7 | 0.8 |
| Total resources | 0.5 | 0.7 | 1.4 | 0.1 | -0.3 | 1.0 | 0.0 | 0.0 | -0.1 | 0.5 | 0.5 | 0.0 | 4.7 | 1.4 | 0.9 |
| Household consumption expenditure | -1.0 | 1.3 | 0.5 | -0.2 | 0.2 | 0.0 | 0.5 | 0.2 | 0.1 | 0.5 | 0.7 | 0.1 | 3.0 | 0.9 | 1.3 |
| General government consumption expenditure* | 0.3 | -0.3 | 0.4 | 0.6 | -0.2 | 0.2 | 0.4 | 0.4 | 0.6 | 0.1 | 0.1 | 0.1 | 2.9 | 0.8 | 1.3 |
| *of which individual general government expenditure* | 0.3 | -0.8 | 0.4 | 0.8 | -0.3 | 0.0 | 0.3 | 0.2 | 0.5 | 0.1 | 0.3 | 0.3 | 3.0 | 0.5 | 1.1 |
| *of which collective general government expenditure* | 0.2 | 0.5 | 0.2 | 0.5 | -0.2 | 0.5 | 0.5 | 0.7 | 1.0 | -0.1 | -0.2 | -0.2 | 1.8 | 1.2 | 1.6 |
| Gross fixed capital formation (GFCF) | 0.3 | -0.5 | 1.3 | 0.4 | -0.1 | 0.3 | 0.0 | -1.0 | -0.4 | 0.1 | -0.1 | 0.1 | 0.1 | 0.7 | -1.0 |
| *of which Non-financial enterprises (NFE)* | 1.1 | 0.3 | 3.0 | 0.8 | 0.5 | 0.5 | 0.6 | -1.1 | -0.5 | 0.3 | -0.1 | 0.0 | 3.0 | 3.1 | -0.8 |
| *Households* | -0.1 | -1.3 | -2.5 | -1.3 | -2.7 | -2.2 | -2.1 | -2.0 | -1.4 | -0.6 | -0.4 | 0.0 | -3.3 | -8.2 | -5.2 |
| *General government* | 0.1 | -0.7 | 2.1 | 2.0 | 1.9 | 2.9 | 0.8 | 0.2 | 0.6 | 0.6 | 0.2 | 0.3 | 0.1 | 7.1 | 2.5 |
| Exports | 2.0 | -0.7 | 3.0 | 0.8 | -1.4 | 3.0 | -1.1 | 1.0 | 1.2 | 1.4 | 0.8 | -0.5 | 8.3 | 2.5 | 3.5 |
| Contributions (in points) | | | | | | | | | | | | | | | |
| *Domestic demand excluding inventory** | -0.4 | 0.5 | 0.7 | 0.2 | 0.0 | 0.1 | 0.4 | 0.0 | 0.1 | 0.3 | 0.4 | 0.1 | 2.4 | 0.9 | 0.8 |
| *Changes in inventories** | 0.2 | 0.3 | 0.4 | -0.5 | -0.1 | 0.1 | -0.2 | -0.7 | -0.2 | 0.1 | 0.1 | 0.1 | 0.6 | -0.4 | -0.6 |
| *Foreign trade* | 0.0 | -0.4 | -0.6 | 0.3 | 0.2 | 0.5 | -0.1 | 1.0 | 0.2 | -0.1 | 0.1 | -0.3 | -0.3 | 0.6 | 0.9 |

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 Q1 2024, the imports increased by 0.4%.
**Source**: INSEE.

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

(variations in % and contributions in points)
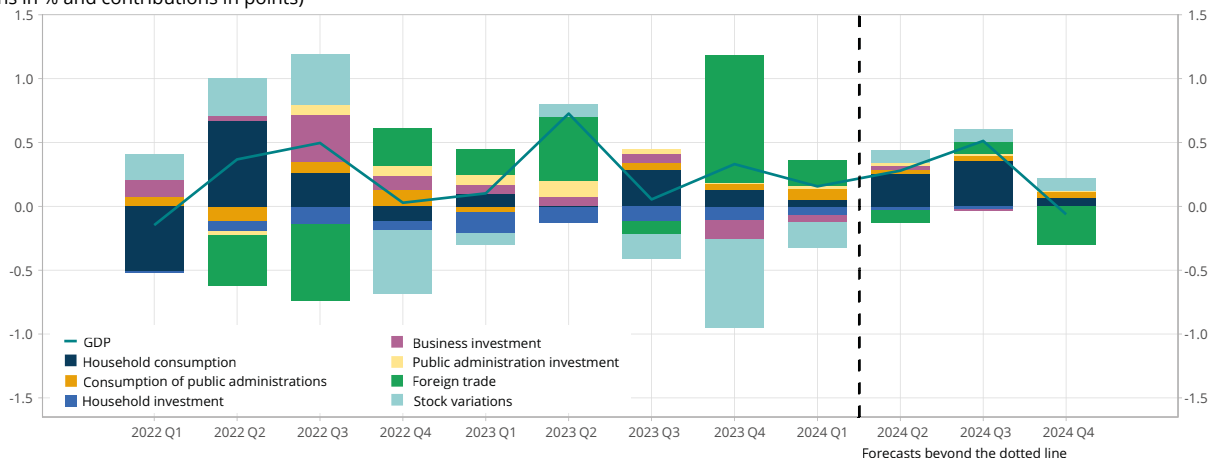


**How to read it**: in Q2 2024, GDP is expected to increase on the first quarter (+0.3%); the contribution of household consumption to this trend would be around +0.3 point.
**Source**: INSEE.

# French economic outlook

The economic situation, as described in household and business surveys, is generally stable, at a level that is just on the average: the business climate indicator has remained close to its long-term average for several months. The employment climate remained significantly higher than its long-term average until May but fell back in June, reflecting a normalisation of job creations after a dynamic Q1. Household confidence in the economic situation has also stabilised, but at a weaker level (►Figure 3).

Under these circumstances, activity should continue to grow moderately in Q2 (+0.3% GDP growth forecast). Manufacturing activity is expected to continue to decline (-0.2%), due mainly to the month of May being affected by reduced activity associated with the timing of public holidays during that period. In services, activity should regain some momentum, particularly in services to businesses (►Figure 4). In construction, it is expected to deteriorate less sharply as housing starts have in fact stabilised, albeit at a low level, in the last few months.

Among the main areas of demand, household consumption, supported by relatively dynamic purchasing power, is finally expected to accelerate (+0.5% after +0.1%): energy consumption in particular is likely to be very buoyant due to a cooler month of May. Regarding household investment, the effect of the previous rise in interest rates is expected to start to fade and should fall back more moderately (-0.6% after -1.4%). On the business side, investment looks set to rebound slightly after two quarters of sharp decline (+0.3% after -1.1% and -0.5%): the effect of financing conditions remains very negative but investment in services should be very dynamic. Finally, the contribution of foreign trade to activity is expected to be negative in Q2 (-0.1 point): imports look set to accelerate (+1.7%) after three quarters of decline or sluggishness and should therefore grow faster than exports (+1.4%), despite their being boosted by major aeronautical and naval deliveries. After several quarters of solid growth (around +0.5% per quarter), general government consumption is expected to come to a standstill (+0.1%): it is likely that measures announced at the beginning of the year to cancel loans will begin to hamper activity.

In H2, the profile of activity is likely to be affected by the hosting of the Olympic and Paralympic Games in Paris (►Focus A "Paris Olympics effect" on growth of around 0.3 GDP points in Q3), with activity accelerating in the summer (+0.5%) before coming to a standstill with the after-effects at the end of the year (-0.1%). Apart from the one-off effect of the Paris Olympics, activity is expected to maintain an underlying pace of around +0.2% per quarter: private consumption should follow its trend growth, but in contrast, government demand and investment are likely to remain sluggish.

Manufacturing added value is expected to rebound, driven mainly by the manufacture of transport equipment: automobile production looks set to improve with the opening of new electric vehicle assembly lines, while aeronautical production is likely to be boosted by Airbus' delivery targets, even though these have been revised downwards.

On the demand side, corporate investment is expected to be sluggish, whereas household investment should gradually stabilise with the effect of the reduction in interest rates, after two years of sharp decline. Household consumption is expected to increase throughout the year in line with purchasing power, but the profile is likely to be impacted by the Olympic and Paralympic Games, as it is expected that around two thirds of the spectators will be French residents. This consumption will probably surge in the summer (+0.7%), particularly in services, with ticket sales for the events being recorded in the national accounts, and the expected increased use of the Ile-de-France transport network. However,

## ►3. Business climate, employment climate and household confidence in France
(normalized with mean 100 and standard deviation 10)
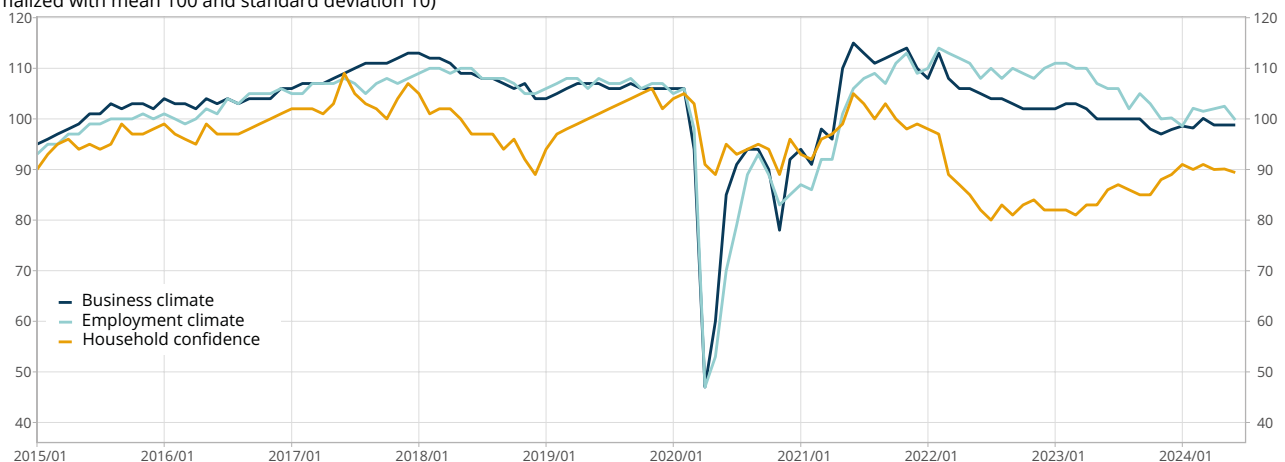


**Last point**: June 2024.
**How to read it**: in June 2024, business climate in France stands at 99, below its long-term average of 100.
**Source**: business and consumer surveys, INSEE.

consumption is then likely to flatten out at the end of the year (+0.1%). Exports of services are expected to show a similar profile, with a third of spectators coming from abroad to see the Games, and because the TV rights for broadcasting the events have been sold to foreign channels. Meanwhile, manufacturing exports are expected to continue to be boosted by deliveries of major aeronautical and naval contracts.

All in all, growth should reach +1.1% as an annual average in 2024, as in 2023 (►**Figure 5**). This apparent stability in fact masks a movement of acceleration, with the reopening of nuclear power plants having contributed half a point in accounting terms to growth in 2023 (►**Box**). ●

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

| Branch | weight in % | 2022 | | | | 2023 | | | | 2024 | | | | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
| **Agriculture, forestry and fishing** | **1.6** | **2.5** | **2.0** | **2.3** | **2.1** | **0.9** | **1.1** | **0.0** | **-0.6** | **-0.6** | **-0.8** | **-0.3** | **0.3** | **7.3** | **4.9** | **-1.4** |
| **Industry** | **13.4** | **-3** | **-2.4** | **-0.7** | **0.4** | **4.3** | **2.4** | **0.1** | **1.1** | **1.0** | **0.2** | **0.1** | **0.1** | **-5.4** | **5.8** | **2.7** |
| Manufacturing industry | **11.2** | -0.8 | -0.8 | 0.5 | -0.3 | 1.2 | 2.0 | -0.3 | 0.4 | -0.6 | -0.2 | 0.2 | 0.2 | -1.2 | 2.5 | 0.1 |
| Manufacture of food products, beverages and tobacco-based products | 1.9 | -2.8 | -3.5 | -1.6 | -1.6 | -2.1 | 1.6 | -2.0 | -0.1 | 4.1 | -1.0 | - | - | -4.7 | -4.7 | - |
| Coke and refined petroleum | 0.1 | 37.3 | 37.2 | 21.4 | 4.4 | -1.1 | 6.8 | 10.0 | 0.7 | -0.1 | 0.0 | - | - | 64.7 | 31.7 | - |
| Manufacture of electrical, electronic. computer equipment; manufacture of machinery | 1.5 | -0.1 | 0.0 | 2.8 | -0.1 | 3.0 | 1.6 | -1.2 | -0.6 | -1.5 | 1.0 | - | - | 1.7 | 4.8 | - |
| Manufacture of transport equipment | 1.7 | -4.0 | 2.2 | 4.1 | 0.7 | 6.3 | 5.4 | -0.6 | 1.2 | -6.1 | -1.7 | - | - | 0.1 | 14 | - |
| Manufacture of other industrial products | 6.1 | 0.3 | -1.0 | -0.4 | -0.3 | 0.1 | 1.1 | 0.1 | 0.6 | -0.3 | -0.2 | - | - | -1.4 | 0.4 | - |
| Extractive industries, energy. water, waste treatment and decontamination | 2.2 | -12.9 | -11.0 | -8.2 | 5.4 | 21.6 | 4.2 | 1.7 | 4.3 | 3.5 | 1.2 | 0.1 | 0.1 | -25.1 | 23.5 | 9.8 |
| **Construction** | **5.7** | **-0.4** | **-1.9** | **-0.4** | **1.5** | **1.4** | **1.1** | **-0.2** | **-1.2** | **-2.3** | **-0.3** | **-0.3** | **-0.1** | **-3.0** | **2.2** | **-3.4** |
| **Mainly market services** | **57.5** | **0.3** | **1.4** | **1.1** | **0.1** | **-0.5** | **0.9** | **0.2** | **0.5** | **0.2** | **0.4** | **0.9** | **-0.2** | **5.6** | **1.4** | **1.6** |
| Trade; repair of automobiles and motorcycles | 10.2 | -0.3 | 0.0 | 0.6 | -0.8 | -1.2 | 0.5 | -0.2 | 0.0 | 0.4 | 0.1 | - | - | 0.7 | -1.1 | - |
| Transport and storage | 4.4 | 1.4 | 3.3 | 1.0 | -1.9 | -3.5 | 0.7 | -1.4 | -0.3 | 0.5 | 0.6 | - | - | 10.9 | -3.9 | - |
| Financial and insurance activities | 3.6 | 0.0 | 1.0 | 1.5 | -0.3 | -1.3 | -0.9 | -1.5 | -0.5 | -2.4 | 0.4 | - | - | 2.4 | -2.1 | - |
| Real estate activities | 14.0 | 0.3 | 0.6 | 0.3 | 0.0 | 0.0 | 0.3 | 0.1 | 0.2 | 0.2 | 0.3 | - | - | 1.7 | 0.7 | - |
| Accomodation and catering | 2.4 | 0.9 | 13.6 | 3.2 | 2.6 | 1.9 | 4.1 | 0.9 | 1.0 | 0.0 | 0.3 | - | - | 44.2 | 12.8 | - |
| Information and communication | 5.5 | 0.6 | 1.3 | 3.5 | 1.0 | 1.1 | 1.9 | 1.3 | 1.0 | 1.1 | 1.2 | - | - | 6.2 | 6.3 | - |
| Scientific and technical activities; administrative and support services | 14.5 | -0.1 | 0.7 | 0.8 | 0.8 | 0.0 | 1.6 | 1.1 | 1.2 | -0.2 | 0.5 | - | - | 4.6 | 3.3 | - |
| Other service activities | 3.0 | 2.2 | 2.8 | 1.4 | 0.7 | 1.1 | -0.2 | 0.6 | 0.5 | 0.4 | 0.1 | - | - | 22.4 | 3.3 | - |
| **Mainly non-market services** | **21.7** | **0.7** | **-0.3** | **0.0** | **-0.3** | **-0.3** | **-0.2** | **0.0** | **0.3** | **0.4** | **0.1** | **0.1** | **0.1** | **1.7** | **-0.7** | **0.8** |
| **Total VA** | **100** | **0.0** | **0.4** | **0.6** | **0.2** | **0.3** | **0.9** | **0.1** | **0.4** | **0.2** | **0.3** | **0.5** | **-0.1** | **2.9** | **1.6** | **1.2** |

▨ Forecast

**How to read it**: in Q1 2024, alue added in the manufacturing industry fell by 0.6%. It is expected to decrease by 0.2% Q2 2024.
**Source**: INSEE.

## ►5. Annual variations in GDP and contributions of main demand items
(annual variations in %; contributions in points)



Forecasts beyond the dotted line
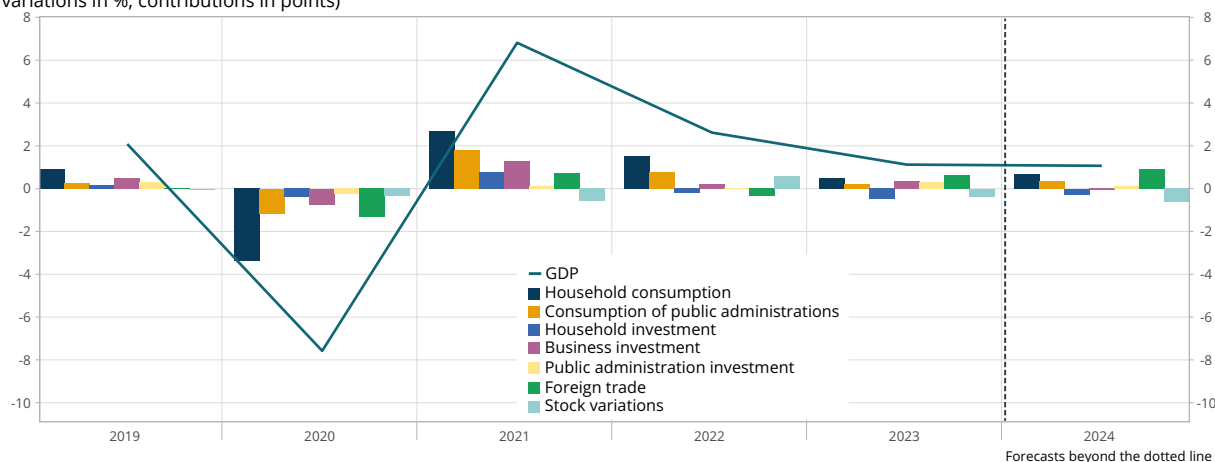
**Note**: general government consumption also includes consumption by non-profit institutions serving households (NPISH).
**How to read it**: in 2022, GDP would increase by 1.1%; the contribution of household consumption amounted to +0.5 points.
**Source**: INSEE.

# French economic outlook

## In 2023, the restarting of nuclear power plants contributed half a point to GDP growth

Fanch Morvan

A significant number of nuclear reactors were shut down in France in 2022 for maintenance or monitoring operations, made all the more necessary by stress corrosion phenomena. Production of nuclear energy declined by 23% according to RTE, and electricity production by 15%: France was thus a net importer of electricity for the first time in more than 40 years (▶ **Figure 1**). This decline contributed -0.4 to -0.5 points (depending on the approach used) to annual GDP growth in 2022 (which reached +2.6 %). In 2023, with the restarting of the power plants, two thirds of the production lost in 2022 was able to be recovered: the electricity foreign trade balance improved significantly. All in all, the rebound in electricity production contributed around +0.4 to +0.6 points to GDP growth (which reached +1.1%). The fact that this contribution was of the same magnitude even though production had not completely returned to its initial level is the result of some strong "chaining effects" and sectoral weighting linked to the high electricity prices in 2022.

### A contribution of electricity production to growth of around -½ point in 2022 and about +½ point in 2023...

To calculate the contribution to French growth of shutdowns and restarts of nuclear reactors, we first look at the contribution to growth of the value added of the electricity branch alone: this was -0.4 points in 2022 and +0.4 points in 2023. These figures may reduce the full effects of the availability of the nuclear reactor fleet slightly as they do not take knock-on effects into account, such as the increase in intermediate consumption of services by power plants. An alternative measurement, also imperfect, is the contribution to the growth in overall final domestic demand and in the foreign electricity balance: this was -0.5 points in 2022 and +0.6 points in 2023. This second measurement can be seen as an increase because part of the rebound in the foreign electricity balance is due to the drop in domestic consumption by businesses, especially energy-intensive industries, and not to the restart of production.

On the demand side, almost all of the effects on growth of the restarting of production have found their counterpart in the foreign balance (-0.4 points in 2022 and +0.7 points in 2023). Domestic demand adjusted somewhat to the unavailability of the nuclear fleet: households' energy-saving behaviour represented 0.1 points of GDP in 2022. In 2023, the drop in electricity consumption by businesses increased the foreign trade surplus partly through energy-saving behaviour but also by reducing production in the most energy-intensive branches (in paper-making, metallurgy, chemicals and rubber-plastic, production fell by -5.3% in 2023 after -4.0% in 2022).

### ▶ 1. Electricity production and trade balance
(in TWh)
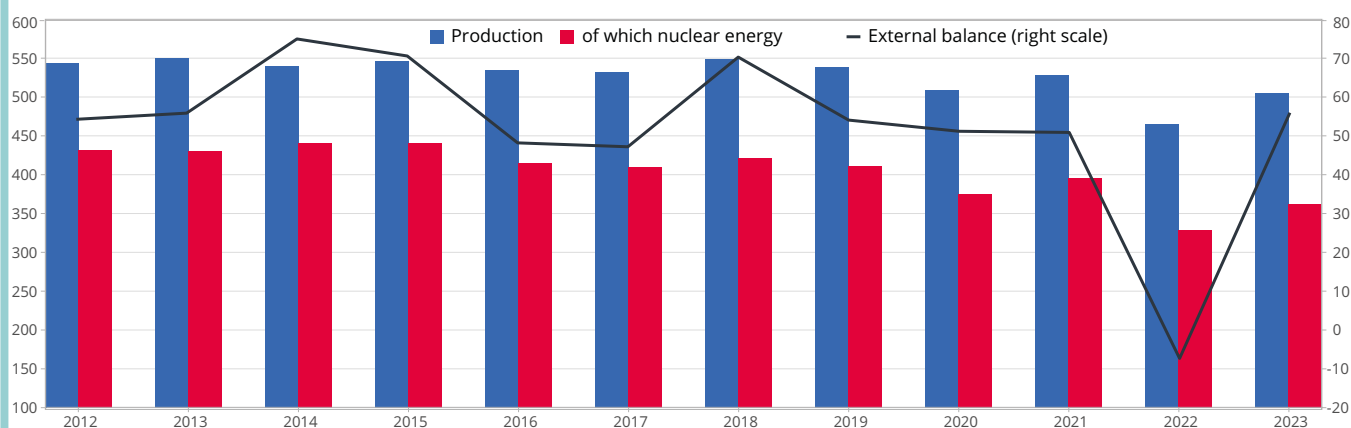


**Source** : RTE.

## ... increased by strong "chaining effects" linked to the price of energy

The relative symmetry between the downward contribution in 2022 and the upward contribution in 2023 may seem surprising, given that production in 2023 had not recovered its 2021 level. This reflects the role of the price system used to aggregate production.

The national accounts are published in *volumes at the chained prices* of the previous year. GDP aggregates quantities of very diverse products. As these quantities cannot be summed directly, they are weighted according to price. Until 2007, INSEE used the prices of a fixed year for this (*volume at constant prices*), which has the disadvantage of freezing the relative price structure. With the chained approach, using the previous year's price, the price structure is able to evolve with technological and behavioural changes, developments which are significant over a long period but are usually limited from one year to the next.

However, variations in electricity prices were particularly irregular in 2022 and 2023, with the rise in gas prices and the unavailability of French nuclear power plants contributing to the surge in spot prices (accounting for a major share of foreign trade) in 2022. Whereas the drop in production in 2022 was valued at the 2021 price, the recovery in 2023 was valued at the 2022 price: its weighting was therefore much greater. The effects of chaining were therefore more significant than usual.

To evaluate the contribution of electricity to this chaining differential, ►**Figure 2** compares the contributions to growth in the final electricity demand items by constant volume and by chain-linked volume. For the constant volume, the contribution of the final electricity demand was -0.2 points of GDP in 2022 and +0.1 points in 2023, reflecting the partial rebound in production. For the chained volume, their contribution was -0.5 points in 2022 and +0.6 points in 2023. Although the accumulation over two years is similar, this is a striking illustration of the dependence of annual changes in volume on the choice of price system. ●

### ►2. Contribution to growth of jobs and resources in the electricity branch according to the volume-price sharing method
(% change and contribution in GDP points)

| | 2022 | | 2023 | |
|---|---|---|---|---|
| | **Volume chained to previous year's price** | **Volume at 2020 constant prices** | **Volume chained to previous year's price** | **Volume at 2020 constant prices** |
| Contribution of electricity exports to GDP growth | -0.4 | -0.2 | 0.7 | 0.1 |
| Contribution of electricity imports to GDP growth | -0.1 | -0.1 | -0.1 | 0.0 |
| Total of contribution of final domestic electricity demand and foreign trade balance | -0.5 | -0.2 | 0.6 | 0.1 |
| Branch value added | -0.4 | - | +0.4 | - |

**Note**: the breakdown by branch of value added by volume at 2020 constant prices is not available.
**Source**: INSEE.

# French economic outlook

## The national accounts have switched to the 2020 base

On 31 May 2024, the national accounts changed base: with the publication of the detailed results for Q1 2024, they switched to "Base 2020". Each year, the estimate for the growth of the macroeconomic aggregates is updated over the past three years to take into account any new information that has become available since the previous publication. However, on 31 May 2024, all aggregates since 1949 were modified. Changing base in fact means reviewing the methods, classifications and statistical sources used in the national accounting in order to best reflect economic reality.

Switching to base 2020 allows for the following:

- quasi-systematic review of the methods and sources used, in particular a readjustment against the balance of payments (for foreign trade and the rest of the world) and a readjustment of the business statistics data (for non-financial corporations);

- improve European comparability, mainly by introducing changes to the method to improve the way research and development activities and software production are measured, but also by modifying the way certain taxes, tax credits and subsidies are recorded;

- change the scope of institutional sectors, especially general government.

This change of base therefore affects not only economic quantities such as GDP, value added, consumption, investment and foreign trade, but also the accounts of institutional sectors, in particular the investment rate of non-financial corporations and the household savings ratio.

With regard to the quarterly accounts specifically, the general preparation method does not change: the principles are exactly the same as those used for the previous base. A change has been made, however: the quarterly profile for the years 1949 to 1999 will from now on remain frozen from May 2024, and only the quarterly profile from 2000 will be reviewed with each estimate. Previously, with base 2014, the quarterly accounts reviewed the profile from 1980 onwards.

This Focus is not intended to be exhaustive and readers are recommended to refer to the documentation on Base 2020 available on the INSEE website, in particular the document "Les comptes nationaux passent en base 2020" of which this Focus is a summary.

Pauline Meinzel

### Adjustment of levels against source data

The main aim of Base 2014 was to reconcile estimates by INSEE and the Balance of Payments (BdP) with foreign trade and France's net borrowing. For Base 2020, this work continues but goes further as the aim is to look for convergence in each detailed component of exports and imports, and in property income. The nation's net borrowing has been revised by +€26.5 billion for 2019 in base 2020

(▶ **Figure 1**): this revision results from the cumulative effect of the revision of the balance of foreign trade in goods and services (+€7.5 billion), the primary income account and current transfers (+€20.0 billion, mainly property income) and the balance of capital transfers (-€1.0 billion). During the current campaign, however, this adjustment of level cannot be maintained with certainty, as the BdP publishes its definitive accounts later than the definitive publication of the national accounts.

**▶1. France's net borrowing (by value): revision between the two bases**
(in %)
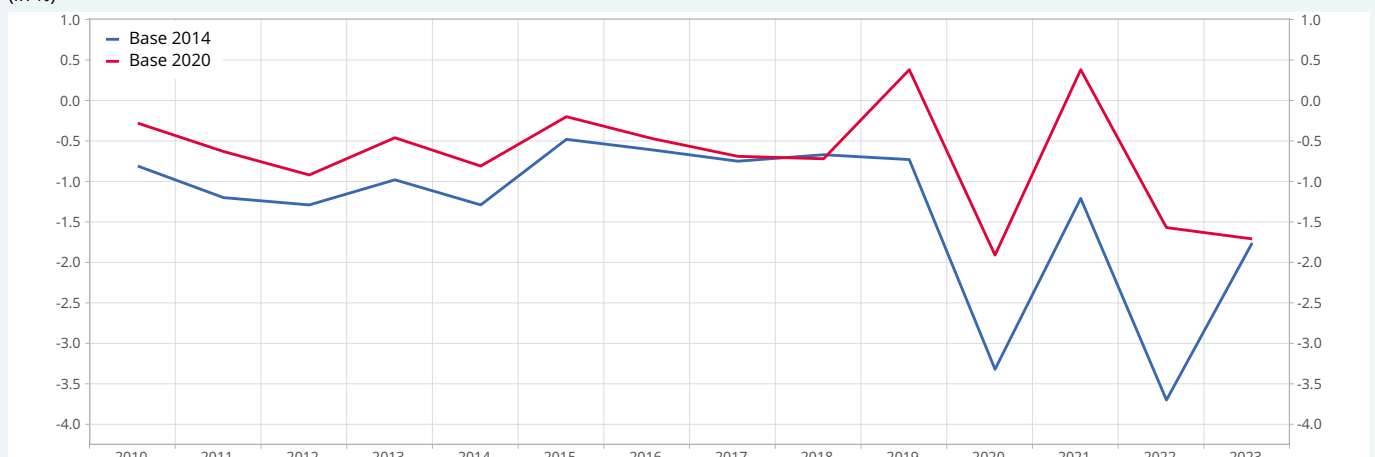


**Source**: INSEE.

An adjustment of levels was also carried out against structural corporate data obtained from the ESANE scheme, for the first time since base 2010 (the national accounts reflect changes in the current campaign). This readjustment led to a revision by level of non-financial corporation value added of -€11.1 billion in 2019.

Finally, base 2020 incorporates the last two housing surveys (ENL 2013 and 2020) from which real and imputed rents can be reassessed. As a result, household consumption expenditure on real and imputed rents (and hence GDP) was revised by +€15.9 billion in 2019.

## Revisions to the Method to improve European comparability

The change in Method that had the greatest impact on the national accounts concerns estimates of production and investment in research and development (R&D). A better distinction between R&D activities and those linked to software development results in own-account R&D production being revised downwards, resulting in a revision of GDP of -€8.6 billion. Overall, GFCF is revised downwards by €7.5 billion between base 2014 and base 2020 for 2019, mostly in non-financial corporations. To this revision of GFCF in R&D we can add that linked to the use of software and databases (-€18.1 billion less in GFCF[1]). In total, the GFCF of NFCs is revised downwards by almost €35 billion (including the effects of changes to the scope of the SNCF rail network and the public broadcaster France Télévisions, see below).

A second change is that which concerns undeclared activity: this is re-estimated using detailed and innovative methods (▶ Quantin & Welter-Médée, 2022). It is revised downwards and contributes less to GDP, -€7.7 billion in 2019.

Finally, by changing to base 2020, certain subsidies can be reclassified in order to comply with the latest European recommendations on the registration of certain public energy policies. In particular, subsidies awarded in the framework of the public service electricity charges (CSPE) scheme have been reclassified as subsidies on production (+€8.1 billion) rather than a subsidy on products.

## Changes in scope of activities and institutional sectors

Concerning general government, its revenue and expenditure have been modified, with full integration of the activities of the public audiovisual system and SNCF Réseau, but without this affecting public debt and deficit, as these were already taken into account in base 2014. This nevertheless has an impact on GDP as their value added is now calculated as the sum of costs, and thus it is increased in 2019. The French public service additional pension scheme (ERAFP) has been reclassified as a financial corporation, due to its pension fund activity.

In addition, dividing items between institutional sectors has been reviewed to take into account the development of private nurseries and private home help providers. This reallocation between institutional sectors resulted in an increase of €5.0 billion in the value added of social action

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1 In compliance with the European recommendations, Base 2020 reviews dividing investment in software or databases (involving a transfer of economic ownership) from intermediate consumptions (use of a service without transfer of economic ownership).

## ▶2. Breakdown of revisions to GDP in base 2020
(in billions of euros, for 2019)
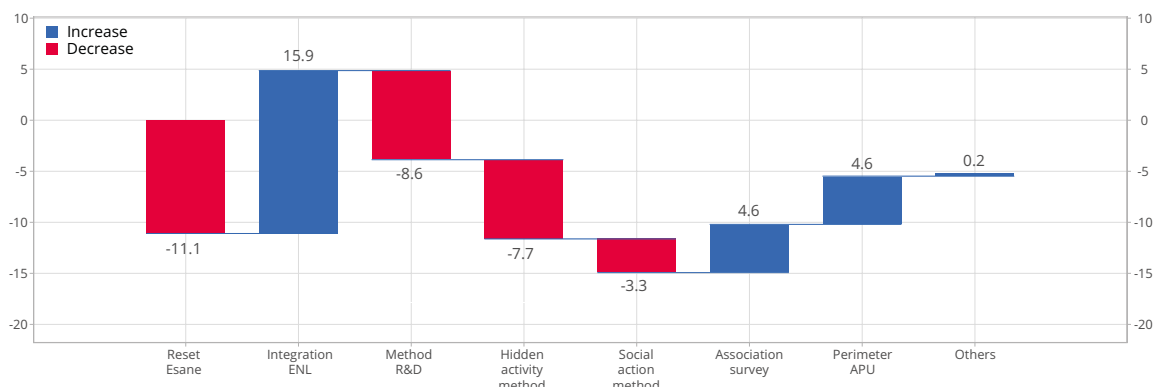


**Note**: revisions are to GDP in current euros. They include revisions to VA and to taxes and subsidies. Thus, the reclassification of the CSPE has no effect on GDP. The category "General government" includes effects linked to the calculation of value added according to the sum of costs, and the reclassification of SNCF Réseau subsidies as current transfers (both effects increasing GDP in 2019).
**Source**: INSEE.

# French economic outlook

services carried out by non-financial enterprises and, in parallel, a decrease of €2.0 billion in general government value added and a drop of €6.3 billion in value added of households' own final use.

## GDP is revised downwards in level but its variations remain similar

The downward revision of GDP (►**Figure 2**) is thus essentially the result of a downward revision of value added (-€18.6 billon), driven mainly by non-financial corporations (adjustment to ESANE, change in method for R&D and software), whereas the balance of taxes and subsidies on products is revised upwards (+€13.2 billion), mainly due to the reclassification of the CSPE.

Changes in GDP by volume are adjusted slightly between base 2014 and base 2020 (►**Figure 3**). Growth was a little lower over the 2017-2019 period. Conversely, it was a little higher from 2020. Compared to its 2019 level, GDP had thus increased by about 1 point at the end of 2023. On the

demand side, this upward revision finds its counterpart in household consumption and exports.

## The self-financing ratio of NFCs is revised downwards, as is the household savings ratio

The accounts of the institutional sectors are revised as the switch is made to base 2020.

For NFCs, their value added is significantly reduced (adjustment of ESANE data, methods of estimating R&D, undeclared activity, reclassification of units to general government), as is their GOS (especially with the discrepancy in the timing of the Competitiveness and Employment Tax Credit (CICE)), which modifies the profile of the margin rate (►**Figure 4a**). With the significant revision of the GFCF (method of estimating R&D and software and databases, reclassifications of units to general government), the investment rate is revised downwards (►**Figure 4b**).

►**3. Revisions to GDP by volume between the two bases**
(base 100 in 2019)
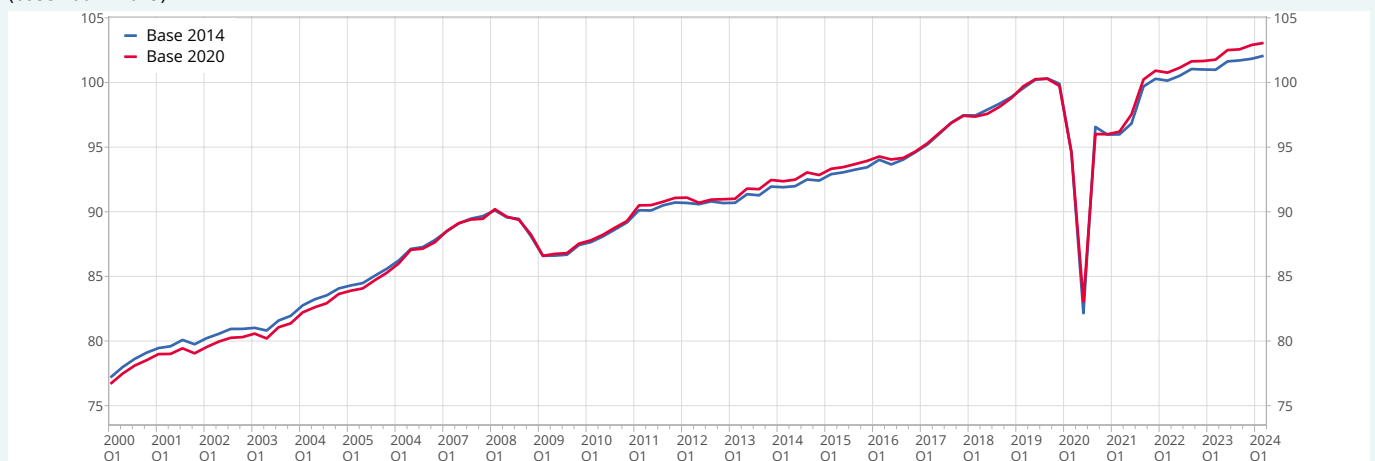


**Source**: INSEE.

►**4a. Margin rate of NFCs: revisions between the two bases**

(in %)
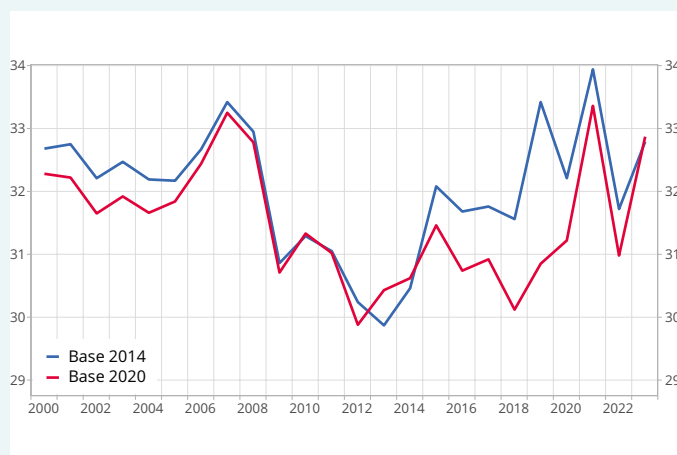


►**4b. Investment rate of NFCs: revision between the two bases**



**Source**: INSEE.
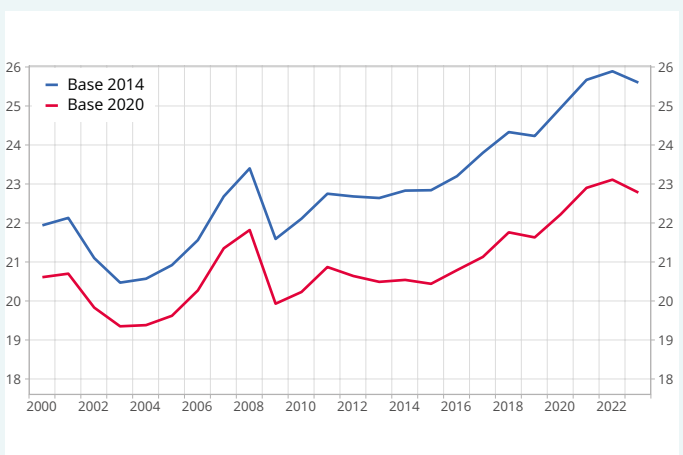
Overall, the timeline of general government's net lending/borrowing has not been revised much, apart from the period 2013-2019 due to the registration of the CICE.

Concerning households, their gross disposable income (GDI) is revised downwards: household wealth income is revised upwards, especially with the incorporation of the housing survey, but this is offset by the revision downwards of earned income (especially sole proprietors, with the adjustment to ESANE and the new estimate for undeclared activity) and current transfers with the reclassification of activities. Household savings are revised even further downwards as household consumer spending has been revised upwards. Overall, the savings ratio[2] has been revised slightly downwards (▶**Figure 5**). ●

[2] The definition of the savings ratio has been revised with the switch to base 2020. In fact, national accounting manuals recommend that the savings ratio is defined as the ratio of savings to GDI increased by the variation in pension rights. This last operation was zero in base 2014 but this is no longer the case in base 2020.

▶**5. Households' savings ratio: revision between the two bases**
(in %)
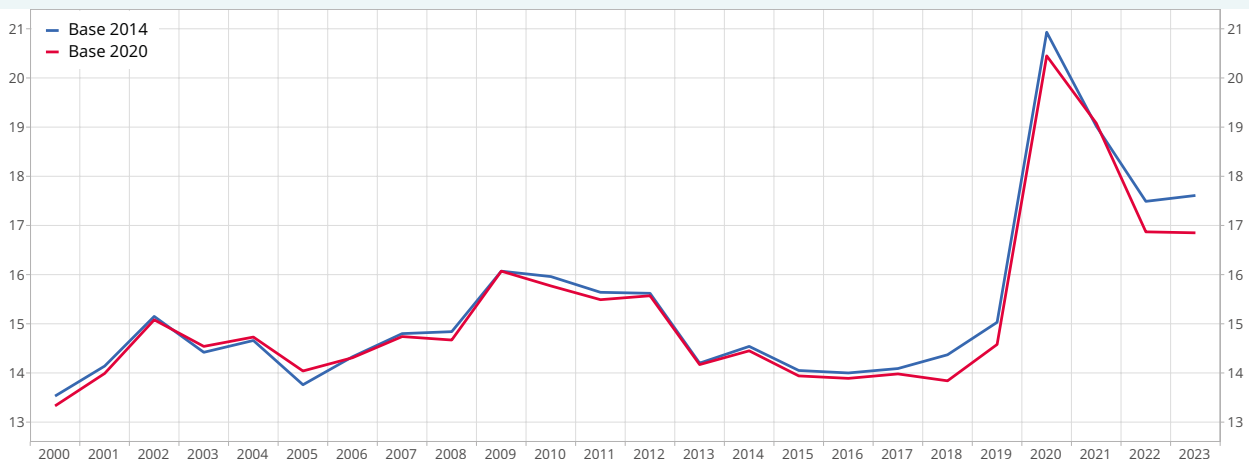


**Source**: INSEE.

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# Foreign trade

In Q1 2024, foreign trade once again boosted GDP growth: exports increased (+1.2%), while imports rebounded a little (+0.4%), after two quarters of decline (►Figure 1). The quarter was notably affected by massive agricultural exports (around +13.5%, ►Figure 2) – mirrored by a substantial destocking movement.

Imports of manufactured products in particular are at a fairly low level, as for the last six months companies have mobilised their inventory to meet demand, but imports are expected to accelerate as a backlash in Q2 (+1.7% forecast, ►Figure 3). In H2, they are likely to increase at a more moderate pace (+0.5% then +0.4% in Q3 and Q4), in line with the expected increase in demand.

On the export side, the industrialists questioned for the business tendency survey are expecting an upturn in foreign demand: this improvement concerns most industrial sectors and reflects the ongoing recovery in world trade (►International synthesis sheet and ►Figure 4). The balance of opinion on the level of foreign order books was above its long-term average, but this favourable situation relates mainly to the transport equipment industry, excluding automobile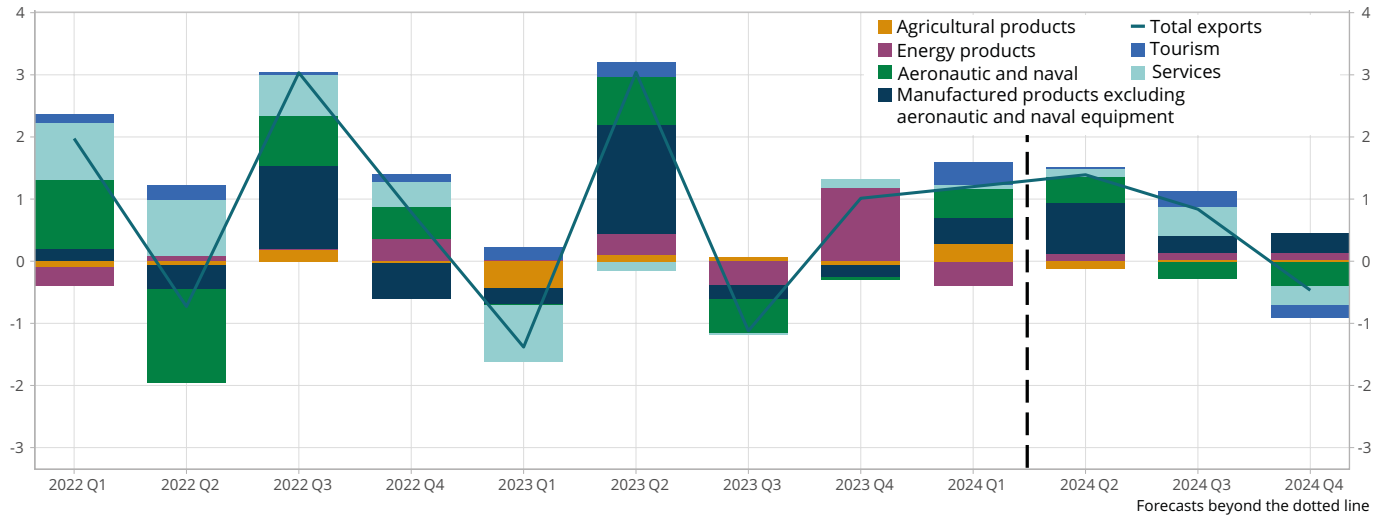s. Outside this market segment, the foreign order book situation is slightly below its long-term average (►Figure 5). Thus, excluding transport equipment, exports of manufactured products are expected to increase, on average, at the same pace as that of world demand for French goods, although this will not make up for the losses in market share recorded since the health crisis (►Focus competitiveness). On the other hand aeronautical sales look set to boost exports of goods, with an increase expected in the civil sector (+5% compared to 2023) and, in the military sector, the expected delivery of combat aircraft to Croatia and Egypt (►Focus on the defence industry). Finally, two liners are expected to leave the shipyards in Q2 and Q3: all in all, manufacturing exports should increase sharply in Q2 (+2.0%) then slow in H2 (0.0% in Q3 then -0.1% in Q4). Exports of services are likely to surge sporadically during the summer due to the Olympic and Paralympic Games (►Focus Paris Olympics): on the one hand, around a third of the expected spectators will be foreign visitors, which will stimulate tourism; and on the other hand, the broadcasting rights have mainly been sold to non-resident audiovisual companies. Finally, agricultural exports are expected to slip back in the spring as a backlash and in H2 electricity exports should benefit from increased nuclear capabilities with the opening of the Flamanville nuclear power plant. All in all, exports look set to increase vigorously in Q2 and Q3 (+1.4% then +0.8%) but then fall back in reaction at the end of the year (-0.5% in Q4): this uneven profile is likely to be attributable as much to major contracts (liners and combat planes) as to the Olympic and Paralympic Games.

Over the whole of 2024, as in 2023, foreign trade is expected to make a positive contribution to GDP growth, at around 0.9 points: exports (+3.5% after +2.5%) should pick up much faster than imports (+0.8% after +0.7% in 2023). This positive contribution is likely to be partially offset by a negative contribution from inventory (-0.6 points): on average across the year companies are likely to be adjusting their inventory levels, which were considered too high overall at the end of 2023. This situation reflects not only the destocking movement, but also the short-term economic discrepancy between France and the rest of the world, the gradual recovery of sales in aeronautics and the short-term effect of the Olympic and Paralympic Games. ●

## ►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 |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total Exports** | **2.0** | **-0.7** | **3.0** | **0.8** | **-1.4** | **3.0** | **-1.1** | **1.0** | **1.2** | **1.4** | **0.8** | **-0.5** | **8.3** | **2.5** | **3.5** |
| Manufactured products | 2.1 | -3.1 | 3.6 | -0.1 | -0.5 | 4.2 | -1.3 | -0.4 | 1.5 | 2.0 | 0.0 | -0.1 | 3.3 | 2.8 | 3.0 |
| **Total Imports** | **2.0** | **0.6** | **4.6** | **-0.2** | **-1.9** | **1.6** | **-0.7** | **-1.7** | **0.4** | **1.7** | **0.5** | **0.4** | **9.1** | **0.7** | **0.8** |
| Manufactured products | 0.5 | -1.1 | 4.5 | 0.3 | -1.6 | 1.9 | -1.5 | -2.3 | 0.7 | 2.0 | 0.5 | 0.4 | 5.4 | 0.5 | 0.7 |
| **Contribution of foreign trade to GDP** | **0.0** | **-0.4** | **-0.6** | **0.3** | **0.2** | **0.5** | **-0.1** | **1.0** | **0.2** | **-0.1** | **0.1** | **-0.3** | **-0.3** | **0.6** | **0.9** |

■ Forecast

**How to read it**: in Q1 2024, French exports rose by +1.2%.
**Source**: INSEE.

## ►2. Contributions of different products to exports
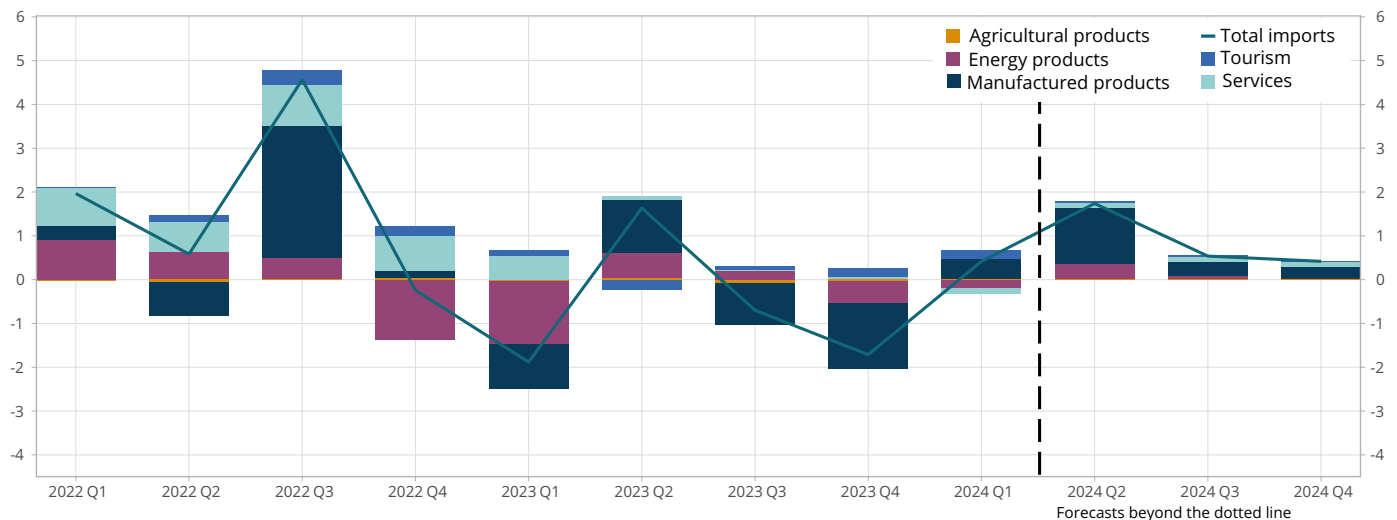(quarterly changes in total exports, in %, and contributions of individual products, in points)



Legend:
- Agricultural products — Total exports
- Energy products — Tourism
- Aeronautic and naval — Services
- Manufactured products excluding aeronautic and naval equipment

Forecasts beyond the dotted line

**How to read it**: French exports rose by +1.2% in Q1 2024. Exports of agricultural products contributed +0.3 points.
**Source**: INSEE.

## ►3. Contributions of different products to imports
(quarterly changes in total imports, in %, and contributions of individual products, in points)



Legend:
- Agricultural products — Total imports
- Energy products — Tourism
- Manufactured products — Services

Forecasts beyond the dotted line

**How to read it**: French imports rose by +0.4% in Q1 2024. Imports of manufactured goods contributed of +0.5 points.
**Source**: INSEE.

## ►4. Change forecast in foreign demand
(balances of opinion, in points, seasonally adjusted)



Legend:
- Change forecast in foreign demand
- Average
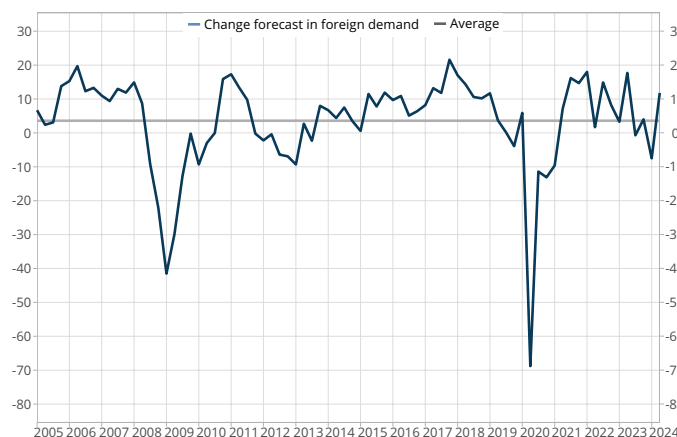
**Last point**: Q2 2024.
**Source**: industry business survey, INSEE.

## ►5. Balance of opinion on foreign order books
(balances of opinion, in points, seasonally adjusted)



Legend:
- Foreign order books — Average
- Foreign order books excluding other transport equipment
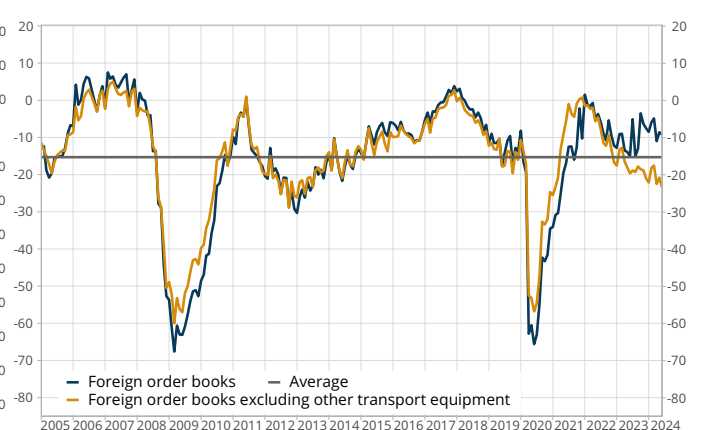
**Last point**: June 2024.
**Source** : industry business survey, INSEE.

# Employment

In 2023, payroll employment slowed considerably, increasing by 0.6% year-on-year by the end of the year (i.e. 156,000 net job creations between the end of 2022 and the end of 2023), after +1.4% at the end of 2022 (+376,000 jobs) and +3.2% at the end of 2021 (+814,000 jobs). In Q1 2024, payroll employment grew solidly (+0.3%), especially in the market tertiary sector. This increase, driven as it was by the accommodation-catering and services to businesses sectors, was more pronounced for workers with fixed-term contracts. Since the health crisis, the sharp increase in payroll employment has been greater for young people, seniors, work-study programmes and open-ended contracts (▶ **Figure 1**).

Responses from business leaders in the business tendency surveys suggest a moderate increase in their workforce in Q2 2024, as the climate in which their responses were analysed was equivalent to its long-term average in June (▶ **Figure 2**). Employment in work-study programmes, which made a significant contribution to the previous increase (accounting for about one third of the increase between the end of 2019 and the end of 2022) then slowed in 2023, is forecast to stabilise, affecting about 1.1 million young people. Thus, in the private sector, employment should continue to increase at a moderate pace in industry, where the balances of opinion on expected workforce remain favourable from a historical perspective, but it is expected to fall back in construction, a sector where the outlook for activity remains unfavourable. In the market tertiary sector, employment should pick up again in Q2, with some companies continuing to plan their recruitment in the context of the Olympic and Paralympic Games (▶ **Focus**), before slowing a little as a reaction in the second part of the year. In the non-market sector, employment is expected to continue with its trend growth, driven by the health and medico-social sectors.

Finally, when the small increase anticipated in the self-employed component is also taken into account, employment is expected to increase by about +0.1% per quarter on average until the end of the year. Year-on-year at the end of 2024, it should increase by +0.6% (i.e. around +185,000 jobs), a similar pace to the previous year (▶ **Figure 3**). Activity should increase more quickly (+0.9% year-on-year at the end of 2024), giving apparent labour productivity the opportunity to continue to pick up. Since the end of 2023, in the non-agricultural market sector, excluding work-study employees, per capita productivity has only just recovered its pre-health crisis level (▶ **Figure 4**), whereas it has exceeded this pre-crisis level in the market tertiary sector since the beginning of 2022. In industry, on the other hand, productivity looks unlikely to regain its pre-health crisis level by the end of 2024, and in construction, this level is expected to be much lower still. ●

### ▶ 1. Number of private payroll jobs created between Q4 2019 and Q1 2024
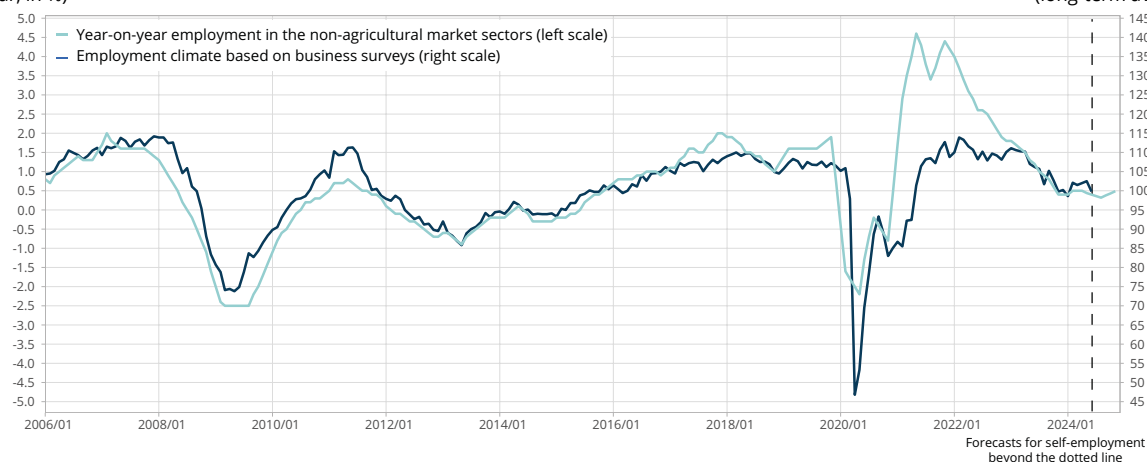(evolution, in thousand)
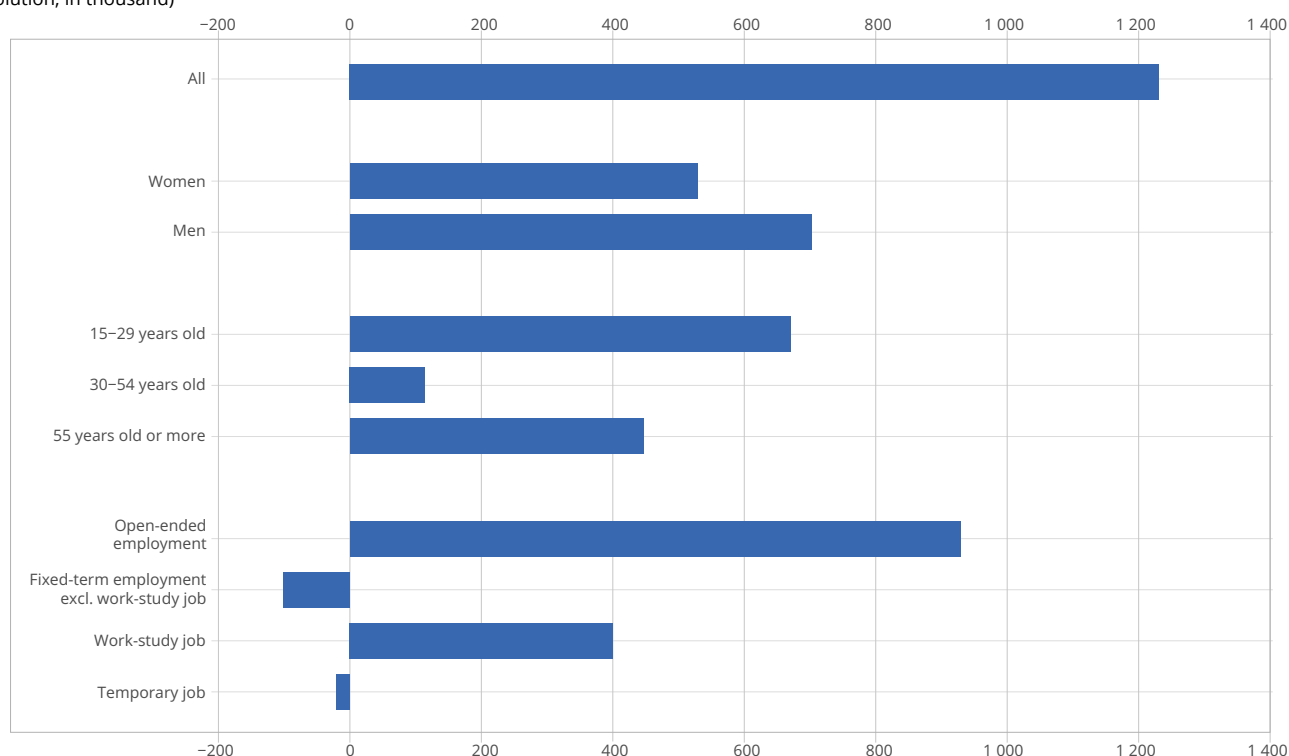


**How to read it**: In between Q4 2019 and Q1 2024, private payroll employment increased by 670,100 for 15-29 year-olds. This age bracket therefore contributed 3.4 points to the overall change in private sector payroll over the period (+6.2%).
**Source**: INSEE, Employment estimates; quarterly estimates URSSAF, DARES, INSEE.

## ►2. Employment climate and change in market payroll employment
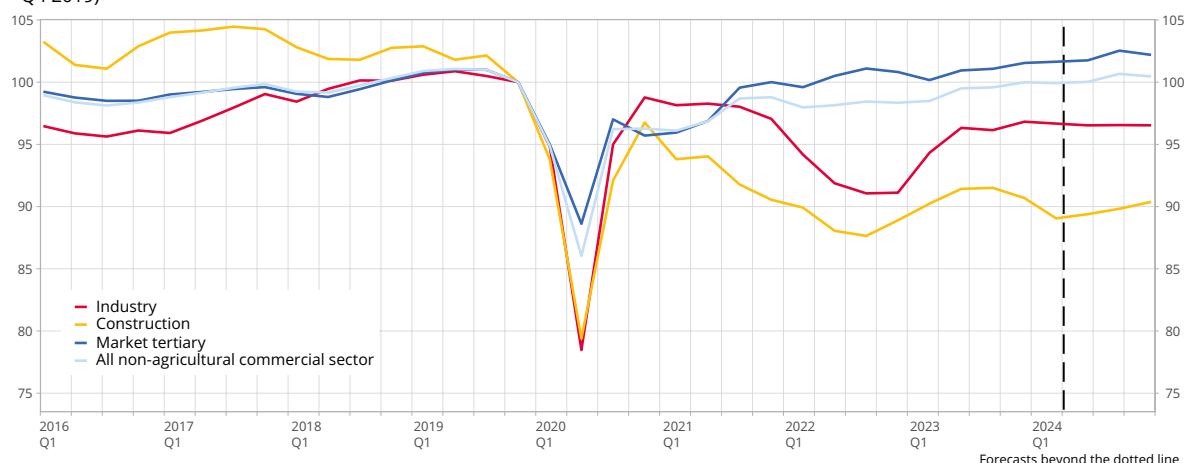(year-on-year, in %)                                                                                (long-term average 100)



Legend:
— Year-on-year employment in the non-agricultural market sectors (left scale)
— Employment climate based on business surveys (right scale)

Forecasts for self-employment beyond the dotted line

**Last point**: June 2024 for the employment climate, Q1 2024 for the year-on-year variation in employment in the non-agricultural market sectors (the last three points are forecasts).
**How to read it**: in June 2024, the employment climate stood at 100 points, its long-term average; in Q1 2024, non-agricultural market payroll employment was 0.5% higher than its level one year earlier
**Source**: INSEE, business surveys and DARES-INSEE-URSSAF, quarterly employment estimates, INSEE forecast.

## ►3. Apparent per capita productivity, excluding work-study
(base 100 = Q4 2019)



Legend:
— Industry
— Construction
— Market tertiary
— All non-agricultural commercial sector

Forecasts beyond the dotted line

**Note**: apparent per capita productivity is measured here using the ratio of the value added of each branch to payroll employment excluding work-study in the corresponding sector.
**How to read it**: in Q1 2024, apparent per capita productivity excluding work-study in the industry sector was 3.3% lower than its Q4 2019 level.
**Source**: INSEE, National accounts and quarterly employment estimates.

## ►4. Change in payroll employment
(in thousand, SA, 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** | **Q3** | **Q4** | | | | |
| **Payroll employment** | 87 | 102 | 114 | 73 | 46 | 50 | 52 | 9 | 75 | 35 | 15 | 20 | 814 | 376 | 156 | 145 |
| | 0.3 % | 0.4 % | 0.4 % | 0.3 % | 0.2 % | 0.2 % | 0.2 % | 0.0 % | 0.3 % | 0.1 % | 0.1 % | 0.1 % | 3.2 % | 1.4 % | 0.6 % | 0.5 % |
| Agriculture | 3 | -11 | -6 | 16 | -2 | 1 | -2 | 1 | -1 | 0 | 0 | 0 | 7 | 2 | -2 | -1 |
| Industry | 6 | 11 | 15 | 9 | 8 | 7 | 11 | 10 | 7 | 5 | 5 | 5 | 41 | 40 | 36 | 22 |
| Construction | 6 | 3 | 2 | 2 | -2 | -2 | -5 | -4 | -9 | -10 | -10 | -10 | 50 | 12 | -13 | -39 |
| Market tertiary | 59 | 91 | 92 | 49 | 33 | 25 | 22 | -28 | 52 | 30 | 10 | 15 | 661 | 291 | 52 | 107 |
| *of which: temporary work* | *-9* | *-15* | *13* | *1* | *-17* | *-9* | *-15* | *-13* | *-1* | *0* | *0* | *0* | *89* | *-11* | *-54* | *-1* |
| *of which: excl. temporary work* | *69* | *106* | *79* | *49* | *50* | *34* | *37* | *-15* | *52* | *30* | *10* | *15* | *573* | *302* | *105* | *107* |
| Non-market tertiary | 15 | 8 | 11 | -3 | 9 | 19 | 27 | 29 | 26 | 10 | 10 | 10 | 54 | 31 | 84 | 56 |
| **Self-employment** | 24 | 24 | 24 | 24 | 20 | 20 | 20 | 20 | 10 | 10 | 10 | 10 | 160 | 96 | 80 | 40 |
| **All** | 111 | 126 | 138 | 96 | 66 | 69 | 72 | 29 | 85 | 45 | 25 | 30 | 974 | 472 | 236 | 185 |
| | 0.4 % | 0.4 % | 0.5 % | 0.3 % | 0.2 % | 0.2 % | 0.2 % | 0.1 % | 0.3 % | 0.1 % | 0.1 % | 0.1 % | 3.4 % | 1.6 % | 0.8 % | 0.6 % |

■ Forecast.

**Note**: in this table, temporary workers are counted in the commercial tertiary sector.
**How to read it**: in Q1 2024, payroll employment increase by 0.3%, or 75,000 net new jobs.
**Scope**: France (excluding Mayotte).
**Source**: INSEE.

# Unemployment

In Q1 2024, the unemployment rate according to the ILO definition stabilised compared to the previous quarter, at 7.5% of the labour force (▶**Figure 1**). It was 0.4 points higher than in the last quarter of 2022 and the first quarter of 2023, which had been the lowest since 1982. Thus it remains well below its mid-2015 peak (-3.0 points). The year-on-year rise in unemployment is the result of a slowdown in employment (+246,000 net jobs), while the labour force has remained dynamic (387,000 additional workers). The employment rate (68.8%) and the labour force participation rate (74.5%) of 15-64-year-olds are both high, and in Q1 2024 they were at their highest since INSEE has been measuring them (1975). Year-on-year, the increase in employment and labour force participation rates mainly concerns the over-55s (reflecting in particular the effects of the pension reform implemented in September 2023). The unemployment rate year-on-year is increasing both for under-25s (+1.5 points) and 25-49-year-olds (+0.4 points), but remains virtually stable for the 50-64-year-olds.

By the end of 2024, the labour force is expected to continue to increase significantly (about +50,000 workers per quarter), due to the continuing ramp-up of the 2023 pension reform and, to a lesser extent, to a decline in jobseekers entering training schemes,[1] which is linked to a drop in funding.

Thus, taking into account the expected slowdown in employment in H2 (+63,000 in the half-year after +122,000 in H1), the unemployment rate is expected to rise very slightly (+0.1 points) by the end of the year to 7.6% of the labour force (▶**Figure 2**). ●

[1] Jobseekers, some of whom are also classified as unemployed according to the ILO definition, may in fact no longer be looking for a job or may no longer be available for work when they start a training course: in this instance their status changes from unemployed to inactive, according to the ILO definition (▶**Focus**, *Economic outlook*, June 2016).

## ▶1. Unemployment rate (ILO definition)
(quarterly average as % of labour force, SA data)
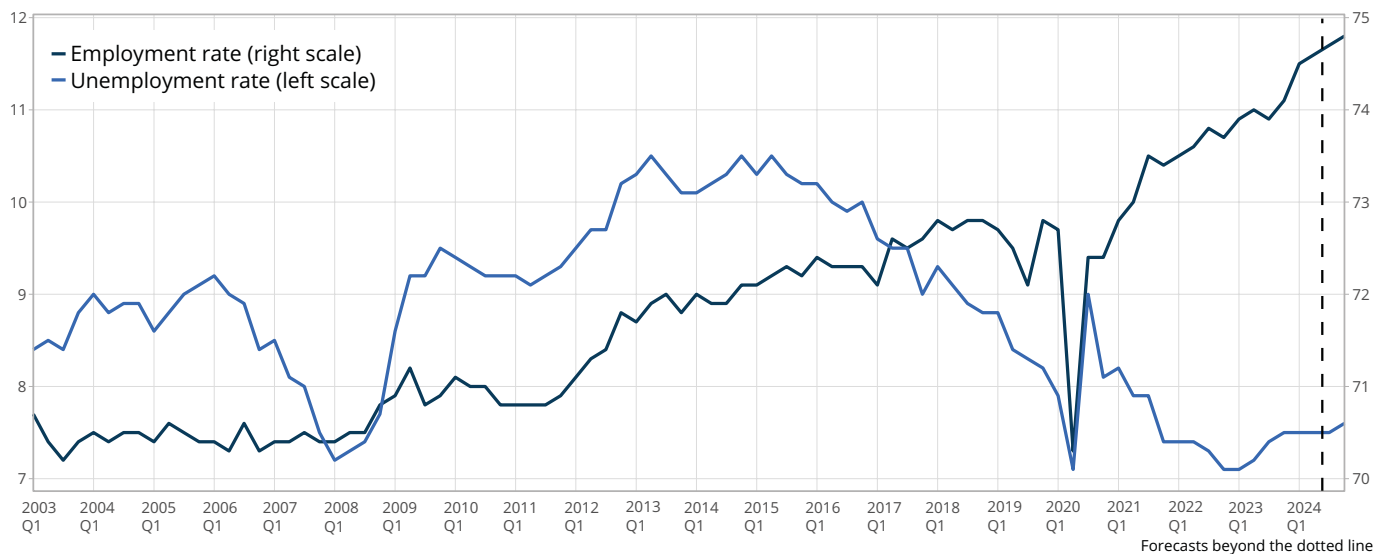


**Scope**: France (excluding Mayotte), persons aged 15 or over living in ordinary housing.
**Source**: INSEE, Labour Force Survey.

## ►2. Change in employment, unemployment and the active population

(variation in quaterly average in thousands, SA data)

| | Quaterly change | | | | | | | | Annual change | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2023 | | | | 2024 | | | | 2021 | 2022 | 2023 | 2024 |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | | |
| **Employment (1)** | **81** | **68** | **71** | **51** | **57** | **65** | **35** | **28** | **889** | **513** | **270** | **184** |
| *reminder: employment at the end of the period* | *66* | *69* | *72* | *29* | *85* | *45* | *25* | *30* | *974* | *472* | *236* | *185* |
| **Unemployment (2)** | **10** | **29** | **76** | **30** | **7** | **3** | **12** | **22** | -158 | -75 | 145 | **44** |
| **Active population = (1) + (2)** | **91** | **97** | **147** | **80** | **63** | **68** | **47** | **49** | 732 | 438 | 415 | 228 |
| *Trend labour force (a)* | *11* | *9* | *23* | *39* | *38* | *38* | *39* | *39* | *31* | *30* | *82* | *154* |
| *"Pre-crisis" cyclical bending effect (b)* | *8* | *7* | *7* | *5* | *6* | *7* | *4* | *3* | *89* | *51* | *27* | *18* |
| *Effect of work-linked training on youth activity (c)* | *10* | *16* | *7* | *1* | *11* | *8* | *5* | *7* | *126* | *86* | *35* | *31* |
| *Residue (d)* | *63* | *64* | *109* | *35* | *9* | *15* | *0* | *0* | *486* | *271* | *271* | *24* |
| **Variation in unemployment rate** | **0.0** | **0.1** | **0.2** | **0.1** | **0.0** | **0.0** | **0.0** | **0.1** | **-0.7** | **-0.3** | **0.4** | **0.1** |
| Unemployment rate | 7.1 | 7.2 | 7.4 | 7.5 | 7.5 | 7.5 | 7.5 | 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.
**(d)** In 2020 and 2021, the residue covers the specific effect of the health crisis on activity behaviour.
**Note**: employment here corresponds to total employment (payroll workers and self-employed), measured as a quarterly average.
**How to read it**: between Q4 2023 and Q1 2024, employment increased by 57,000 persons on average, unemployment by 7,000 and the labour force by 63,000. The unemployment rate was stable at 7.5%.
**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% in 2022, year-on-year consumer prices in France have dropped sharply since spring 2023 (▶**Figure 1**), due mainly to the slowdown in the prices of food products and manufactured goods. Inflation reached virtual stability between March and May 2024, fluctuating between +2.2% and +2.3% year-on-year (▶**Figure 2**). It fell slightly in June 2024, to +2.1% according to the provisional estimate: this small decline was driven by the drop in petroleum product prices in June and by a smaller contribution from food inflation, while inflation in services remained relatively dynamic (+2.8% in June, the same as in May).

The advance indicators (producer prices, ▶**Figure 3**, business tendency survey balances of opinion, ▶**Figure 4**) suggest that the variation in consumer prices of food and manufactured products from month to month is likely to continue to even out until the end of the year: food inflation, which stood at +0.8% year-on-year in June, is expected to continue to fall, whereas inflation in manufactured products is barely expected to increase. Thus, assuming that the price of a barrel of Brent crude remains frozen over the forecasting period at €79, inflation looks set to drop below +2% in the autumn and should reach +1.9% year-on-year in December 2024. However, it is expected to see an upturn this summer, due to the base effect on energy and one-off increases in the price of transport services (▶**Figure 5**) during the Olympic and Paralympic Games in Paris. As an annual average, the increase in consumer prices is expected to be +2.2% in 2024, after +4.9% in 2023.

Energy inflation is likely to fall, dropping from +4.8% year-on-year in June to +3.4% in December, assuming that the price of Brent remains stable over the forecasting period at €79, despite experiencing a bumpy ride during this time. It is then expected to increase significantly in July (+8.6%) due to the increase in the gas distribution tariff (ATRD), before falling back sharply in August 2024 (+2.5%), as a result of "exiting from the year-on-year figures": energy prices had in fact been particularly dynamic in August 2023 due to the increase in regulated electricity tariffs (+10%) and fuel prices, linked to world oil prices. These "base effects" on petroleum products are expected to continue to affect the energy inflation profile throughout the latter part of the year: it is likely to fall again in September to +0.5% as a result of the increases in September 2023 then will probably increase a little in the last quarter, due to the decline observed a year earlier.

Food inflation is expected to continue the decline that began in spring 2023, dropping from +0.8% year-on-year in June 2024 to +0.3% in December. Food prices, excluding fresh produce, are likely to remain virtually stable over the forecasting period: their variation month by month is expected to even out in relation to the inflationary surge of 2022 and 2023, in the wake of the decline and the current stabilisation of agrifood industry producer prices (▶**Figure 3**). Thus inflation over one year for these products is expected to continue to decline, from +0.6% in June to 0.0% in December. This would therefore be the first time since 2017 that food prices excluding fresh produce have not increased year-on-year. Meanwhile, prices of fresh food are expected to follow the usual seasonality, after a period of sharp price rises in 2022 and 2023.

## ▶1. Headline inflation and contributions by item
(inflation year-on-year in %, contributions in points)
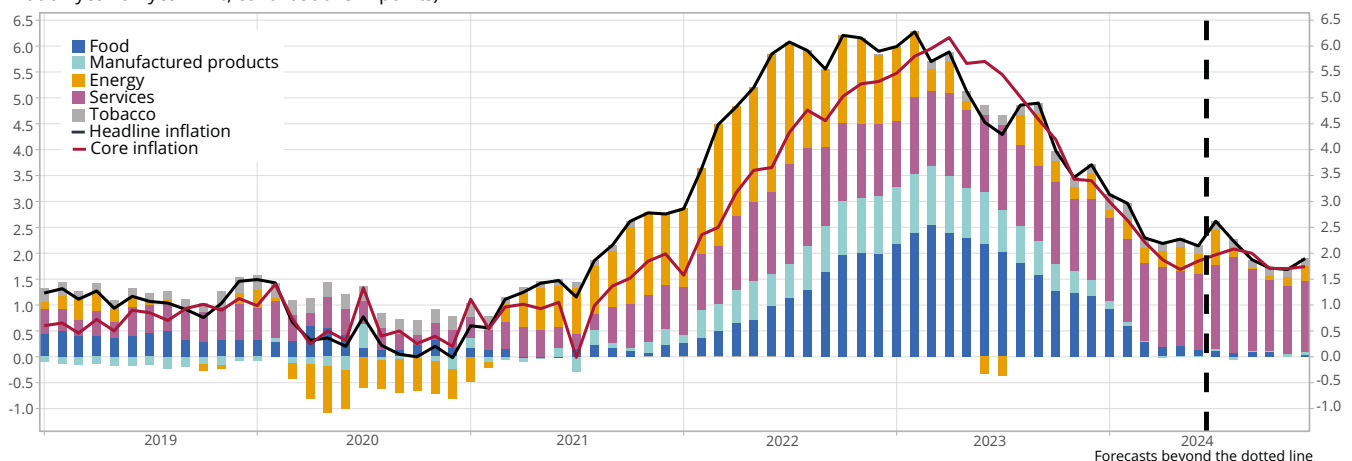


**How to read it**: in July 2024, headline inflation was 2.1%. Food contributed +0.1 points, while services contributed +1.5 points.
**Source**: INSEE.

Inflation of manufactured products is expected to increase only very slightly over the forecasting period, reaching +0.3% year-on-year in December after 0.0% in June. Producer prices in industry (excluding agrifood and energy) fell back slightly in 2023 before increasing a little in early 2024. The prices of imported industrial commodities and the cost of freight have been on the rise again since spring 2024, but are still well below levels seen in 2022. According to the business survey in industry, the balance of opinion on expected variations in selling prices fell back considerably in 2023 and in June 2024 was at its long-term average.

Services represent about half of the consumer price index basket, and since October 2023 they have once again become the foremost contributors to headline inflation and are expected to remain so until the end of 2024. Service companies are delaying passing on their increases in costs, particularly wages, and thus they are gradually rebuilding their margins. In the June 2024 tendency survey in services, the balance relating to price variations is still higher than its long-term average. After settling at +2.8% year-on-year in June, inflation in services is expected to remain steady throughout the forecast period, due to the persistence of high unit wage costs (►**Focus** Margin rate and ►**Wages sheet**). However, it is likely to experience a short-lived increase from July to September, reaching +3.5% in August, then falling back in the autumn as an after-effect: during the Olympic and Paralympic Games in Paris, fares on the Ile-de-France transport system will be increased. Lastly, in December, inflation in services is also expected to be driven upwards by the increase during this month in the basic consultation rate for general practitioner doctors from €26.50 to €30, which is likely to contribute +0.1 points to headline inflation. Thus, inflation in services is expected to be +2.6% year-on-year in December.

Finally, tobacco inflation reached +8.7% year-on-year in June and looks set to stabilise in the absence of further increases over the forecasting period.

Core inflation is expected to follow the same profile as headline inflation although in a much more moderate manner: having reached +1.7% year-on-year in May, it is likely to increase in the summer (+2.0% in July), then fall back in the autumn, finally reaching +1.7% year-on-year in December. The small scale of these movements compared to the overall index is due to the fact that most of the products affected by significant forecasting variations are not included in the core price index: this is the case for energy and fresh food, and also for rail transport. As an annual average, the increase in the core price index is expected to reach +2.0% in 2024, after +5.1% in 2023. ●

## ► 2. Headline inflation, past and forecast
(change in %, contributions in points)

| CPI groups* (2023 weightings) | May 2024 | | June 2024 | | July 2024 | | August 2024 | | December 2024 | | Annual averages | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | yoy | cyoy | yoy | cyoy | yoy | cyoy | yoy | cyoy | yoy | cyoy | 2023 | 2024 |
| **Food (15.1%)** | **1.3** | **0.2** | **0.8** | **0.1** | **0.8** | **0.1** | **0.5** | **0.1** | **0.3** | **0.0** | **11.8** | **1.4** |
| including: fresh food (1.9%) | 3.5 | 0.1 | 2.1 | 0.1 | 4.4 | 0.1 | 3.6 | 0.1 | 1.8 | 0.0 | 9.6 | 2.4 |
| excluding: fresh food (13.2%) | 0.9 | 0.1 | 0.6 | 0.1 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 12.2 | 1.2 |
| **Tabacco (1.8%)** | **8.7** | **0.2** | **8.7** | **0.2** | **8.7** | **0.2** | **8.7** | **0.2** | **8.7** | **0.2** | **8.0** | **10.3** |
| **Manufactured products (23,2%)** | **0.0** | **0.0** | **0.0** | **0.0** | **0.1** | **0.0** | **-0.2** | **-0.1** | **0.3** | **0.1** | **3.5** | **0.1** |
| including: clothing and footwear (3.4%) | 0.6 | 0.0 | 0.6 | 0.0 | 0.6 | 0.0 | 0.6 | 0.0 | 1.3 | 0.0 | 2.5 | 0.7 |
| medical products (4.0%) | -1.2 | 0.0 | -1.1 | 0.0 | -1.0 | 0.0 | -0.9 | 0.0 | -1.0 | 0.0 | -0.7 | -1.1 |
| other manufactured products (15.8%) | 0.2 | 0.0 | 0.1 | 0.0 | 0.3 | 0.1 | -0.2 | 0.0 | 0.4 | 0.1 | 4.7 | 0.3 |
| **Energy (8.3%)** | **5.7** | **0.5** | **4.8** | **0.4** | **8.6** | **0.7** | **2.5** | **0.2** | **3.4** | **0.3** | **5.6** | **3.5** |
| including: oil products (4.3%) | 2.9 | 0.1 | 0.5 | 0.0 | 1.5 | 0.1 | -5.4 | -0.2 | -0.8 | 0.0 | -1.7 | -2.8 |
| **Services (51.6%)** | **2.8** | **1.4** | **2.8** | **1.5** | **3.0** | **1.6** | **3.5** | **1.8** | **2.6** | **1.4** | **3.0** | **3.0** |
| including: rent-water (8.0%) | 2.7 | 0.2 | 2.7 | 0.2 | 2.8 | 0.2 | 2.8 | 0.2 | 2.6 | 0.2 | 2.8 | 2.8 |
| health services (6.2%) | 1.6 | 0.1 | 0.9 | 0.1 | 0.8 | 0.1 | 0.9 | 0.1 | 1.7 | 0.1 | -0.2 | 1.1 |
| transport (2.9%) | 0.2 | 0.0 | 0.4 | 0.0 | 3.6 | 0.1 | 8.4 | 0.3 | 0.3 | 0.0 | 6.3 | 2.1 |
| communications (2.0%) | -6.8 | -0.1 | -5.0 | -0.1 | -3.1 | -0.1 | -3.1 | -0.1 | -2.3 | 0.0 | -3.6 | -4.1 |
| other services (32.5%) | 3.9 | 1.3 | 4.0 | 1.3 | 3.9 | 1.3 | 4.1 | 1.4 | 3.4 | 1.1 | 3.9 | 3.9 |
| **All (100%)** | **2.3** | **2.3** | **2.1** | **2.1** | **2.6** | **2.6** | **2.2** | **2.2** | **1.9** | **1.9** | **4.9** | **2.2** |
| *All excluding energy (91.7%)* | *2.0* | *1.8* | *1.9* | *1.7* | *2.1* | *1.9* | *2.2* | *2.0* | *1.8* | *1.6* | *4.8* | *2.1* |
| *All excluding tabacco (98.2%)* | *2.2* | *2.1* | *2.0* | *2.0* | *2.5* | *2.5* | *2.1* | *2.1* | *1.8* | *1.7* | *4.8* | *2.1* |
| **Core inflation** (62.7%) | **1.7** | **1.0** | **1.8** | **1.1** | **2.0** | **1.2** | **2.1** | **1.3** | **1.7** | **1.1** | **5.1** | **2.0** |

▢ Provisional estimate.
▢ 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.
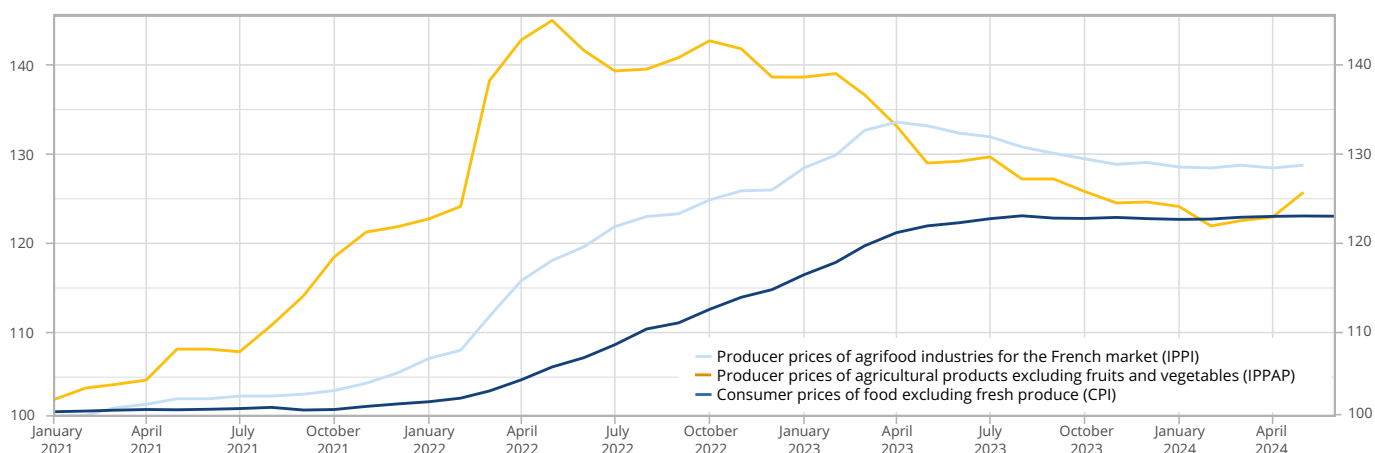
**Note**: the table shows the provisional CPI for June, published on June 28, 2024.
**Source**: INSEE.

# French economic outlook

## ▶3. Variation in prices along the food production chain
(in level, base 100 in 2019)



**Last point**: May 2024 for IPPAP and IPPI, June 2024 for CPI
**How to read it**: in June 2024, consumer food prices excluding fresh produce were 23% above their 2019 average, agrifood industry producer prices for the French market were 29% above and agricultural producer prices (excluding fruit and vegetables) were 26% above.
**Source**: IPPAP, IPPI, CPI, INSEE.

## ▶4. Balances of opinion on variations in selling prices over the next 3 months
(in points, CVS)
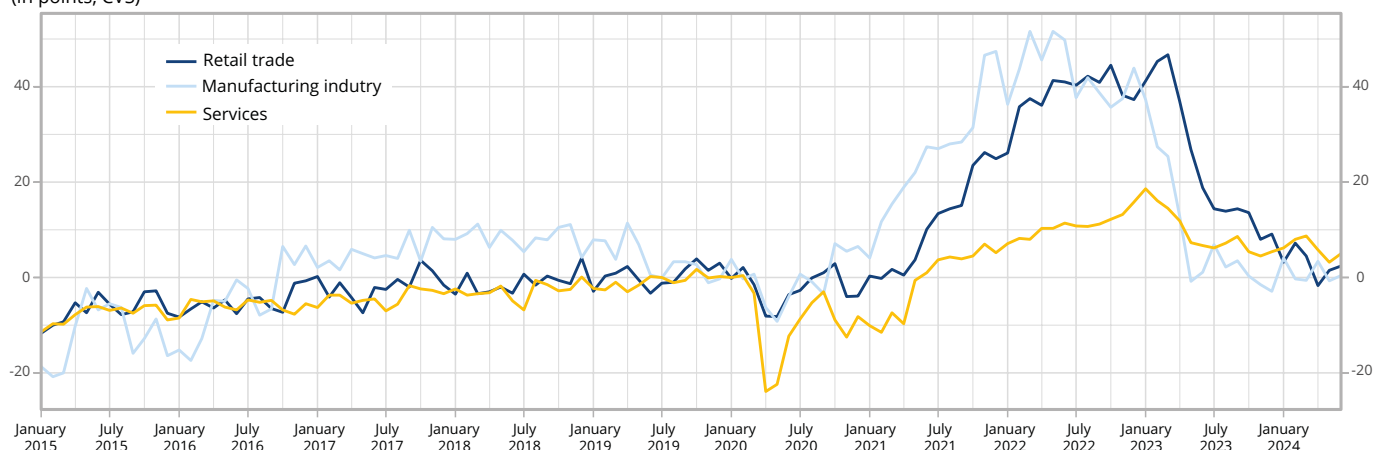


**Last point**: June 2024.
**How to read it**: in June 2024, the balance of opinion on sales price trends was +0.4% in manufacturing, +5% in services and +2.4% in retail in retail trade.
**Source**: INSEE, monthly business surveys.

## ▶5. Monthly variations in transport services from 2022 to 2024 and the 2017-2019 average
(evolution in %)
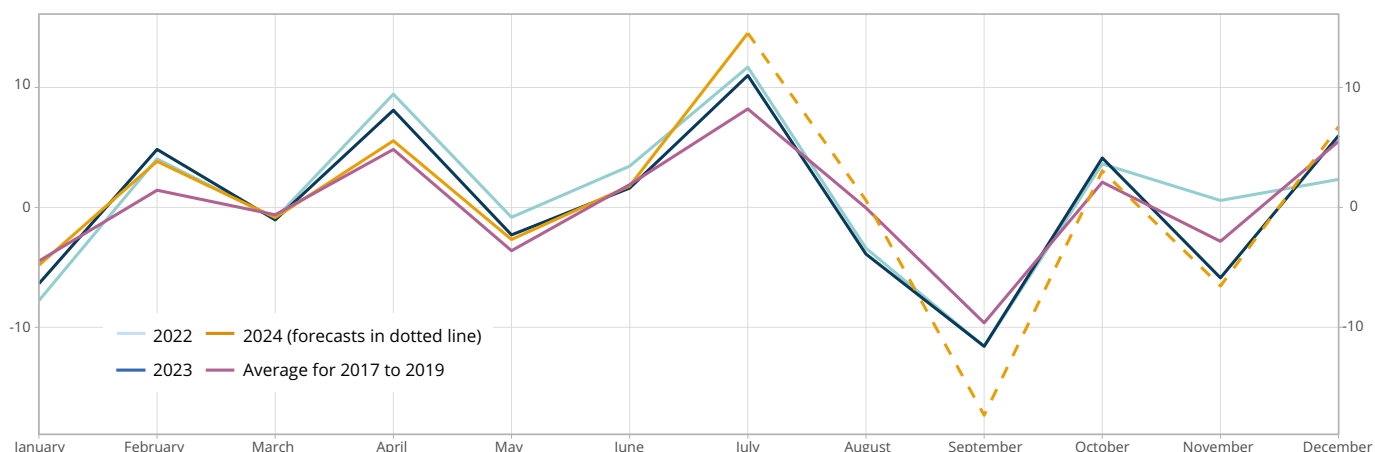


**How to read it**: in June 2024, consumer prices for transportation services increased by 1.8% on the previous month. They had risen 1.6% in June 2023, 3.4% in May 2022 and 3.4% in June on average 2017-2019.
**Source**: INSEE.

*economic outlook*

# Wages

In Q1 2024, the average wage per capita (SMPT) in the non-agricultural market branches increased by 0.9%, a similar pace to that at the end of 2023 (▶ **Figure 1**). Meanwhile, the basic monthly wage (SMB[1]) accelerated (+1.1%, after +0.5% at the end of 2023), driven by the automatic increase in the minimum wage on 1st January 2024 (+1.1%) and the implementation of several branch and company agreements, especially in industry. The fact that the SMPT is less dynamic than the SMB is mainly due to the drop in value-sharing bonus payouts (PPV[2]), as this scheme has lost some of its tax and social advantages since January 2024 (subject to corporate social contributions and income tax for some beneficiaries); thus employers paid out less than €0.5 billion in PPV in Q1 2024, compared with €2.6 billion in the previous quarter and €1.2 billion one year earlier. Year-on-year, increases in the SMPT have gradually become slightly greater than increases in prices, with the result that the real SMPT increased at the beginning of 2024 (+0.3%, after -0.6% in Q4 2023; ▶ **Figures 1** and **2**).

In Q2 2024, wages are expected to slow, in the wake of the decline in inflation, then their pace of increase should be maintained into the following quarter: +0.5% forecast per quarter for the SMPT and for the SMB. In Q4 2024, they are likely to accelerate slightly (+0.6% forecast for both the SMPT and the SMB), driven by an automatic increase in the minimum wage expected in the autumn (provided the legislation remains unchanged) and, for the SMPT, by an upturn in PPV payments expected at the end of the year (although these are decreasing year-on-year). All in all, at the end of 2024, wages are likely to continue to increase more than inflation: in real terms, the SMPT is expected to increase by +0.6% year-on-year and the SMB by +1.0%.

As an annual average, nominal wages are expected to decelerate in 2024: +2.9% forecast for the SMB (after +4.3% in 2023) and +2.7% for the SMPT (after +4.1%), the latter being penalised by the drop in PPV payouts compared to 2023. This pace of change in wages is consistent with the results from the latest business tendency surveys: the expectations of business leaders around wage prospects are much lower than those observed one year earlier (▶ **Figure 3**).

Thus the slowdown in wages in 2024 is expected to be a little less pronounced than that in prices, so that real wages can start to rise again slightly: across the year, the real SMPT is likely to increase by 0.5% on average, and the real SMB by +0.6%. In this first year of real wage recovery, the gains in purchasing power anticipated for 2024 will by no means make up for the losses suffered in 2022 (-1.9% on average for the real SMB) and 2023 (-0.6%).

In general government, the nominal SMPT increased in 2023 (+4.1% on average), driven by the revision of the index point by 1.5% on 1st July, the one-off purchasing power bonus at the end of the year and the category-specific measures in favour of teachers. However, this momentum was still less than that in prices, and the real wages of government personnel declined in 2023, at a similar pace to wages in the private sector (-0.7% as an annual average). In 2024, nominal wages in general government are expected to slow significantly (+2.1%), despite various wage revision measures (increase in index-based wage for all government employees at the start of the year, bonuses paid for those deployed during the Olympic Games). ●

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[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.
[2] The PPV scheme allows employers to pay, under certain conditions, €6,000 in bonuses per employee, per year, exempt from social security contributions (▶ **Focus** "Value-sharing bonus: massive payouts at the end of 2022, with potential windfall effects", *Economic outlook*, March 2023).

# French economic outlook

## ►1. Variation in the average wage per capita (SMPT) and the basic monthly wage (SMB)
(changes in %, seasonally adjusted data)

| | Quarterly growth rates | | | | | | | | Annual growth rates | | | | | | | | Average annual change | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| | 2023 | | | | 2024 | | | | 2023 | | | | 2024 | | | | 2022 | 2023 | 2024 |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
| Average wage per capita (SMPT) in non-agricultural market branches | 1.0 | 0.8 | 0.4 | 0.8 | 0.9 | 0.5 | 0.5 | 0.6 | 4.7 | 4.6 | 3.9 | 3.1 | 3.1 | 2.7 | 2.7 | 2.5 | 5.4 | 4.1 | 2.7 |
| SMPT adjusted for short-time working* in non-agricultural market sectors | 1.0 | 0.8 | 0.4 | 0.8 | 0.9 | 0.5 | 0.5 | 0.6 | 4.4 | 4.5 | 3.9 | 3.1 | 3.1 | 2.7 | 2.7 | 2.5 | 3.2 | 3.9 | 2.7 |
| Basic monthly wage (SMB) | 1.6 | 0.9 | 0.8 | 0.5 | 1.1 | 0.5 | 0.5 | 0.6 | 4.6 | 4.5 | 4.2 | 3.8 | 3.3 | 2.9 | 2.7 | 2.8 | 3.2 | 4.3 | 2.9 |
| SMPT in general government | | | | | | | | | | | | | | | | | 4.3 | 4.1 | 2.1 |
| Real SMPT* in the non-agricultural market branches | -0.4 | -0.2 | -0.3 | 0.3 | 0.5 | 0.0 | -0.3 | 0.6 | -1.2 | -0.5 | -0.8 | -0.6 | 0.3 | 0.5 | 0.6 | 0.8 | 0.2 | -0.8 | 0.5 |
| SMPT adjusted for real** short-time working in non-agricultural market sectors | -0.4 | -0.2 | -0.3 | 0.3 | 0.5 | 0.0 | -0.3 | 0.6 | -1.5 | -0.6 | -0.8 | -0.6 | 0.3 | 0.5 | 0.6 | 0.8 | -1.9 | -0.9 | 0.5 |
| Real SMB* | 0.2 | -0.1 | 0.0 | 0.0 | 0.6 | 0.1 | -0.2 | 0.6 | -1.3 | -0.6 | -0.5 | 0.1 | 0.5 | 0.7 | 0.5 | 1.2 | -1.9 | -0.6 | 0.7 |
| Real SMPT* in general government | | | | | | | | | | | | | | | | | -0.9 | -0.7 | -0.1 |

■ Forecast

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

\*\* in the sense of the CPI - household consumption price index.

**How to read it**: in Q4 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 %)



— Nominal basic monthly wage (SMB)   — Nominal SMPT adjusted for short-time working
— Real basic monthly wage (SMB)   — Real SMPT adjusted for short-time working

Forecasts beyond the dotted line
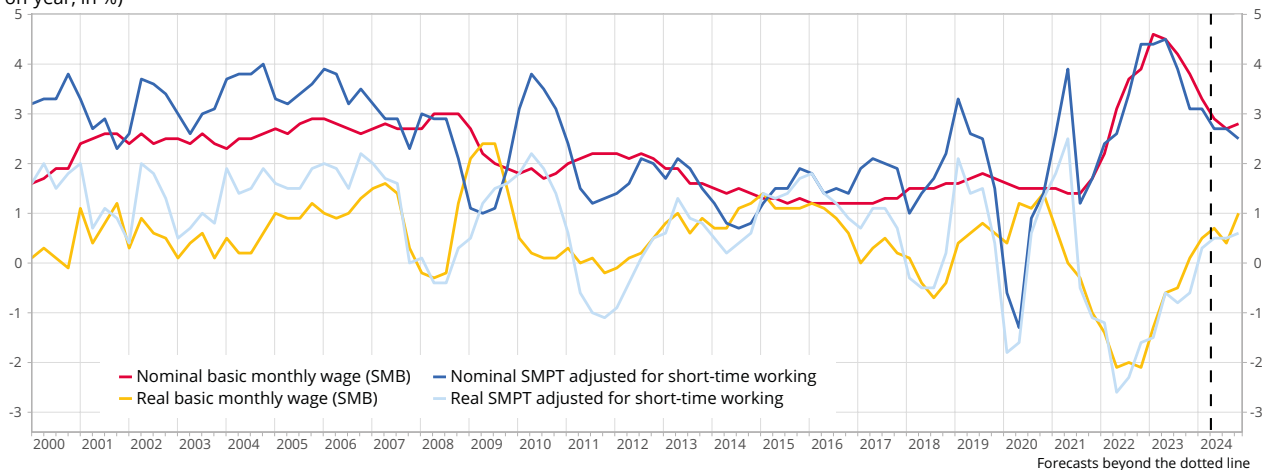
\* in the sense of the CPI - household consumption price index.
**Note**: here, the SMPT is adjusted for short-term working: these payments are not counted as wages and therefore led to some very wide variations when the SMPT was not adjusted during the health crisis ►blog post on wage indicator (in French).
**How to read it**: in Q4 2024, year-on-year growth in nominal SMB would be 2.8%.
**Scope**: non-agricultural market sector.
**Source**: DARES, INSEE.

## ►3. Balance of opinion on general expectations for wages in industry since 2000
(balance of opinion, in points, SA)
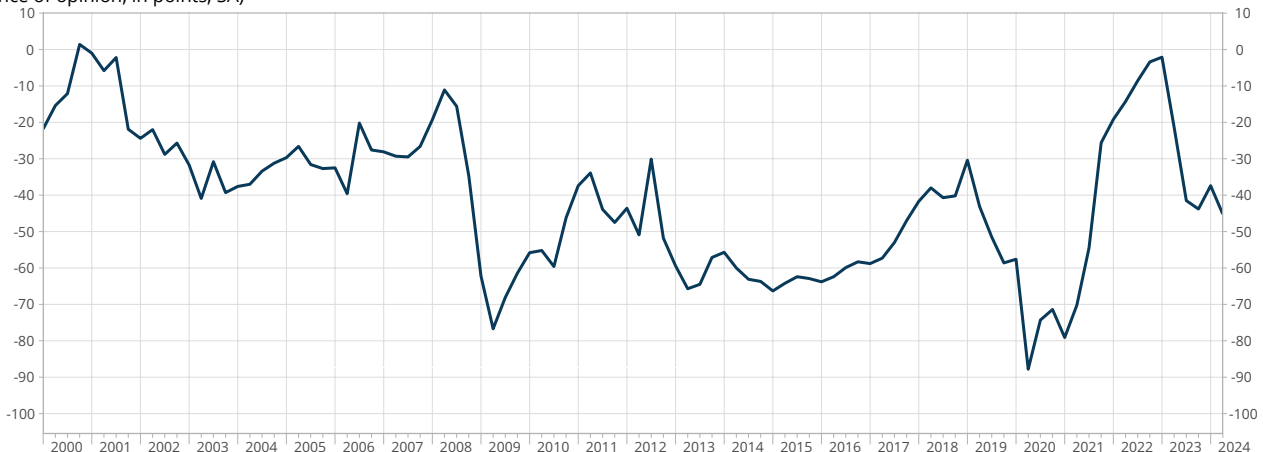


**Last point**: Q2 2024.
**How to read it**: in Q2 2024, the balance of opinion on general expectations for wages in industry stood at -45 points.
**Source**: quarterly business survey in industry, INSEE.

*economic outlook*

# Household income

In Q1 2024, household gross disposable income (GDI) remained buoyant (+1.2% in current euros after +1.3% at the end of 2023, ►Figure 1). Social benefits accelerated due to the indexing of basic pensions against past inflation, and represent the main contribution to the increase in GDI (+0.8 points). Earned income has slowed significantly with the ending of payment of the one-off purchasing power bonus to civil servants and smaller payments under the value-sharing bonus scheme (PPV) (►Wages sheet). Meanwhile, wealth income rebounded after 2023 ended with the increase in property taxes. Since price rises remained modest (+0.6% after +0.3%), GDI purchasing power picked up again in early 2024: +0.6% after +1.0% at the end of 2023 (i.e. +0.5% per consumption unit after +0.8%).

The purchasing power of GDI is expected to stabilise overall by the end of 2024. Household gross disposable income looks set to slow a little in current euros in Q2 (+0.7% after +1.2%) then more substantially in the second half of the year, ►Figure 2. Earned income is expected to accelerate slightly in Q2 after a weak showing at the start of the year (+0.6% after +0.4%) and should then maintain a similar pace. It is likely to accelerate slightly once again at the end of the year, with the new bonus

## ►1. Components of household gross disposable income
(variations in %)

| | Quarterly changes | | | | | | | | Annual changes | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2023** | | | | **2024** | | | | **2022** | **2023** | **2024** |
| | **Q1** | **Q2** | **Q3** | **Q4** | **Q1** | **Q2** | **Q3** | **Q4** | | | |
| **Gross disposable income (100%)** | **1.0** | **1.7** | **1.3** | **1.3** | **1.2** | **0.7** | **0.3** | **0.2** | **5.2** | **8.0** | **3.9** |
| *Of which Gross disposable income excluding Sifim* | | | | | | | | | *4.8* | *5.8* | *3.9* |
| Earned income (73%) | 1.1 | 0.8 | 0.8 | 1.2 | 0.4 | 0.6 | 0.5 | 0.6 | 7.5 | 5.2 | 2.8 |
| Gross wages and salaries (65%) | 1.1 | 0.8 | 0.8 | 1.2 | 0.5 | 0.6 | 0.5 | 0.6 | 7.8 | 5.3 | 2.9 |
| GOS of sole proprietors* (8%) | 0.8 | 1.1 | 0.8 | 0.5 | -0.2 | 0.4 | 0.5 | 0.5 | 4.7 | 4.6 | 1.5 |
| Social benefits in cash (34%) | 0.8 | 0.6 | 0.8 | 1.3 | 2.5 | 1.2 | 0.8 | 1.0 | 1.7 | 4.7 | 5.8 |
| Property income, of which GOS of pure households (20%) | 5.2 | 4.0 | 2.5 | -0.2 | 2.5 | 0.5 | 0.0 | -1.2 | 6.5 | 17.1 | 4.8 |
| *Of which Income from assets excluding FISIM* | | | | | | | | | *5.8* | *7.5* | *4.9* |
| Social contributions and taxes (–26%) | 4.6 | 0.0 | 0.5 | -0.3 | 2.1 | 1.0 | 1.5 | 1.1 | 7.9 | 3.6 | 4.0 |
| **Household consumer prices**** | **2.2** | **1.6** | **1.1** | **0.3** | **0.6** | **0.5** | **0.6** | **0.0** | **4.9** | **7.1** | **2.5** |
| *Of which Income from assets excluding FISIM* | | | | | | | | | *4.7* | *4.8* | *2.5* |
| **Purchasing power of gross disposable income** | **-1.1** | **0.1** | **0.2** | **1.0** | **0.6** | **0.2** | **-0.4** | **0.2** | **0.2** | **0.9** | **1.4** |
| **Purchasing power per consumption unit** | **-1.3** | **-0.1** | **0.1** | **0.8** | **0.5** | **0.0** | **-0.5** | **0.1** | **-0.4** | **0.3** | **0.9** |

■ 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.

\*\* The dynamics of household consumer prices in 2023 differ significantly from those of the Consumer Price Index (CPI) as a result of the accounting effect of the earlier increase in interbank rates.

**Note**: figures in brackets give the structure for 2022.
**How to read it**: after a 1.2% rise in Q1 2024, household gross disposable income is expected to slow in Q2 2024 (+0.7%).
**Source**: INSEE.

## ►2. Quarterly variation in purchasing power of household gross disposable income (GDI) and its main contributions
(quarterly changes in %, contributions in points)
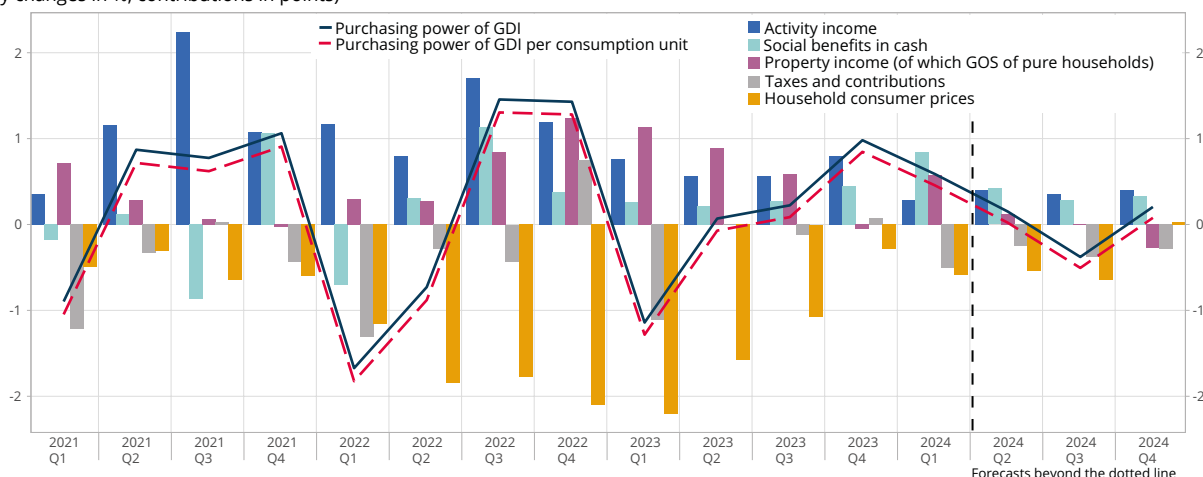


**Lecture**: the purchasing power of household GDI per consumption unit is expected to rise by 0.2% in Q2 2024. Social benefits are expected to contribute +0.4 points to the increase in household GDI (+0.7 points).
**Source**: INSEE.

# French economic outlook

payments and the forthcoming increase in the minimum wage. Social benefits are expected to slow gradually while remaining buoyant, especially in Q2 (+1.2%), due to the automatic increases in certain benefits such as family allowances. Wealth income should still be boosted by the payment of dividends and life insurance, but the net interest that households receive is likely to decrease from Q2 2024 as a result of the first cut in the ECB's base interest rate introduced in June. All in all, wealth income should continue to increase in Q2 (+0.5%) and stagnate in Q3 as a result of the drop in interest rates, before falling back slightly at the end of the year with the increase in property tax. However, this drop in interest rates is also likely to be reflected in the prices of Financial Intermediation Services Indirectly Measured (FISIM) provided to households, thereby reducing the household consumption deflator (►**Figure 3**).

In Q2, household consumer prices are expected to retain a similar pace of growth to that observed at the beginning of the year (+0.5% after +0.6%). This pace is then likely to slow, with its growth somewhat more dynamic in the summer than in the autumn. Its quarterly trend in H2 2024 is likely to be disrupted by the hosting of the Olympic and Paralympic Games in France in the summer: household consumer prices are expected to be dynamic in Q3 (+0.6%) due to inflation in transport services (►**Consumer prices sheet**). To counteract this, they are likely to come to a standstill towards the end of the year (0.0%).

On average over 2024, household GDI is expected to slow (+3.9% after +8.0% in 2023) but the decline in household consumer prices is likely to be more pronounced (+2.5% in 2024 after +7.1% in 2023), resulting in an acceleration of GDI purchasing power (+1.4% after +0.9% in 2023). This increase in GDI purchasing power as an annual average was already achieved by the end of Q1 2024 (►**Figure 4**). Purchasing power per consumption unit, which is closer to households' perceptions of the situation, is likely to increase by +0.9% in 2024, after +0.3% in 2023. ●

## ►3. Annual variation in purchasing power of household gross disposable income (GDI) and its main contributions
(annual changes in %, contributions in points)
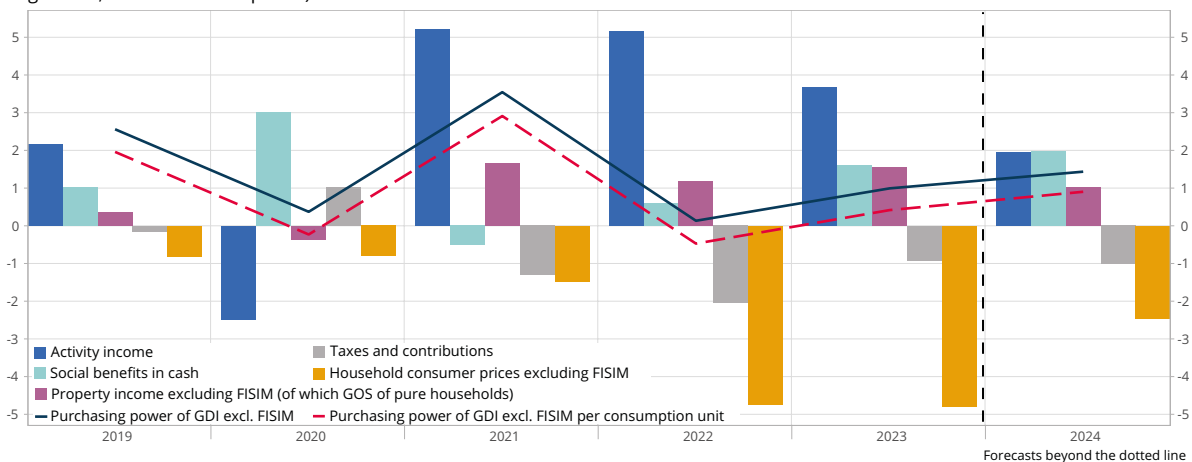


**Lecture**: GDI purchasing power (excluding the FISIM effect) per consumption unit is expected to increase by 1.4% in 2024. Social benefits are likely to contribute +2 points to the increase in household GDI (+3.9 points)
**Source**: INSEE.

## ►4. Change in purchasing power of household gross disposable income (GDI) and of GDP since 1990
(base 100 in 1990)
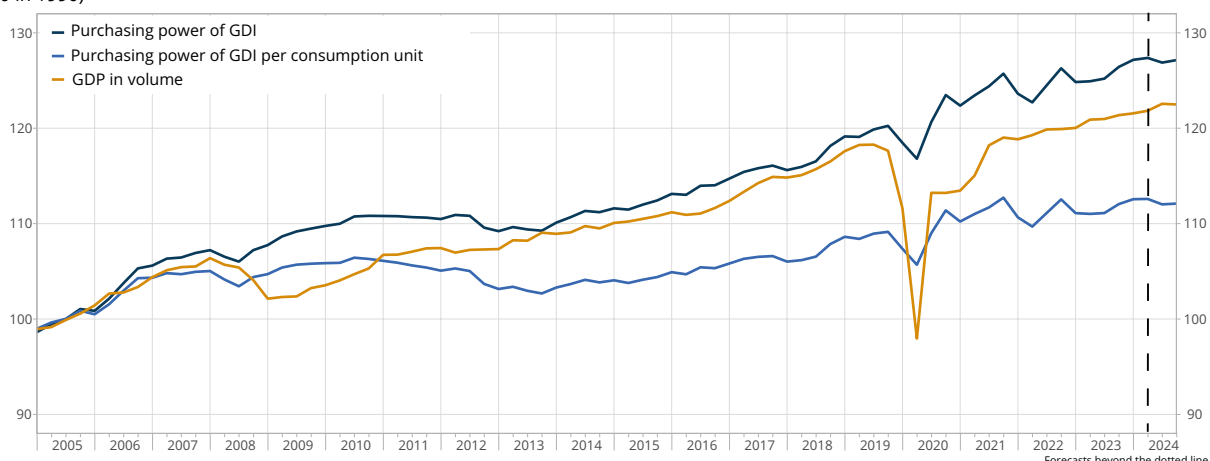


**Source**: INSEE.

# Household consumption and investment

In Q1 2024, household consumption increased slightly (+0.1% after +0.2%, ►**Figure 1**). Purchases of goods stabilised (0.0% after -0.6%): food consumption excluding tobacco began to recover, while tobacco consumption dropped sharply (-7.9%), following the increase in the price of a pack of cigarettes in January. All in all, this sharp decline in tobacco consumption contributed around -0.1 point to the change in household consumption over the quarter. Purchases of goods were also hampered by the impact on automobile sales, with households at the end of 2023 anticipating the introduction of more restrictive criteria for the "ecological bonus" for the purchase of an electric vehicle at the beginning of January. In services, consumption slowed (+0.4% after +0.6%): while spending on transport services remained lively, consumption of accommodation and food services has struggled to recover.

In Q2 2024, household consumption is expected to accelerate (+0.5%). Consumption of gas and electricity, which declined sharply at the end of 2023 and recovered only very slightly in Q1 2024 (►**Figure 2**), is now expected to pick up significantly in Q2 contributing +0.2 points to the increase in all household consumption forecast over the quarter. When adjusted for seasonal variations, gas and electricity consumption did indeed increase sharply in May, mainly due to cool temperatures for the season. Conversely, food consumption is expected to fall again in Q2, despite the continuing decline in inflation for these products. In services, consumption looks set to increase at a trend rate overall.

►**1. Past and expected quarterly consumption (left) and household savings ratio (right)**
(quarterly variations in % and contributions in points) (in % of gross disposable income)
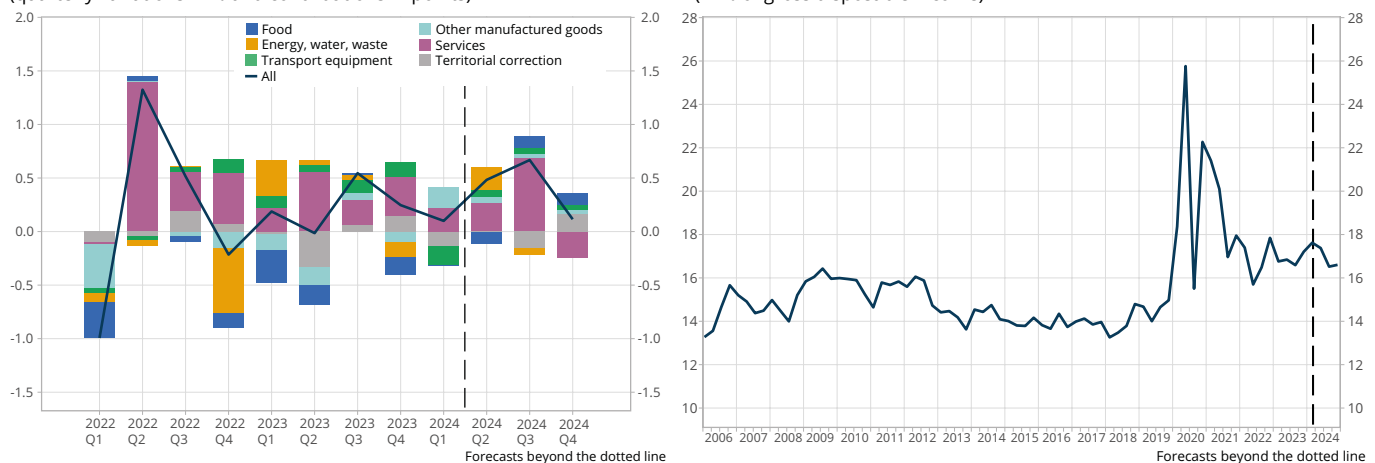


**Note**: territorial correction represents purchases made by French residents abroad (also counted in imports) minus purchases by non-residents made in France (counted in exports). The other contributions to household consumption (food, energy, etc.) refer exclusively to consumption in France.
**How to read it**: in Q2 2024, household consumption is expected to increase by +0.5% compared to the previous quarter. Consumption of energy, water and waste is expected to contribute +0.2 points to variation in consumption. In Q2 2024, households' savings ratio is expected to stand at 17.4% of their 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)
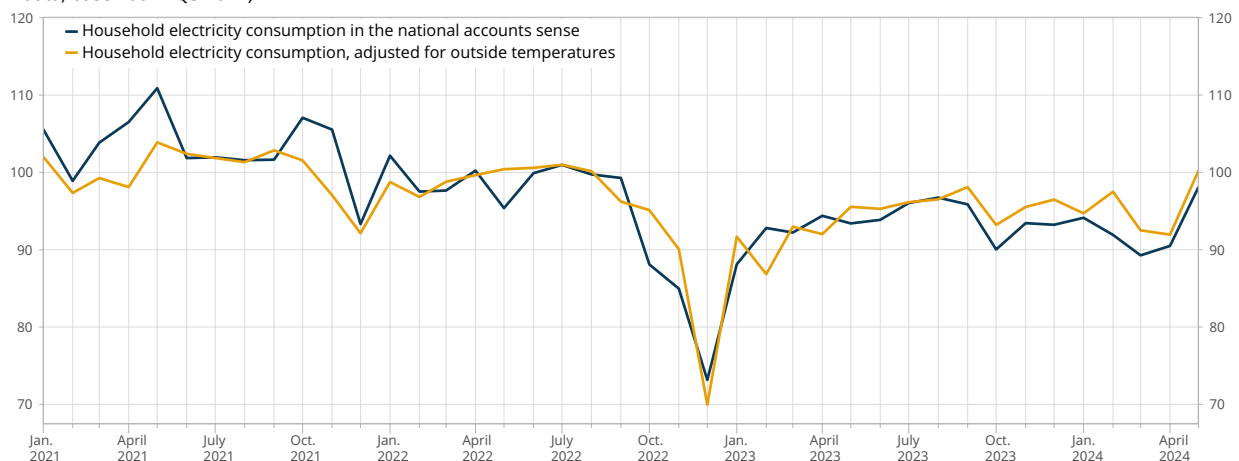


**Last point**: May 2024.
**Lecture**: in March 2024, household electricity consumption was 11% less than its average level in Q3 2022. Adjusted for the effects of weather conditions (slightly milder than seasonal norms), consumption would have been 7% lower than in the Q3 2022.
**Source**: INSEE.

# French economic outlook

In H2 2024, consumption is expected to maintain the same pace on average but with a somewhat uneven profile: household consumption should be particularly buoyant during the summer (+0.7%, ►Figure 3) before stabilising at the end of the year (+0.1% in Q4 2024). At the Olympic and Paralympic Games in Paris, about two thirds of the expected spectators are expected to be French residents, and should therefore temporarily boost consumption by resident households by about +0.3 points in Q3 (►Focus on the effect of the Olympic and Paralympic Games), and then reduce the trend by the same amount at the end of the year.[1] This effect is most likely to be seen in spending on "other services to households", which are likely to be 8 points higher than the trend due to purchases of tickets for the events, recorded in the summer in the national accounts. To a lesser extent, the consumption of transport services is also likely to increase, mainly as a result of the rise in passenger numbers on public transport in Île-de-France, as will the use of accommodation-catering. After adjustment for seasonal variations, gas and electricity consumption are expected to decline in the summer, the season when this consumption is less sensitive to weather conditions: both are expected to return to their more usual levels after the sharp rebound in spring, although they are still down by 4% on the level of summer 2022. This consumption should then stabilise in Q4 2024, assuming that weather conditions are normal: the energy-saving behaviour observed during the last two autumns therefore appears to be maintained, although not increased.

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**1** All in all, the Olympic and Paralympic Games are expected to bolster total consumption in France by +0.4 points this summer, however, a third of this increase will not contribute to the expected consumption by resident households since this share is expected to be due to spending by tourists not resident in France: this fraction is therefore deducted from household consumption in the territorial adjustment and the equivalent is added to exports of tourism services.

## ►3. Estimated and projected quarterly household consumption
(quarterly and annual variations. in %. SA-WDA)

| Products | weight(1) | 2022 | | | | 2023 | | | | 2024 | | | | 2022 | 2023 | 2024 |
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **All goods** | **44 %** | **-1.9** | **-0.1** | **-0.1** | **-1.7** | **0.0** | **-0.5** | **0.6** | **-0.6** | **0.0** | **0.5** | **0.4** | **0.5** | **-2.3** | **-1.6** | **0.4** |
| Food goods | 17 % | -2.0 | 0.3 | -0.3 | -0.8 | -1.9 | -1.1 | 0.2 | -1.0 | 0.0 | -0.7 | 0.7 | 0.7 | -3.3 | -3.5 | -0.9 |
| Agricultural products | 3 % | -2.5 | -1.1 | -0.5 | -2.5 | -0.5 | 0.7 | 0.0 | -1.2 | -0.2 | -1.0 | 0.7 | 0.7 | -6.2 | -2.6 | -1.3 |
| Food product | 14 % | -1.9 | 0.6 | -0.3 | -0.5 | -2.1 | -1.4 | 0.2 | -1.0 | 0.1 | -0.7 | 0.7 | 0.7 | -2.8 | -3.7 | -0.9 |
| Coke and refined petroleum | 4 % | -2.1 | -1.4 | 1.7 | -1.3 | 0.4 | -2.1 | -0.4 | -1.6 | 1.8 | 1.0 | -0.1 | -0.3 | 1.5 | -2.2 | 0.5 |
| Other industrial products | 19 % | -1.9 | 0.1 | -0.3 | 0.2 | -0.2 | -0.1 | 1.0 | 0.6 | -0.4 | 0.5 | 0.5 | 0.5 | -1.0 | 0.4 | 1.3 |
| Capital goods | 3 % | -0.2 | -0.5 | -0.1 | -2.1 | -1.1 | -1.3 | 3.4 | -0.3 | 2.2 | 1.0 | 1.0 | 1.0 | -4.0 | -2.1 | 5.0 |
| Transport equipment | 5 % | -1.0 | -0.7 | 1.0 | 2.9 | 2.4 | 1.2 | 2.2 | 2.8 | -3.4 | 1.3 | 1.0 | 1.0 | -1.9 | 7.8 | 1.6 |
| Other industrial products | 11 % | -2.7 | 0.6 | -0.9 | -0.4 | -1.2 | -0.4 | -0.1 | -0.1 | 0.5 | 0.0 | 0.2 | 0.2 | 0.2 | -2.1 | 0.2 |
| Energy, water, waste | 5 % | -1.7 | -1.1 | 0.2 | -13.5 | 8.7 | 1.1 | 1.1 | -3.2 | 0.3 | 4.6 | -1.0 | 0.0 | -7.0 | -2.4 | 1.4 |
| **All services** | **57 %** | **0.0** | **2.5** | **0.6** | **0.8** | **0.4** | **1.0** | **0.4** | **0.6** | **0.4** | **0.5** | **1.2** | **-0.4** | **9.0** | **3.1** | **2.1** |
| Construction | 2 % | 2.1 | -2.3 | -1.1 | 1.5 | 0.7 | -0.3 | -0.3 | -0.3 | 0.5 | 0.2 | 0.5 | 0.5 | 2.5 | 0.2 | 0.6 |
| Trade (2) | 0 % | -0.6 | -0.2 | -0.4 | 2.9 | -0.4 | -0.3 | -1.1 | -0.1 | -1.1 | 1.0 | 0.0 | 0.0 | 1.4 | 0.8 | -1.1 |
| Market services excluding trade | 46 % | -0.1 | 3.0 | 0.7 | 0.8 | 0.4 | 1.0 | 0.4 | 0.6 | 0.4 | 0.4 | 1.3 | -0.5 | 10.2 | 3.2 | 2.2 |
| Transport | 3 % | 1.7 | 6.8 | 2.3 | 1.1 | 0.0 | 3.0 | 0.6 | 1.2 | 1.0 | 0.7 | 2.2 | -0.6 | 34.9 | 6.6 | 4.4 |
| Accommodation and food | 9 % | -2.6 | 13.6 | 1.0 | 0.9 | -0.6 | 2.6 | -0.3 | 0.0 | 0.1 | 0.6 | 1.2 | 0.0 | 37.7 | 5.5 | 1.6 |
| Information-communication | 4 % | -0.3 | 0.0 | 1.5 | 0.9 | 2.0 | 0.9 | 2.2 | 1.6 | 1.3 | 0.5 | 0.5 | 0.5 | 3.3 | 5.7 | 4.6 |
| Financial services | 8 % | 0.6 | 0.6 | 0.5 | 0.4 | 0.3 | 0.4 | 0.4 | 0.5 | 0.2 | 0.3 | 0.3 | 0.3 | 2.4 | 1.7 | 1.3 |
| Real estate services | 19 % | 0.4 | 0.4 | 0.2 | 0.5 | 0.3 | 0.4 | 0.4 | 0.3 | 0.2 | 0.4 | 0.4 | 0.4 | 1.6 | 1.4 | 1.3 |
| Business services | 3 % | 0.6 | 0.8 | 1.0 | 2.3 | 0.9 | 0.8 | 0.5 | 1.9 | 1.1 | 0.3 | 0.8 | 0.6 | 11.0 | 4.7 | 3.8 |
| Household services | 4 % | -0.2 | 2.3 | 1.2 | 0.9 | 1.0 | 0.9 | -0.2 | 0.9 | 0.6 | 0.3 | 8.4 | -8.0 | 18.9 | 3.6 | 3.7 |
| Non-market services | 5 % | -0.4 | -0.1 | 0.5 | 1.0 | 0.7 | 1.0 | 0.8 | 1.6 | 0.3 | 0.9 | 0.3 | -0.5 | 1.9 | 3.3 | 2.9 |
| **Total consumption in France** | **101 %** | **-0.9** | **1.4** | **0.3** | **-0.3** | **0.2** | **0.3** | **0.5** | **0.1** | **0.2** | **0.5** | **0.8** | **0.0** | **3.8** | **1.0** | **1.4** |
| Territorial correction | -1 % | 10.9 | 4.5 | -19.1 | -8.5 | 2.6 | 42.2 | -5.9 | -14.0 | 14.6 | 0.1 | 15.1 | -14.1 | 499.8 | 6.4 | 11.3 |
| *Imports of tourism services* | | *1.5* | *3.8* | *7.4* | *4.7* | *3.8* | *-4.7* | *1.9* | *4.0* | *3.4* | *0.6* | *0.6* | *0.6* | *28.4* | *10.4* | *7.2* |
| *Exports of tourism services* | | *3.7* | *4.0* | *0.8* | *2.1* | *3.6* | *3.7* | *0.0* | *-0.1* | *5.6* | *0.5* | *3.7* | *-2.9* | *55.2* | *9.5* | *8.1* |
| **Total consumption of residents** | **100 %** | **-1.0** | **1.3** | **0.5** | **-0.2** | **0.2** | **0.0** | **0.5** | **0.2** | **0.1** | **0.5** | **0.7** | **0.1** | **3.0** | **0.9** | **1.3** |

▪ Forecast

**(1)** weight in household final consumption expenditure in current euros in 2023.

**(2)** this item corresponds to sale and repair of motor vehicles and motorbikes.

**Lecture:** in Q2 2024. household consumption of food is expected to decline by 0.7% compared to the previous quarter.

**Source:** INSEE.

Throughout 2024 as a whole, household consumption is expected to accelerate slightly compared to last year (+1.3% in 2024, after +0.9% in 2023). The consumption trend should therefore be similar to that of household purchasing power (+1.4%, ►**Figure 4**). As an annual average, the savings ratio is likely to remain virtually stable, at 17.1% in 2024 after 16.9% in 2023: this would still be 2.5 points higher than the 2019 average (14.6%), which seems consistent with the balance of opinion on opportunity to save, which is still high (►**Figure 5**), as declared in the monthly economic survey of households (CAMME). The savings ratio is expected to decline quarter by quarter in H2 2024, to reach 16.6% at the end of the year (after 17.2% observed one year earlier): household consumption is likely to be relatively dynamic throughout the year, whereas more gains in purchasing power were achieved at the end of 2023 and the beginning of 2024, especially given the timetable for the increase in social benefits.

Meanwhile, household investment continued its sharp decline in Q1 2024 (-1.4%): while investment in services started to pick up, driven by a rebound in the number of transactions in the older housing sector, household investment in construction has continued to tumble (►**Figure 6**), despite easing slightly in new housing. In Q2, Household investment is expected to fall back less strongly (-0.6%): spending on maintenance and improvement is expected to rebound but this will not be sufficient to compensate for the further decline in investment in new housing. In H2 2024, household investment in construction should gradually stabilise (-0.5% then 0.0%): spending on maintenance and improvements is likely to increase slightly, while the drop in investment in new housing should slow, reflecting, albeit with some delay, the current stabilisation in housing starts. Their investment in services appears stable, given that the proportion of households intending to buy a home stopped declining some months ago (►**Focus** on housing purchase intentions). ●

### ►4. Household consumption. investment and savings ratio
(quarterly and annual variations. in %. SA-WDA data)

| | 2022 | | | | 2023 | | | | 2024 | | | | 2022* | 2023* | 2024* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Q1** | **Q2** | **Q3** | **Q4** | **Q1** | **Q2** | **Q3** | **Q4** | **Q1** | **Q2** | **Q3** | **Q4** | | | |
| **Consumption:** *quarterly changes* | -1.0 | 1.3 | 0.5 | -0.2 | 0.2 | 0.0 | 0.5 | 0.2 | 0.1 | 0.5 | 0.7 | 0.1 | 3.0 | 0.9 | 1.3 |
| **Purchasing power:** *quarterly changes* | -1.7 | -0.7 | 1.5 | 1.4 | -1.1 | 0.1 | 0.2 | 1.0 | 0.6 | 0.2 | -0.4 | 0.2 | 0.2 | 0.9 | 1.4 |
| **Savings ratio:** *as % of gross disposable income* | 17.4 | 15.7 | 16.5 | 17.8 | 16.8 | 16.8 | 16.6 | 17.2 | 17.6 | 17.4 | 16.5 | 16.6 | 16.9 | 16.9 | 17.1 |
| **Investment:** *quarterly changes* | -0.1 | -1.3 | -2.5 | -1.3 | -2.7 | -2.2 | -2.1 | -2.0 | -1.4 | -0.6 | -0.4 | 0.0 | -3.3 | -8.2 | -5.2 |

■ Forecast

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

**Source**: INSEE.

# French economic outlook

►**5. Household investment in construction and housing space produced**
(balance of opinion, SA data)
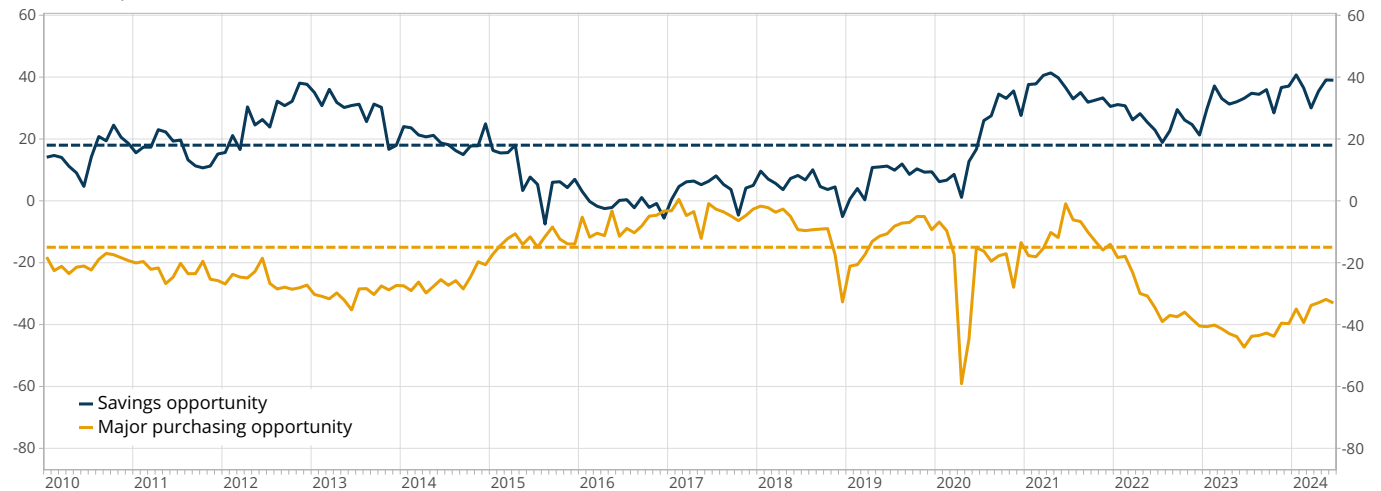


**Last point**: June 2024.
**Note**: dotted lines represent historical average balances, calculated over the period January 1987-December 2023.
**How to read it**: in June 2024, households' balance of opinion on the opportunity to save stood at 39 points.
**Scope:** households living in ordinary housing in metropolitan France
**Source**: monthly household survey (Camme), INSEE.

►**6a. Household investment in construction and housing starts**
(base 100 in 2019, SA data)
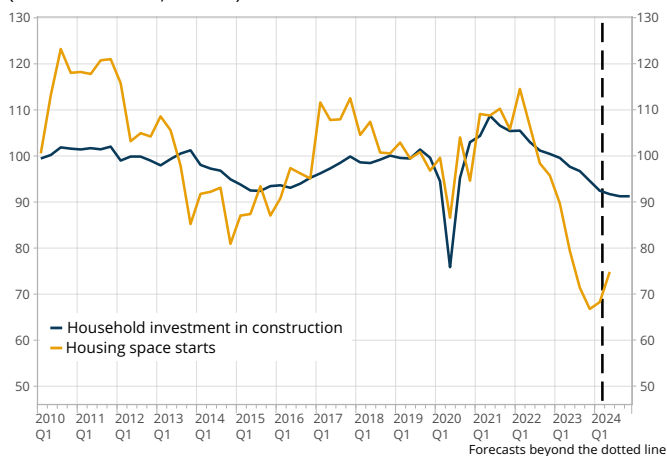


**Note**: for housing starts, the point at Q2 2024 corresponds to data for April and May only.
**How to read it**: in Q2 2024, household investment in construction – expressed as base 100 in 2019 – is expected to be 92.6.
**Source**: INSEE and SDES

►**6b. Balances of opinion on expectations for activity in the next three months in construction**
(balance of opinion, SA data)
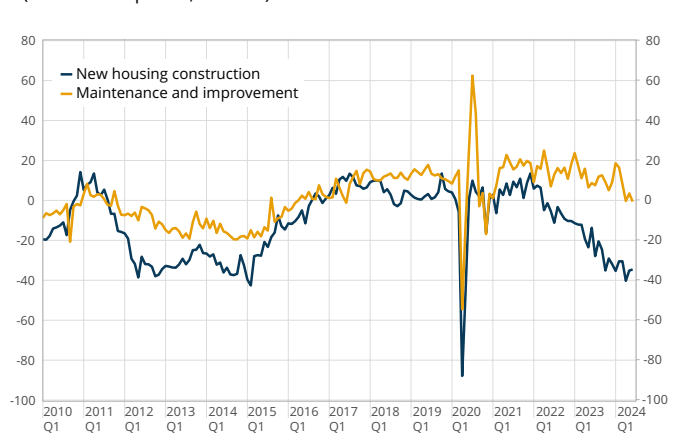


**Last point**: June 2024.
**How to read it:** in June 2024, the balance of opinion on expectations for activity in the next three months in new housing construction stands at -35 points.
**Source:** monthly business survey of the construction industry, INSEE

# After declining sharply since the beginning of 2022, due mainly to first-time buyers, the number of real estate transactions looks set to stabilise

Since the start of 2022, the number of real estate transactions has fallen by just over 20% and accounts for almost half of the decline in household investment over the period. The monthly consumer confidence survey of households (CAMME) includes a question on the housing purchase intentions of those surveyed: the share of households intending to buy housing is well correlated, although a few months ahead, with the number of real estate transactions. It can also be broken down by category of household, so that those who have given up a housing purchase can be identified. Thus the decline in purchasing intentions since 2022 derives mainly from households of tenants and young people, who are equivalent to first-time buyers. At the beginning of 2024, their numbers stabilised, suggesting that the collapse of the real estate market could be coming to an end.

Nicolas Palomé

Each month, INSEE interviews around 2,000 households as part of the monthly consumer confidence survey "CAMME". This survey includes a question on intentions to purchase a home in the next 12 months (►**Method**). The share of households intending to buy their home[1] is correlated overall with the number of real estate transactions taxed monthly in common law (mainly sales of second-hand housing, ►**Figure 1**).

Thus, the share of households intending to purchase a home, like transactions, saw an upward trend across the entire period starting from the end of the sovereign debt crisis until the end of the health crisis (however, the series of real estate transactions was significantly more uneven than intentions to purchase during the Covid crisis in

2020). More specifically, the share of households with the intention of purchasing housing reached a historic low several times, dropping to 5% during 2014 then gradually increasing to its historic high, at 12%, in January 2022. This dynamism in purchasing intentions and, at the same time in real estate transactions, is closely linked to the continuing drop in interest rates over this period, from 4.0% at the start of 2012 to 1.1% at the beginning of 2022[2] (►**Figure 2**).

Since mid-2022, purchasing intentions – like transactions – have fallen back sharply, largely due to the increase in interest rates for new real estate loans, which is leading households to abandon or postpone their acquisition plans. These two types of deterioration did not happen

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1 Used to calculate the balance of opinion relating to this question published in INSEEs macroeconomic database, see Method.
2 Within the meaning of the narrowly defined effective rate (TESE) for new loans calculated by the Bank of France as the average rate of new real estate loans granted to households, excluding insurance.

## ►1. Share of households intending to buy a home and number of real estate transactions
(non CVS data)
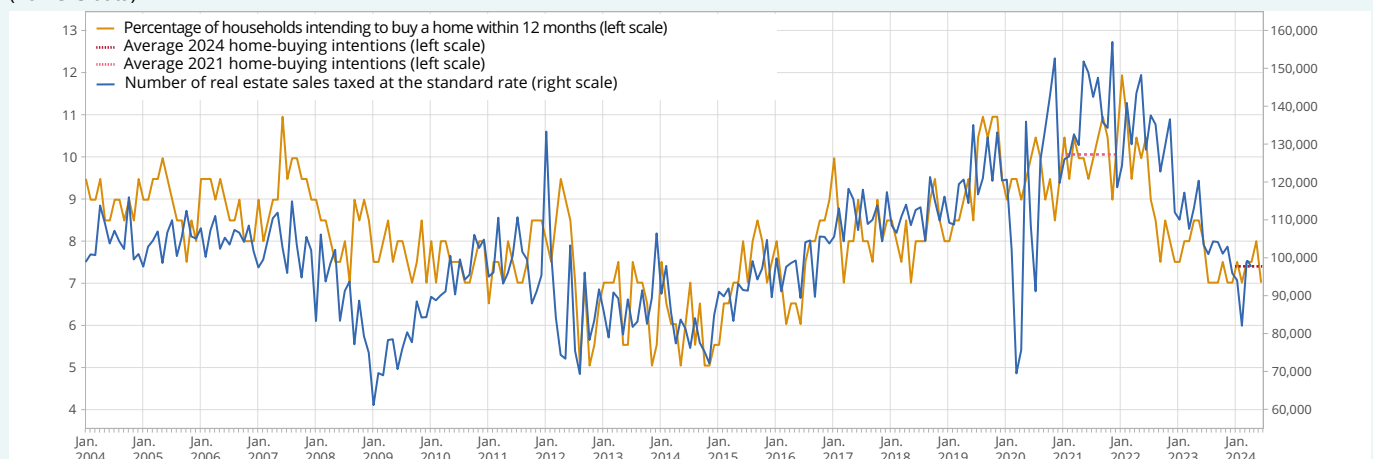


**Last point**: June 2024 for the share of households intending to buy a home; April 2024 for the number of real estate transactions.
**Note**: transactions taxed under common law are mainly sales of second-hand homes. For details of the types of sales included in this series, ►**Box Method**.
**How to read it**: in June 2024, 7% of households said they intended to purchase a home in the next 12 months; in April 2024, the number of real estate sales taxed under common law was estimated at 97,819.
**Scope**: for the share of households intending to buy a home: households living in Metropolitan France in ordinary housing; for transactions: real estate sales taxed at the common law rate.
**Source**: INSEE, monthly household survey (Camme); General Inspectorate for the Environment and Sustainable Development.

# French economic outlook

completely simultaneously, however: purchasing intentions, observed from summer 2022, were ahead of transactions by about six months. This difference corresponds to the usual delays in this sector, linked to the search for a property, the signing of a sale agreement then the exchange of contracts. Therefore the share of households intending to purchase a home can be used, on the one hand to predict change in the real estate market in the short term, and on the other hand to trace variations in transactions by category of household.

## The stabilisation of purchasing intentions suggests an end to the deterioration in investment in services to households

In national accounting, households' purchases of second-hand housing are not traced as they correspond to exchanges between households with no value creation. However, costs linked to the acquisition (agency fees, notary fees, transfer taxes) are counted as household investment in services and thus enter directly into the calculation of GDP. By volume, these costs vary with the number of transactions (fluctuations in real estate prices are recorded in the investment deflator) and represented around a quarter of all household investment in 2022. Household investment in construction (purchase of new housing and major maintenance and improvement work to housing) accounts for the remaining three quarters. Between Q2 2022 and Q1 2024, household investment in services fell by just over 20%, accounting for almost half the decline in total household investment.

Since mid-2023, the share of households who intend to buy a home has stabilised, fluctuating between 7 and 8%. On average, however, since the start of 2024, purchasing intentions have remained 3 points below the 2021 level. Given the usual delays between purchasing intentions and completion of a transaction, the number of transactions is expected to stabilise over the coming quarters. In this *Economic outlook*, the forecast selected is that of stabilisation of household investment in services from the spring onwards.

## Since 2022, the drop in purchasing intentions has mainly concerned households of tenants and young people, who can be compared to first-time buyers[3]

Using the share of households intending to buy housing, the dynamics of real estate purchase can be broken down by category of household. The intention to buy a home is both greater and more cyclical in tenant households, who can be compared to first-time buyers. Indeed, among tenant households, the share of households intending to purchase housing has been falling substantially for three years (-5 points on average between 2021 and 2024;[4] ▶ **Figure 3**), i.e. much more than for households that are already owners (-1 point). In January 2024, the purchasing intentions of owner households were even seen occasionally to exceed those of tenant households, an unprecedented scenario with the available data.

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**3** Households that are already home-owners generally own their main residence (around 94%; Household wealth survey 2017-2018): in the vast majority of cases, therefore, renting households intending to purchase a property would be buying for the first time. The notion of "first-time buyer" usually used by INSEE assumes that the purchase would be made through a loan, information not known here.
**4** Data available to June 2024.

▶ **2. Narrowly defined effective rate (NDER) for real estate loans to individuals and base interest rate: main refinancing operations**
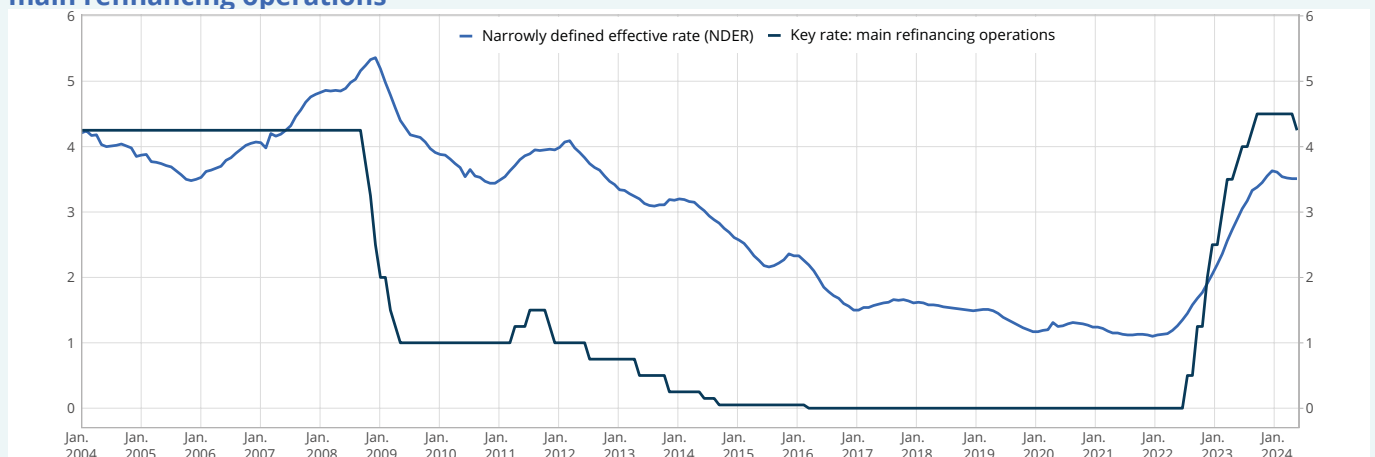


**Last point**: May 2024 for the narrow effective rate; June 2024 for the ECB's main key rate.
**How to read it**: in May 2024, the narrowly defined effective rate was 3.5%; in June 2024, the ECB's main base interest rate was 4.25%.
**Source** : Banque de France.

Analysis by age confirms these results. Since 2014, the momentum of intentions to purchase has been driven above all by young households (where the reference person is under 35, ▶ **Figure 4**), and they are more often than not tenants.[5] Thus, after a significant increase between 2014 and the beginning of 2022, the purchasing intentions of young households fell sharply, from 23% on average in 2021 to 15% in 2024[6] (-8 points). Purchasing intentions of households of intermediate age (between 35 and 64) followed the same trend until 2022, in a less marked manner. They declined between the beginning of

2022 and mid-2023 (falling from 12% in January 2022 to 5% in July 2023) but have since recovered, contrary to what is observed for the younger households. For households aged over 64, purchasing intentions are stable and very low (which reflects the fact that these households buy few homes: 7 out of 10 are in fact already owners, Household wealth survey 2017-2018,).

By income category, households' purchasing intentions in the last three quartiles of the standard of living scale (the 75% of households with the highest standard of living) have fallen in a comparable manner over the last

5  Housing survey 2020, SDES.
6  Data available to June 2024.

▶ **3. Share of households intending to purchase a home, according to housing occupancy status**
(non CVS data)
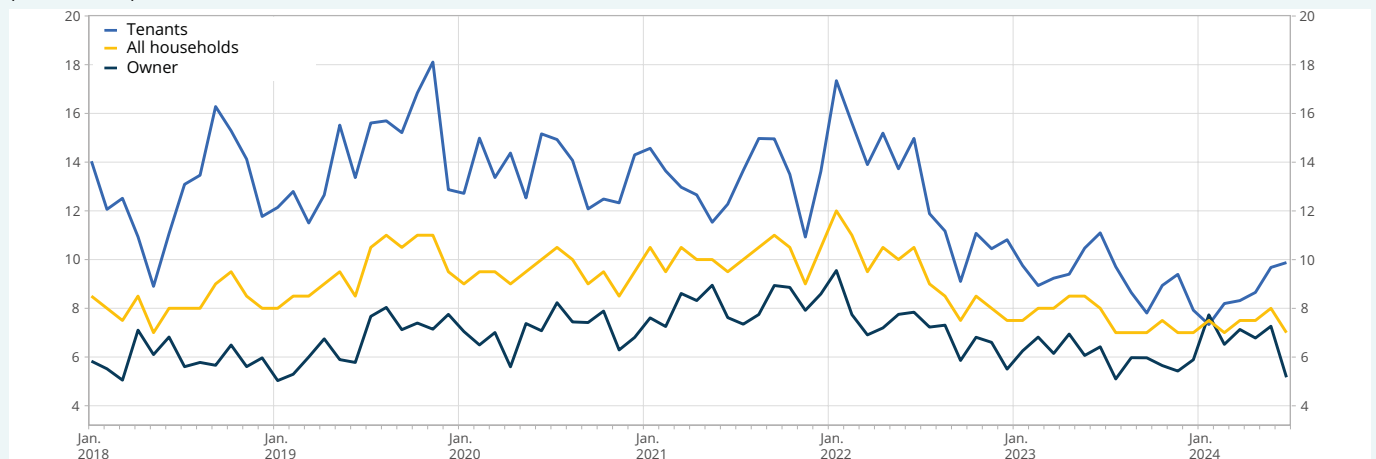


**Last point**: June 2024.
**How to read it**: in June 2024, 10% of households renting their main residence say they intend to buy a home in the next 12 months.
**Scope**: for the share of households intending to buy a home: households living in Metropolitan France in ordinary housing; for transactions: real estate sales taxed at the common law rate.
**Source**: INSEE, monthly household survey Camme.

▶ **4. Share of households intending to purchase a home, according to age category**
(non CVS data)
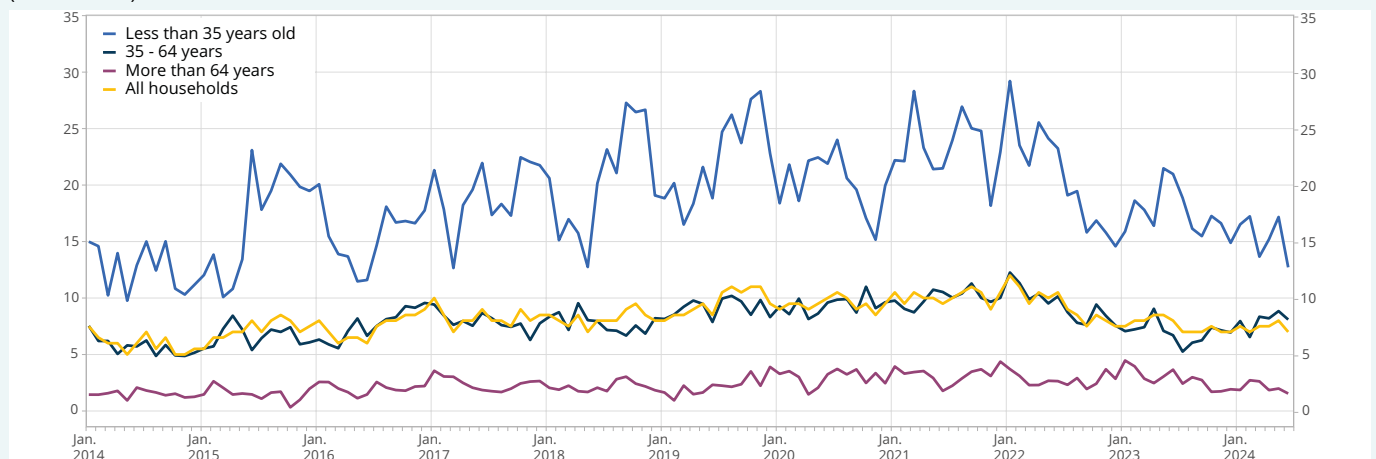


**Last point**: June 2024.
**How to read it**: in June 2024, 13% of households where the reference person is under 35 say they intend to buy a home in the next 12 months.
**Scope**: for the share of households intending to buy a home: households living in Metropolitan France in ordinary housing; for transactions: real estate sales taxed at the common law rate.
**Source**: INSEE, monthly household survey Camme.

three years (between -3 and -4 points between 2021 and 2024, ►**Figure 5**). Among these households, the wealthiest 25% have seen their purchasing intentions increase most over the period ranging from 2014 to 2021 (+7 points on average between 2014 and 2021, against +4 points for households in the second and third quartiles of the standard of living scale). Purchasing intentions for these households were also on an upward trend over the first few months of 2024, although this trend was

less pronounced for households in the second and third quartiles. However, the least well-off 25% of households very rarely expect to buy a home. This concerns around 5% of these households and this proportion seems very stable, reflecting the structural exclusion of these households from the real estate market, with only a third of them owing their own home (►**Household wealth survey 2017-2018**,INSEE). ●

►**5. Share of households intending to purchase a home, according to standard of living quartile**
(non CVS data)
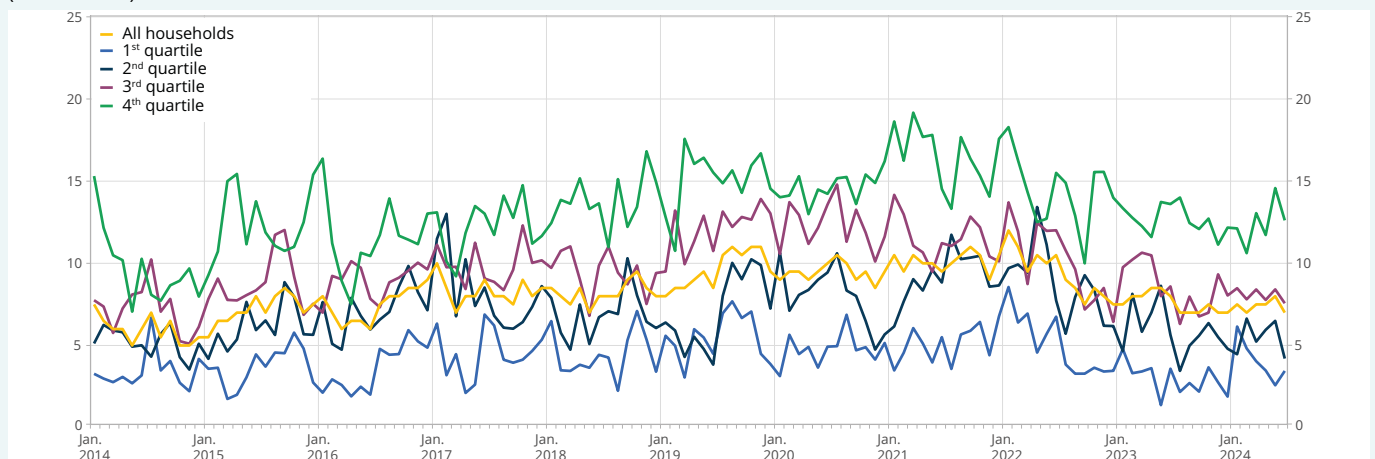


**Last point**: June 2024.
**How to read it**: in June 2024, 3% of households in the most well-off quartile of the standard of living scale say they intend to buy a home in the next 12 months.
**Scope**: for the share of households intending to buy a home: households living in Metropolitan France in ordinary housing; for transactions: real estate sales taxed at the common law rate.
**Source**: INSEE, monthly household survey Camme.

## Methodology

As part of the monthly consumer confidence survey "CAMME", INSEE collects responses each month from around 2,000 households on their opinion about their economic environment and their personal situation. This survey is harmonised at European level. The balances of opinion on the various topics, calculated by subtracting the share of "negative responses" from the share of "positive responses", are available from 2004 in their harmonised version at European level. However, the breakdown by category of household is only possible from 2013 (2018 regarding the breakdown by housing occupancy status, see below).

The question asked to find out households' housing purchase intentions is as follows: "Are you planning to buy a new or second-hand home (or to have one built) over the next twelve months? (main residence for you or a member of your family, secondary residence, to let, etc.)". Four response modes are offered: "Yes, definitely", "Yes, possibly", "No, probably not", "No, definitely not". The corresponding balance of opinion, published in INSEE's macroeconomic database, is calculated as the difference between the share of households saying "Yes, definitely" and "Yes possibly" and the share of households saying "No, probably not", "No, definitely not". For simplification, here we present the share of households intending to buy a home as the sum of the shares of households saying "Yes, definitely" and "Yes, possibly".

Households are also questioned about the amount of their income, with the following question: "What is the average total monthly income of your household? Consider all types of income: wages, retirement pensions, unemployment benefit, family allowances, etc. Give the amount before tax is deducted at source". They are also asked about the composition of their household. Combined with information on the income they receive, this factor 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. On the one hand, the amount given by households is not necessarily net of income tax deducted at source, which is different from the definition of "disposable income" that INSEE usually uses to calculate standards of living. On the other hand, the standard of living calculated here is based only on the respondents' declarations, which may therefore not be perfectly aligned with the tax classification of sources of income.

To classify households on the standard of living scale, the quartile values are then calculated by calendar year, by weighting households with weightings specific to the survey. Households are then ranked on the standard of living scale, by comparing the value of their standard of living to that of the quartiles.

Regarding the status of occupancy of the housing (tenant/owner), this information comes from INSEE's Fidéli database (Housing and individual demographic files), constructed from data originating from a tax source. Data from the CAMME survey and the Fidéli database have been matched from 2018.

Data on real estate sales taxed under common law correspond to those published by the IGEDD cumulated over 12 months, with an estimate produced in order to give a monthly series at national level for this study. These data correspond to the sales of second-hand properties (more than five years old) for residential or commercial use (residential use representing about two thirds of sales), land sold between individuals and new constructions sold between individuals (unless the seller has acquired the property in a future state of completion). There is a one-month time delay between the signing of a deed of sale and its being recorded in the data. ●

# Entreprises' earnings

In Q1 2024, the margin rate of non-financial corporations (NFCs) fell significantly, to 32.1% of their value added, or -1.2 points compared to the end of 2023 (▶**Figure 1**). The downturn in the value added price of NFCs[1] weighed heavily on their margin rate: this was particularly the case for companies in the agrifood industry sector, due to the decline in their producer prices. In addition, the real cost of labour per capita increased at the beginning of the year, bolstered by the automatic increase in the minimum wage on 1st January and wage adjustments based on past inflation. Conversely, the reduction in taxes on production boosted the margin rate slightly in Q1, as a result of the new measure to reduce the business value-added contribution (CVAE), and as a reaction to the large increase in the property tax on professional buildings at the end of the year. The NFC margin rate is nevertheless still more than one point above its pre-health crisis average value (30.9% in 2019): it is significantly higher in energy and, to a lesser extent, in the manufacturing industry, but it remains below this value in services, where businesses are slow to pass on any increase in their costs (▶**Focus** on the effect of the imported price shock on the margin rate of companies). In addition, corporate finance costs increase as interest rates rise and ultimately companies' savings (which take corporate tax and operating result into account) are at a level equivalent to that of 2019.

In Q2, the NFC margin rate is expected to be virtually stable (-0.1 point), at 32.0% of value added. Companies in the energy sector are likely to suffer as a result of the downturn in electricity prices. Nevertheless, this effect is expected to be partially offset for all companies by improvements in productivity, since employment is expected to grow at a more moderate pace than activity.

In H2 2024, the profile of the NFC margin rate is likely to be very striking, due to the one-off impact of the Olympic and Paralympic Games on national activity in the summer (▶**Figure 2**): after this disruption, the NFC margin rate is expected to settle at 32.0% at the end of the year, virtually stable if compared to its level in the spring.

All in all, throughout 2024 as a whole, the margin rate of companies is expected to stand at 32.2% of value added, down -0.7 points compared to its 2023 average: value added prices are expected to increase much less quickly than consumer prices due to the drop in electricity prices and agrifood producer prices. Conversely, it is likely that gains in productivity will largely exceed real wage increases, which should contribute positively to the margin rate.

**1** The price of the value added of non-financial corporations (NFCs) is approached like the price of the value added of market branches excluding financial and real estate services.

## ▶1. Decomposition of margin rate of non-financial corporations (NFC)
(margin rate in %, variation and contributions in points)

| | 2023 | | | | 2024 | | | | 2022 | 2023 | 2024 |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
| **Margin rate** | 32.0 | 33.2 | 33.0 | 33.3 | 32.1 | 32.0 | 32.7 | 32.0 | 31.0 | 32.9 | 32.2 |
| **Variation in margin rate** | 1.4 | 1.2 | -0.2 | 0.3 | -1.2 | -0.1 | 0.8 | -0.8 | -2.4 | 1.9 | -0.7 |
| Productivity (+) | 0.3 | 1.0 | 0.2 | 0.4 | 0.1 | 0.2 | 0.6 | 0.0 | -0.4 | 0.9 | 1.2 |
| Real per capita labour cost* (-) | 0.1 | -0.1 | 0.2 | 0.0 | -0.5 | 0.0 | 0.2 | -0.3 | 0.1 | 0.4 | -0.4 |
| *Of which real wages per head(-)* | *0.2* | *0.1* | *0.3* | *-0.1* | *-0.4* | *0.0* | *0.2* | *-0.3* | *-0.4* | *0.4* | *-0.3* |
| *Of which Employer's contribution rate(-)* | *-0.1* | *-0.1* | *-0.1* | *0.1* | *-0.2* | *0.0* | *0.0* | *0.0* | *0.5* | *0.0* | *-0.2* |
| VA price/consumer price ratio* (+) | 0.7 | -0.2 | -0.5 | 0.0 | -1.0 | -0.3 | 0.0 | 0.1 | 0.3 | 0.3 | -1.5 |
| Other items | 0.4 | 0.4 | -0.1 | -0.1 | 0.2 | 0.0 | 0.0 | -0.4 | -2.4 | 0.2 | 0.1 |

■ Forecast

**\*** in the sense of the consumption price index (CPI).

**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.

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)



Forecasts beyond the dotted line

**Source**: INSEE.

# French economic outlook
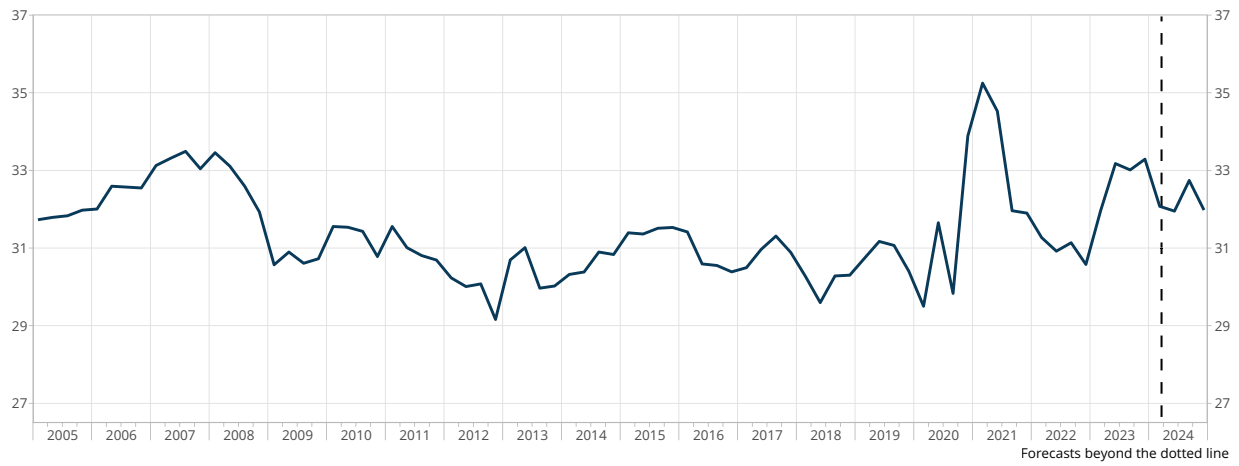
## The margin rate of companies in France has withstood the rise in import prices well, due to their increased selling prices and wage moderation

Despite a price shock in imports as the health crisis ended, which was subsequently intensified by the invasion of Ukraine in 2022, the average corporate margin rate held firm: in 2023, it stood at two value-added points above its 2019 level. The terms of trade certainly deteriorated slightly over the period, but to a much lesser extent than during the oil shocks of the 1970s due to the buoyancy of export prices: part of the shock was therefore dissipated abroad, while domestic consumers were protected by the price moderation measures put in place by the government. Finally, at the heart of the inflationary period, real wages experienced an unprecedented decline, especially when compared to the oil shocks.

However, this overall resistance of the corporate margin rate masks strong disparities between branches of activity. Data by branch for the most recent years are based on partial sources, still subject to revisions, and so they should be viewed with caution. Subject to this reservation, the margin rates of the energy branch and the manufacturing industry in 2023 stood at 9 points and 4 points respectively above their pre-health crisis level while the margin rate of market services fell by 1 point compared to 2019. This sectoral divergence can be accounted for mainly by the effect of the terms of trade and the price-setting method: the energy sector benefitted directly from the price increase, while service companies belatedly passed on the increases in their wage costs.

Gaston Vermersch

### In the short term, an increase in import prices reduced corporate margins

In the summer of 2021, amidst a recovery in global demand, bottlenecks appeared in supply chains, pushing import prices up. This increase was exacerbated by the invasion of Ukraine in February 2022. As a result, import prices increased by +7.2% in 2021 (►**Figure 1**) and then by +17.6% in 2022, before falling back slightly in 2023 (-2.2%) in line with the decline in commodity prices.

Such an increase in imported prices is likely to hold back the margin rate of non-financial corporations (NFCs), which is defined as the ratio of their gross operating surplus (GOS) to their value added (VA): it corresponds

schematically to the share of capital in the value added, i.e. the share of value added not used to pay wages. All things being equal, an increase in the price of imports increases the price of the intermediate consumptions of enterprises and therefore contributes to reducing the price of value added: consequently, for a given wage, an increase in the import price reduces the margins.

However, this reasoning only holds in the very short term because the price shock in imports is spread out: on the one hand, companies pass on the increase in their costs to their selling price; and on the other hand, employees, confronted with inflation, demand pay rises. The variation in the margin rate therefore reflects the ability of enterprisers to set their selling prices and negotiate pay rises.

### ►1. Change in import and export prices since 2019
(annual average change, % change)
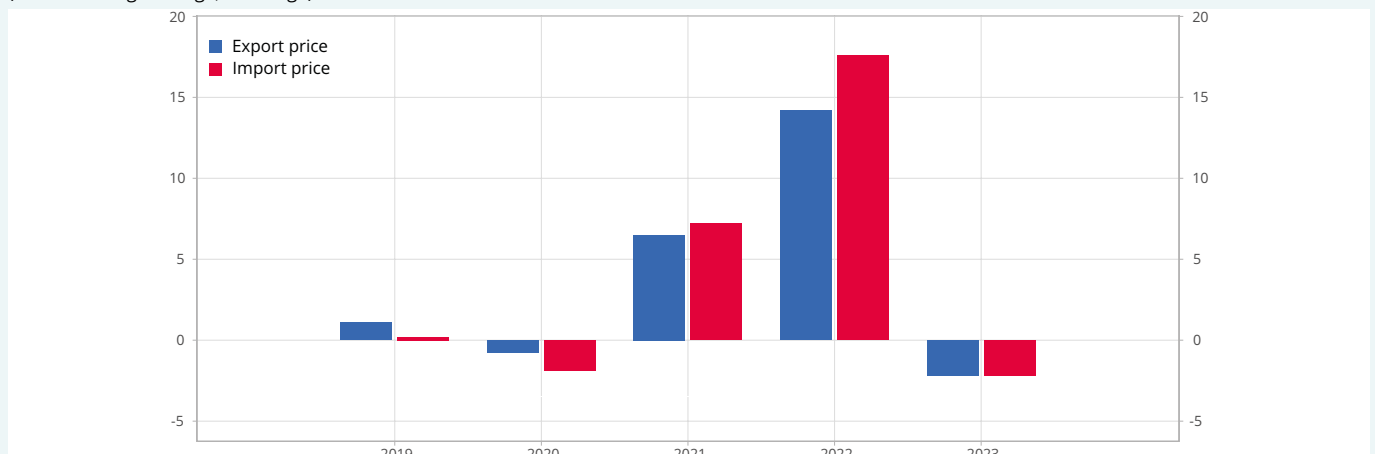


**How to read it**: in 2022, import prices increased by +17.6%, export prices increased by +14.2%.
**Source**: INSEE.

## Over the recent period, the corporate margin rate has been maintained due to the decline in real wages and the sharp rise in export prices

However, despite the significant rise in import prices observed over the recent period (+23% on a aggregate basis between 2020 and 2023), the margin rate of non-financial corporations increased, reaching 32.9% in 2023, two points above its 2019 level (30.9%). The usual breakdown of the variation in margin rate accounts for the mechanisms on which this dynamic performance is based, by defining the respective contributions of change in labour productivity, the real cost of labour,[1] the ratio of household consumer prices[2] to the NFC value-added price, and finally, taxes net of subsidies on production (▶ Box Method).

Notably, using change in the ratio between the NFC value-added price and the household consumer price, it is usually possible, within a scale factor, to measure the impact of the terms of trade on the margin rate, i.e. the ratio of variation in the price of exports to the price of imports (▶ Figure 2). In fact, while an increase in import prices leads to a greater rise in the consumer price than in the value-added price, conversely, an increase in export prices corresponds to an increase in the value-added price, but with no impact on domestic consumer prices, which, all other things being equal, improves the corporate margin rate. In this way, the ratio of the value-added price to the consumer price usually changes in a similar manner to the terms of trade, at a similar scaling factor: in fact, value-added and household consumption prices depend not only on export and import prices, but also on the domestic prices

of goods produced in France. Changes affecting the ratio between these two prices are usually less than fluctuations in the terms of trade by a factor of about three, which corresponds to the weight of foreign trade in French GDP (▶ Amoureux and al., 2022).

Over the recent period, however, the significant increase in import prices has been partially offset by an increase in export prices. Export prices for all goods and services were buoyant in 2021 (+6.5%) and then in 2022 (+14.2%), even though this increase remained lower than that of import prices (+7.2% in 2021 and +17.6% in 2022). Finally, in 2023, the decline in export prices was exactly the same as that in import prices (-2.2%). Consequently, the terms of trade, defined as the ratio of the export price index to the import price index, contracted in 2021 (-0.7%) and again in 2022 (-2.9%) before stabilising in 2023: this drop represented 0.3 GDP points in 2021, and then a further 1.3 points in 2022. This decline in the terms of trade in 2022 was therefore much smaller than that which occurred during the first oil shock (-13.2% in 1974, or -3.1% of GDP). French enterprises therefore managed to pass on a large share of the price shock in imports towards the rest of the world, thereby preserving their margins.

In addition, the implementation by the public authorities of various price moderation measures from 2021 and especially from 2022 onwards, especially those relating to energy products (▶ Box on tariff shield measures), enabled the modification of consumer prices without cutting value-added prices (▶ Figure 3): in 2022, the value-added price of non-financial corporations therefore increased more

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**1** Change in the cost of labour is traditionally due to changes in real wages per capita and the rate of social contributions payable by employers. Over the recent period, however, it should be borne in mind that the wages paid by companies has differed from the wages received by employees, because of the introduction of major payments by government in respect of short-time working during the health crisis. Consequently, the contribution of real wages (paid by companies) to the change in the margin rate can itself be broken down into a contribution for wages received by employees and a contribution for short-time working.
**2** In this Focus, the household consumer price corresponds to the Consumer Price Index (CPI) and not to the household consumer price in the national accounts, in order to neutralise the effect of Financial Intermediation Services Indirectly Measured (FISIM).

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## ▶2. Change in external terms of trade and in the ratio of NFC VA prices to consumer prices since 1970
(annual average change, % change)
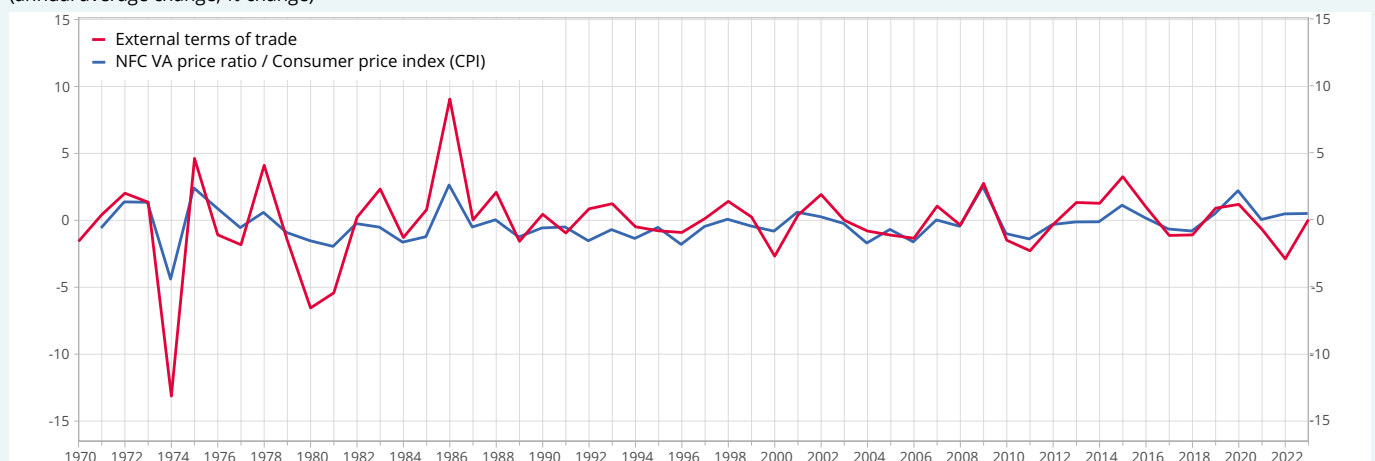


**Last point**: 2023.
**How to read it**: in 2022, external terms of trade fell by -2.9%. Variation in the ratio of the NCF value added price to the household consumer price within the meaning of the CPI was +0.5%.
**Source**: INSEE.

# French economic outlook

vigorously than that of GDP, which followed the change in acquisition prices (+5.7% against +3.2%). All in all, the tariff shield reached almost €30 billion in 2022 and 2023 and consequently enabled the absorption of more than two thirds of the terms-of-trade shock. The consumer price used to break down the change in margin rate implicitly includes the tariff shield effect. Consequently, cumulatively over 2022 and 2023, the ratio of the value-added price of NFCs to consumer prices has tended to have a favourable effect on the corporate margin rate despite the deterioration in external terms of trade over the same period (►Figure 4).

However, it is also true that wages have not kept pace with inflation, which has contributed to the buoyant performance of the corporate margin rate in recent times: in fact, the average wage per capita received by employees (i.e. the wage paid by NFCs supplemented by the short-time working allowance paid by the authorities) increased less quickly than household consumer prices in 2022 and 2023, so that real wages fell back by about 2 points over two years (►Figure 5). This drop in real wages is

unprecedented when compared to the oil shocks of the 1970s, since real wages at that time continued to increase, especially during the first oil shock, and despite higher inflation, in a context in which annual gains in productivity were certainly higher than at present.

Finally, measures determined by the authorities since 2021 to reduce production taxes have helped support the corporate margin rate, to the tune of €11 billion in 2021, €4 billion in 2023 and an additional €1 billion in 2024.

**Over the last two years, the margin rate of the energy branch has benefitted from the increase in the selling prices of its products, whereas the import price shock has hampered the margin rate of market services**

While the margin rate of non-financial corporations has generally improved since 2019, this trend masks disparities between branches: the margins of the different branches of activity have evolved in different ways, due to the health crisis followed by the import price shock. In particular,

## ►3. Change in NFC value added prices and household consumption since 2019
(annual average change, % change)
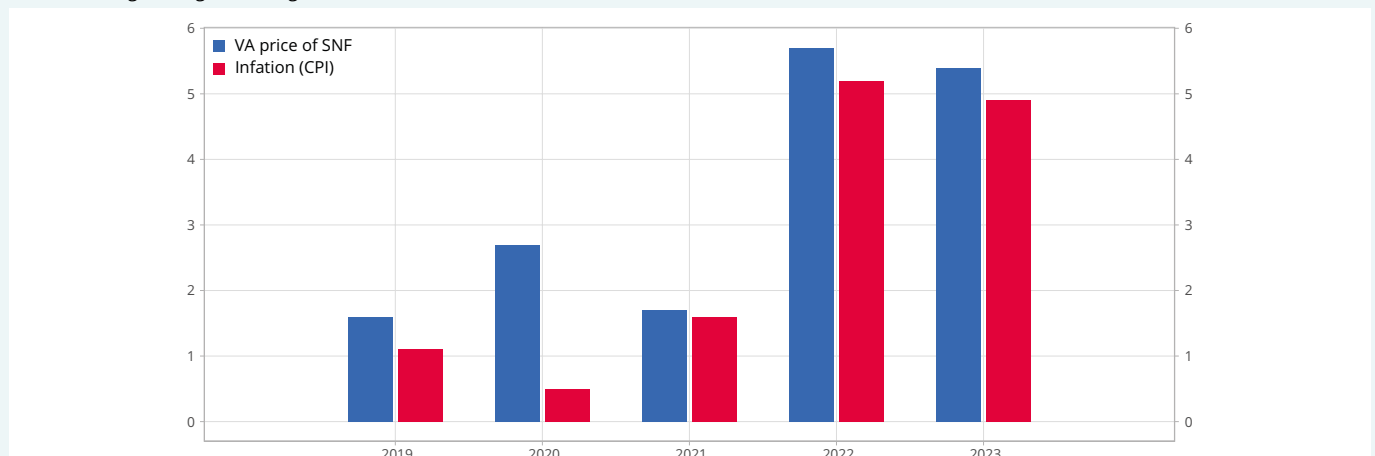
**How to read it**: in 2022, the NFC value added price increased by 5.7% whereas household consumer prices within the meaning of the CPI increased by 5.2%.
**Source**: INSEE.

## ►4. Breakdown of NFC margin rate
(contribution of different factors and annual change in margin rate, in percentage points)
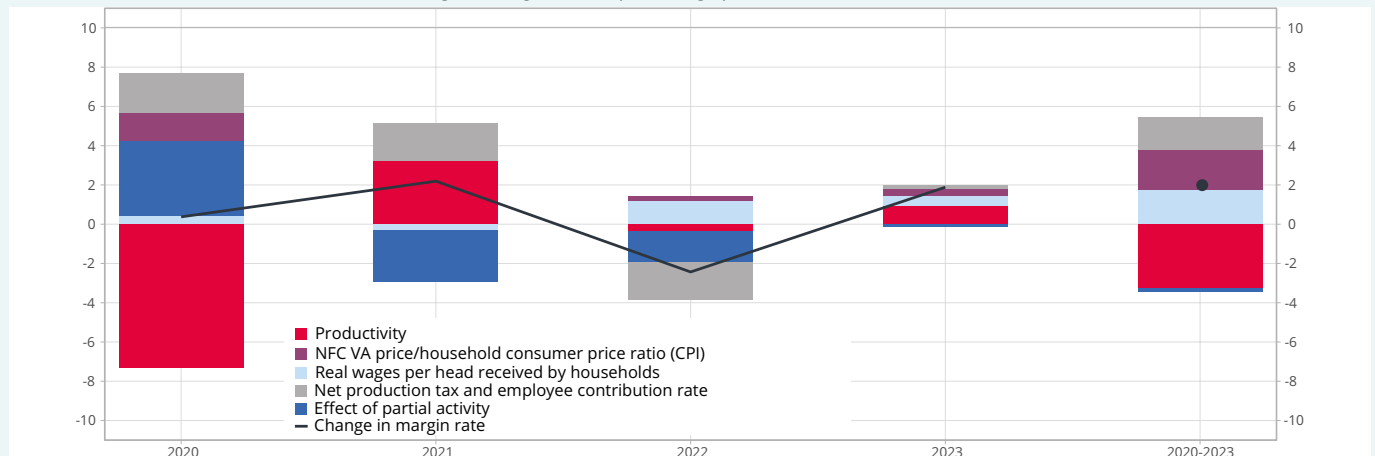
**How to read it**: in 2022, the NFC margin rate fell by 2.4 percentage points. The drop in real wages received by households made a positive contribution (+1.1 points).
**Source**: INSEE.

the margin rate of the "Energy, water and waste" branch increased strongly (+9 points between 2019 and 2023) whereas the manufacturing industry margin rate increased more modestly (+4 points). In contrast, the margins of market services (excluding trade and excluding financial and real estate services) have slipped back (-1 point since 2019) (▶**Figure 6**).

The economic breakdown of the margin rate (distinguishing between productivity effects, real wages per capita  and the ratio of the VA price to the consumer price) can be further divided into sectoral levels (▶**Box Method**). In this way, the economic determinants of variations in the margin rates can be assessed for each branch, including the role of value added prices in these main branches. However, margin rates by branch must be interpreted with care: detailed data from the structural

business statistics at branch level have not yet been incorporated into the National Accounts for 2022 and 2023. They may therefore need to be revised for the semi-definitive and definitive accounts.

In the "Energy" branch (which includes both energy producers and suppliers), the margin rate first declined in 2022 (-17.1 points), mainly due to the impact of the drop in productivity: in fact, employment in the sector was maintained, although activity collapsed due to the shutdown of numerous nuclear reactors. From an accounting perspective, the drop in subsidies relating to the contribution to the public electricity service (CSPE) also affected margins; however, this decline was caused by the increase in market prices of electricity, which also bolstered the margins of enterprises in the sector via their value-added price. A strong rebound then occurred in 2023

▶**5. Change in real average wage per capita received by households**
(base 100 in the quarter preceding the import price shock)
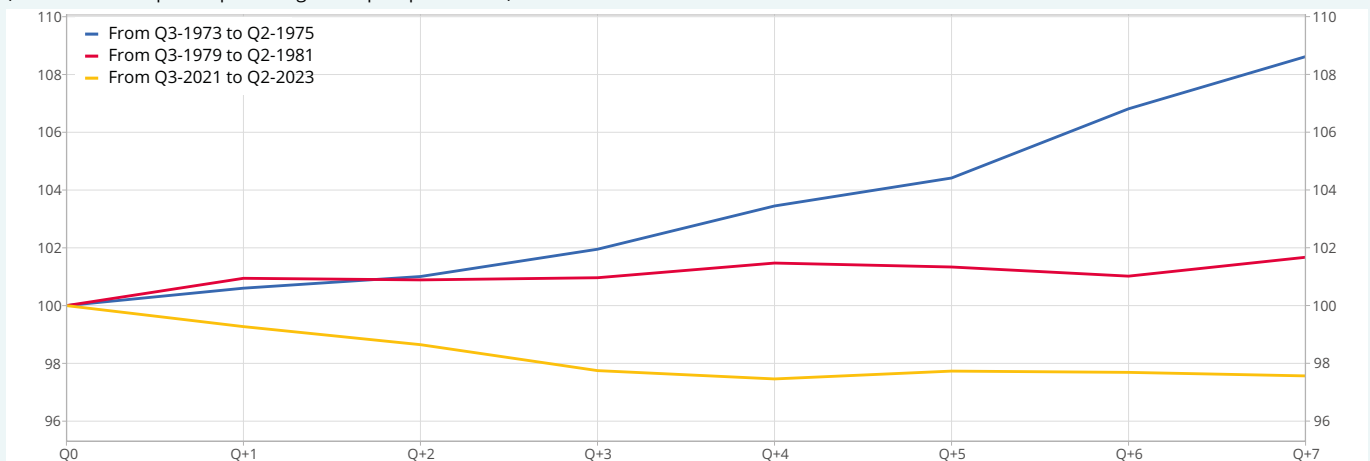


**Note 1**: the real average wage per capita (SMPT) received by households is obtained by deflating the nominal SMPT received by households (i.e. the SMPT paid by NFCs supplemented by the short-time working allowance paid by the authorities) by the household consumer price in the National Accounts for the 1973-1975 period and by deflating by the consumer price index for the period 2022-2023 in order to neutralise the effect of Financial Intermediation Services Indirectly Measured (FISIM).
**Note 2**: before 1978, payroll employment by institutional sector is not known. For the 1973-1975 period, we refer to payroll employment in the market sector.
**Note 3**: for the 2021-2023 period, the average wage per capita is adjusted for the short-time working scheme.
**How to read it**: in Q2 2023, the average wage per capita received by households (i.e. the SMPT paid by NFCs supplemented by the short-time working allowance paid by the authorities) fell by 2.4% compared to Q3 2021.
**Source**: INSEE.

▶**6. Change in the margin rate in different branches of activity since 2017**
(as a percentage of value added)
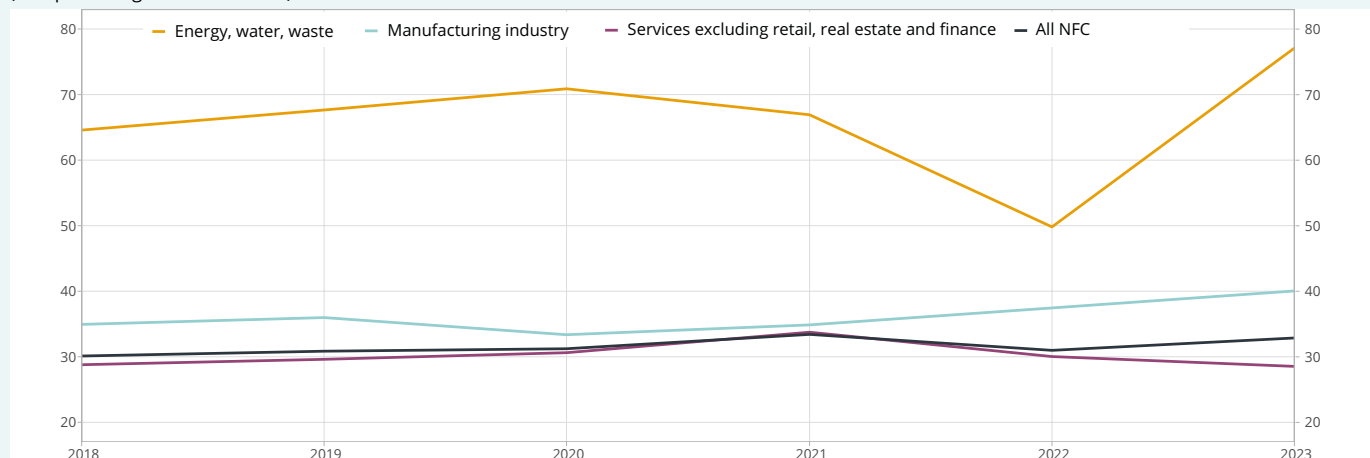


**How to read it**: in 2023, the margin rate of the "Energy, water, waste" sector represents 77.1% of its value added.
**Source**: INSEE.

# French economic outlook

(+27.3 points): firstly, value added rebounded with the restarting of power plants (▶ **Box** on the contribution of energy to growth in 2023); secondly, the ratio of the value-added price to the consumer price continued to improve, contributing +16.7 points to the rise in margin rate (▶ **Figure 7**): the value added price in the energy branch improved significantly due to intermediate consumer prices dropping more sharply than producer prices.

The margin rate in the manufacturing industry increased at the same rate in 2022 and 2023 (+2.6 points, ▶ **Figure 8**), but the contribution factors differed in the two years. In 2022, the margin rate of industrial enterprises increased, driven by the strong increase in the value-added price (+12.6%), as they had quickly passed on the increase in inputs to both their domestic and foreign customers. As a result, the increase in value-added prices exceeded the household consumer price, which was moderated by the tariff shield and by more inert components, notably the

price of services. In 2023, contributions to the increase were more balanced: subsidies on production increased significantly with the ramping up of the "energy" window for businesses, the decline in real wages bolstered margins, as did the value-added prices and the recovery of productivity. Confronted with the resurgence of inflation, industrial enterprises quickly passed on the increase in costs to their customers while negotiating moderate pay rises with their employees, in a much more favourable manner than during past import price shocks. However, this overall increase in the margin rate of manufacturing branches masks a disparity between the different industrial enterprises as they have not all been exposed to the increase in energy prices in the same proportions (▶ **Lafrogne-Joussier, Martin and Méjean, 2023**).

Finally, in market services (excluding trade, and excluding financial and real estate services), the margin rate has deteriorated in the last two years, impacted mainly by the

## ▶7. Breakdown of the annual change in margin rate in the "Energy, water and waste" branch
(in percentage points)
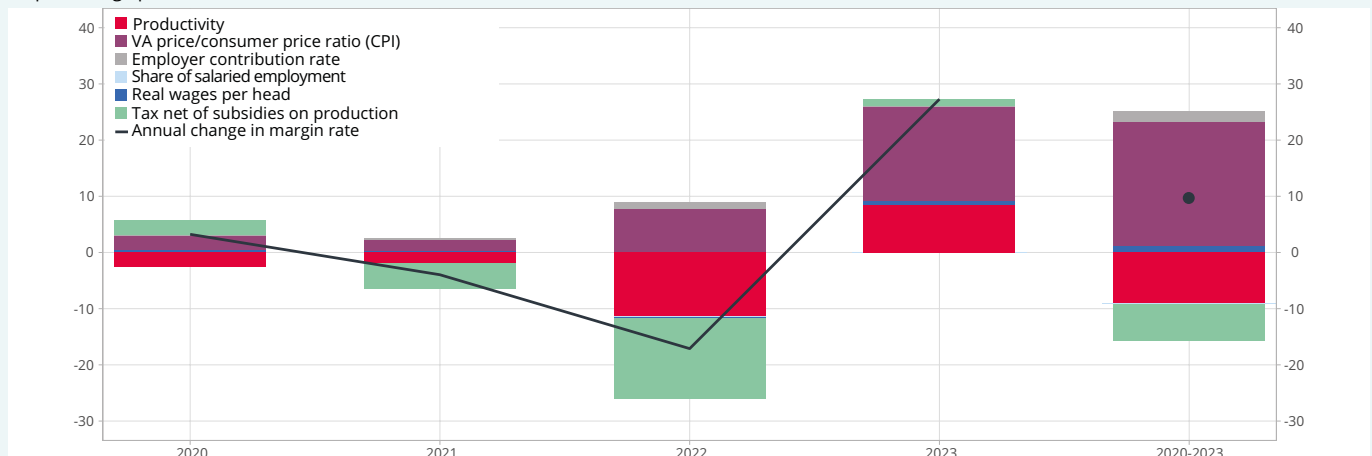


**Note**: for the "energy, water and waste" branch, taxes net of subsidies on production include public energy service charges.
**How to read it**: in 2022, the decline in productivity contributed -11.3 points to the change in the margin rate of the "Energy, water and waste" branch (-17.1 points).
**Source**: INSEE.

## ▶8. Breakdown of the annual change in the margin rate in the manufacturing industry sector
(in percentage points)
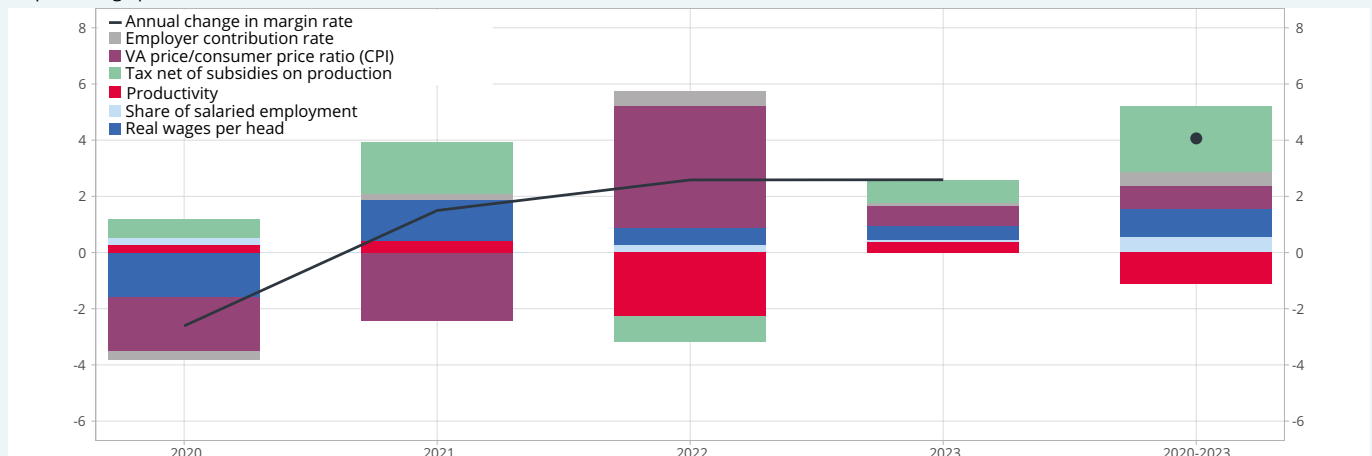


**How to read it**: in 2022, the decline in productivity contributed -2.3 points to the change in the margin rate of the manufacturing industry (+2.6 points).
**Source**: INSEE.

ratio of value-added prices to consumer prices (at -3.7 points in 2022 and -1.5 points in 2023, ►Figure 9). In fact, service enterprises are slowly passing on the increase in their costs in their margin rates (►Benchekara and Roulleau, 2023). These labour-intensive enterprises are strongly affected by second-round effects: the rise in import prices increases headline inflation via its volatile components (energy in addition to food and manufactured products), which leads to an increase in wage costs. However, this deterioration in margins may be only temporary: the prices of services are currently increasing faster than headline inflation (►Sheet Consumer prices) and enterprises in these sectors are therefore gradually rebuilding their margins. In addition, as in the rest of the economy, the rise in wages has been significantly lower than the rise in inflation, which facilitates the rebuilding of margins.

## In 2024, corporate margin rates are expected to slow down in industry and continue to catch up in market services

In 2024, the overall margin rate of NFCs is likely to slow down, and reach 32.2% of their value added, after 32.9% in 2023 (►Sheet Entreprises' earnings). This decline is expected to be especially pronounced in industry, whereas the margin rate in the tertiary market sector should continue to pick up. In both the manufacturing industry and in energy, selling prices look set to decline, which would then affect margins. Conversely, in market services, value-added prices should remain relatively buoyant, with enterprises belatedly passing on the increase in their wage costs. ●

►9. Breakdown of the annual change in the margin rate in the market services sector (excluding trade, excluding financial and real estate services)
(in percentage points)
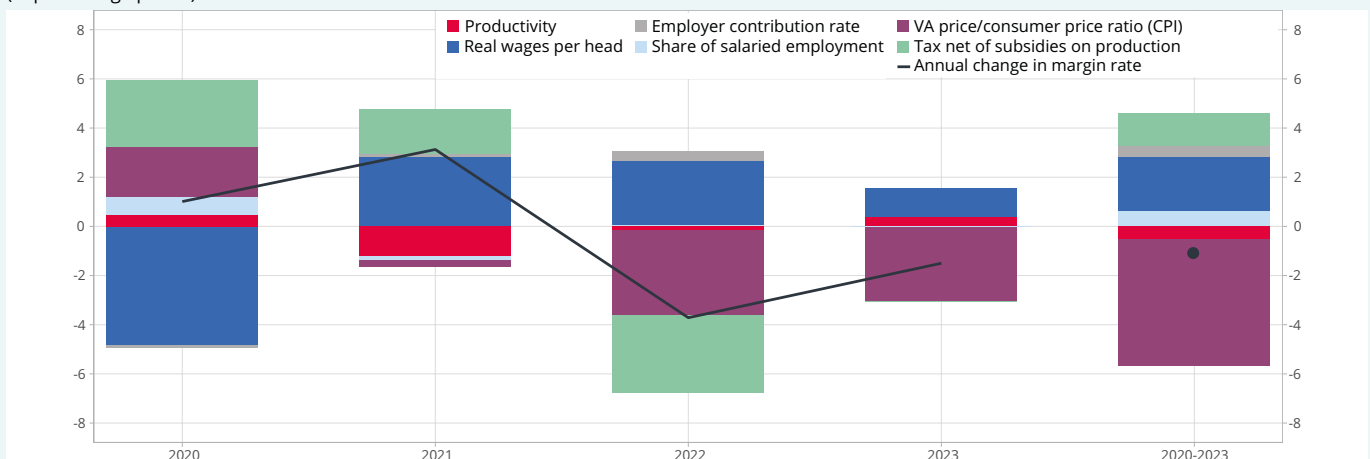


**How to read it**: in 2022, the decline in productivity contributed -0.1 points to the change in the margin rate of market services excluding trade and excluding financial and real estate services (-3.7 points).
**Source**: INSEE.

# The introduction of price-moderation measures by the public authorities enabled the moderation of consumer prices without cutting enterprises' selling prices

To limit the effect of the energy price shock on enterprises' earnings in 2022, the State implemented various measures (▶**INSEE, 2024**), some in the form of tax cuts or increases in subsidies on products (▶**table 1**). In the National Accounts, subsidies and taxes on products correspond to a monetary amount to be paid either per unit of quantity of the goods or services produced, or in the form of a percentage of a unit price. For example, taxes on products are mainly Value Added Taxes (VAT) or taxes on energy products. The specific feature of these taxes or subsidies is that they are recorded directly at price level and not recorded as transfers between sectors. In this way, they induce a difference between, on the one hand, enterprises' value added, valued at the selling price, and on the other hand, final jobs and GDP, which are valued at the acquisition price: such measures therefore have an impact on the ratio of the consumer price to the NFC value added price. In total, these measures amounted to around €29 billion in 2022 and 2023.

In terms of the amount, the main measure put in place was the tariff shield on electricity. The blocking of the regulated sales tariff (TRV) for households and for very small enterprises was counted as a subsidy on the product and limited the increase in the household consumer price (▶**Bourgeois and Lafrogne-Joussier, 2022**). Likewise, the domestic tax on final electricity consumption (TICFE) was reduced to €0.5 per MWh in 2022 and 2023 for businesses, and to €1 per MWh for households, against €22.50 per MWh before. Finally, in 2022 the State raised the ceiling on the ARENH (Regulated Access to Historic Nuclear Electricity) volume by an additional 20 TWh that EDF was required to provide for alternative suppliers. The ARENH allowed alternative suppliers to access electricity produced by EDF's historic nuclear power plants at a regulated price, which was much lower than the market price in 2022. The alternative suppliers were then required to pass on this reduction in costs by limiting the increase in prices charged to their residential customers. This system resulted in both direct and indirect losses for EDF, amounting to €8.2 billion in 2022. In the National Accounts, this price drop is considered as a subsidy on products, paid by the State. At the same time, the electricity shock absorber enabled electricity prices to be reduced for the consumption of very small, small and medium-sized enterprises. This aid was also counted as a subsidy on products.

The tariff shield on gas benefitted households exclusively and also limited the increase in the price of household consumption. This also applied to the fuel reduction provisionally implemented by the State in 2022. ●

▶**1. Amounts on "tariff shield" measures recognised in the National Accounts as a tax or subsidy on products**
(in billions of euros)

| Measure | 2022 | 2023 |
|---|---|---|
| Electricity tariff shield | 16.6 | 26.5 |
| *Of which: reduction in TICFE\** | *6.2* | *8.8* |
| *Of which: blocking of the regulated sales tariff (TRV)* | *2.2* | *15.5* |
| *Of which: increase in the ARENH ceiling* | *8.2* | |
| *Of which: electricity shock absorber for VSEs/SMEs* | | *2.2* |
| Gas tariff shield | 4.5 | 2.0 |
| Fuel reduction | 7.7 | |
| **Total** | **28.8** | **28.5** |

\*In relation to revenue for 2021
**Source**: INSEE.

## Method: Accounting breakdown of change in the margin rate of NFCs

The margin rate of NFCs is the ratio of the gross operating surplus (GOS) to value added (VA). In this Focus, the value-added price of NFCs is calculated by approximation as the price of value added in the market sectors, excluding financial and real estate services.

In the short term, the variation in margin rate can be broken down into the sum of contributions by labour productivity, the real cost of labour, the terms of trade and a term dependent on subsidies and taxes on production.

All other things being equal:

- an increase in apparent labour productivity, defined as the ratio of the value added of NFCs (by volume) and total employment of NFCs, raises the margin rate. As employees are more productive, the gross operating surplus increases for a given job;

- an increase in the real average wage per capita or in social contributions payable by employers, expressed in real value, holds back the corporate' margin rate;

- an increase in the ratio of household consumer prices (partly for imported goods) to the NFC price of value added (goods and services produced in the economic territory, partly exported), affects the corporate margin rate. In fact, to maintain a constant real average wage per capita, NFCs must increase employees' wages by a factor greater than the increase in the price of their value added. Such a situation leads to a deterioration in terms of trade (the ratio of the value-added price to the consumer price generally varies in the same way as the external terms of trade, to the nearest scale factor);

- an increase in taxes net of subsidies on production affects businesses' margin rate.

In formal terms, the margin rate of NFCs is expressed as follows:

$$TM = \frac{EBE}{VA} = 1 - \frac{MS + S - I}{VA} = 1 - \frac{MS}{VA} + \frac{S-I}{VA}$$

$$TM = 1 - \frac{EM * SMPT_{SNF} * (1+txcot)}{Y * P_{VA}} + \frac{S-I}{VA}$$

$$TM = 1 - \frac{EMP}{Y} * \frac{SMPT_{SNF} * (1+txcot)}{P_{VA}} + \frac{S-I}{VA}$$

$$TM = 1 - \frac{EMP}{Y} * \frac{SMPT_{SNF} * (1+txcot)}{IPC} * \frac{IPC}{P_{VA}} + \frac{S-I}{VA}$$

$$TM = 1 - \frac{EMP}{Y} * \frac{SMPT_{ménages}}{IPC} * \frac{SMPT_{SNF} * (1+txcot)}{SMPT_{ménages}} * \frac{IPC}{P_{VA}} + \frac{S-I}{VA}$$

Where:

*EBE*: gross operating surplus of NFCs (GOS);
*VA*: value added of NFCs by value;
*Y*: value added of NFCs by volume;
*MS*: payroll paid by NFCs;
*EMP*: total employment of NFCs in full-time equivalent (FTE);
$SMPT_{SNF}$: average wage per capita paid by NFCs;
$SMPT_{ménages}$: SMPT received by households, which corresponds to the SMPT paid by NFCs supplemented by short-time working paid by the authorities;
*Txcot*: employers' contribution rate;
*IPC*: household consumer price within the meaning of the Consumer Price Index (CPI);
*PVA*: value-added price of NFCs in the National Accounts;
*S*: subsidies on production;
*I*: taxes on production.

# French economic outlook

This breakdown can be used to isolate the effect of the short-term working scheme (term corresponding to the ratio of the SMPT paid by NFCs to that received by households). This scheme buoyed up the margin rate of NFCs in 2020 since a proportion of the wages received by households was paid directly by general government. In addition, in the breakdown in ▶ **Figure 4**, the contribution rate and taxes and subsidies on production terms are grouped together, in order to take account, in the period under consideration, of the transformation of the CICE (tax credit for encouraging competitiveness and jobs – considered in the accounts as a subsidy on production) into a reduction in social contributions.

This breakdown of the margin rate is valid at NFC level. However, the National Accounting System does not provide data that cross-references the institutional sector (NFC) with branches of activity. It is therefore possible to perform this breakdown at the level of each branch (this breakdown then concerns all the institutional sectors of the branch and not only the NFCs), provided that an additional factor is introduced, corresponding to change in the share of wage-earning employment within the branch (▶ **Laurent and Quévat, 2022**): this enables the inclusion of non-salaried sole proprietors whose work is remunerated via a "mixed income" which they pay themselves, recognised in the accounts, by convention, entirely in the gross operating surplus. When the share of employees in a branch declines, the margin rate of the branch automatically increases.

In formal terms, this breakdown by sector is expressed as follows:

$$TM = 1 - \frac{VHT}{Y} * \frac{SMPT*(1+txcot)}{IPC} * \frac{VHS}{VHT} * \frac{IPC}{P_{VA}} + \frac{S-I}{VA}$$

Where:

*VHT*: total number of hours worked in the branch;
*VHS*: total number of employee hours worked in the branch.

When the economic breakdown of the change in margin rate is defined at sectoral level, it is not possible to break down the contribution of real wages paid by the NFCs into real wages received by households and the effects of short-time working.

These breakdowns of the margin rate of NFCs or of sectoral margin rates are of an accounting nature and therefore correspond to an ex ante effect, without taking the adaptation behaviour of enterprises into account. ●

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# Corporate investment

Investment by non-financial enterprises (NFEs) declined further in Q1 2024 (-0.5% after -1.1% in Q4 2023, ►Figure 1). Companies have continued to significantly reduce their investment in manufactured products (-1.4% after -1.6% in Q4 2023), especially in capital goods (-2.8% after -2.3%). Investment in construction also continued to decline, at the same pace as at the end of 2023 (-1.2% after -1.3%). At the same time, spending on services rebounded (+1.0% after -0.6%), driven mainly by spending on information and communication, which rose again after a significant decline in the previous quarter (+2.3% after -0.7%).

Corporate investment is expected to remain constrained by the prevailing financial conditions until the end of the year: the improvement in the economic outlook in Europe has boosted demand for French goods and hence investment but this accelerator effect will probably continue to be hampered by the cost of credit. In Q1, the issuing of loans to NFCs for investment in equipment was very low (►Figure 2) and French banks questioned in April 2024 for the Bank Lending Survey were still predicting a drop in the demand for credit by businesses. Business tendency surveys point towards a hesitant situation. In services, slightly more business leaders than in the previous quarter are predicting investment (►Figure 3). However, wholesalers dealing in industrial capital goods remain fairly pessimistic overall.

## ►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 |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
| Manufactured product (32%) | 0.0 | -0.8 | 4.4 | 1.0 | 0.4 | 0.3 | 1.3 | -1.6 | -1.4 | -0.4 | -0.2 | -0.2 | -0.4 | 3.6 | -2.4 |
| Construction (20 %) | 1.3 | -0.9 | -0.7 | 1.1 | 0.4 | -0.6 | -0.7 | -1.3 | -1.2 | -0.5 | -0.8 | -0.3 | 0.1 | -0.5 | -3.5 |
| Services excl. construction (47 %) | 2.2 | 2.1 | 4.5 | 0.5 | 0.6 | 1.6 | 0.8 | -0.6 | 1.0 | 1.4 | 0.4 | 0.4 | 8.8 | 5.3 | 2.8 |
| **All products (100 %)** | **1.1** | **0.3** | **3.0** | **0.8** | **0.5** | **0.5** | **0.6** | **-1.1** | **-0.5** | **0.3** | **-0.1** | **0.0** | **3.0** | **3.1** | **-0.8** |

■ Forecast
**Source**: INSEE.

## ►2. New investment loans
(SA monthly flow, moving average over 3 months)
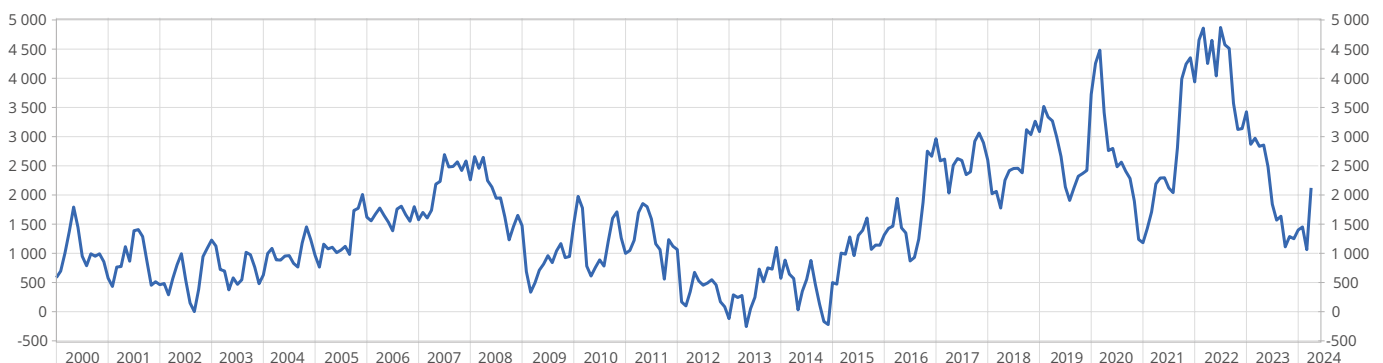


**Last point**: April 2024.
**Source**: Banque de France.

# French economic outlook

In Q2, investment by NFEs is unlikely to decline any further (+0.3% after -0.5%). Investment in services is expected to accelerate (+1.4% after +1.0%), still driven by dynamic investment in information and communication (►**Figure 4**), a sector in which the business climate remains significantly above its long-term average. The decline in investment in construction is likely to be more moderate (-0.5% after -1.2%) given the momentum in maintenance and improvement during this quarter, and also in manufactured products (-0.4% after -1.4%).

In H2, NFE investment looks set to be sluggish (-0.1% in Q3 then 0.0% in Q4): firstly, financing conditions are likely to keep deteriorating, and secondly, the increased uncertainty, reflected by increased financial volatility since mid-June, is likely to encourage a wait-and-see attitude amongst investors. Investment in manufactured products (-0.2% per quarter) and in construction (-0.8% in Q3, then -0.3% in Q4) is therefore expected to remain in decline, while investment in services looks set to slow (+0.4% per quarter). All in all, corporate investment is expected to fall by -0.8% in 2024, after +3.1% in 2023 but with very contrasting trends, depending on the product: spending on manufactured products (-2.4% after +3.6%) and construction (-3.5% after -0.5%) is closely linked to credit conditions, and is expected to fall back significantly; however, spending on services is expected to retain its momentum (+2.8% after +5.3%). ●

## ►3. Planned investment in services
(balance of opinion, SA, in points)
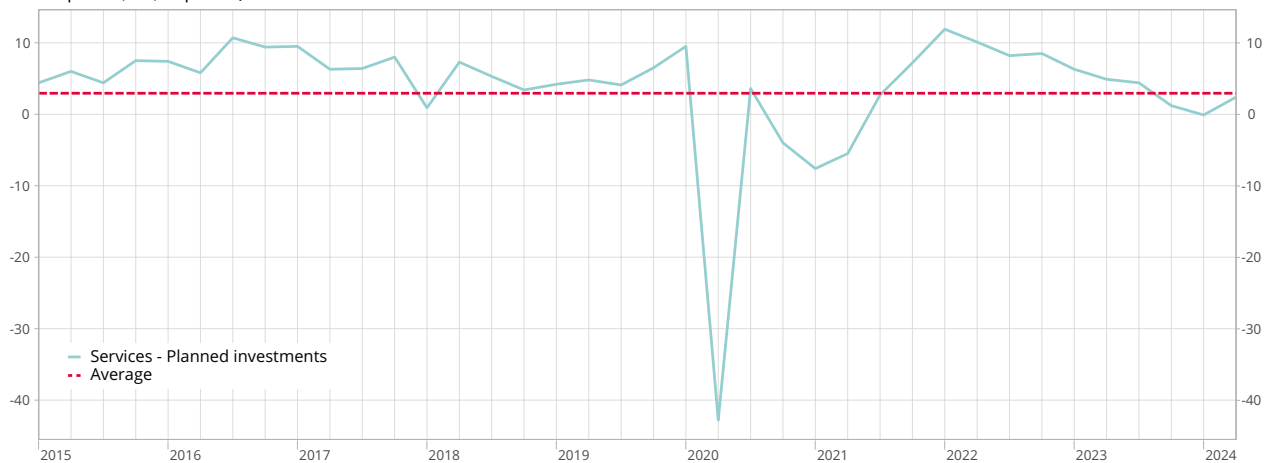


**Last point**: April 2024.
**Lecture**: in April 2024, the balance of opinion on planned investment in services stood at 2.4 points.
**Source**: INSEE, business surveys.

## ►4. Investment of non-financial enterprises by product
(quarterly changes in %, contributions in pourcentage points)



Forecasts beyond the dotted line
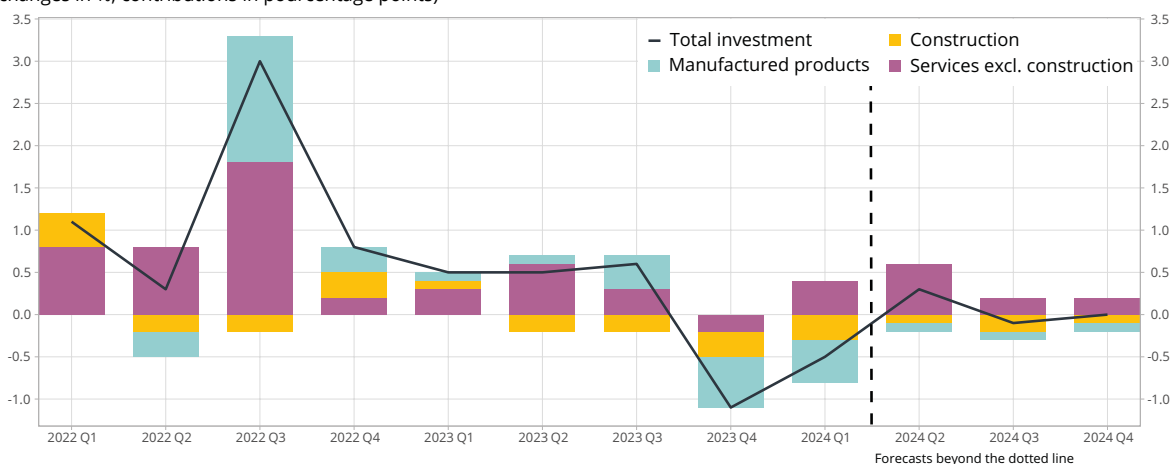
**Source**: INSEE.

# International economic outlook

# International synthesis

In Q1 2024, the pace of activity in the main advanced economies converged after several quarters with a pronounced differential between the economic situation in the United States on the one hand and the European economies on the other. The US economy has slowed (+0.4% of GDP growth in Q1 2024 after +0.8% at the end of 2023), partly due to the extractive sector being penalised by unfavourable weather conditions. Conversely, the United Kingdom and the Eurozone have returned to growth (+0.7% and +0.3% respectively) after several quarters of decline or stagnation. A degree of convergence has also emerged within the Eurozone: while Spain is still the exception, continuing its catch-up (+0.8%), the other three main Eurozone economies grew at a similar pace. The German economy grew by +0.2% after contracting sharply at the end of 2023 (-0.5%), while activity continued to grow moderately in France and Italy (+0.2% and +0.3% respectively, after +0.3% and +0.1%). Meanwhile, world trade improved moderately (+0.4%, ► **Figure 2**).

However, this convergence in growth masks some significant divergences concerning domestic demand and, on the flip side, in contributions from foreign trade. In the United States, private consumption remained buoyant in Q1 (+0.4% after +0.8%), with households benefiting from substantial pay rises. Conversely, household consumption improved only slightly in the Eurozone (+0.2%). Investment, however, especially in construction, rebounded on an occasional basis on either side of the Atlantic. Ultimately, domestic demand improved strongly in the United States but remained sluggish in the Eurozone. Conversely, foreign trade hampered growth in the United States, but stimulated activity in Europe.

► **1. Inflation compared and variation in rents for Eurozone countries, United Kingdom and United States**
(year-on-year change, in %)
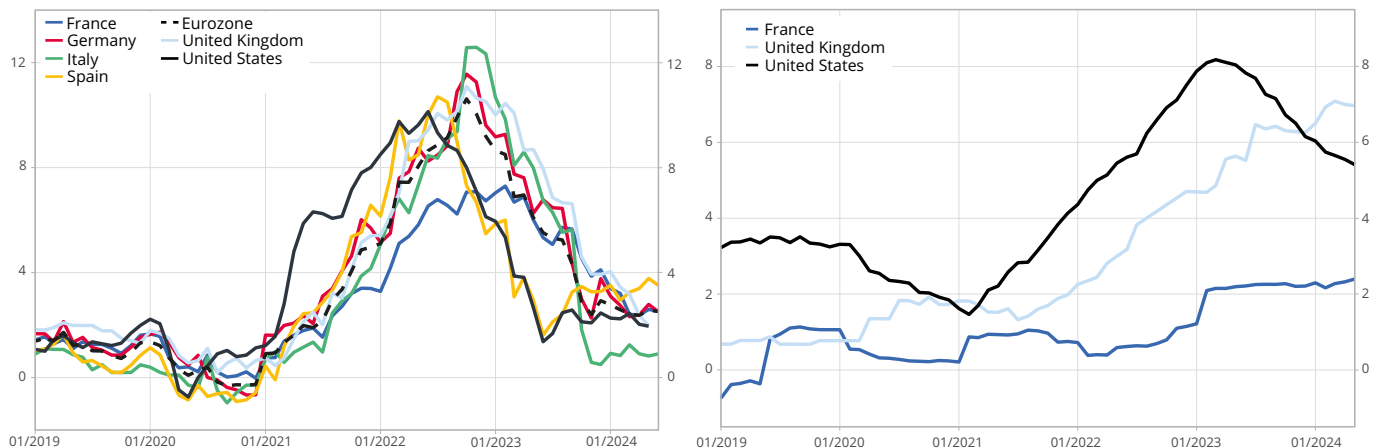


**Last point:** left: June 2024 for Eurozone, May 2024 for United Kingdom and United States. Right: May 2024.
**How to read it:** left: in France, in June 2024, the Harmonised Index of Consumer Prices increased by 2.5% over one year, in Spain it increased by 3.5%. Right: in the United States, the rent component of the CPI increased by 5.4% year-on-year in May 2024.
**Source:** INSEE, Destatis, Istat, INE, ONS, BLS.

► **2. World trade is gradually recovering**
(levels, quarterly variations in %; annual variations in % for the last three columns)

| | 2022 | | 2023 | | | | 2024 | | | | 2022 | 2023 | 2024 |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
| Euro-dollar exchange rate | 1.01 | 1.02 | 1.07 | 1.09 | 1.09 | 1.08 | 1.09 | 1.08 | 1.07 | 1.07 | 1.05 | 1.08 | 1.08 |
| Barrel of Brent (in dollars) | 100.6 | 88.6 | 81.2 | 78.1 | 86.6 | 84.0 | 82.9 | 84.5 | 85.0 | 85.0 | 100.9 | 82.5 | 84.4 |
| Barrel of Brent (in euros) | 100.0 | 86.8 | 75.6 | 71.7 | 79.5 | 78.1 | 76.3 | 78.5 | 79.4 | 79.4 | 95.7 | 76.2 | 78.4 |
| World trade (variations) | 1.5 | -0.4 | 0.3 | 0.6 | -0.6 | 1.0 | 0.4 | 0.9 | 0.8 | 0.8 | 6.2 | 1.4 | 2.3 |
| Imports by advanced economies | 1.0 | -1.0 | 0.2 | -0.9 | -0.8 | 1.3 | 0.4 | 0.8 | 0.7 | 0.7 | 7.9 | -0.6 | 1.8 |
| Imports by emerging economies | 2.9 | 1.3 | 0.6 | 4.5 | 0.2 | 0.3 | 0.6 | 1.2 | 0.9 | 0.9 | 2.0 | 6.5 | 3.7 |
| World demand for French products (variations) | 1.1 | -0.6 | 0.4 | -0.1 | -1.2 | 1.2 | 0.1 | 0.9 | 0.7 | 0.7 | 6.7 | 0.4 | 1.6 |

▇ Forecast

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

However, thanks to the gradual improvement in purchasing power, domestic demand looks set to rally and bolster European growth: the business climate as revealed by the business tendency surveys has gradually picked up in the Eurozone and remains in the expansion zone (▶Figure 3). Because of its higher growth potential and a more favourable budgetary stimulus, the US economy is expected to keep progressing a little more quickly than the European economy: it should rebound to +0.6% in Q2, boosted by the recovery of the extractive sector, and then improve by +0.5% per quarter in the second part of the year (▶Figure 4). Economic activity in the United Kingdom should continue to improve, driven by household consumption (+0.4% in Q2 then +0.3% per quarter), whereas activity in the Eurozone is expected to remain at the same pace (+0.2% then +0.4% and +0.3%): European households are reaping the benefits of the fall in inflation and their consumption is expected to gather momentum. In China, the persistent real estate crisis continues to hold back activity, which has remained at its average pace since 2021 (around +1.1% per quarter). In such a context, world trade is expected to be bolstered by the contribution made by the advanced economies, especially the European economies, and should accelerate from Q2 onwards (+0,9%, ▶Figure 6).

Inflation continues to fall in the United Kingdom (+2.0% in May after +3.4% in April). In the Eurozone, inflation has been falling steadily for several months (year-on-year, the HICP increased by 2.5% in June after 2.6% in May and against 2.9% last December). Conversely, the disinflation movement ended more than a year ago in the United States and inflation has been stabilising there for several months (▶Figure 1 left). In May, the year-on-year variation in the United States CPI stood at +3.3%. The Federal Reserve considers that inflation is still too high, which is why it has not yet started to reduce its key interest rates, unlike the European Central Bank (ECB). This momentum in prices in the United States is mainly due to the increase in rents (+5.4% in May year-on-year, ▶Figure 1 right) and their weighting in the index, as the US CPI includes the "imputed rents" of owner-occupiers, unlike the European indices. The HICP, calculated by the US statistical services for international comparison purposes, is increasing at the same pace as in the Eurozone, with its year-on-year

### ▶3. Composite PMI in the United States, United Kingdom and Eurozone
(PMI index)
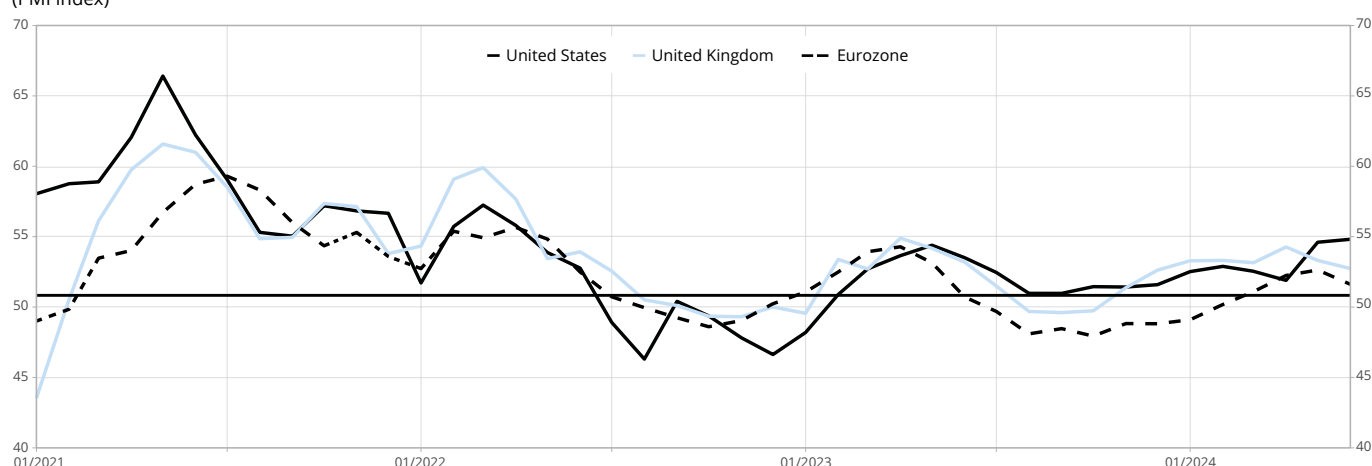


**Last point:** June 2024.
**How to read it:** the composite PMI was 55 in the United States in June 2024 against 51 in the Eurozone..
**Source:** S&P.

### ▶4. Past and forecast GDP growth in the main western economies
(quarterly and annual variations - for the last three columns - in %)

| | 2022 | | 2023 | | | | 2024 | | | | 2022 | 2023 | 2024 |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
| France | 0.5 | 0.0 | 0.1 | 0.7 | 0.1 | 0.3 | 0.2 | 0.3 | 0.5 | -0.1 | 2.6 | 1.1 | 1.1 |
| Germany | 0.4 | -0.4 | 0.3 | -0.1 | 0.1 | -0.5 | 0.2 | 0.1 | 0.3 | 0.3 | 1.9 | 0.0 | 0.2 |
| Italy | 0.4 | 0.0 | 0.3 | -0.1 | 0.4 | 0.1 | 0.3 | 0.1 | 0.1 | 0.2 | 4.1 | 1.0 | 0.8 |
| Spain | 0.5 | 0.5 | 0.4 | 0.5 | 0.5 | 0.7 | 0.8 | 0.6 | 0.5 | 0.5 | 5.8 | 2.5 | 2.5 |
| United Kingdom | -0.1 | 0.1 | 0.2 | 0.0 | -0.1 | -0.3 | 0.7 | 0.4 | 0.3 | 0.3 | 4.3 | 0.1 | 1.0 |
| United States | 0.7 | 0.6 | 0.6 | 0.5 | 1.2 | 0.8 | 0.4 | 0.6 | 0.5 | 0.5 | 1.9 | 2.5 | 2.5 |
| China | 4.0 | 0.8 | 1.8 | 0.5 | 1.8 | 1.2 | 1.6 | 1.0 | 1.1 | 1.1 | 3.0 | 5.2 | 5.2 |
| Eurozone | 0.5 | 0.0 | 0.1 | 0.1 | 0.0 | -0.1 | 0.3 | 0.2 | 0.4 | 0.2 | 3.4 | 0.6 | 0.7 |

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

# International economic outlook

variation standing at +2.0% in May 2024. In the United Kingdom, the energy component is edging down but core inflation remains significantly higher than in the other economies, sustained by the rise in wages. In China, the low demands made on the means of production are generating deflationary pressures: consumer prices are virtually stable (+0.3% year-on-year in May 2024) and producer prices have been declining continually since October 2022.

This disinflation is expected to fuel household consumption, which should then bolster growth in the different advanced economies. However, since financing conditions are still difficult, this is expected to keep hampering investment: in construction, after the upturn in Q1, it is expected to decline again in the Eurozone and the United States, before stabilising gradually by the end of the year. The effect of the monetary easing expected on both sides of the Atlantic is likely to remain marginal over the forecasting period, whether for household or corporate investment. In Europe, interest-rate spreads between States widened following the announcement of the dissolution of the French National Assembly, but for the moment this has resulted in a drop in German rates rather than an increase for the other States (▶**Figure 7**). Budgetary policy in the United States is likely to remain accommodating and support activity strongly both directly through public consumption and indirectly by boosting corporate investment. Conversely, the budgetary impulse is expected to be either neutral or negative in most European countries.

On average throughout 2024 as a whole, due to the stagnation recorded in Europe at the end of 2023, the growth differentials are expected to be maintained between the United States (at +2.5% per year) and the United Kingdom (+1.0% after +0.1%) or the Eurozone (+0.7% after +0.6%). However, acceleration in the Eurozone is expected to be pronounced throughout the year and the year-on-year variation at the end of the year should reach +1.1% against +2.0% in the United States (▶**Figure 5**). In China, growth in 2024 looks set to be exactly the same as in 2023 (+5.2%), lower than the pace before the health crisis. ●

## ▶5. Year-on-year variation in GDP in the United States, United Kingdom and Eurozone
(in %)
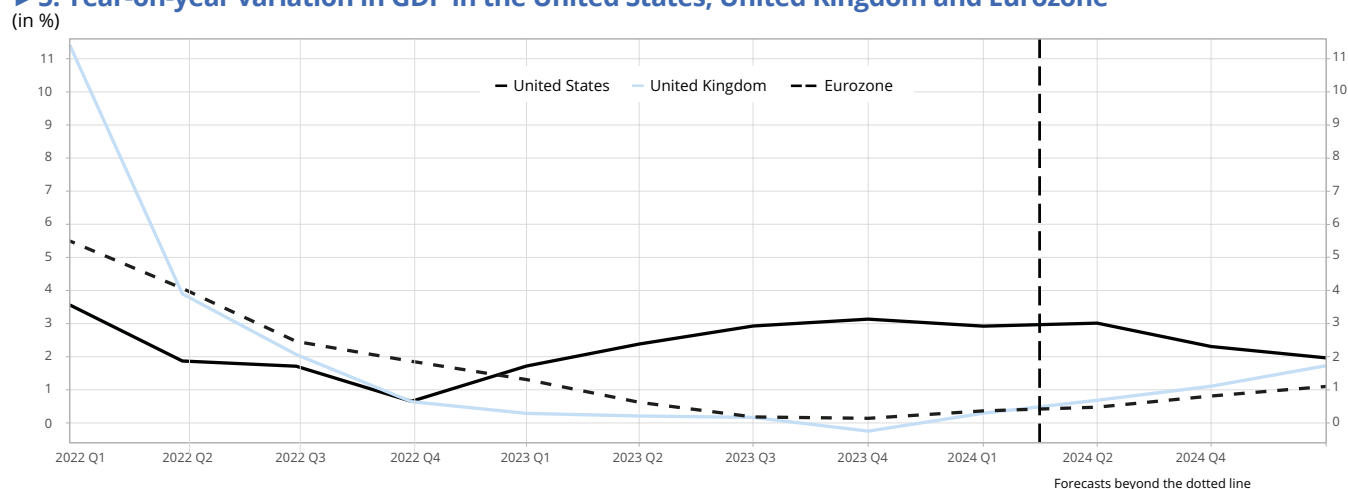


**Last point:** Q4 2024.
**How to read it:** in the United States, in Q4 2024, year-on-year variation in GDP is expected to be +2.0%.
**Source:** Eurostat, ONS, BEA, INSEE forecast.

## ►6. PMI for new export orders and world trade

(PMI survey, index level)                                          (world trade, quarterly percentage change)
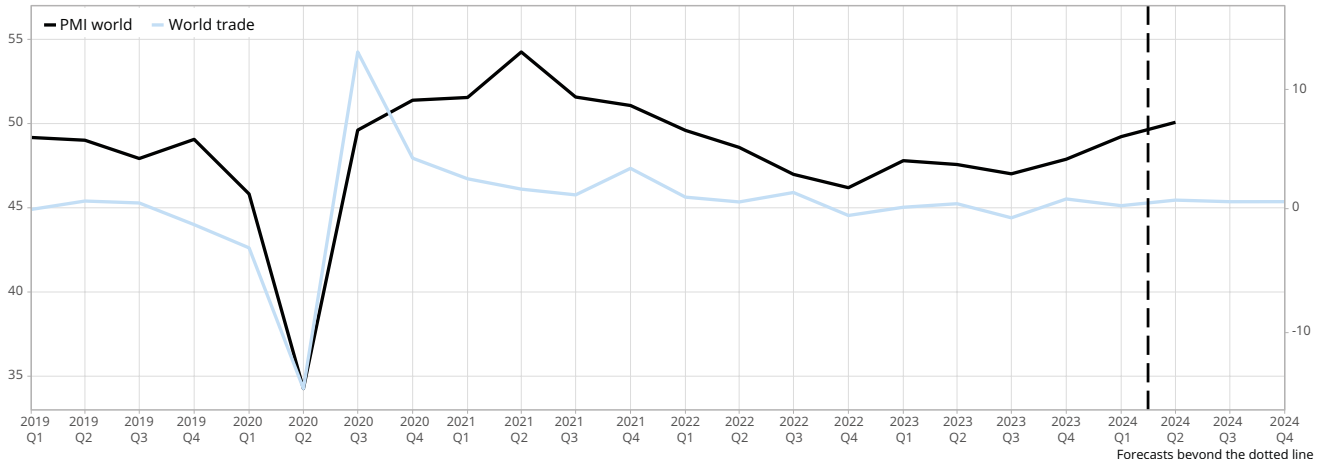


**Last point:** Q2 2024 for the PMI survey and Q4 2024 for world trade.
**Note:** forecast beyond the dotted line, for world trade only.
**How to read it:** Q4 2024, world trade is expected to increase by 0.8%. In Q2 2024, the PMI for new export orders was 50.1, slightly above its expansion threshold.
**Source:** IHS Markit, Balanced trade statistics (OCDE), CHELEM – Commerce international (CEPII), INSEE.

## ►7. 10-year sovereign yields in the main European economies

(in %)
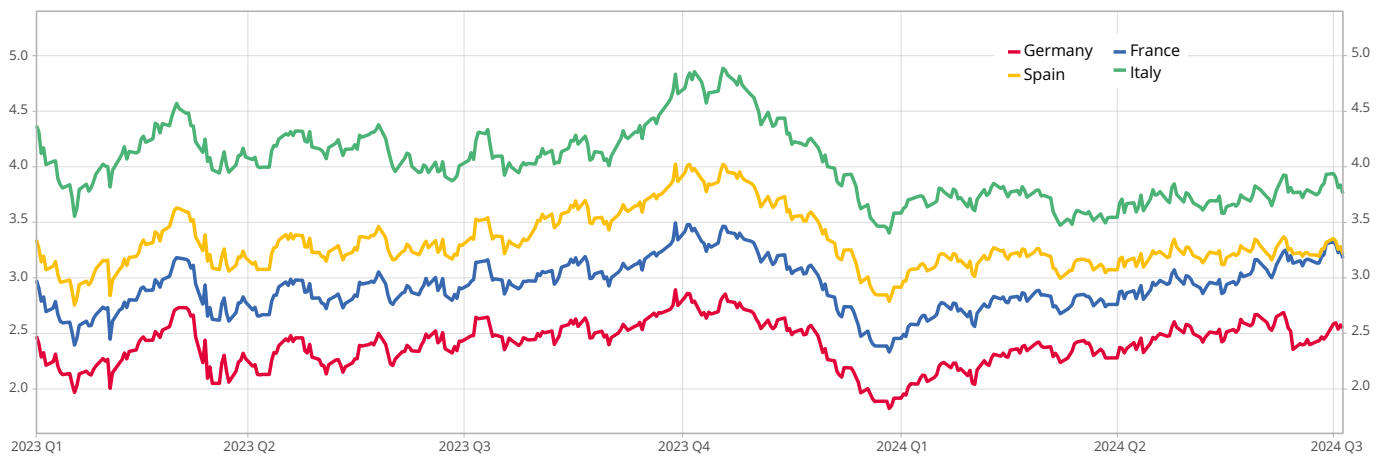


**Last point:** 5 July 2024.
**Lecture:** The 10-year yield for French bonds was 3.2% on 5 July 2024.
**Source:** IHS Markit.

# Energy and commodities

At the beginning of 2024, the price of oil came under pressure, notably due to the particularly unstable situation in the Middle East: it fell sharply at the beginning of June, following the announcement by OPEC+ of an easing of production restrictions from the autumn and then picked up slightly in the following weeks. Geopolitical uncertainties and various large-scale climatic phenomena also increased the volatility of other commodity prices, especially food.

The price of oil (Brent) increased sharply at the beginning of 2024, reaching $90 in April, before slipping back temporarily below $80 at the beginning of June. It has nevertheless rebounded since then and stood at around $85 at the end of June (▶Figure 1). The market remains hampered by the production cuts by OPEC+ countries, although the announcement at the beginning of June of a potential gradual cancellation of reductions in the production quotas of some of their members from the autumn onwards has helped to ease prices. Conversely, persistent tensions in the Middle East and the attacks by Ukrainian drones on Russian oil installations are fuelling fears over supplies and contributing to price volatility. Consequently, despite a slowdown in expected demand (+1.0 million barrels per day in 2024 against +2.3 million barrels per day in 2023) and the dynamism of production by non-OPEC+ countries, including the United States (▶Figure 2), the International Energy Agency (IEA) in its latest forecasts believes that the market is likely to remain in deficit to the tune of 0.3 million barrels per day in 2024. Over the forecasting period (end of 2024), the assumption adopted is that the price of oil will remain constant, at $85 per barrel (or €79.50 assuming a euro-dollar exchange rate of 1.07 dollars for 1 euro).

In Q1 2024, the price of gas on the European market (TTF) hit its lowest level since Q2 2021 (▶Figure 3), at an average of €27.60/MWh, yet this was almost 90% above the 2019 average. At the end of the winter, inventories in the European Union countries were at their highest level since 2019, the result mainly of a fairly mild winter, on average. The price nevertheless rebounded at the beginning of April following the growing tensions between Israel and Iran, which pose logistical threats to deliveries of liquefied natural gas, especially from Qatar, and now stands at above €30/MWh. This is also significantly higher than the price of gas on the North American market (Henry Hub), which dropped to particularly low levels at the beginning of 2024, around $6/MWh, due to a historically mild winter in the United States.

The price of carbon dioxide ($CO_2$) on the European Union Trading Emissions System fell back substantially in Q1 2024 (€59.70 per tonne, after €83.60 in 2023), before rebounding at the beginning of April (▶Figure 4), driven by more favourable economic prospects in the Eurozone. In addition, the price of uranium has increased very significantly in recent months (+89.4% year-on-year in euros in Q1 2024), driven by the sharp increase in demand expected in the years to come and by production constraints in Kazakhstan, one of the world's leading exporters.

The prices of some industrial commodities, especially minerals, have risen again in 2024 after falling considerably in 2023. This is particularly the case for copper, a strategic metal in the context of energy transition, whose price increased by 17.1% in June compared to January 2024 (▶Figure 5), due to the drop in production of several mining companies, mainly in Latin America, and the introduction in mid-April of US and UK sanctions against certain Russian metals, which also led to a rebound in the price of nickel. An ounce of gold reached record heights on the markets at the beginning of April, at over $2,400, with this metal acting as a safe haven in times of geopolitical instability. However, the price of iron ore fell by 21.0% in June compared to January, largely due to the sluggishness of steel production in China.

Lastly, the prices of some food commodities were pushed up as a result of extreme weather events. This especially applied to cocoa, whose price in mid-April was three and a half times higher than in 2023 (▶Figure 6). Torrential rains in West Africa in the summer of 2023 promoted the growth of disease on the cocoa trees, severely affecting production by the world's two largest producers, Côte d'Ivoire and Ghana. Furthermore, due to prolonged episodes of drought in Spain, the price of olive oil also remains more than three times higher than in 2019, although it has recently declined. Conversely, the prices of wheat and of sunflower oil were almost at their pre-health crisis levels at the beginning of the year, with the consequences of the war in Ukraine now having less of a detrimental effect on global supply. However, the price of wheat rebounded strongly in mid-April, over major fears about Russia's future production, as the country's cereal-growing regions had suffered from some particularly difficult weather conditions at the start of spring. Finally, the price of sugar eased at the end of 2023, due to record Brazilian production. ●

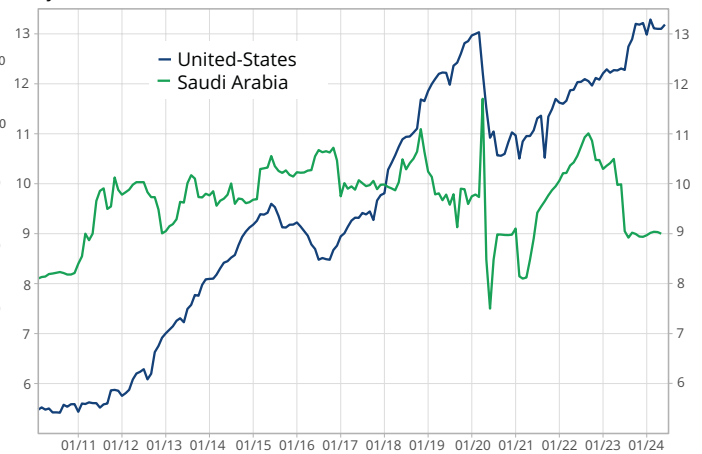## ►1. Price of oil (Brent) in dollars and euros
(daily values)
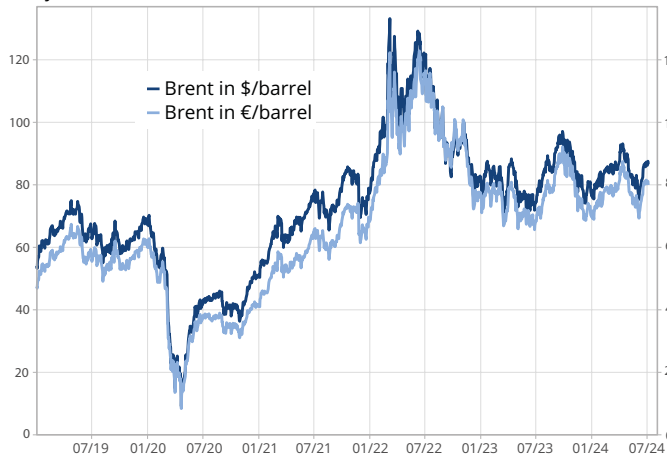


**Last point**: 5 July 2024.
**How to read it**: on 5 July 2024, the price of a barrel of Brent was 86,6 $.
**Source** : Commodity Research Bureau.

## ►2. Crude oil output in the United States and Saudi Arabia
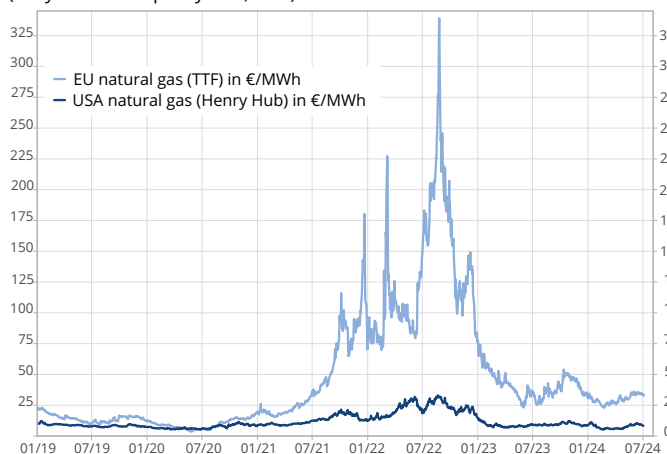(daily values)



**Last point**: May 2024.
**How to read it**: on May 2024, crude oil output in the United States was 13.1 million barrels per day (incomplete data).
**Source**: Energy Information Administration (EIA), OPEP.

## ►3. Natural gas prices in Europe and in the United States
(daily values – capacity rate, in %)



**Last point**: 5 July 2024.
**How to read it**: on 5 July 2024, the value of natural gas futures contracts at the next expiry date in the Netherlands (TTF) was €33.1 per megawatt-hour.
**Source**: ICE Futures Europe, New York Mercantile Exchange.

## ►4. Price of a tonne of $CO_2$ on the European market and uranium prices
(daily values, in euros)
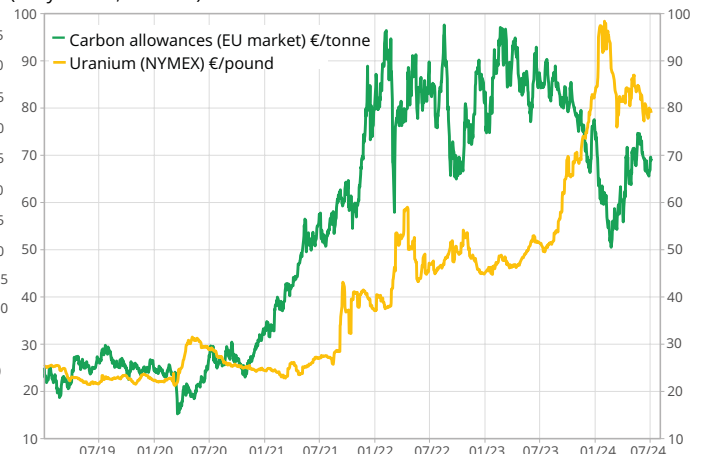


**Last point**: 5 July 2024.
**How to read it**: on 5 July 2024, the price of a tonne of $CO_2$ on the European Union Emissions Trading System was €69.2.
**Source**: ICE Futures Europe, New York Mercantile Exchange.

## ►5. Prices of nickel, copper, steel and lumber
(mensual index – base 100=2019)
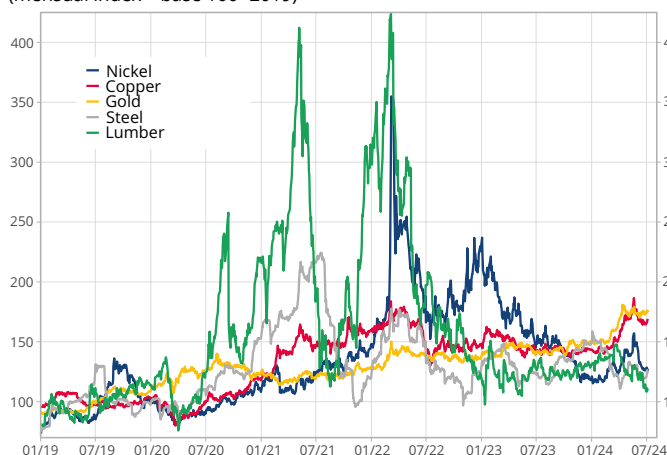


**Last point**: 5 July 2024.
**Note**: the indices measure price changes in euros.
**How to read it**: in 5 July 2024, the price of copper in euros was 69.2% above its 2019 average.
**Source**: London Metal Exchange, Chicago Mercantile Exchange, New York Mercantile Exchange.

## ►6. Prices of wheat, sunflower oil, olive oil, sugar and cocoa
(daily index - base 100=2019)
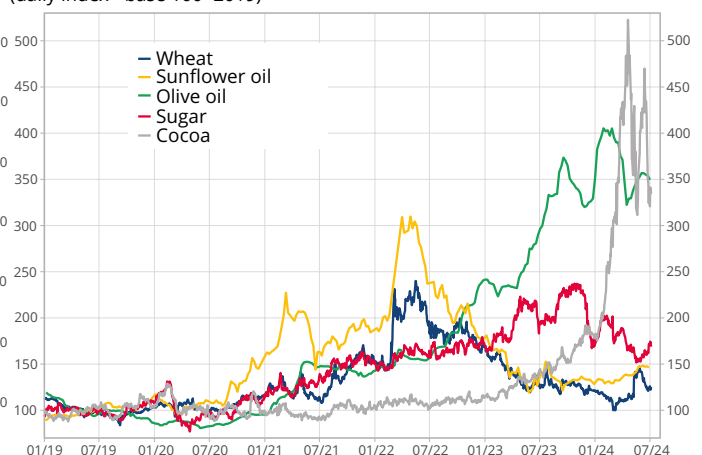


**Last point**: 5 July 2024.
**Note**: the indices measure price changes in euros.
**How to read it**: on 5 July 2024, the price of wheat in euros was 25.0% above its 2019 average.
**Source**: Euronext Paris, APK-Inform, Ministère de l'Agriculture espagnol, ICE Futures US.

# Eurozone

## In Q1 2024, activity picked up again in the Eurozone

In Q1 2024, the Eurozone returned to growth (+0.3%), after five quarters of virtual stability. While growth remained dynamic in Spain (+0.8% after +0.7% in Q4 2023, ►Figure 1), growth rates in the other major Eurozone economies converged, with a striking rebound in Germany (+0.2% after -0.5%), acceleration in Italy (+0.3% after +0.1%) and a slight slowdown in France (+0.2% after +0.3%).

The drivers of this growth differed from one country to another, especially with regard to domestic demand. Private consumption bolstered growth in Spain (+0.4%), Italy (+0.3%) and to a lesser extent in France (+0.1%), while it fell back in Germany (-0.4%), despite a sizeable increase in purchasing power (+1.4%). Investment in construction rebounded strongly in Germany, as a result of a mild winter (+2.7%), Italy (+1.7%) and Spain (+2.8%), but edged down significantly in France (-1.3%). Excluding construction, investment increased significantly in Spain, but contracted in the rest of the zone, with enterprises still penalised by financing conditions. Meanwhile, foreign trade contributed positively to growth in the four major Eurozone economies, thanks to dynamic exports.

## Persistent economic differences

Business tendency surveys in the Eurozone point towards persistent economic divergence between the four main economies: while the confidence indicator is close to its long-term average for France and Italy, the economic situation still appears severely degraded in Germany whereas Spain is benefiting from a more favourable situation (►Figure 2), with growth expected to remain vigorous in the spring (+0.6%) before slowing slightly (+0.5% per quarter in H2). In France, a moderate improvement in activity is expected in the spring (+0.3%), followed by a sharp rise in H2 (+0.5% then -0.1%) due

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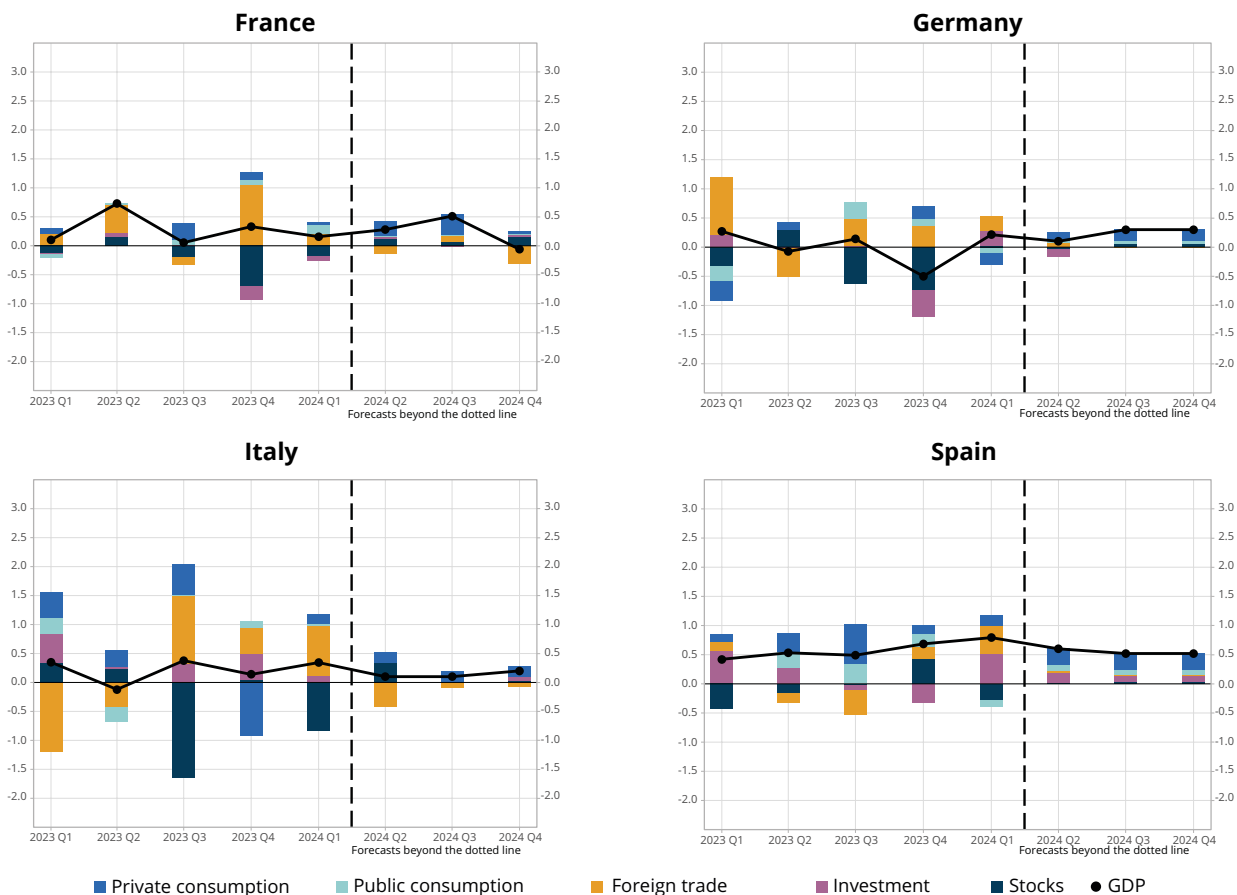


**How to read it**: in France, in Q1 2024, GDP increased by 0.2% and private consumption contributed +0.1 points.
**Source**: INSEE, Destatis, Istat, INE, INSEE calculations.

to the hosting of the Olympic and Paralympic Games. In Italy, growth is expected to be weak in Q2 and Q3 (+0.1%), with support for the construction sector running out of steam; it should then increase slightly at the end of the year as a result of an upturn in investment in equipment (+0.2%). Finally, activity in Germany is expected to be sluggish in Q2 (+0.1%) before accelerating in H2 (+0.3% per quarter), thanks to the recovery of domestic demand, and especially of investment.

Throughout 2024, activity is expected to improve in the four economies, at a similar pace to that recorded in 2023, reflecting the persistent cyclical divergence between them: activity should continue to stall in Germany (growth of +0.2%, after 0.0% in 2023), and is likely to increase moderately in Italy (+0.8% after +1.0%) and France (+1.1% after +1.1%), whereas growth looks set to remain high in Spain (+2.5%, after +2.5%).

## Inflation sets in throughout Europe

Inflation dropped slightly in the Eurozone at the beginning of the year, from 2.8% year-on-year in January to 2.5% in June (▶ Figure 3). This decline was witnessed in France (where inflation within the meaning of the HICP fell from 3.4% to 2.5%) and Germany (where it dropped from 3.1% to 2.5%), whereas inflation stabilised at around 1% in Italy and 3.5% in Spain. Prices excluding food and energy products increased at the most moderate pace in France and Italy (2.5% and 2.1% respectively in June), due to restrained wage rises in these two economies. Conversely, inflation excluding food and energy products was higher in Germany (+3.3% year-on-year) and Spain (+3.0% in May, the last known month) where wages are more buoyant. The differences in the dynamism of wages and prices excluding food and energy are expected

### ▶2. Business climate indicators remain disparate in the Eurozone
(reduced central climate)
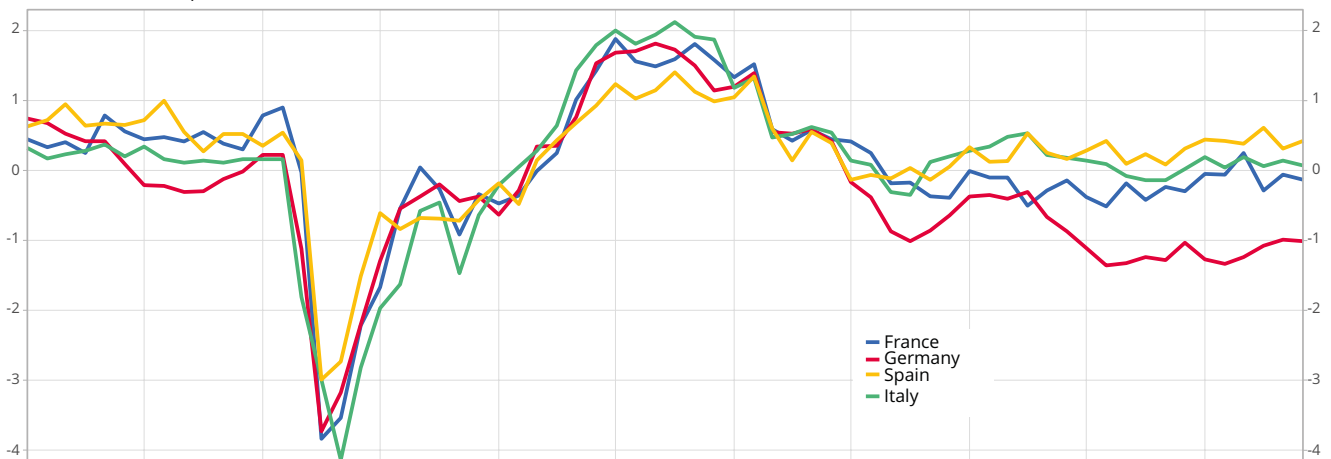


**Last point**: June 2024.
**How to read it**: in Spain, in June 2024, the general business climate was 0.4 standard deviations above its long-term average (average for the period January 2005 to June 2024).
**Source**: DG ECFIN survey.

### ▶3. Prices are evening out in the main Eurozone economies
(HICP - Base 100 in 2019)



Forecasts beyond the dotted line
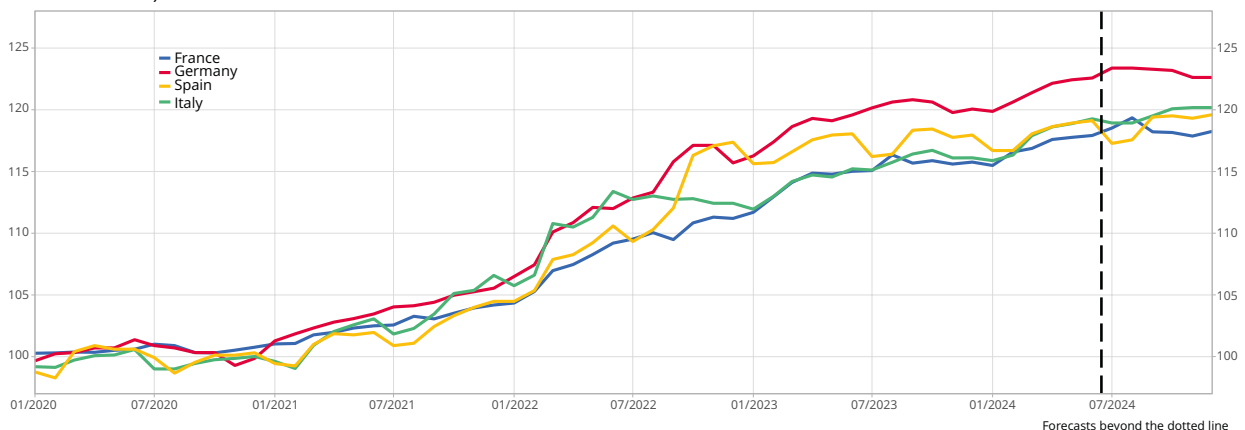
**Last point**: December 2024.
**How to read it**: in Germany, in December 2024, the HICP is expected to be 22.6% above its 2019 level.
**Source**: INSEE, Destatis, Istat, INE, INSEE calculations.

# International economic outlook

to continue until the end of the year. In addition, headline inflation is likely to rise in Italy, stabilise in Spain and fall in France, due to the effect of departing from the year-on-year figures as a result of variations in energy prices observed in H2 2023.

Overall, inflation in the Eurozone should remain above the 2% target until the end of the year, whether based on the headline index or on prices excluding food and energy.

## Activity looks set to accelerate, driven by private consumption and the recovery of investment

Private consumption is expected to drive growth in the four main Eurozone economies. The business tendency surveys show that households are slightly more confident about their financial situation (▶Figure 5). In addition, more and more households consider that the economic situation is conducive to making major purchases. Purchasing power in all four countries is expected to be driven by a declining inflation and relatively buoyant wage incomes (▶Figure 4). It should increase in Spain in particular (+4.9% in 2024 after +6.5% in 2023), due to major job creations. It is likely to rebound in Germany (+1.8% after -0.1% in 2023) and Italy (+3.7% after -0.5%) and accelerate in France (+1.4% after +0.9%), with real wages gaining strength after two years in decline. Finally, private consumption is expected to be more dynamic in 2024 than 2023, except in Italy where it had remained much stronger in 2023.

Despite an initial decline in base interest rates in early June, monetary policy remains on a restrictive course and financing conditions continue to hold back investment. Consequently, the contribution of investment in construction to growth is likely to be negative or zero in Germany, Italy and France over the last three quarters of the year. In Italy, investment in construction until the end of 2023 was driven by the "Superbonus" scheme, which offered households aid to fund their home renovations (Economic Outlook, March 2024); however, this scheme has become less generous and is likely to stop

### ▶4. In 2024, purchasing power is expected to remain very dynamic in Spain and should pick up elsewhere in the Eurozone
(anuals variations in % and contributions in points)
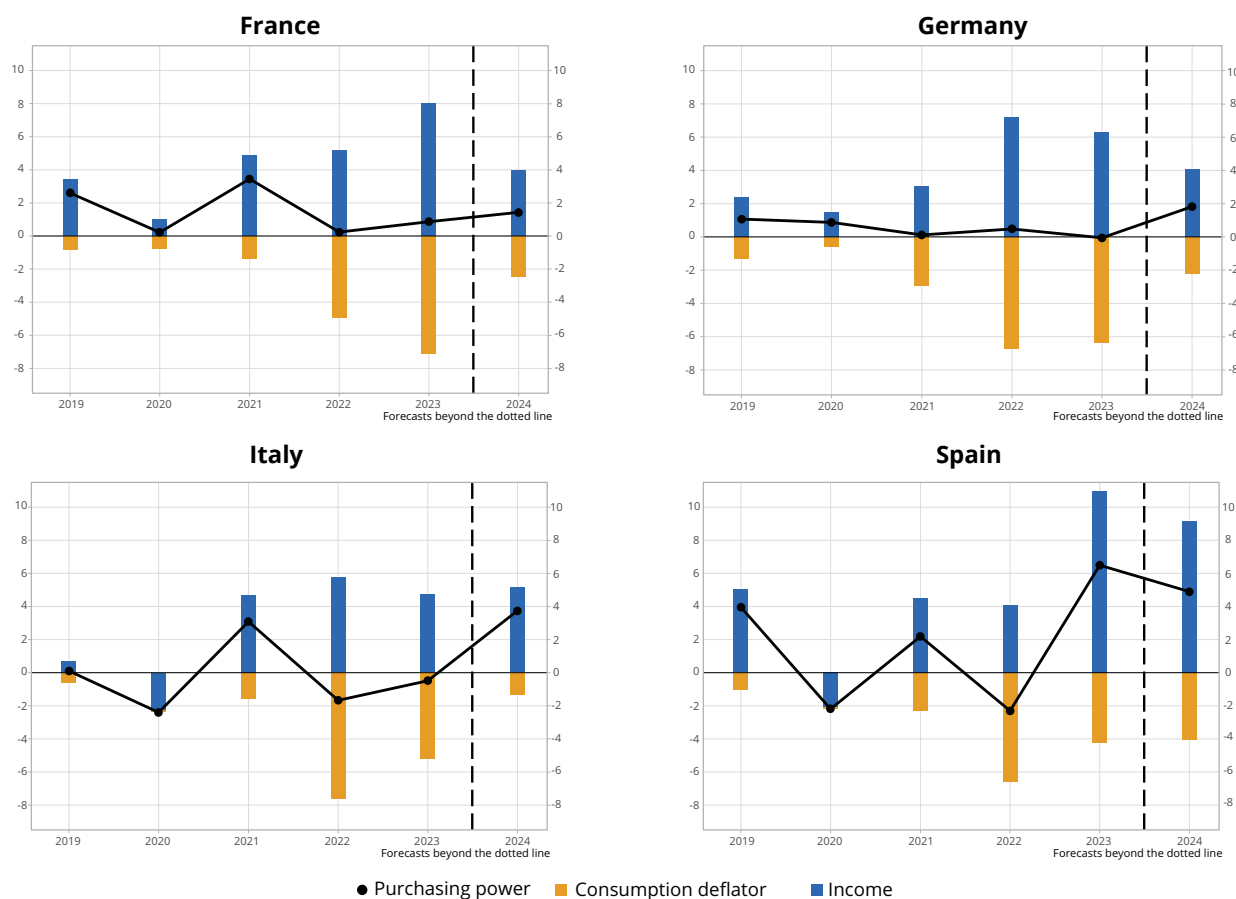


**Last point**: 2024.
**How to read it**: in France, in 2024, purchasing power is expected to increase by 1.4%.
**Source**: INSEE, Destatis, Istat, INE, INSEE calculations.

boosting activity. Excluding construction, investment is expected to be tentative in these three countries, torn between the recovery of European demand and persistently difficult financing conditions: nevertheless, it is expected to accelerate throughout the year in Germany and Italy. A quite different situation applies in Spain, where investment is expected to be more dynamic, whether in construction with support from the recovery plan, or in other products: it should therefore accelerate strongly in 2024 (+2.5%) compared to 2023 (+0.8%).

Exports are expected to be boosted by an acceleration in world demand. However, in 2024, other than in the aeronautics sector, the Eurozone is unlikely to recoup the market shares lost over the last four years (▶ **Focus**). The relative revival of domestic demand, especially consumption, is likely to favour the growth of imports, and ultimately the contribution of foreign trade to growth should become negative or zero by the end of the year after bolstering activity for two quarters.

Overall, only a very slight increase in growth is expected in the Eurozone in 2024 (+0.7% after +0.6% in 2023), due to the stagnation recorded at the end of 2023. Year-on-year, the acceleration is likely to be more substantial: GDP in the Eurozone is expected to increase by 1.1% year-on-year by the end of 2024 compared to +0.1% a year earlier, boosted by the recovery of consumption (▶ **Figure 2**). ●

## ▶ 5. Since the start of 2024, households in the main Eurozone economies have been more optimistic about their financial situation and the opportunity to make major purchases
(reduced centered balances)

**Balance concerning the financial situation in the next 12 months**
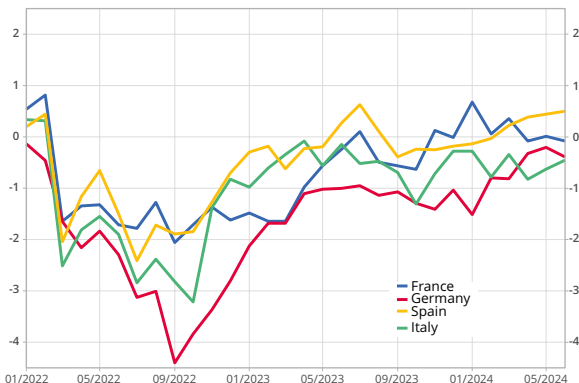
**Balance concerning the opportunity to make major purchases in the next 12 months**
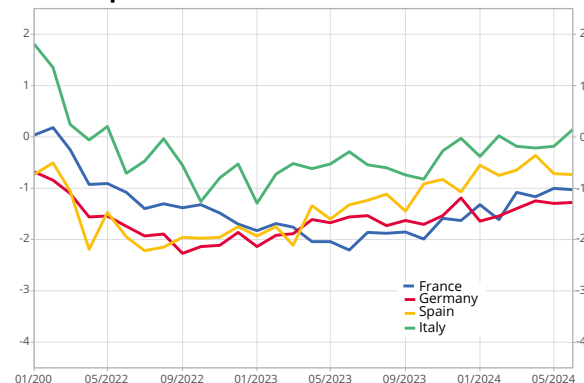


**Last point**: June 2024.
**How to read it**: in Spain, in June 2024, the centred reduced balance of households' financial situation for the next 12 months was 0.5 standard deviations above its long-term average (average for the period between January 2005 and June 2024).
**Source**: DG ECFIN surveys.

## ▶ 6. In 2024, private consumption is expected to drive growth in the Eurozone
(year-on-year, % change)



Forecasts beyond the dotted line
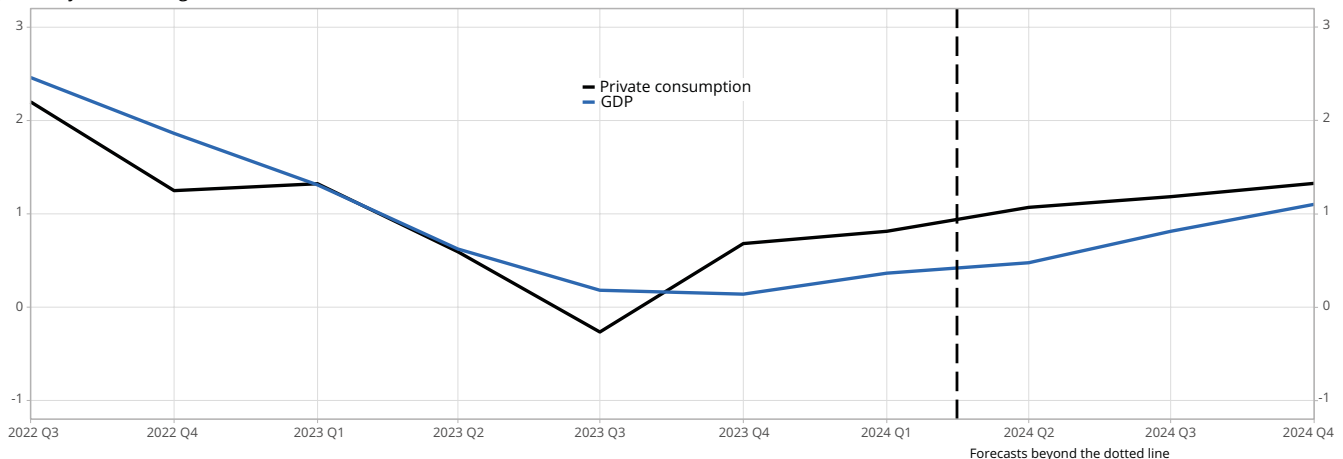
**Last point**: Q4 2024.
**How to read it**: Eurozone GDP is expected to rise by +1.1% year-on-year at the end of 2024.
**Source**: Eurostat, INSEE calculations.

# International economic outlook

## About a quarter of the losses of market share in the Eurozone since the health crisis stem from the energy price shock, but do not appear to be due to energy-intensive products alone

Since the health crisis, the main advanced economies have lost market shares to some of the emerging economies, first and foremost China. Between 2019 and 2023, the market share of the advanced economies, defined as the weight of their exports by value in world trade in goods, declined by almost 2% (both in the Eurozone and the United States), while that of China increased by 10%.

A comparison of the export performance of the main advanced economies in goods by volume – which adjusts for the geographic orientation of exports as well as for relative price variations – confirms this diagnosis: since the health crisis, China's performance has significantly improved (+20%) while that of the advanced economies has generally declined, to varying degrees. US performance has declined by -6% compared with its 2019 performance level, against -4% for the Eurozone. The countries of Southern Europe (Spain, but especially Italy) have more or less maintained their export performance. However, the performances of the United Kingdom (-19%), France (-9%), and Germany (-8%) have deteriorated particularly significantly since the health crisis. These developments mark a turning point: Italy and France had stabilised their export performance since 2010 (the United Kingdom since 2015) after losing considerable ground in the 2000s; Germany and the United States had generally maintained their performance since 2002; China made no further progress from 2012 to 2019.

This decline in the Eurozone's export performance in recent times could be linked to the deterioration in the zone's cost competitiveness: the rise in energy prices following the invasion of Ukraine by Russia is specific to the Eurozone, giving rise to an asymmetric supply shock. The economic model developed in this Focus shows that this was a contributory factor to the deterioration in European performance, although only in part, to the tune of around 20% to 25%.

A detailed analysis by product of changes in market share over the recent period confirms this macroeconomic diagnosis. Goods from "energy-intensive" branches have indeed contributed in recent times to market share losses by European countries and to China's gains, but they account for only about a quarter of this change. Other products are also responsible for the Chinese economy's market share gains over its western competitors since the health crisis: this particularly applies to automobiles and electronic equipment. For these two market segments, the price of energy plays a more secondary role and the loss of performance tends to reveal a deterioration in competitiveness, excluding cost.

<div style="text-align: right">Enzo Iasoni, Guillaume Roulleau, Sarah Zaidan</div>

### Since the health crisis, the main advanced economies have suffered losses of market shares to the benefit of certain emerging economies, primarily China

The export market shares of goods[1] from the advanced economies by value, defined as the ratio of their exports to world trade, have fallen back significantly since the 2000s, to the benefit of emerging economies, especially China. These losses in market share generally occurred during the decade following 2000, after China became a member of the World Trade Organization: in 2007, on the eve of the financial crisis, the market shares of the advanced economies were 11% below their 2000 level (▶ **Bas and al., 2015**). These market shares eventually stabilised during the 2010s: in 2019, they were almost 20% below their 2000 level (▶ **Figure 1**).

In 2019, the Eurozone represented 27% of global exports of goods, a significant proportion due to the inclusion of intra-zone flows. If these flows had been excluded,

the weight of the Eurozone in world trade would have only amounted to about half that figure. Exports from France and from Italy represented 3% of world exports, compared to more than 8% for Germany and 2% for Spain. The United States accounted for about 9% of world trade compared to less than 3% for the United Kingdom and 14% for China.

Since the health crisis, the advanced economies have suffered a further decline in market shares with corresponding new gains for the emerging economies, notably China. Between 2019 and 2023, the market share of the advanced economies would appear to have declined by almost 2%, while that of China would seem to have grown by 10% (▶ **Figure 1**). This new decline, after a decade of relative stability, concerns both the Eurozone and the United States (about -2% in both cases).

The decline in US market shares could be partly due to that country's trade war with China, whose effects appear to be asymmetrical. The increase in reciprocal customs

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[1] The scope of this study is limited to exported goods only, thereby excluding services. Trade in services is poorly correlated with the economic cycle and fares poorly in international comparisons (▶ **Marc et Patier, 2016**).

tariffs would seem to have affected United States exports to China, while China has played its cards right, notably by diversifying its trading partners (►**Bertrand and Villani, 2024**). In addition to these short-term transformations linked to the trade war, losses of US market shares could be the result of a longer term US disengagement from the world economy (►**Mandel, 2012, PIIE, 2021**), accentuated by the Inflation Reduction Act (IRA) requiring final assembly in North America for a large number of industrial components and products. Alongside the decline in exports, the share of US imports in world imports has also fallen slightly.

In addition to the emerging economies of Asia (China, India, etc.),  some Latin American and Eastern European countries are also are likely to gain market shares in the post-health crisis period, whether they are considered as advanced or emerging (►**Box** "Change in market shares in other advanced and emerging economies"): for most countries, however, trend gains maintained a similar pace both before and after the health crisis, whereas in China, these market share gains occurred after several years of relative stability and therefore mark a real change.

## This conclusion can also be drawn from export performances

A potential explanation for this further decline in the market shares of the advanced economies could reside in the geographic orientation of exports. In the case of France, for example, the deterioration in market share could simply reflect the fact that its main trading partners (the European Union in particular) are growing less quickly than the rest of the world, especially since 2022 and the start of the energy crisis. In addition, since these market shares are calculated by value, they incorporate relative price variations.
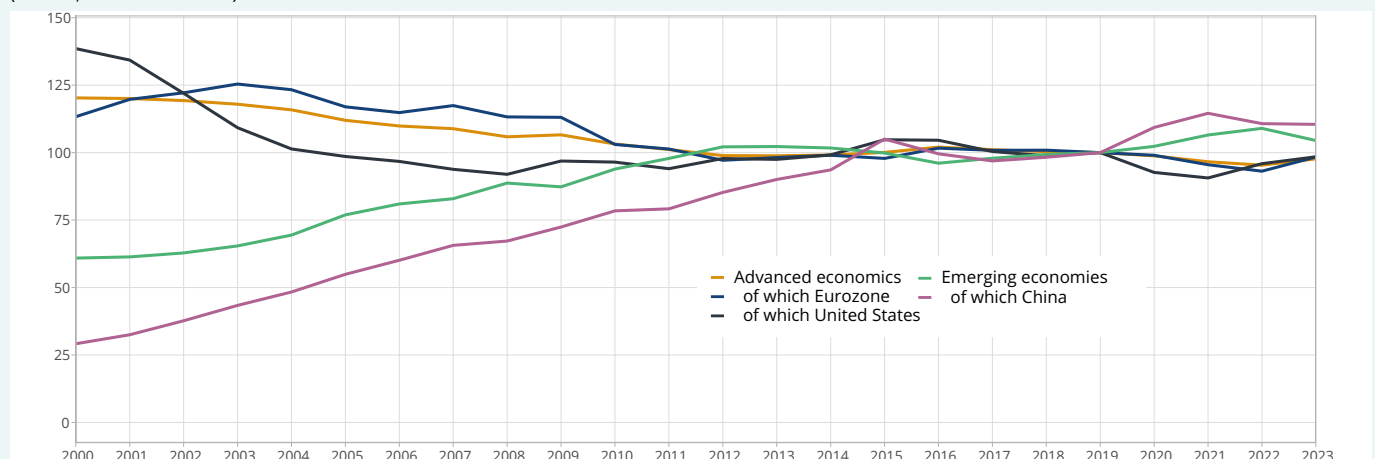
In order to neutralise these two effects, the comparison can be applied to export performances (►**Figure 2**), defined as the ratio of a country's exports of goods by volume to demand for its products (Box "Data source and concepts used"). This change in metric does not modify the basic assessment: the export performance of the main advanced economies has deteriorated since the health crisis, while that of China has improved significantly (+20% compared to the 2019 performance level).

In the advanced economies, the decline in export performance is similar on both sides of the Atlantic: -6% for the United States and -4% for the Eurozone. Within Europe, however, contrasting changes are observed: the countries of Southern Europe (Spain, and especially Italy) have more or less maintained their export performance since 2019, whereas it has fallen sharply in France (-9%), the United Kingdom (-19%) and Germany (-8%), which had nevertheless managed to maintain its export performances from 2000 to 2019.

## From a macroeconomic standpoint, the market share losses by the main Eurozone economies since the crisis are only partly due to the increased cost of energy inputs

Over the long term, exports of goods from the main Eurozone economies[2] can be modelled using an econometric error-correction model (see Annex). Over the long term, the volume of exports is traditionally determined by global demand for the products of the main Eurozone economies and by the share of emerging countries; in this way the automatic decline in the market shares of the group of six countries is determined throughout the estimation period and linked to the emergence of new players in world trade (especially China) which played a marginal role at the beginning of the period

2  Germany, France, Italy, Spain, the Netherlands and Belgium.

**►1. Global market shares in the export of goods by value in the main economies**
(in level, base 100 in 2019)



**Last point**: 2023.
**Note**: the definition of advanced economies is broader than that used by the OECD, and includes notably Turkey and the countries of Eastern Europe.
**Source** : Source : Centraal Plan Bureau.

# International economic outlook

(this methodological choice is the same as that used for the Mésange model for France, ►**Bardaji and al. 2017**). Two other variables are introduced in order to determine the competitiveness of European products on the world markets, all other things being equal: the real effective exchange rate in the Eurozone and a relative price for gas used in the European countries compared to that available in North America. This variable was selected in order to measure the impact on Eurozone competitiveness of specific supply shocks affecting the price of energy inputs: from this point of view, it seems most relevant to monitor the price of gas. The oil market is integrated at a more global level which makes it impossible to use the price of this energy source to model first-order supply shocks affecting different geographic zones asymmetrically. In addition, gas-price fluctuations can also be used to take account of variations in the price of electricity, which

is strongly linked to that of gas in Europe, given the functioning of the market. This model was estimated for the 1997-2019 period (►**Figure 3**).

Over the recent period, this model can only account for a proportion of the decline in export performances in the Eurozone: between 2020 and 2023, the export performance of all the main Eurozone economies declined by 4.3% while the model forecast a decline of only 1.4%, about 1 point of which was due to the change in the relative price of gas after the invasion of Ukraine.[3] This variable can determine the deterioration in cost competitiveness in the Eurozone compared not only to the United States, but also more broadly to all the countries that have not suffered a specific gas price shock. It can therefore account for only a proportion of the decline in market shares in the Eurozone compared to other economies.

**3** Over the 2020-2024 period, the model has been used by extending the market share of emerging countries not by their observed level but as a trend. This enables the unusual increase in China's market share observed over the period with respect to the rest of the world (and hence to the Eurozone) to be neutralised in an attempt to explain it using the other factors included in the equation (exchange rate and relative gas price). See Annex for more details.

►**2. Performance in the export of goods by volume in the main economies**
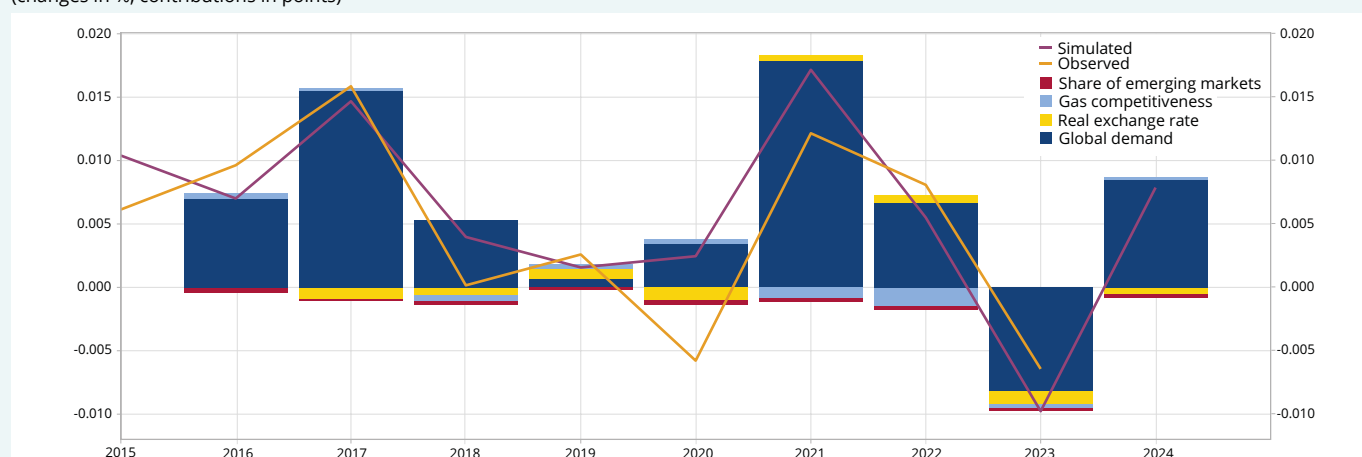(in level, basee 100 in 2019)
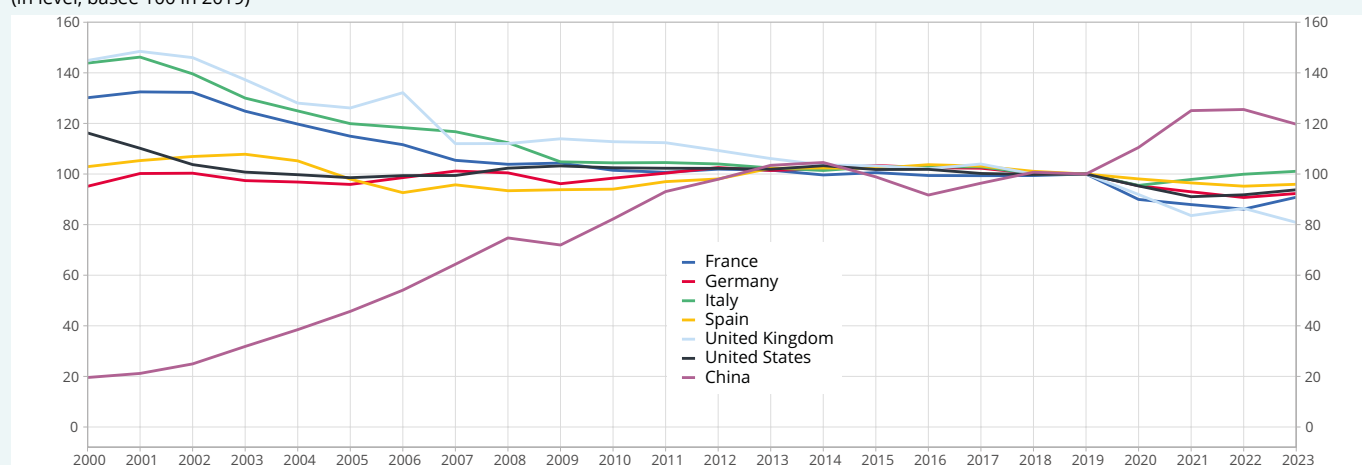
**Last point**: 2023.
**Source**: National Accounts, CPB, Direction Générale du Trésor. INSEE calculations.

►**3. Observed and estimated changes in exports in the Eurozone**
(changes in %, contributions in points)

**Source**: INSEE, Destatis, Istat, INE, Statistics Netherlands, National Bank of Belgium, CPB, Banque Mondiale, BCE, INSEE calculations.

## Losses of market shares in the Eurozone can be broken down in detail by product

In addition to the observation made at the macroeconomic level, analysing the changes in market shares per product may be worthwhile. To this end, a "Berthier" breakdown (▶Berthier 2002) of market-share losses and gains was carried out in relation to the 2019 level. Using this breakdown, the contribution of each product to the change in aggregated market shares undergoes two effects (▶Box "Data source and concepts used"):

- a "structural effect" reflecting the reallocation of world exports between products. Even if a country's market shares remain constant product by product, the structure of world trade may have an impact on changes in aggregated market shares. For example, when the relative weight of the aeronautics sector in world trade decreases (as has been the case since the health crisis), a country

### ▶4. Breakdown by sector of changes of market shares in exports of goods by value in the main economies
(variation in market shares of each country compared to base 2019, in %)
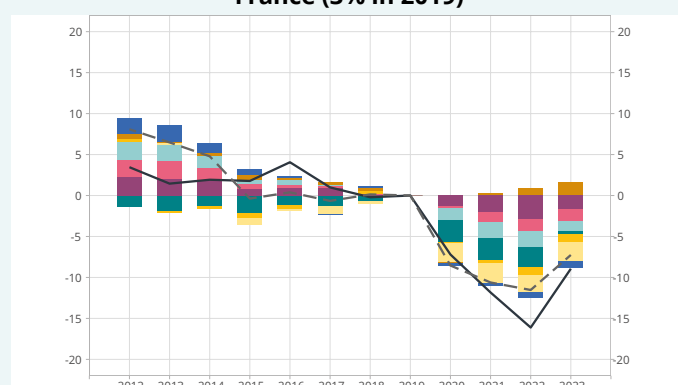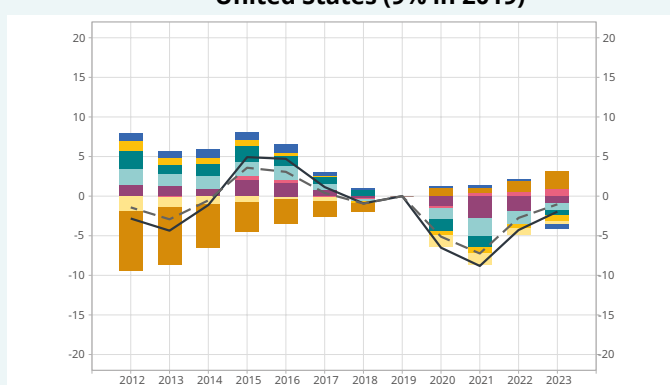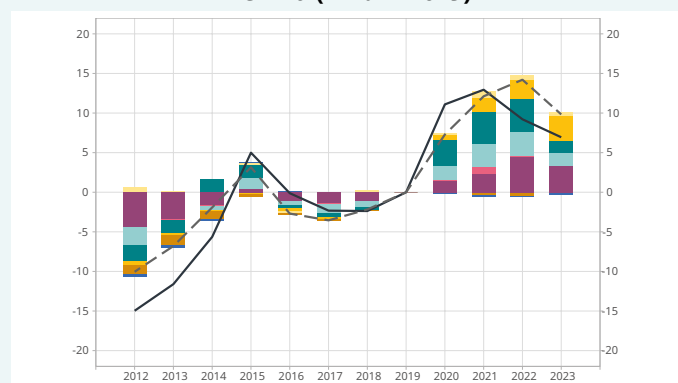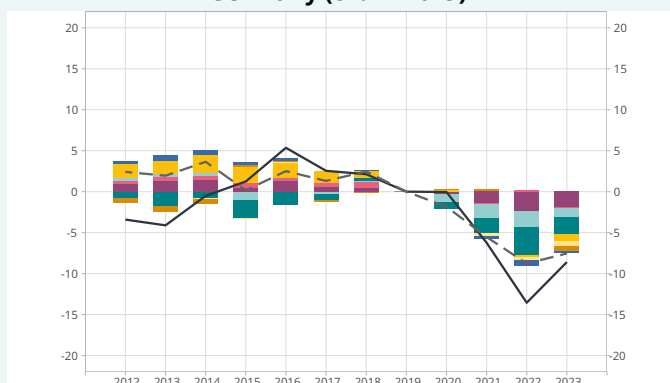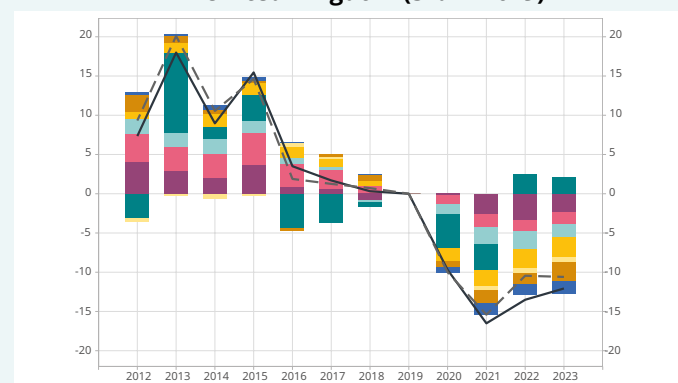


Intra-industry contribution :
- ■ Food
- ■ Energy
- ■ Electrical, electronic and computer industry
- ■ Energy-intensive industry
- ■ Pharmaceutical industry
- ■ Automotive industry
- ■ Other transport equipment
- ■ Other industry
- — Change in market share
- -- of which intra-branch contribution

**Last point**: 2023.
**Note**: the solid black line corresponds to the variation in total market shares as a percentage compared to 2019 and the dashed line to the "intra-branch contribution", adjusted for the change in market shared aggregated for the "structural effect" reflecting the redistribution of global exports between branches (this structural effect is therefore measured according to the difference between the two lines). This "intra-branch contribution" is then broken down per product (▶Box "Data source and concepts used" for details of the method). The level of market shares in 2019 for each country is shown in the title of each graph: these are market shares by value calculated from UN Comtrade data and may therefore differ marginally from the market shares by volume taken from CPB data, which are also mentioned in this Focus.
**Source** : UN Comtrade. INSEE calculations.

# International economic outlook

specialising in aeronautics exports and maintaining its market shares in this sector will nevertheless see its overall market share decline automatically;

- an "intra-product effect" measuring the impact of changes in market shares specific to each product.

Note that structural effects play only a small part in the recent period (▶Figure 4), despite France and Germany appearing to be slightly penalised by their sectoral specialisation since the end of the health crisis.

## Products from energy-intensive industries account for about a quarter of European market-share losses

In line with the results highlighted by the econometric estimate (see above), the Eurozone has lost market shares in energy-intensive products, i.e. goods which are highly energy-intensive to manufacture (wood and paper industry, chemicals, rubber and plastics, and metallurgy). These products accounted for 22% of market-share losses (excluding the structural effect) between 2019 and 2023 for France and also for the United Kingdom (which suffered the same shock as the Eurozone on energy inputs) and up to 25% for Germany, a share which is comparable to the weight of these products in the total exports of goods from these different countries. Symmetrically, these products played a decisive role in China's market share gains over the period, with a contribution of 33%, whereas these products only account for a total of around 20% of Chinese exports of goods in 2019 (▶Figure 4).

## Europe has also lost ground to China in electronic products and automobiles

In addition to energy-intensive products, the market-share losses in the different advanced countries since 2019 concern a wide range of products. In particular, two other types of product play a key role in the market-share losses by different advanced economies compared to China: electronic equipment and automobiles.

Electrical, electronic and IT equipment (which includes semi-conductors and computers) accounts for a significant proportion of the market shares lost by the advanced economies between 2019 and 2023, although to varying degrees: 17% in France, 15% in Germany (i.e. a similar share to the weight of these products in their total exports of goods) and almost a total loss in the United States. The loss of US market shares in semi-conductors could be explained by the restrictions imposed by the United States government on exports to China and more stringent

controls (▶Shivakumar and al., 2024). Symmetrically, China has gained market shares for these products, which contributed 16% of its overall gains between 2019 and 2023, as these products represent 30% of the country's total exports of goods.

Concerning the automotive industry, the market reached a turning point with the significant growth of the electric car market. Since the health crisis, market shares in the automotive sector of the main advanced economies have declined once again (▶Figure 5). The market share of the French automotive sector – whose competitiveness had already declined between 2000 and 2012 (▶Head and al., 2020) – has dropped by almost 10% since the crisis and this product accounts for 13% of the total losses of French export market shares between 2019 and 2023 (i.e. a slightly higher share than the weight of automobiles in their total exports of goods, equal to 9%). Losses of market shares are greater in the United Kingdom (-20%), of roughly the same order of magnitude in the United States (-10%), and slightly lower in Germany (-5%, i.e. a contribution of 12% to losses with the sector representing nearly 17% of total exports of goods). In contrast, China's market share in the automobile sector doubled between 2019 and 2023, even though it represents only 3% of the country's total exports of goods. The automobile sector accounts for nearly a third of the country's gain in market shares across all goods. This growth has been especially driven by the rapid rise of electric and hybrid cars (▶DGDDI, 2024), a segment in which Chinese brands have emerged and are now competing directly with their European and American counterparts.

## In France, the aeronautics sector accounts for a third of market share losses...

Certain products also stand out due to their particular impact on certain advanced economies, even though they do not (or only minimally) contribute to the redistribution of market shares between China and the advanced economies.

The primary example is the aeronautics sector, which – for France – accounts of the majority of its "other transport equipment". This sector has contributed to the market-share losses in Germany and France in recent times: this contribution is estimated at 32% (excluding the structural effect) in France and 9% in Germany. However, these losses of market shares, notably in relation to our non-European partners, are likely to be only temporary, and are expected to be absorbed, or even reversed (▶Roulleau, 2024).[4]

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**4** It should be noted that the definition of sectors of activity in this study is an imperfect approximation of the French classification of activities (NAF), see ▶Box "Data source and concepts used". For example, the "other transport equipment" sector in this study does not include aircraft engines – despite their being essential to French performance in the aeronautical sector within the meaning of NAF (▶Roulleau, 2024). This contribution therefore increases the contribution of the sector within the meaning of NAF.

## ... and pharmaceuticals for a fifth

In 2023, the global pharmaceutical market regained its pre-COVID-19 crisis momentum. The United States – historically the world leader – comfortably retained its dominant position. In fact, the giant American sector has seen a significant increase in its market shares (+25% between 2019 and 2023, ►**Figure 6**) thanks to exports of vaccines, especially against COVID. China also recorded a sizeable, albeit temporary, increase in its market shares, which tripled between 2019 and 2021 thanks to the sale of anti-COVID pharmaceutical products, and then evened out at a slightly lower level than before the health crisis. Amongst the main Western European economies, France and the United Kingdom stand out with notable losses of market shares in this sector, recording a drop of around 20% and 25% respectively between 2019 and 2023. The pharmaceutical sector would appear to account for almost 20% of market share losses (excluding structural effects) for France and 14% for the United Kingdom.

## The United States gained market shares in energy

Finally, the United States managed to limit its losses of global market shares due to the ramping up of its energy sector, driven by accelerated growth in the extraction of unconventional hydrocarbons. This momentum was building prior to the health crisis and has continued since then, notably with the increase in deliveries of LNG to European countries that had been deprived of Russian gas supplies since the invasion of Ukraine.

## Finally, the losses in export performance in the Eurozone seem to be permanent in part

The preceding analysis outlines a typology of export performance losses. A large proportion of the losses linked to the increase in the relative price of energy seem to be lasting as the liquefied natural gas that Europeans have been using since the embargo on Russian gas is structurally more expensive. Losses relating to the aeronautics sector

## ►5. Market share in the automotive industry by value in the main economies
(in levels, base 100 in 2019)
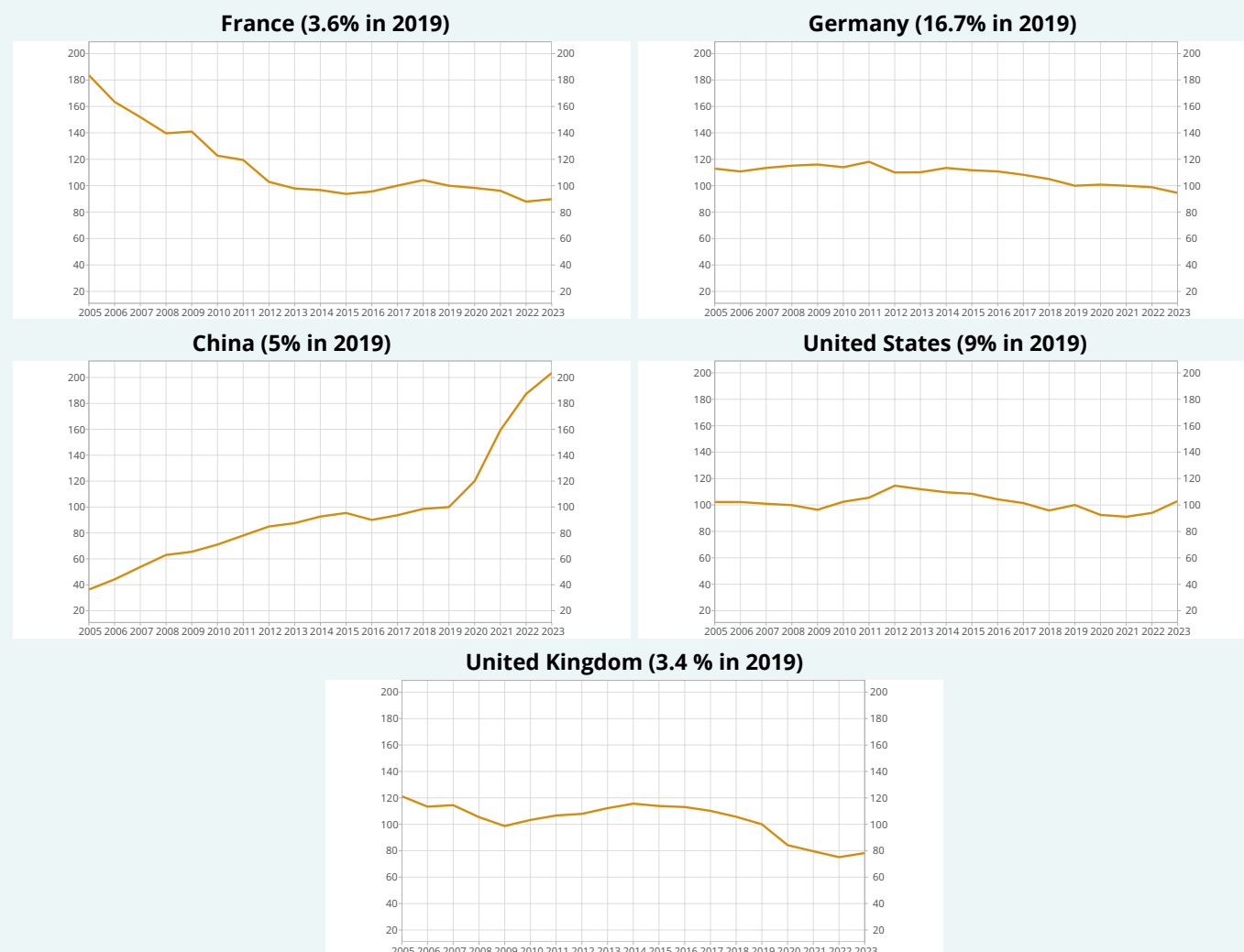
### France (3.6% in 2019)



### Germany (16.7% in 2019)



### China (5% in 2019)



### United States (9% in 2019)



### United Kingdom (3.4 % in 2019)



**Last point**: 2023.
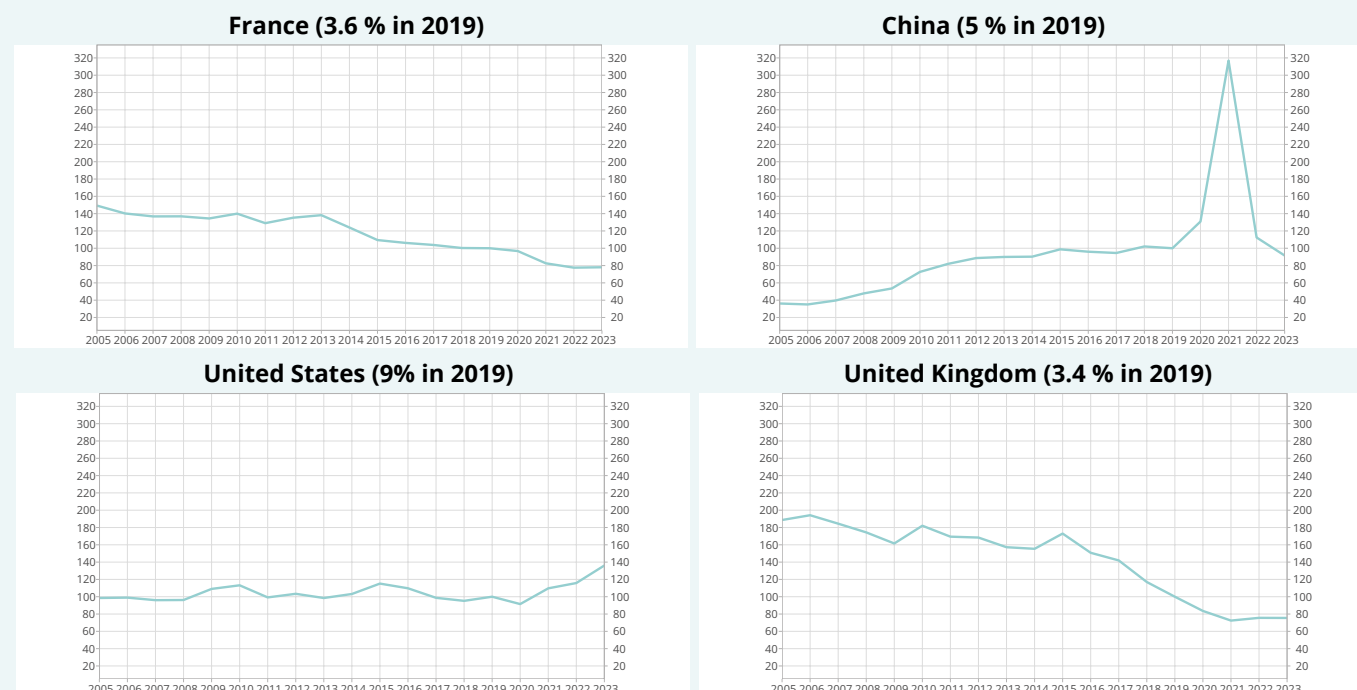**Source**: UN Comtrade. INSEE calculations.

# International economic outlook

appear to be temporary. In other cases, the analysis is more complex: short-term developments will be highly dependent on the ability of European enterprises to close the technological gap, or of European countries to attract foreign industrial companies. ●

**►6.Market share in the pharmaceutical industry by value**
(in level, base 100 in 2019)

### France (3.6 % in 2019)



### China (5 % in 2019)



### United States (9% in 2019)



### United Kingdom (3.4 % in 2019)



**Last point**: 2023.
**Source**: UN Comtrade. INSEE calculations.

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## Box 1: Data source and concepts used

### Data sources and concepts

The export market share of country $j$ is defined as the ratio of the country's exports on date $t$ by value, $X_{jt}$ to world exports by value (i.e. the sum of exports from the $J$ countries in the scope considered):

$$Part_{jt} = \frac{X_{jt}}{\sum_i^J X_{it}}$$

Several institutions collect different national data, usually from customs sources in the case of exports of goods, in order to measure market shares per zone. The data used in this study originates from the Dutch organisation, Centraal Plan Bureau (CPB). However, the disaggregated analysis per product and per country is based on United Nations data (UN Comtrade), which has the advantage of being extremely detailed (more than 5,000 products).

Regarding changes in market shares, in order to distinguish between what relates to the geographic specialisation of each country and what relates to export performance in relation to competition on each third-country market, export performance is defined as the change in market shares not explained by the geographic orientation of exports.

To calculate this export performance, the concept of world demand for the products of each country must be used. World demand for the products of country *j* measures what exports from *j* would be if the market share in each of its partners remained constant compared to the previous year. It is therefore a measure of demand from external markets in which the enterprises of *j* are present. The growth rate of world demand for the products of *j* at *t*, $\Delta DM_{jt}$ is expressed in the following manner:

$$\Delta DM_{jt} = \sum_{i}^{I} \Delta M_{it} \frac{X_{ji,t-1}}{\sum_{i}^{I} X_{ji,t-1}}$$

Where:

- *ΔMit* is the growth rate of imports by volume of country *i* in the current year;

- $X_{(ji,t-1)}$ are exports from country *j* to country *i* by value in the previous year;

The export performance of *j* is then measured as the ratio of exports by volume of *j* to world demand for the products of *j*:

$$Performance_{jt} = \frac{X_{jt}}{DM_{jt}}$$

As it is calculated by volume, export performance – unlike market shares – can also be used to neutralise the effects of relative price variations. Data relating to world demand for goods from different countries by volume originates from the French Directorate General of the Treasury (▶DG Trésor, 2024), exports of goods by volume originate from the national accounts of the different countries, with the exception of China, where exports of goods by volume are calculated on the basis of exports of goods by value produced by Chinese customs deflated by the price of Chinese exports in goods obtained from the CPB.

## Statistical processing of the UN Comtrade database

The UN Comtrade database compiles customs data from a large number of countries and provides extremely detailed information (almost 5,000 products for the most detailed classification) on exports from different countries worldwide. In this Focus study, a level of aggregation of around a hundred products is considered. At this level of aggregation, the transition between the customs classification used by UN Comtrade and the French classification of sectors of activity (NAF) is imperfect. For example, transport sectors (automotive, aeronautics, etc.) from UN Comtrade and used in this Focus only cover vehicle assembly and not engine construction, unlike the NAF.

In addition, the UN Comtrade database for 2023 (and to a lesser extent for 2022) is incomplete. Just over 50% of countries are present for each sector of activity in both 2019 and 2023. In terms of amounts, the restricted scope of the countries present in 2023 represents more than 80% of global trade. To supplement the global trade data used in the analysis for the 2022-2023 period, global exports of each product are extended by adding their changes calculated for the restricted scope of countries present over the 2022-2023 period.

## Sectoral breakdown of market shares

In accounting terms, each product contributes to the change in market shares aggregated via two effects:

- a "structural effect" measuring the impact of the distortion of the structure of world trade. When the relative weight of a product in world trade declines, and a country's market shares are particularly low for this product, this contributes to increasing the country's overall market share;

- an "intra-product effect" measuring the impact of change in the market shares of a given product, with the structure of world trade remaining unchanged. Note that this "intra-product" effect reflects both the "pure performance" of the branch and the geographical orientation of the country.

A Berthier style breakdown formula is used (▶**Berthier, 2002**), with $Part_{jt}$ being the market shares of product $j$ at $t$, and $\alpha_{jt}$ being the weight of the product $j$ in world trade at $t$. The difference in the aggregated market share between date $t$ and date $t_0$ (typically 2019) is expressed as follows:

$$Part_t - Part_{t_0} = \underbrace{\sum_j (\alpha_{jt} - \alpha_{jt_0})\left(\frac{Part_{jt} + Part_{jt_0}}{2} - \frac{Part_t + Part_{t_0}}{2}\right)}_{effet\ de\ structure}$$

$$\underbrace{+ \sum_j \left(\frac{\alpha_{jt} + \alpha_{jt_0}}{2}\right)\left(Part_{jt} - Part_{jt_0}\right)}_{effet\ intra\text{-}branche} \quad \bullet$$

# Box 2: Change in market shares in other advanced and emerging economies

This analysis focuses on the main advanced economies and on China. However, it may be useful to check the movements of market share gains or losses affecting other advanced and emerging economies over the recent period, notably in Latin America, emerging countries in Asia, excluding China, Eastern Europe (excluding Russia and Ukraine), Japan, South Korea, Canada, Australia and Turkey (▶**Figure 7**).

This comparison is based on CPB data for certain large zones (such as Latin America and the emerging countries in Asia excluding China), supplemented by UN Comtrade for any missing data (▶**Box** "Data source and concepts used"). Among the emerging economies excluding China (▶**Figure 7**), there is an overall gain of around 5 to 10% in market shares compared with the period before the health crisis. From this perspective, the momentum in Turkey is stronger (almost 13%) and could correspond to the effects of Russia's "eastern escape route" (▶**Grekou, Mignon et Ragot, 2023**) from Western sanctions translated into gains in market shares (with the same applying to India, classified amongst the emerging Asian countries excluding China, and to China). However, market share gains are maintaining their pre-crisis trend with no sign of a break in this trend, which has occurred in China.

Concerning the other advanced economies, the economies of Asia – including Japan – have suffered relatively similar post-health-crisis market share losses to those in the Eurozone, in contrast to Canada and Australia which have maintained or even increased their market shares. ●

**▶7. Global export market shares of goods by value in other advanced and emerging economies**
(in level, base 100 in 2019)
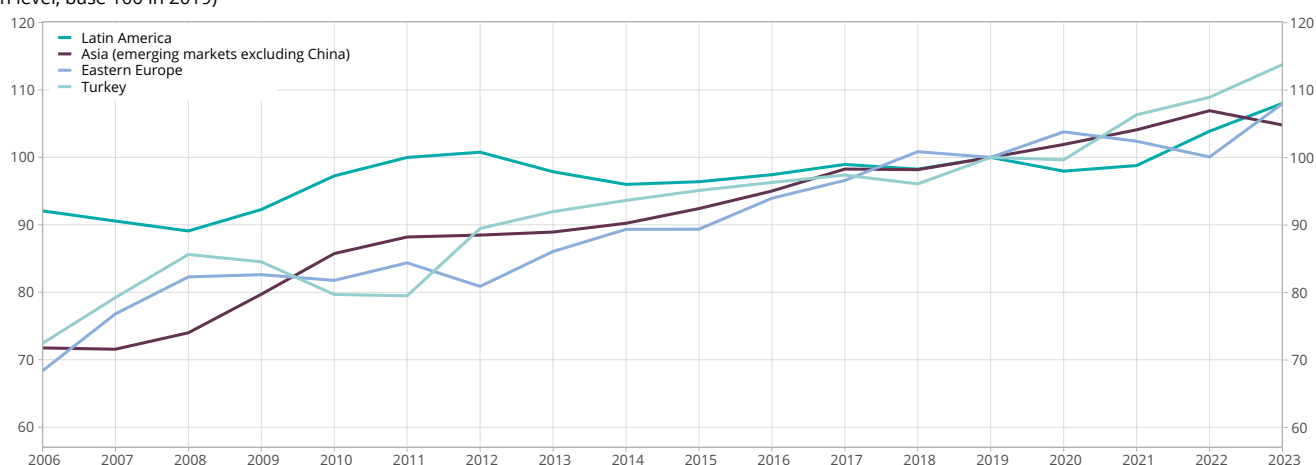


**Last point**: 2023.
**Note**: Latin America consists of South America and Mexico. Emerging Asia excluding China consists of India, Indonesia, Malaysia, Pakistan, the Philippines and Thailand. Eastern Europe consists of Poland, Romania, Bulgaria, Czech Republic, Slovakia and Serbia.
**Source**: Centraal Bureau Plan, UN Comtrade.

# Box 3: Export equation for the Eurozone

The econometric modelling of Eurozone exports is based on an error-correction model. The model is used to measure the contribution of different explanatory factors: demand for Eurozone goods, market shares of the emerging economies, price competitiveness and the relative price of gas compared to the North American market (►**Figure 8**). The estimate is carried out in two stages with details of the explanatory variables given below.

### Demand for Eurozone products

Usually (►**Bardaji and al. 2017**), the coefficient of demand for products is limited to 1 in the long-term equation. The long-term relationship, via the other variables, thus accounts for export performances more than the exports themselves.

### Market shares of emerging economies

To account for the rise of the emerging economies in world trade and China in particular since it joined the WTO in 2001, the export market shares of the emerging economies are used in the model. They are calculated as the ratio of the volume of exports from emerging countries to world trade by volume, with both aggregates being provided by the Centraal Plan Bureau. This variable is essential over the estimation period as it can be used to record the decline in export market shares for all the advanced economies over the last twenty years, due to the emergence of new players in world trade. Consequently, over the estimation period, the long-term relationship, via the other variables, accounts for the export performance of the Eurozone compared with that of other advanced countries.

### The real effective exchange rate

The real effective exchange rate (REER) is calculated as the product of exchange rates with partner countries weighted by the importance of the respective trade to total foreign trade deflated by the consumer prices of these countries. An increase in the REER therefore corresponds to a deterioration in export price competitiveness. The REER used in the equation for the euro is the value provided by the ECB.

### Relative price of gas used by European countries compared to that available in North America

This variable can be used to determine variations in cost competitiveness between Europe and the rest of the world linked to fluctuations in the price of energy inputs. Changes in gas prices are considered to be the most relevant for modelling supply shocks affecting the different geographic areas asymmetrically, due to the fact that the oil market is more integrated at the global level and fluctuations in gas prices also enable variations in electricity prices to be taken into account, as they are strongly linked to gas prices in Europe. The data used is provided by the World Bank.

### Modelling of exports

$$\Delta \log(X_t) = 0,4 + \underset{(0,04)}{0,99} * \Delta(\log(DM_t)) - \underset{(0,03)}{0,09} * \Delta\log(TCER_t)$$

$$- \underset{(0,06)}{0,21} * [\log(X_{t-1}) - \log(DM_{t-1}) + \underset{(0,01)}{0,28} * \log(PdE_{t-1}) + \underset{(0,02)}{0,16} * \log(TCER_{t-1}) + \underset{(0,00)}{0,01} * \log(PrG_{t-1})]$$

Where:

$X_t$: denotes Eurozone exports;

$DM_t$: world demand for Eurozone products;

$TCER_t$: real effective exchange rate of the Eurozone;

$PdE_t$: market share of emerging economies in world trade.

$PrG_t$: price of gas in Europe compared to the price of gas in North America (World Bank data).

# International economic outlook

Standard deviations of the coefficients are given in brackets below the coefficients.

$R^2$=0.88, standard deviation of residuals = 0.01 – Estimation period: 1997 to 2019.

Over the period from 2020 to 2024, a forecast is estimated on the basis of the model using the following hypotheses:

- the weight of the emerging economies in world trade is extended, not by its observed level but as a trend, in order to neutralise the unusual increase in China's market share observed over the period in relation to the rest of the world (and hence to the Eurozone), in an attempt to explain this increase by the other factors considered in the equation (exchange rate and relative price of gas). It is therefore assumed that the coefficients relating to the exchange rate and the relative price of gas, which account for the Eurozone's export performance in relation to the other advanced economies over the estimation period, are relevant explanations in the recent past for the losses in performance in relation to China. It is also assumed that the relative price of gas used in the model can be used to determine the deterioration in the cost competitiveness of the Eurozone not only compared with the United States, but also in relation to all countries that have not suffered a specific gas price shock, including China;

- the real exchange rate of the ECB is extended by applying a forecast for 2024 (fixed nominal exchange rates, inflation forecasts presented elsewhere in this *Economic Outlook*);

- for 2024, the relative price of gas is fixed at its level at the beginning of the year. ●

►8. The relative price of gas accounts for part of the recent buoyancy in Eurozone exports
(level, base 100 in 2019)
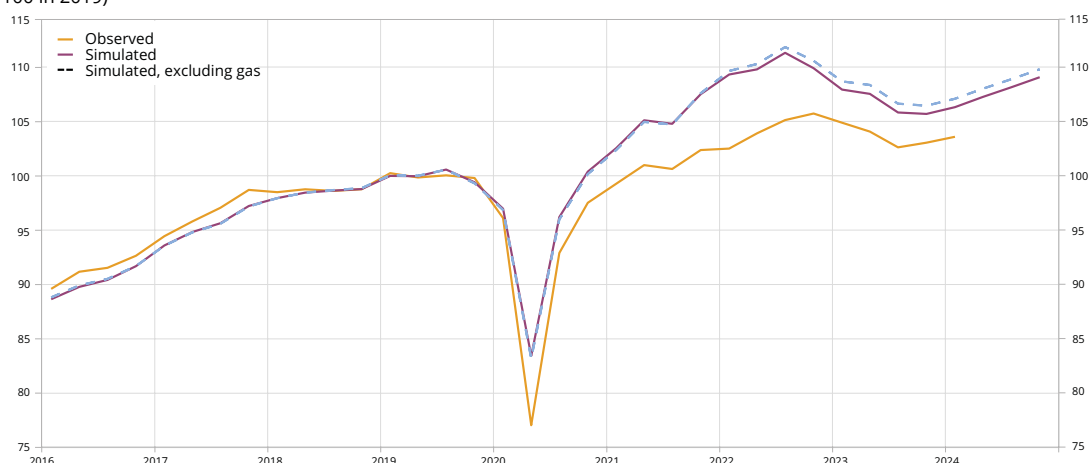


**Last point**: Q4 2024.
**How to read it**: the level of exports observed in the Eurozone in chained volumes increased by 4% compared to its 2019 average. However, exports simulated by the model would appear to have increased by 6% compared to the 2019 average.
**Source**: INSEE, Destatis, Istat, INE, Statistics Netherlands, National Bank of Belgium, CPB, Banque Mondiale, BCE, INSEE calculations.

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# United Kingdom

In Q1 2024, activity in the United Kingdom regained some vigour (+0.7%, ▶ **Figure 1**), after seven quarters of stagnating or shrinking GDP (including two consecutive quarters of decline in activity in H2 2023). Growth was driven by dynamic domestic demand, especially in investment (+0.9% after +0.9%): residential investment rebounded significantly (+3.3%), after five quarters of strong contraction, and corporate investment remained solid (+0.5% after +1.4%). Private consumption increased (+0.4%) after two quarters of contraction. On the foreign trade side, exports contracted (-1.0%), but less sharply than imports (-2.7%): a destocking movement offset this positive contribution by foreign trade. For the moment, this favourable trend in activity is not being passed on to the labour market: employment fell back in Q1 2024 and the unemployment rate increased, reaching 4.3% after 3.8% at the end of 2023.

The latest economic indicators show that activity looks set to remain promising over the coming quarters (▶ **Figure 2**): it is expected to increase by +0.4% in Q2 and then by +0.3% per quarter until the end of 2024. Over the year as a whole, GDP growth in the UK should stand at +1.0%, after +0.1% in 2023. In the spring of 2024, inflation continued to fall (+2.0% year-on-year in May 2024 after +8.7% one year earlier), mainly due to the decline in energy prices and the slowdown in food prices. However, there has been no drop in core inflation, with the prices of services still fuelled by the strong increase in wages (▶ **Figure 3**): growth in annual wages (excluding bonuses) reached +5.8% in April, encouraging the Bank of England to maintain its base interest rate at 5.25%. This momentum is unlikely to weaken, being bolstered in Q2 by the 9.8% increase in the minimum wage, implemented on 1st April. Employment is expected to rise again, in the wake of activity. Purchasing power should therefore pick up, especially in the spring. Private consumption, under the impetus of purchasing power and with the return of consumer confidence, is expected to remain dynamic (+0.4% in Q2 then +0.3% per quarter). After a short-lived improvement at the beginning of the year, household investment looks set to edge down again, penalised by financing costs. Corporate investment should continue to grow moderately, driven by the Full Expensing accelerated depreciation scheme. Regarding foreign trade, imports are expected to rebound in Q2 as a result of the rebuilding of inventories, before improving more moderately in H2, in line with domestic demand. Meanwhile, exports are likely to be slightly less buoyant than demand for UK products: foreign trade is expected to hamper growth in the spring after bolstering it in the winter; it is then expected to remain neutral during H2. ●

## ▶1. UK activity is expected to regain strength in 2024
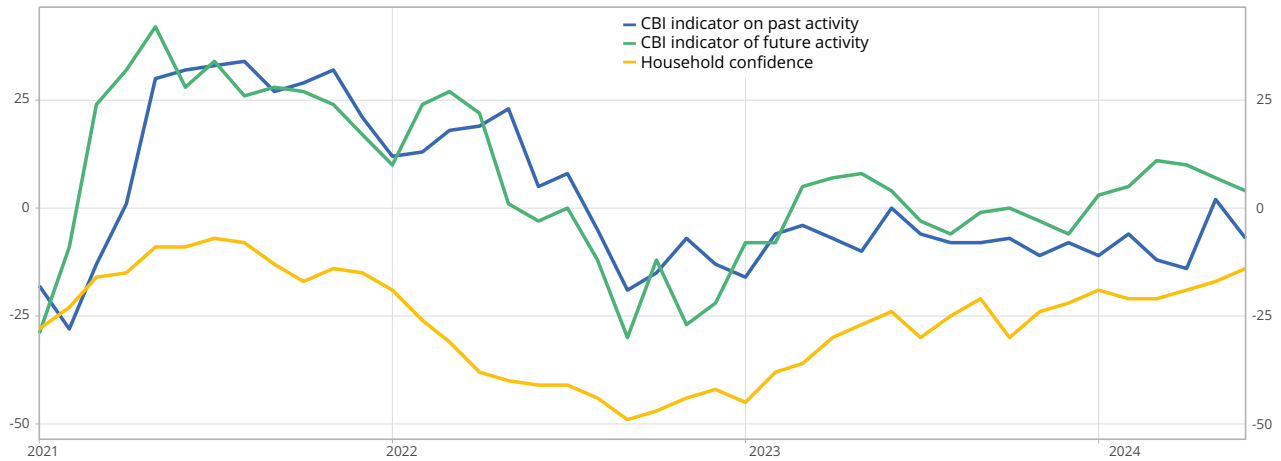(quarterly changes in GDP in %, contributions in points)



Forecasts beyond the dotted line
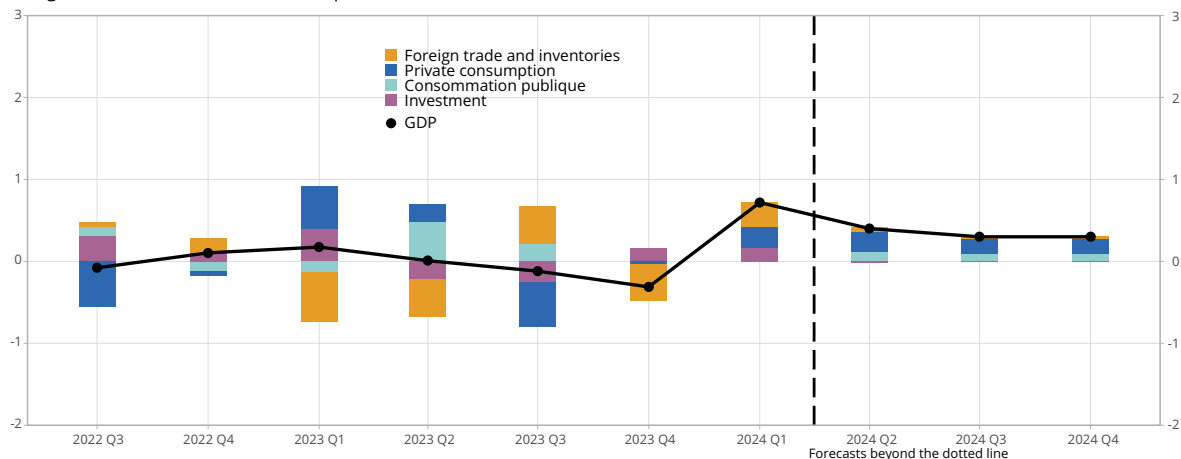
**Last point**: Q1 2024.
**How to read it**: in Q1 2024, GDP increased by +0.7% and private consumption contributed +0.3 points to this growth.
**Source**: ONS, INSEE calculations.

## ▶2. Economic indicators look promising
(in level)



**Last point**: June 2022.
**Note**: the CBI Growth Indicator is based on a monthly survey analysing past and future performance in the UK manufacturing industry. The household confidence index provides a monthly snapshot of consumers' perceptions of their finances and the UK economy. It is based on their opinions of their financial situation over the last 12 months and of how they envisage this situation over the coming year
**How to read it**: in June 2024, the CBI indicator on future activity was 4 and the household confidence index was -14.
**Source**: ONS, INSEE calculations.

## ▶3. Wage growth remains very strong, pushing core inflation upwards
(year-on-year)
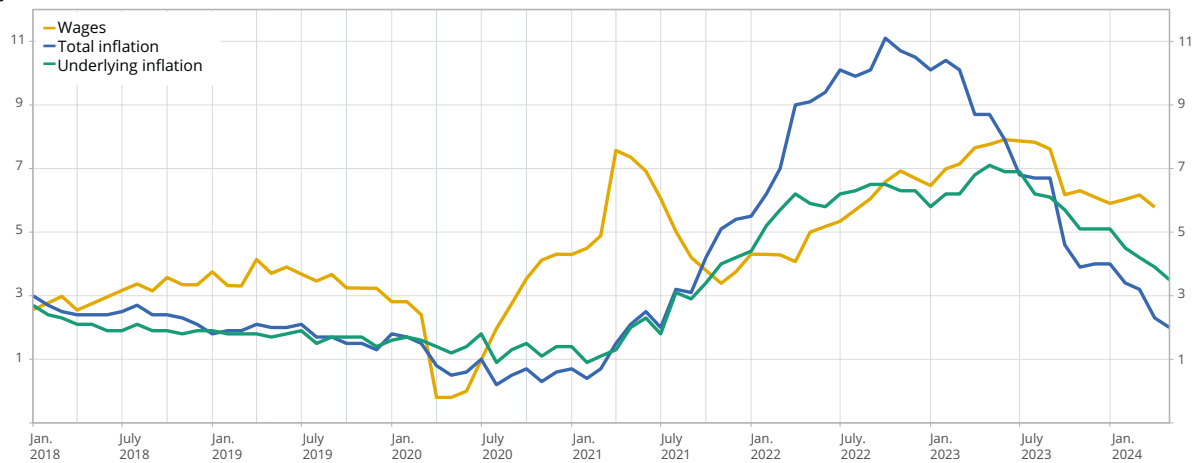


**Last point**: April 2024 for wage growth, May 2024 for inflation.
**Note**: the annual growth in wages shown here is the average weekly earnings excluding bonuses.
**How to read it**: in April 2024, core inflation was 3.9%; annual wage growth (excluding bonuses) was 5.8%.
**Source**: ONS, INSEE calculations.

# United States

The US economy slowed at the start of 2024, while still remaining robust: growth reached +0.4% in Q1 2024, after +0.8% in Q4 2023 (►**Figure 1**). Activity was occasionally hampered by the decline in production in the extractive sector (-2% in Q1) as a result of unfavourable weather conditions during the winter. On the demand side, private consumption slowed slightly but remains vigorous (+0.4% in Q1 after +0.8% in Q4 2023), with households benefiting from real wage increases and job creations. Private investment has also improved significantly (+1.7%): with the increase in past housing starts, home investment has been particularly buoyant (+3.8% after +0.7% in Q4 2023), whereas non-residential investment (+1.1%) was driven mainly by investment in intellectual property. Meanwhile, manufacturing sector investment in buildings and structures stabilised at a high level: with the effect of the Inflation Reduction Act, this investment has virtually doubled since mid-2022 (► **Figure 2**). Government consumption and investment were at a standstill in Q1 (+0.4% after +1.1%), after budgetary policy had strongly supported US activity in 2023, resulting in a high government deficit (-6.2% of GDP in 2023). Foreign trade held back growth (-0.2 points): exports were at a standstill (+0.4%) while imports grew strongly (+1.5%) in April.

With regard to prices, inflation as measured by the Bureau of Labor Statistics stood at +3.3% year-on-year in May after +3.4% in April (► **Figure 3**). Food inflation was relatively stable (+2.1% in May against 2.2 % in April) and core inflation remains high (+3.4%), fuelled by growth in wages and rents. This relatively slow decline in measured inflation has generated uncertainty over the timing of future interest rate cuts by the Federal Reserve in 2024.

For the coming quarters, business tendency surveys point towards continued strong activity. GDP is expected to grow by 0.6% in Q2 with the recovery of the extractive sector, and then by +0.5% per quarter in H2 2024: growth throughout 2024 as a whole is therefore likely to stand at +2.5%. Purchasing power should continue to improve, driven by the continued buoyancy of job creations, combined with increasing real wages. These gains in purchasing power are expected to fuel private consumption, which would then continue to grow, although at a more moderate pace: the margins for downward adjustments of the savings ratio seem to have been exhausted, and it is therefore likely to stabilise, at a much lower level than before the health crisis. Vigorous growth in corporate investment is expected to continue. On the government demand side, Congress approved the federal budget at the end of March and government consumption and investment should start to bolster domestic demand substantially once again from Q2 onwards. Exports should increase in line with world demand for US products, while growth in imports is expected to be slightly more sustained, driven by the momentum of domestic demand: the contribution of foreign trade to growth is therefore likely to be slightly negative in the forecast. ●

►**1. Contributions of United States GDP components to growth**
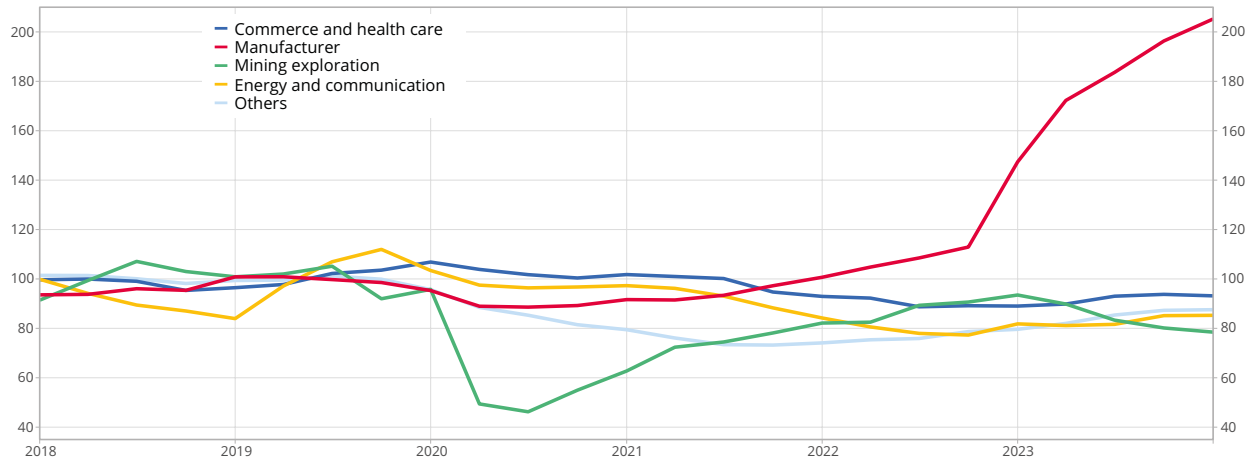(quarterly changes in GDP in %, contributions in percentage points)
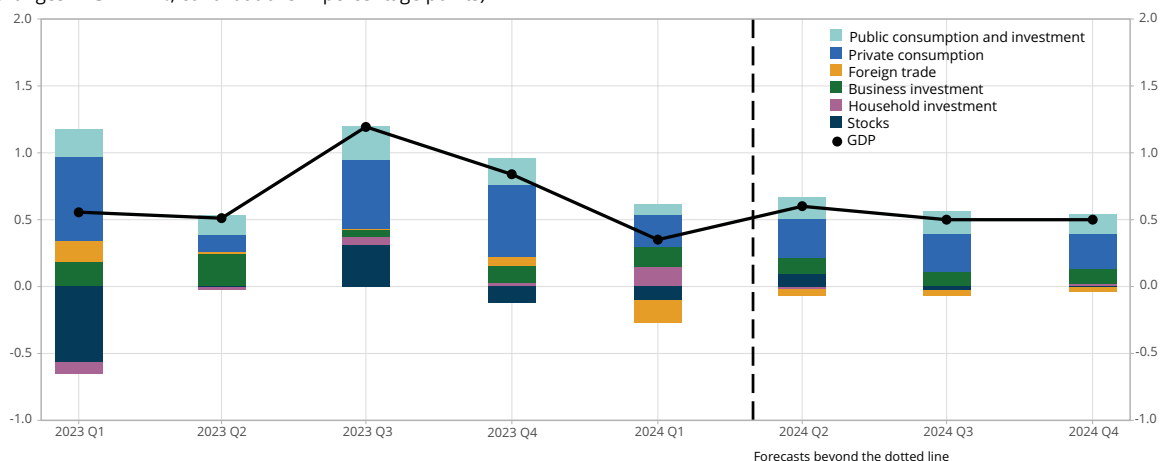


**How to read it**: in Q1 2024, US GDP increased by 0.4% and private consumption contributed +0.2 points to this growth.
**Source**: Bureau of Economic Analysis and previous INSEE.

## ►2. Variation in components of non-residential investment in structures in the United States
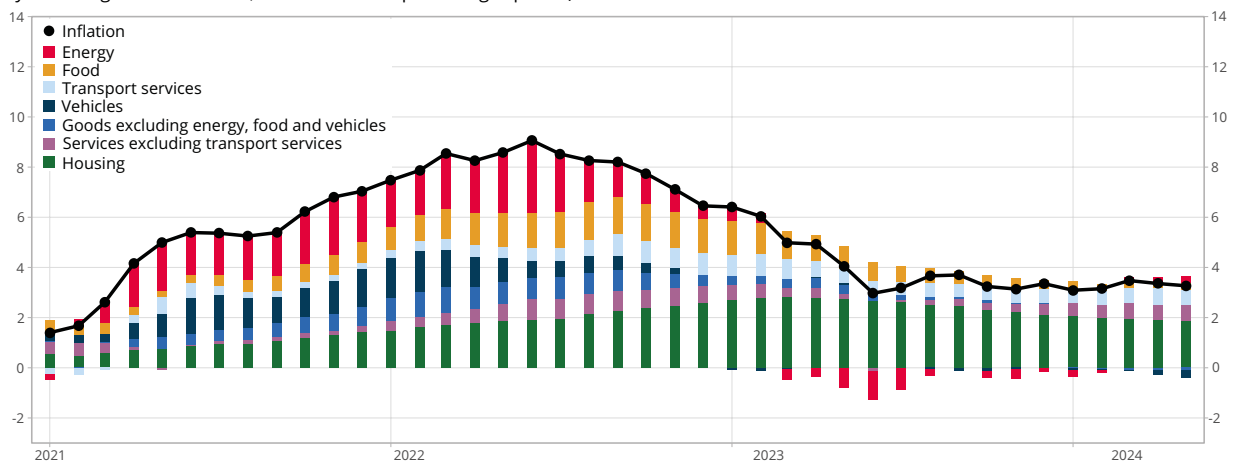(base 100= average 2019)



**Last point**: Q1 2024.
**How to read it**: on Q1 2024, manufacturing investment in structures was 105% above its 2019 average.
**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 percentages points)



**Last point**: May 2024.
**Note**: the "Housing" item in the consumer price index (CPI) includes the price of rents, and in particular imputed rents (which is not the case in the CPI in France or the HICP in the eurozone, where only actual rents are taken into account). The BLS publishes an HICP-type index for international comparisons: inflation measured in this metric is much less dynamic, standing at 2.0% year-on-year in May 2024.
**How to read it**: in May 2024, consumer prices rose by 33.3% year-on-year in the United States, with housing prices accounting for 1.9 points of the increase.
**Source**: Bureau of Labor Statistics.

# China

The Chinese economy was surprisingly buoyant at the start of 2024: according to the Chinese National Bureau of Statistics, GDP grew by 1.6% in Q1 2024 compared to the previous quarter (after +1.2% in Q4 2023, ►**Figure 1**). This performance would appear to be based mainly on foreign trade: imports continued to decline, hampered by lacklustre domestic demand, whereas exports again increased strongly. This was especially applicable to vehicle sales, driven exclusively by foreign demand: over the first four months of the year, domestic sales increased less rapidly than total production compared with the same months in 2023 (6% and 8% respectively), whereas exports increased by 33% over the same period (►**Figure 2**). However, this sector is subject to trade tensions: the European Commission is continuing its investigation into subsidies by the Chinese authorities while China has appealed to the World Trade Organization over US subsidies on electric vehicles.

Domestic demand is expected to remain sluggish until the end of the year. Real estate construction continues to deteriorate: in April 2024, real estate transactions and housing starts stood at 40% and 62% below their pre-pandemic level respectively, and fell back by 15% and 13% respectively year-on-year. Excluding real estate, investment is improving but is still held back by low pressure on production capacities: in Q1 2024, the production capacity utilisation rate dropped to 73.6%, its lowest level since mid-2016 (excluding Q1 2020 ►**Figure 3**). This situation is fuelling the decline in producer prices in industry (1.4% year-on-year in May) and in the economy as a whole: GDP by value is increasing significantly less quickly than GDP by volume, according to NBSC statistics (+4.2% by value against +5.0% by volume year-on-year in Q1).

For households, the confidence index has remained stable at a low level since the beginning of 2022. Retail sales slowed substantially at the beginning of the year and increased by 3.7% year-on-year in May 2024.

In the forecast, GDP is expected to slow after a particularly dynamic start to the year, and to return to the average growth rate recorded in 2021, i.e. +1.0% in Q2 2024 then +1.1% per quarter in H2: annual growth of +5.2% has been forecast for 2024, close to the target of +5.0% set by the authorities. Concerning foreign trade, exports are likely to remain at a standstill with imports rebounding vigorously in Q2 2024, as a backlash against the changes observed at the beginning of the year. In H2, China is expected to continue to gain market shares, especially in the electric vehicle sector, with imports increasing a little more slowly. Over 2024 as a whole, foreign trade should therefore contribute positively to activity. ●

►**1. Dynamism in Q1 2024 is in line with the 2021 growth trend**
(GDP in base 100 at Q4 2019)
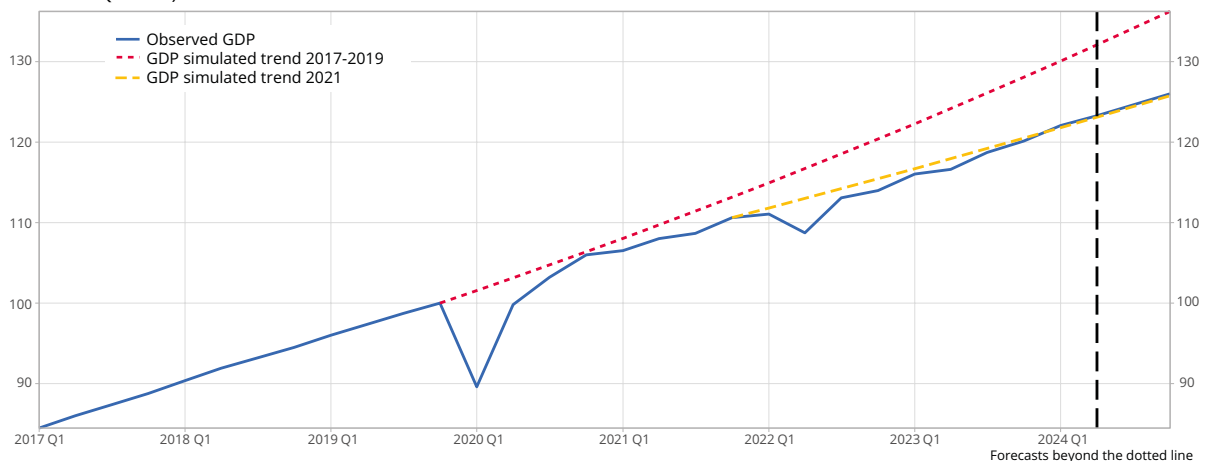


**Last point**: Q4 2024 (forecasts from Q2 2024).
**Note**: the trend curve for 2017-2019 (or 2021) has been plotted by extending the GDP series at a constant quarterly rate from Q1 2020 (or Q1 2022), equal to average quarterly GDP growth over the period 2017-2019 (or 2021).
**How to read it:** in Q1 2024 GDP increased by 22% compared to its Q4 2019 level. According to the trend observed between 2017 and 2019, it would have increased by 30%.
**Source**: NBSC, INSEE calculations.

► **2. A growing share of exports in Chinese automobile production**
(vehicle production = volumes of vehicles, not SA, 10,000 units, four-month moving averages, share = in %, four-month moving averages)
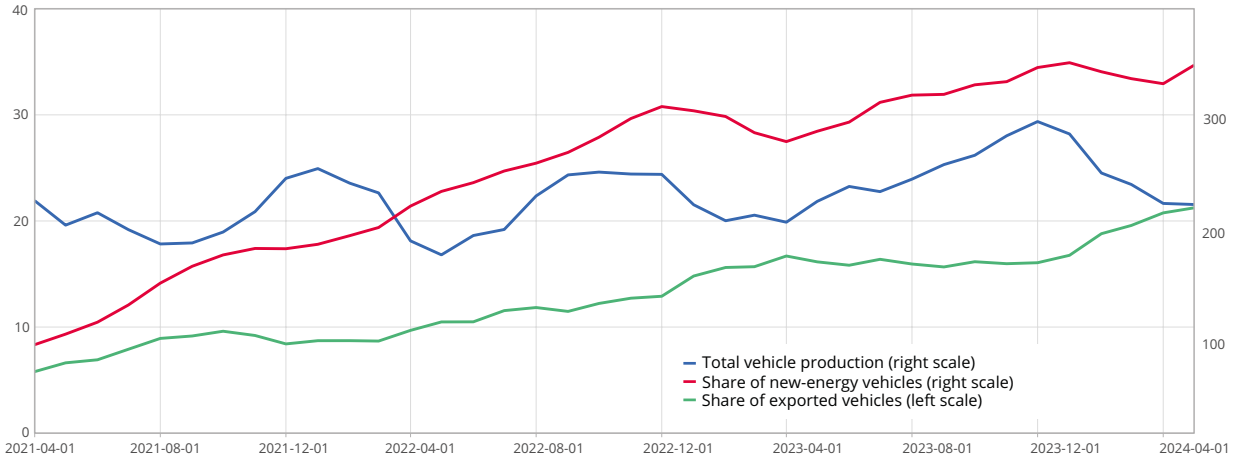


**Last point**: May 2022.
**How to read it**: average vehicle production in China from February to May 2024 was 2,240,000 units, of which 35% were new-energy-powered vehicles. Vehicle exports represented 21% of production over the same period.
**Source**: NBSC, INSEE calculations.

► **3. Constantly declining use of industrial capacities, generating deflationary pressures**
(year-on-year change for producer prices, level for capacity utilisation rate)
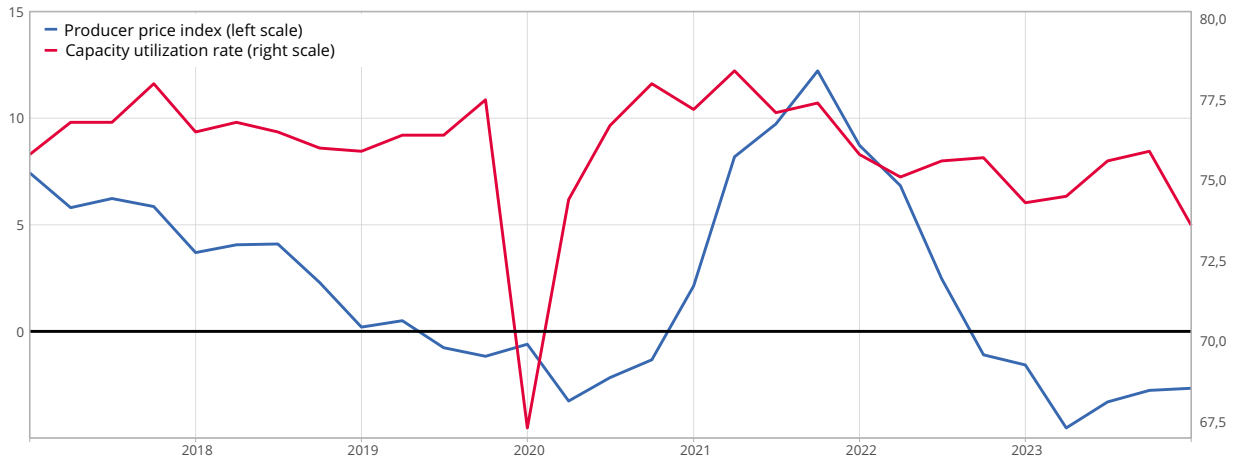


**Last point**: Q1 2024.
**How to read it**: the capacity utilisation rate in industry stood at 73.6% in Q1 2024.
**Source**: NBSC. INSEE calculations.