

In fits and starts

In spring 2011, signs of a weakening of activity appeared in the advanced economies. For several months, they have been facing a rise in prices of imported commodities that weighs on company costs and on consumer purchasing power. In addition, the earthquake in Japan last March 11 severely damaged the country's production capacity, also causing sourcing difficulties and production stoppages in certain industrial sectors, notably in the United States.

These shocks are of a temporary nature, however: with the expected stabilisation of commodities prices, inflation should start declining between now and the end of the year, the Japanese economy should return to strong growth in Q2 with reconstruction and the restoration of production capacities. As a general rule, prospects for activity should therefore brighten in the advanced economies in the second half of the year.

In France as in the advanced economies, the short-term outlook described in the business tendency surveys has been at a standstill recently and a slowdown in activity looks likely in Q2: after being very high in Q1 2011 (+1.0%), growth should only come to 0.2% in Q2. Aside from the macroeconomic context, this growth profile looks likely to be marked by several specific factors.

In Q1, for example, French growth was partly buoyed up by exceptional factors, notably the effects of catching up after last autumn's strikes:

these effects should fade away in Q2. Household consumption should also be hit by the backlash after the end of the scrappage scheme, while exceptionally clement temperatures should slow down energy expenditure. Household consumption should therefore show a considerable drop in Q2 2011: -0.4%.

These factors in the slowdown should be one-offs and should not bring into question the recovery process that has been ongoing for two years: in H2 2011, growth should return to a rate of 0.5% per quarter, driven by the rise in investment and employment. In the wake of these job creations, earned income should feed purchasing power gains for households. Household consumption should increase in H2, in line with purchasing power, to follow a rate slightly below that observed before the crisis.

This forecast is surrounded by a number of uncertainties. Aside from the temporary effects, the weakness of the American economy could be more pronounced and lasting than envisaged here. Likewise, the recovery of the Japanese economy could be slower, especially if it comes up against supply obstacles in the energy sector. Conversely, faced with the improving labour market, French households could drop the precautionary behaviour they adopted during the crisis and their consumption could increase more strongly than envisaged in this forecast. ■

Despite the shocks, activity accelerated slightly in the advanced countries in Q1 2011

In Q1, a slowdown in activity in the United States and a decline in Japan

In the advanced economies as a whole, activity progressed in Q1 2011 at a slightly higher rate than in Q4 2010 (+0.4% after +0.3%). The American economy slowed down (+0.5% after +0.8%), hit in particular by the effect of the bad weather conditions in the construction sector and the decline in public defence spending. After a strong destocking tendency in Q4, American imports nevertheless increased sharply in Q1, buoying up demand for the products of the advanced economies. In Japan, activity declined sharply in the wake of the catastrophe of 11 March (-0.9%), although the full impact of the shock is expected in Q2.

Activity progressed sharply in the Euro Zone, partly thanks to catching-up phenomena

In the Euro Zone (+0.8% after +0.5%) and the United Kingdom (+0.5% after -0.5%) activity accelerated distinctly in Q1 2011, meanwhile. The German (+1.5% after +0.4%), French (+1.0% after +0.3%) and British economies in particular were driven by catching-up effects. After the poor weather conditions in December in France, activity also rebounded in the refinery and chemicals sector after the strikes in October.

World trade more dynamic

World trade was dynamic in Q1: it progressed by 3.3%, after 2.1% in the previous quarter. Trade was buoyed up by the marked rebound in imports in the advanced countries, in particular in Japan and the United States, while demand from emerging zones continued to be dynamic.

The advanced economies slowing down in Q2 2011

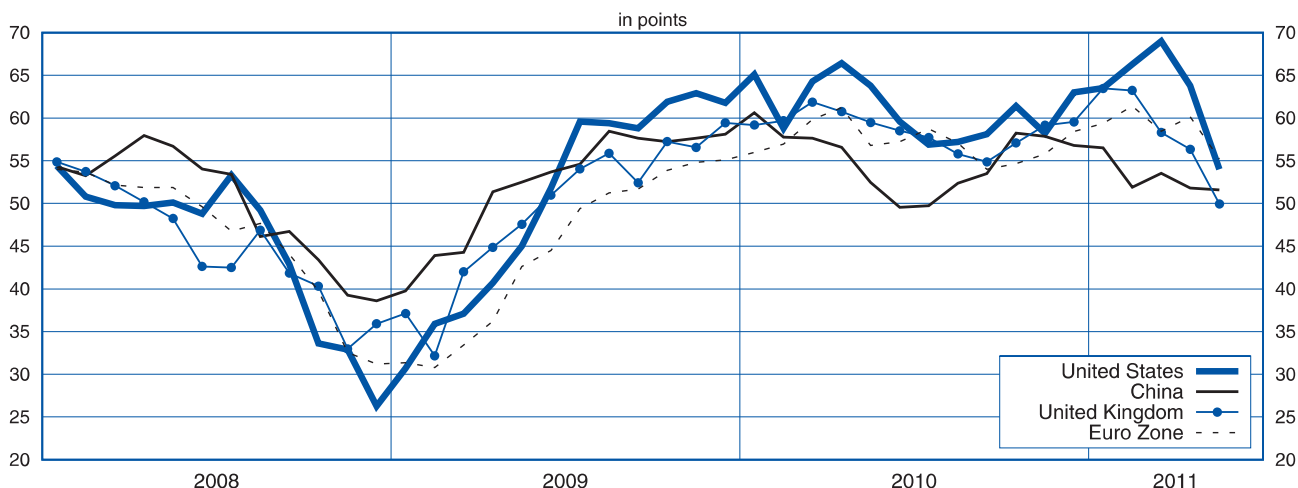
Since April 2011, the business climate has deteriorated distinctly in the United States

After brightening at the end of 2010 and start of 2011, the outlook has clearly deteriorated in the United States (see *Graph 1*). For example, it fell sharply in services in April then in industry in May. In the Euro Zone and the United Kingdom, the business climate also worsened in recent months, although to a lesser extent.

Activity set to slow in all the advanced countries in Q2 2011

Activity should slow down clearly in Q2 2011 in the advanced economies: +0.1% after +0.4%. The Japanese economy should decline once again (-1.8% after -0.9%) and growth should slow down in the United States (+0.4% after +0.5%), the Euro Zone (+0.4% after +0.8%) and the United Kingdom (+0.1% after +0.5%). In the Euro Zone and United Kingdom, this slowdown should be the result to some extent of the fading out of the exceptional phenomena in Q1. But above all, the advanced economies are suffering the effects of several shocks.

1 - The PMI manufacturing output indices decline in the developed countries



Source: Markit

In the wake of the 11 March earthquake, the disorganization of the Japanese economy is causing sourcing difficulties worldwide in certain industrial sectors. The rise in commodity prices should continue to have an effect on company costs and on consumer purchasing power in a context in which the still-poor situation of labour markets is reducing the ability of workers to negotiate wage rises. Finally, the continuing implementation of fiscal consolidation measures is likely to slow down activity to some extent.

Slowdown factors fading out in H2...

Severe jolts in production in Japan

The earthquake of 11 mars 2011 severely weakened production capacities in Japan, causing sourcing difficulties for its trading partners. These supply stoppages should affect global industrial production in Q2. In H2, however, the Japanese reconstruction effort should buoy up activity and world sourcing channels should gradually return to normal.

The effects of the inflation shock easing at the end of the year

The prices of commodities have slowed down on the whole since the start of the Q2. This deceleration will only filter through to consumer prices with a certain time-lag and price rises should remain sustained in Q2 before easing at the end of the year. In the emerging countries, these price rises are causing inflationary overheating phenomena. Tighter monetary policies should therefore lead to a slowdown in activity in the emerging countries and a return to trend growth.

... while economic policies become more restrictive in the United States and in Europe

Tighter economic policies

In the United States, despite the end of the quantitative easing programme in June 2011, monetary policy should remain accommodating on the whole. The fiscal measures passed at the end of 2010 should continue to support household purchasing power but American general government expenditure should slow down distinctly in an uncertain budget situation. In Europe, the European Central Bank is likely to make two further increases to its base rates by 25 base points by the end of the year. In addition to this, the fiscal consolidation strategies implemented in Europe should significantly affect household purchasing power.

Activity rebounds in H2 in the advanced countries

A strong rebound in activity in Japan

In H2, activity in the advanced countries should accelerate distinctly (+0.6% in Q3 then +0.8% in Q4), under the effect notably of the strong rebound in the Japanese economy. In addition, activity should accelerate slightly in the United States: with inflation being moderate, the gains in the purchasing power of households should see an upturn.

Persistent differences in the Euro Zone

Internal demand supports activity in the Euro Zone

In Q1 2011, the catching-up phenomena after the bad weather in December contributed significantly to the rebound in activity in the Euro Zone. With the disappearance of these exceptional factors, growth should slow down slightly from Q2 (+0.4% per quarter). Activity in the Euro Zone should be buoyed above all by domestic demand. On the one hand, investment in capital goods should remain dynamic although slowing down slightly. On the other, private

consumption should progress, especially in Germany where, despite fiscal consolidation measures and rising inflation, the resistance of earned income should generate purchasing power gains for households.

Persistent differences

There should continue to be differences within the Euro Zone, however (see Graph 2). Domestic demand should be firmer especially in Germany and France but stagnate in Spain and Italy.

Tensions surrounding European sovereign debts

In the Euro Zone, government debt continues to be a cause of concern. For example, the financing costs for a certain number of countries have increased markedly since April 2011. In these countries, this uncertain context could generate a certain wait-and-see attitude among private agents.

In France, a slowdown in activity in Q2 then a rebound in H2

In France, positive factors in Q1

Activity was dynamic in France in Q1 2011 (+1.0% after +0.3% in Q4 2010). Manufacturing output accelerated sharply (+3.4% after +0.7%), mainly under the effect of catching up: in the refinery and chemicals sectors, output rebounded after October's strikes; it was the same for the production of construction materials after the severe disruption caused by bad weather in December 2010. Activity was also boosted by a distinct increase in domestic demand and a marked tendency to stock up in non-energy industrial goods.

The business tendency surveys suggest a slowdown in activity in Q2 2011

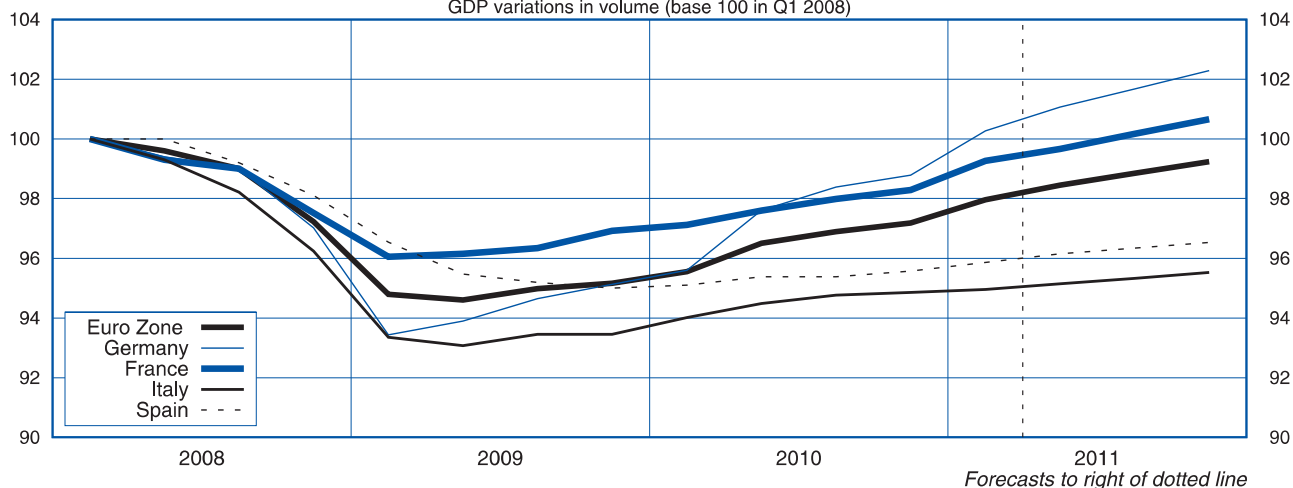
The sector business climates in France as shown by the business tendency surveys were slightly down in May, although remaining above their long-term average (see Graph 3). In particular, production prospects have weakened recently, both in services and manufacturing industry, suggesting that the growth in activity is unlikely to sustain its exceptional rate of the start of the year. On the other hand, the business climate in building stabilized at a slightly higher level than its long-term average and past production is considered to be more dynamic by entrepreneurs. The result is therefore an acceleration in production in the construction sector. All in all, activity should slow down markedly in Q2 (+0.2%) before returning to a certain dynamism (+0.5% per quarter in H2) in line with the domestic demand profile (see Graph 4).

Commodity price rises set to continue filtering through into consumer prices to the end of the year

The still-high level of unemployment and still-limited use of production capacities should hold back inflationary pressures. But the recent rise in commodity prices should continue to work through into consumer prices. In particular, the rise in food prices which has been noticeable since March should continue through to December 2011. However, the inflationary impact of food prices should be partly

2 - Growth differences in the Euro Zone

GDP variations in volume (base 100 in Q1 2008)



Source: national statistics institutes, INSEE forecasts

offset by a fall in energy prices. Year-on-year inflation in prices should thus reach a peak of 2.5% in October, before returning to a more moderate progression of 2.3% in December 2011. Also, core inflation should see an upturn, reaching 1.3% year on year at the end of June 2011, then 1.7% at the end of December 2011 (see Graph 5).

The labour market set to continue improving

Job creations continue at a high level

Since the start of the crisis, the employment trend has been a surprise compared to past behaviour. The upturn in employment observed since the start of 2010 was earlier and stronger than expected. Through to the time horizon of this forecast, the situation should continue to be dynamic. In particular, after falling continually for ten years, industrial employment should level out in 2011. All in all, job creations in the non-agricultural market sector should stand at around 106,000 in H1 2011, then 73,000 in H2 2011. In the non-market sectors, employment should progress in 2011 at a slightly lower rate than in 2010. Total employment should rise more sharply in 2011 than in 2010 (+ 225,000 after +198,000).

Fall in unemployment through to the end of 2011

The unemployment rate stood at 9.2% of the active population in Q1 2011 (9.7% including the Overseas Departments). It should fall back slightly through to the end of 2011, to 9.0% (9.4% respectively), a level that remains higher than that before the crisis.

Dynamic nominal wages but moderate real wage gains

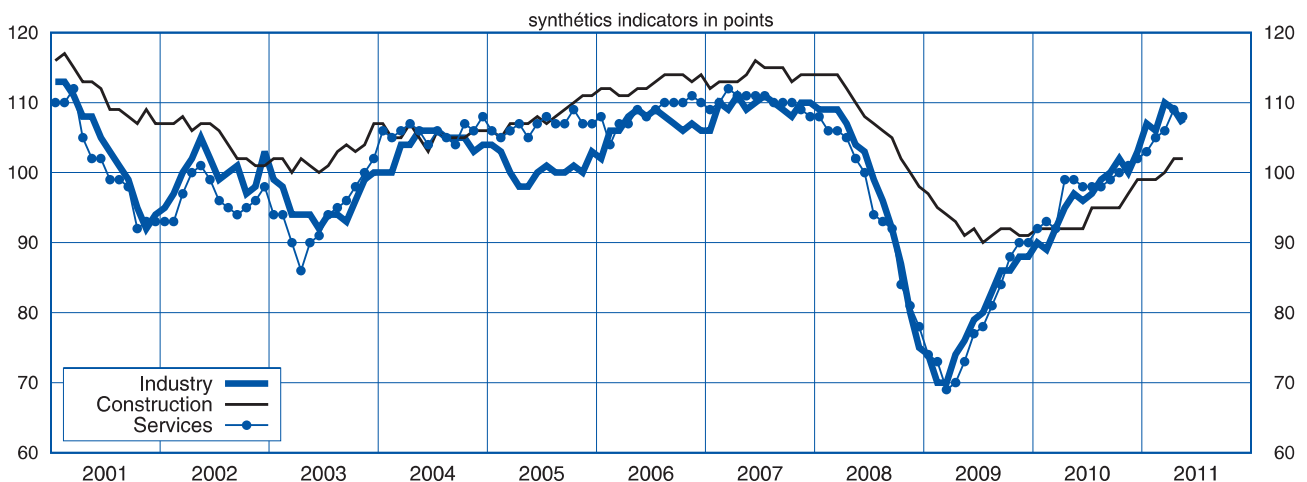
Faced with the inflation shock, index-linking mechanisms should lead to a rise in nominal wages over 2011. This index-linking should remain partial, however, and be partly delayed. Also, the introduction of a bonus paid to the employees of companies whose dividends increased should buoy up wages in H2. The average wage per head should therefore progress more rapidly in 2011 than in 2010. This acceleration should be partly offset, however, by the rise in inflation in 2011 and real wages should progress moderately.

Household consumption should fall back in Q2 then rebound

Moderate gains in purchasing power

Household income should be buoyed in 2011 by the progress in employment and nominal wages. However, taxes should accelerate distinctly in 2011, due to the rebound in income in 2010 on the one hand, and to the measures passed in

3 - In may, the business climate indices decreased slightly in services and industry



Source: INSEE

the Finance Law which should come into play essentially in H2. Household disposable income should accelerate in 2011 (+3.3% after +2.0%), but this acceleration is likely to be offset by the upturn in inflation: overall, household purchasing power should progress slightly more quickly in 2011 than in 2010 (+1.0%, after +0.8%).

With the end of the scrappage allowance, household consumption should fall back in Q2...

... and then bounce back

In Q1 2011, household consumption was supported again by the “trailing effect” of the scrappage scheme, due to the delivery times for the vehicles ordered at the end of 2010. The backlash should see automobile consumption fall sharply in Q2 and household consumption fall back (-0.4%).

In H2, automobile consumption should stop falling and household consumption should rebound: it is likely to progress by 0.3% in Q3 then 0.4% in Q4, which is a slightly lower rate than that observed prior to the crisis. The household savings ratio should fall slightly over the half-year, but remain at a relatively high level: it should stand at an average of 16.0% in 2011, as in 2010.

Investment set to remain dynamic

Corporate investment should continue to progress

Corporate investment saw a marked upturn in early 2010. The investment ratio of non-financial enterprises thus progressed by 0.9 point from its low in Q1 2010. Greater use of production capacities and interest rates that remain low should encourage entrepreneurs to increase their investment expenditure further. All in all, the rise in investment should continue throughout the year at a sustained rate, although slightly below that in Q1 2011.

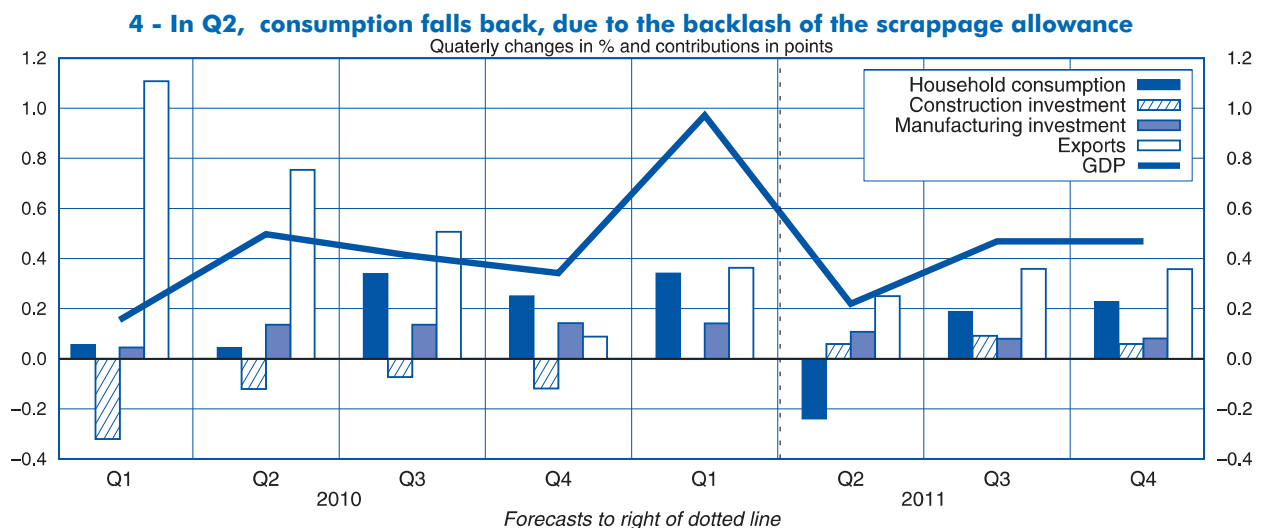
Towards a recovery in the construction sector

In the construction sector, production levelled out in Q1 2011, putting an end to the slide started three years previously. The recovery should become firmer in the course of 2011, in particular thanks to the upturn in household investment in the wake of the progression in housing starts observed in recent months.

The contribution of foreign trade to growth neutral on the whole in this forecast

Exports and imports on similar trends

With the downturn in household consumption, imports should decelerate distinctly in Q2. They should then accelerate slightly with the rebound in domestic demand. Exports should follow a similar profile: in the wake of world trade, foreign demand for French products should slow down in Q2 (+1.4% after



Source: INSEE

+2.0%) then progress at a rate close to the long-term average (+1.6% in Q3 and in Q4). The contribution of foreign trade to growth should therefore be neutral on the whole in 2011.

Uncertainties: weakness of the American economy, consequences of the catastrophe in Japan, household savings behaviour

Weakness of the American economy

Although there were temporary factors holding back activity, growth in Q1 in the United States disappointed after the clear upturn seen by the business tendency surveys at the end of 2010 and start of 2011. The business climate in the United States fell very sharply in April and May and it is not impossible that the weakness of the American economy might be more marked than envisaged in this forecast.

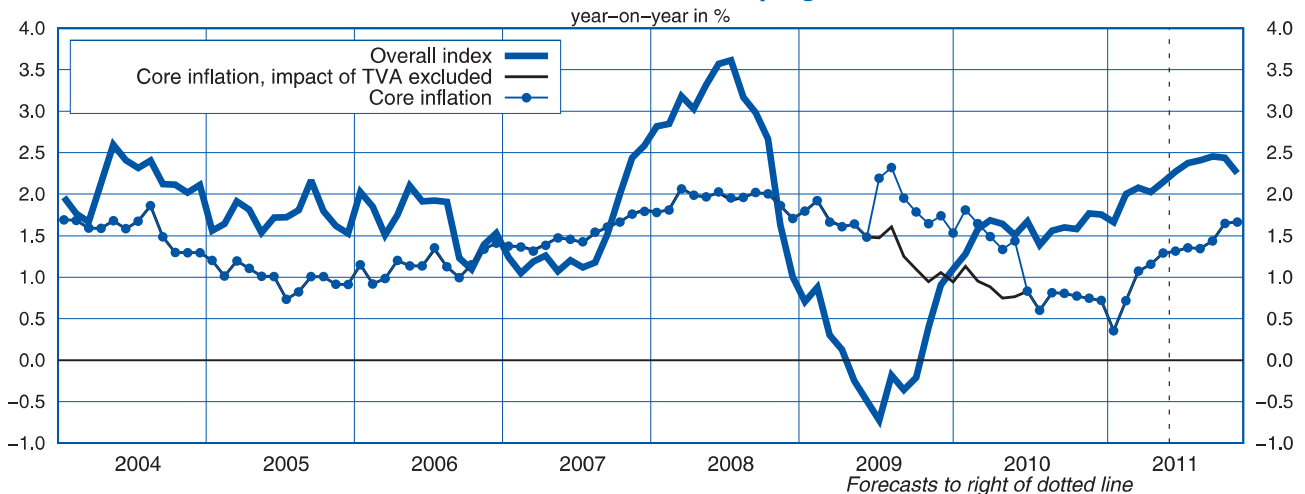
Consequences of the catastrophe in Japan on world production lines

On account of the strategic position of Japan in certain products, interruptions of supplies may have held back production lines in some sectors. The intensity of these issues in coming months will depend on the ability of the Japanese economy to rebuild its production facilities, with the risk that it might stumble over energy sector constraints in the summer.

Household savings behaviour

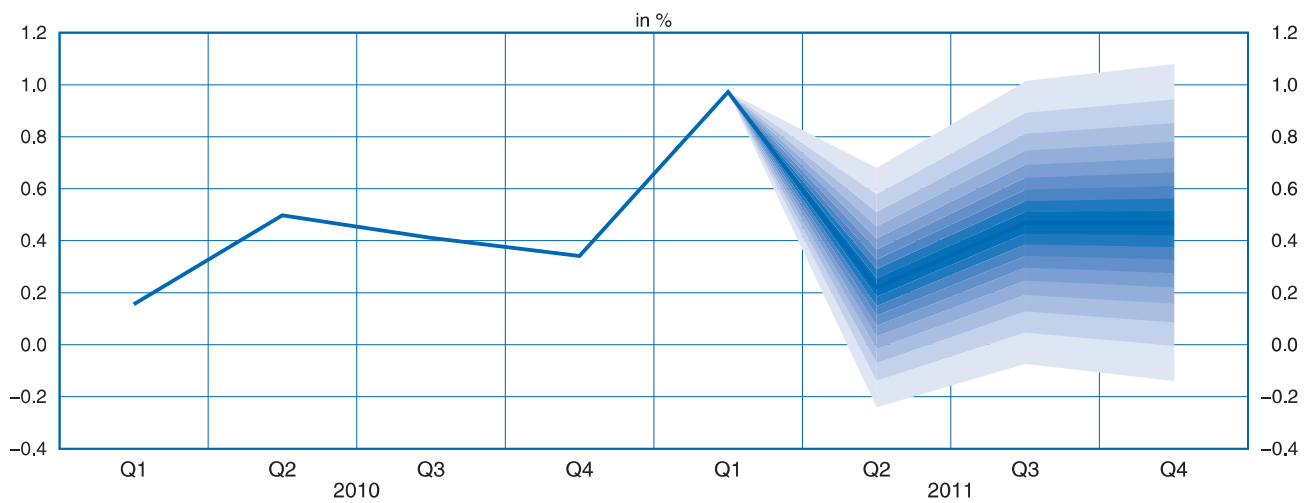
The savings ratio increased significantly during the recession. At the end of 2010, it remained at a higher level than that prior to the crisis. The forecast makes the assumption that in a still-uncertain macroeconomic context, households will maintain this level of savings. There are two factors, however, that could contribute to a slightly more marked fall in the savings ratio. On the one hand, the progressive improvement in the labour market might reduce precautionary saving by households. On the other, the fiscal consolidation measures concerning households mainly involve income tax. They affect those households which would seem, in principle, to have a greater tendency to save and who might therefore choose to draw on their savings more extensively than in this scenario. ■

5 - Core and total inflation progress



Source: INSEE

6 - Fan chart for *Conjoncture* in France



How to read it: the fan chart plots 90% of the likely scenarios around the baseline forecast (blue line). The first and darkest band covers the likeliest scenarios around the baseline, which have a combined probability of 10%. The second band, which is a shade lighter, comprises two sub-bands just above and just below the central band. It contains the next most likely scenarios, raising the total probability of the first two bands to 20%. We can repeat the process, moving from the centre outwards and from the darkest band to the lightest, up to a 90% probability (see the INSEE *Conjoncture* in France for June 2008, pages 15 to 18). It can therefore be estimated that the first result published by the quarterly accounts for Q1 2011 has a 50% chance of being between +0.0% (lower limit of the fifth band from the bottom) and +0.4% (upper limit of the fifth band from the top). Likewise, it has a 90% chance of being between -0.2% and +0.7%. In Q3 and Q4, the 90% confidence intervals are respectively [-0.1% ; +1.0%] and [-0.1% ; +1.1%].

Source: INSEE

Key figures: France and its international environment

seasonally adjusted / working-day adjusted data (except for prices), quarterly or annual averages, as a %

	2009				2010				2011				2009	2010	2011 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
International environment															
Advanced economy GDP	-2.3	0.1	0.2	0.9	0.9	0.6	0.6	0.3	0.4	0.1	0.6	0.8	-3.8	2.5	1.6
Euro Zone GDP	-2.5	-0.2	0.4	0.3	0.3	1.0	0.4	0.2	0.8	0.4	0.4	0.4	-4.1	1.7	2.1
Barrel of Brent oil (in dollars)	44	59	68	75	76	79	77	86	104	118	115	115	61	80	113
Euro-dollar exchange rate	1.30	1.36	1.43	1.48	1.38	1.27	1.29	1.36	1.36	1.44	1.44	1.44	1.39	1.33	1.42
World demand for French products	-8.3	-1.6	3.6	2.5	3.9	4.1	1.3	1.2	1.9	1.4	1.6	1.6	-12.0	11.6	6.9
France - supply and use															
GDP															
GDP	-1.5	0.1	0.2	0.6	0.2	0.5	0.4	0.3	1.0	0.2	0.5	0.5	-2.6	1.4	2.1
Imports	-6.5	-2.7	-0.3	3.5	1.8	3.4	4.1	-0.7	2.7	1.0	1.3	1.3	-10.6	8.3	6.9
Household consumption	-0.1	0.2	0.2	0.8	0.1	0.1	0.6	0.4	0.6	-0.4	0.3	0.4	0.1	1.3	1.2
Public and NPISH consumption	0.6	0.8	0.6	0.6	0.0	0.2	0.3	0.1	0.3	0.2	0.2	0.2	2.4	1.2	0.9
Total GFCF	-3.5	-1.9	-1.3	-0.5	-1.2	1.1	0.9	0.5	1.1	1.1	1.1	0.9	-8.8	-1.4	3.8
of which: NFEs	-5.8	-2.9	-0.9	0.4	0.0	2.7	1.3	0.9	1.9	1.3	1.2	1.2	-11.9	2.0	5.9
Households	-2.5	-1.9	-1.6	-1.1	-0.5	0.1	1.9	0.8	-0.3	0.8	1.2	0.7	-8.8	-1.4	2.7
Exports	-7.1	-0.6	1.2	0.7	4.7	3.1	2.0	0.3	1.4	1.0	1.4	1.4	-12.2	9.4	5.3
Contributions (in point)															
Domestic demand excluding change in inventories (**)	-0.7	-0.1	0.0	0.5	-0.2	0.3	0.6	0.4	0.6	0.0	0.5	0.5	-1.2	0.8	1.7
Change in inventories (**)	-0.9	-0.4	-0.1	0.8	-0.4	0.3	0.4	-0.3	0.7	0.2	0.0	0.0	-1.2	0.5	1.0
Net foreign trade	0.0	0.6	0.4	-0.8	0.7	-0.1	-0.6	0.3	-0.4	0.0	0.0	0.0	-0.2	0.1	-0.6
France - situation of households															
Total employment	-156	-70	-43	42	38	64	67	30	51	63	54	59	-227	198	225
Non-agricultural market sector employment	-170	-94	-72	5	18	39	36	48	58	47	35	38	-332	141	179
Unemployment rate Metropolitan France	8.6	9.2	9.2	9.6	9.5	9.3	9.3	9.3	9.2	9.2	9.1	9.0	9.6	9.3	9.0
Unemployment rate France	9.0	9.6	9.6	9.9	9.9	9.7	9.8	9.7	9.7	9.6	9.5	9.4	9.9	9.7	9.4
Consumer price index (*)	0.3	-0.5	-0.4	0.9	1.6	1.5	1.6	1.8	2.0	2.1	2.4	2.3	0.1	1.5	2.2
Core inflation (*)	1.7	1.5	2.0	1.7	1.6	1.4	0.8	0.7	0.7	1.3	1.3	1.7	1.8	1.2	1.2
Household purchasing power	0.4	0.6	0.9	-0.2	-0.2	0.2	0.6	0.4	0.2	0.1	-0.1	0.7	1.3	0.8	1.0

Forecast

(*) Year on year on the last month of the quarter

(**) Inventory changes include acquisitions net of sales of valuable

Note: the volumes are calculated at the previous year's chain-linked prices, seasonally and working-day adjusted, quarterly and annual averages, as a %

Source: INSEE

Focus - The quarterly accounts switch to a 2005 base: what are the lessons for interpreting the 2008-2010 economic cycle?

On the occasion of the publication on 13 May 2011 of the first results of the quarterly accounts for Q1 2011, the quarterly accounts were revised. These revisions have two sources (see Report, 'The quarterly accounts switch to the 2005 base'): on the one hand, the national accounts switched to the 2005 base, meaning that changes of methodology are made, and on the other the quarterly accounts include revised annual information for the years 2008, 2009 and 2010. These revisions have consequences for the interpretation that can be made of the economic situation over the period 2008-2010, notably concerning corporate demand.

The recession began in Q2 2008 and ended in Q2 2009

The first observation is that the profile of activity through the crisis is modified very little by the revision of the quarterly accounts (see Graph 1). Activity in France began to fall in Q2 2008 and the slide ended in Q2 2009. In qualitative terms, the scenario of the end of the recession also remains unchanged: first it was the rebound in exports, driven by world trade, that brought an end to the recession in mid-2009 (see Graph 2).

Households adopted more prudent consumption behaviour during the crisis

The latest publication of the quarterly accounts also confirms that, faced with the deterioration in the outlook, households adopted more prudent behaviour, with a marked upturn in their savings ratio (see Graph 3). This trend was even more marked than suggested by the previous editions of the quarterly accounts. Household consumption also fell back over the first three quarters of 2008 and only returned at the end of 2009 to the level it had at the end of 2007 (see Graph 4).

Corporate investment deteriorated sharply during the crisis then bounced back strongly from the end of 2009

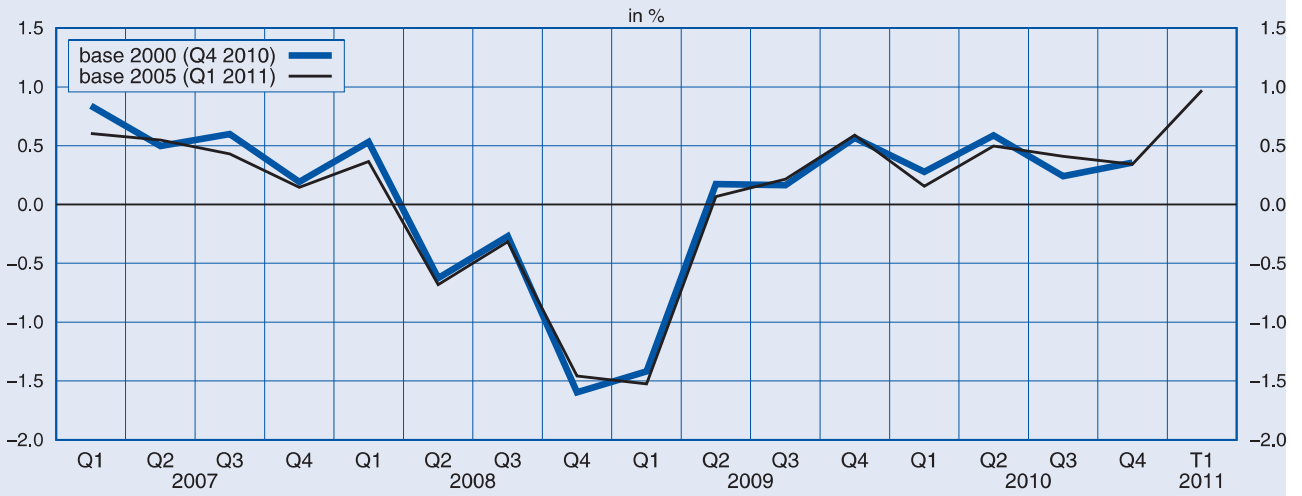
Regarding corporate investment, the most recent estimations in the quarterly accounts indicate a very marked profile: investment deteriorated sharply from Q2 2008 and then rebounded strongly from Q4 2009 (see Graph 5). The fact that the investment cycle was marked is not surprising: corporate investment generally responds very strongly to variations in activity. But the fall in investment by non-financial enterprises during the crisis is now much more pronounced: -11.9% in 2009 (-7.9% in the previous estimations). On the other hand, its rebound in 2010 is much more marked (+2.0%, against the previous estimation of -1.3%).

Inventory change returned to its pre-crisis level

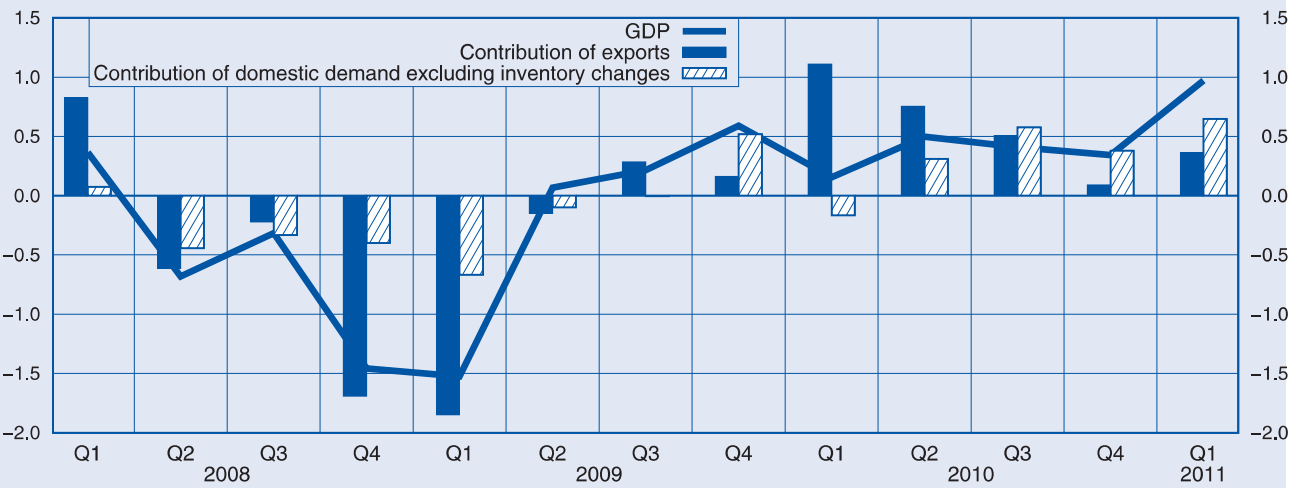
The pronounced destocking behaviour during the recession is also confirmed by the latest publication of the quarterly accounts (see graph 6). In contrast, stock behaviour as the country came out of the recession appears to be significantly different: inventory change became positive again in Q3 2010, which means that destocking was complete and companies were building up stocks again. The overall movement of inventory in 2010 (+0.5 point contribution to annual growth), however, does not offset the scale of the destocking trend in 2009 (-1.2 point contribution to growth). In Q1 2011, inventory change has almost returned to its pre-recession level. ■

Reference:
INSEE (2011) "National accounts in 2010" *Insee Première* n°1349
May 2011

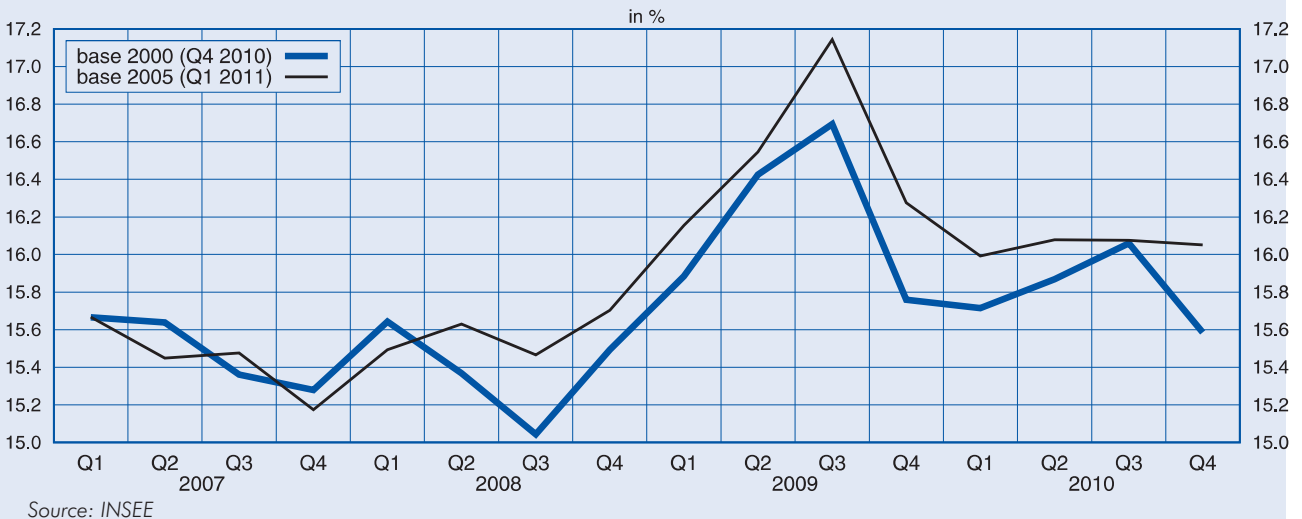
1 - Quarterly GDP growth



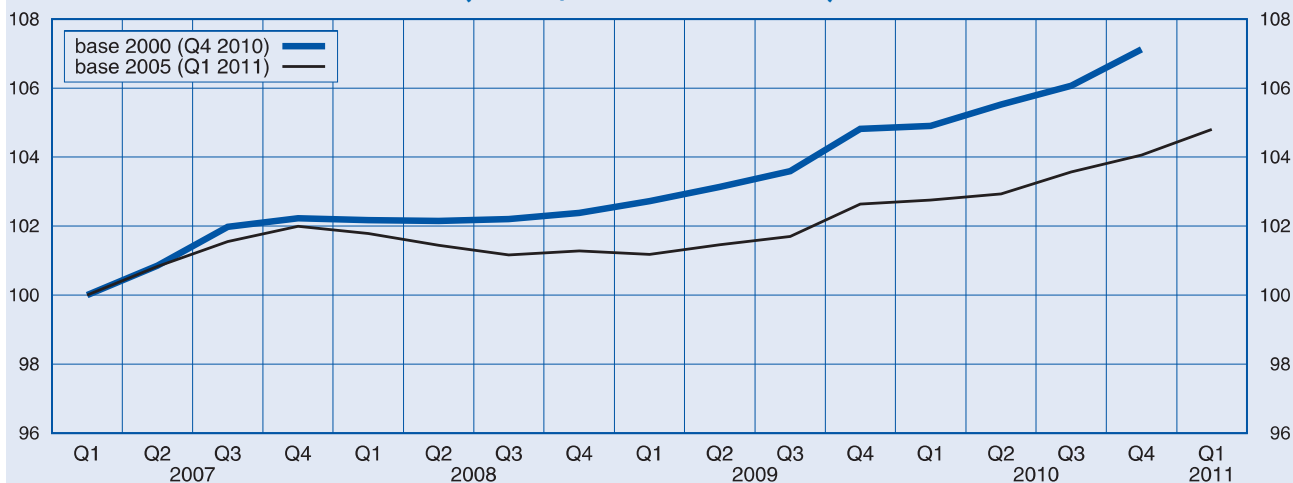
2 - Growth rate of GDP and contributions of domestic demand excluding inventory changes and exports



3 - Saving ratio of households



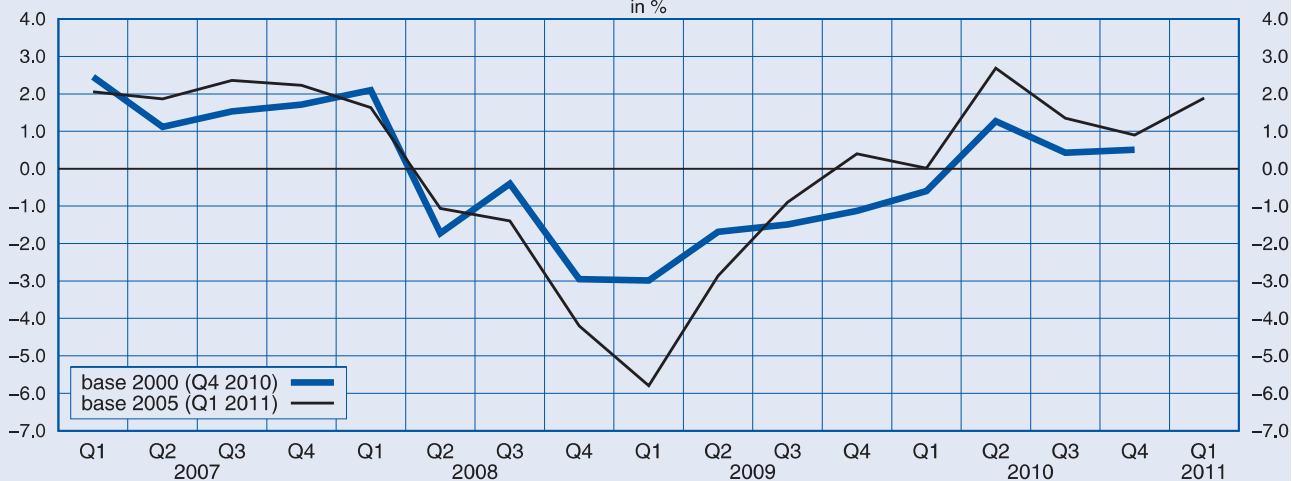
4 - Household consumption expenditure in level (volume, base 100 in 2007 Q1)



Source: INSEE

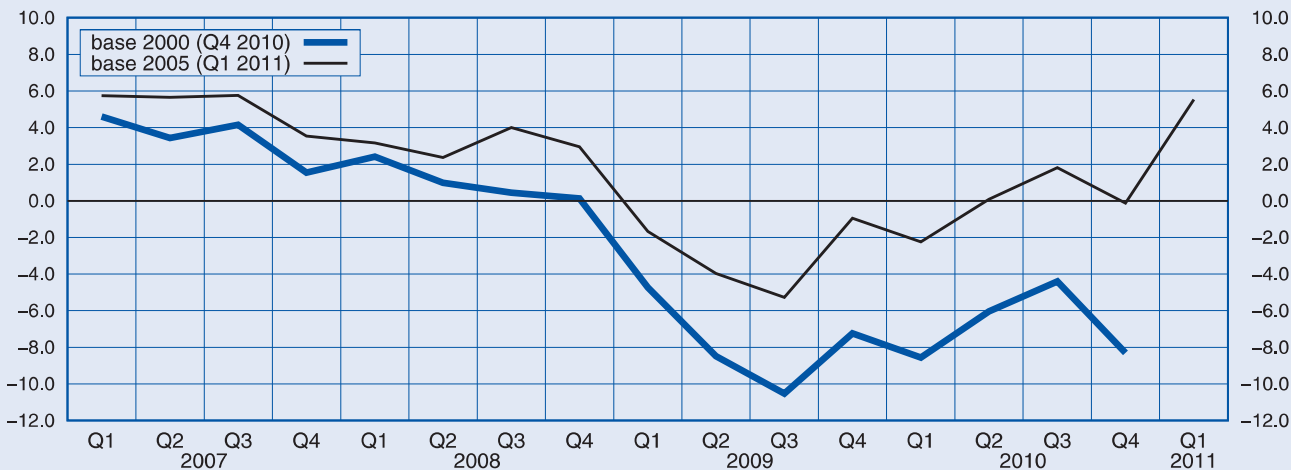
5 - Growth rate of corporate investment

in %



Source: INSEE

6 - Inventory changes (billions of euros)



Source: INSEE

Review of the previous forecast

In Q1, activity in France accelerated strongly. Growth reached +1.0%, against +0.6% forecast in *Conjoncture in France* in March. The acceleration in the French economy was indicated in the scenario published in March, but its scale was considerably underestimated. The strong trend observed in Q1, notably in the manufacturing industry, partly came from a stock-building trend, one that is difficult to forecast from one quarter to another. Excluding stocks, domestic demand progressed by 0.6%, a figure close to the March forecast (+0.5%). Likewise, exports progressed at a rate close to that expected (+1.4% against a forecast of +1.8%). For Q2, our growth forecast is revised downwards (+0.2%), as the fall in household consumption is more pronounced.

Sharp acceleration in activity in Q1

In Q1, French growth reached +1.0% (against a forecast of +0.6%) showing a marked acceleration on Q4 2010. Although such an acceleration in the French economy was indicated in the scenario published in March, its scale was considerably underestimated. In industry as a whole,⁽¹⁾ production progressed by 3.0%, against +1.6% forecast in our last issue. This acceleration is partly the result of a number of after-effects: for example, output rebounded in the refineries in Q1, after October's strikes; likewise for production of

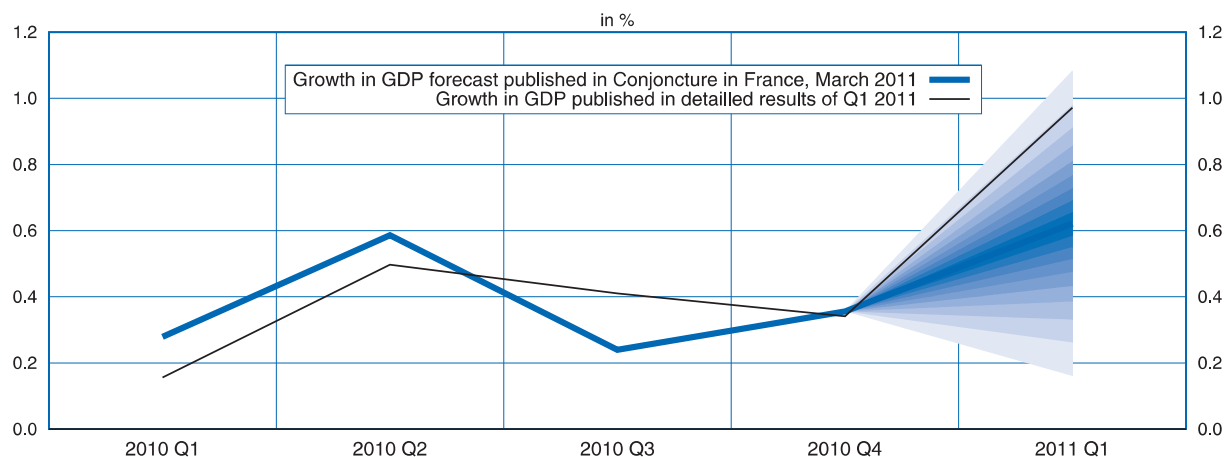
construction materials which had been severely disrupted by the cold in December 2010 (see "Production" note). These after-effects were included in our scenario in March.

The forecasting error mainly comes from a strong stock-building trend in industry, the scale of which is often difficult to predict. It contributed 0.7 points to growth in this quarter. This positive contribution is concentrated in transport equipment (+0.5 points) and to a lesser extent on goods from other branches of industry (+0.2 points), coke and refined petroleum products (+0.1 points).

The increase in stocks in the transport equipment sector in Q1 2011 is mainly explained by the pronounced fall in foreign sales of aeronautical goods. In addition, the rebound in pharmaceutical product imports contributed to the stock-building trend observed in the sector of other industrial branches. Finally, the large-scale stock-building observed in the coke and refined petroleum products sector is essentially linked to exceptionally high output in Q1 after last autumn's strikes.

(1) The change in base of the national accounts made in mid-May makes fine comparisons difficult between the last *Conjoncture in France* and the quarterly accounts. For example, the scope of the manufacturing industry has changed: it now includes the agrifood sector and coke and refined petroleum. The scope of industry, however, remains very close to that of the former base of the national accounts.

1- Fan chart for *Conjoncture in France* for March 2011 and growth achieved



Source: INSEE

Review of the previous forecast

The rise in domestic demand and exports in line with the last forecast

Domestic demand excluding stocks accelerated in line with the March forecast (+0.6% against a forecast of +0.5%). Consumption progressed by 0.6% (+0.5% forecast), benefiting from the “trailing effect” of the scrappage scheme which maintained automobile consumption at a high level.⁽²⁾ Investment was also slightly more dynamic than forecast (+1.1% against a forecast of +0.8%), driven notably by corporate expenditure on non-energy industrial goods. Finally, exports progressed by 1.4% (1.8% forecast in March) and imports by 2.7% (2.1% forecast in March). All in all, the forecasting error therefore comes largely from the stock-building trend in industry.

For Q2, the growth forecast is revised downwards

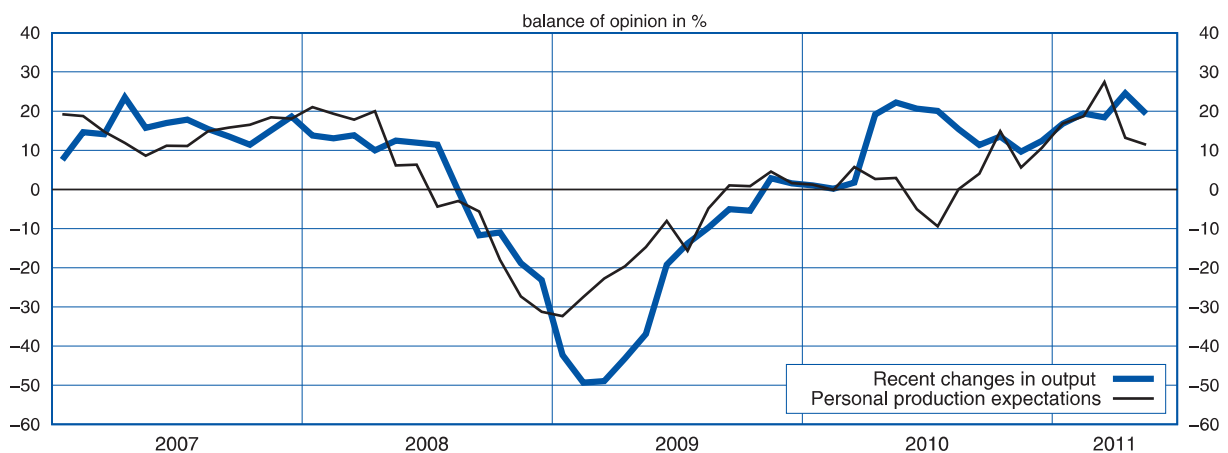
The crisis was marked by a strong destocking trend: inventory contributed -0.3 points to activity in 2008 and -1.2 points in 2009. After a positive contribution again in 2010 (+0.5 points), the stock-building in Q1 2011 marks the return to inventory change close to the levels of those prior to the crisis (see *Focus - The quarterly accounts switch to the 2005 base: what are the lessons for interpreting the 2008-2010 economic situation?*).

This technical trend could therefore run out of steam in the coming quarters and the growth in activity would again be based mainly on domestic demand and exports.

For Q2, our growth forecast is revised downwards to +0.2% against +0.4% previously, which corresponds to a marked slowdown compared to Q1. Household consumption is likely to suffer the after-effects of the end of the scrappage scheme, as forecast in March. However, judging by the first indicators published on the start of the quarter (vehicle registrations, consumption of goods in April), it seems that this shock could be even stronger than forecast in March. Our consumption forecast for Q2 is therefore revised downwards (-0.4% against -0.1% forecast previously). Conversely, investment is set to remain dynamic. In particular, the upturn in housing starts observed from mid-2010 should start to have a pronounced impact on activity in construction. Finally, as in *Conjoncture in France* in March, the contribution of foreign trade to growth should be neutral. ■

(2) The “trailing effect” is as follows: due to the delivery times required to meet the orders placed at the end of 2010, the positive effect of the scrappage scheme lasted into Q1.

2 - Recent changes and production expectations in the manufacturing industry



Source: INSEE