French developments

Household income

In 2011, household purchasing power is set to progress (+1.4%, after +0.8%), despite the rise in inflation (+2.1% in 2011 after +1.2% in 2010). The gross disposable income of households should rise more rapidly than in 2010 (+3.6% after +2.0%), buoyed up by dynamic earned income. The increase in taxes in 2011 should however temper this acceleration.

In H1 2012, household purchasing power is likely to fall (-0.1% after +0.6% in H2 2011). Household income should slow sharply (+0.8% after +1.6%): income from wages is likely to be slowed by the deterioration of the labour market situation, while taxes should remain dynamic owing to the implementation of new fiscal measures.

Earned income slowing in H1 2012

In 2011, growth in earned income looks to be more sustained than in 2010 (+3.0%, after +2.0% in 2010, see Table 1). Overall wages received by households look to have accelerated (+3.2% after +2.0% in 2010; *see Table 2*): the recovery of employment continued at the start of the year and wages were dynamic in the market sectors (see *Graph 1*). The gross operating surplus of sole proprietorships should also grow faster than in 2010 (+1.7% after +1.5%). Additionally, property income appears to have picked up well, following on from the previous rise in short-term interest rates, as well as the gross operating surplus of pure households.[1] For each of these income components, the acceleration over the year as a whole masks a certain slowdown in H2 2011.

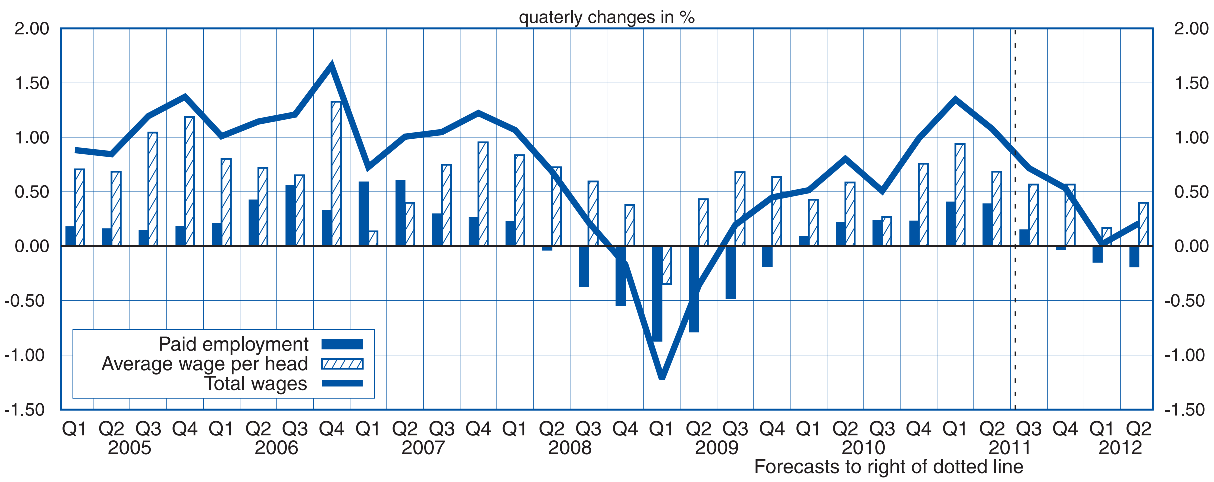
In H1 2012, earned income should fall somewhat (+0.5% after +1.3% in H2 2011): overall wages are set to slow sharply (+0.6% after +1.4%) due to the worsening labour market situation. The gross operating surplus of sole proprietorships should progress at a similar rhythm to that of H2. Property income and the gross operating surplus of pure households should continue to slow.

Social benefits to increase steadily in 2011 before slowing slightly in H1 2012

In 2011, social benefits in cash are set to progress at almost the same pace as in 2010 (+3.2% after +3.4%, *see Table 3*). Social security benefits have fallen in 2011: +3.1% after +3.9%. While old-age benefits have remained dynamic, unemployment benefits have declined in 2011, due to the improvement in the labour market until spring. However, social assistance benefits saw renewed growth in 2011 (+1.0%), after a drop in 2010, which was marked by the non-renewal of the stimulus measures of 2009.

(1) This corresponds to the production of housing services, minus the intermediate consumptions required for this production (notably the financial services relating to borrowing) and taxes (land tax).

1 - Breakdown of the total wages of households in the non-agricultural market sector



Source: INSEE

In H1 2012, social benefits in cash are set to slow slightly: +1.4% after +1.8% in H2 2011. Social assistance benefits should grow at a pace close to that of end 2011 (+0.7% after +0.8%). Social security benefits should slow slightly (+1.5% after +2.0% in H2 2011). In particular, the revaluation of family allowances in 2012 (1.0%) is likely to be lower than inflation. Furthermore, it should take place on 1st April rather than 1st January.

Dynamic compulsory contributions in early 2012

The tax burden of households is set to increase by 3.8% in 2011, after +2.2% in 2010. Income tax revenues should be dynamic (+5.9% after +1.6%): on the one hand income rebounded in 2010, and on the other the budget consolidation measures voted for 2011 came into effect in H2, with most notably the 1.0% high-income contribution, the removal of certain tax loopholes and the effects of the abolition of professional tax for sole proprietors. As regards social contributions, a tax-on-earning system for life-insurance income should also lead to a rise in taxation on financial income. However, the other current taxes should see a slowdown in 2011, following on from the drop in the solidarity tax on wealth (ISF).

Additionally, employees' contributions should progress at the same rate as in 2010 (+1.9% after +1.9%) and the contributions of the self-employed are likely to slow: +0.6% after +1.8% in 2010.

In H1 2012, the tax burden should once again rise sharply (+2.0% after +2.1% in H2 2011). The taxes paid by households are set to climb by +3.0%. In particular, the bolstered capital gains tax and heavier tax on capital are likely to take their toll on household disposable income in H1 2012.

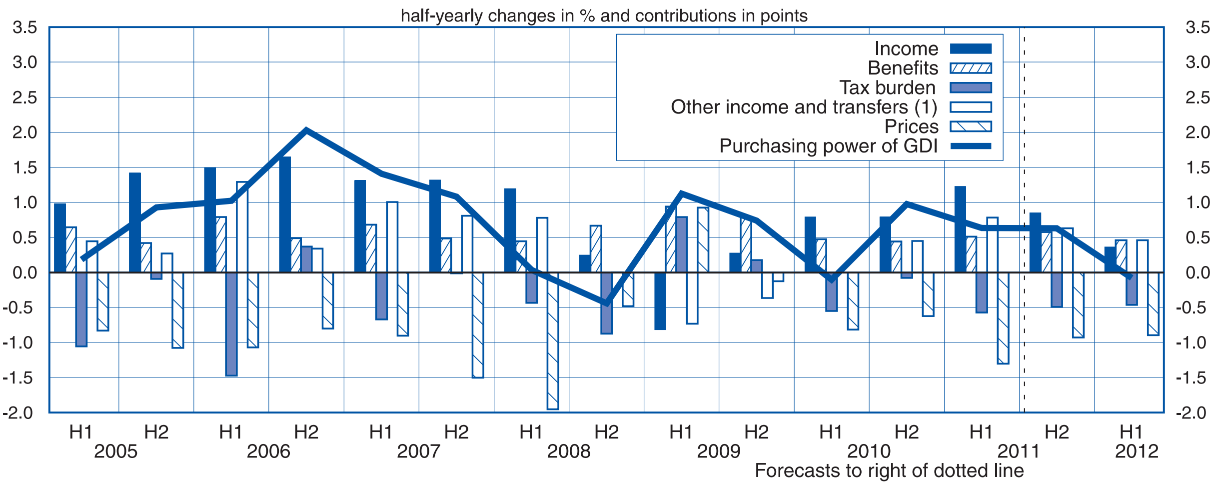
Purchasing power falling back slightly in H1 2012

All in all in 2011, the nominal gross disposable income of households should climb sharply; the rise should reach +3.6%, after +2.0% in 2010. Despite the new rise in inflation in 2011 (+2.1% after +1.2%), the purchasing power of gross disposable income is set to progress faster in 2011 than in 2010 (+1.4% after +0.8%, *see Graph 2*). Purchasing power per consumption unit, which takes demographic growth into account, should climb by +0.7% in 2011, whereas in 2010 it was virtually stable (+0.1%, *see Box*).

In H1 2012, the gross disposable income of households should progress by 0.8%, slower than in H2 2011. Purchasing power should slip back: -0.1% after +0.6% in H2 2011.

The production corresponds to the rents that individual homeowners receive from their tenants or could receive if they rented out their home ("imputed" rents).■

2 - Purchasing power of disposable income and contributions



(1) GOS of pure households, property income and current transfers
Source: INSEE

Table 1

Household gross disposable income

change as %

	Half-yearly averages					Annual averages		
	2010		2011		2012	2009	2010	2011
	H1	H2	H1	H2	H1			
Gross disposable income (100%)	**0.7**	**1.6**	**1.9**	**1.6**	**0.8**	**0.6**	**2.0**	**3.6**
including :								
Income (68%)	1.2	1.2	1.8	1.3	0.5	-0.8	2.0	3.0
Gross wages (59%)	*1.1*	*1.2*	*1.9*	*1.4*	*0.6*	*0.0*	*2.0*	*3.2*
GOS of sole proprietors (9%)	*1.3*	*1.2*	*0.9*	*0.5*	*0.4*	*-5.5*	*1.5*	*1.7*
Social benefits in cash (32%)	1.5	1.4	1.6	1.8	1.4	5.5	3.4	3.2
GOS of "pure" households[(1)] (12%)	-0.2	2.2	3.8	2.9	1.9	-4.1	0.1	6.5
Property income (10%)	-0.3	1.5	3.2	2.6	2.1	-1.7	-0.1	5.3
Social contribution and tax burden (-23%)	2.4	0.3	2.5	2.1	2.0	-1.9	2.2	3.8
Contributions by paid employees (-8%)	*0.8*	*0.8*	*1.0*	*0.9*	*0.7*	*0.9*	*1.9*	*1.9*
Contributions of self-employed persons (-2%)	*0.9*	*0.4*	*0.2*	*0.5*	*0.7*	*4.7*	*1.8*	*0.6*
Income and wealth tax (including CSG and CRDS) (-13%)	*3.7*	*0.0*	*3.9*	*3.2*	*3.0*	*-4.6*	*2.5*	*5.5*
Income before taxes	1.0	1.4	2.2	1.8	1.1	0.0	2.0	3.8
Household consumer prices (quarterly national accounts)	**0.8**	**0.6**	**1.3**	**0.9**	**0.9**	**-0.6**	**1.2**	**2.1**
Purchasing power of gross disposable income	**-0.1**	**1.0**	**0.6**	**0.6**	**-0.1**	**1.3**	**0.8**	**1.4**

Forecast

Note: the figures in parentheses give the structure of the year 2010.

(1) The gross operating surplus (GOS) of sole proprietors is the balance of the operating accounts of sole proprietorships. It is mixed income, because it remunerates the work performed by the sole proprietor, and possibly the members of his family, but also contains the profit achieved as an entrepreneur.

Source: INSEE

Table 2

From non financial enterprise payroll to wages received by households

change as a %

	Half-yearly averages					Annual averages		
	2010		2011		2012	2009	2010	2011
	H1	H2	H1	H2	H1			
Non-financial enterprises (67%)	1.1	1.5	2.5	1.6	0.6	-1.4	2.0	4.1
including: Average wage per head	*1.1*	*1.0*	*1.7*	*1.3*	*0.8*	*1.1*	*2.2*	*2.9*
Financial corporations (5%)	0.7	0.6	2.8	1.6	0.2	4.4	1.3	3.9
General government (23%)	0.9	0.4	0.5	0.5	0.5	2.3	1.8	1.0
Households excluding sole proprietors (2%)	2.3	0.6	0.6	0.9	0.8	2.8	3.4	1.3
Total gross wages received by households (100%)	**1.1**	**1.2**	**1.9**	**1.4**	**0.6**	**0.0**	**2.0**	**3.2**
including : Non-agricultural market sectors	*1.1*	*1.4*	*2.4*	*1.5*	*0.4*	*-1.1*	*2.0*	*3.9*

Forecast

Note: the figures in parentheses give the structure of the year 2010.

Source: INSEE

Table 3

The social transfers received and paid by households

change as a %

	Half-yearly averages					Annual averages		
	2010		2011		2012	2009	2010	2011
	H1	H2	H1	H2	H1			
Social cash benefits received by households (100%)	**1.5**	**1.4**	**1.6**	**1.8**	**1.4**	**5.5**	**3.4**	**3.2**
Social Security benefits in cash (72%)	1.7	1.4	1.4	2.0	1.5	5.5	3.9	3.1
Private funded social benefits (7%)	0.3	2.1	3.2	0.9	1.5	2.3	2.8	4.8
Unfunded employee social benefits (13%)	1.8	1.9	2.1	2.0	1.5	2.9	3.6	4.1
Social assistance benefits in cash (8%)	-0.3	-0.5	0.8	0.8	0.7	13.2	-0.7	1.0
Total social contribution burden	**0.9**	**1.3**	**1.8**	**2.1**	**0.0**	**1.0**	**2.1**	**3.6**
Actual social contributions paid by households (100%)	0.8	1.2	1.8	2.2	-0.3	0.7	1.9	3.5
including: Employers contributions[1] (63%)	*0.7*	*1.5*	*2.3*	*2.9*	*-0.8*	*0.2*	*2.0*	*4.6*
Employees contributions (29%)	*0.8*	*0.8*	*1.0*	*0.9*	*0.7*	*0.9*	*1.9*	*1.9*
Self-employed contributions (8%)	*0.9*	*0.4*	*0.2*	*0.5*	*0.7*	*4.7*	*1.8*	*0.6*

Forecast

Note: the figures in parentheses give the structure of the year 2010.

(1) For accounting reasons employer contributions are considered in both revenue and expenditure in the national accounts: they therefore have no effect on gross disposable income.

Source: INSEE

Different measurements of purchasing power

The household income that is presented and analysed in *Conjoncture in France* represents all the income received by all households. Indeed, it is this value which is relevant on the macroeconomic level, for example to build the balance between resources (GDP and imports) and uses (consumption, investment, exports, etc.) or to forecast GDP.

This value must be corrected if we wish to measure the mean purchasing power of the French people, in order to take account of both the growth in the number of households and the changes in their composition.

The most pertinent correction in this respect consists in dividing income by the number of consumption units in France. This concept takes account of demographic growth, but also of the fact that certain consumption items may be shared within a household (household appliances, for example). A large household therefore makes certain "economies of scale" compared to a smaller household. In 2010, the growth in the number of consumption units was +0.7% (as a comparison, the growth in the number of inhabitants was 0.5% and the growth in the number of households +1.0%).

Therefore, in 2011, purchasing power per consumption unit slowed (+0.7% after 0.1% in 2010). Per inhabitant, the rise is be 0.9%, and purchasing power per household rose by 0.4% ■

Household consumption and investment

In Q3 2011, household consumption rebounded (+0.3% after -0.8%). In particular, energy expenditure, which had dropped sharply in Q2, returned to its normal level.

Household consumption should slow in Q4 2011 (+0.1%) and continue to grow at a very moderate pace through to mid-2012. Over 2011 as a whole, household consumption is set to progress by 0.6%, slower than 2010 (+1.3%). At mid-2012, the growth overhang of consumption for 2012 should stand at 0.3%. The savings ratio of households should stay at a high level given their lack of confidence in the future economic situation and fears of unemployment.

After accelerating in Q3 (+1.4% after +1.2%), household investment should stabilise in Q4. then decline in H1 2012.

In Q3 2011, dynamic energy expenditure

In Q3 2011, household consumption rebounded (+0.3%, *see Table*), after a sharp drop in Q2 (-0.8%).

Q3 was marked by a rebound in energy expenditure (+6.3%) after a decline in H1. The particularly mild winter and spring kept heating expenditure moderate; the return of normal seasonal temperatures in summer negatively impacted Q3.

Automobile purchases slowed sharply in Q1 then plummeted in Q2 (-11.0%) due to the expiry of the scrappage allowance at the end of 2010. The situation stabilised in Q3 (+0.2%).

Textile-clothing-leather purchases once again declined in summer (-1.2%) after a downturn in H1. This had an effect on expenditure on manufactured goods, which dropped slightly in Q3 (-0.1%) after a decline in Q2 (-1.9%).

Consumption of services, which had not been dynamic in Q2, picked up slightly in Q3 (+0.4% after +0.3%). Lastly, consumption of foodstuffs slipped back (-0.9%), mainly due to the rise in food prices.

In H1 2012, consumption set to remain at a lower than usual rate

Total household consumption is set to slow in Q4 (+0.1% after +0.3%, *see Graph 2*). It should keep to this rhythm in H1 2012, below the trend observed prior to the crisis (+0.5% per quarter on average between 2000 and 2008).

In Q4 2011, consumption of manufactured products should pick up (+0.4% after -0.1%). Automobile consumption looks likely to show more dynamism, as suggested by the growth overhang for the quarter

Household consumption and investment expenditure

	Quarterly changes										Annual changes		
	2010				2011				2012		2010	2011	2012 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Total household consumption expenditure	0.1	0.1	0.7	0.4	0.3	-0.8	0.3	0.1	0.1	0.1	1.3	0.6	0.3
including:													
Agriculture goods (3%)	-1.8	-0.6	-0.4	0.4	1.9	0.4	-1.4	0.3	0.2	0.2	-2.2	1.5	0.0
Energy (4%)	8.9	-1.4	-1.5	0.6	-5.5	-3.6	6.3	-4.5	1.8	0.5	4.7	-6.9	0.8
Manufactured goods(43%)	-0.6	-0.3	1.5	0.7	0.6	-1.9	-0.1	0.4	0.1	0.1	1.3	0.4	-0.1
Services (50%)	0	0.5	0.3	0.1	0.5	0.3	0.4	0.3	0.1	0.1	0.8	1.3	0.7
Household consumption	0	0.1	0.6	0.3	0.4	-0.6	0.3	0.1	0.2	0.1	1.3	0.7	0.4
Household investment	-0.4	0.1	1.7	0.7	-0.1	1.2	1.4	0.0	-0.5	-0.4	-1.4	2.9	0.2

Forecast
Source: INSEE

(+1.1% at end October). Sales should even rebound at the end of the year, just before the stricter bonus-malus system on 1st January 2012. Textile consumption, the growth overhang of which was +1.7% at end October, should also pick up in Q4. In H1 2012, automobile consumption is likely to slow and textile expenditure stabilise; consumption of manufactured goods is likely to stick to a low growth rate (+0.1% each quarter).

In Q4 2011, energy expenditure is set to undergo a sharp drop (-4.5%): the temperatures observed in the first two months of the quarter were more clement than the seasonal norms. Energy expenditure should then rebound in early 2012.

Food consumption should rebound in Q4 (+0.3%) after a decline in Q3 (-0.9%). It should then return to a rate closer to its long-term trend: +0.2% in Q1 and Q2 2012.

Lastly, the consumption of services is likely to slow within the forecasting period: +0.3% in Q4 2011, then +0.1% per quarter in H1 2012 (*see Graph 1*).

The savings ratio of French households remains high

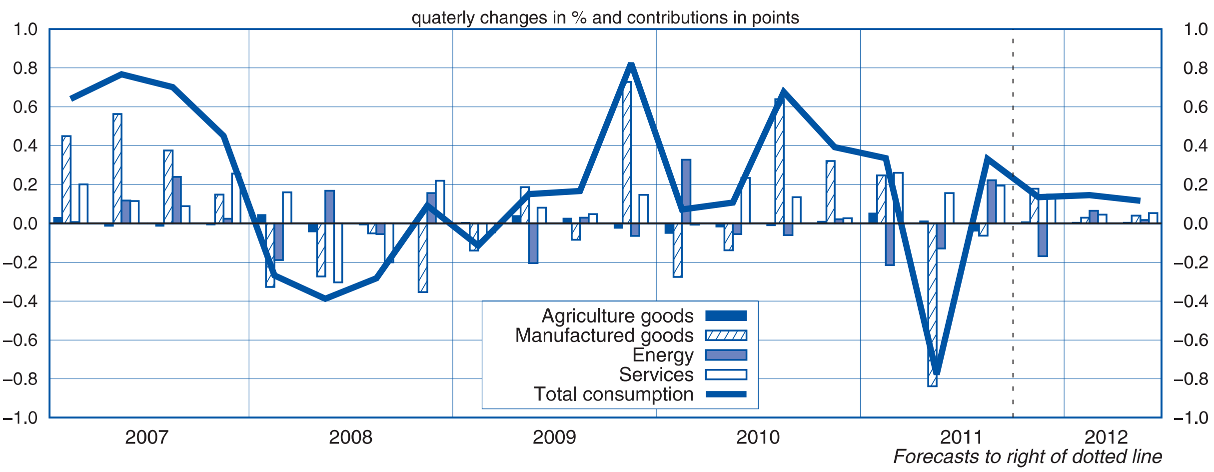
With the rise in unemployment and the deteriorating economic situation, households are maintaining a high level of precautionary savings (*see Graph 2*). The savings ratio of French households reached 17.1% in Q2 2011, the highest level since 1983. It should remain almost stable through to the end of 2011, and settle at an average of 16.8% over this year.

In H1 2012, the savings ratio should remain high, although not quite so high, down to 16.7%. Some of the fiscal measures planned for 2012 apply to the income sources that households generally tend to save: property gains, social contributions on capital. The higher level of taxation on this income is more likely to result in an adjustment of the savings ratio than of household consumption.

Household investment stalling

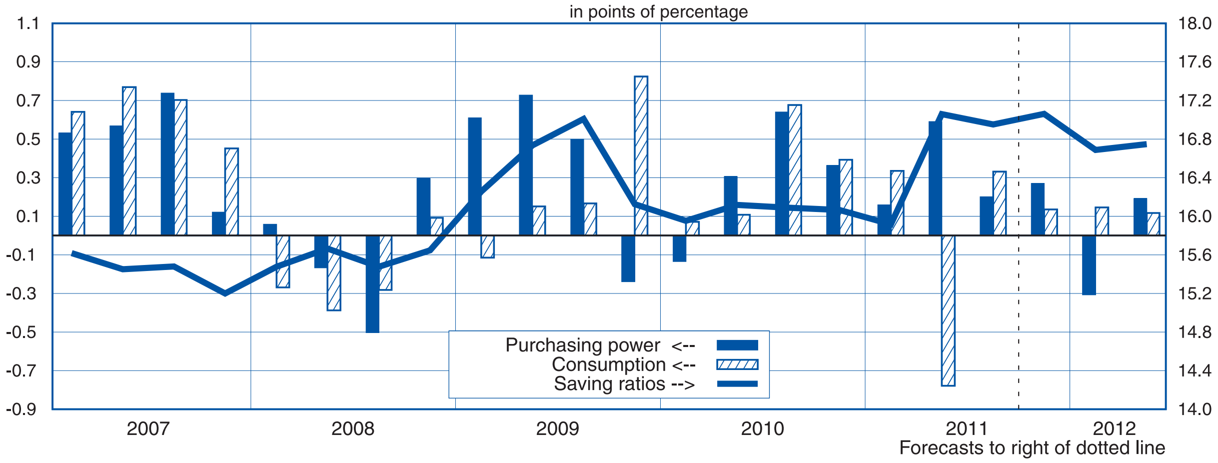
Household investment was dynamic in Q2 and Q3 2011, following the rebound in housing starts at the end of 2010. Given the drop in housing starts observed since Q2 (*see Graph 3*), household investment is likely to stagnate in Q4 2011, then decline in H1 2012 (-0.5% then -0.4%). ■

1 – Contributions of the different items to quartely household consumption



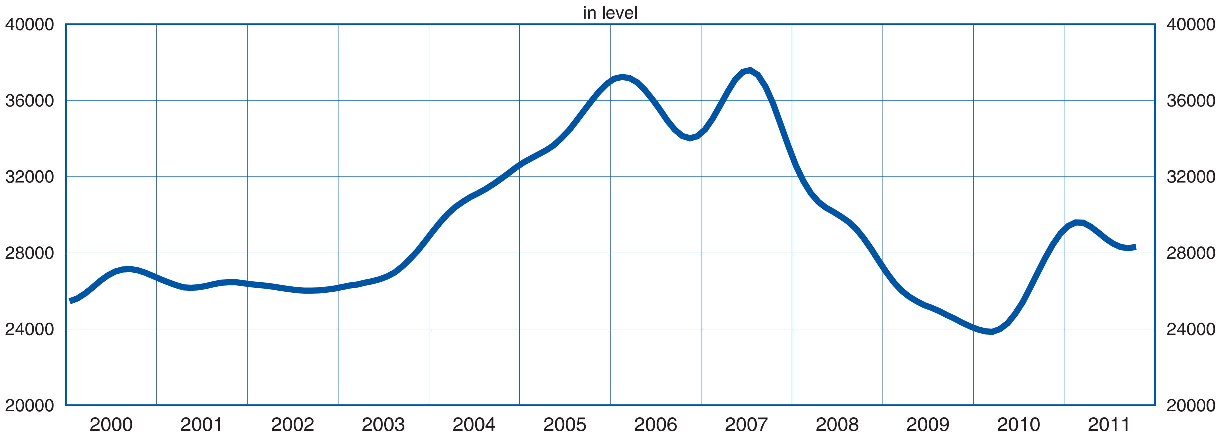
Source: INSEE

2 - Savings ratio and growth rate of consumption and purchasing power of gross disposable income



Source: INSEE

3 - Overall housing starts (smoothed)



Source: SOeS

Enterprises' earnings

The margin rate of non-financial companies has fallen sharply since mid-2010. Measured at factor cost, it slid from 31.1% in spring 2010 to 29.9% in mid-2011. It is set to fall further by the end of 2011, down to 29.0%. At the start of 2011, this decline was mainly ascribable to the dynamism of real wages and the deteriorating terms of trade; productivity gains did little to sustain the reconstitution of companies' margins. Furthermore, in Q4 2011 the drop in the margin rate should be largely due to the posting in the accounts of the annualisation of reduced employers' contributions.

This latter effect is only likely to be temporary and should disappear in Q1 2012. The decline in the margin rate should come to a halt by mid-2012: productivity gains, the slowdown in real wages and the fall in energy prices should all contribute to the restoration of margins. At factor cost, the margin rate should stand at 29.8% in mid-2012, thereby returning to a level comparable to that of spring 2011.

Decline in the margin rate in H1 2011

After picking up at the start of 2010, the margin rate of non-financial companies soon started to head downwards: measured at factor cost, it slipped from 31.1% in Q2 2010 to 29.9% in Q2 2011. In Q1 2011, the margin rate nonetheless progressed by 0.2 point. The scale of productivity gains (contribution of +0.7 point, *see Table*), thanks to the sharp acceleration in activity, offset the dynamism of real wages and the worsening terms of trade.

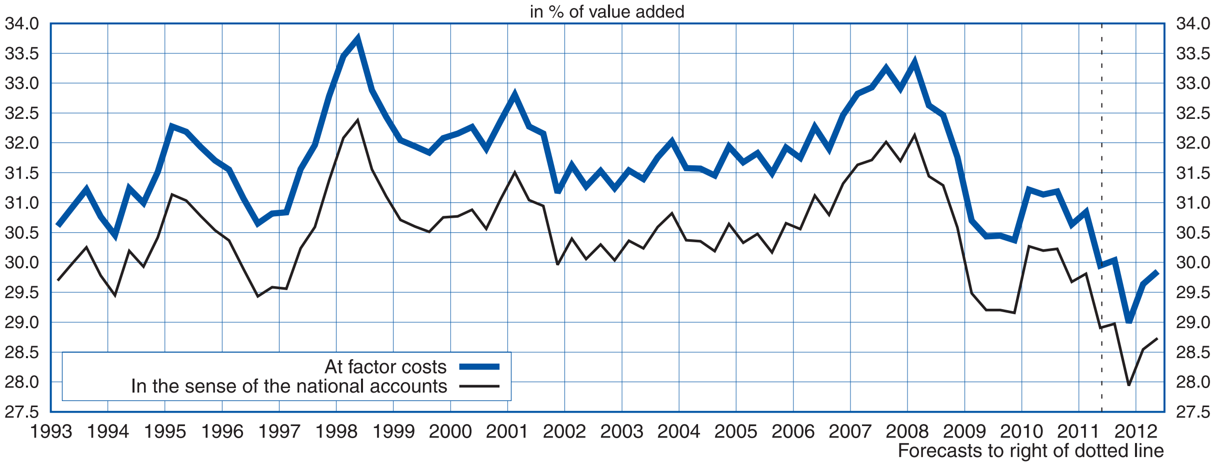
The margin rate then lost 0.9 point in Q2 2011: at 29.9%, it stood at its lowest level observed since Q1 1987. This decline resulted from the downturn in productivity gains (contribution of -0.6 point), as activity slumped while employment continued to progress. Furthermore, the terms of trade continued to weigh down on the margin rate (-0.1 point after -0.2 point), as did real wage costs (including employer contributions, contribution de -0.2 point). All in all, in H1 2011, the margin rate fell by 0.7 point.

The margin rate set to fall back further in H2 2011...

The decline in the margin rate should continue in Q3 2011, although more moderately (-0.1 point). Productivity gains are likely to pick up thanks to the buoyancy of activity and the slowdown in employment (contribution of +0.2 point). However, real wages seem set to remain dynamic (-0.2 point), causing a slight fall in the overall margin rate.

In Q4 2011, the margin rate is set to fall further (-1.0 point). Employer contributions should increase sharply (contribution of -0.6 point): this rise is due to the end-of-year posting in the accounts of social contribution regularisations as part of the annualisation of reductions in social charges *(see Box)*. Additionally, productivity gains should sag (-0.3 point).

1 - Margin rate of non-financial enterprises (NFE)



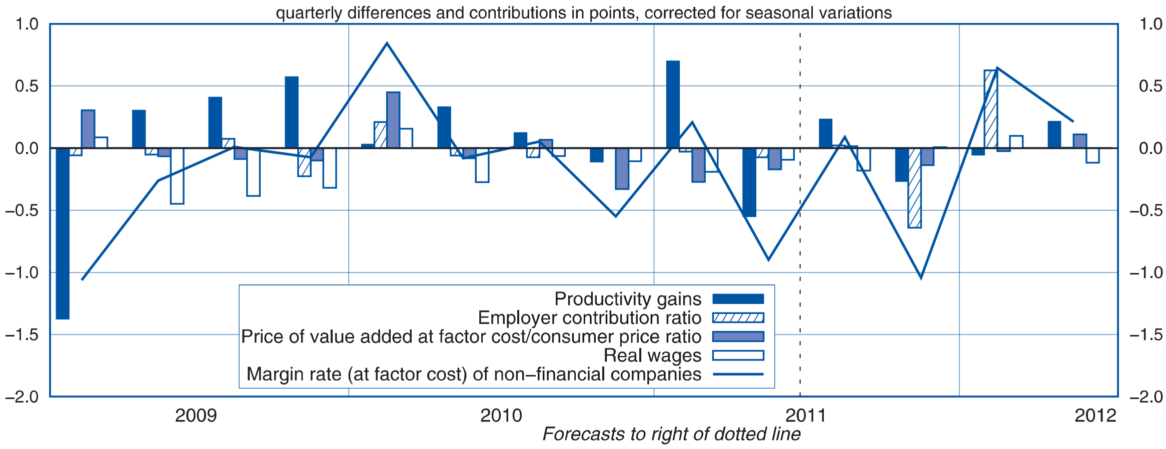
Source: INSEE

... then pick up in H1 2012

In H1 2012, the margin rate is likely to pick up. The increase in social contributions due to the annualisation of reductions in charges should be a one-off factor in Q4 2011, and these contributions should return to their "usual" level in Q1 2012: this is likely to be the main factor in the upturn in the margin rate (contribution of +0.6 point cumulatively over the half-year). Companies should also see a return of productivity gains (+0.1 point cumulatively) as market-sector employment continues to decline, while activity should progress slightly at the end of the half-year. Additionally, the terms of trade should become favourable once again (+0.1 point cumulatively), thanks to the fall in energy prices.

All in all, the margin rate at factor cost should stand at 29.8% in Q2 2012, slightly below its level of mid-2011 (29.9%). This would be below the average level observed during the 2009 recession (30.5% on average).■

2 - Contributions to the variation in the margin rate at factor cost of non-financial companies



Source: INSEE

Box: Annualisation of the general reduction in social contributions

The Social Security Financing Act for 2011 amended the measure for the general reduction in employers' contributions on low wages, known as the "Fillon reduction". Up to 2010, these sliding-scale exemptions were calculated on a monthly basis. Two identical annual salaries could thus result in different reduction amounts, depending on the monthly payment profile adopted by the company. Since 2011, the reduction has been calculated on the basis of yearly rather than monthly remuneration.

Although exemptions on employers' social contributions are calculated based on annualised income, companies have continued to benefit from monthly reductions: they therefore have to regularise their contributions at the end of the year based on the annual wage actually known. These regularisations are at the origin of an expected increase in contributions in Q4 2011, worth almost 2 billion euros according to the draft financing act for 2012. In accounting terms these regularisations should impact the margins of companies in Q4 2011. In Q1 2012, contributions should return to their usual level, generating an after-effect on the margin rate.■

Breakdown of the margin rate of non-financial enterprises (NFE)

in % and in points

	2010				2011				2012		2010	2011	2012 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Margin rate (in level)(1)	30.3	30.2	30.2	29.7	29.8	28.9	29.0	27.9	28.5	28.7	30.1	28.9	28.7
Variation in margin rate	1.1	-0.1	0.0	-0.6	0.1	-0.9	0.1	-1.0	0.6	0.2	0.8	-1.2	-0.2
Margin rate at factor costs (in level) (2)	31.2	31.1	31.2	30.6	30.8	29.9	30.0	29.0	29.6	29.8	31.0	30.0	29.8
Variation in margin rate at factor cost	0.8	-0.1	0.1	-0.6	0.2	-0.9	0.1	-1.0	0.6	0.2	0.6	-1.1	-0.2
Contributions to the variation margin rate at factor costs of													
productivity gains	0.0	0.3	0.1	-0.1	0.7	-0.6	0.2	-0.3	-0.1	0.2	1.3	-0.4	-0.1
real wage per head	0.2	-0.3	-0.1	-0.1	-0.2	-0.1	-0.2	0.0	0.1	-0.1	-0.7	-0.5	-0.1
employer contribution ratio	0.2	-0.1	-0.1	0.0	0.0	-0.1	0.0	-0.6	0.6	0.0	0.0	-0.3	0.1
ratio of the value-added price to the consumer price	-0.2	-0.1	0.1	-0.3	-0.2	-0.1	0.0	-0.1	0.0	0.1	-0.4	-0.5	0.0
other factors	0.6	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.4	0.6	-0.1

Forecast

(1) The margin rate measures the share of value-added which remunerates capital. Its variation is broken down in accounting terms between:
- productivity changes (Y/L), with Y value-added and L employment, and the ratio of the value-added price to the consumer price, or terms of trade (Pva/Pc), which play a positive role,
- changes to the real average wage per head (SMPT/Pc) and the employer contribution ratio (W/SMPT, where W represents all compensation), which play a negative role,
- others factors: it is the ratio of the value-added price at factor cost to the value-added price in the sense of the national accounts; this ratio increasing in 2010 because of the abolition of professional tax.This breakdown is summarised in the following equation (*see Report, Conjoncture in France*, June 2003),

$$TM = \frac{EBE}{VA} \approx 1 - \frac{W.L}{Y.P_{va}} = 1 - \frac{L}{Y}\frac{W}{SMPT}\frac{SMPT}{P_c}\frac{P_c}{P_{va}}$$

(2) Value-added at factor cost is obtained from gross value-added minus taxes on production net of operating subsidies. The margin rate (share of GOS in value-added) at factor cost is around 1% higher than the margin rate in the sense of the national accounts. In the MR breakdown above, only the terms VA and Pva are affected by this distinction.
Source : INSEE

Corporate investment and inventory

After progressing continually since Q2 2010, corporate investment declined in Q3 2011 (-0.3%). This is set to continue in Q4 2011 (-0.5%) and up to mid-2012. Corporate investment is likely to be penalised by companies' worsening prospects and financing conditions. The lack of tensions on production capacities should also limit their investment needs. Despite this decline in H2, investment should remain more dynamic over 2011 as a whole than 2010 (+3.9% after +2.0%). The growth overhang for 2012 should however be negative at the end of H1 (-1.1%).

In Q3 2011, the contribution of inventory change to GDP growth was nil, after +1.0 point in Q1 and -0.2 point in Q2. The rebuilding of stocks of agrifood (+0.1 point) and capital goods (+0.1 point) was offset by a reduction in stocks of transport equipment (-0.2 point). Within the timeline of the forecast, the deterioration of demand prospects is likely to encourage industrialists to limit their inventory. Inventory change should thus negatively contribute to growth in Q4 2011 (-0.2 point) and in Q1 2012 (-0.1 point). The contribution of inventory change should be nil in Q2 2012.

In Q3 2011, corporate investment contracted

After slowing in Q2 2011 (+0.3%), investment by non-financial enterprises ground to a halt in Q3 2011 (-0.3%) (see *Table 1*). Showing strong growth since mid-2009, investments in manufactured goods contracted by 1.1%, due to the sharp decline in automobile purchases and to a lesser extent the reduction in expenditure on other industrial goods (-0.4%). Investment in construction fell once again (-0.3% after -1.0% in Q2). However, expenditure on services rebounded (+1.0%) after stagnating in Q2. The investment rate therefore came down slightly, to 17.8%. It had reached 18.0% in Q2, a high point since the end of the recession (see *Graph 1*).

Investments continuing to fall through to mid-2012

The drop in investment by non-financial enterprises should be accentuated in Q4 2011 (-0.5%) and in Q1 2012 (-0.6%). It should then level off in Q2 2012 (-0.1%). The business leaders surveyed in November expect their activity to deteriorate and would thus be more hesitant in their investment projects, especially as tensions on production capacity (see *Graph 2*) have eased: in October, the production capacity utilisation rate in the manufac-

Table 1

Investment by non-financial enterprises (NFE)

Variations at previous year's chain-linked prices, as a %

	Quarterly variations										Annual variations		
	2010				2011				2012		2010	2011	2012 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Non-energy industrial goods (43%)	1.0	4.1	3.7	3.6	3.1	1.5	-1.1	-0.3	-1.0	-0.5	8.3	9.3	-1.8
Building and public works (26%)	-2.1	-0.3	-2.0	-2.7	-1.5	-1.0	-0.3	-0.4	-0.1	-0.1	-6.9	-5.5	-0.9
Other (31%)	0.7	4.9	1.7	0.8	3.7	0.0	1.0	-1.0	-0.5	0.5	4.6	6.7	-0.4
All non-financial enterprises (100%)	**-0.1**	**2.9**	**1.3**	**0.8**	**1.9**	**0.3**	**-0.3**	**-0.5**	**-0.6**	**-0.1**	**2.0**	**3.9**	**-1.1**

Forecast

Source: INSEE

turing industry fell to 81.7% after reaching 83.4% in Q2 2011.[1] Additionally, global financing conditions are worsening: real interest rates rose during H1 2011. According to the banks, lending conditions tightened in Q3 2011, and should do so even further in Q4.

Decline in investments on manufactured goods

Investment by non-financial enterprises on manufactured goods should fall further within the forecasting period (-0.3% in Q4 2011, -1.0% in Q1 2012, then -0.5% in Q2 2012). Data on company car registrations point to a rebound in vehicle purchases until November. But according to the wholesalers surveyed in November, order intentions concerning capital goods, which represent 40% of investments on manufactured goods, are heading downwards. In the ICT sector in particular, order intentions are clearly below their long-term average.

In construction, investment set to decline further

The drop in the construction expenditure of companies should continue throughout the forecasting period (-0.4% in Q4 2011 then -0.1% in Q1 and Q2 2012). In the building sector the entrepreneurs surveyed in November expect a contraction of activity for the coming months, while those working in civil engineering surveyed in October indicate a deterioration in their activity.

Investments in services likely to pick up in Q2 2012

Other investments, mainly in IT services and specialist activities, are set to decline in Q4 2011 (-1.0%) and in Q1 2012 (-0.5%): business leaders in these sectors surveyed in November mentioned a slowdown in activity and gloomy prospects. Other investments should pick up again in Q2 2012 (+0.5%).

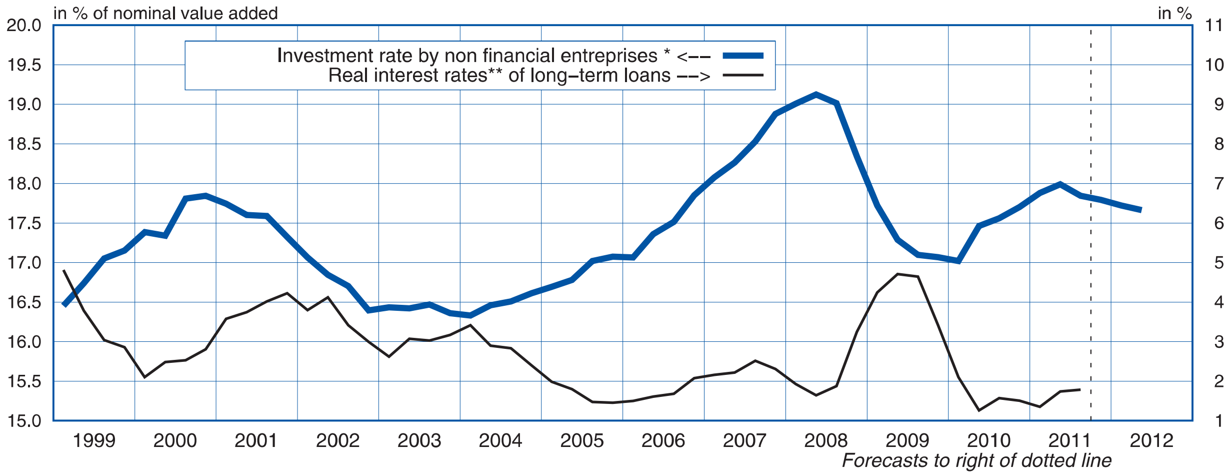
Heading towards another fall in the investment rate

On average over 2011, corporate investment should accelerate: +3.9%, after +2.0% in 2010. Investments in manufactured products (+9.3% after +8.3%) and other investments (+6.7% after +4.6%) should be very dynamic, unlike construction expenditure which should keep declining (-5.5% after -6.9%).

The investment rate of non-financial enterprises is set to stand at 17.9% on average for 2011 (after 17.4% in 2010). It should fall during the forecasting period to 17.5% in Q2 2012.

(1) The rise in production bottlenecks observed in October (see *Graph 2*) is only due to the automobile sector, which was experiencing supply problems. It therefore does not reflect a global tension on production capacity.

1 - Investment rates and real interest rates of long-term loans



* Non-Financial Enterprises (NFE) = Non-Financial Corporations (NFC) and Individual Enterprises
** Here, the real rate denotes the interest rate on new loans to non-financial enterprises with an interest rate which is revisable at a frequency higher than one year, or set at fixed rate for an initial period of more than one year. This rate is deflated by the producer price index of all goods and services.

Source: INSEE

French developments

In Q3 2011, the contribution of inventory change was nil

In Q3 2011, the contribution of inventory change to GDP growth was nil (after +1.0 point then -0.2 point in Q1 and Q2, *see Table 2*). The reduction in inventory observed in the transport equipment sector (-0.2 point) was offset by the slightly positive contributions of capital goods (+0.1 point) and agrifood products (+0.1 point).

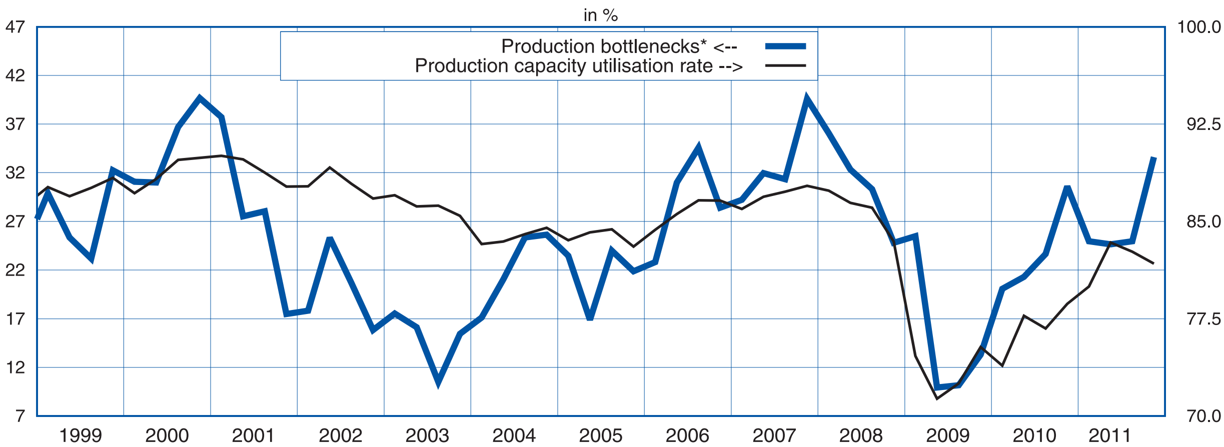
The negative contribution of transport equipment inventory to growth is mainly explained by the dynamism of automobile and aeronautical equipment exports in Q3 2011, in a context where output has dropped in the sector. Conversely, the slight trend towards stocking-up in capital goods is linked to a slowdown in exports of these goods.

Over the forecasting period, inventory change should penalise growth slightly

In Q4 2011, the contribution of inventory change to growth should be negative (-0.2 point), due to lower stocking levels in the manufacturing industry. In November 2011, the opinion of industrialists on inventory, which had progressed for several months, was above its long-term average: faced with the deterioration of demand prospects, business leaders are likely to limit their inventory.

This is particularly the case in the automobile industry where the balance of opinion on inventory levels is much higher than its long-term average. Certain carmakers have announced production stoppages and a reduction in inventory in order to improve their cash flow situation. The contribution of inventory change to GDP should remain negative in Q1 2012 then nil in Q2.■

2 - Tensions on production capacities in manufacturing industry



** proportion of enterprises which, if they received more orders, could not produce more with their current means.*
Source: INSEE, quaterly survey on activity in industrie

Table 2

Contribution of inventory changes to growth

in GDP points

	Quarterly changes										Annual changes		
	2010				2011				2012		2010	2011	2012 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Agricultural goods	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.1
Manufactured products	-0.3	0.2	0.1	0.0	0.9	-0.2	-0.1	-0.2	-0.1	0.0	0.6	0.7	-0.4
including:													
Agrifood products	*-0.1*	*0.0*	*0.0*	*-0.1*	*0.0*	*0.0*	*0.1*				*-0.1*		
Coke and refined petroleum	*0.1*	*-0.2*	*0.1*	*0.0*	*0.1*	*-0.1*	*0.0*				*0.0*		
Machinery and equipment goods	*0.0*	*0.1*	*-0.1*	*0.0*	*0.0*	*0.0*	*0.1*				*0.2*		
Transport equipment	*-0.2*	*0.1*	*0.0*	*-0.1*	*0.5*	*-0.1*	*-0.2*				*-0.1*		
Others industrial goods	*-0.1*	*0.3*	*0.1*	*0.1*	*0.2*	*0.0*	*0.0*				*0.5*		
Energy, water and waste	-0.1	0.1	0.2	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Other (construction. services)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL (1)	-0.4	0.3	0.3	-0.1	1.0	-0.2	0.0	-0.2	-0.1	0.0	0.5	0.9	-0.3

Forecast

(1) Inventory changes include acquisitions net of sales of valuables.

Source: INSEE

Output

In Q3 2011, production of goods and services rebounded (+0.4% after -0.1% the previous quarter), due essentially to the acceleration in production of market services and the upturn in energy production.

Over the last few months, the business climate has deteriorated sharply in all sectors in France, however. According to the business tendency surveys, personal and general production prospects are under their long-term average, in services and industry alike. Production is therefore set to fall in Q4 (-0.3%), then again in Q1 2012 (-0.2%), before recovering somewhat in Q2 2012 (+0.1%).

At the end of H1 2012, the production growth overhang for 2012 should be -0.2% after a rise on 2.0% in 2011.

Production to fall in late 2011 and early 2012

In Q3 2011, production of goods and services rebounded (+0.4% after -0.1% in Q2 2011, *see graph 1*). Manufacturing output continued to fall, but at a slower rate than in the last quarter (-0.2% after -0.7%), thanks notably to the rebound in capital goods production. Energy production, which suffered from particularly mild temperatures in Q2, returned to normal levels in Q3 (+2.6% after -1.6%). With the marked upturn in household consumer spending (+0.3% after -0.8%), activity progressed in non-trade services (+0.5% after +0.3% in Q2) and in trade (+0.1% after -0.4%). Finally, activity remained dynamic in the construction sector (+0.7% after +0.5%).

The business climate indicator in France, which has been worsening continually since June, fell again in November and is well under its long-term average. General production prospects have therefore been very poor in all sectors since September. Individual production prospects were revised significantly downwards in manufacturing industry in November and remained under their long-term average in other sectors. Production should therefore fall in Q4 2011 (-0.3%). It should continue to decline in Q1 2012 (-0.2%) before recovering somewhat in Q2 (+0.1%).

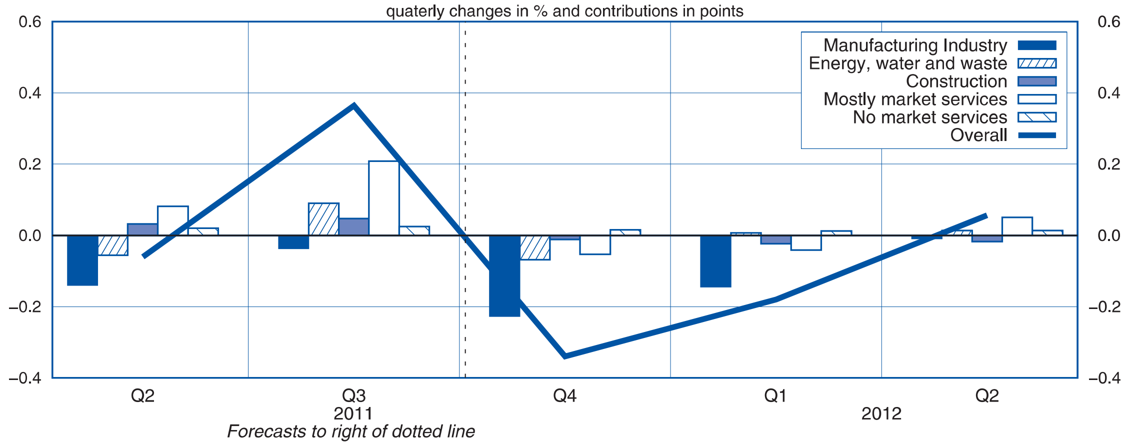
The production growth overhang for 2012 should stand at -0.2% at the end of H1 2012, after a rise of +2.0% in 2011.

To the time horizon of the forecast, manufacturing production set to continue falling

In Q3 2011, manufacturing output contracted again (-0.2% after -0.7% in Q2 2011).

In the transport equipment sector, production fell back sharply by 2.2% (after -1.5%). Activity also fell in the coking and refining sectors (-1.7% after -5.5%) and “other industries” (-0.1% after -0.2%).

1 - Sector contributions to growth in total output



Source: INSEE

Conversely, activity accelerated in the sectors of capital goods (+1.6% after -0.1%) and agrifood industries (+0.9% after +0.2%).

In Q4, manufacturing output should contract significantly (-1.1%). The composite business climate indicator fell again in November and remains a long way below its long-term average *(see graph 2)*. Industrialists continue to report very low general prospects for their sectors and in November they also report a pronounced deterioration in their individual production prospects for the coming months, in particular in the automobile, rubber and metallurgy sectors (*see graph 3*).

Activity in the manufacturing sector should continue to suffer from weak demand in early 2012: production is likely to fall further in Q1 2012 (-0.7%) before levelling out in Q2 (0.0%).

Over 2011 as a whole, manufacturing output should grow at a slower rate than in 2010 (+2.8% after +4.3%). At the end of Q1 2012, growth overhang for the year should be -1.7%.

In construction, activity set to worsen from the end of 2011

In Q3 2011, production in the construction sector remained sustained: +0.7%, after +0.5% in Q2 2011. Activity in the sector profited notably from strong household investment.

However, housing commencements have been falling since early 2011, and this drop is likely to have repercussions in production at the end of the year. Activity should therefore decrease in Q4 (-0.2%), especially as building entrepreneurs surveyed in November report sluggish activity and order books below normal levels. Entrepreneurs in building and public works are also pessimistic about future prospects (*see graph 4*): in H1 2012 activity in construction should continue to fall (-0.3% per quarter).

Over 2011 as a whole, production in the construction sector should fall back by 0.3%. In mid-2012, its growth overhang for 2012 should be -0.2%.

Market services production grinds to a halt

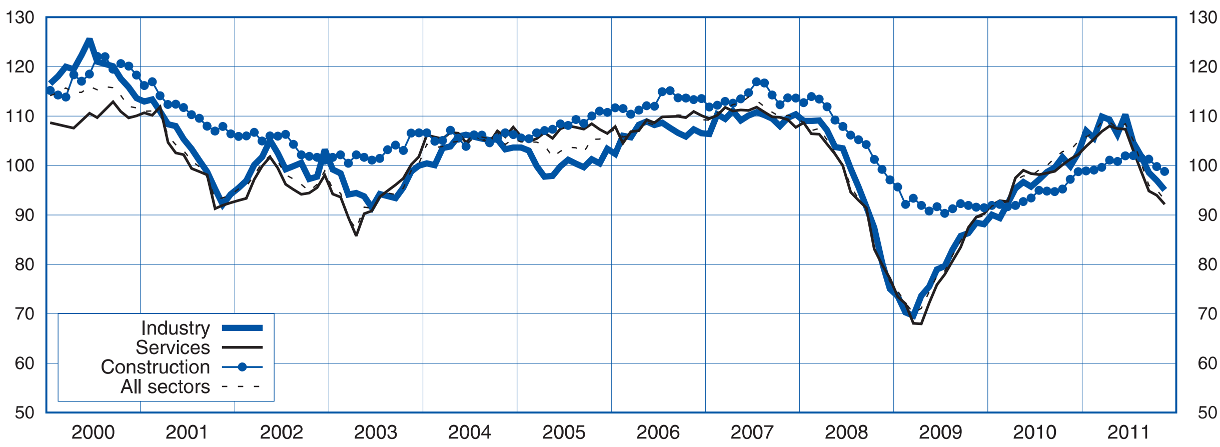
Activity in market services excluding trade accelerated in Q3 2011: +0.5% after +0.3% in Q2 2011. This acceleration was particularly marked in the sectors of transport (+0.3% after -0.3%) and information and communication (+0.8 % after +0.0%). Real estate activities progressed at a rate close to that of the previous quarter (+0.4% after +0.3%), as did specialised, scientific and technical services and administrative and support services (+0.3% after +0.4%). Activity slowed down in financial activities (+0.9% after +1.2%) and in accommodation and food services (+0.4% after +0.6%).

In Q4 2011, production of services is unlikely to be spared by the general slowdown in the French economy. In market services excluding trade, activity should contract (-0.1% after +0.5%). According to entrepreneurs surveyed in November, the deterioration of the outlook is continuing in services. The composite business climate indicator has been falling since July and remains well below its long-term average. Entrepreneurs also foresee less favourable demand in coming months.

During H1 2012, activity should continue to contract in Q1 (- 0.1%) and then progress by + 0.1% in Q2.

Over 2011 as a whole, production of market services excluding trade should grow by 2.7%, after a progression of 1.4% in 2010. At the end of H1, growth overhang should be 0.2% for 2012.

2 - Composite indicators in France: all sectors, industry, services and construction



Source: INSEE

Sluggish activity in trade

Trade activity strengthened slightly in Q3 2011 (+0.1% after -0.4% in Q2). Activity in retail trade and automobile trade and repair remained sluggish in Q3, in line with household consumption of non-energy industrial goods (-0.1% after -1.9% au Q2).

Activity in trade should deteriorate in Q4 2011 (-0.1%). In the wholesale trade, the composite business climate indicator lost four points in November against September and was below its long-term average. The balance of opinion on past sales fell significantly as did that on deliveries received. In the retail trade and automobile trade and repair, the composite business climate indicator remained low in the November survey. Past activity was very sluggish notably in the retail trade, in particular in the specialised clothing-leather and specialised household equipment sectors.

Activity should remain lacking in dynamism through to mid-2012 (-0.1% in Q1 and +0.1% in Q2). According to the wholesalers surveyed in the November business tendency survey, general activity prospects are weakening and foreign trade is on a negative trend. At the same time, in retail trade and automobile trade and repairs, balances of opinion among entrepreneurs as to order intentions and sales prospects for coming months are at a low level.

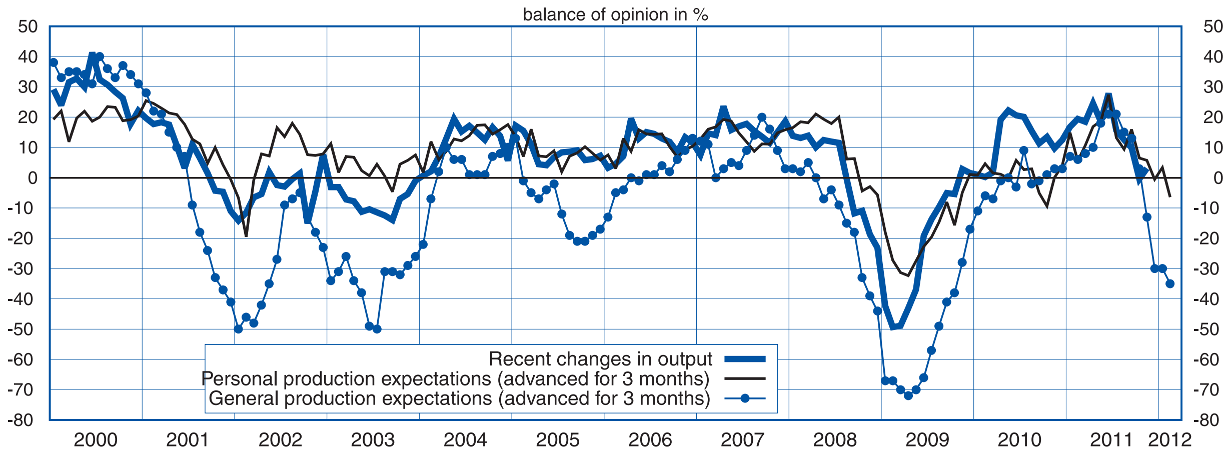
The growth overhang in trade should therefore be -0.1% for the year 2012 after growth of 2.4% in 2011.

Energy production and agricultural activity should retain some dynamism

Production in the energy branch progressed strongly in Q3 2011 (+2.6%), making up the fall in Q2 (-1.6%). In Q4, the fall in production in industry combined with the effect of mild temperatures through into November, should induce a drop in energy consumption: production should fall in Q4 (-2.0%) before recovering progressively in H1 2012 (+0.2% in Q1 then 0.4% in Q2). All in all, production in this branch should fall by 0.1% in 2011 after +4.3% in 2010. At the end of H1 2012, the growth overhang should stand at - 0.1% for the coming year.

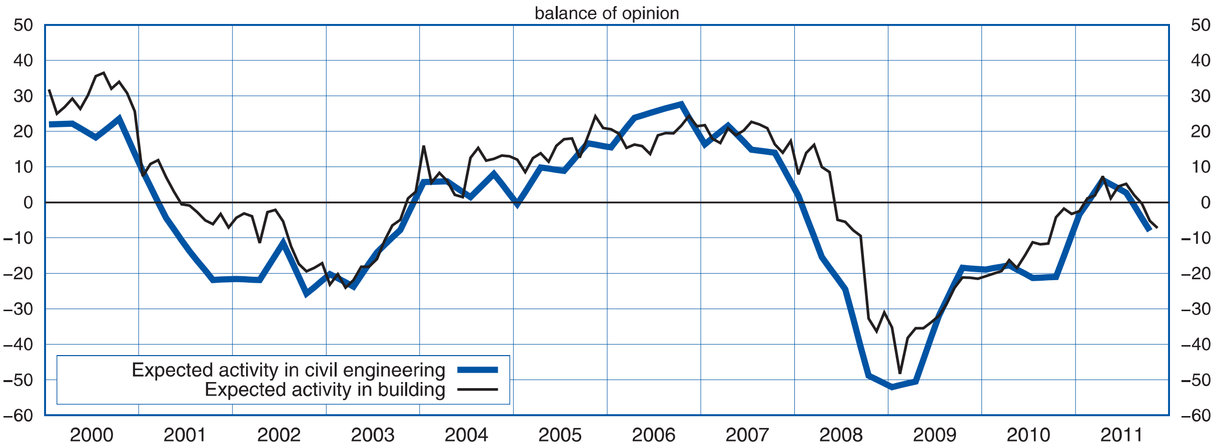
Agricultural branch production accelerated in Q3 2011 (+0.7% after +0.1%). It should slow down in Q4 (+0.3%) and remain at a similar rate in early 2012 (+0.2% in Q1 then Q2). Production of the agricultural branches should therefore progress by +0.9% in 2011 after a drop of -1.2% in 2010. The growth overhang for 2012 should be +1.0% at the end of H1.■

3 - Opinion about output in the manufacturing industry



Source: INSEE

4 - Expected activity in construction



Source: INSEE