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Brighter world prospects, Europe still in the shadows

In Q4 2012, activity accelerated in the emerging economies, but the advanced economies did not benefit. On the contrary, activity in the latter was affected by a marked destocking trend and fell back (-0.2% after +0.3%). In addition to this, domestic demand was hit in the United States by the drop in public consumption, although private demand was strong.

In Q1 2013, both the business tendency surveys, which are indicating an almost-general improvement in the business climate, and the first available activity data, suggest that a marked upturn can be expected in the advanced economies (+0.4%). However, their activity should be held back in Q2 2013 (+0.2%), especially in the United States under the effect of fiscal consolidation.

Foreign demand for French products should therefore rise again in H1 2013, although remaining less dynamic than world trade. It is likely to continue suffering from the continuing weakness of internal demand in the Eurozone, despite strong activity in Germany driven by the upturn in investment and exports. The upturn in French exports should therefore remain moderate, especially as the value of the Euro has risen globally since mid-2012.

In France, domestic demand is set to remain sluggish, with activity being almost stable in H1 (0.0% in Q1 then +0.1% in Q2).

Investment in building started falling in Q4 2012. This is likely to continue, given the sharp fall in the number of starts in 2012. Likewise, the marked fall in corporate investment in manufactured goods in H2 2012 should continue into early 2013. The context is indeed likely to remain uncondusive to expansion in

production capacities: prospects for activity are poor and the capacity utilisation rate is low. In this way, the adjustment in investment, which has not been very pronounced in France since the turnaround in 2011, whether in absolute terms or when compared to the country's neighbours, is likely to continue.

Household consumption should be almost stable in H1 2013 (0.0% then +0.1%). Purchasing power should continue being held back by the worsening labour market situation and the increase in the tax burden. The return of productivity gains towards their pre-crisis rate, which started at the end of 2011, is likely to lead to large market-sector job losses (37,000 per quarter in early 2013). The drop in total employment should be a little lower, however, due to an increase in the number of subsidised jobs in the non-market sector. The unemployment rate should reach 11.0% in mid-2013 (10.6% in Metropolitan France).

Various uncertainties are surrounding this scenario.

The forecast supposes that the savings ratio falls year on year (-0.6 points) as tax rises should partly affect income that is usually saved. This factor buoying up demand might fail to materialise, especially if the uncertainties as to medium-term income prospects, which are particularly strong on account of the crisis, should encourage households to keep up their savings effort.

In the United States, uncertainties remain great as to fiscal policy and its effects on activity.

Finally, the forecast is based on the hypothesis that oil prices stabilise around \$110 a barrel of Brent. Supply and demand prospects in early 2013, however, could lead to a drop in the oil price. ■

Activity stalled in the advanced economies in Q4 2012

World trade stronger at the end of 2012...

After being sluggish in Q3 2012, world trade showed a marked upturn at the end of the year (+0.9% after +0.2%). This overall improvement does hide some widely contrasting situations between emerging and advanced countries, however (see graph 1).

... but without benefiting the advanced economies

The upturn in activity in the emerging economies, notably in China, stimulated trade. But imports and exports in the advanced economies fell sharply at the end of 2012. In these countries, activity fell back (-0.2% after +0.3%), hit also by a particular marked destocking trend in the United States, United Kingdom, France and Italy.

Air pocket in the United States

In the United States, activity stalled in Q4 2012 (0.0% after +0.8%). Private consumption and investment were strong, but public defence spending fell sharply and imports dropped (-1.1%).

Japan hit by tensions with China

In Japan, activity continued to be hit by geopolitical tensions with China: despite the rebound in trade in Asia, Japanese exports fell back sharply once again (-3.7% after -5.1%) and activity remained stable (0.0% after -1.0%).

Europe falls back in Q4 2012

Drop in activity

In the Eurozone, the drop in activity in Q4 2012 was more pronounced than in the other advanced countries: -0.6% after -0.1% in Q3 2012. In particular, manufacturing production, which had been stable in Q3, fell back sharply at the end of 2012 in the Eurozone's largest economies.

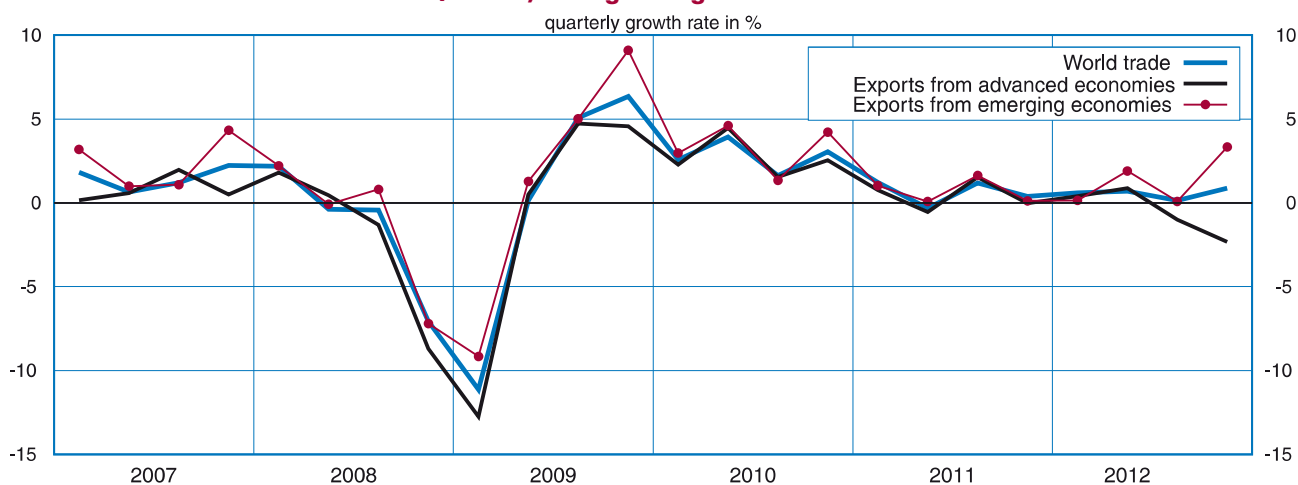
German activity stalls

In Germany, notably, activity was hit (-0.6% after +0.2%) by the drop in exports and the fall in investment in capital goods for the fifth consecutive quarter. German imports therefore fell, contributing to the slowdown in trade within the Eurozone.

Spain and Italy slide again

In Spain and Italy, the fall in activity was also very pronounced (respectively -0.8% and -0.9%). Domestic demand continued to fall and, unlike in previous quarters, foreign trade did not buoy up activity.

1- In Q4 2012, strong divergences in world trade



Source: Centraal Plan Bureau

In France, a less pronounced fall than in the rest of the Eurozone

Consumption held up but investment and exports fell

Activity also fell back in France, although not to the same extent as the other major European countries (-0.3% after +0.2%). Held back by the weakness of trade in the advanced countries, exports dropped (-0.6% after +0.7%). Businesses also reduced their investments (-1.2% after -0.8%), as did households (-0.8% after -0.1%). Household consumption continued to hold up, however (+0.2% after +0.3%). Household spending on manufactured goods progressed slightly, notably thanks to the dynamism of automobile purchases in December 2012, before the introduction of stricter terms on the CO2 emissions penalty, while spending on services remained robust (+0.3% after +0.2%).

Sharp drop in manufacturing production

Activity was also limited by further destocking and manufacturing production therefore fell sharply in France at the end of 2012 (-2.3% after +0.9%). This drop had negative knock-on effects on services, although the latter held up on the whole thanks to strong household spending. Activity in construction, meanwhile, fell back (-0.8% after 0.0%), both in building and public works.

General improvement in the business climate in Q1 2013

Dynamic emerging economies

In H1 2013, activity should remain dynamic in the emerging economies. In China, notably, the business climate has improved in the manufacturing sector (see graph 2) and domestic demand is showing signs of accelerating.

The business climate is improving distinctly in the advanced countries

The business climate is also improving in all the advanced economies (see graph 2). In the United States, in manufacturing industry, it was well above the expansion threshold in February 2013. In the Eurozone and Japan, it remains lower but is rising from the low points reached in summer 2012 in the Eurozone and in December 2012 in Japan.

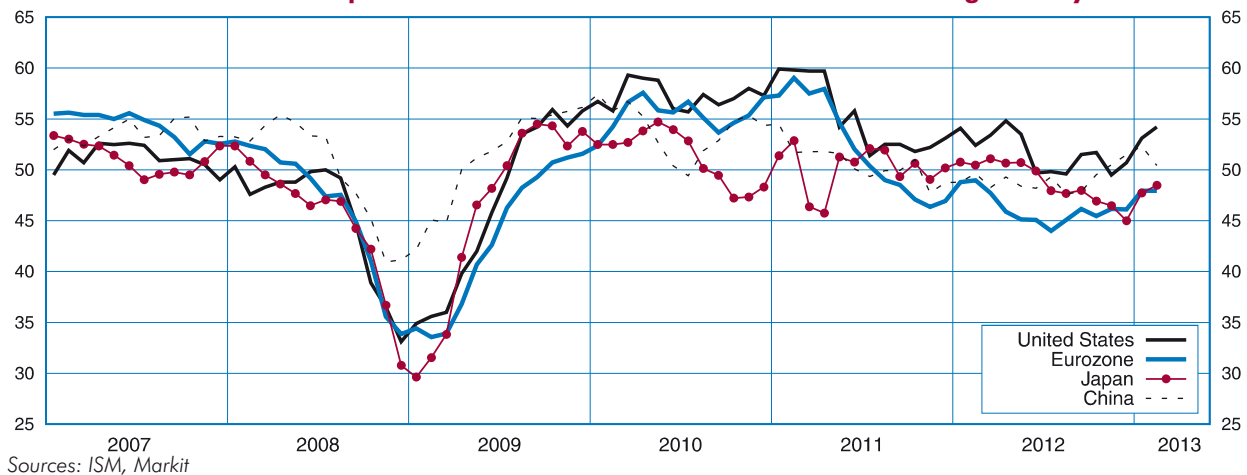
Activity to bounce back in early 2013 in the advanced economies...

Activity should also return to a sustained rate of growth in the United States in Q1 2013 (+0.6% after 0.0%) and in Japan (+0.6% after +0.0%). In the Eurozone, activity should stop contracting (+0.1% after -0.6%).

... before slowing slightly in the United States

In Q2 2013, activity should continue at this modest rate in the Eurozone. It should slow down to some extent, meanwhile, in Japan (+0.4%) and even more so in the United States (+0.3%) where the effects of tighter fiscal policies will be felt.

2 - General improvement in the business climate in manufacturing industry



Marked upturn in the United States and Japan in Q1 2013

The Japanese authorities hit the accelerator

The Japanese economy should benefit from several powerful supporting factors at the start of the year. On the one hand, despite lingering tensions with China, dynamic trade in Asia and the very sharp fall in the Yen since the end of 2012 should boost exports. On top of this, with the new stimulus measures passed in February 2013, fiscal policy should be highly positive for activity.

US fiscal policy tightens...

In contrast, the US economy in H1 2013 is likely to face a marked tightening of fiscal policy. The agreement at the end of December between the President and Congress represents a burden of about 1.6 points of household income, a large part of which came into effect on 1st January 2013 with a 2-point rise in the rate of wage contributions. In March 2013, public consumption should also fall back as the "sequester" come into effect.

... by the American economy holds up

Despite this tightening, US domestic demand and activity should hold up. Companies are likely to profit from an improvement in export prospects and still-favourable lending terms to increase their investment expenditure. Household should gradually slow down their spending in the course of the half, although some factors should contribute to a fall in the savings ratio: on the one hand, part of the rise in the tax burden mainly concerns the highest-income families; on the other, the increase in asset prices should generate some wealth effects.

Diverging paths in the Eurozone in H1 2013

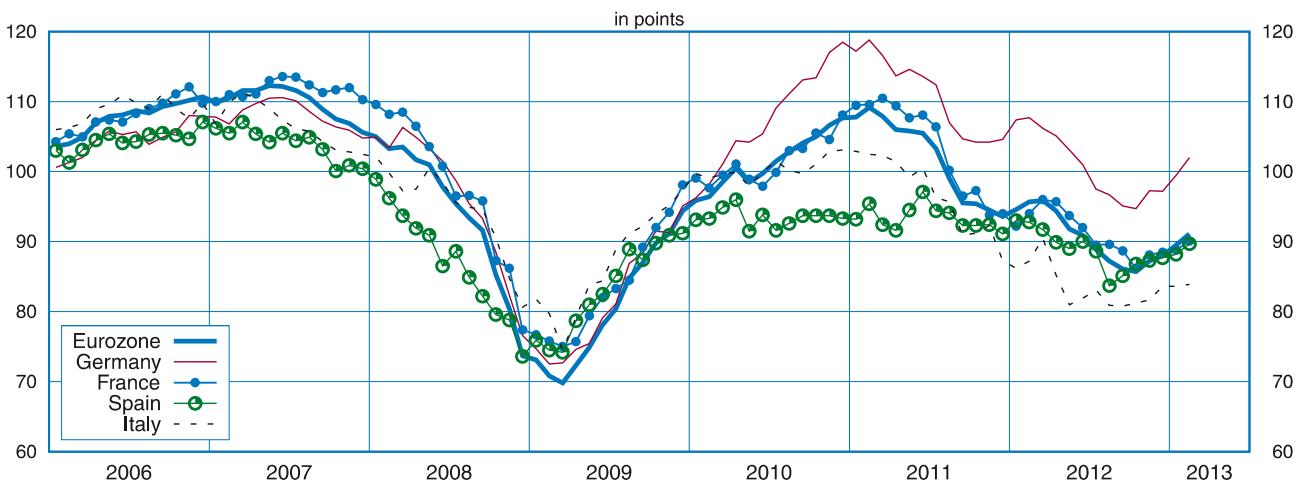
The German powerhouse starts up again

The weak progression in activity in the Eurozone in H1 2013 (+0.1% per quarter) hides some very sharp contrasts within the Eurozone. In Germany, according to the prospects in the business tendency surveys (see graph 3), activity is set to become dynamic once again (+0.5% in Q1 2013 then +0.4% in Q2). The orientation of fiscal policy should remain neutral, but German exports should benefit from the upturn in world trade and companies are likely to invest again. Household consumption should also progress again as purchasing power should continue to be buoyed by the strength of the labour market.

But Spain and Italy still lagging

The upturn in demand from Germany, the US and the emerging economies should buoy up Spanish and Italian exports. In both these countries, the business tendency surveys are also showing signs of optimism (see graph 3). Domestic demand should remain very weak, however. Despite the easing of financial tensions, the financing of private agents still remains difficult in both

3 - Business climate is recovering in Eurozone



Source: DG ECFIN

countries: reduced uncertainty on sovereign debt markets has not been passed on to the bank lending market and lending terms tightened in Q4 2012. Fiscal consolidation efforts should also continue in 2013, although with slightly less intensity than in 2012, especially in Italy. Finally, political uncertainty in Italy in the wake of the elections of 24 and 25 February 2013 may weigh down on agents' expectations. Activity should therefore continue to fall in Spain and in Italy in H1 2013.

Upturn in French exports

Demand for French products and exports set to rise

Demand for French products should therefore continue to be hit by the weakness of activity in Spain and Italy. It should become a little more dynamic in Q1 2013, however, thanks to the upturn in German and American imports. French exports should therefore accelerate: +0.6% and +0.7% in Q1 and Q2 2013, after -0.6% in Q4 2012.

France: activity almost stable in H1 2013

The business tendency surveys level out at a low level in February

Despite more positive prospects for the foreign environment, the business climate remained poor in February, in industry and services alike, well below its long-term average. In particular, it fell by 3 points in services in February. In industry, however, personal production prospects improved significantly in February 2013.

The drop in manufacturing production should ease in H1 2013

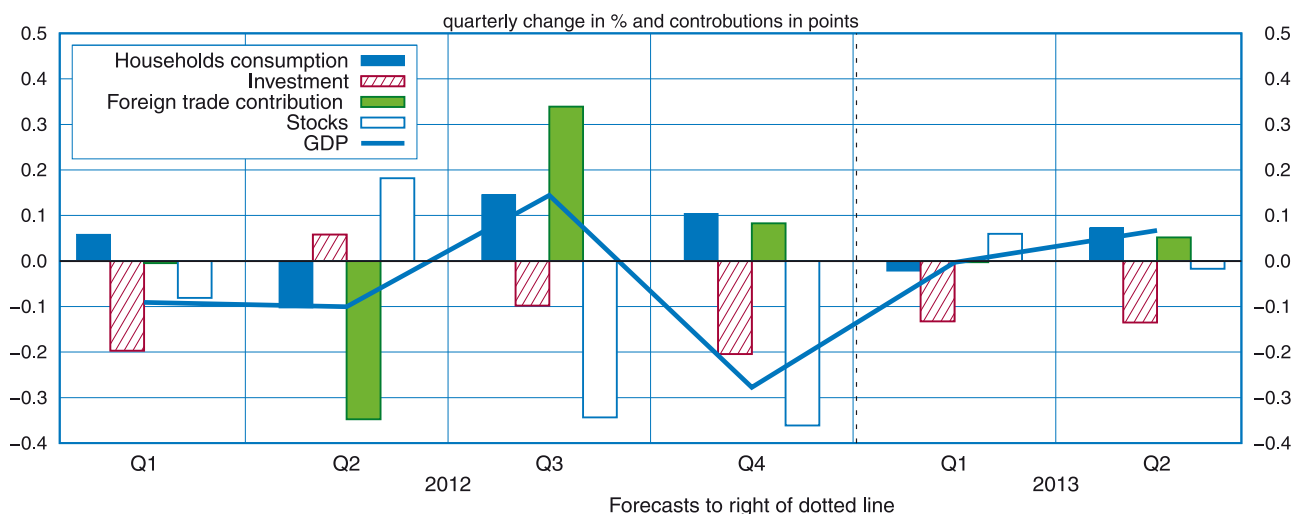
All in all, activity is set to be sluggish in France in H1 2013 (0.0% in Q1 and +0.1% in Q2). Manufacturing production is likely to fall in Q1 2013 (-0.7%), and again slightly in Q2 2013 (-0.2%). Production of market-sector services excluding commerce should progress only weakly (+0.1% per quarter) while activity in construction should continue to fall significantly (-0.7% in Q1 2013 then -0.6% in Q2). Domestic demand is likely to remain weak through this half of the year. The contribution of foreign trade to growth, however, should be slightly positive (see graph 4).

The deterioration in the labour market to continue

Market-sector employment down sharply

Market-sector employment fell back in Q4 2012 in all sectors (-45,000). With the weakness of activity, the labour market situation should continue to deteriorate through to June 2013 and 74,000 jobs should be lost. The return of productivity gains towards their pre-crisis rate, which began at the end of 2011, should weigh down on employment, but the drop in market-sector employment should be eased somewhat by the first effects of the Tax Credit for Competitiveness and Employment (CICE).

4 - Low growth at the beginning of 2013



Source: INSEE

General outlook

Unemployment rate to reach 11.0% in mid-2013

The fall in total employment should be smaller than that in market-sector employment due to the increase in the number of beneficiaries of subsidised jobs, notably the *Emplois d'Avenir* programme, in H1 (+37,000). The rise in unemployment should continue, however: from 10.6% of the active population in Q4 2012 (10.2% in Metropolitan France), the unemployment rate should reach 11.0% in mid-2013 (10.6% in Metropolitan France).

Temporary upturn in purchasing power at the beginning of 2013

Inflation at a low level

The high level of unemployment and limited utilisation of production capacities should continue to hold inflationary pressures down, even if the increase in food prices is likely to be driven by the rises in commodity prices since the beginning of 2012. Also, with Brent oil prices stabilising at around \$110, energy prices should progress little. All in all, headline inflation should stand at 1.2% in June 2013.

Earned income to continue slowing down

The progression in wages should be limited as the deterioration of the labour market weighs down on wage negotiations. Also, the fall in inflation in 2012 should gradually work through into wages: nominal wages should slow down and the gains in real wages should be inexistant H1 2013

Purchasing power to rebound in H1 2013...

Despite weak growth in earned income, purchasing power should rebound in H1 2013 (+0.6% in Q1 2013 then -0.1% in Q2 after -0.7% in Q4 2012). This temporary rebound is the consequence of the tax collection calendar.

... because the amounts of tax paid should fall at the start of the year

The new measures provided by the draft Law on Finances for 2013 induce a rise in the tax burden in 2013 of about 1 point of household income over a year, a figure comparable to that in 2012. But in 2012, tax rises mainly affected household income in H2 of the year, and this should be the case once again in 2013. Therefore, the amounts of tax paid by households in H1 2013 should be less than the amounts paid at the end of 2012 when all the amounts were settled at the end of the year.

Sluggish household consumption

Ups and downs in the savings ratio

Households generally tend to smooth out the consequences of such jolts in purchasing power on their consumer spending and the savings ratio therefore experiences ups and downs. In H2 2012, although purchasing power fell, consumer spending continued increasing and the savings ratio lost 0.9 points between Q2 and Q4 to fall to 15.5%. Conversely, the upturn in purchasing power at the start of 2013 should result in an increase in the savings ratio. This is likely to remain limited, however, and the savings ratio should stand at 15.8% in mid-2013, a level that is 0.6 points lower than one year previously, as the tax rises in 2012 and 2013 mainly affect income that is generally saved in the short term.

Stagnating consumer spending

Household consumption should therefore show much less brutal quarterly changes than purchasing power. With the stricter conditions on the CO2 emissions penalty as of 1st January 2013 and as a backlash after certain purchases that were brought forward to December 2012, spending on automobiles should nevertheless be significantly down in Q1 2013 and the consumption of manufactured products should therefore fall at the start of the year (-0.7%) before levelling out in Q2 (+0.2%). Spending on market services should continue to progress at a modest rate (+0.2%) and, all in all, household consumption should stand still in Q1 2013 (0.0%) then progress slightly in Q2 (+0.1%).

Investment to fall

Bad times in building

Due to the low level of individual and collective housing starts since the beginning of 2012, investment in building, which had still been progressing at the start of the year, fell back in Q4 2012. This drop should continue in H1 2013 as the upturn in collective housing starts at the end of 2012 should only produce its effects from H2.

Corporate investment set to fall again

Investment by non-financial enterprises should continue to fall in H1 2013 (-0.5% per quarter). The context is unlikely to be conducive to expansion in production capacities: activity prospects are poor and the capacity utilisation rate is falling. The investment ratio of non-financial enterprises should stand at 18.1% in Q2 2013, significantly lower than the peak of 18.9% reached in Q4 2011 (see graph 5).

Uncertainties

Household savings

The forecast supposes that, aside from ups and downs from one quarter to the next, the savings ratio should follow a downwards trend. If ever the unusually great uncertainties surrounding the medium-term prospects in terms of income, due to the crisis, should push households to be more cautious, then household spending and therefore activity in France would be weakened.

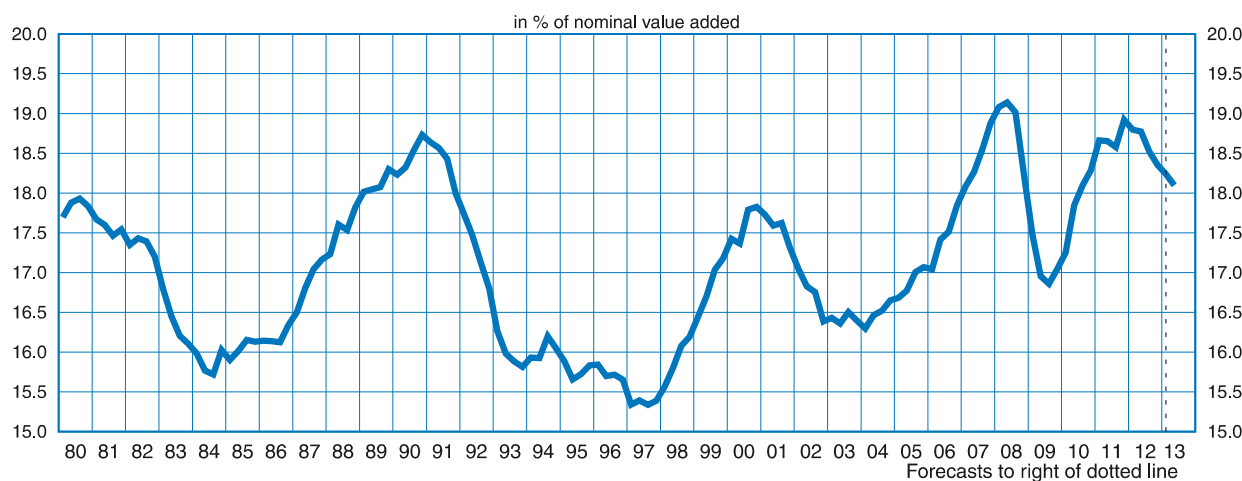
US public finances

In the United States, the progression in private demand should be a strong factor in the buoyancy of activity. There are greater uncertainties, however, surrounding the orientation of fiscal policy, notably regarding the implementation of automatic cuts in public spending and negotiations on the debt ceiling scheduled for May 2013.

Oil prices

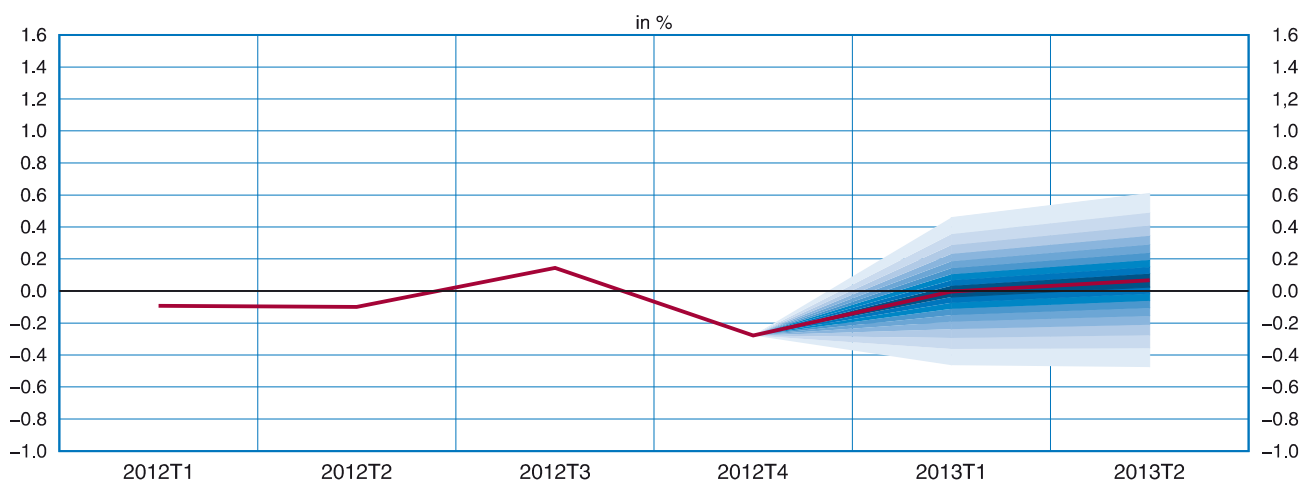
The forecast is based on the hypothesis of oil prices stabilising around \$110 per barrel of Brent. The supply and demand prospects for the start of 2013 may nonetheless lead to a weakening of the oil price. On the one hand, demand should be down due not only to the usual seasonal variations but also to weak demand in Europe. The OPEC countries should also have margin to increase their production. ■

5 - Business investment rate should continue to decline



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 (red 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 *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 2013 has a 50% chance of being between -0.2% (lower limit of the fifth band from the bottom) and +0.2% (upper limit of the fifth band from the top). Likewise, it has a 90% chance of being between -0.5% and +0.5%. In Q2 2013, the 90% confidence intervals is [-0.5% ; +0.6%].

Source: INSEE

Key figures: France and its international environment

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

	2011				2012				2013		2011	2012	2013 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
International environment													
Advanced economy GDP	0.0	0.2	0.6	0.4	0.4	0.0	0.3	-0.2	0.4	0.2	1.3	1.1	0.6
Eurozone GDP	0.6	0.2	0.1	-0.3	-0.1	-0.2	-0.1	-0.6	0.1	0.1	1.5	-0.5	-0.3
Barrel of Brent oil (in dollars)	105	118	113	109	118	110	109	110	113	110	111	112	111
Euro-dollar exchange rate	1.37	1.44	1.41	1.35	1.31	1.28	1.25	1.30	1.32	1.31	1.39	1.29	1.31
World demand for French products	1.8	0.3	0.9	-0.6	0.0	0.8	0.3	0.0	0.9	1.0	6.2	0.9	2.1
France - supply and use													
GDP	0.8	0.0	0.2	0.1	-0.1	-0.1	0.1	-0.3	0.0	0.1	1.7	0.0	-0.1
Imports	3.5	-1.1	0.0	-1.0	0.2	1.4	-0.5	-0.8	0.6	0.5	5.2	-0.3	0.4
Household consumption	0.0	-0.9	0.3	-0.1	0.1	-0.2	0.3	0.2	0.0	0.1	0.2	0.0	0.3
Public and NPISH consumption	0.0	0.0	0.1	0.2	0.5	0.4	0.4	0.4	0.3	0.3	0.3	1.3	1.2
Total GFCF	1.4	0.3	0.3	1.4	-1.0	0.3	-0.5	-1.0	-0.7	-0.7	3.5	0.0	-2.1
of which: NFEs	2.2	-0.3	-0.3	2.1	-1.5	0.3	-0.8	-1.2	-0.5	-0.5	5.1	-0.7	-2.1
Households	0.0	1.3	1.1	0.6	-0.4	0.0	-0.1	-0.8	-1.4	-1.6	3.2	0.6	-3.3
Exports	1.5	0.8	0.8	1.6	0.1	0.3	0.7	-0.6	0.6	0.7	5.5	2.3	1.1
Contributions (in point)													
Domestic demand excluding change in inventories (**)	0.3	-0.4	0.2	0.3	0.0	0.1	0.1	0.0	-0.1	0.0	0.9	0.3	0.1
Change in inventories (**)	1.2	-0.1	-0.3	-0.9	-0.1	0.2	-0.3	-0.4	0.1	0.0	0.8	-1.1	-0.3
Net foreign trade	-0.6	0.5	0.2	0.7	0.0	-0.3	0.3	0.1	0.0	0.1	0.0	0.7	0.2
France - situation of households													
Total employment	54	44	-23	5	34	-8	-50	-38	-23	-14	80	-62	-
Non-agricultural market sector employment	44	37	-27	2	14	-23	-46	-45	-39	-35	55	-99	-
Unemployment rate Metropolitan France	9.1	9.1	9.2	9.4	9.6	9.8	9.9	10.2	10.4	10.6	9.4	10.2	-
Unemployment rate France	9.6	9.5	9.6	9.8	10.0	10.2	10.2	10.6	10.8	11.0	9.8	10.6	-
Consumer price index (*)	2.0	2.1	2.2	2.5	2.3	1.9	1.9	1.3	0.9	1.2	2.1	2.0	-
Core inflation (*)	0.7	1.2	1.1	1.7	1.7	1.5	1.2	0.7	0.5	0.4	1.1	1.3	-
Household purchasing power	0.0	0.4	-0.2	-0.3	-0.1	0.4	0.0	-0.7	0.6	-0.1	0.5	-0.2	0.1

Forecast

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

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

How to read it: 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

Review of the previous forecast

In Q4 2012, activity slipped back by 0.3%, slightly more than forecast in *Conjoncture in France* in December 2012 (-0.2%). Manufacturing output and activity in construction both declined more than expected. However, energy output and market services output were both higher than forecast, sustained by strong consumption of these products.

Household consumption held up better than anticipated, unlike corporate investment which fell more sharply than expected. Both imports and exports declined significantly, whereas a slight rise was forecast. The contribution of foreign trade to growth was just positive (+0.1 point), where we expected it to be nil. Lastly, the destocking trend forecast in December did indeed take place, but was more marked than expected (contribution of -0.4 point against -0.2 point forecast).

Employment in the non-agricultural market sectors slipped back as forecast (-45,000 jobs against -47,000 expected). Lastly, headline inflation at the end of Q4 2012 stood at +1.3%, close to the anticipated +1.4%.

Our forecast for H1 2013 changes little. On the one hand, the decline in investment should be more marked. On the other hand, foreign trade is likely to sustain activity better than predicted. Activity should therefore remain stable in Q1 2013 (against +0.1% forecast), then progress

slightly in Q2, by 0.1% as forecast. Employment forecasts remain unchanged. Lastly, inflation in June 2013 should be slightly lower (+1.2% against +1.4% forecast).

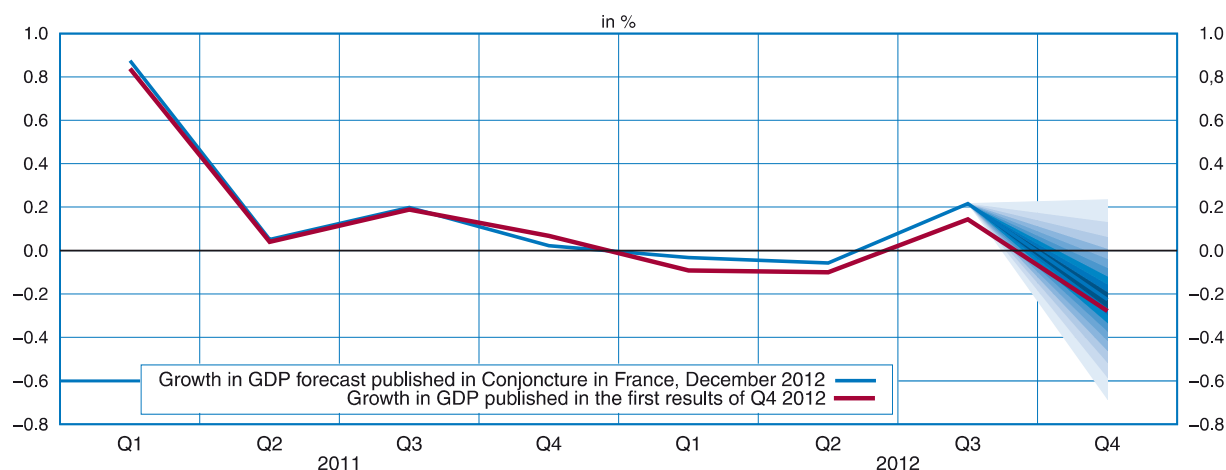
As forecast, activity dipped in Q4 2012

In Q4 2012, activity fell back by 0.3%, slightly more than forecast in December's *Conjoncture in France* (-0.2%, see [Graph 1](#)). First, manufacturing output dropped more sharply than predicted (-2.3% against -1.5% forecast).

Activity also dropped more sharply than forecast in construction (-0.8% against -0.4% forecast), notably due to the decrease in the amounts devoted to civil engineering. However, energy-water-waste output rose (+0.9%) thanks to the dynamism of energy consumption, whereas as we expected a slight drop (-0.5%).

In market services, activity was also a little more sustained than expected. It was stable in market services excluding trade (-0.1% forecast) thanks to the dynamism of household consumption. In trade, activity fell by 0.3%, as forecast: the slightly more sustained household consumption was offset by a more marked slide in investments and exports. Lastly, the production of non-market services increased by 0.3%, as predicted.

1- Fan chart for *Conjoncture in France* for December 2012 and growth achieved



Source: INSEE

Review of the previous forecast

Investment and trade were weaker than expected but household consumption held up better

In Q4 2012, final domestic demand excluding stocks was stable, as expected. Consumption was stronger than forecast (+0.2% against -0.1%). However, investment fell back sharply more than expected (-1.0% against -0.3% forecast), notably corporate investment.

This drop in investment was one of the downward uncertainties highlighted in *Conjoncture* in France in December 2012. In that issue, the corporate investment ratio seemed to be relatively high but the business tendency surveys did not indicate a turning point. Investments by non-financial enterprises nonetheless declined by 1.2% in Q4 2012, against -0.3% forecast. Purchases slipped back in all the main categories of manufactured products. Additionally, the fall in investments in manufactured goods in Q3 2012 was revised to -1.2% against -0.3%. Corporate investment in construction also fell back more than anticipated (-0.7% against -0.3% forecast), due to the unexpected decline in civil engineering activity. However, investments in services by non-financial enterprises progressed slightly, as predicted. Lastly, household investment slipped back a little more than in our December scenario: -0.8% against -0.6% forecast.

Conversely, the rise in household consumption was higher than expected. This differential is mainly ascribable to the good showing of manufactured goods consumption (+0.1% against -0.4% forecast). In particular, at the end of the year the dynamic expenditure on durables, notably housing capital goods and automobiles, offset the decline in food consumption. Similarly, expenditure on energy-water-waste rose slightly (+0.2%) where we expected a decline (-0.7%). Lastly, market services expenditures also grew slightly more than expected (+0.2% against +0.1% forecast), sustained by expenditure on transport services and accommodation and catering services.

Consumption by general government progressed in line with our forecasts (+0.4%, as expected). It has been sustained among other things by healthcare expenditure.

An unexpected decline in trade

While domestic demand remained stable, foreign trade slipped back in Q4 2012, unlike in our December forecast. Exports fell back by 0.6% against the forecast of +0.4%, despite world trade being more dynamic than expected. Trade between emerging countries picked up while those affecting

the advanced countries declined. France, and more generally the advanced economies, benefited little from the increase in demand from the emerging countries, and our exports suffered particularly from the drop in imports in European countries and the USA.

In line with declining investments and exports, and with the destocking trend observed at the end of 2012, imports slumped (-0.8% against +0.3% forecast). They dropped in all categories of manufactured goods except for agrifood products. However, energy imports were still sustained.

Lastly, the anticipated destocking trend did occur but was sharper than forecast (contribution of -0.4 point to growth against the predicted -0.2 point). It was particularly extensive in manufactured goods. Conversely, energy stocks increased sharply at the end of 2012.

The fall in employment was correctly forecast

Although activity was slightly weaker than forecast, employment fell back as expected in the non-agricultural market branches. 45,000 jobs were lost in Q4, against -47,000 forecast. Temporary employment held up slightly better than predicted: 9,000 jobs were lost against -19,000 forecast. This drop mainly concerned temporary workers employed in industry. Similarly, industrial employment only declined by 9,000 jobs, against the expected -24,000. Conversely, tertiary employment excluding temporary work fell back significantly (-19,000 jobs) where we expected it to be stable.

Lastly, headline inflation at the end of Q4 2012 was 0.1 point lower than our forecast (+1.3%, against +1.4%). This discrepancy can mainly be explained by the unexpected drop in oil prices (-0.3% against +0.3% forecast). Core inflation stood at +0.7%, as predicted. Services inflation did however climb more than forecast. This rise was offset by a lower than predicted increase in non-seasonal food prices.

Our growth forecast is revised slightly downward for Q1 2013, and remains unchanged for Q2

In Q1 2013, activity should remain stable, whereas we predicted a rise of 0.1%. The forecast is unchanged for Q2 (0.1%).

Our scenario for H1 2013 is that of a gradual stabilisation of manufacturing activity: -0.7% in Q1 then -0.2% in Q2 (against 0.0% each quarter, previously), consistent with the rebound in prospects and in foreign order books according to

Review of the previous forecast

the INSEE business tendency survey of February 2013 (see *Graph 2*). Businesses should profit from the dynamism of world trade and boost their exports. The production of market services should globally grow in line with our December forecast: 0.0% then +0.1%, against +0.1% per quarter previously. However, the decline in activity in construction has been revised upward in this forecast: -0.7% in Q1 (against -0.6% forecast previously) then -0.6% in Q2 (against -0.5% forecast en December).

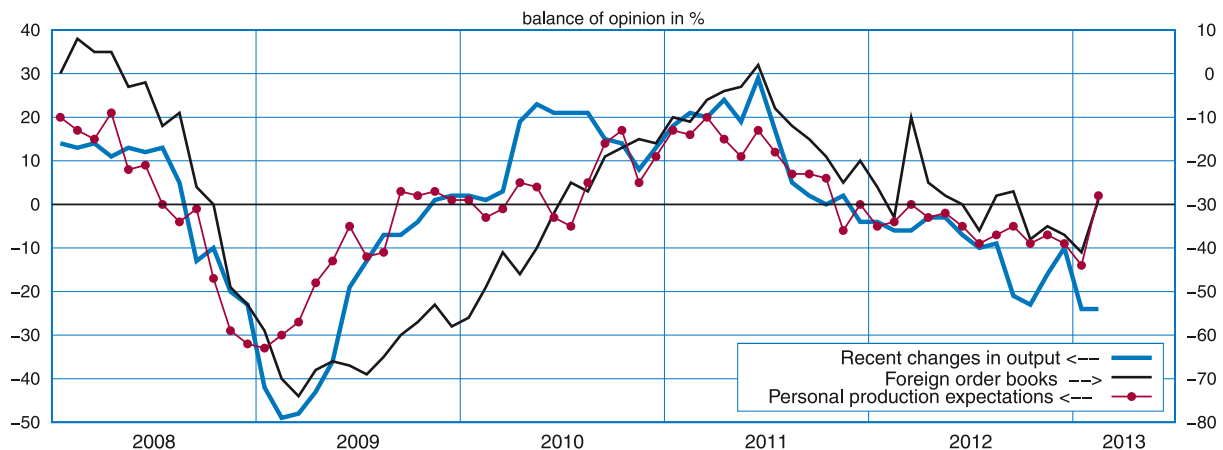
On the demand side, household consumption expenditure should be stable in Q1, as forecast, then increase by +0.1% in Q2, against 0.0% in December. But investment is likely to slide more sharply: -0.7% per quarter, against our previous scenario predicting a drop of 0.4% in Q1 then 0.3% in Q2. This downward revision affects investments in both manufactured goods and construction.

In H1 2013, domestic demand should sustain growth slightly less significantly than forecast. However, activity should still be supported by

foreign trade and by a slowdown in the destocking trend. In Q1, imports are set to be as dynamic as forecast in December. However they are then likely to suffer due to the fall in investments and hence increase less than expected. Exports should be sustained by the dynamic world demand for French products. All in all the contribution of foreign trade to activity should be nil in Q1 2013, then +0.1 point, whereas we previously predicted it would be nil for the whole of H1. Lastly, the contribution of inventory change to GDP growth should be slightly positive in Q1 (+0.1 point, against 0.0 forecast before) then nil in Q2, as anticipated.

The labour market should remain as gloomy as forecast: over H1 2013 as a whole, the non-agricultural market sectors are set to lose 74,000 jobs against 75,000 forecast previously. Lastly, inflation in June 2013 is likely to be slightly lower than predicted (+1.2% against +1.4% anticipated). Indeed, inflation in manufacturing products was lower than expected, as was food inflation. ■

2 - Recent changes in output, foreign order books and personal production expectations in manufacturing industry



Source: INSEE, Business tendency surveys