French developments

France's International Environment

In Q4 2011, the advanced economies decelerated (+0.2% after +0.5%), as forecast in December's Conjoncture in France. In the Eurozone, United Kingdom and Japan, activity contracted. Conversely, the US economy continued to grow at a sustained rate in Q4 2011 (+0.7% after +0.5%) and thus proved to be the exception. The major emerging economies accelerated slightly, although their growth rate remained below that at the start of the year.

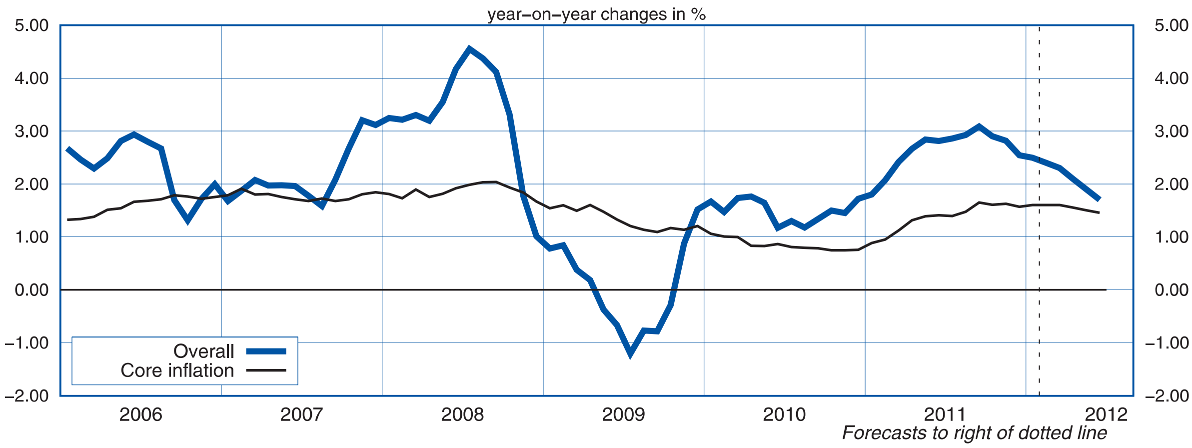
Yet in early 2012, the business tendency surveys show an improvement in the business climate, notably because financial tensions have eased distinctly. The low point in the world economic outlook cycle would therefore seem to have been reached at the end of 2011. In H1 2012, activity should accelerate in the advanced economies (+0.3% in Q1 then +0.4% in Q2). Domestic demand should buoy up activity in the United States, Japan and, to a lesser extent, the United Kingdom. Conversely, activity in the Eurozone should fall back for the second consecutive quarter in Q1 2012 (-0.1%) due to weak domestic demand. Only the upturn in world trade should enable the Eurozone to emerge from the recession through to the time horizon of the forecast (+0.1%).

In the emerging economies, tighter monetary policies have borne fruit and inflation has been falling for several months. Through to the time horizon of the forecast, the easing of economic policy started in Q4 2011 should continue to boost domestic demand in these economies and their trade surpluses should narrow. In H1 2012, the emerging countries should grow at a slower rate than their long-term trend.

Easing financial tensions in the North, possible easing monetary policies in the South

In the Eurozone, tensions on financial markets have eased distinctly since the beginning of 2012, thanks to the unprecedented 3-year lending programme to financial institutions implemented by the European Central Bank in December 2011. Risk premiums on interbank markets have therefore fallen markedly, as have borrowing rates for the States that were hardest hit by last summer's crisis, such as Italy or Spain. However, tensions on financial markets have worked their way through into the financing terms for private agents: lending terms have tightened in most countries in the Eurozone. In parallel, demand for credit is distinctly down, due to the collapse in economic perspectives

1 - Inflation should ease in the advanced economies



Source: National Statistical Institutes, INSEE calculations

In the United States, US Treasury bond rates are still at exceptionally low levels and financing terms for companies remain highly favourable. Demand for credit is up for corporations and households alike. Public and private debt is nonetheless at very high levels.

The main central banks in the developed countries have reduced room for manoeuvre as their base rates are close to the floor. They should therefore continue in coming months to make use primarily of "unconventional" instruments.

In the emerging countries, certain central banks have already eased their monetary policies after the marked slowdown in activity in H2 2011 and the clear fall in inflation. Monetary authorities are likely to pursue this policy of easing monetary conditions in H1 2012 and thereby facilitate access to credit.

Fiscal policies still varied

In the United States, current transfers have no longer been contributing to the progression in household income for several quarters now. The votes in Congress at the end of December 2011 and in mid-February 2012 avoided a brutal fiscal shock, however, and withdrawal of the measures should continue very gradually in 2012. The consolidation of public budgets that has been going on for a year now, notably on the local level, should continue, but as the bulk of the adjustment has now been made, it should weigh down less heavily on activity.

In Japan, four reconstruction plans have been passed for a total of 18,500 billion Yen (3.8 points of GDP). This fiscal stimulus should boost the upturn in Japan, which should drive growth throughout Asia.

In Europe, however, the trend in public finances for 2012 is very much restrictive. In most countries, new fiscal consolidation measures come into force in 2012 and should weigh down notably on household purchasing power. In Spain, Italy and France, for example, purchasing power should fall in H1 2012 (-2.5%, -1.9% and -0.3% respectively). Only Germany is financing measures to boost purchasing power in the form of reductions in employee contributions, as retirement pension systems there are showing a surplus.

Headline inflation should slip back despite tensions surrounding the oil price

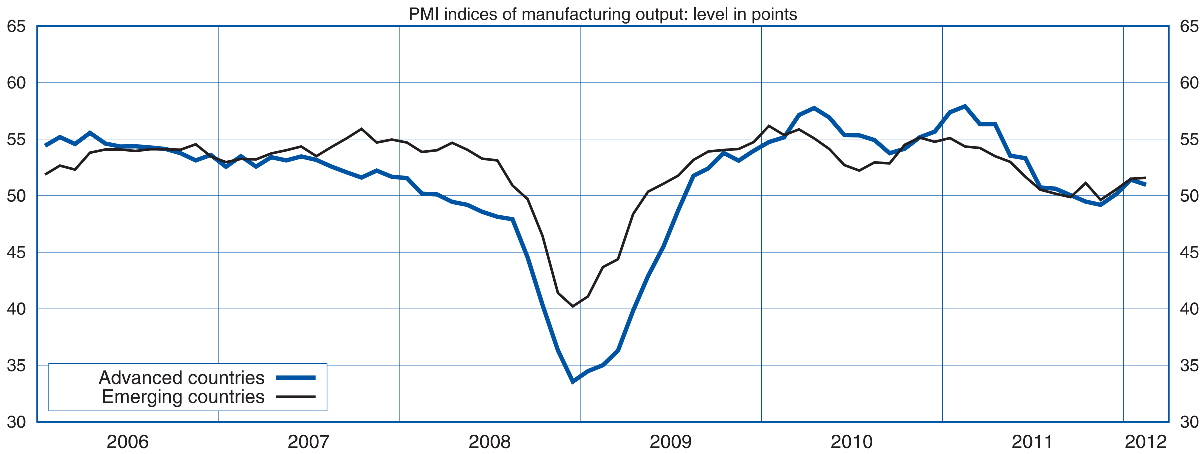
From summer 2010, inflation increased sharply in the advanced economies, in the wake of the upturn in international commodity prices: from 1.3% in Q3 2010 to 3.0% in Q3 2011 (see *Graph 1*). Since then, inflation has eased quickly, thanks to the fall in commodity prices between April and December 2011.

Through to the time horizon of the forecast, the increase in tension on the oil market is likely to affect energy prices. But the price rises recorded in early 2012 should be less sharp than those in early 2011 and inflation should therefore continue to fall back all the same. All in all, in Q1 2012, inflation in the advanced economies expressed year on year should stand at 2.4%, against 2.8% in Q4 2011. By mid-2012 it should be 1.9%.

The emerging economies should accelerate slightly

H2 2011 was marked by a clear slowdown in world activity. In the emerging economies, the central banks tightened their monetary policies and

2 - The outlook has improved since November 2011



Sources: Markit and INSEE calculations governments cut their deficits, contributing to the slowdown in these economies, notably in Q3. In Q4 2011, activity in the emerging countries would appear to have accelerated slightly, although at growth rates below the averages observed prior to the crisis. Through to the time horizon of the forecast, the emerging countries should profit from more moderate inflation to ease their monetary and fiscal policies and buoy up domestic demand. Activity should continue to improve, but is likely to grow more slowly than before the crisis.

The business climate has been improving since November 2011 in the advanced economies...

In the advanced economies, except for the United States and France, activity contracted in Q4 2011. But since November, the overall outlook in all these economies has improved slightly (*see Graph 2*). In the manufacturing industry of the advanced countries, entrepreneurs are indeed reporting a timid upturn in activity, with the PMI index returning to the expansion zone. The climate in services is much more positive, meanwhile.

The advanced economies are set to accelerate in H1 2012: they should grow by 0.3% in Q1 then by 0.4% in Q2 (*see Table*). Growth in the advanced countries as a whole should be driven by demand from the emerging countries and world trade should make a positive contribution to growth in the developed world. Domestic demand should see some dynamism restored, too. In particular, investment should accelerate in the United States and, to a lesser extent, in the United Kingdom and should remain dynamic in Japan: businesses are likely to increase their production capacities to cope with improving prospects.

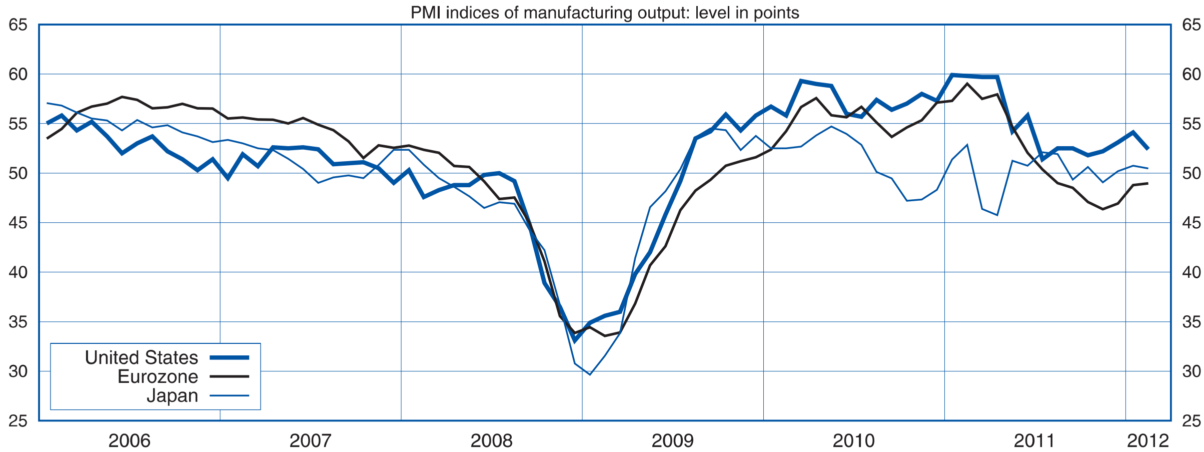
... but the Eurozone likely to lag behind

This overall acceleration hides very different outlook situations (*see Graph 3*). Contrary to the other advanced countries, activity accelerated in the United States in Q4 2011 and should remain dynamic in H1 2012, driven by domestic demand. Likewise, Japanese domestic demand should be buoyed by the reconstruction effort. In contrast, domestic demand should continue to slip in the Eurozone which should be technically in recession in Q1 2012, with two successive quarters of falling GDP. With the tighter lending terms observed at the end of 2011, investment should fall back again, while household consumption should fall due to the decline in purchasing power. European activity should rise again in Q2 2012, thanks to demand from the emerging countries, the United States and Japan, and the upturn in German domestic demand. In the United Kingdom, business tendency surveys at the start of the year report a rebound in activity as soon as Q1 2012 and the country should avoid recession.

World demand for French products should be slightly up

In Q4 2011, world trade decelerated, although continuing to expand slightly (+0.3% after +1.4%), as forecast in December. Exports from the advanced economies benefited from dynamic demand from the emerging countries. Demand fell back considerably in the Eurozone, however.

3 - The Eurozone continues to lag behind

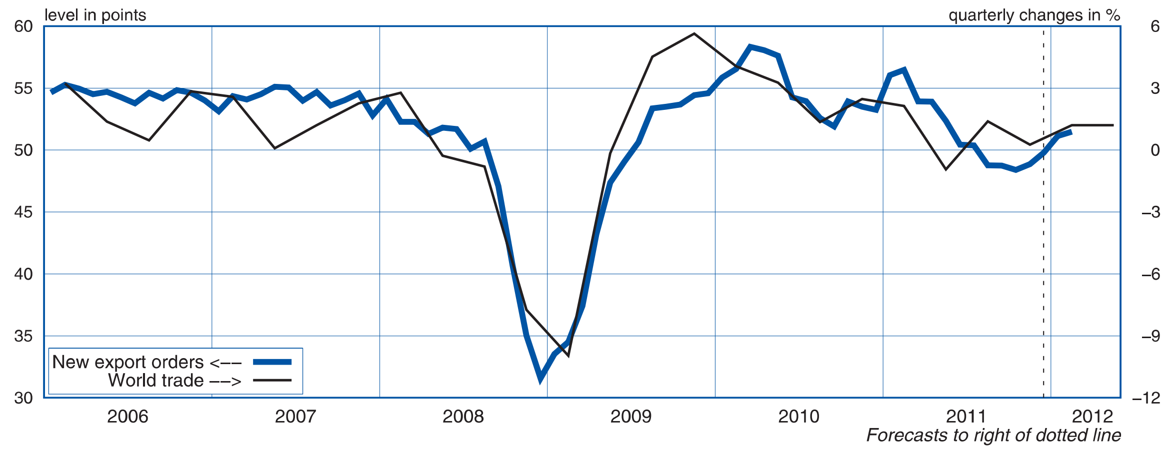


Sources: Markit

In the purchasing manager surveys (PMI), the new export order components suggest an acceleration in world trade in H1 2012 *(see Graph 4)*. The trends in the different geographic regions should be contrasted, however. In Japan and the United States, domestic demand should be sustained and imports should continue to progress. In Europe, activity is set to remain depressed and imports should continue their fall in Q1 2012, before progressing very modestly in Q2. The emerging economies as a whole should import more than they export and thus make a positive contribution to net demand for products from the advanced economies. In H1 2012, would trade should accelerate (+1.2% per quarter), although remaining below its medium-term growth rate (+1.7% per quarter).

Affected by the fall in European demand, world demand for French products is likely to be less dynamic than world trade as a whole. In Q1 2012, demand for French products should thus increase by 0.3%. With the slight increase in activity in the Eurozone, it should progress a little more rapidly in Q2 (+0.5%). ■

4 - World trade should rebound



Sources: Markit, Centraal PlanBureau

Industrialized countries: consolidated supply and use table

in real terms

	Quarterly changes in %										Annual changes in %		
	2010				**2011**				**2012**		**2010**	**2011**	**2012 ovhg**
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**			
GDP	**0.8**	**1.0**	**0.6**	**0.3**	**0.1**	**0.2**	**0.5**	**0.2**	**0.3**	**0.4**	**2.7**	**1.3**	**1.1**
Private consumption	0.5	0.5	0.5	0.5	0.1	0.0	0.4	0.2	0.2	0.2	1.7	1.1	0.7
Public consumption	-0.3	0.8	0.2	-0.3	-0.6	0.1	-0.1	-0.5	-0.2	-0.1	0.9	-0.7	-0.6
Investment	0.4	2.7	1.3	0.4	0.6	1.2	1.3	0.4	1.1	1.3	1.2	3.6	3.5
Exports	2.8	3.8	2.0	1.6	1.4	-0.2	2.1	0.1	1.1	1.1	12.8	5.5	3.0
Imports	3.1	4.7	2.4	0.3	1.2	0.3	0.8	0.2	0.8	1.0	11.0	4.4	2.2
Contributions to GDP growth													
Domestic demand excluding inventories	*0.3*	*0.9*	*0.4*	*0.3*	*0.0*	*0.2*	*0.4*	*0.1*	*0.2*	*0.3*	*1.4*	*1.1*	*0.8*
Inventories	*0.6*	*0.2*	*0.2*	*-0.2*	*-0.1*	*0.0*	*-0.1*	*0.0*	*0.0*	*0.0*	*1.0*	*-0.1*	*0.0*
Net exports	*-0.1*	*-0.1*	*-0.1*	*0.2*	*0.1*	*0.0*	*0.2*	*0.0*	*0.1*	*0.1*	*0.2*	*0.3*	*0.3*

Forecast

Sources: National statistical institutes; IMF; INSEE calculations and forecasts

Foreign trade

Despite the fall in demand in the Eurozone, French exports were very dynamic in Q4 2011, driven by exceptional levels of aeronautic equipment sales. In early 2012, demand for French exports should increase: although this demand should continue to fall in Italy and Spain, trade should remain buoyant outside the Eurozone. In addition to this, the recent fall in the value of the Euro should boost exports which should progress by +0.6% in Q1 and Q2 2012. At the end of H1, the growth overhang in exports of goods and services should be +2.7% for the 2012, after +5.0% in 2011.

After a marked fall in Q4, imports should rise again in H1 2012, buoyed up by the rise in exports[(1)] and domestic demand which should gradually become firmer. The growth overhang in imports of goods and services at the end of H1 should stand at +0.3% for the 2012, after +5.0% in 2011.

All in all, the contribution of foreign trade to growth should be zero in H1 2012. It was clearly positive in Q4 2011 but slightly negative over 2011 as a whole (-0.1 point).

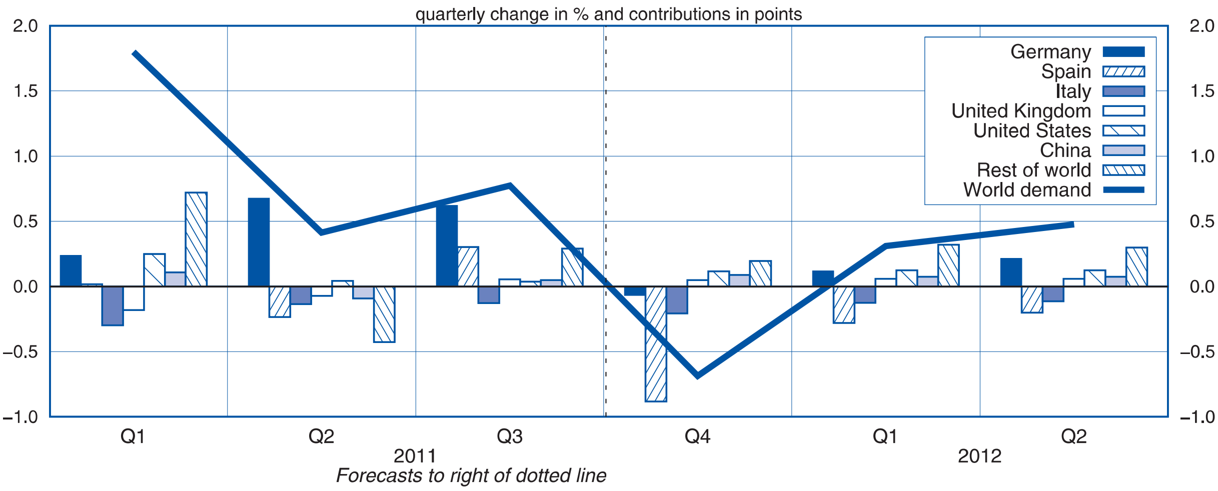
In early 2012, exports set to be driven by demand from countries outside the Eurozone

In Q4 2011, French exports of goods and services remained dynamic (+1.2%, *see Table*). Exports of agricultural products surged (+9.4%) and exports of manufactured goods progressed strongly (+1.5%): this rise is entirely explained by that in transport equipment exports (+7.9%) linked with very strong growth in deliveries by the aeronautics and space industry to the countries of Asia, Africa and America. For these reasons, despite the slowdown in world trade as a whole (+0.3% after +1.4%) and the fall in demand from the Eurozone in particular *(see Graph 1)*, French exports grew whereas German, Italian and Spanish exports fell.

In early 2012, exports should slow down (+0.6% in Q1 and Q2). Aeronautics and space exports are unlikely to maintain the same growth rate observed at the end of 2011, but should stay at a high level. French exports should benefit on the whole from the effects of the depreciation of the Euro at the end of 2011 and beginning of 2012, which has a positive effect on price competitiveness

(1) Via the import content of exports

1 - World demand for French products and contributions of the main trading partners



Source: INSEE, Centraal Plan Bureau

(*see Graph 2*). World demand for French products should be driven by demand from emerging countries and the United States, but its growth should trail behind that for world trade as a whole (*see Graph 3*), due to geographical factors: the economic situation still remains difficult in Italy and Spain, major trading partners for France, and this should continue to hold demand for French products back significantly.

Exports of services, which progressed constantly throughout 2011, should continue to grow moderately until mid-2012. Sales of agricultural products should be stable in H1. Exports of energy products should continue their fall in Q1 before levelling out in Q2.

All in all, after a Q4 2011 marked by exceptional factors, exports should maintain a certain dynamism in early 2012. In mid-2012, the growth overhang in exports should stand at +2.7%, after +5.0% in 2011.

Imports should rebound in H1 2012

In Q4 2011, manufacturing imports fell (-1.6% after +0.7%) despite buoyant exports, domestic demand and industrial output. This fall affected all manufactured products. The falls in purchases of chemicals and metal products made a contribution of -0.4 point each to the decline in manufacturing imports excluding military equipment (-1.3%) in Q4 2011 (Customs data, seasonally adjusted, by value).

This fall went hand in hand with a strong tendency to reduce inventory in the sectors of capital goods, transport equipment and other industrial goods (*see "Corporate investment and inventory" note*).

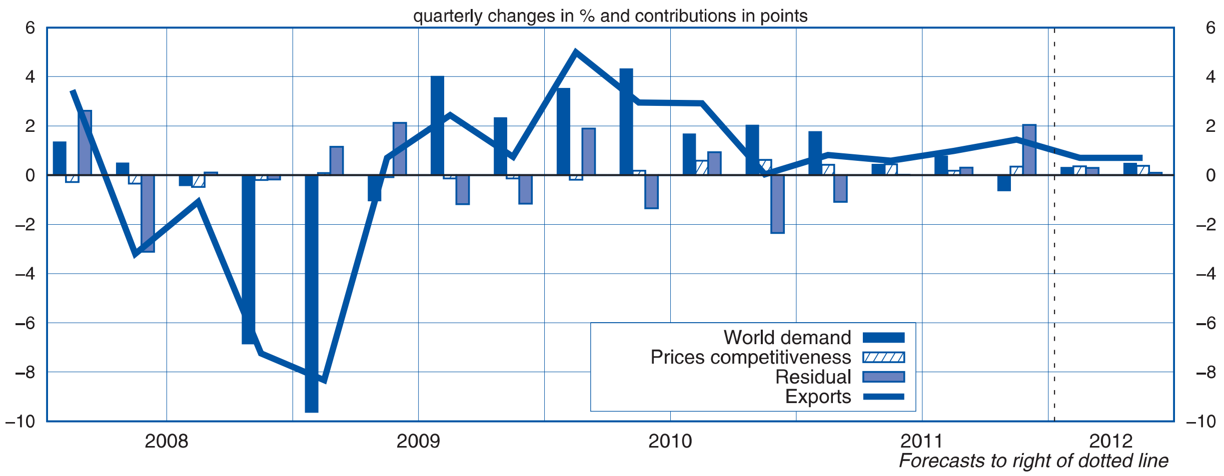
Imports of manufactured goods should rebound in H1 2012, returning to a trend closer to that in domestic demand and exports. They should therefore progress by +0.6% in Q1 2012, before accelerating (+0.9%) as activity becomes stronger (*see Graph 4*).

Energy imports are likely to continue progressing in Q1, driven notably by high demand during the cold spell in February, before levelling out. Purchases of agricultural products should be stable. Imports of services, which have fallen for the last two quarters, should gradually level out.

In 2012, the growth overhang for total imports of goods and services should be +0.3%, after +5.0% in 2011.

The contribution of foreign trade to growth in GDP was clearly positive in Q4 2011 (+0.7 point), but slightly negative over the year as a whole (-0.1 point). It should be zero over H1 2012. ■

2 - Exports of manufactured goods and econometric contributions



Source: INSEE

Foreign trade growth forecast

Changes in % to the chained prices of the previous year, contributions in points

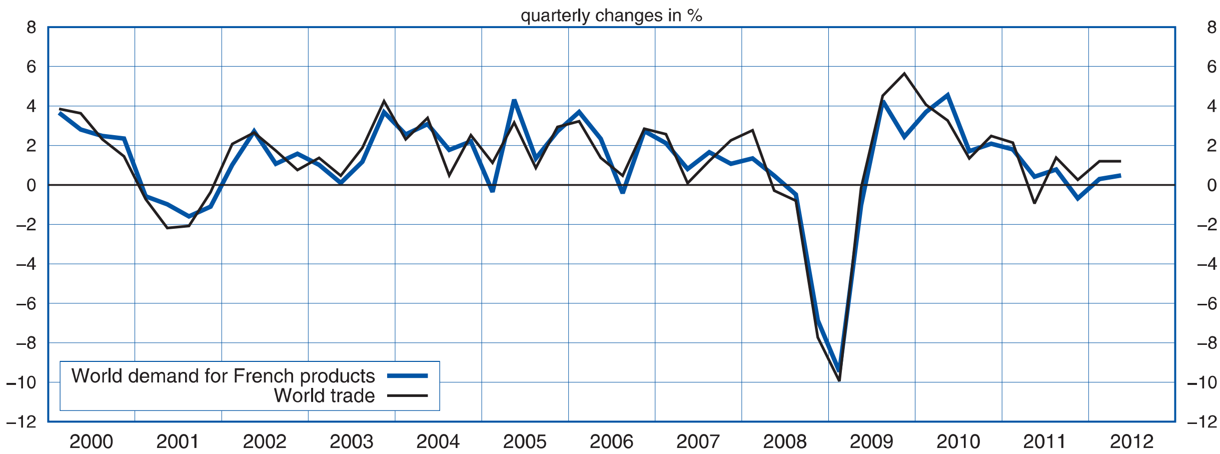
	Quarterly changes						Annual means	
	2011				2012		2011	2012 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2		
Exports								
All goods and services	1.4	0.7	1.2	1.2	0.6	0.6	5.0	2.7
Non-energy industrial goods (75%*)	0.8	0.6	1.0	1.5	0.7	0.7	4.4	3.0
Imports								
All goods and services	2.8	-1.0	0.7	-1.2	0.6	0.6	5.0	0.3
Non-energy industrial goods (76%)	2.8	-0.7	0.4	-1.6	0.6	0.9	5.8	0.0
Contribution of foreign trade to GDP	**-0.5**	**0.5**	**0.1**	**0.7**	**0.0**	**0.0**	**-0.1**	**0.7**

Forecast

* Part of exports (resp. imports) of non-energy industrial goods in exports (resp. imports) in a whole in 2011.

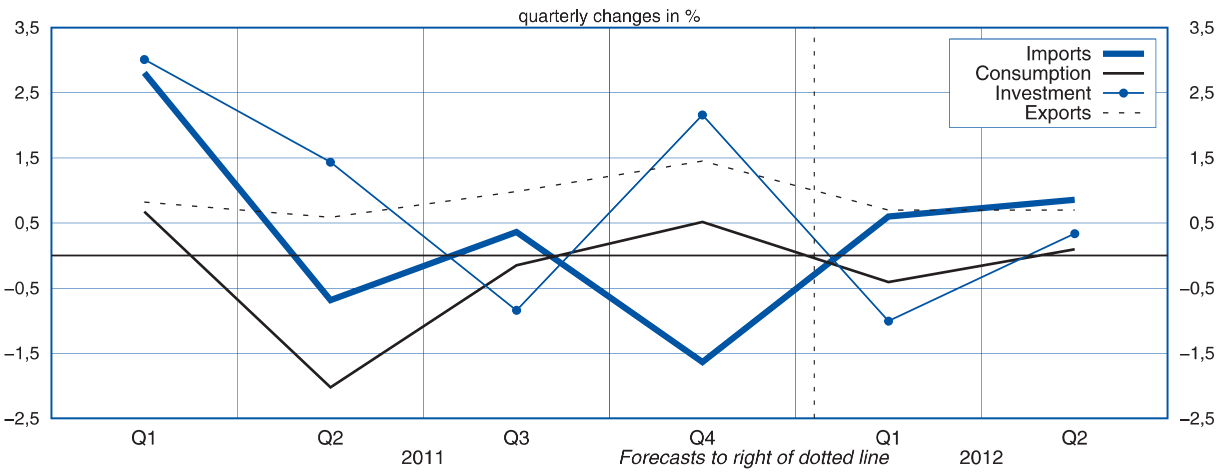
Source: INSEE

3 - World demand for french product and world trade



Source: INSEE, Centraal Plan Bureau

4 - Imports and components of french demand for manufacturing products



Source: INSEE

Oil and raw materials

Through to mid-2012, the price of oil is set to remain at high levels, fluctuating around $120 a barrel of Brent. Yet the market should show a large surplus: supply should increase, driven by the rapid resumption of Libyan output, while demand for oil should fall sharply as winter ends in an economic situation that remains in the dumps in Europe. In time, this excess of supply should lead to a fall in prices, although geopolitical tensions with Iran and also in Nigeria and Sudan are currently keeping oil prices high (see graph 1).

The fall in the price of non-energy commodities came to a halt at the beginning of 2012. Prices of industrial commodities are rising sharply, as is also the case for cereals with February's wave of cold weather raising fears of mediocre harvests in Europe.

In H1 2012, weak activity in Europe should aggravate the seasonal fall in demand

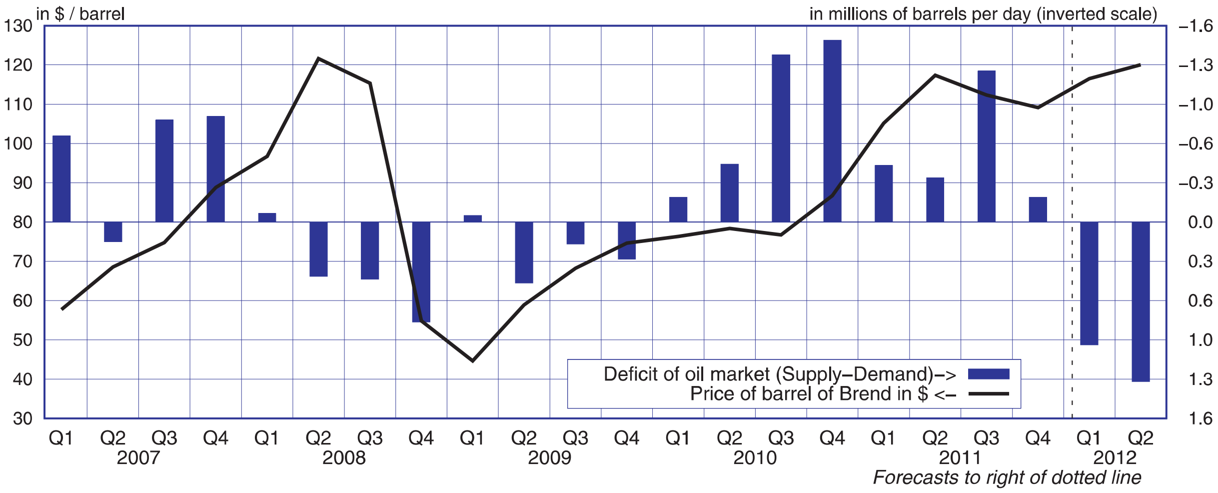
In H1 2012, world demand for oil is set to fall back considerably (by 700,000 barrels per day or bpd in Q1 then by 400,000 bpd in Q2); it should stand at an average of 89 million bpd. The advanced economies are likely to account for almost the whole of this drop.

European demand slipped sharply in Q4 (-600,000 bpd), an unusual phenomenon at this time of year. This decrease was linked with milder temperatures than usual and the slowdown in activity. It is likely to continue in Q1 2012, due to weak activity, despite the cold temperatures in February. European demand should thus reach its lowest level in 20 years. In Q2 2012, it should fall further, but more moderately: the seasonal drop in oil consumption at the end of the winter should be attenuated by the upturn in activity. American demand should also be sluggish. At the beginning of Q1, it reached its lowest level in 3 years *(see graph 2)*. Conversely, in the emerging economies, notably China, demand should remain buoyant.

Supply still robust should lead to an oil market surplus

In Q4 2011, world oil supply increased very sharply (+1.3 million bpd), thanks notably to the rapid resumption of Libyan output which rose from 75,000 bpd in September to 750,000 bpd in December, thus returning to half its pre-revolution

1 - Through to mid-2012, geopolitical risks should buoy up oil prices despite the easing of the physical market



Sources: AIE, Financial Times, and INSEE calculations and forecasts level. In early 2012, Libyan production should continue to grow but at a less sustained rate than at the end of 2011. Production in Saudi Arabia, which had increased to offset the loss of Libyan crude, should return progressively to its former level. On the whole, OPEC supply should thus continue to progress in Q1 2012, before falling back in Q2 2012.

All in all, in H1 2012, oil supply should remain robust. The oil market should thus show a clear surplus (of 1 million bpd on average), a situation not seen since the 2008 crisis.

In a context of geopolitical tensions, the price of oil should remain at a high level

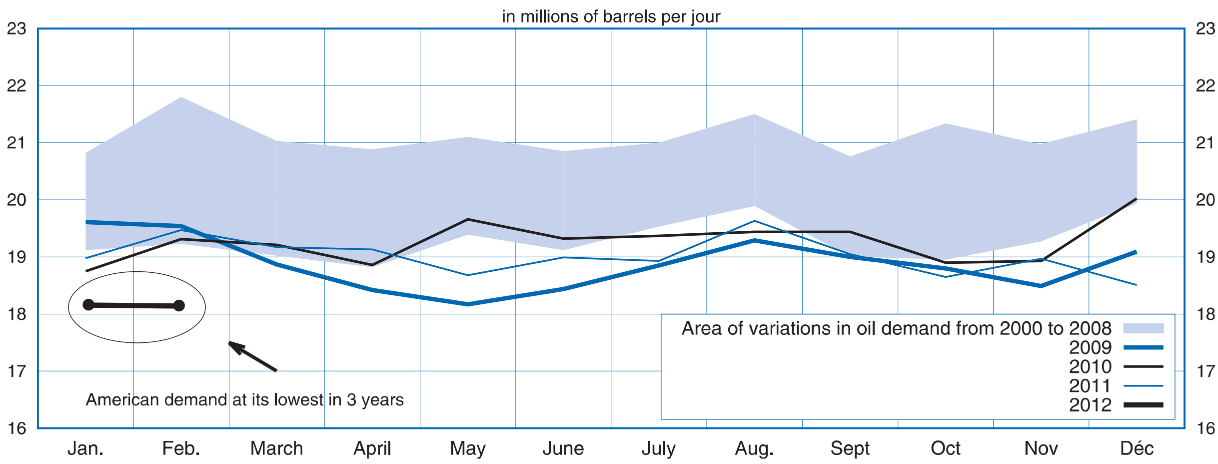
Despite the easing in the tensions on the physical market, oil prices are up again in early 2012, against a backdrop of geopolitical tensions. Crude prices progressed by 3.1% in January and by 6.1% in February, exceeding the $120 mark at the end of February. In particular, the oil embargo and economic sanctions decided by the European Union revived tensions with Iran. The country is threatening to close the Strait of Hormuz through which over one-third of world maritime oil traffic passes. Tensions are also high in Nigeria and Sudan. Between them, these countries produce almost 6 million bpd, or about 7% of world supply.

Through to mid-2012, the oil price should remain at this high level, fluctuating around $120 per barrel of Brent. Excess supply on the oil market should gradually bring prices down, but in the short term, fears surrounding supply should continue to buoy prices up and the geopolitical hazards are particularly great.

Commodity prices on the rise again

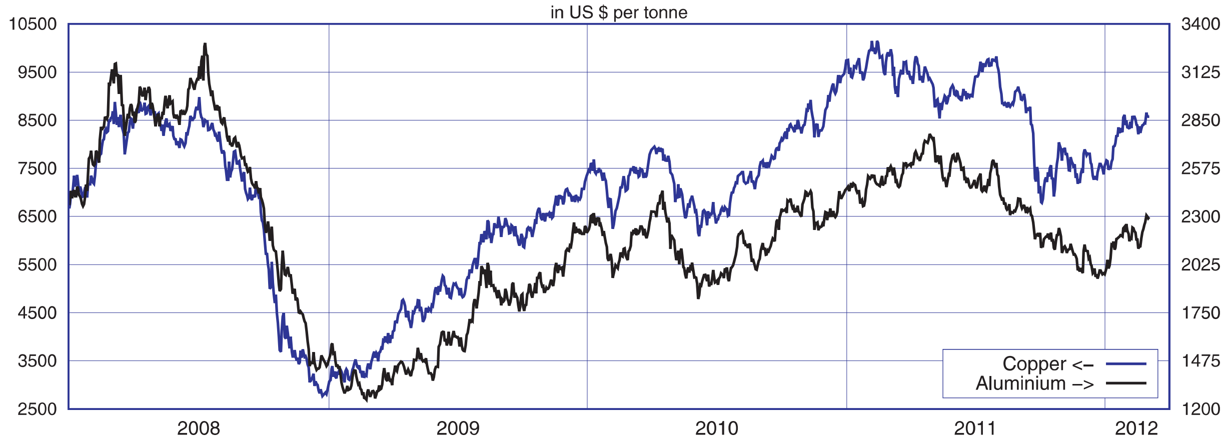
After falling sharply in H2 2011, commodity prices are on the up again in early 2012. Regarding industrial commodities (*see Graph 3*), the growth overhang at the end of February in copper prices was +10.1% on Q4. Likewise, aluminium was up 4.4%. Concerning food commodities, wheat prices are buoyed up by fears surrounding harvests after the late cold snap that hit Europe and Russia. At the end of February 2012, they are already up 4.2% on Q4 2011. This rise has been passed on to prices of corn (+2.6%), a cereal that can be a partial substitute for wheat. The prices of cereals still remain lower than those observed in H1 2011 (*see graph 4*). ■

2 - American demand at its lowest in 3 years



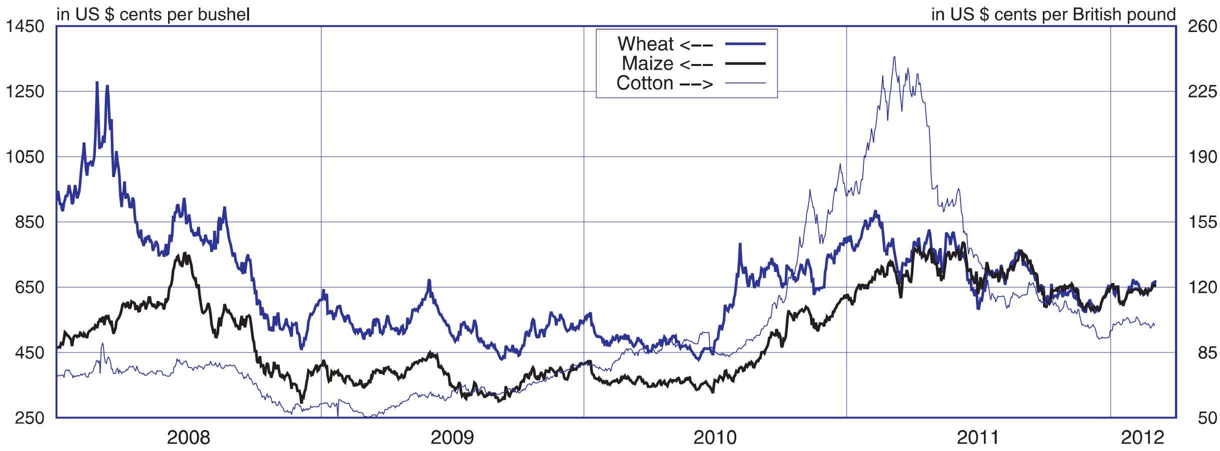
Source: Department of Energy (DoE)

3 - Prices of industrials metals



Source: London Metal Market

4 - Prices of food and agro-industrial commodities



Source: Public ledger and Chicagos and Liverpool markets

Consumer prices

Headline inflation stood at 2.3% in February 2012. It should slip back slightly through to the time horizon of the forecast (2.2% in June). Given current geopolitical tensions, oil prices should remain at a high level until summer 2012 and inflation in energy products should barely decline.

Through to June 2012, core inflation should level out at 1.4% year on year. High unemployment should continue to limit inflationary pressures. Year-on-year change in the prices of manufactured goods should rise through to mid-2012, nonetheless, after falling sharply at the start of the year, notably in clothing-footwear. Food prices should slow down under the effect of the stabilisation and then fall at the end of 2011 in imported food commodity prices.

Slight fall in inflation

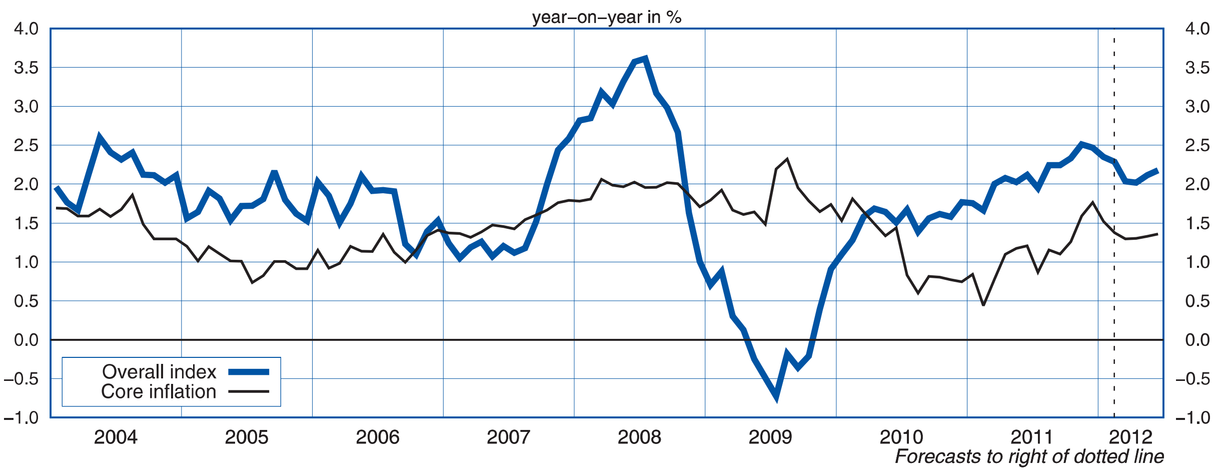
"Core" inflation is measured by taking energy prices, seasonal food products and public prices out of the headline index and correcting for any fiscal measures, such as the rise in VAT in January 2012. Through to mid-2012, core inflation should level out at 1.4% (see *Graph 1*). In a context of high unemployment, employees' bargaining power tends to weaken, which holds back wages and eases the inflationary pressures that can be generated by rises in world commodity prices. Changes in the different items of core inflation are contrasted, however: inflation in food prices should fall back, while inflation in manufactured goods should increase, mainly due to clothing-footwear which increased exceptionally strongly in January 2012.

Headline inflation should slip slightly in H1 2012. After peaking at 2.5% in December 2011, it should fall back in Q1, down to 2.0% in March 2012, then rise again to 2.2% in June 2012. This trend would seem to be the result of the energy inflation profile (see *Below*). Also, the increase in the reduced VAT rate, from 5.5% to 7% in January 2012, should contribute 0.1 point to headline inflation through to June 2012.

Energy inflation set to be almost stable

After reaching a peak at 15.3% in March 2011, year-on-year change in energy prices fell back to 7.8% in February 2012, in the wake of the fall in oil prices between April and December 2011. Since January 2012, the oil price has been on a clear upward trend (see "*Oil and raw materials*" *note*); if it should stabilise (at $120 a barrel) it would stand on average at €88.9 in Q1 and at €90.9 in Q2 2012,

1 - Consumer prices in France



Source: INSEE

after €81 in Q4 2011. This rise is likely to be passed on to energy prices, although it should remain smaller than that observed at the start of 2011 (+€13 between Q4 2010 and Q1 2011) and year-on-year change in energy prices should therefore continue to fall through to the end of Q1 2012. Energy inflation should stand at +6.1% in March and then reach 7.9% in June 2012.

Inflation in manufactured goods set to rise again

Year-on-year change in manufactured goods prices was very low in January 2012 (+0.6%) and should rise to 0.8% in June *(see Table)*. In January's winter sales, the price reductions on clothing-shoes were automatically very pronounced due to the application of a new European regulation on the statistical treatment of seasonal product prices. This seasonal effect should fade in coming months and year-on-year change in manufactured products should increase through to mid-2012. However, the low level of production capacity utilisation rates should moderate inflationary pressures in the manufacturing sector. Year-on-year change in the prices of manufactured goods should therefore remain at a lower level in June 2012 than that in December 2011.

Inflation in services likely to be stable

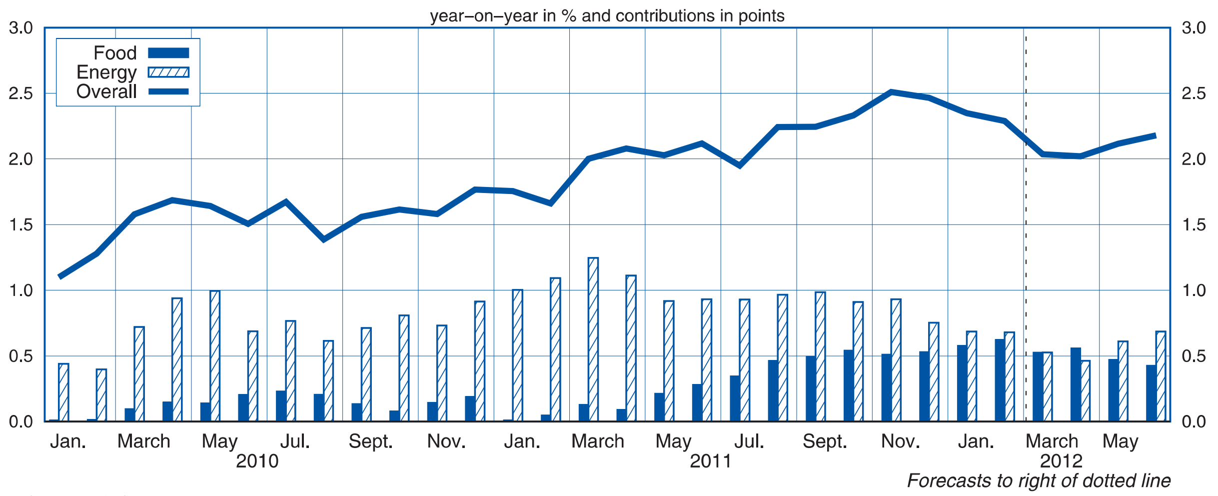
Year-on-year change in prices of services fell in February 2012 to 1.6%. It should still be at this level in June 2012 *(see Table)*. The rise in the reduced VAT rate on 1st January 2012, part of which was passed on in January and February, should contribute about 0.2 point to service price inflation in mid-2012. Telecommunications prices, however, fell sharply in January and February and should continue to fall through to June 2012. For the rest, the prices of services are likely to follow the seasonal trends, with a rise in June due notably to accommodation and air transport prices.

Slowdown in food product prices

In food, the rise in imported commodities in early 2011 caused an increase in consumer prices throughout the year, but the effect of that shock on prices is coming to an end; the stabilisation and recent fall in commodity prices should therefore result in a slowdown in food prices in H1 2012. Year-on-year, their rise should ease from March 2012 onwards, from 3.8% in February 2012 to 2.6% in June *(see Table)*.

Year-on-year change in seasonal produce should stabilise at 0.2% in June 2012. In February 2012, winter temperatures disrupted some production and pushed seasonal product prices upwards. Moving on, the prices of these products should return to their usual seasonal profile. ■

2 - Inflation in France: contributions of the most volatile items



Source: INSEE

Consumer prices

changes as %

CPI* groups (2012 weightings)	December 2011		February 2012		March 2012		June 2012		Annual averages	
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	2010	2011
Food (16.4%)	**3,3**	**0,5**	**3,8**	**0,6**	**3,2**	**0,5**	**2,6**	**0,4**	**0,8**	**1,9**
including seasonal food products (2.1%)	*-1,7*	*0,0*	*0,2*	*0,0*	*-1,1*	*0,0*	*0,2*	*0,0*	*7,6*	*-1,2*
excluding seasonal food products(14.3%)	*4,1*	*0,6*	*4,4*	*0,6*	*3,9*	*0,6*	*3,0*	*0,4*	*-0,1*	*2,4*
Tobacco (2.0%)	**5,6**	**0,1**	**5,6**	**0,1**	**5,6**	**0,1**	**5,6**	**0,1**	**5,8**	**5,9**
Non energy industrial goods (29.9%)	**1,0**	**0,3**	**0,7**	**0,2**	**0,7**	**0,2**	**0,8**	**0,3**	**-0,1**	**0,1**
Energy (8.7%)	**9,3**	**0,8**	**7,8**	**0,7**	**6,1**	**0,5**	**7,9**	**0,7**	**10,0**	**12,3**
including oil products (5.2%)	*11,7*	*0,6*	*9,7*	*0,5*	*6,8*	*0,4*	*11,0*	*0,6*	*14,4*	*15,8*
Services (43.1%)	**1,8**	**0,8**	**1,6**	**0,7**	**1,5**	**0,6**	**1,6**	**0,7**	**1,4**	**1,7**
including:										
Rent-water (7.4%)	*1,8*	*0,1*	*2,0*	*0,1*	*2,1*	*0,2*	*1,9*	*0,1*	*1,8*	*1,8*
Hhealth services (5.3%)	*1,0*	*0,1*	*0,5*	*0,0*	*0,2*	*0,0*	*0,3*	*0,0*	*0,6*	*1,1*
Transport-communications (5.2%)	*-0,4*	*0,0*	*-3,4*	*-0,2*	*-3,8*	*-0,2*	*-3,0*	*-0,2*	*-0,3*	*-0,5*
Other services (25.2%)	*2,4*	*0,6*	*2,8*	*0,7*	*2,7*	*0,7*	*2,8*	*0,7*	*1,8*	*2,2*
All (100%)	**2,5**	**2,5**	**2,3**	**2,3**	**2,0**	**2,0**	**2,2**	**2,2**	**1,5**	**2,1**
All excluding energy (91.3%)	1,9	1,7	1,8	1,6	1,6	1,5	1,6	1,5	0,9	1,3
All excluding tobacco (98.0%)	2,4	2,4	2,2	2,2	2,0	1,9	2,1	2,1	1,5	2,1
"Core" inflation (61.0%)(1)	**1,8**	**1,1**	**1,4**	**0,8**	**1,3**	**0,8**	**1,4**	**0,8**	**1,1**	**1,1**
All HCPI*	**2,7**	**2,7**	**2,6**	**2,6**	**2,3**	**2,3**	**2,4**	**2,4**	**1,7**	**2,3**

Forecast

yoy : year-on-year
cyoy : contribution to the year-on-year value of the overall index

* Consumer price index (CPI) and harmonised consumer price index (HCPI).

(1) Index excludes public tariffs and products with volatile prices, corrected for tax measures.

Source: INSEE

Focus - The effect of the tax rise on prices in January 2012

On 1st January 2012, the reduced VAT rate was increased from 5.5% to 7%. This increase concerns 12.2% of consumer expenditure[1]. Indirect taxes on alcoholic beverages also increased: this rise concerns 1.6% of consumption. Finally, a new tax now applies to sweetened beverages (0.2% of total consumption). These fiscal changes only concern products sold in Metropolitan France.

Visible price rises observed on some products in January

The consumer price index (CPI) is a tax-inclusive index which includes indirect taxes. In January, the impact of the change in legislation was visible on some products which showed what would seem to have been unusual increases as compared to price trends in recent years. This was the case notably for the "restaurants and café" and "sodas, juices and cordials" groups of products *(see Graph 1)*.

In the former group, "restaurants and cafés", the VAT rate was increased from 5.5% to 7% for most of the services in the group. The increase in prices observed in January 2012 by the CPI was +1.0% against December 2011. The theoretical effect of the rise in VAT, meaning the increase that would have resulted from the whole rise being passed on immediately, comes to 1.2% for this category of products[2].

For the "sodas, juices and cordials" group, the rise in indirect taxation is mainly linked to the introduction of the tax on sweetened beverages (natural sugar or sweeteners) of 7.16 Euro centimes per litre. This tax is not price-related and the amount of revenue therefore depends on the volumes that are consumed. In this group, there are also fruit juices without added sugar which are not subject to the new tax. The theoretical impact is estimated to be 3.4% for the "sodas, juices and cordials" group item, taking account of the respective weights of the different products in the group. The rise in prices observed in January 2012 over December 2011 was 1.9% for this item in the CPI.

About 40% of the rise passed on in prices in January 2012

The analysis of the way the increase in direct taxation was passed on in consumer prices takes account of all those items in the CPI that were affected by the tax change on 1st January 2012 and which fall within the scope of the core inflation index[3]. For this field, which is broader than that referred to previously, the theoretical price rise resulting from the full increase in the VAT rate being passed on in prices is 1.3%.

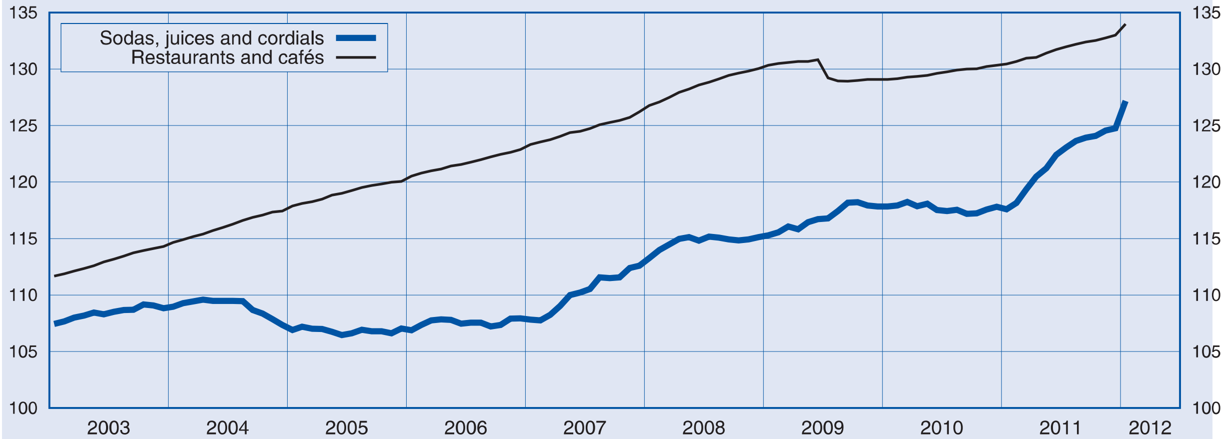
However, it is not enough merely to compare the rise in prices that is observed with the theoretical impact. It is more relevant to determine what the changes in prices would have been in the absence of any new legislation, because there might still have been a change anyway. This "counterfactual" baseline is calculated, for the field of products concerned, using a price forecasting model that reproduces past price dynamics[4].

This model can be used to simulate what the change in prices would have been in the absence of a change in taxation, and to compare this simulated inflation with the inflation actually observed. In the absence of a rise in taxation, the prices of these products would in fact have fallen, due to seasonal fac-

(1) For books, the rise in the reduced VAT rate will come into force on 1st April 2012. This item represents around 0.4% of household consumption.
(2) If the rise in prices were due to a rise in the reduced VAT rate from 5.5% to 7% on all the services in this group, the rise would be 1.4%. However, in this group, not all services are concerned by the increase.

(3) To be precise, the proportion of consumption covered here represents 14.4% of household consumer spending and covers 86% of the products in the CPI affected by a change in taxation on 1st January 2012 (the remaining 14% of these products are not in the core inflation index.
(4) ARIMA model based on the tax-inclusive index until December 2011 and enabling a forecast for January 2012 based on unchanged taxation.

1 - "Restaurants and cafés" and "sodas, juices and cordials" price indices



Source: INSEE, index consumer price

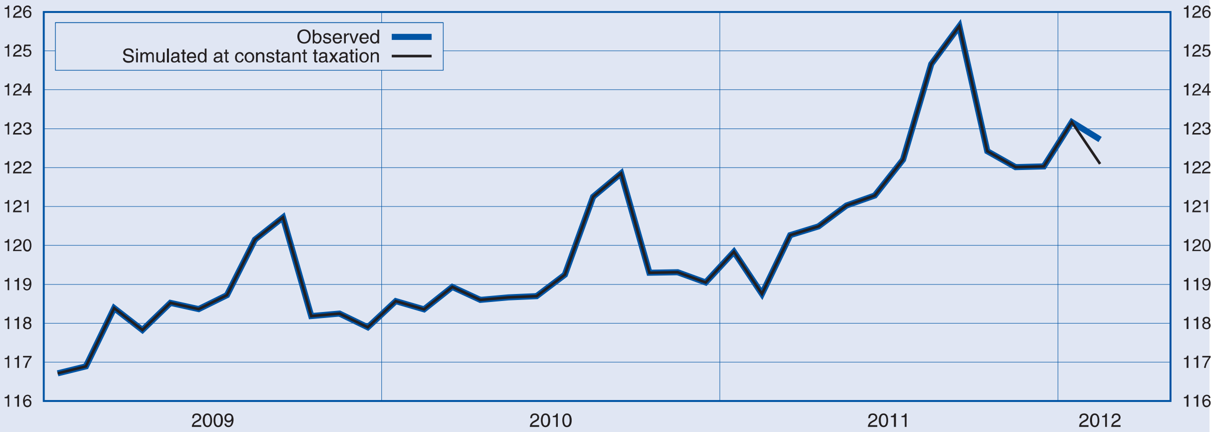
tors, by 0.9% in January (see *Graph 2*). However, the prices actually observed only fell by 0.4% in January. The difference of 0.5 points can be put down to the effect of the rise in reduced-rate VAT.

Therefore, around 40%[5] of the rise in indirect taxation would seem to have been passed on immediately in consumer prices in January. This should continue in coming months. In addition to this, there may have been some price rises by anticipation in December 2011: these are not taken into account here.

This figure is an order of magnitude, based as it is on the definition of a counterfactual baseline: what would the trajectory of the index have been if there had been no fiscal shock? In constructing this counterfactual baseline, the forecast that is made is by nature uncertain: due to this uncertainty, the measurement of the impact on prices of the change in legislation is itself uncertain[6]. ■

(5) Ratio of the difference in inflation to the theoretical impact 0.5/1.3 = 38%
(6) The standard deviation of the impact of the change in indirect taxation on prices is 21 percentage points

2 - Simulated prices at constant taxation and the prices observed on the products and services in the core inflation index concerned by the change in taxation



Note: the two curves refer to price indices for products and services in the core inflation index concerned by the change in taxation. The "simulated at constant taxation" index corresponds to the index without any fiscal change.

Source: INSEE, index consumer price

Employment

For the first time since H2 2009, employment in the non-agricultural market sectors dropped in H2 2011. The sharp contraction in temporary employment contributed significantly to this decline.

Through to mid-2012, the dip in employment in the market sectors is likely to continue: 49,000 jobs should be cut in H1 2012, after 54,000 in H2 2011.

In the non-market sectors, employment should rise once again, mainly thanks to the increase in the number of newcomers to the subsidised contract scheme: 33,000 non-market sector jobs should be created in this way by mid-2012.

All in all, job losses are set to continue in the market and non-market sectors in H1 2012, although to a far lesser extent than in H2 2011 (-18,000 jobs after -70,000).

Market sector employment set to slip back in early 2012

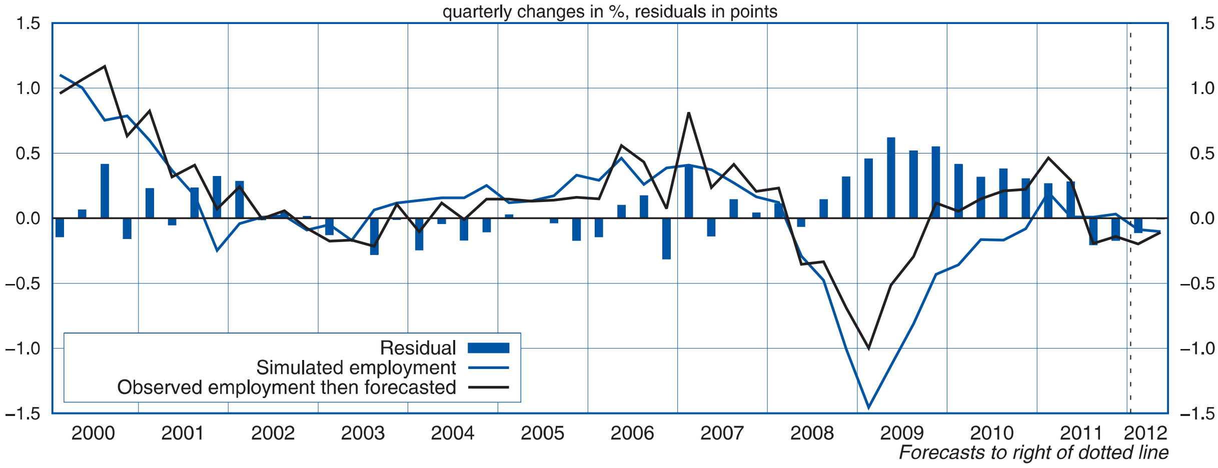
Paid employment in the non-agricultural market sector progressed in 2011, although less so than in 2010: 67,000 jobs were created against 102,000 the previous year. Employment was dynamic in H1 2011 (+121,000) before slipping back in H2 2011 (-54,000).

Market-sector employment held up surprisingly well during the crisis given the deterioration of activity, and was also unusually dynamic at the start of the recovery phase in early 2010. This favourable development lasted until mid-2011 *(see Graph 1)*, before reversing: in H2 2011, market sector employment slipped back further than the growth in activity had led observers to expect. Through to June 2012, the forecast assumes that employment will gradually return to a more habitual pattern. All in all, market-sector paid employment should decline in H1 2012 due to low levels of activity, and 49,000 jobs are likely to be cut. At mid-2012, market sector employment should be at its level of late 2010 *(see Graph 2)*.

The decline in employment worsening in industry

In H1 2011, and for the first time in 10 years, industry created employment (+5,000 jobs). With the slowdown in activity, industrial employment (excluding temporary work) fell back once again in

1- Employment observed in the non-agricultural market sector, simulated and residual



How to read it: The equation residual for employment is the spread between the observed employment growth rate and the simulated employment growth rate. A positive residual, such as that observed between Q3 2008 and Q2 2011, indicates that observed employment showed better growth than past behaviour would lead us to expect. Conversely, the negative residuals of Q3 and Q4 2011 seem to show that employment adjusted downwards more sharply than expected.

Source: INSEE

H2 2011 (-7,000 jobs) *(see Graph 3)*. These job losses are likely to intensify in H1 2012 (-31,000, or -0.9%).

The worsening situation in industrial employment looks even more marked when the number of temporary employees working on assignments in the sector is taken into account[1] .Whereas in Q1 2011 the rate of recourse to temporary employment in industry had returned to its pre-crisis level, at around 7% *(see Graph 4)*, it has since plummeted. The number of temporary workers in industry fell in Q2 2011 (-1,000 jobs) and this decline accelerated in H2 2011 (-20,000 workers). As is usually the case during economic downturns, the rate of recourse to temporary employment in industry should continue to drop in early 2012.

Drop in employment in construction

In the construction industry, the upturn in employment did not really happen. Job destructions continued throughout 2010 (-13,000 jobs over the year) while the other market sectors were starting to create jobs. In H1 2011, when activity in the sector was beginning to experience an upturn, employment remained on a downward spiral (-1,000 jobs over the half-year, or -0.1%). The decline in the construction workforce was sharper in H2 2011 (-11,000 jobs). This trend is set to continue in H1 2012 (-2,000 jobs)

Job cuts slowing in the tertiary sector

In H2 2011, employment in the tertiary sector saw 36,000 job losses, after several half-years of continual growth. This drop mainly stems from the decline in temporary work. Temporary employment, which is counted in the tertiary sector irrespective of the sector in which the assignments are performed, fell back by 34,000 jobs (-5.6%) during H2 2011. It registered strong growth in 2010 (+97,000 jobs) before slowing in H1 2011 (+12,000 jobs). The decline in temporary employment is set to continue in H1 2012, although at a more moderate rate (-10,000 jobs).

In the tertiary sector excluding temporary work, employment also slipped back at the end of 2011 (-2,000 in H2). The workforce should continue to drop in H1 2012 (-6,000). All in all, the decline in market-sector tertiary employment should be less marked in H1 2012 than at the end of 2011 (-16,000 jobs, or -0.1%).

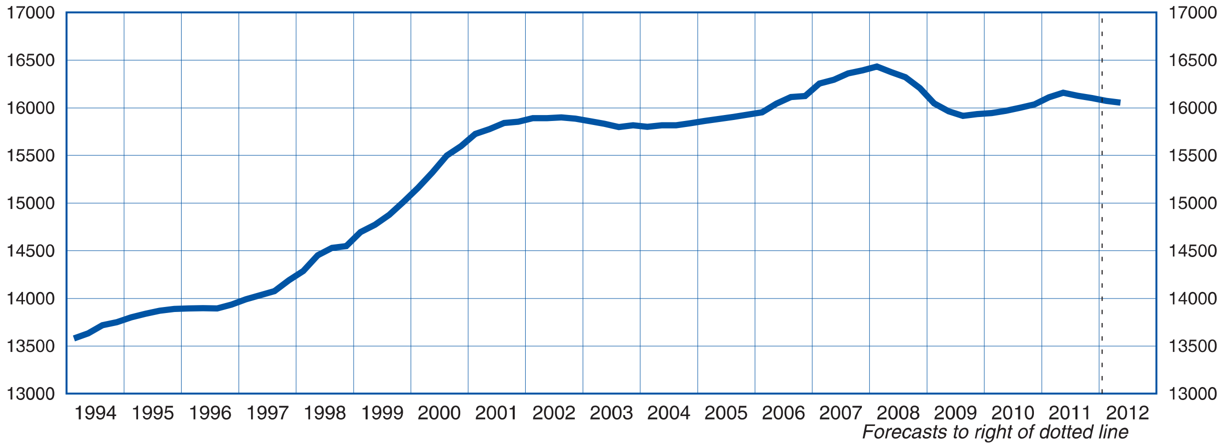
Rise in non-market employment thanks to subsidised jobs

In 2011, 18,000 jobs were lost in the non-market sector. This drop partially stems from the fall in the number of subsidised contracts (-53,000 contract beneficiaries in the non-market sector in 2011). The number of beneficiaries of all non-market sector subsidised contracts did indeed fall each half-year *(see Table 2)*.

The Finance Law for 2012 forecasts 311,000 newcomers to the subsidised contract scheme, after 347,000 observed in 2011 in Metropolitan France. These newcomers are likely to be concentrated in H1 2012 (206,000 newcomers

(1) In this sector-by-sector presentation of employment, in the same way as in the employment figures published by INSEE, temporary workers are counted in the tertiary sector even if they carry out their assignment in industry or construction *(see below)*.

2- Non-agricultural market paid employment

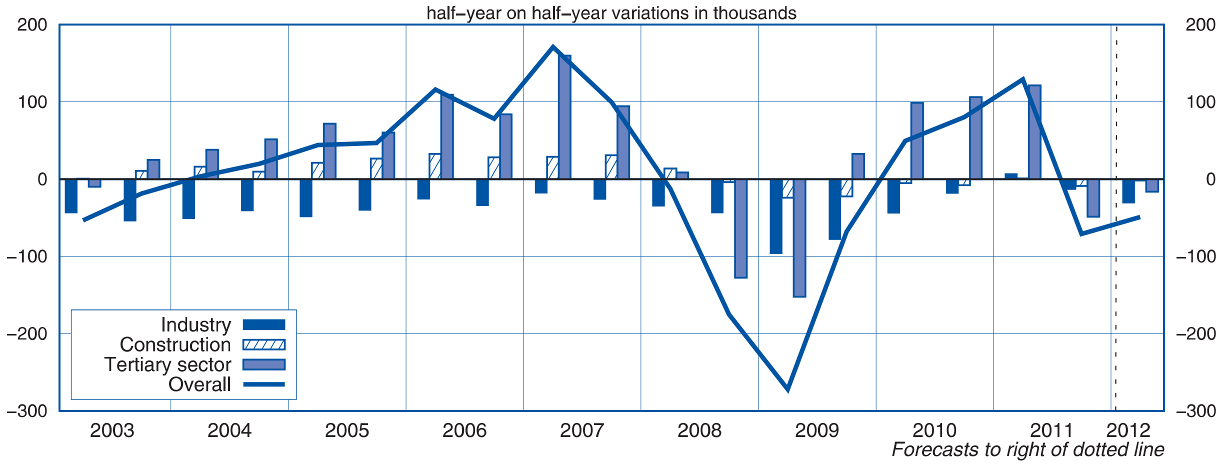


Source: INSEE

expected after 182,000 observed in H2 2011), thereby increasing the number of non-market beneficiaries through to mid-2012 (+29,000).

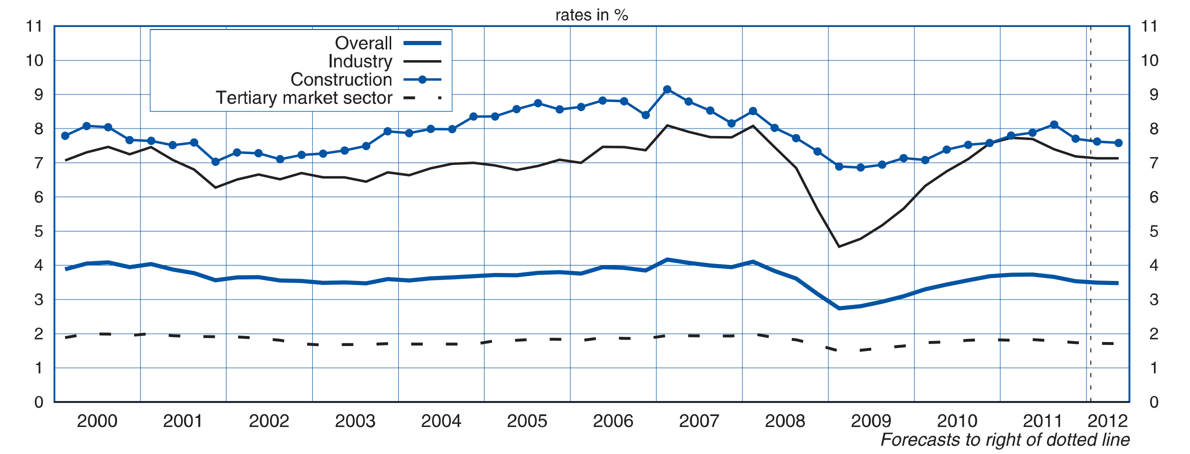
All in all, after a drop in H2 2011 (-14,000), non-market sector employment should rise once again in H1 2012 (+33,000). ■

3 - Changes in paidemployment in the non-agricultural market sectors



Source: INSEE

4 - Rate of use of temporary work in different sectors



Source: INSEE

Table 1

Change in employment

	Job creations over the period (in thousands) seasonally adjusted					Change in employment over the period (%) seasonally adjusted					Level of the end of the period (in thousands) seasonaly adjusted				
	2010	2011	2011 H1	2011 H2	2012 H1	2010	2011	2011 H1	2011 H2	2012 H1	2010	2011	2011 H1	2011 H2	2012 H1
Market sector employees (1)+(2)	148	80	133	-53	-31	0.8	0.4	0,7	-0.3	-0.2	17953	18033	18086	18033	18002
Mainly non-agricultural market sectors (1) (private establishments only)	47	13	12	1	18	2.5	0.7	0.6	0.1	0.9	1917	1930	1929	1930	1948
Mainly non-market sectors (2) including:	102	67	121	-54	-49	0.6	0.4	0.8	-0.3	-0.3	16036	16103	16157	16103	16054
Industry	-61	-2	5	-7	-31	-1.8	-0.1	0.1	-0.2	-0.9	3298	3296	3303	3296	3265
including:															
Manufacturing industry	*-64*	*-8*	*1*	*-9*	*-27*	*-2.1*	*-0.3*	*0.0*	*-0.3*	*-0.9*	*2933*	*2925*	*2934*	*2925*	*2898*
Construction	-13	-12	-1	-11	-2	-0.9	-0.8	-0.1	-0.8	-0.1	1449	1438	1449	1438	1436
Tertiary market sector	176	81	118	-36	-16	1.6	0.7	1.0	-0.3	-0.1	11289	11370	11406	11370	11354
including:															
Trade	*4*	*20*	*20*	*0*	*-2*	*0.1*	*0.7*	*0.7*	*0.0*	*-0.1*	*3005*	*3026*	*3025*	*3026*	*3024*
Market services (including temporary work)	*172*	*61*	*98*	*-37*	*-15*	*2.1*	*0.7*	*1.2*	*-0.4*	*-0.2*	*8283*	*8344*	*8381*	*8344*	*8330*

	Job creations over the period (in thousands)					Change in employment over the period (in %)				
	2010	2011	2011 H1	2011 H2	2012 H1	2010	2011	2011 H1	2011 H2	2012 H1
Mainly non-agricultural market sectors	102	67	121	-54	-49	0,6	0,4	0,8	-0,3	-0,3
Agricultural employees	-4	-10	-5	-5	-5	-1.6	-4.5	-2.3	-2.3	-2.4
Mainly non-market service sectors (including private establishments)	19	-18	-4	-14	33	0.3	-0.2	0.0	-0,.	0.4
Self-employed	6	6	3	3	3	0.2	0.2	0.1	0.1	0.1
Total Employment	123	45	116	-70	-18	0.5	0.2	0.4	-0.3	-0.1

Forecast

(1) Sectors OQ private
(2) Sectors DE to MN and RU

How to read: 31,000 jobs should be created in the market sector during H2 2012. This corresponds to a rise of 0.2% over the half-year. This sector should employ 18,002,000 workers at 30 June 2012.

Source: INSEE

Table 2

Subsidised employment in the non-market sector

in thousands

	2009	2010	2011 H1	2011 H2	2011	2012 H1
Single Integration Contract (CUI-CAE replaces CAE+CAV on 01/01/10)	-	241	-19	-21	-40	29
Contract to Support Employment (CAE)	70	-163	-4	-4	-8	0
Contract for the Future (CAV)	-10	-63	-3	-2	-5	0
Young Contract	-3	-2	0	0	0	0
Total	57	13	-26	-27	-53	29

Forecast
Scope: Metropolitan France
Source : DARES, INSEE

Unemployment

In Q4 2011, the unemployment rate continued to rise. It stood at 9.4% of the active population in Metropolitan France (9.8% including overseas departments).

In H1 2012, this rise in unemployment is set to continue in Metropolitan France. With the slowdown in activity, employment is likely to keep falling. In mid-2012, the unemployment rate should stand at 9.7% (10.1% including overseas departments).

In Q4 2011, the unemployment rate reached 9.4% of the active population

With the 0.5 point decline between end 2009 and mid-2011, the unemployment rate in Metropolitan France progressed by 0.3 point in H2 2011. It reached 9.4% of the active population in Q4 2011 (9.8% including overseas departments), or 2.7 million unemployed. Against a backdrop of slowing employment levels, it increased by 0.1 point in Q4 2011, after an increase of 0.2 point in Q3 (see *Graph 1*).

The rise in unemployment mainly affects men under 50

The unemployment rate among people aged 25 to 49 increased by 0.4 point in H2 2011 (*see Graph 2*). It stood at 8.6% in Q4 2011, thereby exceeding the peak of end 2009. This increase mainly concerned men: the unemployment rate among men between 25 and 49 rose by 0.5 point in Q4 2011, while that of women remained stable. Job losses mainly affect temporary work (*see "Employment" note*), where men are strongly represented.

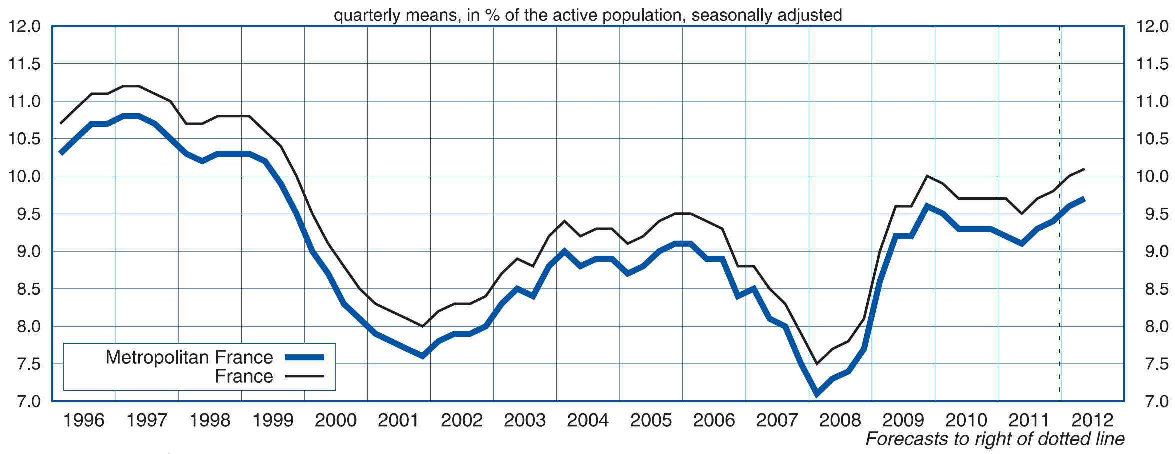
The unemployment rate among active people under 25 also rose, by 0.7 point in H2 2011. But this population has a highly specific activity behaviour. A large number of under-25s are still studying and are thus not working. When the number of young unemployed people is related to the 15-24 population as a whole, the rate is much lower: it stood at 8.4% in Q4 2011, just 0.8 point above the unemployment level of the 25-49 age bracket, while the unemployment rate of young people (22.4%) is almost 14 points higher than that of the 25-49 age group.

The unemployment rate among people aged 50 or over fell very slightly in Q4 2011: it lost 0.1, down point to 6.5% of active people, after a rise of 0.3 point in Q3.

Rise in unemployment through to Q2 2012

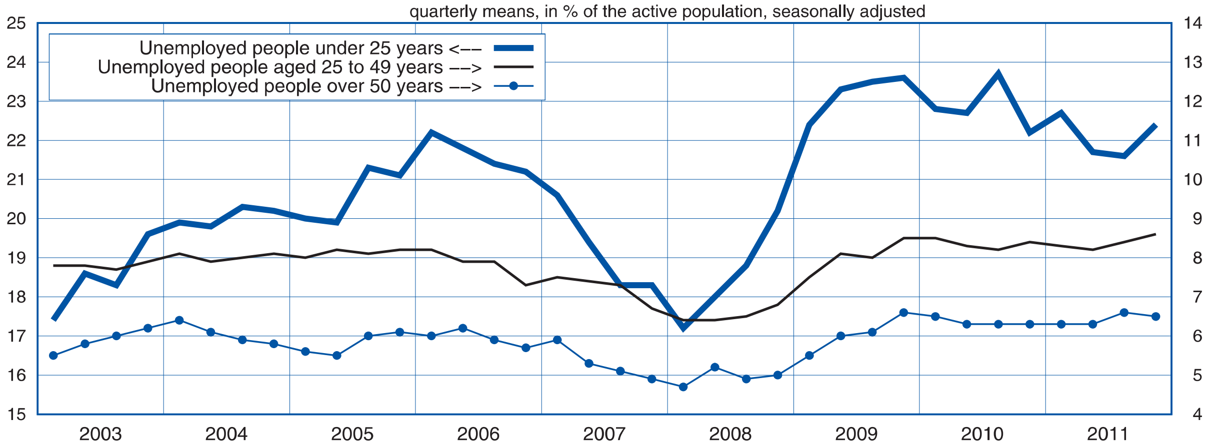
Over the forecasting period, the unemployment rate should rise once more due to weak economic activity and the deteriorating employment situation. It should stand at 9.7% in Metropolitan France in mid-2012 (10.1% including overseas departments). In H1 2012, total employment is likely to fall (-28,000), while the active population should continue to grow at a sustained pace (+69,000 people, *see Table*). ■

1 - Rate of unemployment in the sense of the ILO



France = Metropolitan France + Overseas Departments
Scope: Population of households, people aged 15 or over
Source: INSEE, Employment Survey

2 - Rate of unemployment in the sense of the ILO by age braket



Scope: Population of households in Metropolitan France, people aged 15 or over

Source: INSEE, Employment Survey

Changes to the active population, employment and unemployment in Metropolitan France

Quarterly means, in thousands

	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2009	2010	2011	2012 H1
	Quarterly changes										Annual changes			
Population of the 15-64 age group	32	33	34	35	19	4	-7	-13	-16	-15	123	135	3	-31
Population of the 15-59 age group	-26	-24	-23	-23	-12	-8	-6	-7	-10	-13	-116	-96	-34	-23
Active population	**14**	**-29**	**40**	**17**	**48**	**25**	**37**	**15**	**35**	**34**	**237**	**43**	**125**	**69**
including:														
(a) Contribution of the population and the trend participation rate	*40*	*40*	*40*	*40*	*41*	*41*	*41*	*41*	*36*	*36*	*148*	*159*	*164*	*72*
(b) Estimated bending effects	*0*	*0*	*0*	*0*	*1*	*2*	*0*	*-1*	*0*	*0*	*-7*	*1*	*2*	*0*
(c) Estimated effects of public policies	*2*	*-1*	*-5*	*-1*	*-1*	*-2*	*-5*	*-2*	*-1*	*-2*	*0*	*-5*	*-10*	*-2*
(d) Other short-term fluctuations (residual)	*-27*	*-68*	*5*	*-22*	*6*	*-16*	*2*	*-24*	*0*	*0*	*96*	*-112*	*-32*	*0*
Employment	**24**	**23**	**34**	**38**	**56**	**58**	**-5**	**-35**	**-19**	**-9**	**-291**	**118**	**73**	**-28**
Reminder: End-of-period employment (see "Employment" note)	*17*	*30*	*38*	*39*	*73*	*42*	*-52*	*-18*	*-19*	*1*	*-225*	*123*	*45*	*-18*
ILO unemployment	**-9**	**-52**	**6**	**-21**	**-8**	**-33**	**42**	**50**	**54**	**43**	**528**	**-76**	**52**	**97**
	Quarterly changes										Means at last quarter of the period			
ILO unemployment rate (%)														
Metropolitan France	9.5	9.3	9.3	9.3	9.2	9.1	9.3	9.4	9.6	9.7	9.6	9.3	9.4	9.7
France (including overseas departments)	9.9	9.	9.7	9.7	9.7	9.5	9.7	9.8	10.0	10.1	10.0	9.7	9.8	10.1

Forecast

How to read it: Employment and unemployment are not estimated here within strictly equivalent scopes: total population for employment, population of households (excluding collective) for unemployment. As the impact of this difference is very minor (the population outside of households represents less than 1% of the active population), it is neglected here for the unemployment forecasting exercise.
To estimate unemployment, employment is counted in the middle of the quarter; in the Employment note, it is presented at the end of the quarter.

Source: INSEE