French developments

France's International Environment

In Q3 2012, activity in the advanced economies accelerated slightly (+0.2% after +0.1%) as forecast in October's Conjoncture in France. It accelerated in the United States and rebounded strongly in the United Kingdom thanks to the Olympics and to the catch-up effect further to the exceptional holidays in June. It contracted again, however, in the Eurozone and fell in Japan.

According to the business tendency surveys, the business climate is likely to remain poor and the activity of the advanced economies should stall in Q4 (0.0%). It is likely to contract in Japan, in the Eurozone including Germany, and in the United Kingdom. Only the United States are likely to see a progression in activity, despite the production losses caused by Hurricane Sandy.

In H1 2013, the advanced economies should accelerate modestly. The US authorities should reach an agreement limiting the scale of the fiscal cliff and activity is likely to remain at a moderate rate in the United States. In the Eurozone, it should level out, buoyed up by world trade and the improvement in internal demand: it should stabilise notably in Italy in spring 2013, as the fiscal adjustment should be less intense in 2013 than in 2012, and the decline in financial tensions could allow a slow upturn in investment.

The emerging economies are likely to become more dynamic over the forecasting period. In Q3 2012, they have accelerated slightly, even though the rate of growth remains considerably slower than in the 2000s. Over the forecasting period, fiscal and monetary easing should buoy up internal demand and the activity of the advanced economies should accelerate further.

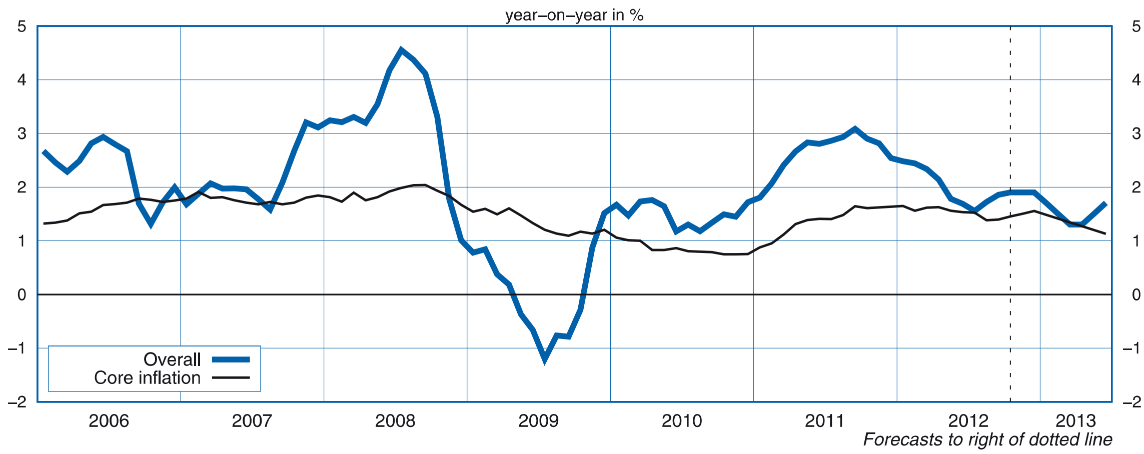
Central banks making increasing use of unconventional instruments

The central banks of the advanced economies have reduced room for manoeuvre. The levels of base interest rates are at all-time lows in the United States (0.25%), the United Kingdom (0.5%), Japan (0.1%) and the Eurozone (0.75%). They are making increasingly wide use, however, of unconventional instruments.

In the Eurozone, the decision of the European Central Bank in early September to carry out "unlimited" buying of the short-term sovereign debt of those countries applying to the European Stability Mechanism eased financial tensions considerably. Spanish and Italian sovereign rates were at around 5.7% and 4.8% respectively in November, against almost 6.8% and 5.7% on average in July and August 2012. This fall in sovereign rates has started to be passed on to interest rates for private agents, although lending terms remained difficult in Q3. Over the forecasting period, the easing of financial tensions should allow an improvement in financing conditions in the Eurozone.

Outside the Eurozone, sovereign rates continue at exceptionally low levels. In the United States,

1 - Inflation likely to fall in the advanced economiesI



Source: National Statistical Institutes, INSEE calculations corporate financing terms are easing and demand for lending is increasing. In Japan, the central bank decided on new unconventional measures at the end of April to limit the rise in the Yen. The Bank of England, meanwhile, continued its operation of buying back public debt, which it started in autumn 2011.

In the emerging countries, the central banks have considerably eased their monetary policy since early 2012, after the slowdown in activity and the marked decline in inflation. Despite the recent slight rise in inflation in Brazil and India, the monetary authorities should continue to apply an accommodating monetary policy and thus facilitate access to lending.

Restrictive fiscal policies in the north, expansionist in the south

In the United States, in the current state of the legislation, tax rises and spending cuts of a total amount of 4.7 points of GDP are supposed to come into force on 1st January 2013. However, the full implementation of this fiscal cliff seems unlikely. Our scenario supposes that the US authorities will reach a compromise limiting the scale of the fiscal cliff to 1.1 points of GDP.

In Europe, States are conducting restrictive fiscal policies to ensure that their public finances are sustainable, against a backdrop of tensions around the financing of some sovereign debt. The measures announced or passed for 2013 are considerable, representing around 1.1 points of GDP for the four largest economies in the Eurozone and 1.3 points for the United Kingdom. However, in Spain and especially in Italy, the fiscal adjustment should be less intense in 2013 than in 2012, notably as far as the tax burden on households in concerned.

In Japan, the four stimulus plans passed further to the earthquake of 11 March 2011 for a total equivalent to 3.8 points of GDP allowed a marked acceleration in H1 2012. Household consumption, however, stalled in Q3 when the public incentive for purchases of ecological motor vehicles ran out. The fiscal impetus should be almost zero over the forecasting period.

In China, an expansionist fiscal policy that should bring tax cuts and investments in public infrastructure was announced in September 2012, without a precise calendar. Faced with a fall in industrial production over the past year, the Brazilian government, meanwhile, announced a massive stimulus plan in H1 2012, notably by large tax cuts, resulting in an acceleration in activity in Q3. Among the "BRICs" only India is likely to be an exception: the high level of the public deficit there limits the possibilities for stimulating activity.

Inflation should fall back in the advanced economies

After summer 2010, inflation increased sharply in the advanced economies, in the wake of international commodity prices: it rose from 1.2% in Q2 2010 to 2.9% in Q3 2011. Inflation then eased quickly as commodity prices fell back *(see graph 1)*. For example, in October 2012, the progression in consumer prices in the advanced countries returned below 2% year on year (1.9%). Under the hypothesis that oil prices stabilise around the $105 mark, inflation should stand at 1.9% in Q4 2012, then fall to 1.6% at the end of H1 2013.

The still-high level of unemployment limits the bargaining power of employees and the core inflation index should continue to fall (from +1.6% in Q4 2012 to +1.2% year on year in Q2 2013). Inflation is likely to be comparable in the United States and Eurozone.

The emerging economies set to accelerate

Since mid-2011, activity in the emerging countries has had a lower growth rate than the rates observed prior to the crisis. Also, between June and August 2012, trade and industrial production contracted. However, activity rebounded in September and, according to the business tendency surveys, this acceleration is likely to continue in manufacturing, especially in China, Russia and Brazil (see *Graph 2*). The easing of the monetary policies implemented since the start of the year, especially in China and Brazil, and the fiscal measures announced, should boost activity over the forecasting period, although its rate of progression should remain well below that in the 2000s.

In Q4 2012, activity set to remain morose in the advanced economies

In Q3 2012, the advanced economies accelerated slightly (+0.2% after +0.1%). Household consumption increased, in particular in the United Kingdom, France and Germany. On the other hand, exports were hit by the contraction in world trade, particularly in Japan and the United States, which are more exposed to Asian demand, and investment fell back.

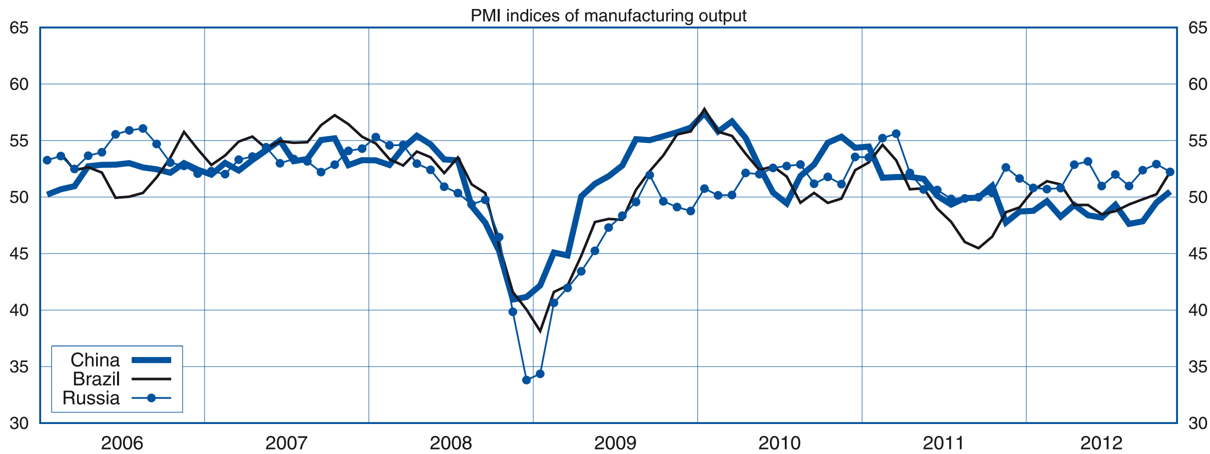
In November, the global outlook remained poor, even though slightly improved from the low point reached this summer *(see Graph 3)*. In manufacturing industry, the business climate has improved since the summer but is still well below the expansion threshold. In services, the business climate is looking better. Activity in the advanced economies should stagnate in Q4 (0.0%). In the United States, activity is likely to be slowed by the production losses caused by Hurricane *Sandy*. In Japan, activity is likely to fall at the end of 2012, as the reconstruction plans come to an end and exports are hit by diplomatic tensions with China. Likewise, in the United Kingdom, the backlash after the Olympic Games is likely to cause a new contraction in activity. Finally, in the Eurozone, activity is likely to fall back again in Q4 2012.

Activity likely to accelerate modestly in H1 2013, thanks to improvements in domestic demand

In H1 2013, the world economy should benefit from some positive factors: demand from the emerging economies should accelerate and oil is likely to level out at around $105, thereby allowing a slowdown in energy prices. Fiscal policies should remain restrictive, but consolidation measures should become less intense, especially in Spain and Italy, while an agreement is likely to limit the scale of fiscal consolidation in the United States. Finally, the fall in interest rates on State debt should be passed on to the financing terms of corporations and investment should become more dynamic. Activity should therefore accelerate slightly (+0.2% then +0.3%).

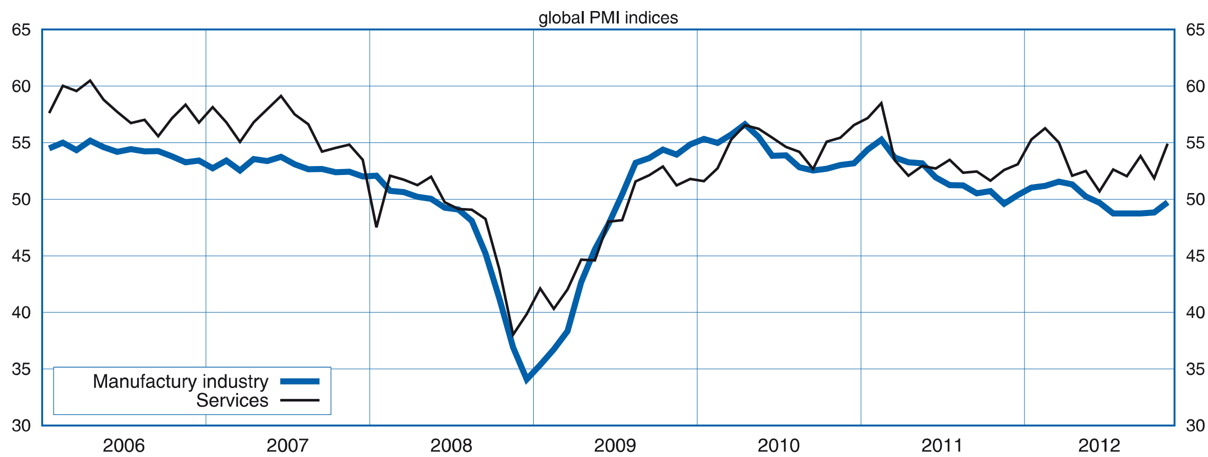
In the United States, despite tax rises in Q1 2013, activity should remain at a moderate growth rate. In the United Kingdom and Japan, domestic demand is set to buoy up activity. Finally, in the Eurozone, signs of improvement are appearing *(see Graph 4)*. After seven consecutive quarters of declining activity, Italy is likely to emerge from recession over the forecasting period. The negative effect of fiscal consolidation on activity should lessen and investment should see an upturn, thanks to the easing of financial tensions since the summer. In Spain, corporate investment in capital goods rebounded slightly in Q3 2012 and is likely to level out. In Germany, activity is set to remain relatively sound, buoyed notably by household consumption.

2 - Acceleration in the emerging economies



Source: Markit

3 - The business climate is improving but remains poor



Sources: Markit

World demand for French products likely to rebound in H1 2013

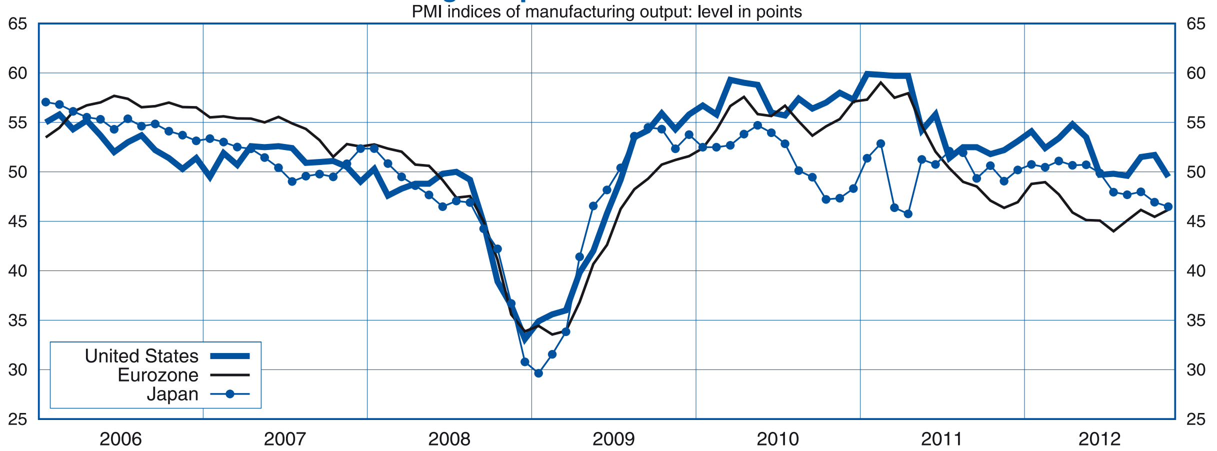
In Q3 2012, trade stagnated in Asia and world trade contracted (-0.2% after +0.5%), in line with our October forecasts. In Q4, world trade is set to stagnate. On the one hand, in the purchasing manager surveys (PMI), the new export order components may have seen an upturn since their low point reached in July *(see Graph 5)*, but they remain poor. On the other hand, according to the Customs data available for October and November, trade is becoming stronger in Asia. Over 2012 as a whole, the progression in trade should be limited to +2.0%, against +5.8% in 2011.

In H1 2013, the improvement in domestic demand in the advanced economies and the acceleration in the emerging economies should foster a slight rebound in world trade, which should progress by 1% per quarter. It should still remain below its medium-term growth rate (+1.6% per quarter).

Affected by soft European demand, world demand for French products should weaken in Q4 2012 (-0.2%). However, in H1 2013, it is likely to benefit from accelerating demand from emerging countries, and also from the improvement in demand from its European partners, increasing by 0.6% per quarter.■

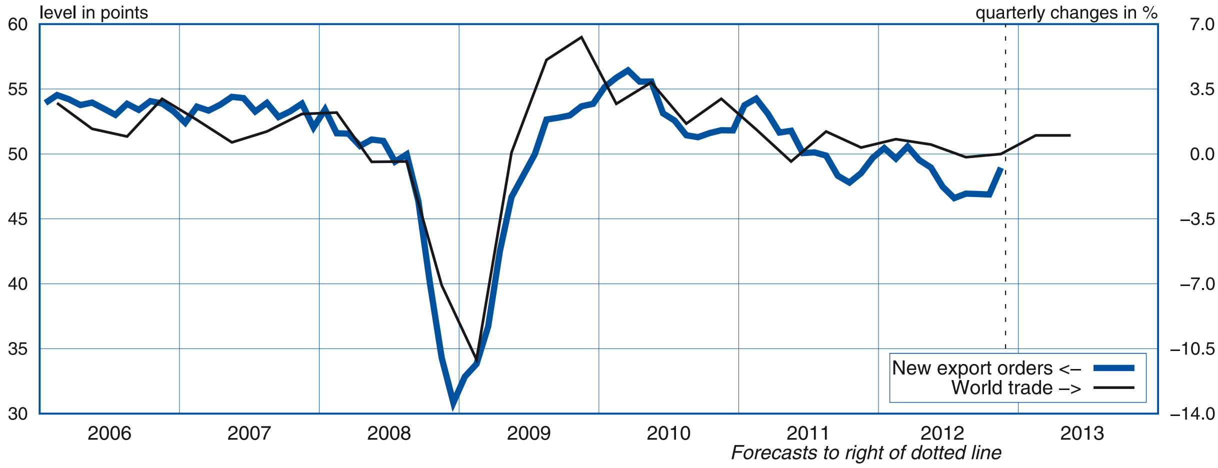
4 - Slight improvement in the Eurozone

PMI indices of manufacturing output: level in points



Source: Markit

5 - World trade set to rebound in H1 2013



Sources: Markit, Centraal Plan Bureau, INSEE forecast and calculations

Table1
Balance of resources and uses of the advanced economies, by volume

	Quarterly changes in %										Annual changes in %		
	2011				2012				2013		2011	2012	2013
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
GDP	**0.0**	**0.3**	**0.6**	**0.3**	**0.4**	**0.1**	**0.2**	**0.0**	**0.2**	**0.3**	**1.3**	**1.2**	**0.6**
Private consumption	0.1	0.1	0.4	0.1	0.4	0.0	0.1	0.1	0.2	0.3	1.1	0.8	0.5
Public consumption	-0.9	0.0	-0.4	-0.2	0.1	-0.1	0.5	0.0	-0.1	-0,1	-1.3	-0.1	0.1
Investment	0.3	1.2	1.9	1.5	0.9	-0.1	-0.3	-0.1	0.6	0.6	3.6	3.1	0.8
Exports	1.2	-0.4	2.3	-0.2	1.0	1.1	-0.2	-0.1	0.8	0.9	5.5	2.7	1.7
Imports	0.9	0.0	1.2	0.3	0.6	0.9	0.0	-0.3	0.7	0.9	4.5	2.0	1.4
Contributions to GDP growth													
Domestic demand excluding inventories	*0.0*	*0.2*	*0.4*	*0.3*	*0.4*	*0.0*	*0.1*	*0.0*	*0.2*	*0.3*	*1.0*	*0.9*	*0.4*
Inventories	*-0.1*	*0.1*	*-0.1*	*0.0*	*-0.1*	*0.0*	*0.0*	*-0.1*	*0.0*	*0.0*	*0.0*	*-0.1*	*0.1*
Net exports	*0.1*	*-0.1*	*0.2*	*0.0*	*0.1*	*0.1*	*0.1*	*0.0*	*0.0*	*0.0*	*0.3*	*0.4*	*0.1*

Forecast

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

Foreign trade

In Q4 2012, exports are set to suffer from the decline in demand from France's main trading partners, most notably Spain. They are thus likely to slow slightly. In H1 2013, exports should pick up (+0.7% then +0.8% in Q1 and Q2), sustained by the recovery of world demand.

Imports should pick up slightly in Q4 2012, but are likely to be slowed by sluggish domestic demand. They should accelerate at the start of 2013, in the wake of exports.

Over the forecasting period, the accounting contribution of foreign trade to growth should be null.

Exports slowing at end 2012, then benefiting from improved demand from Germany and countries outside the European Union

In Q3 2012, French exports rose slightly, by 0.5% after +0.3% (*see Table*), thanks to a recovery of manufacturing exports (+1.3% after +0.4%). Sales of transport equipment leaped (+7.4% after -0.7%), particularly in the aerospace sector, while those in the other categories of manufactured products contracted slightly. However, exports of services (-0.5%) and energy (-1.0%) slipped back, and exports of agricultural products contracted sharply in Q3 (-11.5%)[1]. All in all, exports benefited from the dynamism of demand from Germany and Spain.

In Q4 2012, world trade is likely to stagnate and world demand for French products should decline slightly (*see Graph 1*). Imports from France's European trading partners are set to fall back, particularly those from Spain. Demand from our other trading partners appears sluggish, notably in the United States and the emerging economies. However, the effects of the past depreciation of the euro seem to have sustained sales and exports should continue to grow in Q4 (+0.4%). Sales of manufactured products should grow slightly (+0.4%) and those of agricultural products, which fell sharply in Q3, are set to rebound. Conversely, energy exports should decline.

At the start of 2013, exports should accelerate. Demand from countries outside the European Union and from Germany should rebound. World demand for French products is nonetheless likely to be less dynamic than world trade (*see Graph 2*), mainly due to the persistently weak demand in Spain and Italy. The favourable effects of the past depreciation of the euro are likely to continue (*see Graph 3*) and exports are set to progress by 0.7% then 0.8% in Q1 and Q2 2013. Sales of manufactured products should accelerate. Exports of services should recover.

All in all, on average in 2012 exports should grow by 2.6%, after +5.5% in 2011. The growth overhang for 2013 should be +1.9% at the end of H1. France's market share should continue to stabilise over the forecasting period (*see Graph 4*).

(1) In value, however, they progressed by +3.9% on account of the sharp rise in cereals prices over the summer.

Foreign trade growth forecast

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

	Quarterly changes						Annual means		
	2012				2013		2011	2012	2013
	Q1	Q2	Q3	Q4	Q1	Q2			
Exports									
All goods and services	0.0	0.3	0.5	0.4	0.7	0.8	5.5	2.6	1.9
Non-energy industrial goods (75%*)	0.8	0.4	1.3	0.4	0.9	0.9	4.5	3.9	2.7
Imports									
All goods and services	0.5	1.6	-0.6	0.3	0.6	0.7	5.2	0.2	1.4
Non-energy industrial goods (77% *)	1.3	2.5	-1.3	0.5	0.7	0.9	6.7	1.1	1.7
Contribution of foreign trade to GDP	-0.1	-0.4	0.3	0.0	0.0	0.0	0.0	0.6	0.1

Forecast

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

Source: INSEE

Imports set to recover gradually over the forecasting period

In Q3 2012 imports fell back (-0.6% after +1.6%), due to the contraction of purchases of manufactured goods. In particular, imports of transport equipment contracted sharply in Q3 (-6.8% after +8.6%), mainly due to the after-effect of the delivery of a drilling rig in Q2. Furthermore, after the restart of the Petit-Couronne refinery, purchases of refined petroleum products fell sharply. Conversely, this recovery of coking and refining activity contributed to a rebound in purchases of crude oil products. Overall, purchases from the European Union were more dynamic than those from countries outside.

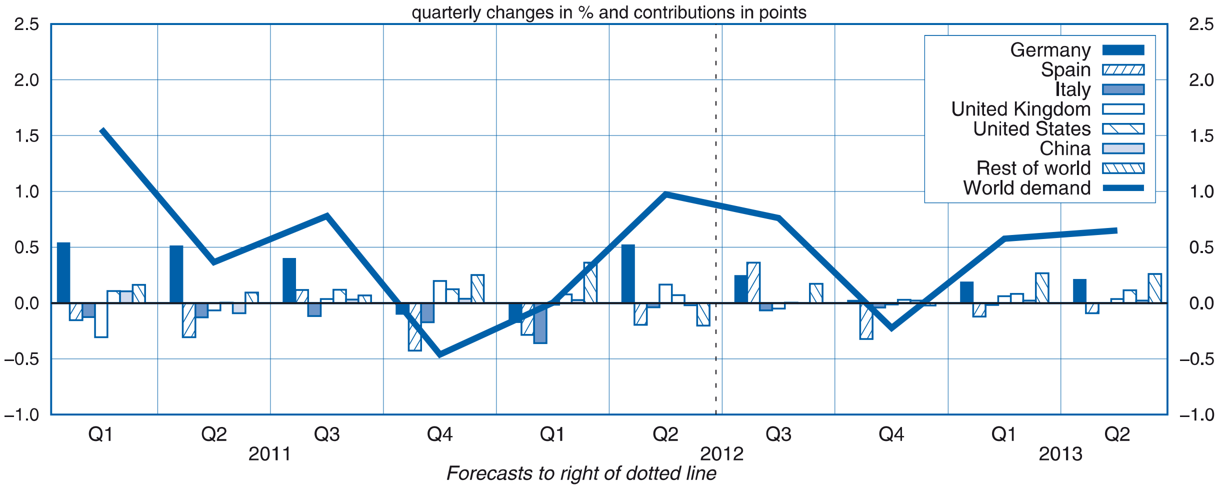
In Q4 2012, imports are likely to suffer from weak domestic demand and should only grow slightly. Imports of manufactured goods should rebound slightly, but those of agricultural should stagnate and energy products are set to decline.

Through to mid-2013, imports are likely to accelerate (+0.6% then +0.7% in Q1 and Q2), sustained by the rise in exports. Final domestic demand should, however, remain sluggish. It is mainly imports of manufactured product that are likely to display more vigour, while purchases of agricultural and energy products should remain stable and imports of services should still progress at a moderate pace.

All in all, on average in 2012 imports should rise by just 0.2%, after +5.2% in 2011. Purchases of manufactured products should progress (+1.1%), but those of energy products are likely to show a sharp downward trend (-6.5%). The growth overhang for 2013 at the end of H1 should stand at +1.4%.

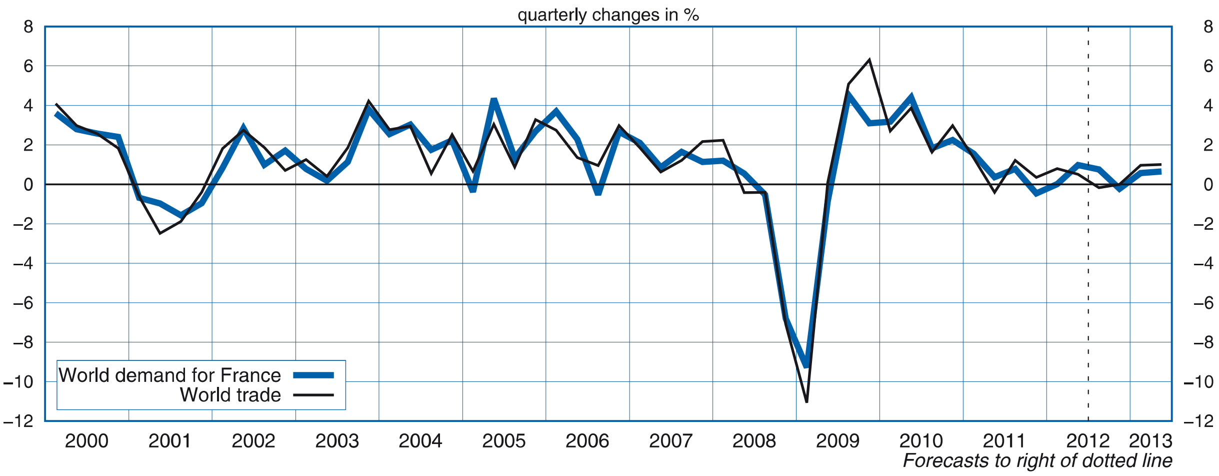
All in all, the contribution of foreign trade to growth should be null in Q4 2012, reflecting sluggish foreign and domestic demand, and should be positive over 2012 as a whole (+0.6 point). It is likely to be null once again at the start of 2013. In value, the trade deficit in 2012 is likely to be less marked than in 2011 (2.2 GDP points after 2.8 GDP points), with energy expenditure remaining stable. ■

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



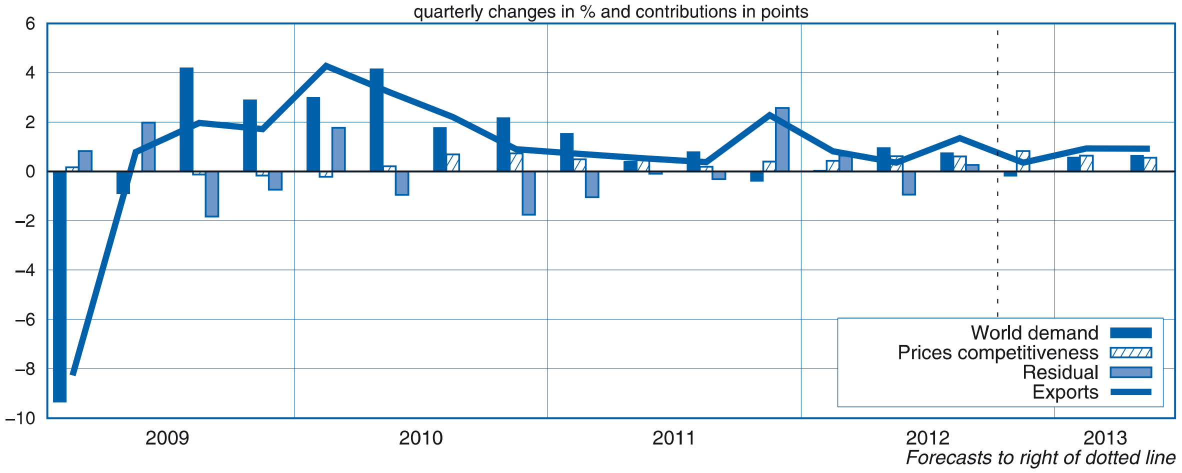
Sources: INSEE, Centraal Plan Bureau

2 - World demand for French products and world trade



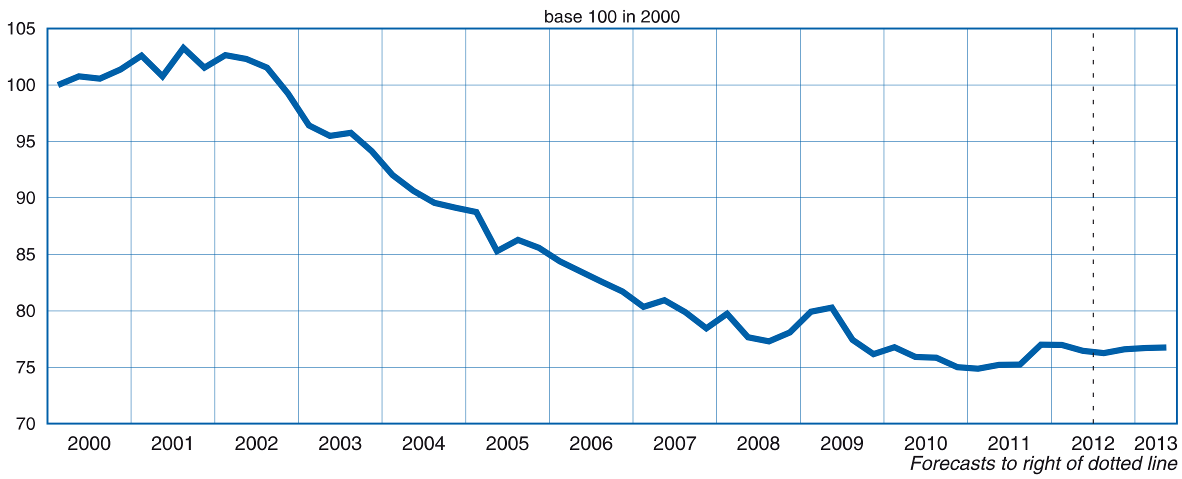
Sources: INSEE, Centraal Plan Bureau

3 - Manufactured exports and econometric contributions



Source: INSEE

4 - Market share of France*



* Market share is defined here as the report between French exports and world demand for French products

Source: INSEE, Tresor

Oil and raw materials

Based on data issued by the International Energy Agency (IEA), the oil market has been showing a surplus since the start of 2012. This surplus situation is expected to persist over the course of this forecasting period. On the one hand, supply is likely to remain dynamic, particularly from North America and the OPEC producers. On the other hand, demand is expected to stabilise due to the slowdown in economic activity in developed nations. In this context, the price of oil should remain below the levels seen at the start of 2012, with the price of a barrel of Brent crude fluctuating around the $105 mark over the course of the forecasting period. International tensions, notably in the Middle-East, are a major risk to the forecast.

After the sharp rises seen in July, the prices of agricultural commodities have been falling slightly since September. Stronger harvests in the southern hemisphere appear sufficient to partly compensate for the weak summer harvests seen in the USA and the Ukraine.

With growth prospects still weak in Europe and a slowing rate of growth in emerging economies, the prices of industrial commodities are expected to stabilise at levels far below the peaks recorded in early 2011.

Seasonal reduction of the oil market surplus in Q3 2012

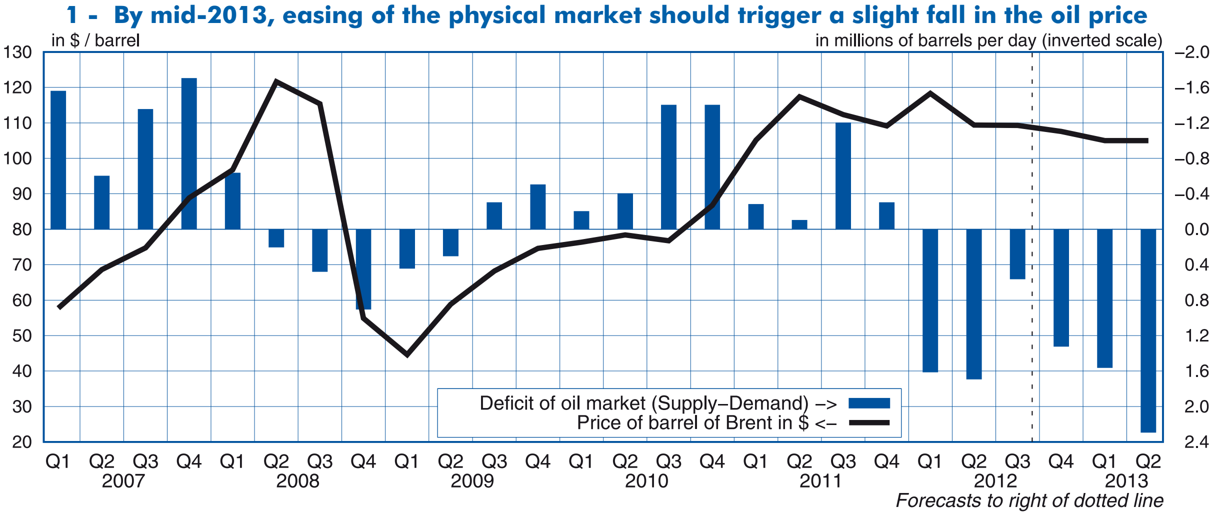
The oil surplus which arose in early 2012 was greatly reduced in Q3 (*see Graph 1*). Demand increased in developing countries in Q3, while supply remained stable due to seasonal constraints influencing production. As usual production in OECD countries decreased (-300,000 bpd) due to diminished production in Europe resulting from maintenance work. This reduction was exacerbated by a strike in Norway in July and by bad weather conditions in the Gulf of Mexico. Oil supply from the OPEC nations also dropped: the ongoing decline in Iranian oil production since the implementation of the European embargo and American economic sanctions was only partially offset by the rise in Iraqi production (*see Graph 2*). However, a rise in the production of biofuels and liquefied natural gas has offset the global decline in crude oil supply.

Global demand for oil was up in Q3 2012. Consumption was stable in developed nations (+0.7 million bpd), particularly in the USA and Europe where petrol consumption traditionally rises during the summer holidays. However the rise in demand in the developed nations remained modest this year, due to the overall weakness of economic activity. Demand also rose in non-OECD countries: rising consumption in the Middle East and Russia compensated for the decline in demand seen in China.

The oil market should remain firmly in surplus over the forecasting period

In Q4 2012, tensions in the physical market should subside. According to data published by the IEA, the market should continue to produce a

1 - By mid-2013, easing of the physical market should trigger a slight fall in the oil price



Sources: IEA, Financial Times, INSEE forecast and calculations considerable surplus (+1.3 million bpd). Global supply should naturally increase following the completion of maintenance work in Northern Europe and the end of seasonal weather phenomena in the Gulf of Mexico (+700,000 bpd, to reach a total of 91.4 million bpd). In addition to these seasonal fluctuations, the American crude production, driven by the tapping of new, non-conventional oil reserves since 2008, should remain highly dynamic (*see Graph 3*). Production should drop off in the OPEC countries, particularly in Nigeria as a result of flooding and incidents of sabotage observed in October.

Global demand for oil should fall in Q4, with the end of the "driving season" in Europe and the USA. In non-OECD countries demand for oil should rise slightly, primarily as a result of the increase in consumption in China.

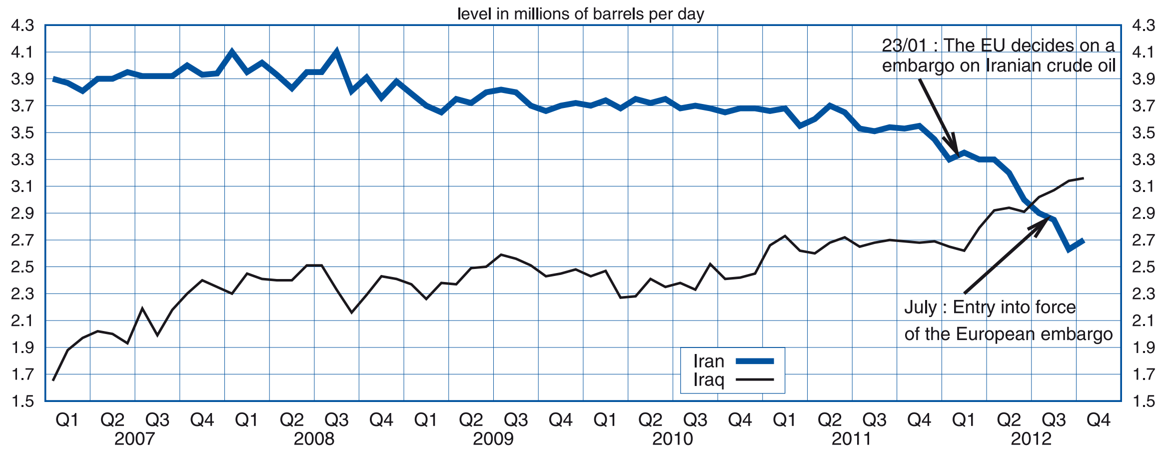
In H1 2013, the oil surplus should grow to reach 2.3 million bpd by Q2. Supply should remain dynamic, thanks to increased production in the USA and in the OPEC nations. Nigeria is expected to return to its usual levels of production, while Iraqi production will continue to grow. At the same time, reduced economic activity is expected to contribute to a decline in demand in developed nations, and the increase in demand in emerging economies should remain modest. Overall, the surplus seen in the oil market since early 2012 is expected to persist throughout the forecasting period.

Price per barrel should hover around the $105 mark between now and mid-2013

Despite a lack of tension in the physical market, the price of oil stabilised at a high level in Q3 2012 ($109.30, down 0.2% from the previous quarter). However oil prices did fall slightly in October and November (by 1.4% and 2.3% respectively), affected in particular by the easing of tensions with Iran.

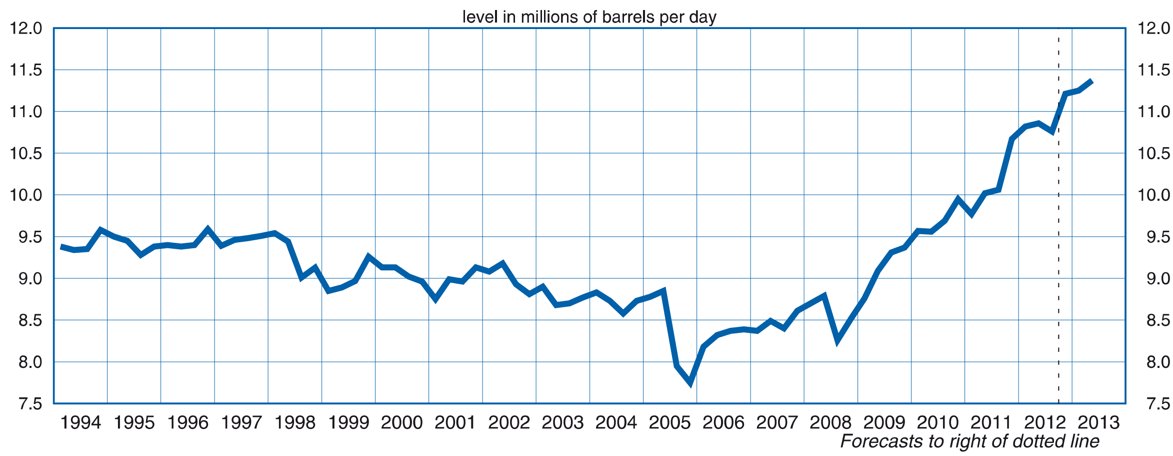
Between now and mid-2013, the price of a barrel of crude should fluctuate around the $105 mark. The existing surplus should offset the recent fall in prices; this fall should be attenuated by persistent tensions on the supply side, particularly since geopolitical risks remain significant.

2 - An increase in Iraqi output, a drop in Iranian production



Source: IEA

3 - US production boosted by the exploitation of non-conventional oil reserves since 2008

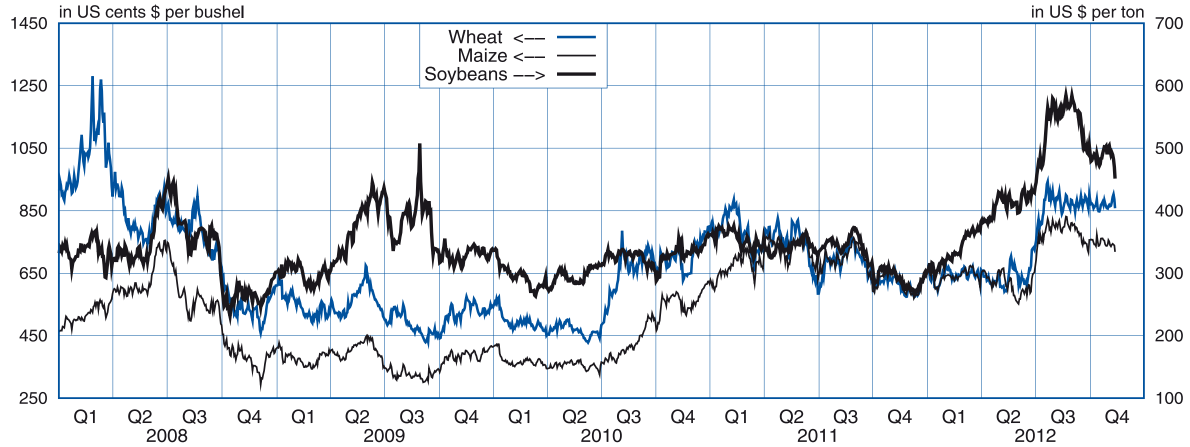


Source: Department of Energy (DoE)

Non-energy commodity prices down after the sharp rises of the summer

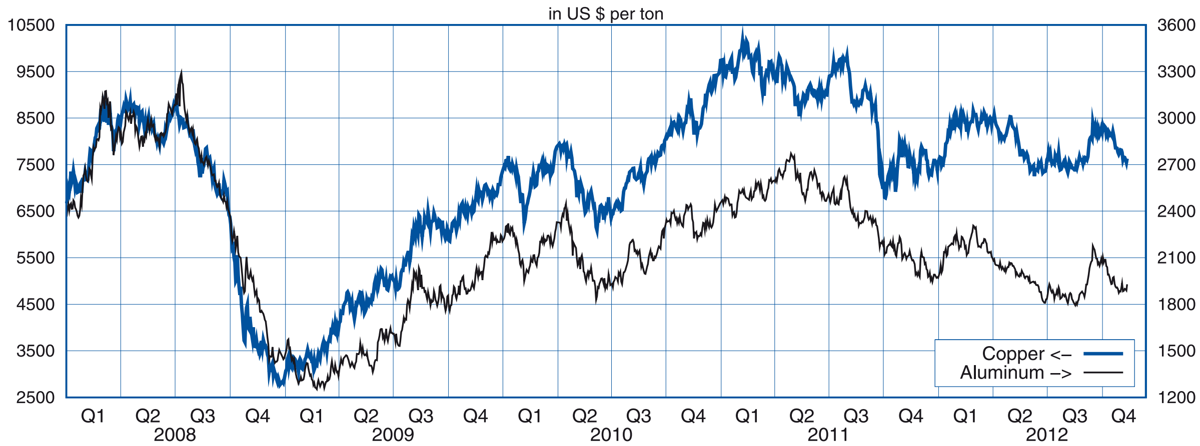
The prices observed for non-energy commodities are down slightly in Q4 2012, after undergoing sharp rises in the summer. Drought in the USA and in the countries around the Black Sea provoked dramatic price rises in July, but since then prices of wheat, corn and soybeans dropped off in September and October. In late November, the growth overhang for Q4 stood at -12.8% for soybean prices, -5% for corn and -0.5% for wheat *(see Graph 4)*. Prices of industrial commodities rose in September following the announcement of stimulus measures in China and export restrictions in Indonesia. Since early October aluminum and copper prices have seen a marked decline *(see Graph 5)*.■

4 - Prices of agricultural commodities



Source: DataInsight

5 - Prices of industrials metals



Source: London Metal Market

Consumer prices

Headline inflation stood at 1.4% in November 2012. It should stabilise over the forecasting period. Due to the expected stabilisation of the Brent price at around $105, energy prices are unlikely to increase by much. In addition, the high unemployment rate, which should bring a moderation of wage costs, is likely to limit inflationary pressure. Year-on-year prices of services and manufactured products are thus set to diminish through to June 2013. However, inflation in foodstuffs should be sustained by the knock-on effect of rises in commodity prices since the start of 2012.

Core inflation should be virtually stable, at 0.8% in June 2013 after 0.7% in November 2012.

Inflation in energy rising slightly

The year-on-year energy price rise stood at 2.7% in November, having fallen continuously since the peak of 6.9% in August. It should come down to 0.4% in April and then rise to 4.3% in June. Against a backdrop of the stabilisation of the Brent price at €81.40 over the forecasting period, the exit of the increases observed over the first few months of 2012 from the year-on-year figures should mechanically contribute to the drop in energy inflation until April. It should then rise again under the effect of the exit from year-on-year figures that occurred in May and June 2012. Overall, the contribution of this item to headline inflation should diminish in H1 2013 (see *Graph 1*).

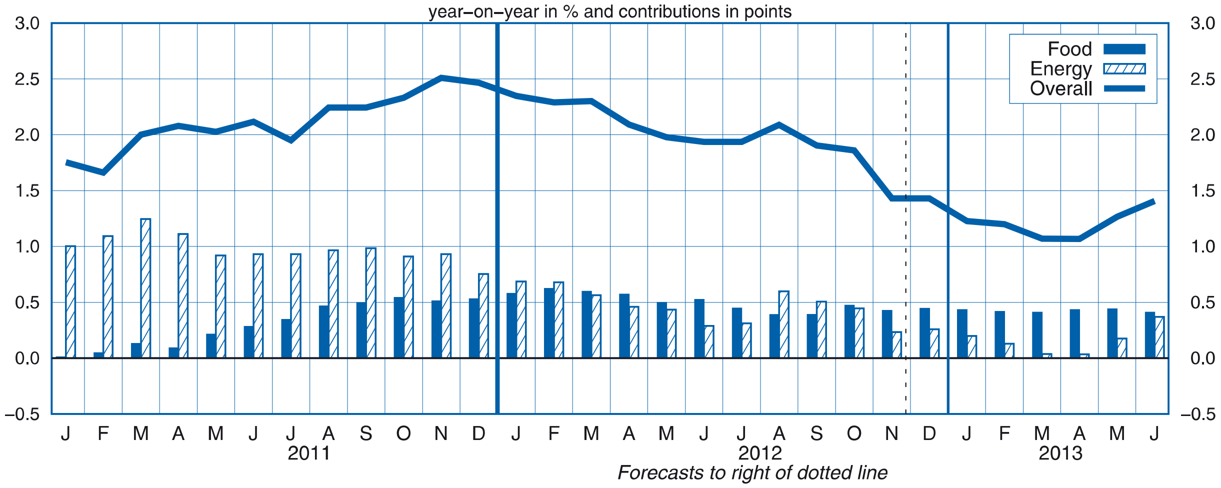
Inflation in manufactured products on the way down

The year-on-year change in the prices of manufactured products should reach 0.2% in June 2013, after 0.5% in November 2012. The year-on-year change in the prices of clothing and footwear should fall to 0.6%, after 1.2% in November, under the effect of the drops in cotton prices since the end of 2011. Additionally, the low production capacity utilisation rates and the high unemployment rate should contribute to moderating inflationary pressure in the manufacturing sector.

Inflation in services slightly down

The year-on-year change in the prices of services should fall to 1.0% in June 2013, after 1.1% in November (*see Table*). As in the manufacturing sector, the high level of unemployment is likely to continue taking its toll on wages, and the increase in the minimum wage in January 2013 is likely to be lower than that of December 2011 and January 2012, contributing to a moderation of the prices of services. Furthermore, from December 2012 inflation in services should be driven downwards by the exit from the year-on-year figures of the price rises observed from December 2011, following the rise in the reduced VAT rate. However, the effects of the price cuts in telecommunications, which have contributed -0.3 point to inflation since the start of the year, are likely to fade.

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



Source: INSEE

Inflation in foodstuffs down slightly, "non-seasonal" products on the rise

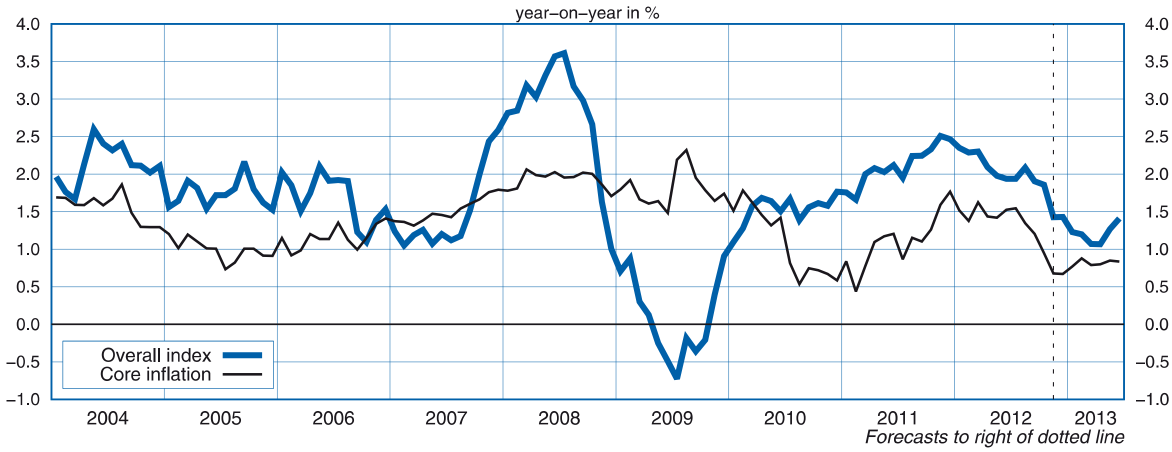
The year-on-year change in the prices of foodstuffs should fall slightly to 2.5% in June 2013, after 2.6% in November (*see Table*), but with divergences between seasonal and non-seasonal products. On the one hand, the year-on-year rise in seasonal products, which was very high in November (8.7%) due to the unfavourable weather conditions, should fall to 4.0% over the forecasting period. Conversely, the increases in food commodity prices since the start of 2012 should filter through to consumer prices until the end of the forecasting period and the year-on-year changes in the prices of non-seasonal foodstuffs should increase to 2.3% in June 2013, after 1.7% in November.

Core inflation almost stable

Core inflation is measured by taking all prices of energy and seasonal food products and public prices out of the headline index and correcting for any fiscal measures, including the VAT rise of January 2012. Over the forecasting period, the year-on-year figure for core inflation should be virtually stable, at 0.8% after 0.7% in November (*see Graph 2*), translating differences from one item to the next. In particular, core inflation should mechanically increase in January 2013: the decrease recorded in January 2012 due to the incomplete passing-on to consumers of the VAT rise should disappear from the year-on-year figures. Also, "non-seasonal" food inflation should increase due to the rise in food commodity prices observed since the start of 2012, which are likely to gradually filter through to food prices. Conversely, inflation in services and in manufactured goods should follow a downward trend bearing in mind the moderation of wages.

Headline inflation stood at 1.4% in November. It is likely to fall to 1.1% in March 2013, then climb back up to 1.4% in June 2013. This trend is likely to be the result of the energy inflation profile. ■

2 - Consumer prices in France



Source: INSEE

Consumer prices

changes as %

CPI* groups* (2012 weightings)	June 2012		November 2012		December 2012		June 2013		Annual means	
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	2011	2012
Food (16.4%)	**3.2**	**0.5**	**2.6**	**0.4**	**2.7**	**0.4**	**2.5**	**0.4**	**1.9**	**3.0**
including: seasonal food products (2.1%)	*7.8*	*0.2*	*8.7*	*0.2*	*8.8*	*0.2*	*4.0*	*0.1*	*-1.2*	*5.3*
excluding seasonal food products(14.3%)	*2.5*	*0.4*	*1.7*	*0.2*	*1.8*	*0.3*	*2.3*	*0.3*	*2.4*	*2.7*
Tobacco (2.0%)	**5.7**	**0.1**	**6.9**	**0.1**	**6.9**	**0.1**	**6.9**	**0.1**	**5.9**	**6.2**
Non energy industrial goods (29.9%)	**1.0**	**0.3**	**0.5**	**0.1**	**0.4**	**0.1**	**0.2**	**0.1**	**0.1**	**0.7**
Energy (8.7%)	**3.3**	**0.3**	**2.7**	**0.2**	**3.0**	**0.3**	**4.3**	**0.4**	**12.3**	**5.2**
including: oil products (5.2%)	*3.3*	*0.2*	*1.2*	*0.1*	*1.7*	*0.1*	*3.1*	*0.2*	*15.8*	*5.8*
Services (43,1%)	**1.7**	**0.7**	**1.1**	**0.5**	**1.1**	**0.5**	**1.0**	**0.4**	**1.7**	**1.6**
including: rent-water (7.4%)	*2.0*	*0.1*	*2.1*	*0.2*	*2.2*	*0.2*	*1.9*	*0.1*	*1.8*	*2.0*
health services (5.3%)	*0.7*	*0.0*	*1.2*	*0.1*	*1.3*	*0.1*	*1.0*	*0.1*	*1.1*	*0.9*
transport-communications (5.2%)	*-2.2*	*-0.1*	*-7.5*	*-0.4*	*-6.6*	*-0.3*	*-4.8*	*-0.3*	*-0.5*	*-3.8*
other services (25.2%)	*2.6*	*0.6*	*2.6*	*0.7*	*2.4*	*0.6*	*1.9*	*0.5*	*2.2*	*2.7*
All (100%)	**1.9**	**1.9**	**1.4**	**1.4**	**1.4**	**1.4**	**1.4**	**1.4**	**2.1**	**2.0**
All excluding energy (91.3%)	1.8	1.6	1.3	1.2	1.3	1.2	1.1	1.0	1.3	1.7
All excluding tobacco (98.0%)	1.9	1.8	1.3	1.3	1.3	1.3	1.3	1.3	2.1	1.9
"Core" inflation (60.9%)[1]	**1.5**	**0.9**	**0.7**	**0.4**	**0.7**	**0.4**	**0.8**	**0.5**	**1.1**	**1.3**
All HCPI*	**2.3**	**2.3**	**1.6**	**1.6**	**1.6**	**1.6**	**1.6**	**1.6**	**2.3**	**2.0**

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

Source: INSEE

Employment

The decline in market-sector employment accelerated sharply in Q3 2012 (-42,000), particularly in the tertiary sector. Over the forecasting period the labour market situation is likely to continue deteriorating fast: by mid-2013, market-sector employment is likely to shed an average of 40,000 jobs per quarter and this decline is likely to be very marked in industry.

Over 2012 as a whole, employment in the non-agricultural market sector is set to fall (-86,000 jobs) after 52,000 job creations in 2011. The drop in employment mainly affects temporary work (-71,000) and industry (-42,000).

In the non-market sectors, however, employment should rise through to mid-2013. It is likely to gain in dynamism in H1 2013, most notably due to the rise in the number of beneficiaries of subsidised work contracts. After losing 32,000 jobs in 2011, employment in the non-market sectors should progress by 26,000 in 2012 and 31,000 in H1 2013.

All in all, 39,000 market and non-market jobs are likely to be lost in 2012, and 46,000 in H1 2013.

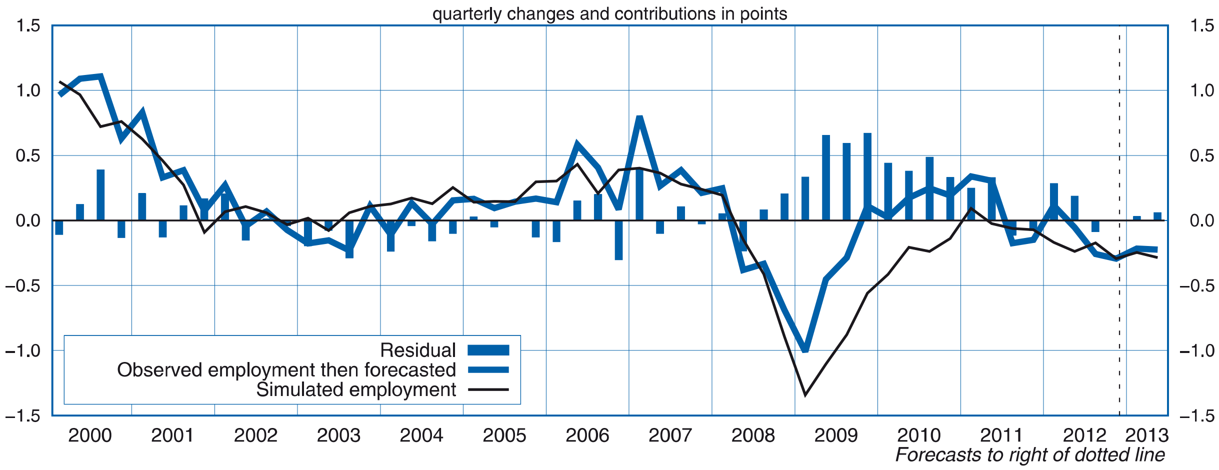
In the market sectors, employment set to fall at end 2012 and beginning 2013

Dynamic until mid-2011, the labour market has since declined. After temporarily picking up in H12012 (+3,000 jobs) thanks to sustained job creations in the tertiary sector, market-sector employment once again fell heavily in Q3 (-42,000).

Up to the start of 2011, market-sector employment grew faster than growth in activity would have led one to expect *(see Graph 1)*. Since mid-2011 however, employment variations have looked to be more in line with pre-crisis behaviour, and in Q3 2012 job losses were actually slightly higher than expected.

At the start of 2013, the first effects of the tax credit for competitiveness and employment (CICE) are likely to sustain employment (15,000 jobs over the forecasting period). But because of weak activity, it should slip back sharply through to June 2013: 47,000 jobs lost in Q4 2012 then 75,000 in H1 2013 (see *Graph 2*).

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 at the beginning of 2011, indicates that observed employment showed better growth than past behaviour would lead us to expect.

Source: INSEE

Job losses in the tertiary sector, particularly in temporary employment

Temporary employment is counted in the tertiary sector irrespective of the sector in which the assignments are carried out. Temporary work appears to be a decisive component in the adjustment of employment: in 2010, following the pick-up in activity, growth in employment was mainly due to temporary work; but since 2011, the stability of activity has once again led to a sharp decline in temporary work. Across all sectors, the temporary employment utilisation rate was low in Q3 2012. It should decrease slightly over the forecasting period (*see Graph 3*). After 22,000 fewer jobs in 2011, temporary employment is set to lose 71,000 jobs in 2012.

Employment in the tertiary market sector excluding temporary work remained dynamic in H1 2012 (+39,000 jobs), but looks to have been affected by the global slowdown in activity. It is set to decline slightly in H2 2012 (-1,000) then stagnate in H1 2013.

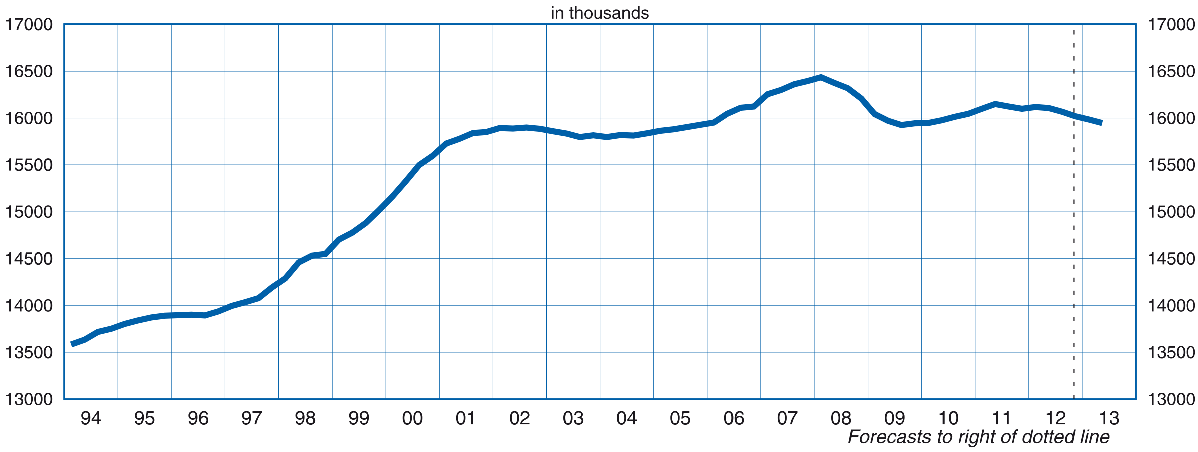
All in all, tertiary employment including temporary work should fall sharply in H2 2012 (-52,000 jobs) then more modestly in H1 2013 (-20,000 jobs).

Job losses in industry set to intensify

Since mid-2012, market-sector job destructions in industry have gradually gained pace. This trend is likely to continue over the forecasting period. Industrial employment (excluding temporary workers used by this sector) should fall by 29,000 jobs in H2 2012 (after -13,000 jobs in H1) then 43,000 in H1 2013 (*see Graph 4*).

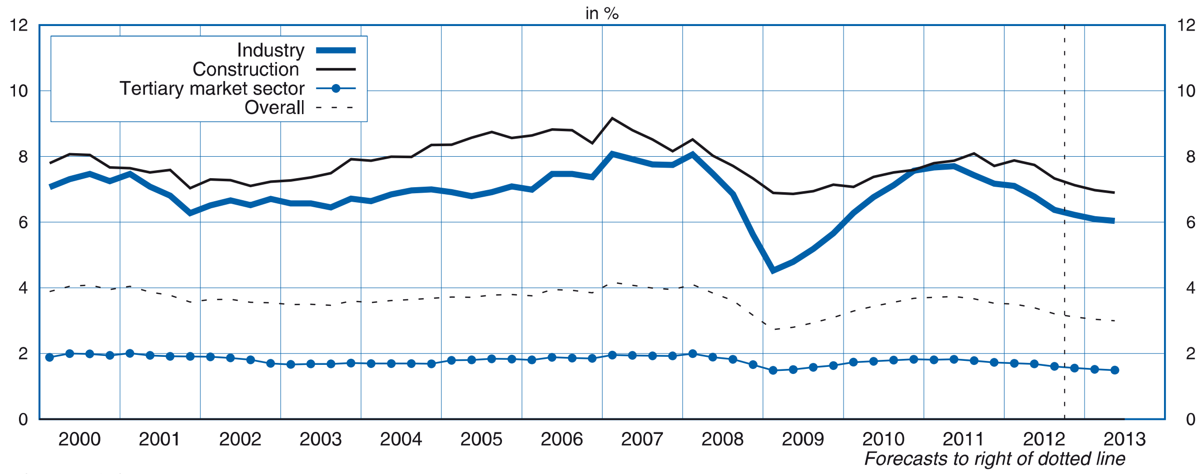
Since mid-2011, the volume of jobs used in industry, i.e. including temporary workers working in this sector, has dropped even more sharply. The temporary employment utilisation rate in industry has fallen sharply, from 7.9% in Q2 2011 to 6.4% in Q3 2012. The number of temporary workers in industry fell by 16,000 in H1 2012 and by 16,000 in Q3 2012. Over the forecasting period, the temporary employment utilisation rate, which is now at a low level, should stabilise.

2- Non-agricultural market paid employment



Source: INSEE

3 - Rate of use of temporary employment by sector



Source: INSEE

All in all, industrial employment including temporary work is set to fall by 53,000 in H2 2012, then by 51,000 in H1 2013. This decline is comparable to that observed on average since the start of the 2000s, despite the particularly poor current economic climate, thus translating a certain resistance on the part of manufacturing employment which has been visible since the start of 2009.

Employment in construction set to decline further

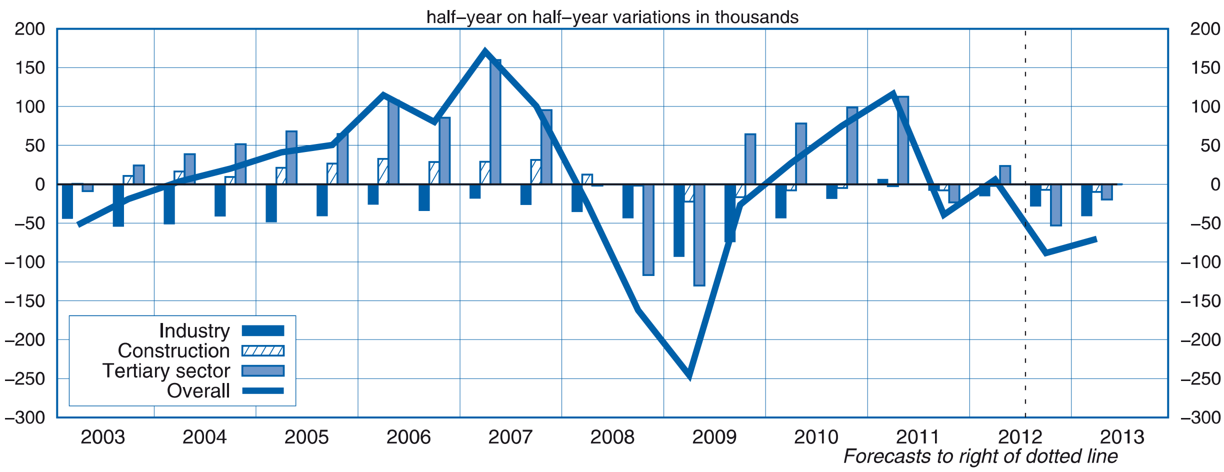
Paid employment in construction has been falling almost continuously since 2008. Overall job losses since the crisis have reached a quarter of those in the manufacturing industry. The sector lost 11,000 jobs in 2011 and 2,000 more in H1 2012. Employment in construction should continue to fall over the forecasting period and this decline should gather pace, in line with the expected decline in production: 7,000 jobs are set to be lost in H2 2012, then 13,000 in H1 2013.

Rise in non market-sector employment

After shedding 32,000 jobs in 2011, non market-sector employment should progress by 26,000 jobs in 2012. This progress should be even more sustained in H1 2013 (+31,000).

This rebound in non market-sector employment should come largely from the growth in subsidised contracts. The number of newcomers to the subsidised contract schemes should indeed rise in 2012 compared with 2011, thanks to the contracts provided by the Finance Law and the supplementary contracts announced by the government in June and October 2012 (+403,000 after +356,000). The number of such beneficiaries should stabilise in H2 2012 after increasing sharply at the start of the year. In H1 2013, thanks to the sharp rise in "Future Jobs" contracts and the dynamic number of newcomers over previous months, the number of subsidised contract beneficiaries should increase.■

4 - Paid employment in the non-agricultural market 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				
	2011	2012	2012 H1	2012 H2	2013 H1	2011	2012	2012 H1	2012 H2	2013 H1	2011	2012	2012 H1	2012 H2	2013 H1
Market sector employees (1)+(2)	**66**	**-61**	**16**	**-77**	**-63**	**0.4**	**-0.3**	**0.1**	**-0.4**	**-0.4**	**18032**	**17972**	**18049**	**17972**	**17909**
Mainly non-agricultural market sectors (1) (private establishments only)	**15**	**25**	**13**	**12**	**12**	**0.8**	**1.3**	**0.7**	**0.6**	**0.6**	**1933**	**1958**	**1946**	**1958**	**1970**
Mainly non-market sectors (2)	**52**	**-86**	**3**	**-89**	**-75**	**0.3**	**-0.5**	**0.0**	**-0.6**	**-0.5**	**16100**	**16014**	**16103**	**16014**	**15939**
Industry	-6	-42	-13	-29	-43	-0.2	-1.3	-0.4	-0.9	-1.3	3291	3248	3278	3248	3205
including: Manufacturing industry	-11	-45	-17	-29	-38	-0.4	-1.6	-0.6	-1.0	-1.3	2920	2874	2903	2874	2837
Construction	-11	-9	-2	-7	-13	-0.8	-0.7	-0.2	-0.5	-0.9	1439	1430	1437	1430	1417
Tertiary market sector	69	-34	18	-52	-20	0.6	-0.3	0.2	-0.5	-0.2	11370	11336	11388	11336	11316
including: Trade	*20*	*-4*	*-2*	*-3*	*0*	*0.7*	*-0.1*	*-0.1*	*-0.1*	*0.0*	*3024*	*3020*	*3022*	*3020*	*3020*
Market services (including temporary work)	*49*	*-29*	*20*	*-49*	*-20*	*0.6*	*-0.4*	*0.2*	*-0.6*	*-0.2*	*8346*	*8316*	*8366*	*8316*	*8297*

	Job creations over the period (in thousands)					Change in employment over the period (in %)				
	2011	2012	2012 H1	2012 H2	2013 H1	2011	2012	2012 H1	2012 H2	2013 H1
Mainly non-agricultural market sectors	**52**	**-86**	**3**	**-89**	**-75**	**0.3**	**-0.5**	**0.0**	**-0.6**	**-0.5**
Agricultural employees	**-4**	**-4**	**-2**	**-2**	**-2**	**-1.6**	**-1.8**	**-0.9**	**-0.9**	**-0.9**
Mainly non-market service sectors (including private establishments)	**-32**	**26**	**25**	**2**	**31**	**-0.4**	**0.3**	**0.3**	**0.0**	**0.4**
Self-employed	**60**	**24**	**12**	**12**	**0**	**2.5**	**1.0**	**0.5**	**0.5**	**0.0**
Total Employment	**76**	**-39**	**38**	**-77**	**-46**	**0.3**	**-0.1**	**0.1**	**-0.3**	**-0.2**

Forecast

(1) Sectors OQ (private workers)

(2) Sectors DE to MN and RU

How to read it: 63,000 jobs should be destroyed in the market sector during H1 2013. This corresponds to a decrease of 0.1% over the half-year. This sector should employ 17,909,000 workers at June 30th 2013

Source: INSEE

Table 2

Change in subsidised employment in the non-market sector

in thousands

	2010	2011	2012H1	2012H2	2012	2013H1
Employs for the future						46
(CUI-CAE replaces CAE+CAV on 01/01/10)	241	-37	24	-4	20	-4
Contract to Support Employment (CAE)	-163	-8	0	0	0	0
Contract for the Future (CAV)	-63	-5	0	0	0	0
Young worker's contract	-2	0	0	0	0	0
Total	**13**	**-50**	**24**	**-4**	**20**	**41**

Forecast

Note: Including renewal addenda

Source : DARES, INSEE

Unemployment

The unemployment rate rose in Q3 2012, for the fifth consecutive quarter. It stood at 9.9% of the active population in Metropolitan France (10.3% including overseas departments), up from 9.8% (10.2% including overseas departments) in Q2 2012.

The unemployment rate should continue rising throughout the rest of the forecasting period. By mid-2013 the rate is expected to stand at 10.5% in Metropolitan France (10.9% including overseas departments).

In Q3 2012, the rate of unemployment reached 9.9% of the active population

In Q3 the rate of unemployment rose by 0.1% in Metropolitan France *(see Graph 1)*, reaching 9.9% of the active population in Metropolitan France (10.3% including overseas departments), with 2.8 million out of work. From its mid-2011 low point, the unemployment rate has risen by 0.8 points. On the one hand, total employment has remained generally stable over the 5 intervening quarters. On the other hand, the active population has increased steadily, with 253,000 more people in activity since mid-2011. The effects of retirement reform, and particularly the raising of the legal retirement age from 60 to 60 years and 4 months, have contributed to this dynamic expansion of the active population.

The rise in unemployment since mid-2011 has had a greater effect on men...

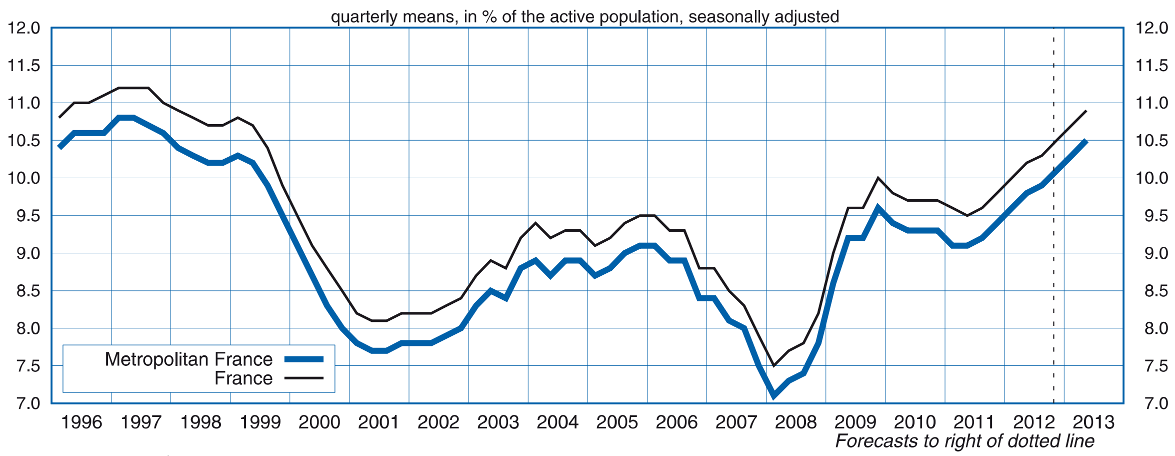
For both women and men the rate of unemployment is now higher than its previous peak rate *(see Graph 2)*. While the rise in the unemployment rate has been less significant for women than it has for men, in reality women were barely affected at all by the fall in unemployment that occurred between late 2009 and mid-2011. Indeed a large proportion of the jobs created in 2010 came in the temporary work sector, where men are overrepresented. Moreover, since mid-2011 the temporary, industrial and construction sectors have been shedding jobs which are more frequently occupied by men *(see "Employment" note)*.

... and is affecting all age groups

The unemployment rate among people aged 25 to 49 has been stable at 8.9% since the start of 2012, with unemployment among those aged 50 and over rising to reach 6.9%. From its mid-2011 low point, the rate of unemployment in these two age groups has risen by 0.7 points.

The unemployment rate among active people under 25 rose by 1.4 points in Q3 2012, settling at 24.2%. This population has a highly specific activity behaviour. A large number of under-25s

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

are still studying without working in parallel. They are thus inactive. When the number of young unemployed people is related to the 15-24 population as a whole, the rate is lower than their unemployment rate. It stood at 9.1% in Q1 2012, or just 1.1 points above the proportion of unemployed in the 25-49 age group. These figures have risen in a largely proportional fashion since mid-2011, rising by 0.6 and 0.7 points respectively.

Unemployment will continue to rise between now and mid-2013...

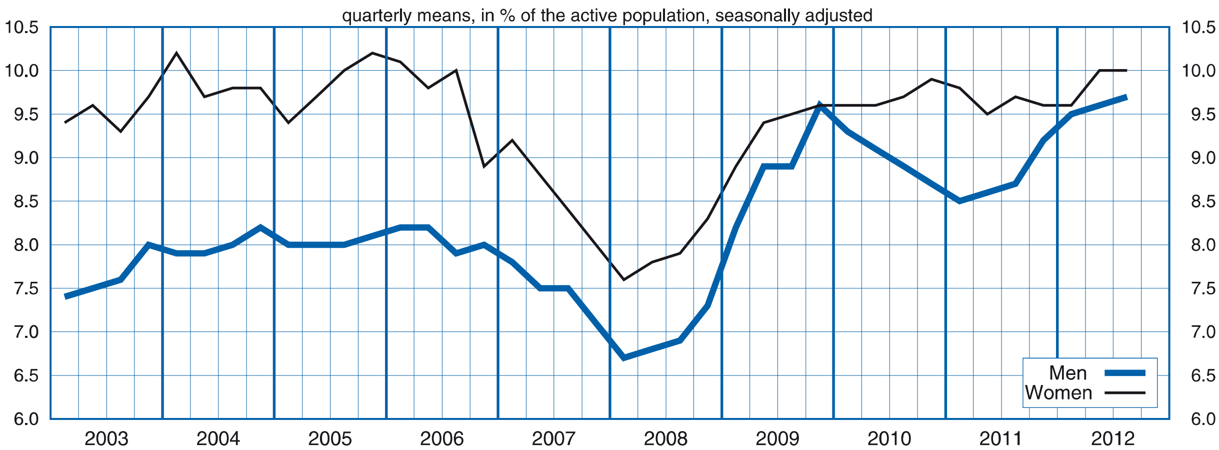
Over the forecasting period, the unemployment rate should continue to rise. It should reach 10.1% in Metropolitan France by the end of 2012 (10.5% including overseas departments), then 10.5% in Q2 2013 (10.9% including overseas departments). We should continue to see many job losses: total employment should fall by 38,000 in Q4 2012, then by a further 49,000 in S1 2013 *(see Table)*.

... despite a slower rate of growth of the active population

The expansion of the active population should be less dynamic within the forecasting period. On the one hand, the underlying trend of active population growth should be slightly weaker as of the start of 2013: we should see a rise of 36,000 in Q4 2012 and just 30,000 in Q1 2013 *(see Table)*. Indeed since 2011 the first wave of the baby boom generation have now passed the full retirement age (65 years and 4 months), meaning that the general demographics of the active population are less dynamic: those generations entering the 15-64 age group are smaller in number than those leaving this group. In 2013, this trend will be accelerated: more and more we will see highly-populous generations being replaced by less-populous generations. On the other hand, the rise in the rate of activity among older people resulting from the 2010 reforms to the retirement age continues to drive the growth of the active population. This effect should nonetheless be less pronounced in 2013.

Moreover, two further effects could potentially impact on the underlying trend. The entry into force, as of November 2012, of the decree of 2nd July 2012 introducing new measures which allow for retirement at age 60 for those who have worked for a certain number of years is expected to slow down the growth of the active population. On the other hand, the decree of 29th December 2011 postponing by one month the age of entitlement to pensions for people born after 1st January 1952 is likely to increase the number of older workers on the labour market, starting from the second half of 2012. The effects of these two mechanisms should balance each other out. They have been accounted for as consequences of public policy decisions *(see Table)*, along with the effects of internships and training courses on the job market.■

2 - Rate of unemployment in the sense of the ILO by sex



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

	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2009	2010	2011	2012	2013
	Quarterly changes										Annual changes				
Population of the 15-64 age group	31	17	2	-9	-16	-15	-15	-15	-14	-14	110	150	41	-61	-28
Population of the 15-59 age group	-21	-16	-12	-9	-10	-13	-14	-13	-9	-6	-120	-102	-58	-49	-15
Active population	**15**	**36**	**50**	**47**	**69**	**84**	**3**	**36**	**23**	**36**	**248**	**39**	**148**	**193**	**59**
including:															
(a) Contribution of the population and the trend participation rate	*41*	*41*	*41*	*41*	*36*	*36*	*36*	*36*	*30*	*30*	*148*	*159*	*164*	*144*	*59*
(b) Estimated bending effects	*1*	*1*	*0*	*0*	*1*	*1*	*0*	*-1*	*-1*	*0*	*-7*	*1*	*2*	*0*	*-1*
(c) Estimated effects of public policies	*-9*	*-2*	*-1*	*-5*	*8*	*-2*	*2*	*1*	*-6*	*7*	*49*	*-57*	*-17*	*9*	*1*
(d) Other short-term fluctuations (residual)	*-18*	*-5*	*10*	*11*	*24*	*50*	*-34*	*0*	*0*	*0*	*58*	*-64*	*-2*	*40*	*0*
Employment	**50**	**57**	**13**	**-19**	**12**	**19**	**-25**	**-38**	**-26**	**-23**	**-281**	**123**	**101**	**-33**	**-50**
Reminder: End-of-period employment (see "Employment" note)	*65*	*50*	*-24*	*-14*	*39*	*-1*	*-50*	*-27*	*-26*	*-21*	*-215*	*124*	*76*	*-39*	*-98*
ILO unemployment	-35	-22	37	66	57	66	29	74	50	59	529	-84	47	226	109
	Quarterly means														
ILO unemployment rate (%)															
Metropolitan France	9.1	9.1	9.2	9.4	9.6	9.8	9.9	10.1	10.3	10.5	9.6	9.3	9.4	10.1	10.5
France (including overseas departments)	9.6	9.5	9.6	9.8	10.0	10.2	10.3	10.5	10.7	10.9	10.0	9.7	9.8	10.5	10.9

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