

French **developments**



Review of the previous forecast

As predicted in March's *Conjoncture in France*, activity rebounded in Q1 2015, but with a little more vigour (+0.6% after 0.0%) than anticipated (+0.4% after +0.1%). Household consumption picked up more than expected and investment remained almost unchanged: domestic demand therefore contributed +0.5 points to growth (against a forecast of +0.4 points). Foreign trade hindered growth (-0.5 points), but was offset by the contribution made by change in inventories (+0.5 points). The forecast for growth in Q2 remains unchanged, with domestic demand slowing slightly and foreign trade becoming more buoyant.

Market-sector employment was virtually stable (-1,000) due to strong growth in the tertiary sector, whereas a drop had been forecast (-18,000). Unemployment fell back, especially among older workers, with the unemployment rate falling to 10.3%, against a forecast of a slight increase. Predictions of a moderate increase in employment and a slight rise in unemployment require little revision for Q2. Inflation at the end of Q1 2015 was not as high (-0.1% over the 12-month period) as forecast (0.0%). For June, the forecast for inflation has been revised upwards (+0.3% against -0.1%), mainly because of the rebound in oil prices.

Activity rebounded rather more than expected in Q1 2015

In Q1, activity bounced back (+0.6% after 0.0%) a little more than forecast in March's *Conjoncture in France* (+0.4% after +0.1%). Total production did

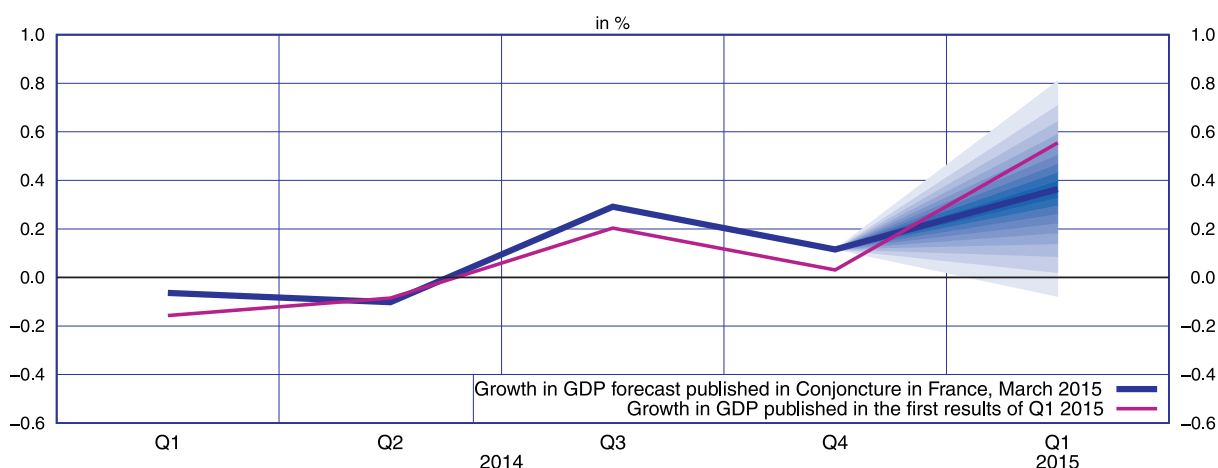
indeed increase more sharply (+0.7%) than expected (+0.4%). This increase was driven by the vigour of the production of manufactured goods (+1.3% against +0.4% in March's *Conjoncture in France*). Energy-water-waste production also picked up more than anticipated, but to a lesser extent (+3.8% against +2.9%). The production of services was surprisingly higher than expected, both in trade (+1.1% against +0.4%) and in market services excluding trade (+0.5% against +0.4%) via a knock-on effect from the manufacturing sector. However, production in construction fell back more than expected (-1.0% against -0.7%).

Domestic demand was even more buoyant than expected

As expected, domestic demand contributed to the acceleration of GDP, but more than anticipated (+0.5 points against +0.4 points). Household consumption picked up to a greater extent (+0.8%) than forecast (+0.6%), especially in engineered products (+1.4% against +1.0%). Consumption of energy-water-waste also increased (+8.4%) a little more vigorously than forecast (+7.5%).

Total investment declined a little less than predicted (-0.2% against -0.3% in March's *Conjoncture in France*) with corporate investment proving slightly more dynamic than forecast (+0.2% against 0.0%), especially that on manufactured products (+1.0% against -0.1%) and services (+0.5% against +0.3%), whereas construction expenditure

1- Fan chart for *Conjoncture in France* for March 2015 and growth achieved



Source: INSEE

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fell more than predicted (-1.2% against -0.4%). Household investment also shrank more than anticipated (-1.4% against -1.0%). While a fall in general government investment was expected (-0.5%), in fact it increased slightly (+0.3%).

The trade balance was much more negative than forecast (contribution to growth of -0.5 points against a predicted neutral contribution), mainly because imports experienced a surprising upturn (+2.3% against +0.8%), especially crude oil and aeronautical products. Exports, as expected, remained dynamic (+0.9% against +0.8%), after a very buoyant Q4.

The surprise with imports was offset by change in inventories which contributed around +0.5 points to GDP growth (neutral contribution was forecast), +0.4 points of which were due to transport equipment inventory.

The growth forecast for Q2 2015 remains unchanged

The GDP growth forecast for Q2 2015 is identical to that in March's *Conjoncture in France* 2015 (+0.3%).

Total production is likely to increase by 0.3%, as predicted in the previous *Conjoncture in France*. More specifically, manufacturing output should increase by 0.3% (as previously forecast), while a downturn is likely in energy production (-0.8% against a slight increase in the previous *Conjoncture in France*). Production in construction should decline only a little less than in Q1.

Domestic demand should contribute around +0.2 points to growth in Q2, as in the previous *Conjoncture in France*. Household consumption is likely to slow a little more (+0.2% against +0.3% in March's *Conjoncture in France*), especially on energy-water-waste (-3.0% against -0.2% expected). Consumption of manufactured goods is set to slow (+0.3% against +0.4% expected). Total investment is likely to remain almost unchanged (-0.1% against -0.3% expected): the slightly sharper increase in investment by non-financial enterprises (+0.3% against +0.1%) and by general government should only partially be offset by the more pronounced decline in household investment (-1.2% against -1.0% in March's *Conjoncture in France*).

In reaction to Q1, foreign trade is likely to make a positive contribution to the increase in activity (+0.3 points, against +0.1 points expected

previously). Exports should accelerate as originally forecast (+1.4% against +1.2%), especially in goods (+1.6%). However, imports are expected to slow markedly (+0.3% against +0.8% expected in the previous *Conjoncture in France*), because of the decline in energy imports (-5.5%) and the slower growth in manufactured imports (+0.8% against +1.0%).

Total employment was more buoyant than forecast in Q1 2015 (+20,000 jobs against +1,000 forecast). Market-sector employment in particular remained almost unchanged (-1,000) whereas a fall had been predicted in March's *Conjoncture in France* (-18,000). While employment in industry (-8,000 against -11,000) and construction (-11,000 against -12,000) was in line with the forecasts, temporary work, rather than stabilising as expected, in fact decreased (-9,000), while non-temporary tertiary employment increased more sharply than predicted (+27,000 against +5,000). The unemployment rate for the whole of France fell back slightly to 10.3% (after 10.4% at the end of 2014), mainly due to the reduction in unemployment among older workers, against the slight increase to 10.5% expected in March's *Conjoncture in France*.

In Q2, employment in the non-agricultural market sector should grow by 7,000 jobs, as forecast in March's *Conjoncture in France* (+5,000). The unemployment rate is likely to increase slightly, to 10.4%.

The forecast for headline and core inflation is adjusted upwards

Inflation at the end of Q1 2015 was slightly lower (-0.1% year-on-year) than predicted in March's *Conjoncture in France* (0.0%), while core inflation reached +0.2%, as forecast. By mid-2015, inflation is likely to be higher (+0.3%) than predicted in March's *Conjoncture in France* for March (-0.1%). On the one hand, the forecast for the price of Brent has been revised significantly upwards (\$65 against \$55). On the other hand, core inflation is likely to be higher in June (+0.5%) than predicted in the previous *Conjoncture in France* (+0.1%), as the prices of several imported goods surprisingly rose in March and April, partly because the impact of the earlier depreciation of the Euro had been stronger than expected. ■

Output

Q1 2015 saw a surge in production of goods and services (+0.7%), after stagnation in Q4 2014. GDP growth likewise increased substantially, reaching +0.6% in Q1 after 0.0% in Q4 2014. Activity accelerated in most branches: manufacturing industry (+1.3% after +0.1%), energy-water-waste (+3.8% after -2.5%), trade (+1.1% after +0.4%) and, to a lesser extent, market services (+0.5% after +0.2%). In construction, activity has continued to decline, at virtually the same pace as at the end of 2014 (-1.0% after -0.9%).

In May 2015, the business climate in France improved further, having gained six points in all since the lull in September 2014. It is nevertheless still below (97) its long-term average (100): the climate indicator is higher than average in industry and trade, but this is not the case of construction and services.

As a result, the production of goods and services is likely to continue to increase albeit slowly in Q2 2015 (+0.3%). It should improve a little more quickly in H2 (+0.4% per quarter), as the decline in construction eases (-0.7% in Q2, then -0.4% in Q3 and -0.2% in Q4).

The business climate has improved since September 2014

In Q1 2015, the production of goods and services bounced back strongly (+0.7% after 0.0% in Q4 2014), especially in energy and industry. The business climate has improved markedly across all

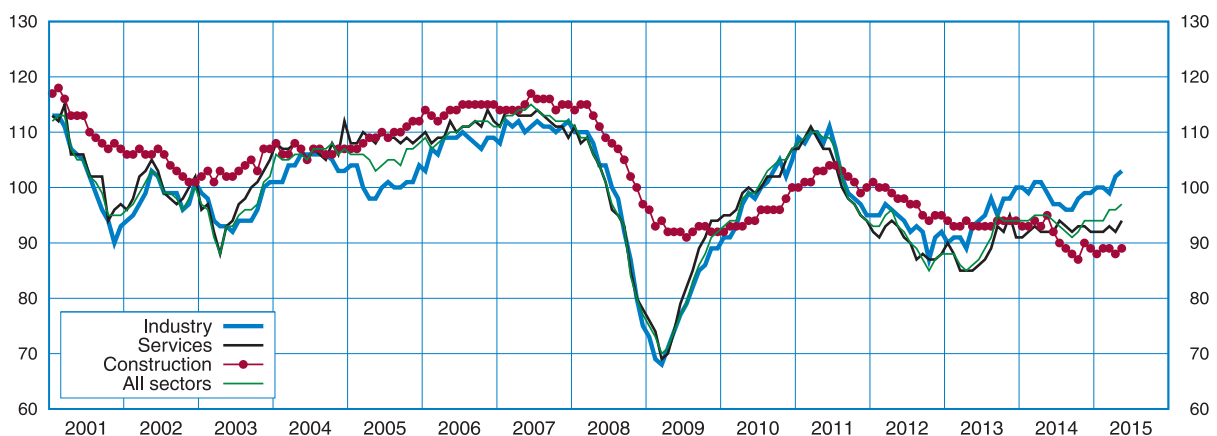
sectors over the last few months: in May 2015, its composite indicator reached 97, which was 6 points above its level in September 2014 (91), although still below its long-term average (100). However, since the beginning of 2015, the business climate indicator has moved above its long-term average in trade and industry (*Graph 1*).

The improvement in the short-term outlook suggests that activity should once again progress in Q2 (+0.3%), but more slowly in reaction to the strong buoyancy of industry and energy-water-waste at the beginning of the year. The growth in production should then pick up slightly (+0.4% per quarter in H2), mainly due to a lesser decline in the construction industry. On average across the year, the production of goods and services is expected to increase more sharply in 2015 (+1.4%) than in 2014 (+0.7%).

After a very buoyant Q1, energy production is set to stabilise in the course of 2015

Energy production followed the profile of heating expenditure and surged in Q1 2015 (+3.8%), after a marked downturn at the end of 2014 (-2.5%). In Q2, it should fall back once again, but to a lesser extent (-0.8%), before returning to a pace of growth similar to the trend in Q2 (+0.4% then +0.5% in Q3 and Q4). On average over the year, energy production is likely to increase by 2.6% in 2015, after a sharp downturn in 2014 (-3.5%), a year marked by a very mild autumn and winter.

1 - Business climate in France: all sectors, industry, services and building construction



Source: INSEE

French developments

Across the whole of 2015, manufacturing output likely to increase sharply

Manufacturing output gathered pace in Q1 2014 (+1.3% after +0.1%), especially in the transport equipment (+5.6%) and coking-refining (+5.8%) branches.

According to the business tendency survey in industry, the balance of opinion on past production increased sharply between March and May 2015, but personal opinions on production prospects have fallen back slightly since the beginning of the year (*Graph 2*). In Q2, it is likely that manufacturing output will continue to increase (+0.3%), but less than in the previous quarter. In H2, manufacturing output is likely to continue to grow (+0.3% then +0.4%) at a faster pace than average quarterly growth since 2000 (0.0%).

Across the whole of 2015, manufacturing output should increase by 2.0% (after +0.3% in 2014), the biggest rise since 2011.

In the construction industry, activity likely to continue to fall back

In Q1 2015, production in construction continued to deteriorate (-1.0%, after -0.9% in Q4 2014), as activity declined once again in both building and civil engineering.

In the building sector, entrepreneurs report deteriorated activity and order books that are still far below usual levels (*Graph 3*). Even though in the opinions of property developers the prospects for housing starts have improved since the beginning of the year, the number of housing starts for new housing has continued to fall, especially for individual dwellings. In civil engineering, entrepreneurs remain pessimistic (*Graph 3*). It is likely that output across the whole of the

construction sector will continue to deteriorate in Q2 2015 (-0.7%) then decline less sharply in H2 (-0.4% in Q3 then -0.2% in Q4). Over 2015 as a whole, output is set to drop by 3.2% in construction, after -2.2% in 2014, i.e. a cumulated decline of -14% since 2008.

Trade activity likely to remain buoyant

Trade activity increased sharply in Q1 2015 (+1.1% after +0.4% in Q4 2014), mainly due to the combined buoyancy of household consumption and exports of manufactured goods.

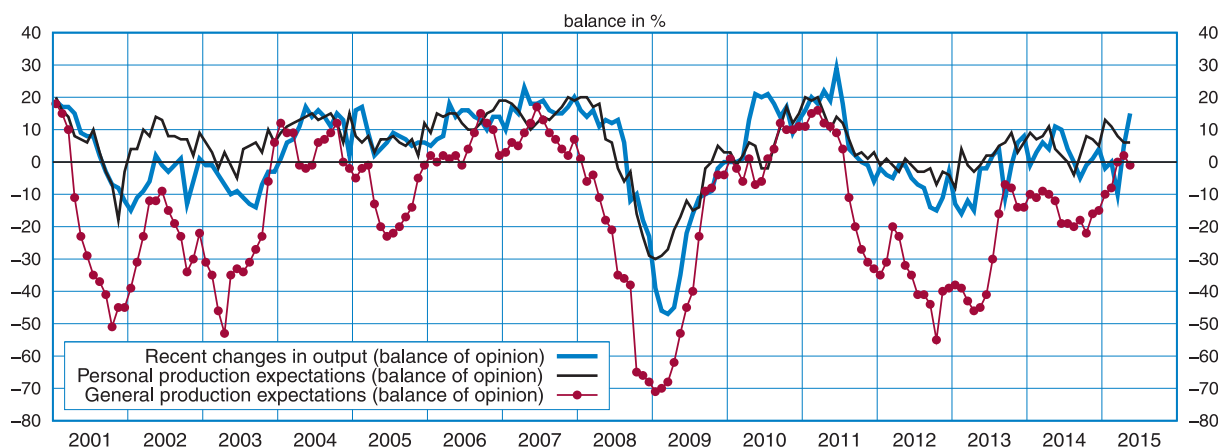
In May 2015, the business climate improved in both the wholesale trade and the retail trade, as well as in the automobile trade; the indicator is now above its average level. Previous activity was particularly sustained in the automobile trade: the corresponding balance of opinion is at its highest level since the survey started in 2003. Retailers and wholesalers alike remain optimistic about the future: in both surveys, order intentions and general prospects are improving, with balances of opinion now above their average. According to wholesalers in particular, foreign trade is likely to be more encouraging in the coming months.

In Q2 2015, growth in trade activity is likely to continue, albeit on a lesser scale (+0.7%), driven by both domestic and foreign demand which have remained buoyant. It is likely to maintain virtually the same pace until the end of the year (+0.5% then +0.6% per quarter in H2 2015).

In market services, activity should pick up somewhat

Production of market services (excluding trade) picked up in Q1 2015 (+0.5% after +0.2% in Q4 2014). Activity grew in all branches of services with the exception of transportation (-0.1% after

2 - Opinion on production in manufacturing industry



Source: INSEE

+0.5%). It accelerated in accommodation and catering (+0.5% after -0.1%), information-communication (+1.1% after +0.1%) and other service activities (+1.2% after +0.5%).

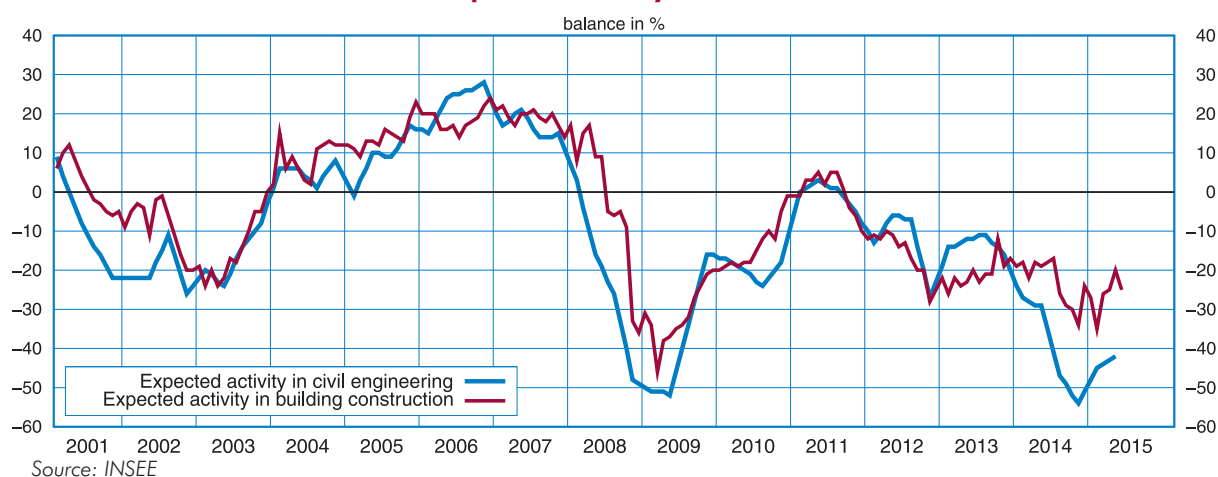
According to business leaders, the short-term outlook for the service sector - which had been almost unchanged since the end of 2013 - has improved since the beginning of the year. In May, it stood at 94, although this is still below its long-term average (100). Activity is therefore likely to continue to pick up moderately until the end of 2015 (+0.4% in Q2 then +0.5% in Q3 and +0.6% in Q4), close to its average since 2000 (+0.5% per quarter). Over the whole of 2015,

growth in production of market services excluding trade should increase (+1.6%, after +1.1% in 2014).

Activity likely to slow slightly in mainly non-market services

Production of mainly non-market services picked up slightly in Q1 2015 (+0.4% after +0.3% in Q4 2014). It should increase at a similar pace through the end of 2015 (+0.4% in Q2 and +0.3% per quarter in H2). All in all, production in this sector is likely to increase by 1.4% in 2015, i.e. at a very similar pace to that of previous years (+1.3% in 2014, +1.4% in 2013). ■

3 - Prospects for activity in construction



Industry production at prices of the previous year chained

seasonally and working-day adjusted data. in %

	quarterly changes												annual variations		
	2013				2014				2015				2013	2014	2015
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Agriculture (2%)	-0.3	0.1	1.3	1.5	1.8	1.6	1.0	-0.2	-0.5	-0.4	-0.4	-0.3	0.0	5.4	-0.3
Manufacturing industry (20%)	-0.2	2.1	-1.2	0.4	0.2	-0.6	0.6	0.1	1.3	0.3	0.3	0.4	-0.3	0.3	2.0
Energy, Water and Waste (4%)	0.7	1.4	-2.7	-1.1	-2.4	0.7	1.6	-2.5	3.8	-0.8	0.4	0.5	0.7	-3.5	2.6
Construction (8%)	-0.1	0.9	0.1	-0.1	-0.7	-1.2	-1.0	-0.9	-1.0	-0.7	-0.4	-0.2	-0.4	-2.2	-3.2
Trade (10%)	0.3	1.0	0.0	0.7	-0.1	0.3	0.7	0.4	1.1	0.7	0.5	0.6	1.6	1.4	2.7
Market services excluding trade (41%)	-0.3	0.6	0.0	0.4	0.3	0.2	0.4	0.2	0.5	0.4	0.5	0.6	0.5	1.1	1.6
Non-market services (15%)	0.3	0.6	0.2	0.4	0.3	0.3	0.3	0.3	0.4	0.4	0.3	0.3	1.4	1.3	1.4
Total (100%)	-0.1	1.0	-0.3	0.4	0.1	0.0	0.4	0.0	0.7	0.3	0.4	0.4	0.5	0.7	1.4

Forecast

Weights constructed from the annual production value in 2010.

Source: INSEE

The gap between industry and services in the business tendency surveys is not expected to persist

For over two years now, INSEE's business tendency surveys have revealed a decoupling between the business climate in industry, which is better than average in spring 2015, and the climate in the service sector, which has been significantly poorer. The gap stood at 9 points in May 2015.

A similar decoupling can be observed in the growth of output (measured in the national accounts). This is not the first time that such a disparity in the business climate has been observed, and closer analysis of the previous episodes reveals that a persistent gap of over 5 points is generally closed over a period of around 8 months. However, these previous episodes do not allow us to say with any certainty whether the gap between these two sectors will be closed 'upwards' or 'downwards'.

A persistent gap between the business climates in industry and services

The opinions of industrialists have improved considerably since autumn 2014. The business climate indicator stood at 103 in May, above its long-term average (100). The balances of opinion on personal and general future output prospects have been above their long-term averages for several months now; a similar improvement has also been seen in the foreign order books, which have rebounded since October 2014 to reach their highest level since July 2011 in April 2015.

Conversely, in the service sector the business climate has been much poorer since mid-2011, standing at 94 in May 2015. Since December 2013 the indicator has fluctuated between 91 and 94, well below its long-term average. The major balances, with regard to activity, expected demand and general outlook, are all low.

This disconnect between the industrial and service branches in the business tendency surveys is broadly borne out by the activity figures in the national accounts (*Graph 1*): the year-on-year variation in manufacturing output was close to

its long-term average in early 2015 (+1.3, compared with an average of +1.2% between 1982 and 2014). On the other hand, with the same level of growth in Q1 2015 (+1.3%), output of market services (excluding trade) is far less buoyant than its long-term average (+2.8% per year).

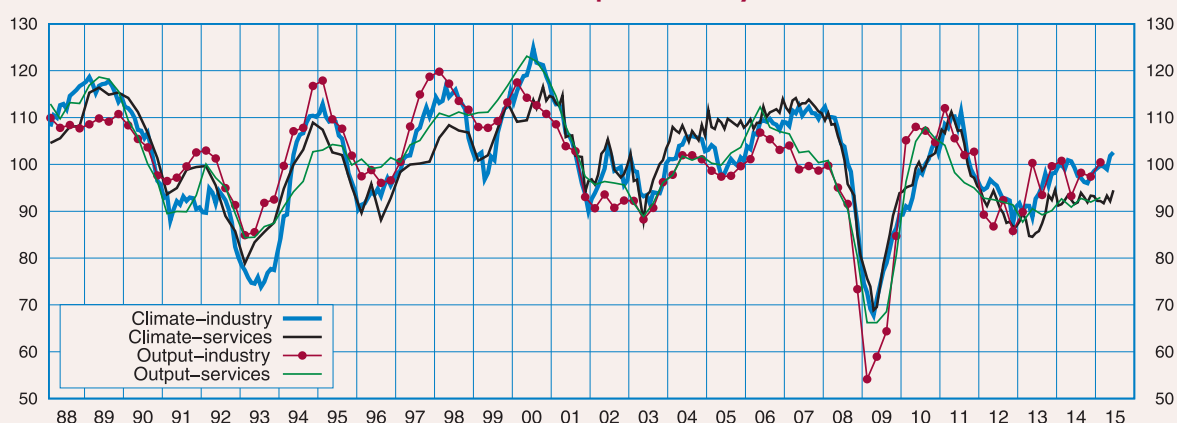
Such sector-to-sector disparities are nothing new, and generally even out

This decoupling between services and industry is not unusual, although not always so pronounced. For example, between 1997 and 1999 the business climate in industry was significantly higher than the corresponding climate in services; this gap reflected a genuine divergence in terms of output, as recorded in the national accounts. The manufacturing industry was then driven, as it is now, by strong foreign demand. The business climate in the service sector, on the other hand, stagnated for a long period and only picked up again in October 1997.

In absolute value, the average gap between the business climate in industry and that in services is 4 points. In May 2015, the gap remained over 5 points for the seventh consecutive month. Since 1988 there have been 10 instances of an absolute value gap of this scale lasting for more than three months. The average duration of these episodes is 8 months, although some have lasted longer, including the period between June 1997 and August 1998, and again between February and November 2005. In the former instance the gap was closed 'downwards' when the industry climate dropped; in the latter case the gap was closed 'upwards', with the industry climate improving to match the level of the business climate in services.

These disparities in the respective business climates in industry and services generally correspond to output growth gaps, particularly since the mid-2000s (*Graph 2*).

1 - Business climate and output in industry and services



How to read it: The business climates in industry and services are calculated monthly. Output is represented by the year-on-year variation in manufacturing output and output in market services excluding trade. The series are normalised to a mean of 100, with a standard deviation of 10.

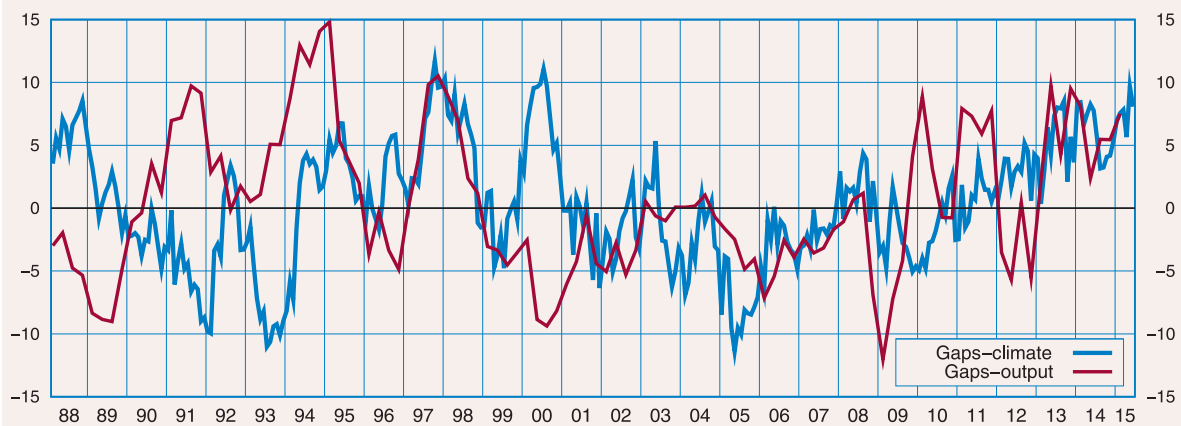
Source: INSEE

Nevertheless, this is not always the case (particularly in the early 2000s) and over the long-term the statistical relationship is not significant.

In the national accounts, in any given quarter there is a strong correlation between the respective rates of growth in the industrial and service branches: via intermediate consumption, fluctuations in activity in one branch have a knock-on effect on the other.

However, the knock-on effects for future quarters are not clearly visible in statistical terms. In this respect, on the basis of statistical analysis alone, we cannot deduce whether the services branch will 'follow' the industrial branch and benefit from the upturn in manufacturing activity in the immediate future, or whether the opposite will happen and the stagnation of services will hamper the improvement underway in industry. ■

2 - Business climate and output: gaps between in industry and services



How to read it: The business climate gap series is calculated on the basis of the difference between the respective climates in industry and services. The output gap series is calculated as the difference between the year-on-year variation in manufacturing output and the year-on-year variation in output of market services excluding trade. The business climate and output series are normalised to a mean of 100, with a standard deviation of 10.

Source: INSEE

France's International Environment

In Q1 2015, economic activity slowed slightly in the advanced countries (+0.3% after +0.5% in Q4 2014): GDP in the USA fell back (-0.2% after +0.5%) and activity in the UK was a little less vigorous (+0.3% after +0.6%). Moving in the opposite direction, activity once again accelerated in the Eurozone (+0.4% after +0.3%) and, to an even greater extent, in Japan (+1.0% after +0.3%). In the emerging countries, the outlook remained gloomy, especially in China, where activity slowed once again.

In the advanced countries, economic activity is likely to be sustained through to the end of 2015. Several favourable factors are contributing to this: on the production side, the business climate is at a high level; and on the demand side household consumption is likely to benefit from the rise in purchasing power generated by the earlier drop in oil prices and the buoyancy of wages. The gap should narrow between the USA and UK and the Eurozone. Activity in Japan is set to improve at a moderate pace, sustained by the upturn in domestic demand.

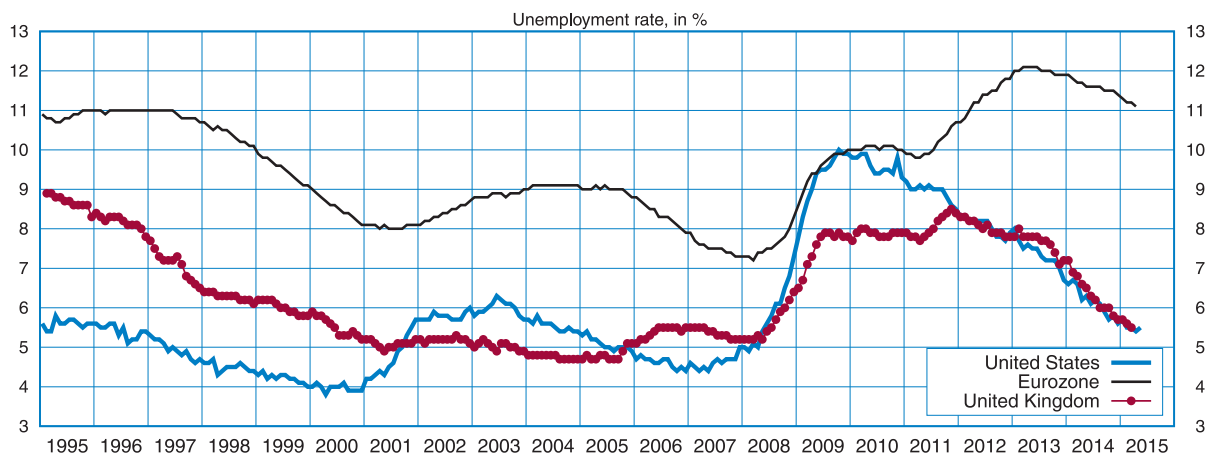
In the emerging countries, activity is likely to continue to slow: Brazil and Russia are likely to be in recession over the year as a whole, while China is set to see its lowest level of growth since 1990.

Monetary policies in western countries are expected to diverge

In March 2015, the European Central Bank (ECB) began to implement its new programme of asset purchases, including government debt, worth around 60 billion Euros per month until 2016. This policy has led to a sharp rise in the size of its balance sheet. It has helped improve credit terms for private agents and curbed market expectations of a drop in inflation. However, although headline inflation is no longer falling now that oil prices have stabilised, core inflation remains very low for the time being, barely reaching +0.6% for the year to May 2015. Despite falling almost continuously since mid-2014, especially in anticipation of the ECB's quantitative easing measures, the Euro exchange rate against the Dollar bounced back as from April 2015, while still remaining about 20% below its mid-2014 value.

In the United States, core inflation remains high (+1.8% over one year in April 2015) and still compatible with the Federal Reserve's medium-term target, even though the slow recovery and the recent appreciation of the dollar have placed a strain on prices. Solid business prospects, a slight upturn in inflation and in particular the steady improvement in the labour market (*Graph 1*) signal that the end is in sight for the status quo in monetary policy. The Fed is therefore likely to raise its base interest rates before

1 - The labor market continues to improve



Sources: BLS, ONS, Eurostat

the end of the year, a prospect that should sustain the value of the Dollar. In the United Kingdom, the increase in rates is likely to be a little while longer in coming: inflation is weaker and wages are still sluggish.

Driven by domestic demand, economic activity is likely to be sustained in the advanced countries

The slump in oil prices which started in summer 2014 came to an end in mid-January 2015, when American producers of unconventional oil and the major oil companies started to adjust their investment decisions to a low oil price. While the price of Brent has increased since the beginning of the year, it remains low: in May 2015, at \$65 per barrel, it is now around 40% below its value of one year ago. In the advanced countries, this sharp drop has given households more purchasing power, boosting their consumption and savings in Q1 (*Graph 2*). Through to the end of 2015, households are expected to adjust their savings and take advantage of this surplus purchasing power to increase their consumption expenditure once again, thereby sustaining activity.

Thus the US economy looks set to grow once more from Q2 (+0.5%), and this growth should be maintained until the end of the year (+0.6% per quarter in H2). Despite a slight slowdown in employment, household income is likely to increase vigorously, sustained by a gradual acceleration in wages. Corporate investment should bounce back after shrinking in Q1, then maintain a sustained pace of growth, in the wake of economic activity. However, the past appreciation of the Dollar is likely to continue to impact on foreign trade.

In the United Kingdom, economic activity should pick up in Q2 (+0.6%) then remain sustained in H2 (+0.5% per quarter), driven by the dynamism of domestic demand, as wages start to accelerate. Conversely, the past appreciation of the Pound should continue to take its toll on activity.

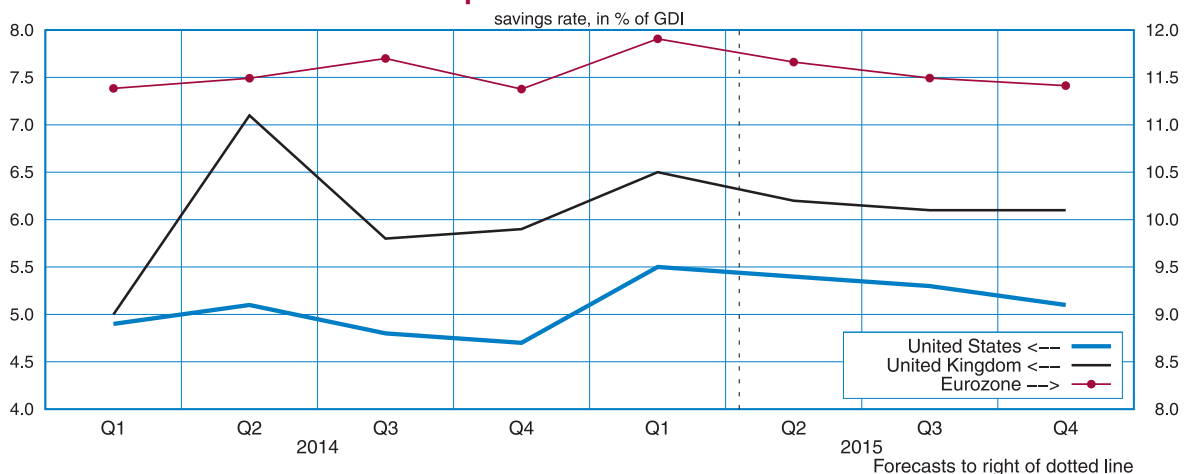
In Japan, economic activity is likely to pick up, driven by corporate investment, after a recession in 2014. Nevertheless, private consumption is likely to remain stuck at a lower level than that experienced before the VAT rise in April 2014. This VAT shock and the very modest increase in nominal wages have weighed very heavily on household purchasing power.

In the Eurozone, the upturn is set to continue (+0.4% in Q2, +0.5% per quarter in H2), driven by household consumption and the gradual pick-up of investment. Divergences are not likely to disappear altogether within the zone: Spain and Germany are likely to be the driving forces, while Italy should remain more in the background.

The situation looks set to remain gloomy in the emerging countries

At the beginning of 2015 the short-term outlook, which was already gloomy, deteriorated further in most of the larger emerging countries, especially China where activity slowed once again, but also in Brazil and Russia: it is likely that these two countries will be in recession for the whole of 2015. In Q2, the business climate in these countries remains relatively poor compared with that of the advanced countries (*Graph 3*), and this is likely to continue until the end of 2015. In China, industrial output should continue to weaken, while private investment, especially in real estate, is set to slow once more, despite a more expansionist monetary policy.

2 - The sharp upswing in purchasing power should gradually filter through to consumption in the advanced countries



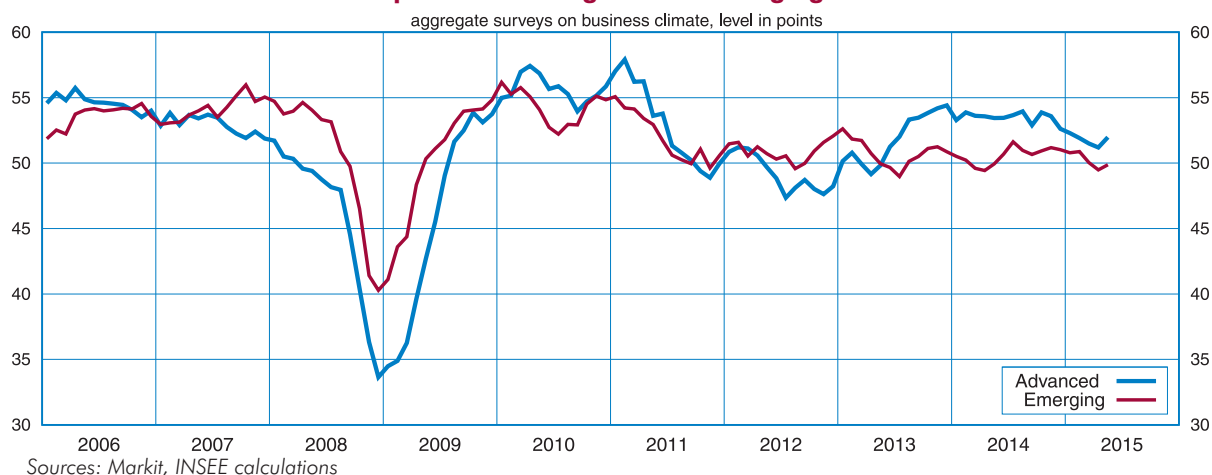
Sources: BEA, ONS, Eurostat

French developments

The poor outlook in the Asian economies, along with the effects of the American dockers' strike on trade between the United States and Asia, are partly responsible for a sharp contraction in world trade in Q1 (-1.5% after +1.2%). However, it should bounce back firmly in Q2 (+1.8%), then continue to improve, only more moderately

(+1.3% then +1.5% in H2). As French exports were less exposed to the emerging Asian countries, world demand for French products should have a less uneven profile in H1 (+0.8% then +1.0%). In H2, it should grow a little more quickly (+1.2% per quarter). ■

3 - No improvement in sight in the emerging countries



International scenario summary

	2014				2015				Annual change in %	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2014	2015
GDP of advanced economies	0.2	0.4	0.6	0.5	0.4	0.5	0.6	0.6	1.8	1.9
World trade	-0.2	0.6	2.0	1.2	-1.5	1.8	1.3	1.5	3.3	3.0
Imports of advanced economies	0.4	0.8	1.0	1.0	1.1	1.0	1.4	1.4	2.9	4.4
Imports of emerging economies	0.4	-1.0	3.6	1.5	-4.3	2.6	1.2	1.6	4.0	1.2

forecast

Reading note: imports, exports and world trade data concern only goods.

Sources: National statistical institutes, Central Plan Bureau, International Monetary Fund, INSEE forecast

Foreign trade

Exports slowed down in Q1 2015 (+0.9% after +2.5%), particularly exports of manufactured goods (+1.0% after +3.1%). They are likely to pick up in Q2 (+1.4%), due to more buoyant foreign demand and the positive impact of the sharp depreciation of the Euro at the beginning of 2015. They are subsequently expected to continue growing rapidly (+1.2% per quarter).

Imports picked up significantly in Q1 2015 (+2.3% after +1.5%), in particular purchases of aeronautical goods and crude oil. They are likely to slow down significantly in Q2 (+0.3%) in reaction to this, and then return to growth in line with domestic demand in H2 (+1.0% in Q3 then +1.1% in Q4).

After negatively affecting growth in Q1 2015 (-0.5 points), the contribution of foreign trade is expected to be positive in Q2 (+0.3 points), and neutral subsequently. On average in 2015, foreign trade is expected to cut 0.2 growth points, after -0.5 points in 2014.

World trade is expected to bounce back in Q2 and then remain relatively buoyant.

In Q1 2015, world trade shrank (-1.5% after +1.2% in the previous quarter). Asian trade declined significantly, as did that in the United States, mainly due to the effect of the American dockers' strike. In Q2, world trade is likely to bounce back in reaction (+1.8%), marking a return to normal trading patterns. It should then resume at a more moderate pace (+1.3% in Q3 then +1.5% in Q4), a little below its pre-crisis level (+1.6% per quarter between 2000 and 2007).

Despite the decline in world trade, demand for French products only dropped slightly in Q1 (+0.8%), thanks to the buoyancy of imports by its main trading partners (*Graph 1*). It is expected to pick up slightly in Q2 (+1.0%) due to the impact of the rebound of imports by emerging countries. In H2 demand should return to a pace of growth close to that of its trend since 2010 (+1.2% per quarter). Given the geographical composition of French exports, world demand for French products is likely to be sustained in particular by the buoyancy of the advanced countries (*Graph 2*), whereas the contribution of emerging countries is expected to be lower in 2015 (+0.1 points on average per quarter) than its long-term average (+0.4 points between early 2000 and mid-2013).

Exports are expected to pick up in Q2 2015

In Q1 2015, French exports of goods and services slowed (+0.9% after +2.5%, see Table), as predicted in the March edition of *Conjoncture in France*. In particular, exports of transport equipment slowed significantly after being very buoyant at the end of 2014 (-0.9% after +11.1%). However, exports of capital goods picked up (+2.6% after +1.3%), as did those of other industrial goods (+1.3% after 0.0%).

In Q2 2015, exports should pick up (+1.4%), sustained by more buoyant world demand and the earlier depreciation in the real effective exchange rate. Most notably, exports of manufactured goods are expected to grow more rapidly (+1.6% after +1.0%).

Foreign trade growth forecast

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

	quarterly changes								annual changes	
	2014				2015				2014	2015
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q2		
Exports										
All goods and services	0.5	0.2	0.9	2.5	0.9	1.4	1.2	1.2	2.4	5.2
Manufactured products (69%*)	0.5	-0.3	0.3	3.1	1.0	1.6	1.4	1.3	1.8	5.7
Imports										
All goods and services	0.7	0.9	1.8	1.5	2.3	0.3	1.0	1.1	3.9	5.6
Manufactured products (69%*)	0.3	0.7	1.5	1.4	2.2	0.8	1.4	1.5	3.7	5.9
Contribution of foreign trade to GDP	-0.1	-0.2	-0.3	0.2	-0.5	0.3	0.0	0.0	-0.5	-0.2

Forecast

Note: part of exports (resp. imports) of non-energy industrial goods in exports (resp. imports) in a whole in 2014.
Source: INSEE

French developments

In H2 2015, exports are expected to increase at the slightly slower rate of +1.2% per quarter: the real effective exchange rate should stabilise, but world demand for French products is expected to sustain sales. Exports of manufactured goods in particular are likely to slow down slightly (+1.4% then +1.3%, *Graph 3*). Exports of services are expected to increase at a rate close to their trend level (+1.3% per quarter). Over 2015 as a whole, exports are expected to rise by 5.2%, after +2.4% in 2014.

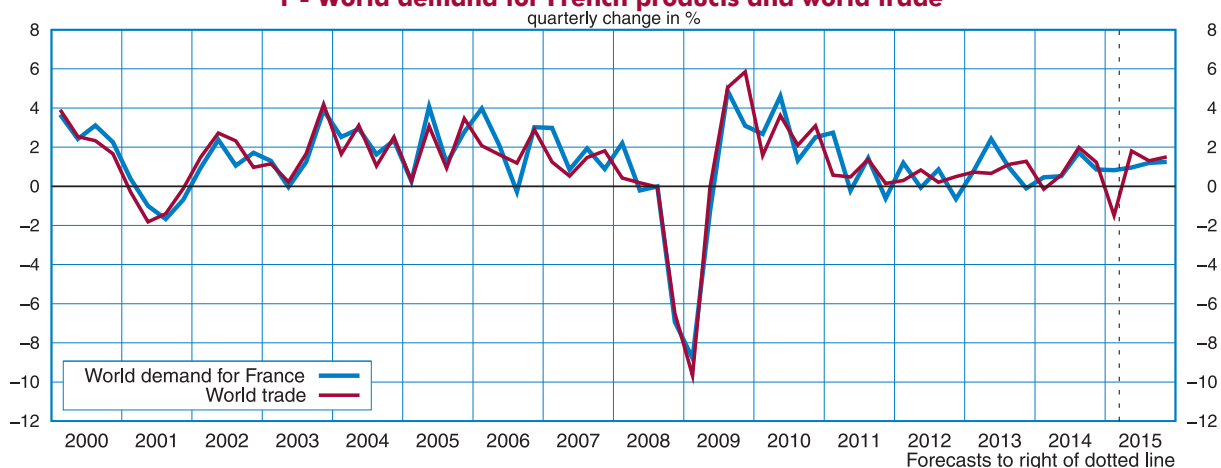
Imports likely to slow sharply in Q2 2015

In Q1 2015, imports of goods and services picked up (+2.3% after +1.5%, see Table), sustained by the buoyancy of imports of manufactured goods (+2.2% after +1.4%). In particular, imports of transport equipment grew sharply (+7.1% after +0.4%), due to the particularly high level of purchases of aeronautical goods. Likewise, energy imports accelerated significantly (+8.5% after +1.7%), particularly those of crude oil.

In reaction to these steep one-off rises, total imports are expected to be virtually stable in Q2 (+0.3%). Purchases of manufactured goods are likely to slow down (+0.8%) and energy purchases are likely to shrink (-5.5%). In H2 2015, imports are expected to pick up again (+1.0% then +1.1%), particularly purchases of manufactured goods (+1.5% on average per quarter), in line with domestic demand. Energy imports (-1.0% per quarter) and service imports (+0.9% on average per quarter) are expected to regain a momentum close to their trend level. In 2015, imports should rise by 5.6% as an annual average, after 3.9% in 2014.

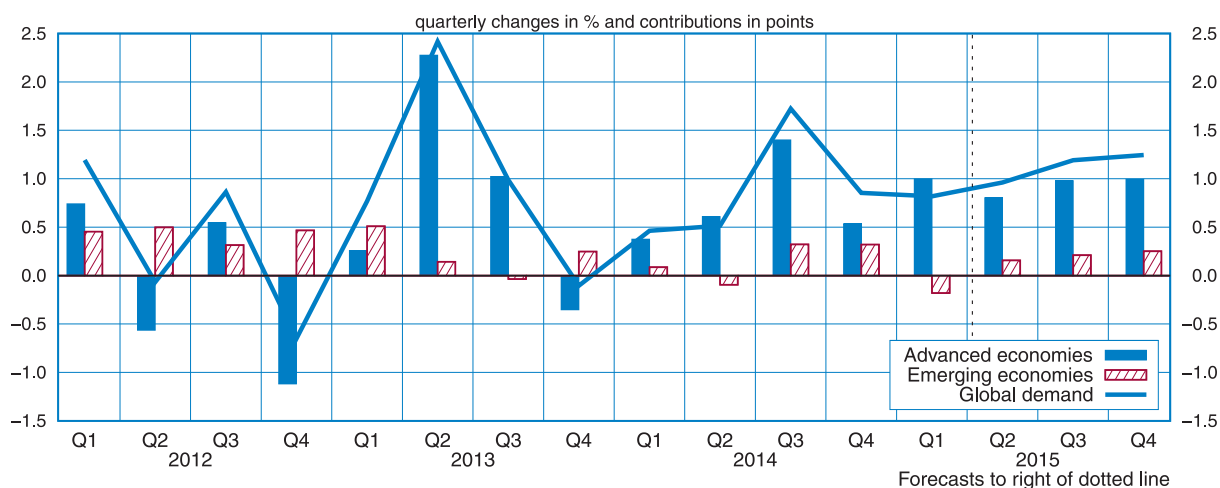
Over 2015 as a whole, the contribution of foreign trade to GDP growth is likely to be negative (-0.2 points), but have a lesser impact on growth than in 2014 (-0.5 points). It should be positive once more in Q2 (+0.3 points) then neutral in H2 2015. ■

1 - World demand for French products and world trade



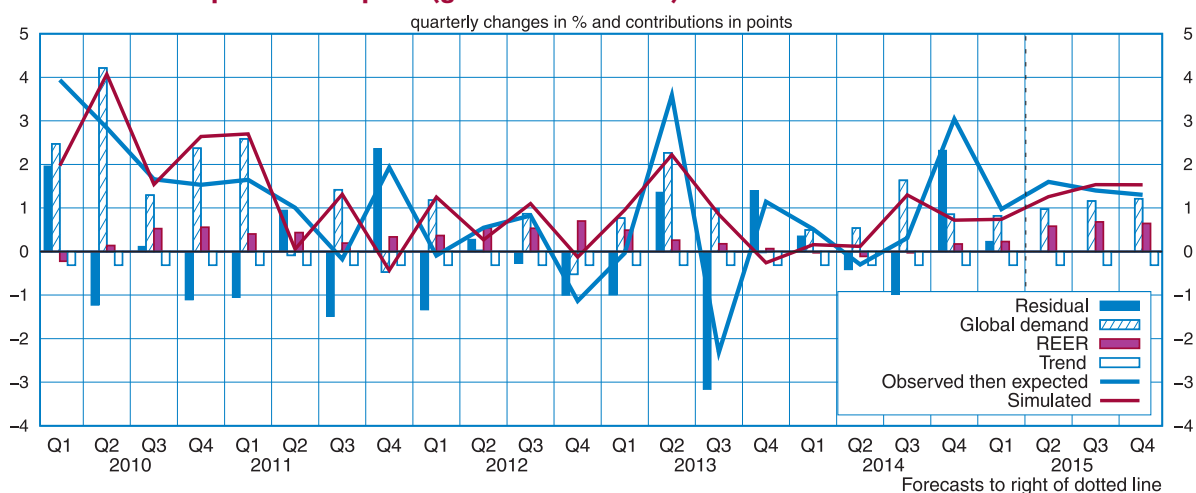
Sources: INSEE, DG Trésor, Centraal PlanBureau

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



Sources: INSEE, DG Trésor, Centraal PlanBureau

3 - Equation of exports (goods and services) and econometric contributions



The improvement in the business climate in industry since late 2014 can be attributed to exporting firms

Since July 2014, the fall in oil prices and the depreciation of the Euro have provided favourable conditions for French industrial companies. As a result the opinions expressed by business leaders have improved considerably and, in May 2015, the business climate indicator in industry was 6 points above its July 2014 level. Firms exporting in significant quantities (for whom more than 25% of total turnover comes from foreign trade) contributed 5 points to this increase (Graph).

The business climate indicator in industry is at its highest level since 2011

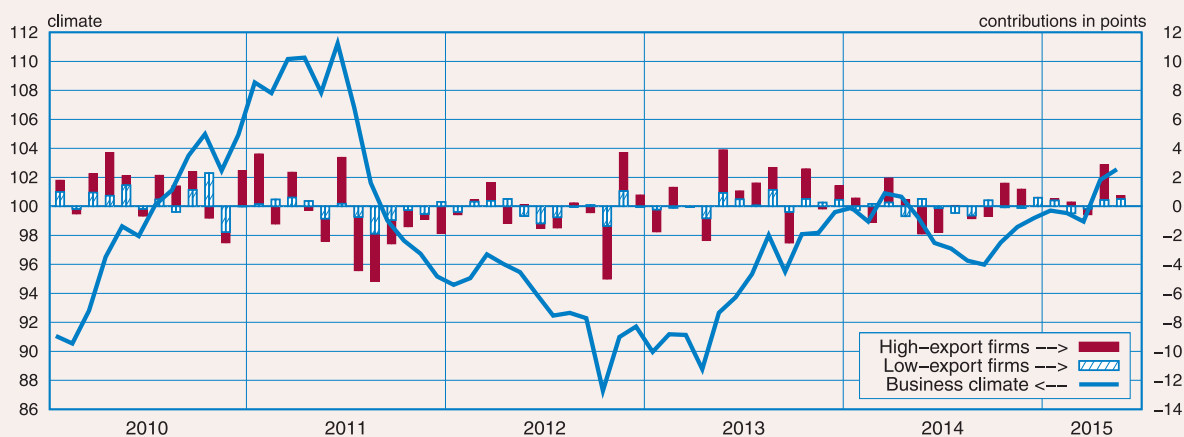
The business climate indicator in industry has risen by 3 points since the start of 2015; in May it reached 103, the highest level since August 2011. This strong improvement mirrors the sharp acceleration in manufacturing output in Q1 2015

(+1.3% after +0.1% in late 2014). If this positive trend persists, we can expect a sharp rebound in industrial output in 2015, after four years of disappointing growth.

The upturn seen in the business climate indicator in industry since the start of the year can be primarily attributed to the improvement of the opinions expressed by managers of high-export businesses regarding their own activity (Table 1).

Export-oriented firms have been the principal contributors to the sharp improvement in the balance of opinion concerning past output since the start of this year. Buoyed by export order books considered to be above their average level, they are also entirely responsible for the improvement in the balance of opinion on total order books since January, with the contribution of low-export firms virtually stable since the start of the year.

Business climate indicator in industry and contributions to its monthly change



How to read it: In April 2015, the business climate indicator in industry stood at 101.8. This represents a 2.9-point increase on the figure for March. Exporting firms accounted for 2.4 points of this increase.

Source: INSEE

French developments

The competitiveness of firms has improved significantly outside the European Union

Although French industrial firms report an improvement in the short-term outlook, they remain broadly pessimistic about their competitiveness in the French market and within the European Union. The corresponding balances of opinion are below their average levels (Table 2). However, industrialists are much more optimistic when it comes to their competitiveness outside the EU. The balance of opinion on

this point has increased by 15 points since July 2014, and is now considerably above its long-term average. Companies specialising in agrifood and capital goods were the first to contribute to the improvement in this balance of opinion, followed by their counterparts from 'other industries'. High-export firms, which have benefited from the acceleration in the depreciation of the Euro since early 2015, have also been much more numerous than usual to report a decrease in their export sales prices in Q1 2015. ■

1 - Industrialists' opinion on their activity and contributions

Balance of opinion, in %

	Average (1)	2014		2015	
		July	October	January	April
Past activity	3	4	-1	-2	5
contribution of low-export businesses	0	0	-3	-1	-2
contribution of high-export businesses	3	4	3	-1	7
Personal production expectations	5	0	8	13	6
contribution of low-export businesses	1	-1	1	1	2
contribution of high-export businesses	4	1	7	12	3
Finished-goods inventory	12	12	12	13	8
contribution of low-export businesses	8	10	11	9	8
contribution of high-export businesses	3	2	1	3	0
Global order books	-19	-23	-23	-21	-18
contribution of low-export businesses	-10	-9	-11	-9	-11
contribution of high-export businesses	-9	-14	-12	-12	-7
Export order books	-15	-21	-22	-15	-8
contribution of low-export businesses	2	5	5	5	6
contribution of high-export businesses	-16	-27	-27	-20	-14
General production expectations	-10	-19	-22	-10	2
contribution of low-export businesses	-9	-13	-17	-10	-3
contribution of high-export businesses	0	-6	-5	0	5

How to read it: In April 2015, the balance of opinion on competitive positioning in the French market stood at -2. Firms with low exports contributed -8 points to this balance, with export-oriented businesses at +6.

(1) Since February 1990

2 - Industrialists' opinion on their own competitiveness and contributions

Balance of opinion, in %

	Average (2)	2014		2015	
		July	October	January	April
Competitive position in the French market	1	-3	-7	0	-2
contribution of low-export businesses	-5	-9	-11	-7	-8
contribution of high-export businesses	6	7	4	7	6
Competitive position within the European Union	-1	-1	-8	-3	-2
contribution of low-export businesses	-2	-1	-2	-1	-1
contribution of high-export businesses	2	0	-6	-2	-1
Competitive position outside the European Union	-1	-7	-3	0	8
contribution of low-export businesses	-2	-2	-3	-2	-2
contribution of high-export businesses	1	-4	0	2	9
Past variation in prices	4	-2	-12	-9	-5
contribution of low-export businesses	3	-4	-5	-5	-5
contribution of high-export businesses	1	2	-7	-4	0
Past variation in export prices	2	-2	0	-2	-14
contribution of low-export businesses	2	1	1	0	1
contribution of high-export businesses	0	-4	-1	-2	-14

How to read it: In April 2015, the balance of opinion on competitive positioning in the French market stood at -2. Firms with low exports contributed -8 points to this balance, with export-oriented businesses at +6.

(2) Since July 1997

Source: INSEE, Monthly business survey - Insee

Employment

In Q1 2015, employment virtually stabilised in the non-agricultural market sectors, (-1,000 jobs). It should pick up slightly through to the end of the year, driven by more encouraging activity and job growth generated by the CICE (tax credit for encouraging competitiveness and jobs) and the Responsibility and Solidarity Pact. In 2015, market-sector employment should increase by 41,000 jobs (after a fall by 45,000 jobs in 2014).

In the non-market sectors, employment should continue to rise (+53,000 jobs in 2015, after +67,000 in 2014), due mainly to the higher number of subsidised contracts.

All in all, employment should grow by 114,000 jobs in 2015 (after +41,000 in 2014), with a marked acceleration in H2 (+71,000 jobs, after +43,000 in H1).

Market-sector employment set to pick up in 2015

In 2014, payroll employment in the non-agricultural market sectors declined sharply (-45,000 jobs over one year at year-end, *Table 1*), with a particularly marked drop in Q3 (-50,000). In Q1 2015, market-sector employment almost stabilised (-1,000 jobs): the persistent decline in the workforce in industry and construction, and the downturn in temporary employment were more than offset by the acceleration in employment in the tertiary sector excluding temporary work.

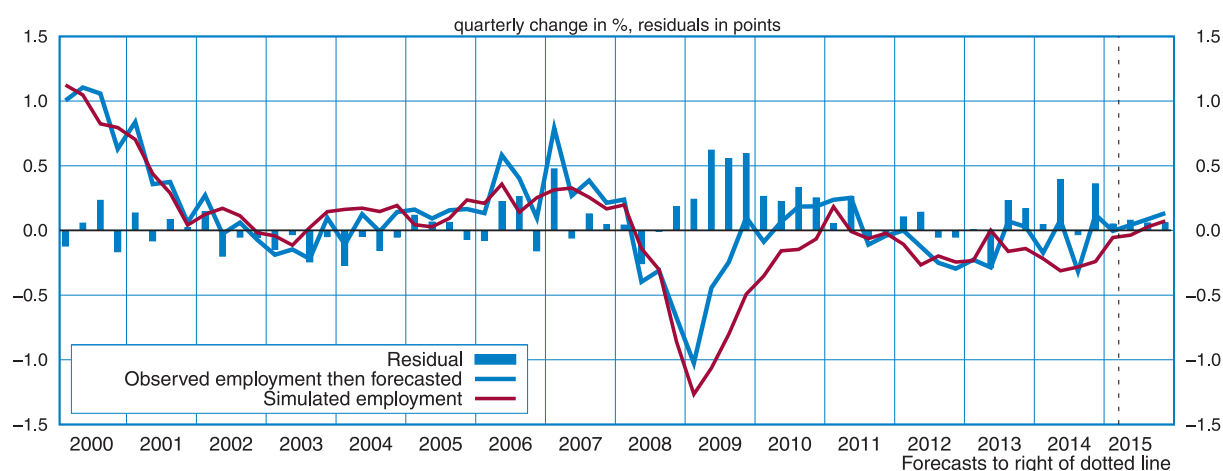
From Q2 2015 onwards, market-sector employment is expected to pick up gradually, benefiting from more dynamic overall activity and from the impact of increased job growth generated by the tax credit for encouraging competitiveness and jobs and the Responsibility and Solidarity Pact (*Graphs 1 and 2*). All in all, after three consecutive years of decline, employment in the non-agricultural market sector should rise in 2015 (+41,000 jobs), with a sharp acceleration in H2 (+35,000, after +6,000 in H1).

Temporary employment is set to rise slightly and tertiary employment excluding temporary work is expected to pick up

In 2014, employment rose slightly in the tertiary sector excluding temporary work (+35,000 jobs). In Q1 2015, the rise in employment in this sector (+27,000 jobs) more than offset the fall in temporary employment (-9,000 jobs).

From Q2 2015 onwards, the various sectors are expected to make greater use of temporary workers once more, and the number of temporary workers is likely to increase slightly over 2015 as a whole (+10,000). In the non-temporary tertiary sector, the opinion of business leaders on growth in their workforce has improved since April. Moreover, through to the end of 2015, activity in the service sector should pick up slightly, with the result that non-temporary employment should grow a little more rapidly (+64,000 jobs in H2 after +42,000 in H1).

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



Note: 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 end of 2014, indicates that observed employment showed better growth than past behaviour would lead us to expect.
Source: INSEE

French developments

All in all, market-sector tertiary employment is expected to rise by 116,000 in 2015 (+42,000 jobs in H1, then +74,000 in H2).

The decline in industrial employment is set to ease

Non-temporary industrial employment¹ fell by 35,000 jobs in 2014, with comparable drops in H1 and H2.

In the business tendency surveys, the expectations of industrialists in terms of employment suggest that workforces should continue to fall over the coming quarters; the decline is however likely to be slightly more moderate thanks to the acceleration in activity (-14,000 jobs in H1, then -11,000 in H2).

The construction sector is expected to continue shedding jobs

Employment in construction has declined continually since the 2008-2009 crisis. Job losses even increased during 2014 (-45,000) and continued at the same pace in Q1 2015 (-11,000 jobs). In view of the poor prospects indicated by the business tendency surveys (Graph 3), the decline in

employment in this sector is likely to intensify over the coming quarters: 50,000 jobs are likely to be lost over 2015 as a whole.

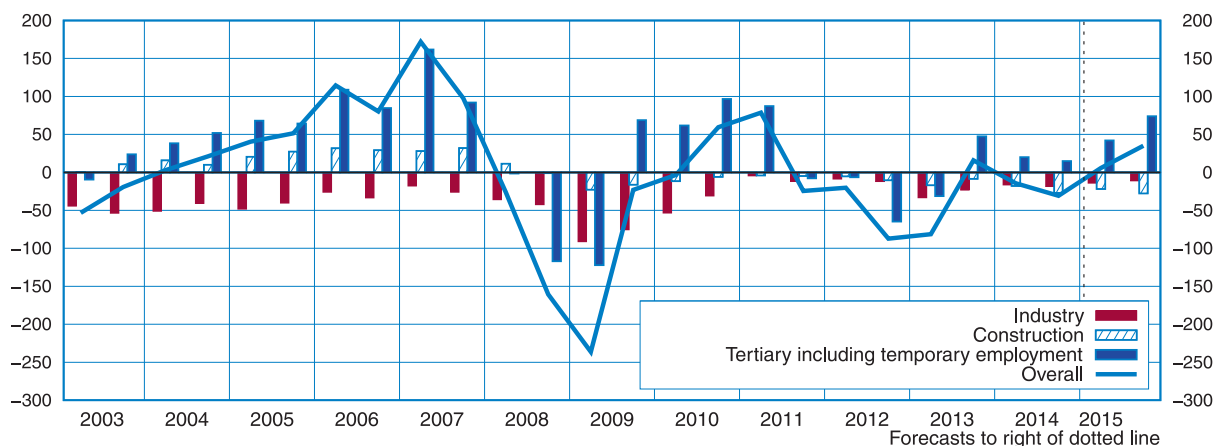
Non-market employment is expected to continue growing

In 2014, the workforce of the non-market sector rose by 67,000 jobs, mainly driven by subsidised contracts.

In 2015, non-market employment should continue to grow at a marginally more moderate pace (+53,000). There are expected to be almost 400,00 newcomers to subsidised contract schemes, as in 2014, bearing in mind an increase of almost 90,000 in the budget set by the Finance Law. The number of beneficiaries of these contracts is expected to rise by 24,000 over the year as a whole (after +47,000 in 2014). Non-subsidised non-market employment is expected to continue growing and the civic service scheme is expected to make a bigger contribution.

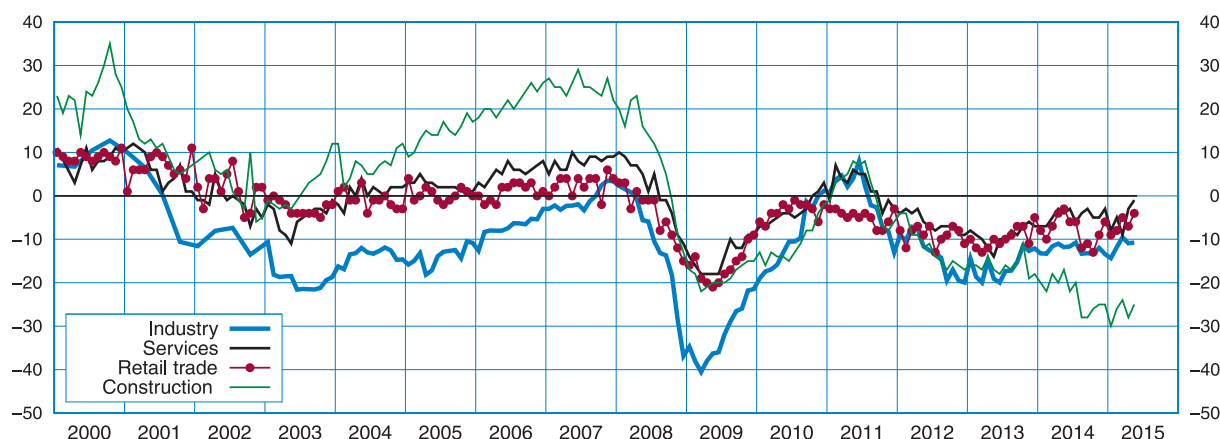
(1) In the figures published by INSEE, temporary workers are counted in the tertiary sector even if they are hired to work in industry or construction.

2- Employment change in non-agricultural market sectors



Source: INSEE

3- Balance of opinion of business leaders on expected numbers



Source: INSEE, Business tendency surveys

Total employment is set to rise by 114,000 jobs in 2015

Taking self-employment into account, total employment across all sectors should rise by 114,000 jobs in 2015, after +41,000 in 2014, with an acceleration in H2 (+71,000 jobs after +43,000 jobs in H1). This buoyancy is likely to be due to stronger growth in activity and the impact of

further job growth generated by the tax credit for encouraging competitiveness and jobs and the Responsibility and Solidarity Pact schemes. Employment could even be a little more buoyant still if a significant number of entrepreneurs without employees were to decide to hire their first employee, as part of the scheme announced on 9th June 2015 for micro-enterprises. ■

Table 1

Change in employment

	2014				2015				2014 S1	2014 S2	2015 S1	2015 S2	2014	2015	Level* end 2014
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4							
Mainly non-agricultural market sectors (1)	-27	13	-50	19	-1	7	14	21	-14	-31	6	35	-45	41	15,841
Industry	-7	-10	-11	-8	-8	-6	-6	-5	-17	-19	-14	-11	-35	-25	3,145
Construction	-7	-10	-14	-13	-11	-11	-14	-14	-18	-27	-22	-28	-45	-50	1,352
Temporary employment	-13	11	-23	25	-9	9	3	8	-2	2	0	10	0	10	540
Market services excl. tempory employment	0	22	-2	15	27	15	31	33	22	13	42	64	35	106	10,804
Agricultural workers	1	1	1	1	1	1	1	1	2	2	2	2	4	4	
Mainly non-market service sectors	16	16	14	20	16	12	9	17	32	34	28	26	67	53	
Self-employed	4	4	4	4	4	4	4	4	8	8	8	8	15	15	
TOTAL EMPLOYMENT	-6	34	-31	44	20	23	28	43	28	13	43	71	41	114	

Forecast

* In thousands

Note: 35,000 jobs should be created in the mainly non-agricultural market sector during H2 2015. As of 31 December 2014, this sector employed 15,841,000 people.

(1) Sectors DE to MN and RU

Source: INSEE

Table 2

Change in subsidised employment in the non-market sector

in thousands

	2014				2015				2014 S1	2014 S2	2015 S1	2013	2014	2015
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4						
"Emplois d'Avenir"	10	7	7	5	2	4	4	3	17	12	5	6	28	11
CUI-CAE incl. ACI (1)	10	6	-4	6	9	2	-5	7	16	2	11	2	18	13
Total	20	12	3	11	11	5	-1	9	33	14	16	9	47	24

Forecast

Scope: Metropolitan France

(1) CUI-CAE : *contrats uniques d'insertion - contrats d'accompagnement dans l'emploi* ; ACI : *ateliers et chantiers d'insertion*

Sources: DARES, INSEE calculations

Unemployment

In Q1 2015, the number of unemployed fell by 38,000 in Metropolitan France and the unemployment rate dropped slightly. It settled at 10.0% of the labour force, after 10.1% at the end of 2014. In the whole of France, the unemployment rate reached 10.3%, after 10.4% in the previous quarter.

In Q2 2015, job creations are likely to be still too low to avoid a slight rise in unemployment. On the other hand, in H2 2015 unemployment is expected to stabilise as net job creations are likely to be sufficient to offset the rise in the labour force. At the end of 2015, the unemployment rate is therefore expected to remain at its mid-2015 level (10.4% in the whole of France, 10.1% in Metropolitan France).

Slight drop in the unemployment rate in Q1 2015

In Q1 2015, the number of unemployed fell by 38,000 in Metropolitan France (see Table), after a rise of 32,000 the previous quarter. Employment rose slightly over the same period (+32,000). The unemployment rate therefore dropped in comparison with the end of 2014 to 10.0% of the labour force of Metropolitan France, against 10.1% the previous quarter. It was 0.2 points higher than in Q1 2014, with the number of unemployed having increased by 55,000. Over the whole of France, the unemployment rate settled at 10.3%, after 10.4% in Q4 2014.

The halo of unemployment grew, especially for the over 50s

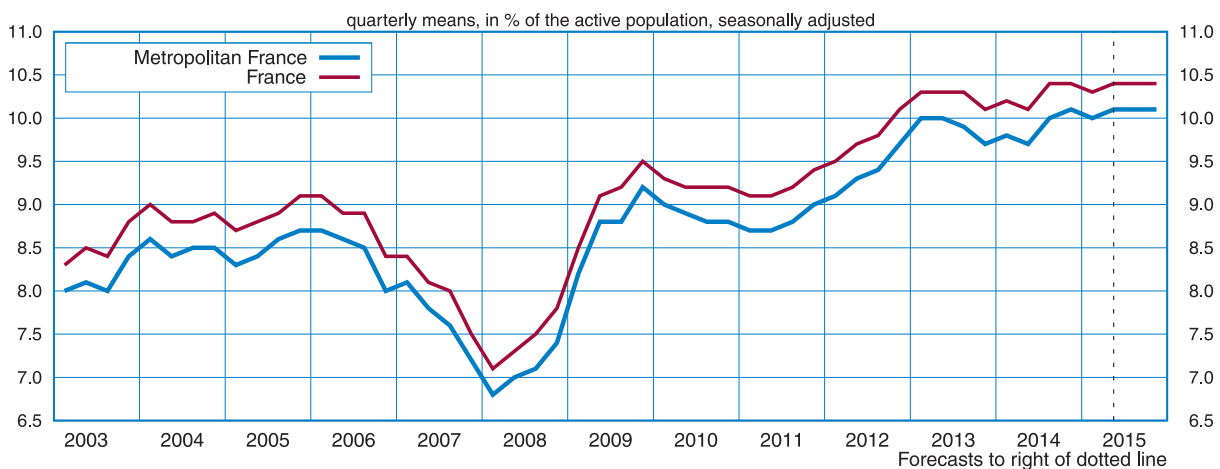
The number of unemployed fell, especially in the 50-and-over age bracket. In Metropolitan France their unemployment rate settled at 6.4% in Q1 2015, as compared with 6.8% at the end of 2014 (-26,000 unemployed). This drop is likely to be offset by a rise in the number of people aged over 50 in the halo of unemployment,¹ which increased by 57,000 in Q1 (+71,000 for all age brackets). This rise particularly concerns those referred to as "discouraged unemployed persons", namely people who wish to work and are available, but who have not actively sought employment during the past month.

Youth unemployment rate on the rise

After a peak at 25.4% at the end of 2012, the unemployment rate among 15-24 year-olds fell throughout 2013, before stabilising at 22.9% in Q1 2014. Young people benefited in particular from the implementation of future job contracts ("emplois d'avenir") in 2012, aimed at those with few or no qualifications. Their unemployment rate nevertheless rose in H2 2014 (+1.0 point to

(1) The halo of unemployment is made up of economically inactive persons as defined by the International Labour Office (ILO): it refers to people who are seeking employment but who are not available and people who wish to work but are not seeking employment, whether they are available or not.

1 - Unemployment rate (ILO definition)



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

23.9% at the end of the year) then once more in Q1 2015 (+0.2 points). At the same time, the unemployment rate among 25-49 year-olds stabilised in Q1 2015, at 9.5% of the labour force (+0.4 points over one year).

After rising in 2014, the unemployment rate among men dropped slightly at the beginning of 2015: 10.4% in Q1, against 10.5% the previous quarter. The unemployment rate among women also dropped a little: to 9.6%, after 9.7% at the end of 2014. Over one year, the rise in the unemployment rate for men (+0.3 points) was fairly close to that for women (+0.2 points). Since mid-2012, the unemployment rate among men has regularly been higher than that for women: the drop in employment was higher in industry and construction (see Employment sheet), sectors which mainly employ men.

Unemployment rate expected to stabilise in H2 2015

In 2014, the labour force rose by 180,000 people, mainly in the 50-64 age group. The labour force participation rate rose among 50-64 year-olds by 1.8 points between Q4 2013 and Q4 2014,

reaching 63.5%. This rise was linked in particular to the increase in the legal retirement age to 61 years and 2 months since early 2014. The anticipated retirements linked to the recasting of the "long careers" scheme limited this increase, but this scheme is expected to have less impact in 2015 (see "estimated effect of public policies" line). In H2, the new rise in the retirement age to 61 years and 7 months in mid-2015 will have a slight upward impact on the labour force.

In Q2 2015, the rise in employment (+22,000) is expected to be small compared with the increase in the labour force (+50,000), so the number of unemployed is likely to increase once more and the unemployment rate should rise slightly, to reach 10.4% (10.1% in Metropolitan France). In H2, unemployment is expected to stabilise: indeed, the expected rise in employment (+60,000) should absorb the majority of the rise in the labour force (+63,000). The unemployment rate is expected to maintain its level of mid-2015 (10.4% in the whole of France, 10.1% in Metropolitan France). It may even drop if the number of unemployed referred to as "discouraged unemployed persons" continues to increase. ■

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

	quarterly changes								annual changes			
	2014				2015				2012	2013	2014	2015
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Population of the 15-64 age group	-23	-22	-21	-20	-20	-19	-19	-20	-104	-100	-86	-78
Population of the 15-59 age group	-12	-12	-14	-15	-16	-16	-15	-15	-90	-72	-52	-61
Labor force	65	-4	81	38	-6	50	31	32	188	-15	180	107
including:												
(a) Contribution of the population and the trend participation rate	34	34	34	34	32	32	32	32	146	120	135	128
(b) Estimated bending effects	-3	-4	-4	-4	-2	-2	-1	0	7	-30	-15	-4
(c) Other short-term fluctuations (residual)	35	-34	51	8	-36	20	0	0	34	-106	60	-16
Employment	32	14	2	7	32	22	25	35	-46	-4	54	114
Reminder: End-of-period employment (see "Employment" note)	-6	-34	-31	44	20	23	28	43	-58	53	41	114
ILO unemployment	33	-18	79	32	-38	29	6	-4	233	-11	126	-7
	quarterly average								average in the last quarter of the period			
ILO unemployment rate (%)												
Metropolitan France	9.8	9.7	10.0	10.1	10.0	10.1	10.1	10.1	9.7	9.7	10.1	10.1
France (including overseas departments)	10.2	10.1	10.4	10.4	10.3	10.4	10.4	10.4	10.1	10.1	10.4	10.4

 Forecast

How to read it:

- the Employment line presents variations in the number of people in employment as a quarterly average, for consistency with the other data in the table,
- 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.

Source: INSEE