Consumer prices

In November 2015. consumer prices were stable year on year. Headline inflation is expected to rise only very weakly by mid-2016 (+0.2%), with the increase mainly stemming from the smaller drop in the price of energy. Core inflation has picked up over the last year, reaching +0.7% in November 2015 from a low point of –0.2% a year earlier. It is expected to remain stable until mid–2016 (+0.7% in June 2016), as the earlier depreciation of the Euro continues to sustain the prices of imported goods, in particular electronic goods.

Slight rebound in inflation by the end of this year

In France, as in the Eurozone, inflation has remained moderate. The year-on-year rise in consumer prices has not exceeded +1.0% since summer 2013 and is now virtually nil, due to the decline in the price of oil: in November 2015. inflation stood at 0.0% (*Graph 1*). It is expected to rise only very slightly between now and mid–2016. to reach +0.2% in June, due to the exit from the year-on-year figures of the energy price drops in H1 2015.

Core inflation[1] picked up gradually over 2015. It reached +0.7% in November, compared to a fall of 0.2% a year earlier.
In particular, there was a rise in the cost of imported goods as a result of the earlier depreciation of the Euro.

1. The core inflation indicator calculated by INSEE is estimated by excluding the prices of energy, fresh food, public tariffs from the overall index. This indicator is corrected for tax measures and is seasonally-adjusted.

By June 2016. core inflation (+0.7% in June 2016) is expected to stabilise, with a low utilisation of production capacity and high unemployment, even though reversals in both trends are on the way, limiting inflationary pressures. In addition, the spread of the fall in commodity prices is expected to continue. Conversely, the earlier depreciation of the Euro is likely to continue to sustain consumer prices of engineered goods, though to a lesser extent than at the beginning of 2015. The likelihood of core inflation being below +0.5% in June 2016 is estimated at about 20% (*Graph 2*).

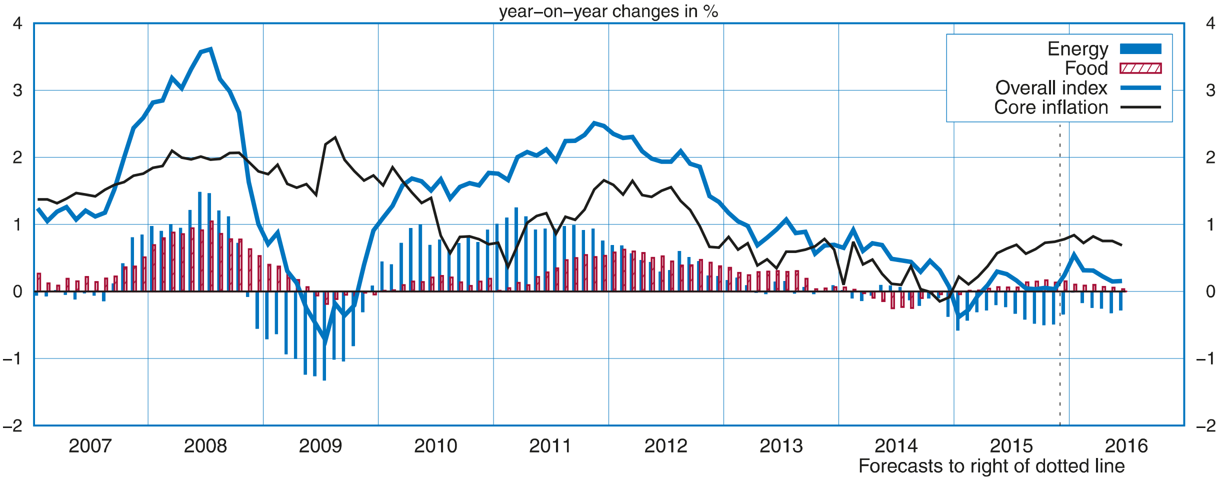
Energy prices should decrease less

In November 2015, the prices of energy consumed fell by 6.0% over one year, due to the fall in the price of crude. This drop should ease off by mid-2016: it is expected to reach –3.4% in June 2016. Indeed, based on the conventional assumption of a Brent crude price remaining stable at $45 (€41.7) from now until June 2016. the exit from the year-on-year figures of the sharp falls seen at the beginning of 2015 is expected to contribute to this reduced drop. Other factors are expected to buoy energy prices: an increase in domestic consumption taxes on energy products and natural gas in January 2016 (*Box*), the exit from the year-on-year figures of the fall in gas prices in H1 2015 and the rise in electricity prices resulting from the adjustment of the CSPE (electricity public service contribution).

Food inflation expected to fall

Food inflation is expected to fall back by mid-2016. to +0.2% in June 2016. after reaching +0.8% in November 2015. mainly due to a slowdown in fresh food prices.

1 - Inflation in France



Source: INSEE

French developments

As weather conditions in summer and autumn 2015 were less favourable to production, fresh food prices are expected to remain vigorous until March 2016. but then to slow over the spring as long as no new shock affects supplies (+1.2% over one year to June after +5.4% in November).

Food prices (excluding fresh food) are expected to remain virtually unchanged until 2016 (+0.1%, as in November 2015). Prices of numerous products are expected to fall, in particular meat prices, following the recent drop in domestic trading prices. In addition, against a background of a supermarket price war, the earlier depreciation of the Euro is only likely to have a very slight effect on food prices excluding fresh food.

Prices of manufactured goods are expected to fall again

Prices of manufactured goods are expected to fall by 0.6% over one year to June 2016. as in November 2015. Inflationary pressures remain limited, but the earlier depreciation of the Euro is likely to continue to bolster consumer prices of imported goods, in particular electronic goods and household appliances.

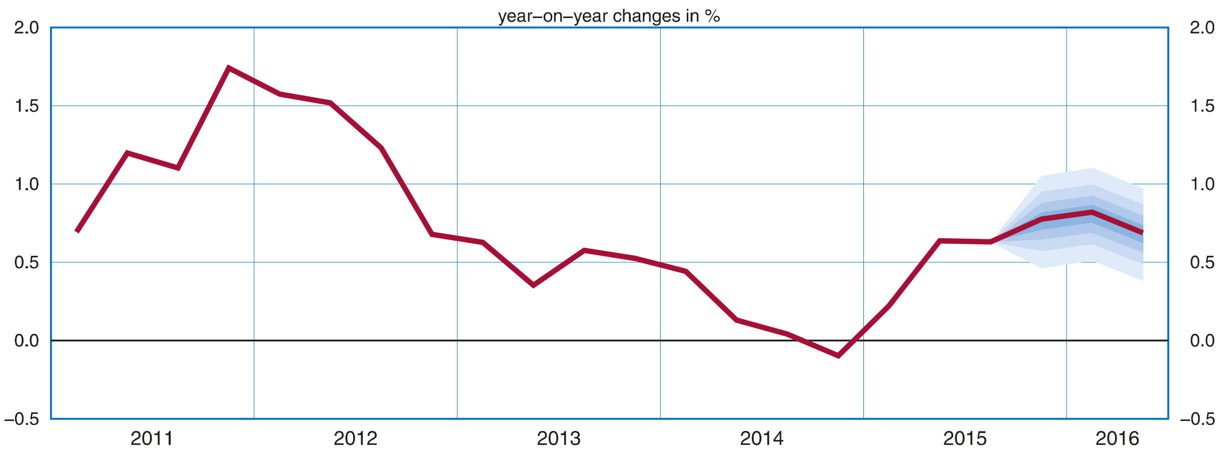
Leaving aside month-to-month jolts caused by an ever greater impact of sales, clothing and footwear prices are expected to be virtually stable over one year to June 2016. after falling back by 0.5% in November 2015. The cost of commodities has been rising since textile fibre prices began to rise at the end of 2014.

Prices of healthcare goods are also likely to continue falling until mid-2016: they are expected to register a 3.7% drop over one year to June 2016. after 4.1% in November 2015. This fall stems from the moderation measures included in the social security finance bill for 2016. It is expected to be accentuated by the decline in the price of spectacles and contact lenses resulting from the 2014 “Consumption” law.

Inflation in services likely to be stable

Inflation in services is expected to remain stable, reaching +1.2% over one year to June 2016. as in November 2015. The drop in rents, indexed with a time lag to the rent reference index, as well as that in communications prices due to the exit of 2015’s increases from the year-on-year figures, is likely to be partly offset by a slight increase in the prices of “other services”, financial services in particular. ■

2 - The core inflation forecast for France and risks around the forecast



How to read it: the fan chart plots 80% of the likely scenarios around the baseline forecast. The first and darkest band covers the likeliest scenarios around the baseline, which have a combined probability of 20%. The second band, which is a shade lighter, comprises two sub-bands just above and just below the central band. It contains the next most likely scenarios, raising the total probability of the first two

Source: INSEE

Table

Consumer prices

changes as %

CPI* groups (2015 weightings)	June 2015		November 2015		December 2015		June 2016		Annual averages	
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	**2014**	**2015**
Food (16.6%)	**0.4**	**0.1**	**0.8**	**0.1**	**0.9**	**0.2**	**0.2**	**0.0**	**–0.6**	**0.5**
including: seasonal food products (2.1%)	*5.2*	*0.1*	*5.4*	*0.1*	*6.0*	*0.1*	*1.2*	*0.0*	*–4.1*	*5.6*
excluding seasonal food products (14.5%)	*–0.3*	*0.0*	*0.1*	*0.0*	*0.2*	*0.0*	*0.1*	*0.0*	*–0.1*	*–0.2*
Tobacco (2.0%)	**0.3**	**0.0**	**0.3**	**0.0**	**0.3**	**0.0**	**0.0**	**0.0**	**5.2**	**0.3**
Manufactured products (25.8%)	**–0.7**	**–0.2**	**–0.6**	**–0.1**	**–0.5**	**–0.1**	**–0.6**	**–0.2**	**–0.9**	**–0.9**
including: clothing and footwear (4.4%)	*–0.5*	*0.0*	*–0.5*	*0.0*	*–0.5*	*0.0*	*0.1*	*0.0*	*0.0*	*–0.9*
medical products (4.3%)	*–3.5*	*–0.2*	*–4.1*	*–0.2*	*–4.0*	*–0.2*	*–3.7*	*–0.2*	*–2.8*	*–3.5*
other manufactured products (17.2%)	*0.0*	*0.0*	*0.3*	*0.0*	*0.3*	*0.1*	*–0.1*	*0.0*	*–0.6*	*–0.3*
Energy (8.2%)	**–2.8**	**–0.2**	**–6.0**	**–0.5**	**–4.2**	**–0.3**	**–3.4**	**–0.3**	**–0.9**	**–4.7**
including: oil products (4.2%)	*–7.3*	*–0.3*	*–11.9*	*–0.5*	*–8.6*	*–0.4*	*–8.3*	*–0.3*	*–4.2*	*–10.7*
Services (47.4%)	**1.3**	**0.6**	**1.2**	**0.6**	**1.2**	**0.6**	**1.2**	**0.6**	**1.7**	**1.2**
including: rent-water (7.7%)	*1.0*	*0.1*	*0.8*	*0.1*	*0.7*	*0.1*	*0.6*	*0.0*	*1.5*	*0.9*
health services (5.7%)	*0.5*	*0.0*	*0.2*	*0.0*	*0.4*	*0.0*	*0.4*	*0.0*	*0.3*	*0.4*
transport-communications (5.1%)	*1.5*	*0.1*	*0.2*	*0.0*	*0.6*	*0.0*	*–0.1*	*0.0*	*1.1*	*1.1*
other services (29.0%)	*1.5*	*0.4*	*1.6*	*0.5*	*1.6*	*0.4*	*1.7*	*0.5*	*2.2*	*1.5*
All (100%)	**0.3**	**0.3**	**0.0**	**0.0**	**0.2**	**0.2**	**0.2**	**0.2**	**0.5**	**0.0**
All excluding energy (91.9%)	0.5	0.5	0.6	0.5	0.6	0.6	0.5	0.4	0.6	0.5
All excluding tobacco (98.0%)	0.3	0.3	0.0	0.0	0.2	0.2	0.2	0.2	0.4	0.0
Core inflation (60.4%)[1]	**0.6**	**0.4**	**0.7**	**0.4**	**0.8**	**0.5**	**0.7**	**0.4**	**0.2**	**0.5**

Forecast

yoy : year-on-year

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

*Consumer price index (CPI)

1. Index excluding public tariffs and products with volatile prices, corrected for tax measures.

Source: INSEE

Fiscal measures likely to bolster energy prices again in January 2016

On 1st January 2016. the TICPE (domestic consumption tax on energy products) will automatically rise via the increase in the CCE (energy-climate contribution), by 2 cents per litre for diesel and 1.7 cents per litre of unleaded petrol (before VAT). Furthermore, according to the finance bill for 2016. the TICPE will increase by an extra 1 cent per lire for diesel and will be reduced by 1 centime per litre for petrol (unleaded containing 10% bio-ethanol) in order to encourage a reduction in the number of diesel vehicles.

All in all, the rise in the TICPE is expected to increase the prices of petroleum products by 2.7%. Similarly, an increase in the TICGN (domestic consumption tax on natural gas) is also planned and is expected to lead to a 2.4% rise in the price of gas in January.

Electricity prices are also likely to be revised upwards in January 2016. by 2.1%. Under the amended finance bill for 2015. a €3 increase in the unit amount of the electricity public service contribution – bringing it to €22.50 – was also proposed for January 2016. Electricity prices are therefore likely to rise by 4.0% over one year to June 2016. after +4.2% in November 2015. ■

Wages

In 2015, nominal wages in the market sectors are expected to increase at almost the same pace as in 2014: +1.6% in 2015 after +1.6% in 2014 for the average wage per capita and +1.2% as an annual average after +1.4% in 2014 for the basic monthly wage. Due to the stability of prices in 2014 and 2015, wages are expected to increase in a similar manner in real and nominal terms.

In H1 2016, the nominal average wage per capita is likely to pick up (+0.8% half-year on half-year after +0.6% in H2 2015), sustained by a moderate increase in the minimum wage on 1st January 2016 (+0.6%) and by a slight upswing in inflation (+0.2% in H1 2016 after -0.1%). In real terms, wages are expected to slow down slightly in H1 2016: +0.6% half-year on half-year for the average wage per capita after +0.7% in H2 2015.

In general government, the nominal average wage per capita is expected to increase at a pace similar to that of 2015. The carry-over effect for 2016 at midyear is expected to be +0.6% after +0.7% one year earlier. Wages in real terms are expected to slow down slightly (the carry-over effect is expected to be +0.4% after +0.6%).

In 2015, the average wage per capita is expected to increase as in 2014

In 2015, the basic monthly wage[1] in the non-agricultural market sectors is likely to continue slowing down (+1.2% as an annual average after +1.4% in 2014 and +1.7% in 2013). However, the average wage per capita, which covers a broader scope of remunerations (bonuses, profit sharing, overtime payments), should increase at the same pace as in 2014 (+1.6% as an annual average), despite the high level of unemployment which is adversely affecting employee bargaining power.

In 2015, as in 2014, wage rises are expected to be identical in nominal and real terms as prices are likely to remain stable[2].

The slowdown in nominal wages in H2 should partially offset the vigour of H1. Indeed, the average wage per capita picked up in market sectors in H1 2015 (+0.9% half-year on half-year after +0.7% in H2 2014) due to the high amounts of bonuses given out in Q1. In H2 2015, the average wage per capita slowed (+0.6% half-year

1. For a definition of *basic minimum wage* and *nominal average wage per capita*, see "Economic Outlook terminology" on the insee.fr webside.

2. Inflation is measured here by the variation in household consumer *prices, provided by the quarterly national accounts.*

Change in the nominal and real average wage per capita and basic wage

Scope: non-agricultural market sector
Source: INSEE

on half-year) resuming a pace more in line with the current low inflation and high level of unemployment.

However, the purchasing power of the average wage per capita is expected to increase slightly faster in H2 2015 than in H1 (+0.7% after +0.6%), due to the expected drop in prices (–0.1% half-year on half-year).

Nominal wages are set to pick up slightly at the beginning of 2016

On 1st January 2016, assuming that there is no "extra", the minimum wage is likely to increase a little less than on 1st January 2015 (+0.6% after +0.8%). However, the nominal average wage per capita is expected to pick up again in H1 2016 (+0.8% after +0.6%), in particular as a result of a slight recovery in inflation (+0.2% half-year on half-year). In real terms, wages are expected to barely slow down (+0.6% over H1 2016 after +0.7%).

In mid-2016, the annual carry-over effect of the nominal average wage per capita is expected to be +1.1% after +1.4% one year earlier. In real terms, the slowdown should be more significant: +0.8% after +1.3% one year earlier, due to a slightly higher carry-over effect of prices (+0.3% after +0.1% one year earlier).

In the civil service, wages are expected to slow down slightly at the beginning of 2016 after accelerating in 2015

In general government, the index point has been frozen since 1st July 2010. However, the civil servants' purchasing power guarantee scheme was renewed for 2015 and new salary scales came into force on 1st of January 2015, raising the index for the entry-level grades of certain categories of local government employees.

In 2015, the average wage per capita in general government is expected to pick up both in nominal and real terms: +0.9% after +0.2% in 2014.

No increase in the index point has been announced for the beginning of 2016. The agreement on "professional career paths, careers and remunerations" of October 2015 is not expected to have any effect on overall growth in wages in H1 2016 as raises will mainly be made by converting bonuses into index points. In mid-2016, the annual carry-over effect of the average wage per capita is expected to be 0.6% in nominal terms, against +0.7% one year earlier. The purchasing power of civil servants' wages is expected to slow down (+0.4% against +0.6% one year earlier). ■

Growth of the basic monthly wage and the average wage per capita in the non-agricultural market sector and in general government

Seasonally-ajusted data	quarterly growth rates						annual averages		
	2015				2016		2014	2015	2016
	Q1	Q2	Q3	Q4	Q1	Q2			
Basic monthly wage	0.3	0.3	0.3	0.2	0.4	0.3	1.4	1.2	1.0
Average wage per capita in the non-agricultural market sector (NAMS)	0.8	0.1	0.3	0.3	0.4	0.4	1.6	1.6	1.1
Average wage per capita in general government (GG)							0.2	0.9	0.6
Household consumer price index (quarterly national accounts)	–0.1	0.4	–0.2	0.0	0.1	0.1	0.0	0.0	0.3
Real basic monthly wage	0.4	–0.1	0.5	0.2	0.3	0.2	1.4	1.2	0.8
Real average wage per capita (NAMS)	0.9	–0.3	0.5	0.3	0.3	0.3	1.6	1.6	0.8
Real average wage per capita (GG)							0.2	0.9	0.4

Forecast
Source: INSEE

Household income

In 2015, the purchasing power of household income looks set to pick up once again: +1.7% after +1.1% in 2014. As prices are virtually unchanged, this acceleration is due only to household income in nominal terms. While earned income remains buoyant, property income looks set to pick up and social contributions paid by households and income taxes are likely to slow down. Social benefits, on the other hand, are likely to slow in 2015 (+1.7% after +2.3%), especially family allowances and pensions, due to measures to control public spending.

In H1 2016, taxes and social contributions should increase along with earned income, and benefits should pick up to resume their former trend. All in all, the purchasing power of household income looks set to increase at virtually the same pace in H1 2016 (+0.6% over the half-year period) as in H2 2015 (+0.8%).

After picking up at the start of 2015, earned income is likely to slow

In 2015, households' earned income is expected to grow at virtually the same pace as in 2014 (+1.6% after +1.4%, *Table 1*). Employment should pick up modestly in the non-agricultural market sector (0.0% after –0.2% in 2014, *Graph 1*), and the average wage per capita should increase at the same pace (+1.6%). All in all, gross wages received by households are expected to accelerate slightly in 2015 (+1.7% after +1.6%). In H1 2016, earnings look set to rise at the same pace as in H2 2015 (+0.8% half-year on half-year), with wages and employment contributing in tandem. The earned income of the self-employed should also pick up sharply in 2015, following the improvement in activity in their sectors (+0.6% after –0.3%). In sub-annual terms, it should pick up in H2 2015 (+0.7% half-year on half-year after +0.4%) then slow once again in H1 2016 (+0.5%).

Net property income should rebound in 2015 (+1.9%) after a sharp downturn in 2014 (–2.2%) and the gross operating surplus of pure households should pick up (+1.8% after +0.6%): importantly, borrowing households should benefit from the drop in interest rates in 2015, thanks to numerous renegotiations of mortgage rates.

Social benefits expected to slow once again

In 2015, social benefits in cash are expected to increase less than in 2014 (+1.7% after +2.3%, see *Table 3*). Indeed, Social Security benefits are likely to slow (+1.3% after +2.3%). Family benefits should fall on average over the year, in the absence of an increase on 1st April and under the effect of measures aiming at reducing public spending, in particular the modulation of family allowances for wealthy families from July 2015.

Old-age insurance benefits also contribute to this slowdown as pension increases are small and retirements from long careers have slowed as a result of the easing of the relevant conditions in July 2012. On the other hand, social assistance benefits should increase in 2015 at a similar pace

Breakdown of the total gross wages received by households in the competitive non-agricultural sector

Source: INSEE

to 2014 (+3.5% after +3.7%), buoyed by the earned income supplement (RSA[1]), which is still dynamic.

Social benefits should increase at practically the same pace in H2 2015 as in H1 (+0.7% after +0.5% half-year on half-year) then pick up in H1 2016[2] (+1.0%). This acceleration should be caused mainly by the rebound in family benefits which will return to trend, but is likely to be limited in 2016 by the delay in increasing the RSA (from 1st January to 1st April) and supplementary pensions paid by the AGIRC and the ARRCO (from 1st April to 1st November).

Taxes and social contributions were less dynamic in 2015 than in 2014, but should pick up slightly at the beginning of 2016

Across the whole of 2015, taxes and social contributions paid by households should slow down (+1.5% after +2.0% in 2014). Households' social contributions should decelerate sharply (+1.9% after +3.0% in 2014), due to the reduction in social contributions by the self-employed of around 1.0 billion Euros. This measure was implemented in the framework of the Responsibility and Solidarity Pact, but is partly offset by various measures to increase employee contributions (notably affecting public and private pension schemes and health insurance contributions by cross-border workers in Switzerland).

As happens every year, measures relating to taxes on income and wealth that have been decided for 2015 affect the quarterly tax profile in H2. Income tax reductions will benefit less well-off households for the most part (abolition of the first income tax bracket and adjustment of tax relief) and are likely to lead to a drop in all taxes on income and wealth in Q3 (–1.6%), before they bounce back in reaction in Q4 (+3.1%). The rebound at the end of the year is likely to be intensified by the increase in local residence tax rates.

In H1 2016, taxes are likely to be virtually unchanged. However, household contributions are set to accelerate (+1.6% in the half-year after +1.1%) due to the increase in pension contribution rates (general scheme and civil service) on 1st

1. In 2015, as in the two previous years, the RSA scale was increased by 2% on 1st September (in addition to the revision on 1st January), in accordance with the December 2012 initiative to combat poverty and promote social inclusion.
2. In 2016, the employment bonus and the activity RSA will be merged to create a new scheme: the activity bonus. For all households, and assuming a take-up rate of 50% (level retained by the government), the amounts awarded for this bonus overall in 2016 will be equivalent to the activity RSA and the employment bonus.

Table 1

Household gross disposable income

	2014				2015				2016		2014	2015	2016
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Gross disposable income (100%)	**0.9**	**0.3**	**0.4**	**–0.1**	**1.0**	**0.2**	**0.6**	**0.0**	**0.5**	**0.4**	**1.1**	**1.7**	**1.2**
including :													
Earned income (70%)	0.4	0.3	0.2	0.3	0.7	0.2	0.4	0.4	0.4	0.4	1.4	1.6	1.2
Gross wages and salaries(62%)	*0.4*	*0.4*	*0.3*	*0.4*	*0.7*	*0.2*	*0.4*	*0.4*	*0.4*	*0.4*	*1.6*	*1.7*	*1.3*
GOS of sole proprietors[1] (9%)	*0.2*	*–0.4*	*–0.1*	*0.0*	*0.7*	*–0.3*	*0.4*	*0.3*	*0.3*	*0.2*	*–0.3*	*0.6*	*0.8*
Social benefits in cash (34%)	0.6	0.3	1.0	0.5	0.3	0.2	0.2	0.4	0.5	0.5	2.3	1.7	1.3
GOS of "pure" households (13%)	0.2	0.1	0.3	0.5	0.6	0.4	0.4	0.6	0.6	0.4	0.6	1.8	1.7
Property income (8%)	–1.2	–0.3	–0.9	–0.1	0.7	1.2	1.3	0.8	0.1	0.1	–2.2	1.9	1.8
Social contributions and taxes (–25%)	–1.8	0.1	0.3	2.1	–0.8	0.5	–0.6	2,0	0.3	0.4	2.0	1.5	1.9
Contributions of households (–11%)	1.8	0.6	0.5	0.3	0.3	0.6	0.7	0.5	0.9	0.7	3.0	1.9	2.3
Income and wealth tax (including CSG and CRDS) (–14%)	–4.2	–0.3	0.2	3.4	–1.6	0.4	–1.6	3,1	–0.1	0.3	1.4	1.3	1.7
Income before taxes	0.2	0.2	0.4	0.4	0.6	0.3	0.3	0.4	0.4	0.4	1.1	1.7	1.3
Household consumer prices (quarterly national accounts)	**0.2**	**–0.1**	**–0.1**	**0.0**	**–0.1**	**0.4**	**–0.2**	**0.0**	**0.1**	**0.1**	**0.0**	**0.0**	**0.3**
Purchasing power of gross disposable income	**0.7**	**0.4**	**0.6**	**0.0**	**1.1**	**–0.2**	**0.8**	**0.0**	**0.3**	**0.3**	**1.1**	**1.7**	**0.9**
Household purchasing power by consumption	**0.6**	**0.3**	**0.5**	**–0.1**	**1.0**	**–0.3**	**0.7**	**–0.1**	**0.2**	**0.2**	**0.7**	**1.3**	**0.5**

Forecast

How to read it: The figures in parentheses give the structure of the year 2014.

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

Source: INSEE

January. All in all, taxes and social contributions should increase at a similar pace (+0.7% half-year on half-year) to pre-tax income (+0.8%).

After a sharp acceleration in 2015, the increase in purchasing power should almost stabilise in H1 2016

All in all, the nominal gross disposable income of households should pick up in 2015 (+1.7% after +1.1% in 2014). As consumer prices are virtually unchanged, this should result once again in a pick-up in purchasing power: +1.7% after +1.1% in 2014 and –0.1% in 2013. When adjusted to individual level in order to take demographic changes into account, purchasing power per consumption unit is set to increase by 1.3%, after +0.7% in 2014, a progression not seen since 2007.

In H1 2016, households' gross disposable income picked up to a modest degree (+0.9% after +0.7% half-year on half-year), mainly because of social contributions. However, with the acceleration in prices (+0.2% after –0.1% in H2 2015), purchasing power looks set to rise at virtually the same pace in H1 2016 (+0.6%) as in H2 2015 (+0.8%). The annual growth carry-over of purchasing power should reach +0.9% in mid–2016. ■

Table 2
From the payroll of non-financial enterprises to that received by households

	2014				2015				2016		2014	2015	2016
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Non-financial enterprises (67%)	0.4	0.3	0.2	0.3	0.9	0.2	0.4	0.4	0.5	0.5	1.5	1.7	1.4
including: Average wage per capita	*0.4*	*0.3*	*0.3*	*0.4*	*0.8*	*0.1*	*0.3*	*0.2*	*0.4*	*0.4*	*1.6*	*1.6*	*1.0*
Financial corporations (4%)	–0.2	0.3	–0.1	0.7	0.7	0.6	0.8	0.7	0.8	0.7	0.1	2.2	2.4
General government (22%)	0.4	0.4	0.5	0.5	0.4	0.3	0.3	0.3	0.3	0.2	1.7	1.6	0.9
Households excluding sole proprietors (2%)	0.0	0.7	0.0	–1.6	–0.5	0.4	0.2	0.0	0.0	0.0	0.3	–1.1	0.2
Total gross wages received by households (100%)	**0.4**	**0.4**	**0.3**	**0.4**	**0.7**	**0.2**	**0.4**	**0.4**	**0.4**	**0.4**	**1.6**	**1.7**	**1.3**
including: Non-agricultural market sectors	*0.4*	*0.3*	*0.1*	*0.3*	*0.9*	*0.2*	*0.4*	*0.4*	*0.5*	*0.5*	*1.4*	*1.6*	*1.4*

Forecast

How to read it: The figures in parentheses give the structure of the year 2014.

Source: INSEE

Table 3
Social transfers received and paid by households

	2014				2015				2016		2014	2015	2016
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Social cash benefits received by households (100%)	**0.6**	**0.3**	**1.0**	**0.5**	**0.3**	**0.2**	**0.2**	**0.4**	**0.5**	**0.5**	**2.3**	**1.7**	**1.3**
Social Security benefits in cash (72%)	0.5	0.2	1.1	0.5	0.2	0.1	0.1	0.4	0.5	0.4	2.3	1.3	1.2
Other social insurance benefits (20%)	0.5	0.5	0.7	0.6	0.5	0.4	0.4	0.5	0.4	0.4	2.0	2.0	1.3
Social assistance benefits in cash (8%)	0.9	1.0	1.2	0.8	0.7	0.9	0.9	0.9	0.5	0.8	3.7	3.5	2.5
Total social contribution burden by households (100%)	**1.4**	**0.4**	**0.4**	**0.3**	**0.0**	**0.4**	**0.6**	**0.4**	**0.6**	**–0.2**	**2.5**	**1.1**	**1.2**
Actual social contributions paid	1.4	0.3	0.3	0.2	–0.4	0.2	0.5	0.4	0.5	–0.8	2.6	1.0	1.2
including: Employers contributions[1] (63%)	*1.4*	*0.3*	*0.3*	*0.2*	*–0.4*	*0.2*	*0.5*	*0.4*	*0.5*	*–0.8*	*2.4*	*0.5*	*0.5*
Contributions of households (37%)	*1.8*	*0.6*	*0.5*	*0.3*	*0.3*	*0.6*	*0.7*	*0.5*	*0.9*	*0.7*	*3.0*	*1.9*	*2.3*

Forecast

How to read it: The figures in parentheses give the structure of the year 2014.

1. Employer contributions are both received and paid by households in the national accounts: they therefore have no effect on gross disposable income.

Source: INSEE

Household consumption and investment

In Q3 2015, household consumption picked up again (+0.3% after 0.0%). In particular, expenditure on energy and clothing bounced back and purchases of engineered goods picked up. However, consumption of services remained sluggish and expenditure on food fell.
In Q4 2015, consumption is expected to fall back slightly (-0.1%): consumption of market services is expected to suffer due to the fears aroused by the terrorist attacks of 13 November and energy expenditure is likely to fall as a result of the very mild temperatures in November; lastly, purchases of manufactured goods are expected to fall. In H1 2016, household consumption should bounce back (+0.5% in Q1 then +0.4% in Q2). It should pick up gradually for services and bounce back in a reaction effect for other items. Expenditure on household equipment is also likely to be stimulated by the change in the television broadcasting standard at the beginning of April and purchases of electronic products on the occasion of the forthcoming Euro 2016.
Household purchasing power, which picked up sharply in 2015, is not expected to weaken between now and June. The setback in consumption at the end of the year is likely to be reflected in the savings ratio which should be higher in mid-2016 (15.4%) than one year earlier (15.1%).

Lastly, the increase in building permits since spring 2015 suggests a virtual stabilisation of household investment by the end of 2015, after more than two years of continuous decline.

In Q3 2015, consumption gathered pace, particularly of energy and engineered goods

In Q3 2015, household consumption picked up again (+0.3% after 0.0%, *Table*), alongside energy consumption (+1.6% after –2.1%) and expenditure on household equipment (+2.7% after 0.0%) and clothing (+2.3% after –1.9%).

The rise in energy consumption was related to heating expenditure in particular and can be explained by temperatures which were a little lower than the seasonal norm in September.

However, expenditure on food fell (–0.2% after +0.8%), and car purchases slowed down significantly (+0.2%) after two dynamic quarters (+2.2% in Q1 then +1.9% in Q2). Consumption of services remained sluggish (+0.2%, as in the preceding quarter).

Household consumption and investment expenditure

	Quarterly changes in %										Annual changes in %		
	2014				2015				2016		2014	2015	2016
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Total household consumption expenditures (B+S)	**–0.4**	**0.4**	**0.4**	**0.2**	**0.8**	**0.0**	**0.3**	**–0.1**	**0.5**	**0.4**	**0.6**	**1.4**	**0.8**
Tourism balance	–11.9	–14.3	–28.2	–16.4	10.0	11.0	21.6	–5.0	0.0	0.0	–40.6	–10.1	8.2
Services (S)	**0.1**	**0.1**	**0.2**	**0.1**	**0.3**	**0.2**	**0.2**	**0.0**	**0.2**	**0.3**	**0.7**	**0.8**	**0.6**
Goods (G)	**–1.2**	**0.6**	**0.2**	**0.1**	**1.5**	**–0.1**	**0.7**	**–0.2**	**0.7**	**0.4**	**–0.2**	**2.0**	**1.1**
including:													
Food (AZ-C1)	**–1.0**	**0.5**	**0.0**	**0.3**	**0.2**	**0.8**	**–0.2**	**–0.3**	**0.5**	**0.3**	**0.2**	**0.9**	**0.6**
Agriculture goods (AZ)	–0.4	1.7	–1.7	–1.3	–0.7	0.7	–1.5	–0.3	0.5	0.3	2.0	–2.4	0.0
Agri-food products (C1)	–1.2	0.3	0.3	0.6	0.3	0.8	0.1	–0.3	0.5	0.3	–0.2	1.5	0.8
Energy (DE-C2)	**–4.7**	**2.2**	**0.4**	**–1.6**	**3.9**	**–2.1**	**1.6**	**–1.8**	**0.3**	**–0.1**	**–5.7**	**2.2**	**–0.9**
Energy, water, waste (DE)	–7.1	3.3	1.0	–4.0	8.3	–4.0	1.5	–0.8	0.5	0.0	–8.9	3.9	–0.4
Coke and refined petroleum (C2)	–2.0	1.1	–0.3	0.9	–0.7	0.2	1.7	–3.0	0.0	–0.2	–2.1	0.3	–1.6
Engineered goods (C3-C5)	**0.2**	**–0.1**	**0.4**	**0.7**	**1.7**	**–0.1**	**1.0**	**0.5**	**1.0**	**0.7**	**1.8**	**2.9**	**2.4**
Manufactured goods (C1-C5)	**–0.6**	**0.2**	**0.3**	**0.7**	**0.9**	**0.3**	**0.7**	**–0.2**	**0.7**	**0.5**	**0.6**	**2.1**	**1.4**
Investment expenditure	**–1.9**	**–1.4**	**–1.0**	**–0.4**	**–0.8**	**–1.1**	**–0.5**	**–0.1**	**0.0**	**0.0**	**–5.3**	**–3.0**	**–0.6**

Forecast
Source: INSEE

In Q4 2015, consumption expected to fall back once more

Total consumption by households should fall back in Q4 2015: –0.1% after +0.3% (*Graph 1*).

Overall consumption of services is expected to stagnate (0.0% after +0.2%) due in particular to the fears aroused by the attacks of 13 November in France: tourism-related activities (accommodation and food services, transport) and those linked to leisure (shows in particular) are likely to be particularly penalised in the second half of the quarter (*Focus*).

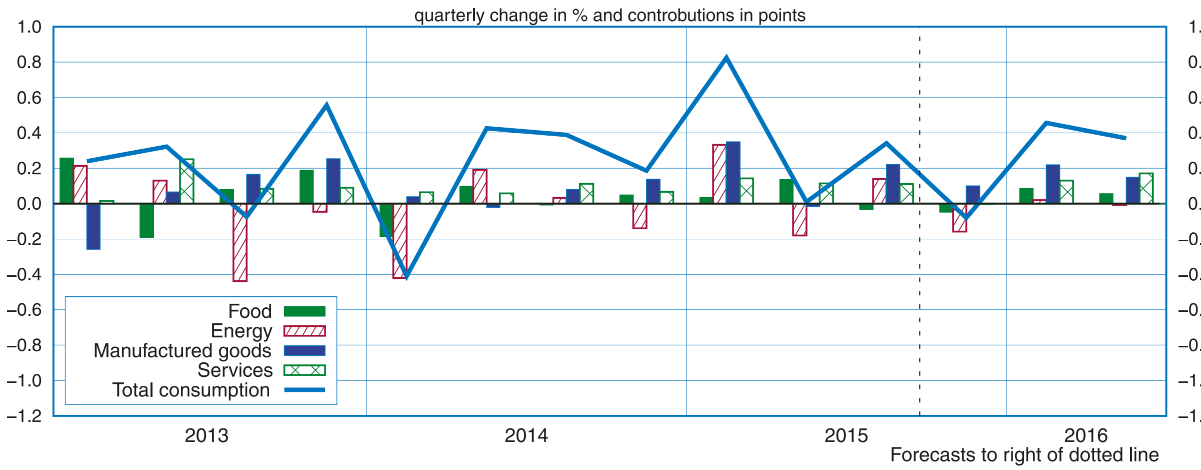
Household expenditure on energy is expected to decline sharply in Q4 (–1.8% after +1.6%), because of a sharp decline in gas and electricity consumption (–0.8% after +1.5%) due to temperatures higher than the seasonal average in November.

Moreover, purchases of goods are likely to decline due to a marked slowdown in the consumption of manufactured products (–0.2% after +0.7%), in particular household equipment and clothing. Expenditure on cars and food consumption are expected to remain mediocre.

Consumption expected to find new impetus in H1 2016

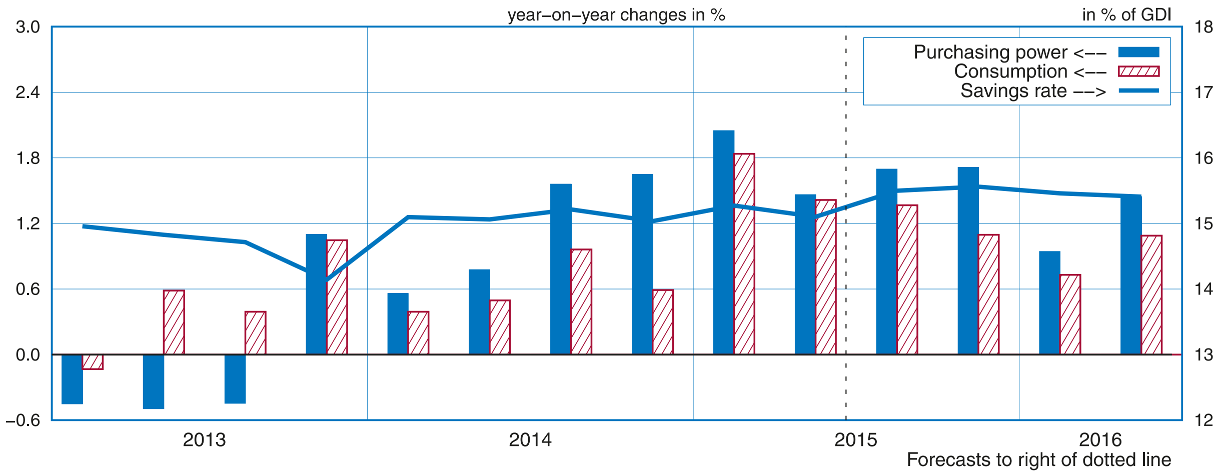
Household consumption is expected to bounce back in Q1 2016 (+0.5% after –0.1%) and then more or less maintain this pace in Q2 2016 (+0.4%). Consumption of services is expected to pick up gradually. Expenditure on energy should bounce back at the beginning of the year (+0.3%

1 - Contributions of the various items to quaterly household consumption



Source: INSEE

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



Source: INSEE

after –1.8%), assuming that temperatures stay close to the seasonal norm. Purchases of clothing should also pick up (+1.0% after –0.4%). In addition, after a lacklustre second half of 2015, car consumption should regain momentum. Finally, expenditure on household equipment is likely to be vigorous in H1 (+2.4% than +2.5%) due in particular to the change in the television broadcasting standard[1] and a resurgence in purchases of electronic products on the occasion of the forthcoming Euro 2016.

Savings ratio expected to be 15.4% higher by mid-2016 than one year earlier

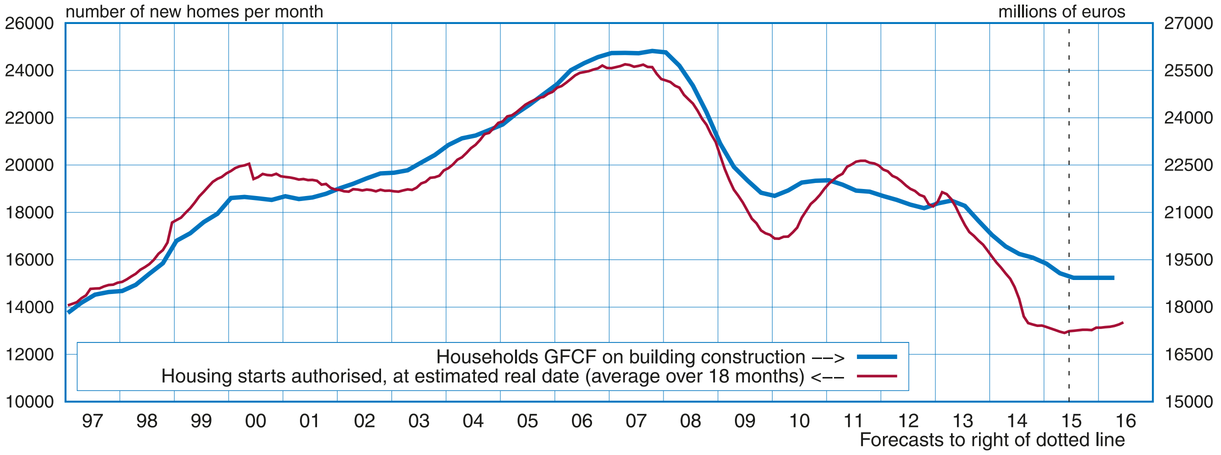
All in all, household consumption should increase in 2015 by a yearly average of 1.4%, slightly less than the purchasing power of household income (+1.7%). Consequently, the savings ratio of households is expected to rise, from an average of 15.1% in 2014 to 15.4% in 2015 (*Graph 2*). The quarterly profile is likely to be irregular, due to uneven expenditure on heating and because households smooth their consumption in accordance with fluctuations in their purchasing power. In Q3 2015, purchasing power is likely to have increased significantly more than consumption, taking the savings ratio to 15.5% (against 15.1% in Q2). At the end of the year, and then in H1 2016, consumption is expected to grow at the same pace as purchasing power; the household savings ratio should therefore be virtually stable and settle at 15.4% by mid-2016, 0.3 points more than one year earlier.

Household investment expected to more or less stabilise in Q4 2015

In Q3 2015, household investment fell less than previously (–0.5% after –1.1%). The number of authorised housing starts, which had stabilised at the beginning of 2015, resumed an upward trend in spring and summer (*Graph 3*). Assuming that these trends continue, and taking into account the usual time periods between permits and actual construction, household investment should virtually stabilise by Q4 2015, after falling for more than two years. As an annual average, household investment is expected to drop less sharply in 2015: –3.0% (after –5.3% in 2014). The annual carry-over effect for household investment is expected to settle at –0.6% by mid-2016. ■

1. A proportion of televisual equipment will be made obsolete when this change of standard is introduced, leading to a renewal that is likely to be on a similar scale to that caused by the deployment of terrestrial digital TV in 2010.

3 - Household investment on construction and housing starts



Sources: INSEE, SOeS

The impact of the terrorist attacks of 13 November 2015

In order to estimate the economic impact of the attacks of 13 November 2015 in Paris we need to look back at historical precedents. In the light of past reactions, expenditure on services is likely to be more affected than that on goods. Consumption of market services may fall back by 0.3 points in Q4, or 0.1 GDP points.

Anticipating the effect of the attacks on economic activity is a particularly uncertain exercise. It is especially difficult as the dramatic events of 13 November 2015 were still very recent at the time when the drafting of this *Conjoncture in France* was completed (10 December): very few cyclical macroeconomic indicators were known, either quantitative or qualitative, in household or business surveys.

Studying historical precedents

For an initial quantification, we therefore have to analyse comparable historical precedents, which are fortunately infrequent. This involves identifying the particularities and understanding the mechanisms at work and the economic consequences. An effect of the attacks on the different sectors can be deduced by discerning whether the trends of the monthly or quarterly indicators differ before and after the attacks; this is obviously an unsophisticated approach, as other factors may be the cause of the shifts observed. The main channel of these shocks is the security fears that such acts provoke, affecting the confidence of resident households and foreign tourists in particular, and prompting them to defer their purchases. The sectors affected therefore appear to be those with the strongest links to household demand.

The shockwave from the attacks of 13 November 2015 leads to the assumption that their impact will be comparable to that of the particularly murderous attacks of summer 1995 in France. The latter were anxiety-inducing due to their repetition over a relatively long period (from July to October). The attacks of September 11, 2001 in the United States also aroused fears in France, for example fears of anthrax attacks up until October. More recently, the attacks of January 2015 in Paris and its suburbs (at Charlie Hebdo and in the Hyper Casher store) rekindled fears for a while.

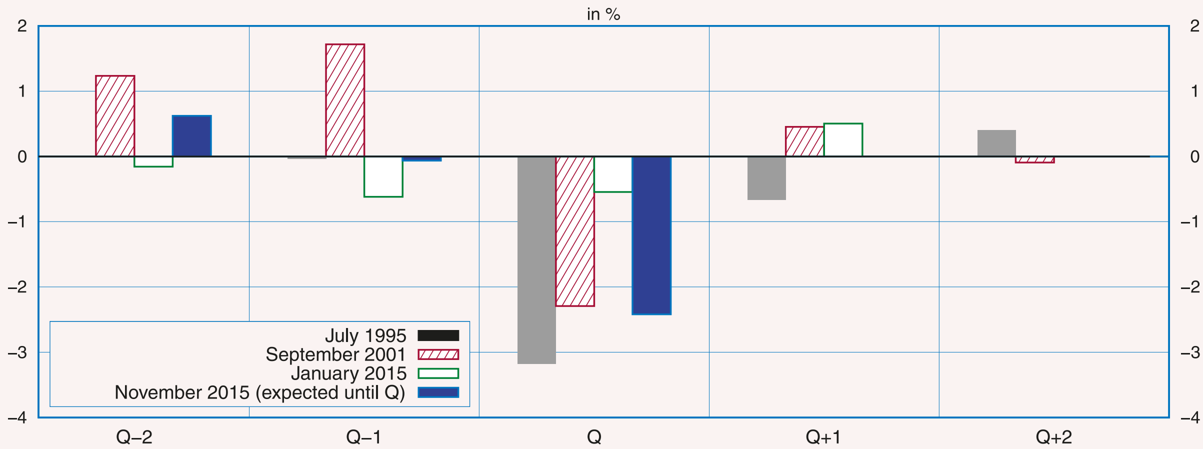
An impact above all on services, particularly accommodation and food

In these historical precedents, the impact appears to have been greater on expenditure on services than on goods, probably because the postponement effect is lower for goods. Expenditure on accommodation and food fell by 3 points in the summer of 1995 and then again after September 2001 (*Graph 1*). If the impact on accommodation and food were to be equivalent in size, i.e. –3 points from mid-November followed by a relatively slow recovery over the following months, the impact on expenditure on accommodation and food would be –1.5 points compared with its spontaneous trend in Q4, and –1.5 points in Q1 2016 ("full" quarter effect, if the activity level only recovers slightly). As an illustration, this 3-point drop is compatible with a 30% fall in turnover over one month in the accommodation and food sector in Ile-de-France.

The results are more ambiguous for other sectors of activity. At the end of 2015, other tourism-related sectors may be specifically affected, at least temporarily. In particular, expenditure on air and rail transport may slow down in Q4. Expenditure on leisure activities is likely to fall, in particular because of the numerous cancellations of events and concerts following the attacks. All in all, working on these assumptions, consumption of market services is likely to drop by 0.3 points in Q4 2015, or 0.1 GDP points. In Q1 2016 these effects are no longer expected to impede growth, but are also unlikely to be counterbalanced: as historical precedents have shown, a return to former activity levels might not be immediate.

With regard to goods, the effect of previous attacks on monthly consumption was not clearly apparent, on account of the difficulty in distinguishing declines in

1 - Variation in expenditure on accommodation and food services before and after the attacks



Effect over rolling 3-month period, first month: month of the attack

Note: data are available from January 1995 to September 2015.
Source: INSEE

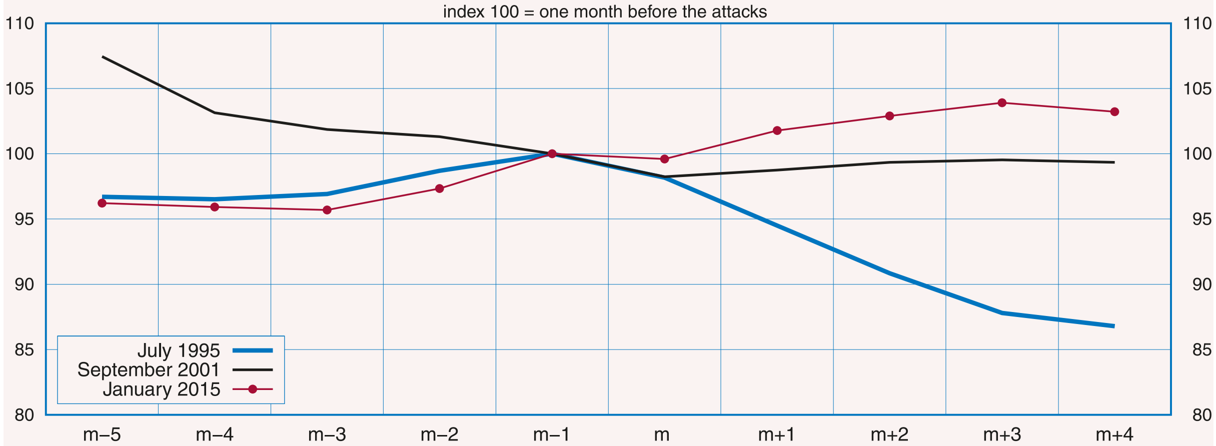
growth. This may reflect either an absence of effects, or fairly rapid impact-offsetting behaviour in the outlets concerned.

An analysis supported by the business tendency surveys

An analysis of the business tendency surveys at the time of previous episodes seems to corroborate that conducted on the quantitative indicators. With regard to household confidence in the economic situation, the indicator fell distinctly after the first month following the attacks in July 1995 (*Graph 2*), even though not everything could be attributed to the fears engendered by the attacks; as well as this effect there is also the customary decline after general elections and a cyclical economic slowdown effect. The decline was less evident in September 2001, as there had already been a very substantial slowdown before the attacks; the same was true of the dramatic events of January 2015, when the confidence indicator seems to have barely dropped. The next survey in December 2015 which will be published on 6 January 2016 will allow us to extend the analysis; indeed, very few people were surveyed after 13 November in the survey for November 2015.

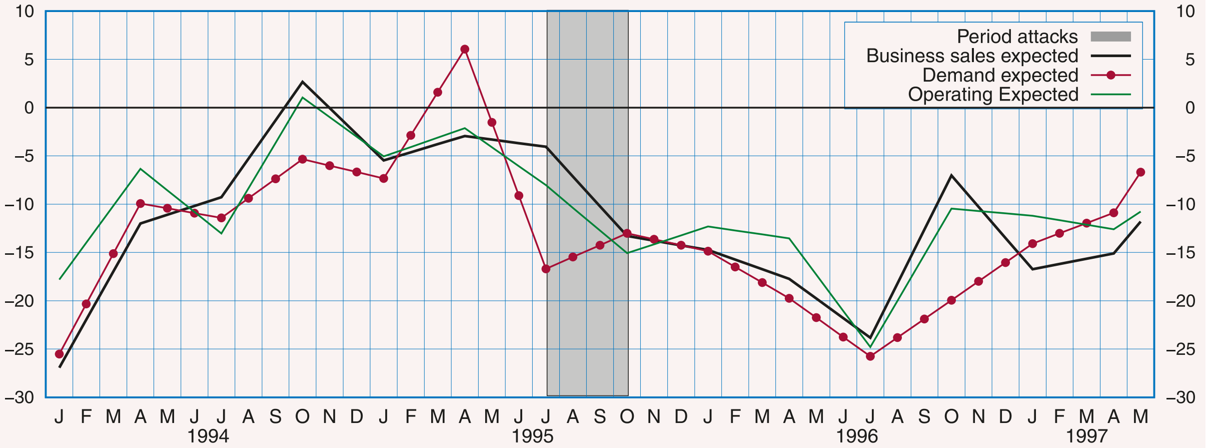
With regard to business surveys, it is the balance of opinion on the general business outlook which reacts the most, without necessarily being directly related to the production of each enterprise. Shifts in trend are little in evidence in the industry and trade sectors but are much clearer in certain services such as accommodation and food. In this sector, the balance of opinion on expected turnover deteriorated sharply in summer 1995 and only rose again one year later (*Graph 3*). However, this was during an economic downturn phase, marked by other events (major strikes at the end of the year) and it is therefore difficult to distinguish what was due to the attacks alone. ■

2 - Indicator of household confidence in the economic situation before and after certain attacks



Source: INSEE

3 - Balances of opinion in the accommodation-food sector before and after the attacks of 1995



Source: INSEE

Enterprises' earnings

At the end of 2015, the margin rate of non-financial corporations (NFC) is likely to be substantially higher (31.4%) than the rate at the end of 2014 (29.7%). Such an increase (+1.7 points) would be unprecedented since 1986. It is driven by the fall in oil prices, the ramp-up of the tax credit for encouraging competitiveness and jobs (CICE) and the reduction in employers' social contributions under the terms of the Responsibility and Solidarity Pact (PRS). The margin rate of NFCs is still unlikely to achieve its pre-crisis level (32.7% between 1988 and 2007). However, there should be a particularly sharp improvement in industry, which already reached the average pre-crisis margin rate in mid-2015.

In H1 2016, the margin rate should continue to rise, due especially to the impact of the ramp-up of the PRS from April: in mid-2016, it should settle at 31.8%, its highest level since the end of 2008.

At end 2015, the margin rate expected to be far higher than at end 2014

In decline since 2011, the margin rate of NFCs picked up significantly in Q1 2015, reaching 31.1%, which is 1.3 points higher than at the end of 2014 (*Graph 1*). First, companies received additional employment subsidies when the rate of the CICE was increased from 4% to 6% of payroll for employees whose wages were less than 2.5 times the minimum wage (SMIC), and this contributed +0.7 points *ex ante* to the rise in the margin rate. In addition, reductions in employers' social contributions were increased under the terms of the Responsibility and Solidarity Pact (PRS), and this offset the rises in some contribution rates: consequently, the reduction in employers' contributions brought the margin rate up by 0.2 points. Finally, the drop in oil prices continued to bolster the margin rate in Q1, with terms of trade contributing +0.5 points. At the same time, growth in real wages (contribution of –0.6 points) was partly offset by similar productivity gains (+0.5 points). In Q2, the margin rate of NFCs remained virtually stable, at 31.0%. In H1, there was a very marked improvement in the margin rate in industry, where it returned to its average pre-crisis level, but in the service sector the improvement was much more moderate (*Graph 2*).

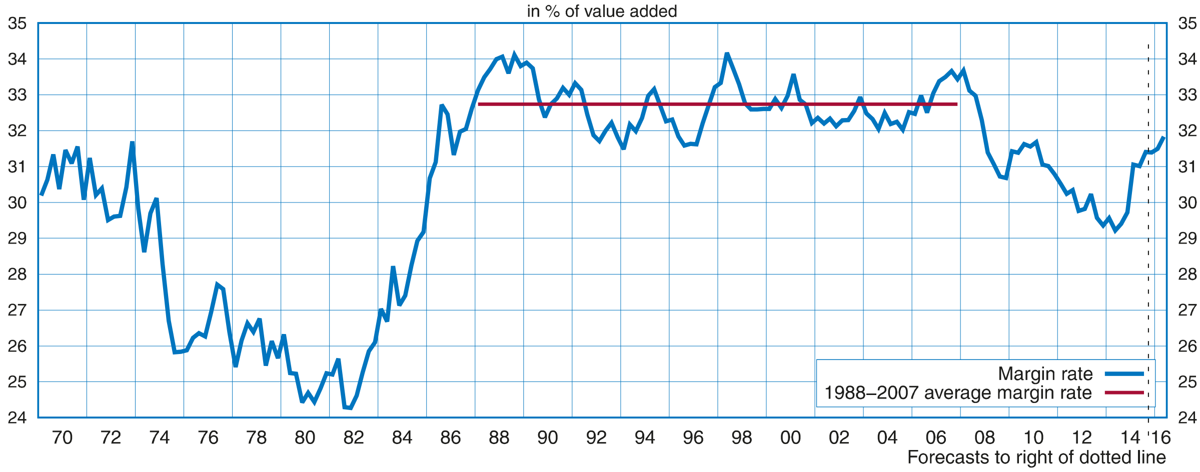
The margin rate should continue to rise, reaching 31.8% in Q2 2016

In Q3 2015 the margin rate should increase by an additional 0.4 points, mainly thanks to a further drop in oil prices. However, per capita real wages are likely to increase slightly more quickly than productivity. As a result, the margin rate should reach 31.4% in Q3 then stabilise in Q4.

All in all, across the whole of 2015 the margin rate should settle at 31.2%, which would be its highest level since 2010.

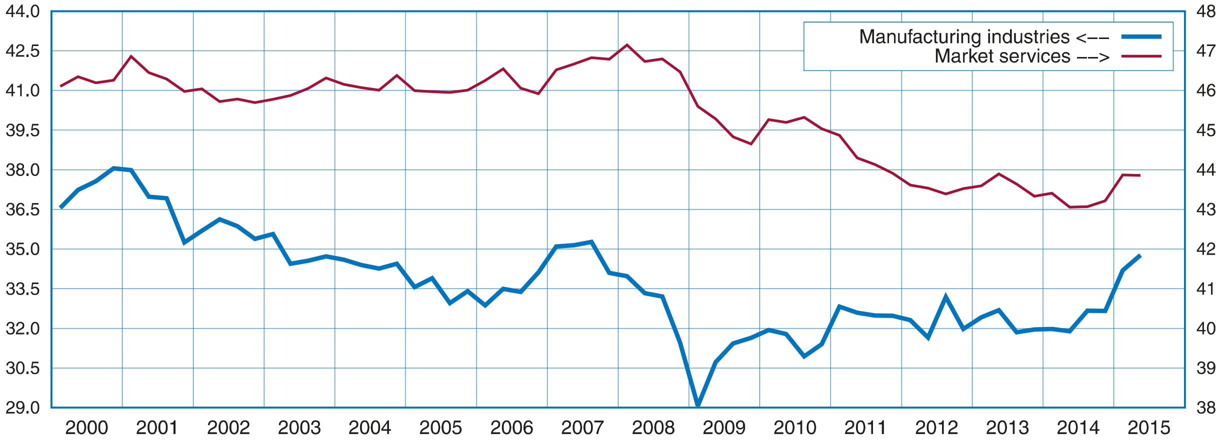
In H1 2016, per capita real wages and productivity should grow in tandem and therefore almost cancel each other out. There are also several new measures relating to employers' contributions

1 - Margin rate of non-financial corporations (NFC)



Source: INSEE, Quarterly national accounts which are likely to affect the corporate margin rate during this period. First, pension contributions will increase on 1st January 2016, while general reductions will be extended to the same date. Overall, these measures should balance each other out, with the result that employers' contributions should not have any effect on the variation in the margin rate in Q1 2016. Second, family contributions will fall once again on 1st April, under the terms of the ramp-up of the PRS, and this is likely to contribute +0.3 points to the rise in the margin rate. All in all, the margin rate is expected to reach 31.8% in mid-2016, which would be its highest level since the end of 2008. ■

2 - Contributions to the variation in the margin rate of non-financial corporations (NFC)



Source: INSEE, Quarterly national accounts

Breakdown of the margin rate of non-financial corporations (NFC)

in % and in points

	2014				2015				2016		2014	2015	2016
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Margin rate (in level)[1]	29.6	29.2	29.4	29.7	31.1	31.0	31.4	31.4	31.5	31.8	29.5	31.2	31.7
Variation in margin rate	0.2	–0.3	0.2	0.3	1.3	0.0	0.4	0.0	0.1	0.3	–0.3	1.7	0.5
Contributions to the variation margin rate													
Productivity gains	–0.1	–0.2	0.2	0.0	0.5	–0.1	0.1	0.0	0.2	0.2	0.1	0.7	0.4
Real wage per capita	–0.2	–0.3	–0.3	–0.3	–0.6	0.2	–0.3	–0.1	–0.2	–0.2	–1.1	–1.1	–0.5
Employer contribution ratio	–0.2	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.3	–0.1	0.3	0.2
Ratio of the value-added price to the consumer price	–0.1	0.1	0.3	0.5	0.5	–0.2	0.5	0.0	0.0	0.0	0.1	1.2	0.3
Other factors	0.8	0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.1	0.0	0.7	0.7	0.1

Forecast

1. The margin rate measures the share of value-added which remunerates capital. Its variation is broken down in accounting terms between:
- productivity changes (Y/L), with Y value-added and L employment, and the ratio of the value-added price to the consumer price, or terms of trade (Pva/Pc), which play a positive role;
- changes to the real average wage per head (SMPT/Pc) and the employer contribution ratio (W/SMPT, where W represents all compensation), which play a negative role.
- others factors: including taxes on production net of operating subsidies :

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

* The CICE reduces companies' corporation tax, but in the national accounts it is treated as a subsidy to companies as recommended in the European system of accounts (ESA 2010).

Source: INSEE

Corporate investment and inventory

Corporate investment picked up slightly in Q3 2015 (+0.7% after +0.5%). Expenditure on manufactured goods was substantially more dynamic (+0.9% after +0.1%) and expenditure on services remained buoyant (+1.0% after +1.1%), while investment in construction remained stable (0.0% after +0.1%).

Investment is likely to increase a little faster in Q4 2015 (+0.8%) and Q1 2016 (+0.9%), boosted mainly by the impact of the additional depreciation allowance, before slowing slightly in Q2 (+0.8%). Average investment for 2015 should rise by 2.0%, the same as in 2014. The carry-over at mid-2016 already looks set to be higher, at +2.6%.

Changes in inventories contributed around +0.7 points to GDP growth in Q3 2015 (after –0.4 points in Q2), mainly due to transport equipment (+0.4 points after –0.3 points). In Q4, the contribution of changes in inventories is likely to be zero. All in all, for 2015, changes in inventories are expected to contribute +0.2 points to annual GDP growth, as they did in 2014. They should become neutral once again in H1 2016.

In Q3 2015, corporate investment picked up

In Q3 2015, investment by non-financial enterprises (NFE) increased at a more sustained pace than in Q2 (+0.7% after +0.5%, *Table 1*). Product by product, expenditure on manufactured goods accelerated sharply (+0.9% after +0.1%). Expenditure on capital goods in particular remained buoyant (+2.2% after +1.9%) and purchases of transport equipment ceased their decline (+0.1% after –1.6%). Investment expenditure on services held steady (+1.0% after +1.1%), as did spending on information-communication (+0.7% after +0.6%) and on services to businesses (+1.5% after +1.7%). Construction expenditure stagnated, however (0.0% after +0.1%). As investment expenditure in value has increased in virtually the same way as value added, the NFE investment rate has remained virtually unchanged since the beginning of 2015.

Investment set to pick up a little over the coming quarters

For Q4 2015, the business tendency surveys give some qualified pointers about NFE investment. In the October survey, the investment revision

Table 1

Investment by non-financial enterprises (NFE)

	Quaterly changes										Annual changes		
	2014				2015				2016		2014	2015	2016
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Manufactured products (43 %)	–0.5	–0.1	0.8	–0.5	1.0	0.1	0.9	1.2	1.3	1.0	2.3	1.8	3.4
Construction (28 %)	0.5	0.0	0.1	0.3	0.0	0.1	0.0	0.3	0.0	0.0	3.0	0.4	0.3
Other (29 %)	–0.2	0.6	0.1	0.5	1.1	1.1	1.0	0.9	1.1	1.1	1.1	3.3	3.4
All non-financial enterprises (100 %)	**–0.1**	**0.2**	**0.4**	**0.1**	**0.8**	**0.5**	**0.7**	**0.8**	**0.9**	**0.8**	**2.0**	**2.0**	**2.6**

Forecast
Source: INSEE

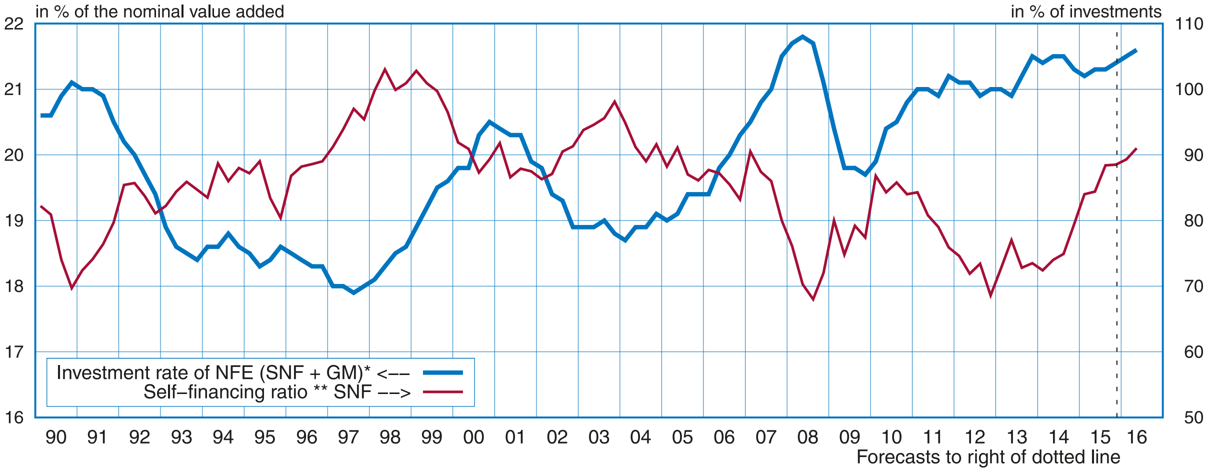
indicator in the manufacturing industry became negative once again for the first time in two years. In contrast, the balances of opinion on previous investment and on the prospects for investment by business leaders in the service sector are following a positive trend and remain above their long-term average. Financing terms continue to be favourable for investment. On the one hand, the corporate margin rate is set to increase, which should enable companies to self-finance their purchases more extensively: indeed the NFE self-financing ratio is likely to exceed 90% by mid-2016, its highest level since 2007 (*Graph 1*). On the other hand, real interest rates are set to remain very low until mid-2016 and credit terms are easing. Next, production bottlenecks, measured from the share of companies declaring that they were operating at 100% capacity, reached 29% in October, its highest level since 2008, which should stimulate investment in capacity (*Graph 2*). Similarly, the production capacity utilisation rate in industry is at its highest since 2011, although it is not yet back at its 2008 level.

All in all, investment by NFEs is forecast to accelerate: +0.8% in Q4 2015 then +0.9% and +0.8% in the first two quarters of 2016. On average over 2015, investment by NFEs is likely to grow by 2.0%, as it did in 2014. The carry-over at mid-2016 already looks set to be +2.6%. The NFE investment rate is likely to rise slowly to reach 21.6% in mid-2016 (compared with 21.3% one year earlier).

Expenditure on manufactured goods should continue to grow

After the sharp increase in Q3 2015 (+0.9% after +0.1%), NFE investment in manufactured goods is likely to continue to accelerate in Q4 (+1.2%). The rise in vehicle registrations up to November suggests that investment in automobiles could be

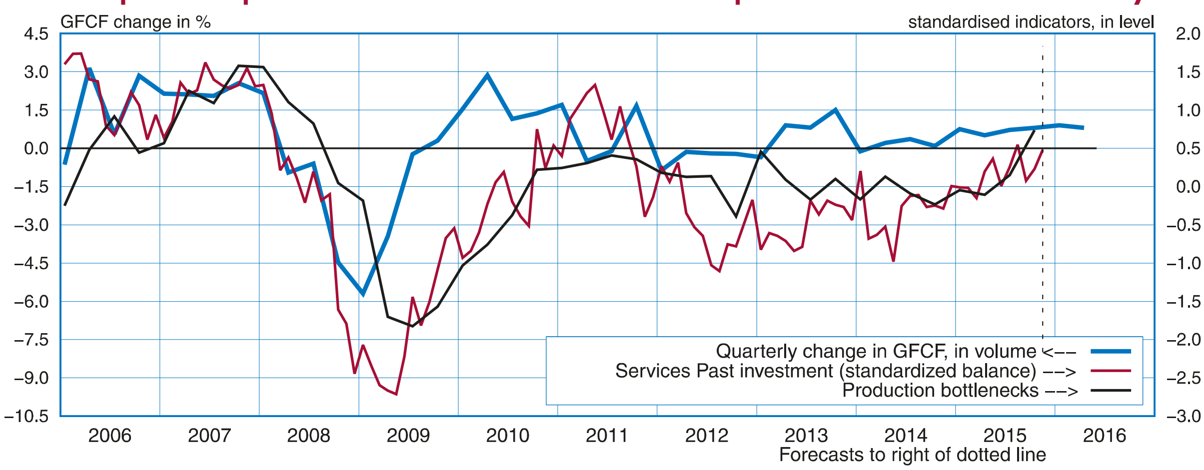
1 - NFE investment rate and margin rate*



* Non-financial enterprises =non-financial corporations and unincorporated enterprises

Source: INSEE, Quarterly national accounts

2 - Opinion on past trend of investment in services and production bottlenecks in industry



Sources: INSEE, monthly survey in services and industry, Quarterly national accounts more dynamic in Q4 2015. In addition, expenditure on capital goods should continue to benefit from the additional depreciation allowance for certain capital goods (*Focus*). This measure is being extended until 15 April 2016: it should have a greater impact on growth in Q1. Investment in manufactured goods therefore looks set to pick up in Q1 (+1.3%) before slowing in Q2 (+1.0%).

Investment in construction likely to increase before stabilising

According to the forecasts, construction expenditure is expected to increase in Q4 2015 (+0.3%) before stabilising in H1 2016. The short-term indicators are declining less: the order books for non-residential buildings and the balance of opinion on expected activity in building maintenance excluding housing have picked up significantly compared with the beginning of 2015; in addition, the balance of opinion on activity expected by business managers in civil engineering improved sharply in October.

Investment in services should continue to rise at a sustained pace

Investment in services is likely to continue to increase at a similar pace to its trend in recent years: +0.9% in Q4 2015, then +1.1% in Q1 and Q2 2016. In comparison, balances relating to activity in services to businesses have returned to or even exceeded their long-term average.

The contribution of changes in inventories should make a neutral contribution to growth

Changes in inventories contributed strongly to GDP growth in Q3 2015 (+0.7 point), after a negative contribution in Q2 2015 (–0.4 points; *Table 2*). This profile is mainly the result of changes in inventories in transport equipment (contribution of +0.4 points after –0.3 points). However, for transport equipment such as aircraft, ships, trains, etc., changes in inventories tend to be more a reflection of the time-lag between the measurement of production (in progress) and that of foreign trade (on delivery) rather than short-term changes in inventories.

In the monthly business tendency survey for November 2015, the level of inventories in industry was considered to be virtually unchanged and slightly below normal, suggesting neutral changes in inventories overall. The contribution of changes in inventories is therefore nil in Q4 2015. For the year as a whole, changes in inventories are likely to contribute +0.2 to GDP growth, the same as in 2014. This contribution is then expected to be neutral for the first two quarters of 2016. ■

Table 2

Contribution of inventory changes to growth *(in GDP points)*

	Quarterly changes										Annual changes		
	2014				2015				2016		2014	2015	2016
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Agricultural and agrifood products	0.1	0.0	0.0	0.0	0.0	–0.1	0.0	0.0	0.0	0.0	0.1	–0.1	0.0
Manufactured products	0.2	0.0	0.2	–0.3	0.2	–0.4	0.7	0.1	0.0	0.0	0.1	0.2	0.3
including:													
Agrifood products	*0.0*	*0.0*	*0.0*	*–0.1*	*0.0*	*0.0*	*0.0*						
Coke and petroleum products	*0.2*	*0.0*	*0.1*	*–0.1*	*0.1*	*–0.1*	*0.1*						
Machinery and equipment goods	*0.0*	*0.0*	*0.0*	*0.2*	*–0.2*	*0.0*	*0.0*						
Transport equipment	*–0.2*	*0.0*	*0.5*	*–0.6*	*0.3*	*–0.3*	*0.4*						
Others industrial goods	*0.2*	*–0.1*	*–0.3*	*0.3*	*0.0*	*0.0*	*0.1*						
Energy, water and waste	0.0	0.0	–0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others (construction, services)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL[1]	0.3	0.0	0.1	–0.3	0.3	–0.4	0.7	0.0	0.0	0.0	0.2	0.2	0.2

Forecast

1. Changes in inventories include acquisitions net of sales of valuables.

Source: INSEE

One-off additional depreciation allowance sustains manufacturing investment

The additional depreciation allowance is a temporary measure to encourage corporate investment. It is a tax incentive for productive investment: when enterprises calculate their operating income for tax purposes, they can apply a depreciation of 140% on capital goods investments made between 15 April 2015 and 14 April 2016.

In practical terms, the depreciation mechanism is used to reduce the tax base. This additional depreciation allowance entitles companies to increase the amount to be deducted from their tax base for equipment by 40%, spreading this one-off deduction linearly. If a company paying the standard rate of corporation tax (33.33%) buys a machine tool for €100,000, its tax bill can be reduced by €46,667 over the lifespan of the capital good, compared with €33,333 without the additional depreciation allowance. Across the whole lifespan of capital goods and ignoring discounting, the additional depreciation represents a 20% reduction in costs for companies taxed at the standard rate of corporation tax (33.33%), and 7.1% for those taxed entirely at the reduced rate (15%).

Investments potentially affected by the measure could represent expenditure of around 25 billion euros per year

The additional depreciation allowance mainly concerns purchases of machines used by companies for industrial manufacturing, processing and handling operations, which amounted to around 21.2 billion euros in 2013. The scope of this measure also includes systems producing steam, heat or energy, water purification and air-filtering units, and equipment used for R&D. The total value of investments eligible for the allowance should therefore be around 25 billion euros, or 15% of corporate investment excluding construction.

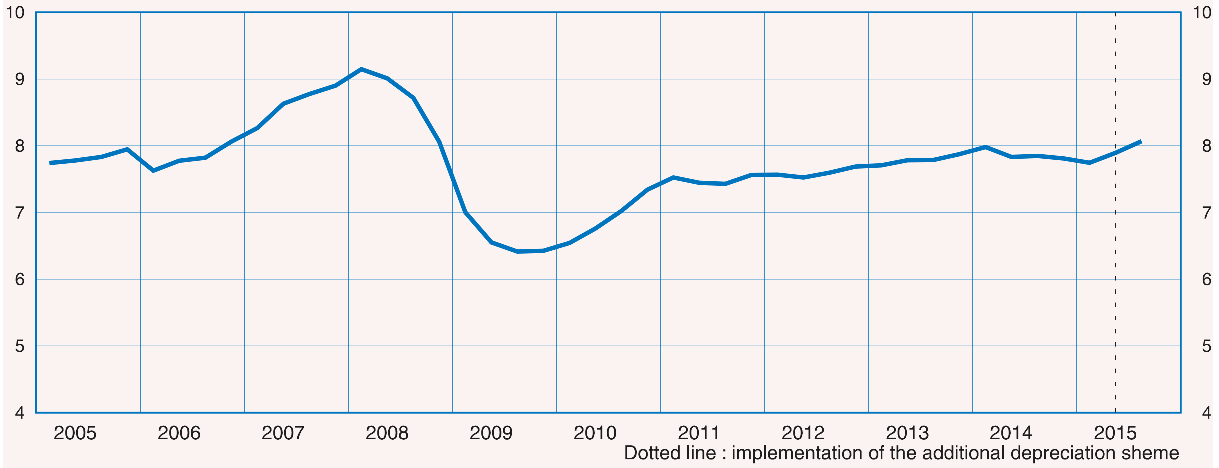
Purchases of capital goods have been fairly dynamic since spring 2015

The scope of the additional depreciation allowance is focused mainly on investments in capital goods. These have been fairly dynamic since the measure was announced: +1.9% in Q2 2015 and +2.2% in Q3 (*Graph 1*); not since Q1 2011 has there been more rapid growth.

Specifically, the wholesale trade turnover indices seem to suggest that of all the purchases of capital goods, those that are apparently most concerned by the additional depreciation allowance are certainly the most dynamic (*Graph 2*). In Q3 2015, the wholesale trade turnover index of other industrial equipment increased by 2.7% compared with its level in Q1 2015, whereas since 2012 the increase over two quarters had been +2.5% at the most. In addition, this vigour is due to the substantial increase in sales of machine tools (+6.1%) and wholesale of other machinery, equipment and supplies (+5.4%) which are particularly affected by the additional depreciation allowance. At the same time, sales of products that are for the most part not eligible for the additional depreciation allowance increased less. For example, wholesale turnover of information and communication equipment grew by only 1.1% and wholesale of office furniture actually fell by 0.9%.

These changes are confirmed by the business tendency survey in wholesale trade. Compared with the beginning of the year, the balances of opinion of wholesalers on their ordering intentions and their past sales declined for information and communication capital goods but increased for other industrial equipment, which is also more often eligible for the additional depreciation allowance.

1 - GFCF of non-financial enterprises (NFE) in capital goods



Source: INSEE, Quarterly national accounts

According to the business tendency survey on industrial investment, companies revised their investment intentions downwards between April and October. However, for given levels of changes in balances of opinion on activity and demand, investment was actually increasing. This seems to indicate that factors external to the changes in economic activity, such as the introduction of the additional depreciation allowance, have encouraged businesses to invest more. In fact, more companies reported "Other" reasons (including tax relief) as a factor that had a positive influence on their investment decision: in October 2015 the corresponding balance of opinion (+31) was close to its highest level since the series first started (1991), and was 8 points above its long-term average.

The additional depreciation allowance only partly explains the dynamism of investment in the manufacturing industry

However, the overall effect of the allowance may be reduced by possible substitution effects between different types of investment. In particular, companies may have decided to bring forward their purchases of capital goods eligible for the additional depreciation allowance (in order to take advantage of the measure) by reducing investment in other goods.

Lastly, the additional depreciation allowance can account for only part of the dynamism in investment in the manufacturing industry. In particular, the relatively high number of heavy goods vehicle and commercial vehicle registrations in September and October 2015 is not linked to the additional depreciation allowance because rolling stock is for the most part excluded from the scope of this measure.

The additional depreciation allowance should boost investment in manufactured products by around 0.2 to 0.4 points per quarter

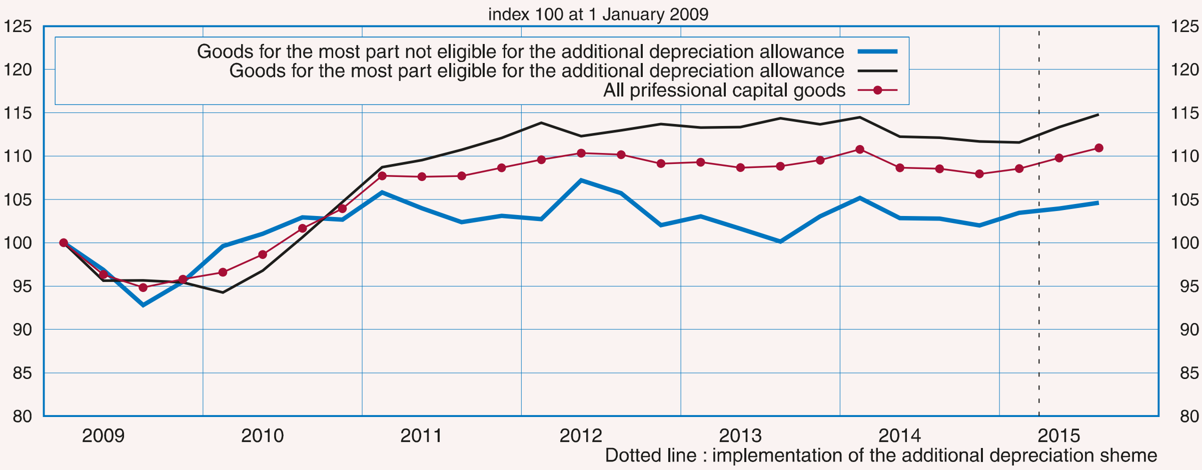
The forecast in the June *Conjoncture in France* incorporated an effect attributable to the additional appreciation allowance of 0.2 points in Q3 2015, then 0.4 points in Q4 on investment in manufactured products. Growth in Q3 does not appear to invalidate these effects. In this *Conjoncture in France* we therefore maintain the same hypotheses and in addition incorporate an effect of 0.4 points in Q1 2016 then 0.2 points for Q2 2016.

The temporary nature of this allowance presents an upside risk for estimating short-term effects: companies may increase purchases of capital goods more than anticipated in order to take advantage of the measure. As an example, in anticipation of an increase in the price of new trucks, due to the introduction of a new technical standard on 1st January 2014 ("Euro 6"), corporate investment in transport equipment increased sharply in Q4 2013 (+7.0%). This shows how potentially sensitive companies can be in reacting to measures that will definitely modify the prices of goods they purchase.

Conversely, there is a possibility that this allowance will be extended beyond April 2016, as suggested by some parliamentarians; the effect would then be more diffuse over time. ■

1. "The one-off additional depreciation allowance should boost corporate investment in capital goods", *Conjoncture in France*, June 2015, p. 90.

2 - Wholesale trade turnover indices for other capital goods eligible for the additional depreciation allowance *(quaterly average)*



How to read this chart: The turnover index for wholesale trade of all professional capital goods increased by 2.2% between Q1 and Q3 2015, this represents the aggregate of goods that for the most part are not eligible for the additional depreciation allowance (+1.1%) and goods that for the most part are eligible (+2.9%). Goods for the most part not eligible for the allowance include information and communication equipment, office furniture and other office machinery and equipment. Goods that are mainly eligible for the allowance include agricultural equipment, machine tools, mining, construction and civil engineering machinery, machinery for the textile and clothing industry, electrical equipment and various industrial equipment.

Source: INSEE, wholesale turnover indices