Consumer prices

In February 2015, year-on-year consumer prices were down for the second consecutive month (-0.3%). Headline inflation should remain negative between now and June 2015, at a level slightly above that seen in February (-0.1%): it should be driven downwards by the fall in oil product prices in particular.

Core inflation should remain close to zero throughout the forecasting period (+0.1% in June 2015).

Deflationary pressures remain, but are not expected to intensify between now and June 2015

Since early 2012, inflation has been falling steadily in France and the Eurozone. It has been below +1.0% (year-on-year) since summer 2013, and year-on-year prices even decreased in January and February 2015 (-0.4% and -0.3% respectively), for the first time since October 2009 (*Graph 1*). Between now and mid-2015, deflationary pressures should remain present: core inflation should be virtually nil (+0.1% year-on-year in June 2015) and the year-on-year variation in the headline indicator should be dragged down (-0.1% in June 2015) by falling energy prices (-4.3% from last year in June 2015).

Core inflation, which has been falling virtually continuously since mid-2012, should stabilise during the forecasting period: as growth picks up, competitive pressures should cease to intensify (see the dossier "The risk of negative inflation is real, but does not necessarily signal deflation", *Conjoncture in France*, December 2014).1 The variation in the prices of many products should stabilise, or even reverse their recent trend: in the telecommunications sector in particular, prices should tend to stabilise after significant reductions in the past three years.

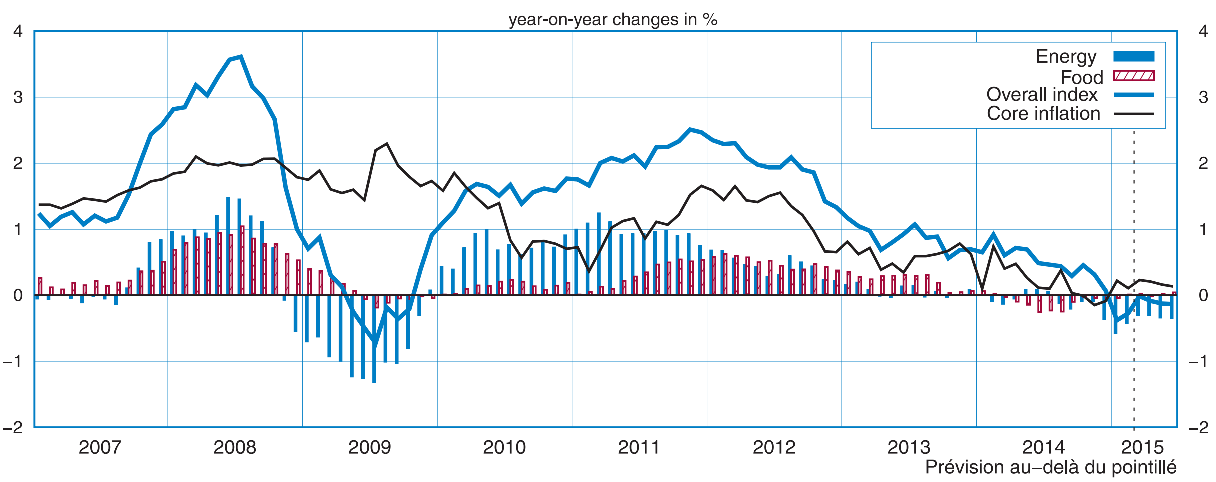
Nonetheless, the risk that core inflation should slip back below zero is not to be discounted: by analysing the historical distribution of the disparities between successive forecasts in Conjoncture in France and the inflation actually recorded, we can estimate the probability that core inflation will be negative in mid-2015 at around 30% (*Graph 2*).

The decline in energy prices is slowing

Compared with prices for the previous year, energy prices fell less severely in February 2015 (-5.3%) after reaching a low point in January 2015 (-7.1%) as a consequence of the fall in oil prices, in spite of increased duties on fuel, gas and electricity. On the conventional assumption that the price of a barrel of Brent crude should remain stable at around €50.8 ($55) in Q2 2015, the year-on-year variation in energy prices should pick up slightly to stand at -4.3% in June.

(1) The core inflation indicator calculated by INSEE, which takes the headline indicator and removes the most volatile products (energy and fresh food products) and cancels out the mechanical impact of variations in indirect taxes, is subject to minor fluctuations linked to the fact that the impact of the VAT increase in January 2014 was neither comprehensive nor immediate. By mid-2015 these fluctuations caused by the VAT increase should cease to have an effect.

1 - Inflation in France



Source: INSEE

Inflation of food prices is positive again

As wheat prices have fallen back, and against the backdrop of a "price war" between supermarkets, the increase in the prices of other imported food products which began in early 2014 should have a weak impact on prices in the food sector (excluding fresh food): in year-on-year terms, these prices should continue to fall between now and June 2015, to reach -0.4% (Table). Furthermore, in the absence of a climate-related crisis affecting production, the prices of fresh food should increase mechanically through to mid-2015, with the year-on-year variation standing at +5.1% in June after +3.9% in February. In spring 2014, supply was stimulated by favourable weather conditions, driving the prices of fresh food down to a particularly low level. All in all, food inflation should also remain slightly positive in June 2015, standing at +0.3% after +0.1% in February.

A fall in the price of manufactured goods

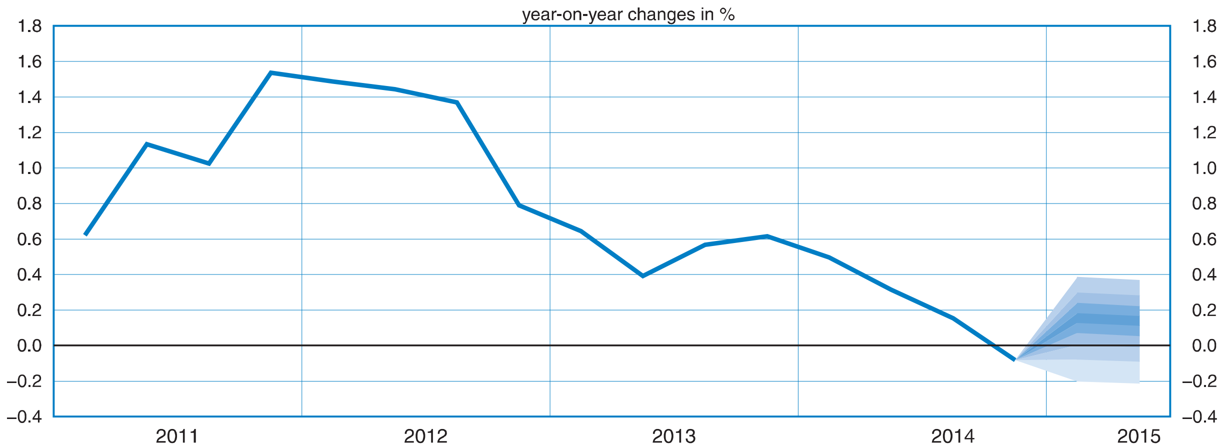
The fall in the price of manufactured goods looks set to slow. After a very substantial fall in February 2015 (-1.7% year-on-year) as a result of larger discounts in the winter sales than those seen in 2014, these prices should be down by 1.3% year-on-year in June 2015. The low utilisation rate of factors of production and the persistent sluggishness of import prices should continue to weigh heavily upon the prices of manufactured goods, but a less severe intensification of competition and the end of the effect of the new sales calendar on the year-on-year figures should lead to a slighter decrease between February and June.

Year-on-year prices in clothing and footwear, affected by both the major impact of the sales (in January 2015) and the change in the legislation on sales, should be down by 0.2% in June 2015 after -2.6% in February, a delayed response to the fall in cotton prices seen since early 2014. The prices of healthcare products should continue to fall through to mid-2015. This fall is partly a result of the price control measures included in the Social Security Financing Act for 2015. This decrease should also be accentuated by the drop in the price of glasses and contact lenses arising as a result of the "Consumption" law of March 2014. Year-on-year prices in this sector should thus stand at -3.0 % in June 2015, unchanged from February.

Inflation in services should fall back

The increase in the price of services (+1.3 % year-on-year in January and February 2015, compared to +1.6 % in December 2014) should slip back to +1.1% in June 2015, as the year-on-year effects of the VAT increase from January 2014 cease to be felt. This effect should nevertheless be partly offset by the prices of telecommunication services, which should stabilise after several years of decline. ■

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



Source: INSEE

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 bands to 40%. We can repeat the process, moving from the centre outwards and from the darkest band to the lightest, up to a 80% probability.

Consumer prices

changes as %

CPI* groups (2014 weightings)	December 2014		February 2015		March 2015		June 2015		Annual averages	
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	2013	2014
Food (16.6%)	**-0.4**	**-0.1**	**0.1**	**0.0**	**0.2**	**0.0**	**0.3**	**0.0**	**1.4**	**-0.6**
including:										
seasonal food products (2.1%)	*-0.6*	*0.0*	*3.9*	*0.1*	*5.1*	*0.1*	*5.1*	*0.1*	*4.4*	*-4.1*
excluding seasonal food products (14.4%)	*-0.4*	*-0.1*	*-0.5*	*-0.1*	*-0.6*	*-0.1*	*-0.4*	*-0.1*	*0.9*	*-0.1*
Tobacco (2.0%)	**3.5**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**6.8**	**5.2**
Manufactured products (25.8%)	**-1.2**	**-0.3**	**-1.7**	**-0.5**	**-1.1**	**-0.3**	**-1.3**	**-0.3**	**-0.4**	**-0.9**
Energy (8.2%)	**-4.4**	**-0.4**	**-5.3**	**-0.4**	**-3.8**	**-0.3**	**-4.3**	**-0.4**	**0.8**	**-0.9**
including:										
oil products (4.2%)	*-10.6*	*-0.5*	*-12.1*	*-0.6*	*-8.8*	*-0.4*	*-9.4*	*-0.4*	*-2.3*	*-4.2*
Services (47.4%)	**1.6**	**0.7**	**1.3**	**0.6**	**1.2**	**0.6**	**1.1**	**0.5**	**1.2**	**1.7**
including:										
rent-water (7.7%)	*1.5*	*0.1*	*0.9*	*0.1*	*0.9*	*0.1*	*0.9*	*0.1*	*1.8*	*1.5*
health services (5.7%)	*0.5*	*0.0*	*0.8*	*0.0*	*0.8*	*0.0*	*0.7*	*0.0*	*0.8*	*0.3*
transport-communications (5.1%)	*-0.2*	*0.0*	*0.9*	*0.0*	*1.0*	*0.1*	*1.4*	*0.1*	*-4.2*	*1.1*
other services (29.0%)	*2.2*	*0.6*	*1.6*	*0.4*	*1.4*	*0.4*	*1.2*	*0.3*	*2.1*	*2.2*
All (100%)	**0.1**	**0.1**	**-0.3**	**-0.3**	**0.0**	**0.0**	**-0.1**	**-0.1**	**0.9**	**0.5**
All excluding energy (91.9%)	0.5	0.4	0.2	0.2	0.3	0.3	0.2	0.2	0.9	0.6
All excluding tobacco (98.0%)	0.0	0.0	-0.3	-0.3	0.0	0.0	-0.1	-0.1	0.7	0.4
Core inflation (60.4%)[1]	**-0.1**	**-0.1**	**0.1**	**0.1**	**0.2**	**0.1**	**0.1**	**0.1**	**0.6**	**0.2**

Forecast

yoy : year-on-year

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

*Consumer price index (CPI)

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

Source: INSEE

Wages

In 2014, the average wage per capita in the market sectors was slightly more dynamic, in nominal terms (+1.7% as an annual average), than in 2013 (+1.5%).

However, at a sub-annual level, it slowed down: +0.6% in H2 after +0.8% in H1. Given the drop in prices, a moderate increase in the minimum wage on 1st January 2015 (+0.8%) and the rise in unemployment, it is likely to slow once again in H1 2015 (+0.3%).

After an increase of +0.8% in H2 2014, the average wage per capita in real terms is also likely to slow in H1 2015 (+0.3%). The growth overhang for 2015 at the end of Q2 is likely to be +0.9%, the same as a year ago.

In H2 2014, average wage per capita slowed in nominal terms

As an annual average, the basic monthly wage[1] in the non agricultural market sectors was slightly less dynamic in 2014 (+1.4%) than in 2013 (+1.6%) in nominal terms. However, the average wage per capita, which covers a broader scope of remunerations (bonuses, profit-sharing, overtime payments), accelerated slightly over the year: +1.7% in 2014 after +1.5% in 2013. In the course of the year, the average wage per capita slowed, adjusting with a time-lag to the slowdown in prices: +0.6% in H2 after +0.8% in H1 2014.

In real terms, wages have benefitted from the drop in inflation since 2013: the real average wage per capita increased by 0.9% in 2013 as an annual average, then by 1.2% in 2014 despite high unemployment, which continues to impact on employee bargaining power. At a sub-annual level, the average wage per capita accelerated in H2 in real terms (+0.8% half-year-on-half-year after +0.4% in H1 2014), as wages had not adjusted immediately to the new drop in inflation related to the decline in oil prices.

The average wage per capita is expected to slow once again in H1 2015

At the beginning of 2015, the minimum wage was increased by +0.8%, or 0.3 points less than on 1st January 2014. In H1, nominal wages in the non agricultural market sectors are likely to adjust, again with a time-lag, to the drop in inflation and to decelerate slightly (+0.3% after +0.6% in H2 2014). The downturn is likely to be greater in real terms: +0.3% after +0.8% in H2 2014.

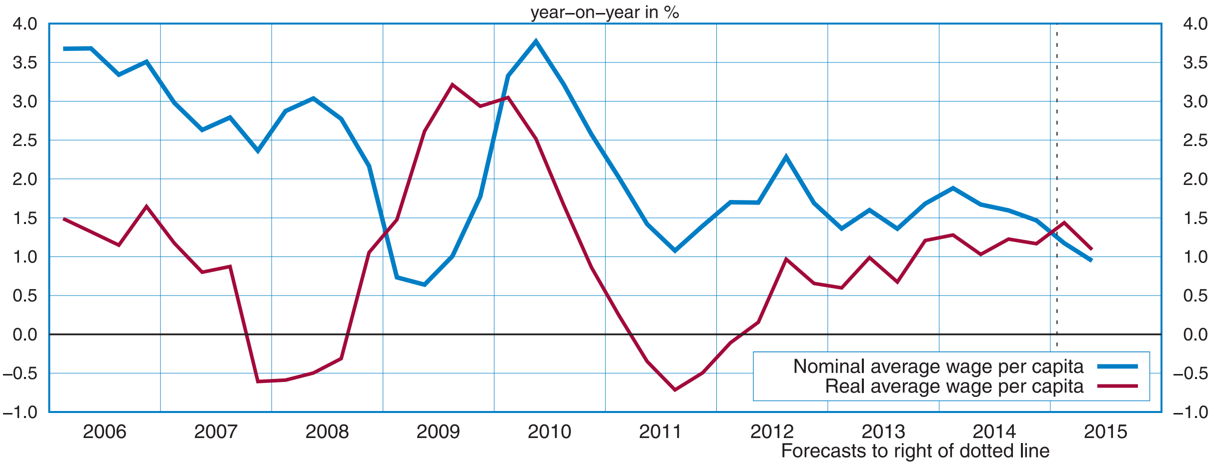
The annual growth overhang at the end of Q2 2015 is likely to be +0.8% for the nominal average wage per capita, compared to +1.4% a year earlier. In real terms, due to the fall in prices, the growth overhang is likely to be the same in mid-2015 (+0.9%) as in mid-2014.

In general government, nominal wages slowed in 2014 but are set to pick up slightly at the start of 2015

In general government, nominal wages (including subsidised contracts) slowed in 2014: +0.2% after +0.9%. The index point for the civil service has been frozen since 1st July 2010 and the civil service minimum index was not revised in 2014, although

(1) For a definition of BMW and AWPH, see on insee.fr website "Economic outlook terminology"

Change in the nominal and real average wage per capita



Scope: non-agricultural market sector
Source: INSEE

it had been increased on 1st January 2013 (+0.3%). Lastly, the structure of employment changed with the arrival of subsidised contracts (mainly "*Emplois d'avenir*") at lower pay levels than average wages. The slowdown in prices did not compensate for the slowdown in nominal wages: in 2014, real wages therefore decreased (-0.2%) after a moderate increase in 2013 (+0.3%).

New wage scales were implemented on 1st January 2015. For the first grade of category B in local government, for example, the index was increased by 2.4%. The nominal average wage per capita in general government is set to accelerate very slightly in H1. At the end of Q2 2015, the annual growth overhang should stand at +0.5% for the nominal average wage per capita (versus stagnation the previous year) and, due to the drop in prices, at +0.6% for the real average wage per capita (versus -0.5% 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

change as a %

Seasonally-ajusted data	*quarterly growth rates*						*annual averages*		
	2014				**2015**		**2013**	**2014**	**2015 ovhg**
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**			
Basic monthly wage	0.3	0.3	0.3	0.3	0.2	0.1	1.6	1.4	0.8
Average wage per capita in the non-agricultural market sector (NAMS)	0.5	0.3	0.3	0.3	0.2	0.1	1.5	1.7	0.8
Average wage per capita in general government (GG)							0.9	0.2	0.5
Household consumer price index (quarterly national accounts)	0.4	0.0	-0.2	0.0	-0.2	0.1	0.6	0.5	-0.1
Real basic monthly wage	-0.1	0.3	0.5	0.3	0.4	0.0	1.0	0.9	0.9
Real average wage per capita (NAMS)	0.1	0.3	0.4	0.3	0.4	0.0	0.9	1.2	0.9
Real average wage per capita (GG)							0.3	-0.2	0.6

Forecast
Source: INSEE

Household income

In 2014, the purchasing power of household income picked up (+1.1% after 0.0% in 2013) thanks to an upturn in household disposable income (+1.6% after +0.6% in 2013). Against a backdrop of low, stable inflation (+0.5% as an annual average, after +0.6%), earned income gathered pace (+1.3% after +0.9% in 2013) while social benefits slowed (+2.3% after +2.8%). The upturn in disposable income can be explained by the fact that taxes and contributions increased at a slower pace than previously (+2.1% after +4.2%).

At the start of 2015, earned income should continue to rise moderately while taxes are set to decline in reaction to their acceleration at the end of 2014. Purchasing power should therefore pick up once again in Q1 2015 (+1.0%), then increase slightly in Q2 (+0.1%). Over one year it is expected to reach +1.6% by mid-2015, its sharpest growth since early 2010.

Earned income should continue to grow in early 2015

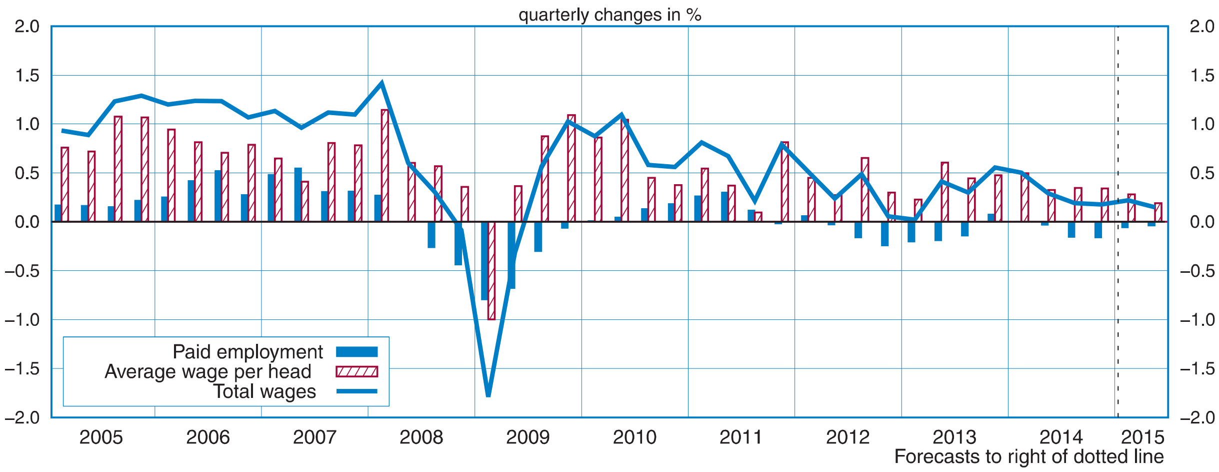
Over 2014 as a whole, the earned income of households accelerated (+1.3% after +0.9% in 2013, *Table 1*). The payroll received by households was more dynamic (+1.6% after +1.0% in 2013, *Table 2*), mainly because employment in the non-agricultural market sectors fell less sharply (-0.2% after -0.7% in 2013, Graph). However, the gross operating surplus of sole proprietors fell back (-0.8% after 0.0% in 2013) due to sluggish activity. As for property income, it picked up in 2014 (+2.6% after +1.0% in 2013, a year marked by a drop in interest received by households).

In H1 2015, earned income should continue to grow at the same pace as in H2 2014 (around +0.3% per quarter): the slight improvement in employment should be offset by the slowdown in nominal wages.

Social benefits set to slow once again

In 2014 social benefits in cash were less vigorous than in 2013 (+2.3% after +2.8%, Table 3), in particular social security benefits (+2.2% after +3.1%). More specifically, old-age benefits were given a lower increase than previously, partly offsetting the rise in the number of retirements after the conditions governing long careers were relaxed in July 2012. These lower increases in 2014 did in fact affect most retirees: they applied to the general regime and the aligned regimes, the civil servants' regimes as well as the supplementary pensions paid by the AGIRC and the ARRCO. Family allowances also received a smaller increase in 2014 (+0.6% at 1st April) than in previous years (+1.3% on average over the last five years), due to low inflation. Lastly, after strong growth in 2013, unemployment benefits slowed sharply, most notably under the effect of the new convention on unemployment insurance that came into force on 1st July 2014. However, social assistance benefits continued to accelerate in 2014 (+3.7% after +1.9% in 2013); they were sustained by expenditure on the earned income supplement (RSA), the scale of which was increased in accordance with the undertakings of the fight against poverty plan, and expenditure on the specific solidarity allowance (ASS) further to the rise in the number of long-term unemployed.

Breakdown of the total gross wages paid out to households in the competitive non-agricultural sector



Source: INSEE

In H1 2015, social benefits in cash are likely to slow once again (+1.1%, after +1.5% in H2 2014). Several of these benefits are expected to increase only slightly or not at all. Family allowances are not expected to be increased on 1st April 2015 as inflation is forecast to remain low in 2015 and a correction for 2014 inflation is planned. Additionally, the pensions paid out by the AGIRC and the ARRCO are unlikely to be increased, in line with the agreement signed between social partners in March 2013; similarly, since 2014, basic regime pensions are no longer increased on 1st April. Lastly, on 1st January 2015, the RSA scale was increased by 0.9%, a lower percentage than in previous years (+1.7% in 2012 and 2013, +1.3% in 2014).

Taxes and contributions expected to slow in early 2015

Over 2014 as a whole, taxes and contributions paid by households once again rose more quickly (+2.1%) than income before tax (+1.5%), but far less so than in 2013 (+4.2%). This slowdown is due among other things to the new measures, which were less extensive in 2014 than in 2013, targeting income tax and wealth tax (+1.4% after +3.9%) but also the social contributions of households (+3.0% after +4.7%).

The measures concerning income tax and wealth tax introduced in 2014 (in particular the abolition of income-tax exemptions on pension rises for family charges, the new lowering of the family quotient cap, and the abolition of tax exemption on the payment by employers of part of their employees' supplementary insurance contributions) were mainly implemented in H2 and therefore affected the quarterly profile of the tax. However, their impact was limited by other tax-reduction measures, including lower income tax for the most modest households. Ultimately, households' income tax and wealth tax fell slightly in Q3 (-0.1%) before rising sharply in Q4 (+3.8%). A drop is therefore expected in Q1 2015 (-2.2%) in reaction to this rise.

Additionally, the contributions paid by households should slow slightly in H1 2015. While those living on the Swiss border now have to contribute to the French health insurance fund, this rise in contributions (160 million Euros) should be far lower than the exemption for the self-employed, an amount estimated at a billion Euros in 2015.

All in all, taxes and contributions should fall in Q1 2015 (-1.5% after +2.6% at end 2014), then return to growth at a pace similar to the income trend in Q2 (+0.5%).

Table 1

Household gross disposable income

change as %

	2013				2014				2015		2013	2014	2015 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Gross disposable income (100%)	1.5	0.3	0.0	-0.2	1.1	0.5	0.5	-0.1	0.9	0.3	0.6	1.6	1.3
including :													
Earned income (70%)	0.1	0.4	0.2	0.4	0.4	0.3	0.3	0.2	0.3	0.2	0.9	1.3	0.8
Gross wages (62%)	*0.1*	*0.3*	*0.3*	*0.5*	*0.5*	*0.4*	*0.3*	*0.3*	*0.2*	*0.2*	*1.0*	*1.6*	*0.9*
GOS of sole proprietors[1] (9%)	*-0.1*	*0.4*	*-0.4*	*-0.1*	*-0.1*	*-0.6*	*0.0*	*-0.1*	*0.3*	*0.3*	*0.0*	*-0.8*	*0.3*
Social benefits in cash (34%)	0.6	0.8	0.6	0.6	0.5	0.3	0.9	0.8	0.5	0.4	2.8	2.3	2.0
GOS of "pure" households (13%)	0.2	0.3	0.1	0.2	0.4	0.2	0.3	0.5	0.6	0.5	1.0	1.1	1.5
Property income (8%)	0.6	0.3	0.0	0.9	0.3	1.9	0.1	0.2	0.3	0.3	1.0	2.6	1.2
Social contributions and taxes (-25%)	-4.1	1.1	1.5	2.9	-1.9	0.1	0.2	2.6	-1.5	0.5	4.2	2.1	0.9
Contributions of households (-11%)	*0.4*	*0.9*	*0.7*	*1.0*	*0.7*	*0.6*	*0.7*	*0.9*	*-0.4*	*0.3*	*4.7*	*3.0*	*1.0*
Income and wealth tax (including CSG and CRDS) (-14%)	*-7.1*	*1.2*	*2.1*	*4.3*	*-3.6*	*-0.3*	*-0.1*	*3.8*	*-2.2*	*0.6*	*3.9*	*1.4*	*0.8*
Income before taxes	0.2	0.4	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.3	1.1	1.5	1.3
Household consumer prices (quarterly national accounts)	**0.3**	**0.0**	**0.1**	**0.1**	**0.4**	**0.0**	**-0.1**	**0.0**	**-0.2**	**0.1**	**0.6**	**0.5**	**-0.1**
Purchasing power of gross disposable income	**1.2**	**0.3**	**-0.2**	**-0.3**	**0.7**	**0.5**	**0.6**	**-0.2**	**1.0**	**0.1**	**0.0**	**1.1**	**1.4**
Household purchasing power by consumption	**1.0**	**0.2**	**-0.3**	**-0.4**	**0.5**	**0.3**	**0.5**	**-0.3**	**0.9**	**0.0**	**-0.6**	**0.4**	**0.8**

Forecast

How to read it: The figures in parentheses give the structure of the year 2013.

(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

By mid-2015, purchasing power likely to see its sharpest rise since early 2010

The nominal gross disposable income of households picked up in 2014 (+1.6% after +0.6% in 2013). At the same time, inflation remained very low (+0.5% after +0.6%). The purchasing power of gross disposable income therefore rose quite sharply (+1.1% in 2014 after stagnating in 2013). Purchasing power per consumption unit, which notably takes account of demographic variations, rebounded in 2014 (+0.4% after -0.6% in 2013, Box).

In H1 2015, the fall in taxes in reaction to previous rises should trigger an acceleration in the gross disposable income of households (+0.9% in Q1 then +0.3% in Q2) compared to the previous half-year. Against a backdrop of low inflation, purchasing power is therefore expected to increase once again in Q1 and Q2 2015 (+1.0% then +0.1%). Over one year, purchasing power is likely to have risen by 1.6% in Q2 (against +0.7% in mid-2014), i.e. the highest rise since early 2010. ■

Table 2

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

change as a %

	2013				2014				2015		2013	2014	2015 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Non-financial enterprises (67%)	0.0	0.4	0.3	0.6	0.5	0.3	0.2	0.2	0.2	0.1	1.0	1.5	0.6
including: Average wage per capita	*0.2*	*0.6*	*0.4*	*0.4*	*0.4*	*0.3*	*0.3*	*0.3*	*0.2*	*0.1*	*1.5*	*1.6*	*0.8*
Financial corporations (4%)	0.8	-0.2	-0.1	0.6	0.5	0.8	0.3	0.5	0.4	0.2	-0.6	1.7	1.4
General government (22%)	0.1	0.2	0.3	0.4	0.5	0.4	0.5	0.4	0.2	0.3	1.1	1.7	1.1
Households excluding sole proprietors (2%)	-0.1	0.0	0.4	-1.2	-0.5	0.6	0.5	-0.2	0.6	0.6	0.2	-0.6	1.3
Total gross wages received by households (100%)	**0.1**	**0.3**	**0.3**	**0.5**	**0.5**	**0.4**	**0.3**	**0.3**	**0.2**	**0.2**	**1.0**	**1.6**	**0.9**
including: Non-agricultural market sectors	*0.1*	*0.3*	*0.2*	*0.5*	*0.5*	*0.3*	*0.2*	*0.2*	*0.1*	*0.1*	*0.8*	*1.4*	*0.5*

Forecast

How to read it: The figures in parentheses give the structure of the year 2013.

Source: INSEE

Table 3

Social transfers received and paid by households

change as a %

	2013				2014				2015		2013	2014	2015 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Social cash benefits received by households (100%)	**0.5**	**0.8**	**0.6**	**0.6**	**0.6**	**0.4**	**1.0**	**0.7**	**0.5**	**0.4**	**2.8**	**2.5**	**1.9**
Social Security benefits in cash (72%)	0.6	0.8	0.7	0.6	0.4	0.1	0.8	0.7	0.5	0.3	3.1	2.1	1.7
Other social insurance benefits (20%)	0.1	0.9	0.2	0.8	0.9	0.9	1.4	0.6	0.5	0.5	2.3	3.4	2.2
Social assistance benefits in cash (8%)	0.4	0.3	0.9	-0.1	1.4	1.1	1.6	1.4	0.5	0.9	1.9	3.9	3.2
Total social contribution burden	**0.1**	**0.9**	**0.9**	**0.1**	**0.7**	**0.3**	**0.8**	**0.3**	**0.1**	**0.4**	**2.9**	**2.2**	**1.1**
Actual social contributions paid by households (100%)	0.0	0.9	0.9	0.1	0.9	0.0	0.8	0.3	0.3	0.3	3.0	2.1	1.0
including: Employers contributions[1] (63%)	*-0.1*	*0.8*	*0.9*	*-0.3*	*0.9*	*0.0*	*0.8*	*0.3*	*0.3*	*0.3*	*2.1*	*1.9*	*1.1*
Contributions of households (37%)	*0.4*	*1.1*	*0.9*	*0.6*	*0.4*	*0.7*	*0.8*	*0.4*	*-0.3*	*0.4*	*4.7*	*2.6*	*0.8*

Forecast

How to read it: The figures in parentheses give the structure of the year 2013.

(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

Different ways of measuring purchasing power

The household income that is presented and analysed in Conjoncture in France includes all the income received by all households. This is the relevant reference in macro-economic terms, for example when constructing the balance between resources (GDP and imports) and uses (consumption, investment, exports...) or forecasting GDP. The purchasing power of all households, which represents the quantity of goods and services that households can purchase with their income, is calculated as income corrected for the growth in consumer prices. In order to measure the average purchasing power of the French population, this value has to be corrected in order to account for both the growth in the number of households and their composition. The most relevant correction in this respect consists in dividing income by the number of consumption units in France, thereby taking account of demographic growth and also of the fact that some consumption may be shared within the household (for example, household appliances). A large household therefore makes certain "economies of scale" in relation to a smaller household.

In 2014, growth in the number of consumption units was +0.6% (as a comparison, growth in the population was +0.4% and growth in the number of households +0.9%).

Therefore, purchasing power per consumption unit rose in 2014 (+0.4% after -0.6% in 2013). Per household, the rise was 0.7% and per inhabitant it was 0.2%. ■

Household consumption and investment

In Q4 2014, household consumption slowed slightly (+0.2% after +0.3% in Q3), mainly due to the marked downturn in energy expenditure (-2.2%), associated with an exceptionally mild autumn. However, purchases of manufactured goods picked up sharply (+0.6% after +0.2%) and consumption of services increased at the same pace as in the preceding quarter (+0.2%).

In Q1 2015, consumption is likely to accelerate significantly (+0.6%). Energy consumption is set to bounce back (+3.1%) as a reaction to the effect of a return to temperatures close to the seasonal norms. Purchases of engineered goods are likely to pick up once again, especially automobiles.

In Q2, energy expenditure should return to a growth rate closer to trend and consumption is likely to slow once again. However, it will probably maintain a much more vigorous pace (+0.3% in Q2) than during the last four years when, on average, it has tended to stagnate: in particular it should benefit from the rise in household purchasing power, buoyed up in particular by the sharp drop in the prices of oil products. By smoothing fluctuations in the purchasing power of their income, households should maintain their savings ratio overall: this should stand at 15.6% by mid-2015, compared with 15.4% a year earlier.

In Q4 2014, consumption of goods slowed

In Q4 2014, household consumption slowed slightly (+0.2% after +0.3%, *Table* and *Graph 1*), especially consumption of goods (+0.1% after +0.3%). To a large extent this slowdown was caused by the marked downturn in energy expenditure (-2.2% after +1.2%), especially gas and electricity (-3.7% after +1.6%) because temperatures were higher than the seasonal norms. However, consumption of manufactured goods picked up in Q4 (+0.6% after +0.2%), mainly due to the rebound in purchases of agri-food products and to a lesser degree in clothing expenditure. Household consumption of services increased at the same rate as the previous quarter (+0.2%).

Household consumption and investment expenditure

	Quarterly changes in %										Annual changes in %		
	2013				2014				2015		2013	2014	2015 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Total household consumption expenditures (B+S)	**0.2**	**0.2**	**0.0**	**0.5**	**-0.3**	**0.4**	**0.3**	**0.2**	**0.6**	**0.3**	**0.3**	**0.6**	**1.3**
Tourism balance	-2.2	-7.5	-6.0	-8.0	-12.3	-15.3	-9.9	-5.9	-1.7	-0.4	-9.5	-35.0	-15.4
Services (S)	**-0.1**	**0.4**	**0.1**	**0.1**	**0.1**	**0.2**	**0.2**	**0.2**	**0.2**	**0.3**	**0.6**	**0.6**	**0.7**
Goods (G)	**0.4**	**-0.1**	**-0.3**	**0.7**	**-1.0**	**0.4**	**0.3**	**0.1**	**1.1**	**0.3**	**-0.3**	**-0.2**	**1.7**
including:													
Food (AZ-C1)	**1.1**	**-0.9**	**0.4**	**0.9**	**-0.9**	**0.8**	**-0.3**	**0.7**	**0.3**	**0.2**	**0.1**	**0.4**	**1.1**
Agriculture goods (AZ)	1.7	-1.1	0.7	1.6	0.0	1.2	-1.1	-0.4	0.3	0.2	1.1	1.5	-0.2
Agri-food products (C1)	1.0	-0.9	0.4	0.8	-1.0	0.8	-0.1	0.9	0.3	0.2	-0.1	0.2	1.3
Energy (DE-C2)	**2.4**	**1.4**	**-4.1**	**-0.8**	**-4.7**	**1.7**	**1.2**	**-2.2**	**3.1**	**-0.6**	**0.8**	**-5.7**	**2.0**
Energy, water, waste (DE)	6.2	-0.4	-6.1	-1.1	-6.5	1.6	1.6	-3.7	7.5	-0.2	2.1	-9.3	5.6
Coke and refined petroleum(C2)	-1.5	3.4	-2.0	-0.6	-2.6	1.8	0.8	-0.8	-1.5	-1.0	-0.4	-1.7	-2.0
Engineered goods (C3 à C5)	**-1.0**	**0.0**	**0.8**	**1.3**	**0.4**	**-0.5**	**0.3**	**0.7**	**1.0**	**0.8**	**-1.0**	**1.7**	**2.2**
Manufactured goods (C1 à C5)	**-0.3**	**0.0**	**0.3**	**0.9**	**-0.4**	**0.2**	**0.2**	**0.6**	**0.5**	**0.4**	**-0.6**	**0.8**	**1.4**
Investment expenditure	**-0.2**	**-0.5**	**-1.0**	**-1.7**	**-1.7**	**-1.6**	**-1.6**	**-1.5**	**-1.0**	**-1.0**	**-3.1**	**-5.9**	**-4.0**

Forecast
Source: INSEE

In Q1 2015, consumption of goods set to rebound sharply

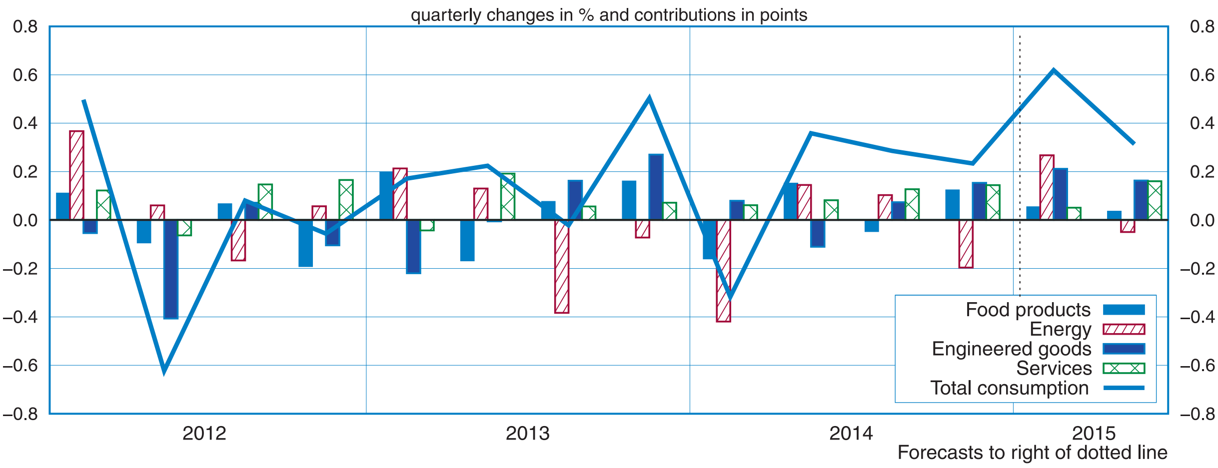
Driven by the sharp acceleration in the consumption of goods (+1.1% after +0.1%), total household consumption is likely to pick up significantly in Q1 2015 (+0.6% after +0.2%). Energy expenditure in particular is set to bounce back significantly (+3.1% after -2.2%) after a return to temperatures closer to the seasonal norms. This rebound is likely to be very strong for expenditure on gas and electricity (+7.5% after -3.7%). Purchases of engineered goods are also likely to pick up (+1.0% after +0.7%), driven by the regained momentum in purchases of automobiles and housing equipment. In contrast, food consumption is likely to return closer to its trend and to decelerate slightly (+0.3% after +0.7%). Finally, consumption of market services should maintain the same pace (+0.2%).

In Q2 2015, energy expenditure is likely to return to its trend (-0.6% after +3.1%), assuming temperatures remain close to the seasonal norms. As a result, total household consumption is likely to slow (+0.3%), but to a rate of growth that is more dynamic than its trend in the last four years (quarterly average of 0.0% between 2011 and 2014). It is likely to be buoyed up by the acceleration in purchasing power, which is set to increase by 1.6% over the year to mid-2015, after +0.7% in mid-2014.

By mid-2015, the savings ratio should be slightly higher than its mid-2014 level

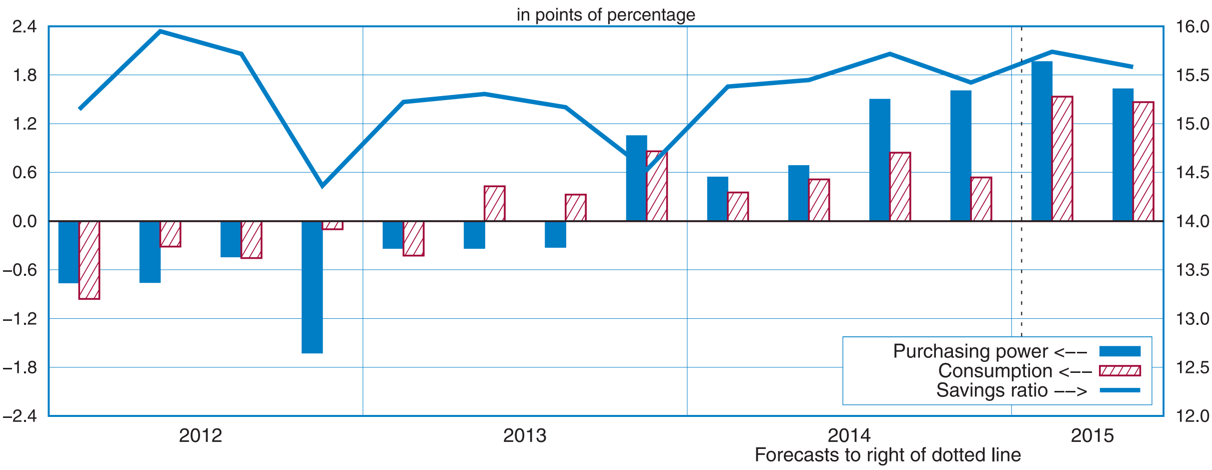
As an average over the year, household consumption increased by 0.6% in 2014, slightly less than purchasing power (+1.1%), with the result that the household savings ratio increased, from 15.1% in 2013 to 15.5% in 2014 (Graph 2). This increase reflects precautionary savings

1 - Contributions of the various items to quarterly household consumption



Source: INSEE

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



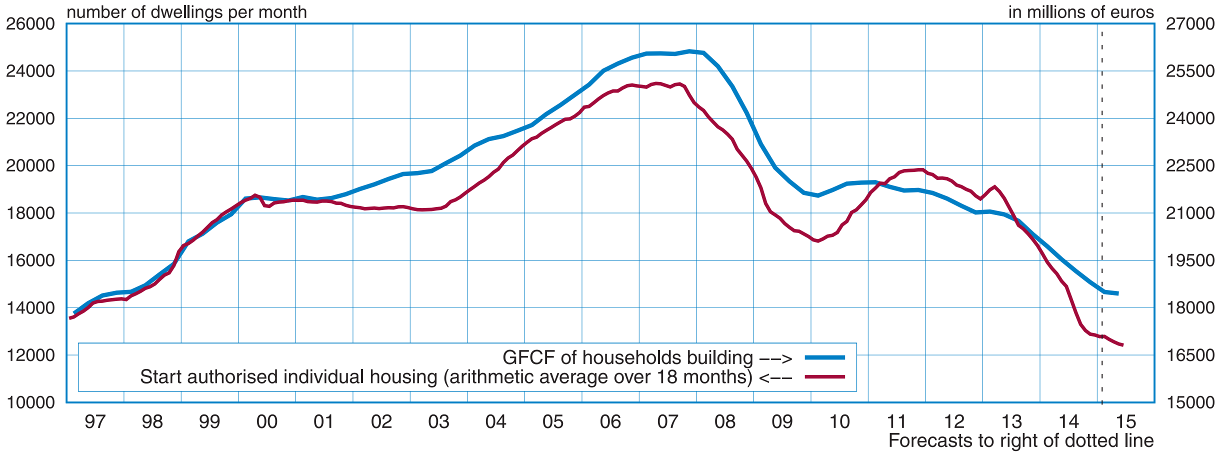
Source: INSEE

triggered by the deteriorating labour market and the low level of household confidence. The quarterly profile is uneven, as households smooth their consumption according to fluctuations in their purchasing power. In Q4 2014 in particular, the fall in household purchasing power was a drain on savings, despite the slowdown in spending: the savings ratio dropped to 15.4% after a temporary rise in Q3. It should react and bounce back at the beginning of the year. At the end of Q2 2015, the savings ratio should rise to 15.6%, a little higher than the level a year earlier (15.4%).

Household investment likely to decline less at the start of 2015

In Q4 2014, the decline in household investment continued at a similar pace to the previous quarters (-1.5%). In H1 2015, the delayed effects of the sharp drop in building permits in 2013 and 2014 on new housing investment are likely to be weaker (*Graph 3*). In addition, housing maintenance and improvement expenditure is likely to continue its downward trend. All in all, household investment should continue to fall, although to a lesser extent (-1.0% per quarter). The annual growth overhang for household investment is likely to settle around -4.0% in mid-2015, after a drop of 5.9% over 2014 as a whole. ■

3 - Household investment on construction and housing starts



Sources: INSEE, SOeS

Enterprises' earnings

At the end of 2014, the margin rate of non-financial corporations increased sharply (29.9% after 29.5% in Q3), a result of the favourable effects of the fall in oil prices on the terms of trade. This increase rounds off a mixed year 2014, with an increase in Q1 which can be attributed to the introduction of the tax credit for encouraging competitiveness and jobs (CICE), followed by a fall in the spring as wages increased while productivity shrank. On average over the year as a whole, the margin rate remained virtually stable in 2014 at 29.7%, after three consecutive years of decline.

In Q1 2015 the margin rate should once again see a strong increase (+1.3 points), reaching 31.2% largely thanks to the conjunction of three factors: the ramp-up of the CICE, the implementation of the Responsibility and Solidarity Pact and the continued improvement in the terms of trade. In Q2 2015, the margin rate should reach 31.3%, its highest rate since 2011 but still slightly below its pre-crisis average (32.7% for the period 1988-2007).

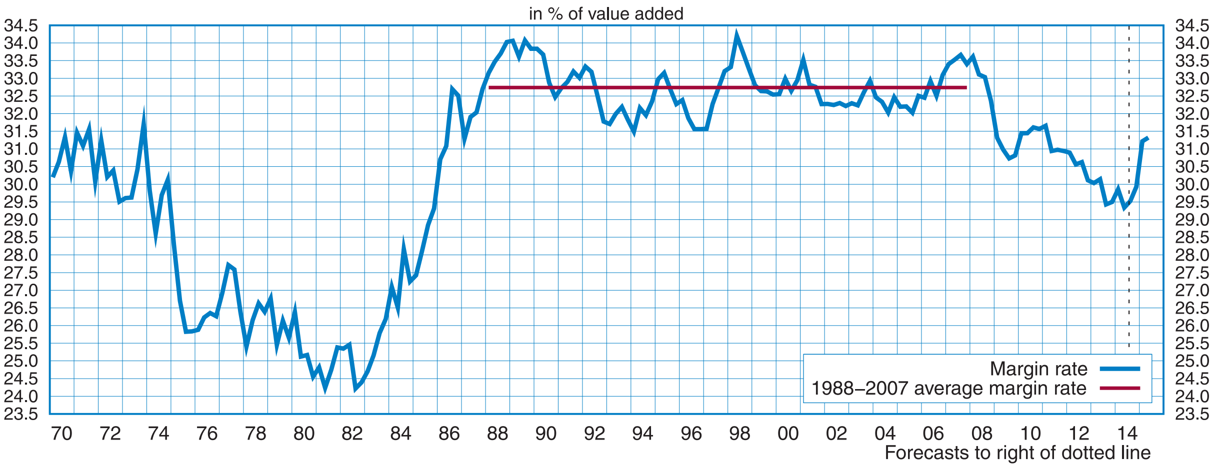
Despite variations between quarters, as an average for 2014 the margin rate was virtually stable

In 2014 the margin rate of non-financial corporations was virtually stable at 29.7% as an annual average, after three years of decline (*Table*). After a strong increase in early 2014 (+0.4 points), linked to the introduction of the tax credit for encouraging competitiveness and jobs (CICE), the margin rate declined in the spring: real wages increased while apparent labour productivity decreased (*Graph 1*). After rising slightly in Q3, the margin rate picked up significantly in Q4 (+0.4 points), to 29.9%. The fall in oil prices has cut the prices of inputs for French businesses. This improvement in the "erms of trade"accounted for 0.6 points of the increase in the margin rate recorded in Q4. As an average over the year 2014, the positive impact of the CICE tax credit on the margin rate was offset by an increase in per capita real wages outweighing the increase in productivity, which slowed considerably.

In H1 2015, companies should continue to rebuild their margins

In Q1 2015 the margin rate should stand at 31.2%, up by 1.3 points from the level recorded at the end of 2014. Firstly because companies are receiving additional employment subsidies as a result of the increase in the rate of the CICE, from 4% to 6%, which should serve to boost companies' margin rate by 0.6 points. Furthermore, under the terms of the Responsibility and Solidarity Pact, the reduction in employers' social security contributions will be increased, making a further contribution of 0.4 points to the increase in the margin rate. Finally, the decline in oil prices continues to improve the terms of trade, which should contribute 0.3 points to the increase in the

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



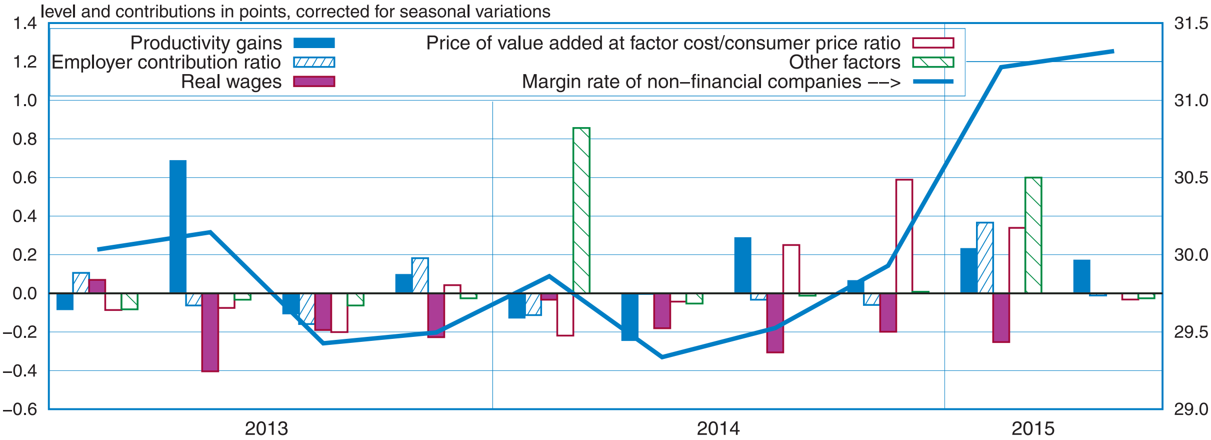
Source: INSEE

margin rate. Nevertheless, the increase in productivity should only partly offset the increase in per capita real wages, which should accelerate slightly against a backdrop of negative inflation.

In Q2, apparent labour productivity should increase while real wages should almost stagnate.

The margin rate is expected to increase slightly (+0.1 points). It should thus reach 31.3%, its highest level since Q1 2011. The margin rate is therefore expected to move a little bit closer to its average of the pre-crisis period (32.7% between 1988 and 2007, Graph 2). ■

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



Source: INSEE

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

in % and in points

	2013				2014				2015		2013	2014	2015 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Margin rate (in level)[1]	30.0	30.1	29.4	29.5	29.9	29.3	29.5	29.9	31.2	31.3	29.8	29.7	31.3
Variation in margin rate	-0.1	0.1	-0.7	0.1	0.4	-0.5	0.2	0.4	1.3	0.1	-0.8	-0.1	1.6
Contributions to the variation margin rate													
Productivity gains	-0.1	0.7	-0.1	0.1	-0.1	-0.2	0.3	0.1	0.2	0.2	0.4	0.0	0.5
Real wage per head	0.1	-0.4	-0.2	-0.2	0.0	-0.2	-0.3	-0.2	-0.3	0.0	-0.6	-0.7	-0.6
Employer contribution ratio	0.1	-0.1	-0.2	0.2	-0.1	0.0	0.0	-0.1	0.4	0.0	-0.2	-0.1	0.3
Ratio of the value-added price to the consumer price	-0.1	-0.1	-0.2	0.0	-0.2	0.0	0.3	0.6	0.3	0.0	-0.1	-0.1	0.9
Other factors	-0.1	0.0	-0.1	0.0	0.9	-0.1	0.0	0.0	0.6	0.0	-0.3	0.8	0.6

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 on their production.
Source:INSEE

Corporate investment and inventory

Corporate investment contracted slightly in Q4 2014 (-0.2% after 0.0% in Q3). This decline is the result of both another drop in construction expenditure (-0.4% after -0.5%) and the downturn in expenditure on manufactured products (-0.6% after +0.3%), which the increase in investment in services (+0.2% after +0.1%) has only partly made up for.In H1 2015, demand prospects remain sluggish, and investment is likely to remain virtually stable (0.0% in Q1 then +0.1% in Q2).

However, in mid-2015, the growth overhang for 2015 is likely to remain slightly negative, at -0.2% after +0.7% on average in 2014.

Inventory change dropped sharply in Q4 2014, by around -0.2 GDP points, in reaction to the previous quarter (+0.4 points). Transport equipment, especially aeronautics, is the primary factor (around -0.6 GDP points), after the opposite trend in Q3 2014. Over 2014 as a whole, companies were building up stocks and this contributed +0.3 points to GDP growth. In H1 2015, the contribution of inventory to GDP is likely to be neutral.

In Q4 2014, corporate investment fell slightly

Investment by non-financial enterprises (NFE) fell back in Q4 2014 (-0.2% after 0.0% in Q3, *Table 1*). The drop in construction expenditure (-0.4% after -0.5%) and in manufactured products expenditure (-0.6% after +0.3%) contributed to maintaining this decline. However, investment in services accelerated slightly (+0.2% after +0.1%).

The decline in investment in manufactured products is due to the fall in spending on capital goods (0.7% after +0.1%) and other industrial products (-1.4% after +0.1%). Conversely, expenditure on transport equipment continued to rise (+0.6% after +0.8%). Regarding investment in services, expenditure on information and communication increased slightly (+0.1% after 0.0%) and investment in services to businesses grew at a steady pace (+0.3%). All in all, the NFE investment rate fell slightly (-0.2 points), reaching 20.8% in Q4 2014 (*Graph 1*).

Investment virtually stable in H1 2015

At the beginning of 2015, the business tendency surveys were providing some contrasting pointers about investment by NFEs. In the January investment survey, more industrialists predicted a rise than a fall in their investment between H2 2014 and H1 2015. In addition, the revision indicator of investment in the manufacturing industry showed an upturn after dropping in H2 2014, which also suggests a recovery in investment at the beginning of 2015 (*Graph 2*). Conversely, business leaders in the service sector remain pessimistic about their investment prospects.

Financing terms should continue to sustain investment. It is likely that real interest rates, which fell in 2014, will continue to fall through to mid-2015. However, the low production capacity utilisation rate (80.4% in industry compared with 84.6% on average over the long term) is likely to limit the capacity for a rebound in investment.

All in all, NFE investment is likely to remain virtually stable in the course of H1 2015 (0.0% in Q1 then +0.1% in Q2). For 2015, the mid-year growth

Table 1

Investment by non-financial enterprises (NFE)

Variations at previous year's chain-linked prices, as a %

	Quarterly changes										Annual changes		
	2013				2014				2015		2013	2014	2015 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Manufactured products (43%)	-0.6	0.0	1.1	1.9	-1.2	-1.0	0.3	-0.6	-0.1	0.1	-0.7	-0.1	-0.6
Building and public works (26%))	-0.9	0.1	0.6	1.6	0.6	0.0	-0.5	-0.4	-0.4	-0.4	-2.6	1.9	-1.2
Other (31%)	-0.8	1.2	-0.4	0.4	-0.2	0.3	0.1	0.2	0.3	0.4	0.9	0.6	0.9
All non-financial enterprises (100%)	**-0.8**	**0.5**	**0.3**	**1.2**	**-0.3**	**-0.2**	**0.0**	**-0.2**	**0.0**	**0.1**	**-0.6**	**0.7**	**-0.2**

Forecast

Source: INSEE

overhang is expected to be negative at -0.2%, after an average of +0.7% in 2014. The NFE investment rate is likely to fall, from 20.8% in Q4 2014 to 20.6% in Q2 2015. This is still higher than the long-term average (19.6% since 1980).

Expenditure on manufactured products should stabilise in H1 2015

After a sharp fall in Q4 2014 (-0.6%), NFE investment in manufactured products is likely to stabilise (0.1% in Q1 then +0.1% in Q2 2015). The figures for January and February do indeed suggest that registrations of heavy goods and commercial vehicles should fall in Q1 2015. In addition, the balance of opinion among wholesalers on intentions to order capital goods fell in January, before rallying slightly in March.

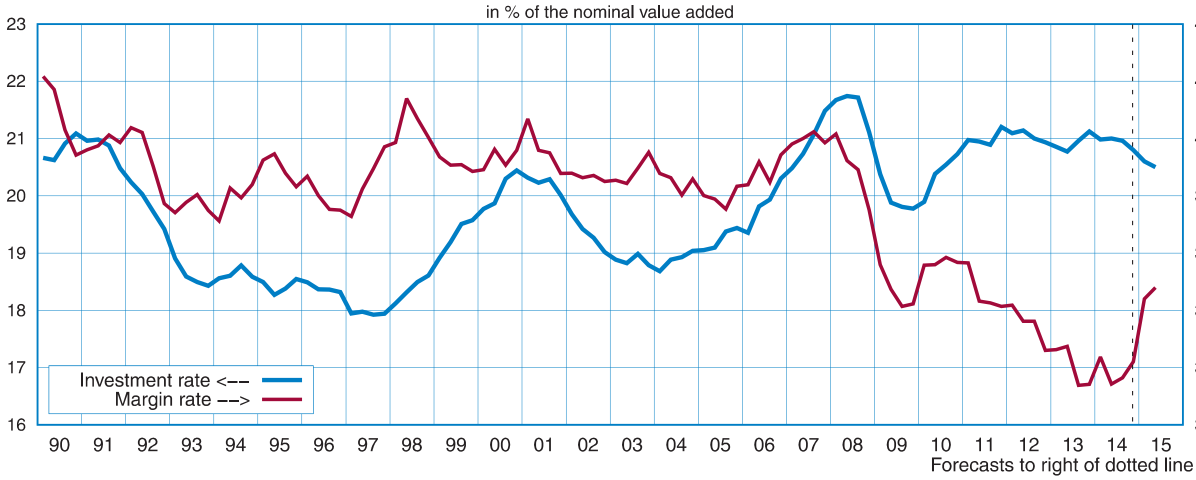
Investment in construction likely to continue its decline

In H1 2015, it is likely that construction expenditure will continue to fall, at the same pace as at the end in 2014 (-0.4% per quarter). At the beginning of 2015, order books remain low in the building industry and the number of building starts for new housing and non-residential buildings has continued to fall. The demand for civil engineering has also continued to decline and order books in this sector are also very low.

Investment in services is likely to pick up again by mid-2015

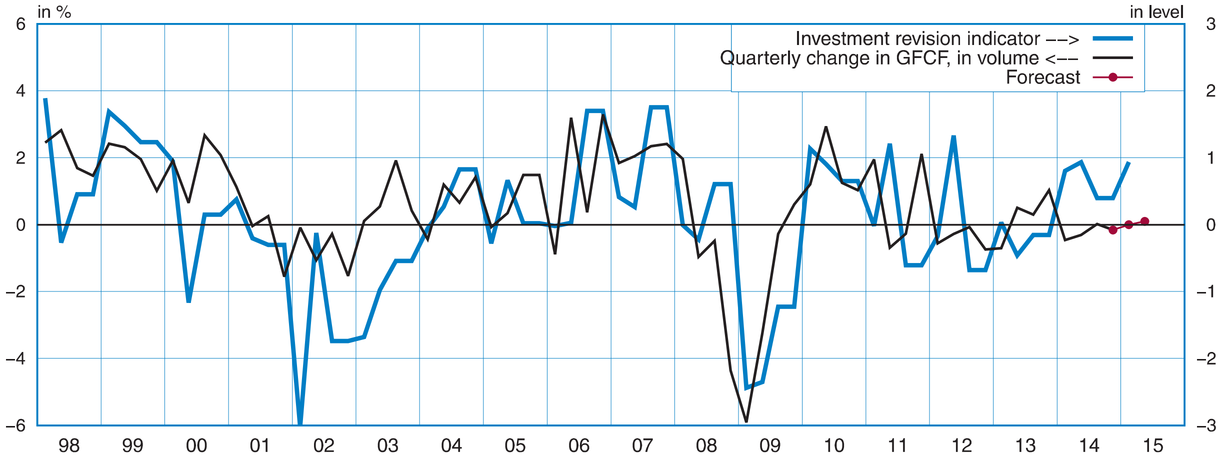
Investment in services, essentially specialised scientific and technical activities (including research and development) and IT services, is likely to grow at a similar pace to its trend in recent years: +0.3% in Q1 2015 and +0.4% in Q2.

1 - NFE investment rate and margin rate*



** Non-financial enterprises =non-financial corporations and unincorporated interprises*
Source: INSEE, quarterly accounts

2 - Investment revision indicator in manufacturing industry



Source: INSEE, quarterly survey on investments in industry, quarterly accounts

Inventory change fell back in Q4 and is expected to make a zero contribution to GDP in H1 2015

Inventory change fell in Q4 2014, with a negative contribution to GDP growth of 0.2 points, as a backlash to the strong increase in Q3 (+0.4 points) (*Table 2*); the overall profile mainly results from the profile of transport equipment (contribution to GDP growth of -0.6 points after +0.5 points). Over 2014 as a whole, companies' stocking behaviour contributed +0.3 points to GDP growth.

In H1 2015, the contribution of inventory to growth is likely to be neutral in both Q1 and Q2. While it is true that the level of inventory of finished products, which industrialists considered to be lower than normal in the business tendency survey of March 2015, gives a clear sign that inventory behaviour will be favourable to growth for certain products (especially automobiles); the restocking of "other industrial products" in Q4 2014 (contributing +0.4 points), especially in pharmaceuticals, is likely to be followed by a negative backlash at the beginning of 2015. ■

Table 2

Contribution of inventory changes to growth

in points of GDP

	Quarterly changes										Annual changes		
	2013				2014				2015		2013	2014	2015 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Agricultural and agrifood products	-0.1	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Manufactured products	0.0	0.0	0.2	-0.2	0.2	-0.1	0.5	-0.2	0.0	0.0	-0.1	0.3	0.0
including:													
Agro-food products	*-0.1*	*0.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*-0.1*					
Coke and petroleum products	*0.2*	*0.0*	*-0.1*	*-0.1*	*0.1*	*-0.1*	*0.1*	*0.0*					
Machinery and equipment goods	*0.1*	*-0.1*	*0.0*	*0.0*	*-0.1*	*0.0*	*0.0*	*0.1*					
Transport equipment	*-0.1*	*0.2*	*0.3*	*0.0*	*-0.2*	*0.0*	*0.5*	*-0.6*					
Others industrial goods	*0.0*	*-0.1*	*0.1*	*-0.1*	*0.3*	*0.0*	*-0.2*	*0.4*					
Energy. water and waste	-0.1	0.0	0.1	-0.1	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	-0.1	0.0
Others	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]	-0.1	0.0	0.4	-0.3	0.3	-0.1	0.4	-0.2	0.0	0.0	-0.2	0.3	-0.1

Forecast

(1) Inventory changes include acquisitions net of sales of valuables.

Source: INSEE