

French **developments**



Review of the previous forecast

In Q1 2016, gross domestic product grew (+0.6%) more than forecast in the March 2016 issue of *Conjoncture in France* (+0.4%). Domestic demand excluding inventories contributed more to growth than forecast (+1.0 point compared to +0.5 points): in particular, household consumption (+1.0% compared to +0.8%) and total investment (+1.6% compared to +0.2%) were more buoyant than expected. Foreign trade adversely affected growth for the third consecutive quarter (-0.2 points), contrary to expectations (+0.1 points). The contribution of changes in inventories, however, was correctly anticipated (-0.2 points). The growth forecast for Q2 is slightly lower than in the previous issue (+0.3% compared to +0.4% expected) due to the expected slowdown in certain items of demand, which showed surprising vigour in Q1.

In Q1 market-sector employment increased more than expected: +40,000 compared to +17,000 forecast. At the same time, the unemployment rate in Metropolitan France settled at 9.9%, as expected. In Q2, market-sector employment is expected to show a little more momentum than previously forecast (+28,000 compared to +21,000) and unemployment should fall back to 9.8% rather than remaining stable as expected. In March 2016, headline inflation reached -0.1%, as forecast, but core inflation turned out to be lower than expected (+0.6% as against +0.8%). In June, headline inflation is expected to be slightly positive (+0.1%), rather than the -0.1% forecast in the last *Conjoncture in France* whilst core inflation is expected to reach +0.6%, compared to the +0.7% previously expected.

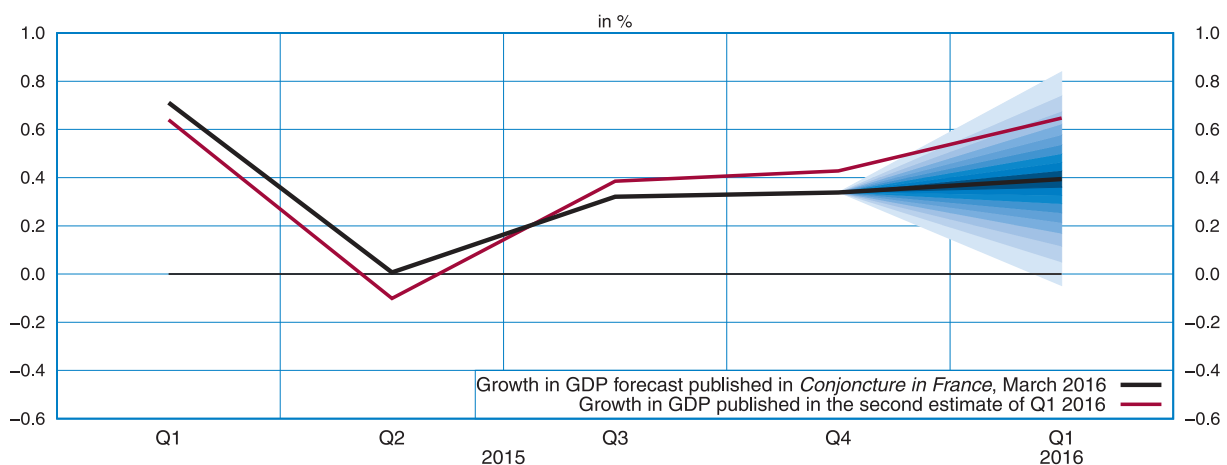
Activity grew more than forecast in the March 2016 issue

In Q1 2016, gross domestic product grew more than forecast in the March 2016 issue of *Conjoncture in France* (+0.6% compared to +0.4%). Although manufacturing output was a little less dynamic than expected (+0.1% compared to 0.3%), output turned out to be stronger in most other branches: trade saw a surprising upturn (+1.4% compared to +0.8%), driven by all areas of demand for goods, whilst other market services (+1.0% compared to +0.5%) and the energy-water-waste branch (+1.0% compared to +0.8%) responded to the sharp increase in consumption of these goods. In construction, output increased where virtually no change had been expected (+0.5% compared to -0.2%).

Domestic demand was more buoyant than expected

Domestic demand excluding inventories contributed more to growth in Q1 (+1.0 point) than expected (0.5 points). Household consumption bounced back more than forecast (+1.0% compared to +0.8% expected), both in manufactured goods (+1.4% compared to +1.3%), energy-water-waste (+2.6% compared to +1.6%) and in market services (+0.7% compared to +0.2%). In particular, spending on accommodation and food picked up after being affected at the end of 2015 by the consequences of the terrorist attacks (+1.3% after +0.5%), and consumption of «services to households» leaped (+2.6% after +0.7%) due to the tickets for the Euro 2016 football tournament going on sale, two movements that had not been fully anticipated.

Fan chart for *Conjoncture in France* for March 2016 and growth achieved



Source: INSEE

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Total investment also saw a surprising increase (+1.6% compared to +0.2% expected). It was more buoyant than forecast among all the institutional sectors: households (+0.3% compared to -0.5%), general government (+0.9% compared to -0.6%) and above all non-financial enterprises (+2.4% compared to +0.7%). The latter invested more than forecast in manufactured goods (+4.5% compared to +0.9%), in particular in automobiles, in services (+1.8% compared to +0.9%) and in construction (+0.4% compared to +0.1%).

Foreign trade weighed on growth for the third consecutive quarter (-0.2 points), contrary to what was expected (+0.1 point). The slowdown in imports was correctly anticipated overall (+0.6% compared to +0.3% expected), but the stagnation of exports was not (0.0% compared to +0.6%). This surprise stemmed from goods (-0.5% compared to +0.7%), in particular manufactured goods (-0.8% compared to +0.7%), whilst conversely, exports of services leaped (+1.4% compared to +0.7% expected) due to the transfer to Switzerland of a collection of works of art. The negative contribution of changes in inventories, however, was correctly anticipated (-0.2 points).

The growth forecast for Q2 2016 has been revised slightly downwards

The growth forecast for Q2 2016 has been revised slightly downwards: +0.3% compared to +0.4% forecast in the March 2016 *Conjoncture in France*.

In Q2, manufacturing output is expected to be flatter than forecast in the March issue (0.0% compared to +0.5%) due in particular to industrial action affecting the refineries. Output in construction is expected to decline just slightly more than forecast in the last *Conjoncture in France* (-0.2% compared to -0.1%) and that of services is expected to grow as initially expected (+0.5%). On the other hand, output in the energy-water-waste branch has been revised slightly upwards (+1.1% compared to +0.9%) due to the low temperatures for the season recorded in spring.

Domestic demand is expected to contribute less to growth (+0.2 points) than previously expected (+0.4 points). Indeed, most of the favourable factors in Q1 are expected to fade away and a

backlash can be expected. Household consumption is expected to slow more markedly than forecast in Q2 (+0.2% compared to +0.4%) after a stronger than expected increase at the beginning of the year; this should be the case in particular of spending on manufactured goods (+0.1% instead of the +0.3% previously forecast) and in market services (+0.3% compared to +0.4%).

Foreign trade is expected to contribute a little more to growth in Q2 than previously forecast (+0.2 points compared to +0.1 points). Indeed, imports are likely to increase less than forecast (+0.2% compared to +0.9%), held back by demand that is less buoyant than expected. On the other hand, the forecast for exports is only slightly lower (+0.9% instead of +1.3%). The contribution of change in inventories is expected to be the same as initially forecast (-0.1 points).

The recovery in market-sector employment is confirmed

In Q1 2016 market-sector employment increased more than expected: +40,000 jobs compared to +17,000 forecast. At the same time, the unemployment rate in Metropolitan France reached 9.9%, as expected.

In Q2, employment is likely to increase a little more than forecast in the March issue of *Conjoncture in France* (+28,000 compared to +21,000). The unemployment rate is expected to fall to 9.8% in Metropolitan France, whereas it had been forecast to remain stable.

Inflation has proven to be virtually nil, as forecast

In March 2016, headline inflation reached -0.1%, as forecast, but core inflation turned out to be a little lower (+0.6% compared to +0.8%). In June, headline inflation is expected to be only slightly stronger than forecast in the previous issue (+0.1% compared to -0.1%). On the one hand, the price of oil is expected to be higher than initially forecast (\$50 in June compared to \$40 forecast in March). On the other hand, fresh food prices saw a surprising increase in the spring. The forecast for core inflation, however, has been revised slightly downwards (+0.6% in June compared to +0.7%). ■

Output

In Q1 2016, gross domestic product accelerated slightly (+0.6% after +0.4% in Q4 2015). Production of goods and services also increased a little more quickly than in Q4 2015 (+0.7% after +0.6%). While activity slowed in manufacturing industry (+0.1% after +0.7%), it accelerated significantly in energy (+1.0% after +0.1%) and commerce (+1.4% after +0.6%), and proved to be a little livelier in construction (+0.5% after +0.4%) and other market-sector services (+1.0% after +0.9%). Since the beginning of 2016, the business climate in France has remained above its long-term average and stood at 102 in May. Production of goods and services should therefore increase by 0.3% in Q2 and then by 0.5% and by 0.4% in Q3 and Q4, bringing the average rise over the year to +1.9% in 2016, after +1.3% in 2015.

Production of goods and services likely to remain dynamic through to the end of 2016

In Q1 2016, gross domestic product (GDP) accelerated slightly (+0.6% after +0.4% in Q4 2015). Production of goods and services increased by 0.7%, after progressing strongly for two quarters (+0.4% in Q3 2015 then +0.6% in Q4). It should continue progressing through to the end of the year (+0.3% in Q2 then +0.5% and +0.4% in Q3 and Q4), bringing the rise on an annual average basis to +1.9% in 2016 after +1.3% in 2015 (Table). Growth in GDP in 2016 should stand at 1.6% in 2016 after +1.2% in 2015.

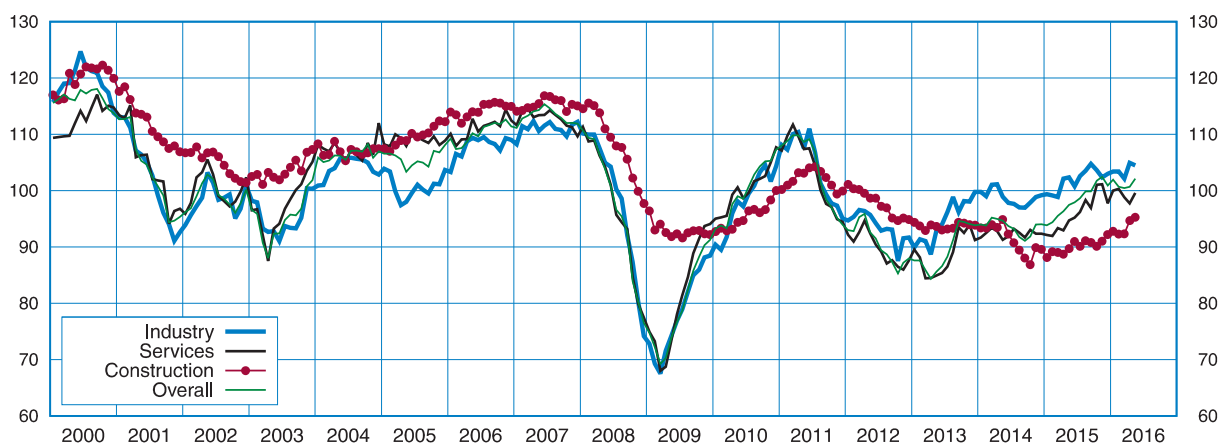
The business climate for all sectors stood at 102 in May, up one point on April (Graph 1). Since 2000, this level has corresponded to quarterly growth in GDP of around +0.3% to +0.4%. More particularly, the business climate is stable above its long-term average in industry (104) and is recovering in building (95), despite being well below its long-term average in that sector.

Manufacturing output to continue progressing

Manufacturing output slowed down in Q1 2016 (+0.1% after +0.7%). It decreased in the branches of coking-refining (-2.8% after +5.2%), capital goods (-0.9% after -0.3%) and agri-food (-1.1% after -0.3%). It decelerated in the "other industries" (+0.1% after +0.5%). Production in transport equipment accelerated, meanwhile (+3.7% after +1.3%).

Balances of opinion among industrialists on their past production and general activity prospects in the sector continued to improve in May, having already been above their long-term average in April: the business climate in industry levelled out at an above-normal figure of 104. However, the refinery strikes and stoppages in the wake of the floods in early June are likely to weigh down in Q2 on overall production, which is likely to stagnate. In the sub-branches of manufacturing industry, activity should accelerate in "other industries" with a more positive climate in the sub-sector (cf. Special Analysis p. 35 and Graph 2). It is likely to slow down in transport equipment, while still

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



Source: INSEE

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progressing strongly in Q2 (+2.2% after +3.7%), as the climate is well above its long-term average. Conversely, activity is likely to fall again in capital goods (-0.2% after -0.9%), as the climate is that sector falls back. It should be close to stable in agri-food (-0.1% after -1.1%).

In Q3, manufacturing activity should rebound (+0.8%) due notably to a return to normal in refining, and should then progress by 0.4% in Q4. On average over the year, manufacturing production should increase a little less in 2016 than in 2015 (+1.2% after +1.5%).

Activity to accelerate in 2016 in market-sector services

Production in market-sector services excluding commerce accelerated slightly in Q1 2016 (+1.0% after +0.9% in Q4 2015), as activity increased more strongly in information-communication (+2.3% after +1.0%, *Graph 3*), transport (+1.3% after +0.6%) and accommodation and food services (+1.2% after +0.6%). It accelerated sharply in services to households (+1.8% after +0.9%) driven by ticket sales for Euro 2016. Activity slowed down

significantly, however, in services to businesses (+0.8% after +1.3%) and in financial activities (+0.6% after +1.0%).

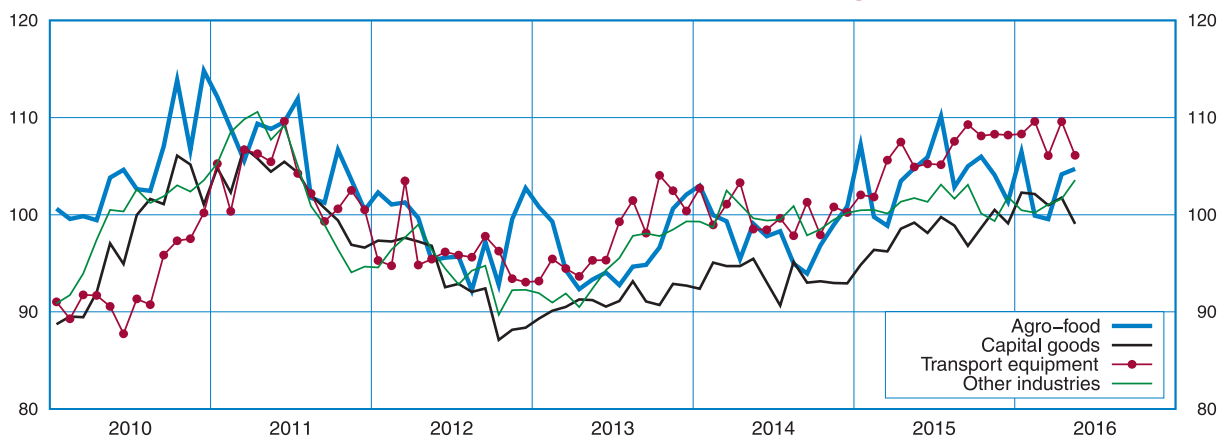
Since early 2016, the business climate in market-sector services has levelled out at close to its long-term average (100), which it reached in May, and there are fewer business leaders reporting demand problems (*Focus*). In Q2, growth in activity is likely to slow down (+0.5%), in particular as the exceptional boost provided by Euro 2016 ticket sales fades out. Activity should continue progressing strongly in H2 (+0.5% in Q3 then +0.6% in Q4).

On average over the year, production of market-sector services excluding commerce should accelerate significantly in 2016: +2.8% after +1.6% in 2015.

Commercial activity to weaken in the spring and then perk up in H2

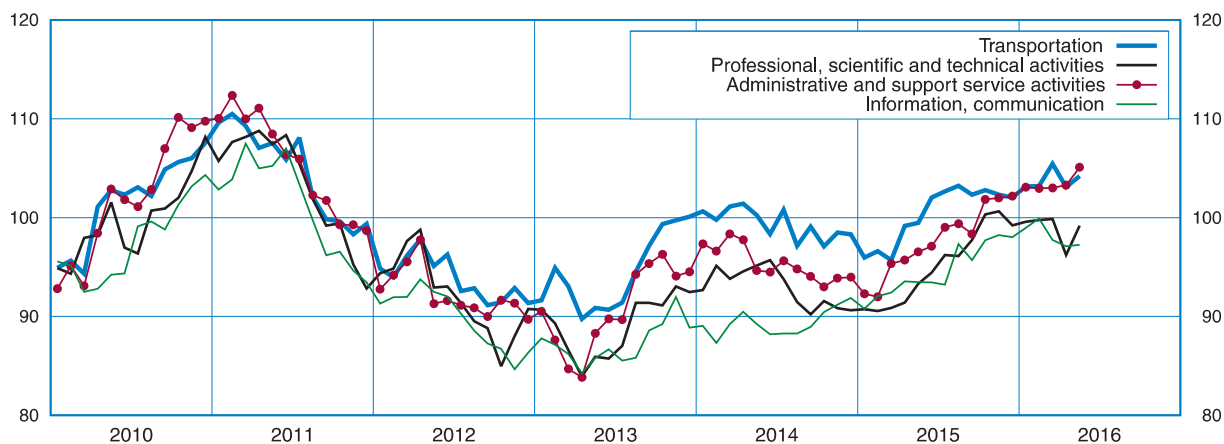
Commercial activity accelerated sharply in Q1 2016 (+1.4% after +0.6% in Q4 2015), with sharp increases in household consumption (+1.4%) and corporate investment (+4.5%) in manufactured goods.

2 – Sub-sector business climate in industry



Source: INSEE

3 – Sub-sector business climate in services



Source: INSEE

In Q2, activity is likely to progress more moderately (+0.1%), held back by household consumption of capital goods which is likely to come close to stagnating. The business climates in wholesale and retail trade improved in May, however, and are above their long-term average. Wholesale and retail traders are optimistic, notably as regards the general prospects for activity in their sector, with a balance of opinion that is well above its long-term average. Driven by household consumption and corporate investment in goods, commercial activity should therefore grow by 0.4% in Q3 and 0.5% in Q4 2016. In 2016 on average, commercial activity should increase at a sustained pace (+2.6%), only slightly slower than last year (+3.0%).

In 2016, activity set to accelerate slightly in non-market services

Production of mainly non-market services increased in Q1 2016 at the same pace as in Q4 2015 (+0.3%). It should continue to progress at the same rate through to the end of 2016 (+0.3% per quarter). Over the year as a whole, it should grow by 1.2%, after +1.0% in 2015.

Energy production set to slow down in H2

Energy production increased significantly in Q1 2016 (+1.0%), as temperatures returned to levels closer to their seasonal norm after a particularly mild autumn. It should accelerate slightly in Q2 (+1.1%), due to lower-than-normal spring

temperatures, before falling by a backlash effect in Q3 (-0.7%) and almost levelling out in Q4 (+0.1%). On average over the year, energy production should increase by 1.5% in 2016, just a little more slowly than in 2015 (+1.8%), driven by the trend rise in demand from households and industry.

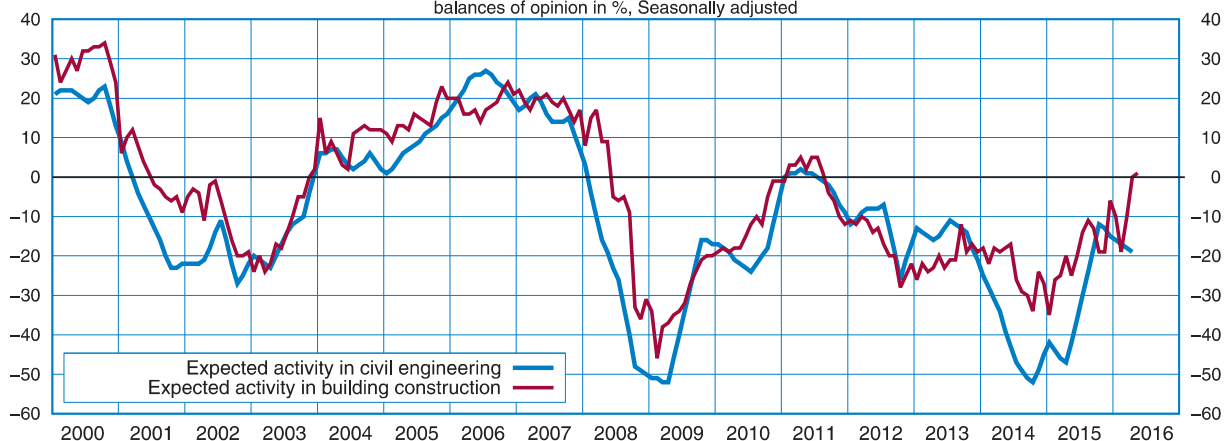
In construction, activity should almost level out in 2016

In Q1 2016, production continued to improve in construction (+0.5% after +0.4% in Q4 2015), driven above all by the rise in activity in civil engineering. Activity in building also increased, but more slowly.

The balance of opinion on expected activity in building industry has been increasing significantly for several months and rose above its long-term average in April for the first time in five years (*Graph 4*). The number of building permits has also stopped falling for a year now. In civil engineering, however, business leaders' opinions of their activity are deteriorating slightly after improving significantly for two quarters. Given the expected backlash in civil engineering and the lead times between housing starts and production, output in construction should be almost stable through to the end of 2016.

Over 2016 as a whole, the improvement should be pronounced: production in construction should almost level out (+0.3%) after falling sharply for two years (-2.2% in 2015 and -2.7% in 2014). ■

4 - Expected activity in construction
balances of opinion in %, Seasonally adjusted



Source: INSEE

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Output by branch at the previous year's chain-linked prices

Q/Q-1 variations (as a %), SA-WDA data

| | Quarterly changes | | | | | | | | | | | | Annual changes | | |
|---------------------------------------|-------------------|------------|------------|------------|------------|-------------|------------|------------|------------|------------|------------|------------|----------------|------------|------------|
| | 2014 | | | | 2015 | | | | 2016 | | | | 2014 | 2015 | 2016 |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
| Agriculture (2%) | 2.5 | 1.8 | 0.7 | -0.7 | -1.5 | -1.0 | -0.5 | -0.2 | 0.1 | 0.3 | 0.4 | 0.6 | 6.5 | -2.2 | 0.1 |
| Manufacturing industry (20%) | 0.3 | -0.1 | 0.7 | 0.1 | 1.1 | -0.5 | 0.4 | 0.7 | 0.1 | 0.0 | 0.8 | 0.4 | 0.8 | 1.5 | 1.2 |
| Energy, water, waste (4%) | -3.2 | 0.8 | 1.0 | -2.3 | 3.7 | -1.6 | 0.8 | 0.1 | 1.0 | 1.1 | -0.7 | 0.1 | -4.9 | 1.8 | 1.5 |
| Construction (8%) | -1.0 | -1.4 | -1.1 | -0.3 | -0.6 | -0.5 | -0.5 | 0.4 | 0.5 | -0.2 | -0.1 | 0.1 | -2.7 | -2.2 | 0.3 |
| Trade (10%) | 0.0 | 0.5 | 0.9 | 0.8 | 1.2 | 0.3 | 0.7 | 0.6 | 1.4 | 0.1 | 0.4 | 0.5 | 2.0 | 3.0 | 2.6 |
| Market services excluding trade (41%) | 0.4 | 0.2 | 0.4 | 0.3 | 0.6 | 0.0 | 0.5 | 0.9 | 1.0 | 0.5 | 0.6 | 0.6 | 1.3 | 1.6 | 2.8 |
| Non-market services (15%) | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 1.0 | 1.0 | 1.2 |
| Total (100%) | 0.1 | 0.1 | 0.4 | 0.1 | 0.7 | -0.1 | 0.4 | 0.6 | 0.7 | 0.3 | 0.5 | 0.4 | 0.8 | 1.3 | 1.9 |

Forecast

Weights constructed from the annual production value in 2015.

Source: INSEE

What do enterprises tell us about their problems with supply and demand in the business tendency surveys?

The French economy entered a recovery phase in 2015. It had been flat since mid-2011, a situation which had led to numerous questions about the causes of this lack of buoyancy: weak household purchasing power and spending suggested a demand problem, whereas the persistence of the foreign trade deficit and the financial position of businesses led to a diagnosis of a supply-side problem.

Supply or demand problems? Every quarter, the enterprises in the industrial, building construction and services sectors questioned for INSEE's business tendency surveys provide us with information on the factors that are holding back their business (Table 1).

This information does not permit a definitive diagnosis of levels, in particular because a company that is unable to sell its goods is not necessarily aware of the state of the competition and may fail to identify a problem due to a lack of competitiveness, which is by nature relative to others; the supply-side problems it identifies are more likely to concern internal production bottlenecks, including difficulties recruiting, which prevent it meeting a given demand. Nevertheless, this information, when compared to its long term average or taken relatively, can help to understand the particular short-term situation of a given sector.

Since the economic crisis began, enterprises have mainly emphasised demand-side problems

French industrial enterprises tend to report demand-side problems only (44% on average), and this proportion has not changed since 2008; the proportions of enterprises not experiencing difficulties (28%) and those experiencing only supply-side difficulties (17%) are also virtually unchanged.

Conversely, the hierarchy of factors restricting the activity of enterprises in the construction sector has changed since 2008. Before that time the sustained growth of the building sector mainly encountered only supply-side problems (42%), in particular recruiting difficulties; since then, this proportion has fallen sharply (to 15%), and more enterprises in this sector are reporting problems with demand (25%) or simultaneous problems with both supply and demand (21%).

In the service industry, since 2008 more enterprises have been reporting only demand-side problems (35% compared to 26% pre-2008). On the other hand, the proportion of enterprises with no difficulties has fallen, whereas that of enterprises suffering from supply-side problems only has remained virtually unchanged (21% compared to 23% before 2008).

Table 1 - Breakdown of enterprises according to the factors limiting their business
in %

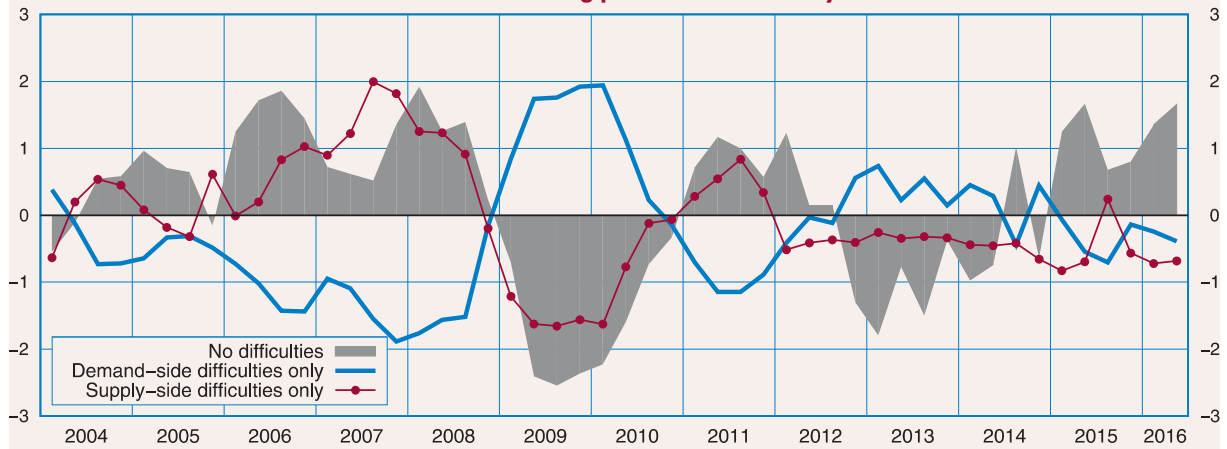
| | Industry | | Building construction | | Services | |
|-------------------------------------|-------------|------------|-----------------------|------------|-------------|------------|
| | Before 2008 | Since 2008 | Before 2008 | Since 2008 | Before 2008 | Since 2008 |
| No difficulties | 28 | 28 | 39 | 39 | 43 | 33 |
| Demand-side difficulties only | 44 | 44 | 12 | 25 | 26 | 35 |
| Supply-side difficulties only | 21 | 17 | 42 | 15 | 23 | 21 |
| Supply and demand side difficulties | 7 | 11 | 8 | 21 | 8 | 11 |

How to read it: on average, before and after 2008, 28% of enterprises in industry reported that they had no supply or demand side difficulties.

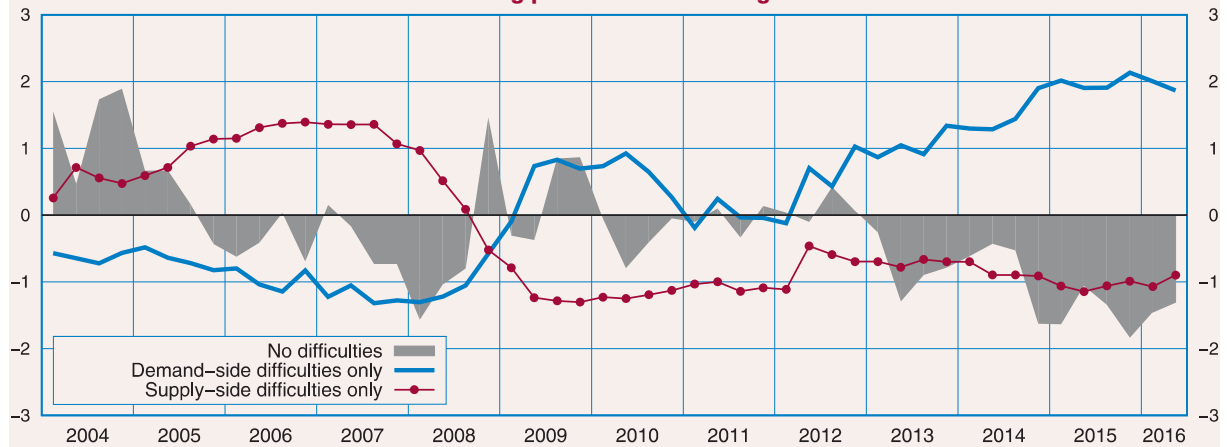
Sources: INSEE, business tendency surveys.

Factors limiting production in industry, services and building construction

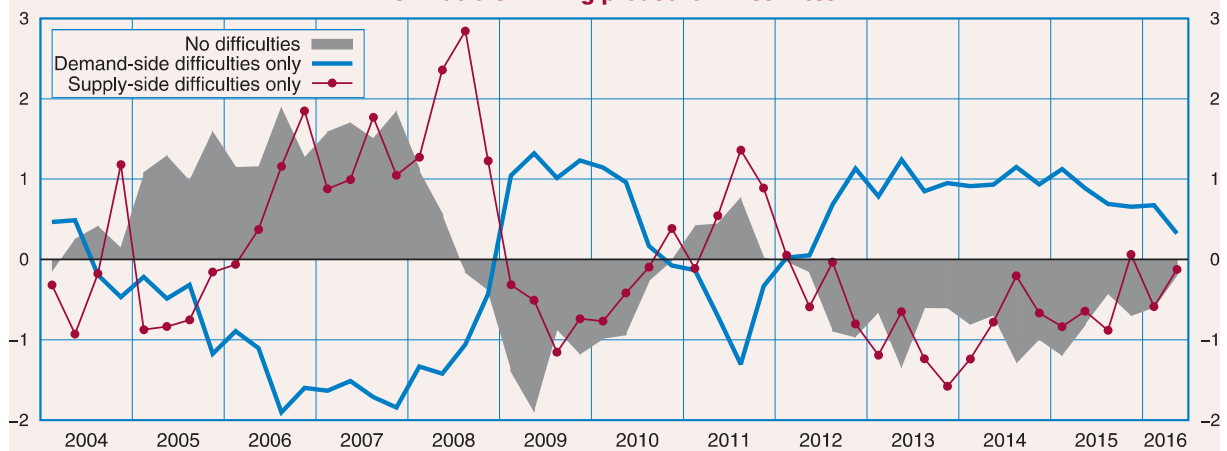
1 - Factors limiting production in industry



2 - Factors limiting production in building construction



3 - Factors limiting production in services



How to read it: the different percentages have been normalised with a mean of 0 and standard deviation of 1. For example, in industry, the percentage of enterprises reporting demand issues is now below the average. In addition, the proportion of businesses without any difficulties (in grey) is now higher than average.

Sources: INSEE, business tendency surveys

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In industry, fewer and fewer enterprises have been reporting difficulties since mid-2015

The business climate in industry sector has improved significantly since September 2014 (97): in May 2016, it stood at 104, above its long-term average (100). At the same time, the proportion of industrial enterprises saying that they are limited in their business only because of problems with demand is lower than average (*Graph 1*). Another sign of improvement is that in April 36% of enterprises declared that they were not experiencing any particular difficulties, compared to a long-term average of 28%.

At the same time, tensions in production capacity have become slightly more marked. The proportion of industrial enterprises that consider their production capacity more than sufficient to fulfil their current or future orders is now lower than on average. Although the corresponding balance of opinion was at its long-term average (14) in April 2015, it was below average in April 2016 (8). Furthermore, supply-side problems are reappearing, even though they remain less frequent than in the long-term picture: in April 2016, in particular, more business leaders (31%) were reporting difficulties recruiting than one year before (27%).

Building construction industry professionals remain confronted with a problem of lack of demand

Even though the outlook for the building construction industry has been improving since April 2016, it still remains very weak and the business climate, at 95, is

below its long-term average (100). Overall, 53% of enterprises in this sector report that they are not receiving enough orders. As many as 37% of them even declare that they are only facing a problem with demand, which is substantially higher than the average from 1999 to 2015 (18%; *Graph 2*). Only 32% of them state that they are not facing any difficulties, compared to a long-term average of 39%.

In the service sector, a gradual return to normal

In May 2016, the business climate in the service sector returned to its long-term average. In April 2016, as many service enterprises as the long-term average (21%) declared that they were restricted only by supply side difficulties (*Graph 3*). 35% of enterprises were still stating that they were only facing a demand side problem, slightly fewer than one year earlier (39%). In particular, demand issues have been resolved in the administrative and support services subsector. 29% of enterprises declared that they have demand-side difficulties only, compared to 38% one year ago and 33% on average before 2008 (*Table 2*). Conversely, although the situation is improving, accommodation and food firms are still reporting that their activity is severely limited by problems with demand only (58% in April 2016 compared to 31% pre-2008). ■

Table 2 - Breakdown of enterprises according to their sector and the factors limiting their business
in %

| | Demand-side difficulties only | | | | Supply-side difficulties only | | | |
|--|-------------------------------|-----------------|------------|------------|-------------------------------|-----------------|------------|------------|
| | Mean before 2008 | Mean since 2008 | April 2015 | April 2016 | Mean before 2008 | Mean since 2008 | April 2015 | April 2016 |
| Industry | 44 | 44 | 39 | 40 | 21 | 17 | 14 | 14 |
| C1 - Agro-food industries | 43 | 42 | 43 | 44 | 19 | 19 | 18 | 15 |
| C3 - Capital goods | 50 | 52 | 59 | 51 | 18 | 14 | 8 | 9 |
| C4 - Transport equipment | 45 | 42 | 24 | 41 | 26 | 22 | 22 | 26 |
| C5 - Other industries | 44 | 46 | 42 | 41 | 20 | 16 | 13 | 14 |
| Building construction | 12 | 25 | 38 | 37 | 42 | 15 | 12 | 15 |
| Services | 26 | 35 | 39 | 35 | 23 | 21 | 20 | 21 |
| H - Transportation and storage | - | 48 | 55 | 42 | - | 18 | 15 | 17 |
| I - Accommodation and food services | 31 | 46 | 62 | 58 | 21 | 15 | 8 | 8 |
| J - Information and communication | 18 | 25 | 25 | 25 | 23 | 31 | 35 | 36 |
| L - Real estate activities | 14 | 20 | 24 | 21 | 27 | 29 | 25 | 29 |
| M - Specialised, scientific and technical activities | 30 | 41 | 45 | 41 | 21 | 16 | 10 | 15 |
| N - Administrative and support services | 33 | 37 | 38 | 29 | 19 | 17 | 17 | 14 |

How to read it: on average, 44% of industrial enterprises report having demand side difficulties only, both before and after 2008. This applied to only 40% in April 2016.

Remark: data on the road freight transport sector have only been available since 2006. The pre-crisis average is therefore not relevant.

Sources: INSEE, business tendency surveys

France's International Environment

In the emerging countries the short-term outlook remains poor, but activity is expected to pick up gradually throughout 2016. In particular, the economic situation should stabilise in Russia, after a substantial downturn that has lasted since mid-2014. In China, new measures have been taken to sustain demand and activity is expected to regain some momentum after slowing down again at the beginning of 2016. In Brazil, activity is expected to slip back less than in 2015.

Weak imports in the emerging countries have taken their toll on world trade as a whole. World trade is expected to grow very weakly again in 2016 (+1.2% after +1.6%, compared to +5.7% on average between 1991 and 2011). Activity in the advanced countries is suffering because of this. In Q1 2016, growth in these countries remained modest, particularly in the USA and the UK, partly due to sluggish exports. By the end of 2016, activity is expected to regain vitality in the USA. In Europe, it is expected to return to its average pace since the end of 2014. Furthermore, the recent rise in oil prices is likely to lead to a recovery of inflation in the major advanced economies.

The situation is likely to improve slightly in the emerging countries.

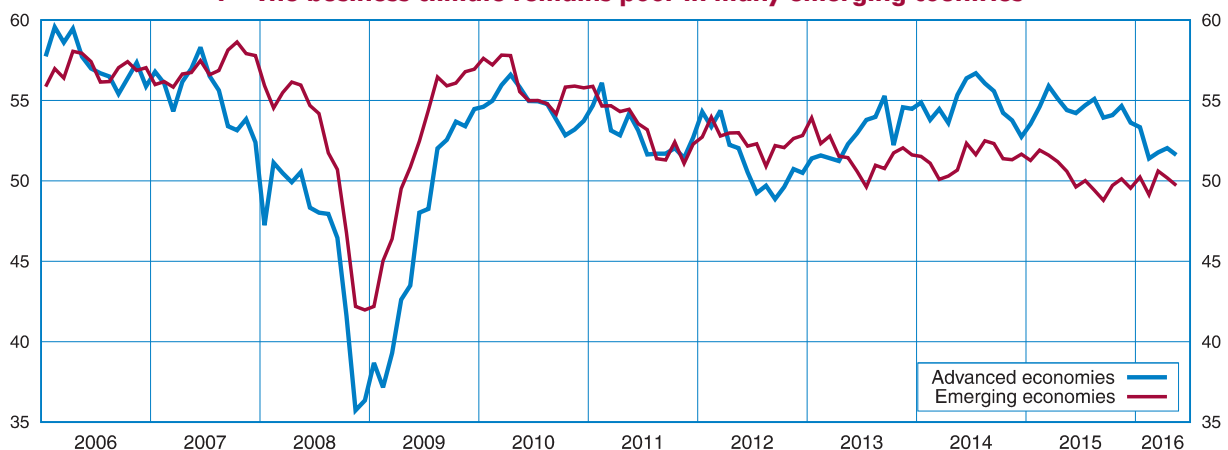
The short-term outlook remains poor in many emerging countries (*Graph 1*), especially Brazil, where activity continues to deteriorate against a backdrop of a political crisis that is fuelling uncertainty. Nevertheless, activity should decline at a slower pace through to the end of 2016 thanks to

the vitality of the country's exports and lower inflation. In Russia, gross domestic product (GDP) stabilised in Q1 2016, after declining by more than 4% since mid-2014. By the end of 2016, the recent increase in the value of the rouble should put a brake on consumer prices and boost household consumption, although the latter remains significantly deteriorated. Russian activity should therefore be virtually stable through to the end of 2016.

China, in reaction to a sharp slowdown in activity in Q1, introduced new economic policy measures in March, tax cuts in particular. In addition, monetary easing and government guarantees seem to be the cause of a marked recovery in credit. With these new stimulus measures, investment is picking up gradually; on the one hand the PMIs have risen since February, a sign that investment in capital goods still seems to be dynamic; on the other hand, new-build housing starts are enjoying a strong recovery, suggesting an upswing in investment in construction. All in all, Chinese growth is expected to build momentum in Q2 2016, before stabilising in H2.

Among the emerging countries, Central and Eastern European countries and Turkey continue to stand out, as they benefit fully from the moderate growth in the Eurozone. In the Central European countries, the slowdown in activity in Q1 2016 is only expected to be temporary: with a very favourable business climate, their growth is expected to return to a sustained pace from Q2 onwards.

1 – The business climate remains poor in many emerging countries



Source: Markit

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World trade is therefore expected to grow at a considerably slower pace than before the crisis.

In Q1 2016, world trade slumped (-1.7%), penalised by the decline in the emerging countries' imports, in particular the Asian countries. It is expected to bounce back in reaction (+1.8%), and then in H2 grow moderately (+0.8% per quarter) compared to its pre-crisis rate of growth (+1.5% per quarter on average between 2000 and 2007). All in all, the growth in world trade is likely to remain weak in 2016: +1.2%, after +1.6% in 2015, compared to +5.7% on average between 1991 and 2011. It is expected to continue to be hampered by the persistently weak imports of the emerging countries, in particular in Asia, where processing trade continue to fall.

The advanced countries are affected by the slowdown in world trade

In this international context, activity in the advanced economies picked up slightly in Q1 2016 (+0.4% after +0.3%). Exports were depressed by the lack of demand from the emerging countries, in particular China and South-East Asia (Graph 2). They slipped back in the United States (-0.5%) and in the United Kingdom (-0.3%). In the Eurozone, growth in exports was weak (+0.4%).

Although declining, the short-term outlook points to a moderate acceleration in activity in the advanced countries: overall, GDP is expected to grow 0.5% in Q2, then 0.4% per quarter in H2. Thus, the average annual growth of the advanced countries is expected to tail off a little in 2016 (+1.7% after +1.9% in 2015), especially in the USA and the UK.

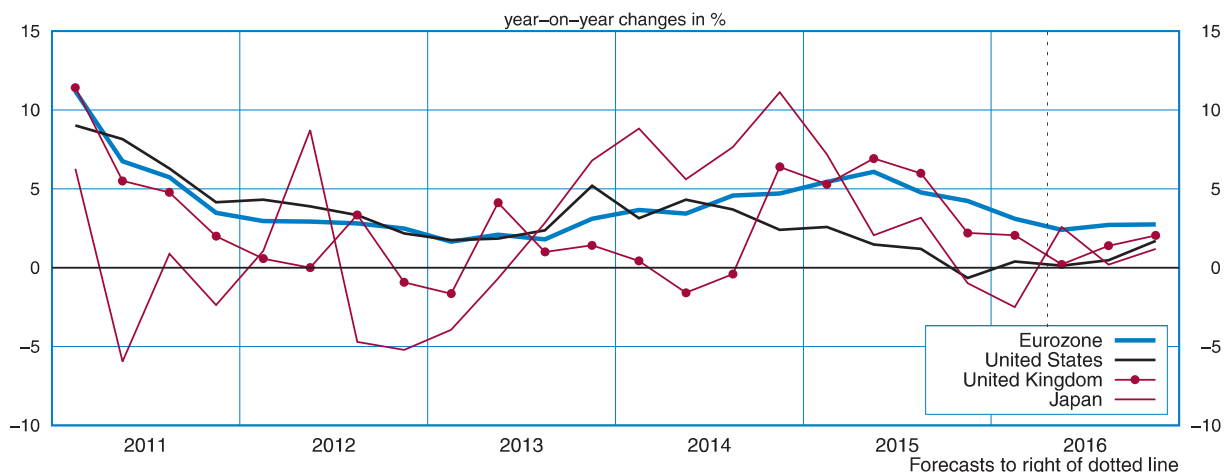
The recent increase in oil prices should drive up inflation

In 2015, headline inflation remained virtually nil in the main advanced countries (Graph 3), due to the fall in oil prices. Since March 2016, as the price of oil has started to go up again, prices have progressively begun to increase: in the United States, headline inflation is likely to increase gradually through to the end of 2016 and reach the level of core inflation, which is already close to the Federal Reserve's target (+2%). In the Eurozone, inflation remained slightly negative in May, but is expected to be positive again in summer, and should reach +1.0% over one year by the end of the year. It should come into line with core inflation, which is expected to remain around this level.

In the United States, investment in oil and gas infrastructures is no longer expected to adversely affect activity

In the United States, economic activity in 2016 is expected to be sustained mainly by the buoyancy of the service sector, whereas manufacturing activity is likely to remain particularly lifeless. After a gloomy first quarter (+0.2%), growth is expected to rise in Q2 (+0.7%) and then return to a moderate pace in H2, close to its average since 2014 (+0.5%). Household consumption is expected to remain buoyant, but with a level of unemployment that is not expected to fall any further (although remaining at a low level until the end of 2016), it is likely to slow down slightly in H2. Furthermore, investment in mining infrastructures, which has fallen since the end of 2015, is expected to stabilise progressively, so that corporate investment no longer hampers activity by the end of 2016. Average annual growth is expected to decline: +1.9% in 2016 after +2.4%.

2 - Advanced economies exports to slow



Sources: Eurostat, ONS, BEA, Statistics Bureau of Japan, INSEE forecasts

In the United Kingdom the upcoming referendum is generating uncertainty

In the United Kingdom, growth weakened less than in the United States in Q1 (+0.4%), but it is expected to continue falling in Q2 (+0.3%). Consumption is expected to slow down, in particular because the potential for dissaving connected to the fall in unemployment seems to have been exhausted. Furthermore, investment is likely to be penalised by the uncertainty surrounding the vote on 23 June on whether the United Kingdom should leave the European Union. In H2, even assuming the country stays in the European Union and investments pick up again, the economy is likely to grow less quickly (+0.4% per quarter) than between mid-2013 and mid-2015 (+0.7% per quarter on average). On average over the year, growth is likely to tail off (+1.7% after +2.3%).

In the Eurozone, internal growth drivers have taken over

After quite a dynamic Q1 (+0.6%), the Eurozone's GDP is expected to slow slightly in Q2 (+0.3%) before returning in H2 to its average growth rate since 2014 (+0.4% per quarter). As the external drivers that have sustained growth since 2015 run out of steam, such as the depreciation of the Euro and falling oil prices, internal growth drivers are expected to take over in 2016. Household consumption, stimulated by

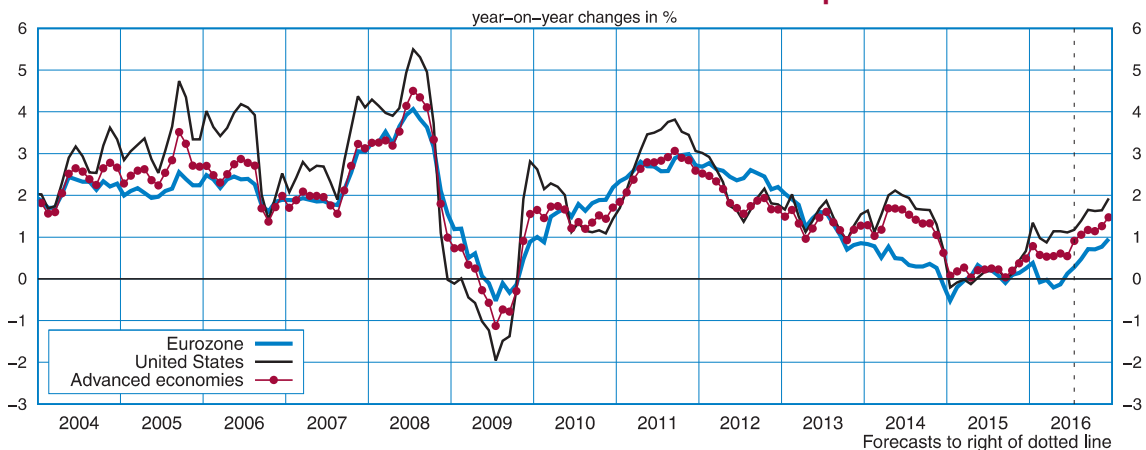
growth in employment, is expected to continue to sustain activity in spite of the expected recovery of inflation at the end of the year. In addition, investment in construction is expected to pick up due to the vitality of the sector in Germany on the one hand, and its stabilisation after a sharp fall in Italy and France on the other. The fiscal contribution is expected to be globally neutral in the Eurozone and even slightly positive in Italy.

Furthermore, with a recovery that is progressively being confirmed in the Eurozone and a short-term outlook that is crumbling among its trading partners, foreign trade is expected to have a greater negative impact on growth in 2016 (-0.4 GDP points) than in 2015 (-0.1 points): the positive impact of the depreciation of the currency is expected to diminish whilst buoyant domestic demand is likely to boost imports.

Average annual world demand for French goods is set to slow

Against this backdrop of weak imports in the emerging countries and the resilience of the Eurozone, world demand for French goods is expected to increase moderately by the end of 2016 (between 0.8% and 1.0% per quarter), driven in particular by its European trading partners. On average in 2016, it is nonetheless expected to slow (+2.6%, after +3.4% in 2015), growing substantially less than in the 2000s (+4.6% on average between 2000 and 2011). ■

3 - Inflation should increase in the wake of oil prices



Sources: National statistical institutes, INSEE calculations and forecasts

International scenario summary

| | 2015 | | | | 2016 | | | | 2014 | 2015 | 2016 |
|---|------|------|-----|-----|------|-----|-----|-----|------|------|------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
| GDP of advanced economies | 0.5 | 0.5 | 0.5 | 0.3 | 0.4 | 0.5 | 0.4 | 0.4 | 1.8 | 1.9 | 1.7 |
| World trade | -0.5 | -1.0 | 1.4 | 0.7 | -1.7 | 1.8 | 0.8 | 0.8 | 2.9 | 1.6 | 1.2 |
| Imports of advanced economies | 2.0 | -1.1 | 1.2 | 0.7 | 0.3 | 1.0 | 0.9 | 0.9 | 3.2 | 3.6 | 2.6 |
| Imports of emerging economies | -4.5 | -1.4 | 2.6 | 2.2 | -4.8 | 2.6 | 0.7 | 0.7 | 2.3 | -1.4 | 0.1 |
| World demand for French products | 1.0 | -0.1 | 1.3 | 0.3 | 0.5 | 1.0 | 0.8 | 0.8 | 4.0 | 3.4 | 2.6 |

Forecast

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

Sources: National statistical institutes, Centraal PlanBureau, International Monetary Fund, INSEE forecasts

Foreign trade

At the start of 2016 world trade shrank, particularly in Asia. However, given the geographical composition of French exports, world demand for French goods grew slightly. However, in Q1 French exports stalled (0.0% after +0.8%), due to the decline in sales of manufactured goods (-0.8% after +1.3%). In Q2, exports are expected to bounce back sharply (+0.9%) with the delivery of a number of large shipbuilding contracts. Exports are expected to slow in H2 in reaction (+0.3% then +0.6%) and grow less quickly than world demand for French exports.

Imports slowed in Q1 2016 (+0.6% after +2.5%), due to a substantial drop in energy purchases (-6.7% after +9.3%). Imports of manufactured goods also slowed, although they remained quite vigorous (+1.6% after +3.3%). Imports are expected lose momentum again in Q2 (+0.2%), before returning to a pace more in line with domestic demand (+0.4% then +0.7% in H2).

After adversely affecting growth in Q1 2016 (-0.2 points), foreign trade's contribution is expected to be positive in Q2 (+0.2 points), especially due to large contracts being delivered. It is expected to become negative once more in Q3 (-0.1 points), but then neutral again at the end of the year. On average in 2016, export and imports are expected to slow considerably, but the latter should remain more dynamic, so that foreign trade is expected to erode growth once again (-0.7 points), even more than in 2015 (-0.3 points).

World trade is expected to bounce back in Q2 after a setback at the beginning of 2016

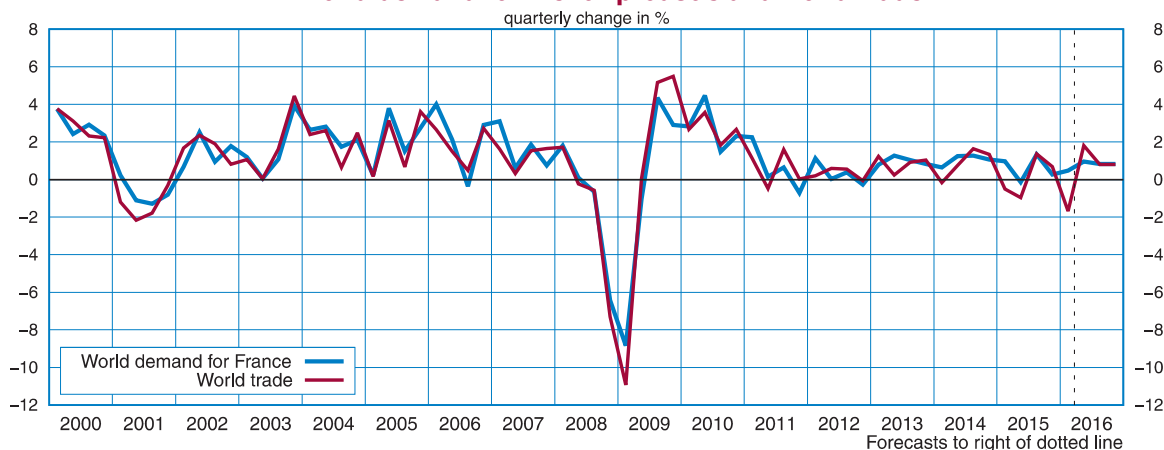
In Q1 2016, world trade fell back (-1.7% after +0.7%, *Graph 1*). The imports of the emerging countries shrank, especially in Asia. At the same time, the imports of the advanced countries also slowed down. In Q2, world trade is expected to bounce back (+1.8%), reflecting a recovery in Asian trade of which there was a hint in the customs data as of April. Thereafter, it is expected to grow at a more moderate pace (+0.8% per quarter) well below its pre-crisis average growth (+1.5% per quarter between 2000 and 2007).

In spite of the downturn in world trade, world demand for French goods picked up slightly at the beginning of 2016 (+0.5%, *Graph 2*), due to its main partners' imports holding up, most notably Germany. Over the last three quarters of the year, world demand for French goods is expected to continue growing (+1.0% then +0.8%), driven by a slight recovery in the imports of emerging countries and the dynamism of the Eurozone countries.

Exports should bounce back strongly in Q2 2016

In Q1 2016, French exports of goods and services came to a standstill (0.0% after +0.8%). On the one hand, exports of manufactured goods shrank (-0.8% after +1.3%). Exports of transport equipment slipped back in particular (-3.7% after +2.6%), as did "other manufactured goods" (-0.6% after +1.7%). On the other hand, exports of services picked up considerably (+1.4% after 0.0%), exceptionally sustained by the transfer of a collection of works of art to Switzerland.

1 – World demand for French products and world trade



Sources: INSEE, DG Trésor, Central Plan Bureau

In Q2 2016, exports are likely to gather pace sharply (+0.9%), driven especially by an upturn in sales of manufactured goods (+1.9%). Indeed, a number of large contracts in the aeronautical and naval sector were delivered in this quarter, in particular a civilian ocean liner and a military ship. Agricultural exports are expected to remain stable. A downturn is expected in exports of services (-2.0%), with a return to normal after the sale of the works of art.

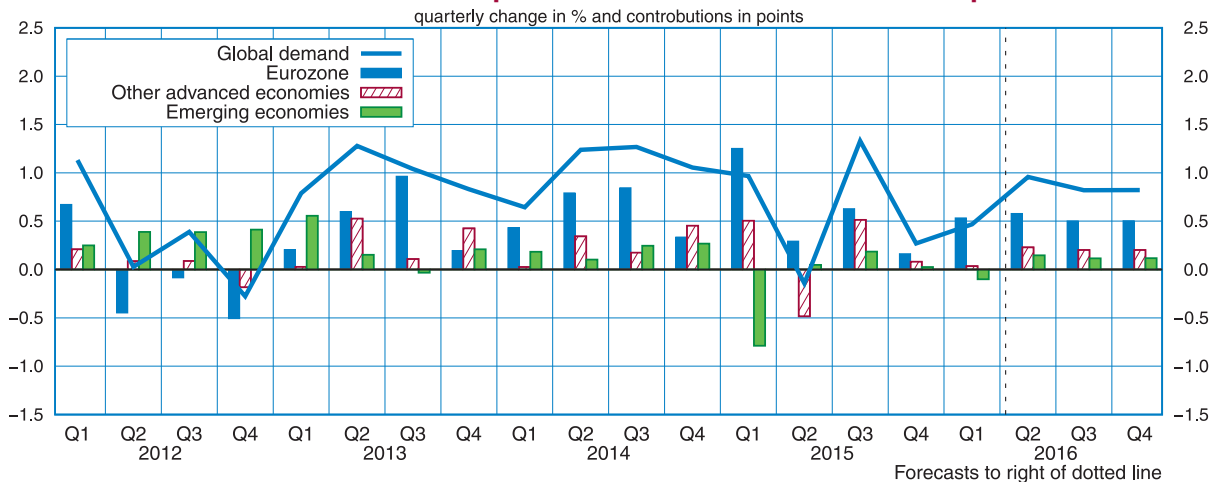
In Q3, total and manufacturing exports are expected to stall (Graph 3), as deliveries of large contracts – in particular a new military ship – are expected to be lower than in the previous quarter. In Q4, with no exceptional deliveries expected, overall exports are likely to increase only moderately (+0.6%). Exports of services are expected to pick up (+0.7% on average per quarter), but at a slower pace than their trend. Over the whole of 2016, export growth is likely to slow substantially: +1.8% after +6.0% in 2015.

Imports are likely to slow again in Q2 2016

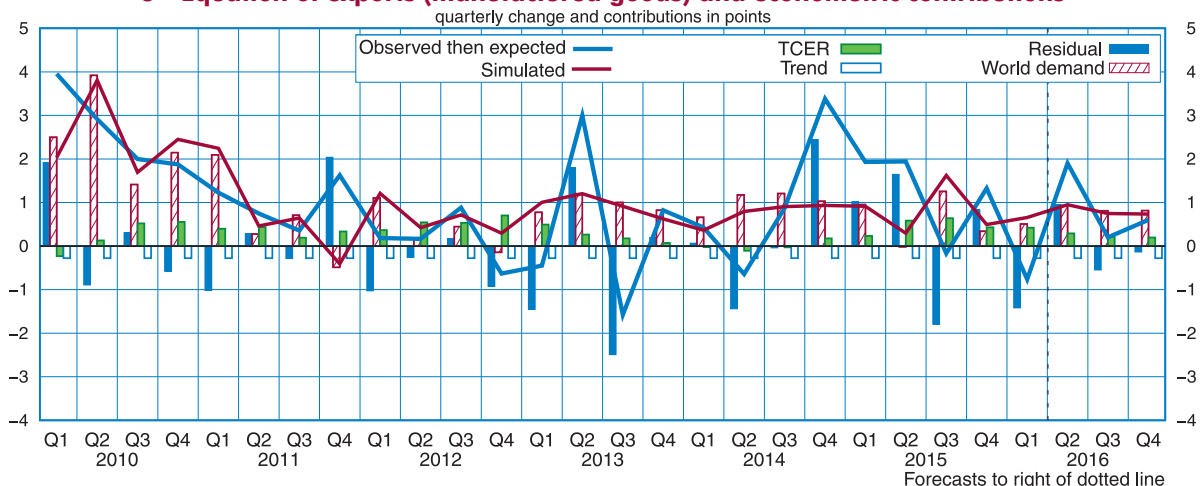
In Q1 2016, total import growth slowed (+0.6% after +2.5%, Table). Energy imports, hydrocarbons in particular, fell sharply (-6.7% after +9.3%). Imports of services also declined, although to a lesser extent (-1.2% after -1.7%). While remaining buoyant, imports of manufactured goods slowed (+1.6% after +3.3%), in particular transport equipment (+3.9% after +5.5%), capital goods (+1.2% after +2.7%) and "other manufactured goods" (+0.4% after +3.1%).

In Q2 2016, imports are expected to decelerate (+0.2%), in particular manufactured goods (+0.6%), in line with the tipping point announced by manufacturers and wholesalers in the business tendency surveys. Energy imports are likely to shrink again (-3.0%). Imports of agricultural goods are likely to increase moderately (+0.5%) whilst those of services are likely to slip back slightly (-0.2%).

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



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



*REER: real effective exchange rate
Sources: INSEE, DG Trésor

French developments

In H2, imports of manufactured goods are likely to slow again (+0.2% in Q3), and then move into line with domestic demand (+0.8% in Q4). In contrast, imports of services are expected to grow at a pace lower than their trend (+0.2% then +0.6%) while imports of agricultural products are likely to stay at a moderate level (+0.5% per quarter). Energy purchases are expected to bounce back (+5.0%) then stabilise. On average over the year, imports are expected to slow in 2016 (+3.9% after +6.4% in 2015). However, they are expected to increase more vigorously than exports, even more markedly

so than in 2015. Foreign trade is therefore likely to weigh even more heavily on growth in volume: -0.7 points after -0.3 points in 2015.

In 2016, the trade deficit in value of goods and services is not likely to fall, due to the expected worsening in the balance of trade in manufactured goods (Graph 4). The further reduction in the energy trade deficit linked to the price of oil is only likely to make up for it in part. ■

Foreign trade growth forecast

variations in % at chain-linked previous year prices, contributions in points

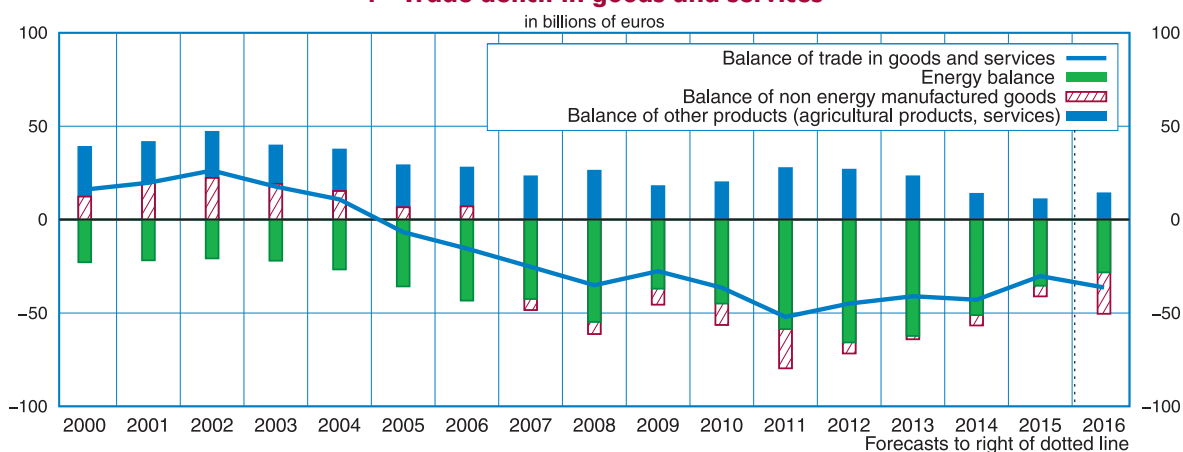
| | Quarterly changes | | | | | | | | Annual changes | | |
|---|-------------------|------------|-------------|-------------|-------------|------------|-------------|------------|----------------|-------------|-------------|
| | 2015 | | | | 2016 | | | | 2014 | 2015 | 2016 |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
| Exports | | | | | | | | | | | |
| All goods and services | 1.8 | 1.5 | -0.2 | 0.8 | 0.0 | 0.9 | 0.3 | 0.6 | 3.4 | 6.0 | 1.8 |
| Manufactured products (68%)* | 2.0 | 2.0 | -0.2 | 1.3 | -0.8 | 1.9 | 0.2 | 0.6 | 1.8 | 6.6 | 2.3 |
| Imports | | | | | | | | | | | |
| All goods and services | 2.2 | 0.3 | 1.6 | 2.5 | 0.6 | 0.2 | 0.4 | 0.7 | 4.8 | 6.4 | 3.9 |
| Manufactured products (68%)* | 1.9 | 1.1 | 2.3 | 3.3 | 1.6 | 0.6 | 0.2 | 0.8 | 3.8 | 6.4 | 6.3 |
| Contribution of foreign trade to GDP | -0.1 | 0.3 | -0.6 | -0.6 | -0.2 | 0.2 | -0.1 | 0.0 | -0.5 | -0.3 | -0.7 |

Forecast

*Part of exports (resp. imports) of non-energy industrial goods in exports (resp. imports) in a whole in 2015.

Source: INSEE

4 - Trade deficit in goods and services



Source: INSEE

Employment

Payroll employment in the non-agricultural market sector continued to increase in Q1 2016 (+40,000, after +47,000 in Q4 2015). It should continue at a similar pace in Q2, bringing the number of jobs created in H1 to 68,000, and then again in H2 2016 (+71,000). It should therefore increase by 139,000 over the year as a whole (after +109,000 in 2015). It is set to benefit from the acceleration in activity and successive measures to boost the employment to growth ratio: the tax credit for encouraging competitiveness and jobs, the Responsibility and Solidarity Pact and the more recent Emergency Plan for Employment.

In the non-market sector, employment should slow down slightly in 2016 (+38,000, against +47,000 in 2015) due to the contraction in the number of jobs in future contracts ("emplois d'avenir"). The pace of self-employment and agricultural job creation should hold up, meanwhile.

All in all, 210,000 jobs should be created in 2016 (after +188,000 in 2015). Job creations should remain at a similar pace in the first and second half of the year (+108,000 then +102,000).

Market-sector payroll employment to accelerate in 2016

In 2015, payroll employment in the non-agricultural market sector showed an upturn for the first time since 2011 (+109,000 year on year at the end of the year, after -60,000 in 2014, [Table 1](#)). In Q1 2016, it increased by 40,000 (after +47,000 in Q4 2015), especially in the tertiary sector excluding temporary employment.

This type of employment should remain just as dynamic through to the end of 2016, with the annual rise coming to 139,000 (after +109,000 in 2015). It should increase by 68,000 in H1 and then by 71,000 in H2 ([Graph 1](#)). The tax credit for encouraging competitiveness and jobs (CICE) and the Responsibility and Solidarity Pact (PRS) should provide a slightly smaller boost to the number of jobs created by growth in 2016 (about 55,000 jobs) than they did in 2015 (about 80,000 jobs): on the one hand, the ramp-up of the CICE has now been completed, while the new extension of social contribution reductions in the PRS on 1st April is likely to have a limited effect because it does not target lower wages (between 1.6 and 3.5 times the minimum wage). However, non-agricultural market-sector employment is benefiting from more dynamic activity on the whole and from the progressive ramp-up of the hiring premium for SMEs, announced as part of the emergency plan for employment, which should also boost the number of jobs created by growth (about 40,000 over the year, [Focus](#)).

Tertiary market-sector employment excluding temporary employment set to accelerate

In 2015, temporary employment increased strongly (+51,000, after -1,000 in 2014). As temporary work reacts particularly quickly to fluctuations in activity, it improved earlier than the other components of employment. After remaining almost stable in Q1 2016 (+2,000), it should start rising again from Q2, driven in particular by recruitments for the Euro 2016 football

Table 1

Change in employment in thousands, SA

| | 2015 | | | | 2016 | | | | 2015 H1 | 2015 H2 | 2016 H1 | 2016 H2 | 2015 | 2016 | Level end 2015 |
|---|------|----|----|----|------|----|----|----|---------|---------|---------|---------|------|------|----------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | | | | | |
| Mainly non-agricultural market sectors (1) | -10 | 38 | 35 | 47 | 40 | 28 | 34 | 37 | 28 | 82 | 68 | 71 | 109 | 139 | 16120 |
| Industry | -9 | -8 | -9 | -7 | -8 | -8 | -8 | -8 | -17 | -16 | -16 | -16 | -33 | -32 | 3093 |
| Construction | -12 | -9 | -8 | -3 | 1 | -2 | -2 | -1 | -21 | -11 | -1 | -3 | -32 | -4 | 1314 |
| Temporary employment | -6 | 20 | 18 | 19 | 2 | 6 | 5 | 5 | 14 | 37 | 8 | 10 | 51 | 18 | 604 |
| Market services excl. tempory employment | 16 | 35 | 34 | 38 | 46 | 32 | 39 | 41 | 52 | 71 | 78 | 80 | 123 | 158 | 11109 |
| Agricultural workers | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 3 | 3 | 4 | 4 | 7 | 7 | |
| Mainly non-market service sectors | 14 | 16 | 1 | 16 | 17 | 7 | 7 | 7 | 30 | 17 | 24 | 14 | 47 | 38 | |
| Self-employed | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 13 | 13 | 13 | 13 | 25 | 25 | |
| TOTAL EMPLOYMENT | 12 | 61 | 44 | 71 | 65 | 43 | 49 | 52 | 73 | 115 | 108 | 102 | 188 | 210 | |

Forecast

(1) Sectors DE to MN and RU

Source: INSEE

French developments

championship. Over the year as a whole, temporary employment should progress more moderately than in 2015 (+18,000).

Tertiary market-sector employment excluding temporary employment accelerated markedly in 2015 (+123,000, after +28,000 in 2014, *Graph 2*). It remained dynamic in Q1 2016 (+46,000). Given that business leaders in the sector remain more optimistic than in the past about the expected variations in their workforce (*Graph 3*), tertiary market-sector employment excluding temporary employment should continue to increase at close to this rate throughout 2016 (+158,000 over the year as a whole).

All in all, tertiary-sector employment including temporary employment should increase by 176,000 in 2016 (+86,000 in H1, then +90,000 in H2).

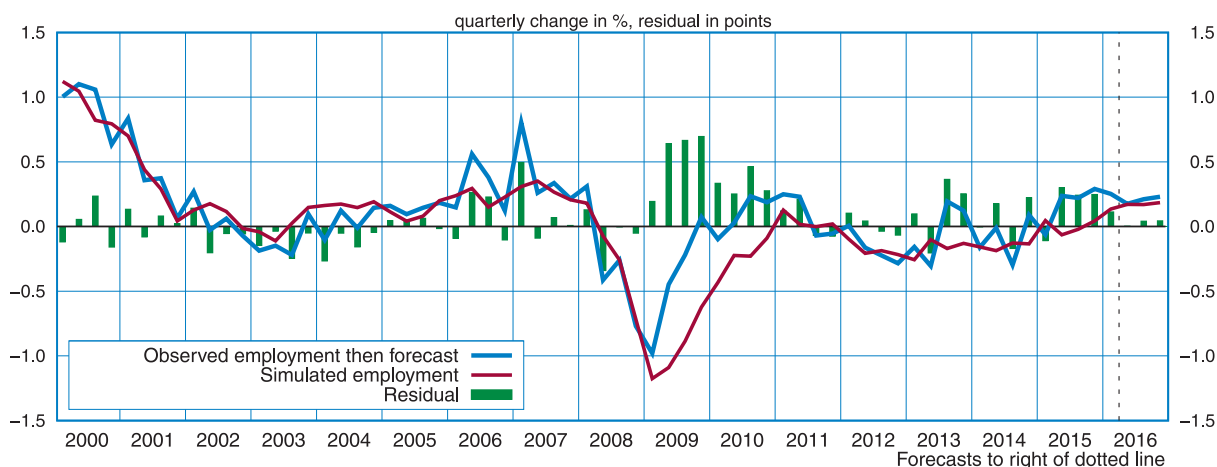
The fall in industrial employment likely to ease in the course of the year

In 2015, as in 2014, the net industrial job losses were considerable (-33,000, after -40,000). They continued in Q1 2016, losing 8,000 jobs. As the expectations of industrialists in terms of employment remain relatively stable, the fall in the workforce is likely to continue over the last three quarters of 2016 (-8,000 jobs per quarter). Industrial employment is therefore likely to contract by 32,000 over the year as a whole.

Construction to lose considerably fewer jobs in 2016

Employment in construction has fallen almost constantly since the 2008-2009 crisis. Job losses were even amplified over the past two years (-47,000 jobs in 2014, then -32,000 in 2015,

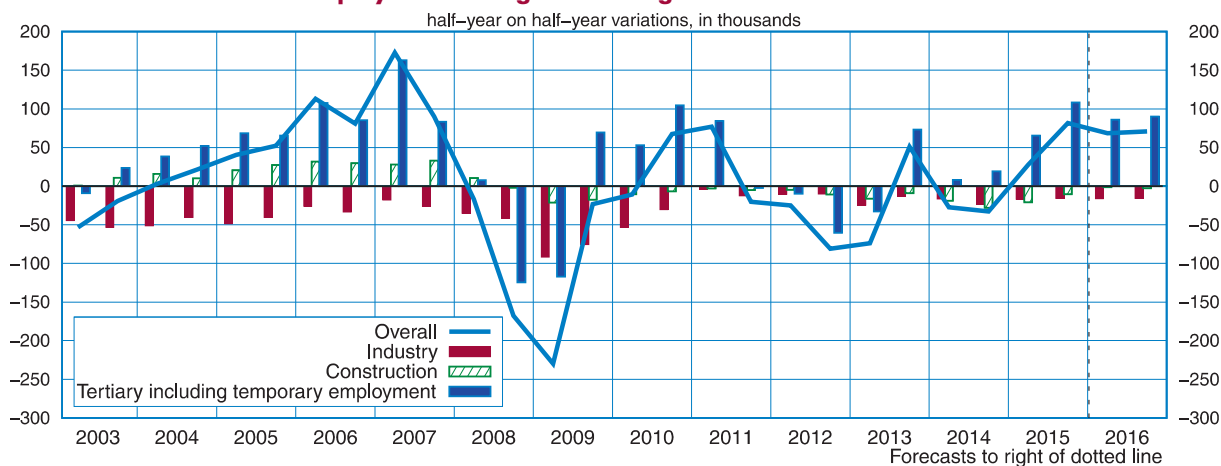
1 - Employment observed in the non-agricultural market sector, simulated and residual employment



Note: The equation residual for employment is the spread between the observed employment and the simulated employment from past and current variations in employment and activity and from effects of employment policies (included, over the recent period, the effects of the CICE, the PRS and the employment plan). A positive residual, such as that observed in 2015, indicates that observed employment showed better growth than past behaviour would lead us to expect. Estimation period: 1984-2009.

Source: INSEE

2 - Employment change in non-agricultural market sectors



Source: INSEE

against -17,000 on average between 2010 and 2013). Job destructions did ease, however, over the course of 2015 (from -12,000 in Q1 to -3,000 in Q4), and even came to a halt in Q1 2016 (+1,000 jobs). In building and in civil engineering, the expectations among business leaders concerning their workforce have shown a marked upturn. Over 2016 as a whole, employment should be almost stable in construction (-4,000).

Non-market employment to slow down in 2016

Non-market employment progressed by 47,000 in 2015, slightly less than in 2014 (+52,000), driven mainly by subsidised contracts (+24,000 after +51,000, *Table 2*).

In 2016, non-market employment should slow down a little further (+38,000) in particular due to past CUI-CAE¹ (*contrat unique d'insertion - contrat d'accompagnement dans l'emploi* i.e. Single Integration Contract - Contract for Support in

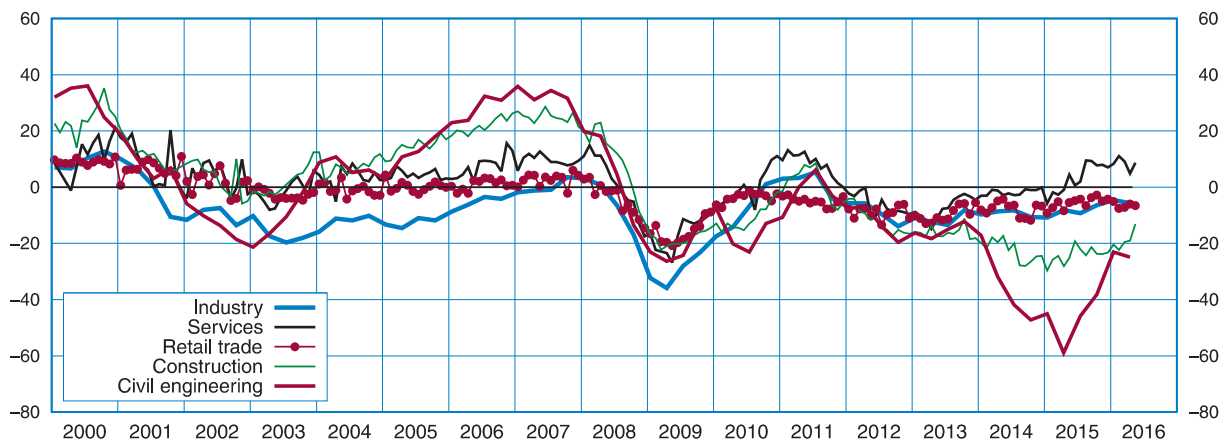
Employment) and future contracts ("emplois d'avenir") coming to an end (-7,000 after +24,000). The number of people in civic service should continue to increase, meanwhile.

All in all, 210,000 jobs should be created in 2016

Taking account of self-employment and agricultural employees, total employment across all sectors grew by 188,000 in 2015 (after +36,000 in 2014). It should accelerate again in 2016 (+210,000 jobs), remaining at a similar rate in both H1 and H2 (+108,000 then +102,000). This rise in employment should be driven mainly by the increase in activity over the year and by the increase in the employment to growth ratio, generated by the CICE, the PRS and the Emergency Plan for Employment. ■

1. "Subsidised contracts in 2015", *Conjoncture in France*, March 2016, p. 80-81.

3 - Balance of opinion of business leaders on expected numbers



Source: INSEE, Business tendency surveys

Table 2

Change in subsidised employment and civic service in the non-market sector

in thousands

| | 2015 | | | | 2016 | | | | 2015 H1 | 2015 H2 | 2016 H1 | 2016 H2 | 2015 | 2016 |
|-------------------------|-----------|----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|----------|-----------|-----------|----------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | | | | |
| "Future Jobs" | 3 | 2 | 1 | 1 | -3 | -4 | -4 | -4 | 5 | 2 | -7 | -7 | 7 | -14 |
| CUI-CAE incl. ACI* | 11 | 5 | -6 | 7 | 10 | -1 | -1 | -1 | 16 | 1 | 9 | -2 | 17 | 7 |
| Civic service contracts | -1 | 0 | 3 | 5 | 3 | 3 | 3 | 3 | 0 | 8 | 7 | 6 | 8 | 13 |
| Total | 13 | 7 | -1 | 13 | 11 | -2 | -1 | -2 | 20 | 11 | 9 | -3 | 32 | 6 |

Forecast

* Since July 2014, recruitment by integration workshops and sites (ACI) no longer takes the form of a CUI-CAE (*Contrat unique d'insertion - Contrat d'accompagnement dans l'emploi* - Single integration contract - Employment support contract) but instead a CDDI (*Contrat à durée déterminée d'insertion* - Fixed-term integration contract). Nevertheless, in order to ensure that the scope of this analysis remains constant when tracking subsidised jobs, the CUI-CAE forecasts given here include ACIs.

Scope: Metropolitan France

Sources: DARES, INSEE calculations

The new emergency plan for employment should strengthen job growth and increase the number of individuals receiving training

The emergency plan for employment, announced in January 2016, includes two important measures: the "SME recruitment incentive programme (*Embauche PME*)" scheme on the one hand, aimed at further reducing the cost of labour for low wages in companies with less than 250 employees, and the "500,000 trainee programmes" plan on the other hand, aimed at increasing the number of jobseekers benefiting from training.

The "SME recruitment incentive programme" scheme further reduces the cost of labour for low wages

The "SME hiring" scheme offers a premium of 500 euros per person per quarter (in proportion to the amount of time worked), paid over a maximum period of two years for companies with less than 250 employees that have hired an employee under an open-ended contract or under a fixed-term contract of over 6 months, whose pay does not exceed 1.3 times the minimum wage. Another condition for the scheme is that the recruitment must take place before the end of 2016. This measure is related to a new reduction in the cost of labour for companies, and comes in addition to measures approved under the CICE – *Crédit d'impôt pour la compétitivité et l'emploi*, the tax credit scheme for encouraging competitiveness and jobs (18.5 billion euros of CICE expenditure planned for wages between 1 and 2.5 times the minimum wage) and under the Responsibility and Solidarity Pact (7.6 billion euros in 2016 for wages between 1 and 3.5 times the minimum wage). These three measures, combined with the policies reducing the contributions for low wages implemented beginning in 1993, reduce labour costs to a level below the gross wage for employees who have recently been hired this year under an open-ended or fixed-term contract of over 6 months, and are paid close to the minimum wage in companies with less than 250 employees.

This new scheme for reducing the cost of labour, like the previous measures, should have a positive effect on employment. This impact primarily depends on the magnitude of the reductions in the cost of labour, which depends on the number of recruitments that are covered under the measure. Based on the flow of annual recruitments observed within companies with a maximum of 250 employees (approximately 3 million under open-ended contracts or fixed-term contracts of over 6 months), and based on assumptions on the shares of low and part-time wages, an estimated 1 million recruitments are affected by the measure. The scheme would therefore cost 2.5 billion euros, spread over 2016 and 2018, of which one third will be in 2016, taking into account the gradual ramp-up of the scheme. These assumptions are obviously uncertain, yet they are consistent with initial observations: by the end of May, 330,000 requests for

aid had already been filed with the Service and Payment Service Agency in charge of distributing the premiums. In addition, according to the central agency for social security organisations (ACOSS), hiring declarations increased significantly in Q1 (+4.8%), varying in nature according to the various company sizes: for those with less than 250 employees, declarations increased by 4.7% in open-ended contracts (against +0.9% among larger companies) and by 20.5% in fixed-term contracts of over six months (against +5.9%). Yet these recruitments must not be seen as the result of the employment scheme, since the majority would have happened in any case, and are benefiting from the advantages of this reduction.

The new scheme should strengthen the employment to growth ratio in 2016

To assess the ex-ante effect on employment, it is necessary to refer to the classical analytical framework that describes how reductions in social contributions can promote jobs via two channels (see, for example Nouveau and Ourliac, 2012¹):

- First of all, the reduction in the relative cost of labour in relation to capital, or the reduction in unskilled labour in relation to other production factors, leads to a new combination of production factors that promote jobs.
- Secondly, the reduced production costs allow companies to improve their export cost competitiveness; the resulting rise in exports amplifies the initial effect. In the domestic market too, reduced costs can also lead to price reductions and promote the competitiveness of French manufacturers. The purchasing power gains from which households benefit sustain domestic demand, already improved by job creations, ultimately resulting in a rise in activity and a new increase in employment via the «macroeconomic loop effect».

In *Conjoncture in France*, only the first "extra job growth" aspect needs to be quantified. The second loop effect is in fact implicit in the forecasted growth that is presented. In other words, it is assumed that this effect will be captured by the business tendency surveys on production, on which the forecasting scenario is largely based.

The extent of the "extra job growth" depends on the elasticity of demand for labour to its cost, which depends on "targeting": the more the reductions target low wages, the more significant this substitution is. By using the median elasticities proposed in the literature (see for example Bock et al. 2015²), it is estimated that a sustainable decrease in the cost of labour of 2.5 billion euros per year for wages below 1.3 times the minimum wage would allow for 50,000 extra jobs in the long run (Table 1).

Table 1 - Increase in the employment to growth ratio generated by the reduction of labour costs by one billion euros, depending on targeting

| | 1.3 Smic (targeting of the "SME hiring" premium) | 2.5 Smic | 3.5 Smic |
|--|--|----------|----------|
| Assumption of the elasticity of demand for labour demand to its cost | 0.8 | 0.6 | 0.5 |
| "Extra job growth" (in thousands) | 20 | 15 | 12 |

Source: INSEE

Yet, as compared to a long-term measure, the “SME recruitment incentive programme” could present anticipatory effects, owing to the fact that the measure only applies to new hires in 2016. In Italy, the equivalent Jobs Act measure, which applied only to recruitment in 2015 led to a strong increase in employment until the end of the year, before it dropped off in early 2016 with the significant reduction of the measure. However, these effects should be weaker than in the case of the long-term reduction in social contributions: the expected cost reduction is limited to two years, resulting in a much smaller reduction when considered from a longer term perspective, particularly for open-ended contracts, in which case the average duration exceeds two years.

All in all, for this *Conjoncture in France* the “extra job” effect of the increased job growth is estimated at +40,000 in 2016, primarily concentrated in the second half of the year, taking into account the anticipatory effects.

The emergency plan for employment also includes a “training” component aimed at significantly increasing the number of jobseekers benefiting from training

The emergency plan for employment also includes a training plan for jobseekers (called the «500,000 plan³”). This plan is aimed at raising the number of individuals commencing training programmes each year to 1 million. Among these programmes, those intended for jobseekers would increase by approximately 300,000, while the other training initiatives would be aimed at professionalization contracts, assistance in creating new businesses, and the accreditation of experience learning (VAE).

The number of jobseekers beginning a training programme has already increased since 2013, reaching 700,000 training programmes begun in 2015

According to the most recent data published by the Directorate for Research, Studies, and Statistics (Dares) of the Ministry of Labour, in 2013 nearly 620,000 jobseekers received training in Metropolitan France. The training primarily involved providing services for

individuals (health sector, hotel and restaurant sector, social work), transport, personal development and foreign language learning. In nearly 90% of cases, the training was received by individuals registered with Pôle emploi. Young people are overrepresented among the training recipients: 39% of trainees were under the age of 26 (10% of the overall labour force). In 2014 and 2015, the number of individuals beginning a training programme increased (approximately +80,000), due to the extension of the jobseeker priority training plan (called “100,000 plan”) and was just under 700,000 in 2015.

The number of training programmes started should again increase significantly in 2016

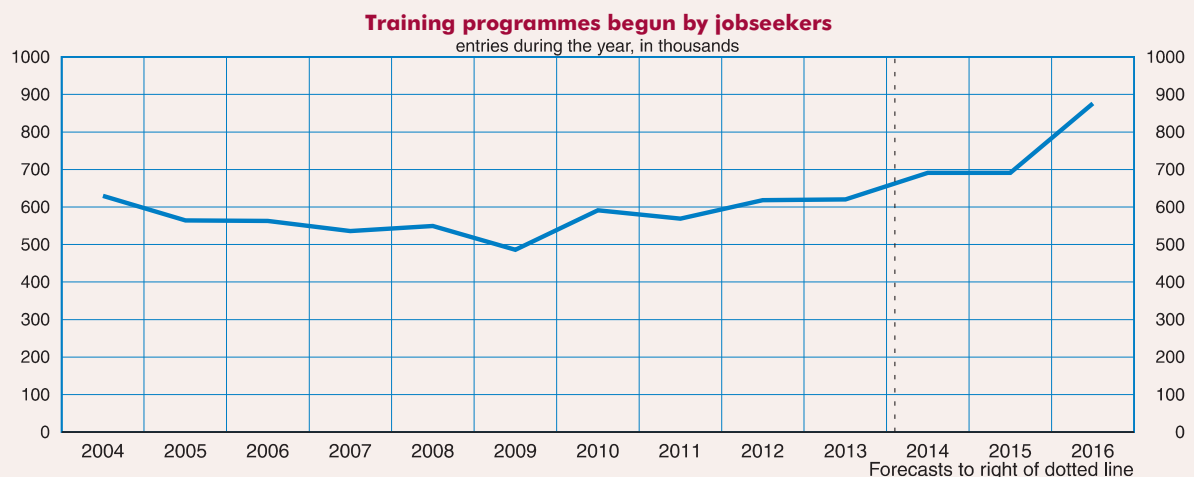
Taking into account the time between the announcement and the implementation, the expected additional individuals beginning training programmes under the plan should progressively increase beginning in Q2 2016. The underlying assumption is that the number of additional individuals expected under the plan to begin training should reach a steady pace by the end of the year, with 30,000 individuals starting training programmes per month, and therefore progressively reaching approximately 180,000 for 2016 overall (Graph).

It is also assumed that the training programmes offered under the plan will last 3 months on average, which is the length observed for the programmes in 2013. A large number of training programmes should therefore begin and end over the course of 2016. Therefore, the number of trainees should increase by a little over 90,000 between the end of 2015 and the end of 2016 (Table 2).

1. Ourliac, B. and Nouveau, C. (2012), “Les allègements de cotisations sociales patronales sur les bas salaires en France de 1993 à 2009”, Dares, Document d'études n° 169, February.

2. Bock S., Lissot P. and Ozil S. (2015), “Matis : une maquette d'évaluation des effets sur l'emploi de variations du coût du travail”, DG Trésor, Documents de travail n° 2015/02, March.

3. [http://travail-emploi.gouv.fr/grands-dossiers/plan-500-000-
formations-supplementaires/plan-500-000](http://travail-emploi.gouv.fr/grands-dossiers/plan-500-000-formations-supplementaires/plan-500-000)



Scope: jobseekers who began a training programme over the course of the year; Metropolitan France.
Sources: DARES, INSEE forecasts

French developments

Some of the trainees will temporarily cease to be counted as part of the labour force

An individual without a job is considered as unemployed as defined the International Labour Office (ILO), provided that the individual actively sought work over the course of the previous month, and that the individual is available to begin a job within the two following weeks. Individuals who are unemployed and benefit from a training programme may need to temporarily stop seeking employment during the training period, or cease to declare that they are available to start a job within two weeks: therefore, within the ILO meaning, they are no longer considered unemployed, but rather inactive. Some may even be ILO employed if they worked at least one paid hour during the reference week. For these individuals, taking a training programme can also result in their being removed from the labour force.

However, an individual receiving training will not necessarily be removed from the labour force:

- jobseekers who already work part time can continue to do so during the training programme: they are therefore still considered to be part of the labour force within the ILO meaning;
- some trainees may already be inactive within the ILO meaning, for example if they stopped seeking a job before the training began;
- some unemployed individuals may continue to seek a job, thus remaining available to start a new job (by ending the training programme if necessary): in this case, they are still considered ILO unemployed.

Through specific questions, the Labour Force Survey makes it possible to estimate the individuals' status based on whether or not they have received training over the course of the four weeks prior to the survey (Table 3). It also makes it possible to identify individuals who declare they are registered with Pôle emploi⁴, who make up the majority of trainees. The survey indicates that just under 85% of individuals between 15 and 64 years of age who declared they were registered with Pôle emploi and had not taken any training programmes were part of the labour force (employed or otherwise), as opposed to a little over 55% of those who were taking a programme. The comparison of these two figures serves to identify the impact of the withdrawal from the labour force of approximately 30 points for the individuals receiving training.

Therefore, taking into account the variation assumptions on the number of trainees by the end of 2016, the number of individuals in the labour force should decrease by nearly 30,000 between the end of 2015 and the end of 2016, due to the training plan for jobseekers. This plan should also result in the short-term reduction by 30,000 ILO unemployed individuals, for a 0.1-point drop in the unemployment rate, due to trainees being removed from the labour force. This is only the short-term impact of the unemployed individuals being removed from the labour force during their training. The potential long-term effects of the increased employability of the trained unemployed individuals has not been considered. ■

4. Including individuals with short or long reduced activity, registered under categories B and C.

Table 2 - Estimated impact of the training plan on jobseekers

in thousands

| | 2016 | | | | 2016 | | 2016 |
|--|------|----|-----|-----|------|-----|------|
| | Q1 | Q2 | Q3 | Q4 | H1 | H2 | |
| Individuals beginning training programmes | 0 | 17 | 67 | 101 | 17 | 168 | 185 |
| Variation on the number of trainees | 0 | 15 | 41 | 35 | 16 | 76 | 92 |
| Estimated effect on the labour force | 0 | -5 | -12 | -11 | -5 | -23 | -28 |

Scope: jobseekers who began a training programme over the course of the year; Metropolitan France.

Sources : DARES. INSEE calculations

Table 3 - Activity status within the ILO meaning of individuals who declared they were registered with Pôle emploi in the Labour Force Survey, according to whether or not they took a training programme

in %

| | Individuals who declare they are registered with Pôle emploi in the Labour force survey... | | |
|---------------------------------|--|---------------------------------|-------------------------------------|
| | All | ... who were taking a programme | ... who were not taking a programme |
| All | 100 | 100 | 100 |
| Individuals in the labour force | 78 | 57 | 84 |
| Inactive | 22 | 43 | 16 |

Note: the Pôle emploi registration declared at the time of the survey; having followed a training course in the 4 weeks prior to the taking the survey.

Scope: Metropolitan France, household population, people 15 or older who declared they were registered with Pôle emploi.

Source: INSEE, Labour force survey 2015

Unemployment

In Q1 2016 in Metropolitan France, the number of unemployed remained virtually unchanged (-3,000 after -83,000 in the previous quarter) and the ILO unemployment rate remained steady at 9.9% of the labour force. Once the overseas departments are included, the rate was 10.2%. Between now and the end of the year, the expected rise in employment should be higher than the increase in the labour force, with the result that the unemployment rate should decrease and stand at 9.5% in late 2016 in Metropolitan France (9.8% including the overseas departments).

The unemployment rate remained stable in Q1 2016

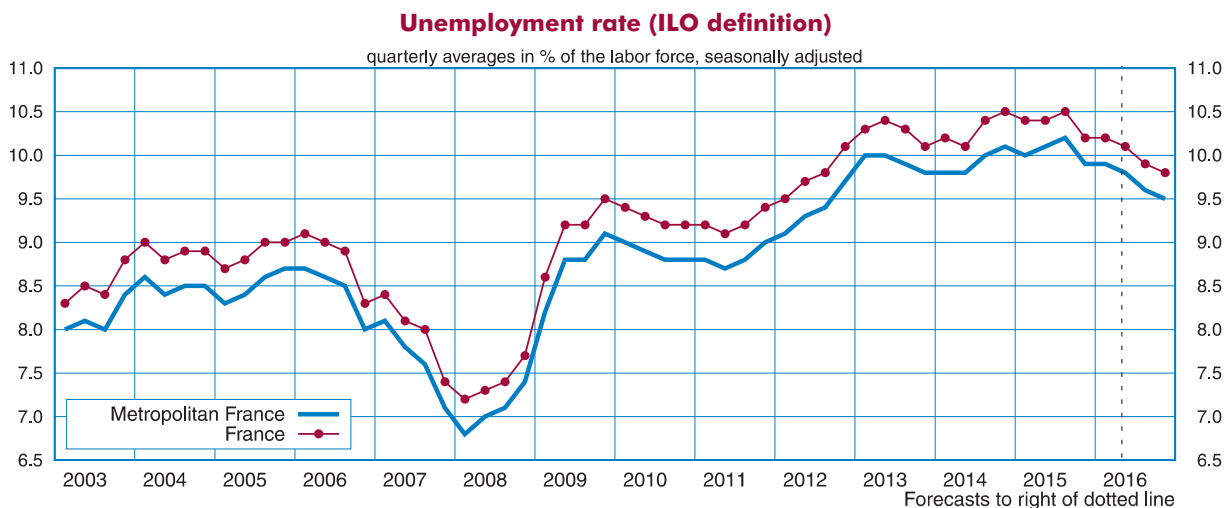
In Q1 2016 in Metropolitan France, the number of unemployed remained virtually unchanged (-3,000), after falling by 83,000 in Q4 2015 (Table). In this way, the unemployment rate stood at 9.9% of the labour force, unchanged from the end of 2015 (Graph). It fell by 0.1 points compared to Q1 2015, with the number of unemployed having dropped by 24,000 over the year. This fall contrasts with the rise in the number of jobseekers registered with the national employment agency over this period (Focus). Across the whole of France, the unemployment rate was 10.2%, also remaining stable in relation to Q4 2015. The halo of unemployment¹ increased by 39,000 people in Q1 2016 compared to Q4 2015; against early 2015, however, it fell by 26,000.

The unemployment rate rises again among young people but falls for the over-50s

The youth unemployment rate stood at 24.2% of the labour force in Q1 2016. It increased by 0.3 points over the quarter, almost regaining its level of Q1 2015 (24.1%). Conversely, the unemployment rate for the over-50s was down by 0.2 points, standing at 6.5% at the beginning of 2016, the same level as at the start of 2015. Finally, the unemployment rate for 25-49 year-olds rose slightly to 9.3%, i.e. 0.1 points more than in the preceding quarter but 0.2 points less than one year previously.

In Q1 2016, 10.3% of active men and 9.4% of active women were unemployed as defined by the ILO. Compared to the previous quarter, the unemployment rate fell slightly for men (-0.1 points) and remained stable for women. Over the past year, the reduction in the unemployment rate was slightly more pronounced for women (-0.2 points) than for men (-0.1 points). Since mid-2012, when the male unemployment rate rose above the female rate, the gap has continued to widen. It reached +0.9 points at the beginning of 2016, thus remaining close to the highest level observed (+1.1 points in mid-2015) since series began (1975). This divergence can be explained by the different employment dynamics at

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



Scope: Population of households, people aged 15 or over
Source: INSEE, Employment Survey

French developments

work in industry and construction on the one hand, sectors that mainly employ men, and the tertiary sector on the other hand (*Employment sheet*).

Unemployment is expected to decrease through to end of 2016

In 2015, the labour force grew by 111,000, mainly in the 50-64 age bracket. This rise in the labour force is explained mainly by the trend growth of the working-age population and the effect of the increase in the retirement age, which in mid-2015 was 61 years and 7 months; however, this growth has been slowed by workers continuing to take early retirement under the "long careers" scheme. In 2016, the labour force is again likely to rise less quickly (+113,000) than its spontaneous rise. In addition to the impact of early retirements, it should

also be limited in H2 by the gradual ramping up of the jobseekers' training plan announced at the beginning of 2016, which could contribute to the removal of around 30,000 active people from the job market (*Focus in the Employment sheet*).

All in all, net job creations envisaged over the year (+219,000 at end of 2016 over one year) should exceed the expected growth in the labour force and the unemployment rate should decrease on a regular basis between now and the end of 2016. In Q4 2016, it is expected to stand at 9.5% of the labour force in Metropolitan France, and 9.8% in France including the overseas departments. ■

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

in thousands, SA, and in %

| | Quarterly changes | | | | | | | | Annual changes | | | |
|---|-------------------|-----------|------------|------------|-----------|------------|------------|------------|---|------------|------------|-------------|
| | 2015 | | | | 2016 | | | | 2013 | 2014 | 2015 | 2016 |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | | |
| Population of the 15-64 age bracket | -17 | -15 | -12 | -10 | -9 | -8 | -9 | -10 | -81 | -78 | -54 | -36 |
| Population of the 15-59 age bracket | -13 | -9 | -5 | -1 | 1 | 1 | 1 | -1 | -57 | -49 | -28 | 1 |
| Labor force | -15 | 52 | 100 | -26 | 65 | 20 | 13 | 15 | 127 | 182 | 111 | 113 |
| including: | | | | | | | | | | | | |
| (a) Contribution of the population and the trend participation rate | 32 | 32 | 32 | 32 | 31 | 31 | 31 | 31 | 120 | 135 | 128 | 123 |
| (b) Estimated bending effects | -2 | -2 | -2 | -1 | -4 | -10 | -18 | -16 | -22 | -18 | -7 | -48 |
| (c) Other short-term fluctuations (residual) | -45 | 22 | 70 | -56 | 39 | 0 | 0 | 0 | 28 | 65 | -9 | 39 |
| Employment | 27 | 37 | 53 | 57 | 68 | 54 | 46 | 51 | 125 | 60 | 174 | 219 |
| Reminder: End-of-period employment (see "Employment" note) | 12 | 61 | 44 | 71 | 65 | 43 | 49 | 52 | 182 | 36 | 188 | 210 |
| ILO unemployment | -42 | 15 | 47 | -83 | -3 | -34 | -33 | -36 | 2 | 122 | -63 | -106 |
| | Quarterly average | | | | | | | | Average in the last quarter of the period | | | |
| ILO unemployment rate (%) | | | | | | | | | | | | |
| Metropolitan France | 10.0 | 10.1 | 10.2 | 9.9 | 9.9 | 9.8 | 9.6 | 9.5 | 9.8 | 10.1 | 9.9 | 9.5 |
| France (including overseas departments) | 10.4 | 10.4 | 10.5 | 10.2 | 10.2 | 10.1 | 9.9 | 9.8 | 10.1 | 10.5 | 10.2 | 9.8 |

How to read it:

- the Employment line presents variations in the number of people in employment as a quarterly average, for consistency with the other data in the table,
- employment and unemployment are not estimated here within strictly equivalent scopes: total population for employment. population of households (excluding collective) for unemployment. As the impact of this difference is very minor (the population outside of households represents less than 1% of the active population), it is neglected here for the unemployment forecasting exercise,
- in (a), the contribution of demographics and of trend activity behaviour includes all the effects of pensions reforms up to and including that in 2010.

Source: INSEE

Comparison over the recent period between the variations in ILO unemployment and that of the number of jobseekers registered at Pôle emploi at the end of the month

Since 2009, the number of jobseekers registered with Pôle emploi under category A has increased more sharply than the number of ILO unemployed as measured in the Labour Force Surveys: the gap rose from 70,000 to 720,000 at the end of 2015. Various regulatory and institutional changes may have caused this increase, though not all of these changes are quantifiable: the creation of the earned income supplement (revenu de solidarité active, RSA), the reduction in the requisite contributory period for entitlement to unemployment compensation, the phasing-out of the non-requirement to seek employment (dispense de recherche d'emploi, DRE) and the pension reform. The Labour Force Surveys clearly show the sharper increase in the number of jobseekers registered at Pôle emploi than the number of those unemployed as defined by the ILO. Between H2 2013 and H2 2015, the difference was due to an increase in the number of people who declared being registered with Pôle emploi in the Labour Force Survey, yet were inactive as defined by the ILO (because they were not actively seeking a job or were not immediately available), and were generally counted in the halo of unemployment.

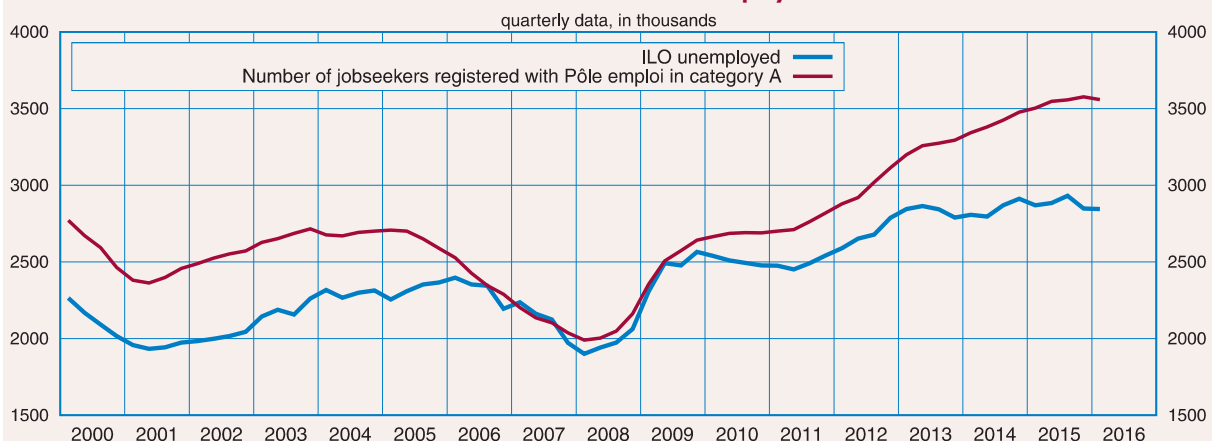
A growing gap between the number of ILO unemployed and jobseekers registered with Pôle emploi under category A at the end of the month

Unemployment as defined by the International Labour Office (ILO) and registration on the Pôle emploi lists are two different concepts. An unemployed individual within the ILO meaning is defined as anyone who is 15 years old or older and has not worked at least one hour during the reference week, who is available to begin a job within 15 days and who actively sought a job during the previous month, or has found a job that begins within three months. ILO unemployment is measured each quarter via the INSEE Labour Force Survey, which polls a representative sample of the population. This survey complies with the ILO's recommendations and with the interpretation made by Eurostat, thereby setting an operational framework for the harmonised implementation of the criteria at European level. Registration on the Pôle emploi lists, on the other hand, is the result of an administrative procedure. The monthly number of jobseekers at the end of the month (DEFM) who are registered on the Pôle emploi lists originates from the list management files produced by Pôle emploi and the DARES. Category A ("DEFM A") corresponds to jobseekers who have been unemployed over the course of the month and are required to actively seek employment. This category is the most conceptually similar to that of the ILO concept. The other categories encompass either jobseekers who have worked for a

limited, short period of time (less than 78 hours during the month, category B) or for a longer period (over 78 hours, category C), or individuals who are not required to seek employment, whether because they are doing work placements, have subsidised employment contracts, or for other reasons (categories D and E).

Despite this conceptual similarity, the number of ILO unemployed individuals and the number of jobseekers registered with Pôle emploi at the end of the month can vary in terms of level and progression (*Graph 1*). Therefore, although the number of jobseekers registered under category A at the end of 2009 (2,635,000 in Metropolitan France) and that of ILO unemployed (2,565,000) was relatively similar (difference of 70,000), at the end of 2015, these aggregates diverged significantly and the difference rose to 720,000 individuals: 3,572,000 DEFM A, versus 2,848,000 ILO unemployed. Between the end of 2009 and the end of 2012, both aggregates increased, but the gap rose by 250,000. Between the beginning of 2013 and the end of 2015, the number of ILO unemployed had almost stabilised, whereas the number of DEFM A grew sharply: the difference increased by over 400,000.

1 - Variation of the number of jobseekers registered with Pôle emploi under category A and of the number of ILO unemployed



Scope: Metropolitan France
Sources: Pôle emploi, DARES, INSEE, Labour force survey

French developments

Conceptual differences between ILO unemployment and category A jobseekers

To understand such significant differences, it is first necessary to analyse how these aggregates differ conceptually. Being registered with Pôle emploi under category A and ILO unemployment represent two similar realities, yet they do not necessarily overlap.

Therefore, it is possible for an individual to be a DEFM A, but not unemployed as defined by the ILO; this can be the case, for example, if the individual has not actively sought employment other than renewing his or her registration: simply being registered with Pôle emploi or having been contacted by Pôle emploi is not considered an active search for employment based on the ILO criteria, since it represents an action linked to compensation or to maintaining the jobseeker status, and is not directly linked to the job search itself (although category A jobseekers are required to search for a job, Pôle emploi data do not provide detailed information on the actions that have been completed for this purpose). In the Labour Force Survey, the individuals who reported they were seeking employment were questioned on the specific actions they pursued: contact made with personal or professional acquaintances (former colleagues, trade union), use of social networks, having had a job interview and/or taking a competitive civil service examination, sending job applications, etc. On the other hand, an individual who is ILO unemployed is not necessarily registered with Pôle emploi under category A. This is the case for an unemployed individual who is registered under a different category (category D, for example, if the individual has a professional safeguard contract (*contrat de sécurisation professionnelle*), or category B or C if the individual worked during the month other than during the survey reference week).

Consequently, certain events can affect the number of DEFM A without necessarily affecting that of ILO unemployed, or vice versa. In particular, reforms or changes to the rules that dictate the follow-up with jobseekers registered with Pôle emploi, the assistance they are provided, and the compensation they receive can have an impact on the number of DEFM A without affecting the number of ILO unemployed (see below).

As well as these conceptual differences, other statistical differences exist between the number of DEFM A and that of ILO unemployed: the number of jobseekers is

calculated based on administrative data, whereas the number of ILO unemployed is estimated based on survey data. However, these statistical factors do not explain the persistent and vast differences that exist between these two series.

Even when the two values are close in number, the same individuals are not necessarily both ILO unemployed and category A jobseekers

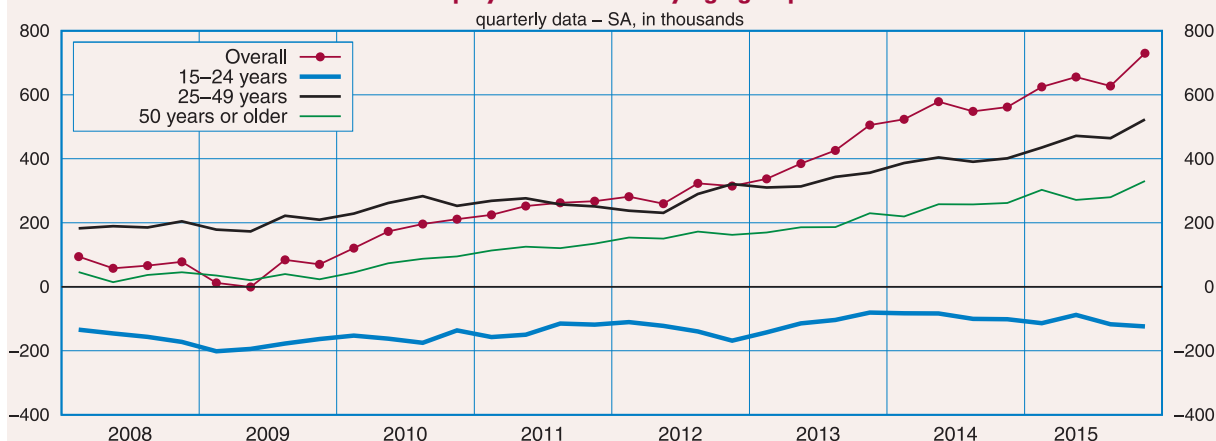
Due to conceptual differences, the number of DEFM A can be different from the number of ILO unemployed. Moreover, even when these two aggregates are similar, as was the case during the 2008-2009 period, they do not necessarily cover the same individuals. For example, for people under 25 years old (Graph 2), the number of ILO unemployed is structurally higher than the number of DEFM A. This phenomenon is partly due to the fact that young people receive compensation for unemployment less frequently than their older counterparts, and as a result have less of an incentive to register with Pôle emploi. However, the gap between these two values among young people has been stable overall since early 2013. Conversely, for individuals who are 25 or older, the number of ILO unemployed is lower than that of the DEFM A. For this age group, the difference has greatly increased since early 2013 (+130,000 per year on average).

Different regulatory factors can explain the divergences between the progression in the number of ILO unemployed and that of jobseekers registered with Pôle emploi under category A

Several factors may have impacted the increase in the DEFM A while having a lesser impact on ILO unemployment.

First of all, the sharper increase in the number of DEFM A could partly be due to the introduction of the earned income supplement (*revenu de solidarité active*, RSA) beginning in June 2009: certain individuals who became eligible for the RSA may have registered with Pôle emploi in order to benefit from personalised assistance that they were not previously able to benefit from. Furthermore, beginning in April 2009, the minimum qualifying period for eligibility for unemployment benefit was lowered from 6 months to 4 months in the course of the previous 28 months, a change that may have increased the number of

2 - Differences in thousands between the jobseekers registered with Pôle emploi in category A and ILO unemployed individuals by age group since 2008



Scope: Metropolitan France
Sources: Pôle emploi, DARES, INSEE, Labour force survey

individuals registered on the lists, without affecting their status in terms of ILO unemployment. However, it remains difficult to quantify the impact these two measures had on the difference between the progression of the DEFM A and the number of ILO unemployed.

Another change may be responsible for the difference in the progressions of the DEFM A and ILO unemployment, particularly early in the period: the gradual abolition of the non-requirement to seek employment (*dispense de recherche d'emploi*, DRE). This scheme applied to older jobseekers who, at their request and under certain conditions, could be exempted from the obligation to actively seek employment. In such cases they benefited from a DRE, and were removed from the Pôle emploi lists. Since 2009, the qualifying conditions for this scheme have progressively become stricter. The DRE, which concerned nearly 350,000 people in January 2009, only concerned approximately 90,000 in January 2013 and little over 15,000 in December 2015. This progressive phasing-out of the DRE contributed to the significant increase in the number of people aged 50 or older registered under the Pôle emploi category A. Yet this reform only partially affected the number of ILO unemployed, since those who previously could have benefited from the DRE were not necessarily seeking employment. The accumulated difference between the number of DEFM A and ILO unemployed individuals due to this reform was estimated at 80,000 people between December 2008 and December 2012¹. This factor in part explains the divergence in the progressions of DEFM A and ILO unemployed among the oldest age group since 2010.

Another factor is related to the 2010 pension reform and the gradual increase through to 2017 of the minimum retirement age. This increased the number of older people registered as DEFM A, likely more than the number of ILO unemployed, particularly in cases in which the individuals in question became discouraged in their job searches. For example, out of all the individuals who were exactly 61 years old and were no longer affected by the impact of the abolition of the DRE, an increase of less than 10,000 unemployed individuals can be observed between the beginning of 2013 and the end of 2015, against over 60,000 for

1. Dares Analysis n° 037, June 2013.

the DEFM A. The impacts of the phasing-out of the DRE and the pension reform are interrelated: jobseekers who retire later due to the rise in the legal minimum age can no longer benefit from the DRE.

Between late 2013 and late 2015, part of the increase in jobseekers was reflected in the halo of unemployment

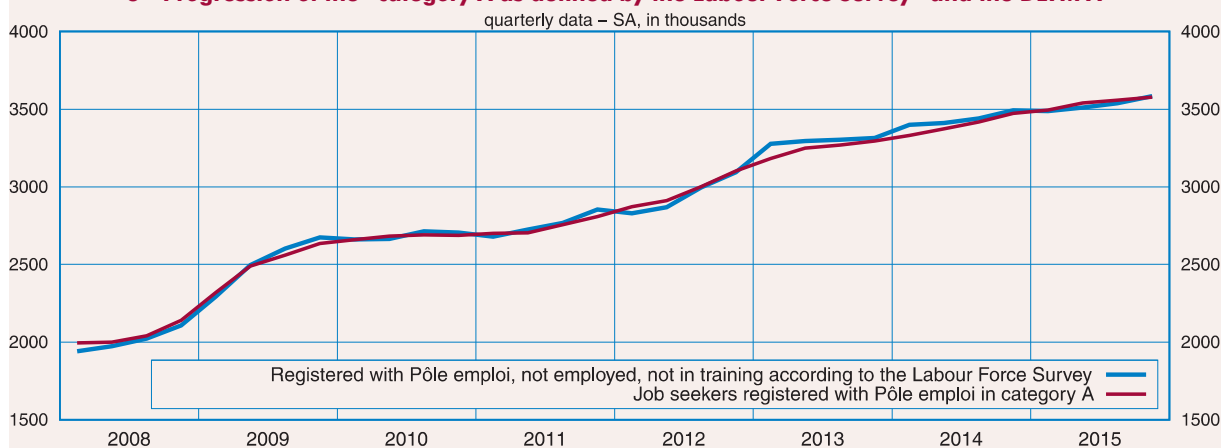
While it is not the main objective of the Labour Force Survey, the survey questionnaire includes a question about registration with Pôle emploi. It is therefore possible to compare the progression in the number of DEFM A with that of the number of individuals who are neither employed nor in training who stated in the survey that they were registered with Pôle emploi: these people make up the "Category A as defined by the Labour Force Survey".

Theoretically, these two measurements can differ. First of all, in the Labour Force Survey, the information gathered on registration with Pôle emploi is declarative. Certain people could be registered with Pôle emploi, but not report this in the survey. This could be the case in particular of jobseekers who are registered with Pôle emploi but who are in reality assisted by other organisations (private operators that obtain positions for redundant employees, Cap emploi for disabled individuals, local missions for young people, etc.). Conversely, those who were registered with Pôle emploi may have worked outside of the reference week they were questioned on in the Labour Force Survey, and would therefore be under category B or C and not category A.

Nevertheless, in practice, the progressions of the "category A as defined by the Labour Force Survey" and the DEFM A were very similar overall between the beginning of 2008 and the end of 2015 (Graph 3). Therefore, the Labour Force Survey clearly reflects the trend in the number of DEFM A, which is much greater than the number of ILO unemployed.

The momentum gap within the Labour Force Survey can therefore undergo a statistical analysis. However, due to the changes made to the questionnaire of the 2013 Labour Force Survey, it is only possible to conduct a detailed analysis beginning from mid-2013. The explanatory factors provided below therefore do not cover the entire 2009-2015 period over which the gap between the DEFM A and ILO employment

3 - Progression of the "category A as defined by the Labour Force Survey" and the DEFM A



Scope: Metropolitan France

Sources: Pôle emploi, DARES, INSEE, Labour force survey

French developments

widened sharply. Between the H2 2013 and H2 2015, the number of ILO unemployed grew by 73,000, the number of DEFM A by 283,000, and the “category A as defined by the Labour Force Survey” by 245,000 (Table 1).

The number of people who were both unemployed and reported that they were registered with Pôle emploi rose by 95,000. Therefore, 150,000 more people were registered under category A according to the Labour Force Survey, without being ILO unemployed.

The principal component of this difference is found in the increase of 106,000 people registered under “Category A as defined by the Labour Force Survey” that were part of the halo of unemployment. The halo includes all ILO inactive who are seeking employment, yet are not available, as well as those who are inactive and would like to work, but are not actively seeking employment, whether or not they are available (when these individuals are available, they are referred to as being “discouraged”; Graph 4). This increase was

driven both by those who were not seeking a job due to discouragement, and those who were not available and not looking for a job because they had difficulties reconciling their current situation with a job (maternity, studies, caregiver for a dependent individual, infirmity, long-term illness). Men are generally more represented in the first category whereas women are primarily represented in the second. In both cases, in terms of the proportion they represent out of the individuals in “category A as defined by the Labour Force Survey”, and in the halo, older people made a larger contribution to this increase than all of the other age groups.

The gap between unemployed individuals and the “category A as defined by the Labour Force Survey” also stems from the increase of 44,000 people who were ILO inactive but outside of the halo. This increase is largely due to inactive individuals between the ages of 25 and 49 who were outside of the halo due to health problems or because they were providing care for children or dependent adults. ■

Table 1 - Breakdown of the individuals who are in “category A as defined by the Labour Force Survey” or unemployed, according to their status as defined by the ILO and the status reported on their registration with Pôle emploi

| | | | |
|---|--|--|--|
| <p>ILO unemployed</p> <p>Average stock in 2015 : 2,882,000</p> <p>Variation between H2 2013 and H2 2015 : + 73,000</p> | | <p>Registered with Pôle emploi, not employed, and not in training according to the Labour Force Survey</p> <p>Average stock in 2015 : 3,529,000</p> <p>Variation between H2 2013 and H2 2015 : + 245,000</p> | |
| <p>Jobseekers not registered (*)</p> <p>Average stock in 2015 : 443,000</p> <p>Variation between H2 2013 and H2 2015 : - 22,000</p> | <p>Jobseekers registered (**)</p> <p>Average stock in 2015 : 2,439,000</p> <p>Variation between H2 2013 and H2 2015 : + 95,000</p> | <p>In the halo of unemployment, registered (**)</p> <p>Average stock in 2015 : 719,000</p> <p>Variation between H2 2013 and H2 2015 : + 106,000</p> | <p>Inactive out the halo registered(**)</p> <p>Average stock in 2015 : 370,000</p> <p>Variation between H2 2013 and H2 2015 : + 44,000</p> |

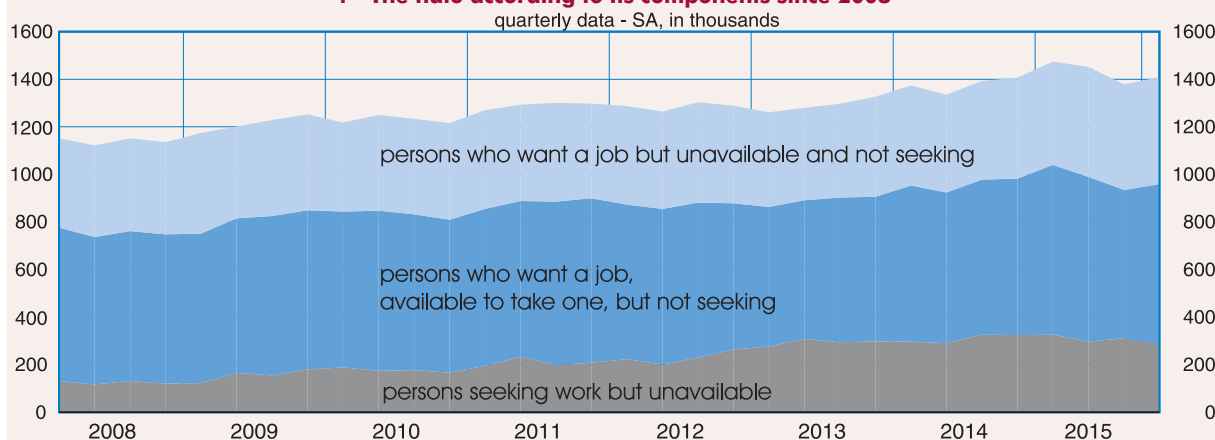
*Not registered, meaning “not registered with Pôle emploi, not employed, not in training according to the Labour Force Survey”

**Registered, meaning “registered with Pôle emploi, not employed, and not in training according to the Labour Force Survey”

Scope: Metropolitan France

Source: INSEE, Labour force survey

4 - The halo according to its components since 2008



Scope: Metropolitan France

Source: INSEE, Labour force survey

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