

# The potential headache of measuring economies in public expenditure

By Raul Sampognaro

Since 2009, the French budget deficit has been cut by 3.3 GDP points, from 7.2 percent of GDP in 2009 to 3.9 points in 2014, even though the economic situation has been weighing heavily on the public purse. This improvement was due to the implementation of a tighter budget policy. [Between 2010 and 2013, most of the consolidation effort came from higher taxes](#), but since 2014 the effort has largely involved savings in public expenditure. In 2014, public expenditure excluding tax credits<sup>[1]</sup> recorded its weakest growth since 1959, the year when INSEE began to publish the national accounts: in value, spending excluding tax credits increased by 0.9%, though only 0.3% in volume terms (deflated by the GDP deflator).

At first glance it may seem counter-intuitive to talk about savings on spending even though the latter has been rising constantly. This rise is, however, well below potential growth, which reflects a real long-term effort to reduce the ratio of spending to GDP. Indeed, the formula usually used to calculate the effort on spending depends on the hypothesis adopted on potential growth:

To understand why the extent of the effort on public expenditure is dependent on potential growth, one must understand the underlying concept of the sustainability of the debt. There is a consensus on the theoretical definition of the sustainability of the public debt: it is sustainable if the current stock of debt could be repaid by the anticipated future stream of the State's net revenues<sup>[2]</sup>. While the concept is clear, its practical application is more difficult. In

practice, fiscal policy is deemed sustainable when it makes it possible to stabilize the ratio of public debt to GDP at a level deemed consistent with maintaining refinancing by the market.

Thus, changes in spending that are in line with that goal should make it possible to stabilize the share of public expenditure to GDP over the long term. However, as public spending essentially responds to social needs that are independent of the economic situation (apart from certain social benefits such as unemployment insurance), stabilizing its share in GDP at any given time (which would imply it changes in line with GDP) is neither assured nor desirable. In order to deal with this, changes in the value of public expenditure are compared to the nominal growth rate of potential GDP<sup>[3]</sup> (which depends on the potential growth rate and the annual change in the GDP deflator).

An increase in expenditure that is above (respectively below) the potential reflects a positive (negative) impulse, because in the long run it leads to an increase (decrease) in the ratio of public spending to GDP. While the application of this concept may seem easy, potential growth is unobservable and uncertain because it is highly dependent on the assumptions made about demographic variables and future changes in productivity. In the 2016 Budget Bill (PLF), the government revised its potential growth assumptions for the years 2016 and 2017 upwards (to 1.5% instead of 1.3% as adopted at the time of the vote on the LPFP supplementary budget bill in December 2014).

This revision was justified on the basis of taking into account the structural reforms underway, in particular during the vote on the Macron Act. This was the second revision of potential since April 2014 when it was estimated at 1.6% (2014-2017 Stability Programme). The government is not the only one to repeatedly revise its assessments of potential

growth. When the European Commission published its latest projections[\[4\]](#), it revised its assessment of potential growth even though its previous assessment had been issued only in May[\[5\]](#). It is not easy to see what new information could change its assessment now. These recurring revisions generally complicate the economic debate[\[6\]](#) and cloud discussion of the budget.

Hence using identical sets of hypotheses about the public finances, a measurement of savings on spending, and thus of the structural adjustment, would depend on the potential growth adopted (Table). Assuming a value for the growth in public spending (excluding tax credits) of +1.3% in 2016 and in 2017, the scale of the effort on spending was evaluated at 0.7 GDP point in October 2015 (using the hypotheses in the 2016 PLF) but 0.6 point in December 2014 (2014-2019 LPFP).

**Table 1. Evaluation of the effort on public expenditure based on different hypotheses for potential growth**

In %

	Potential growth			Effort on spending		
	2015	2016	2017	2015	2016	2017
2016 PLF, October 2015	1,1	1,5	1,5	-0,6	-0,7	-0,5
2014-2019 LPFP, December 2014	1,1	1,3	1,3	-0,6	-0,6	-0,4
2015 PLF, October 2014	1,1	1,3	1,3	-0,6	-0,6	-0,4
2014-2017 Stability Programme, April 2014	1,5	1,6	1,6	-0,8	-0,7	-0,5
2014 PLF, September 2013	1,5	1,6	1,6	-0,8	-0,7	-0,5
2012-2017 LPFP, January 2013	1,5	1,6	1,6	-0,8	-0,7	-0,5
November 2015 forecast	1,0	1,1	1,2	-0,5	-0,4	-0,3
May 2015 forecast	1,0	1,1	—	-0,5	-0,4	—
Ageing Working Group*, May 2015	1,1	1,1	—	-0,6	-0,4	—
Ageing Working Group**, May 2015	1,6	1,6	1,6	-0,8	-0,7	-0,5

\* simple average of the potential growth of 2013 and of 2020 published In *The 2015 Ageing Report*.

\*\* average of the 2013-2060 potential growth published In *The 2015 Ageing Report*.

Sources : PLF, LPFP, European Commission forecasts, *The 2015 Ageing Report*.

While the differences identified above may seem small, they can have significant consequences on the implementation of fiscal rules, which can lead the various players to act on their assumptions in order to change the effort shown [\[7\]](#). Even though this notion should guide the vision of the future trajectory of Europe's economies, the debate winds up being

hijacked. Recurrent revisions in potential growth focus discussion on the more technical aspects, even though the method of estimating potential growth is uncertain by definition and there is not even a consensus among economists. Thus, the European Semester, which should set the framework for discussion and coordination between Member States in determining the economic policy that best suits the macroeconomic context, for France and for the euro zone as a whole, gets lost amidst technical discussions that are of no particular interest.

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[\[1\]](#) Reimbursable tax credits – essentially the CICE and the CIR credits – are recognized in public expenditure on the basis of the 2010 national accounts. In order to remain closely in line with economic concepts, public spending will be analyzed excluding tax credits, which will be considered as a component of taxation.

[\[2\]](#) This definition is accepted both by the academic literature (see for example, D’Erasmus P., Mendoza E. and Zhang J., 2015, “What is a Sustainable Public Debt?”, *NBER WP*, no 21574, September 2015, and by international organizations (see IMF, 2012, “Assessing Sustainability”).

[\[3\]](#) It can also be compared to an underlying trend in public expenditure which itself takes into account the changing needs to which spending responds.

[\[4\]](#) The European Commission expects France to grow by 1.1% in 2015, 1.4% in 2016 and 1.7% in 2017.

[\[5\]](#) The evaluation has changed to the second decimal.

[\[6\]](#) For this debate, see H. Sterdyniak, 2015, “Faut-il encore utiliser le concept de croissance potentielle?” [Should the

concept of potential growth still be used?], *Revue de l'OFCE*, no. 142, October 2015.

[7] The revisions of potential growth may have an impact on the implementation of procedures. These revisions cannot give rise to penalties. At the sanctions stage, the European Commission's hypothesis on potential growth, made at the recommendation of the Council, is used in the discussion. However, it is likely that a difference of opinion on an unobservable variable could generate friction in the process, reducing the likelihood of sanctions and making the rules less credible.

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# A new economic world. Measuring well-being and sustainability in the 21st century

[Éloi Laurent](#) and [Jacques Le Cacheux](#), *Un nouveau monde économique, Mesurer le bien-être et la soutenabilité au 21<sup>e</sup> siècle*, Odile Jacob, 2015.

## Introduction: Measuring the possibles

“Let no one ignorant of geometry enter here!”

Inscription over the doors of Plato's Academy in Athens

We live under the reign of gross domestic product (GDP) – 2014 marked its seventieth anniversary. Created by the American

economist Simon Kuznets at the dawn of the 1930s, GDP was adopted as an international standard for sovereign accounting at the conference held by the WW2 Allies in July 1944 in the small town of Bretton Woods, in the middle of nowhere. GDP is used to measure monetizable market activities and is the benchmark of economic growth and living standards, and as such over the decades it has become the ultimate measure of nations' success – precise, robust and comparable.

But GDP, like the conventional economic indicators for which it is the standard bearer, is very rapidly losing its relevance in the early 21st century, for three basic reasons. First, economic growth, which was so strong in the initial post-war decades (1945-1975), is gradually fading in the developed countries, rendering its pursuit an increasingly vain hope for public policy. Second, objective and subjective well-being – that is to say, what makes life worth living – is increasingly disconnected from economic growth. Finally, GDP tells us nothing about environmental sustainability, that is, the compatibility of our well-being today with the long-term health of the ecosystems on which that ultimately depends – even though this is certainly the major challenge facing our century.

For these three reasons, all over the world growing numbers of researchers [\[1\]](#) and policy makers are recognizing that the standard economic indicators that still guide public debate are in fact misleading compasses that distort our horizons. In contrast, by trying to measure well-being, an effort is now underway to identify the real determinants of human prosperity, going beyond material conditions like national output and personal income. By bringing together the elements required for sustainability (that is to say, dynamic well-being), they are undertaking the even more difficult task of understanding the conditions required for human development to go forward and sustain itself over time, under increasingly powerful ecological constraints.

This effort at understanding is important for two main reasons: because non-measurability leads to invisibility (what is not counted does not count); and because, conversely, measuring means governing: our indicators determine our policies, and rarely for the better. Opening up the range of human well-being means finding ways to overcome short-sighted trade-offs between economic, social and environmental factors. And situating human development within the framework of sustainable development will avoid blind destruction. But how do we take the full measure of our new economic world?

Let's start from the current situation: economic growth as measured by GDP seems, despite a few ups and downs, to have run its course since about 2000 in France, in Europe, and in quite a few developed countries and even emerging countries. A debate has recently arisen, kicked off, as is common, in the US, about the causes of this stagnation. As far back as the early 1990s hypotheses were advanced for this (the structural weakening of innovation; economic policy mistakes with lasting effects; impoverishing globalization; job-destroying automation), and there have been more or less alarmist predictions about the tragic fate of the West in a world it no longer dominates as it once did. Though these debates are somewhat interesting, they fail to address the core issue: whether or not economic growth returns, it is not synonymous with people's welfare or social sustainability.

Strictly speaking, economic growth has returned in Europe and even more so in the United States since 2010. It is resulting in an "invisible recovery" for the population, whose daily reality is light years away from the official optimism. The gap between policy makers and their constituents about the real state of the economy is so gaping that it now seems as if there are two parallel universes that are unaware of each other. In Europe, sluggish growth barely masks a harsh social regression, especially in France, where living standards are inexorably declining, reversing a trend that is over forty

years old. In the US, once deflated of finance and income inequality, the wondrous but very recent economic expansion has brought nothing for 99% of the population. The Wealth of Nations, alongside the poverty of the people...

On the other hand, the collapse of economic wealth, however significant, cannot express the brutality of the civilizational destruction being inflicted on Greece, in the context of the European crisis, in the name of “fiscal discipline”[\[2\]](#).

In the meantime, there is a lack of general awareness that every day climate change, the loss of biodiversity and deteriorating ecosystems are undermining not only our own future quality of life, but also that of those who will follow us.

For all these reasons, we already know that the “return to growth” being announced in France for 2015 and 2016 will disappointment expectations. The point is not therefore to attempt to force the pace by feeding an ailing boiler with, if need be, the wood that makes up our ship, but to equip ourselves with a reliable compass to avoid a shipwreck and to navigate as smoothly as possible on the seas of the new economic world.

*...the rest of the introduction can be read [in French] on the Odile Jacob website:*  
[http://www.odilejacob.fr/catalogue/sciences-humaines/economie-et-finance/un-nouveau-monde-economique\\_9782738132901.php](http://www.odilejacob.fr/catalogue/sciences-humaines/economie-et-finance/un-nouveau-monde-economique_9782738132901.php)

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[\[1\]](#) In the French-speaking world, we salute the pioneering and stimulating work of Dominique Méda, Florence Jany-Catrice, Jean Gadrey and Isabelle Cassiers, who for many years have identified and written accurately about the limitations of GDP and the narrow horizons set by economic growth.



[\[2\]](#) While GDP has fallen by 25% in Greece since 2009, the decline in health indicators (lower life expectancy, increasing number of suicides, rising infant mortality, the financial strangulation of the public health care system, etc.) is much more worrying for the future of the Greek people.

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## Less austerity = more growth and less unemployment

[Eric Hoyer](#) and [Xavier Timbeau](#)

The European Commission has just released its [spring forecast](#), which anticipates a recession in 2012 for the euro zone (“mild” in the words of the Commission, but still -0.3%), which is in line with [the OFCE’s economic analysis of March 2012](#).

The brutal fiscal austerity measures launched in 2010, which were intensified in 2011 and tightened even further in 2012 virtually throughout the euro zone (with the notable exception of Germany, Table 1 and 1a), are hitting activity in the zone hard. In 2012, the negative impact on the euro zone resulting from the combination of raising taxes and reducing the share of GDP that goes to expenditure will represent more than 1.5 GDP points. In a deteriorating fiscal situation (many euro zone countries had deficits of over 4% in 2011) and in order to continue to borrow at a reasonable cost, a strategy of forced deficit reduction has become the norm.

**Table 1. The euro zone in 4 macroeconomic aggregates from 2009 to 2012**

	2009	2010	2011	2012
GDP growth (%/yr)	-4,4	1,8	1,5	-0,4
Public deficit (% GDP)	-5,5	-5,5	-3,6	-2,9
Jobless rate (% active pop)	9,6	10,1	10,2	10,9
Fiscal impulse (% GDP)	1,7	-0,3	-1,1	-1,5

Sources : National accounts, OFCE calculations and forecasts.

This strategy is based on declarations that the 3% ceiling will be reached by 2013 or 2014, with balanced budgets to follow by 2016 or 2017 in most countries. However, these goals seem to be overly ambitious, as no country is going to meet its targets for 2013. The reason is that the economic slowdown is undermining the intake of the tax revenue needed to balance budgets. An overly optimistic view of the impact of fiscal restraint on activity (the so-called fiscal multiplier) has been leading to unrealistic goals, which means that GDP growth forecasts must ultimately be systematically revised downward. The European Commission is thus revising its spring forecast for the euro zone in 2012 downward by 0.7 point compared to its autumn 2011 forecast. Yet there is now a broad consensus on the fact that fiscal multipliers are high in the short term, and even more so that full employment is still out of reach (here too, [many authors](#) agree with the [analyses made by the OFCE](#)). By underestimating the difficulty of reaching inaccessible targets, the euro zone members are locked in a spiral where jitters in the financial markets are driving ever greater austerity.

Unemployment is still rising in the euro zone and has hardly stopped increasing since 2009. The cumulative impact on economic activity is now undermining the legitimacy of the European project itself, and the drastic remedy is threatening the euro zone with collapse.

What would happen if the euro zone were to change course in 2012?

Assume that the negative fiscal impulse in the euro zone is on the order of -0.5 percent of GDP (instead of the expected total of -1.8 GDP points). This reduced fiscal effort could be repeated until the public deficit or debt reaches a fixed target. Because the effort would be more measured than in current plans, the burden of the adjustment would be spread out more fairly over the taxpayers in each country, while avoiding the burden of drastic cuts in public budgets.

Table 2 summarizes the results of this simulation. Less austerity leads to more growth in all the countries (Table 2a), and all the more so as the fiscal consolidation announced for 2012 intensifies. Our simulation also takes into account the impact of the activity in one country on other countries through trade. Thus, Germany, which has an unchanged fiscal impulse in our scenario, would experience an 0.8 point increase in growth in 2012.

**Table 2. Fiscal impulse of -0.5 GDP point in the euro zone in 2012**

	GDP (%/yr)		Public deficit (% GDP)		Jobless rate (% active pop.)	
	2011	2012	2011	2012	2011	2012
2012, under current plans	1,5	-0,4	-3,6	-2,9	10,2	10,9
2012, if 0.5% GDP impulse		1,7		-3,1		9,7

Note: The impulse is the change in the structural deficit. The structural deficit is the public deficit excluding the impact of the economic cycle. A negative impulse reflects a restrictive fiscal policy. Here the public («administrations publiques», or «APU») deficit includes the central state, regional government and social security agencies.

Sources: National accounts, OFCE calculations and forecasts.

In the “less austerity” scenario, unemployment would decline instead of continuing to increase. In all the countries except Greece, the public deficit would be lower in 2012 than in 2011. Admittedly, this reduction would be less than in the initial scenario in certain countries, in particular those that have announced strong negative impulses (Spain, Italy, Ireland, Portugal and ... Greece), which are the ones most mistrusted by the financial markets. In contrast, in some countries, such as Germany and the Netherlands, the government deficit would shrink more than in the initial scenario, with the indirect positive effect of stronger growth outweighing the direct effect of less fiscal consolidation. For the euro

zone as a whole, the public deficit would be 3.1 percentage points of GDP, against 2.9 points in the initial scenario. It is a small difference compared to more favorable growth (2.1%), along with lower unemployment (-1.2 points, Table 2) instead of an increase as in the initial scenario.

The key to the “less austerity” scenario is to enable the countries in greatest difficulty, those most obliged to implement the austerity measures that are plunging their economies into the vicious spiral, to reduce their deficits more slowly. The euro zone is split into two camps. On the one hand, there are those who are demanding strong, even brutal austerity to give credibility to the sustainability of public finances, and which have ignored or deliberately underestimated the consequences for growth; on the other are those who, like us, are recommending less austerity to sustain more growth and a return to full employment. The first have failed: the sustainability of public finances has not been secured, and recession and the default of one or more countries are threatening. The second strategy is the only way to restore social and economic – and even fiscal – stability, as it combines a sustainable public purse with a better balance between fiscal restraint and employment and growth, as we proposed in a [letter to the new President of the French Republic](#).

**Table 1a. Details on the 4 macroeconomic aggregates for the euro zone from 2009 to 2012**

	GDP growth (%/yr)				Public deficit (% GDP)				Jobless rate (% active pop.)				Fiscal impulse (% GDP)			
	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012
DEU	-5,1	3,6	3,1	0,3	-3,2	-4,3	-1,0	-1,1	7,8	7,1	6,0	5,5	0,7	1,2	-0,9	-0,3
FRA	-2,6	1,4	1,7	0,2	-7,5	-7,1	-5,2	-4,4	9,2	9,4	9,3	9,8	2,5	-0,7	-1,7	-1,7
ITA	-5,5	1,8	0,5	-1,7	-5,4	-4,6	-3,8	-2,8	7,8	8,4	8,4	9,4	0,8	-0,4	-1,0	-2,9
ESP	-3,7	-0,1	0,7	-1,1	-11,2	-9,3	-8,5	-6,5	18,0	20,1	21,7	23,5	4,1	-1,9	-1,2	-3,4
NLD	-3,5	1,6	1,3	-1,1	-5,6	-5,1	-5,0	-4,5	3,7	4,5	4,5	5,4	3,8	-1,5	-0,2	-1,9
BEL	-2,7	2,3	1,9	0,1	-5,8	-4,1	-4,0	-3,4	7,9	8,3	7,2	7,6	1,8	-0,3	-0,1	-1,4
PRT	-2,9	1,4	-1,5	-2,9	-10,1	-9,8	-4,0	-4,5	10,7	12,1	12,9	13,4	4,9	-0,6	-5,5	-3,0
IRL	-7,0	-0,4	0,7	-0,3	-14,4	-32,0	-10,1	-8,7	11,9	13,7	14,5	14,9	3,7	-4,1	-2,5	-3,0
GRC	-2,3	-4,4	-6,2	-5,3	-15,8	-10,6	-9,3	-7,3	9,5	12,5	17,2	19,5	3,4	-7,9	-5,6	-5,3
FIN	-8,4	3,7	2,8	0,7	-2,5	-2,5	-1,2	-0,9	8,8	8,4	7,8	7,5	0,4	-1,5	-1,1	-1,1
AUT	-3,6	2,5	3,0	0,4	-4,1	-4,4	-3,4	-3,0	4,8	4,4	4,2	4,5	0,4	0,6	-0,5	-1,2

Note: DEU Germany; FRA France; ITA Italy; ESP Spain; NLD Netherlands; BEL Belgium; PRT Portugal; IRL Ireland; GRC Greece; FIN Finland; AUT Austria.

Sources: National accounts, OFCE calculations and forecasts.

**Table 2b. Fiscal impulse of -0.5 GDP point in the euro zone countries in 2012**

	DEU	FRA	ITA	ESP	NLD	BEL	PRT	IRL	GRC	FIN	AUT
GDP growth rate (%/yr)	1,1	2,2	1,4	2,6	2,1	1,8	0,7	2,8	0,2	1,9	1,8
Difference with Table 1a	0,8	2,0	3,1	3,7	3,2	1,7	3,6	3,1	5,5	1,2	1,4
Of which: - direct impact	0,0	1,2	2,4	2,9	2,5	0,9	2,5	2,5	4,8	0,6	0,7
- impact via trade	0,8	0,8	0,7	0,8	0,7	0,8	1,1	0,6	0,7	0,6	0,7
Public deficit (% GDP)	-0,7	-4,6	-3,7	-7,5	-4,3	-3,4	-5,2	-9,7	-9,4	-0,9	-3,0
Difference with Table 1a	0,4	-0,2	-0,9	-1,0	0,2	0,0	-0,7	-1,0	-2,1	0,0	0,0
Jobless rate (% active pop.)	5,1	8,8	7,9	21,6	3,8	6,7	11,6	13,3	16,8	6,9	3,8
Difference with Table 1a	-0,4	-1,0	-1,5	-1,9	-1,6	-0,9	-1,8	-1,5	-2,7	-0,6	-0,7

Sources: National accounts, OFCE calculations and forecasts.

# He who sows austerity reaps recession

By the Department of Analysis and Forecasting, headed by [X. Timbeau](#)

*This article summarizes [OFCE note no.16](#) that gives the outlook on the global economy for 2012-2013.*

The sovereign debt crisis has passed its peak. Greece's public debt has been restructured and, at the cost of a default, will fall from 160% of GDP to 120%. This restructuring has permitted the release of financial support from the Troika to Greece, which for the time being solves the problem of financing the renewal of the country's public debt. The contagion that hit most euro zone countries, and which was reflected in higher sovereign rates, has been stopped. Tension has eased considerably since the beginning of 2012, and the risk that the euro zone will break up has been greatly reduced, at least in the short term. Nevertheless, the process of the Great Recession that began in 2008 being transformed into a very Great Recession has not been interrupted by the temporary relief of the Greek crisis.

First, the global economy, and especially the euro zone, remains a high-risk zone where a systemic crisis is looming once again. Second, the strategy adopted by Europe, namely the rapid reduction of public debt (which involves cutting public deficits and maintaining them below the level needed to stabilize debt), is jeopardizing the stated objective. However, since the credibility of this strategy is perceived, rightly or wrongly, as a necessary step in the euro zone to reassure the financial markets and make it possible to finance the public debt at acceptable rates (between 10% and 20% of this debt is refinanced each year), the difficulty of reaching the goal is demanding ever greater rigor. The euro zone seems to be pursuing a strategy for which it does not hold the reins, which can only fuel speculation and uncertainty.

Our forecast for the euro zone points to a recession of 0.4 percentage point in 2012 and growth of 0.3 point in 2013 (Table 1). GDP per capita in the euro zone should decline in 2012 and stabilize in 2013. The UK will escape recession in 2012, but in 2012 and 2013 annual GDP growth will remain below 1%. In the US, GDP growth will accelerate from 1.7% per year

in 2011 to 2.3% in 2012. Although this growth rate is higher than in the euro zone, it is barely enough to trigger an increase in GDP per capita and will not lead to any significant fall in unemployment.

The epicenter of the crisis is thus shifting to the Old Continent and undermining the recovery in the developed countries. The United States and United Kingdom, which are faced even more than the euro zone with deteriorating fiscal positions, and thus mounting debt, are worried about the sustainability of their public debts. But because growth is just as important for the stability of the debt, the budget cuts in the euro zone that are weighing on their activity are only adding to difficulties of the US and UK.

By emphasizing the rapid reduction of deficits and public debt, euro zone policymakers are showing that they are anticipating a worst case scenario for the future. Relying on so-called market discipline to rein in countries whose public finances have deteriorated only aggravates the problem of sustainability by pushing interest rates up. Through the interplay of the fiscal multiplier, which is always underestimated in the development of strategies and forecasts, fiscal adjustment policies are leading to a reduction in activity, which validates the resignation to a worse “new normal”. Ultimately, this is simply a self-fulfilling process.

Outlook for global growth

Annual growth rate (%)	Weight in the total (1)	GDP in constant		
		2011	2012	2013
USA	4.2	3.1	3.1	3.8
USA	3.1	1.7	2.1	3.7
USA	2.6	0.8	1.7	-0.9
USA	2.8	0.7	-1.5	-0.6
USA	1.8	1.5	1.7	0.5
USA	0.6	1.9	0.1	0.8
USA	0.5	3.1	0.4	0.8
USA	0.5	2.7	0.7	1.1
USA	0.3	-0.3	-2.9	0.2
USA	0.5	-0.2	-0.3	-0.5
USA	0.2	0.8	-0.6	0.5
USA	15.5	1.5	-0.4	0.3
USA	3.2	0.9	0.7	0.9
USA	0.5	4.0	0.8	1.6
USA	0.1	1.1	0.6	1.1
EU-15	19.4	1.5	-0.2	0.4
EU-27	2.7	1.1	1.1	2.1
EU-27	20.8	1.7	-0.5	0.6
CHN	0.5	1.9	0.1	1.8
IND	0.4	2.5	2.1	2.8
Europe	22.9	1.6	0.6	0.6
USA	20.8	1.7	2.1	2.4
IND	0.5	-0.6	1.9	1.1
USA	1.9	2.5	2.0	2.3
Industrialized countries	30.5	1.6	1.2	1.5
EU candidate countries (2)	1.5	0.6	1.7	-0.3
USA	3.3	4.5	3.1	3.8
Other C&S (3)	1.1	3.9	3.7	-0.2
CHN	11.3	0.2	0.1	0.1
Other Asian countries	13.2	5.6	1.8	0.3
Latin America	0.7	4.0	1.1	1.5
Sub-Saharan Africa	2.3	4.9	1.1	1.3
Middle East and North Africa	4.8	1.1	1.1	1.6
World	100	3.5	1.1	1.4

1 Weighted according to GDP and GDP PPP, respectively the 2011  
2 Excludes Republic of Macedonia and Turkey  
3 Commonwealth of Independent States  
Source: IMF, ILO, E.U. and other sources, May 16, 2012 (2012 calculations and forecasts)



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# The irresistible attraction to recession

By [Hervé Péléraux](#)

Here is the leading indicator for the French economy, updated to 30 January 2011.

The February forecasts of the leading indicator significantly worsened the outlook for the French economy at the turn of 2011 and 2012.

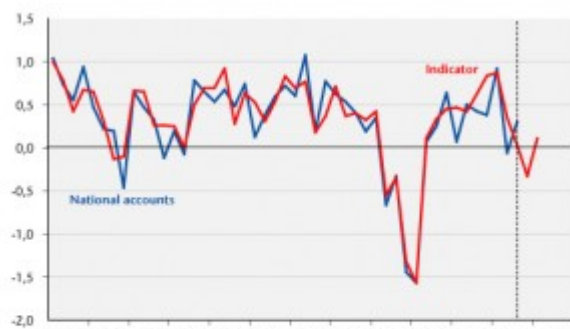
On the one hand, GDP is expected to have fallen more than expected in the fourth quarter of 2011, by -0.3% instead of the -0.2% estimated last month. On the other hand, the pick-up in growth in the first quarter of 2012 observed in January is fast disappearing, with GDP rising by 0.1% and not 0.3% as in the previous estimates. In total, GDP will contract by 0.2% over the two quarters. The uncertainty hanging over a forecast of GDP over two quarters, which we have pointed out [earlier](#), is gradually being lifted in an unfavourable sense as the negative information builds up. In particular, the climate in industry continued to worsen in January at a higher rate than expected last month.

The deteriorating business environment is taking precedence over the more positive elements that up to now blunted the impact of the sovereign debt crisis on growth, namely, the decline in the euro against the dollar in the third quarter of 2011 and the interruption of the dive by the CAC40 stock market index in the fourth quarter. If this same dynamic



repeats in February and March, France would be unlikely to escape a recession in the usually accepted meaning of the term, *i.e.* the occurrence of two consecutive quarters of falling GDP.

The GDP growth rate based on the national accounts and the leading indicator \*



\* Estimation is implemented with a dummy variable equal to 1 on quarter 1, 2009.

In %, Q2/Q-1, chained index, 2005 base

	2010	2011				2012
	Q4	Q1	Q2	Q3	Q4	Q1
Nationale accounts	0,4	0,9	-0,1	0,3	=	=
Indicator	0,8	0,9	0,4	0,0	-0,3	0,1

Sources : INSEE, OFCE forecasts and calculations.

Next update on 29 February 2012