

# The OFCE optimistic about growth – “As usual”?

By [Magali Dauvin](#) and [Hervé Péléraux](#)

In the spring of 2019, the OFCE forecast real GDP growth of 1.5% for 2019 and 1.4% for 2020 (i.e. cumulative growth of 2.9%). At the same time, the average forecast for the two years compiled by Consensus Forecasts[\[1\]](#) was 1.3% each year (i.e. 2.6% cumulative), with a standard deviation around the average of 0.2 points. This difference has led some observers to describe the OFCE forecasts as “optimistic as usual”, with the forecasts of the Consensus or institutes with less favourable projections being considered more “realistic” in the current economic cycle.

A growth forecast is the result of a research exercise and is based on an assessment of general trends in the economy together with the impact of economic policies (including budget, fiscal and monetary policies) and exogenous shocks (such as changes in oil prices, social disturbances, poor weather, geopolitical tensions, etc.). These evaluations are themselves based on econometric estimations of the behaviour of economic agents that are used to quantify their response to these shocks. It is therefore difficult to comment on or compare the growth figures issued by different institutes without clearly presenting their analytical underpinnings or going into the main assumptions about the trends and mechanisms at work in the economy.

However, even if the rigour of the approach underlying the OFCE’s forecasts cannot be called into question, it is legitimate to ask whether the OFCE has indeed produced chronic overestimations in its evaluations. If such were the case, the forecasts published in spring 2019 would be tainted by an optimistic bias that needs to be tempered, and the OFCE should

readjust its tools to a new context in order to regain precision in its forecasts.

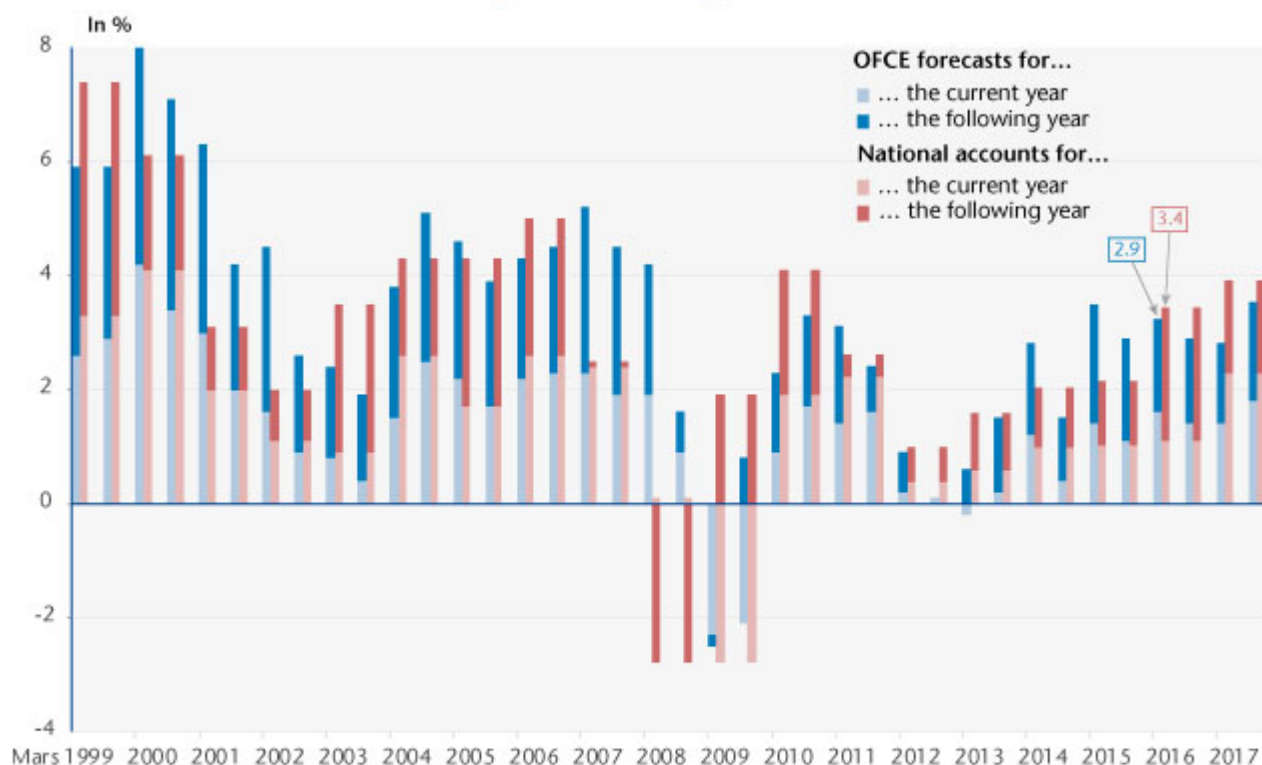
### **No systematic overestimation**

Figure 1 shows the cumulative forecasts of French GDP by the OFCE for the current year and the following year and then compares these with the cumulative results of the national accounts for the two years. In light of these results, it can be seen that the OFCE's forecasts do not suffer from a systematic bias of optimism. For the forecasts conducted in 2016 and 2017, the growth measured by the national accounts is higher than that anticipated by the OFCE, which, while revealing an error in forecasting, does not constitute an overly optimistic view of the recovery.

The opposite can be seen in the forecasts in 2015 for 2015 and 2016; the favourable impact of the oil counter-shock and of the euro's depreciation against the dollar during the second half of 2014 was indeed slower to materialize than the OFCE expected. The year 2016 was also marked by one-off factors such as spring floods, strikes in refineries, the tense environment created by the wave of terrorist attacks and the announcement that certain tax depreciation allowances for industrial investments would end.

In general, there is no systematic overestimation of growth by the OFCE, although some periods are worth noting, such as the years 2007 and 2008 when the negative repercussions of the financial crisis on real activity were not anticipated by our models during four consecutive forecasts. Ultimately, of the 38 forecasts conducted since March 1999, 16 show an overestimate, or 40% of the total, with the others resulting in an underestimation of growth.

**Figure. The OFCE's growth forecasts for the current year and the following year and actual growth**



Note: This figure shows the OFCE's forecasts for the current year and the following year, cumulated over two years, with respect to the actual figures published by the national accounts. In October 2016, for example, the OFCE forecast cumulative GDP growth of 2.9% from 2015 to 2017, which broke down into growth of 1.4% from 2015 to 2016 and 1.5% from 2016 to 2017. The latest version available of the national accounts on 29 May 2019 shows economic growth of 1% from 2015 to 2016 and 2.4% from 2016 to 2017, i.e. cumulative growth of 3.4% over the two years, which was 0.4 point higher than the OFCE forecast. Hence, a red bar (national accounts) rising higher than the blue bar (OFCE forecast) reflects an "overly pessimistic" GDP growth forecast on the part of the OFCE, and vice versa.

Sources: INSEE, OFCE calculations and forecasts.

## Forecasts relatively in line with the final accounts

Furthermore, the accuracy of the forecasts should not be evaluated solely in relation to the provisional national accounts, as INSEE's initial estimates are based on a partial knowledge of the real economic situation. They are revised as and when the annual accounts and tax and social information updates are constructed, which leads to a final, and therefore definitive, version of the accounts two-and-a-half years after the end of the year<sup>[2]</sup>.

Table 1 compares the forecasts made by the OFCE and the participating institutions in the spring of each year for the current year and assesses their respective errors first vis-à-vis the provisional accounts and then vis-à-vis the revised accounts. On average since 1999, the OFCE's forecasts have

overestimated the provisional accounts by 0.25 points. The forecasts from the Consensus appear more precise, with an error of 0.15 point vis-à-vis the provisional accounts. On the other hand, compared to the definitive accounts, the OFCE's forecasts appear to be right on target (the overestimation disappears), while those from the Consensus ultimately underestimate growth by an average of 0.1 points.

Statistical analysis conducted over a long period thus shows that, while there is room for improvement, the OFCE's forecasts are not affected by an overestimation bias when assessing their accuracy with respect to the final accounts.

**Table. OFCE / Consensus forecasts in the spring of the current year and the provisional and revised national accounts**

					OFCE error on...		Consensus error on...	
	OFCE	Consensus	Provisional account	Revised account	... Provisional account	... Revised account	... Provisional account	... Revised account
1999	2.6	2.3	2.7	3.3	-0.14	-0.69	-0.44	-0.99
2000	4.2	3.7	3.2	4.1	1.01	0.14	0.51	-0.36
2001	3.0	2.8	2.0	2.0	0.97	0.99	0.77	0.79
2002	1.6	1.4	1.2	1.1	0.44	0.49	0.24	0.29
2003	0.8	1.2	0.2	0.8	0.63	-0.04	1.03	0.36
2004	1.5	1.7	2.3	2.6	-0.82	-1.12	-0.62	-0.92
2005	2.2	1.9	1.4	1.7	0.81	0.49	0.51	0.19
2006	2.2	1.9	2.0	2.6	0.24	-0.41	-0.06	-0.71
2007	2.3	2.0	1.9	2.4	0.42	-0.12	0.12	-0.42
2008	1.9	1.5	0.7	0.1	1.18	1.78	0.78	1.38
2009	-2.3	-2.5	-2.2	-2.8	-0.11	0.48	-0.28	0.31
2010	0.9	1.4	1.5	1.8	-0.59	-0.94	-0.07	-0.42
2011	1.4	1.7	1.7	2.2	-0.31	-0.84	-0.06	-0.59
2012	0.2	0.3	0.0	0.4	0.21	-0.17	0.33	-0.05
2013	-0.2	-0.1	0.3	0.6	-0.47	-0.80	-0.37	-0.70
2014	1.2	0.9	0.4	1.0	0.84	0.21	0.58	-0.05
2015	1.4	1.1	1.1	1.0	0.30	0.36	0.00	0.06
2016	1.6	1.3	1.1	1.0	0.51	0.56	0.22	0.26
2017*	1.4	1.3	1.9	2.4	-0.52	-0.98	-0.61	-1.07
2018*	2.0	2.1	1.6	1.7	0.42	0.28	0.52	0.38
1999-2018 Average					0.25	-0.02	0.15	-0.11

\* : the latest definitive accounts are those for 2016. The national accounts for 2017 and 2018 are, respectively, semi-definitive and provisional. The "provisional account" column shows the GDP growth rate as an annual average as it is calculated from knowledge of the quarterly growth rates once they are published in the fourth quarter of every year. Compared with this version, the 2018 account has already been subject to a first adjustment on the annual provisional account published in mid-May 2019, with an upwards revision of growth from 1.6% to 1.7%.

Sources: INSEE, OFCE calculations and forecasts.

[1] The Consensus Forecast is a publication of Consensus Economics that compiles the forecasts of the world's leading forecasters on a large number of economic variables in about 100 countries. About 20 institutes participate for France.

[2] At the end of January 2019, the INSEE published the accounts for the 4th quarter of 2018, which provided a first assessment of growth for 2018 as a whole. At the end of May 2019, the accounts for the year 2018, calculated based on the provisional annual accounts published mid-May 2019, were revised a first time. A new revision of the 2018 accounts will take place in May 2020, and then a final one in 2021 with the publication of the definitive accounts. For more details on the National Accounts revision process, see Péléraux H., « [Comptes nationaux : du provisoire qui ne dure pas](#) », [The national accounts : provisional accounts that don't last], *Blog de l'OFCE*, 28 June 2018.

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# The labour market on the road to recovery

By [Bruno Ducoudré](#)

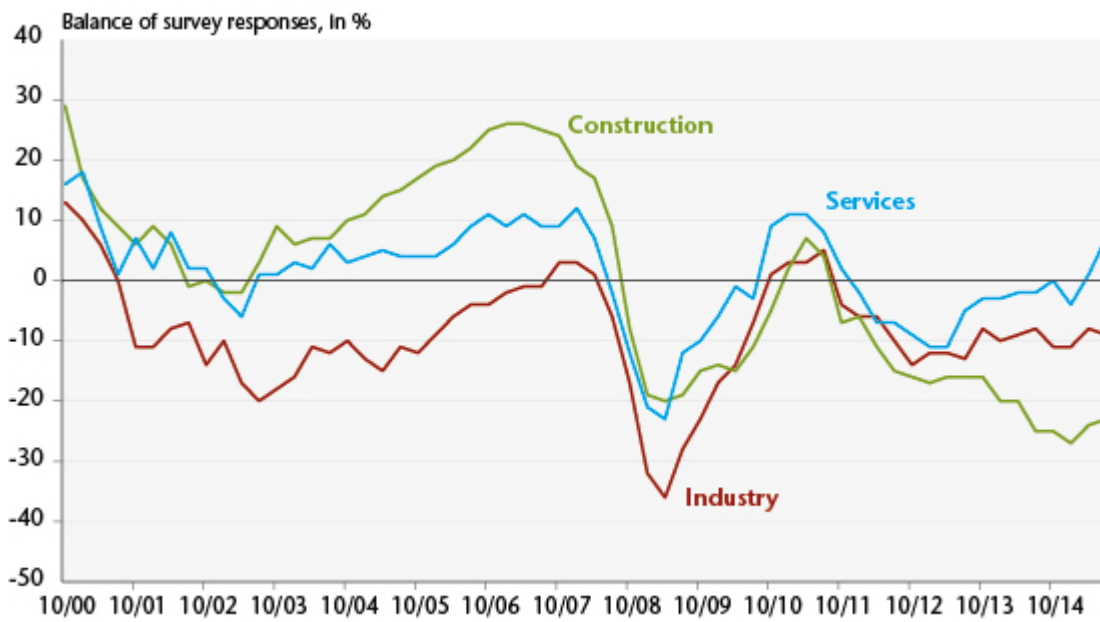
A look at the figures just published by France's Pôle Emploi job centre for the month of September 2015 shows that the number of job seekers who were registered and inactive (category A) has declined significantly (-23,800), following an increase in August (+20,000). While this is encouraging news, the decrease has to be compared with the increases seen in categories B and C (+25,600). So while employment has indeed picked up, this has not resulted in the numbers of

people exiting unemployment as measured by the job centre, *i.e.* it has not put a stop to the continuing rise in the number of long-term unemployed (+10.4% in one year). Nevertheless, these trends do support the conclusions drawn from current analysis which indicate that [a recovery has indeed begun](#).

After seeing 76,000 jobs created in France in 2014 due to growth in non-commercial jobs, the first half of 2015 was marked by an increase in the workforce in the commercial sector (+26,000), which resulted in an acceleration of job creation in the economy overall (+45,000) over the first half of the year. The recently released statistics on employment confirm the accelerating trend in the third quarter of 2015: hence, over a year, declarations on job hires of over one month recorded by ACOSS rose by 3.7%, following 0.7% in the previous quarter. Business surveys also point to an increase in hiring intentions in the third quarter; these have turned positive in the service sector since the year started, which is also when the low point seen in construction was probably reached (see Figure 1).

Our analysis of the labour market up to 2017, which was spelled out in the latest OFCE forecasts of October 2015, indicates that the commercial sector will continue to generate jobs up to the end of 2015 (+0.1% in the third and fourth quarters). The pace of job creation will nevertheless remain too low to foresee a fall in the unemployment rate by year end, particularly in light of our forecast for the GDP growth rate (0.3% in Q3 2015 and 0.4% in Q4) and the existence of overstaffing in companies, which we estimate at 100,000 in Q2 2015. The unemployment rate should remain stable at 10% until year end. With GDP growth of 1.8% in 2016, job creation will pick up markedly in the commercial sector once the overstaffing has been absorbed by companies, allowing the unemployment rate to fall starting in the second quarter of 2016. This decline will continue until the end of 2017.

**Figure 1. Forecast of labour force trends**



Sources: INSEE, business surveys.

The last three years of weak growth have hurt employment in the commercial sector (-73,000 jobs between the start of 2012 and the end of 2014, cf. the Table). The strength of employment in the non-commercial sector, supported by the ramp-up of subsidized contracts (the “jobs for the future” programme and non-commercial job integration contracts) helped to offset the loss of commercial sector jobs, with total employment rising by 164,000 over the same period, which slowed the increase in the ILO unemployment rate: this figure for mainland France rose from 9% of the labour force in late 2011 to 10.1% at end 2014, i.e. a 1.1 point increase.



**Tableau. Employment and unemployment**

Annual change in 1000s, at last quarter

Year on year	2012	2013	2014	2015*	2016*	2017*
Observed labour force	265	46	203	62	134	139
Total employment	31	57	76	103	193	242
– Commercial sector	0	-38	-35	73	238	245
Employed	-63	-58	-43	60	209	216
Unemployed	63	20	8	14	28	29
– Non commercial sector	31	95	111	29	-45	-3
Subsidized jobs	5	60	21	17	-54	-4
Non-subsidized jobs	26	35	90	12	10	1
Unemployment	234	-11	127	-41	-58	-103
Unemployment rate at Q4 (%)	9,7	9,7	10,1	10,0	9,8	9,4
GDP growth rate (%)	0,3	0,8	0,2	1,1	1,8	2,0

\* OFCE forecast

Sources : INSEE and Ministry of Labour, OFCE forecasts, e-mod.fr 2015-2017, October 2015.

2015 is a year of transition, with a resumption of job creation in the commercial sector (+73,000 expected for the year as a whole) but less dynamic job creation in the non-commercial sector. For the full year, job creation will be boosted by the acceleration of growth (an annual average of +1.1% expected in 2015 but 1.4% yoy) and the implementation of policies to cut labour costs (CICE tax credit and the Responsibility Pact). The cumulative impact of the CICE and the Responsibility Pact, after taking into account the effect of financing, will create or save 42,000 jobs in 2015. However, job creation will be hampered by the presence of overstaffing<sup>[1]</sup>: as economic activity picks up pace, companies typically absorb underutilized labour before increasing the volume of employment.

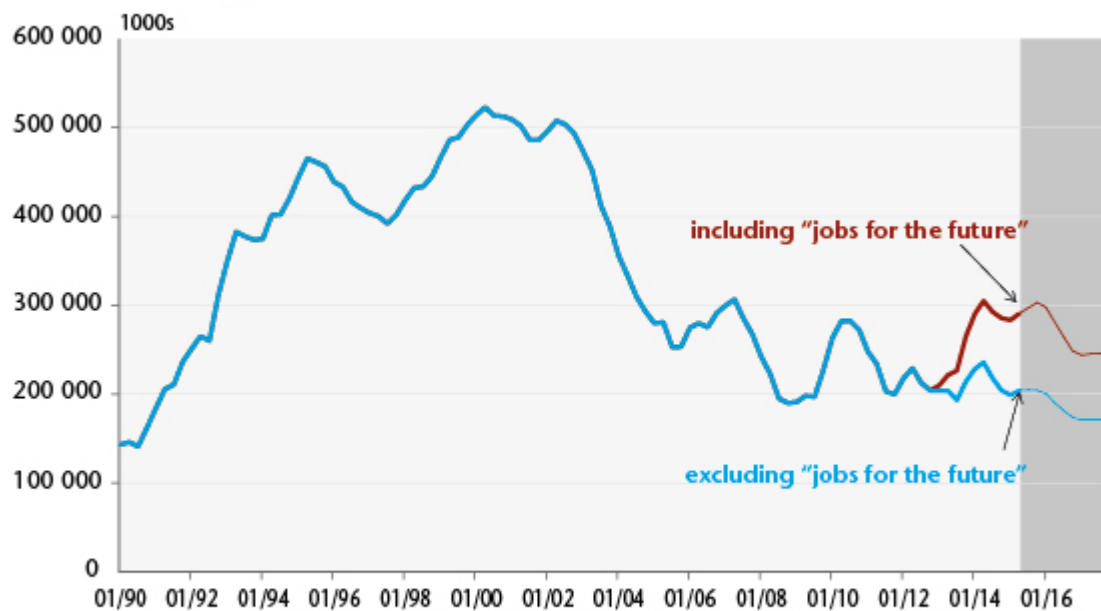
As for the non-commercial sector, employment policy is continuing to support the labour market in 2015 through the increase in subsidized job contracts. This increase has nevertheless been slower than in previous years, with the number of “jobs for the future” contracts peaking in 2015 (Figure 2). Ultimately, total employment will increase by 103,000 in 2015, with the unemployment rate remaining stable at 10% till year end.

For 2016 and 2017, the acceleration of growth (at respectively



1.8% and 2%) combined with the ongoing implementation of policies to cut labour costs and the closing of the productivity cycle in the course of 2016 will lead to accelerating job creation in the commercial sector. This will increase, year on year, to 238,000 in 2016 and 245,000 in 2017 for the commercial sector alone, a rate comparable to what was seen between mid-2010 and mid-2011 (234,000 jobs created). However, in 2016, the number of subsidized contracts in the non-commercial sector set out in the 2016 Finance Bill will be down from previous years (200,000 CUI-CAE jobs and 25,000 “jobs for the future” in 2016, compared with 270,000 and 65,000 respectively for 2015). For 2017, we are assuming stability in the stock of subsidized non-commercial job contracts (see Figure 2). Overall, the long-term return of job creation by business will trigger a decline in the unemployment rate starting in the second quarter of 2016. Although sluggish, this fall should be sustainable, with the unemployment rate down to 9.8% of the labour force at end 2016 and 9.4% by end 2017.

**Figure 2. Subsidized contracts in the non-commercial sector**



Note : The fall in CUI-CAE contracts seen in the second half of 2014 comes from the switch from CAE job integration contracts to CDD fixed-term contracts.

Scope: Mainland France.

Sources : DARES, OFCE forecasts *emod.fr* 2015-2017, October 2015.

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[1] The presence of overstaffing in businesses derives from the gap between labour productivity and its long-term trend, called the productivity cycle. This reflects the time employment takes to adjust to economic activity. See Ducoudré and Plane, 2015, « [Les demandes de facteurs de production en France](#) » [The demand for production factors in France], *Revue de l'OFCE*, no.142.