



5 July 2011

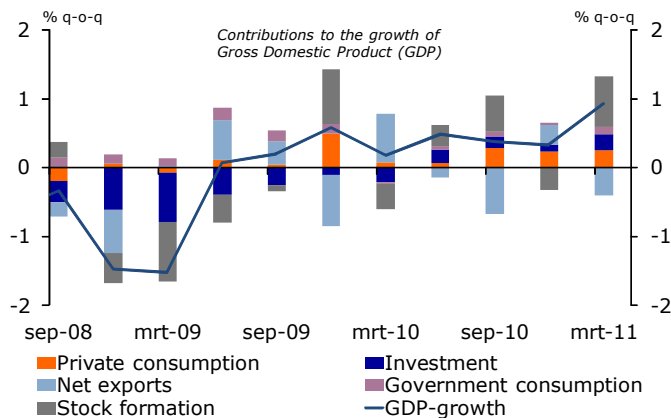
Modest expectations despite strong first quarter

year-on-year change (%)	'10	'11	'12
Gross Domestic Product	1.4	2	1¾
Private consumption	1.3	1½	1¼
Government consumption	1.2	1	1¼
Private investment	0.4	3	2¾
Exports	9.4	6¾	5¾
Imports	8.3	6¾	4
Inflation	1.7	2½	1¾
Unemployment (%)	9.8	9½	9¼
Government balance (% GDP)	-7.1	-5½	-4½
Government debt (% GDP)	82.3	86¼	89¾

After the robust economic growth figure in 11Q1 (+0.9% q-o-q) France's economy seems to have hit a soft-patch. Despite the fact that the size of the austerity measures is modest from a European perspective, they have started to take their toll on private consumption. Besides that, the current slowdown of world trade and the ongoing European debt crisis will weaken foreign demand going forward. Although the purchasing managers index is still on a relatively high level, the index decreased strongly in June. This decline suggests the pace of growth will fall going forward. The exception in this relatively down-beat outlook is the recent recovery of job creation.

Source: Reuters EcoWin, Rabobank

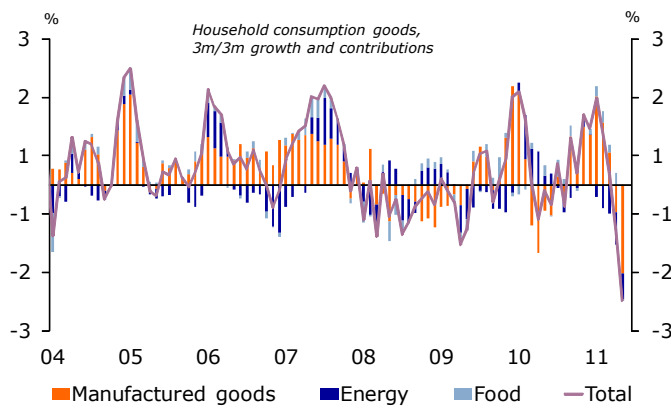
Growth spurt in 11Q1 seems temporary



The economy grew in 11Q1 by 0.9% q-o-q, the highest growth rate since the crisis. Predominantly, stock formation had a high contribution to growth (+0.7%-point). This was partly due to the production recovery after the bad weather in 10Q4, but the building of stocks also reflected the level of confidence among French producers. The general positive momentum further contributed to the solid growth of private consumption (+0.5% q-o-q) and private investment (+1.2% q-o-q). Net exports subtracted 0.4%-point from the GDP-growth figure. As the momentum from the first months of the year wanes, we expect a weaker GDP-growth figure in 11Q2.

Source: Reuters EcoWin

Consumption decreased strongly in recent months



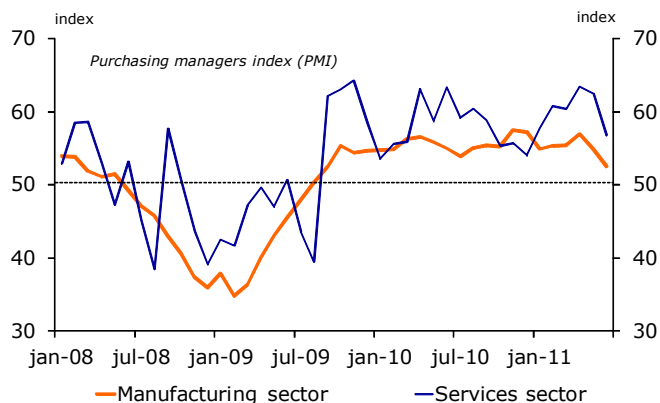
Monthly figures of household consumption of goods (about 50% of total private consumption) fell by 0.8% m-o-m in May, the third strong monthly decline in a row. Of note is the considerable drop in the sales of manufactured goods in recent months. Disposable income is negatively affected by the austerity measures and the relatively high inflation rate. On a positive note, the level of job creation has accelerated in recent months. However, the INSEE consumer confidence index still remains below its long-term average. Total private consumption is expected to grow at a significantly slower pace in 11Q2 compared to the previous quarter and might even contract outright if sentiment drops further.

Source: Reuters EcoWin

Economic Update France

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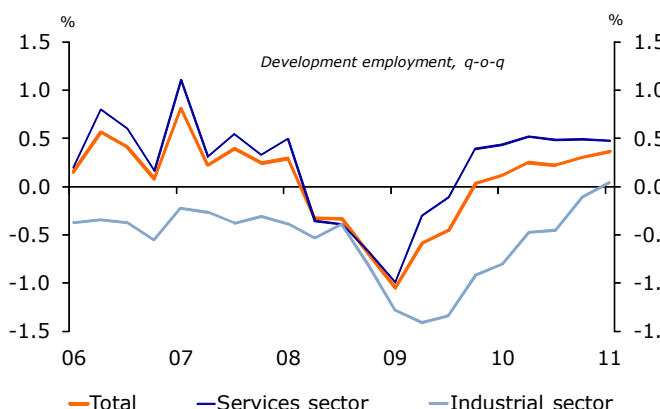
Momentum seems to weaken in 11H2



Source: Reuters EcoWin

The positive momentum of the French economy also seems to weaken in the second half of the year. Preliminary figures show that the sentiment among purchasing managers (PMI) has decreased significantly in June. However, in both the industrial and the services sector the index remains above 50, which is an indication of expanding activity. Among other things, purchasing managers are worried about the decreasing level of (foreign) orders, which is not surprising given the slowdown of world trade and the ongoing European debt crisis. France is definitely not an exception, as manufacturing sentiment throughout the world has slowed down in the past few months.

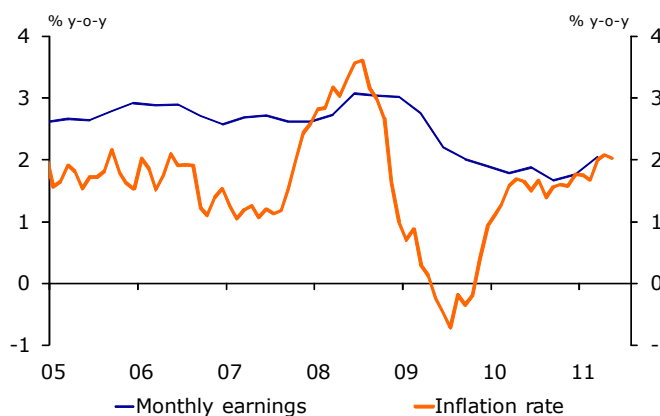
The labour market is finally recovering...



Source: Reuters EcoWin

In 11Q1 the growth of the number of jobs (58,200) was again larger than in the previous quarter. This acceleration was partly due to the fact that there were no jobs lost in the industrial sector. The services sector managed to create the biggest amount of jobs. Moreover, it is encouraging that 89% of these new jobs relates to a permanent contract, which was 59% in 10Q4. On a more negative note, since the crisis only one third of all jobs lost have been recreated. Due to the recent job creation, the unemployment rate (9.5% in May, Eurostat) has decreased somewhat, but given France's long-term unemployment rate, it still remains at a relatively high level.

...but wage growth cannot keep pace with inflation



Source: Reuters EcoWin

The recent labour market recovery has resulted in a slightly upward pressure on wage growth. The growth in monthly earnings has risen to 2% y-o-y in 11Q1. As food- and energy prices are expected to keep contributing to inflation in the coming months, the purchasing power will remain under pressure this year. This will be an important reason why consumer spending will not be growing strongly in the coming quarters. The benefit of low real wage growth is that France will regain competitiveness in the international market place. Prior to the crisis, real wages were growing robustly, which, in turn, resulted in loss of competitiveness of French firms.

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