

# Economic Update France

## 5 February 2013

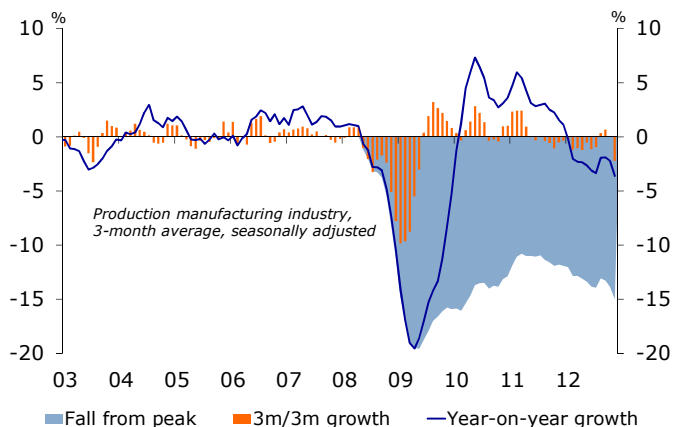
### No Route du soleil yet

year-on-year change (%)	'11	'12	'13
Gross Domestic Product	1.7	0	¼
Private consumption	0.2	0	0
Government consumption	0.2	1¼	¼
Private investment	4.6	0	¾
Exports	5.5	2	2½
Imports	5.2	0	1
Inflation	2.3	2	1¼
Unemployment (%)	9.6	10¼	10¾
Government balance (% GDP)	-5.2	-4½	-3½
Government debt (% GDP)	85.1	87½	89¼

The French economy seems to have contracted mildly in 12Q4. Going forward, sentiment indicators in January point to a deterioration of economic activity, in contrast to the slight improvement seen in several other eurozone countries. Together with the large tax hikes and the persistent weakness of the labour market, this supports our view that 2013, just like 2012, will be a tough year for the French economy. Given this scenario the budget deficit will most likely exceed its target of 3%-GDP. On a more positive note, trade unions have reached consensus on labour market reform. Although encouraging, the current agreement should only be considered as a first step.

Source: Reuters EcoWin, Rabobank

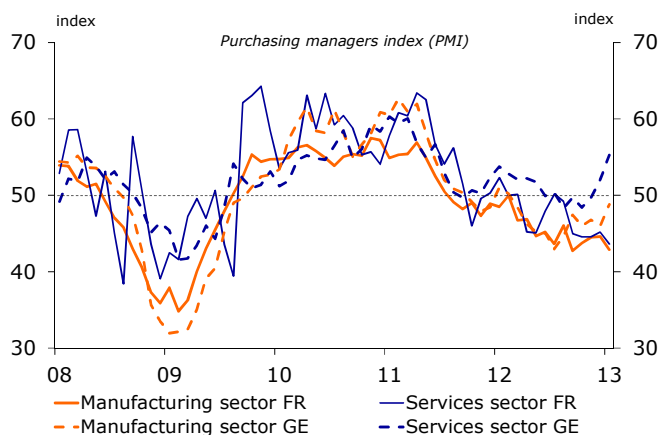
### French industry in stormy weather



Industrial production (IP) seems to have been very weak in 12Q4. If production in December was stable compared to November, there would have been a quarterly contraction of 1.6% in 12Q4. This would be the weakest quarter since early 2009, indicating that GDP contraction is highly likely. Especially the production of durable consumer goods was alarming, it contracted by 3.9% in November on a 3m/3m basis. The only positive news is that the feeble quarterly growth rate was mainly due to contractions in September and October. In November, IP rose even slightly on a m-o-m basis (+0.5%). However, we need more positive data to declare that the French industry is out of the woods.

Source: Reuters EcoWin

### The ugly duckling of the Eurozone?



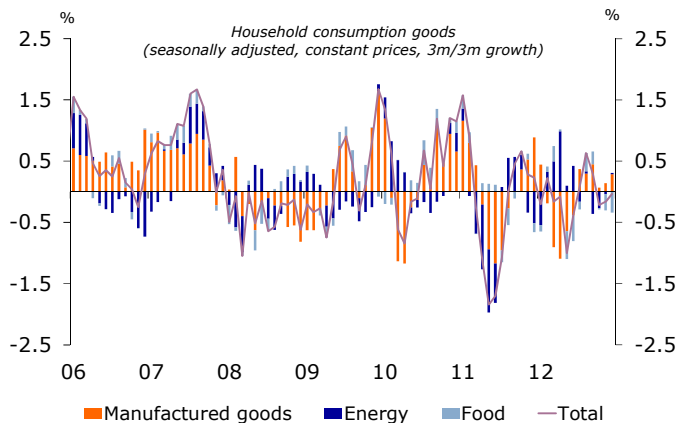
The purchasing managers index (PMI) shows that the outlook for the manufacturing sector is anything but rosy. Both the indices for the manufacturing and the services sector dropped in January, the latter even to its lowest level since early 2009. The sub-components of manufacturing PMI show that especially the outlook for domestic orders has turned producers gloomy. The weak French sentiment is in clear contrast with the rising indices of other eurozone countries, especially Germany. An explanation might be that France has introduced a very large austerity package this year and that Germany is better able to benefit from growing demand in the emerging markets.

Source: Reuters EcoWin

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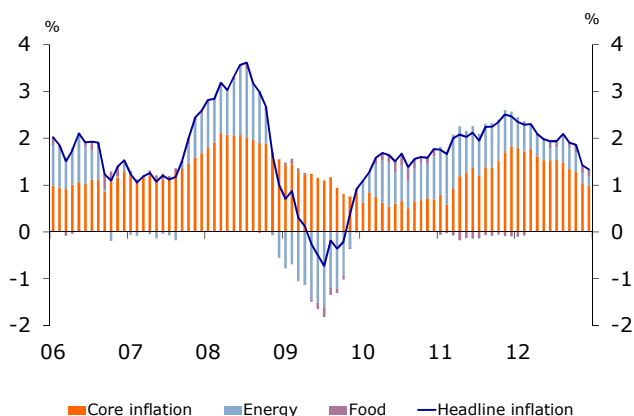
## Pollution penalty on cars kept up consumption



Source: Reuters EcoWin

Household consumption of goods –which is about half of total consumption- stagnated in December. In 12Q4 as a whole there was a marginal contraction (-0.1% q-o-q), which is an indication that the contribution of private consumption to the GDP figure might turn out to be less bad than previously feared. That said, the consumption figure of December was supported by a sharp one-off increase in car sales (+4.6% m-o-m). This was due to the anticipation of a penalty on polluting cars from January 2013 onwards. The underlying weakness does not bode well for consumption in 2013. This pessimistic view is supported by the drop in consumer confidence in January, which is still below its long-run average.

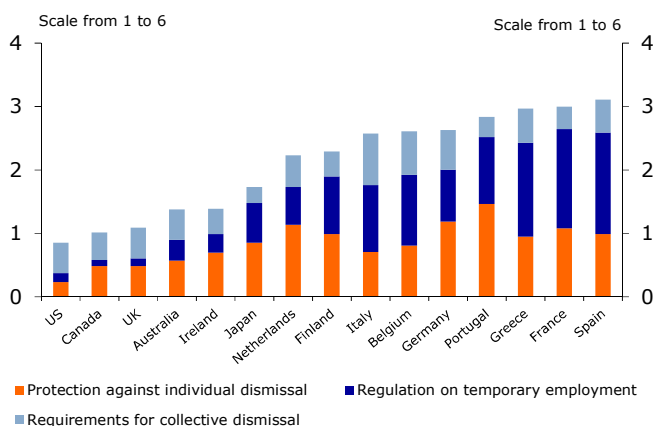
## Drop in inflation supports purchasing power



Source: Reuters EcoWin

The sharp drop of inflation since August last year continued in December (1.3%). The decrease is due to both lower core inflation (1%) and falling contribution of energy prices. The energy contribution will be lower during 2013 compared to last year if oil prices move in line with futures prices. We expect headline inflation to be substantially lower in 2013 (1¼%) when compared to the previous year (2%). This is good news for households as their purchasing power increases and further improves France's price competitiveness. Regarding the latter, falling prices must push down wage growth. Sadly, data available until 12Q3 shows that this was not the case (nominal wage growth was 2.2% y-o-y).

## Labour market reform only first step in a long road



Source: OECD

A positive element of the new labour market agreement is that employers will have more flexibility to adjust wage growth and working time to France's economic conditions. However, it was a missed opportunity that the duality of the labour market was hardly addressed in this reform. Although it will become less attractive to hire employees on a temporary contract –via higher contributions to social security- the relatively strong protection of permanent contracts has hardly changed. Besides that, this agreement will not substantially alter the labour market outlook in the short term. Although it is positive that social partners have reached consensus, the reform should be considered as a first step.

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