

1 November 2011

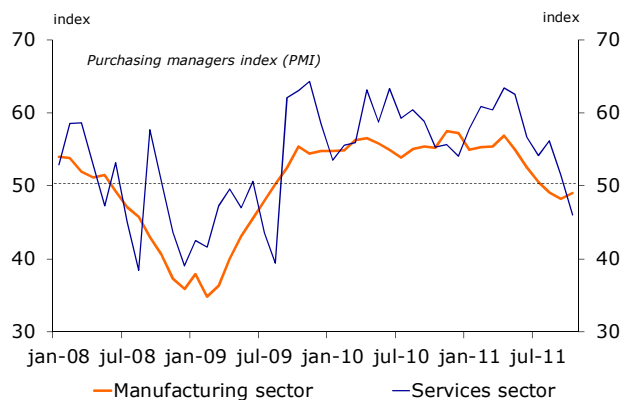
Downbeat sentiment weakens growth outlook

year-on-year change (%)	'10	'11	'12
Gross Domestic Product	1.4	1½	1
Private consumption	1.3	½	¾
Government consumption	1.2	¾	1
Private investment	0.4	¾	1½
Exports	9.4	4¼	5
Imports	8.3	6	4¼
Inflation	1.7	2¼	1¾
Unemployment (%)	9.8	9½	9¼
Government balance (% GDP)	-7.0	-5¾	-4¾
Government debt (% GDP)	82.2	86½	89½

Based on persistent weak sentiment we lowered our growth forecast for both 11Q3 and 11Q4. We believe the uncertainty surrounding the European debt crisis will weigh on France's economic activity going forward. This has implications for our growth forecast, especially for 2012 (from 1.5% to 1%). Private consumption contracted strongly in 11Q2, but seems to have grown in 11Q3, albeit slightly. However, investment growth, which was an important driver of economic growth in recent quarters, is expected to slow down. Besides that, the French government announced further austerity measures after pressure from Moody's and the markets.

Source: Reuters EcoWin, Rabobank

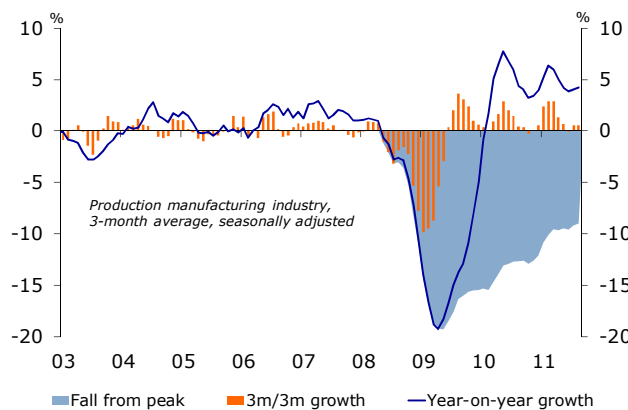
Confidence indicators do not provide any confidence...



After the stagnation of GDP in 11Q2, also the outlook for the second half of the year is not very promising. An important indicator is the index of purchasing managers. The indices of both the manufacturing and the services sectors dropped in the last couple of months. Both were below 50 in September, which points to a contraction of activity. This picture matches the deterioration seen in other eurozone countries. French producers are especially concerned about the drop in domestic and foreign orders. Most worrisome is the sharp contraction of confidence in the labour-intensive services sector, which is bad news for the already struggling labour market.

Source: Reuters EcoWin

...but industrial production grows slightly in 11Q3...



The downbeat sentiment is undeniably an indication for very weak growth in 11H2. We do not exclude the possibility of a contraction of GDP in one or more quarters. However, there are two arguments why we do not expect a (severe) contraction in 11Q3. Production in the manufacturing industry rose in both July and August, following stagnation in 11Q2. These growth figures will probably result in growth of manufacturing production in 11Q3. Even with a contraction of 2% m-o-m in September, there will be growth of manufacturing production in 11Q3 (+0.8% q-o-q). However, if the PMI sentiment indices remain unchanged, production will probably fall back in 11Q4.

Source: Reuters EcoWin

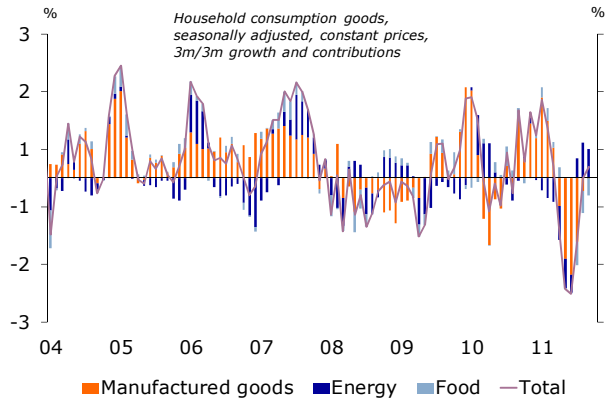
www.rabobank.com/economics

Michiel Verduijn
Tel. +31 (0)30 - 2130522
M.P.Verduijn@rn.rabobank.nl

Economic Update France

1 November 2011

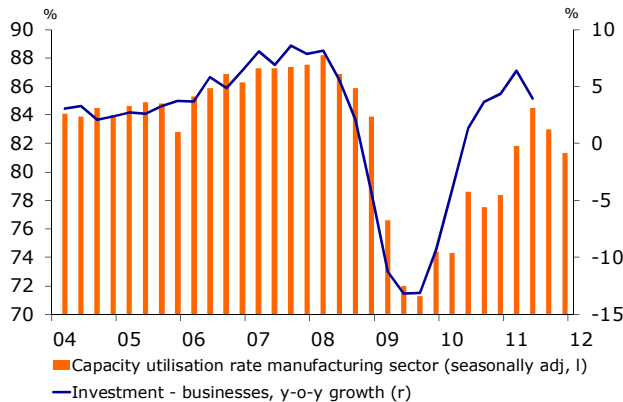
...and consumption recovers after weak 11Q2



Source: Reuters EcoWin

Also the consumption figure gives an indication that GDP growth in 11Q3 might turn out stronger than expected. Household consumption of goods (about 50% of total private consumption) was very weak in 11Q2 (-1.9% q-o-q), but recovered slightly in 11Q3 (+0.2% q-o-q). It should be noted that there was a strong contribution by the increase of the volatile energy component (+2.8% m-o-m in August). The consumption of goods from the manufacturing industry remained, after a severe contraction in 11Q2 (-3.4%), only at the same level in 11Q3. Owing to a persistently high unemployment rate (9.9%) and a fall in real wages, underlying French consumption remains very weak.

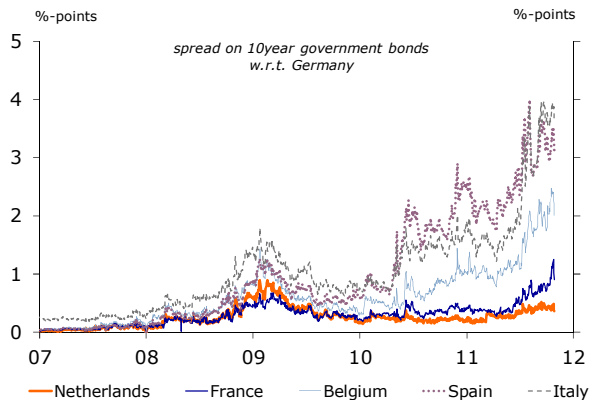
Investment outlook darkening



Source: Reuters EcoWin

Business investments were a bright spot in 11Q2 as they grew by 0.7% q-o-q. That said, a survey among producers in the manufacturing industry shows that the capacity utilisation rate, after an increase since mid-2009, is expected to decrease in 11H2. For companies this is certainly no reason to invest with the aim of expanding their production capacity. Besides that, the ongoing uncertainty surrounding the European debt crisis and the announcement of further French austerity measures do not offer a very attractive investment climate. Therefore, we deem it highly unlikely that companies will support growth by investing more in the second half of this year.

Pressure for further austerity and reforms grow



Source: Reuters EcoWin

Only a month after the presentation of the Finance Bill 2012, president Sarkozy announced extra austerity measures with a size of 6-8 billion euros. In the initial plan, the government would save 11 billion euros in 2012, mainly on the revenue side. The extra measures are necessary as the 2012 growth forecast has been lowered from 1.75% to 1%. Moody's, a rating agency, recently indicated that it will look more closely to France's AAA-rating over the next three months. Recently, the spread between the interest rate on French and German 10-year government bonds widened to a maximum of 125 basis points. The pressure for further austerity measures and structural reforms, therefore, remains high.

www.rabobank.com/economics

Michiel Verduijn
Tel. +31 (0)30 - 2130522
M.P.Verduijn@rn.rabobank.nl