



# Economic Update France

## 8 August 2012

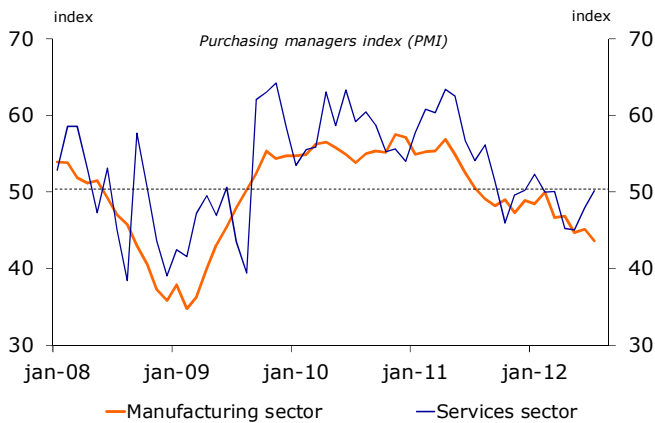
### No *déjà vu* in the second quarter

year-on-year change (%)	'11	'12	'13
Gross Domestic Product	1.7	0	1
Private consumption	0.2	0	¼
Government consumption	0.2	¾	¼
Private investment	4.6	-1	3½
Exports	5.5	1½	3
Imports	5.2	-1¼	2¼
Inflation	2.3	2¼	1½
Unemployment (%)	9.7	10¼	10¼
Government balance (% GDP)	-5.2	-4¾	-3¾
Government debt (% GDP)	86.1	89½	91¼

We expect a mild contraction of French GDP in 12Q2. This would be the first contraction since early 2009. Private consumption served its role as growth engine in the first two years of economic recovery following the 08/09 crisis. It also managed to prevent a GDP contraction in 12Q1. However, we do not expect a *déjà vu* in the second quarter. For the coming quarters we anticipate a weak private consumption, mainly on the back of employment stagnation and the planned tax hikes by the government. Based on the large fiscal consolidation effort, we expect that fiscal policy will continue to act as a drag on growth in 2013.

Source: Reuters EcoWin, Rabobank

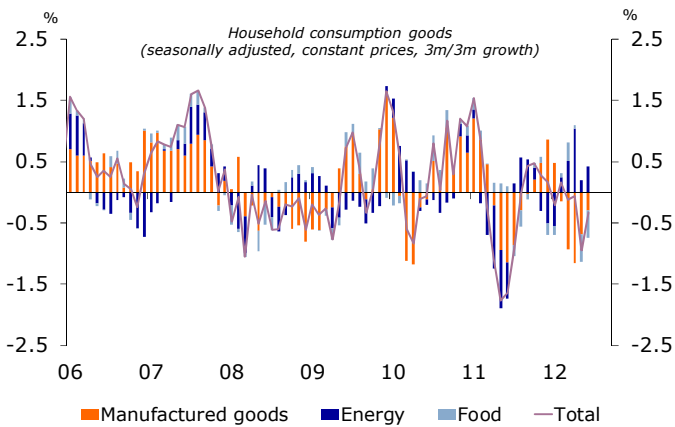
### PMI's are clear: contraction!



While the French economy avoided a contraction in 12Q1, the significant deterioration of sentiment amongst purchasing managers (PMI) since March points to a contraction of economic activity in 12Q2. The fall of the PMIs corresponds with the development seen in most other eurozone countries and can be largely attributed to the resurfacing of the European debt crisis. Also world trade grew more slowly in April and May compared to the first three months of the year. PMIs for July show large differences between the ailing manufacturing industry and the recovering services sector. If sentiment fails to recover, a contraction in 12Q3 might become a realistic scenario.

Source: Reuters EcoWin

### Will consumption be able to dampen the contraction?



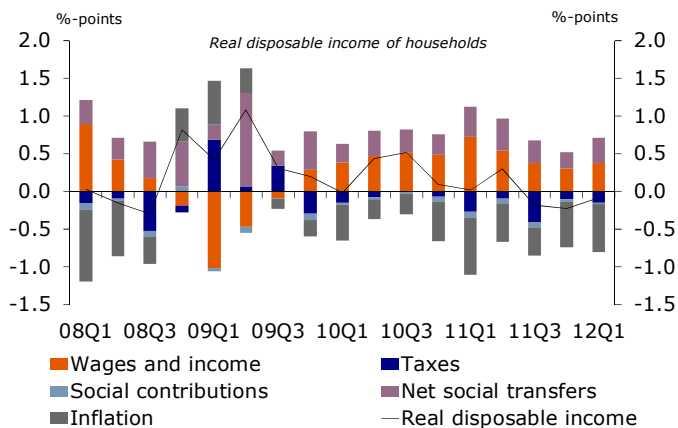
In 12Q1, only private and public sector consumption were able to contribute positively to the GDP-figure. However, as forecasted in our last Economic Update, the development of goods consumption by households does not provide an indication that this trick has been repeated in 12Q2. Lower growth of energy consumption and a contraction of spending on food resulted in a mild contraction of total consumption of goods in 12Q2 (-0.2% q-o-q). On a positive note, the consumption of manufactured goods rose slightly on a m-o-m basis in May and June. That said, it is questionable to what extent this growth rate will keep up in 12Q3 given the downward pressure on purchasing power.

Source: Reuters EcoWin

# Economic Update France

## 8 August 2012

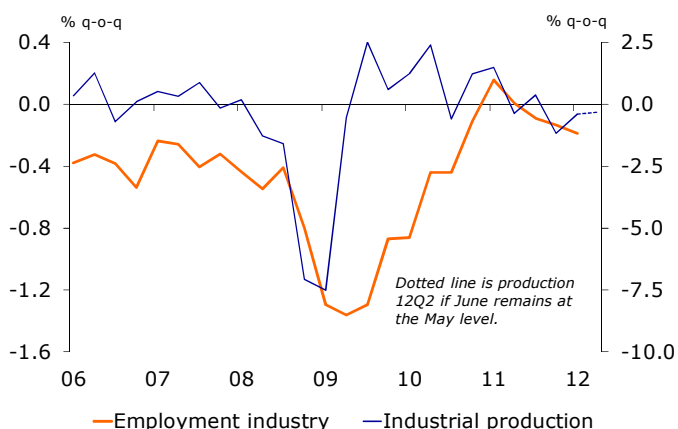
### Purchasing power remains under pressure...



Source: INSEE

Private consumption has been supported throughout the crisis by a rise in purchasing power. However, since 11Q3 purchasing power has been decreasing slightly, mainly due to adverse developments in the labour market. This is visible in the fall in the contribution of 'wages and income' due to a fall in employment. Note that nominal wages hardly contracted during this period. We expect the slight decrease of purchasing power to continue in the coming quarters. Firstly, in early July, the government announced to further raise taxes (EUR 7.2bn) for the second half of 2012 amid a lower growth outlook. Secondly, we do not expect a recovery in the labour market anytime soon.

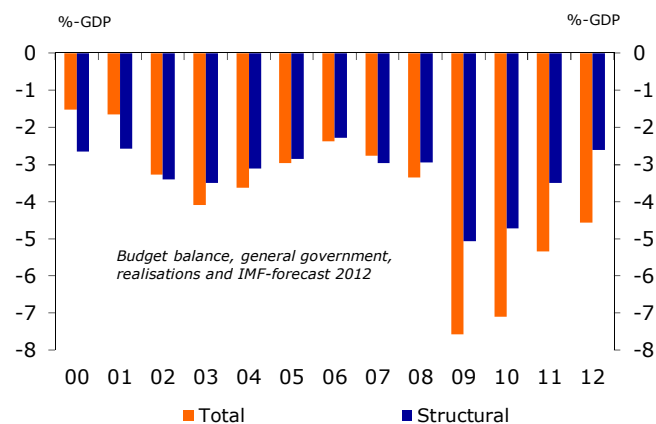
### ... partly due to a weak labour market



Source: Reuters EcoWin

Recent data of the labour market paint a gloomy picture. The unemployment rate increased to a new record since the crisis (10.1% in June). In recent quarters employment growth hovered around 0% on a quarterly basis. Especially, industrial job creation has been weak. Despite the recovery of industrial production since mid-2009, the number of jobs in this sector increased only during one quarter up until now. The number of jobs in the services sector increased slightly in recent quarters. However, given the meagre economic outlook, we cannot expect job creation in the services sector to more than compensate the expected job destruction in the manufacturing sector.

### Also 2013 requires large fiscal consolidation effort



Source: Reuters EcoWin

Not only in 2012 will tax hikes weigh on purchasing power. While until 2011 the budget balance mainly improved thanks to the economic recovery, the weak outlook for 2013 implies next year's fiscal consolidation effort needs to be very large if France wants to comply with the 3% target next year. The Court of Audit recently estimated that austerity measures in 2013 must amount to EUR 33bn (1.6%-GDP) while expecting GDP growth of 1% next year. Upon the publication of the September Budget we will know how much expenditure reduction will take place by the Hollande administration. To sum up, austerity measures will act as a strong drag on growth next year.

www.rabobank.com/economics

Michiel Verduijn  
Tel. +31 (0)30 - 2130522  
m.p.verduijn@rn.rabobank.nl