

6 March 2012

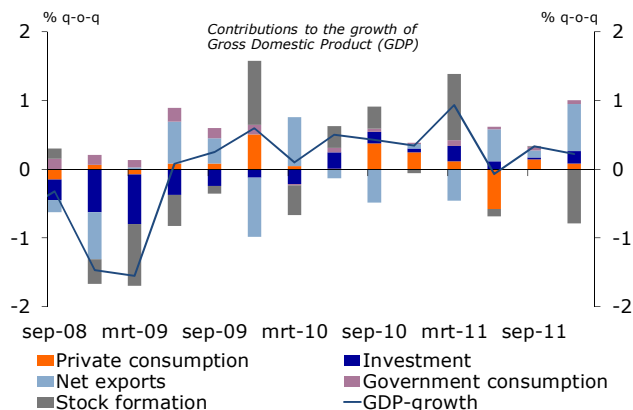
## The bastion of the eurozone

year-on-year change (%)	'11	'12	'13
Gross Domestic Product	1.7	½	1¼
Private consumption	0.3	¼	½
Government consumption	0.9	½	¼
Private investment	3.5	½	4¼
Exports	5.0	2¾	4½
Imports	5.0	½	4
Inflation	2.3	1¾	1¼
Unemployment (%)	9.7	10	10
Government balance (% GDP)	-5.7	-4¾	-3¾
Government debt (% GDP)	86.1	89½	91

The sound performance in recent quarters reflects the stability of the French economy. While Germany can be considered as the growth engine of the eurozone, France functions as a reliable bastion of moderate economic growth. This is partly due to the relatively closed character of the economy, which reduces the dependency on foreign demand. Besides that, the solid financial position of the private sector enables steady growth of domestic demand. That said, harsh austerity measures will weigh on domestic demand in the coming years. As France might benefit only slightly from the anticipated cautious recovery of world trade, we cannot expect much more than moderate economic growth.

Source: Reuters EcoWin, Rabobank

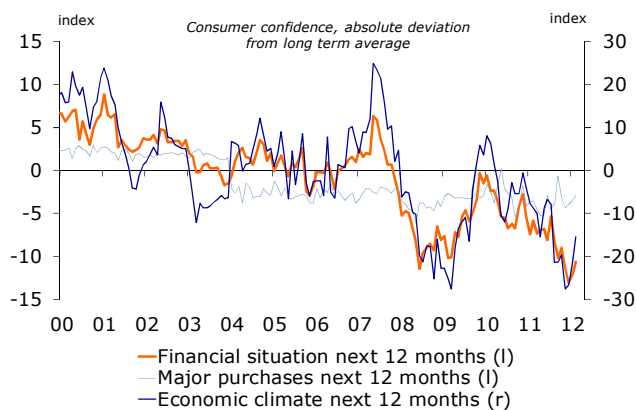
## No contraction in surprisingly strong 11Q4



Source: Reuters EcoWin

Many, including ourselves, anticipated a slight GDP contraction for 11Q4. However, the economy grew by 0.2% q-o-q, after growth of 0.3% q-o-q in 11Q3. France was one among the few member states that did not dip into the red figures. In contrast to many other member states, both private consumption (+0.2% q-o-q) and investments (+1.0% q-o-q) contributed positively to the growth figure. But the weak level of producer confidence resulted in quick destocking in 11Q4. The reverse to this medal was a sharp contraction of imports (-1.2% q-o-q). As exports grew by 1.2% q-o-q, net trade contributed 0.7%-point to the growth figure.

## How long will consumption boost growth?



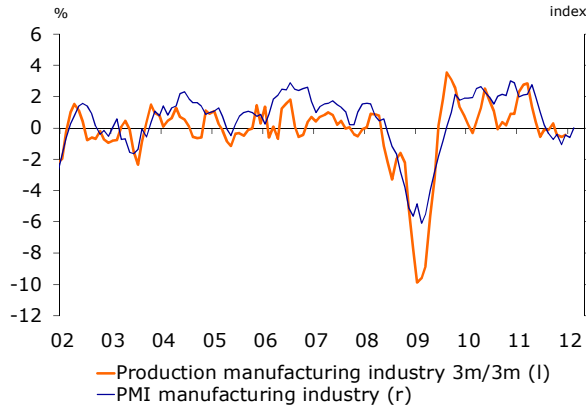
Source: Reuters EcoWin

Despite the notable fall of consumer confidence since the autumn of 2011, private consumption managed to grow slightly in 11H2. In both January and February, the confidence index rebounded, partly due to the reduced tension around the European debt crisis. However, this does not automatically lead to the conclusion that private consumption will remain on a steady growth path. First of all, consumer sentiment is still at a very low level. Further, the government budget shows relatively large tax hikes in 2012. And last but not least, the sluggish recovery of employment will weigh on the disposable income of households this year.

# Economic Update France

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## Manufacturing industry shows signs of recovery



Source: Reuters EcoWin

Manufacturing production contracted slightly in 11Q4 (-0.5% q-o-q). However, since December the sentiment among purchasing managers (PMI) increased modestly and in February the index is even back on 50. This is an indication that a further contraction might be prevented, but we stress that the current recovery of sentiment is still fragile. The development in order books confirms our view that domestic demand will lose steam going forward and that the manufacturing industry will become increasingly dependent on foreign demand. To be concrete, domestic orders decreased in February, while foreign orders showed an increase for the first time in seven months.

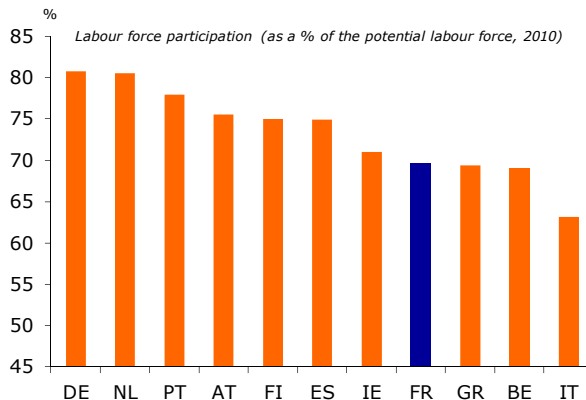
## Sarkozy criticised for sticky labour market



Source: Reuters EcoWin

Heading towards the presidential elections, Sarkozy is under fire due to the sluggish recovery of the labour market. In 11Q4 the total number of jobs even decreased by 0.2% q-o-q and as a result of that the unemployment rate increased to 9.8%. If Sarkozy is re-elected, his policy will be aimed at increasing the competitiveness of companies and via this he aims to stimulate the growth of. The lower social security contribution by companies, which is to be financed by a VAT-hike, is an example of this policy. However, without additional reforms of the labour market, the structural effect on competitiveness and job growth will remain modest.

## What alternative does Hollande offer?



Source: Reuters EcoWin

The main challenger of president Sarkozy, François Hollande, supports a different labour market policy. He wants to increase the costs of layoffs for companies under specific circumstances and he wants to undo the raise of the minimum pensionable age from 60 to 62 years for certain groups of employees. In our view, both measures are a wrong way to tackle the high unemployment rate and the relatively low labour force participation (almost 70%). The current high level of employee protection prevents companies from attracting new employees, while the current effective pensionable age (59.1 years for men) is one of the lowest in Europe.

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