



## 6 September 2011

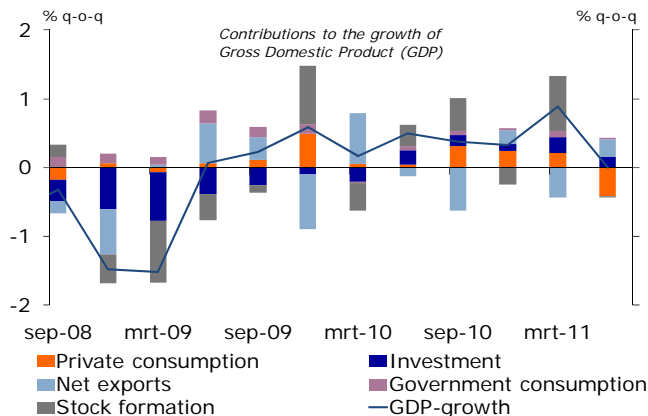
### Growth setback alert is raised to orange

year-on-year change (%)	'10	'11	'12
Gross Domestic Product	1.4	1¾	1½
Private consumption	1.3	¾	1
Government consumption	1.2	¾	1¼
Private investment	0.4	3¾	1¾
Exports	9.4	4¾	5½
Imports	8.3	6	4¼
Inflation	1.7	2¼	1¾
Unemployment (%)	9.8	9½	9¼
Government balance (% GDP)	-7.0	-5¾	-4½
Government debt (% GDP)	82.2	86½	89½

Based on disappointing macro data in 11Q2 and a fall in confidence levels, we have decided to revise our GDP-growth forecast for both 2011 and 2012 downwards (by 0.25%-points). This is partly due to the fact that households spent less than expected in the first half of 2011. Further, we foresee a slower growth of French exports on the back of weaker world trade growth. On a more positive note, private investments will continue to play their role as a stable growth driver. Besides that, the recently announced additional austerity measures are a step in the right direction, although the improvement of government finances is still a work in progress.

Source: Reuters EcoWin, Rabobank

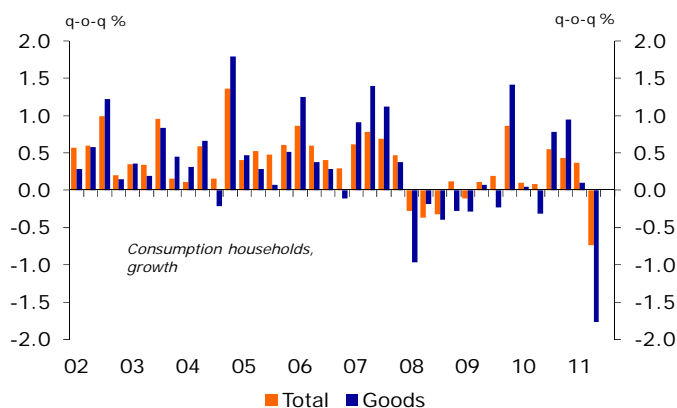
### Economy stagnates in the second quarter ...



After a strong 11Q1 (+0.9% q-o-q) the French economy stagnated in 11Q2 (0.0% q-o-q). Similar to a number of other eurozone countries (e.g. Germany and the Netherlands) growth came in lower than expected. In France this was mainly due to a drop in private consumption (-0.7% q-o-q). Also exports (0.0% q-o-q) were much weaker than in 11Q1. Because of the fact that imports decreased (-0.9% q-o-q), there was still a positive contribution of net trade to the headline growth figure. Business investments were a bright spot, as they grew by 0.7% q-o-q. Given the weak momentum we expect very moderate economic growth in the coming quarters.

Source: Reuters EcoWin

### ... mainly due to very weak consumption



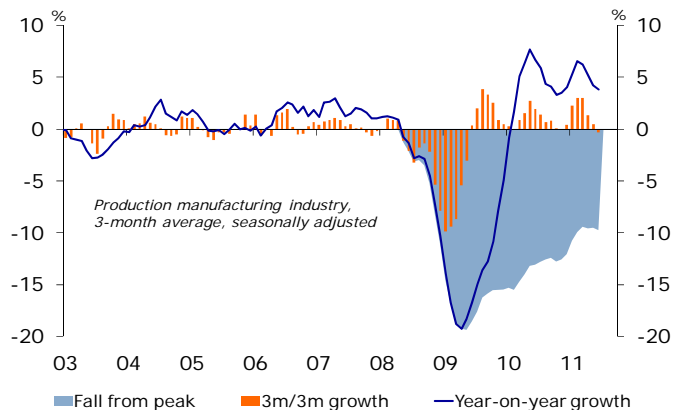
The drop in private consumption in 11Q2 is extremely strong from an historic point of view. Even at the peak of the financial crisis the quarterly decrease was not as large as in 11Q2. The decline is mainly due to the extraordinary drop in the consumption of goods (-1.8% q-o-q), which in turn, is caused by the expiration of the car scrappage scheme in January. This resulted in a postponed negative effect on car sales in 11Q2 (-11.2% q-o-q). Therefore the downfall of private consumption can be regarded as temporary. That said, the growth in consumption is expected to remain weak in the coming months, mostly due to the stubbornly high unemployment rate and the fall in consumer sentiment.

Source: Reuters EcoWin

# Economic Update France

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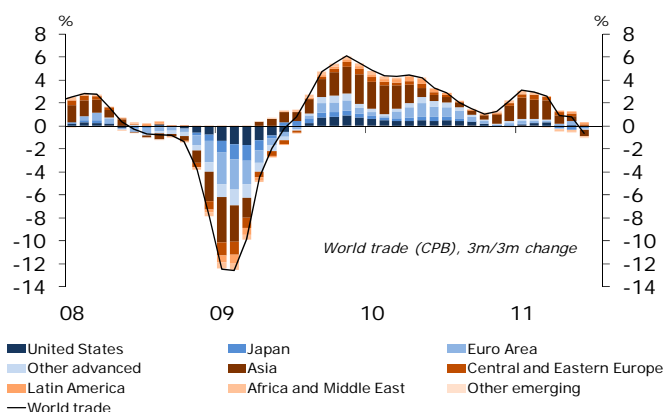
## Sluggish recovery of industrial production ...



Manufacturing production posted a decline in 11Q2 (-0.4% q-o-q). In 11Q1 production grew by 3%, partly driven by strong inventory building. The current level of production is almost 10% below the peak reached in early 2008. Sadly, the outlook for the coming months is poor. While domestic demand has been under pressure since the crisis, the growth of foreign demand also stagnated in recent months. Our downbeat assessment is confirmed by the August PMI manufacturing figure, which dropped for the first time since mid 2009 below 50 (49.3). Note that the PMI manufacturing for the eurozone also fell below 50.

Source: Reuters EcoWin

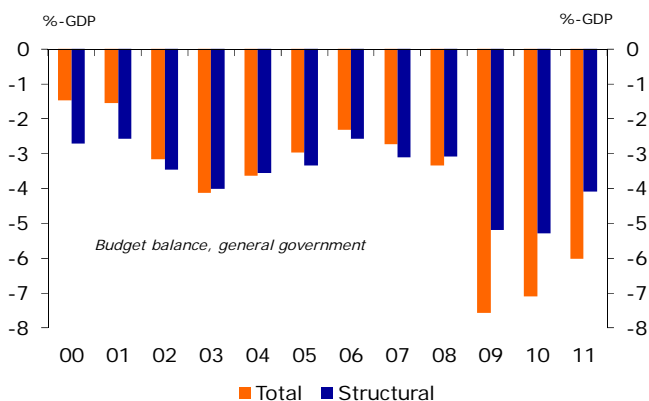
## ... partly due to a slowdown of foreign demand



An important explanation for the reduced sentiment in the manufacturing sector, is the slowdown in the growth of world trade (in volumes). In June, the 3-month average even contracted slightly, which indicates that the momentum of world trade growth has clearly dropped. For one, Asia is approaching its borders of production capacity and is therefore importing less. What's more, weaker growth in the US and the ongoing debt crisis in the eurozone's periphery imply that external demand will remain weak for some time to come. Against this backdrop, the outlook for French exports remains highly uncertain in the coming months.

Source: Reuters EcoWin

## Are public finances on the right track?



The French government deficit (7.1%-GDP in 2010) is high from a European perspective. We expect that the deficit will decline to slightly below 6%-GDP in 2011, partly due to a structural increase of tax receipts. In August president Sarkozy announced additional austerity measures (mostly tax increases) in the hope of bringing down the deficit in 2012 and 2013 to 4.5% and 3%-GDP, respectively. However, the assumed growth outlook for 2012 (1.75%) seems a tad optimistic. Moreover, part of the measures after 2011 has not been made concrete as yet. It is questionable to what extent this will happen before the elections of 2012. So far, the challenges remain large.

Source: IMF, Rabobank

[www.rabobank.com/economics](http://www.rabobank.com/economics)

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