



# Economic Update France

## 5 June 2012

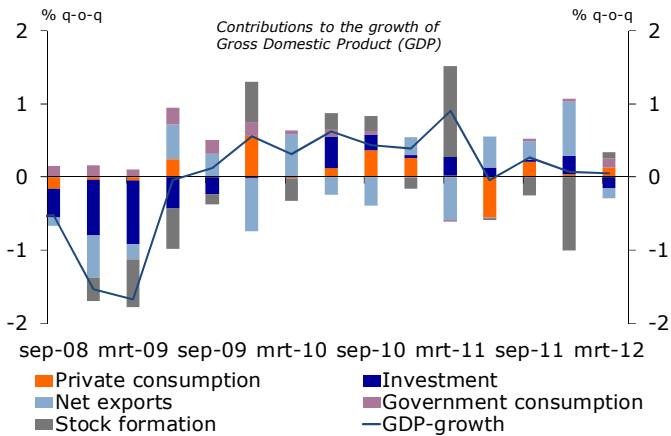
### French bastion shows first cracks

year-on-year change (%)	'11	'12	'13
Gross Domestic Product	1.7	0	1¼
Private consumption	0.2	0	½
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	10
Government balance (% GDP)	-5.2	-4¾	-3¾
Government debt (% GDP)	86.1	89½	91¼

Private consumption helped prevent GDP from contracting in recent quarters. However, several signals point to a contraction of private consumption in the current quarter. To this end, we can expect GDP to contract in 12Q2. Tax hikes and, especially, the escalation of the European debt crisis will clearly weigh on the economic recovery in the coming months. President Hollande cannot significantly alter this outlook despite his preference for a growth-based strategy. This is because France cannot get away from fiscal austerity measures in the coming years. Therefore, the outlook for the French recovery remains weak.

Source: Reuters EcoWin, Rabobank

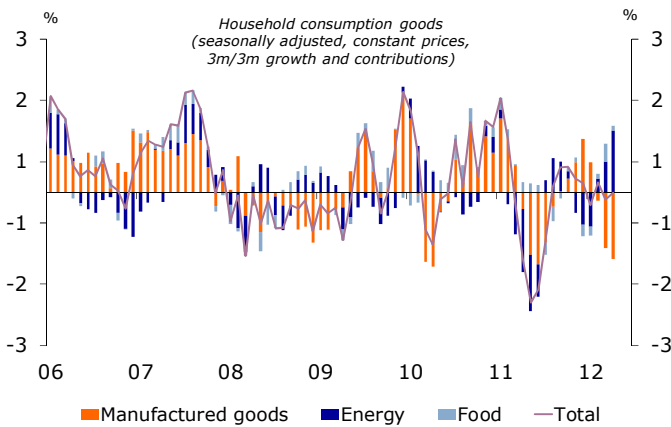
### Consumption was able to prevent a fall in GDP...



The French economy stagnated in 12Q1, after growing somewhat in the last two quarters. The quarterly figure was supported by households and the government; their consumption grew by respectively 0.2% and 0.5% q-o-q. However, it is worrying news that business investments contracted by 1.2% q-o-q, after growth of 1.8% in 11Q4. Also French exports were disappointing. They grew by only 0.3% q-o-q, while the volume of world trade increased by 1.6% in the same quarter. As for imports (+0.7% q-o-q), they were boosted by the growing consumption. As a result of that, net exports contributed negatively to the headline figure.

Source: Reuters EcoWin

### ...but this is unsustainable



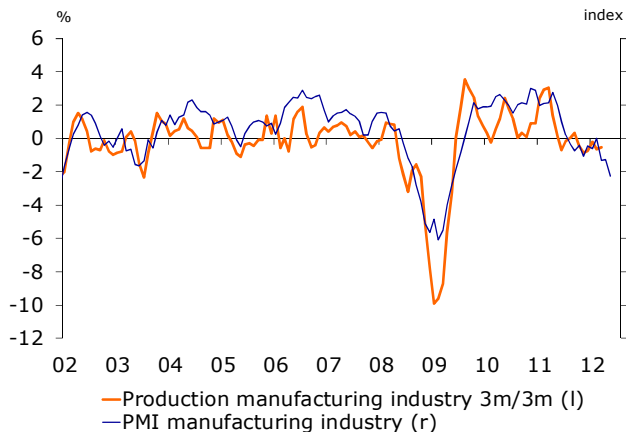
The positive contribution from private consumption seems to be a temporary source of growth. Household consumption of goods remained constant in 12Q1, but this was mainly due to a positive contribution of energy consumption (+0.5%-point) amid the relatively cold weather. Underlying household consumption remains weak, reflected by the negative contribution of consumption of manufactured goods (-0.9%-point in 12Q1). This subcomponent contracted heavily (-2.2% m-o-m) in April as well, which is in line with the low level of consumer confidence and the impact of tax hikes. Based on this, a contraction of private consumption in 12Q2 is highly likely.

Source: Reuters EcoWin

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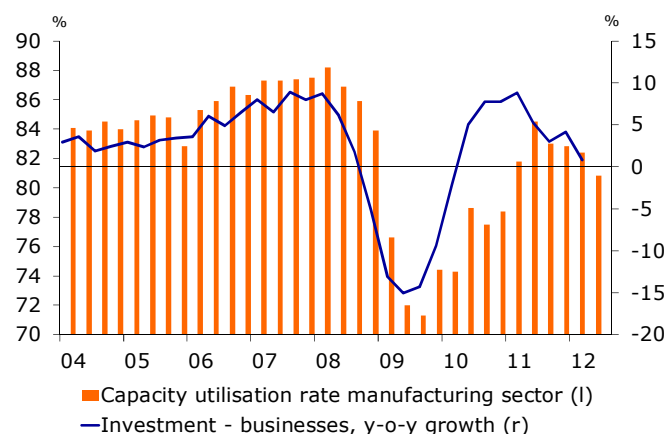
## Fall in PMI spells little good for the outlook



Source: Reuters EcoWin

The 3m/3m growth of manufacturing production has been persistently negative since October 2011. The sharp contraction of sentiment of purchasing managers (PMI) in March and May bodes ill for production in 12Q2. The fall in sentiment corresponds to the development seen in many other industrialised countries and seems to be the result of the recent escalation of the European debt crisis. Based on the services PMI (45.1 in May), the services sector does not seem able to compensate for the contraction in the manufacturing industry. Against this backdrop, we expect a contraction of GDP on a quarterly basis in 12Q2.

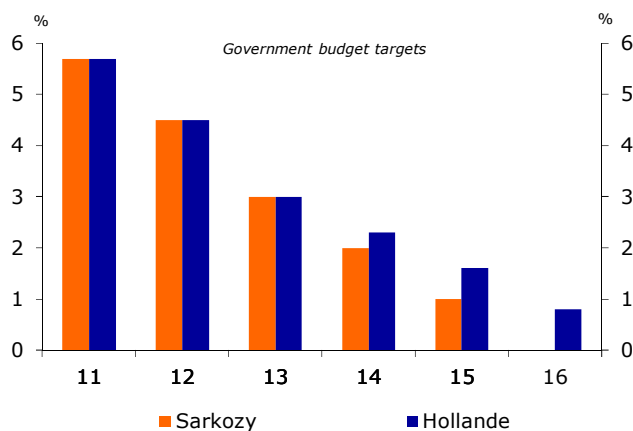
## Investment climate is deteriorating



Source: Reuters EcoWin

The weak outlook in the manufacturing industry also weighs on the investment climate. A survey among entrepreneurs shows that the decreasing trend in the capacity utilisation rate in the manufacturing industry will continue in 12Q2. For French companies, this is certainly no reason to invest with the aim of expanding their production capacity. The lower appetite for investment will probably lead to a y-o-y contraction of business investments in the coming quarters. For the year as a whole, we expect a contraction of 1%. Under the assumption that progress will be made in addressing the debt crisis, we expect a return to growth in 2013.

## Is Hollande a game changer?



Source: Budget 2012, Election Program Hollande

While in the European context the brand-new President Hollande advocates a larger focus on growth, it is very questionable to what extent he will be able to propose a growth-agenda in his own country. Hollande indicated, just like Sarkozy, that he intends to bring down the budget deficit to 3%-GDP in 2013. Therefore, large-scale austerity measures are inevitable. Hollande's growth assumption for 2012 (+0.5%) and 2013 (+1.7%) are quite optimistic, as a result of which the necessity of further measures cannot be ruled out. Although it is questionable whether Hollande will pull out all the stops to reach the 3% goal, the pressure from Europe and rating agencies for austerity measures will remain high.

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