



# Economic Update France

## 11 January 2011

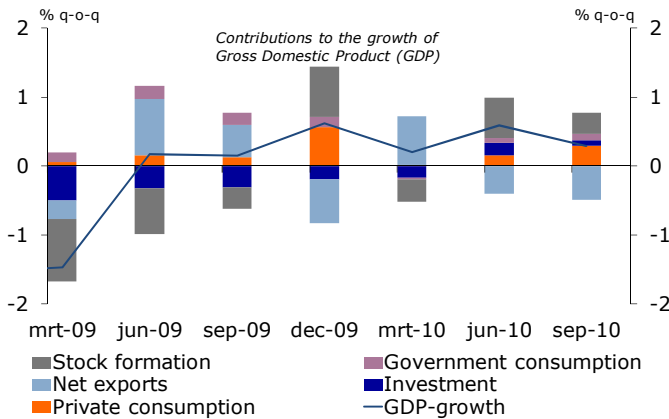
### Private consumption closes year in style

year-on-year change (%)	'09	'10	'11
Gross Domestic Product	-2.5	1½	1½
Private consumption	0.6	1½	1½
Government consumption	2.8	1¼	1
Private investment	-8.4	-1¾	2
Exports	-12.2	9¾	7
Imports	-10.6	8¾	7¾
Inflation	0.1	1¾	1¼
Unemployment (%)	9.5	9¾	9½
Government balance (% GDP)	-7.5	-8	-6
Government debt (% GDP)	77.7	81½	85¾

The French economy appears to be closing the year strongly in 10Q4, fuelled partly by robust private consumption. Although producers in particular are demonstrating their confidence in the economy, a moderate economic recovery in 2011 seems to be the most realistic scenario. Consumers are spending substantially in 10Q4 as well, but will be restrained in 2011 by austerity measures and slower growth of purchasing power. Given their rising (foreign) order outlook, producers could step in to fill this gap and significant anticipated investments show they are prepared for this. But limited domestic demand combined with the underutilisation of capacity mean this scenario is far from certain.

Source: Reuters EcoWin, Rabobank

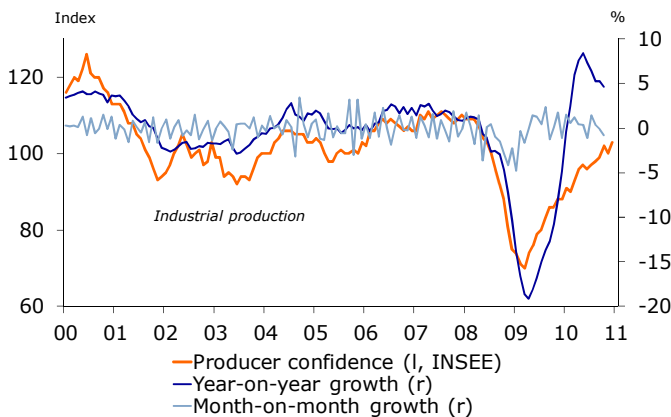
### 10Q3 growth revised slightly downwards



French GDP volume growth has been pared back to 0.3% q-o-q (from 0.4%), mainly due to a slightly lower contribution from private consumption and stock formation. This has reduced demand seepage to other countries, as a result of which the negative contribution from net exports was likewise trimmed back slightly. We believe the moderate economic recovery has continued in 10Q4. Despite high unemployment and the upcoming austerity measures in 2011, the overall economic sentiment (EC) has picked up in the past few months, to above the level of the long-term average.

Source: Reuters EcoWin

### Production dips due to strikes, sentiment still upbeat



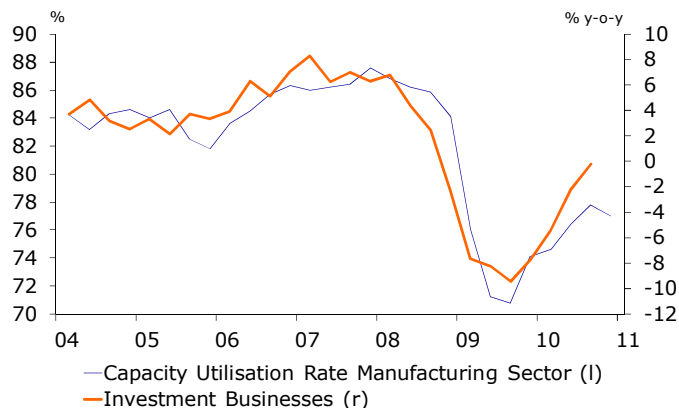
Industrial production fell in October (-0.8% m-o-m) owing to the strikes in that month. Production figures in the energy sector fell particularly sharply (-6.7% m-o-m). The French Ministry of Finance estimates that the cost of the strikes have been between €200 mln and €400 mln per day at their peak. The other production sectors remained stable in 10H2 or grew modestly. The current sentiment is promising for the coming months; the producer confidence index (INSEE) continued to rise in December to above its long-term average. Purchasing managers' sentiment deteriorated slightly since November (57.2) but remains at a high level.

Source: Reuters EcoWin

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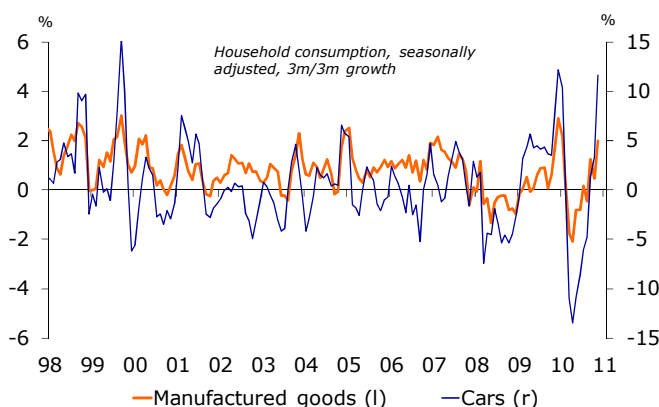
### Low capacity utilisation hampers investment growth



Source: Reuters EcoWin

The positive business sentiment is also reflected in the investment climate. The level of business investment has fallen by 13% since the crisis began but has grown moderately since 10Q2. The 2011 investment outlook is promising (INSEE), particularly in the manufacturing industry. But the expected investments are aimed mainly at replacement rather than expansion of the current production capacity. A major reason for this is that the capacity utilisation rate is still far below the long-term average (77 versus 84). Partly on the basis of a rising foreign order outlook (EC) we concur to some extent with the positive sentiment and expect investments to grow by around 2% in 2011.

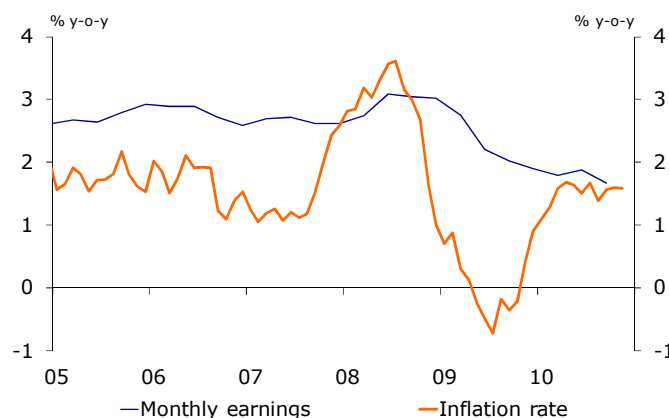
### Last growth spurts of consumption in 10Q4 ...



Source: Reuters EcoWin

Household consumption of manufactured goods rose explosively in November (+2.8% m-o-m), following a 0.7% decline in October. The expiry of the car scrappage scheme in 2011 provided a substantial lift to car sales in November (+15% m-o-m). Partly because of this we expect a significant contribution from private consumption to GDP growth again in 10Q4. This is likely to change in 2011, as indicated, for instance, by the first fall in consumer confidence for several months in December (INSEE). Against a backdrop of persistent unemployment and significant austerity measures, consumption is expected to be under pressure in 2011.

### ... purchasing power set to be squeezed from 2011



Source: Reuters EcoWin

There is more bad news for private consumption in the months ahead. Now that growth in monthly earnings has softened to 1.7% y-o-y in 10Q3, consumers' purchasing power is set to come under pressure. Inflation has been stable for three consecutive months at 1.6% and is driven largely by high energy prices. Core inflation has also remained stable for several months (0.8% in November). We are expecting inflation of 1¼% for 2011, which will limit the growth of real wages. Lower wage growth could curb the high unemployment rate and may in fact bring about sustainable economic growth in the long term by way of the labour market.

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