

## 10 January 2012

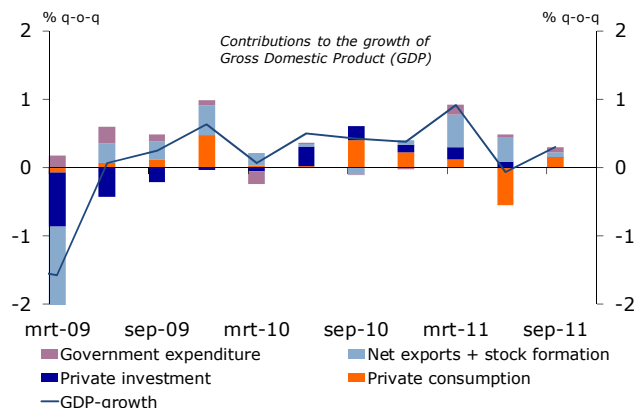
### Tough year ahead

year-on-year change (%)	'10	'11	'12
Gross Domestic Product	1.4	1½	½
Private consumption	1.3	¼	½
Government consumption	1.2	¾	¼
Private investment	0.4	¾	1¼
Exports	9.4	4¼	4½
Imports	8.3	6	4¾
Inflation	1.7	2¼	2
Unemployment (%)	9.8	9¾	9¾
Government balance (% GDP)	-7.0	-5¾	-4¾
Government debt (% GDP)	82.2	86½	89½

The French economy showed its resilience in 11Q3, but we expect the negative effects of the debt crisis to become more visible in the coming months. The small increase in the December PMI figures can be considered as a bright spot, but is no reason for us to revise our forecasts. The recently announced austerity measures are expected to throw sand in the wheels of private consumption recovery. Therefore, we expect private consumption to contribute only modestly to economic growth in 2012. Job creation stagnated at the end of last year and also the outlook for the labour market is not too promising. All in all, we expect 2012 to be a tough year for most French people.

Source: Reuters EcoWin, Rabobank

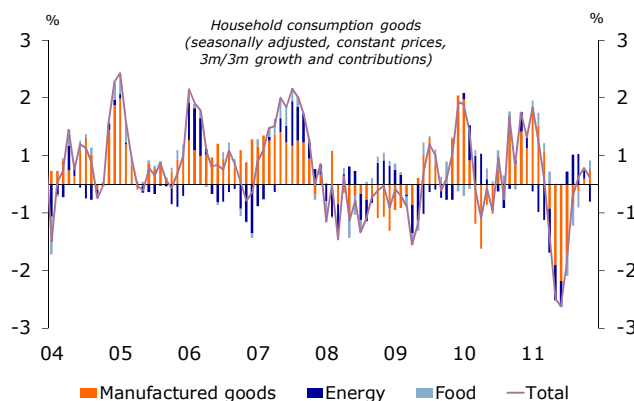
### Growth in 11Q3 turned out better than expected



GDP grew by 0.3% q-o-q in 11Q3. This growth figure was stronger-than-expected and France managed to outperform many other eurozone countries. The reason for this was primarily due to the recovery of private consumption (+0.3% q-o-q) following the poor performance in 11Q2. Also the export sector (+0.8% q-o-q) took advantage of the temporary pick-up in world trade. However, the decrease in business investments (-0.5% q-o-q), after five quarters of growth, is worrisome. We would not be too surprised with a small contraction of GDP in 11Q4. As long as European policy makers do not provide a credible solution to the crisis, a mild recession remains a possibility.

Source: Reuters EcoWin

### Consumption recovery seems temporary



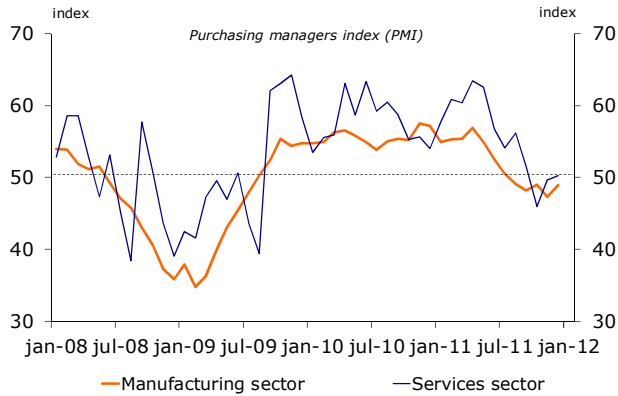
Private consumption was very volatile in 2011. This was partly due to the expiration of the car scrappage scheme. That said, household consumption of goods remained stable in the last couple of months. This is remarkable given the recent drop seen in consumer confidence. The decrease of household consumption of goods in November (-0.1% m-o-m) was only modest thanks to the recovery of car sales (+3.2% m-o-m). Based on this, the development of private consumption in 11Q4 might turn out better than expected. However, the underlying trend of consumption remains weak. Due to further austerity measures and a fragile labour market, we expect private consumption growth in 2012 to be weak.

Source: Reuters EcoWin

# Economic Update France

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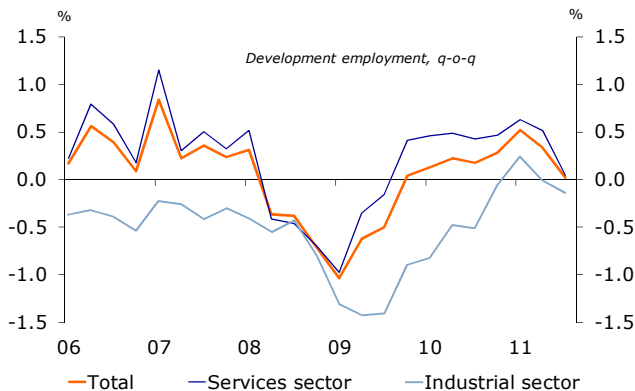
## Rising producer sentiment: permanent or temporary?



After a sharp drop in recent months, the sentiment amongst purchasing managers rose in December; both in the manufacturing sector and in the services sector. The latter is currently even slightly above 50 (i.e. pointing to expansion). This improvement is seen in many other advanced countries. It is clearly positive that PMIs so far did not drop to levels last seen at the height of the crisis (2009), but we would like to stress that it is too early to draw conclusions based on a single month's data. Besides that, it should be stressed that the forward looking indicator of new orders dropped for the third month in a row. The fragile optimism might vanish fairly quickly if the eurozone crisis escalates further.

Source: Reuters EcoWin

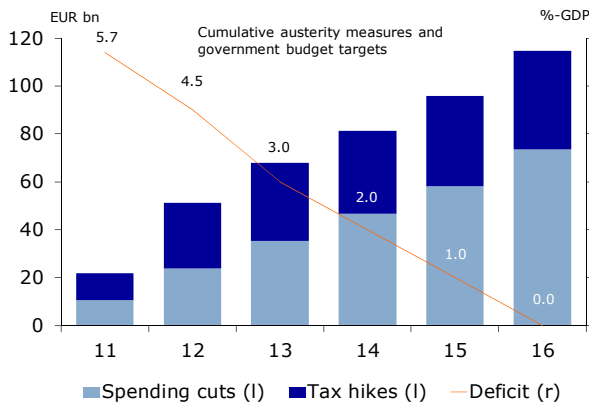
## Recovery of the labour market remains problematic



The recovery of employment stagnated in 11Q3 after six quarters of growth. The industrial sector recorded even a small drop in the number of jobs created. The total number of jobs in 11Q3 was still almost 2% below its pre-crisis level. Due to the modest growth of employment, the unemployment rate did not fall throughout last year (9.8% in October). During the last couple of months, some surveys (e.g. EC) showed that entrepreneurs have become more pessimistic about the job market. This holds for both the industry and the labour-intensive services sector. As such, we maintain the view that the growth of jobs will not be strong enough to significantly reduce the jobless rate in 2012.

Source: Reuters EcoWin

## More austerity underway



Confronted with pressure from rating agencies and the financial markets, the government announced further austerity measures at the end of 2011. Together with previously announced packages, the austerity measures will add up to more than EUR 114bn (5.9%-GDP) in 2016. Partly due to the upcoming elections in spring, concrete measures after 2012 have not been announced yet. Despite the fiscal consolidation measures in 2012 (1.4%-GDP) it is questionable whether the deficit target of 4.5%-GDP will be reached as the government still assumes an optimistic 1% GDP growth this year. However, it is quite certain that this harsh austerity package will weigh on economic growth in the coming years.

Source: Budget 2012, Rabobank

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

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