

Economic Update France

4 December 2012

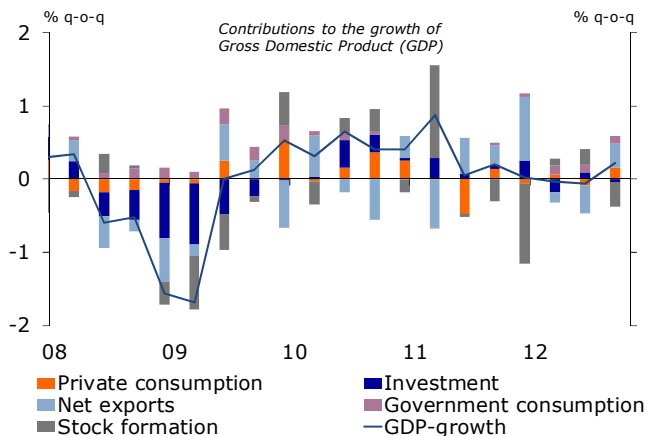
No happy year end

year-on-year change (%)	'11	'12	'13
Gross Domestic Product	1.7	¼	½
Private consumption	0.2	0	¼
Government consumption	0.2	1¼	¼
Private investment	4.6	¼	1
Exports	5.5	2½	3
Imports	5.2	0	1
Inflation	2.3	2¼	1¾
Unemployment (%)	9.6	10½	10¾
Government balance (% GDP)	-5.2	-4½	-3½
Government debt (% GDP)	86.0	90	91¼

After the pickup in the third quarter, several indicators point to a deterioration of economic activity in the last quarter of this year. Both private consumption and business investment seem to have weakened in 12Q4. Although several sentiment indicators improved slightly in November, they still remain at very low levels. Overall, we do not exclude the possibility of a mild GDP contraction in 12Q4. For 2013 we foresee a very moderate improvement of economic conditions. Especially domestic demand is expected to remain weak amid large tax hikes, which will be imposed on both households and businesses.

Source: Reuters EcoWin, Rabobank

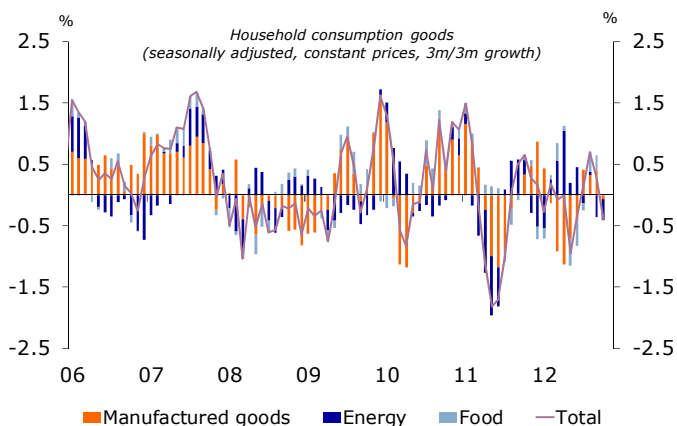
Stagnation comes to an end



After three quarters of stagnation, GDP grew finally in 12Q3, albeit with a moderate 0.2% q-o-q. Growth was mainly supported by net exports, which subtracted from growth in the previous two quarters. Export growth (+0.5% q-o-q) was remarkable in light of the decrease in world trade (-0.2% q-o-q). Further, the pickup in growth was consumption driven: both private consumption (+0.3% q-o-q) and government consumption (+0.4% q-o-q) were able to underpin growth. As far as business investment is concerned, after several volatile quarters, this component of GDP remained more or less stable in 12Q3.

Source: Reuters EcoWin

Is consumption growth permanent?



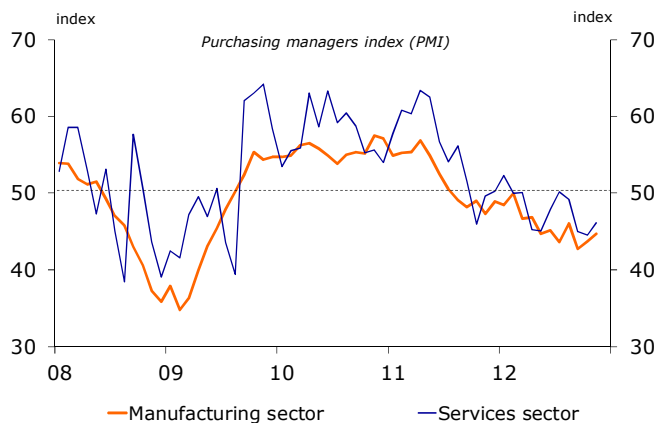
The consumption driven recovery in 12Q3 was mainly due to a rise in the consumption of manufactured goods (+0.8% q-o-q). That said, total household consumption of goods contracted on a monthly basis in August, September and October as a result of which the 3m/3m development in October showed a mild contraction. Therefore, in 12Q4, household consumption growth is unlikely to perform as well as in 12Q3. If we stretch our horizon to 2013, we expect hardly any household consumption growth. The weak labour market and the massive tax hikes will continue to pose headwinds for consumers. Of course, the latter will probably not hurt so much as tax hikes are targeted at higher income groups.

Source: Reuters EcoWin

Economic Update France

4 December 2012

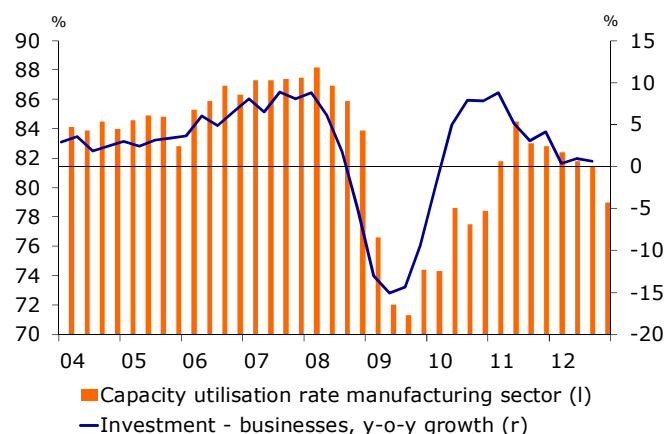
Leading indicators pointing cautiously upwards



After a huge deterioration in recent months, sentiment among purchasing managers (PMI), improved slightly in November. That said, the indices are still on a level consistent with contraction of activity. But the improvement corresponds with other 'soft' data; both the index of consumer- and producer confidence (INSEE) improved slightly in November. Although clearly positive, this does not necessarily mean the economic recovery will make a robust comeback in the fourth quarter. Even if the PMI in December improves at the same pace as in November, the average in 12Q4 remains well below the level in 12Q3, especially in the services sector.

Source: Reuters EcoWin

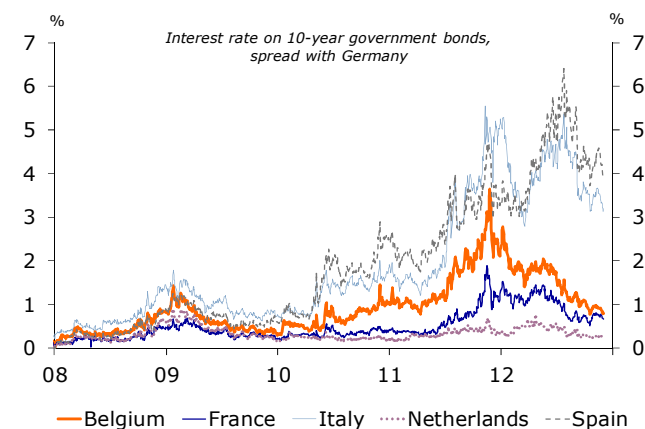
Low capacity utilisation hampers investment



A survey (EC) among entrepreneurs shows that the decreasing trend in the capacity utilisation rate in the manufacturing industry will worsen strongly in 12Q4. The sharp fall of manufacturing production in September (-3.2% m-o-m) might have contributed to this drop. The low utilisation rate is certainly no reason for firms to invest with the aim of expanding their existing production capacity. Uncertainty regarding the European debt crisis and tight credit conditions also contribute to the reluctance of firms to invest more. We are not optimistic about the French investment climate and expect only moderate growth of business investments in 2013.

Source: Reuters EcoWin

Markets unresponsive to Moody's rating downgrade



Investors do not seem impressed by Moody's decision to lower France's credit rating from Aaa to Aa1. During the days around the announcement, the interest rate spread between French and German government bonds rose only several basis points. While financial markets clearly do not build up the pressure on president Hollande, reports by Louis Gallois and the IMF on the erosion of competitiveness were able to trigger a remarkably bold response. Hollande announced a huge tax credit (EUR 20bn) for firms, which will be financed by lower government expenditures and a VAT-hike. Although a first step to boost competitiveness, the labour market reform remains the first real test for Hollande.

Source: Reuters EcoWin

www.rabobank.com/economics

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