



# ECONOMIC ENVIRONMENT EURO ZONE

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Asset Management

## Activity is picking up but the recovery is distant

Growth increased in the 4<sup>th</sup> quarter on the back of the stock cycle and variable abroad. It should weaken at the beginning of the year once the effects from exceptional measures and the technical rebound tied to the stock cycle are trickle to a stop. Investment should remain depressed in 2010 because of over-capacity as well as lending to business, which continues to contract. Profitability continues to worsen under the impact of growing deflationary pressures. Despite rising commodity prices, industrial sales prices are set to fall and underlying inflation, at 1% for the Eurozone, will record marked declines in the main countries such as France and Germany.

Business will go ahead with redundancies, which will weigh on consumption. Consumption had suffered for the whole of the Eurozone starting in the fourth quarter although in France it rose appreciably. In the German automobile sector, the end of the scrappage scheme in October dealt a severe blow to the market whilst in France news of a lower incentive led to soaring new registrations before falling significantly starting in January. Consumption should weaken in the first quarter as energy drives a 2% increase in inflation.

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