# ECONOMIC ENVIRONMENT

## Euro zone

### BUDGETARY ORTHODOXY MAKES A SUDDEN APPEARANCE

The national debt crisis in the Eurozone had already been looming for 18 months. However, the institutional failings in political and economic governance and the cultural and sociological differences between the various European populations rendered it unavoidable even though we should have known how to avoid it. Indeed, the governments of the Eurozone countries have taken an historic decision to set up a stabilisation fund amounting to €750 billion with the help of €250 billion from the IMF, which is preventing the spread of the liquidity crisis. During that same night, from 9 to 10th May, the European Central Bank (ECB) made the historic announcement that it would acquire future national debt securities on the secondary market; however, by retracting its own comments from four days previously, it lost credibility and even its independent status.

For all that, in the longer term, uncertainties remain, because a solution to the problems around the creditworthiness of the national debt can only be a structural one: the implementation of political and economic governance within the Eurozone that will prevent this type of crisis in the future is still doubtful. The only certainty is budgetary orthodoxy, which will be a necessary approach for all the countries in the region in the coming years, and which has been the price of this interdependence. The consequences are persistently low growth and inflation, throughout the Eurozone, while the unemployment rate is already very close to previous high points in several countries.

## United States

### IN THE WEST, NOTHING NEW

According to preliminary estimates, GDP increased at an annualised rate of 3.2% over the first quarter after 5.4% in the previous quarter. Despite the fact that the restocking process has begun again, the slowdown arises from the stock cycle, which contributed by +1.5 points after 3.7 previously. Restocking is likely to accelerate over the coming months, before seeing a turnaround in the second half of the year. Domestic final demand continued to grow at a rate of around 2%, as it has now for the last three quarters. National expenditure, which fell back by 0.4 percentage points of growth in the first quarter, will continue to be affected by insufficient revenue from taxation. Investment by companies is likely to continue to increase slowly, thanks to investments in information technology: the contraction in investment in capacity persisted, particularly in the commercial property sector (-15% in the first quarter) which declined during the crisis. The residential property market should experience a brighter interval temporarily during the second quarter thanks to tax incentives, after shrinking by more than 10% in the first quarter.

Finally, after showing a healthy upward trend for two months, household consumption is likely to slow down significantly: the persistent sluggishness among households despite the creation of more than 250,000 jobs in May heralds a rise in the savings rate, which has dropped to 2.7%. Deflationary pressures are intensifying: underlying inflation is at an all-time low at 1.1% over one year and 0% over the last three months.

## Japan

### AFTER THE INDUSTRIAL SLOWDOWN DUE TO DESTOCKING, ACTIVITY LEVELS SHOULD INCREASE

Growth in the first quarter was probably weakened by the increase in destocking. Although stable over the whole quarter, industrial production has in fact seen a very significant slowdown over recent months. However, GDP will accelerate once again in the second quarter, especially under the impact of exports, which increased by 2.8% in March after +1.1% in February and +0.4% in January.

Household consumption should also be stable, thanks to increasing purchasing power among individuals who are benefiting from the increase in hours of work, even though employment levels have still not re-established themselves. Deflation is still the problem area. It is preventing the return to profitability in the non-manufacturing sector, where investment is continuing to shrink rapidly: orders for capital goods in the non-manufacturing sector continue to plummet as in the commercial property sector. Japan remains at the mercy of any turnaround in its exports for reasons of demand or competitiveness, which would be likely to lead to a further recession.

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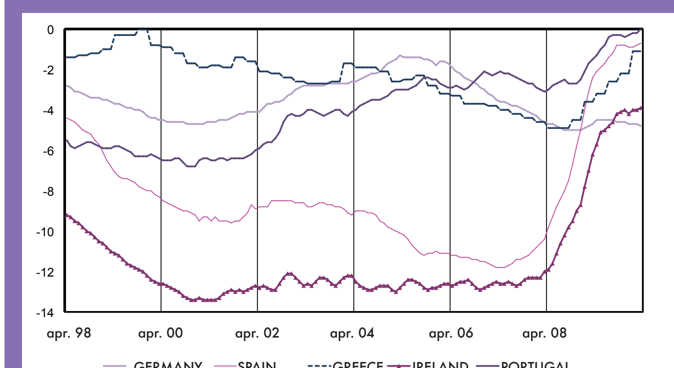
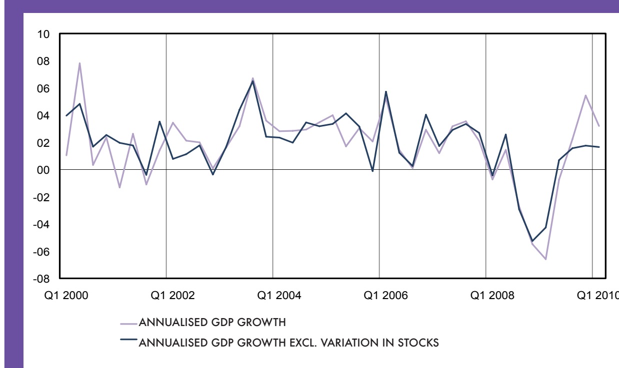
**Eurozone:** variance between unemployment rate and its max level since 1950 (%)



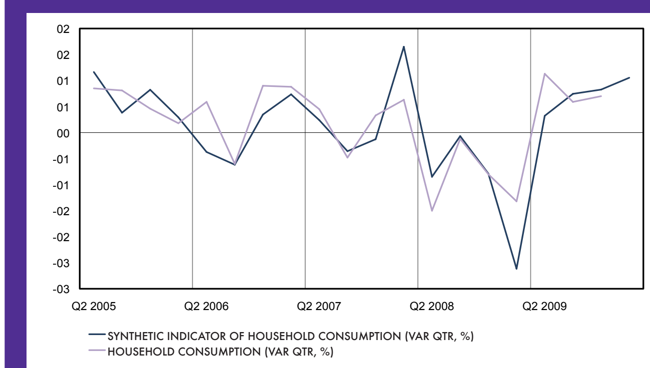

Sources: Datastream, Groupama AM

**United States:** excl. variation in stocks, growth has remained below 2% for 3 quarters




Sources: Datastream, Groupama AM

**Japan:** household consumption is still dynamic




Sources: Datastream, Groupama AM

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