

ECONOMIC ENVIRONMENT

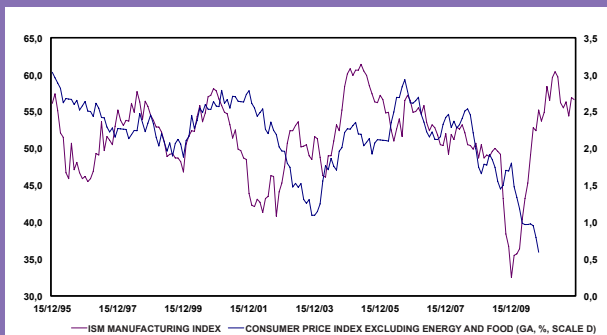
United States

CONTINUING GROWTH IN 2011, WITH HIGH RISKS

In 2011, the major current trends are likely to continue: an average of 100,000 jobs created per month, too few to significantly reduce unemployment, which hovers around 9.5%; tight financing for households and SMEs, which should continue but to a lesser degree. Under these conditions, residential investment should stabilise and consumption grow at an annual rate of 2%, with savings rates remaining steady at some 6%. Foreign trade, which should benefit from the decline in the dollar and the growth of emerging countries, should remain active, unlike this year.

Thus, despite the slowing of corporate investment, growth excluding inventory should improve significantly, from 1.6% to 2.4%. Meanwhile, the return of the inventory cycle is likely to take 0.6 points off 2011 growth, which will be 1.8%, versus 2.6% in 2010. Through foreign exchange, the Fed's QE should allow reflation of an economy currently on the verge of deflation: inflation is expected to be slightly positive at year-end. There are a number of downward risks to this scenario: the anticipated new wave of defaults in real estate lending, the new decline in property prices that is underway, and that will likely exacerbate financing constraints, an economy falling into deflation, ongoing tensions on bond rates. The main upward risk remains a return of lending.

United-States: an economy verging on deflation despite accelerating activity



Sources: Datastream, Groupama AM

Euro zone

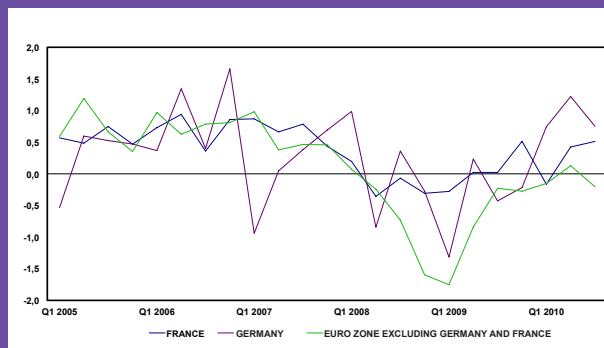
GROWTH SUFFERING FROM DIFFICULTIES OF EUROPEAN GOVERNANCE

GDP slowed by over half in the third quarter, rising only +0.4% versus 1% previously, due to the stability of corporate spending, after a contribution of 0.7 points to the previous quarter's growth. Private consumption is maintaining its modest growth rate of 0.2-0.3%.

Geographically, growth remains driven by German momentum and French domestic demand, while being penalised by the sharp contraction in domestic demand in peripheral countries. Most of these trends are expected to continue in 2011. In Germany, despite slowing exports, growth in corporate investment is projected to be 2%, thanks to consumption, sustained by the resulting wage increases. In France, by contrast, growth is expected to fall to 1%, penalised by rising long rates and elimination of the cash-for-clunkers program.

Finally, the entire euro zone will be affected by the simultaneous implementation of austerity plans, which are expected to reduce 2011 growth by some 1 point: the increase in long rates that will accompany this illustrates the lack of confidence that these economic policies will restore equilibrium to public finance. 2011 growth is expected to be 0.6%, versus 1.6% this year, and inflation will likely fall to 0.7%.

Euro zone: domestic demand already down in peripheral countries (Q var, %)



Sources: Datastream, Groupama AM

Japan

NEW DECLINE IN 2011 PROSPECTS

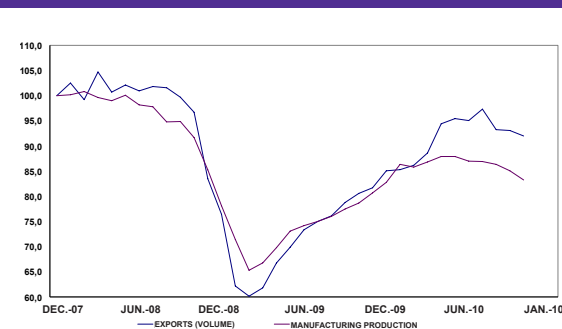
Growth was 1.0% in the third quarter, after +0.4% in the second, sustained by household consumption (+0.7 point contribution), foreign trade (+0.1 point contribution) and inventory (+0.2 points). GDP, however, is expected to sharply contract in the fourth quarter, by 0.7%: durable goods consumption is likely to plunge 30% after the elimination of green premiums for automobiles in September.

Beyond this technical correction, the weakening of growth will continue, due to foreign trade. Exports exacerbated their decline in October and, analysed in GA, are slowing in all regions. Moreover, the yen's appreciation is forcing companies to sharply reduce their margins. The decline in company profitability foreshadows a reduction in investment spending and is likely to have an impact on payroll: household consumption excluding automobiles would then likely slow significantly in 2011. Expected growth in 2011 is 0.5%, after +3.2% this year.



Laurent Berrebi,
Chief Economist

Japan: foreign trade will weaken growth in 2011 (indices at base 100 at start of period)



Sources: Datastream, Groupama AM