

# ECONOMIC ENVIRONMENT

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## United States

### NET SLOWDOWN IN THE 1<sup>ST</sup> HALF

Growth weakened significantly in Q1, dropping from 3.1 % to 1.8 %. It was penalised by a return to normal of private consumption, which grew at only a 2.7 % rate, versus 4 %, and by the tightening of public spending, which lost 1 point in its growth rate. Finally, real estate investment suffered from an increase in long rates, dropping at an annual rate of some 25 % in commercial, although residential held its correction to 5 % through intense price discounting. The slowdown is expected to continue, affecting large companies in particular, as indicated by the sharp reversal in the ISM non-manufacturer index. Although business investment, which was weak in Q1, should have been more dynamic, inventories are not expected to inflate growth. Residential real estate is likely to continue to decline: the number of new mortgage loan applications is falling, as is broker confidence. Only a significant drop in mortgage rates would improve the real estate market, both residential and commercial. Finally, household consumption is expected to slow further, to only 1.5 % in Q2 and Q3, due to lower job creation and a rise in inflation from 2.8 % to 3.5 %. Overall, growth is not expected to exceed 1 % in Q2.

## Euro zone

### PEAK GROWTH IN Q1

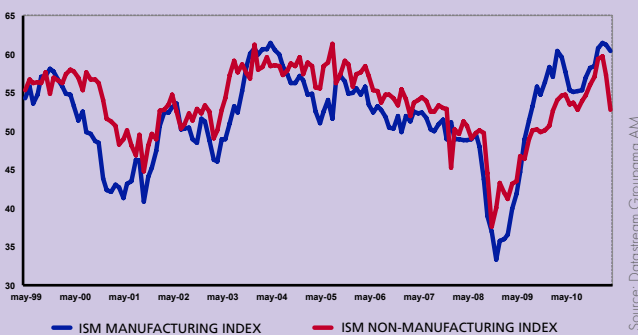
According to the flash estimate, which provides no breakdown, growth was significantly more dynamic than expected in Q1, rising from +0.3 % to +0.8 %. It was probably driven by the catch-up in activity in construction, which was handicapped at end-2010 by severe cold, and by the global trend toward industrial restocking. On the other hand, it was negatively affected by the tightening of consumption in peripheral countries, due to austerity plans. Prospects are clearly less positive for Q2. Leading indicators (PMI, European Commission surveys) are declining in all sectors, particularly in construction and retail trade. The increase in long rates has worsened real estate credit conditions. Household consumption is expected to decline under the impact of the drop in purchasing power: the forthcoming increase in inflation, from 2.7 % to 3.2 %, will not result in additional wage increases. Second-round effects are thus virtually non-existent: production price increases for final goods (equipment, durable goods) are very low, while the pricing prospects for manufacturers are turning down. The sharp decline in production prospects in all countries, including Germany and France, points to lacklustre growth in Q2.

## Japan

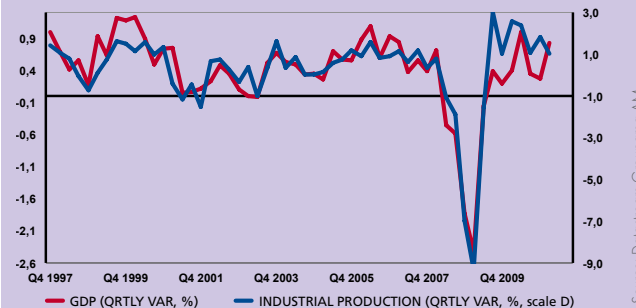
### DROP IN ACTIVITY, RECOVERY AT YEAR-END

Industrial production dropped over 15% in March, led by the automobile sector (-50%) and semiconductors (-30%), which suffered from the sharp decline in demand and component shortages. The disorganisation in production may be seen in the nearly 8% drop in exports in March. The non-manufacturing sector has also been affected: the activity indicator for small, non-manufacturing companies dropped 20 points, returning to the level of October 2008. All these indicators confirm a decline in GDP in Q2, after an annualised contraction of almost 4% in Q1. Activity is expected to rebound, thanks to exports, then decline again due to household consumption. Salary purchasing power is expected to deteriorate, a direct consequence of the fall in activity. The number of hours worked and the average salary are already decreasing. Employment will likely follow. A recovery is expected in Q4, driven by reconstruction spending: an initial budget allocation of €35 billion, out of the projected €250 billion, has already been applied. The remainder of the financing continues to be a subject of discussion between the government and deputies.

United States: ISM indices are in the process of a sharp rebound



Euro Zone: GDP in clear acceleration due to the catch-up effect in the construction sector, while industrial production slows



Japan: GDP expected to fall in Q2, after a slight decline in Q1

