



United States

CRISIS OF GOVERNANCE, CONSUMER CONFIDENCE DOWN, BUSINESSES "WAIT AND SEE"

Two major events have upset our scenario of a recovery in consumption that began to emerge in July. First, the downward revision of growth figures discredited the effectiveness of the quantitative monetary policy conducted so far by the Federal Reserve, and convinced investors of a modest long-term economic outlook in the U.S., triggering a significant market correction. Then, the open conflict between the Obama administration and the Congress, responsible for the downgrading of U.S. government debt by the S&P, highlighted a level of debt and a budget deficit that are unsustainable in the minds of Americans. Households, the sharp decline in whose expectations since early August is already reflected by a significant decrease in their investment spending, could now reduce their consumption in order to smooth the impact of an inevitable increase in taxes made apparent by the crisis in governance. If consumer pessimism were to be confirmed in the coming months, consumption would fall, triggering a new recession. For now, the stabilisation of ISM indicators above 50 refutes that possibility. Companies are simply creating fewer jobs to adjust to a weaker rate of growth.

Euro zone

SHARP DETERIORATION OF EXPECTATIONS, DUE TO THE CRISIS OF EUROPEAN GOVERNANCE

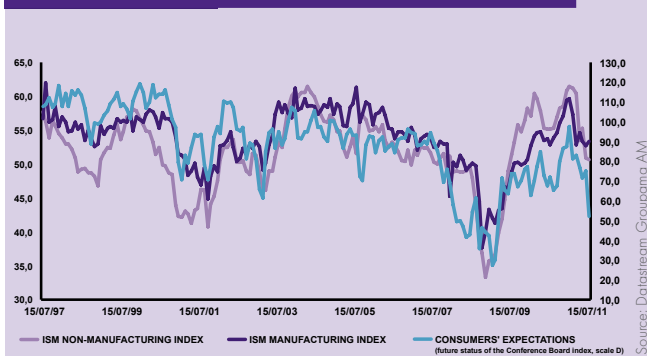
Growth was weak in the second quarter across the entire eurozone (+0.16 % Q/Q), still buoyed by exports, but impacted by a contraction in domestic demand for the first time in a year. The slowdown was sudden in Germany (+0.1 %, after +1.4 %) and France (0 %, after +1.0 %), due to the sharp drop in consumer spending, which was adversely affected by the termination of the car-scrapping incentive in France and the severe decline in purchasing power in Germany. Since the beginning of the summer, business and consumer expectations have fallen off sharply, especially in Germany, most likely because of the crisis of European governance. Industrial companies throughout the eurozone, increasingly frustrated over their production plans, will likely slow their activity and halt their investment momentum. Purchasing managers' indices (PMI), which suggest an industrial recession, are not, however, pointing to a global recession. The decline in both overall inflation and underlying inflation make it likely that the European Central Bank (ECB) will soon reduce key interest rates.

Japan

THE V-SHAPED RECOVERY EBBS AWAY

GDP contracted 0.5 % in the second quarter due to the sharp reduction in exports which, following the nuclear disaster and the tsunami, were hurt by the disruption of economic channels. But domestic demand—in investment and consumption—appear stable, and completely spared: Growth figures should be revised significantly downward to be more coherent, as indicated in particular by the plunge in investment spending revealed in surveys of large companies. Leading indicators continue to show a V-shaped recovery, driven by exports and spending on reconstruction in the energy sector to restore production capacity, and in residential real estate to relocate the inhabitants of devastated areas. However, companies do not appear to be restoring their destroyed production capacities on Japanese territory. This V-shaped recovery will nevertheless be hindered by the downturn in the global cycle of business investment, and the strong yen, which should lead Japanese manufacturers to reduce their margins.

United-States: Business expectations steady, sharp deterioration of consumers' expectations



EURO ZONE: Sharp fall-off in both business and consumer confidence (consumer confidence indices, centred, normed, standard deviation points)



Japan: V-shaped recovery in exports halted by global slowdown

