ECONOMIC ENVIRONMENT

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United States

RISK OF A CONTRACTION IN EMPLOYMENT

Corporate morale seems to be holding up well for now. The one-point rise in the ISM manufacturing index, to 51.6, is apparently down to a catch-up effect in the transport sector which was impacted by supply problems stemming from Japan. However, the ISM's decline isn't over, because the overly fast pace of restocking needs correction. More significantly, the order book index—i.e., orders remaining to be filled—is at its lowest level since early 2009 and would justify a substantial contraction in employment in the coming months. This would reinforce the pessimism of consumers, already affected by a deterioration in their wage purchasing power, and then cause a drop in consumption and activity, all the more so in that their savings rate of 4.5% is a point and a half below its fundamental level. Data on the labour market will be crucial in the coming weeks.

Euro zone

THE CRISIS OF CONFIDENCE SHOULD TRIGGER A RECESSION IN Q4

GDP growth is expected to remain around 0.2% in the third quarter, thanks to a rebound in consumption in France and Germany, after their sharp decline last quarter. The contribution of foreign trade should also remain positive, with exports growing faster still in France and Germany and imports falling in the peripheral countries, in line with domestic demand.

Leading indicators, however, point to a contraction in GDP in the fourth quarter, brought on by the crisis of confidence not only in European governance, but also in the robustness of the European banking sector which is already tightening lending conditions, particularly for businesses. Capital expenditures are thus expected to contract and the inventory cycle to reverse course.

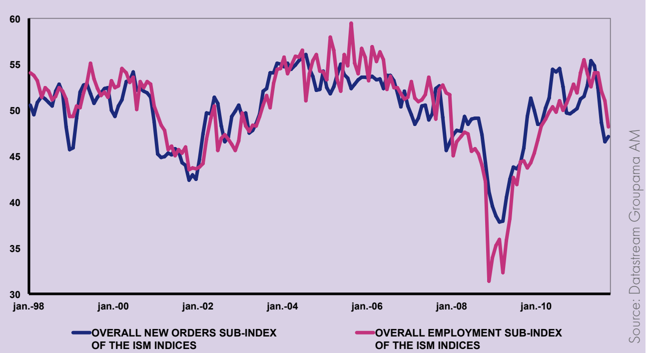
Consumption—already hurt by austerity plans—is likely to suffer from the worsening jobs market: households anticipate a worsening of the labour market, including in Germany. However, in the next few weeks, important decisions by the Europeans—on eurozone governance, on the strengthening of bank capital, and on increasing the leverage of the EFSF—should restore confidence and allow for a short-lived recession (two quarters of GDP contraction).

China

THE COUNTRY HAS THE MEANS TO WITHSTAND A POTENTIAL CRISIS OF CONFIDENCE

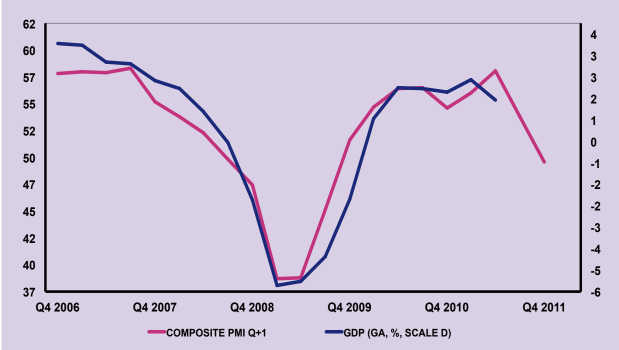
Activity is expected to slow under the impact of weakening world trade and investment, excluding public real estate. Consumption should, however, keep the same pace of growth, thanks to preserved purchasing power which should benefit from lower inflation, leading to a soft landing for the economy. Monetary policy is in a wait-and-see phase faced with uncertainties about the extent of the turnaround in inflation, which will depend on movements in real estate prices—the main challenge for the authorities: These latter will have to decelerate to reduce inflation, whilst avoiding a decline which would contribute to social tensions and systemic risks. Certain elements raise fears of a Chinese crisis of confidence in their economy, such as the difficulties of some real estate developers, the significant contraction of real estate sales during the national 'Golden Week' holiday, and the deteriorating financial position of SMEs. Aside from a real estate demand that is structurally solid, China has the means to withstand such a crisis, through a counter-cyclical fiscal policy and a loosening of monetary policy.

United-States: The employment sub-index of the ISM indices points to upcoming layoffs



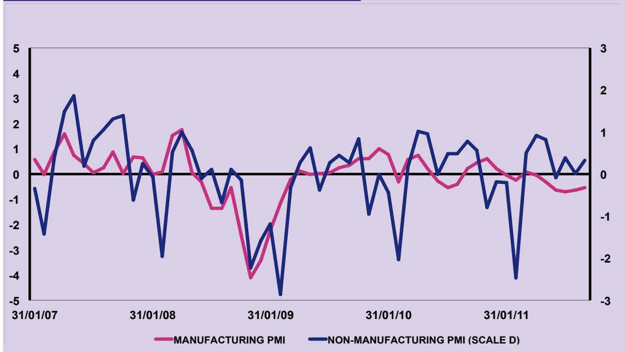
Source: Datastream Groupama AM

Euro Zone: Contraction of Activity in Q4



Source: Datastream Groupama AM

China: Growth driven by the non-manufacturing sector (PMI indices, normed)



Source: Datastream Groupama AM

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