



United States

RESURGENCE OF INDUSTRY IN A STILL-FRAGILE ECONOMY

Growth is driven by consumers' need to replace durable goods, which has been on hold for the past three years. Non-existent gains in purchasing power, however, portend the end of this resurgence. Revenues could even deteriorate if falling inflation, countered by newly rising oil prices, fails to offset the imminent weakening of the creation of jobs, expected to drop to 50,000 versus an average of 150,000 over the last quarter. In effect, the wait-and-see attitude businesses are showing in their capital expenditures should soon be seen in their hiring behaviour; employment will also likely suffer from the sluggishness of the past four months in consumer services, which households need to finance their craving for durable goods. Finally, the significant decline in household wealth in the third quarter should halt the decline in their savings rate. In sum, we expect consumption and growth to be flat in the first half of the year.

The improvement seen recently in residential property concerns only the rental investment market in collective housing (buildings), fuelled by the need to relocate households that have lost their primary residence to foreclosure. In contrast, the single-family home market remains mired in a slump as consumers are forced to continue deleveraging

Euro zone

A PAUSE IN THE DECLINE OF LEADING INDICATORS

GDP is expected to decline by about 0.5% in the fourth quarter, impacting Italy and Portugal in particular, but sparing neither France nor Germany (-0.3%). This decline will be mainly driven by investment: Business capital expenditure has suffered from the crisis of confidence in the euro, especially in Germany, while consumer spending has been hurt by the sharp fall-off in new mortgages, with the notable exception of France, where the property market has benefitted from the programmed end of tax relief on mortgages, before a sharp correction in 2012. Consumption is also expected to fall, albeit much less than investment.

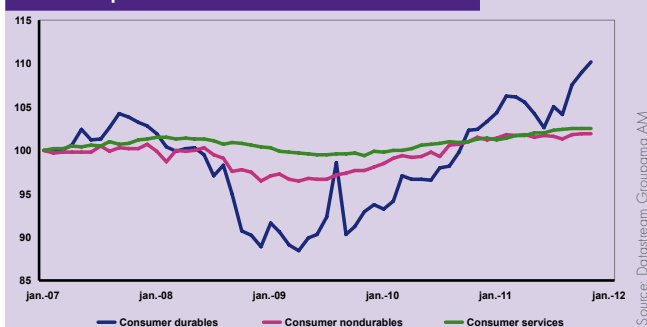
The decline of leading indicators took a pause over the last month, in parallel with the stabilisation of economic indicators and the lull in the debt crisis following mainly from the decisions of the EU summit of 9 December, and the actions of the ECB. It is only a pause, however: The pace of the contraction in activity is expected intensify in the first quarter of 2012 as businesses adjust their capital expenditure and payrolls to weaker activity. Only Germany is safe, with particularly strong fundamentals for both consumers and businesses, including historically low unemployment and favourable corporate profitability and debt levels.

China

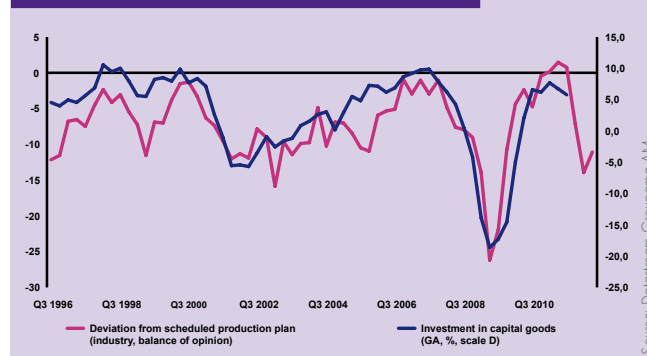
ACHIEVING A SOFT LANDING

While exports continue to slow, activity indices are no longer deteriorating: Household consumption is being boosted by the decline in inflation, which fell from 5.5% in October to 4.1% in December, and by the ensuing gains in purchasing power. Property investment should continue to fall, and property prices continue to decelerate. The faster-paced growth of debt observed recently should impel authorities to maintain pressure on key interest rates and to put off reducing mandatory reserve ratios for now, despite the decline in inflation. Conversely, fiscal policy should remain very active, in the form of subsidies to SMEs and fiscal transfers to local governments hurt by the sudden drop in land sales, while social programs could be curtailed. China appears to be achieving a soft landing. Growth should slow to 8% in 2012, in line with the authorities' objective.

United States: Personal consumption (Volume, Base 100 at beginning of period), a plethora of durable goods at the expense of services and nondurables



Euro Zone: Businesses must adjust their capital expenditure to lower-than-expected activity



China: Prices (% GA), Soft Landing

