

# ECONOMIC ENVIRONMENT

## United States

### SIGNIFICANT SLOWDOWN IN THE SECOND HALF

While still strong in appearance (3% in Q1, after 5.4%), growth remains substantially weak: excluding changes in inventories, it fell in effect from 1.8%, to 1.4%. Growth is therefore expected to fall to 1% in the second half, because no other demand component is likely to offset the slowing of support for growth in inventories. Foreign trade is expected to be affected by the contracting of European internal demand and the dollar's recent appreciation. The drop in new mortgage loans to a lower level, due to financing conditions that are still difficult, presages a decline in the residential real estate market, after the end of tax incentives. Business investment in new information technologies will experience a slowdown similar to that recorded by domestic earnings, a direct result of the sharp decline in productivity gains and job creation. Finally, household consumption is expected to reduce its Q1 4% rate of increase significantly to 2%, consistent with the May drop in retail sales. Overall, underlying inflation has already been at 0 over the past three months, and the decline in prices per barrel should result in an overall drop in inflation, which was at 2.2% in April.

## Euro zone

### ECONOMIC CLIMATE NOW AFFECTED BY THE DEBT CRISIS

After stagnating at end-2009, GDP grew 0.2% in Q1 2010, thanks to the inventory cycle, which contributed 0.8%. Excluding changes in inventory, domestic demand contracted for the eighth quarter in a row, and growth fell to 0.5%. The construction sector weighed on activity levels, reducing growth by 0.3%, and the increase in service activities remained modest (+0.3%).

Added to this now are tensions and uncertainties associated with the sovereign debt crisis. In the view of business leaders, the economic climate has deteriorated in every country and every sector, except manufacturing, which continues to benefit from the favourable inventory cycle and international sales momentum. Households are concerned about economic prospects and their future financial situation. In a context of high unemployment rates, household expenditures should thus continue to contract, while the automobile market continues its correction after the expiry of sales incentives. Overall, growth will be tepid in the year ahead, with the contraction in domestic demand being offset by the support for foreign trade, which will benefit from the trend in emerging countries and depreciation of the euro.

## Japan

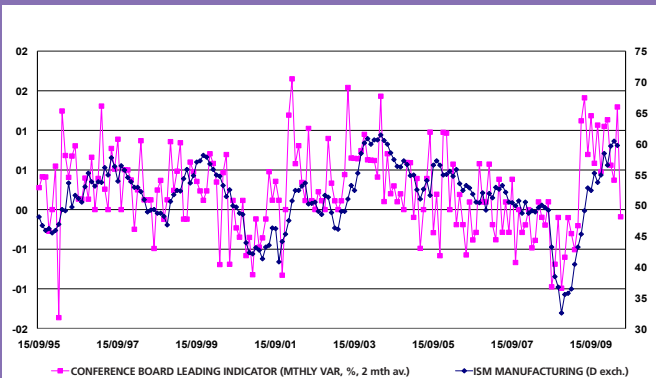
### DYNAMIC ACTIVITY, VERY DEPENDENT UPON FOREIGN TRADE

Q1 growth was 1.2%, after 1.0% in the previous quarter. Some two thirds of this was due to foreign trade. Domestic demand remains supported by consumption (+0.2% contribution) and the inventory cycle (+0.2% contribution). By contrast, investment continues to decline (-0.1% contribution). Leading indicators are continuing to rise, presaging activity that is still dynamic in the short term. Exports are accelerating once again (+6.6% in April, after +2.7% the previous month), under the impact of Asia. Household consumption should maintain its rate of growth: on the one hand, retail sales are continuing their upward trend (+4.5% in GA, after +3.9%), while on the other, the automobile market is beginning to slow with the expiry of sales incentives. The number of hours worked and bonuses are increasing, while the job market for the non-manufacturing sector is still experiencing deflation and financing constraints that weigh on business. The Japanese economy, which has experienced a net return to positive momentum, remains at the mercy of an external shock, which could cause it to dip back into recession.

**Laurent Berrebi,**  
Chief Economist

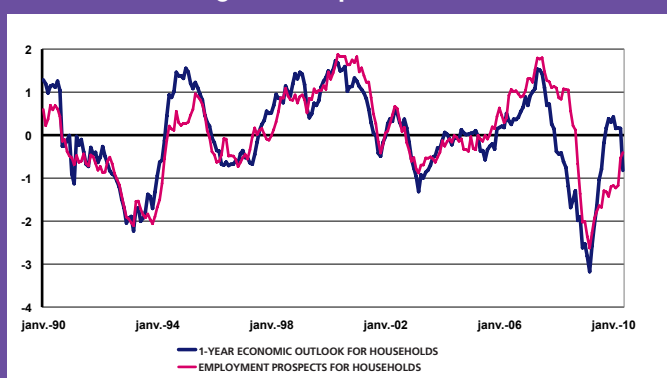


### United States: the Conference Board leading indicator dropped for the first time in a year



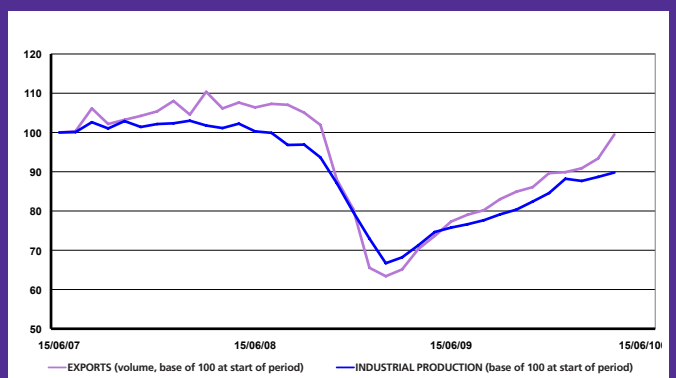
Sources: Datastream, Groupama AM

### Euro zone: significant decline in household growth expectations



Sources: Datastream, Groupama AM

### Japan: the latest acceleration in exports is favourable to industrial production



Sources: Datastream, Groupama AM