ECONOMIC ENVIRONMENT

United States

ANOTHER RECESSION AVERTED FOR NOW

The ISM manufacturing index failed to confirm last month's recessionary message. It rose 2.5 points to 56.9, led by a sharp rebound in new export orders, which are beginning to benefit from the dollar's decline. The strong negative contribution of exports (another -2 points) should thus soon be neutralised. But the inventory cycle continued in its upward phase: its reversal (which will be all the more brutal the later it occurs) will trigger a fall in the ISM manufacturing index. That's because restocking has significantly accelerated, accounting for most of the third quarter's 2% growth: on an annual basis, it totalled $115 billion, exceeding $100 million for the first time since 1998.

Excluding inventories, growth weakened, slipping from 1.0% to 0.6%. The credit crunch continues to affect households, as shown by the nearly 8% fall in residential investment. This heightened deflationary pressure, as the unemployment rate held steady at a very high 9.6%. As a result, underlying inflation was negative for the month of September. Faced with the substantial risk of deflation and fearing another recession, the Fed opted for a new round of quantitative easing: it will inject $600 billion of fresh liquidity into the economy over the next eight months. The result—the dollar's precipitous decline vis-à-vis the euro and the yen—reveals the lack of international cooperation in resolving this crisis.

Euro zone

SLOWDOWN IN DOMESTIC DEMAND IS THEN ECHOED BY FOREIGN DEMAND

Growth deteriorated from 1% in the second quarter to 0.4% in the third. Although the breakdown is not yet available, there is little doubt that domestic demand is driving this very substantial slowdown. According to surveys, the inventory cycle is reversing course: the contribution of inventories to growth is probably close to nil. Production indices show a general decline in construction activity, after a 5.2% increase in the last quarter. Finally, according to surveys and retail sales figures, consumer spending is slowing under the impact of peripheral countries hit by austerity measures and, for some, a scarcity of credit. Growth has also slowed in Germany, despite improvements in the jobs market. France, in contrast, showed significantly higher consumer spending.

Only export activity remained dynamic in the Eurozone, thanks to Germany. However, foreign orders for German manufactured goods slowed considerably in the last two months: beginning in the fourth quarter, German exports will suffer from the slowdown of world trade and the weakening of the European countries, its main trading partners, which will be hurt by the euro's rise. This is likely to steepen the decline in GDP.

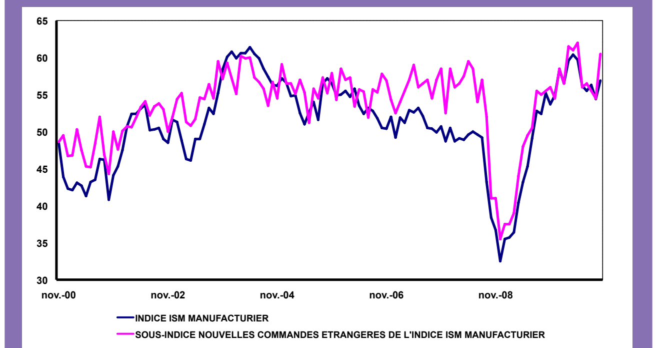
China

TIGHTER MONETARY POLICY, LONG-TERM CHANGE IN GROWTH STRATEGY

Activity is heating up again under the influence of consumer demand. This necessary rebalancing of growth towards domestic demand requires wages to rise as a share of GDP: they currently represent less than 40%. This is one of the priorities of the government's 12th five-year plan. Meanwhile, the current uptick in activity is doing little to help resolve global trade imbalances, benefiting domestic production greatly, but imports hardly at all. As a result, the Chinese trade surplus is widening. In addition, the resumption of sales on the property market continues to worry the monetary authorities. Deposit rates, particularly on long-term savings, have been raised for the first time since 2006: the goal is to redirect Chinese savings from real estate towards deposits, and to penalise the profitability of long-term credit and mortgage lending. The rising yuan is only a consequence of this rise in rates, though not the sought-after goal. Finally, the rise in inflation to 4.4% is no cause for alarm: underlying inflation remains low and higher food prices—the main cause of inflation—will help to redistribute wealth between urban and rural households.

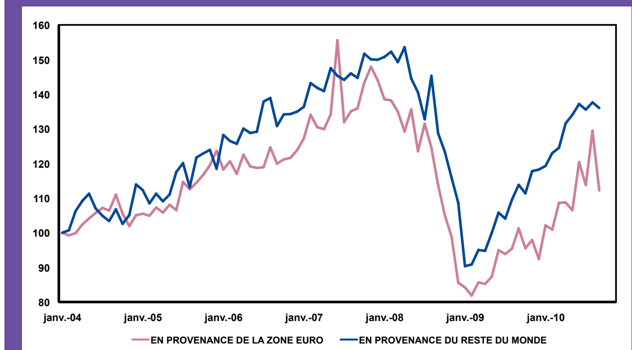
Laurent Berrebi,
Chief Economist

United-States : exports sustain industrial activity



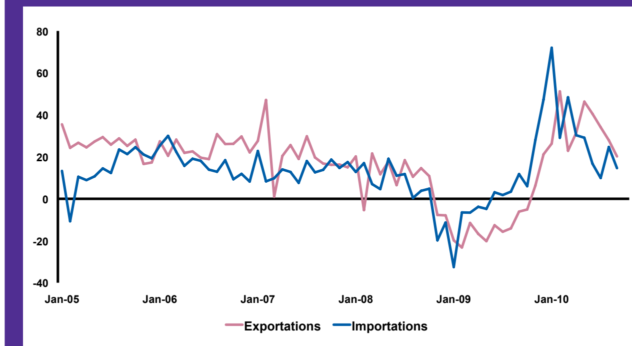
Sources: Datastream, Groupama AM

Eurozone: Industrial export orders
(base 100 start of period)



Sources: Datastream, Groupama AM

China: Foreign Trade (Volume, AG, %)



Sources: Datastream, Groupama AM

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