



United States

GROWTH STEADIES, STRUCTURAL CRISIS CONTINUES

Preliminary estimates of fourth-quarter growth place it at 3.2%, compared to 2.5% in the prior quarter, confirming the guiding principles of our scenario. The sharp reversal in the inventory cycle has been documented – occurring one quarter earlier than expected, it reduced growth by 3.4 points. Given overcapacity, the 3% contraction in company capacity spending should continue. Investment in information and communication technology (ICT) remains strong, increasing by 10% annually. As expected, residential investment has stabilised. Household consumption recorded its highest growth since early 2006 – 4.3% – while purchasing power has been trading water for four months. However, the one-point drop in the savings rate cannot continue. The real estate market remains in crisis, prices continue to fall and households still face tight financing constraints. Consumption should return to an average rate of 2%, compatible with the creation of 200,000 jobs, on average, per month. Last, the sharp contraction in the GDP deflator in the goods sector shows that fears of internal deflation are well-founded, even if overall inflation is rising again, impacted by energy prices. The first quarter should be solid, supported by world trade and the temporary build-up of restocked inventories, which had fallen too low.

Euro zone

SOVEREIGN DEBT CRISIS STIFLES EVERY SIGN OF RECOVERY IN DOMESTIC DEMAND

Growth, estimated at 0.3%, remained weak in the fourth quarter, punished by harsh weather and widespread weakness in consumer spending, except in France, where it was boosted by the scheduled end of the car-scrappage bonus program. The 0.5% contraction in GDP in the U.K. reflects these two developments: weather conditions, which caused GDP to fall 0.5%, and consumer spending, which headed up before the January hike in the VAT.

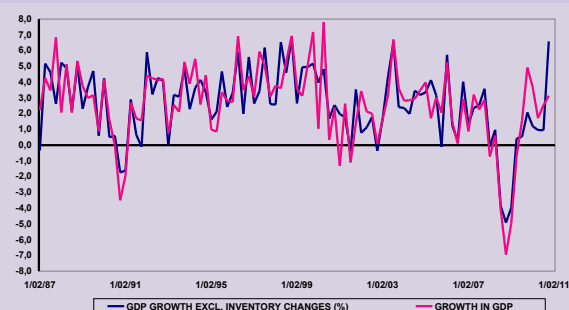
Growth should improve temporarily in the first quarter, catching up after the storms and thanks to the rebound in world trade. But beyond that, it will remain severely constrained by budget consolidation, increased unemployment – reaching historic highs in several peripheral countries – and the widespread worsening of employee purchasing power, resulting from rising energy prices. Continuing pressures on bond markets in the peripheral countries and continued rise of long-term interest rates in core countries remain a cause of considerable concern for growth. This has created a new hardening of credit conditions for households and the troubling slowdown in the Italian economy. Driven by energy and food prices, inflation in the Eurozone has risen to 2.4%. Underlying inflation remains stable and low.

Japan

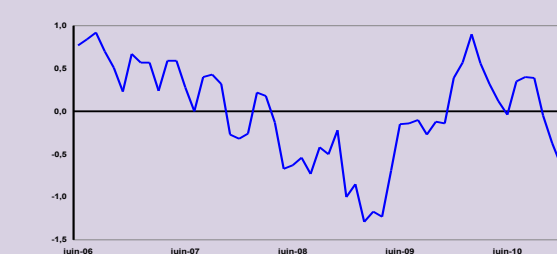
EXPORTS REBOUND BUT DOMESTIC DEMAND SHRINKS

Based on early estimates, GDP shrank 0.3% in the fourth quarter, affected by the correction in the automobile market. However, household consumption, which lost 0.4 points of growth, continues to fall. The reversal in late 2010 retail sales indicates a drop in household consumer spending that is much more sustained and fundamental than technical. Japanese households are experiencing declines in purchasing power due to a reversal in average compensation, while steady employment worsens. Companies are reducing payroll expenses after squeezing margins, an action intended to absorb the sharp appreciation in the yen. Facing this profitability shock, companies also had to reduce investment spending in the first quarter, as indicated by the recent drop in new domestic orders for capital goods and the fall in construction starts in the commercial real estate sector. Growth in the first quarter will thus continue to be affected by the general decline in components of domestic demand. However, as foreign trade continues to strengthen and the yen stabilises, Japan will return to growth.

United States: growth excl inventory changes strengthens as a result of household consumption and sharp decline in imports (%)



Euro zone: retail sales fall again for the first time since 2008 (retail sales, quarterly change, %)



Japan: retail sales relapse as a result of decline in earned income

