



United States

THE SLOWDOWN CONTINUES; A NEW RECESSION IS LESS UNLIKELY

The rebound of the ISM manufacturing index, by 1.8 points to 55.3, creates no illusions: The leading economic indicators haven't ended their slide and are expected to be driven lower by weakening world trade and domestic demand. Domestic shipments of capital goods confirm the marked slowdown in corporate capital expenditure. Moreover, due to the sharp downturn of durable goods purchases—particularly automobiles—household consumption has been contracting since March. In a context of continued household deleveraging, the nosedive in developers' confidence (despite lower mortgage rates), low job creation, flat wage income and the sharp rise in underemployment are all factors likely to lengthen the duration of the slowdown—which could even degenerate into recession. We are nevertheless maintaining a scenario of rekindled growth by the end of the summer, driven by higher consumption as household purchasing power gets an expected boost from falling energy inflation. We've lowered our growth forecast, from 2.5% to 2.2%.

Euro zone

CONSUMPTION FALLS

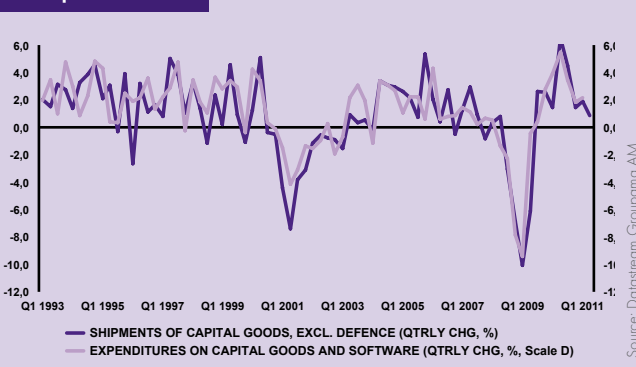
Leading indicators continue their sharp downturn in the industrial sector, which is being hurt by the global slowdown: The annual growth rate of new German export orders fell to 5%, its lowest level since late 2009. The PMI services index also strongly deteriorated, especially in France and Italy, pointing to a significant slowdown in domestic demand. Business expectations plunged to a two-year low, joining investor confidence, notably illustrated by the ZEW index. More importantly, after holding up well through the first quarter due to the sharp drop in the savings rate, household consumption is falling: Retail sales are plummeting everywhere. Given a too-low savings rate, changes in consumption will have to depend solely on the determinants of purchasing power, which are misdirected. Employment was steady in the first quarter and is expected to fall with the sharp slowdown in activity. Average wages posted a weak increase of 1.5% due to the high level of unemployment, which will persist. Only the drop in inflation projected from the end of Q3 will serve to revive purchasing power and consumption.

China

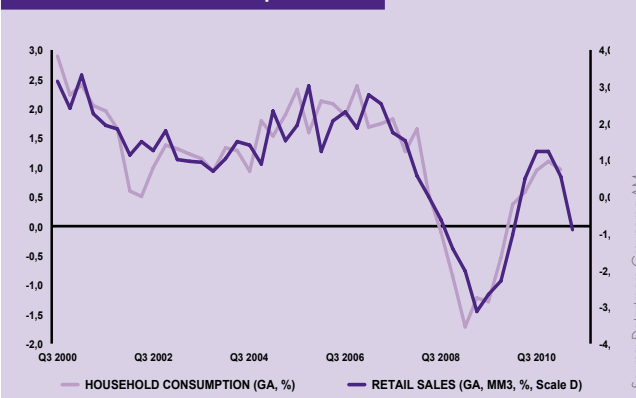
MONETARY POLICY CONTINUES TO TIGHTEN

Growth weakened slightly in the second quarter, from an annual rate of 9.7% to 9.5%. In effect, while industry is impacted by the slowdown in exports and retail sales, which are being hurt by rising inflation and reduced support for the automobile industry, the services sector remains dynamic, and the construction sector is being buoyed by a large-scale programme of social housing construction carried out by local governments. Meanwhile, inflation continues to climb due to the sharp rise in housing costs, a reflection of the real estate bubble that the authorities are trying to combat. Monetary policy should thus continue to harden: The legal reserves ratio has been raised six times since the beginning of the year, to 21% for large banks, a historical high, and benchmark rates were again raised in early July, by 25 basis points. However, the credit difficulties of SMEs, the failure of several real estate developers and, more generally, the importance of the industrial slowdown presage a shift in the monetary policy from tight to neutral during the third quarter.

United States: corporate investment continues its sharp slowdown



Euro Zone: consumption falls



China: Activity slows sharply in the manufacturing sector but speeds up in the non-manufacturing sector (PMI indices, centred, normed)

