

ECONOMIC INDICATORS

ACTIVITY	2007	2008	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09
	Annual averages							
1 - Industry (manufacturing sector)								
Manufacturing output								
Index (base 100 in 2000), SA	104.1	101.6	101.8	100.6	96.2	93.2	...	...
Growth rates, month-on-month, as %	1.7	-2.5	-0.5	-1.2	-4.4	-3.1	...	...
Intermediate goods	98.7	95.1	95.1	93.4	90.3	85.2	...	...
Producer durables	115.5	117.7	117.1	117.9	115.8	115.2	...	...
Automotive	102.7	93.6	96.9	92.3	71.8	66.0	...	...
Consumer goods	103.2	100.9	100.8	100.6	99.8	100.6	...	...
Production capacity utilisation rate, SA, as %	85.4	84.5	0.0			82.2		
Synthetic indicators								
Manufacturing PMI	52.9	46.7	45.8	43.0	40.6	37.3	34.9	37.9
Bank of France	107.3	90.4	92.2	85.9	78.0	68.4	66.0	...
Insee	109	96	94	91	87	79	73	73
Insee monthly survey								
Recent changes in output	16	0	-2	-8	-12	-24	-33	-38
Personal production outlook	15	-4	-6	-11	-22	-31	-41	-39
Total demand and order level	2	-19	-22	-25	-32	-46	-58	-55
Export demand and order level	6	-17	-22	-28	-26	-48	-56	-49
Finished-goods inventory level	11	18	17	18	22	26	32	30
2 - Services								
PMI services	59	50	48.0	50.1	47.5	46.2	40.6	42.6
Business services excl. temporary work, Insee								
Recent business activity	18	10	10	11	1	3	-2	-9
Business expectations	14	4	2	0	-5	-11	-10	-19
Services to individuals, Insee								
Recent business activity	8	5	3	-1	-11	-9	-11	-15
Business expectations	9	2	3	4	-8	-8	-20	-16
3 - Domestic trade								
Retail: Reported sales	14	3	-5	0	-12	-1	-21	-23
Retail confidence synthetic indicator	-10	-41	-43	-45	-61	-59	-57	-60
Wholesale trade: Volume of sales reported	-3	-16	-22	-22	-30	-30	0	0
Order level	-7	-16	-20	-20	-33	-33	0	0
4 - Construction: Business expectations	20	-7	-10	-11	-32	-37	-34	-37
Demand for new dwellings to buy (property developers)	-32	-66	0			-94		
Housing starts (cumulated over 12 months, 000's)	437.1	368.6	395.5	385.3	377.7	379.4	368.6	...
5 - Public works: Business expectations	17	-22	0			-46		
HOUSEHOLD	Annual averages		Month-on-month					
Household consumption of manufactured goods, as %	4.4	1.2	-0.4	0.6	-0.6	0.3	-0.9	...
New car registrations, SA, Insee	2.9	-1.1	-1.1	0.6	-4.3	0.5	-4.1	...
Confidence summary indicator	-21	-42	-45.0	-43.0	-46.0	-43.0	-44.0	-41.0
PRICES EMPLOYMENT WAGES	Annual averages		Year-on-year					
Inflation rate, as %	1.5	2.8	3.2	3.0	2.7	1.6	1.0	...
Underlying inflation rate, as %	1.5	2.0	2.0	2.1	2.1	1.9	1.8	...
Competitive sector employment, in millions	15.928	16.033			15.993			
Year-on-year, as %	1.8	-24.5			0.2			
Quarter-on-quarter, as %					-0.3			
ILO unemployment rate, Metropolitan France, as %	8.0	7.2			7.3			
Hourly wage for manual workers, as %	2.7	2.7			3.1			
EXTERNAL TRADE								
Trade balance, SA, EUR billions	-40.1	-56.9	-5.0	-5.5	-7.0	-6.2	...	...
Cumulated over 12 months			-50.8	-52.5	-55.6	-56.9	...	...
Exports FOB, SA, EUR billions	403.4	380.5	35.0	34.2	32.0	31.2	...	...
Imports FOB, SA, EUR billions	443.5	433.0	40.0	39.7	39.0	37.5	...	...
Current account, SA, EUR billions	-20.1	-36.9	-4.1	-4.3	-4.7	-4.4	...	...
Cumulated over 12 months			-33.1	-35.6	-38.4	-40.0	...	...
HOME FINANCE	Annual averages		Year-on-year					
Credits to corporate, as %	10.9	13.8	13.4	12.3	12.7	11.7	9.5	...
O/w investment	9.7	13.2	14.1	13.9	13.5	13.2	11.9	...
Credits to households, as %	11.2	9.3	8.8	8.6	7.9	7.4	6.8	...
O/w housing	13.9	11.0	10.4	10.0	9.3	8.6	8.0	...
	Annual averages		Monthly averages					
3 month interest rate, as %	4.2	4.6	4.9	5.0	5.1	4.3	3.3	2.5
10 year OAT, as %	4.3	4.2	4.4	4.4	4.2	3.9	3.4	3.6
Euro in dollar	1.37	1.47	1.50	1.44	1.33	1.27	1.35	1.33

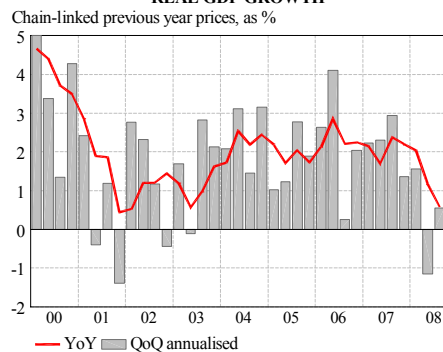
Sources: Insee, Customs, Bank of France, Datastream, Société Générale

QUARTERLY ACCOUNTS

(As % or EUR bn)	2007 nominal	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	2006	2007	Carried over
Household cons.	1,048.4	0.8	0.6	0.0	0.0	0.2	2.5	2.5	1.1
Gen. gvt. cons.	438.1	0.4	0.3	0.4	0.5	0.6	1.4	1.4	1.6
Total GFCF	406.6	0.9	0.7	0.7	-1.5	-0.2	5.0	4.9	0.6
O.w.: NFE	212.4	1.6	0.8	1.1	-1.1	0.4	5.4	7.3	2.2
Households	114.2	0.3	0.4	0.1	-2.7	-1.6	7.1	3.0	-2.1
General gvt	61.8	-0.1	0.9	0.1	-1.6	-0.4	-2.1	1.7	-0.5
Exports	502.5	0.4	0.4	2.2	-1.9	1.4	5.6	3.2	2.3
Imports	538.6	1.2	-1.0	1.7	-0.3	1.7	6.5	5.9	2.7
GDP	1,892.4	0.7	0.4	0.4	-0.3	0.1	2.4	2.1	1.0
Households' saving rate	15.7	15.8	15.9	15.6	15.4	15.0	15.0	15.7	-
NFE profit margin	31.7	31.3	31.3	30.5	30.1	31.2	31.3	-	-

Source: Insee - trading-day and seasonally adjusted data, chain-linked previous year prices

REAL GDP GROWTH



INDUSTRY BEARS THE BRUNT OF RECESSION

Following a severe contraction in GDP in Q4 2008 (approximately -1% qoq, taking the annual average growth rate to 0.7%), a major setback is still expected in Q1 2009, given the historically low levels hit by the majority of business climate indicators and the continued fall of industrial production.

The contraction in GDP will continue at least until the middle of the year before a fledgling and fragile recovery. The upturn will be favoured by a combination of factors: consolidation of international trade, measures to boost the economy and stock effects. However, it will remain hostage to a number of unpredictable events – notably the time needed to shore up the balance sheets of banks in countries where the financial crisis is extremely harsh.

Growth is expected to emerge at -1.4% in 2009, which represents by far the deepest recession since the end of the Second World War.

GDP continues to tumble at the beginning of 2009

Q1 2009 will remain in line with the disastrous fourth quarter of 2008, with negative growth around -1% qoq in Q4 2008 and -0.8% in Q1 2009. No major factors likely to boost the economy – either the international business climate or domestic demand – are indeed on the horizon early this year.

- Virtually all industrialised countries will face negative growth at the end of 2008-beginning of 2009, and emerging countries will continue their sharp slowdown. The resulting negative impact on international trade volume will drag down French exports.

- Leading economic indicators fell to historically low levels in December and January and the outlook for industry was particularly bleak. The PMI manufacturing index stood at 38.1 in January, after dropping to 34.9 in December, while the INSEE composite index continued to languish its all-time low (73). INSEE industrial survey points to further decline in activity, notably in the intermediate goods, capital goods and automobile sectors. Although order books have picked up slightly, they remain strictly on the thin side, and inventories of finished goods are lower than in December, but still well above their long-term average. Inventory reductions can therefore be expected to continue for the next few months – which spells bad news for growth.

- Although the decline came a little later to the service sector, it is now well entrenched. The PMI, which lost more than 5 points to 40.6 in December, perked up slightly to 42.9 in January. Conversely, the INSEE composite index lost another 6 points to 67 in January. According to the INSEE survey, the activity outlook is extremely gloomy for the coming months – especially in the business services (temporary work, and to a lesser extent other business services).

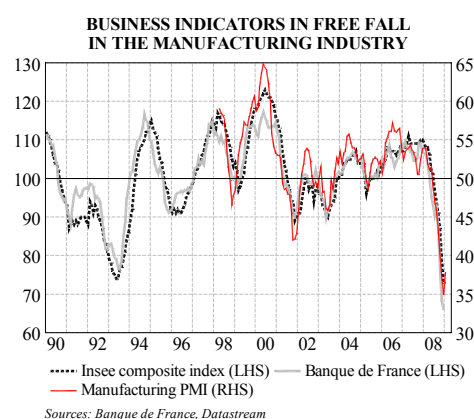
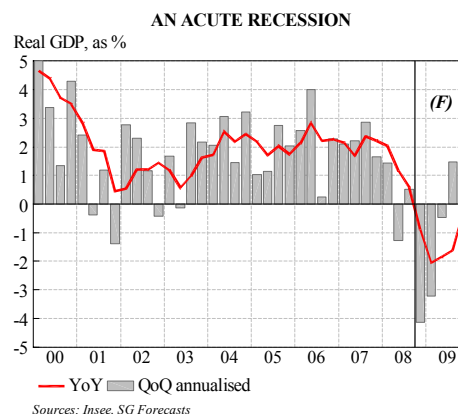
- Activity outlook in the retail trade sector is also very bleak in January. The worst hit segments are retailing and car repairs. Inventories are estimated at high levels and prices are on a downward trend.

- INSEE composite index for the business climate in the building sector retreated further in January but did not plumb the depths seen in 1992 and 1996. The contraction in the maintenance and major renovation segments is expected to be significantly less severe than in the new construction segment.

Major contraction in foreign trade

Although the rebound in foreign trade in Q3 2008 could be interpreted as a technical recovery after the severe tumble in Q2, the scale proved surprising in view of the world economic slowdown. In contrast, customs statistics point, without a shadow of doubt, to a major contraction in foreign trade in Q4. At the end of November, the growth carryover effect in Q4 2008 thus emerged at -9.5% qoq in value terms in the case of exports and at -4.6% qoq in the case of imports. The respective figures for trade with the euro area were -13.7% and -5.6%.

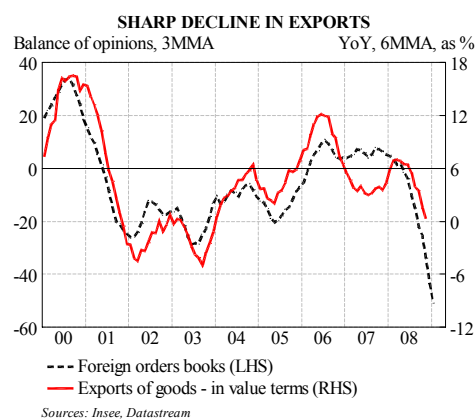
Export volume will continue falling at least until mid-2009 as France's main export markets – Germany, Italy, Spain and the United Kingdom – are all mired in recession. Import volume also looks set to contract sharply as domestic demand is expected to dive in the first half of 2009. The contribution of foreign trade to GDP growth will nevertheless remain negative over the year as a whole.

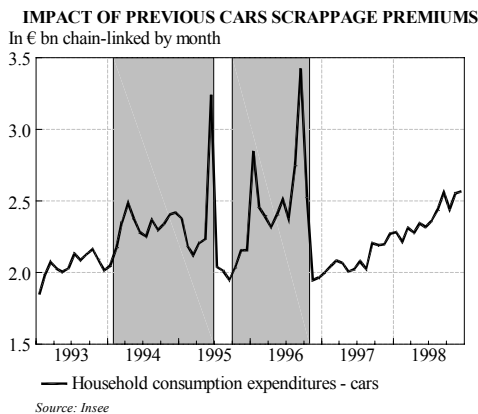
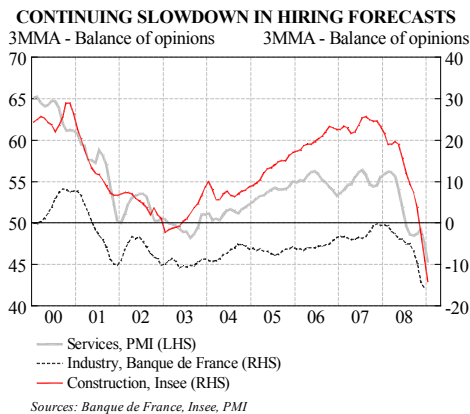
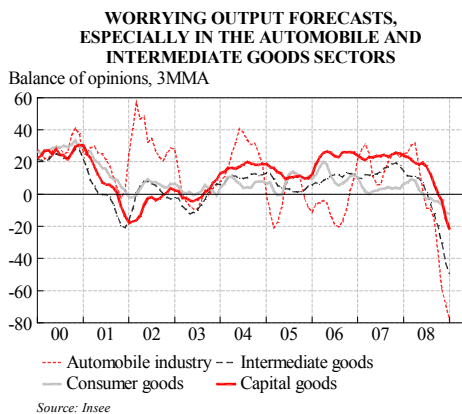
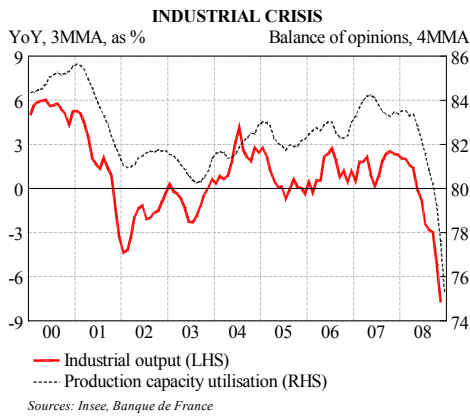


Impact of stimulus measures on growth (estimate, in pp)

Household consumption	0.3
Prime de Solidarité Active (allowance for low-income households)	0.07
Car scrappage premium	0.25
GFCF of non financial enterprises	1.0
GFCF of general government	4.5
Imports of goods and services	0.7
GDP	0.3

Source: SG calculations





The manufacturing industry plays a key role in the recession

At the beginning of the year, the recession will be sparked by the collapse in production in the manufacturing sector. The plunge in industrial production since the summer of 2008 (-7.1% between July and November), which has been particularly harsh in the automobile (-31.7%) and intermediate goods (-11.3%) sectors, and the related reduction of inventories are likely to continue into early 2009. In January, inventories were considered to be high in industry and commerce in general, and industrial players are planning further substantial production cutbacks over the next few months.

In the same vein, production capacity utilisation rates decreased further to low levels in December (70.5% according to the Bank of France) and market outlets are still in bad shape: industrial order book perceptions are still well below normal levels, although the downtrend came to a halt in December/January.

The financial situation of companies is deteriorating. According to the bi-annual survey on companies' finances in December, manufacturers' perceptions of their cash position have fallen to the lowest levels on record since 1985, and further deterioration is expected in the first half of 2009. At the same time, operating profits will continue to decline.

The minor upturn in productive investment in Q3 2008 was therefore a false dawn, the latter falling sharply at the end of 2008 and during the first half of 2009. All the factors influencing investment decisions are unfavourable: mounting uncertainty and shrinking markets; decline in production capacity utilisation rates; lower operating profits and pressure on cash; and tighter financing conditions.

However, measures announced to step up investment in state-owned companies – out of the €4bn planned for 2009, we estimate that 50% will be added to scheduled investment, reducing the contraction of investment by non-financial companies by approximately 1pp over the year – will underpin investment by non-financial companies in the second half of 2009. It will nonetheless decrease by some 4.5% this year.

Public sector investment is likely to rise by 2.5% in 2009 (+4.5pp relative to our original forecast of a 2% slide), due to an increase in State investment and the support to local authorities investment. The increase will nevertheless be concentrated in the second half of the year, given the implementation time required, and its contribution to GDP growth will be limited to 0.1%.

Households adopt a wait-and-see approach

Recession has major consequences for employment. The effects were already palpable at the end of 2008, as the number of category 1 jobseekers rose by 3.2% in November and by 2.2% in December, which represents an increase of 11.5% over the last 8 months of the year. For comparative purposes, the rise in unemployment amounted to 11.3% over 13 months (high/low) during the 1992-93 recession. The deterioration of the job market could persist until mid-2010, given the time lags between trends in GDP and those in employment. The average unemployment rate is therefore expected to be around 9% in 2009 and 9.5% in 2010 (Metropolitan France) despite government measures (incentives for small companies to recruit, active policy to promote employment, subsidised contracts), the impact of which cannot offset the exceptional slump in economic activity.

On a brighter note, households are benefiting from the disinflation underway since last summer and which is set to continue in 2009. The inflation rate plunged from 3.6% in August 2008 to 1% in December last year. The decline was attributable to the fall in energy prices. Production prices are also benefiting from this imported disinflation (energy, but also industrial commodities) and their expected further contraction should pass-through to sales prices, given weak demand. All in all, inflation will continue falling and move into negative territory this summer. The average annual rate is estimated at only 0.4%, on the assumption that Brent prices average \$50.

Household spending power will therefore receive a boost, but rising unemployment and related wage restraints will undermine real disposable income for some time to come. In annual average terms, its growth will be weak: approximately 1% as in 2008. Confidence is consequently likely to remain at a low. Given the rapid deterioration in the job market, households will doubtless give priority to building their precautionary savings. Despite the fact that the savings ratio is already at a high level, it is set to increase substantially. Household consumption should dip in Q4 2008 (expenditure in manufactured goods in volume contracted by 0.5%) and Q1 2009, before picking up slightly over the rest of the year. In Q2, the "prime de solidarité active" (allowance for low-income households) should produce a one-off rise in consumption of nearly 0.3% (0.07% of annual consumption), while, given the impact of previous car scrap bonuses, additional consumption of 0.25%

(approximately 150,000 cars, with a ripple effect in 2010) is expected over the year. Overall, household consumption will be extremely weak (+0.2%), particularly for consumer durables, and would have slightly dipped without the stimulus plan.

Housing investment will fall massively in 2009 after declining for three quarters in 2008 (maintenance and major renovations, which account for half of this item, will reduce this fall). Price slumps have now become official as a result of the collapse in transactions: according to the FNAIM, the price of existing housing dropped by 3.1% in 2008, falling most dramatically at the end of the year (-6.9% qoq in Q4). According to the developers surveyed by the INSEE in January, land and new housing prices are also on a clear downward slope. In 2009, sales will dip again in a worrying environment for households, with buyers anticipating falling prices. However, two elements will have a positive effect: the doubling of the zero interest loan ceiling and the fall in interest rates on housing loans coming after the rise that occurred until November 2008. In addition, between October 2008 and January 2009, the proportion of developers wishing to develop new construction projects significantly increased, particularly for housing benefiting from low-cost housing loans and zero interest loans.

Marked deterioration of public finances

Public finances will deteriorate in 2009 for several reasons:

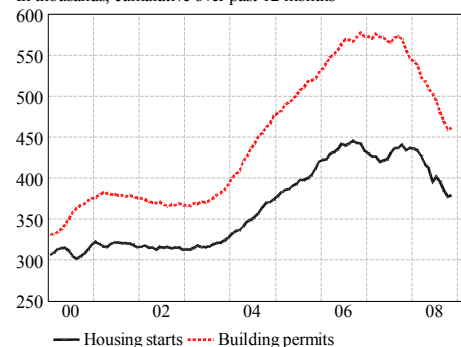
- The impact on the budget deficit of the stimulus measures announced in December is estimated at €19.1bn – excluding the allocation to the Strategic Investment Fund (€3bn) – mainly split between assistance to businesses' finances (€9.2bn) and public investment (€5.2bn). These measures will affect the deficit one time only;
- Due to automatic stabilisers, tax revenue will decrease in 2009 from a 2008 base that already reveals lower than anticipated. Corporate tax revenue will fall and income tax receipts will considerably slow down. VAT revenue, which accounts for more than a quarter of tax receipts, will contract with disinflation and the fall in spending on consumer durables, while social security contributions and CSG-CRDS tax receipts will decline as a result of rising unemployment and wage restraints;
- In terms of expenditure, current economic conditions will negatively affect the balance of the employment insurance account (slow-down in contributions and rise in benefit claims), while the high inflation rate in 2008 will lead to sustained growth in welfare expenditure due to the mechanisms for revaluing old-age and family benefits;
- Finally, the property market crisis and the fall in equity prices will produce a decrease in property transfer and capital gains tax.

Overall, the government deficit will significantly deteriorate in 2009, reaching around 5% of the GDP, not far from the record level of 1993 (-6.4% of the GDP).

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DECLINE IN THE NEW BUILD MARKET

In thousands, cumulative over past 12 months



Source: Ministry of Ecology, Energy, Sust. Development and Country Planning

Impact of stimulus measures on government general balance

In € bn	Plan	2009 impact	2010 impact
Government revenue	10.5	9.2	-0.5
Refund of research tax credit debts	3.8	3.8	-1.0
Refund of loss carryback debts	1.8	1.8	-0.3
Monthly refund of VAT	3.6	3.6	
Exceptional amortization	0.7		0.7
Doubling of zero interest loan ceiling	0.6		0.1
Government spending	11.5	9.9	1.6
State investment programme	4.0	2.7	1.4
Business and employment support	2.6	2.6	
Housing and allowance for low-income households	1.9	1.5	0.1
Payment of Dept of Defence supplier debts	0.5	0.5	
Advance on VAT compensation for local authorities	2.5	2.5	
Social administrations spending	0.1		
State-owned companies' investment	4.0		
TOTAL	26.0	19.1	1.0

Source: MINEFE

Annual growth rate at chain-linked previous year prices, as %	2006	2007	2008(f)	2009(f)	2008 Q3	2008 Q4(f)	2009 Q1(f)	2009 Q2(f)
Household consumption expenditure	2.5	2.5	1.1	0.2	0.8	-0.2	-0.6	0.8
General government consumption expenditure	1.4	1.3	1.7	1.6	2.3	1.5	1.4	1.4
GFCF* of non financial enterprises	5.4	7.3	1.8	-4.7	1.6	-6.0	-8.0	-8.0
GFCF* of households	7.1	3.0	-2.6	-6.2	-6.2	-8.0	-8.0	-5.0
GFCF* of general government	-2.1	1.7	-0.6	2.5	-1.5	-2.0	0.0	0.0
Contribution to growth of inventory change	-0.1	0.2	-0.2	-0.8	0.2	-3.3	-1.9	0.9
Exports of goods and services	5.6	3.2	1.5	-4.8	5.5	-12.0	-8.5	-3.0
Imports of goods and services	6.5	5.9	2.0	-3.2	6.8	-11.5	-8.0	0.5
Contribution to growth of net foreign trade	-0.3	-0.8	-0.2	-0.3	-0.5	0.1	0.1	-0.9
Gross domestic product (GDP)	2.4	2.1	0.7	-1.4	0.5	-4.1	-3.2	-0.5
Year-on-year	2.3	2.2	-0.9	-0.2	0.6	-0.9	-2.0	-1.9
Consumer Price Index	1.7	1.5	2.8	0.4				
Year-on-year, as %	1.5	2.6	1.0	1.4				
Hourly basic wages	3.0	2.8	3.2	2.4				
Monthly basic salary	3.3	3.1	3.0	3.0				
Market waged employment	1.1	1.9	0.8	-2.2				
Unemployment rate, Metropolitan France	8.8	8.0	7.4	8.9				
Purchasing power of gross disposable income	2.6	3.3	1.2	1.1				
Saving rate	15.0	15.7	15.8	16.6				
Margin rate (GOP/VA), as %	31.2	31.3	30.4	30.2				
Cash financing ratio, as %	67.9	60.8	52.4	54.3				
Current account balance, as % of GDP	-0.6	-1.0	-1.7	-1.4				
General government balance, as % of GDP	2.4	2.7	3.2	5.0				
Public debt, as % of GDP	63.6	63.9	65.2	69.9				

Sources: Insee (National accounts adjusted to seasonal and calendar effects), MINEFE - Customs, Bank of France, SG forecasts

* Gross Fixed Capital Formation

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