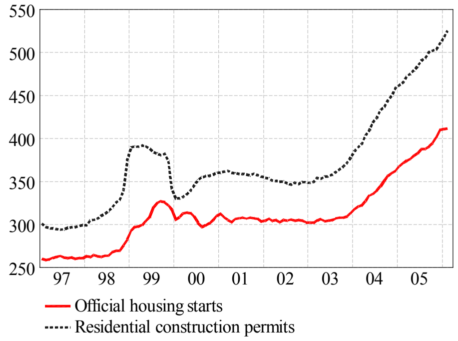
First signs of a slowdown in residential real estate in France

The construction industry sector was extremely buoyant in 2005; this positive trend will continue during the first half-year, given the rise in the number of dwellings authorised by the end of 2005 combined with the time required to build a housing.

CONTINUED DYNAMISM IN NEW HOUSING

Thousands - last 12 months cumulated

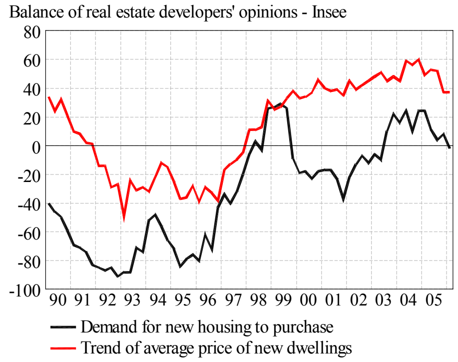


Sources : Datastream, French Ministry of Infrastructure

Meanwhile, consumers' demand for new housing, while remaining strong, has been slowing down since the beginning of 2005, due to the reduction of the impact of the "de Robien" fiscal plan. At the same time, pricing prospects in new real estate are falling back.

SLIGHT DECLINE BOTH IN DEMAND AND PRICES

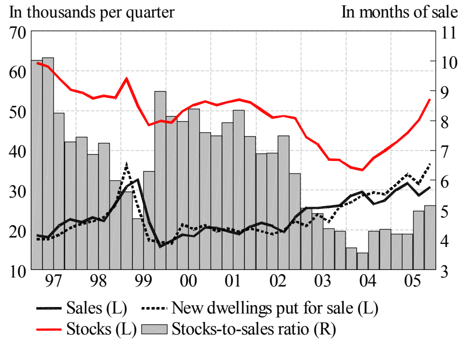
Balance of real estate developers' opinions - Insee



Sources : Datastream

As a result, the new housings put up for sale, while reflecting how buoyant construction was, have been exceeding demand since mid-2004, even though sales held up well. Ever since, stocks of new housing have kept on growing. The stocks-to-sales ratio remains low, yet experience shows that it could recover rapidly.

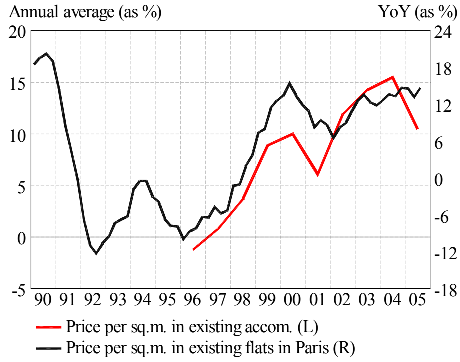
SALES TAPERING OFF AND STOCKS RISING NEW ACCOMODATIONS



Source : Datastream

Sales are tending to plateau in existing accommodation. The rise in existing housing prices has been slowing down since January 2005, especially in the provinces.

DECLINE IN PRICE RISES



Sources : Fnaim, Notaires de France

The "soft landing" of the real estate market has begun and is likely to be buffered by three factors: a gradual improvement in the labour market; an acceleration of the increase in the household's purchasing power (up to 2.4% in 2006, after a rise of 1.8% in 2005); a limited rise in the long interest rates (10-year bonds growth rate should risen, on an annual average, from 3.39% in 2005 to around 3.75%, i.e., a rise of less than 0.5 points).

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Competitiveness clusters (cont'd)

The government has redesigned its policy on competitiveness clusters (cf. February's Monthly Analysis) after the scheme came under attack for the complexity of its funding allocation arrangement.

On 6 March 2005 the CIACT decided to simplify the system for obtaining ministerial grants. The Corporate Competitiveness Fund, "FCE," managed by the Industry ministry, will take over authority for all the funding programmes for all the plans run by the ministries of Defence, Agriculture, Infrastructure and Territorial Development. In addition, the credits granted to the FCE have been increased to € 588 million for the period 2006-2008, from the previous total of € 360 million. This "single window" service is expected to vet the R&D proposals lodged by the competitiveness clusters three times a year.

However, this centralisation of grants does not affect the public agencies (such as the OSEO, the national research agency [ANR] and the industrial innovation agency [AII]). Consequently, national calls for projects (since local authorities are able to organise their own) should number three (ANR, AII and FCE), not counting the specific programmes for SMEs, which will be processed by the OSEO group. Hence, a measure of complexity remains in the procedure for obtaining public funding.

Furthermore, the CIACT has anointed two new clusters (or "pôles"), bringing their total to 68: the global cluster, "MOV'EO" (Île-de-France/Basse and Haute Normandie), centre on medium-to-high technology (automobile), and the national cluster "ORPHEME" (PACA/Languedoc-Roussillon regions), centre on high technology (health and pharmaceutical industry). Two other pilot projects are likely to be given "pôle" status at the next CIACT meeting.

In the long term, the inflation of these centres risks harming the value of "pôle" status, since it would appear to be endowed upon projects of widely varying quality.

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