

# France Business Forecast Report Q1 2011

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## Abstracts

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France: Consumer To Stutter In 2011 The impressive recovery posted by France during 2010 – driven by a resilient consumer – is unlikely to be carried through into 2011 in our view. Stalling consumer confidence and impending fiscal cuts will start to weigh on household spending, while unemployment is set to remain above pre-crisis levels, particularly among the under- 25s. Tighter fiscal policy and ongoing spare capacity will also limit fixed investment growth. On the political side, we expect pension reform to continue to provoke strong union opposition and caution that this, in line with over-optimistic office growth forecasts, to ensure that the government fails to meet its fiscal deficit targets. As a result, we expect political ructions to continue, and see potential for further tension within the ruling UMP party.

We do not expect French President Nicolas Sarkozy's cabinet reshuffle to result in a major shift in policy direction, with most of the key ministers in government remaining in their posts. The government is likely to remain focused on tackling the fiscal deficit and continued economic reforms, although we maintain that the appetite for further austerity will be tempered by the president's dire approval ratings as the 2012 presidential election approaches. We have revised up our forecast for French growth in 2011 to 1.4%, from 1.0% previously, following the ongoing strong showing for private consumption in Q310. Moreover, given the scale of public opposition to an increase in the retirement age, and President Nicolas Sarkozy's dire poll ratings, we expect further fiscal consolidation to be limited in 2011, with government spending set to add to growth.

That said, we maintain that French private household consumption growth will not return to pre-crisis levels, impinging on its ability to support the weaker eurozone recovery over the medium term. We hold to our core view that while the outlook for the French

banking sector is hardly stellar, it is far better positioned than those in most other eurozone states, and as a result should be able to provide some measure of support to the ongoing economic recovery. Indeed, with relatively little exposure to Greece and Ireland (as a percentage of French GDP), and having pursued largely prudent lending practices in the run up to the global financial crisis, the ability of the French banking sector to extend credit to the real economy remains relatively strong. That said, hefty exposure to Spain and particularly Italy will cause major headaches in the event of further eurozone sovereign debt contagion.

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