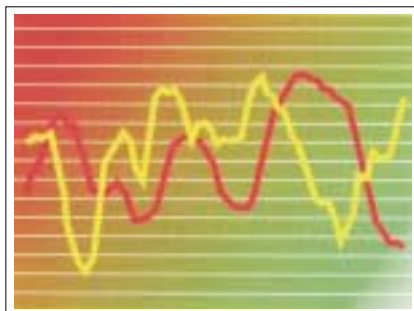


CONJONCTURE IN FRANCE



Europe lagging behind

In Europe, the first half of 2003 was a period of stagnation of activity. Germany and Italy even suffered a slight recession. The only country in the euro zone to have maintained growth was Spain. In France, the slight rise in GDP in Q1 (0.1%) was followed by a decline of 0.3% in Q2, reflecting weakness in all components of demand: exports continued to fall; investment stagnated in a climate of severe uncertainty and weak demand prospects; household consumption slackened with the levelling off in income and the cautious purchasing behaviour generated by fears regarding the evolution of employment and by the international context. Growth was firmer outside Europe, notably in Asia and the United States. In the latter country, it even exceeded 3% in Q2, thanks, admittedly, to strong support from public spending but also to the acceleration in private consumption and the investment thaw.

Since the summer break, the most striking feature of the economic panorama has been the continued progress in American growth, which is expected to be at a rate of close to 4% in the second half. With fiscal and monetary policy both strongly favouring growth, and with strong productivity gains that are capable of triggering off a virtuous spiral, there is now a good chance that the recovery can last. Europe is set to benefit from the improvement in the international environment. Indeed, since the beginning of the summer there has been an improvement in the economic climate, but this is taking its time to

feed through to corporate activity. There are still numerous factors holding back growth. Recent evolutions in exchange rates are curbing the expansion of exports. The shakeout in balance sheets and payrolls, although probably at a less advanced stage than in the United States, continues to curb domestic demand, which in any case has not the same backing from fiscal policy. Finally, the impact of the heat wave on fresh produce and the continuing high price of oil are postponing to next year the disinflationary movement that had been expected.

Inflation in France is expected to remain around 2% until December, limiting purchasing power gains. With households maintaining a cautious attitude, consumption is not expected to increase by more than 0.3% to 0.4% in Q3 and Q4. Investment, for its part, will probably post no more than a timid recovery towards the end of the year. All things considered, growth is likely to grow in H2 at an annualised rate of the order of 1%, which would give a GDP rise for 2003 of 0.2%. In these circumstances, private dependent employment will probably fall by 20,000 in the second half of the year, bringing the unemployment rate to 9.9% in December.

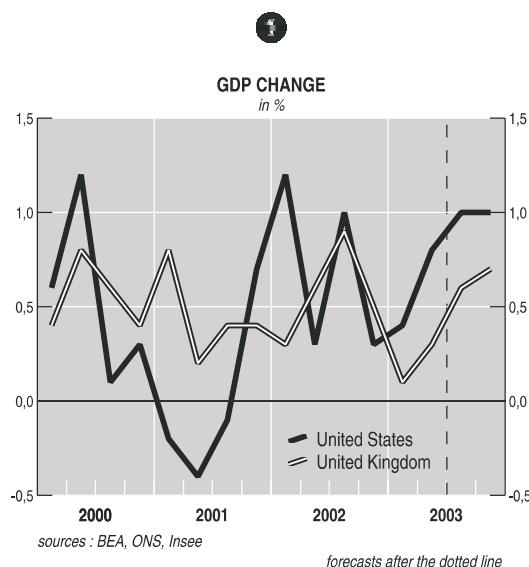
The American upturn, by widening the country's external deficit, seems likely to sustain the risk of a further appreciation of the euro following the pause seen during the summer. However, it could also bring forward the timing of the recovery in demand from European firms, which is the key to accelerated growth in the euro zone.

A more supportive international environment for the euro zone in the second half of 2003

The economic climate in the countries making a major contribution to the euro zone's trade has been moving in a positive direction since Q2 (*cf. Graph 1*).

The second quarter saw the United States once more acting as of locomotive for world growth. The return of American firms to operating profit and the easing of financial conditions stimulated an upturn in private investment starting in Q2. Investment is expected to grow at a satisfactory rate in the second half of the year, at a time when consumption seems set to remain vigorous. The new fiscal stimulus voted in May (tax cuts during the summer) has been compensating for the impact of the recent rise in long-term interest rates that was liable, in particular, to curb mortgage refinancing. As a result, personal consumption expenditures rose by 0.5% in August, following a month of July in which the rise had been even stronger (0.7%). In line with the firmness of domestic demand, output should return to a high growth rate, as suggested by the ISM business climate indicators, which have moved up above the 50 threshold for both industry (in July) and services (in April). GDP growth in the second half is expected to be 1.0% per quarter. United States imports are also likely to grow strongly, as in Q2, thus boosting international trade.

Growth in the United Kingdom is also likely to return to a high rate in the second half (0.6% per quarter). With the international climate becoming more supportive, United Kingdom exports should gradually take up the running from consumption as the main driving-force for growth.



A boost for the euro zone's foreign trade

Against a background of recovery in international trade, triggered off by the rally in United States growth, euro-zone trade with the rest of the world would be reinvigorated. This would be especially true of Germany, where export order books are not as slim as in France and Italy, according to the September surveys (*cf. Graph 2*). The appreciation of the euro's effective exchange rate since the beginning of the year, amounting to 3%, would nevertheless continue to be a limiting factor.

In the case of France, total exports are thought to have stagnated in Q3 before probably accelerating in Q4. Merchandise exports seem to have remained sluggish in Q3, with the rise recorded in customs data for July (1.2% in value) merely compensating

FRANCE: GROSS DOMESTIC PRODUCT (volume) BY TYPE OF EXPENDITURE

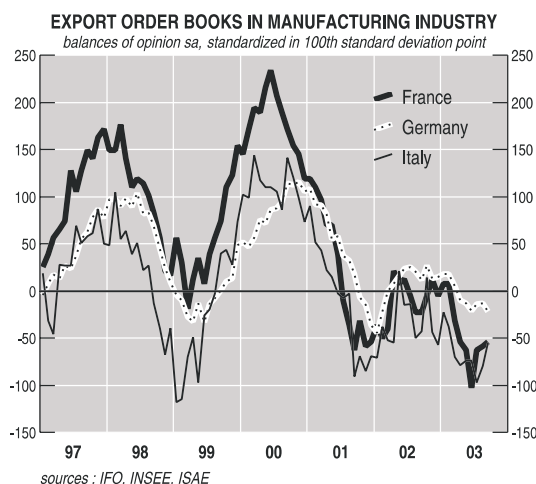
(at 1995 prices seasonally and working-day adjusted data, % change from previous period)

| | | 2001 | | | | 2002 | | | | 2003 | | | | 2001 | 2002 | 2003 |
|--|--------|------|------|------|------|------|------|------|------|------|------|------|-----|------|------|------|
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
| GDP | (100%) | 0.5 | 0.0 | 0.4 | -0.3 | 0.7 | 0.7 | 0.2 | -0.2 | 0.1 | -0.3 | 0.2 | 0.4 | 2.1 | 1.3 | 0.2 |
| Imports | (27%) | -1.7 | -1.3 | -1.1 | -1.4 | 1.6 | 1.1 | 0.8 | -0.5 | 0.1 | 0.2 | 0.1 | 0.4 | 1.4 | 0.8 | 0.7 |
| Consumption | (54%) | 1.3 | 0.5 | 0.7 | 0.1 | 0.3 | 0.5 | 0.4 | 0.3 | 0.7 | 0.0 | 0.4 | 0.3 | 2.7 | 1.5 | 1.6 |
| Public consumption ⁽¹⁾ | (24%) | 0.6 | 0.7 | 1.3 | 0.5 | 1.4 | 1.2 | 0.7 | 0.6 | 0.4 | 0.2 | 0.6 | 0.3 | 3.2 | 4.0 | 2.0 |
| Investment | (20%) | 0.4 | -0.9 | 0.1 | -0.4 | -0.2 | -0.3 | -0.6 | -1.0 | 0.1 | 0.0 | -0.2 | 0.3 | 2.1 | -1.4 | -1.1 |
| of which: | | | | | | | | | | | | | | | | |
| Non financial corporated and unincorporated enterprises | (11%) | 0.3 | -0.4 | -0.1 | -0.6 | -0.4 | -1.3 | -0.9 | -1.6 | 0.0 | -0.2 | -0.6 | 0.1 | 3.5 | -2.8 | -2.4 |
| Households | (5%) | 1.1 | -0.9 | 0.6 | -0.1 | 0.0 | 1.1 | 0.1 | -0.2 | 0.3 | 0.4 | 0.4 | 0.5 | 0.8 | 0.8 | 1.1 |
| Exports | (29%) | -0.4 | -2.3 | -0.2 | -1.9 | 1.7 | 2.4 | 0.3 | -0.7 | -2.2 | -0.6 | -0.1 | 0.7 | 1.8 | 1.3 | -2.3 |
| Contributions to growth | | | | | | | | | | | | | | | | |
| Internal demand excluding inventory changes ⁽²⁾ | | 0.9 | 0.2 | 0.7 | 0.1 | 0.4 | 0.5 | 0.3 | 0.1 | 0.5 | 0.1 | 0.3 | 0.3 | 2.6 | 1.4 | 1.1 |
| Inventory changes ⁽²⁾ | | -0.7 | 0.1 | -0.5 | -0.2 | 0.2 | -0.2 | 0.1 | -0.3 | 0.3 | -0.2 | 0.0 | 0.1 | -0.7 | -0.3 | -0.1 |
| Net foreign trade | | 0.4 | -0.3 | 0.2 | -0.2 | 0.0 | 0.4 | -0.2 | -0.1 | -0.7 | -0.2 | 0.0 | 0.1 | 0.1 | 0.2 | -0.9 |

Forecasts

(1) General government and NPISH's consumption expenditures.

(2) Inventory changes include acquisitions net of sales of valuable.



for the very substantial decline in May. The Q3 rise in exports of services is not thought to have been any stronger, notably because of a tourism season that was not as successful as that of the previous year (the number of hotel nights spent by foreigners was down by almost 12% in August). In Q4, the strong growth in trade with non-euro-zone countries and a return to growth on the part of euro-zone partners should bring about an upturn in French exports.

Growth in euro-zone domestic demand likely to remain fragile, however

Households likely to maintain a precautionary attitude

Household consumption seems set to remain slack in the leading euro-zone countries. This is the picture painted by the latest figures available for retail sales in Germany (carry over of -0.3% for Q3 in August) and for consumption of manufactures in France (carry over of -0.7% for Q3 in August). The main explanation is a slowdown in income growth following the earlier decline in activity. The upturn in the unemployment rate in Germany and in France has had a similar effect via the tendency for households to reconstitute their precautionary savings.

In France, the sluggish growth in consumption also seems to be linked in the first place to the stabilisation at a low level of the growth in the purchasing power of earned incomes in H2 (*cf. Graph 3*). Dependent employment in the private sector is expected to decline slightly (by 0.1% per quarter), with firms continuing to adjust their payrolls to match a level of activity that was in decline in Q2. Moreover, with the unemployment rate continuing to rise and probably reaching 9.9% by the end of the year, wage increases are likely to be limited. Even so, the lowest-paid workers who were not affected by the statutory reduction in the working week will have benefited

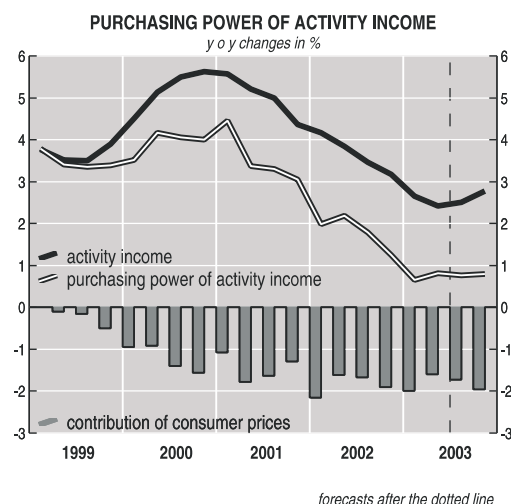
from a rise of 5.3% in July in the standard minimum wage. There will also have been small increases due to the “catch-up” in the purchasing power of wages linked to past price increases. All in all, the rise (before seasonal adjustment) in the basic monthly wage (SMB) is put at 0.8% in Q3 and 0.6% in Q4.

The maintenance of inflation at around 2% throughout H2 is likely to continue to hold back the purchasing power of household earned income. Recent price rises are mainly attributable to the food sector. The late frosts in April reduced the harvest of stone fruits (peaches, cherries, etc.) during the summer and generated unaccustomed price rises. The drought seen since June has also meant substantial rises for cereals, more in demand from stock-farmers wanting to make up for the reduction in effective grazing area. Meat prices have also been rising substantially, a tendency that can be expected to last until the end of the year, being intensified, moreover, by the impact of the heat wave in August that reduced yields from stock-raising and destroyed some of the earlier production (slaughter of poultry). Inflation will be further increased by the diffusion of past increases in the oil price, notably to the consumer prices of manufactures. Finally, the rise in taxes on tobacco, planned to be around 18%, will also contribute to the price rise.

In the end, growth in household consumption in France is likely to be slightly above 0.3% per quarter between now and the end of the year and close to 0.3% for the euro zone. Meanwhile, French household investment in housing is expected to continue to rise at a similar rate (0.4% per quarter), with households taking advantage of what are still low long-term interest rates.

The upturn in investment likely to be timid

Apart from the improvement in world trade, another factor favouring an increase in investment in the euro zone is the easing of the financing conditions faced by firms. However, any improvement in investment



is likely to remain on a very modest scale, given that capital utilisation rates and order books remain at low levels in industry throughout the zone.

In France, therefore, corporate investment is likely to be slow in returning to positive growth. It is thought to stabilise during H2, helped by the easing of financial conditions already noted. The Paris Bourse has posted a substantial rise since end-March (of roughly 30% for the CAC40) while risk premiums on bond issues have narrowed (by 54 basis points) and margins have stopped deteriorating.

Starting in Q4, investment in stocks of finished products is likely to take a more positive turn, with the result that the contribution of inventory changes would move hand in hand with the renewed growth in manufacturing output. This is in conformity with the views of industrial leaders, who now regard their stocks of finished products as being at normal levels at a time when the outlook for production and demand is improving.

In the major euro-zone countries, “underlying growth”⁽¹⁾ is likely to be low for the rest of the year

In industry, business leaders are starting to show somewhat more optimism. The balances of opinion in September regarding the outlook for production are indeed better oriented for all the euro-zone countries. Nevertheless, no substantial upturn in growth is to be expected. Indeed, the exit of growth from its Q2 bad patch is likely to be slow according to business leaders, whose opinion regarding past production continued to stagnate in September.

In services, the business climate remains generally gloomy. However, in Italy, France and especially in Germany, the first signs of improvement have been visible since July as regards the demand outlook.

All things considered, the situation regarding underlying growth in France is unlikely to differ from that of the euro zone as a whole, being of the order of 0.3% per quarter.

(1) Excluding the elimination of the impact of the unforeseen factors (weather conditions, strikes, etc.) that were a feature of Q2 in France (see following section).

A seesaw quarterly pattern in France

The second quarter saw an accumulation of numerous unforeseeable negative influences, capable of explaining why growth was negative by 0.3%, well below the forecast made in June. In the first place, manufacturing output declined more than expected, by 0.5%. Secondly, there was an unexpected fall compared with recent years in the consumption of ambulatory healthcare services and this made a negative contribution of 0.15 of a point to GDP growth. Thirdly, the strikes in May and June, although on a much smaller scale than those of December 1995, affected output in the rail transport sector and may have led to postponement of purchases. These two latter factors are thought to have lopped a total of 0.1 of a point off GDP growth.

As a counterpoint to the negative impact of unforeseen factors in Q2, growth in Q3 is likely to benefit somewhat from certain favourable effects. In particular, output in the transport sector can be expected to return to more normal levels. The elimination of the impact of the strike-related postponement of purchases and of the exceptionally low level of consumption of ambulatory healthcare services seems unlikely to take place at all rapidly, however.

In the opposite direction, the effects of the heat wave could have an overall negative impact on growth. The average temperature in Q3 was more than 2°C above normal (calculated since 1971). The effects in the agricultural sector are clearly visible, above all for the output of cereals (declines compared with 2002 of 21% for wheat and 30% for maize) and of poultry (deaths of 3 to 4 million chickens and turkeys, equivalent to 2 to 3% of French flocks). The result is a downward revision in the estimate for GDP growth for the whole of 2003 amounting to 0.1-0.2 of a point (already partly included in the quarterly accounts). As far as other sectors are concerned, the impact on electricity output is not substantial and the effect on the food-processing sector remains uncertain in the light of the available data.

All in all, growth in France is expected to amount to 0.2% in Q3 and 0.4% in Q4.

In addition to the unforeseen factors peculiar to France, there are also potential factors of international origin, particularly for euro-zone trade. Any continuation of the appreciation in the euro would be an unfavourable factor, whereas the introduction of a virtuous growth spiral in the United States — accompanied by job creation — would, on the contrary, be favourable. ■