

A fairly surprising feeling of relief

Increasingly, international institutions, governments, central banks and financial markets are sending the message that the crisis is over. If the crisis were really behind us, some private engines of growth would have to pick up. However:

- there is no sign that the savings rate is decreasing or credit picking up; and this would be required if household demand were to regain momentum since employment and wages follow the cycle with a lag;*
- there is no sign that exports to other OECD countries or emerging countries are growing once more;*
- and, while household demand and exports are weak, so is corporate investment.*

This lack of an engine of growth risks to persist, simply masked in the near term by fiscal deficits. Private growth remains fundamentally negative, and this means that caution is called for.

Optimism has reappeared during the summer of 2009

During the summer of 2009, greater optimism has reappeared in international institutions (**Table 1** shows revisions of growth in IMF forecasts), governments, central banks, (**Table 2** shows for instance the bullish growth forecasts of the Federal Reserve for the United States) and financial markets (resulting in the tightening in credit spreads and the rise in stock market prices, since March, **Charts 1A and B**).

Table 1
Overview of the world Economic Outlook Projections

	Year-on-year					
	2007	2008	Projections		Difference from April 2009 WEO Projections	
			2009	2010	2009	2010
World output¹	5.1	3.1	-1.4	2.5	-0.1	0.6
Advanced economies	2.7	0.8	-3.8	0.6	0	0.6
United States	2.0	1.1	-2.6	0.8	0.2	0.8
Euro area	2.7	0.8	-4.8	-0.3	-0.6	0.1
Germany	2.5	1.3	-6.2	-0.6	-0.6	0.4
France	2.3	0.3	-3.0	0.4	0	0
Italy	1.6	-1.0	-5.1	-0.1	-0.7	0.3
Spain	3.7	1.2	-4.0	-0.8	-1	-0.1
Japan	2.3	-0.7	-6.0	1.7	0.2	1.2
United Kingdom	2.6	0.7	-4.2	0.2	-0.1	0.6
Canada	2.5	0.4	-2.3	1.6	0.2	0.4
Other advanced economies	4.7	1.6	-3.9	1.0	0.2	0.4
Newly industrialized Asian economies	5.7	1.5	-5.2	1.4	0.4	0.6
Emerging and developing economies ²	8.3	6.0	1.5	4.7	-0.1	0.7
Africa	6.2	5.2	1.8	4.1	-0.2	0.2
Sub-Sahara	6.9	5.5	1.5	4.1	-0.2	0.3
Central and eastern Europe	5.4	3.0	-5.0	1.0	-1.3	0.2
Commonwealth of Independent States	8.6	5.5	-5.8	2.0	-0.7	0.8
Russia	8.1	5.6	-6.5	1.5	-0.5	1.0
Excluding Russia	9.8	5.4	-3.9	3.2	-1.0	0.1
Developing Asia	10.6	7.6	5.5	7.0	0.7	0.9
China	13.0	9.0	7.5	8.5	1.0	1.0
India	9.4	7.3	5.4	6.5	0.9	0.9
ASEAN-5 ³	6.3	4.8	-0.3	3.7	-0.3	1.4
Middle East	6.3	5.2	2.0	3.7	-0.5	0.2
Western Hemisphere	5.7	4.2	-2.6	2.3	-1.1	0.7
Brazil	5.7	5.1	-1.3	2.5	0	0.3
Mexico	3.3	1.3	-7.3	3.0	-3.6	2.0

1) The quarterly estimates and projections account for 90 percent of the world purchasing-power-parity weights.

2) The quarterly estimates and projections account for approximately 76 percent of the emerging and developing economies.

3) Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

Source: IMF

Table 2
United States: Federal Reserve's real GDP forecasts (as % per year)

As %	2009	2010	2011
July-2009	-1.5 to -1.0	2.1 to 3.3	3.8 to 4.6
April-2009	-1.3 to -0.5	2.5 to 3.3	3.8 to 5.0

Sources: OMB, Federal Reserve

Chart 1A

BBB credit spread (asset swaps)

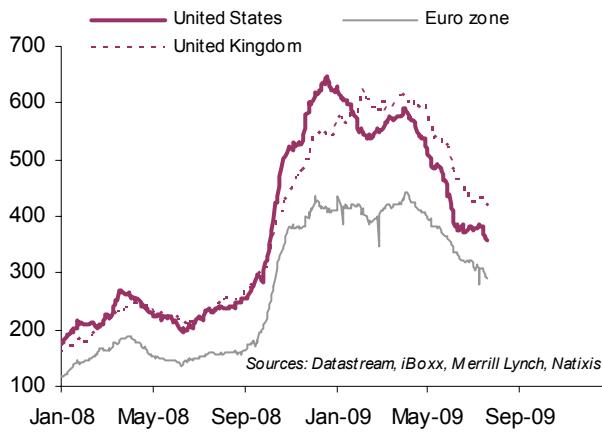
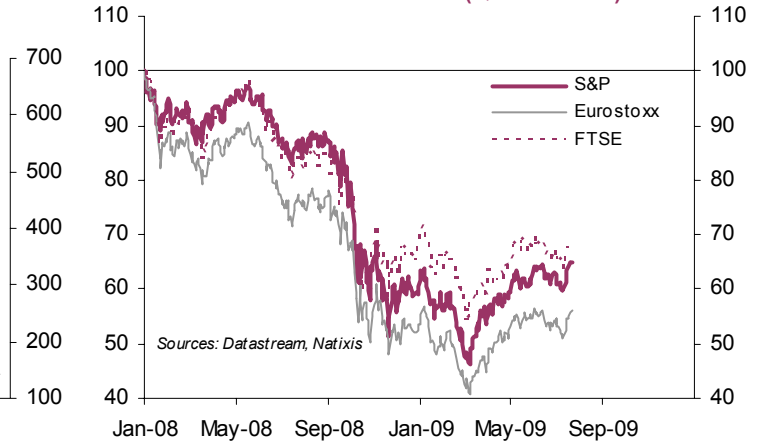


Chart 1B

Stock market indices (Q1 2008 = 100)



These forecasters are probably finding grounds for optimism in the recovery of cyclical indicators (**Charts 2A, B and C**), as well as the stabilisation of several demand and output components (**Charts 3A to 3G**).

Chart 2A

Manufacturing ISM or PMI

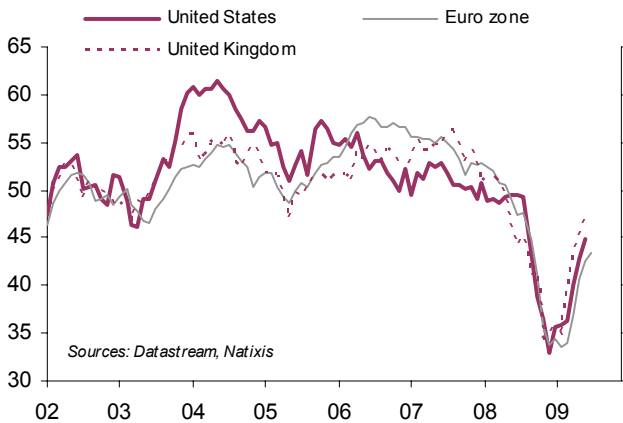
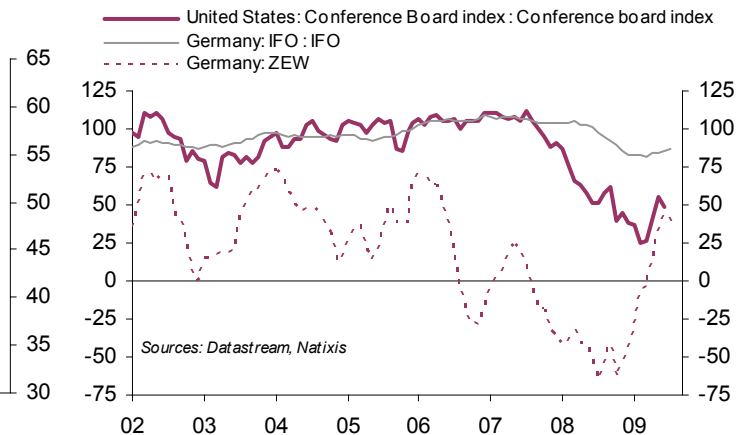


Chart 2C

Business sentiment indicators (surveys)



Graphique 2 c

Indicateurs de sentiment économique (enquête)

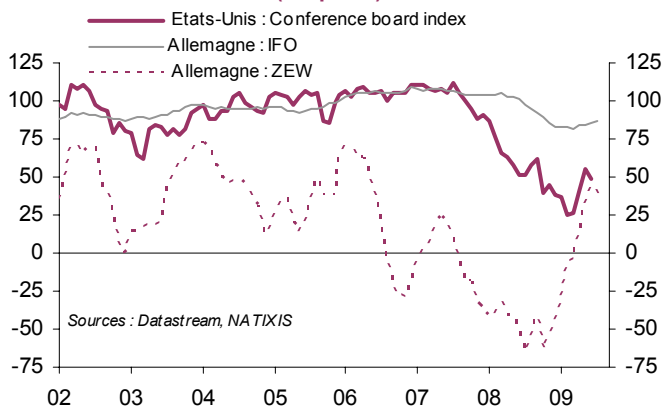


Chart 3A

Retail sales (in volume terms, M/M as %)

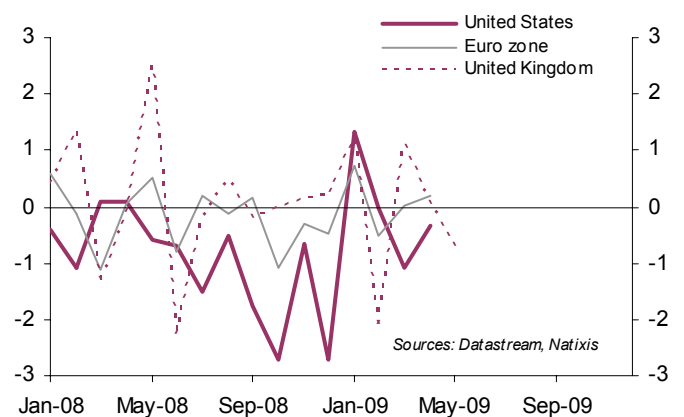


Chart 3B
Housing starts

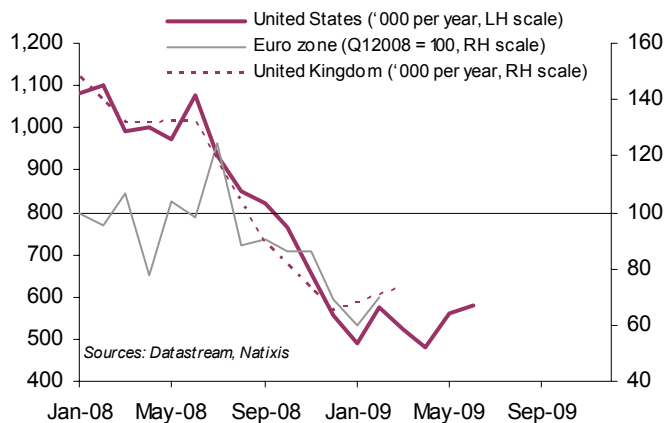


Chart 3C
Durable-goods orders (Y/Y as %)

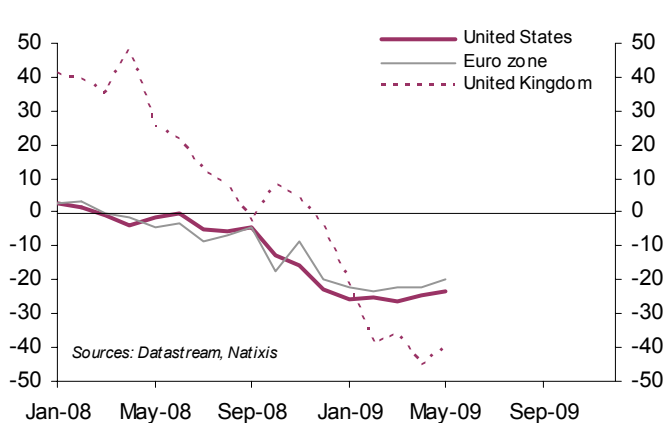


Chart 3D
Car sales (million per year)

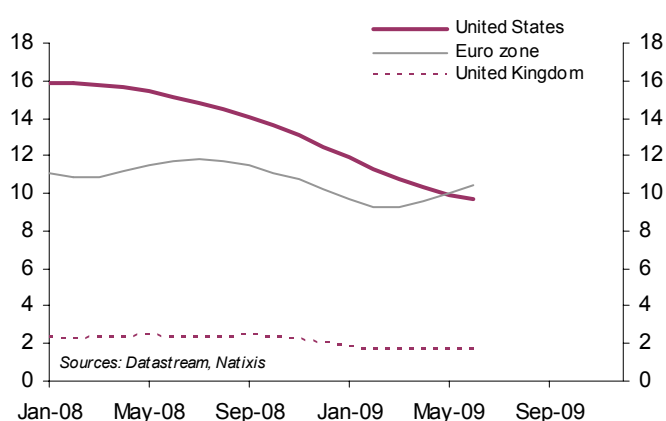


Chart 3E
Exports in value terms (local currency, M/M as %)

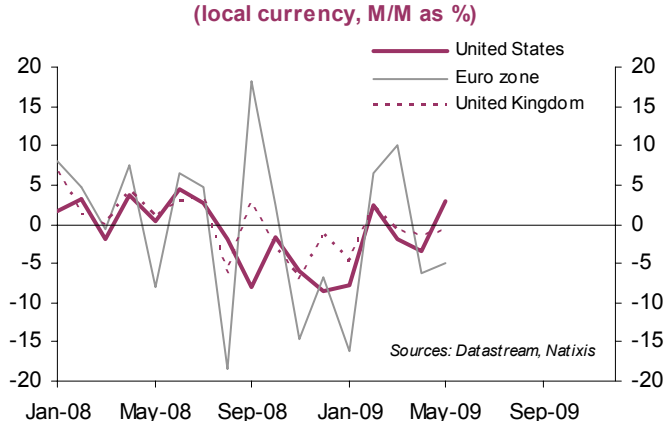


Chart 3F
Surveys covering inventories (ISM and PMI)

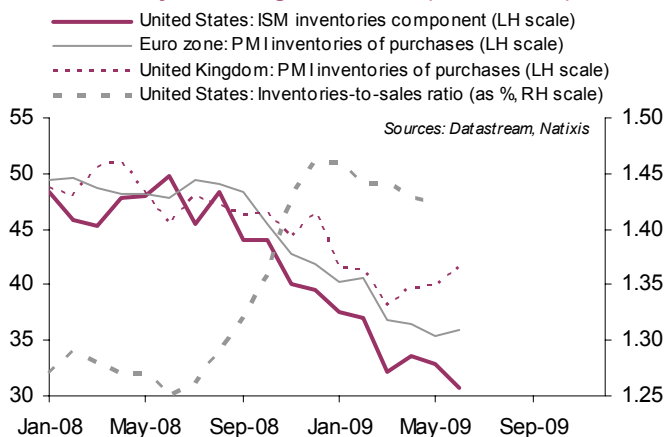
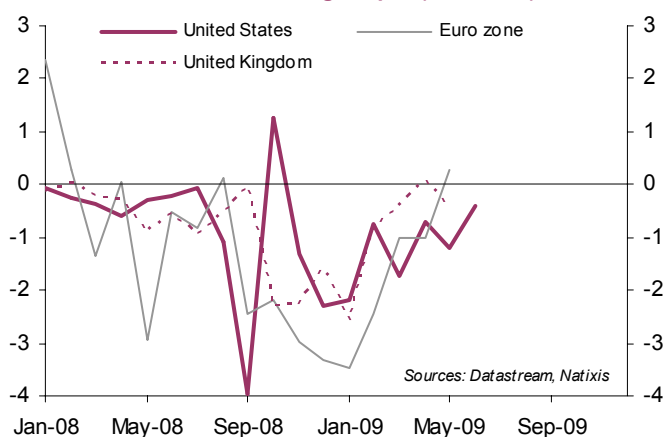


Chart 3G
Manufacturing output (M/M as %)



Indeed, they show in particular that:

- retail sales have flattened out (**Chart 3A**);
- housing starts have slightly risen (**Chart 3B**);
- durable-goods orders are no longer deteriorating (**Chart 3C**);
- in the euro zone, car sales have recovered (**Chart 3D**);
- exports have levelled off after dropping steeply in the second half of 2008 (**Chart 3E**);
- in Europe, there is an incipient improvement in the situation of excess inventories (**Chart 3F**);
- manufacturing output has stabilised after nose-diving in the period August 2008-March 2009 (**Chart 3G**).

Therefore, although there is no improvement, at least the deterioration has ended.

Which “private” engines of growth could result in a real economic recovery?

If there is to be an economic recovery, several private engines of growth have to operate:

- 1) with respect to households, since employment and wages follow the cycle with a lag (Charts 4A, B, C and D), the savings rate needs to decline or credit has to pick up if household demand is to rebound.

Chart 4A
Total employment (Y/Y as %)

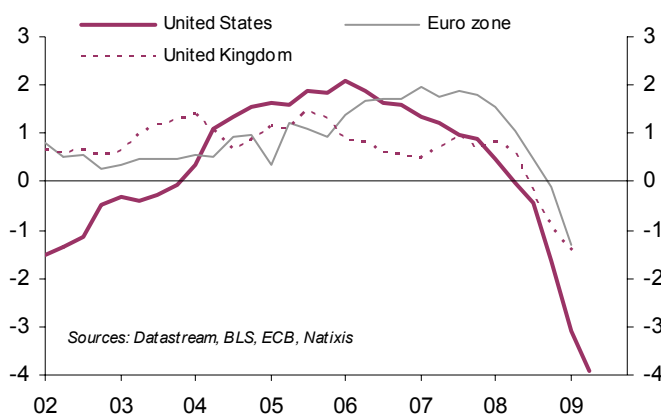


Chart 4B
United States: Monthly change in total (non-farm) employment (in thousands of people)

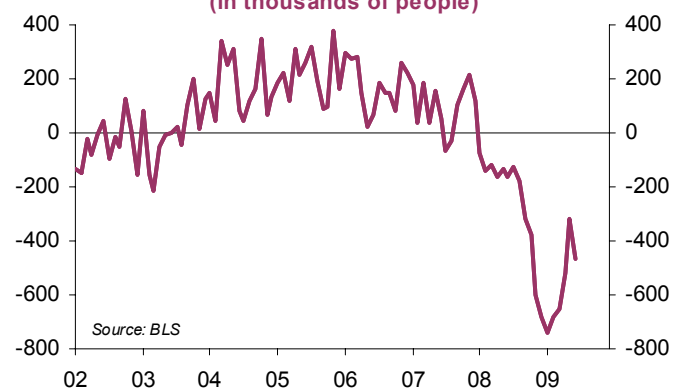


Chart 4C
Unemployment rate

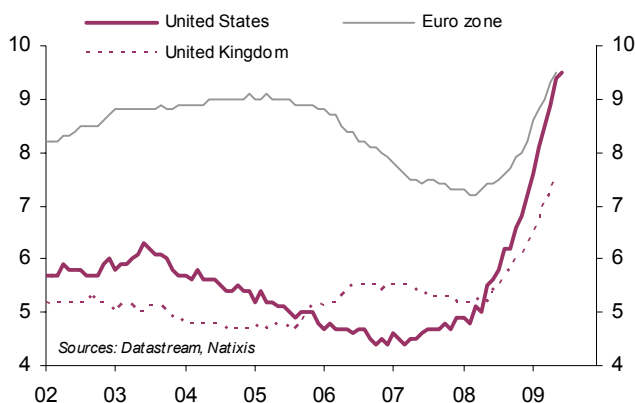
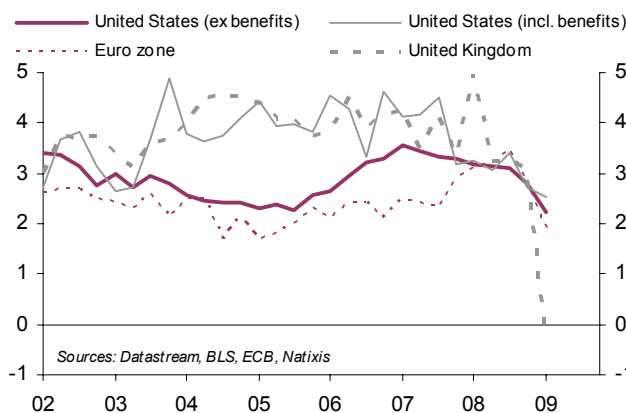


Chart 4D
Nominal per capita wage (Y/Y as %)



This is because, since employment and wages are lagged indicators of the cycle, household incomes remain anaemic, and this means a decline in the savings rate or/and a recovery in credit granted to households is necessary if growth is to recover. Nothing of the sort is happening right now (Charts 5A, B and C) and this situation risks to drag on since household default rates are still rising (Charts 6A and B), while real estate prices are continuing to decline (Chart 6C), and margins on interest rates on loans to households remain at a high level (Chart 6D).

Chart 5A
Gross household savings rate (as % of GDI)

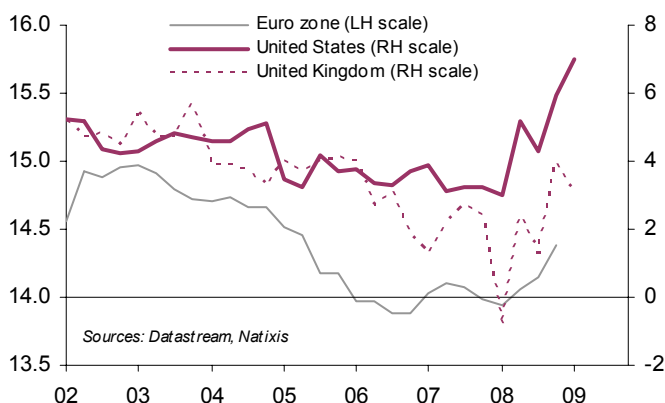


Chart 5B
United States: Net household savings rate

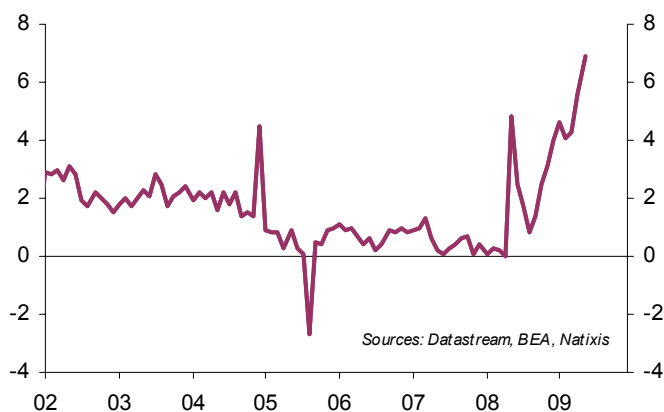


Chart 5C
Bank loans to households (Y/Y as %)

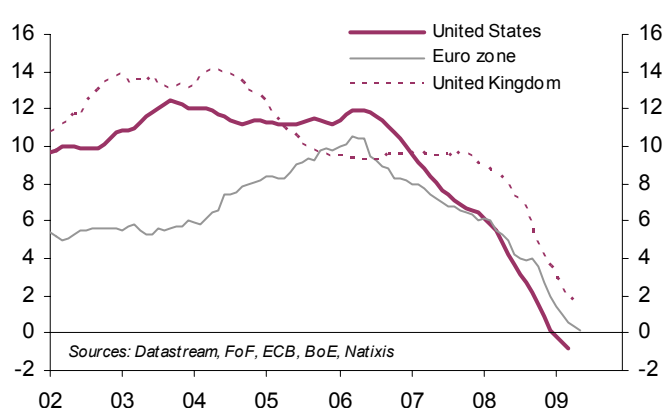


Chart 6A
United States: Household default rate on loans

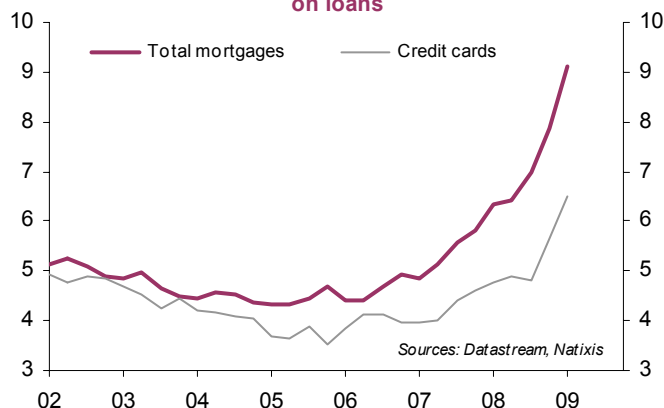


Chart 6B
Default rate on mortgage loans

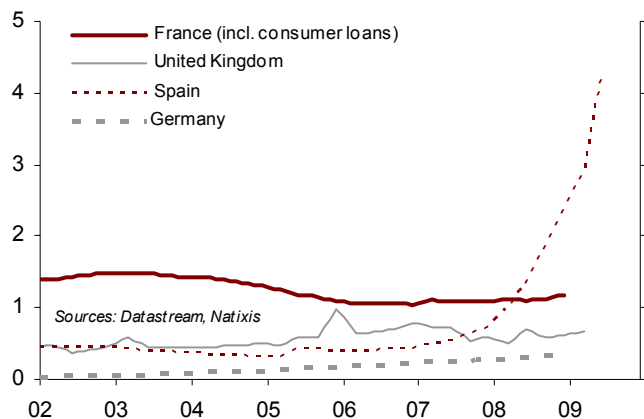


Chart 6C
Real estate prices (Y/Y as %)

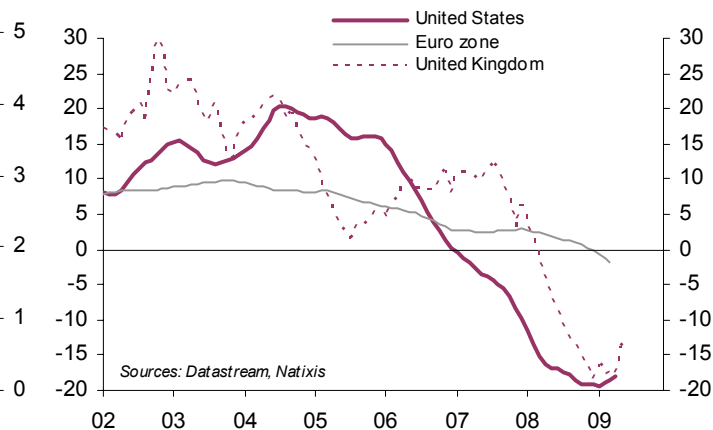
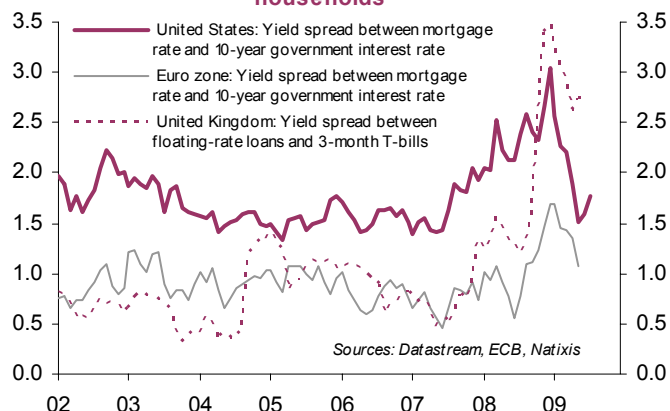


Chart 6D
Margins on interest rates - loans to households



We accordingly do not believe that household demand is going to play the role of a private engine of growth.

2) Chart 3E above shows exports have not picked up, and this is because of:

- the further **contraction in imports**, albeit at a slower pace than in the second half of 2008 (Chart 7A) in major OECD countries, reflecting the lack of any upturn in demand;
- the **rebound in economic activity in Asia** is not leading to a **noteworthy increase in imports**, except in month-on-month terms in March 2009 (Chart 7B), ex commodities, undoubtedly because output aimed at the domestic market hardly requires any imports.

Chart 7A
Imports in value terms
(in the local currency, M/M as %)

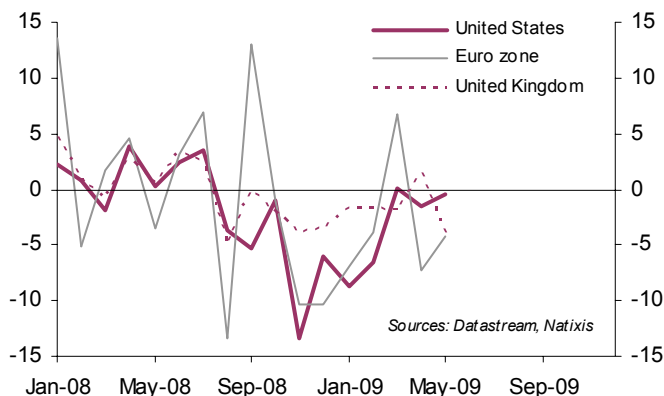
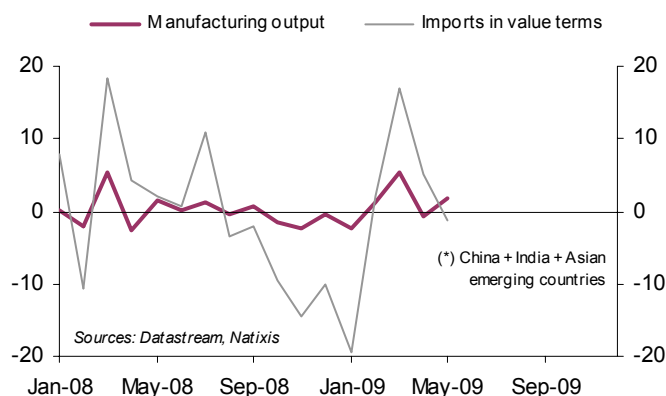


Chart 7B
Asia*: Manufacturing output and imports in value terms (M/M as %)



If household demand is not recovering in OECD countries, as we saw above, and if effectively the content of imports in domestic demand is low in Asia, by consequence exports may well fail to play the role of an engine of growth for a long time.

3) Business investment picks up if, either household demand rebounds, or exports recover.

Chart 3C above and Chart 8A show that that durable-goods orders are still contracting, even though at a slightly slower pace.

Productive investment and production of capital goods remain sluggish (Charts 8B and C): one fails to see how corporate investment could improve without an upturn in household demand or imports.

Chart 8A
Orders for durable goods ex transport equipment (Y/Y as %)

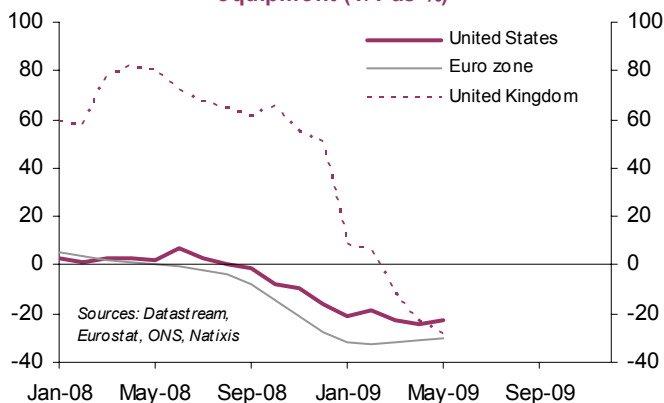


Chart 8B
Production of capital goods ex transport equipment (Y/Y as %)

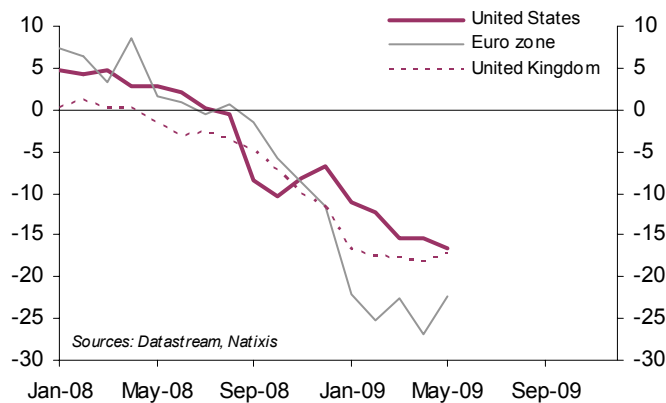
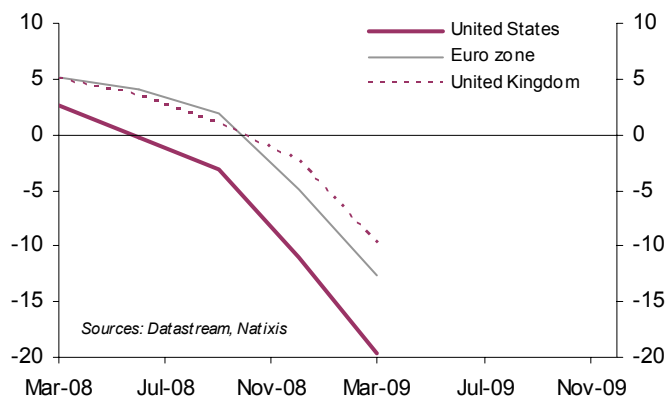


Chart 8C
Productive investment
(in volume terms, Y/Y as %)



Conclusion: An apparent recovery due only to fiscal deficits?

We have seen above a few signs pointing to a flattening out that have led to some observers becoming more confident.

However, we have also seen that **no engine of growth could be seen to be operating**, not only in the near term but also in the longer term:

- there is no sign or possibility, from our viewpoint, of a decline in the household savings rate or an upturn in credit to households;
- nor is there any sign of an upturn in exports, and it is highly likely that imports in OECD countries as well as emerging countries will remain sluggish;
- if household demand and exports remain anaemic, in all likelihood corporate investment will fail to pick up.

Signs of an improvement therefore are not accounted for by a private engine of growth but very certainly from the currently very expansionary fiscal policies (Charts 9A and B).

Chart 9A
Fiscal deficit (as % of GDP)

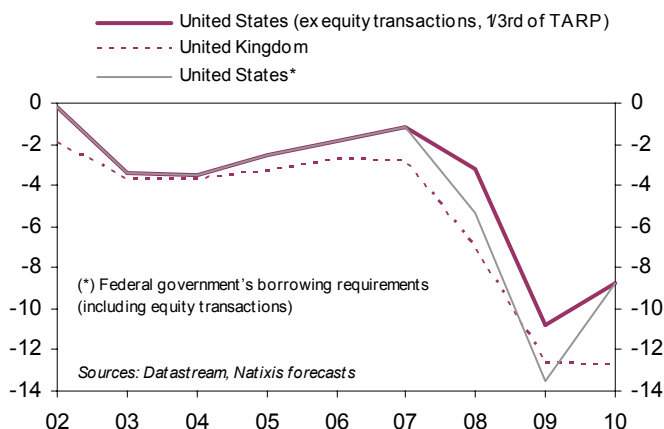
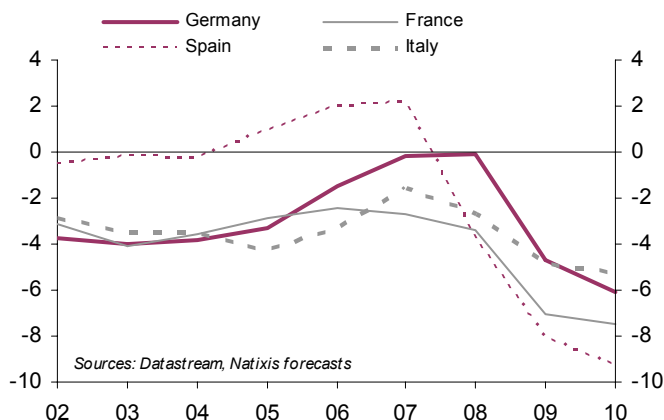


Chart 9B
Fiscal deficit (as % of GDP)



Charts 10A and B and Table 3 show the profile of Treasury issuance.

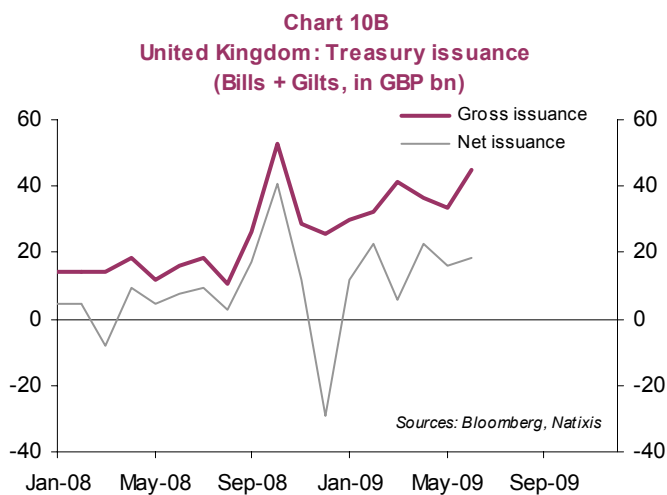
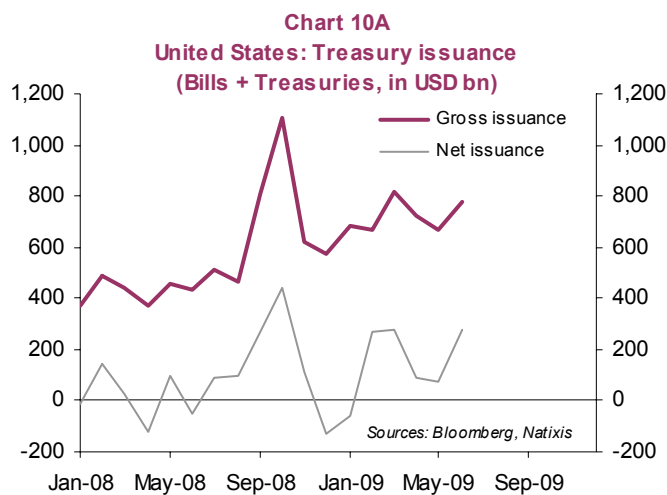


Table 3
Euro zone: Treasury issuance (Bills + Bonds, in EUR bn)

Gross issuance	Q3-2008	Q4-2008	Q1-2009	Q2-2009		Net issuance	Q1-2009	Q2-2009
Germany	40.8	29.4	39.0	48.0		Germany	9.8	16.0
Italy	33.4	18.1	50.3	44.9		Italy	33.9	- 31.9
France	25.7	28.1	47.7	57.7		France	20.2	38.2
Spain	12.7	26.1	27.8	27.2		Spain	10.5	27.2
Greece	5.2	2.8	27.0	15.5		Greece	20.2	- 1.9
Austria	1.1	1.7	6.0	8.0		Austria	6.0	8.0
Netherlands	4.1	9.0	16.9	11.0		Netherlands	6.5	0.2
Belgium	5.2	3.8	13.9	11.0		Belgium	- 4.9	11.0
Portugal	3.5	1.5	4.8	6.1		Portugal	4.8	6.1
Finland	0.0	1.0	6.0	1.0		Finland	6.0	- 4.6
Ireland	0.0	4.0	11.0	9.0		Ireland	11.0	3.9
Euro zone	131.7	125.5	250.3	239.4		Euro zone	123.9	72.3

Sources: Bloomberg, Natixis

This shows a surge in fiscal deficits in September–October 2008 and after 2009 in the euro zone: and from the end of the first quarter of 2009, fiscal policies have been boosting the economy.