

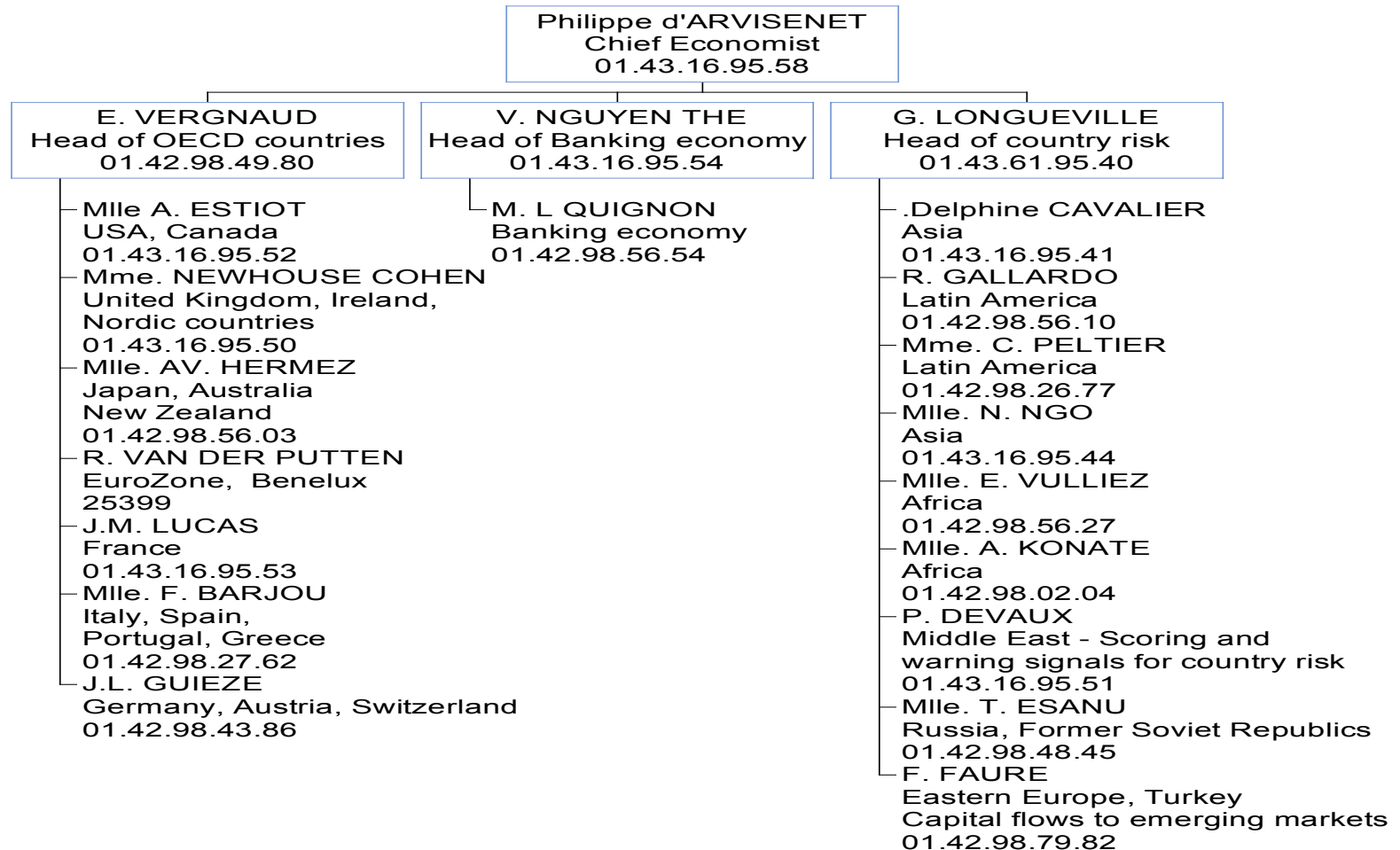
Philippe d'Arvisenet
Group Chief Economist

2003 ECONOMIC OUTLOOK

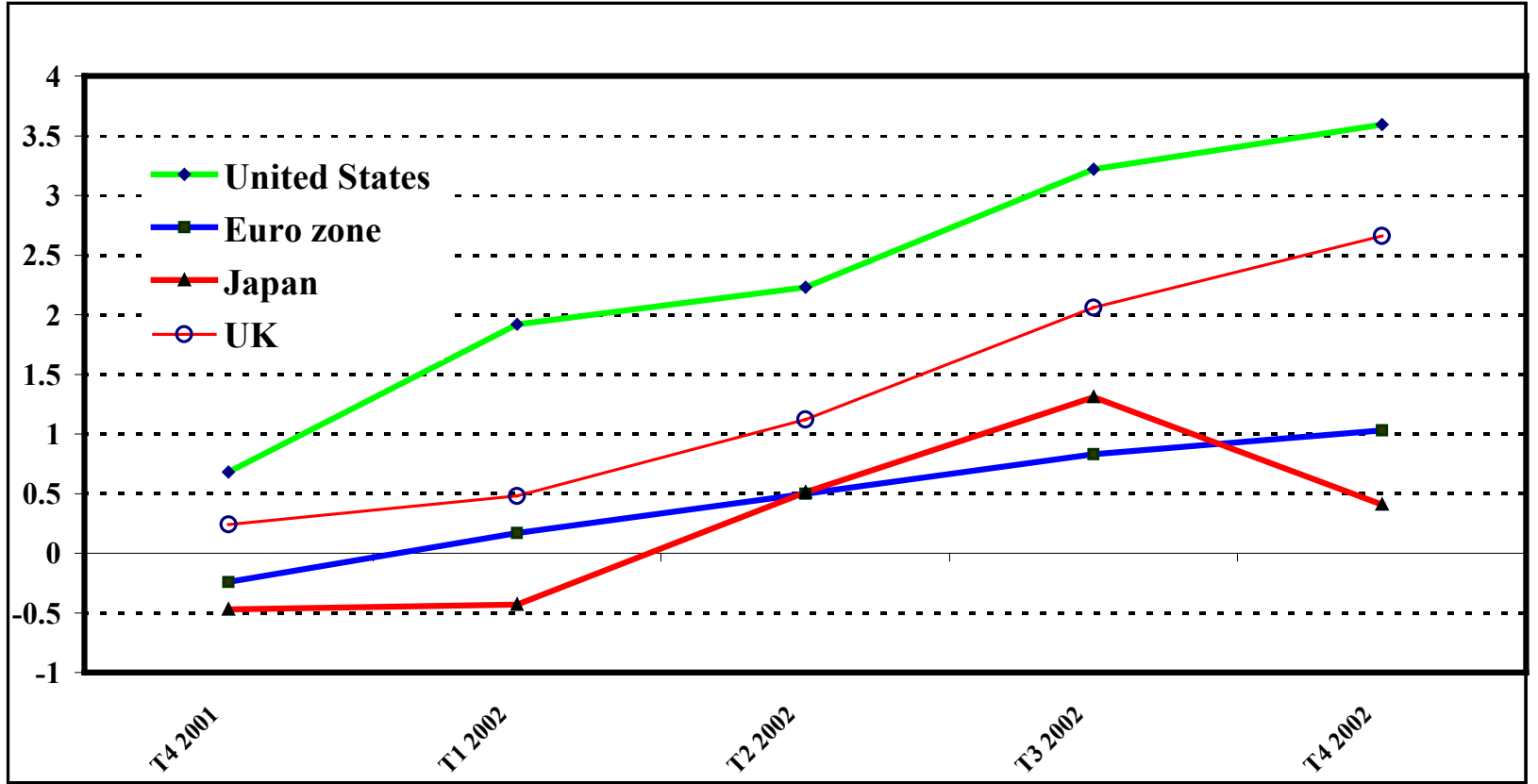
January 22th 2003

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Cumulative GDP growth (q/q, %) since September 11th 2001



Q4 2002: BNPParibas forecasts

UNITED STATES

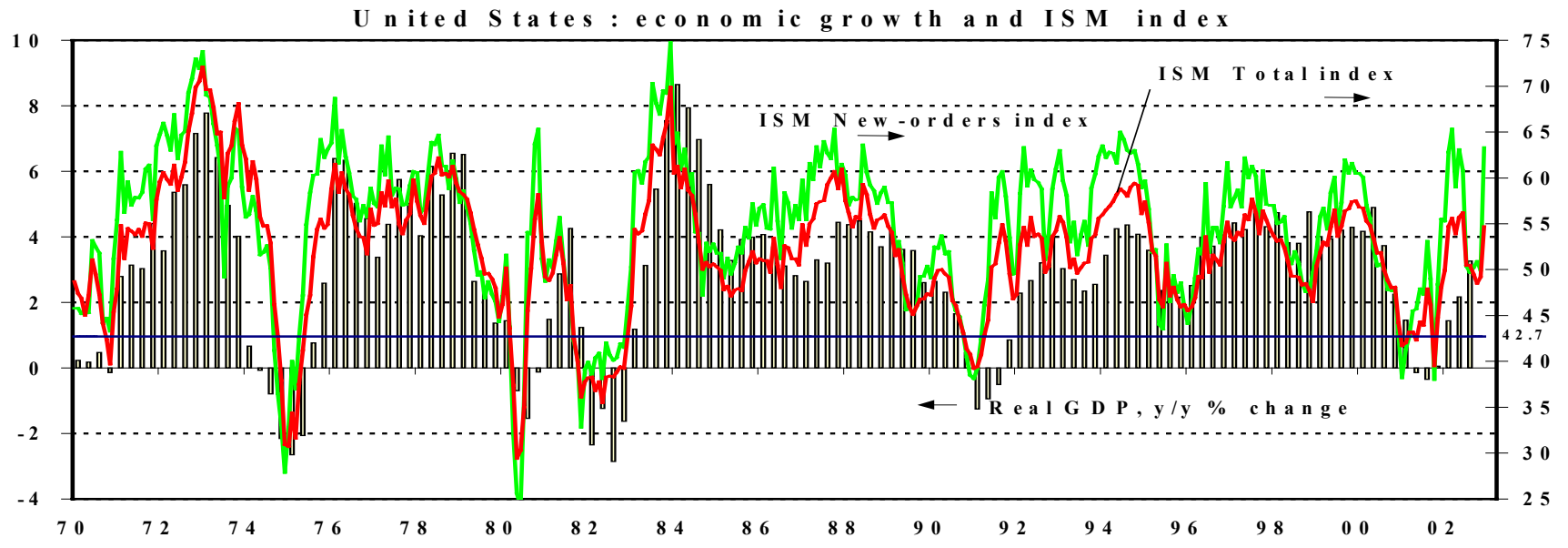
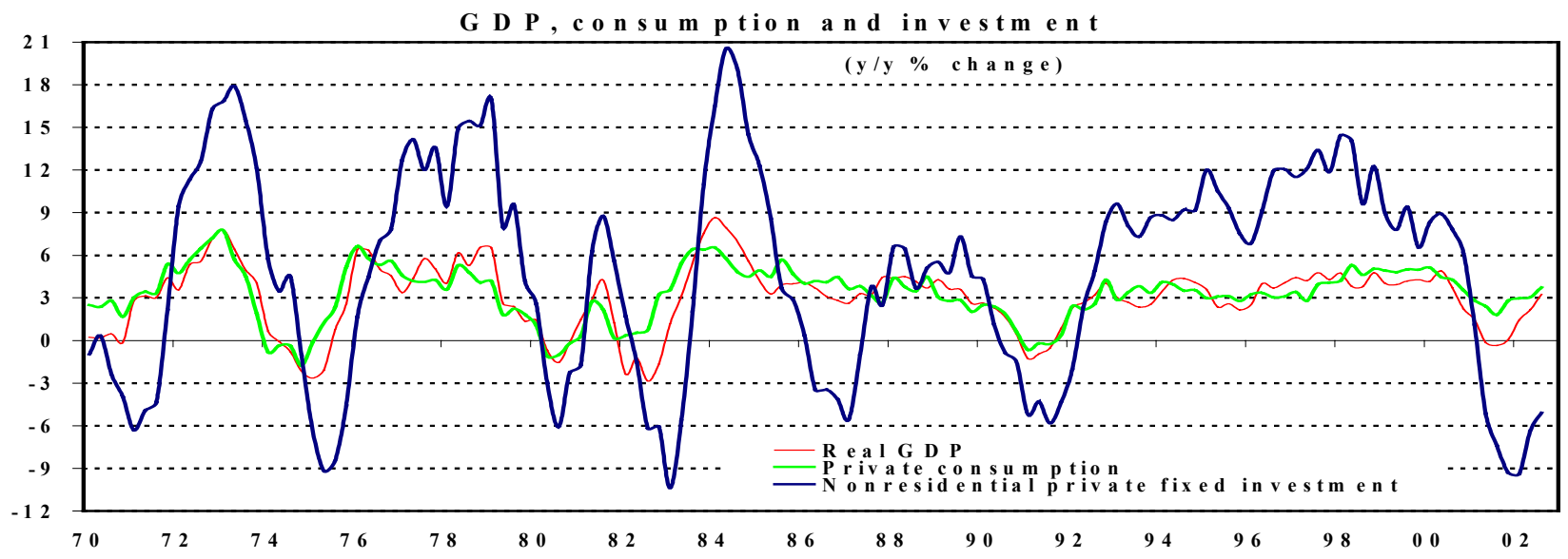
- **Growth seems on the verge of reacceleration**
 - Manufacturing ISM jumped to 54.7 in December after 3 months below the 50 threshold
 - Leading indicators pointed to their second consecutive rise in November
 - After a 2% growth at the turn of the year, activity should accelerate, reaching potential by year end
- **Consumption :**
 - Household confidence has stabilized
 - The new Congress is to adopt a fiscal program aimed at supporting growth : disposable income is to be supported until the job recovery takes place in H2

- **Capex is set to accelerate**
 - The new tax cut plan is investment friendly
 - Corporate profits are to improve with GDP growth and productivity gains
 - A lower dollar is favourable to pricing power
- **The Fed will remain on hold, since risks are still a source of concern**
 - Profits increase could still be impacted by goodwill write offs and the defined benefits pensions issue
 - The war with Iraq could hurt investment and big ticket purchases as it impacts confidence, incomes and costs (increase in oil prices)
- **All in all, growth should accelerate to 2.5% in 2003 and 3.5% in 2004**

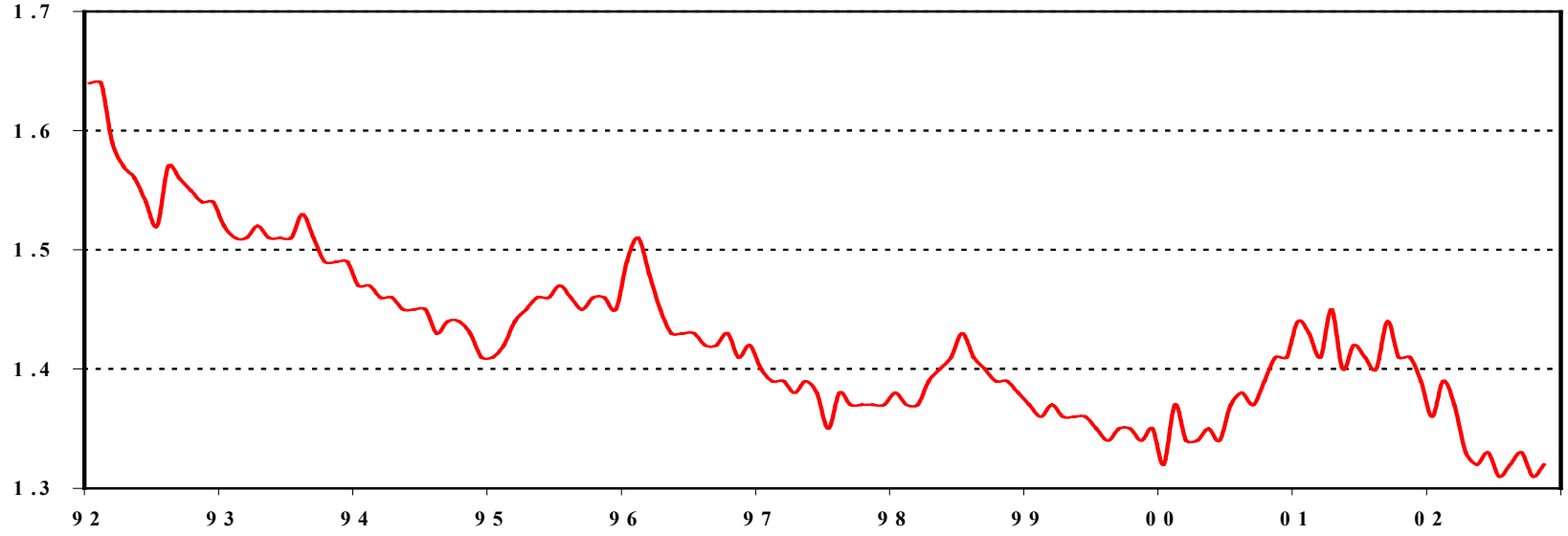
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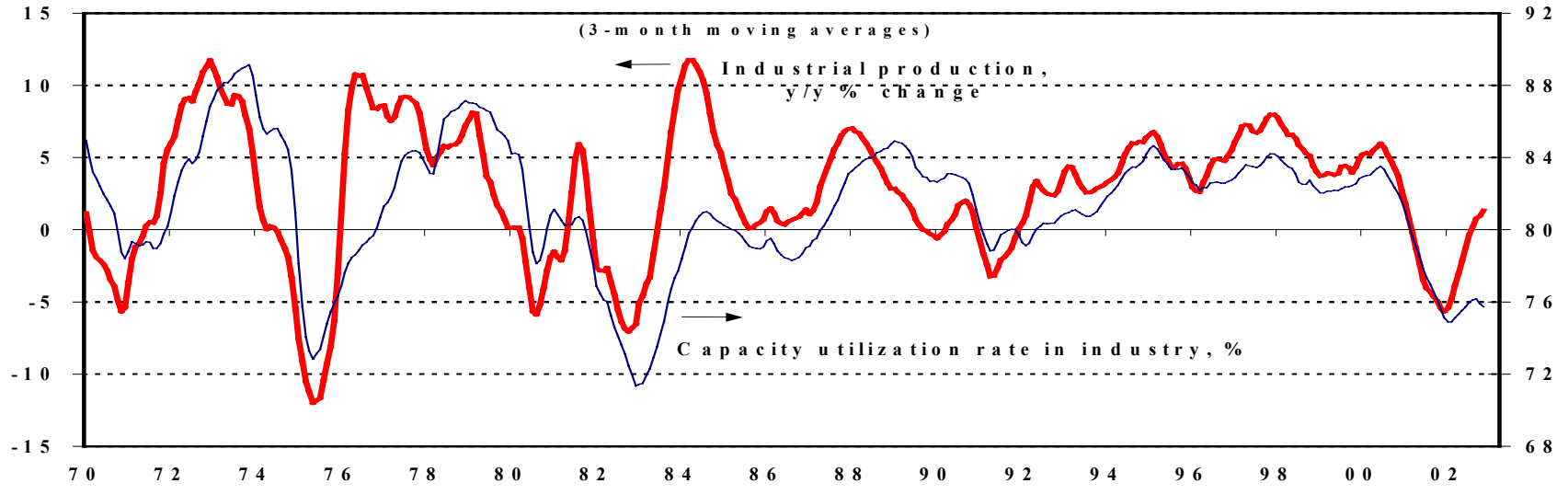
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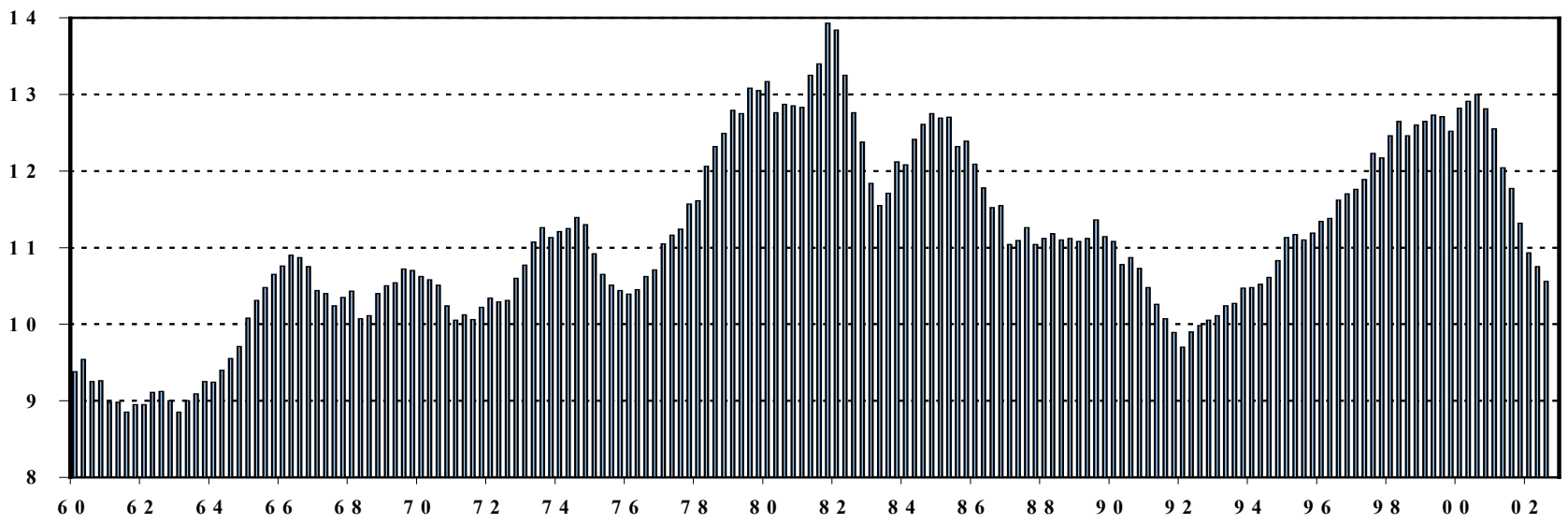
United States: inventories/shipments ratio, manufacturing



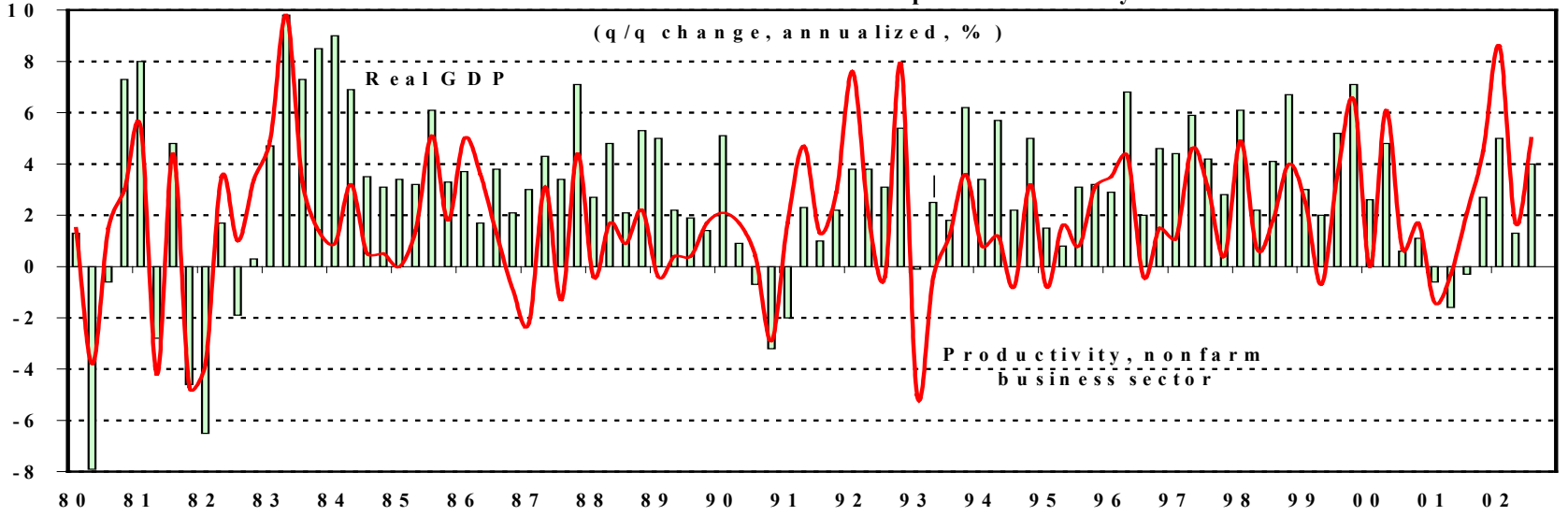
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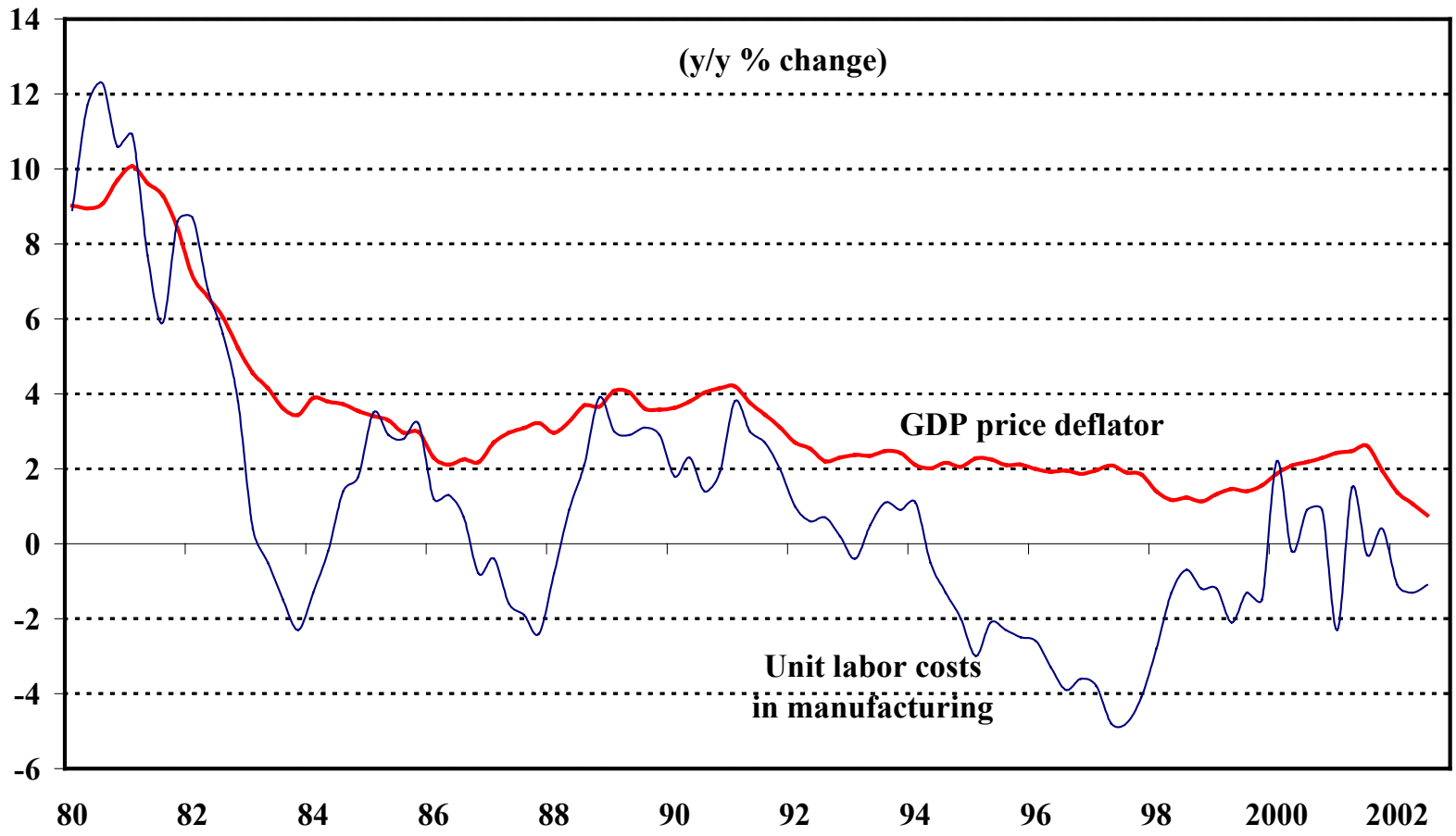
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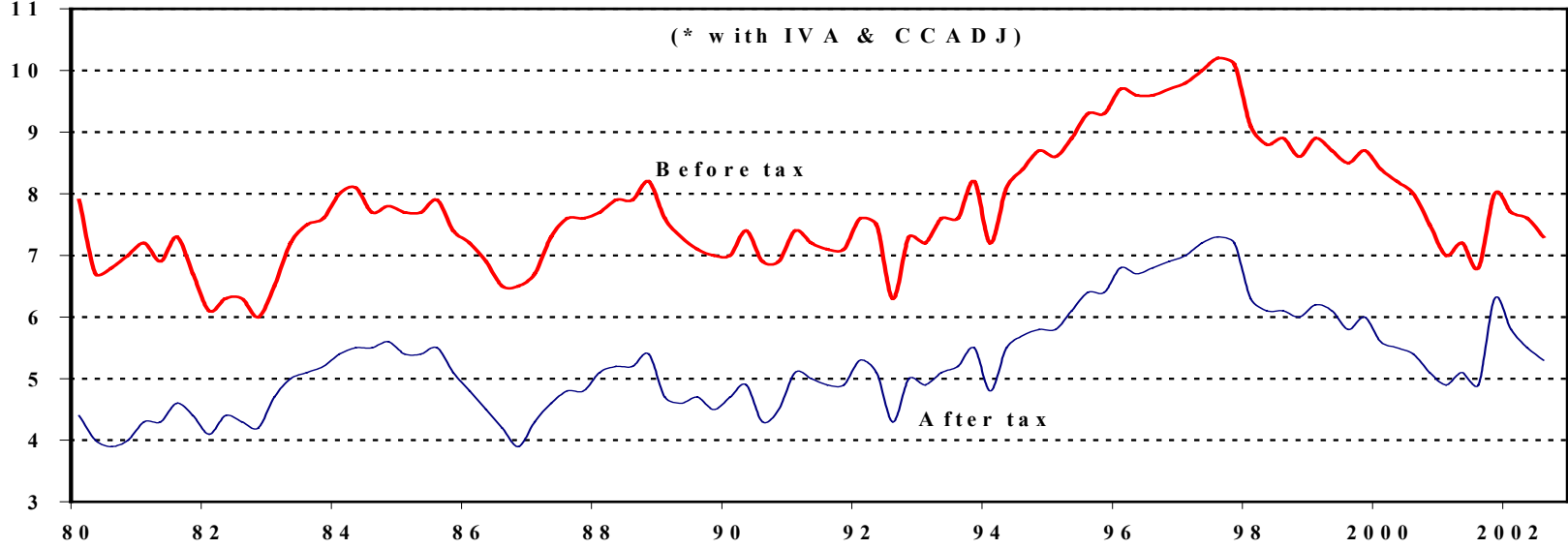
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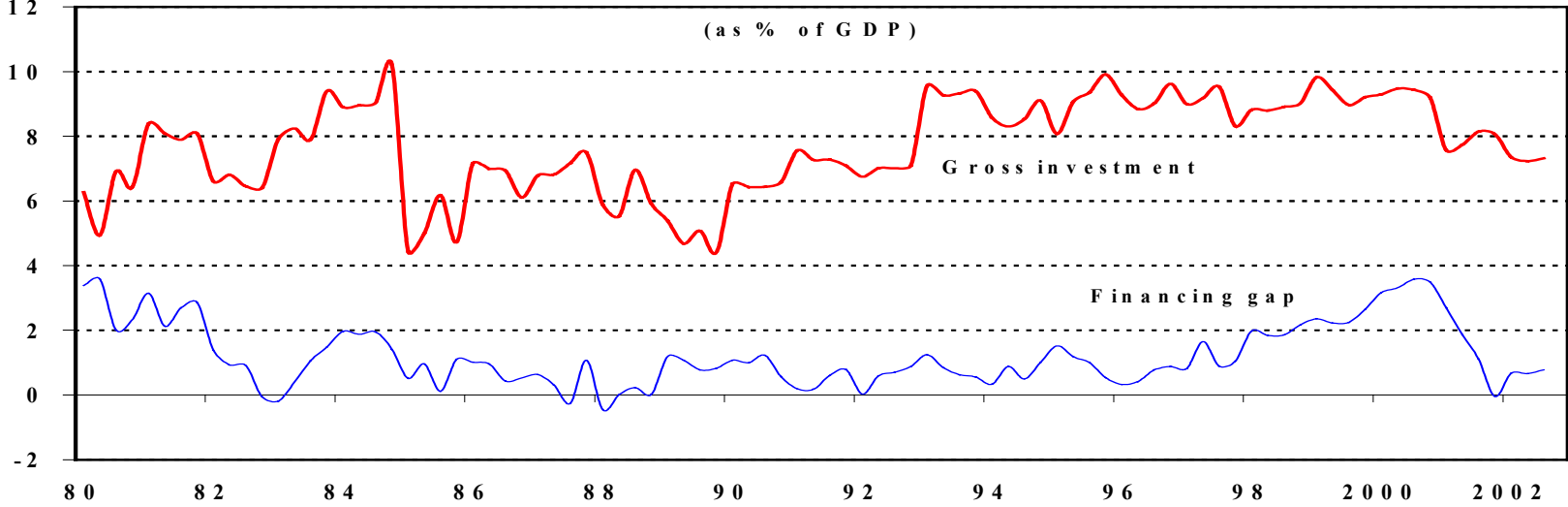
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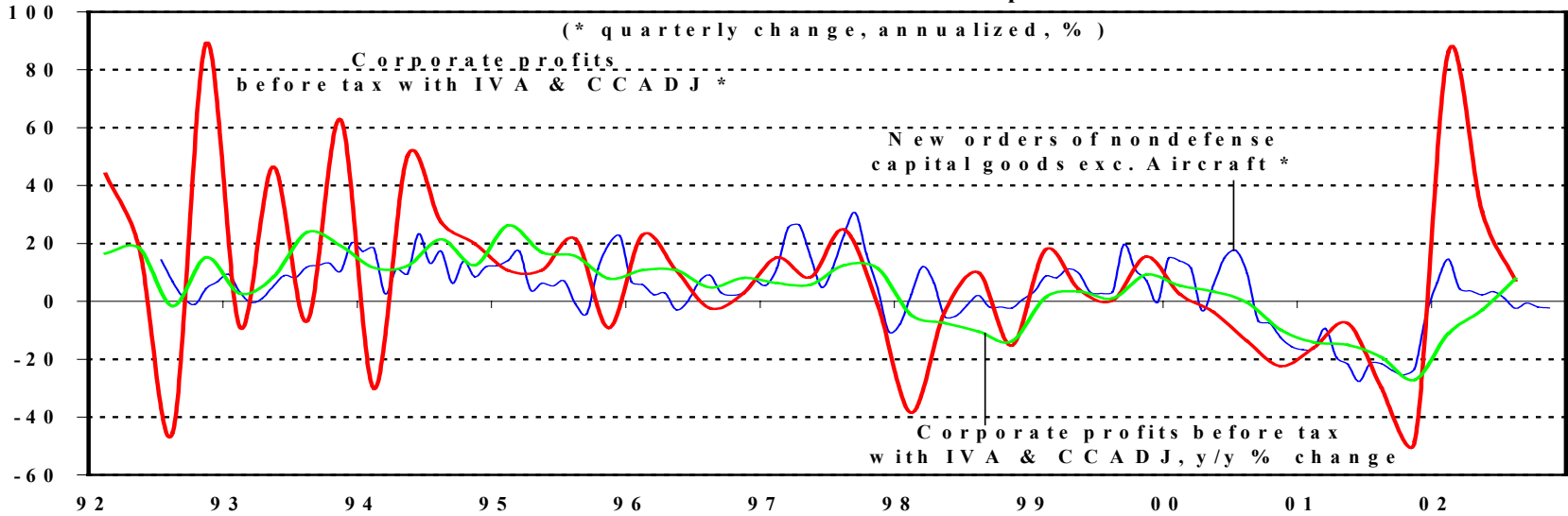
United States : corporate profits* as % of GDP



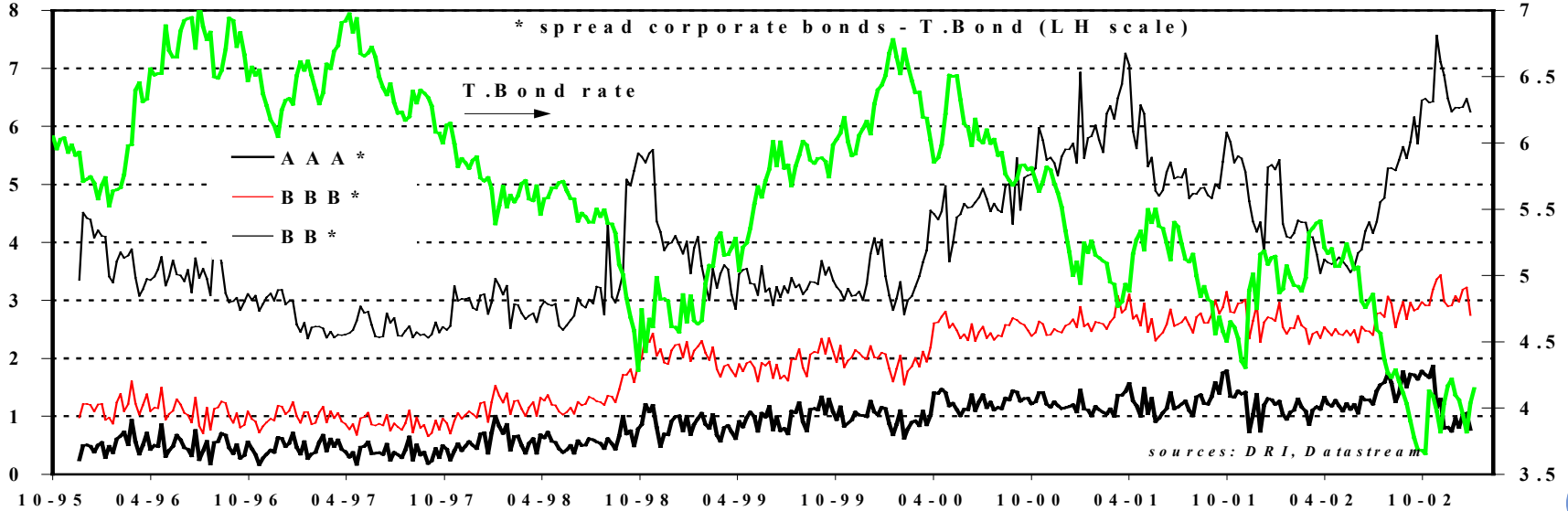
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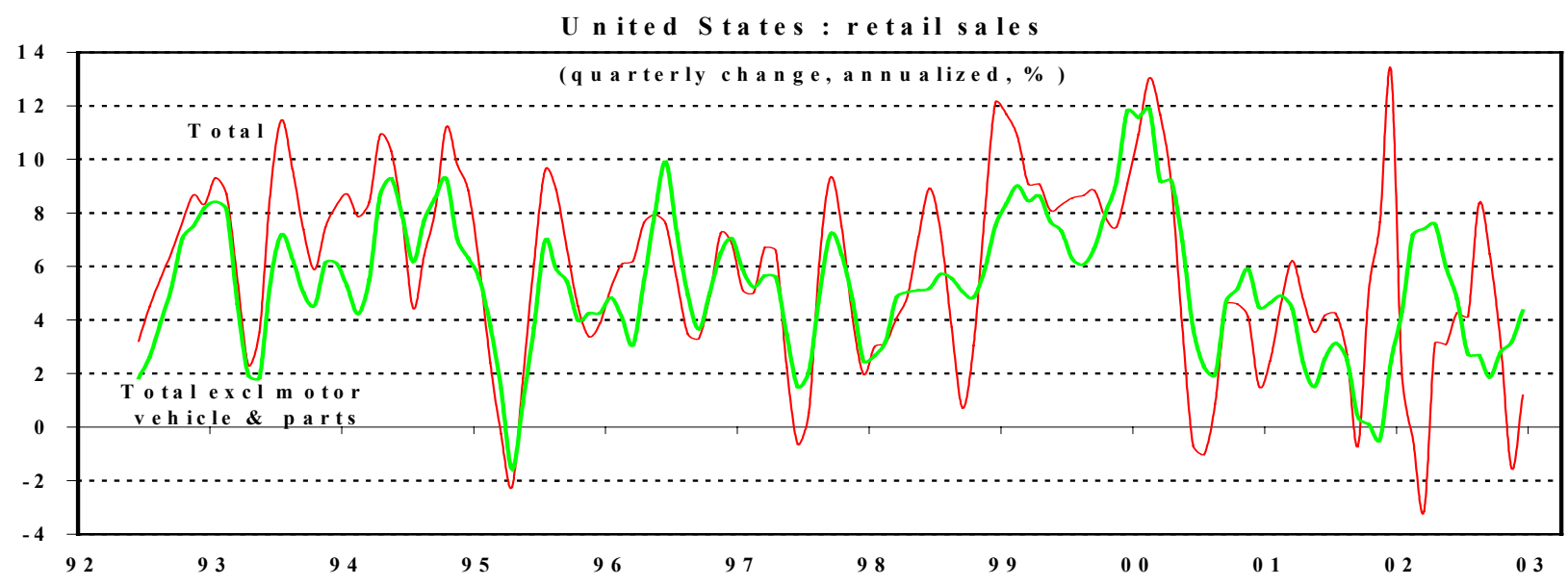
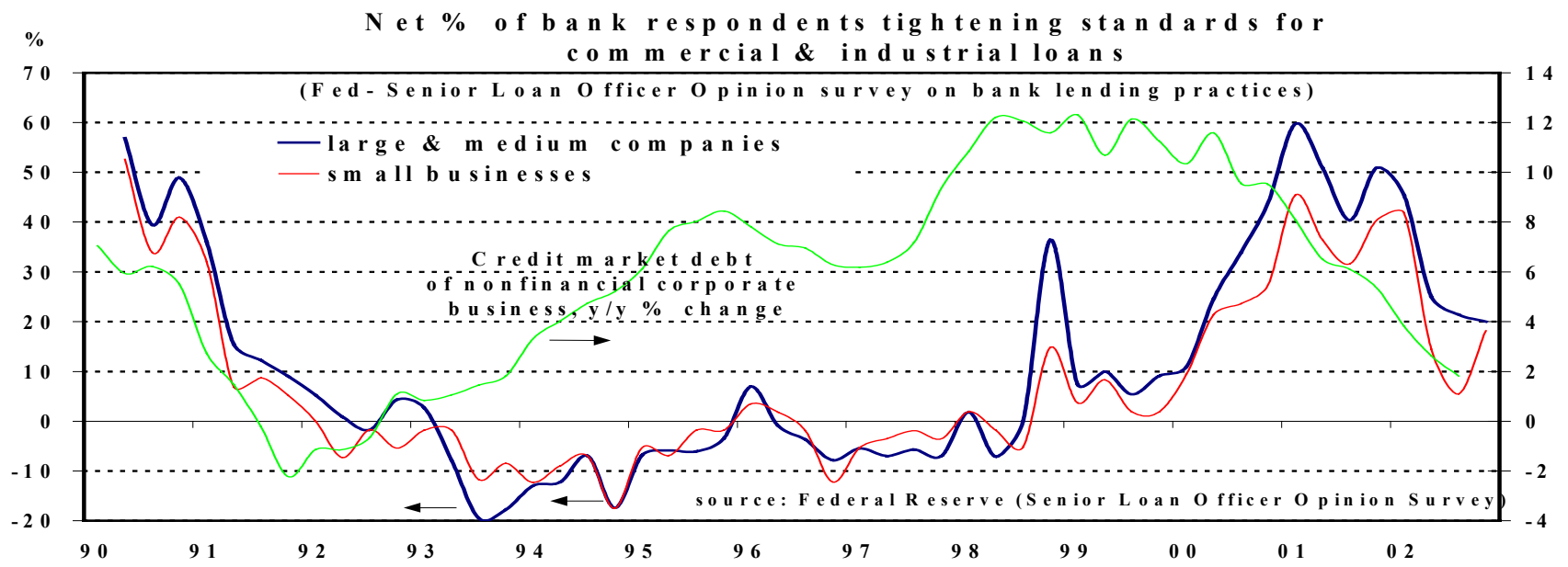


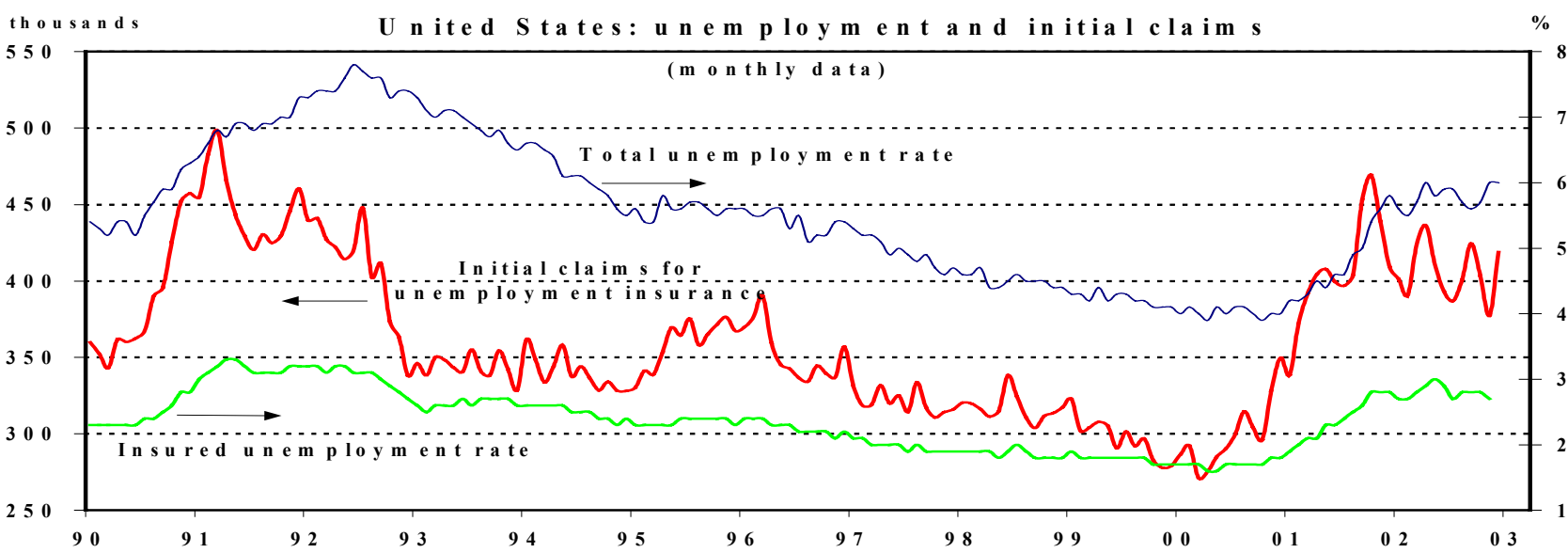
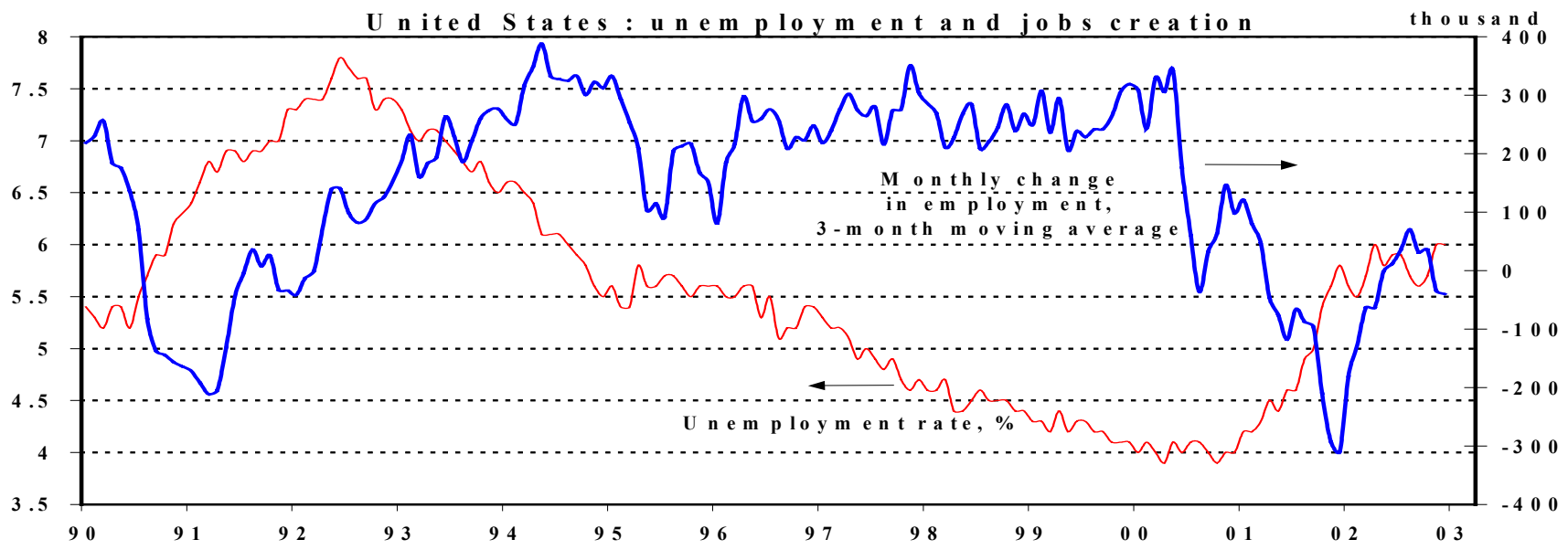
United States : orders and profits



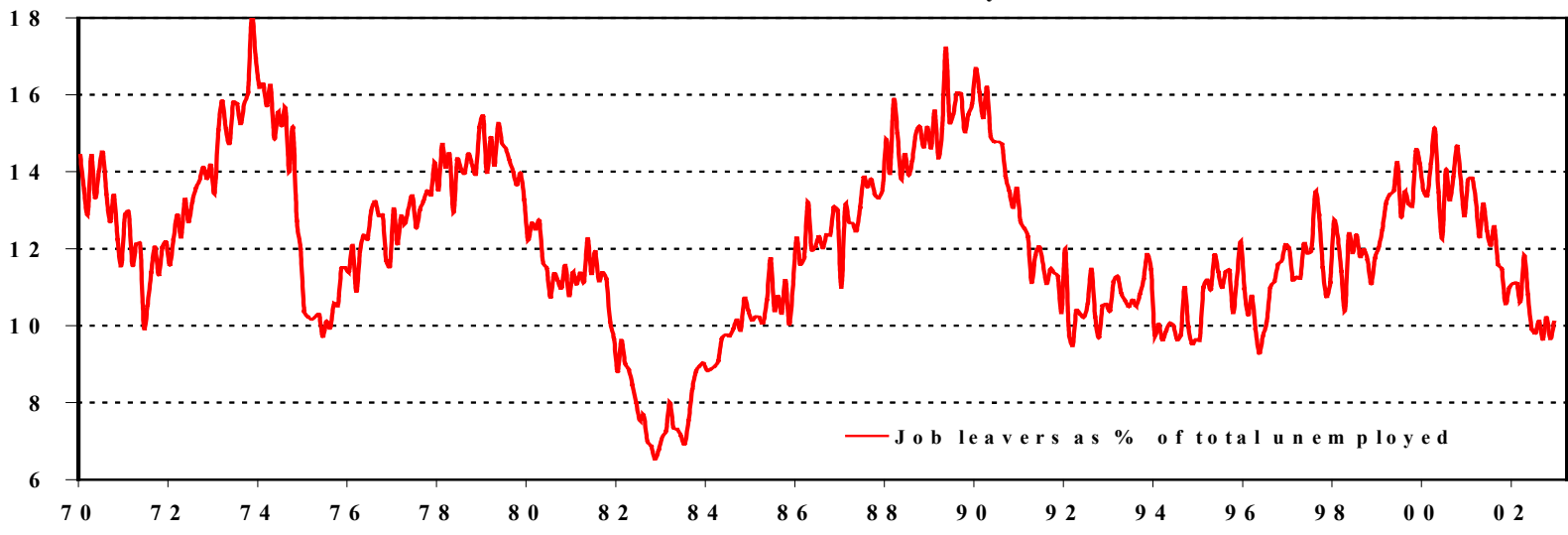
United States: 10-year interest spread, %



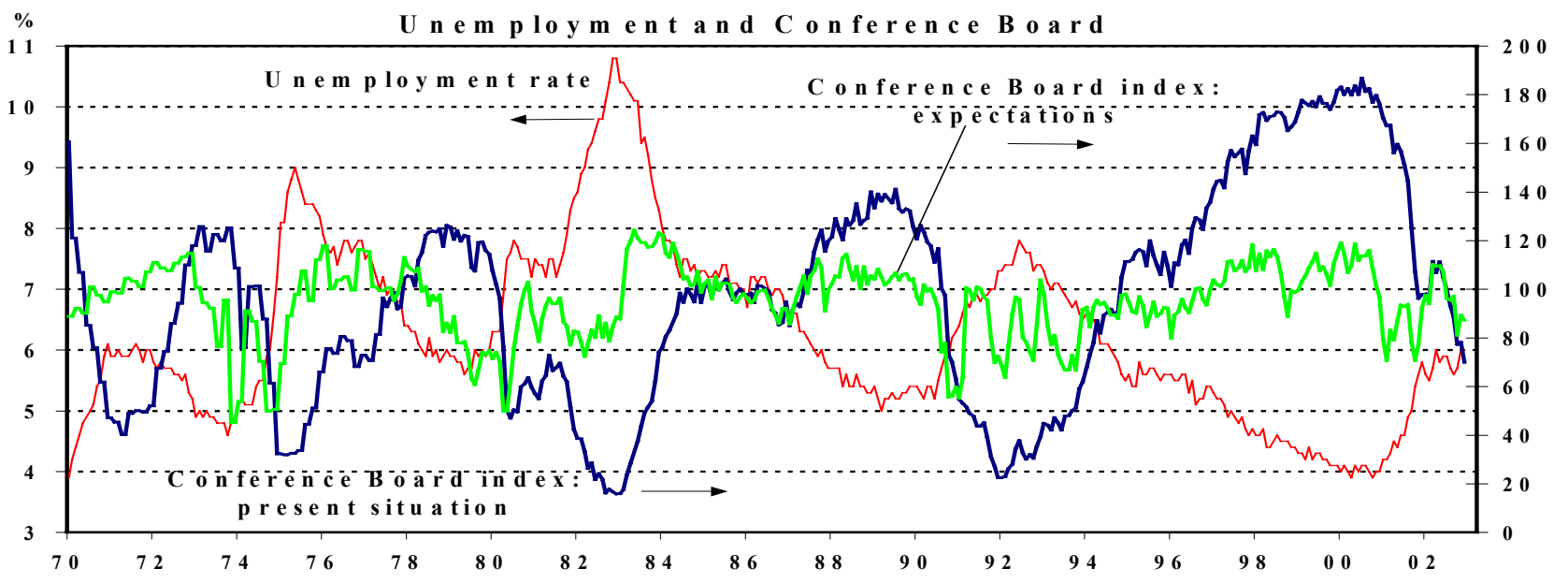




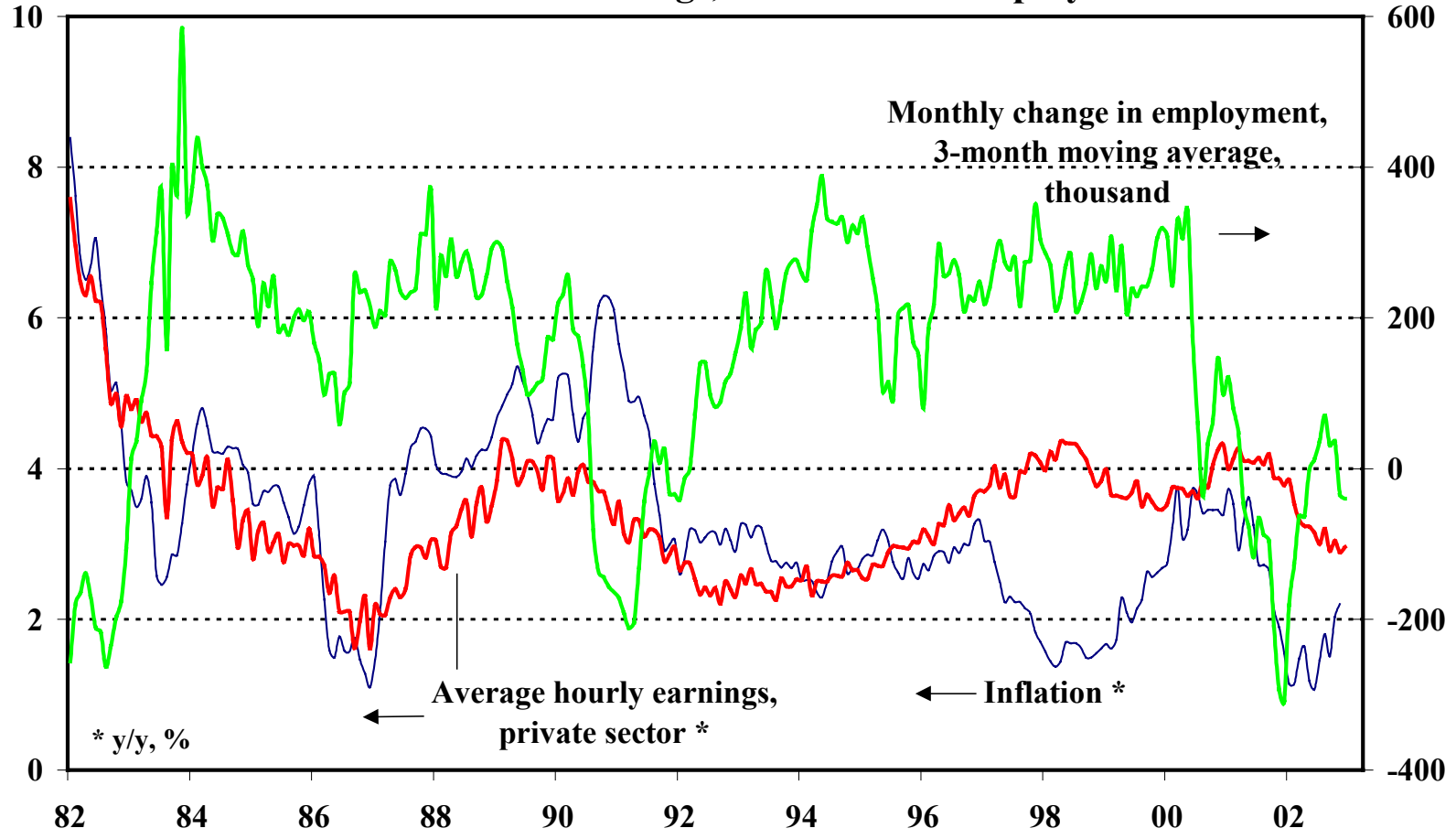
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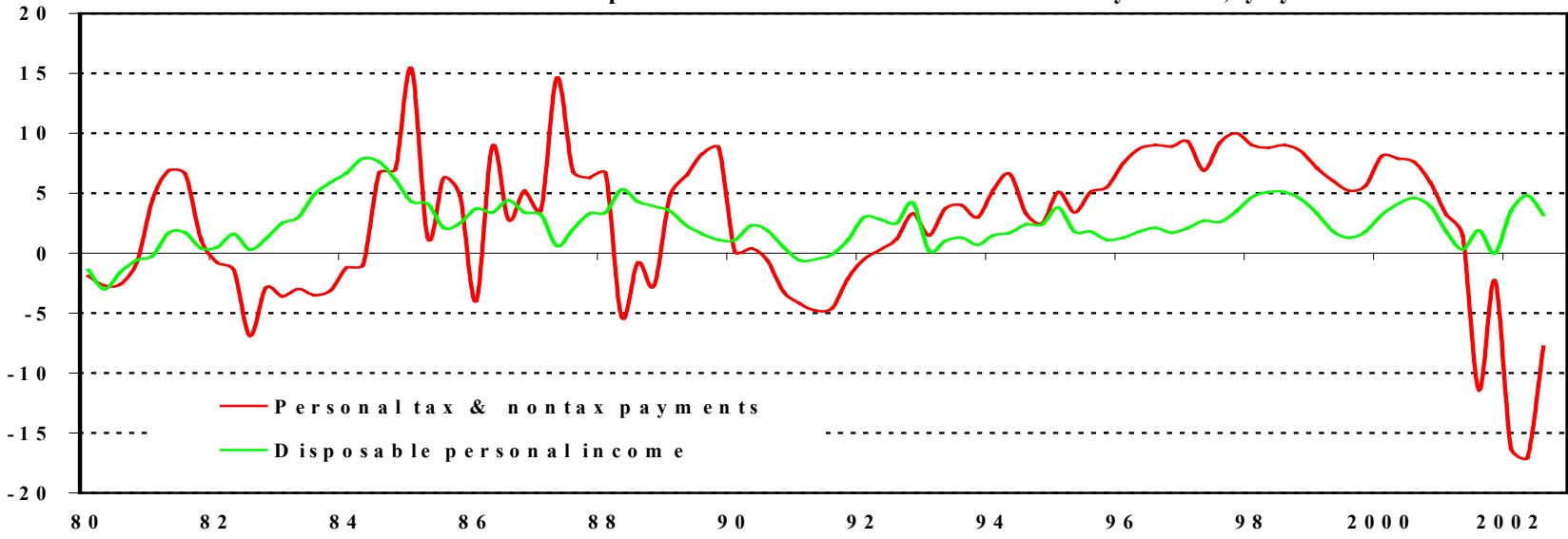
Unemployment and Conference Board



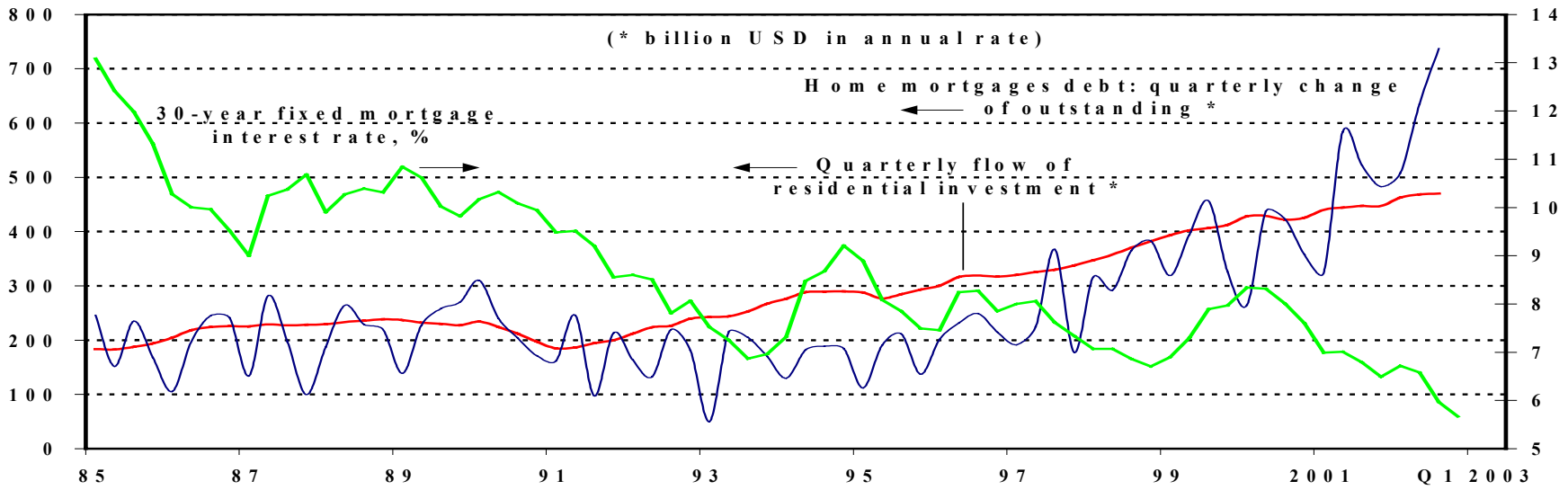
United States : earnings, inflation and employment

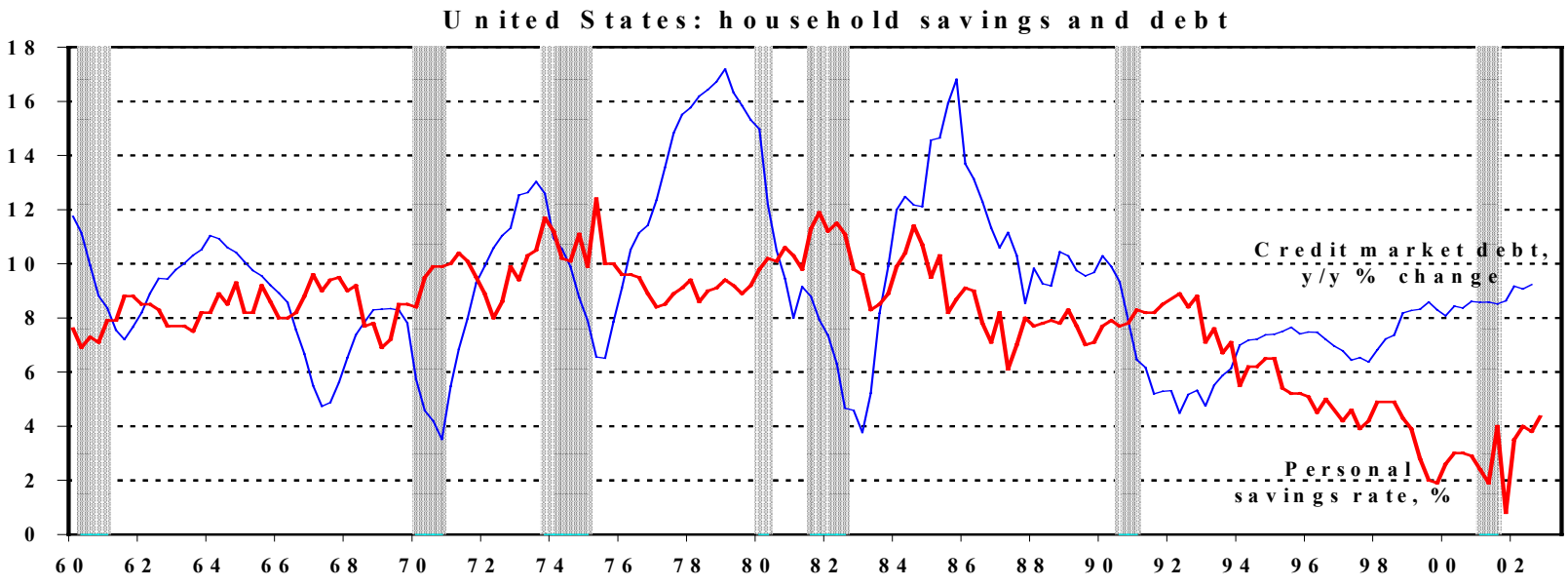
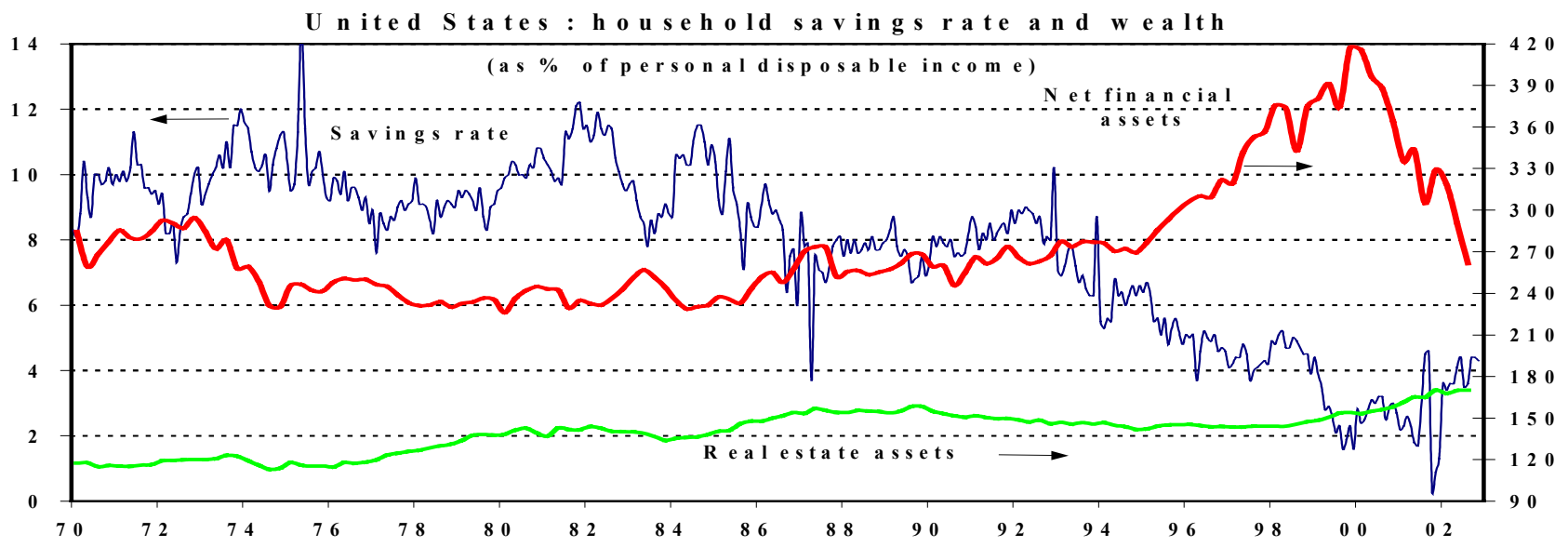


United States : real personal income deflated by CPI, y/y %

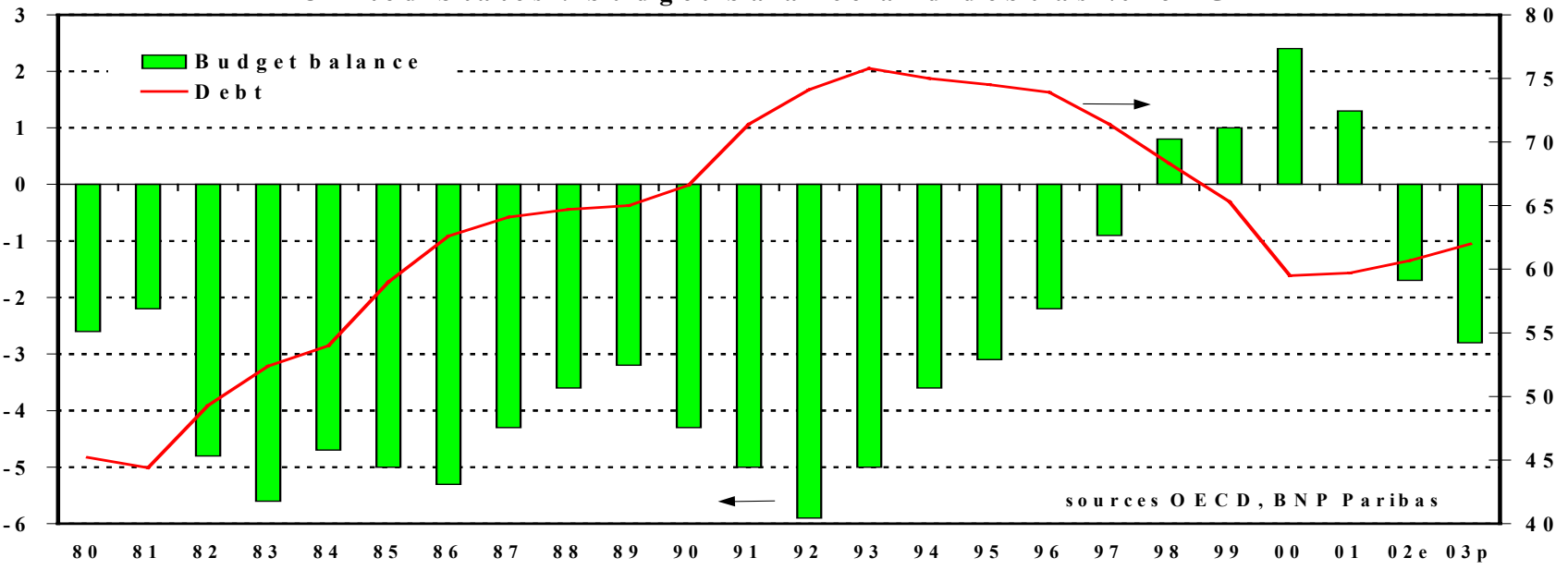


United States : household investment and debt



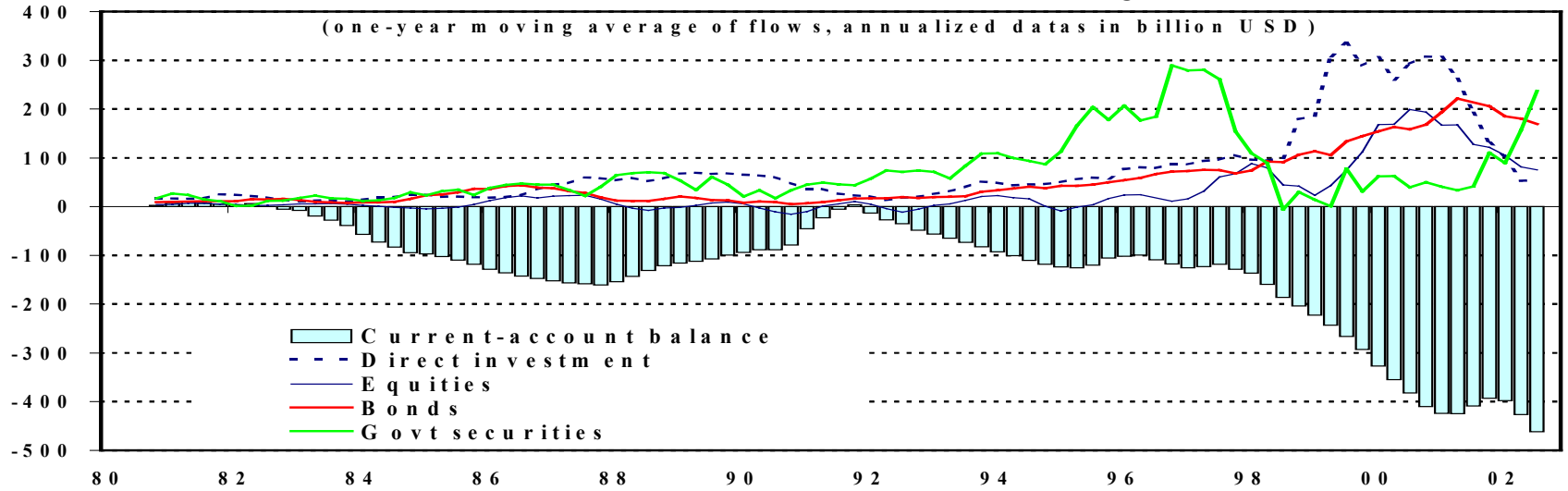


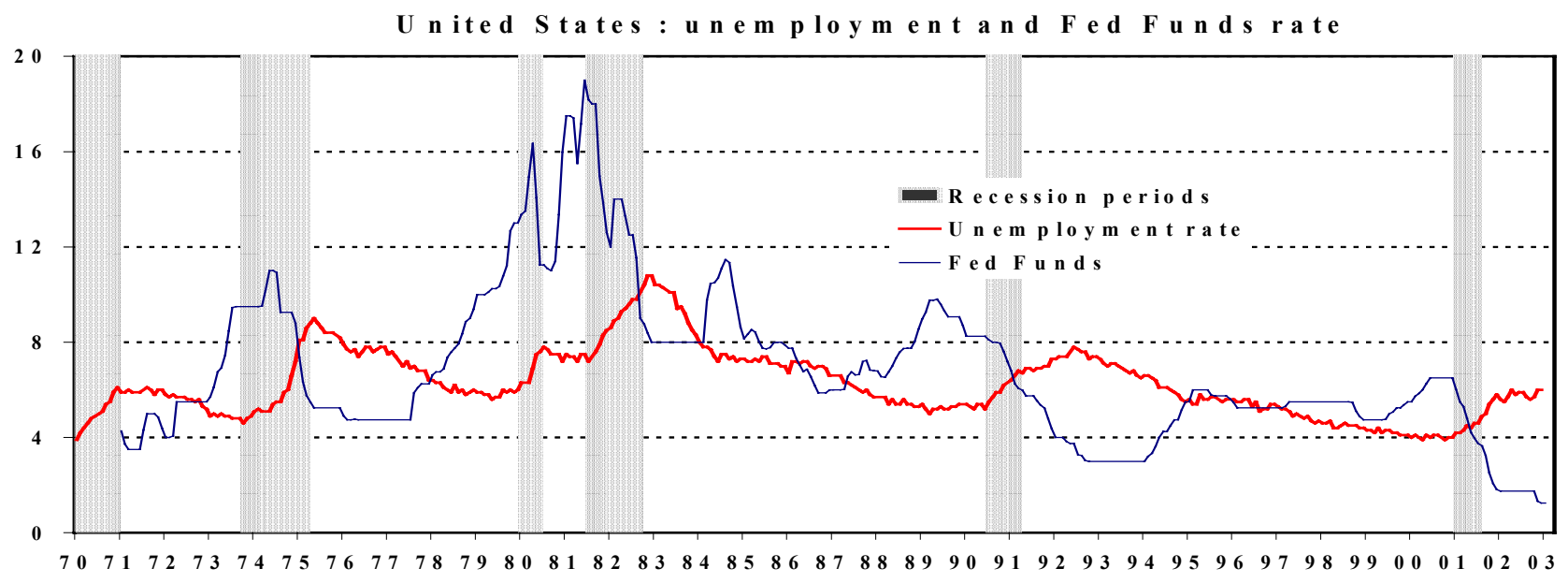
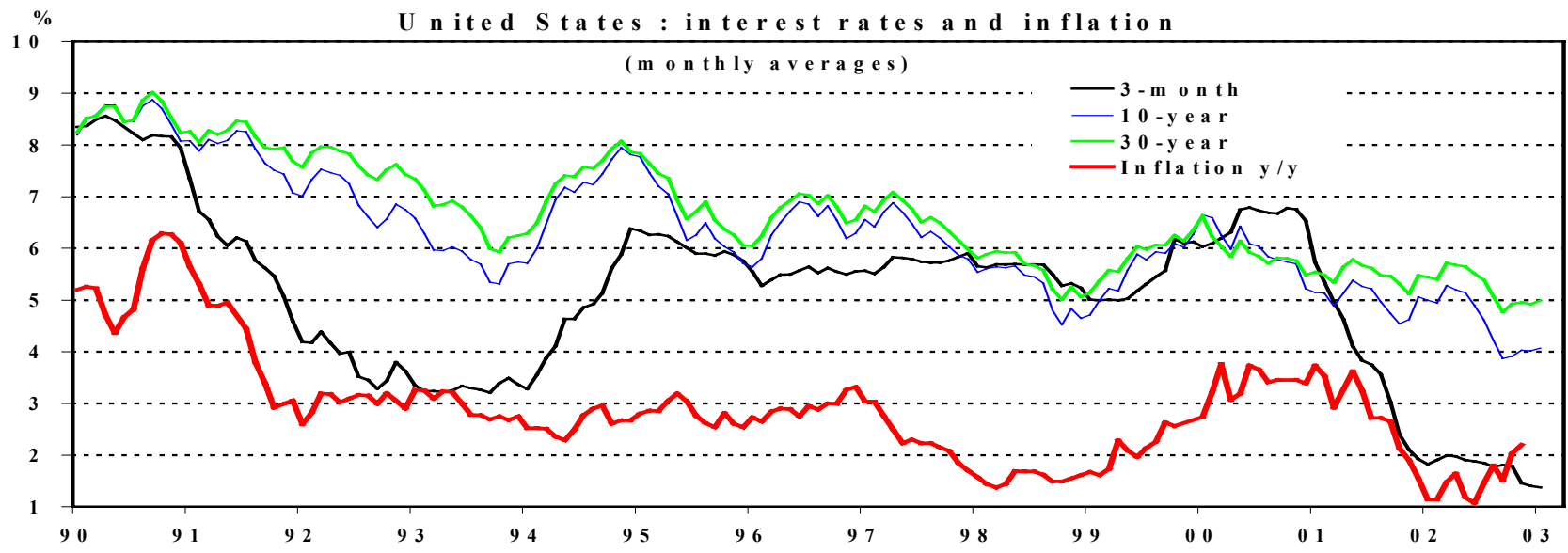
United States : budget balance and debt as % of GDP



United States: current-account balance and foreign investments

(one-year moving average of flows, annualized data in billion USD)





EURO ZONE

- **Economic activity**

- Euroland avoided recession last year but growth has been mediocre in 2002: 1.6% annualized in Q1 and Q2, it has disappointed even more in Q3 (1.3%)
- Leading indicators point to more weakness in the coming months
- All in all, growth is not expected to be higher than 0.8% in 2002 and 1.25% in 2003

- **Monetary policy**

- Unchanged from November 2001 to November 2002
- Last summer, ECB considered the inflationary risks as dominant. Economic activity was disappointing but unit labor costs were accelerating and core inflation was creeping up. That was an invitation to keep a restrictive stance
- Financial turbulence and the deterioration in the economic outlook have changed the landscape

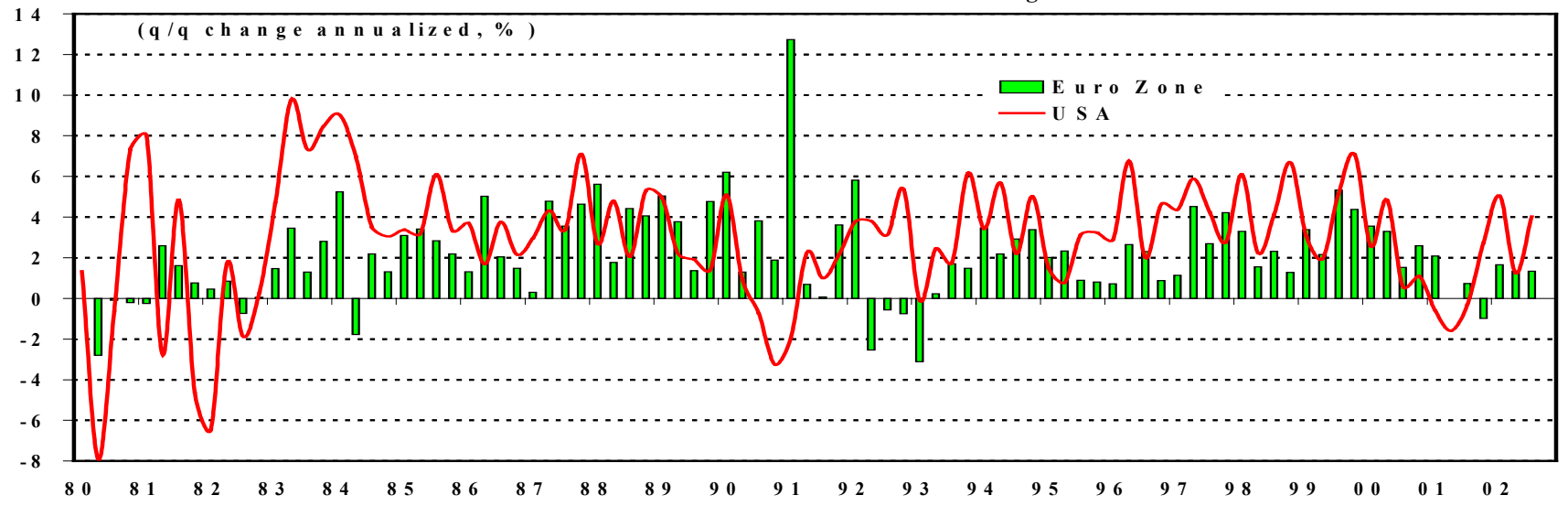
- Sentiment indicators went back to their early 1999 level when ECB cut rates down to 2.5%
 - ECB has to take the growth outlook into consideration (second pillar)
- Monetary policy is set to become more accommodative
- 2 years in a row (a 3rd coming) with growth below potential will bring a moderation in core inflation
 - specific supply shocks (energy, food, introduction of notes and coins in euros) will stop impacting headline inflation in 2003 H1
 - the appreciation of the euro has tightened monetary conditions
 - the rhetoric has changed : last spring, the inflationary risk was considered as dominant, during the summer risks were “balanced”, since September, growth outlook has become a source of concern. ECB finally delivered ... we see more to come
 - Revision of monetary policy during 2003 H1 (M3, inflation target ceiling)
 - Coordination with fiscal policy. When EcoFin declared it launched a procedure vis a vis Portugal and EC announced the possibility of early warnings (France close to a 3% deficit) and an excessive deficit procedure for Germany, the path towards lower rates opened

Graph list

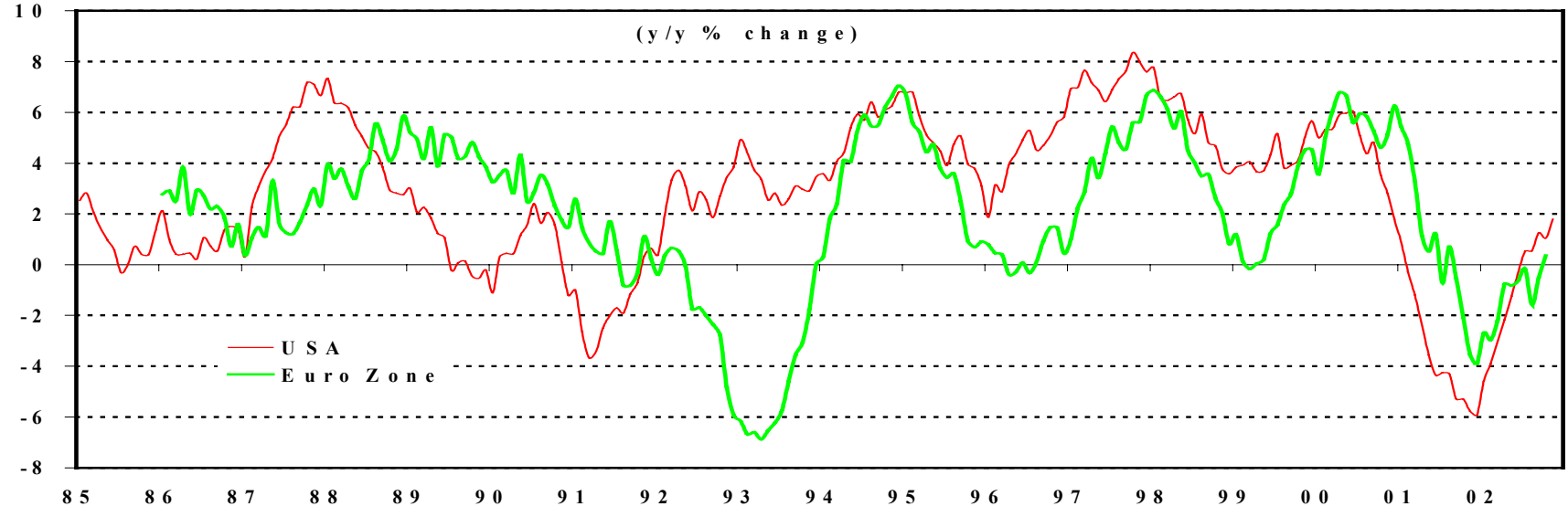
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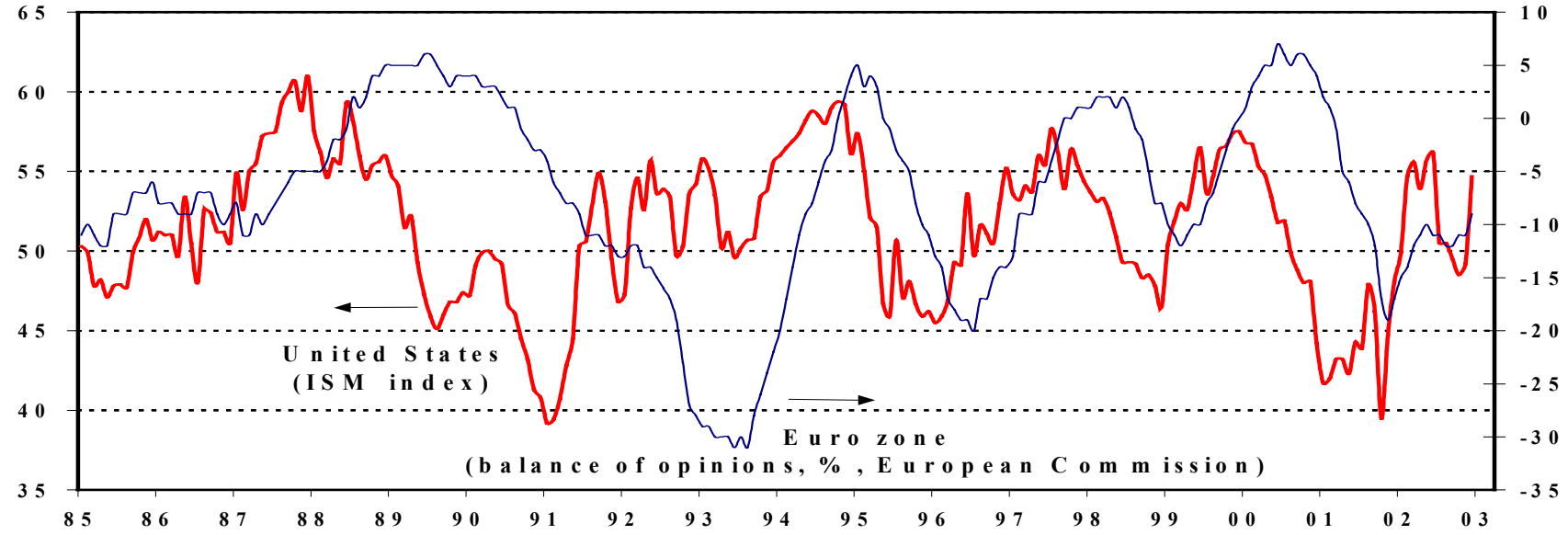
United States/Euro zone : GDP growth



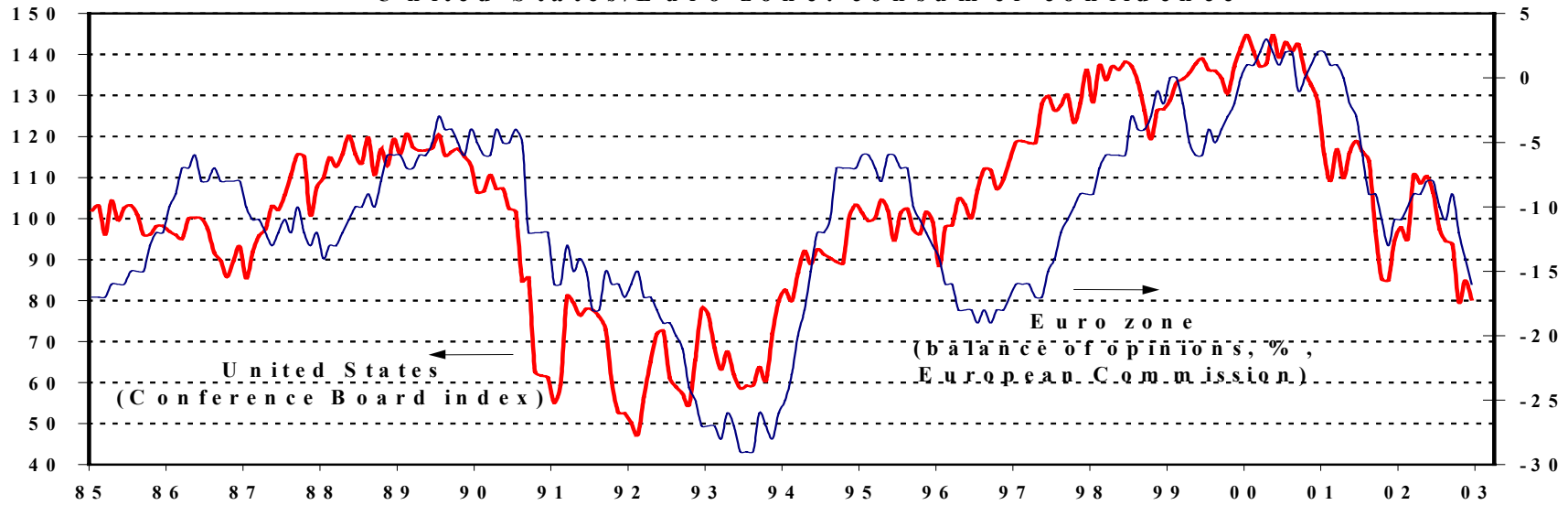
United States/Euro zone : industrial production



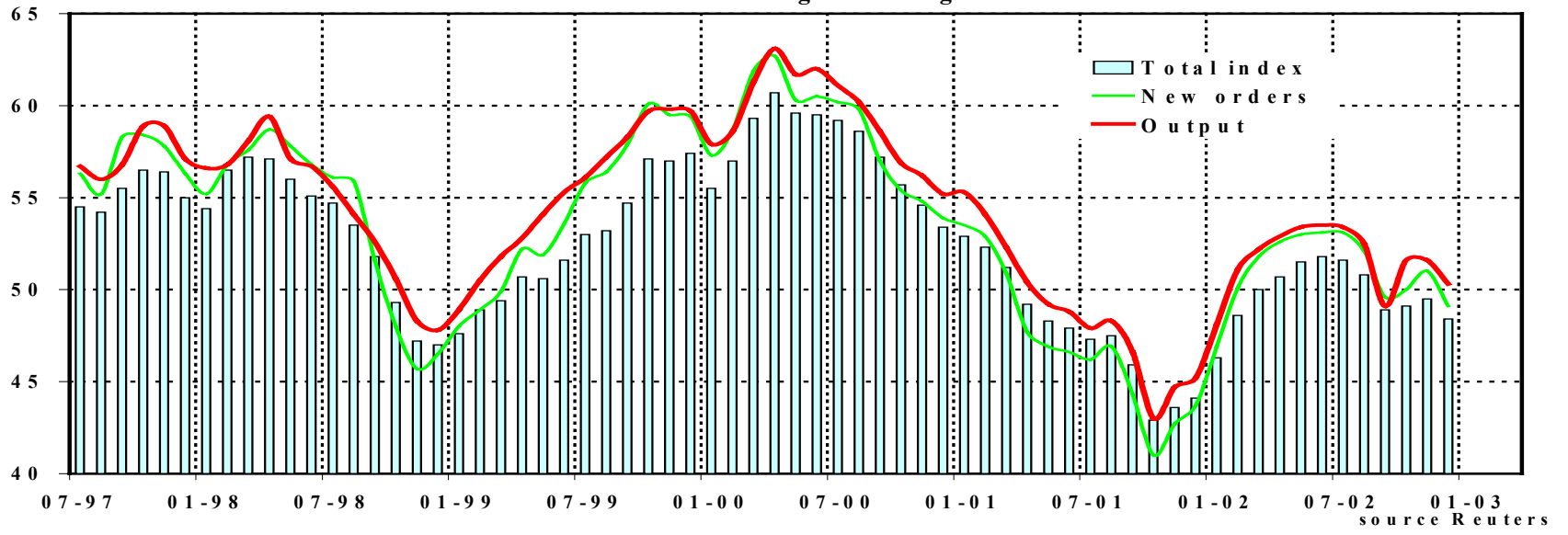
United States/Euro zone: industrial confidence



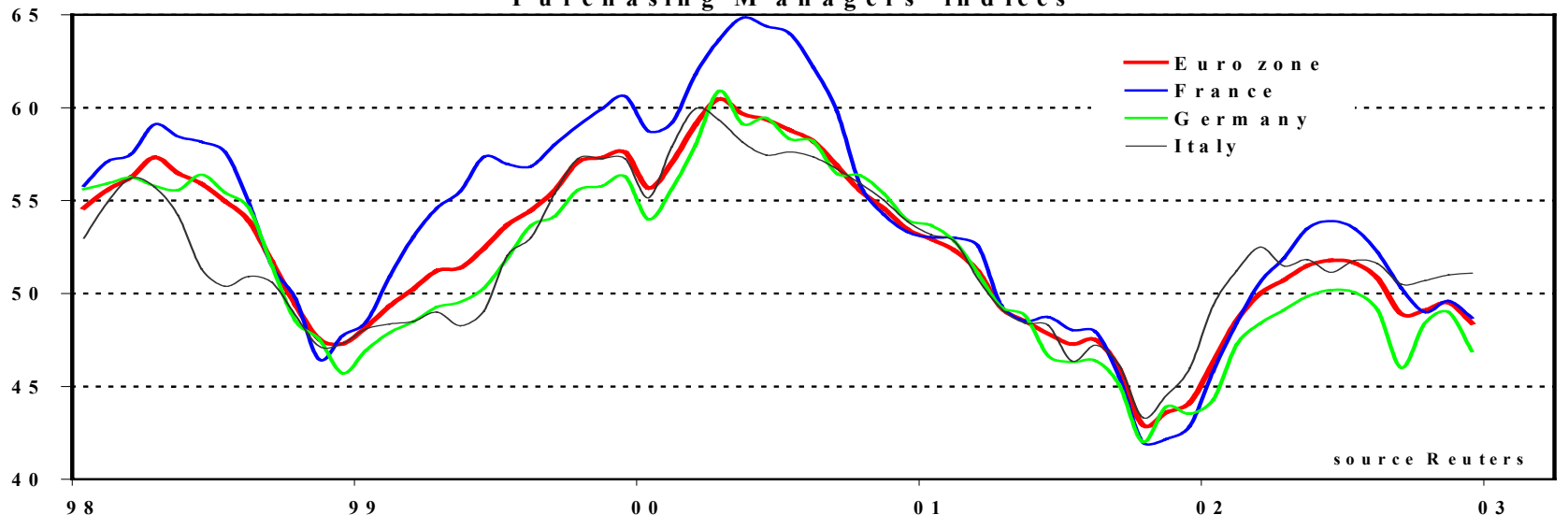
United States/Euro zone: consumer confidence



Euro zone : Purchasing Managers' indices

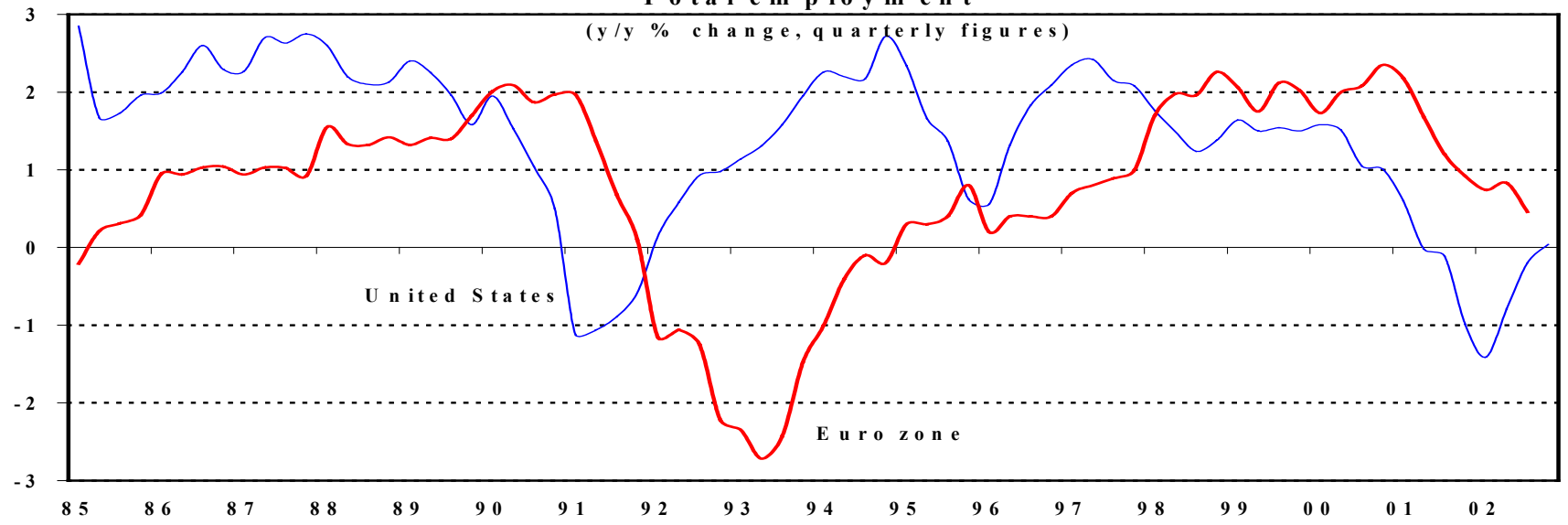


Purchasing Managers' indices

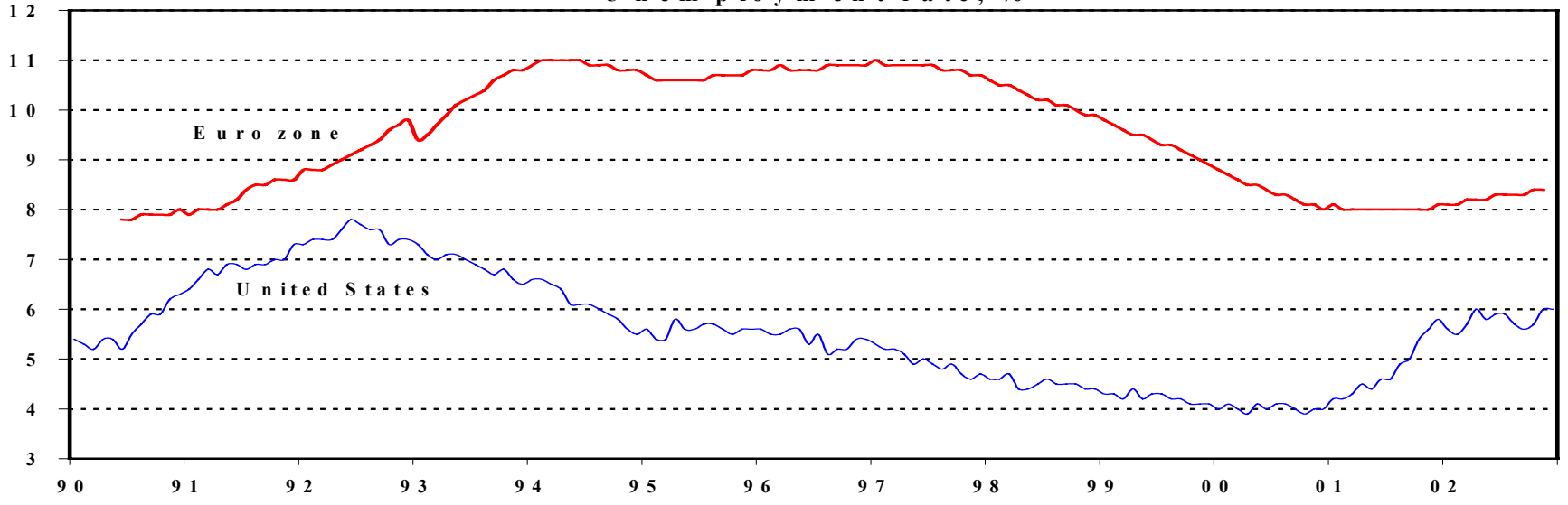


Total employment

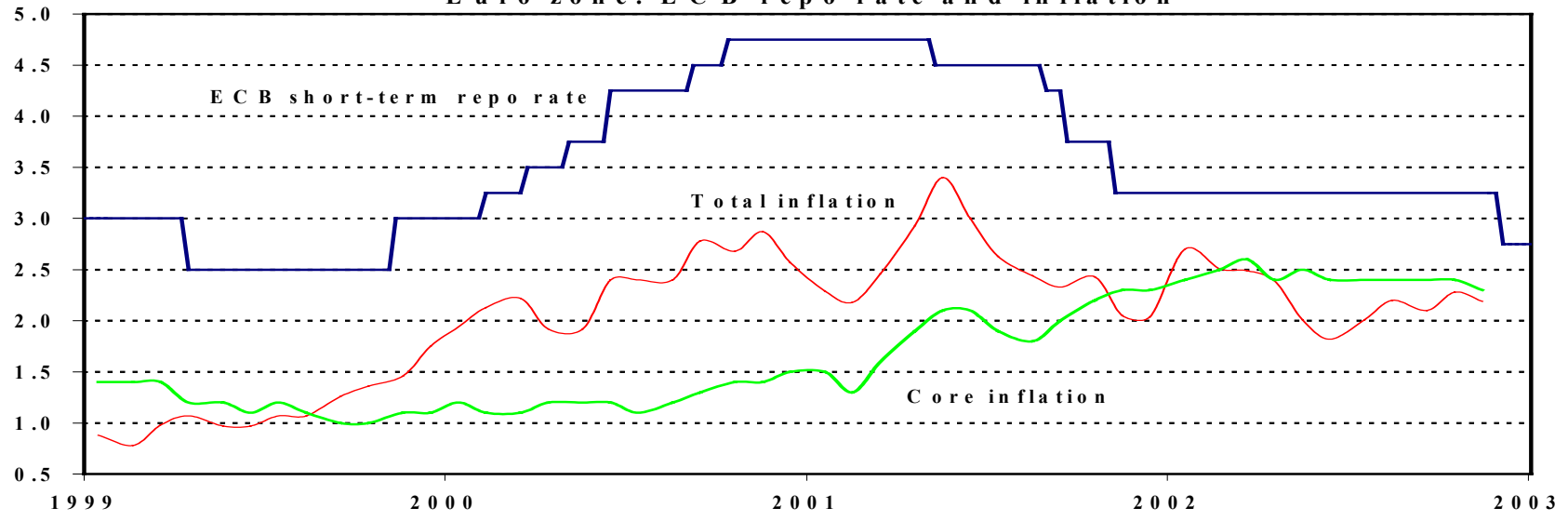
(y/y % change, quarterly figures)



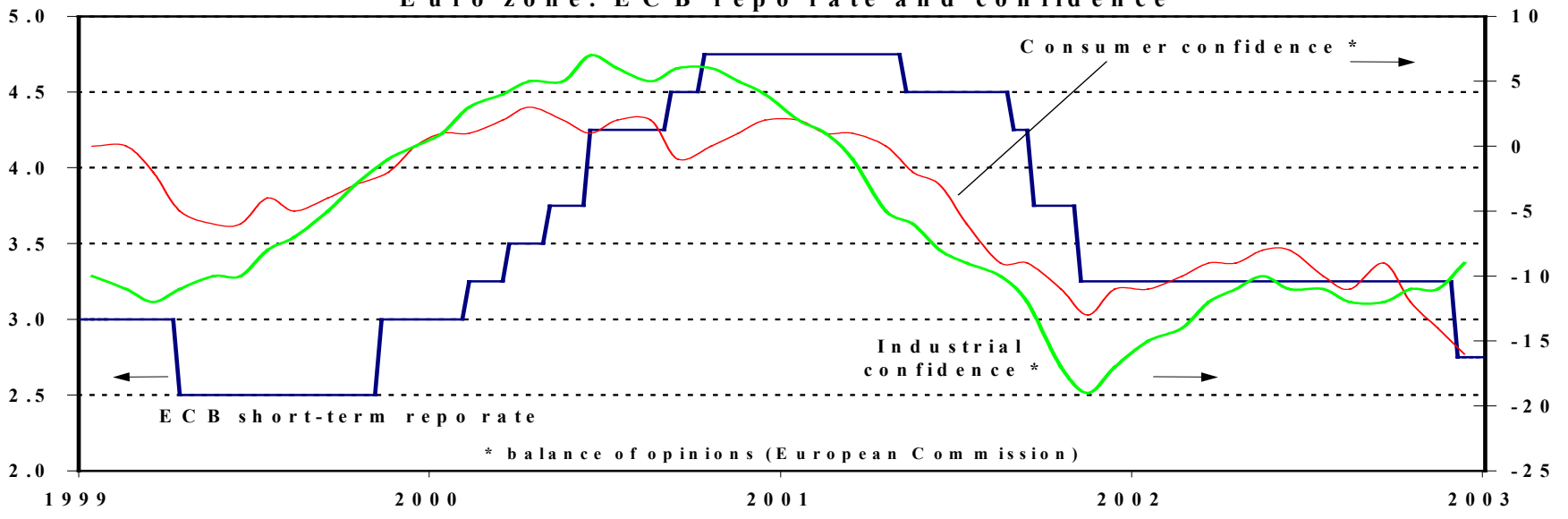
Unemployment rate, %



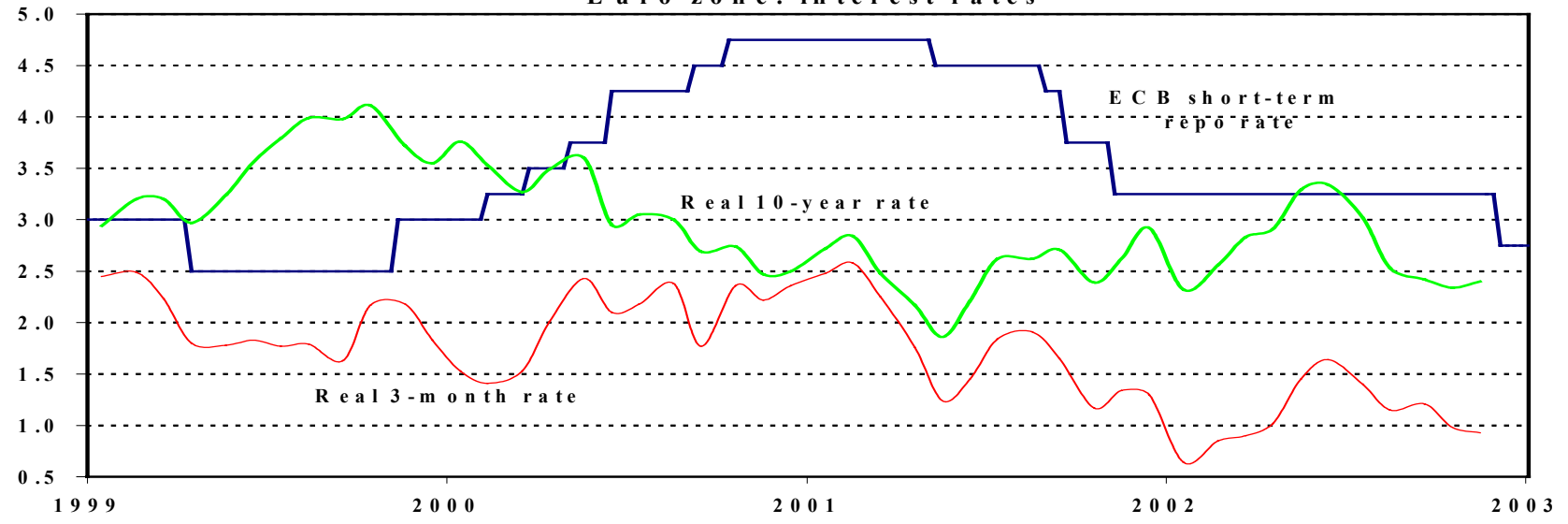
Euro zone: E C B repo rate and inflation



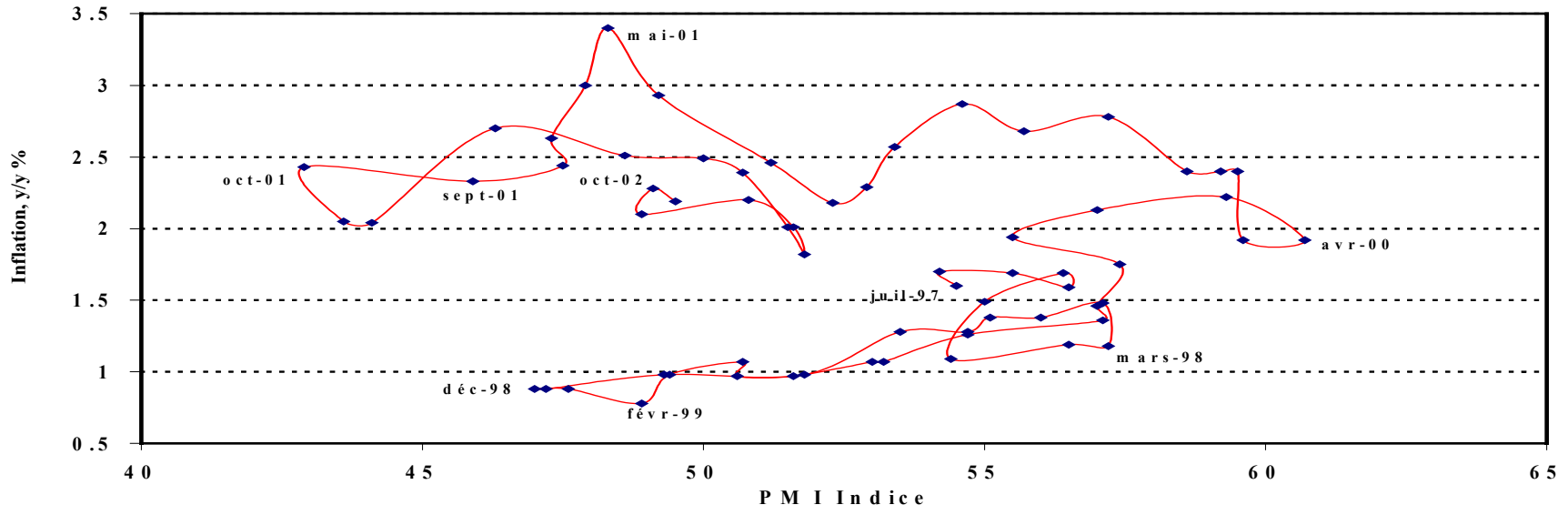
Euro zone: E C B repo rate and confidence

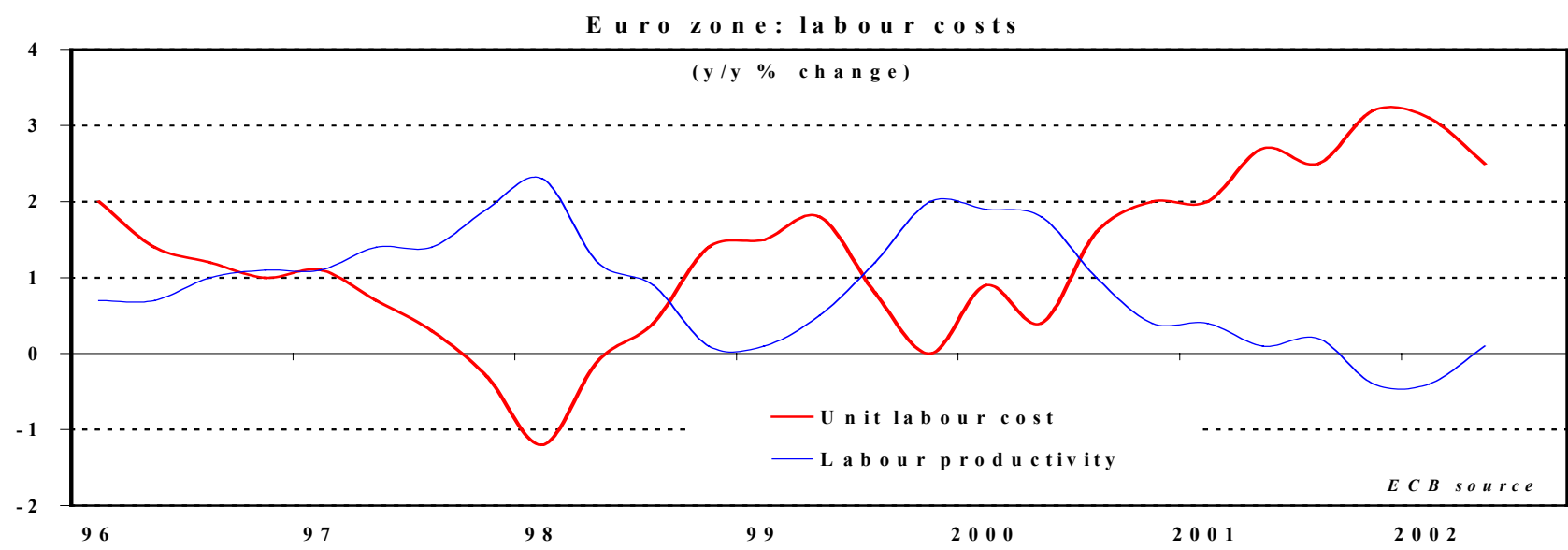
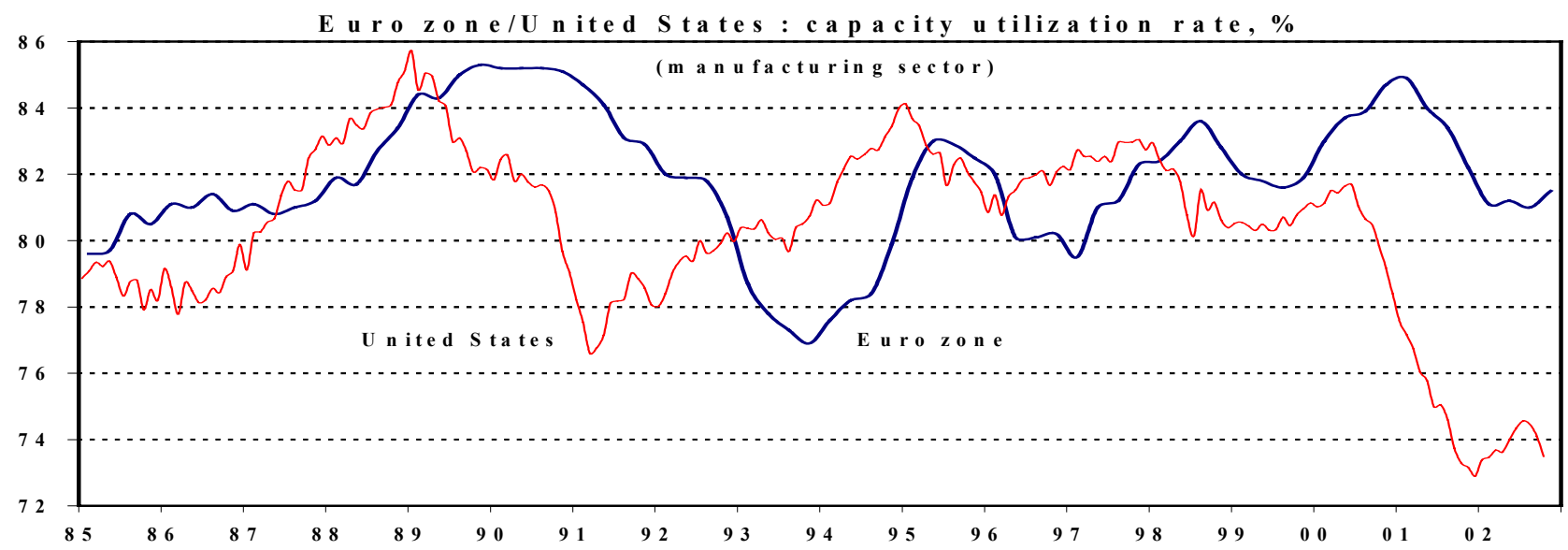


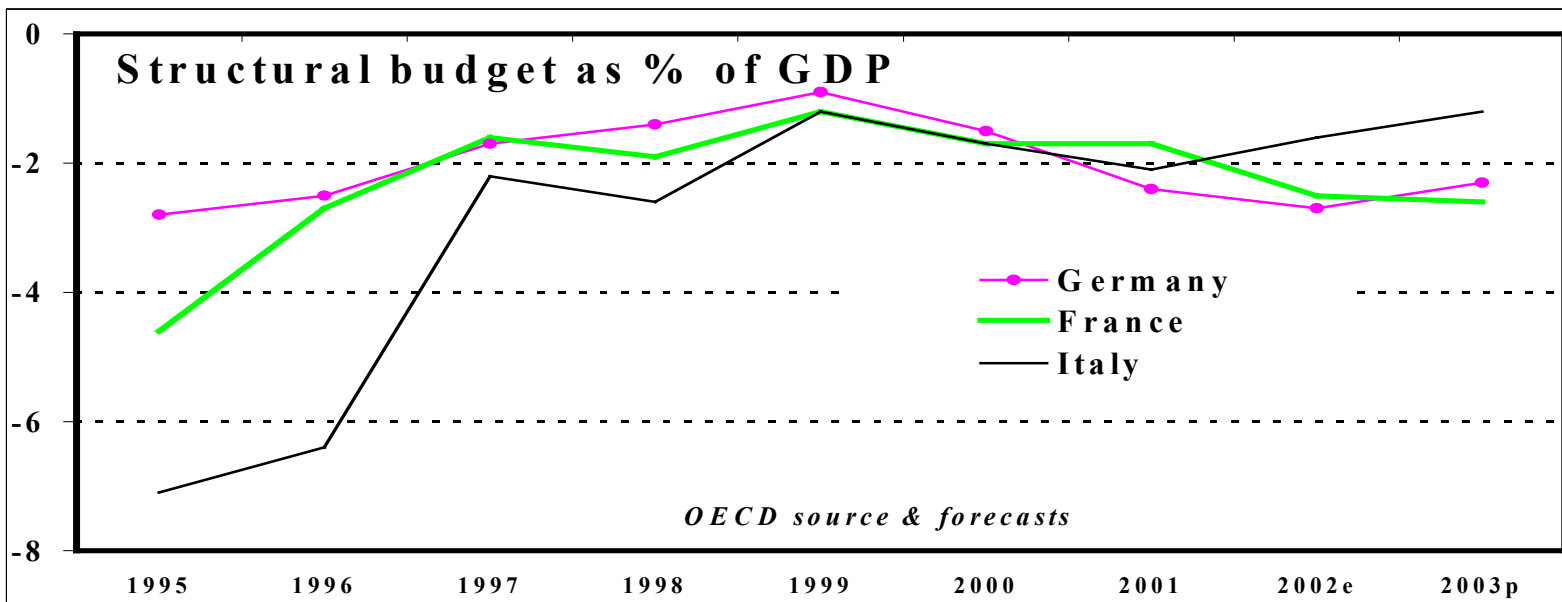
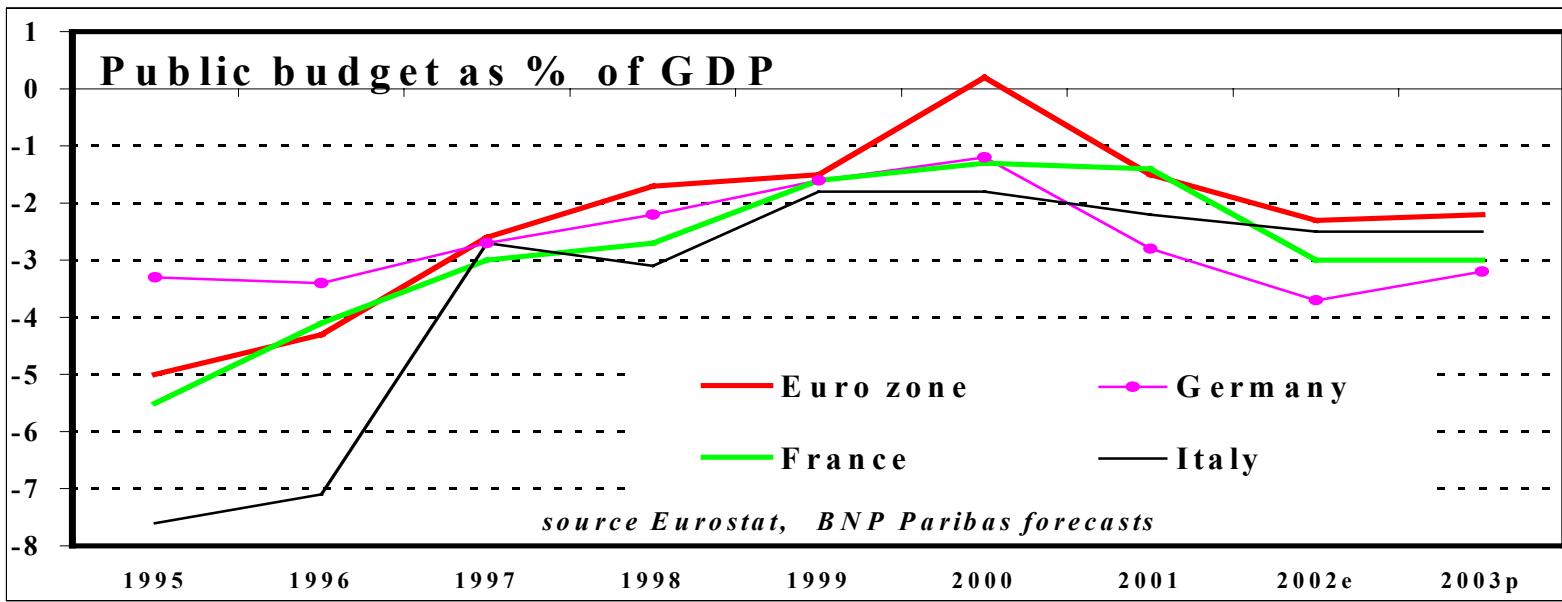
Euro zone: interest rates

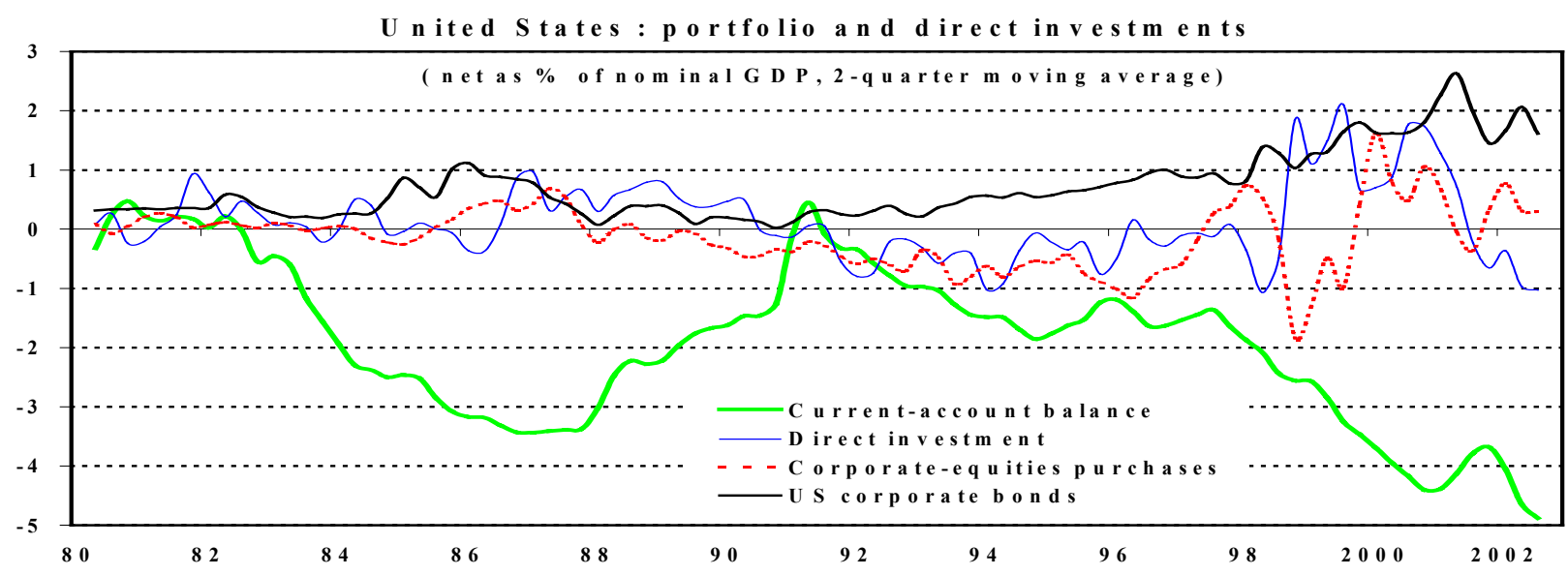
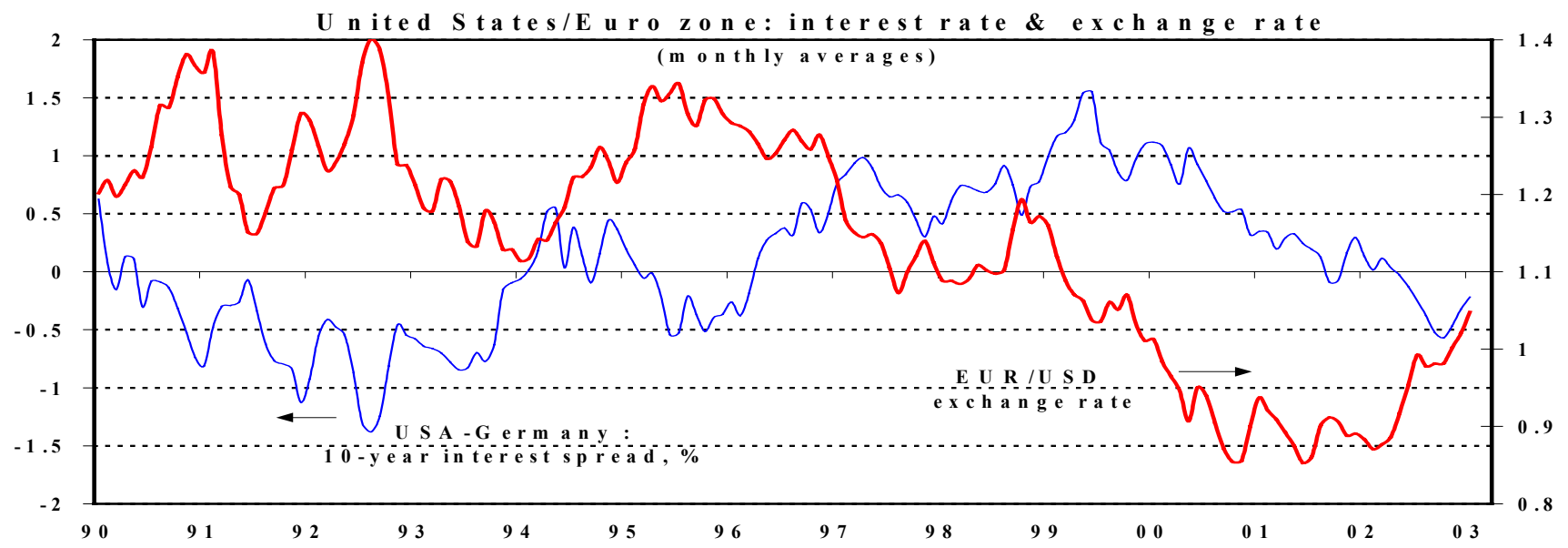


Euro zone: inflation and PMI









JAPAN

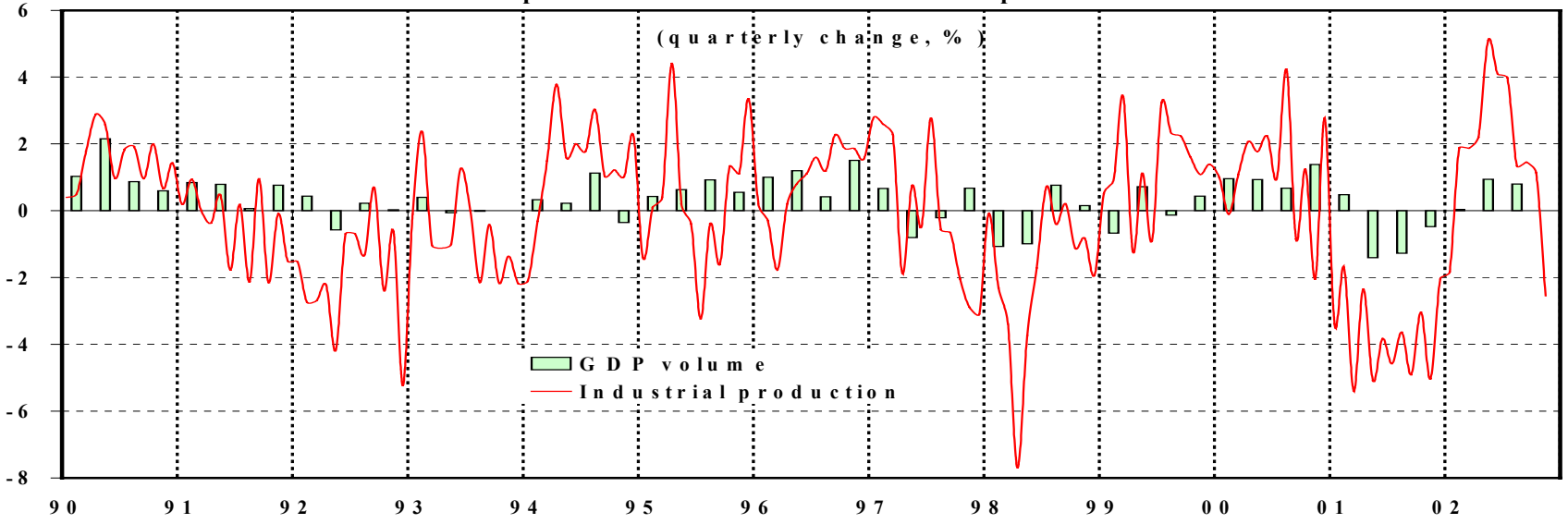
- A rebound in exports in Q2 has been followed by an acceleration in consumption and government expenditure in Q3
- The favourable momentum is eroding (confidence and leading indicators are disappointing)
- Deflationary pressures are an impediment to self-sustained growth
- The deterioration in the labor market is weighting on incomes and confidence
- Monetary policy has no impact on the real economy. The economic situation of Japan is adversely impacted by the burden of banks' NPLs and its consequences on credit

- The latest “anti-deflation” and stimulus plans are not ambitious enough to push prices upwards nor revive growth
- The health of the financial sector is the key question. Banks recap by the government seems unavoidable as well as unorthodox monetary measures

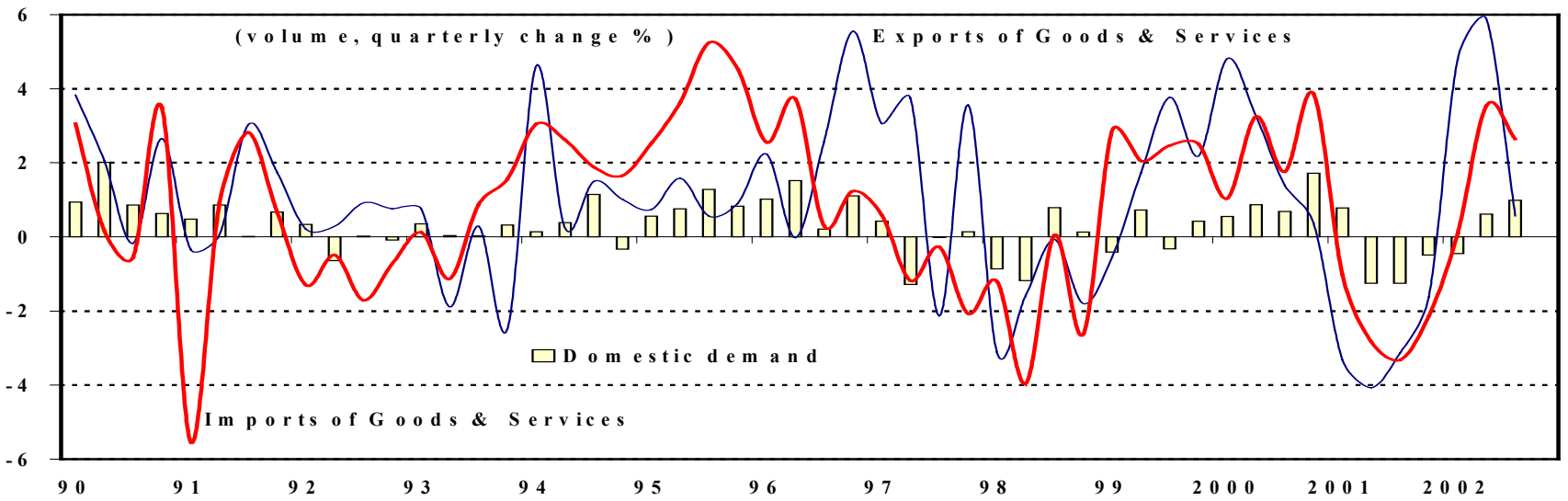
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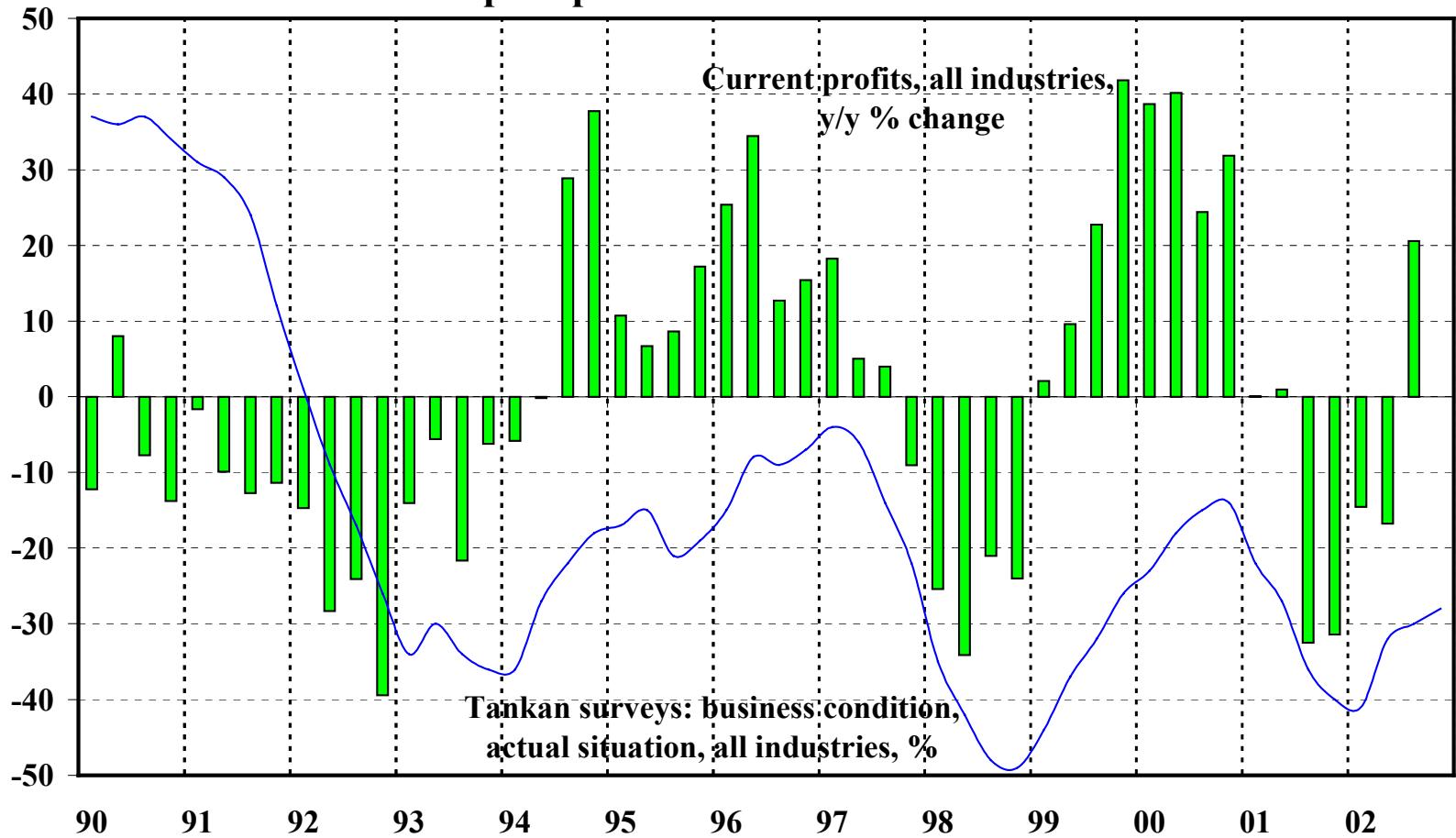
Japan: GDP and industrial production



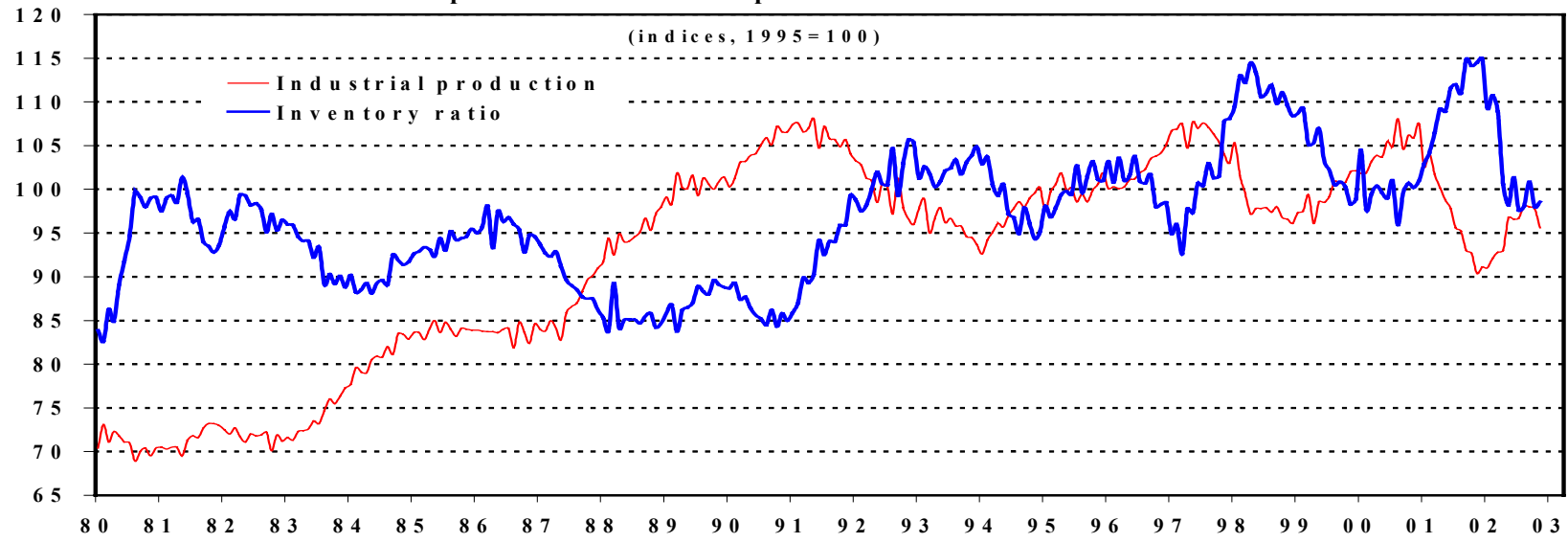
Japan: foreign and domestic demands



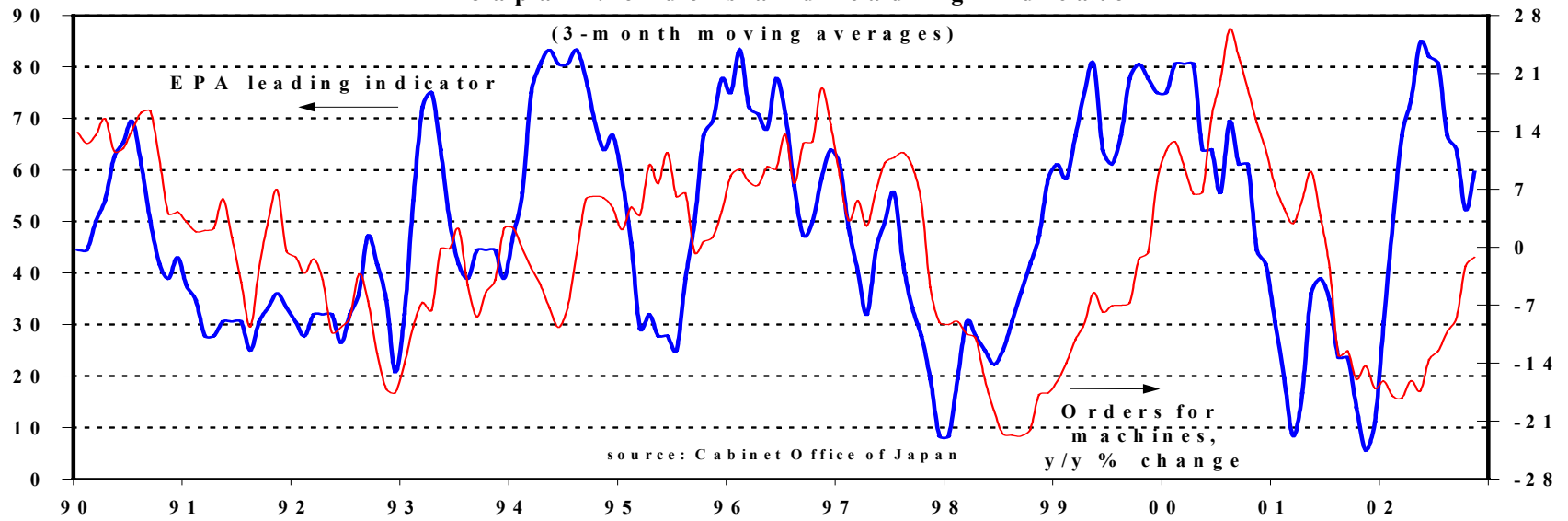
Japan: profits and business climate



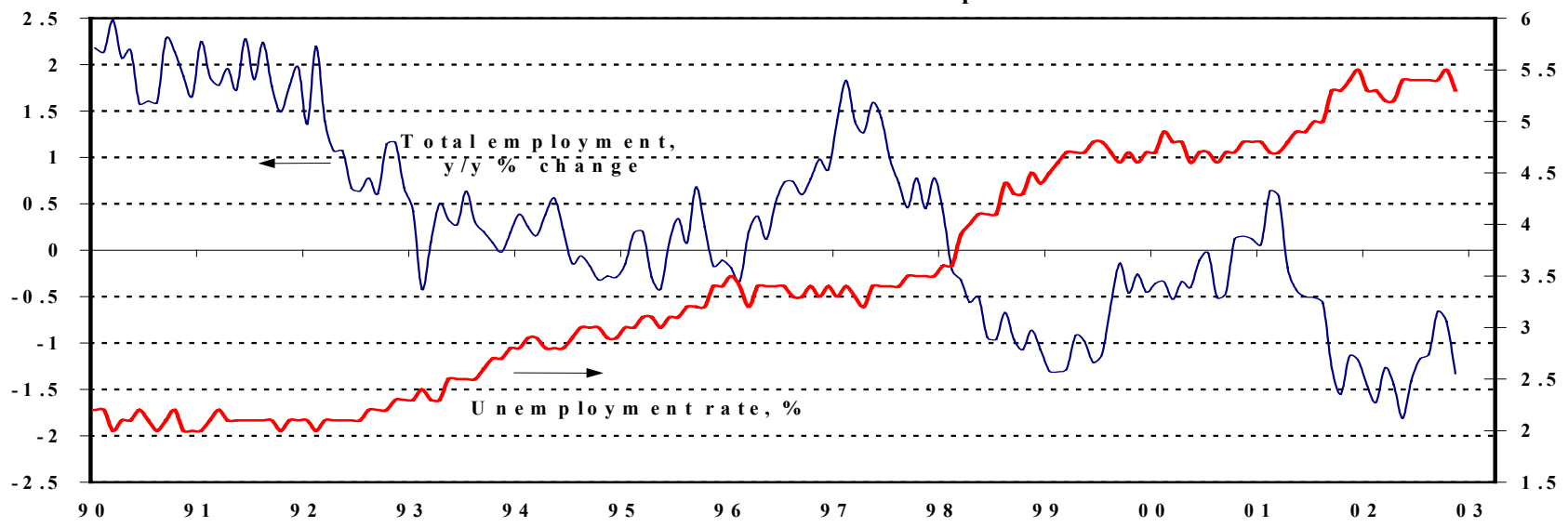
Japan : industrial production and inventories



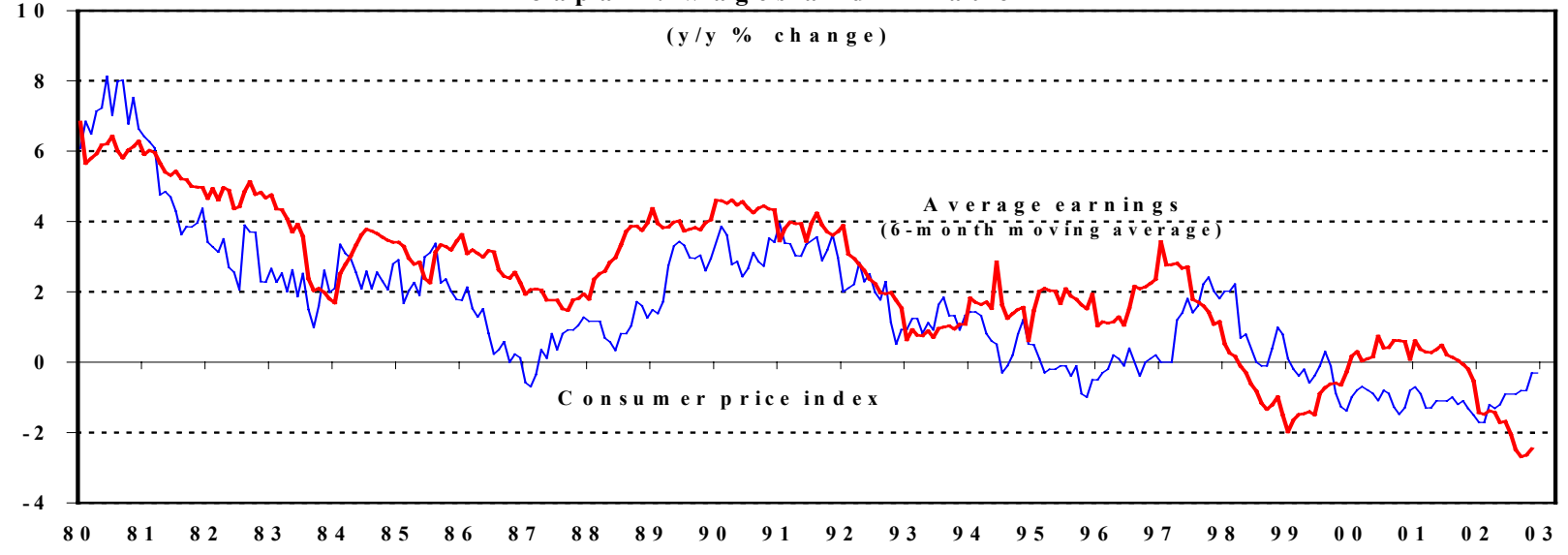
Japan : orders and leading indicator

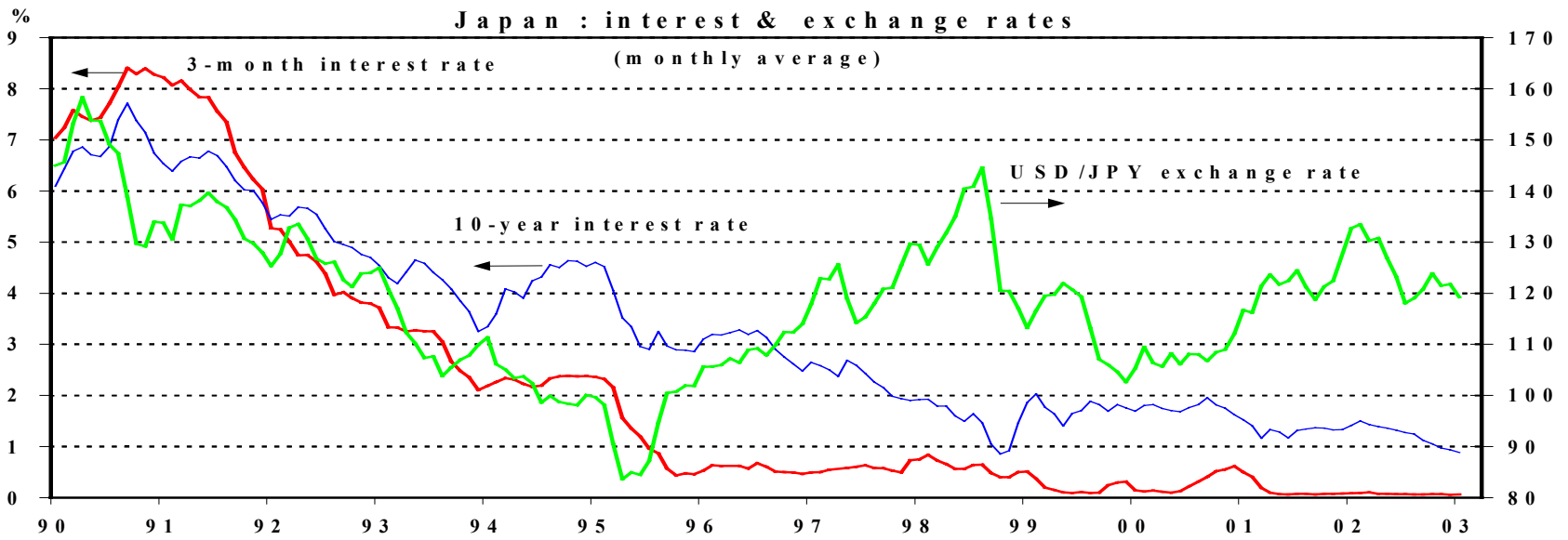
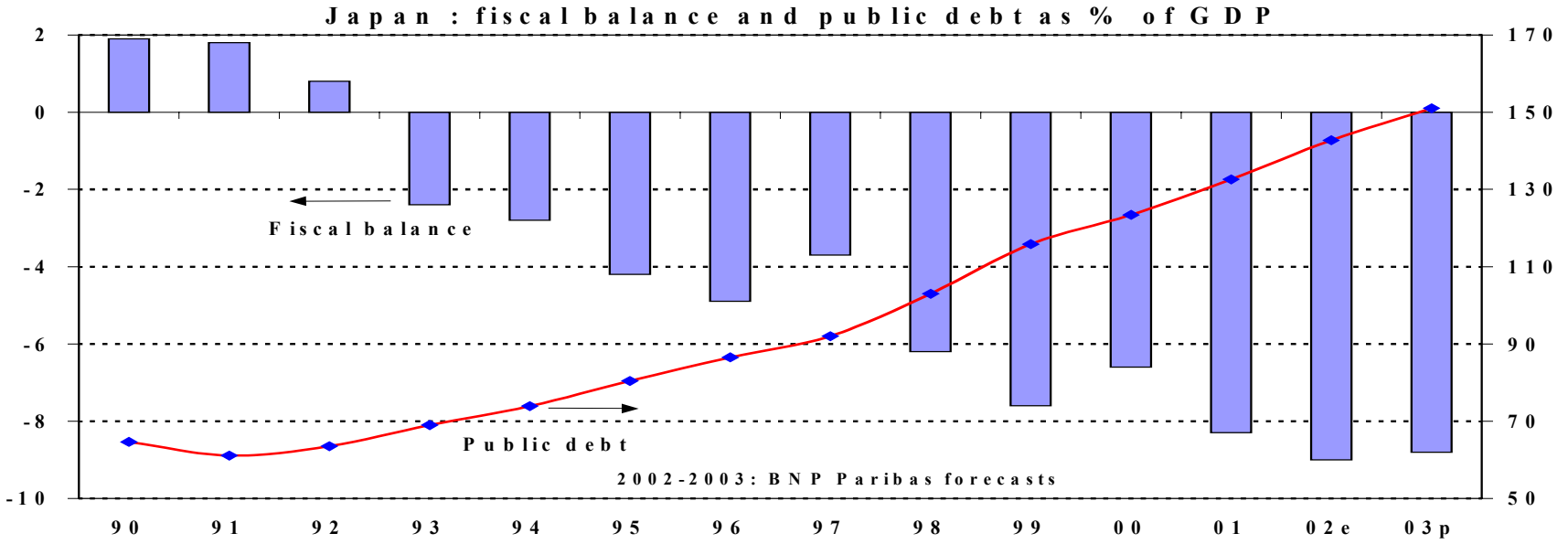


The labour market in Japan

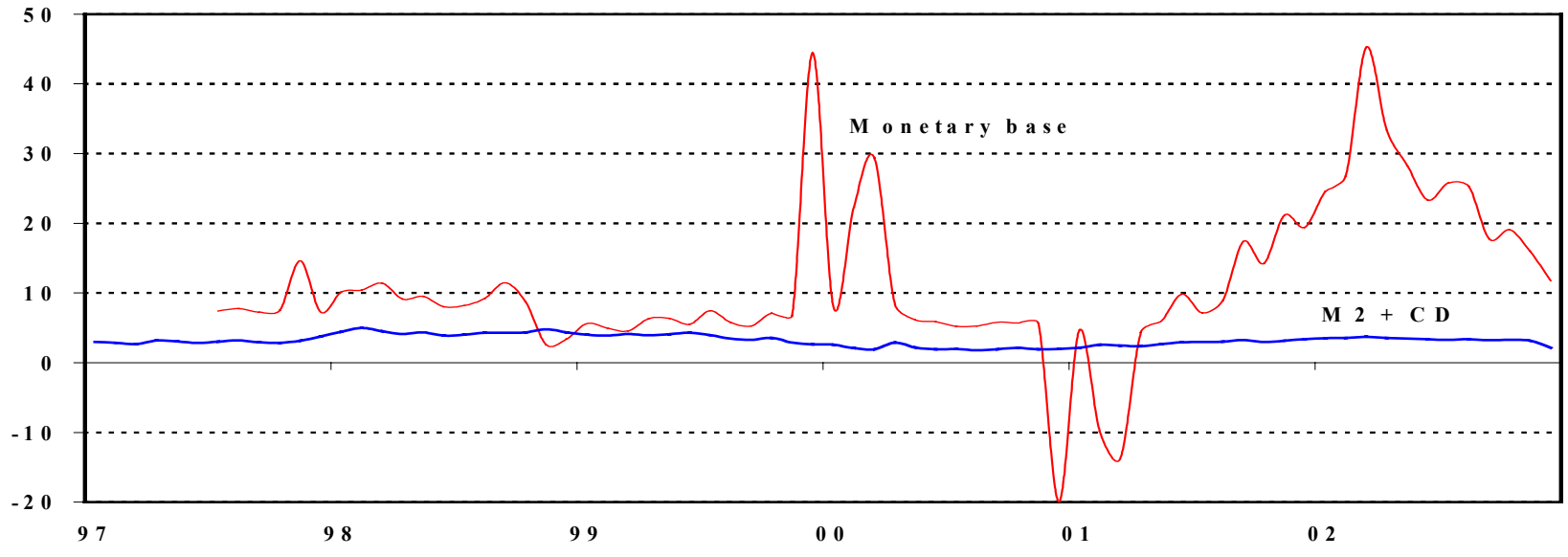


Japan : wages and inflation

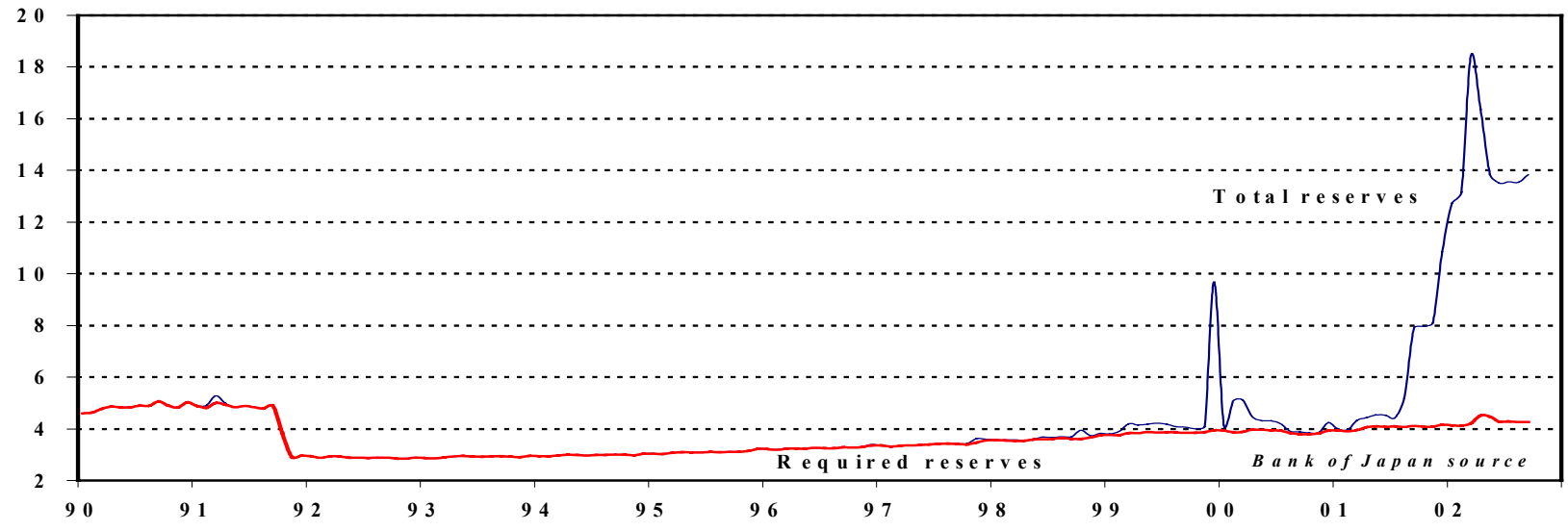




Japan: monetary sector, y/y % change



Japan: bank reserves, trillion JPY



UNITED KINGDOM

- UK Q3 GDP growth was revised upwards from 0.8% to 0.9% q/q. Nonetheless without the technical impact of the Golden Jubilee extra holidays in June, GDP should have been lower, growing around 0.6% over the period
- UK Q4 GDP is likely to have decelerated further : Household consumption has slowed down both in November and December ; the manufacturing sector is still in the doldrums ; its output perspectives are low and no early rebound in business investment can be expected in this context ; UK goods exports are hurt by the weakness in euro-zone activity
- Despite an all-time low unemployment rate (3.1%, according to the claimant count definition), the job market is not looking as bright as before: part time jobs are rising at the expense of full time jobs; manufacturing jobs have been steadily destroyed since 1998

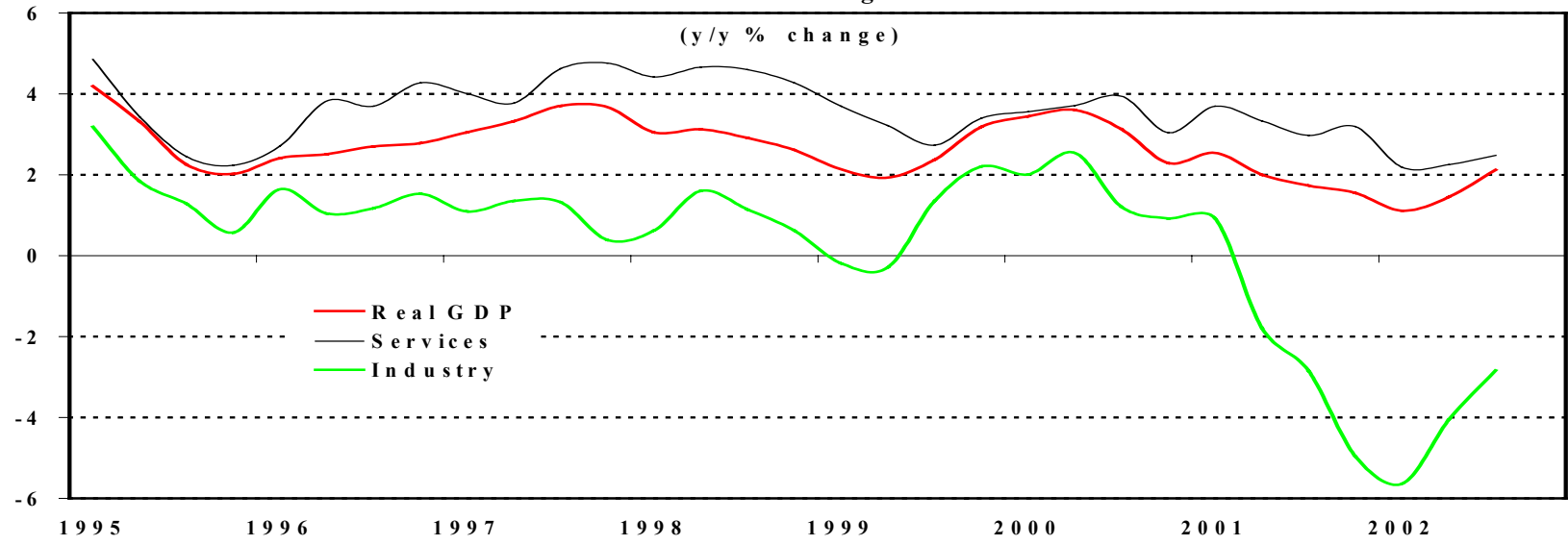
- **Public expenditure should continue to back growth in 2003. Nonetheless, the government could be compelled to raise taxes before the end of this year in order to meet its deficit target. Indeed, its assumption on economic growth, around 2.5% for this year, looks very much too optimistic compared to our of 1.8%**
- **Inflation is likely to overshoot the Bank of England's target (2.5% on a 2-year horizon) during most of this year. Rising oil prices as well house prices impact on the house depreciation component are mainly to blame on**
- **The housing market evolution is no more sustainable. We assume that the rate of price increase should orderly slowdown during this year. However a U-turn in the market can't be totally excluded and could well be triggered by a further weakness in stocks coupled with renewed threat of terrorist attacks in the UK**

- The Bank of England's leeway is very tight in this context. The main risk to its central scenario is a larger or earlier than expected deceleration in households' consumption. Therefore, monetary authorities are to remain very prudent at least during the first half of this year
- By June 2003, the Treasury will issue its conclusions on the 5 tests whether the UK should join the euro or not. Given a favourable conclusion, a referendum is unlikely to be called this year. Indeed there is still a large public opposition to the Sterling entry into the euro. Nonetheless, a "yes" vote at the Swedish Referendum on September 14 could gradually begin changing British mentalities
- In this context, the Sterling should weaken further versus the euro, falling around 0.67 by the end of this year

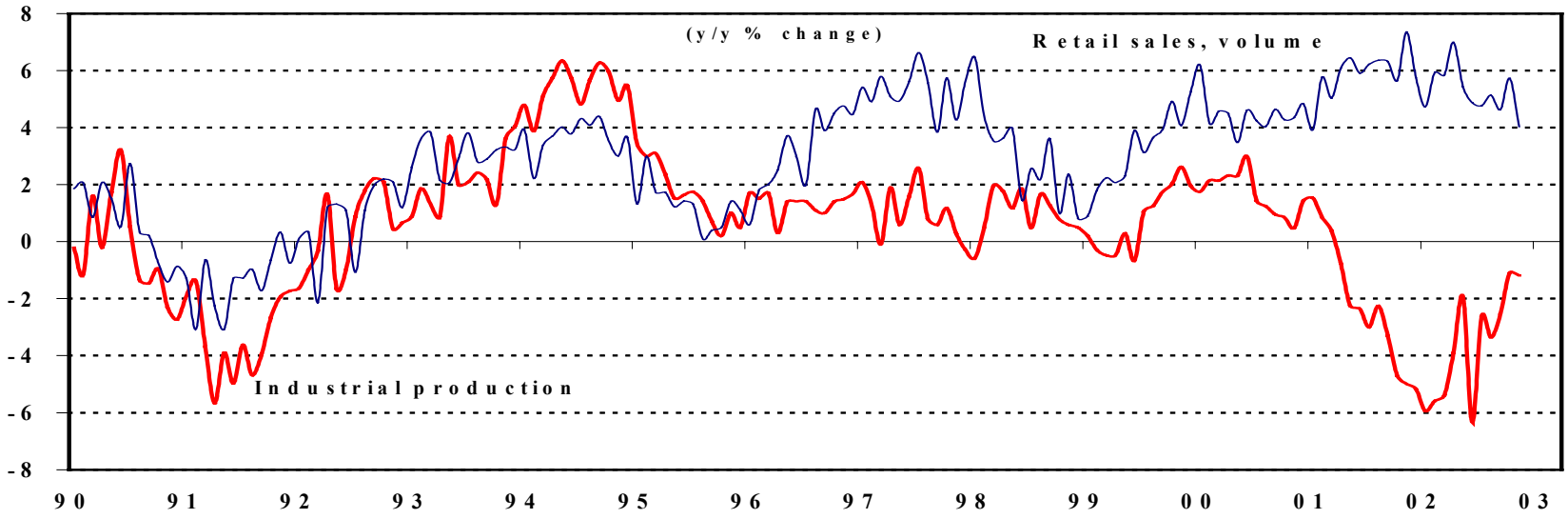
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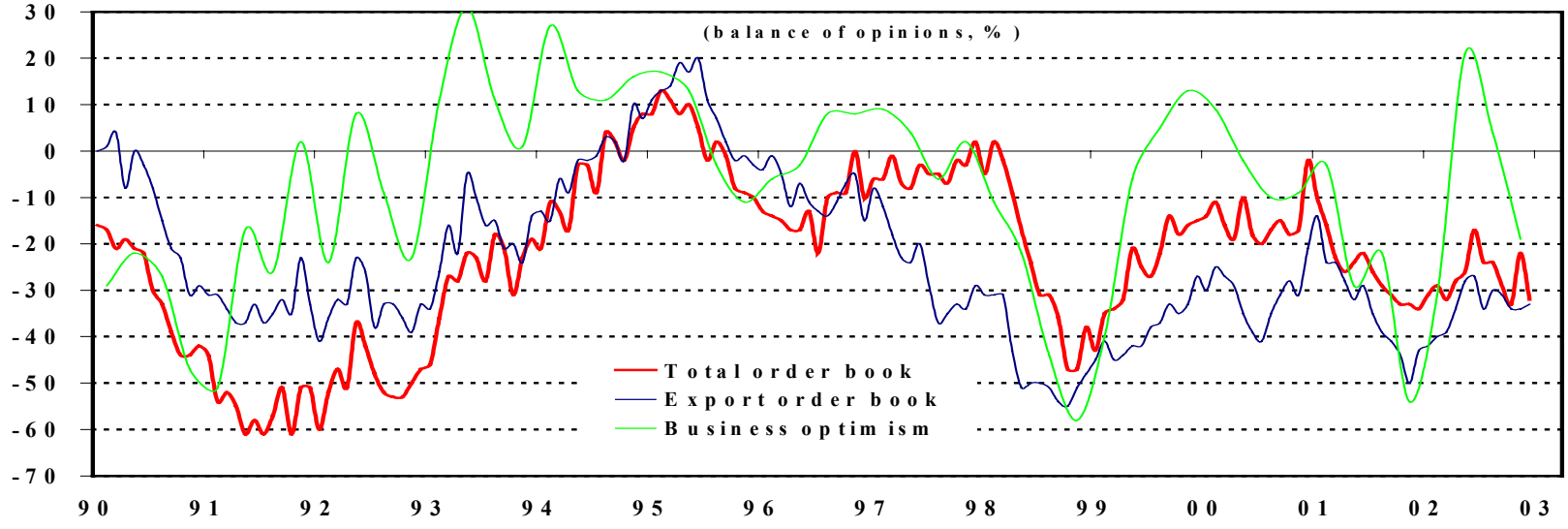
U K : real GDP growth



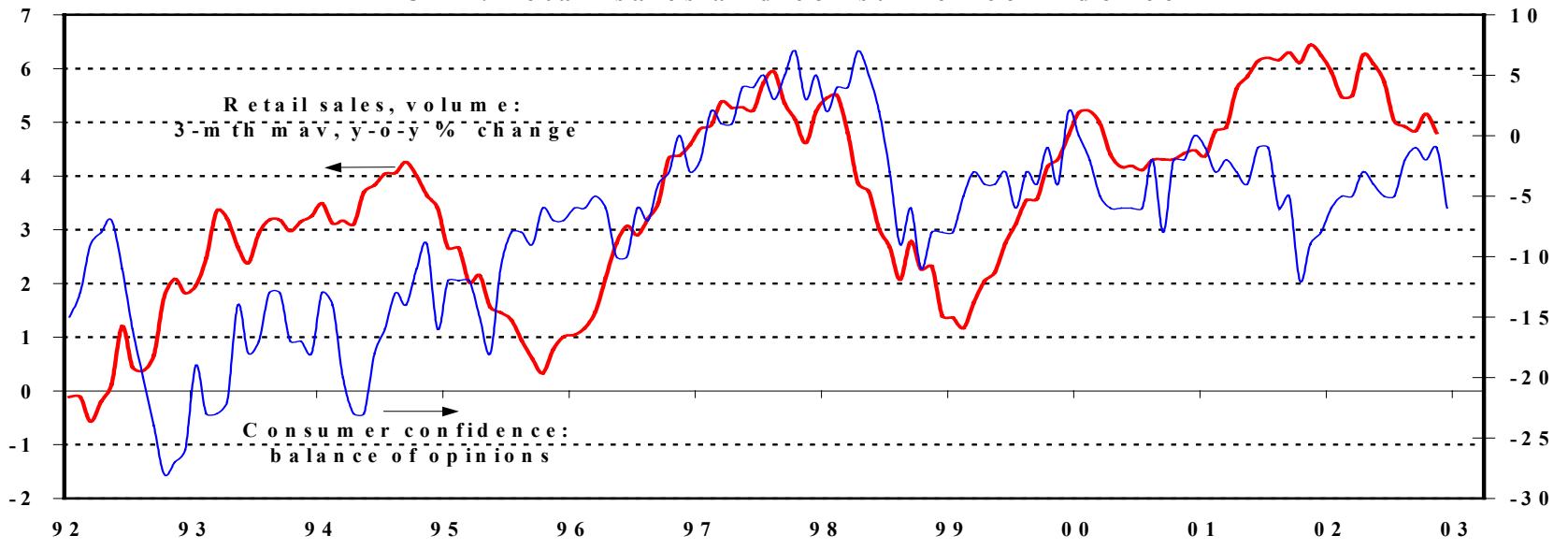
U K : industrial production and retail sales



U K : C B I industrial survey

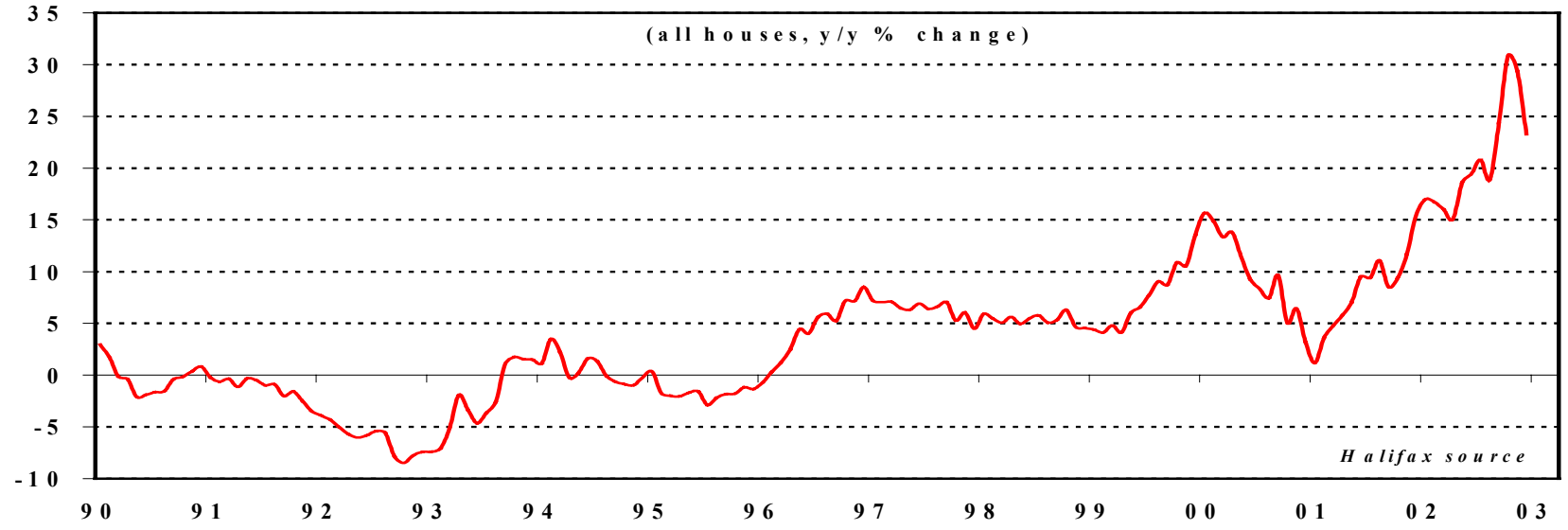


U K : retail sales and consumer confidence



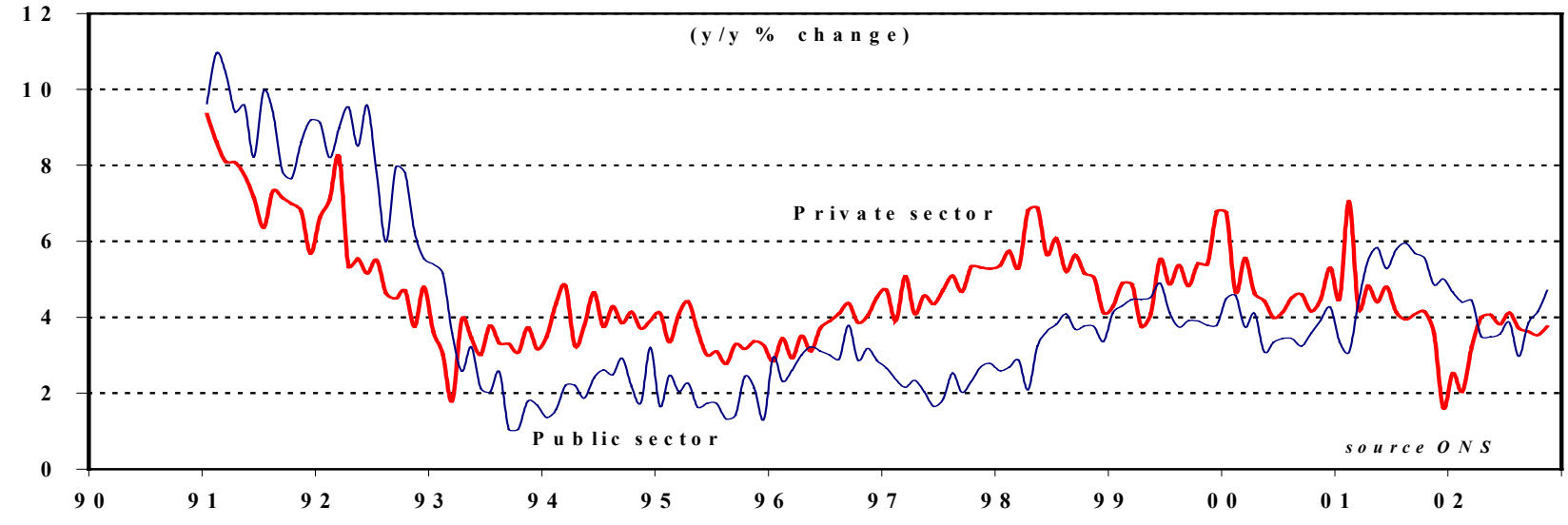
U K : house price index

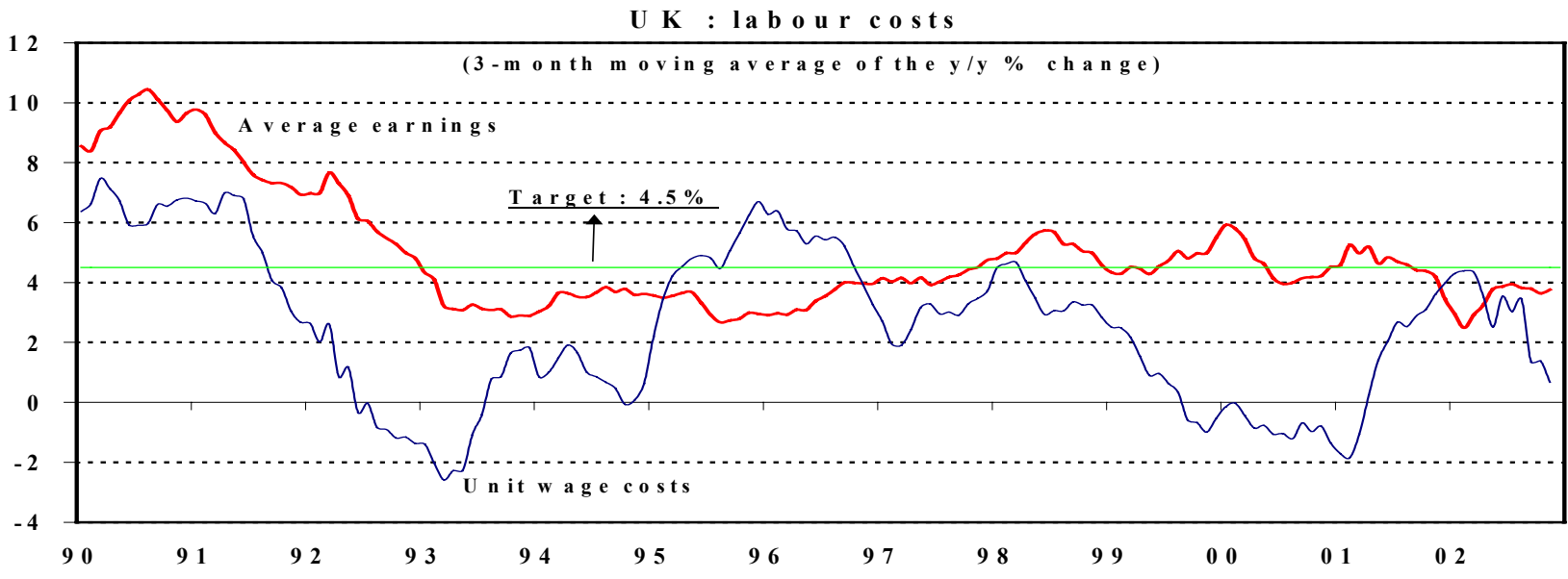
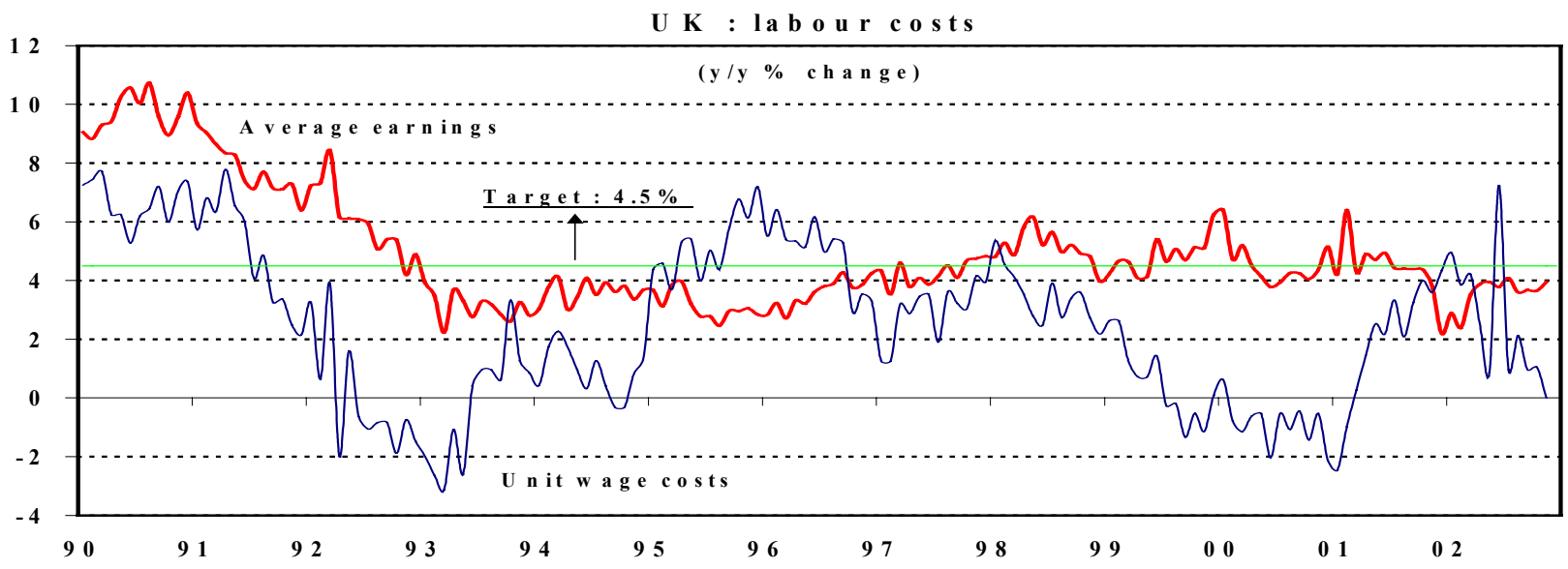
(all houses, y/y % change)



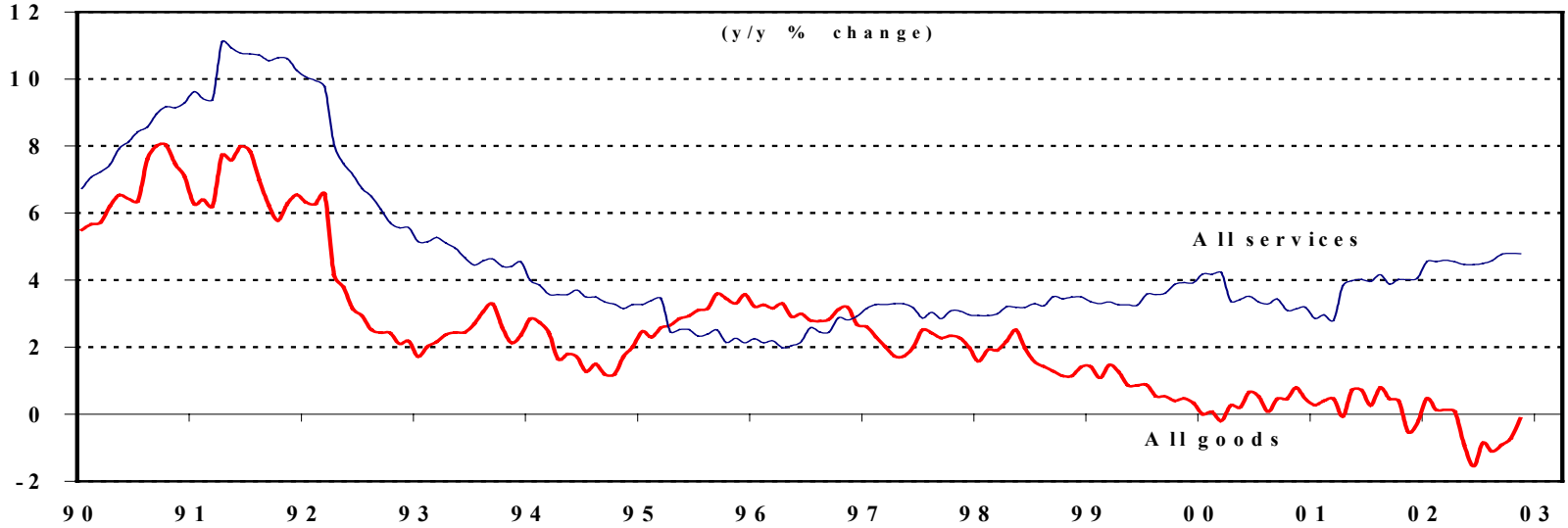
United Kingdom : average earnings

(y/y % change)

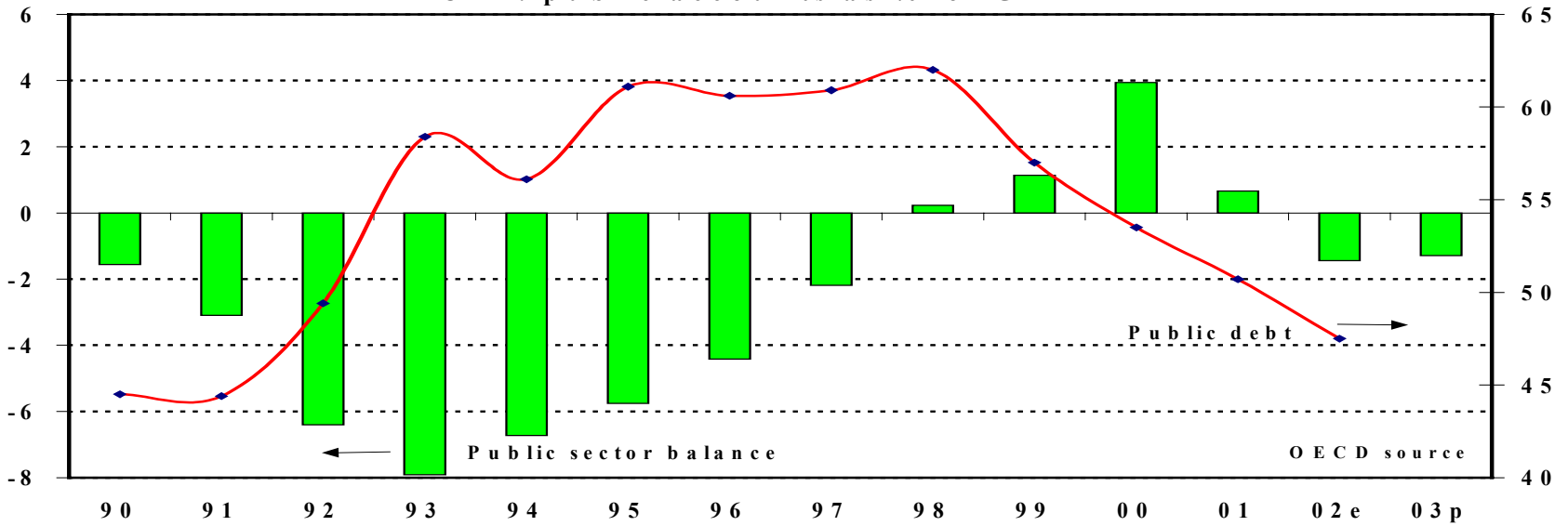




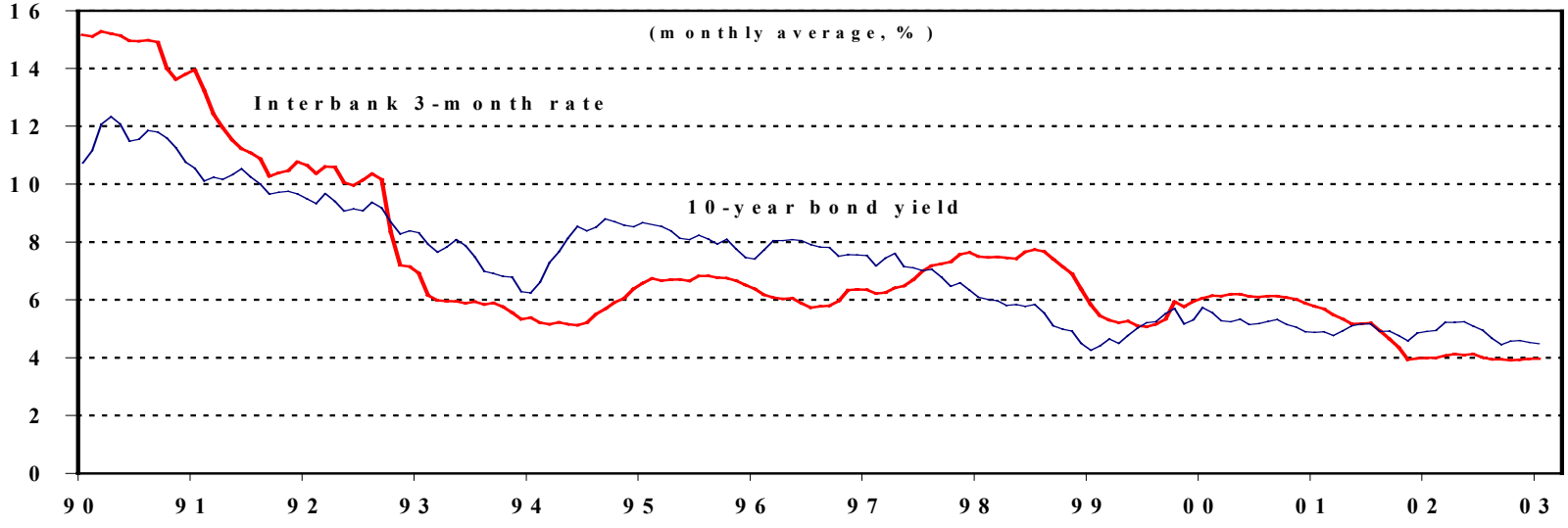
United Kingdom : inflation



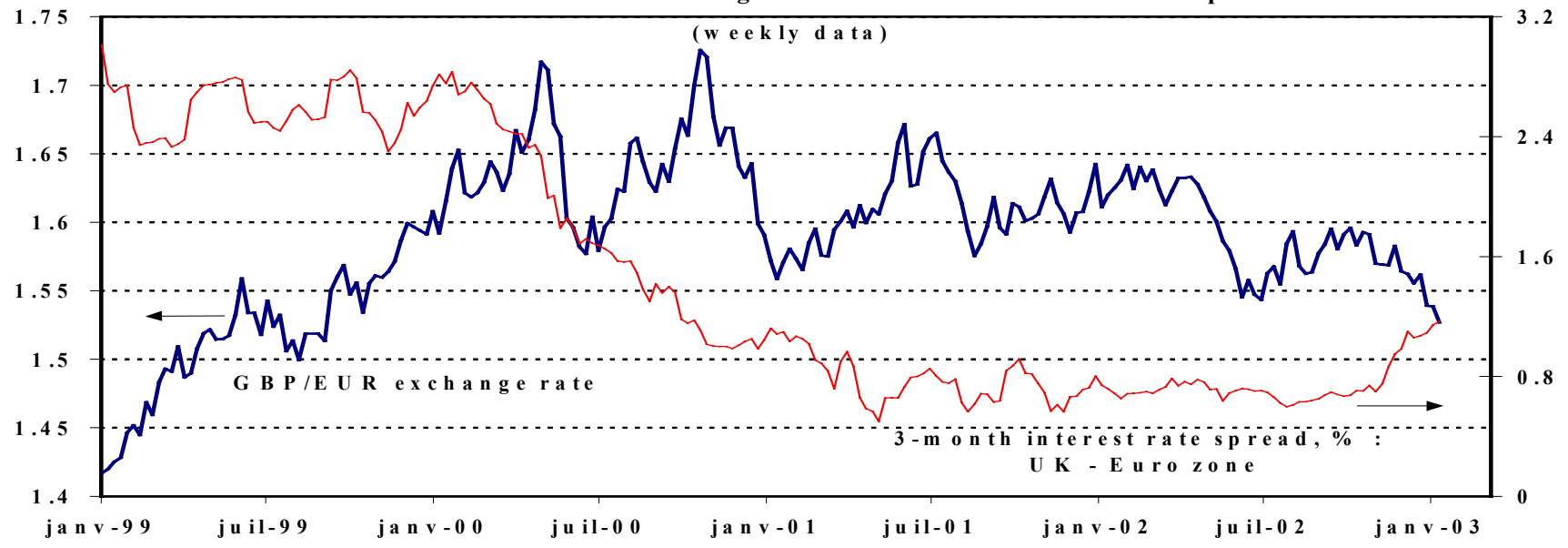
U K : public accounts as % of GDP



U K : interest rates



U K / Euro zone : exchange rate and interest rate spread



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