

FRANCE: THE RESIDENTIAL REAL- ESTATE MARKET

CORRECTION CONTINUED

September 2024

Juba Ihaddaden

WORKING EVERY DAY
IN YOUR INTEREST



GROUP ECONOMIC RESEARCH

OVERVIEW

RESIDENTIAL PROPERTY 2022-2024

Rapid rise in interest rates reduces loan production

- The rise in inflation, which started in 2021 due to the strong recovery in activity post-lockdowns, then intensified in 2022 due to the war in Ukraine and the ensuing energy crisis. This led to a rise in long-term rates from the beginning of 2022, as the ECB began to raise its rates from July 2022. From -0.5% in July 2022, the deposit rate had risen to 4.5% in September 2024, following an initial cut of 25 bps in June 2024. From a high of 3.5% in October 2023, the 10-year OAT experienced erratic trends in 2024, and is now close to 3%.
- Mortgage rates have therefore risen sharply since the end of 2021, an increase initially slowed by the usury rate (maximum lending rate). According to the Banque de France, interest rates (excluding insurance) on new mortgages reached 3.6% at the end of 2023 compared with 1.1% in December 2021. They have since fallen slightly to 3.4% at the end of Q2 2024.
- The rise in the cost of credit led to a sharp fall in the production of mortgages to resident households. Over 12 months, it stood at €137.5 billion in June 2024, compared with €217.6 billion in June 2023, a contraction of 41%.

The residential property market continues its correction

- Home sales have collapsed. In existing properties, transactions over 12 months fell by 22.6% year-on-year at the end of May 2024. The fall in prices accelerated to 5% year-on-year in Q2 2024 (vs -5.2% year-on-year in Q1 2024 and -3.9% at the end of 2023).
- In new-build property, the correction was also strong, with a 33% year-on-year decline in sales in Q2 2024. The average run-off time for outstanding housing available for sale to individuals is 7 quarters in Q2 2024, compared with 3.4 in Q2 2022.
- Prices per m² in new-build properties contracted - by 1.5% in collective housing and by 2.1% in individual housing developers – while developers' margins have been compressed by the increase in construction costs.

What is the outlook for 2024?

- Sales of existing home are expected to gradually stabilise between now and the end of 2024 thanks to the improvement in household purchasing capacity. By anticipating 800,000 transactions in 2024, we therefore forecast a 7.9% fall in sales of existing homes compared with 2023. In new-build, sales (developer sector) are expected to be between 50,000 and 60,000 units in 2024.
- As for prices of existing homes, their decline is expected to continue between now and the end of 2024, reaching 4.5% year-on-year, under the effect of the decline in transactions observed between the end of 2023 and mid-2024.

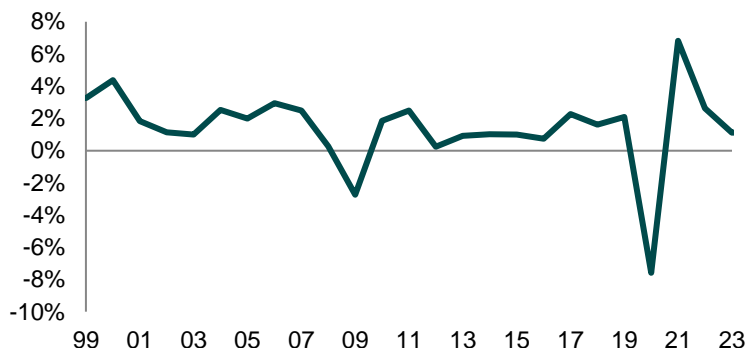
CONTENTS

- 1 | MACROECONOMIC CONTEXT: INFLATION FALLS**
- 2 INTEREST RATES WEIGH ON MORTGAGES**
- 3 EXISTING HOUSING – A DECLINE IN TRANSACTIONS**
- 4 A CRISIS IN NEW-BUILDS AND CONSTRUCTION**

MACROECONOMIC CONTEXT

INFLATION FALLS – MODEST GROWTH RECOVERY

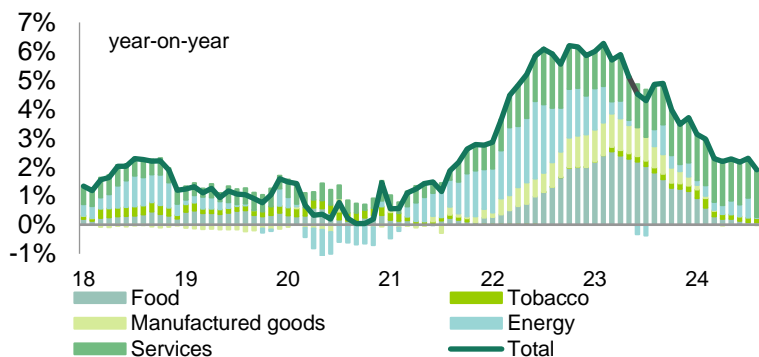
Annual growth in real GDP (cvs-cjo)



Last review: 2023.

Sources: INSEE, Crédit Agricole SA/ECO

Inflation (CPI) and contributions



Last review: August 2023 (provisional)

Sources: INSEE, Crédit Agricole SA/ECO

In early 2022, inflationary pressures increased following Russia's invasion of Ukraine. The conflict and the sanctions adopted also had a negative impact on supply. While the adoption of the price rise cap cushioned the rise in consumer prices for households, uncertainties weighed on demand from economic agents. Activity remained buoyant in 2022, however, as it continued to be driven by the post-Covid recovery, with GDP growth of 2.6%.

High inflation led the ECB to raise its key rates quickly. In 2023, the French economy was mainly supported by foreign trade and consumption, while investment was penalised by monetary tightening. While the French economy escaped recession, with annual growth of 1.1%, Germany experienced a contraction in its annual average GDP (-0.1%).

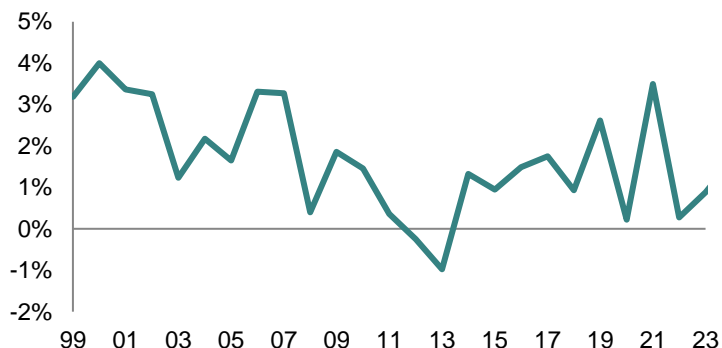
The disinflationary process that begun in 2023 continued in 2024, in France as well as in the eurozone. Inflation (CPI) in France is expected to reach an annual average of 2.3% and growth of 1.2% in 2024*.

* France – Economic situation and outlook on the eve of the new school year

MACROECONOMIC CONTEXT

PURCHASING POWER UP, UNEMPLOYMENT STILL LOW

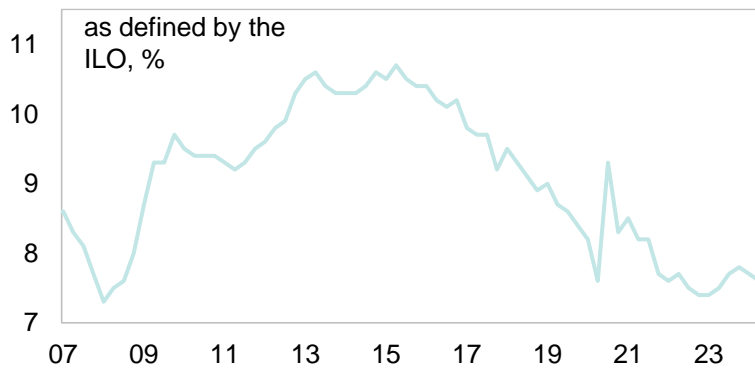
Real gross disposable household income ("Purchasing power")



Last review: 2023.

Sources: INSEE, Crédit Agricole SA/ECO

Unemployment rate (mainland France)



Last review: Q2 2024

Sources: INSEE, Crédit Agricole SA/ECO

In 2022, households' real gross disposable income (purchasing power) improved slightly (+0.3%), as the increase in wages and salaries received (+7.8%) was offset by inflation (+4.9% for the consumption deflator). In 2023, despite high inflation (+7.1% for the consumption deflator), the sharp increase in wealth income (+17.4%) and in wages and salaries (+5.3%) supported household purchasing power, which was up 0.9%. In 2024, these two phenomena are expected to continue, with wages remaining dynamic and inflation falling (to 2.3% according to the CPI).

Employment continued to hold up well in the face of sluggish activity, although it slowed (+0.1% per quarter since Q4 2023). This slowdown is expected to continue in the second half of 2024 and employment is expected to increase by around 0.5% per year in 2024 and 2025. While the unemployment rate as defined by the ILO remains very low (+7.1% in Q2 2024 for mainland France, compared with 8.2% in 2019), the employment trajectory would result in a slight increase in the unemployment rate between now and the end of 2024. On an annual average, the unemployment rate is expected to reach 7.3% in 2024 (after 7.1% in the two previous years), before stabilising at this same level on an annual average in 2025.

MACROECONOMIC CONTEXT

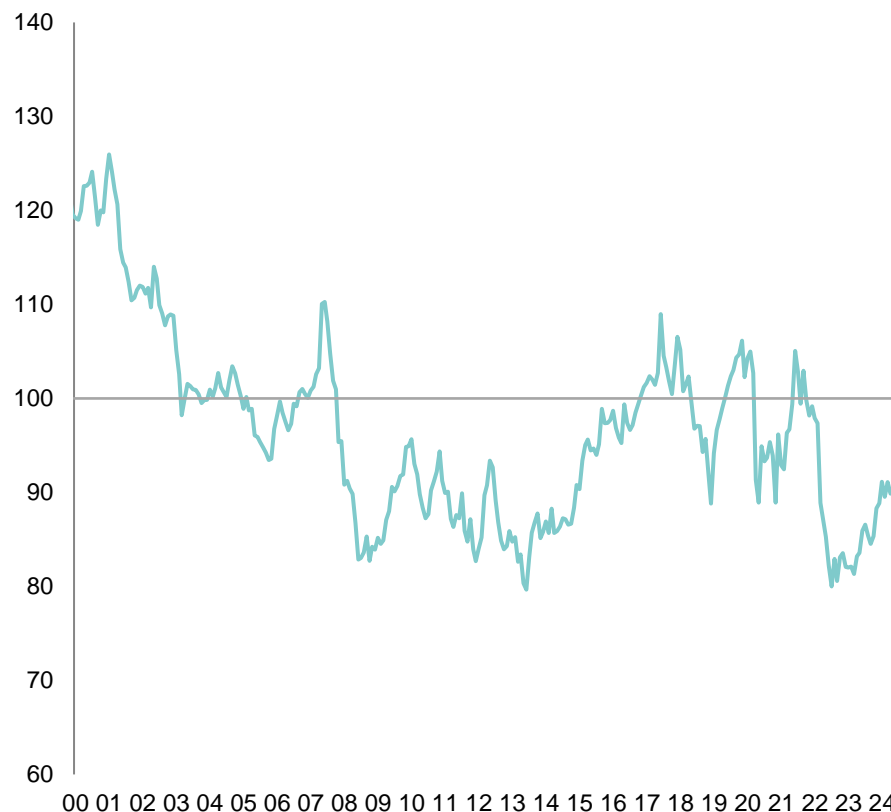
HOUSEHOLD CONFIDENCE LOW BUT IMPROVING

The synthetic household confidence index stood at 92 in August, a slight improvement compared to July (+1 point). It is still at a low level compared to its long-term average (100), but has risen since the lowest reached in the summer of 2022 (80). In more detail:

- The balance of opinion* relating to expectations of changes in standard of living over the next 12 months is improving. While it was -50 in July, it stood at -45 in August (compared with a long-term average of -28).
- Household have reassessed their inflation outlook: the balance of opinion on price trends over the next 12 months is -53 in August, a drop of 6 points over one month. This balance is well below its long-term average of -31.
- Household fears about the unemployment trend have increased slightly: after reaching 25 in June, the balance of opinion stands at 28 in July and August. However, it remains below its long-term average (33).

* difference between the proportion of respondents who expressed a positive opinion and the proportion who that expressed a negative opinion.

Consumer confidence



Last review: August 2024

Sources: INSEE, Crédit Agricole SA/ECO

MACROECONOMIC CONTEXT

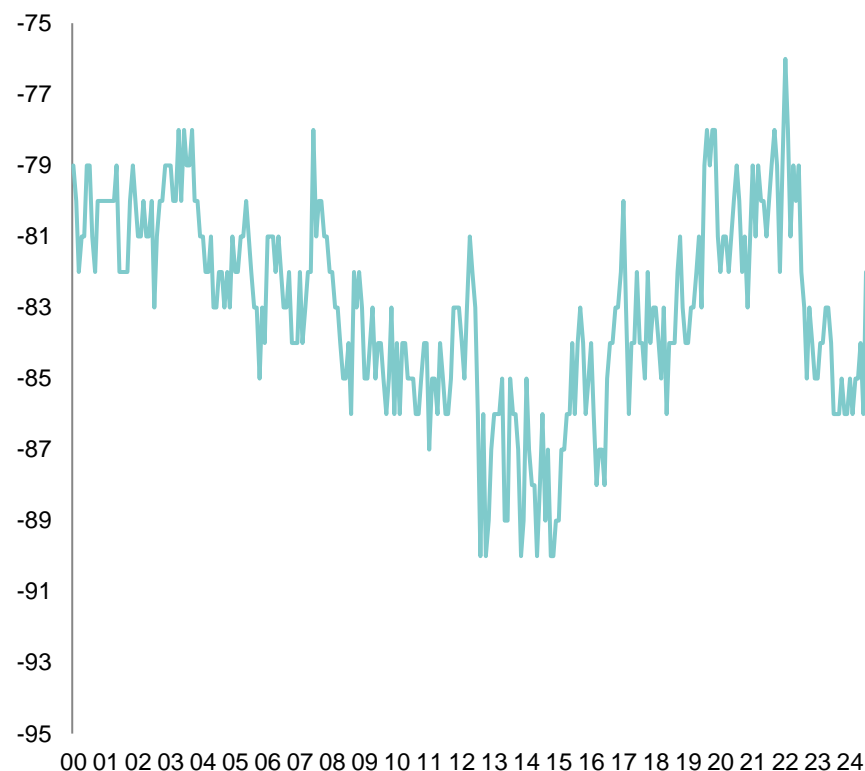
INTENTIONS TO BUY A HOME ON THE DECLINE

After reaching -90 in October 2014, the balance of the answer to the question on home purchase intentions in the INSEE monthly household survey increased gradually to -76 in January 2022.

Since January 2022, with the rise in the cost of mortgages, purchasing intentions have been down overall. In June 2024, the balance was -86. A slight improvement was noticeable in July and August, with a balance of -82 over the two months.

This decline in purchasing intentions is explained by the increase in the cost of credit. According to INSEE, the decline in the desire to buy a home particularly affects renters and young households, who can be considered equivalent to first-time buyers. In fact, in January 2024, for the first time, the intentions of households already owning a home were higher than those of households renting a home.

Balance of opinion on intention to buy a home in the next 12 months



Last review: August 2024

Sources: INSEE, Crédit Agricole SA/ECO

CONTENTS

1 **MACROECONOMIC CONTEXT: INFLATION FALLS**

2 **INTEREST RATES WEIGH ON MORTGAGES**

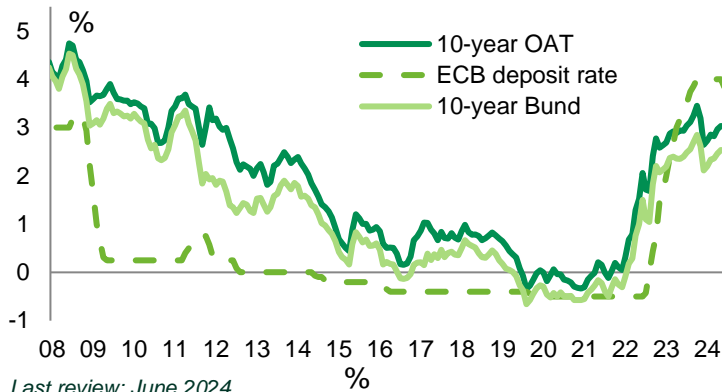
3 **EXISTING HOUSING – A DECLINE IN TRANSACTIONS**

4 **A CRISIS IN NEW-BUILDS AND CONSTRUCTION**

INTEREST RATES

AN UNPRECEDENTED RATE HIKE IN 2022 AND 2023

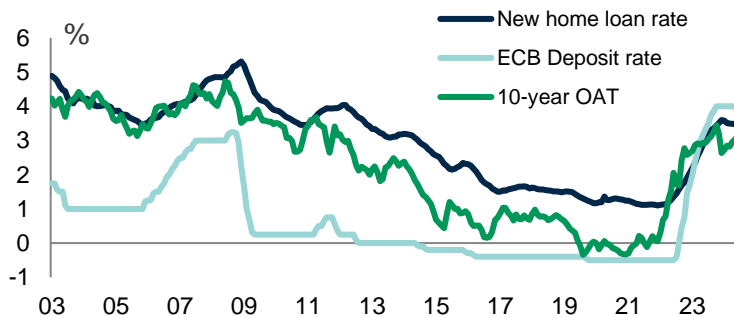
German and French sovereign rates



Last review: June 2024

Sources: Refinitiv/Datastream, Crédit Agricole SA/ECO

Interest rate on mortgages to households



Last review: June 2024

Sources: Banque de France, Refinitiv/Datastream, Crédit Agricole SA/ECO

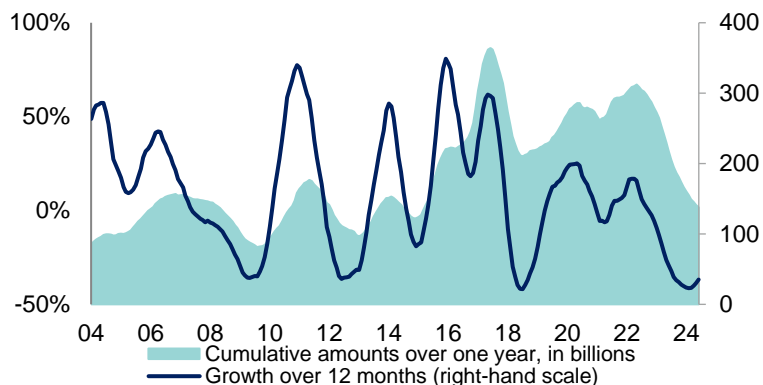
From mid-2022, the ECB raised its key rates to curb inflationary pressures. This monetary tightening cycle was unprecedented in its rapidity: from -0.5% at the beginning of July 2022, the deposit rate rose to 4% in September 2023. The 10-year OAT, which was virtually nil at the end of 2021, rose to 3.5% in October 2023. Mortgage rates have risen sharply as a result. Initially hampered by the usury rate, the rise in mortgage rates accelerated in 2023 mainly thanks to the monthly – rather than quarterly – updating of the usury rate calculation adopted until the end of 2023. The upward movement in rates stopped or even reversed in early 2024, however, while the ECB started to cut rates in June and is expected to continue easing its monetary policy in late 2024 and 2025.

After peaking at 4.2% in December 2023, the overall effective rate of new contracts stabilised at around 4.1% on average in April 2024. Interest rates on new mortgages, excluding fees and insurance, stood at 3.49% in May 2024 after reaching 3.6% in December 2023.

MORTGAGES

HOUSING LOAN PRODUCTION STRUGGLING

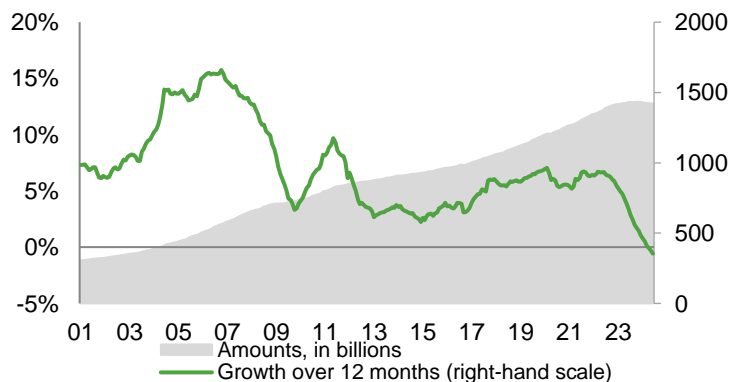
New mortgage production to households



Last review: June 2024

Sources: Banque de France, Crédit Agricole SA/ECO

Outstanding residential mortgages



Last review: June 2024

Sources: Banque de France, Crédit Agricole SA/ECO

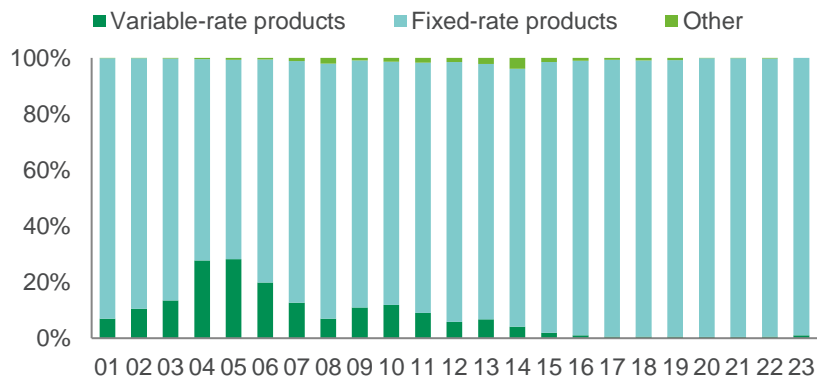
New mortgages, down 6% in 2022, fell more sharply in 2023 (-40%), due to the decline in transactions, the start of the decline in residential property prices and the increase in purchaser deposit requirements. In 2024, the drop in production is expected to slow and be around -25% compared to 2023, due to the smaller decline in transactions and the continued decline in residential property prices. In the first half of 2024, production fell sharply to €10.8 billion per month, down 22.6% compared with the average monthly level in 2023 (€13.9 billion). The 12-month total fell by 36.8% year-on-year in May.

The level of outstanding mortgages, which was still buoyant in 2022 (+5.5% over the year), slowed sharply to 1.1% in 2023. It has even fallen since the end of 2023 (by around €10.2 billion). In June 2024, it fell by 0.6% year-on-year, mainly due to low mortgage production. This is the first time since the early 90s (when records began) that outstanding mortgages have fallen in this way. In December 2024, the level of outstanding mortgages is expected to fall slightly, by 0.2% year-on-year.

MORTGAGES

A MORTGAGE MODEL THAT HELPS CONTAIN RISKS

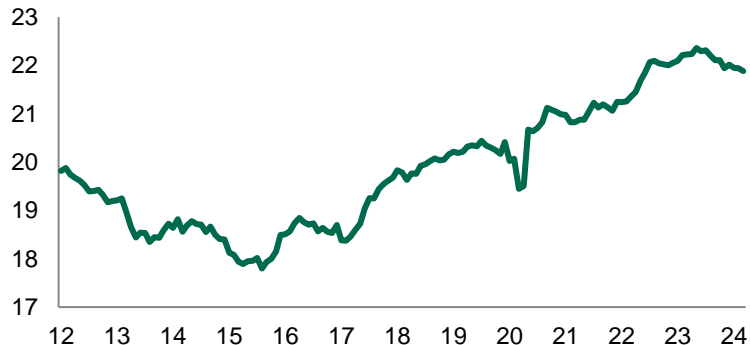
New mortgages by type of interest rate



Last review: 2023

Sources: ACPR, Crédit Agricole SA/ECO

Initial mortgage term



Last review: 2023

Sources: ACPR, Crédit Agricole SA/ECO

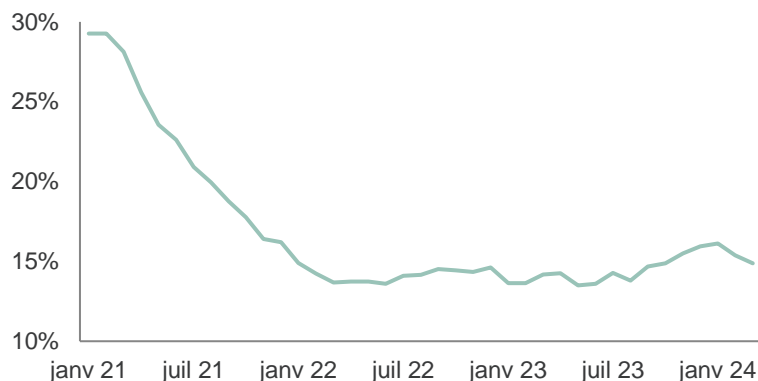
The French mortgage model remains prudent, with limited risks. The granting of loans is based on borrower solvency rather than the value of the property purchased.

- Over the long term, the average loan-to-income ratio is stable at around 30%. On average in 2023, it increased slightly to 30.7%, compared with 29.9% in 2022 and 30.1% in 2021. This effect is a consequence of the increase in the interest expense.
- The average initial loan term has been steadily increasing since 2001, down from its May 2023 high of 22.3 years to 21.9 in March 2024, after 21.2 at the end of 2021 and 22.1 at the end of 2022.
- New mortgages are essentially fixed-rate, which protects borrowers from the risks associated with rising interest rates: 99% in 2023, after 99.2% in 2022 and 99.4% in 2021 and 2020.
- The average *loan to value* (LTV) at origination was down, at 78.8% in 2023, compared with 82.7% in 2022 and 82.9% in 2021. The sharp decline in recent years (88% in 2017-2019) reflects the greater use of savings to finance new transactions in a context of rising mortgage rates.

MORTGAGES

MONITORING OF HCSF'S RECOMMENDATIONS TO BANKS

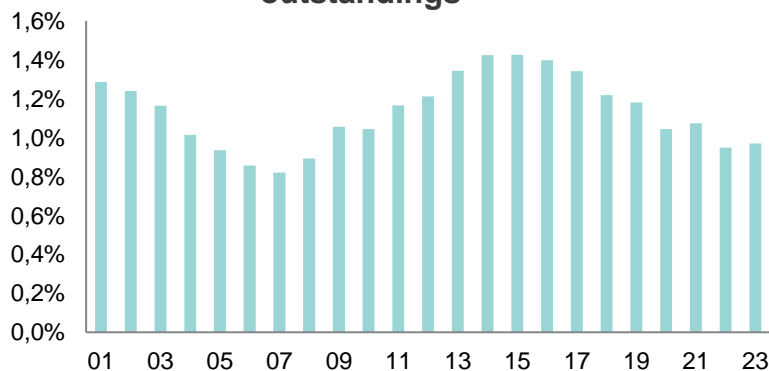
Loans not in line with HCSF decisions



Last review: 2023.

Sources: ACPR, Crédit Agricole SA/ECO

Non-performing loans as a proportion of total outstandings



Last review: 2023

Sources: ACPR, Crédit Agricole SA/ECO

Banks comply with the HCSF's recommendations on average: the proportion of loans exceeding the loan-to-value and/or loan-term thresholds was limited to 15.3% of production in Q1 2024, compared with 13.8% in Q1 2023. Despite a slight increase year-on-year, banks are therefore under-using their room for manoeuvre, with the ceiling on the flexibility margin being 20%. As a reminder, the HCSF's recommendations were initially made in 2019 and set the limit at 15%. From 2021, they were adjusted to 20%. In 2022, compliance with the 20% rule was made mandatory.

The non-performing loan ratio was virtually stable at 0.97% at end-2023, after 0.95% at end-2022 and 1.07% at end-2021. Non-performing loans are at their lowest levels since 2010. According to ACPR calculations, the default rate on mortgages granted by French banks is lower than in other European countries and is between the first quartile and the median.

In 2023, the market deterioration led to increased vigilance in terms of granting loans. This prudent model and compliance with lending conditions, reinforced by the standards dictated by the HCSF, should help contain risks on mortgages.

PROPERTY PURCHASING POWER

A SLIGHT IMPROVEMENT IN 2024 AFTER A SHARP DETERIORATION IN 2022 AND 2023

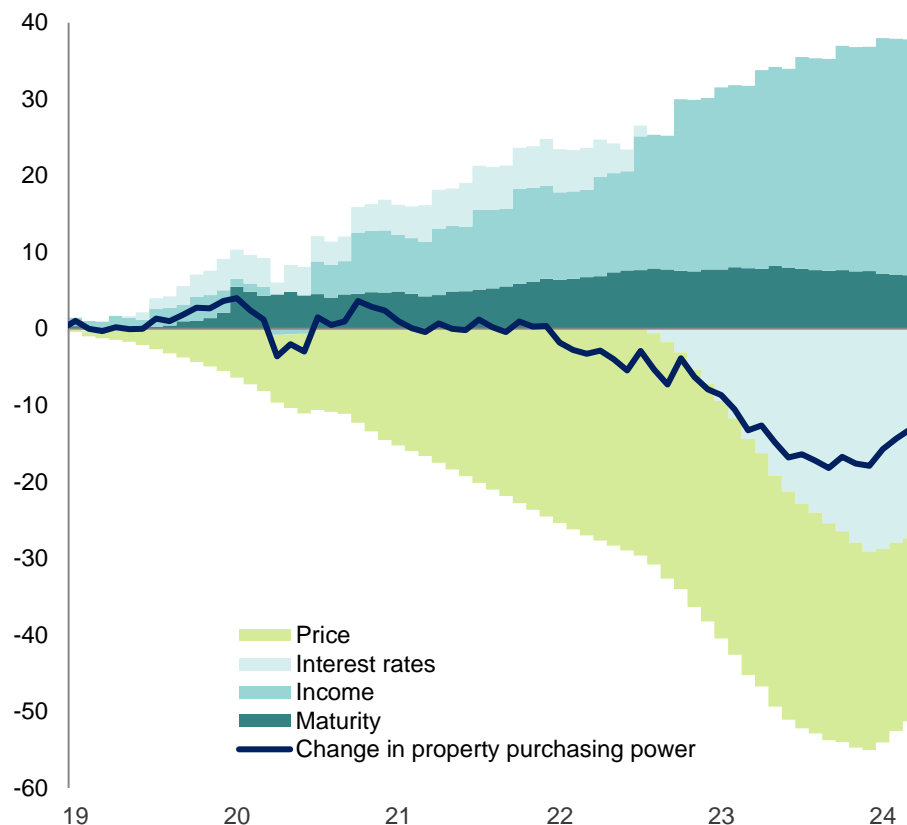
The Banque de France calculates an indicator of household property purchasing power in square metres (m²): this corresponds to the number of m² that can be acquired by a household with a median income and is borrowing at its maximum capacity.

Between 2019 and the beginning of 2022, property purchasing power remained stable compared to the 2018 reference point, which was itself high compared to that of 2007. The increase in nominal household income offset the deterioration in property purchasing power caused by the rise in house prices.

Between 2022 and mid-2023, property purchasing power deteriorated significantly: in September 2023, it was 18.2m² lower than at the end of 2018. The rise in interest rates was the main factor behind this decline.

Between mid-2023 and March 2024, property purchasing power improved slightly, by 5.2m², although it remains at a lower level than at the end of 2018. This increase in property purchasing power is explained by the end of the rise in rates and the correction of the rise in prices. In March 2024, a household can therefore on average acquire 13m² less than at the end of 2018.

Change in households' property purchasing power in France in m² since 2018



Last review: March 2024

Sources: Banque de France, Crédit Agricole SA/ECO

CONTENTS

1 MACROECONOMIC CONTEXT: INFLATION FALLS

2 INTEREST RATES WEIGH ON MORTGAGES

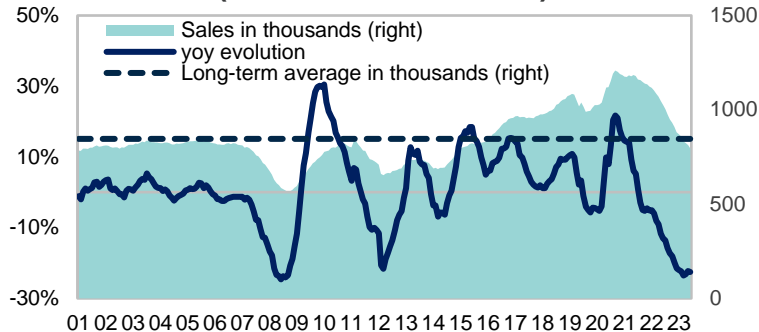
3 EXISTING HOUSING – A DECLINE IN TRANSACTIONS

4 A CRISIS IN NEW-BUILDS AND CONSTRUCTION

EXISTING HOMES

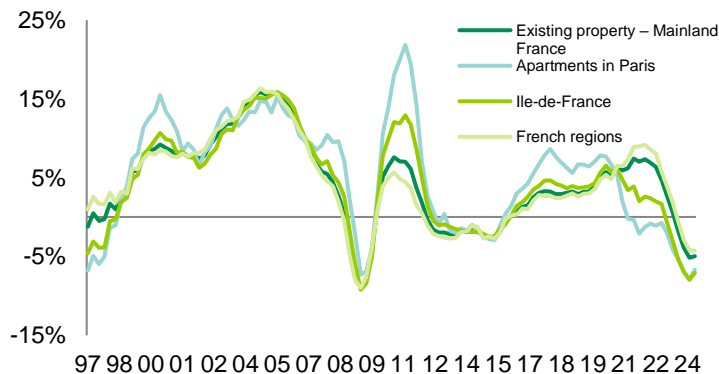
SHARP DROP IN TRANSACTIONS, LIMITED FALL IN PRICES

Sales of existing homes (total over 12 months)



Last review: May 2024
Source: CGEDD, Notaries, Crédit Agricole SA

Prices of existing homes



Last review: March 2024
Source: INSEE, Notaries, Crédit Agricole SA

The erosion of household purchasing power led to a collapse in the level of sales of existing homes. At the end of May 2024, the number of cumulative transactions over 12 months fell by another 22.6% year-on-year to 793,000 units, its lowest level since November 2015. In comparison, average annual sales in 2010 were 834,000 (vs 845,000 between 2000 and 2023).

With a lag in transactions, prices of existing homes fell by 5% year-on-year in Q2 2024, after increasing by an average of 5.4% per year between 2019 and 2022. In Paris, the pace of price increases was less pronounced on average over this period (3.1% between 2019 and 2022). But price dynamics were different in Paris: higher than in the rest of the country since 2016, the pace of price growth slowed from the end of 2020 and, on a year-on-year basis, prices began to fall from the third quarter of 2021. Once the successive lockdowns were lifted, small and medium-sized cities benefited from a dynamic that was unfavourable to Paris. In Q2 2024, prices in Paris fell by 6.7% year-on-year.

In 2023, property prices fell by 3.9% in mainland France, compared with -6.9% in Paris. In the second quarter of 2024, the decline was 7.1% year-on-year in the Île-de-France region and 4.3% year-on-year elsewhere in France. Overall, apartment prices fell by 5% and house prices by 3.8%.

CONTENTS

- 1 MACROECONOMIC CONTEXT: INFLATION FALLS
- 2 INTEREST RATES WEIGH ON MORTGAGES
- 3 EXISTING HOUSING: A DECLINE IN TRANSACTIONS
- 4 A CRISIS IN NEW-BUILDS AND CONSTRUCTION

NEW-BUILDS AND CONSTRUCTION

A STRUCTURAL SUPPLY DEFICIT EXACERBATED BY STANDARDS WEIGHING ON CONSTRUCTION

Before the health crisis, the housing market was already running a housing deficit. Although the new property market is affected by the cyclical drop in demand, it also faces structural supply problems – particularly in areas with a supply shortage – which are reflected in difficulties initiating new projects. A series of constraints are having a detrimental impact on construction: the scarcity and high price of land, the weight of construction standards, the difficulty in obtaining permits, and the uncertainty as to the outcome of wrongful appeal procedures.

Several recent measures have had an impact on construction:

- The new environmental regulations for new construction (“RE 2020”) that came into force at the beginning of 2022 have led players in the building sector to adapt their production techniques based on additional costs (materials, project modifications, LCA studies). “RE 2020” aims to improve the energy performance of new buildings and improve the energy efficiency of equipment, particularly through better insulation and considering the “carbon weight” of the building, linked to its construction (materials used) and its use (heating, ventilation, etc.).

- The objective of “net zero artificialisation” (ZAN – zéro artificialisation nette), a system introduced by France’s Climate and Resilience law of 2021, is to contribute to reducing greenhouse gas emissions in France. While the rate of soil artificialisation is expected to be halved by 2030, the ZAN deadline is 2050. The ban on urban sprawl is ultimately creating a scarcity of building land.
- The law of 20 July 2023, known as the “ZAN law”, was adopted to adjust the Climate and Resilience law and better support local councils in drawing up their urban development plans. This led to the creation of a common guarantee of artificialisation of one hectare applicable to all municipalities. While the Climate and Resilience law restricted municipalities’ room for manoeuvre in terms of construction, the ZAN law therefore gives them the freedom to meet the demand for construction within their area.

In addition to this negative impact on the supply of new homes, there was also a fall in demand, which can be explained by the rise in the cost of credit and the decline in households’ property purchasing power. The double negative shock on supply and demand led to a slight correction in prices of 1.2% over one year in Q1 2024, after a stagnation in 2023 (-0.7%).

NEW-BUILDS AND CONSTRUCTION

LONG OVERDUE SUPPORT MEASURES

Support measures announced in February on hold

Faced with the sharp deterioration in construction and sales of new properties, new support measures were announced on 14 February 2024 to build 30,000 homes in three years:

- Simplification of construction and renovation standards (access to grants such as MaPrimeRenov', raising of the height of buildings, procedures for building additional housing on land around detached houses);
- Revision of the energy performance assessment;
- Facilitation of densification by lifting zoning constraints;
- Reform of social housing, through the inclusion of intermediate housing in the mandatory social housing quotas assigned to municipalities (reform of the SRU law);
- Facilitation of the conversion of offices into housing and creation of reversible building permits for conversions from an office building to a residential building.

While these support measures were welcomed by players in the construction sector, they would benefit from being expanded to give a boost to new-builds. The lack of a clear majority following the legislative elections in early July 2024 limits the ability of a future government to carry out an ambitious housing policy.

Other measures adopted in France's 2024 Finance Bill, which will apply from the beginning of 2025, will weigh on the recovery of construction sector activity:

- The refocusing of the interest-free loan scheme on new apartments in areas with a supply shortage, despite its extension until 2027, will penalise the market in detached houses;
- The removal of the Pinel scheme for transactions completed after 31 December 2024 is likely to affect the retail investor market.

NEW-BUILDS AND CONSTRUCTION

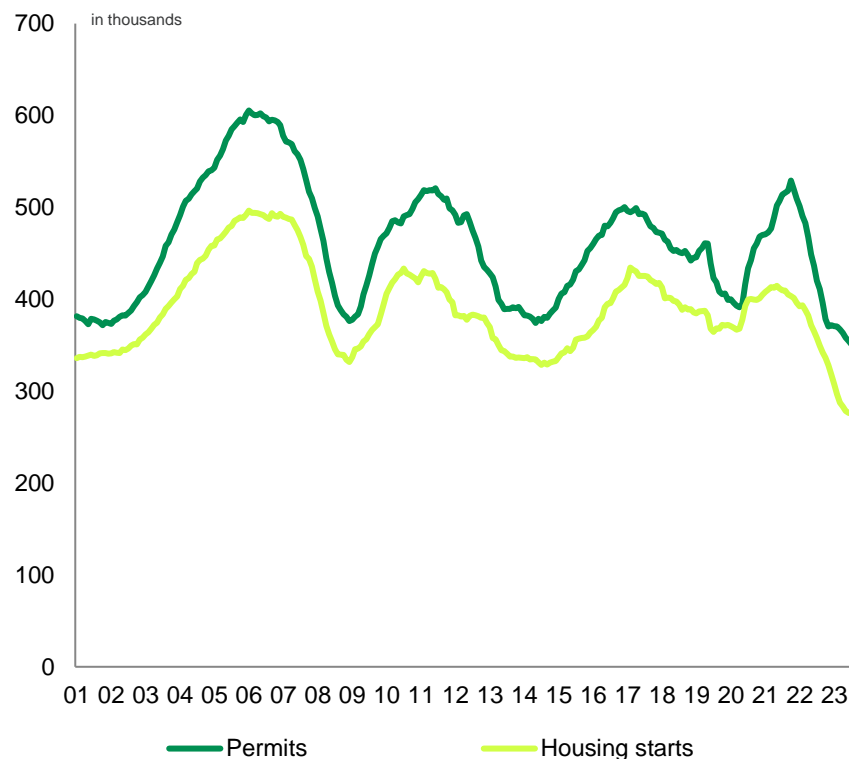
DECREASE IN BUILDING PERMITS AND HOUSING STARTS

The supply of new homes has been impacted by the decline in construction. 2021 and 2022 were marked by the sharp rise in construction costs and difficulties obtaining supplies of certain materials (strong global demand post-Covid and conflict in Ukraine): cement, wall and floor tiles, wood, steel and aluminium.

The rise in interest rates in mid-2022, which led to a drop in demand for new homes, accentuated the crisis in the construction sector. The granting of building permits picked up by 4% in 2022 due to a significant increase in applications at the end of 2021, ahead of the entry into force of the new “RE 2020” standards in early 2022. In 2023, the decline was 24.2%. In June 2024, nearly 347,900 permits were granted over one year, down 15.3% compared to June 2023 over one year. Housing starts fell in 2022, down 4.8% over the year. The contraction intensified in 2023, reaching -24.6%. In June 2024, nearly 272,750 projects were started over one year, down 21.8% compared to June 2023 over one year.

Housing starts and building permits reached historically low levels in June 2024 year-on-year.

Housing starts and permits



Last review: June 2024

Sources: CGEDD, Crédit Agricole SA/ECO

NEW-BUILDS AND CONSTRUCTION

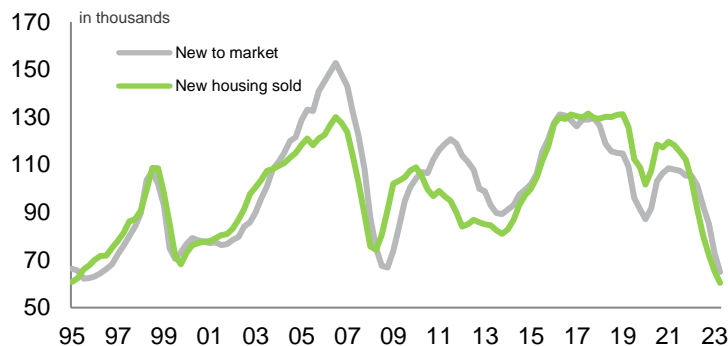
PROPERTY SALES AND NEW LISTINGS

Despite a rebound in 2021, new-build sales (developer segment) failed to reach their 2019 high (131,000 units), at 119,700 units. Since 2022, new-build sales have performed poorly (103,300 units), down 13.6% year-on-year. In 2023, they totalled 65,200 units, a sharp decline of 36.9% year-on-year. In Q2 2024, 58,000 new homes were sold year-on-year (the lowest number since 1996), down 27.6% compared to Q2 2023.

In 2022, block sales to institutional investors fell by 9.5% to 47,100 units. In 2023, they rebounded by 9.6% to 51,600 units. In Q2 2024, sales of new homes to institutional investors amounted to 51,500 units year-on-year, up 11.7% compared to Q2 2023 year-on-year. The rebound observed in 2023 and early 2024 is mainly due to the finalisation of the housing production support plan announced in spring 2023 by Action Logement (30,000 units) and CDC Habitat (17,000 units). In Q2 2024, 85% of block-reserved housing units were acquired by social lessors, compared with 78% on average since 2018.

In 2022, sales of detached homes (isolated lots) deteriorated sharply, falling by 31.3%. With the rise in construction costs and despite the tailing off of the rise in the cost of materials, sales of new detached homes (isolated lots) continued to collapse. They fell by 39.1% in 2023 to just 58,500, less than half the 2007-2022 average of 118,441. In June 2024, 49,200 sales were made year-on-year, a decrease of 36% compared to June 2023 year-on-year.

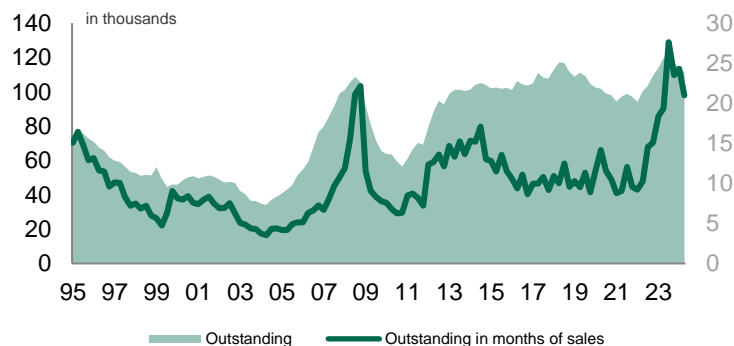
Sales of developer new-builds



Last review: June 2024

Sources: French Ministry of Ecological Transition, Crédit Agricole SA/ECO

Stock of developer new-builds



Last review: June 2024

Sources: French Ministry of Ecological Transition, Crédit Agricole SA/ECO

NEW-BUILDS AND CONSTRUCTION

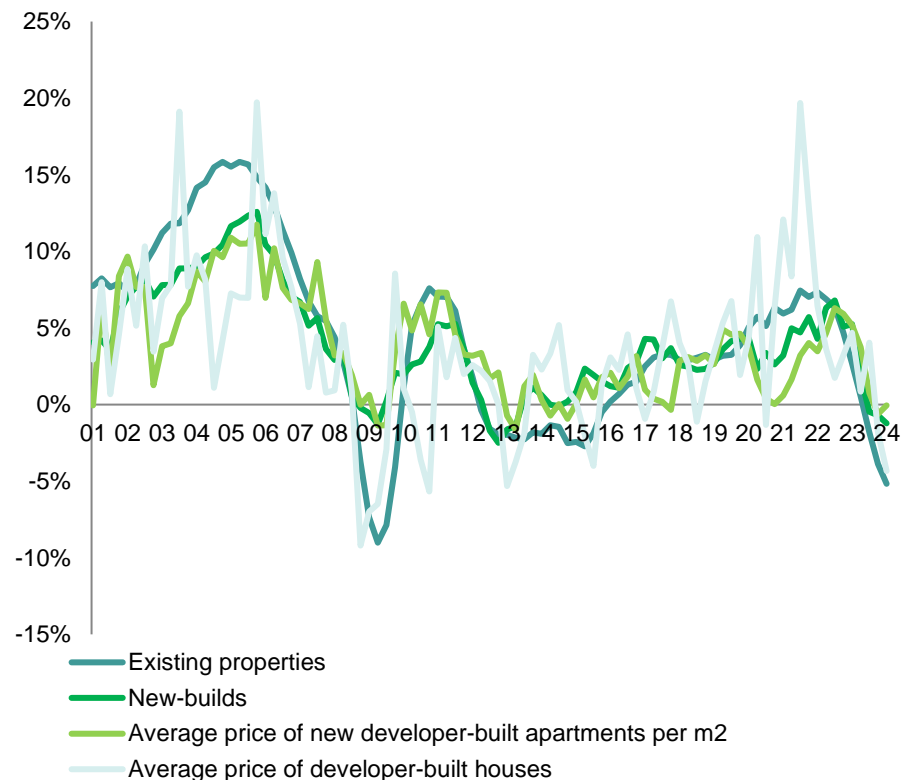
A FALL IN PRICES THAT HAS BEEN SLOW TO MATERIALISE

Low level of sales and difficulties finding buyers led to lower selling prices for new homes (-1.2% between Q1 2023 and Q1 2024), as the effects of the fall in demand due to the erosion of household purchasing power prevailed over the impact of the supply crisis. Faced with the loss of purchasing power among potential buyers, developers have been slow to lower new-build sale prices. As a result, the correction recorded in the new-build housing market was small compared to that of existing homes (-1.2% year-on-year in Q1 2024 vs -5.2%, respectively).

In more detail:

- The average price of houses (developer market) reserved by individuals fell by 4.4% in Q1 2024 year-on-year, after rising by 4.5% in Q1 2023 year-on-year (+1.4% in 2023, +3.2% in 2022, +13.1% in 2021).
- The average price per m² of new apartments reserved by individuals fell less markedly, by 0.2% in Q1 2024 year-on-year, after 5.1% in Q1 2023 (-0.5% in 2023, 5.9% in 2022, 4% in 2021).

Prices of new-builds and existing properties



Last review: March 2024

Sources: Insee, SDES, Crédit Agricole SA/ECO

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