ECONOMIC PULSE

EUROZONE: ANOTHER NEGATIVE SURPRISE ON INFLATION AND A PLEASANT ONE ON GROWTH

Harmonised inflation in the Eurozone surprised again unfavourably in October, reaching 10.7% year-on-year according to Eurostat's preliminary estimate, compared to the Bloomberg consensus forecast of 10.2%. It was the second month in a row of such a large acceleration in prices (+0.8 points). This was not the only bad news: half of this acceleration can be attributed to core inflation, 0.3 points to food inflation and 0.1 points to the energy component. Inflation therefore continues to spread and to strengthen. While the persistent and common component of inflation (PCCI) seems to have peaked in May this year (at 6.4%), its decline since then (5.5% in September, latest available figure) is not yet visible in the other measures of inflation.

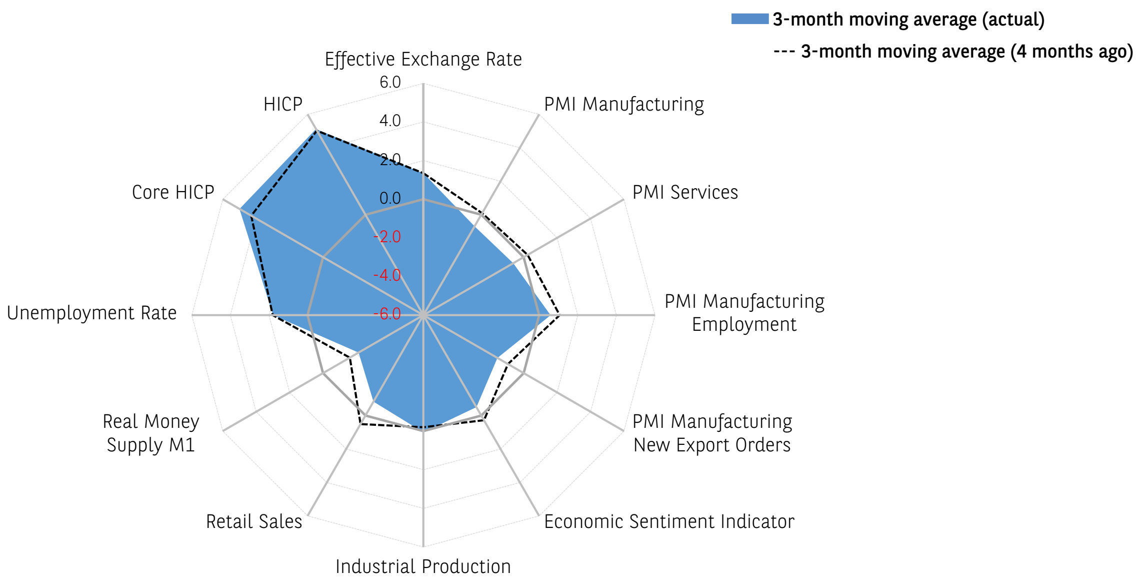
The details by country are not so negative. Indeed, the acceleration in prices is not generalised across all the Member States of the Eurozone: nine of them recorded an increase in inflation, while nine others saw a fall (inflation was stable in Luxembourg). The dispersed nature of these movements is even more striking when, on the one hand, we look at inflation in Spain (which declined by 1.7 points and fell to 7.3% year-on-year, placing it along with France (7.1%) among the countries with the lowest inflation) and, on the other, inflation in Italy, which jumped by 3.4 points to 12.8% year-on-year.

However, this latest negative surprise on inflation isn't really a surprise: the inflationary forces at work are well identified. What remains uncertain is the date and level of the peak and the extent to which inflation will decline afterwards. Regarding growth, the situation is less understandable. The growth recorded in Q3 (+0.2% q/q according to Eurostat's preliminary estimate) was weak, but it was positive, while the survey data (business climate and consumer confidence) clearly seemed to be pointing to a fall. The growth breakdown is not yet available, so we do not know what supported this positive growth outcome and the extent to which these factors are likely to continue or to reverse in Q4. But, given the deterioration in the surveys (as shown by the chart) and the negative effects of the inflationary shock and the energy crisis, which continue to build, it is unlikely that, after avoiding a contraction in GDP in Q3, the same would happen in Q4. The good news in this otherwise downbeat economic picture continues to come from the labour market and the continued fall in the unemployment rate (6.6% of the labour force in September).

For the ECB, after having once again raised its key interest rates by 75 basis points (bps) at its meeting on 27 October, it could be time to somewhat slow the tightening pace starting with its meeting on 15 December, given the rising recession fears, the progress made towards the neutral rate of interest, the other levers at work (redemptions of TLTROs, the prospect of QT in the course of next year) and the lagged effects of cumulative tightening of 200 bps thus far. We are now expecting an increase of 50 bps (compared to 75 previously), followed by two other similar increases in February and March 2023, bringing the deposit rate to 3.00%, which would be clearly in restrictive territory.

Hélène Baudchon

EUROZONE QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -6 and +6. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.