

ECONOMIC PULSE

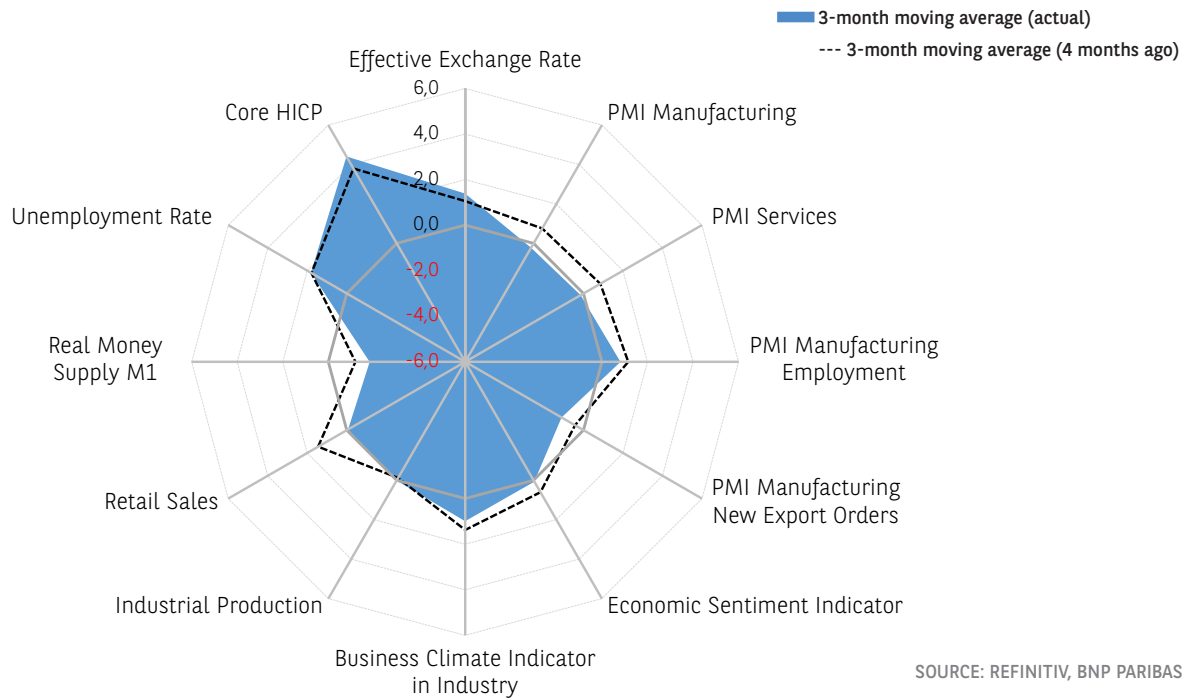
EUROZONE: THE ECB MOVES UP A GEAR

An exceptional response to exceptional circumstances. There is a high probability that the ECB will raise its policy rates by 75 basis points¹ at its meeting on 8 September. The fact is that the ECB has little choice but to respond with extraordinary measures to the continuing surge in inflation, despite the increased risk of recession. This is putting into practice the hawkish statements of Jackson Hole and the unconditional determination displayed to maintain price stability. As for inflation, according to Eurostat's flash estimate, the figures for August show a further increase of 0.2 points, to 9.1% year-on-year. Without the slight fall in the contribution of the energy component (from 4 to 3.9 percentage points), the rise in the headline inflation rate would have been greater, as the contribution from the food component increased further (+0.2 point, to 2.3 points) and also that of the core index (+0.1 point, to 2.9 points). Core inflation therefore stands at 4.3% year-on-year. Another point to note: inflation now exceeds 10% in nine countries of the EMU, including the Netherlands and Spain, and 20% in Estonia, Latvia and Lithuania. Unlike in the United States, where inflation in July (both headline and core) showed signs of waning, inflation in the Eurozone continues to trend upwards and the peak is probably still ahead of us. Some upstream inflationary pressures, in terms of input prices and supply difficulties, do certainly seem to be easing (judging by the fall in the corresponding components of the PMIs over the past few months) but we should expect further increases in the prices of food, manufactured goods and services. And while the price of oil and therefore of petrol fell sharply in July and August, gas prices continue to scale new heights. As regards the latest economic data, it blows hot and cold. On the positive side, Q2 growth came as a very favourable surprise (+0.6% q/q whereas we were anticipating a contraction in GDP of 0.2% q/q), which raises the growth carry-over to 3%. The situation on the labour market front remains robust (continued downward trend in the unemployment rate, at 6.6% of the labour force in July; employment up 0.3% q/q in Q2; continuing hiring difficulties). However, according to PMIs and European Commission surveys, companies' expectations on employment are starting to show a downturn. Yet, while with regard to the growth figures and the labour market past situation has held up better than expected, the outlook continues to deteriorate. Impact of the inflationary shock, energy crisis, drought, less favourable interest rate environment: all of this ends up weighing significantly on business confidence. Its decline is not as pronounced as that in households, but it is beginning to reach warning levels: the manufacturing PMI fell below the 50 threshold in July and has continued to fall in August (49.7) and in the services sector it is only a hair's breadth away (50.2) following four consecutive months of quite marked decline. And it is difficult to envisage any short-term improvement from these surveys. The Eurozone appears to be heading for at least two quarters of GDP contraction, in Q3 and Q4 2022. A contraction which, however, is expected to remain limited thanks to the continued positive dynamic in the labour market, the good tourist season and the fiscal support measures, on the assumption too that the energy crisis remains under control.

Hélène Baudchon

1. An exceptional increase, but one that is not completely without precedent, as the ECB has increased its deposit rate by 75 bps, between the 4th and the 21st January 1999, to facilitate the transition to the single currency. Apart from this exceptional step it had never subsequently raised its rates by more than 25 bps until the surprise hike of 50 bps in July 2022.

EUROZONE: QUARTERLY CHANGES



The indicators

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.

