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ADVANCED ECONOMIES

UNITED STATES

Inflation rises while growth disappoints. In April, PCE inflation reached 3.8% y/y (+0.9pp since February), primarily due to rising fuel prices (+29% y/y). Core PCE inflation, which is the preferred measure of the FOMC, stands at +3.3% y/y (+0.3pp since February), with significant increases for digital products, transportation services and financial services. According to the Dallas Fed's Trimmed Mean PCE measure, which is favoured by Kevin Warsh, inflation stands at 2.35% y/y. Several FOMC members have expressed views ranging from a wait-and-see approach to being "ready to tighten". Underlying orders for durable goods, excluding transportation, were strong in April (+1.1% m/m, +0.6pp compared to March), driven by defence and civil aeronautics. Conversely, consumer spending is slowing down (+0.5% m/m, -0.5pp). Q1 2026 growth has been revised downwards (+1.6% AR vs +2.0% previously) due to an adjustment on inventory changes. *Coming up: ISM manufacturing (Monday) and non-manufacturing (Wednesday), JOLTS & Beige Book (Wednesday), employment survey (Friday).*

EUROPEAN UNION

A step forward on capital markets and a firmer stance towards China. The six largest economies have agreed on a plan for centralised oversight of capital markets, which Germany no longer opposes. Furthermore, five countries (France, Spain, Netherlands, Italy, Lithuania) have called for an increased use of tariffs and safeguard measures against Chinese exports. The Commission's proposals are set to be discussed at the G7 in Evian, then endorsed by the EU heads of state on 18 June.

EUROZONE

The likelihood of a rate hike as early as June is growing, with the business climate showing signs of stabilisation. Inflation has risen in three out of the four main economies in the area. This adds to the hawkish stance reflected in the minutes of the ECB's April meeting and the remarks made by ECB Executive Board members advocating for monetary tightening during the meeting scheduled for 11 June. The economic sentiment indicator (ESI) of the Commission (+0.3 m/m in May) has improved in industry and services, as well as consumer confidence, but continues to be adversely affected in the retail trade and construction sectors. New vehicle registrations continued to rise in April (+4.8% y/y). In the first four months of the year, two-thirds of new registrations were for electric or hybrid vehicles. *Coming up: inflation (Tuesday), producer prices (Wednesday), retail sales and PMI (Thursday), Q1 GDP and employment (Friday).*

France: Inflation is spreading, consumer confidence is declining, while the housing market is improving. Q1 growth was revised to -0.1% q/q (previously reported at 0%), impacted by extraordinary factors such as low aeronautical deliveries prior to a significant increase in April and a temporary decline in construction activity, which has since recovered. Meanwhile, salaried employment remained stable. Inflation rose in May to 2.8% y/y (2.5% in April), mainly due to a 15% increase in gas prices. Production prices in industry rose by 2% year-on-year in April (0.2% in March). This inflation is spreading to intermediate goods (+2.9% y/y) in addition to refined products (+67% y/y), although it remains minimal in other areas. The household confidence index fell to 82 in May (-2 m/m; -9 in three months), but expectations regarding financial wealth and prices are stabilising. The opportunity to make significant purchases is diminishing (-5 m/m to -40), but there is a rebound in real estate and home improvement purchases intentions

(9.5% and 24% of respondents, respectively, reflecting increases of +2pp and 1.5pp. This follows a Q1 that saw real estate transactions in the secondary market stabilise, as did prices (0.2% q/q and 0.1% y/y). *Coming up: Vehicle registrations (Tuesday); industrial production and foreign trade (Friday).*

Italy: Q1 growth revised upwards and inflation goes higher. GDP growth reached 0.3% q/q in Q1 (+0.1pp), driven by foreign trade, private consumption and investment. Inflation increased in May (3.3% y/y; +0.5pp m/m), driven by energy, transport and leisure. In April, production prices rose by 6.8% y/y, driven up by energy prices (+22.8%) and prices in the chemistry and metallurgy sectors. The ESI index remained stable in May (+0.1pt), bolstered by household confidence (+2.5 m/m), but adversely affected by services (-1.5 m/m). *Coming up: Composite PMI (Wednesday), retail sales (Friday).*

Germany: Inflation slowed in May (+2.7% y/y vs +2.9% in April) thanks to lower energy taxes. The unemployment rate remained stable at 3.8% according to Destatis (ILO definition, internationally comparable), while it fell slightly to 6.3% according to the national definition. *Coming up: Vehicle registrations (Thursday).*

Spain: Inflation is on the rise. Inflation (+3.6% y/y in May; +0.1pp m/m) was pushed up by transport and leisure, and down by clothing. Core inflation remains stable at +2.9%. In April, production prices rose by 8.3% y/y, with a notable increase in energy costs (+22.3%), which also impacted intermediate goods (3.8% y/y) and durable goods (2.9% y/y). *Coming up: Composite PMI (Wednesday).*

JAPAN

Improvement in economic indicators in April. The unemployment rate fell to 2.5% (-0.2 pp) in April, bolstered by employment (+610,000). The participation rate has reached its highest level in nearly thirty years (64.4%). Industrial production rose by 0.8% m/m (+2.3% y/y), while retail sales increased by 1.3% (+2.1% y/y), and consumer confidence improved (+1.4 m/m to 33.6). The BoJ Governor (K. Ueda) indicated that second-round effects on inflation are more likely in the current context, which is characterised by "already high" inflation expectations and "accelerating" wages. *Coming up: Wages and household spending (Friday).*

EMERGING ECONOMIES

AFRICA & MIDDLE EAST

South Africa: 25bp hike in the benchmark rate to 7%. The central bank revised its inflation forecast for 2026 upwards to 4.4% (previously 3.7%), and its growth forecasts for 2026 and 2027 downwards (1.2% and 1.7%). Other rate hikes are possible this year, while cuts were expected prior to the onset of the conflict in Iran. Moody's has changed its outlook from "stable" to "positive", and the rand has appreciated against the US dollar since 20 May, recovering almost all losses since the conflict began.

ASIA

Manufacturing PMI in industrialised Asia: Activity remains dynamic: The PMI index in South Korea, Taiwan and Vietnam surpassed the 50 mark and improved in May, driven by a global surge in demand for electronic goods. In China, both the NBS and RatingDog PMIs have seen slight declines but remain in expansion territory (at 50 and 51.8, respectively).



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China: A minor initiative to bolster household demand. The government has instructed local authorities to extend public services to all of their residents, even those without a "residence permit" (*Hukou*). This announcement will formalise practices already in place in a large number of cities and is not expected to result in significant changes. However, it can be seen as a measure, albeit modest, that supports the movement of people within China, the establishment of a cohesive national market (a goal outlined in the five-year plan), and the enhancement of private consumption. Furthermore, **Beijing has tightened controls on offshore stock transactions:** to better manage capital outflows, it now prohibits Chinese investors from engaging with foreign markets outside of officially authorised channels.

South Korea: Monetary status quo. The central bank kept its key rate unchanged at 2.5% in May (a rate that has remained on hold for a year). However, it will likely raise its policy rates in the coming months. Economic growth remains robust, driven by the semiconductor sector and the expansion of AI; it is expected to reach 2.6% in 2026 according to the latest forecast from the central bank (up from the previously expected 2%). Inflation, as measured by the CPI index, rose to 2.6% in April.

EMERGING EUROPE

Hungary: Current monetary policy remains on hold, but easing in the short-term is likely. The central bank kept its key rate unchanged at 6.25% on 26 May. However, the governor indicated that a cut in the benchmark rate was a topic of discussion. The appreciation of the forint since the latest elections in April (+6.0% against EUR and 5.4% against USD) provides some leeway. The rise in inflation remains contained so far (+1.6% y/y in February, +2.1% in March, +2.6% in April).

Poland: Inflation was stable in May. Preliminary estimates point to a 3.1% y/y print, after 3.2% in April and 3.0% in March (2.1% in February). The rate of inflation for food and non-alcoholic beverages has decreased, while fuel price inflation continues to rise. The Central Bank's target range is set at 2.5% $\pm$ 1%.

LATIN AMERICA

Brazil: Domestic demand driving a cyclical recovery. GDP growth rebounded in Q1 2026 (+1.1% q/q vs +0.3% in Q4 2025), driven by agriculture and construction on the supply side, and investment and household consumption on the demand side. The recovery, along with rising inflation and stimulus measures, is hindering the prospects for rapid monetary easing.

Colombia: The State Council upholds the independence of the Central Bank by temporarily lifting the requirement for the presence of the Finance Minister on the monetary policy committee. This alleviates concerns regarding the legitimacy of monetary policy decisions made in the absence of the minister. **In the first round of the presidential election, the far-right candidate Abelardo de la Espriella secured the lead with 43.7% of the votes, followed closely by the left-wing candidate Ivan Cepeda, who garnered 40.9%.** The right-wing candidate Paloma Valencia, with 6.9% of the votes, has urged support for Mr de la Espriella in the second round.

Mexico: GDP contraction in Q1 (-0.6% q/q). The dynamism of exports did not offset the weakness of domestic demand. Industrial production fell by more than 1% y/y in Q1, and retail sales slowed significantly. Despite the anticipated positive impact of the football World Cup on tourism, risks are tilted to the downside. In addition to the conflict in the Middle East, uncertainty over the USMCA review is weighing on investment and exports' outlook, with 83% of exports directed towards the US in 2025.

Following a series of discussions with the United States from 27 to 29 May, the Mexican Minister of Economy described the dialogue as "complex and difficult". The central bank downgraded its growth forecast for 2026 to 1.1% (1.6% in February). It considers the recent rise in inflation as temporary but believes that the cycle of monetary easing cycle is now over.

COMMODITIES

A preliminary agreement proposal between the US and Iran led to a decline in oil prices last week: -4.2% for the July 2026 Brent maturity (-15% over May at USD 92/b), -13% for the Dated Brent (-20.5% at USD 93.4/b). According to the draft agreement, Iran would gradually permit the movement of ships in the Strait of Hormuz, remove mines within a 30-day period, and suspend the transit fees applied to ships for a period of 60 days. In return, the United States may consider easing its sanctions, including the release of Iranian assets. However, ongoing insecurity has prevented the resumption of traffic for the time being.

The ability of US oil exports to ease tensions in markets is showing signs of weakening. Crude oil and petroleum product exports fell sharply last week (-4% w/w for crude and petroleum products combined, and -21% w/w specifically for crude). Nevertheless, the rate of reduction in the United States' Strategic Petroleum Reserve remains near its historical peak (recorded in the first half of May), with a decrease of 9.1 million barrels between the weeks of 15 May and 22 May, out of a total stock of 365 million.


BNP PARIBAS

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