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INTERNATIONAL

Global trade: New US Tariffs on the way. USTR has proposed new tariffs of 10% and 12.5% against all 60 countries investigated upon concluding a series of investigations under section 301 of the 1974 Trade Act, relating to forced labour. The EU would be subject to the 10% rate on grounds of failing to protect adequately against the use of forced labour (NB: USTR finds that Bangladesh and Pakistan do it better than Japan, Norway, or Switzerland and hence get the lower tariff). Existing exemptions would apply. It is likely though not certain that these tariffs would only come in if bilateral trade agreements became impaired. The proposal is now subject to a consultation period running up to 6 July. The results of another consultation under section 301 for excess capacities should be out soon.

ADVANCED ECONOMIES

UNITED STATES

United States. Blowout jobs report puts Fed hike back on the table. Nonfarm payrolls surged at 172,000 in May — roughly double the consensus forecast — and the prior two months were revised up by a combined 93,000. This brings 2026 YTD payroll growth to 569k vs. 116k for 2025 as a whole. The unemployment rate held steady at 4.3%. Gains were concentrated in leisure & hospitality, local government, and healthcare. The strong jobs print drove bonds to selloff, with markets now fully pricing in a 25bp Fed rate hike by year-end, with c. 60% odds of the move coming as early as October (we have changed our call from pause to expecting a hike in December). This, in turn, led to a 0.7% jump in the USD and a sharp fall in tech stocks. Earlier in the week, the ISM May activity gauge also surprised on the upside with the manufacturing ISM rising to 54.0 (+1.3pp), the highest since May 2022. However, the upbeat reading is at odds with qualitative responses that reveal strong concerns about prices, supply and uncertainty. The Services ISM also rose (54.5, +0.9pp).

EUROPEAN UNION

Flexibility and tech sovereignty. The European Commission (EC) is showing welcome **flexibility on two fronts: (i) Fiscal rules:** countries may deploy up to 0.3% of GDP annually (capped at 0.6% over 2025–2028) to support households/firms coping with energy price spikes— but only for fossil fuel phase-out measures, not subsidies for gas/petroleum. Member states could also use EU cohesion funds to offset energy cost pressures; and **(ii) Capital requirements for investment banking activities,** with time-limited amendments that will neutralize the capital impact of the new FRTB rules for three years from 1st January 2027 and thereby keep a level-playing field with the US, UK and other jurisdictions. The EC also published an ambitious package of measures to bolster the EU's digital autonomy through a (US-style) combination of public funding, procurement, and regulatory incentives: **(i) The CHIPS Act 2.0,** aims to reduce overreliance on external suppliers for critical semiconductor technology by strengthening research, innovation, and skills development across the semiconductor ecosystem. It aims to stimulate demand and industrial uptake; increasing the use of procurement to boost demand, notably for European-based startups & scaleups and their technologies; Designating Strategic projects to unlock EU funding and co-invest with Member States and industry in projects of strategic importance and added value for the EU; **(ii) The Cloud and AI Development Act (CADA)** aims to make it easier and faster to deploy sustainable cloud and data centre infrastructure, and ensure that Europe accelerates the rollout of cloud and AI for critical sectors,

aiming for at least tripling the EU's data centre capacity within the next 5–7 year; and **(iii) A Strategic Roadmap for Digitalisation and Artificial Intelligence in Energy,** to make sure energy production and usage are consistent with the growing needs of the tech sector.

EUROZONE

Inflation accelerates, activity remains resilient. Inflation in May accelerated to 3.2%, with core (2.5%) and services (3.5%, +0.5pp vs. April) exceeding expectations. April producer Prices recorded their biggest increase since March 2023: +4.9% y/y after +2.0% in March. May PMIs showed input prices rising at the fastest pace since May 2022, while output prices saw their inflation rate rebound to a 3.5 year high. More encouragingly, household medium-term inflation expectations stabilized in April. Meanwhile, Eurostat revised Q1 2026 GDP to -0.2% QoQ (from an initial +0.1%), but this was driven an unprecedented downward restatement of Irish GDP, which collapsed 12.1% (vs. the initial -2% estimate) due to multinational distortions. Excluding Ireland, Eurozone GDP growth grew at around +0.2% q/q. Comfortingly, all final May PMIs were revised up from the flash estimates: composite (48.5) – down for a 2nd month, hitting the lowest since Nov. 2024, driven by services (47.7), while manufacturing continues to expand (51.6). The unemployment rate was stable at 6.3% in April— broadly unchanged across most countries. Retail sales grew by +1.0% y/y in April (vs. +2.1% in March), its lowest since July 2024.

France. Activity improving, public deficit growing. Manufacturing production grew in April at a post-Covid high pace, driven mainly by aeronautics (+0.4% m/m +2.5% y/y). Goods exports increased by 10% y/y in April (+5% y/y) mainly driven by aeronautics, electronic and electrical equipment, pharmaceuticals, and defence. Exports to EU destinations increased the most: +12% y/y in April, esp. Germany (+15% y/y in April). Car passenger sales were dynamic as well +3.5% y/y in May, with strong EV momentum (29% vs. 27% in Q1 and 20% in 2025). Housing starts are on the rise: +39% y/y in April (YtD +37% y/y). Building permits decreased in April (-17% y/y) but still increased YtD (+12% y/y). Final May PMIs, while confirming the deterioration across all sectors seen in the flash estimates, were revised up slightly. “Choose France” 2026 led to record investment pledges: EUR 93 bn, mainly in data centres, across 71 projects, expected to create 15600 jobs. Less positively, the state budget deficit was EUR 69.9 bn in Jan-Apr 26 (vs. 69.3 in Jan-Apr 25). It should continue to deteriorate in the months ahead. This is mostly driven by higher spending on debt service and defence, and to a lesser extent by lower gasoline consumption reducing tax revenues.

Germany. Sluggish. The final composite PMI was revised slightly higher to 48.8 in May. Manufacturing remained in expansion for a 4th consecutive month at 50.1, but new orders dropped for the 1st time in 2026. Input costs surged to their highest level since June 2022 and selling prices remained elevated but stabilized (producers cautious due to weak demand). Services fell to 48.1 but new orders shrank less than in April, and firms are slightly more optimistic, while inflationary pressures remained high but stable. Retail sales fell by 0.3% y/y in April (after -0.2% in March) the worst print since August 2025. Key driver: fuel purchases at gas stations. Factory orders remained robust in April (+1.5% y/y, +6.4% 6m/6m), despite a monthly dip (-3.8%). Growth is driven by aerospace and computer/electronics/optical sectors. The report on the usage of the SVIK (infrastructure) Fund in 2025 revealed that it added 0.5pp to GDP growth — without it, the economy would have stagnated for another year. It left €13.3bn underutilized (vs. budget) in 2025. Spending is set to accelerate in 2026 thanks to regulatory simplification measures.



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Italy: Activity expanding at steady pace. Composite PMI at 50.4, almost unchanged from the previous month (-0.1 pt). Manufacturing is expanding at a faster pace (highest since April 2022), compensating for the contraction in services. Input price inflation reached its highest level in more than three years. Retail sales increased 1.6% y/y in April, unchanged m/m.

Spain. Activity rebound. The May composite PMI rose to 50.2 (up from 48.7 in April). Manufacturing is still in expansion but losing momentum. The Services PMI rose to 50.1 in May, moving back into expansion after a sharp contraction to 47.9 in April. Input-cost pressure rose at the fastest pace in four years.

JAPAN

Imminent rate hike, weak consumption. BoJ governor Ueda gave the clearest signal yet that he thinks conditions require a rate hike at the June 15-16 BOJ meeting. He warned that "substantial rate hikes" could be warranted later if the central bank delays action. Despite a 4-month streak of real wage growth (+1.9% y/y in April) after 12 months of contraction in 2025, real household spending contracted in April for a 5th straight month albeit at a lower pace (-0.5% y/y, up 1.4pp. USD/JPY has remained above 160 despite record FX intervention in May.

UNITED KINGDOM

Weak construction, even higher price expectations. Construction activity shrank at its fastest pace since 2020 in May, with the PMI falling to 38.2. Firms surveyed by the BOE expect their own-price growth to increase by 4.0% over the next year (+0.2 pp m/m).

EMERGING ECONOMIES

PMIs: Gulf improving, Europe steady, LatAm mixed. Non-oil activity rebounded in the GCC, with KSA and UAE in expansion. In Central Europe, PMIs were little changed. In Latam, Brazil saw a sharp deterioration while Mexico and Colombia improved.

ASIA

China: Industrial subsidies champion. According to the OECD, China stands out as the economy that provides the most industrial subsidies to its firms: between 2005 and 2024, they received, on average, 3 to 8 times more government support than firms in OECD countries (as a % of annual firm revenue), in the form of direct subsidies, tax concessions, and loans at below-market rates.

India: Growth beat, efforts to stem rupee depreciation. Real GDP growth for FY2025/2026 (ended in March 2026) reached 7.7% (vs. 7.1% in FY2024/2025), above expectations. The RBI revised its growth projection to 6.6% (from 6.9%) for the current fiscal year. After the rupee fell to a record low (having depreciated by 4.7% vs. USD since the onset of the Iran war), the central bank adopted several measures to support the currency and increase foreign portfolio investment: it kept its policy rate stable at 5.25%; expanded foreign access to Indian government bonds via a broader Fully Accessible Route (FAR) especially for long-dated issues; introduced a temporary facility (through Sep 2026) under which authorised dealer banks will receive support to bear the full hedging cost for raising fresh FCNR(B) deposits with maturities of three to five year; and relaxed regulatory barriers to make Indian debt markets more attractive to capital inflows.

Indonesia: Rupiah depreciation accelerates. Despite the rise in policy rates by 50bp two weeks ago, the rupiah's depreciation accentuated further. The stock market has lost more than 35% since the start of the year.

EMERGING EUROPE

Poland: Monetary policy on hold. As expected, the central bank maintained its policy rate at 3.75% for the third consecutive month. In May, inflation even edged down to 3.1% y/y (April: 3.2% y/y). Going forward, the central bank should retain a wait-and-see stance, though a rate hike is not ruled out this year.

LATIN AMERICA

Peru: The second round of the election took place on Sunday 7th June. The final result is not yet known. Regardless of the outcome, the highly fragmented political landscape suggests a term marked by tensions and likely significant difficulties in implementing economic reforms.

COMMODITIES

US oil stocks under pressure from record exports: Strategic Petroleum Reserve (SPR) of crude oil fell by 8 mb/d between the week of the 22nd of May and the 29th of May (close to an all-time high). Total US stocks of crude oil and petroleum products (commercial and SPR) have now dropped to their lowest level since 2004, at 1.573 million barrels. US distillate fuel oils stocks are close to their lowest level since 2003 (at 102 million barrels during the week of 29 May). The OPEC+ members have agreed to increase their production quotas by 0,188 mb/d in July (this decision is symbolic as navigation through the Strait of Hormuz remains minimal).

TO WATCH NEXT WEEK

US. May CPI (Weds) and PPI (Thu), U. Mich survey of consumer sentiment (Fri).

Europe. ECB policy meeting (Thu); German factory orders (Mon) and industrial prod (Tue); Banque de France monthly business survey (Wed), May CPIs (Fri); UK GDP and industrial prod, inflation.

Japan. Q1 GDP (Sun).

EM. Türkiye CBRT meeting (Thu); China inflation (Wed) and trade balance (Tue)

Other. EIA short term energy outlook (Tue).



BNP PARIBAS

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