ECOPULSE

December 2023

MONTHLY PULSE OF OECD COUNTRIES'ECONOMIC INDICATORS

BNP PARIBAS

The bank for a changing world

The economic picture during November and December reveals some divergence between Europe, on the one hand, and the US and Japan, on the other hand.

In Europe, growth slowed sharply in Q3 (-0.1% q/q in the eurozone and 0% in the United Kingdom). The initial data available for Q4 shows that the year is ending on this more negative note, which is reflected in our nowcast for the eurozone, standing at -0.1%, for Q4. Based on these figures, the eurozone slipped into recession during the second half of 2023 (a moderate and technical recession, but a recession nonetheless). In the UK, ONS data also shows negative growth in October (-0.3% m/m). By contrast, in the United States, while the economic indicators are largely in line with our scenario of a sharp slowdown in growth to 0.4% q/q in Q4 (after standing at +1.3% q/q in Q3), they are not currently indicating a risk of a contraction in activity. In Japan, after negative growth in Q3 (-0.7% q/q) following a good Q2 (+0.9% q/q), the Tankan index suggests a return to positive growth in Q4 (+0.4% q/q, according to our forecasts).

The latest inflation statistics also send out different messages, but, overall, they are still heading in the right direction, displaying a disinflationary trend. This was more pronounced in the eurozone (-0.5 pp to 2.4% y/y in November), particularly in Germany and Italy; in the United Kingdom (-0.7 pp to 3.9% y/y in November); and in Japan (-0.6 pp to 2.6% y/y for the Tokyo region in November). However, it was less pronounced in the United States, where core inflation remained stable at 4% y/y in November, in line with the ongoing strength of the labour market. In the eurozone, the labour market is deteriorating slightly and gradually, masking the differences between the countries, most notably in France and in Germany, which have been hit harder by the economic downturn.

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EUROZONE

Eurozone: a difficult end to the year

The end of the year is shaping up to be a difficult one for the eurozone, as displayed by the flash PMI indicators for December. The composite index, fell by 0.6 points to 47, and remains below the threshold of 50 (in contraction territory) for the seventh month in a row. The employment index has not plummeted, but has been gradually declining since April, reaching 49.6 in December, its lowest level in three years. At 6.5% in October, the unemployment rate in the eurozone stabilised at a historically-low level, which is increasingly looking like a floor. We expect the jobless rate to rise slightly over the next few months, in line with current trends in the PMI indices. The unemployment rate for young people (under 25) has already risen by one percentage point in six months, to 14.9% in October.

According to our forecast, confirmed by our Nowcast, real GDP in the eurozone is set to contract by 0.1% q/q in Q4 (following -0.1% q/q in Q3). Retail sales grew 0.1% m/m in October, but the three-month moving average reached its lowest level in two and a half years. Industrial production (excluding construction) reached its lowest level in three years, contracting by 0.7% m/m in October (including -3.4% m/m for the production of machinery and equipment excluding transport).

Harmonised inflation in the eurozone fell by 0.5 pp to 2.4% y/y in November, due to greater deflation in energy and a slowdown in the rise in prices of industrial goods (excluding energy) and services. The fall in inflation was the sharpest in Italy (-1.1 pp to 0.8%), Germany (-1.3 pp to 3.0%) and Finland (-1.6 pp to 0.8%). The PMI indicator for input prices in services has stabilised, following a significant decline in the first half of the year, but remains at a historically high level (61.7). A squeeze on corporate margins, against a backdrop of rising unit labour costs, could put the brakes on activity. Nevertheless, at this stage, we still expect a gradual recovery in activity in 2024, with stronger growth from spring onwards, driven by falling inflation and an initial cut in policy rates in April, according to our forecasts.

Guillaume Derrien *(article completed on 20/12/2023)*

Eurozone: economic indicators monthly changes*

	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23
Economic Sentiment Indicator (ESI)	-0,3	0,0	0,0	-0,1	-0,1	-0,3	-0,4	-0,5	-0,6	-0,6	-0,6	-0,6
ESI - Manufacturing	0,2	0,4	0,3	0,3	0,0	-0,2	-0,4	-0,6	-0,7	-0,6	-0,6	-0,7
ESI - Services	0,2	0,4	0,3	0,3	0,4	0,1	0,0	0,0	-0,1	-0,1	-0,1	-0,1
ESI - Retail sales	0,4	0,7	0,7	0,5	0,7	0,1	0,0	0,2	0,1	0,0	-0,2	-0,2
ESI - Construction	1,2	1,0	1,0	0,9	0,9	0,8	0,7	0,6	0,5	0,4	0,4	0,5
Consumer confidence	-1,8	-1,5	-1,2	-1,2	-1,0	-0,9	-0,7	-0,5	-0,7	-1,0	-1,0	-0,8
PMI Manufacturing	-0,4	-0,2	-0,3	-0,5	-0,8	-1,0	-1,3	-1,4	-1,2	-1,3	-1,3	-1,1
PMI Services	0,0	0,2	0,5	1,0	1,2	1,0	0,4	0,2	-0,4	-0,3	-0,4	-0,3
PMI Manufacturing New Export Orders	-1,2	-0,9	-1,1	-0,7	-0,8	-1,3	-1,4	-1,7	-1,5	-1,5	-1,5	-1,2
PMI Manufacturing New Orders	-1,0	-0,7	-0,5	-0,6	-0,8	-1,1	-1,5	-1,6	-1,6	-1,6	-1,6	-1,2
PMI Composite - Employment	0,5	0,6	0,6	0,9	1,3	1,1	0,9	0,4	0,1	0,2	0,0	-0,1
Industrial Production	-0,4	0,1	0,3	-0,4	0,0	-0,5	-0,2	-0,4	-0,9	-1,1	-1,1	
Retail Sales	-1,0	-0,8	-1,0	-1,1	-1,0	-0,9	-0,4	-0,4	-0,7	-1,0	-0,5	
New Car registrations	0,6	0,5	0,5	1,4	0,8	0,9	0,8	0,7	1,0	0,4	0,6	
HICP	4,0	3,5	3,4	2,5	2,5	2,4	1,7	1,6	1,6	1,1	0,4	0,1
Core HICP	5,0	4,9	5,0	4,8	4,5	4,1	4,1	3,9	3,6	2,8	2,5	1,9
Unemployment Rate	1,7	1,7	1,7	1,8	1,8	1,7	1,7	1,7	1,7	1,7	1,7	1,7

| -3 | -2 | -1 | 0 | 1 | 2 | 3 |

* The Indicators are all transformed into "z-scores", i.e. deviations from the long-term average value (expressed in standard deviation), the average of which is zero (except for the PMI/ISM indices where the average is 50, the threshold between the expansion zone and the contraction zone of the activity). Positive (negative) values indicate the number of standard deviations above (below) the mean value.
Reading note: the red colour indicates dynamic activity, high inflation and low unemployment, the blue colour indicates slower activity, low inflation and high unemployment.

GDP growth

Actual				Carry-over	Nowcast	Forecast		Annual forecasts (y/y)			
Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2022	Q4 2023	Q4 2023	Q1 2024	2022 (observed)	2023	2024	2025
-0,1	0,1	0,1	-0,1	0,4	-0,1	-0,1	0,1	3,4	0,5	0,6	1,6

See the Nowcast methodology. Contact: Tarik Rharrab
Source: Refinitiv, BNP Paribas

GERMANY

Stagnation set to continue

The business climate indicators highlight a still deteriorated situation, raising fears of another quarter of contraction in activity (-0.1% q/q in Q4 according to our forecasts), following four quarters of stagnation or decline (including -0.1% q/q in Q3). Indeed, the indices linked to current conditions in the IFO and ZEW surveys remained close to historical lows, in both industry and services. Expectations of a small improvement are based on the anticipation of the ECB's monetary easing in 2024, which remained uncertain for the time being.

This sluggishness is also evident in terms of demand. New factory orders contracted in October (-3.7% m/m) and are 6.4% lower on average over the last six months than over the same period in 2022. At the same time, household confidence remains low in December according to GFK (-27.8, compared to -28.3 in November, but was at -25.1 on average in Q3) and the 'willingness to buy' indicator remains close to its low point at -15.

Following a fall of 0.3% q/q in Q3 and a level 2.3% lower than pre-Covid, private consumption is therefore likely to remain sluggish. The absence of any signs of improvement in household consumption and confidence in response to the sharp fall in inflation (2.4% y/y in November, according to the harmonised index, compared to 6.4% y/y in August and 11.3% y/y a year ago) is somewhat surprising. However, this could be explained by the nature of this fall in inflation: it seems to be more a symptom of the slowdown in the economy (along with the 11% y/y drop in production prices in industry in October) than a signal of its future upturn.

This slowdown in activity is also affecting the labour market. Although the IFO's employment climate level in November is close to that of the previous two months (95.9), it remains significantly lower than in the first half of the year (99.3 on average). At the same time, job creation deteriorated in Q3 (-3,000 jobs compared to Q2). Although the number of new jobs proved positive again in October (+15,000), the pace remains lower than it was until mid-2023 (32,000 jobs created per month on average between mid-2022 and mid-2023).

Stéphane Colliac *(article completed on 20/12/2023)*

Germany: economic indicators monthly changes*

	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23
IFO Business Climate Manufacturing	-0,9	-0,6	-0,5	-0,2	-0,2	-0,6	-1,2	-1,4	-1,6	-1,5	-1,5	-1,4
IFO Business Climate Services	-1,6	-1,5	-1,4	-0,7	-0,9	-0,9	-1,2	-1,4	-1,8	-1,9	-1,6	-1,6
IFO Business Climate Trade	-1,2	-0,9	-0,6	-0,6	-0,6	-1,2	-1,2	-1,5	-1,6	-1,5	-1,7	-1,3
IFO Business Climate Construction	0,6	0,9	1,3	0,2	0,2	0,6	1,5	0,5	0,6	0,9	0,4	
GFK Consumer Confidence	-4,9	-4,4	-3,9	-3,5	-3,2	-2,8	-2,7	-2,7	-2,6	-2,6	-2,7	-2,8
Industrial Production	-0,5	-0,3	0,0	0,3	0,1	0,0	-0,2	-0,3	-0,2	-0,6	-0,6	
Industrial Orders foreign	-0,8	-1,2	-0,7	-1,0	-0,9	-0,6	0,3	-1,0	-0,7	-0,1	-0,7	
New Orders Construction	-2,8	-2,5	-1,8	-2,3	-1,1	-0,6	-0,3	0,2	2,0	1,4		
Retail sales	-2,4	-2,8	-2,6	-2,8	-1,6	-0,9	-0,5	-1,0	-1,0	-1,5	-0,3	
Core HICP	4,7	4,3	4,5	4,8	4,3	3,6	4,4	4,4	4,2	2,8	2,3	
Unemployment Rate	1,1	1,1	1,2	1,1	1,1	1,1	1,1	1,1	1,1	1,0	1,0	

-3   -2   -1   0   1   2   3

* The Indicators are all transformed into "z-scores", i.e. deviations from the long-term average value (expressed in standard deviation), the average of which is zero. Positive (negative) values indicate the number of standard deviations above (below) the mean value.
Reading note: the red colour indicates dynamic activity, high inflation and low unemployment, the blue colour indicates slower activity, low inflation and high unemployment.

GDP growth

Actual				Carry-over	Forecast		Annual forecasts (y/y)			
Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2022	Q4 2023	Q1 2024	2022 (observed)	2023	2024	2025
-0,4	0,0	0,1	-0,1	-0,2	-0,1	0,0	1,9	-0,1	0,3	1,3

Source: Refinitiv, BNP Paribas

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FRANCE

Up against the wall

The signs of the French economy cooling down intensified in December, with a further fall in the flash composite PMI to 43.7 (44.6 in November). The manufacturing PMI has been below 50 for 11 months and hit a new low in December, as did the services PMI.

The deterioration in order books has intensified according to the balance of opinions in the INSEE surveys. It was already significant for property developers (housing starts expectations were at an all-time low of -40.5 in October) and for intermediate goods (balance of opinion on order books at -43.8 in November, calculated on average for chemicals, wood/paper, metals and plastics/rubber). Other sectors are reporting a more recent deterioration, such as machinery and equipment (-17.5 in November), suggesting that the momentum that has so far remained favourable for corporate investment may now be reversing, following initial negative signs for their construction investment (-4% y/y in real terms in Q3).

Household demand is offering little relief, despite the fall in inflation (3.9% y/y in November according to the harmonised index). The balance of opinion on order books in the consumer goods sectors stood at -12.6 in November (on average for agri-food, textiles and pharmaceuticals in particular), at a level close to its average over the last six months. And, according to the November 2023 household survey, the balance of opinion on the opportunity to save, at a record level of 36 excluding the Covid period, underlines weak spending intentions.

The visible economic slowdown is increasingly weighing on business insolvencies. According to preliminary data from the Banque de France, business insolvencies totalled almost 14,500 over the three months to the end of November, not that far from the high average for the 2009-2015 period (16,000 per quarter).

Although employment remained relatively resilient until Q3, with almost 37,000 net new jobs added, the employment climate has since deteriorated (from 105 in September to 101 in November according to the INSEE index). The rise in insolvencies could contribute to a further rebound in unemployment (7.4% in Q3, compared to 8% at the end of 2024 according to our forecasts). All these factors point to very low growth. In the short term, after -0.1% in Q3, we expect zero growth in Q4 (in line with our nowcast estimate), as does INSEE, while the Banque de France is expecting growth of +0.1% q/q.

Stéphane Colliac *(article completed on 20/12/2023)*

France: economic indicators monthly changes*

	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23
Business climate Manufacturing	0,1	0,2	0,3	0,4	0,1	-0,1	0,0	0,1	-0,4	-0,1	-0,1	-0,2
Business climate Services	0,4	0,4	0,5	0,5	0,3	0,2	0,2	0,2	0,2	0,2	0,1	0,1
Business climate Construction	0,9	0,9	0,7	0,6	0,7	0,5	0,4	0,3	0,4	0,3	0,1	0,0
Business climate Retail sales	-0,1	-0,1	0,0	-0,3	0,0	-0,3	0,2	0,6	0,5	0,3	-0,2	-0,4
Employment climate	1,0	1,1	1,0	1,0	1,0	0,6	0,6	0,5	0,1	0,5	0,2	0,0
Consumer confidence	-1,7	-1,6	-1,7	-1,7	-1,6	-1,5	-1,3	-1,2	-1,2	-1,4	-1,3	-0,9
HICP	3,7	3,8	3,8	3,3	3,4	2,7	2,3	2,1	2,5	2,4	1,7	1,2
Core HICP	4,2	4,0	4,3	4,1	4,2	3,6	3,6	3,3	3,0	2,5	2,4	1,6
Unemployment Rate	1,9	2,0	1,9	1,9	1,8	1,7	1,7	1,6	1,5	1,6	1,6	
Consumer spending	-1,2	-0,7	-0,7	-0,6	-1,0	-0,7	-0,5	-0,2	-0,5	-0,9	-0,5	
Industrial production	0,3	-0,3	0,2	0,1	0,3	0,4	0,1	0,5	0,0	0,0	0,4	
Exports of goods	1,0	-0,1	0,7	0,5	0,2	0,6	0,0	0,2	-0,8	-1,0	-0,8	

Scale: -3 -2 -1 0 1 2 3

* The Indicators are all transformed into "z-scores", i.e. deviations from the long-term average value (expressed in standard deviation), the average of which is zero. Positive (negative) values indicate the number of standard deviations above (below) the mean value.
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GDP growth

Actual				Carry-over	Nowcast	Forecast		Annual forecasts (y/y)			
Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2022	Q4 2023	Q4 2023	Q1 2024	2022 (observed)	2023	2024	2025
0,0	0,1	0,6	-0,1	0,3	-0,0	0,0	0,1	2,5	0,8	0,6	1,4

See the Nowcast methodology. Contact: Tarik Rharrab
Source: Refinitiv, BNP Paribas

Activity is slowing down, as is inflation

Economic growth is slowing down in Italy. After contracting by 0.4% q/q in Q2, economic activity only grew by 0.1% q/q in Q3, almost standing still in that quarter. This small rebound was led by consumer spending (+0.6% q/q, contribution of 0.4 percentage points) and foreign trade (+0.8 points). Nevertheless, these positive developments were counterbalanced by significant destocking. For its part, investment recorded a quarterly change of -0.1% in Q3.

This quasi stagnation in activity is also reflected in the results of business surveys. According to the S&P Global PMI report, the services sector struggled to return to expansionary territory in November (49.5; +1.8 points) and the manufacturing industry is experiencing increasing difficulties. The sector's PMI index reached its lowest level in five months (44.4; -0.5 points) due in particular to the deterioration of the new orders component. In addition, the employment sub-component recorded its strongest decline since July 2020 (48; -1.6 points).

Harmonised inflation, meanwhile, recorded one of the sharpest falls on record in the Eurozone in November (-1.2 pp, at 0.6% y/y). This is mainly due to the increased deflation in energy prices, combined with a sharp slowdown in the prices of industrial goods (excluding energy) and services. This price moderation ultimately allowed the inflation and wage curves to cross in October, with the latter rising by 2.9% y/y, compared with inflation of just under 2%. This increase in real wages, combined with an unemployment rate that is still historically low (7.8% in October), should buoy private consumption in Q4 2023.

This should benefit GDP growth for the last quarter of the year. We are forecasting growth of +0.1% q/q, which would mean that Italy's annual average growth rate in 2023 would slightly exceed that of the Eurozone (0.7% compared with 0.5%). We then expect a modest recovery in 2024, ranging between 0.2% and 0.4% per quarter, which would still leave Italian annual growth slightly above that of the Eurozone (0.9% compared with 0.6%).

Lucie Barette *(article completed on 20/12/23)*

Italy: economic indicators monthly changes*

	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23
Business climate - Manufacturing	0,3	0,4	0,2	0,5	0,6	0,2	-0,1	-0,2	0,1	-0,1	-0,1	-0,2
Business climate - Construction	2,0	1,9	1,8	1,9	2,1	1,9	2,0	2,2	1,8	1,9	2,1	2,0
Business climate - Services	0,2	0,6	0,5	0,4	0,6	0,6	0,6	0,6	0,7	0,6	0,7	0,6
PMI manufacturing new export orders	-0,8	-0,1	-0,2	0,1	-0,5	-0,4	-1,2	-1,0	-1,7	-1,4	-1,4	-1,3
PMI Composite - Employment	0,4	0,5	0,5	1,0	1,3	1,2	0,6	0,0	-0,7	0,4	-0,1	-0,1
Consumer confidence	-0,1	-0,3	-0,1	0,2	0,1	-0,1	0,1	-0,1	-0,1	-0,2	-0,6	-0,4
Industrial production	0,0	0,2	-0,2	-0,3	-0,7	-0,3	0,0	-0,2	-0,4	-0,2	-0,1	
Retail sales	0,7	1,2	1,1	1,2	0,6	0,5	0,7	0,5	0,4	0,1	0,0	
Exports	0,6	0,6	0,2	-0,2	-0,8	-0,3	-0,3	-1,0	-0,2	-0,9		
HICP	5,1	4,1	3,6	2,7	2,9	2,6	2,0	1,8	1,5	1,5	-0,1	-0,7
Core HICP	4,0	4,2	4,4	4,0	3,9	3,5	3,2	3,0	2,3	2,4	2,1	1,7
Employment	1,0	1,2	1,0	0,9	1,0	0,9	0,9	0,8	1,3	1,2	1,0	
Unemployment Rate	0,8	0,7	0,8	0,8	0,8	0,8	0,9	0,8	0,9	0,9	0,8	
Wage	-0,2	0,4	0,4	0,4	0,7	0,6	1,4	1,2	1,2	1,2	1,1	

	-3	-2	-1	0	1	2	3

* The Indicators are all transformed into "z-scores", i.e. deviations from the long-term average value (expressed in standard deviation), the average of which is zero (except for the PMI/ISM indices where the average is 50, the threshold between the expansion zone and the contraction zone of the activity). Positive (negative) values indicate the number of standard deviations above (below) the mean value.
Reading note: the red colour indicates dynamic activity, high inflation and low unemployment, the blue colour indicates slower activity, low inflation and high unemployment.
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GDP growth

Actual				Carry-over	Forecast		Annual forecasts (y/y)			
Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2022	Q4 2023	Q1 2024	2022 (observed)	2023	2024	2025
-0,2	0,6	-0,4	0,1	0,4	0,1	0,2	3,9	0,7	0,9	1,5

Source: Refinitiv, BNP Paribas

SPAIN

Growth falters, but the outlook remains encouraging

Contrary to the trend observed in the other three major eurozone countries, Spain recorded a more moderate fall in inflation in November. According to the INE, the growth in the Harmonised Index of Consumer Prices (HICP) slowed by 0.2 pp to 3.3% y/y this month (while the decline reached 0.7 points in France and Germany, and 1.1 points in Italy). Based on recent trends in the producer price index, which recorded its eighth consecutive month of deflation in October (-7.8% y/y), this consumer price slowdown is set to continue, and even accelerate, over the coming months.

This year-end also saw the first contraction in three months in the composite PMI index (49.8). The activity indicator remains low in the manufacturing sector, but posted an increase in November (+1.2 points to 46.3). Other industrial indicators are also losing momentum: the year-on-year fall in industrial production accentuated slightly in October (-1.5% y/y after -1%), mainly due to a decrease in activity in the mining sector and in the manufacture of capital goods.

Conversely, the PMI in services fell by 0.1pp in November but remains slightly above the 50 threshold (51). However, some sub-indicators appear to have deteriorated. This is the case for new export orders (47.5) and new business (49.4).

If it continues – even if it eases, as we expect – the resilience of the labour market (marked in November by the number of unemployed returning to its level of 15 years ago, i.e. 2.73 million), coupled with the moderation in inflation expected in 2024, should support household purchasing power and private consumption over the coming quarters. However, the downturn in the manufacturing industry is likely to weigh on activity in the shorter term, even if growth as a whole remains well oriented. According to our forecasts for 2023, Spanish growth (2.3%) will be well above the eurozone average (0.5%). However, this high figure masks a less dynamic end to the year and start to 2024 (0.2% q/q), before growth rates return to more positive levels.

Lucie Barette (article completed on 20/12/23)

Spain: economic indicators monthly changes*

	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23
Business climate - manufacturing	0,3	0,4	0,2	0,5	0,6	0,2	-0,1	-0,2	0,1	-0,1	-0,1	-0,2
Business climate - construction	1,4	0,4	1,2	0,9	1,2	1,2	1,2	1,2	0,7	0,8	1,0	1,3
Business climate - services	0,2	0,6	0,5	0,4	0,6	0,6	0,6	0,6	0,7	0,6	0,7	0,6
PMI manufacturing new export orders	-1,4	-0,7	-0,1	-0,2	-0,5	-0,8	-0,8	-1,3	-1,4	-0,4	-1,0	-1,0
PMI Composite - e	0,3	0,0	0,4	0,7	1,1	0,9	0,6	0,5	0,4	0,3	0,3	0,3
Consumer confidence	-0,8	-0,6	-0,5	-0,7	-0,4	-0,4	0,0	0,4	0,1	-0,4	-0,3	-0,3
Industrial production	0,1	0,1	0,1	0,6	-0,1	0,0	-0,4	-0,2	-0,4	-0,1	-0,1	
Retail sales	1,6	2,1	1,7	2,0	1,8	1,7	1,5	1,6	1,3	1,5	1,3	
Exports	0,8	0,8	0,3	0,9	-1,0	-0,8	-0,7	-0,9	-1,3	-1,4		
HICP	1,5	1,7	1,7	0,4	0,7	0,3	-0,2	0,0	0,1	0,5	0,6	0,5
Core HICP	2,5	3,2	3,2	2,7	2,2	1,9	1,8	2,4	2,3	1,9	1,8	
Employment	0,4	0,4	0,4	0,5	0,6	0,6	0,5	0,5	0,5	0,5	0,5	0,5
Wage	2,0	0,8	0,5	0,6	0,6	0,7	0,6	0,6	0,6	0,6	0,6	0,5
Unemployment Rate	0,6	0,6	0,7	0,7	0,8	0,8	0,8	0,8	0,8	0,8	0,8	

| -3 | -2 | -1 | 0 | 1 | 2 | 3 |

* The Indicators are all transformed into "z-scores", i.e. deviations from the long-term average value (expressed in standard deviation), the average of which is zero (except for the PMI/ISM indices where the average is 50, the threshold between the expansion zone and the contraction zone of the activity). Positive (negative) values indicate the number of standard deviations above (below) the mean value.
Reading note: the red colour indicates dynamic activity, high inflation and low unemployment, the blue colour indicates slower activity, low inflation and high unemployment.

GDP growth

Actual				Carry-over	Forecast		Annual forecasts (y/y)			
Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2022	Q4 2023	Q1 2024	2022 (observed)	2023	2024	2025
0,5	0,6	0,4	0,3	1,2	0,2	0,2	5,8	2,3	1,5	2,1

Source: Refinitiv, BNP Paribas

UNITED STATES

Towards rate cuts in 2024

The ISM Report on Business showed an improvement in non-manufacturing activity in the United States in November, with the corresponding index rising to 52.7 (+0.9pp). Conversely, the ISM Manufacturing index was stable (46.7), as the improvement in new orders was offset by a deterioration in production and employment. This result is consistent with our forecast of a slowdown in the US economy in Q4, with the GDP growth rate edging down to +0.4% q/q according to our forecast (versus +0.6% for the Atlanta Fed's GDPNow estimate, and +1.3% in Q3). However, the prospect of a recession is gradually receding, and we now expect a single quarter of contraction in 2024 (-0.3% q/q in Q2, with Q1 expected to be flat).

The improved outlook appeared to be having an impact on household sentiment. According to the Conference Board, consumer confidence reached 102.0 in November (+2.9pp), driven by an improvement in expectations (77.8, +5.1pp). In December, the University of Michigan survey also pointed to a jump in household sentiment (69.4, +8.1pp), supported by a better assessment of expectations (66.4, +9.6pp) and current conditions (74.0, +5.7pp).

The slowdown in inflation, as measured by the Consumer Price Index, continued in November but moderately so (+3.1% y/y, -0.1pp). Moreover, core inflation has slightly reaccelerated on a monthly basis (+0.3% m/m, +0.1pp, SA), stabilizing at +4.0% y/y. This development resulted from the momentum in non-housing core services (+4.8% y/y, +0.2pp). As for the labour market, it continues to show a certain resilience, with almost 200k jobs added to the non-farm payrolls, together with a slight increase in the participation rate (62.8%, +0.1pp) and a drop in the unemployment rate (3.7%, -0.2pp).

The last FOMC Meeting of 2023 has unanimously resulted in a target range that was held steady at 5.25% - 5.5%. The last Summary of Economic Projections expects the policy rate to decrease to 4.625% before the end of 2024 (versus 5.125% in previous projections), which corresponds to three 25bps cuts. Markets are forecasting the rate cuts to start as of the March 2024 FOMC Meeting and the Fed funds to get close to 4.0% by the end of 2024. This has contributed to a bond rally, leading the 10-Year Treasury yield to fall below 4.0% for the first time since July.

Anis Bensaidani *(article completed on 15/12/2023)*

United States: economic indicators monthly changes*

	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23
ISM Manufacturing	-0,3	-0,5	-0,5	-0,8	-0,6	-0,6	-0,8	-0,7	-0,5	-0,2	-0,7	-0,7
ISM Services	-0,2	1,2	1,2	0,3	0,5	0,1	0,9	0,6	1,1	0,9	0,4	0,6
ISM Services - Employment	-0,1	0,0	0,8	0,3	0,2	-0,2	0,6	0,1	0,9	0,7	0,0	0,1
ISM Manufaturing - Employment	0,1	0,1	-0,2	-0,5	0,0	0,2	-0,3	-1,0	-0,3	0,2	-0,6	-0,7
Consumer confidence (Univ. of Michigan)	-1,7	-1,3	-1,2	-1,5	-1,4	-1,8	-1,3	-0,8	-0,9	-1,1	-1,4	-1,5
Consumer confidence (Conf. Board)	0,7	0,5	0,4	0,5	0,5	0,4	0,7	0,8	0,6	0,5	0,3	0,4
Industrial production	0,0	0,2	0,0	-0,1	-0,1	-0,1	-0,2	-0,1	-0,2	-0,2	-0,4	-0,2
Building permits	0,3	0,1	0,4	0,3	0,3	0,4	0,3	0,3	0,5	0,4	0,4	
Retail Sales	0,2	0,5	0,1	-0,4	-0,4	-0,5	-0,3	-0,3	-0,1	-0,4	-0,1	
New Car registrations	0,0	0,4	0,1	0,6	0,7	1,1	1,0	1,5	0,6	0,8		
Nominal Real Personal Consumption	-0,2	0,1	0,1	-0,1	-0,1	-0,1	0,0	0,2	0,0	0,1	0,1	
Household purchasing power	-0,8	0,3	0,4	0,6	0,6	0,8	0,8	0,6	0,5	0,4	0,4	
PCE deflator	2,1	2,1	1,9	1,4	1,4	1,1	0,6	0,7	0,8	0,8	0,5	
Core PCE deflator	2,9	2,9	2,8	2,7	2,6	2,5	2,1	2,0	1,6	1,5	1,3	
CPI	2,1	2,0	1,8	1,3	1,2	0,8	0,3	0,4	0,6	0,6	0,3	0,3
Core CPI	3,1	2,9	2,8	2,8	2,7	2,5	2,1	2,0	1,7	1,5	1,4	1,3
Nonfarm Payrolls	0,8	0,9	0,7	0,6	0,6	0,6	0,5	0,5	0,4	0,4	0,3	0,3
Unemployment Rate	1,2	1,2	1,1	1,2	1,2	1,1	1,1	1,2	1,0	1,0	1,0	1,1

-3	-2	-1	0	1	2	3

* The Indicators are all transformed into "z-scores", i.e. deviations from the long-term average value (expressed in standard deviation), the average of which is zero (except for the PMI/ISM indices where the average is 50, the threshold between the expansion zone and the contraction zone of the activity). Positive (negative) values indicate the number of standard deviations above (below) the mean value.
Reading note: the red colour indicates dynamic activity, high inflation and low unemployment, the blue colour indicates slower activity, low inflation and high unemployment.

GDP growth

Actual				Carry-over	GDPNow	Forecast		Annual forecasts (y/y)			
Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2022	Q4 2023	Q4 2023	Q1 2024	2022 (observed)	2023	2024	2025
0,6	0,6	0,5	1,3	0,8	0,6	0,4	0,0	1,9	2,4	0,9	1,3

Source: Refinitiv, BNP Paribas

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UNITED KINGDOM

Growth relapses, the housing market stabilizes

With the more pronounced disinflation of consumer prices and wages, the Bank of England's decision to keep the bank rates unchanged at its meeting on 14 December was widely expected. Nevertheless, as in the euro area, the signal for a monetary pivot did not come. In fact, the three members of the MPC in favour of a rate hike in November maintained their position in December.

On a year-on-year basis, the consumer price index slowed from 4.6% in October to 3.9% in November. There are many drivers for this fall: more marked energy deflation (-1.2 percentage points to -16.9%) and stronger disinflation in both food products (-0.9 pp to 9.2%) and household equipments (-0.8 pp to 2.3%). Core inflation also fell (-0.6 points to 5.2%). In seasonally-adjusted terms, the monthly change in the core index has stalled in recent months, and even fell into negative territory for the first time since February 2021.

Economic activity remains very fragile and we do not expect an upturn before H2 2024, although this would be very moderate. According to preliminary figures from the ONS, real GDP contracted by 0.3% m/m in October, after stagnating in Q3. Despite the fact that aggregate real wages are now rising, household consumption of goods is lagging, and remains below its pre-pandemic level. Retail sales fell again in October (-0.3% m/m), reaching their lowest level since May 2020, in the middle of the lockdown period. Household confidence improved somewhat in December - the GfK consumer index climbed by 2 points (-22) - but the sub-index on intentions to purchase durable goods remains well below its long-term average.

The housing market is showing signs of stabilisation: the house price indices published by Nationwide and Halifax both rose in October and November. The RICS Survey for November showed clear improvements, particularly in the indices for sales and price expectations, which are at their highest since February 2022 and August 2022 respectively. However, downside risks remain significant in 2024. As the Bank of England pointed out in its latest Financial Stability Report, the effects of rising interest rates on household borrowing costs will continue to propagate over the coming year and until 2026 as interest rate adjustments are made. The average interest rate on variable-rate loans continued to rise very slightly in November, from 8.01% in October to 8.03%, according to the BBA.

According to our latest forecasts, economic activity is therefore expected to remain on a knife edge in 2024, and even stagnate. Differences in economic activity trajectory with respect to the euro area and the United States are therefore expected to widen next year.

Guillaume Derrien *(article completed on 20/12/2023)*

United Kingdom: economic indicators monthly changes*

	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23
PMI manufacturing	-1,0	-0,6	-0,1	-0,4	-0,5	-0,6	-0,7	-1,0	-1,5	-1,2	-1,1	-0,6
PMI manufacturing new export orders	-1,5	-1,3	-0,2	-0,3	-0,4	-0,6	-1,4	-1,9	-2,4	-1,1	-1,4	-0,7
PMI manufacturing employment	-0,9	-0,7	-0,2	-0,7	-0,1	-0,2	-0,6	-0,8	-0,7	-0,9	-0,8	-0,6
PMI services	0,0	-0,2	0,7	0,6	1,1	1,0	0,7	0,3	-0,1	-0,1	-0,1	0,2
Business climate manufacturing (volume of Total Order Book)	-0,4	-0,3	-0,5	-0,5	-0,4	-0,2	0,1	-0,2	-0,4	-0,8	-1,3	
Consumer confidence	-2,4	-1,8	-1,7	-1,2	-0,9	-0,7	-1,2	-0,8	-0,5	-1,2	-0,7	
Industrial production	-0,8	-0,6	-0,5	-0,4	-0,1	-0,3	0,5	0,4	0,4	0,4	0,0	
Retail sales	-2,0	-1,6	-1,3	-1,4	-1,2	-0,9	-0,8	-1,1	-0,6	-0,6	-0,9	
Exports	0,8	0,7	0,6	0,4	0,0	-0,2	0,0	-0,8	-1,2	-1,4	-0,3	
CPI	4,1	3,7	3,8	3,5	2,8	2,7	2,4	1,8	1,8	1,7	0,8	
Unemployment Rate	1,3	1,2	1,1	1,2	1,1	0,9	0,9	0,9				

-3	-2	-1	0	1	2	3	

* The Indicators are all transformed into "z-scores", i.e. deviations from the long-term average value (expressed in standard deviation), the average of which is zero (except for the PMI/ISM indices where the average is 50, the threshold between the expansion zone and the contraction zone of the activity). Positive (negative) values indicate the number of standard deviations above (below) the mean value.

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GDP growth

Actual				Carry-over	Forecast		Annual forecasts (y/y)			
Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2022	Q4 2023	Q1 2024	2022 (observed)	2023	2024	2025
0,1	0,3	0,2	-0,0	0,1	0,0	-0,1	4,4	0,5	0,0	1,1

Source: Refinitiv, BNP Paribas

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JAPAN

A difficult Q3, but a more positive outlook

The revision of Japanese growth figures was unfavourable, resulting in a greater decline in GDP in Q3 than initially estimated (-0.7% q/q versus -0.5% q/q). The downward adjustment is largely due to greater destocking: the negative contribution was increased from -0.3 percentage points (pp) to -0.5 pp. Other significant revisions came from residential investment (from -0.1% q/q to -0.5% q/q), private consumption (0.0% q/q to -0.2% q/q) and public investment (-0.5% q/q to -0.8% q/q). Low household consumption can be explained by the contraction of real wages for the 19th consecutive month in year-on-year terms (-2.3% y/y in October). Overall, private demand reduced quarterly growth by 0.6 pp in Q3.

However, despite major recruitment difficulties, the outlook for companies remains positive. A rebound in activity is expected from Q4 onwards (we forecast growth of +0.4% q/q). The Tankan business condition index rose by 3 points in Q4 to +13, a level last seen in 2018. This result is better than expected: last quarter's forecasts had predicted a two-point drop to 8. Another positive development is that sales and profit forecasts for the 2023 financial year (April 2023-March 2024) have been significantly increased. The picture is particularly positive for companies in the non-manufacturing sector, with a business condition index of 18, a figure not seen since 1991, while the manufacturing sector is showing a more mixed picture with an index of 5, but with a stronger increase (+5 points compared to Q3). This difference in momentum between the two sectors is also visible in the December PMI surveys: the manufacturing index fell by 0.6 points to 47.7, while the services index rose by 1.2 points to 52.0. The composite index gained 0.8 points to 50.4.

Leading inflation indicators are falling as the year comes to a close. Consumer price inflation in the Tokyo region slowed from 3.2% y/y in October to 2.6% in November, because of stronger disinflation on food products (from 8.7% y/y in October to 6.9% in November). The annual variation in producer prices fell to 0.3% y/y in November compared to 1% in October. These figures suggest a drop in the national measurement of inflation (3.3% y/y in October).

In our view, the statements made by the members of the Bank of Japan open up the possibility that monetary policy will begin to be normalised at the meeting on 22 and 23 January 2024, which could put an end to the negative interest rate policy. However, the uncertain global economic environment and the still sluggish wage growth in Japan could force the BoJ to be more patient.

Guillaume Derrien (with the help of Nassim Khelifi, an intern), *article completed on 19/12/2023*

Japan: economic indicators monthly changes*

	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23
PMI: Manufacturing	-0,3	-0,3	-0,6	-0,2	-0,1	0,1	0,0	-0,1	-0,1	-0,4	-0,3	-0,4
PMI: Services	0,2	0,5	0,8	1,0	1,1	1,2	0,8	0,8	0,9	0,8	0,3	0,2
PMI Manufacturing New export orders	-0,7	-0,6	-1,3	-0,7	-0,5	-0,6	-0,9	-0,5	-0,3	-0,4	-0,6	-0,6
PMI Manufacturing -Employment	0,3	0,3	0,3	0,2	0,5	0,1	0,4	0,4	0,0	0,1	-0,3	-0,1
Consumer confidence	-1,7	-1,6	-1,6	-1,1	-0,9	-0,7	-0,7	-0,5	-0,7	-0,9	-0,8	-0,7
Industrial production	-0,1	-0,4	-0,2	-0,1	0,0	0,3	0,0	-0,3	-0,5	-0,4	-0,1	
Private machinery order excluding volatile orders	0,2	1,1	0,6	0,2	0,8	0,0	0,3	0,2	0,1	0,2	0,3	
Retail sales	1,0	1,4	2,2	2,0	1,4	1,6	1,6	2,0	2,0	1,7	1,0	
Exports	0,4	-0,1	0,0	-0,1	-0,2	-0,5	-0,3	-0,3	-0,5	-0,1	-0,2	
CPI	3,2	3,4	2,5	2,4	2,6	2,3	2,3	2,3	2,2	2,0	2,2	
Core CPI	3,1	3,2	3,3	3,5	3,8	3,7	3,7	3,6	3,5	3,4	3,1	
Unemployment rate	1,3	1,4	1,2	1,0	1,2	1,2	1,3	1,1	1,1	1,2	1,3	
Employment	-0,2	0,4	-0,2	-0,1	-0,2	-0,1	0,1	-0,1	0,0	0,0	-0,1	
Wage	1,6	1,0	0,9	0,7	0,9	1,6	1,4	1,3	1,2	0,9	1,3	

Scale: -3 | -2 | -1 | 0 | 1 | 2 | 3

* The Indicators are all transformed into "z-scores", i.e. deviations from the long-term average value (expressed in standard deviation), the average of which is zero (except for the PMI/ISM indices where the average is 50, the threshold between the expansion zone and the contraction zone of the activity). Positive (negative) values indicate the number of standard deviations above (below) the mean value.
Reading note: the red colour indicates dynamic activity, high inflation and low unemployment, the blue colour indicates slower activity, low inflation and high unemployment.

GDP growth

Actual				Carry-over	Forecast		Annual forecasts (y/y)			
Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2022	Q4 2023	Q1 2024	2022 (observed)	2023	2024	2025
0,3	1,2	0,9	-0,7	0,4	0,4	0,2	0,9	2,1	0,8	0,9

Source: Refinitiv, BNP Paribas

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