

# ECOPULSE

February 2024

MONTHLY PULSE OF OECD COUNTRIES' ECONOMIC INDICATORS



**BNP PARIBAS**

The bank for a changing world

The economic situation in January and February highlights the uncertainties surrounding 2024 with, on the positive side, improvements in the business climate in several countries and resilient labour markets (Europe) or labour markets remaining dynamic (US). Combined with a disinflation trajectory not yet spreading to all sectors (services in particular), all these factors are tending to defer expectations of rate cuts.

In Europe, the scenario of an economic growth rebound, supported by the expected support for household consumption from disinflation, does not yet appear to be fully reflected in the data. While February PMIs suggest an improvement from a supply-side perspective, a shift in demand remains more uncertain. In fact, consumer confidence has recently fallen again in several countries (Germany, France and the United Kingdom), and remains significantly below its historical average, even though disinflation keeps going. However, in terms of core inflation, although goods continue to benefit from the spread of the drop in producer prices, inflation in services has stabilised over the past three months (with the impact of 2023 cost increases on 2024 prices adjustment, particularly in transport or insurance). In fact, the scenario of a reduction in ECB key rates in April – our scenario – is shrouded in increasing uncertainty.

In the US, the economy remains dynamic, as does the labour market (job creation remained strong in January). Core inflation is clearly still too high (3.9% y/y in January) to allow monetary easing by the Federal Reserve in the near future (we expect the first rate cut in June).

Conversely, we have been seeing expectations of a tightening of monetary policy in Japan in recent months (in line with our scenario). However, this forecast is undermined by the latest economic figures: the country went into recession in H2 2023, and inflation (including core inflation) has dropped in recent months.

**EUROZONE: HANGING BY A THREAD**

**GERMANY: STATUS QUO**

**FRANCE: EVER-RELUCTANT CONSUMERS**

**ITALY: WAGE GROWTH TAKES OFF**

**SPAIN: A (SLIGHT) IMPROVEMENT IN THE MANUFACTURING SECTOR**

**UNITED STATES: JOB CREATIONS ARE LOOKING ROSY**

**UNITED KINGDOM: STILL FACING A DIFFICULT SITUATION**

**JAPAN: ENTERING RECESSION**



## Hanging by a thread

With zero growth in the last quarter of 2023, the Eurozone has narrowly escaped recession, but economic activity is still hanging by a thread. Over 2023 as a whole, the increase in real GDP just reached 0.5%, and the carry-over effect for 2024 is null, as a result of a second half that was even weaker than the first one. Nevertheless, our Nowcast currently indicates growth of 0.3% q/q in Q1 2024, which is higher than our December forecast.

Inflation fell again in January, from 2.9% to 2.8% y/y. Disparities between Member States are narrowing, with no country now reporting a rate of above 5%. The year-on-year increase in negotiated wages in the Eurozone in Q4 2023 slightly slowed (from 4.7% in Q3 to 4.5%), dispelling fears of rising inflationary pressures. Against this backdrop, we are not altering our forecast of an initial key rate cut by the ECB in April. Nevertheless, the flash estimate for Eurozone inflation in February, published on 1 March, surprisingly rose to 2.6%, which could mean that a little more consideration is given to postponing this first policy rate cut.

The composite PMI has been rising, albeit modestly, since October, although it remained in contraction territory in February, at 48.9. After a strong recovery, consumer confidence has plateaued in the last few months, with the rise in the indicator related to the financial situation being offset by the deterioration in the economic situation index. Consumer outlook on labour market developments improved slightly in February and remains rather positive. The labour market has been very resilient thus far, with the unemployment rate remaining at an all-time low in December, at 6.5%.

The European Commission survey for February reveals some areas of concern, including a further deterioration in employment prospects in the manufacturing and construction sectors. The construction sector is suffering twofold as a result of the downturn in residential and commercial activity caused by, in particular, rising interest rates. In addition, the Eurozone construction PMI is corroborating the data from the European Commission indices, falling 2.3 points to 41.3 in January. If we exclude the pandemic period, this is the lowest level seen since the end of the 2011-2013 crisis in the Eurozone.

Despite the significant downside risks, 2024 should see a gradual recovery in the Eurozone, buoyed by falling inflation and interest rates. However, as is often the case, the picture will be contrasted across member states.

Guillaume Derrien (article completed on 1 March 2024)

### Eurozone: economic indicators monthly changes\*

	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24
Economic Sentiment Indicator (ESI)	0.0	-0.1	-0.1	-0.3	-0.4	-0.5	-0.6	-0.6	-0.6	-0.5	-0.3	-0.3
ESI - Manufacturing	0.4	0.3	0.0	-0.2	-0.4	-0.6	-0.7	-0.6	-0.6	-0.6	-0.6	-0.6
ESI - Services	0.3	0.2	0.3	0.1	0.0	0.0	-0.1	-0.1	0.0	0.0	0.2	0.3
ESI - Retail sales	0.7	0.5	0.6	0.1	0.0	0.2	0.1	0.0	-0.2	-0.2	0.0	0.0
ESI - Construction	1.0	1.0	0.9	0.9	0.7	0.6	0.5	0.4	0.5	0.5	0.6	0.5
Consumer confidence	-1.2	-1.2	-1.0	-0.9	-0.7	-0.5	-0.7	-1.0	-1.0	-0.8	-0.5	-0.7
PMI Manufacturing	-0.3	-0.5	-0.8	-1.0	-1.3	-1.4	-1.2	-1.3	-1.3	-1.1	-1.1	-0.6
PMI Services	0.5	1.0	1.2	1.0	0.4	0.2	-0.4	-0.3	-0.4	-0.3	-0.2	-0.3
PMI Manufacturing New Export Orders	-1.1	-0.7	-0.8	-1.3	-1.4	-1.7	-1.5	-1.5	-1.5	-1.2	-1.2	-0.8
PMI Manufacturing New Orders	-0.5	-0.6	-0.8	-1.1	-1.4	-1.6	-1.6	-1.6	-1.6	-1.2	-1.1	-0.8
PMI Composite - Employment	0.6	0.9	1.3	1.1	0.9	0.4	0.1	0.2	0.0	-0.1	-0.1	0.0
Industrial Production	0.3	-0.4	0.0	-0.5	-0.2	-0.4	-0.9	-1.0	-1.1	-1.0	0.3	0.3
Retail Sales	-1.0	-1.1	-0.9	-0.9	-0.4	-0.4	-0.7	-1.0	-0.4	-0.4	-0.4	-0.4
New Car registrations	0.5	1.3	0.8	0.9	0.8	0.7	1.0	0.4	0.6	0.2	-0.2	0.5
HICP	3.4	2.5	2.5	2.0	1.7	1.6	1.6	1.1	0.4	0.1	0.4	0.3
Core HICP	5.0	4.8	4.5	4.1	4.1	3.9	3.6	2.8	2.5	1.9	1.7	1.6
Unemployment Rate	1.7	1.8	1.8	1.7	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.7

\* 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)				
Q1 2023	Q2 2023	Q4 2023	Q1 2024	Q1 2024	Q2 2024	Q3 2024	2023 (observed)	2024	2025		
0.1	0.1	-0.1	0.0	0.0	0.3	0.1	0.3	0.4	0.5	0.7	1.6

See the [Nowcast methodology](#). Contact: [Tarik Rharrab](#)  
Source: Refinitiv, BNP Paribas



## Status quo

Business climate and consumer confidence indices remained stable at a low level in February, highlighting Germany's limited economic impulse in Q1. According to our forecasts, GDP growth should be zero, after a contraction of 0.3% q/q in Q4: growth without momentum (for the time being) but also without a carryover effect (-0.2% after Q4 2023).

The ifo Business Climate Index, which was almost stable in February at 85.5, shows no sign of recovery, with relative stability of the "current situation" and "expectations" components. This is in line with demand, which remains low, both in terms of new orders in industry (5% lower on average over the last six months than a year ago) and in terms of consumer confidence (-29 in March according to the GfK index, compared to a historical average of 6).

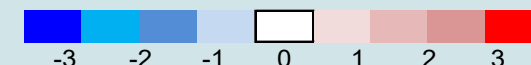
The loss of momentum in new vehicle registrations, which are experiencing a sharp slowdown (2.3% y/y over the last six months compared to +16% six months earlier), is an aggravating factor, at least partly attributable to the end of fiscal support for electric vehicles. Against this backdrop, the fall in inflation did not generate any improvement in consumer confidence: this latter was even lower in February-March than in the previous nine months, even though inflation (harmonised index) fell to 2.7% y/y in February 2024 (it was still 6.4% y/y last August). While this disinflation is mainly due to the fall in energy prices, core inflation also fell between August 2023 (6.3% y/y) and January 2024 (3.4%), even though it has stabilised over the past three months. At the same time, producer prices are falling (-8.6% y/y in December 2023), supporting corporate margins (40.7% of GVA on average over the first three quarters of 2023).

While the German economy created 207,000 jobs in 2023 despite negative economic growth (-0.2%), it seems that the momentum of the labour market has eventually slowed too: the ifo Employment Barometer has fallen over the past months, standing at 95 in February, three points below its historical average. At the same time, while inflation in recent months has continued to weigh on consumer confidence, households are not feeling either any increase in purchasing power, even though wages rose by 3.9% y/y in Q4 2023.

Stéphane Colliac (article completed on 29 February 2024)

## Germany: economic indicators monthly changes\*

	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24
IFO Business Climate Manufacturing	-0.6	-0.2	-0.2	-0.6	-1.1	-1.4	-1.6	-1.6	-1.5	-1.4	-1.6	-1.5
IFO Business Climate Services	-1.4	-0.7	-0.9	-0.9	-1.2	-1.4	-1.8	-1.8	-1.5	-1.6	-1.5	-1.8
IFO Business Climate Trade	-0.6	-0.6	-0.7	-1.2	-1.3	-1.5	-1.6	-1.6	-1.7	-1.4	-1.7	-1.8
IFO Business Climate Construction	1.3	0.2	0.2	0.6	1.5	0.5	0.6	0.9	0.4	0.3	0.9	
GfK Consumer Confidence	-3.9	-3.5	-3.2	-2.8	-2.7	-2.7	-2.6	-2.6	-2.7	-2.8	-2.7	-2.5
Industrial Production	0.0	0.3	0.1	0.0	-0.2	-0.3	-0.2	-0.6	-0.6	-0.8	-0.7	
Industrial Orders foreign	-0.7	-1.0	-0.9	-0.6	0.3	-1.0	-0.7	-0.1	-0.7	-0.4	0.1	
New Orders Construction	-1.8	-2.3	-1.1	-0.6	-0.3	0.2	2.0	1.4	0.1	-0.4	0.4	
Retail sales	-2.7	-2.9	-1.7	-1.0	-0.5	-0.9	-1.1	-1.6	-0.3	-0.8	-0.5	-0.8
Core HICP	4.5	4.7	4.2	3.6	4.4	4.4	4.1	2.8	2.3	1.7	1.6	1.6
Unemployment Rate	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.0	1.0	1.0	1.0	



\* 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)		
Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	2023 (observed)	2024	2025
0.1	0.0	-0.0	-0.3	-0.2	0.0	0.2	0.3	-0.1	0.2	1.3

Source: Refinitiv, BNP Paribas



## Ever-reluctant consumers

After zero growth in three out of the last five quarters (between Q4 2022 and Q4 2023), we are expecting moderate growth in Q1, at 0.1% q/q (although our nowcast and the INSEE forecast suggest a slightly higher figure of +0.2%).

The last time growth was significant (in Q2 2023, with +0.6% q/q), this was explained by significant restocking (contribution of 0.5 points, after a contribution of -0.4 points in the previous quarter). A similar restocking trend could occur in Q1 2024, following a negative contribution of inventories in Q4 2023 (-0.7 points). However, this very negative figure suggests that demand in Q1 is particularly subdued, and is not expected to contribute to growth (if growth were to prove positive).

Several indicators suggest that any recovery in growth should remain moderate and gradual. Corporate investment is expected to continue its decline first seen in Q4 2023 (-0.9% q/q and stable y/y for the first time since the end of 2020). Order books in the B-to-B sectors suggest a continuation of this deterioration (balance of opinion of -18 on average over the last six months versus -8 over the previous six months, according to the INSEE Manufacturing Survey, calculated, as an average, on machinery and equipment, electrical equipment and electronics). In the automotive sector, the balance of opinion on order books fell sharply to -30 in February compared to -7 on average over the previous six months.

Households saw an increase in their purchasing power in Q4 (+0.6% q/q, per unit of consumption), but their consumption stagnated. It seems they have barely perceived the recent disinflation. The household survey confidence index stood at 89 in February compared to 88 in November, and the balance of opinion on past prices was 54 in February 2024 compared to 56 in November 2023, even though inflation (harmonised index) fell to 3.1% y/y in February (compared to 3.4% in January and 4.6% in October, last figures known before the November and February surveys).

At the same time, the situation on the labour market has not deteriorated significantly. The Employment Barometer has fallen (it was still at 105 in September 2023) but it remained close to its historical average at 101 in February 2024, while the unemployment rate only recorded a slight upturn (at 7.5% in Q4) compared to its low of 7.1% in Q1 2023.

Stéphane Colliac (article completed on 29 February 2024)

## France: economic indicators monthly changes\*

	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24
Business climate Manufacturing	0.3	0.4	0.1	-0.1	0.0	0.1	-0.4	-0.1	-0.1	-0.2	-0.1	-0.2
Business climate Services	0.5	0.5	0.3	0.1	0.2	0.2	0.2	0.2	0.0	0.0	0.0	0.1
Business climate Construction	0.7	0.6	0.6	0.4	0.4	0.3	0.3	0.3	0.1	0.0	-0.2	0.0
Business climate Retail sales	0.0	-0.3	0.0	-0.3	0.2	0.6	0.5	0.3	-0.2	-0.4	-0.1	0.4
Employment climate	1.0	1.0	1.0	0.6	0.6	0.5	0.1	0.5	0.2	-0.1	0.0	-0.2
Consumer confidence	-1.7	-1.7	-1.6	-1.5	-1.2	-1.0	-1.2	-1.3	-1.2	-0.8	-0.7	-0.4
HICP	3.8	3.3	3.4	2.7	2.3	2.1	2.5	2.4	1.7	1.2	1.4	0.9
Core HICP	4.3	4.1	4.2	3.6	3.6	3.3	3.0	2.5	2.4	1.7	1.7	1.4
Unemployment Rate	1.9	1.9	1.8	1.7	1.7	1.6	1.5	1.6	1.6	1.6	1.6	
Consumer spending	-0.7	-0.6	-0.9	-0.7	-0.5	-0.2	-0.5	-0.9	-0.5	-0.4	0.1	-0.3
Industrial production	0.2	0.1	0.3	0.4	0.1	0.5	0.0	0.0	0.4	0.1	0.2	
Exports of goods	0.7	0.5	0.1	0.6	0.0	0.2	-0.8	-1.0	-0.8	-0.6	-0.5	

\* 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)			
	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q1 2024	Q2 2024	Q3 2024	2023 (observed)	2024	2025	
	0.1	0.6	-0.0	0.1	0.2	0.2	0.1	0.2	0.3	0.9	0.6	1.4

See the [Nowcast methodology](#). Contact: [Tarik Rharrab](#)  
Source: Refinitiv, BNP Paribas



## Wage growth takes off

January's business confidence surveys recovered in Italy: the composite PMI index rose 2.1 points and now stands at 50.7. This improvement was driven by services, for which the PMI returned to the expansion zone after six months in contraction territory (+1.4 points, at 51.2). The companies surveyed are now reporting an increase in upcoming new business (52.5; +4.4 points), bringing employment with it (51.2). Meanwhile, the deterioration in the manufacturing sector, observed since April 2023, is continuing to slow, with the associated PMI index gaining 3.2 points in January, standing at 48.5.

Despite a slight increase in the Harmonised Index of Consumer Prices (HICP) in January (+0.9% y/y; +0.4 percentage points over a month), Italy remains the country with the lowest inflation rate in the Eurozone. This has contributed to renewed consumer confidence in Q4 2023 (improvement in the balance of opinion shifting from -19.5 in October to -16 in January), with expectations for the economic situation over the coming year no longer falling (+6.4 points in three months, to -11.4 in January). Furthermore, based on recent trends in the producer price index, which recorded its ninth consecutive month of deflation (-16% y/y in December), Italian inflation should remain low over the coming months.

The labour market continued to hold up well, posting a further fall in the unemployment rate in December and is at its lowest level for fifteen years (7.2%), an increase in the total volume of jobs (+13,727 over a month, 23.7 million), and a rise in the employment rate (61.9%). Combined with the very strong wage growth recorded in December (+7.9% y/y), this labour market robustness should continue to buoy household purchasing power and private consumption during the current quarter.

After a quasi-stagnation of economic activity recorded in Q3 2023 (0.1% q/q), Italian real GDP grew by 0.2% q/q in Q4, according to the preliminary estimate published by Istat. This weak growth can be explained by the downturn in industrial production (down 0.5% over three months) and retail sales (-0.1% m/m in December). We expect Italian GDP growth to remain moderate in Q1 2024 (0.2% q/q), before regaining more significant momentum over the rest of the year (0.4% q/q for the last three quarters).

Lucie Barette (article completed on 26 February 2024)

### Italy: economic indicators monthly changes\*

	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24
Business climate - Manufacturing	0.1	0.5	0.6	0.2	-0.1	-0.2	0.1	-0.1	-0.1	-0.2	0.1	0.2
Business climate - Construction	1.8	1.8	2.0	1.9	1.9	2.2	1.8	1.8	2.0	2.0	2.0	1.8
Business climate - Services	0.4	0.4	0.5	0.6	0.7	0.8	0.7	0.6	0.7	0.6	0.6	0.8
PMI manufacturing new export orders	-0.2	0.1	-0.5	-0.4	-1.2	-1.0	-1.7	-1.4	-1.4	-1.3	-1.2	-0.6
PMI Composite - Employment	0.5	1.0	1.3	1.2	0.6	0.0	-0.7	0.4	-0.1	-0.1	0.3	0.2
Consumer confidence	-0.1	0.2	0.1	-0.1	0.1	-0.1	0.0	-0.2	-0.6	-0.4	0.0	0.0
Industrial production	-0.2	-0.3	-0.7	-0.3	0.0	-0.2	-0.4	-0.2	-0.1	0.2	-0.2	-0.2
Retail sales	1.1	1.1	0.6	0.5	0.7	0.5	0.4	0.1	0.0	0.2	-0.1	-0.1
Exports	0.2	-0.2	-0.9	-0.3	-0.3	-0.9	-0.2	-0.8	-0.2	-0.8	-1.0	-1.0
HICP	3.6	2.7	2.9	2.6	2.0	1.8	1.5	1.5	-0.1	-0.7	-0.7	-0.5
Core HICP	4.4	4.0	3.9	3.5	3.2	3.0	2.3	2.4	2.1	1.6	1.3	1.1
Employment	1.0	0.9	1.0	0.9	0.9	0.8	1.2	1.3	1.1	1.2	1.0	1.0
Unemployment Rate	0.8	0.8	0.8	0.8	0.9	0.8	1.0	0.9	0.9	1.0	1.0	1.1
Wage	0.5	0.5	0.7	0.6	1.4	1.3	1.2	1.2	1.1	0.9	5.6	5.6

\* 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)		
Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	2023 (observed)	2024	2025
0.6	-0.4	0.1	0.2	0.1	0.2	0.4	0.4	0.7	0.9	1.5

Source: Refinitiv, BNP Paribas





## A (slight) improvement in the manufacturing sector

January's business confidence surveys showed signs of improvement. The composite PMI index points to an expansion in activity (51.5), driven by the ongoing solid performance of the services sector (52.1). The manufacturing sector is also seemingly enjoying a bit more tailwind at the start of this year. After ten months of contraction, the associated PMI is showing signs of recovery (49.2; +3.1 points), with Spanish companies reporting a lesser deterioration of all sub-indices, with the exception of the sub-index relating to suppliers' delivery times (44.5; -3.5 points). Although still depressed, the consumer confidence index also recovered slightly in Q4 2023 (18.5 points, compared to -20.4 points in September), which has had a positive impact on demand. In addition, the retail trade index is indicating strong sales growth over the past three months (+5.3; +9.5 points over one month). Expectations for the coming months are also still very positive, despite a bit less so compared to December (-3.3 points).

Job growth is continuing (+2.6% y/y in January, bringing the number of people working to 20.6 million, the highest level recorded in the historical series) and in December, the unemployment rate hit its lowest level in 15 years, standing at 11.7%. Combined with continued strong wage growth, this should have a positive impact on domestic demand, which will remain one of the primary drivers of Spanish growth.

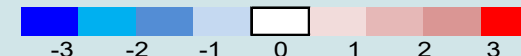
After higher prices were recorded once again in January due to the partial withdrawal of measures aimed at reducing energy taxes at the start of the year, inflation slowed sharply in February, according to the preliminary estimate from the Spanish National Statistics Institute (INE) (2.8% y/y; -0.6 percentage points over a month). However, this fall in inflation is not expected to continue in March, as the government has confirmed that, as the price of a megawatt-hour on the wholesale market was below EUR 45 in February, the VAT rate on electricity will shift back from 10% to 21% next month.

After growing by 0.6% q/q in Q4 2023, Spanish real GDP is expected to slow in Q1 2024 (0.2% q/q), before returning to clearly more positive rates of growth from Q2 onwards. Over 2024 as a whole, we are expecting Spanish growth (1.8%) to once again exceed that of the Eurozone (+0.7%).

Lucie Barette (article completed on 29 February 2024)

### Spain: economic indicators monthly changes\*

	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24
Business climate - manufacturing	0.1	0.5	0.6	0.2	-0.1	-0.2	0.1	-0.1	-0.1	-0.2	0.1	0.2
Business climate - construction	1.2	0.9	1.2	1.2	1.2	1.2	0.7	0.8	1.0	1.3	1.2	0.7
Business climate - services	0.4	0.4	0.5	0.6	0.7	0.8	0.7	0.6	0.7	0.6	0.6	0.8
PMI manufacturing	-0.1	-0.2	-0.5	-0.8	-0.8	-1.3	-1.3	-0.4	-1.0	-1.0	-0.6	-0.5
new export orders	0.4	0.7	1.1	0.9	0.6	0.5	0.4	0.3	0.3	0.3	0.5	0.6
PMI Composite - e	-0.5	-0.7	-0.4	-0.4	0.0	0.4	0.1	-0.4	-0.3	-0.3	-0.2	-0.2
Consumer confidence	0.1	0.6	-0.1	0.0	-0.4	-0.2	-0.4	0.0	-0.1	0.2	0.0	
Industrial production	1.7	2.1	1.8	1.7	1.5	1.5	1.3	1.5	1.3	1.4	0.9	
Retail sales	0.3	0.9	-1.0	-0.8	-0.7	-0.9	-1.3	-1.4	-0.7	-1.0	-1.3	
Exports	1.7	0.4	0.7	0.3	-0.2	0.0	0.1	0.5	0.6	0.5	0.5	0.6
HICP	3.2	2.7	2.2	2.0	1.9	2.4	2.3	1.9	1.8	1.5	1.6	1.3
Core HICP	0.5	0.5	0.6	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Employment	0.5	0.6	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.5	0.4	-0.2
Wage	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	
Unemployment Rate												



\* 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)		
Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	2023 (observed)	2024	2025
0.5	0.5	0.4	0.6	0.8	0.2	0.5	0.6	2.5	1.8	2.1

Source: Refinitiv, BNP Paribas



## Job creations are looking rosy

The start of 2024 has seen an unexpectedly strong non-farm payrolls gain, hitting 353,000 in January (+30,000 m/m) – the highest figure seen for more than a year. In addition, this figure was coupled with a significant upward revision to the December data (330,000 jobs created, compared to the initial figure of 216,000). At the same time, the unemployment (+3.7%) and participation (+62.5%) rates remained stable.

The business confidence surveys for January echoed the strength of the labour market. The rise in the “New Orders” component (52.5, +5.5 pp) helped to push the ISM Manufacturing to its highest level since September 2022 (49.1, +2.0). However, despite this rise, the index did still remain in contraction territory. The ISM Non-Manufacturing index also posted a significant increase (53.4, +2.9 pp), which was mainly driven by the employment sub-component returning to positive territory (50.5, +6.7 pp). The results are in line with continued US growth in Q1 2024, which we expect to stand at +0.6% q/q (-0.8 pp compared to the growth rate in Q4 2023), when the Atlanta Fed's GDPNow estimate is +0.7-0.8% q/q.

US consumer sentiment has improved significantly recently and is therefore more in line with macroeconomic data. The University of Michigan Consumer Sentiment Index stood at 79.6 in February (+0.6 pt m/m), the highest level seen since July 2021. However, consumer confidence measured by the Conference Board fell that same month, bringing the curtain down on four months of consecutive improvement. The index stood at 106.7 (-4.2 pts), while continuing to reflect a clear divergence between the “assessment of the current situation” (147.2) and “expectations” (79.5) components.

The Federal Reserve decided to keep the interest rate target at 5.25-5.50% at the end of its first meeting in 2024. Its Chair, Jerome Powell, acknowledged the progress made in fighting inflation, but stressed that it was not yet time for a pivot. In any event, the latest published data, whether they relate to the labour market or inflation, are not likely to expedite the timelines for rates cuts. CPI inflation fell to +3.1% y/y in January (-0.3 pp), with core inflation stable at +3.9%, which was above expectations. We estimate that the first rate cut will occur in Q2 (in June), with the Fed Funds target standing at +4.25-4.5% at the end of 2024.

Anis Bensaidani (article completed on 27 February 2024)

### United States: economic indicators monthly changes\*

	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24
ISM Manufacturing	-0.5	-0.7	-0.6	-0.7	-0.7	-0.7	-0.5	-0.3	-0.6	-0.7	-0.6	-0.2
ISM Services	1.2	0.3	0.5	0.2	0.9	0.7	1.0	0.8	0.5	0.6	0.1	0.8
ISM Services - Employment	0.8	0.3	0.2	-0.2	0.6	0.1	0.9	0.7	0.1	0.1	-1.2	0.1
ISM Manufacturing - Employment	-0.2	-0.5	0.0	0.2	-0.3	-1.0	-0.3	0.2	-0.5	-0.7	-0.4	-0.5
Consumer confidence (Univ. of Michigan)	-1.2	-1.5	-1.4	-1.7	-1.3	-0.8	-0.9	-1.0	-1.3	-1.5	-0.9	-0.2
Consumer confidence (Conf. Board)	0.4	0.5	0.5	0.4	0.7	0.8	0.6	0.5	0.3	0.3	0.6	0.7
Industrial production	0.0	-0.1	-0.1	-0.1	-0.2	-0.1	-0.2	-0.2	-0.4	-0.2	0.1	-0.1
Building permits	0.4	0.3	0.3	0.5	0.3	0.3	0.6	0.4	0.5	0.4	0.4	0.4
Retail Sales	0.1	-0.4	-0.5	-0.4	-0.5	-0.3	-0.3	-0.1	-0.4	-0.1	0.1	-0.6
New Car registrations	0.1	0.6	0.6	1.1	0.9	1.5	0.6	0.8	0.5	0.3	0.4	0.0
Nominal Real Personal Consumption	0.1	-0.1	-0.1	-0.1	0.0	0.2	0.0	0.0	0.0	0.2	0.4	0.0
Household purchasing power	0.4	0.6	0.6	0.8	0.8	0.6	0.5	0.5	0.5	0.6	0.5	0.0
PCE deflator	1.9	1.4	1.4	1.1	0.6	0.7	0.7	0.7	0.5	0.3	0.3	0.1
Core PCE deflator	2.8	2.6	2.6	2.5	2.1	2.0	1.5	1.4	1.2	1.0	0.8	0.7
CPI	1.8	1.2	1.2	0.8	0.3	0.4	0.6	0.6	0.3	0.3	0.4	0.3
Core CPI	2.8	2.8	2.7	2.5	2.1	2.0	1.7	1.5	1.4	1.3	1.3	1.2
Nonfarm Payrolls	0.7	0.6	0.6	0.6	0.5	0.4	0.4	0.4	0.3	0.3	0.4	0.3
Unemployment Rate	1.1	1.2	1.2	1.1	1.1	1.2	1.0	1.0	1.0	1.0	1.0	1.0

\* 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)				
Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q4 2023	Q1 2024	Q1 2024	Q2 2024	Q3 2024	2023 (observed)	2024	2025
0.6	0.5	1.2	0.8	1.3	0.7	0.4	0.2	0.1	2.5	2.0	1.4

Source: Refinitiv, BNP Paribas





## Still facing a difficult situation

The economic situation in the UK continued to deteriorate in Q4 2023. Real GDP contracted 0.3% q/q, after falling 0.1% q/q in Q3. Although economic activity remained marginally in positive territory for 2023 as a whole (with 0.1% growth), it deteriorated throughout the year, resulting in a negative carry-over effect for 2024. The growth outlook for 2024 is even more unfavourable, as economic activity is expected to stagnate in H1 before a sluggish recovery from summer onwards.

Headline and core inflation remained stable and high in January, at 4.0% y/y and 5.0% y/y, respectively. This should only be temporary as, according to our forecasts, inflation should decelerate again in February and headline inflation should fall back below the 2% threshold in Q2. Core inflation should remain above this level in 2024. In addition, changes in producer prices are quite clearly pointing to the pursuit of the consumer price disinflation cycle: the production price index fell 3.3% y/y in January, a decline largely caused by lower energy costs (oil and gas).

The slowdown in inflation and the resulting improvement in household purchasing power, also fuelled by strong wage growth, have led to an uptick in household confidence for several months now. However, sentiment deteriorated slightly in February, according to the GfK Consumer Confidence Index. At the same time, the recent recovery has not led to any improvements in terms of consumption, which fell again in the last quarter of 2023, by 0.1% q/q. Retail sales had fallen sharply in December (-3.3% m/m), and the rebound seen in January (+3.4% m/m) simply offset this drop.

The industrial sector is facing major difficulties, both at the cyclical and structural levels, and signs of a recovery remain thin. Although the manufacturing surveys (CBI and PMI surveys) have improved somewhat recently, their level remain depressed. The manufacturing PMI stood at 47.1 in February, contracting for the tenth consecutive month, while the CBI survey showed an order volume index below its long-term average (with the index standing at -20, compared to an average of -13). It is also worth noting the sharp drop in the employment PMI index (-5.2 points, to 42.4), which fell to levels comparable to the ones observed during the pandemic.

Guillaume Derrien (completed on 29 February 2024)

### United Kingdom: economic indicators monthly changes\*

	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24
PMI manufacturing	-0.1	-0.4	-0.5	-0.6	-0.7	-1.0	-1.5	-1.2	-1.1	-0.6	-0.8	-0.6
PMI manufacturing new export orders	-0.2	-0.3	-0.4	-0.6	-1.4	-1.9	-2.4	-1.1	-1.4	-0.7	-0.6	-0.5
PMI manufacturing employment	-0.2	-0.7	-0.1	-0.1	-0.6	-0.8	-0.7	-0.9	-0.8	-0.6	-0.8	-0.5
PMI services	0.7	0.6	1.1	1.0	0.7	0.3	-0.1	-0.1	-0.1	0.2	0.7	0.8
Business climate manufacturing (volume of Total Order Book)	-0.3	-0.5	-0.5	-0.4	-0.2	0.1	-0.2	-0.4	-0.8	-1.3	-0.7	-1.0
Consumer confidence	-1.8	-1.7	-1.2	-0.9	-0.7	-1.2	-0.8	-0.5	-1.2	-0.7	-0.5	-0.3
Industrial production	-0.5	-0.3	0.0	-0.2	0.6	0.5	0.4	0.3	-0.1	0.2	0.2	
Retail sales	-1.3	-1.4	-1.1	-0.9	-0.8	-1.0	-0.6	-0.6	-0.9	-0.3	-0.8	-0.2
Exports	0.6	0.4	0.0	-0.2	0.0	-0.8	-1.2	-1.4	-0.3	-1.1		
CPI	3.8	3.5	2.8	2.7	2.4	1.8	1.7	1.7	0.8	0.5	0.5	0.5
Unemployment Rate	1.1	1.2	1.1	1.0	0.9	1.0	1.0	1.1	1.2	1.2		

\* 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)		
Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	2023 (observed)	2024	2025
0.2	0.0	-0.1	-0.3	-0.3	-0.1	0.0	0.1	0.1	-0.1	1.1

Source: Refinitiv, BNP Paribas

## Entering recession

Japan entered a technical recession in H2 2023. The first estimate of Q4 GDP indicates a modest contraction of -0.1% q/q following a more significant downturn of -0.8% q/q in the previous quarter. More symbolically, Japan lost its ranking as the world's third largest economy (in nominal GDP) to Germany. Nevertheless, the strength of economic activity in H1 2023 had given the Japanese economy a significant growth carry-over, allowing the average annual growth rate to reach +1.9% for the year (compared to +0.9% in 2022).

Admittedly, the estimate for Q4 GDP will be subject to revision, but even if the final figure were to belie a technical recession, the detrimental weakness of domestic demand, linked to rising prices and interest rates, will remain a major issue. Private demand fell (-0.3% q/q) for the third consecutive quarter, through both the consumption and investment channels, and was the first negative contribution to growth. Conversely, the recovery in foreign trade absorbed part of the contraction in the last quarter, contributing to growth by +0.2 pp due to the improvement in exports (+2.6% q/q). This trend could continue in Q1 2024, given the figures for January (+11.9% y/y, +2.3 pp).

Economic activity surveys do not point to a robust recovery, while we expect growth of +0.2% q/q in Q1 2024. The Jibun Bank PMI survey showed a deterioration in the manufacturing component in February (47.2, -0.8 pp), a low not seen since July 2020. The Services PMI also weakened to 52.5 (-0.6 pp), bringing the composite result close to the 50 mark (50.3, -0.8 pp).

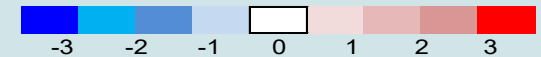
Core inflation (excluding unprocessed foods) continued its slowdown in January, standing at +2.0% y/y (-0.3 pp), notably due to lower imported inflation allowing energy inflation to fall further (-12.1% y/y, -0.4 pp). However, a rebound is likely in February due to a base effect linked to the launch of the electricity subsidy programme in February 2023.

Inflation-related developments and forecasts are bringing Japan closer to monetary normalisation. We anticipate an end to the negative interest rate policy at the Bank of Japan's March meeting, with a key rate rising from -0.1% to +0.1%, before reaching +0.25% by the end of 2024.

Anis Bensaidani (article completed on 26 February 2024)

## Japan: economic indicators monthly changes\*

	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24
PMI: Manufacturing	-0.6	-0.2	-0.1	0.1	0.0	-0.1	-0.1	-0.4	-0.3	-0.4	-0.5	-0.5
PMI: Services	0.8	1.0	1.1	1.2	0.8	0.8	0.9	0.8	0.3	0.2	0.3	0.6
PMI Manufacturing New export orders	-1.3	-0.7	-0.5	-0.6	-0.9	-0.5	-0.3	-0.4	-0.6	-0.6	-0.7	-0.5
PMI Manufacturing -Employment	0.3	0.2	0.5	0.1	0.4	0.4	0.0	0.1	-0.3	-0.1	0.0	-0.2
Consumer confidence	-1.6	-1.1	-0.9	-0.7	-0.7	-0.5	-0.7	-0.9	-0.8	-0.7	-0.5	-0.4
Industrial production	-0.2	-0.1	0.0	0.3	0.0	-0.3	-0.5	-0.4	-0.1	-0.2	0.1	-0.4
Private machinery order excluding volatile orders	0.6	0.2	0.7	0.0	0.3	0.2	0.1	0.2	0.3	-0.2	0.1	
Retail sales	2.2	2.0	1.4	1.6	1.6	2.0	2.0	1.7	1.0	1.4	0.4	0.4
Exports	0.0	-0.1	-0.2	-0.5	-0.3	-0.3	-0.5	-0.1	-0.2	-0.6	0.3	
CPI	2.5	2.4	2.6	2.3	2.3	2.3	2.2	2.0	2.2	1.8	1.6	1.3
Core CPI	3.3	3.5	3.8	3.7	3.7	3.6	3.5	3.4	3.1	2.9	2.7	2.5
Unemployment rate	1.2	1.0	1.2	1.2	1.3	1.1	1.1	1.2	1.3	1.3	1.4	
Employment	-0.2	-0.1	-0.2	-0.1	0.1	-0.2	0.0	0.0	-0.1	0.7	0.3	
Wage	0.9	0.7	0.9	1.6	1.4	1.3	1.3	0.9	1.2	1.0	1.2	



\* 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)			
	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	2023 (observed)	2024	2025	
	1.1	1.0	-0.8	-0.1	-0.3	0.2	0.3	0.4	1.9	0.4	0.9

Source: Refinitiv, BNP Paribas



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