

ECOPULSE

March 2024

MONTHLY PULSE OF OECD COUNTRIES' ECONOMIC INDICATORS



BNP PARIBAS

The bank for a changing world

According to the latest economic data, the divergences in growth between the US, Europe and Japan are expected to remain at the beginning of 2024.

In Europe, the economic situation in Q1 was once again disrupted by exceptional factors, this time linked to the Red Sea crisis, which particularly affected automotive production in January and, by extension, industrial production. Signs of an improvement in the business climate observed in previous months have nevertheless been somewhat confirmed, reinforcing our scenario of acceleration in growth in the eurozone from Q2 (0.3% q/q after 0.1% q/q in Q1). The upturn in the UK is expected to be more modest, with activity continuing to be hampered by inflation.

In the United States, the economy's strong momentum observed in H2 2023 should slow down, but growth is nevertheless expected to remain solid in Q1, with a GDPNow from the Atlanta Fed (0.6% q/q) close to our own forecast (0.7%).

In Japan, despite more favourable business climate indicators, growth is expected to be negative (-0.2% q/q) due to demand remaining low.

Communication from central bankers changed in March, especially in Japan where, as we had anticipated, the Bank of Japan decided to end its negative interest rate policy. Our scenario of a first monetary easing in June in Europe and in the US was also strengthened.

Inflation data however, are not giving central banks carte blanche to change their policy. This is due to the resilience of core inflation, linked to rising prices in the services sector and a labour market that remains under pressure. This is particularly the case for the UK, but also for the US or the eurozone.

EUROZONE: MOMENTUM IN THE MANUFACTURING SECTOR CAUSES CONCERN

GERMANY: A DIFFICULT Q1 WITH BETTER NEWS TO COME?

FRANCE: MOVING TOWARDS A DELAYED RECOVERY

ITALY: THE SITUATION IN THE MANUFACTURING INDUSTRY CONTINUES TO DETERIORATE

SPAIN: LEADING THE WAY IN SOUTHERN EUROPE

UNITED STATES: A MORE MIXED FIRST QUARTER?

UNITED KINGDOM: A SLIGHT IMPROVEMENT

JAPAN: END OF NEGATIVE INTEREST RATES



Momentum in the manufacturing sector causes concern

Disinflation in the euro zone continues to buoy household confidence. The European Commission index rose by 0.6 points to 14.9 points in March, according to the flash estimate. This is its highest level since February 2022 and the start of the war in Ukraine. Our Nowcast currently indicates a 0.3% q/q recovery in activity in the first quarter of 2024, a result that points to a risk that our forecast of +0.1% q/q will increase.

Inflation in the euro zone fell again in February, from 2.8% to 2.6% y/y. The fall is attributable to the decline in inflation in food (-2.1 pp to 3.3% y/y) as well as in manufactured goods (-0.4 pp to 1.6% y/y), while energy price deflation faded (+2.5 pp to -3.7%) and inflation in services stabilised at 4.0. It should be noted that no economies in the euro zone are showing inflation above 5.0%. Estonia – the last country in this case – fell below this threshold again in February.

However, the difficulties in the manufacturing sector remain significant and constitute the most notable downside risk for activity in the euro zone in the short term. Industrial production fell 3.2% m/m in January, to its lowest level since September 2020. The outlook for the sector remains unfavourable: the PMI index fell in March for the second consecutive month (-0.8 points to 45.8) and dropped significantly below the expansion threshold of the 50s. The sub-index on employment in the sector fell by 0.5 points to 46.6, its lowest level since August 2020. The S&P Global report thus points to a continued turnaround in job creation in this sector, a phenomenon that has already been ongoing since last year, albeit to a limited extent. Indeed, according to Eurostat figures, manufacturing employment in the euro zone peaked in the second and third quarters of 2023, before falling by 0.1% q/q in the last quarter. The share of manufacturing employment in the euro zone thus reached its lowest level ever, at 12.8%.

However, this decline remains offset by the creation of jobs in services, in particular information and communication (+0.6% q/q in Q4 2023), public service (+0.4% q/q), as well as in construction, which is rallying somewhat (+0.4% q/q). This is enabling the labour market in the euro zone to remain very tight. The unemployment rate reached its lowest level ever in January, at 6.4%. Our growth forecast for 2024 remains that of gradual strengthening in activity, which, despite zero carryover, would bring growth to 0.7% on an annual average, which is slightly better compared to 2023 (+0.5%).

Guillaume Derrien (article completed on 26 March 2024)

Eurozone: economic indicators monthly changes*

	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24
Economic Sentiment Indicator (ESI)	-0.1	-0.1	-0.3	-0.4	-0.5	-0.6	-0.6	-0.6	-0.5	-0.3	-0.3	-0.4
ESI - Manufacturing	0.3	0.0	-0.2	-0.4	-0.6	-0.7	-0.6	-0.6	-0.6	-0.6	-0.6	-0.7
ESI - Services	0.2	0.3	0.1	0.0	0.0	-0.1	-0.1	0.0	0.0	0.2	0.3	0.0
ESI - Retail sales	0.5	0.6	0.1	0.0	0.2	0.1	0.0	-0.2	-0.2	0.0	0.0	-0.1
ESI - Construction	0.9	0.9	0.9	0.7	0.6	0.5	0.4	0.5	0.5	0.6	0.5	0.4
Consumer confidence	-1.3	-1.0	-0.9	-0.7	-0.5	-0.7	-1.0	-1.0	-0.8	-0.5	-0.7	-0.6
PMI Manufacturing	-0.5	-0.8	-1.0	-1.3	-1.4	-1.2	-1.3	-1.3	-1.1	-1.1	-0.6	-0.7
PMI Services	1.0	1.2	1.0	0.4	0.2	-0.4	-0.3	-0.4	-0.3	-0.2	-0.3	0.0
PMI Manufacturing New Export Orders	-0.7	-0.8	-1.3	-1.4	-1.7	-1.5	-1.5	-1.5	-1.2	-1.2	-0.8	-0.8
PMI Manufacturing New Orders	-0.6	-0.8	-1.1	-1.4	-1.6	-1.6	-1.6	-1.6	-1.2	-1.1	-0.8	-0.7
PMI Composite - Employment	0.9	1.3	1.1	0.9	0.4	0.1	0.2	0.0	-0.1	-0.1	0.0	0.4
Industrial Production	-0.3	0.1	-0.4	-0.2	-0.4	-0.9	-1.0	-1.0	-1.0	0.1	-1.2	
Retail Sales	-0.9	-0.7	-0.6	-0.2	-0.2	-0.5	-0.7	-0.2	-0.2	-0.1	-0.2	
New Car registrations	1.3	0.8	0.9	0.8	0.7	1.0	0.4	0.6	0.2	-0.2	0.5	0.4
HICP	2.5	2.5	2.0	1.7	1.6	1.5	1.1	0.4	0.1	0.4	0.3	0.2
Core HICP	4.8	4.5	4.1	4.0	3.9	3.6	2.8	2.5	1.8	1.7	1.6	1.4
Unemployment Rate	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.6	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.
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GDP growth

Actual		Carry-over	Nowcast	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
0.1	0.1	-0.1	-0.1	-0.0	0.3	0.1	0.3	0.4	0.5	0.7	1.7

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



A difficult Q1 with better news to come?

The first indicators available for January point to a continuing weak start to the quarter (after contraction in GDP of -0.3% q/q in Q4 2023), hence our forecast of a further drop in GDP of -0.1% q/q in Q1. Manufacturing production (up 1% m/m in January) remained 1.5% below the figure seen in November, due to a sharp drop in automotive production (down 10% in January from the level seen in November). This downturn can be explained by supply problems linked to the situation in the Red Sea (which also affected the sector in February).

Business climate indicators, still deteriorated in January, clearly reflected this weakness. The upturn in these indicators in March was mainly driven by the expectations component, which improved due to the likelihood of an easing of the ECB's monetary policy. However, the IFO Business Climate Index linked to the current situation is also improving: standing at 88.1 in March, it has returned to a level close to that seen in December, bringing an end to a two-month period of difficulty.

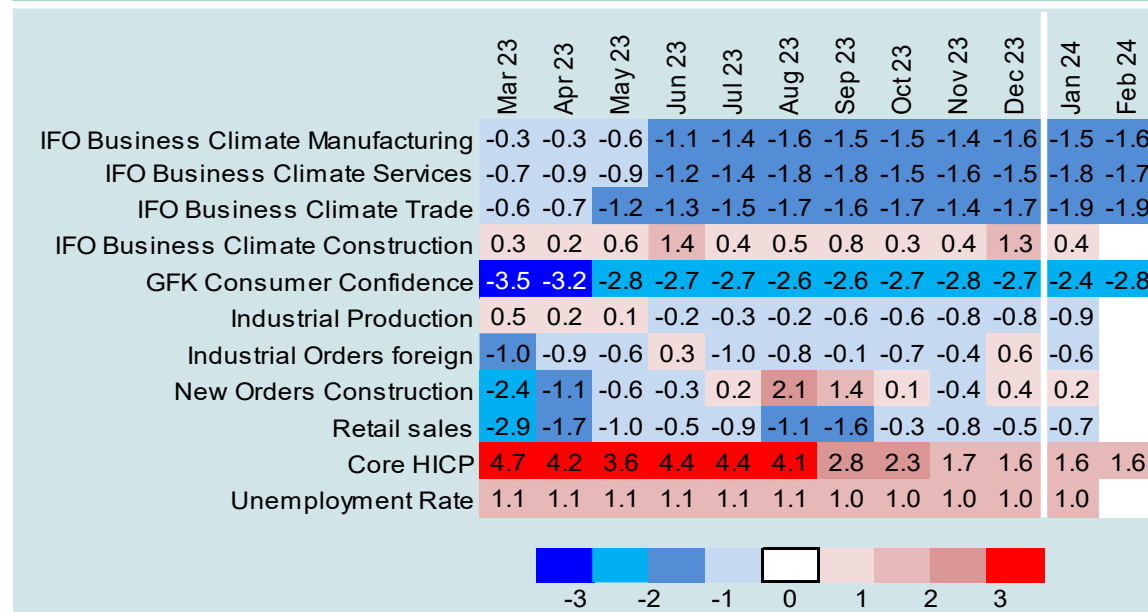
For the time being, this rebound could be explained by the dissipation of negative effects (difficulties in the automotive sector, impact of the fiscal consolidation announced in December), rather than by an actual recovery. In fact, new factory orders have not recovered (for the most part) and have even fallen for domestic orders for capital goods (negative signal in terms of corporate investment). At the same time, household confidence remains low (-29 in March), close to the level seen in February and below that recorded between May 2023 and January 2024.

This lack of household confidence is happening despite significant disinflation (2.7% y/y on the harmonised index in February 2024 compared to 6.4% y/y in August 2023) but is less noticeable on the underlying index (3.3% y/y in February 2024, a level that has remained almost unchanged over the past 3 months due to stabilisation of inflation on services).

At the same time, the good performance of the labour market is still relevant, against a backdrop of labour shortages which remain significant or even greater in certain sectors (including the automotive sector): January 2024 saw the strongest net job creation (54,000) in almost a year.

Stéphane Colliac (article completed on 26 March 2024)

Germany: economic indicators monthly changes*



* 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	-0.1	0.1	0.3	-0.1	0.0	1.4

Source: Refinitiv, BNP Paribas

Moving towards a delayed recovery

Q1 got off to a bad start, with a drop in manufacturing production in January (-1.6% m/m) linked to the shutdown of oil refineries for maintenance (with new difficulties in March), and a downturn in the automotive sector (supply problems, followed by a drop in demand affecting the production). At the same time, January's foreign trade data do not suggest a rebound in imports of intermediate goods (inputs for other sectors).

Compared to our growth forecast (identical to our nowcast) of +0.1% q/q in Q1, this "ignition delay" would constitute a downside risk. The INSEE took this into account in revising its forecast from 0.2% to 0% q/q (Banque de France maintaining a forecast at 0.2% q/q, due to the good evaluation of market services). Conversely, this should generate an upside risk on our forecast for Q2 (0.2% q/q), incorporated by the INSEE into its own forecast (0.3% q/q).

Nor has the momentum of recovery been clearly triggered from the point of view of demand indicators, as illustrated by the decline in consumption of goods in January (-0.3% m/m) and the continuing hesitant rise in the household confidence index. Against this backdrop, an acceleration in short-term growth would be the consequence of production catching up with the relative lag in Q1.

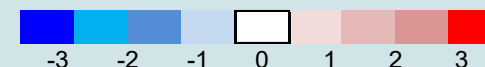
However, other factors are expected to provide a positive boost to demand in the coming months. These factors are linked to fiscal support, with the late implementation or temporary restriction of the scope of this support possibly having impacted activity up until now: the launch on 14 March of the new tax credit for investments in green industries (C3iV), and on 14 February of the new version of the green bonus for the purchase of a car, and the easing, on 8 March, of the eligibility criteria for MaPrimeRénov' (restricted at the beginning of the year regarding "mono-renovation" works).

Furthermore, disinflation is real, with the Harmonised Index of Consumer Prices only rising 3.1% y/y in February compared to 5.7% in September 2023, even though this has not, for the time being, been reflected in a rebound in household consumption. However, the disappearance of inflation on the prices of food and goods should be confirmed (following the moderation of expected price changes in the latest INSEE business climate survey), a positive signal for households, along with the good performance of the labour market (stability of the employment climate, measured by the INSEE, at 102 in March).

Stéphane Colliac (article completed on 27 March 2024)

France: economic indicators monthly changes*

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



* 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. 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	Q4 2023	Q1 2024	Q1 2024	Q2 2024	Q3 2024	2023 (observed)	2024	2025
0.1	0.6	-0.0	0.1	0.2	0.1	0.1	0.2	0.3	0.9	0.7	1.4

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



The situation in the manufacturing industry continues to deteriorate

Activity in the private sector in Italy continued to improve in February, according to the composite PMI index, which was up 0.4 points over a month, taking it to 51.1. However, unlike the current situation in Spain, the divergence between the manufacturing sector and the services sector is becoming more pronounced.

On the positive side, the business climate in the services sector is continuing to improve (52.2; +1 point). Although backlogs of work are still significant (48.7; -0.4 points), the incoming new business component continues to recover (53.3; +0.8 points), bringing employment with it (52.8; +1.6 points).

On the negative side, the business climate in the manufacturing sector remains in a contraction zone after a marginal increase in February (48.7; +0.2 points) due to very low demand, as evidenced by the low level of components relating to new orders (47.1) and quantity of purchases (44.9). The weakness in production, visible in survey data (soft data), is reflected in the hard data, with a sharp drop in the industrial production index in January (-1.2% m/m after +1.2% in December). Nevertheless, the employment component of the manufacturing PMI has improved (51.2; +2.4 points), suggesting that companies remain optimistic about future business.

In February, for yet another month, Italy was one of the only eurozone countries¹ to report inflation below 1% (0.8% y/y, -0.1 percentage points compared to January). As elsewhere in the eurozone, this is still mainly driven by high inflation in services (3.1%, -0.1 pp), which is contributing to the persistence of core inflation (2.6% y/y).

Although it has improved significantly since October 2023 (+3.5 points), consumer confidence remained low in February (-16 according to the European Commission's economic sentiment survey). The first economic indicators relating to household consumption were mixed at the beginning of the year: retail sales contracted again in January (-0.1% m/m), but new vehicle registrations increased by 12.8% y/y in February (compared to 10.6% y/y in January).

After estimated growth of 0.2% q/q in Q4 2023, Italian real GDP is expected to slow slightly to 0.1% q/q in Q1 2024. Over 2024 as a whole, we expect growth to continue at the same pace as in 2023, i.e., +0.9% as an annual average.

Lucie Barette (article completed on 21 March 2024)

¹ With Latvia.

Italy: economic indicators monthly changes*

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

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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
0.5	-0.3	0.2	0.2	0.2	0.1	0.3	0.4	1.0	0.9	1.4

Source: Refinitiv, BNP Paribas



Leading the way in Southern Europe

As expected, Spanish inflation slowed in February. In year-on-year terms, the Harmonised Index of Consumer Prices (HICP) rose by only 2.9% (-0.6 percentage points compared to January) due to an increase in energy price deflation, itself brought about by favourable weather conditions.¹ Like other countries in the eurozone, inflation in services persists in Spain, the latter remaining the main component contributing to overall inflation (contribution of 1.9 pp).

After the record seen in tourism in 2023, activity is not slowing at the beginning of the year. Although the number of arrivals was slightly lower in January than in December (-7.2% m/m in January²), the number of travellers nevertheless stood at 5 million, a historic level for this month. This strength of the Spanish tourism industry has had an automatic impact on activity in the services sector. The associated PMI index continued to rise, reaching in February, its highest level since May 2023 (54.7; +2.6 points). Business optimism about activity in the coming months has strengthened, also supporting employment (53.6; -0.6 points).

Remarkably, net job creation remains significant (+73,000 jobs over a month in February), particularly in the education and hospitality sectors. The number of unemployed reached its lowest level for a February since 2008, at 2.66 million.³ This robustness seen on the labour market, combined with strong wage growth (+4.2% y/y in Q4 2023), will enable further stimulation of household consumption, which should therefore remain one of the main drivers of Spanish growth for at least another quarter.

On its part, manufacturing activity, which had contracted since April 2023, returned to the expansion zone in February (manufacturing PMI at 51.5; +2.3 points), buoyed by the increase in new orders and therefore in production.

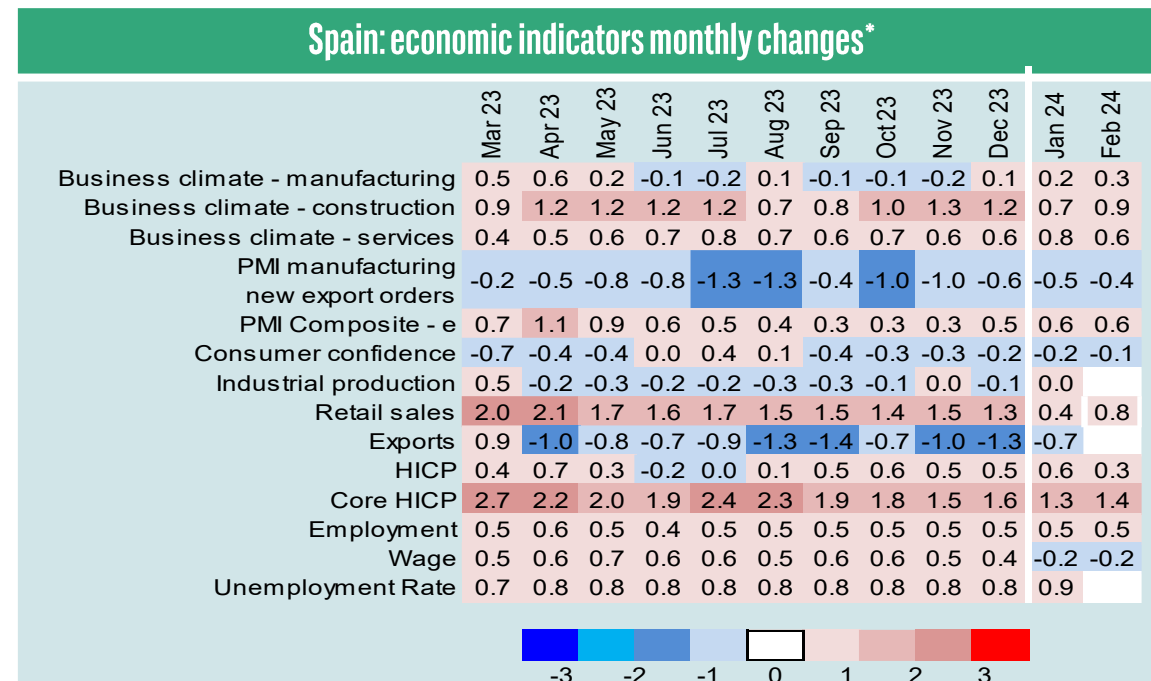
Due to these good performances in these two sectors, the PMI Composite index improved (53.9; +2.4 points) and, above all, remains at a level well above that seen in the eurozone as a whole (49.2). We therefore expect Spanish growth to remain significantly higher than growth in the eurozone throughout the year. According to our forecasts, Spanish growth should stand at 0.4% q/q in Q1, before picking up more sharply from Q2, reaching 0.6% q/q at the end of the year.

Lucie Barette (article completed on 20 March 2024)

1 In February, Storm Louis boosted wind power production, and sunny conditions increased solar power production, lowering the price of electricity.

2 Data not seasonally adjusted (NSA).

3 Seasonally adjusted data (SA).



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GDP growth

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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	0.4	0.5	0.6	2.5	2.0	2.1

Source: Refinitiv, BNP Paribas



A more mixed first quarter?

US economic activity slowed slightly in February, according to the ISM survey. It reported a deterioration in the business climate in the manufacturing sector, putting a halt to three months of increases, with the associated index standing at 47.8 (-1.3pp). In addition, the decline is almost across the board within the main sub-components, including new orders, which are returning to the contraction zone (49.2, -3.3pp) after emerging from it for the first time since August 2022 in January. The ISM non-manufacturing index also reported a smaller decrease, to 52.6 from 53.4 previously, due to declining hires and faster deliveries, the latter suggesting that suppliers are better able to meet demand. These results are in line with our estimate of a slowdown in growth in GDP in the first quarter of 2024, to +0.7% q/q compared to +1.4% in Q4 2023, slightly above the Atlanta Fed's GDPnow (+0.6% q/q).

Conversely, February was marked by modest improvements in industrial production and retail sales, which started the year with a monthly decline. In fact, the industrial production index rose by +0.1% m/m (+0.6pp). And the retail sales control group (which excludes motor vehicles and parts and gasoline stations), an advanced indicator of household consumption in GDP, gained +0.3% m/m (+1.1pp).

On the employment front, nonfarm payrolls surprised to the upside in February, rising to +275k, although this result was largely tempered by significant downward revisions over the previous two months (including -120k to January's initial figure). At the same time, the unemployment rate reached 3.9%, its highest since January 2022.

Inflation figures were disappointing in February. Measured by the consumer price index (CPI), it accelerated both month-on-month (+0.4% m/m, +0.1pp) and year-on-year (+3.2%, +0.1pp). While core inflation fell to +3.8% y/y (-0.1pp), it continued to be characterised by the high level of its services-related components (+5.8% y/y for housing services, +4.6% excluding housing).

The second monetary policy meeting in 2024 concluded, as expected, with a steady interest rate target at 5.25 – 5.5%, which was reached last July. The interest rate decision was accompanied by the publication of the committee members' median economic projections. The latter maintained their expectations of an interest rate target of 4.5 – 4.75% at the end of 2024, i.e., three 25-bp cuts, despite upward revisions to the underlying PCE inflation (2.6%, +0.2pp) and growth rate (2.1%, +0.7pp) of 2024 since the Q4 2023 forecasts.

Anis Bensaidani (article completed on 28 March 2024)

United States: economic indicators monthly changes*

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

* 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	0.5	0.7	0.6	0.4	2.5	2.8	1.8

Source: Refinitiv, BNP Paribas

A slight improvement

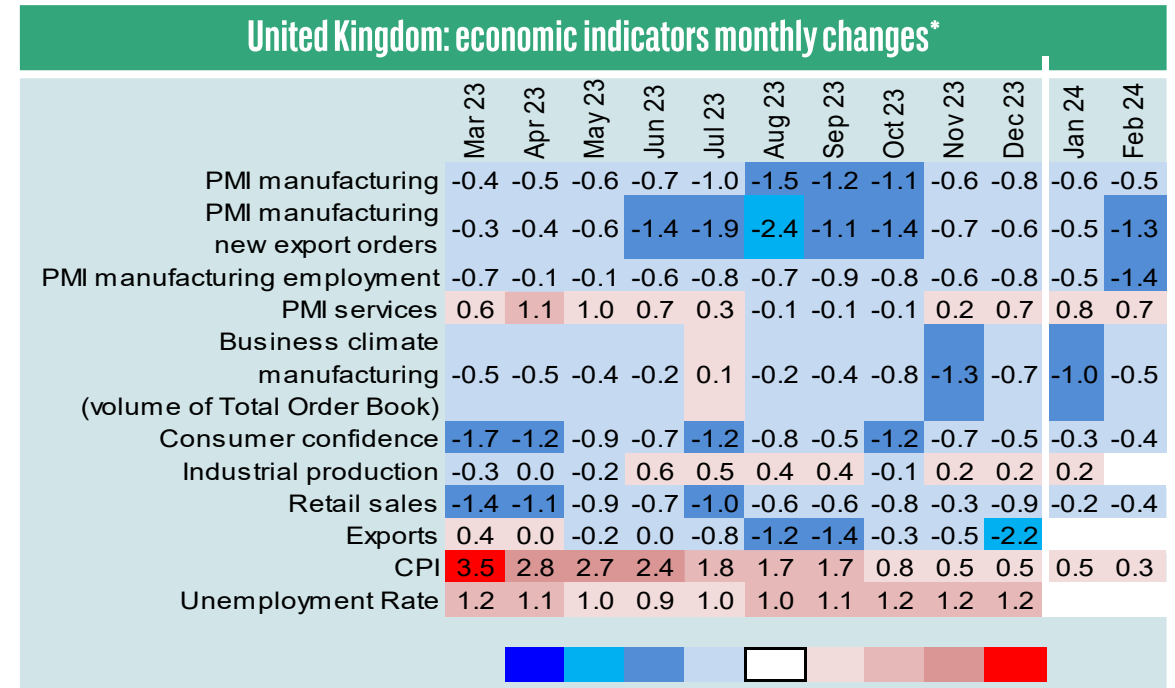
The UK economy remains deteriorated, but the latest activity figures show a slight improvement at the beginning of 2024. The monthly ONS estimate indicates growth in added value of 0.2% m/m in January, buoyed by a rebound in retail and wholesale (+1.8% m/m) and construction (+1.1% m/m). Nevertheless, this follows a difficult second half of 2023, marked by a 0.5% drop in real GDP. Furthermore, we expect a very limited increase in activity in Q1 2024, which is only likely to partially compensate for the contraction in previous quarters.

Indeed, developments in private consumption remain contrasted. The latest CBI survey on retail sales again reported a significant improvement in the balance of opinion on sales volumes in March, which returned to positive territory for the first time in a year. However, these improvements are not yet reflected in hard retail sales data, which have remained depressed and stagnating for nearly a year, even though a slight increase was observed in February (+0.1% m/m).

Household confidence remained unchanged in March: while developments in the financial situation continued to improve, against a backdrop of falling inflation and wages rising in real terms, purchase intentions for durable goods deteriorated again and underscored consumers' reluctance to spend in the current economic situation. Nevertheless, the real estate market has been recovering for several months, with prices rising again since last autumn (the Nationwide index rose 2.6% between September 2023 and February 2024) and new selling instructions are at a three and a half-year high, according to the RICS survey.

Disinflation continued in February, reinforcing expectations for a first rate cut by the Bank of England, which we expect for June. YoY, the consumer price index slowed from 4.0% in January to 3.4% in February. The disinflation trajectory between goods and services remains very different at this stage, even though these two components fell in February. At 6.0% in February, inflation in services came up against still very strong wage growth (+5.8% y/y.). Inflation remains an important brake on activity in the UK, which is expected to underperform again in 2024, with expected growth at 0.1%, identical to 2023.

Guillaume Derrien (article completed on 26 March 2024)



* 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	Q4 2023	Q1 2024	Q2 2024	Q3 2024	2023 (observed)	2024	2025
0.2	0.0	-0.3	0.1	0.2	0.2	0.1	0.1	1.2

Source: Refinitiv, BNP Paribas

End of negative interest rates

March saw an improvement in activity in Japan, according to the Jibun Bank PMI survey. Both the manufacturing index (48.2, +1.0pp), thanks to a widespread rise in the main sub-components, and the non-manufacturing index (54.9, +1.3pp) recovered, allowing the Composite index to reach its highest level since August 2023 (52.3, +1.7pp).

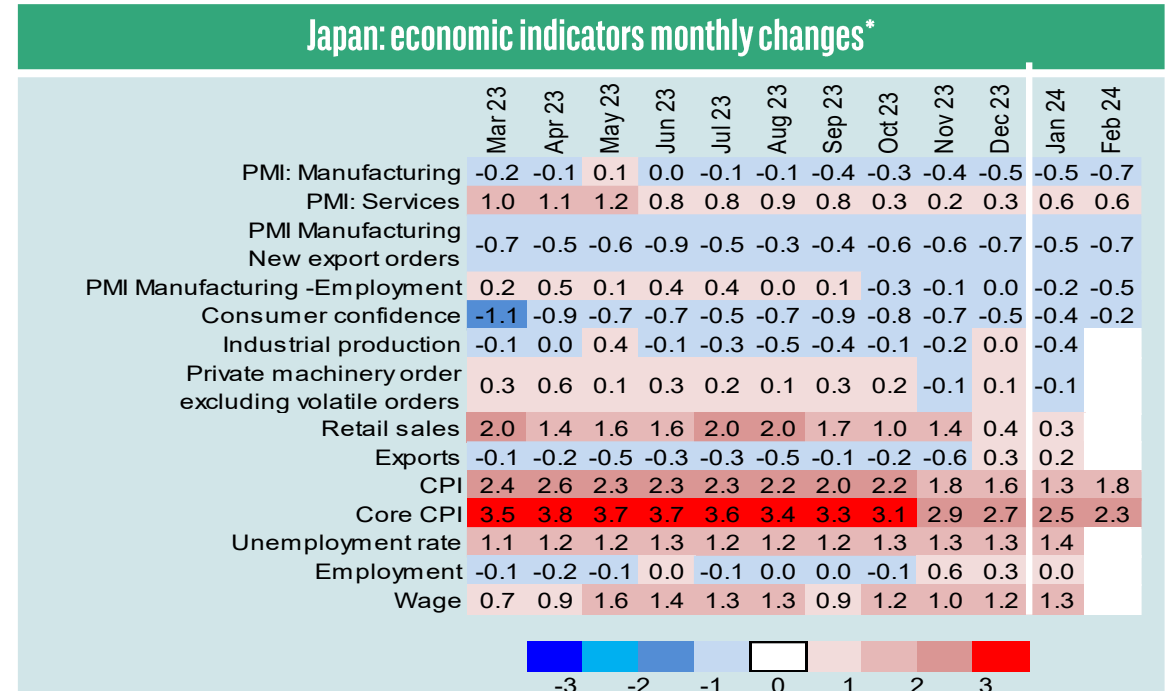
The GDP estimate for Q4 2023 has been revised upwards. The quarterly growth rate rose from -0.1% q/q to +0.1%, due to a better result for private non-residential investment. While this adjustment has the benefit of symbolically bringing Japan out of technical recession, it does not change the picture for the national economy as a whole. The latter continues to suffer from depressed domestic demand, and we expect a contraction in GDP in Q1 2024 of around -0.2% q/q.

Inflation, as expected, rebounded in February, due to the effect of the February 2023 fiscal measures disappearing, namely the subsidisation of domestic energy. Thus, the Core CPI, a benchmark index that includes all components except unprocessed food, recorded an increase of +2.8% y/y (+0.8pp). Total CPI grew at the same rate (up +0.6pp compared to January), while the "New Core", excluding unprocessed food and energy, slowed (+3.2% y/y, -0.3pp).

The Bank of Japan took the somewhat historic decision to end its so-called NIRP (Negative Interest Rate Policy). The latter, introduced in 2006 in the face of the chronic problem of insufficient inflation, was particular to Japan. Thus, at its March meeting, the BoJ raised its key rate for the first time since 2016, with the target rate rising by +20 bp to +0.1%. The decision was also made after the announcement by the Rengo union that employees concerned had achieved an average salary increase of +5.3% over a year, a record since the start of the study in 1991, which the BoJ hopes will help to set the long-term inflation level around the target of 2%.

At the same time, the policy of controlling the yield curve is being discontinued. We now anticipate a very incremental normalisation of Japan's monetary policy, with a half-yearly interest rate hike bringing the key rate to +0.75% by the end of 2025.

Anis Bensaidani (article completed on 25 March 2024)



* 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
1.0	1.0	-0.8	0.1	-0.1	-0.2	0.6	0.4	1.9	0.4	0.9

Source: Refinitiv, BNP Paribas

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