ECOPULSE

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MONTHLY PULSE OF OECD COUNTRIES'ECONOMIC INDICATORS

BNP PARIBAS

The bank for a changing world

The range of first estimates of Q3 GDP growth is quite broad, from a very positive figure in the United States (1.2% q/q) to a return to stagnation in Europe (-0.1% q/q in the euro area and 0% q/q in the United Kingdom), after a temporary acceleration in Q2. At the same time, Japanese growth posted a clear correction (-0.5% q/q) after two very positive quarters.

The economic, inflation and labour market data published in October all point to a cooling, to a greater or lesser extent:

- Business climate surveys had already deteriorated in Europe in Q3 and remained so in October, particularly in manufacturing. In the US or in Japan, these surveys, which had previously showed a more favourable situation, have deteriorated;
- Inflation is slowing significantly, particularly in the United Kingdom and the euro area (especially in Germany and France), with, for the second consecutive month, favourable base effects (monthly inflation significantly lower in October 2023 than in October 2022). These base effects also benefit core inflation, against a backdrop of stabilising prices for manufactured goods (and even decreasing production prices, particularly in Germany). In other areas, inflation is also falling. However, the only slight drop in US core inflation in October bolsters doubts about the extent of the US economy slowdown.
- Job creation slowed in the US. In Europe, France and Germany even posted job destruction in Q3. As a result, the unemployment rate has risen slightly in some countries (US, France), from a historically low level. Furthermore, wage growth is starting to slow in both France and Japan, in line with ongoing disinflation.

In terms of growth prospects, the cooling already observed in Europe and Japan in Q3 should extend to the United States in Q4, where growth should reach 0.4% q/q according to our current forecasts, while the euro area (0% q/q) and the United Kingdom (0.1% q/q) should continue to see very low growth.

EUROZONE

Will Q3 mark the low point of economic activity?

Without falling significantly, confidence indicators for the euro area confirm the current phase of stagnation, which is expected to continue into Q4 2023. According to the flash estimate, the composite PMI edged up by 0.6 points to 47.1 in November, while the European Commission's Economic Sentiment Indicator fell slightly in October, down by 0.1 points to 93.3 (its lowest level in three years). Despite the current deceleration in inflation (from 4.3% y/y in September to 2.9% y/y in October in harmonised terms) and an unemployment rate that is close to its lowest ever (6.5% in September), household confidence is not recovering, against a still difficult backdrop in terms of purchasing power. Retail sales slipped to their lowest level in two-and-a-half years in September: while there was a rebound in food spending (+0.4% q/q in Q3), purchases excluding food and fuel products fell more sharply (-0.5% q/q).

This lack of demand is the factor limiting production most cited in the European Commission quarterly survey in October 2023. Financial constraints are also increasing, but more moderately. Conversely, supply constraints (equipment, labour) are falling.

Preliminary GDP estimates for Q3 2023 indicate a slight contraction of economic activity in the euro area of 0.1% q/q, which will be followed, according to our nowcast, by zero growth in Q4. Based on these first estimate, Ireland, whose GDP is very erratic due to the business activity of multinationals, posted a contraction of 1.8% q/q, and explains much of the decline in the euro area. However, there are contrasting dynamics between the other Member States. The Netherlands (-0.2% q/q) and Austria (-0.6% q/q) experienced a downturn for a second and third quarter running, respectively, while Germany (-0.1% q/q) and Finland (-0.9% q/q) fell back into negative territory. Spain (+0.3% q/q), Belgium (+0.5% q/q) and France (+0.1% q/q) performed better. The latest European Commission forecasts, published on 15 November, report downward revisions of growth for the euro area for 2023 (0.6%, i.e. -0.2pp compared to July forecasts) and 2024 (1.2%, i.e. -0.1pp). Our estimate for 2024, is lower, at 0,8%, mainly due to less positive forecasts for France and Germany.

Guillaume Derrien (completed on 23 November 2023)

Eurozone: economic indicators monthly changes*

	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23
Economic Sentiment Indicator (ESI)	-0.4	-0.3	0.0	0.0	-0.1	0.0	-0.3	-0.4	-0.5	-0.6	-0.6	-0.6
ESI - Manufacturing	0.2	0.3	0.4	0.4	0.3	0.0	-0.2	-0.4	-0.6	-0.7	-0.6	-0.6
ESI - Services	-0.1	0.2	0.4	0.3	0.3	0.4	0.1	0.0	0.0	-0.1	-0.1	-0.1
ESI - Retail sales	0.0	0.4	0.7	0.7	0.6	0.7	0.1	0.0	0.2	0.1	0.0	-0.3
ESI - Construction	1.1	1.2	1.0	1.0	1.0	0.9	0.8	0.7	0.6	0.5	0.4	0.4
Consumer confidence	-2.1	-1.8	-1.5	-1.2	-1.2	-1.0	-0.9	-0.7	-0.5	-0.7	-1.0	-1.0
PMI Manufacturing	-0.6	-0.4	-0.2	-0.3	-0.5	-0.8	-1.0	-1.3	-1.4	-1.2	-1.3	-1.3
PMI Services	-0.3	0.0	0.2	0.5	1.0	1.2	1.0	0.4	0.2	-0.4	-0.3	-0.4
PMI Manufacturing New Export Orders	-1.4	-1.2	-0.9	-1.1	-0.7	-0.8	-1.4	-1.4	-1.7	-1.5	-1.5	-1.5
PMI Manufacturing New Orders	-1.4	-1.0	-0.7	-0.5	-0.6	-0.8	-1.1	-1.5	-1.6	-1.6	-1.6	-1.6
PMI Composite - Employment	0.5	0.5	0.6	0.6	0.9	1.3	1.1	0.9	0.4	0.1	0.2	0.0
Industrial Production	0.5	-0.4	0.1	0.3	-0.4	0.0	-0.5	-0.2	-0.4	-0.9	-1.1	
Retail Sales	-1.1	-1.0	-0.9	-1.0	-1.1	-1.0	-0.9	-0.4	-0.4	-0.7	-1.0	
New Car registrations	0.8	0.6	0.5	0.5	1.4	0.8	0.9	0.8	0.7	1.0	0.4	0.6
HICP	4.6	4.0	3.5	3.4	2.5	2.5	2.0	1.7	1.6	1.6	1.1	0.4
Core HICP	5.1	5.0	4.9	5.0	4.8	4.5	4.1	4.1	3.9	3.6	2.8	2.5
Unemployment Rate	1.7	1.7	1.7	1.7	1.8	1.8	1.7	1.8	1.7	1.8	1.7	

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* 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
-0.0	0.1	0.2	-0.1	0.4	-0.0	0.0	0.2	3.4	0.5	0.8

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

GERMANY

A whiter shade of pale

Germany has just experienced four quarters of stagnation or negative growth, and business climate indicators suggest that economic activity remained broadly depressed at the beginning of Q4: current conditions of economic activity remain close to their lowest levels in both the IFO survey and the ZEW survey (-80 for the latter in November). In line with this depressed environment, production in key sectors (automotive, chemicals and metals) declined again in September (in Q3, it is now nearly 15% below the peak reached at the end of 2017 for each of these sectors). Exports do not drive growth as well (-6% y/y in Q3, trade balance figures in terms of value from Destatis).

The combination of a long period of low growth and a sharp reduction in inflation on volatile components (energy, food) has contributed to a sharp drop in headline inflation. This reached 3% y/y in October according to the harmonised index (a level not seen since June 2021) compared to 11.6% y/y a year ago. After a sharp drop in September and October, year-on-year inflation is expected to stabilise around its current level in the coming months.

The deterioration in the economy ultimately impacted the labour market: after a long period of sustained job creation (94,000 on average per quarter from mid-2022 to mid-2023), almost 6,000 jobs were cut between June and September. The IFO Employment Barometer, which is below its long-term average (at 96 in October), indicates a still moderate momentum at the beginning of Q4.

The index of new factory orders contracted to a new low in September (-12% y/y), mainly due to a decline in demand for capital goods, which could suggest a downturn in machinery and equipment investment, which has proved resilient up until now. Household confidence, which fell again to -28 in November (compared to -24 in June and +3 as a long-term average), does not suggest a rebound in demand either.

Green shoots could come from foreign demand (slight upturn in the index of new export orders). However, this return to growth is not expected to happen until 2024. Before then, we expect a further fall in German GDP in Q4 2023 (-0.1% q/q).

Stéphane Colliac (completed on 23 November 2023)

Germany: economic indicators monthly changes*

	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23
IFO Business Climate Manufacturing	-1.2	-0.9	-0.6	-0.5	-0.2	-0.2	-0.6	-1.1	-1.4	-1.6	-1.5	-1.5
IFO Business Climate Services	-2.0	-1.6	-1.5	-1.4	-0.7	-0.9	-0.9	-1.2	-1.4	-1.8	-1.9	-1.6
IFO Business Climate Trade	-1.7	-1.2	-0.9	-0.6	-0.6	-0.6	-1.1	-1.2	-1.4	-1.5	-1.5	-1.6
IFO Business Climate Construction	0.6	0.6	1.0	1.3	0.2	0.2	0.6	1.5	0.5	0.6	0.9	
GFK Consumer Confidence	-5.4	-4.9	-4.4	-3.9	-3.5	-3.2	-2.8	-2.7	-2.7	-2.6	-2.6	-2.7
Industrial Production	0.0	-0.5	-0.3	0.0	0.3	0.1	0.0	-0.2	-0.3	-0.2	-0.6	
Industrial Orders foreign	-1.0	-0.8	-1.2	-0.7	-1.0	-0.9	-0.6	0.3	-1.0	-0.7	-0.2	
New Orders Construction	-1.5	-2.9	-2.5	-1.8	-2.3	-1.1	-0.6	-0.3	0.2	2.0		
Retail sales	-2.7	-2.4	-2.8	-2.6	-2.8	-1.6	-1.0	-0.5	-1.0	-1.1	-1.7	
Core HICP	4.7	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	1.1	1.1	1.2	1.1	1.1	1.1	1.1	1.1	1.1	

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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
-0.4	-0.0	0.1	-0.1	-0.2	-0.1	0.0	1.9	-0.1	0.4

Source: Refinitiv, BNP Paribas

FRANCE

Winter is coming

The French economy is marked by growing signs of cooling, in terms of economic activity, employment and inflation. While growth has so far remained in positive territory, the INSEE business climate, which fell to 97 in November (compared to 100 between July and September), points to a deterioration. According to this survey, the decline in economic activity already present in part of the economy (housing, food trade) has spread to industry, new construction (excluding housing) and the motor vehicles trade.

Until recently, all these sectors had continued to benefit from a well-filled order book, which is now emptier (the backlog of orders having been processed and there being fewer new orders). In this context, household orders for private vehicles fell by 12% y/y in the first 10 months of the year (-26% for light commercial vehicles) according to the Plateforme de l'automobile. Against a backdrop of high interest rates, the proportion of French households planning to make a major purchase immediately fell to a new all-time low (5.2% in October according to the European Commission).

The slowdown in demand is contributing to the ongoing disinflation (4.5% y/y in October according to the harmonised index, compared to 7.3% in February and 5.7% in September). This is being reflected in the prices of manufactured goods (stable since April), alongside a drop in volatile components y/y (with food prices stabilising since June). The increase in services prices (3.2% y/y in October) is now the biggest contributor to inflation, supported by wage growth, but is expected to ease in 2024 as consumer prices and wages slow.

The deterioration in the labour market since Q2 is moving in this direction. Moreover, the wage slowdown seems to have already begun: in Q3, the gross monthly wage only increased by 4.2% y/y compared to 4.6% y/y in Q2. However, while payrolls contracted by 18,000 units in the private sector in Q3 after moderate creations in Q2, this can be explained in part by a trend reversal on apprenticeship contracts (-100,000 between March and August, a bigger drop than the usual seasonal movement, -60,000 between those same months in 2022).

Overall, the French economy seems to be moving towards stagnation, as reflected in our growth forecast and our nowcast for Q4 (0% q/q).

Stéphane Colliac (completed on 23 November 2023)

France: economic indicators monthly changes*

	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23
Business climate Manufacturing	0.2	0.1	0.2	0.3	0.4	0.1	-0.1	0.0	0.1	-0.4	-0.1	-0.1
Business climate Services	0.4	0.4	0.4	0.5	0.5	0.3	0.2	0.2	0.2	0.2	0.2	0.1
Business climate Construction	0.8	0.9	0.9	0.7	0.7	0.7	0.5	0.4	0.3	0.4	0.3	0.1
Business climate Retail sales	-0.4	-0.1	-0.1	0.0	-0.3	0.0	-0.3	0.2	0.6	0.5	0.3	-0.2
Employment climate	0.8	1.0	1.1	1.0	1.0	1.0	0.6	0.6	0.5	0.1	0.5	0.2
Consumer confidence	-1.4	-1.6	-1.6	-1.6	-1.7	-1.5	-1.5	-1.3	-1.2	-1.2	-1.4	-1.3
HICP	4.1	3.7	3.8	3.8	3.3	3.4	2.7	2.3	2.1	2.5	2.4	1.7
Core HICP	4.3	4.2	4.0	4.3	4.1	4.2	3.6	3.6	3.3	3.0	2.5	2.4
Unemployment Rate	1.9	1.9	2.0	1.9	1.9	1.7	1.7	1.7	1.6	1.6	1.6	
Consumer spending	-1.0	-1.2	-0.7	-0.7	-0.6	-0.9	-0.7	-0.6	-0.2	-0.5	-0.8	
Industrial production	0.1	0.3	-0.3	0.2	0.1	0.3	0.4	0.1	0.5	0.0	0.0	
Exports of goods	1.1	1.1	-0.1	0.7	0.5	0.2	0.6	0.0	0.2	-0.8	-1.0	

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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
-0.0	0.1	0.6	0.1	0.3	0.0	0.0	0.1	2.5	0.9	0.7

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

ITALY

Job creation remains strong, despite the weak economic climate

Economic surveys remain deteriorated. The PMI indices indicate a contraction in activity that is now more widespread, although the downturn is particularly pronounced in the manufacturing sector. The manufacturing PMI fell by 1.9 points to 44.9 in October, while the services PMI dropped more sharply below the 50 mark, after recording a decline of 2.2 points to 47.7. The household consumer confidence index in Italy is decorrelating from inflation expectations– which have been stable since the spring – and is now falling due to the effect of more subdued economic and employment prospects. In fact, the monthly fall in the confidence indicator (-2.4 points) was the steepest in the last fifteen months. Durable goods purchase intentions are feeling the pinch, falling for the fourth consecutive month in October.

Nevertheless, the labour market continues to perform well, with a volume of employment (23,656 million) and an employment rate (61.7%) rising again in September, while the jobless rate is approaching its lowest level in fourteen years, at 7.4%. In addition, the crossover between the wage and inflation curves, expected this autumn, would indicate gains in purchasing power, which should underpin household consumption. Contractual hourly wages grew less rapidly than inflation in September, up 3.2% year-on-year. However, the rise in consumer prices slowed significantly in October, falling from 5.6% to 1.8% in harmonised terms. This drop was mainly fuelled by the sharp deflation of the energy component, down -19.7% year-on-year, which occurred despite a significant increase in regulated tariffs in October.

Economic growth in Italy remains on a knife-edge. According to preliminary figures, real GDP stagnated in the third quarter after contracting by 0.4% q/q in Q2. However, we expect activity to pick up again in the final quarter of 2023, followed by a stabilisation in the growth rate between 0.2% and 0.3% throughout 2024. With an estimated annual average of 1% in 2024, Italy is expected to perform above the eurozone average of 0.8%,.

Guillaume Derrien (completed on 23 November 2023)

Italy: economic indicators monthly changes*

	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23
Business climate - Manufacturing	0.0	0.3	0.4	0.2	0.5	0.6	0.2	-0.1	-0.2	0.1	-0.1	-0.1
Business climate - Construction	1.7	2.0	1.9	1.8	1.9	2.1	1.9	2.0	2.2	1.8	1.9	2.1
Business climate - Services	0.3	0.2	0.6	0.5	0.4	0.6	0.6	0.6	0.7	0.7	0.6	0.7
PMI manufacturing new export orders	-0.8	-0.8	-0.1	-0.2	0.1	-0.5	-0.4	-1.2	-1.0	-1.7	-1.4	-1.4
PMI Composite - Employment	0.7	0.4	0.5	0.5	1.0	1.3	1.2	0.6	0.0	-0.7	0.4	-0.1
Consumer confidence	-0.4	-0.1	-0.3	-0.1	0.2	0.1	-0.1	0.1	-0.1	-0.1	-0.2	-0.6
Industrial production	-0.4	0.0	0.2	-0.2	-0.3	-0.7	-0.3	0.0	-0.2	-0.4	-0.2	
Retail sales	0.9	0.7	1.2	1.1	1.2	0.6	0.5	0.7	0.5	0.4	0.2	
Exports	1.0	0.6	0.6	0.2	-0.2	-0.8	-0.3	-0.3	-1.0	-0.2	-0.9	
HICP	5.5	5.1	4.1	3.6	2.7	2.9	2.6	2.0	1.8	1.5	1.5	-0.1
Core HICP	3.9	4.0	4.2	4.4	4.0	3.9	3.5	3.2	3.0	2.3	2.4	2.1
Employment	0.8	1.0	1.2	1.0	0.8	0.9	0.9	0.9	0.9	1.3	1.2	
Unemployment Rate	0.8	0.8	0.7	0.8	0.8	0.8	0.9	1.0	0.9	1.0	1.0	
Wage	-0.2	-0.2	0.4	0.4	0.4	0.7	0.6	1.4	1.2	1.2	1.2	

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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
-0.2	0.6	-0.4	0.0	0.4	0.2	0.3	3.9	0.8	1

Source: Refinitiv, BNP Paribas

The manufacturing sector continues to underperform

The Harmonised Index of Consumer Prices (HICP) rose again to +3.5% y/y in October (+0.21 pp). Food inflation remains high, although it eased from September (+9.5% y/y in October, -1 pp). However, the surge in olive oil prices persisted (+73.5% y/y, +6.5 pp), contributing 0.37 points to overall inflation. As for energy, the deflation is subsiding but remains significant (-10.1% y/y, -3.7 pp). Core inflation meanwhile, eased to +3.8% over a year.

The European Commission's Economic Sentiment Indicator rose slightly in October (100.3 points), mainly due to an improvement in services. Confidence in this sector has returned to its April 2022 level. Moreover, according to the survey, job creation in services is expected to continue over the next three months, as the index reached its highest level since April 2019. Conversely, the manufacturing sector continues to suffer, with order books below pre-Covid levels. In addition, the manufacturing PMI sank further into the contraction zone, reaching its lowest level in a year (45.1). Household expectations for the economic situation over the next twelve months also deteriorated (-8.8 pp between August and October), keeping the consumer confidence index at a depressed level.

The country's political situation could also weigh on the economic climate. Pedro Sánchez, the outgoing Prime Minister, was finally re-elected in a vote held in Parliament on 16 November. However, the start of his second term is likely to be turbulent due to the country's division over the amnesty law soon to be granted to Catalan separatists.

We expect a moderate slowdown in the Spanish economy in H2 2023, as already shown by the preliminary Q3 GDP figures (+0.3% q/q). We expect this deceleration to continue to +0.2% q/q in Q4, which would nevertheless allow growth to reach 2.4% over 2023 as a whole, one of the highest levels in the eurozone.

Lucie Barette (article completed on 21 November 2023)

Spain: economic indicators monthly changes*

	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23
Business climate - manufacturing	0.0	0.3	0.4	0.2	0.5	0.6	0.2	-0.1	-0.2	0.1	-0.1	-0.1
Business climate - construction	1.2	1.4	0.4	1.2	0.9	1.2	1.2	1.2	1.2	0.7	0.8	1.0
Business climate - services	0.3	0.2	0.6	0.5	0.4	0.6	0.6	0.6	0.7	0.7	0.6	0.7
PMI manufacturing new export orders	-1.7	-1.4	-0.7	-0.1	-0.2	-0.6	-0.8	-0.8	-1.3	-1.4	-0.4	-1.0
PMI Composite - e	0.0	0.3	0.0	0.4	0.7	1.1	0.9	0.6	0.5	0.4	0.3	0.3
Consumer confidence	-1.1	-0.8	-0.6	-0.5	-0.8	-0.4	-0.4	0.0	0.4	0.1	-0.4	-0.3
Industrial production	0.0	0.1	0.1	0.1	0.6	-0.1	0.0	-0.4	-0.2	-0.4	-0.1	
Retail sales	0.8	1.6	2.1	1.7	2.1	1.8	1.7	1.5	1.6	1.3	1.5	
Exports	1.4	0.8	0.8	0.3	0.9	-1.0	-0.8	-0.7	-0.9	-1.3	-1.4	
HICP	2.1	1.5	1.7	1.7	0.4	0.7	0.3	-0.2	0.0	0.1	0.5	0.6
Core HICP	2.4	2.4	3.2	3.2	2.7	2.2	1.9	1.8	2.4	2.3	1.9	1.8
Employment	0.5	0.4	0.4	0.4	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.5
Wage	1.8	2.0	0.8	0.5	0.6	0.6	0.7	0.6	0.6	0.6	0.6	0.6
Unemployment Rate	0.6	0.6	0.6	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	

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* 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
0.5	0.6	0.4	0.3	1.2	0.2	0.2	5.8	2.4	1.5

Source: Refinitiv, BNP Paribas

UNITED STATES

A slowdown lies ahead

According to the initial estimate by the BEA (Bureau of Economic Analysis), the United States economy gathered significant pace in Q3, with GDP growth up +1.2% q/q (+0.7pp). This advance, the largest in seven quarters, was driven by strong household consumption (+1.0% q/q), alongside with a significant contribution of stocks (adding +0.3pp to the rate of growth). Conversely, non-residential investment stalled, following two buoyant quarters, under the combined impact of the monetary tightening and the fading of the impulse priorly provided by the IRA and the CHIPS Act.

Following the very positive Q3 print, the US economy is seemingly heading towards a marked slowdown in Q4, as GDP growth should stand at +0.4% q/q according to our forecast (compared to +0.5% according to the Atlanta Fed's GDPnow). According to the ISM survey in October, business climate has deteriorated in the manufacturing industry, with the index dropping to 46.7 (- 2.3pp), amid a sharp decline in New Orders (45.5, -3.7pp). The non-manufacturing index also pointed to a slowdown, dipping to 51.8 (-1.8pp), with respondents reporting weakening dynamics in the business activity sub-index (54.1, -4.7pp).

The consumer price index was stable in October (+0.0% m/m, SA), leading to a striking drop in the annual rate of change (+3.2% y/y, -0.5pp). The underlying inflation also decreased, although less markedly, and reached +4.0% y/y (-0.1pp). The latter's breakdown confirmed the disinflation in non-energy goods, which stagnated over 1 year. Housing services inflation slowed down (+6.7% y/y, -0.4pp), but still accounted for most of the increase in Core CPI.

The less favorable labour market situation appeared more clearly into view, as evidenced by a significant deceleration in non-farm payrolls in October (+150k). This tempered the relative importance of the September's surprising uptick (+297k, -39k revision) and prolonged the downtrend for 2023 (+243k on a 12-month rolling average, vs +408k in January). In addition, the unemployment rate increased (3.9%, +0.1pp), while the participation rate receded (62.7%, -0.1pp).

These developments strengthen the scenario whereby the rate-hikes cycle has ended. In this respect, the Federal Funds Target Range was maintained at 5.25% - 5.5% at the last FOMC Meeting, together with a continuing quantitative tightening. Nevertheless, Governor Jerome Powell is still reluctant to declare the end of the cycle and reiterated the possibility of further rate hikes, while describing recent readings as "favourable" and the current stance of the monetary policy as "restrictive".

Anis Bensaidani (completed on 17 November 2023)

United States: economic indicators monthly changes*

	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23
ISM Manufacturing	-0.2	-0.3	-0.5	-0.5	-0.8	-0.6	-0.6	-0.8	-0.7	-0.5	-0.2	-0.7
ISM Services	1.3	-0.2	1.2	1.2	0.3	0.5	0.1	0.9	0.6	1.1	0.9	0.4
ISM Services - Employment	0.1	-0.1	0.0	0.8	0.3	0.2	-0.2	0.6	0.1	0.9	0.7	0.0
ISM Manufaturing - Employment	-0.2	0.1	0.1	-0.2	-0.5	0.0	0.2	-0.3	-1.0	-0.3	0.2	-0.6
Consumer confidence (Univ. of Michigan)	-2.0	-1.8	-1.3	-1.2	-1.6	-1.4	-1.8	-1.4	-0.8	-0.9	-1.1	-1.4
Consumer confidence (Conf. Board)	0.4	0.7	0.5	0.4	0.5	0.5	0.4	0.7	0.9	0.6	0.5	0.4
Industrial production	0.2	0.0	0.2	0.0	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1	-0.2	-0.3
Building permits	0.2	0.3	0.1	0.4	0.3	0.3	0.4	0.3	0.3	0.5	0.4	0.4
Retail Sales	0.3	0.2	0.5	0.1	-0.4	-0.5	-0.4	-0.5	-0.3	-0.3	-0.1	-0.3
New Car registrations	0.6	0.0	0.4	0.1	0.6	0.7	1.1	1.0	1.5	0.6	0.8	
Nominal Real Personal Consumption	-0.4	-0.2	0.1	0.1	-0.1	-0.1	-0.1	0.0	0.2	0.1	0.1	
Household purchasing power	-1.0	-0.8	0.3	0.4	0.6	0.6	0.8	0.9	0.5	0.4	0.3	
PCE deflator	2.5	2.1	2.1	1.9	1.5	1.4	1.1	0.6	0.8	0.8	0.8	
Core PCE deflator	3.2	2.9	2.9	2.8	2.7	2.6	2.5	2.1	2.1	1.6	1.5	
CPI	2.4	2.1	2.0	1.8	1.3	1.2	0.8	0.3	0.4	0.6	0.6	0.3
Core CPI	3.4	3.1	2.9	2.8	2.9	2.7	2.5	2.1	2.0	1.7	1.5	1.4
Nonfarm Payrolls	0.9	0.8	0.9	0.7	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.3
Unemployment Rate	1.2	1.2	1.3	1.2	1.2	1.2	1.1	1.1	1.2	1.0	1.0	1.0

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* 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
0.6	0.6	0.5	1.2	0.8	0.6	0.4	-0.3	1.9	2.4	0.8

Source: Refinitiv, BNP Paribas

UNITED KINGDOM

Improvement on the inflation front

Consumer price inflation fell sharply in October, from 6.6% y/y in September to 4.6% y/y. Nevertheless, this decrease remains limited by the strong increase in wages, which continue to put upward pressure on services prices. A 5% increase in gas and electricity prices from 1 January has also been announced. In addition, the transmission of interest rates to mortgage interest payments remains significant (+50% between October 2022 and October 2023 according to the retail price index, RPI), and is weighing heavily on households' financial situation.

Against this very difficult backdrop for purchasing power, Jeremy Hunt, the Chancellor of the Exchequer, unveiled the budget plan for 2024 in his Autumn Statement. This includes a series of measure to support household income, including a 2-point reduction in the national insurance rate (which will fall to 10%), as well as an increase in the minimum wage and the state pensions.

Private consumption contracted by 0.4% q/q in Q3 and remains anchored below its 2019 levels. Yet the labour market is resilient: net job creation remained positive in September and October, according to the "experimental" data provided by the ONS. The unemployment rate stabilised at 4% in October, according to social security figures.

Real GDP growth stagnated in Q3, but the breakdown by expenditure item indicates a worse situation on the domestic demand front, offset by a positive contribution from net export. In addition to the decline in private consumption, corporate investment fell by 4.2% q/q in Q3 (the data is erratic, but it was still the strongest contraction in two and a half years). A recession in the first half of 2024 remains our central scenario. This would be followed by a slow recovery at the onset of the Bank of England's (BoE) monetary easing, with a first rate cut expected in June 2024. With negative growth that we estimate to be -0.1% in 2024 on an annual average (after +0.6% this year), the United Kingdom looks likely to remain one of the weakest links in the G7 next year.

Guillaume Derrien (article completed on 23/11/2023)

United Kingdom: economic indicators monthly changes*

	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23
PMI manufacturing	-0.8	-1.0	-0.6	-0.2	-0.5	-0.5	-0.6	-0.7	-1.0	-1.5	-1.2	-1.1
PMI manufacturing new export orders	-2.4	-1.5	-1.3	-0.2	-0.3	-0.4	-0.6	-1.4	-1.9	-2.4	-1.1	-1.4
PMI manufacturing employment	-0.5	-0.9	-0.7	-0.2	-0.7	-0.1	-0.2	-0.6	-0.8	-0.7	-0.9	-0.8
PMI services	-0.2	0.0	-0.2	0.7	0.6	1.1	1.0	0.7	0.3	-0.1	-0.1	-0.1
Business climate manufacturing (volume of Total Order Book)	0.3	0.2	-0.3	-0.3	-0.5	-0.5	-0.3	-0.2	0.1	-0.2	-0.4	-0.8
Consumer confidence	-2.4	-2.2	-2.4	-1.8	-1.7	-1.2	-1.0	-0.7	-1.2	-0.8	-0.5	-1.2
Industrial production	-0.9	-0.8	-0.6	-0.5	-0.4	-0.1	-0.3	0.5	0.4	0.4	0.4	
Retail sales	-1.8	-2.0	-1.6	-1.3	-1.4	-1.2	-0.9	-0.8	-1.1	-0.6	-0.6	-0.9
Exports	2.3	0.8	0.7	0.6	0.4	0.0	-0.2	0.0	-0.8	-1.2	-1.4	
CPI	4.3	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	1.3	1.2	1.1	1.2	1.1	0.9	0.9	0.9			

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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
0.1	0.3	0.2	-0.0	0.1	0.1	-0.2	4.4	0.6	-0.1

Source: Refinitiv, BNP Paribas

JAPAN

Household consumption has still no traction

The preliminary GDP estimate for Q3 shows a contraction of -0.5% q/q, while the most recent economic surveys have confirmed the slowdown in activity. The composite PMI fell 1.6 points in October, but remained in expansionary territory, standing at 50.5. This deterioration is due to the decline in the services PMI, which was down by 2.2 points (51.6 compared to 53.8 in September). The manufacturing PMI stabilised in contraction zone at 48.7.

Although household confidence improved slightly in October (+0.5 points according to the Cabinet Office's index), consumer spending is still very weak. Consumer expenditures fell for the seventh consecutive month in September to -2.8% y/y, according to the monthly survey by the Japan Statistics Bureau. Private demand subtracted 0.4 pp from quarterly growth in Q3, due to a large destocking in particular. This weak domestic demand has also been caused by a limited pass-through of corporate profits to wages, despite the very low unemployment rate of 2.6% in September. Indeed, real wages were down 2.4% y/y in September. In response to the loss of household purchasing power, the Japanese government announced a new budget package worth more than USD 112 billion. It includes income tax cuts and the extension of energy subsidies until the spring.

Inflation has continued to recede since reaching a peak in June. It stood at 3.0% y/y in September, compared to 3.3% three months before. However, the Bank of Japan, which was anticipating a larger decrease, revised its forecasts upwards for 2023 (from 2.5% to 2.8%) and 2024 (from 1.9% to 2.8%). At the same time, BoJ governor Kazuo Ueda announced that the Yield Curve Control policy will be conducted with greater flexibility[1]. This decision resulted in a further depreciation of the yen against the US dollar, with the USD/JPY exchange rate exceeding the symbolic threshold of 150, before dipping back under this level again from mid-November.

Against this backdrop, we are expecting an upturn in activity in Q4 2023 (with growth of 0.4% q/q), supporting a high growth rate of 1.8% for 2023 as a whole, thanks also to the very favourable carry-over effect from the first half of 2023.

[1] The limit 1% for 10-year yields on government bonds is no longer seen as a fixed upper bound and is now seen as a reference, which was previously set at 0.5%.

Guillaume Derrien (with the help of Nassim Khelifi, intern, article completed on 21/11/2023)

Japan: economic indicators monthly changes*

	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23
PMI: Manufacturing	-0.2	-0.3	-0.3	-0.6	-0.2	-0.1	0.1	0.0	-0.1	-0.1	-0.4	-0.3
PMI: Services	0.1	0.2	0.5	0.8	1.0	1.1	1.2	0.8	0.8	0.9	0.8	0.3
PMI Manufacturing New export orders	-0.9	-0.7	-0.6	-1.3	-0.7	-0.5	-0.6	-0.9	-0.5	-0.3	-0.4	-0.6
PMI Manufacturing -Employment	0.4	0.3	0.3	0.3	0.2	0.5	0.1	0.4	0.4	0.0	0.1	-0.3
Consumer confidence	-1.9	-1.7	-1.6	-1.6	-1.1	-0.9	-0.7	-0.7	-0.5	-0.7	-0.9	-0.8
Industrial production	-0.2	-0.1	-0.4	-0.2	-0.1	0.0	0.3	0.0	-0.3	-0.5	-0.4	
Private machinery order excluding volatile orders	0.2	0.2	1.1	0.6	0.2	0.8	0.0	0.2	0.1	0.1	0.2	
Retail sales	0.6	1.0	1.4	2.2	2.0	1.4	1.6	1.6	2.0	2.0	1.7	
Exports	1.0	0.4	-0.1	0.0	-0.1	-0.2	-0.5	-0.3	-0.3	-0.5	-0.1	
CPI	3.1	3.2	3.4	2.5	2.4	2.6	2.3	2.4	2.3	2.2	2.0	
Core CPI	2.9	3.1	3.2	3.3	3.5	3.8	3.8	3.7	3.6	3.5	3.4	
Unemployment rate	1.4	1.3	1.5	1.2	1.0	1.2	1.2	1.3	1.1	1.1	1.2	
Employment	0.2	-0.2	0.4	-0.2	-0.1	-0.2	-0.1	0.1	-0.1	0.0	0.0	
Wage	1.9	1.6	1.0	0.9	0.7	0.9	1.6	1.4	1.3	1.3	0.9	

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* 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
-0.1	0.9	1.1	-0.5	0.2	0.4	0.2	0.9	1.8	1

Source: Refinitiv, BNP Paribas

BNP PARIBAS ECONOMIC RESEARCH

William De Vijlder Chief Economist	+33 1 55 77 47 31	william.devijlder@bnpparibas.com

OECD ECONOMIES AND STATISTICS

Hélène Baudchon Deputy chief economist, Head - United States	+33 1 58 16 03 63	helene.baudchon@bnpparibas.com
Stéphane Colliac France, Germany	+33 1 42 98 43 86	stephane.colliac@bnpparibas.com
Guillaume Derrien Eurozone, Southern Europe, Japan, United Kingdom - Global trade	+33 1 55 77 71 89	guillaume.a.derrien@bnpparibas.com
Veary Bou, Tarik Rharrab Statistics		

ECONOMIC PROJECTIONS, RELATIONSHIP WITH THE FRENCH NETWORK

Jean-Luc Proutat Head	+33 1 58 16 73 32	jean-luc.proutat@bnpparibas.com

BANKING ECONOMICS

Laurent Quignon Head	+33 1 42 98 56 54	laurent.quignon@bnpparibas.com
Céline Choulet	+33 1 43 16 95 54	celine.choulet@bnpparibas.com
Thomas Humblot	+33 1 40 14 30 77	thomas.humblot@bnpparibas.com
Marianne Mueller	+33 1 40 14 48 11	marianne.mueller@bnpparibas.com

EMERGING ECONOMIES AND COUNTRY RISK

François Faure Head – Argentina, Turkey – Methodology, Modelling	+33 1 42 98 79 82	francois.faure@bnpparibas.com
Christine Peltier Deputy Head – Greater China, Vietnam – Methodology	+33 1 42 98 56 27	christine.peltier@bnpparibas.com
Stéphane Alby Africa (French-speaking countries)	+33 1 42 98 02 04	stephane.alby@bnpparibas.com
Pascal Devaux Middle East, Balkan countries	+33 1 43 16 95 51	pascal.devaux@bnpparibas.com
Hélène Drouot South Korea, Philippines, Thailand, Andean countries	+33 1 42 98 33 00	helene.drouot@bnpparibas.com
Salim Hammad Latin America	+33 1 42 98 74 26	salim.hammad@bnpparibas.com
Cynthia Kalasopatan Antoine Ukraine, Central European countries	+33 1 53 31 59 32	cynthia.kalasopatan.antoine@bnpparibas.com
Johanna Melka India, South Asia, Russia, Kazakhstan	+33 1 58 16 05 84	johanna.melka@bnpparibas.com
Lucas Plé Africa (Portuguese & English-speaking countries)	+33 1 40 14 50 18	lucas.ple@bnpparibas.com

CONTACT MEDIA

Mickaelle Fils Marie-Luce	+33 1 42 98 48 59	mickaelle.filsmarie-luce@bnpparibas.com