ECOPULSE

ECONOMIC RESEARCH
October 2025

# Resilient growth despite volatility linked to the tariff shock

## Monthly Pulse of the Economic Conjoncture

Eurozone (Conjoncture and Credit) Germany

France Italy Spain United Kingdom

United States Japan China

## Nowcast

Eurozone France United States

BNP PARIBAS

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# OVERVIEW OCTOBER 2025

# Resilient growth despite volatility linked to the tariff shock

**Our nowcasts for Q3 2025 highlight resilient GDP growth in the Eurozone (0.2% q/q) and France (0.3% q/q, as in Q2).** In Italy and Germany, two economies that suffered a setback in Q2 after a very good Q1, we expect growth to strengthen in Q3 (0.1% q/q for each, or +0.2 and +0.4 pp respectively) and more markedly in Q4 (0.2% q/q and 0.3% q/q respectively). The UK, meanwhile, is expected to see growth slow in Q3 (after a very strong H1), before rebounding in Q4. In the US, the Atlanta Fed's GDP Now suggests another upside surprise for Q3 growth (1% q/q), before a backlash and a sharp slowdown in Q4. In Japan and China, the slowdown would occur as early as Q3, after a good H1.

**Business climate: the trend continues to improve despite the more mixed picture in September.** In the UK, Germany (IFO) and Japan, business climate indicators declined in September. However, the trend has remained favourable since the beginning of the year. In the Eurozone, the recovery is continuing, but industry is showing signs of slowing down (particularly in Italy). In France, the climate remains gloomy, with mixed developments across different sectors. The lack of improvement reflects political and budgetary uncertainties.

**Household confidence: gloom is growing.** Household sentiment is deteriorating everywhere except in southern Europe and Japan. In the US, uncertainty is increasing, particularly due to the deteriorating situation in the labour market.

**Labour market: highly heterogeneous.** While the situation remains favourable in the Eurozone and Japan, and is stabilising in the UK, it is deteriorating significantly in China (rise in unemployment, particularly among young people) and the US (contraction in private sector employment according to ADP figures).

**Inflation: pressures appear to be under control.** Despite a slight upturn in September, inflation remains moderate in the Eurozone. The situation is different in the UK, where inflationary pressures remain high. In Japan, inflation slowed in August, as it did in China, which is returning to deflation. In the US, inflation is beginning to reflect the tariff shock, but its acceleration remains gradual.

**Monetary policies: divergences.** The ECB is expected to maintain its monetary *status quo* given the good control of inflation across the Eurozone. The Fed is expected to continue its rate cuts in October and December (25 bp each time) in response to the deterioration in the labour market. In the UK and China, gradual monetary easing is expected to continue (25 bp per quarter in the UK and 10 bp per semester in China) to support growth. In Japan, monetary tightening is expected to resume in Q4 (+25 bp to 0.75%).

**Credit in the Eurozone: recovery.** Outstanding loans to businesses and households increased in July, mainly due to a slight decline in corporate borrowing rates. Household borrowing rates, meanwhile, rose modestly (by +0.01% m/m for new home loans and +0.06% m/m for new consumer loans). Bank and market financing flows to businesses increased significantly.

Lucie Barette and Stéphane Colliac (completed on October 3, 2025)

**Indicators Q4 2025**

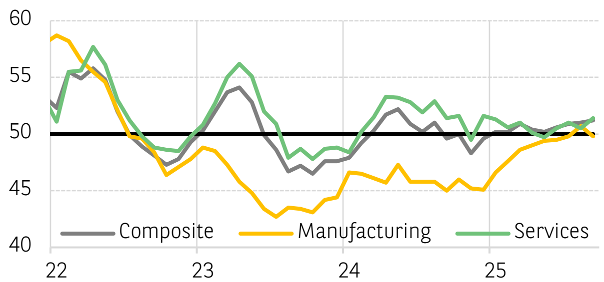
| | Business climate | Households | Labour market | Inflation |
|---|---|---|---|---|
| Eurozone | ⛅ | ⛅ | ⛅ | ☀ |
| Germany | ⛅ | ☁ | ⛅ | ⛅ |
| France | ☁ | ☁ | ⛅ | ☀ |
| Italy | ☁ | ☀ | ☀ | ☀ |
| Spain | ⛅ | ☀ | ☀ | ⛅ |
| United Kingdom | ☁ | ⛅ | ⛅ | ☁ |
| United States | ☁ | ☁ | ☁ | ☁ |
| Japan | ⛅ | ☁ | ⛅ | ☁ |
| China | ☁ | ☁ | ☁ | ☁ |

Source: BNP Paribas

CONTENT

# Eurozone: Strengthening activity still in sight

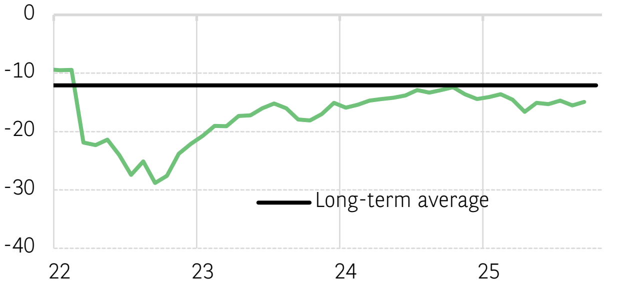
**Business climate: PMI**




Source: Markit, BNP Paribas.

**The recovery in PMI indices continues despite a decline in industry.** In September 2025, the composite PMI reached its highest level since May 2024 (51.2), an improvement attributable to services (51.4). However, the manufacturing index, which had been recovering sharply since the beginning of the year, declined in September (-1.2 points to 49.5). Industrial production rose by 0.3% m/m in July. The economic sentiment index stabilised in Q3.

**Household confidence**




Source: European Commission, BNP Paribas.

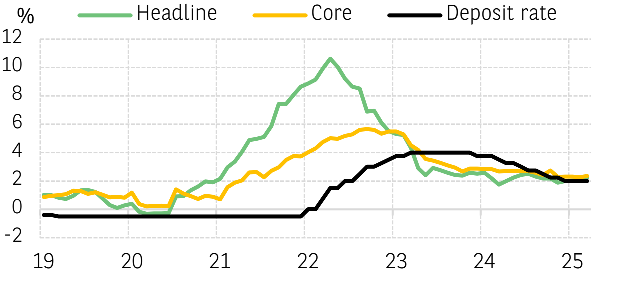
**Positive signals for consumption.** Over the last three months, the major purchase intentions index recorded its strongest growth in two and a half years (+2.6 pts), pushing up the overall household confidence index. Nevertheless, the outlook for unemployment (+0.9 pts) and the economic situation over the next twelve months (-0.1 pts) is deteriorating. Retail sales fell by 0.7% m/m in July but rose by 2.6% y/y.

**Labour market: unemployment rate**


Source: Eurostat, BNP Paribas.

**The labour market remains tight.** The unemployment rate fell to 6.2% in July, its lowest level ever, before rising to 6.3% in August. The youth unemployment rate in the Eurozone (16-25 years old) is at its lowest (14.0%), down 0.9 p.p. year-on-year. The ECB wage tracker indicates an expected increase in base salaries at the end of 2025 (+3.0% y/y), followed by a stabilisation at around 2.5% y/y in spring 2026.

**Inflation (y/y) and policy rate**




Source: Eurostat, BNP Paribas.

**Inflation remains under control despite a rise in September.** Harmonised inflation rose from 2.0% to 2.2% (flash) and core inflation rose from 2.3% to 2.4%. Inflation is expected to return to the 2% target in Q4 and then ease off. Inflation is under control, helped by the rise in the euro and the quasi-stagnation of producer prices (+0.2% y/y in July). This environment therefore remains favourable for the ECB in order to maintain monetary *status quo*.

**GDP growth q/q: actual, carry-over and forecasts**

| Actual | | | Carry-over | Actual | | Nowcast | Forecast | | Annual forecasts (y/y) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Q2 2024 | Q3 2024 | Q4 2024 | Q4 2024 | Q1 2025 | Q2 2025 | Q3 2025 | Q3 2025 | Q4 2025 | 2024 (observed) | 2025 | 2026 |
| 0.2 | 0.4 | 0.4 | 0.6 | 0.6 | 0.1 | 0.2 | 0.0 | 0.3 | 0.8 | 1.3 | 1.4 |

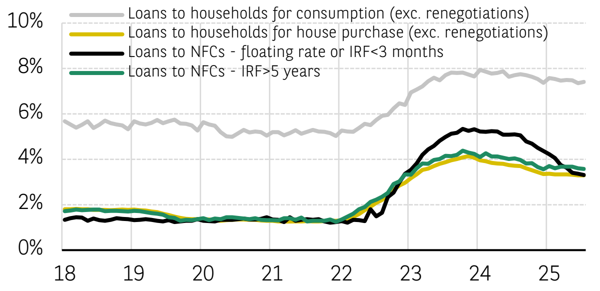
See the Nowcast methodology. Contact:Tarik Rharrab Source: Refinitiv, BNP Paribas

**An upside surprise for growth? Our nowcast for Q3 points to growth of 0.2% q/q.** This figure is better than our forecast of stagnant activity. The expected slowdown in Q3 would mainly reflect the normalisation of activity in Ireland and a slight slowdown in France and Spain. Activity in the Eurozone should then pick up in Q4 (+0.3% q/q) and *a fortiori* in 2026 (+0.4% q/q in Q1 and +0.5% q/q in subsequent quarters), supported by increased investment efforts in Europe, particularly in Germany. On average for the year, growth is expected to increase from 1.3% in 2025 to 1.4% in 2026. In July, growth in outstanding loans to businesses and households increased, thanks in particular to lower interest rates on new business loans, despite a rise in household borrowing rates.

Guillaume Derrien and Thomas Humblot (completed on October 2, 2025)

# Eurozone: Overall uptick in lending volumes

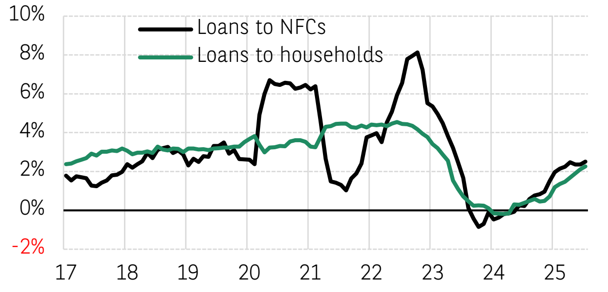
## Euro area bank interest rates on new loans




Source: ECB, BNP Paribas.

**Bank lending rates: continued decline for corporations in the Eurozone, increase for households.** Rates on new investment loans (irf>5 years) to non-financial corporations in the Eurozone fell very slightly in July 2025 for the second consecutive month. At 3.58%, however, they remained close to their June 2025 level (-2 bp m/m). Rates on new treasury loans (floating rate and irf<3 months) to NFCs fell slightly more sharply to 3.31% (-5 bp m/m). Conversely, rates on new loans to households for house purchase and consumption rose just as modestly (by +1 bp and +6 bp m/m, respectively). They stood at 3.30% and 7.41%, respectively.

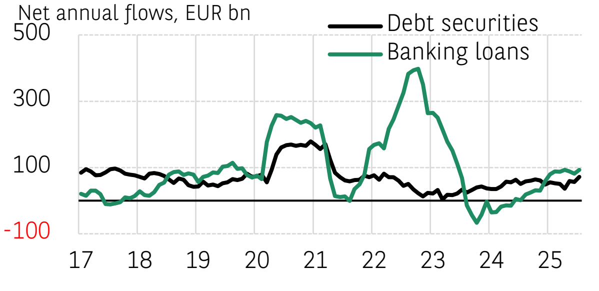
## Growth rate of outstanding loans in the euro area




Source: ECB, BNP Paribas.

**Outstanding loans to corporations and households are accelerating modestly.** Year-on-year growth in outstanding bank loans to corporations in the Eurozone rose slightly in July 2025 to 2.5% (+16 bp m/m). Outstanding loans with maturity of between 1 and 5 years accelerated significantly to 4.6% (+57 bp m/m), while those with maturity of over 5 years grew by 1.6% (+34 bp m/m). Conversely, year-on-year growth in outstanding treasury loans (maturity <1 year) slowed from 4.2% in June to 3.3% in July. Outstanding loans to households for house purchase continued to accelerate in July (2.2%, +17 bp m/m) but remain historically sluggish. Growth in loans for consumption slowed month-on-month but remains above its long-term average (4.5% and 3.7% respectively).

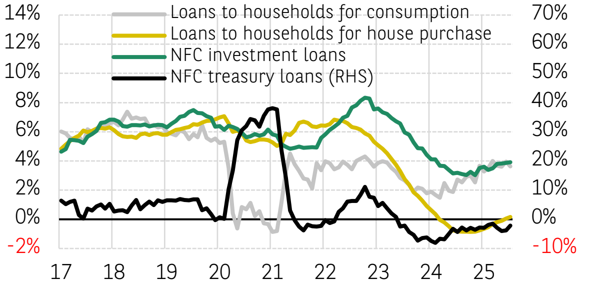
## Financing flows to euro area NFCs




Source: BCE, BNP Paribas.

**Bank and market financing flows to Eurozone corporations are increasing significantly.** Bank lending to Eurozone corporations, net of repayments and cumulated over one year, rose sharply year-on-year, from EUR 1.7 bn to EUR 93 bn in July 2025. Net debt securities issuance, cumulated over one year, was also very strong in July 2025 (+42% y/y), starting from a volume that was already slightly above its historical average. Over the coming months, the relative stability of market interest rates, at a higher level than that observed during the low interest-rates era, should help to keep the cost of bank financing relatively attractive compared to market financing.

## Growth rate of outstanding loans in France



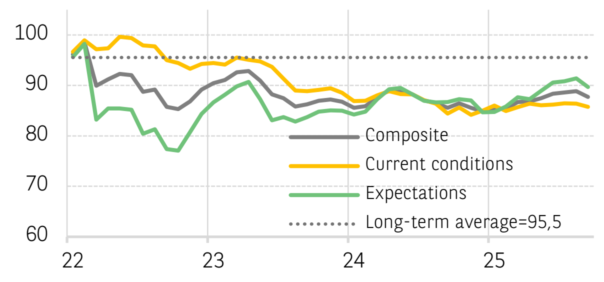

Source: Banque de France, BNP Paribas.

**Outstanding loans continue to recover overall in France.** Outstanding amounts of corporation investment loans in France accelerated in July 2025 (+3.9% year-on-year, +6 bp month-on-month). However, their growth remained significantly below its long-term average (~5%). Outstanding treasury loans continued to decline (-2.2% year-on-year), mainly due to the repayment of state-guaranteed loans (PGE), but at a slower pace. Outstanding loans to households for house purchase continued to recover for the second consecutive month after 15 months of decline (+0.17% year-on-year). However, the recovery in new home loans could moderate in the near future due to the weak growth in households' real estate purchasing capacity. Under this assumption, outstanding loans for house purchase could continue to grow, but at a very moderate pace. After the recent slowdown, growth in outstanding loans for consumption remains strong year-on-year (+3.6% in July, after +3.9% in June).

Thomas Humblot (Completed on October 1, 2025)

# Germany: A two-stage recovery: moderate in Q3, stronger in Q4

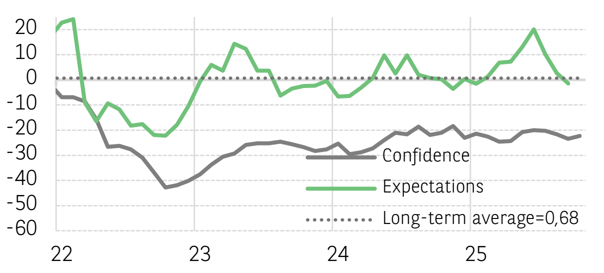
## IFO's Business climate




Source: IFO, BNP Paribas

**The decline in the IFO index in September does not impede the upward trend that began in early 2025.** The relative weakness in September particularly affected services and retail trade. However, there has been a clear improvement since the beginning of the year in industry, construction and wholesale trade. This momentum has not yet spread to the rest of the economy, whilst awaiting the effective implementation of investment plans, with a ramp-up expected in Q4.

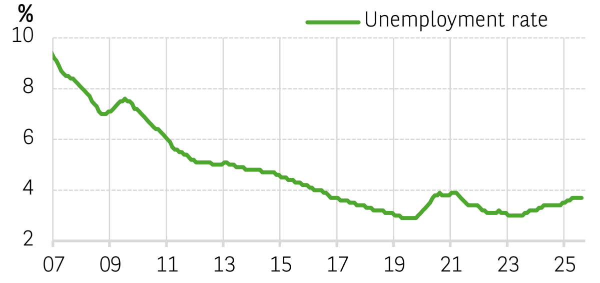
## Household confidence




Source: GFK, BNP Paribas.

**Household confidence has deteriorated and consumption is sluggish.** Household confidence improved in September but remains below its average level between April and July. Expectations of wage increases are supporting morale. However, spending intentions are deteriorating, suggesting that household consumption, which was already stagnant in Q2, will remain sluggish.

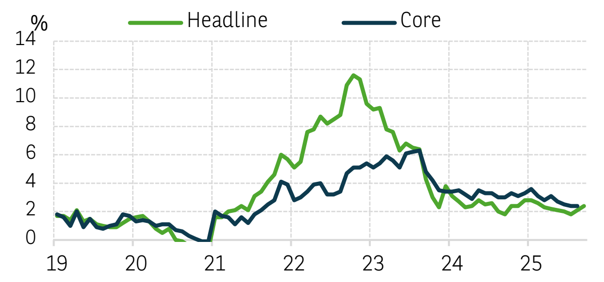
## Labour market: unemployment rate




Source: Destatis, BNP Paribas.

**Stable unemployment and employment.** The unemployment rate has been stable at 3.7% y/y in August for five months (+0.7 pp compared to the low point in H1 2023). Job creation in the public sector is offset by losses in industry. According to the Federal Employment Agency, companies remain reluctant to hire, making it difficult to find work – a finding corroborated by the IAB and IFO employment surveys.

## Inflation




Source: Destatis, BNP Paribas

**Persistent inflation.** Harmonised inflation reached 2.4% y/y in September (+0.3 pp m/m, preliminary figures, the highest since February), driven by services (+3.4% y/y, +0.3 pp m/m). The rise in negotiated wages (+4.4% y/y in September) is supporting this persistent inflation in services. In addition, the decline in energy prices is slowing (-0.7% y/y, after -2.4% in August).

**GDP growth q/q: actual, carry-over and forecasts**

| Actual | | | Carry-over | Actual | | Forecast | | Annual forecasts (y/y) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Q2 2024 | Q3 2024 | Q4 2024 | Q4 2024 | Q1 2025 | Q2 2025 | Q3 2025 | Q4 2025 | 2024 (observed) | 2025 | 2026 |
| -0,3 | 0 | 0,2 | 0,1 | 0,3 | -0,3 | 0,1 | 0,3 | -0,5 | 0,3 | 1,4 |

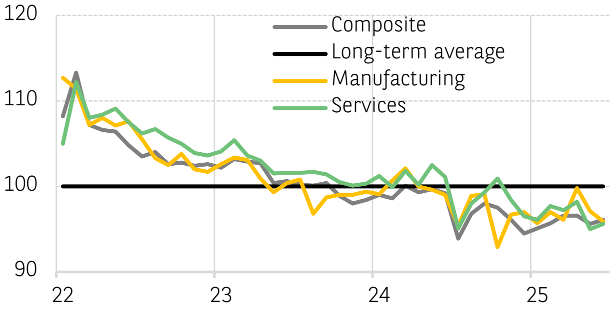
Source: Refinitiv, BNP Paribas

**Real GDP contracted in Q2 2025, after two consecutive quarters of growth.** It was penalised by the decline in private investment and the moderate decline in exports (a partial backlash after a good Q1). Growth is expected to be contained in Q3, before benefiting from measures to support public and private investment from Q4 onwards.

Marianne Mueller (completed on October 1, 2025)

# France: towards a new quarter with 0.3% growth?

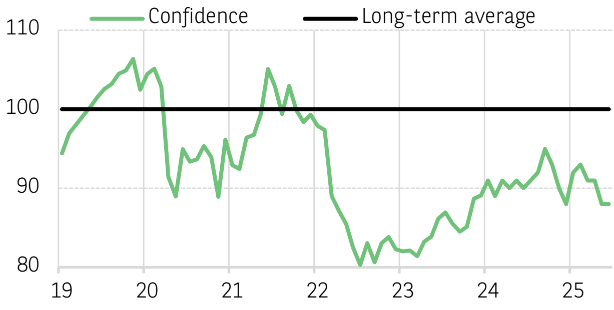
## Insee's Business climate




Source: Insee, BNP Paribas

**The improvement in certain sectors is not spreading to others.** The composite business climate has been stable for five months, at 96. Several sectors benefited from an improvement in Q2, including aeronautics, information and communication, and construction (to a lesser extent). These sectors continue to outperform in Q3, but without this spreading to other sectors; they should therefore continue to support growth in Q3. However, growth is vulnerable to a slowdown in these sectors in the absence of other drivers.

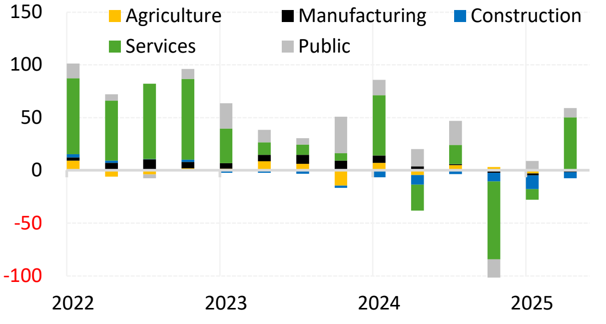
## Household confidence




Source: Insee, BNP Paribas

**Household confidence at a two-year low,** at 87 in September, as in August. The balances of opinion on past living standards (25 points below its historical average), future living standards (35 points below) and the outlook for unemployment (22 points above) are stable at a low level. The opportunity to make major purchases fell to -31 in September (-4 points m/m).

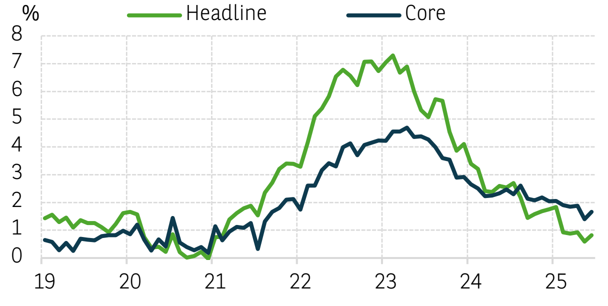
## Labour market: job creation (q/q, thousands)




Source: Insee, BNP Paribas

**Labor market resilience.** Net payroll employment rose 0.2% q/q in Q2, supported by growth in hiring (which had declined in the previous two quarters). The unemployment rate remained stable at 7.5% in Q2. However, the deterioration in the employment climate to 93 in September could signal a new period of cooling (against a backdrop of political uncertainty). Nevertheless, the unemployment rate is expected to remain well below 8% according to our forecasts.

## Inflation (y/y)




Source: Insee, BNP Paribas

**Moderate inflation, with some divergence.** Harmonized inflation has been close to 1% y/y since February 2025 (1.1% in September) and is expected to remain so until the end of the year. Core inflation is well below 2% (1.5% y/y in September), but inflation in services remains above 2%. Energy and goods inflation are negative (moderately so for the latter). Food inflation has rebounded (1.7% y/y in September, compared with 0% in December 2024).

## GDP growth q/q: actual, carry-over and forecasts

| Actual | | | Carry-over | Actual | | Nowcast | Forecast | | Annual forecasts (y/y) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Q2 2024 | Q3 2024 | Q4 2024 | Q4 2024 | Q1 2025 | Q2 2025 | Q3 2025 | Q3 2025 | Q4 2025 | 2024 (observed) | 2025 | 2026 |
| 0.2 | 0.4 | -0.1 | 0.3 | 0.1 | 0.3 | 0.3 | 0.2 | 0.3 | 1.1 | 0.7 | 1.1 |

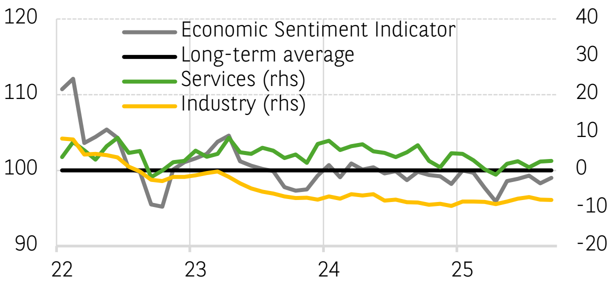
See the Nowcast methodology. Contact:Tarik Rharrab Source: Refinitiv, BNP Paribas

**Will Q3 growth confirm the upturn seen in Q2?** The rebound in growth in Q2 was driven by aeronautics and agricultural production, as well as household investment. These sectors continue to benefit from favourable conditions in Q3, as suggested by our nowcast, which points to growth of 0.3% q/q in Q3 (as in Q2). **Credit developments:** Growth in outstanding corporation investment loans increased slightly in July, while outstanding treasury loans continued to decline, mainly due to corporations repaying state-guaranteed loans (PGE). Outstanding loans to households for house purchase continued to recover, while loans for consumption remained vigorous.

Stéphane Colliac and Thomas Humblot (completed on October 3, 2025)

# Italy: Economic conditions improving

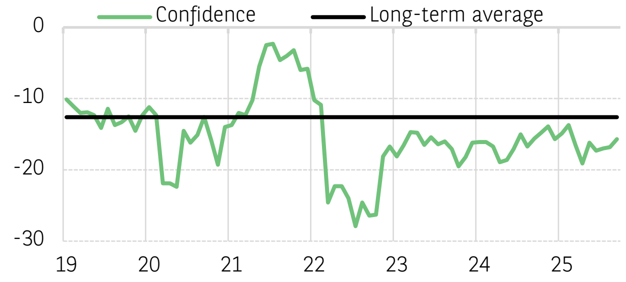
## Business climate: Economic Sentiment Survey




Source: European commission, BNP Paribas.

**Business climate penalised by industry.** In September, the economic sentiment index remained below its long-term average (99; +0.7 points m/m), held back by industry (-7.8; -0.1 points) with a production index still in negative territory (-17.4) and production forecasts declining (-0.9). This contrasts with the rise in industrial production (+0.7% y/y in July). In services, sentiment is improving (+2.5; +0.2 pts) but activity is struggling to take off. However, expectations for demand in the coming months are rising (6.3, the highest since April 2024; +4.6 pts).

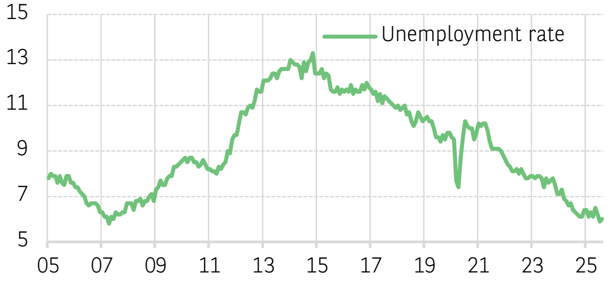
## Household Confidence




Source: European Commission, BNP Paribas.

**Household confidence improved significantly** (+1.1 pts m/m to -15.7) but remains three points below its long-term average. Households anticipate a sharp improvement in the economic and financial situation over the next year. This, combined with the feeling that prices will fall over the coming year, is strengthening their intentions to make major purchases.

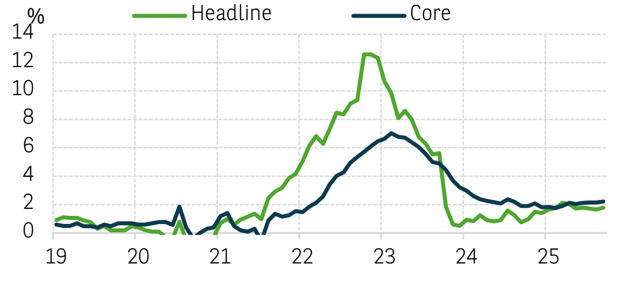
## Labour market: Unemployment Rate




Source: Eurostat, BNP Paribas.

**The labour market is developing favourably.** The unemployment rate rose slightly in August (+0.1pp to 6.0%; -0.4pp y/y). At the same time, the employment rate continued to rise (62.8%; +0.5pp y/y), thanks to an increase in the number of people in employment (24.2 million). Hourly wage growth has slowed significantly since March (+2.8% vs. +4.0% y/y). However, it remains above inflation, which continues to support household purchasing power.

## Inflation (% change y/y)




Source: Istat, BNP Paribas.

**Inflation rebounded slightly in September** (+1.8% y/y; +0.2pp m/m) after falling over the last three months. Core inflation remained stable for the second consecutive month at 2.2%. It is expected to decline due to the ongoing slowdown in producer prices (+0.2% y/y in August versus +1.6% in July).

## GDP growth q/q: actual, carry-over and forecasts

| Actual | | | Carry-over | Actual | | Forecast | | Annual forecasts (y/y) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Q2 2024 | Q3 2024 | Q4 2024 | Q4 2024 | Q1 2025 | Q2 2025 | Q3 2025 | Q4 2025 | 2024 (observed) | 2025 | 2026 |
| 0.2 | 0.0 | 0.2 | 0.2 | 0.3 | -0.1 | 0.1 | 0.2 | 0.5 | 0.6 | 1.1 |

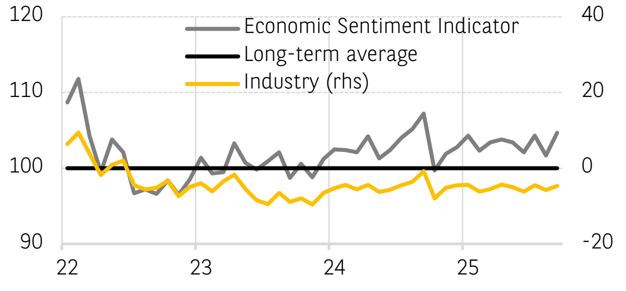
Source: Refinitiv, BNP Paribas

**Real GDP growth will remain limited in 2025.** After recording a negative change in Q2 (-0.1% q/q) due to a sharp decline in net exports, Italian growth is expected to remain modest in the second half of the year (0.1% and 0.2% in Q3 and Q4). On average for 2025, growth is expected to reach 0.6% and remain below that of the Eurozone (1.3%).

Lucie Barette (completed on October 2, 2025)

# Spain: Growth expected to be stronger than anticipated in 2025

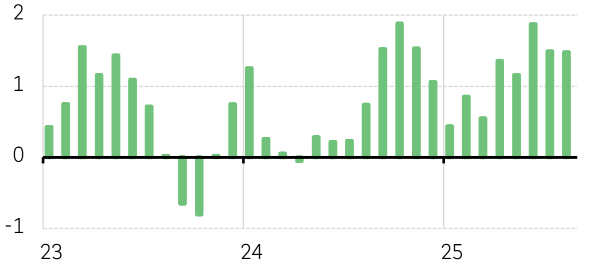
## Business climate: Economic sentiment survey




Source: European Commission, BNP Paribas

**Business confidence strengthened in September** (ESI at 104.7; +3 points m/m) and remains well above its long-term average. In industry, the index remains in contraction territory but is improving (-4.7; +1.1 pts m/m). Production expectations for the coming months have risen significantly since spring (3.2 vs. -0.4 on average in Q2), although they are down compared with last month (-1.1 pts).

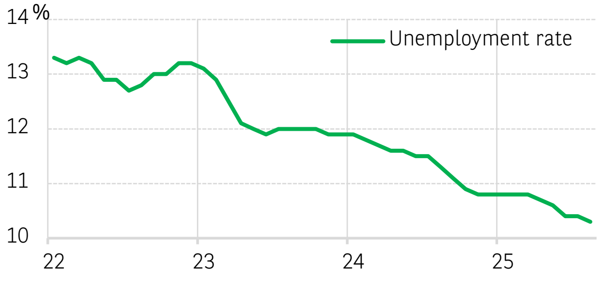
## Households: Retail trade (% change m/m, volume)




Source: INE, BNP Paribas.

**Household consumption and confidence continue to improve.** Retail sales volume grew by 1.5% q/q in August. Household confidence improved significantly (50.9 in August according to the Ipsos index, up 3.1 points m/m) and returned to its highest level ever. Given these positive trends, private consumption is likely to remain the main driver of Spanish growth in Q3.

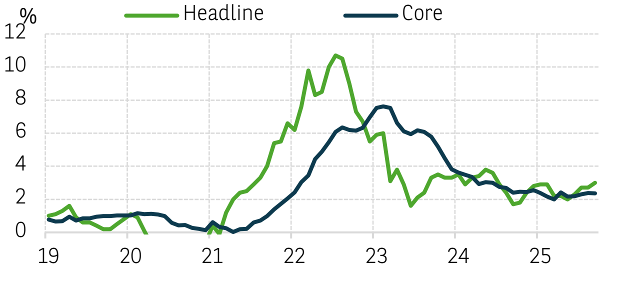
## Labour market: Unemployment rate




Source: Eurostat, BNP Paribas.

**The labour market remains robust.** Employment rose in August (21.7 million people registered with social security; +2.2% y/y) and the business climate index in industry regarding hiring expectations improved (1.1: +4.2 points). The unemployment rate is approaching the 10% mark (10.3% in July), while tensions persist: the ratio of job vacancies to unemployed people remains particularly high. Negotiated wage increases continued (+3.5% y/y in July and August, compared with +3.4% in June).

## Inflation (% change y/y)




Source: INE, BNP Paribas.

**Inflation continues to rebound, before slowing down?** Harmonised inflation returned to its highest level since June 2024 (+3.0% y/y in September; +0.3pp m/m), while the core measure remained stable (+2.4%). However, inflation is expected to slow: producer prices fell sharply in August (-4.5% y/y; the lowest since October 2024) due to the drop in energy prices.

## GDP growth q/q: actual, carry-over and forecasts

| Actual | | | Carry-over | Actual | | Forecast | | Annual forecasts (y/y) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Q2 2024 | Q3 2024 | Q4 2024 | Q4 2024 | Q1 2025 | Q2 2025 | Q3 2025 | Q4 2025 | 2024 (observed) | 2025 | 2026 |
| 0.9 | 0.8 | 0.8 | 1.2 | 0.6 | 0.8 | 0.6 | 0.6 | 3.5 | 2.9 | 2.3 |

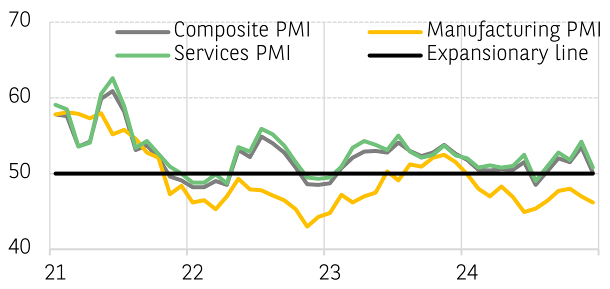
Source: Refinitiv, BNP Paribas

**Spanish growth will remain strong in the second half of the year.** After an upward revision in Q2 (+0.8% q/q), due to a better contribution from public consumption and exports, we forecast a growth of +0.6% q/q per quarter in H2. This would continue to be driven by private consumption and investment.

Lucie Barette (completed on October 2, 2025)

# United Kingdom: Deterioration in growth prospects

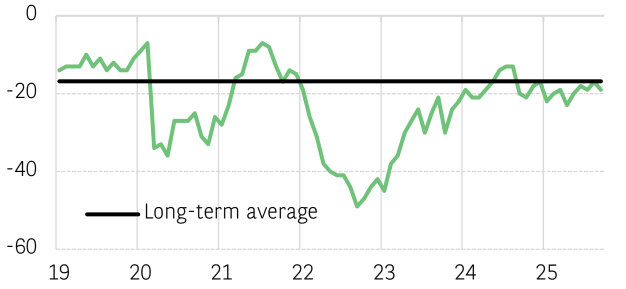
**Business climate: PMI**




Source: S&P Global PMI, BNP Paribas.

**Deterioration from a good level.** The composite PMI has been in expansionary territory for five months. However, it fell to 50.1 in September (-3.4 pts m/m), dragged down by the services PMI (50.8; -3.4 pts m/m), which had reached an 18-month high in August. The manufacturing PMI was weakened in September by the 'production' (-3.6 points to 45.7) and 'new export orders' (-0.9 points to 40.9) sub-components. The July decline in industrial production (-5% 3m/3m, +0.1% y/y) suggests a backlash after a surge in growth linked to expectations of US tariff increases.

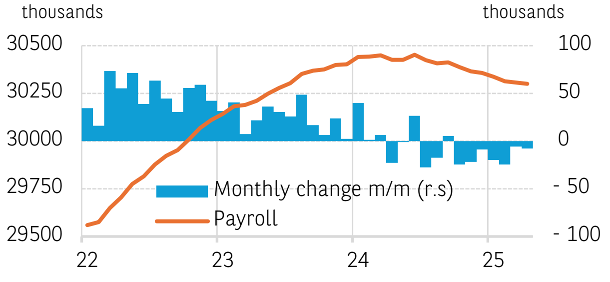
**Consumer confidence**




Source: Gfk, BNP Paribas.

**Modest increase in consumption.** Retail sales rose slightly in August (+0.5% m/m; +0.7% y/y), at the same pace as in July. The BRC (British Retail Consortium) confidence index climbed to 2.9% y/y in August. The GFK household confidence index stood at -19. This is down two points from July and below its long-term average.

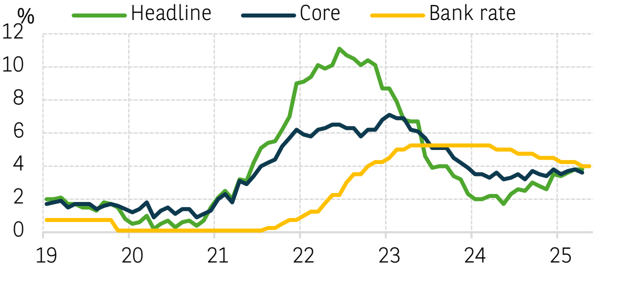
**Labour market: payrolls**




Source: ONS, BNP Paribas.

**First signs of stabilisation?** Unemployment stabilised at 4.7% in June (three-month average) for the third consecutive month. Payroll losses slowed over the last two months (-6,557 in July-August compared with -22,192 in May-June) but remain significant over one year (-126,953 over one year in August, the sharpest annual decline since the Covid pandemic). The number of job vacancies rose slightly (+8,000 m/m) for the first time since April 2022. Regular pay growth continues to outpace inflation (+4.6% y/y), while purchasing power gains are at their slowest pace since 2023 (+0.9% y/y).

**Inflation (y/y) and bank rate**




Source: ONS, Bank of England, BNP Paribas.

**Persistent inflationary pressures.** Headline inflation remained stable at 3.8% y/y in August, with moderation in services (+4.7% y/y vs. 5% y/y) offsetting inflation in goods prices which reached their highest level since 2023 (+2.8% y/y vs. 2.6%). Core inflation (excluding energy, food, alcohol & tobacco) slowed slightly to 3.6% y/y. Household inflation expectations for the coming year are stable (+4%, Citi-YouGov).

**GDP growth q/q: actual, carry-over and forecasts**

| Actual | | | Carry-over | Actual | | Forecast | | Annual forecasts (y/y) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Q2 2024 | Q3 2024 | Q4 2024 | Q4 2024 | Q1 2025 | Q2 2025 | Q3 2025 | Q4 2025 | 2024 (observed) | 2025 | 2026 |
| 0,6 | 0,2 | 0,2 | 0,4 | 0,7 | 0,3 | 0,1 | 0,3 | 1,1 | 1,3 | 1,0 |

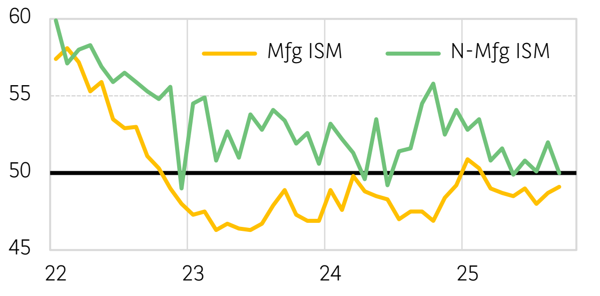
Source: Refinitiv, BNP Paribas

**The pullback would continue in Q3 before a rebound in Q4.** After a strong Q1 (+0.7% q/q), a slowdown in growth was observed in Q2 (+0.3% q/q) and is likely to persist in Q3. At the end of this downturn, Q4 would see a rebound, helped by the ongoing monetary easing. A solid first half of the year and the accumulated favorable growth will enable 2025's growth to bounce back to an average of 1.3% on an annual basis.

Guillaume Derrien, with the help of Benjamin Puiseux (intern) (completed on October 3, 2025)

# United States: strong Q3 growth before a backlash?

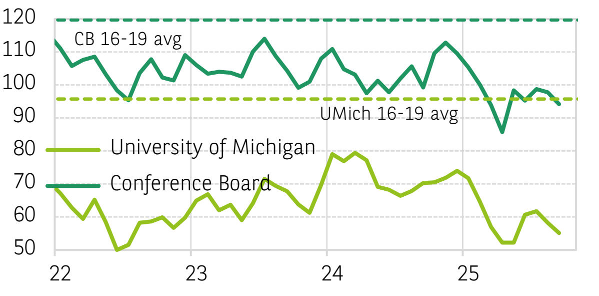
## Business Climate: ISM




Source: ISM, BNP Paribas.

**The Non-Manufacturing ISM fell markedly in September** to 50.0 (-2.0pp). This result was due to a decline in business activity (49.9, -5.1pp) and new orders (50.4, -5.6pp) components. Manufacturing ISM improved to 49.1 (+0.4pp) in September, driven by output growth (51.0, +3.3pp). However, new orders contracted (48.9, -2.5pp), particularly those for export (43.0, -4.6pp). The rise in prices paid slowed for the third consecutive month (61.9, -1.8pp).

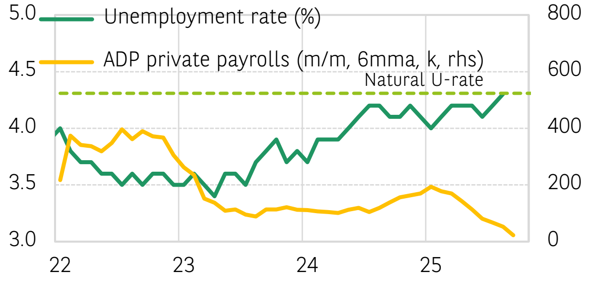
## Household Confidence




Source: Macrobond, BNP Paribas.

**Household confidence: weak and declining.** The Conference Board (CB) index, at 94.2 (-3.6 points), and the University of Michigan index (55.1, -3.1 points) weakened again in September. According to the CB, the decline resulted from worsening current conditions (125.4, down 7.0 points), with jobs being considered less plentiful. The Michigan publication highlighted the deterioration in the expectations index (down 4.2 points to 51.7).

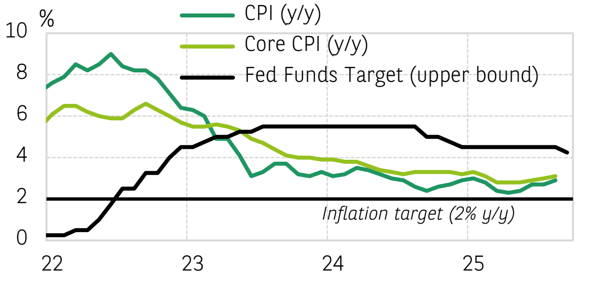
## Labour market: Unemployment rate and nonfarm payrolls




Source: ADP, BLS, CBO, BNP Paribas.

**Job growth remains sluggish.** The ADP survey for September reported a -32k contraction in the private payroll (the third contraction in four months). The procyclical leisure sector posted its first decline (-19k) since February 2024. The August JOLTS survey highlighted a labour market that is both sluggish (hiring rate at 3.2%, the lowest since June 2024) and resilient (the proportion of layoffs stabilized at 1.1% for the third consecutive month).

## Inflation and monetary policy




Source: Macrobond, BNP Paribas.

**The Fed, in 'risk management' mode, lowered its target range to +4.0% - +4.25% (-25bps)** at the 16-17 September FOMC due to the weakening labour market. This first easing since December 2024 came despite inflation accelerating to +2.9% y/y in August (+0.2pp, Core CPI stable at +3.1% y/y). The median projection of FOMC members for PCE inflation was revised upwards (+0.2pp to +2.6% y/y in Q4 2026) in the Summary of Economic Projections for Q3.

## GDP growth q/q: actual, carry-over and forecasts

| Actual | | | Carry-over | Actual | | GDP Now | Forecast (q/q) | | Annual forecasts (y/y) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Q2 2024 | Q3 2024 | Q4 2024 | Q4 2024 | Q1 2025 | Q2 2025 | Q3 2025 | Q3 2025 | Q4 2025 | 2024 (observed) | 2025 | 2026 |
| 0.9 | 0.8 | 0.5 | 1.0 | -0.2 | 0.9 | 0.9 | 0.7 | 0.3 | 2.8 | 2.0 | 1.8 |

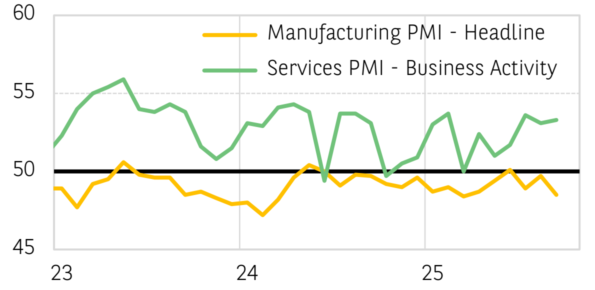
Source: BEA, Atlanta Fed, BNP Paribas

**Towards robust growth in Q3.** Whether slightly below Q2, according to our forecast (0.7% q/q, after 0.9%), or steady according to the Atlanta Fed's GDP Now, growth appears resilient. It is being driven by strong retail sales figures in July and August, with a positive contribution from foreign trade. However, it is expected to slow from Q4 onwards (0.3%).

Anis Bensaidani (completed on October 3, 2025)

# Japan: flat growth in Q3, no worries going forward

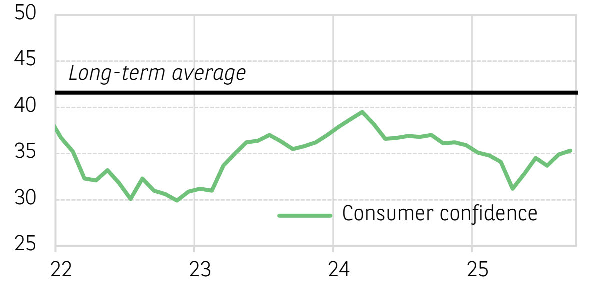
**Business climate : PMI**




Source: Jibun Bank, BNP Paribas.

**Favorable business climate.** The Tankan survey reported an improvement in large manufacturing companies' sentiment (14, +1 point) in Q3, including in the motor vehicles sector (10, +2 points). The overall figure (all enterprises and all industries) remained stable (10). The Services PMI remained stable at a high level (53) in September, while the Manufacturing PMI (48.4, -1.3 pp) fell to a five-month low due to the first contraction in hiring (49.4, -2.5 pp) since November 2024 and a decline in output (47.3, -2.5 pp).

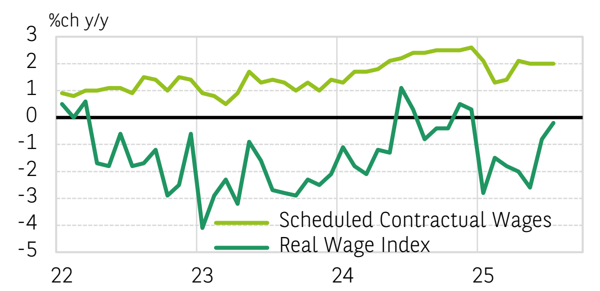
**Household confidence**




Source: Cabinet Office, BNP Paribas.

**Household confidence improved in September, reaching its best annual result** at 35.3 (+0.4 points). The increase was most pronounced in the propensity to purchase durable goods (28.8, +0.8 points).

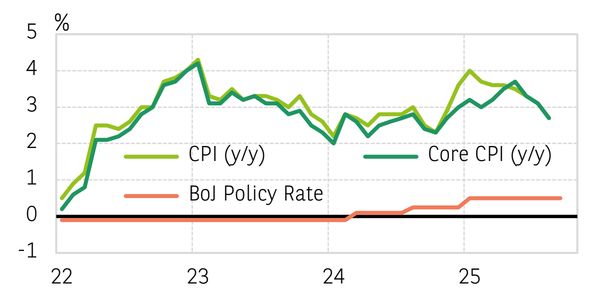
**Labour market: Wage growth**




Source: Cabinet Office, BNP Paribas.

**The unemployment rate remained low, despite a peak in 2025, at 2.6% (+0.3pp) in August.** Nominal wage growth reached a 2025 high of +3.4% y/y (+0.3pp) in July, thanks to bonuses and special payments (+6.3% y/y, +1.9pp). The underlying measure of scheduled contractual earnings is stable at +2.0% y/y. The real wage index improved (-0.2% y/y, +0.6pp) but remained negative for the seventh consecutive month.

**Inflation and policy rate**




Source: Macrobond, BNP Paribas.

**Towards monetary tightening.** In August, energy (-3.6% m/m) pulled total and core inflation (excluding fresh food) down, as both reached +2.7% y/y (-0.4pp). The "new core" index, which excludes energy, fell slightly less (-0.1pp to +3.3% y/y). The Bank of Japan (BoJ) kept its policy rate unchanged at +0.5% in September. However, two votes (out of nine) were in favour of a rate hike (and a programme to sell ETFs held by the central bank was announced), foreshadowing a rise in the policy rate in Q4, possibly as early as the 29-30 October meeting.

**GDP growth q/q: actual, carry-over, forecasts**

| Actual | | | Carry-over | Actual | | Forecast (q/q) | | Annual forecasts (y/y) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Q2 2024 | Q3 2024 | Q4 2024 | Q4 2024 | Q1 2025 | Q2 2025 | Q3 2025 | Q4 2025 | 2024 (observed) | 2025 | 2026 |
| 0.5 | 0.6 | 0.5 | 0.8 | 0.1 | 0.5 | 0.0 | 0.1 | 0.1 | 1.3 | 0.6 |

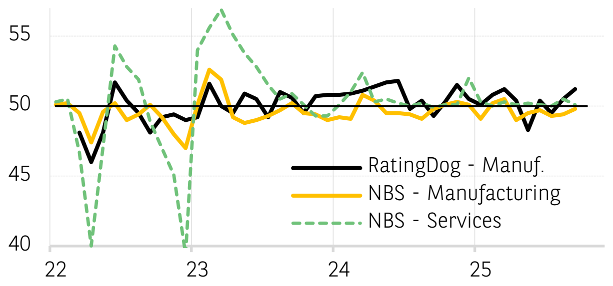
Source: Cabinet Office, BNP Paribas

**After a strong first half, growth is expected to weaken in the second.** GDP growth surprised on the upside in Q2 (+0.5% q/q), supported by household consumption and non-residential investment. Flat growth is expected for Q3, following the contraction in manufacturing output and retail sales in both July (-1.0% m/m and -1.6% m/m respectively) and August (-0.9% and -1.1%).

Anis Bensaidani (completed on October 3, 2025)

# China: Gloomy mood during the summer

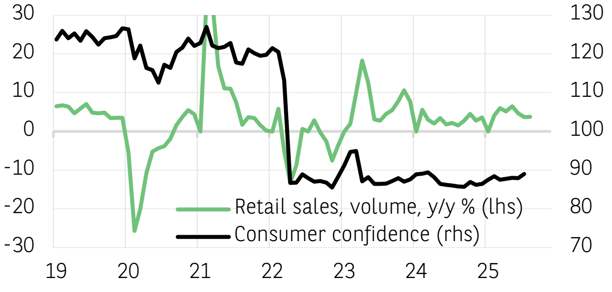
## Business climate: PMIs




Source: NBS, Macrobond, CEIC, BNP Paribas

**Slight improvement at the end of Q3.** In the manufacturing sector, the official PMI has remained in contraction territory since April, but it improved to 49.8 in September. The PMI published by RatingDog (formerly Caixin) also improved (to 51.2 from 50.5 in August and 49.5 in July). This slight recovery is notably due to the "new export orders" sub-component, which reached 47.8 in the official index – a level that, while still in contraction territory, is at its highest since March. The export sector continues to withstand the rise in US tariffs.

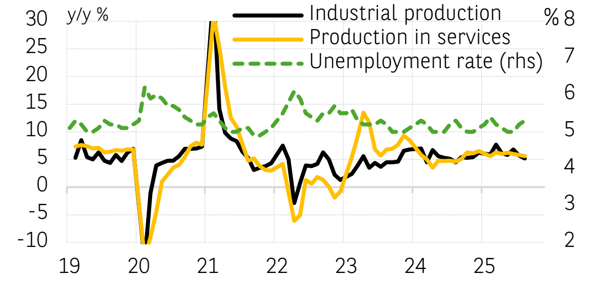
## Households: retail sales and consumer confidence




Source: NBS, BNP Paribas

**Gloom.** After accelerating in H1 thanks to government-subsidized consumer goods trade-in programs, household demand growth has slowed down. Retail sales rose 3.7% y/y in volume terms in July-August, compared with more than 5% in H1. In the real estate market, the contraction in transaction volumes worsened (-11% y/y in August). Household confidence remains low.

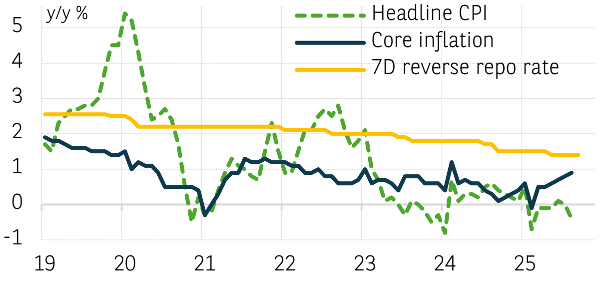
## Labour market: activity and unemployment rate




Source: NBS, BNP Paribas

**New rise in the unemployment rate.** The urban unemployment rate rose from 5% in June to 5.3% in August. The deterioration accompanied the slowdown in activity observed in July-August in both industry and services. Among 16-24-year-olds, the rise in the unemployment rate was more pronounced (from 14.5% in June to 18.9% in August), which can be explained in part by seasonal factors.

## Inflation and monetary policy




Source: NBS, BNP Paribas

**Uncertain success of "anti-involution" measures.** The consumer price index fell again in August (-0.4% y/y vs. 0% in July), but this decline was mainly due to the fall in food prices. Core inflation continued to accelerate slightly (+0.8%) and producer price deflation narrowed to -2.9%. Deflationary pressure will only ease in the short term if private consumption strengthens, and if the authorities step up their anti-involution measures, which aim to combat overcapacity and falling prices.

## GDP growth q/q: actual, carry-over and forecasts

| Actual | | | Carry-over | Actual | | Forecast | | Annual forecasts (y/y) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Q2 2024 | Q3 2024 | Q4 2024 | Q4 2024 | Q1 2025 | Q2 2025 | Q3 2025 | Q4 2025 | 2024 (observed) | 2025 | 2026 |
| 1.0 | 1.3 | 1.6 | 0.3 | 1.2 | 1.1 | 0.9 | 1.2 | 5.0 | 5.0 | 4.5 |

Source: Refinitiv, BNP Paribas

**Economic slowdown underway.** Despite a possible improvement in activity in September after two months of slowdown, real GDP growth is projected to decelerate to +0.9% q/q in Q3 2025, compared with +1.1% q/q in Q2 and +1.2% q/q in Q1. It is expected to reach 5% in 2025, in line with the official target set last March.

Christine Peltier (completed on October 2, 2025)

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