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ECONOMIC RESEARCH



BNP PARIBAS

The bank
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world

UNITED STATES: AN UNEASY FEELING (PART 2)

Recent data send conflicting signals about the outlook for the US economy. A survey of chief financial officers shows they have become gloomier and the nowcast of the Federal Reserve Bank of Atlanta is forecasting a contraction of real GDP in the second quarter. This would mean two successive quarters of negative GDP growth, which corresponds to the popular definition of a recession. However, the labour market continues to be strong and the majority of indicators used by the NBER Business Cycle Dating Committee are still in an uptrend. This suggests there is no imminent risk of recession yet.

In a recent survey, the chief financial officers of US companies have expressed their concern about the outlook for the US economy. 20.8% of respondents expect GDP to contract over the next four quarters¹.

Financial markets participants also feel nervous and show a mindset of 'good news may actually be bad news'. The latest labour market report was surprisingly strong, triggering a jump in bond yields, a strengthening of the dollar and a decline in equity market futures (chart 1). These reactions reflect an expectation that the Federal Reserve may have to tighten more than previously expected. In such a scenario, the reaction of equities reflects the impact of higher risk-free rates, but also unease about the implications of more aggressive rate hikes in terms of recession risk and the earnings growth outlook.

Perhaps the current strength of the US economy is being overestimated. The Atlanta Fed nowcast for second quarter GDP shows an annualized negative growth rate versus the previous quarter of -1.2%. During the quarter, the decline in the manufacturing ISM index has played an important role in explaining the drop in the nowcast (chart 2)².

In assessing the signal quality of a nowcast, it is important to look at the forecast errors³. Chart 3 shows that until the GDP number for the fourth quarter of 2019, the forecast errors had fluctuated in a rather narrow range. Unsurprisingly, this changed with the Covid-19 pandemic, which led to important swings in activity and to large forecast errors. Given the latest nowcast, it would require a very large forecast error for growth to be positive. Considering that first quarter growth was negative (-1.6%), a similar result for the second quarter would imply that the condition from the 'popular' definition of a recession - two successive quarters of negative quarterly real GDP growth - would have been met.

However, the National Bureau of Economic Research (NBER) business cycle dating committee, which determines the peaks and troughs in economic activity, considers a range of variables that are available monthly, rather than exclusively looking at GDP, for which data are published on a quarterly basis. Moreover, it also pays attention to the depth of the decline in economic activity.

1. For a detailed analysis, see: *US: an uneasy feeling*, EcoWeek, 4 July 2022, BNP Paribas.

2. For an quantification of the impact of the various data releases on the GDP nowcast, see: <https://www.atlantafed.org/-/media/documents/cqer/researchcq/gdpnow/RealGDPTrackingSlides.pdf>

3. The forecast error corresponds to the difference between the advance estimate of real GDP growth and the latest GDP nowcast available when the advance estimate was published. Forecasts are available starting with the nowcast for 2014 Q2. The standard deviation of the forecast error is 0.60% for the GDP data covering the period 2014 Q2-2019Q4. Extending the sample until 2022 Q1 gives a standard deviation of 1.33%.

US MARKETS: INTRADAY ON 8 JULY 2022

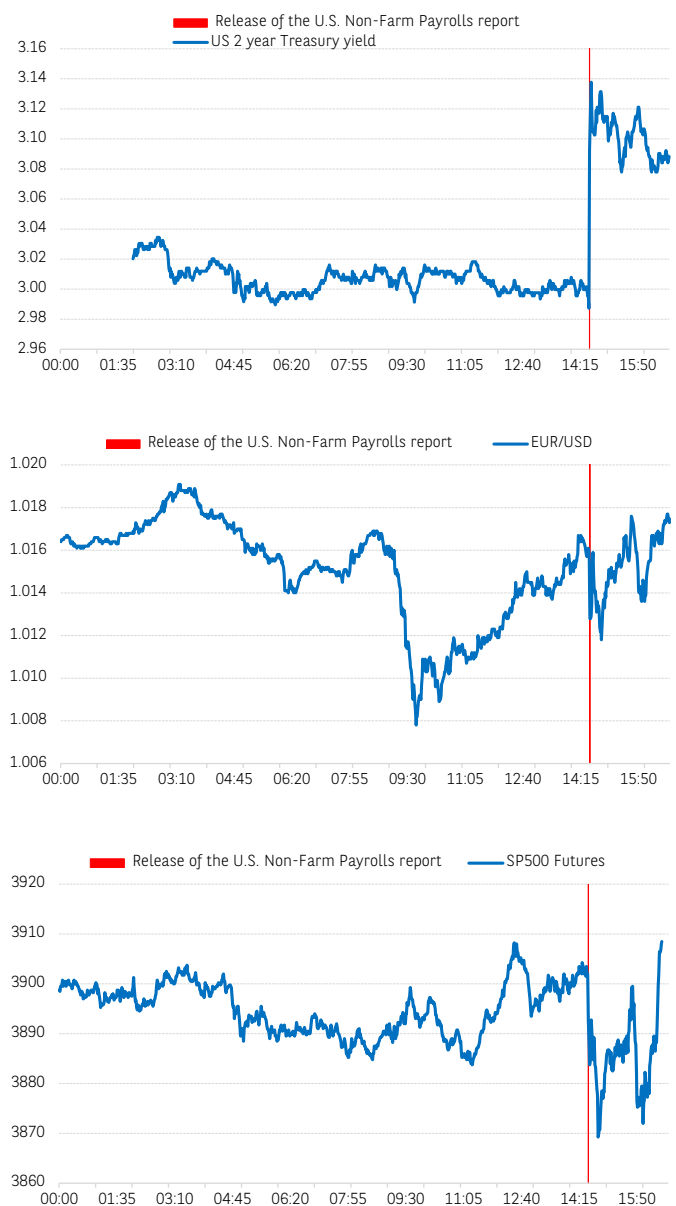


CHART 1

SOURCE: BLOOMBERG, BNP PARIBAS



US REAL GDP GROWTH NOWCAST FOR THE SECOND QUARTER OF 2022

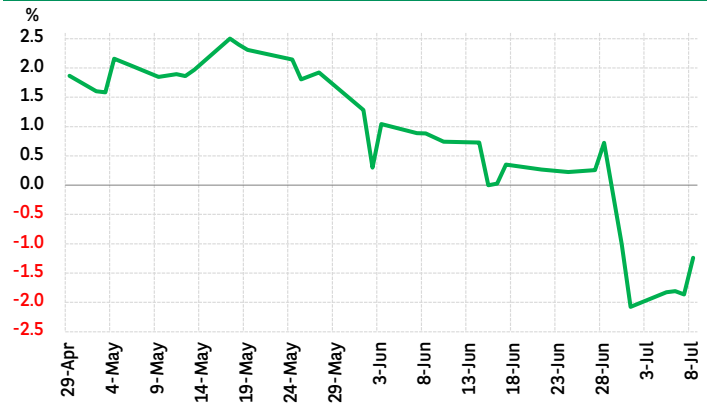


CHART 2 SOURCE: FEDERAL RESERVE BANK OF ATLANTA

FORECAST ERROR OF GDP GROWTH NOWCAST

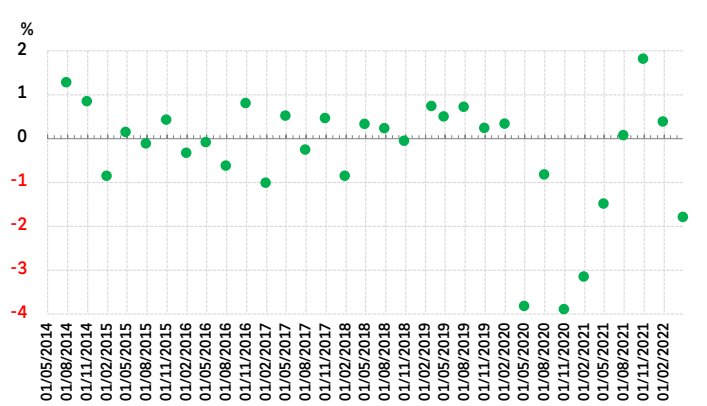


CHART 3 SOURCE: FEDERAL RESERVE BANK OF ATLANTA

To call a recession, the decline should be significant, so a relatively small decline in real GDP in two consecutive quarters would not warrant doing so⁴. To avoid revisions, the NBER committee prefers waiting long enough before determining the start or end of a recession. Consequently, by the time that a recession is officially called, the US economy will have been in this state for quite some time already. For this reason, it is recommended to follow the evolution of the six indicators that are closely monitored by the NBER committee (chart 4). Except for real manufacturing and trade industries sales, which have been declining for three months in a row, all indicators continue to be on a rising trend, which suggests there is no imminent risk of recession yet.

William De Vijlder

4. "The NBER's traditional definition of a recession is that it is a significant decline in economic activity that is spread across the economy and that lasts more than a few months. The committee's view is that while each of the three criteria—depth, diffusion, and duration—needs to be met individually to some degree, extreme conditions revealed by one criterion may partially offset weaker indications from another." (source: NBER).

INDICATORS OF THE NBER BUSINESS CYCLE DATING COMMITTEE

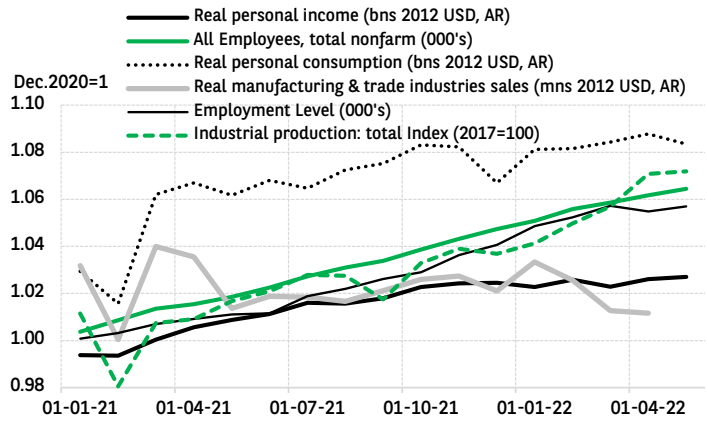


CHART 4 SOURCE: FRED, BNP PARIBAS



The US labour market continues to be strong and the majority of indicators used by the NBER Business Cycle Dating Committee are still in an uptrend. This suggests there is no imminent risk of recession yet.

MARKETS OVERVIEW

OVERVIEW

Week 1-7-22 to 8-7-22

↗ CAC 40	5 931	▶ 6 033	+1.7 %
↗ S&P 500	3 825	▶ 3 899	+1.9 %
↘ Volatility (VIX)	26.7	▶ 24.6	-2.1 pb
↗ Euribor 3M (%)	-0.18	▶ -0.09	+8.9 bp
↗ Libor \$ 3M (%)	2.29	▶ 2.42	+13.0 bp
↗ OAT 10y (%)	1.61	▶ 1.71	+9.4 bp
↗ Bund 10y (%)	1.23	▶ 1.30	+6.3 bp
↗ US Tr. 10y (%)	2.90	▶ 3.10	+19.7 bp
↘ Euro vs dollar	1.04	▶ 1.02	-2.1 %
↘ Gold (ounce, \$)	1 808	▶ 1 746	-3.4 %
↘ Oil (Brent, \$)	111.7	▶ 107.2	-4.1 %

MONEY & BOND MARKETS

Interest Rates	highest 22	lowest 22	Yield (%)	highest 22	lowest 22
€ ECB	0.00	0.00 at 03/01	€ AVG 5-7y	1.51	2.21 at 15/06
Eonia	-0.51	-0.51 at 03/01	Bund 2y	0.53	1.02 at 14/06
Euribor 3M	-0.09	-0.09 at 08/07	Bund 10y	1.30	1.76 at 21/06
Euribor 12M	0.97	1.12 at 17/06	OAT 10y	1.71	2.17 at 21/06
\$ FED	1.75	1.75 at 16/06	Corp. BBB	3.63	4.02 at 21/06
Libor 3M	2.42	2.43 at 07/07	\$ Treas. 2y	3.16	3.43 at 14/06
Libor 12M	3.64	3.67 at 16/06	Treas. 10y	3.10	3.48 at 14/06
£ BoE	1.25	1.25 at 16/06	High Yield	8.88	9.09 at 30/06
Libor 3M	1.76	1.76 at 08/07	£ gilt. 2y	2.12	2.38 at 21/06
Libor 12M	0.81	0.81 at 03/01	£ gilt. 10y	2.23	2.62 at 21/06

At 8-7-22

EXCHANGE RATES

1€ =	highest 22	lowest 22	2022
USD	1.02	1.15 at 10/02	1.02 at 07/07 -10.5%
GBP	0.85	0.87 at 14/06	0.83 at 14/04 +0.8%
CHF	0.99	1.06 at 10/02	0.99 at 06/07 -4.1%
JPY	138.43	143.95 at 22/06	125.37 at 04/03 +5.7%
AUD	1.48	1.62 at 04/02	1.43 at 05/04 -5.3%
CNY	6.82	7.29 at 10/02	6.82 at 07/07 -5.9%
BRL	5.38	6.44 at 06/01	5.01 at 21/04 -15.1%
RUB	64.24	164.76 at 07/03	56.01 at 29/06 -24.7%
INR	80.63	85.96 at 11/02	80.30 at 05/05 -4.6%

At 8-7-22

COMMODITIES

Spot price, \$	highest 22	lowest 22	2022	2022(€)
Oil, Brent	107.2	128.2 at 08/03	79.0 at 03/01	+36.7% +52.8%
Gold (ounce)	1 746	2 056 at 08/03	1 739 at 06/07	-4.2% +7.1%
Metals, LME	3 735	5 506 at 07/03	3 646 at 06/07	-17.0% -7.3%
Copper (ton)	7 795	10 702 at 04/03	7 506 at 06/07	-20.0% -10.5%
wheat (ton)	318	4.7 at 17/05	281 at 14/01	+33.8% +49.6%
Corn (ton)	280	3.2 at 28/06	226 at 03/01	+2.3% +37.0%

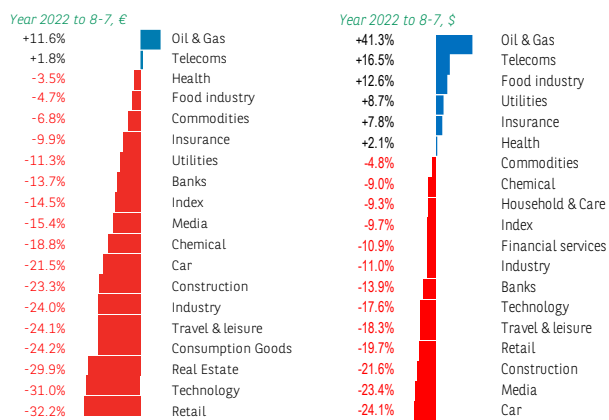
At 8-7-22

EQUITY INDICES

Index	highest 22	lowest 22	2022
World			
MSCI World	2 604	3 248 at 04/01	2 486 at 17/06 -19.4%
North America			
S&P500	3 899	4 797 at 03/01	3 667 at 16/06 -18.2%
Europe			
EuroStoxx50	3 507	4 392 at 05/01	3 360 at 05/07 -18.4%
CAC 40	6 033	7 376 at 05/01	5 795 at 05/07 -1.6%
DAX 30	13 015	16 272 at 05/01	12 401 at 05/07 -18.1%
IBEX 35	8 100	8 934 at 27/05	7 645 at 07/03 -0.7%
FTSE100	7 196	7 672 at 10/02	6 959 at 07/03 -0.3%
Asia			
MSCI, loc.	1 064	1 165 at 05/01	1 024 at 08/03 -0.7%
Nikkei	26 517	29 332 at 05/01	24 718 at 09/03 -7.9%
Emerging			
MSCI Emerging (\$)	1 000	1 267 at 12/01	981 at 06/07 -1.9%
China	73	86 at 20/01	59 at 15/03 -11.2%
India	731	891 at 13/01	699 at 17/06 -7.7%
Brazil	1 410	2 003 at 04/04	1 351 at 06/07 -6.7%

At 8-7-22

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

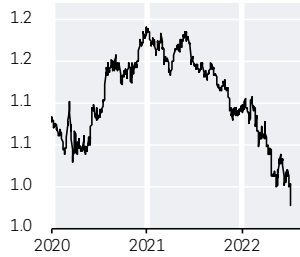


SOURCE: REFINITIV, BNP PARIBAS,



MARKETS OVERVIEW

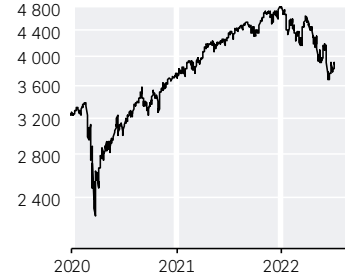
EURO-DOLLAR



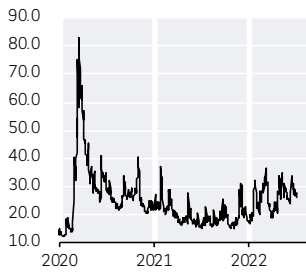
EUROSTOXX50



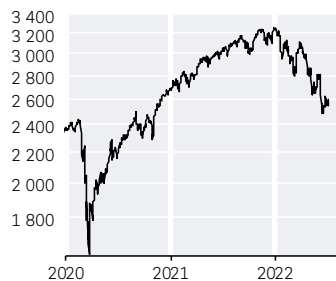
S&P500



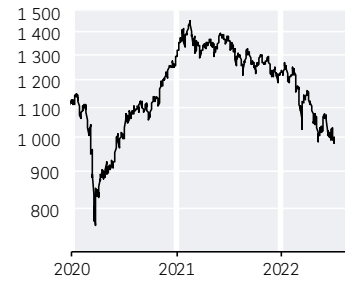
VOLATILITY (VIX, S&P500)



MSCI WORLD (USD)



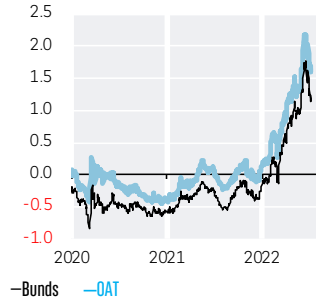
MSCI EMERGING (USD)



10Y BOND YIELD, TREASURIES VS BUND



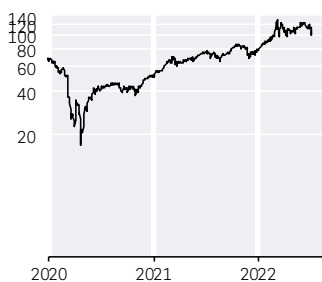
10Y BOND YIELD



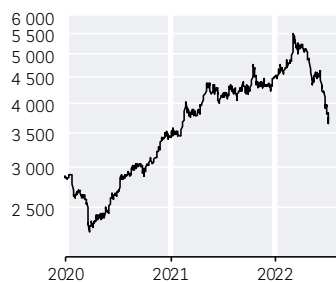
10Y BOND YIELD & SPREADS

Year 2022 to 8-7		
3.31%	Greece	201 bp
3.28%	Italy	198 bp
2.42%	Spain	112 bp
2.30%	Portugal	100 bp
1.98%	Belgium	68 bp
1.91%	Austria	61 bp
1.89%	Finland	59 bp
1.71%	France	41 bp
1.68%	Netherlands	38 bp
1.45%	Ireland	15 bp
1.30%	Germany	

OIL (BRENT, USD)



METALS (LME, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS



PMI - MANUFACTURING OUTPUT PRICES

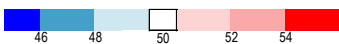
	WD	Developed Markets															Emerging countries																
		NA		Europe										Asia-Oceania			LATAM		Eurasia			Middle East & Africa			Asia								
		CANADA	USA	EURO ZONE	AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND	UK	AUSTRALIA	NEW ZEALAND	JAPAN	SINGAPORE	BRAZIL	MEXICO	CZECH REPUBLIC	POLAND	RUSSIA	TURKEY	EGYPT	LEBANON	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	HONG KONG	INDIA
Sep-21	60.9	67.7	73.9	70.4	73.0	57.0	66.7	73.3	67.7	69.3	68.4	74.9	64.8	71.9		54.9			66.3	48.6	70.6	71.4	57.2	61.6	52.2	50.9	51.1	48.7		53.7	52.0	54.3	51.3
Oct-21	63.7	67.1	76.4	72.6	73.3	78.4	66.1	75.6	77.2	70.2	71.5	78.4	68.8	74.2		56.6			67.2	51.0	71.8	75.2	58.5	67.2	54.6	51.3	53.7	49.0		53.1	52.3	54.0	54.7
Nov-21	61.3	65.8	73.6	73.7	71.1	63.9	68.2	76.3	76.5	71.7	73.4	79.5	70.7	74.0		56.1			66.2	48.8	72.3	71.4	58.4	78.3	54.3	51.9	52.6	48.5		52.6	52.1	54.0	59.3
Dec-21	59.8	63.7	70.5	70.2	70.4	60.0	62.7	70.9	72.8	69.9	73.2	76.6	69.6	74.3		55.9			65.9	52.6	70.9	72.2	59.8	79.9	53.5	53.4	52.6	49.0		54.8	51.0	53.7	55.3
Jan-22	60.9	62.3	68.9	72.7	68.0	60.1	71.7	74.7	74.9	66.3	73.5	73.5	71.1	70.9		59.1			62.1	52.9	78.1	73.7	60.4	71.7	51.7	53.7	52.1	49.2		53.0	51.7	53.8	52.5
Feb-22	61.3	62.4	70.9	71.8	67.5	61.2	68.0	74.3	73.6	70.3	70.0	73.6	71.4	69.9		58.2			60.7	52.8	70.3	68.8	62.8	66.3	51.2	51.7	50.1	49.5		49.8	51.0	53.5	54.3
Mar-22	62.3	70.8	69.7	74.2	72.5	66.5	71.3	75.6	77.8	72.8	73.5	80.0	71.4	71.3		58.8			68.5	53.1	73.3	78.5	77.8	68.7	51.5	52.5	53.8	49.8		51.5	52.2	56.5	58.2
Apr-22	63.8	69.8	76.3	77.3	79.2	62.4	71.8	79.3	75.8	77.5	77.0	82.5	73.6	78.8		62.5			65.0	54.6	74.9	80.1	72.5	66.8	51.0	53.1	53.4	50.5		54.0	54.1	56.6	58.4
May-22	61.5	68.0	73.9	76.2	76.6	57.3	70.2	79.1	76.2	78.6	72.7	81.4	72.8	76.1		61.4			66.2	54.2	73.7	71.7	51.7	62.6	52.4	54.3	52.8	48.8		51.5	54.4	55.3	56.3
Jun-22	60.5	65.9	71.1	70.9	71.1	75.4	66.9	73.7	68.4	68.4	69.2	73.2	68.6	72.1		62.7			66.7	53.8	69.5	65.6	48.9	62.1	61.8	54.9	53.3	48.2		53.0	53.2	54.7	55.9

PMI: SERVICES

	World	USA	EURO ZONE	FRANCE	GERMANY	IRELAND	ITALY	SPAIN	UK	AUSTRALIA	JAPAN	BRAZIL	RUSSIA	LEBANON	CHINA	HONG KONG	INDIA
Sep-21	53.8	54.9	56.4	56.2	56.2	63.7	55.5	56.9	55.4	45.7	47.8	54.6	50.5	46.9	53.4	51.7	55.2
Oct-21	55.6	58.7	54.6	56.6	52.4	63.4	52.4	56.6	59.1	47.6	50.7	54.9	48.8	46.6	53.8	50.8	58.4
Nov-21	55.6	58.0	55.9	57.4	52.7	59.3	55.9	59.8	58.5	49.6	53.0	53.6	47.1	46.1	52.1	52.6	58.1
Dec-21	54.7	57.6	53.1	57.0	48.7	55.4	53.0	55.8	53.6		52.1	53.6	49.5	46.7	53.1	50.8	55.5
Jan-22	51.0	51.2	51.1	53.1	52.2	56.2	48.5	46.6	54.1	56.2	47.6	52.8	49.8	47.1	51.4	48.9	51.5
Feb-22	54.0	56.5	55.5	55.5	55.8	61.8	52.8	56.6	60.5	60.0	44.2	54.7	52.1	47.5	50.2	42.9	51.8
Mar-22	53.4	58.0	55.6	57.4	56.1	63.4	52.1	53.4	62.6	56.2	49.4	58.1	38.1	47.4	42.0	42.0	53.6
Apr-22	52.2	55.6	57.7	58.9	57.6	61.7	55.7	57.1	58.9	57.8	50.7	60.6	44.5	47.9	36.2	51.7	57.9
May-22	52.2	53.4	56.1	58.3	55.0	60.2	53.7	56.5	53.4	49.2	52.6	58.6	48.5	48.6	41.4	54.9	58.9
Jun-22	51.6	53.0	53.9	52.4	55.6	51.6	54.0	54.3			54.0	60.8	51.7	49.1	54.5	52.4	59.2

PMI: SERVICES - NEW BUSINESS

	World	USA	EURO ZONE	FRANCE	GERMANY	IRELAND	ITALY	SPAIN	UK	JAPAN	BRAZIL	RUSSIA	CHINA
Sep-21	53.4	72.6	55.3	53.8	55.1	63.2	55.4	56.9	54.8	48.1	54.7	50.6	53.1
Oct-21	54.6	67.2	55.1	56.0	51.8	62.8	54.8	59.6	58.4	49.8	54.5	48.5	54.1
Nov-21	54.5	73.8	54.2	55.3	49.5	58.5	56.4	59.5	59.0	53.8	56.7	46.7	50.7
Dec-21	54.2	77.4	52.6	54.4	47.8	56.2	55.4	55.8	53.6	53.1	55.5	46.8	52.5
Jan-22	52.8	74.1	51.3	54.0	52.0	56.9	48.3	47.1	56.9	48.8	52.5	48.4	51.1
Feb-22	54.3	77.9	55.1	56.3	53.9	64.0	52.9	56.8	61.5	46.5	56.0	49.9	48.8
Mar-22	54.6	73.1	54.2	56.9	52.8	62.1	52.6	52.5	60.4	50.8	59.9	38.7	45.9
Apr-22	52.3	67.7	56.6	58.6	55.4	60.3	56.0	55.3	54.9	49.3	60.5	43.5	38.4
May-22	53.0	71.6	55.0	56.7	53.7	58.2	54.8	54.0	54.3	53.3	59.7	45.8	44.8
Jun-22	51.9	62.3	51.8	53.5	49.0	57.6	52.3	53.8	51.6	53.0	62.1	54.3	52.4



SOURCE: S&P GLOBAL, BNP PARIBAS



PMI: SERVICES - EMPLOYMENT

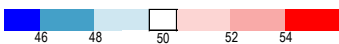
	World	USA	EURO ZONE	FRANCE	GERMANY	IRELAND	ITALY	SPAIN	UK	JAPAN	BRAZIL	RUSSIA	CHINA	INDIA
Sep-21	51.7	50.3	54.1	54.9	55.6	56.8	51.6	51.7	57.4	51.6	53.7	50.3	50.6	50.4
Oct-21	53.1	53.7	55.6	57.4	56.4	57.6	51.9	54.2	58.6	50.4	53.3	49.1	50.5	51.5
Nov-21	53.1	54.1	55.4	55.9	56.2	55.7	53.2	55.4	57.0	49.8	54.4	50.1	50.7	50.2
Dec-21	51.7	51.3	53.6	55.1	53.5	54.0	51.3	53.5	56.2	49.6	53.1	49.1	51.0	49.0
Jan-22	51.7	53.0	53.3	53.0	54.9	55.6	51.6	52.0	56.1	48.7	51.5	48.7	49.2	48.9
Feb-22	52.9	55.1	53.6	53.7	54.3	56.5	50.7	55.1	57.8	50.2	54.3	48.1	49.7	47.7
Mar-22	53.9	56.5	54.8	56.1	54.5	58.2	52.8	55.1	58.4	50.4	56.6	45.9	49.9	49.6
Apr-22	54.0	56.9	54.8	56.2	54.2	57.6	54.5	53.0	56.5	51.5	57.1	46.2	49.3	50.8
May-22	54.0	56.8	55.9	57.1	55.3	58.5	54.6	55.8	56.5	51.7	58.5	47.3	48.5	49.4
Jun-22	53.8	56.2	54.0	56.3	52.8	56.4	51.9	54.7	56.8	50.7	59.9	49.0	49.6	50.6

PMI: SERVICES - INPUT PRICES

	World	USA	EURO ZONE	FRANCE	GERMANY	IRELAND	ITALY	SPAIN	UK	AUSTRALIA	JAPAN	BRAZIL	RUSSIA	CHINA	INDIA
Sep-21	65.2	74.1	65.2	63.9	67.9	70.8	60.9	65.2	73.5	64.5	54.0	73.2	63.1	53.0	55.7
Oct-21	65.4	71.7	67.5	66.5	70.0	73.1	62.7	68.3	78.7	73.6	54.7	72.6	64.7	53.6	57.5
Nov-21	68.5	75.7	71.4	67.5	73.9	72.6	69.5	75.4	82.0	65.3	57.7	74.4	64.9	55.6	57.6
Dec-21	68.1	77.4	69.6	67.2	70.4	71.5	68.7	73.0	77.0		58.2	65.9	65.8	54.3	57.0
Jan-22	66.3	71.9	70.9	69.6	72.0	70.1	69.9	72.1	79.7	66.1	57.1	69.3	65.6	54.5	58.1
Feb-22	67.3	74.8	72.2	67.9	73.7	74.2	73.1	75.2	81.5	66.0	57.8	66.7	64.9	52.5	57.3
Mar-22	70.2	76.7	79.6	78.3	78.5	83.6	80.3	83.2	81.6	77.5	57.7	70.9	81.3	54.2	59.7
Apr-22	71.5	79.6	78.7	76.0	81.9	82.2	75.7	79.3	82.4	77.8	61.4	73.7	77.1	53.7	62.1
May-22	71.7	81.1	77.4	78.1	80.3	82.4	71.5	75.6	85.8	68.7	62.7	78.2	70.0	52.4	62.5
Jun-22		73.0	77.9	79.2	80.4	82.1	71.4	77.0	84.5		64.6	77.7	67.7	50.2	61.0

PMI: SERVICES - OUTPUT PRICES

	World	USA	EURO ZONE	FRANCE	GERMANY	IRELAND	ITALY	SPAIN	UK	JAPAN	BRAZIL	RUSSIA	CHINA	INDIA
Sep-21	57.1	62.4	55.1	53.9	59.6	58.2	49.7	53.1	61.6	50.3	60.7	56.4	51.7	50.5
Oct-21	59.0	66.5	55.8	53.8	60.2	61.0	51.1	54.4	62.0	51.3	60.9	56.7	52.9	53.0
Nov-21	58.8	66.2	57.8	54.7	62.2	60.6	54.8	56.6	62.4	50.1	60.0	56.4	51.4	52.5
Dec-21	58.7	66.0	57.2	55.4	61.3	60.0	53.3	55.5	61.2	51.5	57.0	56.0	51.3	51.5
Jan-22	59.2	66.3	57.9	58.5	60.6	59.0	53.1	56.1	62.6	50.3	57.5	59.5	51.8	52.0
Feb-22	59.6	67.0	58.8	57.9	61.7	61.1	54.0	59.8	64.5	49.7	57.2	59.2	51.4	51.0
Mar-22	61.0	67.8	62.6	59.9	68.4	66.3	54.7	63.6	67.8	50.3	61.1	67.3	50.9	51.9
Apr-22	63.4	74.2	65.2	61.4	74.3	66.9	56.3	61.5	67.6	50.0	62.9	64.8	48.5	53.7
May-22	61.2	67.1	64.6	64.3	70.9	66.7	55.5	61.3	67.9	52.1	64.8	61.7	50.7	53.3
Jun-22	59.5	62.9	63.2	60.8	69.3	65.3	57.2	60.2	67.5	53.3	66.4	55.8	50.3	53.9



SOURCE: S&P GLOBAL, BNP PARIBAS



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ECONOMIC PULSE

UNITED STATES: A RUN OF BAD NEWS FROM CONFIDENCE SURVEYS

Results from the various economic activity indexes and confidence surveys are all pointing in the same direction. The US economic slowdown is becoming more severe, particularly judging by the sharp fall in the flash composite PMI for June, which came in at 51.2, down 2.4 points relative to May.

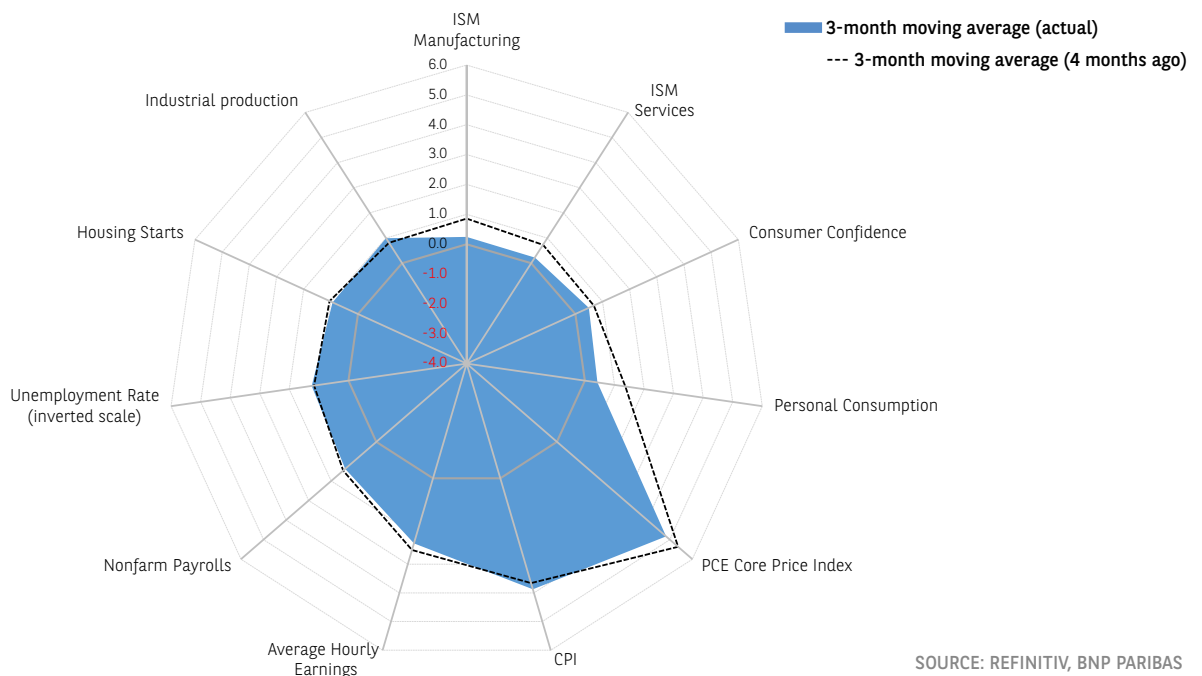
Consumer surveys are continuing to show a sharp drop in confidence. The University of Michigan Consumer Sentiment Index slumped 9.5 points in June, taking the total decline since January to 17 points, while the Conference Board Consumer Confidence Index – which had previously been more resilient – finally gave way, falling 3.5 points. The difference in the rate of decline between the two indexes stems mainly from the questions asked in the respective surveys. The Conference Board asks consumers about the current economic situation particularly jobs and the labour market, so the strong jobs market is shoring up this index. However, the University of Michigan focuses more on consumer perceptions of their own personal circumstances, so the inflation-driven fall in consumer real incomes is having a major negative impact on its index.

Surveys of manufacturing companies by the Federal Reserve Banks (FRB) are showing a significant decline in output, although with variations between districts. Businesses are reporting a fall in new orders, especially in the districts of Philadelphia and Dallas. This decline is partly attributable to higher input costs, which businesses are passing on to customers in the form of selling prices, which are now both exceptionally high. However, a downturn in both input prices and selling prices is now visible, and this should push down inflation in the next few months. Given current uncertainties and the deteriorating outlook in terms of demand, businesses are substantially cutting back their investment plans.

The only positive note is that the labour market has so far remained robust: the various FRB surveys show that businesses are firmly intending to hire new staff, while also suggesting that they will have to offer higher wages to do so. The labour market also remains stretched from the consumer perspective. Consumers are not having much trouble finding jobs: the relevant balance of opinion in the Conference Board survey fell again in June after a slight increase in May and is at a historically low level. Latest figures from the Bureau of Labor Statistics (BLS) confirm that the jobs market is robust, with 372 000 net salaried non-farm jobs created in June, slightly better than anticipated.

Félix Berte

US: QUARTERLY CHANGES



The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -4 and +6. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.



ECONOMIC PULSE

GERMANY : THE END OF THE NEO-MERCANTILIST MODEL?

In May 2022, Germany recorded its first trade deficit since 1991. Due to a much bigger than expected increase in imports (2.7% m/m) and an unexpected drop in exports (-0.5% m/m), the country's trade balance was negative to the tune of EUR 1 billion. By comparison, Germany was running a monthly trade surplus of nearly EUR 20 billion at the end of 2019. Moreover, this deterioration of the trade balance is likely to continue. The Kiel Institute's real-time forecasts suggest that exports will continue to fall, and imports to grow, over the next two months. As a result, the trade deficit is expected to exceed EUR 4 billion by end-July.

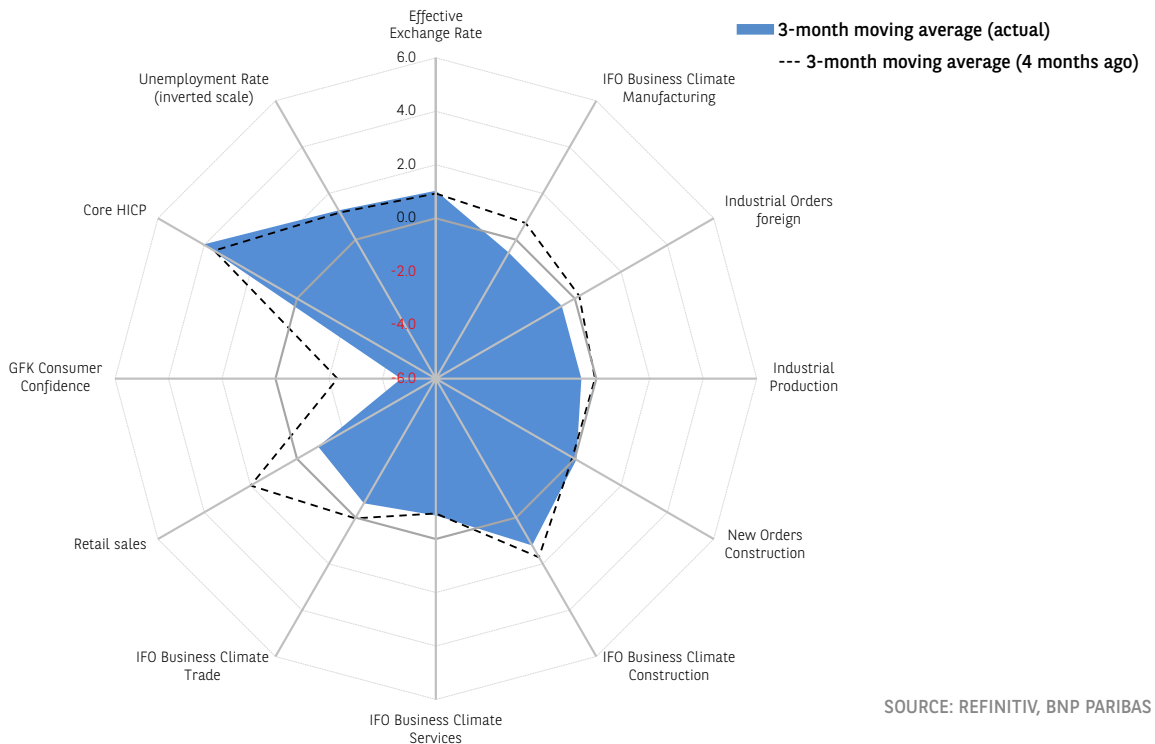
To date, it has been rising import prices, and supply constraints more generally, that have caused the German neo-mercantilist model to wobble. However, a lack of demand could come into play in the second half of 2022. S&P Global's June survey of purchasing managers in industry reported significant worsening of their order books over a number of months. The balance on the new orders index has fallen by more than 15 points since January 2022, and by more than 22 points over the past year. The same picture emerges in the expected demand figures from IFO's survey, which shows a very marked fall of 29 points over the year to June. Although for the time being order books are full enough to cover several months of production, the weakening of demand could become the main drag on industrial activity as supply constraints start to ease.

When it comes to inflation, the slight dip seen in June (to 7.6% y/y from 7.9% y/y in May) was due largely to the exceptional steps taken by the government to cut public transport prices; a monthly pass giving access to all rail services apart from main-line trains was introduced at a cost of EUR 9 on 1 June. However, alongside the ensuing reduction in services inflation (2.1% y/y, from 2.9% in May), inflation in the prices of goods continued to accelerate (14% y/y from 13.6% in May). Nothing so far suggests that inflation in Germany has reached its peak.

Price increases will hit consumer spending, particularly on goods, and there are no signs of improvement. Retail sales rallied slightly in May (0.6% m/m) after their collapse in April (-5.4% m/m). Total consumer spending should, however, benefit from a return to normal in spending on services, where the scope to catch up remains substantial (services revenue in April was still 25% below its end-2019 level). Yet, it remains to be seen to what extent this will boost overall spending. Households might decide to switch from goods to services, rather than increase their overall spending.

Anthony Morlet-Lavidalie

GERMANY: QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -6 and +6. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.



ECONOMIC PULSE

12

ITALY: TOWARDS ANOTHER DIP?

Although real GDP held up in Q1 (+0.1% q/q), our barometer clearly shows that the economic outlook is worsening. Annual inflation rose again in June, going from 7.3% to 8.5%, while manufacturing output stagnated: although Italy's manufacturing PMI remained in the expansion zone at 50.9 in June, it fell for the seventh straight month and has been down 11.9 points over that period. The new manufacturing orders fell deeper into the contraction zone at 43.9 in June. Manufacturing activity would also be highly exposed if Russia were to cut off gas supplies completely – a more plausible scenario today – since 40% of Italy's gas imports come from Russia. However, improving conditions in the global logistics system are now showing through in both survey results – with a substantial improvement in the Italian PMI delivery times indicator in June – and hard data¹. Together with lockdown easing in China, this should support manufacturing output in Italy. Construction is also showing signs of flagging, due in particular to shortages of materials and their increasing price: the construction PMI fell sharply between February (68.5) and June (50.4). The sector's value added had previously rebounded very sharply in 2021 (+21.2%) and again in Q1 2022 (+5.8% q/q).

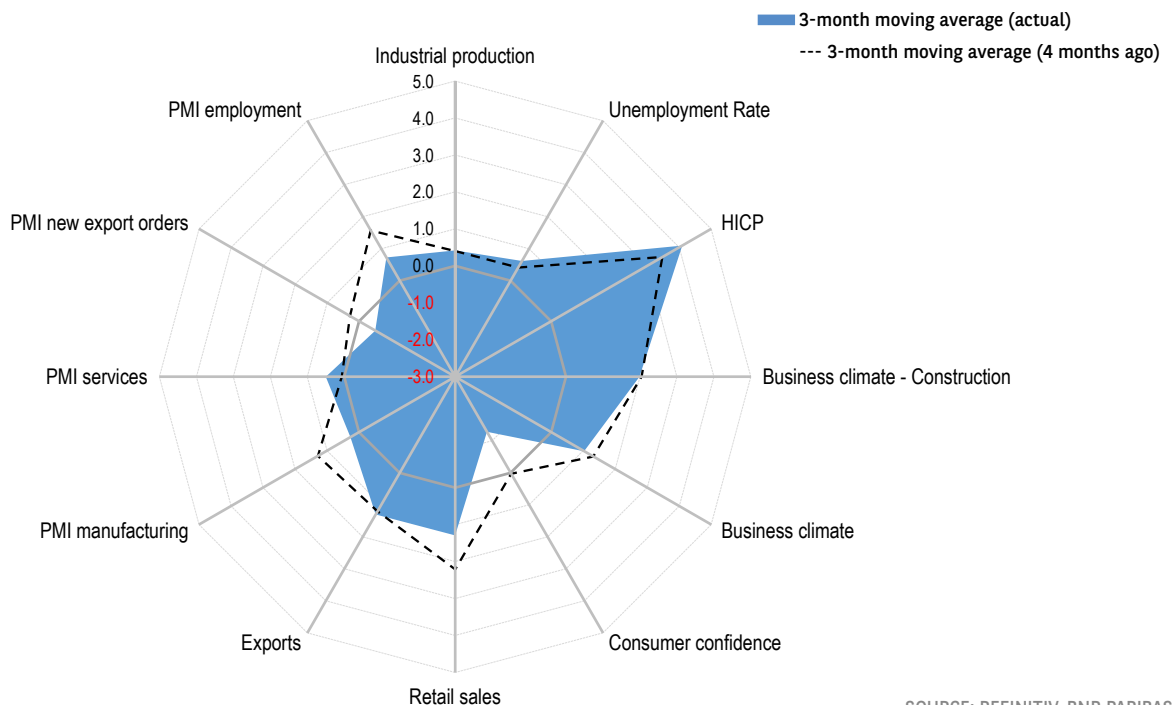
Developments in the labour market are also very mixed and less positive than the decline in the unemployment rate might suggest. The jobless rate has fallen steadily since October 2021 – from 9.2% to 8.1% – with the rate among young people (aged 15-24) down sharply from 28.7% to 20.5% over the same period. However, the labour force remains around 2% smaller than pre-Covid levels, which has amplified the fall in the unemployment rate.

At the same time, the war in Ukraine and the surge in inflation are gradually weakening the unity within Italy's ruling coalition. After Luigi Di Maio left the Five Star party because of differences of opinion about how to deal with the conflict in Ukraine, divisions have also appeared between parties about the future of the "citizen's income" in place since March 2019. The political climate is likely to remain tense until the parliamentary election scheduled for June 2023, and this is a source of concern for the country.

Guillaume Derrien

1. See BNP Paribas Ecoweek,Pulse, *International trade: a few signs that tensions are easing*, 27 June 2022

ITALY: QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -3 and +5. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.



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ECONOMIC SCENARIO

13

UNITED STATES

Despite a surprising contraction in Q1 2022, the US economy remains dynamic and well supported by household consumption and business investment. The robustness of the labour market which is at full employment, bolsters wages and household consumption. However, inflation, at its highest for four decades, causes a decline in purchasing power. As inflation is higher and more persistent than anticipated, the Federal Reserve is raising sharply the fed funds rate and shrinking its balance sheet. The downward revision of the government's fiscal ambitions, especially its social welfare and environmental plans, may also contribute to moderate growth. Against this background, despite avoiding a recession, the U.S. economy is expected to slow down clearly.

CHINA

Economic activity contracted in April due to the lockdowns imposed in large industrial regions such as Shanghai. This has led us to revise down our real GDP projection for 2022. Economic growth has rebounded since May and the authorities are enhancing fiscal and monetary easing measures. However, short-term downside risks remain high: exports will suffer from the slowdown in global demand, the correction in the property sector should continue, and the recent deterioration in the labour market should weigh on private consumption. Consumer price inflation is accelerating only moderately.

EUROZONE

The surge in inflation that began in early 2021 has morphed into an inflationary shock. Inflation continues to be driven primarily by energy prices but it is also becoming more widespread and thus more persistent. The deterioration of business climate surveys remained limited up until May but consumer confidence has worsened more noticeably. We expect growth to remain positive but weak in the coming quarters. The risk of a recession in the short term is increasing but, should there be one, it would only be technical (limited in duration and extent). The labour market remains robust and the economy still benefits from the cyclical momentum that existed prior to the war in Ukraine, fiscal measures that seek to cushion the impact of inflation on purchasing power, excess savings which are still available and the need to invest. In our scenario (no recession), we expect eurozone growth to reach 2.5% on average over 2022 and 2.3% in 2023.

FRANCE

Real GDP growth entered into negative territory in the 1st quarter of 2022 (-0.2% q/q after +0.4% in the 4th quarter of 2021), as a result of a decrease in household consumption (-1.5% q/q). Higher inflation has pressured households' purchasing power and should also weigh on Q2 expectations. In parallel, corporate investment maintained its growth (+0.4% q/q), as corporates have to cope with output capacity constraints. Overall, in 2022, GDP growth should ease to 2.3% (6.8% in 2021), against a background of higher inflation (5.4% expected in 2022 after 1.6% in 2021).

RATES AND EXCHANGE RATES

In the US, the Federal Reserve will continue its tightening policy at a swift pace. The terminal rate of 3.5% (upper end of the target range) should be reached towards the end of this year. The Fed's hawkish stance is motivated by still very low policy rates against a background of particularly elevated inflation and a strong labour market. When the economy slows down and inflation will be on a downward path, the Federal Reserve should adapt its guidance in an effort to achieve a soft landing. To a very large degree, US Treasury yields already reflect the prospect of monetary policy tightening. This means that year-end levels shouldn't be that different from current levels. For next year we expect somewhat lower yields as growth slows and inflation declines.

The ECB has announced to end its asset purchases at the start of July and to raise its deposit rate later that month. We expect 50bp rate hikes at its September and October meetings, to be followed by five further 25bp hikes between December 2022 and September 2023. This should cause an increase in Bund yields and a widening of sovereign spreads in the euro area.

The Bank of Japan is expected to maintain its current policy stance, at least until Governor Kuroda's term ends in the spring of 2023. Thereafter, we expect the negative interest rate policy to be scrapped and the 10-year rate target to be hiked.

We expect the dollar to weaken significantly versus the euro. The dollar's valuation is expensive, positioning in the market is very long and the long-term interest rate differential should narrow. The yen has already weakened significantly versus the dollar, reflecting the prospect of increased policy divergence between the Fed and the Bank of Japan. We expect the exchange rate to remain around current levels for the remainder of the year. In 2023, the yen should appreciate considering that the federal funds rate should have reached its terminal rate and that the Bank of Japan is expected to tighten policy.

GDP GROWTH & INFLATION

%	GDP Growth				Inflation			
	2021	2022 e	2023 e	2024 e	2021	2022 e	2023 e	2024 e
United-States	5.7	2.6	1.9	1.7	4.7	7.5	3.9	2.4
Japan	1.7	1.4	1.1	0.6	-0.2	1.9	1.0	0.7
United-Kingdom	7.4	3.6	1.5	1.6	2.6	8.0	4.4	2.1
Euro Area	5.3	2.5	2.3	2.2	2.6	7.9	4.1	2.0
Germany	2.9	1.3	2.2	2.3	3.2	8.1	4.6	2.1
France	6.8	2.3	2.1	2.0	2.1	5.9	3.6	1.8
Italy	6.6	2.8	2.0	1.8	1.9	7.7	4.5	1.8
Spain	5.1	4.1	2.5	2.2	3.0	8.0	3.6	1.7
China	8.1	3.7	5.7	5.0	0.9	2.3	3.4	2.5
India*	9.3	8.3	6.2	6.5	5.4	7.9	5.9	5.5
Brazil	4.6	1.5	0.0	1.2	8.3	11.0	7.1	4.3
Russia	4.5	-7.0	0.8	0.3	7.1	14.0	10.5	7.6

SOURCE: BNP PARIBAS GROUP ECONOMIC RESEARCH (E: ESTIMATES & FORECASTS)
*FISCAL YEAR FROM 1ST APRIL OF YEAR N TO MARCH 31ST OF YEAR N+1
** LAST UPDATE 06/13/2022

INTEREST & EXCHANGE RATES

Interest rates, %		17/06/2022 Q3 2022 e Q4 2022 e Q2 2023 e Q4 2023 e				
End of period		17/06/2022	Q3 2022 e	Q4 2022 e	Q2 2023 e	Q4 2023 e
US	Fed Funds (upper limit)	1.75	3.00	3.50	3.50	3.50
	T-Note 10y	3.24	3.10	3.20	3.10	3.00
Ezone	Deposit rate	-0.50	0.25	1.00	1.75	2.00
	Bund 10y	1.66	1.60	1.80	2.25	2.25
	OAT 10y	2.08	2.15	2.38	2.85	2.85
	BTP 10y	3.57	3.85	4.40	4.65	4.75
	BONO 10y	2.75	2.95	3.40	3.75	3.75
UK	Base rate	1.25	2.00	2.50	2.50	2.50
	Gilts 10y	2.46	2.30	2.50	2.65	2.50
Japan	BoJ Rate	-0.10	-0.10	-0.10	-0.10	0.00
	JGB 10y	0.23	0.24	0.25	0.25	0.45
Exchange Rates		17/06/2022 Q3 2022 e Q4 2022 e Q2 2023 e Q4 2023 e				
End of period		17/06/2022	Q3 2022 e	Q4 2022 e	Q2 2023 e	Q4 2023 e
USD	EUR / USD	1.05	1.09	1.12	1.16	1.20
	USD / JPY	135	131	130	125	120
	GBP / USD	1.22	1.25	1.27	1.32	1.36
EUR	EUR / GBP	0.86	0.87	0.88	0.88	0.88
	EUR / JPY	141	143	146	145	144
Brent		17/06/2022 Q3 2022 e Q4 2022 e Q2 2023 e Q4 2023 e				
End of period		17/06/2022	Q3 2022 e	Q4 2022 e	Q2 2023 e	Q4 2023 e
Brent	USD/bbl	113	120	122	125	125

SOURCE: BNP PARIBAS (E: ESTIMATES & FORECASTS)
(MARKET ECONOMICS, INTEREST RATE STRATEGY, FX STRATEGY, COMMODITIES DESK STRATEGY)
* BASE CASE ** LAST UPDATE 06/17/2022



CALENDAR

14

LATEST INDICATORS

In China, the services PMI jumped, beating expectations by a wide margin, on the back of the easing of mobility restrictions related to Covid-19 infections. In the US, growth of capital goods orders in May picked up slightly versus the previous month and was marginally ahead of the consensus forecast. Mortgage applications were down significantly and initial unemployment claims didn't change a lot. The ISM services index edged down but the result was better than anticipated. The labour market report was particularly strong with a large number of new jobs created in June, well above the consensus forecast. The EcoWatchers' survey in Japan recorded an unexpected decline, both in terms of the assessment of the current situation and the outlook. The Japanese services PMI on the other hand hardly changed. The PMI data in France were slightly below expectations. In Germany and the euro area, they were in line with the consensus. The services PMI in the UK moved higher, creating a positive surprise. In the euro area, retail sales increased in May after contracting in April but the improvement was smaller than anticipated.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
07/05/2022	Japan	Jibun Bank Japan PMI Services	Jun	--	54.0	54.2
07/05/2022	China	Caixin China PMI Services	Jun	49.6	54.5	41.4
07/05/2022	France	S&P Global France Services PMI	Jun	54.4	53.9	54.4
07/05/2022	France	S&P Global France Composite PMI	Jun	52.8	52.5	52.8
07/05/2022	Germany	S&P Global Germany Services PMI	Jun	52.4	52.4	52.4
07/05/2022	Germany	S&P Global Germany Composite PMI	Jun	51.3	51.3	51.3
07/05/2022	Eurozone	S&P Global Eurozone Services PMI	Jun	52.8	53.0	52.8
07/05/2022	Eurozone	S&P Global Eurozone Composite PMI	Jun	51.9	52.0	51.9
07/05/2022	United Kingdom	S&P Global/CIPS UK Services PMI	Jun	53.4	54.3	53.4
07/05/2022	United States	Cap Goods Orders Nondef Ex Air	May	0.5%	0.6%	0.5%
07/06/2022	Eurozone	Retail Sales MoM	May	0.4%	0.2%	-1.4%
07/06/2022	United States	MBA Mortgage Applications	Juil	--	-5.4%	0.7%
07/06/2022	United States	S&P Global US Services PMI	Jun	51.6	52.7	51.6
07/06/2022	United States	ISM Services Index	Jun	54.0	55.3	55.9
07/07/2022	United States	Initial Jobless Claims	Juil	230k	235k	231k
07/08/2022	Japan	Eco Watchers Survey Current SA	Jun	55.0	52.9	54.0
07/08/2022	Japan	Eco Watchers Survey Outlook SA	Jun	53.6	47.6	52.5
07/08/2022	United States	Change in Nonfarm Payrolls	Jun	268k	--	390k
07/08/2022	United States	Unemployment Rate	Jun	3.6%	--	3.6%
07/08/2022	United States	Average Hourly Earnings YoY	Jun	5.0%	--	5.2%
07/08/2022	United States	Average Weekly Hours All Employees	Jun	34.6	--	34.6
07/08/2022	United States	Labor Force Participation Rate	Jun	62.4%	--	62.3%

SOURCE: BLOOMBERG



CALENDAR: THE WEEK AHEAD

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COMING INDICATORS

As usual around this time fo the month, a lot of data will be published in China: exports, imports, industrial production, house prices, retail sales, unemployment rate etc. In addition we will have the estimate of second quarter GDP growth. The ZEW survey results will be released for Germany and the euro area. In the US, a lot of attention will go to the publication of the beige book, the inflation data (both consumer and producer prices) as well as retail sales. Finally, at the end of the week, we will have University of Michigan sentiment.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
07/12/2022	Germany	ZEW Survey Expectations	Jul	--	-28
07/12/2022	Germany	ZEW Survey Current Situation	Jul	--	-27.6
07/12/2022	Eurozone	ZEW Survey Expectations	Jul	--	-28
07/13/2022	Eurozone	Industrial Production SA MoM	May	--	0.40%
07/13/2022	United States	MBA Mortgage Applications	Jul	--	--
07/13/2022	United States	CPI MoM	Jun	1.10%	1.00%
07/13/2022	United States	CPI Ex Food and Energy MoM	Jun	0.60%	0.60%
07/13/2022	China	Exports YoY	Jun	12.00%	16.90%
07/13/2022	China	Imports YoY	Jun	4.00%	4.10%
07/14/2022	United States	PPI Ex Food and Energy MoM	Jun	0.50%	0.50%
07/14/2022	United States	Initial Jobless Claims	Jul	--	--
07/15/2022	China	New Home Prices MoM	Jun	--	-0.17%
07/15/2022	China	Industrial Production YoY	Jun	4.20%	0.70%
07/15/2022	China	GDP YoY	2Q	1.00%	4.80%
07/15/2022	China	Retail Sales YoY	Jun	0.40%	-6.70%
07/15/2022	China	Fixed Assets Ex Rural YTD YoY	Jun	6.00%	6.20%
07/15/2022	China	Property Investment YTD YoY	Jun	-4.10%	-4.00%
07/15/2022	China	Surveyed Jobless Rate	Jun	5.70%	5.90%
07/15/2022	United States	Retail Sales Advance MoM	Jun	0.90%	-0.30%
07/15/2022	United States	Retail Sales Ex Auto MoM	Jun	0.50%	0.50%
07/15/2022	United States	Capacity Utilization	Jun	79.20%	79.00%
07/15/2022	United States	U. of Mich. Sentiment	Jul	50.1	50
07/15/2022	United States	U. of Mich. Current Conditions	Jul	--	53.8
07/15/2022	United States	U. of Mich. Expectations	Jul	--	47.5
07/15/2022	United States	U. of Mich. 1 Yr Inflation	Jul	--	5.30%
07/15/2022	United States	U. of Mich. 5-10 Yr Inflation	Jul	--	3.10%

SOURCE: BLOOMBERG



FURTHER READING

16

Emerging Countries : From one shock to another	EcoEmerging	11 July 2022
Peru: tempered economic outlook	EcoTVWeek	8 July 2022
Egypt : Deepening of external imbalances	Chart of the Week	6 July 2022
US: an uneasy feeling	EcoWeek	4 July 2022
Let's keep talking about climate change	EcoTVWeek	1 July 2022
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