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ECONOMIC RESEARCH

BNP PARIBAS

The bank for a changing world

EDITORIAL

INFLATION HIGHER FOR LONGER? THE INTERPLAY BETWEEN PRODUCTIVITY, PROFIT MARGINS AND PRICING POWER

A complex interplay between unit labour costs, profit margins and pricing power will determine whether the current increase in inflation will be longer-lasting. Traditionally, in the early phase of a recovery, unit labour costs decline on the back of increased productivity. This should cushion the impact of higher input prices on profit margins. Subsequently, unit labour costs should increase but this does not imply that margins should decline. Given the strength of the growth acceleration, the fact that alternatives for meeting robust demand often do not exist and that going for market share makes no sense when faced with supply constraints, the conditions seem to be met for a rather significant transmission of higher input prices in producer output prices.

Inflation is grabbing headlines. In the euro area, headline inflation has reached 2.0% in May. Although high for European standards, it's nothing compared to the 5.0% recorded last month in the US, a 13-year high. A key question for households, companies, markets and policy makers is to what extent this increase will be temporary or not.

Part of the increase is related to base effects – e.g. the huge increase in energy prices –, which will be visible in the annual inflation numbers for several months to come. This could create a perception that inflation has moved higher on a lasting basis. When assessing whether this is an optical illusion or not, monitoring the price level and its change on a quarterly or monthly basis will be more relevant than annual numbers. A priori, the underlying trend of inflation should gradually move higher as sustained growth, underpinned by expansionary monetary and fiscal policy, should reduce economic slack. This applies to the US but it is also the message from the ECB in its latest projections[1] with core inflation excluding the effect of changes in indirect taxes rising from 0.9% in 2021 to 1.2% next year and 1.4% in 2023.

Whether the current increase in inflation will be longer-lasting, thereby lifting the expected path for inflation in the coming years, depends – for a given level of demand – on a complex interplay between different factors[2]. The value of production in an economy corresponds to the sum of profit margins (gross operating surplus), wages, net taxes – the difference between taxes and subsidies- and intermediate inputs[3]. Changes in producer prices reflect changes in profit margins per unit of production, unit labour costs, net taxes and the unitary cost of intermediate inputs.

Over the past year, energy has seen a huge price increase and input prices are also up strongly due to supply/demand imbalances. The extent to which this is reflected in higher producer prices in various sectors depends on unit labour costs and unitary profit margins. The former are driven by wages and productivity. The cyclical component of productivity tends to slow in the mature phase of an expansion and decline during a recession before increasing again during the early stages of an economic recovery, whereas wages rise more slowly during a recovery due to high levels of labour market slack (chart 1)[4]. This implies that, with growth picking up after the Covid-19 recession, the decline in unit labour costs could cushion the impact of higher input costs on profit margins. Chart 2 shows that, historically, after the recession has ended in the US, unit labour costs and unitary profit margins – gross operating surplus in percent of value added – tend to be negatively correlated. Later on, during the expansion phase, the relationship is less clear-cut. However, in an economy which is recovering from a pandemic and its restrictions on mobility, the price elasticity of demand will be very low in certain sectors because

1. Eurosystem staff macroeconomic projections for the euro area, ECB, June 2021.
2. This supposes that the absence of pre-emptive monetary tightening. This assumption is warranted based on the guidance given by the ECB and the Federal Reserve.
3. This concerns inputs coming from the various economic sectors (manufacturing, services, energy and mining, agriculture, construction).
4. According to the ECB staff projections, *"unit labour costs are expected to be depressed by the rebound in labour productivity in 2021, but gradually recover and increase by 2023"*. The ECB comment refers to the whole economy, so not only the manufacturing sector.

US: PRODUCTIVITY AND UNIT LABOUR COSTS

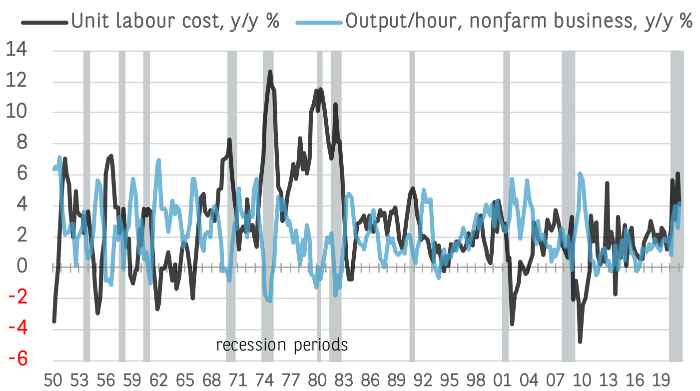


CHART 1 SOURCE: BLS, NBER, BNP PARIBAS

> Given the strength of the growth acceleration, the fact that alternatives often do not exist and that going for market share makes no sense when faced with supply constraints, the conditions seem to be met for a rather significant transmission of higher input prices in producer output prices.

people are keen to go out again, travel, etc. Accumulated savings is another factor explaining this low elasticity. This offers an opportunity for companies to reflect the increased cost of intermediate inputs into higher producer prices, thereby protecting their margins. This depends on the strength of demand, the existence of alternatives and the pricing strategy of competitors. Given the strength of the growth acceleration this year, the fact that alternatives often do not exist – e.g. copper in the construction sector, semiconductors – and that going for market share makes no sense when faced with supply constraints, the conditions seem to be met for a rather significant transmission of higher input prices in producer output prices. Subsequently, as input prices stabilise and the relationship between demand and supply normalises, this transmission should decline, under the influence of more intense competition. Another factor which is at play in the early stage of a recovery is the fact that profit margins are procyclical, as shown in chart 3. Rising capacity utilisation – a proxy for the output gap- is associated with higher profit margins, reflecting increased pricing power and thus contributing to higher prices[5]. Thus far, the analysis has focused on producer prices whereas central banks are focusing on consumer prices. The latter incorporate distribution costs and profit margins for the wholesaler and the retailer. These may dilute the pass-through of a given percentage increase in producer prices in the consumer price index. Pricing strategy also plays a role in this respect considering that research for the US retail sector shows that gross margins (sales minus costs of goods sold as a fraction of sales) *"are relatively stable over time and acyclical or mildly procyclical"*.[6]

William De Vijlder

US: UNIT LABOUR COSTS AND PROFIT MARGINS

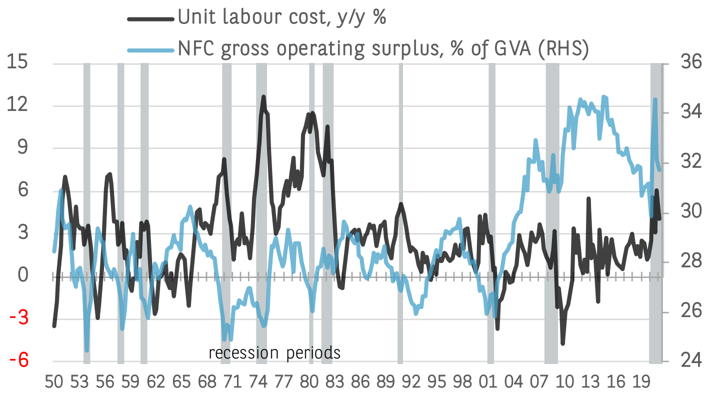


CHART 2 SOURCE: BLS, BEA, NBER, BNP PARIBAS

US: CAPACITY UTILISATION AND PROFIT MARGINS

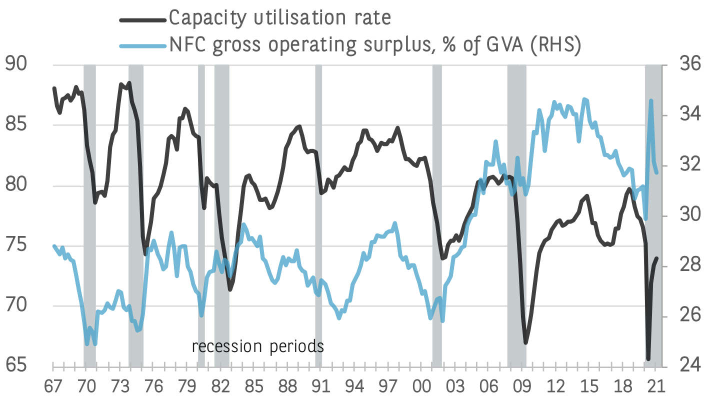


CHART 3 SOURCE: FEDERAL RESERVE, BEA, NBER, BNP PARIBAS

5. For the euro area, the ECB's latest projections expect profit margins *"to have a slightly positive impact on inflationary pressures in 2023."*
6. Source: Eric Anderson, Sergio Rebelo and Arlene Wong, *Markups across space and time,* NBER Working Paper 24434, December 2020.

MARKETS OVERVIEW

OVERVIEW

Week 4-6 21 to 11-6-21

↗ CAC 40	6 516	▸	6 601	+1.3	%
↗ S&P 500	4 230	▸	4 247	+0.4	%
↘ Volatility (VIX)	16.4	▸	15.7	-0.8	pb
↘ Euribor 3M (%)	-0.55	▸	-0.55	-0.2	bp
↘ Libor $ 3M (%)	0.13	▸	0.12	-0.9	bp
↘ OAT 10y (%)	0.08	▸	0.03	-5.4	bp
↘ Bund 10y (%)	-0.21	▸	-0.27	-6.0	bp
↘ US Tr. 10y (%)	1.56	▸	1.46	-9.9	bp
↘ Euro vs dollar	1.22	▸	1.21	-0.4	%
↘ Gold (ounce, $)	1 894	▸	1 882	-0.6	%
↗ Oil (Brent, $)	72.0	▸	72.9	+1.2	%

MONEY & BOND MARKETS

Interest Rates			highest 21			lowest 21		
€	ECB	0.00	0.00	at	01/01	0.00	at	01/01
	Eonia	-0.48	-0.47	at	26/01	-0.50	at	01/01
	Euribor 3M	-0.55	-0.53	at	07/05	-0.56	at	06/01
	Euribor 12M	-0.49	-0.47	at	20/04	-0.52	at	02/02
$	FED	0.25	0.25	at	01/01	0.25	at	01/01
	Libor 3M	0.12	0.24	at	13/01	0.12	at	10/06
	Libor 12M	0.24	0.34	at	01/01	0.24	at	10/06
£	BoE	0.10	0.10	at	01/01	0.10	at	01/01
	Libor 3M	0.08	0.09	at	24/03	0.03	at	01/01
	Libor 12M	0.17	0.17	at	13/05	0.07	at	11/01

At 11-6-21

Yield (%)			highest 21		lowest 21	
€	AVG 5-7y	-0.24	-0.03	at 19/05	-0.46	at 04/01
	Bund 2y	-0.68	-0.65	at 25/02	-0.75	at 01/01
	Bund 10y	-0.27	-0.11	at 20/05	-0.60	at 04/01
	OAT 10y	0.03	0.23	at 17/05	-0.41	at 04/01
	Corp. BBB	0.63	0.79	at 20/05	0.50	at 08/01
$	Treas. 2y	0.15	0.17	at 05/04	0.11	at 05/02
	Treas. 10y	1.46	1.75	at 31/03	0.91	at 01/01
	High Yield	4.54	4.87	at 09/03	4.54	at 11/06
£	gilt. 2y	0.06	0.13	at 26/02	-0.08	at 04/01
	gilt. 10y	0.75	0.93	at 13/05	0.21	at 04/01

At 11-6-21

EXCHANGE RATES

1€ =		highest 21			lowest 21			2021
USD	1.21	1.23	at	06/01	1.17	at	30/03	-1.0%
GBP	0.86	0.91	at	06/01	0.85	at	05/04	-4.2%
CHF	1.09	1.11	at	04/03	1.08	at	18/01	+0.6%
JPY	132.93	133.97	at	28/05	125.22	at	18/01	+5.2%
AUD	1.57	1.60	at	04/01	1.53	at	18/03	-0.8%
CNY	7.74	8.00	at	01/01	7.69	at	25/03	-3.3%
BRL	6.21	6.95	at	03/03	6.14	at	08/06	-2.3%
RUB	87.15	92.47	at	20/04	86.53	at	16/03	-3.7%
INR	88.49	90.39	at	23/04	85.30	at	27/03	-1.0%

At 11-6-21 *Change*

COMMODITIES

Spot price, $		highest 21			lowest 21			2021	2021(€)
Oil, Brent	72.9	72.9	at	11/06	51.2	at	04/01	+40.5%	+41.9%
Gold (ounce)	1 882	1 947	at	05/01	1 682	at	08/03	-0.8%	+0.2%
Metals, LMEX	4 284	4 402	at	11/05	3 415	at	01/01	+25.5%	+26.8%
Copper (ton)	9 975	10 449	at	11/05	7 749	at	01/01	+28.7%	+30.1%
wheat (ton)	255	2.9	at	07/05	231	at	30/03	+3.1%	+4.2%
Corn (ton)	271	2.9	at	07/05	188	at	04/01	+4.4%	+45.3%

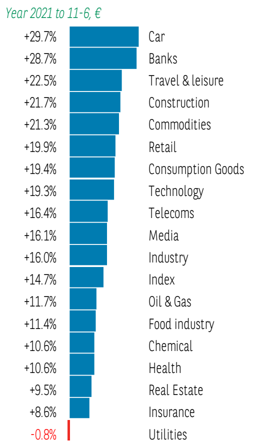
At 11-6-21 *Change*

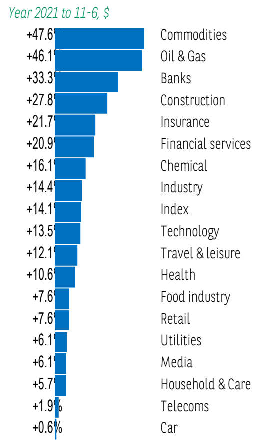
EQUITY INDICES

	Index	highest 21			lowest 21			2021
World								
MSCI World	3 013	3 013	at	11/06	2 662	at	29/01	+12.0%
North America								
S&P500	4 247	4 247	at	11/06	3 701	at	04/01	+13.1%
Europe								
EuroStoxx50	4 127	4 127	at	11/06	3 481	at	29/01	+16.2%
CAC 40	6 601	6 601	at	11/06	5 399	at	29/01	+1.9%
DAX 30	15 693	15 693	at	11/06	13 433	at	29/01	+14.4%
IBEX 35	9 205	9 225	at	28/05	7 758	at	29/01	+1.4%
FTSE100	7 134	7 134	at	11/06	6 407	at	29/01	+1.0%
Asia								
MSCI, loc.	1 138	1 141	at	08/06	1 044	at	06/01	+0.9%
Nikkei	28 949	30 468	at	16/02	27 056	at	06/01	+5.5%
Emerging								
MSCI Emerging ($)	1 382	1 445	at	17/02	1 288	at	25/03	+0.7%
China	108	130	at	17/02	102	at	13/05	-0.1%
India	776	776	at	11/06	659	at	29/01	+15.0%
Brazil	2 026	2 071	at	07/06	1 561	at	09/03	+6.6%
Russia	796	796	at	11/06	647	at	01/02	+16.2%

At 11-6-21 *Change*

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

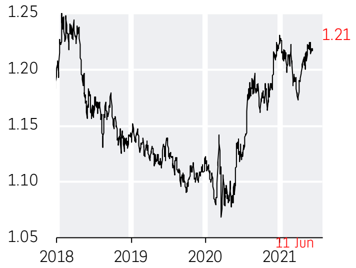




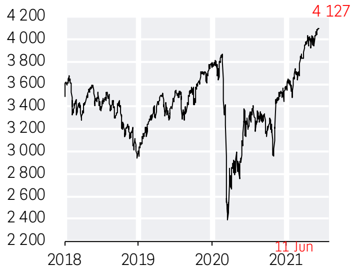
SOURCE: REFINITIV, BNP PARIBAS,

MARKETS OVERVIEW

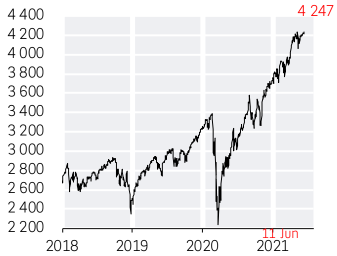
EURO-DOLLAR



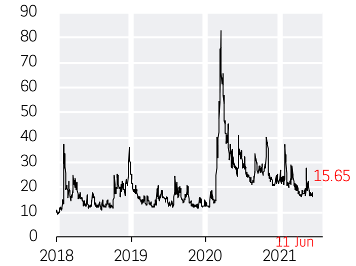
EUROSTOXX50



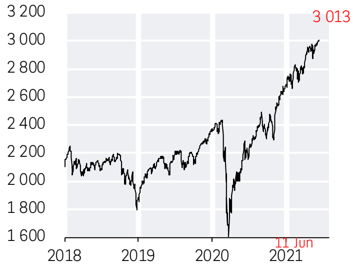
S&P500



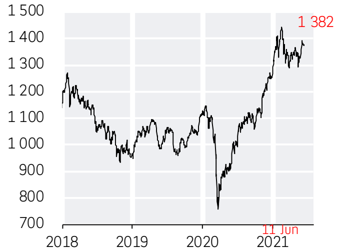
VOLATILITY (VIX, S&P500)



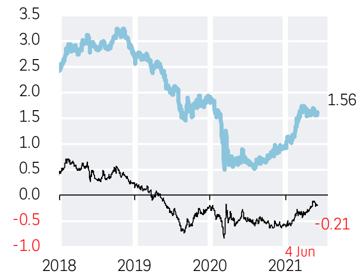
MSCI WORLD (USD)



MSCI EMERGING (USD)

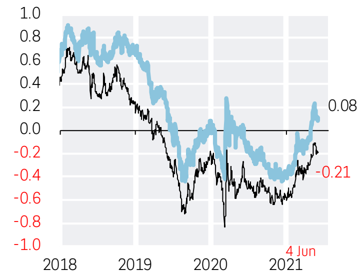


10Y BOND YIELD, TREASURIES VS BUND



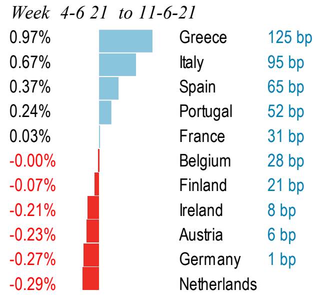
—Bunds —US Treasuries

10Y BOND YIELD

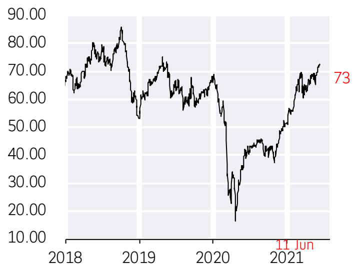


—Bunds —OAT

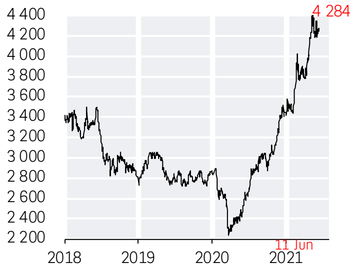
10Y BOND YIELD & SPREADS



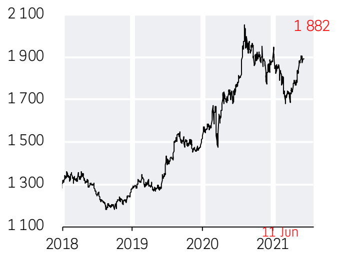
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS

ECONOMIC PULSE

INTERNATIONAL TRADE: STRONG DYNAMISM

Indicators related to international trade remain very strong. Even though the most recent CPB[1] figures are for March, world trade in volumes (both exports and imports) increased 2.2% m/m, pushing the quarterly rise to 3.5% in Q1 2021. This represents a solid growth that was almost identical to that recorded in the previous quarter. This said, world exports growth in Q1 2021 was mainly driven by China (14.4% q/q) and emerging Asia (+6.2%). Given that the health situation remained challenging over the winter, trends in exports were still fragile in the eurozone (+0.4% in Q1), Latin America (+0.6%), Africa and the Middle East (+1.7%), the US (-0.1%) and particularly in the UK (-15.2%). The British economy was also hit by the initial effects of Brexit, which most noticeably resulted in January in an abrupt, albeit mostly temporary, fall in goods exports to the European Union.

It is hard to predict when this very strong recovery in trade will begin to level out. However, opinion surveys suggest that this increase will continue into the summer at least. The global PMI for new export orders in the manufacturing sector (shown below) continued to improve in May, reaching its highest level for 11 years. New export orders from Taiwan – another reliable indicator to gauge the state of global demand – also rose in April.

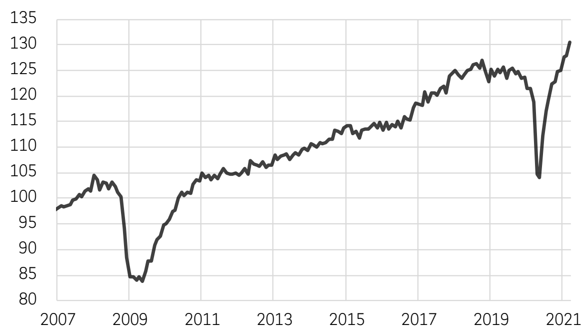
Meanwhile, bottlenecks caused by significant imbalances between supply and demand for goods are unlikely to ease in the short term. This could keep prices for several commodities and transport costs at historically high levels. As can be seen in the chart below, the China containerized freight price index – which measures transport costs for a container originating in China to the rest of the world – jumped by nearly 12% in May.

1. The Netherlands Bureau for Economic Policy Analysis.

Guillaume Derrien

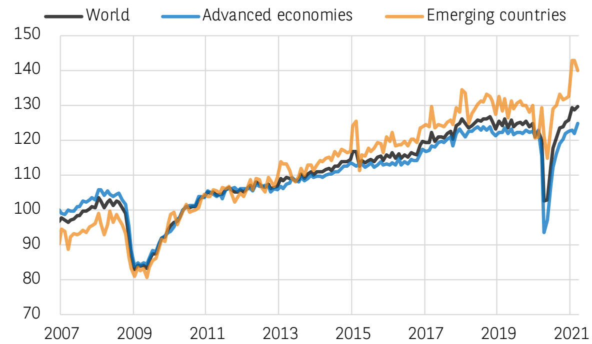
INTERNATIONAL TRADE INDICATORS

World trade (exports & imports), volume, index 2010 = 100



Source: CPB, BNP Paribas

World exports by area, volume, index 2010 = 100



Source: CPB, BNP Paribas

Global manufacturing PMI: new export orders

Source: Markit, BNP Paribas

China containerized freight price index

Source: Shanghai Shipping Exchange, BNP Paribas

UNITED STATES: INFLATION OFF TRACK

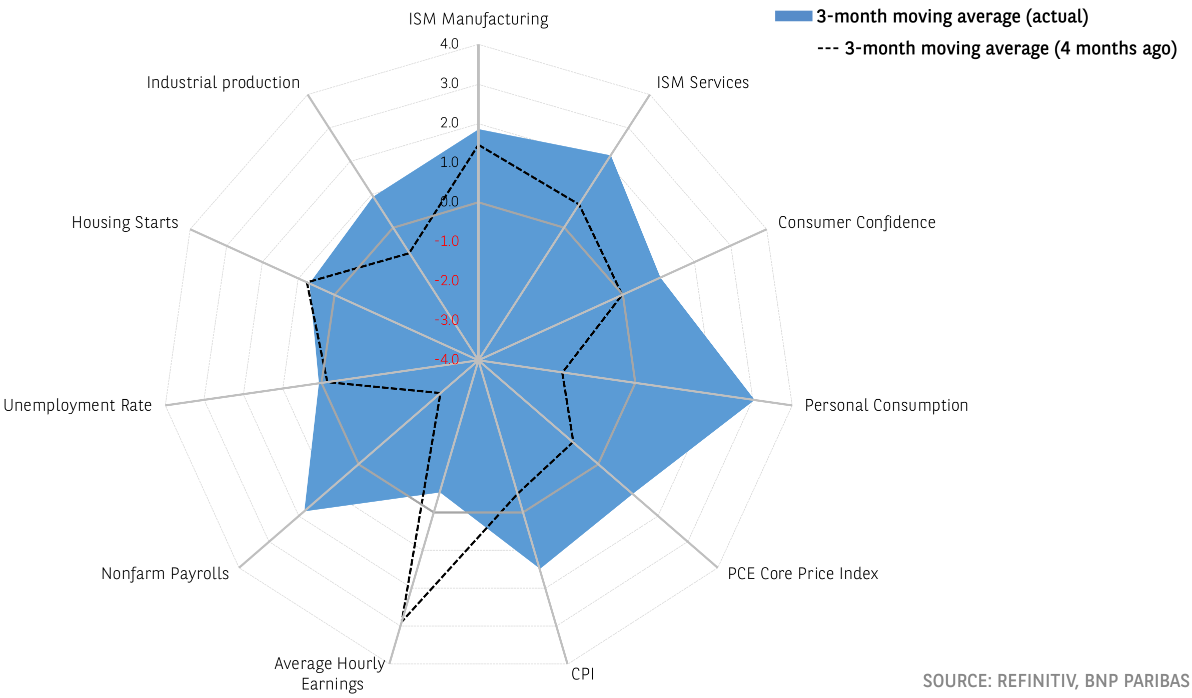
Our barometer this week shows a phenomenon that is attracting increasing comment in the US: a significant rise in inflation as the Covid-19 pandemic recedes. Some people, including the Chair of the Federal Reserve Jerome Powell, are playing down the increase, while others, such as former Treasury Secretary Lawrence Summers and economist Nouriel Roubini, see it as a possible paradigm shift. Annual consumer price inflation hit 5% in May, the highest level for 13 years. Like previous inflation spikes, this one is being driven by higher energy prices (up 28.5% year-on-year), but other factors are also involved. Core inflation (excluding energy and food) was 3.8% in May and is also rising because of demand-side pressures. Savings accumulated in 2020 – partly consisting of forced savings – amounted to almost $3,000 billion, twice the figure for a "normal" year. In 2021, this is driving consumers' appetite for items such as second-hand cars, transport services and clothing.

At this stage, it is hard to see the current rise in inflation as anything other than temporary. "Second-round" effects – in which wages respond to the shock, driving up prices further – are not showing up at the moment. In this area, it is important to look at the right indicator. The average hourly earnings index, which is rebounding sharply, is not entirely relevant because it currently fails to reflect the importance of the low-paid sectors that have been hardest-hit by the pandemic. The employment cost index, meanwhile, is calculated quarterly and is not subject to the same structural bias. Its rate of increase is steady or falling slightly (2.7% year-on-year in the first quarter of 2021 for the wages and salaries component, as opposed to 3.1% in the first quarter of 2020).

Finally, it is worth noting that after an exceptional March, in which public spaces reopened and "Biden cheques" were announced, the buying frenzy among Americans is now calming down. Retail sales fell in April and probably also in May, when the auto market saw a correction. Another sign that things are returning to normal is provided by Google's mobility indicators, which are moving back to their pre-crisis levels. This is particularly the case for data regarding travel to retail areas which, as one might expect, show a close correlation with consumer spending figures.

Jean-Luc Proutat

US 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 -4 and +4. 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.

MOBILITY: NEARLY BACK TO NORMAL IN MANY COUNTRIES

The easing of the pandemic has continued for the fifth consecutive week across the world. The week of 2 to 8 June saw 2.8 million new Covid-19 cases worldwide, a 16% drop on the previous week. This fall came in all regions. Only Africa has seen an overall increase in case numbers since the first week of May, at 18% (chart 1). Meanwhile, 2.3 billion Covid-19 vaccine doses have been administered worldwide since the fourth quarter of 2020, when vaccination campaigns began, meaning at least one dose for nearly 12% of the world's population (chart 2). In the UK, 60% of the population has received at least one dose, and the US has now moved above the symbolic 50% threshold. In the European Union, the figure is 42%.

The acceleration of vaccination programmes has allowed a gradual reopening of economies. Visits to retail and leisure facilities continued to rise in the main developed economies, marking a return nearly to normal in the week of 28 May to 8 June. They rose by 20 points in Germany, 16 points in Belgium and 10 points in the UK (putting them respectively 9.6%, 2.3% and 7.7% below benchmark levels on a seven-day moving average*). There were also improvements over the same period in France (up 6.4 points from -16.9% to -10.6%) and Italy (up 6.7 points from -12.1% to -5.4%), whilst visit numbers in the US were stable at around 4.3% below the benchmark (chart 3).

The OECD weekly tracker (a proxy for year-on-year GDP growth) continued to weaken in France, Italy, Spain, Belgium and Japan. In Germany the recent brief recovery gave way to a fall. In the US, the indicator improved after a period of decline, whilst that for the UK showed continued progress (chart 3). This indicator is produced by the OECD on the basis of data from Google Trends for searches relating to consumption, labour markets, housing, industrial activity and uncertainty. It should be noted, however, that these calculations may in part reflect base effects.

Tarik Rharrab

** Google Mobility Reports show how visits and length of stay at different places change compared to a baseline. The baseline is the median value, for the corresponding day of the week, during the 5-week period Jan. 3 – Feb. 6, 2020. A figure of negative 30% indicates that traffic was down 30% compared to a baseline. The reports show trends over several weeks with the most recent data representing approximately 2-3 days ago—this is how long it takes to produce the reports. In order to smooth the series, we use a seven-day moving average of the raw data in the Google Mobility Reports. Source: Google.*

DAILY CONFIRMED COVID-19 CASES
(7-DAY MOVING AVERAGE)

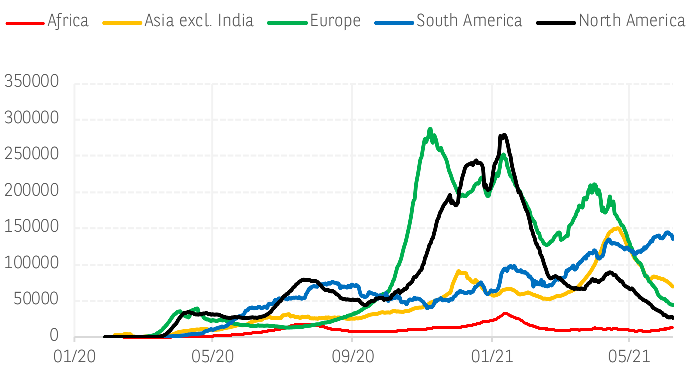


CHART 1 SOURCE: JOHNS-HOPKINS UNIVERSITY (06/10/2021), BNP PARIBAS

SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE

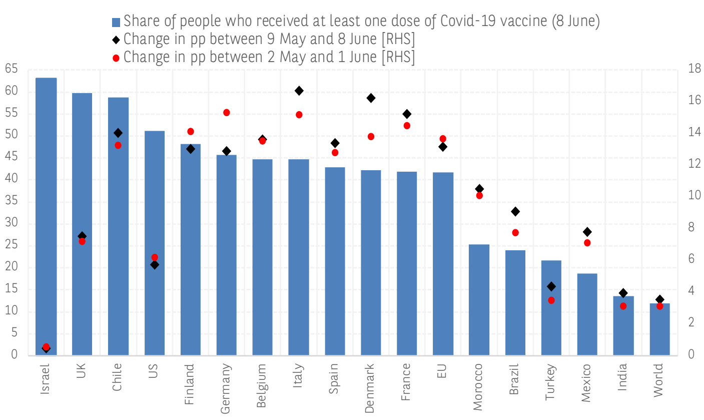
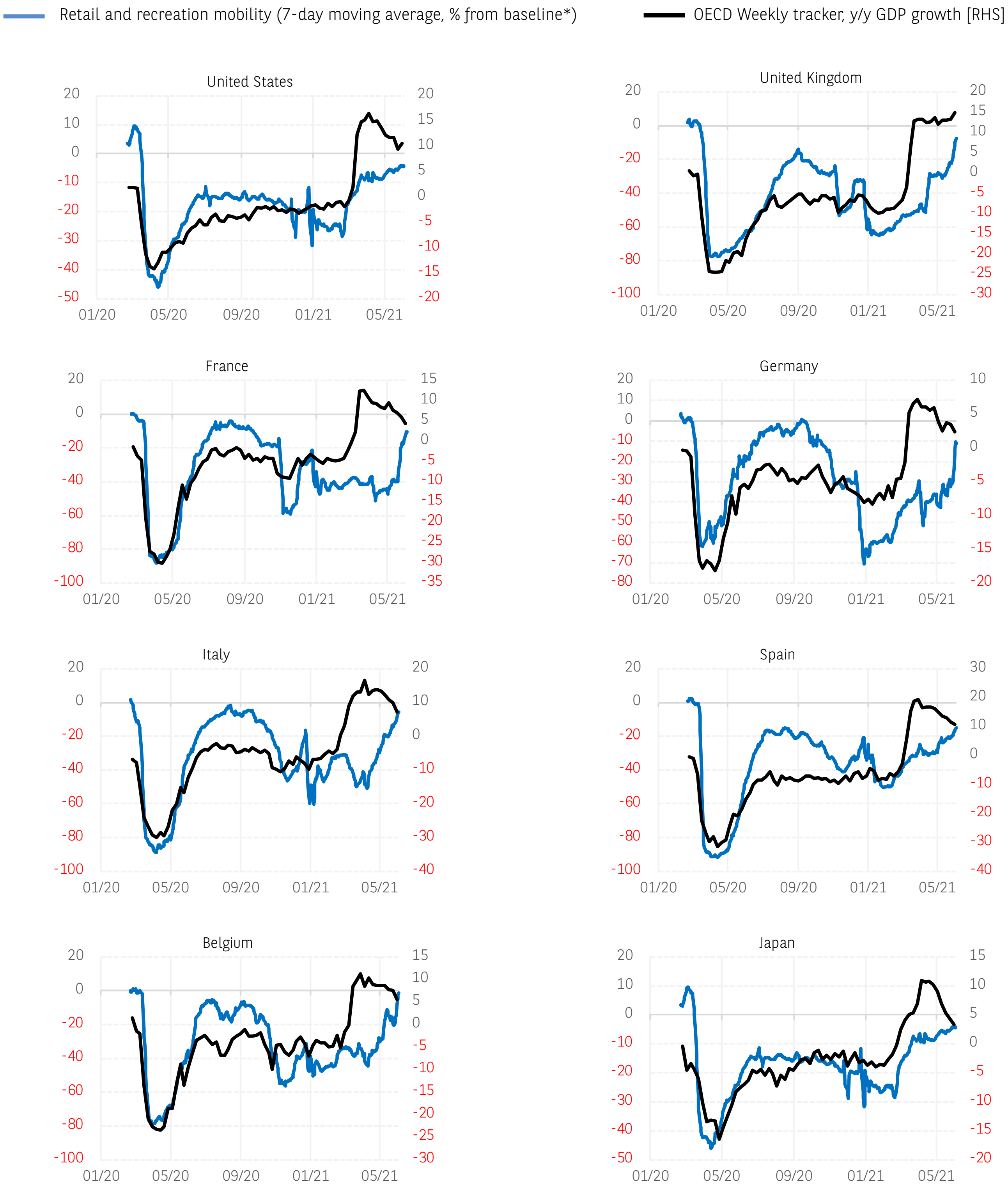


CHART 2 SOURCE: OUR WORLD IN DATA (06/10/2021), BNP PARIBAS

RETAIL AND RECREATION MOBILITY & OECD WEEKLY TRACKER



SOURCE: OECD (06/10/2021), GOOGLE (06/08/2021), BNP PARIBAS

ECONOMIC SCENARIO

UNITED STATES

Having limited the damage in 2020, the US economy is now recovering fast, driven by a vaccination campaign that is steaming ahead and raising hopes of collective immunity to Covid-19 being achieved at some point in the summer. The economy has also benefited from the exceptional fiscal stimulus package, which is twice the size of that put in place after the financial crisis of 2008. As a result, US GDP growth will be close to 7% in 2021, opening the way to a rapid return to pre-crisis levels. The employment deficit remains significant as a result of the pandemic, but this should steadily be absorbed, opening the way to a rapid fall in the unemployment rate, which is expected to drop below the 5% mark in the second half. Expected inflation has risen sharply and is unlikely to fall back, particularly as reported inflation is picking up. Over the coming months the latter is likely to run well above the 2% target set by the Federal Reserve, but this will not cause the central bank to deviate from its accommodating stance.

CHINA

After plummeting in Q1 2020, economic activity has experienced a V-shaped rebound since Q2. Economic growth will stay strong in 2021, still supported by industrial production and exports. Manufacturing investment growth should accelerate in the short term while investment growth in infrastructure and real estate projects is expected to slow. The growth recovery in the services sector and in private consumption has started later and been slower, but it should gain momentum in 2021. The authorities are expected to reduce very gradually their fiscal policy support measures and continue the cautious credit policy tightening, which was initiated in Q4 2020 in order to stabilize domestic debt-to-GDP ratios and contain risks in the financial system.

EUROZONE

.After an historic recession in 2020 (-6.8%, annual average), the Eurozone economy should firmly rebound this year (+4.2%), especially from the H2. In 2022, the economic recovery would be still on track with an economic growth of +5%. Globally, Eurozone GDP could reach its pre-crisis level faster than we expected before, around the middle of 2022. The current resurgence in the pandemic across many Member states and new health restrictions keep weighing on the dynamics of the recovery and uncertainties remain at a significant level. Nevertheless, the expected acceleration of vaccines rollout is the brightest spot for the economy in the months ahead. Also, in this still tricky situation, the policy-mix will remain accommodative to support the recovery. The European central bank has already announced a higher pace of assets purchases, helping to maintain very favorable financing conditions in the Eurozone. Over the coming months, one of the most important issues to focus on will be to restore consumers' confidence. This constitutes an essential vector of a prompt and sustained recovery.

FRANCE

Contrary to what the discovery of vaccines at the end of 2020 suggested, i.e. the end of the stop-and-go activity, at the beginning of 2021, due to the appearance of variants and the slowness of vaccination, we are still on a trajectory of crisis exit in fits and starts. The capacity of the economy to rebound and the possibility of a vigorous rebound are not, as such, called into question; it is the timing of the rebound that has been postponed. It is now expected in H2 2021, bolstered by the acceleration of the immunization and the support of the policy-mix. For 2021 as a whole, growth would average 6.1%. This is a rather optimistic forecast, half a point above the March 2021 consensus. In 2022, growth would remain strong (4.4%). According to our scenario, French GDP would exceed its pre-crisis level in Q1 2022. Inflation is also expected to pick up, driven by temporary factors (commodity prices) but also by the more lasting influence of supply (constrained) and demand (rising) and the reflationary efforts of monetary policy.

RATES AND EXCHANGE RATES

In the US, policy will remain on hold for quite some time, considering that the FOMC wants inflation to move beyond 2% to make up for past below-target inflation. Its outcome-dependent guidance is very clear: the current pace of asset purchases will be maintained 'until substantial further progress has been made' toward reaching its goals in terms of maximum employment and inflation and the FOMC will signal well in advance when the economy is on a path warranting a change in policy. Although it expects an increase in inflation later this year, it considers it will be transient and limited. Treasury yields should continue to move higher on the back of fiscal stimulus and the prospect of a strong acceleration of economic growth.

In the eurozone, the ECB will maintain its very accommodative stance centered around its asset purchases and forward guidance, with the objective to generate a pick-up in inflation. The pandemic emergency purchase programme (PEPP) is to last at least until the end of March 2022. Nevertheless, bond yields are expected to move higher based on the acceleration of euro area growth, the reduction in uncertainty and the spillover effect of higher US Treasury yields. This should also lead to a slight increase in sovereign spreads in the euro area. The Bank of Japan is expected to maintain its current policy stance including its yield curve control strategy although the range of the latter has recently been widened to +/- 25 bp around 0%. Within this range, JGB yields are expecting to move higher, following the global trend. We expect the dollar to weaken slightly versus the euro. This is the result of conflicting forces: faster growth in the US than in the eurozone but narrow interest rate differentials at the short end of the curve and a dollar which at current levels is expensive compared to fair value. Concerning the yen, little change is expected versus the dollar whereas it is expected to weaken against the euro.

GROWTH & INFLATION

	GDP Growth				Inflation			
%	2019	2020	2021 e	2022 e	2019	2020	2021 e	2022 e
United-States	2.2	-3.5	6.9	4.7	1.8	1.2	2.5	2.2
Japan	0.3	-4.8	3.0	2.3	0.5	0.0	-0.3	0.0
United-Kingdom	1.5	-10.2	6.1	6.0	1.8	0.9	1.4	2.1
Euro Area	1.3	-6.8	4.2	5.0	1.2	0.3	1.7	1.4
Germany	0.6	-5.3	3.0	4.8	1.4	0.4	2.1	1.5
France	1.5	-8.2	6.1	4.4	1.3	0.5	1.4	1.0
Italy	0.3	-8.9	5.0	3.9	0.6	-0.1	1.5	1.4
Spain	2.0	-10.8	5.9	5.6	0.8	-0.3	1.3	1.2
China	6.1	2.3	9.2	5.3	2.9	2.5	1.8	2.8
India*	4.2	-7.2	12.5	4.1	4.8	6.2	4.9	4.6
Brazil	1.1	-4.1	2.5	3.0	3.7	3.2	6.5	4.0
Russia	1.3	-4.5	4.0	3.0	4.3	3.4	5.1	4.0

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

INTEREST & EXCHANGE RATES

Interest rates, %		2021					
End of period		Q1	Q2e	Q3e	Q4e	2021e	2022e
US	Fed Funds (upper limit)	0.25	0.25	0.25	0.25	0.25	0.25
	T-Notes 10y	1.75	2.00	2.10	2.20	2.20	2.50
Ezone	Deposit rate	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
	Bund 10y	-0.33	-0.20	-0.10	0.20	0.20	0.20
	OAT 10y	-0.11	0.00	0.15	0.50	0.50	0.50
	BTP 10y	0.63	0.70	0.90	1.35	1.35	1.30
	BONO 10y	0.34	0.45	0.60	0.95	0.95	1.00
UK	Base rate	0.10	0.10	0.10	0.10	0.10	0.10
	Gilts 10y	0.88	1.00	1.10	1.20	1.20	1.30
Japan	BoJ Rate	-0.04	-0.10	-0.10	-0.10	-0.10	-0.10
	JGB 10y	0.09	0.12	0.18	0.23	0.23	0.28

Exchange Rates		2021					
End of period		Q1	Q2e	Q3e	Q4e	2021e	2022e
USD	EUR / USD	1.18	1.18	1.20	1.23	1.23	1.18
	USD / JPY	111	111	111	111	111	114
	GBP / USD	1.38	1.39	1.43	1.46	1.46	1.42
EUR	EUR / GBP	0.85	0.85	0.84	0.84	0.84	0.83
	EUR / JPY	130	131	133	137	137	135

SOURCE: BNP PARIBAS GLOBAL MARKETS (E: ESTIMATES)

CALENDAR

LATEST INDICATORS

In Japan, the contraction in first quarter GDP was less severe than initially estimated. Moreover, the Eco Watchers survey has become more upbeat about the outlook. The consensus had expected a further decline. Eurozone first quarter GDP shrunk less than initially estimated. There was a downward revision of growth in gross fixed capital formation whereas household spending declined less. The decline in first quarter employment was the same as the previous number. As expected, the ECB kept its policy unchanged. The message was more positive than before considering that risks are now being assessed as balanced instead of tilted to the downside. In France, first quarter employment grew more than expected. Chinese consumer prices increased less than expected but the strong rise in producer prices was larger than anticipated. In the US, small business optimism hardly changed in May and job openings were up significantly in April, much more than expected. Inflation reached 5.0% in May with core inflation at 3.8%. The month over month change of core inflation eased from 0.9% in April to 0.7%, although this is still a high number. University of Michigan sentiment improved, in particular with respect to the expectations component. One year inflation expectations declined unexpectedly and longer-term expectations also edged lower.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
06/07/2021	Japan	Leading Index CI	Apr	102.9	103.0	102.5
06/08/2021	Japan	GDP SA QoQ	1Q	-1.20%	-1.00%	-1.30%
06/08/2021	Japan	Eco Watchers Survey Current SA	May	34.0	38.1	39.1
06/08/2021	Japan	Eco Watchers Survey Outlook SA	May	38.0	47.6	41.7
06/08/2021	Eurozone	Gross Fix Cap QoQ	1Q	1.00%	0.20%	1.60%
06/08/2021	Eurozone	Household Cons QoQ	1Q	-2.30%	-2.30%	-3.00%
06/08/2021	Eurozone	Govt Expend QoQ	1Q	0.30%	0.00%	0.40%
06/08/2021	Germany	ZEW Survey Expectations	Jun	86.0	79.8	84.4
06/08/2021	Germany	ZEW Survey Current Situation	Jun	-28.0	-9.1	-40.1
06/08/2021	Eurozone	Employment QoQ	1Q	--	-0.30%	-0.30%
06/08/2021	Eurozone	GDP SA QoQ	1Q	-0.60%	-0.30%	-0.60%
06/08/2021	Eurozone	ZEW Survey Expectations	Jun	--	81.3	84.0
06/08/2021	United States	NFIB Small Business Optimism	May	101.0	99.6	99.8
06/08/2021	United States	JOLTS Job Openings	Apr	8200k	9286k	8123k
06/09/2021	China	CPI YoY	May	1.60%	1.30%	0.90%
06/09/2021	China	PPI YoY	May	8.50%	9.00%	6.80%
06/09/21-06/15/21	China	Aggregate Financing CNY	May	2001.2b	1920.0b	1850.0b
06/10/2021	France	Private Sector Payrolls QoQ	1Q	0.30%	0.50%	0.30%
06/10/2021	France	Total Payrolls	1Q	0.20%	0.30%	-0.10%
06/10/2021	France	Industrial Production MoM	Apr	0.60%	-0.10%	0.80%
06/10/2021	Eurozone	ECB Deposit Facility Rate	Jun	-0.50%	-0.50%	-0.50%
06/10/2021	United States	CPI MoM	May	0.50%	0.60%	0.80%
06/10/2021	United States	CPI Ex Food and Energy MoM	May	0.50%	0.70%	0.90%
06/10/2021	United States	CPI YoY	May	4.70%	5.00%	4.20%
06/10/2021	United States	CPI Ex Food and Energy YoY	May	3.50%	3.80%	3.00%
06/10/2021	United States	Initial Jobless Claims	Jun	370k	376k	385k
06/11/2021	United Kingdom	Monthly GDP (MoM)	Apr	2.40%	2.30%	2.10%
06/11/2021	United States	U. of Mich. Sentiment	Jun	84.2	86.4	82.9
06/11/2021	United States	U. of Mich. Current Conditions	Jun	91.3	90.6	89.4
06/11/2021	United States	U. of Mich. Expectations	Jun	78.7	83.8	78.8
06/11/2021	United States	U. of Mich. 1 Yr Inflation	Jun	4.70%	4.00%	4.60%
06/11/2021	United States	U. of Mich. 5-10 Yr Inflation	Jun	--	2.80%	3.00%
06/11/2021	United Kingdom	Monthly GDP (3M/3M)	Apr	1.60%	1.50%	-1.50%

SOURCE: BLOOMBERG

CALENDAR: THE WEEK AHEAD

COMING INDICATORS

The highlight this week is the FOMC meeting in the US. We can expect many questions in the post-meeting press conference on whether the Federal Reserve remains convinced that the rise in inflation should be transient and whether it discussed reducing the pace of asset purchases. The Bank of Japan also has its monetary policy meeting. As usual around this time of the month, China will publish a lot of data, although an important base effect -due to the impact of the pandemic on output and demand- distorts the year-over-year comparison. Several inflation data will be published (Germany, France, eurozone, UK, US). The Banque de France will release its industrial sentiment index. In the US, we will have retail sales and several housing market data.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
06/14/2021	France	Bank of France Ind. Sentiment	May	108	107
06/15/2021	United Kingdom	Employment Change 3M/3M	Apr	--	84k
06/15/2021	Germany	CPI EU Harmonized YoY	May	--	2.40%
06/15/2021	France	CPI EU Harmonized YoY	May	--	1.80%
06/15/2021	United States	Retail Sales Control Group	May	0.60%	-1.50%
06/15/2021	United States	PPI Ex Food and Energy YoY	May	4.90%	4.10%
06/15/2021	United States	Capacity Utilization	May	75.10%	74.90%
06/15/2021	United States	NAHB Housing Market Index	Jun	83	83
06/16/2021	Japan	Core Machine Orders MoM	Apr	2.50%	3.70%
06/16/2021	China	Retail Sales YoY	May	14.00%	17.70%
06/16/2021	China	Industrial Production YoY	May	9.20%	9.80%
06/16/2021	China	Fixed Assets Ex Rural YTD YoY	May	17.00%	19.90%
06/16/2021	China	Property Investment YTD YoY	May	19.60%	21.60%
06/16/2021	China	Surveyed Jobless Rate	May	5.10%	5.10%
06/16/2021	United Kingdom	CPI Core YoY	May	--	1.30%
06/16/2021	United Kingdom	PPI Output NSA YoY	May	--	3.90%
06/16/2021	United Kingdom	PPI Input NSA YoY	May	--	9.90%
06/16/2021	United Kingdom	House Price Index YoY	Apr	--	10.20%
06/16/2021	Eurozone	Labour Costs YoY	1Q	--	3.00%
06/16/2021	United States	Building Permits MoM	May	-0.20%	0.30%
06/16/2021	United States	Housing Starts MoM	May	5.20%	-9.50%
06/16/2021	United States	FOMC Rate Decision (Upper Bound)	Jun	0.25%	0.25%
06/17/2021	China	New Home Prices MoM	May	--	0.48%
06/17/2021	Eurozone	EU27 New Car Registrations	May	--	218.60%
06/17/2021	Eurozone	CPI Core YoY	May	--	0.90%
06/17/2021	United States	Philadelphia Fed Business Outlook	Jun	30	31.5
06/17/2021	United States	Initial Jobless Claims	Jun	--	--
06/18/2021	Japan	Natl CPI Ex Fresh Food YoY	May	0.00%	-0.10%
06/18/2021	United Kingdom	Retail Sales Ex Auto Fuel MoM	May	--	9.00%
06/18/2021	France	Wages QoQ	1Q	--	0.50%
06/18/2021	Japan	BOJ Policy Balance Rate	Jun	--	-0.10%
06/18/2021	Japan	BOJ 10-Yr Yield Target	Jun	--	0.00%

SOURCE: BLOOMBERG

FURTHER READING

June 2021 issue	EcoTV	10 June 2021
France: a majority of State-Guaranteed Loans to SMEs were taken on a precautionary basis	Chart of the Week	9 June 2021
Eurozone: The ECB: under pressure	EcoWeek	7 June 2021
Spain: Loans increased in 2020 for the first time since 2008	EcoTVWeek	4 June 2021
Sweden: poised for a very strong rebound in GDP growth	Chart of the Week	2 June 2021
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Eurozone: Too pessimistic about the pandemic's economic impact?	EcoFlash	1 June 2021
Central bank inflation forecasts: 'Trust us, we know better'	EcoWeek	31 May 2021
Eurozone: a potential for a positive surprise in the labour market	EcoTVWeek	28 May 2021
Chinese bond market: the participation of foreign investors	Chart of the Week	26 May 2021
Supply bottlenecks and the inflation outlook	EcoWeek	25 May 2021
Global : International trade: world trade in goods reaches new heights	EcoFlash	21 May 2021
France: start of the recovery and crisis exit strategy	EcoTVWeek	21 May 2021
France: ECB rate has less of an impact on the remuneration of NFC sight accounts	Chart of the Week	19 May 2021
Global : Serendipity lost? Working from home and innovation	EcoWeek	17 May 2021
EcoTV - May 2021 issue	EcoTV	12 May 2021
Recovery in France: slowed before it started?	Chart of the Week	12 May 2021
US: Which insights from the 'great inflation' of the 1970s?	EcoWeek	10 May 2021
The French labour market: outlook for 2021	EcoFlash	10 May 2021
Italy: Why the country is once again attracting attention	EcoTVWeek	7 May 2021

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