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ECONOMIC RESEARCH

BNP PARIBAS

UNITED STATES: VACANCIES, JOB TURNOVER AND DISINFLATION

The tight US labour market plays a crucial role in the effort of the central bank of bringing inflation back to target. Slower growth in labour income should lead to slower demand growth, whereas smaller wage increases will ease pressure on corporate profit margins and reduce the need for companies to charge higher prices. The labour market is characterized by a dynamic interaction between job openings, unfilled vacancies, voluntary departures (quits) and layoffs. In the US, unfilled vacancies and the quits rate have started to decline and one should expect that this dynamic will gather pace, causing a slowdown in wage growth. The question remains to what extent this will bring down inflation, which is why the Federal Reserve's policy is completely data-dependent.

The US labour market is very tight. The unemployment rate is very low, the number of vacancies is exceptionally high, job turnover as measured by the quits rate is also high, the monthly change in non-farm payrolls remains high despite the economic slowdown and, unsurprisingly, annual wage growth is strong, even more so for people who switch jobs.

A tight labour market is both a consequence and a cause of strong demand in the economy. This implies it has a crucial, dual role in the effort of the central bank of bringing inflation back to target. On the one hand, slower wage growth should contribute to an easing of inflation pressures because, ceteris paribus, it implies slower growth of labour income. This should weigh on final demand in the economy as well as on the demand for labour, at least in certain sectors[1]. Moreover, smaller wage increases will ease pressure on corporate profit margins, thereby reducing the need for companies to charge higher prices. On the other hand, slower growth will weigh on the labour market through a slowdown in job creation and lower wage growth.

The objective of a restrictive monetary policy is to bring inflation down. To this end, inflation expectations need to be (re-)aligned with the central bank's inflation target and demand growth should slow down[2]. This is necessary to reduce pricing power of companies and to limit wage growth. The latter is the result of a less dynamic labour market: vacancies and job openings decline. Whether this inevitably requires a significant increase in the unemployment rate is not clear. The usual macroeconomic 'workhorse' -the Phillips curve- suggests that a decline in core inflation comes with a big increase in the unemployment rate because the curve is rather flat (*chart 1*). However, the recent observations are completely out of line with the 'normal' relationship, which makes it difficult to gauge what might happen going forward.

1. One can think of cyclically sensitive consumer spending: durable goods, leisure, travel, etc.
2. If inflation is the result of a negative supply shock, there is not a lot that the central bank can do. Due to a base effect, inflation will eventually decline. Moreover, the elevated inflation will weigh on demand, which will have a disinflationary impact. For these reasons, central banks will tend to ignore negative supply shocks, unless inflation expectations would have become unanchored. In such a situation, monetary tightening is warranted.

The question of the increase in the unemployment rate is tied to the question of a hard or a soft landing. Federal Reserve chair Jerome Powell was very humble in his recent press conference by acknowledging that *"we don't know, no one knows whether this process will lead to a recession or if so, how significant that recession would be"*.

The answer depends on how much tightening will be necessary to bring inflation back to target. This is a function of the sensitivity of demand to higher interest rates and of the influence of weaker demand on pricing decisions of companies and on the labour market.

The latter is characterized by a dynamic interaction between job openings, unfilled vacancies, voluntary departures (quits) and layoffs. These variables influence the pace of wage growth. In an upswing, the number of job openings and unfilled vacancies rises, creating an upward pressure on wages, whereby the wage increase of job switchers

US: UNEMPLOYMENT AND INFLATION

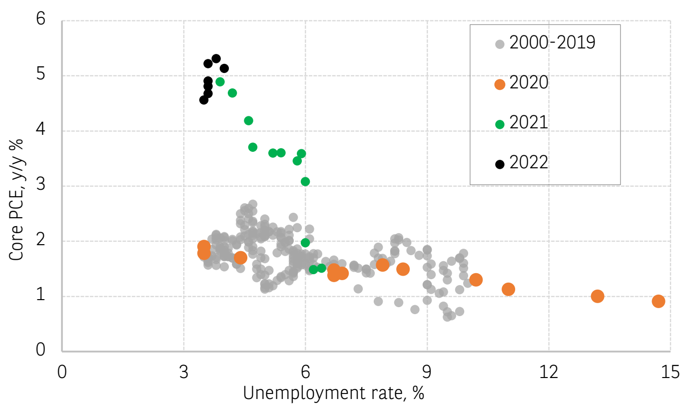


CHART 1 SOURCE: BLS, BEA

> Unfilled vacancies and the quits rate have started to decline. Based on the historical experience, one should expect that this dynamic will gather pace, causing a slowdown in wage growth, thereby contributing to the decline of inflation next year. The question however is to what extent, which is why the Federal Reserve's policy is completely data-dependent.

is larger than the increase of those who don't change jobs (job stayers) (*charts 2 and 3*). Consequently, the quits rate increases (*chart 4*). In a downswing, unfilled vacancies decline, the difference in wage growth between job switchers and job stayers narrows, layoffs increase and, unsurprisingly in this riskier and less rewarding environment, the quits rate declines (*chart 5*). Overall wage growth also slows down. At the current juncture, we are in the very early stage of this process -unfilled vacancies and the quits rate have started to decline-, but based on the historical experience, one should expect that this dynamic will gather pace and that slower wage growth will contribute to the decline of inflation next year. The question remains however to what extent, which is why the Federal Reserve's policy is completely data-dependent.

William De Vijlder

US: WAGE GROWTH AND JOB VACANCIES

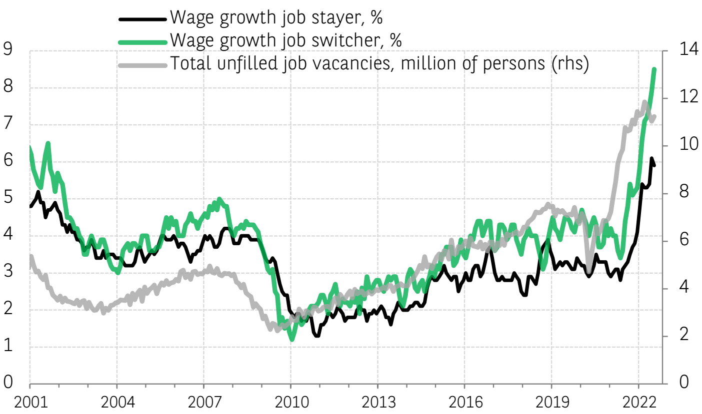


CHART 2 SOURCE: FED ATLANTA, OECD, BNP PARIBAS

US: DIFFERENCE IN WAGE GROWTH AND JOB VACANCIES

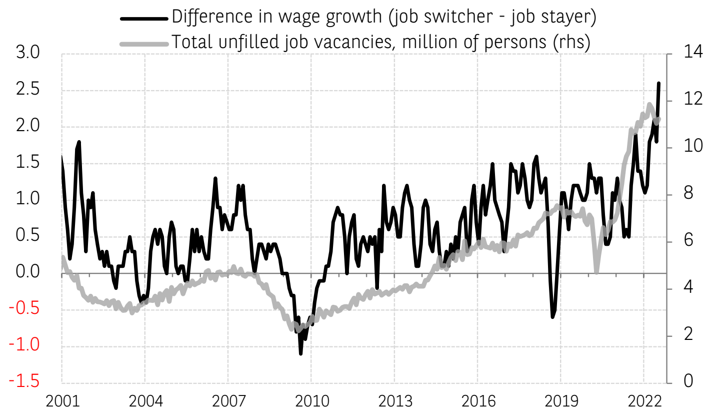


CHART 3 SOURCE: FED ATLANTA, OECD, BNP PARIBAS

US: DIFFERENCE IN WAGE GROWTH AND QUITS RATE

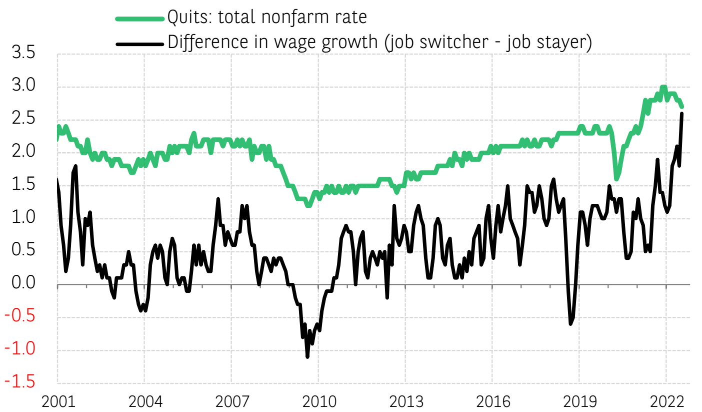


CHART 4 SOURCE: BLS, FED ATLANTA, BNP PARIBAS

US: QUITS RATE AND LAYOFFS

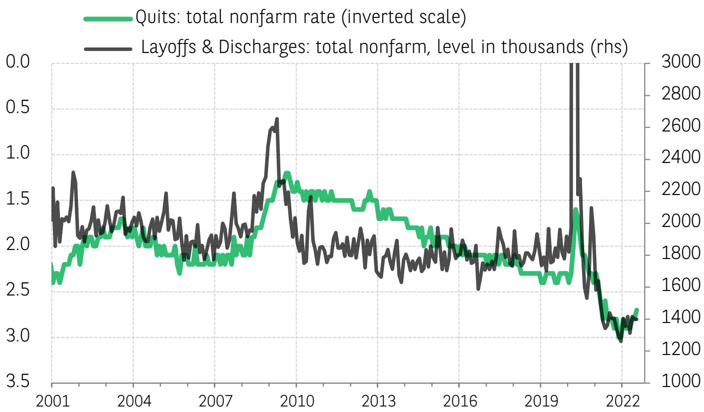


CHART 5 SOURCE: BLS, BNP PARIBAS

MARKETS OVERVIEW

OVERVIEW

Week 16-9 22 to 23-9-22				
↘ CAC 40	6 077	▸ 5 783	-4.8	%
↘ S&P 500	3 873	▸ 3 693	-4.6	%
↗ Volatility (VIX)	26.3	▸ 29.9	+3.6	pb
↗ Euribor 3M (%)	1.06	▸ 1.15	+9.0	bp
↗ Libor $ 3M (%)	3.57	▸ 3.63	+6.3	bp
↗ OAT 10y (%)	2.32	▸ 2.58	+26.0	bp
↗ Bund 10y (%)	1.77	▸ 2.03	+26.4	bp
↗ US Tr. 10y (%)	3.45	▸ 3.70	+24.9	bp
↘ Euro vs dollar	1.00	▸ 0.97	-3.2	%
↘ Gold (ounce, $)	1 675	▸ 1 644	-1.9	%
↘ Oil (Brent, $)	91.4	▸ 86.2	-5.7	%

MONEY & BOND MARKETS

Interest Rates			highest 22			lowest 22		
€	ECB	1.25	1.25	at	14/09	0.00	at	03/01
	Eonia	-0.51	-0.51	at	03/01	-0.51	at	03/01
	Euribor 3M	1.15	1.15	at	23/09	-0.58	at	05/01
	Euribor 12M	2.50	2.50	at	23/09	-0.50	at	05/01
$	FED	3.25	3.25	at	22/09	0.25	at	03/01
	Libor 3M	3.63	3.64	at	22/09	0.21	at	03/01
	Libor 12M	4.83	4.83	at	23/09	0.58	at	03/01
£	BoE	2.25	2.25	at	22/09	0.25	at	03/01
	Libor 3M	2.80	2.91	at	22/09	0.26	at	03/01
	Libor 12M	0.81	0.81	at	03/01	0.81	at	03/01

At 23-9-22

Yield (%)			highest 22			lowest 22		
€	AVG 5-7y	2.45	2.45	at	23/09	-0.04	at	03/01
	Bund 2y	1.81	1.81	at	23/09	-0.83	at	04/03
	Bund 10y	2.03	2.03	at	23/09	-0.14	at	24/01
	OAT 10y	2.58	2.58	at	23/09	0.15	at	04/01
	Corp. BBB	4.50	4.50	at	23/09	0.90	at	05/01
$	Treas. 2y	4.26	4.26	at	23/09	0.70	at	04/01
	Treas. 10y	3.70	3.71	at	22/09	1.63	at	03/01
	High Yield	9.41	9.41	at	23/09	5.07	at	03/01
£	gilt. 2y	3.92	3.92	at	23/09	0.69	at	03/01
	gilt. 10y	3.83	3.83	at	23/09	0.97	at	03/01

At 23-9-22

EXCHANGE RATES

1€ =		highest 22			lowest 22			2022
USD	0.97	1.15	at	10/02	0.97	at	23/09	-14.7%
GBP	0.89	0.89	at	23/09	0.83	at	14/04	+6.0%
CHF	0.95	1.06	at	10/02	0.95	at	23/09	-8.0%
JPY	139.07	144.46	at	13/09	125.37	at	04/03	+6.2%
AUD	1.48	1.62	at	04/02	1.43	at	25/08	-5.1%
CNY	6.90	7.29	at	10/02	6.75	at	14/07	-4.8%
BRL	5.08	6.44	at	06/01	5.01	at	21/04	-19.7%
RUB	55.69	164.76	at	07/03	55.69	at	23/09	-34.7%
INR	78.60	85.96	at	11/02	78.60	at	23/09	-7.0%

At 23-9-22 *Change*

COMMODITIES

Spot price, $		highest 22			lowest 22			2022	2022(€)
Oil, Brent	86.2	128.2	at	08/03	79.0	at	03/01	+9.9%	+28.8%
Gold (ounce)	1 644	2 056	at	08/03	1 644	at	23/09	-9.8%	+5.7%
Metals, LMEX	3 535	5 506	at	07/03	3 473	at	14/07	-21.5%	-8.0%
Copper (ton)	7 518	10 702	at	04/03	7 160	at	14/07	-22.8%	-9.6%
wheat (ton)	314	4.7	at	17/05	276	at	18/08	+32.1%	+54.8%
Corn (ton)	258	3.2	at	28/06	226	at	03/01	+1.3%	+32.5%

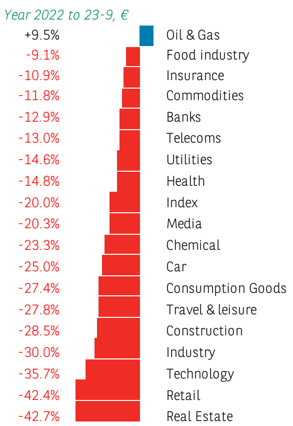
At 23-9-22 *Change*

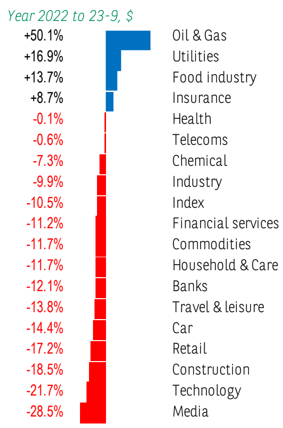
EQUITY INDICES

	Index	highest 22			lowest 22			2022
World								
MSCI World	2 439	3 248	at	04/01	2 439	at	23/09	-24.5%
North America								
S&P500	3 693	4 797	at	03/01	3 667	at	16/06	-22.5%
Europe								
EuroStoxx50	3 349	4 392	at	05/01	3 349	at	23/09	-22.1%
CAC 40	5 783	7 376	at	05/01	5 783	at	23/09	-1.9%
DAX 30	12 284	16 272	at	05/01	12 284	at	23/09	-22.7%
IBEX 35	7 584	8 934	at	27/05	7 584	at	23/09	-1.3%
FTSE100	7 019	7 672	at	10/02	6 959	at	07/03	-0.5%
Asia								
MSCI, loc.	1 053	1 165	at	05/01	1 024	at	08/03	-0.8%
Nikkei	27 154	29 332	at	05/01	24 718	at	09/03	-5.7%
Emerging								
MSCI Emerging ($)	906	1 267	at	12/01	906	at	23/09	-2.6%
China	58	86	at	20/01	58	at	23/09	-29.0%
India	772	891	at	13/01	699	at	17/06	-0.4%
Brazil	1 525	2 003	at	04/04	1 311	at	14/07	-0.0%

At 23-9-22 *Change*

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

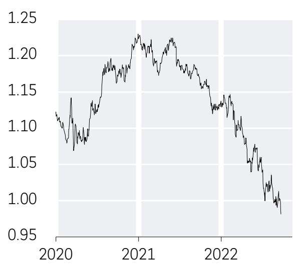




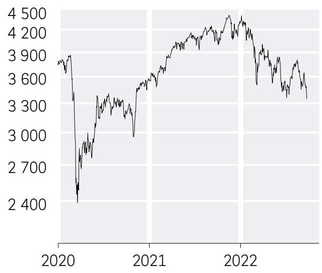
SOURCE: REFINITIV, BNP PARIBAS,

MARKETS OVERVIEW

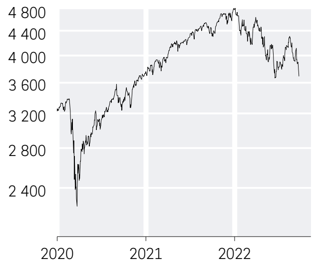
EURO-DOLLAR



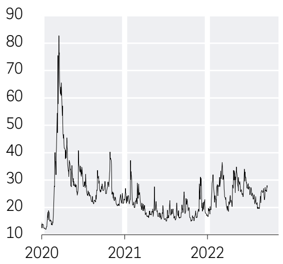
EUROSTOXX50



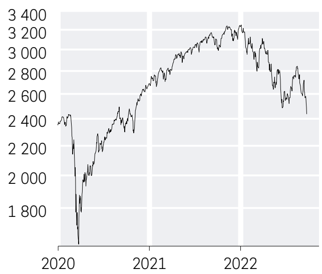
S&P500



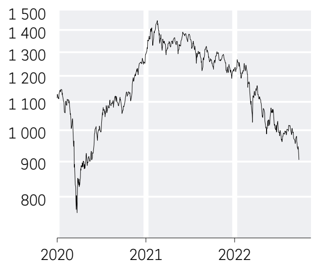
VOLATILITY (VIX, S&P500)



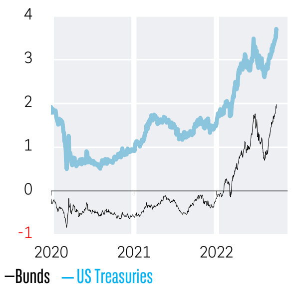
MSCI WORLD (USD)



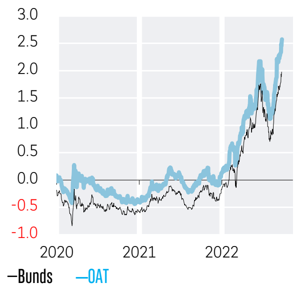
MSCI EMERGING (USD)



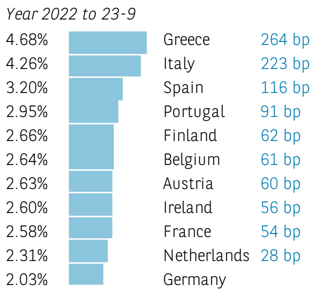
10Y BOND YIELD, TREASURIES VS BUND



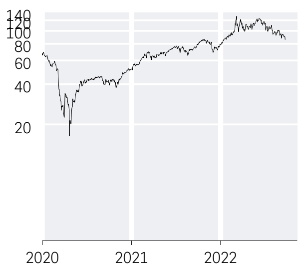
10Y BOND YIELD



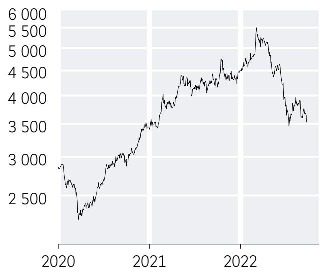
10Y BOND YIELD & SPREADS



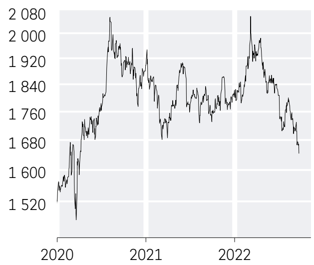
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS

TRADE NORMALISATION IS YET TO OCCUR

On the whole, global trade tensions are continuing to subside, but new areas of friction are emerging as a result of the war in Ukraine. The New York Federal Reserve's supply-chain pressures index has fallen significantly since the beginning of the year to reach its lowest level in 18 months in August (*chart 3*). Another visible indicator of this reduction in bottlenecks is shortening delivery times: the global manufacturing PMI (purchasing managers' index) rose to 44.8 in August from 35.8 four months previously (*chart 6*). A rising figure indicates a reduction in delivery times. However, this remains below its historical pre-pandemic average (48.2). The "normalisation" of global maritime trade flows is the main reason for these improvements, with congestion largely eliminated at ports on the US west coast. Global ocean freight has plummeted by more than 60% from its peak of a year ago, and by half compared to the start of this year (*chart 5*).

However, it is important to distinguish between energy freight and all other goods shipped. For energy freight, transportation costs have on occasions even increased; this is because of a rise in demand for LNG and oil as a result of disruption to the supply of Russian energy. This rise is perfectly reflected in the Baltic index for the transport of crude oil by sea (Baltic Dirty Tanker Index, *chart 4*), which has practically doubled (+91%) since the beginning of the year, while the general index has fallen by 20%.

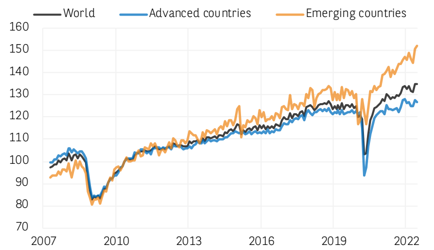
During the coming weeks, port traffic will remain under the threat of further disruption associated with the difficult economic, geopolitical and social climate. This is already the case in the United Kingdom, where a strike by dock workers is underway in Liverpool. Another such strike will begin on 27 September in Felixstowe on the east coast, the country's largest port. In the United States, pay negotiations affecting no fewer than 29 ports on the west coast of the country have been taking place since the beginning of July. Although the current disagreements have not adversely affected activity in these ports until now, they were hit by a slowdown for several months during negotiations in 2014.

Global demand, meanwhile, is showing signs of a downturn. The global composite PMI fell back below 50 in August to 49.3, indicating a contraction in activity. Nevertheless, the volume of global trade remained strong until the beginning of the summer. According to the CPB, volumes of exports grew by 0.7% quarter-on-quarter in Q2 2022. It seems quite unlikely that this upward momentum will have continued through this summer.

Guillaume Derrien

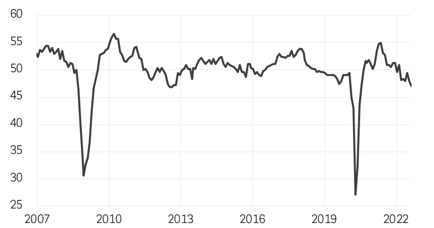
GLOBAL TRADE

1. World exports by area, volume (index 2010 = 100)



Source: CPB, BNP Paribas

2. Global manufacturing PMI, new export orders

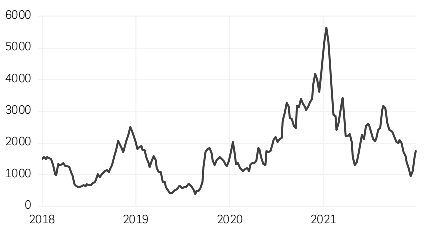


S&P Global (Markit), BNP Paribas

3. Global supply-chain pressures index

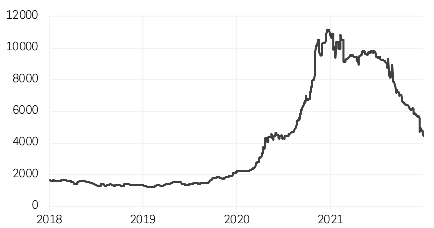
Source: Federal Reserve of New York

4. Baltic Exchange Dry Index



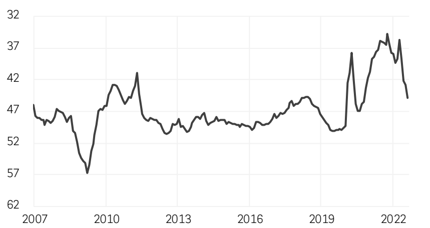
Source: Baltic Exchange, BNP Paribas

5. Freight rate index



Source: Freightos, BNP Paribas

6. Global manufacturing PMI, delivery times (Inverted line)



S&P Global (Markit), BNP Paribas

ECONOMIC PULSE

ITALY: THE NEW COALITION GOVERNMENT WILL QUICKLY BE PUT TO THE TEST

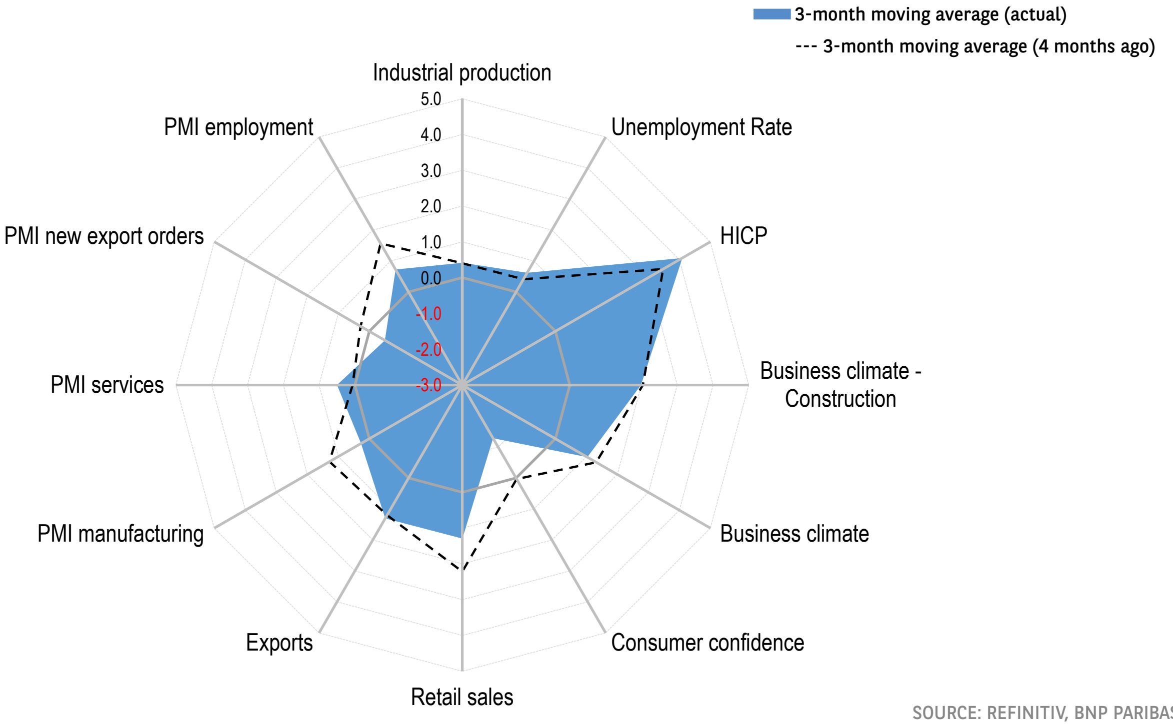
The results of Italy's parliamentary elections have handed power to the right-wing coalition led by Giorgia Meloni. The new administration will quickly be put to the test, since it will take over an increasingly struggling economy exposed to a high risk of recession this winter. Our current forecast is that real GDP will fall by 0.4% quarter-on-quarter in the fourth quarter, followed by a 0.2% q/q drop in the following quarter. The industrial sector, the first section of the economy affected by disruption linked to the war in Ukraine and the rise in production costs, is experiencing a downturn. The manufacturing PMI fell by 0.5 points to 48 in August, its worst level since June 2020, when activity was severely restricted by measures in place to protect public health. Although the PMI for new manufacturing orders rose slightly (+0.1 points to 42.6), the employment index fell significantly again (-1.5 points to 50.5). Industrial production remained stable until July, but it should therefore lose ground this autumn in light of the worsening in the survey data.

Activity in services is not likely to be spared either: given households' decreasing purchasing power, private consumption is likely to shift over to "essential" goods. In July, household confidence was at its lowest since March 2013, before edging up in August. That said, views gathered among households (European Commission) and businesses (European Commission and PMI) show a very clear drop in anticipated inflation, which remains to be confirmed when the next inflation figures are published.

There are contrasting dynamics affecting the country's labour market. The unemployment rate fell back to 7.9% in July, almost 2 points below the prevailing level before the Covid-19 global pandemic. This equates to 482,000 fewer jobseekers than in the last quarter of 2019. Nevertheless, the working-age population is still a long way from a return to its level of three years ago (25,182,000 compared to a peak of 25,774,000 in April 2019), which inevitably suppresses the unemployment rate.

Guillaume Derrien

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.

UNITED KINGDOM: A TIGHTER BUT LESS EFFICIENT LABOUR MARKET THAN BEFORE COVID

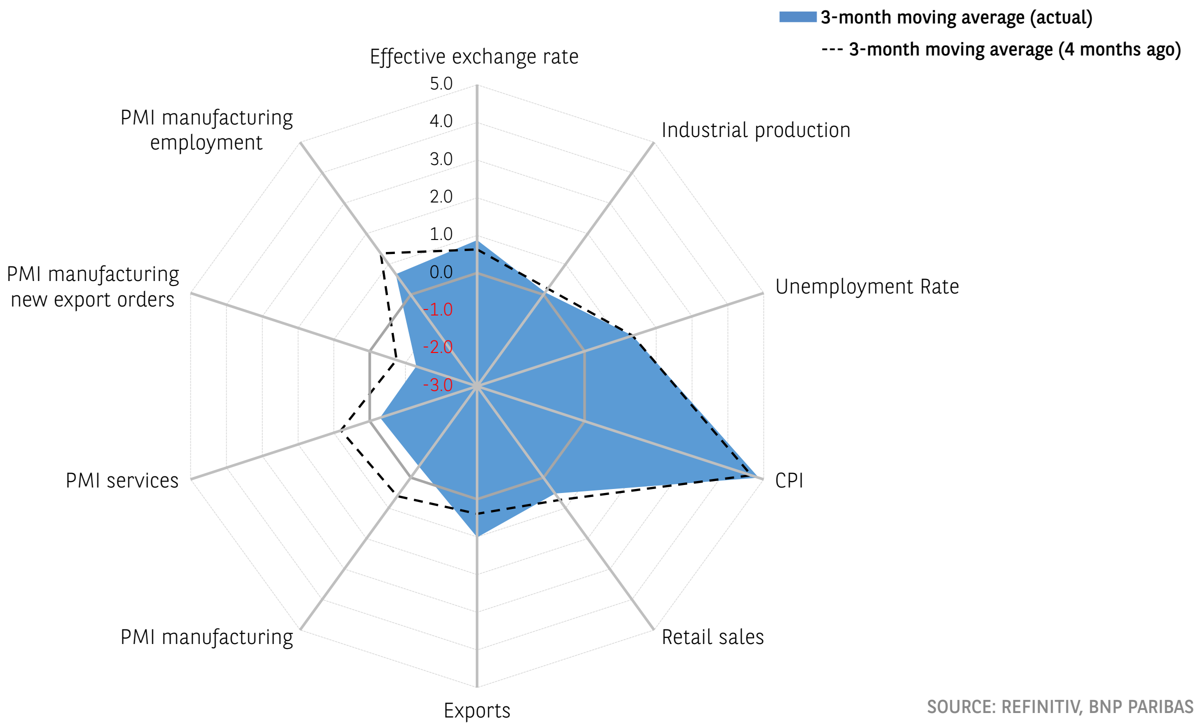
Despite a tight labour market, the UK economy is showing clear signs of a slowdown in growth as inflation hits a 40-year high. According to the monthly GDP estimate published by the ONS, on a three-month moving average UK growth was flat in July, marginally below expectations (+0.1%). This zero figure masks more substantial monthly changes: after rising in May (+0.4% m/m), GDP fell in June (-0.6% m/m) before recovering slightly in July (+0.2% m/m). In July, growth in the services sector (+0.4% m/m) was largely offset by new contractions in industry (-0.3%) and construction (-0.8%).

Paradoxically, the labour market is still operating at full employment levels and with a momentum which does not seem to be declining despite higher interest rates and the slowdown in business activity. The unemployment rate has continued to fall (-0.2 points between May and July), to 3.6%, its lowest level since 1974. However, this fall was not accompanied by an increase in the employment rate over the same period. On the contrary, the latter fell between May and July (-0.2 points) to 75.4%, still below its pre-Covid level (76.5% in December 2019). Rather, this drop in the unemployment rate can be explained by job-seekers leaving the labour market. The inactivity rate rose by 0.4 points to stand at 21.7% for those aged 16-64, which this time was above its pre-Covid level (20.4% in December 2019). This increase in inactivity can be explained by a return to studies by 16–24 years-old, as well as by health problems in the 50–64 years-old age group. These changes are contributing to the current labour shortages which are significantly limiting recruitment, leaving many jobs unfilled, all the more so as job creation remains buoyant in the UK (+290,000 jobs between April and June). Vacancies were at 4.2% in July, their highest level since 2001, and were mainly in the accommodation, healthcare and financial services sectors. These tensions in the labour market are supporting salary growth (+5.5% y/y in nominal terms between May and June), although earnings are still strongly negative in real terms (-2.6% y/y).

Although inflation slowed slightly in August (9.9% y/y), mainly reflecting a drop in fuel prices, it continues to be widespread, as evidenced by the increase in core inflation (6.3% y/y). At its monetary policy meeting, the Monetary Policy Committee (MPC) decided on a seventh consecutive hike in the key interest rate (+50 basis points), bringing it to 2.5%. In addition, and as expected, the MPC announced that it would sell EUR 80 billion of its portfolio of British Treasury bonds (gilts) over a twelve-month period starting from October.

Félix Berte

UNITED KINGDOM: 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.

ECONOMIC PULSE

COVID-19: NUMBERS OF NEW COVID-19 CASES IN EUROPE ARE PICKING UP ONCE AGAIN

3.4 million new Covid-19 cases were recorded worldwide from 14–21 September, a fall of 4% compared to the previous week. This is the smallest decrease since August last year. All regions of the world are affected with the notable exception of Europe, which recorded an increase for the first time since last July (an 18% rise, *chart 1*). Of the 3.4 million new cases making up the worldwide total, 1.3 million were reported in Europe (38.2% of all cases). The highest number of new cases was recorded in Russia (416,078), followed by Germany (263,773), France (210,586) and Italy (130,764). In other parts of the world, the trend is still downward, with falls in South America (-27%), Africa and Asia (-15%) and the United States (-8%). In addition, vaccination campaigns continue to be rolled out in countries throughout the world (*chart 2*). However, the pace of vaccination has slowed recently.

Visitor numbers to shops and recreation facilities remain at pre-Covid levels in Italy, though they recently fell back below this threshold in Belgium, France and Germany. On the other hand, numbers are still below this level in the other countries included in our sample (Spain, Japan, UK and US) (*chart 3, blue curve*).

The weekly GDP proxy indicator continues to weaken in the European countries included in our sample (Germany, France, Italy, Belgium, Spain and the United Kingdom), while remaining on a slightly upward trend in the United States.. In Japan, it fell recently after rising for eight weeks (*chart 3, black curve*). This indicator is produced by the OECD using Google Trends data from searches relating to consumption, the labour market, real estate, industrial activity and uncertainty. The indicator shown here is calculated on a rolling basis over one year.

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)

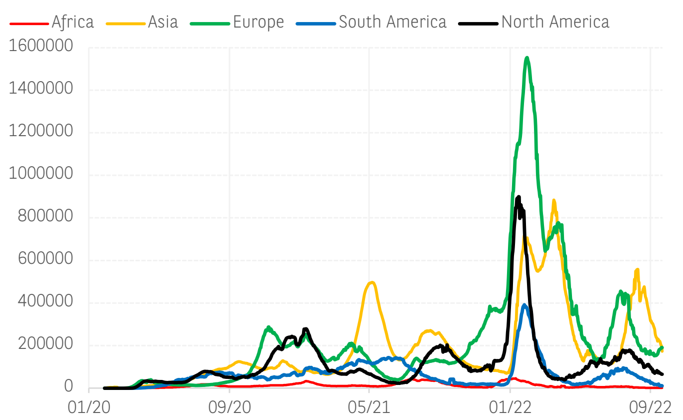


CHART 1 SOURCE: JOHNS-HOPKINS UNIVERSITY (09/23/2022), BNP PARIBAS

SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE

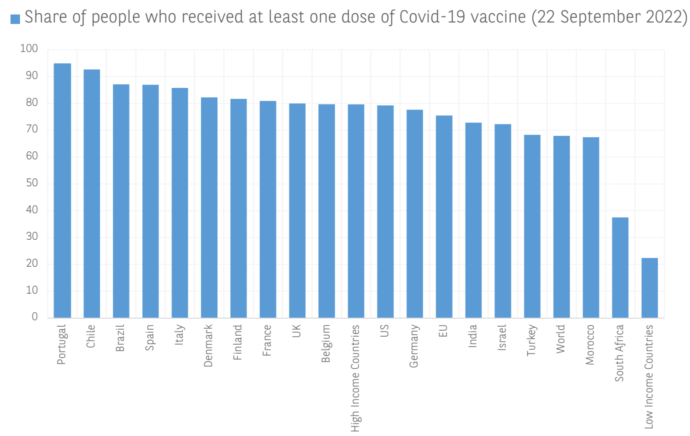
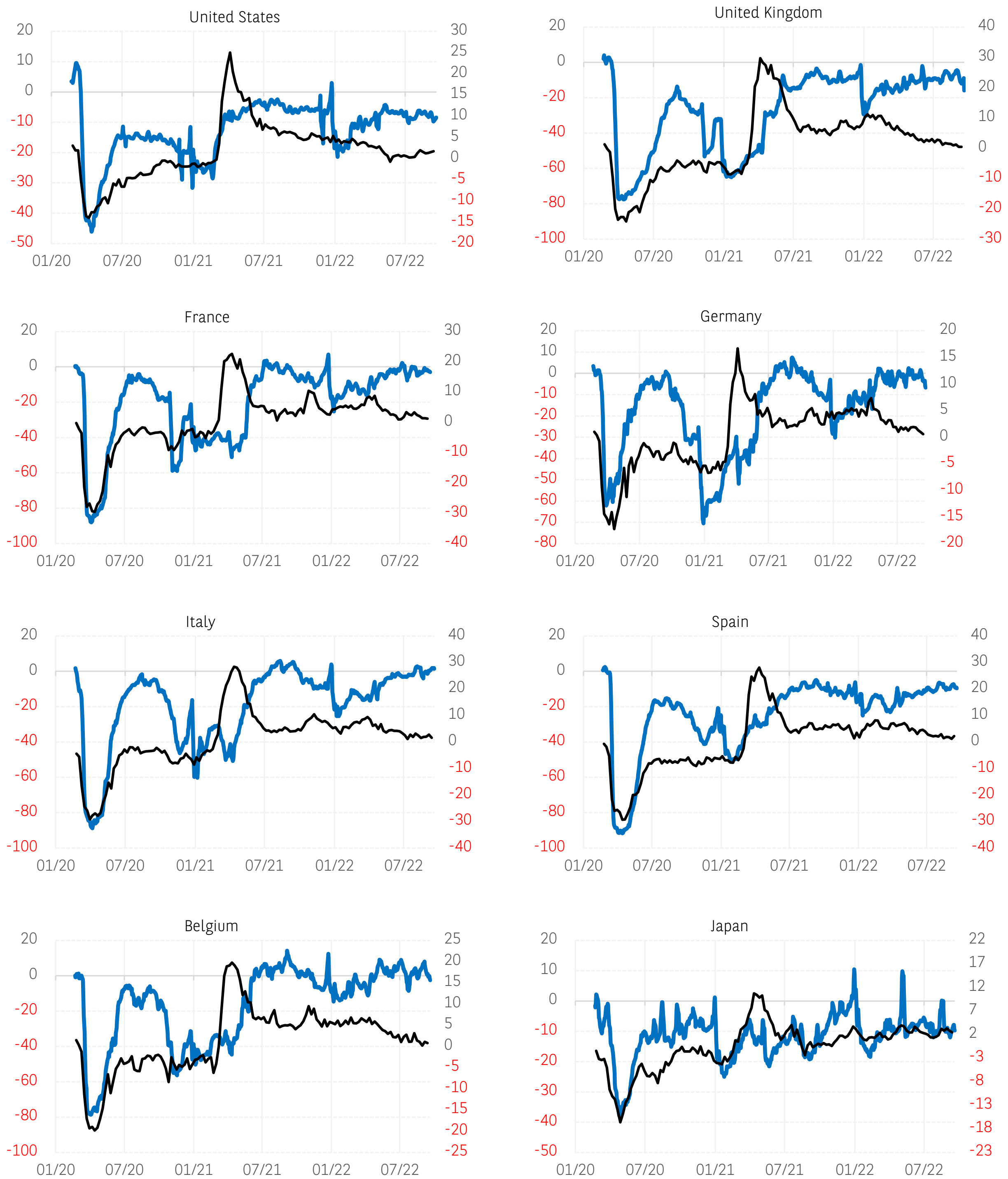


CHART 2 SOURCE: OUR WORLD IN DATA (09/23/2022), BNP PARIBAS

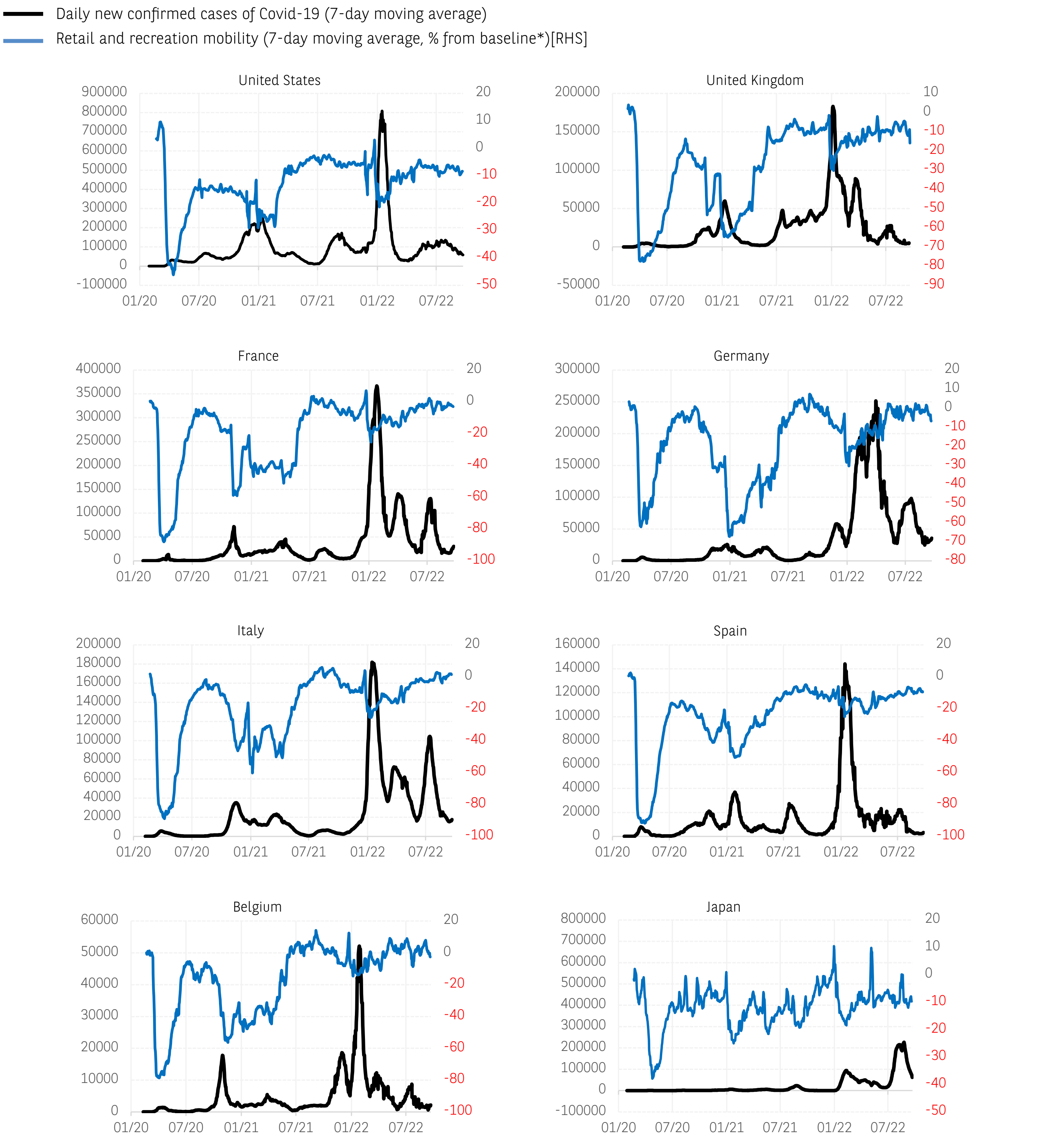
RETAIL AND RECREATION MOBILITY & OECD WEEKLY TRACKER

Retail and recreation mobility (7-day moving average, % from baseline*)
OECD Weekly tracker, y/2y GDP growth [RHS]



SOURCE: OECD (09/23/2022), GOOGLE (09/23/2022), BNP PARIBAS

DAILY NEW CASES & RETAIL AND RECREATION MOBILITY



SOURCE: JOHNS-HOPKINS UNIVERSITY (09/23/2022), GOOGLE (09/23/2022), BNP PARIBAS

ECONOMIC SCENARIO

UNITED STATES

The US economy is slowing down significantly, with GDP contracting again in Q2 2022, despite strong household consumption and a rebound in exports. Job gains remain robust however and the unemployment rate low, which supports wage growth. However, there are some early signs of a slowdown. Inflation may have peaked in mid-2022 and should continue to decline, but not to move below the 2% target. Facing high and persistent inflation, the Fed continues to raise interest rates "expeditiously" and to shrink its balance sheet. As the mid-term elections approach, the Inflation Reduction Act (IRA) vote represents a victory for President Joe Biden, with the implementation of some of his social and environmental key measures. This plan should also support economic activity. According to our forecasts, the US would not fall into recession, but growth would run below-trend for a prolonged period to ease price pressures.

CHINA

Economic activity contracted in Q2 2022 due to the lockdowns imposed in large industrial regions such as Shanghai. The economic growth rebound since late spring has proved difficult. The authorities are enhancing fiscal and monetary easing measures. However, factors constraining growth remain significant: the correction in the property sector continues, and the deterioration in the labour market, the still tight zero Covid strategy and weak household confidence weigh on private consumption. Moreover, exports are expected to suffer from the slowdown in global demand. Consumer price inflation is accelerating only moderately..

EUROZONE

The look in the rear-view mirror is fairly favorable. The first half of 2022 was better than expected, leading to a comfortable growth carry-over a bit above 3%. However, the outlook for the coming quarters is negative: according to our forecasts, the Eurozone will not escape a contraction of its GDP. The current unprecedented combination of shocks (inflation, health, geopolitical, energy, climate, monetary) should overcome the resilience observed so far. We already have signs of this in the deterioration in confidence surveys, which has intensified over the summer. However, the recession should remain limited in scope thanks to the support of fiscal measures and as long as the labor market continues to perform well as it is now. In annual average terms, we expect Eurozone growth to reach 2.8% in 2022 but only 0.3% in 2023 (2 points lower than in our previous scenario in June). Regarding inflation, we forecast it will soon reach its peak, nearing 10% y/y, before engaging in a rather slow disinflation process in 2023.

FRANCE

Real GDP growth has surprised on the upside in the 2nd quarter of 2022 (+0.5% q/q after -0.2% in the 1st quarter), mainly as a result of tourism (positive contribution of net exports) and accommodation & catering following the unwinding of the bulk of Covid related restrictions. However, inflation has continued to accelerate (reaching a peak of 6.1% y/y in July) and household purchasing power has reduced for a second quarter in a row (-1.1% q/q during the 2nd quarter). Backlog of orders in the manufacturing have continued to decrease, and GDP growth should follow (we expect 0.5% in 2023 after 2.3% in 2022).

RATES AND EXCHANGE RATES

In the US, the Federal Reserve will continue its tightening policy at a swift pace, with a 75bp hike in September. Further increases will follow in November and December, bringing the federal funds rate to its terminal rate for this cycle at 4.50% (upper end of the target range). This level should be maintained through 2024. The Fed's hawkish stance is motivated by the 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 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.

After the 50bp rate hike in July and the 75bp increase in September, the ECB Governing Council will continue to raise its policy rates at its next meetings. Policy tightening is frontloaded, which means that the terminal rate -i.e. the peak rate in this cycle- should be reached by the end of the first quarter of next year. We expect a peak for the deposit rate at 2.00%. This should cause an increase in Bund yields.

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 a less dovish policy and a one-off rate hike in the fourth quarter of 2023.

We expect the dollar to weaken somewhat 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 strengthen versus the dollar 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	1.7	1.0	0.9	4.7	8.0	4.4	3.9
Japan	1.7	1.3	0.8	0.6	-0.2	2.2	1.1	0.6
United-Kingdom	7.4	3.4	-0.1	1.4	2.6	9.6	9.3	1.7
Euro Area	5.3	2.8	0.3	1.5	2.6	8.3	6.0	2.4
Germany	2.6	1.4	0.4	1.7	3.2	8.1	4.7	2.4
France	6.8	2.3	0.5	1.5	2.1	5.8	4.2	2.2
Italy	6.6	3.4	0.4	1.6	1.9	8.3	6.1	2.2
Spain	5.1	4.3	0.5	1.7	3.0	8.9	4.5	1.9
China	8.1	3.0	5.3	5.0	0.9	2.3	3.1	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

INTEREST & EXCHANGE RATES

Interest rates, %						
End of period		Q2 2022	Q4 2022 e	Q1 2023 e	Q2 2023 e	Q4 2023 e
US	Fed Funds * (upper limit)	1.75	4.50	4.50	4.50	4.50
	T-Note 10y	2.97	3.55	3.50	3.45	3.30
Eurozone	Deposit rate	-0.50	2.00	2.00	2.00	2.00
	Bund 10y	1.37	1.90	2.20	2.20	2.10
	OAT 10y	1.80	2.55	2.90	2.85	2.75
	BTP 10y	3.29	4.40	4.60	4.50	4.40
	BONO 10y	2.46	3.20	3.70	3.60	3.50
UK	Base rate	1.25	3.00	3.00	3.00	3.00
	Gilts 10y	2.21	2.95	2.95	2.90	2.90
Japan	BoJ Rate	-0.04	-0.10	-0.10	-0.10	0.00
	JGB 10y	0.23	0.25	0.25	0.25	0.45
Exchange Rates						
End of period		Q2 2022	Q4 2022 e	Q1 2023 e	Q2 2023 e	Q4 2023 e
USD	EUR / USD	1.05	1.00	1.01	1.02	1.06
	USD / JPY	136	137	135	133	127
	GBP / USD	1.21	1.14	1.13	1.13	1.18
EUR	EUR / GBP	0.86	0.88	0.89	0.90	0.90
	EUR / JPY	142	137	136	136	135
Brent						
End of period		Q2 2022	Q4 2022 e	Q1 2023 e	Q2 2023 e	Q4 2023 e
Brent	USD/bbl	115	100	102	107	115

SOURCES: BNP PARIBAS (E: ESTIMATES & FORECASTS) (MARKET ECONOMICS, INTEREST RATE STRATEGY, FX STRATEG, COMMODITIES DESK STRATEGY) , * LAST UPDATE 09/05/2022

CALENDAR

LATEST INDICATORS

The September data for the euro area (flash PMIs, consumer confidence) were weaker than the previous month but also lower than expected. The PMIs are drifting lower and further away from the 50 mark. French business confidence edged lower and the manufacturing flash PMI dropped far more than expected. The services PMI created a welcome positive surprise, rebounding to 53.0 from 51.2. The German PMI dropped in manufacturing -in line with expectations- but also in services, where the decline was far bigger than anticipated. In the UK, the Bank of England increased its policy rate with 50 basis points. The manufacturing PMI improved more than expected but is still below 50, whereas the services PMI declined more than expected, to 49.2. Consumer confidence dropped. This was hugely disappointing considering that the consensus had expected an improvement. In the US, the housing market index weakened more than expected and building permits recorded a huge drop. Other data showed an improvement: housing starts, mortgage applications, existing home sales. The Federal Reserve maintains its tightening stance and raised the federal funds rate with 75bp. More is to follow. The downward trend of the Conference Board index of leading economic indicators continued in August. Finally, the flash PMIs improved both in manufacturing and services.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
09/19/2022	United States	NAHB Housing Market Index	Sep	47.0	46.0	49.0
09/20/2022	United States	Building Permits MoM	Aug	-4.8%	-10.0%	-0.6%
09/20/2022	United States	Housing Starts MoM	Aug	0.3%	12.2%	-10.9%
09/21/2022	United Kingdom	CBI Trends Total Orders	Sep	-13.0	-2.0	-7.0
09/21/2022	United Kingdom	CBI Trends Selling Prices	Sep	52.0	59.0	57.0
09/21/2022	United States	MBA Mortgage Applications	Sep	--	3.80%	-1.20%
09/21/2022	United States	Existing Home Sales MoM	Aug	-2.30%	-0.40%	-5.70%
09/21/2022	United States	FOMC Rate Decision (Upper Bound)	Sep	3.25%	3.25%	2.50%
09/22/2022	France	Business Confidence	Sep	102.0	102.0	104.0
09/22/2022	Eurozone	ECB Publishes Economic Bulletin	Sep			
09/22/2022	United Kingdom	Bank of England Bank Rate	Sep	2.25%	2.25%	1.75%
09/22/2022	United States	Initial Jobless Claims	Sep	217k	213k	208k
09/22/2022	United States	Leading Index	Aug	-0.10%	-0.30%	-0.50%
09/22/2022	Eurozone	Consumer Confidence	Sep	-25.5	-28.8	-25.0
09/22/2022	Japan	BOJ Policy Balance Rate	Sep	-0.10%	-0.10%	-0.10%
09/23/2022	United Kingdom	GfK Consumer Confidence	Sep	-42.0	-49.0	-44.0
09/23/2022	France	S&P Global France Manufacturing PMI	Sep	48.8	48.5	49.6
09/23/2022	France	S&P Global France Services PMI	Sep	49.1	48.9	49.8
09/23/2022	Germany	S&P Global/BME Germany Manufacturing PMI	Sep	49.8	47.8	50.6
09/23/2022	Germany	S&P Global Germany Services PMI	Sep	50.5	53.0	51.2
09/23/2022	Eurozone	S&P Global Eurozone Manufacturing PMI	Sep	48.3	48.3	49.1
09/23/2022	Eurozone	S&P Global Eurozone Services PMI	Sep	47.2	45.4	47.7
09/23/2022	United Kingdom	S&P Global/CIPS UK Manufacturing PMI	Sep	47.5	48.5	47.3
09/23/2022	United Kingdom	S&P Global/CIPS UK Services PMI	Sep	50.0	49.2	50.9
09/23/2022	United States	S&P Global US Manufacturing PMI	Sep	51.0	51.8	51.5
09/23/2022	United States	S&P Global US Services PMI	Sep	45.5	49.2	43.7

SOURCE: BLOOMBERG

CALENDAR: THE WEEK AHEAD

COMING INDICATORS

The attention this week will go to the September inflation numbers for the euro area and the European Commission's economic confidence index and its components. Other important data concern the PMIs in Japan and China, the IFO climate in Germany, consumer confidence in France and Germany and University of Michigan sentiment. The OECD will publish its interim economic outlook.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
09/26/2022	Japan	Jibun Bank Japan PMI Services	Sep	--	49.5
09/26/2022	Japan	Jibun Bank Japan PMI Mfg	Sep	--	51.5
09/26/2022	Germany	IFO Business Climate	Sep	86	88.5
09/26/2022	Germany	IFO Current Assessment	Sep	96	97.5
09/26/2022	Germany	IFO Expectations	Sep	78	80.3
09/26/2022	Eurozone	OECD Publishes Interim Economic Outlook	Sep		
09/27/2022	United States	Conf. Board Consumer Confidence	Sep	104.5	103.2
09/27/2022	United States	Conf. Board Present Situation	Sep	--	145.4
09/27/2022	United States	Conf. Board Expectations	Sep	--	75.1
09/27/2022	United States	New Home Sales MoM	Aug	-2.20%	-12.60%
09/28/2022	Germany	GfK Consumer Confidence	Oct	-39.1	-36.5
09/28/2022	France	Consumer Confidence	Sep	--	82
09/29/2022	Eurozone	Economic Confidence	Sep	96	97.6
09/29/2022	Eurozone	Industrial Confidence	Sep	--	1.2
09/29/2022	Eurozone	Services Confidence	Sep	--	8.7
09/29/2022	Eurozone	Consumer Confidence	Sep	--	-28.8
09/29/2022	United States	Initial Jobless Claims	Sep	--	213k
09/30/2022	China	Manufacturing PMI	Sep	49.2	49.4
09/30/2022	China	Non-manufacturing PMI	Sep	52.3	52.6
09/30/2022	China	Caixin China PMI Mfg	Sep	--	49.5
09/30/2022	Japan	Consumer Confidence Index	Sep	33.5	32.5
09/30/2022	France	CPI EU Harmonized MoM	Sep	--	0.50%
09/30/2022	France	CPI EU Harmonized YoY	Sep	--	6.60%
09/30/2022	Eurozone	Unemployment Rate	Aug	6.60%	6.60%
09/30/2022	Eurozone	CPI Estimate YoY	Sep	9.70%	9.10%
09/30/2022	Eurozone	CPI MoM	Sep	--	0.60%
09/30/2022	Eurozone	CPI Core YoY	Sep	4.90%	4.30%
09/30/2022	United States	Personal Income	Aug	0.30%	0.20%
09/30/2022	United States	Personal Spending	Aug	0.20%	0.10%
09/30/2022	United States	U. of Mich. Sentiment	Sep	59.5	59.5
09/30/2022	United States	U. of Mich. Current Conditions	Sep	--	58.9
09/30/2022	United States	U. of Mich. Expectations	Sep	--	59.9
09/30/2022	United States	U. of Mich. 1 Yr Inflation	Sep	--	4.60%
09/30/2022	United States	U. of Mich. 5-10 Yr Inflation	Sep	--	2.80%

SOURCE: BLOOMBERG

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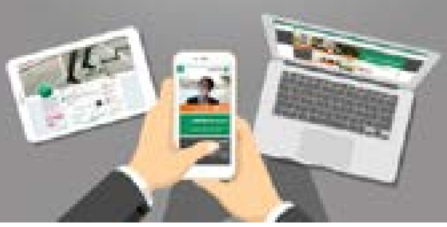

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