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ECONOMIC RESEARCH

BNP PARIBAS

The bank for a changing world

HOW TO SPEND IT? SHIFTING CONSUMPTION PATTERNS AND COVID-19

The Covid-19 pandemic is having a profound impact on household expenditures. The volume has dropped and its composition has changed significantly. As restrictions are gradually lifted, services such as recreation, food services and accommodation, which have seen a big reduction in demand due to the restrictive measures, could thrive, to the detriment – at least relatively speaking – of spending on goods. For the strength of the early phases of the recovery, pent-up demand is an important factor. It plays a smaller role in the services sector, which could mean that countries with a larger services sector not only have suffered more from restrictive measures but could also face a bigger challenge during the recovery.

The Covid-19 pandemic is having a profound impact on household expenditures. The volume has dropped and its composition has changed significantly. The former has caused a jump in the savings rate as the hit to household income was cushioned by income support measures (furlough schemes, transfers) whereas people could not go out – or at least not as much as before – and spend. The change in composition resulted from restrictive measures to bring the virus under control, but also reflected an adaptation to the new environment. On-line sales grew strongly, the demand for second homes in the countryside picked-up, home renovation activity increased, etc. In the coming months, more and more businesses and venues are expected to re-open and one wonders whether spending patterns will shift again. This could mean that services such as recreation, food services and accommodation, which have seen a big fall in demand due to the restrictive measures, could thrive, to the detriment – at least relatively speaking – of spending on goods.

Clearly, the answer matters at the sector level but also for the strength of the recovery in general. The latter point is related to the role of pent-up demand. Recessions or – in the case of a pandemic – restrictions on mobility, imply that certain expenditures won't or can't be made. Moreover, given the uncertain economic climate, people might postpone making big ticket purchases. When the situation normalises, pent-up demand is unleashed with people celebrating the possibility to meet with friends over a beer or, when feeling financially more secure, keen to buy a new car. However, there is a fundamental difference between durable goods and services. The demand for the former will typically be postponed during a recession, but it doesn't vanish. In the example of buying a car, the car dealer will sell abnormally few cars when times are bad, whereas sales will be above normal during a recovery. In the case of services such as leisure or hospitality, lost business during a recession or lockdown is, to a large degree, lost forever. People will not try to make up for all the trips or restaurant visits they have not been able to make during lockdown. Moreover, as the support measures will be withdrawn as part of the normalisation process, some over-indebted businesses might close down definitively after the pandemic. This could make the recovery very choppy.

This should not stop services from being very dynamic in the initial phase of a recovery, something which is currently happening in the US as reported in the recently release Beige Book. In addition, the Business Leaders Survey of the Federal Reserve of New York revealed that *"leisure and hospitality firms saw a particularly large increase in activity in the April survey, their first increase since the pandemic began, and there were sturdy increases in the retail and wholesale trade sectors as well."*[1] Nevertheless, recent research brings a cautionary note. In the US, there is strong empirical support for the theoretical argument "*that recoveries from demand-driven recessions with expenditure cuts concentrated in services tend to be weaker than recoveries from recessions biased towards durables*"[2]. This difference is explained by pent-up demand, which plays a smaller role in the services sector. This analysis is particularly relevant for the Covid-19 induced recession which, as illustrated in the tables, saw bigger demand declines in services, causing significant changes in the relative weights of expenditure items. It could also mean that countries with a larger services sector not only have suffered more from restrictive measures but could also face a bigger challenge during the recovery.

China provides interesting insights on the development of retail sales in a post-lockdown world. On-line sales maintained their increase in market share. *"As a result of online sales' surge and physical stores sales' contraction, online sales' share of overall retail sales jumped from 20.7% at the end of 2019 to 24.9% at the end of 2020. As outbound tourism remains restricted, effective pandemic containment in mainland China has redirected higher-income households' planned spending on overseas trips to domestic spending instead, especially on luxury goods and big-ticket items."*[3] Chinese household spending also shows the role of lingering concern about the sanitary situation. As restrictions were eased, sales of movie and theatre tickets rose strongly, to 136% of the level reached the previous year, but subsequently declined to 56%.[4] Pent-up demand was clearly short-lived.

William De Vijlder

1. *April Regional Service-Sector Survey Points to A Long-Awaited Rebound,* Federal Reserve of New York, Liberty Street Economics, 16 April 2021.
2. De*mand Composition and the Strength of Recoveries*, Martin Beraja and Christian K. Wolf, 20 February 2021.
3. *China's consumer market recovery under the Covid-19 pandemic*, IHS Markit, 2 February 2021.
4. Source: IHS Markit (2021).

> Pent-up demand plays a smaller role in the services sector. It could mean that countries with a larger services sector not only have suffered more from restrictive measures but could also face a bigger challenge during the recovery.

US REAL PERSONAL CONSUMPTION EXPENDITURES BY PRODUCTS GROUP (AS % OF PERSONAL CONSUMPTION EXPENDITURES)

	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Personal consumption expenditures	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Goods	**36.0%**	**36.7%**	**39.4%**	**39.9%**	**39.5%**
- Durable goods	13.6%	13.4%	14.7%	15.7%	15.6%
- Motor vehicles & parts	4.0%	3.8%	4.2%	4.4%	4.4%
- Furnishings & durable hhld equipment	3.1%	3.1%	3.4%	3.6%	3.5%
- Recreational goods & vehicles	4.6%	4.7%	5.7%	5.8%	5.7%
- Other durable goods	2.0%	1.9%	1.7%	2.2%	2.2%
- Nondurable goods	22.6%	23.4%	24.9%	24.4%	24.2%
- Food & beverages purchased for off-premises consumption	7.4%	8.0%	8.8%	8.2%	8.1%
- Clothing & footwear	3.1%	2.9%	2.7%	3.2%	3.2%
- Gasoline & other energy goods	3.3%	3.2%	2.9%	3.1%	3.0%
- Other nondurable goods	8.6%	9.0%	10.0%	9.7%	9.6%
Services	**64.3%**	**63.8%**	**61.6%**	**61.3%**	**61.6%**
- Household consumption expenditures	61.7%	60.6%	57.6%	58.2%	58.6%
- Housing & utilities	16.5%	16.8%	18.7%	17.2%	17.1%
- Health care	16.9%	16.5%	15.0%	16.2%	16.7%
- Transportation	3.4%	3.2%	2.3%	2.6%	2.6%
- Recreation	3.8%	3.5%	2.1%	2.6%	2.6%
- Food services & accomodations	6.3%	5.9%	4.3%	5.3%	5.1%
- Financial services & insurance	6.5%	6.6%	7.2%	6.7%	6.8%
- Other services	8.5%	8.3%	7.6%	7.5%	7.6%

US REAL PERSONAL CONSUMPTION EXPENDITURES BY PRODUCTS GROUP (Q4 2019 = 100)

	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Personal consumption expenditures	**100.0**	**98.2**	**88.8**	**96.8**	**97.3**
Goods	**100.0**	**100.0**	**97.2**	**107.1**	**106.7**
- Durable goods	100.0	96.7	96.3	112.0	111.6
- Motor vehicles & parts	100.0	92.0	92.2	106.5	106.3
- Furnishings & durable hhld equipment	100.0	99.0	97.0	110.4	108.9
- Recreational goods & vehicles	100.0	101.2	110.0	122.1	121.6
- Other durable goods	100.0	95.2	77.9	107.7	109.3
- Nondurable goods	100.0	101.7	97.7	104.5	104.1
- Food & beverages purchased for off-premises consumption	100.0	107.0	105.5	106.9	106.2
- Clothing & footwear	100.0	89.9	76.1	98.7	99.1
- Gasoline & other energy goods	100.0	95.4	77.4	90.7	88.8
- Other nondurable goods	100.0	102.9	103.0	108.4	108.3
Services	**100.0**	**97.4**	**85.1**	**92.3**	**93.2**
- Household consumption expenditures	100.0	96.5	82.9	91.4	92.5
- Housing & utilities	100.0	99.9	101.0	101.2	101.3
- Health care	100.0	95.6	78.9	92.7	95.9
- Transportation	100.0	92.6	59.7	75.9	75.2
- Recreation	100.0	90.3	48.6	65.2	66.8
- Food services & accomodations	100.0	91.0	60.7	80.3	78.8
- Financial services & insurance	100.0	99.5	99.2	100.7	102.1
- Other services	100.0	96.8	79.4	85.6	87.4

SOURCE: BEA, BNP PARIBAS

MARKETS OVERVIEW

OVERVIEW

Week 9-4 21 to 16-4-21

↗ CAC 40	6 169	▶	6 287	+1.9	%
↗ S&P 500	4 129	▶	4 185	+1.4	%
↘ Volatility (VIX)	16.7	▶	16.3	-0.4	pb
↗ Euribor 3M (%)	-0.54	▶	-0.54	+0.6	bp
↗ Libor $ 3M (%)	0.19	▶	0.19	+0.2	bp
↗ OAT 10y (%)	-0.11	▶	-0.08	+2.4	bp
↗ Bund 10y (%)	-0.34	▶	-0.30	+3.4	bp
↘ US Tr. 10y (%)	1.67	▶	1.57	-9.3	bp
↗ Euro vs dollar	1.19	▶	1.20	+0.8	%
↗ Gold (ounce, $)	1 743	▶	1 779	+2.1	%
↗ Oil (Brent, $)	63.1	▶	67.0	+6.3	%

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	-0.54	-0.53	at	26/02	-0.56	at	06/01
	Euribor 12M	-0.48	-0.48	at	01/03	-0.52	at	02/02
$	FED	0.25	0.25	at	01/01	0.25	at	01/01
	Libor 3M	0.19	0.24	at	13/01	0.18	at	19/02
	Libor 12M	0.29	0.34	at	01/01	0.28	at	18/03
£	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	0.16	0.16	at	30/03	0.07	at	11/01

At 16-4-21

Yield (%)			highest 21		lowest 21	
€	AVG 5-7y	-0.22	-0.22	at 26/02	-0.46	at 04/01
	Bund 2y	-0.68	-0.65	at 25/02	-0.75	at 01/01
	Bund 10y	-0.30	-0.26	at 25/02	-0.60	at 04/01
	OAT 10y	-0.08	-0.03	at 25/02	-0.41	at 04/01
	Corp. BBB	0.66	0.72	at 18/03	0.50	at 08/01
$	Treas. 2y	0.17	0.17	at 05/04	0.11	at 05/02
	Treas. 10y	1.57	1.75	at 31/03	0.91	at 01/01
	High Yield	4.64	4.87	at 09/03	4.60	at 19/02
£	gilt. 2y	0.04	0.13	at 26/02	-0.08	at 04/01
	gilt. 10y	0.80	0.91	at 18/03	0.21	at 04/01

At 16-4-21

EXCHANGE RATES

1€ =		highest 21			lowest 21			2021
USD	1.20	1.23	at	06/01	1.17	at	30/03	-2.1%
GBP	0.87	0.91	at	06/01	0.85	at	05/04	-3.2%
CHF	1.10	1.11	at	04/03	1.08	at	18/01	+1.8%
JPY	130.35	130.46	at	14/04	125.22	at	18/01	+3.2%
AUD	1.55	1.60	at	04/01	1.53	at	18/03	-2.3%
CNY	7.81	8.00	at	01/01	7.69	at	25/03	-2.3%
BRL	6.73	6.95	at	03/03	6.33	at	18/01	+6.0%
RUB	90.74	92.20	at	28/01	86.53	at	16/03	+0.3%
INR	89.06	89.88	at	07/01	85.30	at	27/03	-0.4%

At 16-4-21 *Change*

COMMODITIES

Spot price, $		highest 21			lowest 21			2021	2021(€)
Oil, Brent	67.0	69.7	at	11/03	51.2	at	04/01	+29.1%	+31.9%
Gold (ounce)	1 779	1 947	at	05/01	1 682	at	08/03	-6.3%	-4.3%
Metals, LMEX	3 967	4 027	at	25/02	3 415	at	01/01	+16.2%	+18.6%
Copper (ton)	9 227	9 456	at	25/02	7 749	at	01/01	+19.1%	+21.6%
wheat (ton)	250	2.6	at	15/01	231	at	30/03	+1.2%	+3.4%
Corn (ton)	229	2.3	at	14/04	188	at	04/01	+2.1%	+23.9%

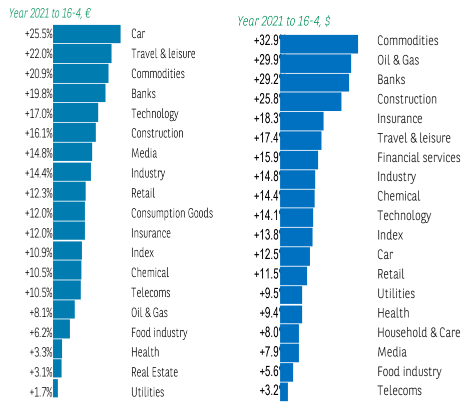
At 16-4-21 *Change*

EQUITY INDICES

	Index	highest 21			lowest 21			2021
World								
MSCI World	2 953	2 953	at	16/04	2 662	at	29/01	+9.8%
North America								
S&P500	4 185	4 185	at	16/04	3 701	at	04/01	+11.4%
Europe								
EuroStoxx50	4 033	4 033	at	16/04	3 481	at	29/01	+13.5%
CAC 40	6 287	6 287	at	16/04	5 399	at	29/01	+1.3%
DAX 30	15 460	15 460	at	16/04	13 433	at	29/01	+12.7%
IBEX 35	8 614	8 658	at	16/03	7 758	at	29/01	+0.7%
FTSE100	7 020	7 020	at	16/04	6 407	at	29/01	+0.9%
Asia								
MSCI, loc.	1 132	1 137	at	18/03	1 044	at	06/01	+0.8%
Nikkei	29 683	30 468	at	16/02	27 056	at	06/01	+8.2%
Emerging								
MSCI Emerging ($)	1 349	1 445	at	17/02	1 288	at	25/03	+0.4%
China	109	130	at	17/02	106	at	25/03	+1.1%
India	699	736	at	03/03	659	at	29/01	+5.4%
Brazil	1 733	1 941	at	14/01	1 561	at	09/03	-0.1%
Russia	706	740	at	16/03	647	at	01/02	+7.8%

At 16-4-21 *Change*

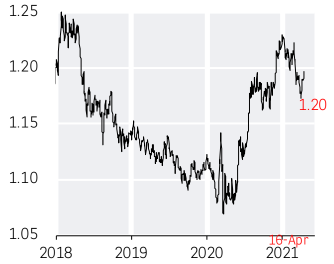
PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)



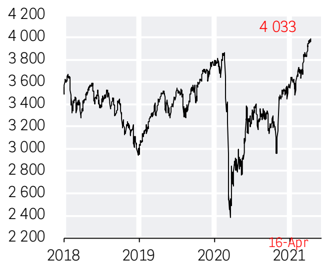
SOURCE: THOMSON REUTERS,

MARKETS OVERVIEW

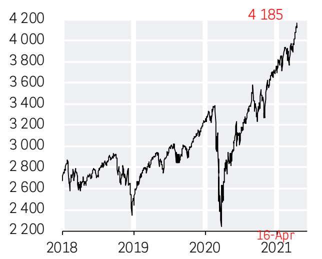
EURO-DOLLAR



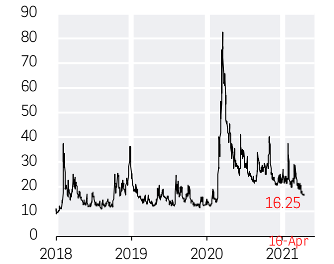
EUROSTOXX50



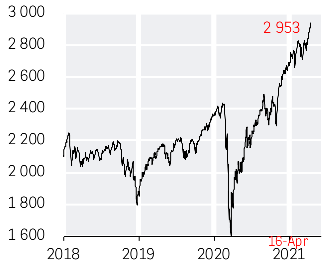
S&P500



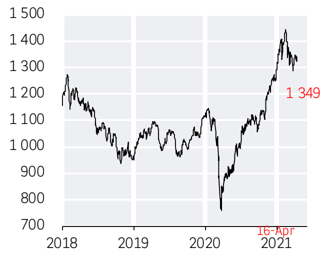
VOLATILITY (VIX, S&P500)



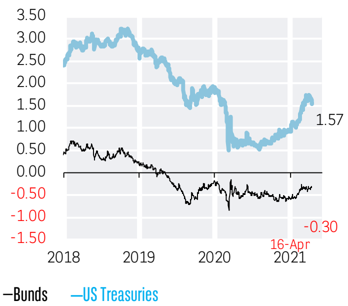
MSCI WORLD (USD)



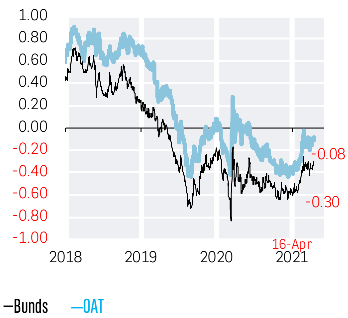
MSCI EMERGING (USD)



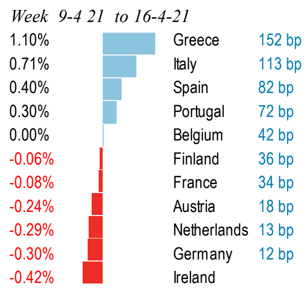
10Y BOND YIELD, TREASURIES VS BUND



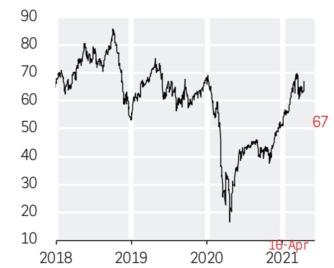
10Y BOND YIELD



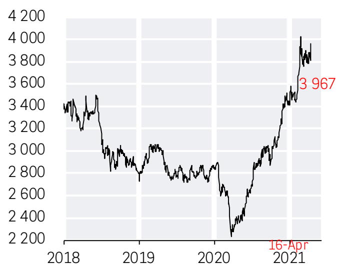
10Y BOND YIELD & SPREADS



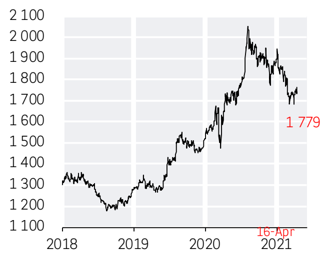
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: THOMSON REUTERS,

ECONOMIC PULSE

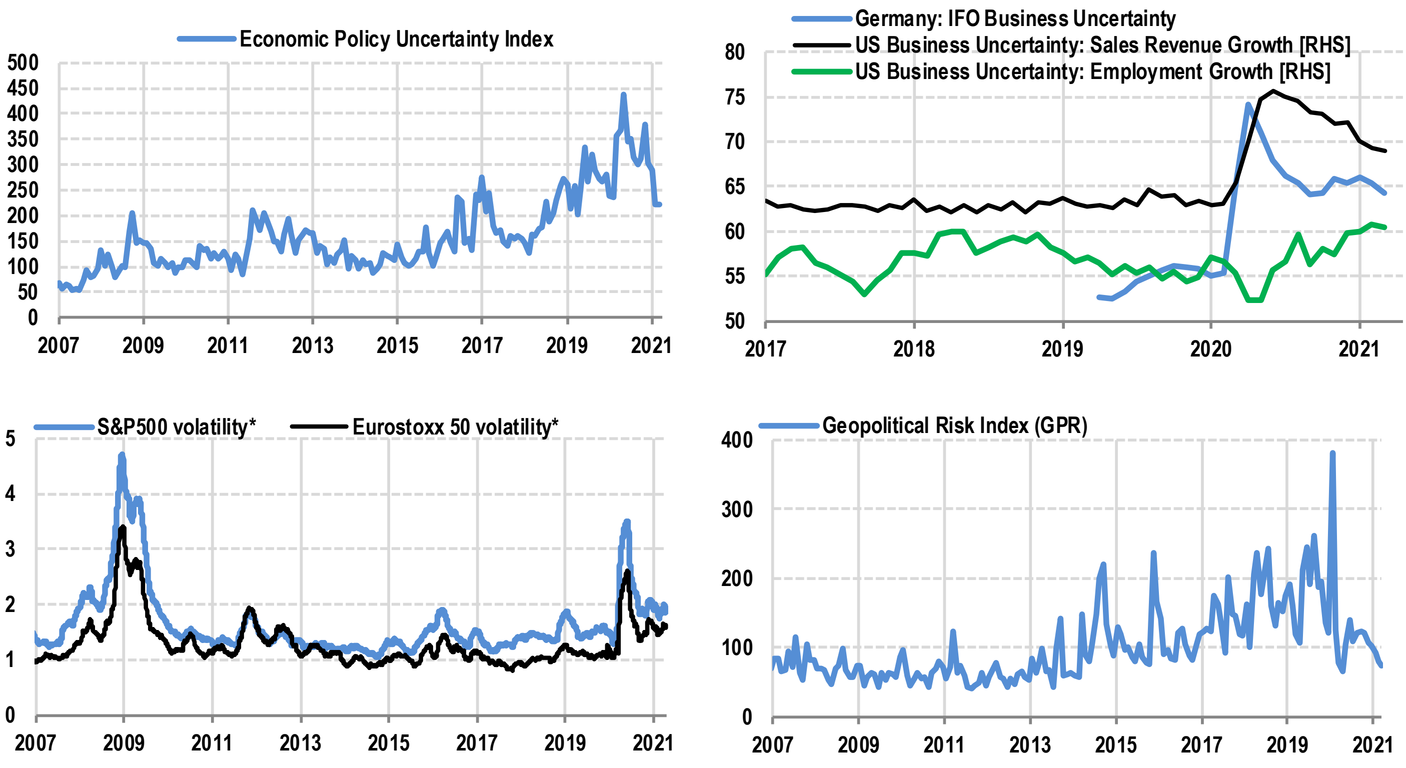
UNCERTAINTY: TRENDING LOWER

Most of our uncertainty indicators continue to decline on the back of vaccination campaigns that pick up speed and better economic data, although in several countries the number of new infections is again rising strongly. Starting top left and moving clockwise, the number of references in the media to uncertainty, after declining very strongly in recent months, has now more or less stabilized. Uncertainty based on company surveys has declined further in the US with respect to the outlook for sales revenue growth whereas uncertainty concerning the employment prospects has stopped increasing. In Germany, company uncertainty is also moving lower.

The downward trend of geopolitical risk continues. Finally, the uncertainty measure which is based on equity prices – the cross-sectional dispersion of individual company share price returns – has been moving sideways for some time and remains above the pre-pandemic level. This probably reflects the conflicting influences of prospects of better growth but also higher bond yields.

William De Vijlder

CHANGES IN UNCERTAINTY



** volatility = 60-day moving average of the cross-sectional standard deviation of daily returns of the index constituents*

SOURCE: REFINITIV, ECONOMIC POLICY UNCERTAINTY, IFO, ATLANTA FED, BNP PARIBAS

ECONOMIC PULSE

UNITED STATES: A ROSY BEIGE BOOK

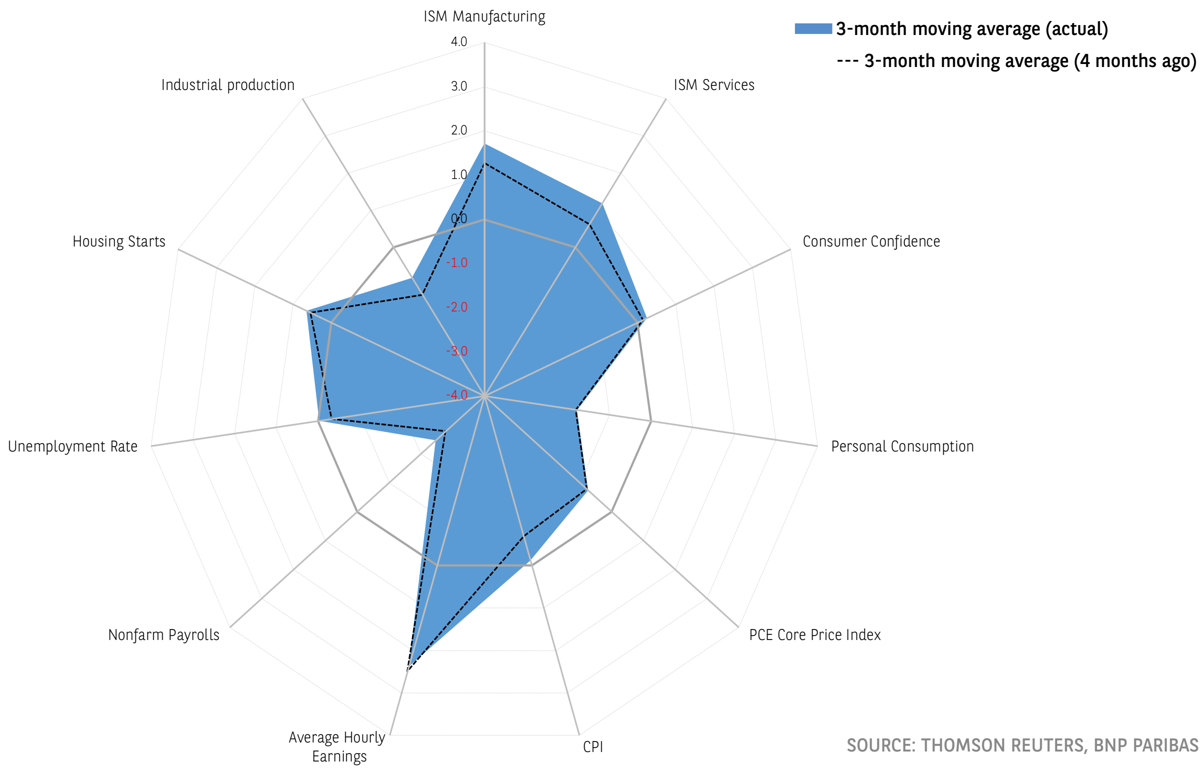
It is a true pleasure to read the April 2021 edition of the Beige Book, which the Federal Reserve Board (Fed) publishes eight times a year on current economic conditions in the US. Without exception, all twelve districts covered by Fed surveys reported an improvement in the business climate, with the wealthiest and most productive regions of the northeast, like Philadelphia, bordering on euphoria. With the acceleration of the vaccination campaign (nearly 200 million doses have already been given) and the easing of travel restrictions, consumption is rebounding vigorously. Consumer spending is also benefiting from the first stimulus cheques distributed as part of the American Rescue Plan. These cheques, which will amount to a total of nearly USD 400 bn (2.3 points of disposable income) in 2021.

With the arrival of spring, US household demand for durable goods (automobiles, household furnishings) and travel is very strong, which is contributing to pricing pressures. In March, inflation rose to 2.6%, which mainly reflects the increase in the energy bill. In April, inflation could near 3%, when prices will be compared with last year's particularly low levels. Hiring is intensifying: 1.6 million non-farm payroll jobs were created in Q1 2021, including 916,000 new jobs in March alone, beating expectations. Federal Reserve Chair Jerome Powell and US Treasury Secretary Janet Yellen both expressed reasonable confidence.

As the United States approaches herd immunity, the sectors still paralysed by the pandemic (hotel and restaurant services, entertainment industry) will begin hiring again. Mr. Powell recently put forward an optimistic scenario based on an ongoing pace of 1 million new jobs a month. For Treasury Secretary Yellen, full employment could be reached by 2022. She was not really contradicted by the Fed, which in its March economic outlook foresees unemployment falling back to about 4.5% of the active population by the end of next year.

Jean-Luc Proutat

QUARTERLY CHANGES



SOURCE: THOMSON REUTERS, 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.

ECONOMIC PULSE

ITALY: ECONOMIC IMPROVEMENT, BUT UNEMPLOYMENT ON THE RISE

Italy's cyclical improvement continues. This is reflected in our pulse, with several indicators rising above their long-term average. This is especially true for indices pertaining to industrial activity. The Purchasing Managers Index (PMI) for the manufacturing sector rose to its highest level in 21 years. Industrial production stalled this winter, but should pick up again this spring. Household consumption was also fragile this winter, as shown in the trend decline in retail sales in the chart. That said, a rebound in private consumption, at least for durable goods, was observed in March: new vehicle registrations jumped to the highest level in two years.

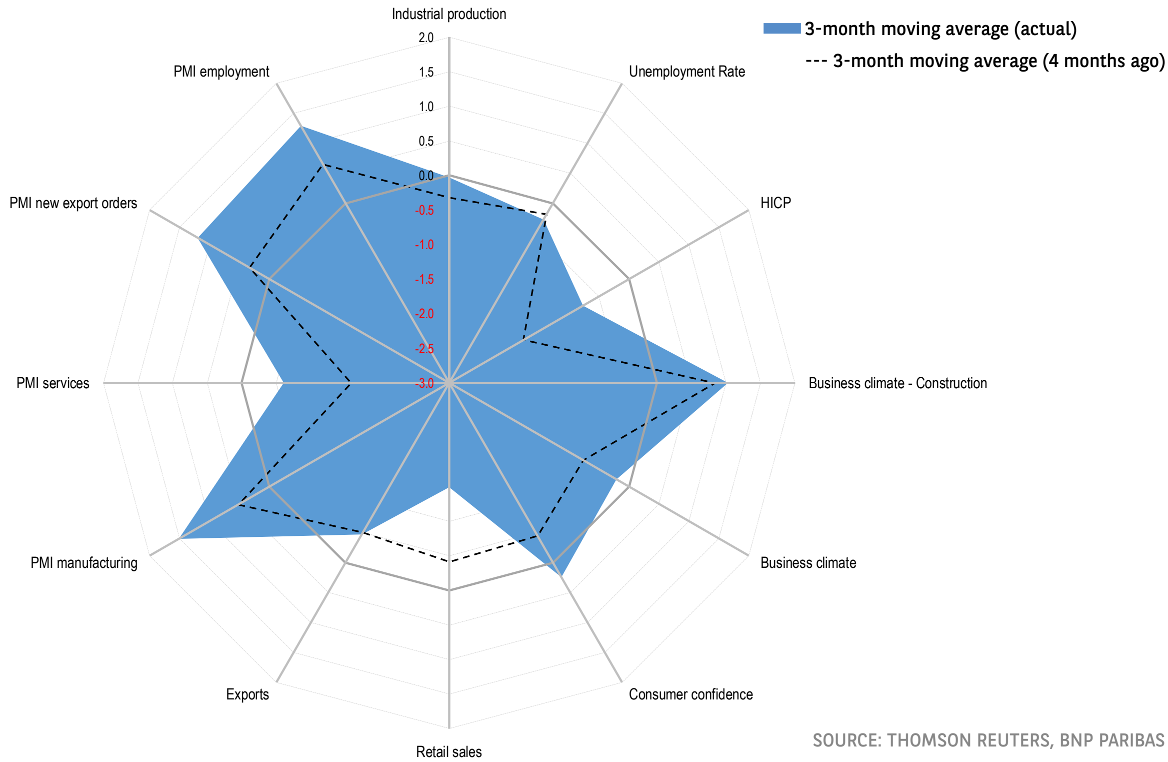
Although the health situation remains uncertain, the number of new Covid-19 cases has declined after peaking in mid-March (242 cases per 100,000 inhabitants on 13 April, down from a peak of 392 cases on 22 March). This should allow the economic recovery to continue. Moreover, the coalition government led by Mario Draghi signed off a new fiscal stimulus of EUR 40 bn on 15 April, which comes on top of the EUR 32 bn stimulus package announced last month.

Yet the labour market situation must be monitored closely. Despite massive government aid, the health crisis is beginning to take its toll on unemployment. The unemployment rate was 10.2% in February. Although this was slightly lower than the January figure, it is higher than the pre-pandemic level. At 56.5% in February, the employment rate has been the lowest since December 2015. More positively, the composite employment PMI suggests that hiring will resume again.

Inflationary pressures accelerated in Q1 2021, and the most probable scenario is that this trend will continue in the short term. The consumer price index (CPI) rose 0.8% year-on-year in March. A large part of this increase can be attributed to the upturn in transport prices (due in part to the recent increase in oil prices) and to a lesser extent to hotel & restaurant services and healthcare products.

Guillaume Derrien

QUARTERLY CHANGES



SOURCE: THOMSON REUTERS, 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 +2. 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.

RETAIL AND LEISURE FOOTFALL DECLINES IN EUROPE

The number of Covid-19 cases continues to increase worldwide, to nearly 766,231* daily new cases on 17 April, surpassing the peak during the second wave of the virus last January. Asia reported the biggest increase in new cases (352,647). In Europe and the Americas, the number of new cases is also rising, to 186,830 and 214,881 respectively (chart 1).

Faced with the resurgence of the pandemic, retail and leisure footfall** declined in the developed economies, especially in Europe, during the week of 4-11 April compared to the previous week. During this week, footfall in France declined by -14.3 points. France is currently the European country where the virus is the most virulent. In Germany, Belgium and Italy, footfall declined by -9.3 points, -7.3 points and -4.4 points, respectively. In the United States, with the acceleration in the vaccination campaign, footfall increased slightly (+2.9 points) (chart 3). Moreover, the OECD Weekly Tracker of annual GDP growth continued to decline in Europe. Italy was the only European country to report a rebound in this indicator. In Japan, the indicator maintained its upward momentum. The Tracker is based on Google Trends resulting from queries on consumption, the labour market, housing, industrial activity as well as uncertainty. Note, however, that these calculations may partly reflect a base effect (chart 3).

Lastly, vaccination campaigns continue to be rolled out worldwide, notably in the European Union, where they have accelerated rapidly. Even so, it remain far below the pace observed in the United States, which reported the strongest increase for the month (+16.15 points). In the UK, the vaccination campaign continues to advance, and nearly 50% of the population has received at least one dose. However, the campaign has slowed over the past week. This slowdown is mainly due to the delay in delivery of doses of the AstraZeneca vaccine produced in India (chart 2).

Tarik Rharrab

** 7-day moving average*

*** 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)

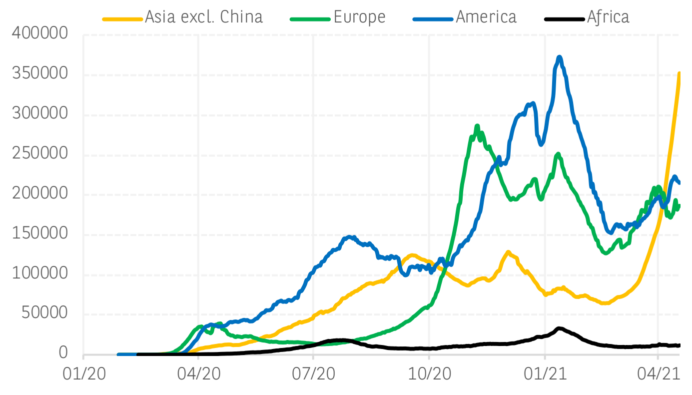


CHART 1 SOURCE: JOHNS-HOPKINS UNIVERSITY (04/19/2021), BNP PARIBAS

SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE

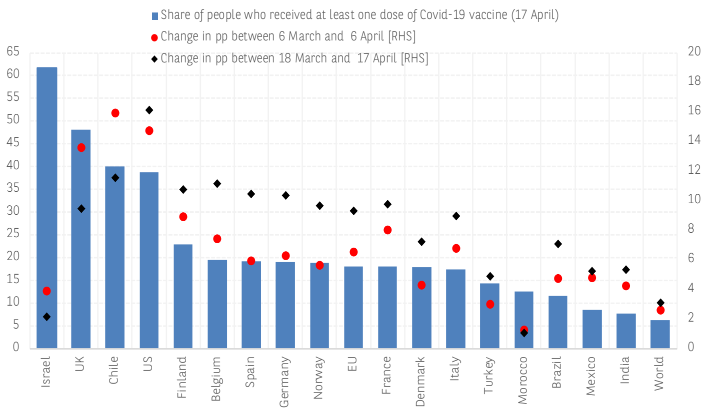


CHART 2 SOURCE: OUR WORLD IN DATA (04/19/2021), BNP PARIBAS

RETAIL AND RECREATION MOBILITY & OECD WEEKLY TRACKER

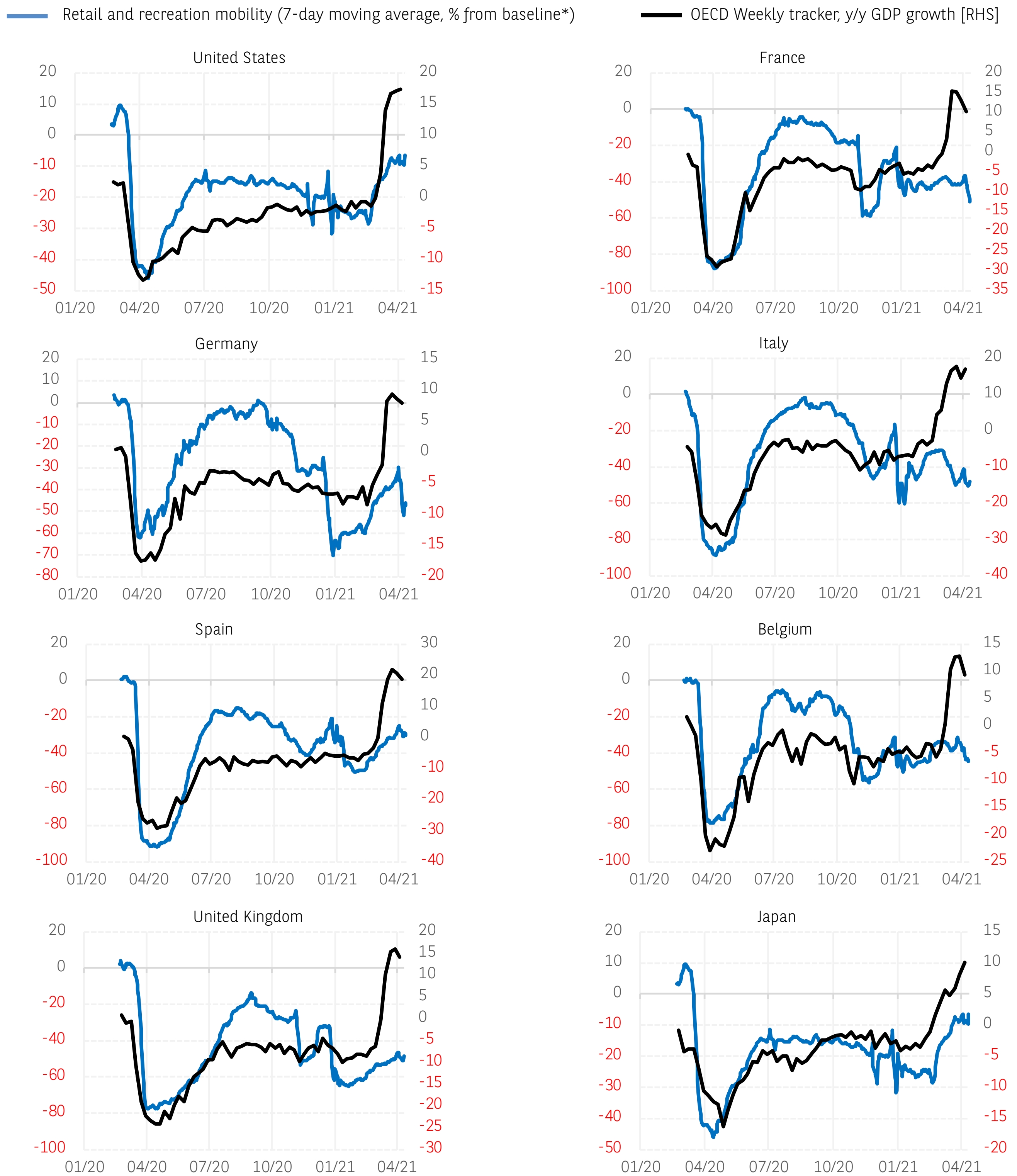


CHART 3

SOURCE: OECD (04/13/2021), GOOGLE (04/13/2021), 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 2019	GDP Growth 2020	GDP Growth 2021 e	GDP Growth 2022 e	Inflation 2019	Inflation 2020	Inflation 2021 e	Inflation 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, % End of period		2021 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	0.20
	BTP 10y	0.63	0.70	0.90	1.35	1.35	0.20
	BONO 10y	0.34	0.45	0.60	0.95	0.95	0.20
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 End of period		2021 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

/11/2020

SOURCE: BNP PARIBAS GLOBAL MARKETS (E: ESTIMATES)

CALENDAR

LATEST INDICATORS

The monthly estimate of GDP growth in the UK was significantly better in February compared to the month before but came in slightly below expectations. Eurozone retail sales showed strong growth in February, well ahead of the consensus. Banque de France industrial sentiment in March improved considerably and also did better than anticipated. ZEW expectations for Germany and the eurozone for the month of April weakened. In Japan, February core machinery orders worsened versus the previous month. The consensus had expected an improvement. In the US, small business optimism improved in March and core inflation picked up slightly more than expected. Initial unemployment claims recorded a big decline whereas retail sales showed, as expected, very strong monthly growth in March. The Philadelphia Fed outlook weakened slightly although the market had expected a bigger decline. In China qoq growth in the first quarter was slower than expected (0.6% versus 1.4%). US housing starts were particularly strong, well ahead of expectations. University of Michigan sentiment edged higher, but less than expected. The expectations component was stable whereas the consensus had counted on a significant increase. One year inflation expectations jumped higher.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
04/12/2021	United Kingdom	Monthly GDP (MoM)	Feb	0.5%	0.4%	-2.2%
04/12/2021	Eurozone	Retail Sales MoM	Feb	1.7%	3.0%	-5.2%
04/12/2021	France	Bank of France Ind. Sentiment	Mar	101.0	105.0	101.0
04/13/2021	Germany	ZEW Survey Expectations	Apr	79.0	70.7	76.6
04/13/2021	Germany	ZEW Survey Current Situation	Apr	-54.1	-48.8	-61.0
04/13/2021	Eurozone	ZEW Survey Expectations	Apr	--	66.3	74.0
04/13/2021	United States	NFIB Small Business Optimism	Mar	98.5	98.2	95.8
04/13/2021	United States	CPI Ex Food and Energy MoM	Mar	0.2%	0.3%	0.1%
04/14/2021	Japan	Core Machine Orders MoM	Feb	2.5%	-8.5%	-4.5%
04/14/2021	United States	U.S. Federal Reserve Releases Beige Book	Apr			
04/15/2021	United States	Initial Jobless Claims	Apr	700k	576k	769k
04/15/2021	United States	Retail Sales Control Group	Mar	7.2%	6.9%	-3.4%
04/15/2021	United States	Philadelphia Fed Business Outlook	Apr	41.5	50.2	44.5
04/15/2021	United States	Industrial Production MoM	Mar	2.5%	1.4%	-2.6%
04/15/2021	United States	Capacity Utilization	Mar	75.6%	74.4%	73.4%
04/15/2021	United States	NAHB Housing Market Index	Apr	83	83	82
04/16/2021	China	New Home Prices MoM	Mar	--	0.40%	0.40%
04/16/2021	China	GDP SA QoQ	1Q	1.40%	0.60%	3.20%
04/16/2021	China	Surveyed Jobless Rate	Mar	5.40%	5.30%	5.50%
04/16/2021	Eurozone	EU27 New Car Registrations	Mar	--	87.30%	-19.30%
04/16/2021	Eurozone	CPI YoY	Mar	1.30%	1.30%	0.90%
04/16/2021	Eurozone	CPI Core YoY	Mar	0.90%	0.90%	0.90%
04/16/2021	United States	Building Permits MoM	Mar	1.70%	2.70%	-8.80%
04/16/2021	United States	Housing Starts MoM	Mar	13.50%	19.40%	-11.30%
04/16/2021	United States	U. of Mich. Sentiment	Apr	89	86.5	84.9
04/16/2021	United States	U. of Mich. Current Conditions	Apr	96	97.2	93
04/16/2021	United States	U. of Mich. Expectations	Apr	85	79.7	79.7
04/16/2021	United States	U. of Mich. 1 Yr Inflation	Apr	3.30%	3.70%	3.10%
04/16/2021	United States	U. of Mich. 5-10 Yr Inflation	Apr	--	2.70%	2.80%

SOURCE: BLOOMBERG

CALENDAR: THE WEEK AHEAD

COMING INDICATORS

The highlight of next week will be the ECB meeting but in addition, analysts will be eager to analyse the plethora of survey data for April: business confidence in France, business optimism in the UK, consumer confidence in the eurozone and the UK and, most importantly, the flash PMIs in Japan, France, Germany, the eurozone, the UK and the US.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
04/20/2021	United Kingdom	ILO Unemployment Rate 3Mths	Feb	5.10%	5.00%
04/20/2021	United Kingdom	Employment Change 3M/3M	Feb	--	-147k
04/20/2021	Japan	Machine Tool Orders YoY	Mar	--	65.00%
04/22/2021	France	Business Confidence	Apr	93	97
04/22/2021	France	Manufacturing Confidence	Apr	99	98
04/22/2021	United Kingdom	CBI Business Optimism	Apr	--	-22
04/22/2021	Eurozone	ECB Deposit Facility Rate	Apr	-0.50%	-0.50%
04/22/2021	United States	Initial Jobless Claims	Apr	--	--
04/22/2021	Eurozone	Consumer Confidence	Apr	-11	-10.8
04/23/2021	United Kingdom	GfK Consumer Confidence	Apr	-11	-16
04/23/2021	Japan	Jibun Bank Japan PMI Mfg	Apr	--	52.7
04/23/2021	Japan	Jibun Bank Japan PMI Services	Apr	--	48.3
04/23/2021	Japan	Jibun Bank Japan PMI Composite	Apr	--	49.9
04/23/2021	Japan	Nationwide Dept Sales YoY	Mar	--	-10.70%
04/23/2021	United Kingdom	Retail Sales Ex Auto Fuel MoM	Mar	1.9%	2.40%
04/23/2021	France	Markit France Manufacturing PMI	Apr	59.2	59.3
04/23/2021	France	Markit France Services PMI	Apr	44.1	48.2
04/23/2021	France	Markit France Composite PMI	Apr	46.5	50
04/23/2021	Germany	Markit/BME Germany Manufacturing PMI	Apr	65.5	66.6
04/23/2021	Germany	Markit Germany Services PMI	Apr	51	51.5
04/23/2021	Germany	Markit/BME Germany Composite PMI	Apr	57.3	57.3
04/23/2021	Eurozone	Markit Eurozone Manufacturing PMI	Apr	62	62.5
04/23/2021	Eurozone	Markit Eurozone Services PMI	Apr	49.1	49.6
04/23/2021	Eurozone	Markit Eurozone Composite PMI	Apr	53.3	53.2
04/23/2021	United Kingdom	Markit UK PMI Manufacturing SA	Apr	59	58.9
04/23/2021	United Kingdom	Markit/CIPS UK Services PMI	Apr	59	56.3
04/23/2021	United Kingdom	Markit/CIPS UK Composite PMI	Apr	57.8	56.4
04/23/2021	United States	Markit US Manufacturing PMI	Apr	60	59.1
04/23/2021	United States	Markit US Services PMI	Apr	61.3	60.4
04/23/2021	United States	Markit US Composite PMI	Apr	--	59.7

SOURCE: BLOOMBERG

FURTHER READING

EcoEmerging - April 2021 issue	EcoEmerging	9 avril 2021
Emerging countries: speed races	EcoTVWeek	16 April 2021
Exchange rate regime under pressure	Chart of the Week	14 April 2021
EcoWeek 21.14. April 12 issue	EcoWeek	12 April 2021
EcoPerspectives April 2021 issue	EcoPerspectives	9 April 2021
EcoTV. April 2021 issue	EcoTV	9 April 2021
US banks: reactivation of the Fed's reverse repo facility, a factor in reducing balance sheets	Chart of the Week	7 April 2021
France: The French labour market: 2020 in review	EcoFlash	6 April 2021
EcoWeek 21.13. April 2 issue	EcoWeek	2 April 2021
Eurozone: green shoots of recovery	EcoTVWeek	2 April 2021
Nordic countries: greater confidence?	Chart of the Week	31 March 2021
EcoWeek 21.12. March 29 issue	EcoWeek	29 March 2021
Banks are keeping appetite for TLTROs	EcoTVWeek	26 March 2021
Rising us treasury yields : no spillovers yet to emerging bond markets	Chart of the Week	24 March 2021
US : Does the American Rescue Plan go too far?	EcoFlash	23 March 2021
Netherlands : A liberal victory at the general election	EcoFlash	22 March 2021
EcoWeek 21.11. March 22 issue	EcoWeek	22 March 2021
France: state of play after one year of crisis	EcoTVWeek	19 March 2021
Denmark: negative rates are applied to more than 80% of corporate deposits outstanding	Chart of the Week	17 March 2021
EcoWeek 21.10. March 15 issue	EcoWeek	15 March 2021

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