

Growth that bends but doesn't break

In January 2023, according to S&P Global PMI data, the business climate continued to improve for the third month in a row, bringing the composite index just above the 50-point expansion mark for the first time since June 2022. This recovery applies to both the manufacturing sector and services, and it is good news. We regard it as a sign of relief following over-pessimism at the end of 2022 fuelled by fears about energy supply and soaring prices. A relapse cannot be ruled out.

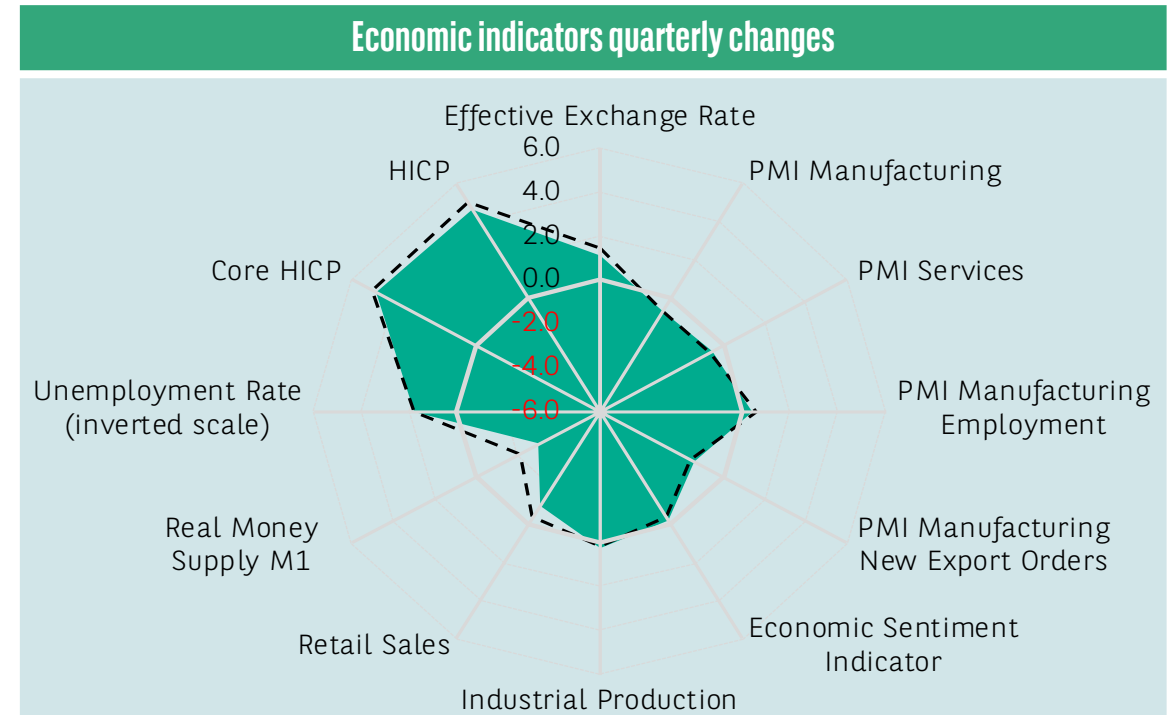
The European Commission's economic sentiment indicator also saw its third consecutive rise in January, driven primarily by the upturn in consumer confidence – which according to early estimates continued in February for the fifth month in a row – and related sectors (retail and services), with consumers less worried about prices and unemployment.

News from the labour market remains good, with employment up 0.4% q/q in Q4 2022, in line with the average pace for the previous four quarters. Between Q4 2021 and Q4 2022, employment growth in year-over-year terms lost 1 percentage point, while GDP growth dropped 3 points. Despite remaining stable at 6.6% over the last three months of 2022, the unemployment rate fell by close to half a point over the year. Companies are still facing significant difficulties in recruiting staff, the job vacancy rate remains high, and the component relating to employment in business surveys is continuing to rise.

News about inflation is more mixed. According to Eurostat's preliminary estimates, headline inflation declined further in January for the third month in a row, reaching 8.5% y/y, but core inflation has not yet started to fall, merely stabilising at 5.2% in January. This resilient growth and inflation justify at least two more ECB rate hikes (50 basis points in March and 25 basis points in May).

Contraction in GDP was avoided in Q4 2022 and the same could be seen in Q1 2023. We currently expect a fall of 0.3% q/q but this forecast is about to be revised upwards on the basis of more favourable than expected data and developments. This is reflected by our GDP growth nowcast of +0.1% q/q.

Hélène Baudchon



The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -6 and +6. In the radar chart, the green 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.

GDP growth											
Actual			Nowcast	Forecast	Carry-over	Forecast		Carry-over	Annual growth forecasts (y/y)		
Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q1 2023	Q1 2023	Q2 2023	Q3 2023	Q3 2023	2022 (observed)	2023	2024
0.9	0.3	0.1	0.1	-0.3	0.1	0.1	0.2	0.3	3.5	0.2	1.3

[See the Nowcast methodology](#)
Source: Refinitiv, BNP Paribas

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