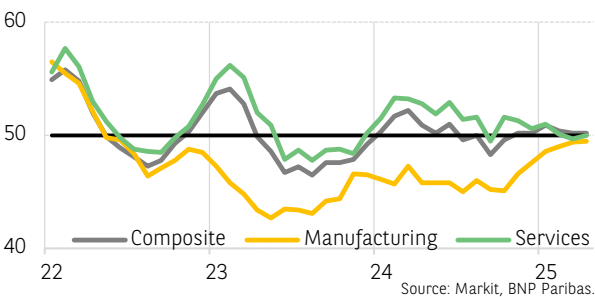
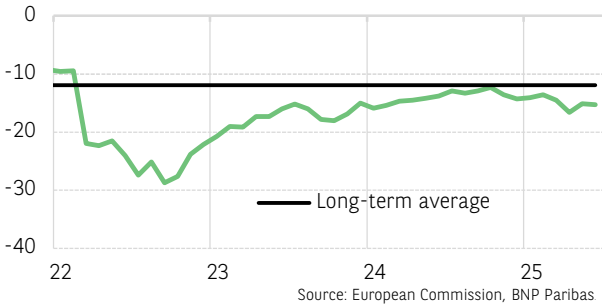


Business climate: PMI



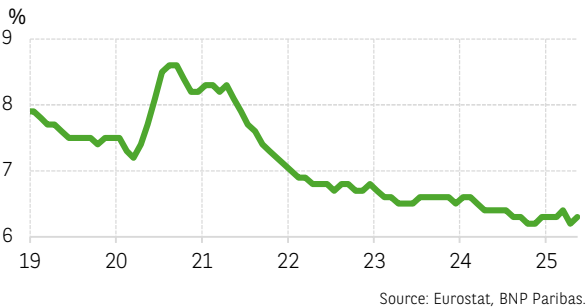
**Stable business climate.** The composite PMI index was stable at 50.2 in June, remaining above the expansion threshold in the first half of the year. The upturn in the manufacturing index slowed but continued (+0.1 pt to 49.5). It was driven in particular by new orders, with the index back above the 50 threshold for the first time in three years. The services PMI is unchanged.

Household confidence



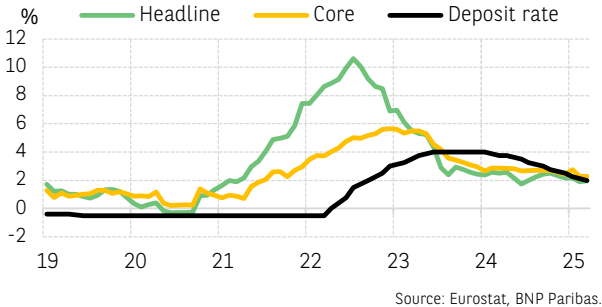
**Household confidence fell slightly in June, but remains well below its long-term average.** Nevertheless, retail sales are showing an encouraging trajectory (+0.1% m/m in April and +1.8% in 3m/3m annualised). The momentum is particularly strong in France (+3.1%, 3m/3m annualised), Belgium (+8.1%) and Portugal (+3.9%).

Labour market: unemployment rate



**The labour market remains resilient.** The unemployment rate nevertheless rose to 6.3% in May (6.2% in April), driven up by Italy (+0.4 pp to 6.5%), while it remained stable in Germany (3.7%) and France (7.1%). Wage moderation continues, with the ECB's wage tracker pointing to an increase in basic wages of 3.0% y/y by the end of 2025.

Inflation (y/y) and policy rate



**Inflation remains firmly anchored on the ECB's target.** The harmonised index rose by 2% y/y in June (preliminary figure), compared with 1.9% in May. Core inflation is stable at 2.3%, with the strengthening in services (+0.1 pp to 3.3% y/y) being offset by the decline in non-energy industrial goods (-0.1 pp to 0.5%). Against this backdrop, we expect the ECB to cut its key rates by a final 25bp in September.

GDP growth q/q: actual, carry-over and forecasts

Actual				Carry-over	Actual	Nowcast	Forecast			Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q2 2025	Q2 2025	Q3 2025		2024 (observed)	2025	2026
0.3	0.2	0.4	0.3	0.5	0.6	0.3	-0.1	0.2		0.8	1.2	1.3

See the Nowcast methodology [Contact Tarik Rharrab](#).

Source: Refinitiv, BNP Paribas

**Backlash against growth in Q2?** After a Q1 2025 boosted by exports in anticipation of the rise in US tariffs, a fall back is expected in Q2. According to our nowcast, which does not incorporate the fallback but tracks the economy's trend growth rate, the latter remains solid (+0.3% q/q). It should be underpinned by a final interest rate cut in September and by increased defence spending for the region's rearmament. In May, growth in outstanding loans to businesses slowed, while growth in loans to households continued to accelerate. This was mainly due to the stabilisation of rates on new business investment loans, while rates on loans to households fell again.

Guillaume Derrien and Thomas Humblot (completed on July 3, 2025)

