

ECONOMIC PULSE

EUROZONE: NOVEMBER'S PLEASANT SURPRISES

Following in the footsteps of the US inflation figures for October, Eurozone inflation also surprised favourably by coming in below estimates. Eurostat's flash estimate of an annual rate of 10% in November was lower than the consensus figure of 10.4%. This raises hopes that Eurozone inflation has finally peaked, and indeed this looks likely. It is our scenario, but considerable uncertainty remains and caution is required.

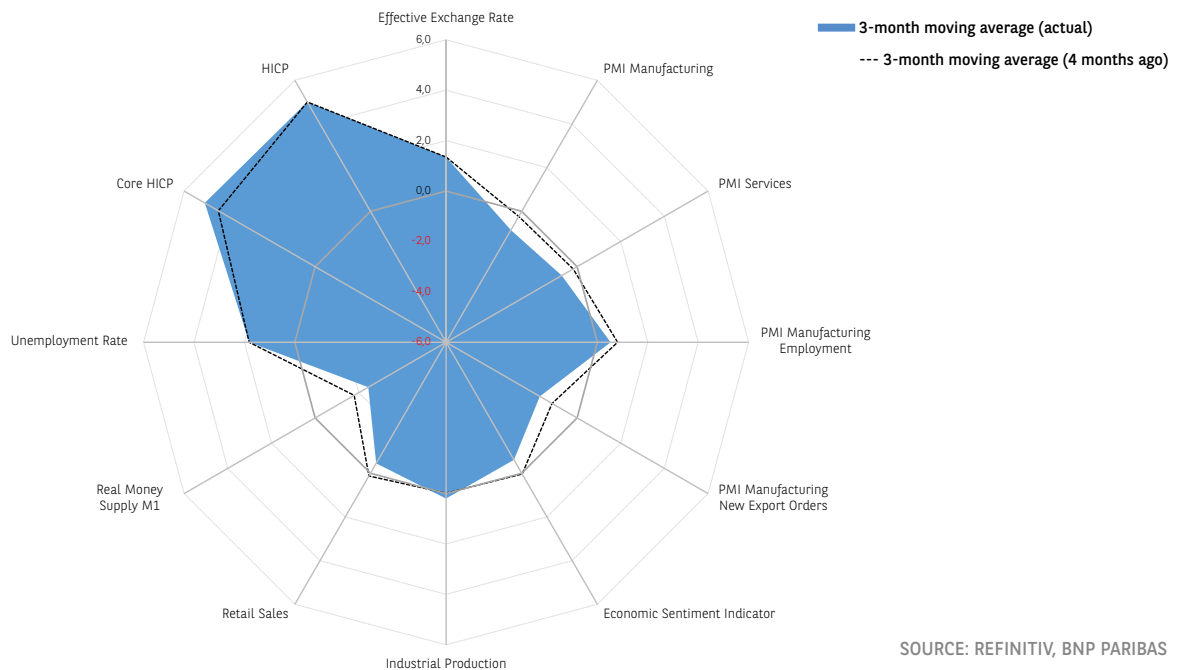
Be that as it may, a number of early warning signs are pointing towards a marked reduction in upstream inflationary pressures (falls in the business climate components relating to input prices, selling prices and delivery times, as well as decelerating production prices). Inflation will also fall – automatically and possibly substantially – due to favourable basis effects, first for energy and then for food. Lastly, the easing of the imbalance between supply (less restricted) and demand (less vigorous) should help ease inflationary pressures in 2023.

However, it is still too early to claim victory; inflation is widespread and the starting point is high. Although the fall in headline inflation might seem rapid, the persistence of core inflation, where falls are likely to be more limited, will hold back the underlying trend. Details from the November figures illustrate this well: the 0.6 of a point drop in headline inflation was entirely dependent on the 0.7 point fall in the energy component contribution, whilst food prices continued to rise (adding 0.1 of a point to the headline) and core inflation remained unchanged at 5%. This time around, France stood out for the stability of its inflation figure, at 7.1%, whilst the Netherlands saw a substantial fall of 5.6 points to 11.2%.

Consumer confidence also saw a positive shift in November. The European Commission survey reported a significant uptick for the second month in a row. Households' confidence remains depressed, but the improvement is noticeable. In particular, consumers appear to be less concerned about inflation prospects, whilst concerns over rising unemployment remain contained. When it comes to business sectors, confidence remained stable in the retail industry. There was a slight improvement in services (interrupting four months of significant falls), an erosion in construction and continued falls in industry (the fifth consecutive negative month). The Commission's aggregated Economic Sentiment Indicator (ESI) thus gained one point: a small and fragile rise admittedly, but the first since February. The Employment Expectations Indicator (EEI) also improved. The slight rise in S&P Global's composite PMI figure, by half a point to 47.8, was due to an improvement in the manufacturing sector (up 2.2 points to 46%), whilst the figure for services was unchanged at 48.6. One other positive point to note is that both the EEI and the composite PMI's employment component remain fairly comfortably in expansionary territory. However, one can also see the glass as half empty. The PMI indices and the ESI remain in the economic contraction zone. Our Pulse indicates a deterioration of the economic situation over the last three months relative to the preceding three months (blue area below the dotted line). And we have yet to see all the negative effects on the economy of the unprecedented combination of the inflationary shock, the energy crisis (higher bills, limits on both supply and demand) and monetary tightening.

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EUROZONE: 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 -6 and +6. 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.

