

Resistance is weakening

Eurozone growth in the first quarter of 2023 was +0.1% q/q according to the data available at the time of writing¹. This is below our forecast (+0.3% q/q), and therefore rather disappointing, even if it surprises favourably compared to our nowcast estimate (-0.0%). This low growth also puts into perspective the perceived resilience coming from most survey and activity data during the first quarter.

In the second quarter, given the now more mixed orientation of business climate surveys, the issue of weak growth may well take precedence over the issue of resistance. While our current growth forecast is still slightly positive (+0.2% q/q), our nowcast estimate is more pessimistic (-0.1% q/q).

S&P Global's composite PMI continued its recovery in April, but less strongly than in the previous four months, as the improvement in services business confidence – itself of lesser magnitude – was also offset by a significant deterioration in the manufacturing sector. And for the first time since October 2022, the composite PMI deteriorated in May (-0.8 point, at 53.3). The European Commission's economic sentiment indicator has been trendless, if not slightly declining since February. The gradual loss of economic momentum is visible on the heatmap opposite (fewer red zones, more pale pink, and blue ones).

Two indicators stand out favourably in this more mixed cyclical picture: consumer confidence (which has been recovering since October 2022, but from a low level) and the unemployment rate (which remains on a downward trend and reached 6.5% of the labour force in March).

Inflation remains a negative element, as disinflation remains very slow and limited, but the coming months could mark a more pronounced downward trend, according to some recent developments and leading inflation indicators. In April, headline inflation increased slightly (+0.1 percentage points, to 7% y/y) because the favourable base effects of the previous month on the energy component disappeared. But this increase can be put into perspective by the decline in food and core inflation. This fall is modest, but it is the first one since mid-2021. If they do exist, signs of moderation in inflation remain, however, tentative and inflation far too high for the ECB not to decide on a further rate hike at its next meeting on 15 June (+25bps according to our forecasts).

Hélène Baudchon (completed on 25/05/2023)

1 The estimate of eurozone growth in Q1 is likely to be lowered in the wake of the sharp downward revision in German growth (from +0.0% to -0.3% t/t).

Eurozone: economic indicators monthly changes

	May 22	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23
Economic Sentiment Indicator (ESI)	0.5	0.4	-0.1	-0.1	-0.5	-0.6	-0.4	-0.2	0.0	0.0	0.0	0.0
ESI - Manufacturing	1.0	1.1	0.7	0.5	0.4	0.3	0.2	0.3	0.5	0.4	0.3	0.1
ESI - Services	0.7	0.6	0.3	0.2	0.0	-0.2	-0.1	0.2	0.5	0.4	0.4	0.5
ESI - Retail sales	0.2	0.1	-0.1	0.0	-0.2	0.0	0.0	0.5	0.7	0.8	0.6	0.7
ESI - Construction	1.5	1.2	1.2	1.3	1.0	1.2	1.1	1.2	1.0	1.0	1.0	1.0
Consumer confidence	-2.0	-2.5	-3.0	-2.5	-3.2	-2.9	-2.2	-1.8	-1.6	-1.3	-1.3	-1.0
PMI Manufacturing	0.9	0.4	0.0	-0.1	-0.3	-0.7	-0.6	-0.4	-0.2	-0.3	-0.5	-0.8
PMI Services	1.2	0.6	0.2	0.0	-0.2	-0.3	-0.3	0.0	0.2	0.5	1.0	1.2
PMI Manufacturing New Export Orders	-0.4	-0.7	-1.0	-1.0	-1.3	-1.7	-1.4	-1.2	-0.9	-1.1	-0.7	-0.8
PMI Manufacturing New Orders	-0.2	-0.7	-1.1	-1.0	-1.3	-1.8	-1.4	-1.0	-0.7	-0.5	-0.6	-0.8
PMI Composite - Employment	1.7	1.2	1.0	0.7	0.7	0.7	0.5	0.5	0.6	0.6	0.9	1.3
Industrial Production	0.5	0.7	-0.3	0.8	0.8	0.6	0.5	-0.4	0.1	0.3	-0.4	
Retail Sales	0.1	-1.1	-0.4	-0.6	-0.2	-1.0	-1.1	-0.8	-0.9	-0.9	-1.3	
New Car registrations	-0.5	-0.7	-0.4	0.3	0.5	0.6	0.8	0.6	0.5	0.5	1.4	0.9
HICP	4.9	5.1	5.0	4.9	5.1	5.2	4.6	4.0	3.6	3.4	2.5	2.5
Core HICP	4.5	4.3	4.6	4.8	5.2	5.3	5.0	5.0	4.9	5.0	4.8	4.5
Unemployment Rate	1.8	1.8	1.8	1.8	1.7	1.7	1.7	1.7	1.8	1.7	1.8	

The indicators are all transformed into "z-scores", i.e. deviations from the long-term average value (expressed in standard deviation), the average of which is zero (except for the PMI/ISM indices where the average is 50, the threshold between the expansion zone and the contraction zone of the activity). Positive (negative) values indicate the number of standard deviations above (below) the mean value.
Reading note: the red colour indicates dynamic activity, high inflation and low unemployment, the blue colour indicates slower activity, low inflation and high unemployment.

GDP growth

Actual				over	Nowcast	Forecast		Annual forecasts (y/y)		
Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q4 2022	Q2 2023	Q2 2023	Q3 2023	2022 (observed)	2023	2024
0.9	0.4	-0.1	0.1	0.4	-0.1	0.2	-0.1	3.5	0.6	0.5

See the [Nowcast methodology](#). Contact: [Tarik Rharrab](#)
Source: Refinitiv, BNP Paribas

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