EUROZONE

Will Q3 mark the low point of economic activity?

Without falling significantly, confidence indicators for the euro area confirm the current phase of stagnation, which is expected to continue into Q4 2023. According to the flash estimate, the composite PMI edged up by 0.6 points to 47.1 in November, while the European Commission's Economic Sentiment Indicator fell slightly in October, down by 0.1 points to 93.3 (its lowest level in three years). Despite the current deceleration in inflation (from 4.3% y/y in September to 2.9% y/y in October in harmonised terms) and an unemployment rate that is close to its lowest ever (6.5% in September), household confidence is not recovering, against a still difficult backdrop in terms of purchasing power. Retail sales slipped to their lowest level in two-and-a-half years in September: while there was a rebound in food spending (+0.4% q/q in Q3), purchases excluding food and fuel products fell more sharply (-0.5% q/q).

This lack of demand is the factor limiting production most cited in the European Commission quarterly survey in October 2023. Financial constraints are also increasing, but more moderately. Conversely, supply constraints (equipment, labour) are falling.

Preliminary GDP estimates for Q3 2023 indicate a slight contraction of economic activity in the euro area of 0.1% q/q, which will be followed, according to our nowcast, by zero growth in Q4. Based on these first estimate, Ireland, whose GDP is very erratic due to the business activity of multinationals, posted a contraction of 1.8% q/q, and explains much of the decline in the euro area. However, there are contrasting dynamics between the other Member States. The Netherlands (-0.2% q/q) and Austria (-0.6% q/q) experienced a downturn for a second and third quarter running, respectively, while Germany (-0.1% q/q) and Finland (-0.9% q/q) fell back into negative territory. Spain (+0.3% q/q), Belgium (+0.5% q/q) and France (+0.1% q/q) performed better. The latest European Commission forecasts, published on 15 November, report downward revisions of growth for the euro area for 2023 (0.6%, i.e. -0.2pp compared to July forecasts) and 2024 (1.2%, i.e. -0.1pp). Our estimate for 2024, is lower, at 0,8%, mainly due to less positive forecasts for France and Germany.

Guillaume Derrien (completed on 23 November 2023)

Eurozone: economic indicators monthly changes*

	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23
Economic Sentiment Indicator (ESI)	-0.4	-0.3	0.0	0.0	-0.1	0.0	-0.3	-0.4	-0.5	-0.6	-0.6	-0.6
ESI - Manufacturing	0.2	0.3	0.4	0.4	0.3	0.0	-0.2	-0.4	-0.6	-0.7	-0.6	-0.6
ESI - Services	-0.1	0.2	0.4	0.3	0.3	0.4	0.1	0.0	0.0	-0.1	-0.1	-0.1
ESI - Retail sales	0.0	0.4	0.7	0.7	0.6	0.7	0.1	0.0	0.2	0.1	0.0	-0.3
ESI - Construction	1.1	1.2	1.0	1.0	1.0	0.9	0.8	0.7	0.6	0.5	0.4	0.4
Consumer confidence	-2.1	-1.8	-1.5	-1.2	-1.2	-1.0	-0.9	-0.7	-0.5	-0.7	-1.0	-1.0
PMI Manufacturing	-0.6	-0.4	-0.2	-0.3	-0.5	-0.8	-1.0	-1.3	-1.4	-1.2	-1.3	-1.3
PMI Services	-0.3	0.0	0.2	0.5	1.0	1.2	1.0	0.4	0.2	-0.4	-0.3	-0.4
PMI Manufacturing New Export Orders	-1.4	-1.2	-0.9	-1.1	-0.7	-0.8	-1.4	-1.4	-1.7	-1.5	-1.5	-1.5
PMI Manufacturing New Orders	-1.4	-1.0	-0.7	-0.5	-0.6	-0.8	-1.1	-1.5	-1.6	-1.6	-1.6	-1.6
PMI Composite - Employment	0.5	0.5	0.6	0.6	0.9	1.3	1.1	0.9	0.4	0.1	0.2	0.0
Industrial Production	0.5	-0.4	0.1	0.3	-0.4	0.0	-0.5	-0.2	-0.4	-0.9	-1.1	
Retail Sales	-1.1	-1.0	-0.9	-1.0	-1.1	-1.0	-0.9	-0.4	-0.4	-0.7	-1.0	
New Car registrations	0.8	0.6	0.5	0.5	1.4	0.8	0.9	0.8	0.7	1.0	0.4	0.6
HICP	4.6	4.0	3.5	3.4	2.5	2.5	2.0	1.7	1.6	1.6	1.1	0.4
Core HICP	5.1	5.0	4.9	5.0	4.8	4.5	4.1	4.1	3.9	3.6	2.8	2.5
Unemployment Rate	1.7	1.7	1.7	1.7	1.8	1.8	1.7	1.8	1.7	1.8	1.7	

| -3 | -2 | -1 | 0 | 1 | 2 | 3 |

* 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				Carry-over	Nowcast	Forecast		Annual forecasts (y/y)		
Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2022	Q4 2023	Q4 2023	Q1 2024	2022 (observed)	2023	2024
-0.0	0.1	0.2	-0.1	0.4	-0.0	0.0	0.2	3.4	0.5	0.8

See the Nowcast methodology. Contact: Tarik Rharrab
Source: Refinitiv, BNP Paribas