

From weak growth to no growth?

The inflation situation, in the Eurozone, is cooling. Added to this good news is the surprising continued drop in the unemployment rate (6.4% in August compared with 6.7% at the beginning of the year). But these positive developments are offset by a cooling also being seen in the European Commission Economic Sentiment Indicator (ESI). Given the weakness of confidence surveys, real GDP growth – only just positive in Q1 and Q2 2023 (+0.1% q/q each quarter) – is expected to be close to zero. We expect nil growth in both Q3 and Q4 2023, a forecast aligned with our nowcast estimate, also at zero.

Other hard data available are also negative: drop in retail sales (moderate in July [-0.2% m/m], large in August [-1.2% m/m]); marked decline in industrial production in July (-1.4% m/m), followed by a partial rebound in August (+0.6% m/m) and a very unfavorable base effect sharply deepening the drop year-on-year (-5%); contraction of exports by 3.9% y/y in August .

In September, the ESI deteriorated again, albeit slightly (-0.3 points, to 93.3). It is now at its lowest level since end-2020, comparable to levels at the end of 2011, midway through the European sovereign debt crisis. This is its fifth decline in a row, and this month only one sector avoided a drop, that of industry. Confidence in services, retail trade and construction all deteriorated, and consumer confidence even more so (because of a more negative assessment of the outlook for inflation and unemployment, which will need to be monitored).

Admittedly, S&P Global's PMI composite index recovered slightly in September (+0.5 points, at 47.2), thanks to services (+0.8, at 48.7), but it remained firmly in the contraction zone (which is also true for the entire Q3). The index was driven down by the manufacturing sector, whose PMI stands at a very poor level (43.4, -0.1 points compared to August) and it remains to be confirmed that it has bottomed.

Inflation fell clearly in September. Headline inflation declined by 0.9 percentage points, to 4.3% y/y, the lowest since October 2021, as deflation on energy prices increased (-1.3 pp to -4.6% y/y, subtracting 0.6 pp to inflation), but not just this. Food inflation continued to moderate (-0.9 pp to 8.8% y/y) and its contribution to inflation is now close to, but below, 2 pp (1.8). Above all, core inflation finally fell significantly (-0.8 pp to 4.5% y/y, its lowest rate since August 2022). Over the coming months, tensions on oil prices and emerging tensions on gas prices are likely to slow the disinflation process without calling it into question. For the ECB, the status quo on its policy rates should prevail, but the situation remains uncomfortable.

Hélène Baudchon (completed on 18 October 2023)

1 The 25% y/y drop in imports should be put into perspective, bearing in mind the base and price effect causing this, but it nevertheless raises concerns.

Eurozone: economic indicators monthly changes

	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23
Economic Sentiment Indicator (ESI)	-0.6	-0.4	-0.2	0.0	0.0	-0.1	0.0	-0.3	-0.4	-0.5	-0.6	-0.6
ESI - Manufacturing	0.3	0.2	0.3	0.4	0.4	0.3	0.0	-0.2	-0.4	-0.6	-0.7	-0.6
ESI - Services	-0.2	-0.1	0.2	0.4	0.3	0.3	0.4	0.1	0.0	0.0	-0.1	-0.1
ESI - Retail sales	0.0	0.0	0.4	0.7	0.7	0.6	0.7	0.1	0.0	0.2	0.1	0.0
ESI - Construction	1.2	1.1	1.2	1.0	1.0	1.0	0.9	0.8	0.7	0.6	0.5	0.4
Consumer confidence	-2.9	-2.1	-1.8	-1.5	-1.2	-1.3	-1.0	-0.9	-0.7	-0.5	-0.7	-1.0
PMI Manufacturing	-0.7	-0.6	-0.4	-0.2	-0.3	-0.5	-0.8	-1.0	-1.3	-1.4	-1.2	-1.3
PMI Services	-0.3	-0.3	0.0	0.2	0.5	1.0	1.2	1.0	0.4	0.2	-0.4	-0.3
PMI Manufacturing New Export Orders	-1.7	-1.4	-1.2	-0.9	-1.1	-0.7	-0.8	-1.4	-1.4	-1.7	-1.5	-1.5
PMI Manufacturing New Orders	-1.8	-1.4	-1.0	-0.7	-0.5	-0.6	-0.8	-1.1	-1.5	-1.6	-1.6	-1.6
PMI Composite - Employment	0.7	0.5	0.5	0.6	0.6	0.9	1.3	1.1	0.9	0.4	0.1	0.2
Industrial Production	0.5	0.5	-0.4	0.1	0.3	-0.4	0.0	-0.5	-0.2	-0.4	-0.9	
Retail Sales	-1.0	-1.1	-1.0	-0.9	-1.0	-1.1	-0.9	-0.9	-0.4	-0.4	-0.8	
New Car registrations	0.6	0.8	0.6	0.5	0.5	1.4	0.8	0.9	0.8	0.7	1.0	
HICP	5.2	4.6	4.0	3.6	3.4	2.5	2.5	2.0	1.7	1.6	1.6	1.1
Core HICP	5.4	5.0	5.0	4.9	5.0	4.8	4.5	4.1	4.1	3.9	3.6	2.8
Unemployment Rate	1.7	1.7	1.7	1.7	1.7	1.8	1.8	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				Carry-over	Nowcast	Forecast		Annual forecasts (y/y)		
Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q4 2022	Q3 2023	Q3 2023	Q4 2023	2022 (observed)	2023	2024
0.3	-0.1	0.1	0.1	0.3	0.0	0.0	0.0	3.4	0.5	0.9

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



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