EUROZONE

After the technical recession, a technical rebound?

Initially estimated at +0.1% q/q, growth in the eurozone in Q1 2023 is now slightly negative, at -0.1% (after a similar drop in Q4 2022). This downward revision was driven by that of German growth. The succession of two quarters of decline in GDP defines a "technical" recession, which it is at this stage: the contraction in GDP is small and it is not broad-based to all growth components neither to all the Member States. Household consumption fell for the second quarter in a row (-0.3% in Q1 after -1% q/q in Q4), but it was the sharp drop in public consumption (in Germany), in addition to the very negative contribution of inventories, that brought the Q1 figure into negative territory. As these two developments are probably one-off, we can expect a technical rebound in Q2. We forecast +0.2% q/q. However, our nowcast model is less positive (zero growth estimated) and points to a downward risk on this forecast.
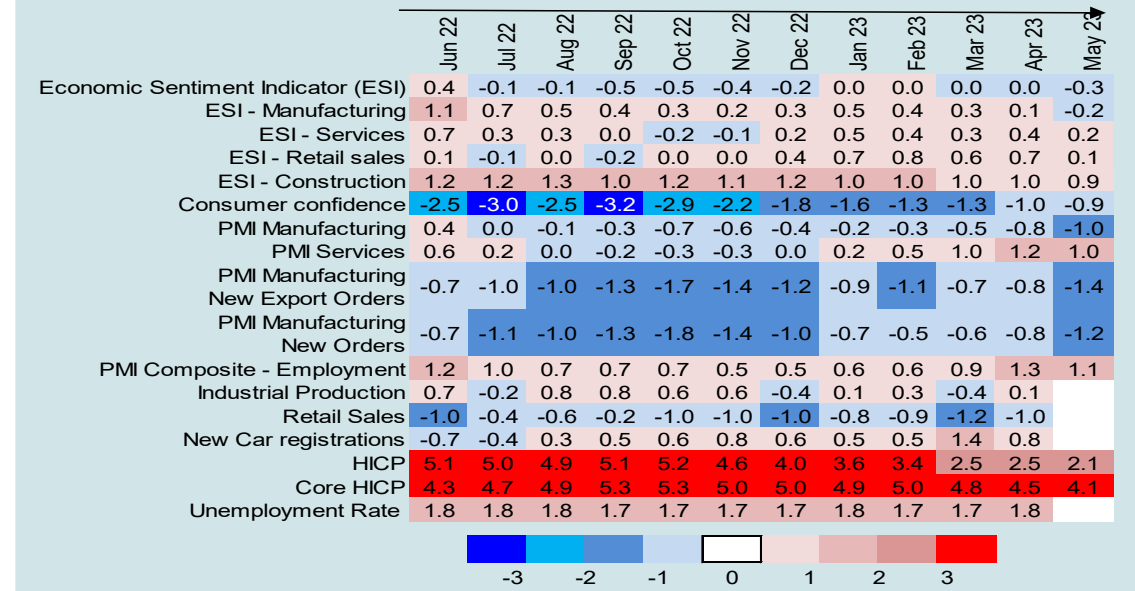
Apart from consumer confidence, which once again recovered slightly in May, business climate surveys all developed negatively. In the European Commission's Economic Sentiment Indicator (ESI), the decline was the most pronounced in retail trade, then in services, industry and, to a lesser extent, construction. In industry, this is the fourth consecutive drop, for both the ESI and the composite PMI. At 44.8, the composite manufacturing PMI is well in contraction territory and at its lowest since mid-2012 (excluding the Covid-19 period). The services PMI is significantly higher, at 55.1, but deteriorated slightly in May, for the first time since November 2022.

The situation on the labour market remains positive: a continued drop in the unemployment rate (-0.1 point to 6.5% in April), dynamic job creation (+0.6% q/q in Q1 2023), PMI "employment" component comfortably in the expansion zone (53.8) and moderate concerns among households about future unemployment.

News on the inflation front was positive in May: the headline fell 0.9 points (to 6.1% y/y) and core inflation 0.3 points (to 5.3%). The decline of the latter seems to have started, but as Isabel Schnabel points out, it is not enough for core inflation to have peaked to claim victory. Against this backdrop, the ECB opted for a further 25 bp increase in its key rates in June (bringing the deposit rate to 3.50%). It shouldn't stop there: a further 25 bp hike in July is highly likely and even as uncertainty increases, we expect a final similar rise in September.

Hélène Baudchon (completed on 21 June 2023)

Eurozone: economic indicators monthly changes

	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23
Economic Sentiment Indicator (ESI)	0.4	-0.1	-0.1	-0.5	-0.5	-0.4	-0.2	0.0	0.0	0.0	0.0	-0.3
ESI - Manufacturing	1.1	0.7	0.5	0.4	0.3	0.2	0.3	0.5	0.4	0.3	0.1	-0.2
ESI - Services	0.7	0.3	0.3	0.0	-0.2	-0.1	0.2	0.5	0.4	0.3	0.4	0.2
ESI - Retail sales	0.1	-0.1	0.0	-0.2	0.0	0.0	0.4	0.7	0.8	0.6	0.7	0.1
ESI - Construction	1.2	1.2	1.3	1.0	1.2	1.1	1.2	1.0	1.0	1.0	1.0	0.9
Consumer confidence	-2.5	-3.0	-2.5	-3.2	-2.9	-2.2	-1.8	-1.6	-1.3	-1.3	-1.0	-0.9
PMI Manufacturing	0.4	0.0	-0.1	-0.3	-0.7	-0.6	-0.4	-0.2	-0.3	-0.5	-0.8	-1.0
PMI Services	0.6	0.2	0.0	-0.2	-0.3	-0.3	0.0	0.2	0.5	1.0	1.2	1.0
PMI Manufacturing New Export Orders	-0.7	-1.0	-1.0	-1.3	-1.7	-1.4	-1.2	-0.9	-1.1	-0.7	-0.8	-1.4
PMI Manufacturing New Orders	-0.7	-1.1	-1.0	-1.3	-1.8	-1.4	-1.0	-0.7	-0.5	-0.6	-0.8	-1.2
PMI Composite - Employment	1.2	1.0	0.7	0.7	0.7	0.5	0.5	0.6	0.6	0.9	1.3	1.1
Industrial Production	0.7	-0.2	0.8	0.8	0.6	0.6	-0.4	0.1	0.3	-0.4	0.1	
Retail Sales	-1.0	-0.4	-0.6	-0.2	-1.0	-1.0	-1.0	-0.8	-0.9	-1.2	-1.0	
New Car registrations	-0.7	-0.4	0.3	0.5	0.6	0.8	0.6	0.5	0.5	1.4	0.8	
HICP	5.1	5.0	4.9	5.1	5.2	4.6	4.0	3.6	3.4	2.5	2.5	2.1
Core HICP	4.3	4.7	4.9	5.3	5.3	5.0	5.0	4.9	5.0	4.8	4.5	4.1
Unemployment Rate	1.8	1.8	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.8	

-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)		
Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q4 2022	Q2 2023	Q2 2023	Q3 2023	2022 (observed)	2023	2024
0.8	0.4	-0.1	-0.1	0.2	-0.0	0.2	-0.1	3.5	0.4	0.6

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