ECONOMIC PULSE

EUROZONE: HOW WORRIED SHOULD WE BE ABOUT RECESSION?

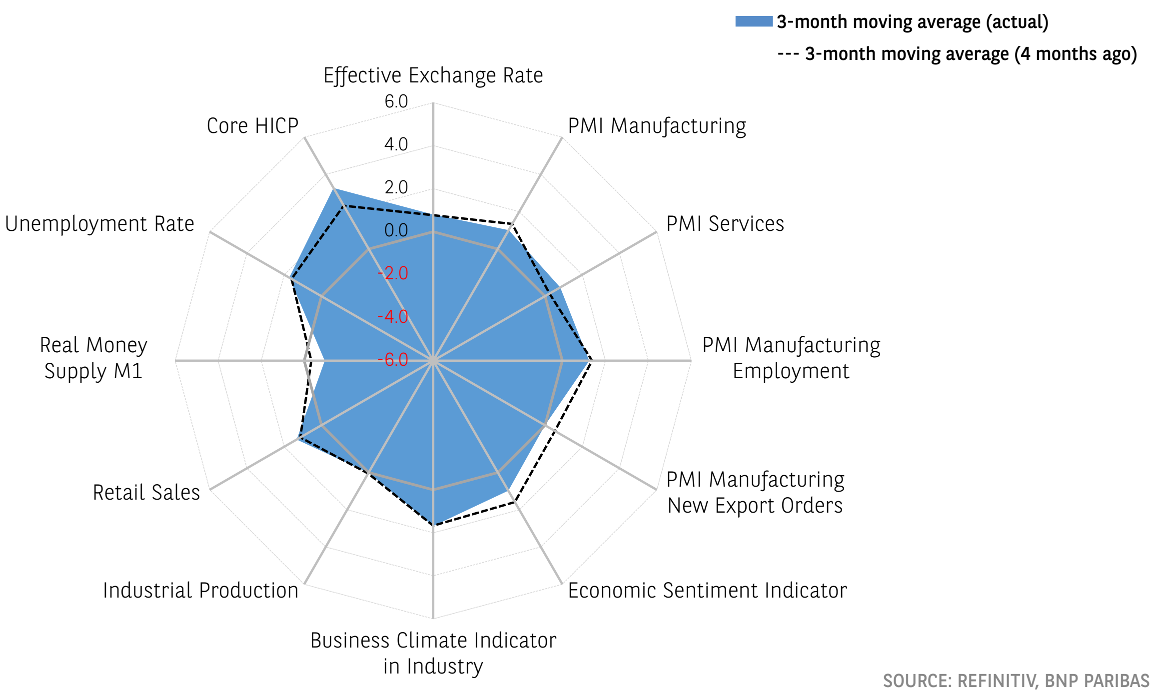
In the space of just a few months, growth prospects in the eurozone have deteriorated markedly. So much so that the risk of a recession is looming this year. Between our growth forecast from early 2021 – when it peaked at 5.5% – and our current scenario, drawn up in mid-March 2022, expected growth has been about halved; we now expect a figure of 2.8%. As recently as November 2021, we were still forecasting 4.2%. This figure of 2.8% still looks very high, as it is well above the long-term trend rate of 1.6% per year on average between 1996 and 2019. However, it relies on an exceptionally high growth carry-over of 2.1% in Q1 2022 and, for the subsequent quarters, on projected weak but positive growth. However, since mid-March, downside risks have increased, particularly due to the amplification of the inflationary shock, and the probability of a recession has increased. According to Eurostat's first estimate, eurozone growth was slightly positive in Q1 2022, at 0.2% q/q. This figure is only marginally below our expectations (0.3% q/q) but is made to look weaker by the contrasting situation of the area's four biggest economies: a 0.2% q/q contraction in Italian GDP, stagnation in France, and very modest GDP growth in Germany and Spain (0.2% and 0.3% q/q respectively). Moreover, behind the headline number, the marked decline in household consumption in France (-1/3% q/q) and Spain (-3.7% q/q) does not augur well.

Turning to the early part of Q2, survey data looks mixed: the blue area of our Pulse only falls within the dotted lines on a small number of indicators and even then to a relatively limited scale at this stage. The composite PMI has improved slightly (0.9 of a point, to 55.8), with a marked improvement in the services component (up 2.1 points, to 57.7) winning out over a fresh drop in the manufacturing component (down 2.4 points, to 50.7). The European Commission's Economic Sentiment Indicator (ESI), however, recorded a further fall (-1.7 points), although this was a much smaller drop than the -7.8 points seen in March. The ESI was dragged down by the confidence figures for consumers and retail businesses, behind which we must see the fears due to the inflationary shock. The surge in inflation has continued to gain scale: headline inflation increased further in April, admittedly by only 0.1 of a point (to 7.5% y/y according to Eurostat's flash estimate), but this obscures a sharp rise in core inflation (up 0.6 of a point, to 3.5% y/y).

In the labour market, however, signals remain reassuring. And there are chances that the situation will not worsen too far, despite the shocks, given the support to growth coming from the cyclical dynamic that pre-dated the war in Ukraine (the post-Covid recovery), the fiscal measures designed to mitigate inflation's impact on purchasing power, the surplus savings that remain available and the need to invest. Thanks to these various factors, any recession that does occur could prove to be no more than 'technical', that is to say limited in both scale and duration.

Hélène Baudchon

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.