

The background features a close-up of a notebook with several pages. The pages contain colorful bar charts and circular diagrams. A silver pen lies horizontally across the bottom of the notebook. The overall scene is brightly lit, suggesting a professional or analytical environment.

ECOPULSE

January 2023

MONTHLY PULSE OF ECONOMIC INDICATORS



BNP PARIBAS

The bank for a changing world

FRANCE

Winter spleen

The gradual deterioration in the business climate suggests a slowdown in French growth, which may even have fallen into negative territory in the 4th quarter, a contraction which would be consistent with the decline in the balance of opinions about production in the economic survey in industry.

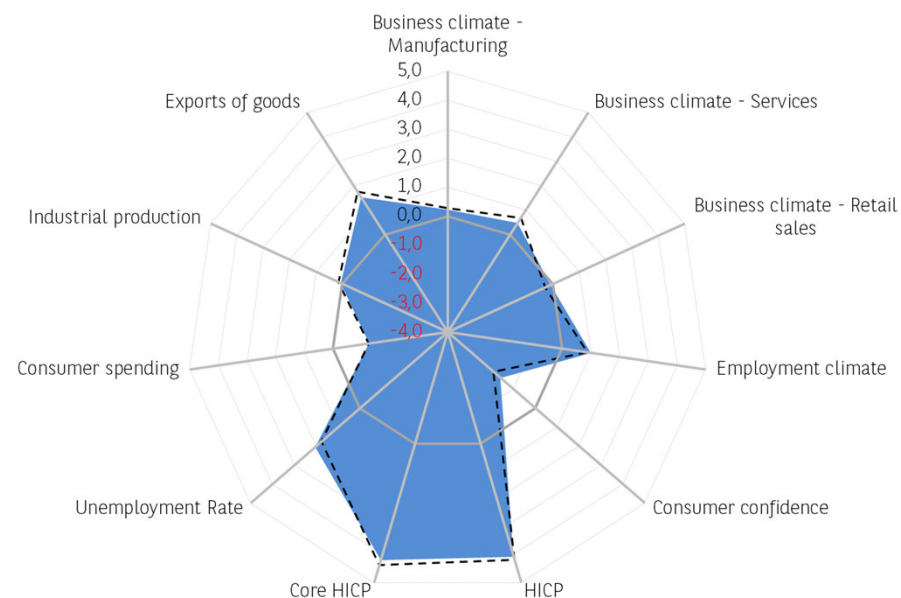
Consumer confidence has remained at a relatively low level for around 6 months. It has not improved, despite a significant upturn in purchasing power (+1% q/q in the 3rd quarter, and an estimate of +1.1% q/q in the 4th quarter). This suggests an increase in the savings rate and therefore a drop in spending.

Inflation has been fluctuating for almost 6 months around 6% year-on-year. In December, it fell to 5.9% y/y compared with 6.2% in November (in the context of the fall in energy prices). Energy prices are expected to increase from January (end of the rebate on fuel, increase in the regulated price of gas, then electricity): according to our forecasts, inflation is expected to reach 6.5% in February.

At this point the deterioration in the business climate has not affected the labour market, which continues to be dominated by recruitment difficulties which in turn support employment. Furthermore, wages are gradually increasing, and these increases are expected to strengthen further in 2023 (+5%, after +3.4% as an annual average in 2022 according to our forecasts).

In relation to the 4th quarter, our forecast anticipates negative growth (-0.2% q/q), underpinned by the fall in energy consumption (and the stagnation in other items) as well as in industrial production (after a good 3rd quarter). However, in the latest indicators (business climate, exports) we see somewhat positive surprises in November (after much more negative indicators in October), elements which are reflected by our growth proxy (nowcast), which would suggest a more modest fall (-0.1% q/q).

Economic indicators 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 -4 and +5. 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.

GDP growth q/q: actual, carry-over and forecasts

Actual			Nowcast	Forecast	Carry-over	Forecast			Carry-over	Annual growth forecasts (y/y)		
Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q4 2022	end 2022	Q1 2023	Q2 2023	mid 2023	2022	2023	2024	
-0,2	0,5	0,2	-0,1	-0,2	0,1	-0,4	0,2	-0,2	2,5	0,0	1,0	

See the Nowcast methodology page 11

NOWCAST METHODOLOGY

Near real-time forecasting ("nowcast") models, also labeled as GDP forecasting models through a direct approach, are commonly used by economic analysts who monitor developments in GDP growth on a daily basis before the publication of quarterly national accounts.

These models allow an estimation of GDP growth using data already published at the time of the nowcast. It offers the most reliable possible picture of the economy's dynamics for the current quarter, before the publication of quarterly national accounts. The sophistication of near real-time GDP forecasting models has increased significantly, and the data used has been enhanced with, in particular, the integration of Google queries, articles published in different media, satellite images, credit card spending data, etc.

We use a factor-augmented mixed-frequency approach based on real economic data (industrial production, retail sales, etc.), data from opinion and economic surveys (S&P Global's PMI, European Commission survey, etc.), international and financial data.

The factor-augmented mixed-frequency approach is estimated in two stages. First of all, we reduce the dimensionality of our monthly data through a principal component analysis (PCA). This statistical technique makes it possible to estimate, by linear combination of the initial variables, a monthly factor which represents the common dynamic. Then we use this monthly common factor to explain quarterly growth using mixed-frequency linear regression (MIDAS¹).

¹ The MIDAS model makes it possible to estimate a low-frequency variable (quarterly in our case) with high-frequency variables (monthly).

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