MARCH SURVEY DATA: US RESILIENCE AND EUROZONE GETTING READY FOR A RECOVERY IN GROWTH

The S&P Global manufacturing PMIs for the month of March point towards a pickup in economic momentum in most countries. In the Eurozone, the improvement is strong, especially in manufacturing and to a lesser degree in services. Momentum is slow however in terms of employment. In the US, the recent pickup in manufacturing sentiment is also strong compared to history. Against the background of these and other strong data, Fed officials have insisted on the need for caution in cutting rates, all the more so considering that the pace of disinflation has clearly slowed. The US soft landing view is increasingly being challenged and 'no landing' is put forward as an alternative. In the Eurozone on the other hand, with disinflation continuing, all is set for the rate cutting cycle to start in June. It is also getting ready for a recovery in growth. The soft landing scenario in the Eurozone seems to be confirmed.

Survey data for the month of March point towards a broad-based pickup in the economic momentum.[1,2] The S&P Global manufacturing PMIs show that most countries see an improved sentiment. Momentum is negative in Mexico, the UAE and Saudi Arabia but the level of the respective PMIs remains well above 50, which corresponds to expanding activity. Only two countries -Japan and Egypt- suffer from weaker confidence and a PMI below 50.

Focusing on the Eurozone, the improvement is strong, especially in manufacturing where momentum is at the 87th percentile of the historical distribution, whereas in services momentum is at the 78th percentile.[3] The improvement is broad-based with, in manufacturing, very high scores for new orders and the quantity of purchases. In services, business expectations and the assessment of new business opportunities have picked up markedly. Momentum in terms of employment on the other hand is slower in both services and especially manufacturing. This may reflect that due to labour hoarding, companies have enough staff to meet the expected increase in demand.[4] In such case, productivity would improve, which would be welcomed by companies given the pressure coming for wage growth. In terms of inflation, input price momentum has increased in manufacturing, which may be related to the consequences of the supply disruption from the attacks in the Red Sea. Output price momentum on the other hand is only slightly positive. This also applies to services where, importantly, input price momentum is negative, reflecting that an increasing number of companies are reporting an easing of input price pressures. However, the level remains very elevated and shows that most companies continue to face rising input prices.

These data confirm the picture offered by the European Commission's surveys. In March, economic sentiment -a composite indicator of the opinions in industry, services, retail trade, construction as well as consumer confidence- picked up to 96.3 from 95.5 the month before. All components except the construction sector saw an improvement. Although it's still below the long-term average of 100, since December of last year, the improvement since December of last year is significant compared with the low readings have been well above those seen between July and November.

In the US, the recent pickup in manufacturing sentiment is also strong compared to history. The momentum of the manufacturing PMI is at the 90th percentile of the distribution. Except for delivery times, which are stable, all series display an improvement in recent months. Companies have become significantly more positive on the new orders they receive.

PMI MANUFACTURING

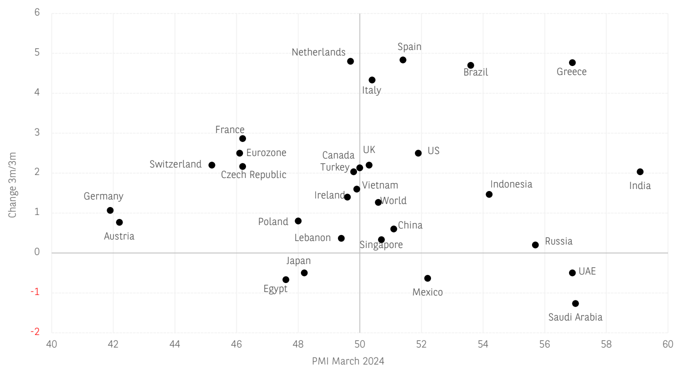

CHART 1 SOURCE: S&P GLOBAL, BNP PARIBAS

Contrary to what we observe in the Eurozone, the reading is also positive for the employment survey. In services, momentum is also positive albeit less strong, with a PMI at the 68th percentile[5]. The employment survey is evolving sideways. Input prices and output prices remain well above 50 -the former being close to 60- and reflect ongoing price pressures but momentum is slightly negative. The opposite holds for manufacturing where an increasing number of companies report higher prices. The Institute for Supply Management (ISM) surveys for March paint a similar picture with strong manufacturing momentum -82th percentile of the historical distribution- and less strong non-manufacturing momentum at the 71th percentile. The Federal Reserve Bank of Atlanta's nowcast neatly summarises the message from a broader range of data. Real GDP growth -quarter-on-quarter, seasonally adjusted annualised rate- is expected at 2.5% in the first quarter of this year, which is a robust performance given the level of interest rates. Against this background, the need for caution in cutting rates expressed recently by Fed board members as well as regional Federal Reserve presidents should not come as a surprise. The very strong March labour market report -303K new jobs, largely beating the Bloomberg consensus forecast of 212K; unexpected decline of the unemployment rate from 3.9% to 3.8%- will intensify the debate within the FOMC, implying that 3 cuts this year can no longer be taken for granted, all the more so considering that the pace of disinflation has clearly slowed.[6]

1 Momentum is calculated as the difference between the average of the three most recent observations and the average of the previous three observations (using non-overlapping data).
2 For a comprehensive "heatmap" view of the latest PMI data, see the Economic Pulse, page 7 and 8 in this issue of EcoWeek.
3 Data since December 1998.
4 A more negative interpretation would be that the employment survey is reacting with a lag to the weakness in demand. This would bode badly for the labour market outlook.
5 Data from the Institute for Supply Management (ISM) since December 1997 provide a similar picture, with manufacturing momentum in the 82nd percent of distribution while it is in the 71st percent for non-manufacturing.
6 For more detail see Inflation Tracker - March 2023 | Resistance to the downside (bnpparibas.com).

This explains why the soft landing view is increasingly being challenged and why 'no landing' is put forward as an alternative.[7] A priori, fewer rate cuts shouldn't matter that much for the real economy -after all it would be a sign of ongoing strength- but financial markets, where pricing has been based on the view that policy easing was coming, may look at this differently. In the Eurozone on the other hand, with disinflation continuing, all is set for the rate cutting cycle to start in June. It is also getting ready for a recovery in growth. The soft landing scenario in the Eurozone seems confirmed.

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7 To illustrate this point, the latest Duke University CFO survey, published on 27 March 2024, was entitled 'What landing?'.

EUROZONE PMI

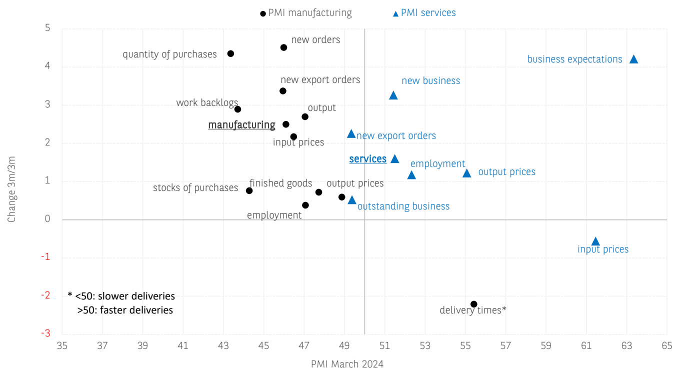

CHART 2

SOURCE: S&P GLOBAL, BNP PARIBAS

US PMI

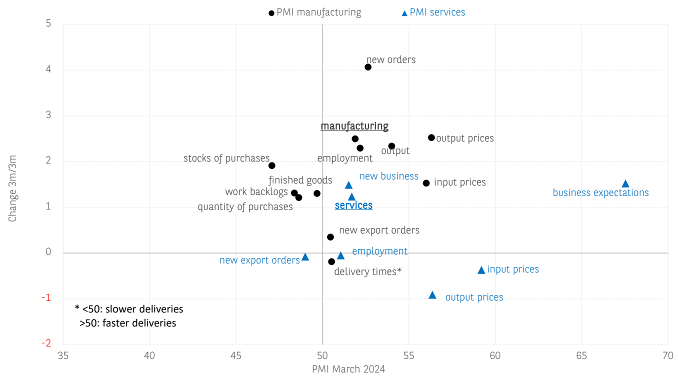

CHART 3

SOURCE: S&P GLOBAL, BNP PARIBAS