ECOPULSE

September 2023

MONTHLY PULSE OF OECD COUNTRIES'ECONOMIC INDICATORS

BNP PARIBAS

The bank for a changing world

In August and September, the economic indicators of the main OECD economies point to a downturn. Business climate surveys in the UK and the euro zone - and especially in Germany and France - point to an already marked weakening of the economy. In the United States, this is expected, particularly by households. We predict this will happen from Q4 onwards. Japan is the exception, with the Services PMI remaining high.

At the same time, disinflation stalled in August. The upturn in oil prices has driven up the contribution from energy, a phenomenon also accompanied, in France, by an increase in the regulated electricity tariffs. Also at the same time, core inflation continued to fall, whilst remaining high, with disinflation on services' prices remaining marginal. Nevertheless, inflation should start to drop again more significantly in the coming months (assuming that the rise in oil prices is not much sharper) given the disinflationary pressures elsewhere. Against this backdrop, the cycle of rate hikes is coming to an end: this could already be the case for the ECB or the Fed, and imminently for the BoE, but with a greater degree of uncertainty.

The labour market seems less under pressure, with job creation rates moderating to varying degrees: still limited in the United States, more pronounced in Germany and France. While this slower employment momentum reflects the slowdown in growth, the labour market remains tense with unemployment rates staying at historically low levels. Wage increases remain sustained and, with falling inflation, are about to overtake price increases.

EUROZONE: LOSING MOMENTUM

GERMANY: HEADING TOWARDS A 2ND RECESSION IN THE SECOND HALF OF THE YEAR?

FRANCE: DETERIORATION IN INDUSTRY

ITALY: INFLATION IS FINALLY ABATING

SPAIN: THE COUNTRY REMAINS THE PRINCIPAL GROWTH DRIVER IN THE EUROZONE

UNITED STATES: MORE SIGNS OF EASING IN THE LABOUR MARKET

UNITED KINGDOM: SIGNS OF DETERIORATION ARE INCREASING

JAPAN: INFLATION SETS IN AND WEIGHS ON DOMESTIC DEMAND

EUROZONE

Losing momentum

After proving resilient, the PMI surveys for the services sector are deteriorating more significantly. The indicator lost 3 points in August to 47.9, the lowest level seen since February 2021. In particular, the sub-indices relating to employment and new business creation fell significantly. In the manufacturing sector, the PMI rose slightly (+0.8 points to 43.5 points), but still indicates a significant downturn in industrial activity. Industrial production has indeed fallen since the beginning of the year, but not as sharply as suggested by business surveys. Activity in the industries most affected by rising energy prices (chemicals, metallurgy) contracted significantly. This was partly offset by a rebound in transport equipment production. However, weak demand is increasingly slowing company production, according to the European Commission's quarterly survey. At the same time, supply shortages (equipment, labour) are easing but remain significant.

These less encouraging outlooks on the corporate side are not currently reflected in household confidence, which has been moving in the opposite direction to inflation for nearly two years. Consumer confidence has therefore improved over the past few months, in line with the slowdown in consumer prices. The Harmonized Index of Consumer Prices (HICP) fell back to 5.2% y/y in August, at a pace marginally below core inflation (5.3% y/y). However, the fall in headline inflation is beginning to stall, after several months of decline, as energy deflation recedes.

The labour market in the eurozone continued to be resilient in July, as the unemployment rate remains stable at 6.4%. We do not foresee a recession in the eurozone, but a stagnation of activity in H2, followed by a slight recovery in 2024. At 0.6% as an annual average in 2023, our growth forecast is similar to the OECD forecast (as at 19 September), but slightly lower than the projections of the ECB (0.7% as at 14 September) and the European Commission (0.8% as at 11 September). Similarly to 2022, dynamics will be far from uniform among eurozone countries in 2023. Germany and, to a lesser extent, France should push growth figures down, while Italy, and especially Spain, should provide the main support for growth.

Guillaume Derrien (completed on 20 September 2023)

Eurozone: economic indicators monthly changes

	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23
Economic Sentiment Indicator (ESI)	-0,5	-0,5	-0,4	-0,2	0,0	0,0	-0,1	-0,1	-0,3	-0,4	-0,5	-0,6
ESI - Manufacturing	0,4	0,3	0,2	0,3	0,4	0,4	0,3	0,0	-0,2	-0,4	-0,6	-0,8
ESI - Services	0,0	-0,2	-0,1	0,2	0,4	0,3	0,3	0,4	0,2	0,0	0,0	-0,1
ESI - Retail sales	-0,2	0,0	0,0	0,4	0,7	0,7	0,6	0,7	0,1	0,0	0,2	0,1
ESI - Construction	1,0	1,2	1,1	1,2	1,0	1,0	1,0	0,9	0,9	0,7	0,6	0,5
Consumer confidence	-3,2	-2,9	-2,1	-1,8	-1,5	-1,2	-1,3	-1,0	-0,9	-0,7	-0,5	-0,7
PMI Manufacturing	-0,3	-0,7	-0,6	-0,4	-0,2	-0,3	-0,5	-0,8	-1,0	-1,3	-1,4	-1,3
PMI Services	-0,2	-0,3	-0,3	0,0	0,2	0,5	1,0	1,2	1,0	0,4	0,2	-0,4
PMI Manufacturing New Export Orders	-1,3	-1,7	-1,4	-1,2	-0,9	-1,1	-0,7	-0,8	-1,4	-1,4	-1,7	-1,5
PMI Manufacturing New Orders	-1,3	-1,8	-1,4	-1,0	-0,7	-0,5	-0,6	-0,8	-1,1	-1,5	-1,6	-1,6
PMI Composite - Employment	0,7	0,7	0,5	0,5	0,6	0,6	0,9	1,3	1,1	0,9	0,4	0,1
Industrial Production	0,8	0,5	0,5	-0,4	0,1	0,3	-0,4	0,0	-0,5	-0,2	-0,4	
Retail Sales	-0,2	-1,0	-1,0	-1,0	-0,8	-0,9	-1,1	-1,0	-0,9	-0,5	-0,4	
New Car registrations	0,5	0,6	0,8	0,6	0,5	0,5	1,4	0,8	0,9	0,8	0,7	1,0
HICP	5,1	5,2	4,6	4,0	3,6	3,4	2,5	2,5	2,0	1,7	1,6	1,6
Core HICP	5,3	5,4	5,0	5,0	4,9	5,0	4,8	4,5	4,1	4,1	3,9	3,6
Unemployment Rate	1,7	1,7	1,7	1,7	1,7	1,7	1,8	1,8	1,8	1,8	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)		
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	0,5	0,0	0,0	0,0	3,4	0,5	0,9

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

GERMANY

Heading towards a 2nd recession in the second half of the year?

While Germany is barely coming out of a recession recorded in Q4 2022 and Q1 2023, economic surveys emphasise the risk that the country will fall back into recession in H2. The deterioration identified by IFO's business climate is clear (85.7 in August, returning to its low level of October 2022), both in industry and services. In the ZEW survey, the current business conditions indicator fell to -79.4 in September. In the past, such a level has always resulted in negative growth.

Household confidence, measured by the GFK index, has stabilised at a historically low level for five months. In September, it is approaching -25.5, the same level it was in May. Although it has recovered from its low of -42.8 (October 2022), driven by a fall in inflation, it remains very deteriorated compared to its average pre-Covid level (+6 between 2001 and 2019). In addition, the proportion of households deeming a significant purchase in the immediate future appropriate continues to fall, reaching an all-time low in August 2023 at 5.8% (according to the European Commission). This deterioration should weigh on household consumption, while it was already 2% below its pre-Covid level in Q2.

The latest data showed a stabilisation of inflation at a still high level (6.4% y/y in August 2023, compared to 6.3% in May), highlighting the lack of momentum, at this stage, in the direction of disinflation beyond energy and food prices. Inflation in services has therefore exceeded 5% since June (5.1% in August), a first since the country's reunification.

With 42,000 jobs created in Q2 2023 (after two quarters at over 100,000 net jobs created), the loss of momentum is more pronounced on the labour market side than on the inflation side. The IFO survey's employment climate fell to 97 in August, a level that had not been reached since June 2010 (excluding the Covid period), suggesting a further slowdown.

Given these negative factors, we expect a GDP contraction in Q3 and Q4 (-0.1% q/q each time). After a recession at the turn of 2022-2023 and zero growth in Q2 2023, the economy is going through a prolonged period of underperformance, with Germany being one of the few countries where GDP is below its level before the start of the war in Ukraine (-0.2% between Q1 2022 and Q2 2023).

Stéphane Colliac (completed on 21 September 2023)

Germany: economic indicators monthly changes

	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23
IFO Business Climate Manufacturing	-1,4	-1,4	-1,2	-0,9	-0,6	-0,5	-0,1	-0,1	-0,6	-1,2	-1,4	-1,6
IFO Business Climate Services	-2,3	-2,3	-2,0	-1,6	-1,5	-1,4	-0,7	-0,9	-0,9	-1,2	-1,4	-1,8
IFO Business Climate Trade	-2,0	-1,9	-1,6	-1,2	-0,9	-0,6	-0,5	-0,6	-1,1	-1,2	-1,4	-1,5
IFO Business Climate Construction	0,9	0,9	0,6	0,6	1,0	1,3	0,3	0,2	0,6	1,5	0,5	
GFK Consumer Confidence	-5,6	-5,9	-5,4	-4,9	-4,4	-3,9	-3,5	-3,3	-2,8	-2,7	-2,7	-2,6
Industrial Production	0,5	-0,1	0,0	-0,5	-0,3	0,0	0,3	0,2	0,0	-0,2	-0,4	
Industrial Orders foreign	-1,2	-0,3	-1,1	-0,8	-1,2	-0,7	-1,0	-0,9	-0,6	0,3	-1,0	
New Orders Construction	-2,8	-1,6	-1,5	-2,8	-2,5	-1,8	-2,3	-1,1	-0,6	-0,3		
Retail sales	-0,5	-2,1	-2,2	-2,3	-2,4	-2,3	-2,9	-1,6	-1,0	-0,6	-1,1	
Core HICP	4,7	5,1	4,7	4,8	4,3	4,5	4,8	4,3	3,7	4,4	4,4	4,2
Unemployment Rate	1,0	1,1	1,1	1,0	0,9	0,9	0,8	0,8	0,9	0,9	0,8	0,8

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GDP growth

Actual				Carry-over	Forecast		Annual forecasts (y/y)		
Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q4 2022	Q3 2023	Q4 2023	2022 (observed)	2023	2024
0,4	-0,4	-0,1	0,0	-0,2	-0,1	-0,1	1,9	-0,3	0,3

Source: Refinitiv, BNP Paribas

FRANCE

Deterioration in industry

The first hard data for July were relatively good (manufacturing production up 0.7% m/m). Nevertheless, economic surveys point to a deterioration. Insee's business climate indicator was stable at 100 during the last 5 months (from May to September), while manufacturing confidence was below 100 during the last 2 months (99 in September) which itself was particularly affected by the deterioration in the indicator relating to recent production (-6 in September et -4 in August, compared to +9 in July), especially in the transport equipment sector.

While the business climate trend is deteriorating, the trend is improving for household confidence, which has recovered by a few points in recent months (to 85 points in August, although still 15 points below its historical average). However, the improvement is more limited in terms of willingness to buy. In this way, households are continuing to save a lot (18.8% of their gross disposable income in Q2), not so much as a precaution, because they have little fear of unemployment (opinion balance at 16 in August versus 33 as a historical average), but because high rates reduce immediate purchasing opportunities.

Against this backdrop, the rebound in inflation in August has come at a bad time (from 5.1 to 5.7% y/y according to the harmonised index). It comes from the energy component, with a monthly increase of almost 7%, a figure close to that of March, June or October 2022, when this development had an impact on consumption. However, disinflation remains in place, but it remains unevenly distributed. Inflation on manufactured goods and services, at 3.1 and 3% y/y respectively in August, is 1 pp below its average level over the past 12 months for the former and close to this level for the latter.

Apart from the exceptional factors related to transport equipment that buoyed growth in Q2, the rest of the economy experienced a stagnation that is beginning to be reflected in labour market developments. Job creation was more moderate in Q2 (21,000 compared to 102,000 in Q1) and the Insee employment climate fell significantly in August to 102 – still in the expansion zone, but indicating that job creation is expected to weaken in H2.

We expect growth to suffer a reversal in Q3 and GDP to decline by -0.2% q/q, after the positive surprise in Q2 (+0.5% q/q). Exports of transport equipment, which were very high in Q2, should be slightly lower in Q3. Moreover, the rest of the economy shows a momentum close to stagnation. However, there is an upside risk, underlined by the various indicators already published and summarised by our nowcast (+0.2% q/q).

Stéphane Colliac (completed on 21 September 2023)

France: economic indicators monthly changes

	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23
Business climate Manufacturing	0,3	0,4	0,2	0,1	0,2	0,4	0,4	0,1	-0,1	0,0	0,1	-0,4
Business climate Services	0,6	0,5	0,4	0,4	0,4	0,5	0,5	0,3	0,2	0,2	0,2	0,1
Business climate Construction	0,8	0,9	0,8	0,9	0,9	0,7	0,7	0,7	0,5	0,4	0,3	0,4
Business climate Retail sales	-0,3	-0,3	-0,4	-0,1	-0,1	0,0	-0,3	0,0	-0,3	0,2	0,6	0,5
Employment climate	1,0	0,9	0,8	1,0	1,1	1,0	1,0	1,0	0,7	0,6	0,5	0,0
Consumer confidence	-2,0	-1,6	-1,4	-1,6	-1,6	-1,6	-1,7	-1,5	-1,5	-1,2	-1,2	-1,2
HICP	3,7	4,2	4,1	3,7	3,8	3,9	3,3	3,4	2,8	2,3	2,1	2,5
Core HICP	3,9	4,3	4,2	4,2	4,0	4,3	4,1	4,2	3,6	3,6	3,3	3,0
Unemployment Rate	2,0	1,9	1,9	1,9	2,0	1,9	1,9	1,7	1,7	1,7	1,6	
Consumer spending	-0,7	-1,5	-1,3	-1,6	-1,1	-1,1	-1,0	-1,2	-1,0	-0,8	-0,4	
Industrial production	0,3	-0,4	0,1	0,3	-0,3	0,2	0,1	0,3	0,4	0,0	0,5	
Exports of goods	1,9	1,5	1,1	1,1	-0,1	0,7	0,5	0,2	0,6	0,1	0,2	

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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	0,0	0,5	0,8	0,2	-0,2	0,0	2,5	0,7	0,5

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

ITALY

Inflation is finally abating

Italy is still facing mixed developments but is likely to take advantage of the ongoing decrease of inflation.

The Composite PMI weakened to 48.2 (-0.7pp) in August due to a sharp decline in the Services index, which crossed the contraction threshold for the first time in 2023 (49.8, -1.7pp). The Manufacturing sector reported a fifth consecutive month in contraction, despite a slight upturn (45.4, +0.9pp).Improved production conditions (delivery times, input prices) were not matched by either a brighter outlook or sustainably higher output. This is reflected by the decline in the value added of the sector in the national accounts for four quarters in a row.

Employment has displayed resilience despite the economic slowdown, with the unemployment rate standing at 7.6% in July (-0.3pp YTD), although the month was statistically disappointing (+0.1pp). This is well below the pre-Covid levels, but structural weaknesses remain, such as the differential in employment and participation rates between men and women (about 18pp). The basic hourly wage growth slowed to +3.2% y/y in July (-0.1pp) but still narrowed the gap with the price growth.

The good news lies in the significant ease of inflation over the summer, as HICP decelerated from 6.7% y/y in June to 5.5% in August and turned closer to the Eurozone average (5.2% y/y, whereas the gap reached 3.1 pp in December 2022). These positive developments are further reinforced by the underlying inflation (4.0% y/y), which is significantly lower than the Eurozone overall (5.3% y/y). Besides, Italian inflation is expected to be close to the 2% target in Q4.

This should bolster household sentiment which, despite a slight summer dip (106.5 in August vs. 108.6 in June), stands above the past year average (100.7). This contrasted with the downward trend in business sentiment (97.8 in August, -1.3 pp monthly).

Finally, the combination of a downturn in investment (-1.8% q/q) and a subdued private consumption, amid higher prices and interest rates, resulted in a surprise contraction of GDP in Q2 (-0.4% q/q), amplified by the negative contribution of public spending (-1.6% q/q). This could constitute a technical backlash following the good Q1 figure (+0.6% q/q), which is in turn likely to prompt a rebound in Q3, and thereby allow the country to escape a technical recession.

Anis Bensaidani (completed on 20 September 2023)

Italy: economic indicators monthly changes

	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23
Business climate - Manufacturing	0,3	0,4	0,0	0,3	0,4	0,2	0,5	0,6	0,2	-0,1	-0,2	0,1
Business climate - Construction	2,0	2,0	1,7	2,0	1,9	1,8	1,9	2,1	1,9	2,0	2,2	1,8
Business climate - Services	0,2	0,1	0,3	0,2	0,5	0,5	0,4	0,6	0,6	0,6	0,7	0,7
PMI manufacturing new export orders	-0,8	-1,2	-0,8	-0,8	-0,1	-0,2	0,1	-0,5	-0,4	-1,2	-1,0	-1,7
PMI Composite - Employment	0,3	0,5	0,7	0,4	0,5	0,5	1,0	1,3	1,2	0,6	0,0	-0,7
Consumer confidence	-1,8	-1,8	-0,4	-0,1	-0,4	-0,1	0,2	0,1	-0,1	0,1	-0,1	0,0
Industrial production	0,0	-0,1	-0,4	0,0	0,2	-0,2	-0,3	-0,7	-0,3	0,0	-0,2	
Retail sales	0,8	0,2	0,9	0,7	1,2	1,2	1,2	0,6	0,6	0,7	0,5	
Exports	1,1	1,0	1,0	0,6	0,6	0,2	-0,2	-0,3	-0,1	-0,4	-1,0	
HICP	4,6	6,0	5,5	5,1	4,1	3,6	2,8	2,9	2,6	2,0	1,8	1,5
Core HICP	3,8	3,9	3,9	3,9	4,2	4,3	3,9	3,8	3,5	3,2	3,0	2,3
Employment	0,9	1,3	0,8	1,0	1,2	1,0	0,8	0,9	0,9	0,9	0,8	
Unemployment Rate	0,7	0,8	0,8	0,8	0,7	0,8	0,8	0,8	0,8	0,9	0,9	
Wage	-0,6	-0,4	-0,2	-0,2	0,4	0,4	0,4	0,7	0,6	1,4	1,2	

-3 -2 -1 0 1 2 3

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GDP growth

Actual				Carry-over	Forecast		Annual forecasts (y/y)		
Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q4 2022	Q3 2023	Q4 2023	2022 (observed)	2023	2024
0,4	-0,2	0,6	-0,4	0,7	0,3	0,1	3,8	0,9	1,1

Source: Refinitiv, BNP Paribas

SPAIN

The country remains the principal growth driver in the eurozone

The slowdown in activity in the second half of 2023 should be contained: real GDP growth would only decline from +0.4% q/q in Q2 2023 to +0.3% q/q in Q3, and +0.2% q/q in Q4. The deterioration in the PMI surveys is continuing in both the manufacturing sector (46.5 in August) and the services sector (49.3). However, private consumption is resilient thanks to an ever-expanding labour market and a recovery in household confidence since spring. Nevertheless, job creation is coming down, owing to the slowdown in activity. The downside risks to activity remain significant, as the effects of rising interest rates are leading to an increasingly sharp contraction in credit to households and companies.

After months of decline attributable to falling energy prices, inflation rebounded this summer, up from 1.8% y/y in June to 2.6% y/y in August. Although Spain remains one of the countries in the eurozone where inflation is the lowest, prices should continue to rise more quickly over the next few months: the increase in oil prices should increase fuel prices, which have already jumped by more than 5% m/m in August. Furthermore, inflationary pressures in services are not abating: excluding rents, the annual increase in the services CPI fell slightly from 4.8% to 4.7%, but the 3m/3m annualized rate rose to 5.8%, the highest in more than 20 years. Wages rose moderately (3.4% year-on-year in August according to branch agreements communicated by the government); so far, this is sufficient to support households' purchasing power.

With real GDP growth now forecast at 2.2% over 2023 as a whole, Spain should remain one of the drivers of the euro zone this year, for which we forecast growth of 0.6%. In addition, the INE updated the national accounting data for the 2020-2022 period on 18 September. It led to significant upward revisions of GDP growth for 2021 and 2022 (and a slight improvement for 2020). The revisions for these two years went from 5.5% to 6.1% and from 5.5% to 5.8% respectively. This increase reconciles somewhat the GDP statistics with the evolution in the labour market. These changes highlight the difficulties facing statisticians in accurately assessing activity during the pandemic and the following months.

Guillaume Derrien (completed on 21 September 2023)

Spain: economic indicators monthly changes

	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23
Business climate - manufacturing	0,3	0,4	0,0	0,3	0,4	0,2	0,5	0,6	0,2	-0,1	-0,2	0,1
Business climate - construction	0,9	1,3	1,2	1,4	0,4	1,2	0,9	1,2	1,2	1,2	1,2	0,7
Business climate - services	0,2	0,1	0,3	0,2	0,5	0,5	0,4	0,6	0,6	0,6	0,7	0,7
PMI manufacturing new export orders	-1,6	-1,9	-1,7	-1,4	-0,7	-0,1	-0,2	-0,6	-0,9	-0,8	-1,3	-1,4
PMI Composite - e	-0,1	-0,1	0,0	0,3	0,0	0,4	0,7	1,1	0,9	0,6	0,5	0,4
Consumer confidence	-1,6	-1,5	-1,1	-0,9	-0,6	-0,5	-0,7	-0,4	-0,4	0,0	0,5	0,1
Industrial production	0,6	0,4	0,0	0,1	0,1	0,1	0,6	-0,1	0,0	-0,4	-0,2	
Retail sales	1,5	1,3	0,8	1,6	2,1	1,7	2,1	1,8	1,7	1,5	1,6	
Exports	1,3	0,7	1,4	0,8	0,8	0,3	0,9	-1,0	-0,8	-0,7		
HICP	3,2	2,4	2,1	1,5	1,7	1,7	0,4	0,7	0,3	-0,3	0,0	0,1
Core HICP	3,1	2,8	2,4	2,4	3,2	3,2	2,7	2,2	1,9	1,8	2,4	2,3
Employment	0,7	0,6	0,5	0,4	0,4	0,4	0,5	0,6	0,5	0,5	0,5	0,5
Wage	1,8	1,6	1,8	2,0	0,8	0,5	0,6	0,6	0,7	0,6	0,6	0,6
Unemployment Rate	0,6	0,6	0,6	0,6	0,6	0,7	0,7	0,8	0,8	0,8	0,9	

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	Forecast		Annual forecasts (y/y)		
Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q4 2022	Q3 2023	Q4 2023	2022 (observed)	2023	2024
0,4	0,4	0,5	0,4	2,0	0,3	0,2	5,5	2,2	1,5

Source: Refinitiv, BNP Paribas

UNITED STATES

More signs of easing in the labour market

The United States has observed an improvement in the business climate in August, which should postpone the risk of recession for a few more months. The ISM Manufacturing rose by 1.2 pp and reached 47.6. However, the index has been well in contraction territory since November 2022, the longest period since the GFC. The renewed decline in the "New Orders" sub-component (46.8) and the fact that no sub-component stands above the 50 threshold hint that the progress remains weak and insufficient to impulse a swift and sustainable return into the expansion zone. The ISM Non-Manufacturing climbed to 54.5 (+1.8 pp), an improvement broad-based across all of the main sub-components, with a notable jump in 'Employment' (54.7, +4.0pp).

The Conference Board index of household sentiment went the other way and dipped to 106.7 (-7.9 pts). This fall is driven by the deterioration in the consumers' assessment of current conditions (144.8, -8.2 pts) and their expectations for the coming six months (-7.8 pts, to 80.2). The strong divergence between these two assessments is considered as a recessionary signal.

The labour market continued to show signs of softness. In August, non-farm job creations amounted to 187k, which was admittedly an improvement from June (+105k) and July (+157k), but also a sharp slowdown comparing with the average of the three prior months (+241k between February and May 2023, +150k between June and August). The unemployment rate edged up to 3.8% (+0.3 pp) amid a rebound in the participation rate (62.8%, the highest level since February 2020), thus strengthening the idea that a rebalancing of the labour market was in progress, enabled by higher supply.

Inflation was rather disappointing in August, up 0.4 pp to +3.7% y/y, due to a surge in gasoline prices (+10.6% m/m). The Core CPI (on a seasonally adjusted basis) has kept falling however, by 0.4 pp to +4.3%. The Fed decided to keep unchanged its policy rates as the outcome of the September meeting and reached the terminal rate according to our baseline scenario, but risks are tilted to the upside and the median Committee member sees another +25 bps before the end of 2023. The US 10-Year yield rose to a 16-year record high (around 4.40%).

The Atlanta Fed's nowcast estimates a high +1.5% q/q growth in Q3 (from a downward revised +1.1% q/q in Q2), supported by private consumption and residential investment as the latter benefits from the constrained supply of existing homes. Our own forecast is less bullish (+0.7% q/q).

Anis Bensaidani (completed on 20 September 2023)

United States: economic indicators monthly changes

	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23
ISM Manufacturing	0,2	0,0	-0,2	-0,3	-0,5	-0,5	-0,8	-0,6	-0,6	-0,8	-0,7	-0,5
ISM Services	1,4	1,1	1,3	-0,2	1,2	1,2	0,3	0,5	0,1	0,9	0,6	1,1
ISM Services - Employment	0,4	-0,2	0,1	-0,1	0,0	0,8	0,3	0,2	-0,2	0,6	0,1	0,9
ISM Manufaturing - Employment	-0,1	0,0	-0,2	0,1	0,1	-0,2	-0,5	0,0	0,2	-0,3	-1,0	-0,3
Consumer confidence (Univ. of Michigan)	-1,9	-1,8	-2,0	-1,8	-1,4	-1,2	-1,6	-1,4	-1,8	-1,3	-0,8	-0,9
Consumer confidence (Conf. Board)	0,6	0,4	0,4	0,7	0,6	0,5	0,5	0,5	0,4	0,7	0,9	0,5
Industrial production	0,8	0,5	0,2	0,0	0,2	0,0	-0,1	-0,1	-0,2	-0,2	-0,2	-0,1
Building permits	0,6	0,5	0,2	0,2	0,1	0,4	0,3	0,3	0,4	0,3	0,3	0,5
Retail Sales	0,8	0,7	0,3	0,2	0,5	0,1	-0,4	-0,5	-0,4	-0,5	-0,3	-0,3
New Car registrations	0,1	1,0	0,6	0,0	0,5	0,1	0,6	0,7	1,1	1,0	1,5	
Nominal Real Personal Consumption	0,0	-0,2	-0,3	-0,1	0,1	0,1	-0,1	0,0	0,0	0,1	0,3	
Household purchasing power	-1,3	-1,2	-1,1	-1,0	0,1	0,2	0,4	0,5	0,6	0,7	0,4	
PCE deflator	2,9	2,8	2,4	2,1	2,1	1,9	1,3	1,4	1,0	0,5	0,7	
Core PCE deflator	3,7	3,5	3,1	2,8	2,8	2,8	2,7	2,6	2,5	2,0	2,2	
CPI	3,1	2,8	2,5	2,1	2,0	1,8	1,3	1,2	0,8	0,3	0,4	0,6
Core CPI	4,3	3,9	3,5	3,1	2,9	2,9	2,9	2,8	2,5	2,1	2,0	1,7
Nonfarm Payrolls	1,1	1,0	0,9	0,8	0,9	0,7	0,6	0,6	0,6	0,5	0,4	0,4
Unemployment Rate	1,2	1,1	1,2	1,2	1,3	1,2	1,2	1,2	1,1	1,1	1,2	1,0

-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	GDPNow	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
0,8	0,6	0,5	0,5	1,7	1,4	0,7	0,1	2,1	2,1	0,3

Source: Refinitiv, BNP Paribas

Signs of deterioration are increasing

Growth in Q2 2023 was a positive surprise, with an increase in real GDP of 0.2% q/q, driven by corporate investment, and in particular by spending on transport equipment. Nevertheless, signs of deterioration in activity are multiplying and extending to all sectors. The composite PMI fell below 50 in August to 48.6. While the decline in the manufacturing sector has been amplifying month after month, with the index reaching 43.0 in August, the decline in services is more recent and worrying: the index fell by 2 points to 49.5. Retail sales remain on a downward slope and final household consumption, although up 0.8% q/q in Q2, has still not returned to its pre-Covid level.

Private consumption is likely to weaken further given the rise in interest rates and a deterioration in the labour market. The unemployment rate (3m/3m), which had reached its lowest point in August 2022 at 3.5%, rose to 4.3% in July 2023. Wage growth is still very strong (+8.0% year-on-year in July), but it is only just enough to compensate for rising inflation. Although declining, headline inflation still stood at 6.7% year-on-year in August. Moreover, more than 50% of the goods and services included in the CPI basket posted an inflation rate of more than 6% in August, a slight decline compared to the previous month, which was a record (*see September 2023 inflation barometer, BNP Paribas*).

The slowdown in inflation and activity encouraged the Bank of England to keep the Bank rate unchanged at 5.25% in September. However, the vote was very tight with four out of ten members of the MPC voting for an increase of 25 bp to 5.5%. The scenario of a recession remains our central forecast for the first half of 2024, before a slight recovery in activity linked to the start of the rate cut cycle from Q2 2024. In addition, rising interest rates are increasingly weighing on the residential real estate sector. The RICS survey shows an unprecedented drop in activity and prices since the 2008 financial crisis, if we exclude periods of lockdown.

Guillaume Derrien (completed on 21 September 2023)

United Kingdom: economic indicators monthly changes

	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23
PMI manufacturing	-0,3	-0,8	-0,8	-1,0	-0,6	-0,2	-0,5	-0,5	-0,6	-0,8	-1,0	-1,5
PMI manufacturing new export orders	-1,8	-2,1	-2,4	-1,5	-1,3	-0,2	-0,3	-0,4	-0,6	-1,4	-1,9	-2,4
PMI manufacturing employment	0,2	-0,4	-0,5	-0,9	-0,7	-0,2	-0,7	-0,1	-0,2	-0,6	-0,8	-0,7
PMI services	0,0	-0,2	-0,2	0,0	-0,2	0,7	0,6	1,1	1,0	0,7	0,3	-0,1
Business climate manufacturing (volume of Total Order Book)	0,5	0,4	0,3	0,2	-0,3	-0,3	-0,5	-0,5	-0,3	-0,2	0,1	-0,2
Consumer confidence	-2,9	-2,7	-2,4	-2,2	-2,4	-1,9	-1,7	-1,2	-1,0	-0,7	-1,2	-0,8
Industrial production	-1,1	-0,8	-0,8	-0,8	-0,6	-0,5	-0,4	-0,2	-0,3	0,3	0,3	
Retail sales	-2,0	-1,6	-1,8	-2,0	-1,6	-1,3	-1,4	-1,1	-0,9	-0,7	-1,1	
Exports	2,8	1,1	2,3	0,8	0,7	0,6	0,4	0,0	-0,2	0,0	-0,8	
CPI	4,5	4,8	4,4	4,1	3,7	3,8	3,5	2,8	2,8	2,4	1,9	1,8
Unemployment Rate	1,3	1,3	1,3	1,3	1,2	1,1	1,2	1,1	0,9	0,9		

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	Forecast		Annual forecasts (y/y)		
Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q4 2022	Q3 2023	Q4 2023	2022 (observed)	2023	2024
-0,1	0,1	0,1	0,2	0,4	0,1	0,1	4,1	0,4	0

Source: Refinitiv, BNP Paribas

JAPAN

Inflation sets in and weighs on domestic demand

Japanese economic surveys remain positive overall, despite contrasting results for August: the composite PMI was up 0.4 points to 52.6, while the Economy Watchers Survey fell by 0.8 points, returning to its June level of 53.6. However, the trend between manufacturing and non-manufacturing sectors has been marked for several months by significant disparity between indicators: the manufacturing PMI remained in contraction territory in August (49.6 for the second consecutive month), a negative signal confirming the drop in industrial production of -2.3% y/y in July. Conversely, the services PMI rose in August to 54.3, compared to 53.8 in July.

Household confidence deteriorated in August after several months of improvement. This follows a contraction in private consumption, which cut 0.4 percentage points from real GDP in Q2. Wage increases have picked up slightly in recent months, but have still not caught up with inflation, pushing down real wages.

Although inflation slowed – as a result of the negative contribution of energy prices – it remained high for the country (3.3% y/y in July, *see the heatmap*). Core inflation (excluding fresh food and energy) is even higher, reaching 4.3% y/y in July and remaining above 4% since April. Rising food prices (including fresh products) contributed disproportionately to Japanese inflation (2.3 percentage points). In view of these figures and the significant decline in the yen since July, maintaining the expansionary monetary policy is looking increasingly difficult for the Bank of Japan. Nevertheless, we are not expecting to see the end of the yield curve control policy until next spring.

Japanese growth is expected to reach a relatively high rate in 2023 (+2.0%), thanks to a very favourable carry-over effect in Q2, which will disguise a much less dynamic second half of the year. In fact, the Japanese economy is expected to suffer from the negative effects of persistent labour shortages (Tankan employment survey index at -20 in manufacturing and -40 in non-manufacturing in Q2) and the Chinese economic slowdown. Our growth forecast for Q3 is only +0.1% q/q, a deceleration which is also the consequence of a better-than-expected Q2 (+1.2% q/q).

Guillaume Derrien with Nassim Khelifi, intern (completed on 20 September 2023)

Japan: economic indicators monthly changes

	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23
PMI: Manufacturing	0,2	0,2	-0,2	-0,3	-0,3	-0,6	-0,2	-0,1	0,1	0,0	-0,1	-0,1
PMI: Services	0,4	0,6	0,1	0,2	0,5	0,8	1,0	1,1	1,2	0,8	0,8	0,9
PMI Manufacturing New export orders	-0,5	-0,5	-0,9	-0,7	-0,6	-1,3	-0,7	-0,5	-0,6	-0,9	-0,5	-0,3
PMI Manufacturing -Employment	1,1	0,5	0,4	0,3	0,3	0,3	0,2	0,5	0,1	0,4	0,4	0,0
Consumer confidence	-1,8	-1,8	-1,9	-1,7	-1,6	-1,6	-1,1	-0,9	-0,7	-0,7	-0,5	-0,7
Industrial production	1,0	0,4	-0,2	-0,1	-0,4	-0,2	-0,1	0,0	0,3	0,0	-0,3	
Private machinery order excluding volatile orders	0,5	0,8	0,2	0,2	1,1	0,6	0,2	0,8	0,0	0,3	0,2	
Retail sales	1,4	1,3	0,6	1,0	1,5	2,2	2,1	1,4	1,7	1,6	2,0	
Exports	1,4	1,4	1,0	0,4	-0,1	0,0	-0,1	-0,1	-0,5	-0,3	-0,3	
CPI	2,5	3,1	3,1	3,2	3,4	2,5	2,4	2,6	2,3	2,4	2,3	
Core CPI	1,9	2,7	3,0	3,1	3,2	3,4	3,6	3,8	3,8	3,7	3,6	
Unemployment rate	1,3	1,3	1,4	1,4	1,5	1,2	1,0	1,2	1,2	1,3	1,1	
Employment	0,3	0,6	0,2	-0,2	0,4	-0,2	-0,1	-0,2	-0,1	0,1	-0,1	
Wage	1,9	1,6	1,9	1,6	1,0	0,9	0,7	0,9	1,6	1,4	1,5	

-3 -2 -1 0 1 2 3

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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	Forecast		Annual forecasts (y/y)		
Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q4 2022	Q3 2023	Q4 2023	2022 (observed)	2023	2024
-0,3	0,1	0,8	1,2	1,9	0,1	0,3	1,0	2,0	1

Source: Refinitiv, BNP Paribas

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