

# ECOPULSE

February 2023

MONTHLY PULSE OF OECD COUNTRIES' ECONOMIC INDICATORS



**BNP PARIBAS**

The bank for a changing world

As we enter 2023, the economies of the major OECD countries continue to show signs of resilience. GDP contraction was avoided in Q4 2022 for the Eurozone, France, Spain, the United Kingdom and Japan, the decline was moderate in Germany and Italy, and growth was stronger than expected in the United States. The risk of recession, if it has not disappeared, has lost in intensity and imminence. Confidence surveys are, for the most part, pointing upwards, which bodes well for Q1 2023. The labour market continues to perform well even if signs of a slowdown begin to appear. While the resilience of growth to downward pressures is good news, the downward resilience of inflation is not. Households are losing purchasing power and this is affecting their spending, to varying degrees depending on the country. It also means that central banks have not yet finished with rate hikes.

**EUROZONE: GROWTH THAT BENDS BUT DOESN'T BREAK**

**GERMANY: WILL GERMANY (ALSO) AVOID RECESSION?**

**FRANCE: SLUGGISH GROWTH RATHER THAN RECESSION?**

**ITALY: SHARPER DECLINE IN ACTIVITY ON THE CARDS FOR Q1 2023?**

**SPAIN: CONSUMER SUPPORT FADING AWAY**

**UNITED STATES: A LANDING? WHAT LANDING?**

**UNITED KINGDOM: Q4 GDP ON A TIGHTROPE**

**JAPAN: SHARP RISE IN INFLATION EXPECTATIONS**



## Growth that bends but doesn't break

In January 2023, according to S&P Global PMI data, the business climate continued to improve for the third month in a row, bringing the composite index just above the 50-point expansion mark for the first time since June 2022. This recovery applies to both the manufacturing sector and services, and it is good news. We regard it as a sign of relief following over-pessimism at the end of 2022 fuelled by fears about energy supply and soaring prices. A relapse cannot be ruled out.

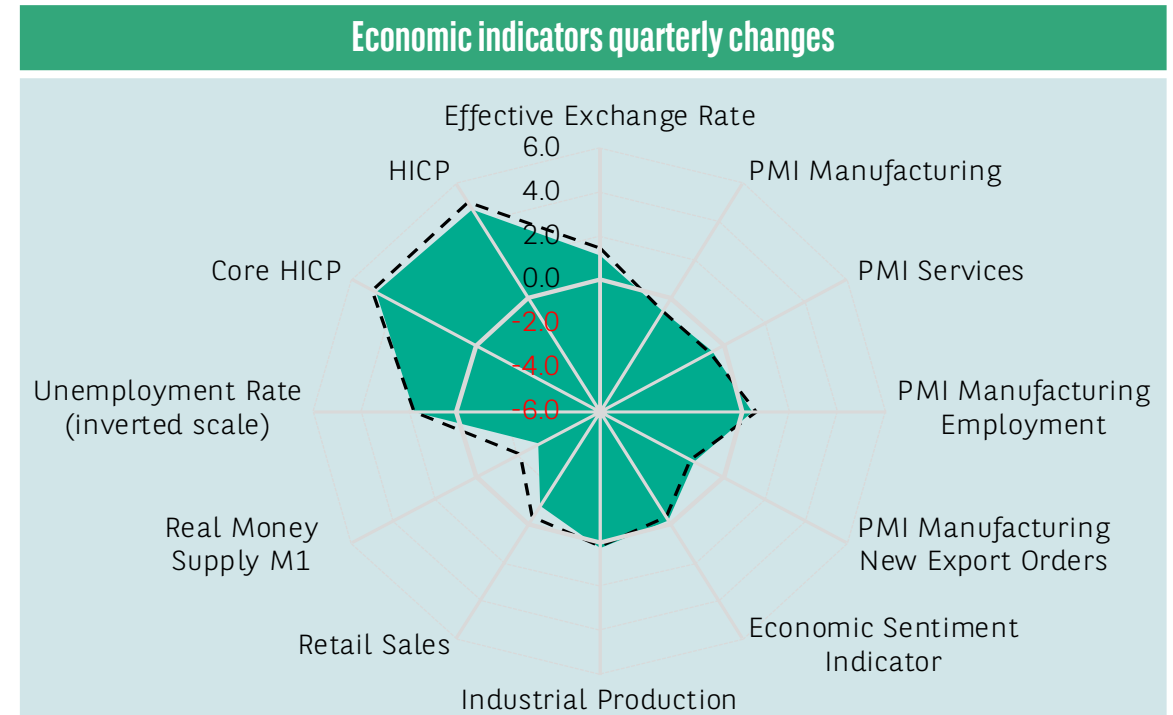
The European Commission's economic sentiment indicator also saw its third consecutive rise in January, driven primarily by the upturn in consumer confidence – which according to early estimates continued in February for the fifth month in a row – and related sectors (retail and services), with consumers less worried about prices and unemployment.

News from the labour market remains good, with employment up 0.4% q/q in Q4 2022, in line with the average pace for the previous four quarters. Between Q4 2021 and Q4 2022, employment growth in year-over-year terms lost 1 percentage point, while GDP growth dropped 3 points. Despite remaining stable at 6.6% over the last three months of 2022, the unemployment rate fell by close to half a point over the year. Companies are still facing significant difficulties in recruiting staff, the job vacancy rate remains high, and the component relating to employment in business surveys is continuing to rise.

News about inflation is more mixed. According to Eurostat's preliminary estimates, headline inflation declined further in January for the third month in a row, reaching 8.5% y/y, but core inflation has not yet started to fall, merely stabilising at 5.2% in January. This resilient growth and inflation justify at least two more ECB rate hikes (50 basis points in March and 25 basis points in May).

Contraction in GDP was avoided in Q4 2022 and the same could be seen in Q1 2023. We currently expect a fall of 0.3% q/q but this forecast is about to be revised upwards on the basis of more favourable than expected data and developments. This is reflected by our GDP growth nowcast of +0.1% q/q.

Hélène Baudchon



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 green 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

Actual			Nowcast	Forecast	Carry-over	Forecast		Carry-over	Annual growth forecasts (y/y)		
Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q1 2023	Q1 2023	Q2 2023	Q3 2023	Q3 2023	2022 (observed)	2023	2024
0.9	0.3	0.1	0.1	-0.3	0.1	0.1	0.2	0.3	3.5	0.2	1.3

[See the Nowcast methodology](#)  
Source: Refinitiv, BNP Paribas

## Will Germany (also) avoid recession?

Business climate indicators show relative improvement (for example, the IFO rose from 84.3 in September 2022 to 91.1 in February 2023), attesting to better than expected business activity, particularly as fears of a worsening energy crisis did not materialise. However, these indicators are still below normal, in line with negative growth in Q4.

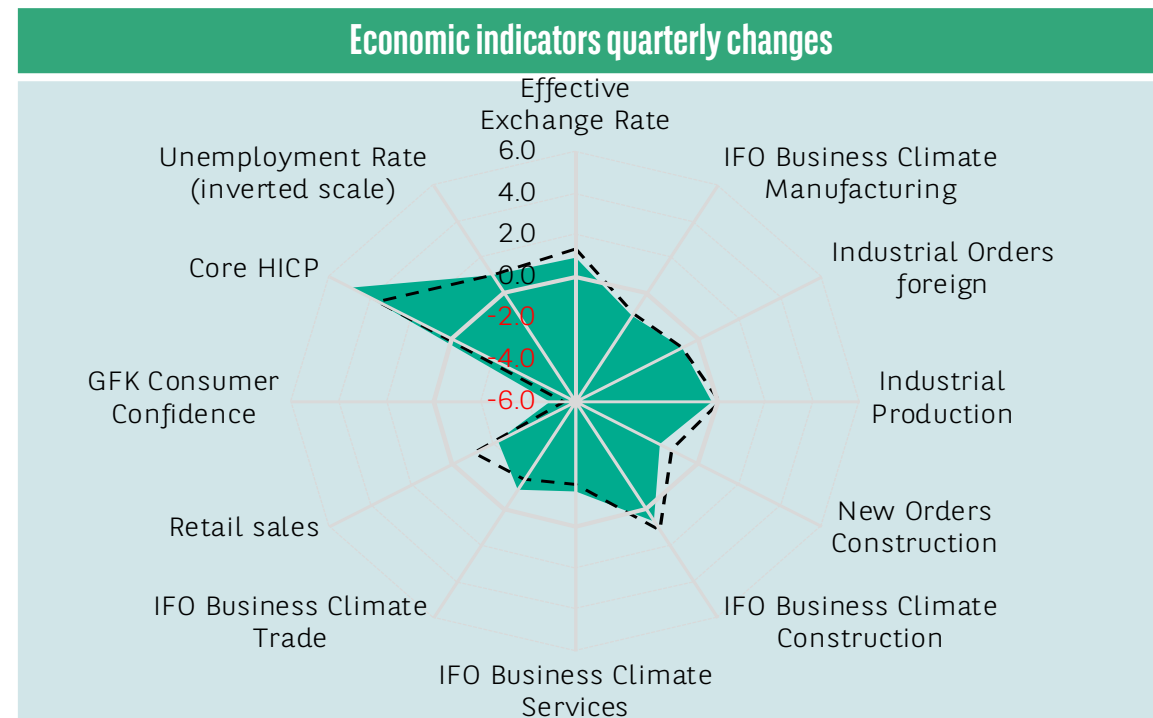
Acceleration in inflation caused consumer confidence to wane through to October last year, with annual data published on 13 January indicating a 1% q/q fall in consumer spending in Q4. However, consumer confidence has regained close to 10 points since October, reaching -33.9 in February.

This can be explained by the more moderate pace of inflation (9.2% y/y in January following a peak of 11.6% in October) due to the German government's energy price cap. Meanwhile, core inflation continued to increase, reaching 5.4% in December following 5.1% in November.

The Ifo Employment Barometer declined in the fall on the back of a less favourable general business climate, before rebounding in parallel with the business climate, highlighting a situation that is still characterised by a low unemployment rate (5.5% in January) and relatively unchanged labour shortages (around three in 10 services and manufacturing companies in January, according to the European Commission)

Germany's economic growth was not as hard hit as had been feared. The economy shrunk in Q4 (-0.2 q/q) and we expect a further contraction in Q1 (-0.4% q/q). However, with moderate improvement in economic surveys, there is a risk that this estimate could be revised upwards.

Stéphane Colliac



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GDP growth										
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0.1	0.5	-0.2	-0.4	-0.3	0.0	0.1	-0.2	1.9	-0.2	1.2

Source: Refinitiv, BNP Paribas



## Sluggish growth rather than recession?

According to Insee, the business climate in the French manufacturing industry was stable over the last few months. Deterioration was seen in services, albeit gradual, with the index sliding from 107 in August to 104 in December, before climbing back up to 106 in February. This picture is in keeping with a slower pace of growth, while avoiding recession.

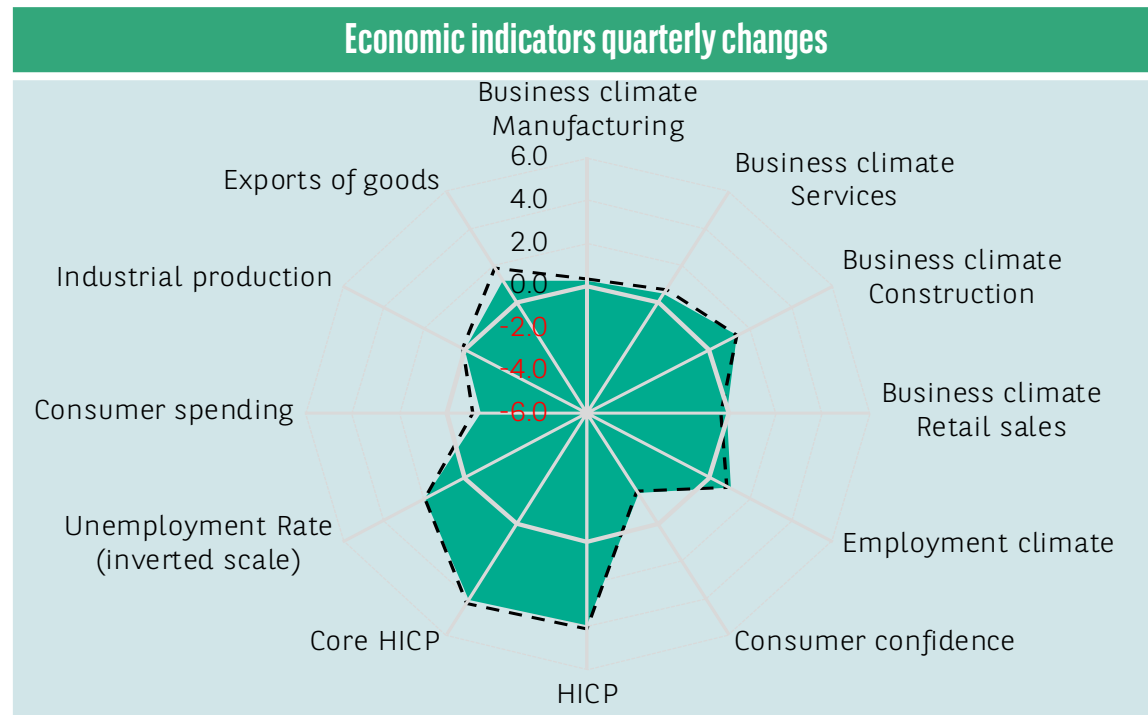
Consumer confidence has fluctuated since June 2022 within a shorter time frame, but is around 20 points below the historic average. This was reflected in Q4 by a simultaneous drop in consumer spending (-0.9% q/q) and in household investment (-0.2 q/q).

Also since June 2022, inflation has fluctuated around 7% y/y (harmonised index), the level seen again in January 2023. This conceals contrasts in the main components, with inflation in food prices gaining pace (14.4% y/y in January) and a relative slowdown in services (3.5% y/y in January). The larger proportion of companies expecting selling prices to rise in Insee's services survey suggests that underlying inflation is likely to remain high (4.2% y/y in January).

Following the brisk level of job creations over the first three quarters of 2022 (around 300,000 in the private sector), recent signs from the job market have been less clear, with employment stabilising in Q4. However, this may be due to the fear (now overcome) of a decline in activity due to energy supply constraints. Insee's employment climate index, which reached 110 in February, seems to support the idea that this was a temporary situation.

Our growth nowcast for Q1 2023 suggests further improvement in activity (+0.1% q/q) following growth of 0.1% q/q in Q4. This situation is more favourable than our November 2022 scenario suggested (-0.4% q/q), which factored in energy prices having a more significant impact on production, a risk that has now been generally overcome.

Stéphane Colliac



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0.5	0.2	0.1	0.1	-0.4	-0.1	0.2	0.2	0.1	2.6	0.0	1.0

[See the Nowcast methodology](#)  
Source: Refinitiv, BNP Paribas



## Sharper decline in activity on the cards for Q1 2023?

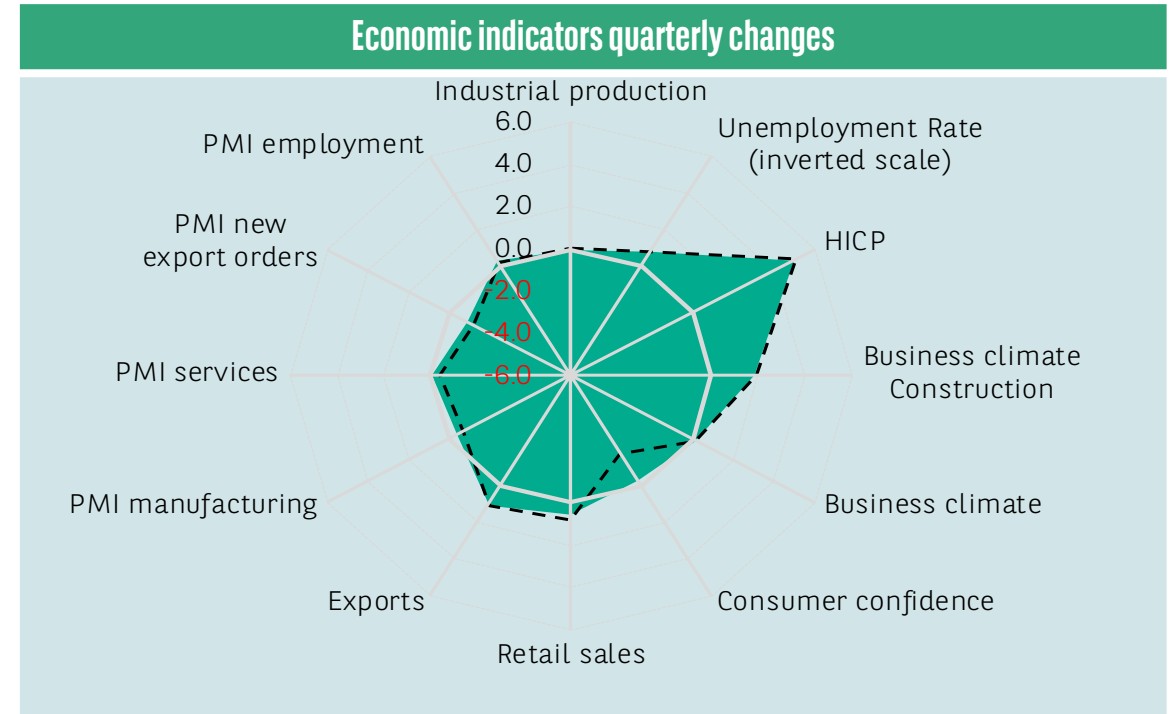
Italy's job market is taking longer to recover than in neighbouring countries. However, employment is close to topping the peak reached in June 2019, with a gap of just 7,000 jobs in December 2022. The employment rate (15 to 64-year-olds) has reached a new record of 60.5%, while unemployment remains stable at 7.8%. Youth unemployment (15 to 24-year-olds) is at its lowest since September 2008.

Recruitment problems – which are particularly evident in the European Commission's surveys – are likely to increase upwards pressure on wages and labour costs. The increase in labour costs gained momentum over the course of 2022, reaching 3.1% y/y in November. Although contained, this is nevertheless the most significant increase since January 2009.

This was still not enough to make up for the effects of inflation, which remained above the 10% mark in January at 10.9% y/y according to Eurostat's harmonised index. Consumer prices rose even more sharply over a shorter time frame, at 13.7% 3m/3m.

Retail sales, which only partly reflect the overall trend in consumer spending, fell 0.4% in 2022 as a whole, weighed down by a 4.2% drop in food sales. The carry-over achieved in 2022 is likely to have been cancelled out in Q1, with Italy looking set to achieve only slight growth in economic activity in 2023. In the short term, the slight decline in activity seen in Q4 2022 is expected to give way to a more marked contraction in Q1 2023.

Guillaume Derrien



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GDP growth										
Actual			Forecast	Carry-over	Forecast			Annual growth forecasts (y/y)		
Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q1 2023	Q2 2023	Q3 2023	Q3 2023	2022 (observed)	2023	2024
1.1	0.5	-0.1	-0.4	0.0	0.1	0.2	0.2	3.9	0.2	1.2

Source: Refinitiv, BNP Paribas

## Consumer support fading away

The improved business climate points to a risk of an upwards revision in our current estimate of contraction in Spain's GDP in Q1 2023. The composite PMI topped the 50-point threshold in January at 51.6, five months after slipping below this level. This rebound can be attributed to services (52.7), while further contraction was seen in manufacturing activity (48.4). While manufacturing production increased by 0.8% m/m in December and 2.8% in 2022, it has only just closed the gap relative to 2019.

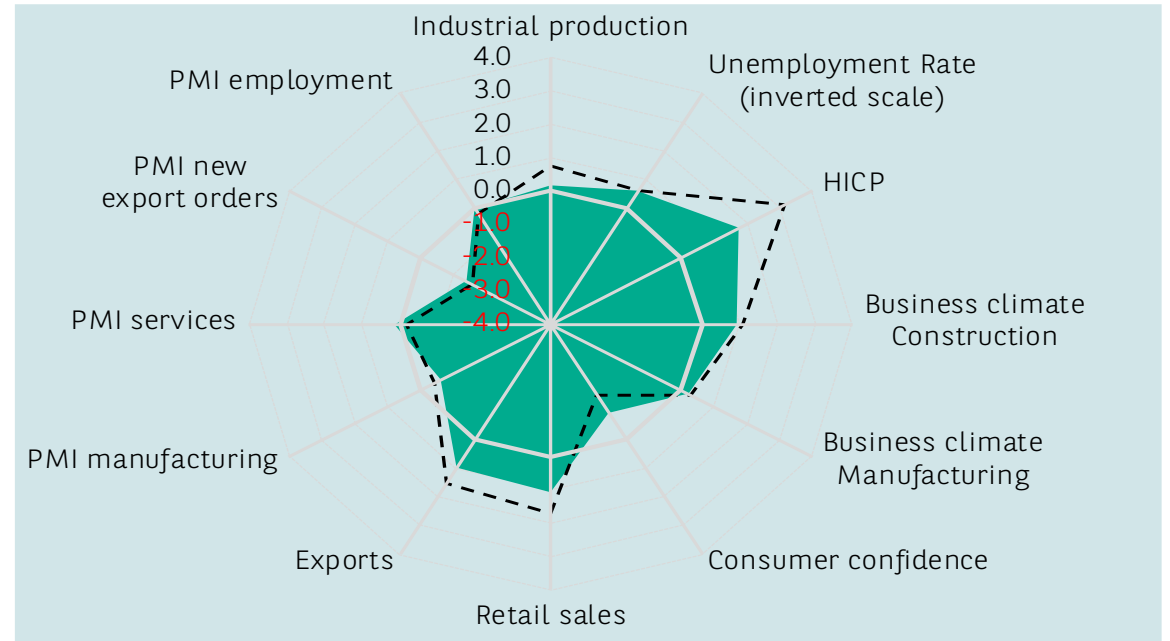
Spanish consumer confidence has also improved with less bleak inflation prospects, although this does not necessarily indicate an upturn in consumer spending. Intentions to buy consumer durables are more or less at the same level as during the lockdowns in 2020. Furthermore, as a result of the inflation shock, the household savings rate – which was 5.8% in Q3 2022 – has fallen rapidly from the peaks reached during the lockdowns and is now well below the average for the last 20 years at 8.9%. This kind of decline has not been seen in France or Germany, for example.

Inflation accelerated again in January from 5.7% y/y to 5.9% y/y, despite more significant deflation in energy prices. Underlying inflation recorded a further sharp rise from 7.0% to 7.5%, fuelled by food products (15.7% y/y in January), which account for half of the inflation rate. The VAT cut on a list of essential items in January, mainly foods (bread, milk, flour, eggs, etc.), has not yet produced any tangible results. In reaction to these figures, on 20 February, the government launched the Food Chain Observatory (*Observatorio de la Cadena Alimentaria*) to work with companies in the sector to assess the impact of this VAT reduction and discuss possible adjustments.

We expect a significant slowdown in activity in 2023, which is likely to be accompanied by an equally marked fall in the hiring rate. Recruitment is already struggling, with two consecutive slight falls in January (-12,200) and December (-8,300), the first since April 2021.

Guillaume Derrien

## Economic indicators quarterly changes



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## GDP growth

Actual		Forecast	Carry-over	Forecast		Carry-over	Annual growth forecasts (y/y)			
Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q1 2023	Q2 2023	Q3 2023	Q3 2023	2022 (observed)	2023	2024
2.2	0.2	0.2	-0.3	0.5	0.2	0.2	0.7	5.5	0.6	1.4

Source: Refinitiv, BNP Paribas



## A landing? What landing?

Signs from the ISM business climate surveys were contrasting in January, with a further decline in the manufacturing sector index, going deeper into the contraction zone at 47.4, while the non-manufacturing sector made a strong rebound to 55.2, cancelling out almost its entire December fall. The Conference Board Leading Economic Index fell in January for the tenth month in a row, but not as sharply (-0.3% m/m following an average of -0.9% over the previous three months). While this index is quite clearly signalling recession, it has not yet won out over the coincident index, which is verging on stabilisation however.

On the US consumer side, the signs are positive. According to the Conference Board survey, consumer confidence deteriorated in January but after a large gain in December and it continued to improve through to February according to the University of Michigan survey. Goods consumption picked up again in Q4 2022, having been in decline for the two previous quarters, while services consumption continued to rise at a relatively brisk rate. Nominal retail sales presented a very welcome surprise in January, up 3% m/m. Inflation has taken a very clear bite out of household purchasing power (down 1.7% y/y in December), with less of an impact on consumer spending (up 2.2%).

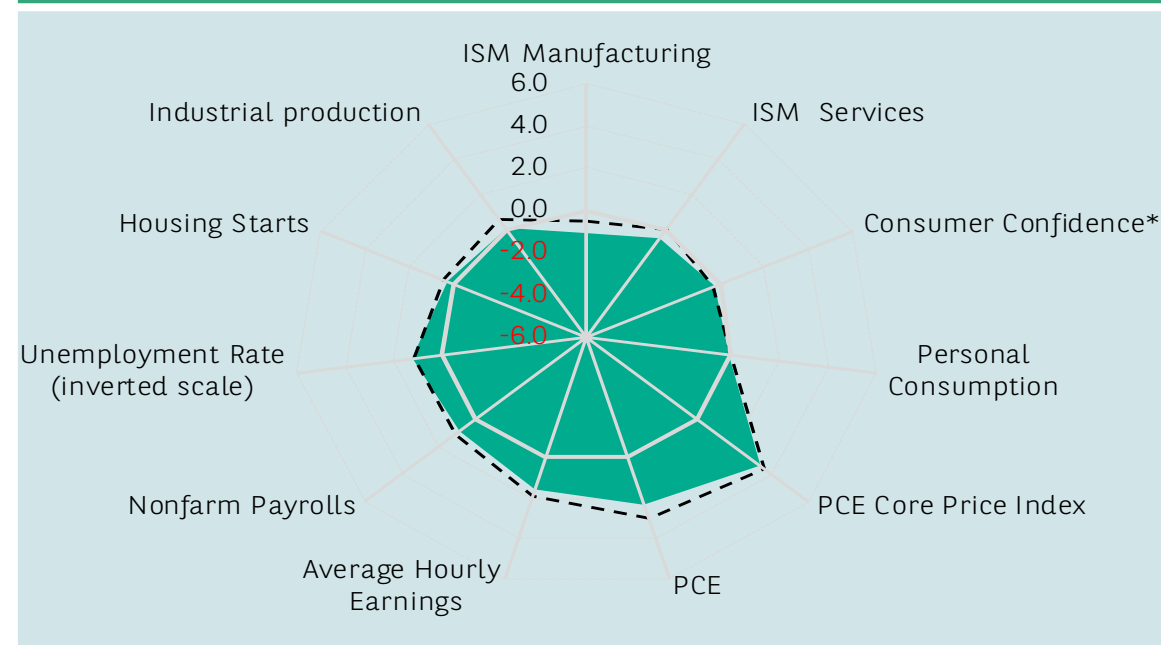
This very favourable retail sales figure echoes the latest non-farm payrolls figure, which were also very positive in January, up 517,000. Note that the statistics for January may have been upwardly biased by the mild weather following a freezing December. Meanwhile, the news relating to the housing sector remains negative.

Disinflation continued in January but much more slowly than over the previous three months, as a reminder that the process could be longer rather than shorter. This economic and inflation picture favours at least another two rate hikes by the Fed (of 25 basis points each in March and May, on our estimates).

Following a low of 0.6% q/q on an annualised basis, the Atlanta Federal Reserve's GDPNow Q1 2023 growth estimate stood at 2.5% in mid-February, below but close to the Q4 2022 growth print (2.9% according to the 1st BEA estimate), highlighting the risk of our own forecast (1%) being revised upwards.

Hélène Baudchon

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## GDP growth

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Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q1 2023	Q1 2023	Q2 2023	Q3 2023	Q3 2023	2022 (observed)	2023	2024
-0.1	0.8	0.7	0.6	0.3	1.2	-0.3	-0.3	0.8	2.1	0.7	0.2

Source: Refinitiv, BNP Paribas





## Q4 GDP: on a tightrope

Following a 0.5% m/m fall in GDP in December according to the ONS, activity in the UK deteriorated in January before making a strong rebound in February according to the PMI survey, particularly in the service sector. The PMI was 49.2 for the manufacturing sector and 53.3 for services. Among the bad news, company insolvencies (up 59% y/y in 2022) reached their highest level since 2009.

Concerning household consumption, retail sales held up well in January (up 0.5% m/m), following a modest but positive increase of 0.1% q/q in consumer spending in Q4 2022, according to the ONS.

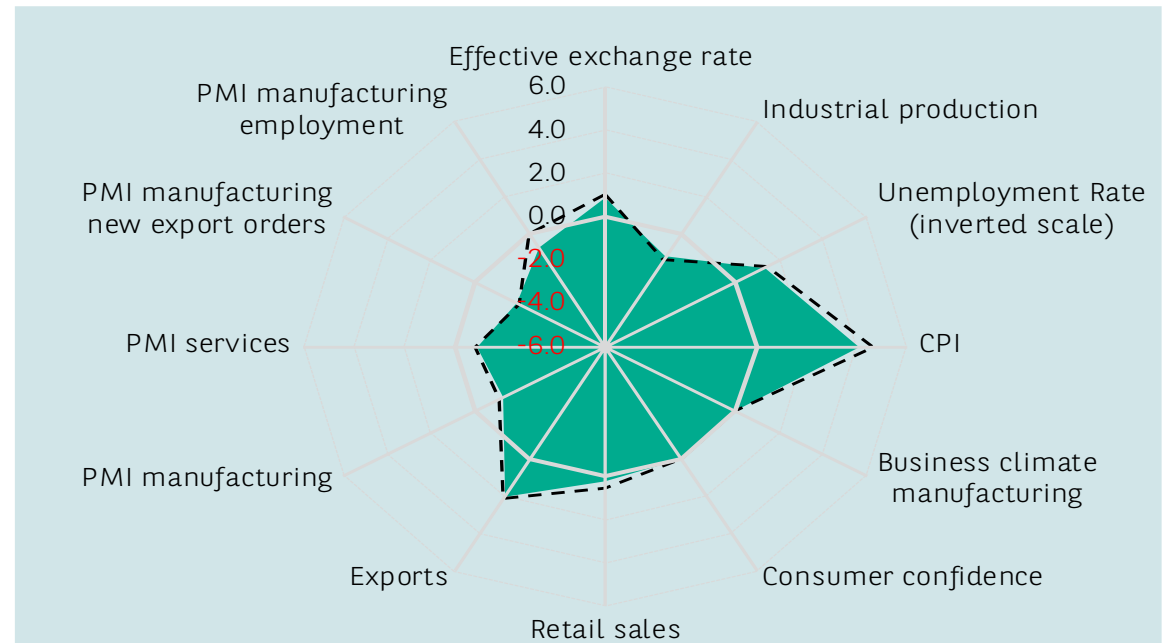
Inflation peaked in October at 11.1%. Further gradual disinflation was seen in January, with prices up 10.1% y/y (10.5% in December). The January CBI survey showed that expectations of selling price inflation had fallen further to 41. Faced with ongoing high inflation, the BoE raised its key rate by a further 50 basis points in early February. We expect a final 25 basis point hike in March, before stabilising at 4.25%.

The job market remains buoyant, with the average wage up 6.7% y/y excluding bonuses in December (compared with an estimated 6.5%). The United Kingdom added 102,000 jobs in January, the highest level since September 2021. However, the signs from CBI surveys for Q1 2023 were more contrasting, indicating a decline in retail employment over the next three months (-9) but growth in manufacturing (+24).

The UK economy avoided a technical recession in Q4 2022, achieving zero quarterly growth on initial estimates. Economic activity was supported by resilient business investment, which returned to pre-pandemic levels. A recession is still expected in the first half of 2023, with rate hikes likely to affect lending and inflation likely to erode household purchasing power.

Hélène Baudchon (in collaboration with Louis Morillon)

## Economic indicators quarterly changes



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Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q1 2023	Q2 2023	Q3 2023	Q3 2023	2022 (observed)	2023	2024
0.1	-0.2	0.0	-0.6	-0.7	-0.2	0.2	-0.7	4.1	-0.9	0.8

Source: Refinitiv, BNP Paribas



## Sharp rise in inflation expectations

Surveys of Japanese services companies (Services PMI, Economy Watchers Survey) offer little visibility, having fluctuated up and down for several months. Manufacturing sector indices show a clearer trend, with gradual deterioration in activity despite the significant reduction in tensions in production chains closely linked to Japanese manufacturers. The manufacturing PMI remained below the expansion threshold in January at 48.9, having been in near constant decline for the last 10 months.

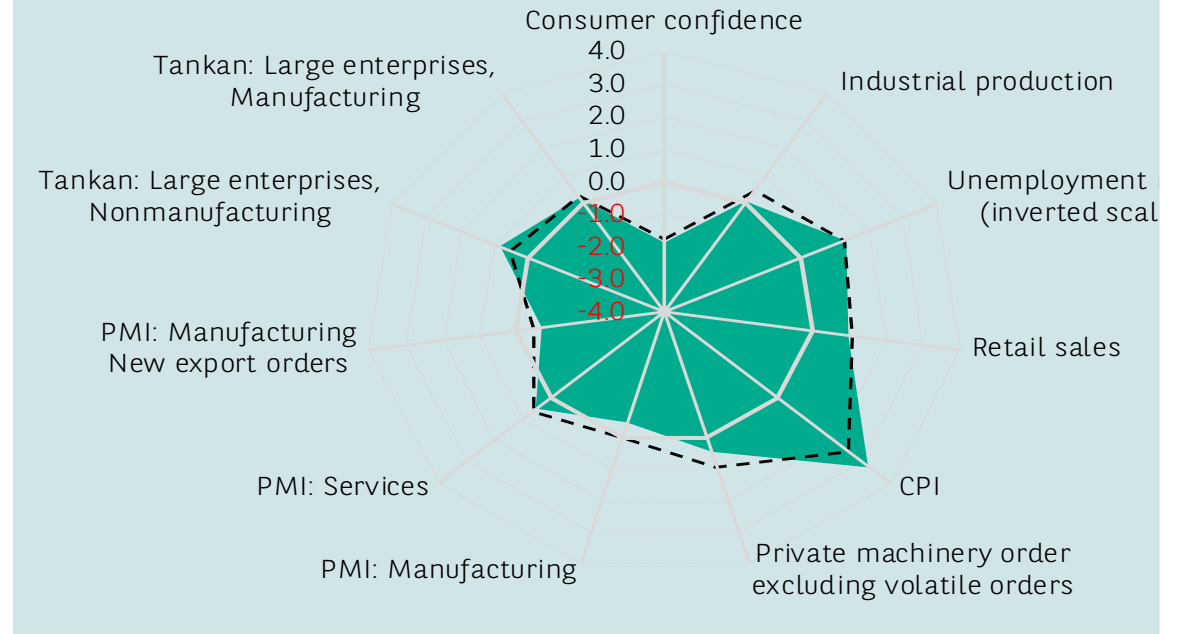
Consumer confidence and behaviours are adjusting to increasingly unfavourable inflation prospects. According to the Cabinet Office survey, in January, more than six in 10 households expected inflation of 5% or more within the next year. This compares with just three in 10 before the start of the war in Ukraine and fewer than two in 10 before the health crisis. Intentions to buy consumer durables, which reached a low in November, have only risen very slightly since then. This perfectly reflects the changes being made in consumer spending as a result of reduced buying power.

Inflation shows no signs of subsiding over the winter. The consumer price index rose more rapidly in December, reaching the 4% y/y mark, while the prices tracked by the Bank of Japan (CPI excluding perishable foods) increased further, at 4.1% y/y. Soaring food prices, up 6.9% y/y, which account for one quarter of household spend basket, are by far the biggest contributor to inflation (1.8 percentage points in December). While the decline in the yen tailed off, higher energy costs – with are still rising sharply in January, as producer prices in the sector increased by 49.7% y/y – continued to exert considerable price pressure.

The unemployment rate remained stable at a very low level of 2.5% in December. However, the job market has not recovered fully from the Covid-19 shock, with new job openings and the employment level still lower than at the end of 2019. Against this backdrop, growth should remain slightly positive over the next few quarters.

Guillaume Derrien

## Economic indicators quarterly changes



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Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q1 2023	Q2 2023	Q3 2023	Q3 2023	2022 (observed)	2023	2024
1.1	-0.3	0.2	0.4	0.7	0.4	0.3	1.1	1.1	1.1	0.5

Source: Refinitiv, BNP Paribas



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