# ECOPULSE

May 2023

## MONTHLY PULSE OF OECD COUNTRIES'ECONOMIC INDICATORS

**BNP PARIBAS**

The bank for a changing world

In April and May, there was a relative deterioration in the main OECD economies, with some divergences in the magnitude and extent of this deterioration across the economies. In Europe, the deterioration observed in the manufacturing sector over the past few months is beginning to spread to services, where confidence indices have begun a downward trend. In the United States, the ISM non-manufacturing rose moderately in April, compared to an ISM manufacturing index below 50 for the sixth consecutive month.

This deterioration in the business climate has remained gradual and has not, for the time being, interrupted the momentum of the labour market. The nowcasts for Q2 highlight some divergence, with lower figures in the eurozone (-0.1% q/q), including in France (0%), than in the United States (Atlanta Fed GDPNow estimate at 0.7%), while our forecasts are more homogeneous between these economic areas (+0.2% for Q2 in the eurozone and in the United States). This suggests a downward risk in eurozone countries and an upward risk in the US and UK.

Across the board, disinflation remains partial and the household confidence has improved only moderately. Core inflation remains close to its peak levels in many countries, and while it is well below these levels in the US, it has not really fallen since the beginning of the year.

**EUROZONE: RESISTANCE IS WEAKENING**

**GERMANY:  SHORT-LIVED RECOVERY?**

**FRANCE:  MOVING TOWARDS "STOP AND GO" GROWTH?**

**ITALY:  THE LARGE GAP BETWEEN INFLATION AND WAGES PERSISTS**

**SPAIN:  THE LABOUR MARKET IS STILL SURPRISINGLY DYNAMIC**

**UNITED STATES: COULD THE TIDE BE TURNING?**

**UNITED KINGDOM:  THE STORM HAS DISSIPATED**

**JAPAN:  THE UPTURN IN GROWTH IS FUELLING INFLATION**

## Resistance is weakening

Eurozone growth in the first quarter of 2023 was +0.1% q/q according to the data available at the time of writing[1]. This is below our forecast (+0.3% q/q), and therefore rather disappointing, even if it surprises favourably compared to our nowcast estimate (-0.0%). This low growth also puts into perspective the perceived resilience coming from most survey and activity data during the first quarter.

In the second quarter, given the now more mixed orientation of business climate surveys, the issue of weak growth may well take precedence over the issue of resistance. While our current growth forecast is still slightly positive (+0.2% q/q), our nowcast estimate is more pessimistic (-0.1% q/q).

S&P Global's composite PMI continued its recovery in April, but less strongly than in the previous four months, as the improvement in services business confidence – itself of lesser magnitude – was also offset by a significant deterioration in the manufacturing sector. And for the first time since October 2022, the composite PMI deteriorated in May (-0.8 point, at 53.3). The European Commission's economic sentiment indicator has been trendless, if not slightly declining since February. The gradual loss of economic momentum is visible on the heatmap opposite (fewer red zones, more pale pink, and blue ones).

Two indicators stand out favourably in this more mixed cyclical picture: consumer confidence (which has been recovering since October 2022, but from a low level) and the unemployment rate (which remains on a downward trend and reached 6.5% of the labour force in March).

Inflation remains a negative element, as disinflation remains very slow and limited, but the coming months could mark a more pronounced downward trend, according to some recent developments and leading inflation indicators. In April, headline inflation increased slightly (+0.1 percentage points, to 7% y/y) because the favourable base effects of the previous month on the energy component disappeared. But this increase can be put into perspective by the decline in food and core inflation. This fall is modest, but it is the first one since mid-2021. If they do exist, signs of moderation in inflation remain, however, tentative and inflation far too high for the ECB not to decide on a further rate hike at its next meeting on 15 June (+25bps according to our forecasts).

Hélène Baudchon (completed on 25/05/2023)

1 The estimate of eurozone growth in Q1 is likely to be lowered in the wake of the sharp downward revision in German growth (from +0.0% to -0.3% t/t).

## Eurozone: economic indicators monthly changes

| | May 22 | Jun 22 | Jul 22 | Aug 22 | Sep 22 | Oct 22 | Nov 22 | Dec 22 | Jan 23 | Feb 23 | Mar 23 | Apr 23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Economic Sentiment Indicator (ESI) | 0.5 | 0.4 | -0.1 | -0.1 | -0.5 | -0.6 | -0.4 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| ESI - Manufacturing | 1.0 | 1.1 | 0.7 | 0.5 | 0.4 | 0.3 | 0.2 | 0.3 | 0.5 | 0.4 | 0.3 | 0.1 |
| ESI - Services | 0.7 | 0.6 | 0.3 | 0.2 | 0.0 | -0.2 | -0.1 | 0.2 | 0.5 | 0.4 | 0.4 | 0.5 |
| ESI - Retail sales | 0.2 | 0.1 | -0.1 | 0.0 | -0.2 | 0.0 | 0.0 | 0.5 | 0.7 | 0.8 | 0.6 | 0.7 |
| ESI - Construction | 1.5 | 1.2 | 1.2 | 1.3 | 1.0 | 1.2 | 1.1 | 1.2 | 1.0 | 1.0 | 1.0 | 1.0 |
| Consumer confidence | -2.0 | -2.5 | -3.0 | -2.5 | -3.2 | -2.9 | -2.2 | -1.8 | -1.6 | -1.3 | -1.3 | -1.0 |
| PMI Manufacturing | 0.9 | 0.4 | 0.0 | -0.1 | -0.3 | -0.7 | -0.6 | -0.4 | -0.2 | -0.3 | -0.5 | -0.8 |
| PMI Services | 1.2 | 0.6 | 0.2 | 0.0 | -0.2 | -0.3 | -0.3 | 0.0 | 0.2 | 0.5 | 1.0 | 1.2 |
| PMI Manufacturing New Export Orders | -0.4 | -0.7 | -1.0 | -1.0 | -1.3 | -1.7 | -1.4 | -1.2 | -0.9 | -1.1 | -0.7 | -0.8 |
| PMI Manufacturing New Orders | -0.2 | -0.7 | -1.1 | -1.0 | -1.3 | -1.8 | -1.4 | -1.0 | -0.7 | -0.5 | -0.6 | -0.8 |
| PMI Composite - Employment | 1.7 | 1.2 | 1.0 | 0.7 | 0.7 | 0.7 | 0.5 | 0.5 | 0.6 | 0.6 | 0.9 | 1.3 |
| Industrial Production | 0.5 | 0.7 | -0.3 | 0.8 | 0.8 | 0.6 | 0.5 | -0.4 | 0.1 | 0.3 | -0.4 | |
| Retail Sales | 0.1 | -1.1 | -0.4 | -0.6 | -0.2 | -1.0 | -1.0 | -1.1 | -0.8 | -0.9 | -1.3 | |
| New Car registrations | -0.5 | -0.7 | -0.4 | 0.3 | 0.5 | 0.6 | 0.8 | 0.6 | 0.5 | 0.5 | 1.4 | 0.9 |
| HICP | 4.9 | 5.1 | 5.0 | 4.9 | 5.1 | 5.2 | 4.6 | 4.0 | 3.6 | 3.4 | 2.5 | 2.5 |
| Core HICP | 4.5 | 4.3 | 4.6 | 4.8 | 5.2 | 5.3 | 5.0 | 5.0 | 4.9 | 5.0 | 4.8 | 4.5 |
| Unemployment Rate | 1.8 | 1.8 | 1.8 | 1.8 | 1.7 | 1.7 | 1.7 | 1.7 | 1.8 | 1.7 | 1.8 | |

Colour scale: -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 | | | | over | Nowcast | Forecast | | Annual forecasts (y/y) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q4 2022 | Q2 2023 | Q2 2023 | Q3 2023 | 2022 (observed) | 2023 | 2024 |
| 0.9 | 0.4 | -0.1 | 0.1 | 0.4 | -0.1 | 0.2 | -0.1 | 3.5 | 0.6 | 0.5 |

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

# GERMANY

## Moving towards "stop and go" growth?

Industrial activity and new industrial orders experienced sizeable variability in Q1, with a strong rebound in January-February followed by a sharp drop in March. Overall, new orders remained stable during the first quarter (q/q). The IFO survey has even deteriorated in May (91.7, compared to 93.4 in April), and the ZEW index has returned to negative territory (-11 in May, following on from 4 in April and 13 in March).

By contrast, the rebound in household confidence continued in April (-25.7, compared to -42.8 at its lowest in October 2022), and began to reverberate on household willingness to buy, standing at -13 in April, compared to the generally flat level seen between October and March (-17 for March). As a result, a rebound in consumption seems possible during the second quarter, after two quarters of decline according to Destatis (-1.7% q/q during Q4 and -1.2% q/q during Q1 2023).
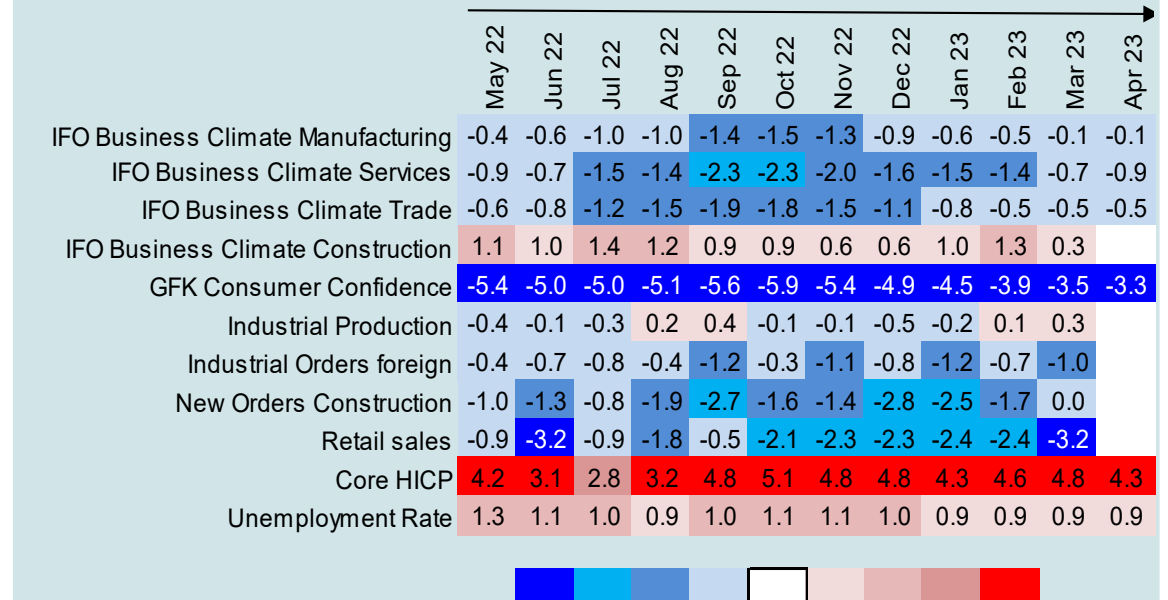
Inflation remained high during the first quarter (8.7% y/y on average, after peaking at 10.8% y/y on average during the fourth quarter), and disinflation mainly driven by the fall in energy prices (which have been capped by the federal government), is still gradual (7.6% y/y in April). At the same time, inflation in services has remained close to its peak, standing at 4.7% y/y in April.

The German labour market is still vibrant, with almost 160,000 jobs created during the first quarter (the highest figure since the first quarter of 2022) and an employment climate of 100.2 in April (the highest since August 2022). However, lower labour constraints in the construction industry (18% of respondents in Q2 2023, compared to 33% in Q4 2022) hint that a downturn may be getting underway.

Following a recession (-0.5% q/q during the fourth quarter of 2022 and -0.3% during the first quarter of 2023), German growth is expected to pick up again during the second quarter (+0.2% q/q, according to our forecasts), driven by a rebound in consumption. However, with momentum dissipating in recent economic surveys, another downturn may well be on the horizon during the second half of the year.

Stéphane Colliac (article completed on 25 May 2023)

## Germany: economic indicators monthly changes

| | May 22 | Jun 22 | Jul 22 | Aug 22 | Sep 22 | Oct 22 | Nov 22 | Dec 22 | Jan 23 | Feb 23 | Mar 23 | Apr 23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| IFO Business Climate Manufacturing | -0.4 | -0.6 | -1.0 | -1.0 | -1.4 | -1.5 | -1.3 | -0.9 | -0.6 | -0.5 | -0.1 | -0.1 |
| IFO Business Climate Services | -0.9 | -0.7 | -1.5 | -1.4 | -2.3 | -2.3 | -2.0 | -1.6 | -1.5 | -1.4 | -0.7 | -0.9 |
| IFO Business Climate Trade | -0.6 | -0.8 | -1.2 | -1.5 | -1.9 | -1.8 | -1.5 | -1.1 | -0.8 | -0.5 | -0.5 | -0.5 |
| IFO Business Climate Construction | 1.1 | 1.0 | 1.4 | 1.2 | 0.9 | 0.9 | 0.6 | 0.6 | 1.0 | 1.3 | 0.3 | |
| GFK Consumer Confidence | -5.4 | -5.0 | -5.0 | -5.1 | -5.6 | -5.9 | -5.4 | -4.9 | -4.5 | -3.9 | -3.5 | -3.3 |
| Industrial Production | -0.4 | -0.1 | -0.3 | 0.2 | 0.4 | -0.1 | -0.1 | -0.5 | -0.2 | 0.1 | 0.3 | |
| Industrial Orders foreign | -0.4 | -0.7 | -0.8 | -0.4 | -1.2 | -0.3 | -1.1 | -0.8 | -1.2 | -0.7 | -1.0 | |
| New Orders Construction | -1.0 | -1.3 | -0.8 | -1.9 | -2.7 | -1.6 | -1.4 | -2.8 | -2.5 | -1.7 | 0.0 | |
| Retail sales | -0.9 | -3.2 | -0.9 | -1.8 | -0.5 | -2.1 | -2.3 | -2.3 | -2.4 | -2.4 | -3.2 | |
| Core HICP | 4.2 | 3.1 | 2.8 | 3.2 | 4.8 | 5.1 | 4.8 | 4.8 | 4.3 | 4.6 | 4.8 | 4.3 |
| Unemployment Rate | 1.3 | 1.1 | 1.0 | 0.9 | 1.0 | 1.1 | 1.1 | 1.0 | 0.9 | 0.9 | 0.9 | 0.9 |

-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. 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) | | |
|---|---|---|---|---|---|---|---|---|---|
| Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q4 2022 | Q2 2023 | Q3 2023 | 2022 (observed) | 2023 | 2024 |
| -0.1 | 0.5 | -0.5 | -0.3 | -0.5 | 0.2 | 0.0 | 1.9 | -0.4 | 0.5 |

Source: Refinitiv, BNP Paribas

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# FRANCE

## Moving towards "stop and go" growth?

The business climate surveys from the French National Institute of Statistics and Economic Studies (INSEE) deteriorated in April and May, raising fears that the upturn in business activity seen during the first quarter (+0.2% q/q, following on from 0% q/q during Q4) was temporary to a certain extent. As a result, the exceptional effects of this upturn ( related to / brought about by ? a further increase in manufacturing output at the very start of the year and subsequent positive secondary effects on service output and employment during the first quarter), seem to have quickly evaporated. According to the composite business climate index, the loss of momentum seen during April worsened during May and confidence in services even hit its lowest levels since November 2016 (excluding the Covid period), standing at 101.

By contrast, there was a slight upturn in household confidence during April (standing at 83 in April, compared with 82 in March). However, this increase is still not enough to offset the eroded confidence being experienced among businesses. As a result, household consumption is expected to remain close to its low point observed since the fourth quarter, when it had fallen by -1% q/q before stagnating during the first quarter of 2023.
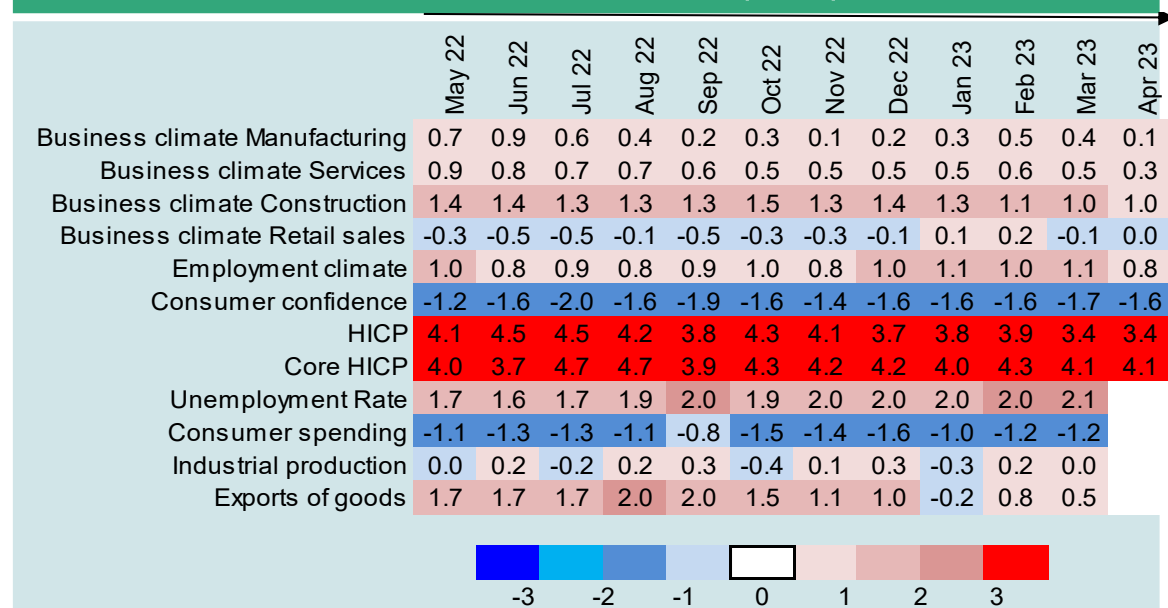
The fall in inflation is too recent to affect household spending, with inflation peaking at 7.3% y/y in February (harmonised index), the drop in food inflation remaining relatively small compared to its peak (15% y/y in April, compared to 15.9% y/y in March) and core inflation rising further (4.7% y/y in April). However, a number of factors are heralding the potential start of disinflation, with fresh food prices beginning to fall (following a rise of 11% between December and March, a temporary situation as these price increases were driven by growing fresh foods in greenhouses in winter, with a first drop of 2.9% m/m being recorded in April), and the balance of opinion on the expected increase in sales prices in the manufacturing sector falling (from 47 points in December 2022 to 3 in May 2023).

The labour market is still relatively vibrant, with a net job creation of 42,000 during the first quarter of 2023 according to INSEE, which is close to the level seen during the fourth quarter of 2022. However, the breakdown shows that market services, excluding temporary employment, were a key contributor (58,000 jobs created), but could not maintain this high rate (with Insee's employment climate index falling from 110 in March to 106 in May). At the same time, the net job losses seen in temporary employment (21,000 jobs) and in the construction sector (3,000 jobs, for the first time since Q4 2016) hint that a downturn may be getting underway.

We are forecasting growth of 0.2% q/q during the second quarter of 2023, i.e. the same pace as during the first quarter, before a sharp slowdown expected during the second half of the year: however, our nowcast (0% q/q) indicates that the slowdown may have started as early as Q2, a potential trend which will be monitored in future business climate surveys.

Stéphane Colliac (article completed on 25 May 2023)

## France: economic indicators monthly changes

| | May 22 | Jun 22 | Jul 22 | Aug 22 | Sep 22 | Oct 22 | Nov 22 | Dec 22 | Jan 23 | Feb 23 | Mar 23 | Apr 23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Business climate Manufacturing | 0.7 | 0.9 | 0.6 | 0.4 | 0.2 | 0.3 | 0.1 | 0.2 | 0.3 | 0.5 | 0.4 | 0.1 |
| Business climate Services | 0.9 | 0.8 | 0.7 | 0.7 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | 0.6 | 0.5 | 0.3 |
| Business climate Construction | 1.4 | 1.4 | 1.3 | 1.3 | 1.3 | 1.5 | 1.3 | 1.4 | 1.3 | 1.1 | 1.0 | 1.0 |
| Business climate Retail sales | -0.3 | -0.5 | -0.5 | -0.1 | -0.5 | -0.3 | -0.3 | -0.1 | 0.1 | 0.2 | -0.1 | 0.0 |
| Employment climate | 1.0 | 0.8 | 0.9 | 0.8 | 0.9 | 1.0 | 0.8 | 1.0 | 1.1 | 1.0 | 1.1 | 0.8 |
| Consumer confidence | -1.2 | -1.6 | -2.0 | -1.6 | -1.9 | -1.6 | -1.4 | -1.6 | -1.6 | -1.6 | -1.7 | -1.6 |
| HICP | 4.1 | 4.5 | 4.5 | 4.2 | 3.8 | 4.3 | 4.1 | 3.7 | 3.8 | 3.9 | 3.4 | 3.4 |
| Core HICP | 4.0 | 3.7 | 4.7 | 4.7 | 3.9 | 4.3 | 4.2 | 4.2 | 4.0 | 4.3 | 4.1 | 4.1 |
| Unemployment Rate | 1.7 | 1.6 | 1.7 | 1.9 | 2.0 | 1.9 | 2.0 | 2.0 | 2.0 | 2.0 | 2.1 | |
| Consumer spending | -1.1 | -1.3 | -1.3 | -1.1 | -0.8 | -1.5 | -1.4 | -1.6 | -1.0 | -1.2 | -1.2 | |
| Industrial production | 0.0 | 0.2 | -0.2 | 0.2 | 0.3 | -0.4 | 0.1 | 0.3 | -0.3 | 0.2 | 0.0 | |
| Exports of goods | 1.7 | 1.7 | 1.7 | 2.0 | 2.0 | 1.5 | 1.1 | 1.0 | -0.2 | 0.8 | 0.5 | |

| | -3 | -2 | -1 | 0 | 1 | 2 | 3 |
|---|---|---|---|---|---|---|---|

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## GDP growth

| Actual | | | | over | Nowcast | Forecast | | Annual forecasts (y/y) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q4 2022 | Q2 2023 | Q2 2023 | Q3 2023 | 2022 (observed) | 2023 | 2024 |
| 0.5 | 0.1 | 0.0 | 0.2 | 0.4 | 0.0 | 0.2 | 0.0 | 2.6 | 0.5 | 0.6 |

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

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# ITALY

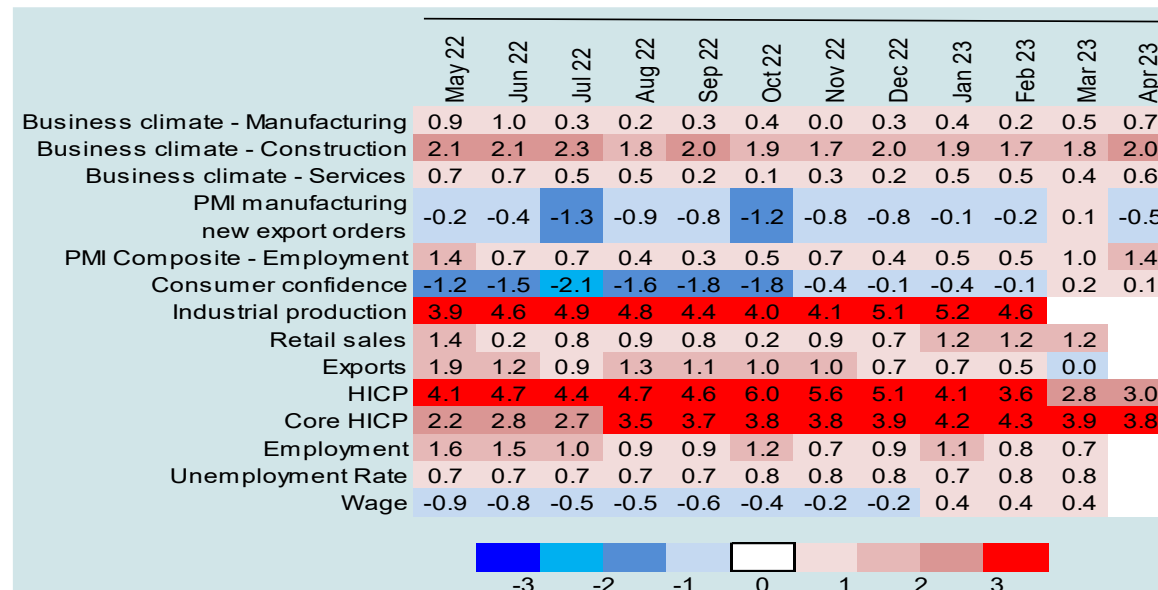## The large gap between inflation and wages persists

The preliminary estimate of Italian economic growth in the first quarter was a positive surprise, with real GDP rebounding by 0.5% q/q. However, we anticipate a slowdown in activity in Q2, before a contraction in Q3. At 0.9% in 2023, Italian GDP growth would still be above that of the eurozone as a whole. Nevertheless, record flooding in the north of the country is likely to have significant economic repercussions, particularly in the agriculture and tourism sector. It is difficult to assess them at this stage.

Although slightly down in April, consumer confidence remains close to its long-term average. The positive development lies in households' unemployment expectations at one year, which fell significantly in April, reaching their lowest level since October 2018. The unemployment rate has decreased gradually since the end of the second lockdown in spring 2021, falling to 7.8% in March 2023. Employment (23,349,110) and the employment rate (60.8%) reached new records.

Inflation in Italy remains among the highest in Europe. The main reason for this was that energy costs for consumers continued to rise sharply (gas and electricity prices rose by 20.1% and 19.5% year-on-year in April, respectively). However, core inflation (excluding energy, food, alcohol and tobacco) rose 5.3% year-on-year in April: this is below the eurozone average, which stood at 5.6%. Wages growth in Italy is steadily increasing against a backdrop of a decline in the unemployment rate. The basic hourly wage thus increased by 2.3% year-on-year in March according to Istat. However, this level is still significantly below the inflation rate.

Guillaume Derrien (article completed on 24/05/2023)

## Italy: economic indicators monthly changes

| | May 22 | Jun 22 | Jul 22 | Aug 22 | Sep 22 | Oct 22 | Nov 22 | Dec 22 | Jan 23 | Feb 23 | Mar 23 | Apr 23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Business climate - Manufacturing | 0.9 | 1.0 | 0.3 | 0.2 | 0.3 | 0.4 | 0.0 | 0.3 | 0.4 | 0.2 | 0.5 | 0.7 |
| Business climate - Construction | 2.1 | 2.1 | 2.3 | 1.8 | 2.0 | 1.9 | 1.7 | 2.0 | 1.9 | 1.7 | 1.8 | 2.0 |
| Business climate - Services | 0.7 | 0.7 | 0.5 | 0.5 | 0.2 | 0.1 | 0.3 | 0.2 | 0.5 | 0.5 | 0.4 | 0.6 |
| PMI manufacturing new export orders | -0.2 | -0.4 | -1.3 | -0.9 | -0.8 | -1.2 | -0.8 | -0.8 | -0.1 | -0.2 | 0.1 | -0.5 |
| PMI Composite - Employment | 1.4 | 0.7 | 0.7 | 0.4 | 0.3 | 0.5 | 0.7 | 0.4 | 0.5 | 0.5 | 1.0 | 1.4 |
| Consumer confidence | -1.2 | -1.5 | -2.1 | -1.6 | -1.8 | -1.8 | -0.4 | -0.1 | -0.4 | -0.1 | 0.2 | 0.1 |
| Industrial production | 3.9 | 4.6 | 4.9 | 4.8 | 4.4 | 4.0 | 4.1 | 5.1 | 5.2 | 4.6 | | |
| Retail sales | 1.4 | 0.2 | 0.8 | 0.9 | 0.8 | 0.2 | 0.9 | 0.7 | 1.2 | 1.2 | 1.2 | |
| Exports | 1.9 | 1.2 | 0.9 | 1.3 | 1.1 | 1.0 | 1.0 | 0.7 | 0.7 | 0.5 | 0.0 | |
| HICP | 4.1 | 4.7 | 4.4 | 4.7 | 4.6 | 6.0 | 5.6 | 5.1 | 4.1 | 3.6 | 2.8 | 3.0 |
| Core HICP | 2.2 | 2.8 | 2.7 | 3.5 | 3.7 | 3.8 | 3.8 | 3.9 | 4.2 | 4.3 | 3.9 | 3.8 |
| Employment | 1.6 | 1.5 | 1.0 | 0.9 | 0.9 | 1.2 | 0.7 | 0.9 | 1.1 | 0.8 | 0.7 | |
| Unemployment Rate | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.8 | 0.8 | 0.8 | 0.7 | 0.8 | 0.8 | |
| Wage | -0.9 | -0.8 | -0.5 | -0.5 | -0.6 | -0.4 | -0.2 | -0.2 | 0.4 | 0.4 | 0.4 | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | -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.
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## GDP growth

| Actual | | | | Carry-over | Forecast | | Annual forecasts (y/y) | | |
|---|---|---|---|---|---|---|---|---|---|
| Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q4 2022 | Q2 2023 | Q3 2023 | 2022 (observed) | 2023 | 2024 |
| 1.1 | 0.4 | -0.1 | 0.5 | 0.8 | 0.2 | -0.1 | 3.8 | 0.9 | 0.6 |

Source: Refinitiv, BNP Paribas

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# SPAIN

## The labour market is still surprisingly dynamic

Spanish growth strengthened slightly in Q1 2023, to +0.5% q/q, according to preliminary figures from INE. However, this acceleration, supported by investment and external demand, did not allow real GDP to cross the pre-Covid threshold. It still showed a small deficit of 0.2% compared to Q4 2019. Household consumption has contracted over the last two quarters (-1.3% in Q1 2023 and -1.7% q/q in Q4 2022). We expect activity to slow in the coming months, but not stall: GDP should grow 0.3% q/q in the second quarter, before stabilising the following quarter.

Inflation bounced back in April, from 3.0% y/y in March to 3.8% y/y, due to unfavourable base effects on the energy item. Although this dynamic is likely to reverse in May, the disinflation process should be slow, with the shock on production costs spreading to most consumer items, and in particular services: the rise in prices in this sector remains significant, at 4.4% y/y in April.

Household confidence has so far been little affected by rising interest rates. It has even recovered thanks to the sharp fall in inflation since last summer and the very good performance of the labour market. Even though it remains below its long-term average, the European Commission's consumer confidence index rebounded by 3.7 points in April, returning to its best level in fourteen months. The business climate also improved across all sectors in April (industry, construction, services and retail trade). However, external demand remains fragile: the PMI indicator for new export orders fell from 48.7 in March to 47.0 in April.

The labour market is still showing no signs of slowing down. According to the Spanish employment agency (SEPE), almost 129,000 net jobs were created in April, an increase of 362,600 over the last three months. This is the biggest quarterly increase since 2005, excluding the 2020 developments linked to the end of the lockdown. The unemployment rate – 12.8% in March – has remained broadly stable over the last twelve months, due to the concomitant expansion of the working population.

Guillaume Derrien (article completed on 24/05/2023)

## Spain: economic indicators monthly changes

| | May 22 | Jun 22 | Jul 22 | Aug 22 | Sep 22 | Oct 22 | Nov 22 | Dec 22 | Jan 23 | Feb 23 | Mar 23 | Apr 23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Business climate - manufacturing | 0.9 | 1.0 | 0.3 | 0.2 | 0.3 | 0.4 | 0.0 | 0.3 | 0.4 | 0.2 | 0.5 | 0.7 |
| Business climate - construction | 1.5 | 0.8 | 0.8 | 1.1 | 0.9 | 1.3 | 1.2 | 1.3 | 0.4 | 1.1 | 0.9 | 1.1 |
| Business climate - services | 0.7 | 0.7 | 0.5 | 0.5 | 0.2 | 0.1 | 0.3 | 0.2 | 0.5 | 0.5 | 0.4 | 0.6 |
| PMI manufacturing new export orders | 0.0 | -0.3 | -1.2 | -0.9 | -1.6 | -1.9 | -1.7 | -1.4 | -0.7 | -0.1 | -0.2 | -0.6 |
| PMI Composite - e | 0.9 | 0.7 | 0.5 | 0.1 | -0.1 | -0.1 | 0.0 | 0.3 | 0.0 | 0.4 | 0.7 | 1.2 |
| Consumer confidence | -0.8 | -1.3 | -1.8 | -1.5 | -1.6 | -1.5 | -1.2 | -0.9 | -0.6 | -0.6 | -0.8 | -0.4 |
| Industrial production | 0.7 | 1.0 | 0.8 | 0.8 | 0.6 | 0.4 | 0.0 | 0.2 | 0.1 | 0.1 | 0.7 | |
| Retail sales | 1.6 | 1.7 | 1.6 | 1.9 | 1.5 | 1.3 | 0.7 | 1.6 | 2.1 | 1.7 | 2.0 | |
| Exports | 1.9 | 1.7 | 1.2 | 2.1 | 1.3 | 0.7 | 1.4 | 0.8 | 0.8 | 0.3 | 0.9 | |
| HICP | 3.4 | 4.0 | 4.2 | 4.0 | 3.2 | 2.4 | 2.1 | 1.5 | 1.7 | 1.7 | 0.4 | 0.7 |
| Core HICP | 1.9 | 2.5 | 3.1 | 3.2 | 3.1 | 2.7 | 2.3 | 2.4 | 3.1 | 3.1 | 2.6 | 2.1 |
| Employment | 1.2 | 1.0 | 0.8 | 0.8 | 0.7 | 0.6 | 0.5 | 0.4 | 0.4 | 0.4 | 0.5 | 0.6 |
| Wage | 1.3 | 1.3 | 1.5 | 1.7 | 1.8 | 1.6 | 1.8 | 2.0 | 0.8 | 0.5 | 0.6 | 0.6 |
| Unemployment Rate | 0.7 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | |

| | | | | | | |
|---|---|---|---|---|---|---|
| -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 | Forecast | | Annual forecasts (y/y) | | |
|---|---|---|---|---|---|---|---|---|---|
| Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q4 2022 | Q2 2023 | Q3 2023 | 2022 (observed) | 2023 | 2024 |
| 2.5 | 0.4 | 0.4 | 0.5 | 1.6 | 0.3 | 0.0 | 5.5 | 1.8 | 0.8 |

Source: Refinitiv, BNP Paribas

## United States: Could the tide be turning?

In the first quarter of 2023, US growth was +0.3% q/q. This is well below expectations: the figure is half the GDPNow estimate of the Federal Reserve Bank of Atlanta and our forecast (0.6%). Growth appears then not to be so impervious to the inflationary shock and the monetary tightening implemented to cope with it.

The growth breakdown allows us to put the weakness of the figure into perspective (this is mainly due to the very negative contribution of changes in inventories). Besides, signs of the expected recession are still limited and even absent in the labour market. Concern is nonetheless growing. For the moment, however, Q2 growth prospects remain positive: moderately so according to our forecast (+0.2% q/q), more clearly according to the GDPNow estimate (+0.7% q/q).

Soft data signal for the month of April was quite positive, with three of the four main analysed surveys recovering slightly: the manufacturing ISM index (+0.8 points, at 47.1), the non-manufacturing ISM index (+0.7 points, at 51.9, after its fall of almost 4 points in March), and the University of Michigan survey on household confidence (+1.5 points, at 63.5, which is still a very low level). The Conference Board's household confidence survey stands out with a significant decline (-2.7 points, to 101.3), which brings the index back to its November 2022 level and thus wipes out the recovery in the first months of 2023. And the University of Michigan survey also fell sharply in May, according to the preliminary estimate.

The signal from the Conference Board's composite leading economic indicator also remained very negative: 13th consecutive fall in April; a significant decline of 0.7% m/m on average; a fall of almost 9% year-on-year over 6 months (annualized rate), just as significant; a widespread decline with a diffusion index of only 20. And the resurgence of large-scale business failures is a new issue to monitor[1].

On the inflation front, the situation seems to be starting to improve more convincingly. Headline inflation (CPI measure) again fell slightly in April (-0.1 points, to 4.9% y/y), returning to its lowest level since May 2021. Core inflation also fell (-0.1 points, to 5.5%), thanks to a sharper deceleration in service prices, an encouraging development. Although inflation remains high, it does seem to be heading down. So, in our view, the Fed can consider that its job is done in terms of rate hikes. The May FOMC minutes, however, point to split views on the issue.

Hélène Baudchon (completed on 26/05/2023)

1 US credit squeeze triggers rise in corporate bankruptcies | Financial Times (ft.com), 05/26/2023.

## United States: economic indicators monthly changes

| | May 22 | Jun 22 | Jul 22 | Aug 22 | Sep 22 | Oct 22 | Nov 22 | Dec 22 | Jan 23 | Feb 23 | Mar 23 | Apr 23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ISM Manufacturing | 1.3 | 0.6 | 0.6 | 0.6 | 0.2 | 0.0 | -0.2 | -0.3 | -0.5 | -0.5 | -0.8 | -0.6 |
| ISM Services | 1.5 | 1.4 | 1.5 | 1.4 | 1.4 | 1.1 | 1.3 | -0.2 | 1.2 | 1.2 | 0.3 | 0.5 |
| ISM Services - Employment | 0.1 | -0.3 | -0.1 | 0.0 | 0.4 | -0.2 | 0.1 | -0.1 | 0.0 | 0.8 | 0.3 | 0.2 |
| ISM Manufaturing - Employment | 0.0 | -0.3 | 0.0 | 0.7 | -0.1 | 0.0 | -0.2 | 0.1 | 0.1 | -0.2 | -0.5 | 0.0 |
| Consumer confidence (Univ. of Michigan) | -2.1 | -2.7 | -2.5 | -2.0 | -1.9 | -1.8 | -2.0 | -1.8 | -1.4 | -1.2 | -1.6 | -1.5 |
| Consumer confidence (Conf. Board) | 0.5 | 0.3 | 0.2 | 0.5 | 0.6 | 0.4 | 0.4 | 0.7 | 0.6 | 0.5 | 0.5 | 0.4 |
| Industrial production | 0.6 | 0.5 | 0.5 | 0.5 | 0.8 | 0.5 | 0.2 | 0.0 | 0.1 | 0.0 | -0.1 | -0.1 |
| Building permits | 0.9 | 0.8 | 0.7 | 0.6 | 0.6 | 0.5 | 0.2 | 0.2 | 0.1 | 0.4 | 0.3 | 0.2 |
| Retail Sales | 0.9 | 0.8 | 1.0 | 0.9 | 0.8 | 0.7 | 0.3 | 0.2 | 0.5 | 0.1 | -0.4 | |
| New Car registrations | -1.9 | -1.6 | -1.4 | -0.4 | 0.1 | 1.1 | 0.6 | 0.0 | 0.4 | 0.1 | 0.6 | |
| Nominal Real Personal Consumption | 0.1 | 0.0 | 0.0 | 0.0 | -0.1 | -0.2 | -0.3 | -0.1 | 0.1 | 0.0 | -0.1 | |
| Household purchasing power | -2.0 | -1.9 | -1.9 | -1.8 | -1.3 | -1.2 | -1.0 | -0.8 | 0.2 | 0.3 | 0.5 | |
| PCE deflator | 3.4 | 3.7 | 3.1 | 3.0 | 2.9 | 2.8 | 2.4 | 2.1 | 2.2 | 2.0 | 1.3 | |
| Core PCE deflator | 3.8 | 3.9 | 3.4 | 3.5 | 3.7 | 3.5 | 3.1 | 2.9 | 2.9 | 2.8 | 2.7 | |
| CPI | 3.7 | 3.8 | 3.4 | 3.2 | 3.2 | 2.9 | 2.5 | 2.1 | 2.0 | 1.8 | 1.3 | 1.3 |
| Core CPI | 4.4 | 4.1 | 4.0 | 4.2 | 4.4 | 3.9 | 3.5 | 3.2 | 3.0 | 2.9 | 2.9 | 2.8 |
| Nonfarm Payrolls | 1.5 | 1.3 | 1.3 | 1.2 | 1.1 | 1.0 | 0.9 | 0.8 | 0.9 | 0.7 | 0.6 | 0.6 |
| Unemployment Rate | 1.2 | 1.2 | 1.3 | 1.2 | 1.2 | 1.1 | 1.2 | 1.2 | 1.3 | 1.2 | 1.2 | 1.3 |

| -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 | | | | over | GDPNow | Forecast | | Annual forecasts (y/y) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q4 2022 | Q2 2023 | Q2 2023 | Q3 2023 | 2022 (observed) | 2023 | 2024 |
| -0.1 | 0.8 | 0.6 | 0.3 | 1.2 | 0.7 | 0.2 | -0.4 | 2.1 | 1.4 | -0.1 |

Source: Refinitiv, BNP Paribas

The bank for a changing world

# UNITED KINGDOM

## The storm has dissipated

The UK economy grew 0.1% q/q during Q1 2023, at the same pace as during Q4 2022. Growth was erratic in the first quarter. Real GDP initially bounced back in January (+0.5% m/m) following a contraction in December (-0.5% m/m), buoyed by the services sector (+0.8% m/m). The economy then stagnated in February, with growth in the construction industry (+2.6% m/m) being offset by a downturn in the services sector (-0.2% m/m). Finally, GDP fell in March (-0.2% m/m), with services (-0.5% m/m) once again being the main negative contributor. Compared to the period when the war in Ukraine started (Q1 2022), UK GDP has been virtually unchanged, posting a growth of only 0.2%.

The consumer confidence index continued to recover in May (-27, compared to -45 in January), returning to levels seen prior to the war in Ukraine. Nevertheless, this improvement has not yet resulted in more buoyant consumption: household spending stagnated in Q1, following an increase of 0.2% q/q in Q4 2022.

Headline inflation slowed in April (8.7% y/y), with the unfavourable base effects on energy prices vanishing. However, core inflation surprised on the upside (+6.8% y/y in April, compared to +6.2%y/y in March). The Bank of England decided to raise its key interest rate by a further 25 basis points in May. While this increase was expected, the new forecasts both on inflation (expected to be more persistent) and growth, (stronger in 2023), along with the current inflation data, suggest that it is likely to raise rates once again in June and then in August.

The labour market seems to be running out of steam. According to the ONS's initial estimates, 136,000 jobs were lost in April, which is the first drop since February 2021. In addition, wage growth in the private sector over the three months to March stabilised at a high level (+7.0% y/y), suggesting nonetheless that the wage-price spiral was starting to slow down.

The British economy therefore held up well during Q1 and should avoid a recession in 2023. However, we are anticipating weak growth of 0.4% this year. Monetary tightening will continue to undermine investment intentions while inflation will continue to weigh on household purchasing power.

Guillaume Derrien and Louis Morillon (intern). Article completed on 25 May 2023.

## United Kingdom: economic indicators monthly changes

| | May 22 | Jun 22 | Jul 22 | Aug 22 | Sep 22 | Oct 22 | Nov 22 | Dec 22 | Jan 23 | Feb 23 | Mar 23 | Apr 23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PMI manufacturing | 1.0 | 0.6 | 0.5 | -0.6 | -0.3 | -0.8 | -0.8 | -1.0 | -0.6 | -0.2 | -0.5 | -0.5 |
| PMI manufacturing new export orders | -0.8 | -0.7 | -0.8 | -1.7 | -1.8 | -2.1 | -2.4 | -1.5 | -1.3 | -0.2 | -0.3 | -0.4 |
| PMI manufacturing employment | 1.1 | 0.6 | 1.2 | 0.1 | 0.2 | -0.4 | -0.5 | -1.0 | -0.7 | -0.2 | -0.7 | -0.1 |
| PMI services | 0.6 | 0.8 | 0.5 | 0.2 | 0.0 | -0.2 | -0.2 | 0.0 | -0.2 | 0.7 | 0.6 | 1.1 |
| Business climate manufacturing (volume of Total Order Book) | 2.0 | 1.5 | 1.0 | 0.2 | 0.5 | 0.4 | 0.3 | 0.3 | -0.3 | -0.3 | -0.5 | -0.5 |
| Consumer confidence | -2.3 | -2.4 | -2.4 | -2.6 | -2.9 | -2.7 | -2.4 | -2.2 | -2.5 | -1.9 | -1.7 | -1.2 |
| Industrial production | -0.9 | -1.1 | -1.1 | -1.2 | -1.1 | -0.8 | -0.9 | -0.8 | -0.6 | -0.6 | -0.5 | |
| Retail sales | -1.7 | -2.0 | -1.3 | -1.7 | -2.0 | -1.6 | -1.7 | -1.8 | -1.5 | -1.1 | -1.1 | |
| Exports | 1.9 | 0.5 | 2.2 | 3.7 | 2.8 | 1.1 | 2.3 | 0.8 | 0.7 | 0.7 | 0.4 | |
| CPI | 4.9 | 4.8 | 5.0 | 4.6 | 4.5 | 4.8 | 4.4 | 4.1 | 3.8 | 3.8 | 3.5 | 2.8 |
| Unemployment Rate | 1.3 | 1.4 | 1.5 | 1.4 | 1.3 | 1.3 | 1.3 | 1.3 | 1.2 | 1.1 | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| -3 | -2 | -1 | 0 | 1 | 2 | 3 |

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## GDP growth

| Actual | | | | Carry-over | Forecast | | Annual forecasts (y/y) | | |
|---|---|---|---|---|---|---|---|---|---|
| Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q4 2022 | Q2 2023 | Q3 2023 | 2022 (observed) | 2023 | 2024 |
| 0.1 | -0.1 | 0.1 | 0.1 | 0.2 | 0.1 | 0.3 | 4.1 | 0.4 | 0.7 |

Source: Refinitiv, BNP Paribas

BNP PARIBAS — The bank for a changing world

## The upturn in growth is fuelling inflation

Japanese growth picked up again during Q1 2023, posting an increase of +0.4% q/q. However, this upturn needs to be put into perspective, as it follows two disappointing quarters (-0.2% q/q in Q3 2022 and 0.0% q/q in Q4 2022). As a result, Japanese GDP is still at the same level as in Q2 2022. Manufacturing output contracted by 1.8% in the first quarter of 2023 compared with the previous quarter, while the business activity index in the tertiary sector slipped 1% over the same period. This gap between industry and services is expected to persist judging by the PMI indices: in May, the manufacturing indicator rose just above the expansion threshold, standing at 50.8 compared to 49.5 in April, while the services indicator hit a new high at 56.3, up from 55.4 in the previous month.

Household consumption grew by 0.6% q/q during Q1 2023, buoyed by spending on services (contributing 0.5 points to GDP) and on durable goods (contribution of 0.5 points). By contrast, real household income is still falling (-1.3% q/q), pulled down by rising inflation.

The Bank of Japan's (BoJ) main inflation measure, the CPI excluding fresh food products, increased again in April (+3.4% year-on-year). The narrower underlying measure, the CPI excluding food products and energy, has risen at a pace not seen since the 1980s (+4.1% year-on-year in April). Inflation continues to spread and affect all goods and services, with almost 50% of them registering a price increase of over 2% year-on-year in April. In addition, inflation expectations rose in the first quarter: according to the Tankan survey, almost 30% of Japanese companies are now expecting inflation of more than 2% over the five-year horizon, compared to 25% one year ago and 15% three years ago. These figures, as well as the trends in alternative inflation measures tracked by the BoJ, suggest that price increases may be more persistent than expected.

Despite these challenges, Japan is expected to record higher growth than most G7 economies this year. We currently estimate that real GDP will grow at 1.1% in 2023. As a matter of fact, we expect growth in activity to accelerate during the second quarter (+0.5% q/q), before the effects of inflation and the global economic slowdown start to take its toll more significantly (+0.3% q/q in Q3 and +0.1% q/q in Q4).

Guillaume Derrien and Louis Morillon (intern). Article completed on 24 May 2023.

### Japan: economic indicators monthly changes

| | May 22 | Jun 22 | Jul 22 | Aug 22 | Sep 22 | Oct 22 | Nov 22 | Dec 22 | Jan 23 | Feb 23 | Mar 23 | Apr 23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PMI: Manufacturing | 0.8 | 0.7 | 0.5 | 0.4 | 0.2 | 0.2 | -0.2 | -0.3 | -0.3 | -0.6 | -0.2 | -0.1 |
| PMI: Services | 0.5 | 0.8 | 0.1 | -0.1 | 0.4 | 0.6 | 0.1 | 0.2 | 0.5 | 0.8 | 1.0 | 1.1 |
| PMI Manufacturing New export orders | -0.7 | -0.4 | -0.2 | -0.5 | -0.5 | -0.5 | -0.9 | -0.7 | -0.6 | -1.3 | -0.7 | -0.5 |
| PMI Manufacturing -Employment | 0.7 | 0.7 | 0.4 | 0.1 | 0.9 | 0.5 | 0.5 | 0.1 | 0.4 | 0.3 | 0.1 | 0.2 |
| Consumer confidence | -1.4 | -1.7 | -1.9 | -1.5 | -1.8 | -1.8 | -1.9 | -1.7 | -1.6 | -1.6 | -1.1 | -0.9 |
| Industrial production | -0.5 | -0.3 | -0.1 | 0.5 | 1.1 | 0.4 | -0.1 | -0.1 | -0.5 | -0.2 | -0.1 | |
| Private machinery order excluding volatile orders | 0.9 | 0.9 | 1.3 | 0.8 | 0.5 | 0.9 | 0.2 | 0.2 | 1.1 | 0.6 | 0.3 | |
| Retail sales | 1.0 | 0.3 | 0.6 | 1.2 | 1.4 | 1.3 | 0.6 | 1.1 | 1.5 | 2.2 | 2.1 | |
| Exports | 1.0 | 1.0 | 0.9 | 1.2 | 1.5 | 1.4 | 1.0 | 0.4 | -0.1 | 0.0 | -0.1 | |
| CPI | 2.2 | 2.1 | 2.3 | 2.6 | 2.6 | 3.2 | 3.2 | 3.3 | 3.4 | 2.5 | 2.4 | 2.6 |
| Core CPI | 0.9 | 1.0 | 1.3 | 1.8 | 2.0 | 2.7 | 3.0 | 3.1 | 3.3 | 3.4 | 3.6 | 3.8 |
| Unemployment rate | 1.3 | 1.3 | 1.3 | 1.4 | 1.3 | 1.3 | 1.4 | 1.4 | 1.5 | 1.2 | 1.0 | |
| Employment | 0.0 | 0.0 | -0.5 | -0.2 | 0.4 | 0.6 | 0.2 | -0.2 | 0.4 | -0.2 | -0.1 | |
| Wage | 1.6 | 1.5 | 1.4 | 1.7 | 1.9 | 1.6 | 1.9 | 1.6 | 1.0 | 0.9 | 0.7 | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| -3 | -2 | -1 | 0 | 1 | 2 | 3 | |

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### GDP growth

| Actual | | | | Carry-over | Forecast | | Annual forecasts (y/y) | | |
|---|---|---|---|---|---|---|---|---|---|
| Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q4 2022 | Q2 2023 | Q3 2023 | 2022 (observed) | 2023 | 2024 |
| 1.2 | -0.3 | -0.0 | 0.4 | 0.5 | 0.5 | 0.3 | 1.0 | 1.1 | 0.8 |

Source: Refinitiv, BNP Paribas

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