

# ECOPULSE

March 2023

MONTHLY PULSE OF OECD COUNTRIES' ECONOMIC INDICATORS



**BNP PARIBAS**

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In February, economic news on the growth front continued to be quite positive in the major OECD economies, while developments on the inflation side were negative. Business climate survey data are still improving, although to varying degrees across countries and sectors. The improvement in household confidence is more timid and heterogeneous across countries. The situation on the labour market remains good, but overall there has been a gradual loss of momentum in job creation and the unemployment rate has stopped falling. The slow rate of disinflation is confirmed. Inflation turned even higher in several countries (France, UK, Spain). The Q1 2023 growth outlook is mixed: a slight contraction in GDP is expected in Germany and the United Kingdom, growth is expected to be flat in France and at the Eurozone aggregate level, moderate in Italy and Spain and more clearly positive in the United States and Japan.

**EUROZONE: WAITING FOR A MORE SIGNIFICANT DISINFLATION**

**GERMANY: BACK TO POSITIVE GROWTH IN THE 1ST QUARTER?**

**FRANCE: A “BUBBLE” OF OPTIMISM SET TO EVAPORATE**

**ITALY: INVESTMENT STRENGTHENS DESPITE THE ENERGY SHOCK**

**SPAIN: SIGNS OF RESILIENCE**

**UNITED STATES: NOT REALLY WORSE, NOR REALLY BETTER**

**UNITED KINGDOM: THE RECESSION IS STILL AHEAD**

**JAPAN: A ROCKY START TO THE YEAR**



## Waiting for a more significant disinflation

Give or take a few details, the economic overview for February is a carbon copy of the economic overview for January: rather positive in terms of survey data, negative in terms of inflation.

In February, the S&P Global Composite PMI recovered for the 4th month in a row, returning to its June 2022 level (52). The February improvement was even better than in January (+1.7 points after a 1-point gain), thanks to the improvement in the services index. In the manufacturing sector, the noteworthy news is the uptick of the output component, back slightly above the 50 threshold. By contrast, the European commission Economic Sentiment Index did not improve further, with positive developments in consumer, retail and construction confidence being offset by the downturn in industry and services.

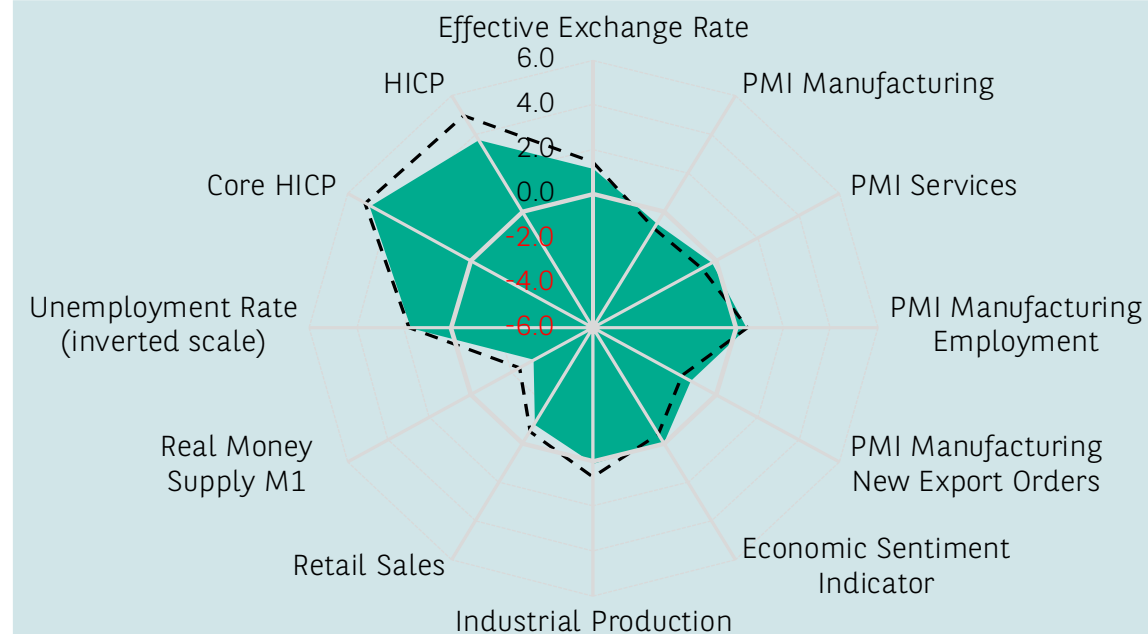
Some signs of stabilisation are emerging on the labour market front. The unemployment rate is no more declining (unchanged at 6.7% from November 2022 to January 2023) and the vacancy rate is no more rising (3.1% in Q4 2022 and Q3). Hiring difficulties have lessened slightly over the past two quarters. In February, the employment component in surveys was eroded.

Inflation barely slowed in February (8.5% YoY, after reaching 8.6% in January). The drop in the contribution of the energy component was marked (-0.5 points), but was offset by the 0.2-point increase in the contribution of the food component and services prices, while the price of goods remained unchanged. Core inflation therefore continued to rise (5.6% YoY, after reaching 5.3% in January). Although not really surprising, these developments are concerning. Major pockets of inflation resistance and persistence remain, as illustrated by the marked rise in hourly labour costs in Q4 2022 (5.7% YoY). As a result, the ECB raised its policy rates again by 50 bps at its meeting on 16 March.

The contraction is infinitesimal but ultimately there is a negative sign ahead of the Q4 2022 growth figure (-0.03% QoQ compared to +0.1% according to the initial estimate). The contraction we expected in Q1 2023 according to our January forecasts has, in turn, made way for a zero-growth forecast, bearing in mind data and developments which have been more favourable than expected. Our nowcast is slightly more positive (+0.1% QoQ).

Hélène Baudchon (article completed on 20/03/2023)

### Eurozone: economic indicators quarterly changes



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.

### Eurozone: GDP growth

Actual			Carry-over	Nowcast	Forecast			Annual growth forecasts (y/y)		
Q2 2022	Q3 2022	Q4 2022	Q4 2022	Q1 2023	Q1 2023	Q2 2023	Q3 2023	2022 (observed)	2023	2024
0.9	0.4	-0.0	0.4	0.1	0.0	0.3	0.2	3.5	0.7	0.8

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



## Back to positive growth in the 1<sup>st</sup> quarter?

Industrial activity saw a clear upturn in January (+3.5% m/m), after a significant downturn in December (-2.4% m/m). For example, intermediate goods and construction, which fell sharply in December, returned to a level of production close to that of November (indeed even higher for construction). Business climate surveys indicate a notable improvement in the economy, including the IFO index which recovered from 84.4 in October 2022 to 91.1 in February 2023. However, the continued quite low level of this index suggests relatively sluggish activity, aside from the improvement seen in January.

Private consumption fell sharply by 1% q/q in the 4<sup>th</sup> quarter of 2022, as a result of the lowest level of consumer confidence seen in October (-42.8 according to GFK). However, the latter has since recovered (-30.5 in March 2023), an improvement supported by household expectations, whether economic or in relation to income: indices at +6 and -27.3 respectively in February, or around 28 and 40 points above their September levels.

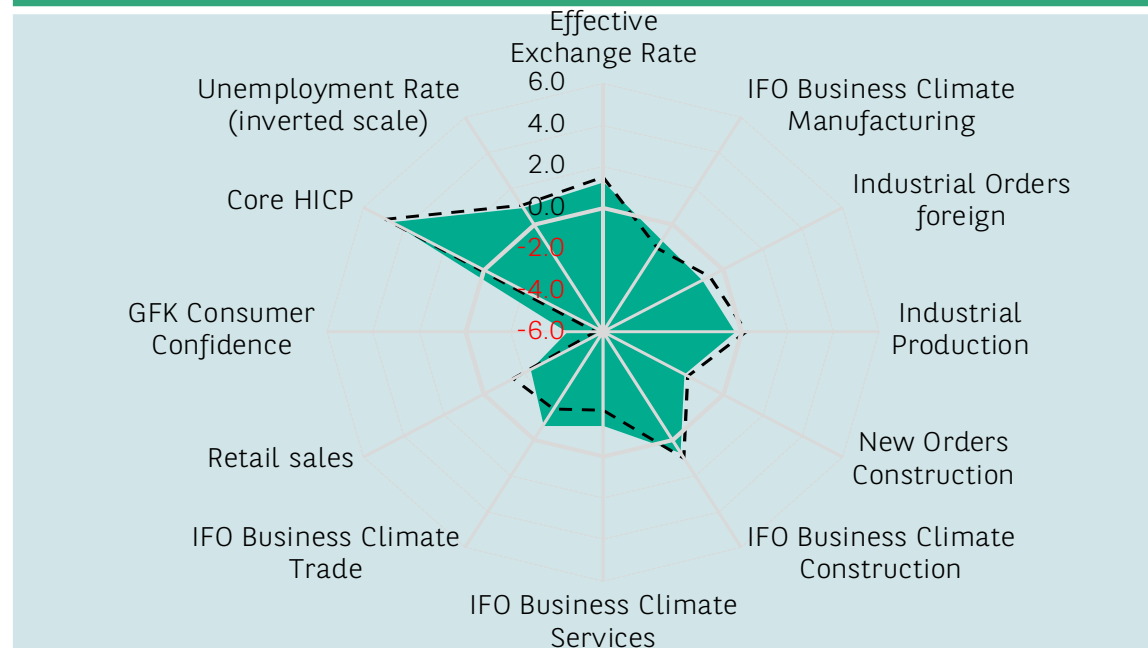
This sentiment that the worst may be over aligns with the movements in inflation: a peak in October 2022 (11.6% y/y) before a decrease, due to the freezing of energy prices by the federal government. Disinflation, however, remains gradual, with an increase in prices of 9.3% y/y in February (9.2% in January), while core inflation still stood at 5.2% y/y in February after 5.4% y/y in December.

According to the IFO survey the employment climate has improved since the low point recorded in October 2022 (97.8), but only slightly (99.4 in February) when compared to past levels (index above 100 between May 2021 and August 2022). Job creation picked up in January 2023 (+64K, or 0.14% m/m). However, this dynamic probably includes a catch-up effect following the slowdown in the 2<sup>nd</sup> half of 2022, in the context of still significant labour shortages.

After negative growth in the 4<sup>th</sup> quarter of 2022 (-0.4% q/q), we forecast a new negative figure in the 1<sup>st</sup> quarter of 2023 (-0.2% q/q). However, the latest economic data implies some upside risk in this forecast.

Stéphane Colliac (article completed on 20/03/2023)

## Germany: economic indicators quarterly changes



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## Germany: GDP growth

Actual		Carry-over		Forecast			Annual growth forecasts (y/y)		
Q2 2022	Q3 2022	Q4 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	2022 (observed)	2023	2024
0.1	0.5	-0.4	-0.3	-0.2	0.3	0.2	1.8	0.1	0.8

Source: Refinitiv, BNP Paribas

## France: a “bubble” of optimism set to evaporate

In February 2022 the announcement of the lifting of restrictions linked to Covid-19 provided grounds for renewed optimism, but this was short-lived since the outbreak of the war in Ukraine put an end to it. In February 2023, although to a lesser extent, INSEE's business climate survey rebounded, by 1 point to 103, reaching its highest level since August 2022. It was supported by the services sector and by industry, a sign of a winter that passed off better than expected in terms of energy supply.

Consumer confidence has not yet reflected this increase in optimism. This index fell by 1 point to 82 in February and is around 20 points below its historic average since June 2022. The balance of opinion on past price increases reached 74, the highest since October 1976. Moreover, French households are not expecting any improvement, particularly in terms of their standard of living.

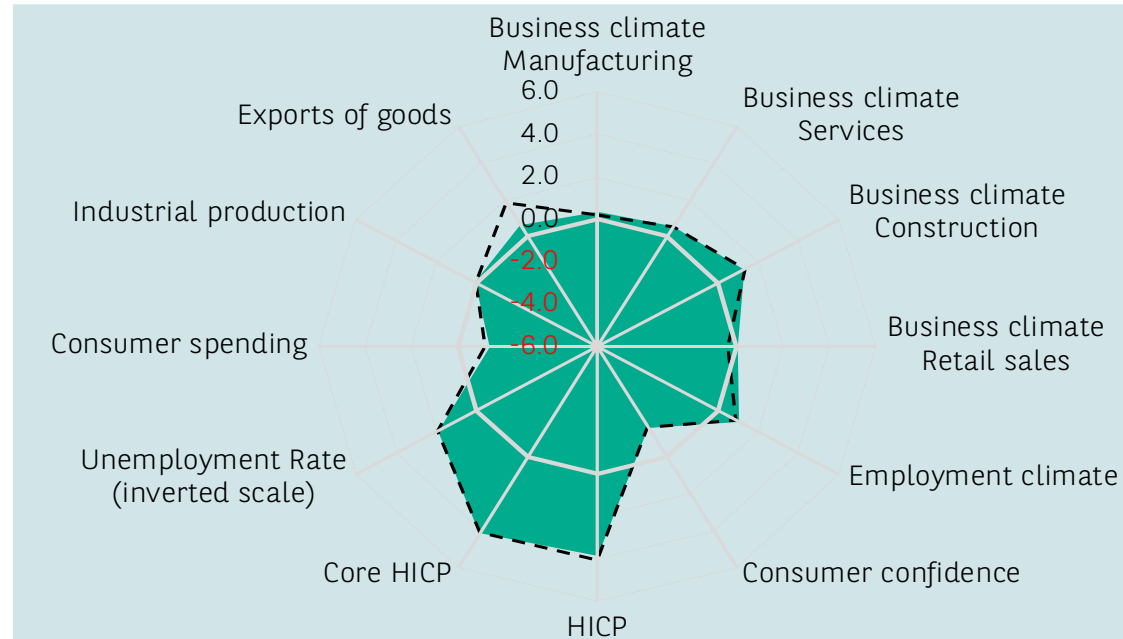
Inflation dynamics explain this consumer pessimism, with a figure of 7.3% y/y (harmonised index) in February, higher than the previous peak of 7.1% y/y in November 2022, due to a significant acceleration in food inflation (14.8% y/y in February) driven by fresh products (+7.8% in February 2023 compared to December 2022). The sharp drop in energy inflation should bring headline inflation down from March, but core inflation (4.5% y/y in February) is likely to persist.

The average wage per head increased by 5.6% in 2022 (average inflation of 5.9%), supported by an acceleration in hourly wages during the year and the payment of bonuses (including value-sharing premium or PPV). At the same time, job creation was strong in 2022 (+337 K), but its momentum slowed in the 4th quarter (+44 K) as post-Covid rebound effects vanished and the economic activity slowed down, particularly in scientific and technical activities (outsourcing activities).

After a slight increase in French GDP of 0.1% q/q in the 4th quarter of 2022, we expect flat growth in the 1<sup>st</sup> quarter of 2023 (which our nowcast confirms), with a further drop expected in both consumption and household investment. The INSEE and Banque de France forecasts for the 1<sup>st</sup> quarter of 2023 are a little more favourable (+0.1% q/q).

**Stéphane Colliac** (article completed on 20/03/2023)

### France: economic indicators quarterly changes



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### France: GDP growth

Actual			Carry-over	Nowcast	Forecast			Annual growth forecasts (y/y)		
Q2 2022	Q3 2022	Q4 2022	Q4 2022	Q1 2023	Q1 2023	Q2 2023	Q3 2023	2022 (observed)	2023	2024
0.5	0.2	0.1	0.3	0.0	0.0	0.2	0.2	2.6	0.5	0.9

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



## Investment strengthens despite the energy shock

The GDP contraction of 0.1% q/q in the fourth quarter of 2022 – due to a marked drop in consumer spending (-1.6% q/q) and the negative contribution from inventories – should not lead us to overlook the very good investment figures. In real terms, gross fixed capital formation rose by 2% q/q in Q4 and by 9.7% over 2022 as a whole. In particular, investment in machinery and equipment reached a new record level. Our forecasts for GDP growth in the first quarter of 2023 have been upwardly revised from -0.6% q/q to +0.3% q/q, in part due to the lower risk of energy shortages.

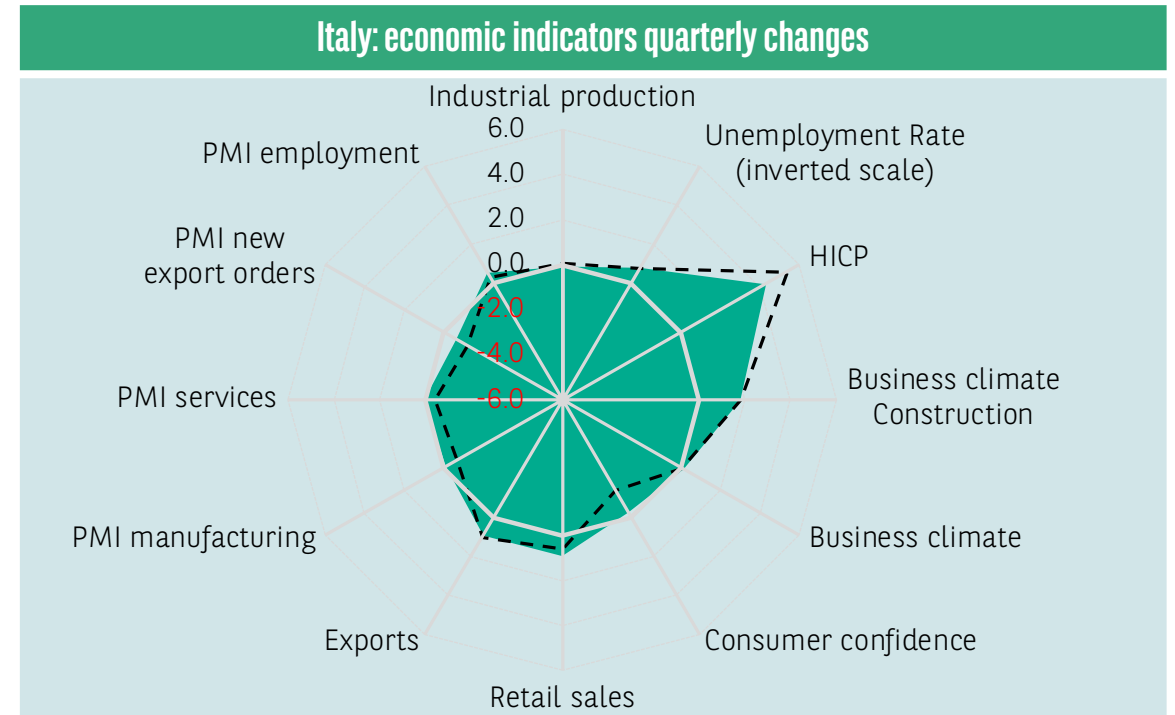
The Italian authorities have been able to quickly move away from the economy's dependence on Russian gas, which stood at around 40% before the outbreak of the war in Ukraine. In addition, a new floating terminal to reprocess imported liquefied natural gas has just been installed off the coast of Piombino in Tuscany. It is expected to become operational in May.

The fall in inflation over the past few months is being reflected positively in consumer confidence. The indices for the financial outlook and the savings capacity over twelve months have both reached their best levels in a year.

However, inflation in Italy has been falling more slowly than in neighbouring countries, with a year-on-year (y/y) increase of 9.8% in February (harmonised figures). Increases in household energy bills are still significantly higher than those seen in the Eurozone, with a rise in electricity and gas prices of 58% and 22% y/y respectively. However, food price inflation, at 13.4%, is below the monetary union average of 17.3%.

Even after the contraction in Q4, growth carry-over for 2023 remains positive, at +0.4%, and should support GDP growth in 2023, which we are currently estimating at around 1%. The figure should be similar for 2024.

**Guillaume Derrien** (article completed on 21/03/2023)



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Italy: GDP growth									
Actual			Carry-over	Forecast			Annual growth forecasts (y/y)		
Q2 2022	Q3 2022	Q4 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	2022 (observed)	2023	2024
1.1	0.5	-0.1	0.4	0.3	0.2	0.2	3.7	0.9	0.9

Source: Refinitiv, BNP Paribas





## Signs of resilience

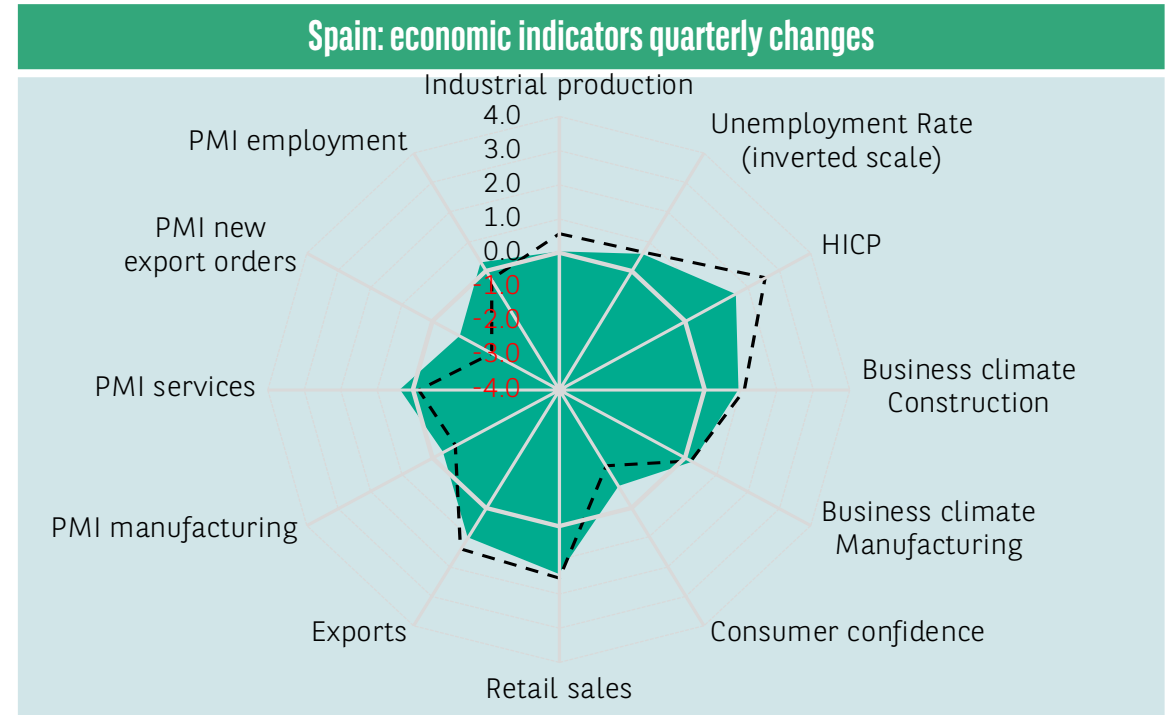
Trends in the PMI indices are making a short-term economic downturn less likely. Our initial forecasts of a contraction in economic activity for Q1 2023 were also revised upwards, with moderate growth now expected (+0.2% q/q). The composite PMI index was up again in March, rising by 4.1 points to 55.7, its highest level since May 2022. The new orders sub-indicator (+4.2 points, to 55.2) and, to a lesser degree, the employment sub-indicator (+2 points, to 52.2) helped to drive this improvement, with price indices (input and output prices) remaining high. Consumer confidence is rising, but is still very weak.

While headline inflation has eased in recent months, thanks to falling energy prices, a second more widespread and sustained wave is now ongoing. Excluding energy, the CPI increased even more sharply in February to 8.2% year-on-year (y/y), driven mainly by rising food prices (+16.6% year-on-year). The removal of VAT on essential products, which was introduced in January, has not stopped prices from going up in the food sector for the time being.

However, the number of jobs created has continued on its upward trajectory from 2022, with a cumulative net increase of 0.7% over the first two months of 2023, according to figures from the Spanish National Employment Office (*Servicio Público de Empleo Estatal* - SEPE). In annual average terms, employment growth stood at 4.7% in 2022, according to the SEPE. The unemployment rate (people aged 16-64 years old) rose to 13.0% during Q4 2022, but is expected to drop again during the first six months of 2023 if job creation continues at this current rate.

Our growth forecasts for 2023 have been revised upwards, from 0% to 1.4%. This is partly due to a more positive carry-over of 0.8% at the end of 2022.

Guillaume Derrien (article completed on 20 March 2023)



The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -4 and +4. 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.

Spain: GDP growth									
Actual			Carry-over	Forecast			Annual growth forecasts (y/y)		
Q2 2022	Q3 2022	Q4 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	2022 (observed)	2023	2024
2.2	0.2	0.2	0.8	0.2	0.3	0.3	5.5	1.4	1.1

Source: Refinitiv, BNP Paribas



## Not really worse, nor really better

In February, the evolution of business climate survey data was positive: on the manufacturing side, the ISM index and the PMI of S&P Global were up slightly (below 50, however); on the services side, the ISM remained at its high level (55.1) and the PMI significantly improved (+4 points), returning above the 50 mark. On the other hand, consumer confidence surveys have moved in opposite direction: down significantly for the Conference Board and up significantly for the University of Michigan. However, this latter fell again in March. The recovery in household confidence since mid-2022 has become more hesitant.

The fall in the Leading Economic Index of the Conference Board is pronounced (and consistent with a recession) but it did not increase between January and February (-7% annualised over 6 months). The coincident indicator remains slightly up thanks to the increase in employment and the household income indicator, but industrial production and the sales indicator show signs of a downward turn. The very positive nominal retail sales figure in January was followed by a slight decline. It should also be noted that the personal saving rate has been on an upward trend since mid-2022 and has risen by 2 points to around 5% in January 2023.

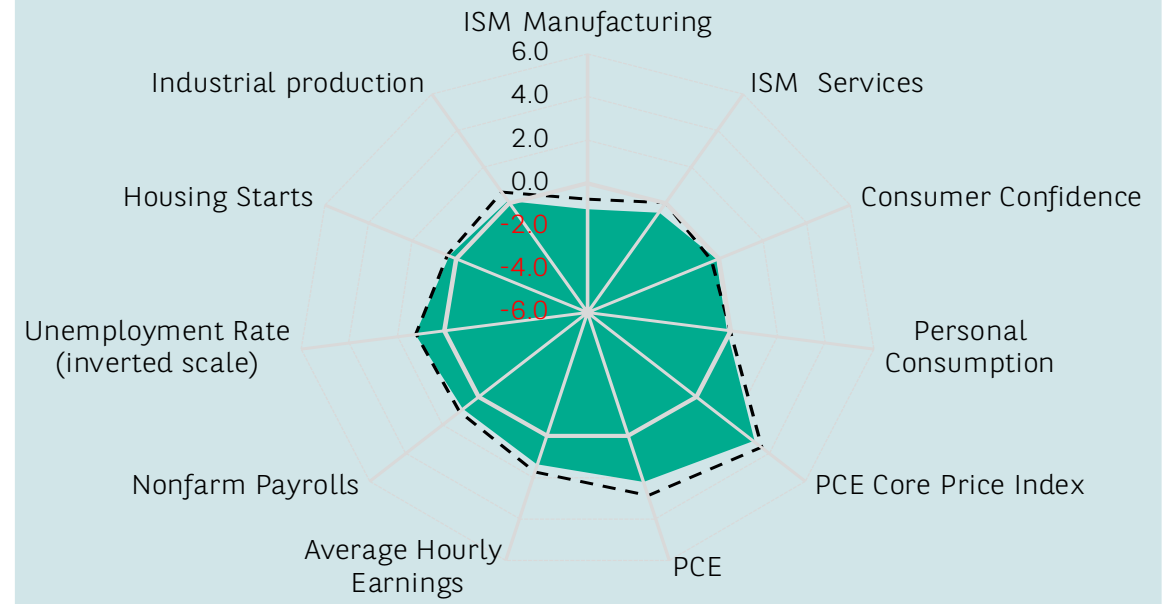
On the labour market side, there has been a gradual loss of momentum in the nonfarm payrolls gains and the unemployment rate has stopped declining since March 2022. In year-over-year terms, the change in its 3-month moving average is still negative, but it is becoming less and less so, and this could turn into a recessive signal (if there is a positive change of at least 0.5 points).

Disinflation is making more progress than in the eurozone (core inflation is falling in the US while it continues to rise on this side of the Atlantic), but its slowness is no less challenging. The still very high level of inflation (6% a/a in February for the headline, 5.5% for core inflation) and its resistance justify the Fed's decision to raise its policy rates by 25bp as was expected at the 21-22 March FOMC meeting.

Despite the mixed feeling of positive and negative cyclical signals, according to the GDPNow estimate of the Federal Reserve Bank of Atlanta, growth would be as good in Q1 2023 (0.8% QoQ) as in Q4 2022 (0.7%), highlighting the upside risks to our own forecast (0.6%).

Hélène Baudchon (achevé de rédiger le 23/03/2023)

## United States: economic indicators quarterly changes



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## United States: GDP growth

Actual		GDPNow		Nowcast	Forecast			Annual growth forecasts (y/y)		
Q2 2022	Q3 2022	Q4 2022	Q4 2022	Q1 2023	Q1 2023	Q2 2023	Q3 2023	2022 (observed)	2023	2024
-0.1	0.8	0.7	0.9	0.8	0.6	0.2	-0.3	2.1	1.5	0

Source: Refinitiv, BNP Paribas





# UNITED KINGDOM

## The recession is still ahead

According to the ONS, British GDP recovered by 0.3% m/m in January, after dropping 0.5% m/m in December. Services contributed 0.4 points, thanks in part to a return to normal working levels in January (end of the Christmas break, fall in the number of work days lost due to strikes). Manufacturing activity was down for the 3<sup>rd</sup> consecutive month in January (-0.4% m/m). Despite a generally positive January, economic activity is expected to decline over the quarter on the back of rising interest rates.

Consumer confidence is still at record low levels, but its recovery in February has provided grounds for optimism (-38 compared to -45 in January). The "Personal finances" (rising from -27 to -18) and "General economic situation" (rising from -54 to -43) components picked up significantly. However, households are still hesitant about making major purchases (falling from -40 to -37).

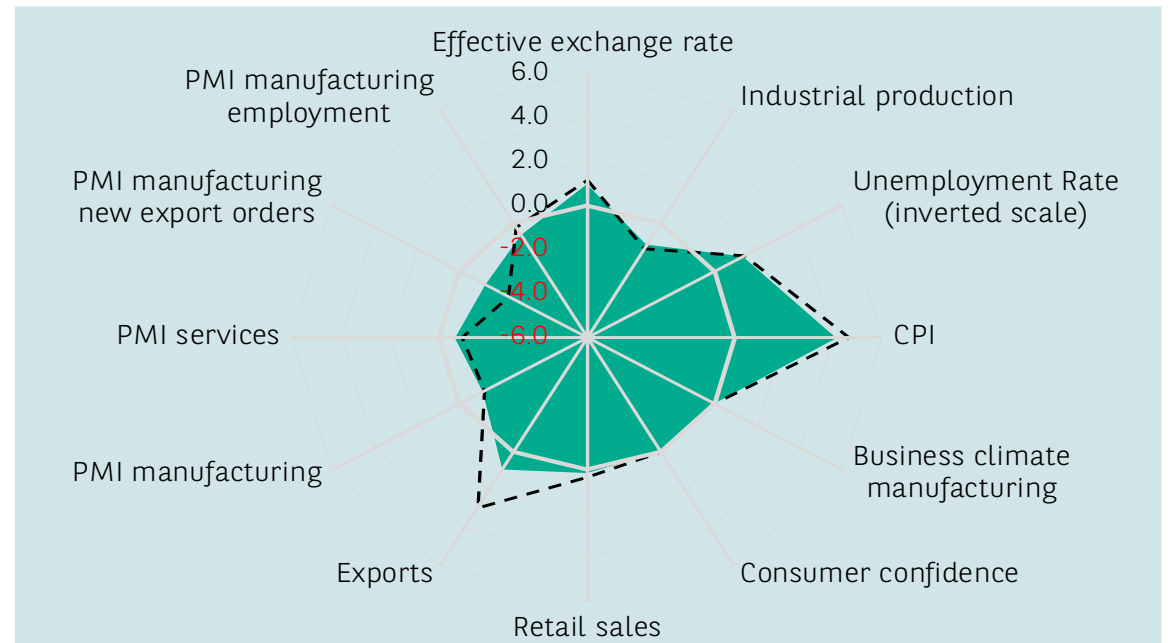
Disinflation came to a halt in February (+10.4% y/y compared to +10.1% y/y in January). This surprise rise is characterized by the sharp increase in food prices (+18.3% y/y) and in hotel and restaurant prices (+12.1% y/y) and, more generally, by more persistent inflation, as shown by the increase in core inflation to 6.2% y/y (compared to +5.8% y/y in January). The Bank of England (BoE) hiked its bank rate by a further 25 bps to 4.25% at its meeting on 23 March. We expect this level to be the terminal rate.

According to the ONS, 98,000 new jobs were created within the UK economy in February, a sign that the labour market is holding up well. Salaries rose 6.5% y/y in January, which was slightly down on December (+6.6% y/y). Even though this is a strong increase, it is still not keeping up with inflation and households have continued to lose purchasing power (with a wage decrease of 3.7% y/y in January in real terms).

Although the British economy kept holding up well during the early stages of Q1, we are still expecting a recession during the first half of 2023 (-0.3% q/q in Q1 and then -0.2% q/q in Q2), before a recovery during the second half of the year (+0.3% q/q in Q3 and then +0.2% q/q in Q4). The repercussions of the hike in interest rates on investment and the fall in real household incomes on consumer spending should be fully felt, before the economy rebounds in particular thanks to inflation abating.

Guillaume Derrien and Louis Morillon (article completed on 23/03/2023)

### United Kingdom: economic indicators quarterly changes



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### United Kingdom: GDP growth

	Actual			Carry-over Q4 2022	Forecast			Annual growth forecasts (y/y)		
	Q2 2022	Q3 2022	Q4 2022		Q1 2023	Q2 2023	Q3 2023	2022 (observed)	2023	2024
	0.1	-0.2	0.0	-0.1	-0.3	-0.2	0.3	4	-0.4	1

Source: Refinitiv, BNP Paribas



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## A rocky start to the year

Japan's economic growth stalled significantly in January. Chinese New Year on 22 January likely contributed to the sharp drop in industrial production, which was down 5.3% m/m. However, the Ministry of Economy, Trade and Industry forecasts that it will automatically recover in February, rising 8% on January's figure. However, the economy's underlying dynamics are still fragile, with the manufacturing PMI falling further in February to 47.7, its lowest level since September 2020. We expect GDP to grow slightly during Q1, at a rate of 0.5% q/q.

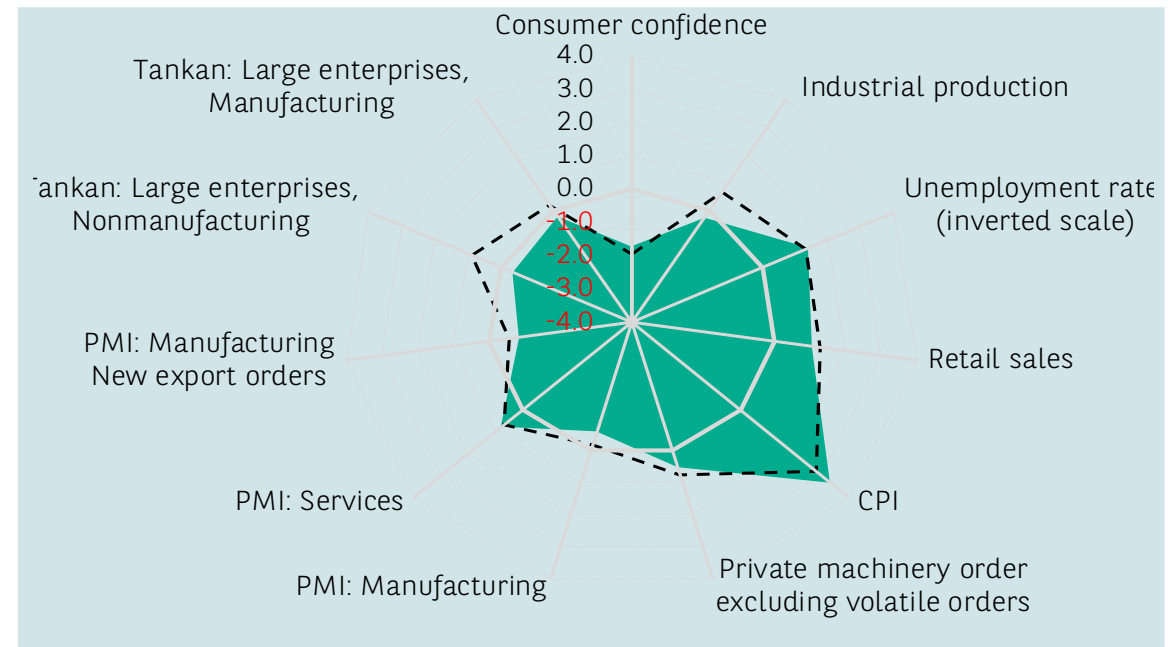
The Bank of Japan and the financial markets are keeping a close eye on inflation dynamics, just weeks before the first monetary policy meeting led by the Bank of Japan's new governor Kazuo Ueda on 27 and 28 April. The national measure of inflation is expected to fall back in February, thanks to the energy subsidies introduced by the government, which were first paid out this month. The Tokyo CPI, a key leading indicator of inflation, fell by one point in February (+3.4% y/y) due to a month-on-month drop in energy prices of almost 14%. However, other sources of inflation have continued to rise, particularly the Tokyo CPI for food, which was up 7.4% y/y in February.

Household inflation expectations have sharply worsened in recent months, alongside the rise in inflation. The Cabinet Office survey found that two-thirds of the households surveyed now expect inflation to be above 5% in a year's time, by far the highest number of respondents since this measurement was first included in the survey in 2004.

Japan will once again display one of the most sluggish post-pandemic recoveries out of all the G8 economies in 2023. If our growth forecast of 1.2% for 2023 proves correct, its GDP would only just return to its 2019 level.

Guillaume Derrien (article completed on 21 March 2023)

### Japan: economic indicators quarterly changes



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### Japan: GDP growth

Actual			Carry-over	Forecast			Annual growth forecasts (y/y)		
Q2 2022	Q3 2022	Q4 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	2022 (observed)	2023	2024
1.2	-0.3	0.0	0.1	0.5	0.4	0.3	1	1.2	0.8

Source: Refinitiv, BNP Paribas



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ECONOMIC RESEARCH | ECOPULSE | 11