ECOPERSPECTIVES

3rd Quarter 2023

“THE SLOW PACE OF DISINFLATION IS EXPECTED TO CONTINUE, WHILE THE SLOW SLOWDOWN IN GROWTH WILL EVENTUALLY LEAD, BECAUSE OF THE MONETARY TIGHTENING, TO A RECESSION IN THE UNITED STATES AND STAGNATION IN EUROZONE GDP.”

ECONOMIC RESEARCH

BNP PARIBAS

The bank
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EDITORIAL

A LIMITED ECONOMIC TURNAROUND, ON BOTH THE DOWNSIDE AND THE UPSIDE

In the major OECD economies, the slow pace of disinflation is expected to continue, while the slow slowdown in growth will eventually lead, because of the monetary tightening (particularly rapid and significant), to a recession in the United States and stagnation in eurozone GDP. Various supportive factors should limit the extent of the reversal, but the ensuing recovery would be equally limited. The slow convergence of inflation towards its 2% target would force central banks to maintain a restrictive policy despite the start of rate cuts in the first half of 2024.

In the middle of the year, there is a relative consensus on expectations of a slowdown in activity in 2023 in the major OECD economies – as a result of the inflationary shock and the subsequent sharp monetary tightening – before a recovery in 2024. Uncertainty relates to the extent of each of these movements. At present, most economic developments, observed or anticipated, have in common their slowness and limited scope[1]. That is quite clear on the disinflation side, and it is also clear on the growth side, where we have seen a slow deceleration so far. We expect the downturn to intensify but it would, in our scenario, lead to a shallow recession in the United States and stagnation in the eurozone from the 3rd quarter of 2023 to the 1st quarter of 2024[2]. This awaited US recession, however, does not seem to be a foregone conclusion as of today, as the early warning signs are still not very tangible, while the risk to the eurozone seems to be the opposite. Indeed, the euro area would narrowly escape the recession, and it would take little for the economy to swing; in that case, the recession would nonetheless be limited for the same reasons as in the US.

WHY A RECESSION?

The main element underlying our forecasts of recession or near recession is the extent of the monetary tightening, which is somewhat larger in the US than in the eurozone, with a cumulative increase of 500 bp for the Fed and 400 bp for the ECB so far, which would reach 525 and 450 bp, respectively, at the end of the tightening cycle, as we expect.

The tightening of lending standards is also stronger across the Atlantic – and is reaching levels consistent with a possible recession by historical standards– while the vulnerability of the euro area comes from the greater role of bank financing in the economy. In the United States, real interest rates are set to return to positive levels, reinforcing the restrictive nature of monetary policy. We also consider the clear recessive signal, sent for several months, by the Conference Board's composite leading indicator through, in particular, the sharp inversion of the yield curve.

However, the United States benefits from a higher growth carry-over for 2023 than the eurozone (+0.9% compared to +0.2% in the 1st quarter and +1.6% compared to 0.4% in the 2nd quarter according to our forecasts). If it does not prevent them from slipping into recession, it explains why, on an annual average basis, our growth forecast for the US reaches 1.5% in 2023 compared to only 0.4% for the eurozone. Admittedly, US growth is weakened by the sharp decline in residential investment over the past eight quarters, but this has not, at this stage, spilled over the US economy as a whole. US GDP growth remains supported by its largest engine, household consumption, which did not experience a single quarter of decline despite the inflationary shock, while the eurozone recorded two (4th quarter 2022 and 1st quarter 2023). The situation on the inflation front is also likely to turn slightly to the advantage of the US, although this remains to be confirmed. Headline inflation is significantly lower (4% year-on-year in May compared with 6.1% for the eurozone), and if core inflation figures were at the same level in May (5.3%[3]), it could fall faster in the US in the coming months if the contribution of the shelter component, which is very important today (two-thirds of headline inflation in May), falls as expected.

EUROZONE: GROWTH FORECASTS (ANNUAL AVERAGE)

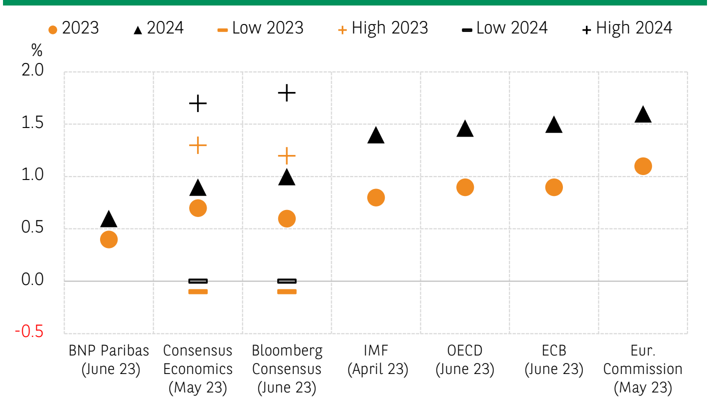

CHART 1 SOURCE: IMF, ECB, OECD, EUROPEAN COMMISSION, BLOOMBERG CONSENSUS, CONSENSUS ECONOMICS, BNP PARIBAS

US: GROWTH FORECASTS (ANNUAL AVERAGE)

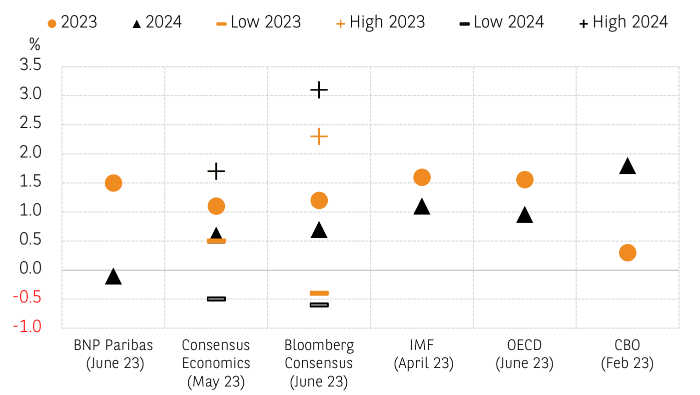

CHART 2 SOURCE: IMF, CBO, OECD, BLOOMBERG CONSENSUS, CONSENSUS ECONOMICS, BNP PARIBAS

1 Cf. William De Vijlder, EcoTV week, A slow business cycle (bnpparibas.com), 22 June 2023
2 Cf. Hélène Baudchon, EcoTV week, Comparative recession prospects in the US and the euro area (bnpparibas.com), 30 June 2023
3 According to the BLS CPI measure, but 4.6% according to the core consumer expenditure price index published by the BEA. This gap illustrates the role that differences in the composition of price indices can play in the comparability of inflation rates between the United States and the euro area.

WHY A LIMITED RECESSION AND RECOVERY?

The two areas also receive substantial budgetary support, notably for investment, with the Inflation Reduction Act (IRA) in the United States and NextGenEU (NGEU) for the euro area, amounting to USD 390 bn and EUR 720 bn respectively. On the US side, the first effects of the IRA may be seen behind the recent strong growth of non-residential investment in structures as well as that of construction spending by the manufacturing sector. On the European side, such a momentum is more difficult to identify, in the absence of the same type of statistics, but we rest assured that the positive impact of NGEU and national plans will continue to grow. The labour market, which is still positive on both sides of the Atlantic, and business confidence, where the deterioration in surveys is comparable, are areas where the US and the euro area converge.

We expect a limited downturn which would rest on several support factors, in addition to the above-mentioned fiscally supported private investment efforts (in digital technology, energy and green transition and industrial sovereignty): easing supply constraints (helping to meet the backlog of orders); post-Covid-19 catching-up dynamics in tourism; disinflation and wage increases (that will ease the squeeze on purchasing power); lower energy and commodity prices; labour hoarding in the face of hiring difficulties (which should limit the deterioration of the labour market despite the cyclical downturn); level of profit margins; expected end of the hiking cycles that would ultimately reduce uncertainty.

These various supportive factors should also encourage a pick-up in activity, which should nevertheless be limited, given the shallow downturn that we expect in the coming quarters. The recovery would also be limited, in our scenario, because monetary policy would remain restrictive despite the start of the easing cycle at the beginning of the year: the slow convergence of inflation towards the 2% target also implies some slowness in the coming rate cuts. The modest recovery, combined with the negative carry-over of -0.4% in the 1st quarter of 2024, explains why our forecast of 2024 growth for the United States is a touch below zero on an annual average basis, which makes a clear distinction between our scenario and that of international organizations (cf. Figure 2). For the eurozone, our scenario stands out by the absence of a significant rebound from 2023 (cf. Figure 1). The risks surrounding our forecasts seem balanced.

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UNITED STATES

ONE FINAL RISE

The US economy continues to grow and create jobs, albeit at a gradually slower pace, and the Federal Reserve has not quite finished with rate hikes. We continue to anticipate a recession, from Q3 2023 until Q1 2024, under the effect of monetary tightening. Having opted for the status quo in June on the back of inflation continuing to fall and in order to take time to assess the effects of the monetary tightening implemented to date, the Fed is expected to make a final 25 bps increase in July, bringing the Fed funds range to 5.25-5.50%.

After being artificially supported by the positive contribution of inventory changes in Q4 2022 (+0.4 percentage points on +0.6% q/q of growth), US growth was, conversely, artificially lowered by their negative contribution in Q1 2023 (-0.5 pp on +0.5%). While the contribution of net exports was slightly positive, the contribution of final domestic demand was significant (+0.9 pp), thanks in particular to household consumption (contribution of +0.7 pp). Household consumption did not experience a single negative quarter, despite the inflationary shock, unlike the eurozone, where household consumption had already fallen twice, in Q4 2022 and Q1 2023.

In Q2, according to the Federal Reserve Bank of Atlanta GDPNow estimate, US growth would reach +0.5% q/q (non-annualised rate), a figure slightly higher than our forecast (+0.4% q/q). This positive print is likely to be fuelled by a more favourable contribution in inventories. There is little doubt that we will see a further drop in residential investment (this would be the 9th fall in a row); our attention will focus on how negative the change will be (bigger than in Q1?). The resilience of household consumption and non-residential investment will also be closely scrutinised. In particular, it will be interesting to see whether investment in structures posts a further quarter of strong growth, following on from Q4 2022 and Q1 2023 (around +4% q/q each quarter[1]), a renewed momentum attributed to the Inflation Reduction Act.

According to our scenario, Q2 would mark the last quarter of growth before the economy enters a recession from Q3 onwards, under the effect of monetary tightening. For the time being however, the economy is showing few warning signs of such a scenario, apart from the marked drop in the Conference Board Leading Economic Index (LEI, -8.4% in May, 6-month change annualised rate, with a diffusion index of 40). This decrease is due to the negative contribution of the "new orders" component of the manufacturing ISM, the credit indicator, consumer expectations and the inversion of the yield curve.

The turbulence and concerns raised by the SVB episode in March, including fears about a hard landing for the economy, have subsided: according to the latest SLOOS (Senior Loan Officer Opinion Survey on Bank Lending Practices), the tightening of lending standards has continued, but in line with previous developments. This tightening of credit conditions is more of a «squeeze» (with risk discrimination) than a more worrisome «crunch».

The ongoing deterioration of the labour market, which remains gradual, is also continuing to put the LEI recession signal into perspective. And while the main confidence surveys (ISM business confidence and consumer surveys) were negative on balance in May[2] , we should not be overly concerned for the moment. However, in terms of small businesses (NFIB survey) and CEOs (Conference Board quarterly survey), morale is very low. And according to the Federal Reserve Bank of Philadelphia Anxious Index, the probability of a decline in real GDP in the following quarter has been relatively high since the beginning of the year (around 45%).

GROWTH & INFLATION

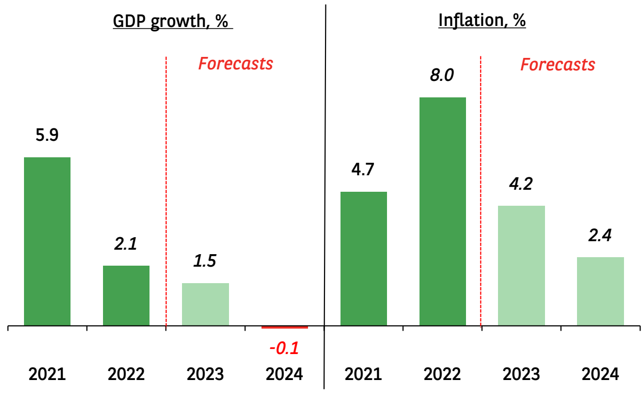

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

In June, the Fed opted, as expected, for the status quo, interrupting a series of 10 rate hikes, which had begun in March 2022, totalling 500 bps. For the Fed, it is a matter of taking the time to assess the effects of the significant monetary tightening implemented to date. Tougher lending conditions are also contributing to the Fed's monetary policy tightening. Inflation figures for May were encouraging (down -0.9 pp to 4% y/y for the headline rate - the lowest since April 2021 and the start of the inflation surge - with a drop of -0.2 pp to 5.3% y/y for core inflation). Disinflation is also about to become significant enough for real interest rates to return to positive territory, strengthening the restrictive nature of monetary policy. However, we believe this status quo by the Fed will not mark the end of the interest rate hike cycle, given the still high level of inflation and the resilience, at this stage, of the economic situation: we expect a final 25 bps increase in July, bringing the Fed funds range to 5.25-5.50%.

In our scenario, the quarter when the Fed ends its monetary tightening will coincide with the start of the recession. The latter is expected to be short and shallow (from Q3 2023 to Q1 2024 with a cumulative drop in GDP of 0.7%), as the decline in inflation, the resilience of the labour market and the favourable momentum of investment in structures will act as cushions. In annual average terms, US growth should stand at 1.5% in 2023, and should be slightly negative in 2024 (-0.1%), due to the negative carry-over at the beginning of the year (-0.4%) and a recovery which should remain restrained by the still restrictive nature of monetary policy, despite first rate cuts in the spring.

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1 Contributing approximately 0.1 percentage points to growth each quarter.
2 See EcoPulse June 2023.

CHINA

A WORRYING LOSS OF MOMENTUM

China's economic growth recovered rapidly following the abandonment of the zero-Covid policy, but it is also running out of steam faster than expected. Domestic demand is held back by a significant loss of consumer and investor confidence, and export momentum is stalling. The authorities are cautiously easing monetary policy, and additional stimulus measures are expected in the short term. They should, among other things, aim to encourage youth employment.

Household consumption and activity in the service sectors recovered rapidly following the abandonment of the zero-Covid policy in December 2022 and after a few weeks of disruption caused by an upsurge of the epidemic. However, this recovery already lost momentum in Q2 2023.

Growth in the services sector accelerated to +9.1% year-on-year in the first five months of 2023, after a slight contraction in 2022. However, on the one hand, this figure is inflated by favourable base effects resulting from the very strict lockdowns imposed in the Shanghai region in spring 2022; on the other hand, activity in services showed first signs of weakening in May. The same applies to retail sales volumes, which rebounded by almost 9% y/y over the first five months of 2023, but whose growth slowed in May. Households are limiting their spending. They remain cautious in the face of the severe crisis in the real estate sector and the uncertainties weighing on their income and employment prospects.

The labour market situation is still weak. In particular, while the unemployment rate in all urban areas fell to 5.2% in May (compared to 5.5% at the end of 2022) and is approaching its pre-Covid level, unemployment among young people aged 16-24 has increased since the beginning of the year. It reached a record high of 20.8% in May, compared to 16.7% at the end of 2022 and 12% in 2019. This development can be notably explained by a mismatch between supply and demand that has appeared on the labour market since the regulatory tightening imposed in 2021 in various service sectors.

On the supply side, the number of young graduates entering the labour market has increased gradually over the past few years, and their level of education has risen. The number of young graduates leaving university reached 10.5 mn in 2022, up from 7.9 mn in 2017. Meanwhile, the total number of migrant workers from rural areas increased by only 3.1 mn in 2022 (to 295.6 mn), down from 4.8 mn in 2017. On the demand side, total employment in the services sector stabilised in 2021 and then contracted in 2022 for the first time. Total employment in industry also decreased in 2022 (resuming the trend followed from 2015 to 2019) while employment in the primary sector rose for the first time in twenty years.

In the tertiary sector, job losses last year concerned services affected by health restrictions (retail, leisure, etc.), real estate, and high-end services that have been targeted by regulatory tightening (education, Internet and tech in particular). The former have benefited from the post-Covid rebound since the beginning of 2023, which should translate into new job creation. On the other hand, the regulatory framework remains uncertain for all sectors considered sensitive by Beijing, which weighs on their investment and employment. However, these sectors specifically recruit young graduates and the most qualified workers.

The ongoing crisis in the real estate and construction sectors and the slowdown in the manufacturing sector could also lead to further job losses. Admittedly, the number of completed construction sites has recovered since the beginning of the year thanks to support measures of the authorities. Nevertheless, potential buyers' sentiment still appears depressed and many developers continue to face significant financial difficulties. Housing sales have continued to fall and the contraction in property investment worsened in May.

The manufacturing sector is heavily penalised by the slowdown in global demand and tensions with the United States. Industrial production only increased by +3.6% y/y over the first five months of 2023, which is unchanged compared to growth in 2022. Goods exports have barely increased since the beginning of the year (+1.1% y/y), and the decline in imports has continued (-4.4%).

GROWTH & INFLATION

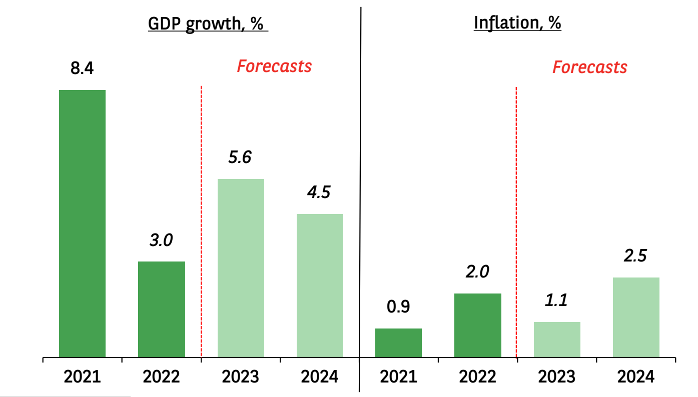

CHART 1 SOURCE: BNP PARIBAS ECONOMIC RESEARCH

CHINA: EMPLOYMENT

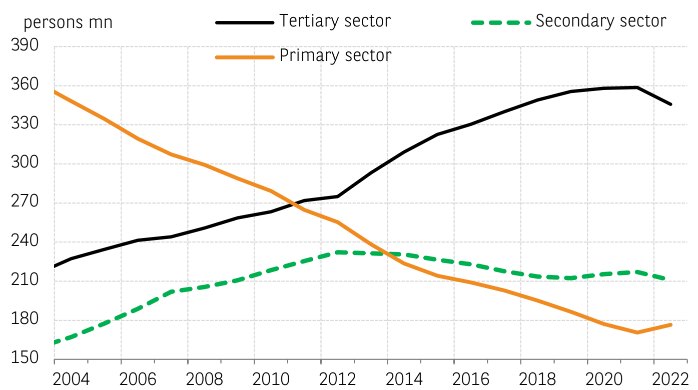

CHART 2 SOURCE: MINISTRY OF HUMAN RESOURCES AND SOCIAL SECURITY, BNP PARIBAS

The central bank cut its policy rates in mid-June (for example, the MLF rate went from 2.75% to 2.65%). The impact on credit growth could be limited, but monetary policy easing is likely to precede other stimulus measures. Given the fragility of local government finances, further fiscal support could come from the central government. Moreover, more actions to reduce youth unemployment are expected (some programmes of modest scope have been launched since last year, aimed at creating jobs in the public sector and supporting companies hiring young graduates). It is indeed urgent to strengthen Chinese household confidence.

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JAPAN: TOWARDS A CHANGE IN INFLATION REGIME

Inflation in Japan continues to rise, spreading to all the items in the consumer price index. Inflation expectations remain anchored around the 2% target and price increases should remain at this level in the medium term. We expect the Bank of Japan (BoJ) to raise the 10-year sovereign rate ceiling to 1% in July, before ending its yield curve control policy by the end of 2024. Real GDP grew by 0.7% q/q in Q1 (+2.7% in annualised terms), mainly supported by household consumption and non-residential investment. The return of foreign tourists (+71% q/q in Q1) also enabled activity to rebound after two disappointing quarters. Although slowing, growth should continue in Q2 (+0.5% q/q) and throughout the second half of the year, reaching 1.1% in 2023.

Japanese inflation continues to rise. The BoJ's main measurement, which excludes fresh food products, resumed its increase in April (3.4% year-on-year) after two months of decline due mainly to energy subsidies put in place by the government. The measurement of prices excluding fresh food and energy has increased more rapidly for the 15th consecutive month to 4.1% year-on-year. In April, 44% of the basket of consumer goods consisted of products whose prices were up more than 4% year-on-year, compared with 13% a year earlier. Services inflation also rose (1.7% year-on-year), which illustrates the growing domestic nature of the rise in prices.

The BoJ's inflation forecasts for the 2023-2024 fiscal year were revised upwards on 1 May and the central bank now expects inflation to remain around its 2% target until at least 2025. Recent surveys indicate that companies are adjusting to this new inflationary environment. According to the Tankan survey, 18.8% of respondents now expect inflation of between 3% and 6% on a 5-year horizon, compared with 5.7% 3 years ago These upward revisions could maintain a positive price momentum that would help the BoJ reach its target.

Another factor indicating more persistent inflation is tensions on the labour market. The unemployment rate has increased since December (2.8% in April) but remains at a level not seen since the 1990s (except in 2018 and 2019). Tension on the labour market is also illustrated by the ratio of new job vacancies to the total job applicants, which has remained close to its highest level for 50 years reached in 2018/2019 (0.48 in April 2023). Finally, the activity rate – low after the 2008 financial crisis, particularly among women – increased (75.2% in April), with Japan now catching up with other G7 members. As it is, the country will not be able to count on a new influx of labour, which should contribute to a more significant increase in wages. This was still up only +1% year-on-year in April. However, the annual salary negotiations (*shuntō*) led to an agreement in April providing for an average annual increase in remuneration of 3.7%, which should be gradually reflected in the monthly statistics.

A REBOUND TO BE PUT INTO PERSPECTIVE

The Japanese economy grew by 0.7% q/q in Q1 and should now have exceeded its pre-Covid level by 0.4%. This growth nevertheless follows two disappointing quarters (-0.4% q/q in Q3 2022 and +0.1% q/q in Q4) and must therefore be put into perspective. The upturn in Q1 was mainly explained by the contribution of household consumption (for 0.3 points) and that of non-residential investment (0.2 points). Households significantly increased their purchases of durable goods (+5.4% q/q), which can be linked to their renewed confidence since January (the index is up to 35.7 in May compared to 30.9 in January). Conversely, foreign trade (-0.3 points) weighed on growth.

GROWTH & INFLATION

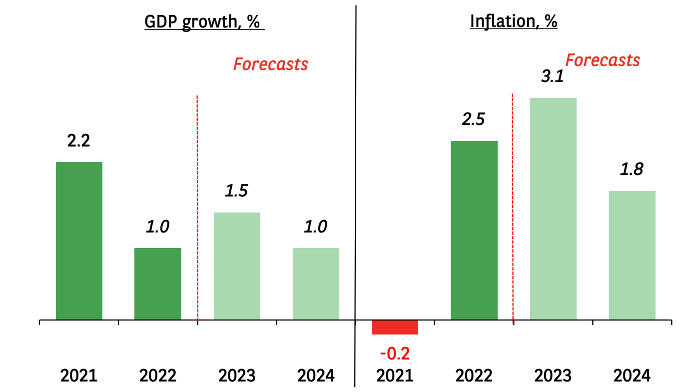

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

The number of foreign visitors recovered two-thirds of its level in April 2019, but the potential for further improvements remains significant.

Exports to China have rebounded sharply since January (+38.6% in May) thanks to the reopening of the economy, but remain 3.4% below their May 2022 level. This rebound was limited by the weak economic recovery in China[1] . The Japanese manufacturing industry has therefore not made much progress over the past year (+0.4% year-on-year in April) and even fell in Q1 (-1.8% q/q). The tertiary sector held up better over the first four months of the year, up 1.5% in April compared to December 2022.

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1 China: Running out of steam, EcoWeek, May 22 2023

EUROZONE: WILL THE TERMINAL RATE BE REACHED THIS SUMMER?

The eurozone entered a technical recession in Q1 2023, with Eurostat having revised lower its estimate of quarterly GDP growth for Q1 from +0.1% to -0.1%, the same contraction as in Q4 2022. These results do not profoundly change our assessment for 2023: weak or slightly negative economic activity, quarter-on-quarter, although growth for 2023 as a whole should be more positive thanks to the favourable carry-over growth effect. Our current forecasts are based on a terminal refinancing rate of 4.5%, which would be reached at the monetary policy meeting on 14 September. Nevertheless, the scenario of harsher tightening cannot be completely ruled out, given the ongoing inflationary momentum and still high inflation generalisation indices.

Energy prices (natural gas, oil) continued to fall in the spring, fuelling the drop in general inflation in the eurozone. Nevertheless, the disinflation process will be slow[1], with inflation not expected to fall back to its 2% target level before 2025, according to our forecasts. Although food products remain by far the main contributor to the rise in the consumer price index, a proportion of inflation is also centred on services (accommodation and food services, recreation and culture, transport services) and fuelled by wages. Base salaries in the eurozone rose 4.3% year-on-year in Q1, according to the ECB's indicator of negotiated wages. This is the biggest increase since the creation of the monetary union. The rise in wages was still below the pace of inflation in the eurozone, but the two curves should cross over during Q3, marking the return to positive territory of the increase in real wages.

In 2022, monetary union benefited from several favourable levers -significant household savings after the health crisis, business recovery with the gradual resorption of disruptions to global production chains, high level of budgetary support- to cushion the inflationary shock and the interest rate shock. These supports will not be as strong in 2023. Furthermore, while supply constraints on components and capital goods are expected to fade (they remained significant in Q1 according to the European Commission survey on limits to production), labour shortages are expected to persist for longer under the effect of the unprecedented tightening of the labour market. The unemployment rate reached a new low of 6.5% in April.

However, we are seeing more signs of a bearish environment. The drop in industrial activity in the eurozone was contained until April, but the manufacturing PMI deteriorated month after month (44.8 in May), while new manufacturing orders in Germany this spring plunged to levels not seen since the 2020 health crisis. In addition, retail sales of food products have been declining significantly in real terms for over a year. Business in services remained more dynamic, with a PMI index at 55.1 in May. While in the short term, the dynamics between the manufacturing sector and services seem to be diverging, in the long term there will be a convergence, probably due to a drop in business in services. In Q3, activity in this sector should be supported by the tourist season, which is once again looking strong. Nevertheless, the continued monetary tightening should ultimately have more widespread effects on the economy.

For the ECB, the correct adjustment of its policy rate is proving even more difficult, given the significant divergences in inflation rates between eurozone countries, both for the headline measure and for underlying inflation.

GROWTH & INFLATION

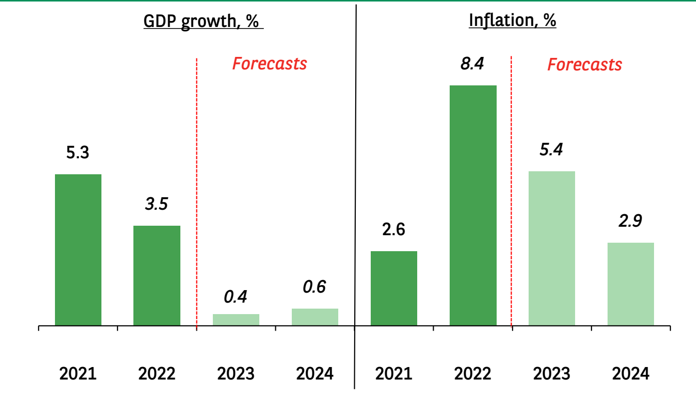

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

Most economies in the eastern part of the monetary union posted core inflation close to 10% (Croatia) or above 10% (Baltic countries, Slovakia) in May 2023, while the rise remained significant in the Netherlands (8.2%) and Austria (7.9%). Conversely, inflation fell below 4% in Spain (3.8% in May). However, the decisions taken elsewhere by central bankers in recent weeks (Australia, Canada) illustrate the monetary authorities' determination to curb inflation, even if this means doing so more aggressively than expected by markets. The ECB seems to be heading in this direction. In early June, Isabel Schnabel, a Member of the Executive Board of the European Central Bank, considered a «hawk», reiterated that in the fight against inflation, *"given the high uncertainty about the persistence of inflation, the costs of doing too little continue to be greater than the costs of doing too much*[2]".

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1 See BNP Paribas, Inflation tracker, June 2023
2 Interview in the De Tijd newspaper, 7 June 2023. https://www.ecb.europa.eu/press/inter/date/2023/html/ecb.in230607~3fc7acf294.fr.html

TOWARDS A DOUBLE DIP?

Germany experienced a technical recession in Q4 2022 (-0.5% q/q) and in Q1 2023 (-0.3% q/q), driven by a contraction in household consumption (-1.7% then -1.2%). Although the main cause of this recession was not its industrial core, the German economy showed signs of weakness which hindered growth. While disinflation should allow household consumption to recover in Q2, economic surveys however, are pointing to a further deterioration, which once again exposes the German economy to a risk of recession in H2.

The long-expected recession finally materialised in Germany, in Q4 2022 and in Q1 2023. Household consumption led the way, firstly by helping avoid recession, despite deteriorated business climate indicators from spring 2022, and then by nurturing recession, even though the upturn at the beginning of the year recorded by the IFO and the ZEW may have suggested that growth might not be negative in Q1. Down sharply in Q1, public consumption strongly affected growth at the beginning of 2023.

A COMBINATION OF CONSTRAINTS ON BOTH SUPPLY AND DEMAND

The overview of the German economy at the beginning of 2023 is of an economy that is still gridlocked. The high volatility of economic indicators should not mask their weakness. The sharp contraction in industrial production last December was offset by an upturn in Q1 2023, but the average (mobile average over 6 months) remained relatively unchanged. Factory orders were flat in Q1, and decreased in April 2023 to their lowest level since May 2013.

At the same time, the opening of a new Tesla plant in Berlin in 2022 enabled a ramp-up at the end of the year, which continued over the first five months of 2023 (an increase of 11% y/y in new vehicle registrations). However, while this additional production capacity has occasionally made it easier to deal with accumulated order books, the supply constraints that companies are facing are still significant; these constraints are restricting production for 68% of companies according to the European Commission. However, in Q1 2023, automotive production remained 11% below its level observed at the end of 2017.

THE MOMENTUM SEEN IN SERVICES IS MISLEADING

The German services PMI continues to diverge quite significantly from the manufacturing PMI, unlike in other countries where this previously significant gap has recently narrowed, particularly in France. However, the IFO business climate survey shows that the momentum seen in services is primarily associated with sectors linked to tourism and leisure, while business services were more aligned with the significantly more moderate momentum seen in the manufacturing sector. Also, a comparison of the European Commission survey on services for the various countries in the EU shows that the tourism and leisure sectors are gaining more momentum in Germany than elsewhere.

A SHIFT FROM WHAT FEELS LIKE SUSTAINABLE RECOVERY TO WHAT FEELS LIKE BACKSLIDING

Although not widespread, the current momentum seen in some services in Germany should still benefit the country's growth. In addition, the recent disinflation should give households more purchasing power, and encourage us to consider an upturn in household consumption in Q2, after a sharp drop previously (-2.9% if we add together contractions in Q4 2022 and Q1 2023).

GROWTH & INFLATION

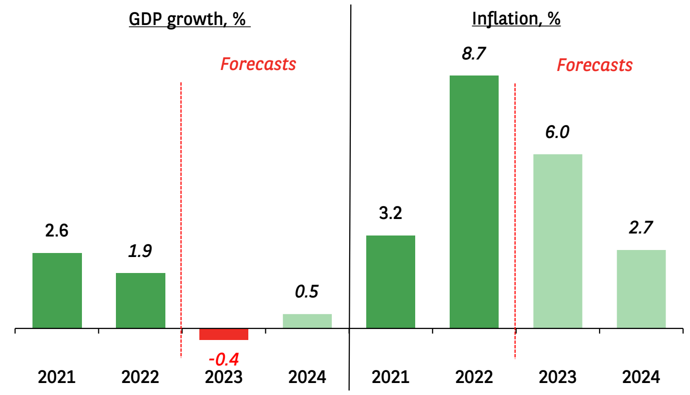

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

However, while industrial production data, new factory orders and economic surveys had suggested a marked recovery in growth up until February, the outlook is now very different. The probability of a drop in growth in H2 2023 has increased. Just as in other European countries, this expectation stems from the increasingly visible impact of the ECB interest rate hikes, in line with what the transmission time frames had suggested, with a maximum effect on the economy from H2. Economic surveys confirm further cooling. While household confidence, measured by the GFK Institute, has seen its synthetic indicator recover, households' willingness to buy returned in May to the low level seen when inflation was in double digits.

This downturn should be moderate (0% q/q growth in Q3, then -0.1% q/q in Q4 according to our forecasts), in particular because the momentum of the labour market has not diminished in recent months, with 155,000 job creations in Q1, and because leading indicators (recruitment difficulties, employment prospects at three months) have remained relatively on track. But the underperformance of German GDP since the end of 2017 highlights the country's dependence on sectors penalised by recent developments, including the chemical and automotive industries (production of which remains, respectively, 15% and 11% lower than at the end of 2017). This explains why German growth has remained below the European average since then, and is expected to stay there in 2023.

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NEW DOWNSIDE RISKS ON GROWTH

After a second half-year 2022 during which growth weakened markedly, Q1 2023 saw a relative rebound, which should be confirmed in Q2: a rebound rather concentrated in some sectors, mainly transport equipment and tourism. However, economic surveys have deteriorated since March, reaching relatively low levels, particularly in manufacturing. Housing, business services and exports are all areas of concern which, taken together, are likely to have a more pronounced negative impact in the second half of 2023, both in terms of growth and job creation, which are continuing for the time being.

Growth is holding up. Excluding the limited contraction in Q1 2022 (-0.1% q/q), with the outbreak of the war in Ukraine, the French economy avoided negative growth despite successive headwinds. In 2022, corporate investment and restocking, as well as the upturn in services after Covid (including transport services and accommodation/catering) offset the drop in household investment, as well as that of their food and energy consumption. At the beginning of 2023, confirmation of the upturn in the automotive and aeronautics sectors supported the economy, despite a new inflation peak.

IN H1 2023: RESILIENCE FACTORS STILL PRESENT BUT MORE LIMITED

This balance between strong headwinds and pockets of growth continues to structure the French economy. The former intensified in Q1: including the contraction in household investment (-2.3% q/q) which accompanied the sharp drop in housing (sales of new housing and second-hand transactions), after a marked drop in lending for house purchase (by almost half y/y in Q1). The sector is suffering from the impact of rising interest rates and the increase in construction costs, which is continuing and worsening the situation for new housing. CPI Inflation peaked in February (7.3% y/y, according to the harmonised index) and household purchasing power contracted by -0.6% q/q in Q1 (per unit of consumption), despite income growth (+1.6% q/q). This last evolution can be explained by the continuation of significant job creation (nearly 90,000), as well as by larger wage increases (which we expect to reach 5% on average in 2023). These factors, in addition to savings in energy consumption, have enabled an increase in the savings rate, and to maintain growth in consumption of services. These factors are not expected to significantly alter in Q2, with miscellaneous evidence suggesting a still positive situation in accommodation in particular.

The other favourable factor is the recovery of automotive production to its pre-Covid level, due to the relative drop in supply constraints. However, although this allows for the processing of accumulated delays, it should not mask the fact that new orders have decreased.

DETERIORATION UNDER WAY

INSEE's business climate deteriorated in Q4 2022 due to fears of an energy shock, before a favourable upturn in Q1 2023. Since March, it has clearly been heading downwards: in May, the synthetic indicator returned to its long-term average (100), below which it has not fallen since May 2015 (with falls in industry, services and construction).

The recent trend in volume of foreign trade confirms these negative signals. While exports of transport equipment increased by 2.7% q/q in Q1, manufacturing exports excluding transport equipment fell by 0.7% q/q (and 3% y/y), while exported transport services fell by 6.7% q/q (after a sharp increase in 2022). In terms of imports, other industrial products, a category which brings together many cyclically sensitive inputs (chemicals, metals, minerals, wood/paper), saw their imports fall by 4% q/q in Q1 (-6% y/y). This is a leading indicator of French industrial production which is likely to follow an unfavourable trend in the coming months.

GROWTH & INFLATION

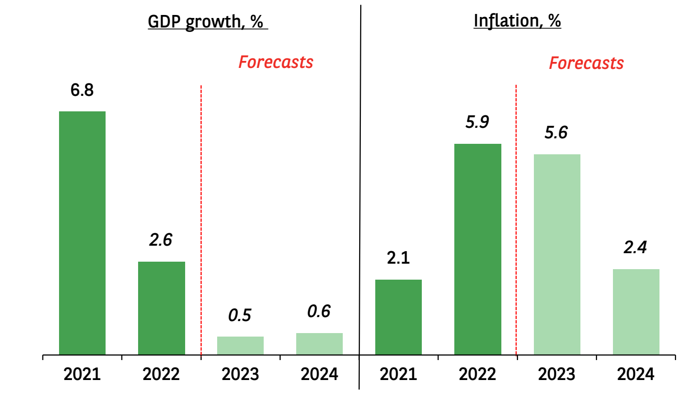

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

Finally, although consumption of services has proved resilient in recent months, it is partly due to a return to normal post-Covid (leisure, tourism) but also to substitution effects: recovery of catering to the detriment of food consumption in shops. The latter, penalised by inflation and these substitution effects, has fallen to its lowest level since 2005. In Q1 2023, it was 9.6% lower than its level in Q4 2021 before the surge in food inflation (these figures also incorporate the effect of a drop in the quality of products consumed). Consumption of goods excluding energy and food is more stable, especially due to an upturn in transport equipment; if this category of goods is excluded, consumption was down 2.3% between Q4 2021 and Q1 2023. Above all, the opportunity to make major purchases reached its lowest ever level in April (6.5% of households, compared with an average of 14.6% over the last twenty years), even below the low point of June 2008 (7.7%), heralding a significant drop in demand. It is therefore likely that the disinflation we are beginning to observe is not enough, in particular because it is too gradual (5.6% on average in 2023 according to our forecasts compared to 5.9% in 2022) to have an impact on household willingness to spend.

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ITALY

STRONG GDP AND PRICES GROWTH

Following a mild contraction in the last three months of 2022, Italian GDP rose by 0.6% in Q1 2023. The carry-over for 2023 is +0.9%. In Q1, domestic demand excluding inventories added 0.7 percentage points to growth, while the contribution of both net exports and inventories was negative. Investment rose by almost 1%, reflecting the improvement of economic and financial conditions for Italian firms. Italian households benefited from the strong recovery of nominal income, but still suffered from the purchasing power loss due to inflation. This latter remains among the highest in the euro zone, at 8% y/y in May (harmonised measure).

SOLID RECOVERY IN Q1 2023

Following a mild contraction in the last three months of 2022, Italian GDP rose by 0.6% q/q and 1.9% y/y in Q1 2023. GDP is 2.5% higher than in Q4 2019, more than in other main Euro area countries. The growth carry-over for 2023 is +0.9%.

In Q1, domestic demand excluding inventories added 0.7 pp to growth. Consumption rose by 0.5% q/q, partly recouping the large fall recorded in Q4 2022 (-1.7%). Italian households benefited from the increase of nominal income, but still suffered from the decline of their purchasing power. Labour market conditions have further improved. The number of employed persons is above 23.4 million, with the employment rate at 61%, the highest in the last twenty years. Despite the recent fall in inflation, the consumer prices index is still 15% above the level of the beginning of 2021. In Q1 2023, households' consumption in volume was slightly lower than in Q4 2019, while nominal expenditures were more than 10% higher. Investment's contribution to quarterly GDP growth was positive (+0.2 pp), reflecting the strengthening of economic and financial conditions for Italian firms. Investments in buildings and other structures (excluding dwellings) rose by 1.5% q/q and those in means of transports by almost 7% q/q. In Q1 2023, real exports declined more than imports (respectively -1.4% and -1%). Net exports contribution was therefore negative (-0.1 pp, after +1.5 pp in the previous quarter).

In Q1, value added in the manufacturing sector declined by 0.1%, the third consecutive contraction. Trends in industrial activity remain mixed, with energy intensive sectors, such as chemicals, metals, wood and paper products, suffering from higher production costs. After the moderate decline recorded in Q4 2022, value added of services rose by nearly 1%, mainly reflecting the strong rebound in both real estate activities and in professional and administrative activities, while value added for the construction sector increased by 1.5%.

STUBBORN INFLATION

The inflation rate in Italy remains among the highest in the euro zone, at 8% y/y in May (harmonised measure), largely due to the increases observed between January and February.

Inflation is a relatively new phenomenon for a large part of the Italian population. In Italy, as in the rest of the Euro area, such high and persistent price increases have not occurred since the mid-1980s.

Today, the number of Italian residents over 40 years old (i.e. born before the 1980s) is about 35.4 million, out of a total population of nearly 59 million. Those born after the 1980s (over 23 million people) had never experienced until 2021 what inflation meant in their daily lives. It took a little while for such a large segment of the population to fully understand the actual effects of persistent price rises on their lifestyle and their spending, saving and investment decisions. Moreover, the portion of the population to whom inflation was basically unknown is even higher if we consider that only 17.2 million persons who were economically active during the 1970s and 1980s are still alive. In other terms, less than one third of the population living in Italy today actually experienced inflation in the past.

In Italy, inflation has mainly affected households in the lower income classes. In a recent study, ISTAT estimated at around 5 pp the differential of inflation between households in the lowest and highest income classes, also pointing out that the gap widened as inflation increased.

GROWTH & INFLATION

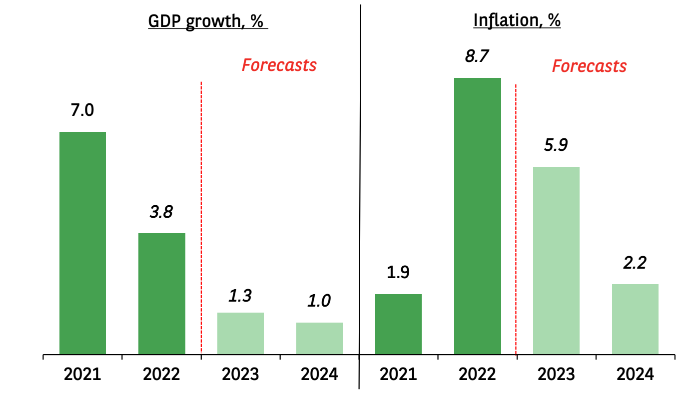

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

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SPAIN

THE INFLATIONARY SHOCK IS SHAKING UP THE POLITICAL SPECTRUM

The drop in inflation in Spain has provided no respite for the coalition in power. The Socialist Party's losses in the regional and local elections on 28 May to the People's Party, led Prime Minister Pedro Sanchez to announce a snap general election on 23 July, five months before the originally scheduled date. Despite a still dynamic labour market, the drop in purchasing power and the housing crisis are penalising the party in power, which has fallen even further behind in the polls this spring. The property market is showing signs of a limited correction for the time being, but the continuation of monetary tightening and the resulting hike in lending rates are likely to accentuate this downturn.

At local and regional elections, the Socialist Party (PSOE) admittedly garnered 28.1% of votes, slightly less than in 2019 (29.4%), but the People's Party (PP) clearly consolidated its position with 31.5% of votes (compared with 22.7% in 2019). In particular, the PP is benefiting from the collapse of the centre-right Citizens party (Ciudadanos), which will not be presenting any candidates at the general election in July. The PSOE has lost important seats to the PP, both regionally (Valencian Community, Aragon) and locally (Seville, Valencia). The results also confirm the decline of Podemos, part of the coalition currently in power. After the results, Prime Minister Pedro Sanchez announced an early general election to be held on 23 July. In mid-June, the PP led the polls even though, due to an absolute majority, Alberto Núñez Feijóo's accession to power (leader of the PP) could be based on an alliance with the far-right Vox party. Vox once again made significant progress in the May elections, confirming its 2021 breakthrough in the elections in Castilla and Léon. Despite rather satisfactory results on the labour market front (the unemployment rate fell back to 12.7% in April), the PSOE is being penalised by the purchasing power and housing crisis, and also by political negotiations with the independence parties, often criticised but necessary to secure a majority in Parliament.

A PP victory in the general election in July could have repercussions on the roll-out of the recovery and resilience plan, without drastically changing the framework of this plan. A new roadmap was finalised by the government and sent to the European Commission in early June. This now includes the EUR 90 billion in European loans granted to Spain under the NextGenerationEU recovery package, for which the Spanish authorities had not yet applied. At this point, Spain has received EUR 37.04 bn in subsidies from the European mechanism, i.e. just over half of the total budget of subsidies granted to the country (EUR 69.51 bn).

THE PROPERTY MARKET DOWNTURN IS LIKELY TO INTENSIFY

Housing remains the weakest link in the Spanish economy. The rise in lending rates –which have more than doubled in one year, going from an average rate of 1.7% in April 2022 to 3.8% in April 2023– has generated the start of a turnaround in mortgage lending, although this was still limited this spring. Since the beginning of the year, outstanding home loans have once again contracted year-on-year (y/y), after eighteen months of moderate growth. The contraction was still only 2.0% in April, but should accelerate over the coming months with the continuation of interest rate hikes expected this summer. Outstanding mortgages in Spain contracted without interruption between 2012 and 2020, in line with the long-term correction phase on the property market. This outstanding total is currently almost a quarter below the level reached in 2010-2011.

GROWTH & INFLATION

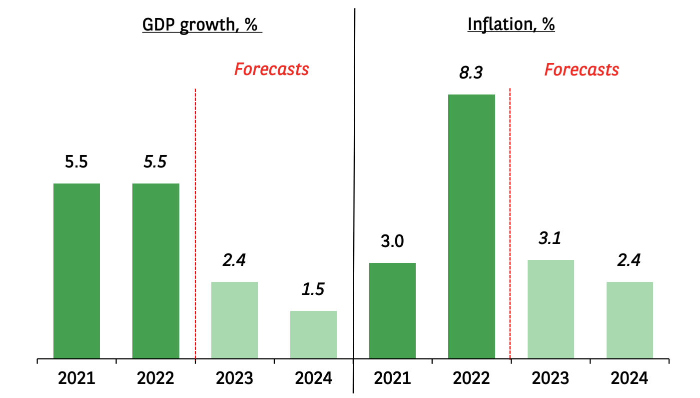

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

A lag in the effects of monetary tightening on the economy is expected[1]. Some indicators will therefore need to be closely monitored over the coming months. This is particularly the case for foreclosures. Although currently at a historically low level (5,168 in Q1 2023 compared to a historical average [Q1 2014-Q1 2023] of 15,115), this does not preclude that a downturn in loans is not already ongoing: in Spain, a foreclosure procedure can only be initiated if the borrower fails to repay their monthly payments for a period of three months. Current data (Q1 2023) therefore only partially incorporate the interest rate hike phase beginning in summer 2022, which continued through the spring and will continue this summer.

The resilience of the Spanish property market will largely depend on the ability of households to endure the inflationary shock which, although down sharply over the first half of this year (the increase in the CPI slowed to 3.2% y/y in May), has had an impact on purchasing power. In addition, the INE consumer price index includes changes to rents (capped at 2% in 2023) but not changes to mortgage rates: therefore the CPI does not reflect all the consequences of the rise in mortgage rates on household purchasing power. Savings accumulated by households during lockdown periods fell sharply in 2022 under the effect of rising prices and interest rates; in the second half of 2022, they even fell below the level seen for the same period in 2019 (EUR 25.7 bn compared to EUR 27.1 bn, Eurostat data). The second half of 2023 is looking weak, with our current forecasts based on a near-stagnation in activity (no growth in Q3 then +0.1% q/q in Q4).

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1 See BNP Paribas Eco Week, "Long and variable lags in transfer of monetary policy: the case of the eurozone", 28 February 2023.

BELGIUM

DREADING THE FALL

At the start of this year, Belgian GDP growth remained at above-average levels. Inflation is currently slowing down alongside the cooling of the labour market. Rising interest rates have started to bite, as real estate spending is already declining, with firm capex to follow suit. A (brief) recession towards the end of the year remains possible but unlikely. Even if it does materialise, a debt-constrained government won't be of much help, however.

The Belgian economy surpassed expectations in growing by 0.5% q/q in the first quarter of this year. Currently, our forecast for the second quarter suggests slower but still above-average growth of 0.4%. In the second half of the year, we expect GDP to stagnate, as the impact of monetary tightening becomes more significant.

Harmonised inflation came in at 2.7% y/y in May, amongst the EU27's lowest. The average price level in Belgium has declined by more than 3% from its October peak. Energy prices have started to act as a drag on headline inflation. Food price inflation, in double-digit territory since the second half of last year, is also slowing down somewhat. The food price index even declined month-on-month in April, for the first time in almost two years. All eyes remain firmly fixed on core inflation, which has been hovering above 6%. With the labour market gradually cooling down (*see below*), underlying inflation pressures are expected to subside, but this disinflation process will be slow. We expect HICP to flirt with deflation at the start of Q4, driven down by the technical treatment of energy-support measures. For the full year, our inflation forecast is at 3.0%, both for 2023 and 2024.

Consumer confidence remains close to its long-term average, having completed its recovery from the double dip (due to Covid-19 and the Russian invasion) at the start of the year, but households' pessimism about their ability to save money has worsened. Households are also gradually becoming more worried about the evolution of the labour market. Employment growth is indeed slowing down, both for company employees and those in self-employment. The vacancy rate had come down somewhat from its historical peak, to 5.4% by the end of last year. The leading Federgon index, a measure for temporary labour demand, has been trending down steadily since the beginning of last year. The unemployment rate, which was at 5.6% in April, remains at a historically-low level. However, the trend should reverse somewhat – the jobless rate is likely to pick up above 6% - which would help push down core inflation.

The real estate market is also cooling off. Prices have fallen back somewhat, according to the latest BIS data.. The number of transactions remains stable, but a steep decline in mortgage demand suggests this is only a temporary reprieve. We expect prices to drop by 2% across 2023, after which a gradual normalisation should ensue as interest rates reach a new equilibrium.

Interest rates will also weigh on business investment while it is the sole remaining GDP component that is still below pre-Covid-19 levels. Business confidence receded once again in May, but fortunes differ markedly among the various sectors. Optimism increased among firms active in trade for a third consecutive month. Manufacturers, on the other hand, are more worried, especially about demand and employment. These companies are also most pessimistic about their access to credit.

GROWTH & INFLATION

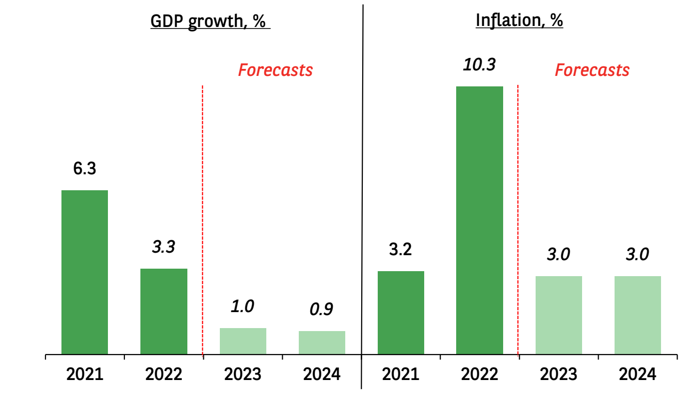

CHART 1 SOURCES: BNP PARIBAS GLOBAL MARKETS

12 months – that is all it took for government bond yields to return to their 2010 levels. Despite the long maturities of outstanding debt, debt servicing costs have increased by 10 basis points since last summer. The Belgian Debt Agency expects them to further increase from around 1.5% of GDP currently to about 2.2% by 2027. Under conservative assumptions, public debt as a share of GDP could increase by close to 2 percentage points every year in the foreseeable future. Having insulated the economy from the worst impact of both the pandemic and high energy prices, the De Croo government is now expected to turn its focus to improving the budget outlook, which is expected to come in at -5% or worse this year.

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UNITED KINGDOM

A WAVE OF INFLATION MAY WELL BE HIDING A SECOND ONE

GDP in the United Kingdom rose by 0.1% q/q in Q1 2023. The winter recession heralded in autumn 2022 did not materialise thanks to public investment, the momentum of services and the resilience of industry. This resilience is good news, but is likely to make inflation more persistent in the medium term, while the latest figures once again surprised on the upside. The Bank of England (BoE) will have to continue to raise interest rates. This will impact growth, which is likely to be zero in 2024, after already reaching just 0.4% in 2023.

Q1 GROWTH WEATHERED THE STORM

The UK will not be hit by recession in H1 2023, with growth having held up in Q1 according to current estimates (+0.1% q/q). Public finance support, through various support schemes (the Energy Price Guarantee, support for private investment) as well as through direct public investment (+9.7% q/q in Q1 2023), contributed positively to growth. Private consumption (-0.0% q/q) and corporate investment (+0.7% q/q) have not fallen as expected, benefiting from a catch-up effect in relation to the stalling seen post-Brexit. From a production point of view, services primarily supported growth (by 0.06 points), while construction (0.04 pt) and industry (0.02 pt) also contributed positively, although to a lesser extent. This resilience has spread to the majority of sub-sectors, despite signs of a slowdown for some. Retail sales held up in Q1 (+1.1% q/q), but household services fell (-0.4% q/q).

However, the United Kingdom faced headwinds this quarter. The household consumption deflator only slowed slightly to 9.4% y/y in Q1 2023, after reaching 10.3% in Q4 2022. At the same time, interest rates continued to rise, with the BoE bringing its key rate to 5% in June, and with the borrowing rate for lending to non-financial businesses standing at 6% in April (2.4% in April 2022). Households also suffered from monetary tightening as the interest charge as a percentage of their gross disposable income went from 1.5% in Q4 2021 to 3.6% in Q4 2022[1]. For the time being then, the private sector has weathered this double rise in the cost of living and in borrowing.

THE SECOND WAVE IS ALREADY HERE

Our scenario forecasts growth of +0.1% q/q in Q2 2023, then +0.2% in Q3 and +0.0% in Q4. Recession would therefore be avoided this year thanks to the favourable momentum driven by Q1 performance. Buoyed by this positive momentum in the short term, the UK economy has weathered the storm but headwinds are keeping it out at sea.

Firstly, the latest inflation figures are still generating fears of greater persistence and should force the BoE to continue its monetary tightening cycle for longer than expected a few months ago. Core inflation (excluding food and energy) continued to rise in May, reaching a 40-year high (7.1% y/y). Inflation seems to be affecting components which had been relatively spared to date, such as communication (+9.1% y/y in May) and leisure (+6.7% y/y). Similarly, inflation on the services sector (+7,4 %) - closely monitored by the BoE as an indicator of domestic inflation - rose above its record high seen in December 2022.

Secondly, the labour market is showing signs of a slowdown but remains relatively tight. The UK economy created only 7,000 jobs in April. Employment has now fallen in some sectors since April 2022, such as construction (-5,000 jobs) and retail (-50,000 jobs). These job losses can also be weighed against the sharp rise in corporate defaults in Q1 (+17.7% y/y), which was particularly marked in the retail sector (+35.3% y/y).

GROWTH & INFLATION

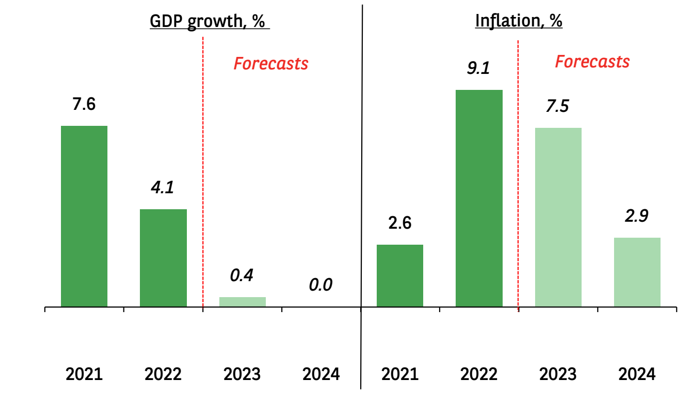

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

The unemployment rate is up y/y in Q1 2023 (to 3.9% compared to 3.7% in Q1 2022), which is a recession indicator according to the Sahm Rule[2], confirmed 7 out of 11 times in the United Kingdom over the last 50 years. The inflows of non-European workers (+6.2% q/q in Q1 2023) are also beginning to offset Brexit-related departures of workers from the European Union. However, these factors remain too piecemeal, and cannot be considered as a trend for the time being. Wage growth, another indicator of persistent inflation, is the highest among G7 countries (+7.2% y/y in April). Recent surprises on the upside around inflation should be passed on to wages via inflation expectations. These expectations rose in May for the first time since December 2022, to 5.9% on a one-year horizon, increasing the risk of a wage-price spiral.

Inflation could therefore have an impact for longer on household purchasing power and, at the same time, push, if not force, the BoE to tighten the terms of lending once again. We expect two additional hikes and a terminal rate of 5.75% in November. These factors would prevent the recovery of UK activity in 2024 (+0.0% as an annual average). We also expect a technical recession at the beginning of next year, with -0.2% q/q in Q1 2024 then -0.1% in Q2, while inflation should not fall below its target of 2% by the end of 2024.

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1 Normalisation of monetary policy in the United Kingdom: the impact on mortgages (bnpparibas.com)
2 Real-time Sahm Rule Recession Indicator (SAHMREALTIME) | FRED | St. Louis Fed (stlouisfed.org)

FORECASTS

ECONOMIC FORECASTS

	GDP Growth				Inflation			
%	2021	2022	2023 e	2024 e	2021	2022	2023e	2024e
United States	5.9	2.1	1.5	-0.1	4.7	8.0	4.2	2.4
Japan	2.2	1.0	1.5	1.0	-0.2	2.5	3.1	1.8
United Kingdom	7.6	4.1	0.4	0.0	2.6	9.1	7.5	2.9
Eurozone	5.3	3.5	0.4	0.6	2.6	8.4	5.4	2.9
Germany	2.6	1.9	-0.4	0.5	3.2	8.7	6.0	2.7
France	6.8	2.6	0.5	0.6	2.1	5.9	5.6	2.4
Italy	7.0	3.8	1.3	1.0	1.9	8.7	5.9	2.2
Spain	5.5	5.5	2.4	1.5	3.0	8.3	3.1	2.4
China	8.4	3.0	5.6	4.5	0.9	2.0	1.1	2.5
India*	8.7	7.0	5.7	6.0	5.5	6.7	5.4	4.5
Brazil	5.0	2.9	2.5	0.5	8.3	9.3	4.7	4.0

** Fiscal year from April 1st of year n to March 31st of year n+1*

SOURCE: BNP PARIBAS (E: ESTIMATES)

FINANCIAL FORECASTS

Interest rates %		2023			2024
End of period		Q2 2023	Q3 2023	Q4 2023	Q4 2024
United States	Fed Funds (upper limit)*	5.25	5.50	5.50	3.55
	T-Note 10y	3.90	3.90	3.85	3.00
Euro area	Deposit rate*	3.50	4.00	4.00	2.00
	Bund 10y	2.60	2.45	2.20	2.50
	OAT 10y	3.15	3.00	2.72	3.80
	BTP 10y	4.60	4.70	4.45	2.90
	BONO 10y	3.60	3.55	3.30	4.00
United Kingdom	Base rate	5.00	5.75	5.75	3.80
	Gilts 10y	4.50	4.40	4.25	0.10
Japan	BoJ Rate	-0.10	-0.10	-0.10	0.80
	JGB 10y**	0.45	0.50	0.65	0.80

Exchange rates		2023			2024
End of period		Q2 2023	Q3 2023	Q4 2023	Q4 2024
USD	EUR / USD	1.10	1.10	1.12	1.18
	USD / JPY	133	133	130	123
	GBP / USD	1.24	1.25	1.27	1.34
EUR	EUR / GBP	0.89	0.88	0.88	0.88
	EUR / JPY	146	146	146	145

SOURCE : BNP PARIBAS GLOBAL MARKETS (E ESTIMATES)

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