

# ECOPULSE

May 2024

MONTHLY PULSE OF OECD COUNTRIES' ECONOMIC INDICATORS



**BNP PARIBAS**

The bank for a changing world

Economic data for April and May augur a relatively good Q2 in terms of growth, despite some continuing dichotomies.

In the euro zone, after a Q1 2024 that surprised on the upside (+0.3% q/q), we expect growth to continue at the same rate in Q2, a forecast confirmed by the upturn in business climate surveys, particularly in services. While on the demand side, continued disinflation and rising real wages are supporting factors, these latter are still barely being reflected in household confidence and consumption.

The situation appears less ambivalent in the US, where the GDPNow model is predicting higher growth in Q2 (0.9% q/q) than in Q1 (0.6% q/q). Inflation fell slightly in April and the labour market has remained relatively dynamic, despite showing more unmistakable signs of a downturn.

Momentum is less favourable in the United Kingdom, where the high growth figure in Q1 (+0.6% q/q) is somewhat misleading. This figure was buoyed by a sharp drop in imports while domestic demand has remained lacklustre, despite inflation approaching the 2% target.

And lastly, in Japan, the contraction of GDP in Q1 (-0.5% q/q) is due to exceptional circumstances, and growth is expected to recover in Q2.

In terms of inflation, developments in the Eurozone are favourable enough for us to anticipate that the ECB will proceed to cut its key rates for the first time in June, unlike the BoE (August) or the Fed (December), where progress remains insufficient. Across the board, the momentum of the labour market and its positive impact on wages, along with the persistence of inflation in services partially resulting from this, are all factors that, inhibiting general disinflation, are likely to limit the size of future rate cuts (or even delay them in the US or the UK). In Japan, continued monetary tightening is the order of the day (which we anticipate for September).

## **EUROZONE: ACTIVITY HOLDS UP WELL DESPITE THE TROUBLES IN INDUSTRY**

### **GERMANY: FOLLOWING SUIT**

### **FRANCE: RISING SERVICES**

### **ITALY: A MIXED PICTURE**

### **SPAIN: MANUFACTURING SECTOR UP SHARPLY**

### **UNITED STATES: INFLATION AND UNCERTAINTY**

### **UNITED KINGDOM: SLUGGISHNESS STILL REIGNS**

### **JAPAN: A MONETARY POLICY DILEMMA?**



## Activity holds up well despite the troubles in industry

If there could still be any doubt, Philip Lane's latest statements will, on the face of it, confirm a first cut in the ECB's policy rates at the next monetary policy meeting on 6 June.<sup>1</sup> The current trend in Eurozone inflation is giving space for the ECB to initiate monetary easing, even though new upward pressure on prices are emerging. Inflation fell marginally in April from 2.43% y/y to 2.37% y/y, while core inflation decreased more sharply from 2.95% y/y to 2.66% y/y. The likely return of a positive contribution from the energy component in May (after twelve months in negative territory), an upward momentum in services prices (the 3m/3m annualised rate rose back above 5%) and annual growth in negotiated wages, which were on the rise once again in Q1 (4.7%), are expected to stifle inflation landing at around 2% this year.

Even though the results varied slightly in April, industry confidence surveys are still pessimistic. The manufacturing PMI rose from 1.7 points to 47.4, thanks to a noticeable trend higher in the output (+2.3 points, to 49.6) and new orders (+3.4 points, to 47.5) indices. This pushed the composite PMI index higher (+0.6 points, to 52.3), while the services PMI remained stable at 53.3. Conversely, the business climate index in industry, as measured by the European Commission, hit its lowest level seen since July 2020, the worst result since the start of the war in Ukraine. However, household confidence in the Eurozone has continued to improve, thanks in particular to an improvement in major purchase intentions.

The difficulties in the industrial sector are not, for the time being, damaging the positive dynamics in the Eurozone labour market. The number of jobseekers fell by 94,000 in March, to the lowest level in 25 years of the currency block. The unemployment rate was stable at 6.5%. The first national results for April (lower unemployment in France and Spain, slight increase in Germany) are still positive, given the current climate.

Our Nowcast also indicates strengthening activity in Q2 compared to Q1, with estimated growth of 0.4% q/q after +0.3% q/q in Q1, while our own forecast was expecting the same rate as in Q1. We still expect growth of 0.8% over 2024 as a whole, a limited increase partly due to a flat carryover.

Guillaume Derrien (article completed on 28 May 2024)

<sup>1</sup> See Financial Times article, *European Central Bank is ready to start cutting interest rates, says chief economist*, 27 May 2024.

### Eurozone: economic indicators monthly changes\*

	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24	Apr 24
<b>Economic Sentiment Indicator (ESI)</b>	-0.3	-0.4	-0.5	-0.6	-0.6	-0.6	-0.5	-0.3	-0.4	-0.4	-0.3	-0.4
ESI - Manufacturing	-0.2	-0.4	-0.6	-0.7	-0.6	-0.6	-0.7	-0.6	-0.7	-0.7	-0.6	-0.8
ESI - Services	0.1	0.0	0.0	-0.1	-0.1	0.0	0.0	0.2	0.3	0.0	0.1	0.0
ESI - Retail sales	0.1	0.0	0.2	0.1	0.0	-0.2	-0.2	0.0	0.0	-0.2	-0.1	-0.2
ESI - Construction	0.8	0.7	0.6	0.5	0.4	0.5	0.5	0.6	0.5	0.4	0.4	0.4
<b>Consumer confidence</b>	-0.9	-0.7	-0.5	-0.7	-1.0	-1.0	-0.8	-0.5	-0.7	-0.6	-0.5	-0.4
PMI Manufacturing	-1.0	-1.3	-1.4	-1.2	-1.3	-1.3	-1.1	-1.1	-0.6	-0.7	-0.7	-0.8
PMI Services	1.0	0.4	0.2	-0.4	-0.3	-0.4	-0.3	-0.2	-0.3	0.0	0.3	0.7
PMI Manufacturing New Export Orders	-1.3	-1.4	-1.7	-1.5	-1.5	-1.5	-1.2	-1.2	-0.8	-0.8	-0.6	-0.7
PMI Manufacturing New Orders	-1.1	-1.4	-1.6	-1.6	-1.5	-1.6	-1.2	-1.1	-0.8	-0.7	-0.6	-0.8
<b>PMI Composite - Employment</b>	1.1	0.9	0.4	0.1	0.2	0.0	-0.1	-0.1	0.0	0.4	0.3	0.6
Industrial Production	-0.4	-0.2	-0.4	-0.8	-1.0	-1.0	-1.0	0.1	-1.1	-1.2	-0.2	
Retail Sales	-0.6	-0.3	-0.3	-0.5	-0.8	-0.3	-0.2	-0.1	-0.2	-0.1	0.1	
<b>New Car registrations</b>	0.9	0.8	0.7	1.0	0.4	0.6	0.2	-0.2	0.5	0.4	-0.3	0.5
HICP	2.0	1.7	1.6	1.5	1.1	0.4	0.1	0.4	0.3	0.2	0.1	0.1
<b>Core HICP</b>	4.1	4.0	3.9	3.6	2.8	2.5	1.8	1.7	1.5	1.4	1.2	1.0
<b>Unemployment Rate</b>	1.7	1.7	1.6	1.7	1.6	1.6	1.7	1.6	1.6	1.6	1.6	1.7

\* The Indicators are all transformed into "z-scores", i.e. deviations from the long-term average value (expressed in standard deviation), the average of which is zero (except for the PMI/ISM indices where the average is 50, the threshold between the expansion zone and the contraction zone of the activity). Positive (negative) values indicate the number of standard deviations above (below) the mean value.  
Reading note: the red colour indicates dynamic activity, high inflation and low unemployment, the blue colour indicates slower activity, low inflation and high unemployment.

### GDP growth

Actual		Carry-over	Nowcast	Forecast			Annual forecasts (y/y)				
Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q4 2023	Q2 2024	Q2 2024	Q3 2024	Q4 2024	2023 (observed)	2024	2025
0.1	-0.1	-0.1	0.3	-0.0	0.4	0.3	0.4	0.4	0.5	0.8	1.7

See the [Nowcast methodology](#). Contact: [Tarik Rharrab](#)  
Source: Refinitiv, BNP Paribas



## Following suit

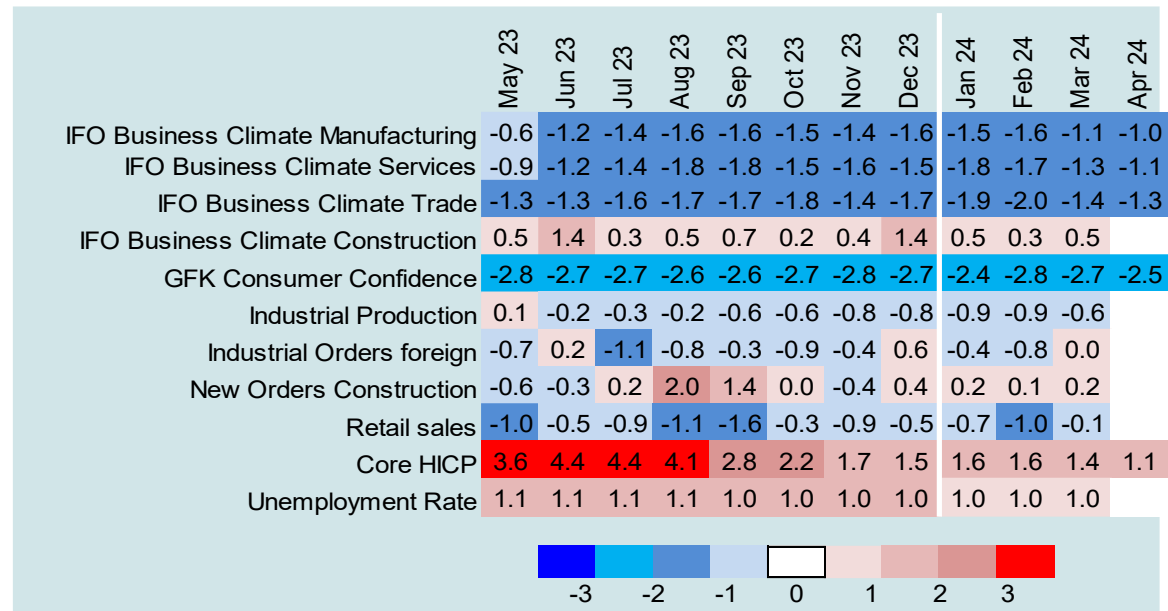
The underperformance of German growth in recent years continued in 2023. However, even though it is no longer a driving force, the German economy is seemingly benefiting from the recovery seen elsewhere in the Eurozone, which could boost its growth in the coming quarters. This was reflected in a relatively good performance (0.2% q/q) in Q1, which, like the Eurozone's performance (0.3% q/q), surprised on the upside. The business climate (IFO) shows an improvement, albeit still partial, with an index of 89.3 in both May and April, making them the best two months since May 2023.

The German economy is more dependent than its European partners on sectors that have suffered shocks and are still under-producing. However, these sectors also have the potential to bounce back. For example, output in the chemical/pharmaceutical sector, which has been negatively affected by the rise in energy costs, was almost 7% lower in February-March 2024 than in March 2022, but 7% higher than its average value in 2023. In addition, Germany remains an open economy. Exports of goods and services account for 50% of its GDP (compared with 32% in France), so the country will benefit from the rebound in European growth. While exports have already driven growth in Q1, new industrial orders underline that this should continue to be the case: with an average index level of 93.6 over the last 6 months for orders from the Eurozone, compared with 83.6 for the German domestic market (base 100 in 2021).

Although domestic demand was again lacking in Q1, it should be supported by a labour market that remains vigorous (59,000 net new jobs in Q4 and 26,000 in Q1). However, despite the disinflation seen in recent quarters, and the prospect of interest rate cuts by the ECB, there is still only a partial improvement in household confidence (-20.9 in May 2024, compared with -24.2 in April, but still 13 points below the March 2022 level), suggesting that this support should remain moderate. This confirms that Germany is not playing a leading role in the improvement in European growth (French exports to Germany continued to contract in Q1).

Stéphane Colliac (article completed on 29 May 2024)

## Germany: economic indicators monthly changes\*



\* 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.  
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## GDP growth

Actual				Carry-over	Forecast			Annual forecasts (y/y)		
Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q4 2023	Q2 2024	Q3 2024	Q4 2024	2023 (observed)	2024	2025
-0.1	0.1	-0.5	0.2	-0.3	0.1	0.3	0.4	0.0	0.2	1.4

Source: Refinitiv, BNP Paribas



## Rising services

French growth surprised on the upside in Q1, hitting 0.2% q/q as a preliminary estimate, supported by household consumption and business investment in services. Our forecast for Q2 is for more of the same (our nowcast, at 0.3% q/q, even suggests an upside risk), confirming the return to slightly stronger growth, after a second half of 2023 at +0.1% per quarter.

In fact, the business climate suggests that the favourable momentum for services is continuing. The PMI published by S&P Global has been higher in the last two months (51.3 in April and 49.4 in May) than the levels hit since June 2023. While growth is being driven by services, the momentum in goods is less favourable, with output down by 0.9% q/q in Q1 (-0.1% for manufacturing alone).

This same divergence can be seen in household consumption, which owes most of its growth (0.4% q/q in Q1) to market services, while goods consumption was flat. This is a structural phenomenon, with leisure playing a significant role, as well as the increasing digitalisation and uberisation of consumption. This trend has accelerated further as a result of the cumulative inflation since the start of 2022 and rising interest rates, which have weighed more heavily on spending on goods.

Despite the continued fall in inflation in April (2.4% y/y, according to the harmonised index), household confidence is still far below its historic average (100), standing at 90 in May. However, the balance of opinion on the fear of unemployment remains below its long-term average, standing at 27 in May. This trend is consistent with an unemployment rate (7.5% in Q1) that has rebounded only slightly, despite the weak growth seen since the start of 2022. Household consumption is expected to continue to grow, albeit unevenly between goods and services.

Stéphane Colliac (article completed on 29 May 2024)

## France: economic indicators monthly changes\*

	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24	Apr 24
Business climate Manufacturing	-0.1	0.0	0.1	-0.4	-0.1	-0.2	-0.2	-0.1	-0.2	0.0	0.3	0.0
Business climate Services	0.1	0.2	0.2	0.2	0.2	0.0	-0.1	0.0	0.1	0.0	0.3	0.0
Business climate Construction	0.4	0.3	0.3	0.3	0.3	0.1	0.0	-0.2	0.0	0.0	0.0	-0.2
Business climate Retail sales	-0.4	0.1	0.6	0.5	0.2	-0.2	-0.4	-0.1	0.4	-0.1	0.0	0.1
Employment climate	0.6	0.6	0.5	0.1	0.5	0.2	-0.1	0.0	-0.2	0.2	0.1	0.1
Consumer confidence	-1.5	-1.2	-1.0	-1.2	-1.3	-1.2	-0.8	-0.7	-0.4	-0.6	-0.4	-0.6
HICP	2.7	2.3	2.1	2.4	2.4	1.7	1.2	1.4	0.9	0.8	0.3	0.3
Core HICP	3.6	3.5	3.3	2.9	2.5	2.4	1.7	1.7	1.4	1.2	0.9	0.9
Unemployment Rate	1.6	1.6	1.6	1.5	1.5	1.4	1.4	1.4	1.4	1.5	1.6	
Consumer spending	-0.7	-0.5	-0.2	-0.5	-0.9	-0.5	-0.4	0.1	-0.4	-0.3	0.0	
Industrial production	0.4	0.0	0.3	-0.1	0.0	0.6	0.3	0.1	0.2	0.0	0.2	
Exports of goods	0.6	0.0	0.2	-0.7	-1.0	-0.7	-0.6	-0.5	-0.7	-0.5	-0.1	

\* 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.  
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## GDP growth

Actual				Carry-over	Nowcast	Forecast			Annual forecasts (y/y)		
Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q4 2023	Q2 2024	Q2 2024	Q3 2024	Q4 2024	2023 (observed)	2024	2025
0.6	0.1	0.1	0.2	0.3	0.3	0.2	0.3	0.4	0.9	0.9	1.4

See the [Nowcast methodology](#). Contact: [Tarik Rharrab](#)  
Source: Refinitiv, BNP Paribas



## A mixed picture

Disinflation is back in Italy. After rising slightly in March (1.2% y/y; +0.4 pp over one month), inflation fell back below the 1% mark in April (0.9% y/y), mainly due to the still significant deflation in the energy component (-12.2% y/y). Although it is falling, inflation in services remains strong (+3.1% y/y; -0.2 pp over one month), keeping core inflation at 2.2%. Nevertheless, disinflationary trends in consumer prices are set to continue, with the evolution of production prices still negative (-9.6% y/y in March).

The labour market continues to set new records. The volume of employment (23,849 million) reached an all-time high in March, and the unemployment rate (7.2%) has returned to its level of fifteen years ago. In addition, the growth in negotiated wages (3% y/y in March), which outstripped inflation, should restore purchasing power to households and support domestic consumption. For the time being, however, the effects remain mixed: new vehicle registrations rebounded sharply in April (+7.5% y/y), but retail sales volumes fell in Q1 (-0.4% q/q).

These positive factors did not, however, lead to an improvement in household confidence; it deteriorated again in April (-19.1; -2.3 points over one month), mainly as a result of increasingly sharp deteriorations in the components relating to expectations of the financial situation (-2.2 points over a month) and the economic situation (-5.9 points over a month) over the coming year.

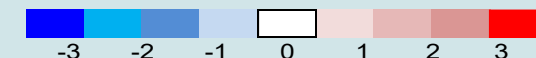
The composite PMI remains in the expansion zone at 52.6, but it also weakened in April (-0.9 points), mainly as a result of a sharp deterioration in the manufacturing PMI. After returning to the expansion zone for the first time in a year in March, the latter slipped back to the contraction zone in April (47.3) due to low levels of demand and production. The Services PMI, on the other hand, continues to report strong growth in the sector (54.3). Demand remains high but is accompanied by a sharp rise in input prices. For all that, companies remain optimistic about the future of the sector (66.9).

Following growth of 0.3% q/q in Q1 2024, we expect Italian real GDP to grow at the same pace in Q2. Over 2024 as a whole, we expect Italian growth to remain slightly above that of the Eurozone (0.8% y/y), reaching 1.1% on an annual average.

Lucie Barette (article completed on 24 May 2024)

## Italy: economic indicators monthly changes\*

	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24	Apr 24
Business climate - Manufacturing	0.3	0.0	-0.2	0.1	-0.2	-0.2	-0.2	0.1	0.2	0.4	0.3	0.4
Business climate - Construction	1.9	1.9	2.2	1.8	1.8	2.0	2.0	2.0	1.7	1.5	1.6	1.5
Business climate - Services	0.6	0.7	0.8	0.7	0.6	0.7	0.6	0.6	0.8	0.6	0.7	0.6
PMI manufacturing new export orders	-0.4	-1.2	-1.0	-1.6	-1.4	-1.4	-1.2	-1.2	-0.6	-0.8	-0.2	-0.8
PMI Composite - Employment	1.2	0.6	0.0	-0.7	0.4	-0.1	-0.1	0.3	0.2	0.8	0.8	1.1
Consumer confidence	-0.1	0.1	-0.1	0.0	-0.2	-0.6	-0.4	0.0	0.0	0.0	-0.1	-0.5
Industrial production	-0.3	0.0	-0.2	-0.4	-0.1	0.0	-0.2	-0.1	-0.3	-0.3	-0.3	
Retail sales	0.5	0.8	0.5	0.4	0.1	0.0	0.2	-0.1	0.1	0.4	0.3	
Exports	-0.3	-0.3	-0.9	-0.1	-0.8	-0.2	-0.7	-1.0	-0.4	-0.3	-1.1	
HICP	2.6	2.0	1.8	1.5	1.5	-0.1	-0.7	-0.7	-0.5	-0.5	-0.4	-0.5
Core HICP	3.5	3.2	3.0	2.3	2.4	2.1	1.6	1.3	1.1	0.9	0.6	0.6
Employment	0.9	0.9	0.8	1.3	1.2	1.1	1.1	1.2	0.8	0.8	1.0	1.1
Unemployment Rate	0.9	1.0	0.8	0.9	0.8	0.8	0.9	1.0	1.0	1.0	1.1	
Wage	0.5	1.3	1.2	1.3	1.2	1.1	0.9	5.2	0.9	0.9	1.2	



\* 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 2023	Q3 2023	Q4 2023	Q1 2024	Q4 2023	Q2 2024	Q3 2024	Q4 2024	2023 (observed)	2024	2025
-0.2	0.4	0.1	0.3	0.2	0.3	0.4	0.4	1.0	1.1	1.4

Source: Refinitiv, BNP Paribas



## Manufacturing sector up sharply

Unsurprisingly, the Spanish economy remains positive at the start of the second quarter. After outperforming Eurozone countries with growth of 0.7% q/q in Q1, activity should stay strong in Q2 (0.5% q/q according to our forecasts).

Business sentiment in the private sector, which has been improving steadily since the start of the year, continued its upward trend in April (composite PMI at 55.7; +0.4 points over a month). Unlike the rest of the Eurozone, this performance was buoyed by growth in manufacturing activity, to a degree comparable with its 2022 level (manufacturing PMI at 52.2), thanks to a revival in domestic and foreign demand (new orders component up 2.1 points over a month, at 52.5). For its part, the services sector continues to impress – the associated PMI remains well within the expansion zone (56.2; +0.1 points over the month).

Driven by this favourable economic environment, household confidence improved (+1.2 points to -14.7 according to the European Commission). Expectations that the ECB will cut interest rates from June onwards led to a clear improvement in the expectations component of the financial situation (-1.9; +1.4 points) and in intentions to make major purchases over the course of the year (-22; best level in four years). Nevertheless, savings intentions also jumped (-1.4; +6.6 points and the highest level since 2000), suggesting that household consumption could be lower in 2024 than it was in 2023.

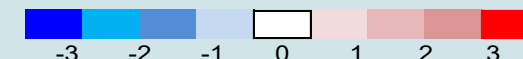
Harmonised inflation also rose again in April (+3.4% y/y; +0.1 pp), mainly due to rising energy prices (+5.0% y/y; +3.4 pp) and, to a lesser extent, food prices (+4.7% y/y; +0.4 pp). Services prices, on the other hand, are starting to slow down (+3.5% y/y; -0.6 pp), leading to a slowdown in core inflation (+2.7% y/y, -0.4 pp).

After more than ten years in power in Catalonia, the pro-independence parties have finally lost their absolute majority. The Socialist Party, the winner of the regional elections, will have to establish a coalition agreement to secure an absolute majority and form a government. However, given the political fragmentation, these negotiations could end in deadlock. Moreover, as they had announced before these elections, the pro-independence parties could also jeopardise the already fragile parliamentary majority of the national government, whose indispensable partners they are.

Lucie Barette (article completed on 24 May 2024)

## Spain: economic indicators monthly changes\*

	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24	Apr 24
Business climate - manufacturing	0.3	0.0	-0.2	0.1	-0.2	-0.2	-0.2	0.1	0.2	0.4	0.3	0.4
Business climate - construction	1.3	1.2	1.2	0.7	0.8	1.0	1.3	1.2	0.8	0.9	1.0	1.2
Business climate - services	0.6	0.7	0.8	0.7	0.6	0.7	0.6	0.6	0.8	0.6	0.7	0.6
PMI manufacturing												
new export orders	-0.8	-0.8	-1.3	-1.3	-0.4	-1.0	-1.0	-0.6	-0.5	-0.4	0.2	0.2
PMI Composite - e	0.9	0.6	0.5	0.4	0.3	0.3	0.3	0.5	0.6	0.6	1.0	0.9
Consumer confidence	-0.4	0.0	0.4	0.1	-0.4	-0.3	-0.3	-0.2	-0.2	-0.1	0.1	0.2
Industrial production	-0.3	-0.2	-0.2	-0.2	-0.2	-0.1	0.1	0.0	0.1	0.3	-0.1	
Retail sales	1.7	1.6	1.7	1.5	1.5	1.4	1.5	1.3	0.4	0.7	0.4	0.3
Exports	-0.8	-0.7	-0.9	-1.3	-1.3	-0.7	-1.0	-1.3	-0.7	-0.7	-2.0	
HICP	0.3	-0.2	0.0	0.1	0.5	0.6	0.5	0.5	0.6	0.3	0.5	0.5
Core HICP	2.0	1.9	2.4	2.3	1.9	1.8	1.5	1.6	1.3	1.4	1.2	0.9
Employment	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4
Wage	0.7	0.6	0.6	0.5	0.6	0.6	0.5	0.4	-0.2	-0.2	-0.3	-0.4
Unemployment Rate	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	



\* 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 2023	Q3 2023	Q4 2023	Q1 2024	Q4 2023	Q2 2024	Q3 2024	Q4 2024	2023 (observed)	2024	2025
0.5	0.5	0.7	0.7	0.9	0.5	0.6	0.6	2.5	2.4	2.1

Source: Refinitiv, BNP Paribas



## Inflation and uncertainty

The still-elevated level of inflation in annual change and its increasing momentum have continued to adversely affect morale in US households. In April, consumer confidence, as measured by the Conference Board, fell for the third month in a row (97.0, -6.1 pp), ultimately cancelling out the progress seen at the end of 2023. Similarly, the University of Michigan survey reported a drop in its Index of Consumer Sentiment in May, with a score of 69.1 (-10.5), the lowest since November.

Inflation, measured by the CPI, eased slightly in April, with a monthly change (SA) of +0.3% m/m (-0.1 pp). This result brought an end to four months of acceleration and contributed to a decrease in the y/y rate to +3.4% (-0.1 pp), offering a beginning of respite after a series of negative surprises in Q1. Core inflation also eased to +3.6% y/y (-0.2 pp).

The nonfarm payroll increase fell to +175k in April, after a particularly dynamic March (+315k). Government jobs accounted for nearly half of the drop (-64k). At the same time, the unemployment rate kept following a slow upward trend (3.9%, -0.1 pp) while the wage growth rate was at its lowest for nearly three years, standing at +3.9% y/y. The March JOLTS survey, which showed a major downturn in vacancies and hiring, adds to the picture of a labour market that is still relatively dynamic, yet is also rebalancing.

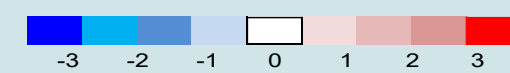
The ISM surveys in April reversed expectations. The manufacturing index stood at 49.2 (-1.1 pp), returning to contraction territory, whereas March had seen the first expansion since September 2022. In addition, the sharp slowdown in the Business Activity sub-component (50.9, -6.5 pp) resulted in a contractionary result (the first seen since December 2022) for the ISM non-manufacturing index (49.4, -2.0 pp). Nevertheless, while Q1 2024 delivered a downward surprise with a quarterly rise of +0.4% q/q dragged down by negative contributions from foreign trade and stocks, the growth rate is expected to increase to +0.8% q/q according to our forecasts, while the Atlanta Fed's GDPNow is even more bullish (+0.9%).

The Federal Reserve decided to keep its interest rate target at 5.25% - 5.50% at the monetary policy meeting on 30 April - 1 May. The late upturn in inflation, illustrated by a +4.3% momentum (3m/3m annualized) in core inflation in April, led to expected rate cuts being unanimously postponed. As a result, while Jerome Powell mentioned the lack of progress and a need to keep monetary policy at a restrained level level, we expect a single rate cut (-25 bps) in 2024, which should happen in December.

Anis Bensaidani (article completed on 27 May 2024)

## United States: economic indicators monthly changes\*

	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24	Apr 24
ISM Manufacturing	-0.7	-0.7	-0.7	-0.5	-0.3	-0.6	-0.7	-0.6	-0.2	-0.5	0.1	-0.2
ISM Services	0.2	0.9	0.7	1.0	0.8	0.5	0.6	0.1	0.8	0.6	0.3	-0.1
ISM Services - Employment	-0.2	0.6	0.1	0.9	0.7	0.1	0.1	-1.2	0.1	-0.4	-0.3	-0.8
ISM Manufacturing - Employment	0.2	-0.3	-1.0	-0.3	0.2	-0.5	-0.7	-0.4	-0.5	-0.7	-0.5	-0.2
Consumer confidence (Univ. of Michigan)	-1.7	-1.3	-0.8	-0.9	-1.0	-1.3	-1.5	-0.9	-0.2	-0.3	-0.1	-0.3
Consumer confidence (Conf. Board)	0.4	0.7	0.8	0.6	0.5	0.3	0.3	0.6	0.7	0.5	0.4	0.2
Industrial production	-0.1	-0.2	-0.1	-0.2	-0.2	-0.3	-0.2	0.1	-0.3	-0.1	-0.1	-0.2
Building permits	0.6	0.5	0.5	0.6	0.5	0.5	0.5	0.5	0.5	0.6	0.4	0.3
Retail Sales	-0.4	-0.5	-0.2	-0.2	0.0	-0.3	-0.1	0.2	-0.7	-0.4	-0.1	-0.2
New Car registrations	1.1	0.9	1.5	0.6	0.8	0.4	0.3	0.4	0.2	0.2	0.0	
Nominal Real Personal Consumption	-0.1	0.0	0.2	0.0	0.0	0.0	0.3	0.4	0.0	0.1	0.3	
Household purchasing power	0.8	0.8	0.6	0.5	0.5	0.4	0.5	0.5	0.0	-0.2	-0.2	
PCE deflator	1.1	0.6	0.7	0.7	0.7	0.5	0.3	0.3	0.2	0.2	0.3	
Core PCE deflator	2.5	2.1	1.9	1.5	1.4	1.2	1.0	0.8	0.8	0.7	0.7	
CPI	0.8	0.3	0.4	0.6	0.6	0.3	0.3	0.4	0.3	0.3	0.5	0.4
Core CPI	2.5	2.1	1.9	1.7	1.5	1.3	1.3	1.2	1.2	1.1	1.1	1.0
Nonfarm Payrolls	0.6	0.5	0.4	0.4	0.4	0.3	0.3	0.4	0.3	0.3	0.3	0.3
Unemployment Rate	1.1	1.1	1.2	1.0	1.0	1.0	1.0	1.0	1.0	0.9	1.0	0.9



\* The Indicators are all transformed into "z-scores", i.e. deviations from the long-term average value (expressed in standard deviation), the average of which is zero (except for the PMI/ISM indices where the average is 50, the threshold between the expansion zone and the contraction zone of the activity). Positive (negative) values indicate the number of standard deviations above (below) the mean value. Reading note: the red colour indicates dynamic activity, high inflation and low unemployment, the blue colour indicates slower activity, low inflation and high unemployment.

## GDP growth

Actual				Carry-over	GDPNow	Forecast			Annual forecasts (y/y)		
Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q4 2023	Q2 2024	Q2 2024	Q3 2024	Q4 2024	2023 (observed)	2024	2025
0.5	1.2	0.8	0.4	1.4	0.9	0.6	0.4	0.4	2.5	2.5	1.8

Source: Refinitiv, BNP Paribas





## Sluggishness still reigns

The preliminary growth estimate for Q1 has not dispelled doubts about the state of domestic demand in the UK. Although inflation has fallen and real wages and household confidence have improved, British consumers are still cautious. Household consumption rose only by 0.2% q/q in Q1, offsetting a small part of the contraction recorded in the previous two quarters (-1.0% cumulatively). In addition, retail sales surprised on the downside in April, falling by 2.3% m/m in volume, following a slight drop in March (-0.1% m/m). Real GDP rose by 0.6% q/q in Q1, underpinned by positive net exports. However, the underlying dynamic was disappointing, as import volumes fell more sharply than exports.

That said, there were positive developments: all investment components grew in Q1. In particular, residential investment rebounded by 4.2% q/q, ending five consecutive quarters of contraction. This pick-up in investment in the UK residential-property market is well corroborated by solicitors' confidence surveys, which have also improved significantly since last summer: in April, the RICS index on new sales instructions climbed to its highest level in three and a half years. In addition, manufacturing activity has picked up somewhat, with the PMI index moving above the expansion threshold again in May (+2.2 points, standing at 51.3, the best level seen since July 2022). Nevertheless, the services index fell (-2.1 points, to 52.9).

Inflation has continued to come down and the dovish members of the Bank of England pushed for a quick first cut in policy rate. At the most recent meeting of the Monetary Policy Committee on 9 May, two members (Swati Dhingra and Dave Ramsden) were in favour of a 25 basis points decrease. However, our forecast for a first cut in key rates was pushed back from June to August. While headline and core inflation continued to decline in April (from 3.2% y/y to 2.3% y/y and 4.2% y/y to 3.9% y/y, respectively), it is still not certain whether inflation will land on its 2% target in the short term. Price dynamics in services remained robust, with inflation slowing slightly (5.9%) and instantaneous measure (3m/3m annualised rate) rebounding from 4.5% in March to 5.3% in April.

The UK is therefore expected to post sluggish growth in 2024, held back by a slowdown to 0.2 q/q in Q2, which is expected to stabilise at or close to this rate in H2.

Guillaume Derrien (article completed on 28 May 2024)

### United Kingdom: economic indicators monthly changes\*

	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24	Apr 24
PMI manufacturing	-0.6	-0.7	-1.0	-1.5	-1.2	-1.1	-0.6	-0.8	-0.6	-0.5	0.1	-0.2
PMI manufacturing new export orders	-0.6	-1.4	-1.9	-2.4	-1.1	-1.4	-0.7	-0.6	-0.5	-1.3	-0.5	-0.5
PMI manufacturing employment	-0.1	-0.6	-0.8	-0.7	-0.9	-0.8	-0.6	-0.8	-0.5	-1.4	-0.4	-0.4
PMI services	1.0	0.7	0.3	-0.1	-0.1	-0.1	0.2	0.7	0.8	0.7	0.6	1.0
Business climate manufacturing (volume of Total Order Book)	-0.4	-0.2	0.1	-0.2	-0.4	-0.8	-1.3	-0.7	-1.0	-0.5	-0.4	-0.7
Consumer confidence	-0.9	-0.7	-1.2	-0.8	-0.4	-1.1	-0.7	-0.5	-0.3	-0.4	-0.4	-0.3
Industrial production	-0.3	0.6	0.5	0.3	0.3	-0.2	0.1	0.2	0.1	0.3	0.3	0.0
Retail sales	-0.9	-0.7	-1.0	-0.6	-0.6	-0.8	-0.3	-1.0	-0.2	-0.4	-0.2	-0.9
Exports	-0.2	0.0	-0.8	-1.2	-1.4	-0.3	-0.5	-2.2	0.7	-0.3	-1.0	0.0
CPI	2.7	2.3	1.8	1.7	1.7	0.8	0.5	0.5	0.5	0.3	0.2	-0.2
Unemployment Rate	1.0	0.9	1.0	1.0	1.1	1.2	1.2	1.1	0.9	0.9	0.0	0.0

\* 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 2023	Q3 2023	Q4 2023	Q1 2024	Q4 2023	Q2 2024	Q3 2024	Q4 2024	2023 (observed)	2024	2025
0.0	-0.1	-0.3	0.6	-0.3	0.2	0.2	0.3	0.1	0.6	1.2

Source: Refinitiv, BNP Paribas

## A monetary policy dilemma?

In line with our expectations, the Japanese economy experienced a 0.5% q/q contraction in GDP in Q1 2024. This contraction was likely linked to the disruptions caused by the earthquake on 1 January on the Noto peninsula and the temporary closure of car manufacturing plants amid a safety scandal. GDP components pointed to a broad weakness in the economy with, primarily, a fourth consecutive contraction in household consumption, which was the main driver of the fall. In addition, the release was accompanied by growth in Q4 2023 being revised down to +0.0% q/q (from +0.1% previously). However, activity is expected to rebound in Q2, with our forecasts pointing to a growth rate of +0.8% q/q.

Specifically, activity surveys were generally good in May. With a headline result of 50.5 (+0.9 pp), the manufacturing PMI, measured by Jibun Bank, indicated the first month of expansion since May 2023. This result stemmed from less important contractions in output (49.8, +0.9 pp) and new orders (49.8, +0.7 pp). Its non-manufacturing counterpart was still in expansionary territory (53.6), despite a slowdown (-0.7 pp), which contributed to relative stability in the composite PMI (52.4, +0.1 pp, the highest level since August 2023).

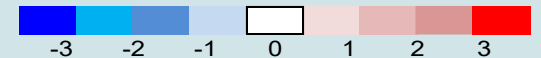
Core inflation (all items excl. fresh food) slowed year-on-year (+2.2% y/y, -0.4 pp), notably due to base effects, while remaining above or equal to the Bank of Japan's target for the 24th consecutive month. This decrease in inflation is preceding a likely acceleration in Q2 and Q3 2024, caused, in particular, by an expected appreciation in energy prices. On the other hand, real wages deteriorated again in March, falling 2.1% y/y (-0.3 pp), while the unemployment rate was stable at 2.6%.

The BoJ target for the uncollateralized overnight call rate was kept at +0.0%-+0.1%, as expected, during the 25-26 April monetary policy meeting. We are still forecasting the central bank to alter the interest rate next in September, with an increase of +0.15 pp, bringing the target to +0.25%. However, a hike before then is a potential scenario, even though sluggish activity is limiting the scope for monetary tightening. In particular, the yen is continuing its downward trend (against the USD, in particular, with a low of 157 at the beginning of the month), which is increasing the risks of imported inflation, while movements in the week of 29 April fuelled suspicions of intervention in the foreign exchange market.

Anis Bensaidani (article completed on 27 May 2024)

### Japan: economic indicators monthly changes\*

	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24	Apr 24
PMI: Manufacturing	0.1	0.0	-0.1	-0.1	-0.4	-0.3	-0.4	-0.5	-0.5	-0.7	-0.5	-0.1
PMI: Services	1.2	0.8	0.8	0.9	0.8	0.3	0.2	0.3	0.6	0.6	0.8	0.9
PMI Manufacturing New export orders	-0.6	-0.9	-0.5	-0.3	-0.4	-0.6	-0.6	-0.7	-0.5	-0.7	-1.1	-0.2
PMI Manufacturing -Employment	0.0	0.7	0.4	0.0	0.1	-0.3	-0.1	0.0	-0.2	-0.5	0.3	1.1
Consumer confidence	-0.8	-0.7	-0.6	-0.7	-0.8	-0.7	-0.7	-0.5	-0.3	-0.2	-0.1	-0.3
Industrial production	0.4	-0.1	-0.3	-0.5	-0.4	-0.1	-0.2	0.0	-0.4	-0.8	-0.3	
Private machinery order excluding volatile orders	0.1	0.3	0.2	0.1	0.3	0.2	-0.1	0.1	-0.1	0.6	0.9	
Retail sales	1.6	1.6	2.0	2.0	1.7	1.0	1.4	0.4	0.3	1.2	0.0	
Exports	-0.5	-0.2	-0.3	-0.5	-0.1	-0.2	-0.6	0.3	0.2	0.1	0.1	
CPI	2.3	2.3	2.3	2.2	2.0	2.2	1.8	1.6	1.3	1.8	1.7	1.5
Core CPI	3.7	3.7	3.5	3.4	3.3	3.1	2.8	2.7	2.5	2.3	2.0	1.6
Unemployment rate	1.2	1.3	1.2	1.2	1.2	1.3	1.3	1.3	1.4	1.1	1.1	
Employment	-0.1	0.0	-0.1	0.0	0.0	-0.1	0.6	0.3	0.0	0.8	0.1	
Wage	1.6	1.4	1.3	1.3	0.9	1.2	1.0	1.2	3.1	3.5	3.4	



\* 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 2023	Q3 2023	Q4 2023	Q1 2024	Q4 2023	Q2 2024	Q3 2024	Q4 2024	2023 (observed)	2024	2025
1.0	-0.9	0.0	-0.5	-0.2	0.8	0.5	0.4	1.9	0.3	1.0

Source: Refinitiv, BNP Paribas



William De Vijlder  
Chief Economist +33 1 55 77 47 31 [william.devijlder@bnpparibas.com](mailto:william.devijlder@bnpparibas.com)

## OECD ECONOMIES AND STATISTICS

Hélène Baudchon  
Deputy chief economist, Head +33 1 58 16 03 63 [helene.baudchon@bnpparibas.com](mailto:helene.baudchon@bnpparibas.com)

Stéphane Colliac  
France, Germany +33 1 42 98 43 86 [stephane.colliac@bnpparibas.com](mailto:stephane.colliac@bnpparibas.com)

Guillaume Derrien  
Eurozone, United Kingdom - Global trade +33 1 55 77 71 89 [guillaume.a.derrien@bnpparibas.com](mailto:guillaume.a.derrien@bnpparibas.com)

Anis Bensaidani  
United States, Japan +33 1 87 74 01 51 [anis.bensaidani@bnpparibas.com](mailto:anis.bensaidani@bnpparibas.com)

Lucie Barette  
Southern Europe +33 1 87 74 02 08 [lucie.barette@bnpparibas.com](mailto:lucie.barette@bnpparibas.com)

Veary Bou, Tarik Rharrab  
Statistics

## ECONOMIC PROJECTIONS, RELATIONSHIP WITH THE FRENCH NETWORK

Jean-Luc Proutat  
Head +33 1 58 16 73 32 [jean-luc.proutat@bnpparibas.com](mailto:jean-luc.proutat@bnpparibas.com)

## BANKING ECONOMICS

Laurent Quignon  
Head +33 1 42 98 56 54 [laurent.quignon@bnpparibas.com](mailto:laurent.quignon@bnpparibas.com)

Céline Choulet +33 1 43 16 95 54 [celine.choulet@bnpparibas.com](mailto:celine.choulet@bnpparibas.com)

Thomas Humblot +33 1 40 14 30 77 [thomas.humblot@bnpparibas.com](mailto:thomas.humblot@bnpparibas.com)

Marianne Mueller +33 1 40 14 48 11 [marianne.mueller@bnpparibas.com](mailto:marianne.mueller@bnpparibas.com)

## EMERGING ECONOMIES AND COUNTRY RISK

François Faure  
Head - Argentina, Turkey - Methodology, Modelling +33 1 42 98 79 82 [francois.faure@bnpparibas.com](mailto:francois.faure@bnpparibas.com)

Christine Peltier  
Deputy Head - Greater China, Vietnam - Methodology +33 1 42 98 56 27 [christine.peltier@bnpparibas.com](mailto:christine.peltier@bnpparibas.com)

Stéphane Alby  
Africa (French-speaking countries) +33 1 42 98 02 04 [stephane.alby@bnpparibas.com](mailto:stephane.alby@bnpparibas.com)

Pascal Devaux  
Middle East, Balkan countries +33 1 43 16 95 51 [pascal.devaux@bnpparibas.com](mailto:pascal.devaux@bnpparibas.com)

Hélène Drouot  
South Korea, Philippines, Thailand, Andean countries +33 1 42 98 33 00 [helene.drouot@bnpparibas.com](mailto:helene.drouot@bnpparibas.com)

Salim Hammad  
Latin America +33 1 42 98 74 26 [salim.hammad@bnpparibas.com](mailto:salim.hammad@bnpparibas.com)

Cynthia Kalasopatan Antoine  
Ukraine, Central European countries +33 1 53 31 59 32 [cynthia.kalasopatan.antoine@bnpparibas.com](mailto:cynthia.kalasopatan.antoine@bnpparibas.com)

Johanna Melka  
India, South Asia, Russia, Kazakhstan +33 1 58 16 05 84 [johanna.melka@bnpparibas.com](mailto:johanna.melka@bnpparibas.com)

Lucas Plé  
Africa (Portuguese & English-speaking countries) +33 1 40 14 50 18 [lucas.ple@bnpparibas.com](mailto:lucas.ple@bnpparibas.com)

## CONTACT MEDIA

Mickaëlle Fils Marie-Luce +33 1 42 98 48 59 [mickaelle.filsmarie-luce@bnpparibas.com](mailto:mickaelle.filsmarie-luce@bnpparibas.com)

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