



ECOPULSE

July 2024

MONTHLY PULSE OF OECD COUNTRIES' ECONOMIC INDICATORS



BNP PARIBAS

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While recent economic data across the board suggest that growth was strong in Q2, leading indicators (business climate, household confidence) were more mixed in June, pointing to a more difficult Q3.

This is particularly the case in the US, where even the ISM non-manufacturing index deteriorated sharply in June, while in Japan and the UK, growth should return to a more normal level after a very favourable Q2 (and benefiting from rebound effects in Japan, after a more difficult Q1).

In the euro zone, the two principal countries (Germany and France) continue to suffer from the cautious attitude of households, whose confidence is struggling to return to its pre-inflation shock level, despite a fairly marked decline in inflation. In Germany, the persistent weakness of industry is also weighing on the economy, while in France, rising political uncertainty is likely to dampen investment prospects.

Inflation has eased sufficiently (with the labour market under less pressure) for us to anticipate that the Bank of England and the Federal Reserve will join the ECB in cutting interest rates in August and September respectively. On the other hand, the Bank of Japan is expected to continue its monetary normalisation (which involves rate hikes) in September.

Article completed on 17 July 2024

EUROZONE: MANUFACTURING SECTOR IN DIFFICULTY, BUT CONSUMER SPENDING IMPROVING

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Manufacturing sector in difficulty, but consumer spending improving

The difficulties in the Eurozone manufacturing sector are intensifying. Industrial production fell again in May, by -0.6% m/m (-0.8% m/m for the manufacturing index). The deterioration in the PMI indicators for the euro area in June does not bode well for Q3, with a fall in the manufacturing index (-1.5 points to 45.8) and a decline in all the subcomponents (production, employment, new orders, stocks of purchases, delivery times). The input price index (which is not included in the calculation of the aggregate manufacturing index) is back above the expansion zone for the first time since February 2023. This is consistent with the trend in producer prices, for which the monthly decline has been slowing for several months and is now close to zero.¹ The PMI for services is still holding up well, although it deteriorated slightly in June, due to a fairly sharp fall in the twelve-month activity forecasts (-3.1 points to 61.0, the lowest in 2024).

Despite current gains in purchasing power, households' reluctance to consume has persisted, reflected in a further rise in the savings ratio in Q1 (to 15.3% of disposable income, the highest level ever seen in the Eurozone outside the Covid period). However, some positive developments are emerging. Retail sales in the euro area rose slightly in May (+0.1% m/m), which was enough to push the annualised 3m/3m rate to its highest level since December 2021, at 2.2%. At the same time, the European Commission's survey shows that households' intentions to buy durable goods have recovered significantly since the start of the year and are now at their best level for over two years.

Our Nowcast for Q2 currently stands at 0.3%, in line with our initial forecasts. Q3 should see growth in the Eurozone accelerate slightly to 0.4% q/q. With a flat carryover, average annual growth in 2024 should remain anchored below 1% (at 0.9%), but 2025 should be much better, supported by successive interest rate cuts.

1. The producer price index (excluding construction) was down by 0.2% m/m in May, the seventh consecutive monthly fall, but the smallest over this period.

Guillaume Derrien (article completed on 16 July 2024)

Eurozone: economic indicators monthly changes*

	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24	Apr 24	May 24	Jun 24
Economic Sentiment Indicator (ESI)	-0.5	-0.6	-0.6	-0.6	-0.5	-0.3	-0.4	-0.4	-0.3	-0.4	-0.4	-0.4
ESI - Manufacturing	-0.6	-0.7	-0.6	-0.6	-0.7	-0.6	-0.7	-0.7	-0.6	-0.8	-0.7	-0.7
ESI - Services	0.0	-0.1	-0.1	0.0	0.0	0.2	0.2	0.0	0.1	0.0	0.1	0.1
ESI - Retail sales	0.2	0.1	0.0	-0.2	-0.2	0.0	0.0	-0.2	-0.1	-0.2	-0.2	-0.3
ESI - Construction	0.6	0.5	0.4	0.5	0.5	0.6	0.5	0.4	0.4	0.4	0.4	0.3
Consumer confidence	-0.5	-0.7	-1.0	-1.0	-0.8	-0.5	-0.7	-0.6	-0.5	-0.4	-0.3	-0.3
PMI Manufacturing	-1.4	-1.2	-1.3	-1.3	-1.1	-1.1	-0.6	-0.7	-0.7	-0.8	-0.5	-0.8
PMI Services	0.2	-0.4	-0.3	-0.4	-0.3	-0.2	-0.3	0.0	0.3	0.7	0.6	0.6
PMI Manufacturing New Export Orders	-1.7	-1.5	-1.5	-1.5	-1.2	-1.2	-0.8	-0.8	-0.6	-0.7	-0.4	-0.7
PMI Manufacturing New Orders	-1.6	-1.6	-1.5	-1.6	-1.2	-1.1	-0.8	-0.7	-0.6	-0.8	-0.4	-0.8
PMI Composite - Employment	0.4	0.1	0.2	0.0	-0.1	-0.1	0.0	0.4	0.3	0.6	0.6	0.3
Industrial Production	-0.4	-0.8	-1.0	-1.0	-1.0	0.0	-1.1	-1.2	-0.2	-0.5	-0.6	
Retail Sales	-0.2	-0.5	-0.8	-0.2	-0.2	-0.1	-0.2	-0.1	0.2	0.1	0.1	
New Car registrations	0.7	1.0	0.4	0.6	0.2	-0.2	0.5	0.4	-0.3	0.5	-0.2	
HICP	1.6	1.5	1.1	0.4	0.1	0.4	0.3	0.2	0.1	0.1	0.2	
Core HICP	3.9	3.6	2.8	2.4	1.8	1.7	1.5	1.4	1.2	1.0	1.1	
Unemployment Rate	1.6	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	

* 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	0.0	-0.1	0.3	-0.0	0.3	0.3	0.4	0.4	0.6	0.9	1.6

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



America first

Growth in exports to the United States (Germany's biggest export customer) has continued to drive German foreign trade in recent years, while trade with the eurozone and China has been relatively stagnant. For the past four months, however, the German PMI for export conditions has been above the threshold of 50 (albeit lower in June at 50.8 than in May at 51.9), suggesting a more global dynamic.

At the same time, domestic demand is showing no real signs of improvement. New factory orders confirm the dichotomy between tepid demand in Germany and encouraging signs from the eurozone. At the same time, according to the GfK index, household confidence has remained fairly stable at a low level for one year (-21.8 in June 2024 compared with -25.2 a year earlier), a long way from the February 2022 level (-6.8). This lack of a rebound may seem paradoxical in view of the sharp fall in inflation (2.5% y/y in June 2024 compared with 6.8% y/y a year earlier according to the harmonised index), but less so in view of the labour market.

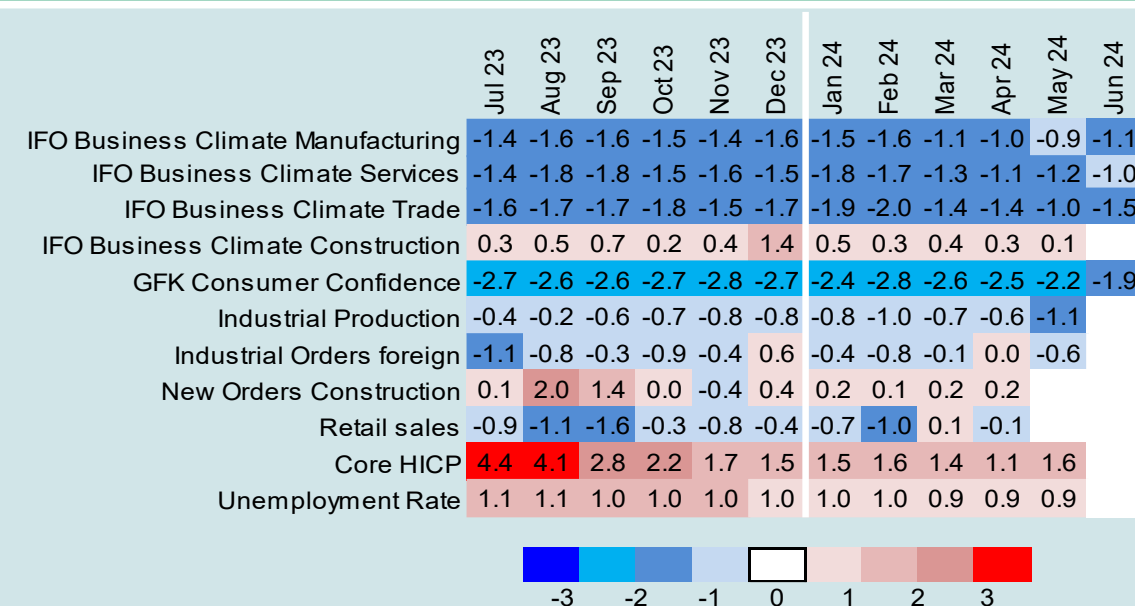
Against a backdrop of labour shortages and weak industrial production, Germany is struggling to create as many jobs as in the past: 180,000 a year on average between 2018 and 2023, compared with 430,000 a year between 2005 and 2018 (and 28,000 in Q1, while France had 75,000). The unemployment rate rebounded to 6% in June 2024 from a low of 5% in May 2022 and in the pre-pandemic period.

Over the first five months of 2024, industrial production benefited from the relative upturn in chemicals (+2.5% y/y), which was less affected than in the past by energy prices, but suffered from the downturns in automotive production (-7.7% y/y) and construction (-3.5% y/y), which also weighed on inputs for these sectors (including metallurgy). While the high level of interest rates is playing a role, the end of subsidies for the purchase of electric vehicles is weighing on registrations of this type of vehicle (-16.6% y/y in H1).

The dichotomy between positive signals from exports and persistently sluggish domestic demand underpins our forecast of stable growth in Q2 (+0.2% q/q, as in Q1), after -0.5% in Q4. The level of activity in Q2 2024 should remain slightly below that of Q3 2023.

Stéphane Colliac (article completed on 17 July 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.
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
-0.1	0.1	-0.5	0.2	-0.3	0.2	0.3	0.4	0.0	0.3	1.4

Source: Refinitiv, BNP Paribas



The shadow effect of uncertainty

The French economy is once again feeling the weight of economic uncertainty, as shown by the rebound in the Banque de France's uncertainty indicator, which in July reached its highest level since autumn 2022 (energy crisis). This could weaken a business climate that is already a little less favourable in France (composite PMI at 48.8 in June) than in the eurozone (PMI above 50 for the past four months).

This uncertainty is weighing on demand: despite public finances continuing to provide substantial support for purchasing power (public deficit of 5.5% of GDP in 2023), the household savings rate remains high (17.6% of gross disposable income in Q1 2024). Household confidence, which eroded again in June (to 89, from 90 in May 2024), reflects this wait-and-see attitude, despite gross monthly wages growth in Q1 (+3.3% y/y) outstripping inflation (+3% y/y according to the harmonised index).

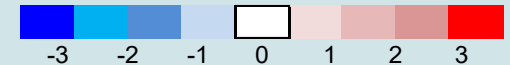
This has resulted in constrained demand, but no halt to the transitions that are underpinning French growth: the growth in services and an increase in the employment rate. The business climate has even improved in services (above 100 for the past four months, according to the INSEE survey). The labour market continues to create jobs (75,000 in Q1), while the INSEE employment climate is stable (101 on average in Q2 as in Q1). Our nowcast for France (0.3% q/q for Q2, in line with our forecast) bears witness to this resilience, which may once again have boosted French growth in Q2.

However, there are other transitions or transmissions that uncertainty could delay: firstly, the green transition, with the share of electric vehicles levelling off in new car registrations (17% in H1 2024 compared with 18% in H2 2023), in a generally stable national market (total registrations up 2.3% y/y in H1). Secondly, households' intention to buy a property (an average of 7.5% of households in Q2 compared to a low of 7% in Q3 2023, according to the INSEE household survey), despite the fact that the interest rate cuts initiated by the ECB are beginning to be passed on to interest rates on mortgages. These two shadows suggest that French growth is likely to remain around its current low point (slightly above 1% year-on-year) over the next few quarters.

Stéphane Colliac (article completed on 17 July 2024)

France: economic indicators monthly changes*

	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24	Apr 24	May 24	Jun 24
Business climate Manufacturing	0.0	-0.4	-0.1	-0.2	-0.2	-0.1	-0.2	0.0	0.3	0.0	-0.1	-0.2
Business climate Services	0.2	0.2	0.2	0.0	-0.1	0.0	0.1	0.0	0.3	0.0	0.2	0.1
Business climate Construction	0.2	0.3	0.3	0.1	-0.1	-0.2	0.0	0.0	0.0	-0.2	-0.2	-0.3
Business climate Retail sales	0.5	0.5	0.2	-0.2	-0.4	-0.1	0.4	-0.1	0.0	0.1	-0.1	0.0
Employment climate	0.5	0.1	0.5	0.2	-0.1	0.0	-0.2	0.1	0.1	0.1	0.2	-0.1
Consumer confidence	-1.0	-1.1	-1.3	-1.2	-0.7	-0.7	-0.4	-0.6	-0.4	-0.6	-0.5	-0.6
HICP	2.1	2.4	2.4	1.7	1.2	1.4	0.9	0.8	0.3	0.3	0.4	0.4
Core HICP	3.3	2.9	2.5	2.4	1.7	1.7	1.4	1.2	0.9	0.9	1.0	1.1
Unemployment Rate	1.6	1.5	1.5	1.4	1.4	1.3	1.4	1.5	1.5	1.6	1.5	
Consumer spending	-0.2	-0.5	-1.0	-0.5	-0.4	0.1	-0.4	-0.3	-0.1	-0.2	0.0	
Industrial production	0.3	-0.1	0.0	0.6	0.3	0.2	0.2	0.0	0.2	0.2	-0.5	
Exports of goods	0.2	-0.7	-1.0	-0.7	-0.6	-0.5	-0.7	-0.5	-0.2	-0.2	-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. 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
0.7	0.1	0.3	0.2	0.5	0.3	0.3	0.3	0.4	1.1	1.1	1.4

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

Households feeling more optimistic

Italian inflation stabilised below the 1% mark in June (at 0.9% y/y) due to the still significant deflation in the energy component (-8.6% y/y), and the slowdown in food prices (2.1% y/y in May; -1.8 pp over three months). Although the producer price index is still negative year-on-year (-3.5% in May), it is beginning to strengthen on a monthly basis (+0.3% m/m), suggesting that the disinflationary phase in consumer prices could be reversed over the coming months.

Household confidence, which had been deteriorating since the start of the year, recovered somewhat in June (+1.4 points over one month). Expectations for the financial and economic situation over the next twelve months improved (+0.8 and +2.9 points over one month respectively), supported by the ECB's interest rate cuts and the good performance of the labour market. Nevertheless, private consumption is likely to remain subdued this quarter, as intentions to make major purchases (-29.9¹) or to buy a car (-75.3²) are weak; retail sales in volume have also stagnated over the last three months compared with the previous three months (0.0% 3m/3m in May³), while new vehicle registrations have fallen (-0.2% 3m/3m in June⁴).

The Composite PMI remained in the expansion zone in June (51.3), but its decline, observed since last April, continued (-1 point over one month) due to the persistent weakness of the manufacturing industry (manufacturing PMI at 45.7). However, the sub-component relating to employment in this sector is up on May (49.5; +0.8 points). For its part, the services sector continues to be the driving force behind the Italian private sector. Despite a slight fall over the month (-0.5 points), the associated PMI remains in the expansion zone (53.7). Expectations for new business remain high, and have even returned to their highest level since February 2022 (68.1).

After growing by 0.3% q/q in Q1, Italian real GDP is expected to slow slightly quarter-on-quarter in Q2, to 0.2% q/q. As an annual average in 2024, we expect growth to reach 1.1%.

1 Below the long-term average for the period 1990-2019 of -22.9.

3 Seasonally adjusted data.

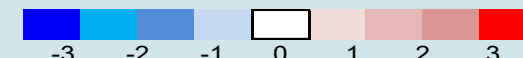
2 Below the long-term average for the period 1990-2019 of -70.7.

4 Seasonally adjusted data.

Lucie Barette (article completed on 12 July 2024)

Italy: economic indicators monthly changes*

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



* 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
-0.1	0.4	0.1	0.3	0.3	0.2	0.4	0.4	1.0	1.1	1.4

Source: Refinitiv, BNP Paribas



Tourism, the engine of growth but a source of tension

2024 is shaping up to be a record year for tourism. Between January and May, the number of tourist arrivals in Spain reached 33.2 million, far outstripping the level recorded during the same period in 2023 (by 13.6%). Tourist spending (+21%¹), which significantly boosted services exports in Q1 (+10.8% q/q), is likely to have continued to do so in Q2. Nevertheless, despite its undeniable effects on Spanish growth, mass tourism is becoming a source of tension in the country due to its impact on access to housing and resources. This has led Barcelona City Council to introduce a plan to stop renewing tourist apartment licences, which will lead to their phasing out by 2029.

The PMI Services survey shows an acceleration in activity throughout Q2 (56.8 in June, compared with 56.1 in March). The sub-component on the future business expectations remained high in June (66.9 against a historical average of 66.6), reinforcing the prospects of a very strong summer season. The index for new export orders rose (54.6; +0.7 points), and companies indicated that they are increasing their workforce to meet future demand (55.4; +0.3 points). Job creation in tourism services, particularly in the hotel sector, also continued to rise in Q2 (+0.6% q/q)², and the number of people registered with the social security system reached a new record in June (21.3 million).

This momentum in employment, combined with the gradual slowdown in inflation (3.6% y/y in June³), is bolstering household confidence. The latter returned to its highest level for a year and a half in June, thanks to a brighter outlook for the financial situation over the next twelve months and intentions to make major purchases. In fact, new vehicle sales rose by 5.1%⁴ over the last three months compared with the previous three months, suggesting that private consumption will make a greater contribution to growth in Q2.

We expect Spanish GDP to maintain its strong momentum, growing by 0.7% q/q in Q2. Over the year as a whole, the country will therefore continue to offer one of the best prospects in the euro zone, with activity expected to expand by 2.6%.

1 January-May 2024 compared with January-May 2023.

2 Seasonally adjusted data.

3 HICP, INE final estimate.

4 Seasonally adjusted data, 3m/3m variation.

Lucie Barette (article completed on 11 July 2024)

Spain: economic indicators monthly changes*

	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24	Apr 24	May 24	Jun 24
Business climate - manufacturing	-0.2	0.1	-0.1	-0.1	-0.2	0.1	0.2	0.3	0.2	0.4	0.2	0.2
Business climate - construction	1.2	0.7	0.8	1.0	1.3	1.2	0.8	0.9	1.0	1.2	1.3	0.6
Business climate - services	0.8	0.7	0.6	0.7	0.7	0.7	0.8	0.7	0.8	0.6	0.6	0.8
PMI manufacturing	-1.3	-1.3	-0.4	-1.0	-0.9	-0.6	-0.5	-0.4	0.2	0.2	0.4	0.4
new export orders	-1.3	-1.3	-0.4	-1.0	-0.9	-0.6	-0.5	-0.4	0.2	0.2	0.4	0.4
PMI Composite - e	0.5	0.3	0.3	0.3	0.3	0.5	0.6	0.6	1.0	0.9	0.9	0.9
Consumer confidence	0.4	0.1	-0.4	-0.3	-0.3	-0.2	-0.2	0.0	0.1	0.2	0.2	0.3
Industrial production	-0.2	-0.2	-0.2	-0.1	0.1	0.0	0.1	0.2	-0.2	0.1	0.1	
Retail sales	1.7	1.5	1.5	1.4	1.5	1.3	0.4	0.7	0.4	0.3	0.2	
Exports	-0.9	-1.3	-1.3	-0.7	-1.0	-1.3	-0.7	-0.7	-2.0	0.8		
HICP	0.0	0.1	0.5	0.6	0.5	0.5	0.6	0.3	0.5	0.5	0.7	0.6
Core HICP	2.4	2.3	1.9	1.8	1.5	1.6	1.3	1.4	1.2	0.9	1.1	
Employment	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4
Wage	0.5	0.5	0.5	0.6	0.5	0.4	-0.2	-0.2	-0.3	-0.4	-0.4	-0.4
Unemployment Rate	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.9	0.9	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	0.8	0.9	0.7	0.6	0.6	2.5	2.6	2.1

Source: Refinitiv, BNP Paribas



An almost perfect picture for the Fed

Expectations in terms of growth for Q2 remain favourable: we expect it to be +0.6% q/q compared to +0.5% q/q for the Atlanta Fed's GDPNow. However, several elements suggest a more difficult Q3. The ISM surveys in June returned a negative signal: mixed for the manufacturing component, which deteriorated marginally, to 48.5 (-0.2 points), against a backdrop of falling production (48.5, -1.7 points), more marked for the non-manufacturing index, which fell to 48.8 (-5.0 points), against a backdrop of a correction in activity (49.6, -11.6 points), and a deterioration in new orders (47.3, -6.8 points). The NFIB (Small Business Optimism Index) again rose only slightly in June (91.5, +1.0 points); while consumer sentiment (measured by the University of Michigan) fell for the fourth consecutive month in July (66.0, -2.2 points).

The labour market is cooling more sharply. In June, the creation of salaried jobs stood at +206k (-12k), a figure accompanied by downward revisions over the previous two months (-111k cumulatively) and confirming, smoothed over six months or one year, a downward trajectory for several quarters. Private payroll growth slowed significantly, from +193k to +136k, partly cushioned by an acceleration in the public sector. At the same time, wage growth, measured by average hourly income, fell to +3.9% y/y after the acceleration in May. The unemployment rate reached 4.1% (+0.1pp), the highest since November 2021, moving it closer to the recession signal.

Disinflation continued in June, with year-on-year shifts unprecedented since spring 2021 (3% y/y for the CPI and 3.3% y/y for the underlying index). Housing services, where inflation has long been more difficult to curb, saw a significant monthly slowdown (+0.2% m/m, -0.2pp), bringing annual growth to +5.1% (-0.3pp).

In his speech to Congress on 9 July, Jerome Powell expressed satisfaction with the recovery of the disinflation trajectory. With a June CPI in line with his wish for "more good data", we anticipate a first rate cut (-25bps) at the September FOMC meeting, bringing the rate target to +5.0/+5.25%.

Anis Bensaidani (article completed on 12 July 2024)

United States: economic indicators monthly changes*

	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24	Apr 24	May 24	Jun 24
ISM Manufacturing	-0.7	-0.5	-0.3	-0.6	-0.7	-0.6	-0.2	-0.5	0.1	-0.2	-0.3	-0.3
ISM Services	0.7	1.0	0.8	0.5	0.6	0.1	0.8	0.6	0.3	-0.1	0.9	-0.3
ISM Services - Employment	0.1	0.9	0.7	0.1	0.1	-1.2	0.1	-0.4	-0.3	-0.8	-0.6	-0.8
ISM Manufacturing - Employment	-1.0	-0.3	0.2	-0.5	-0.7	-0.4	-0.5	-0.7	-0.5	-0.2	0.2	-0.1
Consumer confidence (Univ. of Michigan)	-0.8	-0.9	-1.0	-1.3	-1.5	-0.9	-0.1	-0.3	-0.1	-0.3	-0.9	-1.0
Consumer confidence (Conf. Board)	0.8	0.6	0.5	0.3	0.3	0.6	0.7	0.5	0.4	0.2	0.3	0.3
Industrial production	-0.1	-0.2	-0.2	-0.3	-0.2	0.0	-0.4	-0.2	-0.2	-0.3	-0.1	
Building permits	0.5	0.7	0.5	0.6	0.5	0.6	0.5	0.6	0.5	0.4	0.3	
Retail Sales	-0.2	-0.2	0.0	-0.3	-0.1	0.2	-0.7	-0.4	-0.1	-0.3	-0.3	
Nominal Real Personal Consumption	0.2	0.0	0.0	0.0	0.3	0.4	-0.1	0.0	0.2	0.1	0.1	
Household purchasing power	0.6	0.5	0.5	0.4	0.5	0.4	-0.1	-0.2	-0.3	-0.4	-0.3	
PCE deflator	0.7	0.7	0.7	0.5	0.3	0.3	0.2	0.2	0.3	0.3	0.2	
Core PCE deflator	1.9	1.5	1.4	1.2	1.0	0.8	0.8	0.7	0.7	0.6	0.4	
CPI	0.4	0.6	0.6	0.3	0.3	0.4	0.3	0.3	0.5	0.4	0.3	0.2
Core CPI	1.9	1.7	1.4	1.3	1.3	1.2	1.2	1.1	1.1	1.0	0.8	0.7
Nonfarm Payrolls	0.4	0.4	0.4	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Unemployment Rate	1.2	1.0	1.0	1.0	1.0	1.0	1.0	0.9	1.0	0.9	0.9	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	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	0.5	0.6	0.4	0.4	2.5	2.5	1.8	

Source: Refinitiv, BNP Paribas



A fragile upturn

The rise in activity is welcome news for the recently-elected Labour Party. According to the ONS, the monthly figures for real GDP (or, to be more precise, real value added) show that UK activity rose by 0.4% m/m in May, following a levelling-off in April. Although the manufacturing sector (+0.4% m/m) and construction (+1.9% m/m) were more supportive of growth than services (+0.3% m/m) in May, it is the latter that have been driving activity over the past year, with a rebound in transport and logistics (+7.3% y/y) and a clear acceleration in 'professional, scientific and technical' activities (+4.1% y/y).

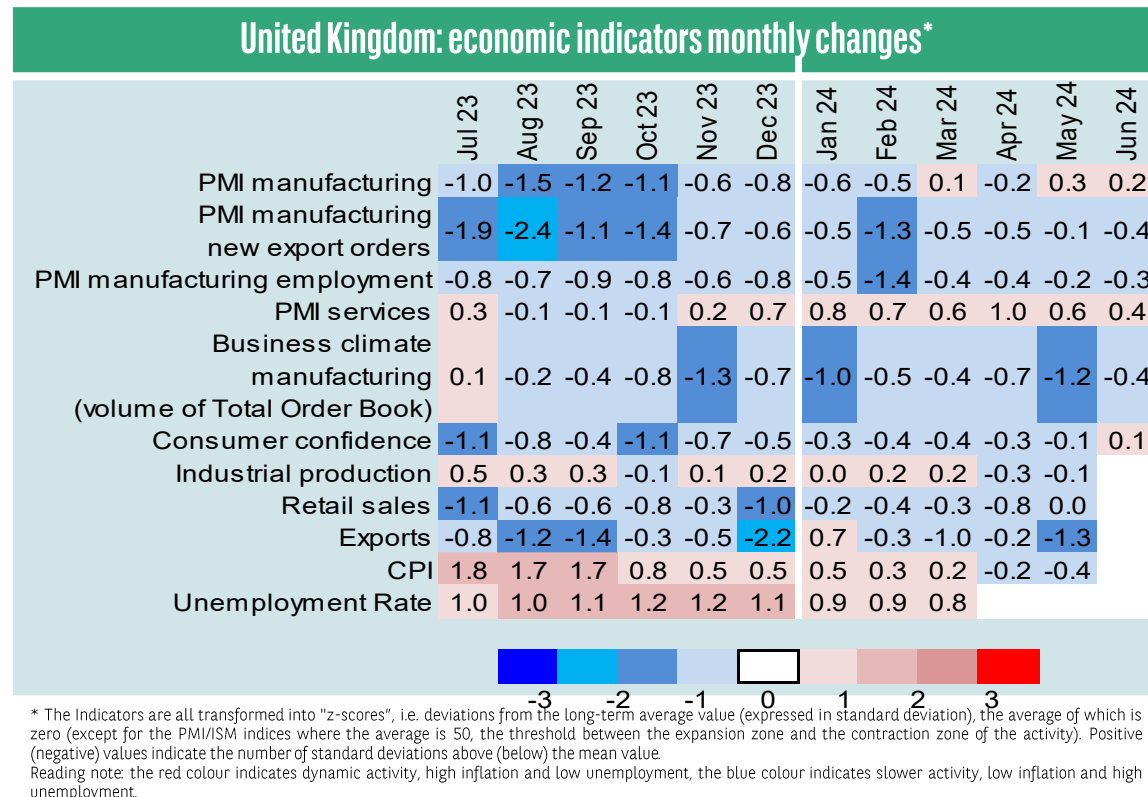
The PMI surveys suggest that activity will remain on a growth trajectory in Q3 2024. However, the composite index fell in June (-0.7 points to 52.3), with a drop in both the manufacturing index (-0.3 points to 50.9), which nevertheless remains above the expansion threshold, and in services (-0.8 points to 52.1). At the same time, the RICS survey for the housing sector indicates that the outlook for home sales is at its highest since January 2022.

Falling inflation, rising real wages and the prospect of further rate cuts (as early as August, according to our expectations), are leading to a very marked improvement in household confidence (GfK index up +3 points to -14 in June), taking it to its highest level since September 2021. The sub-index on the twelve-month economic outlook explains this rise, but the sub-index on the outlook for purchases of durable goods remains very low, although it improved in June.

The further rise in the household savings ratio in Q1 - to 11.1% of disposable income, the highest level excluding Covid since 2010 - illustrates the desire of households to limit their consumption, against a backdrop of uncertainty and rising unemployment. Even so, retail sales rebounded by 2.8% m/m in May, after three consecutive months of decline.

In the short term, therefore, the situation is rather favourable for the new government, which nevertheless remains confronted with major structural challenges and an economy that is still on a relatively weak growth trajectory, with growth expected to average just 0.8% p.a. in 2024, according to our current forecasts.

Guillaume Derrien (article completed on 12 July 2024)



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	0.7	-0.3	0.5	0.2	0.3	0.1	1.0	1.3

Source: Refinitiv, BNP Paribas

Good and bad inflation

Japan's economic growth should benefit from a technical upturn in Q2: we expect growth of 0.5% q/q after the contraction in Q1 (revised downwards to -0.7% q/q). The outlook remains negative – particularly for demand, despite the tax cuts introduced in June – while household consumption spending contracted by -1.8% y/y in May. Furthermore, while wage increases (excluding bonuses) reached their highest level since 1993 in May (+2.5% y/y), a sign of the growing transmission of negotiated wage increases (+5.1% y/y according to the Rengo trade union), real incomes are still not rising (-1.4% y/y).

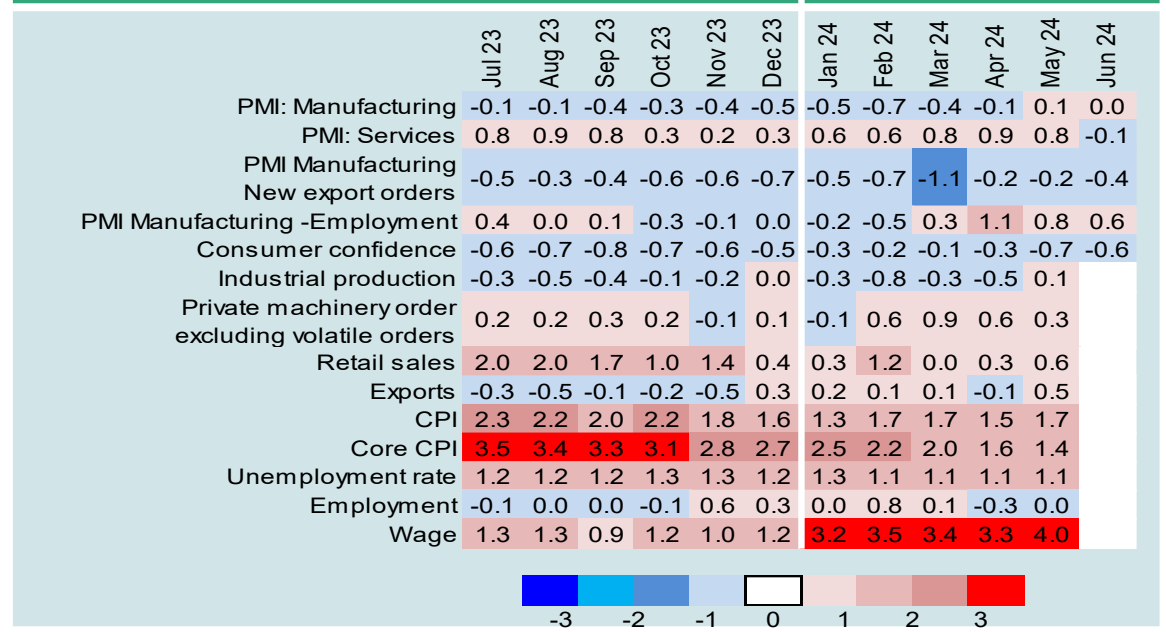
Monthly activity surveys suffered a setback in June: at 50.0 (-0.4 points) for the manufacturing PMI and 49.4 (-4.4 points) for the services PMI, which moved into contraction territory for the first time since August 2022. The composite PMI also shows a contraction (49.7, -2.9 points), with contrasting signals between input prices (61.6, +1.2 points) and output prices (53.9, -1.6 points), suggesting a reduced ability to pass on rising production costs to selling prices. As for the Bank of Japan's (BoJ) quarterly Tankan survey, it reports, at aggregate level (all industries and company sizes), a stable business climate in Q2.

Core inflation (excluding unprocessed food) picked up again in May (+2.5% y/y, +0.3pp) – which is likely to precede a further acceleration if Tokyo's underlying CPI in June is anything to go by (+2.1% y/y, +0.2pp) – against the backdrop of the withdrawal of measures relating to energy prices. While energy inflation soared (+7.2% y/y, +7.1pp), the price of services continued to decelerate (+1.6% y/y, -0.1pp). Consequently, the cause of the rebound in inflation does not correspond to the virtuous circle of income-consumption reflation expected by the BoJ in order to pursue its monetary normalisation.

With the Central Bank's next meeting (30-31 July) due to present a detailed plan for reducing the pace of bond purchases, the Bank's latest 'Summary of Opinions' is paving the way for an adjustment in the degree of easing in financial conditions. In this respect, we expect the uncollateralised overnight call rate, currently at +0.0%/+0.1%, to move again (+0.15pp) in September.

Anis Bensaidani, with the help of Elisa Petit (article completed on 12 July 2024)

Japan: economic indicators monthly changes*



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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
0.9	-1.0	0.0	-0.7	-0.3	0.5	0.3	0.2	1.8	-0.4	0.7

Source: Refinitiv, BNP Paribas



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