ECOPULSE

ECONOMIC RESEARCH
July 2025

Monthly Pulse of the Economic Conjoncture

Eurozone (Conjoncture and Credit) Germany
France Italy Spain United Kingdom
United States Japan China

Nowcast

Eurozone France United States

BNP PARIBAS

The bank for a changing world

OVERVIEW JULY 2025

Our Q2 2025 nowcasts, which measure trend growth (excluding exceptional effects), highlight the resilience of the Eurozone (+0.3% q/q) and, to a lesser extent, France (+0.2% q/q). Weaker exports (after their surge in Q1 in anticipation of the US trade tariffs) penalises our forecast in Q2 (-0.1% in the Eurozone). It's the opposite for the US (-0.1% q/q in Q1) with the Atlanta Fed nowcast at +0.7% for Q2 (imports down compared to Q1). With an average of 0.25% in H1 however, US growth is estimated to have slowed down (compared to 0.6% per quarter in 2024); that of the Eurozone (0.25% on average in H1, compared to 0.35% on average in H2 2024) is expected to be more stable. Our Q2 growth expectations for Eurozone members, the UK and China also point to a slowdown. Japan is not expected to emerge from the stagnation observed in Q1.

Business climate: better in Europe. The June surveys show an improvement in almost all countries, including those where the trend has been more unfavourable so far (the United States, Japan, China). In France, however, this improvement is not widespread (in construction only).

Household confidence: stabilisation after an upturn. Surveys showed an improvement in May. This is not called into question in June where a relative stabilisation is observed. In the US, uncertainty remains high as surveys deliver different messages on household sentiment and the extent of the slowdown in their consumption.

Labour market: positive signs prevail. The situation remains favourable in the Eurozone countries and the US, and the employment rate continues to rise in Japan. More negative signals are appearing in the United Kingdom (job destruction) and in China (reduction in the number of hours worked).

IInflation: are the good surprises behind us? Inflation has reached the ECB's target in the euro area and is not yet impacted by tariffs in the US. However, inflation expectations remain high in the US. In Japan, inflationary pressures are increasing. Inflation is stabilising at a significant level in the UK. China remains in deflation.

Monetary policies: towards a rotation? The ECB is expected to cut its key interest rate by 25 bps one last time in September. Speculation about when the Fed might take over persists. The FOMC is divided, but we still believe the Fed will only ease policy in 2026. In Japan, the central bank announced that it will slow down its pace of the reduction of its JGBs purchases. In the UK and China, gradual monetary easing is expected to continue (25 and 10 bps per quarter, respectively).

Credit in the Eurozone: towards a rotation (bis)? Bank financing to Eurozone companies is slowing down as cash loans are slowing, while the increase in investment loans is continuing. Meanwhile market-based financing is on the rise. However, the recent drop in bank loan rates could lead to an increase in demand for these loans. Finally, bank financing to households is accelerating from sluggish levels.

Completed on July 4, 2025

Indicators Q3 2025

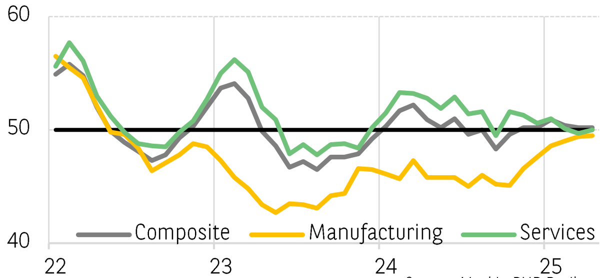
	Business climate	Households	Labour market	Inflation
Eurozone	⛅	⛅	⛅	☀
Germany	⛅	⛅	☀	☀
France	☁	☁	☁	☀
Italy	⛅	☁	⛅	☀
Spain	⛅	☀	☀	☀
United Kingdom	⛅	⛅	☁	⛅
United States	☁	☁	⛅	⛅
Japan	⛅	☁	⛅	☁
China	☁	☁	☁	☁

Source: BNP Paribas

CONTENT

Eurozone: Indicators stable, inflation under control

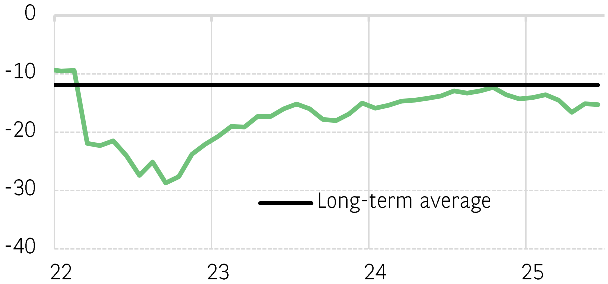
Business climate: PMI



Source: Markit, BNP Paribas.

Stable business climate. The composite PMI index was stable at 50.2 in June, remaining above the expansion threshold in the first half of the year. The upturn in the manufacturing index slowed but continued (+0.1 pt to 49.5). It was driven in particular by new orders, with the index back above the 50 threshold for the first time in three years. The services PMI is unchanged.

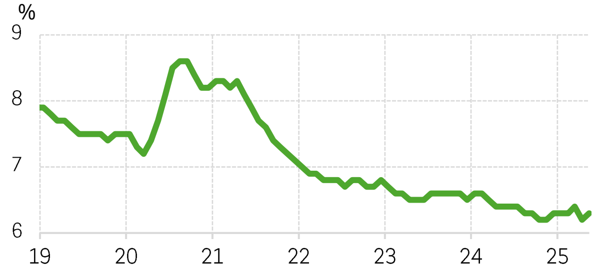
Household confidence



Source: European Commission, BNP Paribas

Household confidence fell slightly in June, but remains well below its long-term average. Nevertheless, retail sales are showing an encouraging trajectory (+0.1% m/m in April and +1.8% in 3m/3m annualised). The momentum is particularly strong in France (+3.1%, 3m/3m annualised), Belgium (+8.1%) and Portugal (+3.9%).

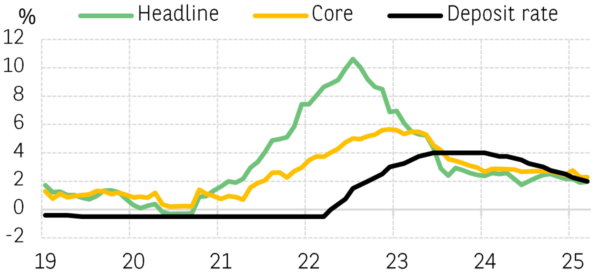
Labour market: unemployment rate



Source: Eurostat, BNP Paribas.

The labour market remains resilient. The unemployment rate nevertheless rose to 6.3% in May (6.2% in April), driven up by Italy (+0.4 pp to 6.5%), while it remained stable in Germany (3.7%) and France (7.1%). Wage moderation continues, with the ECB's wage tracker pointing to an increase in basic wages of 3.0% y/y by the end of 2025.

Inflation (y/y) and policy rate



Source: Eurostat, BNP Paribas.

Inflation remains firmly anchored on the ECB's target. The harmonised index rose by 2% y/y in June (preliminary figure), compared with 1.9% in May. Core inflation is stable at 2.3%, with the strengthening in services (+0.1 pp to 3.3% y/y) being offset by the decline in non-energy industrial goods (-0.1 pp to 0.5%). Against this backdrop, we expect the ECB to cut its key rates by a final 25bp in September.

GDP growth q/q: actual, carry-over and forecasts

Actual				Carry-over	Actual	Nowcast	Forecast		Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q2 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
0.3	0.2	0.4	0.3	0.5	0.6	0.3	-0.1	0.2	0.8	1.2	1.3

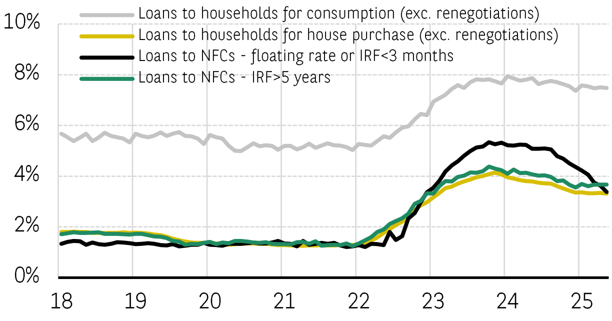
See the Nowcast metodology Contact: Tarik Rharrab Source: Refinitiv, BNP Paribas

Backlash against growth in Q2? After a Q1 2025 boosted by exports in anticipation of the rise in US tariffs, a fall back is expected in Q2. According to our nowcast, which does not incorporate the fallback but tracks the economy's trend growth rate, the latter remains solid (+0.3% q/q). It should be underpinned by a final interest rate cut in September and by increased defence spending for the region's rearmament. In May, growth in outstanding loans to businesses slowed, while growth in loans to households continued to accelerate. This was mainly due to the stabilisation of rates on new business investment loans, while rates on loans to households fell again.

Guillaume Derrien and Thomas Humblot (completed on July 3, 2025)

Eurozone: Slowdown in corporate lending, acceleration in household lending

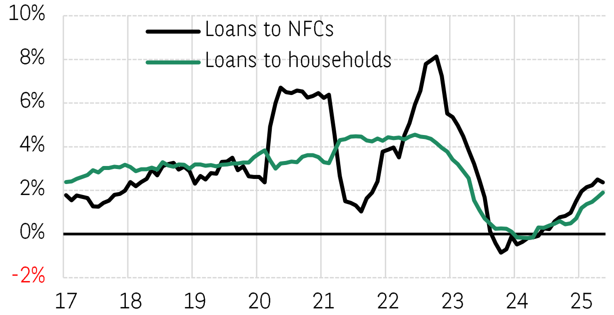
Euro area bank interest rates on new loans



Source: ECB, BNP Paribas.

The decline in borrowing rates in the eurozone resumed, except for investment loans. New investment loan rates (IRF > 5 years) to non-financial corporations in the eurozone remained stable in May 2025, at 3.67%, for the third consecutive month. By contrast, rates on new treasury loans (variable rate and IRF < 3 months) to corporates continued to fall (-25 bps m/m) to 3.38%. Rates on new loans for house purchases and loans for consumption to households also declined, but much more modestly (-2 bps m/m). They stood at 3.32% and 7.48%, respectively.

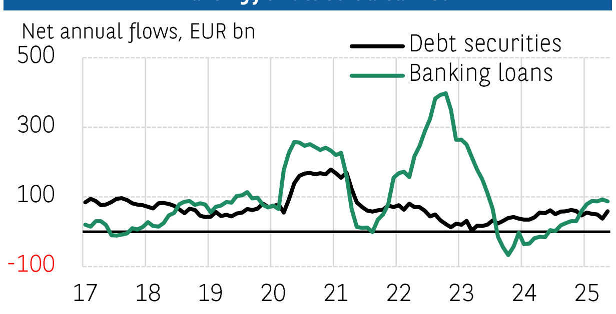
Growth rate of outstanding loans in the euro area



Source: ECB, BNP Paribas.

Loans to corporates slowed down, while loans to households continued to accelerate. Year-on-year growth in outstanding bank loans to corporates in the eurozone fell in May 2025 to 2.4% (-14 bps m/m). This was the first decline since January 2024. The decline was solely due to weaker growth in short-term loans (maturity < 1 year), which fell from 5.6% in April to 4.5% in May. Investment loans continued their modest acceleration (+8 bps m/m). Growth stood at 1.4% in May, a historically low level (3.3% on average over the past ten years). Loans to households continued to accelerate in May (1.9%, +21 bp m/m) but remain historically sluggish. Loans for consumption were stable from one month to the next (4%).

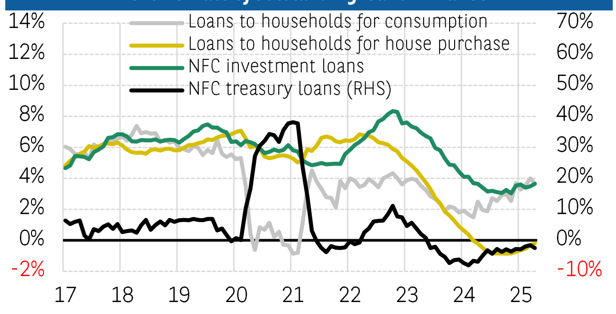
Financing flows to euro area NFCs



Source: BCE, BNP Paribas.

Bank financing flows to eurozone companies slowed, while market flows increased. Net bank lending to eurozone corporates, measured on a year-on-year basis, declined in May 2025 (-6% m/m) to EUR 87 billion. Excluding the crisis period, however, this level remains relatively high. By contrast, net debt securities issuance, measured on a year-on-year basis, picked up significantly in May (+57% month-on-month), albeit from low levels. Over the coming months, the stabilisation of interest rates at a higher level than during the low-interest rate era should be more favourable to bank financing.

Growth rate of outstanding loans in France



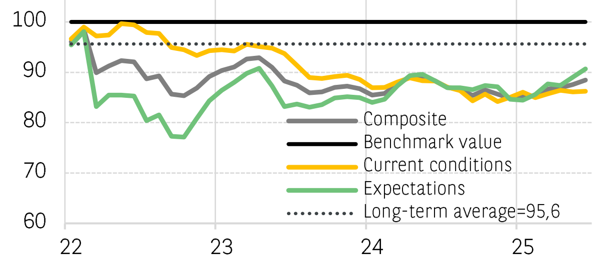
Source: Banque de France, BNP Paribas.

Bank financing flows to eurozone companies slowed, while market flows increased. Net bank lending to eurozone corporates, measured on a year-on-year basis, declined in May 2025 (-6% m/m) to EUR 87 billion. Excluding the crisis period, however, this level remains relatively high. By contrast, net debt securities issuance, measured on a year-on-year basis, picked up significantly in May (+57% month-on-month), albeit from low levels. Over the coming months, the stabilisation of interest rates at a higher level than during the low-interest rate era should be more favourable to bank financing.

Thomas Humblot (Completed on July 7, 2025)

Germany: economic recovery continues

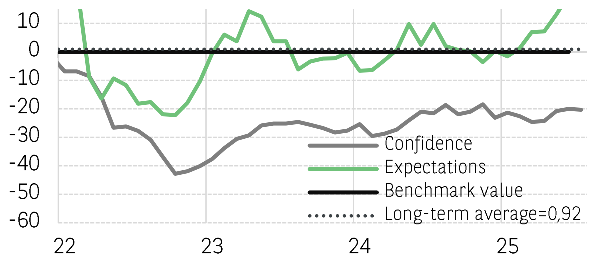
IFO's Business climate



Source: IFO, BNP Paribas

The IFO business climate continues to improve (+0.9 points in June compared to the previous month, to 88.4), supported by favourable economic prospects. The early measures taken by the Merz government (enhanced depreciation allowances for investments, an ambitious budget for public investment until 2025 and a commitment to reduce energy costs for businesses) are fuelling high expectations. These are also reflected in the PMI index, which is picking up in both the manufacturing and services sectors.

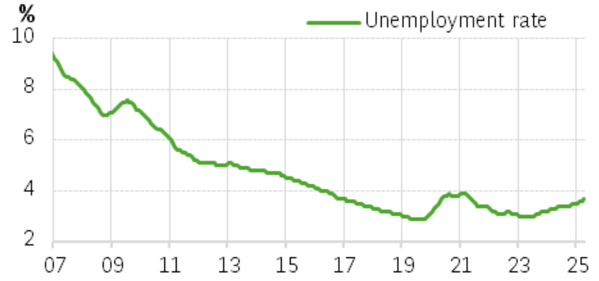
Household confidence



Source: GFK, BNP Paribas.

Households are confident yet cautious. Household confidence is also improving. The economic expectations component has risen to 20.1 in July (+13 points in two months). However, this improvement in expectations is not yet reflected in other opinion indicators: the propensity to save remains high and, after an initial rise from -15 to -6 between March and November 2024, the purchasing intentions index is still stagnating at this low level.

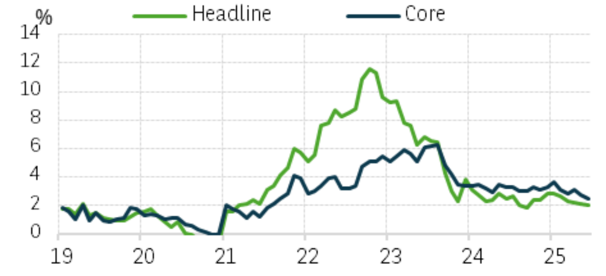
Labour market: unemployment rate



Source: Destatis, BNP Paribas.

The labour market is generally resilient, despite sectoral weaknesses. The employment situation remains solid, with an unemployment rate of 3.7% in May, despite a slight increase of 0.2 percentage points since the beginning of the year. The IAB and IFO employment surveys remain below their reference values. While employment in the service sector remains resilient, this is less so in the manufacturing sector (which has been recording net job losses since the third quarter of 2023, with the latest figures dating from the first quarter of 2025), against a backdrop of under-utilisation of production capacity.

Inflation



Source: Destatis, BNP Paribas

Inflation is in line with targets, but is not expected to fall further. Annual inflation (harmonised index) returned to 2% in June (from 2.1% year-on-year in May), in line with the eurozone average. Energy prices continue to fall, while price rises for services are slowing; underlying inflation fell to 2.5% (from 2.7% in May). We expect inflation to remain around 2% until the end of 2026. The labour market is likely to remain tight, particularly due to the government's investment plan, which will keep inflationary pressures persistent.

GDP growth q/q : actual, carry-over, forecasts

Actual				Carry-over	Actual	Forecast		Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
0,2	-0,3	0,1	-0,2	-0,2	0,4	0,1	0,3	-0,2	0,5	1,0

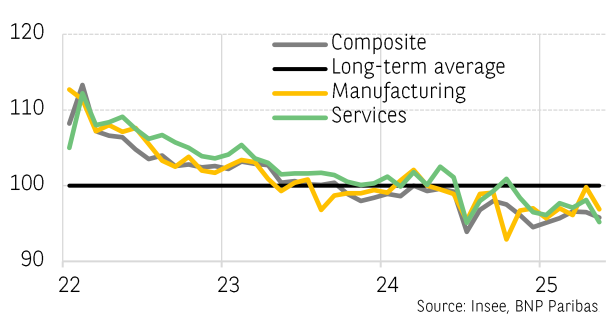
Source: Refinitiv, BNP Paribas

The economic outlook remains mixed. Growth reached +0.4% quarter-on-quarter in the first quarter of 2025, a good result driven by exports in anticipation of higher US tariffs. A backlash is therefore expected in the second quarter (0.1% quarter-on-quarter). However, the implementation of the investment programme in the second half of the year should support growth thereafter.

Marianne Mueller (completed on July 3, 2025)

France: Heading towards an improvement?

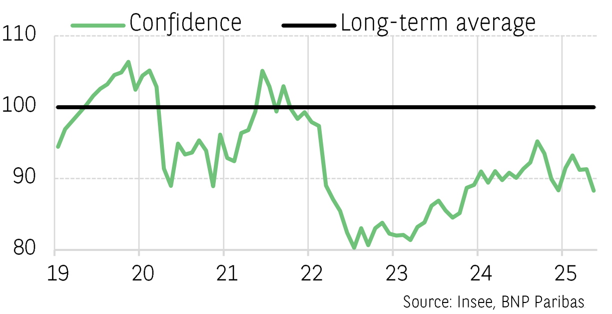
Insee's Business climate



Source: Insee, BNP Paribas

Business climate: improvement confirmed in construction. The business climate continues to be quite low, with 96 in June and in May (97 in March-April). The rebound was moderate in services (from 95 to 96, compared with 98 in April) while the index contracted from 97 to 96 in industry. The construction index has benefitted from a revival of activity in new construction since May 2025 and has thus returned to its long-term average (100) for the past two months (it had been below this average between September 2024 and April 2025).

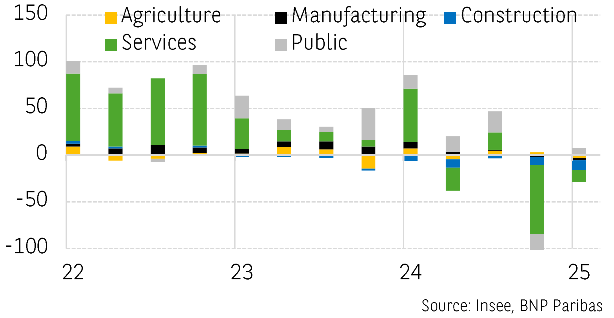
Household confidence



Source: Insee, BNP Paribas

Household confidence stable at a low level, standing at 88 in June and in May (91 in April). The balances of opinion on the past standard of living (nearly 20 points below its historic average), on the outlook for the standard of living (nearly 30 points below) and on the outlook for unemployment trends (nearly 25 points above) are stable but down.

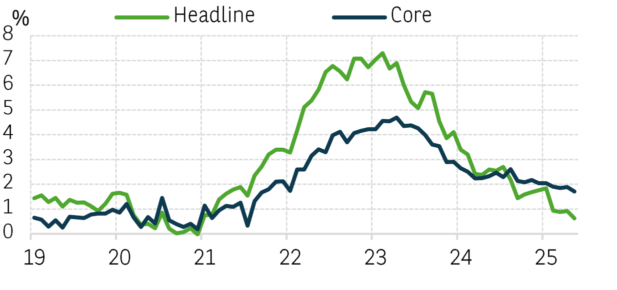
Labour market: job creation (q/q, thousands)



Source: Insee, BNP Paribas

Moderate deterioration of the labour market. Payroll employment contracted by 0.1% q/q (-0.3% y/y) in the first quarter of 2025, with losses in services and construction, in particular. However, the unemployment rate remains moderate, standing at 7.4% in Q1 2025, the same level as in Q3 2023 and Q3 2024. The employment climate recovered to 97 in June, which is consistent with the continued job losses at a moderate pace in the coming months.

Inflation (y/y)



Source: Insee, BNP Paribas

Inflation is low. Harmonised inflation rose to 0.8% y/y in June (from 0.6% y/y in May 2025), as a result of a rebound in services prices (and, therefore, core inflation). Nevertheless, inflation remains very moderate, and three-month price expectations across all sectors (including services) are moderate as well.

GDP growth q/q: actual, carry-over and forecasts

Actual				Carry-over	Actual	Nowcast	Forecast		Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q2 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
0,1	0,2	0,4	-0,1	0,2	0,1	0,2	0,2	0,2	1,1	0,6	1,1

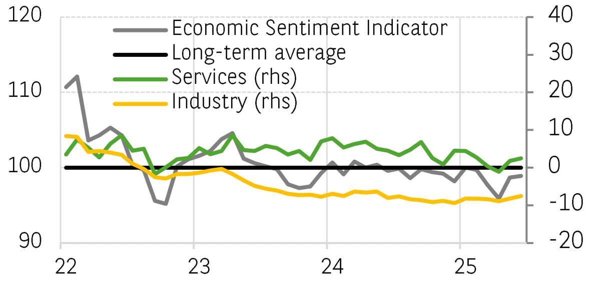
See the Nowcast metodology. Contact: Tarik Rharrab   Source: Refinitiv, BNP Paribas

A slight improvement in terms of growth in the second quarter? After moderate growth of 0.1% q/q in Q1 2025, our nowcast suggests a slight increase to 0.2% q/q in Q2. The latter is expected to be supported by household investment and public consumption, which was penalised in Q1 by the late adoption of the budget. **Credit developments:** the granting of investment loans to companies accelerated in April 2025, while cash loans declined, mainly due to the repayment of state-guaranteed loans. Housing loans to households are recovering and consumer loans momentum remain rather strong.

Stéphane Colliac and Thomas Humblot (completed on July 4, 2025)

Italy: Business climate on the rise, household confidence down

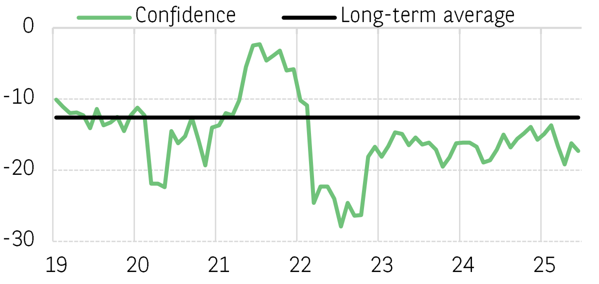
Business climate: Economic Sentiment Survey



Source: European commission, BNP Paribas.

Business climate: the improvement continues. The economic sentiment index has been improving for two months, reaching 98.6 in June (+0.2 points m/m). The indicator for industry remains weak but is back to its highest level in 13 months, with production and hiring expectations for the coming months improving. Industrial production rose year-on-year (+0.1%), the first increase since January 2023. In the services sector, the indicator rose sharply (+0.7 points).

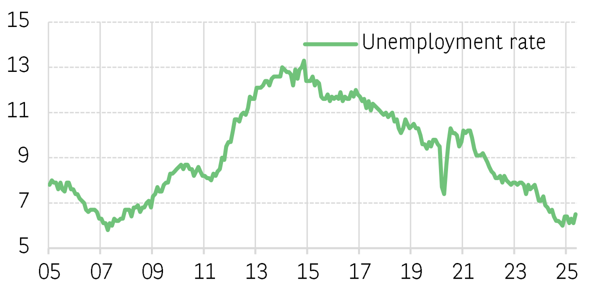
Household Confidence



Source: European Commission, BNP Paribas.

Household confidence declined (-1.1 points). Households anticipate a deterioration in the economic and financial situation over the next year, causing a drop in major purchasing intentions (-3.1 points m/m). For the time being, retail sales continue to decline (-0.3% y/y in April), as do new vehicle registrations (-0.2% y/y in May).

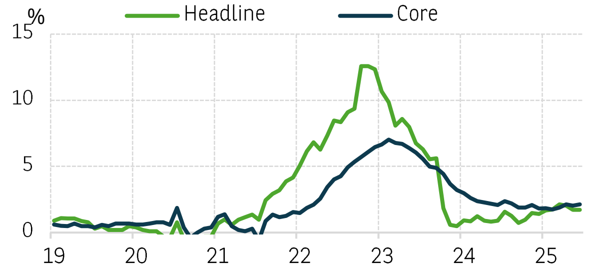
Labour market: Unemployment Rate



Source: Eurostat, BNP Paribas.

The unemployment rate rose slightly in May (+0.4 pp to 6.5%, but -0.1 pp y/y). At the same time, the employment rate continued to rise (62.9; +0.1 pp). Wage growth stabilised at 3.4% y/y (+0.0 pp). However, it remains strong and well above inflation, thereby supporting household purchasing power.

Inflation (% change y/y)



Source: Istat, BNP Paribas.

Inflation stabilised at 1.7% y/y in June. Core inflation rose very slightly (+0.1 pp m/m to 2.1%). The slowdown in producer prices continued (falling from 2.6% in April to 1.7% y/y in May), which is a favourable sign.

GDP growth q/q : actual, carry-over, forecasts

Actual				Carry-over	Actual	Forecast		Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
0,2	0,2	-0,0	0,2	0,2	0,3	0,2	0,3	0,5	0,8	1,3

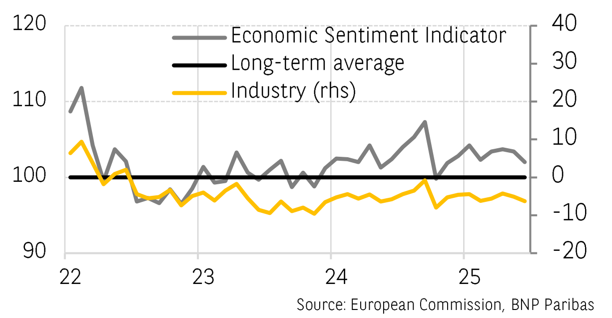
Source: Refinitiv, BNP Paribas

GDP growth will remain limited. In Q2, Italian growth is expected to slow to 0.2% q/q (after +0.3% q/q in Q1) due to a catch-up effect following the sharp rise in investment and exports in Q1. As a result, it is set to remain limited on average for the year (0.8%) and still below eurozone growth (1.2%).

Lucie Barette (completed on 2 July 2025)

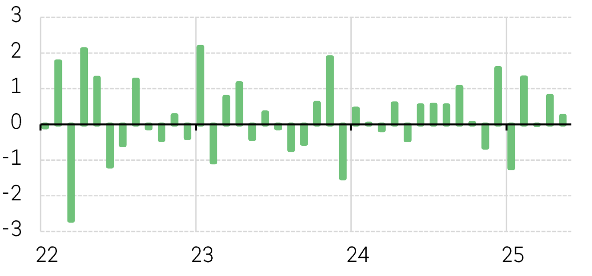
Spain: Economic momentum remains strong

Business climate: Economic sentiment survey



Source: European Commission, BNP Paribas

Households: Retail trade (% change m/m, volume)

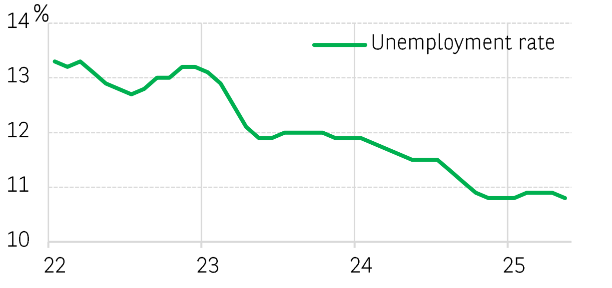


Source: INE, BNP Paribas.

Business climate: favourable, but slightly weaker. In June, the economic sentiment index remained above its long-term average and that of the eurozone, but weakened for the second consecutive month (102; -1.4 points m/m). The indicator for industry fell by 1.2 points due to a deterioration in production and order books. Industrial companies' expectations for production in the coming months reached their lowest level since February 2021, reflecting a deterioration in the outlook.

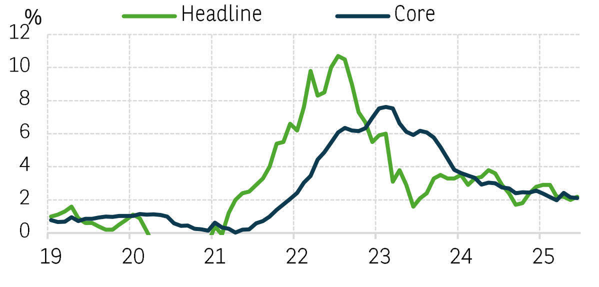
Household consumption remains buoyant. Retail sales rose by 0.2% m/m in volume terms in May, reaching their highest level for this month since 2022. New vehicle registrations remain buoyant (+5.5% y/y in June), and the Ipsos household confidence index remains high by historical standards (50; -0.2 points m/m).

Labour market: Unemployment rate



Source: Eurostat, BNP Paribas.

Inflation (% change y/y)



Source: INE, BNP Paribas.

The labour market is breaking new records. The number of people registered with social security reached a historic high in June (21.9 million; +2.2% y/y). At the same time, the number of unemployed people fell to 2.4 million (the lowest since 2008), pushing the unemployment rate down (10.8%; -0.1 pp). Negotiated wages continued to rise (+3.4% y/y in May, the same level as in April).

Inflation rebounds slightly, but the outlook remains favourable. Harmonised inflation rose back above 2% in June (+2.2% y/y; +0.2 pp m/m), while core inflation slowed (+2.1%; -0.1 pp). This change was mainly due to a base effect on fuel prices and to higher food prices. Risks remain on the downside, as producer prices fell sharply between March and May (-3.9% cumulatively).

GDP growth q/q: actual, carry-over, forecasts

Actual				Carry-over	Actual	Forecast		Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
1,0	0,8	0,7	0,7	1,1	0,6	0,5	0,5	3,2	2,5	2,2

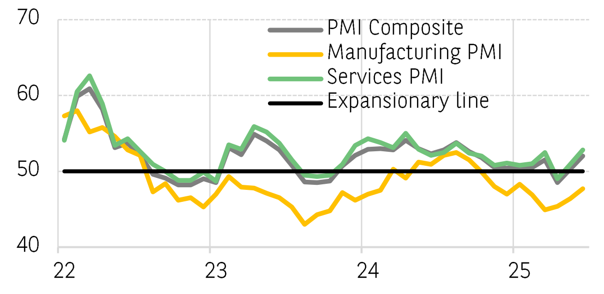
Source: Refinitiv, BNP Paribas

GDP growth remains strong. Growth is expected to remain high throughout the year, particularly in Q2 (+0.5% q/q). On average, real GDP will grow by 2.5% in 2025. It will continue to benefit from catch-up effects (notably, higher employment) and outperform eurozone GDP growth (1.2%).

Lucie Barette (completed on 2 July 2025)

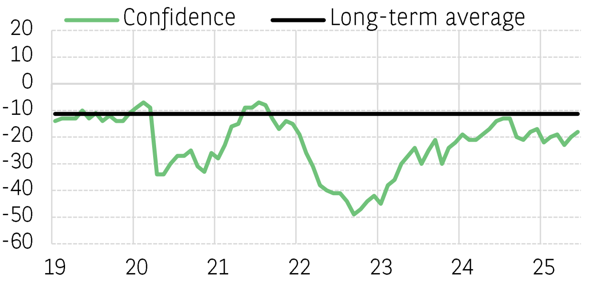
United Kingdom: Surveys show improvement, but employment stalls

Business climate: PMI



Source: S&P Global PMI, BNP Paribas.

Consumer confidence

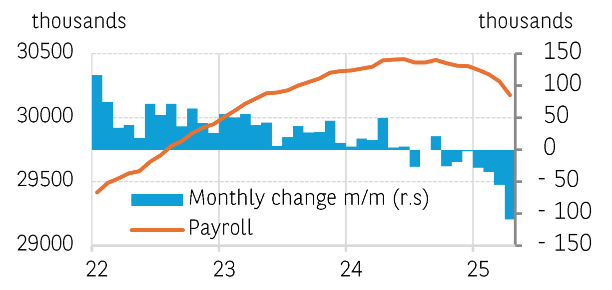


Source: Gfk, BNP Paribas.

Business sentiment improves in all sectors: The composite PMI index rises in June (+1.7 points, to 52), driven by both services (+1.9 points, to 52.8) and industry (+1.3 points, to 47.7). The trade agreement with the United States has reduced uncertainty among businesses, leading to the start of a recovery in export orders (+3 points, to 46.2).

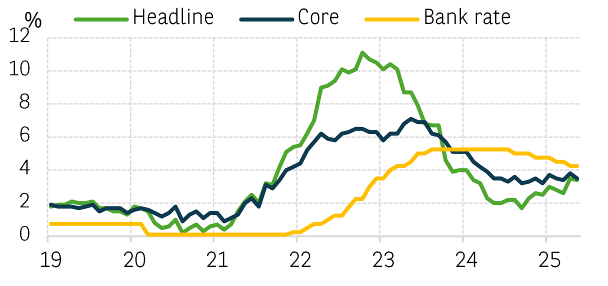
Household confidence rises, but consumption falls back after a good Q1. The Gfk Consumer Confidence Index reached its best level in 2025 in June (+2 points, to -18), as did the Ipsos Consumer Confidence Index (+2.8 points, to 52.1). After a dynamic start to the year, during which retail sales rose by +1.1% q/q, they fell back in May (-2.7% m/m and -1.3% y/y). The annualised 3m/3m fell, but remains fairly high at 2.9%.

Labour market: payrolls



Source: ONS, BNP Paribas.

Inflation (y/y) and bank rate



Source: ONS, Bank of England, BNP Paribas.

Sharp fall in employment. Payroll job losses accelerated in May (-109,000, the biggest monthly fall since the Covid pandemic). The number of job vacancies has continued to fall since peaking in 2022 (-150,000 in April over one year), while unemployment has risen by 0.1 pp to 4.6% (3-month average). Core wage growth remains solid (+5.0% y/y), but declined for the third month in a row.

High yet stable inflation. Headline inflation stabilised at 3.4% y/y in May. The rise in goods prices accelerated (2.0% y/y vs. 1.7% y/y), while the rise in services prices was moderate (4.7% y/y vs. 5.4% y/y). Core inflation, excluding energy (-1.7% y/y) and food (+4.4% y/y), fell to 3.5% y/y. One-year inflation expectations are down (-0.1 points to 3.9% y/y), but long-term inflation expectations (3-5 years) stand at 4.3%, according to the Citi/YouGov survey.

GDP growth q/q: actual, carry-over, forecasts

Actual				Carry-over	Actual	Forecast		Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	2024 (estimate)	2025	2026
0,9	0,5	0,0	0,1	0,2	0,7	0,1	0,2	1,1	1,2	1,0

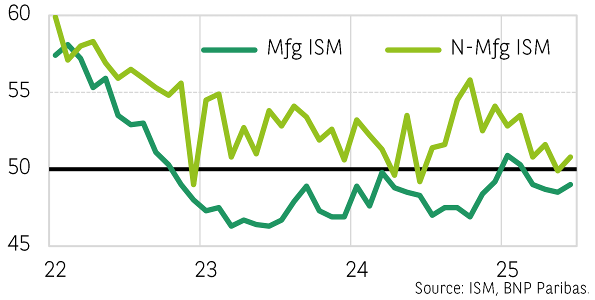
Source: Refinitiv, BNP Paribas

Moderate GDP growth. The final estimate of Q1 GDP growth confirmed the rise of 0.7% q/q (+1.3% y/y). This increase will be followed by a slowdown in Q2. Nevertheless, it will lead to higher average annual growth in 2025 (1.2%), before a relative slowdown in 2026 (1.0%).

Guillaume Derrien, with the help of Leslie Huynh (intern). Completed on July 3, 2025)

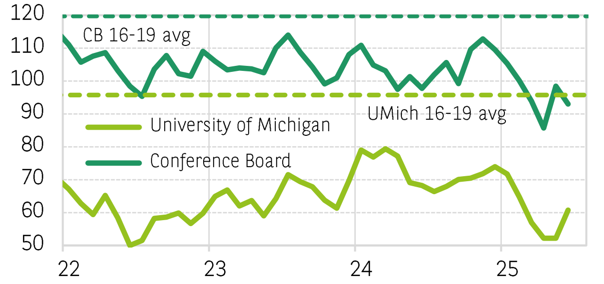
United States: Improvement in the Business Climate

Business Climate: ISM



Source: ISM, BNP Paribas.

Household Confidence

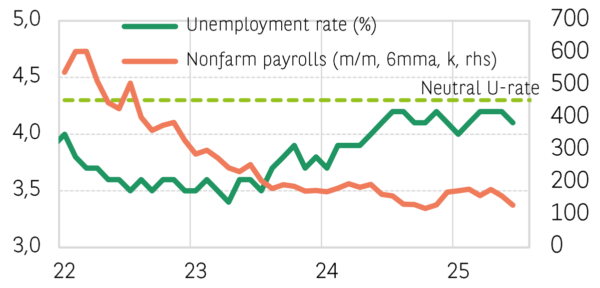


Source: Macrobond, BNP Paribas.

Improvement in the ISM. The manufacturing ISM improved modestly (49.0, +0.5 pp) in June, with a notable jump in output (50.3, +4.9 pp), which entered expansion territory for the first time since February. The non-manufacturing ISM returned to growth territory (50.8, +0.9 pp) thanks to a rebound in activity and new orders. The CEO Economic Outlook declined again in Q2, reaching a five-year low (69.3, -14.7 points). The three components assessed (plans for capital investment, plans for U.S. employment, and expectations for sales) have all fallen.

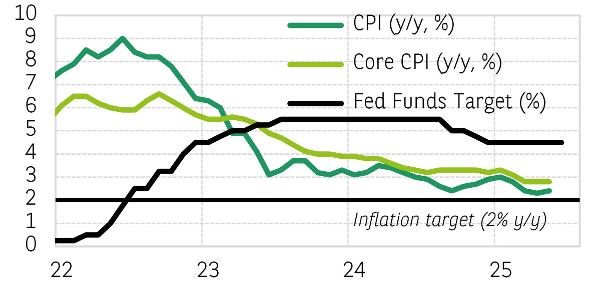
Household sentiment remains low. Surveys by the University of Michigan (60.7, +8.5 points) and the Conference Board (93.0, -5 points) indicated opposite directions in June, but both pointed to historically low levels. 1-year inflation expectations fell sharply, according to the University of Michigan (+5.0%, -1.6 pp). The underlying gauge of labour market optimism declined for the sixth consecutive month in the Conference Board survey, falling to its lowest level since March 2021, with fewer respondents perceiving jobs as "plentiful".

Labour market: Unemployment rate and nonfarm payrolls (m/m, k)



Source: BLS, BNP Paribas.

Inflation and monetary policy



Source: Macrobond, BNP Paribas.

A resilient labour market. Nonfarm payrolls printed relatively stable in June, standing at +147. It was supported by the government sector (+73, compared with +7 in May), while private payroll growth was at its weakest since October 2024 (+74k, +137k in May). The unemployment rate fell by 0.1pp to 4.1%. Wage growth slowed to +3.7% (-0.1pp).

The Fed: waiting and divided. The FOMC meeting on 17 and 18 June resulted in the Fed Funds target range remaining at +4.25% - +4.5%. The median quarterly projections remained at two rate cuts in 2025 (50 bps in total). This figure masks the sharp division within the committee: nine members anticipate two cuts, while seven foresee none. In May, CPI inflation stood at +2.4% y/y (+0.1 pp) overall and +2.8% y/y (unchanged) for core inflation. Inflation does not yet appear to have been affected by tariffs.

GDP growth q/q: actual, carry-over and forecasts

Actual				Carry-over	Actual	GDP Now	Forecast		Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q2 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
0.4	0.7	0.8	0.6	1.0	-0.1	0.7	0.8	0.1	2.8	1.7	1.6

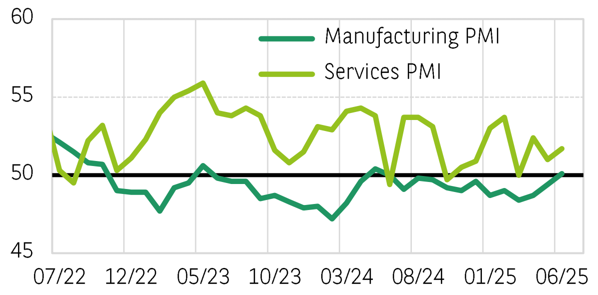
Source: BEA, Atlanta Fed, BNP Paribas

Favourable growth in Q2. We anticipate a technical rebound in GDP growth in Q2, to +0.8% q/q from -0.1% q/q in Q1, as foreign trade returns to normal after the surge in imports at the start of the year. However, the solid quarterly result would mask sluggish demand. The Atlanta Fed's GDP Now is slightly less optimistic, standing at +0.7% q/q.

Anis Bensaidani (completed on July 4, 2025)

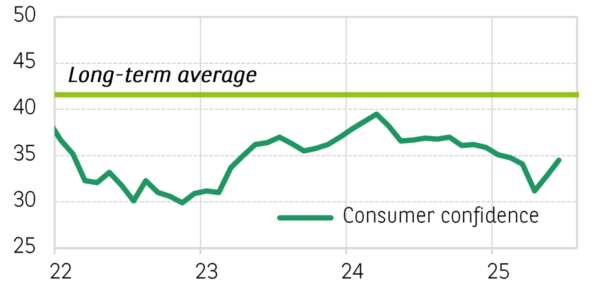
Japan: Improvement in the Business Climate

Business climate : PMI



Source: Jibun Bank, BNP Paribas.

Household confdence

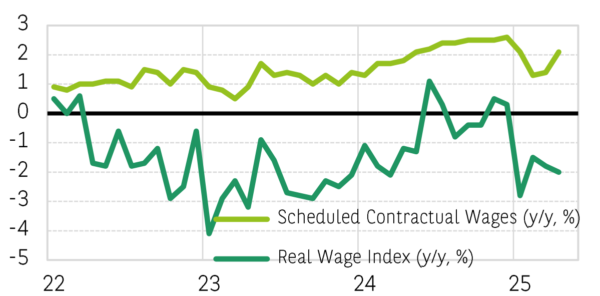


Source: Cabinet Office, BNP Paribas.

Favourable developments for the business climate. The manufacturing PMI stood at 50.1 in June (+0.7 pp, the first expansion posted since May 2024) thanks to growth in output (51.2, +2.5 pp). The services sector also improved (51.7, +0.7 pp). In Q2, the Tankan business conditions survey remained stable overall (15) for both the manufacturing (7) and non-manufacturing (21) sectors, despite the issue of US tariffs.

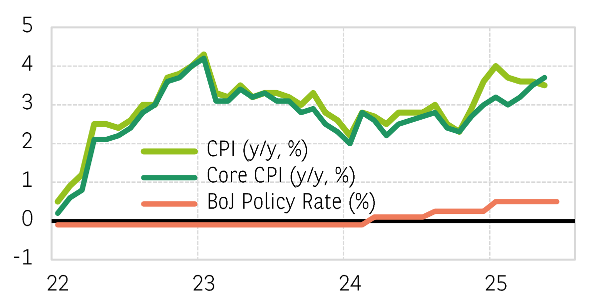
Improving household confidence. The Cabinet Office survey reported an improvement in confidence, which reached 34.5 (+1.7 points) in June, its highest level since February. The increase was widespread across all sub-components but was largest in the willingness to buy durable goods (+2.8 points), which remains low in absolute terms, nevertheless. Households remained positive about income growth and employment.

Labour market: Wage growth



Source: Cabinet Office, BNP Paribas.

Inflation and policy rate



Source: Macrobond, BNP Paribas.

A peak in labour market participation. Contractual scheduled earnings accelerated markedly in April, to +2.1% y/y (+0.7 pp). At the same time, real wages remained in negative territory (-2.0% y/y, -0.2 pp). The unemployment rate remained stable (2.5%), while the participation rate reached a record high since 1997, at 64.0% (+0.3 pp).

The BoJ acts on bond market pressures. Faced with an upward outlook for inflation and a downward outlook for economic activity, the Bank of Japan (BoJ) decided at its June meeting to keep its key policy rate unchanged at +0.5%. At the same time, it announced a slowdown in quantitative tightening from Q2 2025 (the reduction in JGB purchases will be halved). In May, core inflation reached a two-year high of +3.7% y/y (+0.2 pp).

GDP growth q/q: actual, carry-over, forecasts

Actual				Carry-over	Actual	Forecast		Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
-0,3	1,0	0,2	0,6	0,8	-0,0	0,1	-0,1	0,2	0,7	0,4

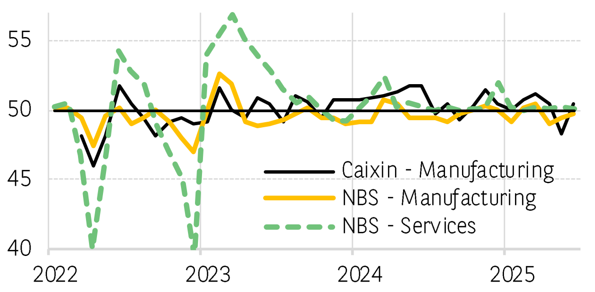
Source: Cabinet Office, BNP Paribas

Sustained sluggish growth. The most recent estimate for Q1 signalled a very slight contraction (0% q/q, -0.2% annualised). This stagnation is expected to continue in Q2 against a backdrop of domestic demand hampered by rising inflation.

Anis Bensaidani (completed on July 3, 2025)

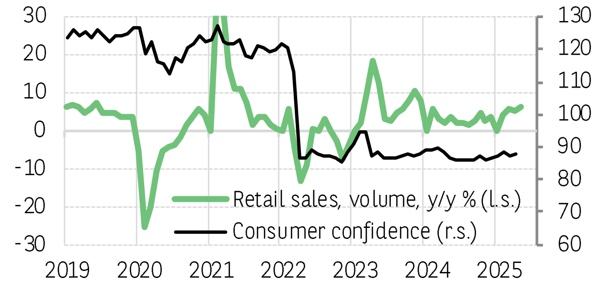
China: Moderate slowdown in exports and fiscal support

Business climate: PMIs



Source: NBS, BNP Paribas

Households: retail sales and consumer confidence

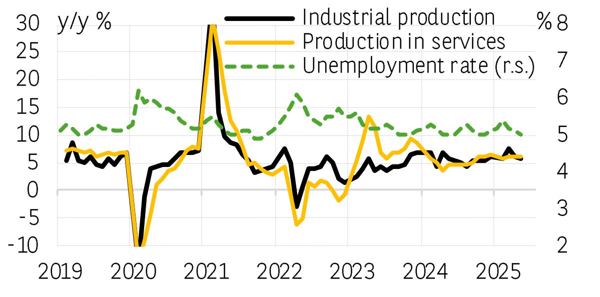


Source: NBS, BNP Paribas

Trade truce. The official PMI for the manufacturing sector has been in contraction territory since April, mainly due to the US-China trade war and worsening export prospects. However, the index rose slightly from 49 to 49.5 in May and 49.7 in June, following the agreement reached between Washington and Beijing (after discussions in London in early May and in Geneva in early June). The Caixin manufacturing PMI even rose above 50 in June (vs. 48.3 in May). In the services sector, the official PMI has been close to 50.3 for the past three months.

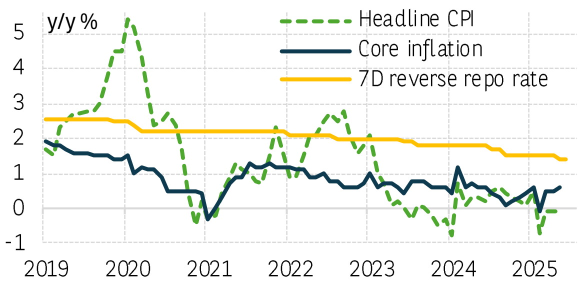
Household consumption is supported by government subsidies. Retail sales growth picked up again in May (+6.5% y/y in volume terms, vs. +5.2% in April), boosted by government subsidies for the replacement of consumer goods. However, housing sales continued to contract (-5.5% y/y in April) and consumer confidence remains fragile.

Labour market: activity and unemployment rate



Source: NBS, BNP Paribas

Inflation and monetary policy



Source: NBS, BNP Paribas

The slowdown in industrial growth is expected to weigh on the labour market. The unemployment rate continued to decline slightly in May (to 5.0%). However, the average number of hours worked declined slightly in the first five months of 2025. Labour market conditions are expected to deteriorate in the short term given the slowdown in industrial activity.

Monetary and fiscal easing. The CPI index continued to fall in May (-0.1% y/y, for the third consecutive month) and core inflation reached +0.6% (vs. +0.5% in April). Producer prices fell by -3.3% y/y in May, the sharpest decline since Q3 2023. Despite new monetary easing measures, growth in outstanding bank loans continued to slow in May (+7.0% y/y vs. +7.4% six months earlier). Growth in bond financing remained solid, supported by Treasury and local government bond issuance.

Real GDP growth q/q: actual, carry-over, forecasts

Actual				Carry-over	Actual	Forecast		Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
1,3	1,0	1,4	1,6	0,3	1,2	0,8	1,1	5,0	4,8	4,5

Source: Refinitiv, BNP Paribas

Economic slowdown in Q2. Real GDP growth is expected to be +0.8% q/q in Q2 2025, down from +1.2% q/q in Q1. The economic growth slowdown is driven by a slowdown in export growth (+4.8% y/y in USD in May, vs. +8% in April), which remains moderate, however, and is partially offset by stronger domestic demand.

Christine Peltier (completed on July 2, 2025)

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