ECOPULSE

June 2023

MONTHLY PULSE OF OECD COUNTRIES'ECONOMIC INDICATORS

BNP PARIBAS

The bank for a changing world

In June, the main OECD economies experienced divergent trends, raising the question of the tipping point between a situation where growth continues – with inflationary pressures requiring further monetary tightening – and another where it slows down further and where the fall in inflation means that an end to rate hikes can be envisaged.

Business climate and recent inflation figures suggest that this tipping point is approaching in the US, where the Federal Reserve has paused interest rate hikes for the first time. The eurozone is getting close to this with a comparable fall in inflation, but the ECB is also facing an economic situation complicated by the divergence between countries, including Germany (already in a technical recession at the beginning of the year) and Italy, with growth remaining higher.

Everywhere, uncertainty about this tipping point is heightened by the buoyant labour market, which could further slow the fall in underlying inflation. Two economies stand out from the rest: the UK and Japan. The tipping point does not appear to be close in the UK, given persistent inflation and heightened fears of a wage-price spiral, which should lead to more rate hikes. In contrast, Japan has not tightened its monetary policy, which is not only supporting growth but also underlying inflation at a level not seen for over 40 years.

EUROZONE: AFTER THE TECHNICAL RECESSION, A TECHNICAL REBOUND?

GERMANY: FURTHER DETERIORATION IN DEMAND

FRANCE: SHOCK AFTER SHOCK, DEMAND WANES

ITALY: WAGE GROWTH IS EXPECTED TO ACCELERATE

SPAIN: HOUSEHOLD SAVINGS REMAIN UNDER PRESSURE

UNITED STATES: ONE LAST QUARTER OF GROWTH BEFORE A RECESSION?

UNITED KINGDOM: THE BANK OF ENGLAND IS FLEXING ITS MUSCLES

JAPAN: INFLATION RISES, GROWTH RESISTS

After the technical recession, a technical rebound?

Initially estimated at +0.1% q/q, growth in the eurozone in Q1 2023 is now slightly negative, at -0.1% (after a similar drop in Q4 2022). This downward revision was driven by that of German growth. The succession of two quarters of decline in GDP defines a "technical" recession, which it is at this stage: the contraction in GDP is small and it is not broad-based to all growth components neither to all the Member States. Household consumption fell for the second quarter in a row (-0.3% in Q1 after -1% q/q in Q4), but it was the sharp drop in public consumption (in Germany), in addition to the very negative contribution of inventories, that brought the Q1 figure into negative territory. As these two developments are probably one-off, we can expect a technical rebound in Q2. We forecast +0.2% q/q. However, our nowcast model is less positive (zero growth estimated) and points to a downward risk on this forecast.

Apart from consumer confidence, which once again recovered slightly in May, business climate surveys all developed negatively. In the European Commission's Economic Sentiment Indicator (ESI), the decline was the most pronounced in retail trade, then in services, industry and, to a lesser extent, construction. In industry, this is the fourth consecutive drop, for both the ESI and the composite PMI. At 44.8, the composite manufacturing PMI is well in contraction territory and at its lowest since mid-2012 (excluding the Covid-19 period). The services PMI is significantly higher, at 55.1, but deteriorated slightly in May, for the first time since November 2022.

The situation on the labour market remains positive: a continued drop in the unemployment rate (-0.1 point to 6.5% in April), dynamic job creation (+0.6% q/q in Q1 2023), PMI "employment" component comfortably in the expansion zone (53.8) and moderate concerns among households about future unemployment.

News on the inflation front was positive in May: the headline fell 0.9 points (to 6.1% y/y) and core inflation 0.3 points (to 5.3%). The decline of the latter seems to have started, but as Isabel Schnabel points out, it is not enough for core inflation to have peaked to claim victory. Against this backdrop, the ECB opted for a further 25 bp increase in its key rates in June (bringing the deposit rate to 3.50%). It shouldn't stop there: a further 25 bp hike in July is highly likely and even as uncertainty increases, we expect a final similar rise in September.

Hélène Baudchon (completed on 21 June 2023)

Eurozone: economic indicators monthly changes

	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23
Economic Sentiment Indicator (ESI)	0.4	-0.1	-0.1	-0.5	-0.5	-0.4	-0.2	0.0	0.0	0.0	0.0	-0.3
ESI - Manufacturing	1.1	0.7	0.5	0.4	0.3	0.2	0.3	0.5	0.4	0.3	0.1	-0.2
ESI - Services	0.7	0.3	0.3	0.0	-0.2	-0.1	0.2	0.5	0.4	0.3	0.4	0.2
ESI - Retail sales	0.1	-0.1	0.0	-0.2	0.0	0.0	0.4	0.7	0.8	0.6	0.7	0.1
ESI - Construction	1.2	1.2	1.3	1.0	1.2	1.1	1.2	1.0	1.0	1.0	1.0	0.9
Consumer confidence	-2.5	-3.0	-2.5	-3.2	-2.9	-2.2	-1.8	-1.6	-1.3	-1.3	-1.0	-0.9
PMI Manufacturing	0.4	0.0	-0.1	-0.3	-0.7	-0.6	-0.4	-0.2	-0.3	-0.5	-0.8	-1.0
PMI Services	0.6	0.2	0.0	-0.2	-0.3	-0.3	0.0	0.2	0.5	1.0	1.2	1.0
PMI Manufacturing New Export Orders	-0.7	-1.0	-1.0	-1.3	-1.7	-1.4	-1.2	-0.9	-1.1	-0.7	-0.8	-1.4
PMI Manufacturing New Orders	-0.7	-1.1	-1.0	-1.3	-1.8	-1.4	-1.0	-0.7	-0.5	-0.6	-0.8	-1.2
PMI Composite - Employment	1.2	1.0	0.7	0.7	0.7	0.5	0.5	0.6	0.6	0.9	1.3	1.1
Industrial Production	0.7	-0.2	0.8	0.8	0.6	0.6	-0.4	0.1	0.3	-0.4	0.1	
Retail Sales	-1.0	-0.4	-0.6	-0.2	-1.0	-1.0	-1.0	-0.8	-0.9	-1.2	-1.0	
New Car registrations	-0.7	-0.4	0.3	0.5	0.6	0.8	0.6	0.5	0.5	1.4	0.8	
HICP	5.1	5.0	4.9	5.1	5.2	4.6	4.0	3.6	3.4	2.5	2.5	2.1
Core HICP	4.3	4.7	4.9	5.3	5.3	5.0	5.0	4.9	5.0	4.8	4.5	4.1
Unemployment Rate	1.8	1.8	1.8	1.7	1.7	1.7	1.7	1.8	1.7	1.7	1.8	

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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 2022	Q3 2022	Q4 2022	Q1 2023	Q4 2022	Q2 2023	Q2 2023	Q3 2023	2022 (observed)	2023	2024
0.8	0.4	-0.1	-0.1	0.2	-0.0	0.2	-0.1	3.5	0.4	0.6

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

GERMANY

Further deterioration in demand

Business climate indicators in Germany have deteriorated in recent months, including the IFO survey (91.7 in May, 5 points below its long-term average, compared to 93.4 in April) or the ZEW index. The latter recovered slightly in June (-8.5 compared to -10.7 in May) but remained very negative and continued to deteriorate in most industrial sectors, as a result of a fall in demand (the current situation index fell at the same time from -34.8 to -56.5 between May and June). Factory orders reached in April (94.8) their lowest level since May 2013 (excluding Covid).

Household confidence continued its recovery in June according to the GFK index (-24.2 compared to -42.8 at its lowest in October 2022), probably buoyed, at least in part, by the fall in inflation. However, this has not yet had an impact on their willingness to buy: the corresponding indicator even fell to -16 in May compared to -13 in April. The opportunity to make major purchases now (6.3% of households in May) remains close to its lowest historical level, as a result of the rise in interest rates.

Disinflation is now visible (6.3% y/y in May compared to 11.6% y/y in October 2022), particularly on food (14.5% y/y in May compared to 21.2% y/y in March) or even durable goods (5.6% y/y in May, compared to 6.8% in March and 8.1% y/y in November 2022), but persists more on services (4.5% y/y in May compared to 4.8% y/y in March).

The labour market was dynamic in Q1 of 2023, with almost 155,000 jobs created. However, both the employment climate in the IFO survey (98.3 in April, compared to 100.2 in March) and job creation deteriorated in April. Employment barely grew in April (+0.04% m/m, its weakest growth since July 2022).

While the German economy recorded a technical recession (-0.5% q/q in Q4 2022 and -0.3% q/q in Q1 2023), we expect weak growth in Q2 (0.2% q/q) due to consumption of services (tourism in particular). However, this should fall in the second half of the year as a result of the deterioration in economic indicators.

Stéphane Colliac (article completed on 22 June 2023)

Germany: economic indicators monthly changes

	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23
IFO Business Climate Manufacturing	-0.6	-1.0	-1.0	-1.4	-1.4	-1.2	-0.9	-0.6	-0.5	-0.1	-0.1	-0.6
IFO Business Climate Services	-0.7	-1.5	-1.4	-2.3	-2.3	-2.0	-1.6	-1.5	-1.4	-0.7	-0.9	-0.9
IFO Business Climate Trade	-0.8	-1.3	-1.5	-1.9	-1.9	-1.5	-1.1	-0.8	-0.5	-0.5	-0.5	-1.1
IFO Business Climate Construction	1.0	1.4	1.2	0.9	0.9	0.6	0.6	1.0	1.3	0.3	0.2	
GFK Consumer Confidence	-5.0	-5.0	-5.1	-5.6	-5.9	-5.4	-4.9	-4.4	-3.9	-3.5	-3.3	-2.9
Industrial Production	-0.1	-0.3	0.3	0.5	-0.1	0.0	-0.5	-0.2	0.1	0.4	0.2	
Industrial Orders foreign	-0.7	-0.8	-0.4	-1.2	-0.3	-1.1	-0.8	-1.2	-0.7	-1.0	-1.0	
New Orders Construction	-1.4	-0.8	-1.9	-2.7	-1.6	-1.5	-2.8	-2.5	-1.7	-2.3		
Retail sales	-3.1	-0.9	-1.8	-0.5	-2.1	-2.2	-2.3	-2.5	-2.4	-3.0	-1.8	
Core HICP	3.1	2.8	3.2	4.8	5.1	4.8	4.8	4.3	4.6	4.8	4.3	
Unemployment Rate	1.1	1.0	0.9	1.0	1.1	1.1	1.0	0.9	0.9	0.9	0.9	1.0

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GDP growth

Actual				Carry-over	Forecast		Annual forecasts (y/y)		
Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q4 2022	Q2 2023	Q3 2023	2022 (observed)	2023	2024
-0.1	0.5	-0.5	-0.3	-0.5	0.2	0.0	1.9	-0.4	0.5

Source: Refinitiv, BNP Paribas

FRANCE

Shock after shock, demand wanes

French economic indicators point to a slowdown in growth. INSEE's business climate in the manufacturing industry has deteriorated. It stands at 101 in June, below its average level during the Q1 (104) and was in May (99) below its long-term average (100) as well as wholesale trade (94) and non-automotive retail trade (94). In particular, the balance of opinion on order books in the manufacturing sector was in June (-17) below its levels observed in December (-15) and March (-13). The service sector index fell to 102 in May and June, the lowest since January 2017 (excluding Covid).

Household demand should not recover in the short term, with confidence remaining very low in May at 83 (its average level observed between October 2022 and that date). Above all, the proportion of households that consider it favourable to make major purchases now reached an all-time low in April, at 6.5%, as a result of the rise in interest rates. The drop in household investment in the Q1 illustrates this negative impact (-2.3% q/q).

Disinflation has begun (6% y/y in May according to the harmonised index, compared to 7.3% y/y in February), thanks to a sharp reduction in energy inflation (2% y/y in May, compared to 28% y/y in May 2022) and a drop of almost 2 percentage points in two months in food inflation (14.9% y/y in May). Core inflation (4.3% y/y in May) also fell moderately (4.7% y/y in April), mainly due to manufactured goods. This disinflation is expected to accelerate as the decline in energy costs spreads across the economy, which is expected to take some time (along with companies' ability to renegotiate their contracts).

The dynamism of the labour market kept up in Q1 (92,000 net jobs created), mainly in non-temporary market services. However, an onset of deterioration is apparent in certain sectors: 1,500 job losses in construction (first losses since Q4 2016) and 18,000 fewer temporary jobs. At the same time, INSEE's employment climate fell from 110 in March to 105 in June.

Our forecast of +0.2% q/q growth in Q2 (after a figure similar in Q1) is based on household service consumption (tourism in particular). However, our nowcast (0% q/q) highlights the risk of a downward surprise, due to a drop in demand for industry, construction and business services.

Stéphane Colliac (article completed on 22 June 2023)

France: economic indicators monthly changes

	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23
Business climate Manufacturing	0.9	0.6	0.4	0.2	0.3	0.1	0.2	0.3	0.5	0.4	0.1	-0.2
Business climate Services	0.8	0.7	0.7	0.6	0.5	0.5	0.5	0.5	0.6	0.5	0.3	0.2
Business climate Construction	1.4	1.3	1.3	1.3	1.5	1.3	1.4	1.3	1.1	1.0	1.0	0.7
Business climate Retail sales	-0.5	-0.5	-0.1	-0.5	-0.3	-0.3	-0.1	0.1	0.2	-0.1	0.1	0.0
Employment climate	0.8	0.9	0.7	0.9	1.0	0.8	1.0	1.1	1.0	1.1	1.0	0.5
Consumer confidence	-1.7	-2.0	-1.6	-2.0	-1.6	-1.4	-1.6	-1.6	-1.6	-1.7	-1.6	-1.5
HICP	4.5	4.5	4.2	3.8	4.3	4.1	3.7	3.8	3.9	3.4	3.4	2.8
Core HICP	3.7	4.7	4.7	3.9	4.3	4.2	4.2	4.0	4.3	4.1	4.1	3.6
Unemployment Rate	1.6	1.9	1.9	2.0	1.9	1.9	1.9	2.0	2.0	2.0	2.0	
Consumer spending	-1.1	-1.2	-1.0	-0.7	-1.5	-1.3	-1.6	-1.1	-1.2	-1.0	-1.2	
Industrial production	0.2	-0.2	0.2	0.3	-0.4	0.1	0.4	-0.3	0.2	0.1	0.3	
Exports of goods	1.7	1.7	2.0	2.0	1.5	1.1	1.0	-0.2	0.7	0.5	0.2	

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GDP growth

Actual				Carry-over	Nowcast	Forecast		Annual forecasts (y/y)		
Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q4 2022	Q2 2023	Q2 2023	Q3 2023	2022 (observed)	2023	2024
0.5	0.2	-0.0	0.2	0.4	0.0	0.2	0.0	2.5	0.5	0.6

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

Wage growth is expected to accelerate

The Italian economy surprised positively in the first quarter of 2023, with real GDP growing by 0.6% q/q. However, we expect this good performance to be followed by a slowdown in the second quarter and then a one-off contraction in the third quarter. Retail sales in volume have been gradually decreasing since the beginning of the year. In addition, high inflation will continue to affect household purchasing power.

The rate of inflation in Italy (+8.0% y/y in harmonised terms in May) remains among the highest in the eurozone, mainly due to a sustained rise in energy prices (+11.5%). Nevertheless, the drop in headline inflation should accelerate over the summer. Indeed, energy prices have been falling sharply month-on-month since the beginning of the year, and this drop will gradually bring down the year-on-year rate (i.e inflation rate).

The decline in industrial activity intensified in April, driven by the fall in the production of intermediate goods (-13.8% year-on-year), which now stands at its lowest level since summer 2020. The signals sent out by business surveys confirm the ongoing deterioration in the sector: the manufacturing PMI fell from 48.7 in April to 46.4 in May, a level similar to the one reached in 2020.

Nevertheless, the labour market remains buoyant. This, together with consumer price inflation, is fuelling wage growth. However, the latter remains moderate, with Istat reporting an increase in the basic hourly wage of 2.6% year-on-year in April. The rise in wages is likely to become more pronounced in the coming months, if the unemployment rate continues to fall and labour shortages increase. The latest quarterly survey by the European Commission, which aims to assess the main obstacles to production, reinforces this finding: the index relating to labour tensions was at its highest since the first quarter of 1990. Indeed, the unemployment rate for the working population as a whole fell to 7.8% in April, while the rate for young people (15–24 years old) is approaching the symbolic threshold of 20% (20.3% in April), which is a level comparable to the ones seen before the 2008 crisis. Employment also rose for the fifth consecutive month; it has now exceeded the previous peak reached in summer 2019 by nearly 1%.

Guillaume Derrien (article completed on 20 June 2023)

Italy: economic indicators monthly changes

	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23
Business climate - Manufacturing	1.0	0.3	0.2	0.3	0.4	0.0	0.3	0.4	0.2	0.5	0.7	0.3
Business climate - Construction	2.1	2.3	1.8	2.0	1.9	1.7	2.0	1.9	1.7	1.8	2.0	1.9
Business climate - Services	0.7	0.5	0.5	0.2	0.1	0.3	0.2	0.5	0.5	0.4	0.6	0.6
PMI manufacturing new export orders	-0.4	-1.3	-0.9	-0.8	-1.2	-0.8	-0.8	-0.1	-0.2	0.1	-0.5	-0.4
PMI Composite - Employment	0.7	0.7	0.4	0.3	0.5	0.7	0.4	0.5	0.5	1.0	1.4	1.2
Consumer confidence	-1.5	-2.1	-1.5	-1.8	-1.8	-0.4	-0.1	-0.4	-0.1	0.2	0.1	-0.1
Industrial production	0.0	-0.1	0.3	0.0	-0.1	-0.4	-0.1	0.2	-0.2	-0.3	-0.7	
Retail sales	0.2	0.8	0.9	0.8	0.2	0.9	0.7	1.2	1.2	1.2	0.6	
Exports	1.2	0.9	1.3	1.1	1.0	1.0	0.6	0.7	0.5	0.0	-0.3	
HICP	4.7	4.4	4.7	4.6	6.0	5.6	5.1	4.1	3.6	2.8	2.9	2.6
Core HICP	2.8	2.7	3.5	3.8	3.9	3.8	3.9	4.2	4.3	3.9	3.8	3.5
Employment	1.5	1.0	1.0	0.9	1.2	0.8	1.0	1.1	0.9	0.8	0.9	
Unemployment Rate	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.7	0.7	0.8	0.8	
Wage	-0.8	-0.5	-0.5	-0.6	-0.4	-0.2	-0.2	0.4	0.4	0.4	0.7	

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GDP growth

Actual				Carry-over	Forecast		Annual forecasts (y/y)		
Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q4 2022	Q2 2023	Q3 2023	2022 (observed)	2023	2024
1.0	0.4	-0.1	0.6	0.9	0.2	-0.1	3.8	1.1	0.7

Source: Refinitiv, BNP Paribas

Household savings remain under pressure

Despite the support of tourism, which has been at levels close to those of 2019 since the beginning of the year[1], the effects of the rise in interest rates and the drop in household purchasing power on the Spanish economy should worsen over the course of the year. The continued creation of jobs is helping cushion the shock for the time being: according to the Spanish employment agency (SEPE), 47,883 additional active workers were affiliated with the social security system in May, a rise of 0.2% over the month, bringing the increase to 2.3% since the beginning of the year. However, the potential for improvement seems increasingly limited. Growth should therefore slow in Q2 (+0.3% q/q according to our forecasts after +0.5% q/q in Q1) before coming to a halt in the second semester.

In harmonised terms, consumer price inflation slipped below 3% y/y in May, one of the slowest pace in the eurozone behind Luxembourg (2.0%) and Belgium (2.7%). Nevertheless, core inflation accelerated to 3.8%, fuelled by moderate wage growth. Wages increased by 3.3% year-on-year in May on the basis of collective bargaining; this increase is slightly higher than the one observed at the end of 2022 (2.8% y/y).

The fall in inflation is not (yet) leading to a significant rebound in household confidence, which according to the European Commission's survey, continued to oscillate, in May 2023, to levels well below those observed before the outbreak of the war in Ukraine, and below the long-term average. Above all, the survey indicates an unprecedented deterioration in household savings capacity since 2008. So far, this has not affected retail sales (excluding fuel) which rose sharply in April (+4.1% m/m), exceeding their pre-pandemic level for the first time.

Guillaume Derrien (article completed on 20 June 2023)

1 Between January and April 2023, 20,961 foreign tourists entered Spanish territory, compared to 21,372 in the same period in 2019, a difference of 2%.

Spain: economic indicators monthly changes

	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23
Business climate - manufacturing	1.0	0.3	0.2	0.3	0.4	0.0	0.3	0.4	0.2	0.5	0.7	0.3
Business climate - construction	0.8	0.8	1.1	0.9	1.3	1.2	1.3	0.4	1.1	0.9	1.1	1.2
Business climate - services	0.7	0.5	0.5	0.2	0.1	0.3	0.2	0.5	0.5	0.4	0.6	0.6
PMI manufacturing new export orders	-0.3	-1.2	-0.9	-1.6	-1.9	-1.7	-1.4	-0.7	-0.1	-0.2	-0.6	-0.9
PMI Composite - e	0.7	0.5	0.1	-0.1	-0.1	0.0	0.3	0.0	0.4	0.7	1.2	0.9
Consumer confidence	-1.3	-1.8	-1.5	-1.6	-1.5	-1.2	-0.9	-0.6	-0.6	-0.8	-0.4	-0.5
Industrial production	1.0	0.8	0.8	0.6	0.4	0.0	0.1	0.1	0.1	0.6	-0.1	
Retail sales	1.7	1.6	1.9	1.5	1.3	0.7	1.6	2.1	1.7	2.1	1.8	
Exports	1.7	1.2	2.1	1.3	0.7	1.4	0.8	0.8	0.3	0.9	-1.0	
HICP	4.0	4.2	4.0	3.2	2.4	2.1	1.5	1.7	1.7	0.4	0.7	0.3
Core HICP	2.5	3.1	3.2	3.1	2.7	2.3	2.4	3.2	3.1	2.6	2.1	1.9
Employment	1.0	0.9	0.8	0.7	0.6	0.5	0.4	0.4	0.4	0.5	0.6	0.5
Wage	1.3	1.5	1.7	1.8	1.6	1.8	2.0	0.8	0.5	0.6	0.6	0.7
Unemployment Rate	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.7	

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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 2022	Q3 2022	Q4 2022	Q1 2023	Q4 2022	Q2 2023	Q3 2023	2022 (observed)	2023	2024
2.5	0.4	0.4	0.5	1.6	0.3	0.0	5.5	1.8	0.8

Source: Refinitiv, BNP Paribas

UNITED STATES

One last quarter of growth before a recession?

According to the Federal Reserve Bank of Atlanta's GDPNow estimate, US growth stands at +0.5% q/q in Q2 2023, a figure slightly higher than our forecast (+0.4% q/q) and slightly better than Q1 (+0.3% q/q). As Q1 growth was largely driven downwards by the negative contribution of inventories (-0.5 pp), we can expect a more favourable development in Q2. Although a further decline in residential investment is hardly in doubt (it would be the 9th in a row), the resistance of household consumption and non residential investment will be closely scrutinised. In particular, it will be interesting to see whether investment in structures record a new quarter of strong growth, such as in Q4 2022 (+4% q/q) and Q1 2023 (+3% q/q), a renewed dynamism attributed to the Inflation Reduction Act.

Could this dynamism be enough to prevent the US from falling into recession from Q3 2023 under the effect of monetary tightening? The question arises, but this is not our central scenario. It is true that, for the time being, the cyclical situation is continuing to challenge the recession signal of the Conference Board's composite leading indicator, however significant it is (down almost 9% - 6-month change annualised rate - , diffusion index of only 20). However, the still gradual deterioration of the labour market continues to put this recession signal clearly into perspective.

In terms of the business climate, the manufacturing ISM survey deteriorated little in May (-0.2 points, to 46.9), but the index has been low and below the 50 threshold since November 2022. In the services sector, the ISM survey lost almost 2 points and reached its lowest level since the first months of Covid-19, at 50.3[1]. In May, the two consumer confidence surveys, Conference Board and University of Michigan surveys fell quite sharply. Though, the latter rebounded in June, thereby erasing its fall.

May's inflation figures were encouraging, with a significant drop in headline inflation (-0.9 points, at 4% y/y) and a non-negligible fall in core inflation (-0.2 points, at 5.3% y/y). Headline inflation has thus returned to a low since April 2021 and the start of its major surge. Against this backdrop, the Federal Reserve opted for a status quo on rates at the FOMC meeting on 13–14 June, interrupting a series of ten consecutive hikes, which began in March 2022 and totalled 500 bps. However, this status quo will not mark the end of the cycle given the still high level of inflation and the resilience, at this stage, of the economic situation: we expect a final 25 bp increase in July, bringing the Fed funds range to 5.25–5.50%.

Hélène Baudchon (completed on 21 June 2023)

1 Apart from the brief incursion below the 50 mark in December 2022, at 49.2..

United States: economic indicators monthly changes

	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23
ISM Manufacturing	0.6	0.6	0.6	0.2	0.0	-0.2	-0.3	-0.5	-0.5	-0.8	-0.6	-0.6
ISM Services	1.4	1.5	1.4	1.4	1.1	1.3	-0.2	1.2	1.2	0.3	0.5	0.1
ISM Services - Employment	-0.3	-0.1	0.0	0.4	-0.2	0.1	-0.1	0.0	0.8	0.3	0.2	-0.2
ISM Manufaturing - Employment	-0.3	0.0	0.7	-0.1	0.0	-0.2	0.1	0.1	-0.2	-0.5	0.0	0.2
Consumer confidence (Univ. of Michigan)	-2.7	-2.5	-2.0	-1.9	-1.8	-2.0	-1.8	-1.4	-1.2	-1.6	-1.4	-1.8
Consumer confidence (Conf. Board)	0.3	0.2	0.5	0.6	0.4	0.4	0.7	0.6	0.5	0.5	0.5	0.4
Industrial production	0.5	0.5	0.5	0.8	0.5	0.2	0.0	0.2	0.0	-0.1	-0.1	-0.1
Building permits	0.8	0.7	0.6	0.6	0.5	0.2	0.2	0.1	0.4	0.3	0.2	0.4
Retail Sales	0.8	1.0	0.9	0.8	0.7	0.3	0.2	0.5	0.1	-0.4	-0.6	-0.5
New Car registrations	-1.6	-1.4	-0.4	0.1	1.1	0.6	0.0	0.5	0.1	0.6	0.7	
Nominal Real Personal Consumption	0.0	0.0	0.0	-0.1	-0.2	-0.3	-0.1	0.1	0.0	-0.1	0.0	
Household purchasing power	-1.9	-1.9	-1.8	-1.3	-1.2	-1.1	-1.0	0.1	0.1	0.3	0.3	
PCE deflator	3.6	3.1	3.0	2.9	2.8	2.4	2.1	2.2	1.9	1.3	1.5	
Core PCE deflator	3.9	3.4	3.5	3.7	3.5	3.1	2.8	2.9	2.8	2.7	2.7	
CPI	3.8	3.4	3.2	3.2	2.9	2.5	2.1	2.0	1.8	1.3	1.3	0.8
Core CPI	4.1	4.0	4.2	4.4	3.9	3.5	3.2	2.9	2.9	2.9	2.8	2.6
Nonfarm Payrolls	1.3	1.3	1.2	1.1	1.0	0.9	0.8	0.9	0.7	0.7	0.7	0.7
Unemployment Rate	1.2	1.3	1.2	1.2	1.1	1.2	1.2	1.3	1.2	1.2	1.2	1.1

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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 2022	Q3 2022	Q4 2022	Q1 2023	Q4 2022	Q2 2023	Q2 2023	Q3 2023	2022 (observed)	2023	2024
-0.1	0.8	0.6	0.3	1.2	0.5	0.4	-0.1	2.1	1.3	-0.1

Source: Refinitiv, BNP Paribas

UNITED KINGDOM

The Bank of England is flexing its muscles

British economic activity recovered by 0.2% m/m in April. This recovery follows a 0.3% m/m contraction in March. This should be put into perspective since monthly GDP remains 0.1% below the level reached in January and February. The services sector returned to growth (+0.3% m/m) after two months of contraction. Within this sector, consumer-facing services rose the most (+1% m/m), highlighting a certain resilience of household consumption in the face of inflation and interest rate shocks. Industrial production, on the other hand, fell a third time in four months since the beginning of 2023 (-0.3% m/m in April).

The effects of monetary tightening are beginning to be felt in the dynamics of household credit. According to the Financial Conduct Authority, new mortgage loans were down 28% q/q in Q1 and reached a level not seen since Q2 2018 (except Q2 2020).

Inflation stagnated in May (8.7% y/y), strengthening fears about its persistence. Indeed, it remains above the Bank of England's (BoE) forecast of 8.3% y/y. Core inflation continued to rise (7.1% y/y), as did that of services (7.4% y/y), under close scrutiny by the BoE. Faced with persistent inflation, the BoE raised its key rate by 50 bps at its June meeting and is expected to add 50 bps at its August meeting and 25 bps at its September meeting.

The labour market is showing signs of relaxation, which is, however, insufficient for the time being to slow down wage growth, maintaining the risk of a price-salary loop. The UK economy created 7,000 jobs in April, the lowest since the decline in February 2021. Labour shortages are now reducing, as evidenced by the drop in the number of vacancies since the April 2022 peak (-19.3% y/y in April). The ratio of vacant jobs to the number of unemployed continued to fall in March, with 0.85 vacant jobs for one unemployed person (compared to a high of 1.07 in July). Wage growth continued in the private sector (7.6% y/y) and in the public sector (+5.6% y/y) in April.

We expect modest but positive growth in Q2 (+0.1% q/q). Despite the shocks, the British economy should escape a recession thanks in particular to public support. Growth should nevertheless remain slightly positive, with most of the effects of past rate hikes still to come.

Guillaume Derrien and Louis Morillon (intern). Article completed on 22 June 2023.

United Kingdom: economic indicators monthly changes

	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23
PMI manufacturing	0.6	0.5	-0.6	-0.3	-0.8	-0.8	-1.0	-0.6	-0.2	-0.5	-0.5	-0.6
PMI manufacturing new export orders	-0.7	-0.8	-1.7	-1.8	-2.1	-2.4	-1.5	-1.3	-0.2	-0.3	-0.4	-0.7
PMI manufacturing employment	0.6	1.2	0.1	0.2	-0.4	-0.5	-1.0	-0.7	-0.2	-0.7	-0.1	-0.2
PMI services	0.8	0.5	0.2	0.0	-0.2	-0.2	0.0	-0.2	0.7	0.6	1.1	1.0
Business climate manufacturing (volume of Total Order Book)	2.0	1.5	1.0	0.2	0.5	0.4	0.3	0.3	-0.3	-0.3	-0.5	-0.5
Consumer confidence	-2.3	-2.4	-2.4	-2.6	-2.9	-2.7	-2.4	-2.2	-2.5	-1.9	-1.7	-1.2
Industrial production	-1.1	-1.1	-1.2	-1.1	-0.8	-0.9	-0.8	-0.6	-0.6	-0.5	-0.4	
Retail sales	-2.0	-1.3	-1.8	-2.0	-1.6	-1.8	-1.9	-1.5	-1.2	-1.2	-1.1	
Exports	0.5	2.2	3.7	2.8	1.1	2.3	0.8	0.7	0.7	0.4	0.0	
CPI	4.8	5.0	4.6	4.5	4.8	4.4	4.1	3.8	3.8	3.5	2.8	2.8
Unemployment Rate	1.4	1.5	1.4	1.3	1.3	1.3	1.3	1.2	1.1	1.2		

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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 2022	Q3 2022	Q4 2022	Q1 2023	Q4 2022	Q2 2023	Q3 2023	2022 (observed)	2023	2024
0.1	-0.1	0.1	0.1	0.2	0.1	0.3	4.1	0.4	0.7

Source: Refinitiv, BNP Paribas

Inflation rises, growth resists

Real GDP growth rose in the last two quarters in Japan, but is still slightly below 2019 levels. However, a slowdown in activity is expected from Q2 and until the end of 2023.

After a slower progression, the rise in inflation in Japan is now on par with the evolution in other developed economies. Headline inflation, although falling in recent months, rebounded in April, from 3.3% year-on-year to 3.5%. The core measure (excluding energy and fresh food) exceeded 4% (4.2%) for the first time in more than 40 years. The core indicator for Tokyo, which is one month ahead of the national index, also rose at an unprecedented rate in May (4.0%). The crossing of the two curves (headline inflation falling below core inflation), since February, should accentuate over the coming months. Furthermore, the new phase of depreciation of the yen since the beginning of the year will increase inflationary pressures at the margins, particularly on durable goods.

However, unlike other major developed economies, Japan is not facing an interest rate shock, with the Bank of Japan having maintained an ultra-accommodative monetary policy so far. The average interest rate for new loans reached 0.69% in April according to the Bank of Japan, and bank loans are still growing at a sustained pace (+3.8% year-on-year in May[1]).

Cyclical indicators thus remain positive. The composite PMI index rose 1.4 points to 54.3 in May, its highest level since October 2013. The dynamism of services activity is strengthening: the PMI index rose 0.5 points to 55.9, a record since 2007 (start of current statistics). The manufacturing index points to less dynamism but moved back into expansionary territory in May at 50.6. The increase in retail sales – which, on a three-month average basis reached its highest level since 1997 in April 2023 – also indicates that household goods consumption started Q2 on a solid footing.

Household confidence has been on the rise since the beginning of the year, supported by a recovery of all survey sub-components ("overall livelihoods", "employment", "income growth", "willingness to buy durable goods").

Guillaume Derrien and Louis Morillon (intern). Article completed on 20 June 2023.

1 Excluding loans from Shinkin banks (regional cooperative banks).

Japan: economic indicators monthly changes

	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23
PMI: Manufacturing	0.7	0.5	0.4	0.2	0.2	-0.2	-0.3	-0.3	-0.6	-0.2	-0.1	0.1
PMI: Services	0.8	0.1	-0.1	0.4	0.6	0.1	0.2	0.5	0.8	1.0	1.1	1.2
PMI Manufacturing New export orders	-0.4	-0.2	-0.5	-0.5	-0.5	-0.9	-0.7	-0.6	-1.3	-0.7	-0.5	-0.6
PMI Manufacturing -Employment	0.7	0.4	0.1	0.9	0.5	0.5	0.1	0.4	0.3	0.1	0.2	0.0
Consumer confidence	-1.7	-1.9	-1.5	-1.8	-1.8	-1.9	-1.7	-1.6	-1.6	-1.1	-0.9	-0.7
Industrial production	-0.4	-0.1	0.4	1.0	0.4	-0.2	-0.1	-0.4	-0.2	-0.1	0.0	
Private machinery order excluding volatile orders	0.9	1.3	0.8	0.5	0.9	0.2	0.2	1.1	0.6	0.3	0.8	
Retail sales	0.3	0.6	1.2	1.4	1.3	0.6	1.1	1.5	2.2	2.1	1.4	
Exports	1.0	0.9	1.2	1.4	1.4	1.0	0.4	-0.1	0.0	-0.1	-0.1	
CPI	2.1	2.3	2.6	2.6	3.2	3.2	3.3	3.4	2.5	2.4	2.6	
Core CPI	1.0	1.3	1.8	2.0	2.7	3.0	3.1	3.3	3.4	3.6	3.8	
Unemployment rate	1.3	1.3	1.4	1.3	1.3	1.4	1.4	1.5	1.2	1.0	1.2	
Employment	-0.1	-0.5	-0.2	0.3	0.6	0.2	-0.2	0.4	-0.2	-0.1	-0.2	
Wage	1.5	1.4	1.7	1.9	1.6	1.9	1.6	1.0	0.9	0.7	1.1	

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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 2022	Q3 2022	Q4 2022	Q1 2023	Q4 2022	Q2 2023	Q3 2023	2022 (observed)	2023	2024
1.4	-0.4	0.1	0.7	0.9	0.5	0.3	1.0	1.5	1

Source: Refinitiv, BNP Paribas

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