

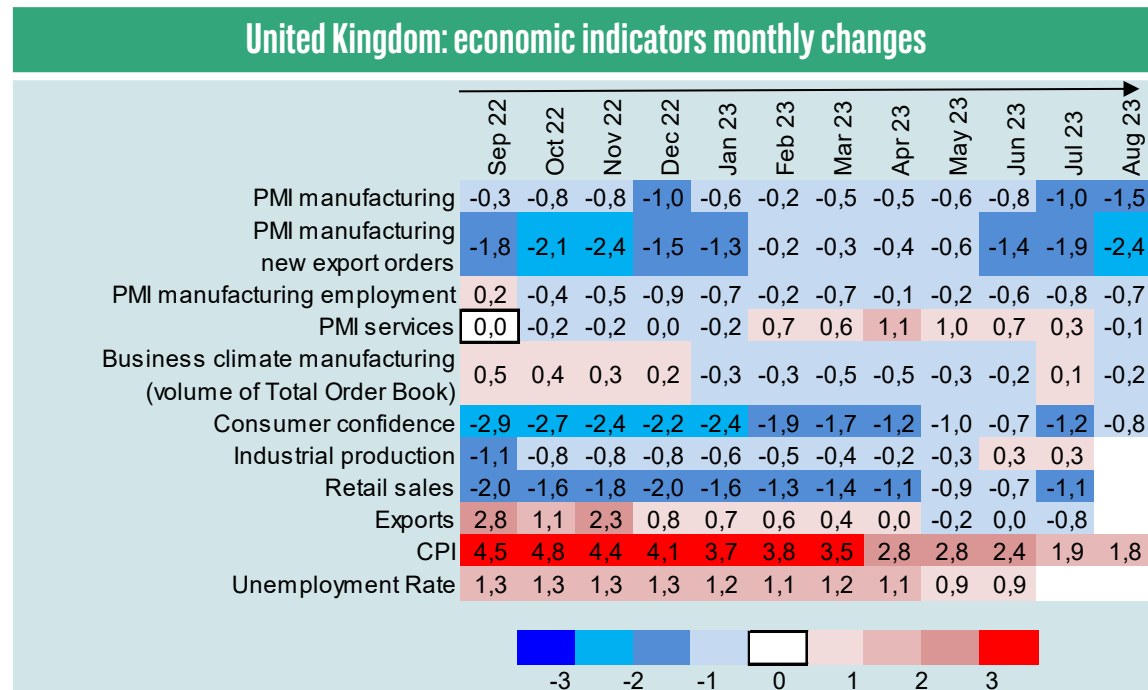
## Signs of deterioration are increasing

Growth in Q2 2023 was a positive surprise, with an increase in real GDP of 0.2% q/q, driven by corporate investment, and in particular by spending on transport equipment. Nevertheless, signs of deterioration in activity are multiplying and extending to all sectors. The composite PMI fell below 50 in August to 48.6. While the decline in the manufacturing sector has been amplifying month after month, with the index reaching 43.0 in August, the decline in services is more recent and worrying: the index fell by 2 points to 49.5. Retail sales remain on a downward slope and final household consumption, although up 0.8% q/q in Q2, has still not returned to its pre-Covid level.

Private consumption is likely to weaken further given the rise in interest rates and a deterioration in the labour market. The unemployment rate (3m/3m), which had reached its lowest point in August 2022 at 3.5%, rose to 4.3% in July 2023. Wage growth is still very strong (+8.0% year-on-year in July), but it is only just enough to compensate for rising inflation. Although declining, headline inflation still stood at 6.7% year-on-year in August. Moreover, more than 50% of the goods and services included in the CPI basket posted an inflation rate of more than 6% in August, a slight decline compared to the previous month, which was a record (*see September 2023 inflation barometer, BNP Paribas*).

The slowdown in inflation and activity encouraged the Bank of England to keep the Bank rate unchanged at 5.25% in September. However, the vote was very tight with four out of ten members of the MPC voting for an increase of 25 bp to 5.5%. The scenario of a recession remains our central forecast for the first half of 2024, before a slight recovery in activity linked to the start of the rate cut cycle from Q2 2024. In addition, rising interest rates are increasingly weighing on the residential real estate sector. The RICS survey shows an unprecedented drop in activity and prices since the 2008 financial crisis, if we exclude periods of lockdown.

Guillaume Derrien (completed on 21 September 2023)



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)			
Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q4 2022	Q3 2023	Q4 2023	2022 (observed)	2023	2024
-0,1	0,1	0,1	0,2	0,4	0,1	0,1	4,1	0,4	0

Source: Refinitiv, BNP Paribas

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