

“PENT-UP DEMAND, A REBOUND IN CONSUMER SENTIMENT ON THE BACK OF LOWER HEADLINE INFLATION AND THE STOCK OF EXCESS SAVINGS ARE KEY FACTORS UNDERPINNING THE TRAVEL PLANS OF EUROZONE HOUSEHOLDS.”

ECONOMIC RESEARCH



**BNP PARIBAS**

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## EUROZONE: "HAVE MONEY, WILL TRAVEL"

Since last weekend, the summer holiday season has really started and based on media reports as well as business surveys, activity in the tourism sector should be strong. Pent-up demand probably plays an important role, considering that tourism expenditures and nights spent in hotels are still below pre-Covid-19 levels. Another factor is the strong rebound in consumer confidence on the back of a more positive assessment of the economic outlook and the personal financial situation as well as a more benign view on the inflation outlook. The stock of excess savings accumulated during the lockdown may also play a role as well as changes in the allocation of household spending. Going forward, the outlook will probably be more challenging.

Since last weekend, the summer holiday season has really started. As usual, media report about record traffic jams on the highways towards holiday destinations and people queuing in airports.

The tourism sector has high expectations. Back in May, Reuters reported that early bookings suggested that Italy, Spain, Greece and Portugal could receive record tourism revenues this year<sup>1</sup>. Business surveys by the European Commission show that in the sectors 'accommodation', 'food and beverage service activities' and 'travel agency, tour operator reservation service and related activities', only a low percentage of respondents consider insufficient demand as weighing on their activity (chart 1). This implies a very positive assessment of the business situation, which hasn't been as good since 2007, a year before the global financial crisis<sup>2</sup>.

As mentioned in the Reuters article, pent-up demand probably plays an important role. Chart 2 shows that, although rebounding strongly, the number of nights spent in hotels in Germany, Spain, France and Italy is still below the pre-Covid-19 level<sup>3</sup>. In 2021 -the latest data that are available- tourism expenditures (irrespective of the destination) of EU citizens were still significantly lower than before the pandemic (chart 3). Another potential factor is the strong rebound in consumer confidence after reaching a trough in September 2022 on the back of a more positive assessment of the economic outlook and the personal financial situation.

In addition, consumers expect less of a headwind coming from inflation over the next twelve months. The stock of excess savings accumulated during the lockdown may also play a role. According to recent research, this stock is largely depleted in the US whereas in France, Germany, Italy and Spain, it remains significant at around 3% of GDP<sup>4</sup>.

Finally, there may be a shift in spending patterns, whereby increased tourism expenditures come at the detriment of other types of spending. In the US for instance, the latest household spending survey shows that over the next twelve months the median household expects slower growth in the various spending categories but the growth of recreation expenditures would remain stable<sup>5</sup>. However, it is not clear that this applies to the Eurozone as well considering that the intentions to make major purchases have improved significantly in recent months, according to the European Commission consumer survey.

### FACTORS LIMITING BUSINESS: DEMAND (% , S.A.)

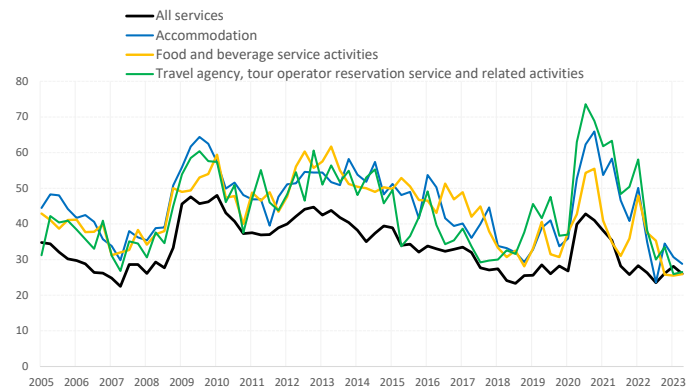


CHART 1

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

### NIGHTS SPENT AT TOURIST ACCOMMODATION ESTABLISHMENTS

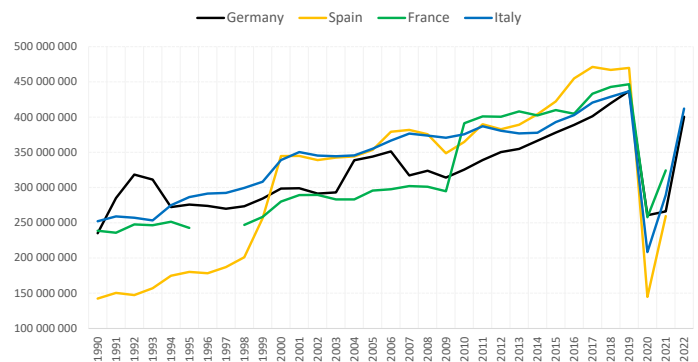


CHART 2

SOURCE: EUROSTAT, BNP PARIBAS

<sup>1</sup> Source: Pent-up demand promises record tourism season for southern Europe, Reuters, 19 May 2023.

<sup>2</sup> Chart 1 also shows the positive assessment in the services sector in general.

<sup>3</sup> Data for France and Spain are only available until 2021.

<sup>4</sup> Source: François de Soyres, Dylan Moore and Julio Ortize, Accumulated savings during the pandemic: an international comparison with historical perspective, VOXEU Column, 5 July 2023. The authors are researchers at the Federal Reserve Board.

<sup>5</sup> Source: Federal Reserve Bank of New York, SCE Household spending survey, April 2023.



Going forward, the outlook will probably be more challenging, driven by a waning influence of pent-up demand, a decline in the stock of excess savings and a prospect of stagnating economic growth in the second half of the year and the start of next year that should weigh on consumer spending and its allocation.

William De Vijlder

EUROPEAN UNION (27): TOURISM EXPENDITURES ALL DESTINATIONS  
(EXCLUDING DURABLES AND VALUABLE GOODS)

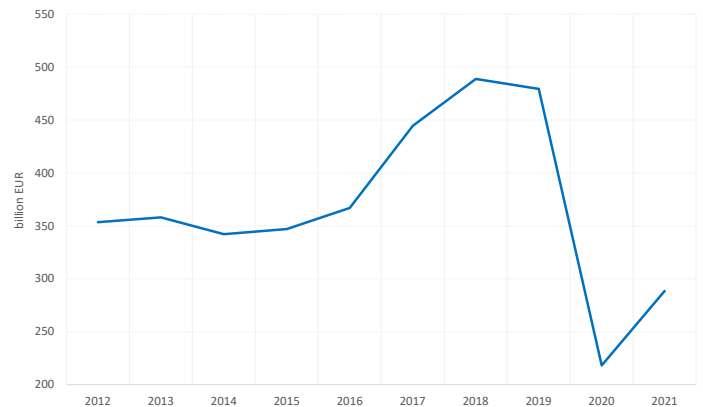


CHART 3

SOURCE: EUROSTAT, BNP PARIBAS



Pent-up demand, a rebound in consumer sentiment on the back of lower headline inflation and the stock of excess savings are key factors underpinning the travel plans of Eurozone households.



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# MARKETS OVERVIEW

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## OVERVIEW

Week 30-6-23 to 7-7-23

↘ CAC 40	7 400	▶ 7 112	-3.9 %
↘ S&P 500	4 450	▶ 4 399	-1.2 %
↗ Volatility (VIX)	13.6	▶ 14.8	+1.2 pb
↗ Euribor 3M (%)	3.58	▶ 3.64	+6.3 bp
↗ Libor \$ 3M (%)	5.55	▶ 5.56	+1.5 bp
↗ OAT 10y (%)	2.92	▶ 3.14	+22.3 bp
↗ Bund 10y (%)	2.39	▶ 2.63	+24.3 bp
↗ US Tr. 10y (%)	3.81	▶ 4.04	+23.2 bp
↗ Euro vs dollar	1.09	▶ 1.09	+0.4 %
↗ Gold (ounce, \$)	1 916	▶ 1 930	+0.7 %
↗ Oil (Brent, \$)	74.5	▶ 78.6	+5.4 %

## MONEY & BOND MARKETS

### Interest Rates

		highest 23	lowest 23
€ ECB	4.00	4.00 at 21/06	2.50 at 02/01
Eonia	-0.51	-0.51 at 02/01	-0.51 at 02/01
Euribor 3M	3.64	3.64 at 07/07	2.16 at 02/01
Euribor 12M	4.19	4.19 at 07/07	3.30 at 19/01
\$ FED	5.25	5.25 at 04/05	4.50 at 02/01
Libor 3M	5.56	5.56 at 07/07	4.77 at 02/01
Libor 12M	6.04	6.04 at 30/06	4.70 at 20/03
£ BoE	5.00	5.00 at 22/06	3.50 at 02/01
Libor 3M	5.49	5.49 at 07/07	3.87 at 02/01
Libor 12M	0.81	0.81 at 02/01	0.81 at 02/01

At 7-7-23

### Yield (%)

		highest 23	lowest 23
€ AVG 5-7y	2.64	2.64 at 02/01	2.64 at 02/01
Bund 2y	3.24	3.36 at 08/03	2.39 at 20/03
Bund 10y	2.63	2.75 at 02/03	1.98 at 18/01
OAT 10y	3.14	3.23 at 03/03	2.42 at 18/01
Corp. BBB	4.76	4.76 at 06/07	3.95 at 02/02
\$ Treas. 2y	5.08	5.12 at 08/03	3.85 at 04/05
Treas. 10y	4.04	4.06 at 02/03	3.30 at 06/04
High Yield	8.91	9.16 at 20/03	7.94 at 02/02
£ gilt. 2y	5.37	5.51 at 06/07	3.15 at 02/02
gilt. 10y	4.65	4.66 at 06/07	3.00 at 02/02

At 7-7-23

## EXCHANGE RATES

1€ =		highest 23	lowest 23	2023
USD	1.09	1.11 at 03/05	1.05 at 05/01	+2.6%
GBP	0.85	0.90 at 03/02	0.85 at 16/06	-3.8%
CHF	0.97	1.00 at 24/01	0.97 at 29/05	-1.3%
JPY	155.70	157.72 at 27/06	138.02 at 03/01	+10.6%
AUD	1.64	1.67 at 26/04	1.53 at 27/01	+4.1%
CNY	7.92	7.93 at 30/06	7.23 at 05/01	+6.8%
BRL	5.33	5.79 at 04/01	5.20 at 23/06	-5.4%
RUB	100.06	100.06 at 07/07	73.32 at 12/01	+28.4%
INR	90.59	90.59 at 07/07	86.58 at 08/03	+2.6%

At 7-7-23

Change

## COMMODITIES

Spot price, \$		highest 23	lowest 23	2023	2023(€)
Oil, Brent	78.6	88.2 at 23/01	71.9 at 12/06	-7.5%	-9.8%
Gold (ounce)	1 930	2 047 at 04/05	1 810 at 24/02	+6.3%	+3.6%
Metals, LME	3 699	4 404 at 26/01	3 564 at 24/05	-7.2%	-9.5%
Copper (ton)	8 361	9 331 at 23/01	7 852 at 24/05	-0.1%	-2.6%
wheat (ton)	233	2.9 at 13/02	216 at 30/05	-18.5%	-20.6%
Corn (ton)	203	2.7 at 13/02	203 at 05/07	-2.2%	-24.1%

At 7-7-23

Change

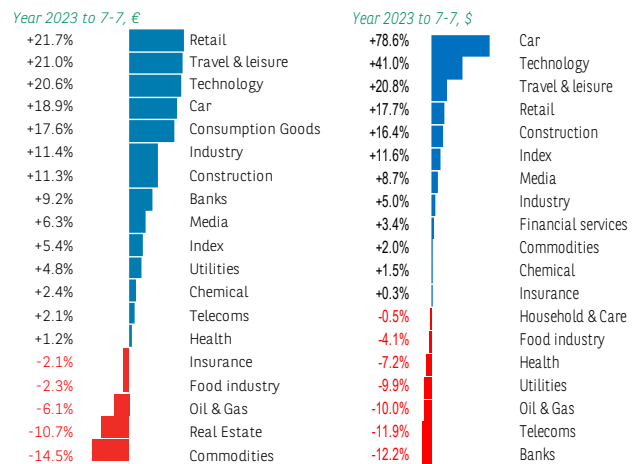
## EQUITY INDICES

	Index	highest 23	lowest 23	2023
<b>World</b>				
MSCI World	2 924	2 972 at 03/07	2 595 at 05/01	+12.4%
<b>North America</b>				
S&P500	4 399	4 456 at 03/07	3 808 at 05/01	+14.6%
<b>Europe</b>				
EuroStoxx50	4 237	4 409 at 21/04	3 856 at 02/01	+11.7%
CAC 40	7 112	7 577 at 21/04	6 595 at 02/01	+1.0%
DAX 30	15 603	16 358 at 16/06	14 069 at 02/01	+12.1%
IBEX 35	9 249	9 645 at 03/07	8 370 at 02/01	+1.2%
FTSE100	7 257	8 014 at 20/02	7 257 at 07/07	-0.3%
<b>Asia</b>				
MSCI, loc.	1 193	1 231 at 03/07	1 065 at 04/01	+1.2%
Nikkei	32 388	33 753 at 03/07	25 717 at 04/01	+24.1%
<b>Emerging</b>				
MSCI Emerging (\$)	981	1 052 at 26/01	941 at 16/03	+0.3%
China	59	75 at 27/01	58 at 31/05	-7.0%
India	806	815 at 06/07	703 at 16/03	+4.5%
Brazil	1 629	1 691 at 21/06	1 296 at 23/03	+2.9%

At 7-7-23

Change

## PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)



SOURCE: REFINITIV, BNP PARIBAS

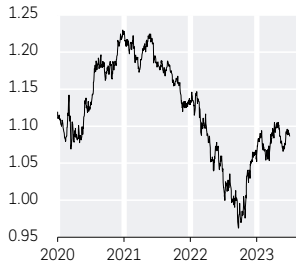


# BNP PARIBAS

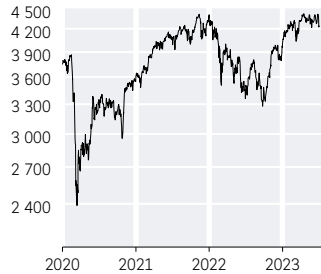
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# MARKETS OVERVIEW

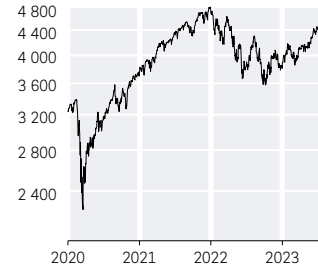
**EURO-DOLLAR**



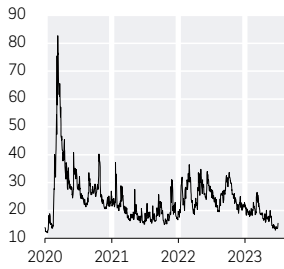
**EUROSTOXX50**



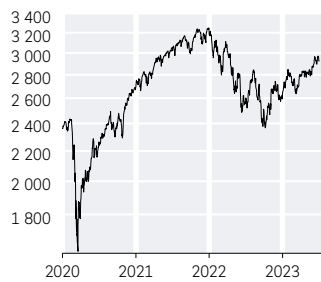
**S&P500**



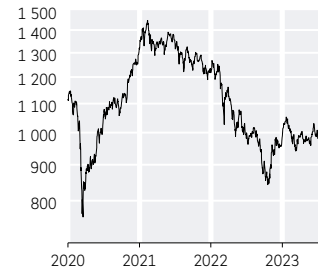
**VOLATILITY (VIX, S&P500)**



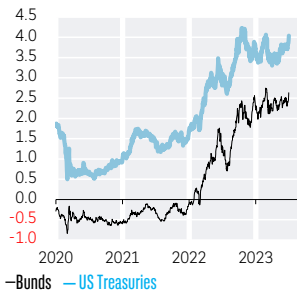
**MSCI WORLD (USD)**



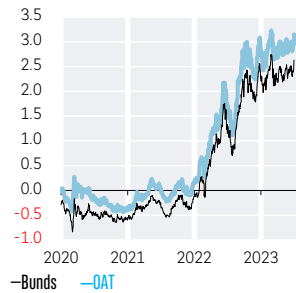
**MSCI EMERGING (USD)**



**10Y BOND YIELD, TREASURIES VS BUND**



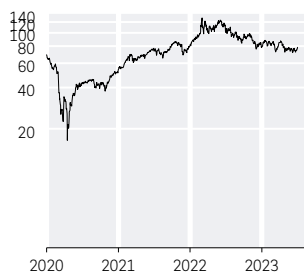
**10Y BOND YIELD**



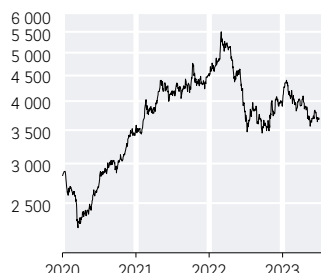
**10Y BOND YIELD & SPREADS**

Year 2023 to 7-7		
5.06%	Greece	242 bp
4.23%	Italy	159 bp
3.63%	Spain	99 bp
3.30%	Belgium	66 bp
3.28%	Austria	64 bp
3.27%	Portugal	63 bp
3.20%	Finland	57 bp
3.14%	France	50 bp
3.04%	Ireland	40 bp
2.98%	Netherlands	35 bp
2.63%	Germany	

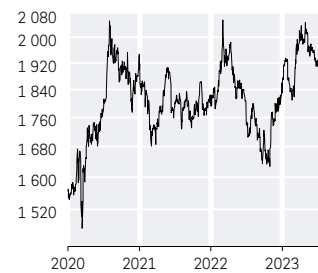
**OIL (BRENT, USD)**



**METALS (LMEX, USD)**



**GOLD (OUNCE, USD)**



SOURCE: REFINITIV, BNP PARIBAS



# ECONOMIC PULSE

## PMI: GLOBAL ECONOMIC GROWTH LOSING MOMENTUM AT THE END OF THE SECOND QUARTER.

The global composite PMI index stood at 52.7 in June, the lowest in four months, reflecting slowing global growth at end Q2 2023. However, the index remains comfortably within the range of expansion, buoyed by the services sector. On the other hand, the manufacturing PMI contracted sharply in June (48.8 compared to 49.6 in May).

Eighteen out of the 31 countries for which June data are available indicated a decline in their manufacturing sector, due to the effect of a further reduction in 'new orders', with a significant downturn in the USA, Germany, Italy, Poland, and, to a lesser extent, the euro zone. In China, the manufacturing index fell slightly but remained within the range of expansion. Conversely, France, Denmark, Indonesia, and Vietnam are among the countries that posted a PMI manufacturing index up on the previous month. The news on prices and supply was better. The global manufacturing PMI for delivery times fell for the fifth consecutive month to its lowest level since February 2023. However, the low level of this sub-index is evidence of weakened demand, beyond the beneficial effect of easing supply difficulties. The input price index and the sale price index in the manufacturing sector fell for the second month in a row. It should be noted that the drop is greater, on average, in developed economies.

The global services PMI index stood at 54.0 in June, down from 55.5 in May, reaching its lowest level since February 2023. With the exception of France, where the index contracted for the first time in five months, most of the countries studied remain in expansion. The sector remains buoyed by the increase in new contracts for service providers, new export orders, and employment. However, the expansion is losing momentum in light of the drop in these various indices in June compared to May. Input prices rose slightly, while sale prices fell.

Tarik Rharrab

### S&P GLOBAL PMI (JUNE 2023)

	Developed Markets																				Emerging countries														
	World	NA	Europe										Asia-Oceania		LATAM		Eurasia		Middle East & Africa		Asia														
June 2023	World	CANADA	USA	EURO ZONE	AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND	UK	AUSTRALIA	NEW ZEALAND	JAPAN	SINGAPORE	BRAZIL	MEXICO	CZECH REPUBLIC	POLAND	RUSSIA	TURKEY	EGYPT	LEBANON	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	HONG KONG	INDIA	INDONESIA	VIETNAM
COMPOSITE	52.7	53.2	49.9	39.0	47.2	50.6	51.8	51.4	49.7	43.8	52.6	44.9	52.8			52.1	51.5	40.8	45.1	55.8			52.6	51.5	49.1	50.2	59.6	56.9	50.5	50.3	57.8	52.5	46.2	52.7	
MANUFACTURING	48.8	48.8	46.3	43.4	39.0	47.1	46.0	40.6	51.8	47.3	43.8	43.8	48.0	44.9	46.5			49.8	49.7	46.6	50.9	40.8	45.1	52.6	51.5	49.1	50.2	59.6	56.9	50.5	50.3	57.8	52.5	46.2	48.8
SERVICES - BUSINESS ACTIVITY	54.0	54.4	52.0			48.0	54.1		56.8	52.2		53.4		53.7				54.0	53.3							50.2			53.9	50.3	58.5			54.0	
MANUFACTURING	NEW ORDERS	48.1	48.5	42.9	40.1	32.7	42.5	36.2	52.4	48.7	40.1	41.5	46.6	45.5			49.6	49.4	45.4	49.9	37.4	42.8	53.6	50.2	48.4	50.2	69.5	48.0	61.0	51.6	50.7	61.7	54.3	47.0	
	NEW EXPORT ORDERS	47.1	49.4	44.9	41.7	36.3	42.8	39.0	50.8	45.9	43.3	42.5	45.7	43.7			45.4	49.6	46.1	48.8	37.2	41.1	50.8	51.0	42.3	50.2	63.4	48.1	51.1	50.1	51.3	53.2	49.4	44.1	
	DELIVERY TIMES*	47.7	48.2	46.9	38.8	34.7	41.9	51.6	30.1	50.9	48.1	40.3	37.8	46.9	45.9			49.4	50.1	45.6	53.6	42.1	48.7	52.5	54.5	50.3	37.4	45.7	49.6	50.6	48.6	50.2	45.8		
	EMPLOYMENT	50.1	49.4	52.4	49.8	46.9	45.8	48.7	50.6	53.2	48.1	50.9	49.2	49.4	50.4	47.3			51.1	49.4	49.8	44.1	47.3	52.7	51.6	49.3		53.3	52.0	48.6		52.2	51.1	45.0	
	INPUT PRICES	48.4	51.0	47.2	39.5	36.6	23.9	45.7	35.7	48.3	47.1	38.3	36.9	42.6	44.5			58.8	50.6	45.3	60.0	40.2	41.8	63.7	67.0	57.8		53.2	52.1	46.4	52.9	52.3	55.2	47.6	
	OUTPUT PRICES	49.2	51.0	50.2	47.0	44.0	49.2	47.2	49.8	46.0	44.8	48.4	47.7	49.1	49.9			55.2	45.2	49.7	46.9	43.8	53.9	58.0	53.2	51.1	50.4		48.2	52.6	53.9	49.7	45.9		
	OUTPUT	49.2	49.7	46.9	44.2	41.0	47.3	43.7	43.7	53.5	45.0	42.7	45.5	49.4	48.2			48.2	49.8	45.5	51.4	40.7	44.2	52.9	53.4	48.8		66.1	54.1	51.0		61.8	52.7	46.1	
	STOCKS OF PURCHASES	48.8	47.3	42.3	45.1	43.2	34.6	47.9	42.3	49.1	45.6	48.9	45.1	47.5	44.8			52.1	49.5	49.3	51.5	42.6	44.2	49.0	46.1	49.5		59.2	53.1	51.0		61.2	52.9	47.3	
	QUANTITY OF PURCHASES	47.3	49.9	40.2	38.5	35.7	42.9	34.6	48.9	42.2	36.5	43.6	46.0	43.1			48.0	46.0	50.5	35.7	43.2	57.8	51.6	46.2			69.9	55.9	51.2		63.8	53.2	49.7		
	FINISHED GOODS	48.6	50.1	43.2	49.5	53.3		49.8	49.0	45.3	47.9	51.3	46.6	50.5	51.8			52.1	49.9	51.3	49.7	50.1	46.1	51.4	48.3					49.6		47.3	49.1	49.1	
WORK BACKLOGS	46.6	48.1	42.2	40.7		44.8	37.3	48.0	48.7	42.2	39.6	46.5	42.7			47.5		42.6	49.9	44.6	42.8	47.8			49.7		47.5	53.1	50.5		51.0	50.6	47.9		
SERVICES	INPUT PRICES	60.1		61.3			60.5	63.0		64.7	58.0		62.4	68.5			58.0		63.7			60.0							52.8		54.8			60.1	
	OUTPUT PRICES	54.9		56.3			55.5	59.7		59.0	51.4		55.4	59.8			52.2		54.1			58.2							51.1		54.2			54.9	
	EMPLOYMENT	52.6		54.4			54.0	55.8		54.7	52.3		54.2	53.5			52.9		52.4			55.4							51.9		51.1			52.6	
	NEW BUSINESS	54.0		51.0			47.6	51.1		57.7	52.9		53.5	52.8			55.2		53.6			56.9							51.7		53.8			54.0	
	OUTSTANDING BUSINESS			50.1			49.9	49.8		52.7	49.2		51.7	48.8			53.9		44.9			51.0							51.0						
BUSINESS EXPECTATIONS	55.7		58.5			55.6	54.8		67.7	62.3		66.8	68.7			60.1						68.0												65.7	
NEW EXPORT ORDERS	52.4		49.8			48.6	49.6		54.4	50.9		50.5	53.9			52.9		51.5			56.2							53.6		51.8				52.4	

\* inverted scale

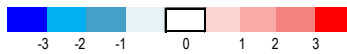


SOURCE: S&P GLOBAL, BNP PARIBAS



S&P GLOBAL PMI CHANGE (JUNE VERSUS MAY)

	Developed Markets																				Emerging countries																	
	WD		NA		Europe										Asia-Oceania			LATAM		Eurasia			Middle East & Africa		Asia													
	World	CANADA	USA	EUROZONE	AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND	UK	AUSTRALIA	NEW ZEALAND	JAPAN	SINGAPORE	BRAZIL	MEXICO	CZECH REPUBLIC	POLAND	RUSSIA	TURKEY	EGYPT	LEBANON	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	HONG KONG	INDIA	INDONESIA	VIETNAM			
COMPOSITE	-1.7	-1.1	-2.9			-4.0	-3.3		-0.5	-2.3		-2.6		-1.2		-2.2				-0.8				1.4														
MANUFACTURING	-0.8	-0.2	-2.1	-1.4	-0.7	1.2	0.3	-2.6	0.3	-0.2	-2.1	-0.4	-0.4	1.7	-0.6					-0.8	0.2	-0.5	0.4	-1.9	-0.9	0.0	1.3	0.8	1.1		1.4	-0.4	-0.3	-0.9	2.2	0.9		
SERVICES - BUSINESS ACTIVITY	-1.5	-0.5	-3.1			-4.5	-3.1			-0.2	-1.8		-3.3		-1.5					-1.9				2.5				0.8				-3.2	-0.3	-2.7				
MANUFACTURING	NEW ORDERS	-1.2	-0.1	-4.2	-2.2	-1.3		-0.2	-3.4	1.2	0.4	-4.2	-0.2	-0.9	-1.2					-0.9	0.2	-0.1	0.2	-3.0	-3.3	-0.5	-2.1	2.1	-0.2	2.3	0.3	2.7	-0.2	-0.9	-1.2	4.8	5.1	
	NEW EXPORT ORDERS	-0.2	2.2	1.6	-0.1	0.1		1.3	0.2	-1.5	3.2	-4.4	0.1	0.3	-3.4					-1.3	0.3	-2.7	0.8	-6.1	-2.8	2.5	-1.8	-5.4	-0.2	8.3	1.2	1.1	-0.6	-1.2	-0.7	0.5	0.5	
	DELIVERY TIMES	-1.2	0.9	-5.3	-0.4	0.9		-3.8	-5.3	0.7	-1.4	-2.1	1.6	1.3	-0.5	-0.8				0.5	-0.4	0.4	-0.6	-0.4	-1.6	-1.2	-2.6	0.4		7.7		-0.8	-0.4	-0.1	0.2	-0.4	2.6	
	EMPLOYMENT	0.1	-0.3	-0.7	-1.7	-1.9		5.8	-1.7	-1.8	1.1	-2.7	-0.4	-2.4	-1.7	-2.0				0.8	0.6	-1.0	-2.0	-0.5	-2.1	0.6	0.1		1.3	-0.1	1.4		-0.1	0.5	0.5	-2.2		
	INPUT PRICES	-0.9	1.4	-0.9	-1.9	-2.6		-7.2	-2.4	-1.2	1.9	-0.5	-4.2	-2.6	-0.8	-4.0				-2.0	-3.2	1.7	-0.4	0.6	-0.9	11.1	-1.2		-1.1		0.6	-0.8	-2.8	0.1	-0.7	-0.8		
	OUTPUT PRICES	-0.6	0.1	-0.8	-2.1	0.0		-1.7	-3.2	0.9	-2.8	-1.4	-0.2	-0.2	-7.8	-4.3				-2.0	-3.2	-0.8	-0.1	-0.7	0.8	5.3	-0.5	0.5	-3.9		0.5		-1.1	0.5	-0.8	-2.5		
	OUTPUT	-2.3	0.6	-4.1	-2.2	1.5		-4.4	-1.0	-3.8	-0.7	-0.9	-3.7	1.2	0.0	0.5				-2.7	0.1	-1.1	1.7	-3.4	-2.7	-1.7	1.4	2.5		4.4		1.7	-2.8	-1.0	1.7	0.4		
	STOCKS OF PURCHASES	-0.6	-1.3	-3.9	0.3	-1.9		-5.9	1.3	-1.5	-1.4	1.2	-3.9	0.4	0.8	-6.3	-0.5			-0.1	-0.1	-1.7	1.1	0.7	-4.1	-0.5	-1.9	0.6		1.3		0.5	0.4	-2.6	2.3	1.1		
	QUANTITY OF PURCHASES	-0.6		-3.5	-2.0	1.4		-0.8	-2.2	-3.7	-0.5	-5.5	0.8	-1.6		0.6				0.4		0.8	-0.1	-2.1	-1.8	1.7	0.4	1.0		12.1		0.5	0.7	-0.1	1.4	5.2		
	FINISHED GOODS	-1.1	-0.6	-6.0	-0.4	-0.5		-2.0	-0.4	-3.4	-1.2	1.1	-0.5	1.1		0.5				2.2	0.2	-2.3	-3.0	1.5	-1.4	2.1	-0.7				-0.2		-1.0	-0.2	-0.2			
WORK BACKLOGS	0.1	1.5	0.2	-1.1			-0.6	-1.7	1.7	-1.0	-0.6	-1.7	-2.1		2.3				-0.2	1.5	-2.9	-0.2	1.9	1.2		-0.2		0.3		0.3	0.7	-0.4	0.4	3.0				
SERVICES	INPUT PRICES	-0.6		1.4	-5.9		-8.3	-3.9		-1.2	-4.9		-8.4		-1.9					-2.5		0.9			2.2						-0.3			0.0				
	OUTPUT PRICES	-1.2		-1.7	-2.8		-5.5	-1.1		2.3		-3.2		-0.7						-1.9		-2.2			2.9						-0.3			0.2				
	EMPLOYMENT	-0.1		-0.5	-0.3		-0.4	1.3		0.2	-2.2		-1.6		1.4					-1.6		-0.6			2.6						0.5			0.0				
	NEW BUSINESS	-1.4		-0.1	-2.4		-1.6	-2.8		-0.4	-2.5		-3.4		-2.6					-1.6		1.3			4.3						-4.5	-5.6						
	OUTSTANDING BUSINESS			-1.1				-2.0	-0.5		-3.2	-1.7		0.8		-2.3				-0.6		0.2			0.6						0.2							
BUSINESS EXPECTATIONS	0.9		1.9	-1.8			-4.1	-0.7		-4.6	-1.9		1.3		-1.3									5.6														
NEW EXPORT ORDERS	-1.4		-1.4	-3.2			-1.8	-4.3		-3.2	-2.9		-3.5		0.4									1.5							-0.3			-0.8				



SOURCE: S&P GLOBAL, BNP PARIBAS





# ECONOMIC SCENARIO

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## UNITED STATES

After a strong second half of 2022 (+0.7% q/q on average per quarter), US growth slowed slightly in Q1 2023 (+0.5% q/q), mainly because of the very negative contribution of changes in inventories. The impact of the tighter monetary policy on activity and employment growth was still contained in Q2, leading us to upwardly revise our near-term growth forecasts (Q2 growth a little more positive, Q3 a bit less negative), without abandoning our expectation of a slip into recession in Q3, as a result of the sharp monetary tightening. While the peak in inflation was reached in mid-2022, core disinflation remains gradual in such a way that headline inflation should stay significantly above the target of 2% by the end of 2023. The slow pace of disinflation argues in favor of keeping monetary policy in restrictive territory, despite the start of the easing cycle in spring 2024. This will limit the expected recovery in 2024.

## CHINA

Economic growth, which was sluggish and unbalanced in 2022, is accelerating in 2023. The end of the zero Covid policy has led to a rebound in private demand and activity in the services sector since late January, with household consumption benefiting from catch-up effects. However, the post-Covid is losing momentum surprisingly rapidly. Households remain prudent, as they are notably worried by the uncertain recovery in the labor market. The crisis in the property sector is persisting. Moreover, export and industrial production prospects are darkened by global demand weakness and tensions with the US. The government and the central bank should implement new policy stimulus measures, but they are likely to remain careful. In particular, the worrying financial situation of local governments should constrain public investment.

## EUROZONE

The euro zone slipped into technical recession in the first quarter of 2023. Initially estimated at +0.1% q/q, growth has been revised to -0.1% (after a decline of same magnitude in Q4 2022). This downward revision to growth was driven by Germany. A technical rebound is expected in Q2 but, after that, the build-up of the negative effects of monetary tightening would cause growth to fall back. After three quarters of stagnation, a limited recovery would follow. Although it is expected to decline throughout 2023, inflation would remain elevated and well above the 2% target at the end of this year and still a bit above at the end of 2024, forcing monetary policy to remain in restrictive territory.

## FRANCE

Real GDP growth increased in Q1 2023 (0.2% q/q in Q1, after 0% in Q4 2022) driven by transport equipment's exports. However, household demand has played on the downside: household consumption stabilized (+0.1% q/q) in Q1 after -1% q/q in Q4 2022 whereas their investment decreased by 2.3% q/q in Q1 (after -1.2% in Q4). As inflation is still high (with a peak of 7.3% y/y in February 2023 according to the harmonized measure) and because of rising interest rates, household demand should remain subdued in 2023, weighing on our GDP growth forecast (0.5% in 2023, compared to 2.5% in 2022).

## RATES AND EXCHANGE RATES

In the US, the Federal Reserve skipped the June meeting but we expect one last hike at the July meeting given continued high core inflation and a resilient labour market so far. The slow pace of disinflation argues against a rate cut before the beginning of 2024, despite the US economy entering recession in the second half of 2023. The peak in long-term yields is likely to have been reached. Bond yields should subsequently move lower as the inflation outlook improves and the market starts anticipating monetary policy easing in 2024.

The ECB hiked again at its June meeting and more is to come. While inflation shows encouraging signs of easing, it is not yet sufficient to end the tightening cycle. We expect a terminal rate for the deposit rate at 4.00% in Q3. As part of its monetary tightening, the ECB also announced a complete halt, starting in July 2023, of its reinvestments

under the APP. European long-term rates probably have peaked and should move lower, driven by both a gradual decline in inflation in the eurozone and lower US yields.

In December 2022, the Bank of Japan increased the upper end of its target range for the 10-year JGB yield to 0.5%. Further adjustments to the yield curve control policy cannot be excluded, given that the country currently faces the fastest rate of inflation since the early 1990s. Nevertheless, the BoJ is unlikely to increase its policy rates this year, but a rise is expected in 2024.

We expect the dollar to weaken somewhat versus the euro. The dollar's valuation is expensive, positioning in the market is very long and the long-term interest rate differential should narrow. We expect the yen to remain around current levels in the near term before strengthening versus the dollar considering that the federal funds rate should have reached its terminal rate.

### GDP GROWTH AND INFLATION

%	GDP Growth*				Inflation**			
	2021	2022	2023 e	2024 e	2021	2022	2023 e	2024 e
United-States	5.9	2.1	1.5	-0.1	4.7	8.0	4.2	2.4
Japan	2.2	1.0	1.5	1.0	-0.2	2.5	3.1	1.8
United-Kingdom	7.6	4.1	0.4	0.0	2.6	9.1	7.5	2.9
Euro Area	5.3	3.5	0.4	0.6	2.6	8.4	5.4	2.9
Germany	2.6	1.9	-0.4	0.5	3.2	8.7	6.0	2.7
France	6.8	2.6	0.5	0.6	2.1	5.9	5.6	2.4
Italy	7.0	3.8	1.3	1.0	1.9	8.7	5.9	2.2
Spain	5.5	5.5	2.4	1.5	3.0	8.3	3.1	2.4
China	8.4	3.0	5.6	4.5	0.9	2.0	1.1	2.5
India***	8.7	7.2	6.1	6.5	5.5	6.7	5.5	4.5
Brazil	5.0	2.9	2.5	0.5	8.3	9.3	4.7	4.0

Source : BNP Paribas (e: Estimates & forecasts)

\* Last update 30 June 2023: GDP Italy and Spain, Last update 8 June 2023: GDP Japan, Last update 2 June 2023: GDP US and Brazil, Last update 27 June 2023: GDP UK, Last update 21 May 2023: GDP Germany

\*\* Last update 27 June 2023: inflation UK, Last update 16 June 2023: inflation US and Brazil, Last update 2 June 2023: inflation Eurozone, Germany, France, Italy, Spain, US and Brazil

\*\*\* Fiscal year from 1st April of year n to March 31st of year n+1

### INTEREST AND EXCHANGE RATES

Interest rates, %		Q2 2023	Q3 2023	Q4 2023	Q4 2024
End of period					
US	Fed Funds (upper limit)*	5.25	5.50	5.50	3.75
	T-Note 10y **	3.90	3.90	3.85	3.55
Eurozone	deposit rate*	3.50	4.00	4.00	3.00
	Bund 10y **	2.60	2.45	2.20	2.00
	OAT 10y	3.15	3.00	2.72	2.50
	BTP 10y	4.60	4.70	4.45	3.80
	BONO 10y	3.60	3.55	3.30	2.90
UK	Base rate*	5.00	5.75	5.75	4.00
	Gilts 10y **	4.50	4.40	4.25	3.80
Japan	BoJ Rate	-0.10	-0.10	-0.10	0.10
	JGB 10y**	0.45	0.50	0.65	0.80

Exchange Rates		Q2 2023	Q3 2023	Q4 2023	Q4 2024
End of period					
USD	EUR / USD	1.10	1.10	1.12	1.18
	USD / JPY	133	133	130	123
	GBP / USD	1.24	1.25	1.27	1.34
EUR	EUR / GBP	0.89	0.88	0.88	0.88
	EUR / JPY	146	146	146	145

Brent		Q2 2023	Q3 2023	Q4 2023	Q4 2024
End of period					
Brent	USD/bbl	85	83	90	95

Sources: BNP Paribas (Market Economics, Interest Rate Strategy, FX Strategy, Commodities Desk Strategy)

\* Deposit rate: Last update at 27 April 2023, Fed Funds : 2 June 2023, BoE rate: 22 June 2023

\*\* Bund 10y: last update at 3 May 2023, Gilts 10y: 15 June 2023, JGB 10y: 22 June, US 10y: 5 June 2023



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