ECONOMIC PULSE

EUROZONE: WHILST INFLATION CONTINUES TO SOAR, THE UNEMPLOYMENT RATE CONTINUES TO FALL

Eurostat's flash estimate puts eurozone inflation for March at 7.5% y/y, representing another very substantial increase (up 1.6 points on the February figure). Inflation continues to be driven mainly by energy prices – the energy component contributed 4.9 percentage points to this figure, thus explaining 65% of the total – but the other components (food, manufactured goods, services) are also seeing increases and each contributed around one point. Thus, inflation is getting more widespread and all eurozone countries have been affected by its recent acceleration, albeit to varying degrees. Inflation was highest in Lithuania, at 15.6%, and lowest in Malta (4.6%). In the zone's four biggest economies Spain leads the list (9.8%, up 2.2 points on February), followed by Germany (7.6%, 2.1 points), Italy (7%, 0.8 of a point) and France (5.1%, 0.9 of a point), which thus ranked fourth in this list and was also second to last in the eurozone as a whole.

This new surge in inflation has already had a significant impact on European consumer sentiment: the European Commission survey of the eurozone has rarely been as low (-18.7 points), having lost nearly 10 points in March, a fall only barely smaller than the 10.5-point drop in March 2020, at the time of the first pandemic lockdown. From now on, it remains to be seen to what extent this deterioration in consumer confidence will affect households' consumption.

In the meantime, the fall in the unemployment rate has continued (down 0.1 of a point in February, to 6.8% of the labour force, setting a new record low since 1998). This is a significant cushioning force, as well as being a piece of genuine good news in an economic picture that is otherwise getting gloomier. The limited fall in the employment expectations of businesses in March is also reassuring. However, here too it remains to be seen just how far this positive labour market momentum will run, given the inflationary shock under way and the other negative economic consequences of the conflict in Ukraine (higher uncertainty, drop-off in foreign trade, increased supply difficulties and the risk of shortages). At the time of writing, the economic situation is not one of stagflation (a lasting combination of high unemployment and high inflation), but this remains a real and growing risk.

Business confidence surveys also bear the traces of on-going shocks, although this is less marked in the Composite PMI than in the European Commission's ESI: the former lost only 1 point in March, the latter just over 5 points. However, this larger fall also includes the drop in consumer confidence discussed above. The fall in the ESI was biggest in France (7.1 points), followed by Spain (6.5 points), Germany (4.3) and then Italy (2.6). By economic sector, across the eurozone, the fall in PMI figures is widespread (-1.7 points in manufacturing, -0.7 in services), whilst in the ESI the services sector is unscathed, with a 1.5-point improvement in the business climate, with a tiny drop in construction (-0.1 of a point) but significantly bigger falls in manufacturing (-3.7 points) and particularly the retail sector (-5.3 points). In contrast to consumer confidence, the reassuring factor is that, for the time being, the business climate remains at high levels (54.5 for the Composite PMI and 108.5 for the ESI, i.e. significantly above, respectively, its reference level of 50 corresponding to expansion and 100 corresponding to its 2000-2021 average).

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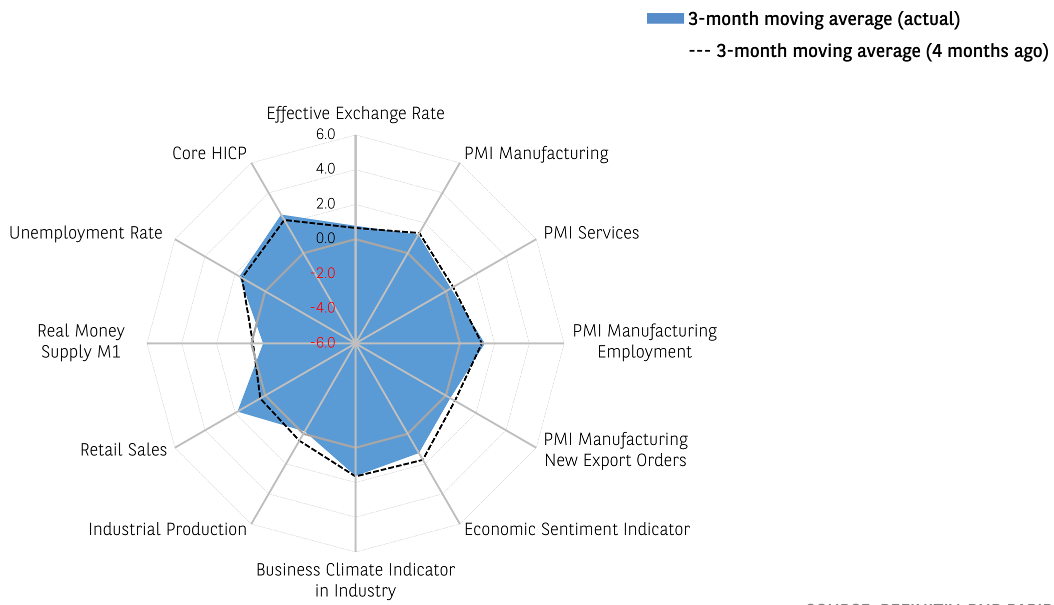
QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -6 and +6. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.