

# ECONOMIC PULSE

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## EUROZONE: OFF-COLOUR

On the economic front the eurozone has seen a succession of similar-looking months, with inflation continuing to rise and confidence surveys continuing to fall to different extents. Although there is a clear deterioration in the economic situation and outlook (the shrinking of the blue zone on our Pulse shows this), its scale and duration remain uncertain. A recession is getting more likely but is not (yet) a certainty, first because activity levels remain strong and not all the economic indicators are flashing red (particularly when it comes to the labour market) and secondly because growth has some tailwinds or, at the very least, shock-absorbers (recovery post Covid, surplus savings, investment needs and fiscal support).

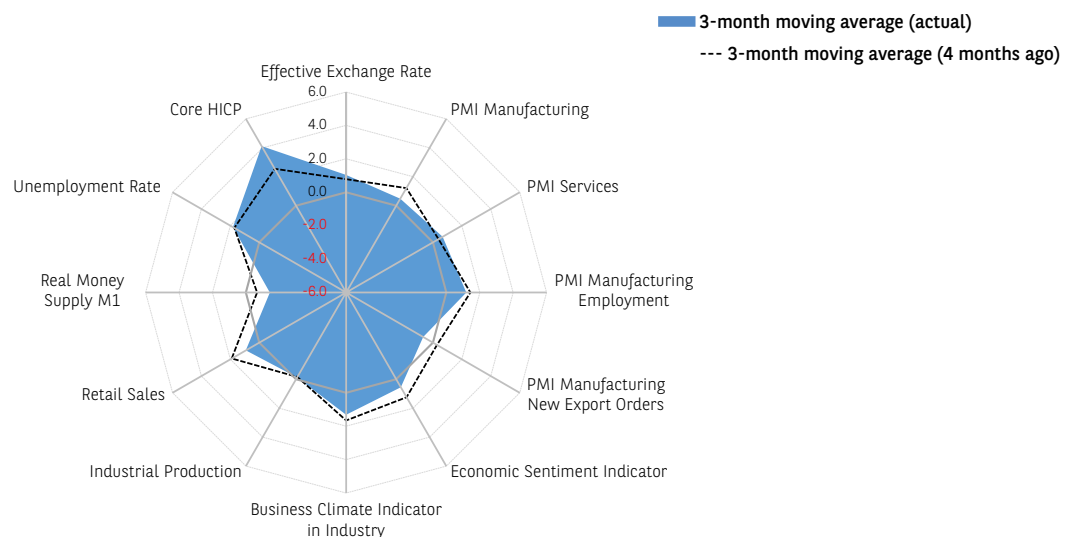
The news on inflation is not quite as bad as it was in May. Although inflation rose significantly again in June (by half a point to 8.6% y/y according to the Eurostat flash estimate), the core inflation figure fell very slightly (by 0.1 of a point to 3.7% y/y). However, this is of limited comfort and one can only feel uneasy at the rapid acceleration in prices for energy (42% y/y, contributing 4.2 points of inflation) and for food (8.9% y/y, contributing 1.9 points). It should also be noted that inflation fell in 2 of the 19 eurozone countries – Germany (-0.5 of a point, to 8.2% y/y) and the Netherlands for the third month running (-0.3 of a point, to 9.9%) – and more strikingly that it has reached or exceeded 10% in 9 countries. The highest inflation came in Estonia (22% y/y), whilst the lowest was in Malta (6.1% y/y), with France remaining in the second but last place (6.5% y/y).

The dominant picture from June's survey data is negative, but this needs to be moderated somewhat by the fact that there has been no widespread deterioration across sectors. The biggest negative signals came from the PMI figures (both the manufacturing and services figures, with the latter showing an even bigger fall), from the European Commission's consumer confidence survey (where the improvement in May proved to be a flash in the pan) and the economic sentiment indicator in construction. At 51.9, the composite PMI remained in expansionary territory, but less comfortably so. The deterioration of economic sentiment in the retail sector was smaller than in construction, but was nevertheless the fourth decline in a row and when we look at the cumulative figures since February, retail comes out worst, with a 10 point fall (against the 6 point drops in construction and industry and the 1 point rise in services). In fact, in both industry and services, economic sentiment improved slightly in June (for the third month in a row in the case of services). The deterioration in the retail sector echoes that in consumer confidence (down by a cumulative 14 points), which has been hit hard by the inflationary shock.

Lastly, the unemployment rate continues to fall. Although this is a lagging indicator, it is good news nonetheless. Although companies' views of employment prospects are worsening, they are doing so to a limited extent and the figures remain high in absolute terms. The same is true of consumer concern over unemployment trends, which is rising but remains moderate.

Hélène Baudchon

## EUROZONE: 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.



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