

HOW MANY SWALLOWS MAKE A SPRING?

Recent survey data have picked up, in particular in the manufacturing sector and in terms of export orders. The European Commission noted a marked increase of economic sentiment in the European Union, the eurozone, Germany and France in January, after substantial weakness in Q4. Although economists expect a pick-up in growth in the US as the year progresses, the dispersion is very wide. This means that the median forecast will inspire less confidence than if the level of disagreement amongst forecasters would be lower.

Will the global economy have an early spring this year? Popular wisdom has it that one swallow does not make a spring but economists disagree on how many good data are needed to call a change of season.

In general, recent survey data have improved, in particular in the manufacturing sector and in terms of export orders. Eurozone data have tended to surprise to the upside lately, after substantial weakness in Q4, which translated into a very meagre growth performance in the Eurozone (0.1%) and even a small contraction in France (-0.1%). For January, the European Commission noted a marked increase of economic sentiment in the European Union and the eurozone. In the latter case, this can be largely attributed to positive developments in the industry and construction sectors, whilst confidence among consumers and in the services was stable. Strong increases of economic sentiment were registered in Germany and France. The purchasing managers' indices in Japan and the UK also rebounded in January.

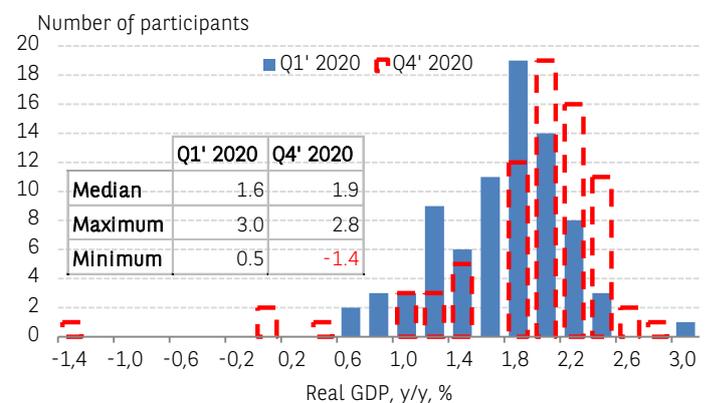
Judging by the Bloomberg consensus forecasts, economists believe that the year-over-year pace of growth in the OECD countries will pick up somewhat in the coming quarters. This also corresponds to the profile of our own forecasts. Concretely speaking, for the US, comparing the distribution of the individual growth forecasts for the current quarter with those for the fourth quarter, one observes a shift to the right. A similar observation can be made for the eurozone. Consequently, the median growth forecast accelerates from 1.6% to 1.9% in the US. The equivalent numbers for the eurozone are 0.9% and 1.1%. Interestingly and contrary to the eurozone, the left tail of the distribution of US fourth quarter forecasts shifts to the left, into negative growth territory. A wide distribution reflects a considerable degree of disagreement amongst forecasters which in turn may push their audiences - business people, households, etc. - to show some reserve about the projection that better times will be coming: a median forecast with a wide dispersion will inspire less confidence than if the dispersion would be small. The first estimate of US GDP growth for the fourth quarter will not change that assessment. At 2.1%, the annualised quarter-over-quarter growth was the same as the previous three-month period but personal consumption expenditures - which have been a pillar of growth in

recent year - slowed noticeably, despite a tight labour market. Also worth noting is that the FOMC now considers growth to be "moderate", coming from "strong". The IMF, in its updated projections, also remains cautious because "few signs are yet visible in global macroeconomic data".

All in all, survey data have improved and it is now a matter seeing this transmitted into hard data like activity or spending. This in turn would support confidence and lead to a self-reinforcing dynamic. With the disruption caused by the outbreak of the coronavirus epidemic, more patience will be needed before we reach that stage.

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US: DISTRIBUTIONS OF INDIVIDUAL FORECASTS OF REAL GDP, Y/Y, %



SOURCE: BLOOMBERG, BNP PARIBAS

” The improvement of economic survey data is continuing and broadening. However, looking at the US, the wide dispersion of forecasts for this year reflects a considerable degree of disagreement. This can push companies to adopt a wait-and-see attitude in their investment decisions.

