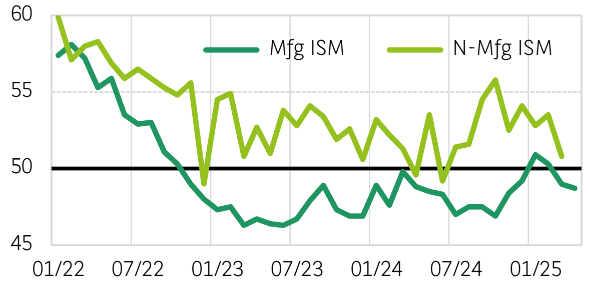
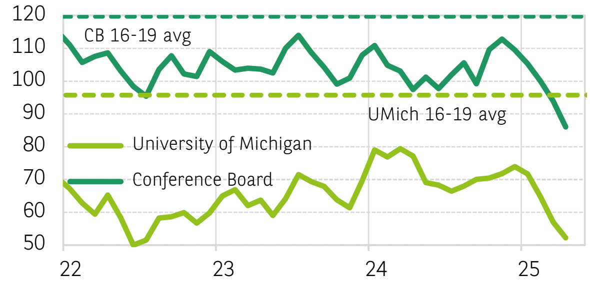
United States: GDP Contraction

Business climate - ISM



Source: ISM, BNP Paribas.

Household confidence

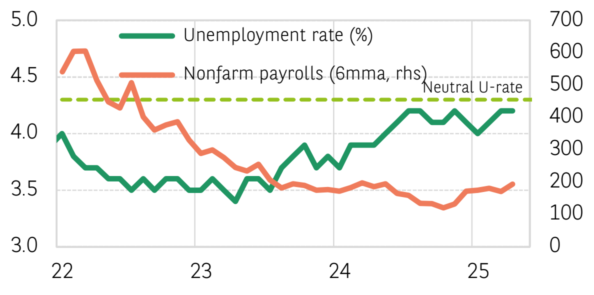


Source: Macrobond, BNP Paribas.

A Downbeat Business Climate. The ISM Manufacturing index has declined for 4 consecutive months and reached 48.6 in April (-0.2pp). Production, employment and new orders were all in contraction territory. The price-paid index (69.8) stood at its highest since 2022. Meanwhile, the ISM Non-Manufacturing index remained positive but slowed (50.8 in March vs. 54.1 in December 2024).

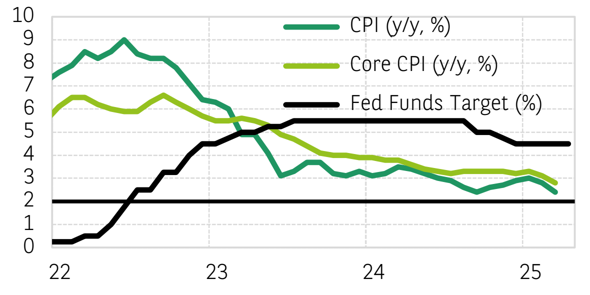
Households Increasingly Pessimistic. The key measures of household sentiment have deteriorated significantly and uninterruptedly since the end of 2024. Expectations, at their lowest since 2011 according to the Conference Board (54.4 in April), have dropped. Inflation expectations hit multi-decade highs at 1 year (+6.5%) and 5-10 years (+4.4%) in April according to the University of Michigan.

Labour Market: Unemployment Rate and Nonfarm Payrolls (m/m, k)



Source: BLS, BNP Paribas.

Inflation and Monetary Policy



Source: BLS, Federal Reserve, BNP Paribas.

Labour Market: Better Than Balanced. In April, nonfarm payrolls grew by a solid +177k (-7k). The 6-month moving average variation has been underlining the robustness of the job market, after the strong rebalancing of 2022 - 2023. The unemployment rate, at 4.2%, remained below the estimate of its natural level (4.3%).

A (Temporary) Improvement in Inflation. Headline inflation, as measured by the CPI, eased in March, to +2.4% y/y (-0.4pp), driven by energy and hotels. Core inflation, at +2.8% y/y (-0.3pp), reached its lowest level since March 2021. However, the Fed is unlikely to resume monetary easing due to the risk of accelerating inflation and the strength of employment.

GDP growth q/q: actual, carry-over and forecasts

Actual				Carry-over	Actual*	GDP Now	Forecast		Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q2 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
0.4	0.7	0.8	0.6	1.0	-0.1	0.3	0.2	0.1	2.8	1.3	1.2

* Q1 2025 preliminary estimation

Source: BEA, Atlanta Fed, BNP Paribas

GDP Contraction in Q1 2025 (-0.1% q/q, vs. +0.6% in Q4 2024) - the first in three years. Imports of goods (+10.9% q/q, the highest since 1972 excluding the post-Covid reopening), lower public spending (-0.4% q/q) and slower household consumption (+0.4% q/q, compared with +1% in Q4) explain this result. The sharp rise in inventories (contribution of 0.8pp in Q1) should weigh on growth in Q2 (GDPnow suggests +0.3% q/q).

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