



Key macroeconomic indicators at the current juncture

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KEY INDICATORS – WHAT ARE WE LOOKING AT?

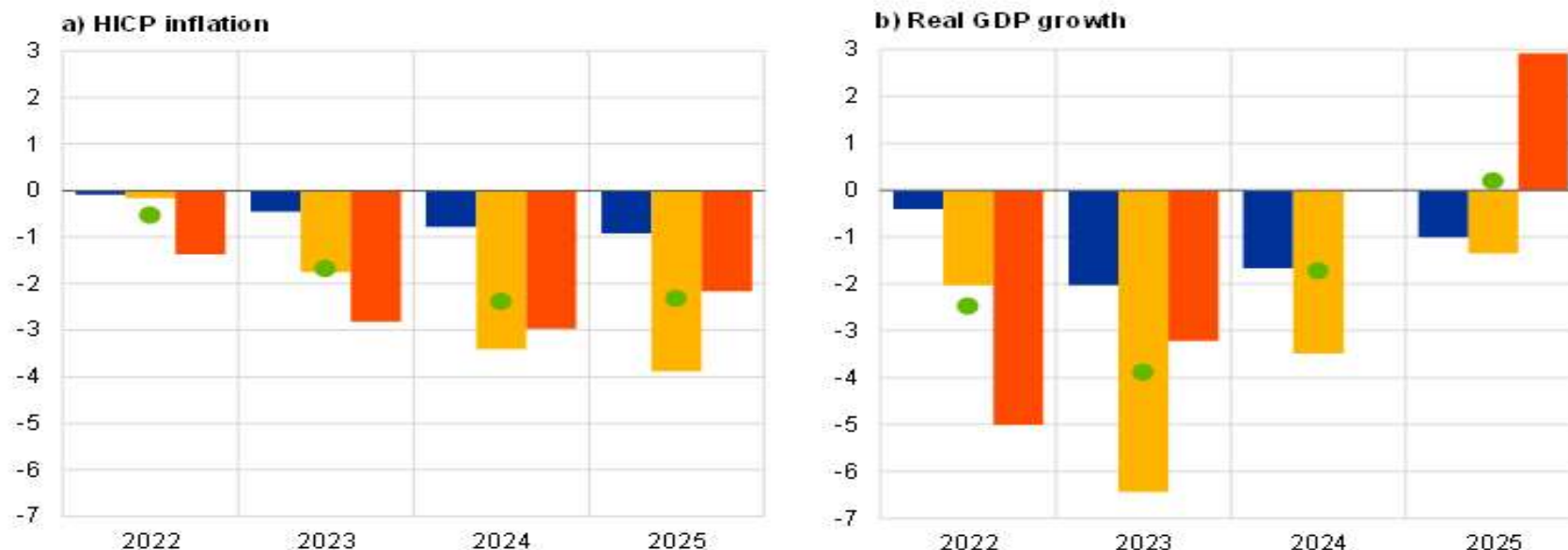
- **Economists are looking for data to corroborate model-based forecasts, with huge structural changes and dislocations to the normal patterns due to the pandemic and energy crisis**
- **Monetary policy – how does the monetary transmission work?**
 - What are the lags, has transmission changed, are there other factors at play?
- **Surveys and granularity increasingly important, but does it improve forecast accuracy? Momentum vs fundamental analysis**
- **Growth and inflation outlook**
 - Business sentiment surveys
 - EC's survey of factors limiting production
 - Data revisions
 - Bank Lending Surveys
 - Household and corporate balance sheets
 - Wage indicators
 - Real interest rates

MACROECONOMIC IMPACT OF ECB INTEREST HIKES

Impact of monetary tightening according to a suite of models

(percentage points)

- ECB-BASE
- NAWM II
- MMR
- Mean



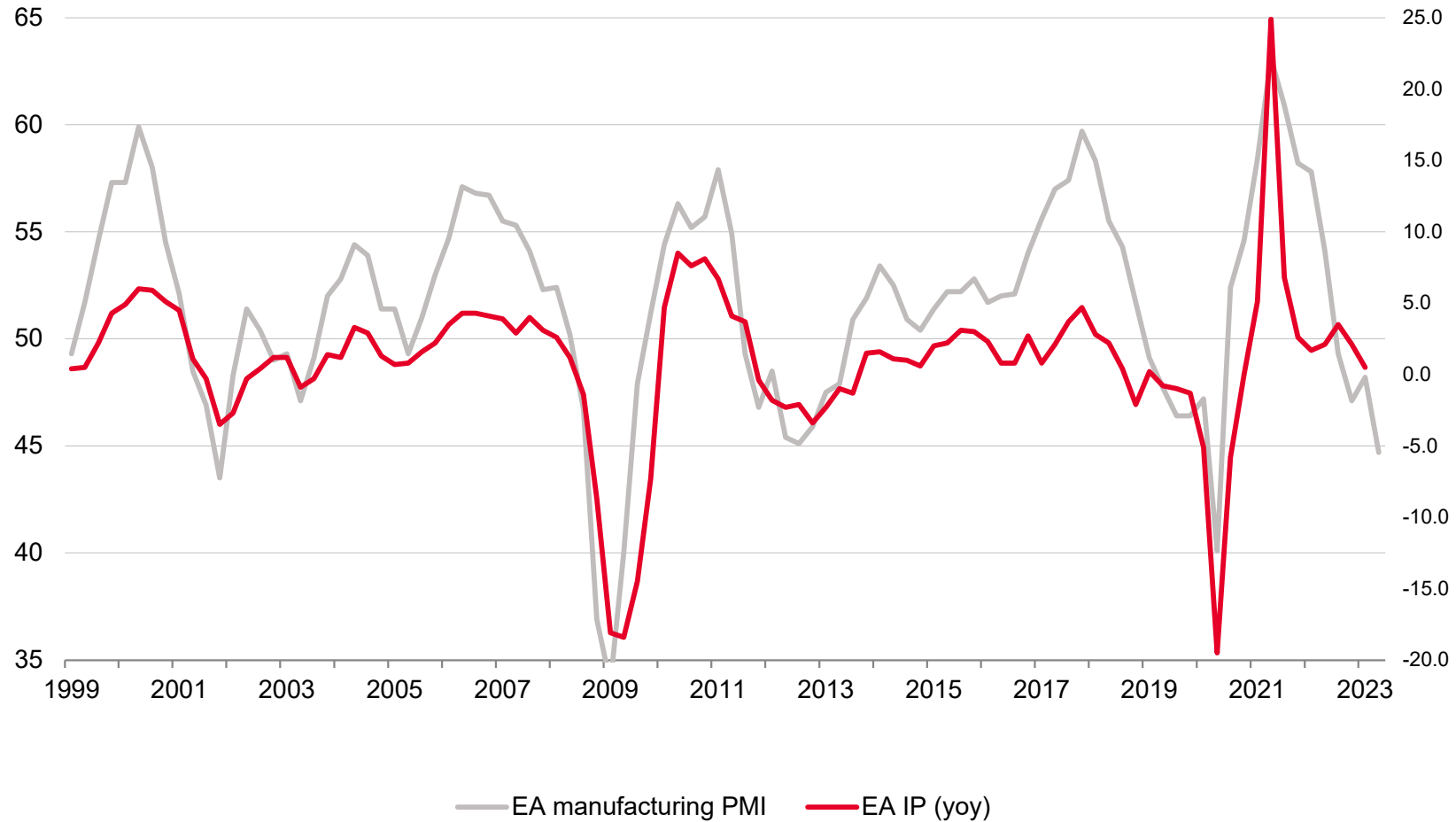
Source: ECB calculations based on the NAWM II model (see Coenen et al., op. cit.), the MMR model (see Mazelis et al., op. cit.) and the ECB-BASE model (see Angelini et al., op. cit.).

Notes: This chart reports the results of a simulation involving changes to short-term rate expectations between December 2021 and March 2023 and changes to expectations regarding the ECB's balance sheet between October 2021 and May 2023. The reported values refer to year-on-year growth rates. "Mean" denotes the average across the three models.

GROWTH AND INFLATION OUTLOOK, CAN WE TRUST THE SURVEYS?

SURVEYS NOT ALWAYS PREDICTING REAL ACTIVITY ACCURATELY

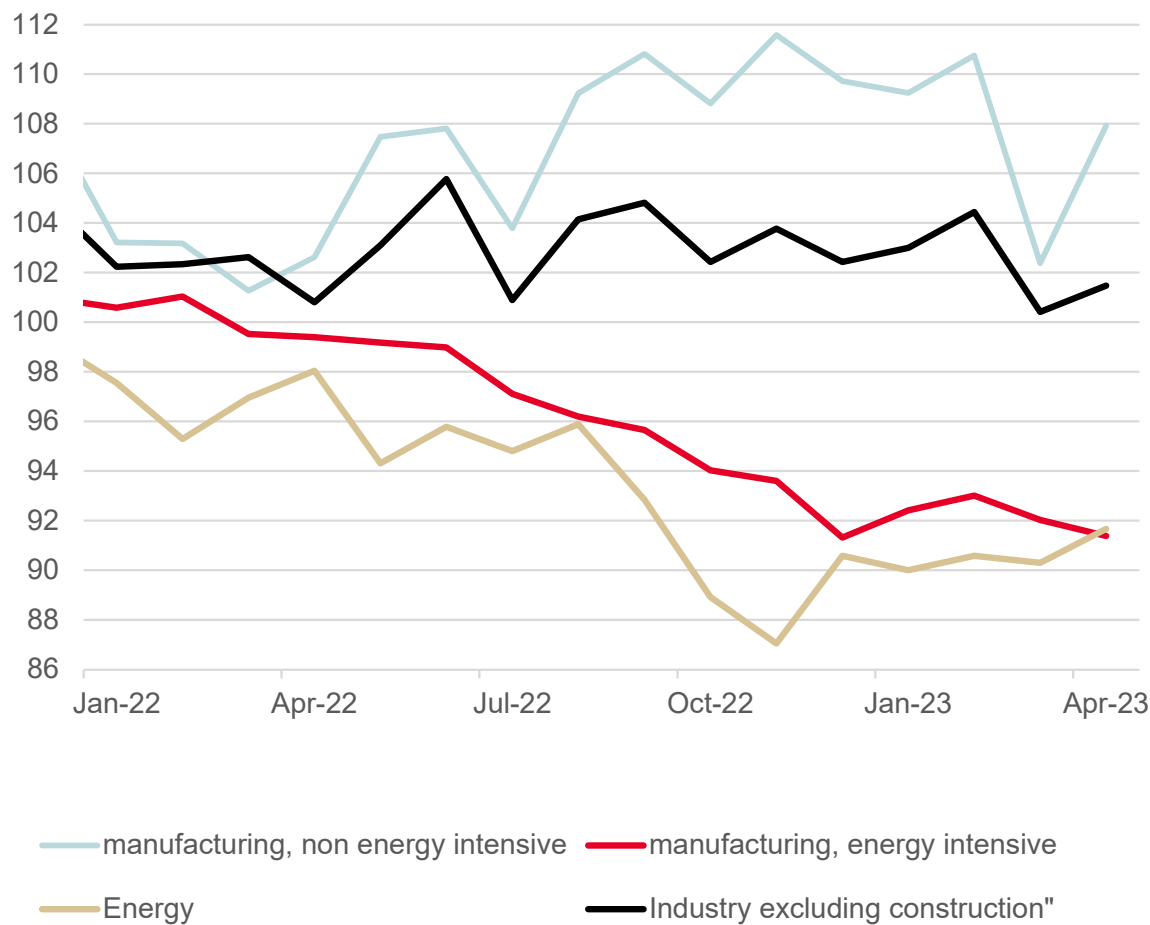
Euro area manufacturing PMI and industrial production (yoy)



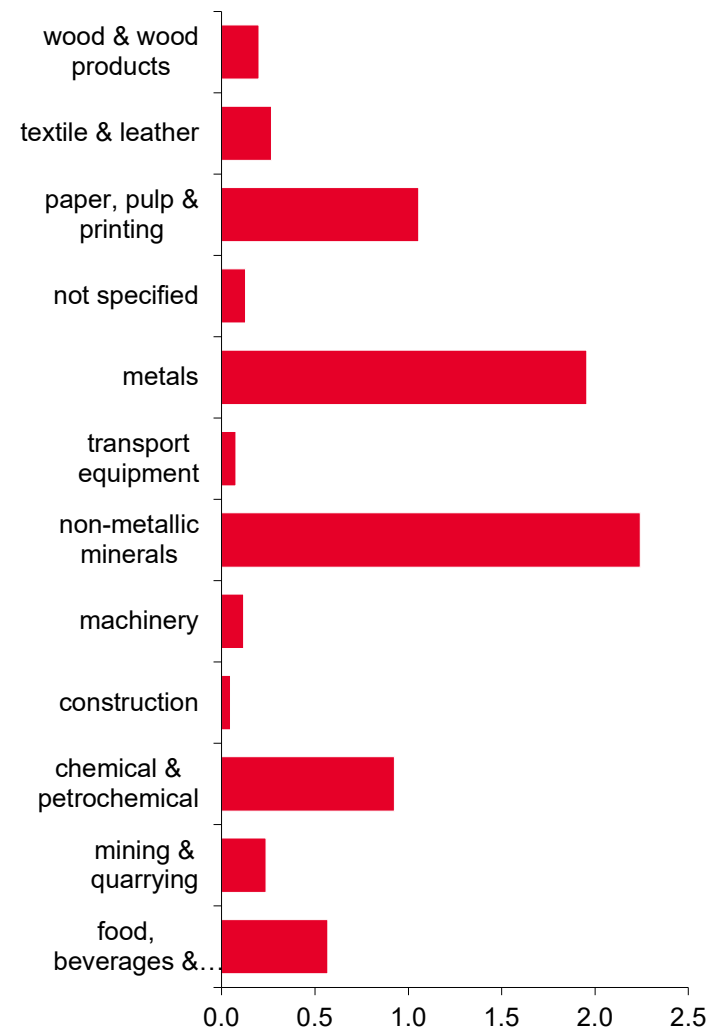
Sources: Refinitiv, Eurostat, SG Cross Asset Research/Economics

LEVELS AND GRANULARITY INCREASINGLY IMPORTANT

Euro area industrial production levels, by key sector (100=2019)



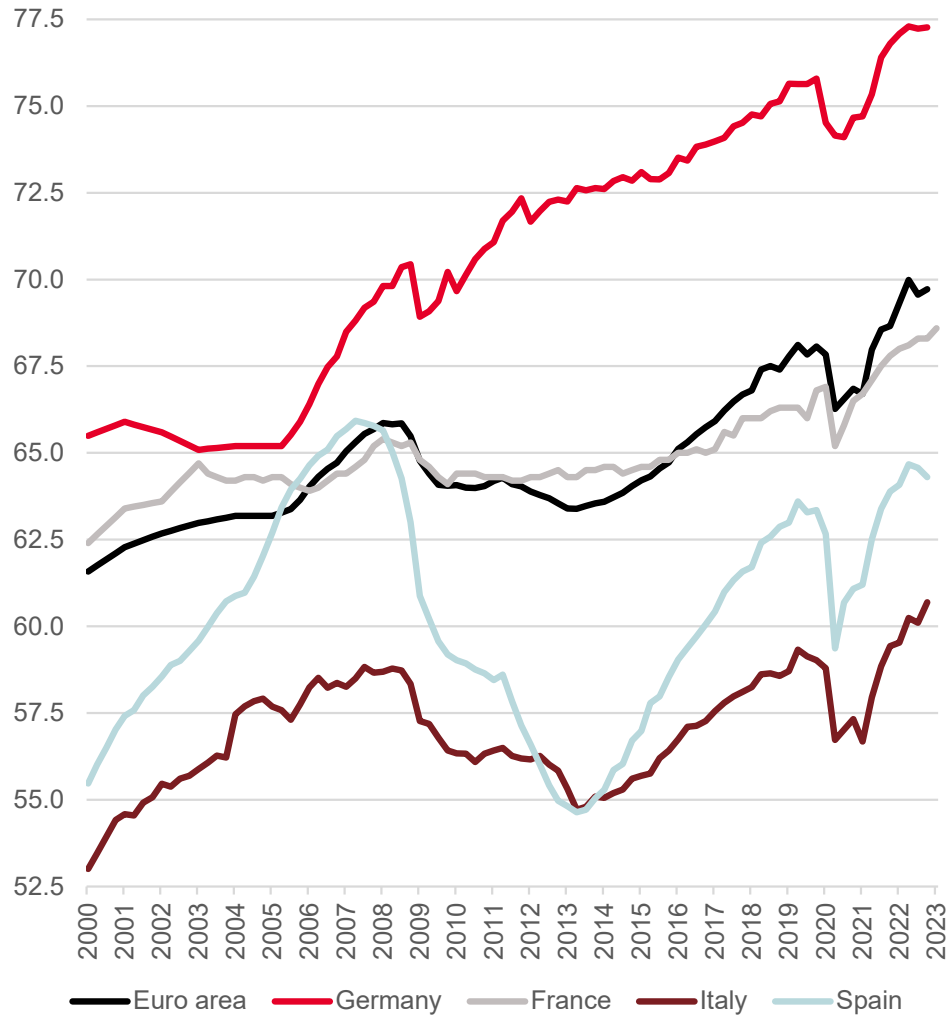
Gas intensity in 2021 - Germany, France, Italy and Spain - Gas consumption /GVA (kWh/EUR 2015)



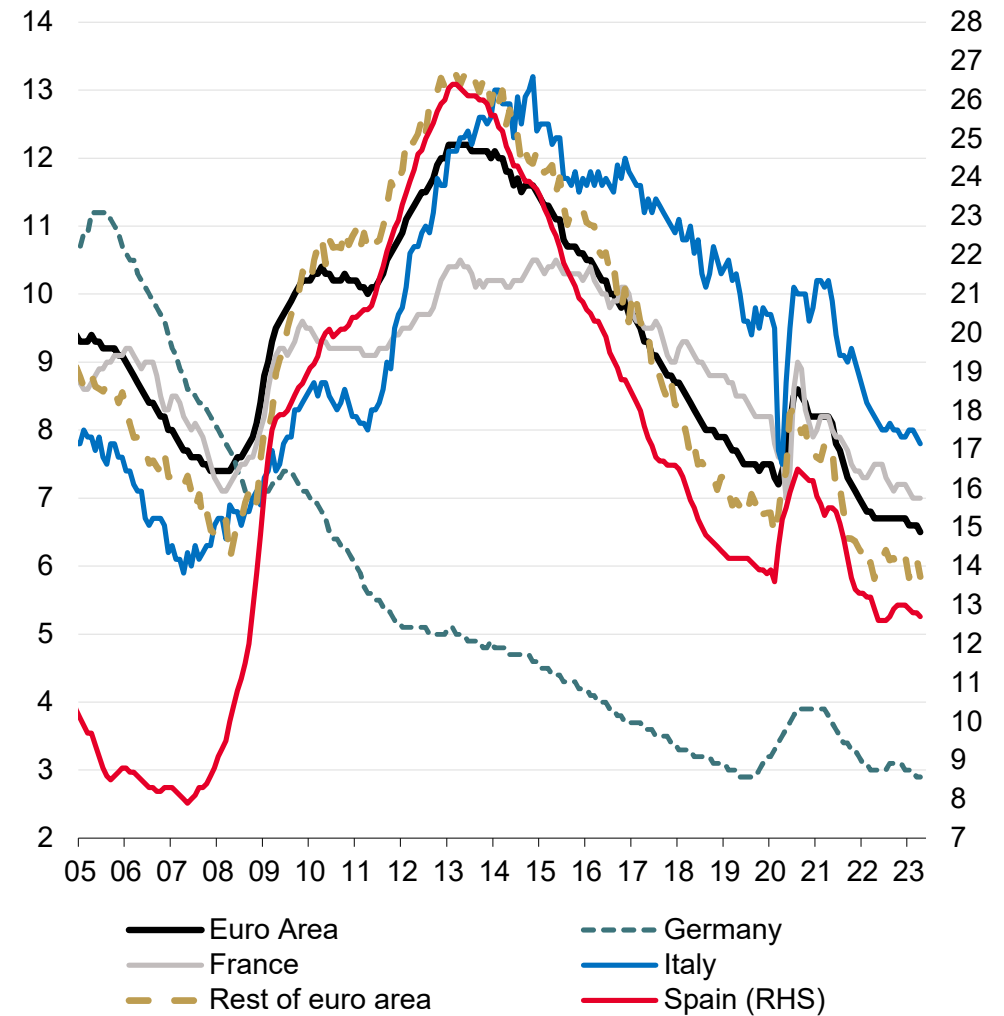
Sources: Datastream, SG Cross Asset Research/Economics

A STRANGE RECESSION WITH EMPLOYMENT RECORD HIGH, UNEMPLOYMENT LOW

Employment rate (15-64y, %)



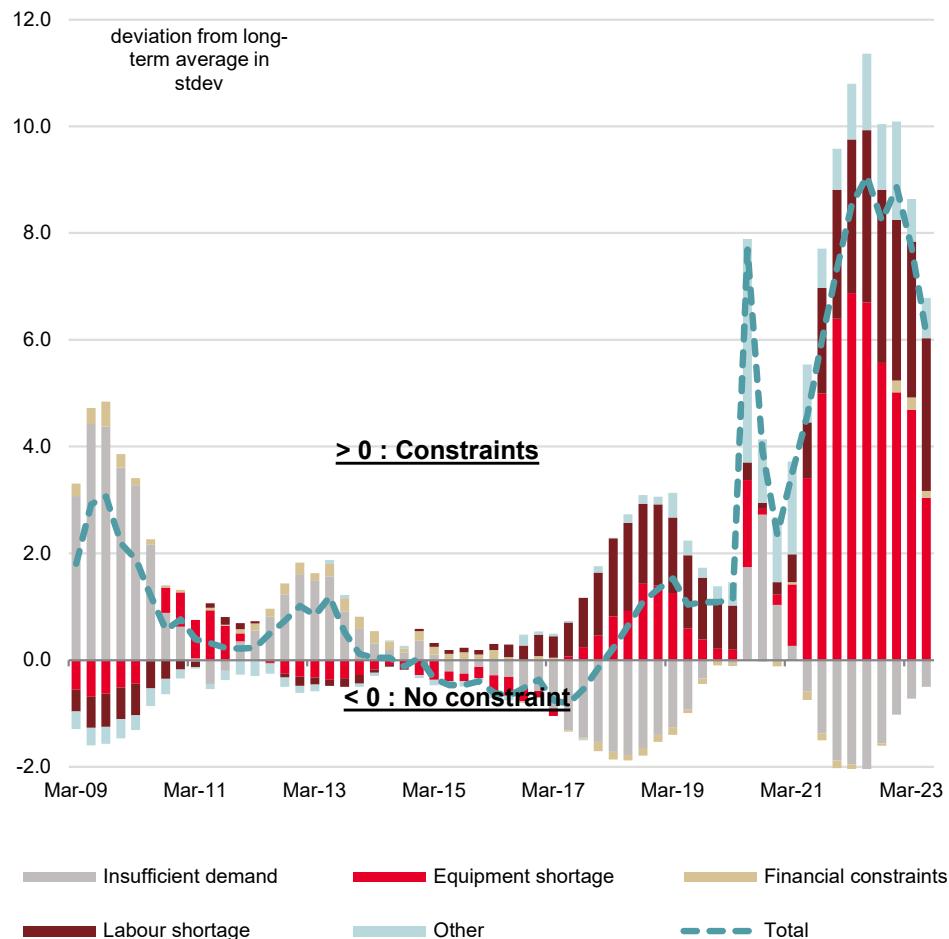
Unemployment rate (%)



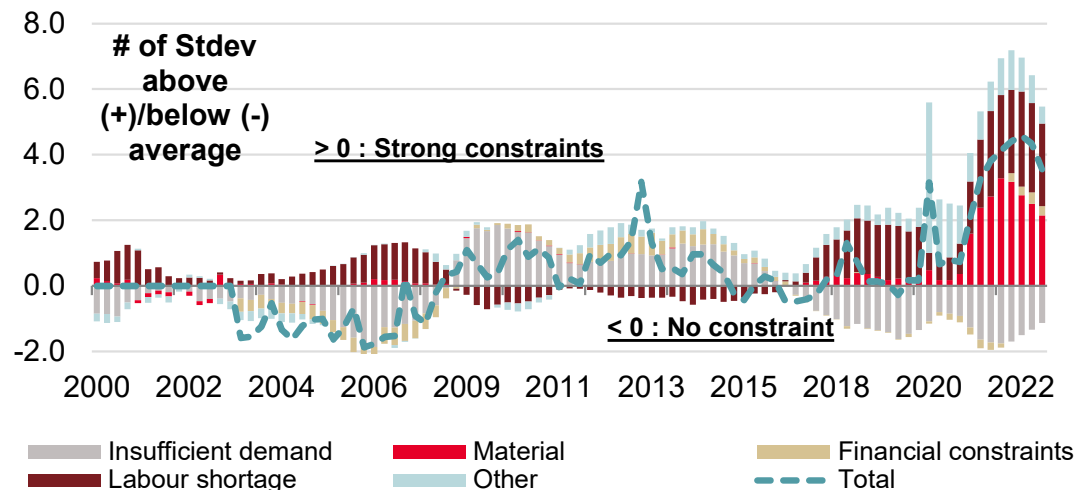
Sources: Eurostat, SG Cross Asset Research/Economics

EURO AREA – SUPPLY, NOT DEMAND, IS LIMITING PRODUCTION

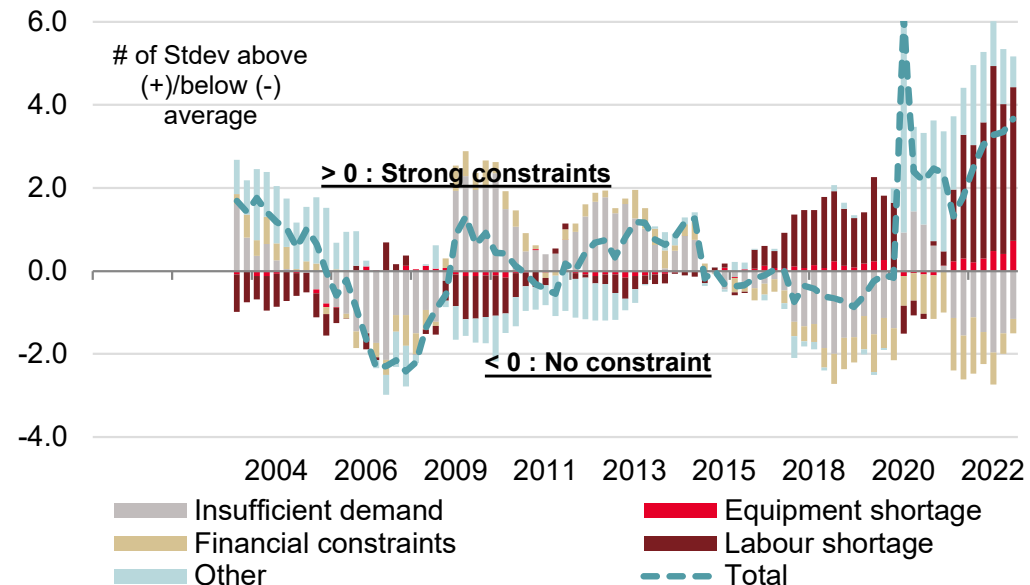
Factors limiting production - Industry



Factors limiting production - construction



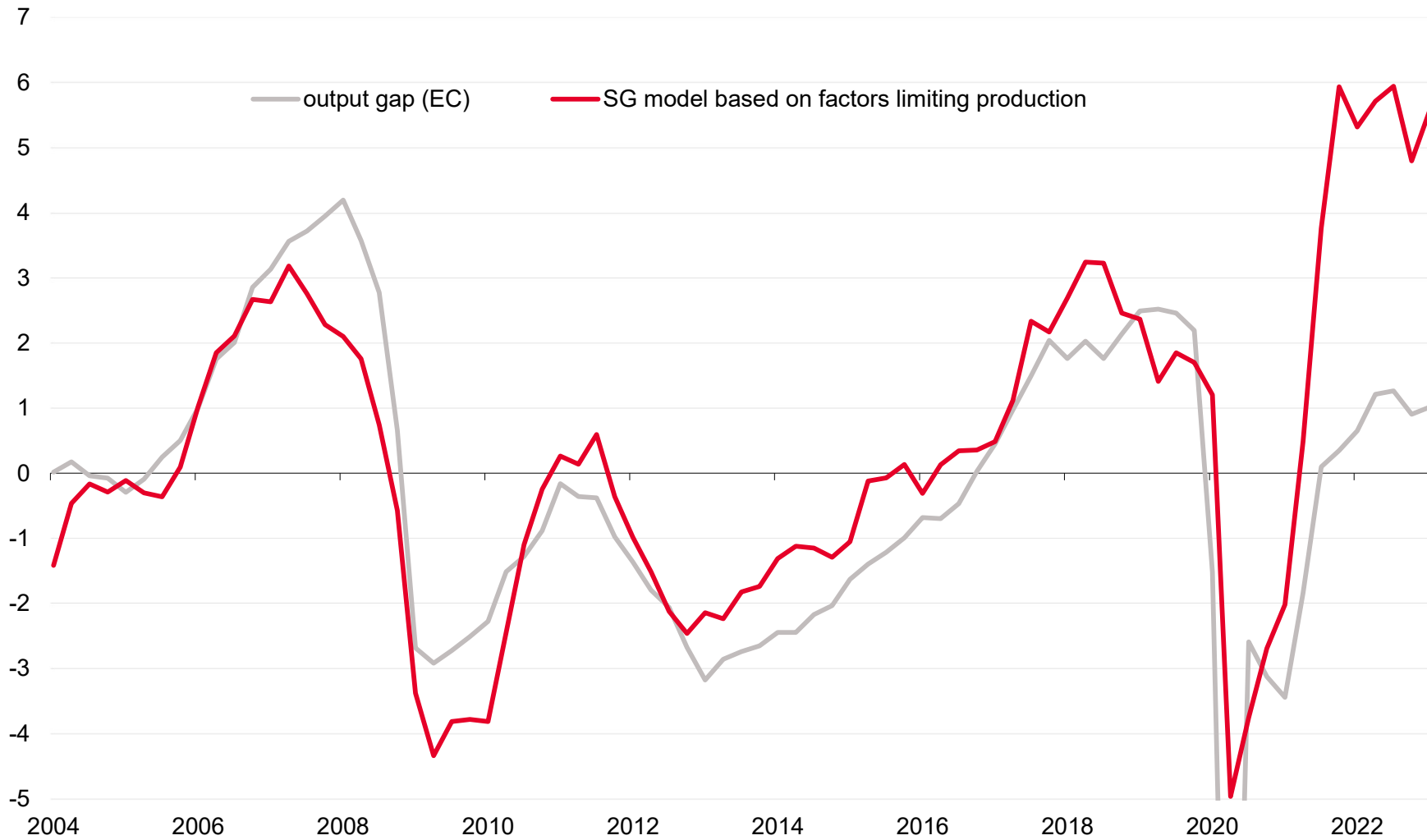
Factors limiting production - services



Source: Refinitiv, SG Cross Asset Research

OUTPUT GAP –THE EUROPEAN COMMISSION VIEW AND A SURVEYS' BASED APPROACH

Output gap (% of potential GDP)

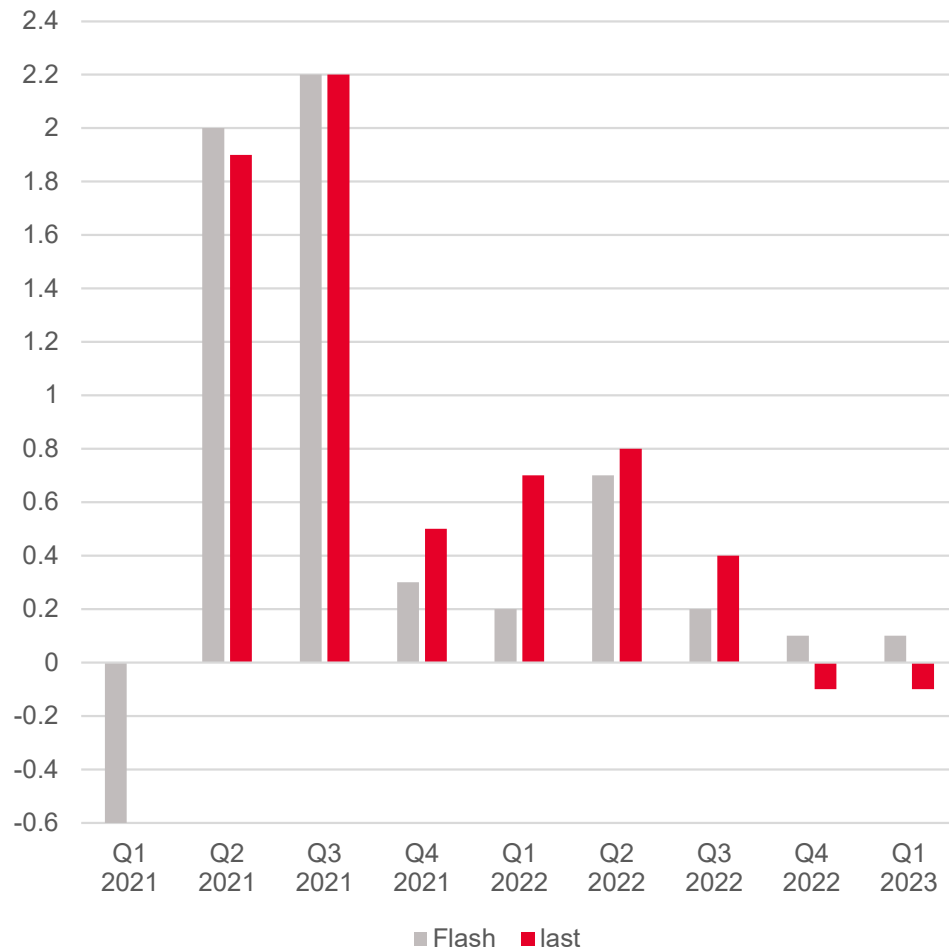


Sources: European Commission's EPC Working Group on Output Gaps. SG Cross Asset Research/Economics

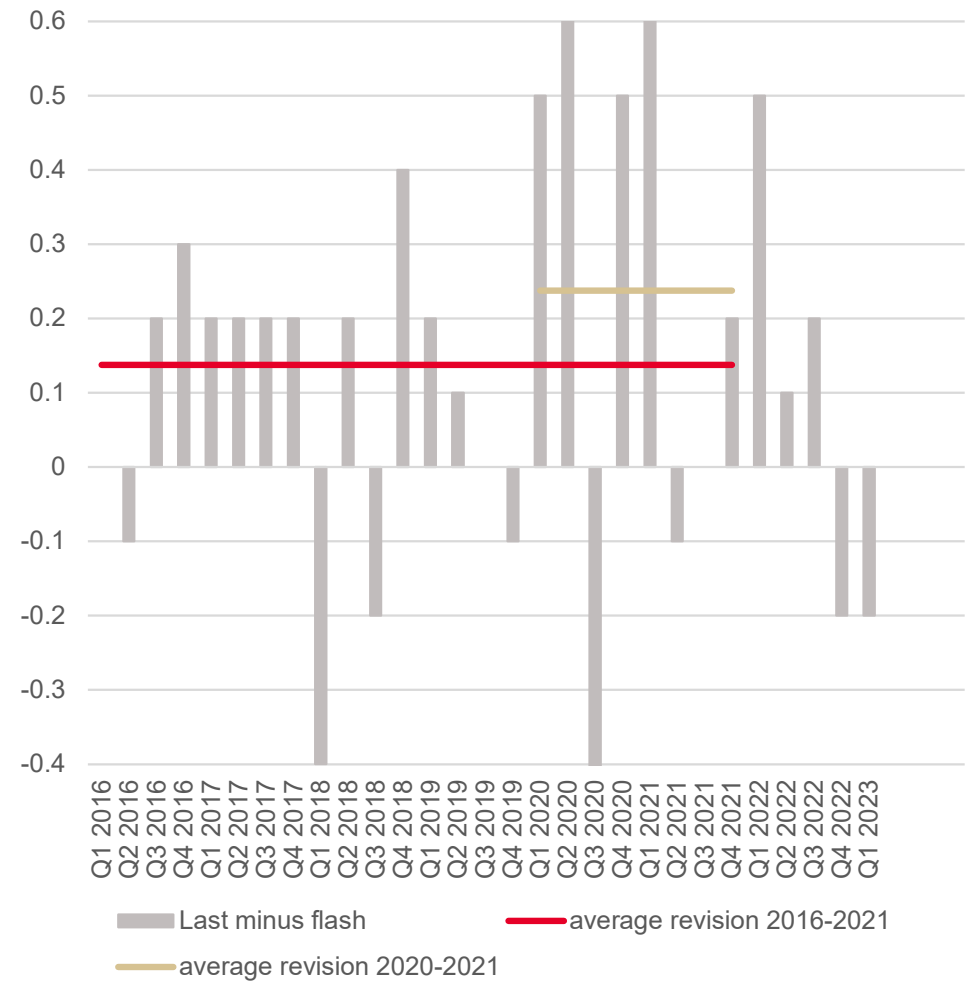
R square adjusted = 0.80 (until 2019)

DATA REVISIONS ALSO WORTH MONITORING

GDP growth, %, qoq, flash and latest estimate



GDP growth, %, qoq, quarterly revision

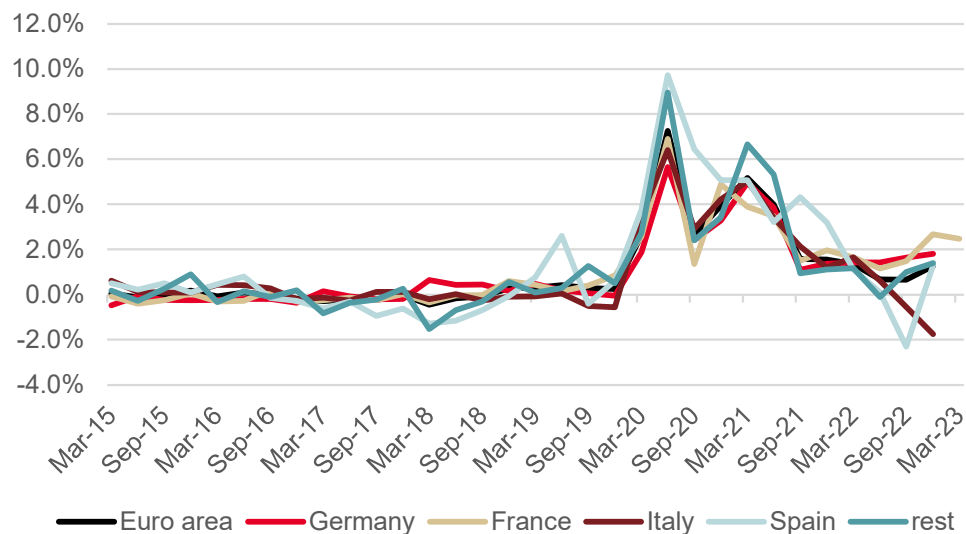


Source: Refinitiv, SG Cross Asset Research/Economics

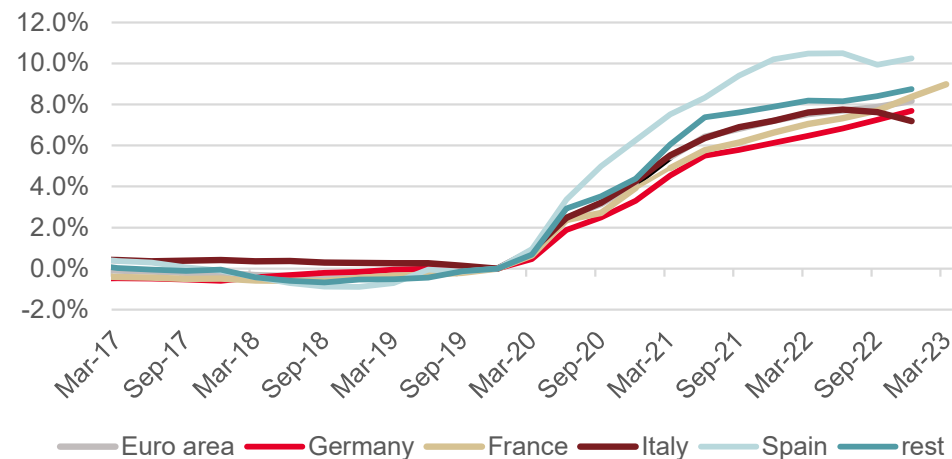
OTHER FACTORS THAT IMPACT ON POLICY TRANSMISSION

HOUSEHOLDS HAVE ACCUMULATED SUBSTANTIAL EXCESS SAVINGS

Excess savings vs 2015-2019 average (pp of quarterly trend GDP)



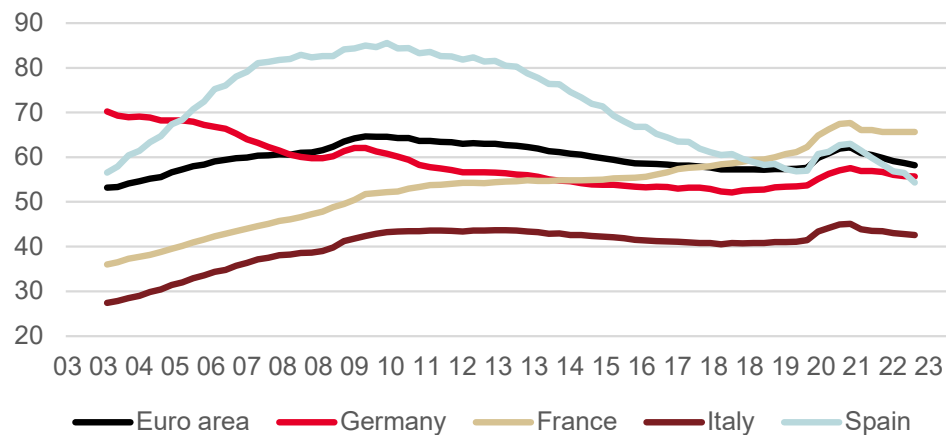
Cumulated excess savings since 2015 (pp of annual trend GDP)



Estimates of excess household savings accumulated during the pandemic (4Q22, *1Q22)

	Absolute (EURbn)	% of annual GDP
Euro area	1081	8.2
Germany	294	7.7
France*	239	9.0
Italy	134	7.2
Spain	142	10.3

Household gross debt, % of GDP

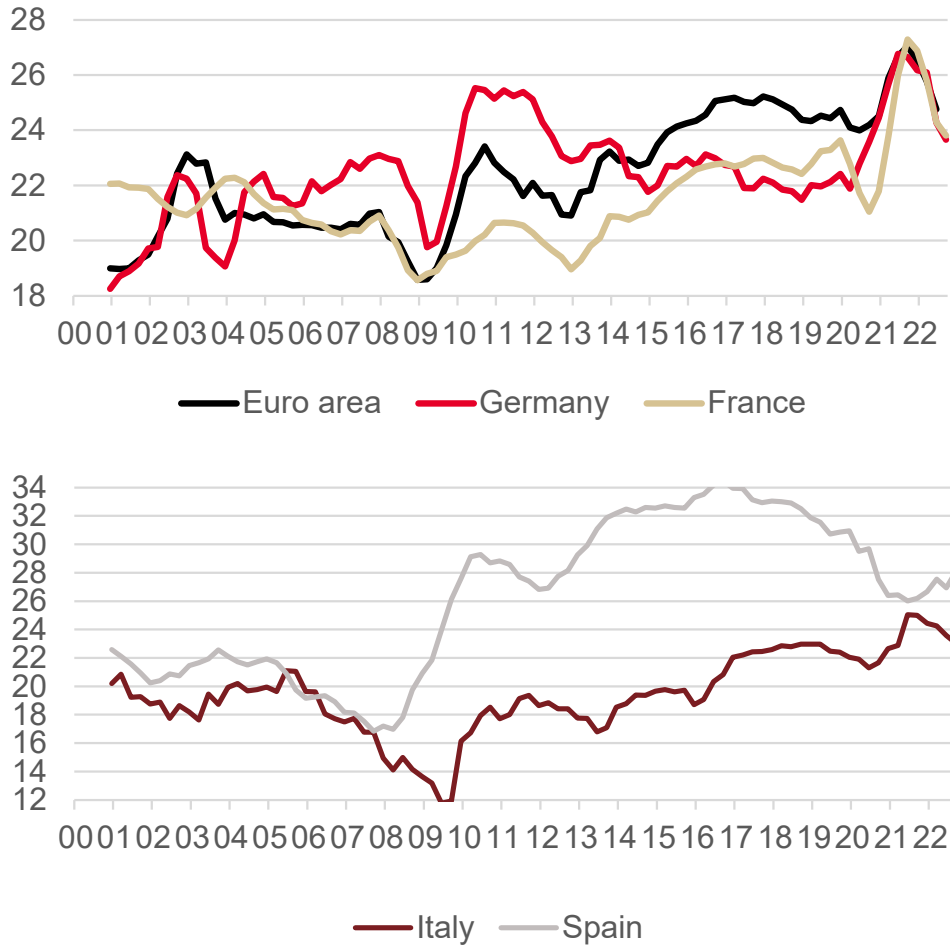


Source: National sources, Eurostat, Refinitiv, SG Cross Asset Research/Economics estimates

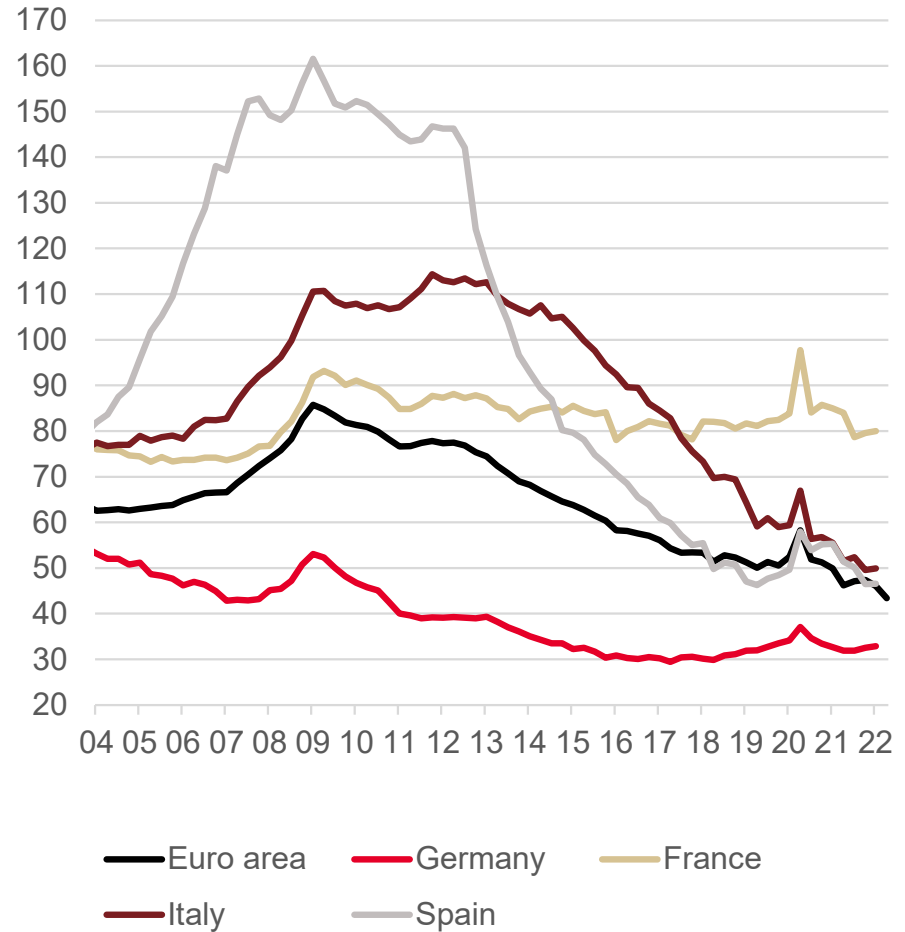
Source: Refinitiv, SG Cross Asset Research/Economics

RESILIENT NFCs: HIGH PROFIT MARGINS AND SOLID BALANCE SHEETS

**Non-financial corporations, gross savings = profits net of taxes and debt service cost
(% of gross value added, 4Q mov)**



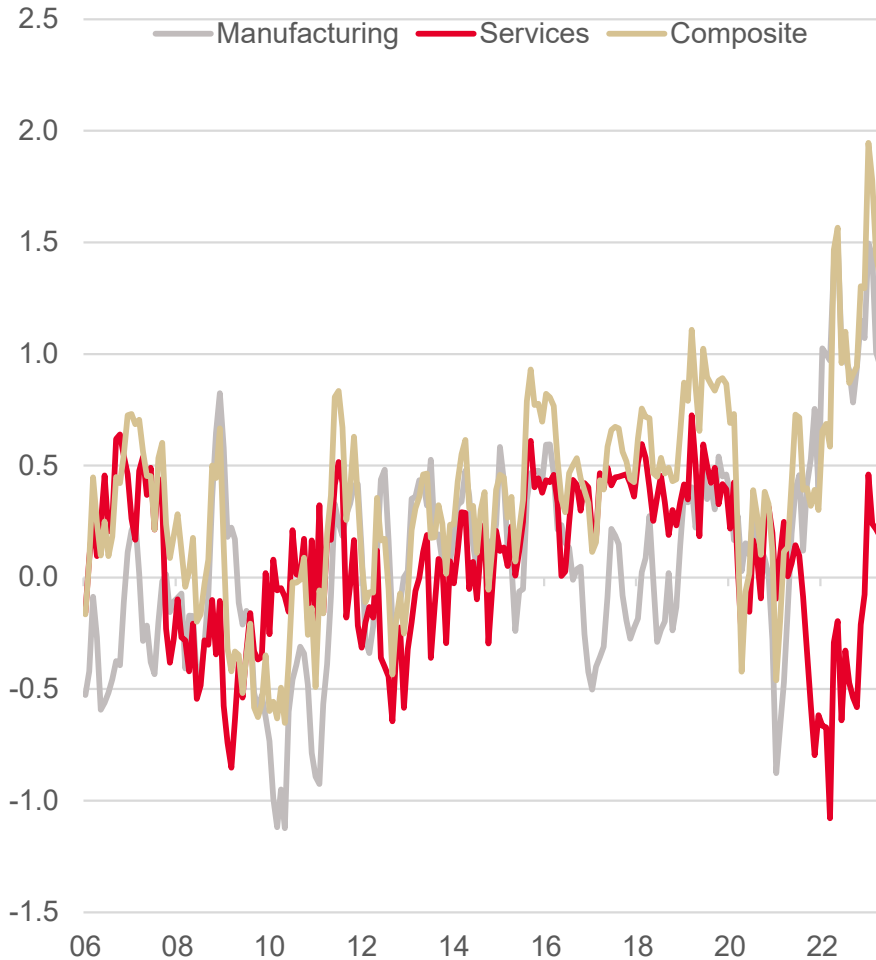
Non financial corporations, net debt ratios (gross debt - cash), % of gross value added



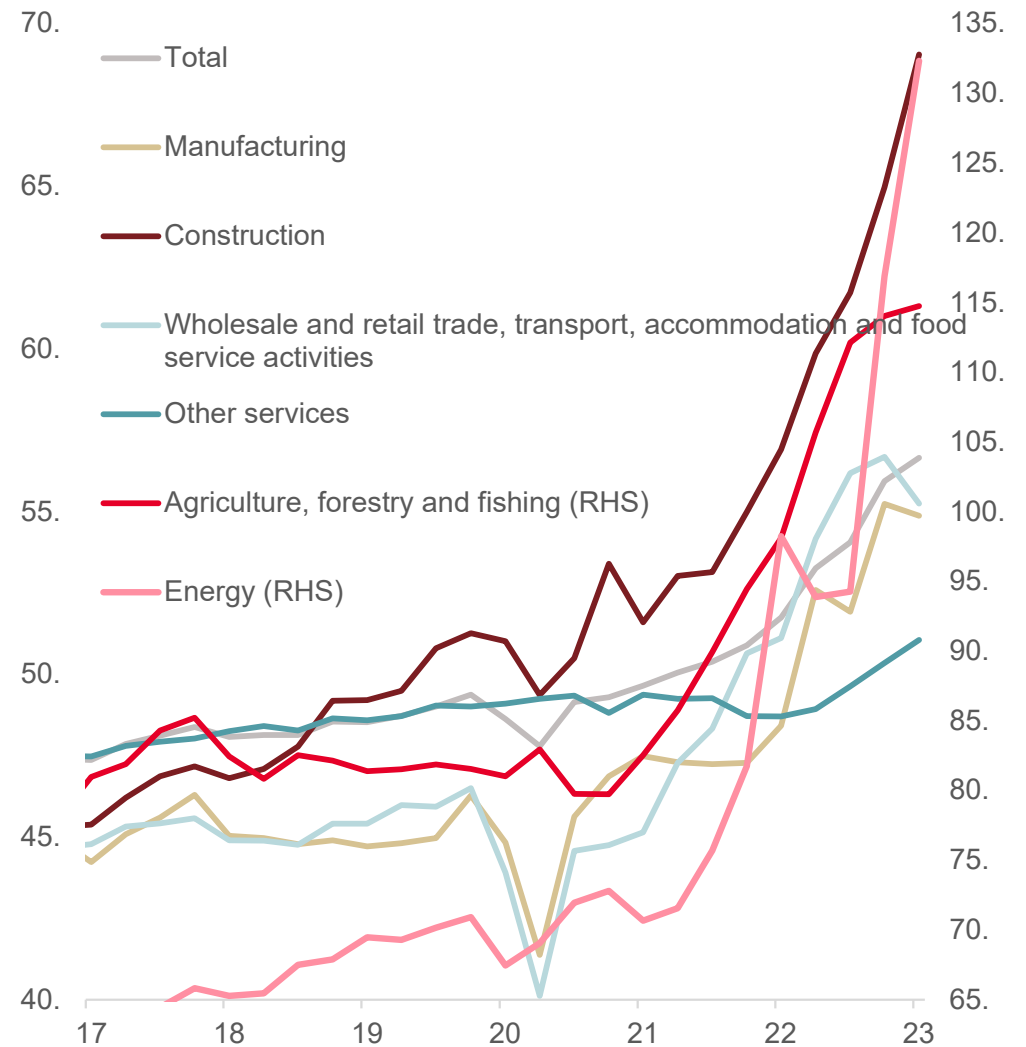
Source: Eurostat, Datastream, SG Cross Asset Research/Economics

FIRMS' PRICING POWER AND PROFIT PER UNIT SEEM STRONG

PMI: Output-input prices (standardised)



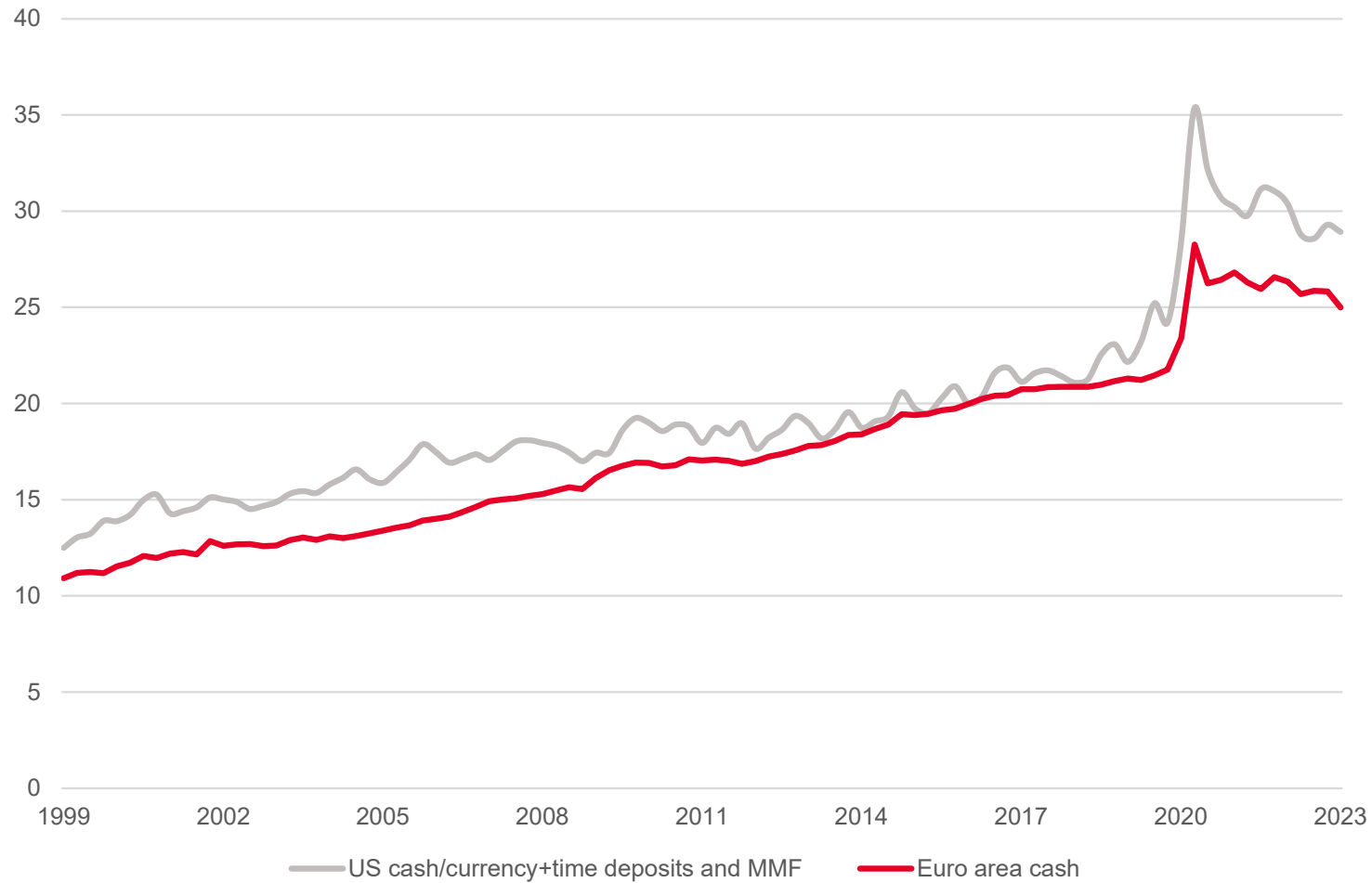
Profit per unit by main branch
(Gross operating surplus/ value added in volume 2015, %)



Source: Eurostat, Datastream, Markit PMI, SG Cross Asset Research/Economics

RESILIENT NFCS – LARGE CASH BUFFERS

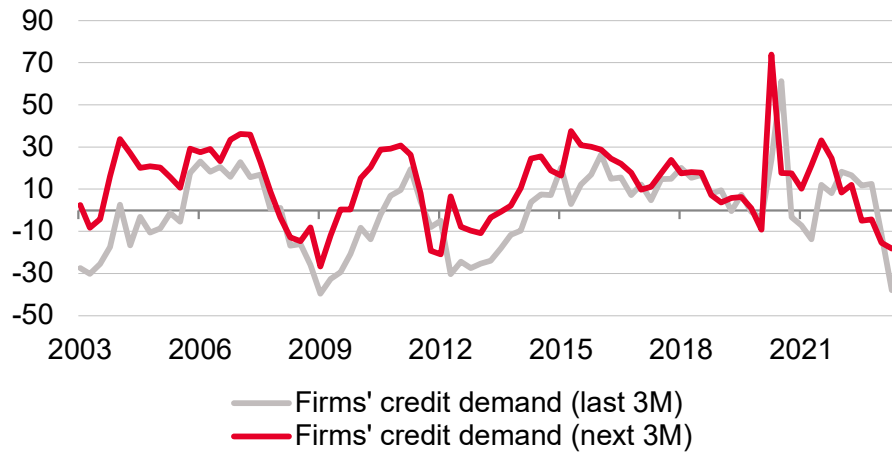
Non financial corporations, cash ratios % of GDP



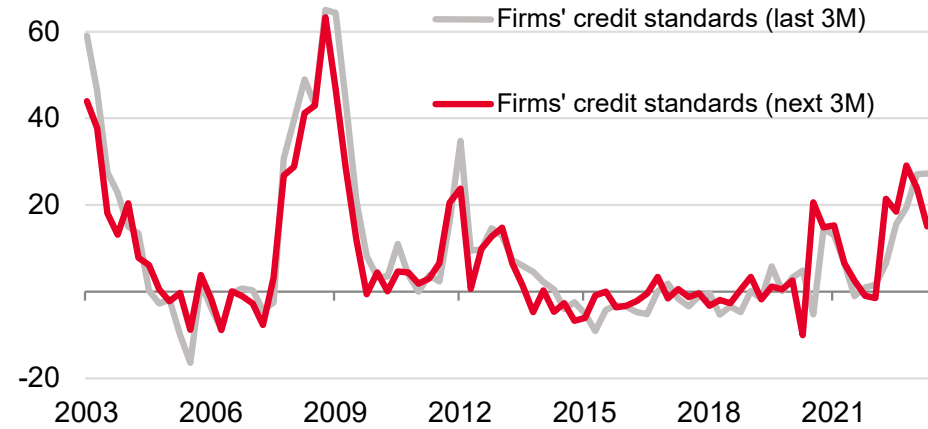
Source: Refinitiv, Datastream, SG Cross Asset Research/Economics

APRIL ECB BANK LENDING SURVEY SHOWS SIGNS OF CREDIT TIGHTENING AND FALLING DEMAND, IN PARTICULAR IN THE HOUSING SECTOR

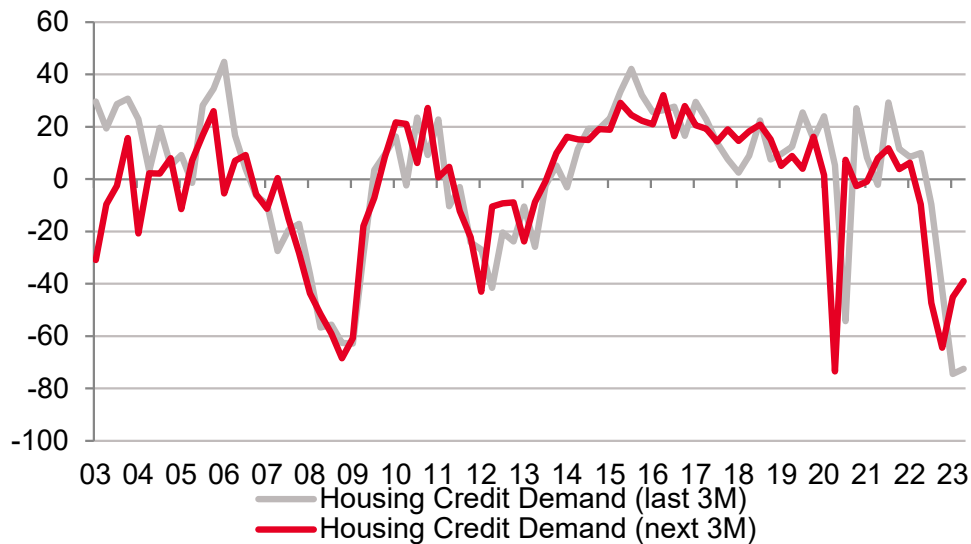
Firms' credit demand - net percentage



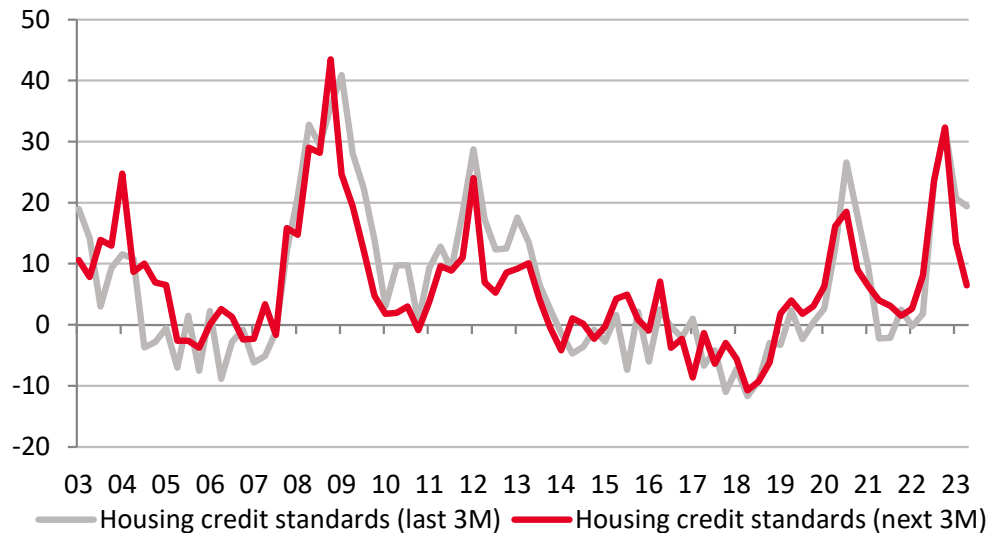
Credit standards for firms - Net percentage



Housing demand - Net percentage



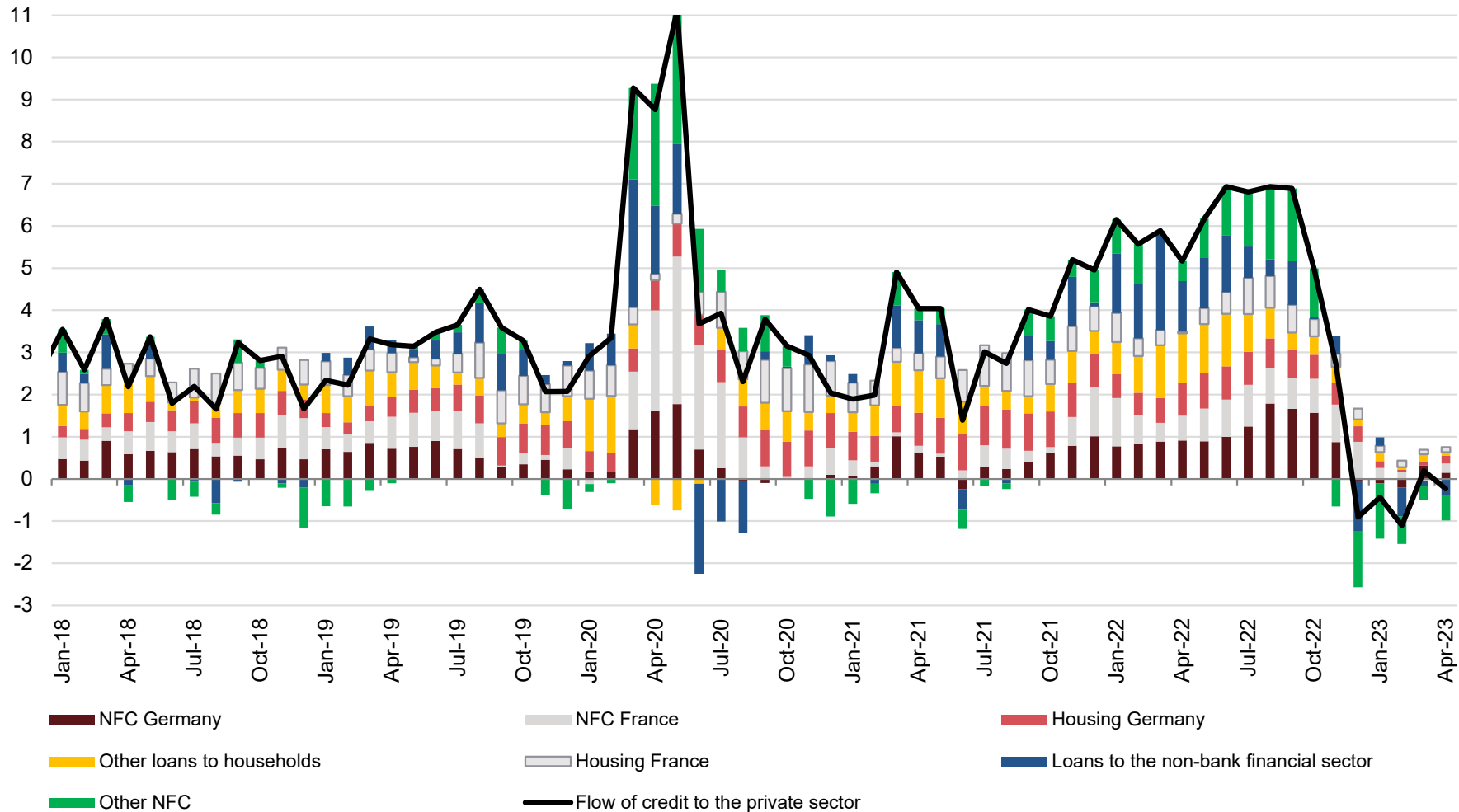
Housing credit standard – Net percentage



Source: Datastream, SG Cross Asset Research/Economics

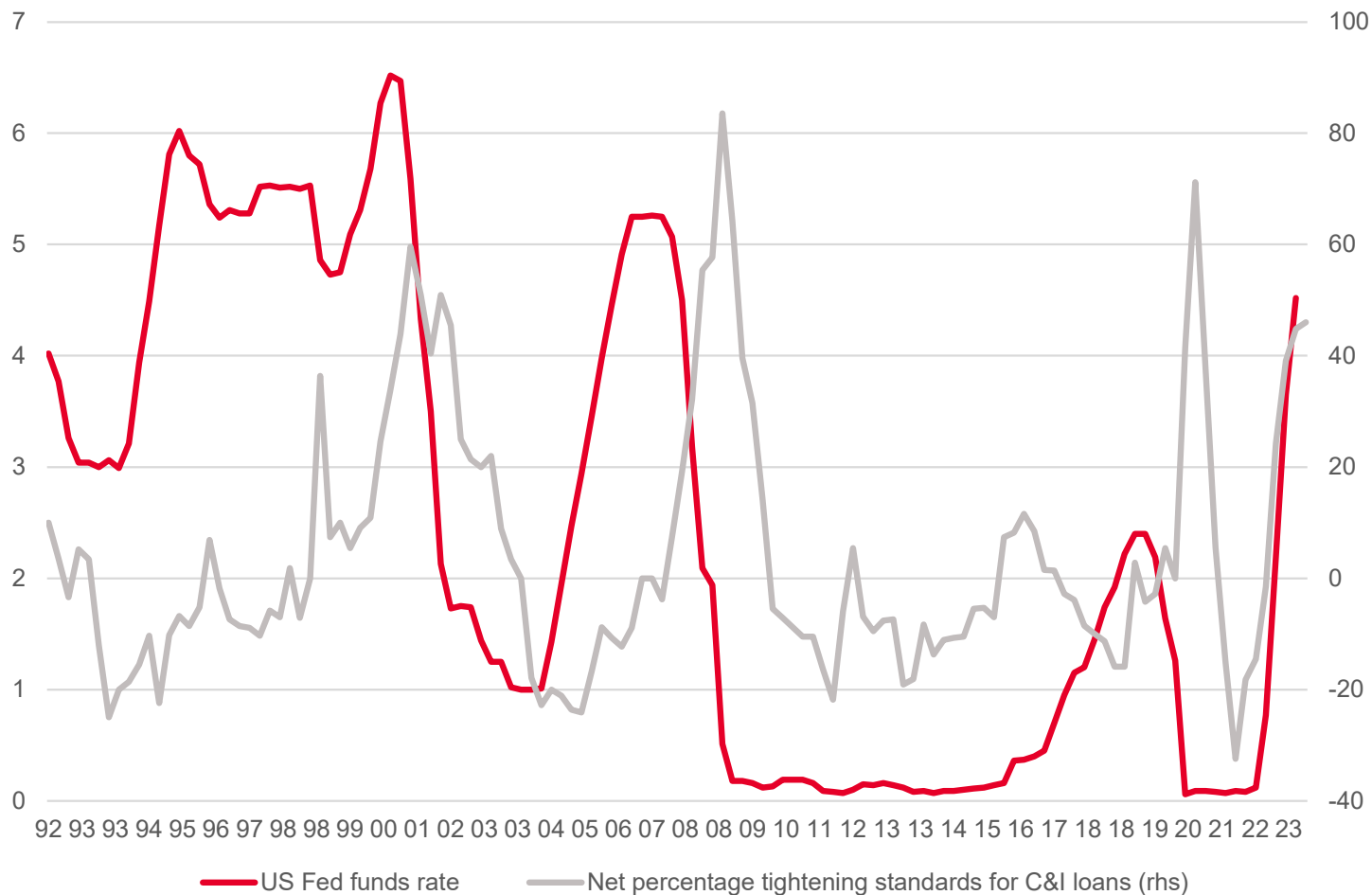
CREDIT FLOW WAS ALREADY NEGATIVE, EVEN BEFORE THE MARCH BANKING TURMOIL

Flow of loans to the private sector (3m sum, % of GDP)



Sources: Eurostat, ECB, Bloomberg, Refinitiv, SG Cross Asset Research/Economics

SURVEYS POINT TO SIGNIFICANT CREDIT TIGHTENING – EARLIER THAN USUAL IN THE CYCLE

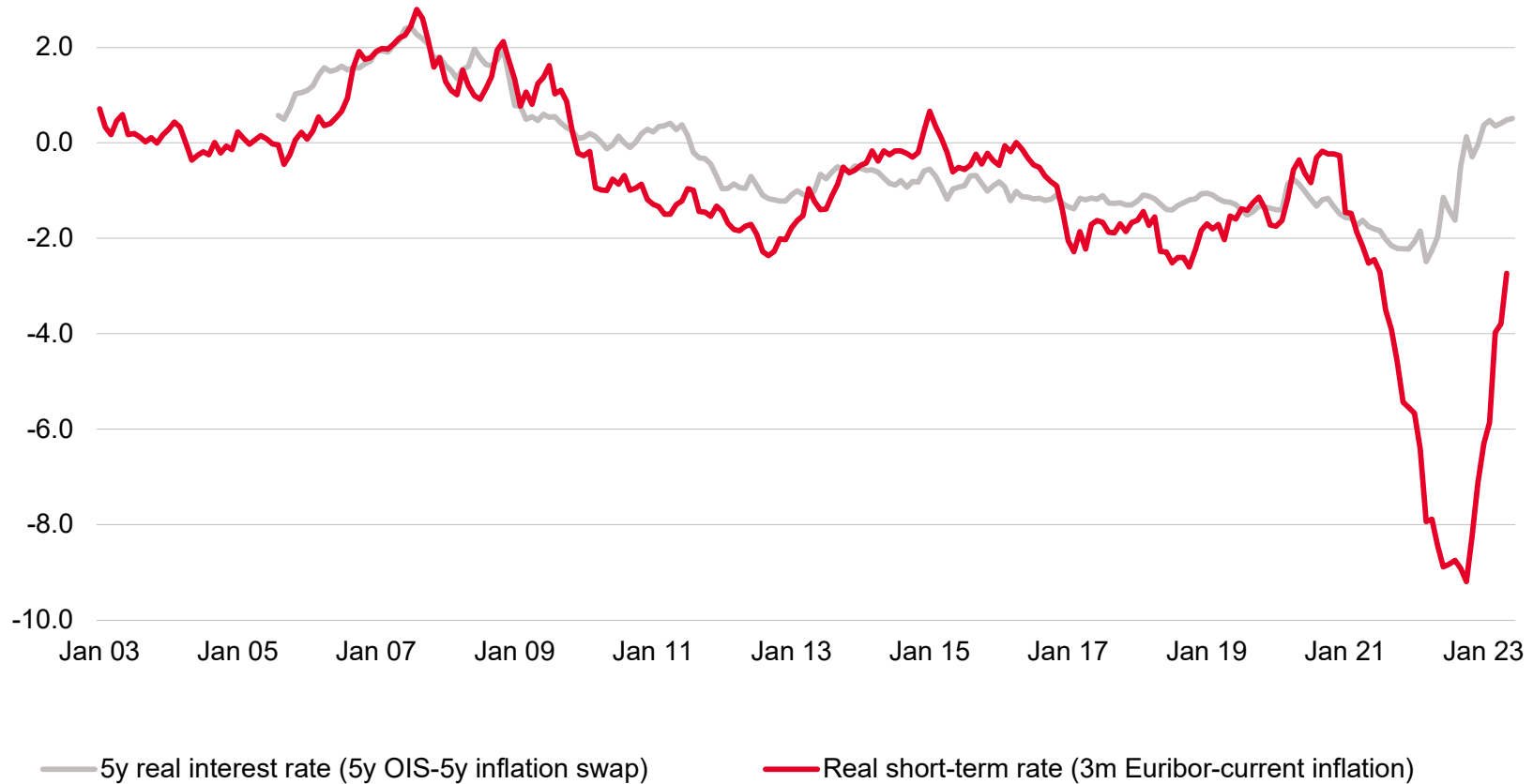


Source: Refinitiv, Datastream, SG Cross Asset Research/Economics

KEY INDICATORS FOR MONETARY POLICY

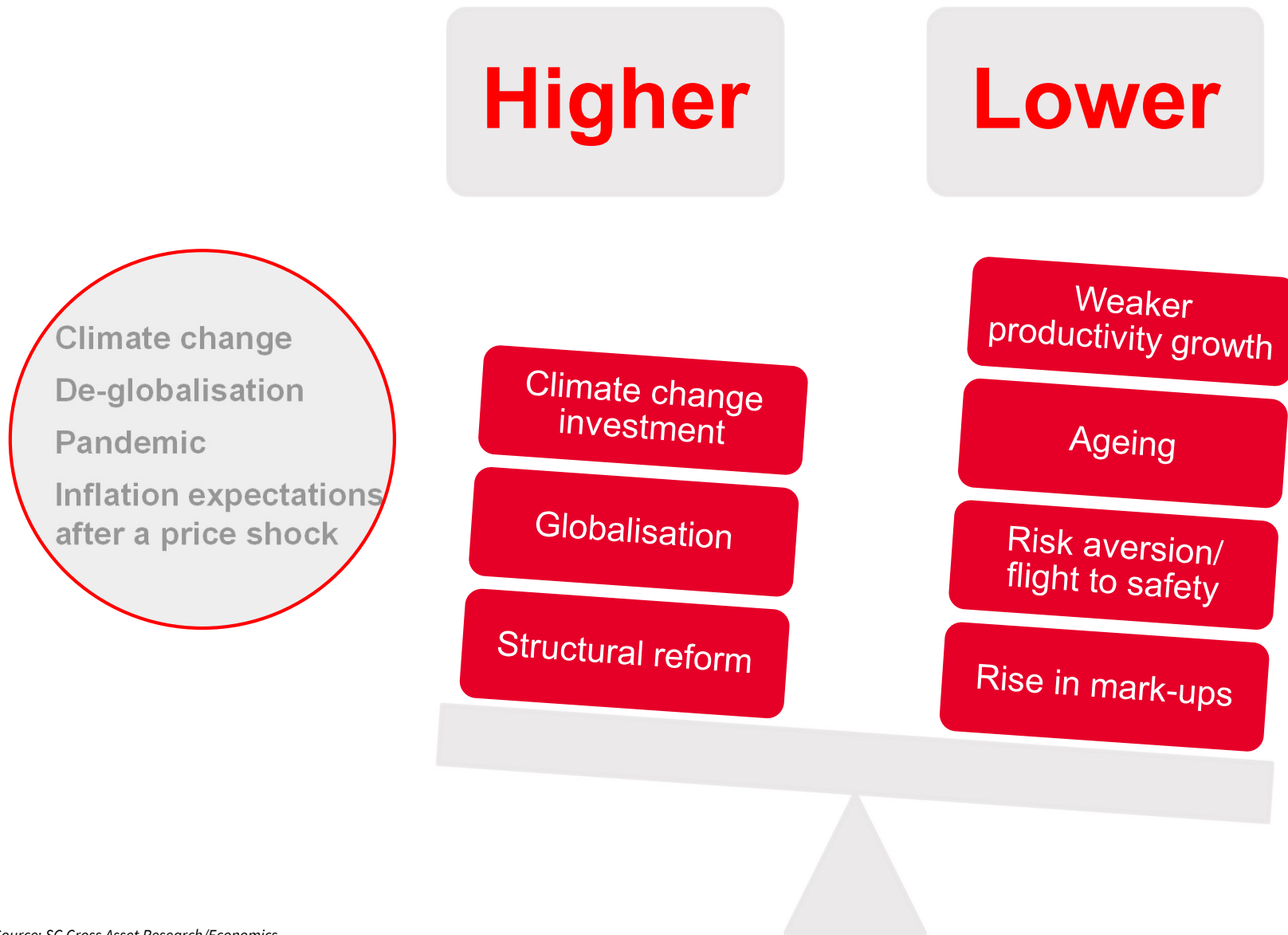
ECB – REAL INTEREST RATES ARE UP BUT STILL LOW

Real interest rates (%)



Sources: Refinitiv, Bloomberg, SG Cross Asset Research/Economics

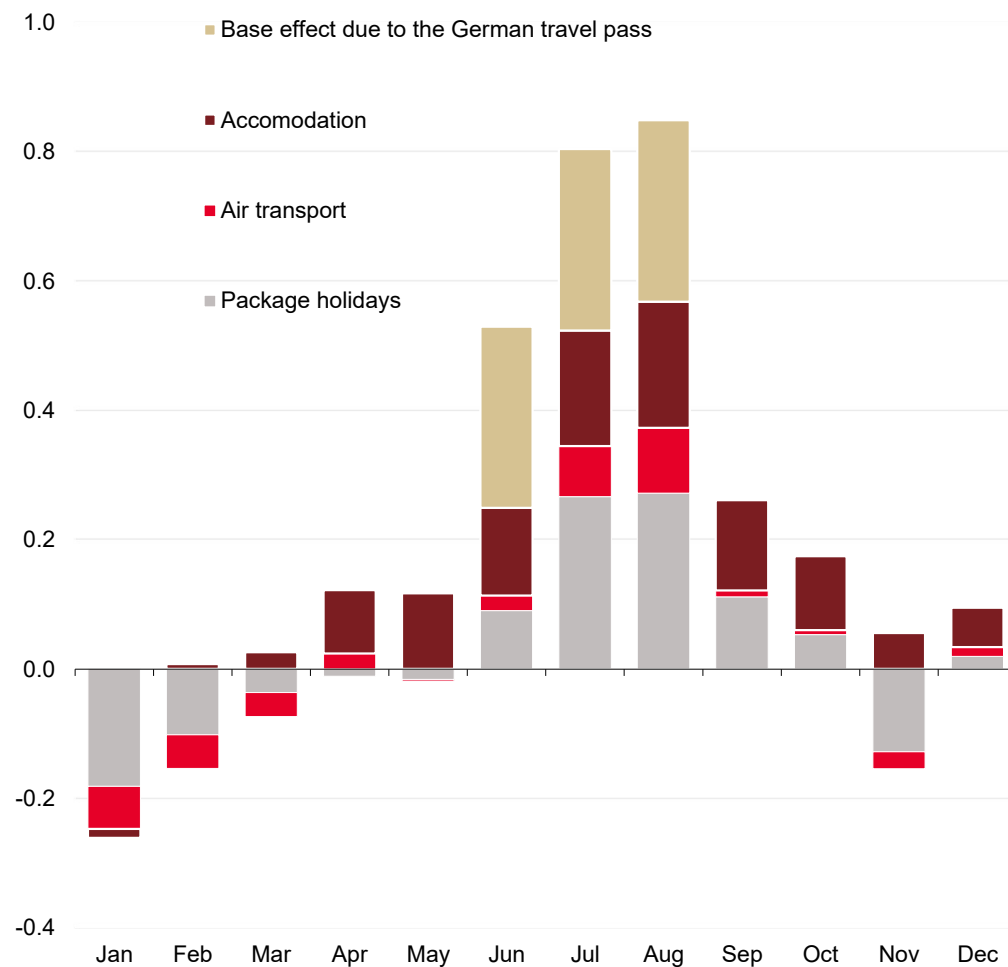
A NEW INFLATION REGIME LIKELY BUT HAS THE NATURAL RATE SHIFTED? WE STICK TO A NEUTRAL RATE OF 1.5%



Source: SG Cross Asset Research/Economics

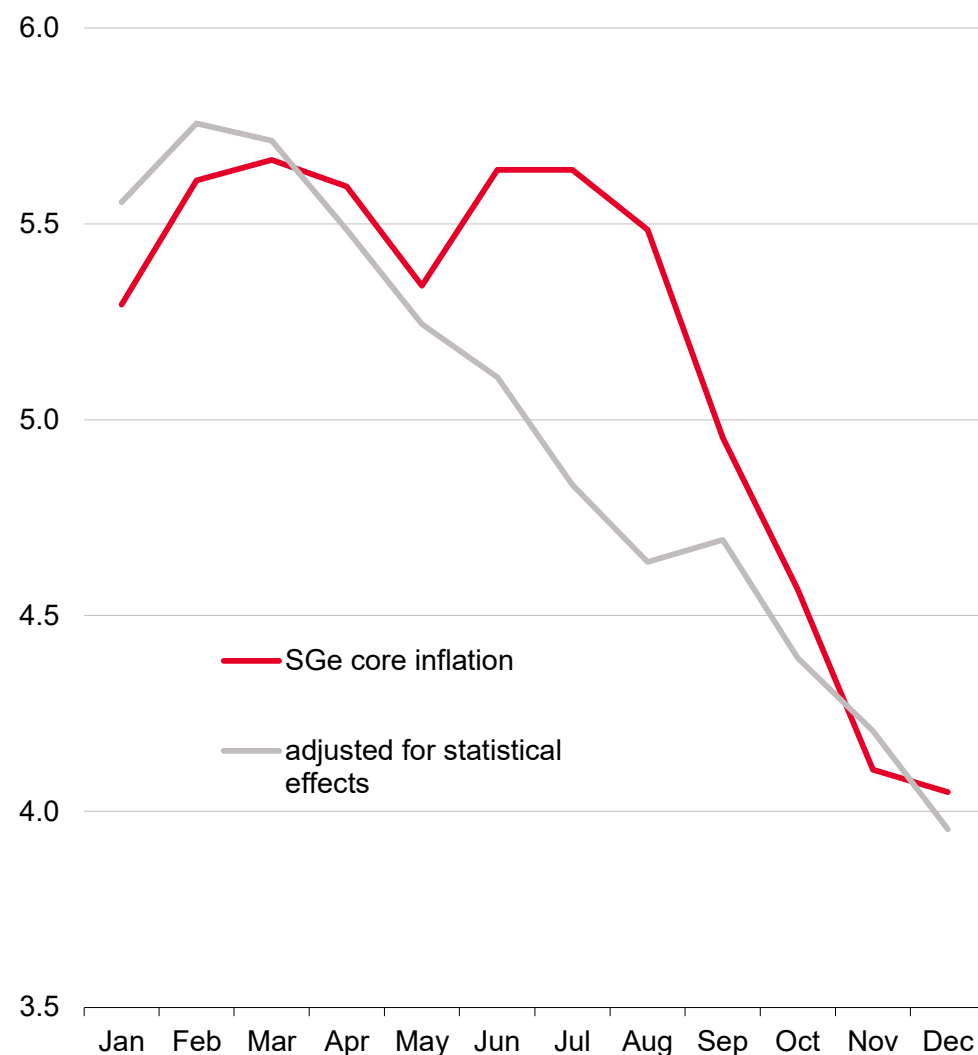
STATISTICAL EFFECTS MAKE IT DIFFICULT FOR CORE TO FALL BELOW 5% BEFORE SEPTEMBER

Impact (pp) of the basket reweighting and base effect of the German travel pass on euro area core (% yoy)



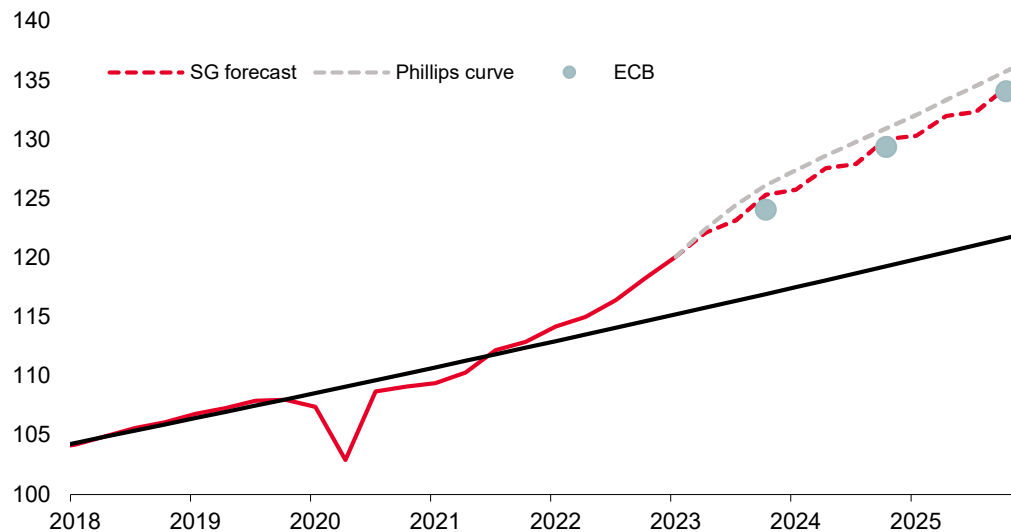
Sources: Eurostat, ECB, SG Cross Asset Research/Economics

Euro area core inflation in 2023 (% yoy) adjusted for basket reweighting and German travel pass base effect

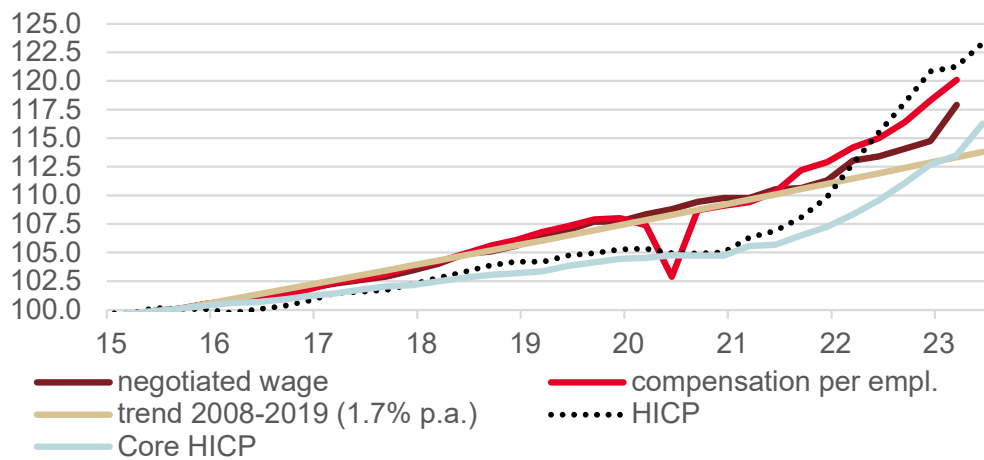


EURO AREA WAGE PICTURE CATCHING UP

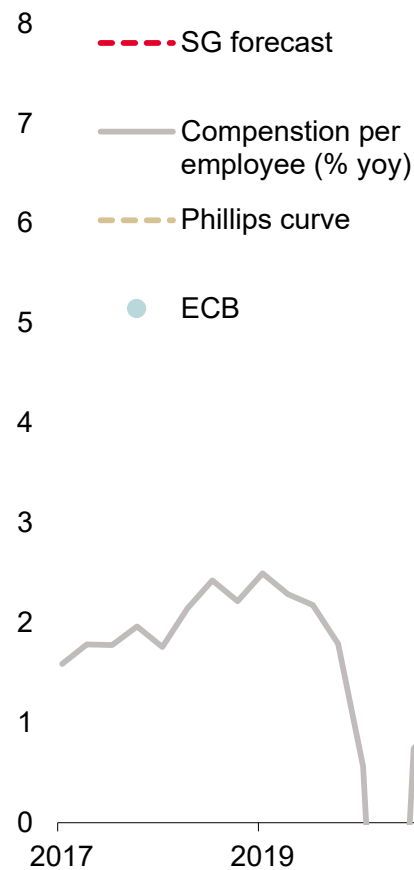
Euro area compensation per employee (index, s.a.)



Wage and HICP levels, 2015=100



Compensation per employee, %, yoy

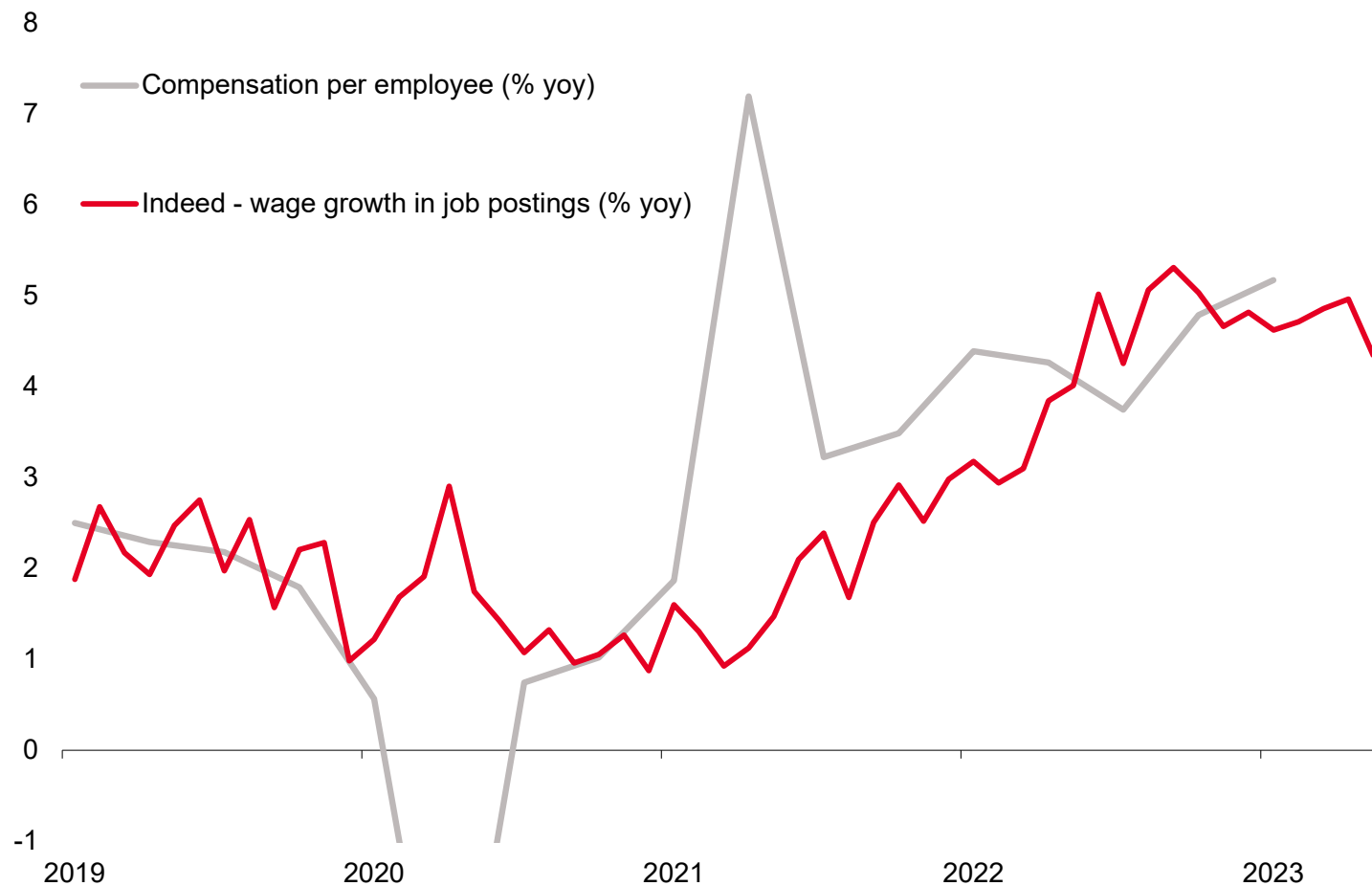


Year	ECB	SG	models
2008-2019	1.7		
2020	-0.6		
2021	4.0		
2022	4.3		
2023	5.3	5.8	6.2
2024	4.5	4.2	5.0
2025	3.9	3.5	4.0
2026		3.1	3.6
2023-2026		17.6	20.2

Sources: Eurostat, ECB, Refinitiv, SG Cross Asset Research/Economics

SIGNS OF WAGE GROWTH STABILISING?

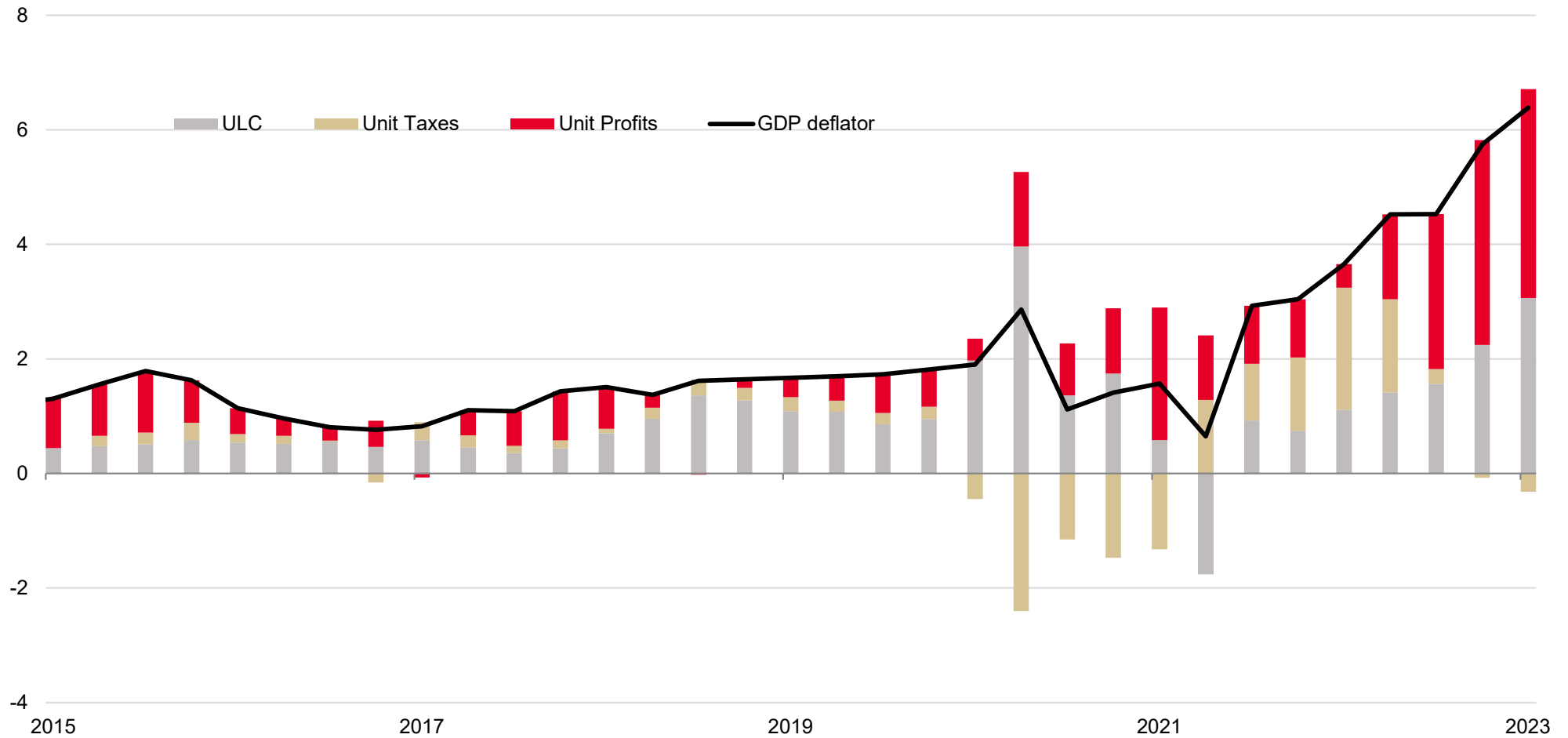
Soft vs hard data on wages (% yoy)



Sources: Eurostat, Indeed, SG Cross Asset Research/Economics

PROFITS BEHIND THE INCREASE IN THE GDP DEFLATOR

Decomposition of the GDP deflator (% , yoy)



Sources: Eurostat, SG Cross Asset Research/Economics

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- #3 Industrials (IG)
- #4 TMT (IG)
- #4 Consumer (IG) and #5 Consumer (HY)

Institutional Investor 2021

All-Europe Research Team

Macro

- #1 Multi Asset Research
- #4 Quantitative/Database Analysis
- #1 Index Analysis

Equity

- 3rd French Mid & Small Caps
- 7 Sector Research Teams in the **Top 10**
- 19 Sector Research Teams in the **Top 15**

OTHER RANKINGS

Institutional Investor 2020

Global Fixed Income Research Team

#5 Cross Asset Strategy
(#7 Alain Bokobza)

#5 Covered Bonds
(#4 Cristina Costa Rausa)

#8 Economics
(#18 Michel Martinez, #19 Yvan Mamalet)

#2 Investment Grade Strategy
(#3 Guy Stear, #2 Juan Valencia)

#8 Local Markets Rates Strategy

#9 Local Markets FX Strategy

Institutional Investor 2021

All-Europe Research Team

#1 Multi Asset Research
(#1 Alain Bokobza)

#4 Quantitative/Database Analysis
(#1 Andrew Laphorne)

#1 Index Analysis
(#4 Yohan Le Jalle; #2 Sebastien Lemaire)

#9 ESG
(#4 Yannick Ouaknine)

Equity Sectorial Rankings

#2 Oil Services

#7 Construction

#8 Oils

#9 Tobacco

#10 Luxury

#10 HPC

#10 Banks