BNP PARIBAS
CORPORATE & INVESTMENT BANKING

21 March 2008 | 08 - 12



# Eco WEEK

Economic
Research
Department

# Overview
# Each central bank has its own concerns

A cut in the key rates at the FOMC meeting on Tuesday 18 March was taken for granted. Investors had even begun to anticipate a 100bp cut in the target rate. As a result, the 75bp cut in the Fed funds target and the discount rate (already cut by 25bp last Sunday) to 2.25% and 2.5%, respectively and the tone of the subsequent press release had a somewhat "hawkish" flavour. Admittedly, the downside risks to growth were underlined and further rate cuts will be decided in the months ahead. There is no longer any doubt that the US economy is in the midst of a deep recession. Available statistics only confirm the current slump: retail sales and industrial production declined in February, and the manufacturing sector shows no signs of improvement based on the first regional surveys for March. The OECD now expects GDP growth to stagnate in H1 2008. Yet the FOMC press release insisted on the fact that recent inflation trends were unfavourable and that future trends were shrouded in uncertainty. As a result, monetary policy will continue to be eased, but at a more gradual pace.

However, the Fed funds target rate could be lowered to 1% by the summer, marking the low point in the current easing cycle that started last September, when the Fed's key rate was at 5.25%.

The strong and explicit return of inflationary risks among the Fed's top concerns and the use of other mechanisms in addition to rate cuts to assure liquidity and financial stability (see Focus 1, page 3) – the goal is to support credit supply as well as demand – probably contributed to the rebound in the dollar against the euro at the end of the week, and to the easing of commodity prices, notably oil. Indeed, this has helped dissipate suspicion that the Fed was willing to cut key rates very sharply at the expense of price stability. This eased fears of further erosion in the returns on short-term dollar-denominated instruments, whereas the upsurge in the euro since the beginning of February was mainly fuelled by short-term inflows.

In the Eurozone, leading indicators continue to foreshadow a slowdown in activity, which should be rather moderate in the manufacturing sector but more severe in services.

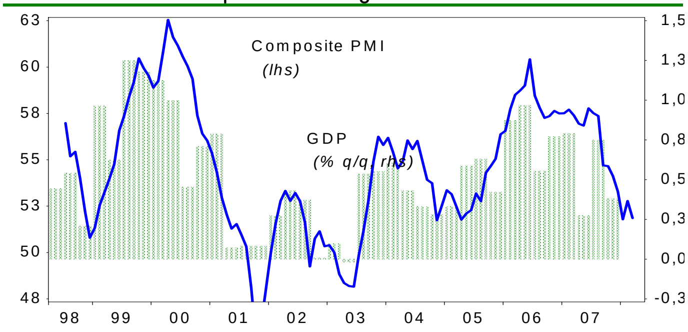
The loss of momentum in this sector is alarming, since it reflects a downturn in domestic demand at a time when exports are being affected by the global economic slowdown. All in all, GDP growth is expected to decelerate sharply this year, and is estimated at the lower end of 1% to 1.5%.

Even so, the ECB is unlikely to cut key rates, at least not before June at the earliest. Admittedly, inflation is still high at 3.3% in February, and oil prices would need to fall sharply from current levels before reassuring the central bank. Yet the economic slowdown should limit the risks of any second-round effects. Furthermore, with a favourable base effect due to energy prices in H2, inflation should fall towards 2% by the end of the year.

In the UK, the minutes of the latest BoE's Monetary Policy Committee meeting showed that seven out of nine members voted in favour of keeping rates unchanged; the other two members preferred a 25 bp rate cut. However, the Committee clearly left the door open for a move next month. Given the increased tensions in financial markets and the slightly better inflation outlook, we expect the MPC to cut interest rates by 25 bp already on 10 April.

## This week's chart

Eurozone : The composite PMI for activity, fell to 51.9 in March, a level consistent with below potential GDP growth




Sources : Eurostat and NTC Research

## Interest and foreign exchange rate

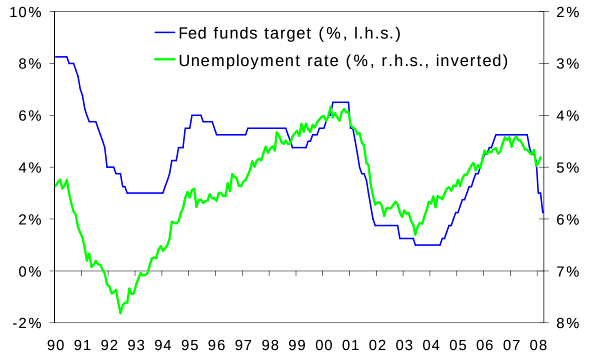
| | Thursday 20 March | Thursday 13 Marc | Highest in 52 weeks | Lowest in 52 weeks | | Thursday 20 March | Thursday 13 March | Highest in 52 weeks | Lowest in 52 weeks |
|---|---|---|---|---|---|---|---|---|---|
| Libor 3-month | 2.65 | 2.87 | 5.83 | 2.65 | EUR/USD | 1.5416 | 1.5583 | 1.5785 | 1.3303 |
| 10-year US Gvt'Bond | 3.33 | 3.52 | 5.27 | 3.32 | USD/JPY | 98.78 | 100.60 | 124.09 | 96.90 |
| Euribor 3-month | 4.71 | 4.63 | 4.95 | 3.90 | EUR/JPY | 152.30 | 156.78 | 168.61 | 152.30 |
| 10-year Bund | 3.75 | 3.75 | 4.67 | 3.68 | EUR/GBP | 0.7781 | 0.7673 | 0.7879 | 0.6687 |
| Libor 3-month yen | 1.01 | 1.03 | 1.10 | 0.63 | USD/CHF | 1.0107 | 1.0119 | 1.2453 | 0.9861 |
| 10-year JGB | 1.28 | 1.31 | 1.98 | 1.27 | EUR/CHF | 1.5584 | 1.5772 | 1.6786 | 1.5537 |

Source: Financial Times, Thursday's closing prices

# Focus 1
# US: Another busy week at the Fed

- The Federal Open Market Committee decided on 18 March to cut its Fed funds target by 75bp, to 2.25%. In addition, in days preceding this meeting, the Federal Reserve took several important measures in order to bolster market liquidity.
- These decisions have been justified by the increasing downward risks, despite unfavourable inflationary developments.
- We expect additional rate cuts in coming months, at a slower pace.

Chart 1: The Fed funds target and the unemployment rate




Source: Federal Reserve, BLS

## Another busy week at the Fed

The Federal Open Market Committee (FOMC) decided on 18 March to cut its Fed funds target by 75bp, to 2.25% (chart 1). Within the space of just six months, the Fed funds target has been taken down from 5.25% to 2.25%.

The decision was not unanimous, however: two FOMC members, Richard Fisher and Charles Plosser, decided to vote against it, as they preferred less aggressive action. These two dissents – for the first time since September 2002 – show that the pace of the ongoing monetary easing process is seriously debated within the FOMC.

The discount rate – which had already been cut by 25bp just two days before – was also lowered by 75bp, to 2.5%. In the end, the spread between the Fed funds target and the discount rate has been narrowed to 25bp this week vs. 100bp before the crisis materialised, in last summer. This narrower spread underlines that stress in financial markets is probably seen by the Fed as the major risk for the economic situation at the current juncture.

In addition, in days preceding this scheduled meeting, the Federal Reserve took several important measures in order to bolster market liquidity and prevent the systemic risk from rising. It notably announced the creation of new credit facilities, and approved and arranged the takeover of Bear Stearns. These initiatives show that the top Fed priority in recent days has been to limit trouble in the financial system, as “well-functioning markets are essential for the promotion of economic growth”.

## Weaker growth

These strong policy decisions have been justified by the fact that the main downward risks identified by the Committee have all increased in recent weeks: stress in financial markets has intensified, labour market conditions have deteriorated further, and housing data have remained in the doldrums.

This deterioration was clearly highlighted in the FOMC statement: “*recent information indicates that the outlook for economic activity has weakened further*”. The statement also newly stressed the slowdown in consumer spending growth (which is obvious when looking at recent retail sales data), and explicitly mentioned that recent negative developments with regard to credit conditions and the housing market were likely to weigh on growth “*over the next few quarters*”, i.e. not only in the very short term. This expression suggests that he FOMC now expects the downturn to last longer than it previously anticipated.

## Higher inflation

At the same time, inflationary developments have not been favourable recently, excluding moderate consumer price index data in February. In particular, the combination of a sharp depreciation in the USD and higher commodity prices looks threatening. In such a context, the increase in inflation expectations in recent weeks – that the FOMC “monitors closely” – has not come as a surprise.

Thus, quite logically, the FOMC statement insisted on both unwelcome recent developments (“*inflation has been elevated, and some indicators of inflation expectations have risen*”) and greater uncertainty (“*uncertainty about the inflation outlook has increased*”). This assessment clearly contrasted with the one expressed in the 30 January statement – only signalling the expected moderation in inflation and the (usual) need to monitor developments carefully. In the end, the inflation paragraph of the statement points to significantly higher risks than in last January.

Another development limiting the room for manoeuvre of the Fed has been the sharp depreciation of the USD in recent months (chart 2) – even if it is not explicitly mentioned in the statement –, as lower short term rates exert further downward pressure on the USD... which could in turn boost imported inflation further. Maybe those FOMC members who were not in favour of such an "aggressive" action on 18 March were notably concerned by the recent fall of the greenback.

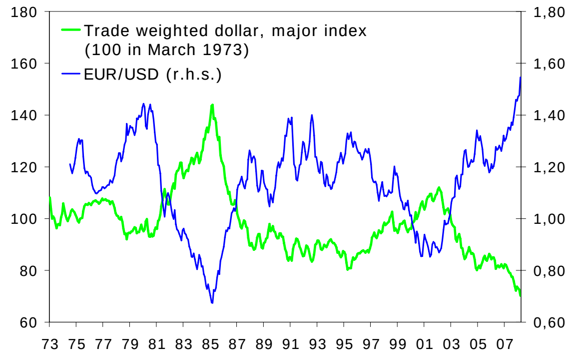
## More to come

"Weaker growth prospects" and "higher inflation" are not expressions that go together well. In such a tricky context, it is not a surprise that the FOMC gets more divided than usually. This greater internal debate will limit the possibility of massive rate cuts in the future.

However, the Fed's priority will not change in the short term. The key final paragraph concludes that "*downside risks remain*", a clear indication that monetary easing has not come to an end. However, the come back of inflation in the final sentence of the statement ("*the Committee will act in a timely manner as needed to promote sustainable economic growth and price stability*") underlines that there are serious discussions within the FOMC with regard to the attention that should by paid to inflation developments, and consequently to the pace of the current monetary easing.

In the end, we expect additional rate cuts in coming months, at a slower pace than over the January – March period, i.e. by maybe 50bp in April but more probably 25bp afterwards. Anyway, the Fed funds target may be lowered below 2% very soon. A 1% minimum level now looks credible, i.e. the same as in 2003 when deflation fears were spreading.

Chart 2: USD effective exchange rate and EUR/USD




Source: Reuters/Ecowin, BLS

### Box: New "liquidity" tools

Whereas the Fed funds target is the main policy tool dedicated to macroeconomic goals, the Fed traditionally uses other tools to ensure liquidity and financial stability: the discount window and regulations. In recent months, as the financial crisis has strengthened, the Federal Reserve has developed new policy tools in order to bolster liquidity. These tools generally consist in exchanging liquid assets for illiquid assets owned by banks.

- The Term Auction Facility (TAF), launched in December. Under the TAF, the Federal Reserve auctions term funds (28-day in general) to all depository institutions against the wide variety of collateral that can be used to secure loans at the discount window. Since its implementation, in December, growing amounts have been auctioned (USD40bn in December, USD60bn in both January and in February, USD100bn in March).

- The Term Securities Lending Facility (TSLF), launched in March. Under the TSLF, the Federal Reserve lends Treasury securities to primary dealers secured for a term of 28 days (rather than overnight, as in the existing program) by a pledge of other securities, including federal agency debt, federal agency residential-mortgage-backed securities (MBS), and non-agency AAA/Aaa-rated private-label residential MBS. Auctions will be held on a weekly basis.

- The Primary Dealer Credit Facility (PDCF), launched in March. The PDCF is an overnight loan facility that provides funding to primary dealers. Credit extended to primary dealers under this facility may be collateralized by a broad range of investment-grade debt securities. The interest rate charged on such credit is the same as the discount rate.

# Focus 2
# Germany: Recent trends on the job market

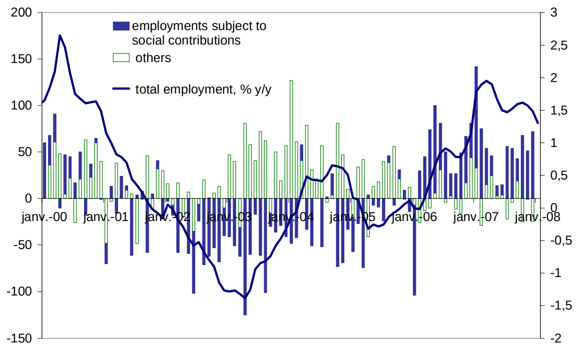
- Despite the sharp slowdown in growth, the job market has yet to show signs of weakness.
- Hiring intentions are still high, and the virtual stagnation of the active population in Germany makes the risk of a sharp upturn in the unemployment rate much less likely than in the region's other main economies.
- Nonetheless, the slowdown in productivity should curb job creations, leading to the stabilisation of unemployment in the second half of the year.
- Despite turbulent negotiations and apparently more generous than usual wage agreements in several sectors, we do not think that the expected increase in wage costs this year is worrying.

## Employment: a slowdown still lies ahead…

In the span of a year, German economic growth has slowed by more than two points to 1.8% yoy in Q4 2007 from 3.9% at the end of 2006. GDP growth should now fall to 1.2%[1] in 2008 and 1.4% in 2009. So far, job market trends, which traditionally lag behind economic growth, are more favourable. After peaking at 1.9% in March 2007, essentially due to seasonal factors, the pace of job creations was still holding at 1.5% yoy at the end of 2007, compared to 1.1% in December 2006.

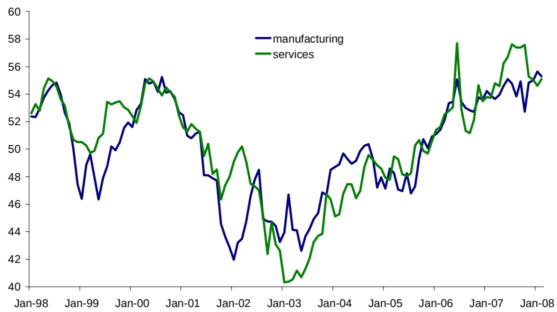
As to job market prospects at the beginning of 2008, several factors provide grounds for optimism. First, according to surveys, hiring intentions in many sectors are still very strong, comparable to the levels reported during the previous peak in 2000. With the exception of the construction sector, they have yet to show signs of deteriorating yet. Second, looking at the types of jobs created recently puts the recent slowdown in job creations into a different light: companies are still creating enough permanent jobs that are sufficiently productive to be profitable without the help of public subsidies. Indeed, the creation of "regular" jobs, i.e. those that are fully subject to social security taxes, increased 2.2% over full-year 2007, compared to a 1.7% increase in total employment. Moreover, this trend continued to accelerate.[2]

Chart 1: Breakdown of job creations (monthly, thousands)



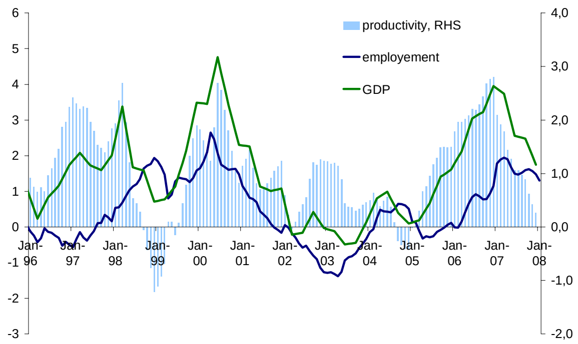

Source: Bundesbank

Chart 2: PMI job components




Source: NTC

Chart 3: Growth, employment and productivity (%, yoy)




Source: Bundesbank

[1] *When data is corrected for working- days. The gross figure is 1.5%.*

[2] *The spread can be attributed to the relative sluggish of self-employment (+1.1% in 2007) and the stagnation in low paying and subsidised jobs (mini jobs), each of which accounts for over 10% of total employment.*

Nonetheless, we can now see a big slowdown in productivity gains compared to other cyclical troughs (Chart 3 on previous page), which suggests that the slowdown in employment should accelerate rapidly. Employment growth could thus still be about 0.3% qoq in Q1 before slowing gradually thereafter. Total employment should level off in the second half of the year as per capita productivity gains become clearly negative year-on-year, in keeping with the sharp deceleration in growth.

## …that could induce a rise in the unemployment rate.

Should we expect the unemployment rate to level off or even pick up slightly in the near future? So far, the slowdown in job creations has not prevented the unemployment rate from continuing to decline very rapidly: it has already fallen by three tenths of a point since late 2007, to 8% in February (Chart 4).

It is often pointed out that German demographic trends, though clearly straining long-term growth prospects, at least offer the advantage of supporting the current decline in the jobless rate. Is this assumption correct, and how big of an impact will it have?

According to the latest statistics by Destatis, the labour force was virtually stable last year after contracting 0.2% in 2006. This implies that in 2007, each new job contributed to the decline in unemployment, a much more favourable situation that for many of its European partners. According to the OECD, the active population increased by 0.9% in France, 1.2% in Italy and by an average of 0.9% in the Eurozone in 2006.

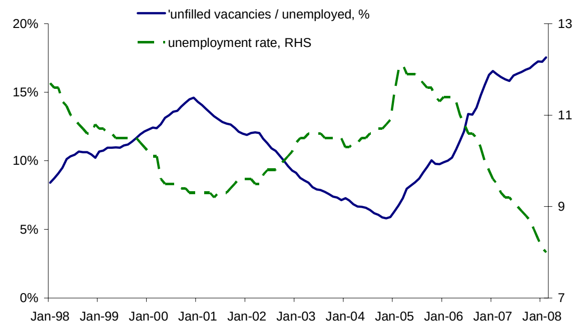
The stabilisation of the active population contrasts with total population growth, which has contracted regularly since 2004, albeit to a very limited extent (-0.1% in both 2006 and 2007). This divergence in growth trends between the total population and labour force reflects an increase in the job market participation rate for all categories of the population. Looking beyond the structural measures that have been in place for numerous years to boost the long-term employment rate,[3] the cyclical upturn in employment naturally triggers a shift in the participation rate by encouraging people that had abandoned the job market to begin looking for work again.

The rapid downturn in job creations could thus lead to the stabilisation of the unemployment rate at 7.7% of the active population in H2 2008. Assuming the active population picks up slightly this year and next, the jobless rate could even rise slightly in 2009.

## Risk of wage inflation is still mild

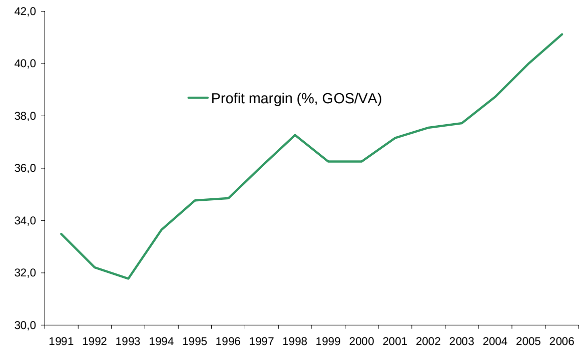
Numerous wage talks are currently underway, notably in the public services sector (affecting about 1.3 million employees) where

### Chart 4: Unemployment and vacancies




Source:

### Chart 5: Non-financial sector margins




Source: Eurostat

wages have been virtually frozen since 2004. In general, the outcome of the most recent wage talks (+11% for train conductors, +5.2% for steel industry workers), and the fact that negotiations were accompanied by several strikes, illustrates the unusually strong pressure from employees to obtain significantly higher wage increases than were granted in recent years.

These wage demands are clearly supported by two arguments: very strong economic growth over the past two years coupled with the highest level of inflation in over 13 years (2.3% in 2007, and an estimated 2.6% in 2008). Yet to grant unusually high wage increases based on the current upsurge in inflation would seem to confirm the ECB's fears of igniting a price-wage spiral. Yet several factors suggest that we should not overestimate these risks.

First, it is worth recalling that the outcome of these high-profile wage talks is not carried over to the same extent to wages in general, far from it. Of course, they influence the entire wage scale both via the weight of the payroll employees directly concerned and because they serve as benchmarks for wage agreements in other sectors or employment basins. Yet this link is probably not as strong as it was in the past. Job market reforms launched since

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[3] *Development of childcare services, gradual increase in the retirement age, etc.*

2003[4] have helped reduce the impact of these wage agreements on the entire pay scale.

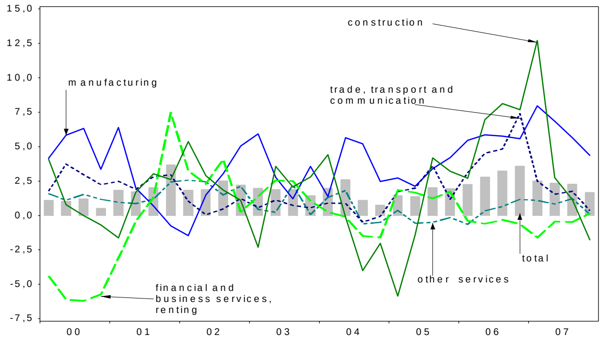
Last year's wage talks had already resulted in what were called very big wage increases in some sectors (+3.5% in chemicals, +4.1% for metal workers), against a background of strong economic growth and a VAT hike. Once again, the ECB warned of the risks arising from excessive wage increases. For 2007 as a whole, wages and salaries per employee finally increased by 2.4% (vs 2.3% in 2006) and 1.6% per hour worked in industry. All in all, the manufacturing sector seems to have been able to accommodate this wage increase, the highest since 2000 in terms of wages per employee, since unit labour costs still declined 2.6% over the same period.

As to the economy as a whole, data on negotiated wages reported by the Bundesbank also show that in 2007, the increase in monthly basic pay rates (1.5% vs 0.9% in 2006) was partially offset by a smaller increase in bonuses and a slight increase in working hours: the total monthly wage index increased by only 1.3% and the hourly wage rate by 1.2%.

Moreover, it is clear that the compression of wage costs in the economy as a whole in recent years has been strong enough that a big wage increase in just one year is not enough to threaten corporate profitability, as illustrated by the ongoing improvement in the profit margins of German non-financial companies since 2000[5].

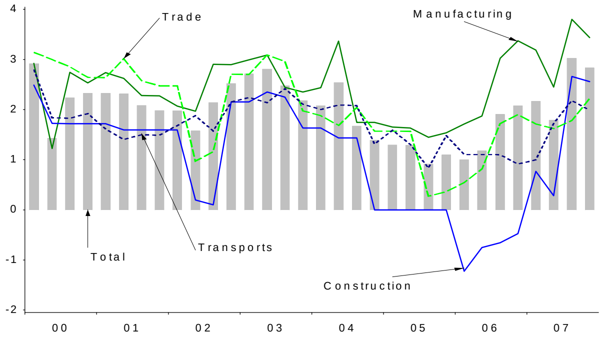
Of course, these general trends mask major sector disparities, notably between the manufacturing and services sectors. Charts 6 and 7 show that wage trends in the different sectors were much more homogeneous than productivity gains. This trend is bound to continue, and in the least competitive sectors, we cannot exclude the possibility of seeing wage increases that are not in line with very low productivity gains. In the manufacturing sector, in contrast, companies in general should easily be able to absorb a big increase in wage costs without passing them on to retail prices. The sharp slowdown in growth expected this year combined with persistently sluggish domestic demand should provide incentives.

Chart 6: Value-added per employee, % yoy




Source: Bundesbank

Chart 7: Hourly wage trends (%, yoy)




Source: Bundesamt

[4] *Development of low-paying, part-time jobs; tightening of conditions for qualifying for unemployment benefits, which are less generous.*
[5] *See our publication « Germany : Corporate accounts, an additional asset », F. Cerisier, Ecoweek 08-02, January 2008.*

# Recently released and forthcoming data and surveys

## United States

*To watch next week*

The **Conference Board's household confidence index** has dived in February, from 87.3 in January to 75. In **March** (on Tuesday 25 March), this fall is likely to continue, towards 70, impacted by economic perspectives which have deteriorated further, i.e. rising gasoline prices, higher unemployment and recent actions from the Federal Reserve that highlight the current deterioration in economic activity.

In January, **durable goods orders** (Wednesday 26 March) had fallen down markedly, -5.3 %, clearly offsetting its December jump (+5%). This decline was notably driven by falls in most volatile components of the report, such as civilian aircraft (-30.5%) and defence orders (-19.9%), which had both jumped in the previous month. In **February**, they should have slightly bounced back (+1.5%), mainly thanks to aircraft orders. Excluding transport, their rise should remain very modest.

The **third estimate of** Q4 GDP will be published on Thursday 27 march. After 4.9% q/q annualized in Q3, GDP growth sharply slowed to 2.6% in Q4, according to its second estimate, as an important adjustment in private inventories and slowing consumer spending weighed on activity.

*From 14 to 21 March*

| Manufacturing regional surveys | January | February | March | EcoFlash |
|---|---|---|---|---|
| New-York Fed(sa) | | | | 08-116 |
| Composite Index(*) | 50.2 | 47.4 | 47.9 | |
| Current business activity | 54.5 | 44.1 | 38.9 | |
| Philadelphia Fed (sa) | | | | |
| Composite Index(*) | 44.8 | 44.7 | 44.5 | |
| Current business activity | 39.6 | 38.0 | 41.3 | |
| NEM index(*) (sa) | | | | |
| Composite Index(*) | 47.8 | 46.3 | 46.4 | |
| Current business activity | 48.1 | 41.5 | 39.9 | |

Sources: FRB of New York and Philadelphia

(*) BNP Paribas calculations

| Industrial production | | December | January | February | EcoFlash |
|---|---|---|---|---|---|
| Seasonally adj. | | | | | 08-110 |
| Total | m/m % | 0.2 | 0.1 | -0.5 | |
| | y/y % | 1.7 | 2.3 | 1.0 | |
| Manufacturing | m/m % | 0.1 | 0.0 | -0.3 | |
| | y/y % | 1.3 | 2.0 | 1.8 | |
| Ex. autos | m/m % | 0.2 | 0.1 | -0.2 | |
| | y/y % | 1.6 | 1.9 | 2.0 | |
| Rate of utilisation | %, sa | | | | |
| Total | | 81.6 | 81.5 | 80.9 | |
| Manufacturing | | 79.6 | 79.4 | 79.1 | |

Source : Federal Reserve

| Housing starts and building permits | December | January | February | EcoFlash |
|---|---|---|---|---|
| Million units, saar | | | | |
| Housing starts | 1.00 | 1.07 | 1.07 | |
| %, m/m | -15.1 | 7.1 | -0.6 | |
| Building permits | 1.08 | 1.06 | 0.98 | |
| %, m/m | -7.1 | -1.8 | -7.8 | |

Source: Department of Commerce – Census Bureau

# Euro zone

| Prices | | | | | EcoFlash |
|---|---|---|---|---|---|
| Changes in % | | December | January | February | 08-108 |
| Consumer prices | | | | | |
| Total | m/m, sa | 0.4 | 0.4 | 0.0 | |
| | y/y, sa | 4.1 | 4.3 | 4.0 | |
| Core index (*) | m/m, sa | 0.2 | 0.3 | 0.0 | |
| | y/y, sa | 2.4 | 2.5 | 2.3 | |
| Producer prices | | | | | |
| Finished goods | m/m, sa | -0.3 | 1.0 | 0.3 | |
| | y/y, nsa | 6.3 | 7.4 | 6.4 | |
| Core index (*) | m/m, sa | 0.2 | 0.4 | 0.5 | |
| | y/y, nsa | 2.0 | 2.3 | 2.4 | |

Source : Department of Labor - Bureau of Labor Statistics

(*): Ex. food and energy

*To watch next week*

In **Germany**, **IFO business climate** for February had continued to increase, contrary to all expectations, from 103.4 to 104.1, thanks to a strong rise in the current conditions index. In **March** (on Tuesday 26 March), the current conditions index should fall back towards 107, thus resuming with its falling trend. The expectations index, still impacted by the pessimism surrounding the perspectives of the US economy, the ongoing financial crisis and the slowing down in Europe, could fall below 98.0. All in all, the IFO business climate should set around 102. The preliminary estimates of **March inflation** will be published on March 26. After the slight rise of headline inflation registered in February (from 2.7% to 2.8%), we expect this to continue in March, due to the rise in energy and food prices.

In **France**, at 107 in February, the **industry survey** decreased for the first time after a year of quasi stability which was contrasting with the fall in confidence indices in other foreign countries. The results of the survey for **March** (on Wednesday, 26 March) should reflect turmoil in financial markets, both the euro and oil high price levels without forgetting rising uncertainties ahead of the municipal elections. We expect the composite index to decline two points to 105. **Household confidence** for March (on Friday 28 March) should have slightly fallen, from -35 to -36, a new record low, after having fallen markedly in January from -30 in December to -34. Rising inflation, mainly due to higher energy and food prices, two items very sensitive to consumers, is likely to be their chief source of concern.

# Japan

*From 7 to 14 March*

| Eurozone - PMI - Flash estimate | | | | EcoFlash |
|---|---|---|---|---|
| | January | February | March | 08-114 |
| *Manufacturing sector* | | | | |
| Headline index | 52.8 | 52.3 | 52.0 | |
| Production | 54.0 | 53.7 | 52.1 | |
| New orders | 51.7 | 51.1 | 50.7 | |
| Employment | 52.2 | 52.1 | 52.5 | |
| Prices | 55.6 | 56.4 | 55.3 | |
| *Services* | | | | |
| Activity | 50.6 | 52.3 | 51.7 | |
| Oustanding business | 49.3 | 50.2 | 50.4 | |
| Employment | 54.1 | 54.3 | 53.1 | |
| *Composite activity index ** | 51.8 | 52.8 | 51.9 | |

Source: Reuters/NTC

| Eurozone – IPCH | | | | | EcoFlash |
|---|---|---|---|---|---|
| *Changes in %* | | December | January | February | 08-107 |
| Total | y/y nsa | 3.1 | 3.2 | 3.3 | |
| | m/m, sa | 0.4 | -0.4 | 0.3 | |
| Core | y/y nsa | 1.9 | 1.7 | 1.8 | |
| Germany | | 3.1 | 2.9 | 2.9 | |
| France | | 2.8 | 3.2 | 3.2 | |
| Italy | | 2.8 | 3.1 | 3.1 | |
| Spain | | 4.3 | 4.4 | 4.4 | |

Source : Eurostat - (*) Excl. Energy, food. and tobacco.

| France - Household spending on manufacturing goods | | | | | EcoFlash |
|---|---|---|---|---|---|
| *Changes in %, SA-WDA* | | December | January | February | 08-117 |
| Total | m/m | 2.2 | -1.3 | 1.2 | |
| | y/y | 4.1 | 2.3 | 3.7 | |
| Durable goods | m/m | 4.0 | -4.1 | 3.3 | |
| | y/y | 11.6 | 6.1 | 11.2 | |

Source: INSEE

*To watch next week*

On Friday 28 March will be published the unemployment rate, workers' household real expenditures and disposable income consumption as well as inflation for February.

The unemployment rate should have slightly increased at 3.9% in February, having remained stable during the previous three months. It should thus remain at the level of the NAIRU the non-accelerating inflation rate of unemployment, estimated by OECD, in line with the job offer rate below 1.

Workers' household real expenditure could have increased, in February but less than in January (2.5% m/m). The medium-term trend remains gloomy, rising inflation weighs on consumer confidence, as wages have not accelerated yet.

National consumer price indices for February should increase once again, in line with rising energy and fresh food prices. Headline inflation and the core index, excluding fresh food, should be up 0.9% y/y after respectively 0.7% and 0.8% in the previous month.

*From 14 to 21 March*

| METI's activity index | | | | | EcoFlash |
|---|---|---|---|---|---|
| *Changes in %* | | November | December | January | 08-109 |
| Tertiary sector | m/m | 0.0 | -0.9 | 0.7 | |
| | y/y | 1.0 | 0.3 | 0.6 | |

Source : METI

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