Europe Economic Weekly

The Italian Job

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Economics
Europe

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Weekly View: And we wait…

It has been a relatively quiet week. The ECB tells us that they are in a "no-rush" mood – but the 'option of waiting' is not cost-free, we think. Exogenous prices, meanwhile, could soon force the ECB into some communication acrobatics. Spot prices for Asia-Europe routes seem past their peak - but they remain high (and inflation risks one-sided).

Euro area: Italy - shifting winds

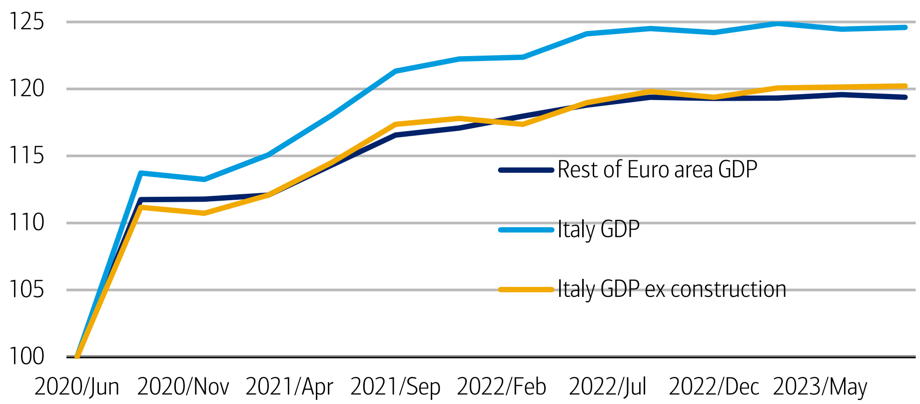
Growth remained positive in 4Q23, helped by strong capex recovery, a resilient labour market and non-collapsing private spending. Superbonus, (partial) recovery plan implementation and less labour market dualism played as tailwinds. We expect headwinds (especially from lagged ECB pass-through and uncertainty) to drive a deceleration in 1H24 growth.

Next week:

Very Euro area-centric data calendar: negotiated wage growth (Tue), flash consumer sentiment (Wed), January inflation details (Thu) and January ECB's consumer inflation expectations survey (Fri). Also, flash PMIs for Euro area and UK (Thu). For central banks: ECB minutes for January meeting (Thu), ECB's Schnabel and Nagel (Fri), BoE's Dhingra (Wed) and Greene (Thu/Fri).

Please join us for our 15 minutes weekly recap: Europe conference call: The weekly view

Exhibit 1: Euro area and Italian GDP growth (2Q20=100)
Italy has outperformed the EA average since the start of the post-Covid recovery, helped by a booming construction sector



Source: Eurostat, BofA Global Research

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Weekly view

And we wait…

It has been a relatively quiet week, but again not an easy one for those expecting very early central bank cuts this year. The US CPI surprise puts a March cut firmly off the table and the chances of a May cut have significantly reduced. Our US colleagues remain comfortable with a call for rate cuts to begin in June. In the UK, January inflation was a tad weaker than expected, and December GDP data was weak. But strikes are to blame for the latter, and on inflation, the labour market report was sufficiently clear that domestic pressures are not really gone yet. We remain comfortable in the August camp for the first BoE move.

The "good news" in all this is that markets are starting to price a little more Fed vs ECB differential. The principle makes a lot of sense, but the timeline might be debatable. We still think the risk of faster (and deeper than the Fed) ECB cuts after June dominates the risk of an earlier start, and that the market may be pricing too much for 2024 and too little for 2025.

In some client conversations, we are left with the feeling of very strong appetite to justify market pricing. We shifted from the ECB moving closely to the Fed when March was still under discussion for the latter, to perhaps the ECB looking at Eastern Europe, where cuts are ongoing. To us, the best argument for earlier cuts remains the economy and inflation. But the reason we think the ECB is still more likely to delay the first cut is just because they say so.

Headlines from Belgian Central Bank Governor Wunsch this week were telling, in our view. He signalled the trade-off between earlier but slower cuts and later and perhaps faster (not bigger) ones, but argued there was no benefit or cost to either. No rush, seems to be the verdict, matching the communication of others (including Chief Economist Lane) that more evidence is needed of wage growth having peaked.

We would disagree with that 'free option of waiting' approach. Waiting too long comes at a cost that isn't easy to fix with faster rate cuts. We can't take lessons from the 1970s on the risk of second-round effects but ignore lessons from the 2010s.

Meanwhile, it's not hard to find evidence of wage disinflation. Germany's negotiated wage growth in Destatis data is below 2% yoy in the preliminary January print. France's private sector wage growth at 0.3% qoq in 4Q23 continues its downward trend (and, in fact, makes us wonder if most of the preceding strength came from the mechanical indexation of the minimum wage to inflation, rather than broader negotiations). And a priori, the ECB's negotiated wage growth data for 4Q23, due for release next week, should at least show signs of plateauing.

Shipping costs vs energy prices or acrobatics vs poetry

Exogenous prices, meanwhile, could soon force the ECB into some communication acrobatics again. The exact inflation impact of shipping costs is subject to a lot of uncertainty, as we discussed before (see Europe Economic Weekly: A slow pivot all around 26 January 2024). That spot prices for Asia-Europe routes seem past their peak is tentative good news, but they remain high and hence the inflation risks, all else equal, are still one-sided for the next few months.

Our Global Team works with estimates from an IMF paper and argues risks to the Euro area could be up to 80bp – an upper bound across impact assessments (see Morning Market Tidbits: Red Sea and Panama Canal headaches 15 February 2024). We continue to think the very different economic backdrop today compared with 2021/22 could dilute the impact. Less goods demand, declining Chinese producer prices, and tight policy are among the factors that differentiate today's shipping cost surge from the last episode. Inventory unwind and no tangible supply chain disruptions at this stage come on top.

Work from German research institutes comes in handy here: so far, there is evidence of a substantial decline in container arrivals in Europe, but with global container shipping at similar levels to last year, according to the Kiel Institute's latest trade monitor, perhaps the European leg does, indeed, just reflect the delay from rerouting. Ifo's monthly survey on firms reporting material shortages actually shows that the share of firms reporting bottlenecks continued to fall in January. The next stop for data evidence is next week's February manufacturing PMIs. A spike in supply delivery times could artificially bump up headline readings. And if paired with a spike in input prices, that could constitute the first data evidence of the Red Sea impact.

The other big differentiating element vs the 2021/22 shipping cost surge is the energy price environment. Gas prices, in particular, are at their lowest since 2021 again, ie below the initial supply squeeze in the summer of 2021 and the Russian invasion of Ukraine in February 2022. They are also significantly below the levels the ECB embedded in their December forecast, and that could go a long way in a) offsetting the shipping cost rise, and b) exerting downside pressure on the March inflation forecast update.

We wouldn't rule out the hawks (or perhaps even former doves) emphasizing the obvious upside risks from shipping costs, but twisting the energy cost argument. Shipping costs could foster headline inflation and second-round effects, while lower energy costs could accelerate disinflation, help domestic demand and strengthen homemade inflation dynamics in the medium term. Next week's minutes could be a candidate for such arguments, already. That sounds like a lot to swallow and probably won't age very well. But it might age slowly enough to get them to June.

Italy vs Germany

Back to real economy matters, we have spent the past two weeks pointing out German weakness in isolation or in comparison to the rest of the Euro area. The December industrial production print for the Euro area may have been heavily distorted by a >25% mom rise in Ireland, but even the rest of the region did ok in December. Except Germany, and that again emphasizes the particular weakness here.

To focus on something more upbeat this week, we look at Italy. The energy crisis has rattled the economy, and monetary policy tightening, too. But the outcome would have been much worse in the old days. NGEU (Next Generation EU) has kickstarted the post-pandemic recovery. And while it is not fully clear how much of the Superbonus affects national accounting only, or the real economy also, there are reasons to believe that the mix of the two has helped the rest of the economy through the past two years. Perhaps they were partly responsible for reducing the infamous labour market duality in Italy and helping consumers to feel more confident in responding to the energy crisis with a drop in savings rates and stocks rather than in consumption volumes (even if that means less buffer for future shocks).

That's not to say we are overly bullish Italy. All is relative in economics. But there are reasons to believe that the Italian outperformance of Germany in the real economy has come with legs. In the meantime, we expect headwinds (especially from lagged monetary pass-through and uncertainty) to drive a deceleration in 1H24 growth.

Next week:

Euro area negotiated wage growth (Tue), European Commission flash consumer sentiment (Wed), flash PMIs for Euro area and UK – check the Red Sea impact on delivery times and input prices - January inflation details for the Euro area and INSEE business climate (all Thu), January ECB's consumer inflation expectations survey and German Ifo (both on Fri). For central banks: ECB minutes for January meeting (Thu), ECB's Schnabel and Nagel speaking (Fri), BoE's Dhingra (Wed) and Greene (Thu/Fri).

Euro Area

Italy: shifting winds

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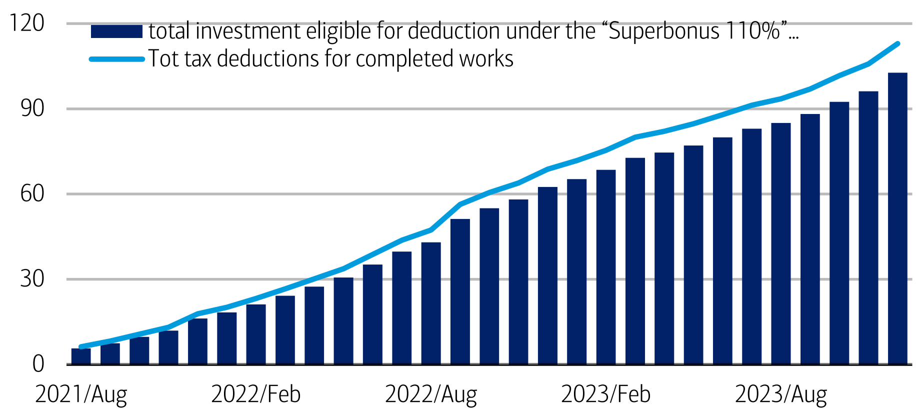
- Growth remained positive in 4Q23, helped by strong capex recovery, a resilient labour market and non-collapsing private spending.
- Superbonus, (partial) recovery plan implementation and less labour market dualism played as tailwinds.
- We expect headwinds (especially from lagged monetary pass-through and uncertainty) to drive a deceleration in 1H24 growth.

Last week, we shed light on the overperformance of Euro area periphery vs core in 2H23 (see Europe Economic Weekly: It will converge, eventually, 9 February 2024). While German economic data has surprised to the downside lately (see Europe Economic Weekly: Loud and clear, 2 February 2024), for Italian releases the opposite holds: GDP growth closed 2023 in positive territory, the labour market is showing resilience, and sentiment has improved lately.

This week, we take a comprehensive look at the Italian macro picture. We mark-to-market our Italy GDP forecast to 0.5% for 2024 (+14bp) and 1.1% for 2025 (unch). Yet, we retain the view that growth should decelerate in 1H24, before reaccelerating towards trend in 2025. Looking beyond headline improvements, traction from the national recovery plan (RRP) faded in 2023 amid implementation delays. In the labour market, reduced dualism is welcome but slack has yet to be tackled and the post-Covid decline in working-age population poses medium-term sustainability concerns.

Exhibit 2: Investment eligible under Superbonus scheme
Up to Dec 2023, total investment eligible for deduction under the "Superbonus 110%" scheme exceeded EUR102bn



Source: Enea, BofA Global Research

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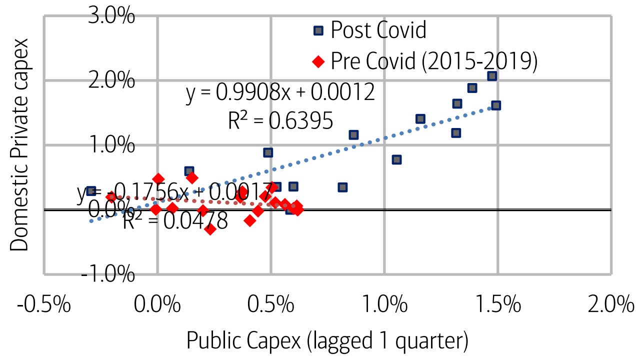
Superbonus-boosted capex-led recovery

Despite expectations of stagnation, the economy closed 2023 in positive territory, posting qoq growth of 0.2% in 4Q and annual growth of 0.7%. While waiting for 4Q23 GDP details (to be released on 5 March), we mark-to-market our forecast to 0.5% for 2024 (+14bp) and 1.1% for 2025. This realigns us with market consensus for this year and would imply another year of above-EA average growth for Italy – before the expected growth convergence in 2025.

Italian growth remained capex-driven throughout 2023 (see [Europe Economic Weekly: Loud and clear, 2 February 2024]). Investment contributed ca 4.1ppt to cumulative GDP growth vs pre-Covid levels, of which 2.5ppt was related to construction capex. We noted this before: the launch of the so-called Superbonus scheme[1] led to a big boost to domestic capital spending in construction (Exhibit 1). Up to December 2023, total investment eligible for deduction under the "Superbonus 110%" scheme exceeded EUR102bn, the bulk of which was initiated in 2022/23 (Exhibit 2). A basic estimate suggests a ca 1.4ppt cumulative impact on nominal GDP growth vs 2020 levels (Exhibit 4).

Exhibit 3: Correlation between public and private investment

The relationship between public and private capex has turned positive since Covid, pointing to a positive crowd-in effect of EU funds from NGEU



Source: BofA Global Research, Eurostat

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Exhibit 4: Impact of Superbonus and RRP funds

Superbonus-boosted capex-led recovery. RRP spending contributed to a minor extent

	2021	2022	2023
Completed construction investments under Superbonus (EUR bn)	**11.2**	**35.4**	**44.4**
Works enhanced by Superbonus	6.7	21.3	26.7
Cum impact of Super bonus on capex growth	2.3%	7.1%	8.9%
Cum impact on nominal GDP levels	0.4%	1.3%	1.6%
Actual spending under RRP (EUR bn)	**6.2**	**18.1**	**2.5**
Cum impact of RRP on capex growth	2.1%	6.1%	0.8%
Cum impact on nominal GDP levels	0.4%	1.1%	0.2%

Source: BofA Global Research, Enea, Ufficio Parlamentare di Bilancio. On Super bonus, we assume that the fiscal incentive fosters additional expenditure worth 60% of total eligible works. Impact on real GDP is difficult to estimate given that that Superbonus triggered a surge in construction prices

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Beyond Superbonus, capex was also supported by RRP…

While undoubtedly the boost derives mainly from the Superbonus measure, investment ex construction displayed a better-than-EA-average recovery. Capex ex construction has contributed 1.6ppt of cumulative GDP growth since pre-Covid (vs 0.4ppt for the rest of the Euro area[2]). As noted last week, given the relative size of the national recovery and resilience plan (RRP) for Italy, the utilization of EU funds under NGEU may have helped this broader investment recovery.

Looking at the progress in RRP implementation, Italy appears to be more on track than EA peers on milestones and target completion. The country has so far received payment of the first 4th tranches and requested payment of the 5th in Dec-23. While we have flagged before that there is so far more progress on reforms than investments, Italy has done relatively ok on the agreed investment deliverables (see [Europe Economic Weekly: It will converge, eventually, 9 February 2024]). Based on available official data, ca 40% of total investment targets have been met (yet with a 20ppt gap vs the investment target for the quarter, see [appendix]). Also, preliminary evidence (albeit gross of the Superbonus effect) of the relationship between public and private capex shows that it has turned positive since Covid, suggesting that the crowding-in effect between the two has unfolded in the aftermath of the pandemic (Exhibit 3). This is consistent with the fact that this part of RRP spending includes fiscal incentives that foster private sector involvement.[3]

… but not so much in 2023 (when ECB policy pass-through was also at play)

However, some caveats are worth noting. First, it is difficult to extrapolate the impact of NGEU in capex data. While we know that to-date Italy has received ca EUR102bn (in

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1 The "Superbonus" was a tax relief measure introduced in mid-2020 (and effective since July 2020), consisting of a deduction of 110% of the expenses incurred for the implementation of specific construction interventions aimed at energy efficiency.
2 Ex Ireland
3 Those fiscal incentives comprise the so-called "Ecobonus" and "Sismabonus" for construction and "Transizione 4.0" for R&D for digital transition.

prefinancing and four tranches) of EU funds, we have very little visibility on actual spending and its relative timing. Based on the only available data[4] (see appendix), actual spending so far amounts to EUR28.1bn (roughly half of what was planned for the first half of the recovery plan). In numbers that would translate into a non-material impact on cumulative capex growth versus 2020 levels (Exhibit 4).

Exhibit 5: Interconnections across sectors
Positive spillovers from construction investment other sectors/demand components

Destination of generated output			
	Industry	Construction	Services
Industry	31.5	3.5	11.6
Construction	2.8	23.2	2.3
Services	11.3	8.2	26.6
Private Cons	13.7	5.0	33.8
Public Cons	0.1	0.8	17.3
Capex	4.7	58.3	3.5
Exports	35.5	0.9	4.1
Composition of Demand			
	Private Cons	Public Cons	Capex
Industry	15.8	0.5	18.6
Construction	1.2	0.5	46.6
Services	70.5	97.2	23.9
Imports	11.0	1.7	10.7

Source: NIOT, BofA Global Research

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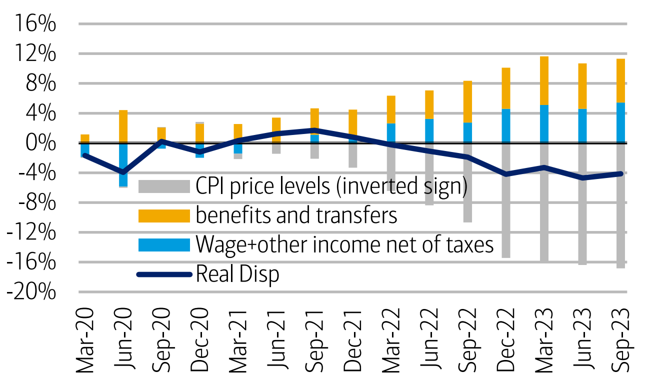
Second, breaking down capex dynamics by year, while actual RRP spending was somewhat on track in 2021/2022, in 2023, only 7.4% was deployed. The delay is only partially ascribable to the recovery plan revision (see appendix). According to the Italian Parliamentary Budget Office, 75% of started projects faced delays in completion. With implementation constraints biting more and more as RRP advances – and coupled with the lagged effect of monetary policy tightening on private animal spirits – it is unsurprising that non-construction capex barely moved in Q2-Q323.

Exhibit 6: Real disposable income growth
Italian households have experience real income compression since the start of the energy crisis



Source: Istat BofA Global Research. Note: Contributions to real household disposable income (% vs 4Q19)

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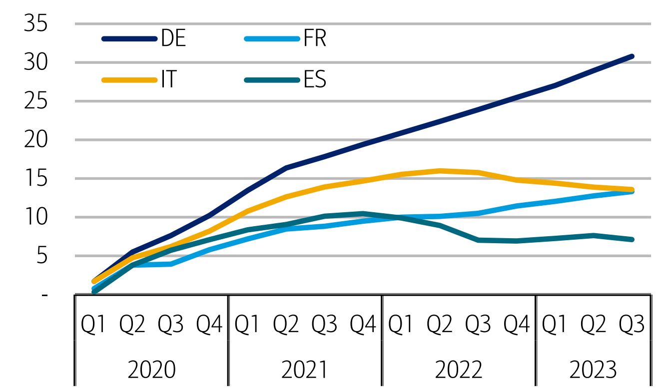
Exhibit 7: Stock of excess savings
In 3Q23, the cumulative excess saving stock was ca 13.6% of annualized 4Q19 consumption, ca 2.4% lower than in early 2022



Source: Eurostat, BofA Global Research

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Private consumption: a less bright picture

The Italian private consumption picture is more in line with EA aggregate dynamics – hence not bright. Private consumption has moved sideways at pre-pandemic levels since early 2023, and it stands only slightly above 4Q19 levels, as result of the double shock that hit Italian consumers (pandemic and energy, coupled with partial fiscal repair). As

.4 Data were published in Nov 2023, but it not clear if they include all the actual spending up to Nov.

we noted last week, the severe surge in energy prices (with electricity prices tripling within a year of the shock) led to a marked real disposable income squeeze (Exhibit 6).

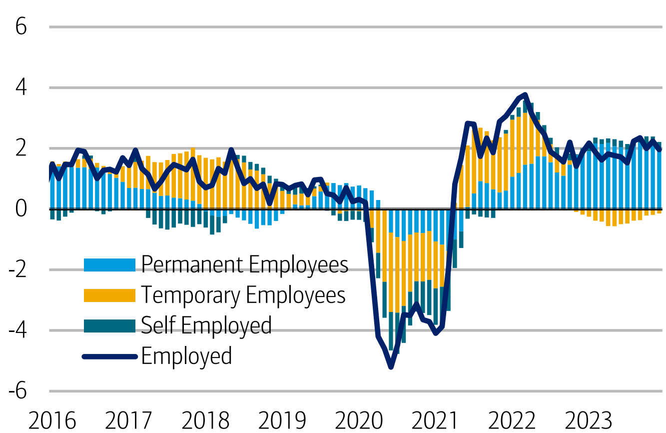
Flattish consumption dynamics could appear relatively buoyant compared with the compression in purchasing power. We see two factors at play. First, cross-sectoral spillovers from the above-mentioned capex boost may have played a role, and acted as a positive drag to other components of domestic demand, via cross-sectoral interlinkages (Exhibit 5). Second, Italian consumers have been depleting the stock of excess savings accrued since the pandemic consistently since 2H22, to limit consumption losses given the real income losses. In 3Q23, the cumulative excess saving stock was ca 13.6% of annualized 4Q19 consumption, ca 2.4% lower than in early 2022 (Exhibit 7).

Labour market: short-term gains but medium-term risks

Savings intentions are a function, among others, of uncertainty/insecurity related to the labour market. We think the Italian labour market (LM) recovery helped the excess saving depletion. Headline labour market data point to a solid recovery: in 4Q23 the unemployment rate stood at the lowest level since 2009 (at 7.4%), the employment rate was 61.9% and the participation rate 66.9% (both record highs in the series history). Hours worked per employee (our favourite post-Covid LM metric for capturing slack) is 2.2% above 4Q19 levels – versus -1.7% for the rest of the Euro area.

Exhibit 8: Employment creation, by contract type

Job creation has been led by open-end contracts



Source: Istat, BofA Global Research

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Exhibit 9: Labor market dashboard, Italy vs Euro area

Reduced labour market dualism in Italy since the pandemic

	2019		2022	
	EA	IT	EA	IT
WAP (mn)	220	38.4	219	37.3
Employment rate (% WAP)	68.0	59.2	70.0	61.3
Core employment rate (%WAP)	42.4	37.8	45.0	40.6
Self-employed (% tot empl)	14.0	23.6	13.8	22.3
Temporary employees (% tot empl)	15.8	17.0	15.3	16.8
of which: short-term contracts of up to 3 months	2.6	3.5	1.7	1.4
Part Time employees (% tot empl)	22.1	19.0	21.4	18.2
of which, underemployed part-time workers	3.8	2.9	4.1	2.9

Source: Eurostat, BofA Global Research. WAP: working age population

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Given the long-standing dualism characterizing the Italian labour market, it is also eye-catching that lately job creation has been led by open-end contracts, despite the job losses post-Covid being concentrated in lower-quality jobs (Exhibit 8). In general, our labour market dashboard points to less dualism in Italy now versus pre-Covid (probably a lesson learnt from the pandemic on the importance of job guarantees, like access to short-time work schemes, Exhibit 9). Tighter LM and better job security have, indeed, driven lower consumers' unemployment expectations (Exhibit 10).

While we do not dismiss the positive LM developments, we highlight that:

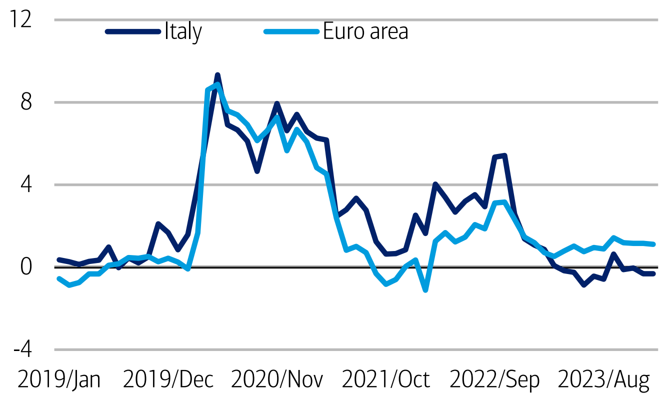
- While headline labour market ratios point to a tighter market, the delta in headcounts vs 4Q19 shows a loss of 1mn people of working age (and the decline in inactive population only marginally increasing the labour force). This trend reduces short-term slack, but should it continue, it would raise medium-term sustainability concerns.

- Market dualism has been inflating the progress in hours worked per employed metric. Using full-time equivalent employment, Italian hours worked per employed stands "only" 1% higher than in 4Q19. Also, with gains in hours worked outpacing output gains, Italian hourly productivity has declined post Covid, and is now 0.6% below 4Q19 (vs a 0.4% improvement for the rest of the Euro area).

- The above point reflects the fact that market gains were skewed towards lower-productivity and more labour-intense sectors, like construction (boosted by Superbonus) and services (also the sector most interconnected with construction) (Exhibit 11).
- Standard measures of LM slack point anyway to labour underutilization, which stands above the Euro area average. This holds looking at both quantitative metrics (unemployment plus underemployment rate is 17.7% of the extended labour force vs the EA's 13.2%) and qualitative job profiles (higher share of low-quality jobs). Also, the use of short-time work protection schemes (such as Cassa Integrazione Guadagni) is still 60% higher than in 4Q19.

All of this should contain inflationary pressures stemming from wage renegotiations in 1H24 and be consistent with wage growth only partially compensating for past inflation (see Europe Economic Weekly: Loud and clear, 2 February 2024).

Exhibit 10: Consumer labour market expectations
Since 1Q23 Italian consumers' unemployment expectations have been trending lower than those for the Euro area



Source: Eurostat, BofA Global Research. Series normalized

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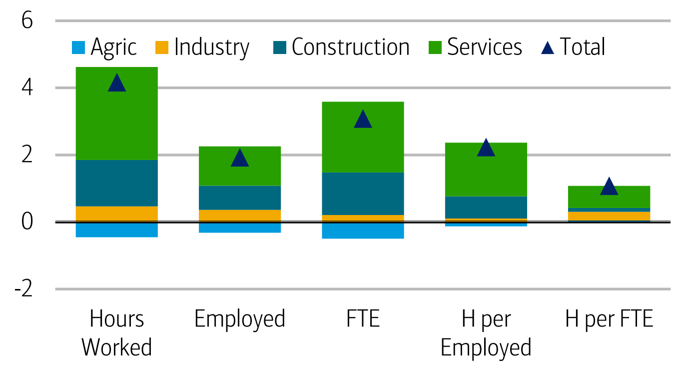
Exhibit 11: Cumulative change in labour market inputs, by sectoral contribution
Construction contribution to the labour market recovery was material (considering the small weight of the sector in the economy)



Source: Istat, BofA Global Research. FTE: full time equivalent employment, H per employed: hours worked per employed, H per FTE: hours worked per full-time equivalent employment

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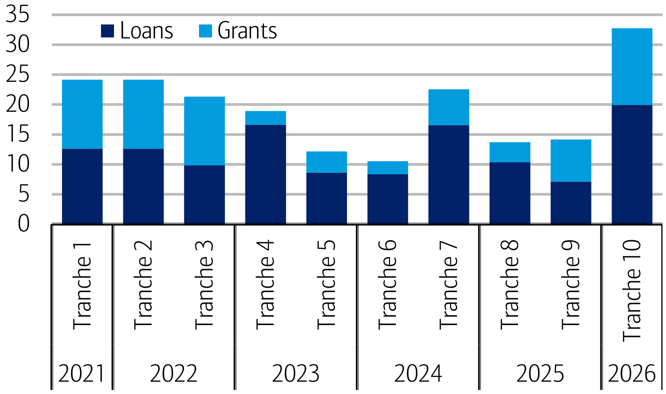
Tailwinds to fade, headwinds to prevail and growth to decelerate in 1H24

We retain the view that growth should decelerate in 1H24, on the back of the phasing-out of the Superbonus, lagged effect of ECB policy pass-through, little traction from external demand (a weak Germany does not help) and partial recovery in real income (note that Italian inflation should edge higher again in 1H amid energy base effects). RRP spending should accelerate in 2024, but implementation delays are the risk. Also, geopolitical uncertainty may encourage higher saving rates. Corporate risks from the repayment of Covid state-backed guaranteed loans arise in the context of tighter credit market, too. If anything, room for upside is limited to better-than-expected real income gains should deflationary forces unfold more rapidly.

Appendix: Italian RRP – state of play

Exhibit 12: New planned RRP fund disbursements, by tranche
The two tranches associated to 2024 amount to EUR33bn



Source: BofA Global Research, Ufficio Parlamentare di Bilancio

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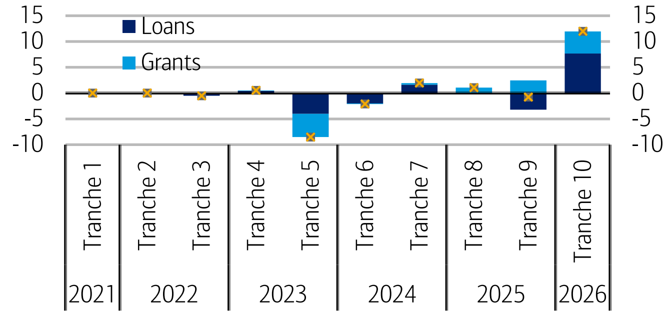
Exhibit 13: Changes in planned RRP fund disbursements, revised plan vs initial plan (EUR bn)
PPR revision pushed further fund deployment in the final year of the plan



Source: BofA Global Research, Ufficio Parlamentare di Bilancio

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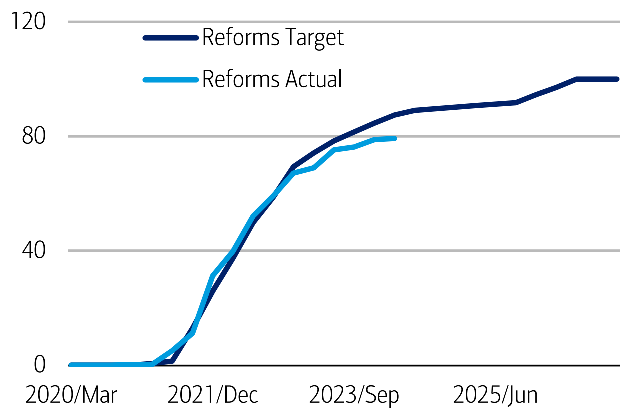
Exhibit 14: Percentage of completion of reforms under RRP
79% of total reforms under RRP were approved, vs the target of 87.5% for 1Q 24



Source: Openpolis data

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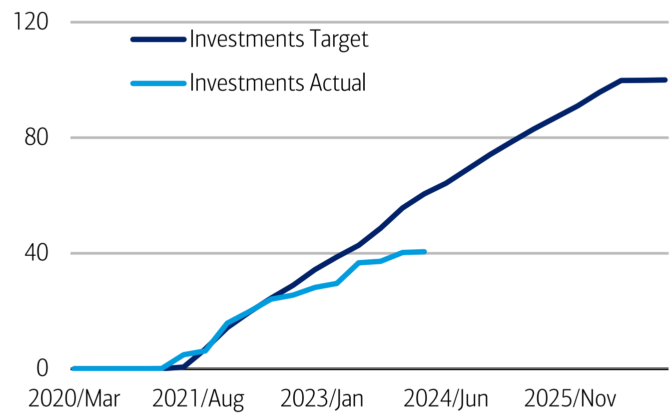
Exhibit 15: Percentage of completion of investments under RRP
34% of total investments under RRP were implemented, vs the target of 61% for 1Q 24



Source: Openpolis data

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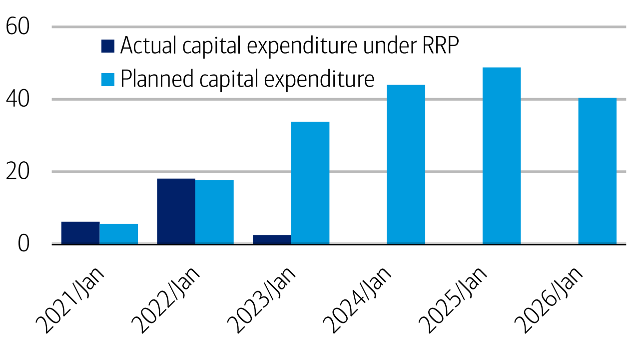
Exhibit 16: Actual vs planned expenditure under RRP (EUR bn)
As for November 2023, actual RRP spending was only 7.4% of what planned for the year



Source: Openpolis data, Ufficio Parlamentare di Bilancio

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European forecasts

Exhibit 17: Euro area economic forecasts

We see the ECB stopping at a refi terminal of 4.50%.

		2022	2023	2024	2025	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
GDP	% qoq					0.1	0.1	-0.1	0.0	0.0	0.2	0.2	0.3	0.3	0.3	0.3	0.3
	% qoq ann.					0.4	0.5	-0.5	0.2	0.1	0.8	0.9	1.2	1.2	1.2	1.3	1.2
	% yoy	**3.4**	**0.5**	**0.36**	**1.14**	1.3	0.6	0.0	0.1	0.1	0.1	0.5	0.7	1.0	1.1	1.2	1.2
Private Consumption	% qoq					0.1	0.0	0.3	0.1	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.3
	% yoy	**4.2**	**0.5**	**0.6**	**1.1**	1.4	0.6	-0.4	0.4	0.4	0.6	0.6	0.8	1.0	1.1	1.2	1.3
Government Consumption	% qoq					-0.5	0.2	0.4	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.2
	% yoy	**1.6**	**0.2**	**0.8**	**0.9**	-0.2	0.2	0.6	0.3	1.0	0.9	0.7	0.7	0.8	0.9	0.9	1.0
Investment	% qoq					0.4	-0.1	0.0	-0.3	-0.2	0.1	0.2	0.4	0.3	0.4	0.5	0.5
	% yoy	**2.8**	**0.7**	**-0.2**	**1.4**	1.8	1.1	-0.1	0.0	-0.6	-0.4	-0.2	0.4	1.0	1.3	1.5	1.6
Final Domestic Demand[1]	% qoq					0.0	0.0	0.2	0.0	0.0	0.2	0.2	0.3	0.3	0.3	0.3	0.3
	% yoy	**3.1**	**0.4**	**0.5**	**1.1**	1.0	0.6	-0.1	0.3	0.3	0.4	0.4	0.7	0.9	1.0	1.2	1.2
Net exports[1]	% qoq					0.6	-0.6	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
	% yoy	**0.0**	**0.2**	**0.1**	**0.2**	0.6	-0.1	0.4	0.0	-0.5	0.1	0.3	0.3	0.3	0.2	0.1	0.0
Stockbuilding[1]	% qoq					-0.5	0.7	-0.3	0.0	-0.1	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0
	% yoy	**0.3**	**-0.2**	**-0.2**	**-0.1**	-0.4	0.1	-0.3	-0.2	0.2	-0.5	-0.2	-0.3	-0.2	-0.1	-0.1	0.0
Current Account Balance	EUR bn	**-90**	**209**	**209**	**219**	38	61	35	75	55	-6	85	75	55	-6	75	95
	% of GDP	**-0.7**	**1.5**	**1.4**	**1.5**	1.1	1.8	1.0	2.1	1.5	-0.2	2.4	2.1	1.5	-0.2	2.0	2.5
Industrial production	% qoq					-1.3	-1.1	-0.5	-0.4	0.3	0.5	0.7	0.7	0.6	0.6	0.7	0.6
	% yoy	**2.2**	**-2.1**	**0.4**	**2.6**	-0.1	-1.3	-3.8	-3.2	-1.6	-0.1	1.1	2.2	2.5	2.7	2.7	2.6
Unemployment rate [3]	%	**6.8**	**6.6**	**7.1**	**7.1**	6.6	6.5	6.6	6.6	7.0	7.1	7.1	7.1	7.0	7.0	6.9	6.9
CPI (harmonised)[4]	% qoq					0.4	1.6	0.6	0.2	0.4	1.2	0.1	0.3	0.1	1.0	-0.1	0.2
	% yoy	**8.4**	**5.5**	**2.3**	**1.4**	8.0	6.2	5.0	2.7	2.8	2.4	1.9	2.0	1.7	1.4	1.2	1.1
CPI (core)[4]	% qoq					0.6	2.4	0.5	0.2	0.2	1.6	0.1	0.3	0.0	1.4	0.0	0.3
	% yoy	**3.9**	**5.0**	**2.5**	**1.8**	5.5	5.5	5.1	3.7	3.3	2.5	2.1	2.2	2.0	1.8	1.7	1.8
General govt balance	% of GDP	**-3.6**	**-3.4**	**-3.1**	**-3.1**												
General govt debt	% of GDP	**91.0**	**91.0**	**90.3**	**90.1**												
Refinancing rate	%	**2.50**	**4.50**	**3.75**	**2.50**	3.50	4.00	4.50	4.50	4.50	4.25	4.00	3.75	3.25	2.75	2.50	2.50

Source: BofA Global Research, Notes: 1 Contribution to GDP growth 2 Excluding construction, sa, quarterly averages 3 Period averages 4 Period averages, quarterly change

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Exhibit 18: UK economic forecasts

Low growth, entrenched inflation

		2022	2023	2024	2025	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
GDP	% qoq					0.2	0.0	-0.1	-0.3	0.1	0.2	0.3	0.3	0.2	0.2	0.1	0.1
	% qoq ann.					0.9	0.0	-0.5	-1.4	0.6	1.0	1.4	1.2	0.7	0.6	0.5	0.5
	% yoy	**4.3**	**0.1**	**0.3**	**0.8**	0.3	0.3	0.2	-0.2	-0.3	-0.1	0.4	1.0	1.1	1.0	0.8	0.6
Private Consumption	% qoq					0.9	0.5	-0.8	-0.1	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.1
	% yoy	**5.0**	**0.4**	**-0.2**	**0.7**	0.3	0.4	0.5	0.4	-0.5	-0.9	0.2	0.5	0.7	0.8	0.8	0.7
Government Consumption	% qoq					-0.8	2.4	1.1	-0.3	0.1	0.3	0.3	0.3	0.3	0.5	0.5	0.5
	% yoy	**2.3**	**0.6**	**1.4**	**1.6**	-3.5	1.5	2.1	2.4	3.3	1.1	0.3	1.0	1.2	1.5	1.7	1.8
Investment	% qoq					2.5	-0.9	-1.4	1.4	0.3	-0.1	-0.8	0.1	0.0	0.0	0.0	-0.2
	% yoy	**8.0**	**2.9**	**0.0**	**-0.4**	5.4	4.0	0.8	1.7	-0.5	0.3	0.8	-0.4	-0.8	-0.7	0.1	-0.2
Final Domestic Demand[1]	% qoq					0.9	0.6	-0.5	0.1	0.1	0.1	0.0	0.2	0.2	0.2	0.2	0.1
	% yoy	**5.0**	**0.9**	**0.2**	**0.7**	0.4	1.3	0.9	1.0	0.3	-0.2	0.3	0.4	0.5	0.7	0.8	0.7
Net exports[1]	% qoq					-1.7	-0.9	0.4	-0.6	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
	% yoy	**-1.7**	**0.1**	**-0.5**	**0.0**	3.7	1.8	-2.2	-2.8	-1.2	-0.3	-0.5	0.1	0.1	0.0	-0.1	-0.2
Stockbuilding[1]	% qoq					1.0	0.3	0.1	0.2	0.1	0.1	0.2	0.1	0.0	0.0	0.0	0.0
	% yoy	**1.1**	**-0.9**	**0.5**	**0.2**	-3.8	-2.8	1.6	1.5	0.6	0.4	0.6	0.5	0.4	0.4	0.0	0.0
Current Account Balance	% of GDP	**-3.1**	**-3.4**	**-4.0**	**-3.9**	-2.3	-3.9	-3.5	-4.1	-4.1	-4.0	-3.9	-3.9	-3.9	-3.9	-3.9	-4.0
Manufacturing output	% qoq					0.5	1.9	0.0	-0.3	0.1	0.3	0.5	0.6	0.6	0.6	0.6	0.6
	% yoy	**-3.3**	**1.1**	**1.0**	**-3.3**	-1.6	1.2	2.9	2.0	1.7	0.1	0.6	1.5	2.0	2.3	2.4	2.4
Unemployment rate [2]	%	**3.7**	**4.1**	**4.7**	**4.8**	3.9	4.2	4.2	4.4	4.6	4.7	4.8	4.9	4.8	4.8	4.8	4.7
CPI Inflation (harmonised)[2]	% yoy	**9.1**	**7.3**	**2.4**	**2.4**	10.2	8.4	6.7	4.2	3.5	1.9	1.9	2.3	2.6	2.5	2.5	2.2
CPI (core)[2]	% yoy	**5.9**	**6.2**	**3.8**	**2.8**	6.1	6.9	6.4	5.3	4.7	3.8	3.4	3.5	3.5	2.9	2.7	2.4
General govt balance [5]	% of GDP	**-5.0**	**-4.9**	**-4.3**	**-3.9**												
General govt debt [3,5]	% of GDP	**97.1**	**98.9**	**101.1**	**103.3**												
General govt debt	% of GDP	**101.0**	**100.7**	**102.9**	**104.8**												
Bank Rate [4]	%	**3.50**	**5.25**	**4.75**	**3.75**	4.25	5.00	5.25	5.25	5.25	5.25	5.00	4.75	4.50	4.25	4.00	3.75

Source: BofA Global Research. Notes: 1 Contribution to GDP growth 2 Period averages 3 Excludes Nationalised banks, and thus is not on Maastricht basis 4 End period, 5 Fiscal years

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Exhibit 19: Euro area, GDP and CPI profiles

Euro area member states profiles

						HICP				
	2021	**2022**	**2023F**	**2024F**	**2025F**	**2021**	**2022**	**2023F**	**2024F**	**2025F**
Euro area	5.9	3.4	0.5	0.4	1.1	2.6	8.4	5.5	2.3	1.4
Austria	4.4	4.8	-0.7	0.0	1.5	2.8	8.7	6.2	2.3	1.0
Belgium	6.9	3.0	1.4	0.9	1.2	3.2	10.3	4.6	1.7	1.6
Finland	2.8	1.6	-0.4	0.2	1.0	2.1	7.2	4.4	1.8	2.4
France	6.4	2.5	0.8	0.7	1.3	2.1	5.9	4.6	1.8	0.7
Germany	3.1	1.9	-0.1	-0.2	0.9	3.2	8.6	5.6	2.6	0.8
Greece	8.1	5.7	2.0	1.1	1.7	0.6	9.3	4.2	2.0	1.7
Ireland	14.8	9.5	-1.4	2.7	2.0	2.4	8.1	5.8	2.9	1.6
Italy	8.3	3.9	0.7	0.5	1.1	1.9	8.7	7.1	1.9	1.4
Netherlands	6.2	4.4	0.0	0.3	1.1	2.8	11.6	4.5	1.1	1.8
Portugal	5.7	6.8	2.2	1.0	1.4	0.9	8.1	5.4	2.5	1.1
Spain	6.4	5.8	2.4	1.3	1.5	3.0	8.3	4.0	2.0	0.5

Source: BofA Global Research, Eurostat

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Calendar for the week ahead

Exhibit 20: European Economic calendar
Key data for the next week

	GMT	Country	Data/Event	For	BofAe	Cons.†	Previous	Comments
Monday, 19 Feb								
✪✪	00:01	UK	Rightmove House Prices (mom)	Feb	n.a.	--	1.3%	
✪✪	00:01	UK	Rightmove House Prices (yoy)	Feb	n.a.	--	-0.7%	
✪✪✪	07:00	Sweden	CPI (mom)	Jan	n.a.	--	0.7%	
✪✪✪	07:00	Sweden	CPI (yoy)	Jan	n.a.	--	4.4%	
✪✪✪	07:00	Sweden	CPIF (mom)	Jan	n.a.	--	0.6%	
✪✪✪	07:00	Sweden	CPIF (yoy)	Jan	3.0%	--	2.3%	
✪✪✪	07:00	Sweden	CPIF Excl. Energy (mom)	Jan	n.a.	--	0.7%	
✪✪✪	07:00	Sweden	CPIF Excl. Energy (yoy)	Jan	4.3%	--	5.3%	
Tuesday, 20 Feb								
✪✪	09:00	Euro area	ECB Current Account (sa)	Dec	n.a.	--	24.6bn	
✪✪✪	10:00	Euro area	Construction Output (mom)	Dec	n.a.	--	-1.0%	
✪✪✪	10:00	Euro area	Construction Output (yoy)	Dec	n.a.	--	-2.2%	
Wednesday, 21 Feb								
✪✪✪	07:00	UK	Public Finances (PSNCR)	Jan	n.a.	--	12.9bn	
✪✪✪	07:00	UK	Central Government NCR	Jan	n.a.	--	18.7bn	
✪✪✪	07:00	UK	Public Sector Net Borrowing	Jan	n.a.	--	6.8bn	
✪✪✪	07:00	UK	PSNB ex Banking Groups	Jan	n.a.	--	7.8bn	
✪	11:00	UK	CBI Trends Total Orders	Feb	n.a.	--	-30.0	
✪	11:00	UK	CBI Trends Selling Prices	Feb	n.a.	--	9	
✪✪✪	15:00	Euro area	Consumer Confidence (P)	Feb	n.a.	--	-16.1	
Thursday, 22 Feb								
✪✪	07:45	France	Business Confidence	Feb	99.0	--	98.0	
✪✪	07:45	France	Manufacturing Confidence	Feb	98.0	--	99.0	
✪✪	07:45	France	Production Outlook Indicator	Feb	n.a.	--	-7.0	
✪✪✪	08:15	France	Manufacturing PMI (P)	Feb	43.8	--	43.1	
✪✪✪	08:15	France	Services PMI (P)	Feb	45.6	--	45.4	
✪✪✪	08:15	France	Composite PMI (P)	Feb	45.0	--	44.6	
✪✪✪	08:30	Germany	Manufacturing PMI (P)	Feb	45.7	--	45.5	
✪✪✪	08:30	Germany	Services PMI (P)	Feb	48.0	--	47.7	
✪✪✪	08:30	Germany	Composite PMI (P)	Feb	47.2	--	47.0	
✪✪✪	09:00	Euro area	Manufacturing PMI (P)	Feb	47.1	--	46.6	A surge in delivery times on the back of Red Sea developments could create misleading manufacturing PMI upside.
✪✪✪	09:00	Euro area	Services PMI (P)	Feb	48.9	--	48.4	
✪✪✪	09:00	Euro area	Composite PMI (P)	Feb	49.0	--	47.9	
✪✪✪	09:00	Italy	CPI EU Harmonized (yoy, F)	Jan	0.9%	--	0.9%	
✪✪✪	09:00	Italy	CPI FOI Index Ex Tobacco	Jan	n.a.	--	118.9	
✪✪✪	09:30	UK	Manufacturing PMI (P)	Feb	47.5	--	47.0	
✪✪✪	09:30	UK	Services PMI (P)	Feb	54.0	--	54.3	
✪✪✪	09:30	UK	Composite PMI (P)	Feb	52.9	--	52.9	
✪✪✪	10:00	Euro area	CPI (yoy, F)	Jan	2.8%	--	2.8%	
✪✪✪	10:00	Euro area	CPI (mom, F)	Jan	-0.4%	--	-0.4%	
✪✪✪	10:00	Euro area	CPI Core (yoy, F)	Jan	3.3%	--	3.3%	
Friday, 23 Feb								
✪✪	00:01	UK	GfK Consumer Confidence	Feb	-18.5	--	-19.0	
✪✪✪	07:00	Germany	GDP (sa, qoq, F)	4Q	-0.3%	--	-0.3%	
✪✪✪	07:00	Germany	GDP (nsa, yoy, F)	4Q	-0.4%	--	-0.4%	
✪✪✪	07:00	Germany	GDP (wda, yoy, F)	4Q	-0.2%	--	-0.2%	
✪✪✪	09:00	Germany	IFO Business Climate	Feb	86.0	--	85.2	We expect the Ifo to follow other surveys and improve very modestely at still very low levels.
✪✪✪	09:00	Germany	IFO Current Assessment	Feb	86.8	--	87.0	
✪✪✪	09:00	Germany	IFO Expectations	Feb	84.9	--	83.5	

Source: BofA Global Research, Bloomberg, Reuters, Central banks. Notes: †Bloomberg consensus; µ = level of importance; A = advanced; F = final; P = preliminary; sa = seasonally adjusted; nsa = not seasonally adjusted; wda = working-day adjusted; n.a. = not available; mom = month-on-month; qoq = quarter-on-quarter; yoy = year-on-year. *Refers to previous period, not preliminary release. BofA GLOBAL RESEARCH

Acronyms and abbreviations

Exhibit 21: Common acronyms/abbreviations used in our reports
This list is subject to change

Acronym/Abbreviation	Definition	Acronym/Abbreviation	Definition
1H	First Half	IT	Italy
2H	Second Half	Jan	January
1Q	First Quarter	Jul	July
2Q	Second Quarter	Jun	June
3Q	Third Quarter	lhs	left-hand side
4Q	Fourth Quarter	m	month
ann	annualized	MA	Moving Average
APP	Asset Purchase Programme	Mar	March
Apr	April	Eonia	Euro overnight indexed average
AS	Austria	mom	month-on-month
Aug	August	Mon	Monday
BdF	Banque de France (Bank of France)	MPC	Monetary Policy Committee
BE	Belgium	MWh	Megawatt-hour
BEA	Bureau of Economic Analysis	NGEU	NextGenerationEU
BLS	Bank Lending Survey	NE	Netherlands
BoE	Bank of England	Nov	November
BofA	Bank of America	NADEF	Nota di Aggiornamento al Documento di Economia e Finanza
BoI	Banca d'Italia (Bank of Italy)	NSA	Non-seasonally Adjusted
BoJ	Bank of Japan	OAT	Obligations assimilables du Trésor
BoS	Banco de España (Bank of Spain)	OBR	Office for Budget Responsibility
bp	basis point	Oct	October
BTP	Buoni Poliennali del Tesoro	OECD	Organisation for Economic Co-operation and Development
Buba	Bundesbank	ONS	Office for National Statistics
c	circa	p	preliminary/flash print
CA	Current Account	PBoC	People's Bank of China
CPI	Consumer Price Index	PEPP	Pandemic Emergency Purchase Programme
CSPP	Corporate Sector Purchase Programme	PMI	Purchasing Managers' Index
d	day	PSPP	Public Sector Purchase Programme
GE	Germany	PT	Portugal
Dec	December	QE	Quantitative Easing
DS	Debt sustainability	qoq	quarter-on-quarter
EA	Euro area	QT	Quantitative Tightening
EC	European Commission	RBA	Reserve Bank of Australia
ECB	European Central Bank	RBNZ	Reserve Bank of New Zealand
ECJ	European Court of Justice	rhs	right-hand side
EFSF	European Financial Stability Facility	RPI	Retail Price Index
EGB	European Government Bond	RRF	Recovery and Resilience Facility
DM	Developed Markets	SA	Seasonally Adjusted
EMOT	Economic Mood Tracker	SAFE	Survey on the access to finance of enterprises
EP	European Parliament	Sat	Saturday
SP	Spain	Sep	September
ESI	Economic Sentiment Indicator	SMA	Survey of Monetary Analysts
ESM	European Stability Mechanism	SNB	Swiss National Bank
EU	European Union	SPF	Survey of Professional Forecasters
f	final print	Sun	Sunday
Feb	February	SURE	Support to mitigate Unemployment Risks in an Emergency
Fed	Federal Reserve	S&P	Standard & Poor's
FR	France	Thu	Thursday
Fri	Friday	TLTRO	Targeted Longer-term Refinancing Operations
GC	General collateral	TPI	Transmission Protection Instrument
GDP	Gross Domestic Product	TTF	Title Transfer Facility
GNI	Gross National Income	Tue	Tuesday
GR	Greece	UK	United Kingdom
HICP	Harmonised Index of Consumer Prices	US	United States
HMT	His Majesty's Treasury	WDA	Work-day Adjusted
IMF	International Monetary Fund	Wed	Wednesday

Source: BofA Global Research

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