

ECONOMIC SCENARIO

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UNITED STATES

The US economy showed surprising vigour in 2023, illustrated by the +0.8% q/q advance in Q4 GDP and a +2.5% yearly annual growth driven by the resilience of household consumption and the good figures of business investment. Thus, we have gradually ruled out the event of a recession induced by the cumulative monetary tightening. Our baseline scenario implies a +2.8% rate of growth for 2024, enabled by the very positive carryover effect from 2023 and an expected increase in real incomes. H1 growth is expected to remain strong before a slowdown in H2. While the inflation peak was reached in mid-2022, Q1 2024 data have not allowed to gain more confidence regarding a rapid return of the CPI to its target. We forecast inflation to stand at +3.2% y/y in Q4 2024. This picture paves the way for a modest easing of its monetary policy by the Fed, which could start cutting rates progressively as from July 2024, with two rate cuts in 2024.

CHINA

Economic growth was stronger than expected in Q1 2024 (+5.3% year-on-year), principally driven by the manufacturing export sector. On the contrary, domestic demand and activity in the services sector continued to lack momentum, still held back by the crisis in the property sector, regulatory uncertainties, and low confidence of consumers and private investors. To support activity, the authorities have been strengthening their industrial policy while maintaining a prudent demand policy. This economic policy mix risks amplifying the divergence in performance between sectors and the imbalance between domestic demand and supply, which have been apparent for several months. The real GDP growth target of "around 5%" set for this year is projected to be reached. Consumer price inflation is expected to remain very low; it averaged zero y/y in Q1 2024.

EUROZONE

The euro area GDP slightly contracted in the second half of 2023 according to the latest Eurostat data. Annual growth was only 0.5% in 2023. The negative effects of monetary tightening are expected to diminish in 2024. Activity should inch higher in the first quarter of 2024, before a more pronounced recovery from spring onwards. This would also be underpinned by a first rate cut by the ECB, which we expect to happen in June. Two subsequent rate cuts would follow by the end of 2024. This monetary easing would accompany the inflation decline, which is expected to come close to the 2% target during the second quarter. That said we expect continued stickiness in the more wage-sensitive parts of the inflation basket, like services. The disinflation process, along with the dynamism of wages, should support household purchasing power and consumption. Growth should also be boosted by NGEU disbursements and its deployment on the ground.

FRANCE

French economy experienced six months of stagnation during the second half of 2023. For the first time, there was no growth support from domestic demand items in Q4 2023: household consumption stagnated, and corporate and household investment declined. As disinflation is now visible (the harmonized index grew by 2.4% y/y in March 2024, compared to 5.7% y/y in September 2023), our scenario for 2024 envisages a gradual improvement, starting in Q2 rather than in Q1, with the return of two important pillars of French growth (household consumption and corporate investment), and heralds an even better 2025 (with a growth forecast of 1.4%, after 0.7% in 2023).

RATES AND EXCHANGE RATES

2024 should be the year of the start of the easing cycle by the Federal Reserve, the ECB and the Bank of England. However, the timing of the first cut remains uncertain, as does the number of expected cuts. The ECB seems closer than the Fed and the BoE to getting the data and necessary confidence to estimate that inflation is moving towards the 2% target on a sustainable basis. We expect the first ECB rate cut to occur in June but have pushed back the first Fed and BoE's rate cut to, respectively, July and August (from June previously for both central banks). This first move would be followed by two more for the ECB and the BoE and only one more for the Fed (presumably 25 basis points cut each). On both sides of the Atlantic, policy rates in real terms and the degree of monetary restriction would remain about unchanged.

The induced decline in long-term rates should be limited by the importance of bond issuance against a background of quantitative tightening.

The Bank of Japan (BoJ) was the first central bank among G7 economies to act in 2024. The BoJ jointly announced the end of its negative interest rate policy and yield curve control policy at the March meeting. As a result, the policy rate target was raised from a corridor of -0.1-0.0% to 0.0-0.1%, although the volume of JGBs purchases remains broadly unchanged. We expect monetary policy to normalise very gradually in the country, with only one additional hike envisaged by the end of 2024.

We are fundamentally bearish regarding the US dollar even if it continues to be supported by geopolitical tensions and diverging trends between the US and the Eurozone (with stronger growth and inflation and less monetary easing across the Atlantic). This leads us to push back and moderate the expected USD depreciation, especially versus the euro. The yen should also eventually strengthen versus the USD, partly as a result of the desynchronization of monetary policy, as the BoJ is tightening its monetary stance.

GDP GROWTH AND INFLATION

| % | GDP Growth | | | | Inflation | | | |
|----------------|------------|------|--------|--------|-----------|------|--------|--------|
| | 2022 | 2023 | 2024 e | 2025 e | 2022 | 2023 | 2024 e | 2025 e |
| United States | 1,9 | 2,5 | 2,8 | 1,8 | 8,0 | 4,1 | 3,4 | 2,8 |
| Japan | 0,9 | 1,9 | 0,4 | 0,9 | 2,5 | 3,2 | 2,9 | 2,4 |
| United Kingdom | 4,4 | 0,1 | 0,1 | 1,2 | 9,1 | 7,4 | 2,5 | 2,1 |
| Euro Area | 3,5 | 0,5 | 0,7 | 1,7 | 8,4 | 5,4 | 2,3 | 2,0 |
| Germany | 1,9 | -0,1 | 0,0 | 1,4 | 8,7 | 6,1 | 2,5 | 2,3 |
| France | 2,5 | 0,9 | 0,7 | 1,4 | 5,9 | 5,7 | 2,3 | 1,8 |
| Italy | 4,2 | 1,0 | 0,9 | 1,4 | 8,7 | 6,0 | 1,1 | 1,8 |
| Spain | 5,8 | 2,5 | 2,0 | 2,1 | 8,3 | 3,4 | 2,8 | 2,0 |
| China | 3,0 | 5,2 | 5,2 | 4,3 | 2,0 | 0,2 | -0,1 | 1,2 |
| India* | 7,1 | 7,6 | 6,5 | 6,4 | 6,7 | 5,4 | 4,7 | 4,3 |
| Brazil | 2,9 | 2,9 | 2,2 | 2,0 | 9,3 | 4,6 | 4,1 | 4,1 |

Source : BNP Paribas (e: Estimates & forecasts)

Last update: 19 April 2024

* Fiscal year from 1st April of year n to March 31st of year n+1

INTEREST AND EXCHANGE RATES

Interest rates, %

| End of period | | Q2 2024 | Q3 2024 | Q4 2024 | Q2 2025 | Q4 2025 |
|---------------|-------------------------|---------|---------|---------|---------|---------|
| US | Fed Funds (upper limit) | 5.50 | 5.25 | 5.00 | 4.50 | 4.25 |
| | T-Note 10y | 4.25 | 4.20 | 4.20 | 4.20 | 4.20 |
| Eurozone | deposit rate | 3.75 | 3.50 | 3.25 | 2.75 | 2.50 |
| | Bund 10y | 2.35 | 1.95 | 2.00 | 2.25 | 2.50 |
| | OAT 10y | 2.87 | 2.50 | 2.52 | 2.80 | 3.05 |
| | BTP 10y | 3.70 | 3.35 | 3.45 | 3.80 | 4.00 |
| UK | BON0 10y | 3.19 | 2.82 | 2.85 | 3.15 | 3.38 |
| | Base rate | 5.25 | 4.75 | 4.50 | 4.00 | 3.50 |
| | Gilts 10y | 4.00 | 3.80 | 3.70 | 3.55 | 3.65 |
| Japan | BoJ Rate | 0.10 | 0.25 | 0.25 | 0.50 | 0.75 |
| | JGB 10y | 0.90 | 1.00 | 1.20 | 1.40 | 1.35 |

Exchange Rates

| End of period | | Q2 2024 | Q3 2024 | Q4 2024 | Q2 2025 | Q4 2025 |
|---------------|-----------|---------|---------|---------|---------|---------|
| USD | EUR / USD | 1.05 | 1.05 | 1.06 | 1.08 | 1.10 |
| | USD / JPY | 155 | 154 | 153 | 150 | 148 |
| | GBP / USD | 1.25 | 1.27 | 1.28 | 1.30 | 1.33 |
| EUR | EUR / GBP | 0.82 | 0.83 | 0.83 | 0.83 | 0.83 |
| | EUR / JPY | 163 | 162 | 162 | 162 | 163 |

Brent

| Quarter Average | | Q2 2024 | Q3 2024 | Q4 2024 | Q2 2025 | Q4 2025 |
|-----------------|---------|---------|---------|---------|---------|---------|
| Brent | USD/bbl | 80 | 85 | 83 | 81 | 82 |

Sources: BNP Paribas (Market Economics, Interest Rate Strategy, FX Strategy, Commodities Desk Strategy)

Last update: 19 April 2024



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