

# ECONOMIC SCENARIO

9

## UNITED STATES

After a strong second half of 2022 (+0.7% q/q on average per quarter), US growth slowed slightly in Q1 2023 (+0.5% q/q), mainly because of the very negative contribution of changes in inventories. The impact of the tighter monetary policy on activity and employment growth was still contained in Q2, leading us to upwardly revise our near-term growth forecasts (Q2 growth a little more positive, Q3 a bit less negative), without abandoning our expectation of a slip into recession in Q3, as a result of the sharp monetary tightening. While the peak in inflation was reached in mid-2022, core disinflation remains gradual in such a way that headline inflation should stay significantly above the target of 2% by the end of 2023. The slow pace of disinflation argues in favor of keeping monetary policy in restrictive territory, despite the start of the easing cycle in spring 2024. This will limit the expected recovery in 2024.

## CHINA

Economic growth, which was sluggish and unbalanced in 2022, is accelerating in 2023. The end of the zero Covid policy has led to a rebound in private demand and activity in the services sector since late January, with household consumption benefiting from catch-up effects. However, the post-Covid is losing momentum surprisingly rapidly. Households remain prudent, as they are notably worried by the uncertain recovery in the labor market. The crisis in the property sector is persisting. Moreover, export and industrial production prospects are darkened by global demand weakness and tensions with the US. The government and the central bank should implement new policy stimulus measures, but they are likely to remain careful. In particular, the worrying financial situation of local governments should constrain public investment.

## EUROZONE

The euro zone slipped into technical recession in the first quarter of 2023. Initially estimated at +0.1% q/q, growth has been revised to -0.1% (after a decline of same magnitude in Q4 2022). This downward revision to growth was driven by Germany. A technical rebound is expected in Q2 but, after that, the build-up of the negative effects of monetary tightening would cause growth to fall back. After three quarters of stagnation, a limited recovery would follow. Although it is expected to decline throughout 2023, inflation would remain elevated and well above the 2% target at the end of this year and still a bit above at the end of 2024, forcing monetary policy to remain in restrictive territory.

## FRANCE

Real GDP growth increased in Q1 2023 (0.2% q/q in Q1, after 0% in Q4 2022) driven by transport equipment's exports. However, household demand has played on the downside: household consumption stabilized (+0.1% q/q) in Q1 after -1% q/q in Q4 2022 whereas their investment decreased by 2.3% q/q in Q1 (after -1.2% in Q4). As inflation is still high (with a peak of 7.3% y/y in February 2023 according to the harmonized measure) and because of rising interest rates, household demand should remain subdued in 2023, weighing on our GDP growth forecast (0.5% in 2023, compared to 2.5% in 2022).

## RATES AND EXCHANGE RATES

In the US, the Federal Reserve skipped the June meeting but we expect one last hike at the July meeting given continued high core inflation and a resilient labour market so far. The slow pace of disinflation argues against a rate cut before the beginning of 2024, despite the US economy entering recession in the second half of 2023. The peak in long-term yields is likely to have been reached. Bond yields should subsequently move lower as the inflation outlook improves and the market starts anticipating monetary policy easing in 2024.

The ECB hiked again at its June meeting and more is to come. While inflation shows encouraging signs of easing, it is not yet sufficient to end the tightening cycle. We expect a terminal rate for the deposit rate at 4.00% in Q3. As part of its monetary tightening, the ECB also announced a complete halt, starting in July 2023, of its reinvestments

under the APP. European long-term rates probably have peaked and should move lower, driven by both a gradual decline in inflation in the eurozone and lower US yields.

In December 2022, the Bank of Japan increased the upper end of its target range for the 10-year JGB yield to 0.5%. Further adjustments to the yield curve control policy cannot be excluded, given that the country currently faces the fastest rate of inflation since the early 1990s. Nevertheless, the BoJ is unlikely to increase its policy rates this year, but a rise is expected in 2024.

We expect the dollar to weaken somewhat versus the euro. The dollar's valuation is expensive, positioning in the market is very long and the long-term interest rate differential should narrow. We expect the yen to remain around current levels in the near term before strengthening versus the dollar considering that the federal funds rate should have reached its terminal rate.

### GDP GROWTH AND INFLATION

%	GDP Growth*				Inflation**			
	2021	2022	2023 e	2024 e	2021	2022	2023 e	2024 e
United-States	5.9	2.1	1.5	-0.1	4.7	8.0	4.2	2.4
Japan	2.2	1.0	1.5	1.0	-0.2	2.5	3.1	1.8
United-Kingdom	7.6	4.1	0.4	0.0	2.6	9.1	7.5	2.9
Euro Area	5.3	3.5	0.4	0.6	2.6	8.4	5.4	2.9
Germany	2.6	1.9	-0.4	0.5	3.2	8.7	6.0	2.7
France	6.8	2.6	0.5	0.6	2.1	5.9	5.6	2.4
Italy	7.0	3.8	1.3	1.0	1.9	8.7	5.9	2.2
Spain	5.5	5.5	2.4	1.5	3.0	8.3	3.1	2.4
China	8.4	3.0	5.6	4.5	0.9	2.0	1.1	2.5
India***	8.7	7.2	6.1	6.5	5.5	6.7	5.5	4.5
Brazil	5.0	2.9	2.5	0.5	8.3	9.3	4.7	4.0

Source : BNP Paribas (e: Estimates & forecasts)

\* Last update 30 June 2023: GDP Italy and Spain, Last update 8 June 2023: GDP Japan, Last update 2 June 2023: GDP US and Brazil, Last update 27 June 2023: GDP UK, Last update 21 May 2023: GDP Germany

\*\* Last update 27 June 2023: inflation UK, Last update 16 June 2023: inflation US and Brazil, Last update 2 June 2023: inflation Eurozone, Germany, France, Italy, Spain, US and Brazil

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

### INTEREST AND EXCHANGE RATES

Interest rates, %		Q2 2023	Q3 2023	Q4 2023	Q4 2024
End of period					
US	Fed Funds (upper limit)*	5.25	5.50	5.50	3.75
	T-Note 10y **	3.90	3.90	3.85	3.55
Eurozone	deposit rate*	3.50	4.00	4.00	3.00
	Bund 10y **	2.60	2.45	2.20	2.00
	OAT 10y	3.15	3.00	2.72	2.50
	BTP 10y	4.60	4.70	4.45	3.80
	BONO 10y	3.60	3.55	3.30	2.90
UK	Base rate*	5.00	5.75	5.75	4.00
	Gilts 10y **	4.50	4.40	4.25	3.80
Japan	BoJ Rate	-0.10	-0.10	-0.10	0.10
	JGB 10y**	0.45	0.50	0.65	0.80

Exchange Rates		Q2 2023	Q3 2023	Q4 2023	Q4 2024
End of period					
USD	EUR / USD	1.10	1.10	1.12	1.18
	USD / JPY	133	133	130	123
	GBP / USD	1.24	1.25	1.27	1.34
EUR	EUR / GBP	0.89	0.88	0.88	0.88
	EUR / JPY	146	146	146	145

Brent		Q2 2023	Q3 2023	Q4 2023	Q4 2024
End of period					
Brent	USD/bbl	85	83	90	95

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

\* Deposit rate: Last update at 27 April 2023, Fed Funds : 2 June 2023, BoE rate: 22 June 2023

\*\* Bund 10y: last update at 3 May 2023, Gilts 10y: 15 June 2023, JGB 10y: 22 June, US 10y: 5 June 2023



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