Summary of macroeconomic forecasts

In the US, activity has been buoyant so far, largely thanks to tax cuts. For the foreseeable period, a slowdown is more than a possibility. Interest rates hikes and tariffs increases on worth $300bn of imports will start to weigh on firms profitability, then activity. The downward adjustment could be sizeable in highly leveraged sectors such as energy and IT. As a consequence, the monetary tightening could rapidly come to an end, after a supplementary 50-75 bps hike in key rates. Long term-bond yields would also stabilize, at around the 3pct level.

The Euro area, the recovery is losing momentum, with some countries like Italy now stalling. Extra-EU trade is less dynamic, in line with fading external demand, in particular coming from EMEs. Inflation is expected to come-back below the 2pct level, as a consequence of falling oil prices. The ECB will stop its net asset purchases as off the 1st January of 2019, while keeping rates unchanged up to the end of year. This may cause a (slight) rebound in bond yields as well as in the value of euro.

<table>
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<tr>
<th>%</th>
<th>GDP Growth</th>
<th>Inflation</th>
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Source: BNP Paribas Group Economic Research (e: Estimates & forecasts,)
### Summary of financial forecasts

#### Interest rates, %

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<tr>
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<th>2018</th>
<th>2019</th>
<th>2018e</th>
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<th>2020e</th>
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<td>Q2</td>
<td>Q3e</td>
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#### Exchange Rates

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<th>2018e</th>
<th>2019e</th>
<th>2020e</th>
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<tbody>
<tr>
<td></td>
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<td>Q2</td>
<td>Q3e</td>
<td>Q4e</td>
<td>Q1e</td>
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<td>1.16</td>
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<td>1.15</td>
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<tr>
<td>USD / JPY</td>
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<td>1.16</td>
<td>1.13</td>
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<td>1.16</td>
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Source: BNP GlobalMarkets (e: Estimates & forecasts)

---

**Interest rates**

**Euro vs Dollar**

**Interest rates**

**Oil market**

---

**Sources**: Thomson Datastream, BNP Paribas

---

**Exchange Rates**

**End of period**

**Q1** **Q2** **Q3e** **Q4e** **Q1e** **Q2e** **Q3e** **Q4e**

**USD** **EUR / USD** 1.23 1.17 1.16 1.14 1.15 1.17 1.21 1.25

**USD / JPY** 106.35 110.77 113.59 111.00 110.00 108.00 105.00 100.00

**EUR** **GBP** 0.88 0.88 0.89 0.90 0.87 0.86 0.86 0.85

**EUR / CHF** 1.18 1.16 1.13 1.13 1.16 1.17 1.18 1.20

---

**Sources**: Thomson Datastream, BNP Paribas

---

**Interest rates**

**Euro vs Dollar**

**Interest rates**

**Oil market**

---

**Sources**: Thomson Datastream, BNP Paribas

---

**Sources**: Thomson Datastream, BNP Paribas

---

**Sources**: Thomson Datastream, BNP Paribas
**United States**

**7. United States, business climate**

- ISM Manufacturing
- ISM Manufacturing, new orders component

The business climate still looks healthy, although marking some correction from past buoyant level.

**8. United States, investment cycle vs corporate profits**

- Corporate Profits after tax, % GVA [LHS]
- Corporate Fixed investment, % of GVA [RHS]

Corporate investment and profits are now relatively far along in the cycle.

**9. United States, domestic oil market recovers**

- Oil production, m/bd [LHS]
- Number of drillings [RHS]

After dropping sharply, the number of drillings is on the rise again. US oil production is also recovering, matching all times high.

**10. United States, consumption**

- Private consumption, 3m/3m, ann. [LHS]
- Retail sales, vol., 3m/3m, ann. [RHS]

Very strong in Q3, correcting in Q4.

**11. United States, housing market on a good shape**

- NAHB Index [RHS]
- Housing starts, x1000 [LHS]

The NAHB index is peaking.

**12. United States, housing market on a good shape**

- Inventories, Months of sales [RHS]
- Housing starts, x1000 [LHS]

First signs of peaking. Inventories are up in month of sales.
**United States**

### 13 US, non-farm payrolls vs unemployment rate

- **Nonfarm payrolls, monthly change, x1000** [LHS]
- **Unemployment rate** [RHS]

Sources: Thomson Datastream, BNP Paribas

The US unemployment rate is below 4%, the lowest since 18 year.

---

### 14 US, labour force participation rate

- **Participation rate**
  - 20-64 aged population

Sources: Thomson Datastream, BNP Paribas

The participation rate among the working age population (20-64 year) has reverted upward, a further indication that the labour market is in better shape.

---

### 15 US, muted tensions over prices

- **CPI Headline, yy**
- **CPI Core, yy**
- **CPI Energy, yy** [RHS]

Sources: Thomson Datastream, BNP Paribas

Energy was largely responsible for the past upturn in headline inflation. However, core inflation (excluding food and energy) is now slightly accelerating.

---

### 16 US, some tensions over wages

- **XAxis: Unemployment rate**
- **YAxis: Real hourly wage rate**

Sources: Thomson Datastream, BNP Paribas

Real hourly wage growth is now accelerating (coming from zero). However, it is still below the path suggested by a traditional Phillips curve.

---

### 17 US, credit to corporates keeps healthy

- **Credit to corporate*, net flows, an $bn** [LHS]
- **Banks tightening credit, %** [RHS]

Sources: Thomson Datastream, BNP Paribas

Thanks to accommodating credit conditions, credit flows to corporates (loans & bond issues) have returned to healthy pre-crisis levels.

---

### 18 US, higher leverage in corporate sector

- **Corporate debt, % GVA** [LHS]
- **Corporate profit after tax, % GVA** [RHS]

Sources: Thomson Datastream, BNP Paribas

A cause for future concern? US companies are heavily in debt again, while their profitability is eroding, a configuration that has often preceded recessions.
Corporate spreads have become sensitive to oil prices in the US. One explanation is the size of the highly-leveraged shale oil sector.

The energy sector has considerably increased its net debt ratio since the “revolution” of shale gas and oil took place.

Although the Fed funds rate has ticked upwards, it is still below the core inflation rate. It should become positive in real terms in the course of 2018.

Looking at the real effective exchange rate (trade weighted & adjusted for inflation), the dollar now tends to retrace from a cyclical peak.

External deficits have stopped narrowing.
China

25. **China, various activity indicators**

- GDP, yy
- Electr. Output, yy
- Industrial Output

Electricity and industrial output both in line with GDP growth (at around 6.5% annually).

27. **China, investment has come down**

- Fixed investment, % GDP
- Private consumption, % GDP

Excessive investment leads to surplus capacity, which is one of the lessons of the global turmoil triggered by the financial crisis in 2008-2009. A contraction began in 2015.

29. **China, trade surpluses remain large**

Trade balance (% GDP)

External surpluses are still huge, even though they have narrowed somewhat since mid-2016 (rebound in oil prices).

26. **China, change in growth determinants**

- US Households Debt Ratio, % GDP [LHS]
- China, Exports, % GDP [RHS]

Bent on deleveraging, US consumers are importing less from China.

28. **China, credit**

Credit outstanding as % of GDP

China has the highest internal debt ratio of the emerging countries.

30. **China, leading the Commodity cycle**

Cement output in China, yy [LHS]
- CRB World Commodity Prices Index, yy [RHS]

The Chinese cement industry seems to edge back toward recession, which could have negative implication for commodity markets.
**Euro Area**

### 31. Euro area, lagging behind

**GDP, vol. (2008 = 100)**

- **United States**
- **Euro Area**

Although growth has accelerated, it still lags behind the US.

**Sources**: Thomson Datastream, BNP Paribas

### 32. Euro area, GDP growth vs business surveys

- **GDP, q/q, ann. [LHS]**
- **PMI composite [RHS]**

Still down.

**Sources**: Thomson Datastream, BNP Paribas

### 33. Germany, GDP growth vs business surveys

- **GDP, q/q, ann. [LHS]**
- **PMI composite [RHS]**
- **PMI Manuf. [RHS]**

Back to more normal levels after having rocketed. The fall in Q3 GDP is partly accidental and should be corrected in Q4. However, the global trend appears less favourable.

**Sources**: Thomson Datastream, BNP Paribas

### 34. France, GDP Growth vs business surveys

- **GDP, q/q, ann. [LHS]**
- **PMI composite [RHS]**
- **PMI Manuf. [RHS]**

Rebounding in Q3.

**Sources**: Thomson Datastream, BNP Paribas nowcast model

### 35. France, peaking housing?

- **Housing Starts, ann. x1000 [LHS]**
- **Home Builders Business Outlook Index [RHS]**

After having returned to cyclical peaks (more than 400K annual starts) the housing activity in France is set to normalize.

**Sources**: Thomson Datastream, BNP Paribas

### 36. France, booming car registrations

- **New car registrations**
  - Monthly, x1000

A surge in Aug. ahead of more stringent technical standards. A downward correction occurs in sept.

**Sources**: Thomson Datastream, European Commission BNP Paribas
Euro Area

37. Italy, GDP growth vs business surveys

38. Spain, GDP growth vs business surveys

39. Euro area, fixed investment vs cap. utilization rate

40. Euro area, corporate fixed investment vs profits

41. France, fixed investment vs corporate profit

42. France, fixed investment vs corporate debt

Sources: Thomson Datastream, BNP Paribas

Back to zero…

Still good, albeit losing some momentum

Higher capacity utilisation rates…

… and upward profit margins have triggered an upturn in corporate investment. Now peaking?

Investment in France has been rather resilient compared to other countries, and despite various trends in corporate profits.

Credit has been a support factor for investment in France.
**Euro area**

### Corporate debt ratio, diverging trends

**Nonfinancial corporate debt, % GVA**
- **Germany**
- **France**

The French corporate debt has surged over the past decade. However, this is largely due to big companies, which are also cash rich. The net debt ratio is not so high.

### Euro area, trend in corporate fixed investment

**Investment in Mach. & Equipt., 2008 = 100 (vol.)**
- **Spain**
- **Italy**

Corporate investment revives in keeping with profit margins, but not at the same pace across the board.

### Euro area, current accounts show large surpluses

**Current account balance**
- % GDP

At a record high.

### Euro Area, credit to corporates vs bank lending survey

**Credit to Corporates, EURbn, an. [LHS]**
- Banks tightening, % [RHS]
- Banks Expected demand, % [RHS]

The ECB bank lending surveys are improving as lending standards return to normal. The private sector’s demand for credit is getting stronger.

### Spain, credit to corporates (<1y, EUR 1mn)

**Credit to corporates, EURbn, <1y & EUR 1mn**
- 12m cumulated net flows
- Monthly net flows (annualized)

Credit to corporates (under 1 year and EUR 1mn) is now stalling.
**Euro area**

**Euro area, financing conditions have improved**

Bank's lending rates to corporates (<1Y & EUR 1mn)

![Graph showing Bank's lending rates to corporates](image)

The convergence of lending rates signals a reduction in fragmentation.

**Euro area, consumer credit recover**

Euro are consumer credit

![Graph showing Euro area consumer credit](image)

Consumer credit is firmly back in positive territory.

**Monetary aggregates, Euro area vs US**

Monetary aggregates (2008 = 100)

![Graph showing Monetary aggregates](image)

For a long time, monetary support was stronger in the US than in the euro area, but this changed when the ECB launched its asset purchase program.

**Euro area, inflation still subdued**

![Graph showing Euro area inflation](image)

The core inflation rate is trending around 1% per year. The rebound in headline figure is due to energy.

**Euro area, base money surge with the QE**

Money base

![Graph showing Money base](image)

The ECB’s TLTRO programme temporarily inflated the money base (bank holdings with the ECB), then growing with QE.

**Euro Area, ECB “refi” rate vs determinants**

ECB Ref

![Graph showing ECB “refi” rate](image)

The refi has held at 0.0% since March 16, 2016, while the deposit facility rate (DFR) is negative at -0.40%.
Markets

Italian 10 year rates

- Italy, 10y Government Bond Yield
- Italy, 2y Government Bond Yield

Sources: Thomson Datastream, BNP Paribas

Rebounding, amid political uncertainties.

Spanish 10 year rates

- Spain, 10y Government Bond Yield
- Spain, 2y Government Bond Yield

Sources: Thomson Datastream, BNP Paribas

Still relatively low.

France, over several maturities

France, Government Bond Yields

Sources: Thomson Datastream, BNP Paribas

Still very low by historical standard, at all maturities.

Euro-dollar

- Euro vs Dollar, 2017=100
- Euro Nominal Effective Exchange rate, 2017=100

Sources: Thomson Datastream, BNP Paribas

Correcting from the 2017' rebound.

Euro-dollar vs capital flows

Sources: Thomson Datastream, BNP Paribas

Net capital outflows from the EMU (direct and portfolio investments) still important.

Euro-dollar vs ECB’s balance sheet

Sources: Thomson Datastream, BNP Paribas

Lower range of fluctuation after QE.
Earnings per share are now far above their long-term trend.

The PE ratio (based on trend EPS) is high, but the risk premium on the "risk-free" rate (Treasuries) is not so low.

… with some details (European Commission estimates)

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<thead>
<tr>
<th>Country</th>
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<td>Primary</td>
<td>Struct.</td>
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CONJUNCTURE
Structural or in news flow, two issues analysed in depth

EMERGING
Analyses and forecasts for a selection of emerging economies

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Analyses and forecasts for the main countries, emerging or developed

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