

# ECONOMIC SCENARIO

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## UNITED STATES

In the US, the prospect of a recession triggered by the monetary tightening still appears as ruled out, given the resilience on the economy illustrated by a +2.5% yearly annual GDP growth in 2023. In the wake of a slowdown in Q1 2024 (+0.3% q/q, following +0.8% in Q4 2023), GDP growth accelerated again at +0.7% q/q in Q2, driven by positive contributions from household consumption and investment. Our baseline scenario implies a +2.6% yearly annual growth rate in 2024, enabled by the 2023 carryover effect as well as an increase in real income. The inflation peak was reached in mid-2022 and, while Q1 2024 data had raised concerns, Q2 and early-Q3 data indicate that the disinflation path has markedly resumed. This picture, together with the softening of the labour market, paved the way for the Fed to undertake monetary easing. This has started in September, with a jumbo 50bps cut, which is expected to precede two 25bps cuts in November and December, thereby bringing the target rate to +4.25% - +4.5% by year-end.

## CHINA

Economic growth rebounded in Q1 2024 and slowed in Q2. It stood at 5% y/y in the first half of 2024. The different components of Chinese growth have exhibited diverging trajectories. In the manufacturing sector, activity is solid, driven by exports and supported by the authorities' industrial policy. Its growth momentum is nonetheless likely to weaken in the coming quarters. In the services sector, activity continues to lack momentum. Domestic demand remains held back by the crisis in the property sector, regulatory uncertainties, and low confidence of consumers and private investors. Recent measures to boost activity in the property sector have had no effect so far while domestic credit growth has decelerated since the beginning of the year in spite of monetary policy easing. In the short term, the authorities are expected to keep their industrial policy unchanged while introducing new monetary and fiscal measures that should help stimulate domestic demand. Consumer price inflation increased slightly during the summer (+0.6% y/y in August), but core inflation remains very low and the supply-demand imbalance continues to fuel deflationary pressures.

## EUROZONE

Growth in the euro area is expected to stabilise at 0.3% q/q in the third and fourth quarters of 2024, slightly higher than the rate recorded in the third quarter, which has been revised lower by Eurostat: to 0.2%. However, the difficulties in industry, highlighted by the deterioration in PMIs in September, and the uncertainty about the Chinese economy, increase the downside risks to our forecasts. Significant growth differentials will persist between Member States during the second semester: stronger gains in activity are expected in Spain and Italy than in Germany and France. Overall Eurozone growth would be supported by the continuation of the ECB's cycle of interest rate cuts, which began in June, and which would be followed by two more cuts in October and December. Growth is also expected to be supported by a still resilient labour market and the disbursement of NGEU funds and their deployment on the ground. We expect headline inflation to converge towards the 2% target by the second half of 2025.

## FRANCE

French economy benefitted from a 0.2% q/q growth in Q2 (after 0.3% q/q in Q1 2024), mainly supported by exports. Disinflation is now visible (the harmonized index grew by 1.5% y/y in September 2024, compared to 5.7% y/y a year ago) but household consumption growth remains disappointing. As a result, we expect no growth acceleration in 2025 compared with 2024 (with a growth forecast of 1.2% for both years, after 1.1% in 2023).

## INTEREST RATES AND EXCHANGE RATES

The US Federal Reserve started its monetary easing cycle in September, with a first 50 basis point cut in the Fed funds rate. This would be followed by two other 25bps cuts November and December. By the end of 2024, two further rate cuts are expected from the ECB (October and December), while the BoE will proceed with one more cut. On both sides of the Atlantic, however, the policy rates in real terms, and thus the degree of monetary restraint, would remain more or less unchanged. The resulting decline in long-term rates should be limited by the size of bond issuance against a backdrop 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%, before a new +15bps upward movement in July. At the same time, it was announced that the volume of JGB purchases was to be halved.

We expect monetary policy to normalise gradually in the country, with only one additional hike envisaged by the end of 2024 (-25 BPS), before three more cuts in 2025.

We are fundamentally bearish regarding the US dollar, but it is so far 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	2.5	2.9	2.6	1.9	8.0	4.1	2.9	2.2
Japan	1.1	1.7	-0.2	0.7	2.5	3.3	2.6	2.2
United Kingdom	4.8	0.3	1.0	1.5	9.1	7.3	2.6	2.6
Euro Area	3.4	0.5	0.8	1.4	8.4	5.4	2.3	1.8
Germany	1.4	-0.1	0.1	1.0	8.7	6.0	2.4	2.0
France	2.6	1.1	1.2	1.2	5.9	5.7	2.5	1.2
Italy	4.2	1.0	0.9	1.2	8.7	5.9	1.0	1.7
Spain	6.2	2.7	2.9	2.5	8.3	3.4	2.9	1.8
China	3.0	5.2	4.9	4.5	2.0	0.2	0.4	1.3
India*	7.0	8.2	6.9	6.7	6.7	5.4	4.7	4.3
Brazil	2.9	2.9	3.1	2.0	9.3	4.6	4.3	3.8

Source : BNP Paribas (e: Estimates & forecasts)

Last update: 11 October 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		Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	
US	Fed Funds (upper limit)	4.50	4.00	3.75	3.50	3.25	
	T-Note 10y	3.00	2.75	2.50	2.25	2.25	
	Eurozone	deposit rate	3.25	3.00	2.75	2.50	2.50
		Bund 10y	2.15	2.10	2.10	2.15	2.25
		OAT 10y	2.88	2.80	2.85	2.85	2.95
UK	BTP 10y	3.60	3.40	3.45	3.55	3.65	
	BONO 10y	2.93	2.85	2.85	2.88	2.98	
	Base rate	4.75	4.50	4.25	4.00	3.75	
Japan	Gilts 10y	3.80	3.80	3.60	3.50	3.65	
	BoJ Rate	0.50	0.75	1.00	1.00	1.25	
	JGB 10y	1.25	1.40	1.55	1.70	1.80	

#### Exchange Rates

End of period		Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD	EUR / USD	1.12	1.13	1.14	1.14	1.15
	USD / JPY	139	138	136	134	131
	GBP / USD	1.35	1.36	1.37	1.37	1.39
EUR	EUR / GBP	0.83	0.83	0.83	0.83	0.83
	EUR / JPY	156	156	155	153	151

#### Brent

Quarter Average		Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025
Brent	USD/bbl	82	79	75	80	77

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

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