

ECONOMIC SCENARIO

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UNITED STATES

The US economy continues to display dynamism and resilience to the monetary tightening. 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 and Q3, mainly driven by household consumption. We forecast a +2.8% annual GDP growth in 2024, following +2.9% in 2023, enabled by the carryover effect and the catch-up in real income. The currently above-trend activity should face a slowdown in 2025, with a +2.1% annual growth rate, before the material impact of economic policy changes appears in 2026. The ongoing year's developments in the realm of inflation have increased the likelihood of the soft-landing scenario, and CPI is expected to stand at +2.6% y/y in Q4 2024. The rebalancing of risks surrounding inflation and the labour market paved the way for the Fed to undertake monetary loosening. The target rate was lowered in September (-50 bps) and November (-25 bps). A further cut, in December, should bring the target to +4.25% - +4.5% at the end of 2024. Nevertheless, the inflation risk associated with upcoming policy changes should lead the Fed to keep the policy rate stable throughout 2025.

CHINA

Economic growth accelerated in Q3 2024 (+0.9% y/y vs. +0.5% in Q2) and stood at 4.8% y/y in the three quarters of 2024. To reach the official growth target of "about 5%" set for 2024, activity will have to rebound strongly in Q4. This requires the fast implementation of all the fiscal and property policy measures announced over the past few weeks. Economic growth gained some momentum in October, notably supported by the strengthening in household consumption and the strong performance of exports. However, the 2025 outlook remains uncertain. On the one hand, the manufacturing sector will face a rising number of protectionist measures. On the other hand, domestic demand remains held back by significant brakes, including the crisis in the property sector, slower growth in household income, and low confidence of the private sector. Consumer price inflation remains very low and production prices have been falling for two years.

EUROZONE

After a rebound in Q3 2024 (+0.4% q/q), growth in the euro area is expected to slow in Q4 (+0.3% q/q) before stabilising at 0.2% q/q on a quarterly basis in 2025. On an annual average, growth is expected to strengthen slightly to 1.0% in 2025, with again significant differences between Member States. These differences are also felt on the labour market, where the signals are more negative in France and Germany, while the unemployment rate continues to fall in Spain and Italy. Scope for growth will be limited by the protectionist turn that is looming in the United States, persistent difficulties in industry, underlined by the currently low levels of PMI indices, and uncertainty about the Chinese economy. These developments would be offset by the moderation in inflation, the continuation of the ECB's easing cycle, and the stronger impact expected from NGEU Funds.

FRANCE

GDP growth strengthened to 0.4% q/q growth in Q3 (after 0.2% q/q in Q2 2024), mainly supported by the positive impact of the Olympics and despite lower business and household investment (-1.2% and -0.6% q/q respectively). Disinflation is now visible (the harmonized index grew by 1.7% y/y in November 2024, compared to 3.9% y/y a year ago) but household consumption growth remains disappointing (excluding the positive impact of the Olympics). In 2025, GDP growth should decrease to 0.8% against a background of deterioration of the labor market and as a result of significant political uncertainty (after 1.1% in 2023 and 2024).

INTEREST RATES AND EXCHANGE RATES

Our rate scenario for the United States has been recalibrated to take into account the inflationary effects of protectionist measures expected in 2025. After a further 25 bps cut in the Fed Funds rate in December, which will bring it to a target range of 4.25-4.50%, the Federal Reserve would thus keep rates unchanged until the second half of 2026.

Regarding the ECB, we expect successive 25bps cuts in key rates at each meeting, until the deposit rate reaches 2% in June 2025, and then stabilises at that level, which is the middle of our range of neutral rate estimates. In December 2024, the Bank of England, for its part, would opt for the *status quo*, before restarting the downward cycle in early 2025, at a pace of one cut per quarter. In the United

Kingdom and the United States, policy rates in real terms – which is a better indication of the degree of monetary tightening – would remain positive in 2025, while monetary policy would be broadly neutral in the eurozone.

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 JGBs purchases was to be halved.

We expect monetary policy to normalise very gradually in the country, with three hikes envisaged in 2025, which would bring the policy rate to +1.0%

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. This leads us to forecast a EUR-USD parity towards the end of 2025. The yen would depreciate moderately versus the USD, also as a result of the desynchronization of monetary policy, as the BoJ is tightening its monetary stance.

GDP GROWTH AND INFLATION

%	GDP Growth				Inflation			
	2023	2024 e	2025 e	2026 e	2023	2024 e	2025 e	2026 e
United States	2.9	2.8	2.1	1.3	4.1	2.9	2.9	3.9
Japan	1.5	-0.3	0.6	0.2	3.3	2.7	2.5	2.1
United Kingdom	0.3	0.9	1.4	0.9	7.3	2.6	3.2	2.5
Euro Area	0.5	0.8	1.0	1.0	5.4	2.4	2.1	2.0
Germany	-0.1	-0.1	0.4	0.6	6.0	2.5	2.4	1.8
France	1.1	1.1	0.8	0.9	5.7	2.3	1.1	1.2
Italy	0.8	0.5	1.0	1.0	5.9	1.1	2.0	1.9
Spain	2.7	3.1	2.5	1.8	3.4	2.8	2.2	2.2
China	5.2	4.9	4.5	4.3	0.2	0.3	0.8	1.0
India*	8.2	8.2	6.0	6.7	5.4	5.4	4.9	4.2
Brazil	2.9	3.4	2.1	1.8	4.6	4.4	5.1	4.0

Source : BNP Paribas (e: Estimates & forecasts)

Last update: 6 December 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		Q1 2025	Q2 2025	Q3 2025	Q4 2025
US	Fed Funds (upper limit)	4.50	4.50	4.50	4.50
	T-Note 10y	4.10	4.25	4.55	4.65
	deposit rate	2.50	2.00	2.00	2.00
	Bund 10y	1.90	2.00	2.10	2.25
	OAT 10y	2.63	2.80	2.95	3.13
Eurozone	BTP 10y	2.95	3.10	3.25	3.40
	BONDO 10y	2.50	2.65	2.75	2.90
	Base rate	4.50	4.25	4.00	3.75
UK	Gilts 10y	4.15	3.90	4.00	4.00
	BoJ Rate	0.50	0.75	0.75	1.00
Japan	JGB 10y	1.20	1.40	1.40	1.60

Exchange Rates

End of period		Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD	EUR / USD	1.03	1.02	1.01	1.00
	USD / JPY	153	154	155	156
	GBP / USD	1.26	1.24	1.23	1.22
EUR	EUR / GBP	0.82	0.82	0.82	0.82
	EUR / JPY	158	157	157	156

Brent

Quarter Average		Q1 2025	Q2 2025	Q3 2025	Q4 2025
Brent	USD/bbl	72	75	76	75

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

Last update: 6 December 2024



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