

ECONOMIC SCENARIO

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UNITED STATES

The US economy has shown a 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 factors such as the carryover effect from 2023 and an expected increase in real incomes, with a slowdown over S2. The inflation peak was reached in mid-2022, and the latter is expected to approach the 2% target in 2024. This picture paves the way for an easing of its monetary policy by the Fed, which can foresee a soft landing of the US economy and start cutting rates progressively as from June 2024.

CHINA

The post-Covid rebound in economic activity proved to be weaker than initially expected. Domestic demand has remained held back by a significant loss in private investor and consumer confidence. The crisis in the property sector has persisted, with the continued fall in sales, defaults of developers and growing difficulties of certain financial institutions. These constraints to economic growth have persisted since the beginning of 2024. However, activity has strengthened slightly, driven by the manufacturing export sector, and helped by fiscal stimulus measures. In the short term, exports are likely to continue to gain strength. Moreover, the authorities are expected to continue to ease their economic policy mix, which is a prerequisite for reaching the official real GDP growth target of "about 5%" that has been set for 2024. Consumer price inflation will remain low. Yet the policy leeway of the government and the central bank is still being constrained by the debt excess of the economy and the weak financial situation of local government.

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 continue to weigh on economic activity this winter. Activity is expected to inch higher in the first quarter of 2024, before a more pronounced recovery from spring onwards. This would be underpinned by a first rate cut by the ECB, which we expect to happen in June. This monetary easing would accompany the inflation decline, which is expected to come close to the 2% target during the second quarter. Disinflation, along with the dynamism of wages, is expected to support household purchasing power and consumption. Growth should also be supported by NGEU disbursements and its deployment on the ground.

FRANCE

France experienced 0% q/q growth in Q3 and 0.1% q/q growth in Q4 2023 after a short-lived acceleration in Q2 2023 (+0.6% t/t, driven by exceptional factors, such as aeronautics). In Q4, corporate investment has decreased for the first time (after significant growth). In parallel, household consumption was stable and household investment decreased markedly. Disinflation is now visible (the harmonized index grew by 3.1% y/y in February 2024, compared to 5.7% y/y in September 2023), but the impact of higher interest rates should continue to be felt. As a result, we expect 0.1% growth q/q during the Q1 2024. Going forward, we expect no clear growth acceleration this year (0.7% in 2024 after 0.9% in 2023).

RATES AND EXCHANGE RATES

The first policy rate cuts are taking shape somewhat more clearly. They would, according to our forecasts, occur in June for the Federal Reserve, the ECB, and the Bank of England. In particular, the Federal Reserve and the ECB declare they are about to have the necessary data and confidence to be in a position to estimate that inflation is heading sustainably towards the 2% target. The most prominent risk, however, is that inflation proves to be stickier than anticipated, which would delay the monetary easing. We expect three 25-basis-point rate cuts from the Fed by the end of 2024, four for the ECB and the Bank of England. 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.

On 31 October, the Bank of Japan (BoJ) adjusted its yield curve control policy (YCC) by allowing a wider fluctuation in 10-year sovereign interest rates around the target of 1%. Further adjustments to monetary policy are likely, given that the country currently faces the fastest rate of inflation since the early 1990s. We expect the BoJ to end its negative interest rate policy this Spring (most likely in March), while keeping a loose approach to its yield curve control policy.

We remain fundamentally bearish regarding the US dollar, but the still-strong US growth pushes back and moderates its expected depreciation, especially versus the euro. The yen is expected to strengthen more significantly versus the USD, based on the combination of the start of BoJ tightening and of the repatriation by Japanese investors of their foreign holdings.

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	3,1	2,8
Japan	0,9	1,9	0,4	0,9	2,5	3,2	2,3	2,0
United-Kingdom	4,4	0,1	0,1	1,2	9,1	7,4	2,1	2,2
Euro Area	3,4	0,5	0,7	1,7	8,4	5,4	2,3	2,1
Germany	1,9	-0,1	0,0	1,4	8,7	6,0	2,3	2,1
France	2,5	0,9	0,7	1,4	5,9	5,7	2,4	1,8
Italy	3,9	0,9	0,9	1,4	8,7	5,9	1,2	1,8
Spain	5,8	2,5	2,0	2,1	8,3	3,4	2,7	2,0
China	3,0	5,2	4,5	4,3	2,0	0,2	-0,1	1,2
India*	7,2	7,5	8,1	7,1	6,7	6,7	5,5	4,8
Brazil	2,9	2,9	1,8	1,8	9,3	4,6	3,9	3,8

Source : BNP Paribas (e: Estimates & forecasts)

Last update: 22 March 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)	5.25	5.00	4.75	4.25	4.00
T-Note 10y	4.25	4.20	4.20	4.20	4.20
Eurozone					
deposit rate	3.75	3.25	3.00	2.50	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
BONO 10y	3.19	2.82	2.85	3.15	3.38
UK					
Base rate	5.00	4.50	4.25	3.75	3.25
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	1.10	1.10	1.10	1.12	1.14
USD / JPY	146	144	142	137	133
GBP / USD	1.31	1.33	1.33	1.35	1.37
EUR					
EUR / GBP	0.84	0.83	0.83	0.83	0.83
EUR / JPY	161	158	156	153	152

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: 12 March 2024



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