

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 +2.9% 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 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 will require the fast implementation of all the fiscal and property policy measures announced over the past few weeks. Economic growth started to gain some momentum in September. However, on the one hand, the manufacturing sector is likely to face a slowdown in its exports in the coming months due to the 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, regulatory uncertainties, and low confidence of the private sector. Consumer price inflation stood at +0.5% y/y in Q3 2024, vs. +0.3% in Q2, but core inflation weakened and reached a low point in September (+0.1% y/y); the supply-demand imbalance fuels persisting deflationary pressures.

EUROZONE

Growth in the euro area surprised on the upside in the third quarter of 2024, expanding by 0.4% q/q according to Eurostat preliminary estimates. The difficulties in the industrial sector, highlighted by the current low PMI figures, and the uncertainty about the Chinese economy, increase the downside risks to our forecasts. While Spain is expected to record more solid gains in activity in the coming quarters, the gaps would narrow between Germany, France and Italy. Overall Eurozone growth would be supported by the continuation of the ECB's cycle of interest rate cuts. We expect successive 25 basis point cuts in key rates at each ECB meeting, as the neutral rate will be reached in the third quarter of 2025. Growth in the Eurozone is also expected to be supported by a still resilient labour market and the disbursement of NGEU funds and their deployment on the ground.

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 (-1.4% and -0.9% q/q respectively). Disinflation is now visible (the harmonized index grew by 1.5% y/y in October 2024, compared to 4.5% y/y a year ago) but household consumption growth remains disappointing (excluding the positive impact of the Olympics). 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, which would be followed by two other 25 basis point cuts in November and December. By the end of 2024, another rate cut is also expected both from the BoE (November) and the ECB (December). 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 JGBs 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 two 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. 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 | 2.7 | 2.1 | 8.0 | 4.1 | 2.9 | 2.2 |
| Japan | 1.1 | 1.7 | -0.2 | 0.7 | 2.5 | 3.3 | 2.7 | 2.4 |
| United Kingdom | 4.8 | 0.3 | 1.0 | 1.5 | 9.1 | 7.3 | 2.5 | 2.3 |
| Euro Area | 3.4 | 0.5 | 0.8 | 1.5 | 8.4 | 5.4 | 2.3 | 1.9 |
| Germany | 1.4 | -0.1 | -0.1 | 0.9 | 8.7 | 6.0 | 2.4 | 2.1 |
| France | 2.6 | 1.1 | 1.2 | 1.2 | 5.9 | 5.7 | 2.3 | 1.2 |
| Italy | 4.2 | 1.0 | 0.5 | 1.1 | 8.7 | 5.9 | 1.1 | 1.8 |
| Spain | 6.2 | 2.7 | 3.0 | 2.5 | 8.3 | 3.4 | 2.8 | 1.6 |
| 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 | 4.4 | 4.2 |

Source : BNP Paribas (e: Estimates & forecasts)

Last update: 30 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 | 3.80 | 3.70 | 3.70 | 3.65 | 3.65 |
| Eurozone | deposit rate | 3.00 | 2.50 | 2.00 | 2.00 | 2.00 |
| | Bund 10y | 2.15 | 2.10 | 2.10 | 2.15 | 2.25 |
| | OAT 10y | 2.88 | 2.80 | 2.85 | 2.85 | 2.95 |
| | BTP 10y | 3.60 | 3.40 | 3.45 | 3.55 | 3.65 |
| | BONO 10y | 2.93 | 2.85 | 2.85 | 2.88 | 2.98 |
| UK | Base rate | 4.75 | 4.50 | 4.25 | 4.00 | 3.75 |
| | Gilts 10y | 3.80 | 3.80 | 3.60 | 3.50 | 3.65 |
| Japan | BoJ Rate | 0.50 | 0.50 | 0.75 | 0.75 | 1.00 |
| | 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 | 78 | 78 | 72 | 77 | 74 |

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

Last update: 1 November 2024



BNP PARIBAS

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