

# ECONOMIC SCENARIO

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## UNITED STATES

The US economy showed 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 the very positive carryover effect from 2023 and an expected increase in real incomes. H1 growth is expected to remain strong before a slowdown in H2. While the inflation peak was reached in mid-2022, Q1 2024 data have not allowed to gain more confidence regarding a rapid return of the CPI to its target. We forecast inflation to stand at +3.2% y/y in Q4 2024. This picture paves the way for a modest easing of its monetary policy by the Fed, which could start cutting rates progressively as from July 2024, with two rate cuts in 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 diminish in 2024. Activity is expected to inch higher in the first quarter of 2024, before a more pronounced recovery from spring onwards. This would also be underpinned by a first rate cut by the ECB, which we expect to happen in June. Two subsequent rate cuts would follow by the end of 2024. This monetary easing would accompany the inflation decline, which is expected to come close to the 2% target during the second quarter. That said we expect continued stickiness in the more wage-sensitive parts of the inflation basket, like services. The disinflation process, along with the dynamism of wages, is expected to support household purchasing power and consumption. Growth should also be boosted 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 2.4% y/y in March 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

2024 should be the year of the start of the easing cycle by the Federal Reserve, the ECB and the Bank of England. However, the timing of the first cut remains uncertain, as does the number of expected cuts. The ECB seems closer than the Fed to getting the data and necessary confidence to estimate that inflation is moving towards the 2% target on a sustainable basis. We expect a first ECB (and BoE) rate cut in June but have pushed back the first Fed's rate cut from June to July. This would be followed by three more for the BoE, two more for the ECB and only one more for the Fed (presumably 25 basis points cut each). 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. 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%, although the volume of JGBs purchases remains broadly unchanged. We expect monetary policy to normalise very gradually in the country, with only one additional hike envisaged by the end of 2024. 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	3,4	2,8
Japan	0,9	1,9	0,4	0,9	2,5	3,2	2,9	2,3
United Kingdom	4,4	0,1	0,1	1,2	9,1	7,4	2,3	2,0
Euro Area	3,5	0,5	0,7	1,7	8,4	5,4	2,3	2,0
Germany	1,9	-0,1	0,0	1,4	8,7	6,1	2,5	2,3
France	2,5	0,9	0,7	1,4	5,9	5,7	2,3	1,8
Italy	4,2	1,0	0,9	1,4	8,7	6,0	1,1	1,8
Spain	5,8	2,5	2,0	2,1	8,3	3,4	2,8	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: 15 April 2024

\* Fiscal year from 1st April of year n to March 31st of year n+1

### INTEREST AND EXCHANGE RATES

Interest rates, %		Q2 2024	Q3 2024	Q4 2024	Q2 2025	Q4 2025
End of period						
US	Fed Funds (upper limit)	5.50	5.25	5.00	4.50	4.25
	T-Note 10y	4.25	4.20	4.20	4.20	4.20
	deposit rate	3.75	3.50	3.25	2.75	2.50
Eurozone	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		Q2 2024	Q3 2024	Q4 2024	Q2 2025	Q4 2025
End of period						
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		Q2 2024	Q3 2024	Q4 2024	Q2 2025	Q4 2025
Quarter Average						
Brent	USD/bbl	80	85	83	81	82

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

Strategy, Commodities Desk Strategy)

Last update: 15 April 2024



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