

ECONOMIC SCENARIO

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UNITED STATES

US activity decelerated only slightly in the first half of 2023 (+0.5% q/q on average per quarter after +0.6% q/q during the second half of 2022), thanks to the resilience of household consumption and the strength of nonresidential investment. The impact of the tighter monetary policy on lending standards is strong but it still limited on activity and employment growth. Q3 GDP growth was even stronger (+1.2% q/q according to the preliminary estimate). A sharp slowdown is expected, however, in Q4, because of the depleted excess savings and the ensuing loss of momentum of the household consumption engine, before the economy slides into recession in the first half of 2024. The peak in inflation was reached in mid-2022, core disinflation is becoming more significant, but it remains gradual. Inflation should approach the 2% target in 2024. However, the slow pace of disinflation argues in favor of keeping monetary policy in restrictive territory, despite the expected start of the easing cycle in mid-2024. This should limit the recovery in 2024.

CHINA

Economic growth started to accelerate in early 2023 following the end of the zero Covid policy, but the recovery has weakened very rapidly. Export momentum has stalled due to depressed global demand and tensions with the US. Domestic demand has remained held back by a significant loss in consumer and investor confidence. The crisis in the property sector has persisted, with the continued fall in sales, new defaults of developers and growing difficulties of certain financial institutions. The government and the central bank have implemented new policy stimulus measures over the summer, aimed at supporting domestic demand and activity in the property sector. A slight improvement in real GDP growth thus appeared in Q3 2023 and is expected to continue in the short term. However, policy makers remain prudent, notably constrained by the debt excess of the economy and the weak financial situation of local governments.

EUROZONE

According to the first estimate, real GDP in the Eurozone registered a small contraction in Q3 (-0.1% q/q) after two quarters of stagnation. The disparate performance between Member States weakens the overall result. France and Spain have been doing well, but Germany, Italy and the Netherlands are struggling. The rising negative effects of monetary tightening as well as the fading of the positive post-Covid-19 catching up effects and diminishing supply-side constraints contribute to the deterioration of business confidence and are expected to weigh on economic activity. We foresee real GDP growth to stall in Q4, before a sluggish recovery expected in 2024. The fall in inflation is continuing. Nonetheless the inflation rate is expected to remain above 2% y/y by the end of next year, forcing monetary policy to remain in restrictive territory – disinflation provides, along with wage and employment dynamics, a significant support to household purchasing power and consumption. Growth should also be supported by NGEU disbursements.

FRANCE

French growth decreased in Q3 2023 (+0.1% q/q) after a rough stagnation in Q4 2022 and Q1 2023 and a short-lived acceleration in Q2 2023 (driven by exceptional factors, such as aeronautics). While household consumption and investment have surprised on the upside in Q3, both have remained depressed. In parallel, corporate investment, reaching a new high (+1.5% q/q), has driven growth. Disinflation is now visible (the harmonized index grew by 4.5% y/y in October), but the impact of higher interest rates should continue to be felt. As a result, we expect 0% growth q/q during the Q4. Going forward, we expect no clear growth acceleration next year (0.7% in 2024 after 0.9% in 2023).

RATES AND EXCHANGE RATES

In the US, the 25bp rate hike in July should be the last for the Fed. Some uncertainty remains, however, given the still elevated core inflation and the resilience of activity and the labour market to date. In any case, these factors argue against a rate cut before mid-2024. Among other factors, the residual uncertainty on the policy rate peak is reflected in long-term rates, which remained on an upward trend during the last days of October. However, as the prospect of monetary easing in 2024 rises, long-term rates should resume their decline.

Regarding the ECB, the 25bp hike in September of its policy rates (deposit rate at 4.00%, refinancing rate at 4.50%) should mark the end of the tightening cycle, considering the effects of the monetary tightening already underway. But it is not yet certain that it will really be the last hike, given the still limited fall of core inflation. As part of its monetary tightening, the ECB also announced a complete halt, starting in July 2023, of its reinvestments under the APP. The next step concerns the PEPP. The ECB intends to pursue the reinvestments until at least the end of 2024; we expect them to end in March 2024. European long-term rates remain on an uptrend, moving in line with US rates, but in a more muted way. They are expected to ease gradually as uncertainty dissipates over the continuation of monetary 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 the YCC are likely given that the country currently faces the fastest rate of inflation since the early 1990s. The BoJ is unlikely to increase its policy rates this year, but we expect a first rate hike in March 2024.

We remain bearish regarding the US dollar versus the euro. The dollar's valuation is expensive and next year the Federal Reserve should ease more than the ECB. We expect the yen to remain around current levels in the near term before strengthening versus the dollar based on the expected monetary divergence between the Fed and the BoJ in 2024.

GDP GROWTH AND INFLATION

%	GDP Growth				Inflation			
	2021	2022	2023 e	2024 e	2021	2022	2023 e	2024 e
United-States	5,9	1,9	2,4	0,8	4,7	8,0	4,1	2,2
Japan	2,3	1,0	2,0	1,0	-0,2	2,5	3,2	2,6
United-Kingdom	8,7	4,3	0,5	-0,1	2,6	9,1	7,4	3,0
Euro Area	5,6	3,4	0,5	0,9	2,6	8,4	5,6	2,8
Germany	3,1	1,9	-0,1	0,4	3,2	8,6	6,2	3,0
France	6,4	2,5	0,9	0,7	2,1	5,9	5,8	2,7
Italy	7,0	3,8	0,8	1,0	1,9	8,7	6,2	2,2
Spain	5,5	5,5	2,4	1,5	3,0	8,3	3,5	2,8
China	8,4	3,0	5,1	4,5	0,9	2,0	0,5	2,0
India*	9,1	7,2	6,1	6,0	5,5	6,7	5,9	5,0
Brazil	5,0	2,9	3,1	1,8	8,3	9,3	4,7	4,2

Source : BNP Paribas (e: Estimates & forecasts)

Last update: 31 November 2023

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

INTEREST AND EXCHANGE RATES

Interest rates, %		Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024
End of period						
US	Fed Funds (upper limit)	5.50	5.50	5.25	4.75	4.25
	T-Note 10y	4.20	4.05	3.95	3.90	3.90
Eurozone	deposit rate	4.00	4.00	3.75	3.50	3.25
	Bund 10y	2.60	2.45	2.40	2.30	2.35
	OAT 10y	3.17	2.99	2.93	2.85	2.92
	BTP 10y	4.50	4.25	4.10	4.10	4.25
	BONO 10y	3.70	3.45	3.35	3.30	3.40
UK	Base rate	5.25	5.25	5.00	4.50	4.00
	Gilts 10y	4.00	3.80	3.60	3.65	3.70
Japan	BoJ Rate	-0.10	-0.10	0.10	0.10	0.25
	JGB 10y	0.75	0.85	0.90	0.90	1.00

Exchange Rates		Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024
End of period						
USD	EUR / USD	1.10	1.11	1.12	1.13	1.15
	USD / JPY	145	145	140	138	135
	GBP / USD	1.29	1.29	1.29	1.30	1.32
EUR	EUR / GBP	0.85	0.86	0.87	0.87	0.87
	EUR / JPY	160	161	157	156	155

Brent		Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024
End of period						
Brent	USD/bbl	81	82	86	88	86

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

Strategy, Commodities Desk Strategy)

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