

ECONOMIC SCENARIO

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UNITED STATES

The US economy showed surprising vigour in 2023, illustrated by +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. Despite a slowdown (+0.3% q/q v. +0.8% in Q4 2023), the GDP has expanded again in Q1 2024, driven by contributions from household consumption and investment. Our baseline scenario implies a +2.5% rate of growth for 2024, enabled by the very positive carryover effect from 2023 and an expected increase in real incomes. While the inflation peak was reached in mid-2022, Q1 2024 data had raised some concerns before the disinflation path resumed in Q2. We forecast CPI inflation to stand at +2.5% y/y in Q4 2024. This picture, together with the softening of the labour market, paves the way for the Fed to start easing its monetary policy by in September, before proceeding with another cut in December. The target range would thus end the year at +4.75% - +5.0 %.

CHINA

Economic growth rebounded in Q1 2024 and then slowed in Q2. It stood at 5% y/y in the first half of 2024. The different components of Chinese growth have exhibited diverging trajectories. On the one hand, activity in the manufacturing sector is solid, driven by exports and supported by the authorities' industrial policy. On the other hand, activity in the services sector continues to lack momentum. Domestic demand remains held back by the crisis in the property sector, regulatory uncertainties, and low confidence of consumers and private investors. Recent measures to boost activity in the property sector have had no effect so far while domestic credit growth has decelerated since the beginning of the year in spite of monetary policy easing. In the short term, the authorities are likely to strengthen their industrial policy while introducing still prudent measures to stimulate domestic demand. The real GDP growth target of "around 5%" set for this year is still projected to be reached. Consumer price inflation remains very low; it was lower than 0.3% y/y in Q2 2024.

EUROZONE

Eurozone GDP picked up by 0.3% q/q in Q1 according to preliminary Eurostat data. The negative effects of monetary tightening on economic activity are expected to diminish in 2024. Growth would stabilise at 0.3% q/q in Q2 before strengthening at 0.4 q/q in the last two quarters of the year. This improvement would also be underpinned by the interest rate cut cycle by the ECB. After lowering its policy rates for the first time in June, we expect two more cuts in the second half of the year (one cut per quarter). This monetary easing would accompany the inflation decline, which is expected to come close to the 2% target during the third 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, should support household purchasing power and consumption. Growth should also be boosted by NGEU disbursements and its deployment on the ground.

FRANCE

French economy benefitted from a 0.2% q/q growth in Q1 (after 0.3% q/q in Q4 2023), mainly supported by households' consumption of services and exports. As disinflation is now visible (the harmonized index grew by 2.6% y/y in May 2024, compared to 5.7% y/y in September 2023), our scenario for 2024 envisages a gradual improvement and heralds an even better 2025 (with a growth forecast of 1.4%, after 1.1% in 2024).

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. Although the ECB proceeded with a first rate cut on June 6th, the timing of the first cut for the BoE and the Fed remains uncertain, as does the number of expected cuts for the whole year. We expect the first BoE rate cut to occur in August, whereas the Fed would start cutting in September. The Fed would thereby undertake tworate cuts in 2024, while their first move would be followed by two more for the ECB and the BoE (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%, while the volume of JGBs will be reduced soon. We expect monetary policy to normalise very gradually in the country, with only one additional hike envisaged by the end of 2024 (probably in September).

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 (with stronger growth and inflation and less monetary easing across the Atlantic). 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	1.9	2.5	2.5	1.9	8.0	4.1	2.9	2.3
Japan	0.9	1.8	-0.4	0.7	2.5	3.3	2.7	2.6
United Kingdom	4.4	0.1	1.0	1.3	9.1	7.3	2.6	2.2
Euro Area	3.5	0.6	0.9	1.6	8.4	5.4	2.3	2.0
Germany	1.9	0.0	0.3	1.4	8.7	6.0	2.6	2.5
France	2.6	1.1	1.1	1.4	5.9	5.7	2.5	1.9
Italy	4.2	1.0	1.1	1.4	8.7	5.9	1.0	1.8
Spain	5.8	2.5	2.6	2.1	8.3	3.4	3.1	2.2
China	3.0	5.2	5.2	4.3	2.0	0.2	-0.1	1.2
India*	7.0	8.2	6.9	6.7	6.7	5.4	4.7	4.3
Brazil	2.9	2.9	2.2	2.0	9.3	4.6	4.2	4.0

Source : BNP Paribas (e: Estimates & forecasts)

Last update: 19 July 2024

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

INTEREST AND EXCHANGE RATES

Interest rates, %		Q3 2024	Q4 2024	Q2 2025	Q4 2025
End of period					
US	Fed Funds (upper limit)	5.25	5.00	4.50	4.00
	T-Note 10y	4.20	4.20	4.20	4.20
	Eurozone	3.50	3.25	2.75	2.50
	Bund 10y	1.95	2.00	2.25	2.50
UK	OAT 10y	2.50	2.52	2.80	3.05
	BTP 10y	3.35	3.45	3.80	4.00
	BON0 10y	2.82	2.85	3.15	3.38
	Base rate	4.75	4.50	4.00	3.50
Japan	Gilts 10y	3.80	3.70	3.55	3.65
	BoJ Rate	0.25	0.25	0.50	1.00
	JGB 10y	1.05	1.25	1.45	1.60
Exchange Rates					
End of period					
USD	EUR / USD	1.05	1.06	1.08	1.10
	USD / JPY	160	160	157	153
	GBP / USD	1.27	1.28	1.30	1.33
EUR	EUR / GBP	0.83	0.83	0.83	0.83
	EUR / JPY	168	170	170	168
Brent					
Quarter Average		Q3 2024	Q4 2024	Q2 2025	Q4 2025
Brent	USD/bbl	90	85	79	82

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

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