

ECONOMIC SCENARIO

7

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 +2.5% 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 expected 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 growing softening of the labour market, paves the way for the Fed to undertake monetary easing. This is expected to start from September, with three rate cuts (-25bps) by end 2024 that would bring the target rate to +4.5% - +4.75%.

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

Growth in the euro area is expected to stabilise at 0.4% q/q in the third and fourth quarters of 2024, slightly higher than the rate recorded in the first half of the year. This improvement would be supported by the continuation of the ECB's cycle of interest rate cuts, which began in June, and which would be followed by two further cuts in September and December. The decline in inflation towards the 2% mark is expected to continue, helped by less vigorous wage increases. The disinflation of certain components of the consumer price index that are more sensitive to wage changes, notably services, would be more limited. Growth is also expected to be bolstered by a still buoyant labour market and the disbursement of NGEU funds and their deployment on the ground.

FRANCE

French economy benefitted from a 0.2% q/q growth in Q2 (after 0.3% q/q in Q1 2024), mainly supported by exports. As disinflation is now visible (the harmonized index grew by 2.2% y/y in August 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 1.3% in 2024 and 1.1% in 2023).

RATES AND EXCHANGE RATES

The US Federal Reserve is expected to start its monetary easing cycle in September, with a first 25 basis point cut in the Fed funds rate. This would be followed by two other cuts of a similar magnitude in November and December. Two rate cuts are also expected from the ECB and the BoE by the end of 2024. 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 three 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 (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	2.6	1.9	8.0	4.1	2.9	2.3
Japan	0.9	1.7	-0.2	0.7	2.5	3.2	2.6	2.4
United Kingdom	4.4	0.1	1.1	1.3	9.1	7.4	2.6	2.4
Euro Area	3.5	0.5	0.8	1.6	8.4	5.4	2.4	2.0
Germany	1.9	-0.1	0.1	1.3	8.7	6.1	2.4	2.2
France	2.6	1.1	1.3	1.4	5.9	5.7	2.5	1.1
Italy	4.2	1.0	1.0	1.4	8.7	6.0	1.2	2.0
Spain	5.8	2.5	2.8	2.5	8.3	3.4	3.0	2.0
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: 2 September 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		Q3 2024	Q4 2024	Q2 2025	Q4 2025
US	Fed Funds (upper limit)	5.25	4.75	-	-
	T-Note 10y	4.20	4.20	4.20	4.20
	deposit rate	3.50	3.25	2.75	2.50
	Bund 10y	1.95	2.00	2.25	2.50
	OAT 10y	2.50	2.52	2.80	3.05
Eurozone	BTP 10y	3.35	3.45	3.80	4.00
	BONO 10y	2.82	2.85	3.15	3.38
	Base rate	4.75	4.50	4.00	3.50
UK	Gilts 10y	3.80	3.70	3.55	3.65
	BoJ Rate	0.25	0.50	1.00	1.25
Japan	JGB 10y	1.05	1.25	1.45	1.60

Exchange Rates

End of period		Q3 2024	Q4 2024	Q2 2025	Q4 2025
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)

Last update: 2 September 2024



BNP PARIBAS

The bank
for a changing
world