

## HEIGHTENED UNCERTAINTY IS WEIGHING ON THE PROSPECT OF CONVERGING GROWTH RATES BETWEEN THE EUROZONE AND THE US

Although we now know the results of the European elections, the implications of these results – in particular the outcome of the snap parliamentary elections in France – remain uncertain. Our central scenario of a Eurozone take-off and a US soft landing, characterised by a convergence of growth rates, could be weakened by political uncertainties on both sides of the Atlantic. However, growth is benefiting from tailwinds and factors of resilience, with real wage gains at the forefront. For the time being, the cyclical situation remains positive for the Eurozone: our nowcast estimates Q2 growth at +0.3% q/q. However, greater uncertainty surrounds the continuation of this recovery.

The uncertainty surrounding the outcome of the European elections, held between 6 and 9 June, has now been lifted and we know the results. But uncertainty about the implications of these results on the European agenda remains intact or in any case, significant. At first glance, the composition of the new European Parliament has, overall, changed little, with the centrist parties, bringing together the EPP Group, the S&D Group and Renew Europe, still holding a majority, albeit a reduced one. But the first striking fact is the strong growth of the far-right parties (ECR and ID) to the detriment of the Renew Europe Group and the Greens. At this stage, it is difficult to know what the exact implications of this political reconfiguration will be on the priorities of the European agenda, and how easy or difficult it will be to reach the compromises required to continue to move this agenda forward. Even more so since the second striking fact is the political impact of these European elections in France. Although the results in themselves were not surprising (being in line with polls), the surprise came from the announcement, immediately after, by President Emmanuel Macron, of the dissolution of the National Assembly and therefore of snap parliamentary elections (first round on 30 June, second round on 7 July), the outcome of which is highly uncertain.

It is against this particular background context that our quarterly review of the economic situation and outlook in the main OECD economies takes place<sup>1</sup>. Our central scenario – of a take-off of the Eurozone and a soft landing for the US economy, characterised by the prospect of a convergence of growth rates (on a quarterly basis from Q3 2024 and as an annual average in 2025) – could be undermined if the ongoing recovery in the Eurozone finally faltered due to political uncertainties. Besides, two other significant uncertainties continue to constitute a downward risk on US growth primarily, but also on the rest of the world due to spill-over effects: the consequences of the prolonged Fed's monetary status quo (until, possibly, a first rate cut not until December) and the outcome of the US presidential election on 5 November.

<sup>1</sup> See our *EcoPerspectives* for Q3 2024, coming soon.

<sup>2</sup> For an overview of Europe's multiple responses to current crises and challenges, see *Europe on the front line: A review of its climate action and economic support*, 6 May 2024.

### PMI INDICES FOR THE EUROZONE AND THE UNITED STATES

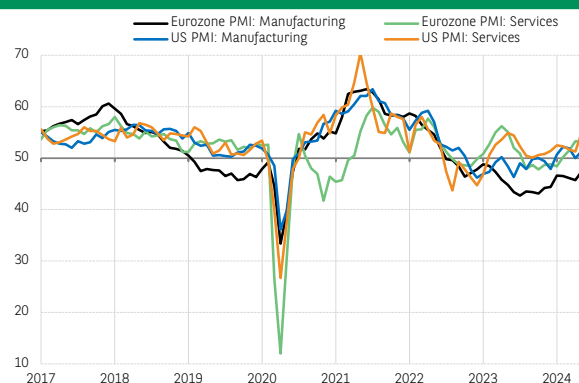


CHART 1

SOURCE: S&P GLOBAL, MACROBOND, BNP PARIBAS

Alongside these downside risks however, there are factors supporting and bolstering growth that underpin our current central scenario. Firstly, real wage gains thanks to the faster fall in inflation than the still limited moderation of wages. The following should also have a favourable impact: the dissipation of the shock on energy prices (which has been more detrimental for the Eurozone than for the US); the reduction of the degree of monetary policy restriction – to quote Christine Lagarde – which has begun in the Eurozone and which is forthcoming in the US; the continued good performance of the labour market; and the investment needs in the low-carbon transition, which are huge and urgent. It is also worth noting the support of public policies (NGEU and all its variants for Europe<sup>2</sup>; the Infrastructure, Investment and Jobs Act, the CHIPS Act and the Inflation Reduction Act in the US).

For the time being, the Eurozone cyclical situation remains positive. Our nowcast estimates Q2 growth at +0.3% q/q, i.e., the same rate as in Q1. However, greater uncertainty surrounds the continuation of this recovery.



In addition, a central element of our scenario of converging growth rates in the Eurozone and the US is the expected rebound in household consumption on this side of the Atlantic (and the potential represented by their accumulated savings) and the slowdown in consumption of US households (which have already drawn extensively on their savings).

In dealing with these factors supporting growth, fiscal consolidation is a headwind to be taken into account. This is not a risk: this consolidation is certain as it is necessary, on both sides of the Atlantic. In Europe, the fiscal rules are back in force, and twelve countries have been identified as not meeting the deficit criterion, which is a prerequisite for launching an excessive deficit procedure<sup>3</sup>. The uncertainty relates to the nature and scope of this upcoming fiscal consolidation and, in the current political context, it comes with another element of risk: will this consolidation happen in an orderly way or not? We will remember, however, as the Banque de France emphasises with regard to France (although this applies to all countries) that «the upcoming period of gradual recovery and monetary easing is not unfavourable to the necessary fiscal consolidation recovery needed to bring public debt under control»<sup>4</sup>. In other words, this is the right time to make a measured counter-cyclical fiscal adjustment<sup>5</sup>.

In our view, the uncertainties surrounding our baseline scenario tend to be on the downside at the time of writing. Although it is commonly accepted that one point does not make a trend, the latest business climate surveys in the Eurozone for June (flash estimates of PMIs and INSEE surveys on Friday 21 June, Ifo on Monday 24 June) have been blowing quite cold.

After a continuous and significant improvement in the Eurozone composite PMI since November 2023, this index fell significantly in June (-1.4 points) but is still above 50 (50.8). Moreover, this decline affected both the manufacturing sector (-1.7 points to 45.6 for the composite index) and the services sector (-0.6 points to 52.6), and both Germany as well as France (the composite PMI fell by 1.8 points to 50.6 and 0.7 points to 48.2, respectively). National surveys are reinforcing the PMIs' signal this time around. The INSEE composite business climate indicator has not, admittedly, deteriorated, but we prefer highlighting that it has not improved for two months and that it has remained just below its long-term average of 100 for the third consecutive month. On the German side, the Ifo index fell, thwarting expectations of an improvement. On the US side, there are also negative or more mixed economic signals (consumer confidence, retail sales, weekly unemployment insurance claims, for example), suggesting that the economic slowdown could become more visible, but June PMI indices were positive.

Based on available indicators, Eurozone cyclical situation remains positive. Our nowcast estimates Q2 growth at +0.3% q/q, i.e., the same rate as in Q1. But there is still a downside risk surrounding this figure, and greater uncertainty surrounds continuation of this recovery in the coming quarters.

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<sup>3</sup> Belgium, Czechia, Estonia, Spain, France, Italy, Hungary, Malta, Poland, Slovenia, Slovakia, Finland ([1d91e302-b9cc-4b54-988a-9e6787230152\\_en](https://ec.europa.eu/economy_finance/1d91e302-b9cc-4b54-988a-9e6787230152_en) (europa.eu), 19 June 2024)

<sup>4</sup> [Macroeconomic projections – June 2024 | Banque de France \(banque-france.fr\)](https://www.banque-france.fr/fr/actualites/actualites/2024/06/11-projections-macroeconomiques-juin-2024), 11 June 2024.

<sup>5</sup> We had also highlighted this rather appropriate evolution of the policy mix in our January 2024 issue of EcoPerspectives ([2024: A critical year](https://www.bnpparibas.com/fr/fr/actualites/actualites/2024/01/30-2024-a-critical-year), 30 January 2024).

