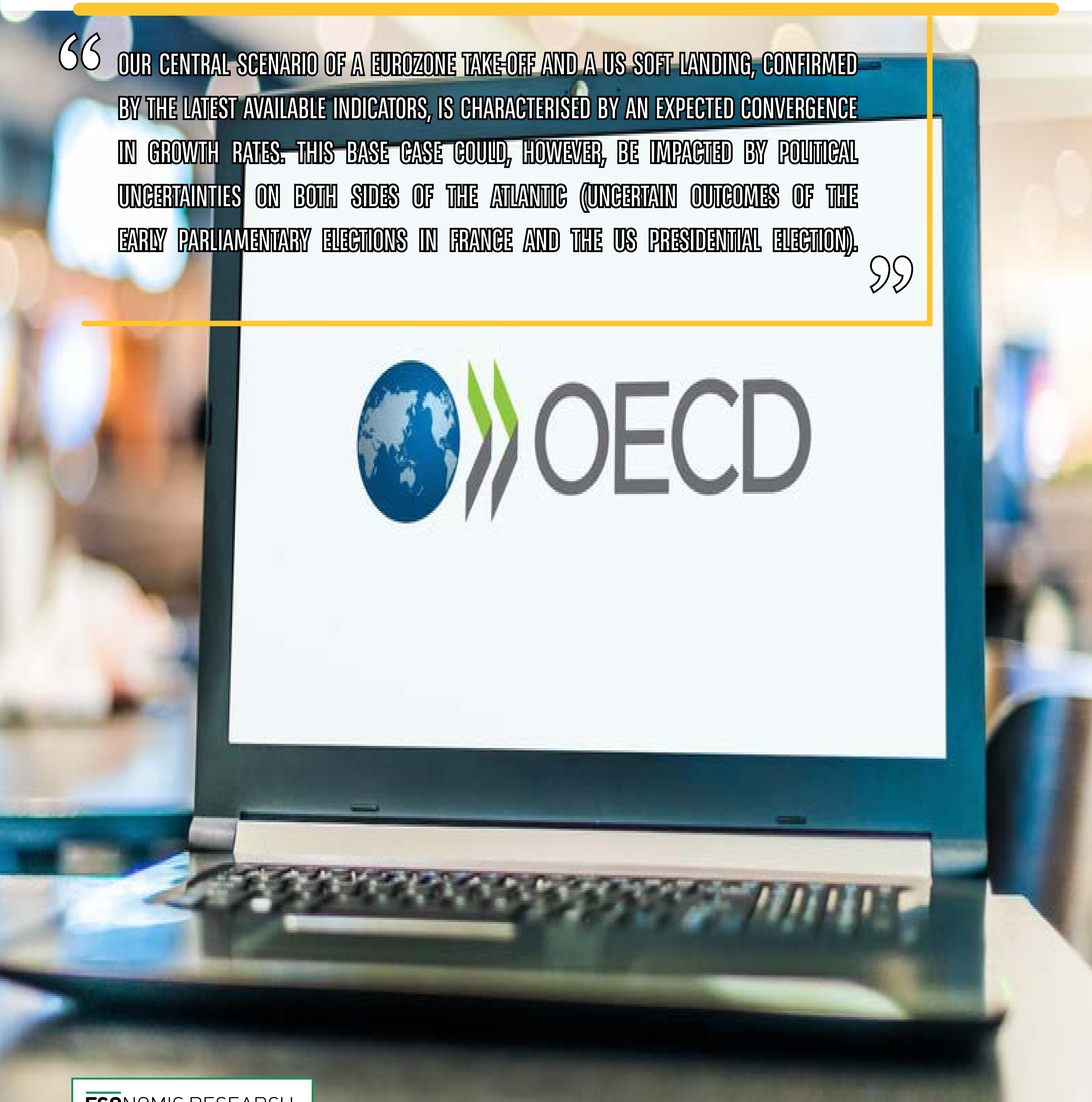
ECOPERSPECTIVES

3rd Quarter 2024

"OUR CENTRAL SCENARIO OF A EUROZONE TAKE-OFF AND A US SOFT LANDING, CONFIRMED BY THE LATEST AVAILABLE INDICATORS, IS CHARACTERISED BY AN EXPECTED CONVERGENCE IN GROWTH RATES. THIS BASE CASE COULD, HOWEVER, BE IMPACTED BY POLITICAL UNCERTAINTIES ON BOTH SIDES OF THE ATLANTIC (UNCERTAIN OUTCOMES OF THE EARLY PARLIAMENTARY ELECTIONS IN FRANCE AND THE US PRESIDENTIAL ELECTION)."



ECONOMIC RESEARCH

BNP PARIBAS

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ECONOMIC OUTLOOK IN THE FACE OF UNCERTAIN ELECTION OUTCOMES

Our central scenario of a Eurozone take-off and a US soft landing, confirmed by the latest available indicators, is characterised by an expected convergence in growth rates. This base case could, however, be impacted by political uncertainties on both sides of the Atlantic (uncertain outcomes of the early parliamentary elections in France and the US presidential election). Furthermore, while the ECB began its easing cycle in June, as expected, providing timely support for growth, the Fed is still holding back. This extension of the status quo, even if it seems justified for the time being, constitutes another downside risk. However, growth is benefiting from other supportive and resilient factors, chief among them real wage gains. The dynamism of tourism, the support of public policies (such as Next Generation EU in Europe and the Inflation Reduction Act (IRA) in the United States), investment in the low-carbon transition and the dissipation of the energy shock also act as tailwinds.

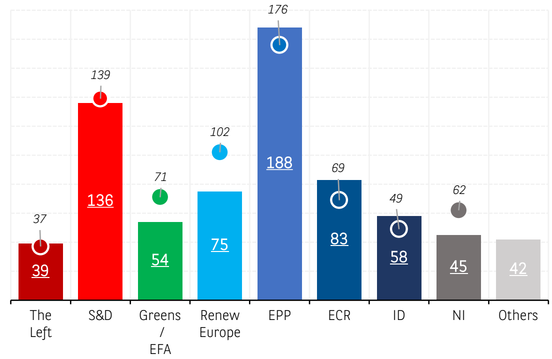
The uncertainty surrounding the outcome of the European elections, held between 6 and 9 June, has now been lifted and we know the results. But there is still significant uncertainty about the practical implications of these results for Europe's agenda. On the face of it, the composition of the new European Parliament elected for 2024-2029 has changed little overall, with the centrist parties, comprising the EPP, the S&D Group and Renew Europe, still in the majority (399 seats out of 720 according to the 27 June count, which is still provisional), albeit to a lesser extent (see chart). The strong growth of the far-right parties (ECR and ID) to the detriment of the Renew Europe Group and the Greens is the first striking feature of these elections. At this stage, it is difficult to know what the exact implications of this political reconfiguration will be for 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.

At the close of the European Council of 27 June, the priorities for the next five years[1] were defined and summarized this way: "In the face of a new geopolitical reality, the strategic agenda will make Europe more sovereign and better equipped to deal with future challenges". This strategic programme is based on three pillars: a free and democratic Europe, a strong and secure Europe, and a prosperous and competitive Europe. This last point will be based in particular on the reports by Enrico Letta (on the single market), Christian Noyer (on European capital markets) and the forthcoming report by Mario Draghi (on competitiveness). The convergence in growth rates between the Eurozone and the US that we are forecasting by 2025, if it materialises, would only be a tiny step forward given the growth divide that has appeared between the two regions. It is the conditions for this leap forward that these reports seek to put in place. The EU's ambition must be to promote, in a pragmatic way, a new model of economic development that meets the climate and social challenges. The EU 27 also agreed on the reappointment of Ursula von der Leyen as President of the European Commission, an appointment that must still be approved by the European Parliament, which is due to vote on 18 July.

The second salient feature of the European elections is the political impact of their results in France. While the results were in line with the opinion 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.

This is the particular background to our quarterly review of the economic situation and outlook in the major OECD economies. Our central scenario is that of a take-off by the Eurozone and a soft landing by the US economy and is characterised by an expected convergence in growth rates (on a quarterly basis from Q3 2024 and as an annual average in 2025). However, this baseline scenario could be derailed if the recovery underway in the Eurozone falters due to political uncertainties. Two other major uncertainties continue to represent a downside risk to US growth, primarily, but also to the rest of the world through spillover effects. These are, on the one hand, the consequences of the Fed's prolonged monetary status quo (until, possibly, a first rate cut only in December) and, on the other, the outcome of the US presidential election on 5 November.

SEATS IN THE EUROPEAN PARLIAMENT 2024-2029 (PROVISIONAL RESULTS - 27 JUNE 2024 ; UNDERLINED FIGURES) VS. OUTGOING PARLIAMENT 2019-2024 (FIGURES IN ITALIC)



SOURCE: EUROPEAN PARLIAMENT, BNP PARIBAS

CENTRAL SCENARIO: RESILIENT GROWTH, CONTINUED FALL IN INFLATION, MONETARY EASING AND FISCAL CONSOLIDATION

Alongside these downside risks however, there are factors supporting and bolstering growth that underpin our current central scenario. Firstly, real wage gains as inflation falls faster than the still limited moderation in wages. The following factors should also have a positive impact: the buoyancy of tourism (France will also benefit from the specific impact of the Olympic Games); the dissipation of the shock on energy prices (which has been more detrimental for the Eurozone than for the US); the reduction in the degree of monetary restriction – to quote Christine Lagarde – which has begun in the Eurozone and is still to come in the US; the continuing strength of the labour market; and the considerable and urgent need for investment in the low-carbon transition.

1 2024_557_new-strategic-agenda.pdf (europa.eu), 27 June 2024.

It is also worth noting the support of public policies (NGEU and all its variants for Europe[2] ; the Infrastructure, Investment and Jobs Act, the CHIPS Act and the Inflation Reduction Act in the US).

In addition, a central element of our scenario of converging growth rates in the Eurozone and the US is the expected (moderate) upturn in household consumption on this side of the Atlantic (and the potential represented by their accumulated excess savings, which are still increasing according to the latest ECB estimates[3]) and the slowdown in consumption of US households (which have already drawn extensively on their savings).

However, fiscal consolidation is a headwind that must be taken into account. And 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[4]. 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 recovery needed to bring public debt under control»[5] . In other words, this is the right time to make a measured counter-cyclical fiscal adjustment.

Inflation remains closely monitored, particularly whether the wages-margins-productivity triangle evolves in the expected way (moderation of the first, compression of the second and recovery of the latter). But inflation looks to be a bit less of a concern compared to a few months ago as the disinflation process continues, and the target of 2% is nonetheless moving closer, albeit still slowly[6] .

OUTLOOK BY REGION

From our point of view, the uncertainties surrounding our central scenario tend to be more on the downside at the time of writing. In any case, there is heightened uncertainty over whether the Eurozone will continue to take off. The latest business climate surveys for June have been blowing quite cold[7]. That said, the Eurozone cyclical situation remains positive for the time being. Until the beginning of June, the overall economic picture was looking better. Our nowcast estimates Q2 growth at +0.3% q/q, the same rate as in Q1. This perception of an improved situation is fairly common to the various countries in the Eurozone examined in this publication (Germany, France, Italy, Spain, the Netherlands, Belgium, Greece, Austria), without obscuring certain sectoral difficulties (the real estate market) and structural challenges (productivity, competitiveness in the face of increased competition) that remain and are hampering the recovery.

Elsewhere in Europe, the UK is also facing an important political outcome, with the general election to be held on 4 July. The winning party will take over the reins of a flagging economy, which is struggling a little more than the Eurozone (Eurozone GDP, for example, is just over 3% above its pre-Covid level of Q4 2019, while that of the UK is just under 2% above this benchmark). Denmark, on the other hand, stands out with a more dynamic economy (GDP 9% above its pre-pandemic level), buoyed by the performance of the pharmaceutical sector – a double-edged sword of dependence, however.

In the US, while there are also negative or more mixed economic signals, suggesting that the economic slowdown could become more pronounced, the PMI indices for June were positive. Developments in the labour market are being closely monitored. For the time being, its slowdown is seen as a welcome rebalancing, in line with the Fed's desired objective, but fears of a more marked deterioration in the making are on the rise. On the other side of the Pacific, in Japan, it is the weakness of the yen that is attracting attention, as the Japanese currency continues to be penalised by the monetary policy differential between the Fed (which is delaying its rate cuts) and the BoJ (which is nonetheless raising them, against the tide of most other central banks, but very cautiously). As for China, the country's economic performance remains mixed, buoyed by the dynamism of the manufacturing sector (exports, investment) but tarnished by trade tensions and the never-ending property crisis, which is weighing on domestic demand.

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2 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.
3 See chart on page 7 of Isabel Schnabel's presentation of 23 June 2024: The ECB's monetary policy: towards price stability (europa.eu). For the ECB's approach and definition of excess savings, see: Excess savings: To spend or not to spend (europa.eu), 2 November 2023.
4 Belgium, Czechia, Estonia, Spain, France, Italy, Hungary, Malta, Poland, Slovenia, Slovakia, Finland (1d91e302-b9cc-4b54-988a-9e6787230152_en (europa.eu). 19 June 2024.
5 Macroeconomic projections – June 2024 | Banque de France (banque-france.fr), 11 June 2024.
6 See Inflation Tracker – June 2024 | An improvement in real wages , 20 June 2024.
7 For more details on these latest figures, see Eco Week, Heightened uncertainty is weighing on the prospect of converging growth rates between the eurozone and the US , 25 June 2024.

UNITED STATES

RETURN TO NORMAL

US inflation seems to have resumed its downward trajectory in Q2 2024, after a Q1 of price acceleration that led the Federal Reserve (Fed) to revise, in June, its expectations for rate cuts for the year (from three to one, in line with our own forecasts). At the same time, economic activity remains strong, although it has lost some of its momentum.

Generally, the US economy has surprised somewhat on the downside in early 2024. This was particularly reflected by the fairly sharp fall in the GDP growth rate to +0.3% q/q in Q1 (compared with expectations of +0.6%), after reaching +0.8% in Q4 2023. This figure can, however, be put into perspective by the negative contributions of changes in inventories (-0.1 pp) and, against a backdrop of rising imports, of foreign trade (-0.2 pp). In addition, the underlying measure of domestic demand (corresponding to the sum of private consumption and fixed investment), which was the driving force behind the surprising momentum of 2023, is up +0.7%, in line with recent levels. Another negative development is the -0.6% q/q fall in corporate profits, resulting from non-financial companies (-4.7%), after three quarters of progress.

Inflation was more of a source of concern than economic activity, with a series of higher than expected figures in Q1 bringing the disinflation trajectory to a halt. However, the figures available for Q2 suggest a return to normal, with two monthly slowdowns in the CPI and its underlying component, taking these to +3.3% (-0.2 pp in two months) and +3.6% y/y (-0.4 pp), respectively. Furthermore, we estimate that inflation will continue its downward trajectory, reaching +2.8% y/y in Q4 2024, before moving further towards the 2% target in 2025. As for GDP growth, we expect a rebound to +0.8% q/q in Q2, still underpinned by household consumption and business investment.

GROWTH AND INFLATION

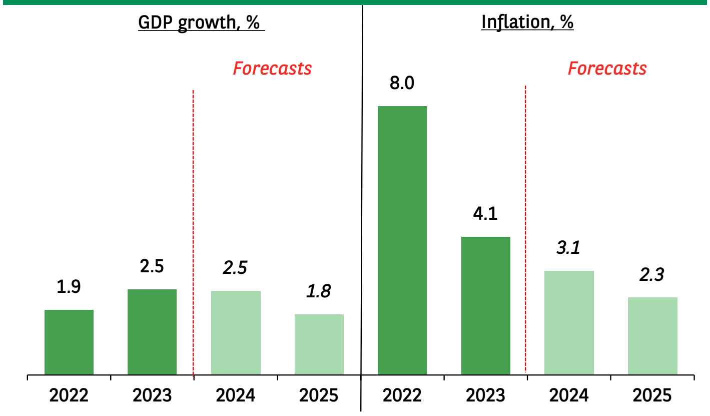

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

A SOFT LANDING FOR THE LABOUR MARKET?

Non-farm payrolls growth accelerated as a general trend in the first few months of 2024. In May, for example, it stood at +255k as a 6-month moving average, compared with +213k at the end of 2023. These figures indicate a robust level, but far from the levels seen in 2021 (+604k as an annual average) and 2022 (+377k), which corresponded to an exceptional situation of tightness in the post-Covid rebound phase. For the time being, these developments are more akin to a rebalancing than to a genuine deterioration in the labour market likely to provoke an anticipated move by the Fed on interest rates. Although the unemployment rate is rising and close to triggering the signal for recession, its low initial level (3.4% in April 2023) and its current level (4.0%, below the Congressional Budget Office estimate of a neutral level of 4.4%) put this rise into perspective.

By contrast, signs of rebalancing are more pronounced in the JOLTS data on job vacancies and labour turnover. The number of job vacancies, which has clearly been on a downward trend for several quarters, reached its lowest level since February 2021, at 8.05 million in April 2024. Consequently, the ratio of job vacancies to unemployed persons (known as the «v/u ratio»), which is a key measure for the Fed in assessing tightness on the labour market, stood at 1.24 in the same month. This figure, which is at its lowest since June 2021 and corresponds to the pre-pandemic levels of the US economy, provides a measure of the extent of the recovery since the record level of 2.03 seen in March 2022, on the eve of monetary tightening.

A RATE CUT TO ROUND OFF 2024

In addition to the expected unanimous decision to maintain the interest rate target (within a range of +5.25% to +5.5%, as at the 6 previous meetings), the FOMC's monetary policy meeting on 11-12 June saw the publication of the summary of the median economic projections of the committee members. The committee is now indicating a single rate cut (-25 bps) in 2024, compared with three cuts previously, although policymakers are divided (8 members expect one cut, 7 expect two, and 4 expect no change). This is in line with our forecast, since we are also expecting a single rate cut this year, in December. In our view, the likelihood of a rate cut before the last meeting of the year is limited, given the proximity of the presidential election (despite official denials regarding this factor) and because the progress of disinflation or the deterioration of the labour market is not such that easing rates would be inevitable for the Fed.

Moreover, beyond monthly or quarterly developments, the Federal Reserve is constrained by the need to preserve the credibility of its monetary commitments. This prevents it from declaring "mission accomplished" or easing its policy in real terms without a high degree of certainty that inflation will return to its target. Such an approach would contradict its mandate and could ultimately lead to further tightening if this threatens to sustainably disrupt inflation expectations (although these are also influenced by other factors, such as the price of Brent crude). In this respect, it should be pointed out that, although short-term household inflation expectations, as measured by the Conference Board, are less positive (5.4%), there has been no lasting slippage in long-term measures of market expectations. As a result, the 10-year breakeven inflation rate and the 5-year inflation swaps remain between +2.0% and +2.5%.

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CHINA

TENSIONS

In China, manufacturing activity has remained dynamic, driven in particular by strong growth in exports of high value-added goods. However, the global market share gains made by Chinese companies, bolstered by public subsidies, have exacerbated tensions with most of its trading partners. The proliferation of protectionist measures is now negatively affecting export prospects. At the same time, China's domestic demand is being undermined by the ongoing crisis in the property sector, and monetary easing measures are failing to stimulate credit activity. Therefore, the authorities are expected to continue to ease cautiously their economic policy in the coming months.

The various components of Chinese economic growth have exhibited varying trajectories since the beginning of 2024. Overall performance is somewhat lacklustre. Following a rebound to +1.6% quarter-on-quarter (q/q) in Q1 2024, real GDP growth is expected to slow in Q2.

In recent months, economic activity has been largely driven by the momentum seen in the export-oriented manufacturing sector, which itself has been supported by the authorities' very ambitious industrial policy. Although slowing slightly in May, growth in industrial production reached +6.2% year-on-year (y/y) over the first five months of 2024 (compared to +5.2% in H2 2023). This growth rate is close to rates posted in pre-Covid years. Meanwhile, investment in the manufacturing sector has increased at a steady pace since the beginning of the year (+9.6% y/y compared to +6.5% in 2023).

Growth in the industrial sector has been largely driven by the production of goods for export in the high-tech and green-technology sectors. For example, chip production and electric vehicle (EV) production jumped by more than +30% y/y over the first five months of 2024. Exports valued in current dollars recorded a modest increase over the first four months of 2024 (+2% y/y), and then rebounded by +7.6% y/y in May. It is worth noting that volumes of exports reached record levels (+10% y/y in Q1 2024), with Chinese companies gaining global market share thanks to lower sale prices. These strategies have led to heightened tensions between China and most of its trading partners. Consequently, while China's export outlook remains positive in the very short term, it could be quickly dampened by the surge in protectionism. In fact, tariff increases are planned or are in the process of being implemented by the European Union (which, from July 2024 onwards, will be imposing tariffs on Chinese EV imports, ranging from 17.4% to 38.1% depending on the automaker), by the United States (which recently increased its customs tariffs on a series of Chinese goods such as EVs, semiconductors and medical devices –presidential candidate Donald Trump even threatened a significant increase in US tariffs on all Chinese goods), and also by several emerging countries (Turkey, for example, has just announced additional tariffs on imports of Chinese vehicles).

In the services sector, activity strengthened in May and increased by +5% y/y over the first five months of 2024 (compared to average growth of +7.6% over the three years preceding the pandemic). The services sectors benefited in May from the strengthening in retail sales growth, which nevertheless remained modest (+3.7% y/y in value). Inflation is still very low: the consumer price index rose by +0.3% y/y in April and May, after a quarter of zero inflation in Q1 2024.

However, the main obstacle to domestic demand growth remains powerful, as the property crisis shows no signs of improvement. Housing sales volumes continued to contract (-24% y/y over the first five months of 2024), as did property starts (-25% over the first five months of 2024). Real estate investment continued to fall (around -10% y/y over the first five months of 2024). In addition, the decline in property prices worsened (-7.5% y/y on average in May for second-hand homes in the 70 main cities, compared to -4.1% y/y in December 2023).

GROWTH AND INFLATION

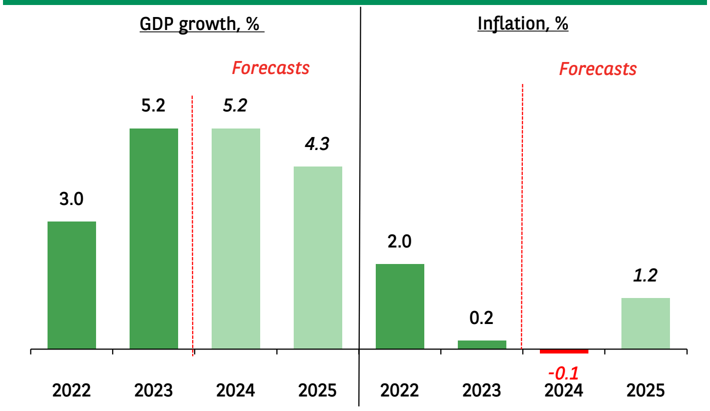

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

The package of new support measures announced by the authorities in May (with further easing of mortgage lending conditions and a programme for the purchase of unsold homes by local governments) has not yet been able to have a positive effect on activity in the property sector.

Similarly, despite monetary easing measures, growth in total domestic credit has slowed since the start of the year. Total outstanding Aggregate Financing (TAF) rose by 8.4% y/y in May 2024 compared to +9.8% in December 2023, and total bank loans in local currency (representing 64% of TAF) rose by +8.9% y/y in May, compared to +10.9% in December. Conversely, central government and local government bond issues have increased at a steadier pace since Q4 2023, in order to support the rise in public spending.

Given the persistence of the property crisis, the lack of vigorous activity in services and the emergence of new risks weighing on export prospects, the authorities are expected to ease their fiscal and monetary policies further in the coming months. Their approach will remain cautious. Their room for manoeuvre in order to stimulate credit is still significantly constrained by the excessive level of corporate and local government debt, and the central bank governor recently stated that support for economic activity should involve better credit allocation rather than a faster increase in total outstanding credit. Besides, capital outflows and downward pressure on the yuan are also currently hampering the central bank's ability to act. This pressure should ease once the US Federal Reserve starts its rate cut cycle, i.e. in Q4 2024, according to our forecasts.

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JAPAN

AN EVER WEAKER YEN?

While quarterly growth and inflation are expected to rise in the second quarter, the Bank of Japan is proceeding cautiously following its decision in March to end negative interest rates. A new plan for the pace of bond purchases will therefore be presented in July, while we expect just one further rate hike this year, probably in September. In addition, the domestic currency has continued to deteriorate, prompting the authorities to intervene in the foreign exchange market and fuelling fears of imported inflation.

In line with our expectations, Japanese activity fell again in the first quarter of 2024, with GDP contracting by -0.5% q/q. One-off events contributed to this decline, namely the New Year's Day earthquake on the Noto Peninsula and disruptions to automobile production, the latter leading to a 5.2% q/q drop in the industrial production index, including a 17.1% fall in the motor vehicles component. However, beyond these factors, the Japanese economy has been characterised by prolonged sluggishness since Q2 2023. A technical upturn should allow for a significant advance in the second quarter (+0.7% q/q), before growth slows again, resulting in an annual average of just +0.3% in 2024 (-1.6pp compared with 2023).

STEP-BY-STEP

The latest inflation data show a fairly sharp fall in core inflation (index excluding fresh food) from +2.6% to +2.2% y/y in April. However, this result should be followed by a re-acceleration in the coming months, due to government measures on energy tariffs and the so-called "virtuous" circle between wages and inflation (as the record wage increases since the 1990s announced at the beginning of the year as part of the Shunto become more widespread). We therefore expect core inflation to rise to +2.8% y/y in Q4 2024 and to return to +2.0% in the second half of 2025.

Following the decision to end the negative interest rate policy at its meeting in March, the Bank of Japan maintained its target for the uncollateralized overnight call rate in the range of +0.0% to +0.1% at the two subsequent meetings. Our central scenario remains that of a very gradual hike, with the next move (+0.15pp) in September, which would be the last of the year. In addition, the central bank has announced that it will unveil a detailed plan at its July meeting for a reduction in the pace of its purchases s over the next 1-2 year(s). This step should bring Japanese monetary policy closer to normalisation, meaning the use of the (non-negative) interest rate target as the main tool for adjustment.

The situation is ambivalent in several respects for the BoJ. It has to deal with inflation that is persistently above the 2% target, potentially calling for higher interest rates, and with inflation expectations, as measured by the 10-year breakeven rate, rising (1.53% at 14 June) but still below the target. On the other hand, the pace of inflation is weighing on demand in the absence of real incomes catching up, but accelerating tightening could further penalise it.

FEAR FOR THE YEN

The yen underwent another episode of marked depreciation in the first half of 2024. On 14 June 2024, 1 US dollar was equivalent to JPY 157.33, compared with JPY 141.13 on 1 January: the Japanese currency is thus trading at its lowest level in 34 years against the greenback. Similarly, the most recent data published by the Bank for International Settlements report a fall in the Japanese real effective exchange rate of -4.6% YTD in April 2024. A significant proportion of recent variations are due to external factors. In particular, US inflationary developments have led the markets to postpone their expectations of Fed rate cuts, and the interest rate differential is a key factor in explaining the relative value of currencies.

GROWTH AND INFLATION

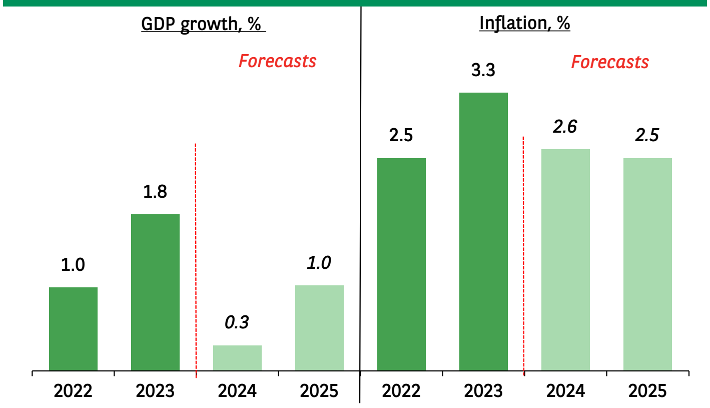

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

The weakening of the yen may be favourable for the Japanese economy. In 2023, it led to record profitability for domestic companies (quarterly average of 26.1 trillion yen), while exports were the main driver of GDP growth. Conversely, the deterioration in the currency is fuelling fears of imported inflation, at least temporarily, as Japan's energy supplies are dependent on the outside world and denominated in US dollars. We therefore need to assess the ability of a rise in energy inflation to drag core inflation along with it, through second-round effects.

Given the size of its foreign exchange reserves (1.3 trillion US dollars as of 5 April 2024, the second largest in the world), Japan has the option to intervene in the markets to protect its currency. Data from the Ministry of Finance show that it intervened to the tune of 62 billion US dollars on 29 April and 2 May in response to the fall in the yen. However, the scope of this type of action is uncertain, not to say limited, as currency movements are fundamentally a function of the relative attractiveness of currencies (linked, for example, to interest rate differentials, growth rates or geopolitical factors). Our central scenario suggests a relative recovery in the yen, which would appreciate to USD 1 = JPY 148 by Q4 2025, but would be broadly stable against the euro. Moreover, in the long run, the normalisation of monetary policies should, in theory, buoy the Japanese currency due to the associated reduction in the interest rate differential between recently relaxed policies (US, eurozone) and the BoJ's ultra-accommodative starting point.

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EUROZONE: RATE CUTS UNDERWAY, BUT THE ECB REMAINS ON ITS GUARD

The first cut in policy rates by the European Central Bank on 6 June came as no surprise, as the committee members had largely prepared the ground ahead of the decision. The timing and scale of future easing is more uncertain, given the continuing strong pressure on wages, high inflation in services, and the resurgence of tensions in global shipping. We expect two further interest rate cuts in 2024, at a pace of one per quarter (September and December).

While our forecast for the terminal rate has not changed from our March forecast (the rate on the deposit facility would stabilise at 2.50% by the second half of 2025), we have postponed our expectation of a cut from 2024 to 2025. The second half of 2024 will also see a slight increase in the ECB's quantitative tightening, with the partial reinvestment of assets held under the Pandemic Emergency Purchase Programme (PEPP), leading to an additional net reduction in the ECB's balance sheet of EUR 7.5 bn per month. This development is only the first step before the PEPP reinvestment programme comes to an end on 1 January 2025. Since July 2023, the ECB has no longer reinvested securities acquired through the Asset Purchase Programme (APP).

A THWARTED TRIPTYCH

However, the ECB's latest internal projections, published on 6 June, will not encourage it to relax. Compared with the March figures, the June estimates include upward revisions for GDP growth in 2024 (+0.3 percentage points, to 0.9% in 2024) and a slight fall for 2025 (-0.1 pp, to 1.4%). However, it is on the cost side that the most significant revisions are to be found. Firstly, on consumer prices (HICP), with an upward revision in inflation of 0.2 pp for both 2024 and 2025 (to 2.5% and 2.2% respectively), but also and above all on unit labour costs (ULCs), where significant revisions, extending to 2026, should be noted[1]. For the time being, labour costs in the Eurozone are not slowing as much as expected, and this dynamic, coupled with a slight fall in productivity, is fuelling a robust rise in unit labour costs. This is mainly the case in countries whose economies are relatively more industry-focused, and where inflation rates have fallen more lately - notably in the Netherlands (ULCs rose by 8.5% y/y in Q1), Germany (+6.9%), Austria (+10.6%), Croatia (+12.5%) and Latvia (13.2%). The triptych hoped for by the ECB - wage moderation, rising productivity and falling corporate margins - is not quite there yet, even though the ECB has noticed a sharp decline in the contribution of corporate margins to inflation since the second half of 2023[2].

After stabilising at 0.3% q/q in the second quarter of 2024, real GDP growth in the Eurozone is expected to strengthen slightly in the third quarter (+0.4% q/q) to converge with the expected growth rate for the United States. The PMI indices have gradually recovered since the start of the year (composite at 52.2 in May), although the indicators for the manufacturing sector, while also improving, are still at a very low level (47.3). Industrial activity in the Eurozone, which is held back primarily by the slowdown in the German economy, also remains exposed to an escalation in trade tensions between Brussels and Beijing. The European Commission has raised its voice in recent months, increasing customs duties on electric vehicle batteries and certain plastic components imported from China, as well as launching new anti-dumping investigations (medical products, biofuels) that could ultimately lead to new sanctions. The Chinese authorities have so far responded with restraint, targeting mainly the food sector (pork), spirits (cognac) and certain chemical products (thermoplastics). However, broader retaliatory measures, targeting manufactured goods and certain critical raw materials on which Europeans are heavily dependent on China, would have a completely different resonance. Furthermore, the stagnation of manufacturing employment in the Eurozone – and its new low as a share of total employment in Q1 2024 (12.8%) – illustrate the region's difficulties in kickstarting a genuine reindustrialisation dynamic, which will in any case be slow to materialise, given the time needed to build new infrastructures.

GROWTH AND INFLATION

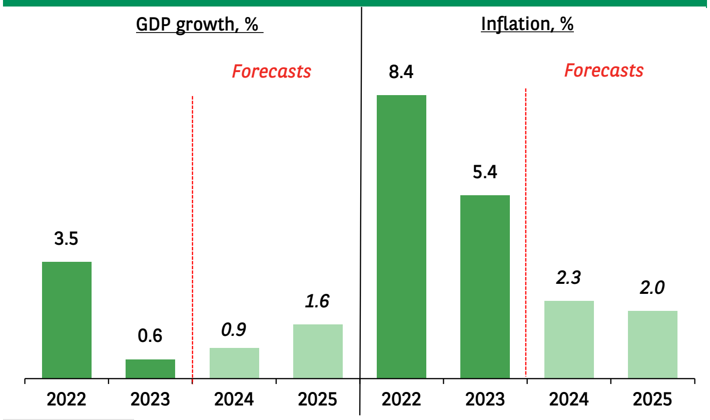

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

STAYING THE COURSE

The expected strengthening of activity in the second half of 2024 should support some job creation in the Eurozone, although the effects of monetary tightening on companies' financial conditions could lead to losses elsewhere. At this stage, the supply-demand imbalance on the labour market remains significant, with a relatively high job vacancy ratio (2.6% in Q1 2024, according to Eurostat), which contributed to a historic fall in the Eurozone unemployment rate to 6.4% in April. It is remarkable that the unemployment rate continues to fall, despite the stagnation of activity in the Eurozone between Q4 2022 and Q4 2023.

Following the European elections held from 6 to 9 June, the balance of power within the Strasbourg parliament has shifted in favour of the European People's Party (EPP) and the ultra-conservative parties. However, the possibility of maintaining a large coalition majority between the EPP, the Socialist Democrats (S&D) and the centrists (Renew) should limit the risk of legislative deadlock, even if agreements will be more difficult to reach than before. The entry into force in May 2024 of several major programmes (*Critical Raw Material Act, Net Zero Industry Act*) will also help the European Union to maintain a strategic course.

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1 The forecasts for 2024, 2025 and 2026 have been raised by 0.3 pp (to 4.7%), 0.2 pp (2.5%) and 0.4 pp (2.1%) respectively.
2 See Isabel Schnabel, The ECB's monetary policy: towards price stability, slide 14, 12 June 2024.

GERMANY

A REBOUND – BUT WHAT HAPPENS NEXT?

German growth is expected to be supported, in the short term, by the upturn in the country's industry, which should offset some of the loss of production associated with the rise in the cost of energy following the outbreak of the war in Ukraine. As an open economy, Germany is also expected to benefit from the rebound in growth in the eurozone since the beginning of 2024. However, in the longer term, German growth potential is likely to continue to suffer from labour shortages, from the weight of its industry (weakened by the low-carbon transition), and also from the consequences of insufficient investment against a backdrop of a surge in new competitors.

Germany returned to positive growth in Q1 2024 (+0.2% q/q, as seen in France), barely below the eurozone (+0.3% q/q). However, this figure is assessed differently when we take into account the 0.5% contraction in GDP observed in Q4 2023. GDP in Q1 2024 is therefore 0.3% lower than in Q3 2023. GDP is even 0.1% below the activity level in Q1 2022 (i.e., before the war in Ukraine began), highlighting the fact that Germany is among the countries that suffered the most from the rise in energy prices. This decline is largely due to industry, production of which remained, on average in Q1 2024, nearly 5% below the level seen in February 2022.

2024: YEAR OF THE REBOUND

Business climate surveys indicate a fairly clear economic upturn. The composite PMI, at 52.4 in May 2024, is at its highest level for 12 months. And even though German industry remains a weak link, the «production» component of the manufacturing PMI rebounded to 48.9 in May, a 13-month high.

The PMI for export conditions (based on the average PMI of Germany's customer countries, weighted by their share in German exports) rebounded to 51.9 in May, its highest level for more than two years. This is an improvement, following a Q1 marked by a contribution of exports to growth of 0.5 percentage points, after a decline observed in the previous three quarters.

It is not surprising that an economy whose exports account for nearly 50% of GDP is benefiting from an improvement in overall business conditions. Exports to the US are already bolstering German foreign trade, which has played its part in a major development: the return of the eurozone as the biggest supplier to the US, ahead of China. For Germany, exports to the US represent a real growth driver: +5.6% y/y over the first four months of 2024 to the US and +40.4% compared to the same period in 2019 (compared to +3.2% towards China versus 2019). At the same time, exports to the eurozone are beginning to rebound.

The relative decline in energy prices provides further support, in particular the price of electricity for industry (+42% in February 2023 compared to its level in August 2021, the recent drop having «absorbed» only one third of this increase). Consequently, production in energy-intensive sectors, still heavily penalised in 2023, may now rebound: +7% in February-March in chemicals compared to the average production level observed in 2023. There is also additional potential for a rebound as production in this sector remains 7% below the level seen in February 2022.

WEAKENED GROWTH POTENTIAL

The German economy is no longer benefiting from the same support as in the past. The country prepared to fully benefit from China joining the WTO in 2001 and from enlargement of the European Union to Central Europe in 2003, by adopting the Hartz reforms (2003-05). By transforming the labour market, these reforms have helped to contain the cost of labour and gradually achieve full employment (the unemployment rate reached 5% at the end of 2018).

Between 2005 and 2018, Germany created nearly 5.6 million jobs, or 430,000 jobs per year, compared to 180,000 per year between 2018 and 2023.

GROWTH AND INFLATION

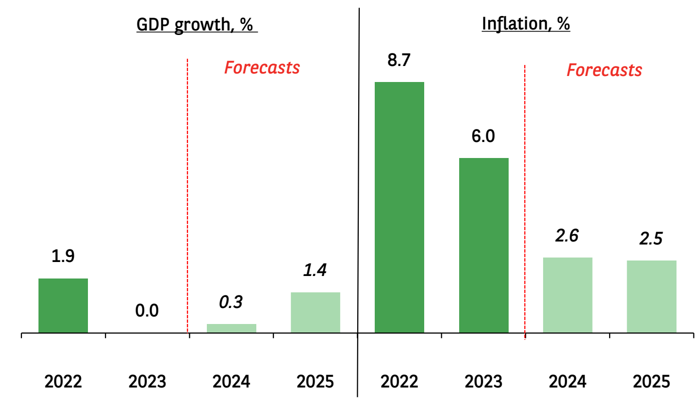

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

Moreover, the proportion of companies considering that labour shortages penalise their production reached 20% in services and 16.5% in industry on average over this period (whereas this proportion was previously residual), according to the European Commission survey.

At the same time, in Q1 2024, investment in machinery and equipment was 5% below the level seen at the end of 2018. However, this is not the result of a «substitution» effect in favour of services, as investment in market services has not progressed between the two dates. A shift towards increased demand for services, which the German economy does not seem to be taking on either from the point of view of household consumption (unlike France), which was 1.4% lower in Q1 2024 than its level at the end of 2018.

While German potential growth has weakened from an accounting point of view (less labour and capital intake), the same does not apply for the country's competitive positioning, which is protected for the time being. Of course, Germany is facing an issue of export opportunities, with increasing competition from China and the US. While its market share in global exports remained at 8% between 2010 and 2018, despite China's rise in power, this share fell to 7% in 2023, falling below that of the US (8.5%). However, this can be explained in particular by the partially temporary drop in industrial production (chemicals in particular) while, at the same time, German price competitiveness has remained, according to the Bundesbank's calculations. This represents a robust result according to various methodologies. In addition, non-price competitiveness (investment in R&D, robot equipment rate) remain favourable for Germany. However, the clear catch-up by China confirms the emergence of this new competitor, particularly in sectors traditionally among the best performing in German industry (automotive, chemicals).

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FRANCE

AND YET IT MOVES

The French economy is characterised by a modest but positive growth, a statement that is all the clearer following the changeover of the national accounts to the 2020 base and the publication of the 2023 annual accounts, which led INSEE to raise its 2023 GDP estimate by almost EUR 20 billion. However, there are winners and losers from this growth. In 2024, it should be sustained mainly by market services, which account for the bulk of job creation and growth in demand. However, this growth in services substitutes that for goods, while inflation and interest rate shocks continue to weigh on investment.

The recent publication of the 2023 annual accounts by INSEE coincided with the changeover to the 2020 base for the national accounts, two statistical advances that have given a more positive picture of French growth than was previously the case. Growth in household consumption has certainly slowed considerably compared with 2022 (+3%), to +0.9% in 2023, but it has not stagnated. The very low level of household confidence has resulted in a switch between consumption of goods (-1.6% in 2023) and services (+3.1% in 2023), rather than a contraction in overall spending. GDP growth now stands at 1.1% in 2023 (0.9% in a previous estimate), and Q1 2024 (at +0.2% q/q) was in line with this performance: growth that was admittedly limited but positive.

GROWTH IN 2024: THE SAME AS IN 2023?

We expect growth in 2024 to be the same as in 2023. The starting point is relatively comparable, although the situation is slightly more favourable today, with a carryover of 0.6 points at the end of Q1 2024, compared with 0.5 points in Q1 2023. The improvement in the business climate should also be noted: the services PMI reached its highest levels since May 2023 in April-May 2024 (51.3 and then 49.3).

However, the household confidence index halted its rebound halfway through the year: at 100 before the acceleration in inflation (in October 2021), it fell to a low of 80 in July 2022, before returning at the end of 2023 to a level close to that in May 2024 (90), where it had stagnated for five months. Households are therefore likely to continue to restrain their spending in the short term, a likelihood heightened by the political uncertainty surrounding the forthcoming general election.

The two potential supports for consumption are expected to have only a moderate and gradual impact. Disinflation, which was significant until March (at 2.4% y/y according to the harmonised index, compared with 5.7% y/y in September 2023), has come to a halt. Inflation has even risen again (2.6% y/y in May) and is set to remain slightly higher until August, due to the rise in energy prices (increase in gas prices in July) and service prices (effect of the Olympic Games on the cost of transport services and accommodation). Although gross monthly wages (+3.3% y/y) rose faster than inflation (+3% y/y) in Q1 2024 for the first time in three years, this pause in disinflation should limit further gains in purchasing power in Q2.

The fall in the savings rate (to 17.6% of gross disposable income in Q1 2024) would constitute the second potential support for household consumption. However, given the current context, this fall should remain limited. Overall, household consumption is expected to accelerate only moderately in 2024 (+1.3%) compared with 2023 (+0.9%), with growth coming entirely from services.

At the same time, exports of goods and services should be sustained by favourable trends in aeronautics, energy and tourism. Net of imports, the contribution of foreign trade to growth should increase from +0.5 points in 2023 to +0.7 points in 2024 (this positive contribution in two consecutive years is a rare phenomenon). These two sources of support for the economy – household consumption and exports – would barely offset the impact of the expected fall in investment, and GDP growth would remain at 1.1% in 2024 as in 2023.

GROWTH AND INFLATION

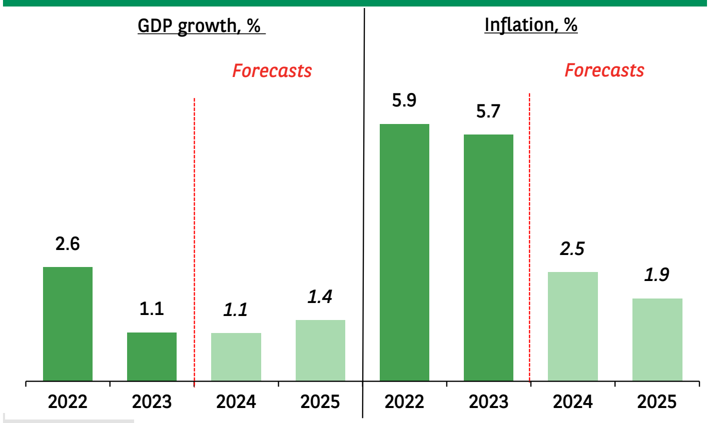

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

LESS INVESTMENT IN 2024, BUT SERVICES CONTINUE TO SUSTAIN THE MOMENTUM

We expect investment to fall by 1.1% in 2024 as a result of the rise in interest rates. Household investment would continue to fall (-5.7% in 2024), taking it to almost -18% between mid-2021 and the end of 2024. Only 282,000 homes were started between May 2023 and April 2024 (-22.3% y/y), a level not seen since 1993 (274,000). In the existing home market, transactions totalled 822,000 units in Q1 over a 12-month period (-23.2% y/y), although they are still higher than the levels recorded up to 2016. Public investment, supported by preparations for the Olympic Games until mid-2024, is expected to suffer a setback from Q3 onwards, before stagnating in 2025 as a result of fiscal savings measures.

Finally, investment by non-financial companies (NFCs) is forecast to fall by 0.7%, before a moderate rebound in 2025. The rise in interest rates is penalising their investment in goods and construction: -3% and -2.5% respectively in Q1 2024 compared with the peak in Q3 2023. However, total investment by NFCs was strong between 2019 and 2023 (+10.2%), driven entirely by market services.

This rise in services is reflected in the dynamics of the labour market and business creations: since the end of 2019, almost nine out of ten new jobs and nine out of ten new businesses have come from the services sector. In Q1 2024, the services sector was responsible for the entire net creation of 75,000 salaried jobs, according to INSEE.

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THE RECOVERY KEEPS GOING

In Q1 2024, the Italian economy slightly accelerated. Real GDP rose by 0.3%, with a mixed evolution by sector. Valued added of construction rose, while that of manufacturing declined, suffering from the slowdown of exports. Services increased moderately, benefitting from the recovery of tourism. Domestic demand contributed positively to the overall growth and households profited from the improvement of labour market conditions. Economic and financial conditions of firms further improved. In Italy, in the first five months of 2024, on average, the consumer price index increased by less than 1% y/y per month.

Q1 GROWTH: MIXED EVOLUTION BY SECTOR, MORE WIDESPREAD RECOVERY BY GDP COMPONENTS

At the beginning of the year, the Italian economy slightly accelerated. In Q1 24, real GDP rose by 0.3% q/q. Net exports contribution was positive (+0.7 pp), as imports declined while exports rose (albeit at a slower pace than in Q3 and Q4 23). Change in inventories subtracted 0.7 percentage points from the overall growth. Up to now, the carry-over for 2024 reaches +0.6%. So far, the recovery of the Italian economy has exceeded expectations. GDP is 4.6% higher than in Q4 19, more than in the other main Euro area economies.

In Q1 24, the economic recovery was mixed by sector. Value added of construction rose by almost 3%, also reflecting the effect of public incentives to improve the energy efficiency of buildings. Services grew moderately (+0.3%), benefitting from the further recovery of tourism, with expenditures of foreign travellers well above the 2019 level. Value added of manufacturing slightly declined, suffering from the slower growth of exports and the contraction of production mainly in sectors with still high productive costs.

Consumption rose by 0.3%, partly recovering the 1.4% decline in Q4 23. Households benefitted from the recovery of income, although still suffering from consumer prices that are about 20 percentage points higher than at the beginning of 2021, even though inflation is below 2%. Labour market conditions further improved. The employment rate rose above 62%, the highest value in the last twenty years, and the number of employed persons is more than 700,000 higher than in the pre-Covid-19 crisis period.

In Q1 24, investment in construction rose further, both for dwellings and other buildings and structures, while those in machinery and equipment declined, although remaining 17% higher than in Q4 19. Economic and financial conditions of firms have further improved. In spite of higher productive costs, firms' profitability has slightly recovered. Leverage of non-financial corporations (i.e. the ratio between financial debts and the sum of financial debts and market values of shares and other equity) fell to 34%, 15 percentage points below the 2011 value, with a more balanced composition of debts (in particular a lower share of bank loans). Besides, deposits of firms amount to more than EUR 500 billion, about 40% of financial debts (a measure of their liquidity margins).

INFLATION KEEPS DECLINING, HOUSE PRICES STILL GROWING

In Italy, the consumer price index for the whole nation (NIC) has been increasing by less than 2% from October 2023. In the first five months of 2024, on average, the consumer price index rose by less than 1% y/y per month. In May, inflation increased by 0.2% on a monthly basis and by 0.8% y/y (same as in April 2024). The stabilization of the inflation rate is mainly due to the easing of tensions on the prices of processed food goods (+1.8% y/y from +2.5% in April) and of some types of services (transport and housing-related) along with the persistent deflationary pressures coming from the energy sector (notwithstanding their recent weakening). Core inflation continues to decline as well (+2.0% y/y from +2.1% in April).

GROWTH AND INFLATION

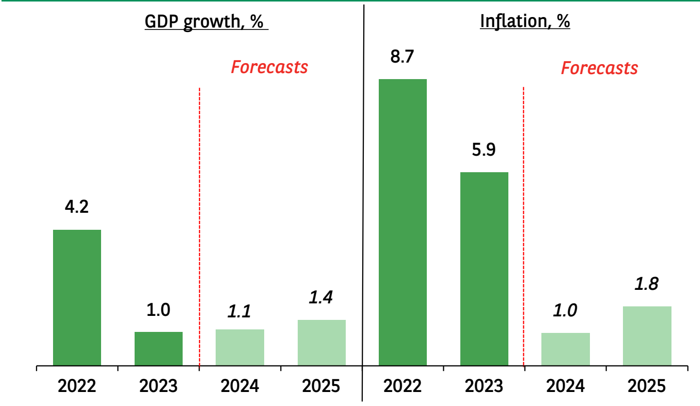

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

As far as housing prices are concerned, they increased by 1.3% in 2023 (the fourth increase in a row): the prices of new houses and existing ones rose, respectively, by 5.6% and 0.4%. The carry-over effect for 2024 is +1.7% (+9.8% for the new houses and zero for the existing ones). Positive growth rates in house prices are widespread among the three cities where they are collected: in Milan, house prices in 2023 grew by 5.4% (eighth yearly increase in a row), in Turin by 2.6%, in Rome by 0.8%. On the transaction side, Italy's housing market remains depressed however: following the decline recorded in 2023 (when volumes went down by about 10% on a national basis), in Q1 2024 house transactions fell by 7.6% y/y.

Monitoring the housing market trends in Italy is crucial, due to the weight of houses in Italian households' wealth. According to Bank of Italy's estimates, on average, houses account for 47.6% of households' net wealth, reaching 75.1% for the poorest households, in the lowest percentile of wealth.

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SPAIN

GROWTH TO REMAIN HIGH IN THE SECOND QUARTER

In Q1 2024, Spanish real GDP growth was, as expected, one of the highest in the Eurozone (+0.7% q/q). It was mainly driven by foreign trade (contributing +0.5 pp), which was directly supported by the record tourism figures recorded at the start of the year. In the second quarter, we expect activity to remain strong (+0.7% q/q) due to a gradual recovery in private consumption, continued growth in exports, and support for investment from future disbursements of NGEU funds.

TOWARDS NEW TOURISM RECORDS

For another year, Spain is expected to set a record number of tourist arrivals. After surpassing its pre-Covid levels in 2023 (with 85 million foreign tourist arrivals), tourism activity does not seem to be slowing down at the start of 2024, which is not without its problems, particularly as resources and territories come under pressure. According to figures published by the INE, arrivals rose by 14.5% in the first four months of the year compared with the same period last year, while tourist spending grew by 22.6% over the same period. These strong performances underpinned growth in services exports in Q1 (+11.1% q/q), which enabled foreign trade to be the main contributor to real GDP growth during the quarter.

Over the coming months, this positive momentum in tourism, combined with the gradual recovery in activity of Spain's main trading partners, should further boost export growth. The results of the PMI survey carried out in May in the services sector bear witness to this optimism: the component relating to activity in the months ahead has risen (+1.6 points, to 69), driven upwards by export orders (53.9; +3.7 points), themselves induced by strong tourism activity. In addition, this momentum will provide further support for employment (with the employment component having risen to 55.1 points).

GROWTH AND INFLATION

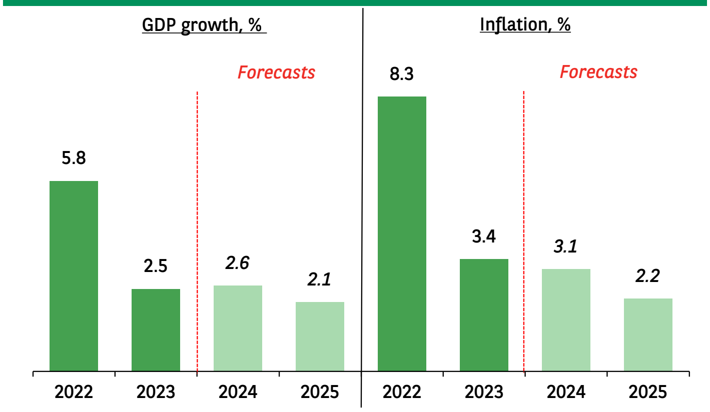

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

A POSITIVE CYCLICAL TREND IN THE LABOUR MARKET, BUT STRUCTURAL DIFFICULTIES PERSIST

This strong demand for work in the services sector, particularly tourism services, led to a sharp rise in the number of people registered with the social security system in May compared with the previous month (+220,289), reaching an all-time high of 21.3 million. The biggest increases were in the hotel, travel agency and entertainment sectors (more than 80,000 people). This labour market performance is also benefiting from the strong growth in the immigrant workforce, which rose from 12.1% in Q1 2020 to 14.6% in Q1 2024.

Nevertheless, structural vulnerabilities persist. Although the unemployment rate has fallen sharply since the 2021 reform, and in April reached its lowest level since 2008 (down from 15.7% in April 2021 to 11.7% in April 2024), it is still the highest in the Eurozone and well above the average for the region (6.4%). The youth unemployment rate also remains significantly higher than in other Eurozone countries (26.5% compared with 14.1%), which tends to show that the transition from education to the labour market remains more difficult in Spain than in other countries.

HOUSEHOLD CONSUMPTION COULD PICK UP FROM Q2 ONWARDS

Despite this improving labour market, wage increases are already gradually starting to slow (up +4.2% y/y in Q1 after +4.5% and +5.0% over the previous two quarters). However, wage increases are still substantial, and continue to explain the resilience of services inflation (+3.5% y/y in April). For its part, headline inflation (HICP) has picked up over the past four months (+3.8% y/y in May), mainly due to base effects linked to energy prices. However, disinflation could return to Spain from July onwards, as the government has announced that VAT on electricity will revert to the reduced rate of 10%[1] from that month, due to rising prices on the wholesale electricity market[2].

This expectation of disinflation, combined with the robustness of the labour market and the growth in real wages, means that households are regaining purchasing power, which should stimulate their private consumption; this could then increase more than in Q1 (+0.3% q/q). The economic indicators for April concerning domestic consumption also show that retail sales are up slightly (+0.8% m/m[3], the strongest monthly growth since November 2023) and that vehicle registrations have jumped sharply (+14.3%[4] over one month). Finally, the ECB's cycle of interest rate cuts should encourage Spanish households to dip into their savings (13.1% of disposable income in Q4 2023) and in turn support private consumption.

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1 For virtually all domestic consumers and SMEs.
2 Despite the government's decision in February to reintroduce VAT on electricity at 21% (its usual level).
3 Seasonally adjustable.
4 Seasonally adjustable.

NETHERLANDS

A NEW GOVERNMENT AND A NEW PURCHASING POWER FRIENDLY AGREEMENT

The Dutch economy was confronted with a new decline of its GDP in the first quarter of 2024, due to an unexpected drop in exports. The future does not look too gloomy though, since a new coalition was formed and presented friendly purchasing power measures that are likely to support private consumption. The agreement however plans to limit the budget deficit to 2.8% of GDP through spending cuts which could deteriorate the country's productivity in the longer run.

A new right-wing government has been appointed, after months of intense negotiations. The new coalition is made of election winner PVV (far-right), VVD (liberal centre-right) and newcomers the Framer Citizen Movement (BBB, right) and New Social Contract (NSC, centre-right). The four parties have presented their policy plans for the next four years. When it comes to the negotiations, it seems clear that the PVV has given up on a lot of their plans. The PVV's party program was Eurosceptic, advocated deficits of more than 4% of GDP, and was anti-climate and opposed support for Ukraine. Instead, the coalition agreement keeps climate policy largely intact, solidifies support for Ukraine, and is less Eurosceptic than expected. Moreover, there is a clear commitment to maintain fiscal prudence, with a deficit set to stay below 3% of GDP. In a nutshell, the new coalition reduces spending on funds originally earmarked for enhancing productivity growth (e.g. the National Growth Fund), promoting research and science, addressing nitrogen-related issues, and financing climate measures. Instead, that money will be primarily allocated to purchasing power for households, infrastructure development, housing, the agricultural sector, and nuclear energy. Structural reforms on the labour market and in the tax system are absent. The coalition puts heavy emphasis on restrictive measures on migration, improving livelihood security for all, by building more houses and by improving household purchasing power.

BOOST TO PURCHASING POWER

The agreement is titled 'Hope, Courage and Pride'. It features an ambitious set of policy goals in different areas. Starting with households, purchasing power is supported in the short run by a small tax relief for households (EUR 2 bn) and from 2027 onwards by halving mandatory healthcare contributions (EUR 4/5 bn).

Businesses, especially in the agricultural sector, welcomed the accord. Some planned tax increases, such as the energy tax increase and a tax on share buy-backs, have been reversed. The new agreement indicates that restoring the business climate is a policy goal of the incoming government. The coalition claims that 'work must pay' and calls for 'no additional levelling of the income distribution'. The agreement nevertheless looks more supportive of lower incomes, due to increases in welfare benefits, health care and child-related allowances aimed at reducing child-poverty.

The budget deficit is set to remain lower than what was previously announced by Geert Wilders during the election campaign. Some measures to allow this are cuts in the number of civil servants, cuts in education and innovation worth EUR 6.2bn from 2025 to 2028 and EUR 12.6bn by 2031. Other measures include changes in taxation, with, for instance, an end of the reduced VAT on cultural goods and that of subsidies for EV purchase by 2025.

ECONOMIC ACTIVITY

The Dutch economy unexpectedly contracted, again, by 0.5% on a q/q basis in Q1 2024. This contraction contrasts with figures from neighbouring countries. The German economy grew by 0.2% q/q and the Eurozone as a whole grew by 0.3% q/q. The contraction in the Netherlands was largely driven by a decline in net exports, further stock depletion and a drop in total investment. The contraction in goods exports was driven by weakness in the manufacturing sector. The sharp decline in inventories also hurt growth, but the cycle of stock depletion seems to be reaching its end, in line with the bottoming-out of the industrial sector.

GROWTH AND INFLATION

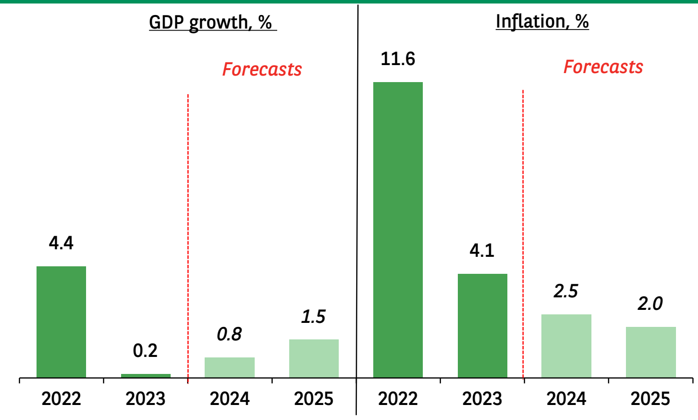

CHART 1

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

Despite the downside surprise, the published figures support the view of a Dutch economy being supported by private consumption, which rose by 0.7% q/q as households benefitted from a recovery in real incomes on the back of strong wage growth, facilitated by the tight labour market. The Dutch economy operates near full employment, with the unemployment rate at 3.5% in May 2024. Government consumption also increased by 0.6% q/q. Despite formation talks, the caretaker government continued to contribute to growth through spending on healthcare, education, and defense. Investments surprised to the downside in the first quarter, which confirms that businessmen's optimism regarding the future is not so strong and is undermined by the uncertain geopolitical climate and the high interest rates that limit the rationale for investments, except when it comes to replacing existing facilities in transportation and machinery. Finally, the real estate sector confirmed its sharp recovery, with prices rising by as much as 8.6% y/y in May, up from the 6% drop registered a year earlier.

Looking forward, the outlook for 2024 remains rather positive. Growth is expected to be driven by domestic demand. Later in 2024, as financial conditions ease further and external demand increases, growth is forecast to pick up, from 0.2% in 2023 on an annual average basis to reach, respectively, 0.8% and 1.5% this year and next according to the European Commission's spring forecasts. As elsewhere in Europe, inflation is proving stickier than thought, with prices rising back since the start of the year, at +2.7% in May 2024 versus -1% in October 2023. This sharp acceleration in inflation is the result of base effects given what happened to Dutch energy prices when the war started in Ukraine. Dutch HCPI inflation hit +17.5% y/y in September 2022, which was the highest rate observed in the Euro-Area. All in all, the European Commission now expect inflation to reach 2.5% and 2% this year and next.

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BELGIUM

STEADY GROWTH, REAL ESTATE TO RECOVER

Belgian economic growth remains close to trend rates, even as a shift in the underlying drivers is taking place. Corporate investment rebounded from last quarter's one-off dip. More encouraging is the bottoming-out of household investment in dwellings. Real estate prices have remained on an upward trend throughout the ECB's now ended hiking cycle and the depressed activity levels are expected to slowly recover. Public finances remain a challenge, as the spectre of prolonged government formation talks once again casts a shadow over the Belgian economy.

First quarter GDP growth was recently confirmed to have been 0.3% q/q. Besides private consumption, usually the engine of growth, corporate investment rebounded, after its Q4 dip (offset by a related improvement in the trade balance, both the result of transactions in the maritime sector). Another positive sign is that household investment also contributed to overall growth for the first time in more than a year, even if total expenditure in this category remains 13% below pre-COVID levels. With the labour market gradually cooling off and inflation expected to resume declining – after topping the EU27-charts recently – we anticipate an increased appetite for private real estate. Additional rate cuts by the ECB could further speed up the pending recovery of activity levels in the real estate market.

GROWTH AND INFLATION

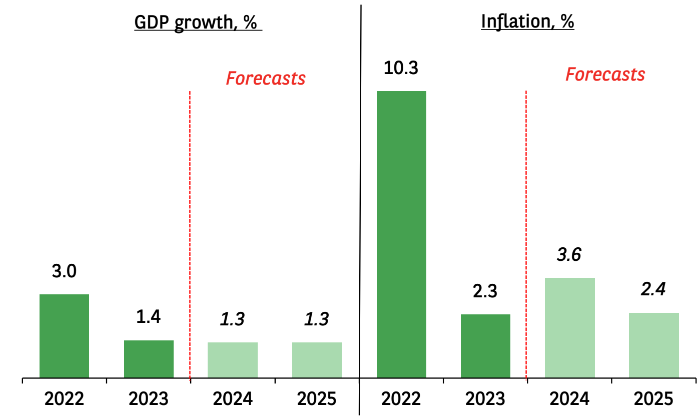

CHART 1

SOURCE: BNP PARIBAS FORTIS, BNP PARIBAS

BETTER NEWS ON THE REAL ESTATE MARKET

As in the neighbouring countries, Belgian real estate prices accelerated further during the COVID-19 crisis, albeit at a more gradual pace than in Germany and the Netherlands. Up until the ECB's first rate hike, in mid-2022, housing price growth had in fact been in excess of the historical average of about 4% per year. To quantify a possible pending market correction, we simulated a shock of six consecutive housing price declines of a magnitude only experienced in 5% of all quarters between 1973 and 2020. Yet even in this quite negative scenario, prices would only drop back to their 2021 levels, indeed a quite modest correction. Now, almost two years later, housing price growth has surprised even more on the upside. In fact, since the start of the ECB's hiking-cycle, housing prices have barely deviated from their long-term trend. However, activity levels did drop significantly.

The National Belgian Bank reports a decline of about 20% in secondary transactions throughout 2023. The increased interest rates pushed the NBB's metric for housing affordability to an all-time (expensive) record level, which offers some explanation for this dip. However, the decline in transactions is likely also related to a recent regulatory change. As of January 2023, dwellings carrying a poor energy performance certificate are mandated to be renovated within five years of purchase. Anecdotal evidence suggests that the housing price dip in late 2022 was related to a large influx of this type of property, aiming for a quick sale to help the buyer steer clear of the new requirements. In parallel, the number of new mortgage credits actually declined even faster than the activity levels in the market. In 2023, there were almost 30% fewer new housing loans. The number of building permits also declined during this period.

Now, in early 2024, the first positive signs are appearing. The NBB recently reported interest rates on new mortgages of an average 3.23% for maturities of at least 10 years, down from the December 2023 peak of 3.6%. Household sentiment has recovered from its double COVID/energy dip and the unemployment rate has only marginally increased, as a soft landing on the labour market lurks. Furthermore, nonperforming loans are stable and household debt continues its downward trajectory, evidencing the relative stability of real estate market throughout the rate cycle. Over the short term, we expect housing price growth at around the trend pace as activity levels on the market gradually pick up again.

PUBLIC FINANCES REMAIN A CHALLENGE

Households and firms seem to have weathered the impact of higher rates quite well. But this is not the case for public finances. One-off expenditures like COVID-19 and energy-bill support appear to have pushed the deficit structurally higher. Despite the Belgian Debt Agency's best efforts to tie in low rates for longer, average yields on outstanding government debt started to creep up again already in 2022. At the beginning of this year, yields stood at 1.92%, almost 50 bps above their low point in 2021. Average maturity was almost 11 years. As a result, yearly debt servicing charges are picking up. Having bottomed out at 1.2% of GDP in 2022, interest paid on outstanding debt could be double that by 2025. The popular one-year bond emitted last year, encouraged by fiscal support, could be interpreted as a sign of strong market demand for Belgian debt, but too much optimism seems unwarranted, especially as a stubborn deficit and rising (rather, no longer falling) interest rates conspire to push government debt ever higher. The interest rate snowball is indeed in full swing: the debt ratio could top 110% by 2026. Fiscal consolidation will be a key-priority for a yet-to-be-formed government, as a European budget reprimand looms large.

Belgian GDP cumulatively outgrew the Euro Area by about 1% since the start of 2022. True to type, the economy overperformed during rough times, at least partially due to significant government intervention. This is a two-part act: Belgian growth, close to trend, will be outpaced by most other European countries over the short term, especially as rates decline further. Inflation, meanwhile, is normalising but still in excess of almost all other EU-member countries. Core inflation, spurred by subsequent wage indexation, is one culprit, higher energy-price sensitivity is another.

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AUSTRIA

THE ECONOMY WILL ONLY RECOVER SLOWLY

After being in recession in 2023 (-0.8% on an annual average), due to falling investment, high inflation and the decline in real wages, Austrian growth is expected to remain weak this year (+0.3% according to the European Commission). In Q1, real GDP grew by just 0.2% q/q, still dragged down by the decline in investment (-4.7% q/q, contributing -1.1 pp to growth), but nevertheless pulled up by the rebound in private consumption (+0.8% q/q, contributing +0.4 pp), itself supported by the return of real wage increases and the resilience of the labour market.

Austria, which is heavily dependent on its industrial activity, was negatively impacted in 2023 by the rise in energy prices, the slowdown in global merchandise trade, and weak economic activity in Europe - particularly in Germany[1]. The economy finally managed to post slight growth[2] in the first quarter of 2024, and the main economic indicators suggest that activity should remain weak but positive in the second quarter.

PERSISTENT WEAKNESS IN INDUSTRY AND CONSTRUCTION

Activity in the industry and construction sectors remained weak in the first part of the year. The environment of persistently high interest rates and energy prices, combined with significant rises in unit labour costs in Austria (7.4% y/y in Q4 2023 compared with 3.4% y/y for the Eurozone), continued to weigh on both these sectors.

In April, the industrial production index (IPI) was still showing a negative trend (-1.3% y/y), which was also the case for the industry sector including construction (-0.4% y/y). Nevertheless, the situation is expected to gradually improve over the course of the year, as disinflation takes hold and the activity of Austria's main trading partners picks up. Although still far from their long-term[3] trends, both these production indices have already recovered significantly compared with March (+2.2 pp and +3.2 pp respectively).

New orders in both sectors also rose sharply in April (+7.9% and +14.4% y/y respectively), suggesting that activity should pick up again in the months ahead. This is also suggested by the encouraging results of the PMI survey conducted by UniCredit Bank Austria in May. Although the overall index remains below the threshold of 50 (at 46.3), it has nevertheless climbed to its best level in nearly fifteen months, due in particular to the slowdown in the decline in new orders (47.1; +3.6 points over one month) and an improvement in expectations for production over the coming year (56.3; +0.8 points).

PRIVATE CONSUMPTION SHOULD CONTINUE TO ACT AS A COUNTERWEIGHT

After contributing negatively to real GDP growth in 2023 (-0.3 pp), private consumption was the main driver of Austrian growth in Q1 2024. It should remain buoyant throughout the year due to the reduction in inflation (3.3% y/y in May compared with 5.7% in December 2023), which, combined with strong growth in negotiated wages (+8.8% y/y in April), is supporting household purchasing power.

For its part, the labour market has proved rather resilient despite the poor economic climate. The unemployment rate remained moderate (6.4% in May) and below its long-term average (7.2% over the 1999-2019 period), while the employment rate remained high at 73.3% in Q1 2024, not far off its all-time high recorded in Q3 2023 (74.9%). The outlook is positive, with the vacancy rate still more than

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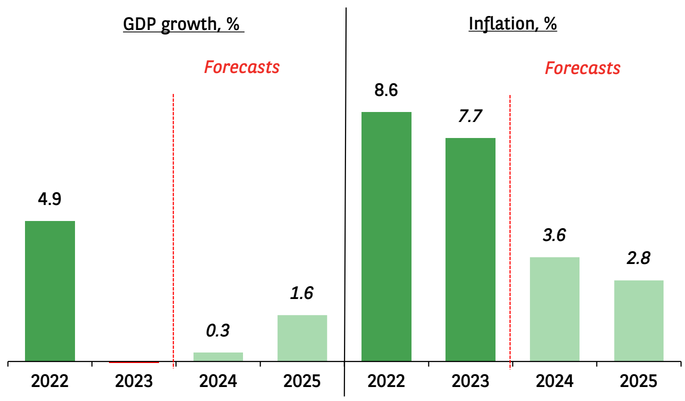

CHART 1

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

1 percentage point above its pre-pandemic level (4.4% in Q1 2024) - particularly so in the health, services and transport sectors.

Tourism activity was also strong during the 2023/2024 winter season, which boosted export growth (+2.6% q/q). Indeed, although still below the pre-Covid level of the 2018/2019 season, the number of tourist arrivals was 19.9 million, which still represents an increase of 5.5% compared to the 2022/2023 season.

2024: AN ELECTORAL "SUPER YEAR"

2024 is an electoral "super year" for Austria, with European elections, National Council elections[4], two regional elections and a large number of local consultations. As predicted by the polls, the Freedom Party of Austria (FPÖ) came out on top in the European elections (with 25.5% of the vote and 6 MEPs). This is the first time that this right-wing populist party has won a national election, overtaking the People's Party (ÖVP) (24.7%) and the Social Democratic Party (SPÖ) (23.2%). The results of the European elections in Austria, coupled with the recent fragmentation of the national political landscape, make it uncertain whether the current coalition (comprising the ÖVP and the Greens) will remain in power. The latest polls confirm that the FPÖ is the favourite for the National Council elections on 29 September. Although it could achieve its best score in these elections (around 30% of the vote), the FPÖ will have to form an alliance with another party in order to govern. However, a coalition appears complicated, as the leaders of the other five parties have ruled out any alliance with the FPÖ.

1 Germany is Austria's main trading partner. It is the country to which 30% of Austria's exports are directed.
2 Quarterly change.
3 Long-term trends for both these sectors are around +3.4% y/y over the period 1997-2019.
4 Lower house of the bicameral parliament.

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A STILL FAVOURABLE GROWTH CYCLE

The Greek economy is proving resilient to rising funding costs and geopolitical tensions in Europe. The country is expected to post economic growth once again above the eurozone average in 2024. Real GDP grew by 2.0% in 2023 as an annual average and by 0.7% q/q in Q1 2024, driven by private consumption and investment. Except in real estate, inflationary pressures have eased and fuelled purchasing power gains which, with rising employment, are supporting private consumption, the weight of which in GDP reached a new record in Q1 2024 (76.9%). Because of its size and dependence on the external market, the country nevertheless remains very exposed to economic developments in Europe as well as to the energy market, and oil in particular.

2024 will mark a symbolic milestone in the recovery of the Greek economy in several respects. The ECB approval on 5 June of the request of the country's four largest banks to resume payment of dividends, after sixteen years of interruption, is the first significant development.[1] This year is also expected to mark the point at which real estate prices exceed their 2008 high. This is already the case in the Greek capital, where prices have surpassed this level in Q1 2024. The national index is still 3.5% lower, but with price growth in the country still very strong (+10.8% y/y in Q1[2]), it is also expected to reach record levels by the end of the year. While this is not without risk, exacerbating the problems of accessibility to housing, this illustrates the reflationary phase the country is currently experiencing. Also, because the Greek economy came out of the European debt crisis very late (2016), it is in a less advanced economic cycle than most other countries in the eurozone, and therefore benefits from a higher margin for growth.

Employment rose to 4,300,000 in April for the first time since September 2009, and the unemployment rate fell back to 10.8%. Levers to support the economy also remain significant: European funding allocated to the country by the Recovery and Resilience Facility (RRF) is still plentiful and should, in the long run, support investment. On 14 June, the European Commission gave its agreement in principle for the payment of a fourth tranche of loans of EUR 2.3 billion, while the Greek authorities had formalised, a few days earlier, the application to the Commission for the release of a fourth tranche of subsidies amounting to EUR 998.6 million. Including these payments, which are expected to happen by the end of 2024, this would bring the current RRF payments to Greece to EUR 18.2 billion (EUR 8.6 billion in subsidies and EUR 9.6 billion in loans, including pre-financing), which is about half of the total budget allocated to the country (EUR 36 billion).

BUDGETARY SERIOUSNESS

At the same time, the continued recovery of public accounts in 2023 offers budgetary margins to the centre-right government, whose principal objective remains, at this stage, to reduce the country's indebtedness. The government has announced its intention to repay early, EUR 8 billion of debt contracted through the European aid programme (Greek Loan Facility) at the start of the economic crisis. It has also set itself the objective of generating a primary surplus of 2.1% of GDP in 2024 and 2025, which seems achievable given the good results recorded in 2023, even if the deceleration in inflation will slow tax revenues: the primary surplus reached 1.9% of GDP (compared to 0% in 2022), while the budget deficit fell to -1.6% (after -2.5% in 2022). The public debt ratio declined by 9 points of GDP to 161.9% in 2023 and is expected to drop significantly again in 2024. The contained spread between Greek bond rates and the German Bund, despite market volatility following the European elections and the dissolution of the National Assembly in France, is a fairly clear indication that the risk premium attached to Greek public debt has fallen.

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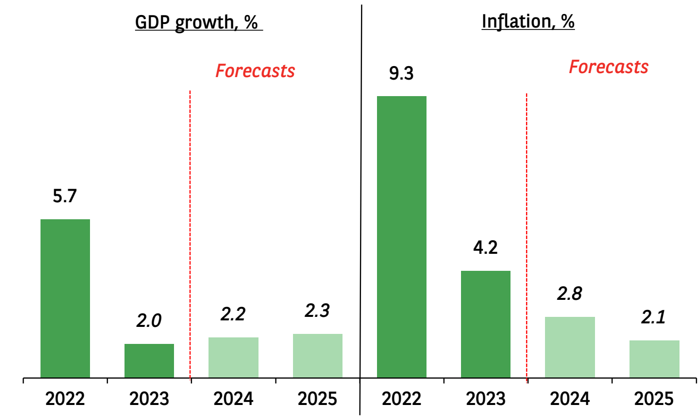

CHART 1

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

The New Democracy party of the current Prime Minister, Kyriakos Mitsotakis, whose popularity has waned since the snap general election in June 2023, nevertheless managed to win the European elections, with 28.3% of votes, compared to 14.9% for the left-wing Syriza party and 12.8% for the centre-left Pasok party. These results, which were worse than expected for the ruling party, led Mitsotakis to proceed on 14 June with a cabinet reshuffle (in particular the Minister of the Interior, Employment, Immigration and the Minister for Development and Investment), although some ministers in key posts remained in office (Finance, Foreign Affairs, Defence).

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1 See BNP Paribas Charts of the Week, *Greek banking system: positive trends, structural weaknesses*, 12 June 2024.
2 Bank of Greece data.

UNITED KINGDOM

UK HOUSEHOLDS REMAIN UNDER PRESSURE

The party that wins the general election on 4 July will inherit an economy running out of steam. The scenario of a slowdown in growth in Q2 (+0.2% q/q), and over 2024 as a whole, remains our central forecast. Surveys data (PMI, GfK consumer confidence index) and investment have recovered, but household consumption remains depressed. While disinflation supports purchasing power, rising unemployment and the persistence of high interest and savings rates are limiting its effects. The rise in mortgage payment arrears indicates that the refinancing shock is continuing to spread. The return of inflation to 2% in May will support the Bank of England in its decision to initiate a first cut in key rates in August, according to our forecasts, which will give households (little) breathing space.

After months of resilience, are the latest developments in unemployment marking the beginning of a turnaround on the job market? It's still too early to say. Nevertheless, the claimant count, which had already climbed to a level significantly higher than the period before the health crisis, rose by 50,300 in May, the strongest monthly increase, excluding Covid-19, since 2009[1]. However, PMI surveys remain positive. The composite index has been stable and in positive territory since the beginning of 2024 (53.0 in May), while the employment sub-indicator is not dropping, albeit just about in expansionary territory (50.6). Household confidence is also rising against the backdrop of purchasing power gains: in May, the GfK index reached its highest level since December 2021.

Nevertheless, persistently high interest rates are keeping households under pressure. The average mortgage interest rate has been stable since September, and close to 8%. The proportion of arrears on all outstanding mortgages has risen since summer 2022, as a result of the triggering of the monetary tightening cycle, reaching 1.3% in Q1 2024. During the subprime crisis, this figure rose to 3.5% in Q2 2009[2]. Although a strict comparison may be misleading, it provides, at least, an important point of reference. In addition, monetary tightening has a lagged effect, and some UK households having borrowed at fixed rates for a relatively short term (2-5 years) still have to renew their mortgages at higher rates. In an unfavourable scenario, where unemployment increases and mortgage interest rates remain high, the proportion of payment arrears would continue to increase, further weakening household consumption and the UK economy as a whole.

The lowering of the cap on regulated gas and electricity tariffs in April (-12.3%), which will continue in July (-7.2%), allowed headline inflation to fall to 2% in May. Nevertheless, inflation in services remains strong, buoyed by the robust increase in regular pay (+5.7% y/y in April). The latest PMI surveys suggest that there will be further disinflation in services in the future (the input price index fell 7 points in May, the second strongest monthly decline ever). Nevertheless, the trade-off for the BoE, between price stability and economic growth, remains delicate.

Weak productivity gains and sustained wage growth are also impacting the profitability of companies. In the last quarter of 2023, unit labour costs rose by 6.9% y/y compared with CPI inflation of 4.2%. While some companies seem to have been able, initially, to absorb this increase in wage costs, through higher sales prices and/or lower margins, the question is how long this can last. In any case, the UK economy should continue to underperform most other G7 economies in the coming quarters.

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GROWTH AND INFLATION

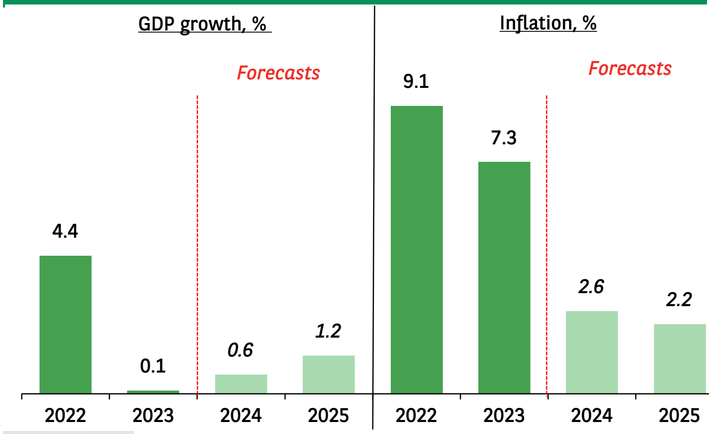

CHART 1

SOURCE: BNP PARIBAS GLOBAL MARKETS

Measures to support household purchasing power

The Conservative Party and Labour Party manifestos were unveiled on 13 June. The major household support measures put forward by the Conservatives include cutting national insurance rates for employees again, abolishing the main rate for self-employed as well as abolishing stamp duty for first time buyers. There is also the introduction of a new Help to Buy scheme and the strengthening of the State pension mechanisms (Quadruple Lock or Triple Lock Plus)[1]. These measures would be funded primarily by tightening up on access to unemployment benefits, tackling tax avoidance and accelerating the transition from decentralised legacy benefits to the unified Universal Credit system.

For the Labour Party, direct purchasing power support measures are less explicit in the manifesto, which focuses more on measures aimed at improving public services (education, healthcare). Labour has already announced its intention to extend eligibility for the National Living Wage to 18-20-year-olds, and to reform the system of "zero hour contracts" and parental leave. The party is giving itself one hundred days after its election to introduce new legislation to improve the conditions of British workers. These measures would be funded by abolishing tax benefits for non-doms, increasing stamp duty for non-UK residents by 1%, introducing VAT and taxation for private schools, and strengthening the fight against tax avoidance.

1 The Help to Buy Scheme, introduced between 2013 and 2023, allowed households buying a new home to fund part of this purchase through a loan taken out from the government, with no interest for the first five years and with repayment of the principal after 25 years or on sale of the property. The Quadruple Lock would require the minimum tax threshold, currently frozen at £12,570, to be adjusted each year to the largest increase between the inflation rate (CPI), average wage growth and 2.5% growth.

1 These figures come from administrative sources and are not affected by the issues with the Labour Force Survey (LFS), which is in the process of being revamped.
2 These data come from the Financial Conduct Authority (FCA) and may vary in level with UK Finance statistics due to different methodologies, in particular concerning the threshold used (from 1.5% in arrears on the amount borrowed for the FCA and 2.5% for UK Finance). The arrears figure announced by UK Finance was 1.1% in Q1 2024.

DENMARK - ANTI-RECESSION PILLS

In 2023, Denmark experienced dynamic and above-expected economic growth, in the form of an illusion given the preponderance of the pharmaceutical sector. This sector turned into the country's main asset, to such an extent that fears of increasing dependence have appeared. Furthermore, inflation has fallen significantly since the 2023 high, while the Danish central bank is expected to continue to ease policy in line with the ECB.

Growth of the Danish economy suffered a significant setback in Q1 2024. The contraction in GDP, at -1.8% q/q, constitutes a negative result not seen since 2009, with the exception of the shock linked to the Covid-19 pandemic. The beginning of the year however, saw remarkable momentum in investment, visible both on the residential component - which posted a second increase (+2.5% q/q) - and on the business component. The latter experienced a significant (+12.7% q/q) albeit incomplete upturn in machinery and equipment after the downturn at the end of 2023. However, these good figures were more than offset by negative contributions from household consumption (-0.9 pp) and above all, from foreign trade (-3.8 pp). This happened whereas export momentum was the primary driver of Danish growth in 2023, allowing the country to post the best annual performance (+1.8%) among its Scandinavian counterparts. This is expected to remain the case in 2024 according to the European Commission's forecasts, even if the weakness in Q1 points to a lower final result than initially expected (+2.6%).

A PHARMA-DEPENDENT ECONOMY

Nevertheless, it is important to note that the positive results for 2023 were mainly due to the outstanding performance of Novo Nordisk, Denmark's flagship pharmaceuticals company, which makes drugs to combat diabetes and obesity. At aggregate level, this is masking a weak domestic demand, illustrated by a slight rebound in household consumption (+1.0% as an annual average) and the depressed level of investment (-3.6%). In fact, according to Statistics Denmark, adjusting for the pharmaceuticals sector, instead of growing by 1.8%, GDP fell by 0.1% in 2023. This result should be assessed in hindsight as it does not incorporate potential positive crowding-out effects or spillovers related to pharma preponderance. In addition, the Danish Economic Council reported that half of the growth in non-farm employment between January 2023 and March 2024 was the result, directly or indirectly, of Novo Nordisk's business. And lastly, the jump in foreign trade mentioned above was directly related to the company's international attractiveness.

As a corollary, the significant downturn in the pharmaceuticals component of the manufacturing production index in Q1 2024 (-17.1% q/q) was a major factor explaining the contraction in GDP during this quarter. However, the strong monthly or quarterly variability of the index, which then jumped by +21% m/m in April, allowing the aggregated index to record its strongest monthly growth since 2016 (+11.3%), does not change the sector's outlook, which analysts consider very positive. The main questions still concern the company's ability to meet growing demand. In addition, Novo Nordisk's power is impressively illustrated by the fact that its market capitalisation - more than USD 630 billion as of 12 June 2024 (+75.5% y/y) - is higher than Denmark's annual nominal GDP (around USD 400 billion in 2023). This makes it the best-valued European company on the financial markets, very clearly ahead of the second largest capitalisation (LVMH, around USD 400 billion).

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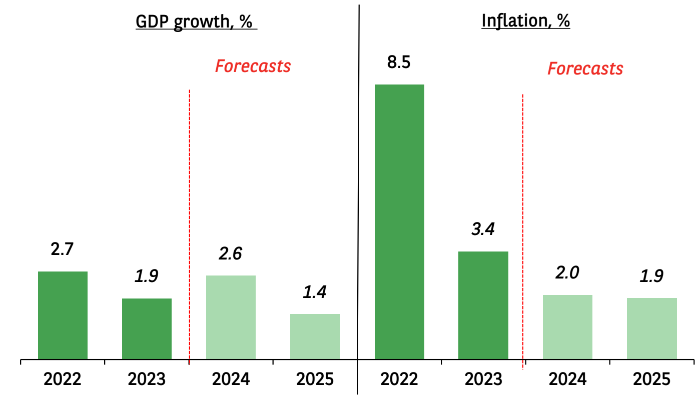

CHART 1 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

Ultimately, while the company is currently a factor in economic expansion, which is expected to continue in the medium term, too much dependence could turn into vulnerability for the country in the event of a sharp turnaround in the pharma giant's business cycle.

MONETARY EASING IN LINE WITH THE ECB

Danish monetary policy is characterised by a price stability objective, the primary method for achievement of which is to maintain parity between the euro (formerly the German mark) and the Danish krone at around EUR 1 = DKK 7.46038. To do this, the National Bank, in addition to intervening in the foreign exchange market, changes its interest rates in line with the ECB's decisions. And so the ECB's rate cut of 25 bps on 6 June was reflected, on the same day, by an equivalent decision by its Danish counterpart, thereby raising the current account rate to +3.35% and maintaining the spread of 40 bps with the ECB deposit facility rate. In this respect, our forecasts for the ECB's key rate (see Eurozone text) mean that the Danish key rate will be +2.85% at the end of 2024 and +2.1% at the end of 2025.

This gradual easing of financial conditions should help bolster demand. Added to this is the joint effect of the significant fall in inflation - which, measured by the HICP, has been below +1.0% y/y since September 2023 - and the growth in real income (which picked up in Q2 2023). Although the level of nominal wage growth could exert some upward pressure on inflation in the coming quarters, this should not substantially threaten price stability.

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FORECASTS

ECONOMIC FORECASTS

%	GDP Growth 2022	2023	2024 e	2025 e	Inflation 2022	2023	2024 e	2025 e
United States	1.9	2.5	2.5	1.8	8.0	4.1	3.1	2.3
Japan	0.9	1.8	0.3	1.0	2.5	3.3	2.7	2.4
United Kingdom	4.4	0.1	0.6	1.2	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*	7.1	7.6	6.5	6.4	6.7	5.4	4.7	4.3
Brazil	2.9	2.9	2.2	2.0	9.3	4.6	4.1	4.1

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

SOURCE: BNP PARIBAS (E: ESTIMATES; F: FORECASTS)

FINANCIAL FORECASTS

Interest rates. %		2024				
End of period		Q2 2024	Q3 2024	Q4 2024	Q2 2025	Q4 2025
US	*"Fed Funds (upper limit)"*	5.50	5.50	5.25	4.75	4.25
	T-Note 10y	4.25	4.20	4.20	4.20	4.20
Eurozone	deposit rate	3.75	3.50	3.25	2.75	2.50
	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	5.25	4.75	4.50	4.00	3.50
	Gilts 10y	4.00	3.80	3.70	3.55	3.65
Japan	BoJ Rate	0.10	0.25	0.25	0.50	1.00
	JGB 10y	-	1.05	1.25	1.45	1.60

Exchange rates		2024				
End of period		Q2 2024	Q3 2024	Q4 2024	Q2 2025	Q4 2025
USD	EUR / USD	1.05	1.05	1.06	1.08	1.10
	USD / JPY	155	154	153	150	148
	GBP / USD	1.25	1.27	1.28	1.30	1.33
EUR	EUR / GBP	0.84	0.83	0.83	0.83	0.83
	EUR / JPY	163	162	162	162	163

SOURCE : BNP PARIBAS GLOBAL MARKETS

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