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"Household deleveraging, fixed rate mortgages, rising financial income on the back of higher interest rates and dividends, in combination with an increase in net worth have contributed to the resilience of US households in an environment of aggressive monetary tightening. Nevertheless, some caution is warranted."

ECONOMIC RESEARCH

BNP PARIBAS

The bank
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world

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EDITORIAL

US: ECONOMIC RESILIENCE DESPITE HIGHER RATES. THE ROLE OF HOUSEHOLD FINANCES

In the US, household deleveraging, fixed rate mortgages, rising financial income on the back of higher interest rates and dividends, in combination with an increase in net worth have contributed to the resilience of households in an environment of aggressive monetary tightening. Nevertheless, some caution is warranted. Aggregate data, by construction, do not shed light on the heterogeneity of households. The financially fragile categories will need to be monitored closely in an environment of high rates for longer, in view of possible spillover effects to the broader economy should their situation worsen significantly.

Faced with a swift and huge policy tightening by the Federal Reserve, the US economy has been surprisingly resilient. Household spending has played an important role in this respect, underpinned by the run-down of excess savings accumulated during the pandemic, the pace of job creations and strong wage growth. The financial situation of households has also helped. Despite a jump in interest rates on mortgages and credit card balances, the debt service -which includes principal repayments- in percent of disposable income has been stable in recent years (chart 1), reflecting the beneficial impact of household deleveraging in previous years. Indeed, after peaking at 100% in the first quarter of 2009, household debt as a percent of GDP has been on a downward trend -only briefly interrupted by the drop in GDP during the pandemic- to reach 73.5% in the third quarter of 2023, the latest available data (chart 2). This stands in sharp contrast with the experience in the run-up to the recessions starting in March 2001 and December 2007, when the debt service ratio recorded a significant increase. Household resilience has also benefitted from the fact that the bulk of mortgage debt outstanding has been contracted at fixed rates. Based on data from the 2019 survey of consumer finances, "*about 40% of U.S. households have mortgages, of which 92% have fixed rates and the remaining 8% have adjustable rates.*[1]" This protects households from an increase in mortgage rates and the latter essentially influence the economy through the demand for new mortgages[2].

When analysing monetary transmission, the focus tends to be on the negative impact of higher interest rates. However, the latter also generate an increase in financial income and, as shown in chart 3, this has largely shielded households from the impact of higher interest payments on non-mortgage debt[3]. In addition, household net worth, after a dip in 2022, has increased strongly since and is now at a record high. In real terms, the jump in inflation caused a large drop in 2022 before increasing again (chart 4). Testimony to a resilient economy, personal dividend income has continued to increase in recent years after rising very strongly in the aftermath of the pandemic (chart 5).

To conclude, household deleveraging, fixed rate mortgages, rising financial income on the back of higher interest rates and dividends, in combination with an increase in net worth have contributed to the resilience of households in an environment of aggressive monetary tightening. Nevertheless, some caution is warranted. Aggregate data, by construction, do not shed light on the heterogeneity of households. Some benefit from high interest rates whereas others suffer, and the Federal Reserve is of course aware of this issue. Quoting from its latest Financial Stability Report, "*some borrowers continued to be financially stretched, and auto loan and credit card delinquencies for nonprime borrowers increased*[4] , although it should be added that delinquency rates are still low compared to history (chart 6).

HOUSEHOLD DEBT SERVICE RATIO AND INTEREST RATES

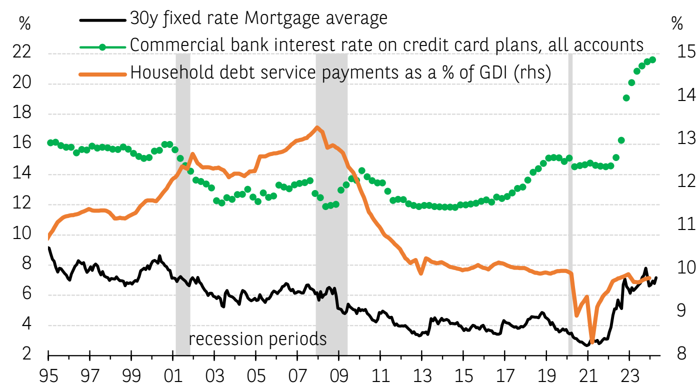


CHART 1 SOURCE: FEDERAL RESERVE, BNP PARIBAS

HOUSEHOLD DEBT AS A PERCENT OF GDP

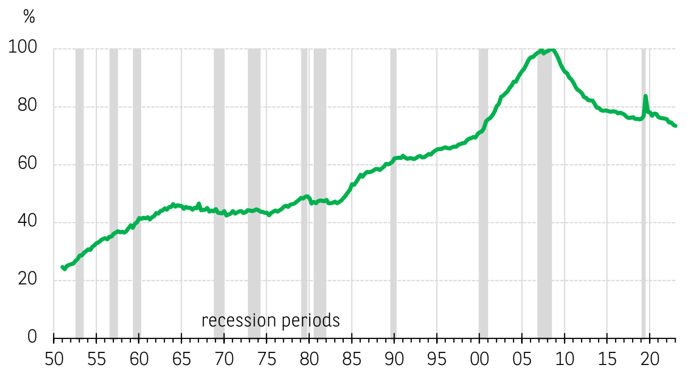


CHART 2 SOURCE: FEDERAL RESERVE, BNP PARIBAS

The financially fragile categories will need to be monitored closely in an environment of high interest rates for longer[5] in view of possible spillover effects to the broader economy should their situation worsen significantly.

William De Vijlder

1 Source: Yu-Ting Chiang, Mick Dueholm, Which Households Prefer ARMs vs. Fixed-Rate Mortgages?, Federal Reserve Bank of St. Louis, On the economy blog, 6 February 2024. The authors quote an article of The Wall Street Journal, which reported that ARM applications were just over 7% of all mortgage applications in 2023.
2 To the extent that house prices decline, higher mortgage rates could have an indirect impact on the net worth of households that may have contracted a fixed rate mortgage years ago.
3 In the national accounts, the item 'personal interest payments' only consists of nonmortgage interest paid by households. Mortgage interest paid by households is an expense item in the calculation of rental income of persons. Source: US Bureau of Economic Analysis.
4 Source: Board of Governors of the Federal Reserve System, Financial Stability Report, April 2024 (federalreserve.gov).
5 See in this respect Federal Reserve: high for longer, the sequel (bnpparibas.com), *Ecoweek*, 7 May 2024, BNP Paribas.

HOUSEHOLDS' INTEREST INCOME AND INTEREST PAYMENTS

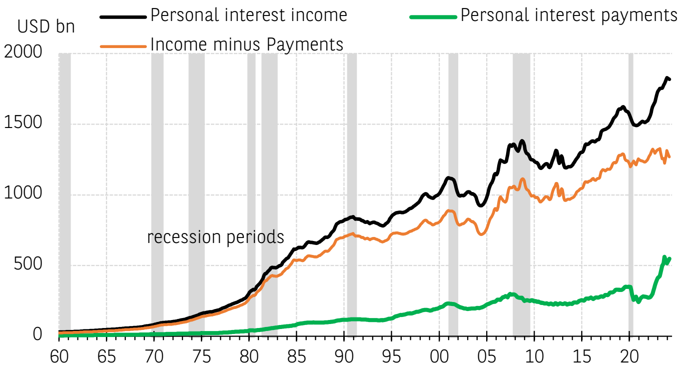


CHART 3

SOURCE: BEA, BNP PARIBAS

HOUSEHOLDS' NET WORTH (NOMINAL AND REAL)

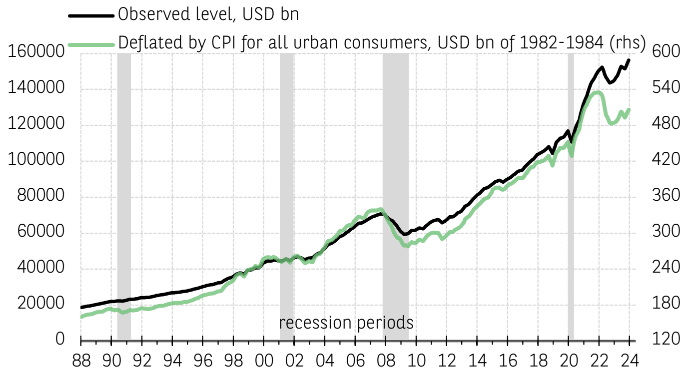


CHART 4

SOURCE: BEA, BNP PARIBAS

HOUSEHOLDS' DIVIDEND INCOME

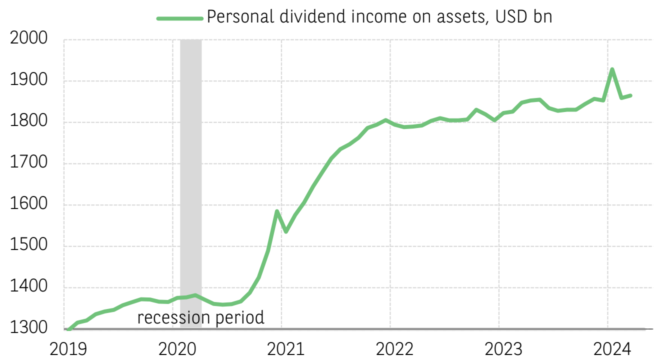


CHART 5

SOURCE: BOARD OF GOVERNORS, BLS, BNP PARIBAS

DELIQUENCY RATES ON CONSUMER AND CREDIT CARD LOANS

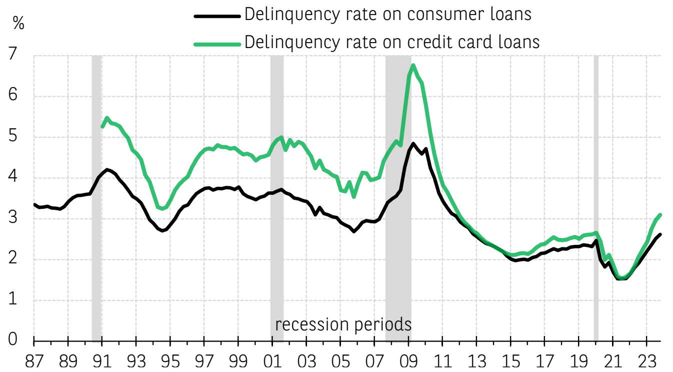


CHART 6

SOURCE: BOARD OF GOVERNORS, BLS, BNP PARIBAS

MARKETS OVERVIEW

OVERVIEW

Week 3-5 24 to 10-5-24				
↗ CAC 40	7.958	8.219	+3.3	%
↗ S&P 500	5.128	5.223	+1.9	%
↘ Volatility (VIX)	13.5	12.6	-0.9	pb
↘ Euribor 3M (%)	3.83	3.82	-0.9	bp
↘ Libor $ 3M (%)	5.59	5.58	-0.6	bp
↗ OAT 10y (%)	3.00	3.00	+0.3	bp
↗ Bund 10y (%)	2.49	2.50	+1.0	bp
↗ US Tr. 10y (%)	4.50	4.51	+0.9	bp
↘ Euro vs dollar	1.08	1.08	-0.0	%
↗ Gold (ounce, $)	2.294	2.362	+3.0	%
↗ Oil (Brent, $)	83.5	83.7	+0.2	%

MONEY & BOND MARKETS

Interest Rates			highest 24	lowest 24
€	ECB	4.50	4.50 at 01/01	4.50 at 01/01
	Eonia	-0.51	-0.51 at 01/01	-0.51 at 01/01
	Euribor 3M	3.82	3.97 at 18/01	3.79 at 07/05
	Euribor 12M	3.63	3.76 at 19/03	3.51 at 01/02
$	FED	5.50	5.50 at 01/01	5.50 at 01/01
	Libor 3M	5.58	5.60 at 27/02	5.53 at 01/02
	Libor 12M	6.04	6.04 at 01/01	6.04 at 01/01
£	BoE	5.25	5.25 at 01/01	5.25 at 01/01
	Libor 3M	5.30	5.33 at 06/03	5.30 at 22/03
	Libor 12M	0.81	0.81 at 01/01	0.81 at 01/01

At 10-5-24

Yield (%)			highest 24	lowest 24
€	AVG 5-7y	2.64	2.64 at 01/01	2.64 at 01/01
	Bund 2y	3.13	3.18 at 30/04	2.53 at 01/02
	Bund 10y	2.50	2.61 at 25/04	2.02 at 03/01
	OAT 10y	3.00	3.13 at 25/04	2.47 at 01/01
	Corp. BBB	4.00	4.11 at 25/04	3.75 at 01/01
$	Treas. 2y	4.86	5.10 at 30/04	4.22 at 15/01
	Treas. 10y	4.51	4.70 at 25/04	3.86 at 01/02
	High Yield	7.94	8.24 at 16/04	7.73 at 13/03
£	gilt. 2y	4.71	4.89 at 01/05	3.98 at 01/01
	gilt. 10y	4.17	4.37 at 01/05	3.60 at 01/01

At 10-5-24

EXCHANGE RATES

1€ =		highest 24	lowest 24	2024
USD	1.08	1.10 at 01/01	1.06 at 15/04	-2.6%
GBP	0.86	0.87 at 02/01	0.85 at 13/02	-0.7%
CHF	0.98	0.98 at 04/04	0.93 at 08/01	+5.1%
JPY	167.79	168.43 at 01/05	155.33 at 02/01	+7.7%
AUD	1.63	1.67 at 28/02	1.62 at 02/01	+0.7%
CNY	7.78	7.88 at 08/03	7.69 at 15/04	-0.7%
BRL	5.54	5.61 at 16/04	5.31 at 13/02	+3.3%
RUB	99.65	102.67 at 23/02	95.72 at 19/01	+0.9%
INR	89.88	91.92 at 01/01	88.68 at 12/04	-2.2%

At 10-5-24 *Change*

COMMODITIES

Spot price, $		highest 24	lowest 24	2024	2024(€)
Oil, Brent	83.7	91.6 at 12/04	75.8 at 08/01	+7.7%	+10.5%
Gold (ounce)	2.362	2.413 at 12/04	1.989 at 14/02	+14.4%	+17.4%
Metals, LMEX	4.297	4.354 at 29/04	3.558 at 09/02	+14.2%	+17.2%
Copper (ton)	9.898	10.064 at 29/04	8.065 at 09/02	+16.9%	+20.0%
wheat (ton)	238	2.4 at 10/05	191 at 15/03	+2.2%	+4.9%
Corn (ton)	173	1.7 at 01/01	148 at 23/02	-0.1%	+1.9%

At 10-5-24 *Change*

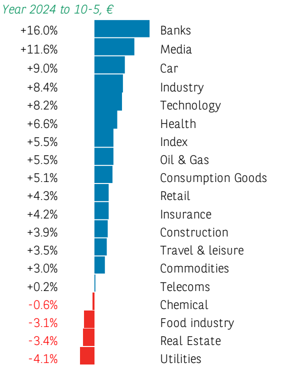
EQUITY INDICES

	Index	highest 24	lowest 24	2024
World				
MSCI World	3.420	3.438 at 29/03	3.114 at 04/01	+7.9%
North America				
S&P500	5.223	5.254 at 28/03	4.689 at 04/01	+9.5%
Europe				
EuroStoxx50	5.085	5.085 at 10/05	4.403 at 17/01	+12.5%
CAC 40	8.219	8.219 at 10/05	7.319 at 17/01	+0.9%
DAX 30	18.773	18.773 at 10/05	16.432 at 17/01	+12.1%
IBEX 35	11.106	11.155 at 26/04	9.858 at 19/01	+1.0%
FTSE100	8.434	8.434 at 10/05	7.446 at 17/01	+0.9%
Asia				
MSCI, loc.	1.386	1.415 at 22/03	1.242 at 03/01	+1.1%
Nikkei	38.229	40.888 at 22/03	33.288 at 04/01	+14.2%
Emerging				
MSCI Emerging ($)	1.072	1.072 at 10/05	958 at 17/01	+0.5%
China	61	61 at 10/05	49 at 22/01	+11.0%
India	980	1.003 at 02/05	915 at 03/01	+6.7%
Brazil	1.584	1.800 at 01/01	1.523 at 16/04	-6.7%

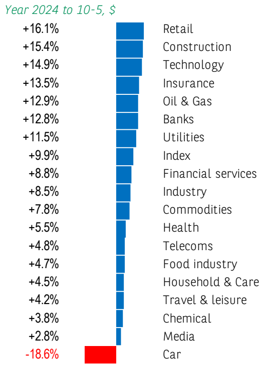
At 10-5-24 *Change*

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

Year 2024 to 10-5, €



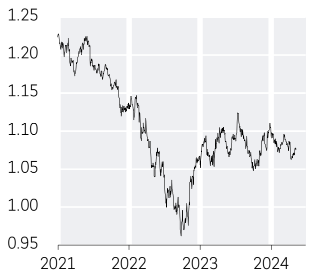
Year 2024 to 10-5, $



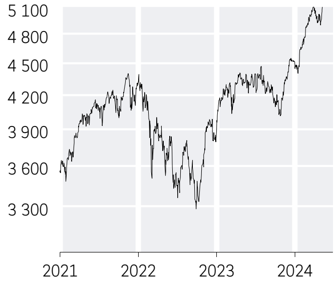
SOURCE: REFINITIV, BNP PARIBAS

MARKETS OVERVIEW

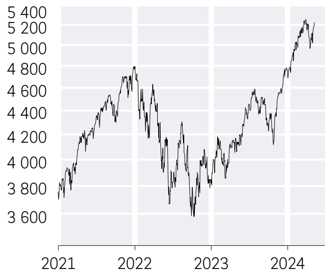
EURO-DOLLAR



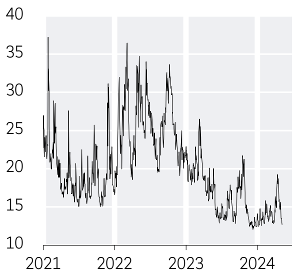
EUROSTOXX50



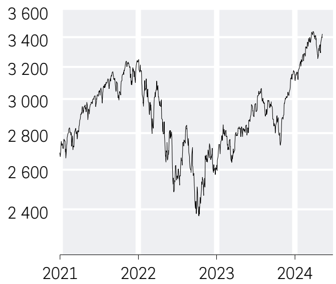
S&P500



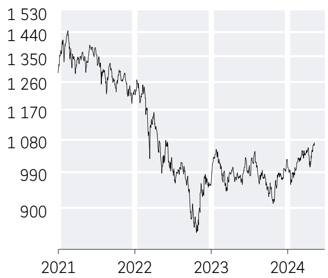
VOLATILITY (VIX, S&P500)



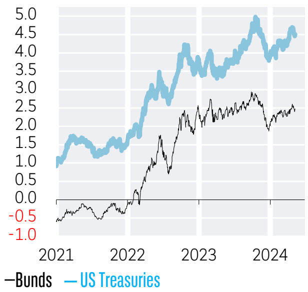
MSCI WORLD (USD)



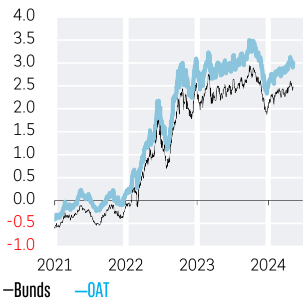
MSCI EMERGING (USD)



10Y BOND YIELD, TREASURIES VS BUND

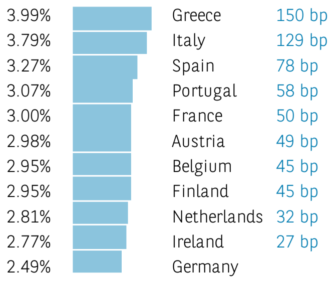


10Y BOND YIELD

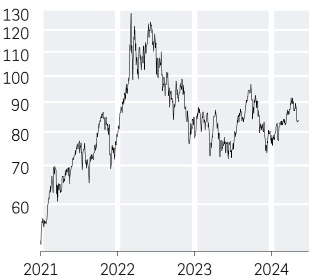


10Y BOND YIELD & SPREADS

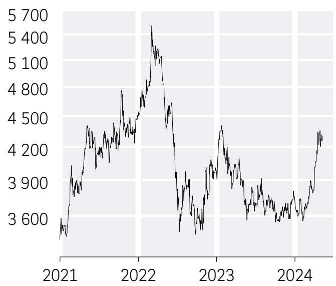
Year 2024 to 10-5



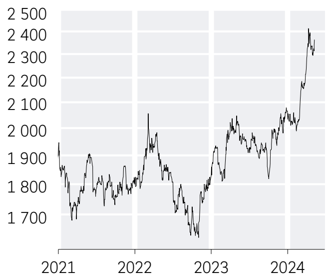
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS

SERVICES PMI AND MANUFACTURING PMI: THE GAP WIDENS AGAIN IN APRIL

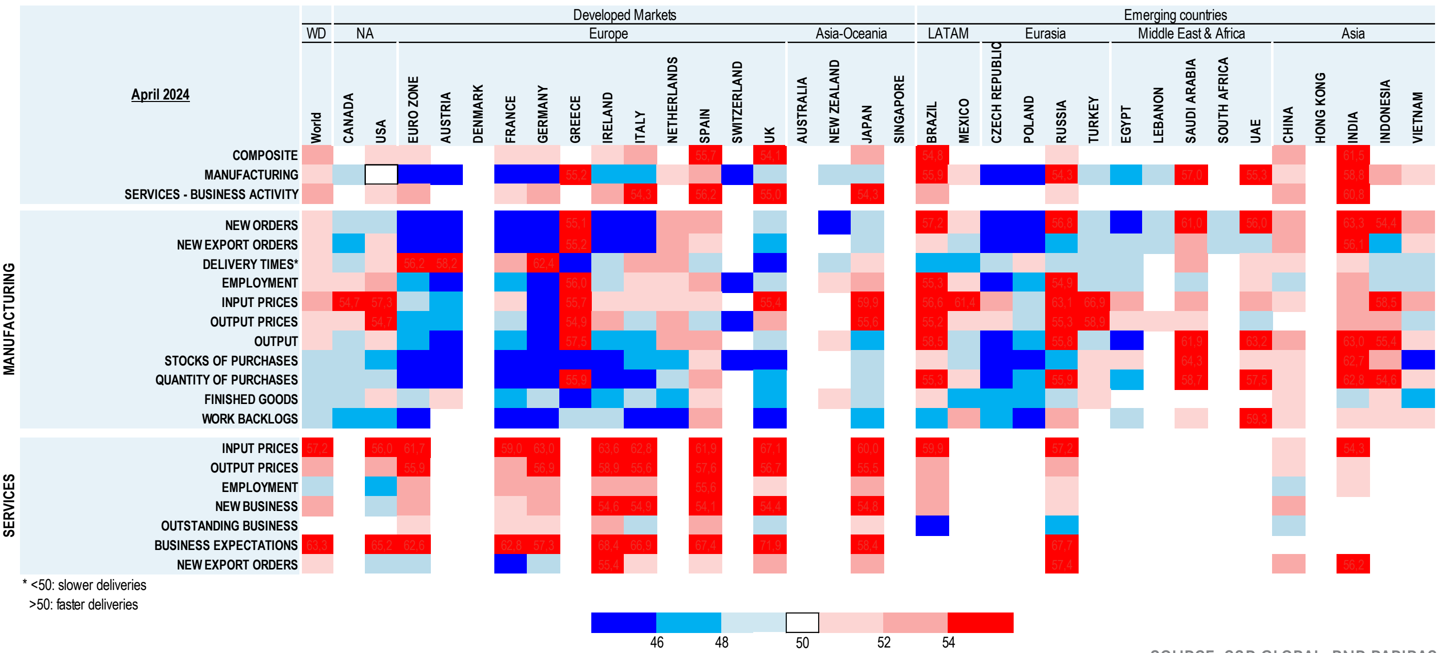
In April, the S&P Global composite PMI index for worldwide business activity rose again slightly (+0.1 points) reaching its highest level since July 2023 (52.4). This rise results from the increase in services, with the associated PMI hitting its highest level since July 2023 (52.7, compared to 52.4 in March). Conversely, the manufacturing index fell slightly in April (50.3, -0.3pp), following three months of growth. However, it is still in expansionary territory.

Regarding services, six countries, out of the 13 countries for which April data are available, indicated a monthly increase in the index. There were particularly notable increases in France and Germany, as well as, to a lesser extent, in the United Kingdom and the Eurozone. In France, the index hit a highest since May 2023, thereby returning to expansionary territory (51.3, after 48.3 in March). At a global level, the improvement in the services sector came hand in hand with an increase in the "new export orders" component and a decrease in the "output price" and "input price" components, which is good news. However, the situation was not completely rosy, as the "employment" component deteriorated, dipping below 50.

Focussing on the manufacturing PMI, 20 countries (out of the 31 for which April data are available) indicated a decline in business climate (while 10 reported an improvement), as a result of the deterioration in the "new orders" and "production" components, most notably in the USA, France, Italy, Ireland, Greece, the United Kingdom and Indonesia. In the Eurozone, the index dipped again, sinking further into contraction territory. The "input price" component rose again in April, particularly in Austria, Germany and Brazil. The global employment index fell slightly to 50, dragged down by South Africa, Saudi Arabia, Vietnam, Czech Republic, Switzerland, Ireland and Italy. Conversely, the index rose sharply in France and New Zealand, as well as, to a lesser extent, in Germany, Greece, the Netherlands and Japan. One of the key developments in April was the improvement in the Dutch manufacturing index, which hit its highest level since August 2022, driving it back into expansionary territory again (51.3, v. 49.7 in March).

Tarik Rharrab

S&P GLOBAL PMI - APRIL 2024



SOURCE: S&P GLOBAL, BNP PARIBAS

S&P GLOBAL PMI (APRIL 2024 VERSUS MARCH 2024)

Developed Markets

		WD	NA		Europe											
		World	CANADA	USA	EURO ZONE	AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND	UK
	COMPOSITE	0,1		-0,8	1,4			2,2	2,9		-2,8	-0,9		0,4		1,3
	MANUFACTURING	-0,3	-0,4	-1,9	-0,4	1,3		-0,9	0,6	-1,7	-2,0	-3,1	1,6	0,8	-3,8	-1,2
	SERVICES - BUSINESS ACTIVITY	0,3		-0,4	1,8			3,0	3,1		-3,3	-0,3		0,1		1,9
MANUFACTURING	NEW ORDERS	-0,5	-1,1	-4,0	-1,9	3,0		-2,7	-1,9	-3,1	-4,0	-4,7	2,5	2,1		-2,0
	NEW EXPORT ORDERS	0,9	-1,6	0,3	-0,4	4,1		-0,8	1,5	0,7	-3,1	-3,5	-2,3	0,4		0,1
	DELIVERY TIMES	0,3	0,5	0,0	0,8	-0,3		2,2	-0,2	4,3	-2,3	3,7	-0,6	3,4		0,7
	EMPLOYMENT	-0,1	-0,1	0,2	0,9	1,0		3,1	1,9	1,3	-1,7	-1,7	1,3	0,0	-2,6	0,0
	INPUT PRICES	1,6	0,5	1,3	2,5	3,8		2,4	4,9	0,3	-4,1	2,3	2,3	0,2		2,5
	OUTPUT PRICES	0,2	0,6	-1,7	0,2	1,0		0,4	-1,2	0,7	0,3	2,5	1,5	0,6	-8,0	0,7
	OUTPUT	-0,4	-0,6	-2,9	0,3	0,4		-1,4	2,2	-1,4	-2,1	-2,8	2,5	1,6		-1,5
	STOCKS OF PURCHASES	-0,1	1,8	-0,1	0,4	1,0		-0,8	1,9	4,3	-2,5	-1,0	-1,3	2,6	3,6	-1,0
	QUANTITY OF PURCHASES	-0,2	0,9	0,6	-1,2	-2,0		0,2	-0,3	-1,0	-5,3	-3,0	0,2	1,0		0,0
	FINISHED GOODS	0,9	1,4	0,7	-0,2	2,1		0,7	-0,9	-0,8	-3,0	0,7	-0,1	2,6		-0,4
	WORK BACKLOGS	0,1	0,3	-2,3	-0,2			-3,7	1,8	2,8	-1,1	-1,8	0,5	2,4		-3,4
SERVICES	INPUT PRICES	-1,0		-3,2	0,2			-0,2	-0,3		-0,8	3,5		-2,0		3,7
	OUTPUT PRICES	-0,8		-2,7	0,8			1,0	1,1		1,7	0,9		-0,5		-0,4
	EMPLOYMENT	-1,4		-3,4	1,2			1,7	1,2		-0,3	1,5		-0,1		-0,2
	NEW BUSINESS	-0,3		-2,4	1,4			3,4	3,6		-2,9	-1,7		-2,3		2,1
	OUTSTANDING BUSINESS				1,3			1,7	2,2		1,3	-0,8		0,9		0,7
	BUSINESS EXPECTATIONS	-1,0		-2,4	-0,8			-1,0	-1,4		-0,1	0,0		-0,2		-1,1
	NEW EXPORT ORDERS	0,6		0,0	-0,2			-2,1	1,4		-1,2	0,4		-0,7		2,0

Developed Markets (Asia-Oceania) / Emerging countries (LATAM, Eurasia)

		Asia-Oceania				LATAM		Eurasia			
		AUSTRALIA	NEW ZEALAND	JAPAN	SINGAPORE	BRAZIL	MEXICO	CZECH REPUBLIC	POLAND	RUSSIA	TURKEY
	COMPOSITE			0,6		-0,3				-0,8	
	MANUFACTURING		2,1	1,4	-0,2	2,3	-1,2	-1,5	-2,1	-1,4	-0,7
	SERVICES - BUSINESS ACTIVITY			0,2		-1,1				-0,9	
MANUFACTURING	NEW ORDERS		0,7	2,5	-0,3	2,2	-0,9	-1,2	-1,6	-2,3	-1,5
	NEW EXPORT ORDERS			4,8	-0,3	3,1	1,4	1,2	-0,6	-4,3	-0,3
	DELIVERY TIMES		0,8	0,6	0,5	-4,1	0,7	0,6	5,8	1,9	1,4
	EMPLOYMENT		4,0	1,6		0,9	-0,8	-3,0	-1,7	-0,6	0,2
	INPUT PRICES			2,4	-0,1	4,3	-0,3	2,6	-0,7	0,4	-0,3
	OUTPUT PRICES			2,2		4,4	-1,7	1,9	2,7	0,5	-0,5
	OUTPUT		4,7	1,4	-0,2	2,4	-2,8	-2,3	-0,1	-0,7	-1,2
	STOCKS OF PURCHASES			0,1	-0,2	2,1	-0,4	0,6	-3,7	-1,0	2,7
	QUANTITY OF PURCHASES			2,5		3,0	-0,8	0,6	-0,3	-1,1	-1,2
	FINISHED GOODS		1,0	0,0	-0,1	1,5	-1,8	-1,6	-3,2	-0,1	2,0
	WORK BACKLOGS			2,5		2,9	-1,4	0,3	-2,9	2,3	
SERVICES	INPUT PRICES			1,6		0,0				0,2	
	OUTPUT PRICES			2,1		-0,2				-1,3	
	EMPLOYMENT			0,0		-0,3				-0,7	
	NEW BUSINESS			1,0		-0,4				-1,8	
	OUTSTANDING BUSINESS			-1,5		0,4				-4,1	
	BUSINESS EXPECTATIONS			-0,7						-3,8	
	NEW EXPORT ORDERS			1,6						9,2	

Emerging countries (Middle East & Africa, Asia)

		Middle East & Africa					Asia				
		EGYPT	LEBANON	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	HONG KONG	INDIA	INDONESIA	VIETNAM
	COMPOSITE						0,1		-0,3		
	MANUFACTURING	-0,2	-0,5	0,0	4,8	-1,6	0,3		-0,3	-1,3	0,4
	SERVICES - BUSINESS ACTIVITY						-0,2		-0,4		
MANUFACTURING	NEW ORDERS	0,6	-0,2	-2,9	3,8	-5,6	1,3		-0,6	-1,1	3,4
	NEW EXPORT ORDERS	-1,5	-0,2	-0,2	-1,1	-2,2	1,7		-0,8	-0,6	2,0
	DELIVERY TIMES	0,9		-6,2	3,3	-0,5	-0,2		0,4	-0,4	0,0
	EMPLOYMENT	-1,0		-3,0	-5,0	-0,3	-0,7		0,4	-1,2	-3,4
	INPUT PRICES	-8,5		-0,3		0,7	2,5		0,3	-2,8	0,2
	OUTPUT PRICES	-4,6	-0,2	-0,5		1,5			0,6	-0,3	-1,0
	OUTPUT	0,4		-0,3	12,7	0,5	0,3		-0,3	-2,3	0,8
	STOCKS OF PURCHASES	-0,9		5,9	3,1	-0,4	-0,5		-0,4	-2,0	-0,5
	QUANTITY OF PURCHASES	1,4		-3,1		1,3	-0,8		0,2	-2,9	1,2
	FINISHED GOODS						2,0		1,6	-0,6	1,1
	WORK BACKLOGS	0,0		2,3		-0,4	1,1		0,0	0,2	3,1
SERVICES	INPUT PRICES						0,1		-0,5		
	OUTPUT PRICES						0,2		-2,4		
	EMPLOYMENT						-1,4		-1,9		
	NEW BUSINESS						0,6				
	OUTSTANDING BUSINESS						0,3				
	BUSINESS EXPECTATIONS										
	NEW EXPORT ORDERS						0,4		-0,3		

-3 -2 -1 0 1 2 3

SOURCE: S&P GLOBAL, BNP PARIBAS

ECONOMIC SCENARIO

UNITED STATES

The US economy showed surprising vigour in 2023, illustrated by +2,5% yearly annual growth driven by the resilience of household consumption and the good figures of business investment. Thus, we have gradually ruled out the event of a recession induced by the cumulative monetary tightening. Despite a slowdown (+0.4% q/q v. +0.8% in Q4 2023), the GDP has expanded again in Q1 2024, driven by contributions from household consumption and investment. Our baseline scenario implies a +2.8% rate of growth for 2024, enabled by the very positive carryover effect from 2023 and an expected increase in real incomes.. While the inflation peak was reached in mid-2022, Q1 2024 data have not allowed to gain more confidence regarding a rapid return of the CPI to its target. We forecast inflation to stand at +3.2% y/y in Q4 2024. This picture paves the way for a modest easing of its monetary policy by the Fed, which could start cutting rates progressively as the end of the year, with one rate cut in 2024.

CHINA

Economic growth was stronger than expected in Q1 2024 (+5.3% year-on-year), principally driven by the manufacturing export sector. On the contrary, domestic demand and activity in the services sector continued to lack momentum, still held back by the crisis in the property sector, regulatory uncertainties, and low confidence of consumers and private investors. To support activity, the authorities have been strengthening their industrial policy while maintaining a prudent demand policy. This economic policy mix risks amplifying the divergence in performance between sectors and the imbalance between domestic demand and supply, which have been apparent for several months. The real GDP growth target of "around 5%" set for this year is projected to be reached. Consumer price inflation is expected to remain very low; it averaged zero y/y in Q1 2024.

EUROZONE

Eurozone GDP picked up by 0.3% q/q in Q1 according to preliminary Eurostat data. The negative effects of monetary tightening on economic activity are expected to diminish in 2024. Growth would strengthen at 0.4% q/q in Q2 before stabilizing at this level during the second semester. This improvement would also be underpinned by a first rate cut by the ECB, which we expect to happen in June. This would be followed by two more cuts in the second half of the year, at a rate of one cut per quarter. This monetary easing would accompany the inflation decline, which is expected to come close to the 2% target during the third quarter. That said we expect continued stickiness in the more wage-sensitive parts of the inflation basket, like services. The disinflation process, along with the dynamism of wages, should support household purchasing power and consumption. Growth should also be boosted by NGEU disbursements and its deployment on the ground.

FRANCE

French economy benefitted from a growth rebound in Q1 at 0.2% q/q (after six months of stagnation during the second half of 2023), mainly supported by households' consumption of services and corporate investment. As disinflation is now visible (the harmonized index grew by 2.4% y/y in April 2024, compared to 5.7% y/y in September 2023), our scenario for 2024 envisages a gradual improvement and heralds an even better 2025 (with a growth forecast of 1.4%, after 0.9% in 2024).

RATES AND EXCHANGE RATES

2024 should be the year of the start of the easing cycle by the Federal Reserve, the ECB and the Bank of England. However, the timing of the first cut remains uncertain, as does the number of expected cuts. The ECB and the BoE seem closer than the Fed and the BoE to getting the data and necessary confidence to estimate that inflation is moving towards the 2% target on a sustainable basis. We expect the first ECB and BoE rate cuts to occur in June whereas the Fed would start cutting at the very end of the year, in December. The Fed would thereby undertake a single rate cut in 2024, while the first move would be followed by two more for the ECB and the BoE (presumably 25 basis points cut each). On both sides of the Atlantic, policy rates in real terms and the degree of monetary restriction would remain about unchanged. The induced decline in long-term rates should be limited by the importance of bond issuance against a background of quantitative tightening.

The Bank of Japan (BoJ) was the first central bank among G7 economies to act in 2024. The BoJ jointly announced the end of its negative interest rate policy and yield curve control policy at the March meeting. As a result, the policy rate target was raised from a corridor of -0.1-0.0% to 0.0-0.1%, although the volume of JGBs purchases remains broadly unchanged. We expect monetary policy to normalise very gradually in the country, with only one additional hike envisaged by the end of 2024 (probably in September).

We are fundamentally bearish regarding the US dollar, but it is so far supported by geopolitical tensions and diverging trends between the US and the Eurozone (with stronger growth and inflation and less monetary easing across the Atlantic). This leads us to push back and moderate the expected USD depreciation, especially versus the euro. The yen should also eventually strengthen versus the USD, partly as a result of the desynchronization of monetary policy, as the BoJ is tightening its monetary stance.

GDP GROWTH AND INFLATION

	GDP Growth				Inflation			
%	2022	2023	2024 e	2025 e	2022	2023	2024 e	2025 e
United States	1,9	2.5	2,5	1,8	8,0	4,1	3,4	2,8
Japan	0,9	1,9	0,4	0,9	2,5	3,2	2,9	2,3
United Kingdom	4,4	0,1	0,6	1,2	9,1	7,4	2,5	2,1
Euro Area	3,5	0,5	0,8	1,7	8,4	5,4	2,4	2,1
Germany	1,9	-0,1	0,2	1,4	8,7	6,1	2,6	2,3
France	2,5	0,9	0,9	1,4	5,9	5,7	2,5	1,8
Italy	4,2	1,0	1,1	1,4	8,7	6,0	1,0	1,7
Spain	5,8	2,5	2,4	2,1	8,3	3,4	3,1	2,1
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

Source : BNP Paribas (e: Estimates & forecasts)

Last update: 13 May 2024

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

INTEREST AND EXCHANGE RATES

Interest rates, %

End of period		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	5.00	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	0.75
	JGB 10y	0.90	1.00	1.20	1.40	1.35

Exchange Rates

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	0.82	0.83	0.83	0.83	0.83
	EUR / JPY	163	162	162	162	163

Brent

Quarter Average		Q2 2024	Q3 2024	Q4 2024	Q2 2025	Q4 2025
Brent	USD/bbl	90	92	87	81	82

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

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FURTHER READING

Eurozone growth starts the year on a positive note	EcoTVWeek	13 May 2024
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US versus the Eurozone: inflation divergence causes monetary desynchronization and lowers bond market correlation	EcoWeek	22 April 2024
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France: Corporations show renewed interest in money market funds and term deposits	Chart of the Week	17 April 2024
EcoPerspectives 2nd quarter 2024 | Each central bank has its own pace	EcoPerspectives	17 April 2024
World Economy: to cut or not to cut (simultaneously)?	EcoWeek	16 April 2024
Inflation Tracker - April 2024 | Inflation remains on a downward trend, except for the United States	EcoCharts	12 April 2024

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