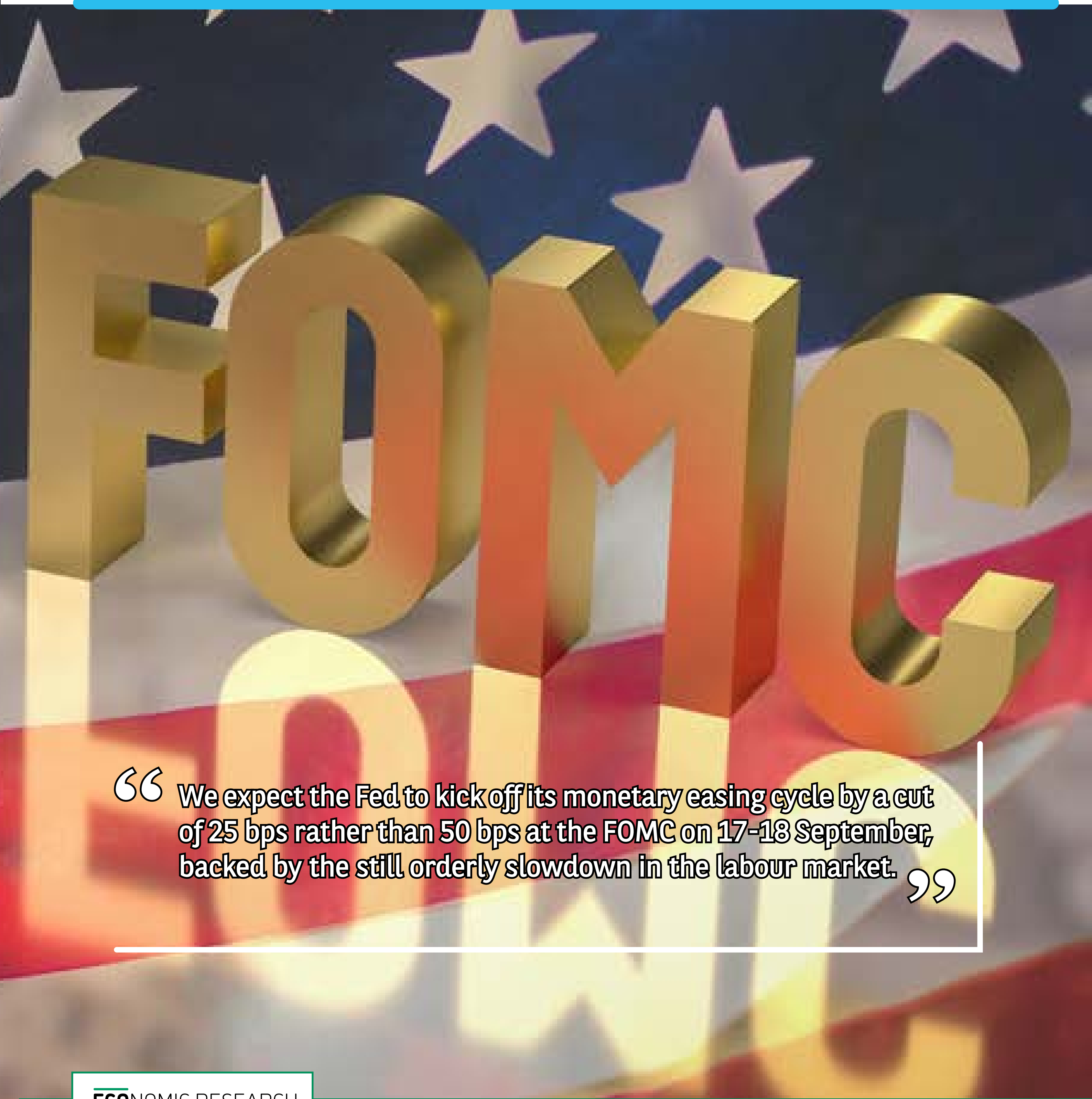
ECOWEEK

Issue 24.31
10 September 2024



> "We expect the Fed to kick off its monetary easing cycle by a cut of 25 bps rather than 50 bps at the FOMC on 17-18 September, backed by the still orderly slowdown in the labour market."

ECONOMIC RESEARCH

BNP PARIBAS

The bank
for a changing
world

TABLE OF CONTENT

AFTER JACKSON HOLE: A LITTLE CLARITY, BUT A LOT OF UNCERTAINTY REMAINS

While the date of the Fed's first rate cut is now foreseeable (it will be at the FOMC on 17-18 September), everything else remains uncertain: the size of the cut, as well as the overall extent of the easing cycle and the timing of the cuts. Developments on the US labour market are key in this calibration. In terms of inflation, significant progress has been made regarding the return to price stability on both sides of the Atlantic, but the battle is far from won. This calls for caution in the monetary easing that is beginning. We expect the Fed to open this cycle with a cut of 25 bps rather than a cut of 50 bps – the orderly slowdown in the labour market working in favour of this – and to make a total of eight rate cuts by the end of 2025 (five consecutive cuts, then one per quarter), bringing the Fed Funds range to 3.25-3.50%. We anticipate that the Fed will succeed in piloting the US economy's soft landing. The ECB and the BoE started their monetary easing a little earlier than the Fed (June for the ECB, August for the BoE), and they would continue at a very gradual pace of -25 bps every quarter (until Q3 2025 for the ECB, bringing the deposit rate to 2.50%; until the end of 2025 for the BoE, the bank rate ending at 3.75%), each totalling six rate cuts.

At least one thing is clear after Jackson Hole and Jerome Powell's opening remarks on 23 August: the US Federal Reserve considers "*the time has come for policy to adjust*", i.e., for policy rates to be lowered[1]. Furthermore, he was very explicit about the reasons behind this announcement and the reversal of the balance of the risks between the two components of the Fed's mandate (price stability and full employment): inflation is no longer the primary concern, it is the situation on the labour market that now matters. Powell was also clear in his presentation of the reasons behind the surge in inflation ("*an extraordinary collision between overheated and temporarily distorted demand and constrained supply*" and then its decline (the unwinding of these distortions and the monetary policy response), congratulating himself on the important role of monetary policy in this reversal. Philip Lane for the ECB[2] and Andrew Bailey for the BoE[3], on the other hand, gave monetary policy only one role among others, while highlighting, as a minimum and rightly so, the importance of monetary tightening on anchoring inflation expectations.

While the date of the Fed's first rate cut is now foreseeable (it will be at the FOMC on 17-18 September), the question of the size of the cut remains open, as well as, quite naturally, the overall extent of the easing cycle and the timing of the cuts. Just after stating that it was time for the Fed to adjust its policy, that "*the direction of travel is clear*", Powell did not tie his hands any further and stated that "*the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks*".

Developments on the US labour market are key for the monetary policy that will be adopted. Today, the exact nature of the current slowdown is still difficult to determine. Is this merely and essentially a normalisation of post-Covid-19 pressures? If so, a natural halt to the slowdown can be expected in a not-too-distant future. Or is this slowdown mainly due to monetary tightening? If so, a further deterioration is to be expected until a possible recession occurs, unless the Fed succeeds in a soft landing thanks to monetary policy easing. The difficulty, of course, is that the slowdown in the labour market is probably due to both effects, but to an indeterminate extent. Nevertheless, this can work in the Fed's favour and help it in its fine-tuning of the landing. The Richmond Fed President Tom Barkin talks about a '*low-hiring, low-firing mode*'[4], from which it is not yet clear how the US economy will emerge, either upwardly (higher hirings) or downwards (stronger firings). Our baseline scenario continues to anticipate an upward exit, a soft landing of the US economy rather than a recession, supported in particular by lower interest rates. But, while the risk of recession remains low from our point of view, it is increasing.

In terms of inflation, significant progress has been made regarding the return to price stability on both sides of the Atlantic, but the battle is far from won. The fall in headline inflation is significant, but the decline in core inflation is much more modest and slower, due in particular to persistently high inflation in services: the 2% inflation target still looks relatively remote from this point of view. Philip Lane made this clear at Jackson Hole, stating in his conclusion that "*the return to target is not yet secure*". This calls for caution in the monetary easing that is beginning. Isabelle Schnabel is also an important advocate of this approach, as her latest speech proves[5]. There are also two arguments in favour of moving rather relatively quickly into monetary easing and, at least, a return to neutral interest rates: 1. balancing the policy mix in order to try and offset the expected tightening of fiscal policy (this argument is more true for Europe than for the United States, where fiscal policy risks remaining accommodative rather than becoming restrictive[6]); 2. starting from a relatively high degree of monetary restriction (which alone could justify a rapid easing from certain points of view), the apparently smaller impact of monetary policy on activity and the long transmission lags.

According to our very recently updated forecasts, the Fed, the ECB and the BoE's easing cycles, although not completely identical, would remain generally synchronous, in line with a gradual approach. This would be a little more significant on the US side, considering the higher starting point, all of which is part of a generalised movement of rate cuts (see table). We expect the Fed to kick off its monetary easing cycle with a cut of 25 bps in the Fed Funds rate at the FOMC on 17-18 September. The labour market data released on 6 September and other recent US labour market indicators continue to describe an orderly slowdown and justify a cut of 25 bps instead of 50 bps.

1 Speech by Chair Powell on the economic outlook – Federal Reserve Board, 23 August 2024.
2 The effectiveness and transmission of monetary policy in the euro area (europa.eu), 24 August 2024.
3 Reflecting on recent times – speech by Andrew Bailey | Bank of England, 23 August 2024.
4 How Richmond Fed President Tom Barkin Sees the Economy Right Now – Bloomberg, 27 August 2024.
5 The euro area inflation outlook: a scenario analysis (europa.eu), 30 August 2024.
6 A risk that the Fed should communicate more about, according to Adam Posen (President of the Peterson Institute for International Economics), to prepare itself, and the public, for at least the high probability of a shift to tightening by mid-2025 should inflation accelerate (What Jay Powell should say at Jackson Hole (ft.com), 22 August 2024).

The latest comments from President of the New York Fed John C. Williams[7] and Fed Governor Christopher J. Waller[8] are also consistent with such a gradual first move. This first cut would be followed by four others (-25 bps at each meeting, in November and December 2024 and January and March 2025), followed by a cut of 25 bps per quarter, bringing the Fed Funds range to 3.25-3.50% at the end of 2025 and then to 2.75-3.00% in mid-2026, which would mark the end point. The next ECB meeting (12 September) is expected to deliver a second cut of 25 bps in the deposit rate. Easing would continue at a gradual rate of -25 bps every quarter (with a third cut in Q4 2024 more likely in December than in October) until Q3 2025, bringing the deposit rate to 2.50%, which is the upper range of our neutral rate estimate. The BoE would follow the same pace as the ECB, with a drop of -25 bps every quarter but, having cut its policy rate (bank rate) for the first time in August, the next cut would take place on 7 November. The bank rate would stand at 3.75% at the end of 2025 but the easing cycle would extend until around mid-2026, bringing this rate to 3%.

Hélène Baudchon

7 ['E' Is for Equipoise - FEDERAL RESERVE BANK of NEW YORK (newyorkfed.org)](), 6 September 2024.
8 [Speech by Governor Waller on the economic outlook - Federal Reserve Board](), 6 September 2024.

POLICY RATE CHANGES

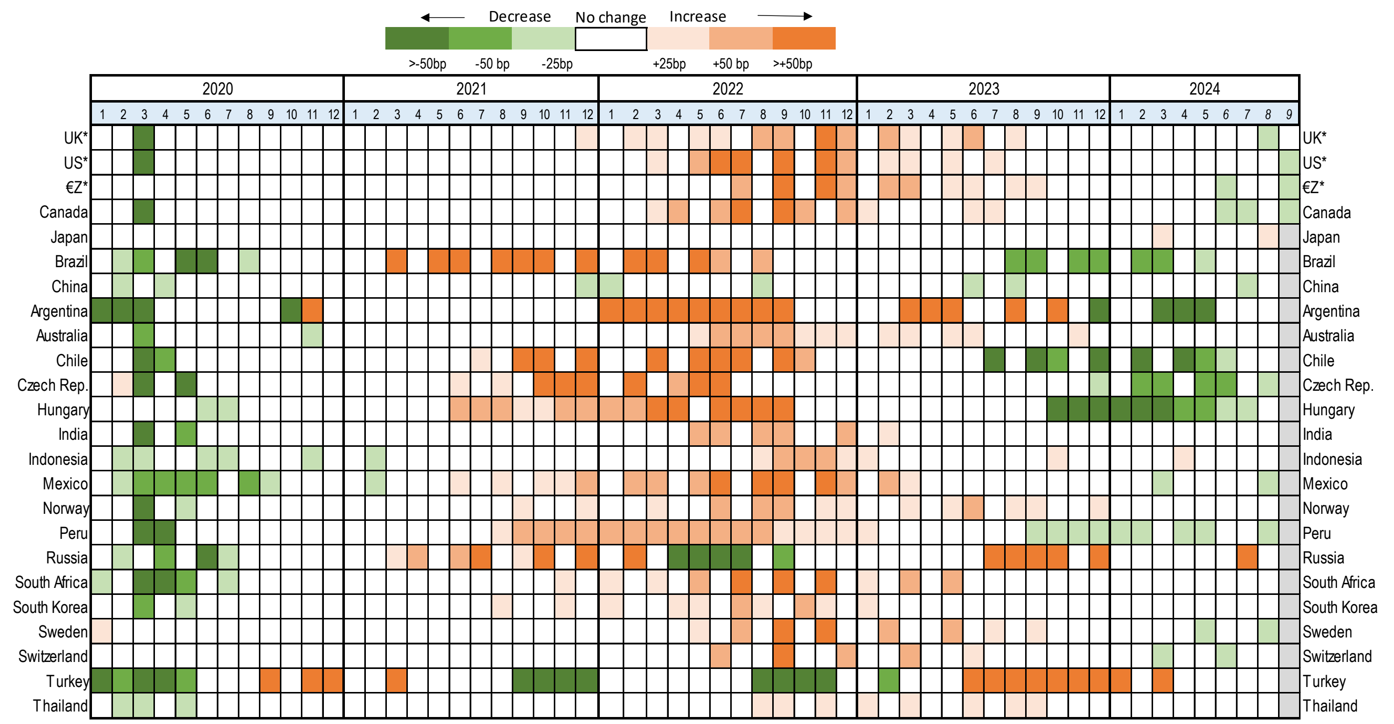


TABLE 1

SOURCE: CENTRAL BANKS, BIS, * BNP PARIBAS, GLOBAL MARKETS FORECASTS

MARKETS OVERVIEW

OVERVIEW

Week 30-8 24 to 6-9-24				
↘ CAC 40	7.631	▸ 7.352	-3.7	%
↘ S&P 500	5.648	▸ 5.408	-4.2	%
↗ Volatility (VIX)	15.0	▸ 22.4	+7.4	pb
↘ Euribor 3M (%)	3.49	▸ 3.47	-2.2	bp
↘ Libor $ 3M (%)	5.28	▸ 5.20	-7.8	bp
↘ OAT 10y (%)	2.92	▸ 2.78	-14.0	bp
↘ Bund 10y (%)	2.23	▸ 2.11	-11.9	bp
↘ US Tr. 10y (%)	3.92	▸ 3.72	-20.4	bp
↗ Euro vs dollar	1.11	▸ 1.11	+0.5	%
↗ Gold (ounce, $)	2.505	▸ 2.515	+0.4	%
↘ Oil (Brent, $)	78.9	▸ 71.6	-9.2	%

MONEY & BOND MARKETS

Interest Rates		highest 24	+lowest 24
€ ECB	4.25	4.50 at 01/01	4.25 at 12/06
€STR	3.66	3.91 at 03/06	3.65 at 31/07
Euribor 3M	3.47	3.97 at 18/01	3.45 at 04/09
Euribor 12M	3.03	3.76 at 19/03	3.03 at 06/09
$ FED	5.50	5.50 at 01/01	5.50 at 01/01
Libor 3M	5.20	5.61 at 20/06	5.20 at 06/09
Libor 12M	6.04	6.04 at 01/01	6.04 at 01/01
£ BoE	5.00	5.25 at 01/01	5.00 at 01/08
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 6-9-24

Yield (%)		highest 24	lowest 24
€ AVG 5-7y	2.64	2.64 at 01/01	2.64 at 01/01
Bund 2y	2.51	3.23 at 10/06	2.51 at 06/09
Bund 10y	2.11	2.66 at 29/05	2.02 at 03/01
OAT 10y	2.78	3.30 at 01/07	2.47 at 01/01
Corp. BBB	3.59	4.14 at 10/06	3.59 at 06/09
$ Treas. 2y	3.69	5.10 at 30/04	3.69 at 06/09
Treas. 10y	3.72	4.70 at 25/04	3.72 at 06/09
High Yield	7.37	8.24 at 16/04	7.33 at 30/08
£ gilt. 2y	3.77	4.96 at 29/05	3.75 at 14/08
gilt. 10y	3.89	4.41 at 29/05	3.60 at 01/01

At 6-9-24

EXCHANGE RATES

1€ =		highest 24	lowest 24	2024
USD	1.11	1.12 at 23/08	1.06 at 15/04	+0.7%
GBP	0.84	0.87 at 02/01	0.84 at 12/07	-2.6%
CHF	0.94	0.99 at 27/05	0.93 at 08/01	+0.7%
JPY	158.26	174.98 at 10/07	155.33 at 02/01	+1.6%
AUD	1.66	1.70 at 05/08	1.60 at 11/07	+2.3%
CNY	7.88	7.98 at 23/08	7.69 at 15/04	+0.6%
BRL	6.21	6.34 at 05/08	5.31 at 13/02	+15.7%
RUB	100.42	102.82 at 26/08	89.75 at 19/06	+1.7%
INR	93.35	93.79 at 23/08	88.68 at 12/04	+1.6%

At 6-9-24 *Change*

COMMODITIES

Spot price, $		highest 24	lowest 24	2024	2024(€)
Oil, Brent	71.6	91.6 at 12/04	71.6 at 06/09	-7.8%	-8.4%
Gold (ounce)	2.515	2.524 at 29/08	1.989 at 14/02	+21.7%	+20.9%
Metals, LMEX	3.880	4.652 at 21/05	3.558 at 09/02	+3.1%	+2.4%
Copper (ton)	8.876	10.801 at 20/05	8.065 at 09/02	+4.9%	+4.2%
wheat (ton)	176	2.5 at 28/05	171 at 23/08	-24.3%	-24.8%
Corn (ton)	144	1.7 at 13/05	133 at 26/08	-1.7%	-17.7%

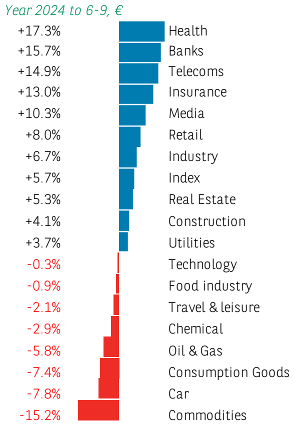
At 6-9-24 *Change*

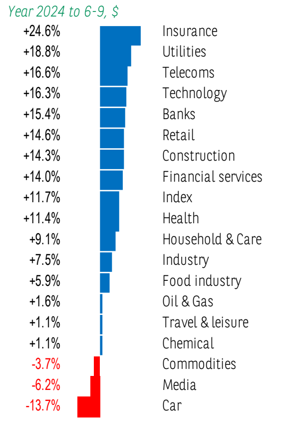
EQUITY INDICES

	Index	highest 24	lowest 24	2024
World				
MSCI World	3.519	3.661 at 30/08	3.114 at 04/01	+11.0%
North America				
S&P500	5.408	5.667 at 16/07	4.689 at 04/01	+13.4%
Europe				
EuroStoxx50	4.738	5.101 at 15/05	4.403 at 17/01	+4.8%
CAC 40	7.352	8.240 at 15/05	7.130 at 06/08	-0.3%
DAX 30	18.302	18.931 at 02/09	16.432 at 17/01	+9.3%
IBEX 35	11.173	11.444 at 06/06	9.858 at 19/01	+1.1%
FTSE100	8.181	8.446 at 15/05	7.446 at 17/01	+0.6%
Asia				
MSCI, loc.	1.345	1.469 at 11/07	1.195 at 05/08	+0.8%
Nikkei	36.391	42.224 at 11/07	31.458 at 05/08	+8.7%
Emerging				
MSCI Emerging ($)	1.075	1.125 at 11/07	958 at 17/01	+0.5%
China	55	64 at 20/05	49 at 22/01	-0.7%
India	1.107	1.125 at 02/09	915 at 03/01	+21.2%
Brazil	1.488	1.800 at 01/01	1.365 at 05/08	-4.8%

At 6-9-24 *Change*

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

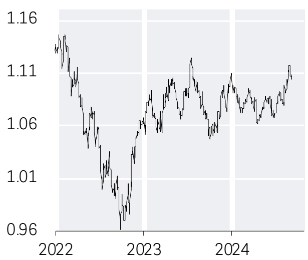




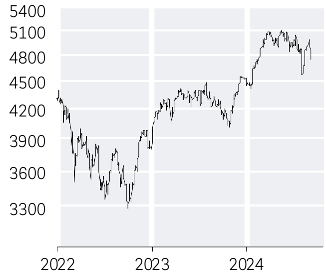
SOURCE: REFINITIV, BNP PARIBAS

MARKETS OVERVIEW

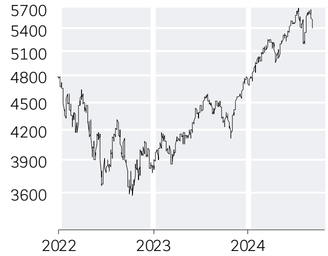
EURO-DOLLAR



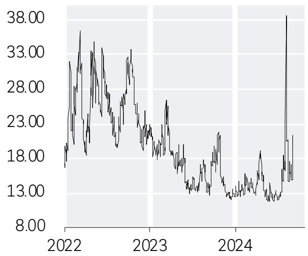
EUROSTOXX50



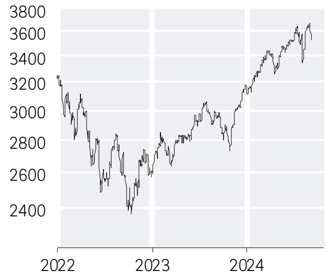
S&P500



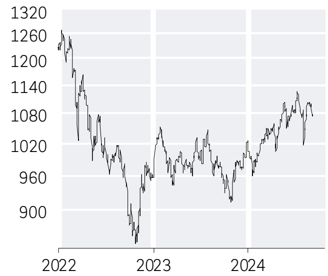
VOLATILITY (VIX, S&P500)



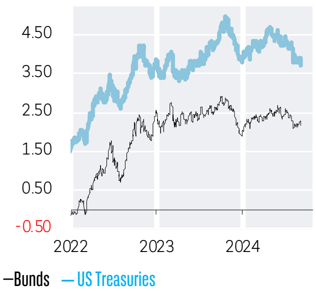
MSCI WORLD (USD)



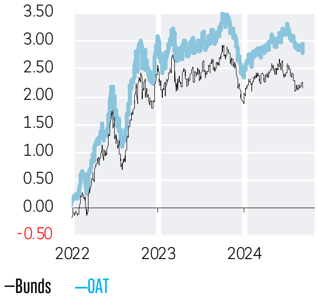
MSCI EMERGING (USD)



10Y BOND YIELD, TREASURIES VS BUND

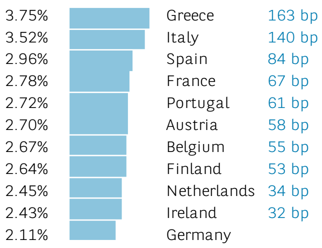


10Y BOND YIELD

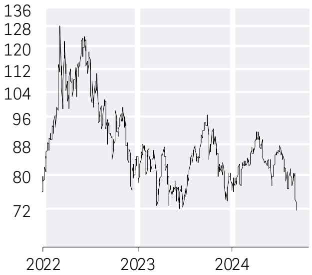


10Y BOND YIELD & SPREADS

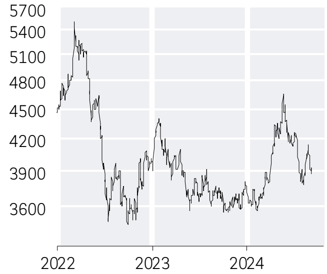
Year 2024 to 6-9



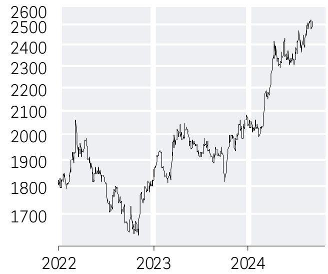
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS

SERVICES AND MANUFACTURING PMIS: THE GAP CONTINUED TO WIDEN IN AUGUST

The S&P Global Composite PMI Output Index resumed rising in August, gaining 0.3 points to 52.8, after two months of decline. This is an encouraging sign for global activity halfway through Q3 2024. However, this improvement masks a fairly clear divergence between the services sector and the manufacturing one. In August, the global services index hit its highest level (53.8) since June 2023 (with the exception of May 2024), while the manufacturing sector index recorded its lowest level since December 2023 (49.5).

In the services sector, out of the 14 countries for which August data are available, nine reported an increase in the index from the previous month (with four falling and one unchanged). There were particularly notable increases in France, as well as, to a lesser extent, in the Eurozone, the United Kingdom, Spain and the United States. The index also rose in Canada but is still in contraction territory.

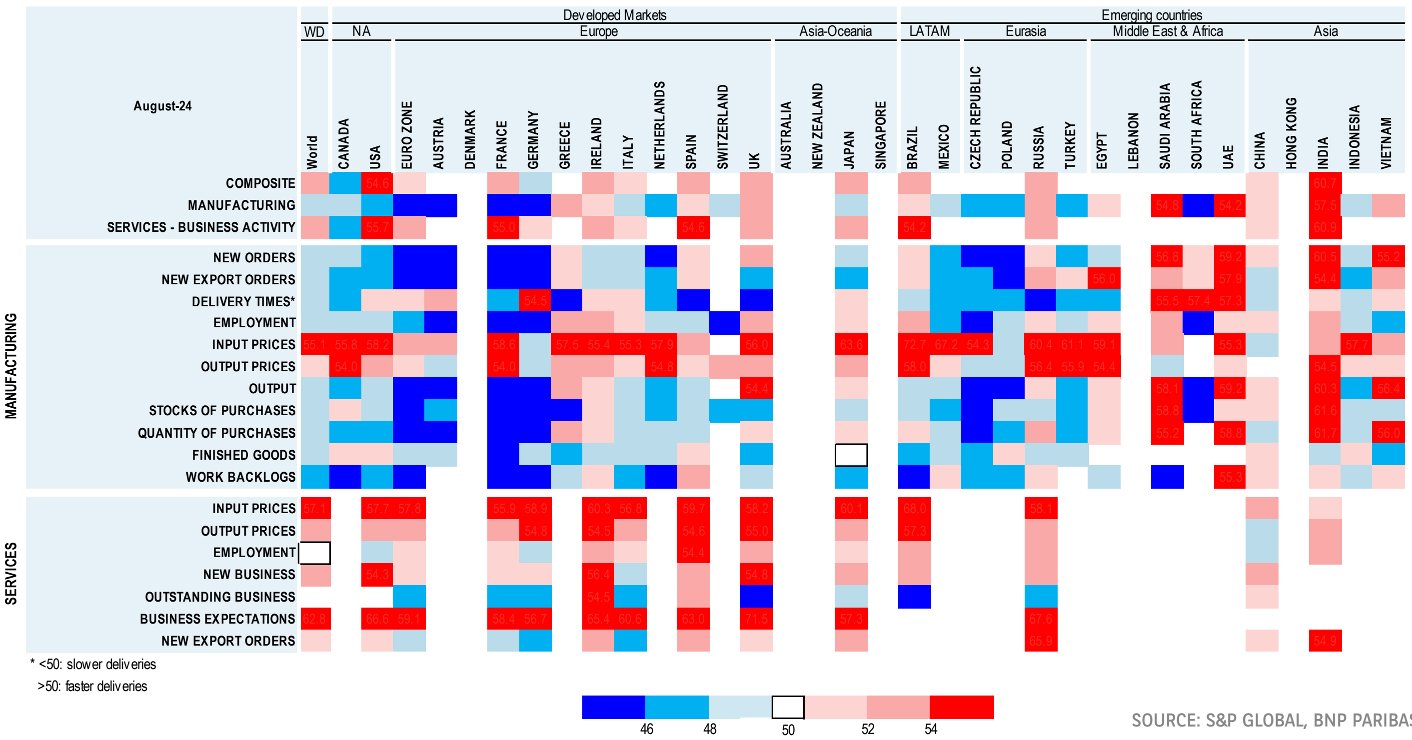
In France, the index hit its highest level since May 2022 (55). This increase, which is likely partially due to the Paris Olympic Games, will have to be monitored in the coming months. Overall, the increase in the services sector index has come hand in hand with increases in three of the six components covered by the survey: new export orders, new business and business expectations. On the minus side, the employment component fell, and stands now at on the neutral threshold (50). The fall in the "selling prices" and "input prices" indices is good news on the other hand.

In the manufacturing sector, out of the 29 countries for which August data are available, 13 reported a fall in the index compared with the previous month (with 15 improving and 1 remaining the same), driven by "new orders", "new export orders", "production" and "employment". There were sharp drops in South Africa, Brazil, Vietnam and, to a lesser extent, in the United States, where the index was in contraction territory for the second consecutive month, as well as in the Netherlands and Mexico. The index also dipped in Germany and France, falling further into contraction territory. This decrease was offset by positive development in other smaller countries, helping keep stable the index for the Eurozone. However, it is still firmly in contraction territory (45.8).

Conversely, Canada, Austria, Italy, the United Kingdom, Japan and China are some of the countries posting a rise in the manufacturing PMI. However, globally, it is worth noting that the employment sub-index fell in August, sliding back into contraction territory, in the wake of new orders declining in July and then stagnating in August, as well as output decreasing for the second month in a row. These two components will need to be monitored in the coming months. On the price front, survey data show that input prices fell for the second consecutive month, while output prices rose again slightly.

Tarik Rharrab

S&P GLOBAL PMI - AUGUST 2024



SOURCE: S&P GLOBAL, BNP PARIBAS

ECONOMIC PULSE

S&P GLOBAL PMI, Δ (AUGUST, JULY)

	WD	NA		Developed Markets – Europe												Asia-Oceania			
	World	CANADA	USA	EURO ZONE	AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND	UK	AUSTRALIA	NEW ZEALAND	JAPAN	SINGAPORE
COMPOSITE	0.3	0.8	0.3	0.8			4.0	-0.7		0.4	0.5		0.1		1.0			0.4	
MANUFACTURING	-0.2	1.7	-1.7	0.0	1.3		-0.1	-0.8	-0.3	0.3	2.0	-1.5	-0.5	5.5	0.4			0.7	0.2
SERVICES - BUSINESS ACTIVITY	0.5	0.5	0.7	1.0			4.9	-1.3		0.2	-0.3		0.7		1.2			0.0	
NEW ORDERS	0.0	3.4	-1.4	-0.8	2.9		-2.0	-2.6	-0.2	-1.3	4.0	-2.5	0.8		0.0			1.2	0.3
NEW EXPORT ORDERS	-1.0	3.6	-1.7	-0.6	1.2		-0.2	-3.6	-2.0	1.0	4.3	0.4	-0.2		-2.6			-1.2	0.2
DELIVERY TIMES	0.3	-0.8	1.4	0.3	-1.7		-3.3	0.7	-2.5	0.5	3.1	2.1	-1.5		-0.1			0.6	0.3
EMPLOYMENT	-0.3	-1.5	-2.4	0.2	0.2		0.6	-0.3	-1.6	1.4	2.4	-1.5	-3.0	-0.2	1.5			0.4	
INPUT PRICES	-0.2	2.2	1.7	-0.2	1.6		-1.6	1.6	-2.3	-1.2	-1.0	-0.1	-3.9		-1.0			0.2	0.3
OUTPUT PRICES	0.3	3.1	2.5	1.2	0.4		2.8	1.3	-2.9	1.7	1.5	1.2	-2.0	9.7	-1.3			-2.4	
OUTPUT	-0.3	1.9	-2.3	0.2	-1.4		-1.1	0.2	-0.1	0.6	2.6	-0.5	-2.2		-0.5			1.6	0.3
STOCKS OF PURCHASES	0.3	3.7	-0.5	1.4	5.2		1.2	0.8	-2.5	2.7	1.7	0.2	1.5	2.9	2.3			-0.1	0.1
QUANTITY OF PURCHASES	-0.2		-1.9	-0.8	0.1		-2.2	-3.2	-2.9	1.8	3.5	1.8	-0.3		3.3			3.8	
FINISHED GOODS	-0.2	-0.6	-1.1	1.6	2.6		-0.5	1.1	-2.2	4.0	4.4	1.9	-0.9		1.4			-0.5	0.3
WORK BACKLOGS	-0.4	-1.3	-1.6	-0.6			-1.6	-3.0	2.2	1.5	2.3	1.5	1.7		2.7			1.0	
INPUT PRICES	-0.6		-0.6	-2.2			-2.8	-1.7		0.1	-2.0		-3.0		-2.2			0.1	
OUTPUT PRICES	-0.5		-0.7	0.9			1.2	1.1		-0.8			0.3		-0.6			-1.2	
EMPLOYMENT	-1.7		-3.2	-0.4			-0.6	-0.1		2.0	-1.4		0.6		-0.6			-2.0	
NEW BUSINESS	0.5		1.2	0.3			3.4	-0.6		0.9	-2.0		-0.3		-0.1			-0.3	
OUTSTANDING BUSINESS				-0.6			-1.5	0.4		1.6	-1.8		-0.2		-2.5			-3.4	
BUSINESS EXPECTATIONS	0.3		1.5	-1.2			0.3	-0.2		-5.5	-3.7		-2.4		-2.3			-1.2	
NEW EXPORT ORDERS	0.1		0.3	-0.4			2.8	-1.6		0.6	-2.7		-0.6		-2.8			4.0	

	Emerging countries – LATAM		Eurasia				Middle East & Africa					Asia				
	BRAZIL	MEXICO	CZECH REPUBLI	POLAND	RUSSIA	TURKEY	EGYPT	LEBANON	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	HONG KONG	INDIA	INDONESIA	VIETNAM
COMPOSITE	-3.1				0.2							0.0		0.0		
MANUFACTURING	-3.6	-1.1	2.9	0.5	-1.5	0.6	0.7		0.4	-8.8	0.5	0.6		-0.6	-0.4	-2.3
SERVICES - BUSINESS ACTIVITY	-2.2				1.2							-0.5		0.6		
NEW ORDERS	-2.7	-2.2	3.7	0.6	-1.4	2.4	0.1		1.1	3.7	1.6	1.1		-1.4	0.0	-3.4
NEW EXPORT ORDERS	-2.9	-1.4	3.9	-4.7	3.5	3.0	1.7		2	5	2.8	-1.2		-2.8	-3.2	-0.9
DELIVERY TIMES	2.9	1.6	-2.0	0.4	-1.9	-0.1	-2.0		2.8	-4.5	1.9	-0.3		-1.2	-0.2	0.2
EMPLOYMENT	-1.8	0.3	0.8	1.3	-3.6	0.4	0.1		2.5	-3.2	-0.1	0.1		-0.2	0.5	-3.8
INPUT PRICES	5.2	1.7	-1.1	-1.9	-7.2	-0.2	3.9		-0.4		-1.0	-0.6		-2.2	-1.0	-5.6
OUTPUT PRICES	-3.6	0.3	-0.3	-1.0	-0.8	1.5	2.7		1.0		-0.9			-0.2	-1.0	-3.0
OUTPUT	-6.2	-1.0	6.2	1.7	-2.8	-0.4	1.1		-0.6	-11.9	1.0	0.4		-1.4	-1.3	-2.4
STOCKS OF PURCHASES	-4.2	-0.6	-2.6	-2.5	1.1	-1.4	0.8		1.6	-3.6	0.9	0.5		0.5	-1.7	1.4
QUANTITY OF PURCHASES	-3.6	1.1	4.5	-2.3	-2.6	0.5	4.7		-0.7		1.5	-0.4		0.8	-0.1	0.6
FINISHED GOODS	-2.5	1.2	-0.7	1.8	3.0	0.3						-0.2		-0.7	-1.1	3.6
WORK BACKLOGS	2.3	-3.5	-0.3	0.8	4.1		0.5		-4.4		-1.6	-0.3		-0.7	-1.0	0.0
INPUT PRICES	2.5				-3.4							0.6		-1.7		
OUTPUT PRICES	0.9				-2.2							-0.8		-2.1		
EMPLOYMENT	1.1				1.0							-2.0		-0.4		
NEW BUSINESS	-1.4				2.0							-0.6				
OUTSTANDING BUSINESS	-0.5				-2.3							0.4				
BUSINESS EXPECTATIONS					1.6											
NEW EXPORT ORDERS					-0.2							1.3		-2.7		

-3 -2 -1 0 1 2 3

SOURCE: S&P GLOBAL, BNP PARIBAS

ECONOMIC SCENARIO

UNITED STATES

In the US, the prospect of a recession triggered by the monetary tightening still appears as ruled out, given the resilience on the economy illustrated by a +2.5% yearly annual GDP growth in 2023. In the wake of a slowdown in Q1 2024 (+0.3% q/q, following +0.8% in Q4 2023), GDP growth accelerated again at +0.7% q/q in Q2, driven by positive contributions from household consumption and investment. Our baseline scenario implies a +2.6% yearly annual growth rate in 2024, enabled by the 2023 carryover effect as well as an expected increase in real income. The inflation peak was reached in mid-2022 and, while Q1 2024 data had raised concerns, Q2 and early-Q3 data indicate that the disinflation path has markedly resumed. This picture, together with the growing softening of the labour market, paves the way for the Fed to undertake monetary easing. This is expected to start from September, with three rate cuts (-25bps) by end 2024 that would bring the target rate to +4.5% - +4.75%.

CHINA

Economic growth rebounded in Q1 2024 and slowed in Q2. It stood at 5% y/y in the first half of 2024. The different components of Chinese growth have exhibited diverging trajectories. In the manufacturing sector, activity is solid, driven by exports and supported by the authorities' industrial policy. Its growth momentum is nonetheless likely to weaken in the coming quarters. In the services sector, activity continues to lack momentum. Domestic demand remains held back by the crisis in the property sector, regulatory uncertainties, and low confidence of consumers and private investors. Recent measures to boost activity in the property sector have had no effect so far while domestic credit growth has decelerated since the beginning of the year in spite of monetary policy easing. In the short term, the authorities are expected to keep their industrial policy unchanged while introducing new monetary and fiscal measures that should help stimulate domestic demand. Consumer price inflation increased slightly during the summer (+0.6% y/y in August), but core inflation remains very low and the supply-demand imbalance continues to fuel deflationary pressures.

EUROZONE

Growth in the euro area is expected to stabilise at 0.3% q/q in the third and fourth quarters of 2024, slightly higher than the rate recorded in the third quarter, which has been revised lower by Eurostat: to 0.2%. Significant growth differentials will persist between Member States during the second semester: stronger gains in activity are expected in Spain and Italy than in Germany and France. Overall Eurozone growth would be supported by the continuation of the ECB's cycle of interest rate cuts, which began in June, and which would be followed by two further cuts in September and December. Growth is also expected to be bolstered by a still buoyant labour market and the disbursement of NGEU funds and their deployment on the ground. Inflation risks are balanced at this stage, and we expect headline inflation to gradually converge towards the 2% target by the second half of 2025. The decline in core inflation will be very gradual, due to the persistence of strong, albeit slowing, wage increases.

FRANCE

French economy benefitted from a 0.2% q/q growth in Q2 (after 0.3% q/q in Q1 2024), mainly supported by exports. Disinflation is now visible (the harmonized index grew by 2.2% y/y in August 2024, compared to 5.7% y/y in September 2023) but household consumption growth remains disappointing. As a result, we except no growth acceleration in 2025 compared with 2024 (with a growth forecast of 1.2% for both years, after 1.1% in 2023).

RATES AND EXCHANGE RATES

The US Federal Reserve is expected to start its monetary easing cycle in September, with a first 25 basis point cut in the Fed funds rate. This would be followed by two other cuts of a similar magnitude in November and December. Two rate cuts are also expected from the ECB and the BoE by the end of 2024. On both sides of the Atlantic, however, the policy rates in real terms, and thus the degree of monetary restraint, would remain more or less unchanged. The resulting decline in long-term rates should be limited by the size of bond issuance against a backdrop of quantitative tightening.

The Bank of Japan (BoJ) was the first central bank among G7 economies to act in 2024. The BoJ jointly announced the end of its negative interest rate policy and yield curve control policy at the March meeting. As a result, the policy rate target was raised from a corridor of -0.1-0.0% to 0.0-0.1%, before a new +15bps upward movement in July. At the same time, it was announced that the volume of JGBs purchases was to be halved.

We expect monetary policy to normalise gradually in the country, with only one additional hike envisaged by the end of 2024 (-25 BPS), before three more cuts in 2025.

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

GDP GROWTH AND INFLATION

	GDP Growth				Inflation			
%	2022	2023	2024 e	2025 e	2022	2023	2024 e	2025 e
United States	1.9	2.5	2.6	1.9	8.0	4.1	2.9	2.2
Japan	0.9	1.7	-0.2	0.7	2.5	3.2	2.6	2.4
United Kingdom	4.4	0.1	1.2	1.5	9.1	7.4	2.6	2.5
Euro Area	3.5	0.5	0.8	1.4	8.4	5.4	2.4	2.0
Germany	1.9	-0.1	-0.1	1.0	8.7	6.1	2.5	2.4
France	2.6	1.1	1.2	1.2	5.9	5.7	2.5	1.1
Italy	4.2	1.0	0.9	1.2	8.7	6.0	1.2	2.0
Spain	5.8	2.5	2.8	2.5	8.3	3.4	3.1	2.1
China	3.0	5.2	4.9	4.5	2.0	0.2	0.4	1.3
India*	7.0	8.2	6.9	6.7	6.7	5.4	4.7	4.3
Brazil	2.9	2.9	3.1	2.0	9.3	4.6	4.3	3.8

Source : BNP Paribas (e: Estimates & forecasts)
Last update: 6 September 2024
* Fiscal year from 1st April of year n to March 31st of year n+1

INTEREST AND EXCHANGE RATES

Interest rates, % End of period		Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025
US	Fed Funds (upper limit)	4.75	4.25	4.00	3.75	3.50
	T-Note 10y	3.80	3.70	3.70	3.65	3.65
Eurozone	deposit rate	3.25	3.00	2.75	2.50	2.50
	Bund 10y	2.15	2.10	2.10	2.15	2.25
	OAT 10y	2.88	2.80	2.85	2.85	2.95
	BTP 10y	3.60	3.40	3.45	3.55	3.65
	BONO 10y	2.93	2.85	2.85	2.88	2.98
UK	Base rate	4.75	4.50	4.25	4.00	3.75
	Gilts 10y	3.80	3.80	3.60	3.50	3.65
Japan	BoJ Rate	0.50	0.75	1.00	1.00	1.25
	JGB 10y	1.25	1.40	1.55	1.70	1.80

Exchange Rates End of period		Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD	EUR / USD	1.12	1.13	1.14	1.14	1.15
	USD / JPY	139	138	136	134	131
	GBP / USD	1.35	1.36	1.37	1.37	1.39
EUR	EUR / GBP	0.83	0.83	0.83	0.83	0.83
	EUR / JPY	156	156	155	153	151

Brent Quarter Average		Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025
Brent	USD/bbl	82	79	75	80	77

Sources: BNP Paribas (Market Economics, Interest Rate Strategy, FX Strategy, Commodities Desk Strategy)
Last update: 6 September 2024

FURTHER READING

The "green" electricity revolution is well on its way, but the European Union still needs to pick up the pace	Chart of the Week	4 September 2024
US and Eurozone: facts, stylised facts and sentiment	EcoWeek	2 September 2024
France: are we now seeing inflation below 2%?	EcoBrief	28 August 2024
July 2024 issue	French Economy Pocket Atlas	26 July 2024
Inflation tracker - July 2024 | Contrasting trends	EcoCharts	25 July 2024
Rising trade relations between ASEAN and China: a blessing and a curse	EcoTV	25 July 2024
Housing shortage, a major challenge for the Labour Party	Chart of the Week	25 July 2024
At the crossroads of abundance, scarcity, and disruption	EcoWeek	24 July 2024
July 2024 issue	EcoPulse	19 July 2024
Italy: growth is up but significant fiscal imbalances remain	EcoFlash	18 July 2024
Central Europe: Moderate decline in government bond yields	EcoTV	18 July 2024
The effects of global warming on employment in Morocco	Chart of the Week	17 July 2024
Business sentiment: loss of momentum but no change in direction	EcoWeek	16 July 2024
Poland: a solid economy with nearshoring opportunities	EcoConjoncture	16 July 2024
Emerging economies: the mainsprings of confidence	EcoEmerging	15 July 2024
Artificial intelligence and the (un)known (un)knowns	EcoTV	11 July 2024
Federal Reserve: shift in focus	EcoWeek	11 July 2024
France: time to sell new homes drops for the first time after rising for seven consecutive quarters	Chart of the Week	10 July 2024
United States | Under the bonnet: the Federal Reserve's reaction function	EcoWeek	4 July 2024
Disinflation in the United States: the scale of the sacrifice on the labour market	Chart of the Week	3 July 2024
France vs. Germany: good things come in threes?	EcoTV	2 July 2024

GROUP ECONOMIC RESEARCH

Isabelle Mateos y Lago Chief Economist	+33 1 55 77 47 31	isabelle.mateosylago@bnpparibas.com

OECD ECONOMIES AND STATISTICS

Hélène Baudchon Deputy chief economist, Head	+33 1 58 16 03 63	helene.baudchon@bnpparibas.com
Stéphane Colliac France, Germany	+33 1 42 98 43 86	stephane.colliac@bnpparibas.com
Guillaume Derrien Eurozone, United Kingdom - Global trade	+33 1 55 77 71 89	guillaume.a.derrien@bnpparibas.com
Anis Bensaidani United States, Japan	+33 1 87 74 01 51	anis.bensaidani@bnpparibas.com
Lucie Barette Southern Europe	+33 1 87 74 02 08	lucie.barette@bnpparibas.com
Tarik Rharrab Statistics		

ECONOMIC PROJECTIONS, RELATIONSHIP WITH THE FRENCH NETWORK

Jean-Luc Proutat Head	+33 1 58 16 73 32	jean-luc.proutat@bnpparibas.com

BANKING ECONOMICS

Laurent Quignon Head	+33 1 42 98 56 54	laurent.quignon@bnpparibas.com
Céline Choulet	+33 1 43 16 95 54	celine.choulet@bnpparibas.com
Thomas Humblot	+33 1 40 14 30 77	thomas.humblot@bnpparibas.com
Marianne Mueller	+33 1 40 14 48 11	marianne.mueller@bnpparibas.com

EMERGING ECONOMIES AND COUNTRY RISK

François Faure Head – Argentina, Turkey – Methodology, Modelling	+33 1 42 98 79 82	francois.faure@bnpparibas.com
Christine Peltier Deputy Head – Greater China, Vietnam – Methodology	+33 1 42 98 56 27	christine.peltier@bnpparibas.com
Stéphane Alby Africa (French-speaking countries)	+33 1 42 98 02 04	stephane.alby@bnpparibas.com
Pascal Devaux Middle East, Balkan countries	+33 1 43 16 95 51	pascal.devaux@bnpparibas.com
Hélène Drouot South Korea, Philippines, Thailand, Andean countries	+33 1 42 98 33 00	helene.drouot@bnpparibas.com
Salim Hammad Latin America	+33 1 42 98 74 26	salim.hammad@bnpparibas.com
Cynthia Kalasopatan Antoine Ukraine, Central European countries	+33 1 53 31 59 32	cynthia.kalasopatan.antoine@bnpparibas.com
Johanna Melka India, South Asia, Russia, Kazakhstan	+33 1 58 16 05 84	johanna.melka@bnpparibas.com
Lucas Plé Africa (Portuguese & English-speaking countries)	+33 1 40 14 50 18	lucas.ple@bnpparibas.com

CONTACT MEDIA

Mickaelle Fils Marie-Luce	+33 1 42 98 48 59	mickaelle.filsmarie-luce@bnpparibas.com

GROUP ECONOMIC RESEARCH

ECOCONJONCTURE
Structural or thematic topics.

ECOEMERGING
Analyses and forecasts for a selection of emerging economies.

ECOPERSPECTIVES
Analyses and forecasts with a focus on developed countries.

ECOFLASH
Data releases, major economic events.

ECOWEEK
Recent economic and policy developments, data comments, economic calendar, forecasts.

ECOCHARTS
Easy-to-read monthly overview of inflation dynamics in the main developed economies.

ECOPULSE
Monthly barometer of key economic indicators of the main OECD countries.

ECOTV WEEK

MACROWAVES
Our economic podcast.

HOW TO RECEIVE OUR PUBLICATIONS

SUBSCRIBE ON OUR WEBSITE
see the Economic Research website

&

FOLLOW US ON LINKEDIN
see the Economic Research linkedin page

OR TWITTER
see the Economic Research Twitter page

Published by BNP PARIBAS Economic Research
Head office: 16 boulevard des Italiens – 75009 Paris France / Phone : +33 (0) 1.42.98.12.34
Internet: www.group.bnpparibas - **www.economic-research.bnpparibas.com**
Head of publication : Jean Lemierre / Chief editor: Isabelle Mateos y Lago
Copyright: Niphon Subsri

BNP PARIBAS

The bank
for a changing
world