

GLOBAL OUTLOOK 2024

STILL SEARCHING FOR A LANDING

FEBRUARY 2024



MARKETS 360TM
STRATEGY & ECONOMICS



BNP PARIBAS

The bank for a changing world

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Global Outlook 2024: Still searching for a landing

What kind of landing?

- There will be a landing. We expect the US economy to slow below trend in 2024/25.
- But policy easing will help it avoid a conventional recession.

Policy to take its foot off the brake

- Central banks will cut soon to prevent real rates from rising.
- Not too soon in the US: first cut in May
- Earlier move in the Eurozone: first cut in April

What downside potential for the dollar and yields?

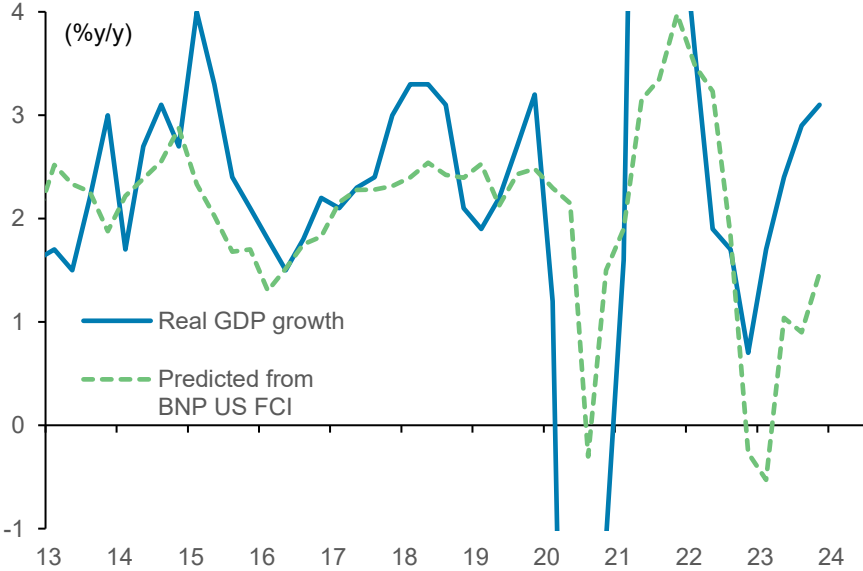
- Structurally bearish on the dollar. EURUSD at 1.15 in Q4 2024.
- Limited downside on long-term yields. US 10-year up to 4.2% in Q1 2024 and at 3.95% in Q4 2024.

Risks to our view

- More inflation. Too easy financial conditions and/or renewed global price pressure would likely mean higher rates and a possibly deeper contraction economic activity.
- Fiscal policy and politics. Higher risk premia on bonds (EM), EU & US elections.

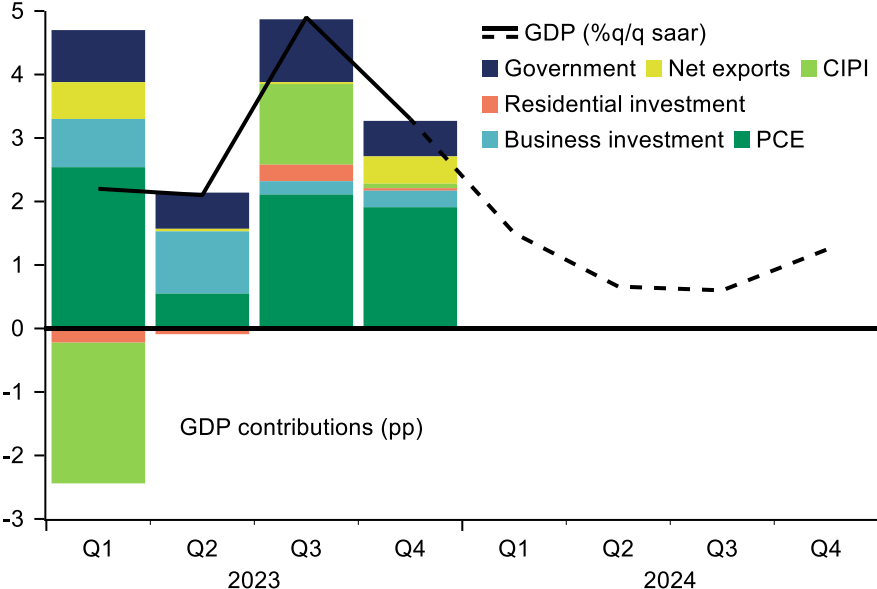
US: Below trend growth in 2024/25

GDP growth vs. Financial conditions



Sources: BEA, Macrobond, BNP Paribas

Growth slowing this summer



Sources: BEA, Macrobond, BNP Paribas

- We expect a re-correlation of the US economy with financial conditions in 2024/25.
- Peak weakness should be reached in Q2/Q3.

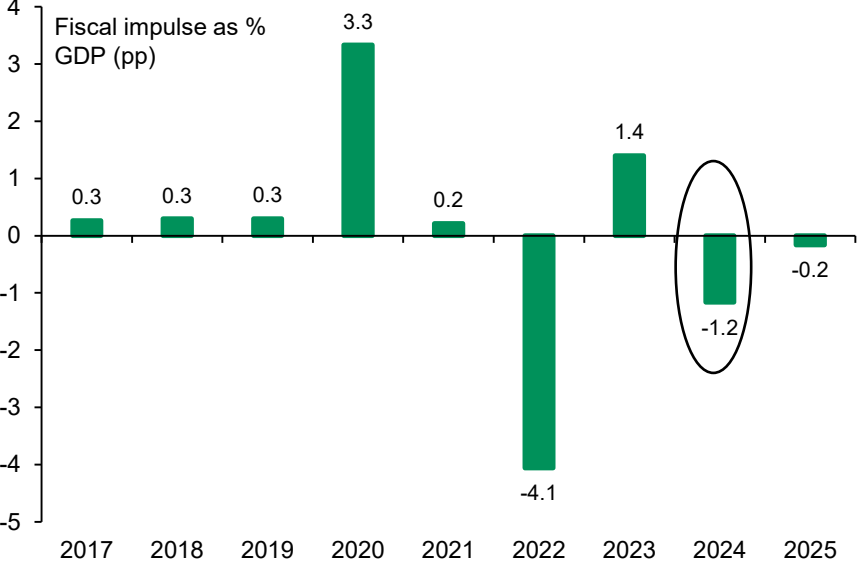
US: Factors of support are diminishing

US households' deposits as % income



Sources: Fed, Datastream, BNP Paribas

Fiscal impulse as % of GDP

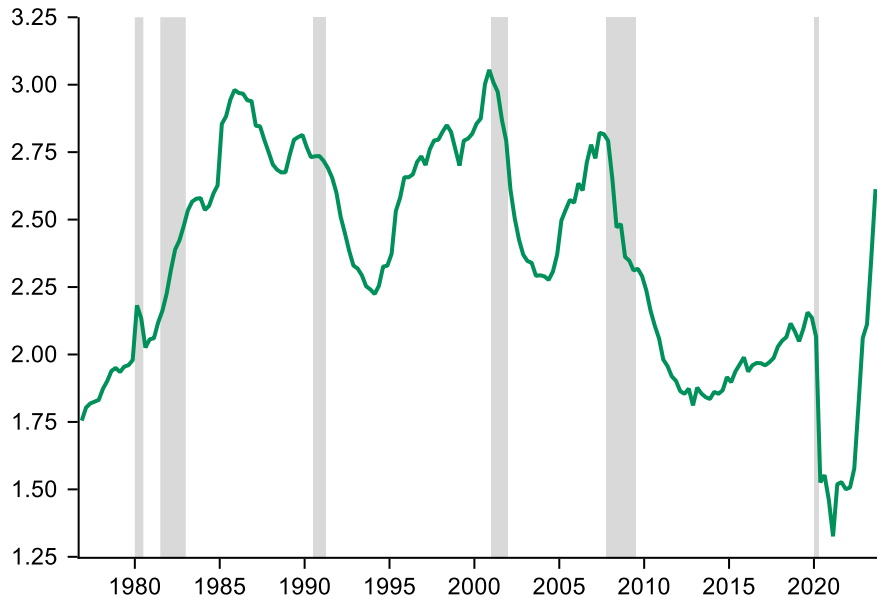


Sources: CBO, Fed, BLS, BNP Paribas forecasts for 2024-25

- At the current pace, there will be less cushion from savings from Mid- 2024.
- After being quite expansionary in 2023, fiscal policy will tighten in 2024.

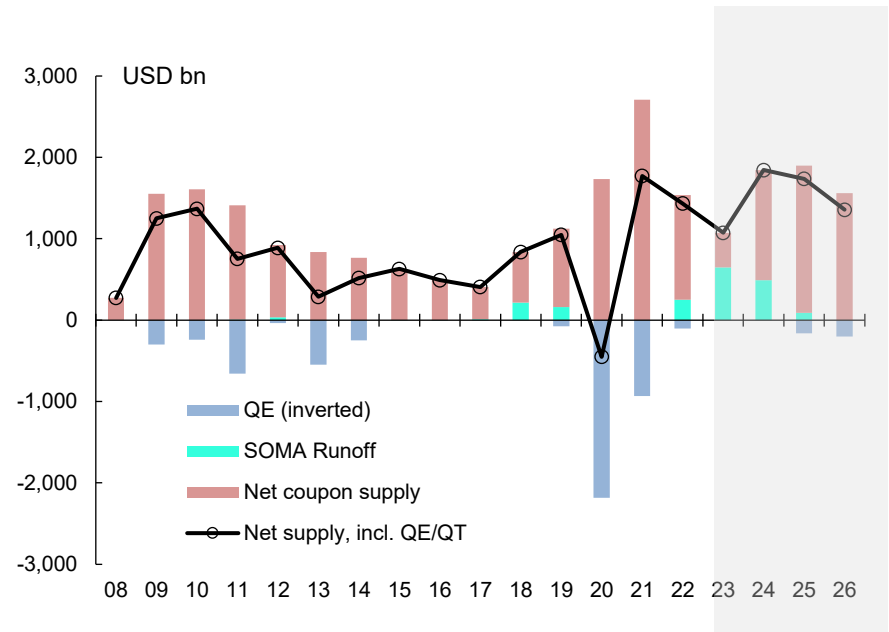
US: Refinancing will hurt

Non-mortgage debt payments as % of income



Sources: BEA, Macrobond, BNP Paribas

Net supply of Treasuries, net of Fed QT

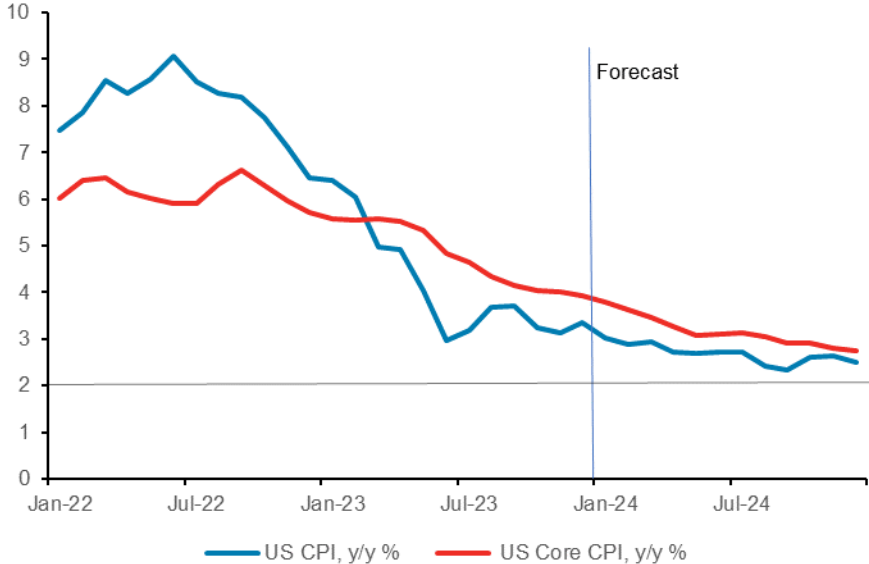


Sources: US Treasury, Federal Reserve, BNP Paribas forecasts

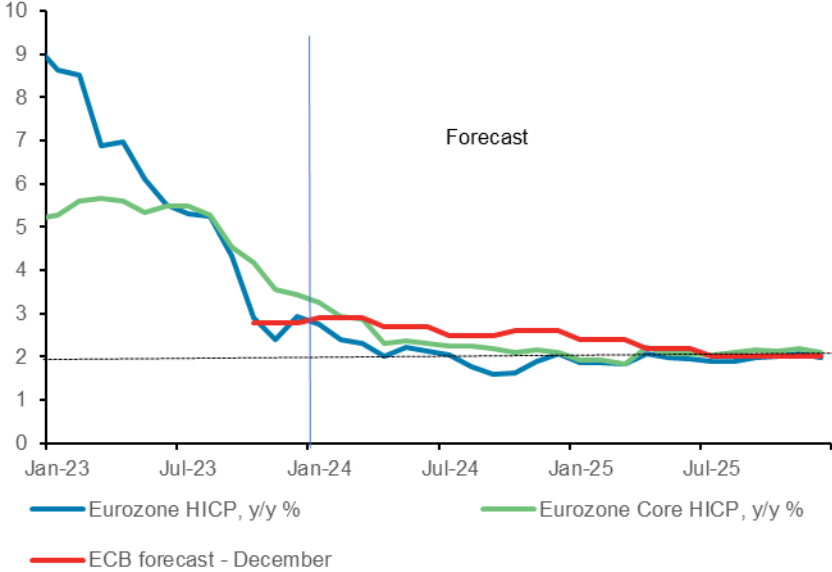
- Consumers' interest payments have increased by c1.pp of income in the past year.
- Corporates will have to refinance massively from mid-2024 & Supply of US treasury bonds to the market will rise to a record level in 2024.

Disinflation has more room to run

US Inflation



Eurozone inflation



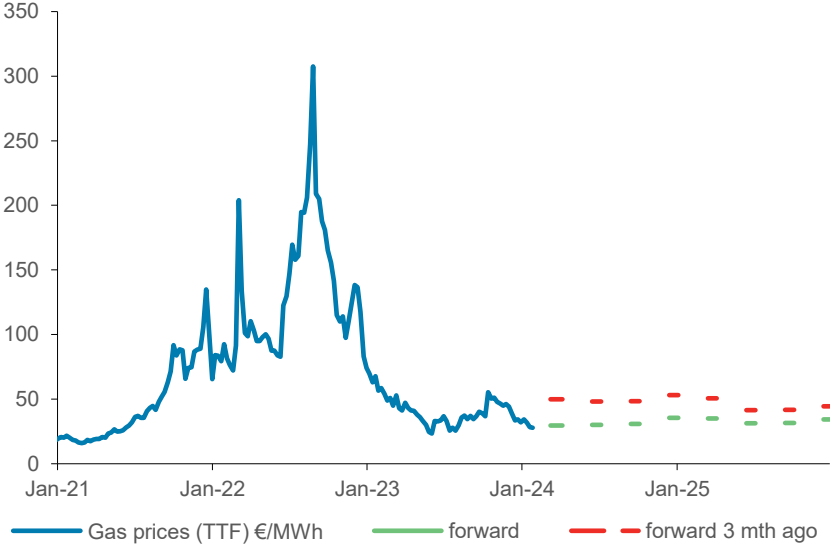
Sources: BLS, Macrobond, BNP Paribas

Sources: Eurostat, Macrobond, BNP Paribas

- We see US inflation closer to 2.5% in H2 in the US, undershooting 2% for the Eurozone this summer
- But core service prices hold the key for reaching central banks’ inflation targets on a sustainable basis

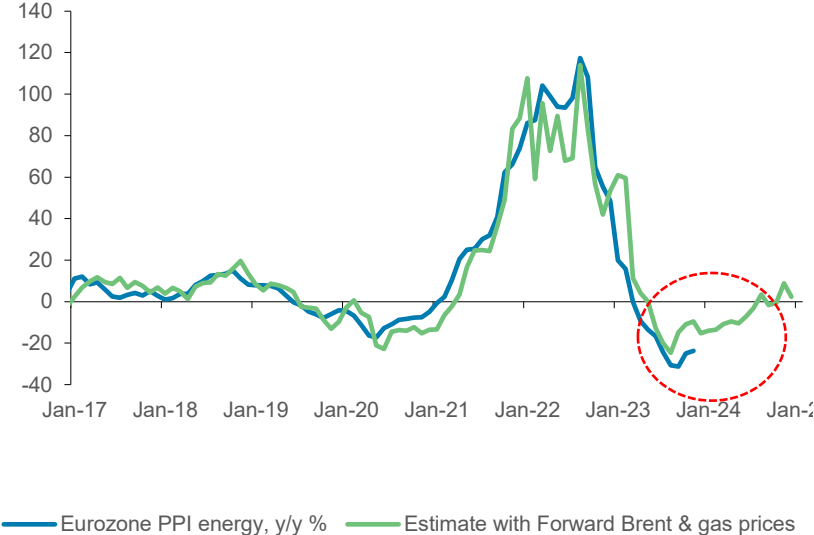
Counter energy price shock

Falling gas prices



Sources: Bloomberg, BNP Paribas

Decline in energy prices has further to go

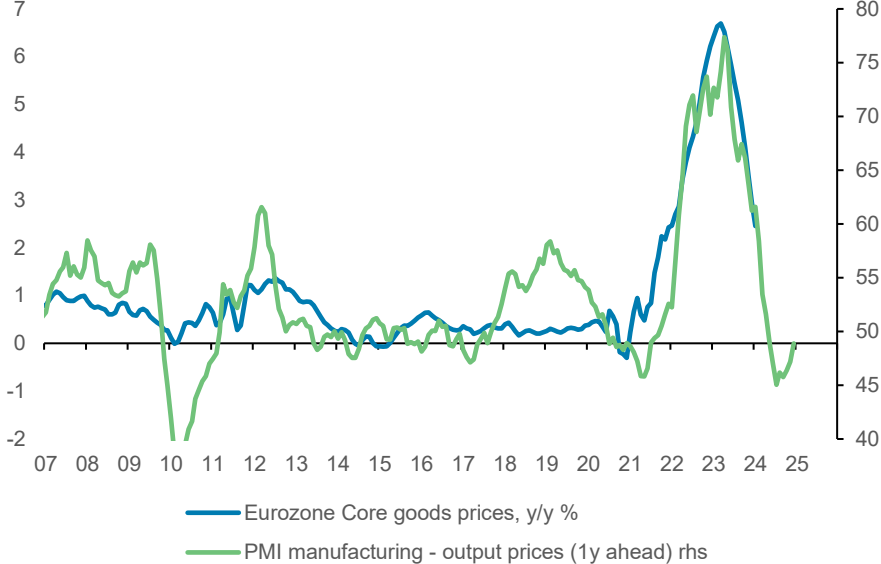


Sources: Eurostat, Macrobond, BNP Paribas

- Gas prices moved down on the back of high gas storage & rising renewable energy production.
- Pass through from energy prices could be a strong driver of lower inflation this year, with potential downside surprises in food prices.

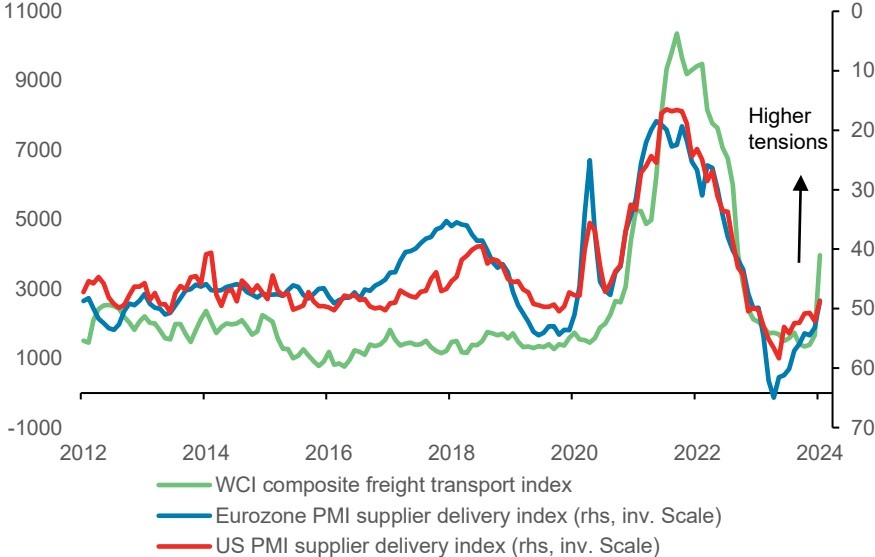
Easing supply chain pressures ... for now

Supply chain healing impact still at work



Sources: S&P global, Eurostat, Macrobond, BNP Paribas

But risk could be building up for end of year

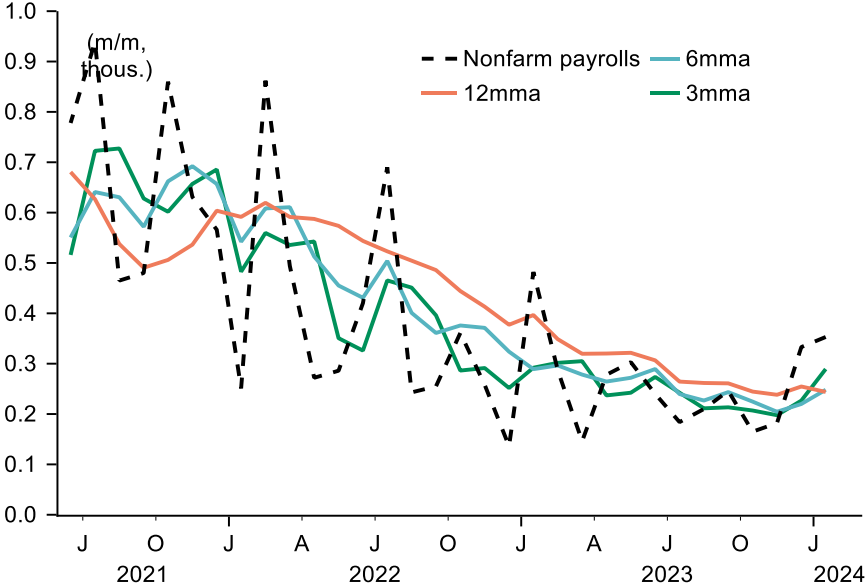


Sources: S&P global, Eurostat, Macrobond, BNP Paribas

- Core goods disinflation should continue to play in H1 2024.
- Rising shipping costs pose an upside risk to inflation later in 2024 or 2025

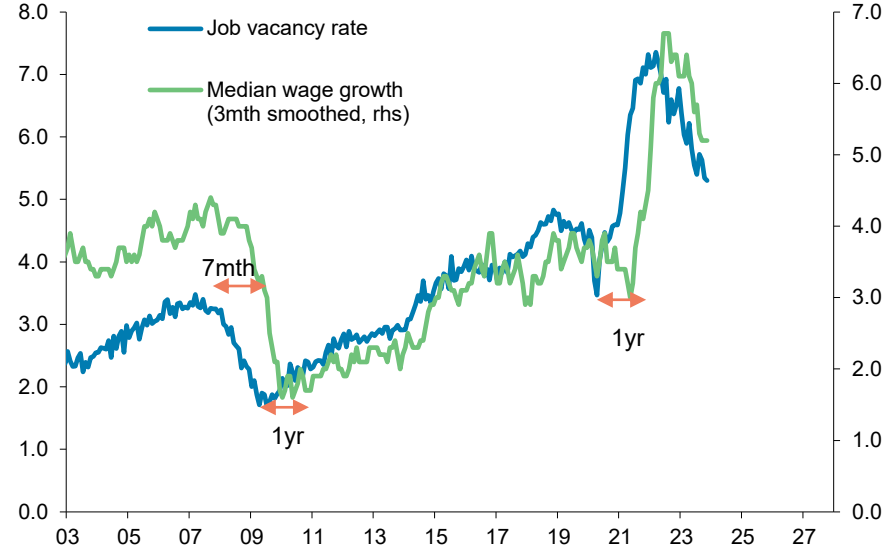
US: Further rebalancing in the labour market needed

Hiring momentum no longer decelerating



Sources: BLS, Macrobond, BNP Paribas

Wage growth, still elevated

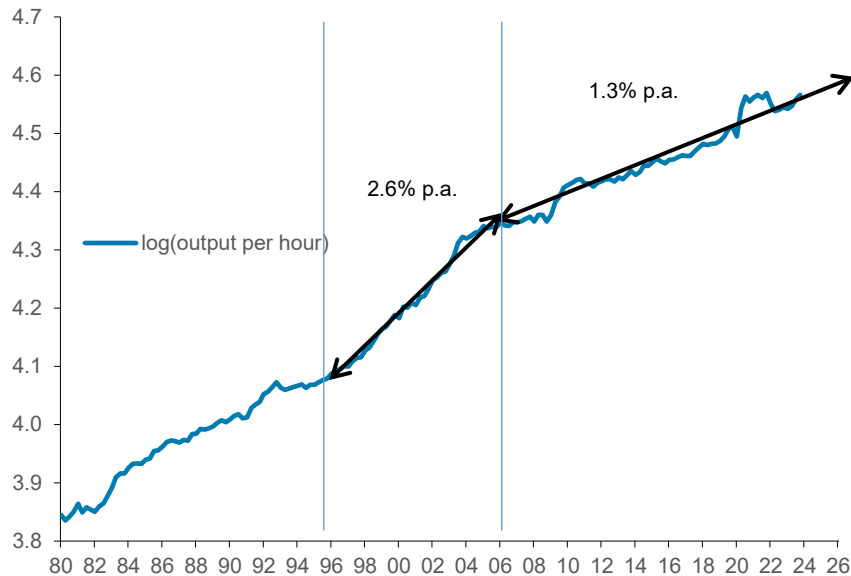


Sources: BLS, Macrobond, BNP Paribas

- More adjustment is required to cool down wage growth to levels consistent with 2% inflation.

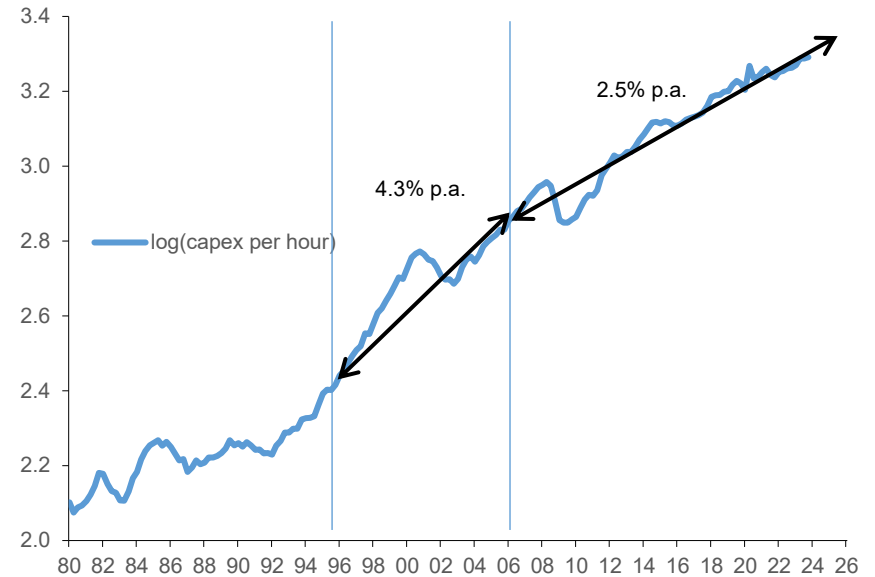
US: The catch-up in supply may be over

Productivity trends



Sources: BEA, Macrobond, BNP Paribas

Capex trends

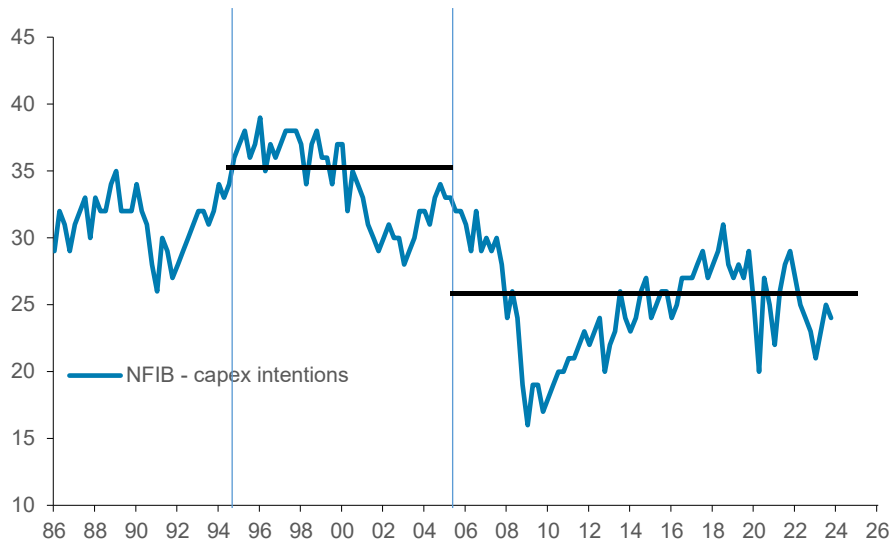


Sources: BEA, Macrobond, BNP Paribas

- The recent pick-up in productivity may only be a catch-up with trends.
- The recent capex cycle has been in line with the 2006-2019 trends.

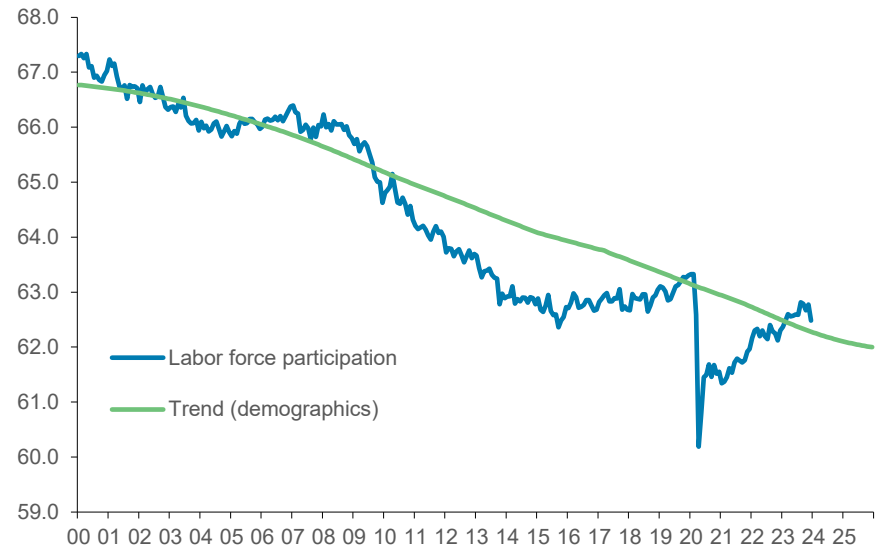
US: The catch-up in supply may be over

Subdued capex trends in small companies



Sources: NFIB, Macrobond, BNP Paribas

Little upside in labour force participation



Sources: CBO, Macrobond, BNP Paribas

- No signs of capex boom within small companies.
- The labour participation rate seems to have little upside from here.

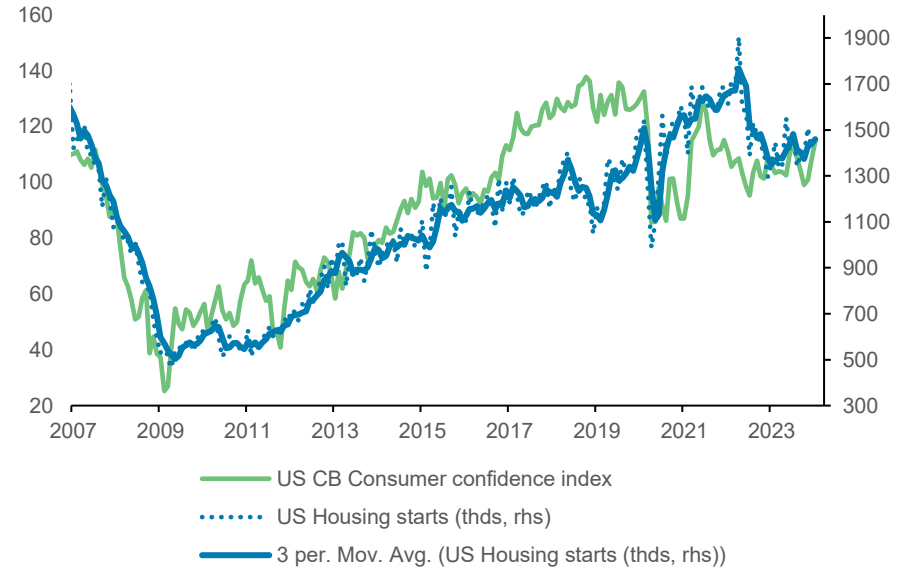
US rate cuts: Not so fast

Residential investment, less a drag on growth



Sources: BEA, NAHB, Macrobond, BNP Paribas

Sentiment in housing has reached a bottom?

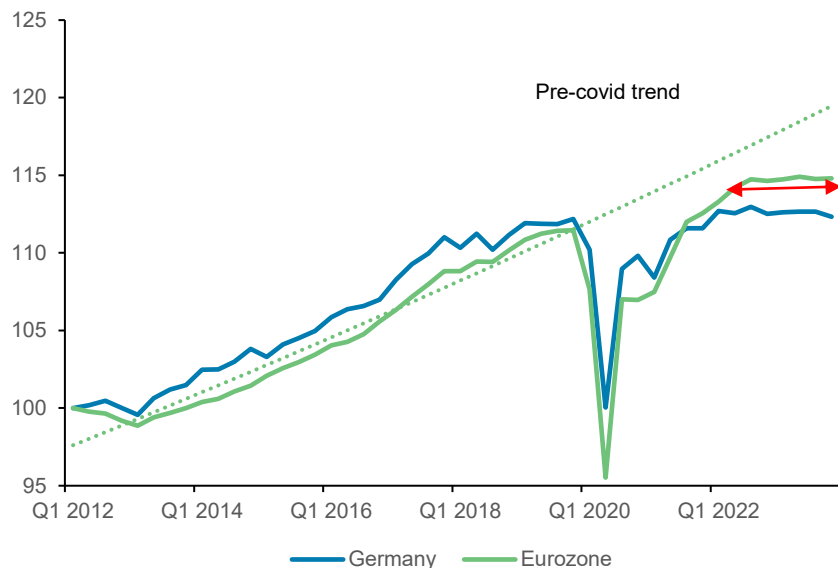


Sources: Census, Conference Board, Macrobond, BNP Paribas

- 10-year rates at 4% could still trigger some rebound in housing demand.

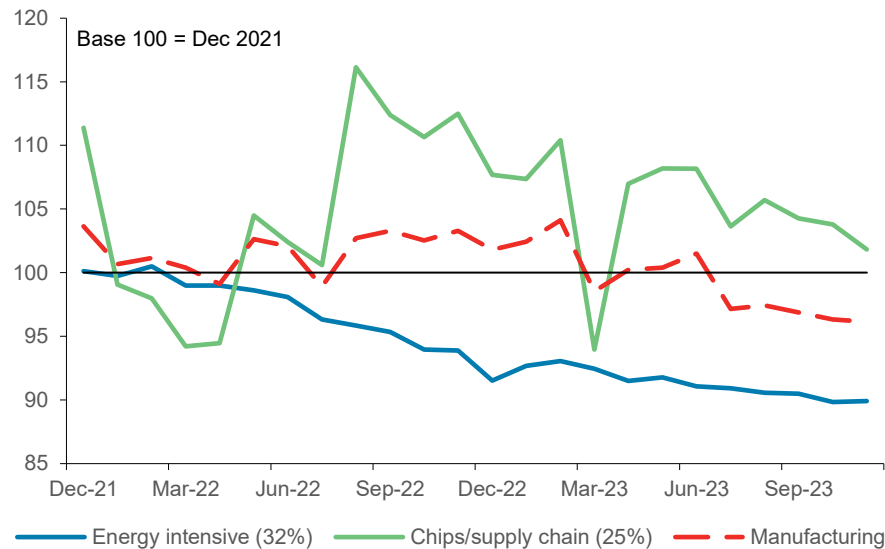
Eurozone: from stagnation...

Stagnant activity



Sources: Eurostat, Macrobond, BNP Paribas forecasts

Sharp decline in high-energy intensive production

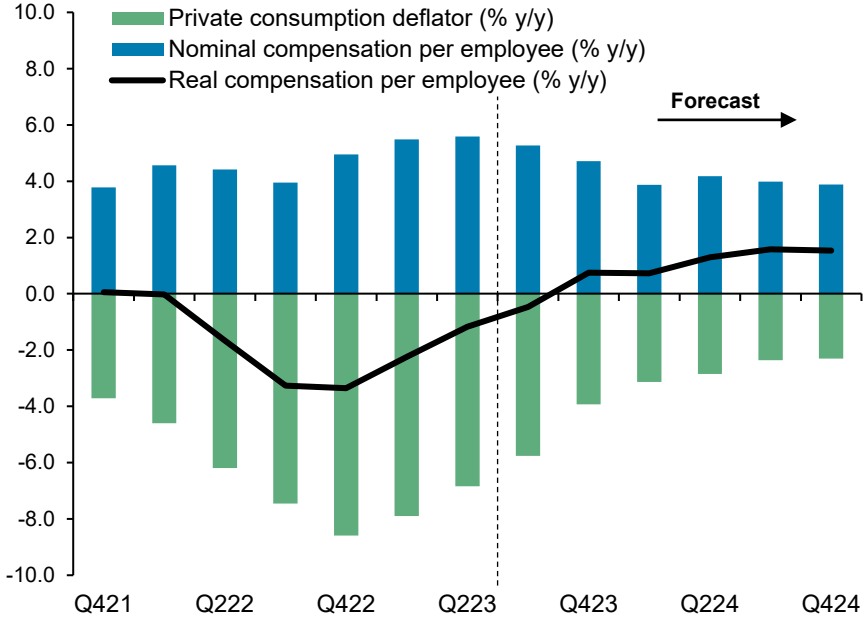


Sources: Eurostat, Macrobond, BNP Paribas

- Eurozone GDP growth has been flat since Q4 2022.
- Higher energy prices dampen activity in high-energy intensive industries.
- Germany was a drag vs. peripheral countries.

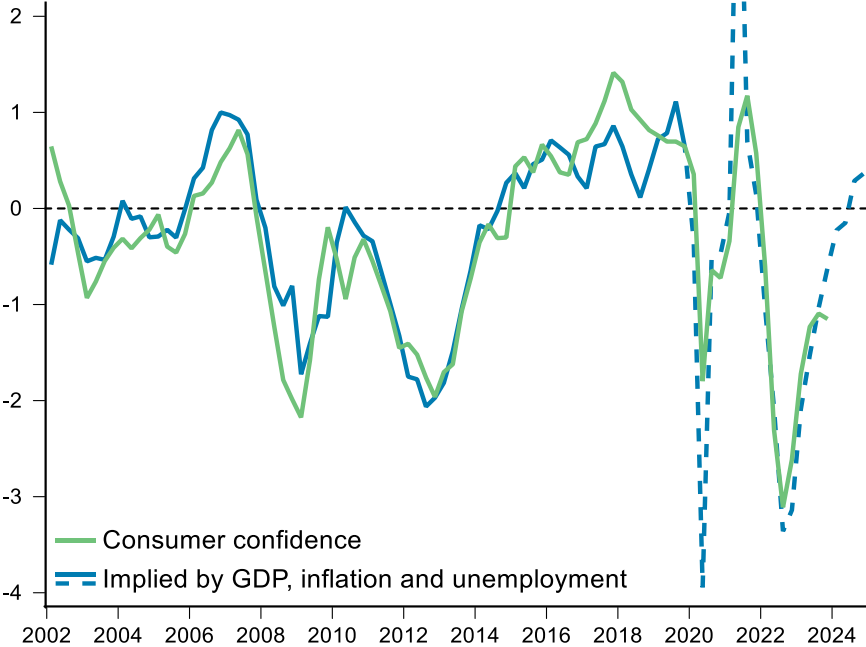
Eurozone: ... to gradual recovery

Real wage growth turning positive



Sources: Eurostat, Macrobond, BNP Paribas forecasts

Consumer confidence recovering

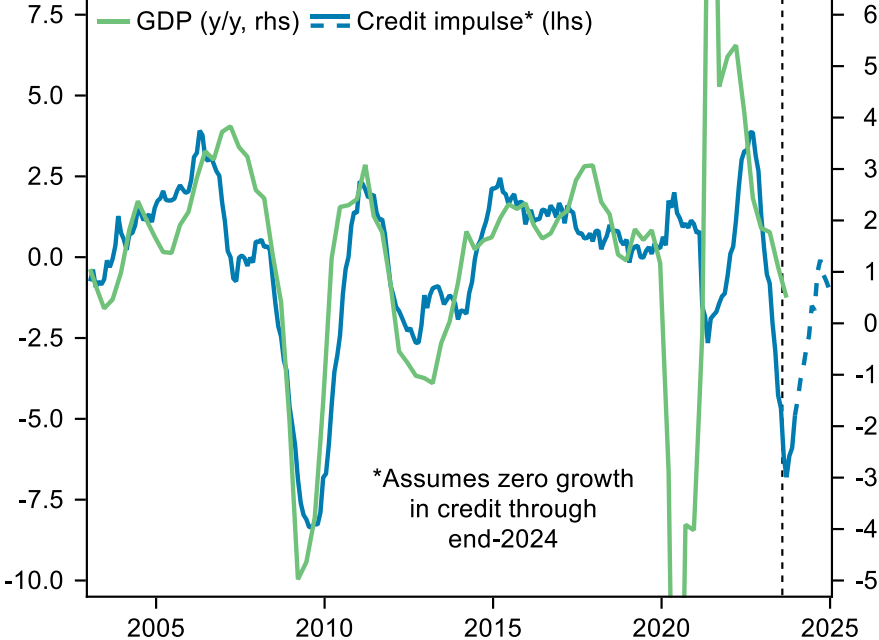


Sources: Eurostat, Macrobond, BNP Paribas

- We expect Eurozone growth to pick up from spring as various shocks dissipate.
- The main driver will be the recovery in real wage growth, due to lower energy inflation.

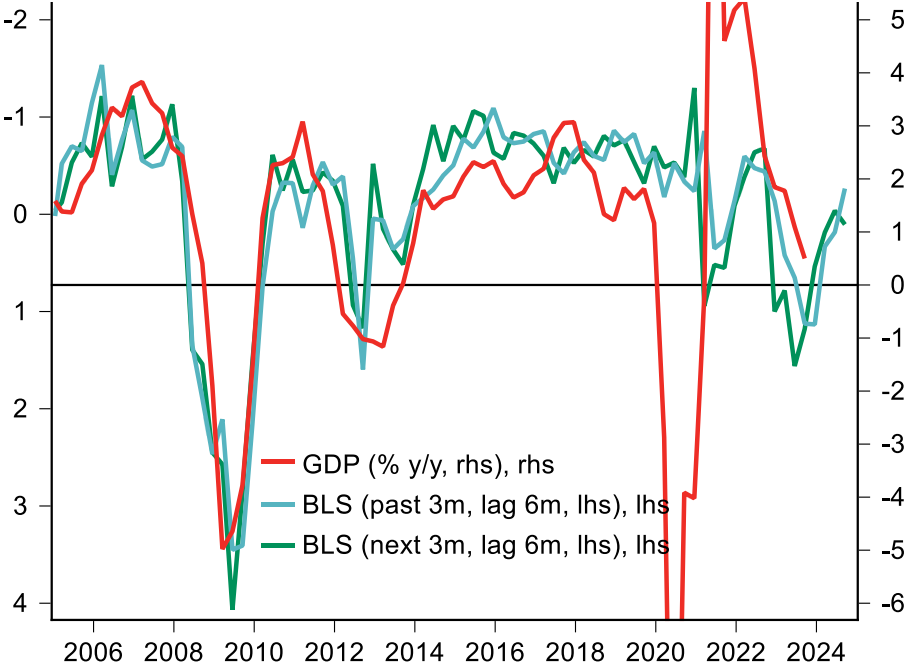
Eurozone: ECB cuts to ease financial conditions

Credit flows have been stabilizing



Sources: Eurostat, Macrobond, BNP Paribas forecasts

Banks' credit conditions on the mend

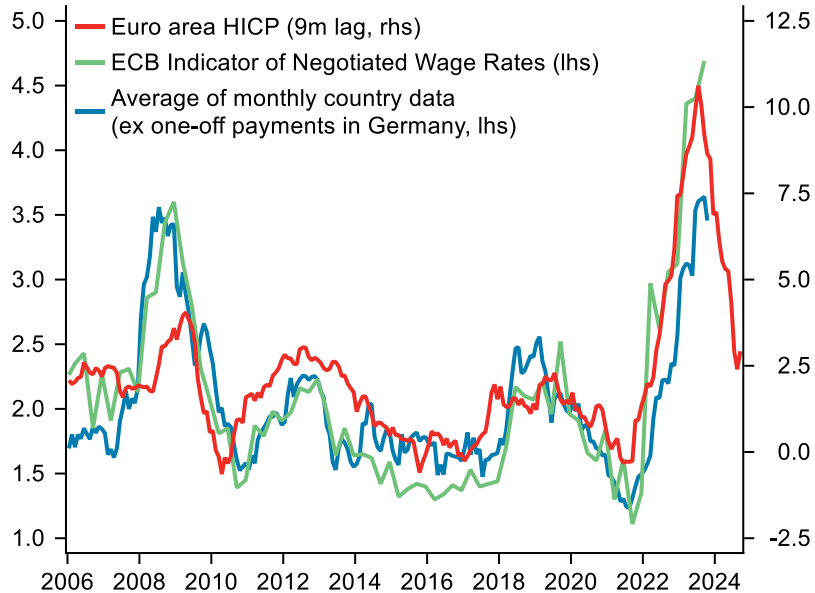


Sources: ECB, Eurostat, Macrobond, BNP Paribas

- We think the peak impact of monetary tightening will come soon.
- Financial conditions are likely to ease in anticipation of the first ECB's rate cut in April 2024.

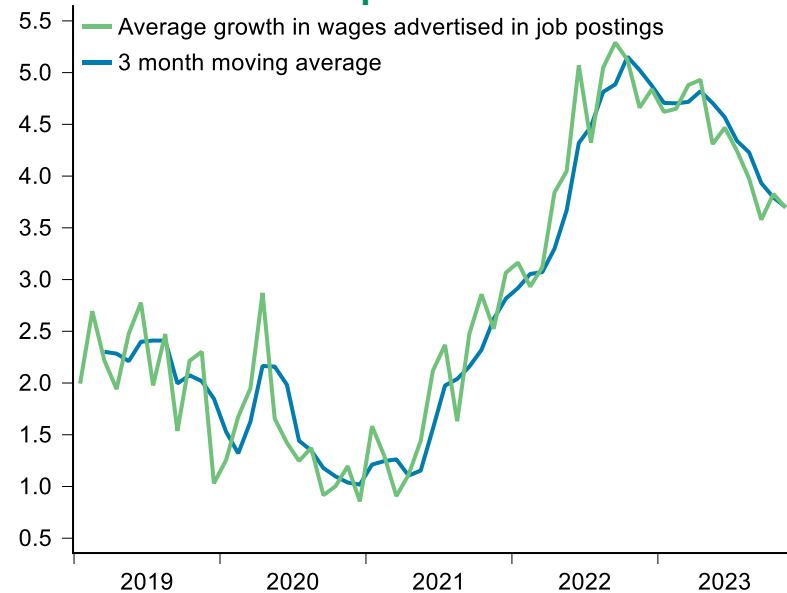
Eurozone: Wage pressure near peak

Negotiated wage growth should be near a peak,



Note: Blue line is GDP weighted average of Germany, Italy, Spain, Austria and Netherlands.
Sources: ECB, Eurostat, Macrobond, BNP Paribas

Survey measures point to softening in wage pressures

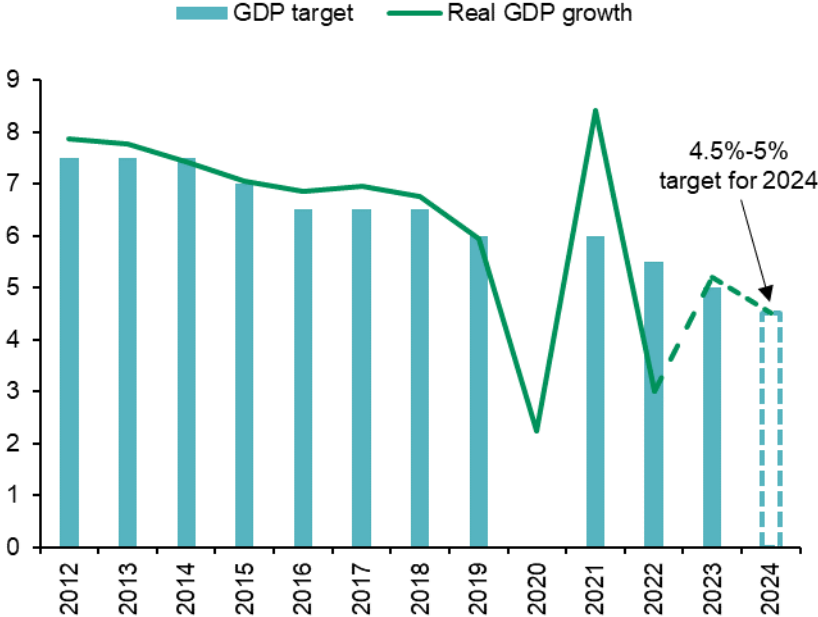


Sources: Indeed, Macrobond, BNP Paribas

- According to high-frequency data, wage growth has peaked or at least should be close to its peak.
- In a tight labour market, the risk of pending wage catch up could still not be excluded.

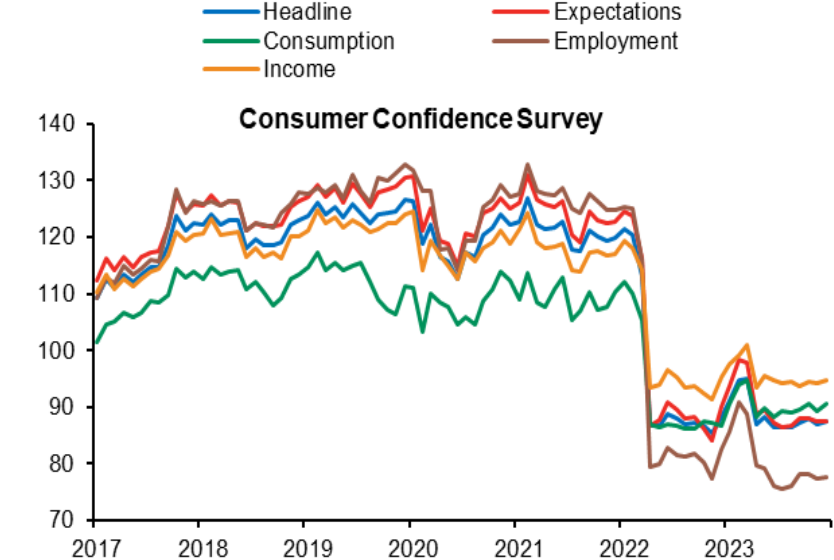
China: Growth capped by structural headwinds

Growth target vs. realized growth



Sources: NBP, BNP Paribas estimate

No pickup in confidence

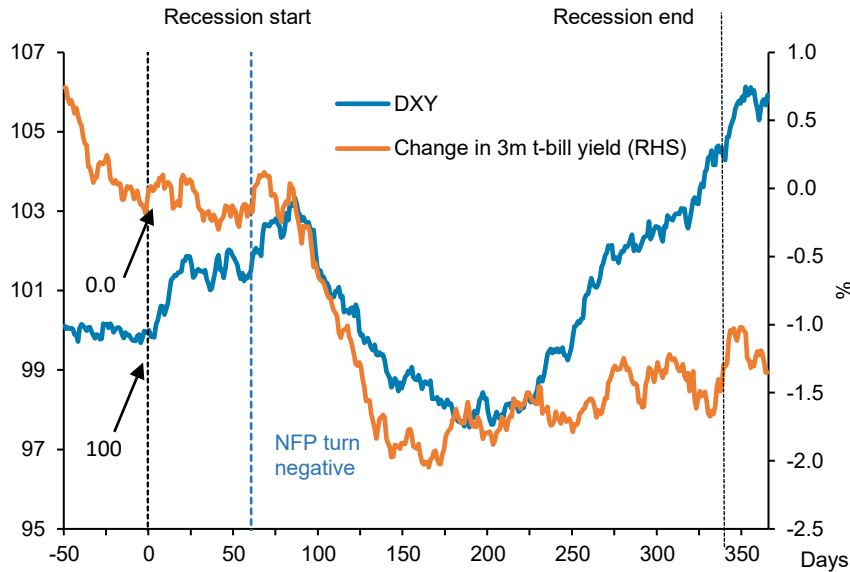


Sources: NBS, BNP Paribas

- We expect 4.5% Chinese growth in 2024, which we think is below potential.
- More structural reforms would be required to unlock the potential of the economy.

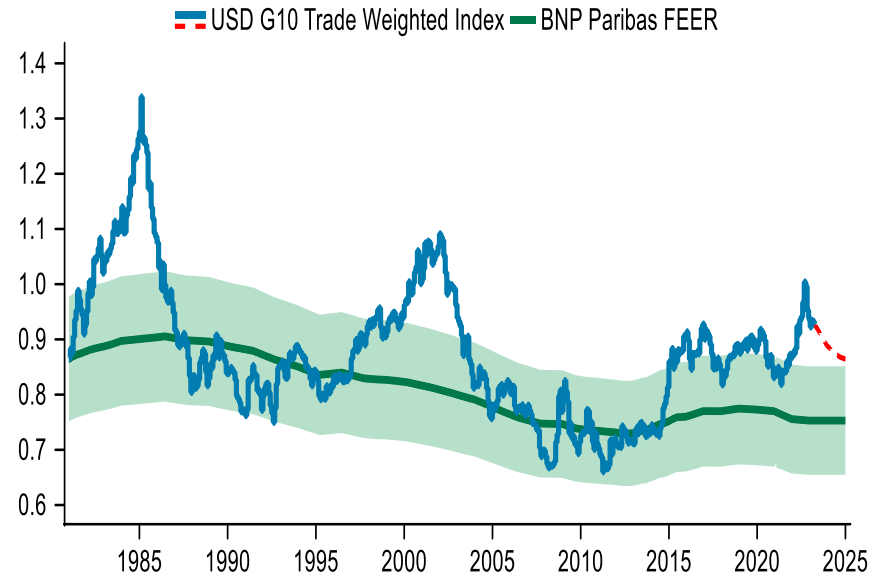
USD: Secular decline to continue

The USD tends to sell off when the Fed cuts



Recession start and end are those defined by NBER. The above shows averages for recession start and end dates, DXY performance, 3m T-bill yield performance and payrolls turning from positive to negative across 7 recessions since 1973. See [Business Cycle Dating | NBER](#).
Sources: Bloomberg, BNP Paribas

The USD remains significantly overvalued



BNP Paribas FEER is our measure of a currency's long-term fair value
Source: BNP Paribas

- We expect EURUSD at 1.15 in Q4 2024.

Our main messages

- 1) The US will slow below trend but avoid a recession in 2024.
- 2) The Eurozone will recover gradually from Spring.
- 3) The Chinese economy has passed its trough but will lack momentum into 2024.
- 4) Slower GDP growth should push inflation lower for now.
- 5) Central banks will start cutting rates from Spring, with the exception of Japan.
- 6) We expect yield curves to steepen and the USD to weaken, largely from Q3 onwards.

GDP and inflation forecasts



Our up-to-date economic forecasts are always available on the Markets 360 website.

BNP Paribas GDP growth forecasts											
Developed Markets											
	ANNUAL GROWTH (% y/y)			QUARTERLY GROWTH (% q/q)							
	2023	2024	2025	2023	2023	2023	2023	2024	2024	2024	2024
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
US	2.5	2.0	1.4	0.6	0.5	1.2	0.8	0.4	0.1	0.1	0.3
Eurozone	0.5	0.6	1.6	0.1	0.1	-0.1	-0.1	0.1	0.3	0.4	0.4
Germany	-0.1	0.3	1.3	0.0	0.1	-0.1	-0.3	0.0	0.2	0.3	0.4
France	0.8	0.6	1.4	0.1	0.6	-0.1	0.0	0.1	0.2	0.3	0.4
Italy	0.7	0.9	1.5	0.6	-0.4	0.1	0.1	0.2	0.4	0.4	0.4
Spain	2.4	1.5	2.1	0.6	0.4	0.3	0.3	0.2	0.5	0.6	0.6
China	5.2	4.5	4.3	2.3	0.5	1.3	1.1	1.3	0.9	1.1	1.2
Japan	2.1	0.8	0.9	1.2	0.9	-0.7	0.4	0.2	0.3	0.4	0.3
UK	0.3	-0.1	1.1	0.3	0.0	-0.1	-0.1	-0.1	0.0	0.1	0.2

Source: National statistical agencies, BNP Paribas forecasts

BNP Paribas consumer price inflation forecasts											
Developed Markets											
	ANNUAL GROWTH (% y/y)			QUARTERLY GROWTH (% q/q)							
	2023	2024	2025	2023	2023	2023	2023	2024	2024	2024	2024
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
US	4.1	2.7	2.3	5.8	4.0	3.5	3.2	3.0	2.7	2.5	2.6
Eurozone	5.4	2.0	1.9	8.0	6.2	5.0	2.7	2.4	2.0	1.7	1.8
Germany	6.1	2.0	2.1	8.7	6.9	5.8	3.0	2.5	1.9	1.7	1.8
France	5.7	2.2	1.6	7.0	6.1	5.5	4.2	2.9	2.2	2.1	1.8
Italy	6.0	1.4	2.0	9.5	7.8	5.8	1.0	1.1	1.3	1.4	1.7
Spain	3.4	1.8	1.9	5.0	2.8	2.6	3.3	2.5	2.1	1.1	1.3
China	0.4	1.5	1.7	1.3	0.1	-0.1	0.1	1.3	1.5	1.5	1.8
Japan	3.2	2.1	1.9	3.6	3.4	3.1	2.9	2.3	2.2	2.0	1.8
UK	7.4	2.2	2.3	10.2	8.4	6.7	4.4	3.8	1.6	1.6	1.8

(1) Q1, Q2 and Q3 2023 data are actual. (2) India's annual forecasts are for the fiscal year (April–March).

Sources: National statistical agencies, BNP Paribas forecasts

[Markets 360 team](#)

Policy rate and exchange rate forecasts



Our up-to-date economic forecasts are always available on the Markets 360 website.

BNP Paribas end-period policy rate forecasts (%) Developed Markets

	YEAR END			QUARTER END							
	2023	2024	2025	2023	2023	2023	2023	2024	2024	2024	2024
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
US	5.50	4.00	2.75	5.00	5.25	5.50	5.50	5.50	5.00	4.50	4.00
Eurozone	4.00	2.75	2.50	3.00	3.50	4.00	4.00	4.00	3.50	3.00	2.75
China	2.50	2.25	2.15	2.75	2.65	2.50	2.50	2.35	2.25	2.25	2.25
Japan	-0.10	0.25	0.75	-0.10	-0.10	-0.10	-0.10	0.10	0.10	0.25	0.25
UK	5.25	4.25	3.00	4.25	5.00	5.25	5.25	5.25	5.00	4.75	4.25

Notes: US rate is upper bound of fed funds target range

Source: National statistical agencies, BNP Paribas forecasts

BNP Paribas end-period FX forecasts

	Spot (12 Jan)	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2025
EURUSD	1.10	1.10	1.12	1.14	1.15	1.18
EURJPY	159	160	158	157	155	153
GBPUSD	1.28	1.26	1.29	1.31	1.32	1.36
USDJPY	145	145	141	138	135	130
AUDUSD	0.67	0.66	0.67	0.69	0.70	0.70
USDCNY	7.17	7.15	7.10	7.10	7.00	6.90
USDBRL	4.85	4.90	4.80	4.70	4.60	4.50
USDMXN	16.9	17.8	17.8	17.7	17.6	17.4
USDZAR	18.6	19.0	19.0	18.8	18.5	18.0
USDIDR	15550	15594	15521	15574	15535	15200

Sources: Bloomberg, BNP Paribas forecasts

[Markets 360 team](#)

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