MACRO - SEPTEMBER 2024

Global outlook

In terms of risk perception, the pendulum is currently swinging from inflation to growth. This led to increased market volatility in early August. Global economic growth will certainly slow in the second half of the year. However, a soft landing remains the most likely scenario. We forecast global GDP growth of around 3%. Inflation is currently falling. However, there is a risk of renewed price pressures towards the end of the year. The contrast between fiscal and monetary policy continues to be a problem.

United States

Second-quarter GDP was better than expected, with an annualized growth rate of 2.8% and healthy domestic demand. The latest data confirm that the Fed's restrictive policy is holding back demand. Business surveys remain mixed. The purchasing managers' index for the manufacturing sector slowed in August to its lowest level of the year, while the services sector is expanding at a steady pace. Despite a marked slowdown in the labor market, most economic data remains fairly good. With the unemployment rate rising for the fourth consecutive month, reaching 4.3%, its highest level for almost three years, the so-called Sahm rule has been respected. Until now, it has always been followed by an American recession. From our point of view, there is no reason for concern at present. Fiscal policy is still very favorable, and even after the November elections, there is little chance of a shift towards fiscal consolidation. The Fed is on the warpath and has made it clear that, as part of its dual mandate, the emphasis is no longer on fighting inflation but on supporting the labor market. The cycle of interest rate cuts will begin in September, and will be followed by further reductions before the end of the year. Given an inflation rate of 2.9% (core inflation of 3.2%), there is considerable room for adjustment in monetary policy.

Euro zone

The Eurozone economy recovered further in the second quarter, according to provisional data. GDP growth in the second quarter was +0.3% on the previous quarter, as in the first three months of the year. While Germany disappointed, Spain and France did better. Despite this good quarterly result, the recovery in the eurozone is running out of steam. Both hard data and leading indicators are weak. Although the purchasing managers' index rose, boosted by the specific effect of the Olympic Games, manufacturing is still struggling. Against a backdrop of record unemployment of 6.5% in the eurozone, consumer confidence is improving, but remains at its post-pandemic peak. Disinflation paused in July: the consumer price index edged up by 2.6%, while the core index remained unchanged at 2.9%. Inflation in services remains persistent at around 4%. Negotiated wages and salaries rose more slowly in the second quarter, to 3.6%. Although the ECB takes its decisions on a meeting-by-meeting basis, recent data - notably the weakening economic momentum - have clearly increased the likelihood of a rate cut in September. Our current view is that the ECB will not be as aggressive as the Fed in its rate cuts. The narrowing of the interest-rate differential with the US dollar is currently one of the main arguments in favor of the euro.

China

China's economic growth is running out of steam, and policymakers need to provide additional support to achieve the 5% GDP target for 2024. The Chinese economy is suffering from a weak labor and consumer market, as well as persistent headwinds in the real estate sector. Leading indicators do not paint a particularly positive picture either: the manufacturing sector continues to shrink, the flow of new orders is weak, consumer confidence is low and the services sector is weakening. Weakening domestic demand needs to be boosted by lower interest rates and other measures to raise incomes, expand social security and stimulate consumption of services. To solve the problem of excessive local government indebtedness, far-reaching plans for financial reinforcement have been put forward. The main element is the transfer of revenues from central government to local authorities. The Chinese economy can still count on exports and industrial production, which are growing at a good pace thanks to public spending. However, due to tensions with its main trading partners, the trend in trade data cannot be extrapolated into the future. Consumer inflation rose slightly in July (+0.5% year-on-year), due to food prices and seasonal effects. Overall, however, the Chinese economy continues to struggle against deflationary trends. Given the persistent weakness, we expect further policy support measures in the months ahead.