Central banks frontload cuts as risks shift

Macroeconomic Analysis

Economics Chartbook: 4Q24

Editors: Chiara Silvestre, Economist (UniCredit, Milan)
Marco Valli, Head of Macroeconomic Analysis (UniCredit, Milan)

Dear subscribers,

In line with our Group's vision to be the bank for Europe's future, we continue to focus on product innovation and service excellence.

Starting from 2 September, these publications will be rebranded "Investment View" and will be provided by UniCredit Group Investment Strategy, a unique global team that supports UniCredit clients' investment strategies and incorporates our research experts. ***This strategic evolution will have no effect on the content of communication*** *to which you have subscribed. However, our macroeconomic and strategy research publications no longer qualify as investment research in accordance with the applicable regulatory requirements.*

This further step is aimed at leveraging internal expertise while delivering additional and unified services to our clients through advisory and portfolio management solutions. Our first-class economic and market analysis will now help to form UniCredit Investment Strategy by providing the internal team's key macro and financial input.

Group Investment Strategy

UniCredit

Central banks frontload cuts as risks shift

- **Global:** We expect global GDP growth of 3.2% this year and next year, below its long-run average. Recent macro data indicate that economic activity is losing traction, with further weakness in manufacturing and signs of a slowdown in services activity. Meanwhile, disinflation has continued or even accelerated and will likely carry on doing so as labor markets cool and services inflation slows. Global central banks have taken note and have already started to adjust their policies to the shifting balance of risks. We continue to think that the global economy is headed for a soft landing as the removal of monetary-policy restraint in western economies, the absence of major imbalances and policy stimulus in China provide support. There are, however, several prominent risks to the outlook, particularly from US election-related uncertainty, commodity prices and developments in the Middle East, and disruption to trade flows.
- **US:** We forecast the US economy to grow by 2.6% this year and 1.3% in 2025. Real personal spending will likely slow as the labor market continues to soften, household savings buffers are exhausted, consumer confidence is low, and credit conditions are still tight. The election on 5 November remains too close to call. Ms. Harris promises continuity while Mr. Trump has pledged a big rise in tariffs, much lower taxes, and lower immigration. Not everything the candidates promise will turn into policy. We have assumed no big changes to tariffs or fiscal policy, aside from an extension of individual tax cuts. Based on this, we see core PCE inflation slowing to 2% yoy in spring 2025 and the Fed cutting rates by another 50bp by year-end and by 125bp next year. Much higher tariffs and looser fiscal policy would push up inflation and cause the Fed to slow the pace of rate cuts and stop sooner.
- **Eurozone:** GDP is set to rise by 0.7% this year and by 1.1% in 2025. We are reducing the path for sequential growth in 2H24 as the manufacturing sector remains in a downturn while domestic demand continues to struggle. Moderation in price pressure is unfolding quickly and we continue to expect services inflation to drive the final leg of disinflation over the course of 2025. The materialization of downside risks to both its growth and inflation forecasts raises the pressure on the ECB to accelerate the return towards a more neutral stance. We now expect the next 100bp of easing to be delivered swiftly, with 25bp cuts at consecutive meetings, probably already starting on 17 October. We expect the deposit rate to reach a terminal level of 2% in September 2025.
- **UK:** We see GDP growth of 0.9% this year and next year. Despite a strong rebound in 1H24, underlying growth remains subdued and fiscal policy looks set to become a headwind when the new government details how it will fill a “black hole” in the Autumn Budget on 30 October. The BoE has said it favors a gradual approach to cutting rates, but we still expect cuts of 25bp per meeting through end-3Q25 as services inflation and wage growth slow quickly next year amid a deteriorating labor market.
- **China:** We confirm our forecast for GDP growth of 4.8% in 2024 but have revised our 2025 forecast upward, to 4.5% from 4.3%, as China’s central government now seems committed to using both fiscal- and monetary-policy levers to ameliorate a weakening economic outlook and rising deflationary risks. Most of the policy measures that have been announced so far are designed to stimulate demand, but weak consumer spending is partly due to fears of households about structural economic problems. Further policy action is likely to be announced soon, but an all-in fiscal stimulus remains unlikely.

TABLE 1: ANNUAL MACROECONOMICS FORECASTS

	GDP (%)			CPI inflation (%) *			Central Bank Rate (EoP)			Government budget balance (% GDP)			General government debt (% GDP)			Current account balance (% GDP)		
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
World	**3.3**	**3.2**	**3.2**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
US	**2.9**	**2.6**	**1.3**	**4.1**	**2.8**	**1.8**	**5.50**	**4.50**	**3.25**	**-8.8**	**-7.4**	**-7.4**	**122.1**	**124.0**	**127.0**	**-3.2**	**-3.5**	**-2.5**
Eurozone	**0.5**	**0.7**	**1.1**	**5.4**	**2.4**	**1.8**	**4.00**	**3.00**	**2.00**	**-3.6**	**-3.0**	**-2.8**	**88.6**	**88.3**	**88.2**	**1.6**	**2.1**	**2.3**
Germany	-0.3 **	0.0 **	1.0 **	5.9	2.2	1.5	-	-	-	-2.4	-2.0	-2.0	63.6	63.3	63.7	5.9	6.7	7.0
France	1.1	1.1	1.2	4.9	2.0	1.3	-	-	-	-5.5	-5.8	-5.3	110.6	112.4	113.8	-2.0	-1.5	-1.4
Italy	1.0	0.8	1.1	5.7	1.0	1.8	-	-	-	-7.2	-4.0	-3.5	134.6	136.0	137.6	0.5	1.4	1.6
Spain	2.7	2.7	1.6	3.4	2.9	1.6	-	-	-	-3.6	-3.1	-3.0	107.7	105.8	105.2	2.6	2.3	2.1
Austria	-1.0	-0.5	1.0	7.8	3.1	2.2	-	-	-	-2.6	-3.2	-3.0	78.6	80.1	81.3	1.3	2.6	2.4
Greece	2.0	2.3	1.7	3.5	2.6	1.8	-	-	-	-1.6	-1.1	-1.0	161.9	153.1	146.8	-7.3	-7.0	-5.8
Portugal	2.5	1.8	1.5	4.3	2.2	1.6	-	-	-	1.2	0.5	0.1	99.1	93.9	90.4	1.3	0.9	0.6
CEE																		
Poland	0.2	3.3	3.5	6.2	5.0	4.2	5.75	5.75	5.00	-5.1	-5.7	-5.5	49.8	54.2	58.9	1.6	0.6	0.8
Czechia	0.0	1.0	2.6	6.9	3.0	2.7	6.75	4.00	3.50	-3.5	-2.8	-2.6	44.0	43.3	43.4	0.4	1.4	2.3
Hungary	-0.9	1.5	2.5	5.5	4.3	3.7	10.75	6.25	5.50	-6.7	-4.9	-4.3	73.5	73.4	73.1	0.3	0.4	0.6
Turkey	5.1	3.0	2.8	64.8	44.0	26.0	42.50	50.00	28.00	-6.4	-5.9	-4.5	29.5	26.7	25.9	-4.1	-1.1	-1.2
Other Europe																		
UK	0.3	0.9	0.9	7.3	2.5	1.9	5.25	4.50	2.75	-4.9	-4.5	-3.5	104.3	106.5	107.5	-2.0	-3.0	-2.7
Sweden	-0.1	0.7	1.6	6.0	2.0	1.5	4.00	2.50	1.50	-0.3	-0.5	-0.3	31.2	32.0	31.0	6.5	6.0	5.3
Norway	1.1 ***	0.6 ***	1.0 ***	5.5	3.2	2.1	4.50	4.50	3.50	14.9	14.0	12.1	44.3	42.0	41.0	23.1	16.8	14.0
Switzerland	0.7	1.4	1.3	2.1	1.2	0.5	1.75	0.75	0.50	0.6	0.5	0.3	26.0	25.5	25.2	6.5	7.5	8.0
Others																		
China	5.2	4.8	4.5	0.2	0.6	1.6	3.45****	3.35****	3.15****	-7.1 *****	-7.4 *****	-7.6 *****	83.6	89.0	92.9	1.8	1.3	1.2
Japan	1.7	0.1	1.0	3.2	2.4	1.8	-0.10	0.35	0.65	-5.2	-4.3	-3.5	252	252	250	3.6	3.7	3.6

Source: UniCredit Group Investment Strategy

* Annual averages, except for CEE countries, for which end-of-period numbers are used.
** Non-wda figures. Adjusted for working days: -0.1% (2023), 0.1% (2024) and 1.1% (2025).
*** Mainland economy figures. Overall GDP: 0.5% (2023), 0.7% (2024), 1.2% (2025).
**** One-year loan prime rate.
***** Official budgetary balances are adjusted according to IMF methodology to include government-managed funds, state-administered SOE funds, adjustment to the stabilization fund, and social security fund.

This page is intentionally left blank.

TABLE 2: QUARTERLY GDP AND CPI FORECASTS

REAL GDP (% QOQ, SA)

	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
US (non-annualized)	**1.1**	**0.8**	**0.4**	**0.7**	**0.5**	**0.2**	**0.2**	**0.3**	**0.4**	**0.4**
Eurozone	**0.0**	**0.1**	**0.3**	**0.2**	**0.2**	**0.2**	**0.3**	**0.3**	**0.4**	**0.4**
Germany	0.2	-0.4	0.2	-0.1	0.1	0.2	0.3	0.3	0.4	0.4
France	0.1	0.4	0.3	0.2	0.4	0.1	0.3	0.3	0.4	0.4
Italy	0.3	0.1	0.3	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Spain	0.7	0.7	0.9	0.8	0.4	0.4	0.4	0.4	0.5	0.5
Austria	-0.4	0.1	0.1	-0.4	0.0	0.2	0.3	0.3	0.4	0.4
CEE										
Poland (% yoy)	0.8	1.4	1.4	4.4	3.5	3.9	4.1	3.6	3.5	2.9
Czechia	-0.4	0.3	0.4	0.3	0.5	0.5	0.7	0.8	0.7	0.8
Hungary (% yoy)	-0.4	0.0	1.1	1.5	0.9	2.3	2.7	2.7	2.5	2.0
Turkey (% yoy)	6.5	4.6	5.3	2.5	2.3	2.1	0.0	1.8	3.6	5.1
Other Europe										
UK	-0.1	-0.3	0.7	0.5	0.3	0.1	0.1	0.3	0.3	0.3
Sweden	0.3	-0.2	0.8	-0.3	0.3	0.3	0.4	0.5	0.5	0.6
Norway (mainland)	0.0	0.3	0.1	0.1	0.2	0.2	0.2	0.3	0.3	0.3
Switzerland	0.2	0.3	0.5	0.7	0.2	0.2	0.3	0.3	0.4	0.4

CPI INFLATION (% YOY)

	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
US	**3.5**	**3.2**	**3.2**	**3.2**	**2.6**	**2.3**	**1.8**	**1.6**	**1.8**	**2.1**
Eurozone	**5.0**	**2.7**	**2.6**	**2.5**	**2.2**	**2.1**	**1.9**	**1.7**	**1.8**	**1.9**
Germany	5.6	3.6	2.5	2.3	2.0	2.1	1.7	1.3	1.4	1.6
France	4.7	3.7	2.8	2.2	1.8	1.2	1.2	1.2	1.3	1.6
Italy	5.6	1.0	0.9	0.8	1.0	1.3	1.5	1.8	1.8	1.9
Spain (HICP)	2.6	3.3	3.2	3.6	2.3	2.3	1.9	1.2	1.2	1.3
Austria	6.8	5.4	4.3	3.3	2.5	2.2	2.3	2.3	2.1	2.1
CEE*										
Poland	8.2	6.2	2.0	2.6	4.9	5.0	6.0	5.4	4.4	4.2
Czechia	6.9	6.9	2.0	2.0	2.4	3.0	2.5	3.2	2.8	2.7
Hungary	12.2	5.5	3.6	3.7	3.0	4.3	3.7	4.6	3.6	3.7
Turkey	61.5	64.8	68.5	71.6	48.3	44.0	36.3	32.0	27.3	26.0
Other Europe										
UK	6.7	4.2	3.5	2.1	2.1	2.4	2.2	1.8	1.9	1.8
Sweden	5.0	3.3	2.7	2.0	1.7	1.7	1.7	1.4	1.4	1.7
Norway	4.5	4.5	4.4	3.1	2.7	2.7	2.7	2.2	1.8	1.8
Switzerland	1.6	1.6	1.2	1.4	1.1	1.0	0.7	0.3	0.5	0.6

*CEE CPI figures are end-of-period.

Source: UniCredit Group Investment Strategy

TABLE 3: OIL FORECASTS

	Current	4Q24	1Q25	2Q25	3Q25	4Q25
Brent (USD/bbl, average)	72	72	75	75	78	78

Source: Bloomberg, UniCredit Group Investment Strategy

TABLE 4: COMPARISON OF ANNUAL GDP AND CPI FORECASTS

GDP (%)

	UniCredit			IMF *** (Apr/Jul-24)			European Commission (May-24)			OECD (May/Sep-24) ****		
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
World	**3.3**	**3.2**	**3.2**	**3.3**	**3.2**	**3.3**	**3.1**	**3.2**	**3.3**	**3.1**	**3.2**	**3.2**
US	**2.9**	**2.6**	**1.3**	**2.5**	**2.6**	**1.9**	**2.5**	**2.4**	**2.1**	**2.5**	**2.6**	**1.6**
Eurozone	**0.5**	**0.7**	**1.1**	**0.5**	**0.9**	**1.5**	**0.4**	**0.8**	**1.4**	**0.5**	**0.7**	**1.3**
Germany	-0.3 *	0.0 *	1.0 *	-0.2	0.2	1.3	-0.3	0.1	1.0	-0.1	0.1	1.0
France	1.1	1.1	1.2	1.1	0.9	1.3	0.7	0.7	1.3	1.1	1.1	1.2
Italy	1.0	0.8	1.1	0.9	0.7	0.9	0.9	0.9	1.1	1.0	0.8	1.1
Spain	2.7	2.7	1.6	2.5	2.4	2.1	2.5	2.1	1.9	2.5	2.8	2.2
Austria	-1.0	-0.5	1.0	-0.7	0.4	1.6	-0.8	0.3	1.6	-0.7	0.2	1.5
Greece	2.0	2.3	1.7	2.0	2.0	1.9	2.0	2.2	2.3	2.0	2.0	2.5
Portugal	2.5	1.8	1.5	2.3	1.7	2.1	2.3	1.7	1.9	2.3	1.6	2.0
CEE												
Poland	0.2	3.3	3.5	0.2	3.1	3.5	0.2	2.8	3.4	0.1	2.9	3.4
Czechia	0.0	1.0	2.6	-0.4	0.7	2.0	-0.3	1.2	2.8	-0.2	1.1	2.4
Hungary	-0.9	1.5	2.5	-0.9	2.2	3.3	-0.9	2.4	3.5	-0.9	2.1	2.8
Turkey	5.1	3.0	2.8	4.5	3.1	3.2	4.5	3.5	3.8	5.1	3.2	3.1
Other Europe												
UK	0.3	0.9	0.9	0.1	0.7	1.5	0.1	0.5	1.4	0.1	1.1	1.2
Sweden	-0.1	0.7	1.6	-0.2	0.2	2.2	-0.2	0.2	2.1	0.0	0.6	2.6
Norway	1.1 **	0.6 **	1.0 **	0.5	1.5	1.9	0.5	0.8	1.4	0.5	0.8	1.8
Switzerland	0.7	1.4	1.3	0.8	1.3	1.4	1.3	1.5	1.8	0.8	1.1	1.4
Others												
China	5.2	4.8	4.5	5.2	5.0	4.5	5.2	4.8	4.6	5.2	4.9	4.5
Japan	1.7	0.1	1.0	1.9	0.7	1.0	1.9	0.8	0.8	1.7	-0.1	1.4

CPI INFLATION (%) *****

	UniCredit			IMF (Apr-24)			European Commission (May-24)			OECD (May/Sep-24)		
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
US	**4.1**	**2.8**	**1.8**	**4.1**	**2.9**	**2.0**	**4.1**	**2.9**	**2.4**	**3.7**	**2.4**	**1.8**
Eurozone	**5.4**	**2.4**	**1.8**	**5.4**	**2.4**	**2.1**	**5.4**	**2.5**	**2.1**	**5.4**	**2.4**	**2.1**
Germany	5.9	2.2	1.5	6.0	2.4	2.0	6.0	2.4	2.0	6.0	2.4	2.0
France	4.9	2.0	1.3	5.7	2.4	1.8	5.7	2.5	2.0	5.7	2.4	1.9
Italy	5.7	1.0	1.8	5.9	1.7	2.0	5.9	1.6	1.9	5.9	1.3	2.2
Spain	3.4	2.9	1.6	3.4	2.7	2.4	3.4	3.1	2.3	3.4	3.0	2.1
Austria	7.8	3.1	2.2	7.7	3.9	2.8	7.7	3.6	2.8	7.7	3.7	2.9
Greece	3.5	2.6	1.8	4.2	2.7	2.1	4.2	2.8	2.1	4.2	3.0	2.3
Portugal	4.3	2.2	1.6	5.3	2.2	2.0	5.3	2.3	1.9	5.3	2.4	2.0
CEE												
Poland	6.2	5.0	4.2	11.4	5.0	5.0	10.9	4.3	4.2	11.5	3.9	4.5
Czechia	6.9	3.0	2.7	10.7	2.1	2.0	12.0	2.5	2.2	10.7	2.4	2.1
Hungary	5.5	4.3	3.7	17.1	3.7	3.5	17.0	4.1	3.7	17.1	4.0	3.9
Turkey	64.8	44.0	26.0	53.9	59.5	38.4	53.9	57.4	31.5	53.9	56.0	29.1
Other Europe												
UK	7.3	2.5	1.9	7.3	2.5	2.0	6.8	2.4	2.0	7.3	2.7	2.4
Sweden	6.0	2.0	1.5	5.9	2.6	2.0	5.9	2.0	1.8	8.5	3.6	2.1
Norway	5.5	3.2	2.1	5.5	3.3	2.6	5.5	3.7	2.6	5.5	3.9	2.8
Switzerland	2.1	1.2	0.5	2.1	1.5	1.2	2.1	1.7	1.5	2.1	1.5	1.4
Others												
China	0.2	0.6	1.6	0.2	1.0	2.0	-	-	-	0.3	0.3	1.0
Japan	3.2	2.4	1.8	3.3	2.2	2.1	3.3	2.8	2.2	3.3	2.5	2.1

*Non-wda figures. Adjusted for working days: -0.1% (2023), 0.1% (2024) and 1.1% (2025); **Mainland economy figures. Overall GDP: 0.5% (2023), 0.7% (2024), 1.2% (2025); ****World Economic Outlook* (April 2024) and *World Economic Outlook Update* (July 2024); *****Economic Outlook* (May 2024) and *Interim Economic Outlook* (September 2024). *****Annual averages, except for CEE countries, for which end-of-period numbers are used.

Source: IMF, EC, OECD, UniCredit Group Investment Strategy

TABLE 5: UNICREDIT INTEREST RATE AND YIELD FORECASTS

	Current	4Q24	1Q25	2Q25	3Q25	4Q25
EMU						
Refi rate	3.65	3.15	2.65	2.40	2.15	2.15
Depo rate	3.50	3.00	2.50	2.25	2.00	2.00
3M Euribor	3.28	**2.75**	2.45	2.20	2.00	**2.00**
Euribor future		*2.75*	*2.22*	*1.94*	*1.82*	*1.80*
2Y Schatz	2.07	**2.10**	2.05	2.00	2.00	**2.00**
fwd		*1.85*	*1.70*	*1.65*	*1.59*	*1.64*
5Y Obl	1.95	2.15	2.10	2.05	2.00	2.00
10Y Bund	2.12	**2.30**	2.30	2.30	2.30	**2.30**
fwd		*2.13*	*2.13*	*2.15*	*2.17*	*2.20*
30Y Bund	2.46	2.65	2.70	2.75	2.75	2.75
2/10	6	20	25	30	30	30
2/5/10	-30	-10	-15	-20	-30	-30
10/30	34	35	40	45	45	45
2Y EUR swap	2.30	2.45	2.40	2.35	2.35	2.35
5Y EUR swap	2.22	2.50	2.45	2.40	2.35	2.35
10Y EUR swap	2.35	2.60	2.60	2.60	2.60	2.60
10Y BTP	3.45	3.70	3.70	3.70	3.80	3.80
US	**Current**	**4Q24**	**1Q25**	**2Q25**	**3Q25**	**4Q25**
Fed fund	5.00	4.50	4.00	3.75	3.50	3.25
3M OIS SOFR	4.59	**4.20**	3.90	3.65	3.40	**3.10**
fwd		*3.95*	*3.46*	*3.23*	*3.03*	*2.83*
2Y UST	3.61	**3.60**	3.55	3.50	3.40	**3.30**
fwd		*3.44*	*3.34*	*3.33*	*3.31*	*3.35*
5Y UST	3.54	3.55	3.55	3.50	3.45	3.40
10Y UST	3.78	**3.80**	3.75	3.70	3.65	**3.60**
fwd		*3.78*	*3.79*	*3.82*	*3.85*	*3.89*
30Y UST	4.11	4.15	4.15	4.10	4.05	4.00
2/10	17	20	20	20	25	30
2/5/10	-30	-30	-20	-20	-15	-10
10/30	34	35	40	40	40	40
2Y USD swap	3.41	3.40	3.40	3.35	3.30	3.20
10Y USD swap	3.31	3.40	3.35	3.35	3.30	3.30
UK						
Key rate	5.00	**4.50**	4.00	3.50	3.00	**2.75**

Spreads	**Current**	**4Q24**	**1Q25**	**2Q25**	**3Q25**	**4Q25**
10Y UST-Bund	165	150	145	140	135	130
10Y BTP-Bund	133	140	140	140	150	150
10Y EUR swap-Bund	23	30	30	30	30	30
10Y USD swap-UST	-47	-40	-40	-35	-35	-30

Forecasts are end-of-period.
Source: Bloomberg, UniCredit Group Investment Strategy

TABLE 6: FX FORECASTS

EUR	Current	4Q24	1Q25	2Q25	3Q25	4Q25	3M	6M	12M
G10									
EUR-USD	1.11	1.11	1.11	1.12	1.12	1.13	1.11	1.11	1.12
EUR-CHF	0.94	0.95	0.96	0.97	0.98	0.99	0.95	0.96	0.98
EUR-GBP	0.83	0.85	0.85	0.87	0.88	0.90	0.85	0.85	0.88
EUR-JPY	160	158	157	155	153	153	158	157	153
EUR-NOK	11.76	11.65	11.60	11.55	11.50	11.45	11.65	11.60	11.50
EUR-SEK	11.30	11.25	11.20	11.15	11.10	11.10	11.25	11.20	11.10
EUR-AUD	1.62	1.63	1.61	1.60	1.60	1.59	1.63	1.61	1.60
EUR-NZD	1.77	1.76	1.73	1.72	1.72	1.71	1.76	1.73	1.72
EUR-CAD	1.50	1.50	1.49	1.49	1.48	1.47	1.50	1.49	1.48
EUR TWI	97.2	97.3	97.4	97.6	97.8	98.1	97.3	97.4	97.8
CEEMEA & CHINA									
EUR-PLN	4.28	4.35	4.39	4.44	4.48	4.50	4.35	4.39	4.48
EUR-HUF	397	400	402	409	411	413	400	402	411
EUR-CZK	25.16	25.00	25.00	24.90	24.80	24.70	25.00	25.00	24.80
EUR-TRY	38.14	41.07	43.57	46.48	47.32	50.29	41.07	43.57	47.32
EUR-CNY	7.82	7.86	7.83	7.86	7.84	7.91	7.86	7.83	7.84

USD	Current	4Q24	1Q25	2Q25	3Q25	4Q25	3M	6M	12M
G10									
EUR-USD	1.11	1.11	1.11	1.12	1.12	1.13	1.11	1.11	1.12
USD-CHF	0.85	0.86	0.86	0.87	0.88	0.88	0.86	0.86	0.88
GBP-USD	1.34	1.31	1.30	1.29	1.27	1.26	1.31	1.30	1.27
USD-JPY	143	142	141	138	137	135	142	141	137
USD-NOK	10.55	10.50	10.45	10.31	10.27	10.13	10.50	10.45	10.27
USD-SEK	10.14	10.14	10.09	9.96	9.91	9.82	10.14	10.09	9.91
AUD-USD	0.69	0.68	0.69	0.70	0.70	0.71	0.68	0.69	0.70
NZD-USD	0.63	0.63	0.64	0.65	0.65	0.66	0.63	0.64	0.65
USD-CAD	1.35	1.35	1.34	1.33	1.32	1.30	1.35	1.34	1.32
USTW$	90.8	95.4	95.1	94.4	94.3	93.4	95.4	95.1	94.3
DXY	100.7	101.2	101.1	100.2	100.3	99.4	101.2	101.1	100.3
CEEMEA & CHINA									
USD-PLN	3.84	3.92	3.95	3.96	4.00	3.98	3.92	3.95	4.00
USD-HUF	356	360	362	365	367	365	360	362	367
USD-CZK	22.60	22.50	22.50	22.20	22.10	21.90	22.50	22.50	22.10
USD-TRY	34.19	37.00	39.25	41.50	42.25	44.50	37.00	39.25	42.25
USD-CNY	7.01	7.08	7.05	7.02	7.00	7.00	7.08	7.05	7.00

Forecasts are end of period.

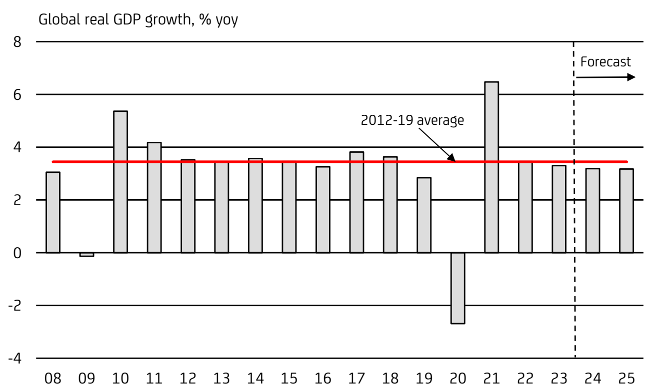
Source: Bloomberg, UniCredit Group Investment Strategy

Global

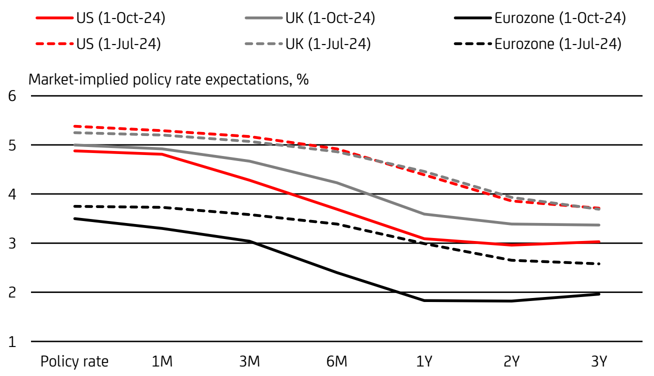
Daniel Vernazza, PhD
Chief International Economist
(UniCredit, London)
+44 207 826-1805
daniel.vernazza@unicredit.eu

- We expect global GDP growth of 3.2% this year (previously 3.1%) and 3.2% next year (unchanged), below its historical average. Recent macro data indicate economic activity is losing momentum, with further weakness in manufacturing and services activity losing its shine. In the US, while GDP growth likely remained strong in 3Q24, business surveys point to a slowdown and unemployment has risen. In the eurozone, business surveys have surprised to the downside and private consumption remains subdued despite the improvement in real incomes. In China, quarterly growth slowed in 2Q24 and monthly indicators for August (retail sales, industrial production and infrastructure investment) were weaker than expected, with the housing sector remaining in the doldrums.
- We continue to expect a soft landing, for three main reasons. First, the (actual and expected) removal of monetary-policy restraint in western economies will support aggregate demand. The Fed took a bold first step by cutting rates by 50bp in September and aggressive market pricing of cuts will start to support activity. We expect the Fed to cut by another 50bp by year-end and by 125bp next year. We now see the ECB cutting at a faster pace in coming months, taking the depo rate to 2.5% by mid-2025 and to 2% by end-2025. Second, we see no major imbalances in the global economy, unlike in past recessions, and high inflation has reduced the real value of private-sector debt. Third, the Chinese authorities announced a package of stimulus measures and a willingness to do more, if needed, which should stabilize growth around a structurally lower trend. We maintain our forecast for Chinese GDP growth of 4.8% this year, since it will take time for the measures to work through the economy, but we have increased our 2025 growth forecast slightly to 4.5% from 4.3%. The BoJ continues to buck the trend, but the potential for further hikes is limited.
- Disinflation has accelerated in recent months. US core PCE inflation was slightly below 2% annualized over the four months to August, while eurozone headline CPI inflation fell below 2% in September. In both the US and eurozone we expect inflation to be at – or slightly below – target next year. While the downward contribution from energy prices will fade, core goods inflation is likely to remain broadly flat and services inflation should ease steadily amid looser labor markets and well-behaved inflation expectations. China is likely to remain a source of disinflationary pressure, with supply exceeding weak domestic demand.
- There are several risks to our base case for a soft landing. In the near term, the risk of higher commodity prices and disruption to trade flows due to developments in the Middle East and a port strike in the US could temporarily boost inflation and weigh on activity. If Donald Trump wins the US election, trade tensions could be ramped up. Weakness in China could be more lasting, while a fully-fledged stimulus would pose upside risks to growth but remains unlikely.

A SOFT LANDING REMAINS OUR BASE CASE



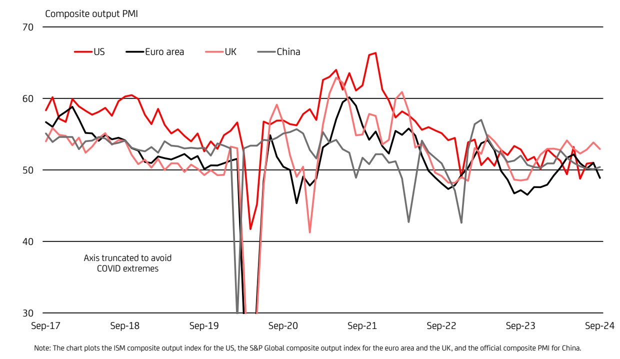
POLICY RATE EXPECTATIONS HAVE SHIFTED DOWN



Source: Bloomberg, IMF, UniCredit Group Investment Strategy

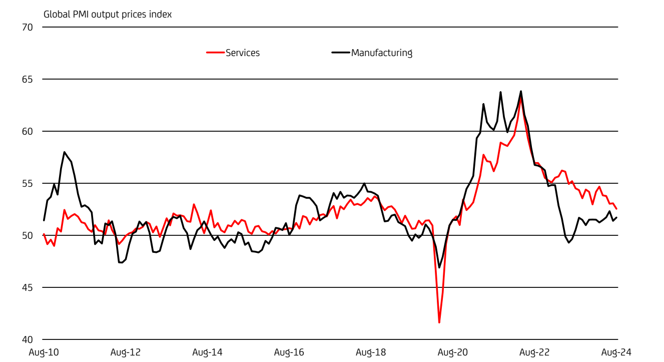
GLOBAL

PMI OUTPUT



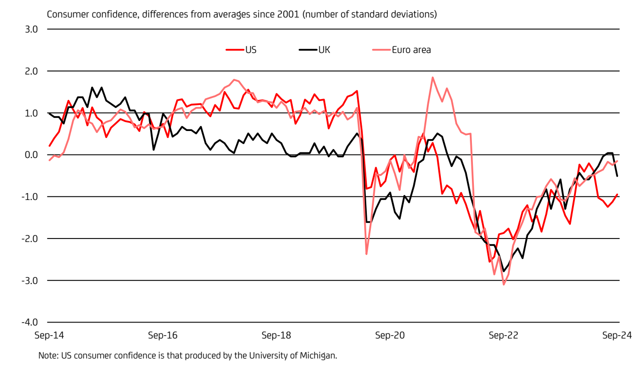
- The composite output PMI fell into contractionary territory in the eurozone, while it is subdued in the US and China.

PMI PRICES



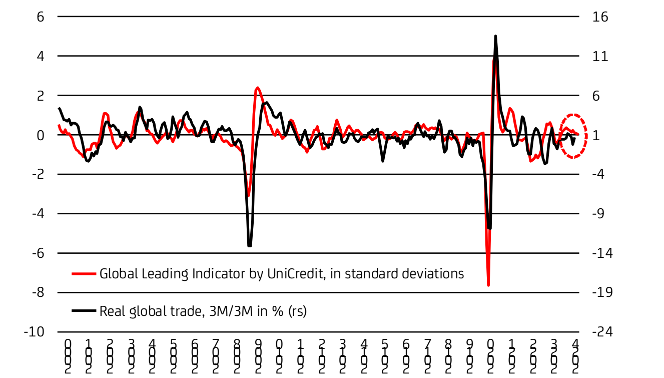
- Manufacturing output price pressure has remained contained while services inflation has eased but remains elevated.

CONSUMER CONFIDENCE



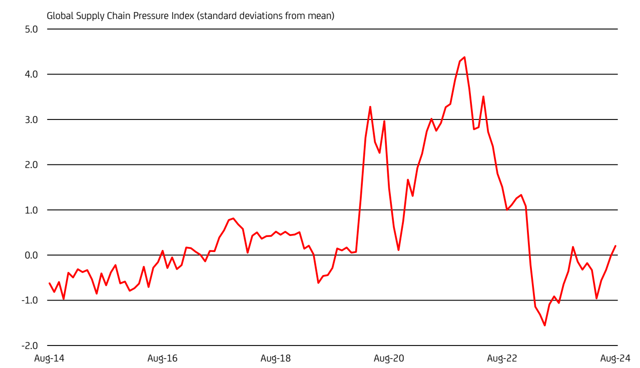
- Consumer confidence remains below historical averages in the US, the eurozone and the UK.

GLOBAL LEADING INDICATOR



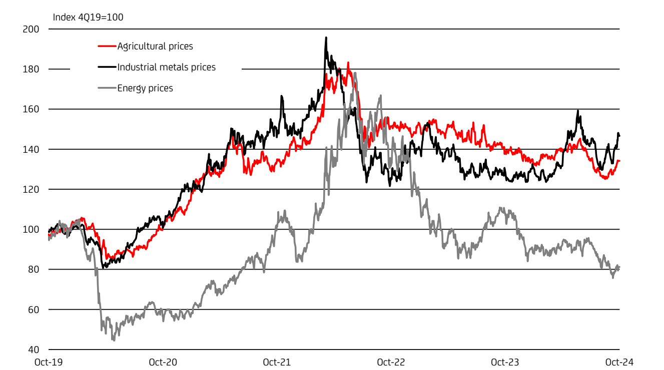
- Our Global Leading Indicator eased in August and is consistent with global trade growth of about 4% annualized.

SUPPLY CHAINS



- The Global Supply Chain Pressure Index has risen recently, likely reflecting higher shipping costs, but it is now in line with its historical average.

COMMODITY PRICES



- Wholesale energy prices have moved lower recently, while industrial metals prices and, to a lesser extent, agricultural prices have ticked up.

Source: Bloomberg, CPB, EC, Federal Reserve Bank of New York, GfK, ISM, NBS, S&P Global, University of Michigan, UniCredit Group Investment Strategy

US

Daniel Vernazza, PhD
Chief International Economist
(UniCredit, London)
+44 207 826-1805
daniel.vernazza@unicredit.eu

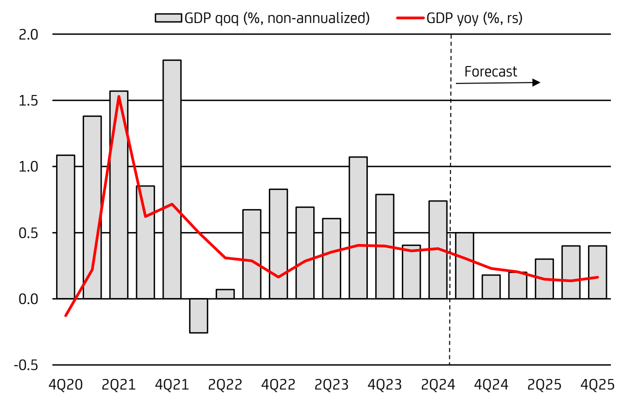
- We now expect the US economy to grow by 2.6% this year (previously 2.2%) after growth of 2.9% last year. We confirm our forecast for growth of 1.3% in 2025. The BEA's annual update of the national accounts showed an even stronger outperformance of the US economy in recent years, driven by personal consumption. This likely continued into the third quarter of this year, with real personal spending on course to expand by about 3% annualized in 3Q24. However, consumption is likely to slow in the coming quarters as the labor market is softening, household savings buffers have been exhausted for many, consumer confidence is low, delinquency rates on consumer credit have continued to move higher, and credit conditions remain tight. Business surveys (ISM, Beige Book, NFIB) point to a loss of momentum. We expect GDP growth to slow from around 2% annualized in 3Q24 to about 1% in 4Q24-2Q25, before picking up moderately in 2H25.

- Progress on disinflation has quickened in recent months. The core PCE deflator (the Fed's preferred measure of prices) rose at an annualized rate of just 1.8% in the four months to August and 2.6% over the past six months. The easing in inflation has been broad-based. We expect disinflation to continue and core PCE inflation to edge down from 2.7% yoy in August to 2.6% yoy in 4Q24, matching the median forecast of FOMC participants, before slowing to 2% yoy in spring 2025. Core goods inflation is likely to remain contained amid cooling demand, disinflationary pressures from China and lower shipping costs, but a port strike on the US East Coast and Gulf of Mexico poses temporary upside risks. Services inflation is likely to continue to ease as the labor market cools, while market rents point to further disinflation in housing costs.

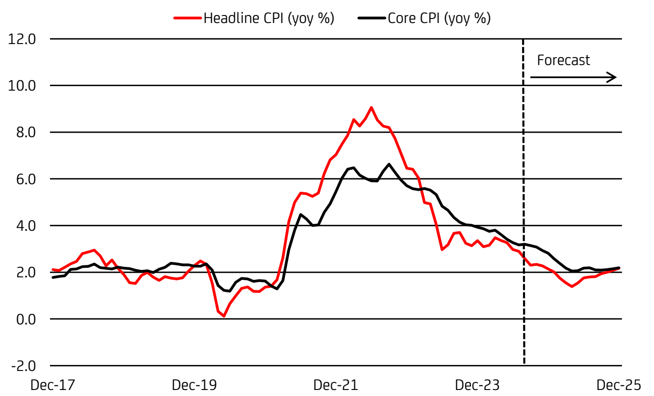
- The Fed kicked off a rate-cutting cycle with a 50bp cut on 18 September. The updated "dot plot" indicates a gradual rate-cutting cycle, with the committee roughly split between a cumulative 25bp and 50bp of cuts at the remaining two meetings of this year, and a median FOMC projection of 100bp of cuts for next year. We expect another 50bp of rate cuts by year-end and 125bp of cuts next year, taking the target range for the fed funds rate down to 3.00-3.25% by end-2025. Quantitative tightening is likely to continue through the end of this year and stop in spring 2025.

- Opinion polls suggest the election on 5 November is too close to call, but Democrat Kamala Harris may have a slight lead over Republican Donald Trump, while a split congress seems likely. Ms. Harris has largely promised continuity, while Mr. Trump has pledged a big rise in tariffs, much lower taxes, and lower immigration. Not everything the candidates promise will turn into policy, either because they are not able to get it through (a split) congress (most relevant for fiscal policy) or because the candidates are playing up to their audience right now to attract votes. Our growth and inflation forecasts assume no big changes to tariffs or fiscal policy (aside from an extension of the TCJA individual tax cuts to avoid a cliff edge at end-2025). Higher tariffs and much looser fiscal policy would clearly push up inflation, likely leading the Fed to slow the pace of rate cuts and stop sooner.

GDP GROWTH LIKELY TO SLOW AROUND TURN OF YEAR



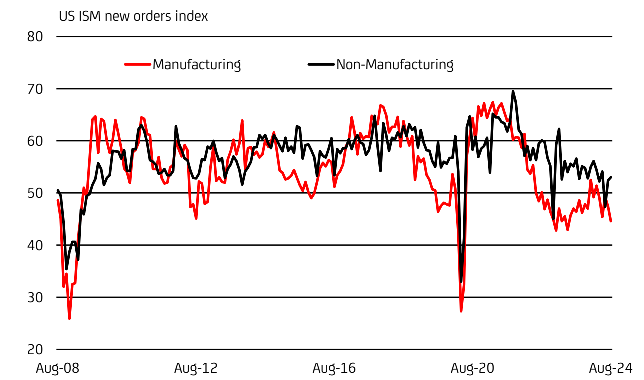
INFLATION AT OR A LITTLE BELOW 2% NEXT YEAR



Source: BEA, UniCredit Group Investment Strategy

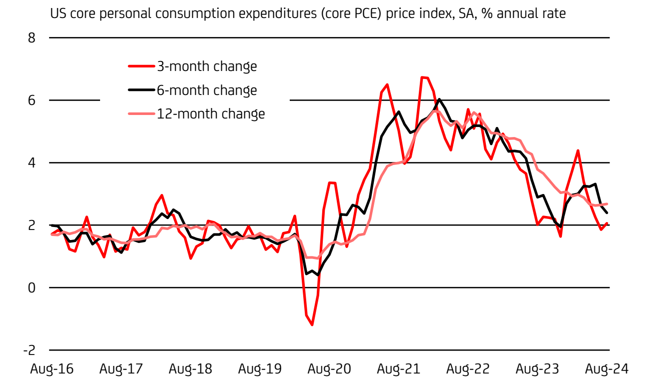
US

ISM



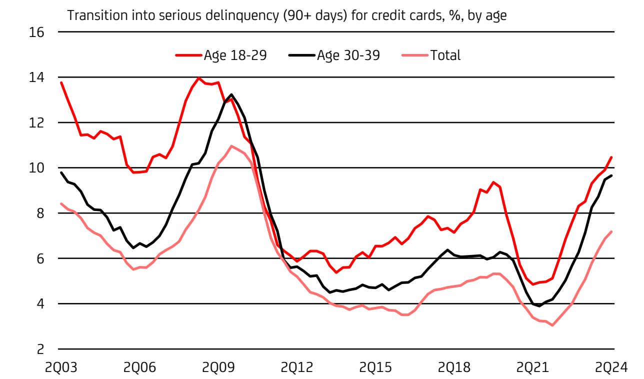
- The ISM manufacturing orders index fell further into contractionary territory in August, to 44.6. Its non-manufacturing counterpart rose to a still-subdued 53.0.

INFLATION



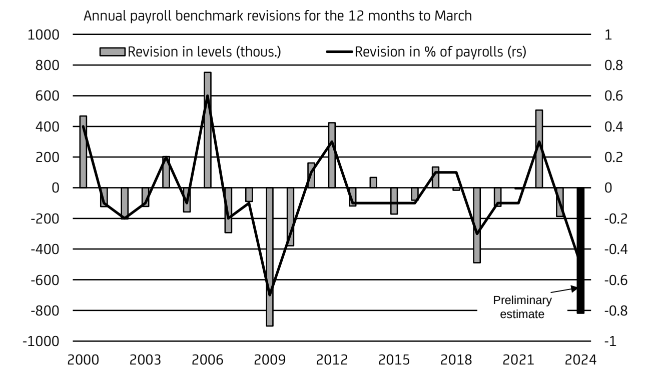
- Core PCE inflation was just 2.1% annualized in the three months to August, down from 4.4% in 1Q24.

DELINQUENCY



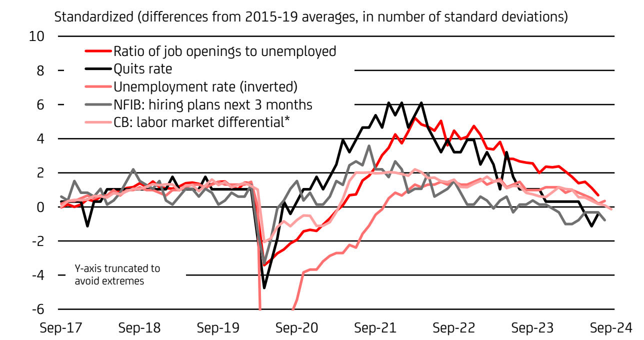
- Delinquency rates on consumer credit, particularly for credit cards and auto loans, have continued to move higher.

PAYROLLS



- On 21 August, the BLS published its preliminary benchmark revision showing a big downward revision of 818k to payrolls over the 12 months ending March 2024.

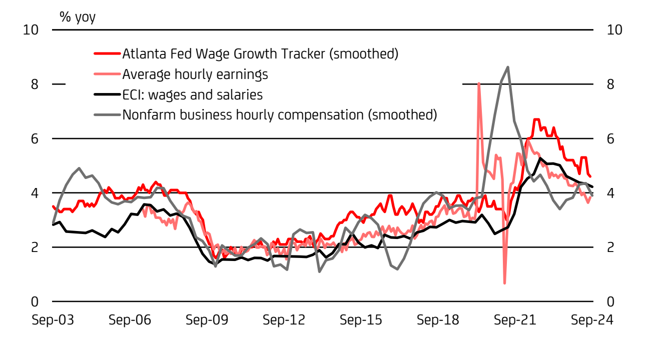
LABOR MARKET



Note: * Conference Board: "jobs plentiful" minus "jobs hard to get".

- Various labor-market surveys show that the labor market is gradually loosening and is now less tight than the pre-pandemic situation.

WAGES



Note: The latest data point is August 2024 for average hourly earnings and the Atlanta Fed Wage Tracker, and 2Q24 for the Employment Cost Index (ECI) and nonfarm business hourly compensation.

- Measures of wage growth have eased to around 4% yoy, slightly above pre-pandemic rates.

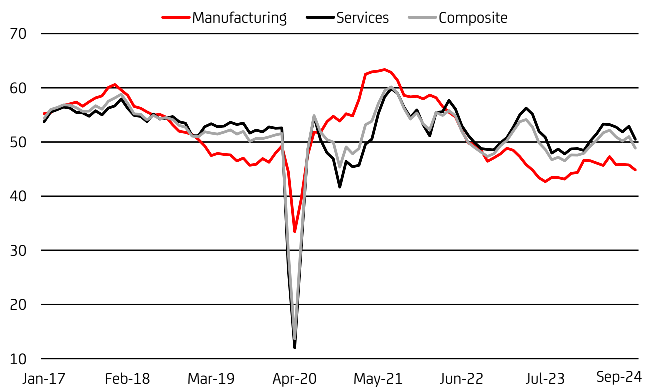
Source: Atlanta Fed, BEA, BLS, Conference Board, ISM, NFIB, UniCredit Group Investment Strategy

Eurozone

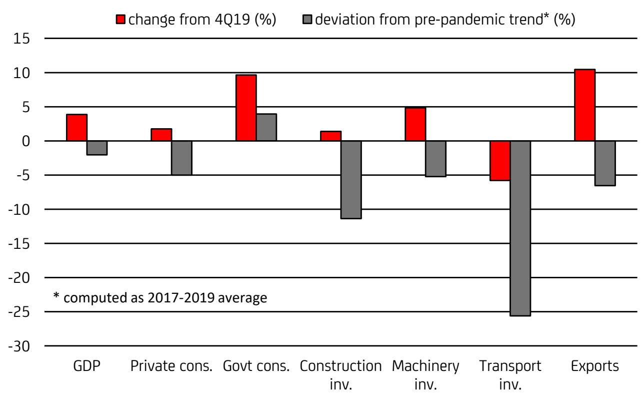
Marco Valli,
Head of Macroeconomic Analysis,
Chief European Economist
(UniCredit, Milan)
+39 02 8862-0537
marco.valli@unicredit.eu

- The eurozone faces a weak growth outlook, with the economy likely to expand by 0.7% this year (previously 0.6%) and by 1.1% in 2025 (from 1.2%). Following the latest disappointing round of business surveys, we are reducing our forecast for sequential growth in 2H24 to an annualized pace of 0.8% as the manufacturing sector remains under severe pressure while services activity is losing momentum. Private consumption is yet to show signs of recovery despite growth in real wages, while investment spending continues to struggle amid weak demand, reduced profitability and still-tight financing conditions. At 6.4%, the unemployment rate is at a record low. However, given substantial labor hoarding after the pandemic, downside risks to the employment outlook are on the rise as an increasing number of firms face prospects of a delayed recovery in output. We continue to think that a significant deterioration in the labor market remains unlikely, given that firms are likely to be more reluctant to lay off staff than in previous cycles.
- Disinflation is unfolding quickly, faster than the ECB had expected. Headline inflation slowed to below 2% in September but probably will pick up somewhat at year-end due to a base effect on energy prices. Beyond these short-term fluctuations, the outlook is for a timely convergence of inflation to the ECB's goal. Leading indicators are signaling that the pricing power of manufacturers remains subdued amid weak demand for goods, suggesting that core-goods inflation will remain low into next year. Pipeline price pressure on food is also limited. We expect services inflation – which has been stuck at around 4% for almost a year – to drive the final leg of disinflation to 2% over the course of 2025. Wage growth remains strong but has started to ease while firms are absorbing more of their high labor costs into their profit margins. Both factors are expected to play a critical role in the deceleration of services prices towards levels consistent with 2% inflation over the medium term.
- At its 12 September meeting, the ECB cut its deposit rate by 25bp to 3.50%, the second reduction in the current easing cycle, and hinted that the next move would come in December. However, downside risks to both its growth and inflation forecasts are already materializing, increasing pressure on the central bank to frontload rate cuts and accelerate the return towards a more neutral stance. We are changing our deposit-rate forecast accordingly. We no longer see a gradual descent at 25bp per quarter but now expect the next 100bp of easing to be delivered swiftly, with 25bp cuts at consecutive meetings, probably already starting on 17 October. If the ECB remains on hold at the upcoming meeting, it will likely signal its intention to accelerate the easing cycle after the widely expected December cut. We think that the pace of easing will slow once the deposit rate reaches 2.5%, a level that the majority of the Governing Council seem to regard as broadly neutral. We expect the deposit rate to reach a terminal level of 2% in September 2025.

PMIS SIGNAL RISING DOWNSIDE RISKS



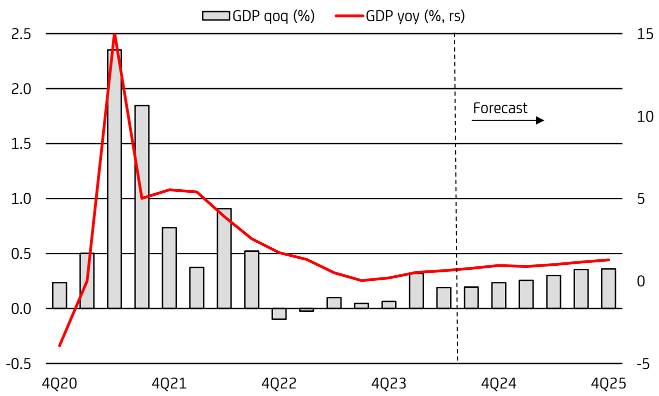
DOMESTIC DEMAND HAS FAILED TO RECOVER



Source: Eurostat, S&P Global, UniCredit Group Investment Strategy

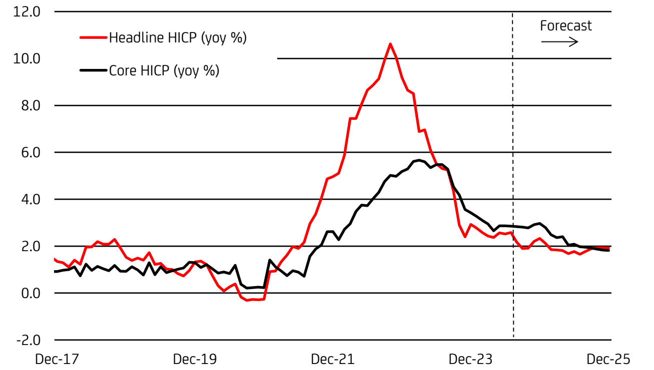
EUROZONE

GROWTH



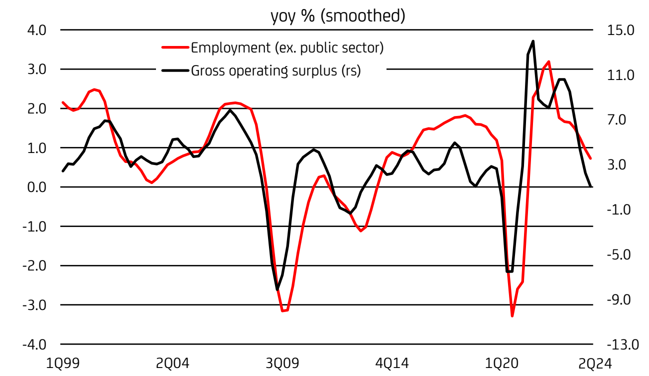
- GDP is likely to rise by 0.7% this year and by 1.1% in 2025.

INFLATION



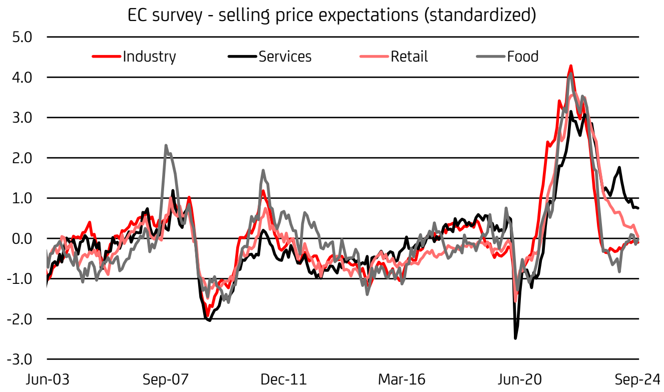
- Inflation on its way to reaching the ECB's 2% goal.

LABOR MARKET



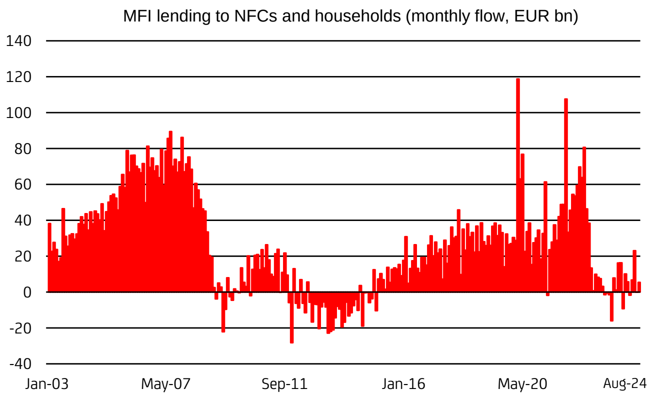
- Employment outlook weakens as corporate profit growth slows.

SELLING-PRICE EXPECTATIONS



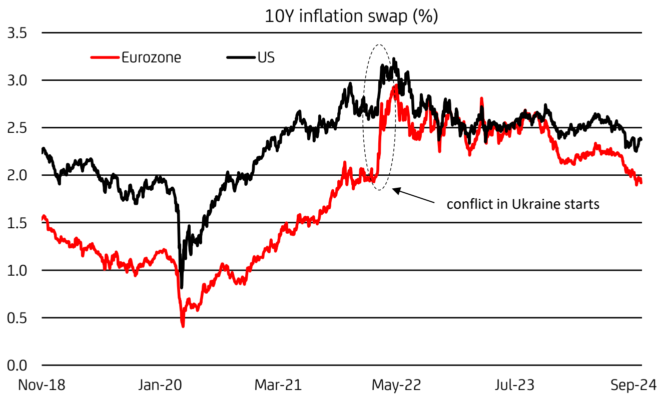
- Corporate pricing power is easing amid subdued demand.

LENDING



- Credit cycle remains under pressure.

INFLATION EXPECTATIONS



- Market-based inflation compensation has declined below 2%.

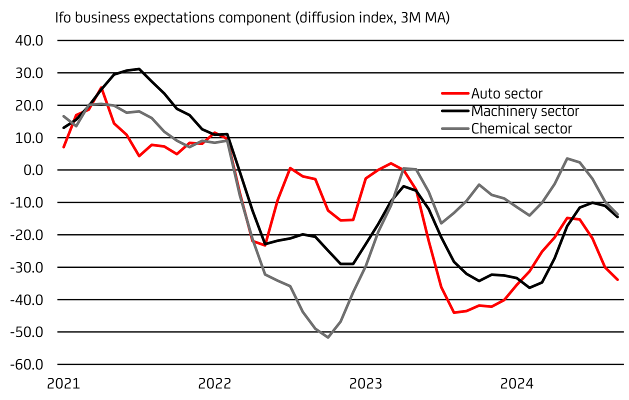
Source: Bloomberg, EC, ECB, Eurostat, UniCredit Group Investment Strategy

Germany

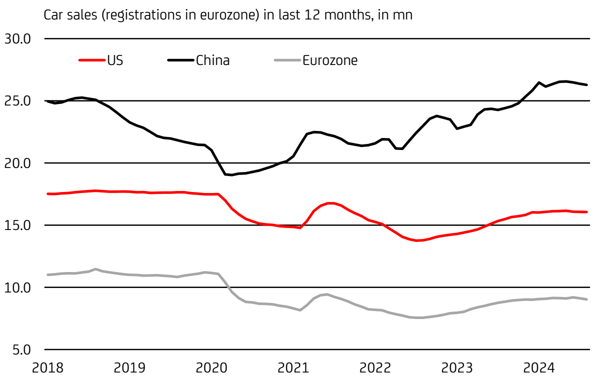
Dr. Andreas Rees,
Chief German Economist
(UniCredit, Frankfurt)
+49 69 2717-2074
andreas.rees@unicredit.de

- We have lowered our GDP forecasts to flat (from +0.4%) in 2024 and to +1.0% (from +1.3%) in 2025 (each on a non-working-day-adjusted basis). After shrinking by 0.1% qoq in 2Q24, economic activity is likely to rise slightly in the quarters ahead (3Q24: +0.1% qoq; 4Q24: +0.2%; 1Q-2Q25: +0.3% qoq; 3Q-4Q24: +0.4% qoq). The forecast risks are to the downside.
- Surprisingly weak business sentiment indicators (PMI, Ifo), especially in the export-dependent manufacturing sector, are the major reason for our forecast revisions. Business expectations in key industries, such as automobiles, machinery and chemicals, have recently been declining again, albeit to different extents (see left chart). Usually, this pattern signals weaker exports and capex spending going forward. The car sector has been in particular focus recently after the announcement by Volkswagen that it may shut down plants in Germany. Global auto demand has been rather weak, especially in the eurozone but also in the US where car sales (or registrations) have remained below pre-pandemic levels (see right chart). In China, the most important auto market, car sales increased markedly from 2020 but have stopped rising in the last few months.
- On a more positive note, business sentiment in services has been more resilient, probably thanks to a pending slight recovery in consumer spending due to a mix of lower inflation and higher wages. While consumer confidence (GfK) and business sentiment among retailers (HDE) have remained low by historical standards, a moderate upward trend is discernible. Besides higher wages, a further build-up in employment is likely to support consumer spending, although the pace of job creation will probably continue to slow, as signaled by a declining number of job vacancies.
- Tariff wage hikes have probably peaked, as the one-off effect from the inflation bonus payment of up to EUR 3,000 has started to fizzle out. However, importantly, the underlying upward pressure is likely to remain strong in the coming quarters. Tariff wages, excluding one-off payments, accelerated to 4.3% yoy in 2Q24, the strongest increase since the mid-1990s. A further acceleration is likely, given the agreement reached in the construction industry in June, which foresees wage hikes of about 7-7½% in 2024-25. Furthermore, negotiations have started in the metal and electrical industries and will affect nearly 4mn employees in key sectors such as automobiles and machinery. The labor union IG Metall has demanded a wage hike of 7% on a 12-month basis. Employers' associations rejected this demand and pointed to declining new orders and structural challenges in the metal and electrical industries. The problems of Volkswagen are likely to put additional strains on the negotiations, although wages and working conditions at VW are governed by a special in-house collective agreement. An industrial peace obligation for the metal and electrical industries, which prohibits strikes, ends on 28 October.
- We expect consumer prices to increase by about 2% yoy in 4Q24 followed by a rise of 1.5% in 2025. We continue to think that stickier service-price inflation is likely to prevent an even stronger decline.

BUSINESS EXPECTATIONS DECLINING AGAIN



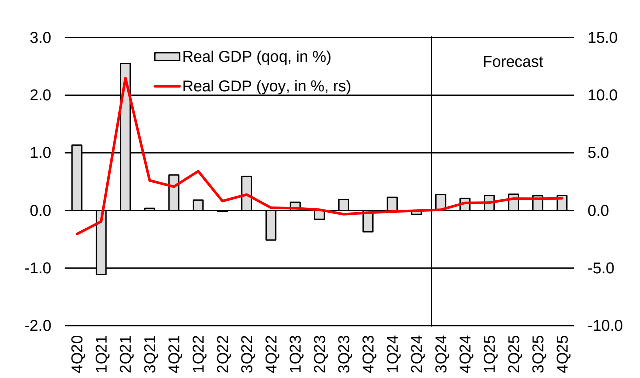
SUBDUED GLOBAL AUTO DEMAND



Source: Macrobond, UniCredit Group Investment Strategy

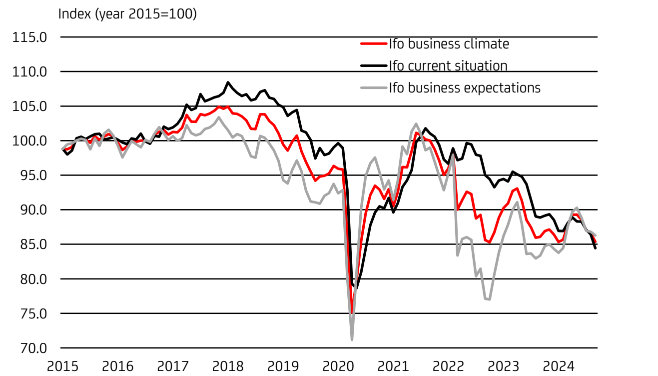
GERMANY

GROWTH



- GDP declined 0.1% qoq in 2Q24 but is expected to rise slightly afterwards.

BUSINESS SURVEY

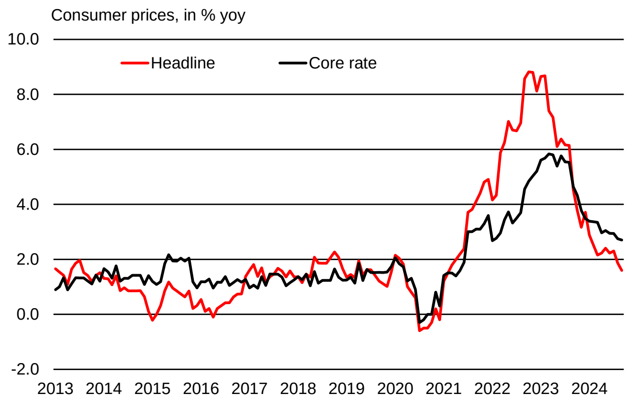


- In September, the Ifo headline index posted its fourth consecutive decline and hit its lowest level since January 2024.

INVENTORIES

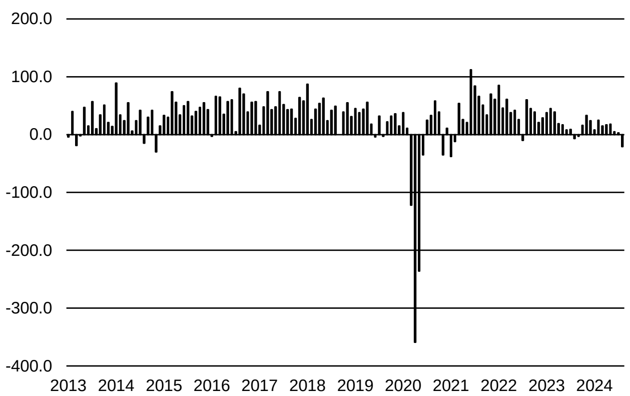
- Inventories of finished goods are still regarded as too high by manufacturers.

INFLATION



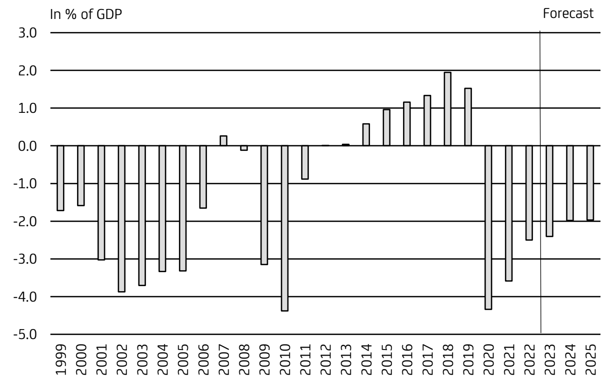
- Consumer prices increased by 1.6% yoy in September (core rate: 2.7%).

LABOR MARKET



- The pace of job creation has slowed down, with about 6,000 new jobs being created per month in the last six months on average.

PUBLIC BUDGET BALANCE



- We expect budget deficits of 2.0% of GDP in 2024 and 2025.

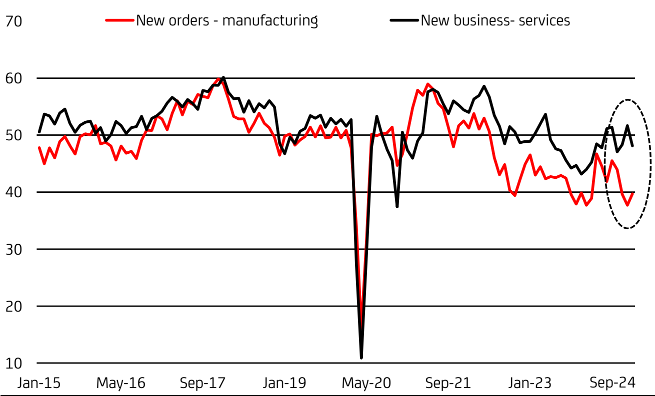
Source: Macrobond, UniCredit Group Investment Strategy

France

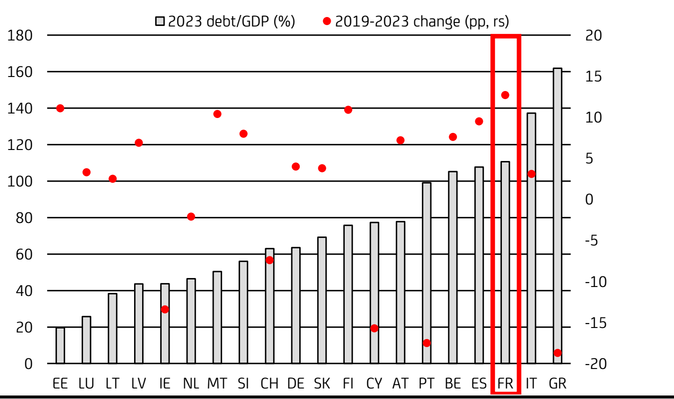
Tullia Bucco, Economist
(UniCredit, Milan)
+39 02 8862-0532
tullia.bucco@unicredit.eu

- We confirm our forecast for GDP to increase by 1.1% in 2024 and by 1.2% in 2025 (compared to 1.1% in 2023). The Paris Olympics are likely to have boosted GDP growth in 3Q24 (+0.4% qoq), before weighing on growth in the following quarter (taking it close to zero). September PMI data signaled that the fading effect associated with the games contributed to a sizable weakening in demand, while the message from the INSEE business survey is more constructive. Looking through this temporary effect, we expect the combination of easing inflation and turning point in ECB monetary policy to support consumer confidence and private consumption in the coming quarters. However, uncertainty surrounding the government's stability and the implications of this for domestic economic policies risk weighing on confidence and could make the recovery's path bumpier than we expect.
- Consumer inflation surprised on the downside in September, easing by 0.6pp to 1.2% yoy. The decline was driven by a slowdown in energy and services inflation, which was amplified by a base effect. We expect inflation to broadly stabilize around this level in the coming months. Base effects in energy and, to a lesser extent, food inflation will support such stabilization. Service-price inflation is likely to prove stickier due to upward pressure from wage growth.
- President Emmanuel Macron's loss of a majority in the June legislative elections ushered in unprecedented political uncertainty, in which his legislative power has been weakened and the survival of any government hinges on the votes of the extreme parties that the elections aimed to sideline. As many have started to question whether, under these circumstances, Mr. Macron will be able to govern until the end of his term, political leaders who have presidential aspirations have begun to prepare their voters for presidential elections possibly as early as in 2025.
- In this challenging political context, France's new conservative prime minister (PM), Michel Barnier, will have to strike a delicate balance between the need to undertake unpopular measures to address the country's economic and social priorities and the need to forge political consensus around them. The most pressing issue he will have to address is severe deterioration of French public finances, especially in comparison with peer nations. The new budget minister, Laurent Saint-Martin, who was purposely attached by the PM to his office rather than to that of the economic ministry, has confirmed that the size of the general government deficit for this year risks settling at 6% of GDP (vs. a target of 5.1%) without corrective measures, and significant savings (estimated at around EUR 25-30bn) will have to be delivered next year to comply with new governance rules.
- The urgency of submitting fiscal plans to Brussels by the end of October has revived the idea of temporarily increasing taxes on large businesses or wealthy households or reducing the generous fiscal subsidies they benefit from. While there is broader political consensus on these measures than on spending cuts, budget negotiations are expected to be tense. However, we expect the budget bill to be approved in the end. Marine Le Pen's far-right National Rally (RN) would rather abstain than vote against the budget bill, as this would undermine RN's efforts to be seen as a responsible party that is also able to govern. Parliament's rejection of the budget bill would represent a major blow to the government, increasing financial markets' concerns about the future trajectory of France's public finances.

PMIS POINT TO WEAKENING DEMAND CONDITIONS



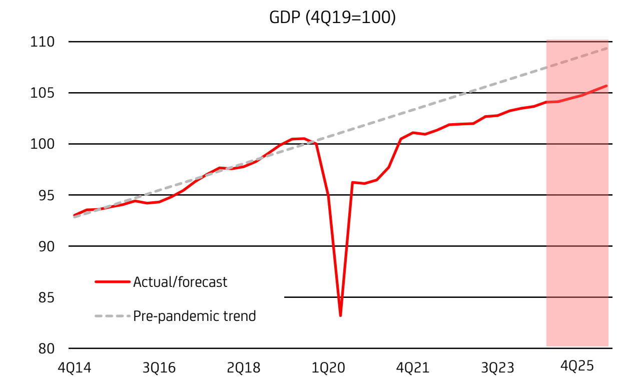
FRENCH DEBT/GDP HAS INCREASED THE MOST SINCE 2019



Source: Eurostat, S&P Global, UniCredit Group Investment Strategy

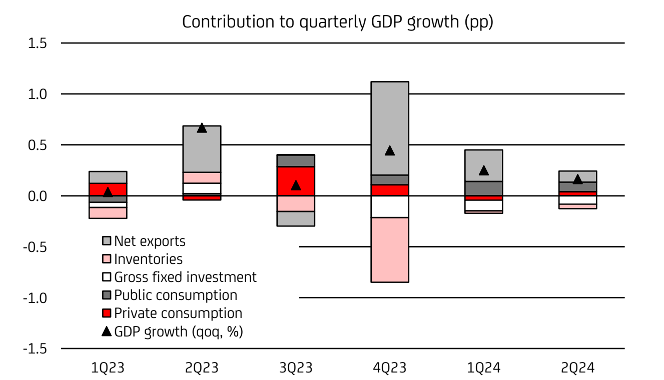
FRANCE

GROWTH (I)



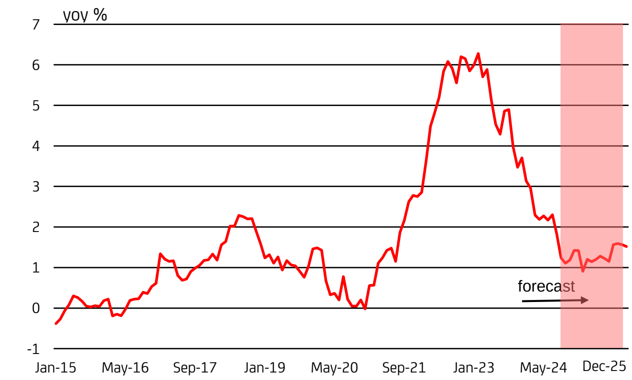
- We do not expect GDP to recover to its pre-pandemic trend level in the foreseeable future.

GROWTH (II)



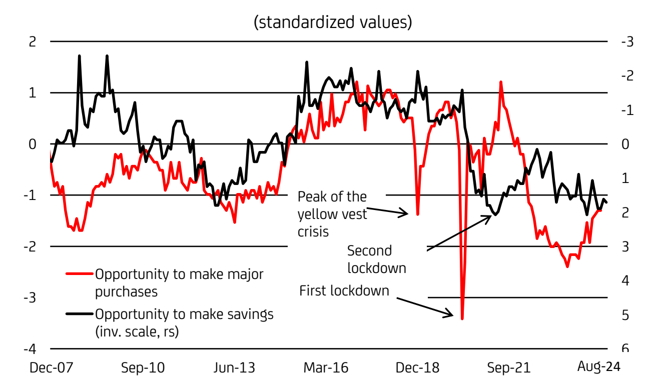
- Net exports and public consumption were the main drivers of GDP growth in 2Q24.

INFLATION



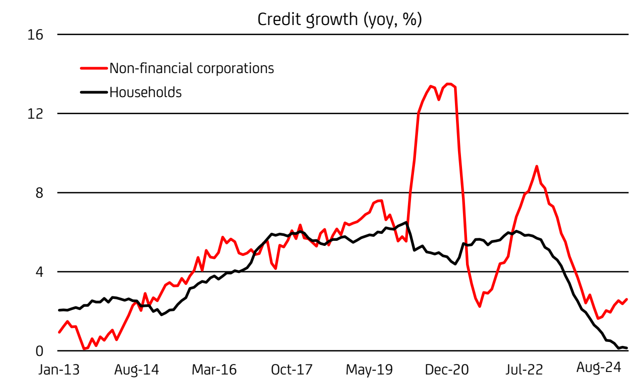
- We expect consumer inflation to broadly stabilize in the coming quarters.

CONSUMER CONFIDENCE



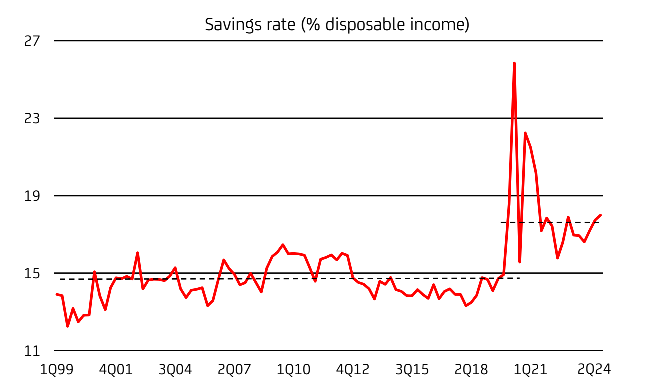
- Consumers' willingness to make major purchases has steadily improved, although it remains subdued.

CREDIT



- Credit growth has been accelerating since early this year.

SAVINGS RATE



- The savings rate remains well above its historical average.

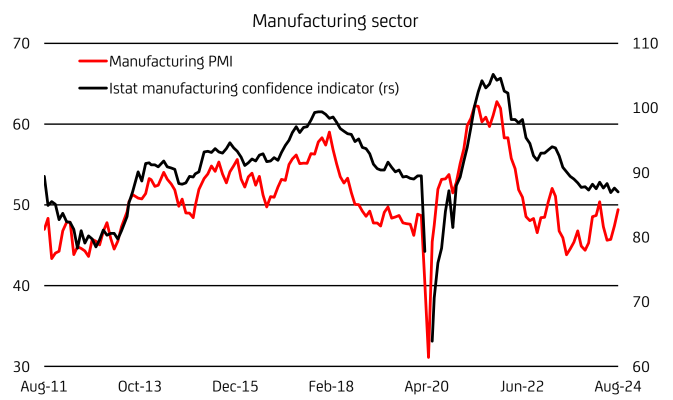
Source: Eurostat, INSEE, UniCredit Group Investment Strategy

Italy

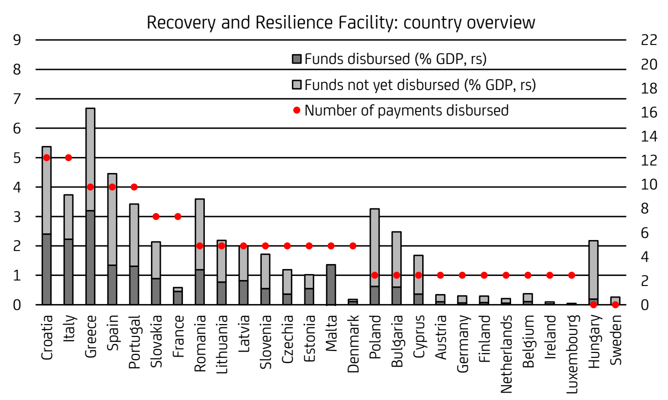
Dr. Loredana Maria Federico,
Chief Italian Economist
(UniCredit, Milan)
+39 02 8862-0534
loredanamaria.federico@unicredit.eu

- After growth was moderate in 1H24, we confirm our GDP-growth forecast of 0.8% in 2024. Industry dragged down GDP growth in 1H24, but this was offset by expansion in the service and construction sectors. We continue to forecast that GDP will grow by 1.1% in 2025.
- Industrial production fell again at the beginning of 3Q24 (-0.9% mom in July). Slow recovery in global trade, still-high financing and shipping costs and the lack of a recovery in energy-intensive sectors were behind such prolonged industry weakness. Recent manufacturing-confidence indicators remain low, although they do not suggest further deterioration in 3Q24. This could help Italy avoid another quarter of deep contraction in industrial value-added and a corresponding dampening effect on GDP growth in 3Q24. The construction sector has shown resilience so far, despite the phasing out of tax credits for building renovation. Deterioration in sector confidence indicates an upcoming slowdown. Still, recently positive data regarding the real-estate market and an acceleration in infrastructure spending related to the National Recovery and Resilience Plan (NRRP) might mitigate such slowdown and help Italy avoid a severe investment correction. Indeed, in 2Q24, a decline in residential investment was overcome via expansion in non-residential investment (-1.1% qoq vs. +1.8%). The service sector is likely to remain a growth engine in 3Q24, and the latest leading indicators hint at still-solid demand and decent expansion in business activity. Overall, GDP is likely to show further moderate growth in 3Q24. Thereafter, we still project acceleration in growth into 2025 amid less-tight financial conditions, strengthening demand (as lower inflation supports income) and the strengthening of the cyclical impulse related to the NRRP.
- Italy continues to make progress with regard to NRRP implementation. It has received five payments from the Next Generation EU's (NGEU) Recovery and Resilience Facility (before other EU countries) and has received EUR 113.5bn or 58% of the EU resources allocated to it. Italy has achieved around 40% of all the reforms and investment required for it to unlock the NGEU funding, with the reform implementation proving to be more advanced (50% of the milestones and targets related to reforms have been achieved). In terms of investment, effective total expenditure amounted to EUR 52.2bn in July, from EUR 43bn in the period 2021-23. We expect capital expenditure to accelerate in the coming quarters, but execution risks remain. At the end of June, Italy submitted a request for a sixth payment, which is waiting for EU approval. This could allow Italy to receive an additional EUR 8.5bn by year-end.
- The government presented to parliament its medium-term fiscal structural plan (MTFSP 2025-29), which is likely to be submitted to the European Commission by mid-October. The budget-deficit target for 2024 has been set at 3.8% of GDP, which is an improvement over the 4.3% of GDP estimated in April. The deficit is expected to then decline below 3% of GDP by 2026, when the primary balance will reach a surplus of 1.1% of GDP. The government said it is committed to multi-year fiscal-consolidation (pointing to its pursuit of compliance with the EU's new fiscal requirements), exiting the excessive deficit procedure in 2027 and putting public debt on a downward trend from then. The EU will provide an assessment in November, following the presentation of Italy's 2025 draft budgetary plan.

INDUSTRIAL CONFIDENCE HAS STOPPED DETERIORATING



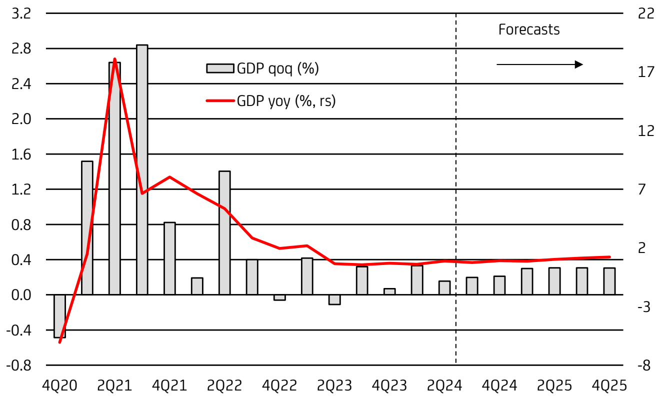
ITALY IS DOING WELL IN TERMS OF NRRP PROGRESS



Source: EC, Istat, S&P Global, UniCredit Group Investment Strategy

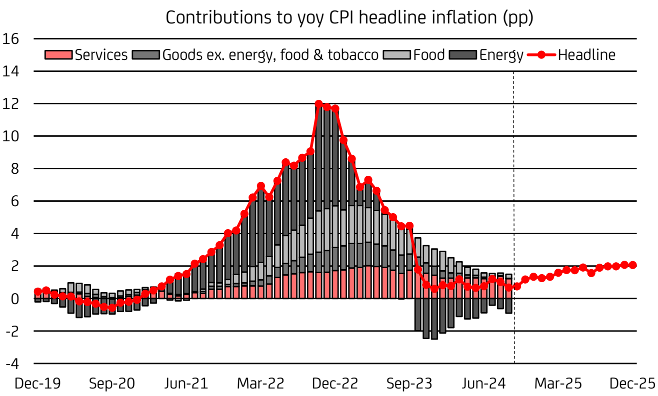
ITALY

GROWTH



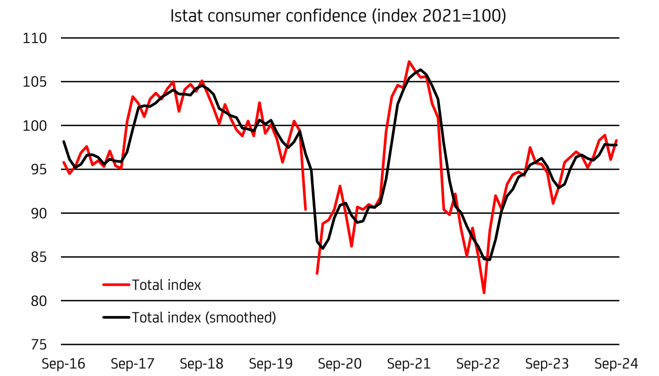
- GDP grew moderately in 2Q24 (up by 0.2% qoq), and we expect this to continue in 3Q24.

INFLATION



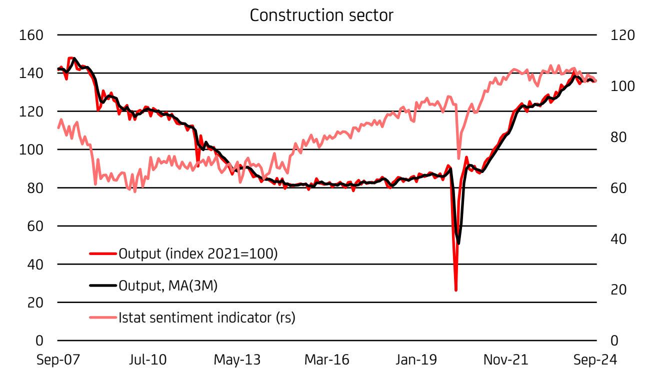
- Inflation is likely to decline to 1%, on average, this year (from 5.7% in 2023) and to accelerate to 1.8% in 2025.

CONSUMER CONFIDENCE



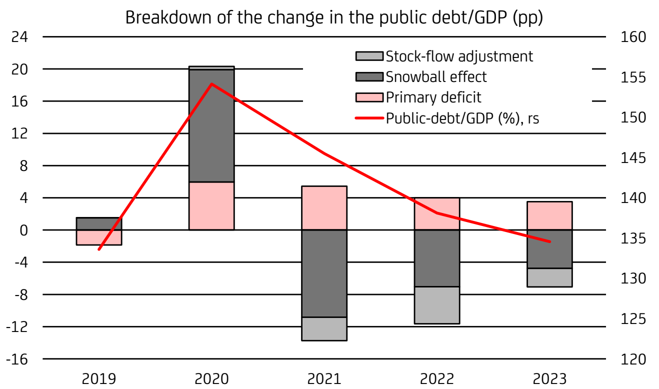
- Despite some monthly volatility, consumer confidence has been improving and is now close to where it was before the 2022 energy crisis.

CONSTRUCTION SECTOR



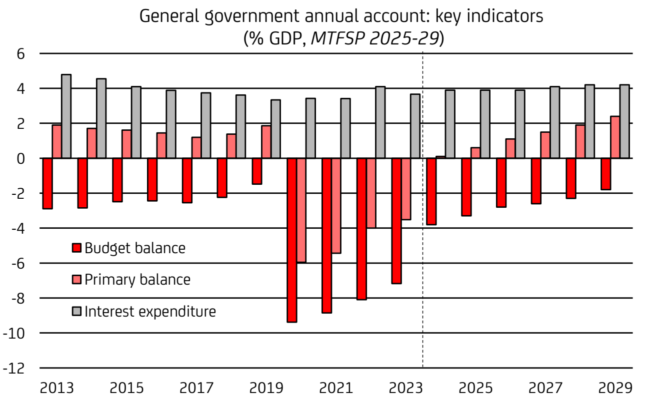
- A moderation in construction-output growth is ongoing. Further moderation is likely, given the deterioration of business confidence among construction firms.

PUBLIC-DEBT/GDP REVISION



- Following the upward revision of nominal GDP, the public-debt/GDP ratio for 2023 was at 134.6% (vs. 137.3% previously estimated), which is close to its 2019 level.

BUDGET-DEFICIT/GDP TARGETS



- The government set new budget-deficit targets. It improved primary-balance targets for 2024-25 compared to April and lowered them for 2027 (to 1.5% of GDP).

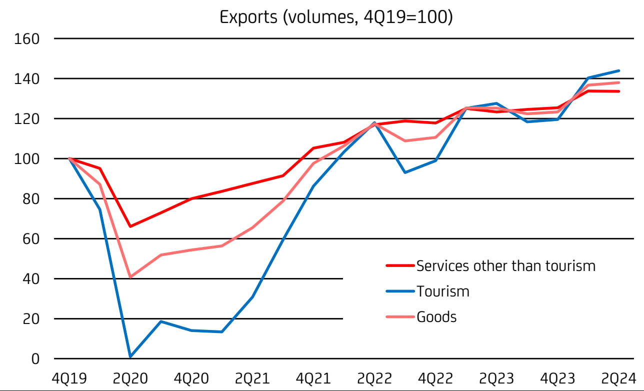
Source: Bank of Italy, Istat, Italian Ministry of Economy and Finance, UniCredit Group Investment Strategy

Spain

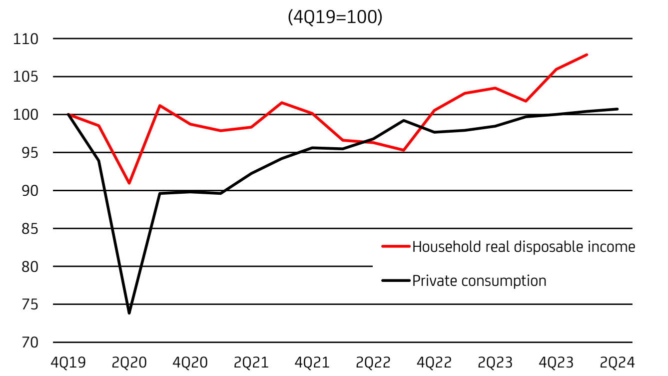
Tullia Bucco, Economist
(UniCredit, Milan)
+39 02 8862-0532
tullia.bucco@unicredit.eu

- We are revising our forecast for GDP growth to 2.7% this year (from 2.6%) and 1.6% in 2025 (from 1.5%). These changes reflect the combination of a stronger carryover effect following the most recent revisions to the GDP series and stronger-than-expected GDP growth in the second quarter (0.8% qoq, after 0.9% qoq in 1Q24).
- GDP will probably continue to grow at a firm, albeit slower, pace (0.4% per quarter) in 2H24. The latest PMI surveys point to a weakening of manufacturing activity over the summer amid slow global demand, while services activity proved more resilient, probably supported by tourism. While the PMIs have tended to underestimate GDP growth in the recent quarters, the latest numbers (as of August) of registered workers affiliated with social security also point to a softer pace of growth in employment and economic activity in the third quarter.
- Private consumption has been lagging behind real disposable income growth since the outbreak of the pandemic and only returned to its pre-covid level in 1Q24. This has largely reflected weak consumption among the most affluent households, whose spending behavior has been particularly subdued compared to the pre-crisis period, according to the Bank of Spain. However, we expect that private consumption will gradually reaccelerate in the coming quarters as fundamentals are likely to remain supportive. Real disposable income has been steadily increasing in the wake of rising real wages and sound, albeit slowing, job creation.
- HICP inflation declined by 0.7pp to 1.7% in September, recording its lowest reading since June 2023. This decline largely reflects a stronger-than-expected deceleration in energy inflation, due to softer fuel and electricity prices. Nevertheless, we expect the downward path of inflation to be choppy in the coming months. The phasing-out of past support measures, such as the reduced VAT-rate on essential food items, are likely to exert upward pressure on inflation towards the end of the year. We see inflation closing 2024 at around 2.5% and the yearly average settling at 2.9% (after 3.4% in 2023). We expect Inflation to ease more significantly in 2025, to 1.6%.
- The government's fiscal stance is expected to remain contractionary next year, although by how much remains uncertain given ongoing tensions surrounding the negotiation of the 2025 budget. Junior coalition partners have threatened to block the approval of the draft budget in parliament if their (unconstitutional) demands for greater spending flexibility for Catalonia are not accepted. The government could still prevent a budget deadlock by rolling over the 2023 budget for another year, although this would translate into a severe reduction in spending for regional and local governments that would have to be compensated by the state. Importantly, over a broader horizon, rolling the 2023 budget would impede the government in taking the measures needed to rebuild its fiscal buffers and put its debt on a sustainable downward path. We expect that eventually the budget deficit's target for next year will be close to 3.0% of GDP, roughly in line with this year's deficit (3.1%), implying a much less contractionary fiscal stance than envisaged by the government in April.

BROAD-BASED GROWTH IN EXPORTS



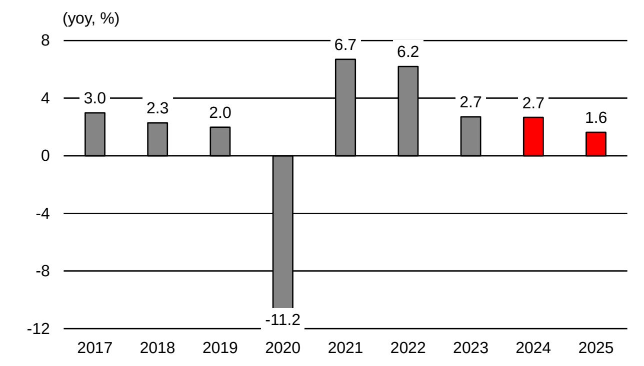
PRIVATE CONSUMPTION HAS LAGGED BEHIND INCOME GROWTH



Source: Eurostat, Spanish Ministry of Economy, UniCredit Group Investment Strategy

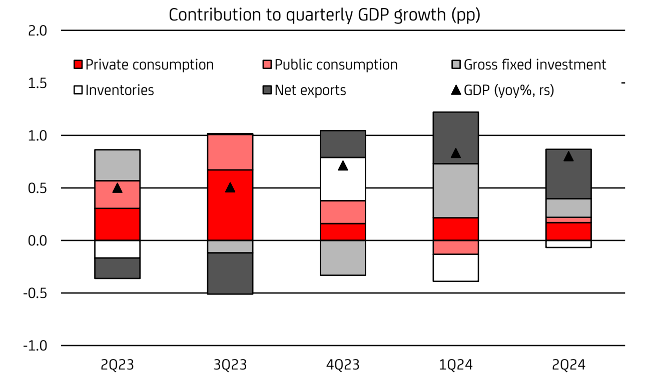
SPAIN

GROWTH (I)



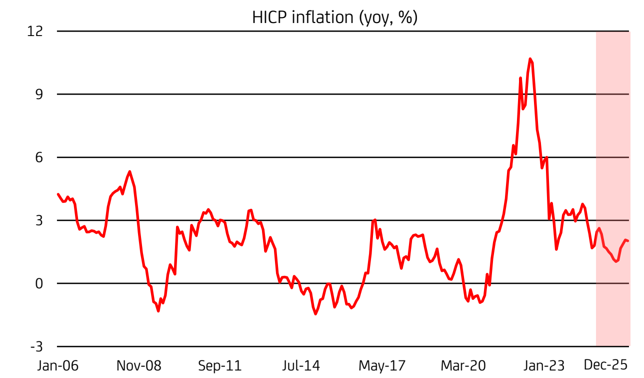
- We expect GDP to increase by 2.7% in 2024 and 1.6% in 2025 (after 2.7% in 2023).

GROWTH (II)



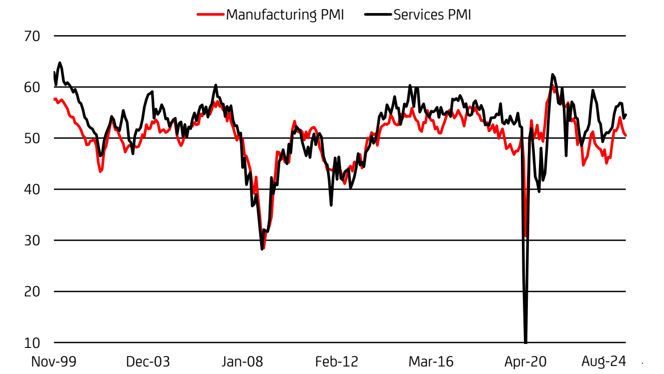
- Net exports were the main contributor to GDP growth in 2Q24, reflecting solid export growth.

INFLATION



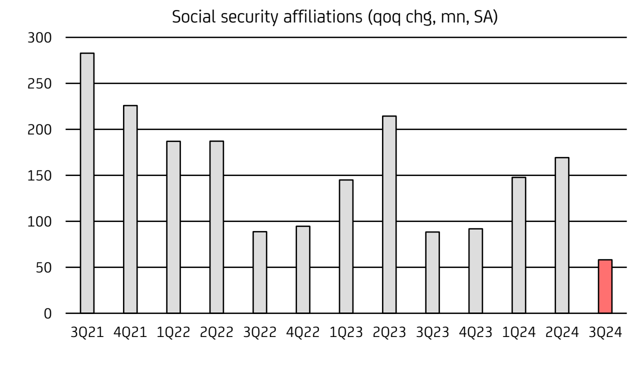
- We see inflation closing 2024 at around 2.5%. Inflation will ease more significantly in 2025, to 1.6% on average.

PMIS



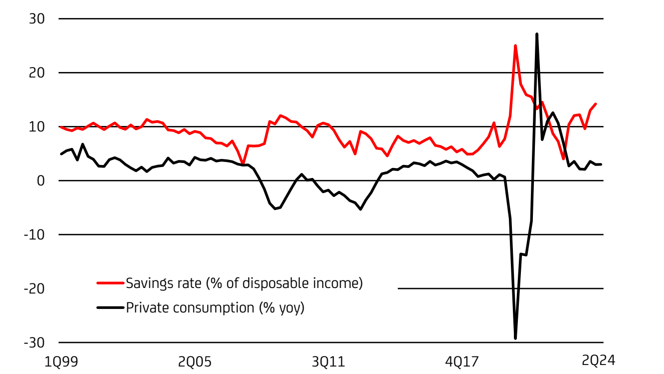
- In August, PMIs continued to signal a wide gap in growth performance between manufacturing and services.

LABOR MARKET



- Social security affiliations point to weaker employment growth in 3Q24.

SAVINGS RATE



- The savings rate further increased above its long-term average in 2Q24.

Source: Eurostat, EC, INE, UniCredit Group Investment Strategy

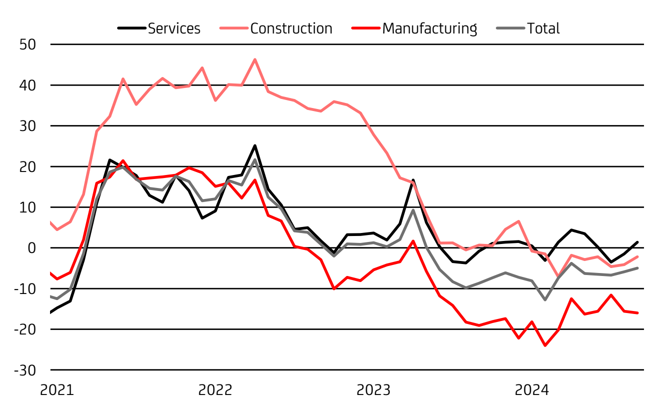
Austria

Stefan Bruckbauer,
Chief Austrian Economist
(Bank Austria)
stefan.bruckbauer@unicreditgroup.at

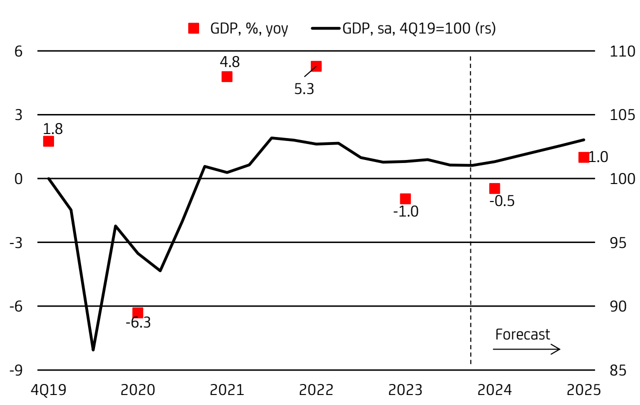
Walter Pudschedl, Economist
(Bank Austria)
walter.pudschedl@unicreditgroup.at

- The weakness in the production sector in Austria continued over the summer and increasingly spread to various service sectors. After the slight increase of 0.1% qoq at the beginning of the year, GDP fell by 0.4% qoq in 2Q24.
- At the beginning of autumn, sentiment in all sectors of the economy remains in the pessimistic range, in some cases significantly below the long-term average. With an overall value of minus 2.5 points, the UniCredit Bank Austria Business Indicator signals that the Austrian economy is currently not on a growth path. We now expect the Austrian economy to stagnate in 3Q24 and expect GDP to increase again in the final quarter, supported by a strengthening of consumption after significant real wage increases.
- We are lowering our GDP forecast for 2024 from 0.0% to -0.5% and thus expect a decline in GDP for the second year in a row after 2023. In 2025, we expect GDP to increase by 1.0%.
- In August, the seasonally adjusted unemployment rate was 7.1%, after only 6.7% at the beginning of the year. The upward trend is likely to continue in the next few months, driven by the ongoing problems in construction and industry. We expect the unemployment rate to rise to 7.0% on average in 2024 and 7.2% in 2025.
- Inflation fell to 2.3% yoy in August, the lowest level in 40 months. In addition to the decline in energy prices, the weak economy, which dampened the second-round effects in the service sector, also contributed to the reduction in inflation in recent months. In the next few months, the second-round effects are likely to remain relatively limited due to only moderate demand. We have lowered our inflation forecast for 2024 to 3.1%. For 2025, we expect inflation to fall to an average of 2.2%.
- The parliamentary elections on 29 September lead to the expected political shift to the right. According to preliminary results, the far-right Freedom Party (FPÖ) has received the most votes for the first time and is expected to be represented in the new parliament with 56 seats. The conservative People's Party (ÖVP) with Chancellor Karl Nehammer lost significant votes, reaching second place with 52 seats ahead of the Social Democrats (SPÖ, 41 seats). With the liberal party NEOS (18 seats) and the Greens (16 seats), five parties will continue to be represented in the Austrian parliament. The previous government coalition of the ÖVP and the Greens no longer has a mandate majority. After the elections, all parties confirmed that they did not want to enter into a government coalition with the FPÖ, at least under the current leadership. However, there is the greatest conformity between the FPÖ and the ÖVP in terms of content, so that a coalition of these parties cannot be completely ruled out after possible personnel changes. A coalition of ÖVP and SPÖ is also mathematically possible. Cooperation with a third partner, the NEOS or less likely the Greens, would ensure a more stable government majority, but would also have to agree on very different political goals. We expect lengthy government negotiations, and the possibility of new elections cannot be ruled out if no stable government majority can be found. However, in view of the impending economic and structural challenges, a rapid formation of a government would be of great economic importance.

PESSIMISM IS ONLY SLOWLY DECLINING



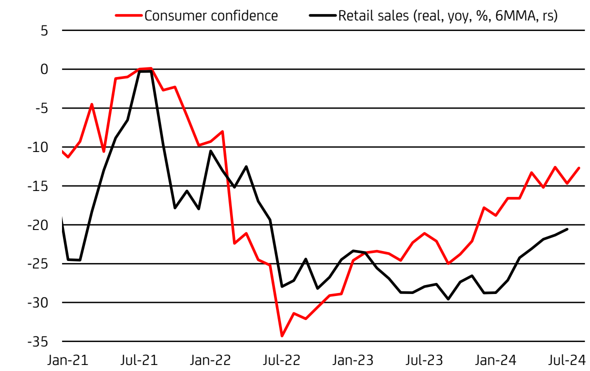
RECOVERY DELAYED



Source: Statistik Austria, WIFO, UniCredit Group Investment Strategy

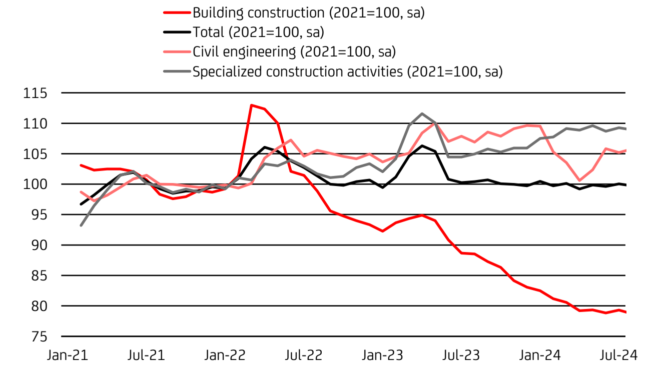
AUSTRIA

RETAIL SALES



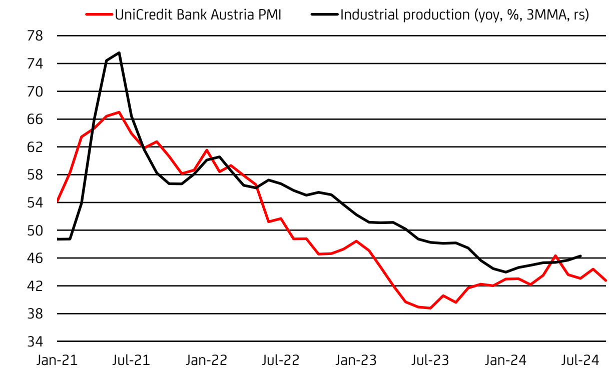
- The situation in the retail trade is improving, but turnover from January to July is still 0.3% lower in real terms than in the previous year.

CONSTRUCTION



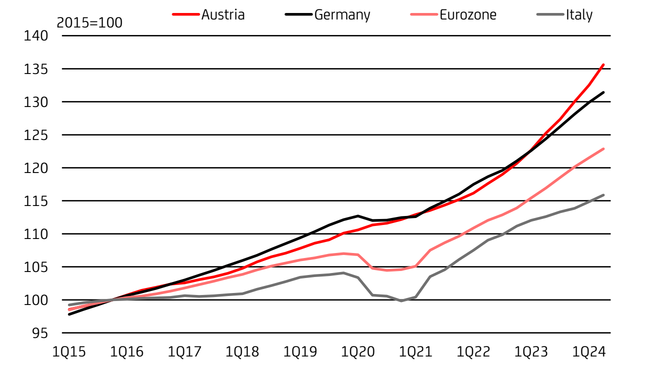
- The situation in the construction sector has stabilized, but the development in building construction remains challenging

PMI AND INDUSTRIAL PRODUCTION



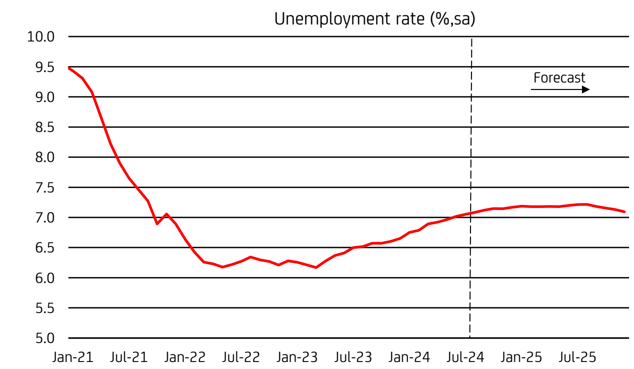
- As a result of the decline in new orders, industry continues to reduce production, but the low point may have been overcome.

COMPENSATION PER EMPLOYEE



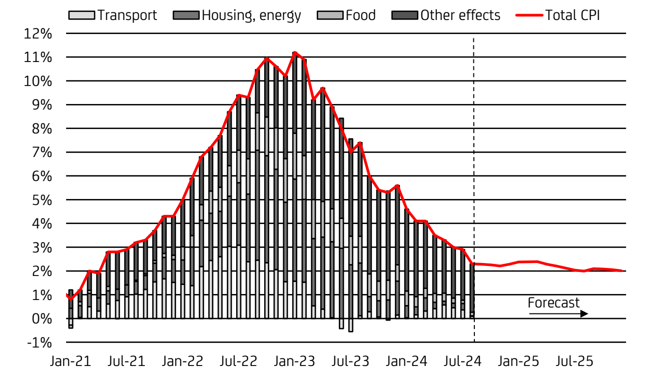
- High wage cost increase weighs on the price competitiveness of the Austrian economy.

LABOR MARKET



- An improvement in the situation on the labor market is not expected until the second half of 2025.

INFLATION



- Inflation fell sharply to 2.3% yoy in August. In the next few months further progress in reducing inflation will be limited.

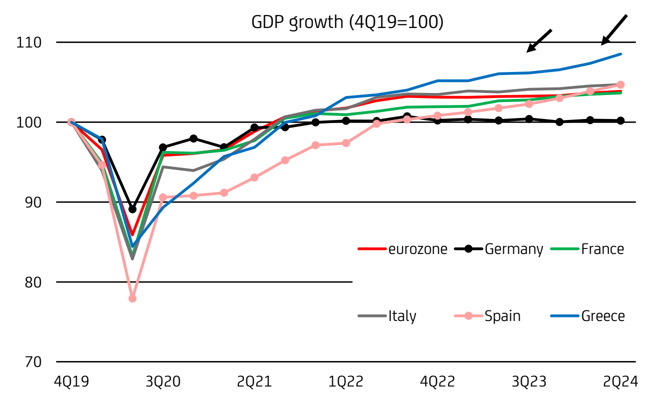
Source: Statistik Austria, Macrobond, UniCredit Group Investment Strategy

Greece

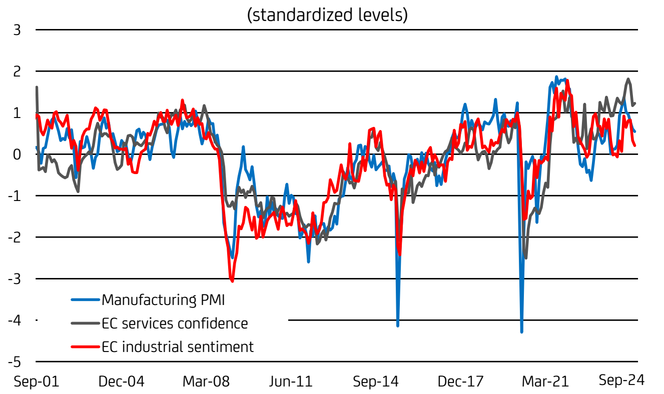
Tullia Bucco, Economist
(UniCredit, Milan)
+39 02 8862-0532
tullia.bucco@unicredit.eu

- We are increasing our 2024 GDP forecast from 1.9% to 2.3% in 2024 (compared to 2.0% in 2023) due to a stronger-than-expected carryover effect, while we keep our forecast unchanged at 1.7% in 2025. GDP growth surprised, once again, to the upside in 2Q24, rising by 1.1% qoq (after 0.8% qoq previously), driven by an acceleration in industrial activity amid healthy domestic and global demand. The increase in industrial activity translated into a strong accumulation of inventories of finished, semi-finished and intermediary goods and a significant pick-up of imports, which industrial production is largely dependent on. The net effect on GDP growth was firmly positive.
- Business surveys indicate that GDP growth is likely to have slowed in the summer as diminished demand for Greek manufactured goods started feeding into lower production levels. Services growth probably also softened, although it likely continued to remain at decent levels thanks to resilience in tourism-related sectors. We thus expect a soft patch in 3Q24 followed by a moderate re-acceleration in GDP growth in the fourth quarter. Healthy growth in domestic demand should partly offset a negative contribution from net exports as weaking global demand weighs on goods exports while import growth remains resilient. Fixed investment will likely be further supported by the impulse from NGEU funds and FDI inflows while private consumption will benefit from sound real disposable income growth as inflation is expected to slow by more than nominal labor income growth.
- CPI inflation accelerated by 0.3pp to 3.0% yoy in August, owing to a significant acceleration in electricity- and, to a lesser extent, food-price inflation, while core inflation remained unchanged at 3.7%. We expect inflation to slow in the coming months driven by normalizing energy, food, and manufactured goods prices. Subdued global demand is likely to make it difficult for manufacturers to pass on the increase in intermediate goods prices and shipping fees to customers. Core inflation is projected to decline more gradually due to persistent services-price inflation.
- The 2025 budget is expected to target a broad stabilization of the primary surplus at about 2.0%, confirming the government's willingness to stick to a broadly neutral fiscal stance next year. Against the backdrop of increasing income inequality and poverty in Greece since the pandemic crisis, the government remains committed to taking advantage of the progress achieved in strengthening the primary surplus to adopt more redistributive fiscal policies. To this end, it recently announced a further EUR 1bn (0.5% of GDP) package of measures aimed at bringing relief to low-income households and supporting employment growth. While this package risks increasing the primary deficit if GDP growth turns out weaker than forecasted (the government forecasts GDP growth at 2.6% in 2025), we expect the government to take corrective measures to avoid any significant slippage in budgetary balances, if necessary (as it did in the past). The combination of a large primary surplus and significant snow-ball-effects are expected to lead to a further sizeable reduction of the debt/GDP ratio (excluding deferred interest payments on EFSF loans) to 153.1% and 146.8% of GDP in 2024 and 2025, respectively.

STRONG RECOVERY IN GDP GROWTH



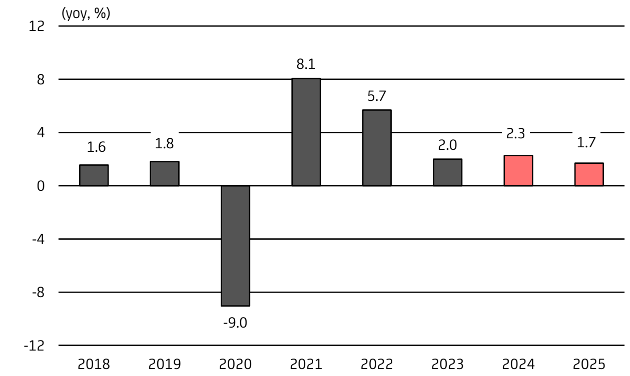
BUSINESS SURVEYS POINT TO GROWTH MODERATION



Source: Eurostat, S&P Global, UniCredit Group Investment Strategy

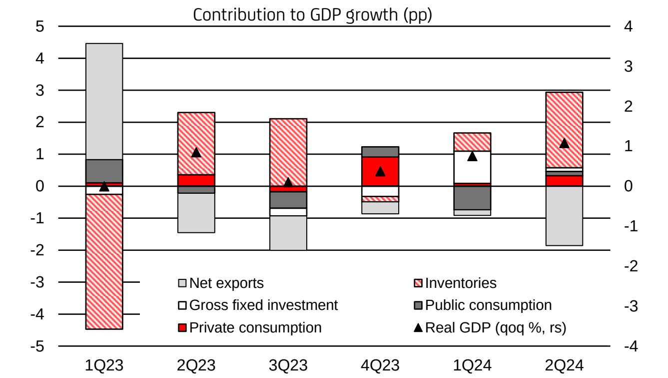
GREECE

GROWTH (I)



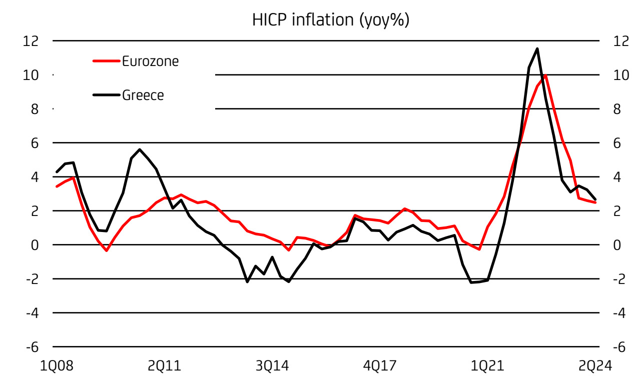
- We expect GDP to increase by 2.3% in 2024 and by 1.7% in 2025 (after 2.0% in 2023).

GROWTH (II)



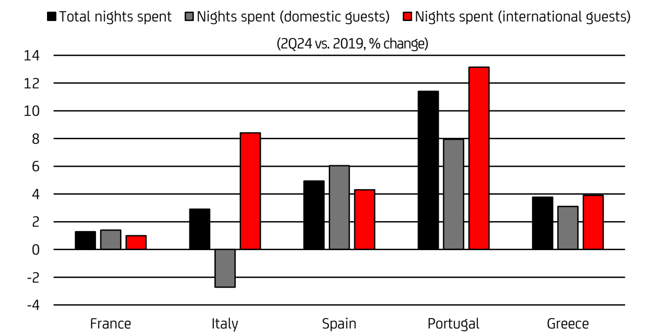
- Inventories accumulation largely accounted for the acceleration in 2Q24 GDP growth.

INFLATION



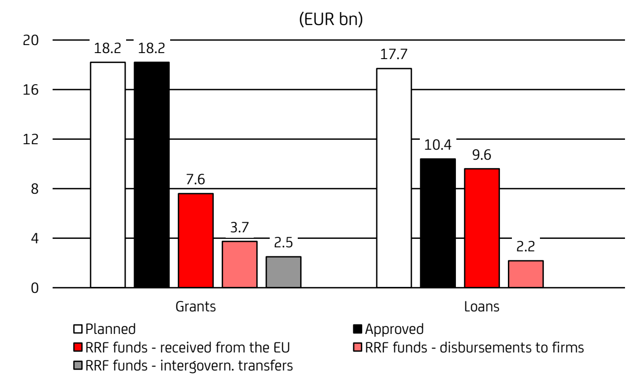
- Greece's HICP inflation has moved in tandem with that of the eurozone.

TOURISM



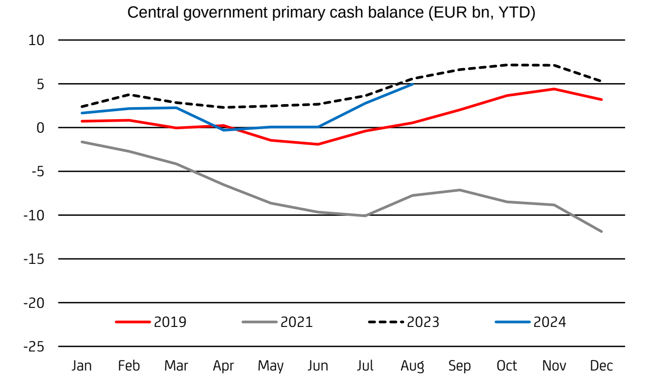
- Tourism exceeded the strong levels recorded before the pandemic outbreak.

RRF FUNDS



- Greece has received EUR 17.2bn from the RRF so far, i.e. nearly 50% of the total funds.

CENTRAL GOVERNMENT DEFICIT



- Budgetary performance remains sound.

Source: Bank of Greece, Eurostat, UniCredit Group Investment Strategy

Portugal

Tullia Bucco, Economist
(UniCredit, Milan)
+39 02 8862-0532
tullia.bucco@unicredit.eu

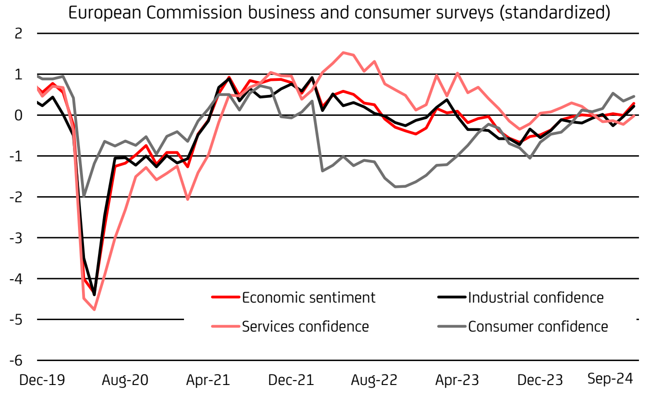
- We confirm our forecast for GDP to increase by 1.8% in 2024 and by 1.5% in 2025 (compared to 2.5% in 2023). We expect GDP growth to reaccelerate at a quarterly pace of 0.4% in 2H24 after the 0.2% qoq slowdown recorded in 2Q24. In the second quarter, a firm increase in private consumption translated into growth in imports that strongly exceeded that of exports, so that the contribution from net exports turned negative (-0.6pp). Business surveys for 3Q24 period point to a broad stabilization in industrial activity compared to the previous quarter and normalization of service activity from recent highs. Consumer confidence has continued to improve, moving more firmly above its long-term average.

- We expect domestic demand to remain the main growth engine, driven by resilience in private consumption – as easing inflation supports real household purchasing power, mitigating the impact of higher interest rates – and an acceleration in capex investment. The latter is expected to increasingly benefit from the impulse linked to disbursements of European funds. The country has currently received nearly 40% of the total RRP funds allocated to it, and almost 30% of these funds have reached their final beneficiaries. Momentum in the residential construction sector is likely to remain weak in the coming quarters as labor shortages have been limiting activity and still-tight financing conditions have weighed on demand.

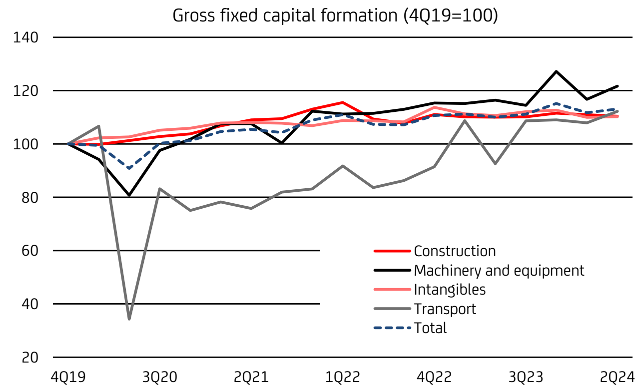
- Consumer inflation slowed by 0.6pp to 1.9% yoy in August due to easing price pressure and favorable base effects. We confirm our forecast for inflation to slow to 2.2% in 2024 and to 1.6% in 2024 (from 4.3% in 2023). Inflation-reducing base effects on energy- and food-price inflation are expected to intensify in the coming months and to accelerate the slowdown in headline inflation, while upward pressure from wages is likely to keep core inflation (2.4% in August) stickier.

- Despite several weeks of inconclusive negotiations, we expect opposition parties to eventually overcome their differences with Portugal's center-right government coalition and pass the 2025 budget bill with minor amendments to the current draft. No opposition party would benefit from early elections as their popular support has changed little since legislative elections were held in March. The general government budget balance will probably slightly deteriorate next year, to just a 0.1% surplus after a 0.5% surplus we expect for this year, as increases in public wages and pensions the government is aiming for will likely push expenditure above target. This is all the more likely given that the government's GDP forecasts are optimistic with regard to Portugal's growth outlook. The country's debt-to-GDP ratio is likely to continue to decline at a rapid pace, also supported by sustained inflation, as measured by the GDP deflator.

SERVICE ACTIVITY APPEARS TO BE LOSING MOMENTUM



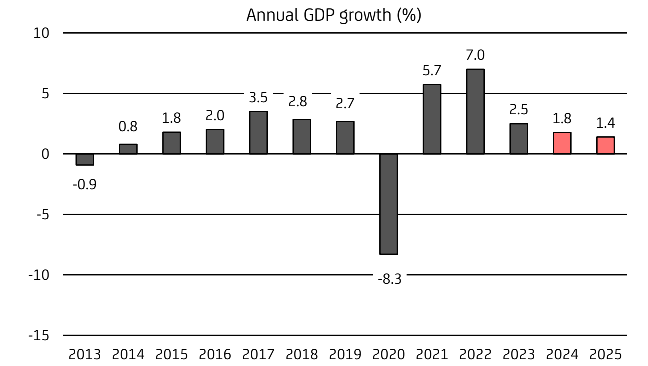
MODERATE RECOVERY IN FIXED INVESTMENT



Source: EC, Eurostat, UniCredit Group Investment Strategy

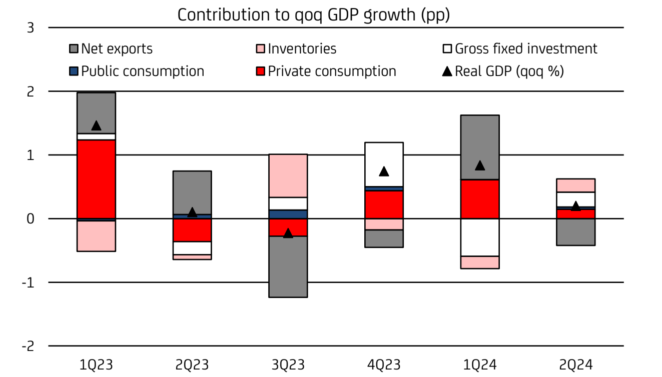
PORTUGAL

GROWTH (I)



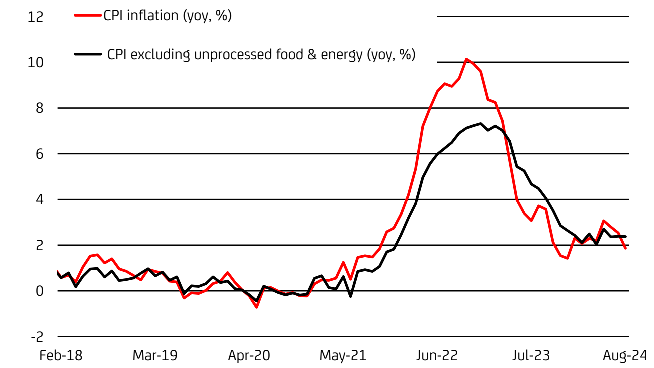
- We expect GDP to increase by 1.8% in 2024 and by 1.5% in 2025.

GROWTH (II)



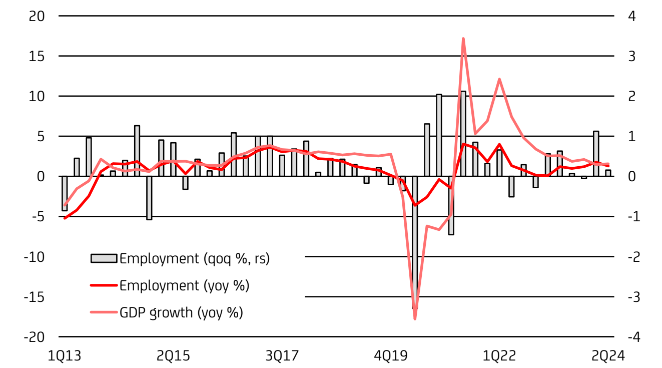
- Net exports weighed on 2Q24 GDP growth as imports rose more strongly than exports.

INFLATION



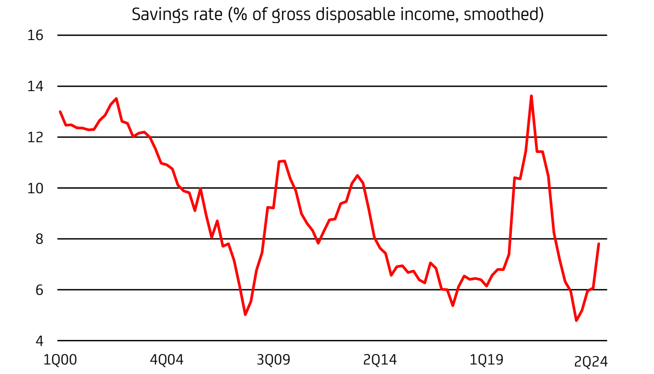
- Base effects are expected to intensify in the coming months and accelerate the slowdown in headline inflation.

EMPLOYMENT



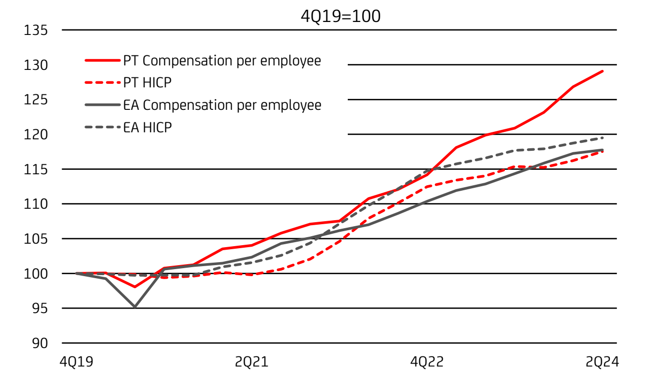
- Employment growth broadly stabilized in 2Q24, in line with weak GDP growth.

SAVINGS RATE



- The saving rate increased in 2Q24, albeit from very low levels.

WAGE GROWTH



- Robust real-wage growth has been supporting household consumption.

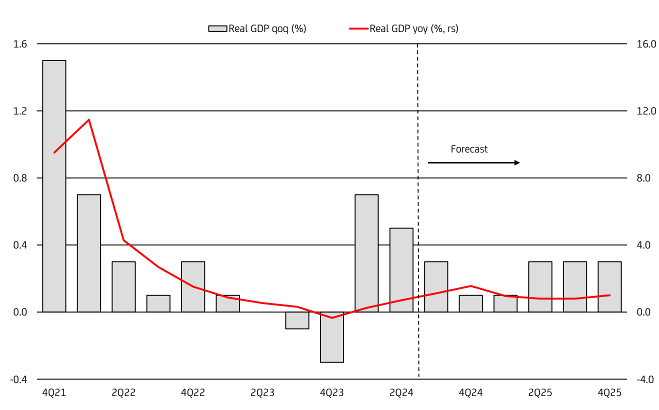
Source: EC, Eurostat, INE, UniCredit Group Investment Strategy

UK

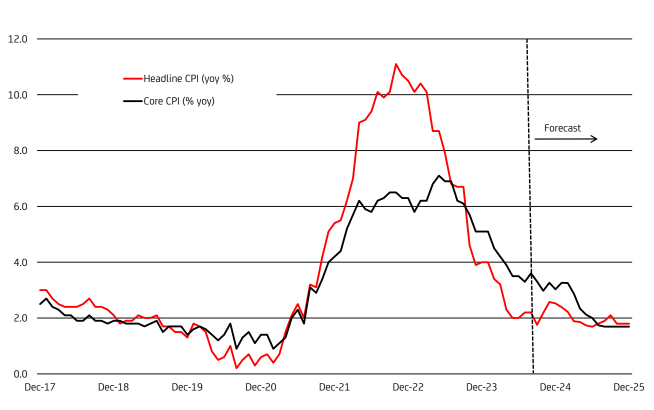
Daniel Vernazza, PhD
Chief International Economist
(UniCredit, London)
+44 207 826-1805
daniel.vernazza@unicredit.eu

- We expect GDP growth of 0.9% this year (previously 0.7%) and next year (previously 0.8%). After entering a mild recession in the second half of last year, GDP growth rebounded by a stronger-than-expected 2.3% annualized in the first half of this year. This was in large part due to strong government spending, while private consumption picked up modestly and is only slightly above pre-pandemic levels. The modest improvement in consumption likely reflects the improvement in post-tax real incomes, thanks to lower inflation and pre-election giveaways. However, growth appears to be slowing in the third quarter. Monthly GDP was flat in June and July. The composite PMI eased to 52.9 in September from 53.8 in August and consumer confidence has fallen back, likely in part due to the prospect of tighter fiscal policy. We expect GDP growth of 0.3% qoq in 3Q24 (previously 0.1%), near stagnation around the turn of the year, and modest growth from 2Q25.
- The new government looks set to tighten fiscal policy in the Autumn Budget on 30 October. The chancellor has indicated some taxes are likely to rise, claiming a GBP 22bn "black hole" in the public finances inherited from the previous government. On top of this, public sector net borrowing (excluding public sector banks) was GBP 64bn in the first five months of the fiscal year (April to August), GBP 6.2bn higher than the Office for Budget Responsibility (OBR) forecast at the time of the March Budget. This trend is likely to continue as the government has agreed higher public-sector pay settlements.
- Headline CPI inflation was unchanged at 2.2% yoy in August, 0.2pp below the BoE's projection, but core inflation rose to 3.6% yoy. Both services inflation, at 5.6% yoy in August, and private-sector regular pay growth, at 4.9% yoy in July, remain high compared to historical averages and compared to the UK's peers in the US and eurozone. The question is whether this simply reflects that the disinflationary process in the UK is lagging, or whether the UK is structurally different. We think it is the former, because inflation expectations are well behaved and the labor market is cooling. While the signal from the Labor Force Survey continues to be plagued by low response rates, vacancies are continuing to fall and the KPMG/REC Report on Jobs survey shows clear weakness. We expect headline inflation to rise slightly to about 2.4% in 4Q24 as the downward effect from energy prices fades. Meanwhile, services inflation is likely to continue to fall, and more quickly from the turn of the year.
- The BoE's Monetary Policy Committee (MPC) voted 8-1 to leave the bank rate unchanged at 5.00% on 19 September. It also announced it would reduce its stock of UK government bonds by GBP 100bn over the next twelve months. The MPC minutes pushed back somewhat against market expectations of back-to-back rate cuts ahead, saying that most members favor "a gradual approach" to removing policy restraint. We take this to mean that the committee has in mind one 25bp rate cut per quarter, although we still expect them to cut at a faster clip of 25bp per meeting through the end of 3Q25. This is because we see the labor market loosening and economic activity slowing more than the BoE expects in the coming quarters, with inflation falling below the 2% target next year.

GDP GROWTH SET TO SLOW BEFORE MODEST RECOVERY



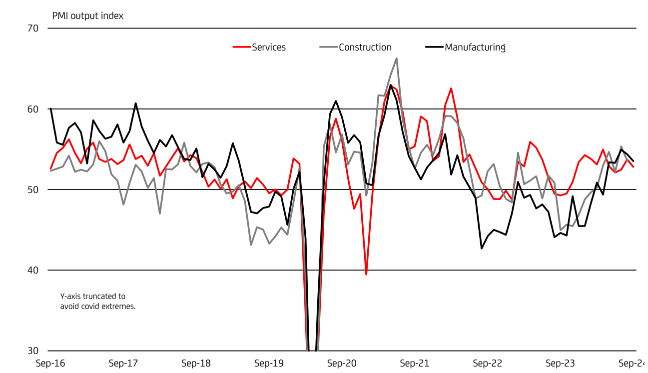
WE SEE INFLATION SLIGHTLY BELOW 2% TARGET IN 2H25



Source: ONS, UniCredit Group Investment Strategy

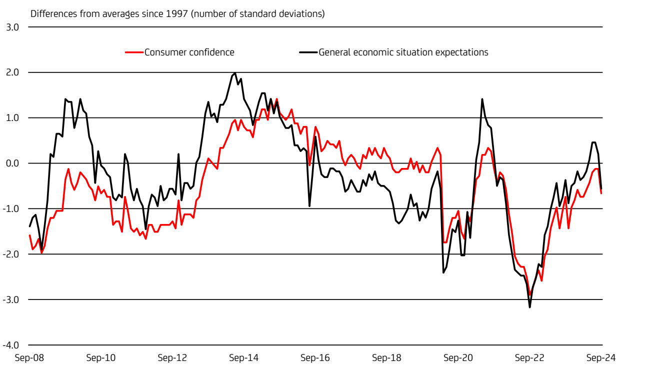
UK

PMIS



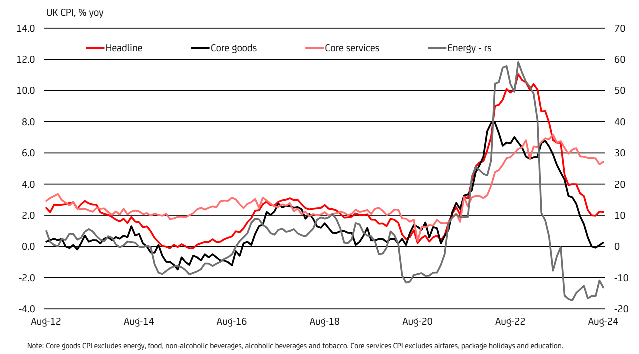
- The flash composite output PMI eased to 52.9 in September, down from 53.8 in August.

CONSUMER CONFIDENCE



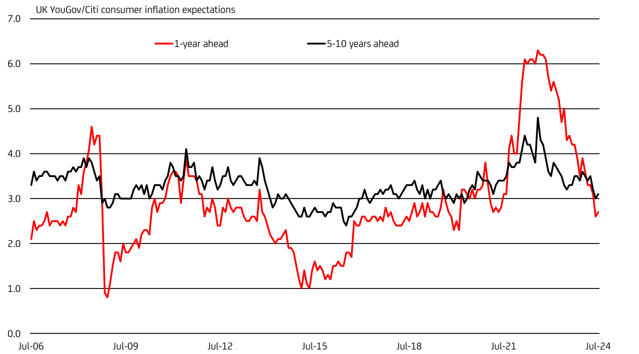
- GfK consumer confidence fell to a six-month low of -20 in September, with the general economic situation over the next 12 months seen at its weakest in a year.

INFLATION (I)



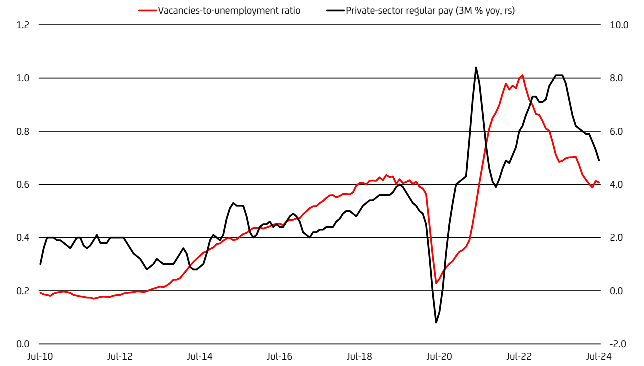
- Headline CPI inflation was unchanged at 2.2% yoy in August, while core inflation rose to 3.6%, driven by a rise in services inflation.

INFLATION (II)



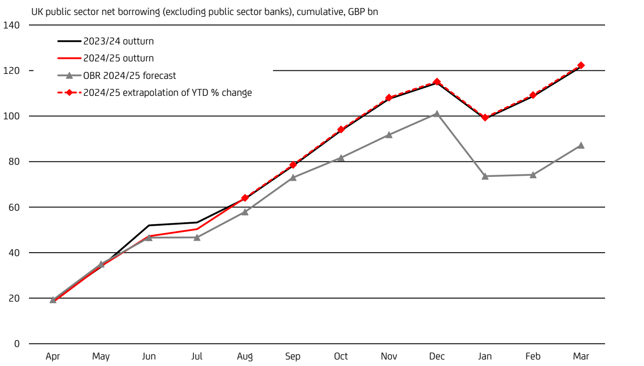
- Inflation expectations of consumers are now broadly in line with historical averages.

LABOR MARKET



- Private sector regular pay growth eased to 4.9% 3M yoy in July, down from 8.1% in July 2023. The ratio of vacancies to the number of unemployed has returned to its pre-pandemic level.

PUBLIC SECTOR NET BORROWING



- Public sector borrowing in the first five months of 2024/25 totaled GBP 64.1bn, which is GBP 6.2bn above the OBR's March forecast.

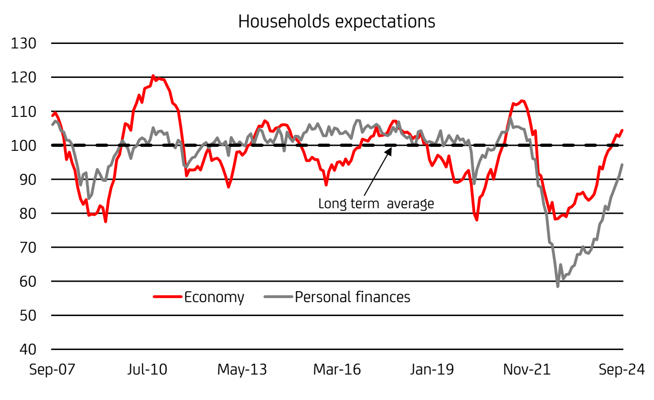
Source: GfK, S&P Global, YouGov/Citi, UniCredit Group Investment Strategy

Sweden

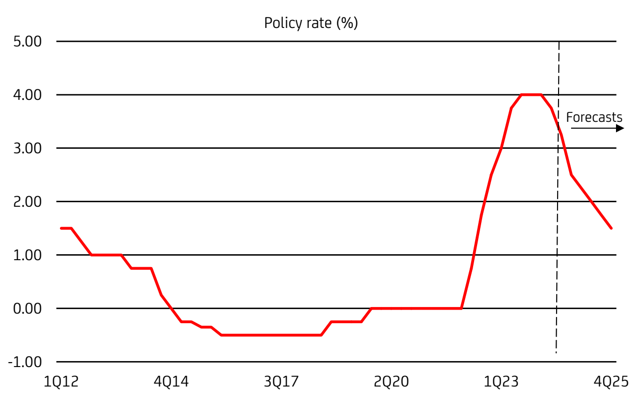
Chiara Silvestre, Economist
(UniCredit, Milan)
chiara.silvestre@unicredit.eu

- We have revised downward to 0.7% (from 1.0%) our GDP-growth forecast for 2024. The revision was entirely driven by weaker-than-expected growth reported for 2Q24 (-0.3% qoq, 0.6% yoy) after the strong performance at the beginning of the year. We confirm our GDP forecast for 2025 of 1.6%.
- The domestic economy will gradually start to pick up from 2H24. The worst is over for households, and conditions are turning favorable for a recovery as highlighted by the latest economic tendency survey. The survey showed that households seem more optimistic about their financial situation over the next 12 months and expectations for the general economic outlook. Additionally, concerns about future unemployment eased. Lower borrowing costs, rising real wages and more-expansionary fiscal policy should all support growth in consumer spending throughout 2025.
- Headline inflation is undershooting the Riksbank's target. In August, headline inflation decelerated significantly to 1.2% yoy (from 1.7%) due to a drop in energy prices. Excluding energy, inflation eased to 2.2% from 2.3%. Overall, headline inflation is expected to average 2% in 2024 and 1.5% in 2025, with core inflation projected to reach 2.5% in 2024 and 1.8% in 2025.
- We have changed our call on the Riksbank and now expect it to announce a 50bp rate cut in November and a 25bp cut in December. There are risks that the Swedish central bank will announce a bolder move of 50bp in December. Our expectations that rate cutting will occur much faster are driven by the Riksbank's very dovish meeting in September and our take that the Riksbank's committee is increasingly concerned – not only about the growth outlook – but also about CPIF inflation, which is now forecast to average 1.7% yoy (vs. 2.0% in June) in 2024 and 1.6% (vs. 1.8%) in 2025, i.e. a bit below target. Consistent with the above-mentioned revisions, we expect the policy rate to be 2.50% by the end of the year, from 3.25% previously. Going into 2025, our rate-cutting path foresees four other moves. The key rate will likely reach 1.50% by end-2025.

BETTER HOUSEHOLD SENTIMENT



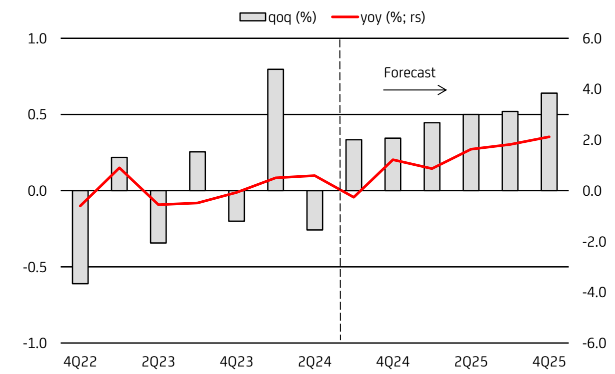
RIKSBANK SET TO CUT POLICY RATE TWICE MORE THIS YEAR



Source: National Institute of Economic Research, Riksbank, UniCredit Group Investment Strategy

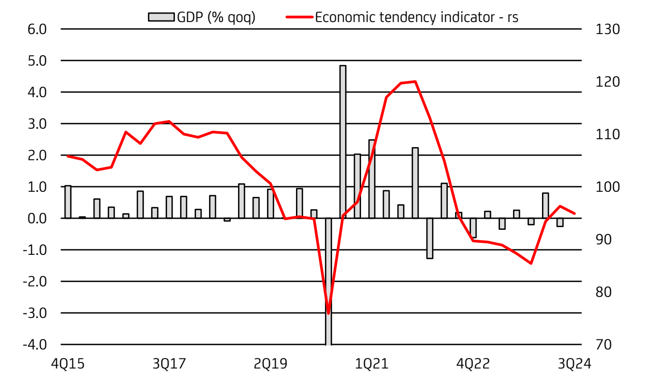
SWEDEN

GROWTH



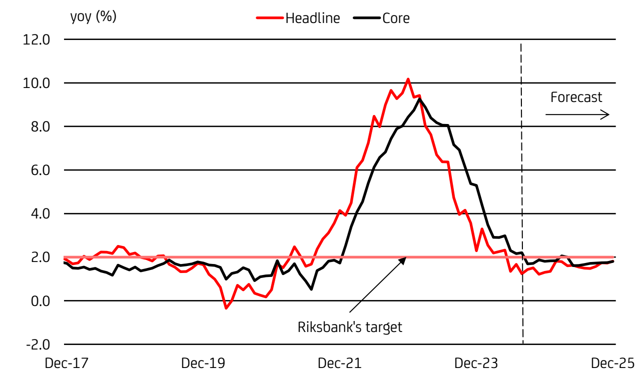
- After the contraction in 2Q24, GDP is likely to recover mildly in 3Q24.

SURVEYS



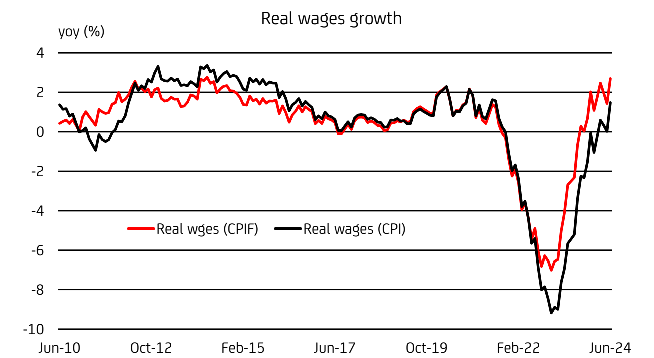
- The economic tendency indicator is consistent with GDP growth of 0.3% in 3Q24.

INFLATION



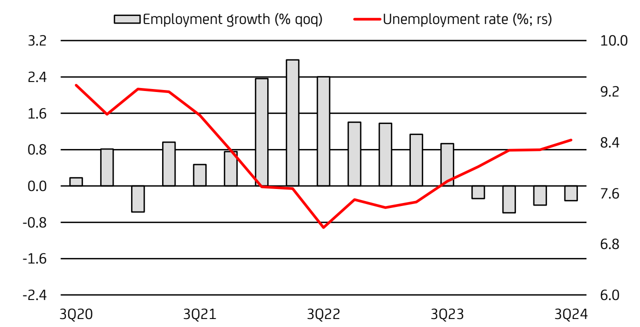
- In August, headline inflation dropped, while core inflation stabilised.

WAGES



- Lower inflation means that real wages have started to rise again and quickly.

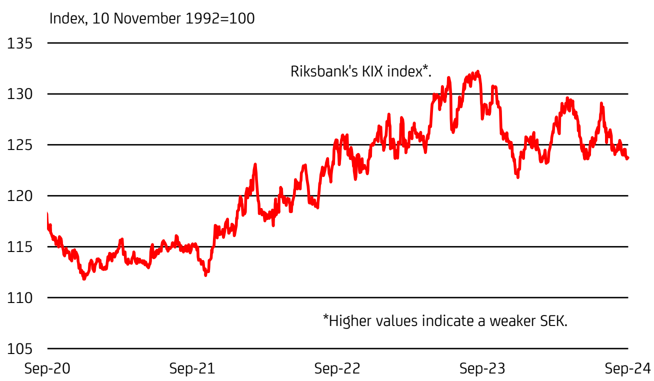
LABOR MARKET



Note: 3Q24 is the average of available data for months of July and August 2024.

- Weak development of the labor market: employment growth is negative while the unemployment rate is rising.

TWI



- The SEK is now back at around the same level as in June: market expectations of global interest rates have fallen, and the SEK has strengthened.

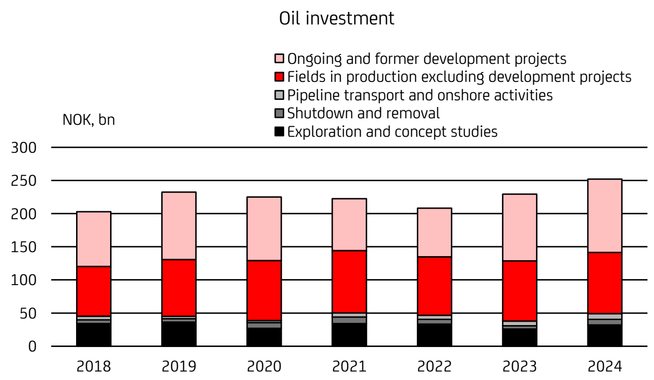
Source: National Mediation Office, Riksbank, Statistics Sweden, UniCredit Group Investment Strategy

Norway

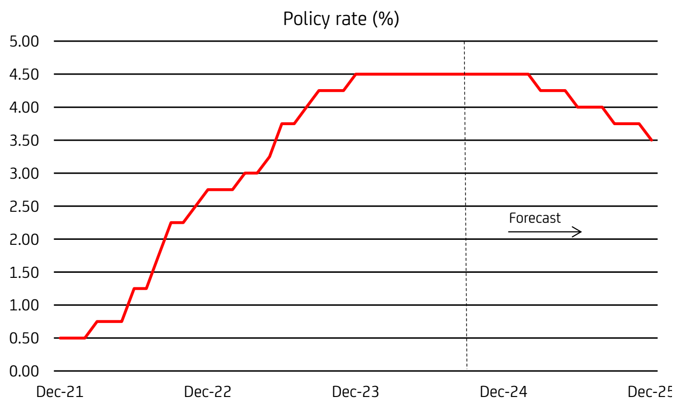
Chiara Silvestre,
Economist (UniCredit, Milan)
chiara.silvestre@unicredit.eu

- We confirm our base-case scenario of GDP expanding by 0.6% (overall 0.7%) in 2024 and by 1.0% (overall 1.2%) in 2025. Growth in the Norwegian economy has been mild so far but showed larger-than-expected resilience to high and unchanged interest rates and sticky inflation. On the one hand, high inflation and the rise in interest rates have subtracted from GDP by reducing households' purchasing power and consumption and leading to a sharp decline in residential construction. On the other hand, improving competitiveness (due to the weak NOK) in the export sector, including tourism, higher public-sector spending of oil revenues and massive investment in the petroleum industry supported GDP.
- All the above-mentioned factors are likely to favor a gradual recovery of Norwegian GDP growth ahead. In detail: according to the Norwegian Offshore Directorate resource report (2024), in its base-case scenario, investment activity on the Norwegian Continental Shelf will remain at the current high level for the next few years. Profitability in the export sector is set to remain strong as the NOK's past and expected weakness is likely to support the sector. In addition, the value of the petroleum fund has increased this year, giving the government considerable room to spend a larger portion of oil revenues. Over the course of 2025, when Norges Bank is expected to ease its monetary policy, economic growth will likely accelerate thanks to improved household purchasing power and rising consumption, as well as the expected slowdown of the decline in residential construction.
- Inflation is on a slow and gradually declining trend. In August, headline inflation decelerated to 2.6% yoy (from 2.8% in July). Core inflation eased to 3.2% from 3.3%. The continuing NOK weakness and growing business costs continue to challenge the disinflation trend and the attainment of the 2% threshold, which we now expect to occur at the end of 2025 for headline inflation and in 2026 for core inflation. We expect headline inflation to average 3.2% and 2.1% and core inflation 3.8% and 2.7% in 2024 and 2025, respectively.
- The continuing weakness of the NOK and its undesirable effect on the disinflation process are prompting Norges Bank to play for more time before starting to ease monetary policy. In September, the central bank turned less hawkish, tweaking its guidance slightly, stating that the key rate will likely remain at the current level until the end of the year before gradually being reduced starting in 1Q25. Financial markets see the outcome of the December meeting as a close call, with a 50% probability of a 25bp cut. The next three inflation prints and the NOK developments are key data to monitor in order to assess more accurately whether Norges Bank will cut rates in December. Our inflation and NOK forecasts are in line with the expectation that the first 25bp rate cut will be delivered in March.

STRONG INVESTMENT IN THE OIL SECTOR



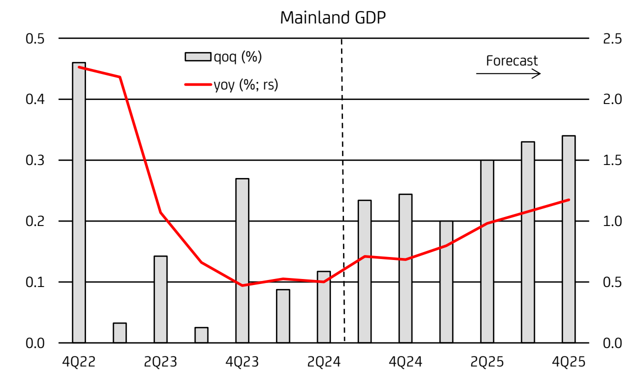
POLICY RATE LIKELY TO BE UNCHANGED THIS YEAR



Source: Norges Bank, Statistics Norway, UniCredit Group Investment Strategy

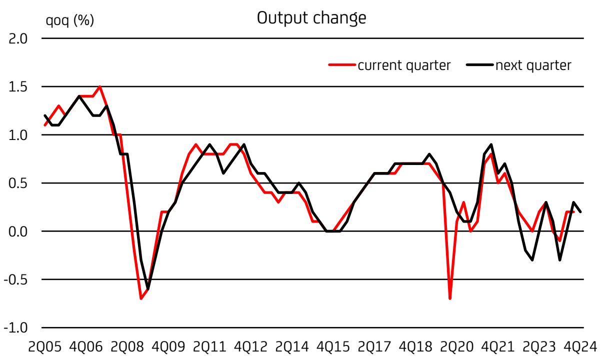
NORWAY

GROWTH



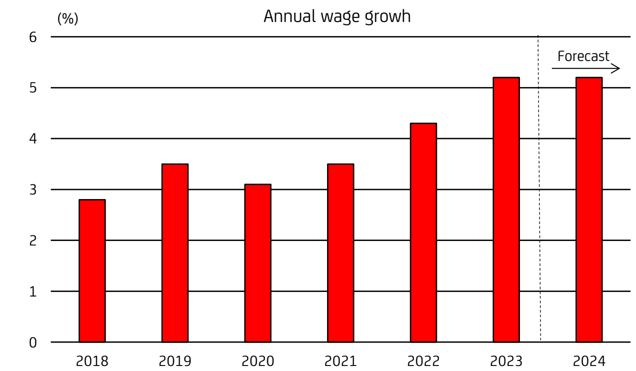
- Norway's economy has experienced low growth so far this year.

SURVEYS



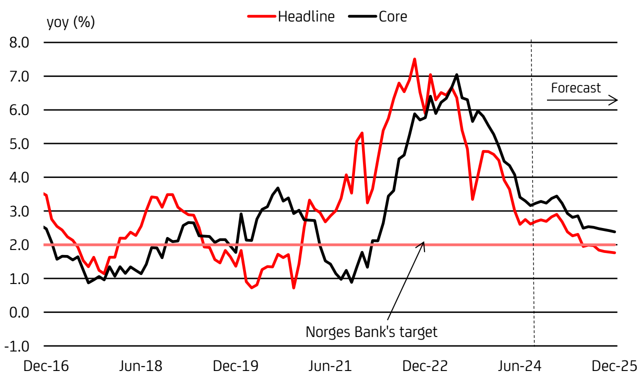
- Norges Bank's regional network indicates that economic growth should recover in the second half of this year.

WAGE GROWTH



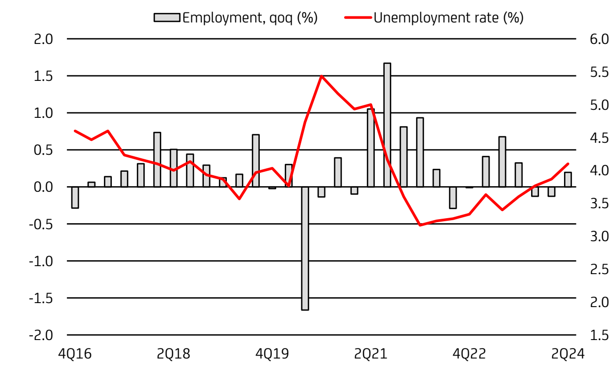
- Annual wage growth is high. Wages increased by 5.2% in 2023 and are expected to grow by the same amount this year.

INFLATION



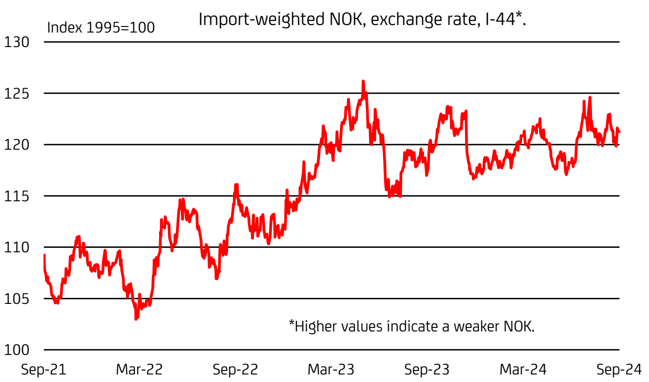
- Inflation has been decelerating towards 2% very slowly.

LABOR MARKET



- Norway's labor market is less tight. The unemployment rate has edged up from a low level.

TWI



- The NOK has depreciated in recent years and is now weaker than in June. This implies slower CPI-inflation deceleration towards Norges Bank's target but also improved competitiveness in the export market.

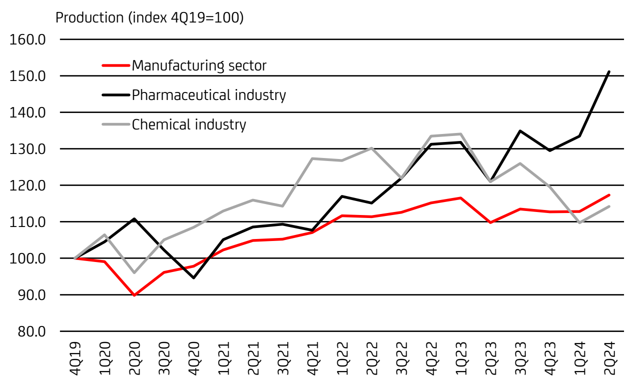
Source: Norges Bank, Statistics Norway, UniCredit Group Investment Strategy

Switzerland

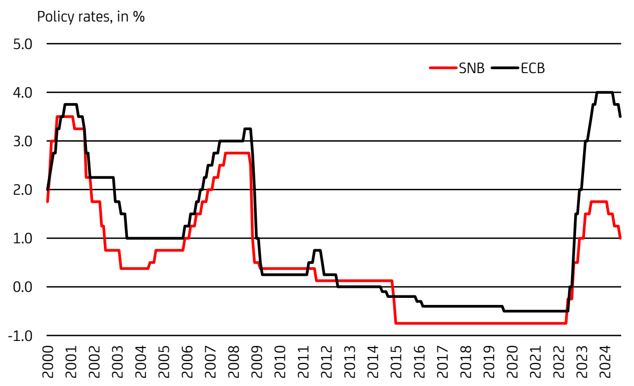
Dr. Andreas Rees, Chief German Economist (UniCredit, Frankfurt)
+49 69 2717-2074
andreas.rees@unicredit.de

- We continue to expect GDP growth of 1.4% in 2024 but have lowered our forecast for 2025 to 1.3% from 1.6%. The 2024 figure is likely to be inflated by licensing income, probably by nearly 0.5pp, stemming from major international sporting events, such as the Summer Olympic Games and the European Football Championship.
- The better-than-expected performance of the Swiss economy overall in 2Q24 (+0.7% qoq) was largely driven by an unusually strong rise in activity in the export-dependent pharmaceutical industry (see left chart). We expect a correction of this strong increase, which is likely to put a dampener on GDP growth in 3Q23 and 4Q24 (+0.2% qoq). Besides such technical issues, the stronger Swiss franc and the subdued manufacturing activity in Germany will probably also weigh on Swiss exporters. Germany is the most important export market with an export share of 15½%, followed by Italy (7¾%), China (5½%) and France (5¼%).
- In contrast, private consumer expenditure is likely to benefit from moderate wage hikes (in real terms), a high level of immigration and further job creation, although the build-up in new jobs has recently slowed. According to a recent KOF survey, in which 4,500 companies participated, a wage hike of 1.6% yoy in 2025 is likely compared to an expected inflation rate of 0.5% (UniCredit forecast).
- Inflation remained contained over the last few months. Both headline and core inflation rose 1.1% yoy in August. Leading indicators, such as import and producer prices, signal low inflationary pressure in the next few months. We expect headline inflation rates of about 1% during the remainder of 2024 before declining below 1% in 1Q25.
- The SNB cut its key rate again, by 25bp to 1.0% at its quarterly meeting in September after 25bp rate cuts in June and March, respectively (see right chart). Policymakers explained this decision by highlighting the reduced inflationary pressure due to a stronger Swiss franc and weaker second-round effects. Importantly, the SNB also adapted its communication by highlighting that "further cuts […] may become necessary in the coming quarters […]". Such a relatively outspoken statement about the future interest rate path is unusual for the SNB and comes close to a forward-guidance strategy. As a result, we have changed our forecast and have penciled in two additional rate cuts by 25bp each at the meetings in December and March. Our forecasts of a (nominal) terminal rate of 0.5% and an inflation rate of also 0.5% in 2025 would be at the lower end of academic estimates of the real equilibrium interest rate of 0-0.5%. SNB policymakers have repeatedly referred to these estimates in the last few months.

JUMP IN PHARMACEUTICAL INDUSTRY NOT SUSTAINABLE



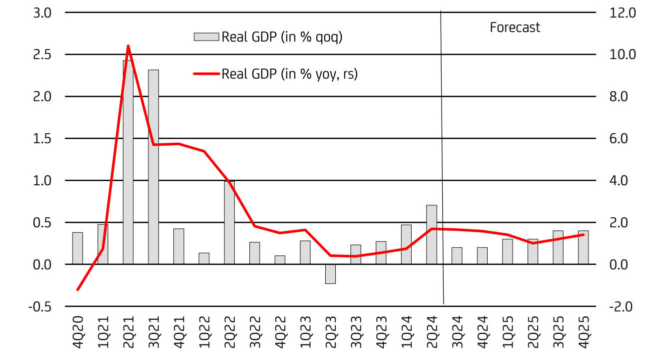
FURTHER RATE CUTS BY THE SNB LIKELY



Source: Macrobond, UniCredit Group Investment Strategy

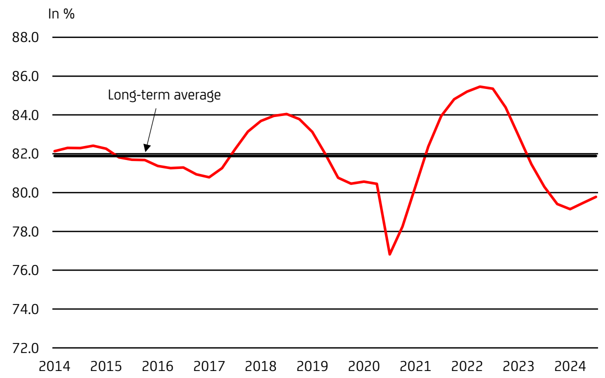
SWITZERLAND

GROWTH



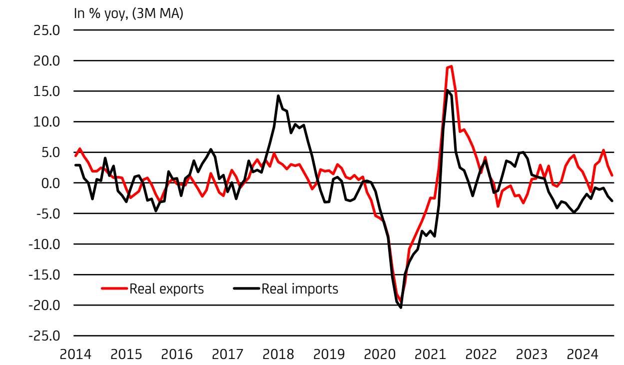
- We expect real GDP to rise 0.2% qoq in 3Q-4Q24 after a strong increase by 0.7% in 2Q24.

CAPACITY UTILIZATION



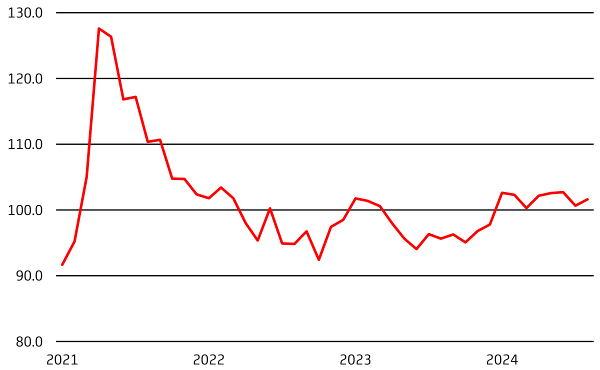
- Capacity utilization in the manufacturing sector has recovered slightly in 3Q24 but remains markedly below its long-term average.

INTERNATIONAL TRADE



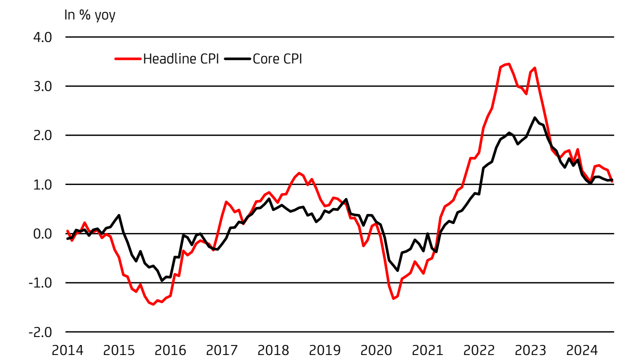
- Export growth has decelerated, while imports have continued to shrink.

LEADING INDICATOR



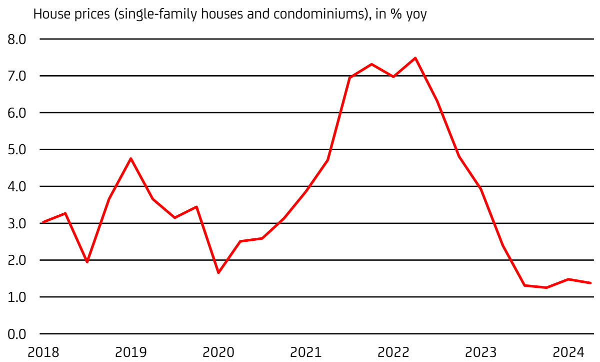
- The KOF leading indicator remained roughly unchanged overall in recent months.

INFLATION



- Both headline and core inflation rose 1.1% yoy in August.

RESIDENTIAL PROPERTY MARKET



- House prices continued to increase slightly in 1H24.

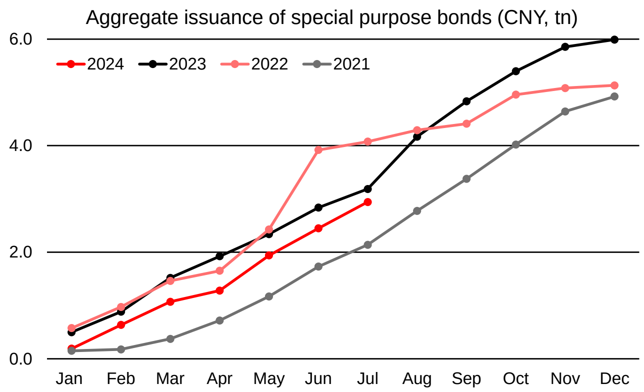
Source: SECO, Macrobond, UniCredit Group Investment Strategy

China

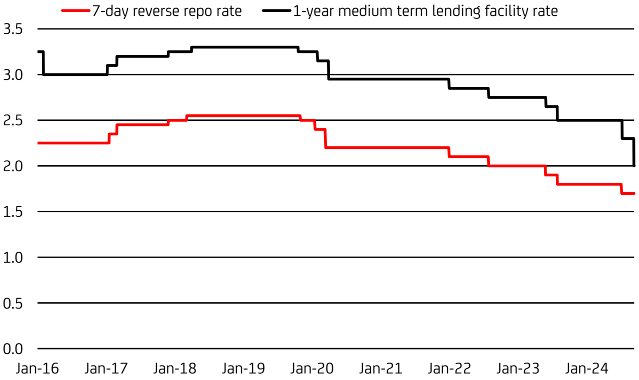
Edoardo Campanella,
International and Energy Economist
(UniCredit, Milan)
+39 02 8862-0522
edoardo.campanella@unicredit.eu

- We confirm our forecast for GDP growth of 4.8% in 2024 but have revised our 2025 forecast upward, to 4.5% from 4.3%, as China's central government now seems committed to using both fiscal- and monetary-policy levers to ameliorate a weakening economic outlook. At the moment, the Chinese economy is really a tale of two economies. The supply-side is performing well thanks to industrial policies aimed at channeling economic resources into new sectors and away from the real-estate sector. However, consumer confidence remains at rock bottom, primarily because Chinese households' wealth tends to be tied to the value of homes, which has depreciated in recent years. As a result, China's global exports shares remain above the pre-covid levels, but a substantial amount of production capacity remains idle due to domestic-demand weakness. Rising trade tension with both the US and the EU will complicate the absorption of excess capacity going forward.
- There are signs of deflationary risks emerging from domestic-demand weakness. CPI inflation has been below 1% in year-on-year terms for the last 18 months, with some readings moving into negative territory. Core CPI inflation, which excludes energy and food prices, came in at 0.3% yoy in August. PPI deflation has also persisted, with gate prices in manufacturing industries suggesting heavy pressure on consumer-good inflation lies ahead.
- The Chinese government is taking stock of the currently gloomy economic situation and the lack of adequate policy support for the economy. Measures announced last spring to shore up the country's real-estate sector (such as reducing downpayment requirements, lowering mortgage rates, easing purchase requirements and asking local governments to purchase unsold properties to use as social housing) have not revitalized either the real-estate sector or consumer confidence. In addition, the issuance of special-purpose bonds, which are used to fund infrastructure projects and which, in recent years, have been a major source of growth support, has been so far less intense compared to 2023 and 2022.
- The central government is now perceived as willing to adopt bold policy measures to boost economic activity. In a series of separate moves in late September, the PBoC lowered the 14-day reverse repo rate to 1.85% from 1.95%, cut the required reserve ratio to 9.5% from 10%, reduced the seven-day reverse repurchase rate to 1.5% from 1.7%, lowered the mortgage rate for existing housing loans and injected around CNY 800bn of liquidity to support equity markets. The government has also announced one-off cash handouts for the poor and is considering injecting CNY 1tn into its biggest state banks. Overall, the announced measures are designed to stimulate demand, but weak consumer spending is partly due to fears of households about structural economic problems (e.g. housing crisis, weak property rights, weak social security safety net) and the announced measures may not be enough. Prices of homes and some goods are falling, and consumers may delay purchases in the expectation of lower prices. The household savings rate is very high and has been well above its pre-pandemic level for a few years – there is the potential to unlock this, but one has to ask why households were not spending these accumulated savings in the first place.

TIMID FISCAL SUPPORT…



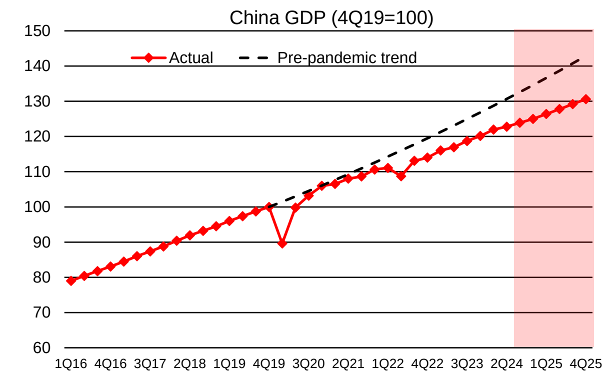
…BUT THE PBOC IS INTERVENING



Source: NBS, PBoC, UniCredit Group Investment Strategy

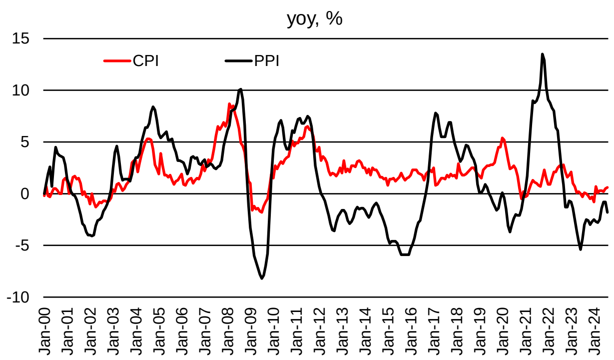
CHINA

GDP



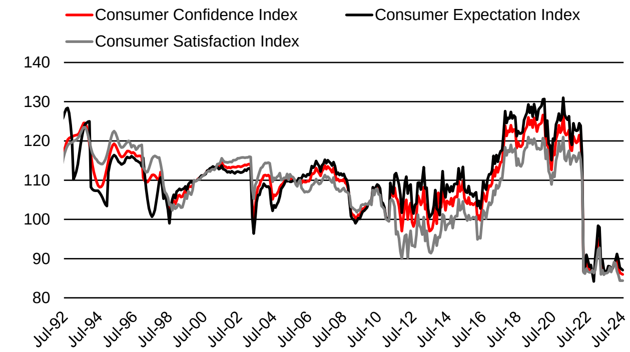
- GDP growth might regain some momentum thanks to additional policy measures, but the 5% growth target looks ambitious.

PRICES



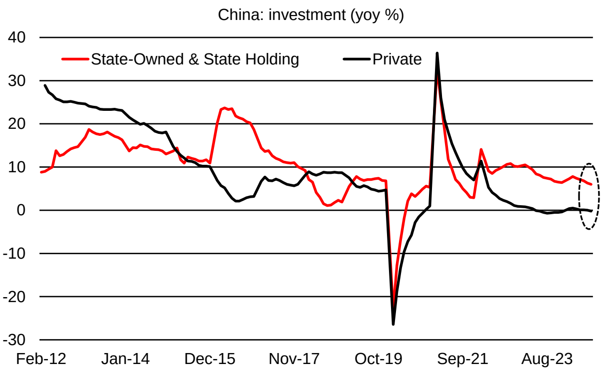
- Deflationary risks on the CPI front have increased in recent months.

CONSUMER CONFIDENCE



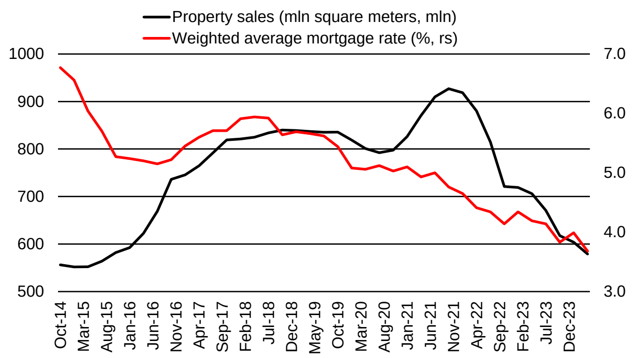
- Consumer confidence remains at rock bottom.

INVESTMENT



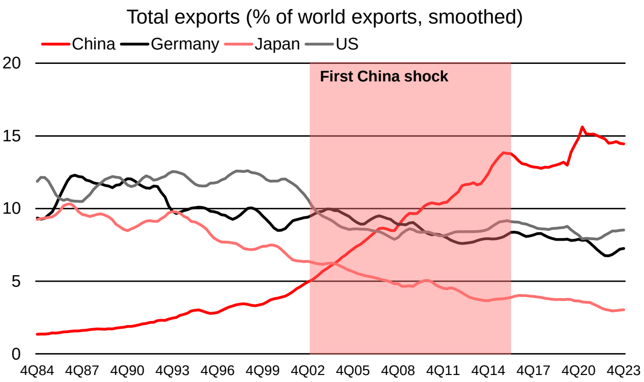
- Investment growth continues to be driven by the state.

REAL ESTATE



- The real-estate sector continues to struggle, despite the policy measures announced last spring.

SECOND CHINA SHOCK



- China's global export shares remain elevated.

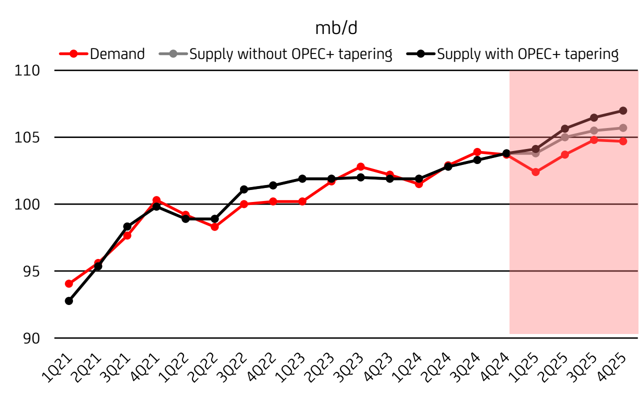
Source: Bloomberg, NBS, UniCredit Group Investment Strategy

Oil

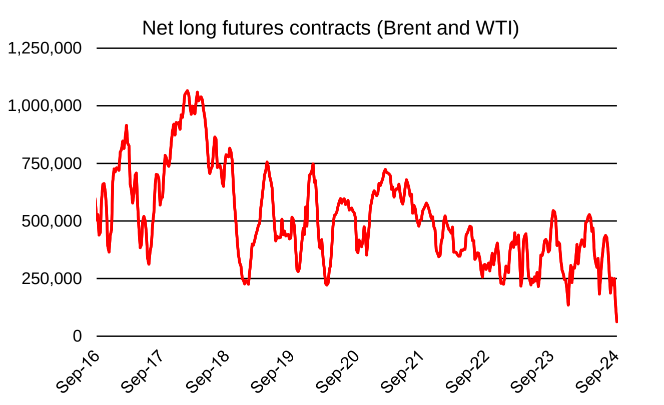
Edoardo Campanella,
International and Energy Economist
(UniCredit, Milan)
+39 02 8862-0522
edoardo.campanella@unicredit.eu

- The stock market panic of early August took its toll on oil prices as fears of an economic slowdown in the US added to concern about anemic oil demand in China. Thanks to the OPEC+ decision to delay the tapering of its cuts, which were supposed to start in October, Brent prices have since found a floor at USD 70/bbl. Given the abundant oil supply in North America and a weak demand outlook that will likely force OPEC+ to again reconsider the withdrawal of its output curbs in 2025, we expect Brent prices to fluctuate between roughly USD 75/bbl and USD 80/bbl until the end of 2025. A wider conflict in the Middle East, with the direct involvement of key regional powers such as Iran, would likely push prices towards USD 100/bbl.
- Global oil demand is continuing to lose its shine. China's economic slowdown is weighing on the overall outlook. Last July, Chinese demand contracted for a fourth straight month, declining by 280kb/d. This is partly due to the cyclical downturn triggered by the real estate crisis and partly to structural factors as sales of EVs are depressing gasoline consumption. Oil demand in other emerging economies remains solid, while across advanced economies it has remained roughly stagnant since 2023.
- The big oil story of 2024 has been the production boom in the US, where petroleum output surpassed 20mb/d. According to the IEA, non-OPEC+ production is on track for another year of strong growth in 2025, with additions forecast at around 1.5 mb/d. Most of the growth will be concentrated in the US, but Brazil, Guyana and Canada will also contribute.
- OPEC+ finds itself in an uncomfortable position. Its members would like to normalize production, removing the 2.2mb/d of curbs that are currently in place. In particular, Iraq, Kuwait and the UAE have substantial spare capacity that they would like to inject into the market. Saudi Arabia itself, which could push its production from around 9mb/d to around 12mb/d almost overnight, has so far managed to persuade OPEC+ members to adopt a cautious approach – even if OPEC+ non-compliance amounts to 850kb/d. In our view, the cartel will again not be in a position to remove its output cuts in 2025. Even at current levels of production, considering the weak demand outlook, the global oil market is likely to experience a small output surplus next year.
- In a scenario in which the output cuts are gradually removed between December 2024 and December 2025, the surplus would eventually amount to around 2mb/d, creating substantial downward price pressure, likely leading Brent to drop towards USD 60/bbl. Therefore, in our view, Saudi Arabia will likely manage to persuade the other members of the cartel to hold the line.
- Speculation is also amplifying the current price bearishness. Net-long futures contracts are at their lowest level since 2016, meaning that speculators do not expect any immediate price relief. In the past, Saudi Arabia managed to counter speculation by making bold announcements in terms of additional output cuts. This is something that is unlikely to happen now, especially in the context of weak demand. What's more likely is that they will reiterate that decisions on the tapering of existing cuts will depend on the evolution of the market.

RISK OF WIDENING OUTPUT SURPLUS



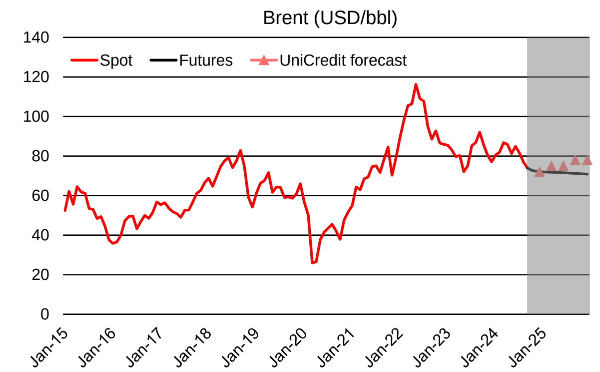
SPECULATORS THROW IN THE TOWEL



Source: IEA, Bloomberg, UniCredit Group Investment Strategy

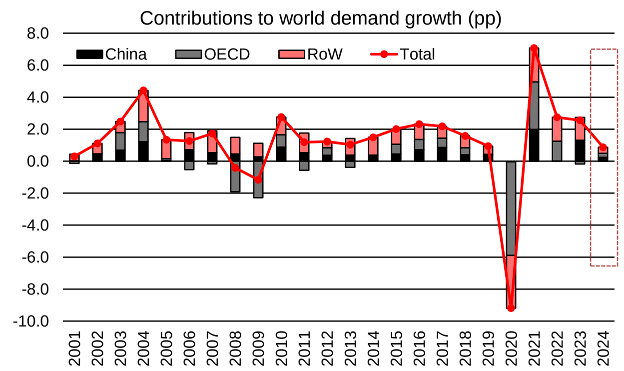
OIL

PRICES



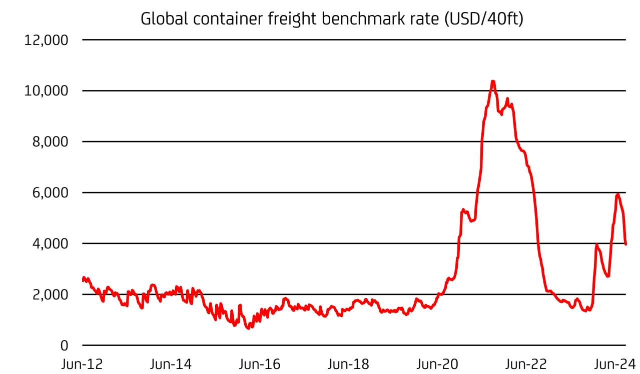
- We expect oil prices to move back towards USD 80/bbl thanks to a disciplined OPEC+.

DEMAND



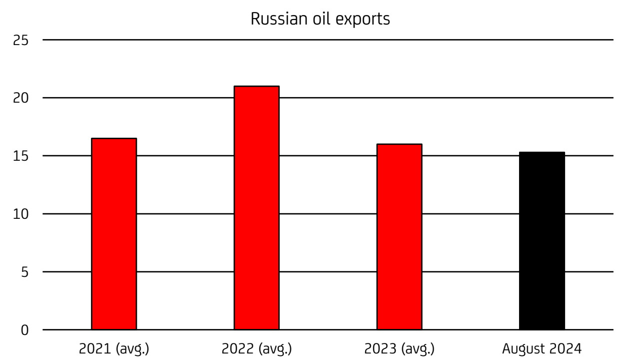
- The IEA expects demand to be 103mb/d in 2024 – almost 1mb/d lower than in our previous update.

TRANSPORTATION COSTS



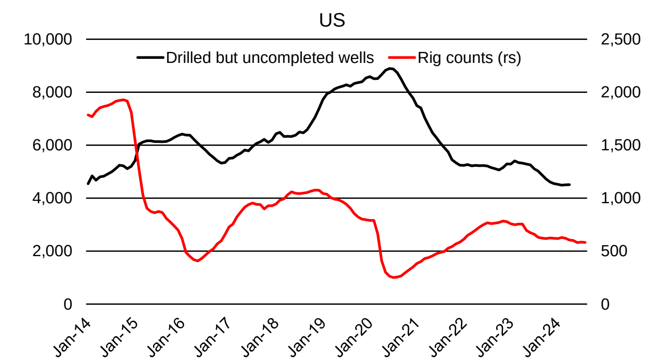
- Risks of supply bottlenecks and associated transportation costs due to geopolitical tensions have declined.

RUSSIAN EXPORTS



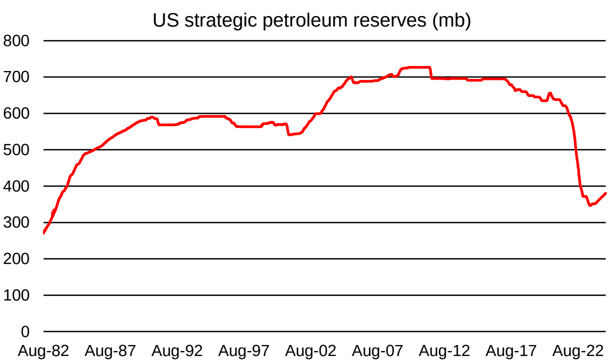
- Russian exports finally declined in August, after showing great resilience for months, despite sanctions.

US PRODUCTION



- The US oil boom has not been matched by an increase in rig count, meaning that it was driven by productivity gains.

STRATEGIC RESERVES



- US strategic petroleum reserves are still well below their pre-pandemic levels, although they are on a rising path.

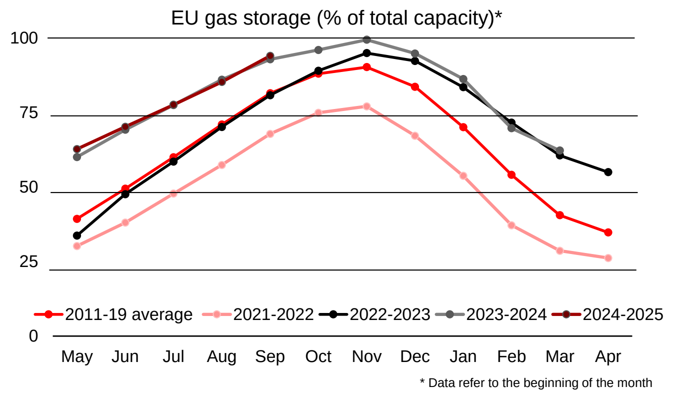
Source: IEA, Bloomberg, Energy Aspects, UniCredit Group Investment Strategy

Natural Gas

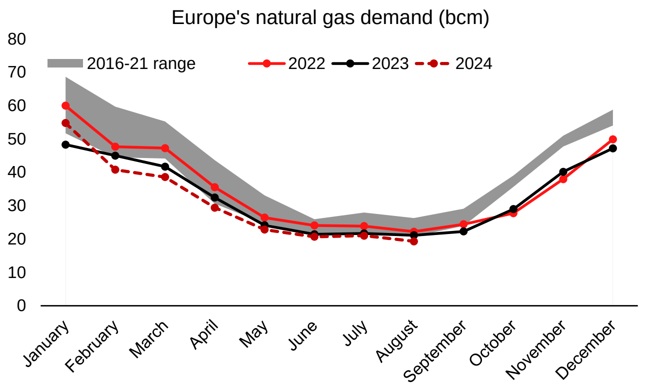
Edoardo Campanella,
International and Energy Economist
(UniCredit, Milan)
+39 02 8862-0522
edoardo.campanella@unicredit.eu

- After TTF prices spent most of 1Q24 and 2Q24 below EUR 35/MWh, since August, they have fluctuated between EUR 35/MWh and EUR 40/MWh. We expect this trend to continue for the rest of the year. This is a change from our previous forecast, which envisioned TTF prices stabilizing within a EUR 30-35MWh trading range. Despite storage levels being at historic highs and demand being sluggish, investors seem concerned about the natural-gas-supply outlook for Europe. This should remain tight if this winter is colder than the previous two as a result of a shift due to the end of the current EL Niño effect and LNG competition from Asia.
- Thanks to positive carryover from the previous winter, which was unseasonably mild (like the previous one), Europe's gas storage hit 90% of total capacity in mid-August – ten weeks earlier than the official deadline of 1 November. As we predicted in our latest update, storage is likely to hit 100% by the end of October, as it did last year.
- Data for 2023 and for the first eight months of 2024 show that demand is clearly stabilizing at low levels. This is likely to be a structural development driven by energy-efficiency gains, fuel diversification away from gas and more-binding climate targets. In the case of industrial demand, part of the weakness is also due to permanent output losses for energy-intensive sectors that are struggling to compete globally given that TTF prices remain well-above their pre-Ukraine-war levels. Over the next few months, the main source of uncertainty will be demand for heating, which could be positively affected by a winter that is colder than last year – usually, the beginning of the La Niña effect coincides with a significant drop in temperatures.
- This potential rise in demand is likely a source of concern for the market and could explain recent price volatility. As we argued in the past, Europe has successfully managed to reduce its dependence on Russian gas through supply diversification. At the moment, domestic production accounts for about 45% of total European supply, followed by LNG imports (35%) and piped gas imports (20%). Norway alone covers around 30% of Europe's total supply, offering secure gas to the continent. This supply is enough to cover demand in case winter is mild, like those Europe experienced over the last two years. However, if demand for heating were to increase by 20% in the winter, then Europe would be short by around 20bcm, despite its abundant storage. Only more imports of LNG would cover the gap, but in the context of fierce competition with Asia. In addition, temporary outages, due, for example, to extraordinary maintenance in Norway, were quite frequent in the recent past and would be enough to disrupt the gas balance in normal times – let alone during an especially cold winter. Lastly, despite all of Europe's diversification efforts, it still relies on Russian gas, including LNG, to cover about 12.5% of its total natural-gas consumption.
- The EU is still planning to ban Russian pipeline gas and Russian LNG. In the meantime, Moscow is trying to find alternative markets and has been in discussions for several months with China about the prospects of building a pipeline to be called Power of Siberia 2 via Mongolia, but Beijing, with its diversified import portfolio, is not interested in a substantial increase in deliveries via the Russian route. Hence, there has been a prolonged lack of diplomatic progress in this regard.

ENTERING WINTER ON A GOOD FOOTING



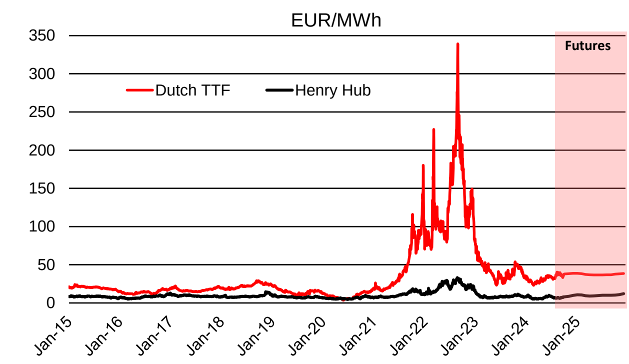
SLUGGISH DEMAND



Source: Energy Aspects, UniCredit Group Investment Strategy

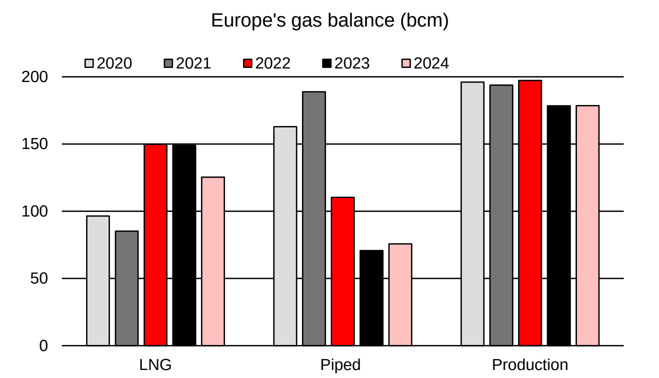
NATURAL GAS

PRICES



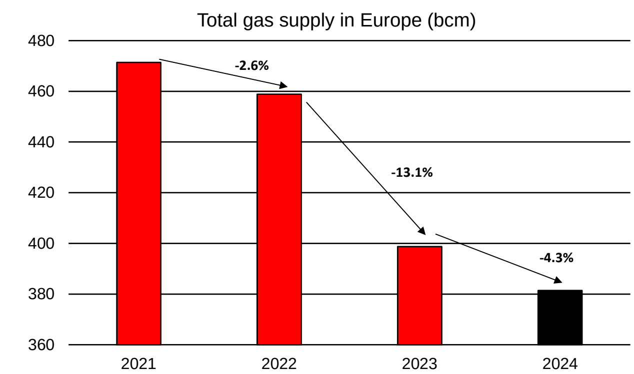
- TTF prices have stabilized above EUR 35/MWh.

GAS BALANCE



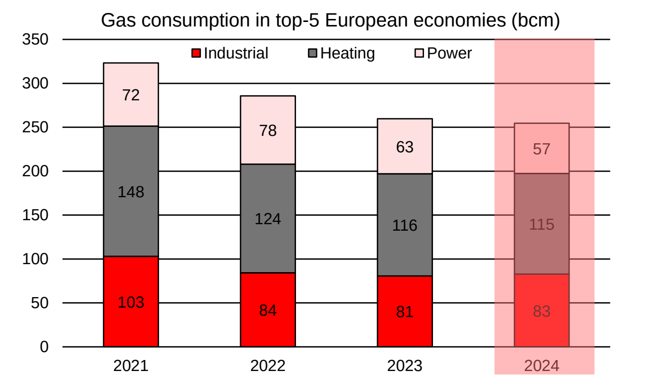
- Piped gas is playing a secondary role in the overall balance.

SUPPLY



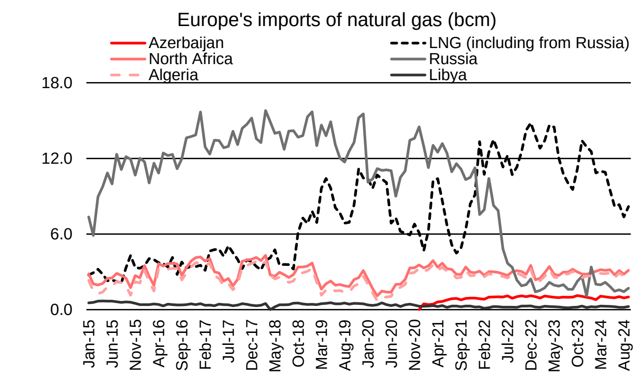
- Supply keeps declining on the back of Asian competition for LNG and weak demand in Europe.

DEMAND



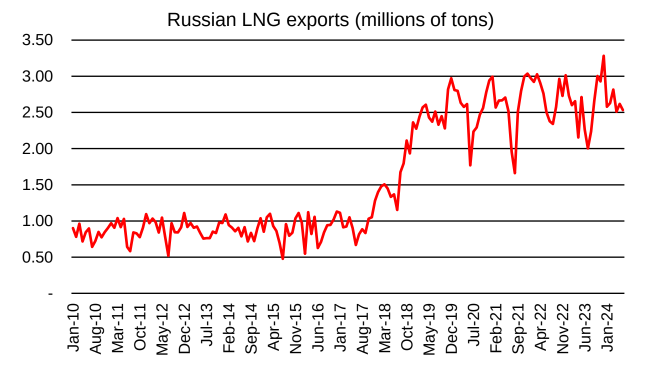
- Unless winter is very cold, demand is expected to decline for a third consecutive year.

IMPORTS



- LNG is now the main import for Europe, followed by piped gas from North Africa.

RUSSIAN LNG



- Russia has significantly increased its exports since 2019, but they seem to be close to stabilization.

Source: Energy Aspects, Bloomberg, UniCredit Group Investment Strategy

LEGAL NOTICES

GLOSSARY

A comprehensive glossary for many of the terms used in the report is available on our website: https://www.investmentinsights.unicredit.eu/glossary.

MARKETING COMMUNICATION

This publication constitutes a marketing communication of UniCredit S.p.A., UniCredit Bank Austria AG, Schoellerbank AG and UniCreditBank GmbH (hereinafter jointly referred to as the “UniCredit Group”) is addressed to the general public and is provided free of charge for information only. It does not constitute investment recommendation or consultancy activity by the UniCredit Group or, even less, an offer to the public of any kind nor an invitation to buy or sell securities. The information contained herein does not constitute an investment research or financial analysis since, in addition to the lack of content, it has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and it is not subject to any prohibition on dealing ahead of the dissemination of investment research.

UniCredit Group, including all its group companies may have a specific interest in relation to the issuers, financial instruments or transactions detailed herein. Relevant disclosures of interests and positions held by UniCredit Group are available at: ConflictsofInterest_PositionsDisclosures. Any estimates and/or assessments contained in this publication represent the independent opinion of the UniCredit Group and, like all the information contained therein, are given in good faith on the basis of the data available at the date of publication, taken from reliable sources, but having a purely indicative value and subject to change at any time after publication, on the completeness, correctness and truthfulness of which the UniCredit Group makes no guarantees and assumes no responsibility. Interested parties must therefore carry out their own investment assessments in a completely autonomous and independent manner, relying exclusively on their own considerations of the market conditions and the information available overall, also in line with their risk profile and economic situation. Investment involves risk. Before any transaction in financial instruments please refer to the relevant offering documents. It should also be noted that:

1. Information relating to the past performance of a financial instrument, index or investment service is not indicative of future results.

2. If the investment is denominated in a currency other than the investor’s currency, the value of the investment can fluctuate strongly

according to changes in exchange rates and have an undesirable effect on the profitability of the investment.

3. Investments that offer high returns can undergo significant price fluctuations following any downgrading of creditworthiness. In the event of bankruptcy of the issuer, the investor may lose the entire capital.

4. High volatility investments can be subject to sudden and significant decreases in value, being able to generate significant losses at the time of sale up to the entire capital invested.

5. In the presence of extraordinary events, it may be difficult for the investor to sell or liquidate certain investments or obtain reliable information on their value.

6. If the information refers to a specific tax treatment, it should be noted that the tax treatment depends on the individual situation of the customer and may be subject to change in the future.

7. If the information refers to future results, it should be noted that they do not constitute a reliable indicator of these results.

8. Diversification does not guarantee a profit or protect against a loss.

The UniCredit Group cannot in any way be held responsible for facts and/or damages that may arise to anyone from the use of this document, including, but not limited to, damages due to losses, lost earnings or unrealized savings. The contents of the publication – including data, news, information, images, graphics, drawings, brands and domain names – are owned by the UniCredit Group unless otherwise indicated, covered by copyright and by the industrial property law. No license or right of use is granted and therefore it is not allowed to reproduce its contents, in whole or in part, on any medium, copy them, publish them and use them for commercial purposes without prior written authorization from UniCredit Group unless if purposes of personal use only.

E 24/1