Modest deterioration in the growth outlook for the international economy

We are entering the final stretch of the year following a summer marked by the Olympic Games in Paris and a brief episode of financial turbulence which was triggered, in part, by fears that the US economy could fall into recession. Those fears have been shown to be somewhat exaggerated and the global economy has seen a continuation of the trend of recent quarters, although the outlook for the final part of the year has weakened. The time has therefore come to adjust the economic and financial outlook scenarios with all the new information that has come to light in recent months.

Crude oil feels the effects of the deterioration of global growth expectations

This cooling in growth expectations is one of the reasons for the fall in the price of the main commodities in recent months. Energy commodities have recorded a particularly sharp decline, causing us to revise our baseline scenario for their prices.[1] In the case of oil, our forecast for the average price of a Brent barrel in 2024 is 80.4 dollars, and 76 dollars in December, almost 7 and 10 dollars lower than in the scenario prior to the revision, respectively. For 2025, we expect an average price of under 75 dollars, and below 74 dollars in December, 7 and 4 dollars lower than in the previous scenario, respectively. However, these forecasts are subject to a high degree of uncertainty due to the heightened geopolitical instability in the Middle East, as the latest episode to date is demonstrating: the imminent risk of the armed conflict spreading across the region caused the oil price to rise by over 5.0% in less than two days. As for the price of gas, it has remained fairly stable thanks to favourable supply and demand conditions. However, the possible impact of the non-renewal in December of a five-year agreement to buy gas from Russia, due to Ukraine's refusal to allow gas to be transported through its territory, makes it advisable to revise its price upwards. For 2024, the average price could be 33.8 euros/kWh, standing at 40.8 euros/kWh in December, compared to the 30.2 and 35.5 euros/kWh, respectively, predicted in the previous scenario. In 2025, we place the average price for the year at 39.6 euros/kWh and that of December at 40.6 euros/kWh, compared to 32.9 and 34.3 euros/kWh, respectively, in the previous scenario.

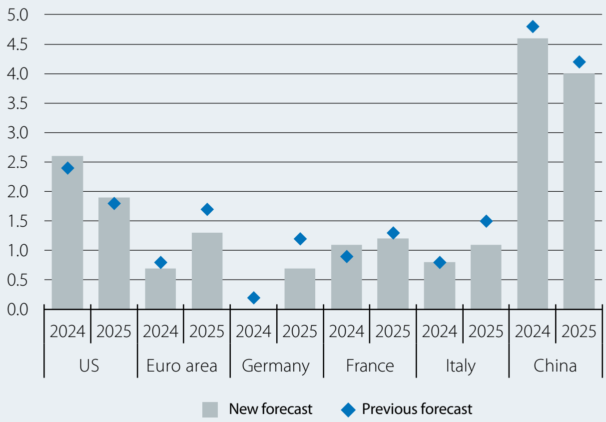
In the US, the focus shifts to the labour market, while inflation is considered of secondary importance

The big positive surprise in the first half of the year was the strength of the US economy, where growth accelerated from 0.3% quarter-on-quarter in Q1 to 0.7% in Q2. Indeed, this unexpected strength of economic activity automatically entails an upward revision of the

1. See the Focus «Energy: revision of the scenario in turbulent times», in this same *Monthly Report*.

GDP growth forecasts

(%)



Source: *CaixaBank Research.*

growth forecast this year and next. That said, as we have already anticipated, we are heading towards a scenario with a slowdown to more sustainable growth rates, close to their potential, in the coming quarters (around 0.5% quarter-on-quarter). Thus, we have revised upwards our estimated growth for 2024 by 0.2 pps, to 2.6%, and that of 2025 by 0.1 pp, to 1.9%.

The resilience of household consumption in the current context of high interest rates has been key. In addition, the latest data on retail sales, household spending and disposable income suggest that their momentum will continue in the short term. However, there is already evidence that private consumption is beginning to suffer: the default rate on consumer loans has risen to its highest level since 2011, the «extra» savings accumulated after the pandemic have been exhausted, while the savings rate has fallen to close to its lowest level in the last decade and job creation has disappointed in recent months.

In fact, since June, monthly job creation (168.000 on average) has been well below the average of the previous two years (314,000), while the unemployment rate has been gradually rising and now exceeds 4.0%. The job vacancy ratio, for its part, has fallen sharply from the peaks of late 2021 and is now close to its pre-pandemic levels. In addition, the US Department of Labor announced that the revision of non-farm employment statistics would result in the job figures for the period April 2023 to March 2024 being some 800,000 people lower than the current figures indicate.

Meanwhile, headline inflation has shown better results than we had anticipated, despite the downward resistance of services inflation. Thus, we have reduced our forecast for headline inflation in 2024 by 0.3 pps, to 2.9%, and that of 2025 by 0.2 pp, to 2.0%. For core inflation, we estimate rates of 3.3% for 2024 and 2.4% for 2025, compared to the previous forecasts of 3.7% and 2.6%, respectively.

The labour market is now the key variable for the Fed, as Powell pointed out in Jackson Hole, acknowledging that the time had come to tighten monetary policy in order to prevent the labour market from cooling any further, while at the same time expressing his satisfaction with the path of inflation. In fact, his first rate cut in September – of 50 bps – was a statement of intent and demonstrated the Fed's commitment to avoiding an «unwanted weakening». This therefore forced us to reconsider our interest rate outlook and anticipate a more aggressive stance from the Fed. Thus, we now anticipate two further rate cuts of 25 bps each in the remainder of the year, ending the year at 4.5% (5.0% in the previous scenario). In 2025, we expect five cuts of 25 bps, placing rates in December at the neutral level of 3.25% and bringing forward to that year all of the cuts which we were previously expecting in 2026.

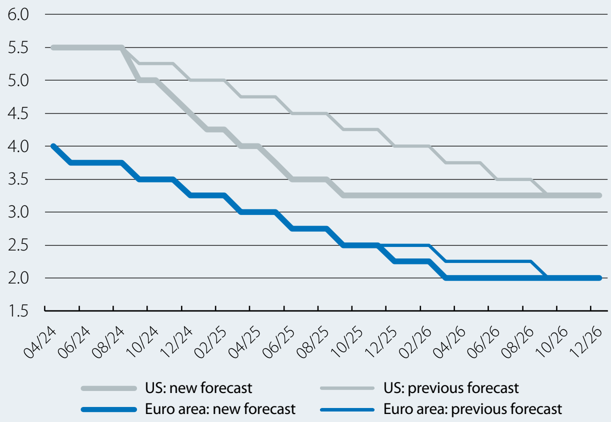
Germany's weakness is weighing down the euro area as a whole

The euro area has performed as expected, although the aggregate picture hides significant disparities from country to country. Germany's weakness is particularly worrying: it has grown by just 0.1% quarter-on-quarter in the year and the main business climate and opinion indicators show no hint of a significant rebound in the country's economic activity in the remainder of the year. Moreover, Germany faces a number of challenges that could compromise its capacity for growth and recovery in the medium term: high current account surpluses, very low public investment, the emergence of new competitors to its historical automotive industry, etc. We therefore lower our growth forecast for 2024 by 0.2 pps, to 0.0%, and that of 2025 by 0.5 pps, placing it at 0.7%. With regard to Italy, although it has performed even slightly better than expected, the delays in the execution of the NGEU funds lead us to be somewhat less optimistic about its future path. We therefore keep our 2024 forecast unchanged, with growth of 0.8% anticipated, and we cut that of 2025 by 0.4 pps, to 1.1%. For its part, France will see its growth rate accelerate in Q3 thanks to the boost provided by the Olympics held in Paris this summer, although this will be only temporary. Nevertheless, thanks to this event, we have raised our expected growth rate in 2024 by almost 0.2 pps, to 1.1%, but we have reduced our estimate for 2025 by 0.1 pp, to 1.2%. On balance, the growth forecast for the euro area is revised in 2024 by –0.1 pp, to 0.7%, and that of 2025 by –0.4 pps, to 1.3%.

In this context of cooling, inflation is behaving in line with expectations, although the increased downward resistance shown by services inflation raises our expectations slightly. Thus, we have raised our forecast for headline inflation by 0.1 pp in both 2024 and 2025, placing it at 2.2% and 2.0%, respectively. As for core inflation, we have raised our forecast for 2024 and 2025 by 0.2 pps and 0.1 pp, to 2.8% and 2.2%, respectively.

Expectations for benchmark interest rates

(%)



Source: *CaixaBank Research.*

Nevertheless, inflation will continue to converge towards its target rate over the coming months.

This slightly weaker economic growth outlook, with inflation moving towards its target, would allow the ECB to be somewhat more aggressive in its rate cuts. In this regard, we believe that between now and 2026 it could cut interest rates by 25 bps six times, reaching the neutral rate of 2.0% in March of that year.

China will not be able to achieve its growth target without new and bigger stimulus packages

The Asian giant's performance has also been disappointing: GDP growth slowed in Q2 2024 to 0.7% quarter-on-quarter (1.5% in Q1 2024) and it looks unlikely that economic activity will pick up in the coming quarters. The housing sector is reaffirmed as the great burden of the economy and the stimulus measures implemented to date are not having the desired effect, which is causing a marked deterioration in agents' confidence. This greater pessimism is also affecting private investment, which has stagnated, and private consumption, which is still struggling to take off, as households' willingness to save is close to its peak levels. As a result, we have revised our growth forecast for 2024 and 2025 down by 0.2 pps, to 4.6% and 4.0%, respectively. To ensure that the 5.0% target is met, more decisive fiscal stimulus measures than the current ones would be needed, although concern around the sustainability of the country's debt is a major constraint (it is expected to exceed 100% of GDP in 2028, according to the IMF). In fact, the latest package of measures adopted on 24 September focuses, above all, on new monetary easing measures (the reserve ratio is lowered once again), but no fiscal stimulus measures have been officially announced, beyond acknowledging that they will have to «issue and use» government bonds in order to improve the implementation of the «driving force of government investment».

Rita Sánchez Soliva