

# Global Monthly

**Group Economics – Macro Research | 27 September 2024**

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## Will consumers be in time to save the eurozone recovery?

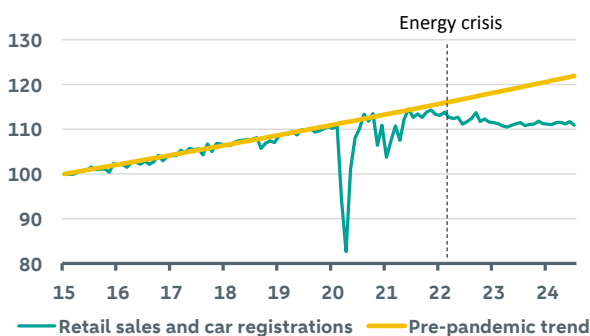
- Real incomes in the eurozone are growing strongly again, but while services has continued to perform well, goods consumption remains depressed
- Weak lending and confidence seem to be the main factors. But signs of life on that front suggest the eurozone is on the cusp of a turn-around in consumption
- Time is of the essence – surveys suggest businesses are on the verge of throwing in the towel amid weak demand. The coming months will be critical in shaping the outlook for the eurozone recovery
- Consumption in China has also been tepid, but in the US has held up thanks to strong credit growth
- Regional updates: Activity looks weak but wage growth is still too high in the [Eurozone](#), while in the [Netherlands](#), households have been similarly reluctant to spend their real income gains
- In the [US](#), recession risk still looks to be contained, despite the Fed’s 50bp rate cut
- Meanwhile in [China](#), Beijing is finally switching focus from industrial policy to demand management.

## Global View: The stimulus taps are being cranked open. For Europe, is it too late?

The message from policymakers over the past month has been loud and clear, at least from the US and China: stimulus is coming. The Fed surprised most economists with a 50bp kick-off to its rate cutting cycle. And while the China stimulus measures announced this week are no bazooka, they are less piecemeal than in the past, suggesting that Beijing really means it this time. For the Fed, this is about keeping the good times going rather than being overly worried about the outlook at this point. For China, there is a greater sense of urgency, as successive smaller-scale measures not yet managed to break the negative feedback loop in real estate. What about the eurozone? The ECB has been more cautious in its support for the economy so far, held back by the legitimate fear that high wage growth might entrench higher inflation. This week’s PMIs may have shifted that calculus, with market pricing for a rate cut in October shooting higher in recent days, from only a 20% probability last week to a 2/3 probability at the time of publication. In this month’s *Global View*, we find that the chief culprit of the weak eurozone recovery has been the contraction in domestic demand. This in turn has been partly due to the chilling impact of high rates on lending. In that regard, a sharp rise in mortgage lending in recent months bodes well for resurgent consumption. A faster pace of rate cuts by the ECB, and stronger external demand – perhaps supported by this week’s China measures – would also help. But could the demand recovery come too late to prevent businesses from laying off workers, thereby scuppering the very recovery they’ve been waiting for? The coming months will be a critical phase for the eurozone recovery, and a pickup in consumption will be vital in avoiding another downturn.

### Retail sales have stagnated since the energy crisis

Eurozone retail & car sales, weighed average index, 100 = Jan 2015



Source: LSEG, ABN AMRO Group Economics

### The eurozone savings rate has surged again

%



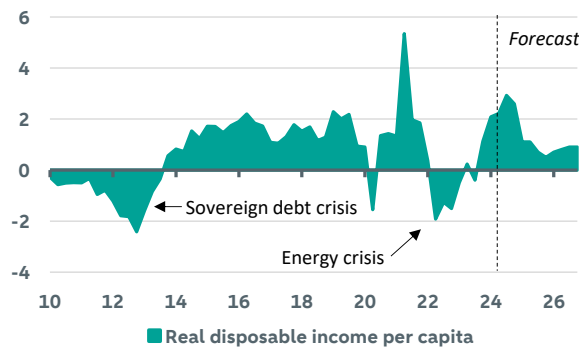
Source: LSEG, ABN AMRO Group Economics

## European consumers have been in hiding. Could that be about to change?

After the energy crisis drove the longest sustained fall in real incomes since the eurozone sovereign debt crisis, things are finally looking up for European households. Real incomes have been growing on a sustained basis for almost a year now, and – excluding the volatile pandemic period – incomes grew at the fastest pace since 2001 in Q1 2024. Despite this, and puzzlingly, household consumption growth remains depressed. Services continues to do well, as the sector did even throughout the energy crisis, fuelled by a post-pandemic unquenchable appetite for restaurants and holidays. But goods consumption has confounded expectations for a recovery, essentially stagnating since the start of the Russia-Ukraine war in February 2022. At the same time, the household savings rate has jumped to 15.4% – the highest since at least 1999, if we exclude the pandemic period. Consumers are seemingly in hiding, reluctant to part with their newly regained purchasing power. What still holds consumers back, and what might coax them into spending again?

### Real incomes are growing sharply

Real disposable income, % y/y (forecast is the ECB's)

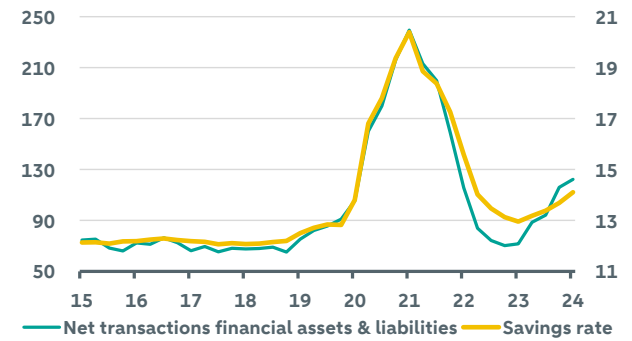


Source: ECB, ABN AMRO Group Economics

### Flow of funds data closely tracks the savings rate

EUR bn (4qma)

Savings rate, % (4qma)



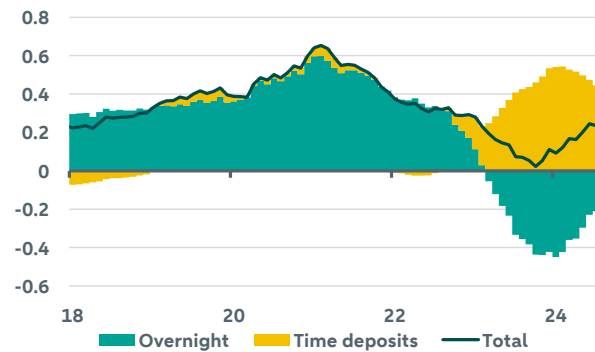
Source: ECB, ABN AMRO Group Economics

## What's holding consumers back?

The first and most obvious culprit is high interest rates. While the ECB has started lowering rates, the pace of rate cuts has been gradual so far, and at 3.5%, the main policy rate remains near the highest since the euro's inception. High rates encourage households to save more and to borrow less. Looking at ECB flow of funds data – which closely tracks movements in the savings rate – we find that households have been borrowing considerably less rather than saving much more. Although time deposit flows have jumped sharply since rates rose, suggesting households have responded to higher rates, this has happened largely at the expense of lower overnight deposits. In the aggregate, deposits have grown only 2.6% over the past year, which is nothing out of the ordinary, and as a share of GDP deposits are back where they were before the pandemic. So, there does not seem to have been a shift in preference in how much cash households wish to hold. Based on our analysis, households have also not been paying off their mortgage debt more quickly, which is another effect that might be expected from high rates<sup>1</sup>.

### Overall bank deposits aren't growing that much

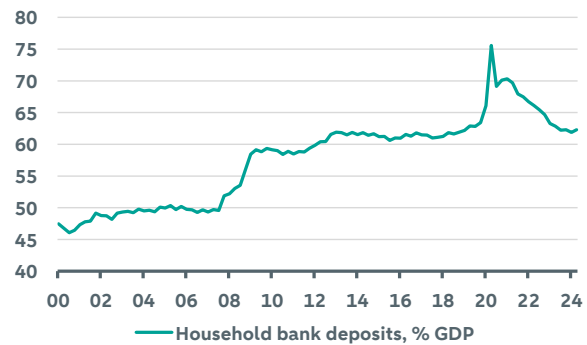
Change in household bank deposits, 4-quarter rolling sum, EUR tn



Source: ECB, ABN AMRO Group Economics

### Ratio of bank deposits to GDP has normalised

Household bank deposits, % GDP



Source: ECB, ABN AMRO Group Economics

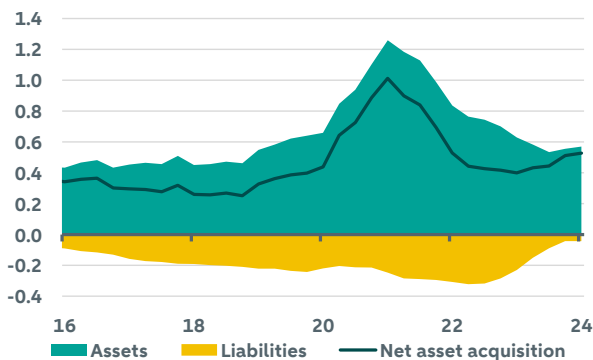
<sup>1</sup> In some countries, for instance in [the Netherlands](#), households are paying off more of their mortgages than in the past due to regulatory changes that have reduced the attractiveness of interest-only mortgages

## Borrowing less is the real reason for the savings rate increase

Rather, the main driver of the higher savings rate appears to be that households are simply borrowing much less. By far the bulk of lending to households is via mortgages, and mortgage lending collapsed when rates shot higher. At its trough in February this year, new mortgage lending (ex-refinancing) fell to the lowest level since 2016. The decline in lending also pushes the savings rate higher, as some of that lending is used for consumption, and the savings rate is ultimately a residual of income minus consumption.

### Rise in net asset acquisition driven by reduced lending

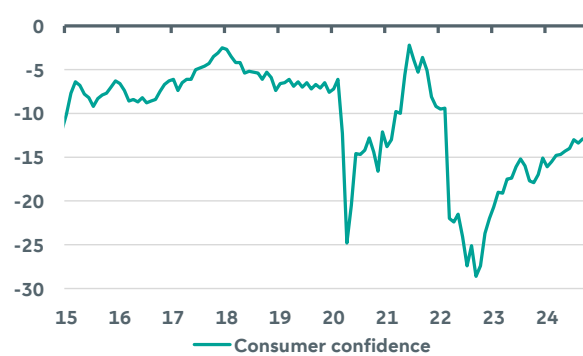
Change in household assets & liabilities, 4-quarter rolling sum, EUR tn



Source: ECB, ABN AMRO Group Economics

### Confidence is rising but remains subdued

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Source: Bloomberg, ABN AMRO Group Economics

The second and related factor is likely fear for the future following the financial trauma of the energy crisis. This is also likely why Europeans, unlike Americans (see US box), are not loading up on credit card or other forms of consumer credit. This is visible in consumer confidence. Having plunged to an all-time low in September 2022 – as the jump in energy bills sharply reduced purchasing power – consumer confidence has since slowly recovered, but remains below its historic average. With the Russia-Ukraine war still raging on Europe's doorstep, amid a more generally volatile geopolitical backdrop, consumers may understandably worry that the next shock is just around the corner.

### Household debt is the lowest in 20 years

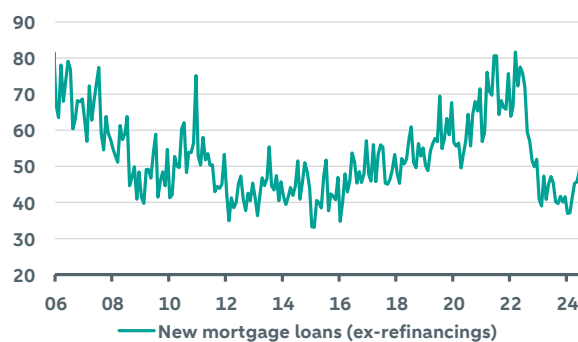
Household debt, % GDP



Source: LSEG, ABN AMRO Group Economics

### New mortgage origination surged in Q2

Monthly new mortgage loans (excluding refinancings), EUR bn



Source: ECB, ABN AMRO Group Economics

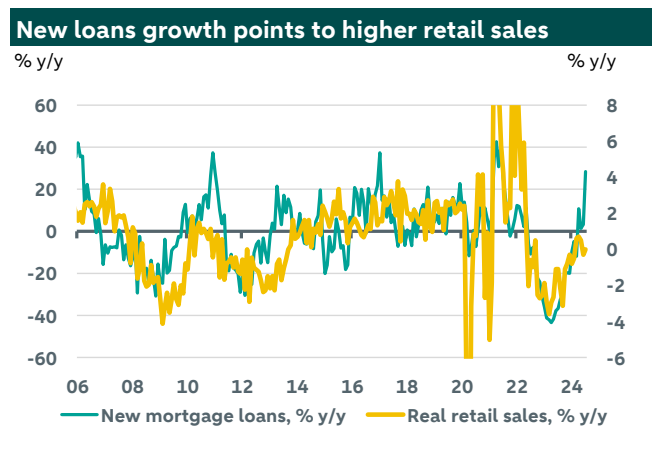
Taking a step back and looking at overall balance sheet metrics, households appear to have been on a relentless deleveraging since the onset of the European sovereign debt crisis some 13 years ago (see figure above; the short-lived pandemic spike in the debt ratio was mostly due to the fall in GDP). The combined impact of the pandemic and the energy crisis appears if anything to have accelerated this trend in recent years, with household debt as a share of GDP falling to a 20 year low in Q2 24.<sup>2</sup>

## Is it safe to come out yet?

But there are tentative signs that the tide is turning. The most clearly visible sign is in new mortgage lending. As recently as Q1 this year, lending was still depressed at low levels. But in recent months, lending has suddenly surged,

<sup>2</sup> The silver lining of this deleveraging is that households are in a much healthier financial position. Indeed, a big part of the decline is likely policy-driven, as governments sought to reduce financial risk-taking post-GFC (see previous footnote).

and as of July volumes were 58% above the February trough (see chart above-right). This has likely been helped by the combination of rising real incomes as well as the start of the ECB's interest rate cuts, which is already leading to a turn in housing markets in a number of European markets. With ECB rate cuts expected to continue over the coming months, it seems reasonable to expect this jump in mortgage lending to be sustained. Historically, changes in new mortgage lending and housing transactions are a strong leading indicator for retail sales. This is corroborated by some of the underlying components of consumer confidence. For instance, the forward-looking question on major purchases over the next 12 months has surged recently. This makes intuitive sense: when people move house, they spend more on furniture and home improvement. Increased lending bids up house prices, and retirees who might be downsizing in a rising housing market may also use some of the proceeds of a home sale for extra consumption. These are just examples, but generally speaking, leverage in the economy can be a significant driver of activity. A reversal – or even slowing – in the deleveraging of recent years is therefore likely to have a major impact.



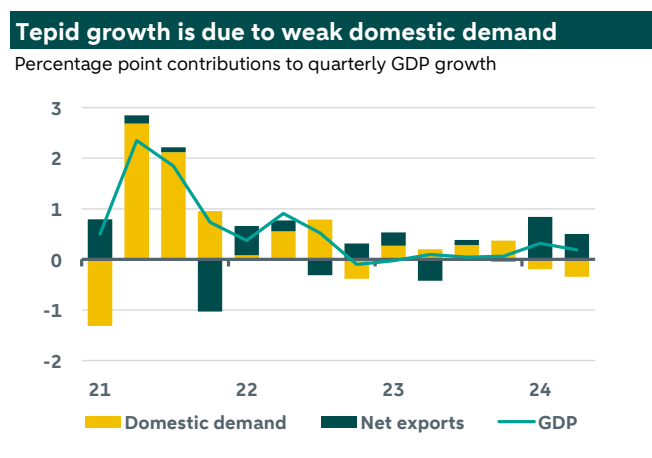
Source: ECB, LSEG, ABN AMRO Group Economics



Source: ECB, LSEG, ABN AMRO Group Economics

## Curb your enthusiasm

A pickup in spending would come not a moment too soon for the eurozone recovery, which as [this week's PMIs](#) confirmed, is coming dangerously close to stalling. While lukewarm external demand has not helped (see China box), the tepid nature of the recovery is chiefly due to weak domestic demand, which has technically been in recession, contracting -0.2% in Q1 and -0.4% in Q2. Despite only modest growth in global trade so far this year, net exports made significant positive contributions to GDP growth in the first half of 2024, adding 0.8pp to growth in Q1 and 0.5pp in Q2<sup>3</sup>. The blame for recent weakness in business surveys therefore lies to a large extent with spendthrift households. Germany's struggling car industry is bearing the brunt of this, with car sales in particular performing very poorly recently. This is often attributed to the slowdown in the transition to EVs (partly due to Germany's sudden withdrawal of subsidies last December), but sales of ICE cars have not meaningfully picked up in their place.<sup>4</sup>



Source: Bloomberg, ABN AMRO Group Economics



Source: LSEG, ABN AMRO Group Economics

<sup>3</sup> This was driven chiefly by strong growth exports rather than weak imports: exports added 0.6pp to Q1 growth and 0.7pp to Q2 growth, while imports added 0.3pp to Q1 growth but subtracted 0.2pp from Q2 growth.

<sup>4</sup> Consumers perhaps don't want to buy something they know will be phased out, but this fits with the generally weak demand picture.

The danger for the recovery is that, before a virtuous cycle of rising incomes, credit and consumption takes off, that businesses retrench to such an extent that this threatens the very recovery they have been waiting for. The most headline-grabbing sign of this has been Volkswagen’s historic move to close factories in Germany, which may be an ominous canary in the coalmine. Indeed, one of the most worrying aspects of the September PMIs was the decline in the employment sub-index, which for the eurozone fell clearly below 50 to 49.3, the lowest since the early pandemic period. While the cooling in the labour market is welcome from an inflation-fighting standpoint, in that it reduces upward pressure on wages, a more significant weakening in the labour market could bring the recovery in consumer confidence to an abrupt end. This could lead to a vicious cycle of weaker confidence, spending and employment, in contrast to the aforementioned virtuous cycle we are all hoping takes hold. Time is of the essence. The coming months will be a critical phase for the eurozone economy, and the recovery hinges on consumers coming out of hiding.

**Box 1: US consumption built on sturdy house of cards**

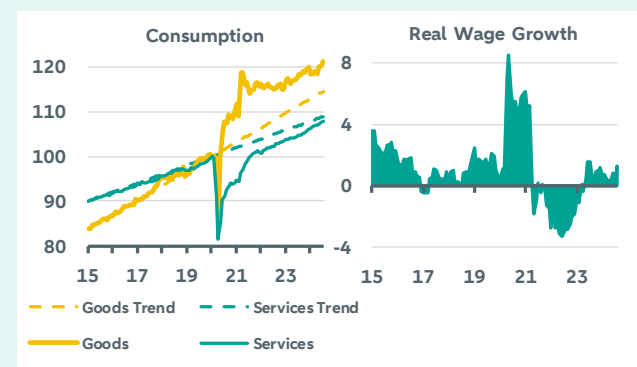
The state of consumption in the US is markedly different from the European case. Goods consumption, closely related to retail sales, currently stands well above the pre-pandemic trend, following a boost in the level in March 2021 when consumers received a \$1,400 government stimulus check and the economy re-opened. One might have expected this boost to be short-lived considering its origin. US consumers have however been able to largely maintain that level of goods consumption, which is especially surprising considering the fact that real wage shrank in the two years following the stimulus checks. Part of the resilience in goods consumption can be explained by a substitution effect away from services consumption, which took a hit during the pandemic, and is only now getting within a percentage point from its pre-pandemic trend. The subsequent further rise in real goods consumption since 2023 is supported by increases in real wages. Total consumption – goods and services – has stood above pre-pandemic trend since that initial stimulus check, and the gap is increasing rather than narrowing, reaching the highest level since November 2021 in the latest datapoint of this year.

How are US consumers paying for this? A first hint is in developments in the personal savings rate, which declined rapidly after the lockdowns, and has stood at low levels since. It is currently hovering near record lows at 2.9%. Accumulation of overnight and term deposits on households’ balance sheets is largely in line with this figure. Part of consumption is therefore driven by simply spending a larger part of disposable income. However, the acceleration in consumption growth starting in 2023 aligns poorly with the concurrent increase in the savings rate. The final piece of the puzzle can be found in household leverage. Households decreased their use of consumer credit during the pandemic. The steep deleveraging led to an equally steep decrease in consumption. Afterwards, households slowly increased their leverage again, supporting consumption growth after the stimulus checks and any [excess savings ran out](#). The choice to save little and increase borrowing, is likely supported by high consumer confidence, which has been steadily rising since the second quarter of 2022, and only showed a minor decline in Q2 of this year. Consumer confidence in the US is strongly influenced by equity performance, and indeed, holdings in equities on household balance sheets increased by 13.7% over the last year, compared to only 2.8% in deposits, showing that at least some households are accumulating assets while also consuming significantly.

Overall, the data suggests that the high level of consumption may be quite fragile. It is fuelled by low levels of savings and consumer credit. The wealth associated with strong equity performance that boosts confidence is not equally spread. Buffers are thin. Credit card and auto loan delinquencies are already rising. Recent weakness in the labor market and the resulting risks to employment have the potential to very quickly alter the consumption path. (Rogier Quaedvlieg)

**US (goods) consumption still far above trend**

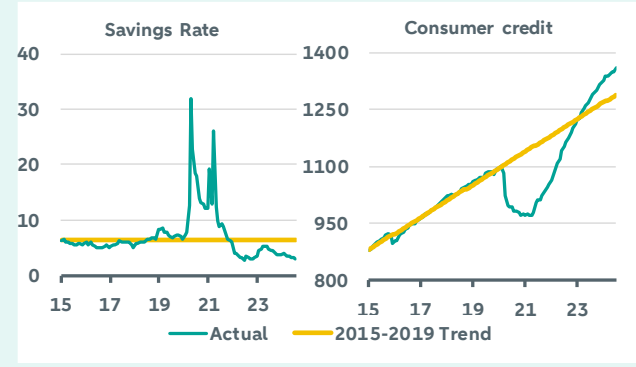
US consumption, 2019 Q4 = 100, Real wage growth, % y/y



Source: ABN AMRO Group Economics, LSEG

**US consumer more confident, saves less, borrows**

Savings rate, %, Consumer credit, \$ bln



Source: ABN AMRO Group Economics, LSEG

### Box 2: China's private consumption cools after reopening rebound, showing need for active demand management

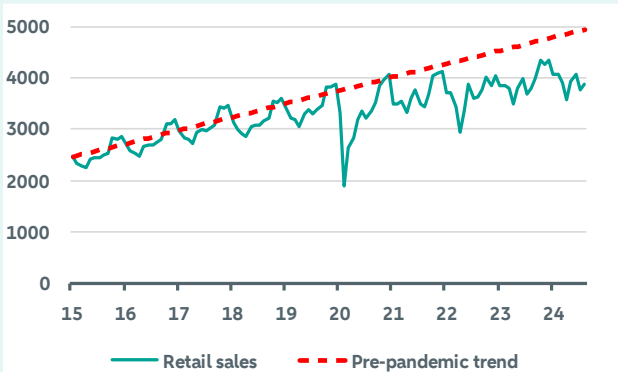
Following a rebound last year as China reopened after Zero-Covid exit, private consumption growth is cooling again this year. That implies that Beijing's longstanding plans to boost the consumption share in GDP have not been very successful yet. The officially reported household consumption to GDP ratio is indeed low compared to developed economies (39% in 2023). That said, China's consumption is generally assessed to be underestimated in the national accounts due to various data issues. Besides, an expenditure breakdown of China's GDP is published only once per year, and not in every quarter as in other key economies. Therefore, China watchers typically look at retail sales (published monthly) to capture momentum in consumption. However, retail sales are not perfect in capturing overall household consumption either, as key consumption segments (for instance education, medical care, housing) are not included. Moreover, China's retail sales also include some spending by government agencies, the military and some firms.

#### The property sector downturn is still a key driver of weakness in consumer confidence/spending

A post Zero-Covid exit boost in household consumption was visible in 2023 (annual growth of around 8%, from a very weak base in the broad lockdown year 2022). Retail sales also showed a pick-up towards the pre-pandemic trend in the course of 2023, but this movement has clearly gone into reverse this year, with annual growth falling back to 2.1% yoy in August 2024 (average 2023: 7.2% yoy). The main driver of the downturn in household consumption continues to be the negative feedback loop in real estate, with the failure of developers to finish construction projects in China's presales system and shrinking housing wealth from the ongoing decline in home prices being key triggers (see our earlier coverage, for instance [here](#) and [here](#)). Consumer confidence dropped sharply back in early 2022, when Omicron lockdowns broadened and the property downturn started intensifying, but still stands around record lows. Consumers have propped up savings and are less willing to buy big ticket items, including new homes. The build-up of excess savings (estimated here via household bank deposits) accelerated during Zero-Covid and the intensification of the property downturn, stabilised during the 2023 reopening and picked-up again in early 2024. Cyclical developments such as a decline in real incomes and a deterioration in the labour market have also formed a drag on consumption this year.

#### China retail sales stuck far below pre-pandemic trend

China retail sales, CNY bn

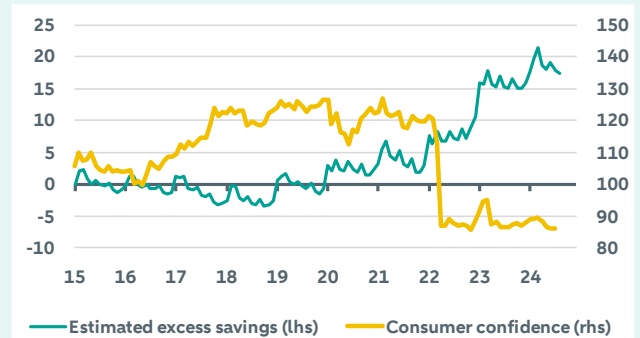


Source: ABN AMRO Group Economics, LSEG

#### Chinese consumer less confident, saves more

CNY trn

Index, 100 = neutral



Source: ABN AMRO Group Economics, LSEG

#### Beijing's support stance: Finally more focus on short-term demand management

Broadly speaking, Beijing's policy stance over the past few years has focused mainly on the supply side, shaped by industrial policy considerations and a reorientation towards high-tech manufacturing and away from the (traditionally heavily leveraged) property sector. While this makes some sense from a long-term perspective, short-term demand management has played only a secondary role so far. Hence, measures taken to stabilise the property sector have been quite targeted/piecemeal, and have not really helped to break the negative feedback loop in real estate yet. With consumption (and private investment) weak and external risks broadening (slowdown US/Europe, more trade spats), we held the view for quite some time that more focus on short-term demand management was needed and likely. And indeed, on September 24<sup>th</sup> the PBoC announced a broad package with rate and RRR cuts, measures aimed at stabilising the property market and the installment of a fund to stabilise the stock market (also see China page in this Monthly). We expect this package to be followed by additional fiscal measures to support the property sector and domestic demand (confirmed by the Politburo on September 26<sup>th</sup>). Structural measures (e.g. strengthening the social safety net, revamp urbanisation), discussed during the CCP's Third Plenum in July, would also help to bolster consumption over time. (Arjen van Dijkhuizen)

## Eurozone: Recovery is in peril

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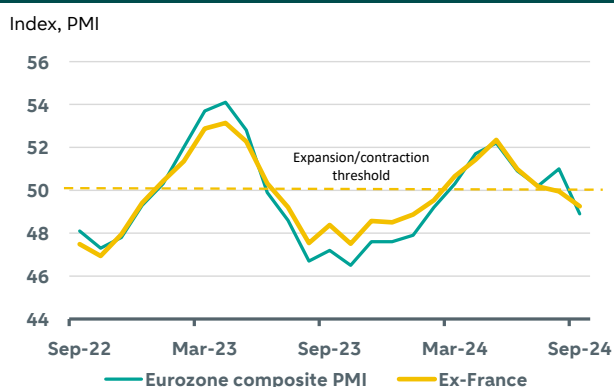
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- The eurozone recovery is in danger of stalling, if it has not already. If weak demand continues, businesses may start to shed workers on a bigger scale, raising the risk of a downturn
- Despite weak activity, wage growth remains elevated, posing a dilemma for the ECB
- An October rate cut remains our base case. The darkening growth outlook makes that much more likely

The eurozone recovery is entering a pivotal phase. As this month's Global View argues, there are good reasons to expect domestic demand to improve over the coming months. But the September PMIs – even accounting for the Paris Olympics distortions – suggest that there are limits to how long businesses can hold out for a recovery. Aside from the general weakness in demand and output that the PMIs signaled, the most worrying news for us concerned employment, with the subindices suggesting that businesses may be about to start letting go of workers on a bigger scale than seen so far. Employment had been one of the few bright spots of the eurozone economy in recent years, as businesses hoarded workers in the expectation of a recovery that is now rapidly losing steam. So far, there is little evidence in the hard labour market data of a major shift – the German unemployment rate has risen somewhat but has been stable for the past four months at 6%. However, as the news over Volkswagen has shown, the situation can turn very quickly, and weak demand cannot persist indefinitely without consequences for employment. All told, the increased downside risks to the outlook, and the weakness in Germany in particular, have led us to sharply downgrade our growth expectations for next year to 1.1% from 1.5% previously.

Against the backdrop of a flagging recovery, inflation risks have not fully diminished. As indicated by the sharp falls in France and Spain this morning, headline inflation for the eurozone is likely to come in well below the 2% target in September (we expect 1.7%), as lower oil prices feed through to petrol prices. But, although services inflation is also expected to cool, it remains elevated. Indeed, the main determinant of services inflation – wage growth – picked up again over the past month, in contrast to the sharp fall in the closely-watched Q2 negotiated wages release. The Indeed monthly wage tracker for the eurozone picked up to 4.1% y/y in August – the highest reading since last November, and well above the 3.4% trough set in May. German negotiated wage growth also rebounded sharply in July to 10.6% y/y; the more stable underlying measure that excludes bonuses and one-offs also accelerated, to 5.1% from 4% in June, the highest since the mid-90s. Such elevated wage readings look incredibly unlikely to persist in such a weak growth environment, and with the threat of job losses looming. But for the time being, these developments continue to pose upside risks to the services inflation outlook.

### Composite PMI is back in contraction territory



Source: LSEG, ABN AMRO Group Economics

### German wage growth: Partying like it's 1996



Source: Bundesbank, ABN AMRO Group Economics

### Momentum is building for an October rate cut

The combination of recession-like activity indicators and strong wage growth sends a confusing and conflicting set of signals for the ECB. GC members will have to decide whether to look through high wage growth and services inflation as lagging indicators, and weigh this against the downside risks to the growth outlook. Our base case has long been that the ECB would follow September's 25bp rate cut with an additional cut in October, but signals around the September meeting had suggested a high bar to move again already in October. The darkening in the growth outlook has likely significantly changed that calculus, and markets now price an 80% probability of an October move, compared with just a 20% probability last week.

## The Netherlands: Households reluctant to spend real wage gains

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- We expect below trend growth for H2 2024, with annual growth of 0.6% for 2024 and 1.3% in 2025
- Dutch households appear reluctant to spend their real wage gains
- The budget for next year seems to favour short-term spending over longer term investments

The second calculation of Dutch GDP confirmed that the Dutch economy grew by 1% q/q in Q2, and growth in Q1 was also unrevised at -0.3%. The underlying picture stayed the same, with the increase in GDP driven by rising goods exports, largely stemming from the export-oriented Dutch industrial sector which compensated a weak first quarter. Government consumption and investment also contributed positively to growth, but to a lesser extent. The second calculation of GDP is accompanied by the underlying distribution of investment. A packed public investment agenda of the government was the main driver of the increase, while private investment declined. We think that this strong growth in Q2 [finds no continuation](#) in the subsequent quarters. High interest rates, weakness in manufacturing and reluctant consumers keep growth down. Growth will pick up next year when rates are cut further, global trade picks up, and consumer demand increases. We expect growth to average 0.6% in 2024 and 1.3% in 2025.

Households have been reluctant to spend their real income gains. Similar to the European story in the headline piece, Dutch real incomes have generally been rising. While services spending continues to perform well (although marginally hampered by bad weather during Q2), goods consumption is lagging behind. Surveys continue to indicate that households currently prioritize saving in order to profit from the high interest rates, with the savings rate exceeding pre-pandemic levels in Q2 of this year. These high interest rates also cause households to borrow less. The bulk of Dutch borrowing from households happens through mortgages, and these declined sharply when rates were increased. This amplified the general trend that started in 2013 with households [paying off](#) their mortgages more than in the past due to regulatory changes that have reduced the attractiveness of interest-only mortgages. The pandemic, the energy crisis and restrictive rates appear to have sped up the process, with the mortgage debt as share of GDP reaching a 22 year low in Q2 24. Given real income growth, gradually rising consumer confidence, and a pickup in new mortgage lending, we pencil in an increase in household spending for the rest of the year.

### New mortgage lending has increased

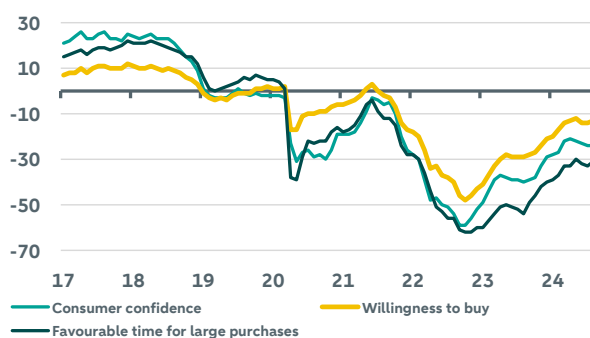
Monthly new household mortgage loans, EUR bn



Source: DNB, ABN AMRO Group Economics

### Consumer confidence gradually on the rise

Average confidence, seasonally adjusted



Source: CBS, ABN AMRO Group Economics

It has been a busy few weeks in Dutch politics with the presentation of the 2025 budget at 'Prinsjesdag' and the announcement of the new cabinet's first term plans [last week](#). Overall, the budget for next year seems to favour short-term spending over longer term investments. The main topics are migration, the ambition to drastically increase the housing supply, and purchasing power relief via for instance lower mandatory healthcare contributions and an additional tax bracket to decrease the burden on middle income households. At the same time, policy on longer-term trends (labour market tightness, ageing) and challenges (reaching climate goals, reducing nitrogen emissions, weak productivity trend) facing the Dutch economy is either not concrete or absent. With the new plans, we expect GDP growth to be slightly higher in 2025, although the impact of the policy package is limited. At the start of the cabinet, public finances are in a good shape. In the past two years the budget deficit has been limited and the debt ratio is far from the 60% norm at around 40%. However, the direction is one of further deterioration, with high budget deficits and a rising debt ratio.



## US: Fed cuts by 50 bps, recession imminent?

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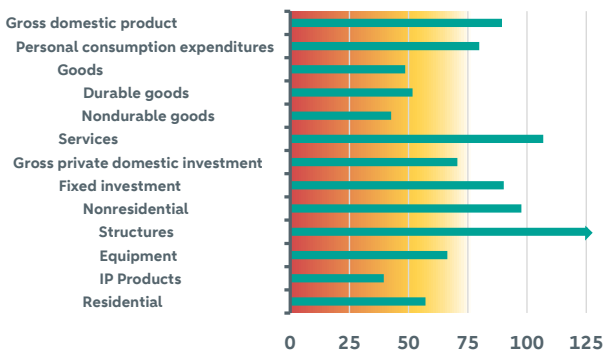
- The Fed decided on a 50 bps cut to initiate its easing cycle.
- Outsized rate cuts are usually reserved for cycles where recessions have started or are imminent.
- There are pockets of weakness in growth and the labor market, but risks of a recession remain contained.

The Federal Reserve initiated its easing cycle with a 50 bps cut. Previous easing cycles that started off with the greater than default 25 bps, include the 100 bps cut in January 2001, which was followed by the early 2000s recession, and the 50 bps cut in August 2007, followed by the great financial crisis. Indeed, a 50 bps cut is often associated with the objective of averting, or reducing the depth, of an impending recession. Easing cycles that started with 25 bps were generally more about easing restrictiveness, rather than saving the economy, not unlike the narrative behind the current easing. Indeed, Chair Powell summarized it as ‘The US economy is in a good place, and our decision today is designed to keep it there.’ This is exactly the line of communication that was anticipated in case of a 50 bps cut, but do actions speak louder than words? What is the evidence for an incoming recession, or has it already arrived?

A recession is predominantly a statement about economic growth, formally defined as two quarters of negative growth. Headline GDP growth has come nowhere near negative figures, although some of the sub-components reported by the Bureau of Economic Analysis have posted negative figures in either of the past two quarters. At the same time, over the 2015-2019 period, there were only six out of twenty quarters where none of these subcomponent showed negative growth. Negative realizations are inherent in the high month-to-month variability of the more granular data. Looking at the longer term, and taking 2015-2019 trend growth as a baseline, growth in some sectors has been pretty weak since the start of 2023. The chart below shows the ratio of actual growth to trend growth, and highlights that goods consumption and investment in equipment, intellectual property and residential housing have slowed substantially, while overall consumption and investment are supported by services and investment in structures respectively. The laggards are all interest rate sensitive components, and therefore a feature of tight monetary policy. They also have not materially deteriorated in 2024 compared to 2023. It is also important to note that the level of goods consumption is still well above pre-pandemic trend, despite the current slowdown, as evidenced in the box in the headline piece.

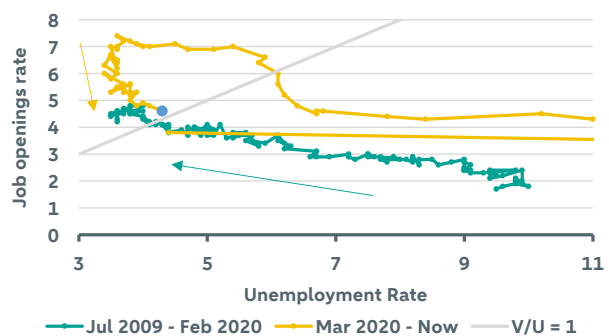
### Some components of growth have been weak

GDP growth 2023-Now compared to 2015-2019 trend growth, %



Source: LSEG, ABN AMRO Group Economics

### Beveridge curve close to tipping point?



Source: LSEG, ABN AMRO Group Economics

As growth is nowhere near recessionary territory, the Fed’s decision to cut by 50 bps was based on developments in the labor market, which serves as an early indicator. Powell pointed to the Beveridge curve, which plots the unemployment rate against the job openings rate. When job openings are plentiful, a reduction will not increase the unemployment rate, the relationship is ‘vertical.’ When vacancies decrease to levels near the total number of unemployed, further reductions might quickly translate into increases in the unemployment rate; the relationship is ‘horizontal.’ The chart above shows the period between July 2009 and February 2020 where job openings were increasing and the unemployment rate was decreasing sharply. The period of March 2020 until now is characterized by the covid-spike in unemployment, followed by a tight labor market where the openings rate peaked above 7%, with unemployment steady at levels below 4%. Since then, the openings rate declined to well below 5% without unemployment moving. The Fed’s worry is that we are close to entering the horizontal part, where further decreases in openings might translate to increases in unemployment quickly. Indeed, the tipping point is likely to be at a higher rate compared to previous cycles due to [stronger labor supply](#) growth. The deterioration in the labor market that became evident two days after the July meeting, prompted the 50 bps cut this meeting, and can be regarded as a catch-up. We continue to interpret the data as a labor market that is fundamentally stronger than the headline figure suggests, and expect the Fed to keep easing by 25 bps in the following meetings.

## China: Long-term industrial policy vs. short-term demand management

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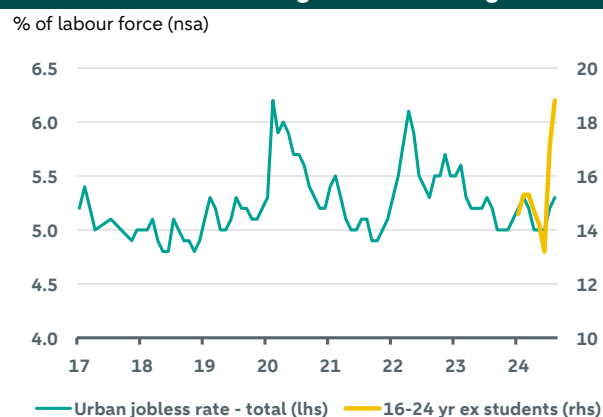
- Chinese economy remains stuck in low gear, with the property downturn still dragging on demand
- The September PBoC support package helps mitigate downside risks to our 2024/25 growth forecasts
- ...and will likely be followed by additional (fiscal) support to have a more meaningful, lasting effect

The Chinese economy remains stuck in low gear, as the property downturn continues to drag on domestic demand. The PBoC stimulus package announced on September 24<sup>th</sup> was partly aimed at turning market sentiment, but we think this will soon be complemented by additional fiscal support to have a more meaningful, lasting effect on the economy.

### August data confirm that previous support has not really moved the needle yet

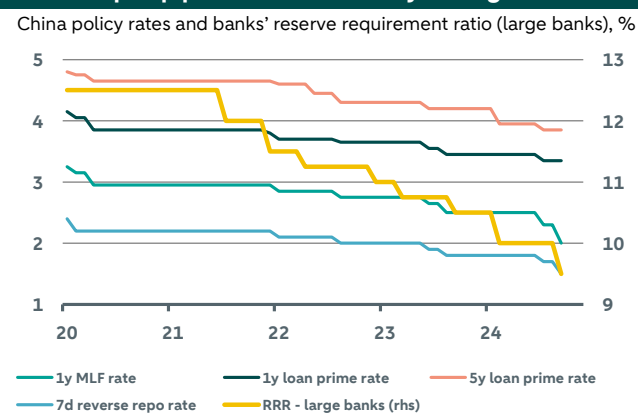
Recent data confirm that domestic demand remains weak and overall growth momentum is stalling. The August manufacturing PMIs brought back the divergence between a weak NBS reading and a stronger Caixin outcome, while both composite PMIs remained at relatively weak levels (also see [here](#)). The hard data for August generally came in weaker than expected, with exports being one of the few positive exceptions. Retail sales slowed to 2.1% yoy, although these seem to overstate the weakness in overall private consumption (see box in global theme). Industrial production and fixed investment also slowed (further), with annual growth of private investment turning negative again. Meanwhile, property investment and home sales stayed deeply in contraction territory and the drop in house prices accelerated (also see [here](#)). Labour market indicators are also weakening. The registered unemployment rate edged up to a seven-month high of 5.3% in August, while the youth unemployment ratio – adjusted this year to exclude students entering the labour market – rose to a record high of 18.8%. Risks on the external front are rising as well, with the US economy slowing, the eurozone economy stagnating, and with trade spats broadening.

#### Labour markets shows signs of weakening



Source: ABN AMRO Group Economics, Bloomberg

#### PBoC steps up piecemeal monetary easing



Source: ABN AMRO Group Economics, Bloomberg

### Beijing's focus finally switches back from industrial policy to demand management

In recent years, Beijing's key priority was industrial policy – aimed at solidifying China's long-term position in high tech and reducing the role of real estate – rather than short-term demand management. Support measures taken so far have been targeted/piecemeal so far, and did not succeed in breaking the negative feedback loop in real estate. With weak private consumption and investment, a deteriorating labour market and rising external risks, we held the view for quite some time that more focus on demand management was needed and likely. And indeed, on September 24<sup>th</sup> the PBoC announced a stimulus package, with three pillars. The first was a 20bp cut in the 7-day reverse repo rate (which has become more important in the PBoC's policy toolkit), and a 50bp RRR cut – followed by a 30bp cut in the 1-year medium-term lending rate the day after. The 50bp cut by the Fed earlier this month had created more room for maneuver in this respect. The second consisted of measures to stabilise the property sector (lowering mortgage rates, easing downpayment requirements, PBoC guarantee for local governments buying homes). The third measure was the installment of a fund to stabilise the stock market. These measures have quickly led to an improvement in market sentiment (with the CSI-300 index surging this week), but we expect this to be followed by additional fiscal measures to support the property sector and domestic demand (confirmed by the Politburo on September 26<sup>th</sup>). All in all, we think these measures will change the balance of risks to our growth forecasts of 4.9% for 2024 and 4.5% for 2025 in a positive direction (we will review them after the publication of the Q3 GDP numbers on October 18<sup>th</sup>).

## Key views on a page

The US is cooling, China is still weighed by the weak property sector, and the eurozone recovery is in danger of going into reverse. Our base case remains for the global economy to converge to more trend-like growth as we move into 2025, but downside risks – particularly in the eurozone – have increased. A sharp rebound is unlikely while rates remain restrictive. More aggressive Fed & ECB rate cuts, and China stimulus measures may help, but downside risks remain from possible new trade tariffs should Trump be re-elected in November. Inflation remains well behaved, with falling oil prices helping, though wage growth and services inflation remains too high in the eurozone. The ECB and Fed have started lowering interest rates, and we expect both central banks to continue cutting rates until a more neutral level of rates is reached later next year. Still, lags in pass-through mean that it will take time for rate cuts to meaningfully lift growth.

Macro	Central Banks & Markets
<p><b>Eurozone</b> – Downside risks to growth have intensified, with September PMIs pointing to a significant deterioration in the outlook. We have lowered our growth forecast for Q3 to 0.2% q/q, and our annual forecast for 2025 to 1.1% from 1.5% previously. The manufacturing recovery continues to disappoint, and the services recovery is also now losing momentum. Growth is expected to remain below trend rate for the remainder of 2024, before picking up in 2025. Services inflation and wage growth remains on the high side, but this looks unsustainable given the weak growth environment.</p>	<p><b>ECB</b> – We expect the ECB to continue cutting rates at the October meeting, following the September cut. Disinflation is broadly continuing, while downside risks to growth have intensified. Negotiated wage growth is expected to see a temporary rebound later this year, but this is expected by the ECB and therefore unlikely to derail further cuts. We expect the ECB to cut at each meeting until the deposit rate reaches 1.5% in Q3 25.</p>
<p><b>The Netherlands</b> – The second calculation of GDP confirmed that the economy grew by 1% q/q in Q2, and growth in Q1 was unrevised at –0.3%. We expect continued but below-trend growth for 2024 as a whole, given the environment of weak demand, restrictive interest rates, and domestic constraints. With the new government plans, we expect growth to be slightly higher in 2025, but impact is limited. All in all, growth will average 0.6% in 2024 and 1.3% in 2025. Services inflation will be the key driver of inflation in the coming months. Our inflation forecasts (HICP) are 3.1% in 2024, and 2.8% in 2025.</p>	<p><b>Fed</b> – The Fed started its easing cycle with an initial 50bps cut, with the upper bound currently standing at 5.00%. We expect consecutive 25 bps rate cuts at each upcoming meeting, with the balance of risks towards a near-term acceleration, and a medium-term slowing. The Fed will remain attentive to upside risks to inflation and downside risks to, in particular, the labour market. Monetary policy is expected to remain restrictive throughout 2024 and into 2025. We expect the upper bound of the fed funds rate to reach 4.50% by end-2024, and to reach the neutral 3.00% level by October 2025.</p>
<p><b>UK</b> – The government has been signaling a more significant fiscal tightening than previously expected. The full details will be announced on 30 October. The economy is recovering relatively solidly for now, but growth is likely to cool in the coming quarters. Disinflation is continuing, but services inflation is stubbornly high, with wage growth still well above levels consistent with 2% inflation. The return to 2% inflation will take longer than elsewhere, due to historically higher inflation expectations in the UK.</p>	<p><b>Bank of England</b> – The MPC paused rates at 5.25% in September, in line with our expectations. Incoming data suggests stubbornly high underlying inflationary pressure, and sticky wage growth – which poses upside risks to medium-term inflation – is likely to keep rate cuts at a more gradual pace than for the ECB and Fed, even into next year. We expect only one additional rate 25bp cut in 2024, and four rate cuts (total 100bp) in 2025, with Bank Rate falling to 3.5% by end-2025.</p>
<p><b>US</b> – Growth and consumption remain strong, while the labor market cools. Growth in labour demand slows, and is outpaced by increases in labor supply, but demand does not yet contract. Increased policy uncertainty, and pockets of financial stress among households are likely to contribute to a slowdown in growth into 2025. Despite a relatively hot CPI reading in August, the disinflationary process continues with the 2% y/y target in sight in the course of 2025.</p>	<p><b>Bond yields</b> – The Fed's 50bp cut in September was a well-received surprise in the market. It is currently pricing in around 200bp of cuts in total which aligns with our view. Consequently, we continue to anticipate US Treasury yields to move lower and the curve to steepen. A similar scenario is unfolding for European rates. Following weaker PMI data last week, the market has started to price in additional cuts. Therefore, it appears that rates are set to follow a downward trajectory in the foreseeable future.</p>
<p><b>China</b> – The Chinese economy remains stuck in low gear, with domestic demand still being hit by the property downturn. We long held the view that more focus on short-term demand management (rather than industrial policy) was needed, and also likely. The PBoC's September package (consisting of policy rate/RRR cuts and measures to stabilise property and the stock market) was partly aimed at turning market sentiment. This helps to mitigate downside risks to our 2024/25 growth forecasts, but should be followed by additional (fiscal) support to have a more meaningful, lasting effect on the economy.</p>	<p><b>FX</b> – For the coming months we expect EUR/USD to stay in the 1.07-1.12 range with a year-end forecast of 1.10. We expect less aggressive rate cuts (than market consensus) by the Fed. This should support the dollar. Meanwhile we expect slightly more rate cuts from the ECB to weigh on the euro. This could push EUR/USD towards 1.07. But uncertainty surrounding the US elections could have a negative impact on the dollar in the near-term. Overall, we expect range-trading for the months ahead. Our yearend forecasts for EUR/USD stands at 1.10.</p>

## Main economic & financial market forecasts

	GDP				Inflation				Policy rate			
	2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025
Eurozone	3.4	0.5	0.7	1.1	8.4	5.5	2.4	2.1	2.00	4.00	3.00	1.50
Netherlands	5.0	0.1	0.6	1.3	11.6	4.1	3.1	2.8				
UK	4.3	0.1	1.0	1.2	9.1	7.4	2.6	2.8	3.50	5.25	4.75	3.50
US	1.9	2.5	2.5	1.7	6.5	3.8	2.6	2.1	4.50	5.50	4.50	3.00
China	3.0	5.3	4.9	4.5	1.9	0.2	0.5	1.8	3.65	3.45	3.15	3.00

Note: Annual average for GDP and inflation, end of period for the policy rate

	2023	25/09/2024	Q4 24	2024	2025	Energy	2023	25/09/2024	Q4 24	2024	2025
US Treasury	3.88	3.79	3.60	3.60	3.50						
German Bund	2.02	2.19	2.00	2.00	1.80	Brent - USD/bbl*	77.04	73.46	73	73	80
EUR/USD	1.10	1.12	1.10	1.10	1.15	WTI - USD/bbl*	71.65	69.69	68	68	75
USD/CNY	7.14	7.03	7.10	7.10	6.80	TTF Gas - EUR/MWh*	35.25	37.26	40	40	35
GBP/USD	1.27	1.34	1.32	1.32	1.40						

\* Brent, WTI: active month contract; TTF: next calendar year

	2023				2024				2025			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>GDP (qoq)</b>												
Eurozone	0.0	0.1	0.0	0.1	0.3	0.2	0.2	0.2	0.3	0.2	0.4	0.4
Netherlands	-0.2	-0.3	-0.4	0.2	-0.3	1.0	0.2	0.3	0.2	0.3	0.3	0.4
US (saar)	2.2	2.1	4.9	3.4	2.9	3.1	2.3	1.8	1.9	1.6	1.7	1.7
UK	0.2	0.0	-0.1	-0.3	0.7	0.6	0.2	0.3	0.3	0.3	0.3	0.4
China (yoy)	4.5	6.3	4.9	5.2	5.3	4.7	4.7	4.7	4.3	4.7	4.6	4.5
<b>Inflation</b>												
Eurozone	8.0	6.2	4.9	2.7	2.6	2.5	2.2	2.5	2.3	2.3	2.1	1.8
Netherlands	7.2	6.3	2.7	0.4	3.0	2.9	3.4	3.3	3.1	3.0	2.7	2.4
US (PCE)	5.0	3.9	3.3	2.8	2.6	2.7	2.3	2.5	2.2	2.1	2.0	2.0
UK	10.2	8.4	6.7	4.2	3.5	2.1	2.2	2.5	2.8	2.7	3.0	3.0
China	1.3	0.1	-0.1	-0.3	0.0	0.3	0.6	1.2	2.0	1.8	1.7	1.5
<b>Unemployment</b>												
Eurozone	6.6	6.5	6.6	6.5	6.5	6.4	6.5	6.6	6.7	6.8	6.8	6.7
Netherlands	3.5	3.5	3.6	3.6	3.6	3.6	3.7	3.8	3.9	3.9	3.9	3.9
US	3.5	3.6	3.7	3.8	3.8	4.0	4.3	4.3	4.3	4.3	4.3	4.3
<b>Policy rate</b>												
Eurozone	3.00	3.50	4.00	4.00	4.00	3.75	3.50	3.00	2.50	2.00	1.50	1.50
US	5.00	5.25	5.50	5.50	5.50	5.50	5.00	4.50	4.00	3.50	3.00	3.00
UK	4.25	5.00	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50
China	3.65	3.55	3.45	3.45	3.45	3.45	3.35	3.15	3.15	3.05	3.05	3.00

Source: LSEG, Bloomberg, ABN AMRO Group Economics

(saar = season adjusted annual rate)

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