ABN·AMRO

# Global Monthly

Group Economics | 23 April 2024

## Global industry recovering amid disturbances, excess supply, and trade spats

- Despite shipping disturbances, and trade spats, global trade and industry are bottoming out
- Disturbances in the Red Sea and the Panama Canal have impacted global shipping routes…
- …while escalation in the Middle East conflict reminds us of the ever-present risk of new supply shocks
- However, the global macro impact of disturbances so far is fading and looks manageable
- What about overcapacity? Supply side strength is contributing to global goods disinflation…
- …but China's role in this is leading to trade spats – electric vehicles being a clear case in point
- Regional updates: Economic stagnation and easing inflation in the eurozone are paving the way for rate cuts, while in the Netherlands, sentiment indicators suggest a brightening outlook
- We raised our US GDP Growth forecast, and now expect the Fed to tread more carefully with rate cuts
- China is more likely to reach the government's 5% growth target, but domestic demand is still lagging

## Global View: Trade and industry is recovering, despite the risks and the tensions

Financial markets have had a rude awakening over the past month. First, fears reignited that US inflation may be making a comeback following the third upside surprise in a row in the March CPI data. This drove a resumption in the repricing of Fed rate cuts, and financial markets moved away from the long-held view that the ECB and the Fed are on exactly the same rate cutting path. Indeed, the first fully priced rate cut by the Fed is now not until November, whereas markets still price a high probability that the ECB will start lowering rates in June. This month, we significantly raised our GDP growth forecast for the US, reflecting the ongoing resilience on the other side of the Atlantic. Despite the recent upside surprise to the US inflation data, however, our outlook for inflation remains fundamentally unchanged, as pipeline pressures in the US continue to suggest the recent high readings are likely not durable. Still, solid US growth reduces the urgency for rate cuts – in contrast to the stagnation that we continue to see in the eurozone. For this reason we also now forecast that the ECB and the Fed's policy paths will diverge somewhat in the near-term, with the ECB expected to lower rates at a faster pace than the Fed, before the two converge again next year as the Fed regains confidence in the US inflation outlook. Meanwhile, the escalation of the conflict in the Middle East reminded us – and financial markets – of the potential for supply shocks to impact the inflation outlook. With tensions easing again recently, we kept our oil price – and in turn our inflation – forecasts unchanged, but the risk of a renewed escalation lurks in the background. Against this backdrop, this month we take a closer look at the nascent recovery in global trade and industry, which continues to unfold despite geopolitical disturbances, overcapacity and trade tensions.

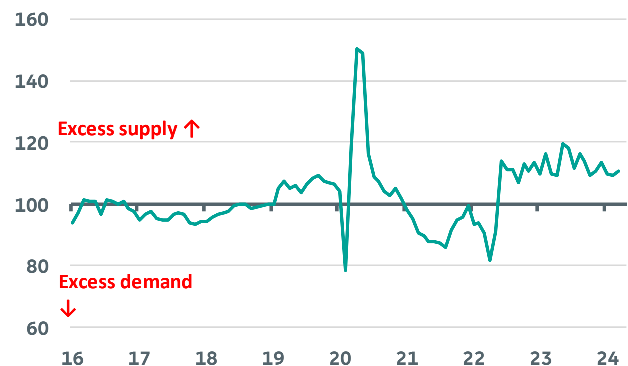
**Volatility spiked in April after a long period of calm**

VIX equity market volatility, Index

Source: Bloomberg, ABN AMRO Group Economics

**Global supply still in excess over demand**

Ratio, Global manuf PMI, ratio EM output / DM orders (100 = neutral)

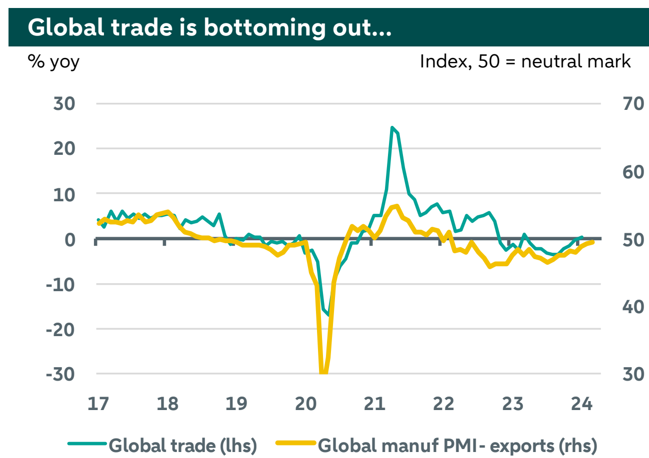



Source: ABN AMRO Group Economics, LSEG

## Global trade is bottoming out...

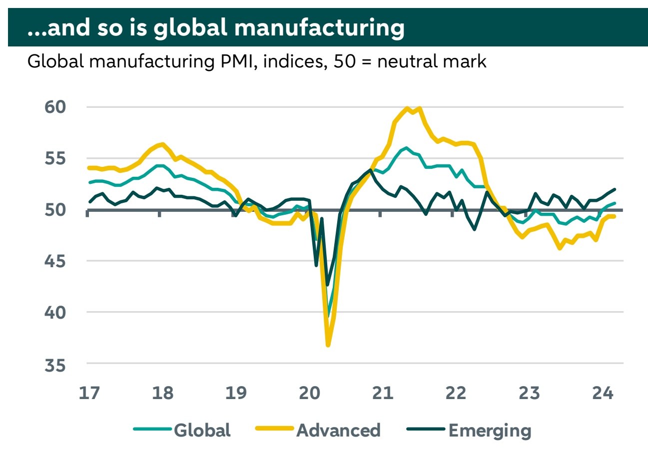
Despite renewed disturbances in global shipping and trade conflicts between key economic powers, global goods trade shows signs of a bottoming out. Although monthly data remain volatile, CPB's world trade volume index has risen by almost 2% since July 2023, with annual growth turning positive again in January for the first time since March 2023. While these trade data are lagging, a forward-looking confirmation comes from the export component of the global manufacturing PMI. This component rose to a two-year high of 49.6 in March 2024, although remaining just below the neutral mark separating expansion from contraction. The improvements seen in global trade comes after a period of weakness, following the strong rebound after the pandemic years. Global trade slowed sharply since late 2022, staying in 'recession territory' for most of 2023 – in line with the slowdown of global GDP growth, following the sharp monetary tightening in the developed economies). Despite the recent pick-up, in January the CPB index was still 2.6% below the peak of September 2022. On an annual basis, world trade contracted by 1.9% in 2023, after having risen by over 10% in 2021 and 3.3% in 2022.

**Global trade is bottoming out...**




Source: ABN AMRO Group Economics, CPB, LSEG

**...and so is global manufacturing**




Source: LSEG, ABN AMRO Group Economics

## ...and so is global manufacturing

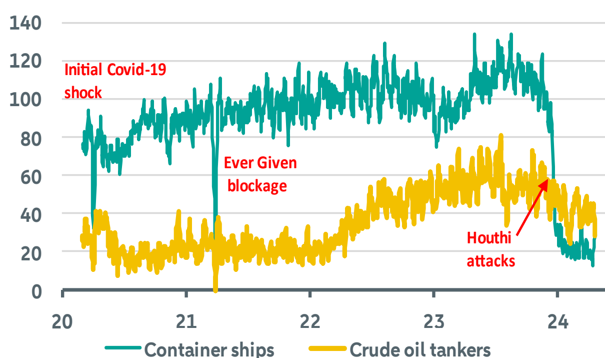
Developments in global industry and trade tend to go hand in hand. Global manufacturing has also shown signs of bottoming out in recent months. After having been below the 50 neutral mark since September 2022, the global manufacturing PMI has picked up recently, rising back to above 50 in February/March 2024. There is still quite some divergence, though. Solid industrial growth in emerging economies (led by China) contrasts with ongoing weakness in various developed economies, with manufacturing PMIs still well below 50 for the eurozone (particularly Germany) and Japan. That said, the picture has improved recently for the US and the UK. Recent developments are in line with our expectation of a bottoming out in global industry this year. Given our growth views for the key economies (slowdown in the US, bottoming out in eurozone/China), we still deem a very sharp rebound in global industry – similar to what happened in end 2020/2021 - unlikely at the moment.

## While disturbances in the Middle East/Panama Canal impact global shipping routes...

Over the past few months, disturbances in global shipping brought back memories to the pandemic. Houthi attacks on ships passing the Red Sea have sharply impacted global shipping routes. Crossings through the Suez Canal, normally accounting for ±12% of global maritime trade, have dropped sharply, with ships from Asia destined for Europe taking the approximately 10 days longer route via Cape the Good Hope instead. And drought-related low-water levels have impacted crossings through the Panama Canal (used in traffic between Asia and the Americas, in normal times accounting for 3% of global maritime trade). The drought, exacerbated by the El Niño weather phenomenon, is expected to last until May this year. New risks to global shipping routes stem from the escalation between Israel and Iran, with the Strait of Hormuz – through which 20% of oil and related products and LNG from Qatar are transported – being an important potential chokepoint (also see front page and our recent Oil market update here).

**Many container ships and oil tankers avoid Suez Canal**

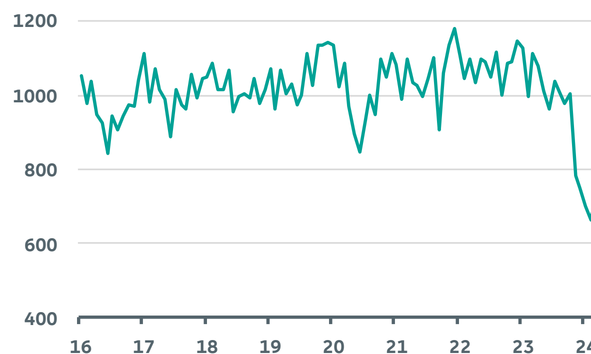
Suez Canal, container ship + oil tanker crossings, (N/S + S/N), 7d rolling




Source: Bloomberg, ABN AMRO Group Economics

**Low-water levels impact Panama Canal traffic**

Monthly number of vessels crossing Panama Canal




Source: Bloomberg, ABN AMRO Group Economics

## ...the global macro impact thereof looks manageable so far and is already fading

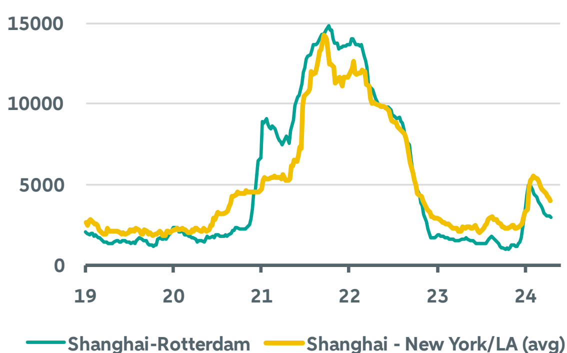
Although these disturbances have had large effects on shipping routes, we think the impact on the global economy/global industry and global inflation is manageable and already fading (also see our January Monthly, *Will the Red Sea disturbances throw disinflation off track?*). This conclusion is in the first place based on the following indicators:

1) **Global manufacturing PMI – delivery times component**: In the pandemic episode of increased global supply bottlenecks, this component fell to record lows (a drop in the index means longer delivery times). With the disturbances in the Red Sea and the Panama Canal unfolding, this component dropped below the neutral 50 mark in January, but was back again above 50 in February/March. This illustrates that the impact of these disturbances in shipping routes on overall delivery times is not comparable with the effects thereof during the pandemic.

2) **Container freight tariffs**: During the pandemic years, a combination of supply bottlenecks in global container transport coupled with a strong global demand for goods led to an unprecedented spike in container tariffs. In the course of 2022, these tariffs came down again, with bottlenecks fading and global demand cooling. Following the disturbances in the Red Sea and the Panama Canal, container tariffs started to surge again in December/January, although remaining far below the peaks seen in 2021/2022. And the impact proves short-lived, with container tariffs starting to fall again since late January/early February, helped by a steady increase in global shipping capacity.

**Container freight tariffs are coming down again**

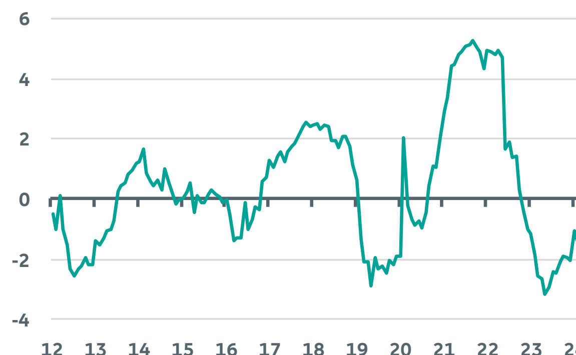
WCI container freight tariffs, USD per 40ft container




Source: Bloomberg, ABN AMRO Group Economics

**Our bottlenecks index still in excess supply territory**

Index, +6 = maximum supply bottlenecks/excess demand (0 = neutral)




Source: ABN AMRO Group Economics, Bloomberg, LSEG

## Overcapacity? Globally, the supply side is now stronger than the demand side

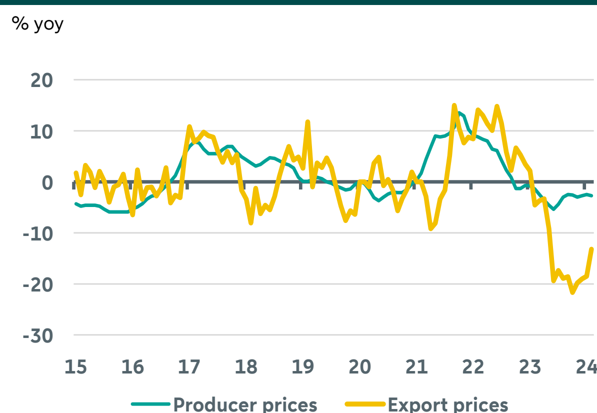
That the impact of the recent shipping disturbances is now short-lived and modest is a result of 1) the current disturbances being more specific/less broad, and 2) the (global) demand side being now less strong relative to the supply side. Back then, global supply shortages (in goods) were exacerbated by a strong global demand – partly as a result of stimulative monetary and fiscal policies in DMs – and a pandemic-related shift in global demand from services to goods. All of this is also reflected in our global supply bottlenecks index, which captures not only features of global supply bottlenecks (e.g. container tariffs, delivery times), but also global supply-demand imbalances. Our index includes a measure for the global excess of supply/demand. This is the ratio between the EM output component of the global manufacturing PMI – led by China – versus the DM demand components, with DMs seen as typical end-users in global supply chains. Partly reflecting the weakening of demand in DMs in the course of 2022 – on the back of the

sharp rise in interest rates following an inflation spike –, this ratio has hovered in 'excess supply territory' since (see chart on front page). This has also been an important driver of the turnaround in our bottlenecks index, which has been in 'excess supply' territory since end 2022.

## ...partly driven by developments in China

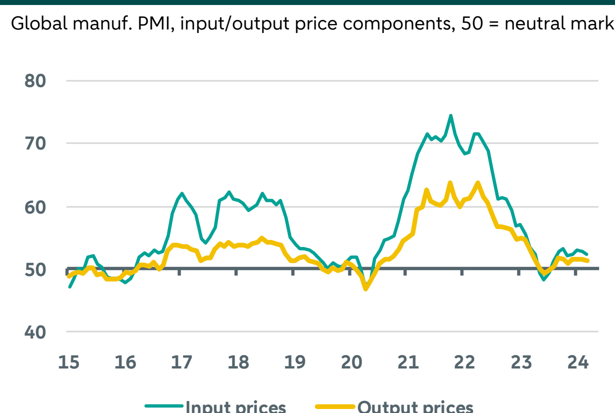
China also plays an important role in this global supply abundance. Since a couple of years, Beijing has strengthened its focus on bolstering (emerging) high-tech manufacturing industries. This pivot is based on the need to safeguard future productivity growth, become less reliant on the property sector, and increase self-reliance in technology sectors, as the US is leading a tightening of export and investment restrictions on sensitive/strategic tech products. But with domestic production outpacing domestic demand – still constrained for various reasons –, this strategy is leading to overcapacity and higher exports of certain high-tech manufactured products (also see our recent China coverage, *Always look at the demand side of life*).

**China's supply-demand imbalance a deflationary force**




Source: ABN AMRO Group Economics, Bloomberg, LSEG

**Bellwethers for industrial cost prices have come down**




Source: ABN AMRO Group Economics, LSEG

## Excess supply keeps lid on industrial goods' prices, but risks from escalation remain

In China, supply dominance over demand is going hand in hand with deflationary pressures – with producer price inflation in negative territory for 17 months now, while export prices have come down sharply. This, and – more broadly – the global supply abundance is keeping a lid on global manufactured goods' prices. The global manufacturing PMI's components for input and output prices – bellwethers for global cost push pressures in manufactured goods – have stabilised after a modest pick-up in late 2023, and have come down sharply from the peaks seen in 2021-2022. All of this shields against the (potentially) inflationary impact of the recent disturbances. That said, this could change in a severe escalation scenario, – with for instance rising tensions between Israel and Iran – and in the wider region – triggering a sharper, and more sustained rise in energy prices and container tariffs (also see front page and our Oil market update).

## China's excess supply in manufacturing leads to trade spats...

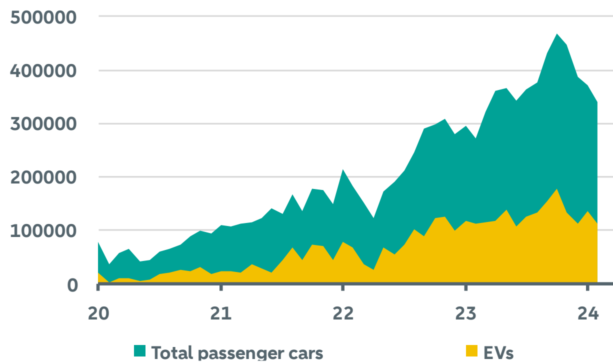
Another important effect of China's role in the current abundant supply conditions following Beijing's pivot to high-tech manufacturing is that its adds to (already prevailing) trade tensions with the West. That is particularly true for strategically sensitive high-tech goods – including those needed in the global energy transition –, although China's excess supply is visible in other sectors as well (including construction-related equipment, also reflecting the drop in domestic demand). The US continues with tightening restrictions on high-tech related investment and strategic exports in/to China under a *High Fence, Small Yard* strategy. On a recent visit to Beijing, US Treasury Secretary Yellen urged China to scale back its recent surge of green energy technology exports, while focussing on bolstering domestic consumption instead. The US administration will also propose new 25% tariffs on certain steel and aluminum products imported from China. The EU raised concerns about the negative effects of manufacturing overcapacity in China as well (see here for instance) and is taking various actions to risk-mitigate the trade and investment relationship with China, including the start of several investigations into Chinese subsidies (e.g. electric vehicles, wind turbines). China has countered the accusations by stating China's surge in high-tech exports is driven by strong global demand, helps pushing down inflation. and contributes to reaching the climate goals globally.

## ...with electric vehicles (EVs) being a clear case in point

Probably the most striking example in these revolving trade spats are electric vehicles (EVs), also see the earlier coverage in our Annual Outlook 2024 and our China special). Last year, China rapidly emerged as the world's largest exporter of passenger cars, overtaking Japan. Traditional (internal combustion engine) car exports from China are typically destined for Russia, Mexico and other emerging markets, but the bulk of the EV exports go to Europe. The share of China-made EVs (Chinese brands and foreign brands produced in China) in annual EU sales has risen from 10% in 2020 to around 20% in 2023, and could increase to 25% this year – with the share of Chinese brands rapidly increasing.[1]

**China's car (+EV) exports have surged in recent years**

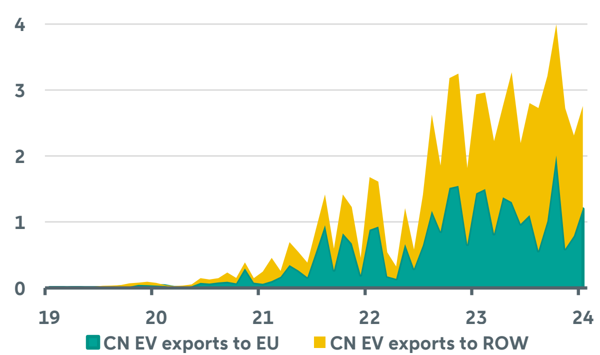
Monthly number of China's passenger car exports, including EVs




Source: LSEG, ABN AMRO Group Economics

**Large chunk of China's EV exports go to Europe**

Monthly export values, USD bn




Source: ITC, ABN AMRO Group Economics

Western authorities are not standing pat to what they perceive to be unfair Chinese trading practices. Following up on an investigation into China's EV industry launched in September 2023, the European Commission recently stated it found sufficient evidence that EVs imported from China were subject to all kinds of subsidies. The Commission is expected to propose a 25% import tariff (up from the standard 10% currently) by July 2024, with final import duties implemented by November this year. The US has also announced its own investigation into China's EV sector, citing national security arguments, although US EV imports from China are relatively small compared to the EU.

## Balanced approach in protecting industries expected; risks stem from broader tariffs

Additional import tariffs would reduce to a certain extent the deflationary impact stemming from the current global excess supply (dominated by China), although this effect would be small if tariffs would be applied to only one or a few sectors. On another note, tariffs may be not as effective as policy makers hope for, as they typically lead to circumvention. For instance, the 2018 China tariffs imposed by the US led to trade diversion through countries like Vietnam or Mexico. Strikingly in this respect: several Chinese car makers are in talks with certain national governments (e.g. Hungary, Italy) to expand car production facilities in those EU counties. Our base case assumes policy makers to keep choosing a balanced approach while protecting their emerging tech industries, also taking into account the risk of China stepping up retaliation and the fact that China may well be needed in the global energy transition over the longer term. However, there are risks (to inflation and growth) stemming from an intensification of tariff wars, for instance under a potential second Trump-administration – given that the US presidential candidate has threatened with installing a broad universal 10% import tariff and high China-specific tariffs should he return to the White House (see our earlier analysis here).

[1] Financial Times, *Chinese-made EVs set to take 25% of European market this year,* 27 March 2024.

# Eurozone: Paving the way for the first rate cut

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- First quarter GDP, released next week, is expected to be roughly stagnant
- Disinflation in the eurozone remains on track, with inflation expected to be broadly back at 2% by the middle of the year
- The ECB mentioned rate cuts explicitly in its policy statement, paving the way for a rate cut in June

During the special European Council on 17-18 April, economic policy in Europe jumped to the top of the policy agenda. First, the report by former Italian Prime Minister Enrico Letta on how to deepen the single market was published, while Mario Draghi gave a speech in which he teased some conclusions of his report on EU competitiveness, to be published later in 2024. To face global challenges and increase potential growth, the reports call for further integration and active industrial policy within the bloc. The reports are timely given the stagnation in the eurozone, but may fall on deaf ears given the European elections of early June will likely usher in a shift to the Eurosceptic/nationalist right.

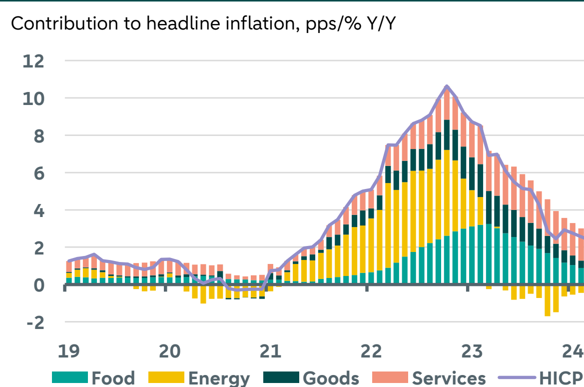
Next week's release of Q1 GDP growth in the eurozone will likely show ongoing stagnation in the economy. The outlook for the rest of 2024 however is improving, and growth is set to pick-up but stay below the trend rate. Private consumption is set to expand as high wage growth and falling inflation lifts real incomes, raising household confidence. Fiscal policy tightening and the still-high level of interest rates however will prevent a sharp recovery. As global trade volumes are picking up we expect this to feed through to a further bottoming out in the industrial sector, but structural headwinds such as high energy costs and decreased competitiveness are expected to keep the outlook subdued.

Disinflation in the meantime remains on track, with inflation still expected to be broadly back at 2% by the middle of the year. March inflation data actually surprised to the downside. Headline inflation fell to 2.4%, down from 2.6% in February, while core fell to 2.9% from 3.1%, the lowest reading since before the war in Ukraine. This was despite the timing of Easter in March this year instead of April. Easter typically puts some upward pressure on food and services inflation. With this effect absent from April onwards, services inflation is likely to softening further going forward. As indicated in a recent note (see here) we continue to expect wage growth to decline further in the coming quarters, as labour market conditions deteriorate, thereby weighing on services inflation going forward.

**Labour market conditions have deteriorated over the**

Source: European Commission, ABN AMRO Group Economics

**Disinflation well under way**




Source: LSEG, ABN AMRO Group Economics

In the April meeting the ECB echoed the constructive outlook on inflation, indicating that 'most measures of underlying inflation are easing, wage growth is gradually moderating and firms are absorbing part of the rise in labour costs in their profits'. Following this, in the April monetary policy statement the ECB explicitly mentioned rate cuts for the first time. It noted that if its 'updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission were to further increase its confidence that inflation is converging to the target in a sustained manner, it would be appropriate to reduce the current level of monetary policy restriction'. Given the ECB's communication on the inflation outlook, financing conditions and its view on underlying inflation mentioned above, these three conditions set by the ECB seem to have been largely met already (see here). As a result, we continue to think the ECB will start its rate cut cycle at the June meeting. While the ECB is not pre-committing to a particular rate path, our base case is that the ECB will cut rates at each meeting from June onwards for a total of 125bp rate cuts.

# The Netherlands: Economic sentiment improves

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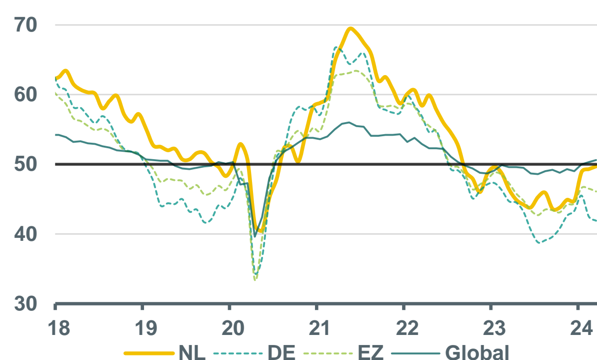
- Growth is expected to pick up to 0.7% in 2024 and 1.2% in 2025, driven by domestic demand
- Later in 2024, as financial conditions ease and external demand increases, growth will pick up further
- We have raised our house price growth forecasts to 6% in 2024 and 5% in 2025

In the second estimate of Q4 2023, GDP was revised marginally upward to 0.4% qoq (was 0.3%). The biggest change was in government consumption, to 0.7% qoq (was 0.4%), driven for instance by health care and education spending as well as wages of public officials. Consumption was also revised upward, to 1.9% qoq (was 1.8%). This was surprising, as we expected a downward revision given the historically large qoq increase. The pick-up in consumption was largely driven by rising real incomes on the back of further disinflation and continued elevated wage growth. Additionally, we estimate 1/4 of the consumption increase was due to the energy lump sum payment of EUR 1300 to the minimum income households (read more here – in Dutch).

Looking forward, the outlook for the first half of 2024 remains positive, but weak. Growth will be mainly driven by domestic demand. Private consumption is likely to see support from rising household real incomes, while the government (despite its caretaker status) is also contributing to growth via redistributive policies that raise purchasing power, as well as increased government consumption and investment. First quarter GDP is expected to roughly stagnate, as consumption growth falls back with the spending effect of the energy lump sum payment disappearing. Additionally, private investments and exports will stay weak on the back of still elevated interest rates and the weak external environment. We expect a more broad-based pick-up in growth later in the year, as financial conditions ease and external demand increases on the back of a pickup in eurozone growth.

**Dutch manufacturing sector sentiment improves**

Manufacturing PMIs, indices, 50 = neutral mark




Source: LSEG, ABN AMRO Group Economics

**Confidence in the housing market is on the rise**

Market indicator, index (100 = neutral)

Source: Vereniging Eigen Huis, ABN AMRO Group Economics

The labour market appears to be plateauing, as the participation rate came to a standstill at 73.2% in February and March after an almost continuous increase in the second half of 2023. Also, while the unemployment rate continues to hover around 3.6%, employment has stagnated. With bankruptcies normalizing from pandemic lows, labour mobility will pick up. Private labour demand from SMEs is expected to cool due to higher refinancing costs. Although the labour market is likely to stay tight from a historical perspective, the unemployment rate is expected to increase to 4.0% in 2024 and 4.2% in 2025.

Finally, we have updated our forecasts for the housing market (read more here). As the ECB is preparing to cut interest rates and workers are seeing sharp rises in wages, housing market affordability is improving. The house price index is almost back at its July 2022 record. We have raised our house price growth forecast to 6% in 2024 (was 4%) and 5% in 2025 (was 3.5%). The number of housing transactions is on the rise as well, but the lack of houses for sale and lagging new construction are putting a brake on the number of transactions. This means that on balance, we see no reason to adjust our transaction forecasts. Our transaction forecasts remain at 0.5% for 2024 and 3% for 2025, which amounts to an increase of 183,000 transactions this year and 189,000 next year. Improving housing market sentiment is a positive for private consumption, as well as for housing investment.

## US: Fed to tread more carefully with rate cuts

Bill Diviney – Senior Economist | bill.diviney@nl.abnamro.com

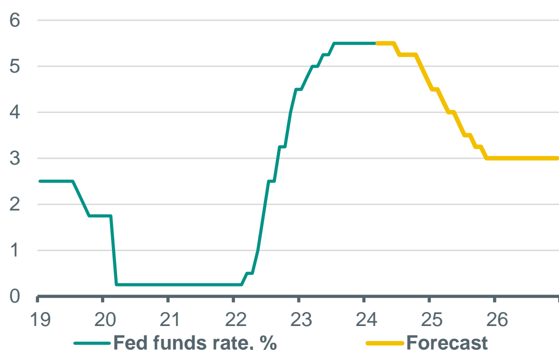
- The economy has slowed in 2024 so far, but remains more resilient than expected
- We continue to think the recent hot inflation readings are more noise than signal…
- …but the Fed will need to be more convinced before it starts lowering interest rates

National accounts data due later this week are likely to show that GDP slowed further in Q1 from the very strong second half of 2023. We and consensus expect growth of around 2.5% annualised, down from 3.4% in Q4 and 4.9% in Q3 last year, but still somewhat above the trend rate of growth. Incoming data suggests growth continues to be driven by solid consumption, although the bottoming out in global trade and industry (see this month's Global View) is also helping, with manufacturing output having also grown modestly over the quarter. That growth has not slowed more sharply is surprising considering the impact of high rates on things such as subdued bank lending and rising credit card delinquencies (see our March Global Monthly). This resilience likely continues to reflect the aggregate strength of household and business balance sheets, which seems to be offsetting the pockets of weakness in interest rate-sensitive parts of the economy. As a result of the ongoing resilience, we have further raised our 2024 GDP growth forecast to 2.5%, up four tenths from our previous 2.1% forecast. While we still expect the economy to continue slowing, we think the trough will be even shallower than previously thought, with growth expected to bottom out a touch below trend at c1.5% over Q2-Q3, before falling interest rates lift growth again in late 2024 and into 2025.

Despite the strength in growth, we continue to think the recent hot CPI inflation readings are giving off more noise than signal about the outlook. As the past year has shown, monthly inflation outturns have been volatile, and most of the strength we see is being driven by aftershocks from the 2021-22 inflation surge. For instance, the jump in housing rents has yet to fully pass through, and prior rises in car parts prices, as well as the resumption in traveling and higher accident rates associated, has led to an unusual jump in car insurance premiums. Pipeline pressures for inflation, including the latest data for new housing rent leases, as well as wage growth, continue to suggest a benign inflation outlook. As such, we think we are overdue some downside surprises on the inflation front over the coming months.

**Fed to lower rates more gradually to begin with**

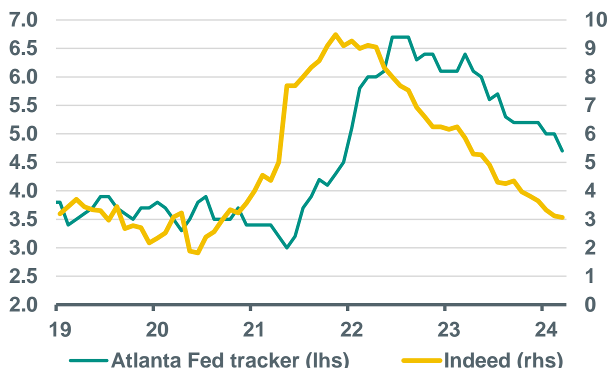
Fed funds rate upper bound, %




Source: European Commission, ABN AMRO Group Economics

**Wage data continues to suggest further falls in**

Various US wage growth trackers, % y/y




Source: LSEG, ABN AMRO Group Economics

Still, the Fed will need to be more convinced before it starts to cut rates, after being burned by the *inflation is transitory* mantra in 2021. We think the Fed will need to see 2-3 benign inflation readings to be confident that it is back on track to meet its 2% inflation target. Assuming we see more benign readings for inflation over the coming months, we think the Fed will want to get some easing 'in the bag', considering the lags with which monetary policy works. This therefore favours a first cut in July (previously June). However, given the volatility we have seen in inflation, we also think it is reasonable that the Fed proceeds more carefully with rate cuts initially. While the precise timing of any pause will depend highly on the dataflow at that time, we judge that September would be a reasonable point to hold policy and take stock of developments before proceeding further. By November, inflation should be more durably back at the Fed's 2% target, which should give the Committee the confidence to cut at consecutive meetings until a more neutral level of interest rates (around 3%) is reached in late 2025.

Could the presidential election scupper rate cut plans? We think not. We happen to think the data will support a September rate pause, but the November FOMC meeting will take place just after the election. As such, any move is unlikely to be seen as politically motivated, regardless of the outcome. See our Fed Watch for more.

# China: Tweaking our growth forecasts

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- Q1 GDP data (including upward revisions to past quarters) raise likelihood of reaching 5% growth target
- We raise our 2024 growth forecast to 5.1% (from 4.7%), and cut our 2025 forecast to 4.5% (from 4.6%)
- Recovery still unbalanced and supply-side led; March activity data confirm property headwinds remain

Sequential GDP growth accelerated in Q1-24, in line with our base case, benefiting from stimulus and a bottoming out in global manufacturing. However, the latest data confirm that the recovery is still unbalanced, with the supply side stronger than the demand side, and property still adding to headwinds. Meanwhile, risks from trade spats are rising.

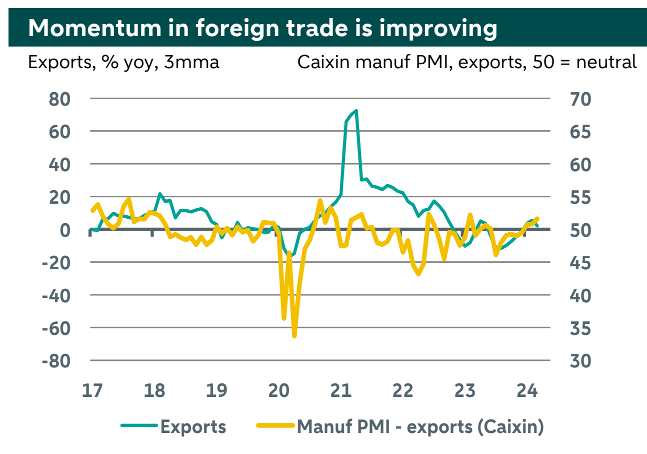
## Modest, technical changes in our growth forecasts for 2024/2025

In line with our base case, China's real GDP growth accelerated in quarterly terms in Q1-24, picking up to 1.6% qoq (Q4-23: revised up to 1.2%). The upward revisions in the two preceding quarters resulted in annual growth coming in stronger than expected, at 5.3% yoy (Q4-23: 5.2%). We had already flagged in earlier publications that the balance of risks regarding our China growth forecasts has been improving for a while. Although domestic demand remains weak, and many challenges remain, Q1 GDP data raise the likelihood that the 2024 growth target of 5% will be within reach, also assuming further piecemeal monetary easing and targeted (fiscal) support. All in all, we raise our 2024 growth forecast to 5.1% (from 4.7%); this is more of a backward revision rather than a 'game changer' in terms of the outlook. Partly reflecting a stronger base from 2024, we cut our 2025 growth forecast modestly to 4.5% (from 4.6%).

## Conflicting signals from March survey and hard activity data

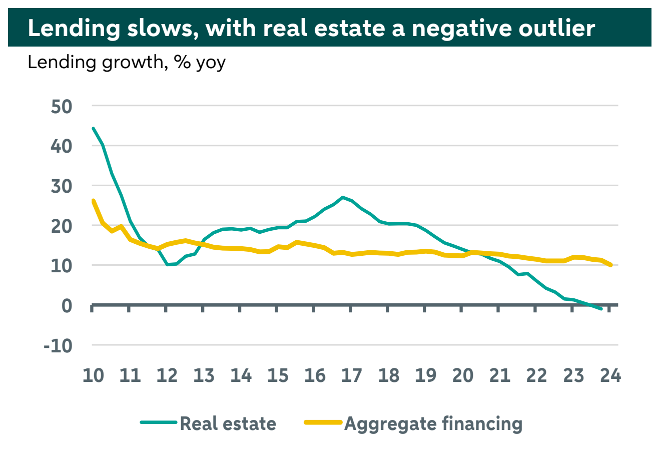
The latest macro data are a mixed bag. The rise of the official manufacturing PMI (NBS) in March did close the gap with Caixin's equivalent, with both indices now back above the neutral 50 mark (see here). Services PMIs also picked up further, and the composite PMIs from both NBS and Caixin rose to ten-month highs. By contrast, the activity data for March generally signalled a softening growth momentum, with retail sales in particular on the weak side (see here). Property sector data remained lacklustre, suggesting that measures to stabilise the sector have not yet broken the negative feedback loop. Annual growth in exports and imports turned negative, but that largely reflected a base effect from the reopening last year, with underlying momentum improving on the back of a bottoming out in global manufacturing. Notably, the export components of both manufacturing PMIs have risen back to above 50 for the first time since February 2023. That said, risks from trade spats with the West are rising (see also this month's Global View).

**Momentum in foreign trade is improving**




Source: ABN AMRO Group Economics, LSEG

**Lending slows, with real estate a negative outlier**




Source: Bloomberg, ABN AMRO Group Economics

Annual lending growth dropped below 10% in March – for the first time in 25 years – as credit demand remains weak (real estate lending was a negative outlier). On the inflation front, CPI inflation fell back to a meagre 0.1% yoy – with upward pressure from the Lunar New Year period in February fading – while producer price inflation was negative for the 18th consecutive month. All of this reflects the fact that consumption and private investment still lag the overall recovery. We expect more piecemeal easing and targeted (fiscal) measures to support domestic demand going forward. Meanwhile, the fact that growth is structurally coming down and risks to central government finances are rising, led Fitch to put China's sovereign rating on a negative outlook on 9 April, following a similar move by Moody's in December 2023.

## Key views on a page

**Growth indicators are bottoming out in the eurozone and China, while the US economy is gradually cooling. Big picture, the global economy is slowly converging towards a more trend-like pace of growth, and this remains our base case for the second half of 2024. Global trade and industry are beginning to recover, but a sharp rebound is unlikely while rates remain restrictive. On the positive side, inflation has fallen significantly and is now within touching distance of central bank targets. The impact of the conflict in the Middle East has receded and the inflation impact is likely to be minimal. Further falls in inflation will enable central banks to pivot to rate cuts by mid-2024, and financial conditions have eased in anticipation of this. Still, interest rates will stay high for some time yet, and this will keep a lid on the recovery.**

| Macro | Central Banks & Markets |
|---|---|
| **Eurozone** – Incoming economic data and survey results for January-March have indicated that GDP stagnated for the sixth consecutive quarter in 24Q1. PMI results of April suggest GDP growth is already picking up slightly moving into the second quarter. Growth should expand moderately during the rest of the year, as global trade and industry bottom out, which will support EZ exports. Domestic spending is expected to increase as well on the back of high wage growth and lower inflation but deteriorating labour market conditions and fiscal retrenchment prevent a strong recovery. | **ECB** – The ECB kept policy rates unchanged in April. In the Policy Statement the ECB explicitly mentioned rate cuts for the first time. In the press conference the ECB made clear that if the inflation outlook, underlying inflation and the strength of monetary policy transmission were according to expectations, it would be appropriate to cut the policy rate. We believe these three conditions have been largely met already and continue to expect a June start to rate cuts, after which the ECB will cut rates at each meeting from June onwards for a total of 125bp rate cuts. |
| **The Netherlands** – Growth will increase to 0.7% in 2024 and 1.2% in 2025, mostly driven by private consumption on the back of a purchasing power recovery. First quarter GDP is expected to roughly stagnate, as consumption falls back, and private investments and exports stay weak on the back of elevated interest rates and the weak external environment. Over the course of 2024, as financial conditions ease and external demand increases, we will see a more broad-based pick-up in growth. Labour market tightness remains, but the unemployment rate will marginally rise to 4.0% in 2024. | **Fed** – We expect rate cuts to start in July, with a pause in September as the Fed waits to gain confidence in the inflation outlook. We then expect consecutive rate cuts from November on. Even with rate cuts starting this year, monetary policy is expected to remain restrictive throughout 2024 and into 2025. We expect the upper bound of the fed funds rate to reach 4.75% by end-2024, and 3% by end-2025. The Fed also looks set to slow down its quantitative tightening somewhat sooner than previously expected. We expect an announcement in May, with a slower pace of QT starting in the second half of 2024. |
| **UK –** Disinflation has continued, providing some relief to the Bank of England, but upside inflation risks remain significant given that wage growth is still elevated and well above levels consistent with the 2% target. At the same time, the economy has continued to stagnate, weighed by high rates and weak confidence. Over time, we expect the weakness in demand to dampen wage growth, which should help to bring down services inflation. But the normalisation in inflation may take longer in the UK than in other advanced economies, due to historically higher inflation expectations. | **Bank of England** – The MPC has kept policy on hold since last August. We think Bank Rate has peaked at 5.25%. The BoE is in full data-dependent mode, and UK macro data has been erratic over the past year. We do not expect rate cuts until next August. The risk is tilted towards somewhat earlier cuts given the more rapid progress on inflation. However, sticky wage growth – which poses upside risks to medium-term inflation – is likely to stay the MPC's hand. Rate cuts are likely to be more gradual than for the ECB and Fed, with only two rate cuts (total 50bp) expected in 2024, and four rate cuts (total 100bp) in 2025. |
| **US** – Growth is slowing to a more trend-like pace in the early months of 2024, following well above trend growth in H2 2023. However, the economy continues to be more resilient than expected in the face of high rates, likely reflecting the solid balance sheets of households and businesses. Still, weak bank lending and pockets of financial stress among households are likely to contribute to a further slowdown in growth. Inflation has come in on the firm side in recent months, but pipeline pressures – particularly benign wage growth – continue to point to the Fed meeting its 2% target in the course of this year. | **Bond yields** – The higher-for-longer theme is back after a few months of dovish sentiment in markets. There are now only 1.5 rate cuts priced for the Fed and 3 for the ECB. The market also now prices in a higher terminal rate (to 4.2% and 2.5% for the Fed and ECB respectively). This is roughly 100bp higher than what both central banks estimate as neutral rate. In our view, the recent market shift is overdone. We expect the market to gradually adjust its terminal rate estimates lower once we enter into the rate cut cycle. This will lead to a sharp drop in bond yields overall. |
| **China** – Qoq growth accelerated in Q1-24, in line with our base case, benefiting from stimulus and a bottoming out in global manufacturing. However, the latest data confirm that the recovery remains unbalanced, with the supply side still stronger than the demand side, and property still adding to headwinds. Meanwhile, risks from trade spats are rising. On the back of the Q1 GDP data, we made some backward-looking revisions to our growth forecasts. We raised our 2024 forecast to 5.1% (from 4.7%) and cut our 2025 forecast to 4.5% (from 4.6%). | **FX** – Following the update to our Fed view, we are now more dovish for the ECB than for the Fed compared to the market and this justifies a stronger dollar and lower EUR/USD. EUR weakness from current levels will materialize in the coming months as long as the cut expectations on the ECB run ahead of rate cut expectations of the Fed. As soon as the Fed begins the easing cycle and markets start to anticipate a larger number of rate cuts in 2025, the dollar will probably decline. Our new forecasts for Q2 and Q3 are 1.05 and for year-end 1.07. Before, these forecasts stood at 1.10. |

## Main economic & financial market forecasts

| | GDP | | | | Inflation | | | | Policy rate | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2022 | 2023 | 2024 | 2025 | 2022 | 2023 | 2024 | 2025 | 2022 | 2023 | 2024 | 2025 |
| Eurozone | 3.5 | 0.5 | 0.4 | 1.6 | 8.4 | 5.5 | 2.3 | 2.1 | 2.00 | 4.00 | 2.75 | 1.50 |
| Netherlands | 4.3 | 0.1 | 0.7 | 1.2 | 11.6 | 4.1 | 2.8 | 2.4 | | | | |
| UK | 4.3 | 0.1 | 0.1 | 1.1 | 9.1 | 7.4 | 2.4 | 2.9 | 3.50 | 5.25 | 4.75 | 3.50 |
| US | 1.9 | 2.5 | 2.5 | 2.0 | 6.5 | 3.8 | 2.5 | 1.9 | 4.50 | 5.50 | 4.75 | 3.00 |
| China | 3.0 | 5.2 | 5.1 | 4.5 | 1.9 | 0.2 | 1.0 | 1.8 | 3.65 | 3.45 | 3.25 | 3.25 |

| | 2023 | 22/04/2024 | Q2 24 | 2024 | 2025 | Energy | 2023 | 22/04/2024 | Q2 24 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| US Treasury | 3.88 | 4.62 | 4.20 | 3.75 | 3.25 | | | | | | |
| German Bund | 2.02 | 2.49 | 2.25 | 1.90 | 1.75 | Brent - USD/bbl* | 77.04 | 87 | 85 | 90 | 80-85 |
| EUR/USD | 1.10 | 1.06 | 1.05 | 1.07 | 1.10 | WTI - USD/bbl* | 71.65 | 82.85 | 80 | 85 | 75-80 |
| USD/CNY | 7.10 | 7.25 | 7.20 | 7.10 | 6.80 | TTF Gas - EUR/MWh* | 35.25 | 34.93 | 30 | 40 | 35-40 |
| GBP/USD | 1.2731 | 1.23 | 1.25 | 1.28 | 1.30 | | | | | | |

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

| | 2023 | | | | 2024 | | | | 2025 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **GDP (qoq)** | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Eurozone | 0.0 | 0.1 | -0.1 | -0.1 | 0.0 | 0.2 | 0.2 | 0.4 | 0.4 | 0.5 | 0.6 | 0.5 |
| Netherlands | -0.5 | -0.4 | -0.2 | 0.4 | 0.0 | 0.4 | 0.5 | 0.5 | 0.2 | 0.2 | 0.1 | 0.4 |
| US (saar) | 2.2 | 2.1 | 4.9 | 3.4 | 2.5 | 1.5 | 1.5 | 2.0 | 2.0 | 2.0 | 2.5 | 2.5 |
| UK | 0.2 | 0.0 | -0.1 | -0.3 | 0.2 | 0.1 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 |
| China (yoy) | 4.5 | 6.3 | 4.9 | 5.2 | 5.3 | 5.8 | 4.9 | 4.7 | 4.3 | 4.4 | 4.7 | 4.8 |
| **Inflation** | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Eurozone | 8.0 | 6.2 | 4.9 | 2.7 | 2.6 | 2.2 | 2.1 | 2.2 | 2.1 | 2.0 | 2.2 | 2.1 |
| Netherlands | 7.2 | 6.3 | 2.7 | 0.4 | 3.0 | 2.8 | 2.6 | 2.5 | 2.6 | 2.4 | 2.3 | 2.2 |
| US (PCE) | 5.0 | 3.9 | 3.3 | 2.8 | 2.5 | 2.6 | 2.4 | 2.6 | 2.3 | 1.8 | 1.8 | 1.9 |
| UK | 10.2 | 8.4 | 6.7 | 4.2 | 3.6 | 1.6 | 1.9 | 2.3 | 2.6 | 3.2 | 3.0 | 2.8 |
| China | 1.3 | 0.1 | -0.1 | -0.3 | 0.0 | 0.5 | 1.3 | 2.2 | 2.1 | 1.9 | 1.7 | 1.6 |
| **Unemployment** | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Eurozone | 6.6 | 6.5 | 6.5 | 6.5 | 6.4 | 6.7 | 7.0 | 7.1 | 7.0 | 6.8 | 6.6 | 6.5 |
| Netherlands | 3.5 | 3.5 | 3.6 | 3.6 | 3.7 | 3.9 | 4.1 | 4.2 | 4.2 | 4.2 | 4.2 | 4.2 |
| US | 3.5 | 3.6 | 3.7 | 3.8 | 3.8 | 3.8 | 3.9 | 3.8 | 3.8 | 3.7 | 3.5 | 3.5 |
| **Policy rate** | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Eurozone | 3.00 | 3.50 | 4.00 | 4.00 | 4.00 | 3.75 | 3.25 | 2.75 | 2.25 | 1.75 | 1.50 | 1.50 |
| US | 5.00 | 5.25 | 5.50 | 5.50 | 5.50 | 5.50 | 5.25 | 4.75 | 4.50 | 3.25 | 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 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 |

Source: LSEG, Bloomberg, ABN AMRO Group Economics

(saar = season adjusted annual rate)

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