Economic Perspectives

August 2024

Highlights

- Commodity prices dropped in July as concerns about the state of China's economy linger. Oil prices declined by 6% last month to 81 USD per barrel, as weak Chinese GDP growth and poor European manufacturing activity outweighed the drop in US inventories. That said, increasing Middle East tensions and a possible tightening of sanctions on Venezuela (in the wake of its contested election) could drive prices back up in August. Gas prices, meanwhile, increased mildly in July, reaching 35 EUR per MWh. But high EU gas storage levels (filled at 85% now), are keeping prices in check. Low Chinese demand is also weighing on metal prices, which declined by 3.4% last month. Food prices, meanwhile, were broadly flat last month as increases in meat, sugar and vegetable oil prices were compensated by a large drop in cereal prices.

- In the euro area, inflation rose slightly in July to 2.6%, 0.1 percentage point higher than in June and as high as in May. The increase was driven by energy prices, which were 1.3% higher than a year earlier compared with an increase of only 0.2% in June. Core inflation (inflation excluding energy and food prices) stabilised at 2.9%. The annual rate of increase in non-energy goods rose slightly from 0.7% in June to 0.8% in July, while services inflation slowed from 4.1% to 4.0%. The latter is encouraging, although the still high figure signals that the cooling of services inflation remains slow. We expect it to continue gradually, sustaining the downward trend in headline inflation. However, volatile energy prices will continue to provide a bumpy inflation path, also due to remaining base effects.

- US inflation indicators have evolved favourably lately. US inflation surprised to the downside in June, declining from 3.3% to 3.0% year-over-year (-0.1% month-on-month). Within non-core components, energy prices declined by 2% in June, while food prices increased by 0.2%. Core inflation was also soft in June, declining from 3.4% to 3.3%. Goods prices declined marginally due to a big drop in vehicle prices. Services were also broadly unchanged (for the second month in a row). This was partially thanks to a big drop in airline fares, though other stickier components were also soft. Especially encouraging was the deceleration in shelter inflation, which only increased by 0.2% last month. Forward-looking indicators have also been evolving favourably for this important category. Wage data have also been encouraging lately. The employment cost index softened from 1.2% to 0.9% last quarter. This favourable wage evolution continued in July as average hourly earnings only increased 0.2%. Furthermore, productivity growth accelerated rapidly last quarter, keeping unit labour costs under control. Inflation expectations have also edged down; according to the University of Michigan Survey, consumers now expect 2.9% inflation in the year ahead (down from 3.3% in May).

- The ECB and the Fed kept their respective policy rates unchanged in July. However, given the increased confidence of both central banks that the respective disinflationary paths in the US and the euro area are intact, both suggested that a rate cut in September is on the table. For the Fed, this would be the first in this rate-cutting cycle. Though a September cut was already priced in by markets, the case for a Fed rate cut has further strengthened following weaker-than-expected US net job creation in July. Given the Fed's dual mandate of price stability and maximum sustainable employment, the waning strength of the labour market, supports expectations for an imminent start to the rate cutting cycle

- According to Eurostat's preliminary flash estimate, real GDP in the euro area increased by 0.3% quarter-on-quarter in Q2 2024. This is slightly stronger than expected and equal to growth in the first quarter. Both figures confirm that the expected economic recovery in the euro zone is gaining momentum, but not at a strong pace. The persistent malaise in the German economy, which contracted slightly in the second quarter (-0.1% compared to the first quarter), and the as yet absence of convincing signs of broad-based private consumption growth point to persistent growth pains. The relatively strong growth rate in the euro area was mainly due to the Spanish economy continuing to perform strongly (+0.8%), and the high but often very volatile Irish growth rate (+1.2%). We maintain our expectation that the ongoing recovery in purchasing power through real wage catch-up will spur private consumption, supporting a gradual growth recovery. However, recent disappointing indicators on business confidence highlight the downside risks to the growth outlook.

- The US economy showed signs of resilience as Q2 GDP figures surprised to the upside. GDP grew by 0.7% last quarter. The most important contributor was private consumption, which contributed 1.57 pp to the annualised rate of 2.8%. Non-residential fixed investment made a solid 0.69 pp contribution, but this figure was embellished by strong airline deliveries, a likely one-off. The biggest upward surprise came from inventories, a highly volatile component, which made an impressive 0.82 pp contribution. Net exports and residential fixed investments made negative contributions. Looking to the coming quarters, GDP growth is likely to slow. Most importantly, the labour market has weakened sharply. The labour market added only 114k jobs last month compared to 179k the month prior. Unemployment also rose from 4.1% to 4.3% in July, while average hours worked ticked down. Aside from the labour market, consumer spending is also likely to weaken as savings rates are very low and consumer confidence is on a declining trend. A soft landing is thus likely to happen in the coming quarters.

- The Chinese economy continues to struggle, expanding only 0.7% quarter-on-quarter (or 4.7% year-on-year) in the second quarter—a measurable slowdown compared to the start of the year. A relatively weak contribution from consumption (2.2 pp to the year-on-year figure) highlights how dismal consumer confidence and several structural headwinds are weighing on domestic demand. The government’s economic meetings that took place at the end of July reiterated goals of technological upgrading and suggested some longer-term updates to the country’s fiscal framework and social safety net but did little to kickstart confidence in a near-term turnaround of momentum. Recent cuts to policy interest rates (with the PBoC focusing increasingly on the 7-day reverse repo rate rather than the Medium-term Lending Facility rate) have been marginal and are unlikely to change the trend of slowing total credit growth (8.1% yoy in June vs 9.5% at the start of the year). Barring new policy announcements, the economy is unlikely to reach this year’s government growth target of 5%.

- In Belgium, quarter-on-quarter GDP growth came out at 0.2% in the second quarter of 2024 according to the flash estimate, down from 0.3% in the first quarter and slightly below the euro area figure (0.3%). After positive Q1 growth, value added in industry declined again (-0.3%). In construction, in contrast, a negative Q1 figure was followed by positive growth of 1.1% in Q2. The services sector continued to record positive growth (0.2%). With recent disappointing (hard and soft) data on industrial activity, risks to the growth outlook are to the downside. Headline and core inflation were broadly stable at, respectively, 5.5% and 3.3% in July. HICP inflation in Belgium has been running at the highest rate in the EU for the fourth consecutive month now, mainly due the disappearance of the downward impact of previous government measures to ease household energy bills.

- According to a preliminary forecast, Czech GDP grew by 0.3% quarter-on-quarter and 0.4% year-on-year in Q2 2024. According to a comment from the Czech statistical office, the economy has been supported by household consumption, while it has been hampered by the continued drawdown of inventories and probably also by relatively weak investment activity, manifested among other things by a weak performance of industry and construction. Over time, the economic performance should be helped by lower inventories, lower interest rates and a gradual take-off in household consumption. We expect a slight acceleration of the recovery in the coming quarters, driven by a slightly better industrial performance. However, given the persistent weakness in recent business sentiment across Europe, the growth outlook is skewed to the downside. Hungary also released its preliminary Q2 GDP growth print. Unlike in Czechia, quarter-on-quarter momentum has weakened there, from 0.7% in Q1 to -0.2% in Q2 (seasonally and calendar adjusted). In year-on-year terms, Hungarian GDP growth also slid down, from 1.6% to 1.3%. Similar to in Czechia, sluggish industrial activity in Hungary had a negative impact on the rate of economic growth.

- In line with prevailing expectations, the CNB cut its key interest rate by 25bps to 4.5% on 1 August. All seven board members voted in favour of the decision. The central bank has thus slowed the pace of monetary easing (from 50 basis points in June) and with interest rates closer to neutral, it is now entering the nominal tuning phase. The updated macroeconomic forecast of the CNB slightly revised down the GDP growth outlook for this year from 1.4% to 1.2%, and from 2.7% to 2.8% in 2025. As for inflation, the central bank has not changed its forecast substantially and continues to expect average year-on-year CPI growth at the 2% target next year. The Board now assesses inflation risks as balanced: on the upside, these are increased wage dynamics, inertial inflation in services and, in the longer term, higher credit activity on the property market. The downside risks to inflation are mainly the weaker performance of the domestic and German economies. In the communication following the monetary decision Governor Michl emphasized ongoing caution in the calibration of monetary policy while declining to provide “any indication at all about where rates will go in the future". One can say that the CNB cut rates but played a hawkish card at the same time. Given the favourable inflation outlook and the weak performance of the Czech economy, we continue to expect the CNB to continue cutting rates by 25 basis points. However, the central bank's surprisingly hawkish rhetoric is a risk in the direction of more gradual easing and a possible tactical pause at the end of this year.

- A week before the meeting of the CNB, the Hungarian central bank met general expectations and also cut its key interest rate by 25 basis points from 7.0% to 6.75%. The MNB's comments on the decision sounded very moderate, as did the subsequent speech by the central bank's vice-president Barnabas Virag. He said that at each subsequent meeting only two options would be considered: either a 25 basis point cut or leaving rates unchanged. Virag added that bets on the MNB cutting interest rates once or twice more this year (by 25bps) are realistic.

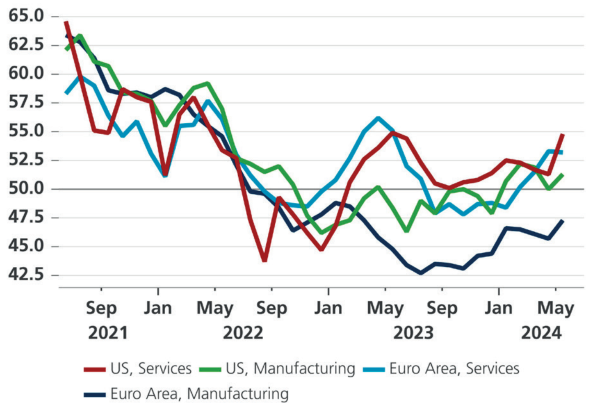
- Inflation in Hungary is likely to pick up from the current 3.7% in the second half of the year to 4.5-5.0% by the end of the year. This will lead to a further compression of real interest rates and thus to a de facto easing of monetary policy, without any (downward) movement in nominal official interest rates. This is clearly not considered desirable by the MNB in a situation where the recent high-inflation episode is still relatively fresh and inflation expectations are settled at a relatively high level.

Figures

Real GDP
yearly change in %

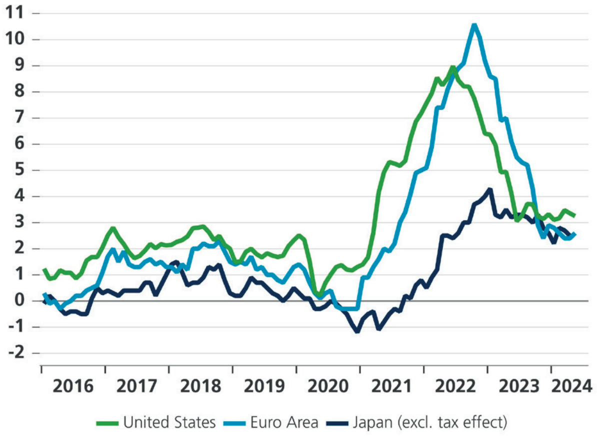
Source: KBC Economics based on Eurostat, BEA, NBS

Business confidence indicators
index, above 50 = expansion



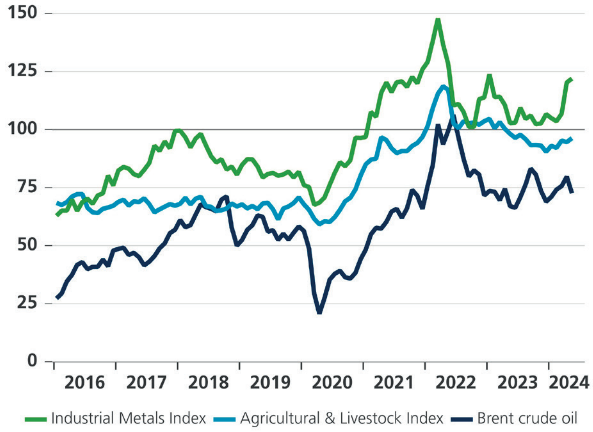
Source: KBC Economics based on S&P Global

Headline inflation
yearly change consumer price index, in %



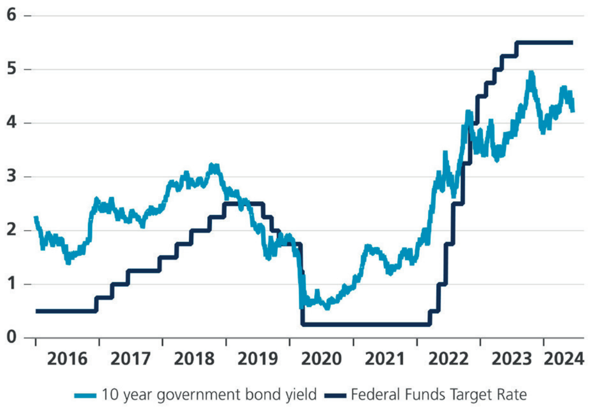
Source: KBC Economics based on Eurostat. SBJ. BLS

Commodity prices
index, January 2013=100, in USD



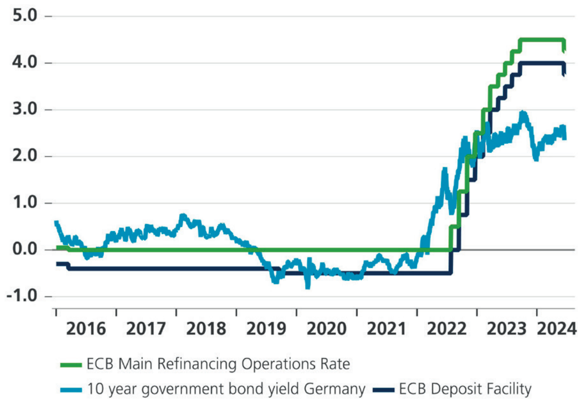
Source: KBC Economics based on World Bank, S&P Global

United States interest rates
in %



Source: KBC Economics based on Fed, U.S. Treasury

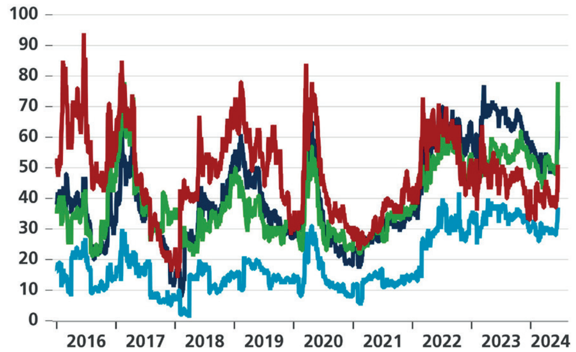
Euro area interest rates
in %



Source: KBC Economics based on Macrobond, ECB

Figures

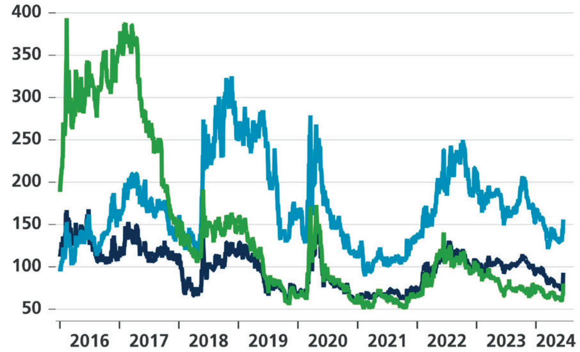
10 year government bond yield spreads to Germany
in basis points



Ireland — France — Netherlands — Belgium

Source: KBC Economics based on Macrobond

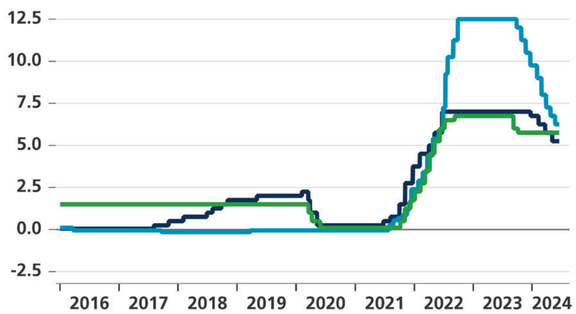
10 year government bond yield spreads to Germany
in basis points



Portugal — Italy — Spain

Source: KBC Economics based on Macrobond

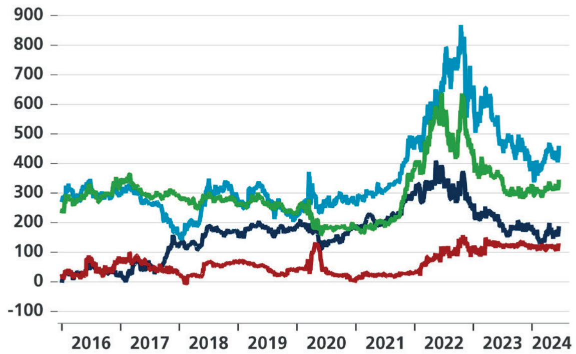
Monetary policy rates Central Europe
in %



- Poland, Policy Rates, National Bank of Poland, Reference Rate
- Hungary, Policy Rates, Central Bank of Hungary, Interest Rate on O/N Deposit
- Czech Republic, Policy Rates, Czech National Bank, 2 Week Repo Rate

Source: KBC Economics based on CNB, MNB, NBP

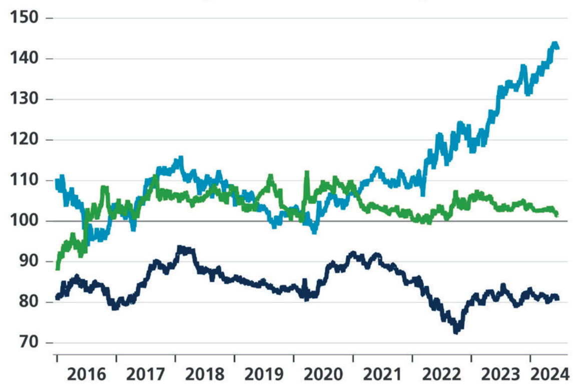
10 year government bond yield spreads to Germany
in basis points



Slovakia — Poland — Hungary — Czech Republic

Source: KBC Economics based on Macrobond, AKK, Eurostat

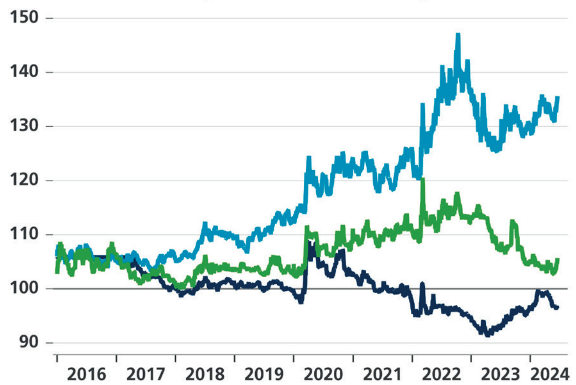
Exchange rates
index, January 2013=100, increase = stronger EUR



GBP per EUR — JPY per EUR — USD per EUR

Source: KBC Economics based on Macrobond

Exchange rates
index, January 2013=100, increase = stronger EUR



PLN per EUR — HUF per EUR — CZK per EUR

Source: KBC Economics based on Macrobond

Outlook main economies in the world

		Real GDP growth (period average, based on quarterly figures, in %) 2023	2024	2025	Inflation (period average, in %) 2023	2024	2025
Euro area	Euro area	0.5	0.7	1.3	5.4	2.4	2.3
	Germany	0.0	0.2	1.3	6.1	2.7	2.8
	France	1.1	1.0	1.2	5.7	2.4	1.8
	Italy	1.0	0.9	0.9	5.9	1.0	1.6
	Spain	2.5	2.3	2.0	3.4	2.9	2.1
	Netherlands	0.2	0.2	1.2	4.1	2.8	2.3
	Belgium	1.4	1.2	1.2	2.3	3.8	2.2
	Ireland	-3.2	1.8	4.4	5.2	1.7	2.0
	Slovakia	1.6	2.6	2.6	11.0	2.7	4.1
Central and Eastern Europe	Czech Republic	0.0	1.3	2.9	12.0	2.3	2.6
	Hungary	-0.7	1.9	3.7	17.0	3.9	4.2
	Bulgaria	2.0	2.3	2.8	8.6	3.1	3.0
	Poland	0.1	2.7	3.2	10.9	4.1	3.9
	Romania	2.1	3.2	3.0	9.7	6.5	5.0
Rest of Europe	United Kingdom	0.1	0.8	1.1	7.3	2.6	2.3
	Sweden	0.1	0.8	2.0	5.9	3.1	1.6
	Norway (mainland)	1.1	0.8	1.4	5.7	3.5	2.4
	Switzerland	0.7	1.4	1.5	2.1	1.3	1.1
Emerging markets	China	5.2	4.7	4.2	0.2	0.5	1.8
	India*	8.2	6.9	6.1	5.4	4.7	4.6
	South Africa	0.7	0.9	1.6	6.1	4.7	4.6
	Russia	Temporarily no forecast due to extreme uncertainty					
	Turkey	4.5	3.0	3.3	53.9	44.2	25.5
	Brazil	2.9	2.0	2.0	4.6	4.1	3.6
Other advanced economies	United States	2.5	2.5	1.7	4.1	3.0	2.4
	Japan	1.8	0.1	1.3	3.3	2.5	2.1
	Australia	2.0	1.2	2.1	5.6	3.4	2.8
	New Zealand	0.8	0.7	2.2	5.7	3.2	2.2
	Canada	1.2	1.0	1.8	3.6	2.5	2.1
*** fiscal year from April-March**						6/8/2024	

Policy rates (end of period, in %)		6/8/2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025
Euro area	Euro area (refi rate)	4.25	3.65	3.40	3.15	2.90
	Euro area (depo rate)	3.75	3.50	3.25	3.00	2.75
Central and Eastern Europe	Czech Republic	4.50	4.25	3.75	3.50	3.50
	Hungary	6.75	6.50	6.25	6.00	5.75
	Bulgaria	-				
	Poland	5.75	5.75	5.75	5.75	5.25
	Romania	6.75	6.75	6.50	6.50	6.50
Rest of Europe	United Kingdom	5.00	5.00	4.75	4.50	4.25
	Sweden	3.75	3.50	3.00	2.75	2.75
	Norway	4.50	4.50	4.25	4.00	3.75
	Switzerland	1.25	1.25	1.00	1.00	1.00
Emerging markets	China (7-day r. repo)	1.70	1.70	1.70	1.70	1.70
	India	6.50	6.50	6.25	6.00	6.00
	South Africa	8.25	8.25	8.00	7.75	7.50
	Russia	Temporarily no forecast due to extreme uncertainty				
	Turkey	50.00	50.00	47.50	40.00	35.00
	Brazil	10.50	10.50	10.50	10.25	10.00
Other advanced economies	United States (mid-target range)	5.375	5.125	4.875	4.625	4.125
	Japan	0.25	0.25	0.30	0.40	0.40
	Australia	4.35	4.35	4.35	4.10	4.10
	New Zealand	5.50	5.25	4.75	4.50	4.25
	Canada	4.50	4.50	4.00	3.75	3.50

Outlook main economies in the world

10 year government bond yields (end of period, in %)		6/8/2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025
Euro area	Germany	2.19	2.50	2.40	2.40	2.50
	France	2.97	3.22	3.15	3.15	3.25
	Italy	3.67	4.00	4.00	4.00	4.10
	Spain	3.08	3.40	3.40	3.40	3.50
	Netherlands	2.50	2.86	2.80	2.80	2.90
	Belgium	2.83	3.15	3.10	3.10	3.20
	Ireland	2.62	2.96	2.90	2.90	3.00
	Slovakia	3.31	3.62	3.65	3.65	3.75
Central and Eastern Europe	Czech Republic	3.65	4.20	4.20	4.20	4.20
	Hungary	6.07	6.50	6.20	6.10	5.90
	Bulgaria*	3.90	3.93	3.90	3.90	4.00
	Poland	5.13	5.20	5.10	5.00	4.80
	Romania	6.64	7.60	8.00	8.15	8.15
Rest of Europe	United Kingdom	3.91	4.10	4.00	4.00	4.10
	Sweden	1.89	2.15	2.05	2.05	2.15
	Norway	3.31	3.55	3.45	3.45	3.55
	Switzerland	0.39	0.60	0.50	0.50	0.60
Emerging markets	China	2.15	2.30	2.30	2.30	2.30
	India	6.87	7.00	7.00	7.00	7.00
	South Africa	9.38	9.60	9.85	9.85	9.85
	Russia	15.13	Temporarily no forecast due to extreme uncertainty			
	Turkey	26.44	26.00	25.00	24.00	24.00
	Brazil	11.78	11.90	11.75	11.75	11.75
Other advanced economies	United States	3.85	4.30	4.25	4.25	4.25
	Japan	0.89	1.10	1.25	1.25	1.25
	Australia	4.02	4.40	4.35	4.35	4.35
	New Zealand	4.25	4.55	4.50	4.50	4.50
	Canada	3.00	3.50	3.45	3.45	3.45

***Caution: very illiquid market**

Exchange rates (end of period)	6/8/2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025
USD per EUR	1.09	1.06	1.07	1.08	1.09
CZK per EUR	25.29	25.10	24.90	24.60	24.40
HUF per EUR	397.08	395.00	398.00	400.00	402.00
PLN per EUR	4.31	4.32	4.29	4.28	4.27
BGN per EUR	1.96	1.96	1.96	1.96	1.96
RON per EUR	4.98	5.10	5.20	5.25	5.25
GBP per EUR	0.86	0.84	0.85	0.85	0.86
SEK per EUR	11.53	11.50	11.40	11.30	11.20
NOK per EUR	12.03	11.70	11.60	11.50	11.30
CHF per EUR	0.93	0.98	0.98	0.99	0.99
BRL per USD	5.72	5.82	5.79	5.77	5.74
INR per USD	83.93	85.54	85.14	84.75	84.36
ZAR per USD	18.53	18.88	18.79	18.70	18.62
RUB per USD	84.80	Temporarily no forecast due to extreme uncertainty			
TRY per USD	33.28	34.00	36.09	37.60	39.14
RMB per USD	7.15	7.20	7.30	7.30	7.30
JPY per USD	144.91	145.00	145.00	145.00	145.00
USD per AUD	0.65	0.68	0.69	0.70	0.70
USD per NZD	0.59	0.61	0.61	0.61	0.61
CAD per USD	1.38	1.36	1.35	1.35	1.34

Outlook KBC markets

	Belgium			Ireland		
	2023	2024	2025	2023	2024	2025
Real GDP (average yearly change, based on quarterly figures, in %)	1.4	1.2	1.2	-3.2	1.8	4.4
Inflation (average yearly change, harmonised CPI, in %)	2.3	3.8	2.2	5.2	1.7	2.0
Unemployment rate (Eurostat definition, in % of the labour force, end of year)	5.6	5.7	5.6	4.5	4.5	4.5
Government budget balance (in % of GDP)	-4.4	-4.6	-5.0	1.7	1.8	1.8
Gross public debt (in % of GDP)	105.2	105.8	107.9	42.7	39.0	35.7
Current account balance (in % of GDP)	-1.0	-0.5	-1.0	9.8	7.2	7.1
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	2.3	2.8	3.0	3.1	3.0	4.0

	Czech Republic			Slovakia		
	2023	2024	2025	2023	2024	2025
Real GDP (average yearly change, based on quarterly figures, in %)	0.0	1.3	2.9	1.6	2.6	2.6
Inflation (average yearly change, harmonised CPI, in %)	12.0	2.3	2.6	11.0	2.7	4.1
Unemployment rate (Eurostat definition) (in % of the labour force, end of year)	2.7	3.3	3.2	5.6	5.6	5.5
Government budget balance (in % of GDP)	-3.7	-2.5	-1.8	-4.9	-5.8	-5.2
Gross public debt (in % of GDP)	44.0	43.4	44.0	56.0	58.2	59.2
Current account balance (in % of GDP)	0.4	0.9	1.0	-1.6	-2.8	-2.8
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	-1.7	2.7	3.8	-0.2	0.2	2.5

	Hungary			Bulgaria		
	2023	2024	2025	2023	2024	2025
Real GDP (average yearly change, based on quarterly figures, in %)	-0.7	1.9	3.7	2.0	2.3	2.8
Inflation (average yearly change, harmonised CPI, in %)	17.0	3.9	4.2	8.6	3.1	3.0
Unemployment rate (Eurostat definition) (in % of the labour force, end of year)	4.2	3.9	3.6	4.4	4.2	4.2
Government budget balance (in % of GDP)	-6.7	-4.8	-3.9	-1.9	-2.9	-2.8
Gross public debt (in % of GDP)	73.5	74.1	73.2	23.1	24.3	25.8
Current account balance (in % of GDP)	0.3	1.5	1.2	-0.2	-0.7	-0.9
House prices (Eurostat definition) (average yearly change in %, existing and new dwellings)	7.0	4.5	4.5	9.9	9.9	4.0

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