

Economic Adviser

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Special: Interest rates, unemployment and the US real estate market

Analysts: Tobias Basse // Constantin Lüer

NAHB Housing Market Index with slight recovery in January

The NAHB Housing Market Index (HMI) is a very widely followed sentiment indicator for the US real estate market. Indeed, some empirical analyses quite clearly confirm that this time series can help in reliably forecasting real estate prices in the US. With this in mind, it is certainly pleasing to note that the index revealed a clear improvement at the start of the new year, with a level of 44 points reported for January. This development undoubtedly comes as a surprise on the upside, especially as regards the scale of the upturn. The recent trends in interest rates will likely have been of particular help in this context, with, for example, the yield on 30-year Treasuries currently in the range of 4.30 percent. The downward movement in US interest rates since October 2023 has, of course, helped the construction industry in North America. Despite the recent "recovery", however, the NAHB HMI still stands below the "magical" mark of 50 points. This means that the negative responses to the survey still outweighed the positive ones in January as month under review.

The demand side still appears to be a problem

In this context, it should be noted that the demand side still appears to be a problem for the US real estate market. Despite an increase, the Traffic of Prospective Buyers – a key subcomponent of the NAHB HMI – still stands at a feeble level of 29 points, for example! In this environment, the construction industry in the United States still finds itself compelled to take rather bold sales-promotion measures. The details of the survey results of the NAHB HMI reveal that at least 31 percent of the participating companies reported having cut home prices to boost sales.

Regional differences in the development of the NAHB HMI

The picture is somewhat more differentiated from a regional perspective. The NAHB Housing Market Index survey is conducted not only at the federal level but also evaluated for the four major regions representing the more or less classical historical parts of the USA. The Northeast, with the US states of New York (including the financial mecca of New York City), academically strong Massachusetts, and other smaller states on the east coast, fares the best in national comparison. With 56 points, the region stands well inside the expansion zone for the third time in a row, with a consistent upward trend in sentiment. The most recent survey saw the Midwest become the new tailender. At 35 points, the mood there in the sector continues to stagnate at an extremely low level. The inhabitants of the so-called Rust Belt, i.e. the part of the USA with the highest density of industrial companies, as well as the Farm Belt, which for its part corresponds to the agricultural prairie states of Kansas and co., don't really appear to be in the best of moods when it comes to the purchase or building of homes.

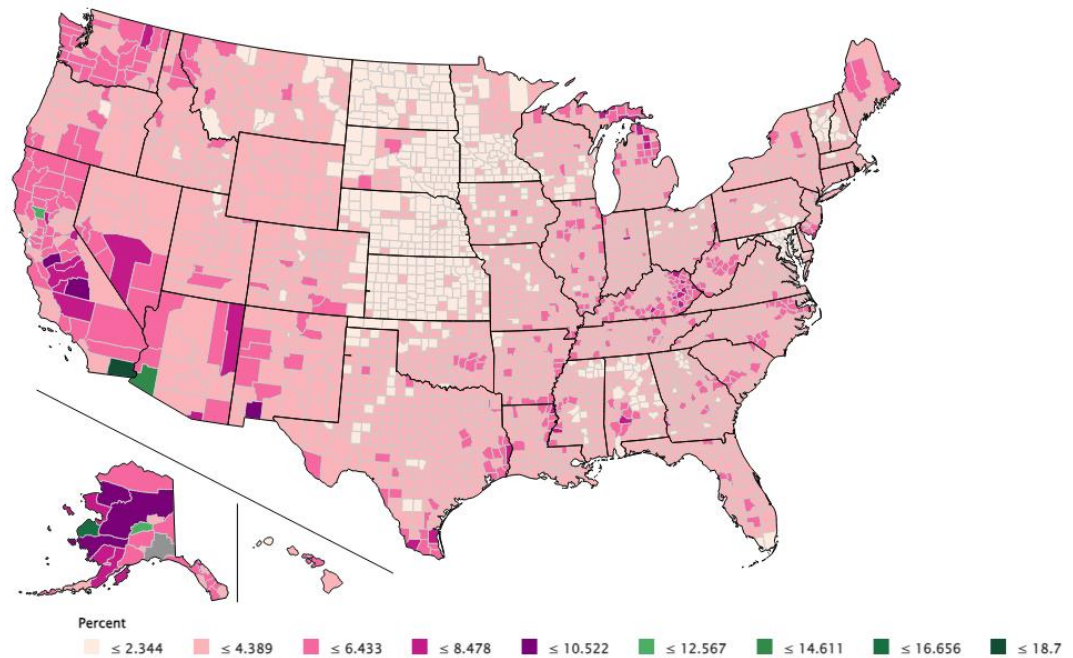
With a plus of 10 points, the Southern states of the USA delivered the highest rate of change, making for a current level of 49 points on the index. Texas and Florida are the main drivers behind this trend, both of which have succeeded in luring lucrative tech and financial firms from the East and West coasts. This is also having an appreciable impact in terms of the NAHB index.

What's joy to the Southern states is sorrow to the West. Though still the leading incubator for start-ups, Silicon Valley and the Bay Area as well registered the departure of several companies – a development undoubtedly also reflected in the 38 points on the NAHB index. At least, however, the West left December's low of 29 points behind it – for the time being.

A look at other data on the situation in the US real estate market

The NAHB HMI figures among the most usefully informative indicators, but a look at other time series first makes the whole picture really complete. The data on building permits, for example, make a good example, revealing an upward trend as well with as many as 1.495 million freshly approved building applications in December 2023. At first glance, the construction starts of single-family homes don't seem to fit into the picture, with only just over 1 million newly started units in December (Nov.: 1.12 million). However, comparing these figures with those from December's NAHB Index survey does indeed reveal an identifiable connection. Predictable, and also foreseeable in light of the building permits, a growing number of new-build residential houses are to be expected. Having hit a 12-month low in December, the trade with already existing homes is undoubtedly also providing impetus, but there are a number of other reasons behind this trend.

Chart: Unemployment rate in the USA (for November, broken down by county)



Sources: Federal Reserve Bank of St. Louis (FRED), U.S. Bureau of Labor Statistics

The real estate and labour markets in the United States

America's real estate and labour markets appear to be particularly closely intertwined. In principle, a healthy employment situation in an area naturally helps increase the demand for real estate there. The divergences to be seen in the unemployment rates among the various counties in the US (see figure above) are therefore unquestionably a relevant factor undoubtedly also playing a role that ought not to be underestimated in the price trends in the US real estate market. In this context, it is safe to say that there appears to be neither the US labour market nor the US real estate market per se; regional peculiarities often overlap national trends for various reasons. In the case of the Farm Belt, for example, it is striking that this correlation between low unemployment and greater readiness to build doesn't appear to apply at the present time in the two Dakotas, Nebraska and Kansas. In addition, it should be borne in mind that there are complex interdependencies at this point. For example, the upward movement in interest rates in 2023 undoubtedly led to lock-in effects; in the wake of the rising interest rates, homeowners who had taken out mortgage loans when the financing conditions were still favourable were actually no longer able to sell their properties on an economically viable basis so that they could then purchase another property financed with a mortgage. All in all, this should have led to diminished workforce mobility in the USA.

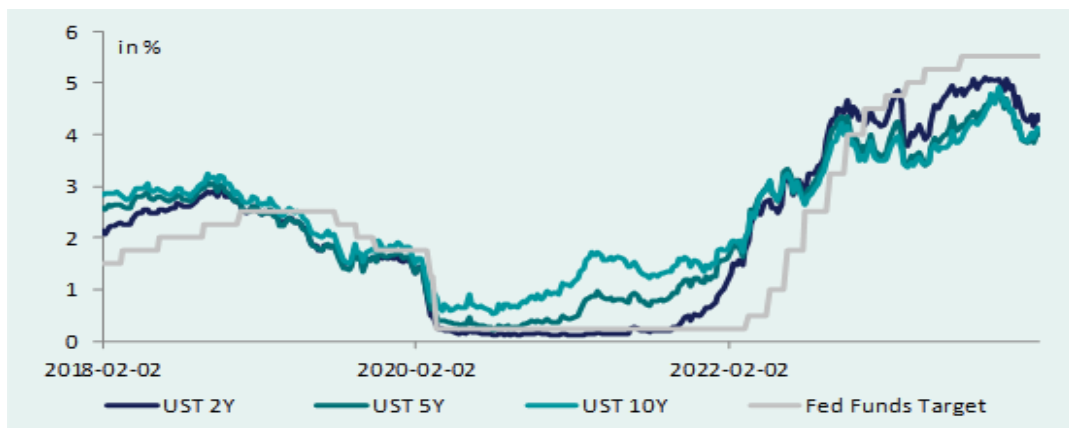
USA: Dollar ought to benefit from the FOMC

Analysts: Tobias Basse // Constantin Lüer

2023 closed with an excellent set of GDP data

The just recently published preliminary GDP figures for Q4/2023 provide no indication of any sustained slowdown in the United States economy – indeed, quite the contrary! The data revealed real growth to the tune of an impressive 3.3 percent (ann.). This news comes as a welcome surprise on the upside. At year-end 2023, too, the data on the development of economic activity in the land of seemingly unlimited opportunity provide no indication whatsoever of any noticeable adversities in this context. As already noted, this was the preliminary data for Q4, so the figures will be very susceptible to revisions. An in-depth analysis of details would therefore be inappropriate at present. However, it can already safely be said that private household spending appears to have developed even more positively than many observers had expected of late. While attention will now have to be paid to possible revisions of the data, these adjustments will unlikely make for any great changes to the markets' fundamental picture of the current economic situation in the United States! From a purely economic point of view, the year 2023 therefore closes with a real bang.

Chart: Interest rates in the USA



Sources: Macrobond, NORD/LB Macro Research

Sentiment in the US economy nevertheless not upbeat

Despite all these positive aspects, the sentiment in the US economy is anything but upbeat in the meantime. While the ISM Manufacturing PMI has picked up somewhat of late, the time series now stands at 47.4 points – which means well below the "magical" mark of 50 points, that by mechanistic interpretation marks the expansion threshold for economic activity in this segment of the US economy. Moreover, the mood among the service sector companies, too, has markedly deteriorated in the meantime, with the relevant indicator now standing at just 50.6 points. This evidences that the service providing companies in the United States have suffered significant setbacks in terms of growth, too. This news reinforces our view that the further development of the economy in North America should be seen in a rather pessimistic light. This picture therefore also sets the basic tendency of our US growth forecast. The FOMC will have to respond to a sustained weakening of the American economy in the foreseeable future. However, the coincident economic indicators reported in the USA are still giving a really strong showing. a recent example of this being the sharp upward trend in retail sales in December 2023. With this in mind, we expect no Fed funds target rate cuts in the near future. In our view, this issue is not likely to be put on the agenda of the central bank in Washington before the second half of 2024. That said, there are many market participants expecting swifter adjustments to the orientation of US monetary policy.

Dollar ought to benefit from the FOMC

The "local key-rate peak" has likely been reached by now in the USA. In our view, the persistently aggressive expectations of many investors when it comes to the question of the timing (and the scale) of the definitely expected reduction of the Fed Funds target rate could lead to a certain counter-reaction in the US capital market yields in the short term. This ought to benefit the US currency. Overall, we therefore expect, for example, certain appreciation tendencies relative to the euro, in which context a close eye needs to be kept on the ECB as well. Indeed, there is a possibility of exaggerations in the medium term, which could potentially shift the exchange rate between the two currencies towards the psychologically important mark of USD 1.05 per EUR. In principle, however, the focus should remain on the range of 1.08 to 1.09 USD per EUR!

Fundamental forecasts, USA

	2023	2024	2025
GDP	2.5	1.5	1.6
Private consumption	2.2	1.4	1.3
Govt. consumption	2.8	1.7	1.0
Fixed investment	1.9	1.2	2.3
Exports	2.7	1.3	2.3
Imports	-1.7	1.2	2.4
Inflation	4.1	2.7	2.2
Unemployment rate ¹	3.6	4.2	4.2
Budget balance ²	-6.5	-6.0	-5.9
Current acct. balance ²	-3.1	-3.1	-3.2

Change vs previous year as percentage; ¹ as percentage of the labour force; ² as percentage of GDP

Sources: Feri, NORD/LB Macro Research

Quarterly forecasts, USA

	I/23	II/23	III/23	IV/23	I/24
GDP qoq ann.	7.0	2.1	4.9	3.3	0.4
GDP yoy	1.7	2.4	2.9	3.1	2.1
Inflation yoy	5.8	4.0	3.5	3.2	3.0

Change as percentage

Sources: Feri, NORD/LB Macro Research

Interest and exchange rates, USA

	25.01.	3M	6M	12M
Fed funds target rate	5.50	5.50	5.50	5.00
3M rate	5.32	5.30	5.20	4.70
10Y Treasuries	4.12	4.10	3.90	3.50
Spread 10Y Bund	183	190	180	140
EUR in USD	1.08	1.08	1.08	1.09

Sources: Bloomberg, NORD/LB Macro Research

Euroland: ECB targets summer for an initial interest rate cut

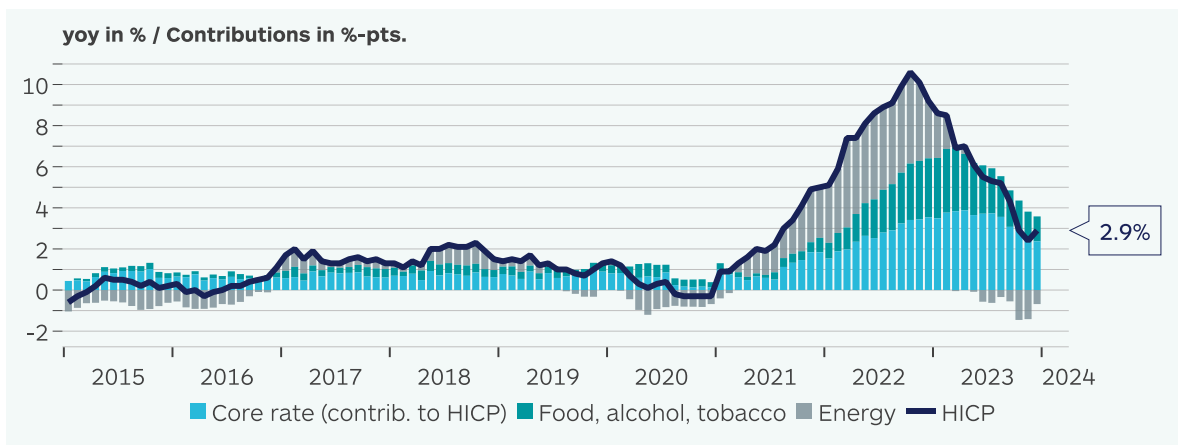
Analysts: Christian Lips, Chief Economist // Christian Reuter

Downturn in deceleration mode – industry on the path to stabilization

The headwind slowing the eurozone economy appears to be easing somewhat at the beginning of the year. The ECB's quarterly bank survey for the closing quarter of 2023 shows a slowing in the decline in loan demand that had been triggered by the central bank's restrictive monetary policy. An improvement in the financing conditions certainly a prerequisite for an economic upturn in the eurozone.

The composite PMI registered a slight upward movement to 47.9 points in January, evidently driven by the smaller economies since the composite PMIs for Germany and France both posted slight declines. While not yet signalling growth, this does mean that the downward pressure in the eurozone is diminishing. The improvements again came from the industrial sector, where the downturn's gradual deceleration in progress since October continued resolutely. At the same time, however, there was a slight setback in the services sector, with the PMI again clearly shifting away from the expansion threshold, especially in Germany. That said, the survey results from the monetary union, as well as from Germany and France, do not differ in terms of the fundamental tendency – namely improvements on the industrial front, slowdown among service providers.

Chart: Base effect responsible for inflation rate rebound in December



Sources: Eurostat, Macrobond, NORD/LB Macro Research

Inflation increase in December due to base effect – slower disinflation this year

December saw the rate of inflation in the eurozone climb from the previous month's 2.4 percent to 2.9 percent yoy. However, the rebound was not unexpected and mainly due to energy price base effects. A further decline in inflation this year will increasingly depend on how the core rate develops. This fell further in December, from 3.6 to 3.4 percent yoy. It is definitely too early for an all-clear, however. In particular, the first half of the year will see price increases arising for administrative reasons in some countries of the monetary union, in part due to the expiry or phasing out of price shields. Moreover, the attacks of the Houthi rebels in the Red Sea are likely to drive up delivery times and costs, at least temporarily, since many ships are now choosing to take the much longer and more expensive route around the Cape of Good Hope rather than facing this threat. The extent to which this will impact consumer prices cannot yet be estimated at present. There are at least a lot of factors pointing to a slowdown in disinflation, and the risks are currently more on the upside than the downside.

ECB plays for time – initial rate cut expected in June

As expected, the ECB held its key interest rates unchanged in January. The statement and remarks on the part of Christine Lagarde provided no new insights as to the interest rate outlook. The ECB is clearly playing for time when it comes to the topic of rate cuts. In December, a surge of euphoric market expectations had provoked admonishing comments from ECB's Governing Council members. Given the correction in the markets in January, the central bank's communication evidently had the desired effect. The inflation rebound in December has, rightly, not given rise to any great concern among the central bankers. The ECB's current inflation projection remains realistic. Its economic forecast, on the other hand, is increasingly proving overly optimistic. Consumer confidence and the sentiment in the services sector deteriorated again in January, and in Germany the decline in the ifo business climate points to a heightened risk of recession. The economic weakness is therefore likely to continue in the first quarter; at best, merely minimal growth is to be expected for the year as a whole. On the other hand, the labour market has remained surprisingly robust up to now.

The ECB's communication on the timing of the initial rate cut – which currently appears to be "in the summer" as a compromise – is quite convincing. The update in March of the central bank's projections will paint a weaker economic picture, which will likely lead to a dovish adjustment of its communication. Furthermore, the results of the current rounds of pay negotiations should be waited for in order to better assess the prospects for the underlying inflation. If the pay data – which will not be available before April – provide the go-ahead, so to speak, the ECB will be able to start cutting interest rates from June onwards. Ultimately, however, the precise timing and scale of the rate cuts this year will very much depend on the relevant data.

Fundamental forecasts, Euroland

	2023	2024	2025
GDP	0.5	0.5	1.4
Private consumption	0.5	1.3	1.6
Govt. consumption	0.2	0.9	0.7
Fixed investment	0.6	-0.1	2.6
Net exports ¹	0.2	-0.3	-0.1
Inflation	5.4	2.4	2.1
Unemployment rate ²	6.5	6.6	6.6
Budget balance ³	-3.2	-2.8	-2.6
Current account balance ³	1.8	1.8	1.7

Change vs previous year as percentage, ¹ as contribution to GDP growth; ² as percentage of the labour force; ³ as percentage of GDP

Sources: Feri, NORD/LB Macro Research

Quarterly forecasts, Euroland

	I/23	II/23	III/23	IV/23	I/24
GDP sa qoq	0.1	0.1	-0.1	-0.1	0.2
GDP sa yoy	1.3	0.6	0.0	0.0	0.1
Inflation yoy	8.0	6.2	5.0	2.7	2.7

Change as percentage

Sources: Feri, NORD/LB Macro Research

Interest rates, Euroland

	25.01.	3M	6M	12M
Repo rate ECB	4.50	4.50	4.00	3.25
3M rate	3.93	3.70	3.50	2.60
10Y Bund	2.29	2.20	2.10	2.10

Sources: Bloomberg, NORD/LB Macro Research

Germany: Economy stuck in stagnation

Analysts: Christian Lips, Chief Economist // Valentin Jansen

Real GDP shrank by 0.3 percent in 2023

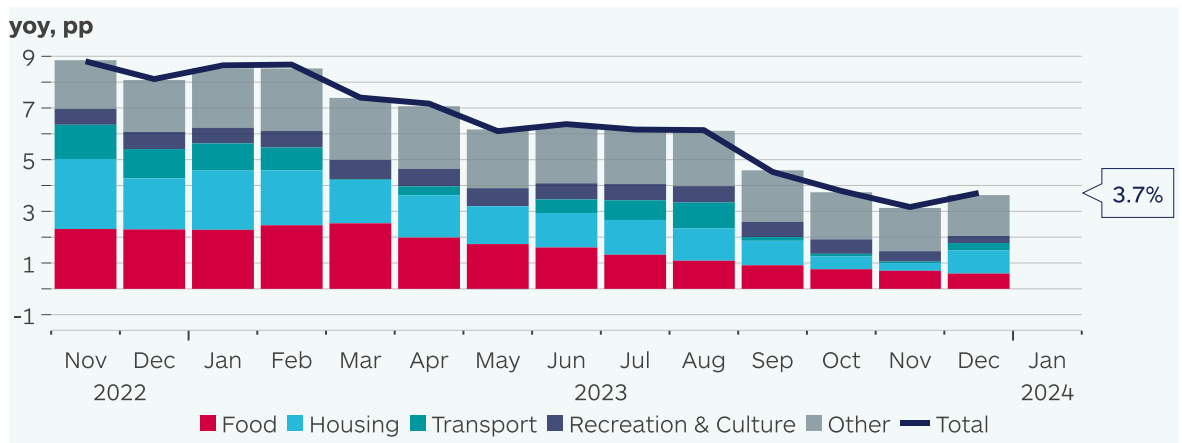
Last year's economic environment in Germany was characterized by a variety of factors: the Ukraine war, energy price shocks, weak foreign demand and the fragile geopolitical situation, as well as high inflationary pressure, particularly in the first half of the year, posed major economic and structural challenges for the German economic model. Against this background, the German economy is more or less trapped in stagnation at pre-pandemic levels.

An initial rough estimate by the Federal Statistical Office suggests that real GDP shrank by 0.3 percent yoy in 2023. This means that the German economy has grown overall by just 0.7 percent since 2019, the year before the outbreak of the COVID pandemic. Trends in real value added varied from sector to sector of the economy. The declines in particularly interest-sensitive sectors, such as manufacturing (-2.0 percent), were quite pronounced compared to the previous year. Services, on the other hand, recorded growth (IT, communication: 2.6 percent). The construction industry as a whole showed a sideways trend (0.2 percent), but this was mainly driven by the finishing trades as result of marked upward demand for energy renovations. As expected, price-adjusted private consumption fell significantly, due primarily to extremely high inflation again in 2023. Moreover, the concerns about the economy owing to the diverse factors weighing on it have further dampened the consumer climate.

Disinflation trend will likely continue with lower momentum than last year

After significant declines in the autumn, inflation in Germany suffered a rebound in December 2023 as result of a base effect. At year-end 2022, the government's one-time payment of December's monthly gas and district heating bills had considerably reduced household energy costs. This helped drive the national consumer price index up by 3.7 percent yoy in December (HICP: 3.8 percent yoy). The good news is that the core rate has dropped further, markedly (CPI: 3.5 percent yoy). Though the disinflation trend is expected to continue this year, it is still too early for an all-clear in the fight against inflation: after all, the geopolitical situation or the possibility of extremely sharp wage increases mean there are still upside risks to inflation at the present time. Furthermore, the easing base effects, which had made for what were in some cases significant declines in inflation in 2023, are gradually being exhausted.

Chart: Contributions to inflation – base effect causes marked inflation increase in December



Sources: Destatis, Macrobond, NORD/LB Macro Research

ifo business climate: growing likelihood of recession

January saw an unexpectedly marked deterioration in the sentiment across the German economy, with the ifo business climate index dropping to 85.2 points, the lowest level since mid-2020. Both the current situation and business expectations were rated significantly more negatively. While the sentiment in industry has brightened, albeit from a low level, the pessimism in the service sector has increased again, as also indicated by the PMIs. In the ifo survey, moreover, the respondents from the trade and construction sectors again registered growing pessimism.

The economic situation in Germany remains bleak at the outset of 2024 as well. With real GDP already having very likely contracted in Q4/2023, the ifo data indicates an increased likelihood of recession. The German economy is currently facing a whole range of negative factors, from tighter financing conditions to weakening global demand right through to the geopolitical risks. The latter aspect is in the meantime being compounded by a further flashpoint in the form of the attacks of the Houthi rebels in the Red Sea on one of the most important shipping lanes for global trade – driving up transport costs and delivery times and subjecting global value chains to a further stress test.

That said, there are also a few other factors weighing on the sentiment among Germany's companies. These include the tightening of budgetary policy following the Federal Constitutional Court's ruling on the debt brake, in connection with which individual measures have also triggered protests (e.g. farmers). A growing number of forecasters share our assessment that the government's involuntarily restrictive fiscal policy will become a stumbling block for the economy this year. The cold weather, the wave of infections and the floods will likely have a decelerating effect on growth as well. On top of all that, Germany's main railway company, Deutsche Bahn, is locked in a pay dispute with the GDL trade union, and the consequences with days-long strikes will likely weigh on economic activity in Q1. The German economy has more or less stagnated since mid-2022. At the turn of the year, however, it appears to have again run out of steam. Our growth forecast for 2024 as a whole is correspondingly cautious, with a figure of just 0.3 percent.

Fundamental forecasts, Germany

	2023	2024	2025
GDP	-0.3	0.3	1.1
Private consumption	-0.8	1.3	1.6
Govt. consumption	-1.9	0.5	1.2
Fixed investment	-0.3	-0.5	2.7
Exports	-1.8	0.8	3.6
Imports	-3.0	1.8	4.8
Net exports ¹	0.6	-0.4	-0.4
Inflation ²	6.0	2.7	2.2
Unemployment rate ³	5.7	6.0	5.7
Budget balance ⁴	-2.0	-1.7	-1.0
Current account balance ⁴	7.1	6.7	6.1

Change vs previous year as percentage, ¹as contribution to GDP growth; ²HICP; ³as percentage of the civil labour force (Federal Employment Office definition); ⁴as percentage of GDP

Sources: Feri, NORD/LB Macro Research

Quarterly forecasts, Germany

	I/23	II/23	III/23	IV/23	I/24
GDP sa qoq	0.0	0.1	0.0	-0.3	0.1
GDP nsa yoy	0.2	-0.4	-0.7	-0.4	-0.7
Inflation yoy	8.7	6.9	5.7	3.0	3.0

Change as percentage

Sources: Feri, NORD/LB Macro Research

Switzerland: SNB can bide time

Analyst: Christian Reuter

Growth remains moderate – services continue to pick up

The economy in Switzerland is unlikely to pick up any noteworthy momentum at the beginning of the new year either, as indicated by the merely modest uptick in the KOF economic barometer to 97.8 points in December. There remains significant disparity between the service sector and industry in terms of growth. On the one hand, the service providers are clearly on course for expansion, with a PMI of 56.9 points. The recent significantly accelerated upward trend in new orders suggests a fairly sustained upturn. The current situation is far more difficult on the industry front, with the manufacturing PMI having remained well below the growth threshold, at 43.0 points. Industrial business leaders continued to rate the output and order backlog situation as ongoingly weak. No economic stimuli are to be expected from this side in the short term. Having appreciated to EUR 0.93 in CHF, the strong Swiss currency is becoming increasingly problematic for the export economy. The economic experts surveyed by the KOF on a quarterly basis were marginally more optimistic about GDP growth in 2024, and slightly raised their forecast for non-sports event-adjusted GDP. Negative impulses are expected in particular from the area of fixed investments, where the rising capital market rates are having a decelerating effect.

The labour market situation has eased further. Recruitment difficulties continue to exist, but information from companies indicates that these are no longer as pronounced as before and far more differentiated. Industry, for example, no longer sees a general shortage; in some cases, short-time work is being made use of or considered. The situation in the service sector is somewhat tighter. The seasonally adjusted unemployment rate climbed to 2.2 percent in December, and thus only slightly above its historical low of 1.9 percent in spring 2023. Overall, the companies see a slowdown in wage growth to around 2 percent in 2024. We expect Switzerland's GDP to grow by 1.1 percent in 2024, which is well below potential. Given tailwind from labour migration, price stability and an improved global economy, GDP growth of a good 1.5 percent ought to be possible in 2025.

Inflation picks up again – SNB can act with a steady hand

The consumer price index rose by 1.7 percent yoy in December, slightly exceeding economists' expectations. While producer and import prices (-1.1 percent yoy) declined again, domestic pressure on prices intensified. The core rate rose slightly to 1.5 percent yoy. Administered prices in particular contributed to the upward trend, and there will be further increases among them in 2024. That said, the strong Swiss franc and the abolition of industrial tariffs can be expected to have dampening effects in this context. Overall, inflation is slightly below the SNB's expectations of 1.8 percent in Q1 and of 2.0 percent in the two following quarters. However, the gap is unlikely to be sufficient at the moment to prompt the SNB to undertake more rapid interest rate cuts. The central bankers will bide their time and thus be able calmly observe how the other major central banks, in particular the ECB, act.

Fundamental forecasts*, Switzerland

	2023	2024	2025
GDP	1.2	1.0	1.7
Inflation (CPI)	2.1	1.7	1.4
Unemployment rate ¹	2.0	2.2	2.1
Budget balance ²	-0.2	-0.1	-0.3
Current account bal. ²	9.6	8.4	8.2

Interest and exchange rates, Switzerland

	25.01.	3M	6M	12M
SNB policy rate	1.75	1.75	1.50	1.00
3M rate	1.64	1.60	1.40	0.90
10Y	0.84	0.60	0.60	0.80
Spread 10Y Bund	-145	-160	-150	-130
EUR in CHF	0.94	0.97	0.97	0.97

* Change vs previous year as percentage; ¹ as percentage of the labour force, ² as percentage of GDP

Sources: Feri, Bloomberg, NORDB/LB Macro Research

Japan: "Words rather than deeds" as the central bank's strategy

Analyst: Tobias Basse

"Words rather than deeds" as the central bank's strategy

At their most recent meeting the monetary policy makers resolved, as expected, to continue playing for time in an almost tried-and-tested manner – thus sticking to their "words rather than deeds" strategy. In doing so, the Bank of Japan wasn't looking to make any rate adjustments at the beginning of the new year either, with the result that the "traditional" policy rate remains just below the zero line. In the meantime merely of symbolic importance, the target yield for 10-year Japanese government bonds thus likewise remains unchanged – i.e. at 0 percent. These decisions were, once again, taken unanimously.

The "traditional" policy rate level will have to rise in the future, however

Japan's monetary policymakers evidently intend to wait for absolutely clear signs unambiguously indicating that the inflation target really can be achieved and maintained over the long term. The widespread fear of deflationary tendencies in the Land of the Rising Sun undoubtedly plays an important role in explaining this highly hesitant stance on the part of the Bank of Japan. Moreover, it is quite fundamentally the case that in Japanese society there is an aspiration to arrive at decisions as consensually as possible. This factor, too, helps explain the marked caution exhibited by the central bankers. That said, the policy rate level will have to rise from the summer onwards at the latest. Even then, however, the monetary policymakers in Tokyo will undoubtedly be looking to act extremely cautiously.

Waiting for a somewhat stronger yen

The yen ought also to benefit to some extent from the expected cautious realignment of Japanese monetary policy. The Japanese currency has, for example, been somewhat stronger against the US dollar of late, with the exchange rate having stabilized below the psychologically important mark of JPY 150.00 per USD. With the prospect of a higher traditional policy rate level, this trend towards a somewhat stronger (or less weak) yen could be expected to continue – although there should be no expectations of any substantial dynamic movements in the FX segment. Recent remarks by the BoJ's governor Kazuo Ueda suggest that the FX market will have to keep a particularly close eye on the wage developments.

Fundamental forecasts*, Japan

	2023	2024	2025
GDP	2.0	0.9	1.4
Inflation	3.3	2.2	1.9
Unemployment rate ¹	2.6	2.5	2.3
Budget balance ²	-5.4	-4.2	-3.7
Current account bal. ²	3.3	3.4	3.5

* Change vs previous year as percentage;

¹ as percentage of the labour force; ² as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, Japan

	25.01.	3M	6M	12M
Key rate	-0.10	-0.10	0.00	0.10
3M rate	0.08	0.10	0.15	0.20
10Y	0.74	0.80	1.00	1.10
Spread 10Y Bund	-155	-140	-110	-100
EUR in JPY	160	153	146	142
USD in JPY	148	142	135	130

China: Little momentum in prospect for 2024

Analyst: Valentin Jansen

Downturn still to bottom out, real estate sector remains a critical issue

Official data indicate that the Chinese economy reached the targeted expansion corridor in 2023. At 5.2 percent yoy, the official result was still weaker than expected, despite a favourable downward adjustment of the previous year's growth figure. Information on the 2024 growth target is expected at the annual People's Congress in March. Besides the ongoing phase of weakness, the majority of economic indicators currently point above all to increasing disparity in growth rates among the various sectors. While industrial output developed comparatively well in December as a result of fiscal aid measures, consumers remained cautious in their spending. The latter already reflects the deflationary momentum in consumer prices that has persisted over several months. As regards domestic consumption, the high degree of uncertainty owing to the significance of housing prices for private assets continues to play a major role. It remains to be seen whether the steps officially announced in mid-January towards stabilizing the consumer environment can, as hoped, offset the imbalance caused by those economic sectors in difficulties and low foreign demand. Despite the government's measures taken, there are few indications that these are leading to any long-term relief. Moreover, Manufacturing PMI has fluctuated around the expansion threshold of 50 points for months, barely managing to stay in the expansion zone in December. Amidst these challenges, China's stock markets faced a rocky start to the year. Authorities are working to stabilize the situation, offering state support to reassure foreign investors.

Some market participants are counting on more vigorous government intervention

Current economic indicators provide no real indication of the stimuli – which include an additional fiscal deficit and a recent further easing of financing conditions by the PBOC – focussed on industry and the real estate sector having the impact hoped for by Beijing. Owing to the time-lag before such measures effectively kick in, these were likely not yet able to unfold properly. However, considering the current state of consumer sentiment and the investment environment despite recent adjustments by Beijing, the situation cannot yet be said to have sustainably calmed. Rather, some market participants are therefore counting on more vigorous intervention.

Beijing's interventions and US interest rate cuts ought to bolster the renminbi

The weak economic impulses are currently making for negative inflation, i.e. deflation (CPI figure in December: -0.3 percent yoy). China's fiscal policymakers are showing a willingness to continue their efforts to buoy the economy. The real estate market in particular is the Chinese economy's Achilles' heel, but a close eye also needs to be kept on domestic consumption. Against this background, Beijing will have to pull out quite a few more stops after the Chinese New Year festivities have ended. A gradual stabilization of the renminbi and the prospects of near-term rate cuts in the US and Europe ought to keep the CNY above the level of 7.00 in 2024.

Fundamental forecasts*, China

	2023	2024	2025
GDP	5.2	4.6	4.5
Inflation	0.3	1.1	1.8
Unemployment rate ¹	5.2	5.3	5.2
Budget balance ²	-5.0	-5.4	-5.1
Current account bal. ²	1.5	1.4	1.1

* Change vs previous year as percentage

¹ as percentage of the labour force; ² as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, China

	25.01.	3M	6M	12M
Deposit rate	1.50	1.50	1.50	1.50
3M SHIBOR	2.40	2.25	2.25	2.25
10Y	2.50	2.65	2.65	2.65
Spread 10Y Bund	21	45	55	55
EUR in CNY	7.77	7.72	7.67	7.68
USD in CNY	7.17	7.15	7.10	7.05

Britain: Brexit as spoilsport (once again)?

Analyst: Constantin Lüer

Brexit could – once again – make for problems

Just like residual noises from the Big Bang behind the creation of our universe can be detected to this day by sophisticated instruments, the repercussions of Brexit, too, are still discernible – though, metaphorically speaking, it actually doesn't need more than older-generation cathode ray TV sets to do so for the former. While somewhat less existential, the feedback effects of Brexit are still making themselves felt and seemingly flaring up anew time and time again. That said, a look at the borders of the UK and relevant statistics usually suffice. Directly in the wake of the formal departure from the EU's internal market, the British found themselves confronted with diverse problems, particularly in terms of the labour market and customs formalities. The intermittently high inflation could in part be explained by the fact that there was a certain scarcity of fruit and vegetables on supermarket shelves. Now, concerns about fresh "Brexit harassment" in legal terms have resurfaced, and the Opposition headed by Sir Keir Starmer has most recently pointed out problems that could well arise in this context. For example, imports of agricultural products, such as food or indeed livestock, are set to entail a great deal more bureaucracy from the end of January onward. A case of déjà vu is thus in the offing.

Spillover conflicts likewise weighing on supply chains

The tensions in the Red Sea are currently making for risks to Britain's supply chains, and indeed for those of the rest of Europe, though consumers and producers alike have shown themselves to be unfazed so far in this regard. Nevertheless, the conflict situation could make for a certain degree of price pressure, depending on how quickly and sustainably military interventions work or which further confrontations might occur in the region. Generally speaking, it can only be hoped that there will be no rude awakening for market participants in the United Kingdom, should inflation pick up again and key interest rates remain high for longer than hoped. Neither of the two scenarios is to be expected as things currently stand, however.

What will the Bank of England do next?

As in many Western economies, the question more likely to be asked is when the Bank of England will lower its Bank Rate again. That said, we won't have to wait long for an answer or at least an indication in this context, with a corresponding decision to be taken either way when the Bank of England's Monetary Policy Committee meets again on February 1st. The last voting sessions had hawkish undertones at times, but these have increasingly faded into the background of late. For the time being we are maintaining our view that no downward rate adjustment is to be expected before the second half of this year – nor, despite stubborn inflation, does a rate hike look at all likely either.

Fundamental forecasts*, Britain

	2023	2024	2025
GDP	0.4	0.5	1.1
Inflation (CPI)	7.3	2.9	2.2
Unemployment rate ¹	4.1	4.7	4.7
Budget balance ²	-4.8	-3.6	-3.0
Current account bal. ²	-2.8	-2.5	-2.4

* Change vs previous year as percentage

¹ as percentage of the labour force as per ILO concept

² as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, Britain

	25.01.	3M	6M	12M
Repo rate	5.25	5.25	5.25	5.00
3M rate	#NV	5.20	4.95	4.50
10Y	3.98	3.90	3.85	3.65
Spread 10Y Bund	169	170	175	155
EUR in GBP	0.85	0.87	0.88	0.88
GBP in USD	1.27	1.24	1.23	1.24

Portfolio strategies

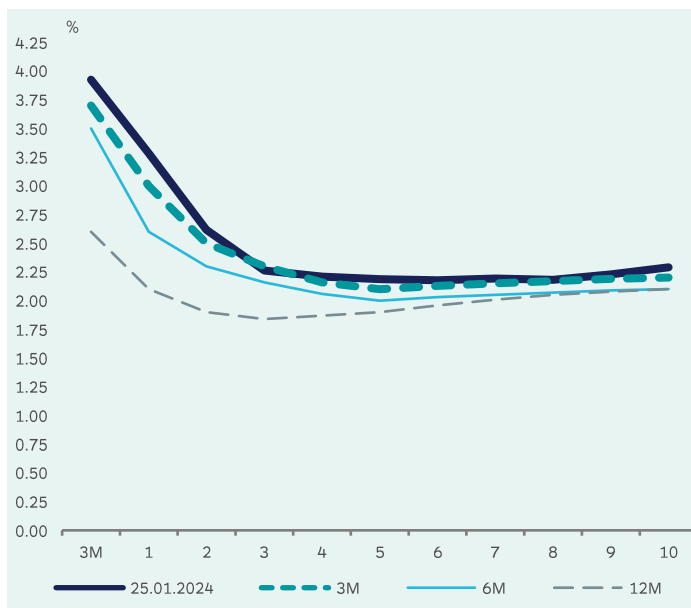
Yield curve, Euroland

Yields and forecasts (Bunds/Swap)

	Yields (in %)	NORD/LB forecasts for horizons		
	25.01.2024	3M	6M	12M
3M	3.93	3.70	3.50	2.60
1Y	3.28	3.00	2.60	2.10
2Y	2.62	2.50	2.30	1.90
3Y	2.26	2.30	2.16	1.84
4Y	2.21	2.16	2.06	1.87
5Y	2.19	2.10	2.00	1.90
6Y	2.18	2.13	2.03	1.96
7Y	2.19	2.15	2.05	2.01
8Y	2.18	2.17	2.07	2.05
9Y	2.23	2.19	2.09	2.08
10Y	2.29	2.20	2.10	2.10
2Y (Swap)	2.95	2.95	2.70	2.30
5Y (Swap)	2.62	2.60	2.45	2.35
10Y (Swap)	2.67	2.65	2.50	2.50

Sources: Bloomberg, NORD/LB Macro Research

Yield curve forecasts (Bunds)



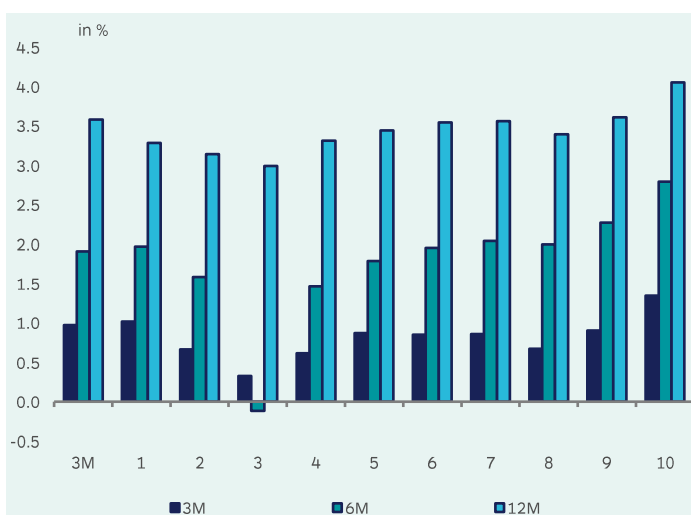
Sources: Bloomberg, NORD/LB Macro Research

Forecasts and total returns

	Total returns (in %) for horizons...		
	3M	6M	12M
3M	0.97	1.91	3.58
1Y	1.02	1.97	3.28
2Y	0.66	1.58	3.14
3Y	0.33	-0.12	2.99
4Y	0.62	1.46	3.31
5Y	0.87	1.78	3.44
6Y	0.85	1.95	3.55
7Y	0.86	2.04	3.56
8Y	0.67	1.99	3.39
9Y	0.90	2.27	3.61
10Y	1.34	2.79	4.05

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns



Sources: Bloomberg, NORD/LB Macro Research

A total return is the absolute profit from an investment in the time period under consideration, with account being taken of the pro-rata yields plus the price gains or losses to be anticipated on the basis of the forecast yield curve change.

Portfolio strategies

International yield curve: 3-month & 12-month horizons

3-month horizon

Expected total returns (as percentage) in euro					
	EUR	USD	GBP	JPY	CHF
1Y	1.0	1.6	-0.8	4.6	-2.6
2Y	0.7	1.0	-1.8	4.7	-2.7
3Y	0.3	0.9	-3.0	4.6	-2.5
4Y	0.6	1.2	-4.2	4.7	-2.2
5Y	0.9	1.4	-4.2	4.9	-1.9
6Y	0.9	1.6	-5.1	4.4	-1.5
7Y	0.9	1.9	-5.3	4.5	-1.4
8Y	0.7	2.0	-4.2	4.4	-1.3
9Y	0.9	2.1	-3.7	4.3	-0.9
10Y	1.3	2.1	-1.6	4.2	-0.8

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	GBP	JPY	CHF
1Y	1.1	1.1	-0.1	0.4
2Y	0.5	0.1	-0.1	0.6
3Y	0.5	-1.1	-0.1	0.6
4Y	0.7	-2.4	0.0	0.8
5Y	1.0	-2.3	0.2	1.2
6Y	1.1	-3.3	-0.3	1.6
7Y	1.5	-3.4	-0.2	1.7
8Y	1.6	-2.4	-0.2	1.8
9Y	1.7	-1.9	-0.4	2.2
10Y	1.7	0.3	-0.4	2.3

Sources: Bloomberg, NORD/LB Macro Research

12-month horizon

Expected total returns (as percentage) in euro					
	EUR	USD	GBP	JPY	CHF
1Y	3.3	4.4	1.7	12.7	-1.6
2Y	3.1	4.0	1.1	12.8	-1.7
3Y	3.0	4.8	0.3	12.8	-1.7
4Y	3.3	5.4	-0.5	13.0	-1.7
5Y	3.4	6.0	-0.4	13.1	-1.7
6Y	3.5	6.3	-1.1	12.6	-1.6
7Y	3.6	6.6	-1.3	12.2	-1.7
8Y	3.4	7.0	-0.5	12.4	-1.7
9Y	3.6	7.6	-0.4	12.3	-1.7
10Y	4.1	8.3	1.0	11.7	-1.7

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	GBP	JPY	CHF
1Y	4.9	4.9	-0.1	1.5
2Y	4.5	4.3	0.0	1.4
3Y	5.3	3.5	0.0	1.4
4Y	6.0	2.6	0.2	1.4
5Y	6.5	2.7	0.3	1.4
6Y	6.8	2.0	-0.1	1.5
7Y	7.2	1.7	-0.6	1.4
8Y	7.5	2.6	-0.3	1.3
9Y	8.1	2.7	-0.4	1.4
10Y	8.9	4.2	-0.9	1.4

Sources: Bloomberg, NORD/LB Macro Research

A total return is the absolute profit from an investment in the time period under consideration, with account being taken of the pro-rata yields plus the price gains or losses to be anticipated on the basis of the forecast yield curve and exchange rate change.

Portfolio strategies

Stock market strategy; 3-month, 6-month & 12-month horizons

Levels and performance

Index	Level as at	Status		Performance since...	
	25.01.2024	Prev. month	Start of year	Prev. month	Start of year
DAX	16,906.92	16,751.64	16,751.64	0.93%	0.93%
MDAX	26,075.58	27,137.30	27,137.30	-3.91%	-3.91%
EuroSTOXX50	4,582.26	4,521.44	4,521.44	1.35%	1.35%
STOXX50	4,134.28	4,093.37	4,093.37	1.00%	1.00%
STOXX600	478.53	478.99	478.99	-0.10%	-0.10%
Dow Jones	38,049.13	37,689.54	37,689.54	0.31%	0.31%
S&P 500	4,894.16	4,769.83	4,769.83	2.07%	2.07%
Nikkei	36,236.47	33,464.17	33,464.17	8.28%	8.28%

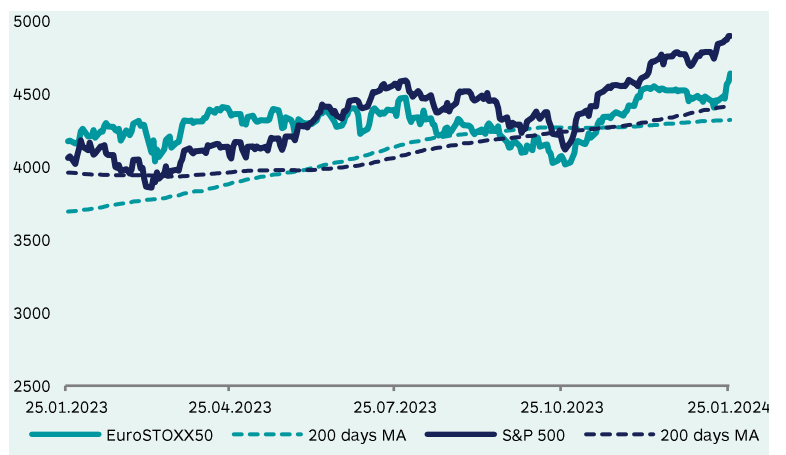
Sources: Bloomberg, NORD/LB Macro Research

Index forecasts

Index	NORD/LB forecast for horizons ...		
	3M	6M	12M
DAX	16,000	16,800	17,500
MDAX	25,400	26,600	28,000
EuroSTOXX50	4,300	4,500	4,650
STOXX50	4,000	4,100	4,300
STOXX600	460	480	490
Dow Jones	36,500	37,000	37,500
S&P 500	4,650	4,750	4,800
Nikkei	35,000	35,500	36,000

Sources: Bloomberg, NORD/LB Macro Research

EuroSTOXX50 and S&P500



Sources: Bloomberg, NORD/LB Macro Research

Date of going to press for data, forecasts and texts was Friday, 26 January 2024.

The next English issue of Economic Adviser will be appearing on **26 February 2024.**

Overview of forecasts

Fundamental forecasts

in %	GDP growth			Rate of inflation			Unemployment rate ¹			Budgetary balance ²		
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
USA	2.5	1.5	1.6	4.1	2.7	2.2	3.6	4.2	4.2	-6.5	-6.0	-5.9
Euroland	0.5	0.5	1.4	5.4	2.4	2.1	6.5	6.6	6.6	-3.2	-2.8	-2.6
Germany	-0.3	0.3	1.1	6.0	2.7	2.2	5.7	6.0	5.7	-2.0	-1.7	-1.0
Japan	2.0	0.9	1.4	3.3	2.2	1.9	2.6	2.5	2.3	-5.4	-4.2	-3.7
Britain	0.4	0.5	1.1	7.3	2.9	2.2	4.1	4.7	4.7	-4.8	-3.6	-3.0
Switzerland	1.2	1.0	1.7	2.1	1.7	1.4	2.0	2.2	2.1	-0.2	-0.1	-0.3
China	5.2	4.6	4.5	0.3	1.1	1.8	5.2	5.3	5.2	-5.0	-5.4	-5.1

Change vs previous year as percentage; ¹ as percentage of the labour force (Germany: as per Federal Employment Office definition); ² as percentage of GDP

Sources: Feri, NORD/LB Macro Research

Key interest rates

In %	25.01.24	3M	6M	12M
USD	5.50	5.50	5.50	5.00
EUR	4.50	4.50	4.00	3.25
JPY	-0.10	-0.10	0.00	0.10
GBP	5.25	5.25	5.25	5.00
CHF	1.75	1.75	1.50	1.00
CNY	1.50	1.50	1.50	1.50

Sources: Bloomberg, NORD/LB Macro Research

Exchange rates

EUR in...	25.01.24	3M	6M	12M
USD	1.08	1.08	1.08	1.09
JPY	160	153	146	142
GBP	0.85	0.87	0.88	0.88
CHF	0.94	0.97	0.97	0.97
CNY	7.77	7.72	7.67	7.68

Interest rates (government bonds)

	3M rates				Yields 2Y				Yields 5Y				Yields 10Y			
	25.01.	3M	6M	12M	25.01.	3M	6M	12M	25.01.	3M	6M	12M	25.01.	3M	6M	12M
USD	5.32	5.30	5.20	4.70	4.29	4.60	4.25	3.60	4.00	4.10	3.85	3.50	4.12	4.10	3.90	3.50
EUR	3.93	3.70	3.50	2.60	2.62	2.50	2.30	1.90	2.19	2.10	2.00	1.90	2.29	2.20	2.10	2.10
JPY	0.08	0.10	0.15	0.20	0.05	0.05	0.07	0.10	0.31	0.30	0.38	0.40	0.74	0.80	1.00	1.10
GBP	#NV	5.20	4.95	4.50	4.39	4.98	4.89	4.38	3.92	4.70	4.70	4.22	3.98	3.90	3.85	3.65
CHF	1.64	1.60	1.40	0.90	1.10	0.90	0.70	0.70	0.86	0.60	0.60	0.70	0.84	0.60	0.60	0.80

Sources: Bloomberg, NORD/LB Macro Research

Spreads (bp)

	3M EURIBOR				2Y Bunds				5Y Bunds				10Y Bunds			
	25.01.	3M	6M	12M	25.01.	3M	6M	12M	25.01.	3M	6M	12M	25.01.	3M	6M	12M
USD	139	160	170	210	168	210	195	170	181	200	185	160	183	190	180	140
JPY	-385	-360	-335	-240	-257	-245	-223	-180	-188	-180	-163	-150	-155	-140	-110	-100
GBP	#NV	150	145	190	177	248	259	248	173	260	270	232	169	170	175	155
CHF	-229	-210	-210	-170	-152	-160	-160	-120	-133	-150	-140	-120	-145	-160	-150	-130

Sources: Bloomberg, NORD/LB Macro Research

Annex



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