Europe Economic Weekly

The goalpost keeps moving

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Europe

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Weekly View: They are trying...

A challenging week for current market pricing of early policy rate cuts in Europe, with relatively hawkish ECB communication and a (small) upside surprise to UK core inflation. We continue to think that market pricing is overdone absent unforeseen new shocks.

Euro area: ECB Preview - still reactive & backward-looking

We expect no policy changes, nor major changes to communication (but additional pushback on market pricing) from the ECB next week. The ECB wants to see spring data on profits, wages, and domestic inflation before the next move. We stick to our call that the first 25bp cut will come in June but, given fast disinflation, risks are for faster action thereafter.

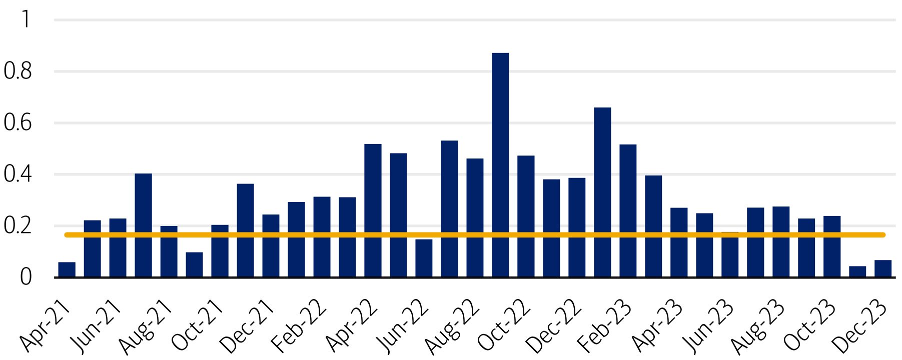
Hot Topic: Norges Bank preview - now the wait begins

Economy is stagnating but price pressures remain higher than elsewhere. We expect Norges Bank to keep the policy rate stuck at 4.5% over 1H24. As they have guided to a cut later this year, we pencilled in two in 2H24 (the first in September).

Next week:

A surveys-intense week: Euro area "flash" consumer sentiment, Bank Lending Survey (Tue), Euro area/UK 'flash' January PMIs (Wed), Ifo and INSEE (Thu), Survey of Professional Forecasters (Fri). Euro area credit data will be eye-catching (Fri), too. Beyond ECB and Norges meeting, no central bank speakers on the agenda for next week.

Exhibit 1: Core inflation, mom% bottom-up seasonally adjusted
Monthly SA rate suggests job on inflation is almost done



Source: BofA Global Research, Eurostat

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Weekly view

They are trying…

It should not have been a particularly good week for market pricing of early central bank cuts in Europe, given relatively hawkish ECB communication and a (small) upside surprise to UK core inflation. And yet, market moves were relatively mild, considering. Next week is likely to bring more of the same, with ECB and Norges meetings on the agenda (BoE and Riksbank the week after). Though the Euro area and Norwegian economy are not in similar shape (the energy shock was not the same, clearly), both central banks will probably share the ambition to push back against early cuts. That wouldn't be a change in communication, but rather an affirmation of guidance and individual speakers' communication lately. We think the central banks are serious about and committed to their intention, and we continue to think market pricing is overdone, absent unforeseen new shocks.

ECB: it wants to be boring

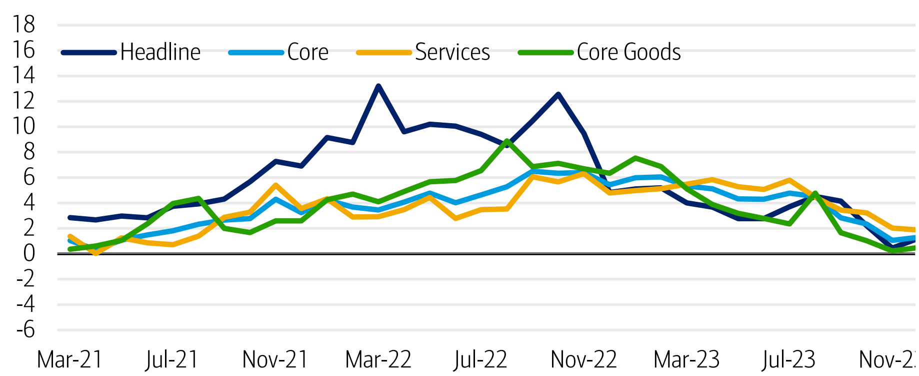
Next week's press conference should be a non-event. Communication has been fairly clear. The ECB wants to see spring data on profits, wages and domestic inflation before concluding that it can loosen the screws a little. Hawks may argue that the easing in financing conditions makes cuts less likely (Knot reiterated that), but even centrists and doves seem keen to see more and firmer evidence of disinflation on track for a return to target, if not below (Villeroy de Galhau and Lane again).

In an interview at Davos, ECB President Lagarde even went as far as saying that "cuts in the summer seemed likely", arguably as much calendar guidance (and pushback against spring cuts) as the central bank can deliver at this stage. Next week's press conference could pose another challenge to market pricing, even if it delivers nothing "new".

We stick to our call that the first 25bp cut will come in June, but we are increasingly nervous that data will force the ECB to cut once every meeting thereafter, rather than quarterly – an accelerated pace we expected only in 2025.

From a macro perspective, we would agree with market pricing that cuts earlier than June would be warranted. Data is disinflating fast. Alternative inflation metrics released by the ECB (trimmed, persistence weighted) all moved lower in December. "Instantaneous inflation" looks encouraging, too, especially in services (Exhibit 2). There is more evidence of disinflation, even in domestic inflation and non-contact intensive services in the ECB preview. And the last Consumer Expectations Survey update revealed even three-year-ahead inflation expectations to be back at 2.2%, the weakest level since early 2022 when the inflation spurt really began.

Exhibit 2: Euro area, instantaneous inflation tracker
Inflation momentum has clearly slowed



Source: BofA Global Research, Eurostat. Note: original methodology from Eeckhout (2023).

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But we have to acknowledge that the ECB remains structurally more hawkish than us (and apparently markets), with a preference to do too much, rather than too little, to bring inflation back to target.

It is that same rationale that also makes us doubt the central bank will start the cutting cycle with increments of 50bp. If they panicked, maybe. But absent surprises, they probably won't panic. Disinflation will have gone very far, but inflation (including core) should still be above 2%. Wage growth will be past the peak, but still well above 3% – the back-of-the-envelope reference for 2% inflation dynamics. And the real economy should show signs of improvement. Again, we would view more frequent than quarterly 25bp cuts in 2024 as the more likely alternative scenario to earlier cuts or bigger increments.

The risk of a Euro area technical recession from Germany

There is a very prominent risk now that headlines of a "technical recession in the Euro area" are coming with the 4Q23 GDP print due for release on 30 January. But even that, we would argue, is unlikely to deter the ECB, and hence cannot justify market pricing.

Germany would be the culprit, probably. Destatis' first estimate of 2023 average growth at -0.1% was in line with expectations. But they flagged that 4Q23 GDP was on track for a 0.3% contraction (vs -0.1% in our forecast). The "technical recession" tag would be avoided yet again, because 3Q has been reportedly revised to zero growth – a repeat of what happened with the 3Q release itself. But after five quarters of zero growth at best, it's getting tough not to describe the German macro environment as recessionary.

The Euro area as a whole may not be able to avoid two very small quarterly contractions though. Small 3Q revisions to Germany might not suffice to edge Euro area rounding from -0.1% to zero. And Germany's 4Q contraction, if confirmed, could suffice to push the Euro area just below zero, again. That would constitute a second quarter of decline; the quantitative criteria for "technical recession". But at this stage, we would argue, it carries little economic meaning. Zero-ish growth momentum is broadly expected (even by the ECB itself) during winter. Small contractions are therefore within the range of statistical noise. So while we would generally argue that the Euro area is not immune to the risk of more severe outcomes in future, small 2H24 contractions, at this stage, wouldn't alter our thinking, and are unlikely to alter the ECB's either.

Norges: same story, just a bit different

Early cuts are unlikely at Norges Bank, too. A relatively resilient domestic economy and still too timid improvements on the inflation front will probably keep the policy rate stuck at 4.5% over 1H24. The bank has guided to a cut later this year – we pencilled in two for 2H24 (the first in September, while markets are pricing c 30bp of cut by June). We think price pressures remain higher in Norway than elsewhere. But, with the ECB and the Fed likely embarking on cutting cycles in 1H24 and underlying inflation likely to show some meaningful progress over 2Q/3Q, we still see Norges Bank moving slightly faster than it currently projects.

Next week:

Time for the next round of surveys, with Euro area "flash" consumer sentiment and the Bank Lending Survey (Tue), 'flash' January PMIs for Euro area and UK (Wed), Ifo and INSEE (Thu). M3 and mending data as well as the Survey of Professional Forecasters complete the data week (Fri).

Beyond the ECB and Norges meetings, no central bank speaker is on the agenda for next week.

Euro area

ECB Preview: still reactive and backward-looking

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- We expect no changes to policy or communication (but additional pushback on market pricing) from the ECB next week.
- The ECB regards current market pricing as a risk to inflation converging to target. Wage and profit developments are key inputs for the next move.
- We stick to our call of a first cut in June but, given fast disinflation, there is a risk of faster action thereafter.

The beginning of the path to cuts

We expect no policy changes from the ECB next week. Nor do we expect changes to communication, but we do anticipate additional pushback on market pricing. With the outlook not differing much from the one published in forecasts, we would expect next week's meeting to be a repeat of December's. Pushback on market pricing is likely to be strong, with Lagarde indicating that the early and fast cuts priced by the market are not necessarily consistent with inflation going back to target. As a way of reinforcing the pushback, we would expect Lagarde to reiterate her line at Davos that we are at the peak for rates and that cuts around the summer could make sense.

Recent communication from the ECB has been clear. Market pricing is a risk to inflation converging to target, according to a (very large) majority of speakers. Wage and profit developments all the way to May are key inputs to be reassured inflation will move back to target according to plan. Only Centeno, Banco De Portugal Governor, is contemplating cuts before June, we would argue. The bar for cuts before then remains very high. We believe] that there is a bigger risk of faster cuts post-June than earlier cuts, at least at this stage.

Yes, the data would suggest earlier cuts. But it also suggested no need to go to 4%. Earlier cuts would require a more forward-looking central bank, we think. Some clients argue there has been a significant shift on this. While we would agree there has been a shift, we don't think it's been enough. The increased focus on wages, domestic inflation, or non-contact intensive inflation (moving the goalposts, again) is a clear example of this.

As a reminder, we expect the first cut from the ECB in June, quarterly cuts thereafter for 2024E, and one per meeting in 2025E until the depo is back at 2%. We then expect a pause, with more cuts in 2026E.

January inflation prints will be important for this. The usual menu-cost adjustments will determine how persistent core inflation will be throughout 2024 and therefore be an important input for the speed of the cutting cycle in 2H24. We could easily see the accelerated cutting cycle beginning in September 2024 if ECB staff forecasts were to show some persistent (modest) inflation undershoot.

Unchanged outlook, unchanged communication

We had argued in the review of the ECB's December meeting that, while growth forecasts were too optimistic and inflation (particularly core) was coming down too slowly, this was not the case for the immediate future. Indeed, growth has behaved broadly in line with what they (and we) expected. The ECB has intensified the disinflation trajectory in its quarterly core inflation forecast compared with the September profile, in the near term, but then assumes inflation will move sideways in

2H24. Unsurprisingly, ECB speakers have acknowledged that inflation in December has not surprised them much.

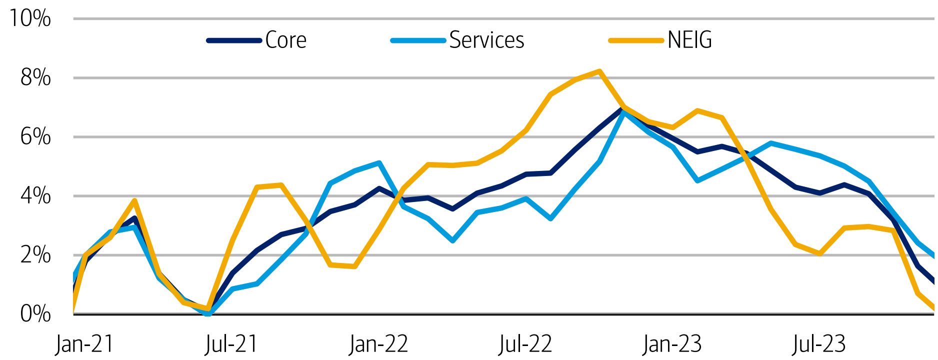
Communication has barely changed too. Back in December Lagarde pointed to the move in market pricing since the forecast cut-off date, implying that pricing today is not necessarily consistent with inflation going back to target. We have had several more explicit statements since then, including from Lagarde, Some ECB speakers have even argued that market pricing is making the ECB's job more difficult, and that aggressive market moves risk delaying action from the central bank. We see Lagarde's reference to the summer as a potential timing for cuts as a way of giving more (soft) calendar-dependent forward guidance, given that so far other forms of pushbacks have not been successful. We would hence expect a reinforced pushbacks to take centre-stage at the press conference next week, including calendar dependent forward guidance.

Slim chance of earlier cuts without surprises

With conservative forecasts in the near term, absent major surprises in either growth or inflation, we would expect the ECB to remain reactive and wait patiently for confirmation from wages and profit margins that inflation will be heading to 2% by 2025. That would put the focus on the June meeting, eventually. And this is despite stronger evidence that the job is almost done on inflation looking at current seasonally adjusted mom rates for core inflation (Exhibit 1) or momentum measures (Exhibit 3). One has to at least question the level of nominal policy rates given where sequential inflation is today.

Exhibit 3: Inflation momentum

Clear downward momentum in inflation



Source: BofA Global Research, Eurostat

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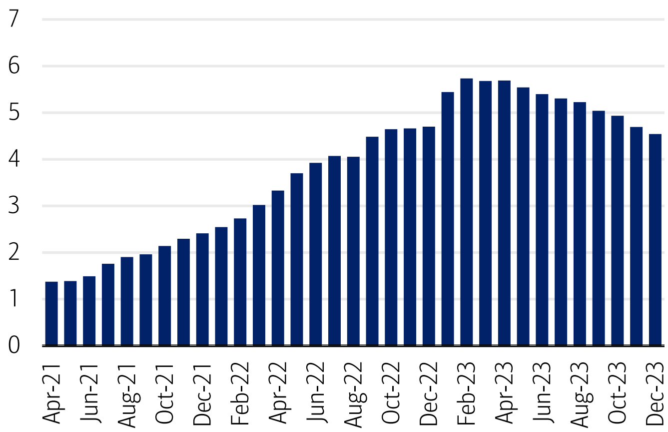
But to us, the latest developments and comments reflect a still very reactive and backward-looking central bank. The latest line of reasoning that puts the focus on wages is that progress on domestic inflation and non-contact intensive services inflation is slow, i.e. that inflation is quite sticky. Hence, the need to wait for confirmation that wages are being well behaved. We would disagree with that on many fronts (see below), but the fact that this is the new goalpost is already proof of how reactive the ECB remains, even after significant disinflation.

First, wages are usually the last variable to adjust, so they provide a very backward-looking view of inflationary forces. Negotiated wages, a key focus, clearly lag inflation by around six months. Yes, one could argue that we need to be vigilant about second-round effects and the risk that wages do not just reflect partial compensation from past inflation but react to inflation expectations. That is a hard case to make, though, when expectations continue to move lower.

Slicing sources of inflation

We would even argue that the focus on domestic and non-contact intensive services inflation will be hard to sustain over time. To show this we replicate the ECB measure of domestic inflation, that is, components that have less than 18% of import content (35% of the basket). The final outcome is clearly dependent on how data is seasonally adjusted – we go for our preferred bottom-up approach (i.e. adjusting each component and then aggregating). Results can vary but the qualitative message would be the same. Exhibit 4 shows the yoy rate for our measure of domestic inflation. Yes, the yoy rate remains far from 2%, quite a long way. But this reflects mostly base effects, since the mom data shows a very significant deceleration to rates not far from those consistent with target (Exhibit 5).

Exhibit 4: Euro area, domestic inflation measure, yoy%
Far from target, but mostly due to base effects



Source: BofA Global Research, Eurostat

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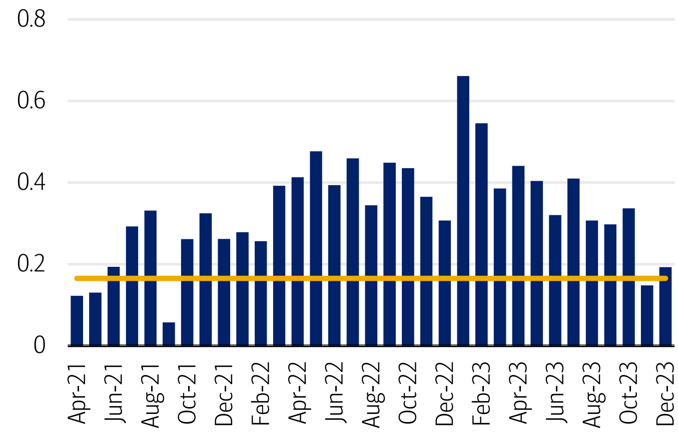
Exhibit 5: Euro area, domestic inflation measure, mom%
Very significant deceleration, now close to target



Source: BofA Global Research, Eurostat

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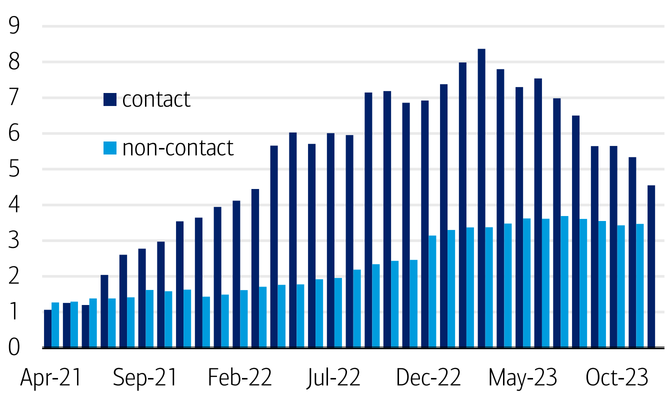
Exhibit 6: Contact vs non-contact services inflation, yoy%
Improvement has been driven by contact services



Source: BofA Global Research, Eurostat. Contact intensive sectors include Transport services, Recreational and cultural services, Package holidays, Restaurants and hotels, Hairdressing salons and personal grooming establishments. Non-contact intensive services include the rest of services.

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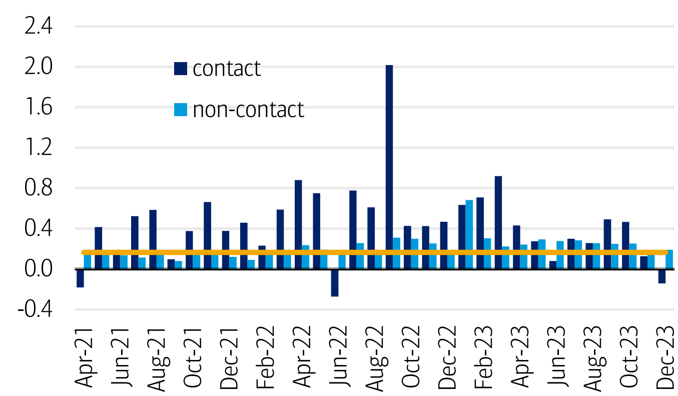
Exhibit 7: Contact vs non-contact services inflation, mom%
But, even in non-contact services, monthly rates have normalized



Source: BofA Global Research, Eurostat. Contact intensive sectors include Transport services, Recreational and cultural services, Package holidays, Restaurants and hotels, Hairdressing salons and personal grooming establishments. Non-contact intensive services include the rest of services.

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What about non-contact intensive services inflation? The fact that the focus for the beginning of the cutting cycle is shifting to a bit more than 20% of the inflation basket already reveals a very reactive reaction function. And yes, a lot of the improvement in yoy rates for services inflation has been driven by contact intensive services as of late, with non-contact services moving sideways. (See Exhibit 6 for our own measure that tries to replicate the one from the ECB.) But once again, base effects play a large role here, with even non-contact intensive services now showing monthly inflation rates quite close to levels consistent with target (Exhibit 7).

To us, while rate cuts may need to wait until June, disinflation is strong, and we are heading to a target undershoot. Late cuts eventually mean faster cuts, potentially even faster than we expect.

Hot Topic

Norges Bank preview: now the wait begins

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- Economy is stagnating but price pressures remain higher than elsewhere.
- We don't expect further rate hikes. First cut likely in 3Q24.
- NOK: Norges next week likely non-event. Stay constructive in 2024. Near term we have more faith in the crosses.

Data supports a longish hold

Taking onboard the recent data, we mark-to-market our 2023/24 growth forecast to 1.0%/0.4% (-10bp both years). The Norwegian economy is stagnating – growth will likely stay very close to zero for the coming months, with clear risks of negative prints. While consumers are clearly feeling the pain of higher interest rates and sustained inflation, we still don't see any sharp recessionary momentum at play. Credit flows are slowing in an orderly way and even the housing sector remains resilient (especially vs Sweden).

On the inflation side, things are moving (slowly) in the right direction, with the stronger NOK likely helping down the road. But price pressures remain high overall. Wage growth is robust across sectors and the labour market's normalization appears to be slow. Domestic core goods prices look sticky, and rents are still rising fast (Exhibit 2, Exhibit 3). It will take time for underlying inflation to normalize. We continue to expect CPI-ATE to print >3% y/y at year-end.

We don't expect further rate hikes. But a resilient domestic economy and still-too-timid improvements on the inflation front will probably keep Norges Bank's policy rate stuck at 4.5% over 1H24.

But Norges projections are likely too hawkish

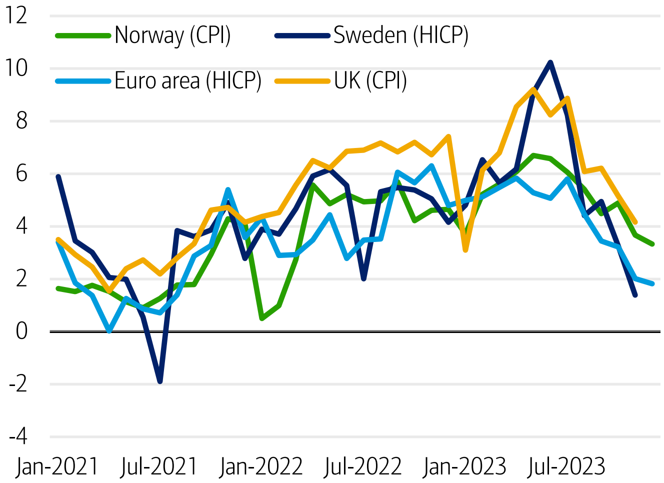
Norges Bank's December projections would imply one first full cut in 4Q24. While we agree that inflation is likely to remain more persistent than in the rest of DM Europe, we think their hawkish forecasts are likely to be surprised to the downside over time. We expect CPI-ATE to average around 4% this year vs 4.8% in the latest Norges forecast.

With the ECB and the Fed likely embarking on cutting cycles in 1H24, and underlying inflation likely to show some meaningful progress over 2Q/3Q, we see Norges Bank moving slightly faster than they currently project. Our baseline is for two cuts this year - we pencil-in a first cut in the September meeting.

NOK: constructive, more faith in the crosses near term

The upcoming Norges meeting will likely be a non-event for NOK. We are constructive on NOK for 2024, counting on (1) soft US landing & softer USD, (2) supported oil prices, (3) a relatively hawkish Norges Bank, and (4) more favourable petroleum-related NOK flows. But near term we are cautious, with the market pricing more & faster Fed rate cuts vs our base case, and a relative Norges stance close to our base case. We look for EURNOK &USDNOK slightly higher near term but at 10.90 and 9.48 at year-end, and we expect NOKSEK to gradually move toward 1.02 in the next months.

Exhibit 8: Services inflation, instantaneous tracker (yoy%)
Norway's services price pressures are high, but some encouraging signs



Source: BofA Global Research, national statistical offices. Note: original methodology from Eeckhout (2023).

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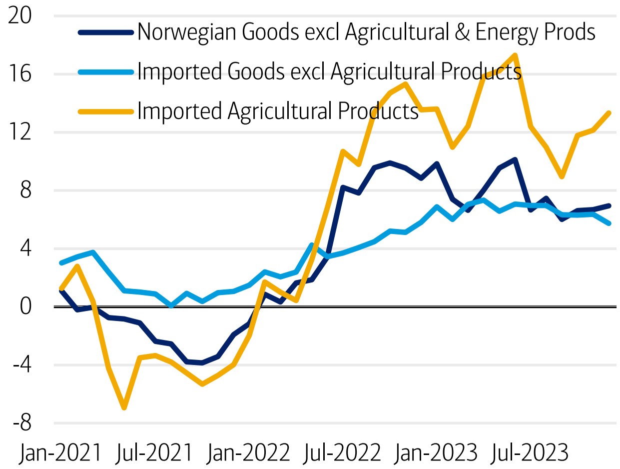
Exhibit 9: Goods inflation, yoy%
Non-energy goods prices have not slowed much yet



Source: BofA Global Research, Statistics Norway

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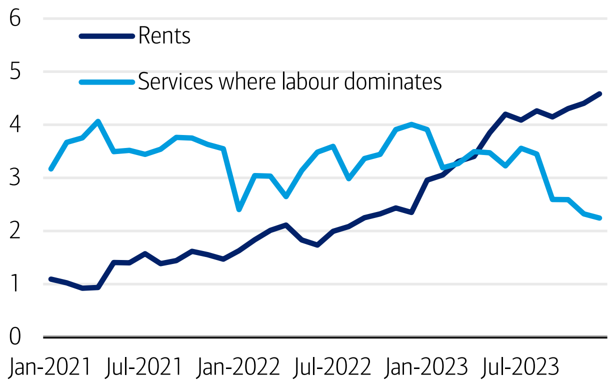
Exhibit 10: Services inflation yoy%
Rent inflation is driving services prices high



Source: BofA Global Research, Statistics Norway

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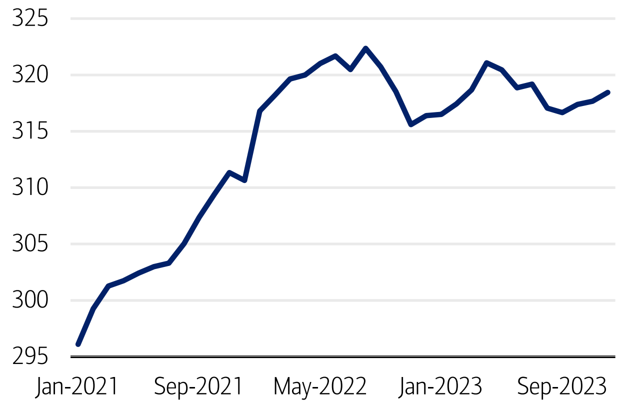
Exhibit 11: House price index (Jan-03=100)
Housing prices remain resilient, despite the tightening



Source: BofA Global Research, Statistics Norway

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Exhibit 12: Norges Bank policy rate path projections
Norges Bank high for much longer than markets expect

	Q3 - 23	Q4 - 23	Q1 - 24	Q2 – 24	Q3 - 24	Q4 - 24	Q1 - 25	Q2 - 25	Q3 - 25	Q4 - 25	Q1 - 26	Q2 - 26	Q3 - 26	Q4 - 26
Dec-23	3.89	4.3	4.52	4.55	4.44	4.29	4.14	3.97	3.8	3.6	3.44	3.28	3.13	2.97
Sep-23	3.89	4.31	4.44	4.44	4.41	4.33	4.22	4.09	3.96	3.8	3.65	3.5	3.35	3.2

Source: Norges Bank (Monetary Policy Report 4/23)

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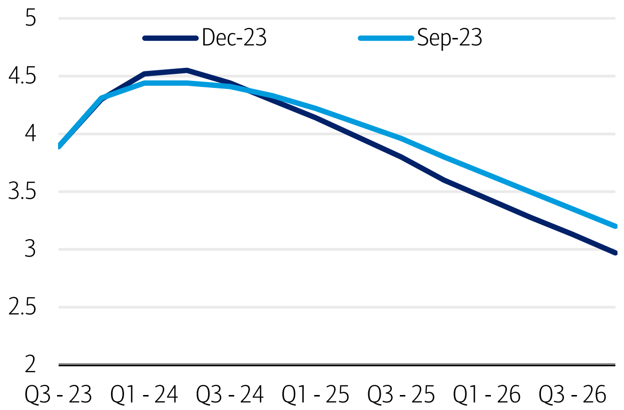
Exhibit 13: Norges Bank policy rate path projections
Norges' rate path through end-2024 close to the Sep forecast



Source: Norges Bank (Monetary Policy Report 4/23)
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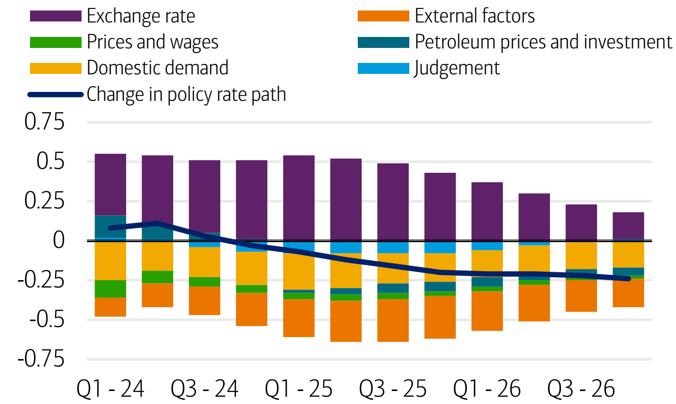
Exhibit 14: Decomposition of policy rate path change
NOK weakness likely behind today's hike



Source: Norges Bank (Monetary Policy Report 4/23)
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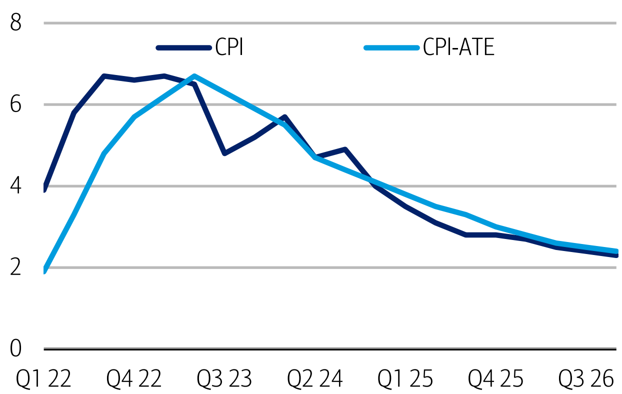
Exhibit 15: Norges Bank's inflation forecasts
CPI ATE above 4% through 2024, above 3% through 2025



Source: Norges Bank (Monetary Policy Report 4/23)
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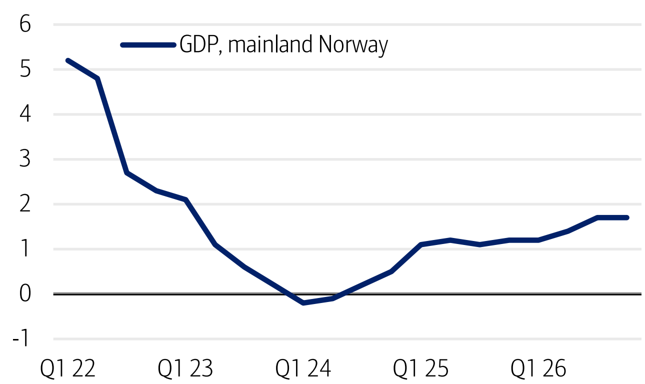
Exhibit 16: Norges Bank's mainland GDP forecast (4-quarter change)
Clear deterioration in economic growth over 2024



Source: Norges Bank (Monetary Policy Report 4/23)
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Exhibit 17: Norges Bank's key forecasts as of Dec-2023 (in brackets changes vs Sep-23 forecasts)
Norway's outlook remains resilient...

	2022	2023E	2024E	2025E	2026E
CPI	5.8	5.5 (-0.3)	4.4 (-0.4)	2.8 (-0.3)	2.5 (0.0)
CPI-ATE	3.9	6.2 (-0.1)	4.8 (0.1)	3.5 (0.1)	2.5 (-0.1)
Annual wages	4.3	5.5 (0.0)	5.0 (-0.2)	4.3 (-0.3)	3.7 (-0.2)
GDP, Mainland Norway	3.7	1.0 (-0.3)	0.1 (-0.2)	1.2 (0.4)	1.5 (0.1)
Output gap, mainland Norway (level)	1.8	0.8 (0.0)	-0.4 (-0.1)	-0.7 (0.1)	-0.7 (0.0)
Unemployment rate	1.8	1.8 (0.0)	2.1 (-0.1)	2.3 (-0.1)	2.3 (-0.1)
Mainland demand	5.1	-0.3 (0.0)	-0.2 (-0.1)	1.8 (0.0)	2.2 (0.1)
Petroleum investment	-7.2	8.0 (2.0)	7.0 (1.0)	-1.0 (-3.0)	-2.0 (-1.0)
House prices	4.9	-0.2 (0.1)	1.0 (0.2)	5.1 (0.8)	6.5 (0.5)
Real disposable income excl. dividend income	1.7	-1.5 (0.6)	0.8 (0.1)	2.5 (0.2)	3.1 (0.2)

Source: Norges Bank, MPR 4/23. Note: Projections show percentage change from the previous year unless otherwise specified. In brackets is the change in projections relative to the June 2023 Monetary Policy Report. GDP figures are working-day adjusted. The output gap denotes the percentage deviation between actual and potential mainland GDP according to Norges Bank's estimates.
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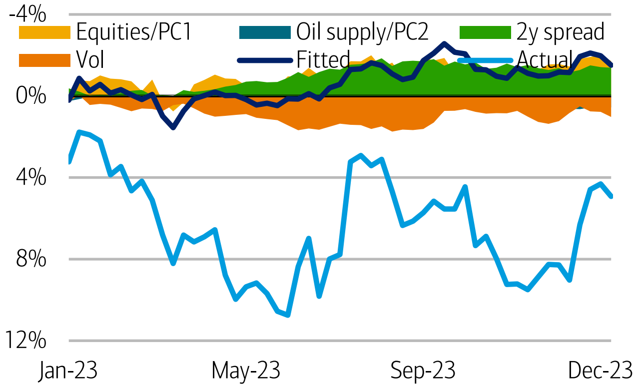
Exhibit 18: Fitted vs. actual NOK I-44 (inverted values)
NOK still 6-7% weaker than its recent history would suggest



Source: BofA Global Research, Bloomberg. Weekly data through Jan 5. Lower values of import-weighted krone (NOK I-44) show stronger NOK. Regression estimates are for Jan 18- Dec 22. We regress changes in (log) NOK I-44 on: proxies for (1) demand- and (2) supply-driven changes in Brent crude spot; (3) changes in Norway's 2-year trade-weighted swap spread; and (4) changes in our preferred NOK implied-vol spread measure. We use the first principal component of changes in MSCI Global, Brent crude spot, and VIX as proxy for demand-driven oil-price changes, and the second principal component as proxy for supply-driven oil-price changes.

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European forecasts

Exhibit 19: Euro area economic forecasts

We see the ECB stopping at a refi terminal of 4.50%.

		2022	2023	2024	2025	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
GDP	% qoq					0.0	0.2	-0.1	0.0	0.0	0.2	0.2	0.3	0.3	0.3	0.3	0.3
	% qoq ann.					0.2	0.6	-0.4	0.2	0.0	0.7	0.9	1.3	1.2	1.2	1.3	1.2
	% yoy	**3.4**	**0.5**	**0.4**	**1.1**	1.2	0.5	0.1	0.2	0.1	0.1	0.5	0.7	1.0	1.1	1.2	1.2
Private Consumption	% qoq					0.2	0.0	0.3	0.1	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.3
	% yoy	**4.2**	**0.5**	**0.7**	**1.1**	1.3	0.4	-0.3	0.5	0.4	0.7	0.7	0.8	1.0	1.1	1.2	1.3
Government Consumption	% qoq					-0.6	0.4	0.5	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.2
	% yoy	**1.6**	**0.3**	**0.9**	**0.9**	-0.4	0.2	0.8	0.5	1.2	1.0	0.7	0.7	0.8	0.9	0.9	1.0
Investment	% qoq					0.4	0.1	0.1	0.0	-0.2	0.1	0.2	0.4	0.3	0.4	0.5	0.5
	% yoy	**2.8**	**1.1**	**0.1**	**1.4**	1.9	1.4	0.4	0.7	0.0	0.0	0.1	0.4	1.0	1.3	1.5	1.6
Final Domestic Demand[1]	% qoq					0.1	0.1	0.3	0.1	0.0	0.2	0.2	0.3	0.3	0.3	0.3	0.3
	% yoy	**3.1**	**0.5**	**0.6**	**1.1**	1.0	0.5	0.1	0.5	0.5	0.6	0.5	0.7	0.9	1.0	1.2	1.2
Net exports[1]	% qoq					0.5	-0.4	0.1	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
	% yoy	**0.0**	**0.4**	**0.1**	**0.1**	0.6	0.0	0.7	0.2	-0.2	0.3	0.2	0.3	0.3	0.2	0.1	0.0
Stockbuilding[1]	% qoq					-0.5	0.5	-0.1	0.0	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
	% yoy	**0.3**	**-0.2**	**-0.1**	**-0.1**	-0.4	0.0	-0.2	-0.1	0.3	-0.2	-0.3	-0.3	-0.2	-0.1	0.0	0.0
Current Account Balance	EUR bn	**-90**	**209**	**209**	**219**	38	61	35	75	55	-6	85	75	55	-6	75	95
	% of GDP	**-0.7**	**1.5**	**1.4**	**1.5**	1.1	1.8	1.0	2.1	1.5	-0.2	2.4	2.1	1.5	-0.2	2.0	2.5
Industrial production	% qoq					-1.3	-1.1	-0.5	-0.4	0.3	0.5	0.7	0.7	0.6	0.6	0.7	0.6
	% yoy	**2.2**	**-2.1**	**0.4**	**2.6**	-0.1	-1.3	-3.8	-3.2	-1.6	-0.1	1.1	2.2	2.5	2.7	2.7	2.6
Unemployment rate [3]	%	**6.8**	**6.6**	**7.1**	**7.1**	6.6	6.5	6.6	6.6	7.0	7.1	7.1	7.1	7.0	7.0	6.9	6.9
CPI (harmonised)[4]	% qoq					0.4	1.6	0.6	0.2	0.4	1.2	0.1	0.3	0.1	1.0	-0.1	0.2
	% yoy	**8.4**	**5.5**	**2.3**	**1.4**	8.0	6.2	5.0	2.7	2.8	2.4	1.9	2.0	1.7	1.4	1.2	1.1
CPI (core)[4]	% qoq					0.6	2.4	0.5	0.2	0.2	1.6	0.1	0.3	0.0	1.4	0.0	0.3
	% yoy	**3.9**	**5.0**	**2.5**	**1.8**	5.5	5.5	5.1	3.7	3.3	2.5	2.1	2.2	2.0	1.8	1.7	1.8
General govt balance	% of GDP	**-3.6**	**-3.4**	**-3.1**	**-3.1**												
General govt debt	% of GDP	**91.0**	**91.0**	**90.3**	**90.1**												
Refinancing rate	%	**2.50**	**4.50**	**3.75**	**2.50**	3.50	4.00	4.50	4.50	4.50	4.25	4.00	3.75	3.25	2.75	2.50	2.50

Source: BofA Global Research, Notes: 1 Contribution to GDP growth 2 Excluding construction, sa, quarterly averages 3 Period averages 4 Period averages, quarterly change

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Exhibit 20: UK economic forecasts

Low growth, entrenched inflation

		2022	2023	2024	2025	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
GDP	% qoq					0.3	0.2	-0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.3
	% qoq ann.					1.3	0.8	-0.4	0.0	0.0	0.0	0.4	0.4	0.4	0.8	0.8	1.2
	% yoy	**4.3**	**0.5**	**0.1**	**0.6**	0.5	0.6	0.5	0.4	0.1	-0.1	0.1	0.2	0.3	0.5	0.6	0.8
Private Consumption	% qoq					0.7	0.4	0.0	0.0	-0.1	-0.1	-0.1	0.0	0.2	0.2	0.2	0.2
	% yoy	**5.2**	**0.6**	**-0.1**	**0.4**	0.2	0.1	0.9	1.0	0.3	-0.2	-0.3	-0.3	0.0	0.3	0.6	0.8
Government Consumption	% qoq					-1.2	2.5	0.9	0.4	0.1	0.3	0.3	0.3	0.3	0.5	0.5	0.5
	% yoy	**2.5**	**0.6**	**1.9**	**1.5**	-3.2	1.3	1.5	2.7	4.0	1.7	1.0	0.9	1.2	1.4	1.7	1.8
Investment	% qoq					2.5	0.8	-2.0	-0.6	-0.5	-0.2	0.1	0.0	-0.1	0.0	0.0	-0.2
	% yoy	**7.9**	**2.6**	**-1.9**	**-0.2**	3.9	4.6	1.3	0.6	-2.3	-3.3	-1.2	-0.6	-0.2	0.0	-0.1	-0.3
Final Domestic Demand[1]	% qoq					0.6	0.9	-0.2	0.0	-0.1	0.0	0.0	0.1	0.2	0.2	0.2	0.2
	% yoy	**5.1**	**0.9**	**-0.1**	**0.6**	0.1	1.2	1.1	1.3	0.5	-0.4	-0.2	-0.1	0.2	0.5	0.7	0.8
Net exports[1]	% qoq					-1.6	-1.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
	% yoy	**-1.7**	**0.1**	**-0.2**	**0.0**	3.8	1.8	-2.7	-2.6	-1.0	0.0	0.1	0.1	0.1	0.0	-0.1	-0.2
Stockbuilding[1]	% qoq					1.2	0.3	0.1	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.1
	% yoy	**0.9**	**-0.5**	**0.3**	**0.0**	-3.5	-2.4	2.1	1.7	0.6	0.3	0.2	0.2	-0.1	0.3	0.0	0.1
Current Account Balance	% of GDP	**-3.1**	**-3.5**	**-3.7**	**-3.6**	-2.3	-3.8	-3.8	-3.8	-3.8	-3.7	-3.6	-3.6	-3.6	-3.6	-3.6	-3.7
Manufacturing output	% qoq					0.5	1.9	0.0	-0.3	0.1	0.3	0.5	0.6	0.6	0.6	0.6	0.6
	% yoy	**-3.3**	**1.1**	**1.0**	**-3.3**	-1.6	1.2	2.9	2.0	1.7	0.1	0.6	1.5	2.0	2.3	2.4	2.4
Unemployment rate [2]	%	**3.7**	**4.1**	**4.7**	**4.9**	3.9	4.2	4.2	4.3	4.5	4.6	4.8	4.9	4.9	4.9	4.9	4.8
RPI Inflation[2]	% yoy	**11.6**	**9.8**	**4.6**	**3.6**	13.6	11.1	9.0	5.8	5.2	4.3	4.5	4.6	4.2	3.6	3.5	3.4
CPI Inflation (harmonised)[2]	% yoy	**9.1**	**7.3**	**3.0**	**2.6**	10.2	8.4	6.7	4.1	3.6	2.5	2.9	3.2	3.1	2.5	2.4	2.4
CPI (core)[2]	% yoy	**5.9**	**6.2**	**3.8**	**3.0**	6.1	6.9	6.4	5.3	4.6	3.6	3.4	3.6	3.6	2.9	2.9	2.7
General govt balance [5]	% of GDP	**-5.0**	**-4.9**	**-4.3**	**-3.9**												
General govt debt [3,5]	% of GDP	**97.1**	**98.4**	**100.9**	**102.7**												
General govt debt	% of GDP	**101.0**	**100.3**	**102.4**	**104.5**												
Bank Rate [4]	%	**3.50**	**5.25**	**5.25**	**4.25**	4.25	5.00	5.25	5.25	5.25	5.25	5.00	4.75	4.50	4.25	4.00	3.75

Source: BofA Global Research. Notes: 1 Contribution to GDP growth 2 Period averages 3 Excludes Nationalised banks, and thus is not on Maastricht basis 4 End period, 5 Fiscal years

Exhibit 20: UK economic forecasts
Low growth, entrenched inflation

	2022	2023	2024	2025	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25

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Exhibit 21: Euro area, GDP and CPI profiles
Euro area member states profiles

	GDP						HICP					
	2020	**2021**	**2022**	**2023F**	**2024F**	**2025F**	**2020**	**2021**	**2022**	**2023F**	**2024F**	**2025F**
Euro area	-6.2	5.9	3.4	0.5	0.4	1.1	0.3	2.6	8.4	5.5	2.3	1.4
Austria	-6.7	4.4	4.8	-0.7	0.0	1.5	1.4	2.8	8.6	7.7	2.7	2.1
Belgium	-5.3	6.9	3.0	1.4	0.9	1.2	0.4	3.2	10.3	2.2	1.5	1.7
Finland	-2.4	2.8	1.6	-0.4	0.2	1.0	0.4	2.1	7.2	4.3	0.9	1.2
France	-7.7	6.4	2.5	0.8	0.7	1.3	0.5	2.1	5.9	5.8	3.1	1.9
Germany	-4.2	3.1	1.9	-0.1	-0.1	0.9	0.4	3.2	8.6	6.3	3.6	1.5
Greece	-9.0	8.1	5.7	2.0	1.1	1.7	-1.3	0.6	9.3	4.2	2.0	1.7
Ireland	5.8	14.8	9.5	-1.4	2.7	2.0	-0.5	2.4	8.1	5.8	2.9	1.6
Italy	-9.0	8.3	3.9	0.7	0.3	1.1	-0.1	1.9	8.7	6.0	1.7	1.4
Netherlands	-3.9	6.2	4.4	0.0	0.3	1.1	1.1	2.8	11.6	4.1	1.7	1.6
Portugal	-8.3	5.7	6.8	2.2	1.0	1.4	-0.1	0.9	8.1	5.4	2.5	1.1
Spain	-11.2	6.4	5.8	2.4	1.3	1.5	-0.3	3.0	8.3	3.4	2.6	0.9

Source: BofA Global Research, Eurostat

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Calendar for the week ahead

Exhibit 22: European Economic calendar

Key data for the next week

	GMT	Country	Data/Event	For	BofAe	Cons.†	Previous	Comments
Monday, 22 Jan								
			No major releases of interest today			--		
Tuesday, 23 Jan								
✪✪✪	07:00	UK	Public Finances (PSNCR)	Dec	n.a.	--	12.5bn	
✪✪✪	07:00	UK	Central Government NCR	Dec	n.a.	--	17.4bn	
✪✪✪	07:00	UK	Public Sector Net Borrowing	Dec	n.a.	--	13.4bn	
✪✪✪	07:00	UK	PSNB ex Banking Groups	Dec	n.a.	--	14.3bn	
✪✪✪	15:00	Euro area	Consumer Confidence (P)	Jan	-15.0	--	-15.0	
Wednesday, 24 Jan								
✪✪✪	08:15	France	Manufacturing PMI (P)	Jan	42.3	--	42.1	
✪✪✪	08:15	France	Services PMI (P)	Jan	46.0	--	45.7	
✪✪✪	08:15	France	Composite PMI (P)	Jan	45.1	--	44.8	
✪✪✪	08:30	Germany	Manufacturing PMI (P)	Jan	43.5	--	43.3	
✪✪✪	08:30	Germany	Services PMI (P)	Jan	48.8	--	49.3	
✪✪✪	08:30	Germany	Composite PMI (P)	Jan	47.1	--	47.4	
✪✪✪	09:00	Euro area	Manufacturing PMI (P)	Jan	45.0	--	44.4	
✪✪✪	09:00	Euro area	Services PMI (P)	Jan	49.3	--	48.8	
✪✪✪	09:00	Euro area	Composite PMI (P)	Jan	48.2	--	47.6	
✪✪✪	09:30	UK	Manufacturing PMI (P)	Jan	47.0	--	46.2	
✪✪✪	09:30	UK	Services PMI (P)	Jan	53.2	--	53.4	
✪✪✪	09:30	UK	Composite PMI (P)	Jan	52.3	--	52.1	
✪	11:00	UK	CBI Trends Total Orders	Jan	n.a.	--	-23.0	
✪	11:00	UK	CBI Trends Selling Prices	Jan	n.a.	--	--	
✪✪	11:00	UK	CBI Business Optimism	Jan	n.a.	--	-15.0	
Thursday, 25 Jan								
✪✪	07:45	France	Business Confidence	Jan	99.0	--	98.0	
✪✪	07:45	France	Manufacturing Confidence	Jan	100.0	--	100.0	
✪✪	07:45	France	Production Outlook Indicator	Jan	n.a.	--	-10.0	
✪✪	07:45	France	Business Survey Overall Demand	Jan	n.a.	--	-2.0	
✪✪✪	09:00	Norway	Deposit Rates	Jan	4.5%	--	4.50%	
✪✪✪	09:00	Germany	IFO Business Climate	Jan	84.7	--	86.4	
✪✪✪	09:00	Germany	IFO Current Assessment	Jan	88.4	--	88.5	
✪✪✪	09:00	Germany	IFO Expectations	Jan	84.7	--	84.3	
✪✪	11:00	UK	CBI Total Dist. Reported Sales	Jan	n.a.	--	-15.0	
✪✪	11:00	UK	CBI Retailing Reported Sales	Jan	n.a.	--	-32.0	
✪✪✪	13:15	Euro area	ECB Main Refinancing Rate	Jan	4.50%	--	4.50%	
✪✪✪	13:15	Euro area	ECB Marginal Lending Facility	Jan	4.75%	--	4.75%	
✪✪✪	13:15	Euro area	ECB Deposit Facility Rate	Jan	4.00%	--	4.00%	
Friday, 26 Jan								
✪✪	00:01	UK	GfK Consumer Confidence	Jan	n.a.	--	-22.0	
✪✪	07:00	Germany	GfK Consumer Confidence	Feb	-24.9	--	-25.1	
✪✪	07:45	France	Consumer Confidence	Jan	90.0	--	89.0	
✪✪✪	08:00	Spain	Unemployment Rate	4Q	12.1%	--	11.8%	
✪✪✪	09:00	Euro area	M3 Money Supply (yoy)	Dec	-0.8%	--	-0.9%	

Source: BofA Global Research, Bloomberg, Reuters, Central banks. Notes: †Bloomberg consensus; µ = level of importance; A = advanced; F = final; P = preliminary; sa = seasonally adjusted; nsa = not seasonally adjusted; wda = working-day adjusted; n.a. = not available; mom = month-on-month; qoq = quarter-on-quarter; yoy = year-on-year. *Refers to previous period, not preliminary release. BofA GLOBAL RESEARCH

Acronyms and abbreviations

Exhibit 23: Common acronyms/abbreviations used in our reports
This list is subject to change

Acronym/Abbreviation	Definition	Acronym/Abbreviation	Definition
1H	First Half	IT	Italy
2H	Second Half	Jan	January
1Q	First Quarter	Jul	July
2Q	Second Quarter	Jun	June
3Q	Third Quarter	lhs	left-hand side
4Q	Fourth Quarter	m	month
ann	annualized	MA	Moving Average
APP	Asset Purchase Programme	Mar	March
Apr	April	Eonia	Euro overnight indexed average
AS	Austria	mom	month-on-month
Aug	August	Mon	Monday
BdF	Banque de France (Bank of France)	MPC	Monetary Policy Committee
BE	Belgium	MWh	Megawatt-hour
BEA	Bureau of Economic Analysis	NGEU	NextGenerationEU
BLS	Bank Lending Survey	NE	Netherlands
BoE	Bank of England	Nov	November
BofA	Bank of America	NADEF	Nota di Aggiornamento al Documento di Economia e Finanza
BoI	Banca d'Italia (Bank of Italy)	NSA	Non-seasonally Adjusted
BoJ	Bank of Japan	OAT	Obligations assimilables du Trésor
BoS	Banco de España (Bank of Spain)	OBR	Office for Budget Responsibility
bp	basis point	Oct	October
BTP	Buoni Poliennali del Tesoro	OECD	Organisation for Economic Co-operation and Development
Buba	Bundesbank	ONS	Office for National Statistics
c	circa	p	preliminary/flash print
CA	Current Account	PBoC	People's Bank of China
CPI	Consumer Price Index	PEPP	Pandemic Emergency Purchase Programme
CSPP	Corporate Sector Purchase Programme	PMI	Purchasing Managers' Index
d	day	PSPP	Public Sector Purchase Programme
GE	Germany	PT	Portugal
Dec	December	QE	Quantitative Easing
DS	Debt sustainability	qoq	quarter-on-quarter
EA	Euro area	QT	Quantitative Tightening
EC	European Commission	RBA	Reserve Bank of Australia
ECB	European Central Bank	RBNZ	Reserve Bank of New Zealand
ECJ	European Court of Justice	rhs	right-hand side
EFSF	European Financial Stability Facility	RPI	Retail Price Index
EGB	European Government Bond	RRF	Recovery and Resilience Facility
DM	Developed Markets	SA	Seasonally Adjusted
EMOT	Economic Mood Tracker	SAFE	Survey on the access to finance of enterprises
EP	European Parliament	Sat	Saturday
SP	Spain	Sep	September
ESI	Economic Sentiment Indicator	SMA	Survey of Monetary Analysts
ESM	European Stability Mechanism	SNB	Swiss National Bank
EU	European Union	SPF	Survey of Professional Forecasters
f	final print	Sun	Sunday
Feb	February	SURE	Support to mitigate Unemployment Risks in an Emergency
Fed	Federal Reserve	S&P	Standard & Poor's
FR	France	Thu	Thursday
Fri	Friday	TLTRO	Targeted Longer-term Refinancing Operations
GC	General collateral	TPI	Transmission Protection Instrument
GDP	Gross Domestic Product	TTF	Title Transfer Facility
GNI	Gross National Income	Tue	Tuesday
GR	Greece	UK	United Kingdom
HICP	Harmonised Index of Consumer Prices	US	United States
HMT	His Majesty's Treasury	WDA	Work-day Adjusted
IMF	International Monetary Fund	Wed	Wednesday

Source: BofA Global Research

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