Europe Economic Weekly

Three months to go

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Europe

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Weekly View:

Our conviction in an inflation undershoot remains unbroken. Noisy inflation data at the beginning of the year, or during Easter, is part of our working assumption. A cyclical recovery in the real economy, too. But market pricing until June could still be volatile.

Euro area: ECB review – June it is

No big surprises in the press conference, but a clear message: absent big surprises, cuts can start in June. Our call remains: quarterly 2024 cuts starting June, faster ones to 2% by mid-25 as core disinflates further than they think.

UK Budget: Another heavy Gilt supply year

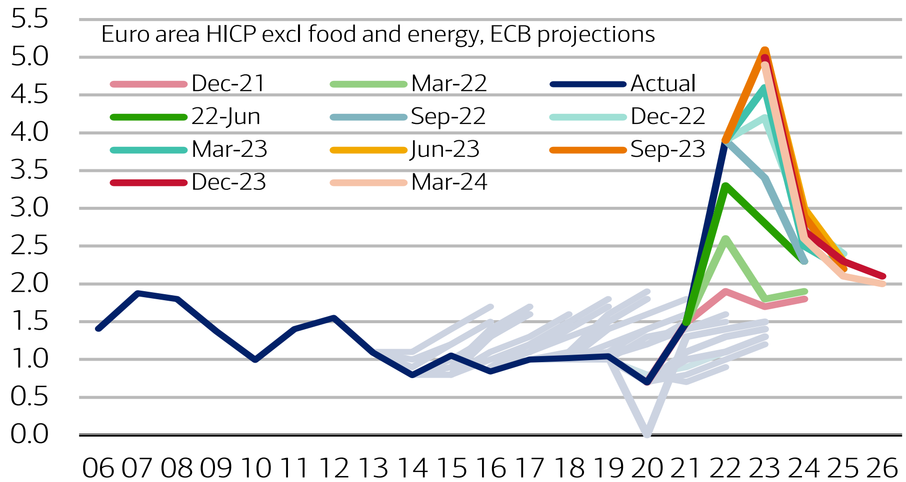
The Chancellor did not deliver big surprises. We read this Budget as just marginally hawkish, if at all. Effective Gilt supply in 2024/25 will likely set a new record high. We remain comfortable being bearish UK rates. GBP should continue to find cyclical support in the months ahead against the backdrop of benign market conditions.

Next week:

Quiet data week in the Euro area – industrial production (Wed) and country-level final inflation prints. Focus will likely be on UK (labour market on Tue & GDP on Wed) and Scandies (inflation). On the policy front, Eurogroup (Monday) at ECOFIN (Tuesday).

Exhibit 1: ECB core inflation forecasts over time

ECB core inflation is back at 2% in 2026. Confidence is missing. We still think an undershoot is the likelier outcome (and hence our base case), forcing the ECB into faster 2025 cuts..



Source: BofA Global Research, ECB staff projections

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Weekly view

A clear signal for June, if all goes well

Focus firmly on June, expect a bumpy ride

We were expecting unchanged guidance from the ECB in the press release, forecasts suggesting that we were pretty much there when it comes to reaching target in the medium term, coupled with some soft guidance during the press conference that a cut was around the corner as long as data was well behaved in the near future. And this is pretty much what we got. The main surprise was a slightly stronger signal that the bar for a cut in April is now very high. More confidence is needed, they will likely have little new data for the April meeting, a lot more in June. The message is loud and clear, June it is, as long as wage and domestic inflation data play along.

The reacceleration narrative is growing.

Still, we are worried that market pricing for June could remain very volatile and that current probabilities of a June cut of 90%+ get challenged at times. Some of our recent conversations with clients have shown a lot of interest on a potential strong reacceleration of the Euro area economy from here. In our view this is a misinterpretation of 1/ residual seasonality of PMI, and 2/ the gradual return to trend growth after five years of stagnation. But, as we flagged last week, in the context where some are arguing the Fed may need to cut later than in June or not cut at all in 2024, that narrative could be extrapolated to the ECB albeit temporarily.

Indeed, doubts on whether the ECB can go before and well ahead of the Fed is a recurring theme. We touched on that last week, and we disagree. And Lagarde gave a very similar message this week. True, in a scenario in which the Fed delays a lot the cutting cycle that could create doubts on the speed of the ECB's cutting cycle, in principle. But given our call of an inflation undershoot, by the time a strong divergence between the Fed and the ECB were to materialise, that extra FX driven inflation could potentially even be welcomed.

However, there are other factors that could complicate the picture near term and make the market reassess June periodically. Late March easter seasonality could complicate the reading of underlying inflation (expect a big jump in March and a correction in April). That would make May the first really clean inflation print from here. In the meantime we could have the perception of sticky services inflation. True, we all are aware of that seasonaility, but when Easter is in late March there is always room for surprises.

Additionally, given the internal dynamics of the ECB's governing council, we would not be surprised if, now that April is almost ruled out, some of the hawks start questioning June too. It would not be the first time that the hawks attempt to move the goalpost. At the end of the day, by the June meeting progress on wages and/or domestic inflation will not clarify all of the uncertainty about where core inflation could end up settling in the medium term. There will likely be, still, a lot of room for disagreement and a lot of room for subjectivity, caution, and the need for more confidence.

Still a strong conviction for June, and faster in 2025

We disagree, though, our conviction on June remains strong. And our conviction that data will end up pushing them to accelerate the cutting cycle is strong too, despite Lagarde implicitly suggesting a slow cutting cycle. We think there is more progress on domestic inflation than some at the ECB realize.

UK budget: Much ado about little

The UK budget was another of the big events this week. We were expecting it to be a non-market event but we worried about potential announcements that delivered more ambitious tax cuts now on the back of backloaded and very politically challenging real expenditure cuts in the future. We didn't get this.

The Budget was slightly stimulative, but still far from a blowout. The main announcement was another 2p cut in NI, the cost of which is partly financed through tax rises. In the projections, public services spending is largely unchanged and no longer grows in real per capita terms. These plans would be consistent with debt falling as a % of GDP in the coming years. But margins remain tight – OBR estimates just £9bn to spare. Overall, this shouldn't be a big deal for the BoE – we read this Budget as just marginally hawkish, if at all. But it certainly reinforces our view that a slow cutting cycle is unlikely to start before August this year.

Next week:

Today: final print of Euro area 4Q23 GDP, with the main aggregates. Next week should be relatively quiet for Euro area data watchers – we'll get Spanish retail sales on Monday (likely slowing to about 2.7% yoy), Euro area industrial production on Wednesday (we have pencilled in a 2.3% mom drop) and the final inflation prints for February (Germany on Tuesday, Spain on Thursday, France/Italy on Friday).

In the UK, we'll be looking at the labour market data on Tuesday and the GDP numbers on Wednesday – we see GDP growth at 0.1% in January, confirming the worst is behind us. In the Scandies, inflation expected to be in the spotlight: 1) Norway's inflation print on Monday is likely to show ex-energy prices slowing to 5.1% (but in a noisy print) and 2) Swedish inflation should be quite close to the Riksbank forecasts – we have pencilled in ex-energy inflation slowing to 3.6% thanks to favourable base effects.

On the policy front, we have the Eurogroup (Monday) and ECOFIN (Tuesday) – plenty of room for headlines on fiscal policy in 2025. Other than that, it's all about the neverending Capital Market Union and, perhaps, discussions around defence. Central bank speakers: as per current calendars, Holzman/Simkus today, Holzmann/Mann on Tuesday, Stournaras on Wednesday/Thursday and Vujcic on Friday. Lots of Riksbank speakers too.

Euro Area

ECB review: June it is

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- No big surprises in the press conference, but a clear message: absent big surprises, cuts can start in June.
- Our call remains: quarterly 2024 cuts starting June, faster ones to 2% by mid-25 as core disinflates further than they think.
- Rates: little impact on net. We focus on cuts coming. FX: little news for the EUR.

Guiding to June

The message from this week's ECB meeting was loud and clear. The ECB was certainly not ready to cut now but it is getting ready to cut soon if the data is in line with expectations. To us, that clearly points to a June rate cut, when they will have a lot more data (as emphasized several times by ECB's President Lagarde during the press conference). The bar is very high for a move before that, i.e., April.

Their base case is probably a very slow cutting cycle

We did not get much guidance on the potential pace of the cutting cycle. Data dependence will continue to dictate the speed. But we would argue that the ECB implicitly had in mind a slow pace given that Lagarde flagged that: i) the restrictive season will take a while; and ii) market expectations make more sense now.

What does it mean for data to be in line? It's all about wages from here, and domestic inflation. They don't see a lot of progress, both series need to moderate from here in line with expectations for the cutting cycle to start, even if slowly.

We still see more disinflation in 2H24

But we do see a lot more progress on disinflation, as we have continuously flagged (Europe Economic Weekly: Not fashionably late 23 February 2024). Our conviction on the first cut in June remains strong. And our conviction that data will end up pushing them to accelerate the cutting cycle is strong too (see Exhibit 2 for our vs the ECB's quarterly core inflation forecasts).

We stick to our call: depo at 2% by mid-2025

As a reminder, we still expect the first (25bp) cut from the ECB in June. We have 75bp of cuts in 2024E and 125bp in 2025E (one per quarter in 2024, accelerating to one per meeting in December). Data (a persistent inflation undershoot to target) will likely eventually push the ECB to speed up the cutting cycle by more than they currently expect. Hence, our call for the ECB depo to be at 2% by mid-2025.

Forecasts: still hawkish, just a little less so than before

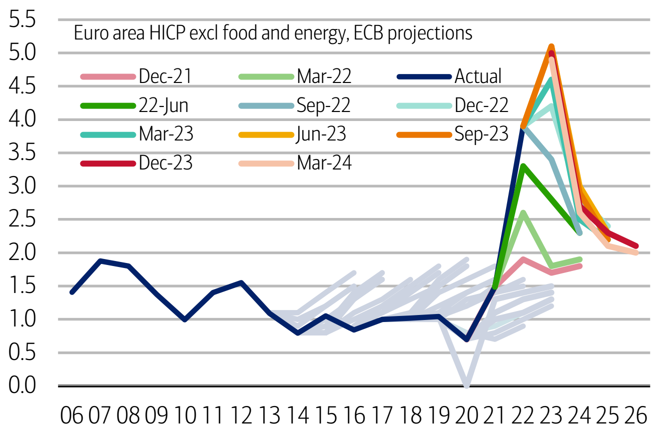
Revisions to ECB forecasts were largely as we expected. GDP growth was revised lower in the short term, slightly higher in 2025/26. Headline inflation was revised lower this year (on the back of energy) but core inflation moved only at the margin. Crucially, end-2026 core inflation was revised to 2%, but crucially not falling below that.

To us, these forecasts match the rest of the message: progress on the path to target is being made, but confidence in it is missing. Data over the next few months is crucial, downward surprises probably won't bring forward the cutting cycle, significant upward surprises can delay it.

We wouldn't label these new forecasts as dovish, however. The underlying inflation view is still on the hawkish side from 2H24 onwards: GDP levels by the end of the forecast horizon are lower, but core inflation changes are only minor. The ECB still view inflation dynamics as much stickier than we do (Exhibit 3). That brings us back to our base case after the summer, or at the latest in 2025, the central bank is likely to have to accelerate rate cuts as data challenges their expected inflation persistence.

Exhibit 2: ECB core inflation projections over time

New forecasts, old (and rather hawkish) narrative: fast disinflation at first, a lot of stickiness thereafter.



Source: BofA Global Research, ECB staff projections

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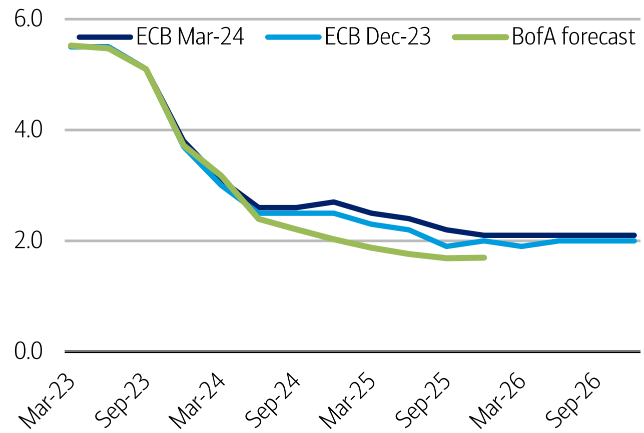
Exhibit 3: ECB quarterly core inflation forecasts

The ECB and our core inflation forecasts are similar in 1H24. We assume that continued disinflation in 2H24 will ultimately lead to faster cuts.



Source: BofA Global Research, ECB staff projections

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Rates: Roundtrip, as ECB pushes back against April. We focus on cuts coming.

The initial market reaction to the ECB's monetary policy statement was decidedly bullish. The downward revisions to the ECB's staff forecasts of inflation in 2024-26 and growth in 2024 can explain the price action. Markets added 7bp of cuts to 2024, with the total thereby reaching 100bp for the year. 10y Bund yields rallied also by 7bp at peak, also supported by slightly weaker than expected US data.

Most of the rally reversed by the end of the ECB's press conference. While President Lagarde noted the ECB's increased confidence in the disinflationary process and appeared to signal that a cut would be coming in June, the market may have been taken aback by the continued reference to elevated domestic inflation and risks around wages, alongside the pushback against an earlier April move.

Taking on board our economists view that domestic inflation will moderate more rapidly from mid-Q2 onwards, we continue to believe that Bund yields will be lower in 2H and that, as the ECB starts cutting in June, the market will slowly reprice the terminal rate lower. We also look for a structurally wider UST-Bund spread. However, the path towards this is complicated in the near term by data uncertainty, stemming from the US but also from Easter seasonality in Europe. If the ECB maintains its message of increased confidence in the disinflation process, we could see additional duration buying in the Euro Area, which would then exacerbate the bullish effect of reduced EUR-denominated bond supply pressures.

EUR: little news

There was little news for the EUR at the ECB meeting, in line with our expectations. The EUR slightly fell initially amid the downward forecast revisions. This reversed amid Lagarde's cautious comments in the press conference. While we learnt nothing new, we grew more confident that the ECB (1) remains data-dependent; (2) is very unlikely to cut before June; (3) can act independently of the Fed.

We remain of the view that US data, the Fed, and overall risk sentiment matter more for EURUSD than the ECB: we still forecast EURUSD at 1.15 by end-24, driven by a narrower US-Euro area sequential growth spread and supportive risk sentiment, assuming the Fed starts cutting rates in June. Of course, the more hawkish ECB stance vs. that of the Fed increases our conviction around our year-end forecast.

In line with what we have seen this year, we would expect the ECB impact to be seen more clearly in the crosses: we expect the relative ECB stance to modestly support the EUR vs. CHF, NZD, and CAD this year, but weigh on it vs. GBP. We also expect EUR to weaken vs. AUD and the Scandies, as we likely gradually move past peak China and Euro area bearishness.

UK

UK Budget: Another heavy Gilt supply year

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No big news this week

The Chancellor did not deliver big surprises this week – the Budget was indeed slightly stimulative but still far from a blowout. The main announcement was another 2p cut in NI, the cost of which is partly financed through tax increases. In the projections, public services spending is largely unchanged and no longer grows in real per capita terms. These plans would be consistent with debt falling as a % of GDP in the coming years. But margins remain tight – OBR estimates just £9bn to spare.

Marginally hawkish for the Bank of England

The OBR expects the tax cuts to provide a small/temporary boost to demand in the near term and then to drive a similar improvement to the supply side down the line. The extension of the fuel-duty freeze will probably help soften headline inflation in the near term, but the net impact of the stimulus on inflation should be slightly positive at the end of the horizon. Overall, this should not be a very big deal for the BoE – we read this Budget as just marginally hawkish, if at all.

Small £6bn overfund in the current fiscal year

The DMO cut its CGNCR for the current fiscal year by £1.5bn to £149bn versus the November update. With NS&I rising £3.4bn more than anticipated in November and NS&I Green Savings bonds rising an additional £1bn, the NFR for the current fiscal year turned out to be £5.9bn lower, with the "overfund" carried over to the upcoming fiscal year 2024/25 (Exhibit 4).

Net financing need to rise by £39bn in 2024/25

For 2024/25, the CGNCR is expected to amount to £142.8bn, £6.2bn lower than in 2023/24 and not far from our expectation of £145bn (see our report, Budget preview: a bit more headroom, 1 March 2024). The £22.9bn rise in Gilt redemptions and £5.9bn carry-over from the current fiscal year versus -£24.6bn in 2023/24 mean that GFR would rise 35.4bn. The DMO's target of £9bn, to be raised via NS&I and £0.5bn via NS&I Green Savings Bonds, turned out slightly less than we had hoped for. Altogether, the NFR would rise by £38.8bn. Of that, planned gross Gilt issuance of £265.3bn next fiscal year would be £28bn higher than this year's £237.3bn. The £265.3bn is meaningfully higher than our own expectation of £240bn, largely because we had expected an ambitious increase in net T-bill sales.

Gilt skew shorter, in line with expectations

Heading into the budget, we expected the Gilt issuance maturity split to mean fewer long and index-linked and more short- and (quite a lot more) medium-dated Gilts. The DMO did raise the share of medium-dated Gilts to 31% from 29% in 2023/24 and cut the share of long-dated Gilts from 22% to 18% and index-linked Gilts from 12% to 11%

(Exhibit 5). For now, the share of short-dated Gilts is projected to be unchanged at 36%. But some of the 4% currently unallocated could raise the short-dated "bucket" slightly.

Effective Gilt sales in 2024/25 – likely a new record high

£265.3bn of Gilt sales in 2024/25 would be the second-largest total for a fiscal year, with the £486bn raised in 2020/21 in first place (in 2020/21, however, the BoE was conducting QE, so the effective supply was much smaller). In the current fiscal year, the DMO will sell £237.3bn and BoE £32.1bn of Gilts, resulting in £269.4bn of effective Gilt supply. In 2024/25, the DMO alone will raise £265.3bn, just £4.1bn short of this year's total from the DMO and BoE combined. While BoE's QT plans from October 2024 are yet unknown, Dave Ramsden's speech on 27 February highlighted that QT would not be constrained by liquidity requirements. Our assumption at this time is that BoE's "active" QT will amount to at least £13bn from October 2024 (see our report, Borrowed time – end of abundant reserves in sight for UK, 28 February 2024). It is therefore highly likely that effective Gilt sales in 2024/25 will become the new historical record high.

We also highlight changes in DMO's IGFR projections (Exhibit 6), which were revised up by £23.7bn for 2025/26-2028/29. While revisions were not as dramatic as those observed in November (£+69bn), they do add to our list of UK macro vulnerabilities (to name but a few: the possibility of the whole current £735bn APF stock of Gilts unwinding – even if at a relatively slow pace of £100bn/year; the current account deficit; weak public sector balance sheet; large external liabilities; and a more structural inflation problem).

We remain comfortable being bearish UK rates, although we trimmed our positions tactically ahead of this week's budget. The existing skew shorter in BoE Gilt sales and increasing skew shorter in DMO Gilt sales should continue posing cheapening pressures to shorter-dated Gilts relative to Sonia.

Exhibit 4: UK DMO Remit for fiscal years 2023/24 and 2024/25, £bn
Another heavy call on Gilt investors, tempered a little by skew shorter in maturity

	FY 2023/24 (DMO - Apr'23)		FY 2023/24 (DMO - Nov'23)		FY 2023/24 (DMO - Mar'24)		FY 2024/25 (DMO - Mar'24)	
CGNCR	159.5		150.5		149.0		142.8	
Redemptions	117.0		117.0		117.0		139.9	
Adj. from prev. FY	-24.6		-24.6		-24.6		-5.9	
Gross Financing Req. (GFR)	**251.9**		**242.9**		**241.4**		**276.8**	
Less:								
NS&I	7.5		7.5		10.9		9.0	
NS&I Green Savings Bonds					1.0		0.5	
Other financing	1.5		3.0		3.0		2.0	
Net Financing Req. (NFR)	**242.9**		**232.4**		**226.5**		**265.3**	
To be financed through:								
Gilt sales, through:	**237.8**		**237.3**		**237.3**		**265.3**	
Short	*84.6*	*36%*	*86.6*	*36%*	*86.6*	*36%*	*95.3*	*36%*
Medium	*65.3*	*27%*	*68.3*	*29%*	*68.3*	*29%*	*82.1*	*31%*
Long	*49.7*	*21%*	*51.3*	*22%*	*53.0*	*22%*	*49.0*	*18%*
Index-linked	*26.2*	*11%*	*28.6*	*12%*	*28.6*	*12%*	*28.9*	*11%*
Unallocated	*12.0*	*5%*	*2.5*	*1%*	*0.8*	*0%*	*10.0*	*4%*
Net T-bill sales	**5.0**		**-5.0**		**-5.0**		**0.0**	
Total financing	**242.8**		**232.3**		**232.3**		**265.3**	
DMO net cash position	2.3		2.3		8.2		2.3	

Source: Debt Management Office, BofA Global Research

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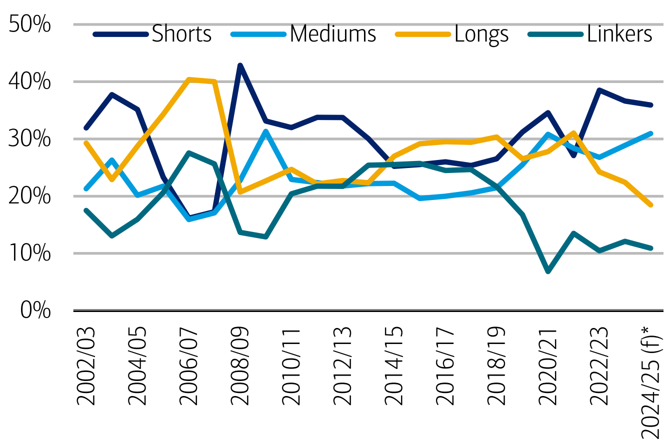
FX: Cyclical support

The Budget has reinforced our view that GBP will continue to find cyclical support in the months ahead against the backdrop of benign market conditions. As discussed above, much of this week's announcement has been well trailed by the media and just as much as there were no "rabbits out of the hat", there were equally no negative surprises that could have destabilized either the Gilt market or GBP. Given that so little was priced into the vol market for the event, it is not surprising that GBP is not materially higher now that the Budget is behind us. What it has done has been to clear a hurdle and enable focus on the next major event.

The BoE should not be unduly impacted by this week's announcements, but a rise in the Minimum Wage in April may be more impactful. Combined with April seasonality, we have identified GBP/USD as one expression of a bullish GBP trade. In reality, GBP versus the low-beta currencies, such CHF and JPY, are also to be considered. The Budget has, however, continued to expose GBP to the structural vulnerabilities of a precarious public finance backdrop. The government is walking a tightrope of balancing the books. The risks for slippage are material. For now, a benign vol environment and lack of focus on global public finances do not suggest immediate concern. But they likely will over the medium/long term.

Exhibit 5: Past breakdown of DMO Gilt sales & 2024/25 projection, %

Share of shorts could rise further if some "unallocated" ends up in shorts



Source: Debt Management Office, BofA Global Research

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Exhibit 6: DMO's illustrative gross financing projections, £bn

2025/26 to 2028/29 projections raised by a total of £23.7bn

	DMO - Apr'23		DMO - Nov'23		DMO - Mar'24
2023/24	251.9	-9.0	242.9		
2024/25	270.8	+6.1	276.9		
2025/26	239.2	+30.5	269.7	+6.4	276.1
2026/27	176.9	+28.1	205	+9.9	214.9
2027/28	198.5	+13.3	211.8	+0.4	212.2
2028/29			233	+7.0	240

Source: Debt Management Office, BofA Global Research

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European forecasts

Exhibit 7: Euro area economic forecasts

We expect ECB cuts to start in June 2024

		2022	2023	2024	2025	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
GDP	% qoq					0.1	0.1	-0.1	0.0	0.0	0.2	0.2	0.3	0.3	0.3	0.3	0.3
	% qoq ann.					0.4	0.5	-0.5	0.2	0.1	0.8	0.9	1.2	1.2	1.2	1.3	1.2
	% yoy	**3.4**	**0.5**	**0.4**	**1.1**	1.3	0.6	0.0	0.1	0.1	0.1	0.5	0.7	1.0	1.1	1.2	1.2
Private Consumption	% qoq					0.1	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**	**0.6**	**1.1**	1.4	0.6	-0.4	0.4	0.4	0.6	0.6	0.8	1.0	1.1	1.2	1.3
Government Consumption	% qoq					-0.5	0.2	0.4	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.2
	% yoy	**1.6**	**0.2**	**0.8**	**0.9**	-0.2	0.2	0.6	0.3	1.0	0.9	0.7	0.7	0.8	0.9	0.9	1.0
Investment	% qoq					0.4	-0.1	0.0	-0.3	-0.2	0.1	0.2	0.4	0.3	0.4	0.5	0.5
	% yoy	**2.8**	**0.7**	**-0.2**	**1.4**	1.8	1.1	-0.1	0.0	-0.6	-0.4	-0.2	0.4	1.0	1.3	1.5	1.6
Final Domestic Demand[1]	% qoq					0.0	0.0	0.2	0.0	0.0	0.2	0.2	0.3	0.3	0.3	0.3	0.3
	% yoy	**3.1**	**0.4**	**0.5**	**1.1**	1.0	0.6	-0.1	0.3	0.3	0.4	0.4	0.7	0.9	1.0	1.2	1.2
Net exports[1]	% qoq					0.6	-0.6	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
	% yoy	**0.0**	**0.2**	**0.1**	**0.2**	0.6	-0.1	0.4	0.0	-0.5	0.1	0.3	0.3	0.3	0.2	0.1	0.0
Stockbuilding[1]	% qoq					-0.5	0.7	-0.3	0.0	-0.1	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0
	% yoy	**0.3**	**-0.2**	**-0.2**	**-0.1**	-0.4	0.1	-0.3	-0.2	0.2	-0.5	-0.2	-0.3	-0.2	-0.1	-0.1	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	0.3	1.4	0.2	0.0	0.0	1.1	0.1	0.0
	% yoy	**8.4**	**5.5**	**2.3**	**1.4**	8.0	6.2	5.0	2.7	2.7	2.5	2.1	1.9	1.6	1.3	1.2	1.3

Exhibit 7: Euro area economic forecasts

We expect ECB cuts to start in June 2024

		2022	2023	2024	2025	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
CPI (core)[4]	% qoq					0.6	2.4	0.5	0.2	0.1	1.6	0.3	0.1	-0.1	1.5	0.2	0.1
	% yoy	**3.9**	**5.0**	**2.5**	**1.8**	5.5	5.5	5.1	3.7	3.2	2.4	2.2	2.0	1.9	1.8	1.7	1.7
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 8: 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					0.2	0.0	-0.1	-0.3	0.1	0.2	0.3	0.3	0.2	0.2	0.1	0.1
	% qoq ann.					0.9	0.0	-0.5	-1.4	0.6	1.0	1.4	1.2	0.7	0.6	0.5	0.5
	% yoy	**4.3**	**0.1**	**0.3**	**0.8**	0.3	0.3	0.2	-0.2	-0.3	-0.1	0.4	1.0	1.1	1.0	0.8	0.6
Private Consumption	% qoq					0.9	0.5	-0.8	-0.1	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.1
	% yoy	**5.0**	**0.4**	**-0.2**	**0.7**	0.3	0.4	0.5	0.4	-0.5	-0.9	0.2	0.5	0.7	0.8	0.8	0.7
Government Consumption	% qoq					-0.8	2.4	1.1	-0.3	0.1	0.3	0.3	0.3	0.3	0.5	0.5	0.5
	% yoy	**2.3**	**0.6**	**1.4**	**1.6**	-3.5	1.5	2.1	2.4	3.3	1.1	0.3	1.0	1.2	1.5	1.7	1.8
Investment	% qoq					2.5	-0.9	-1.4	1.4	0.3	-0.1	-0.8	0.1	0.0	0.0	0.0	-0.2
	% yoy	**8.0**	**2.9**	**0.0**	**-0.4**	5.4	4.0	0.8	1.7	-0.5	0.3	0.8	-0.4	-0.8	-0.7	0.1	-0.2
Final Domestic Demand[1]	% qoq					0.9	0.6	-0.5	0.1	0.1	0.1	0.0	0.2	0.2	0.2	0.2	0.1
	% yoy	**5.0**	**0.9**	**0.2**	**0.7**	0.4	1.3	0.9	1.0	0.3	-0.2	0.3	0.4	0.5	0.7	0.8	0.7
Net exports[1]	% qoq					-1.7	-0.9	0.4	-0.6	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
	% yoy	**-1.7**	**0.1**	**-0.5**	**0.0**	3.7	1.8	-2.2	-2.8	-1.2	-0.3	-0.5	0.1	0.1	0.0	-0.1	-0.2
Stockbuilding[1]	% qoq					1.0	0.3	0.1	0.2	0.1	0.1	0.2	0.1	0.0	0.0	0.0	0.0
	% yoy	**1.1**	**-0.9**	**0.5**	**0.2**	-3.8	-2.8	1.6	1.5	0.6	0.4	0.6	0.5	0.4	0.4	0.0	0.0
Current Account Balance	% of GDP	**-3.1**	**-3.4**	**-4.0**	**-3.9**	-2.3	-3.9	-3.5	-4.1	-4.1	-4.0	-3.9	-3.9	-3.9	-3.9	-3.9	-4.0
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**	**4.8**	3.9	4.2	4.2	4.4	4.6	4.7	4.8	4.9	4.8	4.8	4.8	4.7
CPI Inflation (harmonised)[2]	% yoy	**9.1**	**7.3**	**2.4**	**2.3**	10.2	8.4	6.7	4.2	3.4	2.0	1.9	2.3	2.4	2.4	2.5	2.1
CPI (core)[2]	% yoy	**5.9**	**6.2**	**3.7**	**2.8**	6.1	6.9	6.4	5.3	4.5	3.6	3.3	3.4	3.5	3.0	2.6	2.4
General govt balance [5]	% of GDP	**-5.0**	**-4.9**	**-4.3**	**-3.9**												
General govt debt [3,5]	% of GDP	**97.1**	**98.9**	**101.1**	**103.3**												
General govt debt	% of GDP	**101.0**	**100.7**	**102.9**	**104.8**												
Bank Rate [4]	%	**3.50**	**5.25**	**4.75**	**3.75**	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

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Exhibit 9: Euro area, GDP and CPI profiles

Euro area member states profiles

						HICP				
	2021	2022	2023F	2024F	2025F	2021	2022	2023	2024F	2025F
Euro area	5.9	3.4	0.5	0.4	1.1	2.6	8.4	5.5	2.3	1.4
Austria	4.4	4.8	-0.7	0.0	1.5	2.8	8.6	7.7	2.7	2.1
Belgium	6.9	3.0	1.4	0.9	1.2	3.2	10.3	2.2	1.5	1.7
Finland	2.8	1.6	-0.4	0.2	1.0	2.1	7.2	4.3	0.9	1.2
France	6.4	2.5	0.8	0.7	1.3	2.1	5.9	5.7	2.9	2.0
Germany	3.1	1.9	-0.1	-0.2	0.9	3.2	8.6	6.0	2.7	1.4
Greece	8.1	5.7	2.0	1.1	1.7	0.6	9.3	4.2	2.0	1.7
Ireland	14.8	9.5	-1.4	2.7	2.0	2.4	8.1	5.8	2.9	1.6
Italy	8.3	3.9	0.7	0.5	1.1	1.9	8.7	6.0	1.8	1.5
Netherlands	6.2	4.4	0.0	0.3	1.1	2.8	11.6	4.1	1.7	1.6
Portugal	5.7	6.8	2.2	1.0	1.4	0.9	8.1	5.4	2.5	1.1
Spain	6.4	5.8	2.4	1.3	1.5	3.0	8.3	3.4	2.6	1.1

Source: BofA Global Research, Eurostat

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Calendar for the week ahead

Exhibit 10: European Economic calendar
Key data for the next week

	GMT	Country	Data/Event	For	BofAe	Cons.†	Previous	Comments
Monday, 11 Mar								
✪✪✪	07:00	Norway	CPI (mom)	Feb	n.a.	--	0.1%	
✪✪✪	07:00	Norway	CPI (yoy)	Feb	4.6%	--	4.7%	
✪✪✪	07:00	Norway	CPI underlying (mom)	Feb	n.a.	--	0.0%	
✪✪✪	07:00	Norway	CPI underlying (yoy)	Feb	5.1%	--	5.3%	
✪✪✪	08:00	Spain	Retail Sales (sa, yoy)	Jan	2.7%	--	3.1%	
Tuesday, 12 Mar								
✪✪✪	07:00	UK	ILO Unemployment Rate 3Mths	Jan	n.a.	--	3.8%	
✪✪✪	07:00	UK	Employment Change 3M/3M	Jan	n.a.	--	72k	
✪✪✪	07:00	Germany	CPI (yoy, F)	Feb	2.5%	--	2.5%	
✪✪✪	07:00	Germany	CPI (mom, F)	Feb	0.4%	--	0.4%	
✪✪✪	07:00	Germany	CPI EU Harmonized (mom, F)	Feb	0.6%	--	0.6%	
✪✪✪	07:00	Germany	CPI EU Harmonized (yoy, F)	Feb	2.7%	--	2.7%	
✪✪✪	07:00	UK	Claimant Count Rate	Feb	n.a.	--	4.0%	
✪✪✪	07:00	UK	Jobless Claims Change	Feb	n.a.	--	14k	
✪✪✪	07:00	UK	Average Weekly Earnings 3M (yoy)	Jan	n.a.	--	5.8%	
✪✪✪	07:00	UK	Weekly Earnings ex Bonus 3M (yoy)	Jan	n.a.	--	6.2%	
Wednesday, 13 Mar								
✪✪✪	07:00	UK	Monthly GDP (3m/3m)	Jan	n.a.	--	-0.2%	
✪✪✪	07:00	UK	Industrial Production (mom)	Jan	n.a.	--	0.6%	
✪✪✪	07:00	UK	Industrial Production (yoy)	Jan	n.a.	--	0.6%	
✪✪✪	07:00	UK	Manufacturing Production (mom)	Jan	n.a.	--	0.8%	
✪✪✪	07:00	UK	Manufacturing Production (yoy)	Jan	n.a.	--	2.3%	
✪✪	07:00	UK	Index of Services (mom)	Jan	n.a.	--	-0.1%	
✪✪	07:00	UK	Index of Services 3M/3M	Jan	n.a.	--	-0.2%	
✪✪✪	07:00	UK	Construction Output (sa, mom)	Jan	n.a.	--	-0.5%	
✪✪✪	07:00	UK	Construction Output (sa, yoy)	Jan	n.a.	--	-3.2%	
✪✪✪	07:00	UK	Visible Trade Balance GBP/Mn	Jan	n.a.	--	-14.0bn	
✪✪✪	07:00	UK	Trade Balance GBP/Mn	Jan	n.a.	--	-2.6bn	
✪✪✪	07:00	UK	Monthly GDP (mom)	Jan	0.1%	--	-0.1%	
✪✪✪	10:00	Euro area	Industrial Production (sa, mom)	Jan	-2.3%	--	2.6%	
✪✪✪	10:00	Euro area	Industrial Production (wda, yoy)	Jan	n.a.	--	1.2%	
Thursday, 14 Mar								
✪✪✪	00:01	UK	RICS House Price Balance	Feb	n.a.	--	-18.0%	
✪✪✪	07:00	Sweden	CPI (mom)	Feb	n.a.	--	-0.1%	
✪✪✪	07:00	Sweden	CPI (yoy)	Feb	n.a.	--	5.4%	
✪✪✪	07:00	Sweden	CPIF (mom)	Feb	n.a.	--	-0.3%	
✪✪✪	07:00	Sweden	CPIF (yoy)	Feb	2.8%	--	3.3%	
✪✪✪	07:00	Sweden	CPIF Excl. Energy (mom)	Feb	n.a.	--	-0.5%	
✪✪✪	07:00	Sweden	CPIF Excl. Energy (yoy)	Feb	3.6%	--	4.4%	
✪✪✪	08:00	Spain	CPI (mom, F)	Feb	0.3%	--	0.3%	
✪✪✪	08:00	Spain	CPI (yoy, F)	Feb	2.8%	--	2.8%	
✪✪✪	08:00	Spain	CPI EU Harmonised (mom, F)	Feb	0.4%	--	0.4%	
✪✪✪	08:00	Spain	CPI EU Harmonised (yoy, F)	Feb	2.9%	--	2.9%	
✪✪✪	08:00	Spain	CPI Core (yoy, F)	Feb	3.4%	--	3.4%	
✪✪✪	08:00	Spain	CPI Core (mom)	Feb	n.a.	--	-0.4%	
Friday, 15 Mar								
✪✪✪	07:45	France	CPI EU Harmonized (mom, F)	Feb	0.9%	--	0.9%	
✪✪✪	07:45	France	CPI EU Harmonized (yoy, F)	Feb	3.1%	--	3.1%	
✪✪✪	07:45	France	CPI (mom, F)	Feb	0.8%	--	0.8%	
✪✪✪	07:45	France	CPI (yoy, F)	Feb	2.9%	--	2.9%	
✪✪✪	07:45	France	CPI Ex-Tobacco Index	Feb	n.a.	--	117.2	
✪✪✪	09:00	Italy	CPI EU Harmonized (yoy, F)	Feb	0.9%	--	0.9%	
✪✪✪	09:00	Italy	CPI FOI Index Ex Tobacco	Feb	n.a.	--	119.3	
✪✪✪	10:00	Italy	Retail Sales (mom)	Jan	n.a.	--	-0.1%	
✪✪✪	10:00	Italy	Retail Sales (yoy)	Jan	n.a.	--	0.3%	

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 11: 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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