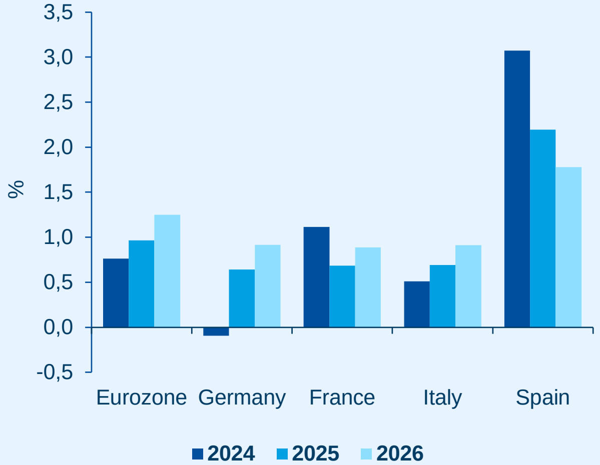
European recovery continues at different speeds

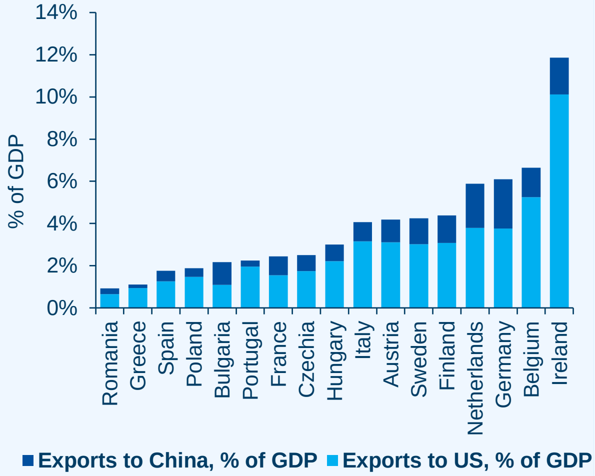
European countries will grow at different speeds



Consumption and domestic demand will benefit from lower ECB rates and rising real incomes:

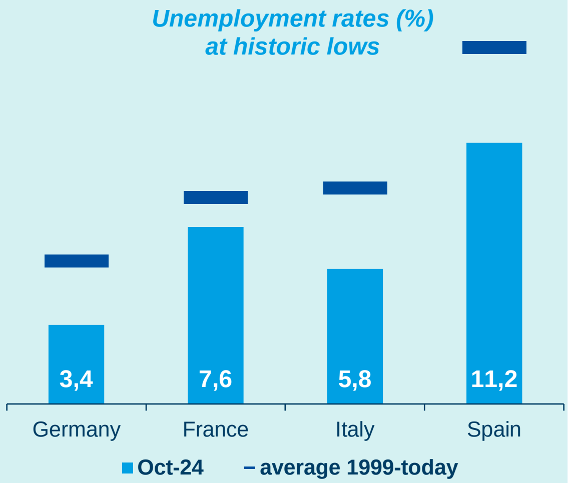
- Germany is projected to lag and be the country most impacted by tariffs.
- France and Italy will see modest growth.
- Spain should outperform.

Tariffs may impact countries unevenly



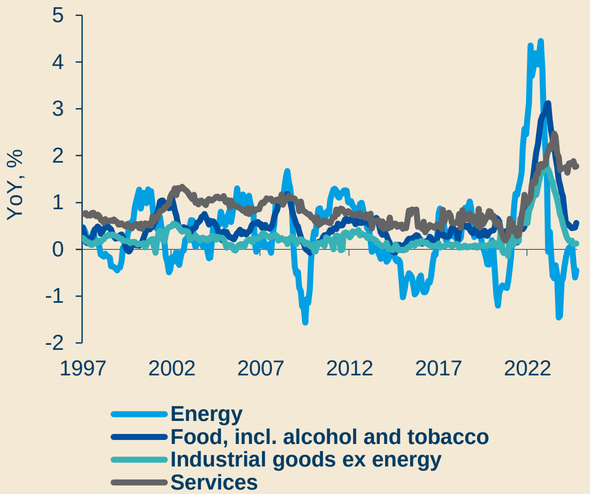
- Exports are a vital growth engine, rising from 32% of GDP in 2001 to 50% now.
- Exposure varies across European countries.
- Goods exposure is concentrated in machinery and vehicles, chemicals, and other manufactured goods.

Labour market is key for 2025 outlook



- Recovery in consumption will be driven by real income growth and consumer confidence, both linked to the labour market.
- Employment growth is expected to moderate, but the outlook remains positive.

Disinflation in Europe



Headline inflation is expected to remain volatile in the near term due to base effects. For 2025:

- Declines in services inflation are needed to push core inflation down.
- Labour market and wage growth dynamics support our 2% inflation outlook for 2025.

Source: Amundi Investment Institute on Bloomberg, Datastream, Eurostat. Data is as of 6 December 2024.

MACROECONOMIC FOCUS

Views on the ECB

AUTHORS

MAHMOOD PRADHAN
HEAD OF GLOBAL MACROECONOMICS, AMUNDI INVESTMENT INSTITUTE

ANNALISA USARDI, CFA
SENIOR ECONOMIST, HEAD OF ADVANCED ECONOMY MODELLING, AMUNDI INVESTMENT INSTITUTE

Inflation is coming down much faster than the ECB expected only last September, with the headline measure (2.2%) now inching very close to its target. The latest 25bp cut and its revised forecast on 12 December, suggest that the ECB should get to its target by mid-2025.

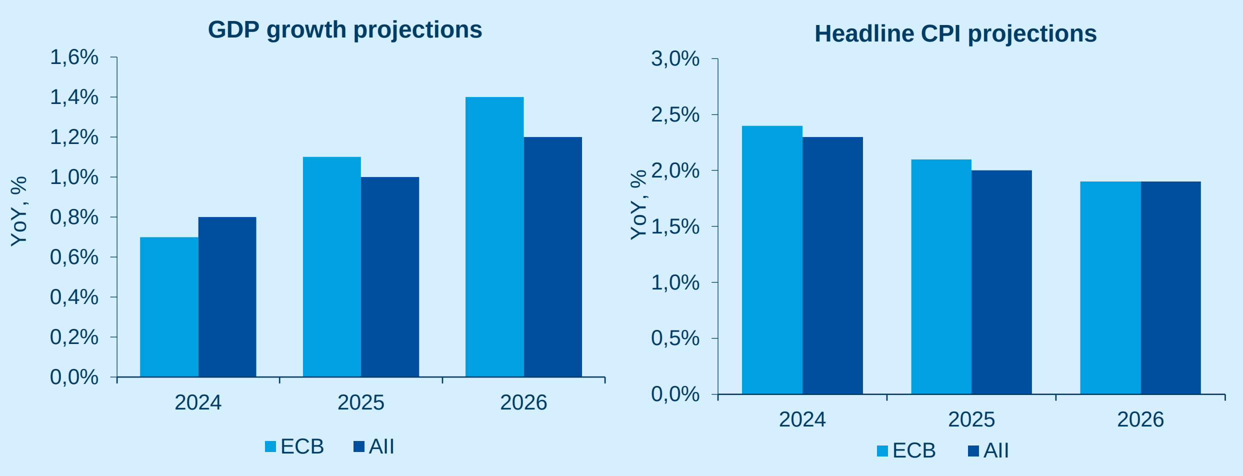
We expect the ECB to continue cutting by 25bp at each subsequent meeting next year until its July meeting to reach a terminal rate of 1.75%. Inflation should get to around 2% by mid-year, if not earlier, because underlying wage pressures are subsiding, service sector activity is also easing and, with much less fiscal support among the larger countries (especially France, Germany and Italy), we expect a very weak recovery, largely supported by a mild pick up in domestic demand. However, this will depend on a significant move away from the ECB's current restrictive stance.

The related discussion about the 'neutral rate' is likely to be an aside, especially if some of the risks to growth materialise and inflation falls faster. Though unobservable in real-time, there are still significant differences among senior ECB policymakers on what that neutral rate is. Some see it as around 2%, while others at the ECB think it might be closer to 3%. We agree with those who think the policy rate can be set below theoretical estimates of neutral.

The ECB should get to its 2% target by mid-2025, possibly earlier.

Policy rates are more likely to go below neutral (and our expectation of 1.75%) if Europe is subjected to tariffs from the incoming US administration. The United States is the largest destination for EU exports (a higher share than exports to China). We would expect at least a 0.2% hit to growth if the EU faces US tariffs of 10% and only a small short-term spike in inflation.

CHART: Eurozone GDP and headline CPI growth projections



Source: Amundi Investment Institute (AII), ECB. Data is as of 12 December 2024.

Main and alternative scenarios

	Probability 70% **MAIN SCENARIO** Resilient multi-speed growth	Probability 20% **DOWNSIDE SCENARIO** Renewed stagflationary pressure	Probability 10% **UPSIDE SCENARIO** More disinflation with productivity gains
GEOPOLITICS	▪ Rising tensions and geo-economic fragmentation, including protectionism and sanctions. ▪ Disruptive trade policies and re-routing of global supply chains as a reaction to tariffs. ▪ Ukraine-Russia: ongoing fighting, but ceasefire odds increase. ▪ Middle East: talks and conflicts likely. ▪ China-US: decline of relations. ▪ US-Europe relations under pressure.	▪ Autarchical new alliances challenge advanced economy democracies: new & escalating conflicts. ▪ Countries forced to choose US vs China. Global trade begins to decline.	▪ Geopolitical risk subsides as conflicts come to a close. ▪ Shifting power dynamics reshape global trade, fostering balanced growth and prosperity.
INFLATION & POLICY MIX	▪ Disinflation trend to continue, but upside risk in the US and EM. ▪ Developed Market central banks reaching their neutral rates in 2025. ▪ Most EM CBs at peak rates. ▪ Fiscal divergence: US might be under scrutiny with a second Trump presidency; EU consolidating; China expansionary.	▪ More persistent inflationary pressures from tariffs halt monetary easing. ▪ Fiscal debt ballooning fuels the cost of debt.	▪ Stabilisation of inflation around central banks' targets (and not an issue if slightly above as inflation expectations remain anchored).
GROWTH PATH	▪ Back to potential growth. ▪ Resilient multi-speed growth: modest recovery in Europe, mild US deceleration but higher short term potential growth. ▪ Growth gap still favours EM. ▪ India's growth potential revised up.	▪ Lower output, sharp migration reduction in advanced economies lowers labour supply, unwinds supply gains. ▪ Economic unbalances persist, further lowering potential growth (China, EU,...).	▪ Growth enhancing reforms lifting medium term growth potential. ▪ Industrial / trade policies boosting investment and activity.
CLIMATE CHANGE	▪ Climate change hampers growth and exacerbates stagflationary trends. ▪ Chinese dominance in processing and supply of critical minerals; US trying to catch up.	▪ Further policy delays imply more adverse climate events, hampering economic dynamism.	▪ From zero to hero in the net zero transition: geo-engineering, globally coordinated policies.

Risks to main scenario

LOW — Probability — HIGH

	10%	15%	15%	20%
	Central banks quantitative tightening combined with structural shift in US Treasury buyers	**Geopolitical crisis with global spill-overs**	**Market volatility rises sharply to reflect higher geo-economic uncertainty**	**Reacceleration of DM inflation, due to trade/geopolitical tensions**
MARKET IMPACT	**Positive** for cash and gold. **Negative** for govies and expensive equities.	**Positive** for DM govies, cash, gold, USD, volatility, defensive assets and oil. **Negative** for credit, equities and EM.	**Positive** for cash and gold. **Negative** for risk assets.	**Positive** for TIPS, gold, commodity FX and real assets. **Negative** for bonds, equities, DM FX and EM assets.

Source: Amundi Investment Institute as of 16 December 2024. DM: developed markets. EM: emerging markets. CB: central banks. USD: US dollar. TIPS: Treasury inflation-protected securities. FX: foreign exchange markets.

AII* CONTRIBUTORS

SERGIO BERTONCINI
SENIOR FIXED INCOME STRATEGIST

POL CARULLA
INVESTMENT INSIGHTS AND CLIENT DIVISION SPECIALIST

UJJWAL DHINGRA
INVESTMENT INSIGHTS AND CLIENT DIVISION SPECIALIST

SILVIA DI SILVIO
CROSS ASSET MACRO STRATEGIST

PATRYK DROZDIK
SENIOR EM MACRO STRATEGIST

DELPHINE GEORGES
SENIOR FIXED INCOME STRATEGIST

KARINE HERVÉ
SENIOR EM MACRO STRATEGIST,

SOSI VARTANESYAN
SENIOR SOVEREIGN ANALYST

DESIGN & DATA VISUALIZATION

CHIARA BENETTI
DIGITAL ART DIRECTOR AND STRATEGY DESIGNER, AII *

VINCENT FLASSEUR
GRAPHICS AND DATA VISUALIZATION MANAGER, AII*

CHIEF EDITORS

MONICA DEFEND
HEAD OF AMUNDI INVESTMENT INSTITUTE

VINCENT MORTIER
GROUP CIO

EDITORS

CLAUDIA BERTINO
HEAD OF AMUNDI INVESTMENT INSIGHTS AND PUBLISHING, AII*

LAURA FIOROT
HEAD OF INVESTMENT INSIGHTS & CLIENT DIVISION, AII*

DEPUTY EDITORS

FRANCESCA PANELLI
INVESTMENT INSIGHTS & CLIENT DIVISION SPECIALIST

* Amundi Investment Institute

Date of first use: 17 December 2024.
Document ID: 4105132.

Document issued by Amundi Asset Management, “société par actions simplifiée”- SAS with a capital of €1,143,615,555 - Portfolio manager regulated by the AMF under number GP04000036 – Head office: 90-93 boulevard Pasteur – 75015 Paris – France – 437 574 452 RCS Paris – www.amundi.com

Photo credit: ©iStock/Getty Images Plus – pawel.gaul

Amundi Investment Institute

In an increasing complex and changing world, investors need to better understand their environment and the evolution of investment practices in order to define their asset allocation and help construct their portfolios.

This environment spans across economic, financial, geopolitical, societal and environmental dimensions. To help meet this need, Amundi has created the Amundi Investment Institute. This independent research platform brings together Amundi's research, market strategy, investment themes and asset allocation advisory activities under one umbrella; the Amundi Investment Institute. Its aim is to produce and disseminate research and Thought Leadership publications which anticipate and innovate for the benefit of investment teams and clients alike.

Get the latest updates on:

- Geopolitics
- Economy and Markets
- Portfolio Strategy
- ESG Insights
- Capital Market Assumptions
- Cross Asset Research

Visit our Research Center

Visit us on

Amundi
Investment Solutions

Trust must be earned