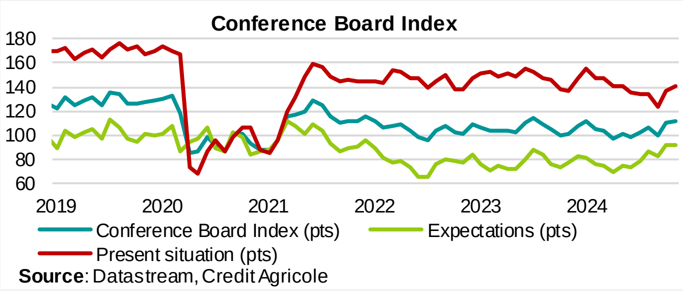
A slow recovery in the Eurozone

This week

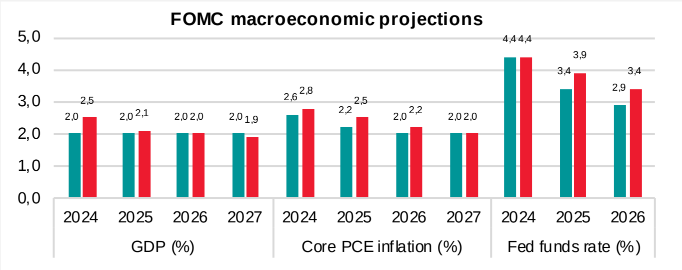
- **Important data from the US will be published this week.** Tuesday will see the release of preliminary data on durable goods orders. We expect the number of those orders to have gone down by 0.4% MoM in November vs. a 0.3% growth in October due to a decline in orders for aircrafts. In our view, the data on new homes sales will show that the activity in the US housing market is still subdued (670k in November vs. 610k in October). We expect the Conference Board index to rise from 111.7 pts in November to 114.0 pts in December. The improvement in consumer sentiment will be consistent with the University of Michigan index results published last week (see below). We believe that the data from the US will be neutral for financial markets.



Source: Datastream, Credit Agricole

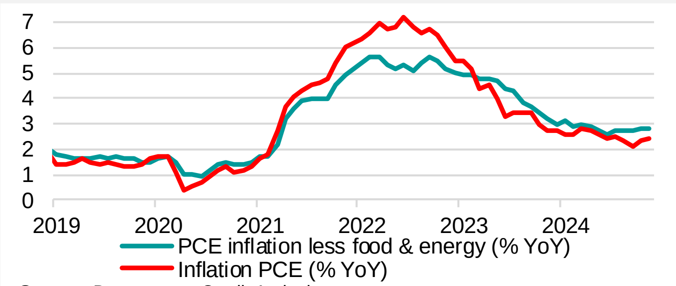
Last week

- **At the last week's meeting, the Fed lowered its target range for Federal Reserve funds rate volatility by 25bp, from [4.75%; 5.00%] to [4.50%; 4.75%], which was in line with market expectations and our forecast.** In accordance with the press release, the FOMC will carefully assess incoming data, the evolving outlook, and the balance of risks in considering the extent and timing of additional adjustments to the monetary policy. The reference to the "extent and timing" which has been added to the sentence suggests that the Fed's attitude is becoming more hawkish. This conclusion is underpinned by Fed Chairman J. Powell's statement made at the press conference after the meeting, saying that the FOMC is "at or near" a point at which it will be appropriate to slow the pace of monetary policy easing. Last week also saw the release of FOMC members' December projection. Particularly noteworthy is the increase in the median of expectations concerning the Federal Reserve funds rate. It is implied that the rate will be cut by a total of 50bp (vs. 100bp in the September projection) in 2025, 50bp in 2026 (no change vs. the September projection), and 25bp in 2027 (no cuts intended in the September projection). The median for the interest rate target was 3.00%, 12.5bp higher than in the September projection. The hawkish tone of the press release and December projection is consistent with our scenario of FOMC cutting interest rates by 50bp (25bp in March and June), and ending the monetary policy easing cycle in 2025.



Source: FOMC, Credit Agricole

- **Some significant data on the US economy was released last week.** In the third estimate, annualised US Q3 GDP growth was revised upwards, to 3.1% vs. 2.8% in the second estimate. The revision resulted from a higher contribution of net exports, consumption, investments and



Source: Datastream, Credit Agricole

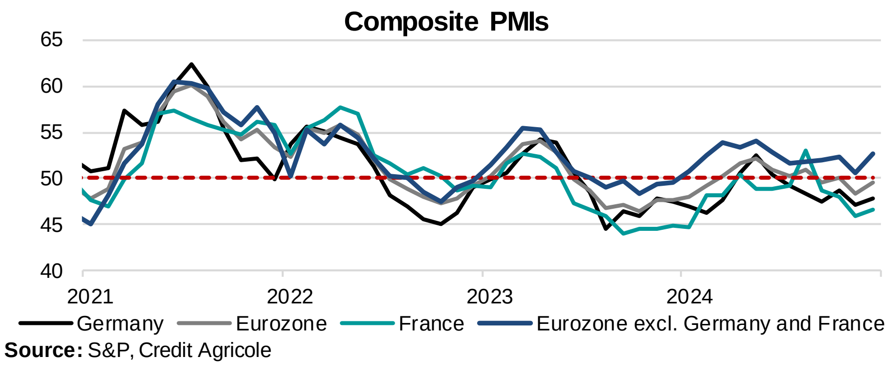
government spending, with an opposite impact coming from a lower contribution of inventories. The final estimate confirmed that private consumption was the main driver of growth in Q3, same as in the previous quarters. Last week also saw the release of data on PCE inflation, which went up from 2.3% YoY to 2.4% in November, printing below market expectations (2.5%). Core inflation did not change between October and November, standing at 2.8%. Seasonally-adjusted monthly core inflation printed at 0.1% MoM in November vs. 0.3% in October, which indicates that inflationary pressures in the US economy have eased up. Monthly industrial production growth in the US accelerated from -0.4% in October (downward revision from -0.3%) to -0.1% in November, printing below market expectations (0.3%). The rate was driven up by a stronger growth rate for production in manufacturing, while a slower growth rate for production in mining and utilities had the opposite effect. Capacity utilisation shrank from 77.0% in October to 76.8% in November, and remains well below pre-Covid levels (ca. 78.6%). Retail sales figures were also released last week: MoM nominal retail sales growth accelerated to 0.7% in November from 0.5% in October (upward revision from 0.4%), printing above market expectations (0.5%). Monthly retail sales growth excluding cars did not change between October and November, printing at 0.2%. Thus, the data for the last couple of months show that consumption demand in the US remains moderately strong despite the slowdown. Last week's data on building permits (1,505k in November vs. 1,419k in October), housing starts (1,289k vs. 1,312k) and existing-home sales (4.15m vs. 3.96m) generally showed that the activity in the US housing market was still subdued. As regards manufacturing, regional indices (NY Empire State; 0.2 pts in December vs. 31.2 pts in November, and Philadelphia Fed; -16.4 pts vs. -5.5 pts) have indicated a downturn. Last week also saw the release of the final University of Michigan index, which went up from 71.8 pts in November to 74.0 pts in December (no change vs. the flash estimate). An improvement in consumer sentiment resulted from a strong growth in the sub-index for assessment of current situation, with an opposite impact coming from a decline in the sub-index for expectations. We expect the annualised US GDP growth to slow to 2.2% in Q4 compared to 3.1% in Q3, and to grow by 2.7% in 2024 vs. 2.9% in 2023.

- **Preliminary data shows that the composite PMI (manufacturing and services) for the Eurozone increased from 48.3 pts in November to 49.5 pts in December, running markedly above market consensus (48.2 pts).** The average composite PMI (manufacturing and services) for the Eurozone has decreased from 50.3 pts in Q3 to 49.3 pts in Q4. The data underpin our forecast of GDP growth slowdown from 0.4% QoQ in Q3 to 0.0% in Q4 (see below).
- **The Ifo index, reflecting the sentiment among German managers representing the manufacturing, construction, trade and services sectors, fell to 84.7 pts in December vs. 85.6 pts in November, printing slightly below market expectations (85.6 pts).** It was driven down by a decline in expectations, though an opposite impact came with stronger sub-index for the assessment of current situation. The sectoral breakdown showed depressed sentiment in manufacturing, services and trade, with an upturn in the construction sector. Bearing in mind the preliminary PMI results for Germany published last week (see below), we have not changed our forecast, in which German GDP is to shrink by 0.1% QoQ in Q4 2024 vs. a 0.1% growth in Q3, and by 0.2% all over 2024 comparing to a 0.3% drop in 2023.
- **Industrial production in Poland shrank by 1.5% YoY in November vs. a 4.6% growth in October (downward revision from 4.7%), printing markedly below market consensus (1.8%) and slightly ahead of our forecast (-2.0%).** Industrial production growth between October and November was largely driven down by the statistical effect of an unfavourable difference in the number of working days. Seasonally-adjusted industrial production shrank by 2.8% MoM in November. Subdued activity in export-oriented branches was the main inhibitor of total production growth between October and November. In our opinion, short-term production prospects for export-oriented branches are still unfavourable due to the subdued activity in the manufacturing sector in the Eurozone, including Germany, which leads to a lower demand for intermediate goods manufactured in Poland (see below). Construction and assembly production growth accelerated

to -9.3% YoY in November vs. -9.6% in October, running above market consensus (-10.2%) and our forecast (-11.0%). The increase in construction and assembly production (without seasonal adjustment) between October and November was reported despite the impact of the aforementioned statistical effect of unfavourable difference in the number of working days. Seasonally-adjusted construction and assembly production increased in November by 2.7% MoM. In our view, housing constructions will keep stimulating the activity in the construction sector in the coming months, the current activity being strongly hampered by the reduced absorption of EU funds (see MACROpulse of 19/12/2024). Last week's data on industrial production and construction and assembly production have no impact on our forecast of continuing slowdown of economic growth in Q4 (2.5% YoY vs. 2.7% in Q3).

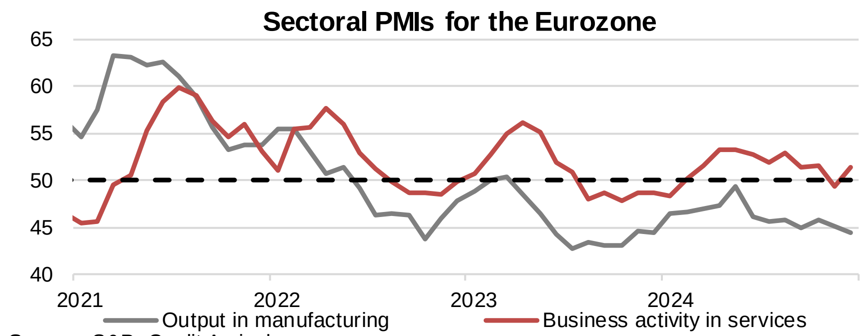
- **Nominal retail sales growth in Poland accelerated to 3.4% YoY in November comparing to 2.3% in October, running markedly above market consensus (2.1%) and our forecast (1.0%).** The growth in retail sales in constant prices accelerated from 1.3% YoY in October to 3.1% in November. Seasonally-adjusted retail sales in constant prices increased by 1.0% between October and November, which means that they remained below their all-time high reported last June. Sales growth was mainly driven up by a strong growth in the sales of fuels, up from -9.1% YoY in October to 4.1% in November, boosted by last year's low base effect. The total sales growth in November was also driven up by real wage fund growth in the sector of businesses, which reached the highest level since August 2024 (see below), and by Black Friday and Black Week promotions, which expanded the scale of promotional purchases more strongly than in November 2023 amidst households' increased inclination to saving (see MACROpulse of 20/12/2024). The low base effect on fuels sales mentioned above will ease up in December, and consequently we expect the retail sales growth to slow down this month, our expectation being underpinned by main consumer sentiment indicators stabilising in December, with the propensity to save indicator remaining elevated.
- **Nominal wage growth in the Polish sector of businesses increased from 10.2% YoY in October to 10.5% YoY in November, printing slightly ahead of our forecast (10.2%) and market consensus (9.9%).** In real terms, wages in companies rose from 5.0% YoY in October to 5.6% YoY in November. It is worth noting that in most categories named by Statistics Poland (GUS) in its press release, nominal wages grew at more than 10% YoY, which is indicative of the continuing wage pressure. The employment growth rate in the enterprise sector remained stable between October and November, standing at -0.5% YoY, which was above both market consensus and our forecast (-0.6%; same as consensus). The number of employed individuals in November went up by 4.3k MoM. Notably, employment decline in the industrial manufacturing sector (-400 FTEs) was relatively mild comparing to the last couple of months. Consequently, the data might be indicating that the restructuring processes seen in the Polish manufacturing sector over the last couple of quarters are coming to an end (see MACROpulse of 19/12/2024). Real wage fund growth rate in the enterprise sector being the product of employment and average wages adjusted to take into consideration the changes in prices went up from 4.4% YoY in October to 5.1% YoY in November, which is consistent with our annual consumption growth acceleration scenario for Q4 (2.5% YoY vs. 0.3% in Q3) given the data on retail sales in November.

A slow recovery in the Eurozone



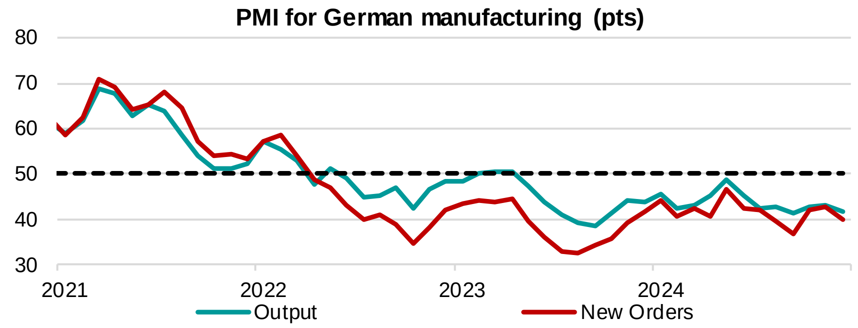
Source: S&P, Credit Agricole

According to preliminary data, the Eurozone's composite PMI (for manufacturing and the service sector) rose to 49.5 pts in December, up from 48.3 pts in November and coming in well above market expectations (48.2 pts). Despite a notable increase in December, the composite PMI for the Eurozone has not crossed the 50-pts mark separating growth from decline in activity for four months now. The upward movement in the composite PMI was driven by an increase in the component for business activity in services, while the opposite effect was driven by a decline in the index for manufacturing output. Geographically, improvements were recorded in France, Germany and the other Eurozone economies covered by the survey.



Source: S&P, Credit Agricole

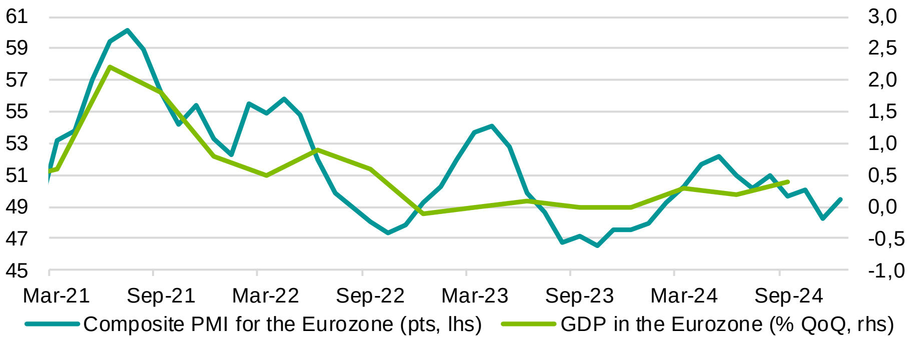
The statement again highlights the continuing significant disproportion between the assessment of the situation in services and in manufacturing. On the one hand, there has been a decline in activity in manufacturing since July 2022. On the other hand, there is a sustained increase in activity in the services sector. In our view, such a situation is not sustainable in the long term. Hence, we are of the opinion that if there is no upturn in activity in manufacturing in the coming months, this could be reflected in a downturn in services. A worrying sign pointing to a growing risk of such a scenario being materialised is the decline in the inflow of new orders in the services sector observed over the last four months.



Source: S&P, Credit Agricole

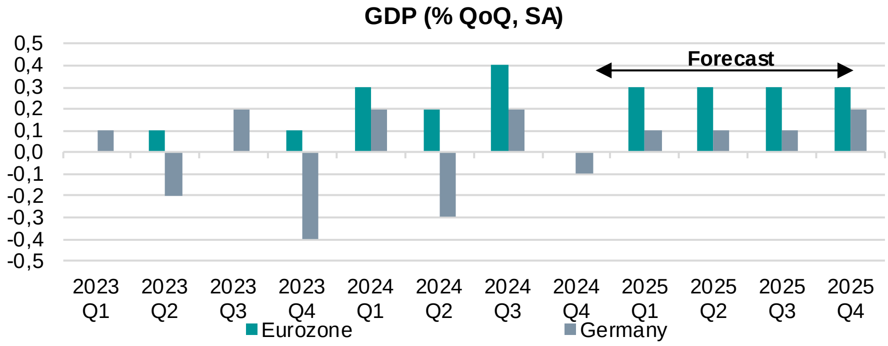
In the context of the outlook for Polish exports, it is crucial to analyse the situation in German manufacturing, where the PMI declined in December to 42.5 pts from 43.0 pts in November. Its decline was mainly due to lower component contributions for output and new orders. It is worth noting that the rate of decline in new orders accelerated quite significantly in December, while the inflow of new export orders slowed down. According to the statement, the weaker inflow of new orders was linked to customers holding back on purchasing decisions and strong competition. The faster decline in total new orders favoured the execution of production backlogs. We are of the opinion that the December business survey results do not provide signals in favour of a significant improvement in German manufacturing in the near term.

Such a view is consistent with the index for expected production at a 12-month horizon, which fell to 50.9 pts in December from 51.6 pts in November and remains only slightly above the 50-pts limit.



Source: Datastream, S&P, Credit Agricole

The average value of the composite PMI (for manufacturing and the service sector) in the Eurozone decreased from 50.3 pts in Q3 to 49.3 pts in Q4. This supports our forecast of a decline in GDP growth from 0.4% QoQ in Q3 to 0.0% in Q4. Similarly, in Germany, we forecast a decline of 0.1% QoQ in Q4, compared to an increase of 0.1% in Q3. As a result, we expect average annual GDP growth in 2024 to be 0.7% in the Eurozone and -0.2% in Germany.

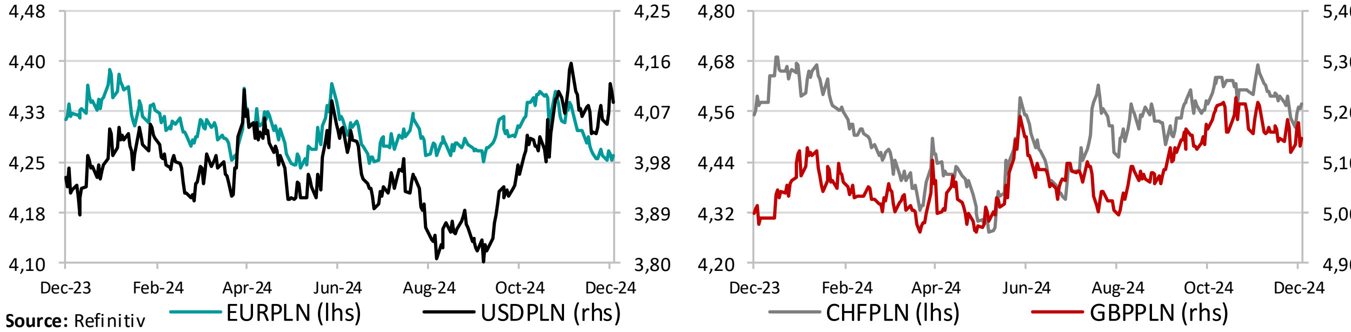


Source: Datastream, Credit Agricole

We forecast that consumption in the Eurozone will grow steadily at around 0.3% QoQ throughout 2025, supported by rising purchasing power amid falling inflation. However, we expect the savings rate to remain high, reflecting continued uncertainty and caution among consumers. Next year we also anticipate a clear rebound in investment. We expect investment in housing, which has been on a downward trend for the past two years, to stabilise as monetary policy eases further. Gross expenditure on corporate fixed assets is also expected to increase with a gradually improving economy, lower uncertainty and a falling cost of external financing. Our projection assumes that net exports will be the main factor limiting the economic recovery in 2025. We forecast export growth of 1.4% YoY compared to 1.0% in 2024, supported by a gradual recovery in global trade. However, this will be fully offset by an acceleration in import growth to 2.3% YoY in 2025 from 0.0% this year, driven by rising domestic demand. Consequently, we expect the contribution of net exports to GDP growth to turn negative in 2025. In our view, the potential impact of increased protectionism from the US will have a limited negative impact on economic activity in the Eurozone. To sum up, we forecast that GDP growth in 2025 will increase to 1.0% in the Eurozone and to 0.2% in Germany.

Hawkish tone of the Fed meeting led to dollar strengthening

FX rates



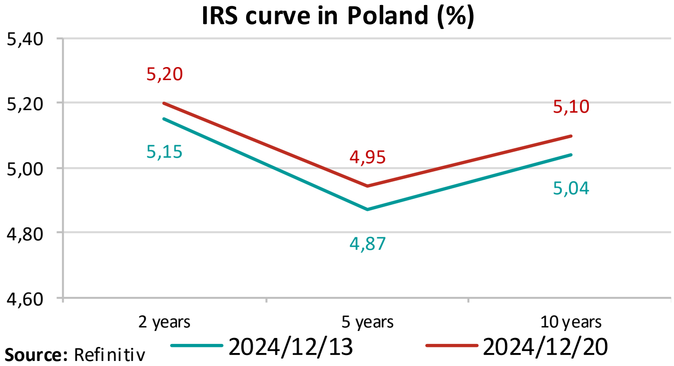
Source: Refinitiv

Last week, the EURPLN exchange rate stood at 4.2624 (no change from the level two weeks ago). Last week, the EURPLN exchange rate was characterised by a relatively low volatility, despite a calendar rich in macroeconomic events. As for the EURUSD exchange rate, the main event was the Fed meeting. The hawkish tone of the statement and the December projections of FOMC members led to a strengthening of the dollar against the euro.

The publications of data from the Polish and global economies scheduled for this week will, in our view, have a limited impact on the exchange rate of the Polish currency. Further developments in the Middle East and Ukraine will remain important for the PLN exchange rate. Possible escalation of tensions could lead to an increase in the EURPLN exchange rate.

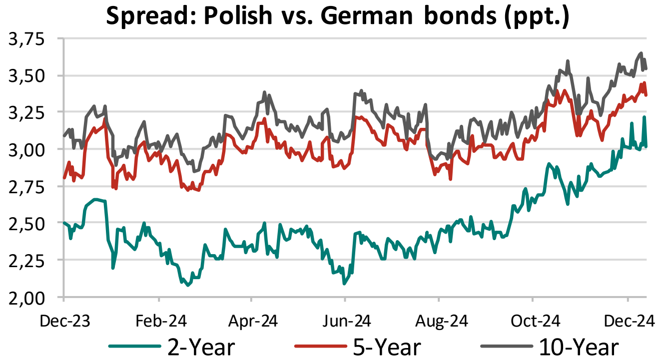
IRS rates rise in line with core markets

IRS curve in Poland (%)



Source: Refinitiv

Spread: Polish vs. German bonds (ppt.)



Last week, 2-year IRS rates rose to 5.20 (up 5bp), 5-year IRS rates rose to 4.95 (up 8bp) and 10-year IRS rates rose to 5.10 (up 6bp). Last week saw an increase in IRS rates across the curve in line with the core markets. The rise in yields in the core markets was driven by market expectations of a change in the Fed's stance to a more hawkish one. After the meeting, there was a slight adjustment and a decline in IRS rates, which can be linked to the profit taking by some investors, nevertheless the rates continued to increase in the following days.

The data releases from the Polish and global economies scheduled for this week will, in our view, be neutral for IRS rates. Further developments in the Middle East and Ukraine will remain an important factor for the curve. Possible escalation of tensions may lead to an increase in IRS rates.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24
NBP reference rate (%)	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75
EURPLN*	4,35	4,33	4,32	4,31	4,29	4,33	4,27	4,30	4,29	4,28	4,28	4,35	4,30	**4,25**
USDPLN*	4,00	3,93	4,00	3,99	3,97	4,06	3,94	4,02	3,96	3,87	3,85	4,00	4,06	**4,08**
CHFPLN*	4,56	4,64	4,64	4,52	4,40	4,41	4,36	4,47	4,50	4,56	4,54	4,64	4,60	**4,55**
CPI inflation (% YoY)	6,6	6,2	3,7	2,8	2,0	2,4	2,5	2,6	4,2	4,3	4,9	5,0	4,7	
Core inflation (% YoY)	7,3	6,9	6,2	5,4	4,6	4,1	3,8	3,6	3,8	3,7	4,3	4,1	4,3	
Industrial production (% YoY)	-0,3	-3,5	3,0	3,2	-5,7	7,8	-1,6	0,0	5,3	-1,3	-0,5	4,7	-1,5	
PPI inflation (% YoY)	-5,1	-6,9	-10,6	-10,0	-9,9	-8,5	-7,0	-5,8	-5,1	-5,5	-6,2	-5,2	-3,7	
Retail sales (% YoY)	2,6	0,5	4,6	6,7	6,0	4,3	5,4	4,7	5,0	3,2	-2,2	2,3	3,4	
Corporate sector wages (% YoY)	11,8	9,6	12,8	12,9	12,0	11,3	11,4	11,0	10,6	11,1	10,3	10,2	10,5	
Employment (% YoY)	-0,2	-0,1	-0,2	-0,2	-0,2	-0,4	-0,5	-0,4	-0,4	-0,5	-0,5	-0,5	-0,5	
Unemployment rate* (%)	5,0	5,1	5,4	5,4	5,3	5,1	5,0	4,9	5,0	5,0	5,0	4,9	**4,9**	
Current account (M EUR)	1182	-102	1575	1752	1239	623	-451	485	-1116	-2731	-1434	1064		
Exports (% YoY EUR)	-2,0	-6,3	-3,1	2,0	-8,7	7,5	-6,0	-7,3	4,7	-3,3	0,5	1,5		
Imports (% YoY EUR)	-6,1	-9,3	-4,1	2,1	-7,2	4,7	0,1	0,6	9,1	4,9	5,1	6,6		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator		2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2024	2025	2026
Gross Domestic Product (% YoY)		2,0	3,2	2,7	**2,5**	**3,1**	**3,3**	**3,4**	**3,6**	**0,1**	**2,6**	**3,5**
Private consumption (% YoY)		4,6	4,7	2,1	**2,9**	**2,5**	**2,1**	**2,0**	**1,8**	**-0,3**	**3,6**	**2,2**
Gross fixed capital formation (% YoY)		-1,8	2,7	2,2	**-5,8**	**5,5**	**7,5**	**8,4**	**8,7**	**12,6**	**-1,4**	**7,7**
Export - constant prices (% YoY)		0,5	3,4	1,5	**2,5**	**5,3**	**5,7**	**4,3**	**7,1**	**3,7**	**2,0**	**5,5**
Import - constant prices (% YoY)		-0,1	5,4	4,9	**4,7**	**5,1**	**5,3**	**4,3**	**3,9**	**-1,5**	**3,7**	**4,6**
GDP growth contributions	Private consumption (pp)	2,7	2,6	1,2	**1,4**	**1,5**	**1,2**	**1,2**	**0,9**	**-0,2**	**2,0**	**1,3**
	Investments (pp)	0,2	0,5	0,4	**-1,4**	**0,7**	**1,2**	**1,3**	**2,0**	**2,1**	**-0,3**	**1,3**
	Net exports (pp)	0,0	-1,3	-1,6	**-0,9**	**0,4**	**0,5**	**0,2**	**1,8**	**3,2**	**-0,8**	**0,7**
Current account (% of GDP)***		1,5	1,4	0,5	**1,0**	**1,0**	**0,9**	**0,8**	**0,8**	**1,6**	**1,0**	**0,8**
Unemployment rate (%)**		5,3	4,9	5,0	**5,0**	**5,3**	**4,9**	**4,9**	**4,9**	**5,1**	**5,0**	**4,9**
Non-agricultural employment (% YoY)		-0,2	0,9	1,5	**0,5**	**-0,4**	**-0,5**	**-0,5**	**-0,5**	**0,7**	**-0,5**	**-0,5**
Wages in national economy (% YoY)		14,4	14,7	13,4	**12,8**	**10,1**	**8,3**	**7,1**	**6,5**	**13,8**	**8,0**	**6,0**
CPI Inflation (% YoY)*		2,8	2,5	4,5	**4,8**	**5,2**	**5,1**	**3,6**	**3,6**	**3,7**	**4,4**	**3,1**
Wibor 3M (%)**		5,88	5,85	5,85	**5,85**	**5,85**	**5,60**	**5,48**	**5,35**	**5,85**	**5,35**	**4,35**
NBP reference rate (%)**		5,75	5,75	5,75	**5,75**	**5,75**	**5,75**	**5,50**	**5,25**	**5,75**	**5,25**	**4,25**
EURPLN**		4,29	4,30	4,28	**4,25**	**4,40**	**4,35**	**4,30**	**4,25**	**4,25**	**4,25**	**4,21**
USDPLN**		3,97	4,02	3,85	**4,08**	**4,19**	**4,18**	**4,10**	**3,97**	**4,08**	**3,97**	**3,83**

* quarterly average
** end of period
***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 12/23/2024				
10:00	**Poland**	**Registered unemplyment rate (%)**	**Nov**	**4,9**	**4,9**	**5,0**
14:00	**Poland**	**M3 money supply (% YoY)**	**Nov**	**7,8**	**8,2**	**8,4**
16:00	USA	Consumer Confidence Index	Dec	111,7	114,0	113,0
		Tuesday 12/24/2024				
14:30	USA	Durable goods orders (% MoM)	Nov	0,3	-0,4	-0,2
16:00	USA	Richmond Fed Index	Dec	-14,0		
16:00	USA	New home sales (k)	Nov	610	670	665

*The forecasts of macroeconomic indicators for Poland were prepared by Credit Agricole Bank Polska S.A. The forecasts of foreign indicators were prepared by Crédit Agricole Corporate and Investment Bank

** Refinitiv

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