

# Week Ahead

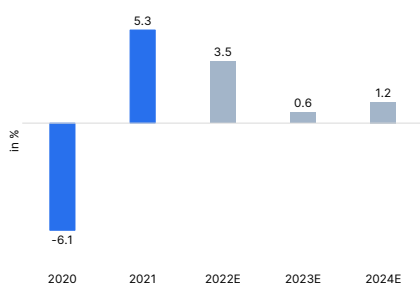
Focus: Eurozone and US economy

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## EZ GDP growth 2020 – 2024E



Source: Eurostat, Erste Group Research

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Note: Past performance is not necessarily indicative of future results

## EZ – GDP growth surprises positively in 4Q 2022

Eurozone GDP managed to deliver a positive surprise, with slight growth of +0.1% q/q in 4Q22. Growth dynamics at the country level were mixed. After strong growth in 3Q, Germany's economy contracted slightly, by 0.2% q/q in 4Q. In contrast, France and Spain recorded slight growth.

As the momentum of the Eurozone economy also exceeded our expectations in 4Q22, we are raising our growth forecast for 2023 as a whole slightly, from 0.5% to 0.6%. European energy prices have already been falling significantly for several weeks, which has steadily brightened business sentiment, especially in industry, since November. The end of the zero-covid policy in China has additionally strengthened sentiment, especially among export-oriented companies.

Against a backdrop in which the problems in the supply chains are also dissolving in the long term, inflationary pressure from supply-side restrictions should continue to ease in the coming months. This should support the consumer situation. In this environment, we believe that the ECB's interest rate hikes will come to an end in the course of the year. Thanks to these encouraging developments, we expect a sustained easing of the deep-seated crises that have weighed heavily on the economy in 2022. Thanks to these developments, we are also raising our GDP forecast for 2024 from the previous 0.7% to 1.2%, as we expect Eurozone growth to return to its potential.

## US - Economy should weaken

In the US, too, the first estimate of GDP in the fourth quarter of 2022 was recently published. The growth rate turned out better than the market had expected. Even though this is only a first estimate, which will certainly be revised, the US economy has held up relatively well. The reason for this is private consumption, which accounts for almost 70% of total economic spending and is growing moderately but fairly steadily. Where high inflation and high interest rates have had a significant impact, however, is on investment. Spending on residential real estate fell sharply again in the fourth quarter, while business investment was more or less flat compared with the previous quarter.

Investment is unlikely to change much during the coming quarters. The sharp rise in interest rates will continue to have a negative impact. However, the decisive factor for the economy will be how long private consumption can continue to withstand the unfavorable environment relatively well. The reasons for its resilience were the savings accumulated during the crisis and the strong labor market. These obviously outweighed real income losses during the last few quarters. However, these supportive factors should weaken, although probably only

**US savings rate, in %**



Source: Bureau of Economic Analysis, Erste Group Research

slowly. There are already signs of weakening wage dynamics. It is difficult to assess the further potential for consumption of the savings accumulated during the crisis. In the economy as a whole, this buffer has probably not yet been exhausted. However, private households are under pressure. The savings rate has been as low in recent quarters as it was last in 2005, and it can be assumed that such a low savings rate means that some households are already reducing their savings. Declining real incomes for the time being suggest that even more households will have to draw on their savings or use them up. Overall, we expect lower growth in consumption and thus in the economy as a whole in the coming quarters.

## Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
<b>Eurozone</b>						
<b>USA</b>						
<b>China</b>						
	10-Feb	3:30	Inflation y/y	Jan		1.8%

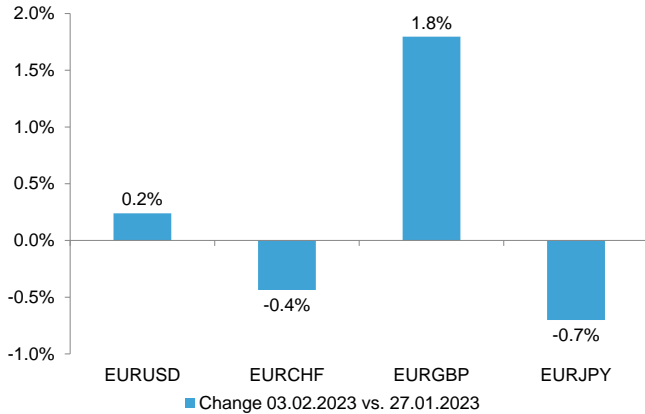
## Central bank events

	Date	Time	Representative	Forum	Location
<b>ECB</b>	7-Feb	18:00	Isabel Schnabel	Discussion	Finanzwende
	9-Feb	19:00	Luis de Guindos	Speech	Instituto Karol Wojtyla
<b>Fed</b>	7-Feb	18:40	Jerome Powell	Discussion	Economic Club Washington
	8-Feb	19:45	Christopher Waller	Speech	Arkansas State University

Source: Market Data Provider, ECB, Federal Reserve, Erste Group Research

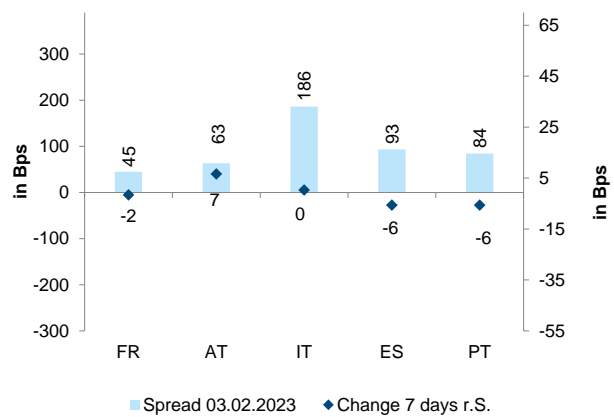
## Forex and government bond markets

### Exchange rates EUR: USD, CHF, GBP and JPY Changes compared to last week



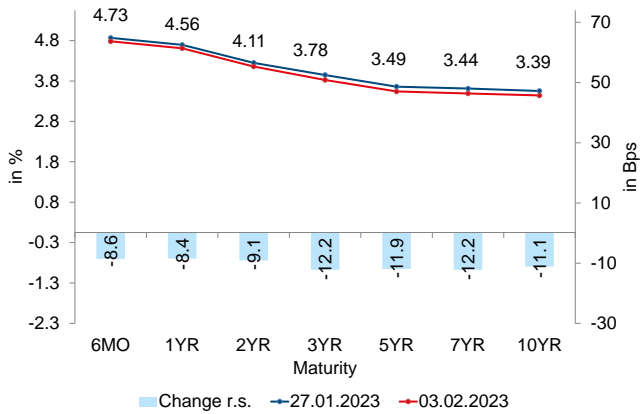
Source: Market Data Provider, Erste Group Research

### Eurozone spreads vs. Germany 10Y government bonds



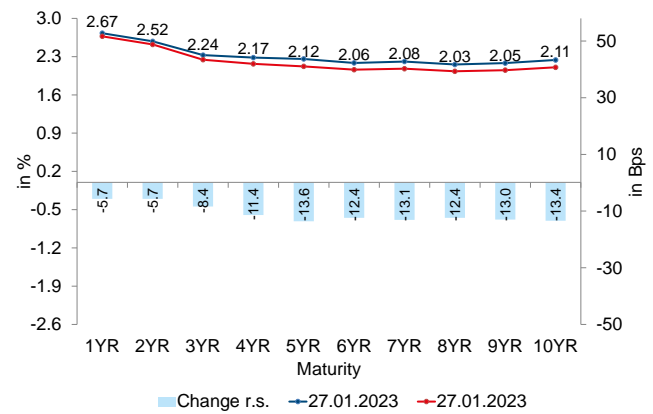
Source: Market Data Provider, Erste Group Research

### US Treasuries yield curve Changes compared to last week



Source: Market Data Provider, Erste Group Research

### DE Bund yield curve Changes compared to last week



Source: Market Data Provider, Erste Group Research

## Forecasts<sup>1</sup>

GDP	2021	2022	2023	2024
Eurozone	5.3	3.5 ↑	0.6 ↑	1.2 ↑
US	5.7	2.0	1.2 ↑	1.1

Inflation	2021	2022	2023	2024
Eurozone	2.6	8.4	5.6	2.3
US	4.7	8.0	2.9	1.9

Interest rates	current	Mar.23	Jun.23	Sep.23	Dec.23
ECB MRR	2.50	3.50	3.75	3.75	3.75
ECB Deposit Rate	2.00	3.00	3.25	3.25	3.25
3M Euribor	2.55	3.11	3.20	3.24	3.28
Germany Govt. 10Y	2.14	2.20	2.00	1.90	1.90
Swap 10Y	2.72	2.80	2.50	2.40	2.40

Interest rates	current	Mar.23	Jun.23	Sep.23	Dec.23
Fed Funds Target Rate*	4.33	4.88	4.88	4.88	4.63
3M Libor	4.80	4.96	4.96	4.96	4.71
US Govt. 10Y	3.38	3.50	3.30	3.10	2.90 ↑
EURUSD	1.09	1.08	1.08	1.10	1.12

\*Mid of target range

*In case of changes to our forecasts compared to the previous issue, arrows show the direction of the change.*

*Source: Market Data Provider, Erste Group Research*

**The rate hikes by the US Fed and the ECB this week will not take effect until next week**

<sup>1</sup> Note: In accordance with regulations, we are obliged to issue the following statement:  
 Forecasts are not a reliable indicator of future performance.

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