Holger Schmieding, Chief economist | holger.schmieding@berenberg.com | +44 7771 920377

MACRO UPDATE: MIDDLE EAST IMPACT, GDP UPGRADES US, UK, FRANCE

Berenberg Macro View

Economic opportunities, geopolitical risks. This remains the best summary of the outlook for 2024 and 2025. The unprecedented Iranian attack on Israeli targets casts a shadow over the economic and financial outlook beyond the region itself. The risk that the conflict in the Middle East may escalate further has increased. Attention focusses on the Israeli reaction to the Iranian strike with more than 300 drones and missiles, of which 99% were intercepted according to the Israeli military (if only the much bigger Ukraine had enough air defences of the same scale). The US is reportedly trying to restrain any Israeli response while Saudi Arabia is talking to Iran to de-escalate the situation. Beyond the new bout of uncertainty, the current conflict between Israel and Iran should not impact the global economy severely. Remember that neither the war in Gaza nor the Houthi attacks on Red Sea shipping have so far made a major difference to the global economic and financial outlook. A disruption of oil shipments through the Strait of Hormuz would be a very different matter, though. This remains the key risk to watch, especially as Iranian forces had kidnapped a container ship in international waters on Friday. But as a disruption of oil exports would also hurt Iran badly, the mullahs presumably will not want to go that far. For the time being, we base our forecasts on the assumption that this risk will not materialise.

Economic outlook: forecast upgrades
At the start of the year, we were slightly more optimistic than consensus on the growth outlook for many regions of the world. Since then, the newsflow has mostly been a bit better, or at least less subdued, than expected. The process of raising forecasts for growth, or of adjusting the balance of risk to the upside, continues. We made a few modest changes last Friday:

US GDP: Projecting an annualised rate of 2.4% growth for US Q1 GDP, the Atlanta Fed's widely watched nowcast model is in line with our 2.3% call (data due on 25 April). More importantly, surveys point only to a modest loss in US momentum going forward. While the ISM composite index fell to 51.3 in March after averaging 52.1 in Q1 2024 and 51.1 in Q4 2023, University of Michigan consumer expectations held roughly steady in April at 77.0 after a 76.6 average for Q1. We raise our forecast for annualised US GDP growth in the next two quarters to 1.5% from 1.1% for Q2 and to 1.6% from 1.3% for Q3. This raises our calls for average annual growth in the US by one notch for this year (from 2.4% to 2.5%) and for next year (from 1.7% to 1.8%). We still assume that US growth will temporarily decelerate to modestly below the 2% trend rate later this year as the impact of monetary restriction will no longer be fully offset by a fiscal stimulus that we expect to gradually fade over time. If the Fed starts to cut rates in December, as we expect, US growth may return roughly to its trend rate in spring 2025.

UK GDP: Following a mini-recession in late 2023, the UK economy is turning the corner a bit faster than we had projected in our above-consensus calls. Although the economy expanded merely by 0.1% mom in February, the upward revision to the preliminary January result from 0.2% to 0.3% mom puts the economy on track for a gain of at least 0.3% for Q1 as a whole. We thus raise our call for Q1 growth (non-annualised) from 0.2% to 0.3% qoq. This takes the forecast for the year as a whole to 0.5% after 0.1% last year.

French GDP: After outperforming the Eurozone last year with 0.9% growth versus 0.5% for the region as a whole, France is facing some significant problems, including a need to rein its excessive fiscal deficit (5.5% of GDP in 2023). However, the rise in INSEE survey for services to -4.8% in March from -6.7 in February and -8.4 in Q4 2023 suggests that the economy continued to expand modestly early this year despite an apparent decline in manufacturing output. We thus raise our projection for French GDP to 0.1% qoq from flat for Q1 2024. This lifts our call for the year as a whole from 0.7% to 0.8%, one notch above our 0.7% call for the Eurozone as a whole.

German GDP: Germany remains the major drag on the near-term outlook for the Eurozone. We expect the economy to regain momentum over the course of the year to qoq growth rates of 0.4% in 2H 2024. But due to a likely soft start into the year, growth for 2024 as a whole will likely come in at a mere 0.1% after -0.1% last year. But even for Germany, the newsflow is improving. Ifo business expectations rebounded sharply to a ten-month high of 87.5 in March from 84.4 in February and 83.4 in January. Whereas monthly data are too volatile to read much into them, the 2% mom rise in German manufacturing in February from a January level that had been in line with the soft Q4 average indicates that the risks to our German call are tilting less to the downside than before.

For our detailed projections, see our weekly Forecasts at a Glance (12 April 2024).