



2024 economy

“More than meets the eye”

Gondola – Economic Expectations
Mechelen - 8 February 2024

Tom Simonts
Senior Financial Economist



What's on the menu?

- The Great Interest Rate Delirium
- Zombie Infection Alert
- The Hide & Seek Recession
- Uncontrolled Commodities
- The Supply chain Is Drunk
- Did you hear the news?





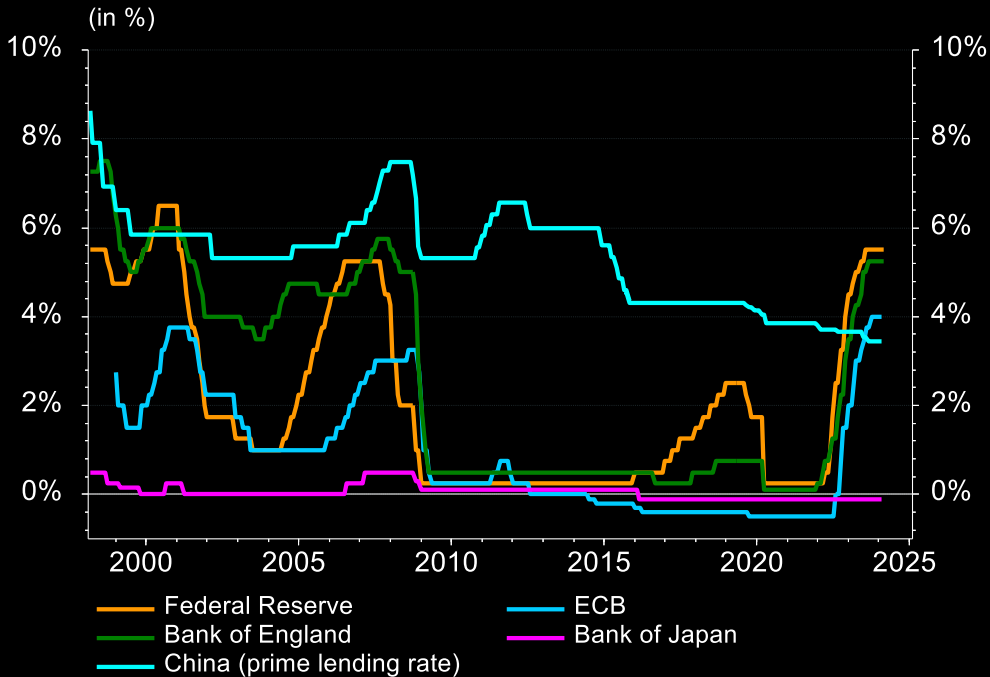
Central banks might cut rates 8 times. Will 10-year rates decline too?

- Yes
- No
- Only God knows

The Great Interest Rate Delirium

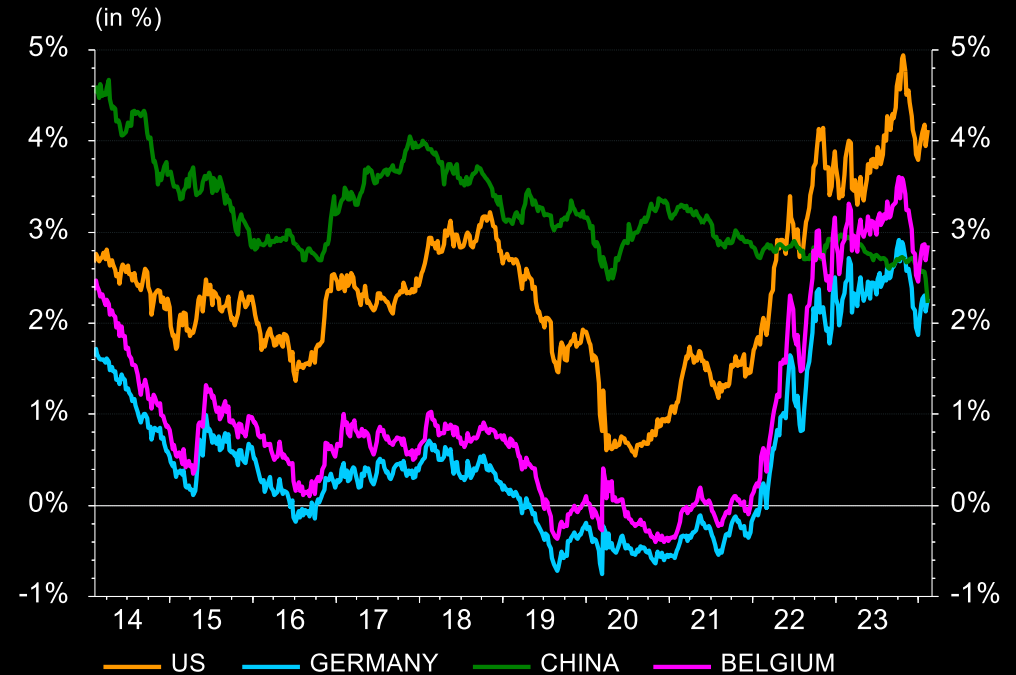
The “rate debate” centers on timing, not the concept, of lower policy rates

Central banks policy rates



Bron: LSEG Datastream

Evolution of 10-year yields

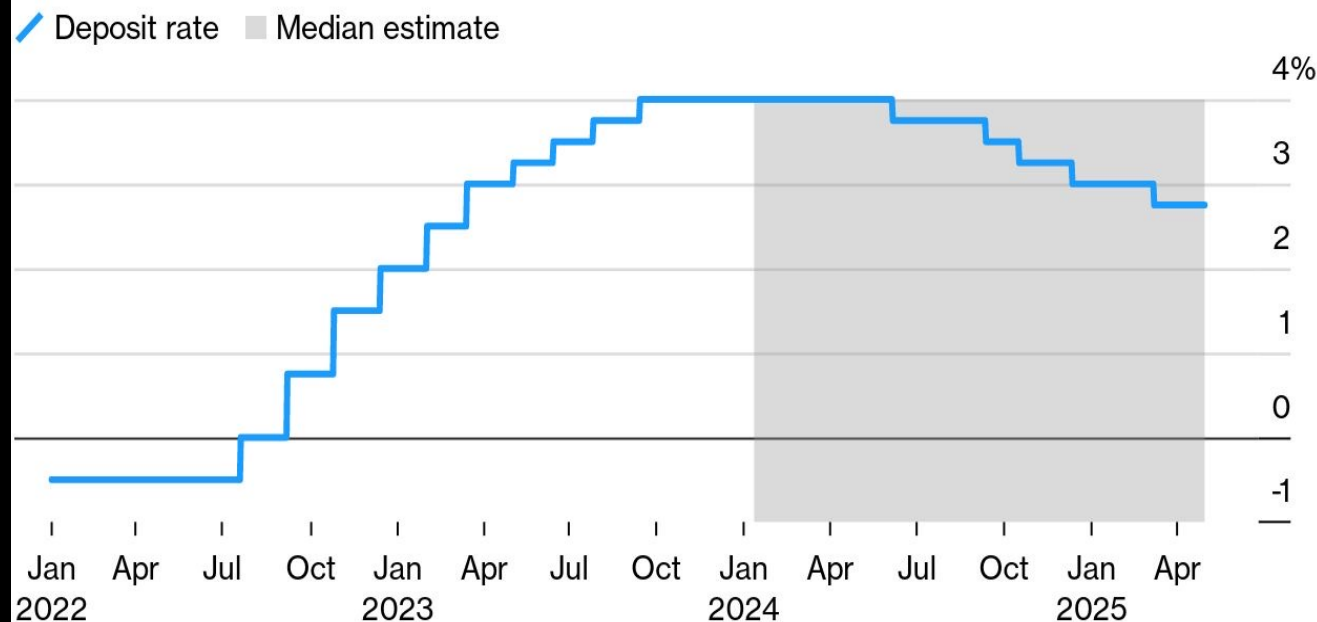


Bron: LSEG Datastream

The Great Interest Rate Delirium

ECB-pivot in sight – bankers are “data driven” (but who isn’t, these days?)

Economists Now Expect Four ECB Rate Cuts This Year



Source: Bloomberg survey of economists conducted Jan. 5-11

Bloomberg

Rate path ECB

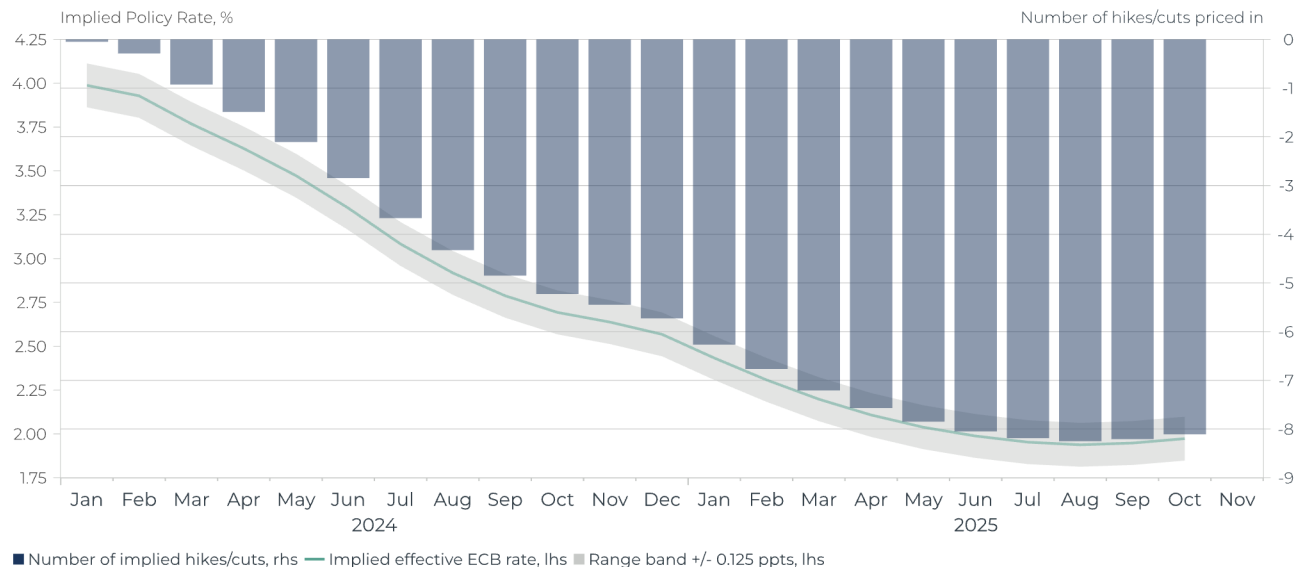
- Jan 2024: Pauze
- Mar 2024: Pauze
- Apr 2024: -25 bps
- May 2024: -25 bps
- Jun 2024: -25 bps
- Oct 2024: -25 bps
- Dec 2024: -25 bps

The Great Interest Rate Delirium

First rate cut is scheduled for May – real question is where the streak will end

Implied number of hikes/cuts from the ECB

Assuming uniform 0.25 ppt hikes/cuts
Based on €STR futures and the spread between ECB Deposit Facility Rate and €STR of 0.098



MACROBOND

Rate path ECB

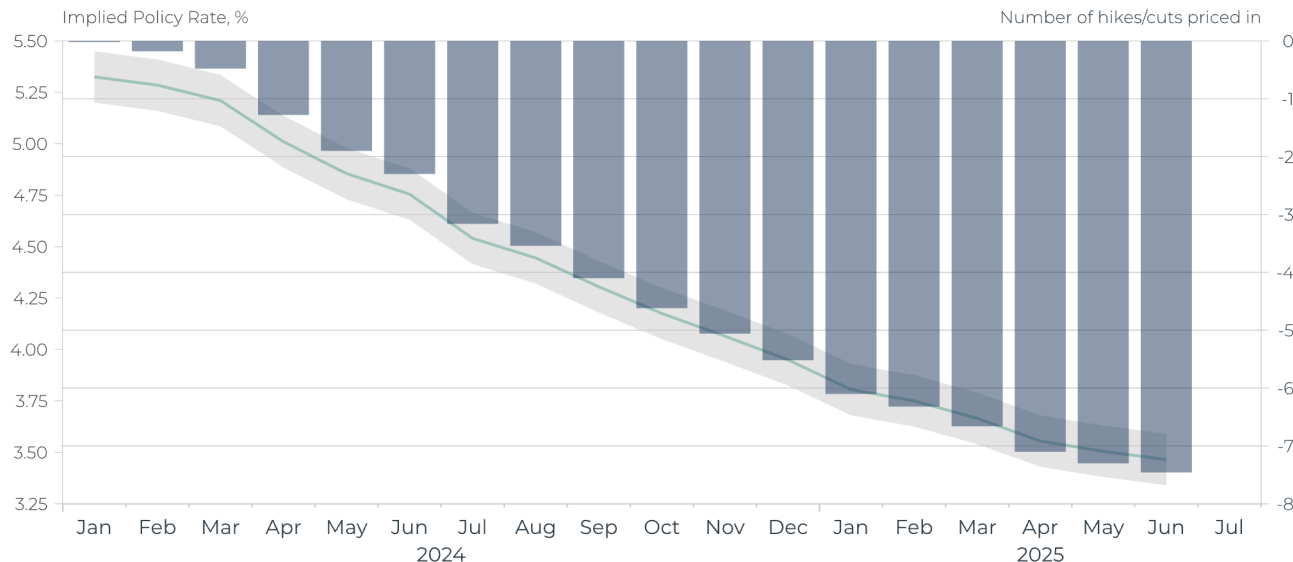
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- Jun 2024: -25 bps
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- Dec 2024: -25 bps

The Great Interest Rate Delirium

First rate cut has been postponed from February to May – 7 more to go?

Implied number of hikes/cuts from the US Fed

Assuming uniform 0.25 ppt hikes/cuts



MACROBOND

Rate path Fed

- Jan 2024: Pauze
- Mar 2024: Pauze
- Apr 2024: -25 bps
- May 2024: -25 bps
- Jun 2024: -25 bps
- Oct 2024: -25 bps
- Dec 2024: -25 bps

The Great Interest Rate Delirium

KBC Economics scenario – Piek inflation has come and gone – But not so for 10yr-yield

Policy rates

	2023	2024	2025	23 -> 25
US	5,375%	4,125%	2,875%	-250bps
Germany	4,0%	2,75%	2,5%	-150bps
China	2,5%	2,4%	2,4%	-10bps
Belgium				

10-year yields

	2023	Now	2024	2025	23 -> 25
	3,88%	4,08%	4,15%	4,0%	+12bps
	2,0%	2,27%	2,3%	2,6%	+60bps
	2,59%	2,40%	2,65%	2,60%	+1bps
	2,6%	2,88%	3,1%	3,4%	+70bps

The Great Interest Rate Delirium

Inverse rate curve is set to reverse – End of an era – Quid impact?

European rate curve at Titanic depth

(based on repo and 10yr-yield)



Bron: LSEG Datastream

Interest rate hope legitimized?

- Interest rate realism needed
- Barely any valuation impact
- Quid monetary oxygen?

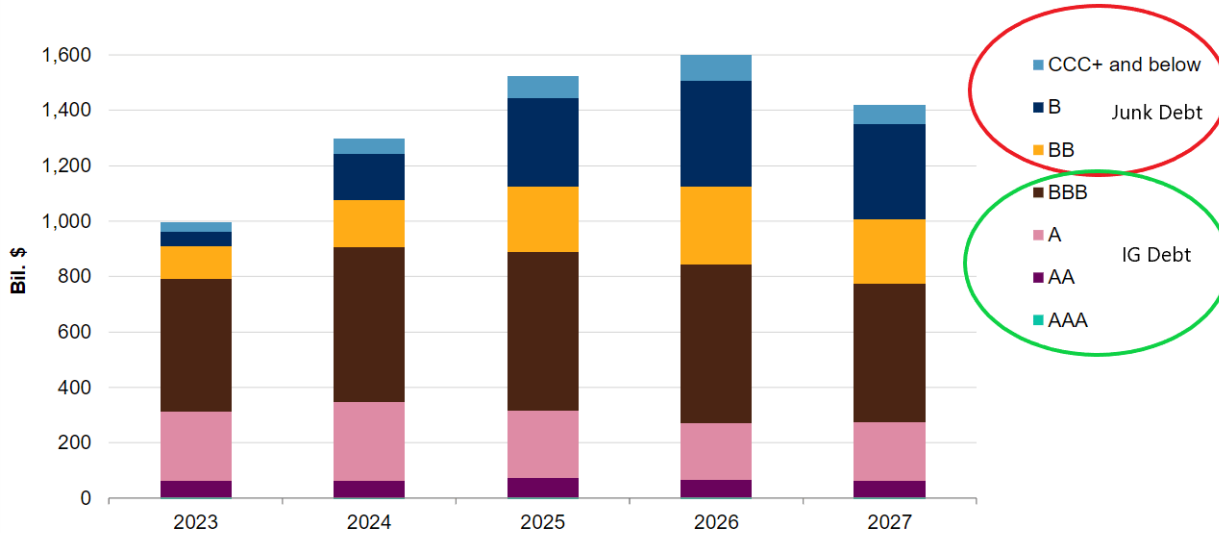
Positive for:

- Financials
- Real Estate
- Cash-rich companies
- Refinances
- Consumer (somewhat)

The Great Interest Rate Delirium

A massive wall of corporate debt maturing over the next three years

Global Nonfinancial Corporate Debt Maturities By Rating Category



Data as of Jan. 1, 2023. Includes nonfinancial corporate issuers' bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings. Foreign currencies are converted to U.S. dollars at the exchange rate on close of business on Jan. 1, 2023. Source: S&P Global Ratings Credit Research & Insights. Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

Duration of corporate debt

- 30yrs : x2
- Delayed pass-through to investment

Corporate debt at maturity

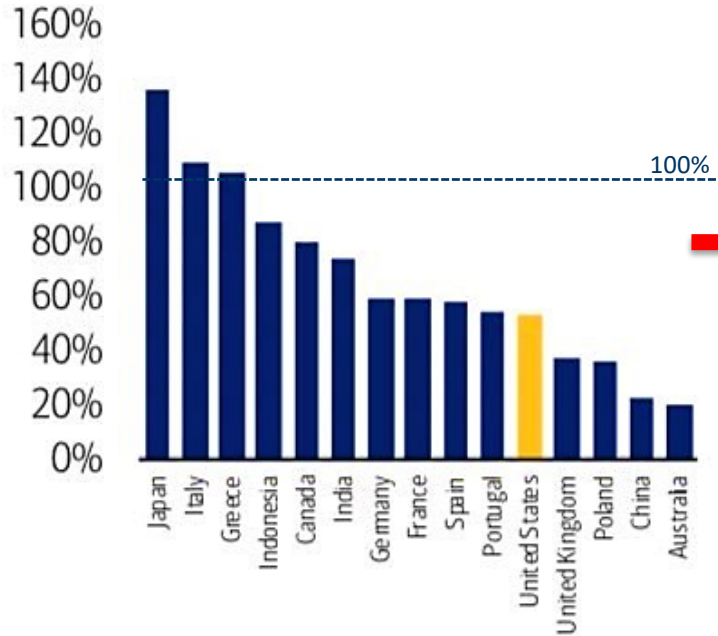
- 2023: \$1 trln
- 2024: \$1,3 trln
- 2025: \$1,5 trln
- 2026: \$1, trln

Zombie Infection Alert

Sustainability of public debt - Little 'sense of urgency' - Bidenomics

Exhibit 5: ...vs. ~50% in 2000

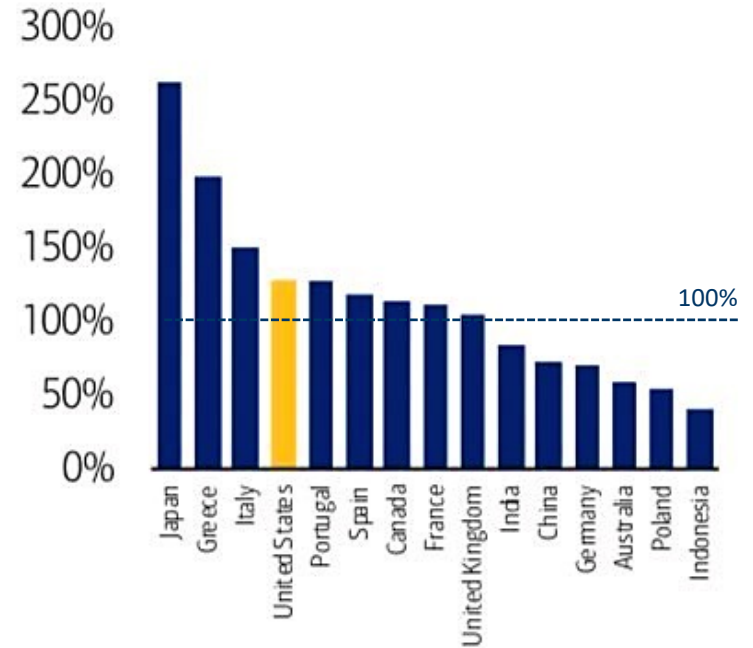
Government debt as a % of GDP, 2000



Source: International Monetary Fund, BofA US Equity & Quant Strategy

Exhibit 4: US government debt is ~130% of GDP today...

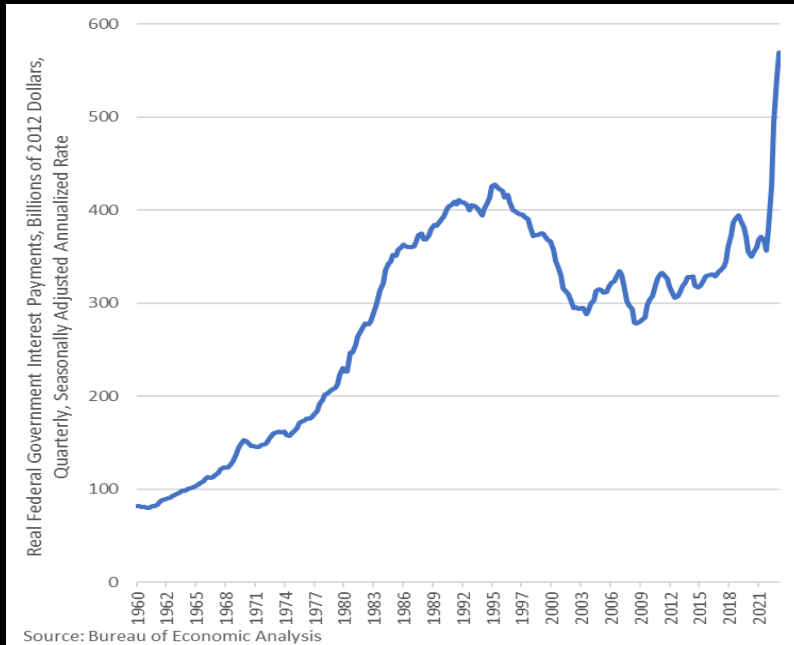
Government debt as a % of GDP, 2021



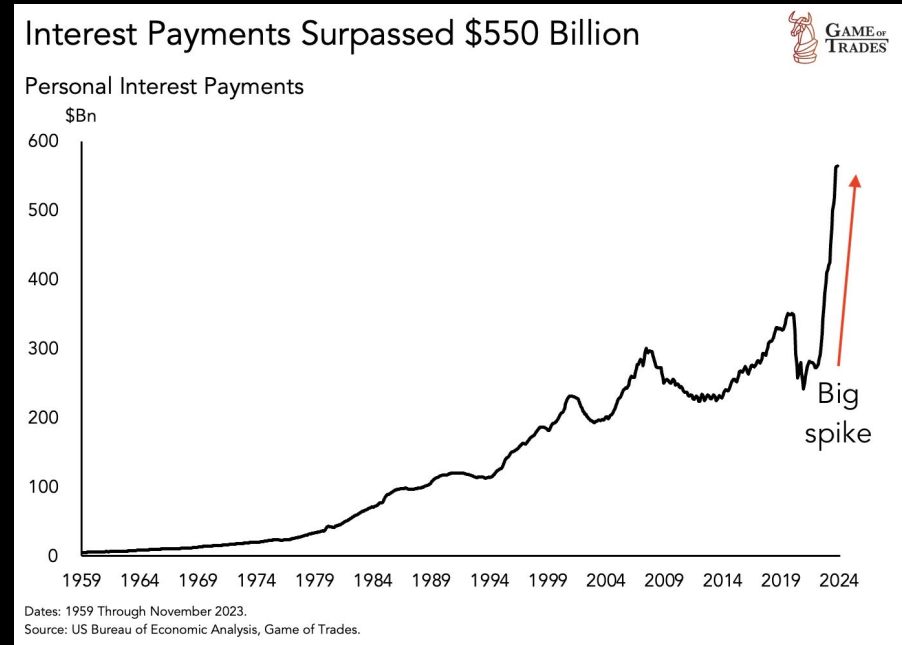
Zombie Infection Alert

Net interest payments by governments on the rise

US federal government interest payments have crossed the \$550bn benchmark



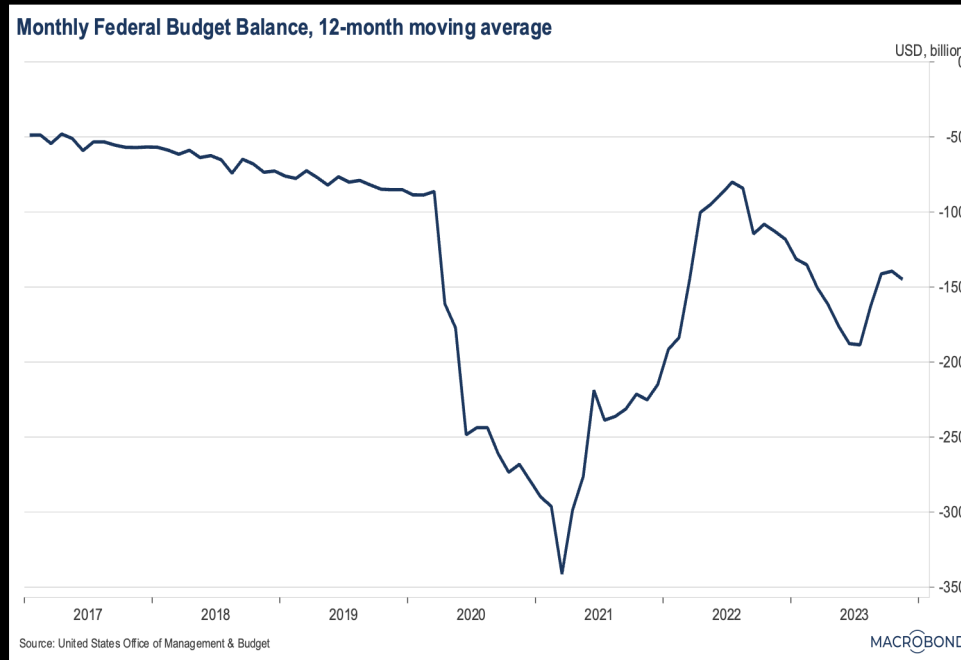
US personal interest payments: \$550bn benchmark has been crossed as well



Zombie Infection Alert

Bidenomics delivers economic growth - and a debt problem – Dollar (so far) remains robust

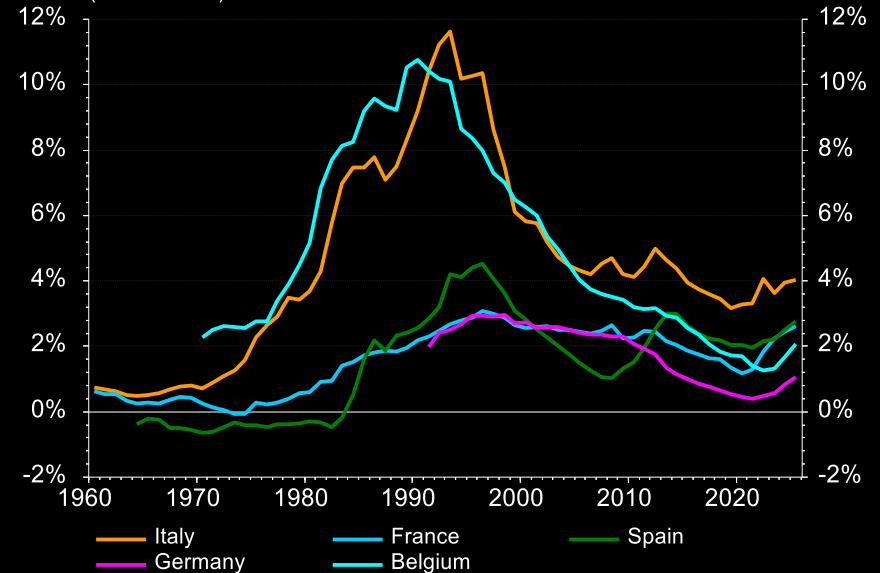
US government debt builds up deficits at an astronomically high pace



Net interest payments by EU governments increases pressure on fiscal stability

Net interest payments by EU governments

(in % of GDP)

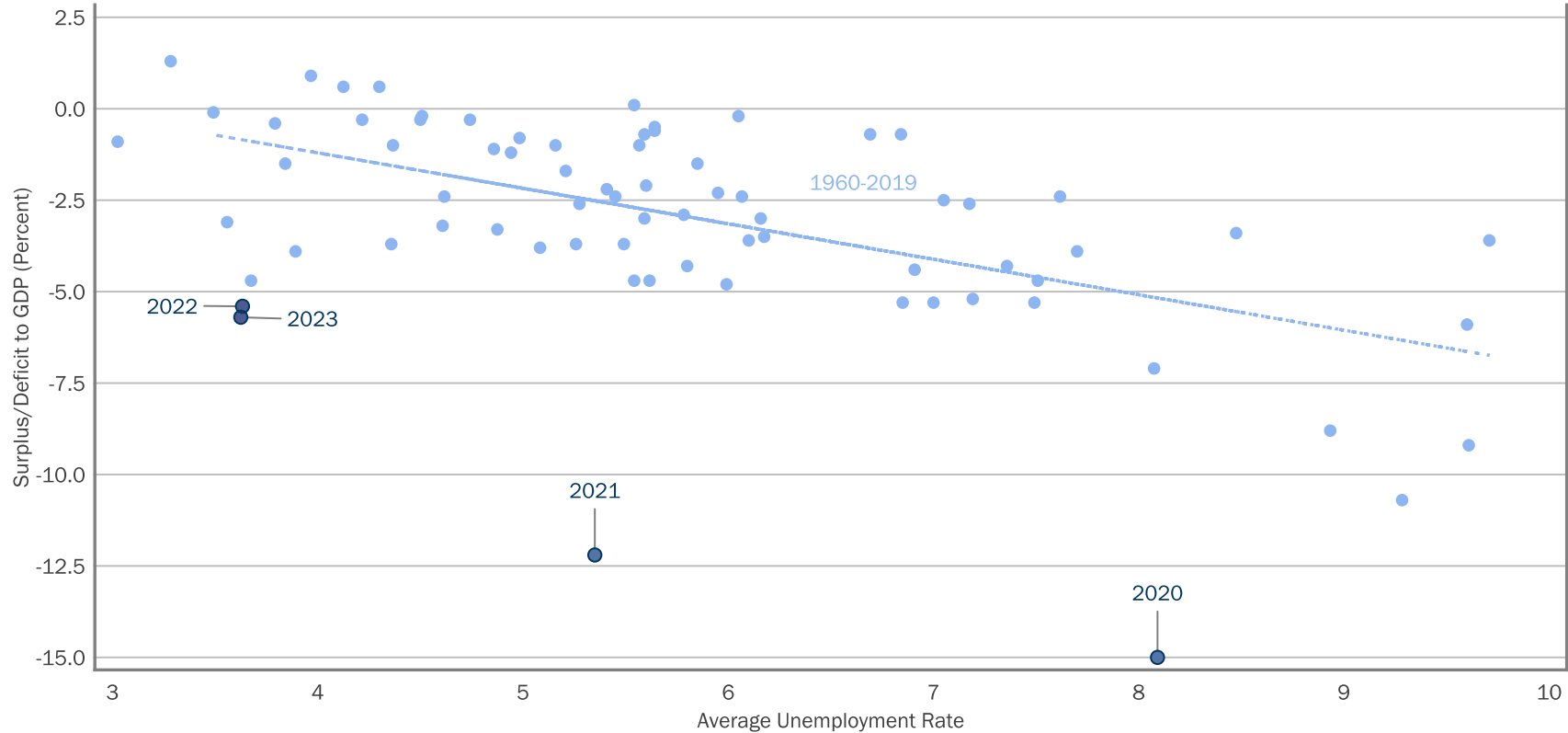


Bron: LSEG Datastream

Zombie Infection Alert

An unprecedented deficit relative to the business cycle

Annual Surplus/Deficit and Unemployment Rate by Year | 1960-2023

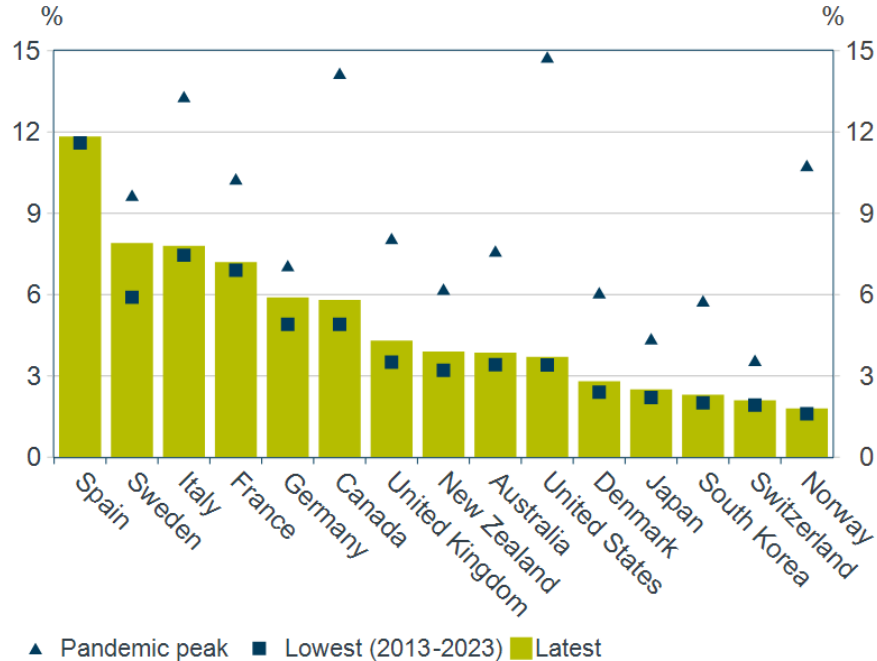


Source: United States Office of Management & Budget, Bureau of Labor Statistics

Zombie Infection Alert

Unit labour cost increased substantially– Unemployment remains ultra-low

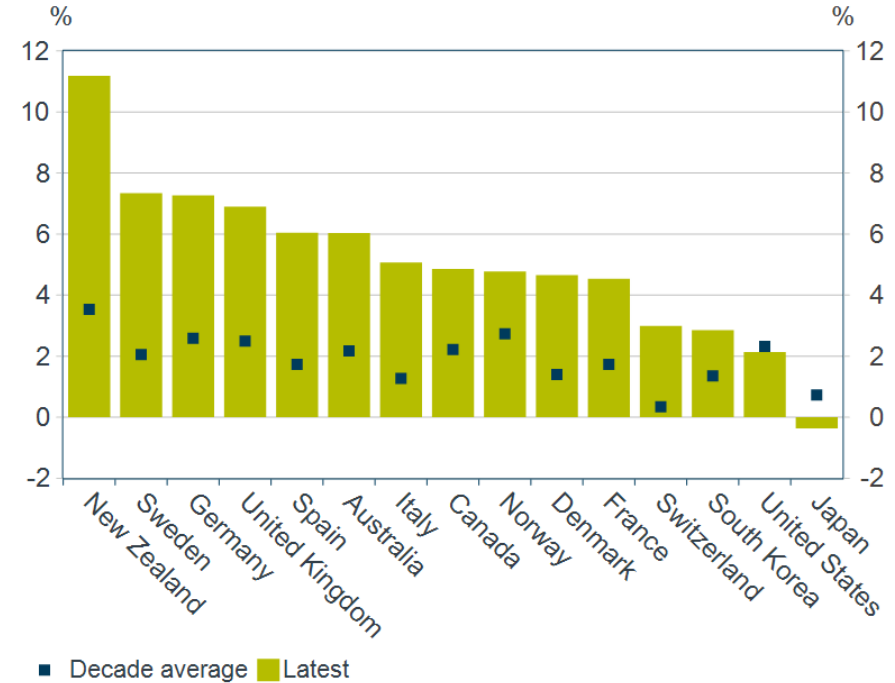
Unemployment Rates



Note: y-axis cut off, Spain's pandemic peak unemployment rate was 27%

Sources: Challenger, Macrobond, national sources

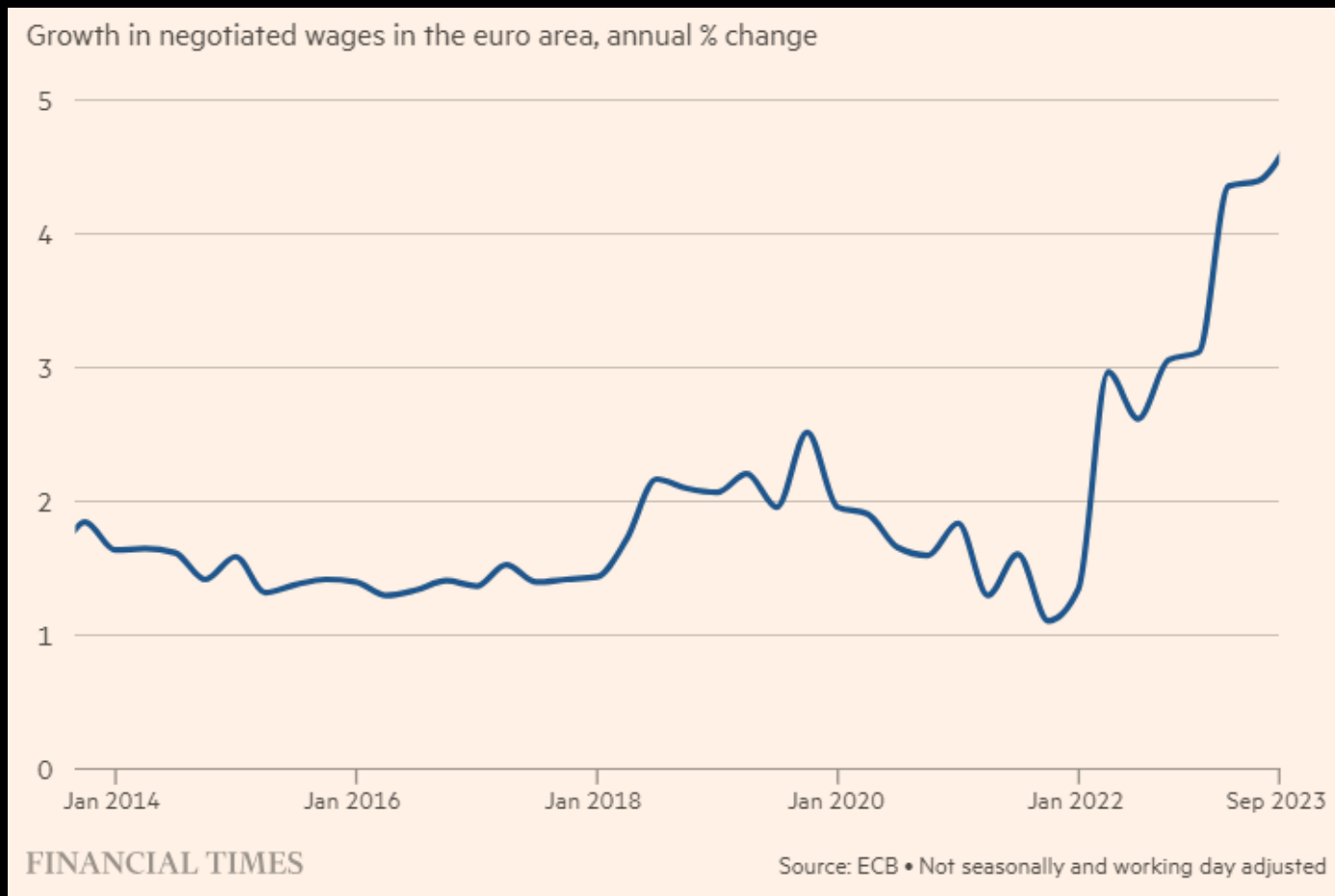
Unit Labour Costs Growth



Sources: Challenger, Macrobond, OECD

Zombie Infection Alert

Negotiated wages rose at the fastest pace in the eurozone's history

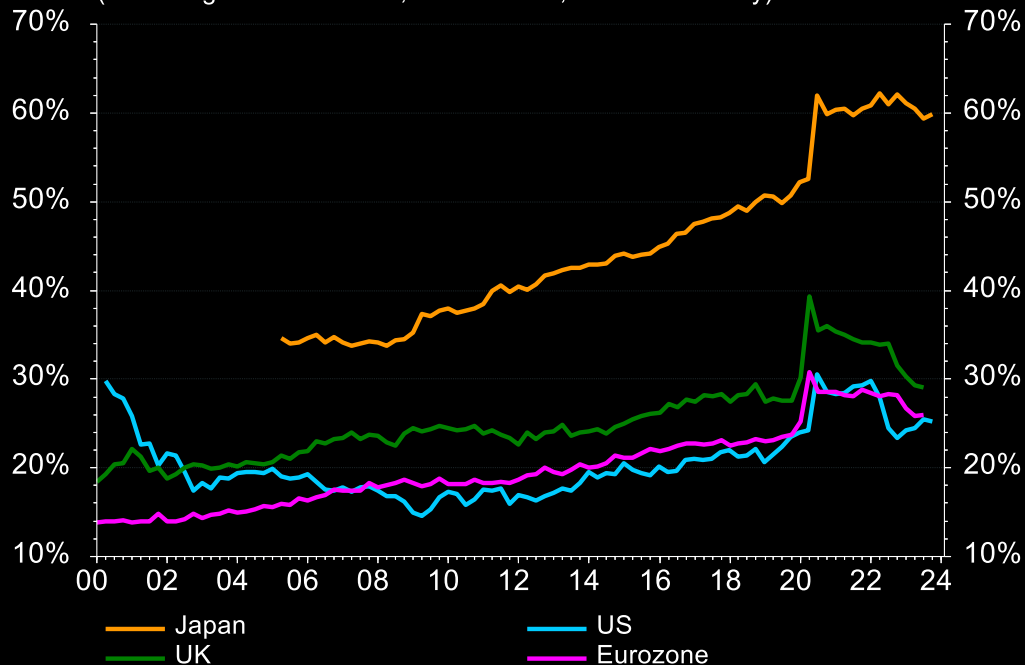


Zombie Infection Alert

Companies are cash-rich due to digitization and “platform economies” of scale and scope

Coporate liquid assets

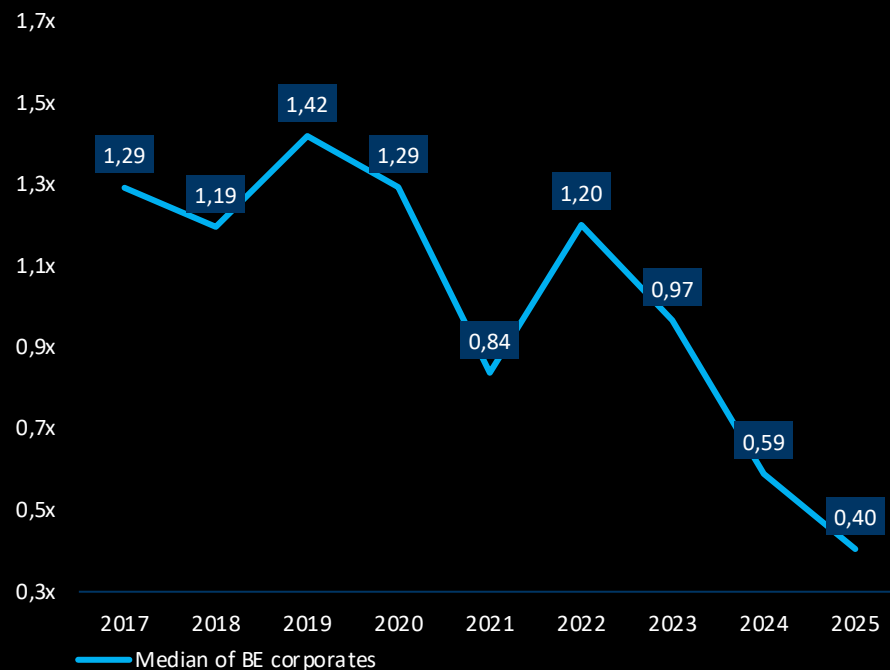
(excluding financial sector, in % of GDP, in local currency)



Bron: LSEG Datastream

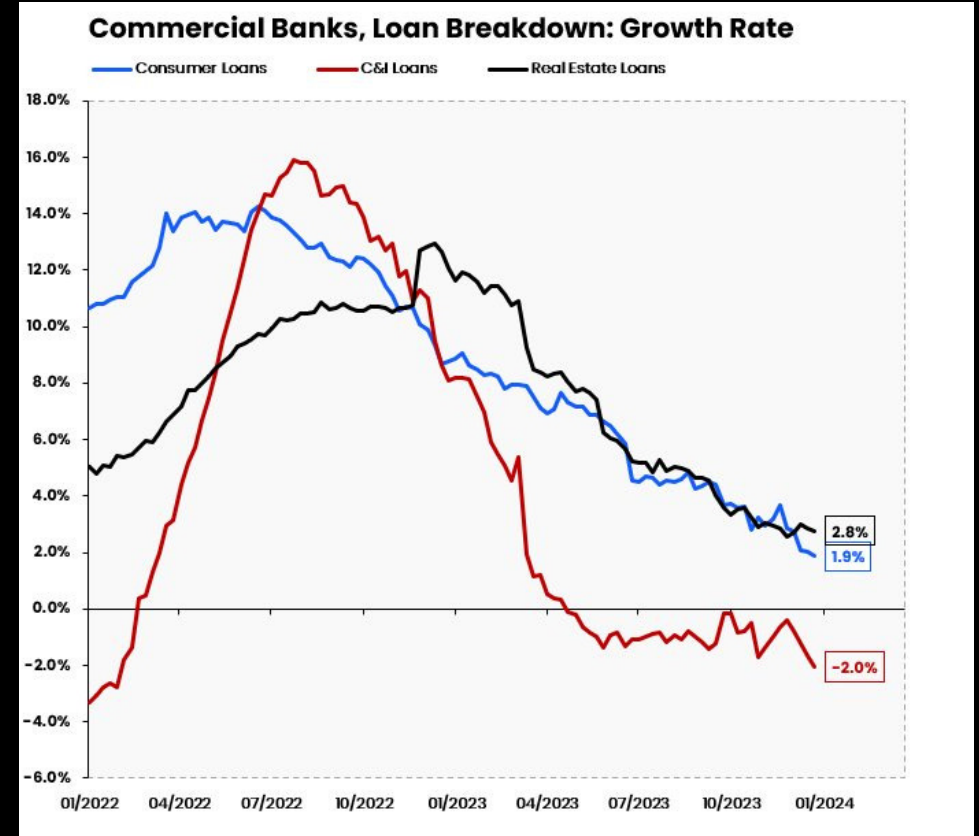
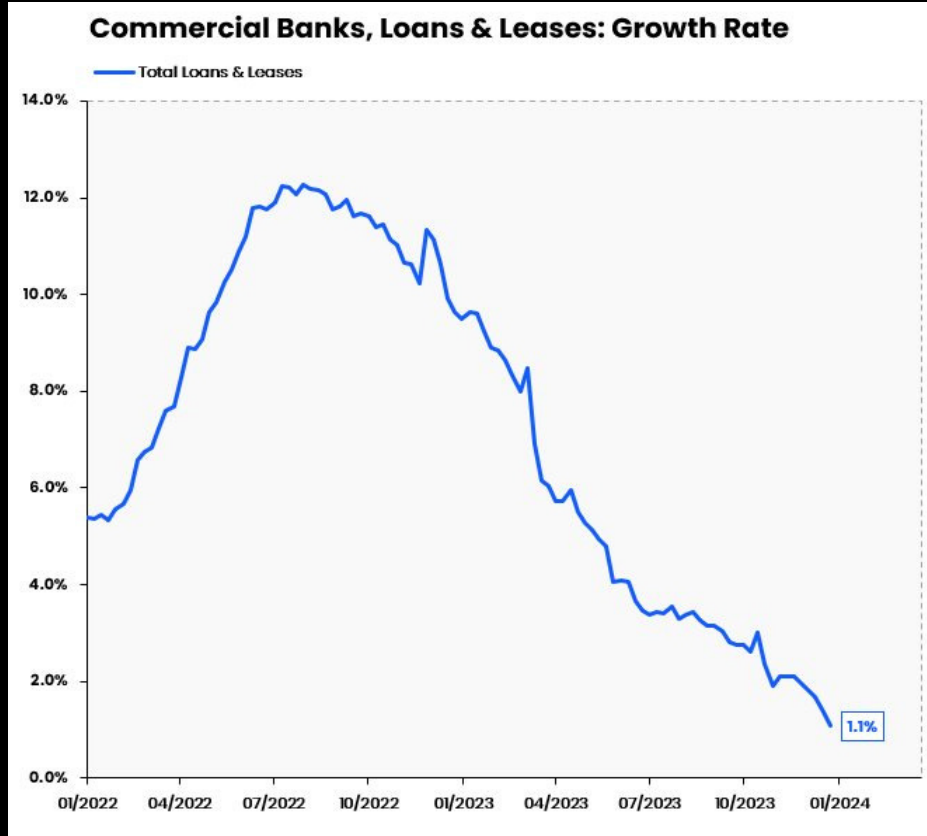
Corporate debt ratio Benelux-companies

(KBCS coverage, Net debt vs. EV/REBITDA)



Zombie Infection Alert

Commercial banks are sharply reducing credit supply

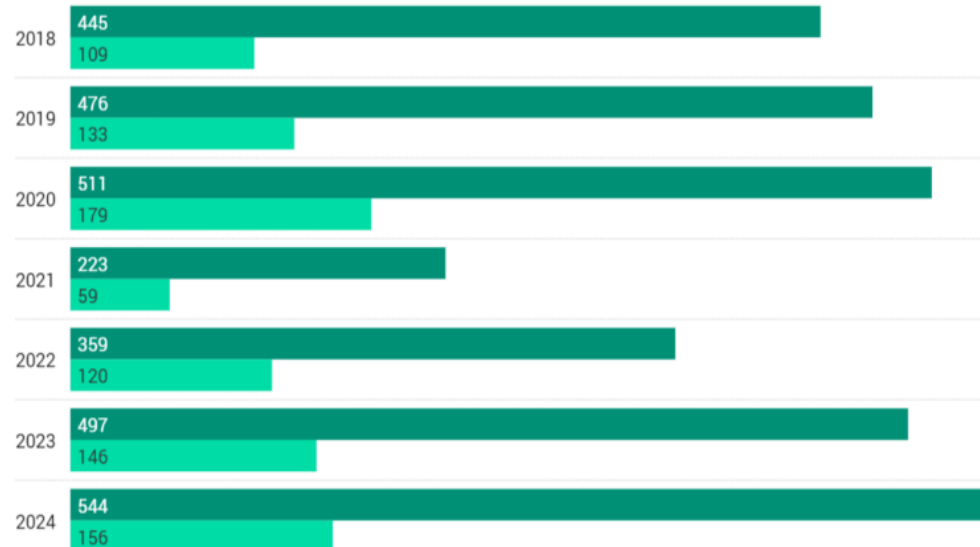


Zombie Infection Alert

Darwin's law at work (in Antwerp) – Waning subsidies favor the strong

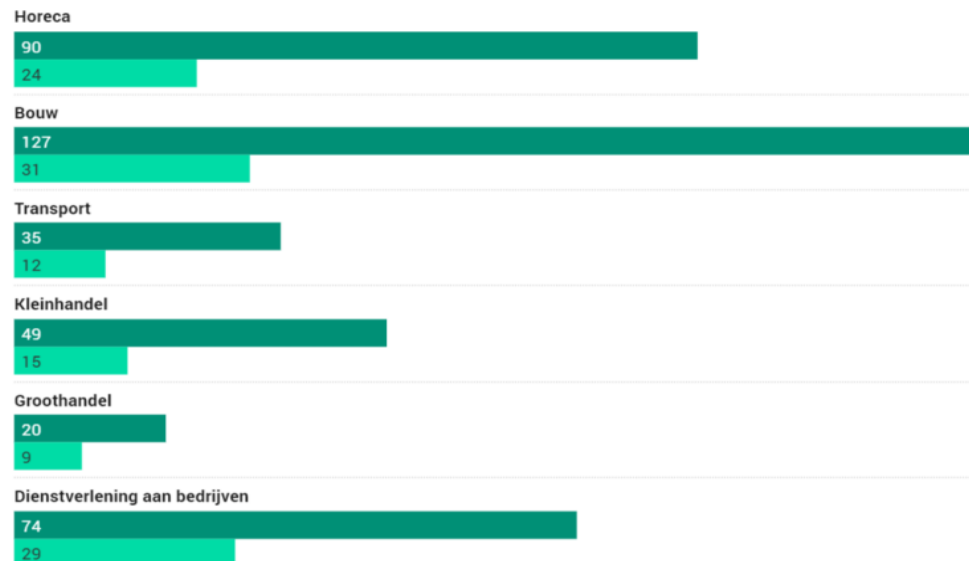
Aantal faillissementen

Vlaanderen provincie Antwerpen



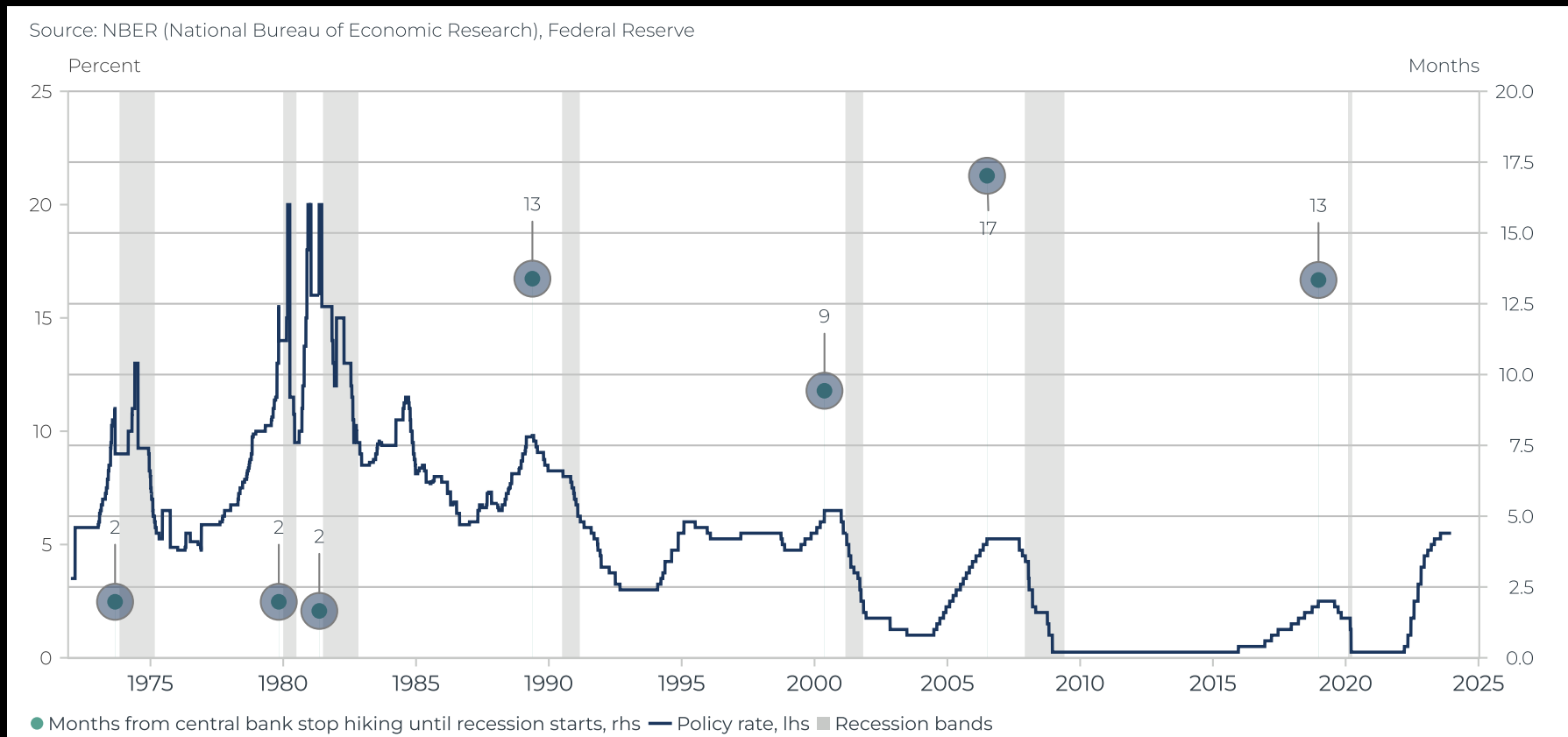
Faillissementen per sector (januari 2024)

Vlaanderen provincie Antwerpen



The Hide & Seek Recession

Number of months between central bank's last rate hike and recession

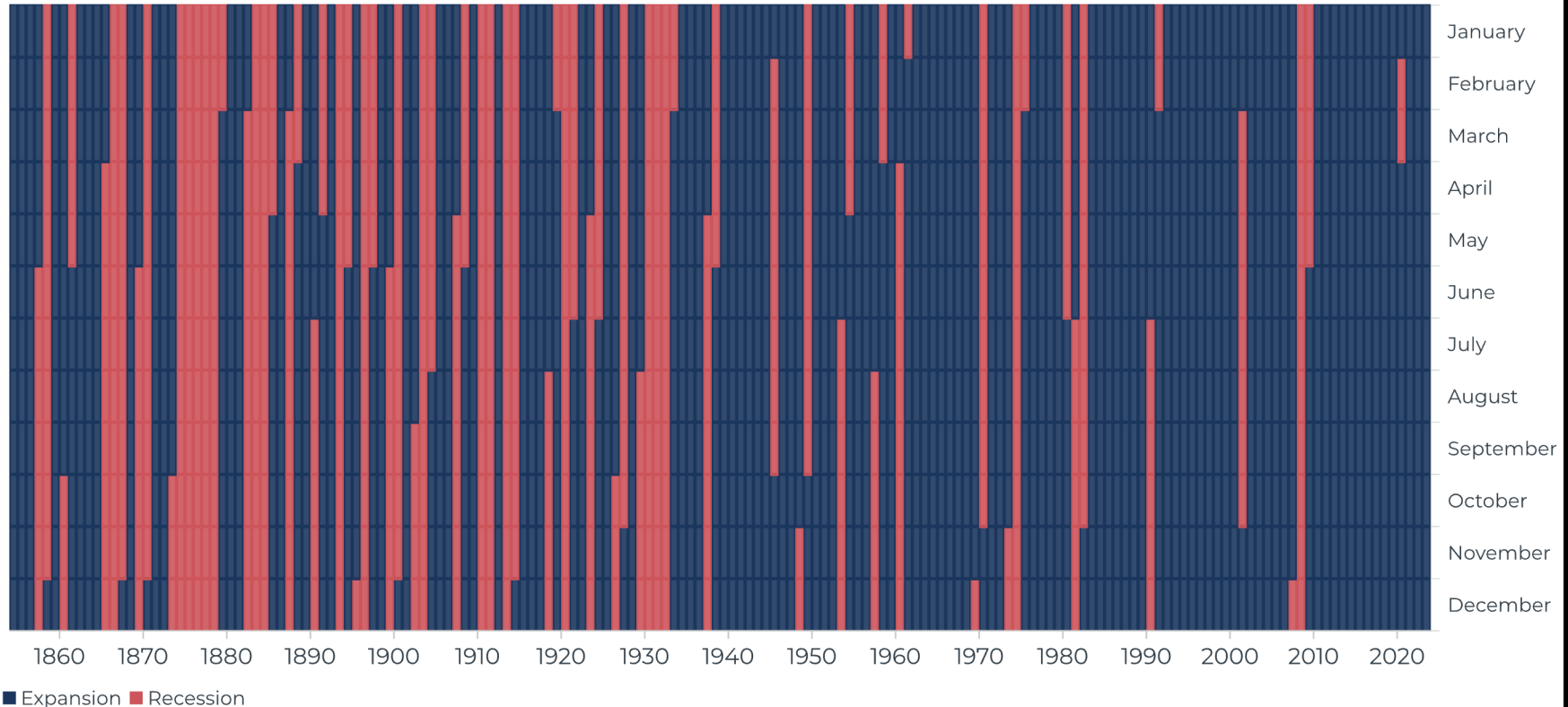


The Hide & Seek Recession

Recessions have become shorter and less frequent – What is a recession anyway?

Shorter and less frequent recessions

Source: NBER (National Bureau of Economic Research)



The Hide & Seek Recession

Manufacturing PMI-indicators in deep-red territory throughout the globe

	feb 22	mrt 22	apr 22	mei 22	jun 22	jul 22	aug 22	sep 22	okt 22	nov 22	dec 22	jan 23	feb 23	mrt 23	apr 23	mei 23	jun 23	jul 23	aug 23	sep 23	okt 23	nov 23	dec 23
EUROPA																							
Verwerkende nijverheid	58,2	56,5	55,5	54,6	52,1	49,8	49,6	48,4	46,4	47,1	47,8	48,8	48,5	47,3	45,8	44,8	43,4	42,7	43,5	43,4	43,1	44,2	44,4
Dienstensector	55,5	55,6	57,7	56,1	53,0	51,2	49,8	48,8	48,6	48,5	49,8	50,8	52,7	55,0	56,2	55,1	52,0	50,9	47,9	48,7	47,8	48,7	48,8
Gecombineerd	55,5	54,9	55,8	54,8	52,0	49,9	48,9	48,1	47,3	47,8	49,3	50,3	52,0	53,7	54,1	52,8	49,9	48,6	46,7	47,2	46,5	47,6	47,6
CHINA																							
Verwerkende nijverheid	50,2	49,5	47,4	49,6	50,2	49,0	49,4	50,1	49,2	48,0	47,0	50,1	52,6	51,9	49,2	48,8	49,0	49,3	49,7	50,2	49,5	49,4	49,0
Dienstensector	51,6	48,4	41,9	47,8	54,7	53,8	52,6	50,6	48,7	46,7	41,6	54,4	56,3	58,2	56,4	54,5	53,2	51,5	51,0	51,7	50,6	50,2	50,4
VS																							
Verwerkende nijverheid	58,4	57,0	55,9	56,1	53,1	52,7	52,9	51,0	50,0	49,0	48,4	47,4	47,7	46,3	47,1	46,9	46,0	46,4	47,6	49,0	46,7	46,7	47,4
Dienstensector	57,2	58,4	57,5	56,4	56,0	56,4	56,1	55,9	54,5	55,5	49,2	55,2	55,1	51,2	51,9	50,3	53,9	52,7	54,5	53,6	51,8	52,7	50,6
WERELD																							
Verwerkende nijverheid	53,8	53,0	52,3	52,4	52,2	51,1	50,3	49,8	49,4	48,8	48,7	49,1	49,9	49,6	49,6	49,5	48,7	48,6	49,0	49,2	48,8	49,3	49,0
Gecombineerd	53,5	52,8	51,3	51,3	53,4	50,7	49,3	49,6	49,0	48,0	48,2	49,7	52,1	53,3	54,1	54,3	52,6	51,6	50,6	50,5	50,0	50,5	51,0

Bron: LSEG Datastream

The Hide & Seek Recession

A lot of countries are already in the midst of a "technical recession"

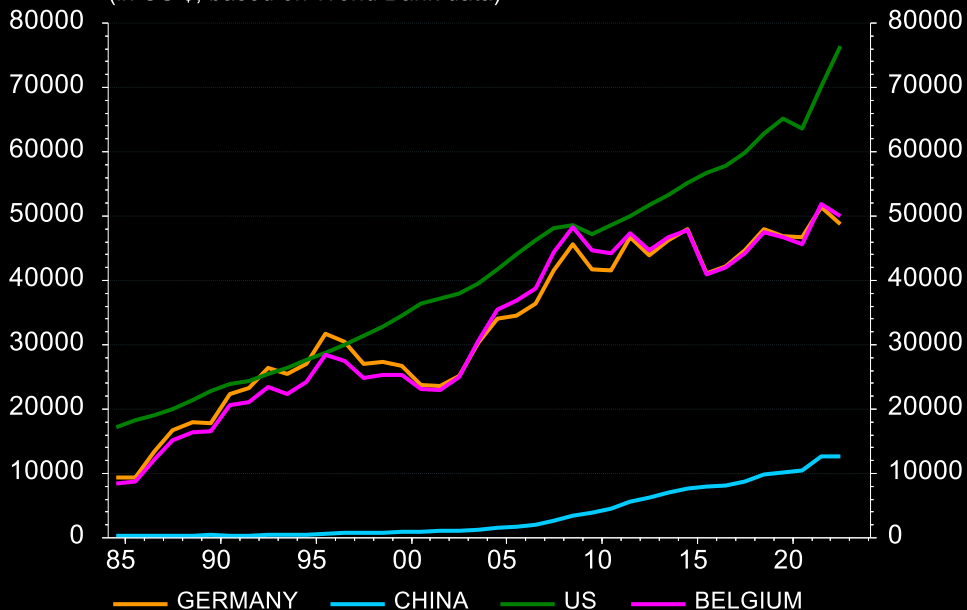
	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023
Duitsland	0,8	- 1,3	2,2	0,7	0,0	1,0	- 0,1	0,4	- 0,4	0,1	0,0	0,0	- 0,3
Frankrijk	- 0,6	0,1	0,9	3,0	0,5	- 0,1	0,4	0,6	0,0	0,0	0,7	0,0	0,0
Italië	- 0,4	1,6	2,6	2,8	0,8	0,1	1,4	0,3	- 0,2	0,6	- 0,3	0,1	0,2
Spanje	0,2	0,4	2,1	2,3	2,0	0,3	2,5	0,5	0,5	0,5	0,5	0,4	0,6
Nederland	0,6	1,2	3,0	2,1	0,7	0,5	1,7	0,2	0,7	- 0,5	- 0,4	- 0,3	
Polen	0,3	1,0	5,2	0,8	2,4	1,4	1,4	- 0,9	- 1,0	0,4	0,6	1,0	
België	- 0,4	1,8	1,9	2,2	0,8	0,1	0,7	0,3	0,2	0,4	0,3	0,4	
Zweden	0,7	1,1	1,6	2,2	2,1	- 0,9	0,8	0,8	- 0,8	0,5	- 0,8	- 0,3	
Ierland	- 5,0	11,0	2,7	3,3	- 2,9	6,1	2,4	3,5	- 1,6	- 1,9	- 0,4	- 1,9	
Oostenrijk	- 1,3	- 1,6	7,2	0,2	0,7	1,3	4,4	- 4,7	1,4	2,1	0,2	- 5,2	
Denemarken	1,0	1,1	3,1	1,4	2,2	- 1,4	1,0	0,6	0,1	0,9	- 0,7	- 0,7	
Roemenië	4,8	0,9	0,2	1,0	0,4	3,0	0,1	0,7	1,2	- 0,8	1,5	0,9	
Tsjechië	1,2	- 0,6	1,4	1,8	0,8	0,6	0,2	- 0,2	- 0,4	0,1	0,1	- 0,6	
Finland	0,8	- 0,3	1,4	1,1	0,8	- 0,2	0,7	- 0,1	- 0,5	0,0	0,3	- 0,9	
Portugal	0,4	- 2,4	4,5	3,0	1,9	2,3	0,1	0,5	0,5	1,5	0,1	- 0,2	0,8
Griekenland	3,4	3,6	1,2	3,2	0,8	2,3	0,4	0,5	0,9	0,1	1,1	0,0	
Hongarije	1,7	1,2	2,3	1,3	2,5	1,4	1,1	- 1,1	- 0,8	- 0,2	0,0	0,9	
Slovakije	0,8	- 0,2	1,7	0,6	0,5	0,3	0,1	0,3	0,2	0,2	0,4	0,2	
Bulgarije	1,8	2,7	1,4	2,0	1,5	0,7	0,8	0,6	0,6	0,4	0,4	0,4	
Luxemburg	- 1,1	3,8	1,0	0,4	2,3	0,0	- 0,3	0,2	- 2,3	0,9	- 0,2	- 0,1	
Kroatië	6,6	5,5	3,6	1,4	0,8	1,0	6,2	- 2,4	- 1,4	0,6	6,4	- 2,2	
Litouwen	0,4	1,8	1,6	1,8	1,2	0,6	- 0,6	0,7	- 0,5	- 1,9	2,4	0,0	- 0,3
Slovenië	- 2,3	4,5	1,1	2,4	1,3	0,0	0,5	- 0,1	0,6	0,2	1,0	- 0,2	
Cyprus	5,1	3,0	0,7	3,2	1,9	0,7	0,5	1,1	0,5	1,0	- 0,4	1,1	
Estland	1,9	1,8	3,3	- 1,3	0,9	- 0,1	0,8	- 2,3	- 2,3	0,4	1,6	- 3,4	
Letland	1,0	0,6	2,6	2,9	0,0	1,5	0,1	- 0,7	0,6	- 0,5	- 0,3	0,2	
Malta	3,3	6,1	3,7	2,6	0,3	0,9	7,0	- 2,1	1,9	0,9	5,8	- 1,1	

The Hide & Seek Recession

GDP growth per capital continues unabated, with spending power to match

GDP per capita

(in US \$, based on World Bank data)



Bron: LSEG Datastream

GDP per capita growth

(10-yr, in US \$, based on World Bank data)



Bron: LSEG Datastream

The Hide & Seek Recession

Despite record-high employment, are consumers willing to spend?

German consumers are losing confidence

("Willingness to buy"-subindicator)



Germany consumer confidence breakdown

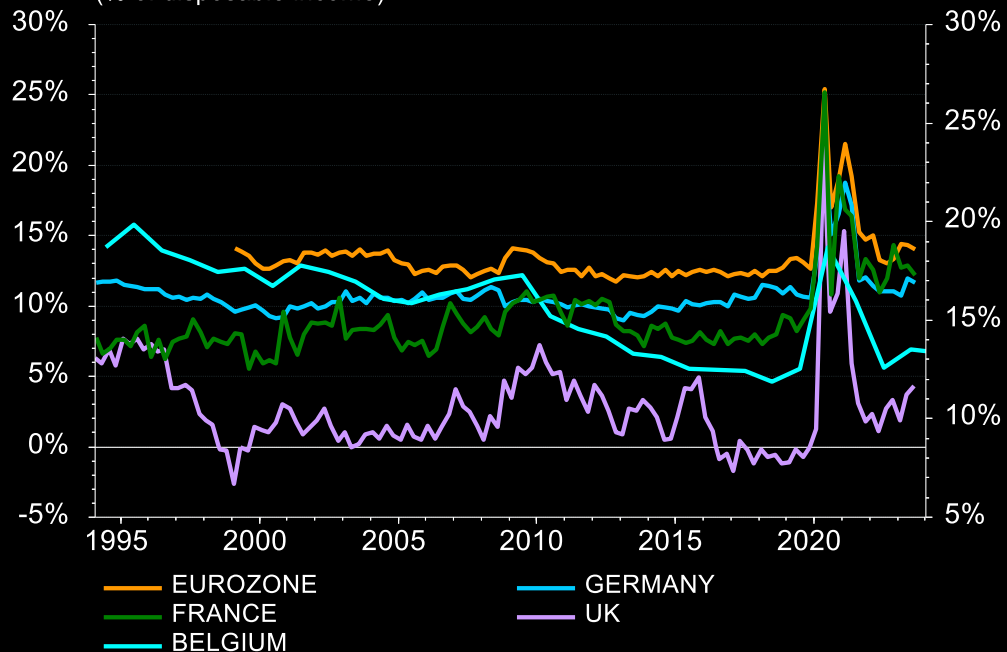
	Jan 24	Dec 23	Jan 23
Economic expectations	-6,6	-0,4	-0,6
Income expectations	-20	-6,9	-32,2
Willingness to buy	-14,8	-8,8	-18,7
Willingness to save	14	7,3	0,3
Consumer Climate	-25,4	-27,6	-37,6

The Hide & Seek Recession

Savings quotes are rising, as is the case for retail deposits

Savings quotes: EU

(% of disposable income)



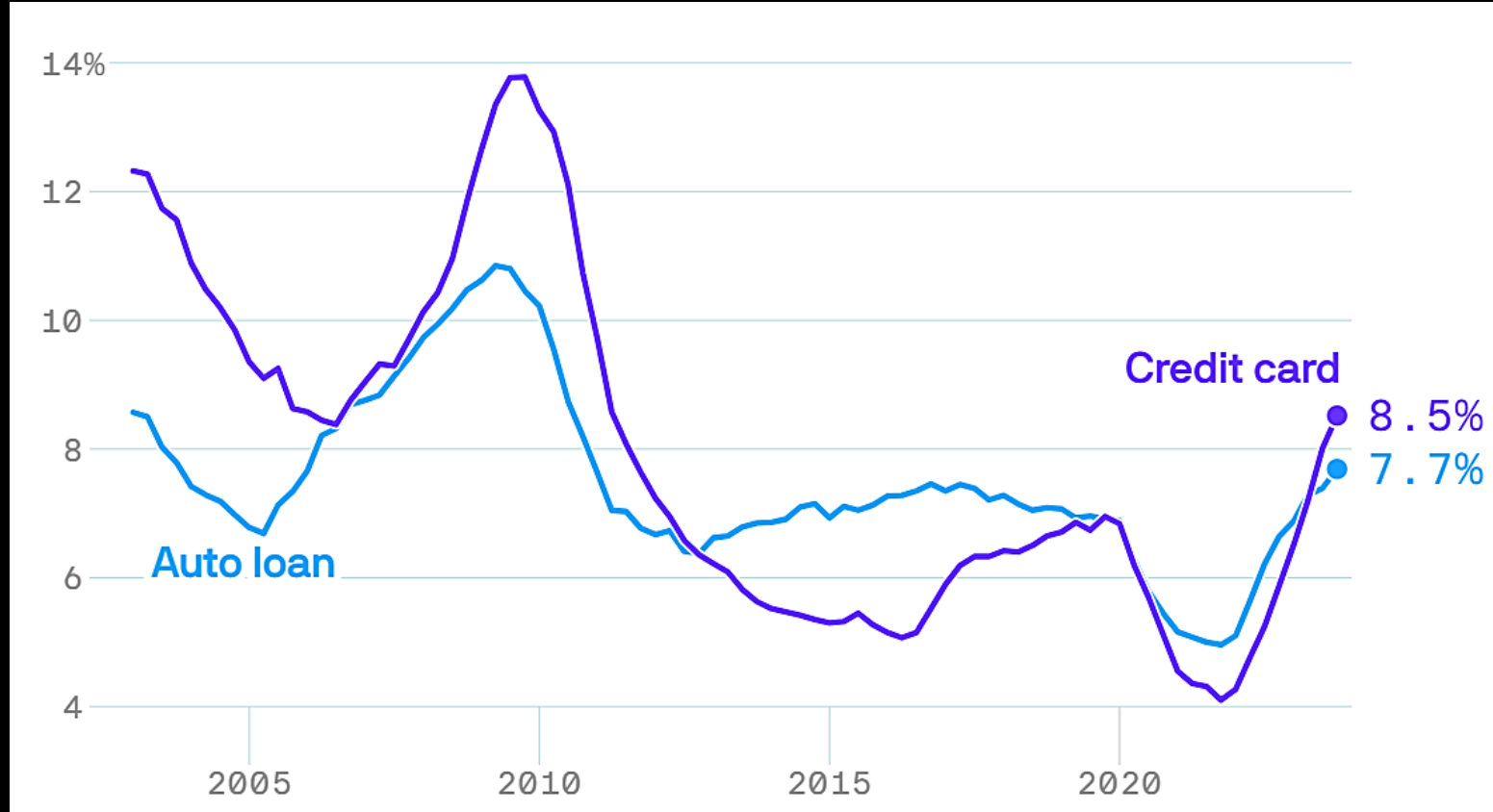
Bron: LSEG Datastream



Source: Bloomberg

The Hide & Seek Recession

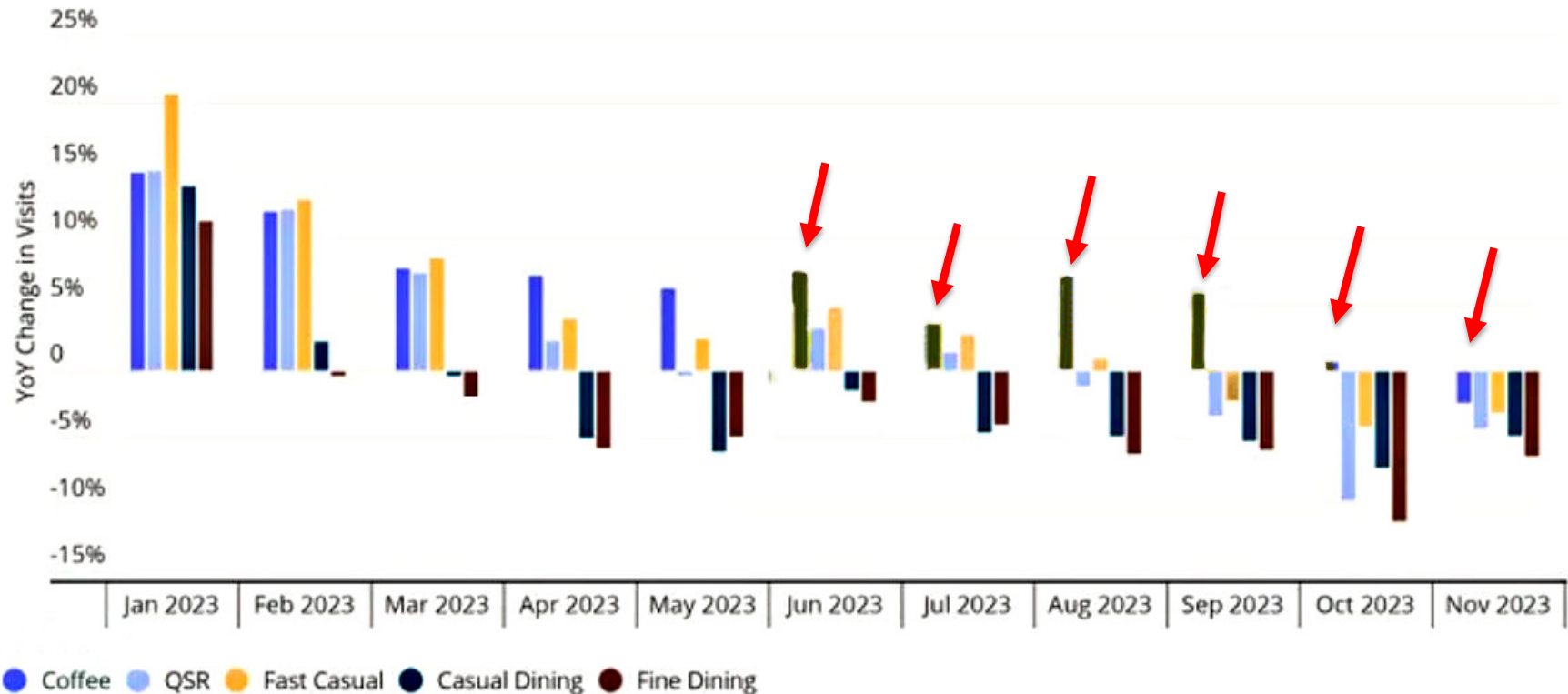
Credit card delinquencies surged in 2023 - Did someone say “financial stress”?



The Hide & Seek Recession

Even spending in coffee shops starts to come under pressure

Restaurants: YoY Change in Monthly Visits by Category (Jan-Nov 2023)



A man with brown hair, a beard, and black-rimmed glasses is shown from the chest up. He is wearing a dark blue suit jacket over a white shirt and a dark tie. He is looking upwards and to the right with a thoughtful expression, holding a black pen to his chin with his right hand.

What was the best investment since the end of 2020?

- Cocoa
- Uranium
- Olive oil
- Tesla car

Uncontrolled Commodities

External price factors will be passed on to consumers

Uranium price (-5 year): +260%



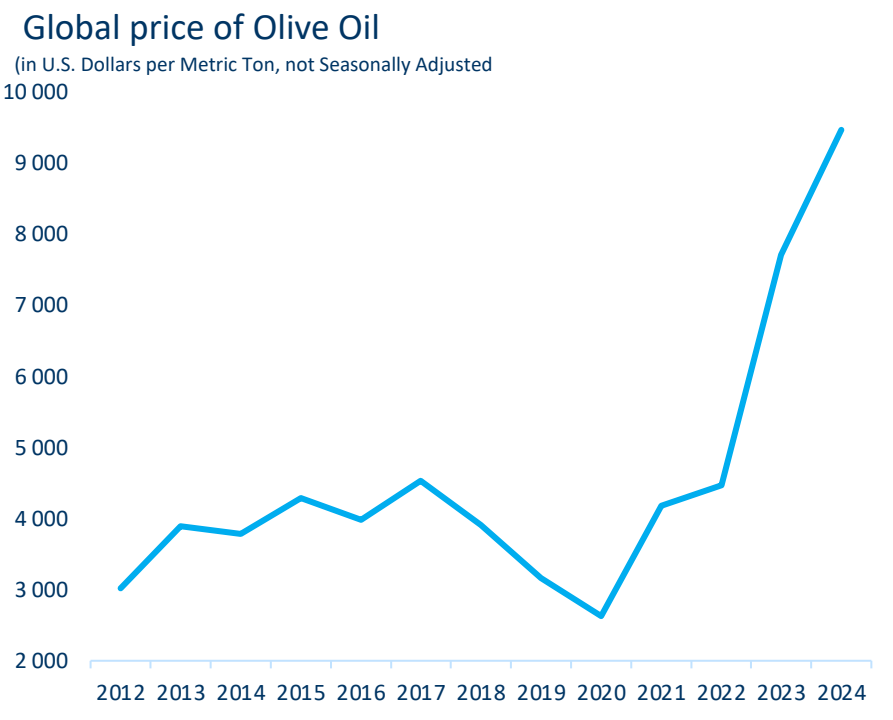
Cocoa price (-5 year): +146%



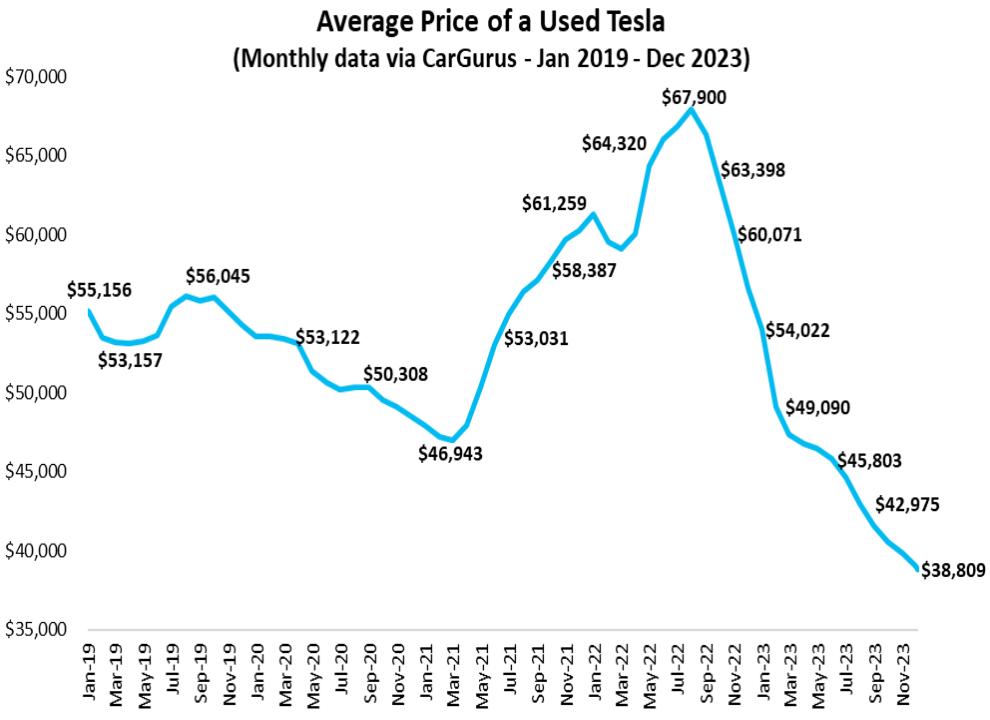
Uncontrolled Commodities

External price factors will be passed on to consumers

Olive oil price (-5 year): +200%



Tesla car (-5 year): -30%

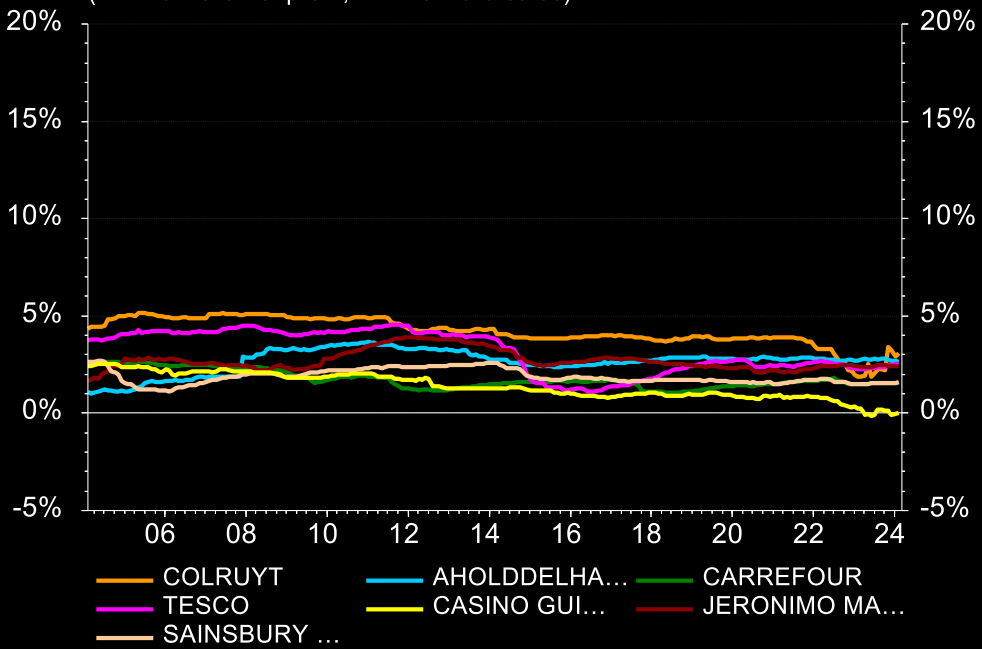


Uncontrolled Commodities

Margin-evolution throughout the “consumer value chain”

Net profit margins in retail distribution

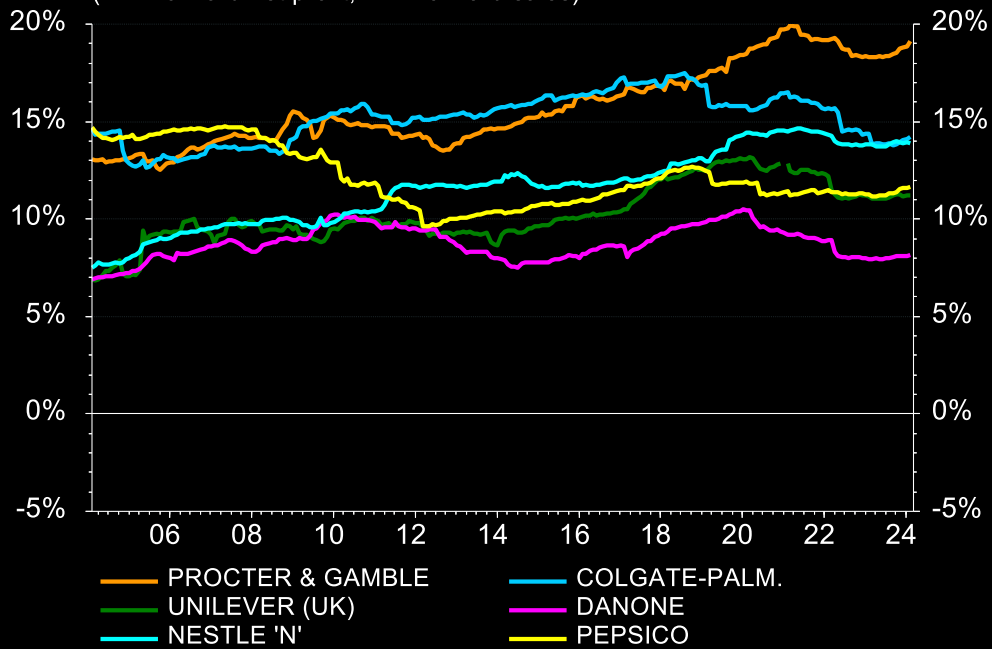
(12m forward net profit, 12m forward sales)




Bron: LSEG Datastream

Net profit margins in 'Consumer goods'

(12m forward net profit, 12m forward sales)



Bron: LSEG Datastream

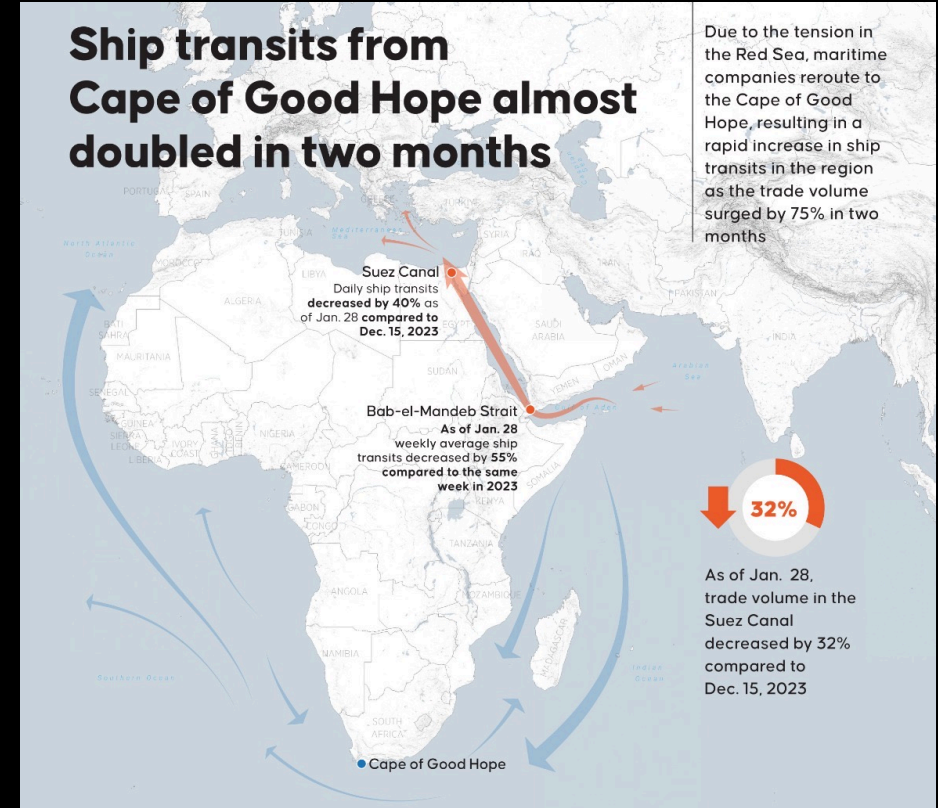
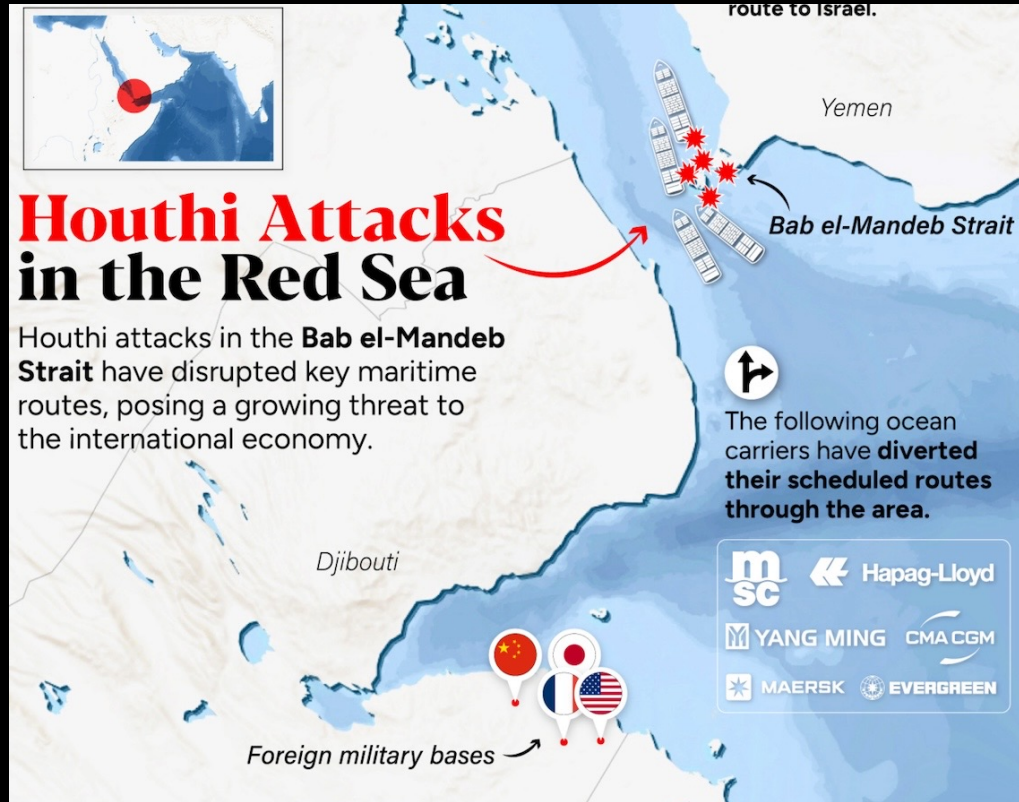
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What's more problematic for world trade?

- Red Sea tensions
- Gatún Lake water level
- Drunk Captains

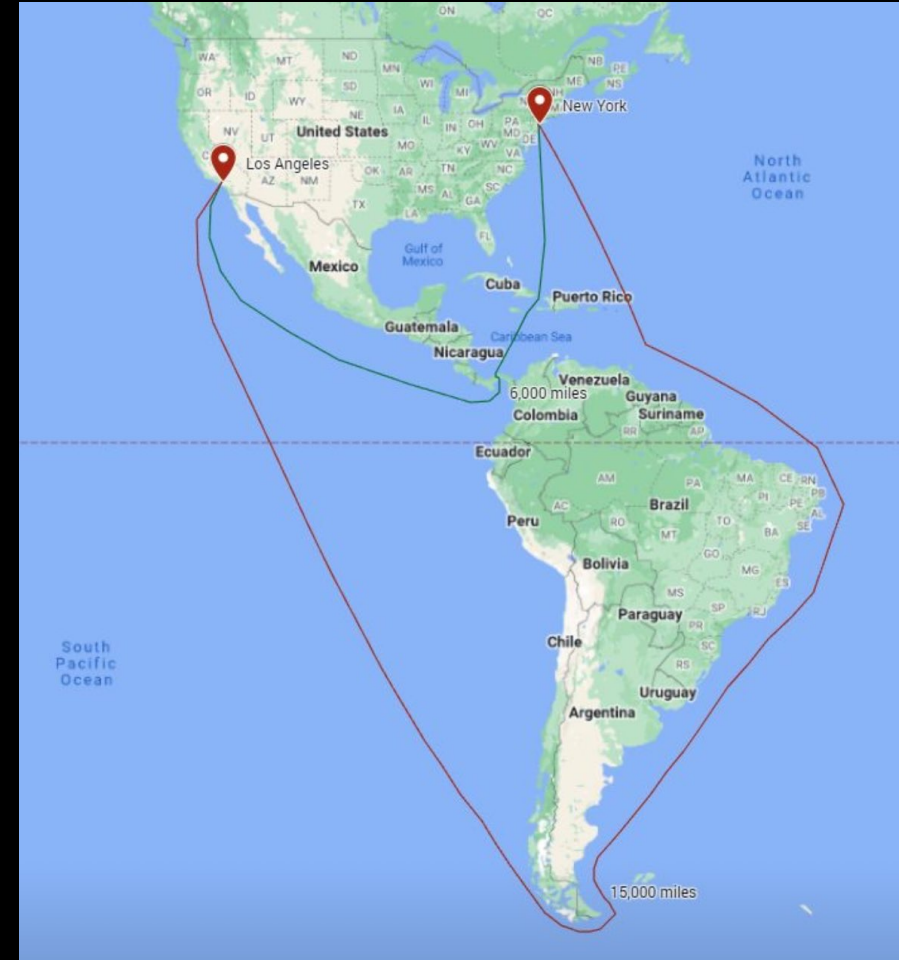
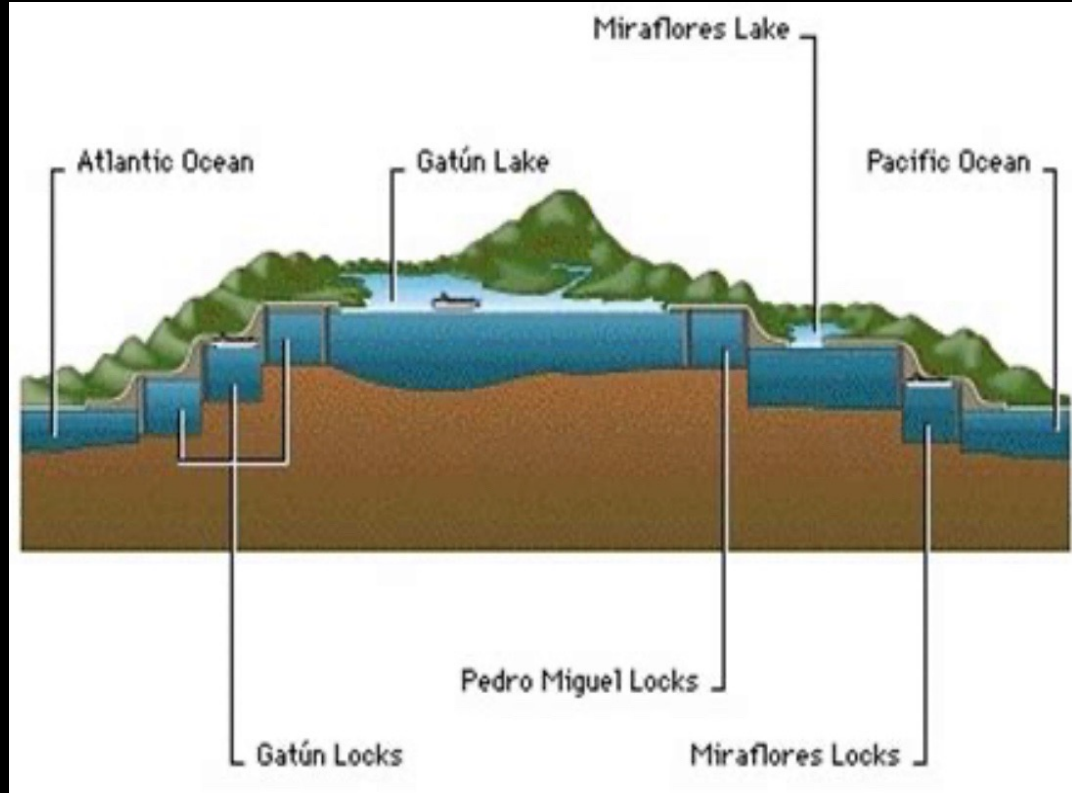
Supply chain

Dynamiek van de verschillende inflatiecomponenten



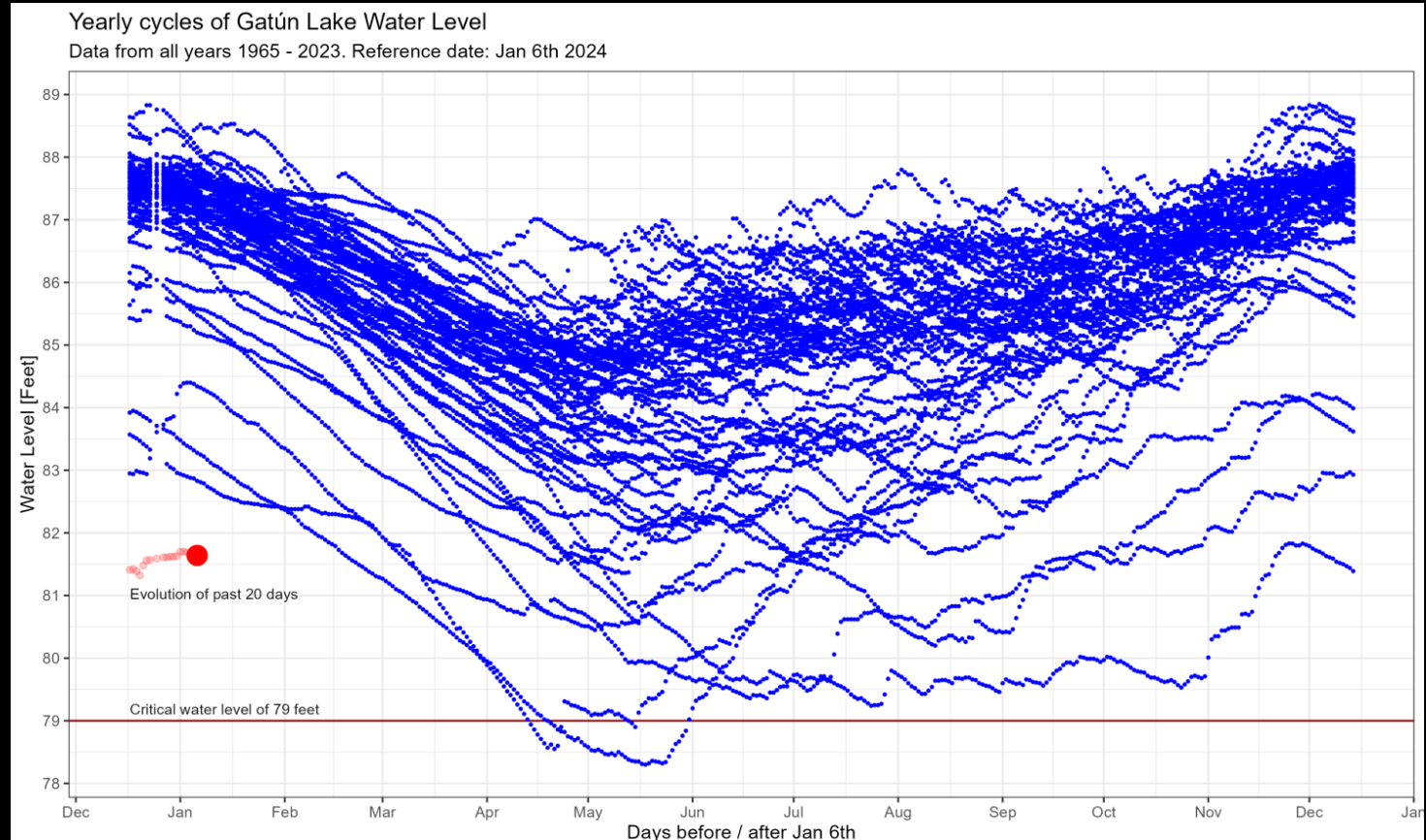
The Supply chain Is Drunk

Water scarcity may pose a greater current AND long-term risk to world trade



The Supply chain Is Drunk

Lake Gatùn dries up – Freighters need to become creative – Transport cost pressure

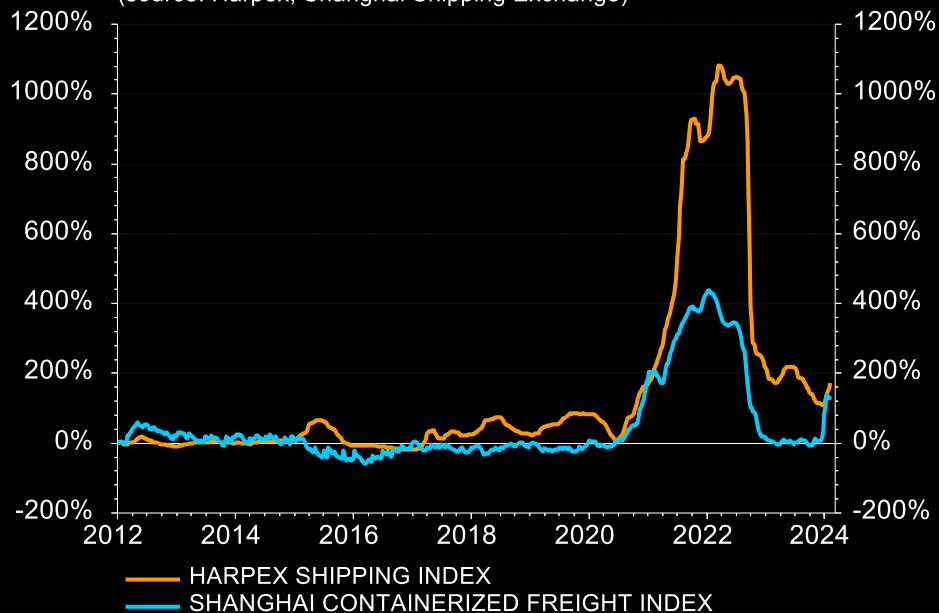


The Supply chain Is Drunk

Container rates are soaring once again – Transport in Flanders is a standstill game

Container freight rates on the rise again

(source: Harpex, Shanghai Shipping Exchange)



Bron: LSEG Datastream

Filezwaarte

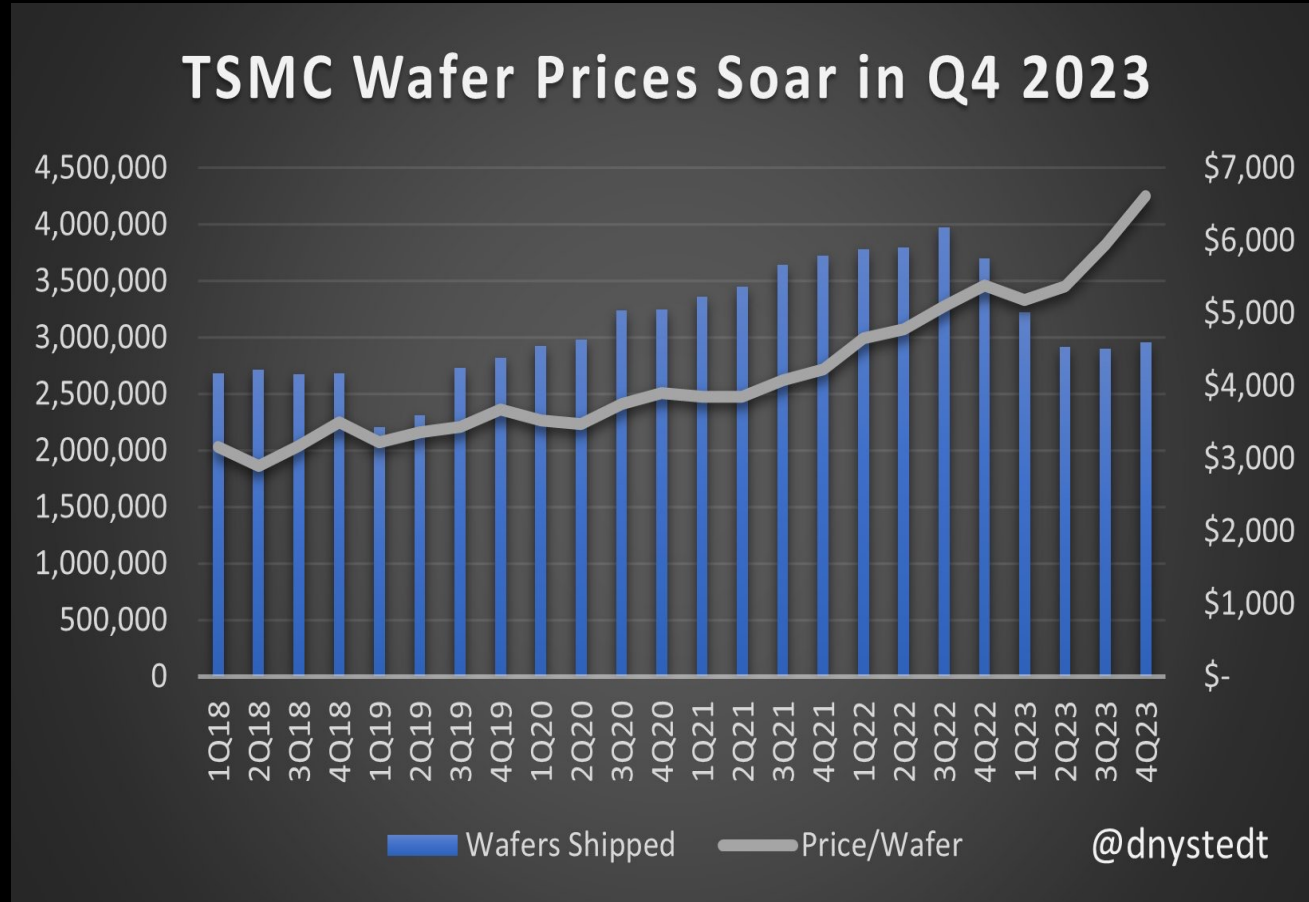
Vlaams Gewest, vanaf april 2012, kilometeruren per werkdag (12-maands voortschrijdend gemiddelde)



Bron: Vlaams Verkeerscentrum (via dataroom Departement MOW)

The Supply chain Is Drunk

Wafer prices are exemplary of underlying pressures – What else remains invisible?



A man with brown hair, a beard, and black-rimmed glasses is shown from the chest up. He is wearing a dark blue suit jacket over a white shirt and a dark tie. He is looking upwards and to the right with a thoughtful expression, holding a black pen in his right hand, resting it against his chin.

What's your favorite platform
to consume news?

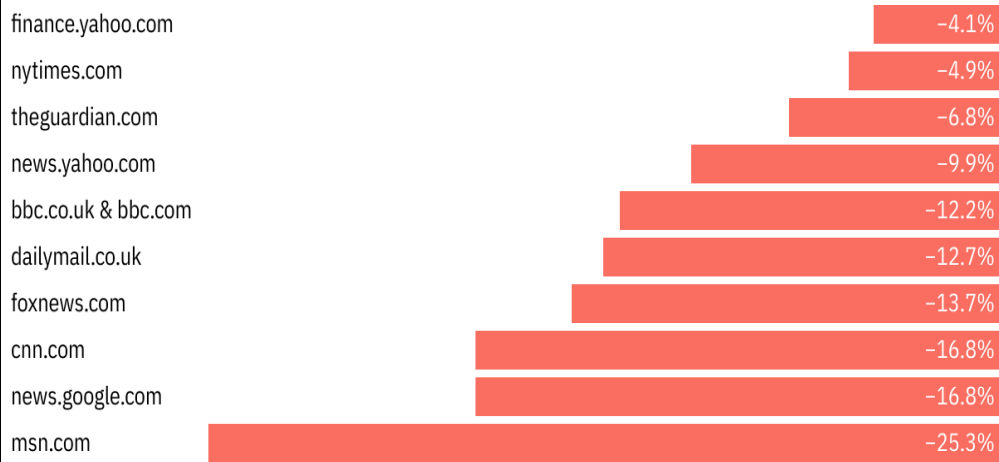
- Financial Times
- De Tijd
- Gondola
- Facebook
- LinkedIn
- HLN

Did you hear the news?

Traditional news channels are bleeding eyeballs – Speciality news is an exception

All top 10 newsbrands saw traffic slumps in December

YoY change in worldwide visits, top 10 sites, Dec 23

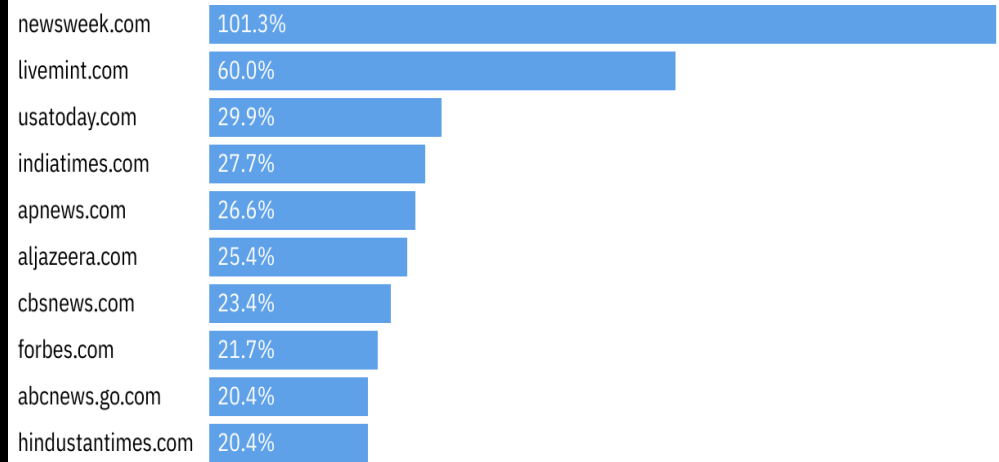


Source: Similarweb

PressGazette

Newsweek was the fastest-growing site in December

YoY change in worldwide visits, top 50 sites, Dec 23

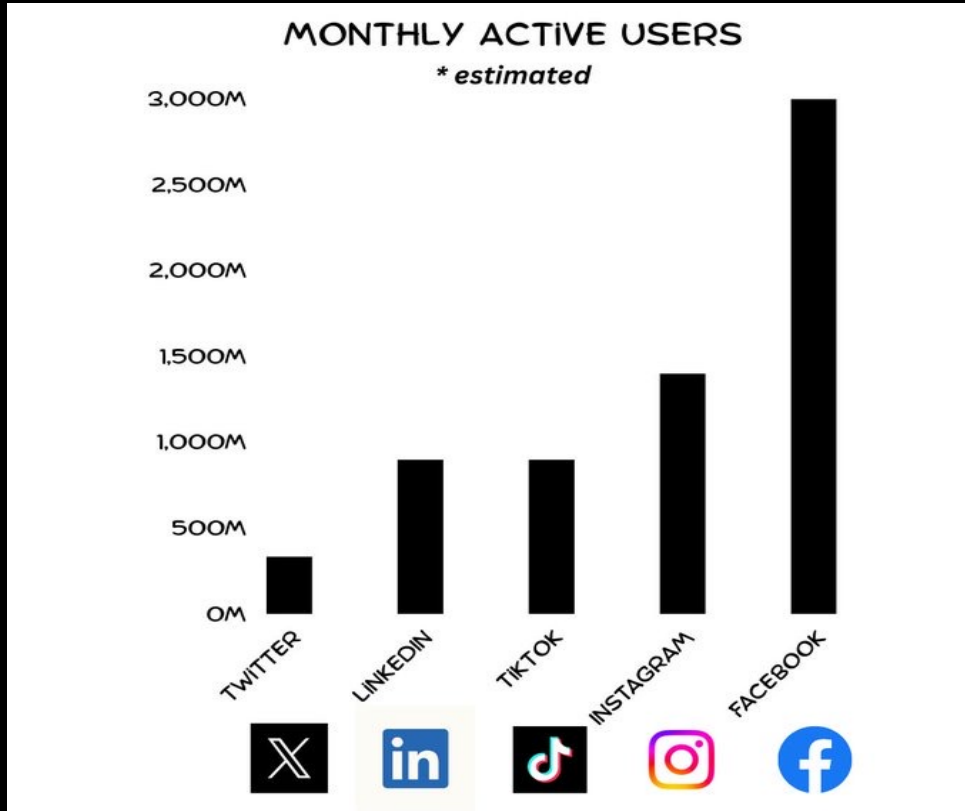


Source: Similarweb

PressGazette

Did you hear the news?

Social media platforms flexing muscles – Who's reading and how/where do they spend?



Monthly Active Users by social media platform:

- ➔ Facebook 3B
- ➔ Instagram 1.4B
- ➔ LinkedIn 900M
- ➔ TikTok 900M
- ➔ Twitter 335M

So how do they spend?
And where?

Did your hear the news?

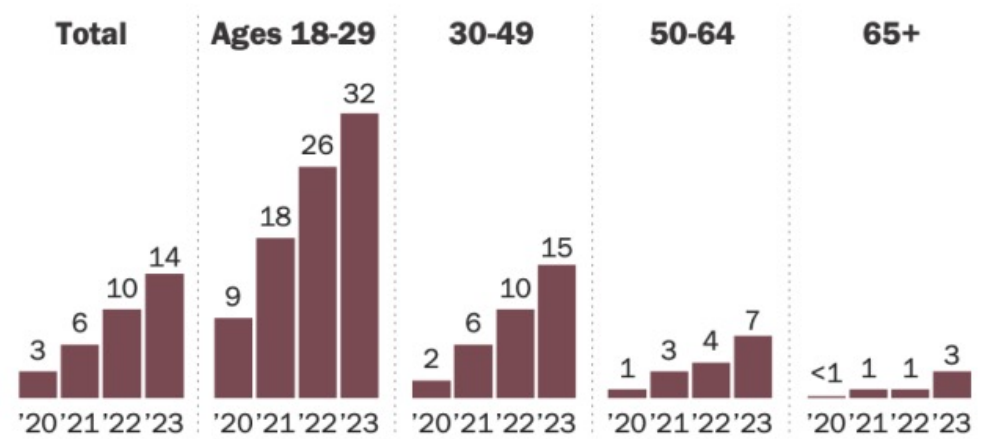
Monthly Active Users by social media platform:

Proportion who used each social network for news in the last week

	Europe	North America	Asia	Latin America	Africa
Facebook	40%	34%	43%	57%	
YouTube	23%	25%	42%	35%	44%
WhatsApp	16%	6%	24%	35%	
Instagram	14%	10%	18%	28%	29%
Facebook Messenger	11%	13%	11%	11%	15%
Twitter	9%	11%	14%	16%	34%
Telegram	4%	2%	9%	6%	18%
TikTok	5%	6%	9%	11%	14%

About a third of U.S. adults under 30 now regularly get news on TikTok

% of U.S. adults who **regularly** get news from TikTok, by age group

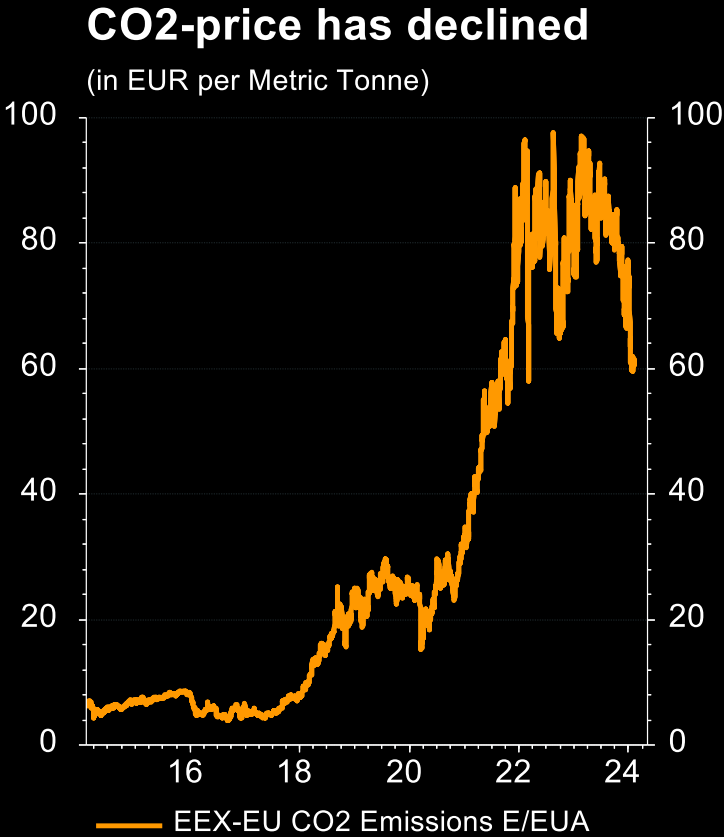
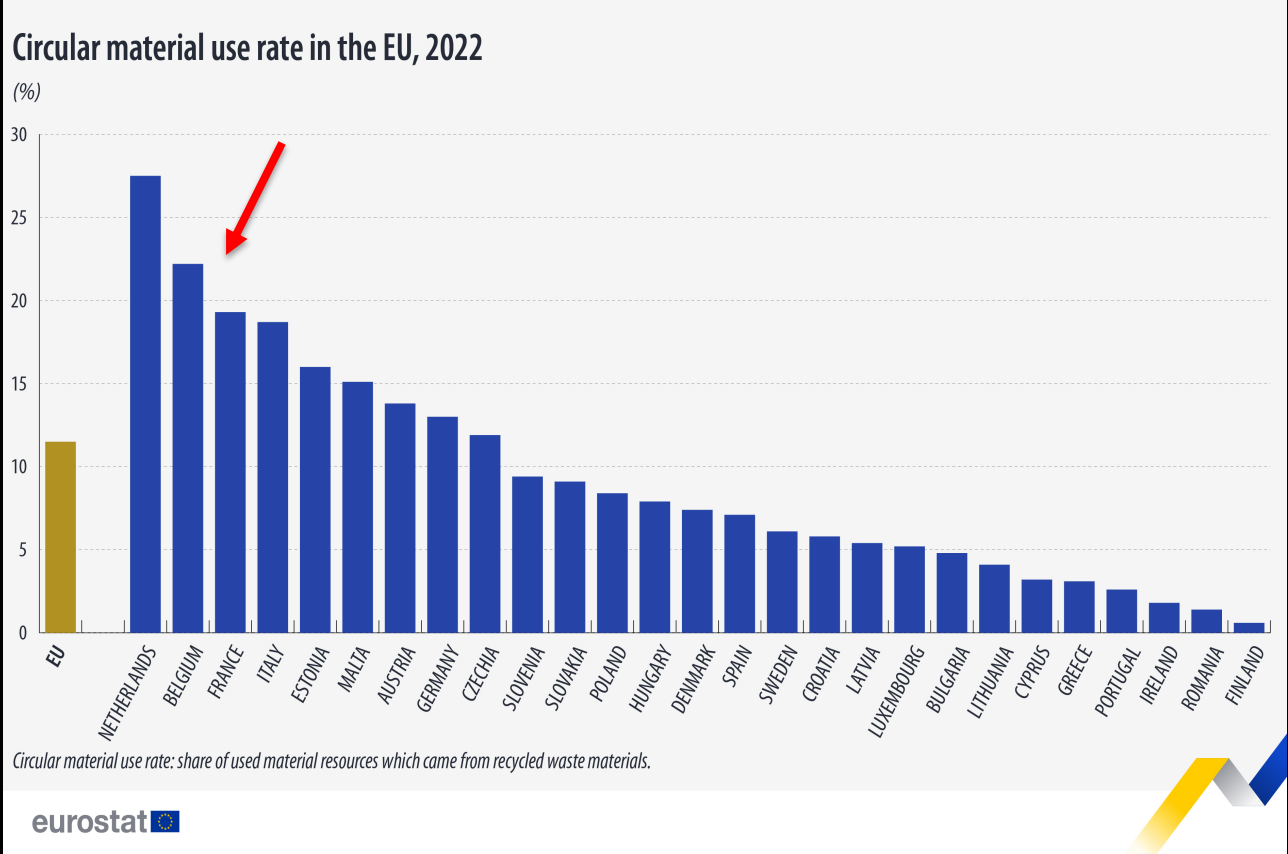


Source: Survey of U.S. adults conducted Sept. 25–Oct. 1, 2023.

PEW RESEARCH CENTER

And now for something completely different

sustainability



Bron: LSEG Datastream

Change in CO2 emissions and GDP





2024 economy “More than meets the eye”

Gondola – Economic Expectations
Mechelen - 8 February 2024

Tom Simonts
Senior Financial Economist

