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ADVANCED ECONOMIES

United States

A solid economy despite job creation below expectations. Net job creation slowed significantly in January 2025 (+143k compared to over 300k in December, vs. consensus at +175k). However, the upward revisions in November and December (+100k cumulatively) more than offset this negative development. The downward revisions over 2024 maintained the annual average at a solid +166k (compared to +186k initially). The situation remains positive in other areas: strong monthly acceleration in wages (+0.5% m/m, +0.2 pp), and a drop in the unemployment rate (-0.1 pp to 4.0%). In terms of activity, January 2025 marked the return of the ISM Manufacturing Index to expansion territory (50.9, +1.7 pp), for the first time since 2022, a surprise on the upside offset by the drop in the ISM Non-Manufacturing Index (-1.2 pp to 52.8). And lastly, beyond a further decline in consumer sentiment, the preliminary results of the University of Michigan survey for February proved inconsistent, with a jump of +1 pp in 1-year inflation expectations, to +4.3%.

Euro area

The ECB wage tracker points to a significant slowdown in earnings in 2025. Calculated using data from wage agreements already negotiated, this index fell to 1.3% y/y at the end of 2025, compared to 4.9% in January 2024. Production prices (excluding construction) emerged from deflation in December (0.0% y/y). Retail sales fell by 0.2% m/m in December. However, they posted a moderate increase of +0.9% as an annual average in 2024, with declines m/m in Germany (-1.6%), France (-0.2%) and the Netherlands (-0.2%) and increases in Italy and Spain (+0.3% m/m each), and Belgium (+1.3% m/m). The final PMI composite estimate for January is unchanged from the flash estimate, at 50.2, compared to 49.6 in December.

Germany A **difficult end to 2024, but does 2025 look any better?** Industrial production contracted by 2.4% m/m in December, falling to a low not seen since the beginning of 2010 (excluding Covid). New orders to industry, on the other hand, are sending a positive signal: their 6-month moving average rose by nearly 4% between August and December 2024. The CDU/CSU recorded a slump in the polls in favour of the AfD and small parties. While its probable score (nearly 30%) should allow it to lead a future coalition, this could require a three-party agreement (with the SPD and the Greens).

France **Could good news drive away bad news?** The final composite PMI estimate for January was lowered to 47.6 (compared to 48.3 according to the flash estimate), which is stable compared to December (47.5). Private-sector salaried employment fell by 50,000 jobs in Q4 according to Insee, a setback probably linked to the Olympic Games (after 27,000 jobs created in Q3). The 2025 budget was finally adopted by Parliament. The budget is aiming for public deficit of 5.4% of GDP, compared to 6.1% in 2024. The effort mainly concerns compulsory levies (43.5% of GDP in 2025 compared to 42.8% in 2024), of which EUR 12 billion would affect companies. In terms of expenditure, the effort is concentrated on the government budget (-8.8 billion), primarily targeting the support to employment, the ecological transition and investment. As a result, the spread between the 10-year OAT and the 10-year Bund fell to nearly 70 bps (compared to 80 bps at the beginning of February) while the 10-year OAT rate fell to 3.1%, close to its pre-dissolution level.

United Kingdom T**he BoE cuts interest rates by 25 bps to 4.5% and halves its growth projection.** The MPC is now forecasting a contraction of GDP of 0.1% q/q in Q4 2024, followed by +0.1% in Q1 2025 and +0.75% for 2025 as a whole. Two members of the MPC (Swati Dhingra and surprisingly, given her usually restrictive positioning, Catherine Mann) voted for a cut of 50 bps. Despite a slight improvement in industry, economic surveys continue to send worrying signals. The rise in the manufacturing PMI (+1.3 points to 48.3 points) drove the composite PMI up (+0.2 points to 50.6 points), but employment and sales price indices in services are developing very unfavourably (the former at its lowest level since January 2021, the latter at its highest since December 2023).

EMERGING ECONOMIES

PMI indices are holding up well in January. On a sample of 15 emerging countries, the January diffusion index was down compared to the average in Q4 2024 in less than half of the countries (38%). However, this ratio is higher (47%) for export order books. In terms of level, the gap observed between Asian countries (a majority of PMIs still = >50) and Central European countries (a majority of PMIs mainly <50) is widening.

China **Measured response to the 10% increase in US tariffs.** The Chinese authorities have announced some retaliatory measures including anti-trust investigations against Google, new export controls on five rare metals, tariffs on imports of certain US goods (such as coal and LNG), and the introduction of new names on Beijing's "unreliable entity list". The Central Bank did not allow the CNY/USD exchange rate to depreciate when markets reopened after the Chinese New Year.

India **Budget under pressure but monetary easing starting.** In its budget for the fiscal year 2025/2026, the government aims to reduce its fiscal deficit from 0.4 pp to 4.4% of GDP, close to its pre-pandemic level. Of note is the increase in the interest burden on government debt, which is already very high, expected to reach 3.6% of GDP or 36.5% of fiscal receipts, and the stabilisation of public investment expenditure at 3.1% of GDP. These points reflect the lack of room for manoeuvre to support growth and address significant infrastructure shortcomings. For its part, the Reserve Bank of India (RBI) cut its key rate by 25 bps for the first time in almost five years. Justified by lower inflation and growth, this decision could exacerbate downward pressure on the rupee.

COMMODITIES

At its meeting on 3 February, OPEC+ kept its production unchanged. If market conditions are met, the cartel members could decide to gradually increase their production (+0.12 mb/day per month) at their meeting on 5 April.