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ADVANCED ECONOMIES

United States

Announcements, adjustments and temporary reprieves: In the United States, customs duties of 25% on imports from Canada (excluding energy: 10%) and Mexico came into force on Tuesday 4 March... before a reprieve was granted, until 2 April, for the automotive sector in both countries and for all products covered by the USMCA free trade agreement. Canada retaliated with 25% tariffs on CAD 30 billion of US products. At the same time, an additional 10 percentage points (pp) have been imposed on Chinese products (+20 pp since Trump's inauguration). In a speech to Congress, Trump announced that the "reciprocal tariffs" would come into force on 2 April and admitted that there would be some temporary "inconvenience".

Slowing down or contracting? Nonfarm payrolls growth picked up (+151,000 in February, +26,000 in January), but unemployment rose slightly (4.1%). The ISM manufacturing index slowed to 50.3 (-0.6 pp), with new orders and employment falling, while the prices paid index was at its highest level since 2022. The ISM non-manufacturing index recovered (53.5, +0.7 pp) thanks to the same two components. The monthly trade deficit (goods and services) increased and hit an all-time high: - USD 131 billion (surge in imports). The Atlanta Fed's GDPnow suggests that growth will fall sharply to -0.6% q/q non-annualised in Q1 2025 (compared with an estimate of +0.5% 2 weeks ago), against a backdrop of a negative contribution from foreign trade and stagnating private demand. On the economic policy front, President Trump has called on Congress to end the CHIPS and Science Act of 2022.

Eurozone / European Union

Historic strategic turning point in Europe. The European Commission has unveiled its "ReArm Europe" plan, which involves raising EUR 150 billion in joint loans for EU defence. In addition, a relaxation of budgetary rules is planned (exemption from European fiscal rules for defence spending). **The ECB cuts rates by a further 25 basis points, but offers less clarity for April.** It remains confident in the disinflation process and has indicated that its policy is "significantly less restrictive". The central bank forecasts 0.9% growth in 2025 and 1.2% in 2026 (-0.2 pp respectively). Eurozone growth for Q4 2024 has been revised upwards (from 0.1% q/q to 0.2% q/q). In January, the unemployment rate remained at an all-time low (6.2%) and retail sales fell by 0.3% m/m after two months of stagnation. The composite PMI held steady at 50.2 in February. The manufacturing PMI (47.6) returned to its highest level for two years.

Germany The CDU/CSU and the SPD have announced an investment plan for infrastructure (EUR 500 billion over 10 years) and defence (spending in excess of 1 point of GDP would no longer be subject to the "debt brake"). This plan will have to be passed by a two-thirds majority in the Bundestag on 18 March, just before the formation of the new Parliament (25 March) in which the CDU/CSU, SPD and Greens will not have such a majority. This plan could significantly boost German growth. The anticipated increase in the country's debt resulted in a jump in the 10-year German bond rate (+35 bps between Tuesday 4 and Friday 7 March) from 2.48% to 2.83%. At the same time, **negotiations to form a coalition government between the CDU/CSU and the SPD are progressing and the first priorities have been announced.** After rising between August and December 2024, new industrial orders wiped out most of these gains in January.

France Manufacturing output contracted by 0.7% m/m in January (-2.4% y/y), but the decline did not affect the automotive sector. Housing starts rebounded with a cumulative 16% year-on-year increase over the last four months (October to January). President Macron has announced an increase in the defence budget, without specifying the amount, over and above what has been planned until now (2.5% of GDP in 2030). Financing will have to be reconciled with the budgetary consolidation effort begun in 2025 and the desire not to raise taxes. Several avenues are being explored (use of part of the Livret A savings account, creation of a dedicated savings account, and launch of a major loan to channel some of the [high] savings of the French).

United Kingdom The construction PMI deteriorated (-3.5 points to 44.6). The composite PMI was stable (-0.1 pt at 50.5), but the fall in the employment indices was pronounced, affecting the manufacturing sector (41.1) and services (43.9). House prices fell by 0.1% m/m in February (according to Halifax) and mortgages (excluding renegotiations) fell by 0.5% m/m in January, according to the Bank of England. The Prudential Regulation Authority has launched a consultation with a view to increasing the deposit limit above which a bank must comply with the "leverage ratio" rules.

China Roadmap for 2025. The authorities announced their macroeconomic targets at the opening of the annual session of the National People's Congress: i) the economic growth target of "around 5%", unchanged since 2024, is ambitious given the expected slowdown in exports and the weak domestic consumption; it reveals the authorities' intention to continue their monetary and fiscal support. ii) The CPI inflation target (a limit that must not be exceeded) has been revised to 2% for 2025, compared with 3% over the last 10 years (not surprising given the persistent deflationary pressures). iii) For the official budget deficit, the target is 4% of GDP, the highest level for 30 years. The Prime Minister reiterated that boosting private consumption would be a priority of the economic strategy in 2025.

Very slight improvement in the PMI indices in February. In the manufacturing sector, the PMIs returned to their Q4 2024 average level (50.2 for the NBS index and 50.8 for the Caixin index) after declining in January. The "new export orders" and "imports" sub-components (source NBS) have risen slightly, but remain below 50, with this lack of momentum confirmed by recent external trade figures. In services, the NBS and Caixin PMIs remain below their Q4 2024 levels (50 and 51.4, respectively).

COMMODITIES

OPEC+ countries have confirmed their intention to increase their crude oil production from April onwards, believing that market conditions have been met. Around 0.14 mb/d will be brought onto the market each month until the target of 2.2 mb/d is hit. With the European gas market under pressure, and in order to increase security of supply, the European Commission has proposed amending gas storage regulations (reaching 90% of reserves by 1st November each year), by extending its application from 2025 to 2027.

