ECONEWS

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AVANCED ECONOMIES

UNITED STATES – WORLD

A reciprocal tariff floor rate for everyone except China. On 9 April, the day the "reciprocal tariffs" came into force, Trump announced that they would be suspended – with the exception of that applied to China – for 90 days during which a 10% floor tariff will apply instead. This truce should allow trade agreements to be negotiated. Sectoral decisions – 25% on steel, aluminium and automobiles, but exemptions on copper, pharmaceuticals and semiconductors – and those on USMCA countries continue to apply. Finally, a temporary exemption has been announced for electronic products, which would be a preliminary step to a specific strategy for all goods including semiconductors. In response to the suspension of US "reciprocal tariffs", the European Union suspended for 90 days its retaliatory measures on steel and aluminium, the first stage of which was due to come into force on 15 April, but it is not ruling out taxing US technology companies if negotiations fail.

GLOBAL

Uncertainty over the repercussions of the trade war contributed to a brutal sell-off on the bond market and a fall in the dollar. The rise in long-term yields was particularly pronounced in the United States and the United Kingdom, where 30-year yields rose by 50 bp between 2 and 11 April. In contrast, European rates have remained unusually stable (see our EcoInsight: Growth is local, bond yields are global: why does it matter?, March 2025). The US dollar depreciated sharply against most major currencies, reaching a three-year low (dollar index); the fall was particularly steep against the euro.

UNITED STATES

Positive surprise for inflation and uninterrupted fall in household sentiment. CPI inflation surprised on the downside in March. The first monthly fall (-0.1%, seasonally adjusted) since 2020, mainly attributable to energy, hotel and air ticket prices, saw headline inflation fall sharply to +2.4% y/y (-0.4pp, consensus: +2.5%). Core inflation, at +2.8% y/y (-0.3pp, consensus: +3.0%), reached its lowest level since March 2021. Sentiment among small businesses (NFIB survey) fell for the fourth month in a row, and was below its long-term average (98), at 97.4 (-3.3 pts). The uncertainty index has fallen (96.0, -8 pts), but remained high. In April, the University of Michigan's consumer sentiment index fell again, reflecting a combination of worsening sentiment and expectations about current economic conditions. The preliminary result (50.8, -6.2 pts) is the lowest since June 2022. At the same time, 1-year inflation expectations rose by 1.7pp (to 6.7%), a record since 1981. Finally, while Fed Futures have gone so far as to indicate four rate cuts in 2025 (three currently) since the announcement of the reciprocal tariffs, this week's general message from the Fed speakers emphasised the good current positioning of monetary policy and the need for stability faced with the risk of rising inflation and falling growth. *Indicators to watch this week: retail sales and industrial production for March.*

EUROZONE

Household and business debt continued to fall in 2024. According to the ECB, household debt is now at its lowest level for twenty years (81.9% of disposable income in Q4), while the consolidated debt of non-financial corporations has returned to 2007 levels (67.3%). The recovery in retail sales continues (+0.3% m/m in February and +2.1% y/y). The ECB's monetary policy meeting on 17 April is expected to approve a further 25bp cut in key rates. Negotiations have been opened between the EU and the United Arab Emirates with a view to closer trade relations.

FRANCE

The government has revised its 2025 growth forecast from 0.9% to 0.7%. As a result, EUR 5 billion in public spending has been removed from the 2025 budget (out of the 9 billion frozen three weeks ago) in order to meet the target of a 5.4% public deficit in 2025. The OFCE French Economic Observatory has revised its 2025 growth forecast from 0.8% to 0.5% (incorporating 10% tariffs). In April, the Banque de France revised its estimate of GDP growth in the 1st quarter of 2025 to 0.2% q/q, compared with a range of 0.1-0.2% previously estimated in March.

GERMANY

Industrial recession continues. Industrial production fell in February (-1.3% m/m, and -0.3% m/m for the 3-month moving average). **Friedrich Merz's government will take office at the beginning of May.** The CDU/CSU and the SPD have reached a coalition agreement. The main measures include lower taxes for businesses and for working-class and middle-class households, reduced energy costs, less red tape and a tougher immigration and security policy. The distribution of ministerial portfolios gives 6 ministries to the CDU, 3 to the CSU and 7 to the SPD. Friedrich Merz is due to be elected Chancellor by the German Parliament at the beginning of May.

ITALY

The industrial production index deteriorated again in February (-2.7% y/y, compared with -0.8% in January). Manufacturing output continues to deteriorate (-4.9% y/y, the lowest level since September) due to a sharp contraction in clothing production (-11.7% y/y, the lowest level since September) and a further fall in transport equipment production (-15.1%, versus -12.3% in January).

UNITED KINGDOM

Activity surprised on the upside in February. GDP (value added) rose by 0.5% m/m, driven by buoyant manufacturing output (+2.2% m/m). The trade deficit continued to deteriorate in February, reaching GBP 233.9 bn in the year to date, a record. Over the weekend, Chancellor Rachel Reeves announced the elimination of customs duties on almost 90 products to help manufacturers adapt to the shock of US tariffs. According to Halifax, the average price of a home fell by 0.5% m/m in March, as the planned increase in stamp duty bolstered demand ahead of this measure's implementation. In the RICS property market survey, the balance of opinion on housing demand, sales and prices fell in March. Demand on the rental market remains strong.

EMERGING ECONOMIES

CHINA

Tensions between Beijing and Washington have escalated rapidly in the space of a few days. As of 12 April, US imports of Chinese goods are taxed at 145% (compared with 74% on 2 April and 20% at the beginning of January) and Chinese imports of goods from the US are taxed at 125% (compared with 20% at the beginning of January). All goods are affected (compared with 60%-65% of total exports taxed at the beginning of January).

The yuan lost less than 0.5% against the USD in the first two weeks of April. A large depreciation is not expected in the very short term. See our Chart of the week: China's prudent exchange rate policy is expected to continue, April 2025.

Deflation confirmed. In March, the consumer price index fell slightly (-0.1% y/y) for the second month in a row, and the decline in producer prices continued (-2.5% y/y). Meanwhile, core inflation accelerated slightly to +0.5% y/y (vs. +0.3% on average in January-February), returning to its 2024 average level. The expected weakening in Chinese exports is likely to maintain deflationary pressures going forward.

Export rebound ahead of "Liberation Day". In March, goods exports rebounded by 12.2% y/y in current USD, breaking the slowdown of the first two months of the year. Imports continued to fall (-4.5%) and the monthly trade surplus exceeded USD 100 billion. Exports are set to slow from April onwards, following the introduction of new US tariffs.

ARGENTINA

The IMF to the rescue once again. The IMF Executive Committee has approved the economic programme agreed between the Argentine government and the IMF team in charge of the country, paving the way for an extended financing facility of SDR15.3 billion (USD20 billion) over 48 months. The conclusion of a new agreement with the IMF was widely expected, the scale of the additional funding less so. The agreement plans a relaxation of exchange controls. Argentina has not yet started to repay the SDR31.1 billion that the country drew from the previous financing line (of 31.9 billion). We await details of the agreement to find out the IMF's position on the currency swap line with China (USD18 billion, five of which were drawn as soon as it was put in place in 2023). The agreement with the IMF is particularly welcome as the country's external liquidity has deteriorated since the end of 2024, with international reserves now standing at just USD25 billion.

COMMODITIES

Oil price forecasts revised downwards. The US Energy Information Administration (EIA) has sharply revised down its oil price forecasts (Brent benchmark) to 68 USD/b (-6 USD/b) for 2025 and to 61 USD/b (-7 USD/b) for 2026. Similarly, forecasts for growth in world oil demand are reduced from 0.4mb/d to +0.9mb/d in 2025, and from 0.1mb/d to +1.0mb/d in 2026. These forecasts, published on 10 April, do not take into account the most recent decisions on tariffs.