ECONEWS

EUROZONE: The ECB continued its monetary easing cycle with a fourth cut of 25 basis points in December, bringing the refinancing rate down to 3.5% and the deposit rate down to 3.0%. This decision was accompanied by the publication of the ECB's new quarterly forecasts, which include small downward revisions for growth and inflation for 2025 and 2026. Growth for 2025 and 2026 has been revised downwards to 1.1% (compared to 1.3% previously) and 1.4% (compared to 1.5% previously), respectively, while inflation is forecasted at 2.1% (compared to 2.2% previously) in 2025 and 1.9% in 2026 (unchanged). **Industrial production stabilised in October, but the trend remains very precarious.** The three-month smoothed index is falling to its lowest level in four years.

FRANCE: Reduced uncertainty, but a rating downgrade by Moody's. France has had a new Prime Minister, François Bayrou, since 13 December. With no budget for 2025, the draft special law on reconducting the 2024 budget in 2025 should enable the French government to raise taxes and issue debt, and therefore finance expenditure. However, an amending budget will have to be adopted in 2025 to correct some provisions (including the non-indexation of income tax brackets, which involves an automatic EUR 4 billion income-tax increase) and to resume the fiscal-consolidation effort. However, Moody's issued a suprise downgrade of French sovereign debt, given its doubts about the government's ability to consolidate public finances.

UNITED STATES: Rising inflation before the Fed, with mixed sentiment indicators. Inflation, as measured by the CPI, accelerated slightly in November, taking the year-on-year variation up from +2.6% to +2.7%. The core index is stable at +3.3% y/y (+0.3% m/m for the 2 indices). More positively, non-energy services are slowing in month-on-month and year-on-year terms. However, this loss of momentum in disinflation should not prevent a further rate cut (-25 bps) by the FOMC this week. On the sentiment side, the University of Michigan household survey has improved in December to 74.0 (+2.2 points). However, within this survey, there was also a deterioration in sentiment about future employment conditions (-5.3 points). Optimism among small businesses, as measured by the NFIB survey, has risen by an unprecedented 8 points to 101.7, exceeding its long-term average for the first time since December 2021.

UNITED KINGDOM: Economic difficulties are piling up. The GfK index, which measures household confidence, rose by only 1 point in November (-17). The indicator has still not returned to its August level. The monthly estimate of real GDP (value added) once again points to contracting activity in October, by 0.1% m/m, following a similar drop in September. The three major sectors (industrials, construction and services) contracted in October, with activity for industry hitting a new post-COVID low. The trade balance is still very poor, hitting £198.2 billion in November, the equivalent of 7% of GDP, cumulatively over 12 months. Some leading RICS indices for the real estate market are losing momentum in December, but the trend remains strong.

CANADA AND SWITZERLAND: Rate cuts of 50 bps in response to plummeting inflation. The Bank of Canada has lowered its key rate to +3.25%. This is the fifth consecutive cut, with cuts totalling -175 bp overall, set against a backdrop of inflation coming down to its 2% target and disappointing growth. The Swiss National Bank, on the other hand, has lowered its rate to 0.50%, in the explicit hope of avoiding having to return to rates to prevent inflation from falling below its 0% floor.

CHINA: Disappointing activity in November, but further stimulus planned. Growth in industrial production recovered very slightly (+5.4% y/y after +5.3% in October), mainly driven by exports. Growth in service production slowed slightly but was still faster than in the first nine months of 2024 (+6.1% y/y after +6.3% in October and +4.8% in Q3). Growth in retail sales weakened in November (+2.8% y/y in real terms), partly due to base effects, but automobile sales held up well and household appliance sales continued to be buoyed by the "durable consumer goods trade-in" programme. Private consumption is expected to strengthen again in the coming months. The increase in housing sales in November (+3.2% y/y), the first year-on-year increase since mid-2021, is also noteworthy. In addition, the authorities (Politburo, and then the Central Economic Work Conference) announced, for 2025, a **further easing of monetary policy** (which will become "moderately loose" after several years of "prudence") and **further fiscal stimulus measures. Strengthening domestic demand is expected to become a priority by 2025**, including through the revaluation of pensions and medical coverage. These changes would be particularly welcome. However, the exact measures and the timetable for their implementation have not been established. Other priorities listed by the authorities include, for example, further development of "new productive forces" and innovation, stabilisation of foreign trade and foreign investment, reduction of systemic risks, and the green transition.

BRAZIL: Markets in turmoil amidst rising political, fiscal and monetary uncertainty. Lula's hospitalisation (to relieve intracranial bleeding), speculation about his incapacity to complete his mandate, and debates over his succession ahead of the next election have led to a new wave of market turbulence – adding to year-long jitters driven in large parts by deteriorating public finances. The currency, which recently crossed a historic threshold of 6 *real* against the US dollar, has struggled to recover lost ground as spending cuts announced in recent weeks disappointed expectations. To stabilise the currency and anchor deteriorating inflation expectations, the central bank (BCB) intervened in the foreign exchange market and raised its policy rate by 100 basis points to 12.25%. The BCB has also announced increases of similar magnitudes in its next meetings through March 2025.