ECONEWS

AVANCED ECONOMIES

Find out more in our scenario and forecasts

UNITED STATES

Headline inflation for April was lower than expected, but inflation expectations continue to rise. Inflation (as measured by the CPI) reached 2.3% y/y (its lowest level since February 2021) due to a sharp decline in energy prices (-3.7% y/y), while core inflation remained unchanged at 2.8% y/y. Producer prices fell by 0.5% MoM in April (the last price decline was in October 2023). In May, the University of Michigan consumer sentiment index fell again (from 52 to 50.8 according to preliminary estimates). Inflation expectations continue to rise (from 6.5% to 7.3% for one-year ahead expectations and from 4.4% to 4.6% for the five-years metric). Retail sales rose slightly in April (0.1% month-on-month) and industrial production was flat compared with March. On May 18, a new milestone was reached in favor of the adoption of the "*Big, Beautiful Bill*" promoted by Donald Trump, which was approved by the House Budget Committee thanks to new support from the Republicans hawks on fiscal issues. This vote should allow the budget to be presented to the entire House. In the midst of budget discussions, Moody's, until now the last rating agency to still give the US its highest sovereign rating, downgraded it by one notch with a stable outlook.

EU/EUROZONE

Negotiations for a trade agreement between the US and the EU remain complicated. Some European leaders believe that an agreement based on the one signed between the US and the UK would be insufficient. The Polish economy minister, whose country holds the rotating EU presidency, reiterated that the EU must not "move too fast." Ahead of the new US tariffs, the rebound in industrial production in the Eurozone amplified in March (+2.6% m/m). Q1 GDP growth was revised down slightly (+0.3% q/q, rounding effect) and employment growth print was similar. *Coming up this week: the final inflation estimate for April, the flash estimate of consumer confidence, as well as the flash PMIs for May and Q1 negotiated wages. The ECB will also publish its financial stability review*.

The summit between the United Kingdom and the European Union has resulted in new bilateral agreements. The UK has extended access to British waters for European fishermen until 2038 and opened the door to the country's return to the Erasmus+ student exchange program. In return, the UK has secured an agreement on food and agricultural standards that will allow it to remove the vast majority of border controls with the EU. A defense and security partnership has also been sealed, along with progress on energy cooperation and the convergence of carbon border adjustment mechanisms.

GERMANY

Inflation rebounds in services. According to final figures, harmonized inflation stood at 2.2% y/y (compared with 2.3% in March). Inflation in services rose to 3.9% y/y (3.5% in March), pulling core inflation up to 2.9% y/y (2.6% in March). The flash PMI and IFO survey will be published on May 22. *Detailed GDP data for Q1 will be released on May 24.*

FRANCE

Labor market resilience and attractiveness confirmed. The unemployment rate remained virtually stable in Q1 at 7.4% (+0.1 percentage point compared to Q4), returning to its Q3 2024 level. After a decline in Q4, the activity rate rose to a new all-time high of 75.1%. Monthly wage growth slowed to +2% y/y, compared with +2.8% in Q4 while harmonized inflation slowed from 1.7% y/y in Q4 to 1.2% y/y in Q1. The increase in the minimum wage, which took effect in November instead of January 1 as usual, partly explains this slowdown. The latest EY barometer confirms France's **leading position in Europe in terms of the number of foreign direct investment projects in 2024** for the 6th consecutive year. However, the number of projects is down compared with 2023 (-14%). In its latest economic update, the Banque de France estimates that GDP will "*grow slightly*" in Q2. In April, the number of **business creations** rebounded strongly. In March, the cumulative **number of bankruptcies** over one year remained stable (slightly below 66,400) for the 3rd consecutive month. The annual growth rate declined slightly (+11.8% after +12.8% in February). The **recovery in the real estate market** was confirmed in March: new housing loans to households, excluding renegotiations, reached a level not seen since May 2023 (EUR 12.0 bn), up 58% y/y. The average **interest** rate stood at 3.03%, down 5 bps from February. On the corporate side, the pace of **growth in outstanding investment loans** remained at 3.4%. The decline in outstanding **treasury** loans was limited by higher drawdowns due to the cash position of some companies and the still high level of inventories. The cost of bank financing continued to decline (-12 bps), in contrast to the cost of market financing, which rose significantly (+25 bps). *INSEE will publish its business climate survey on May 22 and its household survey on May 23. The flash PMI will be published on May 23.*

PORTUGAL

No majority. The center-right coalition of outgoing Prime Minister Luís Montenegro won the May 18 legislative elections with 89 seats out of 230, but without an absolute majority. It will have to form alliances with other parties to pass legislation and could be hampered in its efforts to lower taxes.The coalition won 32.7% of the vote, ahead of the Socialist Party (23.4%) and the far-right Chega party (22.6%).

UNITED KINGDOM

Growth rebounds in Q1, but payroll employment declines. After two sluggish quarters, GDP rose by 0.7% q/q, driven by private investment (2.9% q/q) and net exports. Retail sales jumped in April according to the BRC: +6.8% y/y thanks to sunny weather, which likely boosted consumption. However, the labor market weakened, with the unemployment rate at its highest since summer 2021 (4.5% 3m/3m). Salaried employment fell in April (-33,000). Over three months, the decline amounted to 106,500 jobs. However, regular wage growth remains strong, albeit down from the previous month (+5.0% y/y). *Coming up next week: inflation data (April), flash PMI estimates (May), retail sales (ONS) and the Gfk consumer confidence indicator (May).*

JAPAN

GDP contracts by 0.2% q/q in Q1. Net exports and weak public spending dragged GDP down. Nevertheless, non-residential private investment grew more strongly (+1.4% q/q). The Economy Watchers Survey for April shows an index (42.6, the lowest since February 2022) well below its long-term average (45), reflecting uncertainty among Japanese manufacturers. *Coming up this week: April trade balance data and inflation.*

EMERGING ECONOMIES

CHINA

Activity slowed by tariffs in April. After rebounding in March, industrial production growth slowed in April (to +6.1% y/y from +7.7% in March), largely due to weaker exports and new export orders. In services, growth slowed to +6.0% y/y in April, after accelerating in March (to +6.3%). Retail sales rose by +5.2% y/y in real terms in April, compared with +6.0% in March, a sign that households remain very cautious amid deflation and weaker growth prospects in the manufacturing sector. Housing sales continued to contract (-2.9% y/y in April). Total investment growth logically decelerated (+4.0% y/y year-to-date vs. +4.2% in March), constrained by the slowdown in manufacturing investment and the continued decline in property investment.

SAUDI ARABIA, UNITED ARAB EMIRATES, QATAR

Trump's tour of the Gulf. This has resulted in massive commercial and financial commitments: USD 600 bn (Saudi Arabia), USD 243 bn (Qatar) and USD 200 bn (United Arab Emirates). For the latter two, the agreements signed are part of much broader pledges (USD 1.2 trillion from Qatar and USD 1.4 trillion from the UAE). The materialization of all these projects is not guaranteed, particularly on the part of Saudi Arabia. From being a net supplier of capital to the rest of the world, Saudi Arabia has been a net importer since last year. The surprise announcement of the lifting of US sanctions against Syria confirms that "deal-making" diplomacy can enable Gulf countries to bring the Trump administration closer to their vision for the region.

CENTRAL EUROPE

Diverging growth dynamics in the region. In Q1, Poland stood out from other countries in the region with relatively solid GDP growth of 0.7% q/q (3.8% y/y). Romania and Slovakia recorded weaker growth (0% q/q and 0.2% q/q respectively). In Romania, political uncertainty weighed on consumption and investment (in the end, the pro-European candidate, Nicusor Dan, won). Two weeks earlier, Hungary had, against all expectations, seen its growth decline by 0.2% q/q in Q1.

ARGENTINA

Sovereign rating upgrade. On May 12, Fitch upgraded Argentina's sovereign rating from CC to CCC+ for both foreign and local currency debt. This decision follows the conclusion of a new agreement with the IMF granting USD 20 bn in additional financing (including the disbursement of a USD 12 bn tranche on April 11), the lifting of most exchange controls and the slowdown in inflation.

BRAZIL

Brazil strengthens strategy ties with China. Amid rising U.S. trade protectionism, Brazil and China are tightening their economic and technological partnership with the signing of over 30 bilateral agreements. In addition to commitments to invest in mining, transport and ports infrastructures, the two countries are also deepening cooperation in artificial intelligence. The rapprochement also extends to monetary coordination mechanisms with the signing of a five-year currency swap agreement between their central banks. Despite US protectionist threats, Brazil continues to place strong strategic bets on China to support its development and accelerate its integration into global value chains.

MEXICO

Another rate cut to support growth. Unsurprisingly, the Central Bank of Mexico has cut its key policy rate by 50 bps (to 8.5%) for the 3rd consecutive time. It intends to support economic activity. Despite revising its inflation forecasts upwards (to 3.6% and 3.1% for 2025 and 2026, respectively, from 3.4% and 3.0% previously), the statement announced further rate cuts in the short term. In March, industrial production contracted by nearly 1% compared with the previous month. In addition, new announcements by the Trump administration (consideration of new tariffs on the aviation sector, proposal for taxes on foreign worker transfers) have prompted a strong reaction from the Mexican government. Economy Minister Marcelo Ebrard proposed bringing forward the USMCA negotiations by one year (to H2 2025) to reassure investors.

COMMODITIES

The International Energy Agency (IEA) has significantly revised upwards its forecast for global oil production growth in 2025 to 1,600 kb/d (+400 kb/d) given the acceleration in production by OPEC+ members. For 2026, the agency has left its forecast virtually unchanged at 970 kb/d. Demand growth forecasts for 2025 and 2026 are virtually unchanged (at +740 kb/d and +760 kb/d, respectively). The recent decline in oil prices is expected to lead to a slowdown in shale oil production growth in the US in 2025 and 2026. In its latest monthly bulletin, OPEC has left its forecasts for global oil demand growth unchanged for 2025 (+1.3mb/d to reach an average of 105mb/d) and 2026 (+1.3mb/d).