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## GLOBAL TRADE

**The European Union in the Trump administration's crosshairs:** in response to slow negotiations, the US President initially threatened to impose a 50% tariff on imports from the EU starting on 1 June. Following discussions with Ursula Van Der Leyen, the deadline was pushed back to 9 July, with the President of the European Commission announcing that the EU was ready to move forward with trade negotiations "swiftly and decisively".

## ADVANCED ECONOMIES

## UNITED STATES

**Adoption of the budget bill by the House of Representatives.** The "One, Big, Beautiful Bill Act" (OBBBA) is essentially an extension and expansion (particularly in relation to tips and overtime) of the tax cuts contained in the Tax Cuts and Jobs Act (TCJA, 2017). This bill also provides for new defence and security spending and cuts in health insurance (Medicaid). The Congressional Budget Office (CBO) estimates that the OBBBA will increase the deficit by USD 2.3 trillion between 2025 and 2034 (excluding debt service). The House vote was poorly received by the bond markets, with US 30-year yield remaining above the 5% threshold (which was crossed a few days ago). It is now up to the Senate to discuss and decide on the bill. John Williams, president of the New York Fed, has pushed back the possibility of a change in the Fed Funds rate until the autumn, at best. The president of the Atlanta Fed, Raphael Bostic (non-voting in 2025), spoke of the need to wait "three to six months" to gain a clearer picture and is in favour of a single rate cut in 2025. Moreover, in its decision to uphold the dismissal of two independent agency officials, the Supreme Court expressed its disagreement with the idea that it would threaten the independence of the Fed. In May, the S&P Global PMI survey was positive, with progress in the manufacturing (52.3, +2.1 pp) and services (52.3, +2.5 pp) indexes. *Next week, we will be watching closely for consumer confidence figures from the Conference Board (Tuesday) and PCE inflation (Friday) – the Fed's preferred gauge.*

## EUROZONE

**Administrative simplification measures and new European Commission forecasts.** The Commission has unveiled a fourth Omnibus package designed to save businesses EUR 400 million in administrative costs. The most important measure is the creation of an intermediate status for small and medium-sized companies. New Omnibus packages, on defence and the chemical industry, are planned for this summer. The Commission has lowered its growth forecast for the Eurozone for 2025 and 2026, to 0.9% (-0.4 pp compared with its autumn 2024 scenario) and 1.4% (-0.2 pp) respectively. Inflation is expected to be 2.1% this year and 1.7% in 2026 (compared with 2.1% and 1.9% previously). The growth in negotiated wages slowed significantly in Q1 to 2.4% y/y, with a sharp decline in Germany and France. The composite flash PMI for the Eurozone fell back into contraction territory in May (-0.9 points to 49.5), dragged down by services (-1.3 points to 48.9). The manufacturing index continues to improve, however (49.4, its highest level since August 2022). The consumer confidence index recovered slightly in May (+1.4 points to 15.2, according to the Commission's flash index).

## GERMANY

**Upward revision of Q1 growth (+0.4% q/q vs. +0.2%, according to preliminary estimates) and mixed business climate.** This growth is driven by household consumption and exports, while total investment and public consumption are declining. Imports are increasing at a slower pace. The IFO business climate index rose to 87.5 in May (+0.6 points m/m), its highest level in almost a year. The improvement stems from expectations (rise in the economic outlook sub-index to 88.9, +1.5 points m/m). The index measuring current conditions fell slightly to 86.1 (-0.3 m/m). However, the composite flash PMI fell (-1.5 points m/m to 48.6 points), weighed down by the services PMI (47.2, -1.8 points m/m). The manufacturing PMI continued to improve moderately (48.8, +0.4 points m/m), buoyed by rising production for the third consecutive month thanks to export orders. However, the sector continues to lose jobs. *Consumer confidence will be published on 27 May and inflation on 30 May.*

## FRANCE

**Deterioration in the business climate and consumer confidence.** The business climate measured by INSEE tumbled to 96 in May, compared with 97 in the previous two months, due to a 3-point drop in industry (from 100 to 97, weighed down by the outlook for production in the aeronautics sector and order books) and services (from 98 to 95, affected by deteriorating assessments of past activity due to the large number of bank holidays). Activity has rebounded in construction and retail, explaining the improvement in their business climate. The flash PMI survey points to services stabilising at a low level (47.3 in May) and manufacturing improving (from 48.7 to 49.5). **Consumer confidence** fell from 91 in April to 88 in May, wiping out all the gains seen since December 2024. Fear of unemployment is rising again (balance of opinion at +61, historical average at +33) and perceptions of future living standards have reached their lowest level since March 2023 (-59). Only 6.5% of households are considering purchasing a property within the next two years (the lowest figure since June 2016). The annual **Choose France** summit generated a record EUR 20.8 billion in investment pledges for France. The majority of the announcements confirm those made at the Versailles summit on AI, where EUR 40.8 billion worth of projects were announced. *INSEE will publish May inflation and Q1 prices for existing homes on 27 May, while Q1 GDP, sector accounts and salaried employment figures will be released on 28 May.*

## ITALY

**Moderate inflation but rapid wage increases.** According to Eurostat's final estimate, harmonised inflation eased very slightly in April (+2.0%; -0.1 pp m/m) after rising in March. However, core inflation picked up somewhat (+2.7%; +0.2 pp), driven by higher inflation in services (+3.7%; +0.6 pp). Energy deflation continued (-6.2%; +0.6 pp). Negotiated wages rose by 3.9% y/y in Q1, a significantly faster pace than in other major Eurozone countries.



## SPAIN

**Inflation rebounded sharply in services** (+4.1% y/y in April vs. 3.1% in March). According to Eurostat's final estimate, tourism services pushed up core inflation (+3.0%; +0.8 pp m/m). However, energy deflation (-2.5%; -4.2 pp) helped to keep headline inflation stable at +2.2%. In Q1, negotiated wages rose at the same pace as in Q4 24 (3.14% y/y vs. 3.08%).

## UNITED KINGDOM

**Inflation rises sharply.** In April, inflation (CPI) stood at 3.5% y/y, compared with 2.6% y/y in March. The introduction of several budget measures (increases in national insurance contributions for employers, the National Living Wage and excise duty on motor vehicles) pushed prices up. Core inflation also increased to 3.8% y/y, while energy deflation eased (from -8.0% to -0.9%). The flash PMI index for services returned to expansion territory in May (50.2 vs. 49 in April), but the manufacturing index fell by 0.3 points to 45.1. The CBI survey's balance of opinion in industry also declined in May. The composite PMI remains below the expansion threshold at 49.4. The GfK consumer confidence indicator improved slightly in May (+3 points to -20). Retail sales in April increased by 1.2% m/m. According to preliminary estimates from the ONS, net migration fell to 431,000 in 2024. That is half as many as in 2023 (860,000).

## JAPAN

**Prices rose sharply in April, and activity struggled in May.** Core inflation (excluding unprocessed food) hit +0.7% m/m and +3.5% y/y in April (+0.3 pp), its highest level since January 2023. The price of rice has now almost doubled in 1 year (+98.4% y/y). The flash manufacturing PMI improved in May to 49.0 (+0.3 pp) but remained in contraction territory. The services PMI remained in growth territory (50.8), but its decline (-1.4 pp) brought it to its lowest level since November 2024. *April's labour market figures will be published on Friday 30 May.*

## EMERGING ECONOMIES

## SOUTH AFRICA

**The GNU passes the budget test.** On 21 May, a third version of the 2025/2026 Budget was presented to Parliament. Unlike previous versions, this one should be quickly approved by the ten parties of the coalition government (GNU). The government forecasts a decline in the fiscal deficit from 4.6% of GDP for the current fiscal year (FY) to 3.7% of GDP for the next FY, and 3.2% for the 2027/2028 FY. In this final version, the VAT increase proposed by the ANC but strongly criticised by the other parties has been abolished and offset by spending cuts. After three months of tense negotiations, the fact that the GNU has passed the budget test is a sign of stability. Furthermore, the meeting between Presidents Trump and Ramaphosa on 21 May enabled the South African government to present a proposal for a trade agreement with the United States. Nevertheless, diplomatic tensions between the two countries are likely to persist.

## CHILE

**Economic growth stronger than expected.** Real GDP grew by 2.3% y/y in Q1 2025, surprisingly on the upside. Private consumption (thanks to the latest increase in the minimum wage and continued growth in formal employment), the influx of Argentine tourists and, above all, the mining sector (despite a massive power outage in February) supported activity. Mining exports rose by nearly 9%, but this pace is not expected to continue. This is probably a pre-emptive move to avoid potential tariffs on copper, which the Trump administration has announced it is considering.

## EGYPT

**Cautious continuation of monetary easing.** The Central Bank has just cut its key interest rates by 100 bps, setting the lending rate at 25%. In an uncertain environment (regional tensions, possible delay in fiscal consolidation, and a growing energy deficit) and despite very high real interest rates (around 11% y/y), the reduction in key rates remains very gradual. Consumer price inflation hit 13.9% y/y in April 2025.

## THAILAND

**Sluggish growth in the manufacturing sector.** Like other ASEAN-6 countries, Thailand's real GDP growth slowed slightly in Q1 2025 to +3.1% y/y (+0.7% q/q). Services and agriculture posted robust growth, but economic activity in the manufacturing sector remained very weak (+0.6% y/y). Thailand is facing competition from Chinese products on its domestic market, and the increase in US tariffs will exacerbate this phenomenon. Thailand is also experiencing a decline in tourist numbers (particularly Chinese tourists) and sluggish household consumption. The National Economic and Social Development Council (NESDC) has revised its growth forecasts for 2025 and 2026 downwards (-1 pp): real growth is estimated at between 1.3% and 2.3% and is likely to be the lowest in the ASEAN-6.

## COMMODITIES

**No risk of shortages of critical materials used in batteries, but increased concentration of suppliers, according to the International Energy Agency (IEA).** In its latest annual report on critical materials, the IEA highlights that concentration is increasing across the entire value chain. The market share held by the three largest producers of the main materials (in their refined form) used in batteries reached 86% in 2024, compared with 82% in 2020. Indonesia (for nickel) and China (for all other materials) are the largest producers and accounted for almost all of the increase in production. At their next meeting scheduled for 1 June, OPEC+ members are expected to consider, for the third consecutive month, a significant increase in production in July (+411 kb/d, three times the planned increase).

