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INTERNATIONAL TRADE

Another round of threats. Donald Trump has confirmed that additional tariffs will be imposed on imports from Canada and Mexico from 4 March. However, a reduced rate could be applied if both these countries were to adopt tariffs similar to those imposed by the United States on China. A further 10pp will have to be added to this on Chinese products, which have already been subject to an additional tariff of the same order since 4 February.

ADVANCED ECONOMIES

United States

The warning signs are mounting. The consumer confidence index, measured by the Conference Board, fell by 7 points in February to 98.3 (the lowest since June 2024), due to deteriorating expectations, which fell below the 80 threshold, which is viewed as a sign of a recession. In January, while core inflation measured by the PCE slowed to +2.6% y/y (-0.2 pp), household consumption fell -0.5% m/m in real terms, the biggest monthly drop for 5 years. In the same month, orders for durable goods rose for the first time since October (+3.1% m/m). The Atlanta Fed's GDPnow is now forecasting a contraction in Q1 GDP (-0.4% q/q), due to a surge in imports. The House of Representatives passed a budget resolution including USD 4,500 billion in tax cuts over 10 years, partially offset by USD 2,000 billion in budget cuts. It is now up to the Senate to vote on a budget.

European Union / Eurozone

The European Commission has unveiled its 'Clean Industrial Deal' and its first Omnibus laws to simplify regulations. These include measures to reduce energy costs (acceleration of permits for green infrastructure, long-term energy contracts, and revamp of state aid rules), a EUR 100 billion decarbonisation fund, and a platform for joint purchases of critical materials. In particular, the Omnibus laws extend the exemption from the CSRD reporting (by two years for non-exempt companies). On the macroeconomic front, negotiated wage growth in the Eurozone slowed to 4.1% in Q4 2024, from 5.4% in Q3, and median household inflation expectations in the Eurozone for the year ahead fell to 2.6% in January (2.8% in December). New car registrations dropped by 2.5% y/y in January 2025. However, the economic sentiment index reached its highest level in five months in February, buoyed by an increase in Germany and France.

France Inflation has improved, but not employment. Inflation fell to 0.9% y/y in February (harmonised index) from 1.8% in January, due to the 15% cut in the regulated electricity tariff. The French economy shed 90,000 net jobs in Q4 (68,000 in the private sector and 22,000 in the public sector). Household confidence rebounded from 92 in January to 93 in February (89 at the low point in December, 95 in September 2024, 100 on long-term average). However, households are more concerned about unemployment (+55 in February compared with +48 in January and +29 in September). The opportunity to buy a property is declining (8% of households in February, compared to 9.5% in December). Property prices for existing homes rose by 0.1% q/q in Q4 (-0.1% q/q in Q3 and -0.5% in Q2), and the number of transactions in existing homes over a 12-month period rebounded (792,000 at the end of 2024, compared to 780,000 at the end of September 2024).

Germany No rebound in economic indicators. Germany's GfK consumer confidence index fell to -24.7 points in March (compared to -22.6 in February). The Ifo business climate indicator stood at 85.2 points in February 2025, which is stable compared to January. Germany's seasonally adjusted unemployment rate held steady at 6.2% in February 2025, remaining at its highest level since October 2020. Inflation is unchanged from January, at 2.8% y/y in February 2025. The likely future Chancellor, Friedrich Merz, wants an additional budgetary effort of EUR 200 billion for defence. One option would be to put it to a vote before 24 March in the outgoing assembly (where the parties opposed to this plan do not have a blocking minority), but this will be difficult.

Spain Rising electricity prices should continue to fuel inflation. Inflation remained stable at 2.9% y/y in February. Production prices rose by 2.6% y/y in January (+0.3 pp over one month) due to increasing energy prices (+8.6% y/y). The core index is close to the ECB's target (2.1%; -0.3 pp over one month). **The Economic Sentiment Indicator (ESI) slowed** (102.3; -2 pts over one month) due to deteriorating confidence in industry (-6.2; -1.8 pt).

Italy Consumer confidence returned to its highest level in three years (-13.6 in February; +1.2 pts over one month). The Economic Sentiment Indicator continued to stagnate, falling back below 100 this month (99.8; -0.4 pt). Confidence in industry remains negative (-8.2; +0.0 pt), with production and employment expectations for the coming months deteriorating for another month.

United Kingdom The CBI's distributive trade survey is gloomy. The index of expected order volumes for the coming month fell to its lowest level in four years. According to Nationwide, house prices hit a new record high in February (+0.4% m/m and +3.9% y/y). **The UK government has announced an increase in defence spending**, with the aim of raising it from the current 2.3% of GDP to 2.5% in 2027 and 3.0% after 2029. The initial increase will be financed by a reduction in development aid spending.

Japan Opposing trends for hard data. Industrial production deteriorated in January, to -1.1% m/m (-0.9 pp), marking the third month of contraction in a row. Conversely, retail sales rose (+0.5% m/m, +1.3 pp). Finally, core inflation (excluding unprocessed food) in the Tokyo metropolitan area, a leading indicator of national earnings, slowed in February (+2.2% y/y, -0.3 pp).

