# ECONEWS



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## UNITED STATES

**The ISM Manufacturing index ends 2024 as it began: in contraction territory.** Only once in the last 26 months has this index indicated growth in activity. However, the result of 49.3, the highest since March, is an improvement on the previous month (48.4). A number of FOMC members have recently expressed concern about the persistent inflation: Mary Daly, President of the San Francisco Fed; Tom Barkin, President of the Richmond Fed; and Adriana Kugler, member of the Board of Governors. US long-term interest rates have risen sharply in recent days, amid fears of "longer rates for longer" and a widening government deficit. On 6 January 2025, 10-year yields were over +4.6%, while 30-year yields were over +4.8%, the highest since April.

## EUROZONE

**Business sentiment continues to deteriorate in the largest economies, with the exception of Spain, where it is improving further in both industry and services.** The PMI indices for December showed better momentum in services (+2.1 points to 51.6). Nevertheless, the trend in the manufacturing index remains worrying (-0.1 points to 45.1), while the new orders indicator ended 2024 at its lowest level of the year (43.0). Household confidence fell for the second month in a row in December (-0.8 points to 14.5), according to the European Commission's flash estimate. The services input price index is rising, but this is not posing a threat to the new phase of disinflation expected in 2025 at this current time. On the banking supervision side, the 2024 Supervisory Review and Evaluation Process (SREP), led by the eurozone's single supervisor, has not resulted in any major changes to Pillar 2 capital requirements for 2025. On average, the overall CET1 capital requirements and guidelines of the 113 banks supervised by the ECB increased only very slightly on 1 January 2025, from 11.2% to 11.3%.

## UNITED KINGDOM

**The PMI index for employment in services plunged in December (-3.9 points to 45.4), raising fears of a sharper downturn in the labour market in early 2025.** This monthly fall was the second largest since 1996, excluding the COVID period. It reflects the effects of the economic environment and rising wage costs. The PMI index for services nonetheless posted a slight increase (+0.3 to 51.1), while the manufacturing index fell further into contraction territory (-1 point to 47.0). Household consumption remains sluggish. New car registrations were down 1.9% year-on-year in November, despite a 58% increase in electric vehicles. House prices ended 2024 with a strong rise of 2.0% (after -2.3% in 2023).

## JAPAN

**The latest JibunBank surveys from 2024 point to positive developments in December.** Admittedly, the Manufacturing PMI is still in contraction territory for the sixth month in a row, but the headline figure rose to 49.6. In addition, the Services PMI again suggests growth in activity, standing at 50.9 (compared with 50.5 in November). As a result, the Composite PMI improved to 50.5 (+0.4 pp).

## ERMERGING COUNTRIES

**China: stronger economic growth at the end of 2024, but financial market concerns at the beginning of 2025.** PMIs for the month of December suggest a strengthening in activity in the services sector (the PMI published by NBS reached 52, vs. 50.1 in November, and the Caixin PMI reached 52.2, vs. 51.5 in November). Meanwhile, manufacturing PMIs declined slightly but remained above 50. Despite the growth acceleration expected in Q4 2024 and additional stimulus measures that have been recently announced, financial markets have been nervous in the past few days. The short-term outlook for the Chinese economy indeed remains darkened by low confidence of households and private investors and by the rise in protectionist risks. Since January 1st, 2025, the CSI 300 equity market index has lost 6%, but it is still higher than its average level in the first nine months of 2024 (it rose by 15% between the beginning and the end of 2024). Depreciation pressures on the yuan have increased and long-term bond rates have reached record lows.

**Türkiye: Disinflation and first easing of monetary policy.** On 26 December, the central bank lowered its main policy rate from 50% to 47.5% in response to the slowdown in inflation, which continued in December (+1.1% over one month compared with +3.1% per month on average in 2024). In yoy terms, the inflation rate fell to 28.5% from 44.2% in December 2023.

**Brazil: Central bank interventions fail to stem currency slide.** During the last two weeks of December, the BCB spent nearly USD 20 bn in foreign exchange reserves to curb the depreciation of the real and stem the negative market confidence spiral affecting the country since late November. In the absence of fiscal recalibration efforts deemed credible by the markets, the effectiveness of the BCB's interventions – aimed at reversing the downward trajectory of the currency and limiting its spillover into other asset classes – is expected to remain relatively limited.

## COMMODITIES

**The drop in stocks is pushing the price of hydrocarbons up at the beginning of the year.** On the European gas market, the TTF benchmark reached EUR 50/MWH, a 15-month high. While the halt in Russian gas exports transiting through Ukraine (around 5.6% of total EU imports) was widely anticipated by the market, the accelerated decline in European gas inventories (to a two-year low), in a context of seasonal demand increases, has increased market nervousness and pushed prices up. In the short term, beyond seasonal factors, prices are expected to remain strong, with the replacement of the Russian flow via Ukraine (by pipeline) by LNG imports resulting in additional costs.

At the same time, Brent prices have recovered above USD 75/bbl, against a backdrop of a reduction in US crude oil inventories (excluding strategic stocks), which are close to their lowest level in 5 years. In this context, the support of Asian demand was welcomed by the market.