ECOPULSE

February 2025

MONTHLY PULSE OF THE ECONOMIC CONJONCTURE OF MAIN COUNTRIES

Mixed economic pulses at the end of 2024

GDP figures for Q4 2024 confirm a clear divergence between growth which is sustained in the US (0.6% q/q) or accelerating in China (1.6% q/q), and mixed performances in Europe with a stagnating GDP: -0.2% in Germany, -0.1% in France or stagnation in Italy, compared to +0.8% in Spain. In Japan and the UK, these figures have not yet been published, but our estimates are 0.2% and 0.3% q/q, respectively.

Mixed economic pulses at the beginning of 2025 too

Business climate indicators suggest continuation of growth performance in Q1 2025 in Spain (+0.7%) and the US (0.6% q/q). The outlook is more mixed in Asia, whether in China (1.3% q/q) or Japan (0.1% q/q). In the Eurozone, our nowcast suggests a moderate upturn (0.3%), with a return to modest growth in France (nowcast at 0.1%), and in Germany and Italy (forecasts at 0.1% and 0.2%, respectively), while growth is expected to remain at current levels in the UK (0.3%).

Stable labour markets

There are no significant changes on the labour market in most countries, with unemployment rates remaining low (or almost lower), particularly in the euro zone, the UK, Japan, and the US, with the resulting wage pressures. However, the extension of a period of low growth is resulting in a deterioration in job creation in several countries, with an increasing impact (or an impact likely to increase) on unemployment, particularly in France or Germany.

Diverging inflation levels

Divergences in terms of inflation remain significant and are expected to widen in 2025. Deflationary trends continue in China. Disinflation is evident but remains uneven in the Eurozone, where core inflation remains rather high, and where gaps between countries are widening (Germany and Spain above the European average). In the US and, to a lesser extent, in the UK, inflation remains well above 2% y/y and disinflation is not expected to continue in 2025. In Japan, despite the beginnings of disinflation, inflation is expected to remain high (2.8% y/y on average in Q4).

Diverging monetary policies too

These divergences are reflected in monetary policy. The Chinese central bank is maintaining an accommodative policy and is expected to ease this policy further in H2. The heterogeneity observed in the Eurozone has meant the ECB has maintained its pace of cuts at 25 bps, a pace also adopted by the BoE, but with longer intervals between cuts because inflation is slightly above the target in the UK. In the US, the Fed has maintained its key rate, a status quo we expect to see throughout the year. The BoJ took another step in its very gradual tightening of monetary conditions in January, and is expected to make two further hikes of 25 bps in 2025, according to our forecasts.

Article completed on 07 February 2025

Eurozone: Behind the stagnation in Q4, strong disparities between Member States

Germany: A case of wait-and-see

France: An obstacle race

Italy: Stuck in neutral

Spain: The Eurozone outlier

United States: The Fed can take it slow

United Kingdom: The labour market is bending but not breaking

Japan: New step in monetary tightening

China: Concerns

	Business Climate	Households	Inflation	Labour Market
Eurozone	🤨	🤨	🤨	🤨
Germnay	🤨	🤨	☹	☹
France	🤨	🤨	☺	☹
Italy	☹	🤨	☺	🤨
Spain	🤨	☺	☹	☺
United States	☺	🤨	🤨	☺
United Kingdom	🤨	☹	☹	🤨
Japan	☺	🤨	☺	☺
China	☹	🤨	☹	🤨

Eurozone: Behind the stagnation in Q4, strong disparities between Member States

Economic surveys - for households and companies - started the year on a slightly more positive note. Consumer confidence (+0.3 points) benefited from a slight fall in indicators for unemployment and inflation prospects. The composite PMI index returned to expansion territory (+0.6 points to 50.2), with the contraction in the manufacturing industry easing slightly (+1.5 points to 46.6), while the services index fell dipped (-0.2 points to 51.4). The European Commission's economic sentiment indicator is also up (+1.5 points to 95.3) but is still well below its long-term average (100, *see chart*). The Commission's latest survey included the quarterly report on the limits to production, which shows a slight decline in balances of opinion linked to low demand and labour and equipment shortfalls. Conversely, financial constraints are becoming more problematic.

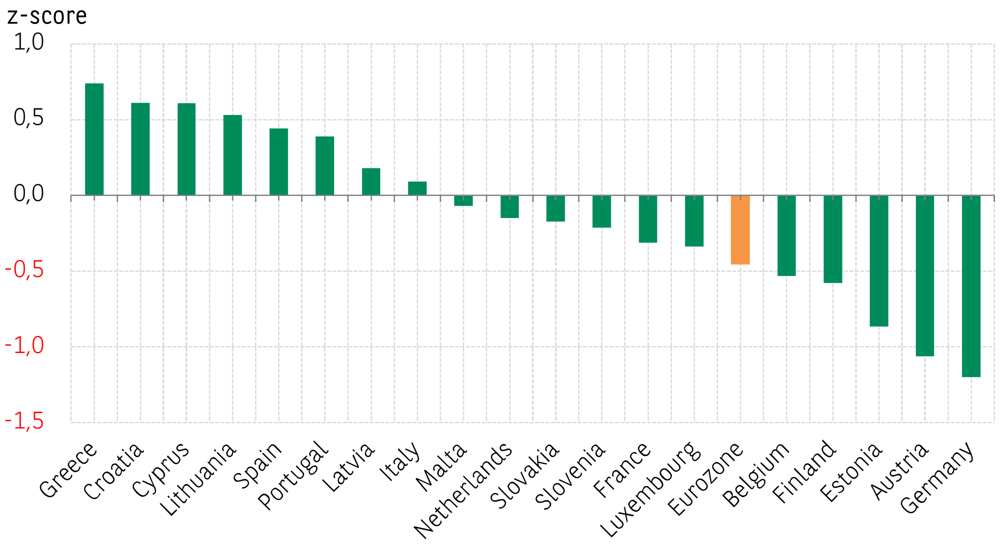
The preliminary GDP figures for Q4 2024 reinforce the observation of a two-speed eurozone, between a drop in activity in Germany (-0.2% q/q) and France (-0.1%) and stagnation in Italy and Austria on the one hand, and surprises on the upside, once again, in Spain (+0.8%) and Portugal (1.5%) on the other. Overall, activity in the eurozone stagnated in Q4 and average annual growth over 2024 (+0.7%) is below the levels seen in 2023 (+0.9%). With an unchanged quarterly growth profile (0.2% q/q expected for each quarter in 2025), the annual average has been automatically lowered to 0.9% (compared to 1.0% previously) due to a smaller carryover.

Against this difficult backdrop, **the labour market overall continues to hold up better than expected**. The unemployment rate rose only slightly in December, from 6.2% to 6.3%, due to a significant increase in Italy and Austria (+0.3 percentage points over the month) and, to a lesser extent, in Germany (+0.1pp). The jobless rate however, continues to fall in Spain (-0.1 pp), Portugal (-0.2 pp) and Greece (-0.1 pp).

Inflation rose slightly in January, from 2.4% to 2.5%, as a result of the rise in energy prices. Nevertheless, taking into account weak demand, a further fall in inflation towards the 2% target remains in sight. The consequences of the trade war with the United States, which could lead the EU to introduce retaliatory measures, constitute an upward risk on the inflation scenario (in addition to the effect of the depreciation of the EUR/USD pair), which is difficult to quantify. Our Q1 Nowcast, which at this point in time incorporates few data for this quarter, is currently at 0.3%, above our forecast (0.2%).

Guillaume Derrien, article completed on 3 February 2025

Economic sentiment index (ESI), January 2025



Source: European Commission, BNP Paribas calculations

GDP growth

Actual				Carry-over	Nowcast	Forecast			Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q1 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
0.3	0.2	0.4	0.0	0.3	0.3	0.2	0.2	0.2	0.7	0.9	1.0

See the Nowcast methodology. Contact: Tarik Rharrab
Source: Refinitiv, BNP Paribas

Germany: A case of wait-and-see

The German business climate is being driven down by the prolonged recession in industry. Industrial production (in the broad sense, including construction) has contracted in 10 of the last 12 quarters (including a further negative quarter likely in Q4 2024), for a cumulative drop of 8.4% (-14.7% compared to the peak seen at the end of 2017, see chart). This momentum explains the low IFO index (reaching, in December and January, its lowest level since the 2008 crisis, excluding Covid).

Industry and construction (one third of German GDP) have therefore impacted growth, explaining why growth returned to negative territory in Q4 and over 2024 as a whole (-0.2% each time), extending the near-stagnation that has lasted for 3 years. New factory orders (their 6-months moving average) recovered by 4% between August and December 2024. However, the sluggishness is set to continue in Q1 (forecast at +0.1% q/q), particularly under the effect of two areas of uncertainty.

The first relates to the federal election to be held on 23 February, the nature of the coalition that will be the outcome (the CDU/CSU dominate polls but a three-party coalition may be necessary, with the SPD and the Greens) and therefore, how quickly the next government will be able to act.

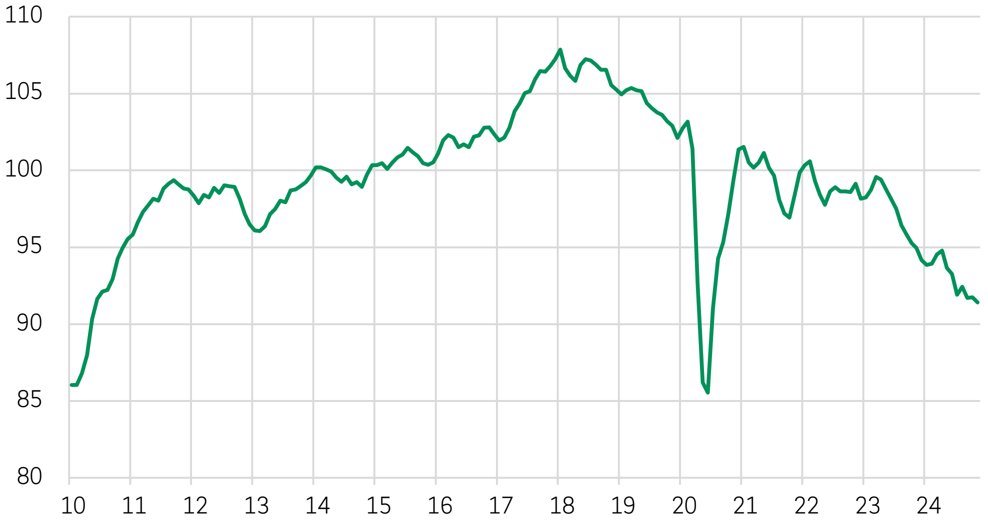
In particular, **the two unfavourable evolutions affecting household confidence** (-22.4 in February according to the GfK consumer confidence index, which has fallen lower in the last 3 months than in the previous 6 months) will have to be reversed: 1/ The rise in unemployment, moderate for the time being (to 3.4% in December 2024 compared to a low of 2.9% in mid-2023), but which is likely to continue; 2/ an increase in inflation compared to the rest of the euro zone (2.8% y/y in January in Germany compared to only 1.8% in France and 1.7% in Italy according to the harmonised index), particularly linked to a more pronounced rise in energy prices (compared to their 2021 level) and wages.

The second area of uncertainty relates to foreign trade. Foreign trade has failed to support German growth for almost five years. Exports of goods and services were close to their end-19 level in Q3 2024 and are expected to have fallen below this level in Q4, according to the preliminary comments by the Federal Statistical Office (compared to exports higher by 5.5% in France over the same period). And the possibility that President Trump would announce tariffs against Europe on 18 February could add to these issues, given that Germany accounts for nearly half of the European surplus with regard to the US, particularly on sectors that could be targeted (including automotive).

Stéphane Colliac, article completed on 5 February 2025

Industrial production index (incl. Construction) in Germany

3-months moving average



Source: Destatis, Macrobond, BNP Paribas.

GDP growth

Actual				Carry-over	Forecast			Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
0.2	-0.3	0.1	-0.2	-0.2	0.1	0.1	0.1	-0.2	0.2	0.5

Source: Refinitiv, BNP Paribas

France: An obstacle race

The French economy remains weak, although it is showing signs of stabilisation. The Insee business climate indicator remained stable at 95 in January, while the composite PMI rebounded slightly (47.6 in January compared to 47.5 in December).

However, since October, both indices have remained below their average value over the previous six months (98.6 for the Insee index, 49.8 for the composite PMI). This lower level in both Q4 2024 and Q1 2025 is consistent with growth of about +0.1% q/q, compared to +0.2% previously. In Q3, the effect of the Olympic Games (OG) added 0.2 points (hence total growth of +0.4% q/q), an exceptional effect that was subtracted from GDP in Q4 (0.1 - 0.2 = -0.1% q/q). Our nowcast confirms stable growth excluding the OG effect in Q1 2025, hence a forecast of 0.1% q/q (see chart).

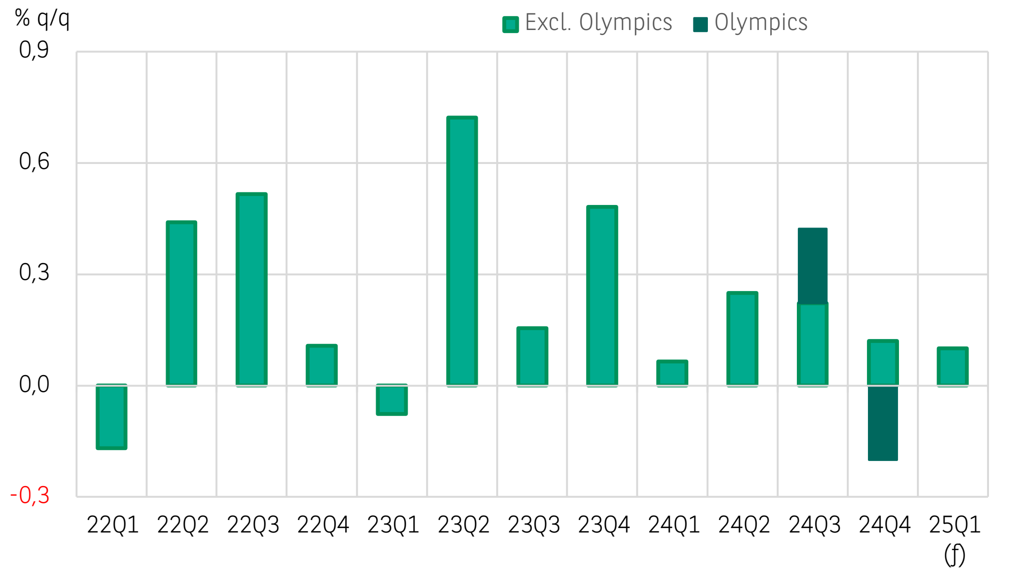
Household confidence was excessively affected by their fears of a rise in unemployment, an understandable concern, given the increase of 4% q/q in Q4 (the largest increase since the 2008 crisis, excluding Covid) in the number of category A job applicants. However, it is likely that the labour market has, like activity, experienced a negative impact from the OG, accentuating the deterioration in Q4. Moreover, in January, household confidence wiped out half of the 6-point drop observed between September and December, rising to 92 (helped in particular by the relative abating of unemployment concerns). Although the improvement is noteworthy, this is still a very low level of confidence.

Demand is expected to remain subdued in Q1, in particular due to the extension of the 2024 budget for the first few months of the year, which is expected to negatively affect public consumption (stable budget for key government functions, including defence) or expenditure linked to aid (MaPrimeRénov for households or France 2030 for corporate investment), before the likely adoption of the 2025 budget by 49.3 allows a rebound in this expenditure in Q2, hence an upward risk on our growth forecast (0.2% q/q).

As a result, **disinflation is still not encouraging a significant recovery in household consumption. But its continuation remains a favourable factor**: inflation (harmonised index) is expected to fall from 1.8% y/y in January to 1.1% in February according to our forecasts, under the effect of a drop of 15% in the regulated electricity tariff (compared to nearly +10% in February 2024). However, this disinflation is spreading more slowly to services, and core inflation remains at 2%.

Stéphane Colliac, article completed on 5 February 2025

French GDP growth



Source : Insee, Macrobond, BNP Paribas forecast

GDP growth

Actual				Carry-over	Nowcast	Forecast			Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q1 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
0.1	0.3	0.4	-0.1	0.2	0.1	0.1	0.2	0.2	1.1	0.7	0.9

See the Nowcast methodology. Contact: Tarik Rharrab
Source: Refinitiv, BNP Paribas

Italy: Stuck in neutral

As expected, Italian growth failed to outperform that of the Eurozone in 2024 (average annual growth of 0.5% versus 0.7% respectively). In addition, **it remained at a standstill in Q4 (0.0% q/q) for the second consecutive quarter**.

In the industrial sector, the situation is still deteriorating. The manufacturing PMI was in sharp contraction territory for the tenth consecutive month in January (46.3), reflecting the weakness of new orders (42.8) and, therefore, of quantity of purchases (42). However, according to the European Commission's Economic Sentiment Indicator (ESI), business sentiment in industry improved in January (-8.3, the best level since July), which allowed the overall ESI to rise above 100 for the first time in eight months (100.2). On the services side, confidence remained moderate (5.0; -0.1 pt), and was marked by a decline in business expectations for demand in the coming quarter (3.3; -2.3 pts).

Italy still has the second lowest inflation in the Eurozone after Ireland (*see chart*). However, as elsewhere, inflation picked up in January (+0.3 pp to 1.7% y/y), due to less energy deflation (-0.7% versus -2.7% y/y in December). This slight pick-up in inflation is likely to continue, with the year-on-year change in producer prices returning to positive territory in December for the first time since March 2023 (1.1% versus -0.5% in November).

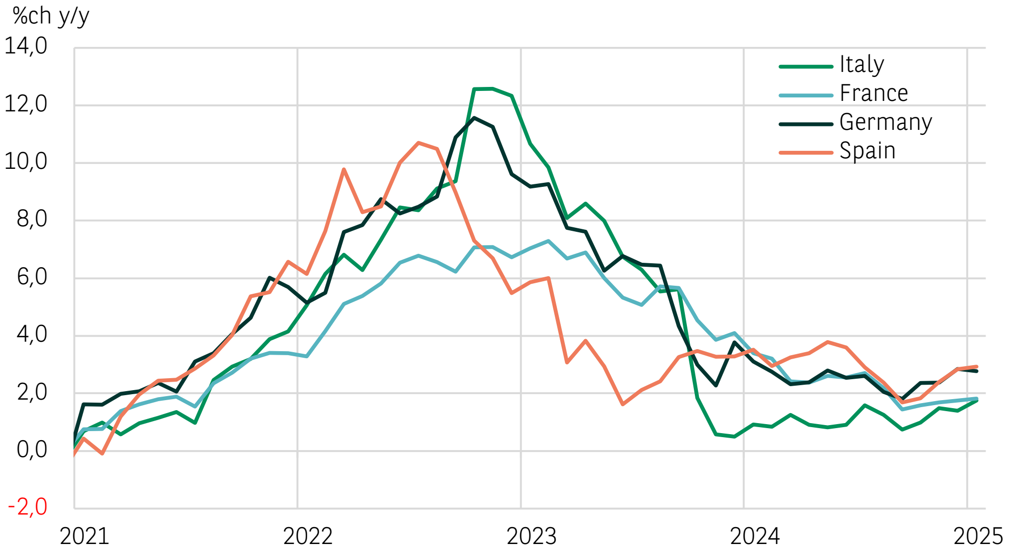
After falling sharply in December (-1.7 pts compared with November), **consumer confidence improved in January** (14.8; +0.8 pt over one month), but is still far from its pre-pandemic average (-12.6 between 2015 and 2019). Household sentiment regarding the economic situation over the coming year remains negative and has improved only very slightly (-14.5) compared with its 2024 average (-15.5). In addition, households' intentions to make major purchases during the year have not improved significantly (+0.6 pt over one month), and intentions to build or buy a house have even fallen by 2.4 pts compared with the previous quarter.

The latest developments in the labour market point to a slight deterioration. The unemployment rate rose in December (+0.3 pp), but is still below the Eurozone average (6.2% versus 6.3% respectively). Both the employment rate (62.3%) and the total volume of employed people (24.1 million) decreased compared to November, but are still very high by historical standards.

These few, albeit fragile, signs of recovery in the confidence surveys lead us to anticipate modestly more positive growth in Q1 (0.3% q/q, according to our forecasts).

Lucie Barette, article completed on 3 February 2025

Inflation trends in the four major eurozone countries



Sources : Eurostat, Macrobond, BNP Paribas

GDP growth

Actual				Carry-over	Forecast			Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
0.4	0.2	-0.0	-0.0	0.0	0.3	0.3	0.3	0.5	0.8	1.0

Source: Refinitiv, BNP Paribas

Spain: The Eurozone outlier

After growing four times faster than the Eurozone in 2024 (3.2% as an annual average versus 0.8% respectively), the Spanish economy is set to maintain its dynamism throughout 2025. On the back of growth of 0.8% q/q in the last three quarters of the year, real GDP is set to continue its momentum, with expected growth of 0.7% q/q in Q1 2025, marking the seventh consecutive quarter of growth above or equal to 0.7%.

The European Commission's Economic Sentiment Indicator (ESI) is in line with this, continuing its upward trend in January (104.4; +1.5 pts over one month). However, the Manufacturing PMI pointed to weaker growth in activity in the sector this month (50.9; -2.4 pts): production (50.2; -4.2 pts) and new orders (51.3; -1.6 pts) in particular grew at significantly lower rates than last month.

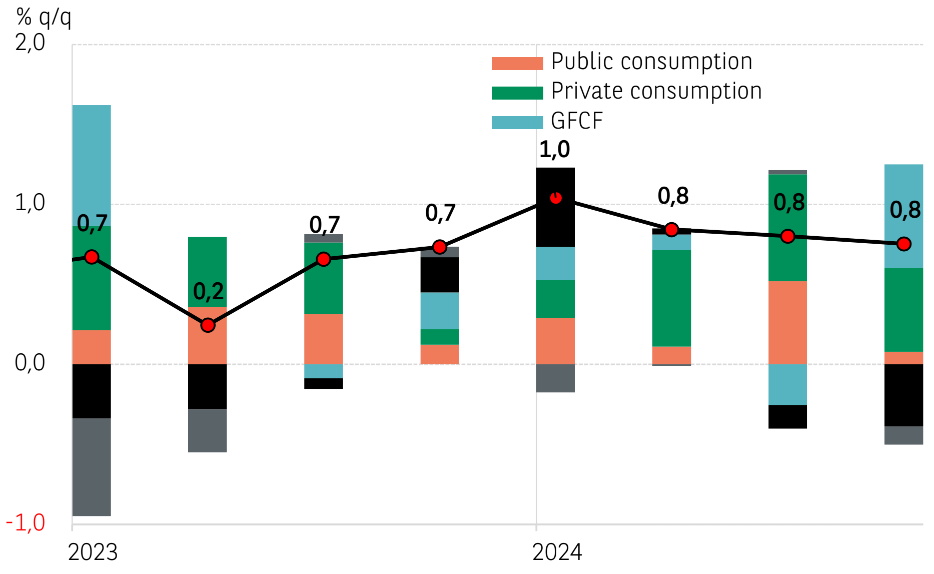
On the labour market front, the trend is still positive: in December, the unemployment rate fell back below 11% for the first time since 2008 (10.6%; -1.3 pts y/y). Although still high by European standards, it fell more among women than among men (11.9% (-1.5 pts y/y) versus 9.5% (-1 pt) respectively). Finally, unsurprisingly, and not least because of the record tourist arrivals recorded during the year, the service sector recorded the biggest fall in the unemployment figures in Q4 (-34,400), followed by agriculture (-16,200) and industry (-12,100).

Harmonised inflation rose for the fourth consecutive month in January (2.9% y/y; +0.1 pp over one month). The base effect on fuel prices, the abolition of the reduced VAT rate on basic foodstuffs and tax cuts on electricity contributed to this rise. The underlying component continues to slow down (2.4%; -0.2 pp).

Growth in negotiated wages (3.1% y/y in Q4) and the 4.4% **increase in the minimum wage** approved in January **should enable private consumption to remain the driving force behind Spanish growth**. But this support will be dampened by the negative contribution of foreign trade due to the greater rise in imports, as was already the case in the last two quarters of 2024 (see chart).

Lucie Barette, article completed on 3 February 2025

Contributions to spanish real GDP growth



Source: Eurostat, Macrobond, BNP Paribas

GDP growth

Actual				Carry-over	Forecast			Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
1.0	0.8	0.8	0.8	1.2	0.7	0.5	0.5	3.2	2.7	1.8

Source: Refinitiv, BNP Paribas

United States: The Fed can take it slow

The US economy ended 2024 with its real GDP growing +0.6% q/q **in Q4, a solid figure, though slightly down on the previous quarter** (-0.2 pp). Household consumption (+1.0% q/q, +0.1 pp) was once again the main growth driver. The government also contributed positively, in contrast to private fixed investment (-0.1% q/q), despite the growth in residential investment and intellectual property products. These figures brought the average annual growth rate to +2.7%, significantly above the long-term estimate levels (+1.8%), and resulted in a +1.0pp positive carryover for 2025.

The ISM Manufacturing index stood out in January, standing at 50.9 (+1.7 pp), i.e. above the threshold of 50 (marking the boundary between contraction and expansion territory) for the first time since October 2022. The "new orders", "output" and "employment" sub-components were all above this threshold.

The wave of corporate optimism following the presidential election has not abated, as the NFIB index ended 2024 at 105.1 (+3.4 pp) – its highest level since October 2018. This figure has taken it above its long-term average (98) for a second month in a row, after 34 months below this level.

Conversely, consumer confidence faltered lately. The Conference Board index posted a second month of decline in January, from 109.5 to 104.1, mainly due to a poorer assessment of the present situation. In addition, there are clearly rising job-related fears, as illustrated through the reduction in the labour differential between respondents who find jobs "abundant" and those who find them "hard to get".

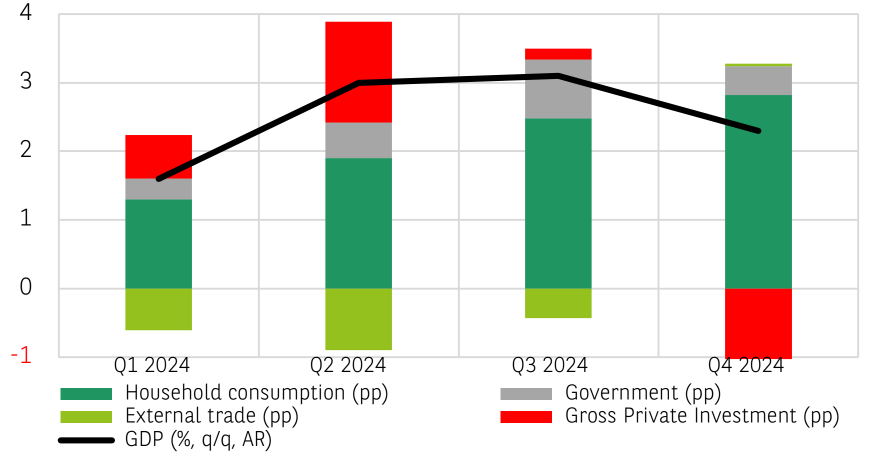
Headline inflation, measured by the CPI, rose in December (+0.2 pp to 2.9% y/y, its highest level since July). The sharp monthly increase in energy prices (+4.6% m/m; SA) is also noteworthy. By contrast, core inflation delivered a positive surprise, falling slightly to +3.2% y/y (-0.1 pp from the previous month and on the consensus).

January's Employment situation extended the narrative of a strong labour market. Admittedly, nonfarm payrolls slowed to +143k (-163k, consensus: +175k). However, the two prior months were revised upward, for a cumulative +100k. Moreover, the downward revisions for the whole 2024 appeared less important than anticipated, with a +166k yearly average, against +186k previously. A notable development was observed in terms of wage growth, with average hourly earnings posting their highest monthly rise (+0.5%, +0.2pp) since January 2024. Finally, the unemployment rate lowered to 4.0% (-0.1pp), while the participation rate improved to 62.6% (+0.1pp).

At its meeting on 28-29 January, the FOMC decided to keep its target rate at 4.25% - 4.5%. This decision puts the monetary easing cycle initiated last September on hold, following the rate cuts seen at the end of each of the last three meetings (100 bp cumulatively). The Fed is now adopting a wait-and-see approach, not forecasting any further cuts without "real progress on inflation" or the labour market "weaken[ing] unexpectedly". This approach extends to the economic policies of the new Trump administration, with Powell stating that the committee was waiting for the policies adopted to be articulated before assessing what their implications will be.

Anis Bensaidani, article completed on 7 February 2025

Consumption-driven Growth



Source: BEA, BNP Paribas

GDP growth

Actual				Carry-over	GDPNow	Forecast			Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q1 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
0.4	0.7	0.8	0.6	1.0	0.7	0.6	0.5	0.4	2.8	2.3	1.3

Source: Refinitiv, BNP Paribas

United Kingdom: The labour market is bending but not breaking

The momentum of consumption and industrial production remains unfavourable. Retail sales (excluding motor-fuel) were down by 0.5% m/m in December and by 1.1% in Q4 compared to Q3. The momentum of industrial production, which had posted three consecutive months of decline between September and November, remains very sluggish at the start of 2025. Although the manufacturing PMI is improving (+1.3 points to 48.3), as is the monthly CBI survey, thequarterly CBI data worsened sharply again in Q1 (-23 points to -47, the lowest level since Q4 2022). This survey generally anticipates trend reversals better than monthly figures. In addition, household confidence (GfK index) has been deteriorating since last August, with January posting a 13-month low.

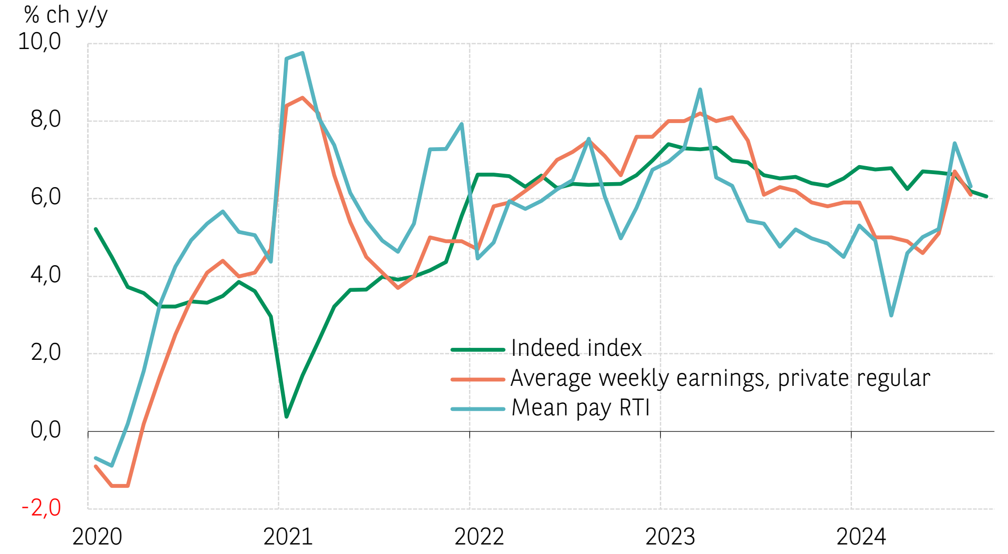
While the deterioration remained contained in 2024, the labour market is gradually starting to bend under the weight of the economic slowdown, the persistently high rise in labour costs and fears about the effects of the restrictive fiscal measures that will come into force on 1 April. The number of employees fell by 0.3% over the last two months of 2024, the biggest drop post-COVID[1]. **Wages, on the other hand, are still very buoyant**, with indicators (Indeed wage tracker, PAYE, average weekly earnings) posting a a year-on-year increase of 6% or more in November-December (*see chart*). While the rise is slow to abate for now, it should eventually become more moderate due to the easing of labour market pressures and less support for public sector wages in 2025. **Inflation fell slightly at the end of the year** (from 2.6% in November to 2.5%), with a significant slowdown in services (from 5.0% to 4.4%), half of which was attributable to the drop in airfares.

Our growth forecasts for 2025 continue to predict a slight strengthening, of 1.1% as an annual average (compared to 0.8% in 2024) in favour of the **continuation of the gradual cycle of monetary easing**. The BoE has just cut its key rates by 25 basis points; three further cuts are expected by the end of the year, at a rate of one per quarter. However, the risks around the inflation scenario are rising, given the developments on the labour market and the introduction of protectionist measures in the United States. Even if the United Kingdom was spared sanctions, the country would suffer the indirect negative impacts of a trade war between the United States and the European Union.

1 Ecoflash, United Kingdom: the downturn in the labour market is becoming clearer and reinforces rate cuts, 21 January 2025.

Guillaume Derrien, article completed on 3 February 2025

Wage indicators in the UK



Source: Indeed, ONS

GDP growth

Actual				Carry-over	Forecast			Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024 (estimate)	Q4 2024*	Q1 2025	Q2 2025	Q3 2025	2024 (estimate)	2025	2026
0.7	0.4	0.0	0.3	0.3	0.3	0.4	0.4	0.8	1.1	0.9

* Calculate with the Q4 2024 estimate

Source: Refinitiv, BNP Paribas

Japan: New step in monetary tightening

According to the Jibun Bank PMI survey, **the Japanese economy has started 2025 in different directions**. The manufacturing PMI fell to 48.7 in January (-0.9 pp, the lowest since March 2024), against a backdrop of a wider deterioration in production and new orders. By contrast, the services PMI accelerated according to the flash estimate, with Business Activity rising from 50.9 to 52.7. These developments left the Composite index in the expansion zone (51.1) for the third consecutive month. This points to slightly positive growth in Q1 2025 (+0.1% q/q according to our forecasts), after a 2024 marked by slightly negative growth (-0.2% as an annual average according to our estimates).

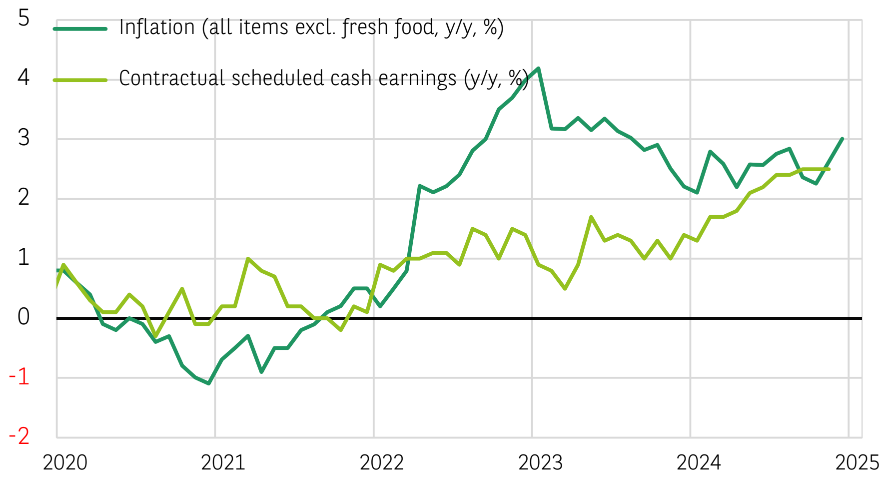
Inflation ended 2024 up, which is good news for Japan. Core inflation (excluding fresh food) reached +3.0% y/y (+0.3 pp), the highest since August 2023, despite a modest monthly slowdown (-0.1 pp to +0.3%). This result was mainly driven by energy inflation, at +10.1% y/y (+6.0 pp), both due to a monthly increase (+4.1%, +1.4 pp) and base effects. As a result, new core inflation, which also excludes energy, was stable (+2.4% y/y and +0.0% m/m). A leading indicator of national earnings, Tokyo's inflation for January 2025 suggests a further acceleration to come.

Overall, wage momentum was still strong in November. The increase in contractual scheduled earnings was maintained at +2.5% y/y, which was the third month in a row at this level not seen for more than 30 years. The sample, restricted to full-time employees and considered more representative, slowed slightly to +2.9% y/y (-0.1 pp). Above all, a positive trend for household consumption: the real wage index was in positive territory, at +0.5% y/y, after two months of decline. On the other hand, the unemployment rate fell further to +2.4% (-0.1 pp).

At the monetary policy meeting on 23-24 January, the Bank of Japan (BoJ) decided to raise the uncollateralised overnight call rate by 25 bps. **This first hike in the key rate since July 2024 brings it to +0.5%,** its highest level since 2008 (*see chart*). The BoJ announced that tightening would continue if its outlook is realised, in which the core inflation forecast was raised to +2.4% (+0.3 pp from October) for the 2025 fiscal year (which starts on 1st April). And lastly, the Summary of Opinions stated that "the resilience of Japan's economy as a whole has increased enough" to withstand the likely impact of the policies of the new American administration.

Anis Bensaidani, article completed on 3 February 2025

A wage-price spiral finally taking place?



Source: Macrobond, BNP Paribas

GDP growth

Actual				Carry-over	Forecast			Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024 (estimate)	Q4 2024*	Q1 2025	Q2 2025	Q3 2025	2024 (estimate)	2025	2026
-0.6	0.5	0.3	0.2	0.4	0.1	0.1	0.1	-0.2	0.6	0.2

* Calculate with the Q4 2024 estimate

Source: Refinitiv, BNP Paribas

China: Concerns

Chinese economic growth accelerated in Q4 2024 (+1.6% q/q and +5.4% y/y), driven by strong export performance and a recovery in private consumption. These supporting factors should persist in early 2025, but economic growth will then resume its downward trend. Domestic demand is likely to remain fragile and the rise in US tariffs will be a significant negative shock to exports.

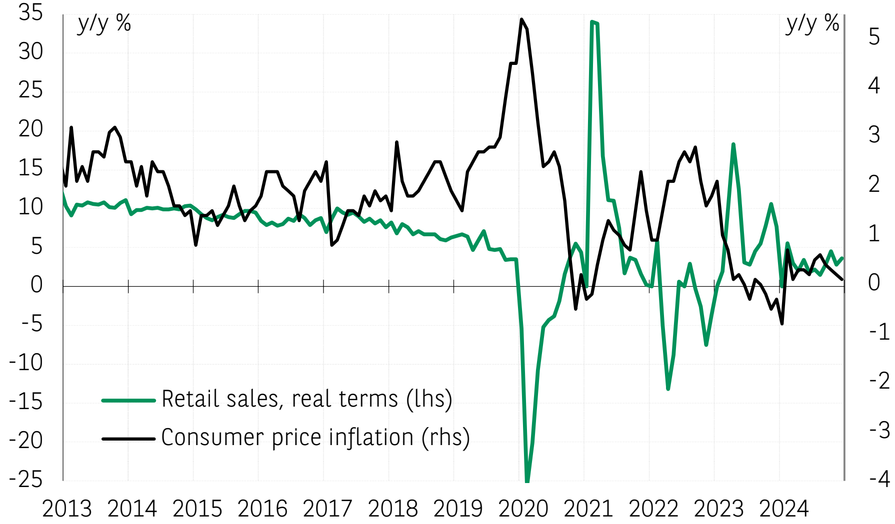
The protectionist shock expected in 2025 explains the recent deterioration in PMI indices in the manufacturing sector. The NBS Manufacturing PMI returned to a contraction zone (49.1) after three months at slightly above 50, and the PMI published by Caixin fell to 50.1 from 50.5 in December. The fall in the NBS Non-manufacturing PMI (50.2 in January vs. 52.2 in December) is more surprising given the recent improvement in household demand and the continuation of accommodative fiscal and monetary policies.

Inflation low (CPI: +0.1% y/y in December and +0.2% in 2024) **and deflationary pressures will persist in the short term**, fuelled in particular by excess industrial production capacities and falling housing prices. Against this backdrop, the central bank is maintaining an accommodative policy: the 7-day reverse repo rate should continue to fall very gradually (this went from 1.8% at the end of 2023 to 1.5% at the end of 2024 and is expected to reach 1.1% by the end of 2025). **The central bank remains cautious**, constrained by the deterioration in bank profitability, the fall in long-term bond rates and the depreciation of the yuan. Pressures on the yuan have eased since 20 January, but they could intensify once again in response to tariff hikes by the Trump administration (the first 10% tariff increase was effective on 4 February).

Household demand strengthened slightly in Q4 2024. Growth in retail sales accelerated (to +3.6% y/y in volume, compared to +2.2% in Q3), thanks to the consumer goods trade-in program subsidised by the government, and housing sales rebounded very slightly. However, this recovery does not signal the end of the property crisis: construction activity continued to contract and the average house price continued to decline (-8.1% y/y at the end of 2024). In addition, labour market conditions are still relatively worse than in the pre-Covid years. The average unemployment rate has returned to its 2019 level (5.1% at the end of 2024), but youth unemployment is still higher (15.7%), and household incomes are growing at a slower pace.

Christine Peltier (article completed on 6 February 2025)

China's retail sales and consumer price inflation



Source: NBS, BNP Paribas.

GDP growth

Actual				Carry-over	Forecast			Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
1.5	0.9	1.3	1.6	0.3	1.3	0.9	1.2	5.0	4.5	4.3

Source: Refinitiv, BNP Paribas

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