

# ECOWEEK

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“NOTHING GUARANTEES THAT EUROPE WILL OUTPERFORM EXPECTATIONS, LET ALONE OUTPERFORM THE US ON ANY TIME HORIZON. BUT IT DOES HAVE STRONG CARDS TO PLAY. AND A CRISIS-LEVEL SENSE OF URGENCY THAT IT NEEDS TO PLAY THEM.”

ECONOMIC RESEARCH



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## FIVE REASONS TRUMPNOMICS NEED NOT WEAKEN EUROPE, EVEN THE OPPOSITE

The consensus view currently holds that the great divergence between the US and EU economies observed since the pandemic is bound to continue. As a snapshot of current conditions, it is certainly true that the US economy has a strong growth momentum and bullish animal spirits, while Europe has neither. But extrapolating from a snapshot, as instinct tempts us to do, is often wrong. In fact, there are solid reasons to expect the gap between US and Europe growth to shrink in 2025—as envisioned in [BNP Paribas' central scenario](#), with the US economy slowing down and the Eurozone's accelerating (albeit modestly so). Beyond the year-ahead outlook, there are at least five reasons to challenge the view that Donald Trump's economic policies will make Europe even weaker. Let's consider them in turn.

**1. Europe was built through crises, as founding father Jean Monnet famously said.** The return of Trump to the White House is undoubtedly perceived by European policymakers as a crisis. Conveniently arriving on the heels of two landmark reports by former Italian Prime Ministers<sup>1</sup> that provide a roadmap for the EU to make itself fit for preserving its place in the world for decades to come, this crisis has already started accelerating much needed change. Instead of being shoved into drawers around EU government palaces, these reports have provided the bulk of the ingredients for the EU's 5-year work plan, renamed "competitiveness compass".

"Europe is ready for change" summed up EC President Ursula von der Leyen in Davos a few weeks ago. Just five months ago, the consensus in Brussels was that member states broadly agreed on the diagnostics, but were so far apart on the remedies that little would happen. Now, there is good reason to believe we will see changes of the same order of magnitude as those brought about by the Covid pandemic: with deeper and better integrated internal markets for goods and services; with far more firms operating at scale; with more pragmatic regulations; and with higher investment—both collective among member states and by the private sector—including in areas critical to economic sovereignty, green transition, and defense. This won't happen overnight, but the EU has as good a chance as ever to come out of this latest crisis stronger.

**2. Europe has greater macro stability and macro-policy space, both monetary and fiscal.** Unlike many previous crises, Europe faces this one in a position of relative strength. Its inflation has fallen within near-term reach of the ECB's 2% target and the ECB's policy stance is heading to neutral fast. The Federal Reserve, by contrast, is finding itself having to pause its easing cycle with rates at an elevated 4.5%, and the Bank of England is projecting resurgent inflation which will constrain its ability to cut rates fast or deep below the current 4.5%. Eurozone growth is below potential, but substantially positive, and a host of sentiment indicators are beginning to perk up. Should an adverse shock hit—for example in the form of US tariffs—, there is substantial scope for both monetary and fiscal policy to help. Fiscal room, admittedly, is not evenly distributed across member countries. But, by and large, those that have the most to lose from trade frictions with the US also have the most fiscal space (*Chart 1*). Italy, which does not, can expect a boost from over 3% of GDP worth of untapped Resilience and Recovery Facility funds. By contrast, the US and UK have no room for fiscal expansion.

<sup>1</sup> Cf. *'Much More Than A Market'*, Enrico Letta, April 2024 and *'The Future of European Competitiveness'*, Mario Draghi, September 2024.

<sup>2</sup> Some have argued that if the entire world tries to make up for the loss of the US market, competition will be intense and exports hard to grow. But the US market will only really disappear if its trade deficit does, and that will only happen if and when the Federal government runs fiscal surpluses, or households and businesses surpluses large enough to offset the gaping ones of the Government. Absent a dramatic collapse in investment, this seems highly unlikely in the foreseeable future.

### PUBLIC DEBT AND EXPORTS TO THE US AS A SHARE OF GDP OF THE EU COUNTRIES

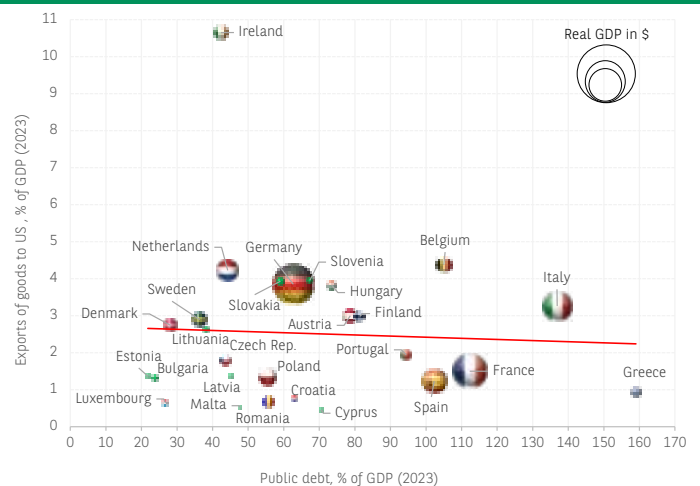


CHART 1

SOURCE: COMTRADE, IMF, BNP PARIBAS.  
CHART: TARIK RHARRAB

**3. Europe's vulnerability to US tariffs is overstated.** It is true that the US is the EU's top trading partner, and that it exports more goods to the US than it imports. As *Chart 1* shows, for several countries, exports to the US account for a sizable share of GDP. Still, the share of the US in total exports of EU countries is under 8%. As such, it would take relatively small increases in EU exports to other countries to compensate for the loss of exports to the US (*Chart 2*). In particular, because the EU trades predominantly with itself, the agenda of deepening the single market identified by Enrico Letta, extensively picked up in the EC's Competitiveness Compass, has the potential to unlock meaningful additional intra-EU trade. To offset a 1% decline in exports to the US, it only takes a 0.12% increase in intra-EU trade. Small increases in exports to close neighbours in non-EU Europe would also suffice. And only slightly higher ones for exports to fast-growing Asia ex-China<sup>2</sup>. As such, it is encouraging that the EU has signalled a strong intent to remain open for trade deals with any willing partners; recent reports suggest it might even



reduce some existing “most favoured nation” tariffs in response to Trump’s threat of “reciprocal” ones. This would lower its average external tariff rate and boost trade.

**4. Europe can step into the void left by US on energy transition.**

The US government putting on pause, or even in reverse, its efforts to limit global warming is unquestionably bad news. But, at least in one respect, it might benefit Europe’s economy: by removing the powerful incentive of the subsidies enacted under President Biden under the misnamed Inflation Reduction Act to boost green investment in the US. Now, with the EU doubling down on its own efforts to decarbonize its economy and support R&D and investments to that effect, its attractiveness to green-minded capital (from both within and outside the EU) will be magnified.

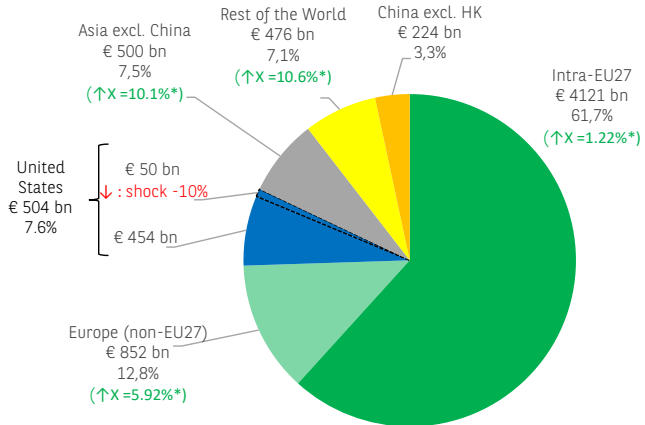
**5. Europe provides policy predictability and stability.**

In democracies, political uncertainty waxes and wanes often based on electoral cycles. It was high in both Europe and the US in 2024, owing both to planned elections (in the US and EU Parliament), and unplanned ones (in France in Germany). Now the fog has largely cleared in Europe, and the policy outlook at both EU and national levels is now fairly predictable over a multi-year horizon; whereas in the US, the unique policy-making style of President Trump means uncertainty remains, and is likely to remain, extremely high. Whether on tariffs, fiscal policy, immigration, and hence inflation and interest rates (both short and long), nobody can be sure whether to expect average, very good, or very bad outcomes. This is not an attractive backdrop for investment or hiring decisions.

Clearly, none of this guarantees that Europe will outperform expectations, let alone outperform the US on any time horizon. But it does have strong cards to play. And a crisis-level sense of urgency that it needs to play them.

**Isabelle Mateos y Lago**

**EXPORTS OF THE EU COUNTRIES BY DESTINATION**



\* All things being equal, a 10% (i.e., €50 billion) decrease in exports to the United States would require the European Union 27 to increase its exports by X% to the regional area in question in order to compensate for the shortfall. For example, exports to the rest of Europe (non-EU27) would need to increase by 5.92%, assuming that exports to other regional areas remain constant.

CHART 2

SOURCE: EUROSTAT, BNP PARIBAS  
CHART: TARIK RHARRAB

[Find our scenario and forecasts](#)

## ADVANCED ECONOMIES

### United States

**A solid economy despite job creation below expectations.** Net job creation slowed significantly in January 2025 (+143k compared to over 300k in December, vs. consensus at +175k). However, the upward revisions in November and December (+100k cumulatively) more than offset this negative development. The downward revisions over 2024 maintained the annual average at a solid +166k (compared to +186k initially). The situation remains positive in other areas: strong monthly acceleration in wages (+0.5% m/m, +0.2 pp), and a drop in the unemployment rate (-0.1 pp to 4.0%). In terms of activity, January 2025 marked the return of the ISM Manufacturing Index to expansion territory (50.9, +1.7 pp), for the first time since 2022, a surprise on the upside offset by the drop in the ISM Non-Manufacturing Index (-1.2 pp to 52.8). And lastly, beyond a further decline in consumer sentiment, the preliminary results of the University of Michigan survey for February proved inconsistent, with a jump of +1 pp in 1-year inflation expectations, to +4.3%.

### Euro area

**The ECB wage tracker points to a significant slowdown in earnings in 2025.** Calculated using data from wage agreements already negotiated, this index fell to 1.3% y/y at the end of 2025, compared to 4.9% in January 2024. Production prices (excluding construction) emerged from deflation in December (0.0% y/y). Retail sales fell by 0.2% m/m in December. However, they posted a moderate increase of +0.9% as an annual average in 2024, with declines m/m in Germany (-1.6%), France (-0.2%) and the Netherlands (-0.2%) and increases in Italy and Spain (+0.3% m/m each), and Belgium (+1.3% m/m). The final PMI composite estimate for January is unchanged from the flash estimate, at 50.2, compared to 49.6 in December.

**Germany A difficult end to 2024, but does 2025 look any better?** Industrial production contracted by 2.4% m/m in December, falling to a low not seen since the beginning of 2010 (excluding Covid). New orders to industry, on the other hand, are sending a positive signal: their 6-month moving average rose by nearly 4% between August and December 2024. The CDU/CSU recorded a slump in the polls in favour of the AfD and small parties. While its probable score (nearly 30%) should allow it to lead a future coalition, this could require a three-party agreement (with the SPD and the Greens).

**France Could good news drive away bad news?** The final composite PMI estimate for January was lowered to 47.6 (compared to 48.3 according to the flash estimate), which is stable compared to December (47.5). Private-sector salaried employment fell by 50,000 jobs in Q4 according to Insee, a setback probably linked to the Olympic Games (after 27,000 jobs created in Q3). The 2025 budget was finally adopted by Parliament. The budget is aiming for public deficit of 5.4% of GDP, compared to 6.1% in 2024. The effort mainly concerns compulsory levies (43.5% of GDP in 2025 compared to 42.8% in 2024), of which EUR 12 billion would affect companies. In terms of expenditure, the effort is concentrated on the government budget (-8.8 billion), primarily targeting the support to employment, the ecological transition and investment. As a result, the spread between the 10-year OAT and the 10-year Bund fell to nearly 70 bps (compared to 80 bps at the beginning of February) while the 10-year OAT rate fell to 3.1%, close to its pre-dissolution level.

**United Kingdom The BoE cuts interest rates by 25 bps to 4.5% and halves its growth projection.** The MPC is now forecasting a contraction of GDP of 0.1% q/q in Q4 2024, followed by +0.1% in Q1 2025 and +0.75% for 2025 as a whole. Two members of the MPC (Swati Dhingra and surprisingly, given her usually restrictive positioning, Catherine Mann) voted for a cut of 50 bps. Despite a slight improvement in industry, economic surveys continue to send worrying signals. The rise in the manufacturing PMI (+1.3 points to 48.3 points) drove the composite PMI up (+0.2 points to 50.6 points), but employment and sales price indices in services are developing very unfavourably (the former at its lowest level since January 2021, the latter at its highest since December 2023).

## EMERGING ECONOMIES

**PMI indices are holding up well in January.** On a sample of 15 emerging countries, the January diffusion index was down compared to the average in Q4 2024 in less than half of the countries (38%). However, this ratio is higher (47%) for export order books. In terms of level, the gap observed between Asian countries (a majority of PMIs still = >50) and Central European countries (a majority of PMIs mainly <50) is widening.

**China Measured response to the 10% increase in US tariffs.** The Chinese authorities have announced some retaliatory measures including anti-trust investigations against Google, new export controls on five rare metals, tariffs on imports of certain US goods (such as coal and LNG), and the introduction of new names on Beijing's "unreliable entity list". The Central Bank did not allow the CNY/USD exchange rate to depreciate when markets reopened after the Chinese New Year.

**India Budget under pressure but monetary easing starting.** In its budget for the fiscal year 2025/2026, the government aims to reduce its fiscal deficit from 0.4 pp to 4.4% of GDP, close to its pre-pandemic level. Of note is the increase in the interest burden on government debt, which is already very high, expected to reach 3.6% of GDP or 36.5% of fiscal receipts, and the stabilisation of public investment expenditure at 3.1% of GDP. These points reflect the lack of room for manoeuvre to support growth and address significant infrastructure shortcomings. For its part, the Reserve Bank of India (RBI) cut its key rate by 25 bps for the first time in almost five years. Justified by lower inflation and growth, this decision could exacerbate downward pressure on the rupee.

## COMMODITIES

**At its meeting on 3 February, OPEC+ kept its production unchanged.** If market conditions are met, the cartel members could decide to gradually increase their production (+0.12 mb/day per month) at their meeting on 5 April.



# MARKETS OVERVIEW

## Bond Markets

	In %	In bps			
	07/02/2025	1-Week	1-Month	Year to date	1-Year
Bund 2Y	2.08	-5.2	-14.8	+1.5	-63.9
Bund 5Y	2.14	-4.2	-10.5	+2.8	-9.5
Bund 10Y	2.35	-7.9	-13.5	-1.1	+8.4
OAT 10Y	3.02	-8.7	-20.3	-10.7	+29.9
BTP 10Y	3.35	-8.7	-16.7	-6.7	-54.0
BONO 10Y	2.96	-7.0	-14.6	-6.4	-23.0
Treasuries 2Y	4.31	+8.7	+0.8	+5.7	-15.1
Treasuries 5Y	4.35	+1.4	-12.2	-3.3	+27.2
Treasuries 10Y	4.49	-5.8	-19.9	-8.5	+37.4
Gilt 2Y	4.19	+23.0	-3.6	+3.8	-29.5
Treasuries 5Y	4.24	+0.5	-21.8	-11.2	+39.3
Gilt 10Y	4.48	-5.6	-20.1	-8.9	+42.7

## Currencies & Commodities

	Level	Change, %			
	07/02/2025	1-Week	1-Month	Year to date	1-Year
EUR/USD	1.03	-0.5	-0.3	-0.1	-3.8
GBP/USD	1.24	-0.1	-0.6	-0.9	-1.7
USD/JPY	151.38	-2.2	-4.1	-3.7	+2.3
DXY	111.99	+7.9	+11.5	+10.5	+6.1
EUR/GBP	0.83	-0.4	+0.4	+0.8	-2.2
EUR/CHF	0.94	-0.3	-0.1	+0.2	+0.3
EUR/JPY	156.60	-2.7	-4.4	-3.8	-1.6
Oil, Brent (\$/bbl)	74.68	-2.8	-2.9	-0.1	-5.7
Gold (\$/ounce)	2872	+2.2	+8.4	+9.4	+40.7

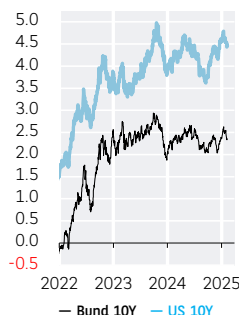
## Equity Indices

	Level	Change, %			
	07/02/2025	1-Week	1-Month	Year to date	1-Year
<b>World</b>					
MSCI World (\$)	3833	-0.1	+2.7	+3.4	+17.4
<b>North America</b>					
S&P500	6026	-0.2	+2.0	+2.5	+20.6
Dow Jones	44303	-0.5	+4.2	+4.1	+14.5
Nasdaq composite	19523	-0.5	+0.2	+1.1	+23.9
<b>Europe</b>					
CAC 40	7973	+0.3	+6.5	+8.0	+4.8
DAX 30	21787	+0.3	+7.1	+9.4	+28.7
EuroStoxx50	5325	+0.7	+6.3	+8.8	+13.8
FTSE100	8701	+0.3	+5.5	+6.5	+14.0
<b>Asia</b>					
MSCI, loc.	1428	-1.3	-0.7	-0.3	+8.9
Nikkei	38787	-2.0	-3.2	-2.8	+7.4
<b>Emerging</b>					
MSCI Emerging (\$)	1108	+1.4	+2.6	+3.0	+10.6
China	68	+4.8	+9.8	+5.4	+30.9
India	982	-0.5	-4.1	-4.6	+2.2
Brazil	1326	+0.4	+9.4	+12.7	-22.7

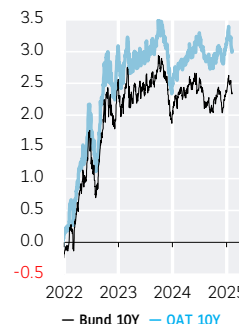
## Performance by sector

Eurostoxx600		S&P500	
Year 2025 to 7-2, €		Year 2025 to 7-2, \$	
+13.4%	Banks	+11.6%	Bank
+8.6%	Consumption Goods	+10.3%	Retail
+8.4%	Financial services	+8.4%	Real Estate
+7.4%	Health	+8.0%	Healthcare
+7.3%	Media	+6.8%	Media
+7.3%	Oil & Gas	+5.6%	Telecoms
+7.2%	Technology	+5.0%	Commercial & Pro. Services
+7.1%	Commodities	+5.0%	Pharmaceuticals
+7.1%	Telecoms	+5.0%	Consumer Services
+7.0%	Insurance	+4.9%	Materials
<b>+6.9%</b>	<b>Eurostoxx600</b>	+4.1%	Consumer Discretionary
+6.8%	Construction	+3.7%	Capital Goods
+5.6%	Industry	+3.3%	Insurance
+4.5%	Chemical	+3.1%	Utilities
+3.5%	Travel & leisure	+3.0%	Energy
+3.4%	Real Estate	<b>+2.5%</b>	<b>S&amp;P500</b>
+2.5%	Retail	+0.3%	Food, Beverage & Tobacco
+1.9%	Food industry	-2.1%	Semiconductors
+0.9%	Utilities	-6.4%	Tech. Hardware & Equip.
		-10.1%	Automobiles

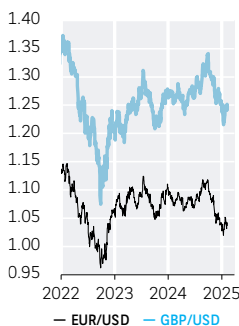
Bund 10Y vs US Treas. 10Y



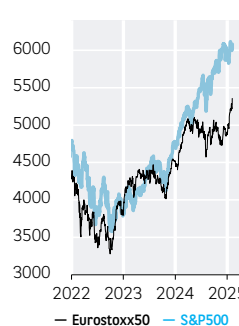
Bund 10Y vs OAT 10Y



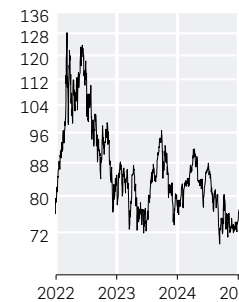
EUR/USD vs GBP/USD



EUROSTOXX 50 vs S&P500



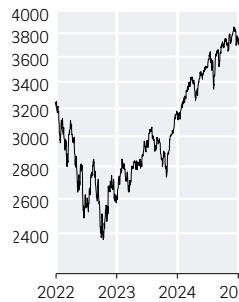
Oil, Brent (\$/bbl)



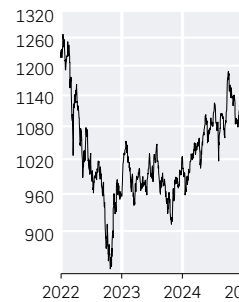
Gold (\$/ounce)



MSCI World (\$)



MSCI Emerging (\$)



SOURCE: LSEG, BLOOMBERG, BNP PARIBAS

# FURTHER READING

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<a href="#">EcoPulse of February 2025</a>	EcoPulse	10 February 2025
<a href="#">France: trade deficit down and current account nearly in balance</a>	EcoFlash	6 February 2025
<a href="#">Eurozone: The increase in the credit impulse prevented a contraction in GDP in Q4 2024</a>	EcoInsight	5 February 2025
<a href="#">Central Europe: Moving up the value chain</a>	Chart of the Week	4 February 2025
<a href="#">To bring down oil prices, Trump must take little action and stay patient</a>	EcoWeek	4 February 2025
<a href="#">Inflation tracker - January 2025   Inflation is rising: should we be worried?</a>	EcoCharts	31 January 2025
<a href="#">Eurozone: a few reasons for the high saving rate</a>	EcoWeek	29 January 2025
<a href="#">FOMC: Time for a Pause</a>	EcoFlash	27 January 2025
<a href="#">French growth: still (slightly) positive?</a>	EcoBrief	23 January 2025
<a href="#">US vs. Eurozone: bank capital requirements are hardly comparable</a>	Chart of the Week	23 January 2025
<a href="#">United Kingdom: the downturn in the labour market is becoming clearer and reinforces rate cuts</a>	EcoBrief	21 January 2025
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<a href="#">European public accounts: the great post-Covid divide</a>	Chart of the Week	15 January 2025
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<a href="#">US employment and bond rates: A turbulent week</a>	EcoBrief	13 January 2025
<a href="#">Has households' purchasing power returned to its pre-inflation level?</a>	Chart of the Week	8 January 2025
<a href="#">Happy new year?</a>	EcoWeek	7 January 2025
<a href="#">Is extending loan maturities an effective way to improve access to home ownership?</a>	Chart of the Week	23 December 2024
<a href="#">Bank of England: no change, but more fears about economic activity</a>	EcoBrief	20 December 2024
<a href="#">How different will 2025 be from 2024?</a>	EcoPerspectives	18 December 2024



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