Managing risk, enabling trade

December 2024

Atradius Economic Outlook

Fasten your seatbelts

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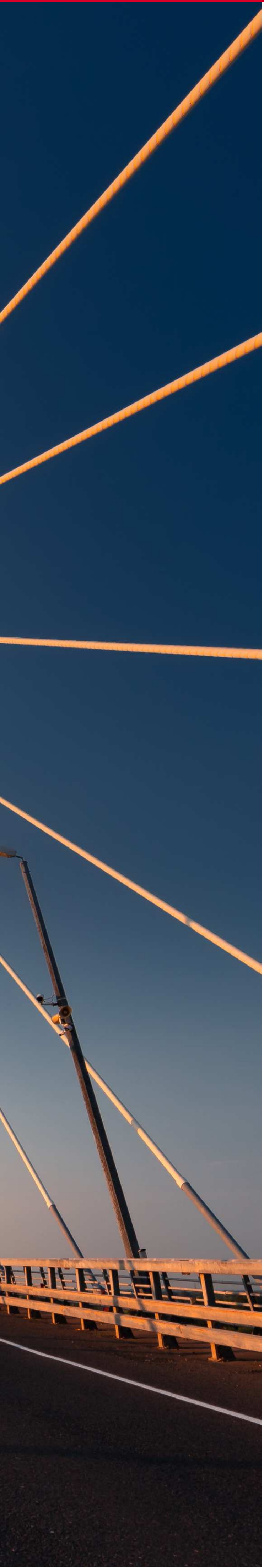


Executive Summary

- **The global economy remains on track for soft landing, with inflation decreasing without triggering a recession.** Global growth is expected to remain modest, with projections of 2.8% for 2025 and 2.9% for 2026. The US continues to demonstrate strong GDP performance, bolstered by factors such as increased labour supply and significant fiscal stimulus. In contrast, the eurozone's growth is projected to be much lower at 0.8%.
- **Inflation has continued to move towards central bank targets.** Central banks' monetary tightening has successfully reduced inflation without causing a recession in major advanced economies. We anticipate this 'soft landing' to continue, with inflation approaching the 2% target in the eurozone and US by 2025. This outlook is supported by factors such as declining commodity prices, slowing wage growth, and normalized supply chain pressures.
- **We forecast global trade growth to be 1.8% in 2024, slightly down from an earlier estimate.** For 2025, trade growth is expected to rise to 3.3%. This upward revision is driven by businesses front-loading activities in anticipation of new tariffs. However, trade growth is likely to fall below 3% in 2026 as the impact of these tariffs takes effect. Trade in the eurozone remains weak, especially in manufacturing, while the US and China showing stronger trade growth.
- **Advanced economies are expected to grow by 1.9% in 2025, an upward revision.** The US economy is showing resilience despite policy uncertainty, with inflation easing and the central bank starting its monetary easing process. The anticipated policy changes from the incoming Trump administration are expected to impact mostly after 2026 and do not significantly alter our 2025 outlook.
- **The outlook for emerging market economies (EMEs) is on average stronger than that for advanced economies, but it remains weak by historical standards.** We anticipate GDP growth to moderate at 4.0% in 2025 and 3.9% in 2026. This year, many EMEs have experienced a reduction in inflation rates. Most monetary policies are tending towards easing, but potentially shifting investor perceptions present a risk going forward.
- We have identified a more confrontational US administration as the primary downside risk to our baseline forecast. In this 'full-blown Trump' scenario, the new administration is expected to implement major policy changes in the areas of fiscal policy, trade and immigration, that could significantly affect both the US and global outlook.

Global macroeconomic environment

1.1 After the landing

In our July Economic Outlook, we made the case for a soft landing of the global economy, as the title of that document suggested. Landing softly means that inflation is brought down to or at least towards central bank target levels without causing a recession. That was the process we saw playing out back then, and still see it now, six months on. This is corroborated by economic data that have come in since July.

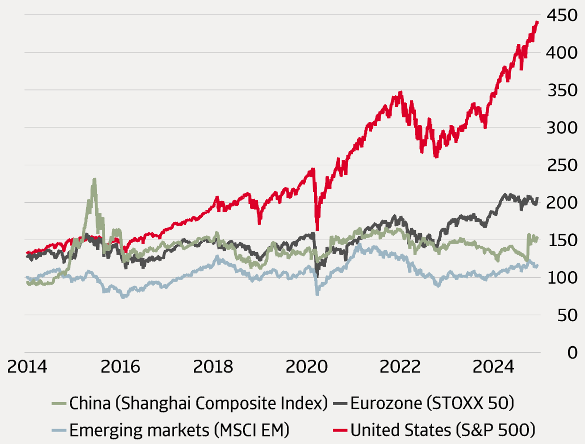
Indeed, in most economies, especially in the advanced ones, inflation has continued its downward trajectory while GDP growth has remained resilient. Headline inflation in the US now stands at 2.1%, in the Eurozone at 2%, with estimated GDP growth rates for 2024 at 2.4% and 0.8% respectively. The Eurozone growth is muted. But it remains at a significant distance from zero, and by implication, even at a larger distance from a recession. This is not a global picture, and certainly not the one for China, the second largest economy in the world. The country leans against deflation at 0.4%, while growth is expected at 4.8% for 2024.

What is behind this remarkable development in the US and Eurozone? We need to point out that it is not remarkable that inflation, as such, is brought down. The central banks have an arsenal of monetary policy tools at their disposal. They just must employ these, particularly interest rate hikes and, to a lesser extent, quantitative tightening. That will usually do the trick for inflation, as demand comes down. Firms will spend less as financing cost are higher and consumers spend less as they will get an incentive to save, rather than spend. Lower spending then translates into a lower GDP. This is nothing special. Surprisingly, GDP didn't drop significantly despite aggressive monetary tightening. After all the Fed raised hiked rates from 0.25% to 5.5% in just over a year, the ECB from 0% to 4.5% in exactly a year. GDP growth remained positive. It suggests other factors, including those on the supply side of the economy, at work.

So what are these other factors? First, there has been an extension of the supply of labour in the US as well as other advanced economies, including those of the Eurozone. This occurred via immigration, which was ample, reportedly more than one million in the US in 2023 alone. This extended the supply of labour, or an extension of the workforce. Moreover, the degree of participation within the workforce went up as well. These two factors simply brought more hands on deck, providing a boost to growth. Second, purchasing power of consumers proved resilient, despite rather hefty inflation rises. Here government intervention has played a crucial role. This came in two ways. During the pandemic ample support was provided to keep up demand, either via direct handouts such as in the US, or via subsidies for firms to prevent mass unemployment such as in the Eurozone. As the money could only partially be spent during lockdowns, savings accumulated. These were gradually spent after the pandemic. When inflation spiked after the Russian invasion in 2022, governments again stepped in to support the economy. In the Eurozone subsidies were provided, mitigating the impact of inflation, especially energy inflation, largely for consumers. Then, governments did not stop with intervention after the pandemic and the Russian invasion. Very significant government programmes, aiming at the supply side, were set up to help economies transition, in particular towards clean energy and digitisation. In the US the Inflation Reduction Act and CHIPS and Science Act were adopted in 2022, allowing for more that USD 1 trillion spending. For a similar amount in euro, the EU set up the NextGenerationEU. All this and the expectation that monetary policy easing is close as well as hopes that AI would be new growth driver, has cheered financial markets, those in the US and to a lesser extent in the Eurozone (figure 1.1). That in turn has provided a wealth effect, supporting consumption and cheaper (equity) financing for firms, underpinning investment spending.

Figure 1.1 Appreciative equity markets

Stock market indices, index 2012=100



Source: Macrobond

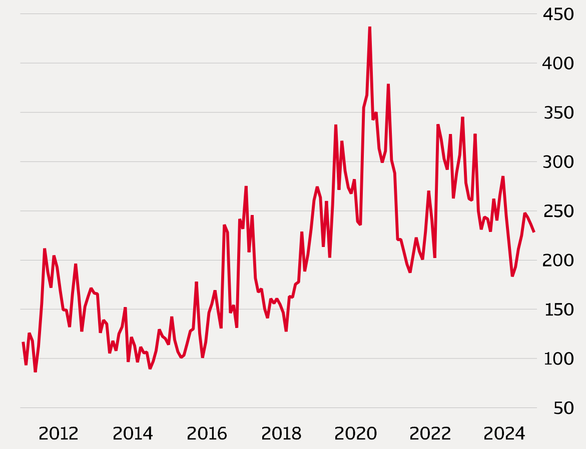
1.2 Underwhelming growth

In short, what we have seen in the advanced economies is an extension of labour supply, via immigration and participation in combination with very significant government intervention aimed at the supply as well as demand side of the economy. It was backed up by an equity market run. No wonder the impact of aggressive monetary tightening was limited, or at least sufficiently mitigated to avoid a recession.

We need to stress we are not going back to growth rates seen in the early decades of the century. Growth is bound to remain underwhelming at just below 3% globally over the forecast horizon, even now that monetary policy can go into the reverse with the inflation battle won. The simple truth is that governments have reached the end of their means and will have to step back. Immigration has rapidly become politically very contentious making further strong support to growth unlikely. Participation rates have limits as well. Meanwhile economic uncertainty has remained elevated (see figure 1.2 and 1.3).[1] Not in the least after the result of the US election and will continue to weigh on growth as consumers and firm delay spending decisions. Also, financial institutions are reluctant in providing credit, especially to new borrowers. China is not expected to come to the rescue either, the country is struggling with the transition away from its construction and infrastructure lead economic growth model. Finally, whether AI is the much-needed boost to productivity growth and, therefore, a new GDP growth driver is yet to be seen.

Figure 1.2 High economic uncertainty unmoved

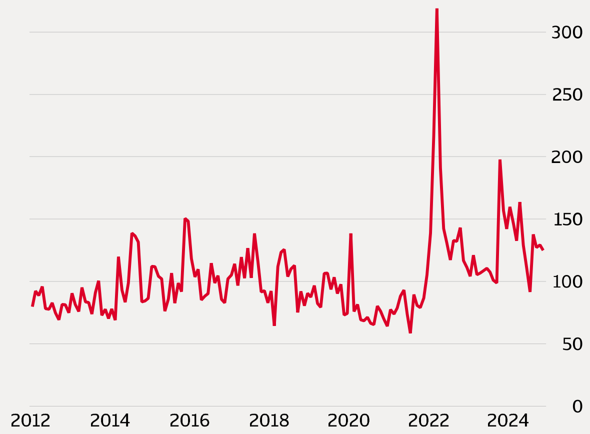
Economic policy uncertainty index, news-based



Source: Macrobond

Figure 1.3 Geopolitical risk hardly better

Geopolitical risk index



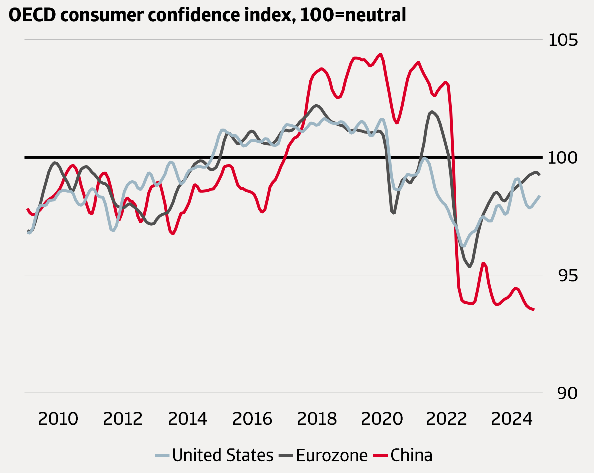
Source: Macrobond

This picture of underwhelming growth is reflected in confidence indicators. First consider consumer sentiment (see figure 1.4). We observe a continuation of the upward trend in consumer confidence, in the US and in the Eurozone. This does not come as a surprise, higher purchasing power due to wages rise as inflation comes down, continued ample opportunities in the labour market and an impressive equity market run should boost sentiment. The surprise is arguably that the indicators in both regions remain below 100, the level showing spending growth. One of the factors in play is the one already mentioned above, economic uncertainty, which is elevated and has hardly moved since our July outlook. Another one is the uneven impact of inflation on purchasing power of income groups. Price rises of energy, rents and food weigh more heavily on purchasing power of lower income groups, potentially erasing any nominal wage growth.[2] China consumer sentiment is another matter – we still see the impact of the crisis in construction and infrastructure reflected in a negative, and declining, Purchasing Managers' Index (PMI). Homeowners are consequently struggling with negative wealth effects due to lower house prices. Relatively high unemployment, especially among the youth, persists as well. At the latest round of stimulus of the Chinese government aimed at financial stability (see later in this outlook), rather than the demand side of the economy, consumer sentiment hardly budged.

[1] Economic uncertainty is broadly defined (See IMF Chapter 2 of Global Stability Report, October 2024: Macro stability and high global economic uncertainty) refers to situations

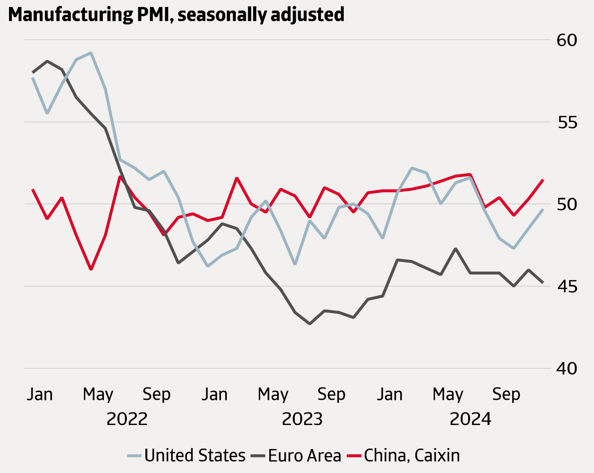
[2] Discontent amongst the electorate has played a role in the Trump victory in the November presidential elections.

Figure 1.4 Better consumer sentiment



Source: OECD, Macrobond

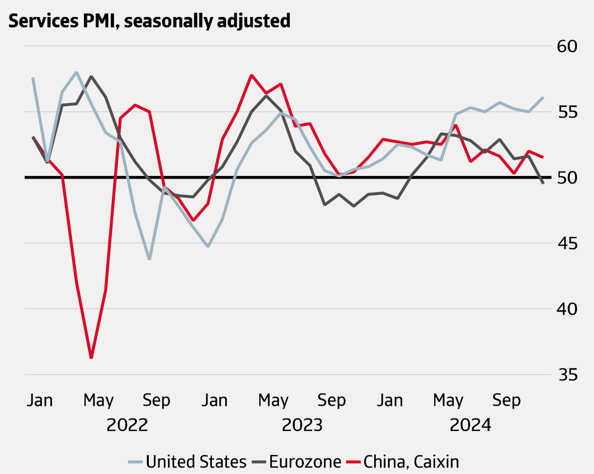
Figure 1.6 Manufacturing PMIs in the doldrums



Source: S&P Global, Macrobond

As to business sentiment, the difference between sentiment in services and manufacturing that arose when post pandemic demand rotated to services is gradually waning. We observe services PMIs are moving back towards levels seen prior to the pandemic (figure 1.5). This picture is very prominent in the Eurozone and China. US sentiment remains relatively high. Manufacturing PMIs have worsened in the US and China, with the latter country now facing a below-50 figure, suggesting shrink in their manufacturing sectors (see figure 1.6). Meanwhile the Eurozone PMI has hardly moved, staying significantly below 50. This highlights that the problems in Eurozone manufacturing, especially in Germany, are far from over. With services PMIs weaker and manufacturing PMIs sliding, the composite PMIs for the Eurozone and China are at or below 50, while the US PMI remains relatively robust, signalling continued growth. We therefore conclude that sentiment indicators do not challenge our view of underwhelming growth.

Figure 1.5 Services PMI tend to normal

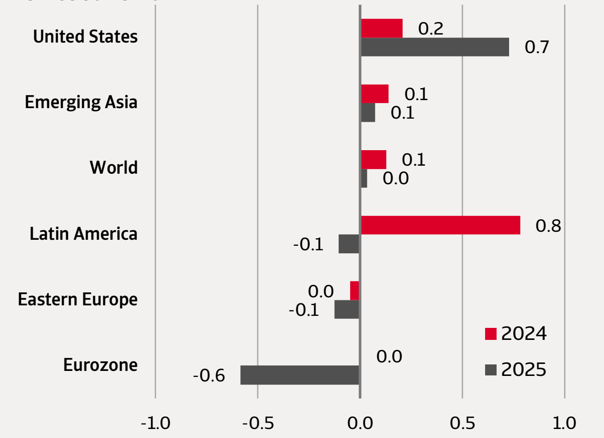


Source: S&P Global, Macrobond

In our July outlook we hailed the avoidance of a recession while stressing there was no point cheering about the level of growth. That level we have now labelled underwhelming. This is with some justification. The global forecast has hardly moved with only a 0.1 ppt (upward) revision for 2024 and stable outlook for 2025 (see figure 1.7). This global picture does hide regional heterogeneity though, especially for 2025. For 2024 the (upward) revisions for the US and Emerging Asia are relatively mild, whilst this is not the case for Latin America (0.8 ppt). The latter was helped by a strong forecast improvement for its largest economy, Brazil. For 2025 we were far more pessimistic for the US. It was arguably too pessimistic now that we have the benefit of hindsight of incoming data. The upward revision is 0.7 ppt. On the other hand, we were too optimistic about the recovery in Europe, especially in Germany's manufacturing sector, and we now expect the process to last longer. Hence the downward revision of 0.6 ppt for 2025. There is no reason to significantly revise the forecast for the other regions.

Figure 1.7 Heterogeneity in forecast adjustments

Percentage point change in real GDP growth forecast since June 2024



Source: Oxford Economics, Atradius

The overall picture for global growth is then coming out at 2.7% for 2024 and 2.8% for 2025, and a mild increase for 2026 to 2.9%. We forecast a gradual recovery in the Eurozone to 1.5% in 2026, helped by monetary easing that is already underway. With this forecast, the region remains far below the global average. Such is not expected to be the case for the US, where the level of growth is only just below the global average, meaning a lot better than for the Eurozone. Only slightly lower growth levels than for the US are forecast for Latin America and Eastern Europe. As usual, Emerging Asia remains the carthorse of the global economy. Growth is forecast to slide towards 4.8% in 2025 but remains far above average. As China growth slides to 4.4%, in India it stays steady at 6.4%.

Table 1.1 Picture of underwhelming growth

Real GDP growth forecasts, %

	2023	2024*	2025*	2026*
Eurozone	0.5	0.8	1.2	1.5
United States	2.9	2.8	2.6	2.7
Emerging Asia	5.5	5.0	4.8	4.6
Latin America	2.1	1.7	2.2	2.1
Eastern Europe	3.2	3.0	2.5	2.1
World	**2.8**	**2.7**	**2.8**	**2.9**

Source: Oxford Economics, Atradius (* forecast)

1.3 Trump election triggers mild assumptions adjustment

The above growth outlook is predicated on the set of assumptions that we have described in our July outlook. Since then, we have seen the election of Donald Trump as the US 47th president, impact of which on the forecast we cannot ignore discussing.

We are very much aware that during the election campaign rather extreme proposals have been put to the table by the then-candidate, including a 60% tariff on all imports from China and 10% on those from the rest of the world, fiscal stimulus by tax cuts and last but not least deportation of 3 million illegal immigrants.

We think, at least at this stage, that these are differences between campaign promises and policies that are ultimately put in place. Therefore, we assume that only a mild version of the measures floated during the campaign will be implemented as will be argued now. Such a set of assumptions is surrounded by a high level of uncertainty, indeed much higher than in July. Let us take a closer look at the three measures.

Whilst measures against illegal immigrants are likely, deportation of such a sweeping number is certainly not. Moreover, it would rob the US of a pool of often people doing low-skilled jobs for which difficult or even no replacement can be obtained. Apart from that, chasing and deporting such a large group seems very difficult, if not possible, to execute. On the other hand, we can expect a widening of the government deficit. During the forecast period tax cuts are likely to be legislated and spending increases or at least is not cut back. Deregulation is also high on the agenda. On tariffs, we think that a more targeted but still ratcheted up approach versus China and other economies will prevail. We think it leads to a 2 ppt increase of the effective tariff towards 5%. This is a much-toned down set of measures than communicated on the campaign trail. In fact, as we see it now, it is only a mild strengthening of the current Biden policy.[3] Moreover, as it will take time to implement the measures, the impact is expected to be gradual, and Trump only starts end of January 2025. It will be felt over the course over the forecast horizon, particularly in 2026.

The impact, as such, will run via the higher government deficit, deregulation, somewhat higher inflation and interest rates that remain higher for longer plus an increase in

[3] Indeed, the Biden administration implemented tariffs on amongst others electric vehicles, semiconductors and solar cells imported from China earlier in the year. See US elections: which direction will the trade winds blow? Atradius research note, October 2024.

uncertainty, leading to a slight adjustment of the rest of the assumptions we employ.

First, the level of geopolitical uncertainty is largely determined by the Ukraine war, the escalated conflict in the Middle East and the situation around Taiwan. Our current view is that there will be no quick solution for Ukraine, nor for the Middle East and Taiwan. On the campaign trail Trump mentioned ending the Ukraine war within 24 hours of his inauguration. How, is unclear. These and other such statements have created a lot of uncertainty about the direction of the US foreign policy. This adds to the existing level of geopolitical uncertainty, which is already elevated, as we have seen.

Second, the Biden administration has adopted a targeted approach towards China, which is seen as the economic and geopolitical rival. The trade war between the two countries that was started by Trump has in fact been extended and intensified by the current administration. We see no end to this process. On the contrary, the trade war will be further intensified, at least with China as we have argued above. This implies that the world will have to live with a further increase in the level of protectionism, leading to reinforced changes in trade flows.[4] Nevertheless, we do not subscribe to the view that there will be decoupling between the US and China, let alone a move towards complete deglobalisation. Again, this assumption is subject to a high level of uncertainty, with a more extreme version of the Trump measures hanging over the economy.

Third, the battle against inflation is now largely, or perhaps even completely, won, at least in the US and the Eurozone. We expect the still somewhat sticky services inflation to gradually decline. This is the result of the rotation of demand back towards goods, now that the post pandemic surge in demand for services such as tourism is waning. The view of inflation pressures fading is underscored by the fact that the Fed as well as the ECB have embarked on a set of interest rate cuts since the summer. This monetary policy easing is set to continue, with interest rates moving away from restrictive towards levels neutral. The expected new tariffs of the Trump mild scenario have an impact, as they provide a relatively mild push to inflation, and somewhat delay interest rates cuts, just like the fiscal policy stance will. Not a lot to worry about at this stage.

Fourth, we see fiscal support for the economy broadly intensify. This is particularly the case in the US and China. In the US the stimulus will be restricted by the fact that widening of the budget deficit that comes with it implies further debt issuance. There is a limitation to that, given the so-called debt rule that requires Congressional approval if the government debt has reached a certain level in USD. Approval of certain levels may be politically difficult, even if the House of Representatives is Republican-dominated. Nevertheless, growth in the US will be enhanced by lower taxes and higher government spending. Deregulation will certainly also help. China has a lot more room for fiscal stimulus. It is also much more needed there in order to move the economy towards a less supply side drive growth model. In the Eurozone and the EU, fiscal stimulus will be limited given the budget deficit and debt to GDP constraints that the EU has imposed on its member states. Here there is a level of uncertainty as well, as under a more extreme version of the Trump policy, fiscal policy will be even more expansionary.[5]

The upshot of the Trump policies is, and this may sound a paradox, that they are positive for growth in 2025. Initially the positive impact of fiscal policy and deregulation dominate. But this is a short-lived affair. As from 2026 growth will be hit via the trade war intensification and loss of productivity comes later and has much longer lasting effects.

1.4 Tariff anticipation ups global trade

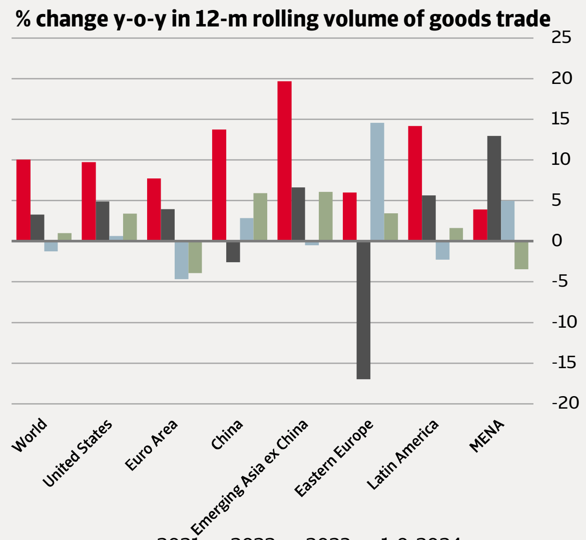
Global trade is expected to be the major victim of the new political reality in the US. Even in its currently assumed mild form, the expected measures imply an almost 70% increase in tariffs on trade into the US. Specific sectors such as automobiles and steel will bear the brunt, other sectors may be affected a lot less. But as we mentioned, we expect the negative impact of the tariffs to be felt first in the course of 2026. What's more, in anticipation of the tariffs, trade can increase above what was previously expected, followed by a more pronounced slump after implementation.

The implication is that, all things being equal, we need to upgrade the 2025 forecast. And that is precisely what we'll do. We now forecast global goods trade in 2025 to grow to 3.3%, up 0.3 ppt from July. In view of the tariffs kicking in after that year, trade growth will start to slump below 3%. Our 2024 forecast is also adjusted as well. We see a lower level than expected earlier at 1.8%, 0.7 ppt down.

[4] As an example, since the trade war started in 2018, China has lost 8%pt import market share in the US, to the benefit of other Asian countries as well as the EU.

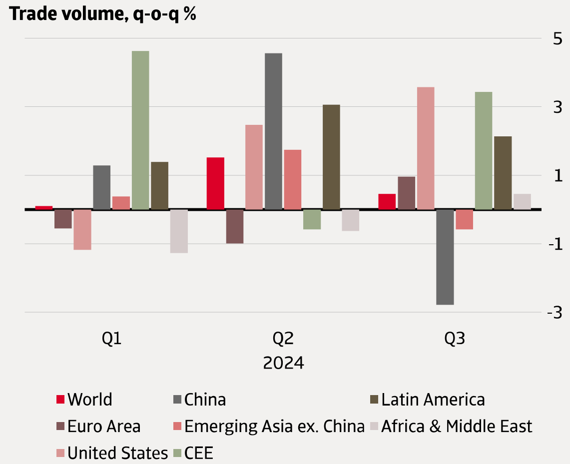
[5] Trump has even suggested on the campaign trail that he would be able to finance the tax cuts with income from tariffs. For this to be true the price sensitivity of all imports hit by tariffs should be extremely low, quite a heroic assumption.

Figure 1.8 First signs of trade recovery



Source: CPB, Macrobond

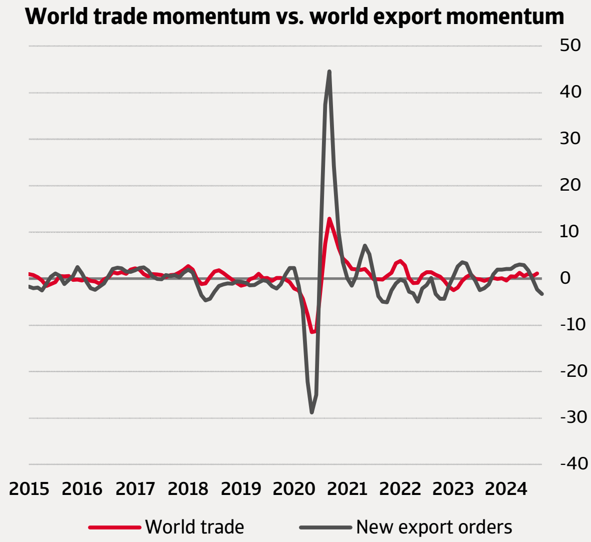
Figure 1.9 Markedly improved momentum



Source: CPB, Macrobond

This picture warrants some explanation, starting with 2024. This is based on new trade data, hard trade data as well as new export orders. More in particular, trade growth until September is 1.0% on a rolling 12-month basis (figure 1.8). With such a low figure, a significant acceleration of trade growth is needed to get to our original forecast of 2.5% for the full year 2024. The momentum of trade in Q2 and Q3 suggest such an acceleration (figure 1.9), but there is a reason to be more cautious: new export orders having moved into negative territory (see figure 1.10). That explains the downgrade to 1.8%.[6] Now, this lower forecast figure for 2024 is the new basis for the growth forecast in 2025. This, as such, underpins a higher forecast. Further corroboration is in the additional trade that may come from the front loading of trade in 2025 in anticipation of the tariffs being put in place. With this forecast 2024 trade growth undershoots GDP growth, 2025 overshoots it. Over the forecast horizon we believe the empirical regularity of a 1:1 relationship between global trade growth and global GDP growth is still intact.

Figure 1.10 Export momentum turns red



Source: CPB, IHS Markit, Atradius

Looking under the hood of global trade we see that the regional heterogeneity we discussed in the July outlook has not materially changed. With economic growth, especially manufacturing, under pressure the shrink of trade in the Eurozone is not over. The annual rolling average figure for 2024 until September is still negative (figure 1.8) but the q-o-q figures (figure 1.9) have finally turned positive in Q3. Exports of automotive and chemicals are under pressure and so is imported machinery from China. On the other hand, US trade growth is picking up and is positive on a 12-month annual rolling basis. After a small quarterly decline in Q1, it shows healthy recovery in Q2 and Q3. That is in line with continued solid economic development in the country. In China trade, especially its export, has grown further in 2024 and has reached 5.9%. Emerging Asia, excluding China, has the highest growth level in the world with 6.1%.. Eastern Europe is recovering as well, be it with somewhat volatile quarterly figures. Africa and Middle East trade growth is negative. Given that European trade has the highest weight in global trade and that its trade growth is ailing, Europe

[6] Instead, we assume that average trade growth for the rest of 2024 is equal to the average of the first 9 months, which gets us to the 1.8%.

remains a drag global trade. Indeed, barring Europe, trade figures look a lot better.[7]

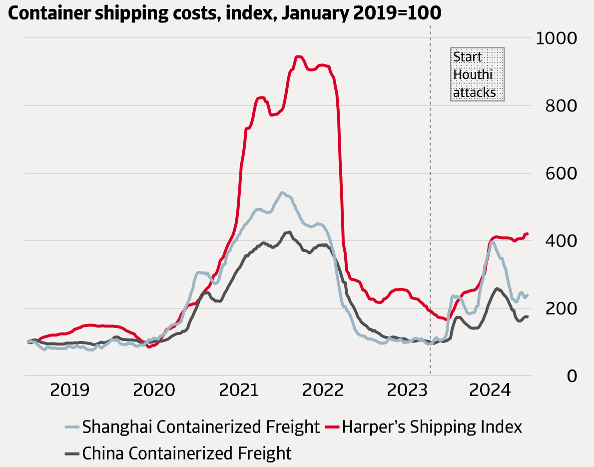
Digging deeper, we can develop a sharper picture of trade growth. In our July outlook we argued that the manufacturing sector, especially in Europe, investments, inflation and trade costs are determining factors for global trade. Let's discuss them. The European manufacturing sector, most prominently the German one, is under pressure because of higher energy costs after the Russian invasion in Ukraine and lower demand from China as that economy is moving to a lower gear. On this front there is little movement as compared to July, with the European manufacturing PMI still moving sidewards and in negative territory as we have seen above. China demand has also not accelerated, with the most recent stimulus packages focusing on financial stability. Moreover, the high level of policy uncertainty, weighing on trade, is also not contributing. Other regions do not seem to come to the rescue of Europe, with manufacturing PMIs in the US and China now also red and the global one just below 50.

Still, it is not all that bad. First, monetary easing has set in now that central banks have declared victory in the battle against inflation. The ECB, rather than the Fed, is leading the charge, trigged by the lacklustre GDP growth in the Eurozone. Lower interest rates will lead to lower borrowing cost, at least over time. Government support such as NextGenerationEU in Europe, the Inflation Reduction Act in the US and recent stimulus programs announced for China help as well. This will trigger a higher level of investments in the Eurozone and also the other two major regions. Indeed, what we see is an increase in investment of 2.4% (from -2.2% in 2024) in the Eurozone and the US 3.8% and 5% (4.5% in 2023). Investments in China go up as well: 5.1% and 3.3% (2.7%). These investments will help the revival of the manufacturing sector, whereby the Eurozone will benefit from a base effect as well. With investments higher and manufacturing reviving, trade will revive as well. Second, on the demand side the lower inflation in the US and Eurozone in combination with nominal wage supports a higher level of purchasing power of consumers. Lower levels of borrowing costs reinforce this impact. We have seen that this reflects in higher consumer sentiment, in the US and the Eurozone. It will push up consumption and this consumption will be more trade intensive. This is because trade intensive durable consumption goods can be expected to be more in demand with higher purchasing power and lower financing cost. The other factor is that overall demand can be expected to switch back to goods now that the recovery in services after the pandemic, visible in the increase of tourism, is coming to an end. These are the reasons why we see trade growing and accelerating over the forecast horizon.

We are very much aware of the drag on global trade, being political uncertainty. This reflects in higher trade cost, already now and as the Trump administration implements its trade policy, beyond 2025 (see later in this chapter). Two elements of trade cost stand out: transport cost and protectionism. The rise of container shipping costs following the Houthi attacks in the Red Sea reflect the inelastic demand for maritime transport. The shock of the attacks led more than 60% of the cargo between Asia and Europe to be diverted via Cape the Good Hope. As travel time went up from 6 to 25 days, prices for freight multiplied (figure 1.11). This is a drag on trade growth, but only on this route, affecting 15% of global trade. The other, arguably more persistent, drag is the continuation of the rise of protectionism. The stock of trade restrictive measures continues to grow, with the number of protective measures in 2023 five times higher than in 2015. Over the October 2023-May 2024 period there were 99 additional trade restrictive measures. The US expanded its set of tariffs on China, covering electric vehicles, semiconductors, solar cells, steel, aluminium and critical minerals in May this year. In late October the EU announced tariffs on electric cars imported from China. However, trade facilitating measures were introduced as well, most of these on the import side.

Figure 1.11 Trade transport cost up

Container shipping costs, index, January 2019=100



Source: CPB, IHS Markit, Macrobond

[7] For example, the WTO has calculated that Europe took off 1.9% of global import growth in 2023 of -2%. See WTO Global Trade Outlook and Statistics – Update – October 2024.

1.5 Desynchronising commodity markets

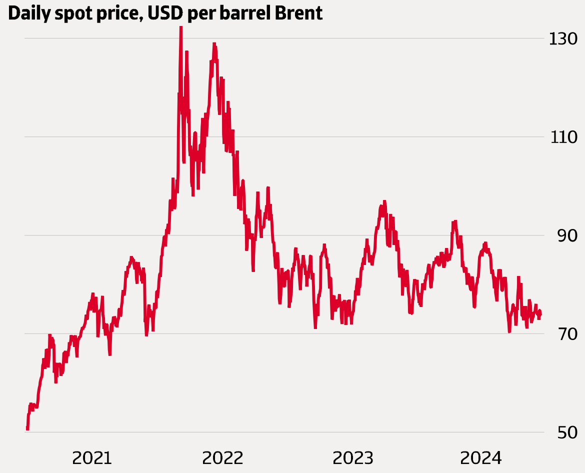
During the two major shocks of this decade, the pandemic and Russian invasion in Ukraine, we have seen commodity markets being highly correlated. Prices of fossil, metals and food went up, sometimes even rocketed. After the shocks faded, prices gradually declined, moving to new levels that are generally higher than pre-shock. This is the picture we have drawn in our recent outlooks, including the one in July. A synchronised reaction of commodity price prior to and after the shock.

Now, with the shocks having faded, or at least fading, price synchronisation is dying out as well. What we now see is idiosyncratic determinants gradually starting to gain the upper hand. Oil prices are on a clear downward trend, although short term movements, often driven by geopolitical event, may blur that picture. For natural gas prices the picture is not that clear. The constrained piped supply from Russia needs to be replaced with much more expensive LNG from the US and other countries. The coal price unambiguously downward, even short term. For gas as well as coal energy transition forces play a major role, with relatively lightly CO2 emitting gas see as a transition fuel and coal to be abandoned as soon as possible. For metals, we see downward pressure on steel prices and iron ore, due to, respectively, structural overcapacity and overcapacity being temporarily created by supply additions. Food prices have a somewhat downward tendency. Volatility is an even more important characteristic of food prices, now that climate change is imposing itself along with droughts, storms and floods. We look at the developments and forecast for these commodities now.[8]

Oil price to slide

Prices are volatile, as ever. Escalating geopolitical tensions in the Middle East drove up oil prices in early October this year, by 10% to almost USD 81 per barrel for Brent per barrel over a couple of days. As the tensions faded, concerns about oversupply and weak Chinese growth started to dominate, sending prices lower. This brief episode followed a more fundamental shift in August. At the time perceptions that OPEC+ (which includes Russia) might start unwinding their voluntary supply cuts in September gained traction.[9] It also became clear that the Libyan production would be ramped up soon. While the supply cut unwinding was postponed, prices fell from USD 89 per barrel to around USD 75 per barrel at the time of writing. There will be mild downward pressure for average prices from this level in 2025 as well as 2026. This is predicated on the assumption that OPEC+ voluntary supply cuts will remain in place.

Figure 1.12 Weak oil price rises



Source: Macrobond

Supply growth was 1.1% y-o-y in Q3 2024. Russian production has edged down recently, 7% below the December 2023 peak of 8.1 mb/d. Libya's output fell 25% to 0.9 mb/d due to a production crisis. Advanced economies' and Latin American plus Caribbean production continued to increase, more than compensating for the decline in these countries as well as in the Middle East and Africa. In September, the spare capacity was 7% of global production, more than half of it held by Saudi Arabia. The full 2024 production is estimated to come out at 103 mb/d, slightly higher than 2023. In 2025 a rise to 105 mb/d is expected. Production growth is expected to take place in the US (0.6 mb/d), a slightly output growth will come from Brazil, Canada and Guyana combined. OPEC+ supply will increase only marginally in 2025.

Demand growth is estimated to have declined in Q3 2024, to 0.7 mb/d. Particularly demand from China slowed. Industrial production growth was weak there, EVs are rapidly taken up and trucks are increasingly powered by gas. Growth took place in other emerging economies, especially other Asia including India. Demand in Europe stalled. For 2024 as a whole 0.9 mb/d growth is estimated, much lower than the 2mb/d in 2023, the year China lifted the pandemic related restrictions. For 2025 a similar growth is forecast, driven by India and to a lesser extent China where the above mentioned trend towards cleaner energy continues. In the advanced economies oil demand is expected to remain stable, in line with the previous two years. What we are seeing is a structural shift away from oil, as reflected in the

[8] We draw on the World Bank Commodity Markets Outlook of October 2024 for this part.

[9] As of November 2024, there are 2.2 million barrels per day taken from the market of about 100 million barrels per day by OPEC+. Saudi Arabia is taking out the lion's share with 1 million barrels per day, while contributes with 500.00 barrels per day.

declining oil intensity of GDP. In addition, GDP growth, solid as it may be, is weak by historical standards.

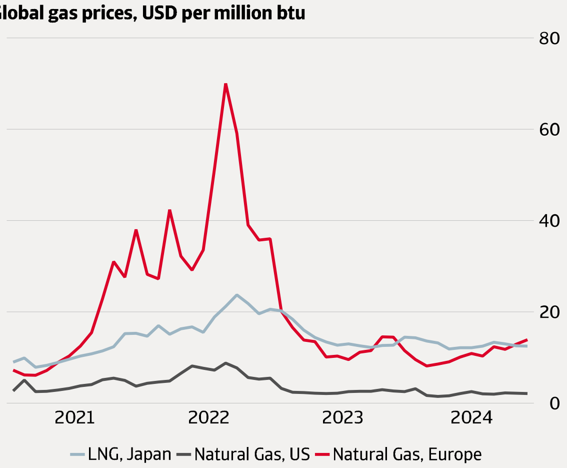
In short, we see a lot of (potential) supply and weak demand. That is where the downward pressure on the oil price over the forecast horizon is coming from. Meanwhile, the already usually high oil price volatility gets an impulse from two factors. The first is the tight supply-demand balance, reflecting OPEC+ supply management. The Q1 and Q2 2024 surpluses are being offset by a Q3 2024 deficit. The second is the inventories held by the industry and governments as a buffer for market disruptions. This is currently estimated at 4.4 billion, which is around 45 days consumption. That marks the lowest level since 2017. The so called 'oil on water' part of the stock declined for the fifth month in a row in August. The US Strategic Petroleum Reserve, used by the Biden administration to address rising oil prices in 2022, is at a modest 351 million barrels. That is roughly half the previous peak capacity.

Energy transition for natural gas prices

Natural gas prices across the globe showed a tendency to rise in 2024 so far. In the US this did not materialise yet. The Henry Hub index was flat in 2024Q3 as US production remained strong. But the Asian LNG price increased by 8%. The European benchmark rose even 15% as the region faces increased competition for LNG imports. As a consequence of the latter, the difference between the Asian and European benchmark is narrowing. For 2025 this picture of rising prices is expected to widen to the US as well. New terminals for US natural gas exports will come operational, pushing up the Henry Hub considerably. This is expected to be followed by a more moderate increase in the following year. Meanwhile European as well as Asian natural gas prices are forecast to continue their upward tendencies: 7% to 9% rise over the forecast period.

Figure 1.13 Henry Hub prices to rebound

Global gas prices, USD per million btu



Source: IMF, Macrobond

Gas demand grew 2.8% in 2024 until Q3, with Asia Pacific accounting for 60% of the change. China consumption growth played a major role, being 10% higher y-o-y. This is the consequence of the government's effort to improve energy security, whilst achieving carbon reduction goals. Indian and South Korean demand also grew robustly. In Europe gas demand fell as with mild weather conditions and lower power sector demand while renewables use rose. Relatively low gas prices in North America stimulated gas demand in that region, which increased by 1.5% in 2024Q3 y-o-y. Over the forecast period, consumption growth is expected to continue. Especially in Asia, while significant growth is also expected in the Middle East. Consumption in Europe and North America is forecast to remain stable.

Gas supply growth expanded in 2024, varying across regions. US growth of 1.1% y-o-y reflects natural gas output that accompanies higher oil extraction. For Russia the growth figure was 7% in H1 2024, only partially recovering from two years of decline. Also, in the Middle East production has steadily increased. LNG trade grew by about 2.8% until Q3 2024, in a market that remained tight. Exports from the US, Russia and Middle East went up. US exports went increasingly to Asia, rather than Europe, triggered by the still existing price difference between the latter two regions. The US and Middle East, Qatar in particular, are forecast to be the main sources of supply growth over the forecast horizon. For the US this implies significant expansion of LNG exports, using new terminals as well as the fleet of LNG carriers that is expected to expand by 40%. Given the existing sanctions, further rises in Russian LNG exports will be difficult.

Meanwhile there is limited concern about gas storage, limiting the risk of price spikes. Mild winter temperatures in early 2024 have allowed gas storage in the EU and the US to accumulate. In the EU they are now at record high levels, implying the region is has a significant buffer for the 2024-2025 winter heating season. In the US levels of storage are above their five-year average as production was ramped up.

Coal revival coming to an end

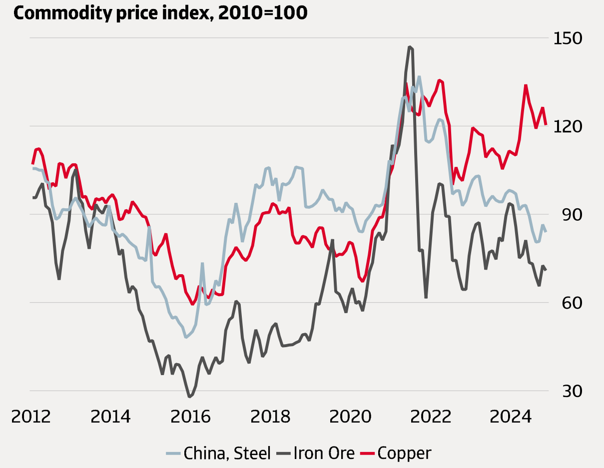
The revival of coal is nearing its end. Prices have come down notably since the rise after the Russian invasion. At odds with this, in 2024 the Australian price has even moved up, while the South African benchmark remained steady. Demand was up by 1%, being strong in India and China, decreasing in Europe while stable in the US. Supply decreased, particularly in China and the US, which was insufficiently offset by a rise in India. These are blips in an underlying trend. Demand is expected to peak this year. After that declining demand from China, Europe and the US weighs in, and demand growth from India slows. In both 2025 and 2026 prices are forecast to decline markedly as coal is being replaced by less CO2 intensive fuels and renewables in the energy transition.

Metals prices not living up to expectations

In the July Outlook we were a bit bullish, or perhaps less bearish than before, on metals prices. In support of this we pointed at the stronger-than-anticipated economic growth and the need for metals coming from the energy transition. This justified the view of an upward trend in metal prices over the forecast period.

The factors mentioned still hold, although the picture is somewhat more nuanced. It is, in particular, growth of industrial production, and not so much services, that is important for metals demand. That has remained weak because weakness that as we signalled earlier will only gradually disappear. Especially in steel and iron ore, capacity is abundant, putting downward pressure on prices. What is more, the demand from the energy transition supports the prices of steel and iron ore less than the prices of copper and other commodities such as aluminium. The latter are more intensively used in energy transition. This results in a picture of commodity prices where steel and iron ore are relatively weak and copper is strong (figure 1.14). Let us take a closer look at these markets.

Figure 1.14 Metal prices diverge



Source: Macrobond

For steel demand the economic developments in China are a major determinant. We have seen a continuation of the crisis in the construction sector in China in 2024. Recent policy measures are insufficient for strong revival. The other factor, industrial production globally, has also not shown signs of strong revival. As we saw, particularly in Europe developments have been weak so far. On the supply side, China has not felt restrained by demand weakness and ramped up production. That has found its way to the export markets. It generated significant price pressures, including outside China. With structural overcapacity in China, the higher demand that is expected to come from a gradual revival of industrial production is bound to provide only limited solace for prices. Support for demand from countries such as India and Indonesia that are catching up in economic development will only come in over a longer period. Consequently, steel prices can be expected to remain under pressure over the forecast horizon.

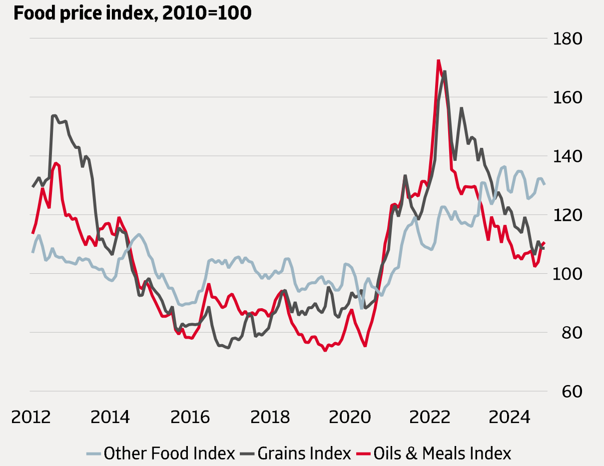
Being the main input for steel and with demand for that commodity globally weak, one expects to see weak demand for iron ore as well. Higher steel production in China provided some relief, but it was insufficient, at least insufficient for prices to be kept up. Indeed, these declined, by 12% q-o-q in Q3 2024 alone. As steel demand is only expected to gradually grow with global industrial production, demand for iron ore is forecast to remain soft as well over the forecast period. This is compounded by new supply expected to come on stream in Australia and Brazil, along with low-cost production in West Africa. These developments are set to drive prices lower, albeit more slowly as we move in 2026.

As compared to steel and iron ore, copper prices have fared relatively well in 2024, showing an average rise. The downturn in the Chinese construction sector put pressure on demand. On the other hand, the copper-intensive nature of many energy-transition renewables, including EVs, renewable energy system and grid infrastructure, underpinned demand. This more than outweighs the impact of the property sector developments in China. Supply side concerns arose following a labour dispute in the world largest copper mine in Chile. With that being resolved in late May copper prices eased. Supply is expected to rise over the coming years, as additional output from Africa and South America, amongst others, comes to the market. This is forecast to support rather steady market developments, with prices somewhat up in 2025, to be followed by price pressure as additional supply comes on stream. This implies continuation of rather high prices, about 50% above pre-pandemic levels.

Lower food prices in 2025

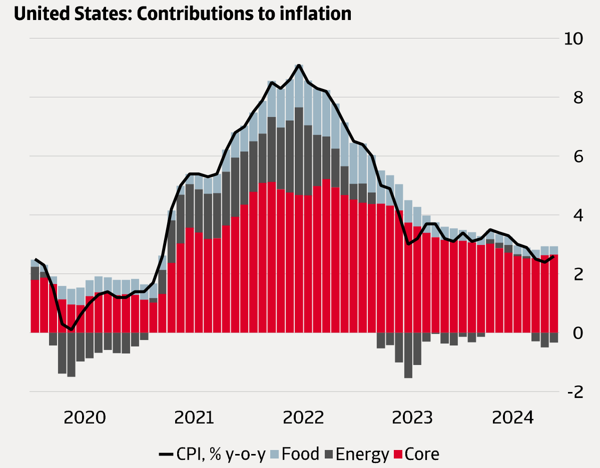
The slide in the food prices that was set in motion after the shock of the Russian invasion faded has gone on (figure 1.15). Underlying this is the added production that was generated by the high, and still higher than before, prices. Moreover, the weather conditions have been rather favourable as well. The rise in the Other Food Index, which covers sugar, meat and fruits, is the exception. It was largely driven by supply concerns for sugar in Brazil due to dry weather and fires that damaged sugarcane fields. This provided yet another reminder of the sensitivity of individual crops, and prices, for weather conditions. Having said this, the trend is still downward, especially in 2025, while levelling off in 2026.

Figure 1.15 Food prices continue moving lower



Source: Macrobond

Figure 1.16 US core inflation persistent



Source: US BLS, Atradius, Macrobond

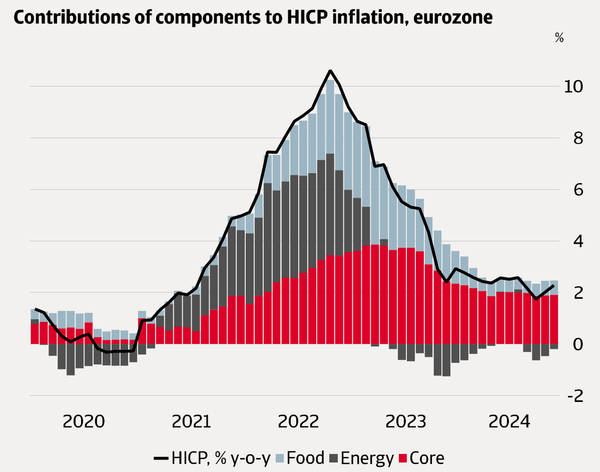
1.6 Inflation reaching central bank targets

Since the beginning of the 2020s, we have seen inflation making waves. Following the two recent shocks to the global economy, the pandemic and the Russian invasion, it has risen sharply. Then, as these shocks were fading and central banks had reacted with monetary policy tightening, it quickly fell towards target levels, particularly in the US and Eurozone.[10] More notably, against many odds, it declined without causing a recession. In other words, the landing of inflation was soft. We think inflation will remain soft in the US and Eurozone over the forecast period. This means around the 2% target, slightly above it in the US, below it in the Eurozone. What currently seem sticky elements are expected to weaken.

Let us take stock of the most recent developments, taking the United States first. Headline inflation was at 2.6% y-o-y in October, edged up compared to September (2.4%) (see figure 1.16). This figure is above the 2% Fed target, aimed at over the long run and a far cry from the 9.1% peak in 2022. The headline figures are positively affected by energy inflation (-4.9%) and, to a lesser extent, food inflation (2.1%). Core inflation, which takes out the energy and food components of headline inflation, was at 3.3% still somewhat on the high side. This part was primarily driven by services inflation, which has shown continued stickiness and was still at 4.7% in October, compared to 5% in June. Our view is that average inflation in the US will end up at 2.9% in 2024 and then falls to around 2.4% and 2.3% in 2025 and 2026 respectively (figure 1.18).

For the Eurozone, we observe inflation has further declined from the 10.6% record in mid-2022 since our July outlook. Headline figures for October reached 2% y-o-y, while in June 2.5% was recorded (see figure 1.17). In September inflation had reached a trough at 1.7% y-o-y. These rather reassuring headline inflation figures are mainly driven by energy deflation, to the tune of 4.6% y-o-y in October. Food inflation was at 2.2% y-o-y, viz. close to the headline figure. Core inflation was significantly above headline at 2.7%. It was largely driven by rather persistent services inflation at 4%, only slightly below the 4.1% of June this year. We think that, whereas in 2024 consumer prices rises will still average above ECB target, at 2.3%, over the forecast period, we will see inflation hovering somewhat above 1.5% (figure 1.18).

Figure 1.17 Eurozone inflation reaches target

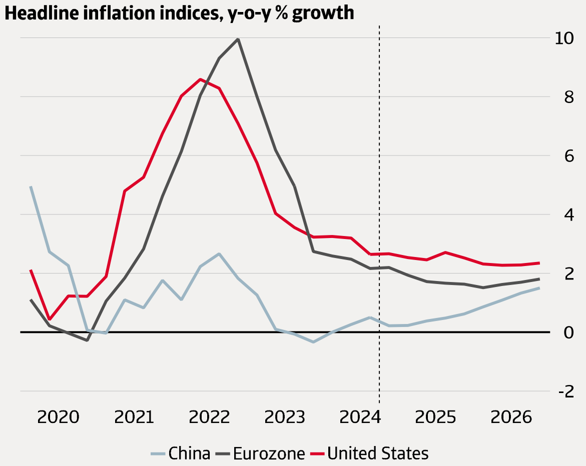


Source: Macrobond

[10] We focus on these two major advanced economies and briefly discuss China, where inflation has followed a very different path, later in this section.

Figure 1.18 Inflation declining and converging

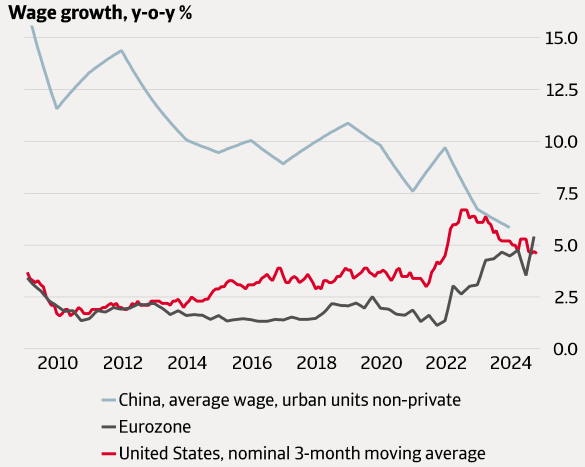
Headline inflation indices, y-o-y % growth



Source: Oxford Economics, Macrobond

Figure 1.19 Lower wage growth

Wage growth, y-o-y %



Source: Macrobond

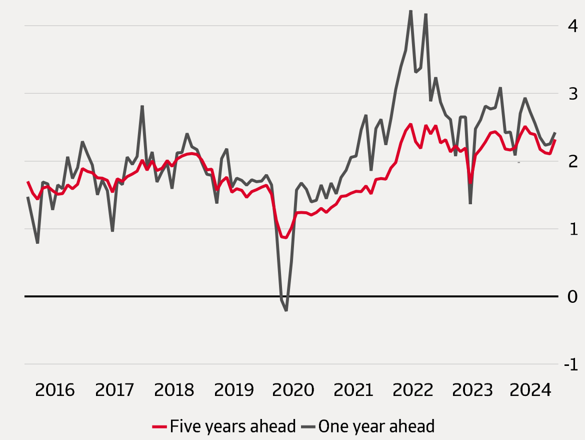
Comparing the two regions we see that the Eurozone the picture is slightly more positive as to levels of inflation than in the US. The pattern in headline as well as various inflation components is remarkably similar though. Indeed, whereas stickiness in core and services inflation was initially primarily a US issue, the Eurozone is facing it now as well. As we argue below, we think that this inflation component will gradually decline over the forecast horizon as well, be it in the Eurozone somewhat faster than in the United States.

There are several reasons why we believe that our current view of inflation development will hold. First, commodity prices are on a downward trend as we have already discussed. This is true for fossil fuels, especially oil and coal, as well food prices. They have peaked after the Russian invasion and then declined, with specific market circumstances as well as the energy transition driving the further downward trend in prices.[11] Other commodity prices, such as for food, are still relatively high. Energy and food inflation can therefore be expected to remain moderate, although volatility habitual to these prices remains.

Second, and this is especially important for services inflation and core inflation, wage growth has peaked, in both the US and the Eurozone (figure 1.19). We may see some more wage growth over the forecast horizon, as employees are trying to recover past surges in inflation. This has a bearing on inflation, especially in the services sector, where the weight of labour cost is relatively high. But if past inflation is recovered by wage earners and current inflation is under control, just like inflation expectations (figure 1.20 and figure 1.21), we expect the contribution of this inflation source to die out gradually. Moreover, we are not too concerned about the higher wage growth in the United States relative to the Eurozone. This is, apart from the said inflation damage recovery, reflecting productivity gains as well. The Eurozone is simply lagging in that respect.

Figure 1.20 Inflation expectations eye target

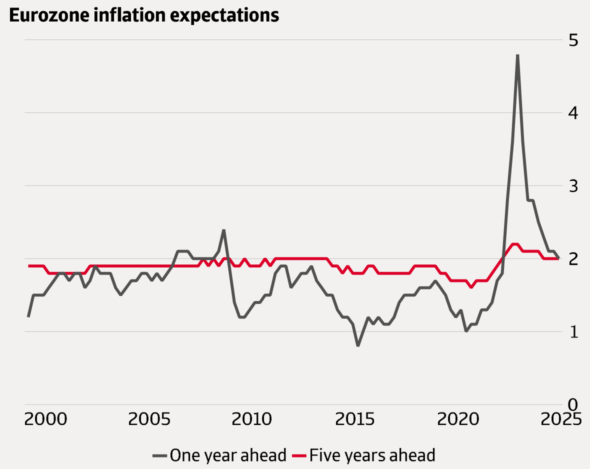
United States CPI inflation expectations



Source: Federal Reserve Bank of Cleveland, Macrobond

[11] If oil prices stay at the current level, this may contribute to a reduction of inflation by 0.5% globally. See OECD Outlook, Interim Report September 2024.

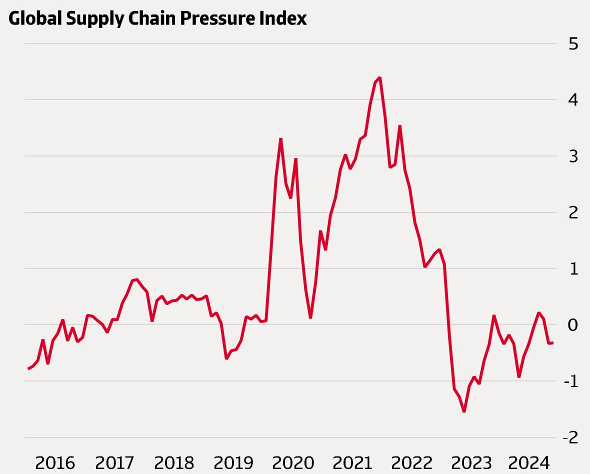
Figure 1.21 Eurozone inflation expectations spot on



Source: ECB, Macrobond

Third, we have seen in the previous section that the pandemic source of inflation, supply chain pressures, has faded. Indeed, the supply chain pressure index has returned to normal levels (figure 1.22). There is some upward pressure on shipping costs due to geopolitical uncertainty in the Red Sea, but the impact on overall trade cost remains limited (figure 1.11). Fourth, we can expect upward pressure on inflation from the tariffs that are being contemplated by the new Trump administration, and potential retaliation from countries hit by US tariffs. Such upward pressure will be felt particularly in the United States as a tariff simply raises the import price, of and to the extent the exporter is not willing or able to lower the export price to compensate for the tariff. If countries retaliate, the same impact occurs on inflation in these countries. But given our assumptions on the timing of the implementation and gradually increasing level of the tariffs the over the forecast horizon will be limited and even absent in 2025.

Figure 1.22 Return to normal in the supply chain



Source: Federal Reserve, Macrobond

Meanwhile inflation in China is a very weak reflection of the inflation level and pattern seen in the United States and Eurozone. The country has been flirting with deflation in 2024 (0.2% inflation y-o-y estimated) for the second consecutive year. The peak in 2022 was below 3%. Over the forecast horizon we expect only a gradual reflation towards 2% later in the decade.

Underlying this development is a fundamental supply-demand imbalance. China has so far continued on its investment led growth path, where consumption is lagging. This generates, despite high export growth, domestic overcapacity. The problem is compounded by the lack of consumer confidence as a result of the property market issues, and weak wage growth (see 1.19). As these may fade, aging and the lack of social welfare will continue to drag consumption, restraining inflationary pressures.

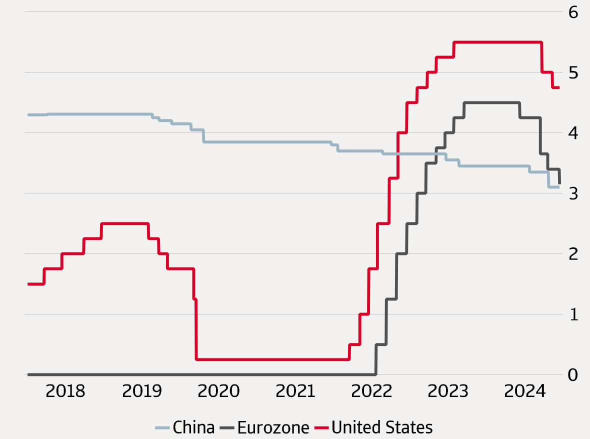
1.7 Unfolding monetary policy divergence

The above picture of current and future inflation suggests that central banks, at least the Fed and ECB, have regained, or at least are regaining, control over inflation. Targets are within reach or have already been achieved. As we have documented in previous outlooks the Fed and ECB have used what is regarded an aggressive hiking strategy. That was needed since it became clear, in 2022, that inflation was not a transitory phenomenon, which would fade without much central bank action. Now that inflation is under control there is, at least from the inflation point of view, no reason to keep interest rates high. Therefore, we have seen a monetary easing cycle, rate cuts in particular, started in 2024 (figure 1.23). We expect that monetary easing to continue over the forecast horizon, with the ECB being accelerating more quickly. No surprise if we take the lower inflation in the ECB into consideration.

Let us first take stock of what happened since the summer. The Fed has cut the policy rate in two steps from 5.5% to 4.75% in October, with the second step being a 0.25 ppt cut. The ECB has taken four steps to bring the rate down from 4.5% to 3.15% in December, with the September rate cut largest at 0.6% ppt. By reducing borrowing cost, this should clearly stimulate demand from households and firms. Humming in the background is the continuation of the reduction of the balances sheets of both central banks,[12] in a so-far remarkably synchronised manner. Both Fed and ECB have reduced the balance sheet by USD 350 billion since the summer, to comparable levels – short of USD 7 trillion (figure 1.24).[13] Such balance sheet reduction, or quantitative tightening, goes against rate hikes, as it reduces the money supply in the economy and thus puts upward pressure on borrowing cost. If done gradually, and that is what is currently done, its impact on the monetary easing process is limited though.[14]

Figure 1.23 Monetary easing taking off

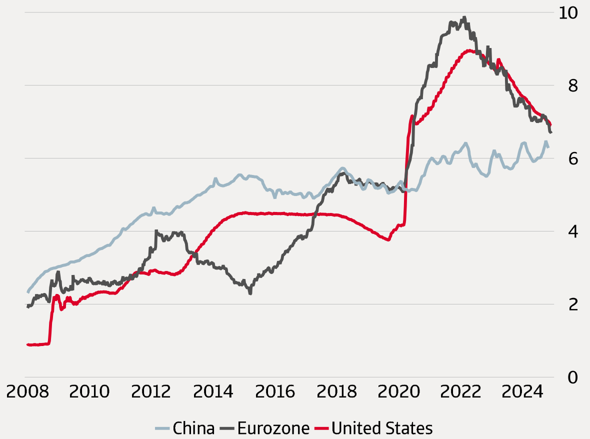
Central bank policy rates, percent per annum



Source: ECB, Federal Reserve, Macrobond

Figure 1.24 QT humming in the background

Central bank balance assets, USD trillions



Source: Macrobond

As we said earlier, the monetary easing process has started and we expect it to continue. To what levels, in the US and Eurozone? To answer this question, we should consider the so-called neutral interest rate, which is the level of the real interest rate that is neutral to the economy. In other words, the interest rate that neither stimulates nor restrains demand. We have previously indicated that this rate is about 1.5% for the US and -0.25 for the Eurozone.[15] To these levels the (expected) inflation rate should be added in order to get the nominal rate.

To give an indication about potential rate reduction, we make the following calculation. Given that these are forecast in the range of 2.3% and 1.5% for the US and Eurozone respectively, we end up with nominal rates of 3.8% and 1.25% respectively. This implies that the current monetary policy stance is restrictive, that is to say: putting a break on demand in the economy. For a neutral monetary policy stance, there is room for further lowering of interest rates. It seems that the rate reduction for the US is much more limited: (4.75%-3.8%=) 0.95% versus (3.4%-1.25% =) 2.15%.

This is a sign for the room for manoeuvre for the current restrictive to a neutral monetary policy stance. The amount of room, however, depends on the business cycle. In this regard, it is noted that the US economy, as opposed to the one in the Eurozone is operating at full capacity. Unemployment is below 4%, the benchmark of full employment, while in the Eurozone it is at 6%. This suggests that the Fed will be rather cautious and slow with rate cuts. The ECB on the other hand can be expected to continue cutting rates at an accelerated pace in order to stimulate demand. As we will see in the next section, the fiscal policy stance in both economies provides additional support for this view.

As monetary easing is aimed at stimulating demand via lower borrowing cost, it should reflect in these rates. This is indeed what we see. Especially at the short end of the curve, the 12-month government treasuries, yields have declined more or less in line with the lower policy rates (see figure 1.25). The US-Eurozone (Germany) rate differential is also there. At the longer end of the market, we see a much less pronounced picture of decline, suggesting the financial market expects higher future interest rates. This can reflect long term inflation expectations, but that is not corroborated by long term estimates for this variable that we have discussed above. Rather, one can interpret the lowering of the short term yields relative to the long-term ones as a process towards restoration of a normal yield curve, viz. one where short-term rates are below long-term

[12] The balance sheets were blown up, and effectively money pushed into the system, during the pandemic when an 'whatever it takes' strategy was pursued by central banks, to keep the global economy afloat. This was needed because interest rates levels were around zero, allowing no room for rate cuts.

[13] They do that by not, or only partially, reinvesting financial assets on their balance sheet that expire, or by even selling these assets.

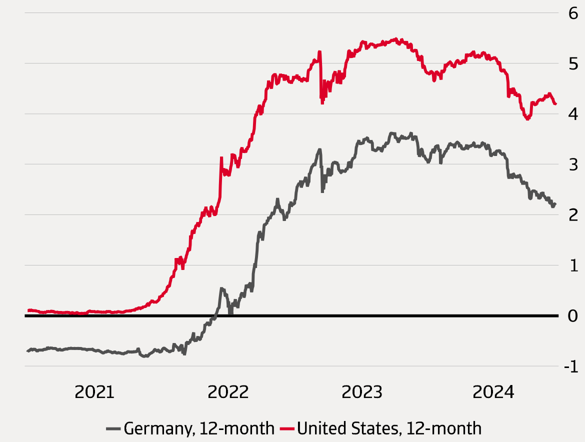
[14] To get an idea about the impact, a study found that a USD 2.2 trillion balance sheet reduction over a three year period is equivalent to a 0.29% rate hike. See Federal Reserve Bank of Atalanta, Quantifying "Quantitative Tightening" (QT): How Many Rate Hikes Is QT Equivalent To? Working Paper 2022-08, July 2022.

[15] These are rough estimates. Neutral rates are notoriously difficult to calculate.

ones. That in turn reflects the financial market expectation of a soft landing of the economy.[16] Also, the limited decline of the long-term yields may reflect concerns about sustainability of government finances, especially those in the US. This will be discussed further below.

Figure 1.25 Short term yields fall sharply

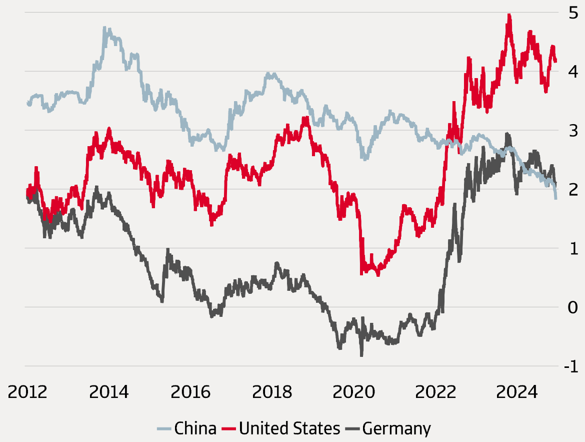
Government bond yields



Source: Macrobond

Figure 1.26 Long term yield rather flat

10-year government bond yields



Source: Macrobond

The picture for China on monetary policy is rather different from the one for the US and Eurozone. Based on low inflation, even deflation, one would expect low interest rates and perhaps quantitative easing. This is not really observable with the Loan Prima Rate policy rate somewhat declining by remaining relatively high at around 3% and no real movement in the balance sheet that would suggest quantitative easing. To get the Chinese economy back on track more policy measures are needed, including fiscal policy ones (see below).

1.8 Fiscal policy diverges

We have seen so far in this chapter that inflation has come down, while growth has kept up, albeit to a level that raises little excitement. Within this context, central banks have started to ease their current restrictive monetary policies, meaning lower borrowing costs. Meanwhile, the other major policy instrument available to governments, fiscal policy is showing a picture that significantly diverges per country. With the common denominator that the level of support for the economy, largely built up during the pandemic, has remained still fairly high.

We measure the extent of government stimulus to the economy using the size of the structural deficit (graph 26).[17] This signals that all major countries in the global economy stimulate their economies. But the extent to which this is done, and its direction it takes, varies.

Take the US and major Eurozone economies first. At the one end of the spectrum, we see Germany, which has an estimated structural deficit of 1.1% of potential GDP and declining in 2024 (versus 2023) as well as over the 2025 and 2026 forecast horizon. At the other end, in the US the structural deficit is 7.7% and edging up. This is not expected to change over the forecast horizon. France's structural deficit comes closes to the one of the US and goes up as well, with some improvement expected afterwards. Italy and, especially, Spain have marked lower structural deficits in the range of 4.5%-3.5% and are declining. For China the deficit is high at 9% and higher than in 2023. It is expected to decline only marginally over the forecast horizon.

How should we assess these levels and direction of government stimulus? More importantly, does it make economic sense and is it sustainable? Of the group of countries considered, only Spain and the US have a positive output gap. Now, we should be aware that in case of a positive output gap the economy is operating above full capacity. One can therefore argue that then level of stimulus to the economy is too high and should be reduced. For a negative output gap, currently in France, Germany and Italy, the reverse holds. The current level of stimulus is arguably too low. From this perspective, Spain and the US fiscal policy, with their declining trends in the structural balance that we are seeing, makes sense. For the other economies, some more stimulus is warranted, as opposed to what we are seeing. China also has a negative output gap, suggesting

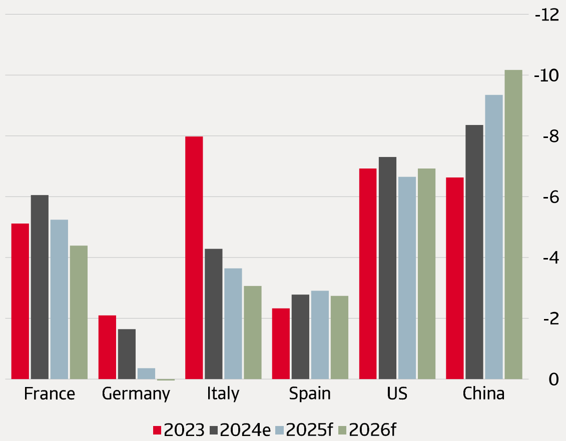
[16] Indeed, a so-called inverse yield curve with lower yields at the long end of the curve is associated with recession expectations.

[17] The structural balance is the government deficit (revenues minus expenditures) adjusted for swing in the business cycle and taken as a percentage of potential GDP (i.e. GDP at full capacity). For example, the structural deficit of Greece in 2024 is estimated 1.3% of GDP, meaning the fiscal stance in Greece is expansionary.

more government stimulus. It is not what is in the cards, as the structural balance is declining.

Figure 1.27 Government stimulus remains high

Government structural balance, % of potential GDP (reverse axis)

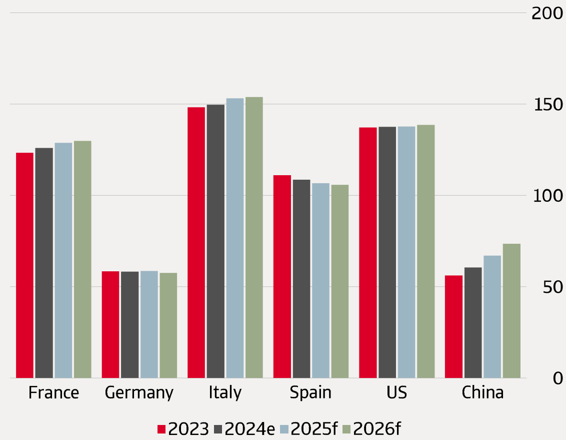


Source: Oxford Economics, Macrobond

Warranted as it may be, such stimulus for these countries should also be possible from a sustainability point of view. Enter the other major metric in fiscal policy, the debt-to-GDP ratio (figure 1.28). For France, Italy and the UK, the levels of the metric are above 100% in 2024 and increasing afterwards, for Germany at 62% and declining. Therefore, France and Italy do not have the luxury of further stimulating their economies. Their debt sustainability has become too much of an issue. Germany arguably does have such luxury but has restrained itself to do so.[18] The Spanish debt-to-GDP ratio is 102% in 2024 and then declines, for the US it is 121% and increasing. Therefore, further reduction of US government stimulus is warranted, also from the perspective of debt sustainability.[19] Spain, on the other hand, is in a sweet spot. Reducing the government stimulus, does what should be done from a sustainability point of view as well. The Chinese debt-to-GDP ratio, although increasing, is relatively low. Therefore, debt sustainability should be no impediment for further stimulus.

Figure 1.28 Sustainability issues for governments

Government debt as a % of GDP



Source: Oxford Economics, Macrobond

1.9 Fasten your seatbelts for a trade war

We have already mentioned that our baseline forecast is surrounded by a high level of uncertainty. This is due to the election of Donald Trump as the next US president. That event is compounded by reinforced political leverage from a Republican majority in Congress, in the House of Representatives as well as the Senate. It could provide a means to push through some of the more salient proposals done during the election campaign. This provides the following picture, one of a global trade war.

First, the US imposes higher tariffs on China and all other trading partners. These will amount to 60% on imports on all Chinese goods imports and 10% on imports from other trading partners. They are phased in during 2026 and 2027. China imposes in retaliation 40% imports on US goods imports, other countries retaliate in full. This will have an impact on trade, of which the cost and price rises, putting downward pressure on productivity.

Second, the US shuts down China's access to new technology. China answers by reciprocal measures on US technology. The result is a more limited flow of technology, which is predominantly affecting Chinese productivity. The US is the technologically dominant country in the world, the so-called technological frontier. If the flow of technology towards China is restrained the stock of research and

[18] Apart from that, there is the so called "Schuldenbremse", which restricts the structural deficit to 0.35% by law. Reforms of this law, introduced in 2009, is a topic for the German general elections due in February 2025.

[19] A mitigating factor is that the US government has the so-called exorbitant privilege due to the reserve currency position of the dollar. This implies that, as long as economic agents have confidence in the dollar, the US government can issue debt. This privilege is not indefinite of course, with much uncertainty, at what debt to GDP level it collapses.

development will be negatively affected. That in turn hampers productivity improvement.

Third, the US imposes renewed restrictions to reduce US immigration. Such tightening is expected to come in place from Q2 2025. This will mean that by 2030 the US working age population is 0.4% below the baseline level. That will weigh on US labour supply, limiting growth in potential output as there will be less hands on deck. In emigrant countries such as Mexico and other Latin American countries, labour supply will go up, raising potential GDP. Higher productivity in the US than elsewhere implies that this labour supply redistribution generates a net negative effect.

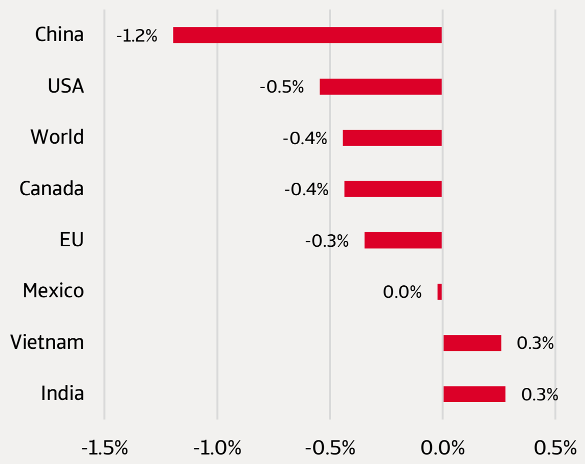
Fourth, monetary easing is paused. As a result of the tariffs being phased in inflation as well as inflation expectations will rise again. This will trigger easing of monetary policy in the US in H2 2025 and 2026, prematurely ending the easing cycle. The higher-for-longer interest rate causes the US dollar to appreciate by around 3% against a basket of other currencies, mitigating the inflationary tendencies in the US. China will accelerate monetary easing.

Fifth, sentiments deteriorate globally. The new US trade policy, and consequent trade war eruption, is a shock to the global economy. Demand in the US, and elsewhere, weakens. Household and business confidence is shocked by, on average, 10% of the shock seen during the global financial crisis. US equities fall and will end 8% below the baseline in 2027. This is the result of a weakened investor sentiment. Negative wealth effects follow, reinforcing the impact of lower confidence.

In this setting, the global economy is significantly affected, negatively. By 2030, export volumes will be 4.9% below the baseline. Demand reduction and trade destruction, dominate newly created trade flows. Global inflation also rises but is only 0.1 ppt higher in 2028 and 2029 as lower demand and lower commodity prices offset inflationary pressures. Lower economic activity implies high unemployment, 0.1 ppt globally in 2029. Global share prices fall 7% below the baseline in 2027 and remain 4% lower in 2029. Oil prices are USD 6 per barrel lower and bond yields 0.1 ppt above the baseline. The global economy is 0.4% smaller in 2029 compared to the baseline, China 1.2 % and the US 0.5%. Mexico's economy would be the same size in 2029, but this is after an average 1% loss of output from 2026 to 2028 due to higher tariffs as well as higher policy rates in reaction to the currency depreciation.

Figure 1.29 Sustainability issues for governments

% difference in 2029 GDP in full Trump vs baseline



Source: Oxford Economics, Macrobond

Advanced economies' outlook

2.1 Advanced economies' outlook

In major advanced markets like the eurozone and the US, inflation has continued to decline while GDP growth has remained resilient. The notable aspect is not merely the reduction in inflation, which central banks have managed through monetary policy tools, but the fact that GDP growth has stayed positive despite aggressive monetary tightening. In the US, growth has been notably supported by an expanding labour supply and higher government spending. In the eurozone, growth is muted, with the largest economy Germany remaining a weak spot. Looking ahead, we expect slightly higher growth figures in 2025-2026 as inflation continues to decline. Meanwhile, the US is forecast to maintain its growth momentum, driven by strong consumption and government spending. As policy changes by the incoming US administration take time to implement, potentially higher trade tariffs and stricter curbs on immigration are expected to have their impact mostly beyond 2026.

Table 2.1 Steady GDP outlook for advanced economies

Real GDP growth forecasts, %

	2023	2024*	2025*	2026*
Eurozone	0.5	0.8	1.2	1.5
United States	2.9	2.8	2.6	2.7
United Kingdom	0.3	0.9	1.4	1.7
Japan	1.7	-0.2	1.2	0.7
Australia	2.1	1.0	2.0	2.6
New Zealand	0.9	0.6	2.0	3.0
Advanced economies	**1.8**	**1.7**	**1.9**	**2.1**

Source: Oxford Economics, Atradius (* forecast)

2.2 US resilience in the face of policy uncertainty

The US economy appears to have achieved a soft landing, remaining one of the main engines of global economic growth. Resilient consumer spending has fuelled an expected 2.8% expansion in 2024, 0.2 percentage points higher than anticipated in June. With inflation easing and the Federal Reserve beginning its monetary easing process, the 2025 outlook is also more positive, with a forecast growth of 2.6% (up 0.7 percentage points from 1.9%).

The decisive victory of Donald Trump in the November elections and the Republican sweep of Congress do not significantly impact the 2025 outlook, as policy changes take time to implement and take effect. Anticipated fiscal loosening will likely push GDP growth up to 2.7% in 2026, but beyond that, restrictions on trade and immigration will begin to drag on growth. In our downside scenario, where Trump enacts all his campaign promises—particularly enforcing much higher tariffs on more countries and further cutting off immigration—the impacts will be more severe, dragging growth down by 0.5% by 2029.

Soft landing secured

The US economy is entering 2025 on relatively strong footing. It maintained momentum this year, sustaining 2.8% annualised growth in Q3, down slightly from 3.0% in Q2. Private consumption, which makes up nearly 70% of US GDP, is driving this economic growth. Government spending also surged, contributing 0.9 percentage points to growth, driven by higher defence spending. Government consumption is set to continue contributing positively to growth, with ongoing outlays related to the pandemic-era infrastructure bill, Inflation Reduction Act (IRA), and the CHIPs and Science Act. These initiatives should also continue stimulating business investment.

Personal consumption expenditures contributed 2.5 percentage points to Q3 output, posting their strongest quarterly growth rate since Q1 2023. Consumer spending is underpinned by a tight labour market and easing prices. Despite disappointing job growth in recent months, the unemployment rate remains near historic lows at 4.1% in October. The personal consumption expenditures price index — an inflation gauge measuring changes in prices of goods and services bought by US consumers — stood at 2.3% in October 2024. Correcting wage growth for inflation, real wages have grown 1.6% year-over-year in November. Despite nominal wage growth slowing down, easing inflation and the still-tight labour market ensure real wages continue to grow. Moreover, the personal savings rate is higher than previously estimated. Over the summer, the US Bureau of Economic Analysis estimated that the disposable income US citizens save after paying taxes and regular expenses fell to 2.9%, its lowest level since 2008. However, this has been revised upward to 4.9%, and as of September, stood at 4.6%. This revision means consumers have a bigger buffer to continue spending than previously though, all but confirming a soft landing for the US economy.

Consumer surveys also suggest confidence is improving. The Conference Board survey rose almost 10 points to 108.7 (1985 = 100) in October, the largest single-month gain since March 2021. This result is still within the narrow band between 95 and 115 that the score has been in since 2022, but the improvement is broad-based. Fewer consumers expect a recession in the coming 12 months, and optimism, especially for the stock market, has increased. Consumer resilience underpins the 2025 US economic outlook. Higher-than-expected personal savings and continued robust increases in real wages will keep the US consumer in a strong position as lower interest rates begin to bring some relief.

Figure 2.1 Dismal consumer confidence ticks up

US real wage growth vs. consumer confidence

Source: US Bureau of Labor Statistics, The Conference Board, Macrobond

Mixed policy bag leads to mixed results

The new administration will inherit a relatively strong economy in January, and policies take time to impact the economy. As such, our 2025 GDP outlook is not significantly affected by the November elections. Trump's policies will only meaningfully show in US GDP in 2026 and beyond our forecast period. The magnitude of impact is subject to uniquely high policy uncertainty but for our baseline outlook, we err on the side caution assuming a relatively strategic approach to fiscal, trade and immigration policy.

Fiscal stimulus to boost growth in 2026

The second Trump administration will loosen fiscal policy. We expect Republicans to fully extend the personal tax provisions and to restore business tax provisions from the Tax Cuts and Jobs Act (TCJA) that are set to expire at the end of 2025. We expect the new Republican leadership to maintain most clean energy tax credits from the IRA because of the investments already underway in the energy sector since the act's passage, particularly benefitting Republican constituencies. They would likely unwind the clean vehicle incentives though.

On the spending side, we anticipate another expansionary plan as we saw in 2018's Bipartisan Budget Act. Republicans now hold 53 seats in the Senate, so they will depend on some Democratic support to pass their annual budget. This points to both increased defence and non-defence spending.

The extension of tax cuts and increase in government spending will boost growth in 2026 but will also worsen the already unsustainable federal finance trajectory. Through helping sustain consumer demand and business investment, this fiscal loosening will boost growth higher to 2.8% in 2026 (see figure 2.2). But it will also lead to a widening in federal deficits, pushing up the debt-to-GDP ratio higher from above 120% of GDP today.

But this will be offset by trade restrictions in 2027

The primary target of trade restrictions will be China first and foremost. The Trump administration would raise the average tariff rate on all Chinese imports to 30% from 13%-14% now. The US would also extend 10% targeted tariffs on other major trading partners in Asia (Japan, South Korea, Vietnam). US allies like the EU, Canada or Mexico won't be spared from tariffs but the taxes on imports from these markets would be lower, around 10%, and limited to strategic sectors like steel, aluminium, base metals and motor vehicles. This is especially the case for Mexico and Canada as the White House will want to preserve the USMCA free-trade agreement which is up for review in 2026.

These targeted tariffs would take time to formulate and will be phased in gradually over 2026 and 2027 to avoid any significant disruptions to US import demand. In the short run, we anticipate an increase in imports as businesses try to purchase goods to reduce uncertainty and lock in lower prices before tariffs come into effect. This front-loading of imports would keep the drag on GDP growth from net exports in excess of 0.5ppt through 2025 and early 2026 (see figure 2.x). The overall impact on GDP would be offset though by stock building, which contributes positively to GDP as firms put most of the excess imports into inventory. Beyond the limited short-term impact, a more negative drag to growth would be felt from 2027 onwards. Imports would become more expensive, also increasing the cost of domestic products from those manufacturers dependent on imported materials. This would compound the inflationary pressure of fiscal stimulus pushing PCE inflation back above target to around 2.3% from 2027.

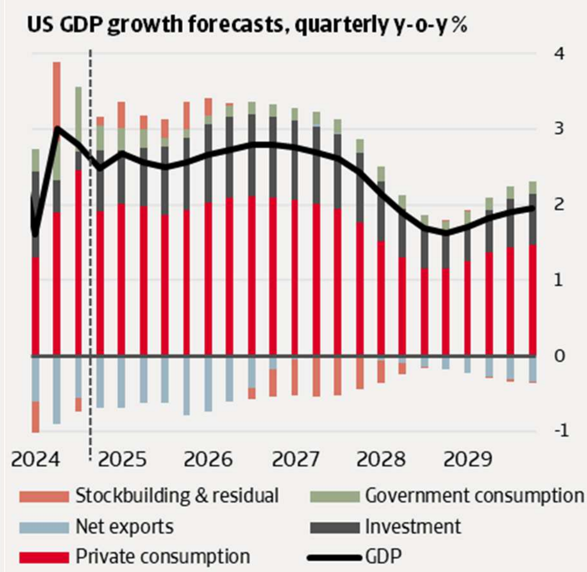
Immigration clampdown compounds the drag on long-term growth

Tighter immigration rules are also central to Trump's platform and would have significant effects for the US economy. We expect President-elect Trump to tighten immigration rules, focusing on tackling illegal immigration as a baseline. This would reduce the arrival of both legal and illegal migrants down to 800,000 per year from the current average of 1.1 million. The impact on growth in 2025 should be contained as past immigration continues to enter the labour force. But as time passes, the growth of labour supply will slow below the pace of demand for labour, reducing productivity and increasing prices. The effects would be most severe in the agriculture, services and manufacturing sectors. Unemployment would remain around historically low levels over our forecast period, accordingly, possibly dipping back below 4% by the end of 2026. But the upside for wage growth is limited as these sectors are less attractive for American workers and companies would likely seek less labour-intensive solutions like more automation. As with trade, the negative impact on US GDP would increase beyond this outlook's horizon – weighing on demand through higher prices and undermining US long-term productivity.

Steady GDP growth to falter under Trump policies in the medium term

The overall impact of Trump's major policy shifts will boost US growth in this Economic Outlook's forecast period, but beyond that, we expect growth to fizzle. The effects of more restrictive trade and immigration policy will increasingly offset the higher government spending and lower taxes. Moreover, these policies will reduce the productive capacity of the US. The extent of economic costs however is highly uncertain given the lack of predictability in President-elect Trump's policymaking. But we believe that the more hard-line the Trump presidency unfolds, the greater the costs to productivity and long-run growth potential for the US.

Figure 2.2 Steady US growth outlook



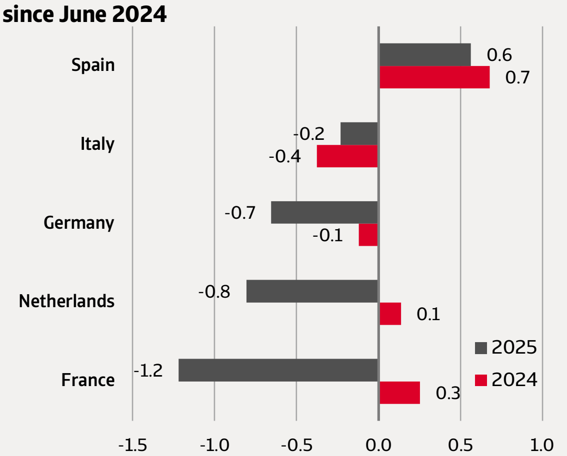
Source: US Bureau of Economic Affairs, Oxford Economics, Atradius

2.3 Eurozone: mild recovery in 2025

The mild economic recovery in the Eurozone is projected to continue in 2025, helped by stronger domestic demand. We forecast GDP to expand by 1.2% in 2025, slightly more than the 0.8% growth in 2024. We have cut our growth forecast for 2025 by 0.6 percentage points mainly to reflect a downgrade to the German outlook. The German economy remains a weak spot in the Eurozone due to its struggling manufacturing sector. For the other major Eurozone countries, the picture of GDP revisions is mixed. For 2026 we predict a slightly higher GDP growth rate of 1.5% due to ongoing consumption recovery and higher export growth. Still, growth is expected to remain tepid at best in the medium term, reflecting long-standing issues such population ageing, lack of competitiveness, rigid labour markets and high sovereign debt levels in several eurozone countries. EU governments made competitiveness one of their key priorities for the 2024-2029 legislative period. Nonetheless, finding political consensus on additional EU-level financing and key reforms will remain major stumbling blocks (see In Focus).

Figure 2.3 Positive GDP revisions in 2024 for most Eurozone countries

Percentage point change in real GDP growth forecast since June 2024



Source: Oxford Economics, Atradius

Table 2.2 Accelerating growth in most Eurozone

Real GDP growth, %

	2023	2024*	2025*	2026*
Austria	-0.8	-0.9	0.9	2.0
Belgium	1.3	1.0	1.2	1.7
France	1.1	1.1	0.8	1.6
Germany	-0.1	-0.1	0.6	1.2
Greece	2.0	2.0	2.0	2.2
Ireland	-5.7	-0.2	4.0	3.5
Italy	0.8	0.5	0.8	0.9
Netherlands	0.1	0.9	1.3	1.3
Portugal	2.5	1.6	1.9	2.0
Spain	2.7	3.1	2.4	1.8
Eurozone	**0.5**	**0.8**	**1.2**	**1.5**

Source: Oxford Economics, Atradius (* forecast)

According to Eurostat's flash estimate, GDP growth in Q3 2024 unexpectedly rose by 0.4%. Among the largest member states, France saw a robust 0.4% growth, largely due to the Olympic Games. Spain and the Netherlands both experienced a 0.8% rise, with Spain benefiting from a tourism recovery and the Netherlands from a significant boost in private consumption. Germany's economy unexpectedly grew by 0.1%, while Italy's economy fell short of expectations, stagnating rather than growing. According to preliminary information from national sources, growth in the third quarter was mostly driven by external demand and consumption.

Sentiment data show that growth momentum is fragile and possibly deteriorating. The November composite PMI deteriorated to 48.3, below the neutral level of 50. There is still a disparity between the two sub-indices of the PMI: the manufacturing index is clearly in contraction at 45.2, while the services index is closer to the neutral level (49.5). The composite PMI trend has been declining over the past two months across major eurozone countries, but the levels vary significantly. Among the four largest eurozone economies, only Spain's PMI remains above 50, at 53.2. In contrast, Germany, France, and Italy all recorded PMIs below 50 in November, with France being the most negative outlier at 45.9.

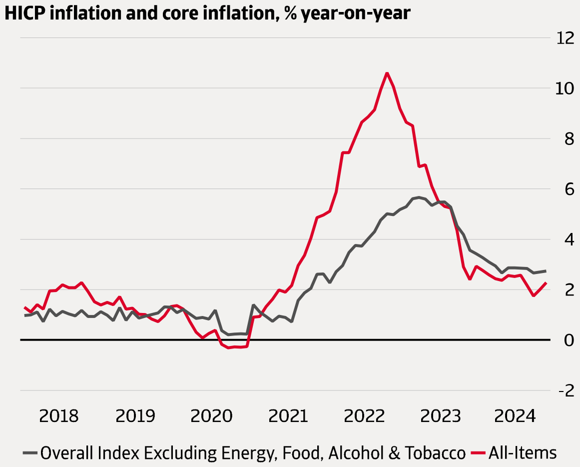
Inflation continues to moderate

Inflation remained relatively stable during the first half of 2024, following the diminishing deflationary effects of energy prices. However, in November, inflation rose to 2.3% from 2.0% in October. This increase was primarily due a less negative contribution of energy. Core inflation (CPI excluding food and energy) remained unchanged at 2.7%. Inflation has stabilized across major eurozone countries, though at varying levels. In France and Italy, inflation is below the European Central Bank's 2% target. However, in the Netherlands, it remains significantly higher at 3.8% in

November. This persistent high inflation in the Netherlands is primarily driven by substantial wage growth, which is keeping inflation in the services sector high.

Figure 2.4 Inflation has come down considerably

HICP inflation and core inflation, % year-on-year



Source: Eurostat, Macrobond

In the coming months, inflation may continue to show some increases as the previous sharp declines in energy prices fall out of the annual rates. However, inflation is expected to continue decreasing in 2025, aided by easing labour cost pressures and past monetary policy tightening. We expect that inflation will drop below 2% next year in the eurozone as all inflation components moderate. The average inflation rate is projected to be 1.5% in 2025, followed by 1.7% in 2026. Inflation is set to remain above 2% in the Netherlands in 2025, but for the other major eurozone economies it is expected to stay or drop below 2%. We see some risks to the upside for inflation. Inflation could turn out higher than expected if wages or profits rise more than expected. Additionally, heightened geopolitical tensions could drive up energy prices and freight costs in the near term, potentially disrupting global trade.

Some cooling of the labour market

The eurozone unemployment rate remained low at 6.3% in October, unchanged from the previous two months, marking the lowest level since the euro was introduced. However, employment growth has been slowing in recent quarters, and this trend is expected to continue. Hiring intentions have been easing in most Eurozone countries since the start of the year, indicating a potential slowdown in job creation. Overall employment expectations remain close to the long-term average, but this masks divergent trends across sectors. Employment expectations were revised down in the industry and services sectors, while they remain good in construction and slightly optimistic in retail. Although we anticipate weaker employment growth next year, we do not foresee a severe downturn in the labour market. We project modest unemployment rates of 6.4% for 2025 and 2026.

We forecast that private consumption growth in the Eurozone will improve from 0.9% in 2024 to 1.5% in 2025. This expectation is primarily based on a rebound in real incomes, driven by both solid nominal income growth and lower inflation. Wage growth is gradually adjusting to the reality of a lower inflation rate, and we expect nominal wage growth to continue to moderate in 2025. Negotiated wages increased by 5.4% in Q3 2024, up from 3.5% in Q2 2024. With inflation now much below wage growth, real wages are set to increase in 2025.

The trend in consumer confidence is somewhat volatile. The latest figure for November 2024 stands at -13.7, which is a decline from the previous month. However, it is 2.3 points higher than it was at the beginning of the year. Consumers' opinions on making major purchases are getting better. The indicator capturing the willingness to make major purchases is now equal to -14.4, which is 5.4 points higher than in January. However, the overall consumer sentiment and the opinion on making major purchases both remain in negative territory.

Slightly better prospects for investment

The global economy held up better than expected in 2024, but global goods trade remained slow. Eurozone exports are estimated to have increased by 0.8%. Goods trade was held back by several factors, including the post-pandemic demand shifts, a rundown of inventories, and tighter monetary conditions that were weighing on investment spending. Eurozone export growth increased gradually in early 2024, but firms' order book assessments worsened in Q3 2024. This decline reflects ongoing competitiveness issues for Eurozone manufacturers and increasing competition from China, leading to a loss of market share. Export growth is projected to improve in 2025-2026 but remains modest by historical standards.

Figure 2.5 Export order books assessments have worsened

Eurozone exports and firms' asessment of export order book

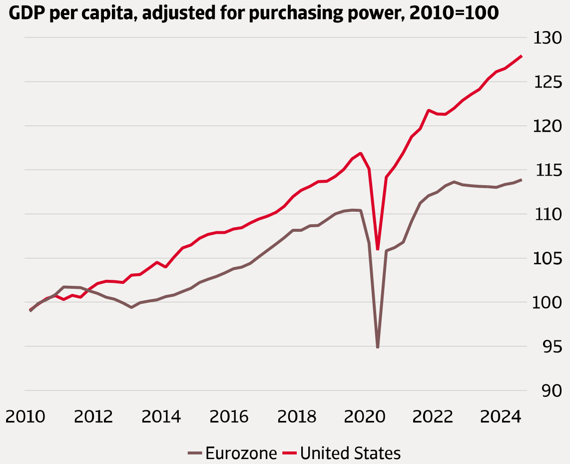
Source: Eurostat, DG ECFIN, Macrobond

In focus: Draghi report

On September 9, 2024, Mario Draghi, the former Italian Prime Minister and ex-President of the European Central Bank, presented his long-awaited report on the EU economy and EU competitiveness. The 400-page report contains numerous proposals aimed at revitalising the stagnant EU economy, which is rapidly falling behind major competitors like the US and China. It advocates for a new industrial strategy to address three key transformations: accelerating innovation and finding new growth engines, lowering energy costs while continuing decarbonisation, and increasing security and reducing dependencies. The first and most important challenge, according to Draghi, is to close the innovation gap with the US and China, especially in advance technologies. Growth, both measures in GDP and income per capita, is falling behind the US (see figure 2.6).

Figure 2.6 Eurozone is lagging the US in growth in income per head

GDP per capita, adjusted for purchasing power, 2010=100



Source: Oxford Economics, Macrobond

With a stagnating labour force that will soon start shrinking, the EU will need faster productivity growth to maintain sustainable growth rates. If faster growth doesn't happen, not only would this lead to economic stagnation but today's high public-debt-to-GDP ratios might become a serious problem due to the ongoing spending needs for decarbonisation, digitalisation and defence. Therefore, it is crucial to prevent the EU/US productivity gap from widening further and to find ways to reduce it over time. The key driver of the rising productivity gap has been digital technology. Europe is behind in capitalising on digital transformations, in terms of generating new tech companies and diffusing digital tech into the economy.

In some areas, such as cloud computing, the EU's competitive disadvantage is likely to be permanent. At the same time, Draghi argues the EU should not give up on sectors that are important for sovereignty, such as security and encryption. Europe still has the opportunity to carve out a leading position in certain segments of artificial intelligence (AI), the breakthrough technology of the coming decades. Innovative digital companies in Europe are struggling to scale up and secure funding, resulting in a significant gap in later-stage financing between the EU and the US. The report contains proposals to tackle the innovation deficit, such as creating a European Advanced Research Projects Agency (ARPA), incentivizing business angels and seed capital, and simplifying the research and development (R&D) framework program. Draghi also favours a shift to a genuine EU-wide capital market instead of the current mix of very small national ones and a very partial European one, that is not geared up to funding risky ventures.

According to the report, Europe should invest around EUR 800 billion annually (5% of EU GDP) to close its competitiveness gap with the US and China, which has to come from a combination of public and private funding. However, the scale of joint debt financing required to raise this amount is highly contentious among EU countries, particularly fiscally conservative member states like Germany and the Netherlands. We think that it is unlikely that EU leaders will agree to increase public investment to the level proposed by Draghi.

Eurozone fixed investment contracted by an estimated 2.0% in 2024, reflecting extraordinary volatile investments in intellectual property in Ireland. Even excluding intellectual property assets, investment still underperformed. Higher interest rates and tighter credit conditions have reduced household demand for new homes, weakening residential construction, while also holding back business investment. However, we expect Eurozone fixed investment to grow by 2.1% in both 2025 and 2026, due to easing credit conditions, driven by ECB interest rate cuts, and financial deleveraging in the corporate sector. Residential construction is likely to improve, though its recovery will be held back by subdued demand in several countries, including Germany, Sweden and Belgium.

ECB continues its easing cycle

In December, the ECB cut its policy rate by 25 bps, the fourth interest rate cut since it began its loosening cycle in May. Despite inflation increases in recent months, the ECB considers the disinflation process well on track and sees inflation declining to target in the course of 2025. However, the ECB did not commit to a particular interest path, reiterating that its future policy decisions will be data dependent. We expect several more rate cuts in 2025 to address the undershooting inflation.

The ECB has continued to downsize its balance sheet, mainly via the non-reinvestment of the principal payments from maturing securities bought under its asset purchase programmes. The pandemic emergency purchase programme (PEPP) is reduced by EUR 7.5 billion per month on average. The ECB intends to drop reinvestments of both interest and principal under the PEPP by the end of 2024.

Data on bank lending and credit standards are reason for cautious optimism. Mortgage credit standards eased for the third consecutive quarter in Q3 2024, primarily due to increased competition among banks. Lower interest rates and improved housing market prospects have significantly boosted mortgage demand. According to the Q3 bank lending survey, credit standards for business loans remained unchanged. Bank lending growth has been gradually increasing, with household lending rising by 0.7% year-on-year in September 2024, and lending to non-financial corporations growing by 1.1%.

Broadly neutral fiscal stance

We predict that the Eurozone structural budget balance will decline from 2.5% in 2024 to 2.2% in 2025 and 1.7% in 2026. The debt ratio in the Eurozone is projected to increase slightly in 2025. This is driven by slowing nominal GDP growth due to falling inflation, while primary budget deficits continue to weigh on debt dynamics. The fiscal stance is expected to be broadly neutral in 2025, as spending restraint by national governments is partly offset by increased nationally financed public investment and higher spending funded by Recovery and Resilience Facility (RRF) grants. Still, by 2026 most member states are expected to have lower debt-to-GDP ratios than in 2020. However, five member states (Belgium, Greece, Spain, France, and Italy) are likely to have debt ratios still exceeding 100% of GDP at the end of the forecast period.

2.4 UK: new government aims to boost much-needed investment

The UK's economic performance remains lacklustre, and we expect this trend to continue in 2025. We still expect a mere 0.9% growth in 2024, unchanged from July, and 1.4% growth in 2025 (previously 1.3%). Growth should accelerate slightly in 2026 to 1.7% thanks to policy changes in the Autumn Budget.

The UK economy continues to underperform G7 peers and it's losing momentum. Real GDP grew only 0.1% q-o-q in Q3, the second consecutive quarter of slowing growth. Positive growth is supported by resilient household spending which increased from 0.2% to 0.5% in Q3. Consumer spending is increasingly benefitting from lower inflation and higher real wage growth. Headline inflation has stabilised just above the Bank of England's 2% target since the spring, standing at 2.3% in October. Adjusting for inflation, wages have continued to grow increasing 1.4% y-o-y in the three months to September 2024. Household spending should be further supported in 2025 as interest rate cuts begin to be felt. The Bank of England cut its bank rate twice in H2 2024. It now stands at 4.75%.

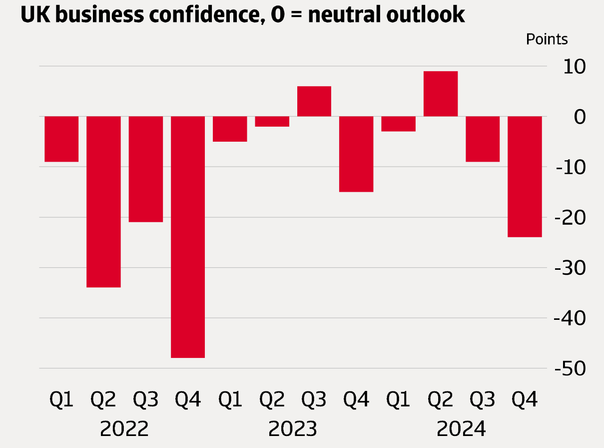
New budget has mixed effects on UK outlook

The most significant change to the UK's economic outlook is the new Labour budget. the Autumn budget, announced at the end of October 2024. The budget marks a remarkable shift to a more tax-and-spend approach to fund investment in ailing public services. Government spending is set to rise by on average GBP 70 billion per year from fiscal year 2025-26 to 2029-30 – GBP 40 billion of which should be finances by annual tax increases, particularly on businesses and wealthy Britons, and the rest by added debt. Higher corporate taxes aim to stabilise public finances while still allowing for greater public investments in education, healthcare, infrastructure and decarbonisation. This should help the UK address some of its serious constraints in infrastructure and public services following decades of the lowest levels of investment in the G7.

But this ambitious investment plan comes at the cost of higher taxes on businesses, especially the employer national insurance contributions. Business sentiment, which was already still struggling to recover from the post-pandemic inflation era, has soured further in Q4. The Confederation of British Industry's total manufacturing optimism index fell to -24 points in October, from -9 in July. This is the fastest decrease in two years. According to the CBI, UK firms are cutting their plans for growth following the new budget, scaling back hiring and reducing investment plans. Financial markets also reacted with some volatility following the announcement with gilt yields rising to a four-month high. But yields have eased since as confidence in the sustainability of public finances under the new plan has increased.

Figure 2.7 UK businesses grow more pessimistic

UK business confidence, 0 = neutral outlook



Source: Oxford Economics, Atradius

The impact on the UK's economic outlook is tentatively positive but its success depends on how effective these policies are. While spending will be significantly increased, the net fiscal policy stance will be tightened over the coming years. Government consumption will increase by 1.6% of GDP in fiscal year 2025/26 which will boost domestic demand. But this will be partially offset by the drag from higher taxation dampening employment and pay growth.

We also now expect the pace of monetary policy normalisation to be slower in 2025. Less restrictive fiscal rules will boost demand, putting upward pressure on prices, and increase public debt levels. Prices will be further stoked by higher labour costs. We no longer expect inflation to reach the 2% target in our forecast horizon, staying around 2.6% in 2025 and 2.3% in 2026. The Bank of England will accordingly move more gradually in 2025. We anticipate four more quarter-point interest rate cuts, bringing the Bank Rate to 3.75% by the end of the year.

The 2025 outlook for private consumption and investment has slightly weakened due to higher taxes for companies and the pass-on to employees. Individuals and corporates are also facing slightly higher inflation and interest rates than in the absence of the new budget. Therefore, the importance of government consumption in GDP growth will increase in our forecast period. The positive effects of the less tight fiscal policy will help boost GDP growth in 2026 to 1.7%.

2.5 Advanced Asia: cautiously bright prospects

We expect economic activity to pick up in Japan, Australia and New Zealand in 2025 and 2026 from a very weak position. Japan's economic growth is set to accelerate very modestly with stronger wage growth, but ongoing political uncertainty will remain a drag. Economic growth in Australia and New Zealand will should pick up over the outlook period as monetary easing comes into effect.

Japan: sluggish growth and political uncertainty

Economic growth in Japan is projected to remain sluggish in 2024, primarily due to weak domestic demand in the first half of the year. Preliminary estimates indicate that Japan's real GDP grew by 0.2% quarter-on-quarter in Q3, following a 0.5% increase in Q2. Domestic demand improved, led by consumption, particularly of durable goods. However, net trade had a negative impact in Q3, as imports expanded at a faster rate than imports.

Increasing political uncertainty compounds Japan's domestic challenges. The ruling Liberal Democratic Party (LDP) and its junior partner, Komeito, lost their simple majority in the House of Representatives at the general election in October. This reduces the LDP's ability to implement its reform agenda, especially to increase spending on defence and social welfare. This could dent household and business confidence, and could slow the pace of monetary policy tightening, leading to a weaker yen in the near term. Overall, the economy is expected to contract by 0.2% in 2024.

Looking ahead to 2025, a cautious growth increase to 1.2% is anticipated though, followed by a 0.7% growth in 2026. Private consumption is expected to improve gradually, driven by rising real wages, gradual household dissaving and low unemployment. Real wages continue to increase as supply-driven inflation subsides and as labour unions successfully push for higher wages to counterbalance the rising cost of living. Although the labour market situation has slightly improved, labour shortages remain widespread due to rapid ageing and limited immigration. We anticipate the unemployment rate to decline from 2.5% in 2024 to 2.2% in 2026, with significant shortages persisting in sectors like retail and transport. Recent migration policy changes may help to somewhat alleviate these constraints. Consumer price inflation dropped to 2.2% in October, driven by slower energy price growth, while core inflation (excluding fresh food) rose from 2.0% in September to 2.2%

in October. The Bank of Japan raised the policy rate twice this year, to 0.25%, and is expected to continue gradual rate hikes, with the next one likely in December, as part of its policy normalization efforts. The fiscal deficit is projected to gradually narrow in 2025-2026, but expansionary fiscal policy is expected to remain necessary to support private-sector demand.

Australia: sticky inflation continues to drag on activity

Australia is still struggling with a challenging economic situation characterised by sluggish growth and high inflation. Economic growth is projected to rebound modestly to 2.0% in 2025, up from an estimated 1.0% in 2024. Consumer price inflation did slow markedly, with inflation falling back to 2.9% in Q3, down from 3.8% in the previous quarter. However, a notable split in the pace of goods and services inflation has opened up, with goods price increases decelerating much more sharply. The Reserve Bank of Australia kept the policy rate on hold at 4.35% at its November meeting. The major takeaways from the RBA's statement were that the board still thinks the economy is running beyond its capacity and it's too soon for rate cuts given still-high inflation. We still expect the first rate cut in Q2 2025, but the balance of risks is shifting to later rather than sooner easing. The Australian economy is lacking a clear engine of growth as it battles against tight policy settings and inflationary pressures. Easing inflation and income tax cuts bode well for consumer spending in 2025, with investment and exports also likely to pick up somewhat from a poor performance in 2024. However, ongoing tight credit conditions will prevent GDP growth from rising above 2.0% next year. Additionally, weaker Chinese demand for Australian mineral commodities will further dampen overall economic performance. A stronger and more protectionist US economy will put downward pressure on the Australian dollar against the USD, though the impact on the broader trade-weighted exchange rate will likely be much smaller.

New Zealand: monetary easing brightens outlook

Despite strong population growth, New Zealand's economy has been teetering on the edge of, or in, a technical recession for most of the past two years. Growth in 2024 is projected to be 0.6%. Inflation has eased as global commodity prices have moderated, with the inflation rate falling to 2.1% in Q3, aligning with the middle of the target band. The Reserve Bank of New Zealand (RBNZ) has implemented three rate cuts since July, bringing the policy rate to 4.25%, which should support GDP growth in 2025, expected to reach 2.0%. The labour market continues to loosen, with the unemployment rate rising to 4.8% in Q3 from 4.6% in Q2. Overall wage growth remains high, driven mainly by surging public sector wages, while private sector wage growth is slowing.

Emerging market economies' outlook

3.1 Diverging prospects for EMEs

The outlook for emerging market economies (EMEs) is on average stronger than that for advanced economies, but it remains weak by historical standards. We expect GDP growth to stay in a lower gear at 4.0% in 2025 and 3.9% in 2026.

China is leading in trade growth, with exports increasing by over 5% in 2024. Emerging Asia (excluding China) is close behind, showing similar growth patterns. Eastern Europe is showing signs of recovery, while Africa and the Middle East are experiencing negative trade growth. Trade growth is expected to accelerate in 2025, driven by increased investments and higher consumer demand for trade-intensive durable goods, benefiting emerging market economies (EMEs). However, the trade tariffs expected from the incoming US administration in 2026 could negatively impact EME growth, particularly in China. Conversely, some EMEs like India and Vietnam might benefit from trade diversion away from China. The trend of geopolitical fragmentation, where production is moved closer to home or to friendly countries, is expected to continue.

In 2024, many EMEs have seen declines in inflation rates. Monetary policies are generally leaning towards loosening, with exceptions like Brazil and Russia, which have recently raised their policy rates due to ongoing inflation pressures. For 2025, inflation in most EMEs is expected to moderate due to lower commodity prices and easing supply chain pressures, though geopolitical uncertainties and trade policies could still exert inflationary pressures in some regions. Long-term interest rates in most major EMEs have moderately declined, aided by policy rate reductions in major advanced markets.

Capital flows to EMEs have increased this year, supported by solid growth, an improving inflation outlook, and enhanced fiscal and monetary policy frameworks. Changing investor perceptions about the pace of policy rate reductions in advanced markets compared to EMEs have also supported portfolio capital flows. Despite this positive outlook, there is a risk of weaker capital inflows and potential exchange rate pressures if the expected interest rate differential between EMEs and advanced economies narrows rapidly or if geopolitical risks increase. Countries with high foreign exchange debt and interest rate spreads compared to advanced economies, such as Turkey, are particularly vulnerable to financial volatility in the event of currency depreciation or capital outflows.

Table 3.1 Diverging growth forecasts across EMEs

Real GDP growth forecasts, %

	2023	2024*	2025*	2026*
China	5.2	4.8	4.4	4.1
India	7.7	6.4	6.4	6.9
Brazil	3.2	3.2	2.0	1.0
Mexico	3.3	1.5	1.7	2.2
Russia	3.6	3.8	1.6	-0.5
Turkey	5.1	2.7	1.9	2.4
South Africa	0.7	0.7	1.5	1.6

Source: Oxford Economics, Atradius (* forecast)

3.2 China: growth hindered by structural performance issues

China's economic performance in 2024 was hindered by structural challenges and low domestic confidence. In response to the weakening economy, the central government has recently stepped up its support for growth through aggressive monetary easing, which will be followed by fiscal expansion to support domestic demand and a debt swap program to restore the fiscal health of struggling local governments. As a result, GDP growth is expected to come in at 4.8% this year, roughly in line with the government's growth target of "around 5%".

China's economic growth is projected to slow to 4.4% in 2025 and 4.1% in 2026. The growth slowdown is mostly the result of lower export growth, as the global semiconductor cycle likely reaches its peak and the trade war with the US is likely to re-escalate under the presidency of Donald Trump. Domestically, it will take time for the recently announced policy easing to feed through into the local economy. Household consumption growth is expected to remain sluggish in 2025 and 2026, with consumer confidence unusually low. Slowing wage growth and labour market uncertainty are delaying the return of household savings to pre-pandemic levels. Disposable income growth is expected to remain below pre-pandemic trends, especially for younger workers who face weaker job prospects. Investment growth is expected to remain subdued in 2025 and 2026 due to tighter budget constraints faced by local governments and state-owned enterprises (SOEs), exacerbated by revenue shortfalls from declining land sales.

Net exports are not expected to significantly contribute to growth over the next two years. Export growth is likely to slow due to geopolitical tensions and efforts to manage trade dependencies, which reduce the demand for Chinese goods. We assume that the incoming Trump administration will gradually implement a 25% tariff on the machinery, electronics, and chemicals sectors starting in 2026. In response, China is expected to impose a 10% retaliatory tariff on the same set of US imports. This could escalate to higher tariffs in the case of a 'full-blown Trump scenario'. Under this downside scenario, the US would impose a 60% across-the-board tariff on Chinese imports, while China would retaliate by imposing a 40% tariff on US goods.

3.3 India: growth set to remain steady

In India, growth is projected to hold steady in 2025 at 6.8%. Despite challenging global conditions, it remains the world's fastest growing major emerging market (see table 3.1). Private consumption improved in 2024, driven by greater agricultural output and falling inflation, which is supporting real incomes. However, unemployment remains high, with many jobs still dependent on the weather-sensitive agricultural sector. Rural incomes are expected to accelerate in 2025, helping to bridge the gap between robust urban consumption and weaker rural consumption. Private investment is also expected to increase, albeit gradually, due to the still-tight financing conditions. Recent inflation figures have shown an uptick, driven by a combination of less favourable base effects and rising food and beverage prices. Despite the recent increase, inflation is approaching the central bank's midpoint target of 4%. The Reserve Bank of India (RBI) kept the policy rate in October but shifted its policy stance from 'withdrawal of accommodation' to 'neutral'. We expect that the RBI will implement its first rate cut in February 2025.

Government initiatives have looked to boost the manufacturing sector by improving the business environment, enhancing logistics infrastructure, improving tax efficiency and rationalizing tax rates. The expanding manufacturing capacity is expected to lead to higher export growth in the coming years. Next year is likely to see some revival in private investment, driven by the encouragement of monetary easing. Export growth is set to improve as the global economy expands at a solid pace and India benefits from strong demand from the United States, but there won't be a major boost to exports. Government spending is projected to contribute positively to growth in 2025 through higher spending on public infrastructure.

3.4 Brazil: risks to 2025 outlook mount further

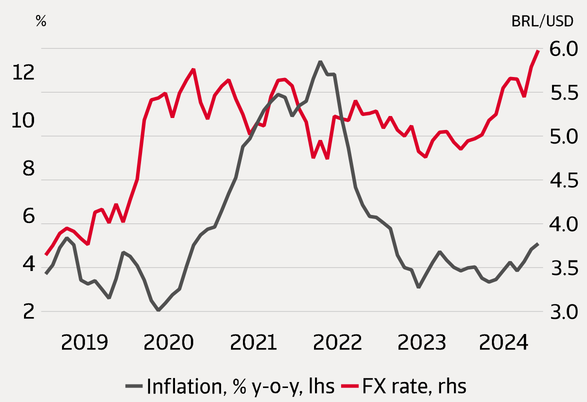
Brazil's economy has proven more resilient than expected this year, but we expect growth to slow over the coming years. We now expect a 3.2% expansion in 2024, a slight acceleration from 2023 and more than a full percentage point higher than we forecast in our July Economic Outlook. This upward revision is motivated by a strong labour market, firm household spending and smaller-than-anticipated disruptions from the floods. A return to monetary tightening though will stymie domestic demand in 2025 and 2026, bringing GDP growth back to around 2% per year.

Governability remains the main challenge to Brazil's economic outlook and has worsened following the midterm elections in October 2024. President Lula's left-wing minority government is dependent on a broad-based coalition spanning significant ideological differences. The centrist parties' strong performance in the midterms increase Lula's dependence on these parties to govern. While they have cooperated with Lula to pass important structural reforms, notably tax simplification, we expect them to be less willing to support progressive revenue-raising measures to meet fiscal targets amid high spending.

Lula's social spending, a key driver behind firm household demand, has raised fiscal uncertainty which is dragging on Brazil's growth outlook. Brazil's currency has been facing significant downward pressure as a result, losing 16% of its value vis-à-vis the US dollar since the start of the year (see figure 3.1). This has reignited price pressures in Brazil, bringing inflation up to 4.6% in October, up from 3.2% in April and breaching the upper bound of the central bank's 1.5%-4.5% target range. In response, the central bank began a tightening cycle in September. In two steps so far, the policy rate has been hiked from 10.5% to 11.25%. We expect further hikes to 12% in the first quarter of 2025. This will constrain economic growth going forward, allowing the central bank to start cutting rates in the second half of 2025, potentially ending the year at 11%.

Figure 3.1 Real depreciation reignites inflation

Brazil exchange rate vs. inflation



Source: Oxford Economics, Atradius

3.5 Mexico shifting to a lower gear

Mexico's economy has shifted into lower gear this year and its outlook remains tepid. GDP decelerated to an estimated 1.5% in 2024 due to cautious consumer spending and reduced investments. Businesses put spending decisions on hold ahead of the uncertain US elections. The completion of major infrastructure projects also reduced government spending and the fiscal stimulus from pre-election spending ceased following the June elections. Claudia Sheinbaum of the MORENA party won the election by a landslide and took office in October 2024. She is expected to continue the left-wing reform agenda of her popular predecessor, Andrés Manuel López Obrador (AMLO).

Economic growth will remain weak in 2025 (1.7%) due to ongoing investor uncertainty and domestic fiscal consolidation measures. Investor confidence in Mexico has been undermined by a proposed judicial reform by former president AMLO that has raised concerns about the rule of law. As in September, lawmakers already passed some reforms of this kind, including the election of Supreme Court judges by popular vote, which has raised concerns about the erosion of the judiciary's independence. At the end of October, Sheinbaum implemented this reform, reducing prospects that she might be less of a hardliner on the constitutional reform agenda than AMLO. Sheinbaum is also committed to fiscal consolidation, but this will remain gradual. But there are still concerns that maintaining a healthy fiscal stance will be difficult due to optimistic government forecasts and in the absence of tax reform. Nevertheless, lower government spending will pose a further drag on growth in the coming years.

The Banco de México (Banxico) cut interest rates four times in 2024, bringing the policy rate to 10.25%. This level remains tight though, constraining domestic demand. The monetary easing cycle aligns with trends in other major economies, like the US. Despite headline inflation accelerating to 4.8% in November – still above Banxico's 2%-4% target range – core inflation eased to 3.8%, its lowest level since January 2021. We expect the central bank to continue cutting rates into 2025, but slow disinflation and the weak peso will keep the pace gradual. Lower rates should help boost growth in 2026 to 2.2%.

The re-election of Donald Trump for president in the US undermines relations with Mexico's most significant trade and investment partner. We expect the USMCA to be extended in 2026, but US policy uncertainty and rhetoric will fuel substantial market volatility for Mexico in the short term. Trade policy uncertainty will help grow Mexican exports up to 10% in 2025 as exporters seek to front-load exports before restrictions are implemented. But on the flipside, this uncertainty will limit the upside potential for nearshoring investment into Mexico.

3.6 Russia: labour shortages drive up inflation

The Russian economy remained resilient in 2024, but we expect a significant slowdown in 2025. Growth is expected to slow to 1.5% in 2025, owing to high interest rates, labour shortages and sanctions that weigh on economic activity. The oil sector continues to be a cornerstone of the economy, as Russia has found ways to circumvent sanctions through using alternative shipping routes and other mechanisms. Western economies have imposed a ban on the sale of technological goods to Russia, that has led to shortages that may eventually weigh on industrial output. Efforts to circumvent sanctions have some success, but sourcing technological goods has become more difficult and expensive.

The army is trying to avoid new mobilisation at all costs and is instead relying on conscription and expansion of the contractual army. This is tightening the labour market, leading to increased labour shortages and driving up wage growth. Real wage growth was 8.0% in 2024 and is projected to stay high at 5.4% in 2025. Headline inflation declined to 8.6% year-on-year in September, from 9.0% in August. Several factors complicate the fight against inflation, such as the gith job market (2.4% unemployment in September) pushing up wages, high government spending on the war, and large increases in credit to the private sector. The Central Bank of Russia (CBR) has tightened monetary policy in recent months, with a 200 bps increase in the policy rate to 21% in October, marking the third hike this year. We think that the CBR might start reducing rates again from early 2025. However, ongoing fiscal stimulus from military spending in the 2025 budget poses an upside risk to inflation, as it could worsen labour market shortages. The central bank intervened to stabilize the rouble at the beginning of 2024, and further interventions in the foreign-exchange markets are likely.

Russia's fiscal capacity will remain stretched in 2025. The high costs of the war and sanctions on the economy put pressure on the federal budget. The draft 2025 budget proposes increasing defence spending to 32% of total government expenditure. Combined spending on security and defence will account for approximately 40% of the total budget for the year. While the government aims to reduce military spending in 2026 and 2027, this is subject to the course of the war in 2025.

3.7 South Africa: market confidence improving over new government

We expect GDP growth in South Africa to improve to 1.7% in 2025, from 1.0% in 2024. The prospect for 2026 is that growth remains on par with 2025 (1.6%). After the general election of May 2024, the ANC lost its absolute majority in parliament and has formed a government of national unity with its main rival, the pro-market Democratic Alliance (DA), and three smaller parties. We expect that the government will remain largely focused on structural reforms to alleviate growth-inhibiting electricity shortages and transport bottlenecks, in partnership with the private sector.

The new government is expected to bolster market confidence and business sentiment in 2025, leading to a much-needed investment pick-up. Load-shedding (electricity rationing) has also come to an end since April 2024, after two years of disruptive power cuts, which is also likely to contribute to GDP growth. Another growth driver is monetary easing, as the central bank lowered the policy rate by 25 bps to 8% in September 2024. Previously, it had raised the policy rate by 475 bps between November 2021 and May 2023 in response to high inflation. Inflation has come down significantly, however, to 2.8% in October 2024, reflecting lower fuel prices and softening consumer demand. We expect the gradual easing of monetary policy to continue in the near term.

The latest sentiment indicators reveal that businesses and consumers are increasingly optimistic about the economic outlook. Clear signs of the government's commitment to business-friendly policies and efforts to accelerate private sector participation are expected to boost corporate credit demand. While South Africa is relatively insulated from direct effects of Trump policies, it is highly vulnerable to market volatility. The rand will be under more pressure and financing risks could increase. Medium-term growth continues to be limited by domestic challenges and a difficult global environment. Logistics bottlenecks at ports and in freight will persist, while high unemployment rates continue to suppress consumption and heighten the risk of social unrest.

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Appendix: macroeconomic tables

	GDP growth (% change p.a.)			Inflation (% change p.a.)			Budget balance (% of GDP)			Gross government debt (% of GDP)			Current account (% of GDP)			Export growth (% change p.a.)		
	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026
Australia	1.0	2.0	2.6	3.3	3.1	2.8	0.1	-1.3	-0.8	55	57	56	-1.8	-1.9	-2.4	1.5	5.2	3.8
Austria	-0.9	0.9	2.0	2.9	1.6	1.6	-3.9	-3.6	-2.8	116	115	114	2.4	1.2	1.3	-3.8	2.4	3.3
Belgium	1.0	1.2	1.7	3.1	1.8	1.6	-4.4	-3.1	-1.7	110	109	107	0.1	2.6	3.2	-4.1	0.9	2.7
Brazil	3.2	2.0	1.0	4.4	4.8	3.5	-7.1	-7.9	-7.3	78	81	84	-2.5	-2.8	-2.7	2.7	-0.7	1.0
Canada	1.2	1.5	1.7	2.3	2.3	2.5	-1.6	-2.1	-1.8	102	101	99	-0.5	-0.6	-0.9	0.8	2.3	2.0
China	4.8	4.4	4.1	0.2	0.4	1.2	-8.3	-9.4	-10.2	61	67	73	2.0	2.1	1.8	12.5	2.9	1.9
Denmark	2.8	2.1	2.5	1.5	1.8	1.7	3.3	2.4	1.9	36	32	30	13.1	11.9	10.9	6.3	2.2	1.8
Finland	-0.3	1.4	1.8	1.6	1.5	2.0	-4.4	-3.1	-2.0	82	84	85	0.7	0.3	-0.8	0.5	1.5	1.5
France	1.1	0.8	1.6	2.0	1.4	1.8	-6.1	-5.7	-5.0	126	129	130	-0.4	0.2	0.0	1.5	0.6	2.0
Germany	-0.1	0.6	1.2	2.2	1.4	1.5	-2.5	-1.7	-0.8	58	59	58	6.1	5.8	5.4	-0.2	1.4	1.7
Greece	2.0	2.0	2.2	2.8	1.7	2.0	0.2	-1.3	-1.1	199	192	186	-6.4	-5.0	-4.9	0.5	2.6	3.0
Hong Kong	2.5	2.0	2.4	1.8	2.4	2.1	-0.9	-2.7	-0.1	8	11	12	11.6	6.9	5.1	5.8	0.8	3.1
India	6.4	6.4	6.9	4.7	4.5	4.4	-5.5	-5.2	-4.5	83	81	79	-1.0	-0.9	-0.8	5.2	6.2	7.2
Ireland	-0.2	4.0	3.5	2.1	1.5	2.2	4.5	1.4	0.7	30	26	24	15.8	7.1	7.2	9.2	-1.1	3.7
Italy	0.5	0.8	0.9	1.0	1.9	1.7	-3.9	-3.5	-2.9	150	153	154	1.0	1.0	1.7	-0.3	0.7	2.3
Japan	-0.2	1.2	0.7	2.5	1.5	1.6	-3.7	-3.4	-3.2	234	233	234	4.6	4.3	4.0	0.8	2.3	1.4
Luxembourg	1.4	2.5	2.7	2.2	1.6	1.9	-0.6	-0.6	-0.4	27	26	26	7.6	5.5	6.3	0.8	3.4	3.2
Netherlands	0.9	1.3	1.3	3.3	2.6	1.8	-0.4	-1.8	-2.4	47	48	49	10.0	9.5	8.9	0.0	1.7	1.3
New Zealand	0.6	2.0	3.0	2.8	1.2	1.6	-2.9	-1.5	-1.1	49	48	47	-6.0	-3.9	-3.4	5.3	9.2	5.2
Norway	2.4	0.8	0.8	3.2	2.3	2.1	13.0	7.5	3.5	46	46	47	17.5	15.0	11.2	6.0	0.6	-0.5
Portugal	1.6	1.9	2.0	2.4	1.9	1.8	1.7	0.8	0.2	98	93	90	2.3	1.2	1.2	3.6	2.0	2.2
Russia	3.8	1.6	-0.5	8.3	7.3	4.9	-2.2	-0.7	-1.9	16	16	19	3.2	3.4	4.2	0.9	0.4	0.8
Singapore	3.6	3.3	2.1	2.4	1.6	1.5	0.3	0.5	0.7	172	170	171	20.4	19.9	18.1	5.8	4.1	2.8
Spain	3.1	2.4	1.8	2.7	2.1	1.8	-3.2	-3.0	-2.8	109	107	106	3.4	3.4	3.4	3.3	2.5	2.4
South Africa	0.7	1.5	1.6	4.6	4.4	4.9	-4.5	-5.6	-5.6	76	78	80	-1.1	-1.6	-2.0	-3.1	3.3	1.8
South Korea	2.2	1.9	2.1	2.3	2.0	2.0	-1.8	-0.7	0.0	51	51	51	4.5	4.2	4.5	6.8	2.1	2.8
Sweden	0.6	2.4	2.5	2.8	1.5	2.0	-1.1	-1.2	-0.5	41	41	40	6.7	4.7	4.3	2.0	1.9	1.7
Switzerland	1.3	1.0	1.5	1.1	0.4	0.4	0.0	0.0	0.1	24	24	23	2.8	4.9	5.7	0.9	2.1	3.3
Turkey	2.7	1.9	2.4	58.7	30.6	18.1	-3.9	-2.7	-2.1	24	24	23	-0.9	-2.0	-1.7	2.6	2.3	2.7
United Kingdom	0.9	1.4	1.7	2.6	3.0	2.4	-5.5	-3.7	-2.9	102	101	100	-3.1	-2.8	-2.8	-1.9	1.9	1.6
United States	2.8	2.6	2.7	2.9	2.6	2.3	-7.3	-6.8	-7.1	138	138	139	-3.7	-4.1	-4.2	3.4	3.9	2.8
Eurozone	0.8	1.2	1.5	2.4	1.7	1.7	-3.0	-2.9	-2.4	-	-	-	2.9	2.5	2.5	0.8	1.2	2.3

	Private cons. (% change p.a.)			Fixed investment (% change p.a.)			Government consumption (% change p.a.)			Retail sales (% change p.a.)			Industrial prod. (% change p.a.)		
	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026
Australia	0.6	1.2	2.9	1.8	0.6	3.2	4.5	0.7	-1.0	-0.3	1.8	2.0	0.0	0.5	1.3
Austria	-0.2	1.6	2.5	-2.8	1.1	2.3	1.1	0.8	0.9	0.2	2.7	2.8	-2.8	1.4	1.6
Belgium	1.7	1.7	2.9	1.3	1.8	1.2	3.4	-0.1	-0.2	-3.5	2.4	2.8	-1.2	1.2	0.7
Brazil	5.2	1.4	0.3	7.2	2.5	2.5	1.8	1.0	1.1	4.5	1.1	0.3	3.0	2.0	1.5
Canada	1.9	1.6	1.5	-0.2	3.9	4.8	2.6	1.6	0.8	0.4	1.6	1.5	-0.1	0.5	1.6
China	5.9	4.8	4.7	3.1	4.9	3.2	6.7	4.3	1.9	6.1	5.0	4.9	5.2	3.4	3.2
Denmark	0.3	2.3	3.5	-1.4	3.6	5.0	1.1	0.5	0.5	2.2	3.5	3.8	8.6	4.9	4.1
Finland	-0.7	1.1	2.0	-6.4	4.8	3.3	1.4	0.7	1.4	-1.7	2.4	2.9	-0.7	1.0	2.6
France	0.9	0.9	1.6	-1.6	-0.2	1.3	2.1	0.3	0.5	2.0	3.3	2.9	-0.4	0.8	2.5
Germany	0.1	1.7	2.4	-2.6	1.2	3.1	2.1	0.0	0.2	0.6	2.6	2.6	-4.5	0.5	3.2
Greece	1.8	1.0	1.6	7.4	13.1	3.8	-2.1	3.9	1.4	-1.2	0.9	2.3	4.5	2.2	4.1
Hong Kong	-0.1	2.0	2.3	1.7	0.5	2.3	-1.0	-0.2	0.7	-7.2	2.0	2.3	0.2	0.7	0.6
India	6.0	6.5	7.3	6.6	7.5	7.9	3.0	7.0	6.6	7.4	7.8	8.5	4.3	5.9	7.6
Ireland	2.2	2.4	2.3	-23.2	27.2	1.7	4.0	2.4	1.8	-0.1	2.2	2.9	-6.3	9.3	4.0
Italy	0.5	1.1	0.7	0.0	-0.6	-0.9	0.6	0.6	0.0	-0.4	0.7	0.7	-3.2	0.9	2.9
Japan	-0.2	1.3	0.8	0.4	1.1	1.0	0.5	0.3	0.0	0.4	1.3	0.1	-2.6	3.8	1.9
Luxembourg	1.9	2.7	2.3	-4.4	5.8	4.4	4.4	1.8	1.4	13.2	2.4	3.0	-3.6	2.1	4.8
Netherlands	0.6	1.5	2.0	-1.0	3.0	3.7	3.0	1.1	0.7	1.5	1.6	2.0	-1.4	1.8	2.7
New Zealand	0.8	0.7	1.9	-4.4	-1.1	4.2	0.4	1.1	1.3	-1.6	2.6	1.9	2.9	7.3	2.7
Norway	1.1	2.1	3.3	-0.6	1.6	3.8	3.4	2.5	1.9	-0.1	1.4	3.1	5.5	1.2	-0.7
Portugal	2.8	2.3	1.6	1.6	3.0	2.0	1.1	1.6	1.4	3.5	3.2	1.6	0.9	1.8	2.3
Russia	5.4	2.3	0.1	7.7	1.6	1.8	0.3	3.5	0.7	7.6	2.4	0.3	3.7	0.7	-0.1
Singapore	6.1	1.9	3.6	1.0	3.3	2.5	4.8	0.2	0.7	0.7	4.7	4.8	4.0	11.5	4.7
Spain	2.7	2.4	1.6	2.1	3.7	3.9	4.5	2.1	0.8	1.6	1.6	1.0	0.4	2.1	3.2
South Africa	1.0	2.1	1.6	-3.8	2.2	3.3	0.8	1.0	1.0	1.9	3.7	1.8	0.5	2.7	1.6
South Korea	1.1	1.2	1.3	0.1	1.5	1.8	1.8	2.3	2.2	-1.8	2.6	2.9	3.2	2.3	3.1
Sweden	0.2	1.8	2.4	-1.4	1.9	2.6	1.2	1.6	1.7	0.1	3.5	3.8	-1.0	2.6	3.3
Switzerland	1.7	1.7	1.6	-1.1	1.8	2.4	1.9	1.4	1.0	1.1	0.9	1.3	2.4	2.5	2.9
Turkey	2.4	-3.7	-1.0	2.3	0.8	1.0	1.2	1.5	1.8	9.3	-3.7	-1.1	-0.6	2.2	3.6
United Kingdom	0.8	1.7	1.5	1.0	0.8	3.4	2.4	2.9	1.6	0.7	1.7	1.8	-1.1	0.6	1.2
United States	2.7	2.8	3.0	4.4	3.8	5.0	2.4	1.4	1.1	2.8	3.0	2.5	-0.2	1.7	2.6
Eurozone	0.9	1.5	1.9	-2.0	2.1	2.1	2.2	0.6	0.5	0.9	2.2	2.2	-2.8	1.9	3.0

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