INTERNATIONAL ECONOMIC PROGRESS REPORT *(EPR)*

FEBRUARY 2025 HIGHLIGHTS

The Euro Area and United Kingdom: Slow Growth and Tariff Worries

The global economic landscape in early 2025 has been increasingly shaped by shifting trade policies and economic uncertainties. One of the most significant developments has been the United States' proposal to impose new tariffs, particularly on trading partners such as Mexico, Canada, China, and potentially the European Union. This policy shift is having major implications for the Euro Area (EA), which has been navigating its anemic economic recovery while now facing potential trade barriers from the U.S.

President Trump's administration signaled an aggressive trade stance, with the threat of imposing 25% tariffs on Mexican and Canadian imports (which is currently delayed until early March), a 10% tariff levied on the China (with retaliation efforts already in play), and additional tariffs on the EU in key industrial sectors, such as the most recent 25% import tax on all steel and aluminum entering the U.S. Given that the U.S. is the EU's largest trading partner, these measures could have a significant impact on European exports, particularly in manufacturing-heavy economies such as Germany (with manufacturing at 20.4% of GVA, or Gross Value Added – the U.S. GDP equivalent). Several other European countries also have significant exposure with the manufacturing sector comprising large proportions of total GVA including Poland (18.0%), Italy (17.5%), Spain (12.6%) and France (10.8%).

In response and anticipation for additional tariffs to be announced, European policymakers are carefully considering their next steps, with some advocating for a staggered response strategy rather than an immediate tit-for-tat escalation. The EU recently concluded three new trade agreements with partners such as South America and Mexico, a move that could help reduce dependency on U.S. trade. Additionally, the European Commission has pushed for simplified business regulations to improve the ease of trade and investment, to improve the bloc's competitiveness against the U.S. and China. This is exactly what I am focused on. As I've mentioned in other narratives, many emerging or developing economies began to move towards (cheaper) Chinese goods years ago. Not only are U.S. goods more expensive for reasons like higher labor costs, but they are also more expensive because the U.S. dollar is strong. If we now layer in trade disputes that further inflate the (global) price of U.S. goods, it's quite possible more global economies will pivot away from American goods. I am watching this closely because between persistent inflationary pressures within the U.S., still-high interest rates, and trade disputes, it is not inconceivable that the U.S. economy could hit a hard wall this year or next (discussed more so below).

Amid all the talk around tariffs, the EA's economic conditions have remained fragile. **GDP Growth {Page 3}** for the region remained at 0.9% in Q4 2024, with **GDP Forecasts {Page 3}** at 0.9% for all of 2025 and a higher rate of 1.4% in 2026. **Inflation {Page 3}** increased slightly to 2.5% in January from 2.4% in December (year-over-year). Higher-than-desired inflation usually causes central banks to pause rate cuts or even increase rates, yet the ECB cut **Interest Rates {Page 3}** by 0.25% to 2.75% on February 5, its fifth consecutive rate cut. This is in response to weak economic conditions with the hope that lower borrowing costs will spur some much-needed business investment.

While the **Purchasing Manager's Index (PMI) {Page 3}** rose slightly to 50.2 in January, indicating a return to mild expansion, the EA's industrial sector remains vulnerable, especially to potential trade policies from the United States. The **Producer Price Index (PPI) {Page 3}** for the EA increased by a somewhat surprisingly large margin of 0.6% in December (year-over-year) after a 0.5% decline in November. I consider the PPI a leading indicator because what producers pay today is what will translate to prices for consumers in the near term. As such, even with subpar economic (GDP) growth rates, I believe the EA and in fact, the global economy, still face unpredictable and potentially higher inflation than past decades.

France's economic outlook remains subdued. **GDP Growth {Page 3}** fell to 0.7% in Q4 (versus a year ago) from 1.2% in Q3. **GDP Growth Projections {Page 3}** for 2025 were revised down to 0.6% for 2025, suggesting economic momentum is slipping although a rebound to 1.1% is currently forecasted for 2026. **Inflation {Page 3}** edged up slightly to 1.4% in January, which is thankfully below the ECB's 2% target.

The labor market is showing slight signs of strain, with the number of jobless claims rising by 4% in Q4 2024. **Non-Harmonized Unemployment {Page 4}** dropped slightly in Q4 to 7.3% compared to 7.4% in Q3.

Data-Driven Economic Strategies
https://www.ddestrategies.org/

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Data updated on February 14, 2025.

The composite **PMI {Page 3}** rose slightly to 47.6, and now France is the only tracked economy below the expansion threshold of 50. Meanwhile, **Business Confidence {Page 3}** stagnated at 99.4, but **Consumer Confidence {Page 3}** rose slightly to 98.4. The government also survived a no-confidence vote earlier in the month, finally allowing their 2025 budget to move forward. The bill hopes to generate 50 billion euros in savings through increased taxes and spending cuts which hopefully won't curb consumer activity.

Germany continues to grapple with economic contraction. 2024 Q4 **GDP Growth {Page 3}** remained in contraction territory at –0.2% year-over-year (but an improvement from Q3 at –0.3%), and **GDP Projections {Page 3}** stand at 0.1**%** for 2025 and an improved 0.9% forecasted rate for 2026. **Inflation {Page 3}** unexpectedly declined to 2.3% in January (from 2.6% in December), slightly relieving cost pressures on businesses.

The manufacturing sector remains weak overall, with industrial production falling 15% since 2018. However, Germany's **PMI {Page 3}** rose to 50.5 in January, surpassing the expansion threshold (>50) for the first time since June 2024.

GDP Growth {Page 3} in the U.K. in 2024 Q4 came in at 1.4% year-over-year (compared to a revised 1.0% in Q3). **GDP Projections {Page 3}** remain low at 0.9% for this year and 1.4% for 2026. Government borrowing surged in December, adding £10.1 billion to the deficit, driven by increased debt servicing costs (e.g., interest payments). **Consumer Confidence {Page 3}** rose slightly to 99.7 in January, but investors are becoming wary as indicated by the 97.4 January reading of **Business Confidence {Page 3}**, which is largely influenced by trade and fiscal policy uncertainties.

Inflation {Page 3} data lags in the U.K. but remained stable at 2.5% in December (compared to 2.6% in November). The Bank of England cut **Interest Rates {Page 3}** by 0.25% on February 6 to a new rate of 4.50%, marking its first rate cut in over a year. Wells Fargo estimates four additional 0.25% cuts over the course of the year for a terminal rate of 3.50% in 2025.

United States: Some Growth but Risks Mount

The U.S. economy remains resilient, but risks are accumulating. 2024 Q4 **GDP Growth {Page 3}** was 2.5% compared to the same quarter last year, slightly down from 2.7% in Q3. The **GDP Growth Projection {Page 3}** for 2025 is 2.3% with expectation of lowered growth over the next few quarters due to tariffs and deportations. **Inflation {Page 3}** remains a challenge, with CPI coming in at 3% in January from 2.9% in December, higher than economists expected. In this segment, I talk about the problems I see with the CPI inflation measurement tool, which reflects the general discontent by the "average" U.S. consumer (e.g., bottom 90%). Consumer expectations of inflation over the next year also skyrocketed from 3.3% to 4.3%, the highest reading since November 2023.



Producer prices also remain high with the **Producer Price Index (PPI) {Page 3}** coming in at 0.7% from December to January and 3.5% year-over-year. I recently had someone ask after a presentation why tariffs would increase prices (he thought they would do the opposite). The primary reason is that history shows us that there are always retaliatory tariffs that increase the price of our imports. This wouldn't necessarily impact us that much on surgical tariffs (as I call specific tariffs on targeted goods that reflect unfair trade practices), but blanket tariffs of 25% or really any percentage would impact all goods. As the world's largest importer (see the adjacent visual), higher import prices would be a big hit to 2/3 of our economy, which is consumer expenditures. Job growth also slowed in January with 143,000 new jobs which was slightly less than expected. However, **Non-Harmonized Unemployment {Page 4}** fell to 4% which is historically very low and the lowest of the economies we track. Increasing inflation along with wage and job gains make it unlikely that the Federal Reserve will aggressively cut **Interest Rates {Page 3}** as was previously forecasted. At its most recent meeting, the Fed held interest rates steady at 4.50%, and some economists are expecting the Fed to continue to hold steady for the first part of 2025 with potentially 2 additional rate cuts later in the year, but persistent inflation could eliminate any cuts this year.

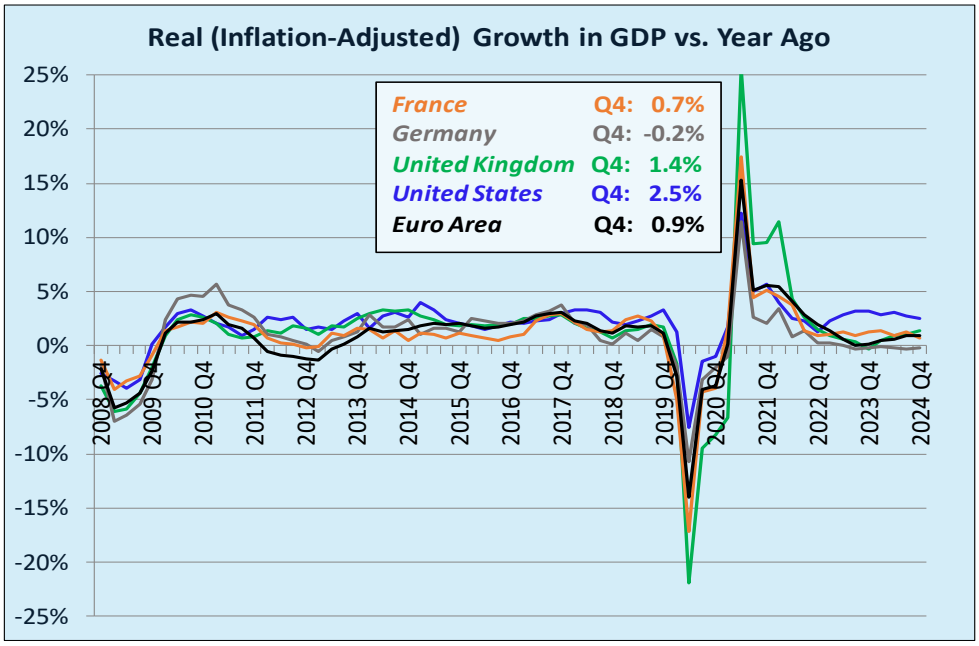
PMI {Page 3} fell from 55.4 in December to 52.7 in January, the only tracked economy to see a decline in PMI. Additionally, the U.S. trade deficit widened by a record amount in December (with the deficit being 17% larger in 2024 than in 2023), fueled by falling exports and rising imports. Tariff risks loom large, with potential revenue declines in key industries like technology and automobiles. All this to say, **Consumer Sentiment {Page 3}** fell to its lowest reading since July 2024, and that too is part of the reason I am more cautious about the U.S. economy writ large for this year and next.

This is the last international economic report we will be producing as APMP has not renewed the contract. I would like to thank Rick Harris and the APMP membership for the opportunity to be an economic resource for you. Our nonprofit is thankfully thriving, and I feel I have had the awesome opportunity to dig deep and learn about the European economy. May you also thrive in 2025!

Tatiana Bailey, Ph.D., Rebecca Wilder, MBA & Kathryn Zenoni, MSEd

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MACROECONOMIC "BIG PICTURE" (PAGE 3)



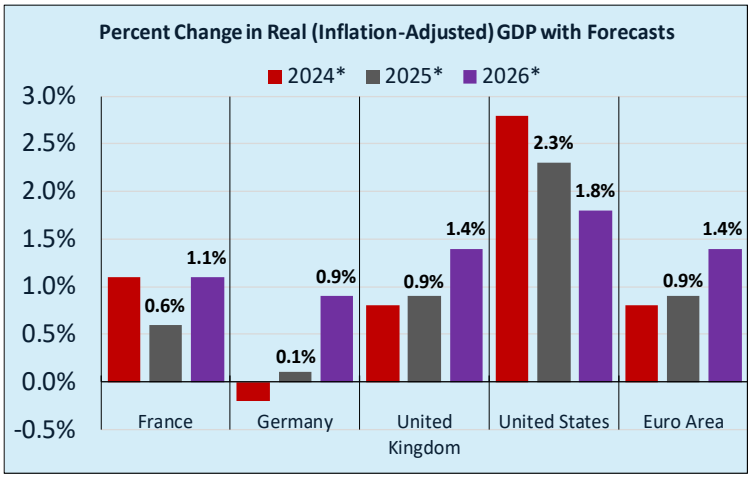
Graph is estimate of real GDP percent change from same quarter a year ago, SA. Graph and text box both show the latest data available from sources. Depending on data availability and the data source, Euro Area (also called Eurozone) includes the 20 countries that use the euro as their currency.
Sources: eurostat; U.K. Office for National Statistics; U.S. Bureau of Economic Analysis.

Business Confidence Index January 2025	
France	99.4
Germany	97.8
United Kingdom	97.4
United States	99.4
Euro Area	98.4

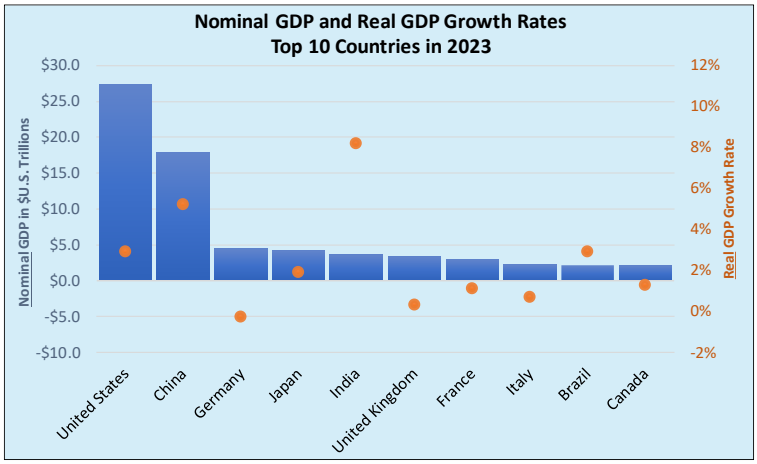
The Business Confidence Survey inquires about production levels, orders and stocks of finished goods. It serves as an overall measure of output growth. **Numbers above 100 suggest increased confidence in near future business performance, below 100 indicate pessimism.**
Source: Organization for Economic Co-operation & Development (OECD) Data Explorer.

Consumer Price Indices January 2025, NSA Year-over-Year	
France	1.4%
Germany	2.3%
United Kingdom*	2.5%
United States	3.0%
Euro Area	2.5%

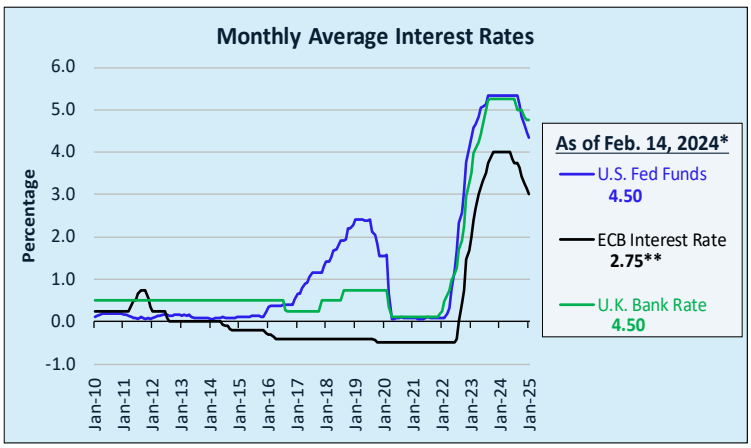
*U.K. data lags and is still December 2024.
Sources: French National Institute of Statistics & Economic Studies; Federal Statistical Office of Germany; U.K. Office of National Statistics; U.S. Bureau of Labor Statistics.



*Forecasts
Source: The Conference Board, Global Economic Outlook, February 12, 2024.



Note: Left axis/blue bars are nominal GDP. Right axis/orange dots are inflation adjusted GDP.
Sources: World Bank; Data-Driven Economic Strategies.



*The text box reflects the latest interest rate hikes announced.
**The ECB rate shown in the text box reflects the deposit facility rate, which banks may use for overnight deposits with the Eurosystem.
Sources: Bank of England; U.S. Board of Governors of the Federal Reserve System; European Central Bank.

Producer Price Indices, NSA		
	Monthly Change	Year-over-Year Change
Euro Area	0.4% (Nov. to Dec.)	0.6% (Dec. to Dec.)
United States	0.7% (Dec. to Jan.)	3.5% (Jan. to Jan.)

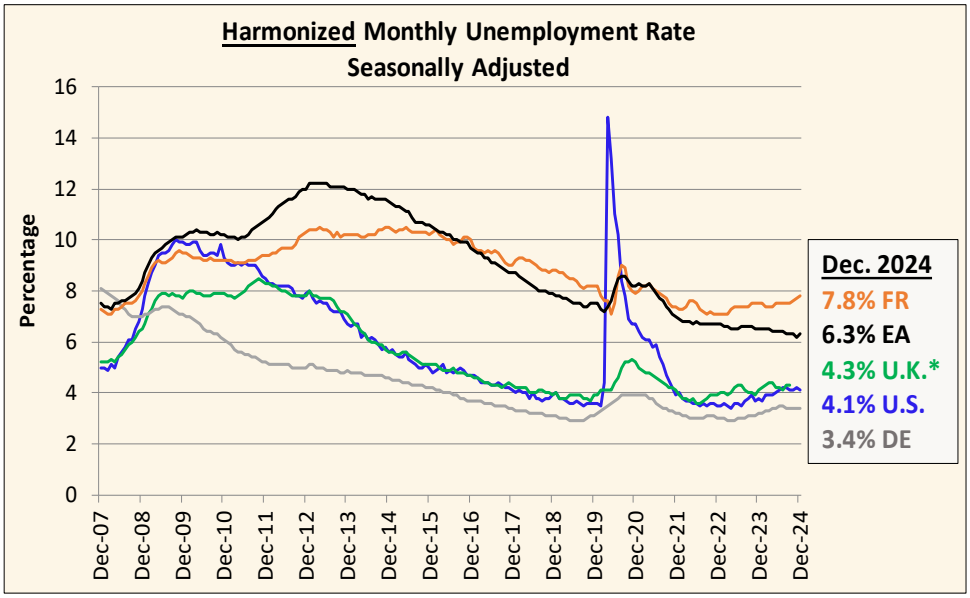
NSA stands for not seasonally adjusted. PPI for the Euro Area includes domestic and non-domestic markets for the 20 countries that use the euro as their currency.
Sources: eurostat; U.S. Bureau of Labor Statistics.

Purchasing-Managers Indices January 2025	
	Composite PMI™
France	47.6
Germany	50.5
United Kingdom	50.6
United States	52.7
Euro Area	50.2

Above 50 is expanding and below 50 is contracting. The Composite PMI™ is a combination of the Manufacturing Index and the Services Index.
Source: S&P Global Market Intelligence.

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LABOR MARKET (PAGE 4)



Data is "harmonized" by the OECD so that all countries are following the same methodology. This enables data to be comparable between countries. DE is the abbreviation for Germany (Deutschland). Eurostat updates "harmonized" data earlier than the OECD, but does not update the U.K.
*Latest harmonized U.K. unemployment rate available is for September 2024.
Sources: Organization for Economic Co-operation and Development (OECD); eurostat.

Not Harmonized Unemployment Rates Most Recent Available

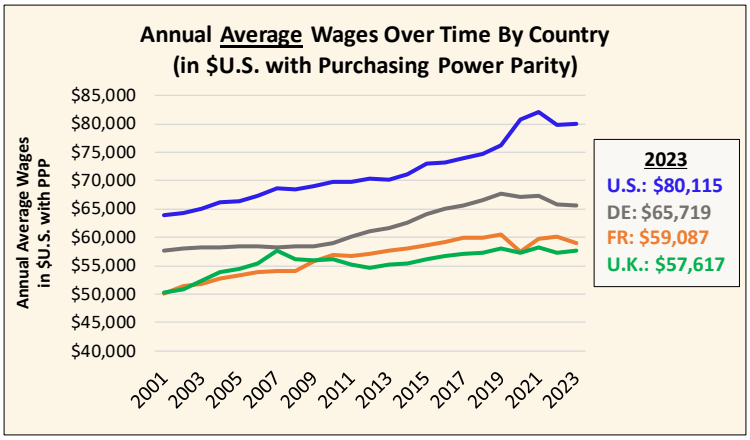
	Most Recent Month Available	Unemployment Rate
France*	December 2024	7.3%
Germany	January 2025	6.2%
United Kingdom	November 2024	4.4%
United States	January 2025	4.0%
Euro Area	December 2024	6.3%

*Official French unemployment rate is released on a quarterly basis.
Sources: French National Institute of Statistics & Economic Studies; Federal Statistical Office of Germany; U.K. Office of National Statistics; U.S. Bureau of Labor Statistics.

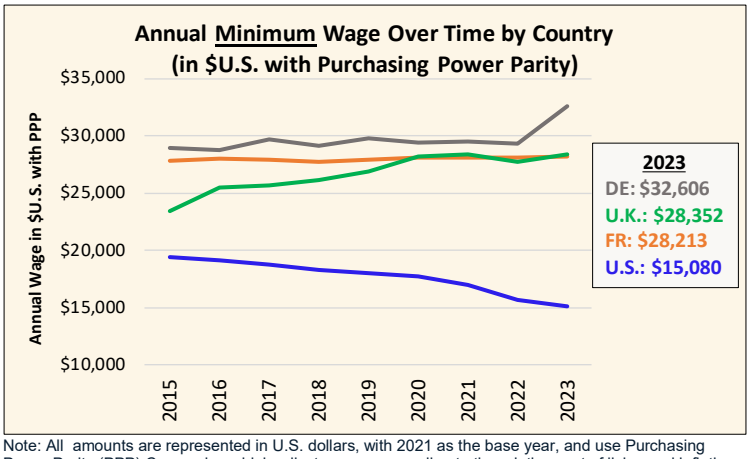
Prime Working Age (Ages 25 - 64) in 2023

	# of People	% Change in Last Decade
France	32,709,638	-1.8%
Germany	45,379,319	1.6%
United Kingdom	35,529,044	5.8%
United States	178,169,238	4.9%

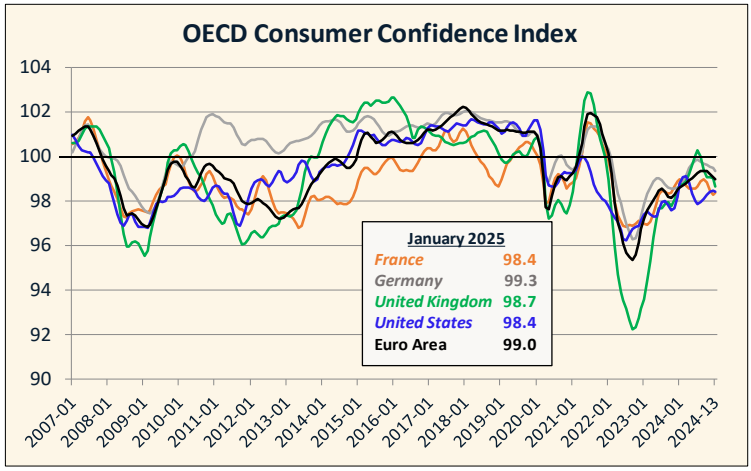
Source: United Nations, Department of Economic & Social Affairs, Population Division (2024).



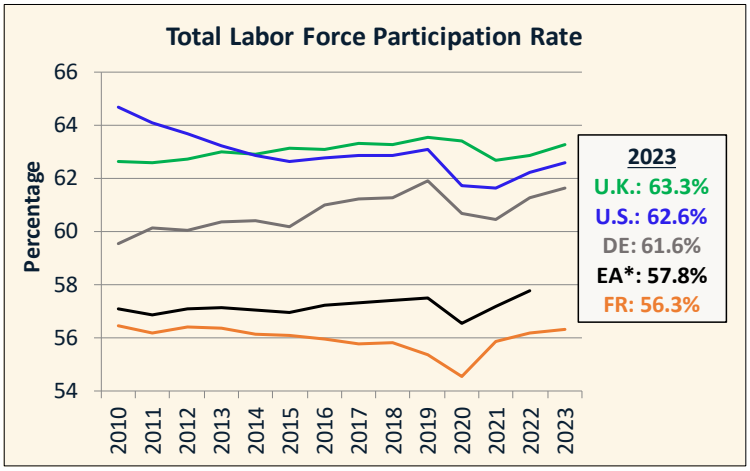
Note: All amounts are represented in U.S. dollars, with 2023 as the base year, and use Purchasing Power Parity (PPP) Conversion which adjusts wages according to the relative cost of living and inflation rates in each country, using a basket of goods to determine the local purchasing power of those wages.
Source: Organization for Economic Co-operation & Development (OECD) Data Explorer.



Note: All amounts are represented in U.S. dollars, with 2021 as the base year, and use Purchasing Power Parity (PPP) Conversion which adjusts wages according to the relative cost of living and inflation rates in each country, using a basket of goods to determine the local purchasing power of those wages.
Source: Organization for Economic Co-operation & Development (OECD) Data Explorer.



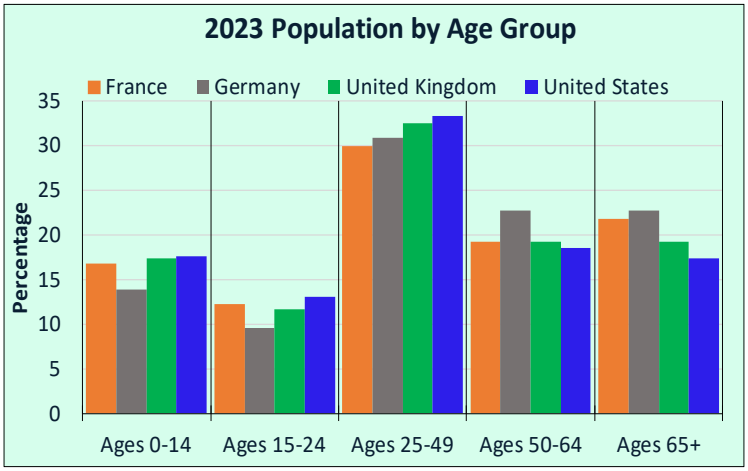
An indicator above 100 signals a boost in consumers' confidence. This index measures sentiment about the general economic situation, unemployment, and capability of savings.
Source: Organization for Economic Co-operation & Development (OECD) Data Explorer.



*Euro Area most recent data available is still 2022.
Euro Area (EA) data in this graph is for 19 out of the 20 countries that use the euro as their currency.
Source: Organization for Economic Co-operation & Development (OECD) Data Explorer.

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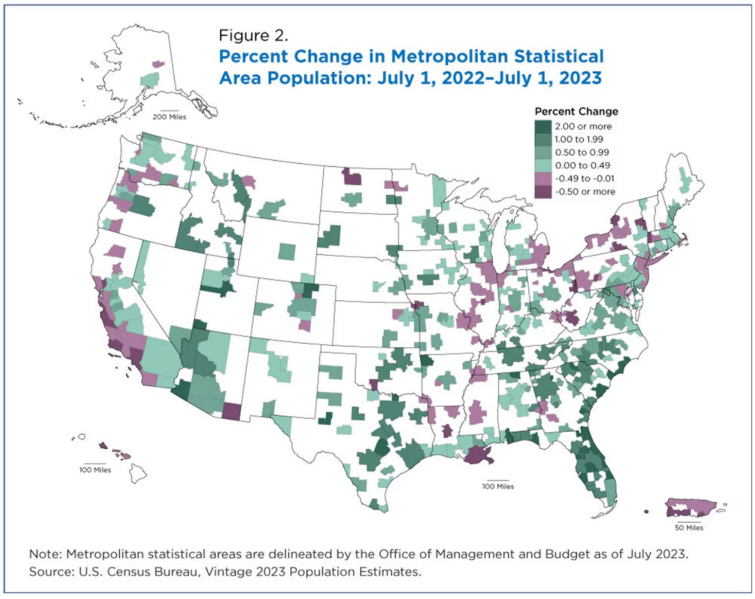
DEMOGRAPHICS (PAGE 5)



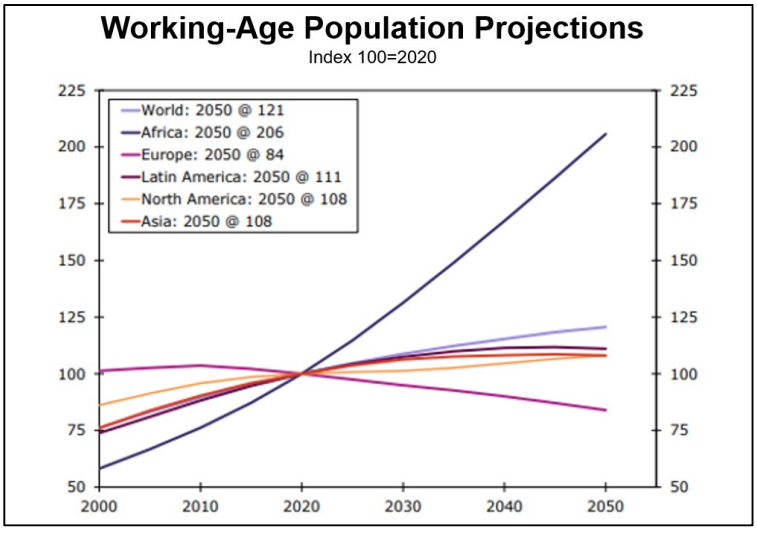
Source: United Nations, Department of Economic and Social Affairs, Population Division (2024).

Population Estimates			
	2023	2033	% Change
France	66,438,822	67,369,322	1.4%
Germany	84,548,231	82,099,756	-2.9%
United Kingdom	68,682,963	72,142,880	5.0%
United States	343,477,335	360,294,009	4.9%

Source: United Nations, Department of Economic and Social Affairs, Population Division (2024). World Population Prospects 2024, Online Edition.

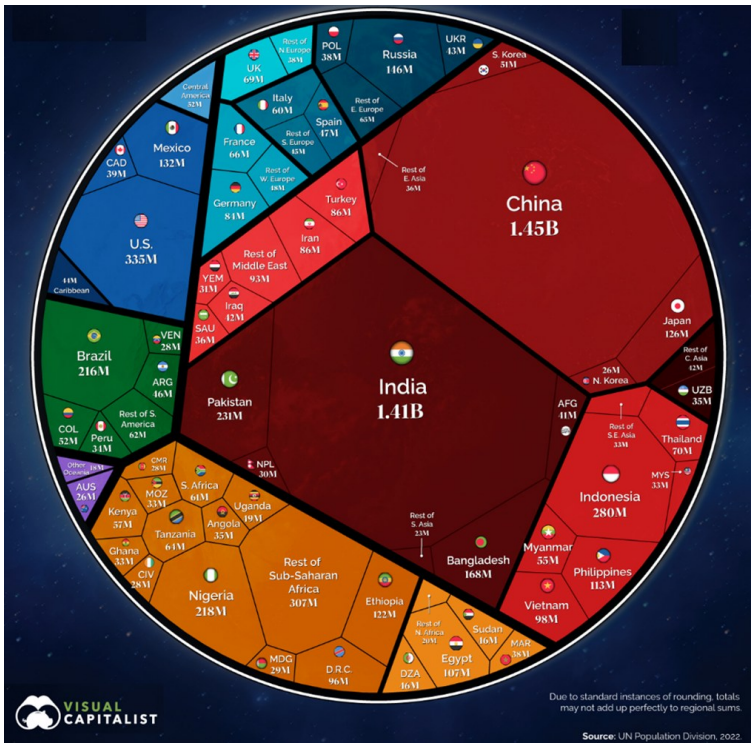


Note: Metropolitan statistical areas are delineated by the Office of Management and Budget as of July 2023.
Source: U.S. Census Bureau, Vintage 2023 Population Estimates.



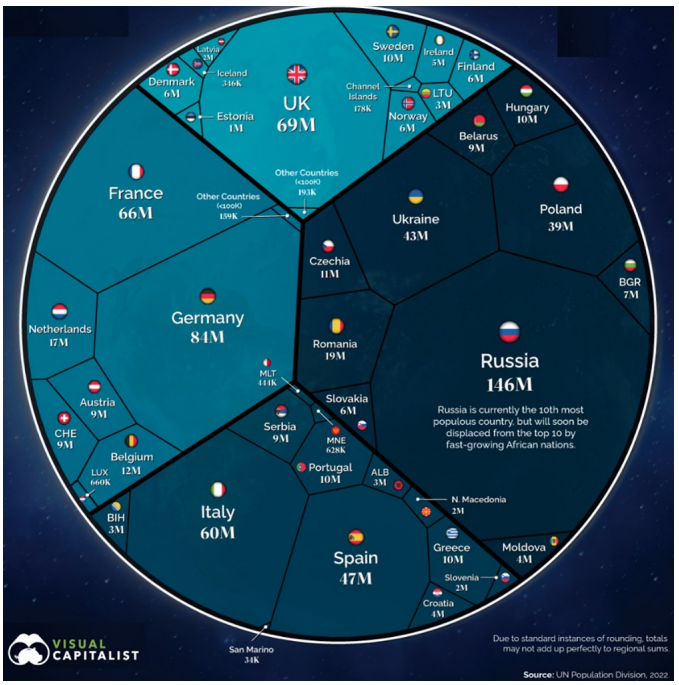
Sources: United Nations & Wells Fargo Securities

World Population in 2022



Around November 2022, the world population reached 8 billion people.

Europe's Population in 2022



Around November 2022, Europe's population reached 750 million people.
Source: Visual Capitalist.
Link: https://www.visualcapitalist.com/visualized-the-worlds-population-at-8-billion/

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