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PH

Global economic outlook: shifts, shocks, and policy challenges

The global outlook remains uncertain as major economies work through a host of cyclical, structural, and policy challenges. By and large, however, we expect major economies to muddle through with continued growth.

Prospects vary across regions, and risks are tilted to the downside near term in export-oriented economies – partly linked to trade tensions.

Policymakers' decisions in the US, Europe, and China can make a decisive positive impact on economic outcomes. Inflation is likely to stay above 2% in the US and Europe, posing challenges for central banks.

Narrowing growth gaps and further cautious rate cuts – We foresee healthy but moderating US growth while momentum improves in Europe. We expect the UK to outperform a Eurozone held back by structural challenges in Germany and France. While China is likely to continue to slow on trend, Japan looks set for a cyclical rebound. We expect further rate cuts by major central banks in 2025: 100bp from the European Central Bank (ECB), 75bp from the Bank of England (BoE), and 50bp from the US Federal Reserve (Fed).

A host of challenges – The global economy faces significant risks from trade wars, geopolitical tensions, and financial instability linked to excessive borrowing by governments in key major economies. The US could see inflation reignite due to President Donald Trump's tariffs and tax cuts, while Europe grapples with energy security and other supply-side issues. China's growth may be hampered by chronic demand weakness and trade tensions. Policymakers must navigate these risks carefully to avoid another period of low growth and elevated inflation.

All eyes on policymakers – Policy choices are likely to have a major impact on economic trends in 2025-26, in our view. In the US, we turn our attention to the economic plans of the new Trump administration and the reaction of the Fed. In Europe, we focus on the response of the UK economy to fiscal and monetary loosening, the impact of German elections, French budget negotiations, and whether the ECB will turn suitably aggressive if growth risks escalate. In China, policymakers need to stay the course with further efforts to stimulate domestic demand. In their typical haphazard fashion, we expect policymakers to mostly get it right. As a result, we remain cautiously positive in our outlook.

See here for our full economic forecast tables

Figure 1: Peel Hunt real GDP projections versus Bloomberg consensus

	2024		2025		2026		Potential
	PH	BB	PH	BB	PH	BB	PH
North America							
US	2.8	2.7	2.0	2.1	2.0	2.0	1.8 - 2.0
Canada	1.1	1.2	1.8	1.8	2.0	1.9	1.6 - 1.8
Asia and Oceania							
China	4.7	4.8	4.5	4.5	4.3	4.2	3.5 - 4.0
Japan	-0.2	-0.2	1.2	1.2	0.9	0.9	0.4 - 0.6
India	7.8	7.8	6.8	6.5	6.6	6.5	6.5 - 7.5
Australia	1.3	1.0	2.0	1.9	2.5	2.4	2.0 - 2.2
Europe							
UK	0.8	0.9	1.4	1.4	1.8	1.5	1.5 - 1.7
Eurozone	0.7	0.8	1.1	1.0	1.4	1.2	1.2 - 1.4
Germany	-0.1	-0.1	0.5	0.4	1.2	1.0	1.0 - 1.2
France	1.1	1.1	0.8	0.7	1.1	1.2	1.3 - 1.5

% YoY. Annual data. Source: Peel Hunt estimates (PH), Bloomberg consensus (BB) taken on 3 January 2025.

Kallum Pickering
Chief Economist
+44 20 3597 8574
Kallum.Pickering@peelhunt.com

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CONFERENCE CALL

If you would like to join our 2025 Global Economic Outlook conference call hosted by Kallum Pickering - Peel Hunt Chief Economist. . .

REGISTER HERE

Date: Wednesday 8 January 2025
Time: 10:00-10:45 EST, 15:00-15:45 GMT, 16:00-16:45 CET

Format: Zoom webinar – dial-in details will be shared after registering.

Overview: will policymakers get it right?

Even though the major shocks that disturbed the global economy since 2020 – the COVID-19 pandemic and Russian-gas disruptions – are mostly in the rearview mirror, the economic outlook for major economies is still highly uncertain. A wide range of outcomes over the medium-term remains possible.

While many forces will shape economic trends in 2025 and 2026, the overriding factor – in our view – will be whether policymakers make the right decisions in the three key regions that matter most for the global economy.

For now, we have more questions than answers.

In the US:

1) Will Trump's economic plans, which include pro-growth tax cuts and deregulation as well as anti-growth import tariffs and immigration curbs, lead to more growth and less inflation or less growth and more inflation?
2) How will the Fed manage the growth-inflation trade-off as the new administration undertakes its policy experiment, and will it yield to potential political pressure from Trump to aggressively lower rates?

In Europe:

1) Will the BoE's gradual easing cycle and the Labour government's planned investment-oriented fiscal expansion be enough to help the UK economy gain sufficient momentum to escape its recent growth slump?
2) Will German elections result in a genuine change in the policy direction – possibly including a change in the constitutional debt brake - to promote domestic demand growth and fix longer-run supply challenges?
3) Will the French parliament strike a deal that puts fiscal policy on a sustainable path in a way that does not involve an aggressive rolling back of Macron's past pro-growth supply side reforms?
4) Will the European Central Bank (ECB) abandon its cautious approach to easing monetary policy and turn suitably aggressive with significant rate cuts if momentum softens further in early 2025?

In Asia:

1) Will targeted fiscal and credit measures in China be enough to promote a healthy expansion in consumer spending and stabilise growth momentum? And, if not, will policymakers turn ever more aggressive to prevent China from fully falling into a Japan-style liquidity trap?
2) Will policymakers at the Bank of Japan (BoJ) manage to further normalise interest rates without undermining progress towards a more normal inflation environment and in a way that does not hamper economic performance or trigger financial market volatility?

Beyond these region-specific questions, global performance will be shaped by how countries succeed or fail to cooperate on three other critical issues: 1) the Russia-Ukraine conflict; 2) troubles in the Middle East, including but not limited to the Israel-Palestine conflict; and 3) the rules governing global trade.

If policymakers can get the big decisions right, global economic growth can improve and become more synchronised while inflation remains low. As stability begets confidence, a feel-good factor could emerge. However, if policymakers get it wrong – especially if geopolitical tensions escalate or major economies become embroiled in major tit-for-tat tariff wars, the global economy could face another period of low growth at elevated inflation. We could not rule out recessions in major economies.

Judging by experience, when the two-sided risks seem unusually large, the outcome tends to fall somewhere in the middle – which is where our base case lies. Economies and markets have a way of adjusting and muddling through.

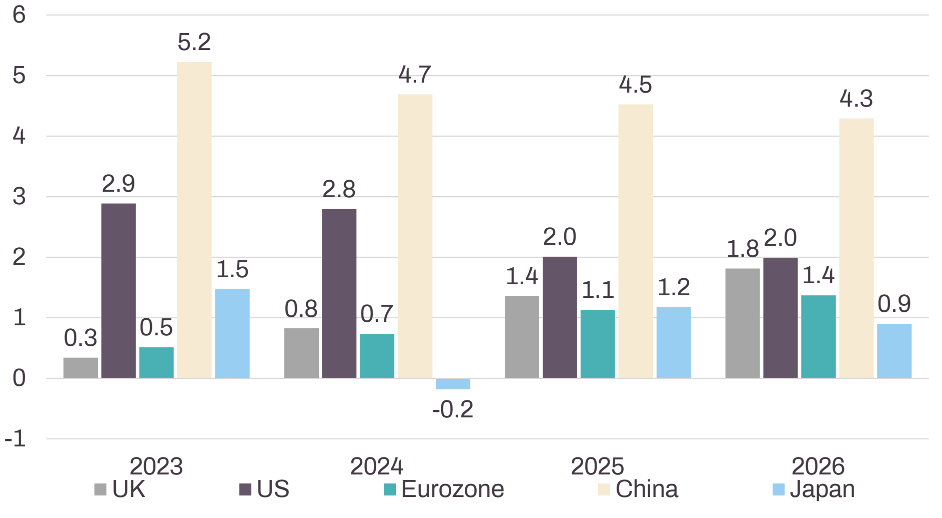
Real GDP outlook – Growth gaps can narrow somewhat

As our base case, we anticipate a broadening economic expansion across major economies over the next two years: with continued but moderating growth in the US and China as well as cyclical expansions in the UK, Eurozone, and Japan (Figure 2). *Bloomberg consensus in brackets.*

- For the **UK**, we forecast YoY real GDP growth of 1.4% (1.4%) in 2025 and 1.8% (1.5%) in 2026.
- In the **Eurozone**, we project real GDP growth of 1.1% (1.0%) in 2025 followed by 1.4% (1.2%) in 2026, with **Germany** at 0.5% (0.4%) and 1.2% (1.0%) and **France** at 0.8% (0.7%) and 1.1% (1.2%), respectively.
- In the **US**, we expect growth in real GDP of 2.0% (2.1%) and 2.0% (2.0%) in 2025 and 2026, respectively.
- We look for real GDP growth in **China** of 4.5% (4.5%) in 2025 and 4.3% (4.2%) in 2026.
- In **Japan,** we project a real GDP gain of 1.2% (1.2%) in 2025 followed by a rise of 0.9% (0.9%) in 2026.

Risk assessment: the recent weakening of economic data – especially in trade and production – across major economies tilts the risks to these calls to the downside near-term. Further out, the risks are balanced. See page 5 for our detailed risk assessment.

Figure 2: Peel Hunt projections for real GDP



% YoY. Peel Hunt projections for 2024-26. Annual data. Sources: ONS, BEA, Eurostat, China National Bureau of Statistics, Cabinet Office of Japan

Central banks cautiously ease amid still elevated inflation

After surging in 2022 and 2023, inflationary pressures moderated last year. Measured by the consumer price index, inflation slowed between 2023 and 2024 from 4.1% to 2.9% in the US, from 7.3% to 2.5% in the UK, from 5.4% to 2.3% in the Eurozone, and from 3.3% to 2.6% in Japan, respectively. In China, which remains a special case due to a huge domestic imbalance of excess supply and faltering demand, inflation stabilised at a low 0.3% rate in 2023 and 2024.

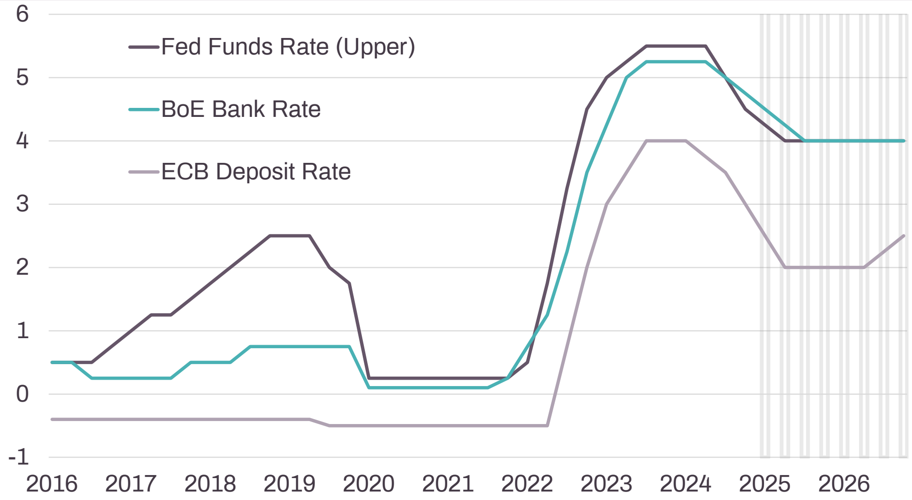
Looking to 2025 and 2026, we expect inflation to stay somewhat elevated at slightly above central banks' 2% targets as long-term structural factors, including trade frictions and labour shortages caused by ageing populations, put upward pressure on prices via higher input costs and wages.

- In the **UK,** we expect inflation to remain stable at 2.4% in 2025 and 2026.
- In the **US,** we look for inflation to stay at 2.6% in both 2025 and 2026.
- For the **Eurozone**, we project 2.2% inflation in both 2025 and 2026.
- In **China**, we look for inflation to rise from 0.8% in 2025 to 1.6% in 2026.
- In **Japan**, we expect inflation to moderate from 2.2% in 2025 to 1.8% in 2026.

Stable but sticky inflation will pose a modest problem for central banks as they try to neutralise their still tight monetary policies (Figure 3).

- In the UK, we look for the **BoE** to lower the bank rate three times at a pace of one 25bp cut per quarter in 1Q, 2Q, and 3Q of 2025. This would reduce the bank rate from 4.75% to 4.00% by end-2025. In 2026, we expect the BoE to keep the bank rate unchanged at 4.0%.
- In the US, we project 50bp more of cuts in 1H25 by the **Fed** to take the upper limit of the funds rate corridor from 4.5% to 4.0%. In 2026, we expect the fed to keep its policy rate unchanged at 4.0%.
- In the Eurozone, we expect the **ECB** to lower the deposit rate by 100bp in the first half of 2025 from 3.0% to 2.0%. In 2026, we expect the ECB to lift the deposit rate by 50bp to take it to 2.5% by the end of the year.

Figure 3: Peel Hunt projections for central bank policy rates



In %. Shaded area shows projection. Quarterly data. Sources: Federal Reserve, ECB, BoE, Peel Hunt

Assumptions and risks

Our call for sustained economic growth across major economies rests on three key assumptions:

1. **Inflation remains sufficiently under control** (i.e., below 3% in the US and 2.5% in Europe) for central banks to normalise monetary policy further. In the US and the UK, we expect central banks to remove almost all of their policy restrictiveness, by taking rates to close to neutral in 2025. In the Eurozone, we expect the ECB to turn sufficiently concerned about growth risks to take policy to an actively easy setting in 2025.
2. **Economies mostly adjust to trade frictions.** While trade wars will be disruptive, exchange rate adjustments and supply-chain shifts will allow economies to partly adapt to tariff shocks. Our base case is that major economies will strike early deals to avoid US blanket tariffs. Regarding US policy towards China, for instance, there is a big difference between the threatened 60% tariff on all Chinese goods and large but concentrated tariffs that fall only on specific goods - say EVs.
3. **No serious protracted bouts of financial instability.** We need to closely monitor the small but serious risk that misguided fiscal policies in the US and France could amplify inflation and debt sustainability concerns, triggering a major bond market rout. A tantrum in the US Treasuries market could badly destabilise global financial markets.

Two-sided macro risks
Beyond the serious tail risks (see final section below) that are always somewhat present in one form or another, if we abstract from these potential fault lines, we see that core macro risks are roughly balanced.

- **On the upside**: the diffusion of artificial intelligence (AI) technologies promises to revolutionise supply and lift productivity across a host of sectors. The prospect of returning to more historically normal productivity rates could help to contain political tensions.
- **On the downside**: recent data have disappointed across almost all major economies except the US. If the slowdown deepens, activity could surprise to the downside in 2025. In that case, we would look for central banks to cut interest rates to levels well below those set out in our base case. The danger to this risk scenario is that, if trade tariffs re-ignite inflation concerns, central banks may be somewhat cautious about leaning too aggressively into downside risks to growth.

Tail risks in the age of instability
Political disillusionment across major parts of the world combined with elevated West versus East geopolitical tensions make for an uneasy backdrop. In addition to the two-side macro risks set out above, we need to keep a close eye on five serious downside tail risks:

1. a US lurch towards extreme isolationism during Trump's second term;
2. an uncontained tit-for-tat trade war between the US, Europe and China;
3. a spillover of the Russian-Ukraine war into a NATO member;
4. a broadening of the Israel-Palestine conflict into neighbouring countries; and
5. any attempt by China to annex Taiwan using military means.

UK: core strengths, near-term risks

Judging by underlying economic fundamentals and the mostly stable political situation, the UK setup is the most favourable since before the 2016 Brexit vote. However, near-term risks are tilted to the downside following a recent unexpected softening of domestic momentum, as well as a drop in business and consumer expectations - which had been recovering on trend up until late summer (Figure 4). If, as we expect, momentum improves in 1H25 as a planned fiscal loosening and less tight credit conditions lift demand, the UK can enjoy a sustained period of healthy economic expansion.

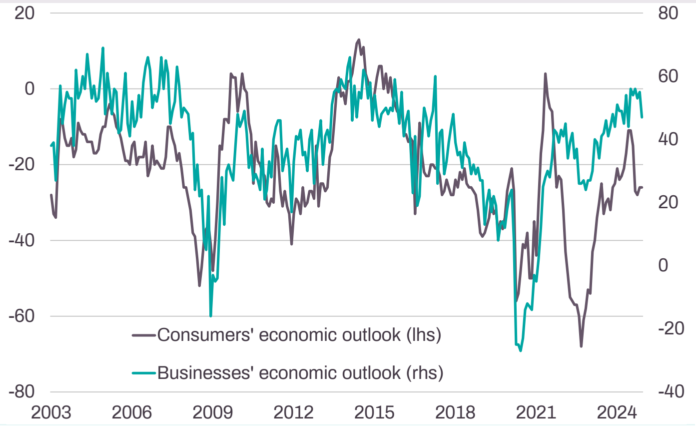
Core strengths can prevail over time

The UK benefits from a host of strengths, including a well-capitalised banking system that can lend into a recovering economy; businesses with high cash balances and low levels of debt that can afford to increase leverage and risk-taking (Figure 5); households with small credit balances and manageable mortgages that can bolster wage-driven spending with a period of debt expansion; and mostly well-regulated and competitive product and labour markets.

In recent times, these strengths acted as a buffer against unusual and outsized shocks, including: 1) the political and economic disruptions of Brexit in 2016-20; the global and domestic demand and supply disruptions from COVID-19 in 2020-21; and the energy-inflation and interest rate shocks in 2022-23. With this recent history mind, note that 2024 marked the first 'normal' year for the UK since 2015 – that is, one not defined by an unusual economic or political development.

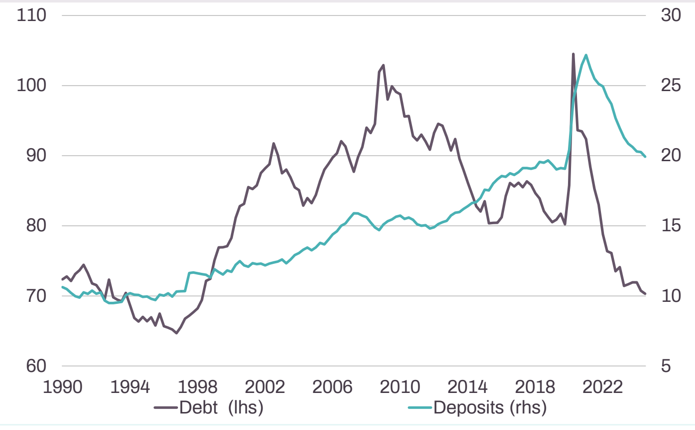
The result was half-promising. Inflation returned to close to the Bank of England's (BoE) 2% target amid a c.0.8% year-on-year rise in real GDP. While that growth rate is below the UK's medium-term potential of c.1.5-1.7%, it is a step in the right direction. Business investment grew strongly, and household consumption improved. However, real household spending still lagged behind real income growth while saving rates increased - likely reflecting a greater incentive to save more at higher real rates of interest, but also a degree of lasting caution after a few tumultuous years. From a low base, housing market activity – still hampered by the 2022-23 surge in mortgage costs – rebounded (see In Focus: UK housing market on page 9). Weak global trade hurt exports and production, and construction activity remained haphazard.

Figure 4: UK consumer and business outlook



Outlook for the next twelve months. % balance. Monthly data. Source: GfK, Lloyds Bank.

Figure 5: UK nonfinancial corporations balance sheet



As a % of GDP. Quarterly data. Source: ONS, BoE

Economic outlook – Broadening expansion

As our base case, we look for improving momentum that broadens towards sectors that had been lacklustre in 2024.

We project real GDP growth of 1.4% in 2025, picking up to 1.8% in 2026. Although near-term risks are tilted to the downside, absent any new shocks, the domestic economy can build up a head of steam over the medium term. While our call is in line with consensus (1.4%) for 2025, we are above the consensus call of 1.5% in 2026. Once the feel-good factor of sustained healthy growth kicks in, momentum can go up another gear, in our view.

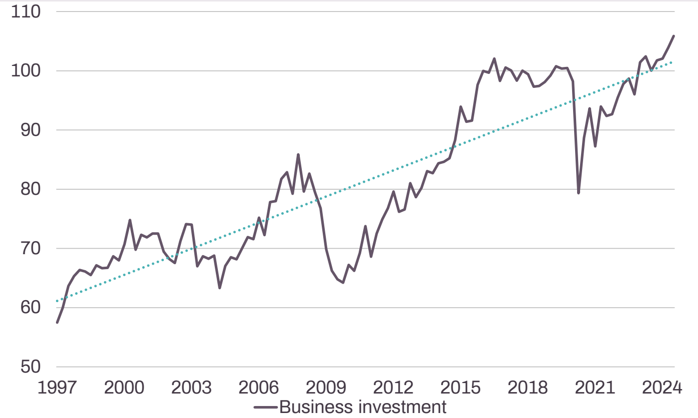
Real consumption should improve as real wage gains lift purchasing power, interest rates decline further, and the growing distance of time from past shocks allows households to abandon their caution, reduce saving rates, and increase credit consumption. As confidence rises, consumer demand should expand towards durable retail goods, big-ticket discretionary items such as cars and white goods, as well as home improvement (see In Focus: UK consumer fundamentals on page 10).

The outlook for investment remains positive. The government's planned expansion of public investment should underpin multi-year gains in infrastructure spending, while recovering housing demand should encourage a step up in residential construction. While the government's target of 1.5m new homes built by the end of parliament looks ambitious, we believe 1.2-1.3m is doable and would represent a major increase in activity. Business investment can continue to rise along its longer-term trend, but faces risks from low confidence in the Labour government after a disappointing first budget (Figure 6).

The outlook for trade and production is mixed after a long period of weakness (Figure 7). Although a broad-based fiscal and monetary loosening in 2025 coming from the US, major parts of Europe, and China should underpin a cyclical rebound in global industry, current activity is weak and the risk of rising global barriers to trade may further disrupt global supply chains and raise the costs of doing trade.

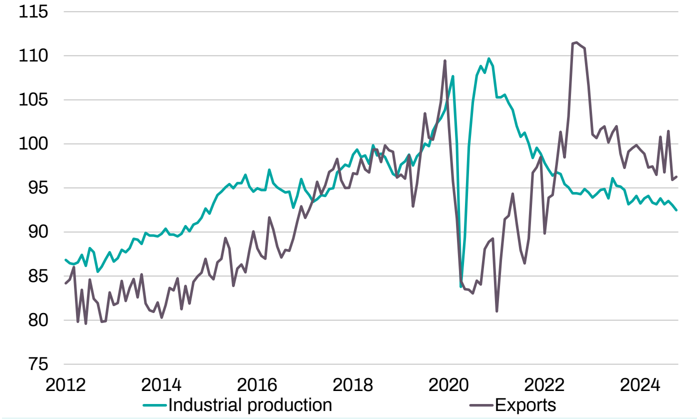
The labour market picture is complex. The BoE's tight monetary policy since 2022 has brought an ultra-tight labour market into better balance. Although the unemployment rate remains low at 4.2%, jobs growth has slowed, vacancies have fallen from an all-time high of 1.3m in summer 2022 to c.800k in late 2024, and wage growth has moderated somewhat.

Figure 6: UK business investment



In real terms. Green dotted line shows long-run trend. 2016 = 100. Quarterly data. Source: ONS.

Figure 7: UK industrial production and exports



In real terms. Exports of goods and services. 2019 = 100. Monthly data. Source: ONS

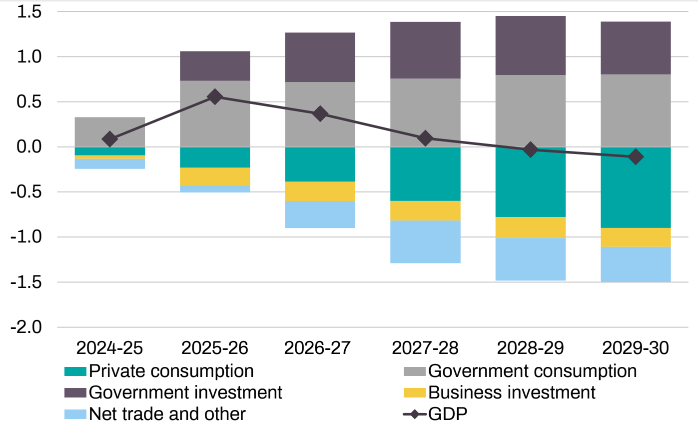
Sustained gains in economic activity should underpin a healthy rise in labour demand that is well supported on the supply side by recent huge inflows of foreign labour. However, anti-employment policies by the Labour government cast a shadow over the outlook. Higher indirect and direct costs of hiring may contribute to modestly rising unemployment, and sudden job losses in spring 2025 are possible when employment taxes rise. Planned minimum wage increases could also impair labour demand on trend.

Mind the policy factor

The mood towards the Labour government – which campaigned on a pro-business, pro-growth ticket – has soured since it came into office in July, and especially since the 30 October budget. Is it justified? Not fully, in our view. While upcoming tax increases will - on their own - hurt employment and growth, this negative impact should be more than offset by the much larger rise in government spending. Partly financed by debt issuance, the government plans a multi-year fiscal expansion that should provide a sizeable backstop for domestic demand. The Office for Budget Responsibility (OBR) estimates that the government's fiscal loosening will add some 0.6pp and 0.4pp to growth in 2025 and 2026 (Figure 8). Thereafter, the OBR conservatively assumes that further spending increases will be fully crowded out by compensatory declines in private activity. Assuming the OBR has overdone it, even by a bit, the UK can enjoy a sizeable fiscal tailwind for at least three years. Once the government starts spending the money and private businesses see the increase in demand, sentiment should improve.

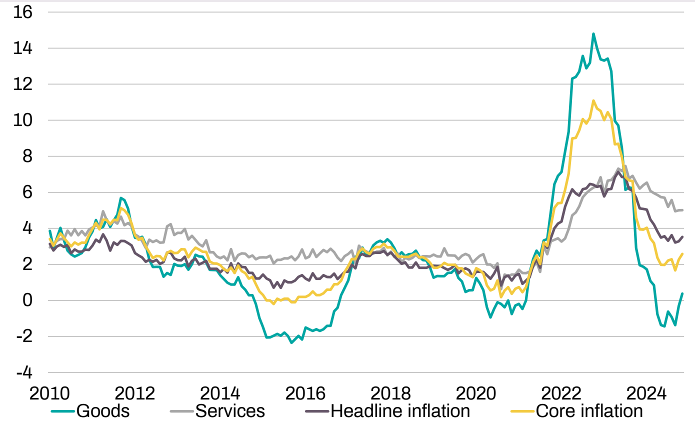
BoE policymakers reduced the bank rate twice in the second half of 2024 to 4.75% – at a pace of one 25bp cut per quarter. Policymakers have signalled that they will likely continue to reduce the bank rate in a gradual fashion but remain data-dependent amid fears that inflation could stay stuck above the 2% target – especially while measures of domestic prices such as core inflation and services inflation remain elevated (Figure 9). In 2025, we expect three more 25bp cuts at a quarterly pace in the first, second, and third quarters to take the bank rate to 4.0%. The risks to our UK calls are skewed to the downside in the near term following the recent softness in domestic economic activity. If the drop in momentum turns out to be the start of a longer period of weakness, the BoE may need to turn more aggressive and cut faster than we project in our base case.

Figure 8: OBR impact of budget measures on GDP



Fiscal year April to March. In percentage points contribution to % YoY real GDP. Source: OBR

Figure 9: UK inflation measures



In % YoY. Core inflation (ex. energy, food and alcoholic beverages and tobacco). Monthly data. Source: ONS

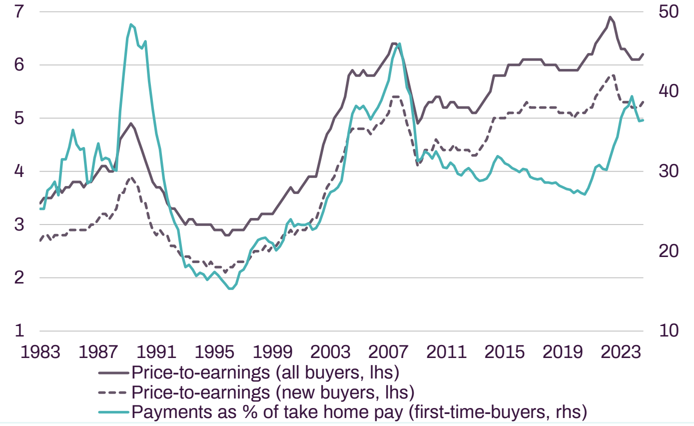
In focus: UK housing market

Housing market activity picked up in 2H24, bucking the broader trend across the UK economy. Although affordability for new buyers is low, demand momentum is improving. Looking ahead, rising real wages and further modest declines in interest rates can lift new buyer demand over time, while government supply-side reforms can contribute to a rise in housebuilding.

- Across all key measures of affordability, the UK market appears expensive – especially for new buyers (Figure 10). This is unusual for the start of a housing market cycle – see the early 1990s and 2010.
- Whereas affordability typically improves at the start of a cycle as the BoE slashes borrowing costs, still-elevated interest rates are keeping mortgage costs high (Figure 11). Amid fears of sticky inflation, the BoE is likely to stick to the slow lane with rate cuts.
- Surveys of house price expectations as well as measured house prices have turned up sharply in recent months (Figure 12). Strong balance sheets and rising real wages are lifting demand even as interest costs remain elevated. In addition to recovering prices, property transactions and mortgage approvals are also ticking higher (Figure 13).

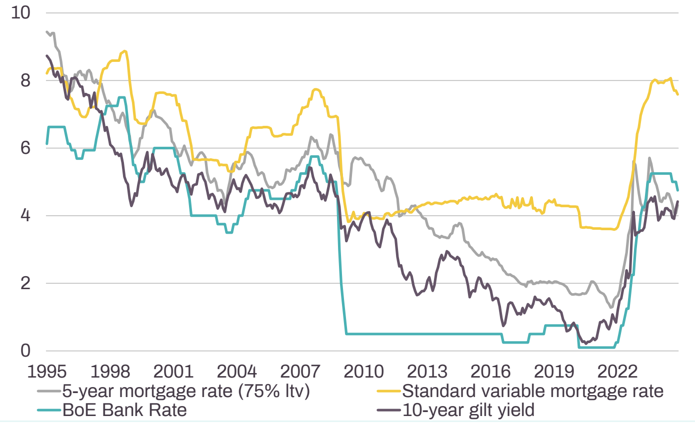
Recovery in 2024 to build into sustained momentum driven by fading headwinds and positive fundamentals.

Figure 10: UK housing market affordability



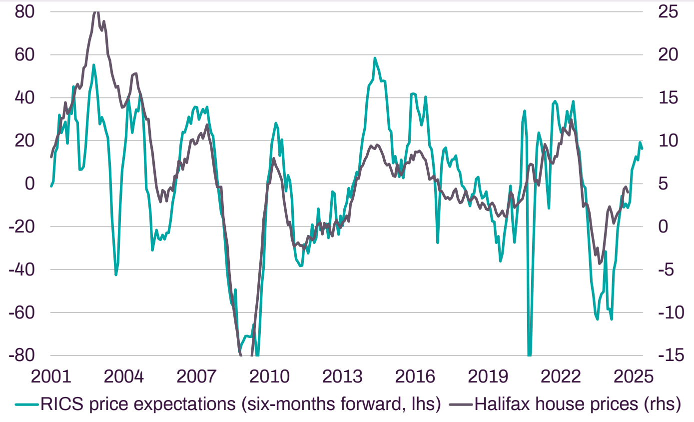
Monthly data. Source: Nationwide Building Soc

Figure 11: UK mortgage rates and benchmark interest rates



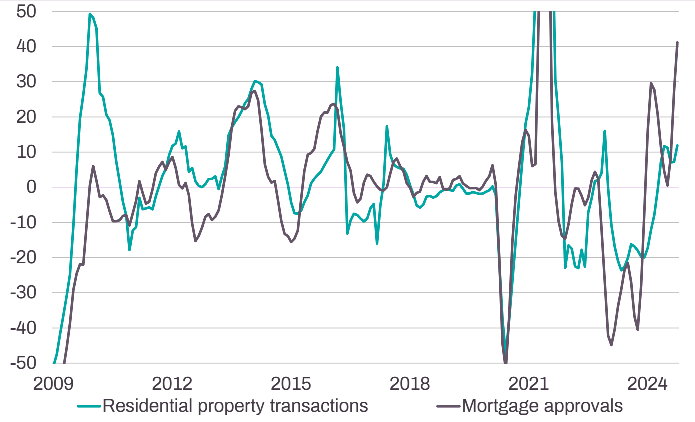
In %. Monthly data. Source: Bank of England

Figure 12: UK housing survey and prices



RICS survey as % balance. House prices in % YoY. Monthly data. Sources: RICS, Halifax

Figure 13: UK transactions and mortgage approvals



% YoY. Monthly data. Source: BoE, HM Revenue and Customs

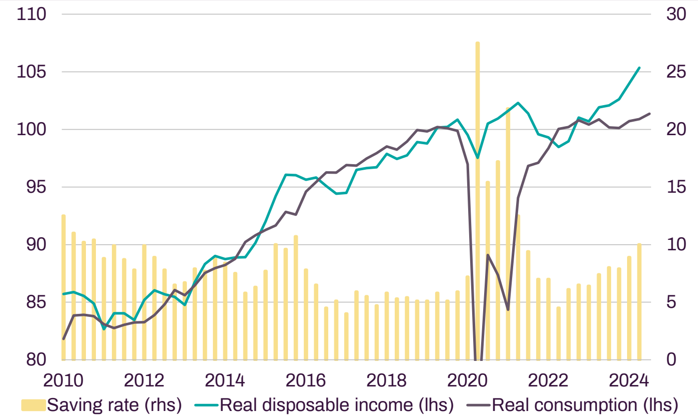
In focus: UK consumer fundamentals

Despite a significant increase in real incomes last year, real consumption lagged and saving increased – likely linked to caution after a series of shocks and a greater incentive to save at higher interest rates (Figure 14). As interest rates normalise and confidence returns, positive fundamentals can underpin sustained healthy consumer spending gains.

- Measures of household debt – including mortgages and consumer credit – remain low as a percentage of incomes (Figure 15).
- Employment is at a record high while the unemployment rate is close to the low end of its 50-year range (Figure 18).
- Although retail sales have corrected badly in real terms in the wake of surging inflation, nominal sales have remained firm, indicating a degree of demand resilience and the scope for a real-terms improvement on trend now that inflation has mostly normalised (Figure 17).

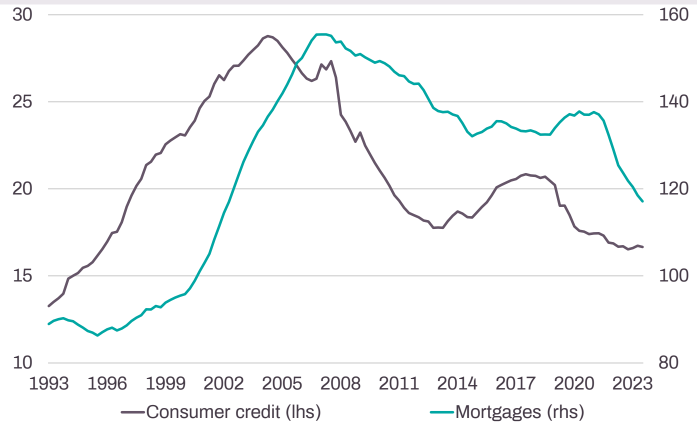
Still-cautious consumers are not yet spending freely – but healthy fundamentals can encourage stronger demand growth on trend.

Figure 14: Household real incomes, consumption, and saving rate



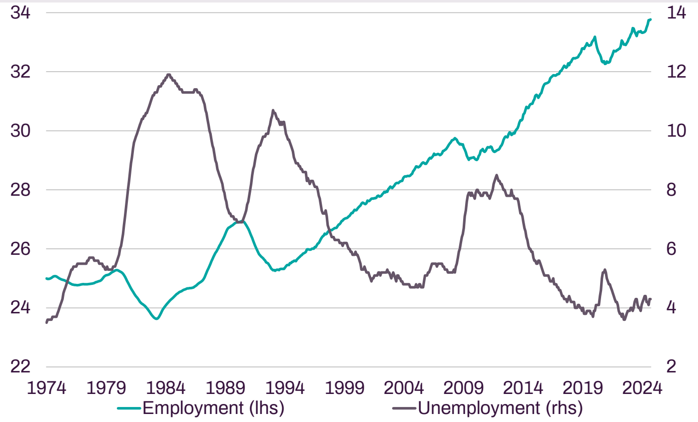
Real income and consumption index at 2019 = 100. Savings rate in %. Quarterly data. Source: ONS

Figure 15: UK household debt by type



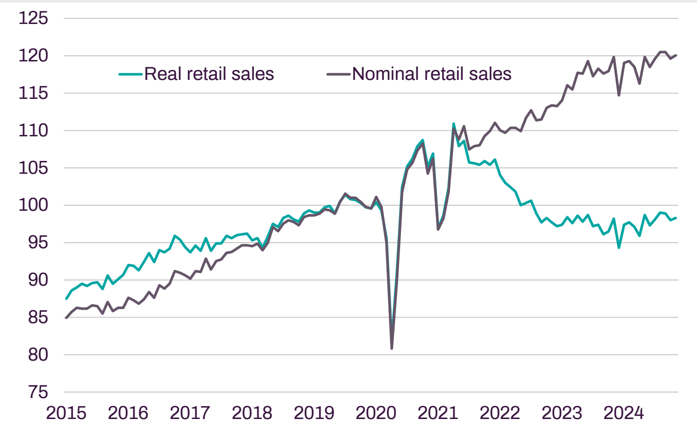
As a % of household gross disposable income. Quarterly data. Source: ONS, BoE

Figure 16: UK employment and unemployment



In %. Employment for 16-year-olds and over. Three-month moving averages. Monthly data. Source: ONS

Figure 17: UK retail sales



2019 = 100. Monthly data. Source: ONS

US: let the policy experiment begin

After several years of solid economic growth helped by a succession of debt-financed fiscal expansions, sustained healthy economic growth in the US now hinges on further policy success by the incoming Trump administration. However, his far-reaching and somewhat experimental policies are a mixed bag of pro-and-anti-growth measures. While our base case is for stable growth at close to 2% over the medium term, the risks around this call are high and two-sided.

More growth, less inflation – As good as it gets?

US economy defies post-COVID slowdown fears, with above-potential GDP growth and moderating inflation.

For more than two years, the US economy has defied fears that its ultra-strong post-COVID expansion may come to an abrupt end. Between 3Q22 and 3Q24, US real GDP growth averaged 2.9% annualised, while the personal consumption expenditure price index – the Fed's preferred inflation measure – moderated from 6.7% YoY to 2.3%. Two important factors explain the strong US outperformance versus other advanced economies, most notably in Europe (Figure 18):

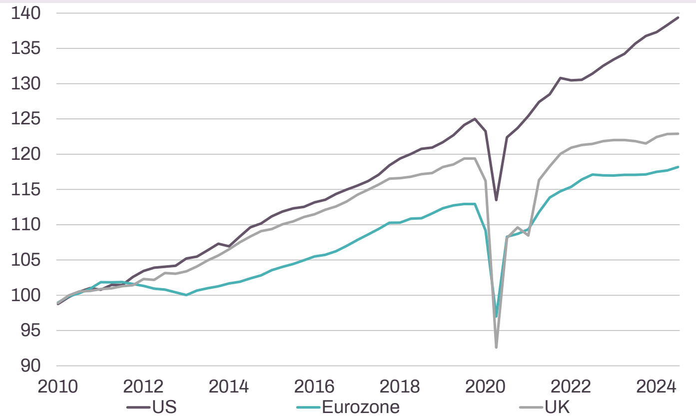
US outperforms Europe due to lower trade dependency and energy independence.

1) The US earns around a tenth of its GDP from exports, and imports only a little more. It is also a net exporter of energy. In contrast, the Eurozone and UK earn more than a third of their GDP from exports, and import around another third. Almost all major European countries are net importers of energy. Through rising trade tensions, COVID-19 disruptions to global supply, and the 2022-23 global gas shock, the less-externally-oriented and energy-independent US has better matched domestic demand growth with its own domestic production and supply capacities.

US benefits from debt-financed government spending boost to domestic demand.

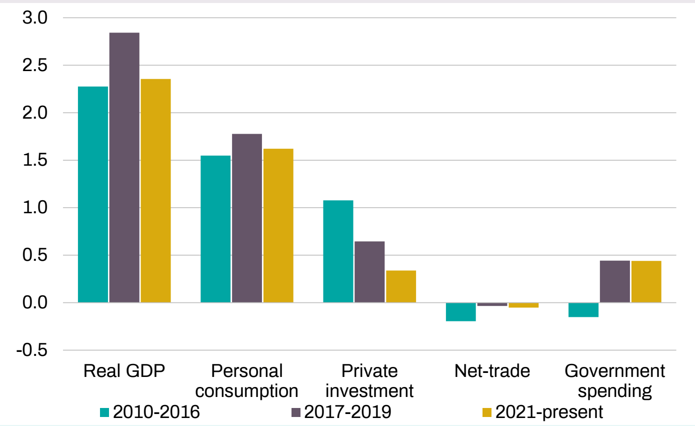
2) The US has benefitted from a huge debt-financed expansion of government spending since 2017, starting during President Trump's first term. Following the dramatic easing of fiscal policy during the pandemic, President Biden further expanded government spending from 2021 onwards with three policies: the 2021 Infrastructure Investment and Jobs Act, the 2022 Inflation Reduction Act, and the 2022 CHIPS and Science Act. These huge fiscal injections have boosted demand via public spending and investment and through incentives for businesses to grow their productive capacities. Fiscal expansion has added c.0.4-0.5pp to annual growth since 2017 (Figure 19).

Figure 18: Real GDP – US, Eurozone and UK



2010 = 100. Quarterly data. Source: BEA, ONS, Eurostat

Figure 19: US GDP growth and contribution of key components



Real GDP series in % annualised. Other components show pp contribution to real GDP growth rate. Quarterly data. Source: BEA

Positive outlook, but mind the two-sided policy risks

Limited scope for further debt-financed stimulus due to high Federal deficit.

Looking ahead, while we expect US momentum to remain firm, underlying fundamentals suggest that growth is likely to slow towards a more sustainable long-run rate of around 2%, from 2.9% in 2023 and 2.8% in 2024. While household income growth is healthy, household savings rates have fallen to an ultra-low 4.0-4.5% range, suggesting little scope for further consumption-boosting cuts in saving rates. Employment growth – which adds to both supply and demand – also slowed appreciably last year, from around 210k per month in the first half of the year to around 150k in the second half to November. Meanwhile, after increasing the Federal deficit to around 6-7% of GDP to finance the dramatic fiscal expansion since 2017, there is little room for further major debt-financed stimulus (Figure 20). Finally, as in other advanced economies, soft manufacturing activity will likely drag on performance in early 2025.

Still uncertain impact of Trump's second presidential term – more detail to come after inauguration on 20 January.

The critical question for the US economy in 2025 is: what will be the impact of the incoming Trump administration's economic policies? Of course, we will have to wait until after his inauguration on 20 January to begin to understand the full scope of his plans. However, we can glean some insights from the broad strokes set out during his campaign and since becoming president-elect.

Trump plans tax cuts, spending cuts, deregulation, and trade tariffs.

Trump has pledged to extend the personal tax cuts due to expire in 2025 as part of the 2017 Tax Cuts and Jobs Act, eliminate taxes on tips and social security benefits, and further cut corporation taxes. As part of a newly established Department of Government Efficiency (DOGE), Trump has signalled public spending cuts and deregulation. He has also threatened trade tariffs on China, the EU, Canada, and Mexico, as well as immigration curbs and deportations of illegal immigrants.

For a more detailed outline of Trump's policy proposals as well as analysis of their potential impacts across our UK stock coverage, please see our note from 7 November, 'UK winners & losers from a Trump victory'.

Unclear net impact of Trump's policies; specifics and timeline uncertain. . . Republican majorities in House and Senate may support tax cuts, but deficit concerns remain.

For now, the ultimate net impact of his unusual policy mix is anyone's guess - as the timeline for policymaking and specific details are unclear. Furthermore, although Trump benefits from Republican majorities in both the House of Representatives and the Senate – which should give him wide scope to pursue his policy agenda – some fiscal hawks within his party remain concerned about excessive US deficit spending and may be reluctant to wave through tax cuts without commensurate deficit-reducing measures on the spending side. Further increases in the deficit are thus unlikely. Critically, his experimental plans for radical cuts to government spending under the guise of improving government efficiency are untested and are thus a wildcard.

Tax cuts and deregulation may boost confidence, but tariffs and immigration curbs pose risks.

While tax cuts and deregulation will likely support confidence, the US stock market, and business investment, proposed increases in import tariffs could raise costs for consumers and businesses, while immigration curbs may impair long-run US supply potential – which has been well supported by strong inflows of immigrant labour in recent years. Amid unusual uncertainty about the US outlook, our base case sits between the most optimistic and pessimistic scenarios – that is, moderating but still-firm growth and a bit more inflation.

Risks include high government borrowing, inflation, and stretched stock valuations.

However, the risks facing the US economy over the next few years are large and two-sided. Although Trump inherits an economy on a sound footing, government borrowing is too high, and recent inflation data have come in hot – forcing the Fed to signal a more gradual pace to future rate cuts. What is more, in our view, US stock valuations look stretched – and thus could be vulnerable to a sharp correction in case of a loss of confidence or policy mistake (Figure 21).

On the upside, if Trump moderates his stance on immigration and manages to strike deals to avoid escalating tariff wars, combined with tax cuts and deregulation, US economic momentum could surprise to the upside and provide even more fuel for the US stock market rally.

Optimistic scenario: tax cuts and deregulation provide scope for more economic upside surprises.

On the downside, the risk is that his economic plan for tariffs and tax cuts, alongside immigration curbs, will reignite US inflation, trigger a rout in the US Treasuries market, and sharply - instead of gradually - weaken the overvalued dollar. If financial markets begin to anticipate his inflationary policy mix and move against him – a stock market rout and business cycle downturn may force an about-turn in US economic policy towards aggressive deficit reduction to shore up confidence, which would amplify economic and financial market risks.

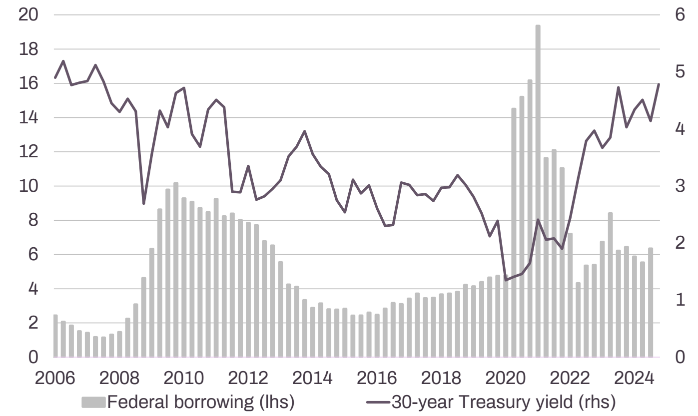
Pessimistic scenario: tariffs and tax cuts reignite inflation, weaken dollar, and trigger market rout.

The Fed's hire-wire act

The outlook for the Fed is uncertain and partly hinges on the response of the US economy to Trump's policy mix and the reaction of financial markets to upcoming policy announcements. As our base case, we look for two more 25bp cuts in 1H2025 to take the upper limit of the Funds Rate corridor to 4.0% by the middle of the year. However, in case incoming inflation data continue to run hot, the Fed may stop at the current 4.5% rate already. Conversely, if the US business cycle suddenly loses momentum, the Fed may turn even more aggressive. A tail risk to watch is that Trump tries to apply pressure on the Fed to cut rates more aggressively to support US momentum even if inflation is not yet fully under control.

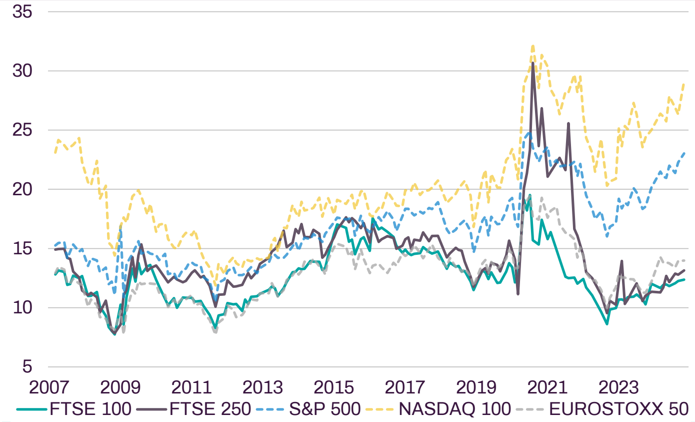
Fed outlook uncertain - dependent on Trump's policies and market reaction.

Figure 20: US Federal borrowing and long-term interest rates



Borrowing as a % of GDP, four quarter moving average. Treasury yield in %. Quarterly data. Sources: US Treasury, Federal Reserve Board, Haver Analytics

Figure 21: Forward price-to-earnings ratio



12-month forward price-to-earnings ratio. Monthly data. Source: Bloomberg

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Risk watch – Trade wars

Trump threatens tariffs on imports from China, EU, Canada, and Mexico.

On the campaign trail and since becoming US president-elect, Donald Trump has repeatedly threatened punitive tariffs on US imports from key trading partners, including China, the EU, Canada, and Mexico. As Trump's threats seem to be ever evolving, the final details and timeline of any trade tariffs remain uncertain. For now, all we can do is speculate. Most recently, he has threatened Mexico and Canada with 25% tariffs, and an additional 10% tariff on Chinese goods, and stated that the EU will need to buy more US oil and gas to avoid tariff increases.

Recent tariff threats are milder than pre-election warnings; quick deals could avoid tariff wars.

Whether Trump plans to bring the US's trading partners to the table before imposing tariffs or after remains an open question. However, we note that the most recent threats are less severe than his many pre-election warnings of a 10-20% tariff across the board on all US imports and a 60% tariff on China. Of course, the outcome will depend a lot on how China and the EU react to any such threats or actions. As the economies of both powers are weaker today than in 2018 when Trump introduced trade restrictions during his first term, economic logic suggests Chinese and EU leaders may be keen to strike deals quickly in order to avoid a painful tariff war with the US.

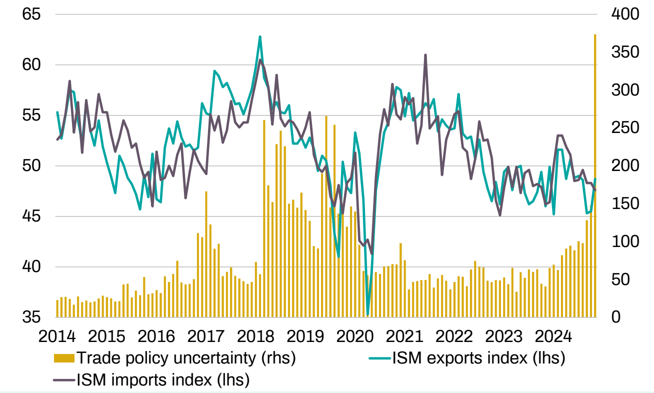
Escalating tariffs could depress global trade, increase US inflation, and slow global growth.

Escalating tariffs would depress global trade and production, likely add to inflationary pressures in the US, and slow growth in the rest of the world. The US would be forced to rely on a continued expansion in its domestic services and government spending as its key engines of growth. Trade wars would also amplify already lacklustre momentum in trade-oriented Europe and China and complicate policymaking – would policymakers risk damaging their own economies with retaliatory tariffs? While US economic momentum withstood Trump tariffs in 2018, trade uncertainty increased, and US exporters suffered (Figure 22). Either through a one-off increase in US prices or via higher future taxes – given plans for offsetting debt-financed tax cuts – in the end, US consumers will likely pay a price for Trump's import tariffs.

Markets adjust dynamically; stronger dollar and trade divergence can partly mitigate tariff impacts.

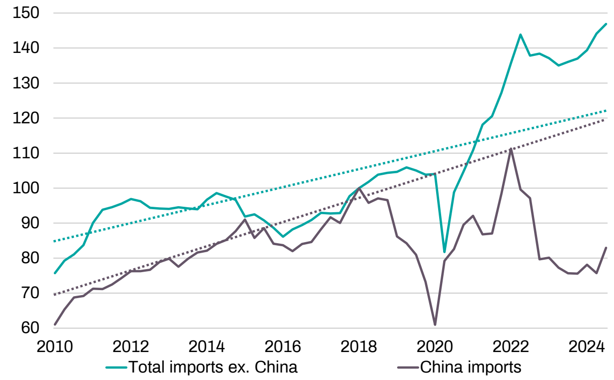
Keep in mind, however, that markets are dynamic and adjust. A strengthening dollar on the back of Trump's tariff threats partly cushions the potential impact on both US consumers and foreign exporters. In addition, tariffs will likely lead to trade divergence – while that involves higher costs of doing business, it nevertheless means producers and consumers maintain access to the goods they need. Since 2018, flatlining US imports from China have been more than offset by a greater rise in non-Chinese imports (Figure 23).

Figure 22: US trade activity versus trade uncertainty



ISM, 50+ = expansion. The Trade Policy Uncertainty (TPU) Index is based on automated text searches of the electronic archives of seven newspapers. Sources: ISM, Matteo Iacoviello

Figure 23: US goods imports



1Q18 = 100. In nominal terms. Quarterly data. Source: Census Bureau

Eurozone: still muddling through

2025 will likely remain challenging for the Eurozone as the bloc works through a series of political and structural challenges. However, things can improve in 2026, helped by the lagged impact of easing credit conditions, further gains in real incomes, and more progress with structural adjustments.

After a disappointing performance in 2024, Eurozone businesses and consumers are downbeat (Figure 24). As part of a global trend, momentum in export-oriented industries has weakened, and the two major Eurozone economies, France and Germany, are embroiled in policy uncertainty. US threats of trade tariffs on imports from the EU add an additional layer of uncertainty at the start of 2025 that will likely dampen confidence.

Eurozone business and consumer confidence remains low, amid near-term challenges and policy uncertainty.

These near-term difficulties complicate the adjustment to structural challenges, including rising competition from China and still high energy prices due to the switch away from Russian pipelined gas and a costly green transition.

Structural challenges and high energy prices complicate the Eurozone's medium-term outlook.

After the 0.7% rise in real GDP in 2024, we project a gain of 1.1% in 2025, followed by a pick-up to 1.4% in 2026. Growth can improve in 2026 as long as the EU and US avoid a major escalation of trade tariffs, and the Eurozone avoids any serious new supply-side shocks. We look for sustained gains in consumption and investment alongside a gradually recovering contribution from net trade.

Eurozone GDP growth is likely to rise from 0.7% in 2024, to 1.1% in 2025 and to 1.4% in 2026.

From 2.3% in 2024, inflation is likely to settle at around 2.2% in 2025 and 2026. Despite long-run upward pressure on prices coming from an ageing population and rising costs of global trade, sluggish domestic demand growth is likely to keep inflation lower than in the neighbouring UK or the US. We expect the unemployment rate to gradually edge lower from 6.4% last year to 5.9% by 2026. Near-term risks are skewed to the downside. Further out, the risks are balanced.

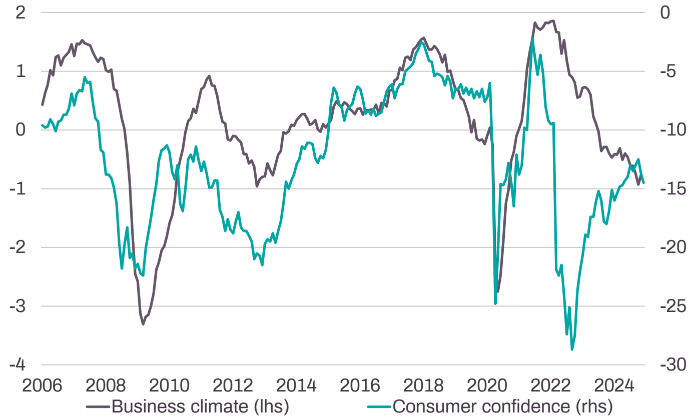
Inflation expected to settle around 2.2% in 2025 and 2026, with unemployment gradually decreasing.

Leaders and laggards

Our headline Eurozone calls hide a likely wide divergence in performance between underperformers such as Germany (page 17), Italy, and France (page 18), and stronger growth at the periphery. After getting their fiscal houses in order and undertaking pro-growth supply-side reforms, the worst-hit economies during the 2009-10 European debt crisis are likely to enjoy growth at rates above the Eurozone average in the years ahead. This includes Spain (Figure 25), Portugal, the Republic of Ireland, and Greece.

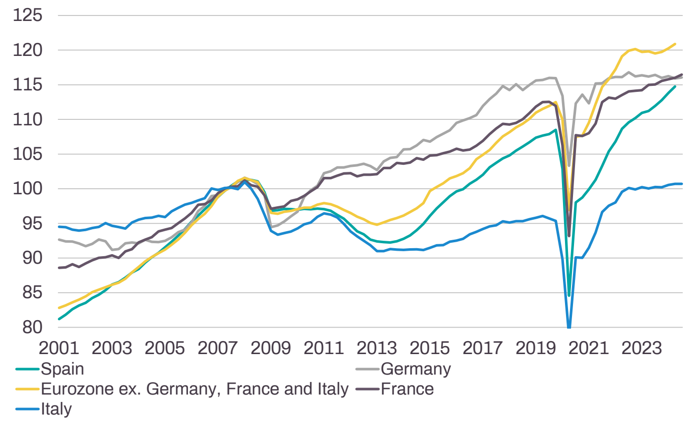
Divergence in Eurozone performance, with strong growth likely in Spain, Portugal, Ireland, and Greece.

Figure 24: Eurozone sentiment surveys



Consumer confidence as % balance. Business climate as standard deviations with a standardised zero mean. Monthly data. Source: European Commission

Figure 25: Eurozone real GDP by country



2007 = 100. Quarterly data. Source: Eurostat

ECB policymakers may need to turn more aggressive if growth slows

Growth risks have increased, and inflation expectations are stable - allowing for potential rate cuts.

Growth risks have increased, inflation and wage pressures have returned to tolerable levels, and inflation expectations are well-anchored. This should be enough to open the door for further sizeable ECB rate cuts to take policy from slightly tight (currently) to actively easy. Further monetary loosening can boost domestic demand and stimulate production, investment, and housing.

The ECB remains cautious, signalling a data-dependent approach to monetary policy

In 2024, the ECB reduced the lower end of its corridor – the deposit rate – by 100bp to 3.0% (Figure 26). At its December meeting, the ECB cut its three-rate corridor by 25bp and continued to signal a data-dependent approach to further monetary policy normalisation. However, ECB policymakers remain cautious and continue to emphasise two-sided risks to inflation – with upside risks coming from wages and possibly future spikes in commodity prices linked to geopolitical disruption.

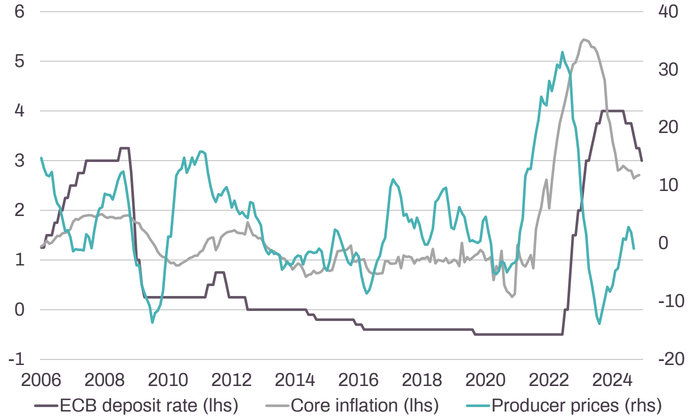
We expect 100bp of further cuts in 2025. Strengthening momentum in 2026 may allow ECB to raise deposit rate to near-neutral levels.

In 2025, we expect the ECB to lower the deposit rate by a further 100bp to 2.0% in the first half of 2025, in a series of 25bp steps. This would take it below the neutral rate, which we calculate to be around 3.25-3.50%. Our neutral estimate is based on the ECB's 2% inflation target and a c.1.3% best-guess of Eurozone growth potential, based on ECB surveys of consensus growth expectations (Figure 27). Strengthening momentum in 2026 can allow policymakers to lift the deposit rate to 2.5% – i.e., close to neutral.

Near-term risks to ECB include potential for larger rate cuts if slowdown persists in 2025.

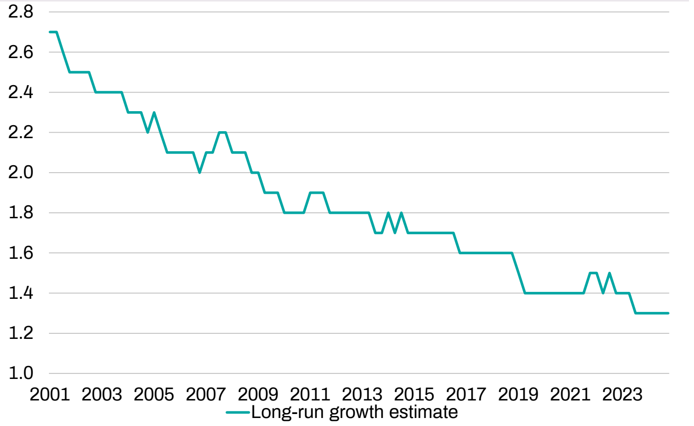
In the near term, risks to the ECB are tilted towards larger rate cuts in response to the risk of a more protracted slowdown in the first half of 2025. We cannot rule out large 50bp rate cuts in 2025 in case of a sudden loss of momentum.

Figure 26: ECB deposit rate, Eurozone producer and core prices



Import prices and core inflation (ex. energy, food, alcohol and tobacco) in % YoY. ECB deposit rate in %. Monthly data. Sources: ECB, Eurostat.

Figure 27: Eurozone long-run growth expectations



% YoY. Survey of Professional Forecasters. Real GDP growth expectations. Quarterly data. Source: ECB

Germany: serious structural challenges

Overlapping shifts and shocks have impaired Germany's economic dynamism and reduced trend growth to a crawl. Near-term risks are skewed to the downside. However, Germany can get back on track if policymakers act.

COVID-19, Russian gas shock, and global demand slump exacerbate deep-rooted structural challenges.

Although Germany enjoys a host of fundamental strengths, several cyclical and structural factors have held back economic performance over the past six years. Industrial production has declined on trend since 2018, while survey-based measures of activity remain chronically weak (Figures 28 and 29). A succession of three shocks – COVID-19 supply disruptions, the sudden shift away from Russian gas in 2022, and soft global demand in the wake of rising interest rates – have amplified a several structural headwinds. These include: (1) rising costs of decarbonising production and the shift towards sustainable energy; (2) increasing global barriers to trade; (3) increased competition from China but softer demand growth; and (4) demographic-related labour shortages.

GDP declines in 2024; slow recovery ahead in 2025 and 2026.

After GDP declined by c.0.1% in 2024, we look for a grinding recovery through 2025 (0.5%) and 2026 (1.2%). Our calls are just above consensus. Following heightened uncertainty over US-EU trade relations and the renewed downturn in global manufacturing, risks are skewed towards another year of stagnation.

Politics brief: easing the brakes

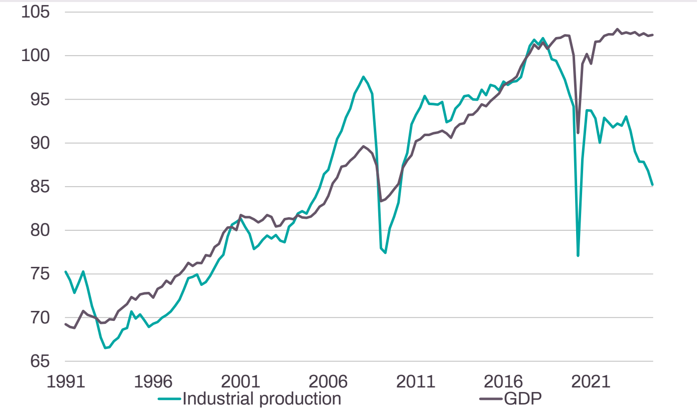
Fixing Germany's economy needs short-term confidence measures and long-term supply-side adjustments.

To fix Germany's economy, a combination of short-run measures to rebuild confidence and demand, and longer-run supply-side adjustments to regain a competitive edge, are required. With luck, this process can start after the upcoming Federal elections on 23 February - which are likely to produce another coalition government made up of the centre-right CDU/CSU and the left-wing SPD.

Risk of populist parties blocking debt brake changes post-election.

However, to expand borrowing for increased public spending, Germany will likely need to alter its Constitutional Debt Brake - which limits structural annual fiscal deficits to 0.35% and requires a 2/3 majority in both houses of parliament to change. The risk to watch is that a sufficiently large minority of populist parties – including the right-wing AfD – win a large enough vote share at the upcoming election to block or frustrate any attempt to change the debt brake. Even if policymakers strike a deal, the positive impact of a looser fiscal stance may not kick in until late 2025 and will depend on the scale and nature of any easing.

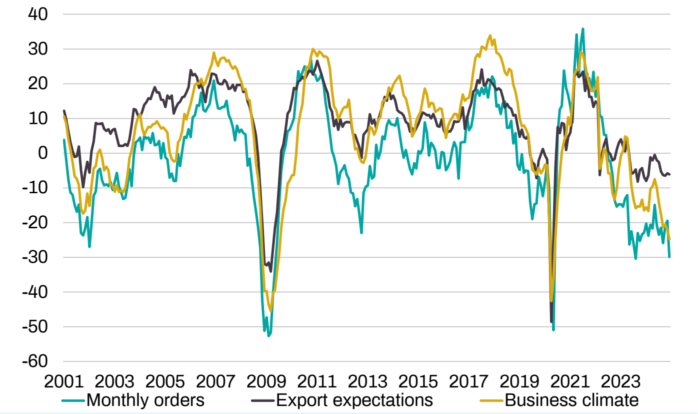
Figure 28: German GDP and industrial production



In real terms. 2017 = 100. Industrial production ex. construction. Quarterly data.

Sources: Federal Statistics Agency, Deutsche Bundesbank

Figure 29: German Ifo manufacturing survey



% balance. Monthly data. Source: Ifo Institute

France: serious political challenges

After outpacing the broader Eurozone in 2023, 2024 marked a reversal of fortunes for France. President Emmanuel Macron's misjudged decision to call early parliamentary elections triggered fresh concerns about France's fiscal sustainability. The risk of reform reversal and a painful fiscal consolidation will likely weigh on momentum in 2025 and beyond. After a rise of 1.1% in 2024, we look for growth to slow to 0.8% in 2025, before edging back to 1.1% in 2026.

Macron's reforms improved the economy but were hindered by global disruptions and political discontent.

The French economy has improved under the stewardship of Macron, who became president in 2017 and was re-elected for a second term in 2022. He lowered business taxes, pushed through reforms to liberalise labour markets and enhance competition, and made some progress towards reforming France's broken pension system. But fate dealt Macron a tough hand. Under normal circumstances, France would have enjoyed a period of healthy supply-driven growth. Instead, COVID-19 disruptions, geopolitical shocks, and a global tightening of financial conditions frustrated a more vibrant expansion. The combination of bitter policy medicine and subpar growth has led to severe political disenchantment. To make matters worse, despite the improving labour market situation, government borrowing has widened (Figure 30).

Early elections led to a hung parliament, increasing policy uncertainty and fiscal concerns. . .

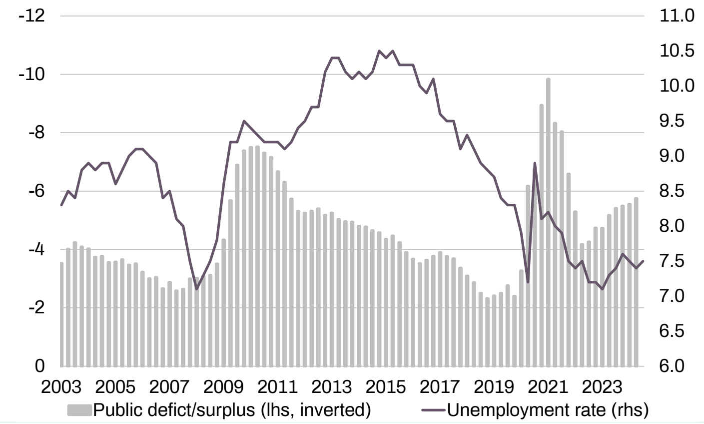
July's noisy parliamentary elections – called by Macron three years earlier than needed – resulted in a hung parliament and cast new policy uncertainty over France. On 13 December, Francois Bayrou from the centre-right Democratic Movement became France's third prime minister for 2024. His predecessor, Michel Barnier from the centre-right Republicans, had been voted out by parliament in a motion of no confidence after failing to pass a fiscal consolidation bill. Bayrou's main task for 2025 is to succeed where Barnier failed. French spreads versus Germany have widened dramatically amid fears that further failures to put government spending and taxation on a sustainable path could trigger a fiscal crisis (Figure 31).

. . .Parliament may pass budget measures, but reform reversals could harm France's weak economy.

Future risks include potential populist victory reversing Macron's reforms in the 2027 election.

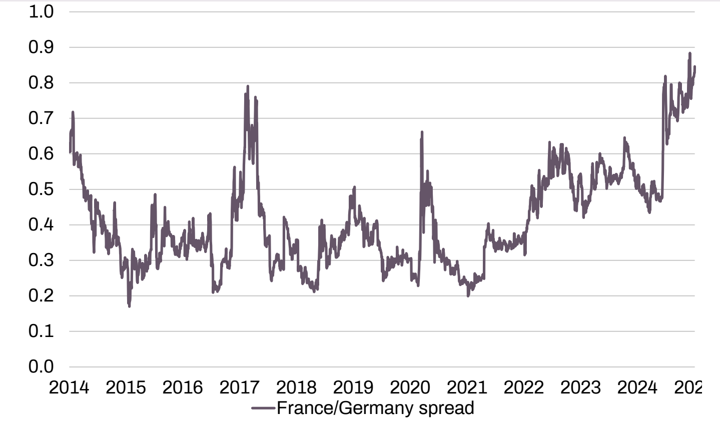
In the end, the French parliament will probably manage to strike a compromise and pass the necessary budget measures to avoid a crisis and calm markets. Still, the danger is that any such compromise includes reform reversals that would undermine France's already impaired economy - which suffers from weak trend growth and high public and private debt. Further out, political tail risks remain elevated. The 2027 presidential election may yet result in a victory for Le Pen or another populist set on a wholesale reversal of Macron's reforms.

Figure 30: France unemployment versus government borrowing



Public deficit/surplus as a % of GDP. Unemployment rate in % for 15–74-year-olds. Monthly data. Sources: ECB, STATA

Figure 31: France-Germany spread on 10-year government debt



In percentage points. Monthly data. Source: Bloomberg

China: liquidity trap risk, trade tensions

Chinese policymakers' expanding but targeted efforts to stimulate domestic demand should provide a backstop to domestic economic activity in 2025 and 2026. However, structural challenges and the risk of a tit-for-tat trade war with the US may frustrate the return to normal healthy cyclical momentum.

After more than four decades of almost uninterrupted growth at breakneck speed, Chinese momentum has slowed appreciably as: (1) increasing labour costs and shortages due to its ageing and shrinking population constrain supply growth; (2) rising global trade barriers and geopolitical tensions hurt demand for export-oriented industries; and (3) an impaired financial system after decades of capital misallocation in real estate and infrastructure hampers the transmission of stimulus measures to lift consumption and transition from an export and investment-oriented economy to one focused on domestic-oriented services.

Chinese structural slowdown due to ageing population, rising trade barriers, and an impaired financial system.

Looking at the period of abnormally weak momentum since 2023, China seems to be exhibiting many of the traits of an economy falling into a liquidity trap. Consumers have been left chronically pessimistic after a collapse in real estate activity (Figure 32), while steps to ease credit and reduce borrowing costs are not lifting loan growth or inflation as policymakers intend (Figure 33). This is a well-known story. Japan in the 1990s, as well as the US and Europe after 2008, all experienced a period of disinflationary credit consolidation and sharply declining interest rates after their real estate bubbles burst.

China shows signs of a liquidity trap, similar to Japan, Europe, and the US after real estate bubbles burst.

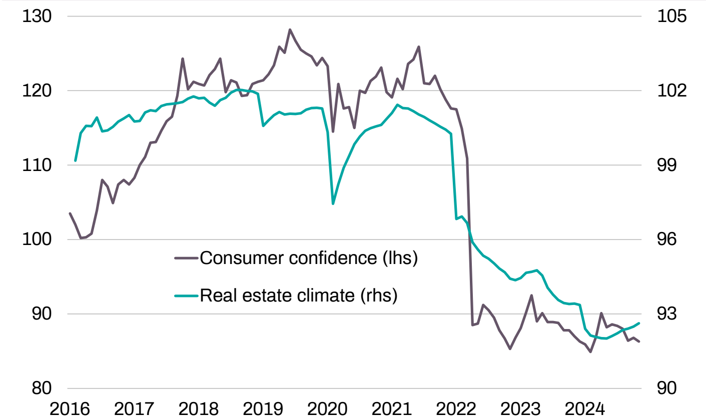
We look for Chinese GDP growth to moderate from 4.7% in 2024, to 4.5% in 2025 and to 4.3% in 2026, as inflation gradually picks up from 0.3%, to 0.8% and to 1.6%, respectively, over the same period. Risks to our calls are roughly balanced and growth will likely remain uneven and haphazard.

Chinese GDP growth likely to moderate, with inflation gradually rising, but risks are balanced.

Our projections for GDP growth are below Beijing's official growth target of 5% for 2025. This reflects two factors: 1) although China is expanding its fiscal and credit easing policies to lift growth and is stepping up efforts to correct excess industrial capacity, impaired loans, and over-indebted local governments, past experience from similar episodes in other economies suggests growth will fall short of policymakers' expectations; and 2) because confidence plays such a large role in liquidity trap dynamics, a mood-sapping trade war with the US and the uncertainties that would involve for Chinese manufacturers will likely act as a constant drag on activity.

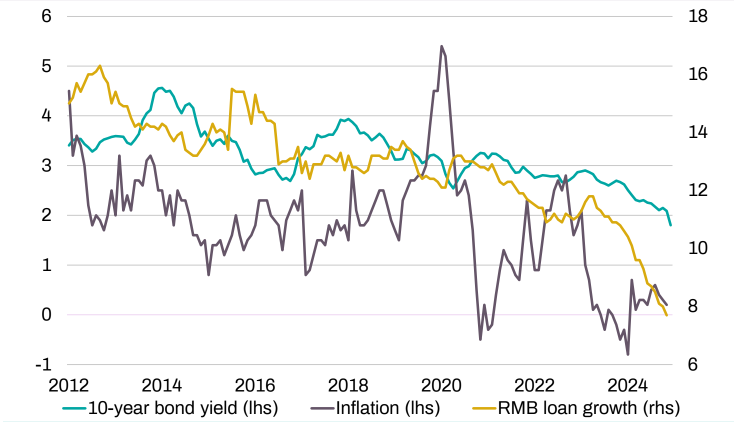
Growth to remain below official targets, as structural and short-run challenges impair efforts to promote healthy momentum.

Figure 32: China consumer confidence and real estate activity



Real estate climate index, 2012 = 100. China consumer confidence, 100+ = optimistic. Monthly data. Sources: China National Bureau of Statistics

Figure 33: China loan growth, interest rates and inflation



Monthly data. Bond yields in %. Inflation based consumer price index % YoY. RMB loan growth 12-month percent change.

Japan: escaping disinflation for good?

2023 and 2024 marked the longest period of inflation above the BoJ's 2% target since the early 1990s (Figure 34). Although growth disappointed last year, sustained reflation is still progress of sorts for an economy mired in a slow-growth, lowflation trap for more than two decades. While global growth uncertainties present a near-term risk, improving momentum should allow the BoJ to gradually normalise monetary policy further.

Inflation above BoJ's 2% target in 2023-24, growth recovery expected in 2025.

Economic performance in Japan disappointed badly in 2024 despite a sharp rise in nominal GDP – the broadest measure of aggregate demand (Figure 35). While soft external demand – especially in neighbouring China – hurt net trade and industrial production, elevated inflation crimped real household consumption. Real GDP declined by a c.0.2% in 2024. A rebound in consumption and sustained investment growth underpinned by healthy gains in corporate profits should lift momentum in 2025 to 1.2%, before growth moderates to a still-above-potential rate of 0.9% in 2026.

Japan's real GDP disappointed in 2024; growth looks set to rebound in 2025.

Inflation and easy money have reset inflation expectations

Although the labour market drag from an ageing population will likely continue to restrain Japan's anaemic growth potential, it increasingly looks as if Japan is escaping the disinflation trap into which it had fallen after the asset price bubble burst in the early 1990s. Repeated ultra-aggressive efforts by the Bank of Japan (BoJ) – negative policy rates, yield curve control (YCC), and quantitative and qualitative easing (QQE) – combined with the 2022/23 global inflation shock have reset inflation expectations as well as price and wage-setting behaviour.

Inflation expectations have been reset by the BoJ's aggressive policies and the global inflation shock.

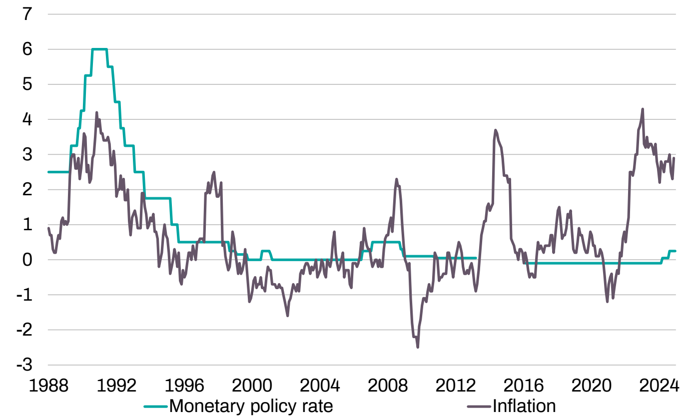
Although we expect inflation to moderate from 2.6% in 2024 to 2.2% in 2025 and 1.8% in 2026, this would still mark the longest stretch of inflation at above or close to the BoJ's 2% target for 25 years. The unemployment rate is likely to hover in an ultra-low 2.2-2.5% range through 2024 to 2026.

Inflation to moderate but remain near BoJ's target, while unemployment stays ultra-low.

With Japan's unique inflation dynamics, the cautious BoJ will likely remain out of sync with other major central banks as it delicately tries to normalise monetary policy. Policymakers are fearful of disturbing what they refer to as a 'virtuous cycle between wages and prices'. If all turns out well, the BoJ may be able to lift its main policy rate from 0.25% to close to 1.0% over the medium term.

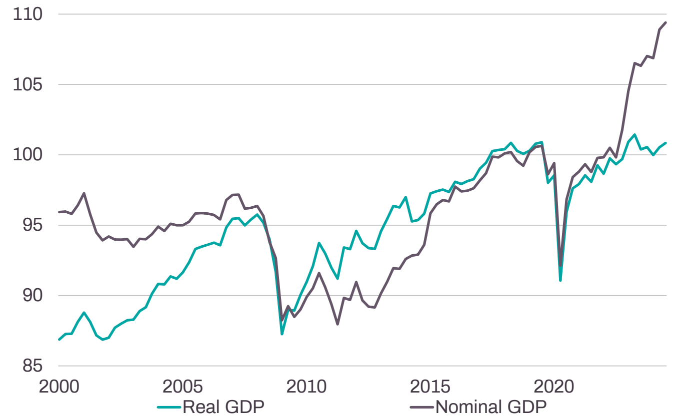
BoJ to continue to cautiously lift interest rates as long as inflation pressures remain close to 2%.

Figure 34: Japan inflation and BoJ policy rate



Policy rate in %. Inflation based on consumer price index in % YoY. Sources: BoJ, MIC

Figure 35: Japan GDP in nominal and real terms



2019 = 100. Quarterly data. Source: Cabinet Office of Japan

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Summary of projections

Figure 36: Peel Hunt economic projections

	GDP				Inflation				Unemployment				Industrial production			
	2023	2024	2025	2026	2023	2024	2025	2026	2023	2024	2025	2026	2023	2024	2025	2026
North America																
US	2.9	2.8	2.0	2.0	4.1	2.9	2.6	2.6	3.6	4.1	4.3	4.0	0.2	-0.4	1.0	1.9
Canada	1.2	1.1	1.8	2.0	3.9	2.4	2.1	2.1	5.4	6.3	6.5	6.3	n/a	n/a	n/a	n/a
Asia and Oceania																
China	5.2	4.7	4.5	4.3	0.3	0.3	0.8	1.6	5.2	5.1	5.0	4.9	4.4	5.4	4.9	4.8
Japan	1.5	-0.2	1.2	0.9	3.3	2.6	2.2	1.8	2.6	2.5	2.2	2.2	-1.5	-2.4	2.9	1.6
India	8.2	7.8	6.8	6.6	5.7	4.8	4.6	4.4	8.1	n/a	n/a	n/a	5.8	5.8	4.5	5.6
Australia	2.0	1.3	2.0	2.5	5.6	3.4	2.8	2.7	3.7	4.2	4.5	4.5	n/a	n/a	n/a	n/a
Europe																
UK	0.3	0.8	1.4	1.8	7.3	2.5	2.4	2.4	4.1	4.3	4.6	4.4	-1.2	-1.3	0.6	1.8
Eurozone	0.5	0.7	1.1	1.4	5.4	2.3	2.2	2.2	6.6	6.4	6.1	5.9	-1.6	-2.8	0.8	2.3
Germany	-0.1	-0.1	0.5	1.2	6.0	2.4	2.0	2.1	3.0	3.4	3.5	3.1	-1.9	-4.7	0.2	2.9
France	1.1	1.1	0.8	1.1	5.7	2.3	1.8	1.8	7.3	7.5	7.3	7.0	0.8	-0.4	1.1	2.1

Peel Hunt projections for 2024-26. GDP, inflation (CPI basis) and industrial production data in % YoY. Unemployment rate in %

Figure 37: Peel Hunt financial projections

	Current	2Q25	4Q25	2Q26	4Q26	Change
Central banks						
BoE Bank Rate	4.75	4.25	4.00	4.00	4.00	-0.75
Fed Funds Rate (Upper)	4.50	4.00	4.00	4.00	4.00	-0.50
ECB Deposit Rate	3.00	2.00	2.00	2.00	2.50	-0.50
10-year bond yields						
UK	4.60	4.40	4.40	4.40	4.40	-0.19
US	4.55	4.50	4.50	4.55	4.65	0.10
Germany	2.36	2.35	2.60	2.60	2.60	0.24
Japan	1.10	1.15	1.40	1.45	1.50	0.40
Currencies						
GBPUSD	1.24	1.28	1.32	1.36	1.40	12.98
GBPEUR	1.21	1.23	1.24	1.25	1.26	4.54
EURUSD	1.03	*1.04*	*1.06*	*1.09*	*1.11*	8.07

Notes: 1. Current data taken on 3 January at 08:00 GMT; 2. Interest rates in %; 3. All estimates are for end of period; 4. Currency projections may not add up due to rounding; 5. Change in percentage points for interest rates and percent for currencies

	Recommendation distribution at Today's Date					Recommendation distribution for publications in the last 90 days				
	Total	Investment Banking Clients		Other		Total	Investment Banking Clients		Other	
Structure	No.	No.	%	No.	%	No.	No.	%	No.	%
Buy	213	115	54	98	46	307	172	56	135	44
Add	56	6	11	50	89	73	6	8	67	92
Hold	59	3	5	56	95	72	4	6	68	94
Reduce	3	0	0	3	100	4	0	0	4	100
Sell	0	0	0	0	0	0	0	0	0	0
Under Review	8	4	50	4	50	6	4	67	2	33

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Add	+5-15% range expected absolute price performance over 12 months
Hold	+/-5% range expected absolute price performance over 12 months
Reduce	5-15% range expected absolute price performance over 12 months
Sell	> -15% expected absolute price performance over 12 months
Outperform	Total shareholder return expected to outperform the peer group and/or benchmark over 12 months
Neutral	Total shareholder return expected to perform in line with the peer group and/or benchmark over 12 months
Underperform	Total shareholder return expected to underperform the peer group and/or benchmark over 12 months

Under Review (UR), Recommendation, Target Price and/or Forecasts suspended pending market events/regulation

NB The recommendation is the primary driver for analyst views. The target price may vary from the structure due to market conditions, risk profile of the company and capital returns

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Peel Hunt LLP
7th Floor
100 Liverpool Street
London EC2M 2AT
T: +44 (0) 20 7418 8900
F: +44 (0) 20 7305 7088
peelhunt.com

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