

**ECONOMIC RESEARCH – APRIL 2025**

# INVESTMENT INSIGHT EUROPE



- ✓ Leading indicators are already strengthening
- ✓ Household confidence set to improve in Q2
- ✓ Inflation stabilizes around ECB target
- ✓ ECB to cut rates by a further 0.25% in Q2

## A POSITIVE NEW PARADIGM

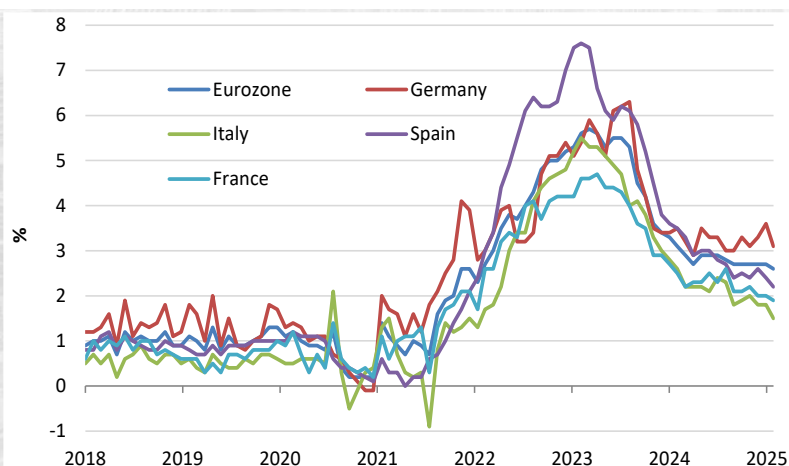
### Leading indicators are already strengthening

The latest leading indicators for March signal a clear recovery in the manufacturing sector. While still below the growth threshold, the manufacturing PMI has rebounded significantly from its December low, suggesting a new, positive dynamic is taking hold. This recovery is notably visible in Germany and France, where manufacturing PMI indicators have shown a clear rebound.

### A new fiscal impetus for the economy

This strengthening trend is largely underpinned by a new fiscal paradigm emerging in Germany. Following Chancellor Mertz's recent statements about substantial budget allocations for infrastructure and defense, a wave of optimism has swept through the markets. This strategic fiscal stimulus is poised to directly benefit the manufacturing sectors not only in Germany but also across the wider Eurozone. This shift away from traditional austerity measures could provide the much-needed impetus to industrial production and investment, fundamentally altering the growth trajectory for the second half of the year. This proactive approach by Europe's largest economy is a critical factor for the region's overall economic health, potentially mitigating external risks.

**Eurostat CPI - Underlying inflation (Eurozone YoY)**



Sources : Bloomberg, BBGI Group

## Household confidence set to improve in Q2

Despite a recent dip, Eurozone consumer confidence is positioned for a rebound in the second quarter. The European Central Bank's series of rate cuts has significantly eased monetary conditions, yet the full effect on household purchasing power and consumer perception has not yet been fully realized. Historically, there is a lag between policy changes and shifts in sentiment. The stabilization of inflation and the prospect of a more dynamic economic environment, spurred by the new fiscal policies, are expected to gradually restore consumer confidence. This improvement would be crucial for re-igniting household consumption, which has been a weak point in the recovery.

## Inflation stabilizes around ECB target

Inflation in the Eurozone is on a favorable trajectory, having stabilized near the ECB's target of +2%. While the March CPI may not fall below the target, the current rate puts the Eurozone in a strong position relative to other major industrialized economies. Core inflation, which excludes volatile components, has also stabilized. This consistency provides the ECB with the necessary data to maintain its current policy course. The positive trend is a testament to the effectiveness of monetary policy and the easing of supply chain pressures.

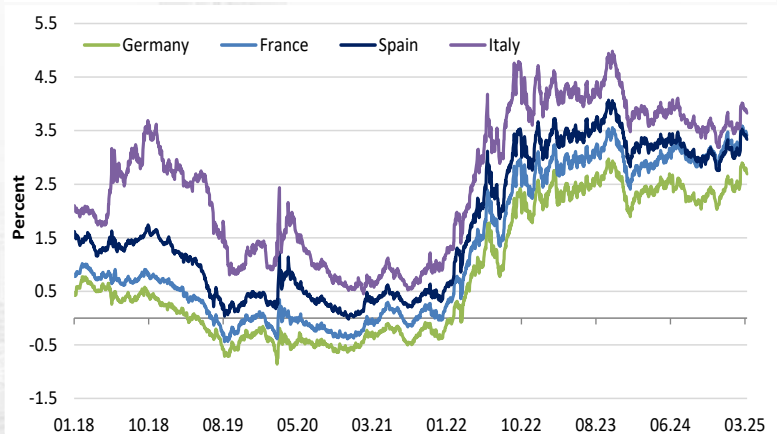
## Producer prices signal further disinflation

On the producer side, the situation is even more encouraging. After a period of sharp increases, the Producer Price Index has recorded several quarters of price contraction, with this decline continuing through the end of 2024. Although the start of 2025 shows a limited year-on-year rise, this development is a clear leading indicator. If companies face less pressure on their input costs, it will eventually translate into moderating consumer prices, reinforcing the overall disinflationary trend and supporting the ECB's monetary easing policies. This signals a healthy transition in the pricing environment.

## The ECB maintains an accommodative stance

The ECB's decision to cut rates again in March to 2.65% underscores its commitment to supporting growth. The central bank's actions are justified by a steady reduction in inflation and moderating wage growth. However, the ECB also has to contend with new risks, particularly the looming threat of US tariffs, which could disrupt international trade and potentially fuel inflation. We believe the ECB will continue its gradual policy of monetary easing, with another rate cut expected in the second quarter of 2025, which would bring rates below 2.5%. The ECB's strategy aims to provide support while carefully monitoring geopolitical and inflationary risks.

10-year interest rates European countries



Sources : Bloomberg, BBGI Group

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