



Keys for the week of February 3, 2025

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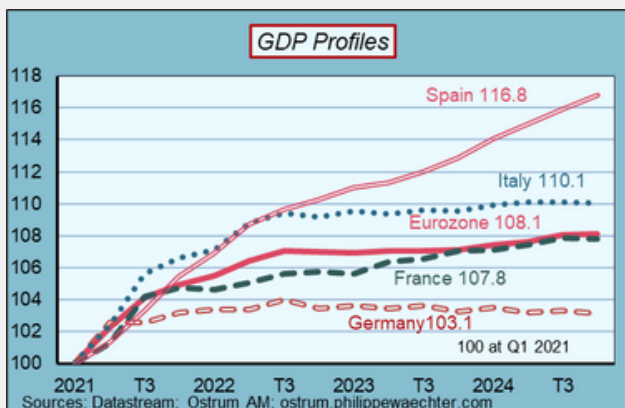
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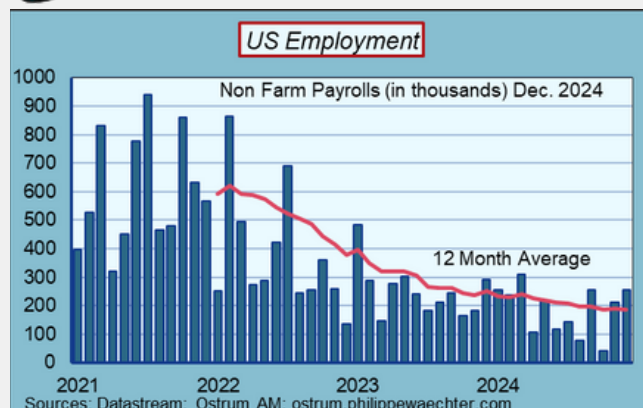
The graph that pleases or concerns me this week:

The appearance of GDP in the Eurozone



Expected this week

January US Employment





The situation from January 29 to February 5

What dynamics are seen in the French GDP of the 4th quarter?

French GDP contracted by -0.1% over the last three months. There are three main reasons for this negative performance.

A post-Olympic effect. Growth had been solid during the Olympics. In the fall, the athletes and tourists left and consumption suffered.

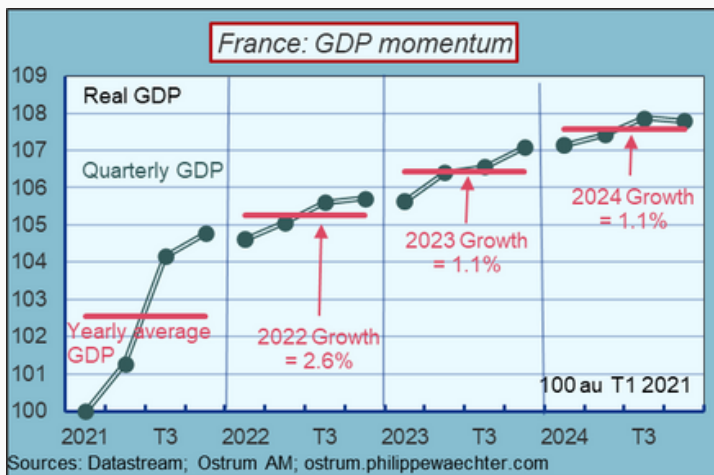
1. Europe is not on a rosy trajectory. GDP has contracted in Germany and stagnated in Italy and across the region. The context is not favourable.
2. Political uncertainty has prompted caution on investment and employment.

Nevertheless, the numbers are not bad. Consumption has indeed slowed down compared to the Olympic period, but not by much. Household spending has not stalled.

Non-financial companies, which had reduced their investments during the summer, stabilised their capital expenditure at the end of the year. However, uncertainty remained high.

This means that while business leaders are concerned, they are not ready to throw everything away. This is rather positive.

The decomposition of growth is a positive contribution from internal demand, negative from foreign trade (increase in imports to meet demand) and negative from stocks.



Is the government's target of 0.9% for 2025 achievable?

The objective is ambitious. The achievement at the end of 2024 for 2025 is 0.2% (2025 growth if the GDP level remains at that of the last quarter of 2024). It would take 0.275% growth per quarter to converge towards 0.9%. For comparison, the average growth rate since 2022 is 0.2%. This is also the figure retained by the consensus of economists which results in 0.7% for 2025.

How does France compare to its European partners?

The Eurozone experienced a lackluster last quarter. 0% for the whole zone and for Italy, -0.2% in Germany, -0.1% in France but +0.8% in Spain.

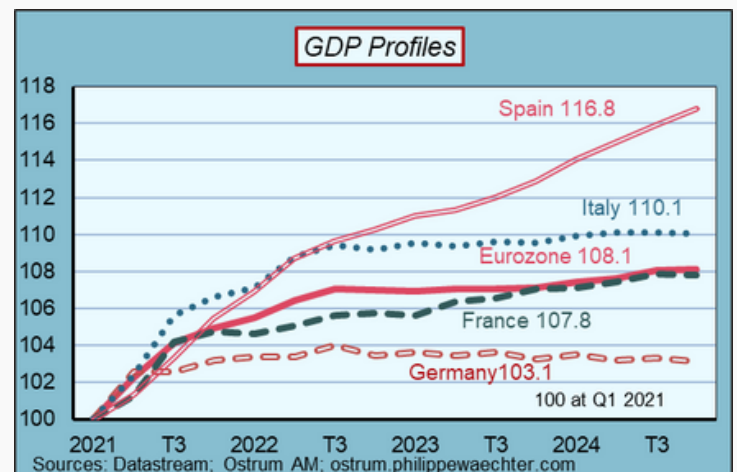
Spain is growing rapidly, driven by robust population dynamics (tourism and migration flows) that have fuelled consumption in a context of political stability. An economy that is returning to its fundamentals. It is the other economies that are struggling.

Italy has poor potential growth and we see that after the post-Covid recovery, its pace is very weak. Italy's potential growth remains very limited.

Germany has been in recession since 2023 and the last quarter is no exception.

The table shows the difference in pace over the period after the post-Covid catch-up. France, with a still accommodating budgetary policy, is doing rather well.

Average annual growth rate Q4 2024 / Q3 2022				
Eurozone	Germany	France	Italy	Spain
0.4	-0.4	0.9	0.3	2.8



US growth remains robust in 2024. Is it necessary to trigger an economic emergency that would give Donald Trump special means?

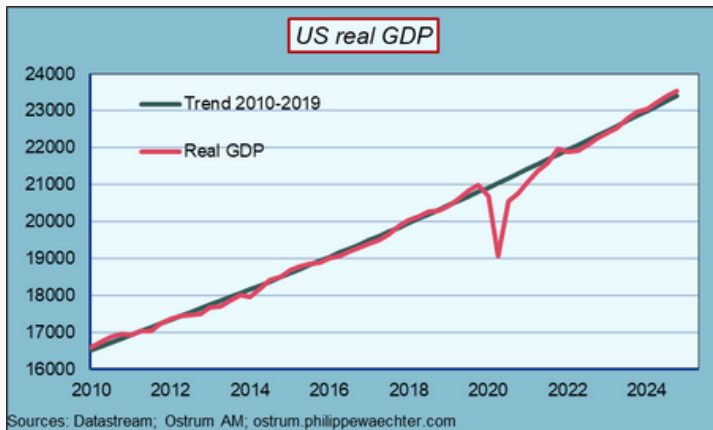
Donald Trump can issue a number of decrees if there is an economic emergency. Let's look at two graphs to see if there is a rupture that would require a particular policy from the White House in the face of an emerging imbalance.



The situation from January 29 to February 5

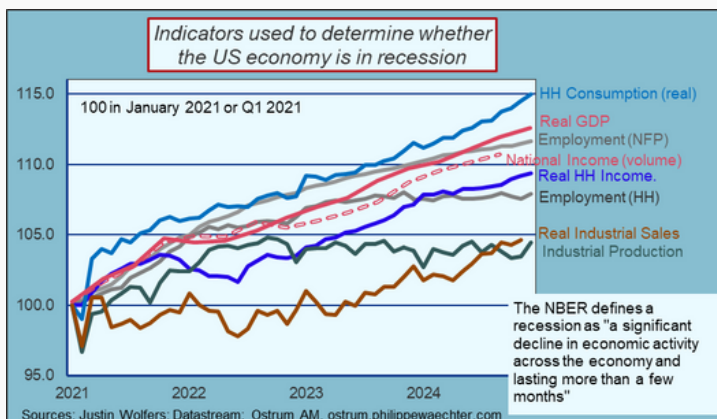
US GDP for Q4 came out at 0.6% after 0.8% in Q3. Over the year, the average growth rate is 2.8% compared to 2.9% in 2023. The explanation is very robust internal demand throughout the year.

The following graph reflects the GDP trend since the Great Recession. The GDP is perfectly in line with the 2010-2019 trend. There is no break that can be seen in this indicator.



The second illustration is based on the indicators tracked by the NBER to indicate the possibility of a recession. One of the missions of the NBER (National Bureau of Economic Research) is to measure the American cycle (high point and low point). To do this and for a long time, this institution has been observing many macroeconomic indicators. These are those shown in the graph below that I rebased to 100 in January 2021 or in Q1 2021.

None of the indicators presented indicate the possibility of a sustainable turnaround in the American economy. Claiming an economic emergency is therefore just a way of wanting to define another truth. In a recent article (Donald Trump comes to power on January 20, published on January 20), I mentioned this point by indicating that undemocratic regimes invent their own truth. We risk having this attitude about the economy.



On this point, will the dismissal of many senior officials not be detrimental?

This is a question that worries many economists. Many inspectors general are dismissed, according to what is called Schedule F, as was the case at the Treasury very recently, giving free rein, in particular, to Elon Musk's teams while spending is normally under the control of Congress.

In other administrations, these inspectors are being fired, raising questions about how the U.S. top administration will release the information.

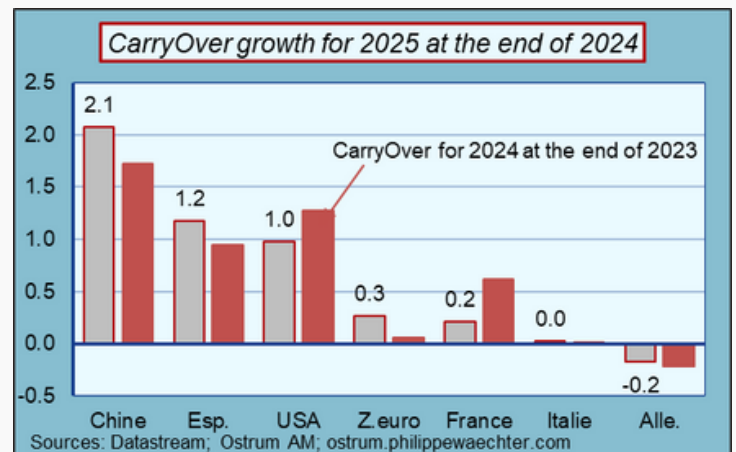
Several sites are inaccessible, such as that of NASA on climate issues, on health (covid) and tomorrow why not on other indicators which guide the analysis of the US economy!!!!

To conclude on GDP, how do the major economies compare at the end of 2024?

The simplest way is to look at the achievement for 2025 at the end of 2024 (growth in 2025 if the GDP level remained at that of Q4 2024 throughout the year).

Unsurprisingly, China, Spain and the USA are leading the way. The Eurozone and France have a weak record. Italy and Germany are lagging behind.

The comparison with the acquis at the end of 2023 for 2024 suggests that there has been no change in trend. The acquis is better this year for China, Spain and the Eurozone. On the other hand, it is more reduced in the US and significantly weaker in France. It has not changed in Germany and Italy.

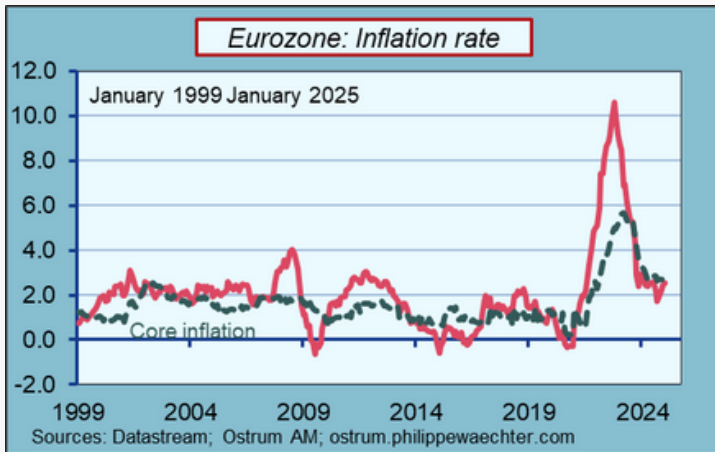




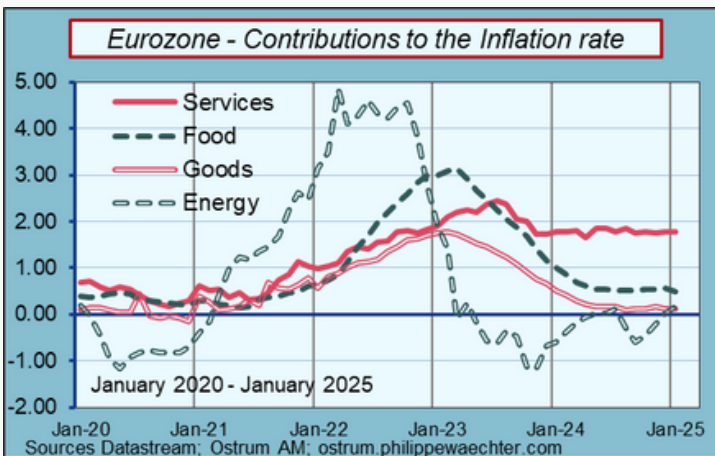
The situation from January 29 to February 5

Is the acceleration of inflation in the Eurozone a new constraint for the ECB, which expects a rather rapid decline in inflation in 2025 in order to continue to lower its interest rates?

The inflation rate rebounded to 2.5% in January while the core inflation rate was stable at 2.7%.



To understand the dynamics of the European inflation rate, it is necessary to examine its various contributions. In January, the only contribution that progressed was that of energy, which returned to slightly positive territory. The other contributions were stable or in slight decline.

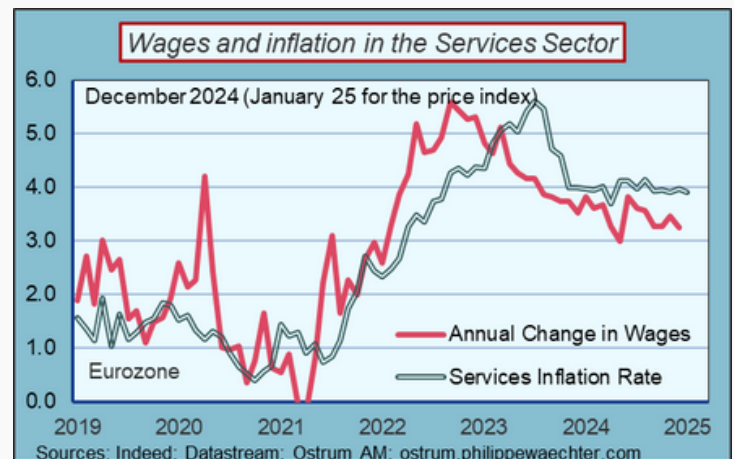


This means that the ECB will not have any incentive to change its expectations about monetary policy. The central bank generally does not change its strategy on energy price developments.

Indeed, if the price of energy increases, then inflation is likely to increase. The ECB should tighten its policy. However, the effect of this tightening would be felt in 6 to 9 months. Who knows what the price of energy will be in 6 to 9 months? No one, including the ECB. If the price has fallen, the tightening will have been useless but the impact on the economy will not have been neutral. The ECB therefore prefers to abstain.

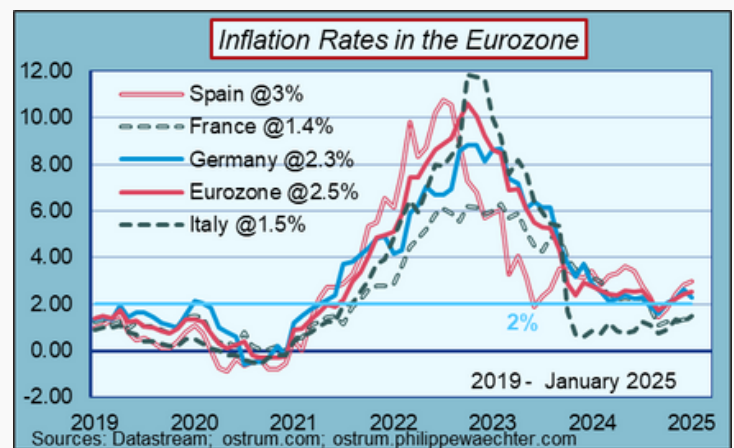
Will the price of services slow down?

Yes, that is the assumption that we must make. The labor market is deteriorating and is pulling the wage profile downwards. This will eventually be reflected in the trajectory of the price of services, the price formation of which is strongly conditioned by employee compensation.

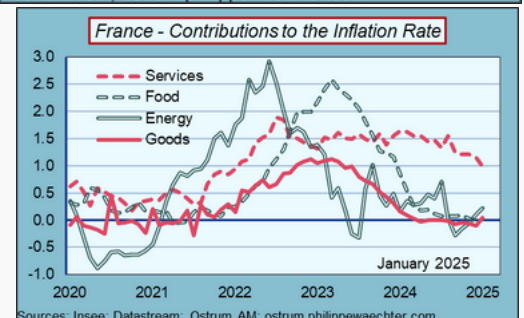


How did inflation behave in the major Eurozone countries?

This rebound in inflation is seen everywhere except in Germany where the contribution of energy is stable but the decline from 2.6% in December to 2.4% is linked to the underlying inflation rate and the price of goods in particular.



In France, it is also the price of energy which explains the slight rebound in inflation in January (1.3% to 1.4%).



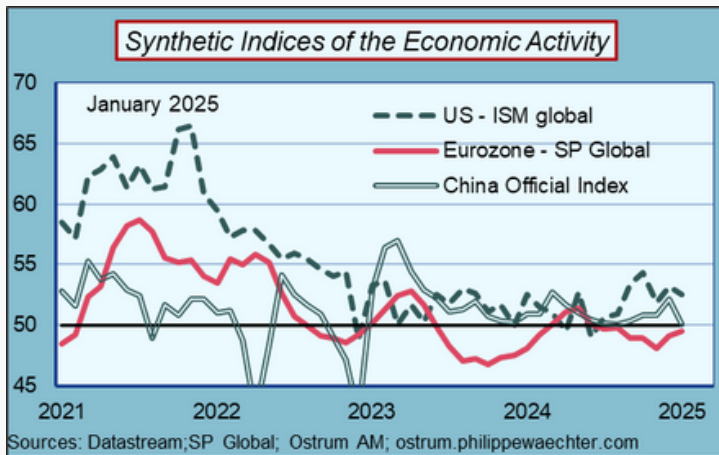


The situation from January 29 to February 5

What is the shape of the overall cycle?

The January data show a change in the USA and especially in China where the “synthetic activity indicator” is returning to normal at 50.1.

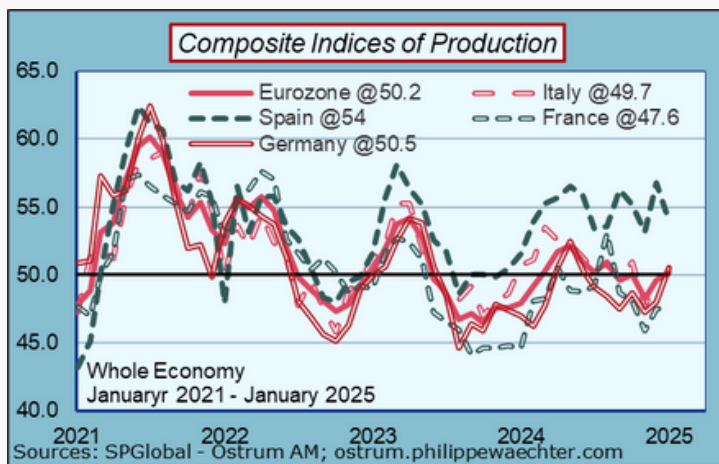
The European indicator is converging towards 50. The recovery is not yet spectacular but the pace is more encouraging than at the beginning of autumn.



What is the profile of the Eurozone cycle?

Taking only the production data in both services and manufacturing, we see, in addition to the stabilisation of the Eurozone, that of Germany, whose synthetic index has risen above the threshold of 50 for the first time since June 2024.

Italy is withering away while Spain is galloping forward. France is sinking into a form of crisis that does not speak its name.

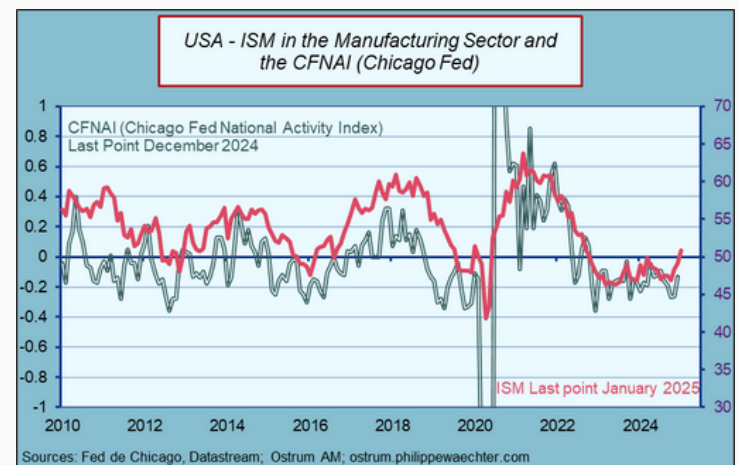


Is there a particularity of the American cycle?

In the American cycle, I like to compare the ISM manufacturing and the CFNAI, which is an indicator calculated by the Chicago Fed and which synthesizes 85 contemporary indicators. It includes industrial production, retail sales, interest rate spreads and a whole bunch of other elements. In my opinion, it is the best monthly indicator for understanding the US economy.

This index signals a risk of recession when it falls below the threshold of -0.7. On the graph, its scale varies from -1 to +1. The ISM index of the manufacturing sector ranges from 30 to 70.

In January but already in December, the ISM manufacturing index is trending upwards, crossing the 50 threshold for the first time since October 2022. This should translate into an increase in the CFNAI index during the first quarter, further pushing back the idea of an economic emergency on the part of the White House.



Any comments on central banks?

Not really, they intervened where they were expected. The ECB is facing a fragile economy while anticipating that inflation will slow down rapidly.

In the US, the cycle is robust, the labor market is stronger than expected last summer and, as a result, the Fed has remained on a stable rate.

The question that will quickly arise will be the attitude of the White House towards a Fed that may appear not to be complying with the needs expressed by Donald Trump.



Artificial Intelligence – Is power shared?

Donald Trump's first week has been thunderous. The number of "executive orders" has been enormous in all areas. Observers have all been like cats with Donald Trump manipulating the little red laser at will to lead them where he wanted.

The most marked break concerns the dynamics of American power. One of the first major announcements concerned the \$500 billion Stargate project. Its objective is to make the United States the heart of AI by defining the technological standard, the one that will condition its exploitation in other countries. It is a way to have a considerable income that will feed the United States while strengthening its power.

To facilitate the implementation of such a plan, Donald Trump removed a decree from Joe Biden on certain constraints related to the development of AI, then on January 23 he published a decree whose aim is to examine previous measures taken by Joe Biden and likely to be obstacles to American innovation in artificial intelligence.

This question of AI is now major in the governance of States. In the American case, there can be confusion. Tech bosses are very present and have significant power since the political power removes the constraints likely to curb their innovations. AI now has impacts in all areas and not just economic ones. Drones, very present in all military theaters, are an illustration of this overflow. This military domain is traditionally reserved for political power but we can see here the risk of confusion.

The other aspect to highlight is the desire to provide resources to this sector of activity. It must be powerful to establish American domination. Therefore, decisions will not be made without the consent of the tech bosses. This also means that discussions about dismantling GAFAM are no longer relevant. AI is more than ever a source of considerable power. But is power shared?

The circle surrounding Vladimir Putin grew rich and powerful by exploiting raw materials. For Donald Trump, the resource is Tech and the AI associated with it.

The contrast with China, another very powerful country in AI, is astonishing. When Jack Ma, head of Alibaba, became too powerful, he was pushed aside by President Xi. The Chinese political power wants to maintain control over the Tech sector and does not want to accept a state within a state. These choices are not neutral in terms of who decides, who guides government policy, but also who allocates resources to develop this or that sector of Tech.

The risk is a common trajectory between Trump and Tech until the moment when power is no longer shared.



The Energy Transition: Between Brown Capital and Green Capital

The energy transition is now at the heart of concerns in Europe, as the continent commits to carbon neutrality by 2050. This ambition requires achieving net zero greenhouse gas (GHG) emissions, and is essential to meet the commitments made in the Paris Agreement.

The European Union: an action plan and an ambitious strategy

One of the major challenges of this transition is the decarbonization of production processes. Indeed, brown capital, represented by obsolete infrastructures and technologies, emits significant quantities of CO₂. It is therefore crucial to replace it with green capital, free of carbon emissions.

Speed of substitution: a determining factor

A key question remains: how fast will the substitution between these two types of capital be? A rapid substitution would lead to a significant slowdown in emissions, facilitating convergence towards the target. On the other hand, a transition that is too late would lead to a brutal adjustment, prolonging the period of high GHG emissions.

The importance of stranded capital

It is capital that loses its usefulness as the transition progresses. Thus coal-fired power plants must disappear to avoid further fuelling emissions.

A revealing study

INSEE modeled these different elements based on several GHG emissions trajectories. These trajectories vary from simple convergence towards neutrality in 2050, to the implementation of a policy of reducing emissions by 55% compared to 1990, to an even more ambitious strategy of reducing emissions by 90% by 2040. Finally, the authors consider a carbon budget that should not be exceeded.

The latter trajectory is the most efficient with an immediate substitution of green capital for brown capital, enabling a rapid reduction in emissions and thus facilitating the transition to carbon neutrality. This approach entails a high cost from the start with a high stranded capital.

The cost of inaction

Conversely, the less restrictive a trajectory is, the more substitution efforts are delayed, which harms general well-being. Nicholas Stern had also underlined this in his 2006 report: the longer we delay adapting, the more costly the process becomes. The urgency to act therefore becomes evident.

A crucial choice: today or tomorrow?

However, this dilemma between acting today or postponing until tomorrow remains complex. How much are we willing to sacrifice our present to ensure a sustainable future? Too much preference for the present could have catastrophic consequences for future generations. This delicate trade-off is manifested in the political decisions we are making today.

Source Insee Link <https://bit.ly/3EpXU9m>



The Emergence of DeepSeek: Thoughts on the Future of the Technology Industry

The advent of DeepSeek is an event of considerable magnitude.

Not simply because the Chinese firm has made a simpler, cheaper but equally effective product than its American competitors. This above all reflects the questioning of the American industrial strategy of isolating China.

Tech companies in the United States have been favored by investors for many months. They have been innovative, thus giving themselves the opportunity to collectively accumulate an income. The translation of this advantage is their explosive valuation. The world of tomorrow being anticipated to depend even more than today on technology, investors want to take advantage of it with portfolios built around this field.

This valuation has been accentuated by the US government's push to ease restrictions on technology transfers in China. In the past, the Middle Kingdom has benefited from these transfers but has also invested massively in research and education in order to be competitive. With DeepSeek, we see that the strategy led by Washington is not sufficient to maintain the American lead, and perhaps it is not the right maneuver to keep China in second division. The drop in valuations reflects this.

The combination of tech giants and Washington's aggressive strategy has failed to keep China at bay.

If the DeepSeek model is less sophisticated in its construction, without an Nvidia chip, cheaper than ChatGPT but just as efficient, we will see a battle to exclude the newcomer from the very profitable AI game. This is a legitimate strategy when a competitor enters the arena with more attractive features. The consumer will benefit with lower prices.

Unless the US government takes safeguard measures to defend Silicon Valley Tech.

On an international scale, the important thing is to know who will define the standard technology, the one that will be used without thinking about it. The Americans have benefited from this advantage for decades, thus creating considerable revenue streams for the American economy. If with a technology made with 3 pieces of string the Chinese are able to do as well and cheaper, they have a spectacular comparative advantage and considerable room for maneuver to be able to define this famous technological standard.

This battle over the standard has caused tensions over the Pacific for several years. The cards are now being reshuffled because the hierarchy for the next 10 years is becoming more blurred. Companies will show ingenuity with sometimes surprising alliances. On the government side, anything goes.

AI is a tool of domination and therefore woe to the vanquished.



Understanding the impact of US tariff measures

Donald Trump has imposed 25% tariffs on products from Mexico and Canada and 10% on Chinese products. This is a first step.

There are several points to emphasize.

1- During the election campaign, China was America's number one enemy. Why then apply lower tariffs to it than Canada and Mexico. And even taking into account the tariffs put in place during Trump's first term, the rate is just a little higher than that of the other two countries.

Yet Canada's dependence on trade with the US is much greater than that of China. 77% of Canadian exports go to the US, while the figure is only 16% for China. Would the impact of excessively high tariffs with China be excessive?

2- These measures have already provoked retaliation. China has taken the matter to the WTO and Justin Trudeau has announced tariffs on American products. Denmark's reaction to the Greenland issue sheds light on the consequences of the retaliation. The price of Ozempic, widely used by Americans to lose weight, would see its price increase by 500%. Who would lose? The American who wants to lose weight and who will no longer have access to it.

3- NAFTA, the American free trade agreement, was built to make North America an efficient manufacturing platform. Manufacturing centers are spread throughout the territory. The implementation of tariffs calls into question this construction that is beneficial for all. The instability of political relations is unfavorable. Throughout the production process, products cross borders multiple times. Will the goods that cross the border have to pay a tariff each time? The dynamics of production will not withstand it. It can even be an excellent way to create disruptions in the production process. We are thinking here of the automobile. Some imagine a blockage of the automobile market very quickly and a \$3,000 increase in the price of vehicles.

4- The impact of the measures on the U.S. economy would be 0.8% on American inflation, or an additional cost of \$1,250 per household. For the entire American economy, the shock would be -0.2% in the medium term: no rebound effect expected in the future.

Donald Trump's mercantile approach can be summed up by this statement from Sir Thomas Smith in 1549: "We must always take care not to buy from foreigners more than we sell to them, for we risk thereby impoverishing ourselves and enriching them." This vision of the world was contradicted by Ricardo who showed the collective interest of exchange.

Implementing customs tariffs is to hinder trade and penalize the counterparts of a country but also of its consumers and its companies. It is simply the promotion of a balance of power imposed on a shaky economic model.



Additional notes

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