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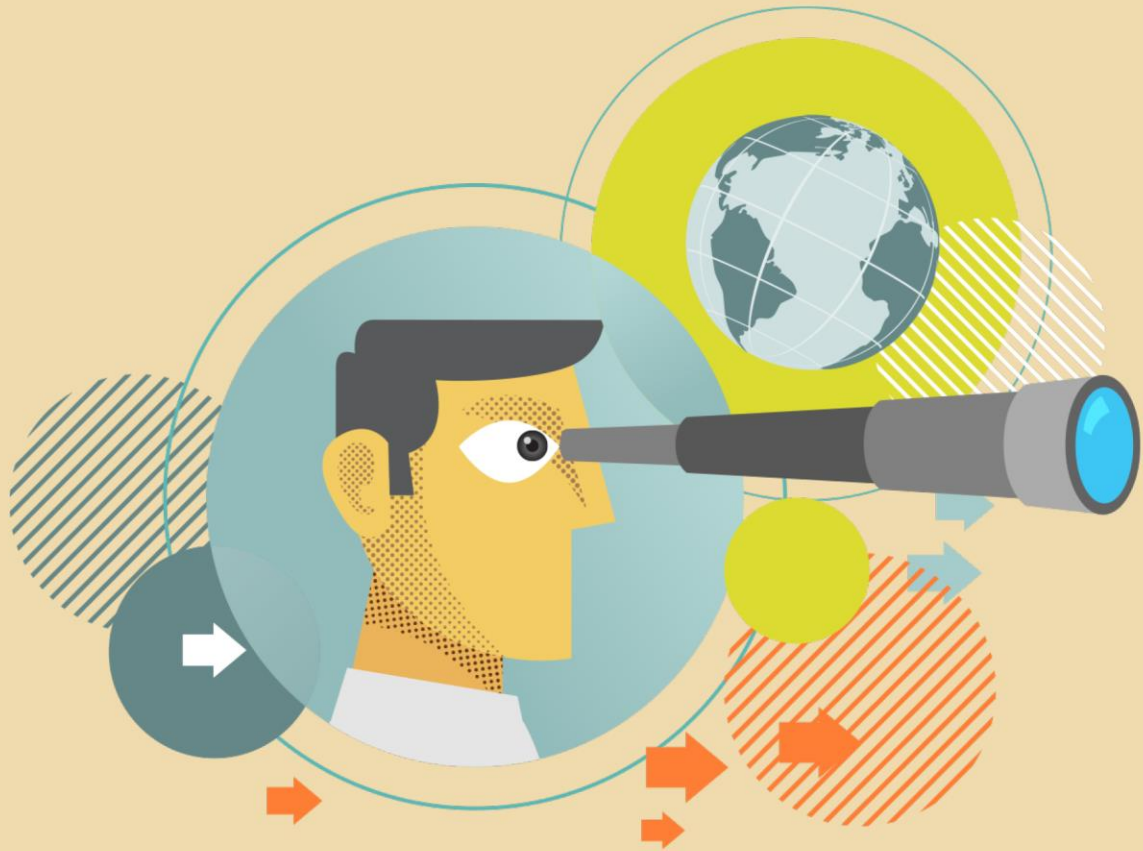
Zum wahren Nutzen.



Economic Adviser

Macro Research

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Outlook 2025: Between tariffs and geopolitics – navigating uncertain times

Analyst: Christian Lips, Chief Economist

Trump, geopolitics, new elections, France – an exceptionally uncertain political environment
With just a few days to go before the turn of the year, the time has come for our customary review of the past twelve months and an outlook on what lies ahead of us. As expected, the past year has seen the global economy expand at a modest pace, with the heterogeneous growth trend among the individual economies becoming more pronounced. Solid growth figures from the USA and China are contrasted by persistently weak growth in Euroland. The German economy is still lagging far behind and trapped in stagnation.
Overall, the global economy registered growth of only around 3 percent again in 2024. A major burdening factor behind this situation lies in the persistently high economic policy uncertainty, which has been particularly pronounced in Germany since the onset of Russia's attack on Ukraine. Donald Trump's election triumph, the collapse of Germany's governing coalition and the ousting of the Barnier-led government in France have further exacerbated that uncertainty of late.

The New Year doesn't really start until 20 January
Although neither the extent nor timing of potential higher US import tariffs is known, Donald Trump's protectionist agenda is already helping fuel uncertainty worldwide. Growing protectionism and the geopolitical tensions are putting Europe under pressure. Europe evidently has no solution to, in particular, the shift from the strength of the law to the law of the strongest as yet. Shifts in defence policy and geopolitics, especially related to Ukraine, could also have major consequences, especially for Europe. So far, however, these are all merely assumptions and speculations – to be fair, we will just have to wait for Donald Trump's inauguration and the concrete actions of the Trump administration to see what actually happens. Viewed in this light, the year 2025 doesn't really start until 20 January.

Forecast uncertainty exceptionally high – central banks continue gradual monetary easing
In these times of extreme political imponderables the degree of forecast uncertainty is also exceptionally high. In the baseline scenario, it is only possible – from today's perspective – to work with purely technical assumptions in many areas of consideration. But even though numerous aspects are in flux and few can be deemed reliable, there are certain lines of development that appear quite robust in our view. At least in the short term, most central banks will stick to their monetary easing course, and the ECB is now focussing more and more on economic risks. The disinflation process is well on track globally and, at least in Europe, no longer calls for a restrictive stance on monetary policy. The lingering effects of the past phase of elevated interest rates continue to influence the real economy, however, for which reason economic momentum remains subdued.
One important question lies in whether Germany can finally free itself from stagnation in 2025. We are sceptical in light of the prevailing economic and political environment and expect zero growth for the third year in a row. However, there is also the chance that after the elections in February, politicians will boldly tackle the economic and structural crisis, make for a stable planning environment and generate new confidence, and thus end the reluctance to invest. There is nothing to be said against having wishes – after all, it will soon be Christmas!

We would like to thank you for the confidence you placed in us this year and wish you a good read and, above all, valuable insights from this annual Outlook issue, a Happy Christmas and a good start into to a healthy, successful and hopefully more peaceful year 2025!

Sincerely,

Your NORD/LB Research Team

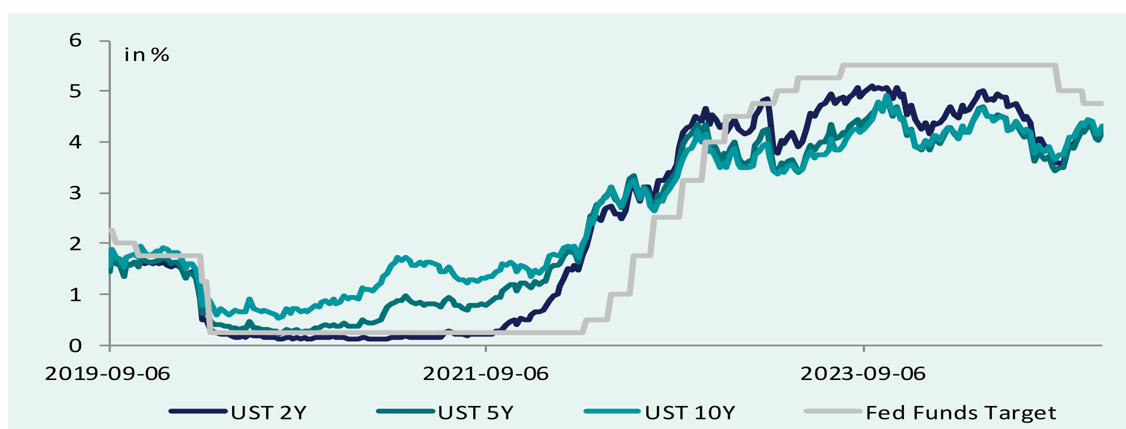
USA: No stone will be left unturned in 2025

Analysts: Tobias Basse // Constantin Lüer

The labour market paved the way for initial interest rate cuts

In the first six months of 2024 the discussions on the US economy centred on the inflation trend and whether there could potentially be a hard or soft landing, in other words the extent to which the economy might slow down. Given the shortage of skilled personnel and the consistently positive labour market data, this component of the Fed's dual mandate didn't appear to play a significant role at first. At the latest with the beginning of the second half of the year and this year's peak of 4.3 percent in the unemployment rate in July, however, the focus of considerations then shifted quite quickly. Inflation no longer appeared to be a major problem, but the labour market all the more so. As Fed chair Jerome Powell said in Jackson Hole at the time: while the economy needed to be slowed down to bring inflation back towards price stability, this should not excessively or unduly burden the labour market. As known, the Fed's first rate cut was also rhetorically initiated on that occasion and then took place in September, just short of a month later. However, there doesn't appear to be a unified labour market in the USA, seeing as there are in some cases considerable differences across the various industries and regions. All year long, companies in the industrial sector have been dealing with the question as to where they can get new skilled personnel on the one hand and whether they should hire anyone at all on the other. Although the outlook among the service providers was starting to look a bit more positive, the uncertainties were of a similar nature in that sector as well, however. Particularly in light of the upcoming change of administration in Washington, it is to be expected that the HR departments of companies will not necessarily have things easier in the first half of 2025 and that paradoxical distortions will likely crop up at times.

Chart: Interest rate trend in the USA



Sources: Macrobond, NORD/LB Macro Research

The worlds of business and politics face disruptive times

Having won the US presidential election more decisively than expected, Donald Trump will head the new administration from 20 January onwards. He secured a majority in all the so-called swing states, giving him 312 electoral votes in the Electoral College. Besides that, the Republicans secured majorities in both chambers of Congress – but only just! Donald Trump sees these results as a mandate to shake up economic policy in the USA with his team. In principle, extensive tax cuts are to be financed primarily through government spending restraints. A crucial task facing the new government will be to ensure the funding of all its planned fiscal measures, especially seeing as the central government's budgetary situation is already quite strained at the moment. Indeed, America is moving towards a state similar to that of Italy when it comes to the debt to GDP ratio metric. These budgetary problems are still

well within a range in which they can be effectively dealt with, however, and will certainly have been identified by the incoming government in the meantime. The members of the future administration in Washington are undoubtedly aware that the central government can no longer afford any new debt-financed benefits for voters. The designated Secretary of the Treasury, Scott Bessent, can be regarded as a person who will uphold this approach. He stresses at every opportunity that the new government's fiscal policy is to be guided by three maxims – namely cut new borrowings significantly, stimulate growth, and boost America's energy self-sufficiency. The austerity strategies pursued by Elon Musk and Vivek Ramaswamy will likely play key roles in this context. Their new initiatives are intended to reduce the total volume of the US federal budget by more than USD 2 trillion; where possible, a large number of federal agencies are to be shut down. The implementation of these extremely ambitious savings targets would, at least initially, have a marked impact on economic growth in the land of supposedly unlimited opportunities. The effects would probably very rapidly make themselves felt in the private sector as well. For example, donations to NGOs are to be reviewed without delay and then cancelled where deemed necessary. In sum, the work of Musk and Ramaswamy will, due to "mismatch problems", likely lead to a situation in which, on the one hand, unemployment increases, but on the other hand, there would nevertheless be a labour shortage. The activities of Tom Homann, who is to carry out mass deportations as "border czar", will likely increase the economic relevance of this scenario even further. Illegal immigration, the exact quantitative significance of which is of course virtually impossible to measure by definition, will very likely be a key factor affecting the US labour market. Against this background the incoming administration's plans in terms of trade policy could potentially help make for elevated inflationary problems again due to more sharply rising wages. The virtually non-stop reports on the news tickers on possible sharp tariff hikes ought primarily to be seen as an act of sabre rattling by Donald Trump, however. These aggressive utterings by the future president are undoubtedly intended in particular to serve as a bargaining chip so as to make other US foreign policy objectives (with regard to immigration, for example) easier to achieve in the context of negotiations – this is a case of the "art of the deal" in action, intended to help manage both the anticipated rise in inflation and the potential short-term restrictions on economic growth in the USA resulting from government spending cuts.

Outlook: bond and foreign exchange market

There are apparently ongoing discussions in Washington with significant differences of opinion within the incoming government as to the further course of monetary strategy then to be pursued by the Federal Reserve. On the one hand, there are voices (especially in the House of Representatives) among Republicans fundamentally in favour of a looser monetary policy. However, those in the Senate in particular have other plans – and clearly want to prevent the emergence of higher inflation expectations among the relevant economic agents. It goes without saying that this is not an entirely uncomplicated environment for the US central bankers. Given the multitude of other – and probably initially also more acute – problems (for example in Ukraine or Syria), Donald Trump ought not to be in any particular hurry when it comes to implementing reforms at the Fed. Before there is more clarity as to the incoming government's precise monetary policy plans, it could be advisable for the FOMC to make further cautious key-rate cuts as an effective strategy allowing the central bank to essentially operate under the political radar for the time being. At the long end of the US yield curve too, greater concerns over truly aggressive plans by "Team Trump" relating to US monetary and fiscal policy are continuing to be factored in. However, the risk premiums resulting from these concerns may already be too high at the moment – especially since Donald Trump's choice of Scott Bessent as the new finance minister is more likely indicative of a sound and prudent orientation of future fiscal policy in the USA. At the moment the US currency is certainly also benefiting from the news concerning the political turmoil in France. In addition, some market participants appear to be expecting the Fed to exercise greater caution in cutting its key rates. Both points speak for the dollar. In the course of 2025, however, this will

gradually increase the risk of counter-movements, with the mark of USD 1.08 per EUR potentially shifting to a new level of USD 1.10 per EUR.

Fundamental forecasts, USA

	2023	2024	2025
GDP	2.9	2.7	1.7
Private consumption	2.5	2.6	2.1
Govt. consumption	2.9	3.0	1.1
Fixed investment	3.2	4.1	2.6
Exports	2.8	2.9	2.5
Imports	-1.2	4.9	2.4
Inflation	4.1	2.9	2.4
Unemployment rate[1]	3.6	4.1	4.7
Budget balance[2]	-6.5	-6.4	-5.1
Current acct. balance[2]	-3.3	-3.5	-3.4

Change vs previous year as percentage; [1] as percentage of the labour force; [2] as percentage of GDP

Sources: Feri, NORD/LB Macro Research

Quarterly forecasts, USA

	I/24	II/24	III/24	IV/24	I/25
GDP qoq ann.	7.0	3.0	2.8	1.8	1.4
GDP yoy	2.9	3.0	2.7	2.1	2.1
Inflation yoy	3.2	3.2	2.6	2.5	2.5

Change as percentage

Sources: Feri, NORD/LB Macro Research

Interest and exchange rates, USA

	12.12.	3M	6M	12M
Fed funds target rate	4.75	4.25	3.75	3.50
3M rate	4.36	4.10	3.60	3.40
10Y Treasuries	4.33	3.90	3.50	3.40
Spread 10Y Bund	212	170	120	90
EUR in USD	1.05	1.06	1.08	1.08

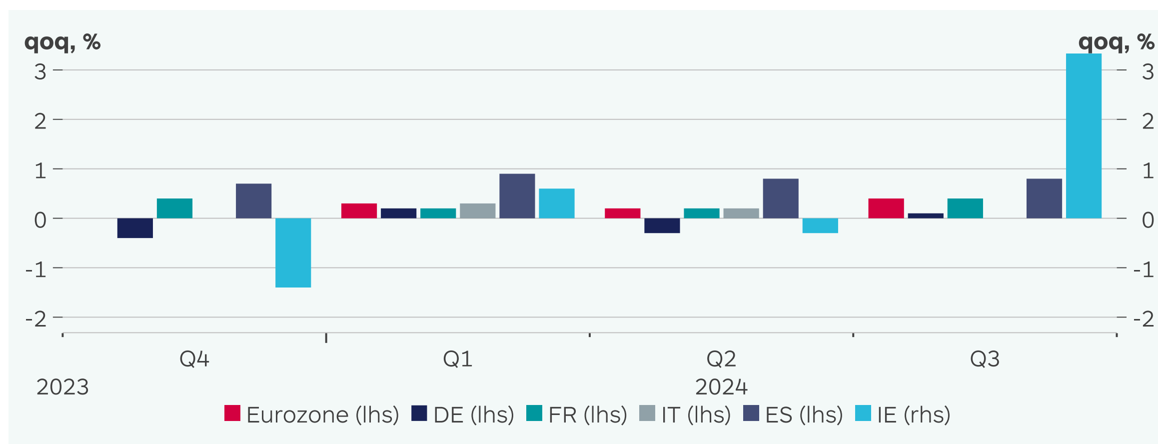
Sources: Bloomberg, NORD/LB Macro Research

Euroland: Focus on economic risks – ECB sticks to its course of monetary easing

Analysts: Christian Lips, Chief Economist // Valentin Jansen

Review 2024: Slow economic recovery – Germany lags behind in growth
After a prolonged phase of stagnation, the eurozone economy has slowly returned to a moderate growth path in 2024. The summer saw real seasonally adjusted GDP rise by 0.4 percent, quarter on quarter, with the annual rate climbing to 0.9 percent. Private and, above all, public consumption contributed to the moderate upturn in 2024. Moreover, net exports have helped drive GDP growth despite the general weakness of global trade. On the other hand, there has been a massive slowdown and decline in gross investment in 2024.
The industry and construction sectors registered particularly weak growth, which comes as no surprise given the geopolitical tensions and the (still) restrictive financing conditions. At the country level, economic momentum was particularly high in the southern member states, and besides, France benefited from the special effect generated by the Olympic Games in Paris. Germany's economic output, on the other hand, has contracted slightly, thereby making for a slowdown in growth in the eurozone. Excluding Germany, the rest of the eurozone is expected to have grown by 1.1 percent compared to 2023, while real GDP for the eurozone as a whole has expanded by just 0.7 percent. Our forecast of 0.5 percent from a year ago is thus proving relatively accurate.

Chart: GDP growth – heterogeneous economic development in the eurozone

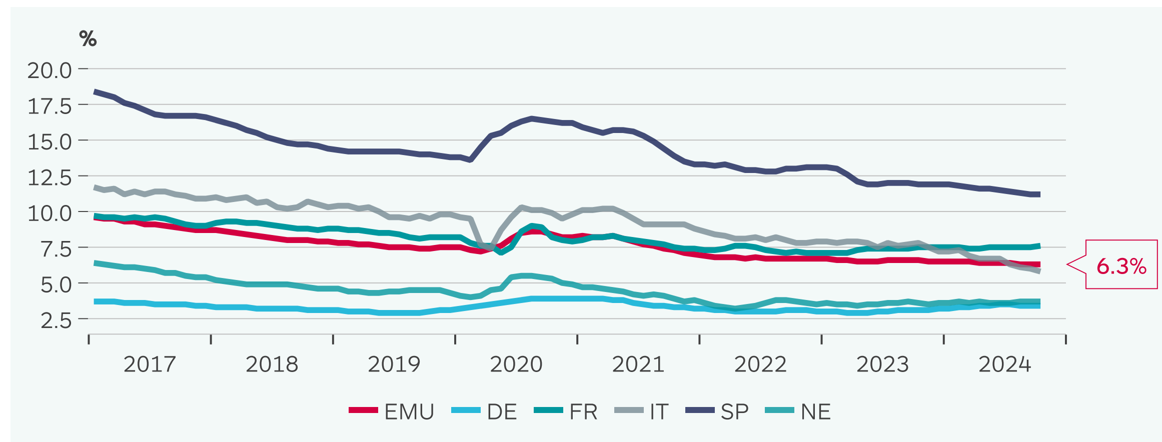


Sources: Eurostat, Macrobond, NORD/LB Macro Research

European labour market proves extremely robust
Despite the continued weakness in growth that has persisted since 2022, the European labour market has proven extremely robust. ILO figures indicate that, at 6.3 percent, the unemployment rate has since August been at its absolute lowest since the start of the monetary union. While this currently represents an aggregated decline of 0.3 percentage points compared to October 2023, the unemployment rate in some large member states, such as Germany, has risen within the past year (see chart).
This also reflects the growth differential in the eurozone, although by historical standards the labour market as a whole is reacting relatively inelastically to the current weakness in growth. This is primarily due to demographic trends and the impending shortage of skilled labour, against which backdrop many companies have retained more employees than they actually need. Despite weak overall demand, the proportion of industrial firms regarding their production as impeded by a shortage of labour still stood at 18.0 percent in October. While still at a historically high level, this proportion has dropped by over ten percentage points compared to mid-2022.

Looking ahead to 2025, however, the chances of any further significant reduction in unemployment are low. Above all the persistent weakness in growth and the marked decline in competitiveness on foreign markets of late will likely lead to a more cautious attitude in terms of new hires. After an average level of 6.4 percent throughout 2024, we therefore expect the unemployment rate to remain at the same level in 2025 as well.

Chart: Eurozone unemployment rate falls to new record low



Sources: Eurostat, Macrobond, NORD/LB Macro Research

Outlook: No noteworthy economic upturn in 2025

The leading economic indicators signal dampened economic sentiment. The indicator for economic sentiment in the eurozone rose marginally in November, but at 95.8 points stays well below the long-term average. Besides weak overall demand, the high degree of economic policy uncertainty – which has in many parts of the eurozone led to a wait-and-see attitude among consumers and companies in terms of spending and investment – is also weighing on the economy.

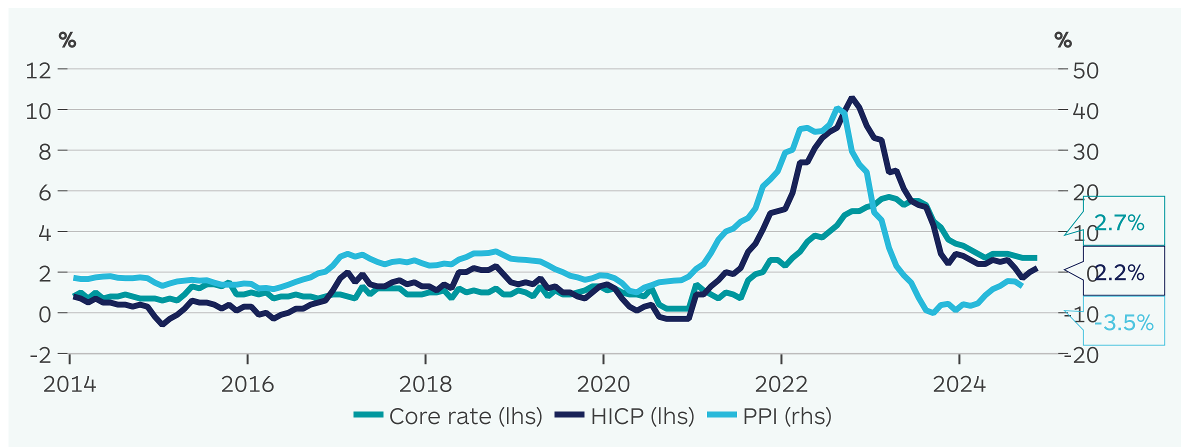
Indeed, there has been a further surge in political uncertainty towards the end of 2024, not least in the wake of Donald Trump's election as the 47th US President. The lack of coherence or clarity in his political agenda increases even further the uncertainty as to the nature, extent and timing of political changes. However, the EU needs to brace itself already for tough talks on defence and trade policy issues. It is precisely in this phase of the transition in the USA that the political capacity for action in Europe is – to put it politely – in need of improvement. The line-up of the EU Commission has at last been finalized, though the process dragged on for almost six months. Besides that, the 2025 budget proved a stumbling block for the French government headed by Barnier, and the collapse of Germany's governing coalition means early elections on 23 February.

The economic dynamics in the winter half-year will prove weaker compared to the recent past with a figure of 0.4 percent qoq in Q3. While the substantial increases in real wages create a necessary condition for a gradual normalization in private consumption, this has so far largely failed to materialize in 2024. Consumer confidence still needs to improve significantly for this to happen, which brings us back to the topic of high political uncertainty. Anyway, this situation also presents a chance if effective political measures can reduce various sources of uncertainty, thereby helping to stabilize the expectations among businesses and individual households. Additionally, deals with Donald Trump could be costly, but on the other hand could also eliminate uncertainty surrounding the threat of protectionist measures.

For the time being, consumer reluctance and investment reluctance will likely persist and, despite the ECB's gradual easing of financing conditions, will slow down economic momentum, so that GDP will likely register year-on-year growth of just 1.0 percent in 2025.

Inflationary pressure continues to ease – but core inflation remains persistent for now
The disinflation process continued in the eurozone in 2024; indeed, in certain summer months the inflation rate actually fell below the 2.0 percent yoy mark for the first time since 2021. In November, however, the year-on-year HICP rate surged back to 2.2 percent, essentially due to the waning of favourable base effects in the area of energy prices and therefore came as no surprise. This development can also be seen in the upstream price stages, though the year-on-year rate for producer prices is still in negative territory at -3.5 percent.
Core inflation has remained notably persistent, holding steady at 2.7 percent yoy in November. In particular service prices are still rising strongly. This is due to the rapid growth in wages, since wage costs account for a high proportion of the overall costs in the service sector.
That said, the unexpectedly strong uptick in wage growth in Q3 was significantly influenced not only by one-off payments but also by earlier agreements. We expect 2025 to see a marked slowdown in this context. The annual average inflation rate will likely drop back to the ECB's target of 2.0 percent. We see the greatest risk in an escalated trade war and growing disintegration of the global economy.

Chart: Disinflation process well on track

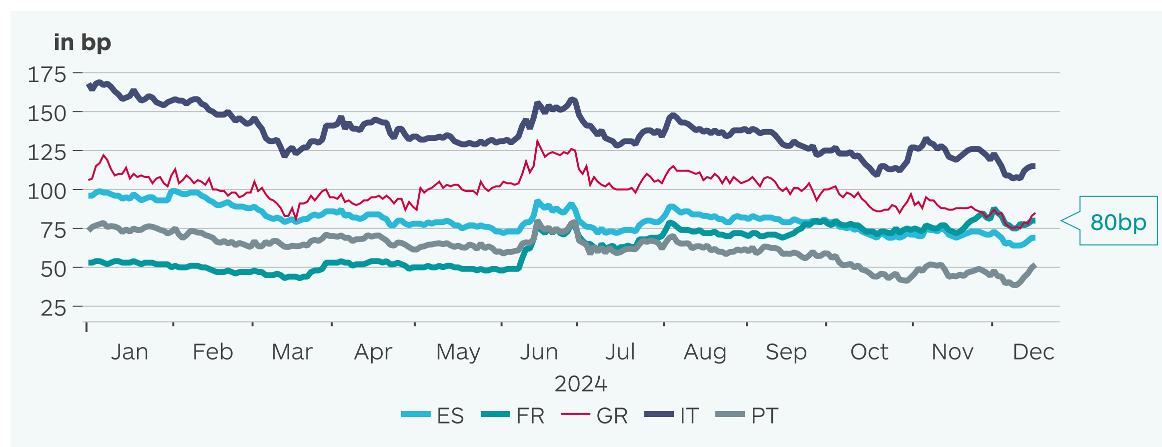


Sources: Macrobond, Eurostat, NORD/LB Macro Research

Considerable concerns in the markets over potential political gridlock in France
France has been a focal concern in the capital markets since the National Assembly elections and President Macron's lack of a majority, with the Barnier-led government having collapsed after just three months. After lengthy budget negotiations, Barnier invoked article 49.3 of the French Constitution to adopt the social budget for 2025 without the need for parliamentary approval. However, he lost the subsequent no-confidence vote as a left-wing alliance and the far right both voted to oust him. A "hard shutdown" is unlikely, seeing as the parliamentary political groups have already signalled their support for special legislation to ensure administrative continuity.
From the perspective of the markets, there is concern as to France’s administrative capability to effectively make and implement future decisions in the context of fiscal policy. According to the constitution, the National Assembly can only be dissolved once annually and thus at the earliest again in mid-2025. Macron has already ruled out stepping down before his term in office officially ends in 2027. François Bayrou, leader of the centrist Democratic Movement and a close confidant of Macron, takes over as the new prime minister. It is as yet unclear whether he will be able to resolve the blockade in the National Assembly and form a viable government majority. The ongoing phase of political instability is fuelling concerns on the financial markets that future plans to lower the deficit and ensure debt sustainability will hardly be implementable. The ECB will likely also be keeping a close eye on the trend in yields on French government bonds, but speculations as to intervention are inappropriate. Aspects solely specific to individual countries do not meet the necessary criteria for intervention, as, for example, ECB Chief Economist Philip Lane commented on the question of emergency purchases of

French government bonds. It is simply not the role of the ECB to act as a repair shop for political issues. In this respect, it is also correct to fully end the reinvestments under the PEPP programme as planned at the turn of the year.
The anti-fragmentation tool TPI (Transmission Protection Instrument) will not be made use of. Although the yield spread between French government bonds and German Bunds approached the 90bp mark at its peak – thus exceeding that of Greece – the feared spill-over effects on bonds from other countries, such as Italy, did not materialize. Moreover, the risk of government failure and prolonged political incapacity to act is also likely to have been largely priced in by now. It is now up to the politicians to regain the confidence of the markets by making for more stability and thus gradually secure more favourable refinancing terms for the French government.

Chart: Yield spreads to German Bunds (10y)



Quelle: Macrobond, NORD/LB Macro Research

ECB on monetary easing course since June – restrictive policy no longer needed
At its last meeting in 2024 the European Central Bank, as expected, resolved to maintain the monetary easing course it set out on in June, accordingly cutting the key deposit facility rate for the fourth time by 25 basis points to a current level of 3.00 percent. The hard economic indicators turned out to be more solid in Q3 than initially suggested by the sentiment indicators. Moreover, the year-on-year inflation rate surged back above the 2-percent mark in November which, all told, spoke against a large interest rate cut – though this possibility was at least discussed at the Governing Council's meeting.
With four rate cuts since June 2024, the central bankers have cut back the restrictiveness of their monetary policy and are gradually moving towards a more neutral monetary stance – even if the Governing Council is still not looking to commit to a predetermined interest rate path. However, the ECB's statement no longer includes the assertion that the restrictive level of interest rates will be maintained for as long as necessary.
The return of Donald Trump with his protectionist agenda also poses new challenges for the central bankers. An escalation of the trade conflicts and the implementation of higher tariffs would also have implications for inflation in the medium term. Due to the high political uncertainty, the ECB's focus is turning more and more to the economic risks, however. This is also underlined by the ECB's December economic projections, which, at 0.7 percent for 2024 and 1.1 percent for 2025, are more restrained, in line with the recent downward trend among the sentiment indicators. The inflation projections were slightly lowered in late 2024 compared to those made in September. While wage dynamics remain strong, and core inflation, particularly in the area of service prices, remains stubborn, the ECB nevertheless sees the disinflation process well on track.
It is still too early for the central bankers to draw any reliable conclusions for their interest rate policy from Donald Trump's election. They will therefore continue applying their data-dependent approach for now – and, given the considerable uncertainty surrounding the forthcoming political framework conditions, this policy of maintaining a calm and responsive strategy is prudent.

Outlook: Further interest rate cuts down to 2.00 percent – but market expectations overly bold
On the data side, there is currently much to suggest a continued easing of monetary policy, though this should be done gradually in light of the ongoing stubbornness of core inflation. We expect further gradual rate cuts down to 2.00 percent by mid-2025.
The financial markets initially responded to Donald Trump's election triumph by highlighting new inflation risks and the prospect of further increases in public debt in the USA. This temporarily led to significantly higher long-term government bond yields, especially in the case of US Treasuries. However, the yield on 10-year German Bunds likewise climbed briefly to 2.50 percent in this environment. That said, the markets have since corrected this biased narrative, and the yield on Bunds most recently fluctuated around the mark of 2.20 percent.
There is now renewed focus on the question of how monetary policy will develop going forward and, specifically, on determining the terminal rate within the current easing cycle. In our view, the markets are factoring in overly bold rate cuts at the moment, with the money markets having temporarily seen the terminal rate as closer to 1.50 percent than to 2.00 percent. They have already corrected some of this rate cut euphoria, though there still remains some potential for disappointing the financial markets. Moreover, the ECB is continuing the normalization of its balance sheet and, after Germany’s elections, the new German government will likely expand its fiscal leeway in order to remedy the investment backlog and take measures to strengthen the country's economic positioning. Against this background we expect the yield on 10-year Bunds to come back to around 2.50 percent by year-end 2025.

Fundamental forecasts, Euroland

	2023	2024	2025
GDP	0.5	0.7	1.0
Private consumption	0.7	0.9	1.4
Govt. consumption	1.6	2.3	1.5
Fixed investment	1.8	-2.0	2.5
Net exports[1]	0.3	0.5	-0.7
Inflation	5.4	2.3	2.0
Unemployment rate[2]	6.6	6.4	6.4
Budget balance[3]	-3.6	-2.9	-3.0
Current account balance[3]	1.7	3.0	2.3

Change vs previous year as percentage, [1] as contribution to GDP growth; [2] as percentage of the labour force; [3] as percentage of GDP

Sources: Feri, NORD/LB Macro Research

Quarterly forecasts, Euroland

	I/24	II/24	III/24	IV/24	I/25
GDP sa qoq	0.3	0.2	0.4	0.1	0.2
GDP sa yoy	0.4	0.5	0.9	1.0	0.9
Inflation yoy	2.6	2.5	2.2	2.1	2.2

Change as percentage

Sources: Feri, NORD/LB Macro Research

Interest rates, Euroland

	12.12.	3M	6M	12M
Repo rate ECB	3.00	2.50	2.00	2.00
3M rate	2.89	2.40	2.00	2.00
10Y Bund	2.21	2.20	2.30	2.50

Sources: Bloomberg, NORD/LB Macro Research

Germany: In search of ways out of the structural and economic crisis

Analysts: Christian Lips, Chief Economist // Christian Reuter

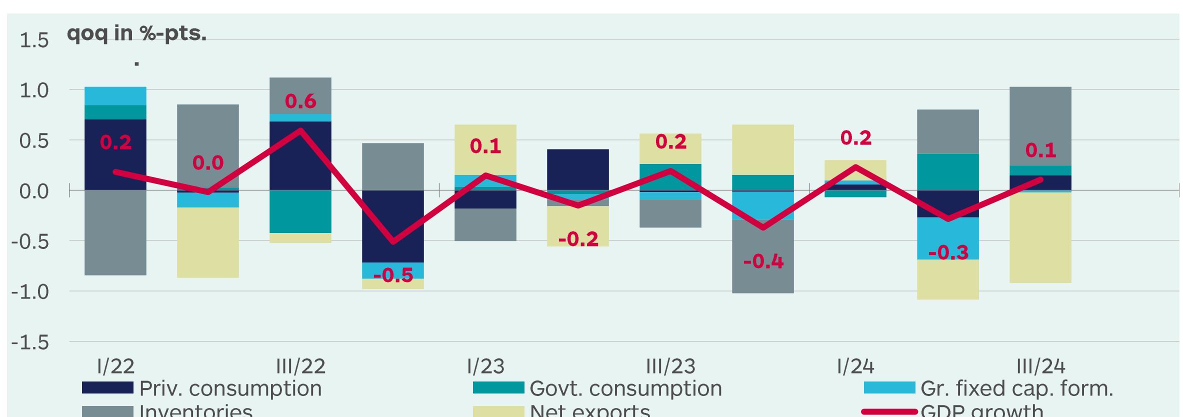
Contraction of real economic output in 2024 as well

The German economy remains trapped in stagnation in 2024, with real economic output registering slight contraction. In the summer, the German economy unexpectedly recovered, leading to modest growth. This cannot conceal the fact that the economy has been stalling for around three years, however. Sporadic increases in real GDP were in most cases already offset in the following quarter by setbacks of a similar magnitude (see chart). An end to this irregular economic pattern of ups and downs is not yet in sight.

Germany's industry remains the economy’s biggest headache, with weak new orders and sluggish export demand. In particular, the energy-intensive industries have scaled back their domestic production by almost 20 percent since early 2022. The German economy continues to face a wide range of burdening factors. Heavily reliant on industry and exports as it is, Germany's growth and prosperity model is facing significant challenges from geopolitics, deglobalization, demographic shifts, weak demand, and an investment backlog. Moreover, the political uncertainties have increased markedly in the short term with the return of Donald Trump to the White House, the collapse of Germany's governing coalition and the ousting of the French government.

In this environment, the German economy will likely remain trapped in stagnation for the time being. The data for the first nine months show that real GDP contracted by 0.2 percent during that time as against the same period last year. Based on the economic indicators published so far, we see no likelihood of an economic upturn in Q4. This means that in whole 2024, real GDP probably shrank by 0.2 percent, year on year; our forecast from late 2023 of 0.3 percent was therefore a bit too optimistic. While, investments plummeted as expected, private consumption has, due to dampened consumer confidence, not yet benefited by the hoped-for extent from the rising real wages. The labour market situation had so far proved relatively stable, but now there is growing anecdotal evidence like company reports on planned job cuts and plant closures and, notably, plans of this nature are also being considered among traditional and long-established German companies.

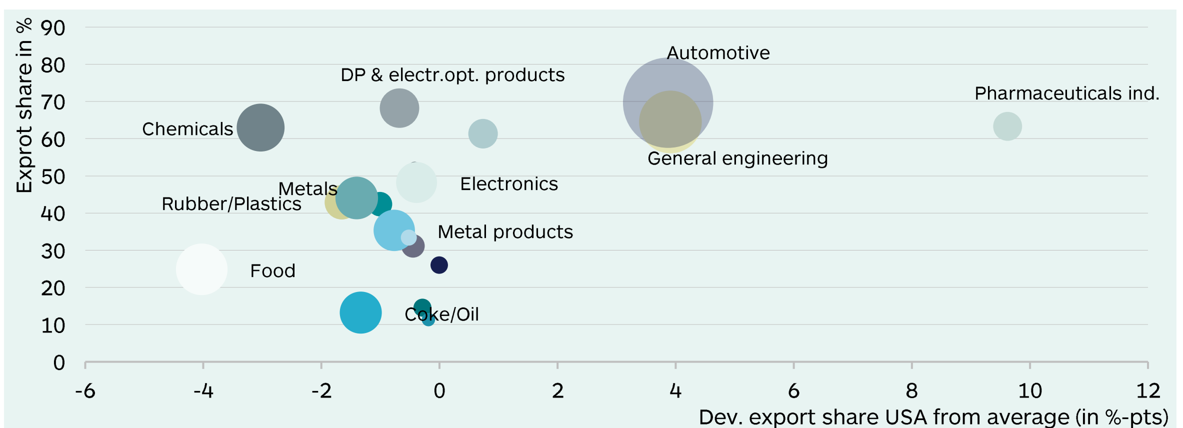
Chart: Contributions to real GDP growth



Sources: Feri, Destatis, NORD/LB Macro Research

Damocles sword of US import tariffs – high uncertainty dampens economic expectations
With the return of Donald Trump to the White House, there is also the risk of protectionist trade policy, which would hit Germany, as a very open economy, particularly severely. The USA has become the most important market for the German export industry; in 2023 as a whole, exports worth EUR 158 billion accounted for around 10 percent of Germany's total goods exports. America's importance for the German economy has also increased in terms of imports, with a volume of EUR 95 billion now putting the USA in third place among Germany's key import partners. This makes the USA Germany's most important trading partner overall, surpassing even China. That said, the figures also clearly reflect the high trade surplus; with no other trading partner is the export surplus so pronounced as with the USA. Estimating the overall impact of higher tariffs is far from straightforward and currently highly speculative. Alongside the direct effects (obstacles in trade), there diversionary effects, countermeasures and shifts in relative competitive positions (trade distortions) need to be taken into account. Nevertheless, it is possible to identify various vulnerabilities for individual sectors with regard to the direct effects. Disproportionate large export quotas and relatively high US export shares exist in the industry with motor vehicles and parts, mechanical engineering as well as the pharmaceutical sector (see chart). New trade barriers would hit the German economy at the most inopportune time imaginable, considering it is already facing both structural and cyclical crises.
The sentiment among German companies has recently deteriorated as expected against the backdrop of new political uncertainties. The ifo Business Climate Index fell to 85.7 points in November, the current situation was rated as significantly worse in particular. The substantial decline in the sentix Economic Index in December indicates that no marked change in sentiment is to be expected, at least in the short term.

Chart: The Damocles sword of US import tariffs – vulnerabilities in industry unevenly pronounced

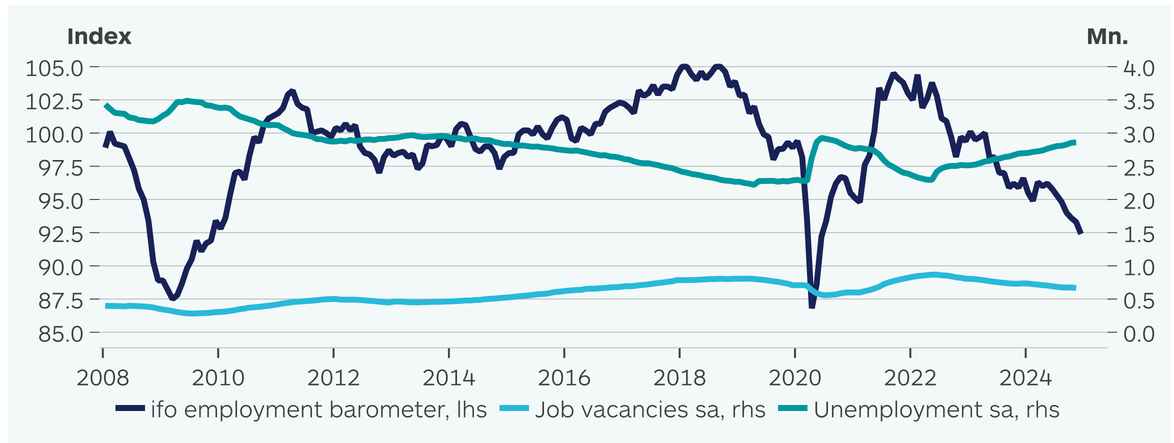


Sources: Destatis, NORD/LB Macro Research

Economy's weakness with growing impact on the labour market despite demographic factors
The labour market has so far proven as relatively robust amid the economic and structural crisis. In November, for example, 2.86 million people were registered as unemployed in seasonally and calendar-adjusted terms, 169,000 more than a year ago. Although employment growth has slowed, it has not come to a complete halt, as evidenced by an increase of 32,000 new jobs in October compared to the previous year. However, the sustained increase in employment levels in progress over several years will not continue along the same lines in 2025.
In 2024 as a whole, the unemployment rate climbed by 0.3 percentage points to an average of 6.0 percent, and we expect a further rise e to 6.3 percent in 2025. The Institute for Labour Market and Occupational Research's monthly IAB labour market barometer fell again in November to 99.5 points, and a level below the 100-point mark is indication of a further uptick in unemployment. However, ongoing demographic shifts and concerns about a shortage of skilled workers continue to stand in the way of any massive increase.

Companies are still continuing to use short-time work to bridge periods of underutilization. Cases of economically induced short-time work rose significantly in September. In November, the number of individuals impacted by short-time work notifications remained at the level of the preceding months, thus signalling no massive worsening of the situation at present. Nonetheless, companies' employment planning for 2025 is marked by pronounced caution, similar to their investment plans.

Chart: Labour market – demographics have so far prevented an economically induced slump



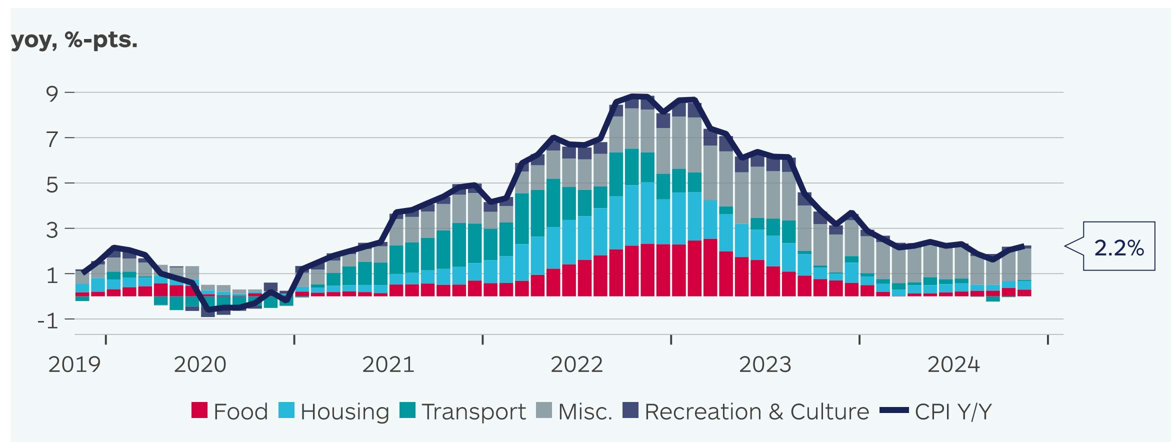
Sources: Macrobond, ifo, BA, NORD/LB Macro Research

Disinflation process continues – inflation rate of around 2.0 percent expected in 2025

The process of disinflation continued in 2024, even though inflation rose above the important 2-percent mark in November (see chart). Yet, the yoy inflation rate as measured by the Harmonized Consumer Price Index (HCPI) remained stable at 2.4 percent. The fact that inflation rates would rise again in autumn 2024 was already foreseeable due to base effects, with the beneficial impact of lower energy prices gradually coming to an end.

On the other hand, the renewed uptick in the core rate to 3.0 percent yoy provides cause for concern, as does the fact that the rate of increase in service prices has remained stubbornly high of late, most recently standing at 4.0 percent yoy. Moreover, the core rate is going to get another push by foreseeable price increases at the turn of the year (Germany travel ticket, private health insurance premiums, postal charges). Due also to the strong growth in nominal wages, the core rate will likely remain elevated for some time and only start gradually declining in the course of 2025. In contrast, we expect the overall rate to remain stable at around 2.0 percent on average over the year.

Chart: Disinflation process well advanced – return to 2 percent expected in 2025



Sources: Macrobond, Destatis, NORD/LB Macro Research

Forecast 2025: A further year of stagnation looms

Besides the current weakness in demand and the bureaucracy-induced hurdles, the high economic policy uncertainty heightened by concerns about a potential increase in protectionism under President-elect Donald Trump is weighing on economic sentiment. While the prospect of new US import tariffs will likely trigger pull-forward effects in foreign trade in the short term, the high degree of uncertainty surrounding the situation will continue to hinder investment activity.

Additional impetus to overcome economic stagnation would be necessary and helpful in this respect, especially as it will take some time before the easing of monetary policy leads to measurable relief in the real economy. However, fresh economic stimuli and structural reforms at the political level – which together could break the negative spiral of weak sentiment and reluctance – can only be realistically expected after the forthcoming elections and the formation of a new government in Berlin. Even if the general outline of the new course already becomes clearly recognizable in the spring, the economic momentum will likely pick up at the earliest in the second half of the year.

At the moment, it doesn't look as if we can expect any substantial boost in economic growth in 2025 after two years of stagnation. Although the slow upturn in private consumption will likely continue in the new year, we expect a persistently weak trend in investment activity. Monetary policy is still having a restrictive effect, and fiscal policy is unable to have the stabilizing effect that would be currently appropriate to the situation. Against this background and bearing in mind the unusually high degree of uncertainty underlying economic predictions at present, our correspondingly cautious forecast for Germany's GDP growth in 2025 stands at 0.2 percent. Even just a few unfavourable developments could send the German economy sliding into recession, however. On the other hand, there is also the possibility that the politicians will succeed in stabilizing sentiment and expectations and that the vicious circle of poor sentiment and wait-and-see in investment activity will finally be broken.

Fundamental forecasts, Germany

	2023	2024	2025
GDP	-0.3	-0.2	0.2
Private consumption	-0.4	0.1	1.0
Govt. consumption	-0.1	2.3	0.9
Fixed investment	-1.2	-2.6	-0.3
Exports	-0.3	-0.4	0.7
Imports	-0.6	0.1	2.8
Net exports[1]	0.1	-0.2	-0.8
Inflation[2]	6.0	2.4	2.1
Unemployment rate[3]	5.7	6.0	6.3
Budget balance[4]	-2.6	-1.7	-2.3
Current account balance[4]	5.7	6.3	5.8

Change vs previous year as percentage, [1]as contribution to GDP growth; [2]HICP; [3]as percentage of the civil labour force (Federal Employment Office definition); [4] as percentage of GDP

Sources: Feri, NORD/LB Macro Research

Quarterly forecasts, Germany

	I/24	II/24	III/24	IV/24	I/25
GDP sa qoq	0.2	-0.3	0.1	-0.1	0.1
GDP nsa yoy	-0.8	0.1	0.1	-0.4	-0.4
Inflation yoy	2.7	2.6	2.2	2.3	2.5

Change as percentage

Sources: Feri, NORD/LB Macro Research

Switzerland: SNB delivers a substantial rate cut – strong franc becoming a problem

Analyst: Christian Reuter

Slowdown in Swiss economic growth – but 2024 overall a solid year

The Swiss economy held up well in 2024 despite challenging circumstances. Its growth was almost exclusively driven by the service sectors. These benefited from, among other things, a greater willingness among consumers to spend and a renewed boost in tourism activities. At the same time, however, the weak phase in the industry and construction sectors persisted, due to slowing demand for these cyclically sensitive areas of activity caused by the ongoingly high interest rates. Investment activity failed to progress, and international business was held back by weak demand, an effect exacerbated by unfavourable developments in the Swiss franc's exchange rate. Overall, the Swiss economy's progress was characterized by the ups and downs of the chemical-pharmaceutical industry, which registered an exceptionally good performance in its foreign business in Q2.

In Q3, Swiss economic growth slowed markedly. GDP adjusted for sports events grew by just 0.2 percent yoy in real terms after a figure of 0.4 percent in the previous quarter. It can now be assumed that 2024 will close with growth below the mark of 1 percent yoy for the year as a whole. Growth was again primarily driven by domestic demand, in particular by private and government consumption. Investment activity remained weak. Foreign trade delivered markedly negative impact, due to a rebound effect in the chemical-pharmaceutical industry in the wake of an exceptionally strong upsurge in exports in the preceding quarter. At the same time, however, there was also a downward trend in other goods exports, with the outcome that the Swiss manufacturing industry was unable to escape its persistent state of weakness.

The overall mood in the Swiss economy remains divided, with optimism based on a sound trend in most of the service sectors countered by a persistent pessimism in the manufacturing sector. There was a further damper in this context in the wake of Donald Trump's election triumph, with the Industry PMI down by 1.4 to 48.5 points in November and thus again below the 50-point growth threshold. And it is quite likely that the participating purchasing managers actually held back their pessimism; as the survey showed, more than twice as many of them anticipate an increase in protectionist measures as seen at the beginning of Trump's first term in the White House. The downward trend in sentiment has so far not spread to the services sector, the PMI for which remained unchanged at 51.8 points month-on-month. Consumer sentiment deteriorated again in November, though remaining significantly more positive than a year ago.

Outlook for 2025 with a slight uptick in momentum but considerable uncertainties

The Swiss economy ought to regain some of its momentum in 2025. Hopes in this direction are based on a sustained recovery in private consumption, which is anticipated to gain from rising real incomes. A positive effect can also be expected from the downward interest rates, which are making for an improved environment for investment activity and the construction industry. More positive stimuli can also be expected from Switzerland's foreign trade activities as growth in the eurozone picks up, even if the trend there remains subdued for the time being. That said, the Swiss economy's exceptionally strong dependence on foreign trade carries a high degree of risk in the current environment. The upcoming reorientation of US economic policy constitutes a major unknown in this context. However, China's economic difficulties too are giving rise to uncertainties, as are the political imponderables in the eurozone as well as to a considerable extent the Swiss franc's exchange rate.

Inflation in retreat – rendezvous with deflation?
Inflation is no longer an issue in Switzerland, having regularly surprised at the downside over the past twelve months to a year-on-year level of 0.7 percent in November. Domestic inflation declined by all metrics (core rate which does not include fresh and seasonal products as well as energy and fuels: 0.9 percent yoy; prices for domestic goods: 1.7 percent yoy). A strong exchange-rate induced deflationary impulse came from abroad again, with prices of imported goods down by 2.3 percent yoy. We expect the coming year to see a continued disinflationary trend, although the base effects on fossil fuels are coming to an end. There will be an easing in administered electricity and rent prices in particular, besides which the second-round effects have a merely minimal impact. As things currently stand, the rate of inflation will likely get close to zero by mid-2025, even though we expect an average year-on-year rate of 0.4 percent.

Unexpectedly sharp key-rate cut by the SNB – franc's appreciation becomes a problem
The Swiss National Bank was able – or had to – lower its key rate at each of its four meetings in 2024, most recently by 50bp to 0.50 percent. The zero interest rate policy is thus back within reach. This considerable rate cut came as a surprise, with large steps of 50bp normally more likely to be made in exceptional circumastances. The SNB is thus reacting to the downward trend in inflation. The central bankers lowered their conditional inflation forecast for 2025 to an average 0.3 percent yoy over the year and raised this metric slightly by 0.1 percentage point to 0.8 percent for 2026.
However, they are also aware that the current success in combating inflation is not solely attributable to their policies. In fact, Switzerland's status as a safe haven in uncertain times worked to their advantage. The appreciating currency helped mitigate the price shock initially caused by the supply chain disruptions (COVID crisis) and then by the rising prices of fossil fuels (Ukraine war). However, the rising strength of the Swiss franc is now becoming more and more an issue – for both the economy and for price stability. With this in mind, the SNB likely also had the currency's appreciation in its sights with its most recent rate hike. A look at the interest rate differential shows just how strong the pressure driving the appreciation trend is; this has been above the 200 bp mark in relation to the eurozone since July, a level more than twice the long-term historical average. The SNB's action can be seen as an attempt to counteract this appreciation trend, also because the central bankers will likely be looking to keep direct interventions in the forex market to a minimum in the future; after all, Donald Trump had labelled Switzerland an "adverse currency manipulator" in his first term in office. The substantial foreign trade surplus with the USA makes the Swiss economy vulnerable in this regard, in light of which the SNB is endeavouring to escape a situation between the devil and the deep blue sea, namely having to choose between the costs of a policy of negative interest rates on the one hand and, in terms of foreign policy, risky manoeuvres on the forex market on the other.
As matters stand, the SNB will follow the other major central banks with two further rate cuts by mid-2025, ultimately leading to a level of 0 percent. As regards the exchange rate, the structural strength of the franc will not change much if the multiple geopolitical crises persist.

Fundamental forecasts*, Switzerland

	2023	2024	2025
GDP	1.1	0.9	1.5
Inflation (CPI)	2.1	1.1	0.4
Unemployment rate[1]	2.0	2.4	2.7
Budget balance[2]	0.3	0.3	0.2
Current account bal.[2]	6.4	7.0	6.5

Interest and exchange rates, Switzerland

	12.12.	3M	6M	12M
SNB policy rate	0.50	0.25	0.00	0.00
3M rate	0.45	0.20	0.00	0.10
10Y	0.28	0.25	0.25	0.40
Spread 10Y Bund	-193	-195	-205	-210
EUR in CHF	0.93	0.92	0.92	0.92

* Change vs previous year as percentage; [1] as percentage of the labour force, [2] as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

Japan: Inflation now a focal concern for the central bank

Analyst: Tobias Basse

In the wake of the BoJ's strategy shift

2024 was undoubtedly quite a turbulent year for the central bank in Tokyo. As expected, the Bank of Japan has also found itself compelled to cautiously raise the traditional key interest rate level as deflationary fears in the Land of the Rising Sun subside. The corresponding strategy shift thus came as no real surprise. Given the current developments on the macroeconomic price front in Japan, the central bank remains under pressure to act. That said, the central bankers will certainly not be looking to throw out the champagne with the cork, so to speak.

The benchmark rate ought to be raised gradually

BoJ Governor Kazuo Ueda should therefore be looking to continue along the path now set out upon, so Japan's benchmark rate level can be expected to continue rising over the next 12 months too. Indeed, a hike of at least +25bp in the fairly short term is already to be reckoned with. The latest inflation data from Tokyo and also the national consumer price index – which, however, is first published a day after the central bank announces its decision on the benchmark rate for December – suggest a more pronounced uptick in the annual rate of this time series in November. The Bank of Japan should already be well aware of this fact. The current price environment therefore provides sound reason to expect a rate hike in December. However, the Japanese press is currently citing sources from the BoJ's "inner circle" who have apparently provided journalists with clues in the direction of a preference for a somewhat more hesitant stance. These comments could well suggest a greater likelihood of a rate hike at the start of 2025. At any rate, it currently seems highly likely that the central bankers will be looking to take action in December 2024 or January 2025.

Yen likely to remain in fluctuation

The prospect of rate hikes by the central bankers in Tokyo had temporarily helped the yen in 2024. The Japanese currency is currently tending towards a remarkable degree of weakness again, however, indeed once more exceeding the psychologically important mark of 150.00 JPY per USD. That said, it is crucial not to lose sight of the current marked receding of deflationary fears in Japan now transitioning almost seamlessly into a gradual uptick in inflationary concerns. The Bank of Japan will at any rate have to raise its benchmark rate in the future – perhaps as soon as by the end of December. The yen ought then to be able to benefit from this to a certain extent.

Fundamental forecasts*, Japan

	2023	2024	2025
GDP	1.5	-0.1	1.3
Inflation	3.3	2.7	2.2
Unemployment rate[1]	2.6	2.5	2.4
Budget balance[2]	-5.2	-4.7	-4.0
Current account bal.[2]	3.8	4.2	3.9

* Change vs previous year as percentage;

[1] as percentage of the labour force; [2] as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, Japan

	12.12.	3M	6M	12M
Key rate	0.25	0.50	0.75	0.75
3M rate	0.62	0.65	0.80	0.90
10Y	0.66	1.10	1.30	1.40
Spread 10Y Bund	-155	-110	-100	-110
EUR in JPY	160	158	157	149
USD in JPY	153	149	145	138

China: Big efforts on domestic and foreign trade fronts

Analyst: Valentin Jansen

Pull-forward effects in China's foreign trade in anticipation of future US foreign trade policy
The economy in the Middle Kingdom is facing a diversity of challenges as the turn of the year approaches. Q3 saw year-on-year GDP growth continue to slow (Q3: 4.6 percent vs. Q2: 4.7 percent). Industrial output lost pace over the course of the year, due to weak global demand and a weak domestic market. However, the Caixin Manufacturing PMI (October: 50.3 points) and its official counterpart are currently showing very clear pull-forward effects, with trading partners stockpiling in anticipation of rising tariffs on Chinese imports to the USA. This will likely give China's foreign trade activity – as the key pillar of the economy in 2024 – added tailwind into the coming year. The downward price trend in the real estate sector has merely slowed. With only tentative signs of an impending bottoming out in 2025, domestic consumption will struggle to overcome the low levels of consumer confidence and spending.

Stronger focus of fiscal aid needed on effective demand while also keeping powder dry
A wave of monetary easing measures in September has also made for rising hopes of effective support on the fiscal side towards breaking the Gordian knot in the real estate sector in particular and in domestic consumption. The Hong Kong benchmark index and the CSI 300 on the mainland hit record highs at the beginning of October, though much of this euphoria has already faded away. The debt restructuring programme announced in November, amounting to USD 800 billion, for local authorities in financial difficulties, has only partially met the expectations among investors. While the hoped-for direct support for boosting consumer spending failed to materialize, the role of the local authorities and their leeway in implementing Beijing's plans are of particular importance. At the Central Economic Work Conference (CEWC) in December, it was made particularly clear that, given the negative outlook for China's foreign trade, a stronger focus will need to be placed on effective demand in 2025. However, Beijing will want to maintain cautious reserve in terms of specific figures on stimulus measures until Donald Trump’s inauguration – when his US trade policy first takes concrete shape – and the annual Two Sessions meeting in March.

PBOC: Shift to a "moderately loose" monetary policy stance
In the wake of the unexpectedly extensive easing package in the autumn, December saw the PBOC announce a shift in monetary policy strategy for the first time in 14 years, changing the official formulation of its stance to "moderately loose". Not least, this shift is driven by the plans of the U.S. presidency. Some of the potential scenarios discussed in the market revolve around an appreciable strategic devaluation of the renminbi as a countermeasure. In our opinion, Beijing will be looking to act extremely cautiously in balancing long-term geostrategic or economic objectives and short-term economic needs.

Fundamental forecasts*, China

	2023	2024	2025
GDP	5.2	4.8	4.5
Inflation	0.3	0.4	1.0
Unemployment rate[1]	5.2	5.1	5.1
Budget balance[2]	-4.6	-5.0	-5.5
Current account bal.[2]	1.4	1.3	1.2

* Change vs previous year as percentage

[1] as percentage of the labour force; [2] as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, China

	12.12.	3M	6M	12M
Deposit rate	1.50	1.50	1.50	1.50
3M SHIBOR	1.74	1.85	1.80	1.70
10Y	1.82	2.10	2.05	2.05
Spread 10Y Bund	-39	-10	-25	-45
EUR in CNY	7.61	7.63	7.88	7.88
USD in CNY	7.27	7.20	7.30	7.30

Britain: Positive outlook for the future

Analyst: Constantin Lüer

New government heads into the new year with dwindling support

June saw the election of a new government in Britain headed by Keir Starmer, ending 14 years of seemingly endless political dominance by the conservative Tories. An issue currently preoccupying a great many heads of state around the world is that of budgetary policy – and that is also the case in the UK. Chancellor of the Exchequer Rachel Reeves has unveiled an ambitious set of plans aimed at cutting the budget deficit. These include raising taxes by £40 billion, including a capital gains tax hike from 20 to 24 percent, as well as reforms in inheritance tax which would particularly hit the agricultural community. Farmers literally took to the barricades in protest, gaining significant momentum for their cause with the help of TV personality Jeremy Clarkson. The planned reform would mean that inherited agricultural assets valued at more than £1m would be subject to inheritance tax of 20 percent. This was the first major test for the new government, which is facing growing resistance from the population. The United Kingdom is nevertheless in good shape economically, for which reason we initially expect no political upheavals in the coming year.

Bank Rate cut cycle the most likely scenario

Since August 2024, the Bank of England has lowered its key interest rate – i.e. the Bank Rate – twice, by 25 basis points in each case. This likely makes the highest level of interest rates since 2007 a thing of the past, and the trend is currently pointing further downwards. In its assessment of the economic situation related to the last key-rate cut, the MPC stated that the "delayed" adjustment thereof ought not to become a burdening factor in the future. What virtually amounts to an admission of having acted tardily can be expected to set the fundamental tone for the future direction of monetary policy. Since the economic outlook for the UK is considered positive, a gradual reduction of the Bank Rate by an aggregate 100 basis points over the year also seems realistic. Any key rate above the 3.00 percent ought also to be considered sufficiently restrictive in terms of the targeted price stability. If the economy continues to perform in line with the expectations and forecasts, however, we regard a two before the decimal point in 2026 as quite conceivable as well.

Price trend and GDP growth likely to remain stable in 2025

By and large, inflation in particular now seems to be under control. Indeed, September saw the UK Consumer Price Index at a year-on-year level of 1.7 percent, due in part to a base effect. The monthly data have shown a somewhat more volatile tendency again of late. As long as the average values fit and the current trend continues, however, we expect no pressure from inflation on the strategic orientation of monetary policy. A projected GDP growth rate of 1.4 percent yoy in 2025 only strengthens the belief in a stronger economic future in the United Kingdom.

Fundamental forecasts*, Britain

	2023	2024	2025
GDP	0.3	1.0	1.4
Inflation (CPI)	7.3	2.5	2.3
Unemployment rate[1]	4.0	4.3	4.5
Budget balance[2]	-5.0	-4.5	-3.7
Current account bal.[2]	-2.0	-3.0	-2.9

* Change vs previous year as percentage

[1] as percentage of the labour force as per ILO concept

[2] as percentage of GDP

Interest and exchange rates, Britain

	12.12.	3M	6M	12M
Repo rate	4.75	4.50	4.25	3.75
3M rate	4.64	4.30	4.05	3.55
10Y	4.36	4.10	4.00	3.95
Spread 10Y Bund	216	190	170	145
EUR in GBP	0.83	0.82	0.82	0.82
GBP in USD	1.27	1.29	1.32	1.32

Australia: interest rate cuts and election suspense

Analyst: Constantin Lüer

Reserve Bank of Australia leaves its benchmark rate unchanged

The first three quarters of the year saw the Australian economy register growth of 0.7 percent YTD – the lowest rate of GDP expansion since the 1990s apart from the pandemic period. This sluggish economic trend initially sparked speculation about a swift interest rate cut by the Reserve Bank of Australia; this has not been all too urgently necessary so far due to favourable labour market reports, however. At its meeting on 10 December, the RBA then decided to leave its benchmark rate unchanged at 4.35 percent. Inflation, as expressed by the Consumer Price Index (CPI) and calculated quarterly in Australia, fell to a year-on-year level of 2.8 percent in Q3 and thus within the target corridor of 2-3 percent. Since October 2022, the Australian Bureau of Statistics (ABS) has also published a monthly consumer price index, which is intended to reflect future developments at an earlier stage while merely including about two-thirds of the shopping basket. These data should therefore be treated as nothing more than a rough estimate. Inflation stood at 2.1 percent yoy in October this year. In the eyes of the central bankers, however, this development was not yet enough to warrant an interest rate cut, seeing as the minutes of the RBA's meeting show that the central bankers would prefer to first be certain of a longer-term stable inflation trend in the target corridor before actually lowering the cash rate. Our forecasts see the likelihood of an initial rate cut in Q1/2025, with further downward adjustments being made gradually over the course of the year.

No clear trend for the upcoming elections as yet

Australia's federal elections are scheduled to take place on or before 17 May 2025. A specific date has not yet been set. The opinion polls are already indicating a neck-and-neck race between the ruling Labour Party and the opposition Liberal/National Coalition (around 50 percent each). Prime Minister Anthony Albanese may find himself forced to form a minority government as his current wafer-thin majority of just three seats looks to be at risk. An alliance with the Greens or independents is looking increasingly likely in the interests of consolidating the existing power base.

Australia and China settle their trade dispute conclusively

The years of tension in the trade relationship between China and Australia are now entirely a thing of the past. Since Prime Minister Anthony Albanese took office, all import restrictions previously enforced on a wide range of goods have been systematically lifted. Until recently, the goods under sanction included the Australian lobster – but this vital export commodity is now allowed to be imported into China again. All sanctions imposed by Australia's key trading partner have thus been revoked.

Fundamental forecasts*, Australia

	2023	2024	2025
GDP	2.1	1.1	2.0
Inflation	5.6	3.3	2.8
Unemployment rate[1]	3.7	4.1	4.5
Budget balance[2]	-0.8	-0.4	-1.0
Current account bal.[2]	-0.3	-1.0	-1.0

*Change versus previous year as percentage;

[1] as percentage of the labour force; [2] as percentage of GDP

Sources: Feri, Bloomberg, NORD/LB Macro Research

Interest and exchange rates, Australia

	12.12.	3M	6M	12M
Cash target rate	4.35	4.10	3.85	3.60
3M rate	4.45	4.05	3.75	3.55
10Y	4.00	4.20	4.15	4.15
Spread 10Y Bund	180	200	185	165
EUR in AUD	1.64	1.63	1.66	1.63
USD in AUD	0.64	0.65	0.64	0.65

Stock markets: 2024 a further strong year – cautiously optimistic outlook for 2025

Analyst: Wolfgang Donie

Monetary policy pivot and rising corporate profits make 2024 a strong stock market year overall
2024 has seen the DAX register impressive growth of around 21 percent so far, breaking several records in the process, even though the situation in terms of the German economy is anything but rosy. There are various reasons for this:
The 40 largest German companies are well diversified internationally. On average, almost 80 percent of their revenues are generated abroad, with use also being made of the advantages afforded by production in other countries (e.g. cheaper labour or energy costs). In this context, it is not only the development of the German economy that plays a role, but in particular that of the respective foreign economies. On the other hand, the MDAX and SDAX, which list companies with a lower proportion of foreign sales, are far from their record highs. With a plus just short of 27 percent in the broad-based S&P 500, the US stock markets delivered an even more impressive performance. This was against the backdrop of an unexpectedly robust American economy repeatedly making for sound economic data. Nevertheless, the pivot on monetary policy boosted the stock markets. Low-risk alternatives, such as government bonds, lose attraction with lower yields. Lower interest rates generate positive economic stimuli and the value of future corporate earnings is higher today when adjusted for discounting. Overarching topics too, such as the current hype surrounding artificial intelligence, are bolstering the markets worldwide. This not only benefits the providers directly involved, but also the market as a whole in terms of potential gains in productivity. The numerous geopolitical hotspots, on the other hand, were paid scant attention to by investors.
All told, American stocks are valued higher than their German or European counterparts. Besides the robust state of the economy, the larger proportion of tech stocks in the major indices and the anticipation of President-elect Donald Trump's America First policy can be put forward as reasons for this. In contrast, the German economy is in a state of stagnation, besides which the DAX is being held back by weakening automotive and chemical stocks, though the proportion they account for within the index is decreasing.

Outlook for 2025: Cautious optimism
The stock markets will likely start into the new year from a high level. There will be a number of uncertainty factors for them to contend with in Q1/2025, for instance Donald Trump's return to the White House and the formation of new governments in Germany and France. These factors will initially likely make for declining stock prices. We are cautiously optimistic, on the other hand, as regards the further course of the year, provided that no trade wars break out and Donald Trump's many announced measures are handled with some degree of pragmatism in their actual implementation. In Europe, the ECB's strategy of further lowering interest rates along with modestly rising profits amidst a climate of low expectations will likely bolster this progression. That said, we do not expect 2025 to see any renaissance of small- and mid-cap stocks. The trends in the DAX on the one hand and the MDAX/SDAX on the other are likely to continue diverging. Despite the already elevated valuation in the US, the stock market uptrend there ought to be marginally higher, thanks to a solid economic backdrop and the dynamically increasing corporate earnings. The change of government there can likewise generate positive stimuli.
The multiple geopolitical areas of tension, problems in America's real estate sector, the US debt burden and potential trade restrictions remain risk factors.

Crude oil: One person's joy is another person's sorrow

Analyst: Thomas Wybierek

Mismatch between supply and demand to continue for at least H1/2025

It is not without reason that the OPEC+ alliance has repeatedly postponed the easing of its self-imposed production restrictions by 2.2 million b/d, originally decided upon back in 2023. At its regular Joint Ministerial Monitoring Meeting (JMMC) in early December, the cartel announced that it would leave the status quo unchanged until April 2025. The decision is understandable, as expanding supply in a situation of weak global demand would make for renewed pressure on oil prices. Mid-December saw the oil prices drop by around 5 percent compared to those at the start of the year, and indeed by 27 percent (WTI) as against the highs of last year which had significantly influenced the decision to expand production. The fact that the demand side failed to develop as hoped, due a lack of stimulus from the Chinese economy, was already recognized. The long recession in Europe and Germany, too, is weighing on the global economy. The IMF, for example, forecasts a global GDP growth of just 3.2 percent in 2025, which is the same as in the current year, while the oil cartel recently cut its forecast for global oil demand growth in 2024 again, this time from 1.81 million to 1.61 million b/d. They also further adjusted the projection for 2025 as well, from 1.54 million to just 1.45 million b/d. On the supply side, the cartel's hands are also tied for another reason: after Trump's election win there is little reason to expect any scaling back of US oil production, the volume of which has been above the mark of 13 million b/d since October 2023, interrupted only by a brief period of winter storms in January 2024. Further factors lie in the generally fragile production discipline among the OPEC members, as well as the concessions made to individual members which, like the UAE, had significantly expanded their infrastructure.

Risk premium likely lower in 2025

2024 saw the oil prices in many cases carry risk premiums due to the geopolitical developments. In particular the repeatedly escalating situation in the Middle East led to temporarily escalating volatility. Israel's recent military actions appear to have led to a marked decline in resistance from Hezbollah and Hamas, however. There is also hope that Iran will now assess the overall situation more realistically, especially after the loss of its key ally, Syria, in late Q4/24. Moreover, the country is unlikely to have any interest in providing reason for fresh or (re-)tightened (US) sanctions, especially as Iran has in recent times been exporting more oil – primarily to China – than it has done for years: it is estimated that up to 1.65 million b/d were shipped in the first six months of 2024. The last two quarters of 2024 have seen the oil prices steadily move further away from the highs above the marks of USD 90/b (Brent) and USD 80/b (WTI) set on the market after the Hamas attack in October 2023.

Oversupply a pleasing situation for the consumer side

As a result of the Fuel Emissions Trading Act, the next price increase per metric ton of CO2 in Germany is set for the beginning of 2025. This time the national (!) tax will be raised from 45 EUR/mt to55 EUR/mt, with corresponding consequences not only for fuel but also gas and heating oil prices in Germany. While the petroleum industry's customary price hikes at filling stations during the holiday season are to be expected, the tax increase will likely be generally cushioned in the months ahead by the situation on the global oil market. Indeed, it could even have two effects at once. On the one hand, no further fuelling of inflation by rising energy costs together with a slowing of the negative spiral in the economy (tariff pressure). On the other hand, the revenues used to fund the transformation process (Climate and Transformation Fund) cannot continue falling since fuel consumption remains at constant levels or even increases if oil prices continue falling.

Gas: Volatility due to LNG, weather & economic recovery

Analyst: Thomas Wybierek

Factor winter 2024/25: Manageable despite the first cold wave

The early onset of winter caused by the weather phenomenon "La Niña" in November 2024 led to falling temperatures in north-western Europe. Since the outbreak of the Ukraine war, the extremely mild temperatures during the typical heating periods have been a benefit. This was also a reason why the feared – and not unrealistic – gas shortage situation in Germany in 2022 failed to materialize. According to Germany's National Meteorological Service the average temperature registered in winter 22/23 stood at 2.9 degrees and at 4.1 degrees in winter 23/24. Federal Network Agency data show that gas consumption was reduced by around 14 percent in 2022 and by 5 percent in 2023 compared to the average over the years 2018-2021. 2024 saw it rise for the first time again. At approx. 641 TWh (as of October without the cold November days), consumption levels were already above those of the previous year (617 TWh), so overall gas consumption in 2024 is expected to be in excess of the 808 TWh registered in 2023. December has been milder so far, however, and private households are remaining cost-sensitive in light of the energy prices and the ongoingly poor state of the economy. Much depends on the months up to the end of winter in March 2025, but we still see no signs of any gas shortage situation.

Europe's Achilles heel: gas de-storage

As opposed to 2023, Germany's gas storage facilities were this year unable to register a level exceeding 100 percent again on 1 November as key date. The highest level achieved (98.31 percent as at 3 November '24) may well appear similarly reassuring but, in contrast to the previous year, some underlying conditions had changed, as reflected in rising withdrawal volumes. The storage facilities in Germany were 90.64 percent full at the beginning of December (01.01.23: 95.75 percent). The gas fill level across the EU stood at 85.08 percent (previous year: 94.68 percent). For the first time since the outbreak of the energy crisis in 2022, the levels in November were back below the five-year average. Since the recession continued in 2024, the industrial sector's gas demand was limited, but a hitherto unsolved problem of renewable energies then had to be dealt with, namely that the onset of a "dark lull" (longer period of time in which there is hardly sunlight nor wind) caused the electricity supply generated from wind power and photovoltaics to fall so sharply that more and more electricity from gas-fired power plants had to be resorted to. This made for surging volatility in gas and electricity prices.

Gas prices in the context of the economy, LNG flows and financial investments

Diametrically opposed to the commodity oil, there are some concerns in the gas market as to Europe’s supply situation in 2025. On the one hand, the storage facilities generally have to be refilled in the summer to replace the volumes withdrawn in the winter and to meet the target levels specified by the EU. These target levels were actually raised again recently, with the EU Commission now specifying a gas storage fill level in the EU of at least 50 percent (previously: 45 percent) as of 1 January 2025. Market participants are accordingly aware of the growing demand for replenishment of the storage caverns. In this context account needs to be taken of seasonal service interruptions in Norway as well as heatwaves in Asia, which, regardless of the economic situation, ensure increased demand for LNG on the global market. With effect as of 31.12.24, moreover, Ukraine terminated the transit agreement which up to then had ensured gas supply from Russia via the Transgas pipeline to countries such as Slovakia, Austria and Hungary. Because no alternative solution has been announced, there is speculation on supply by means of LNG, for instance via Germany. However, the gas storage neutrality surcharge – a transit fee – is a stumbling block in this respect. Instead of abolishing it as demanded, Trading Hub Europe (THE) actually raised it as of 1 January 2025 to EUR 2.99/MWh. Although LNG market growth is anticipated, supply will remain limited in 2025, which will make for price volatility.

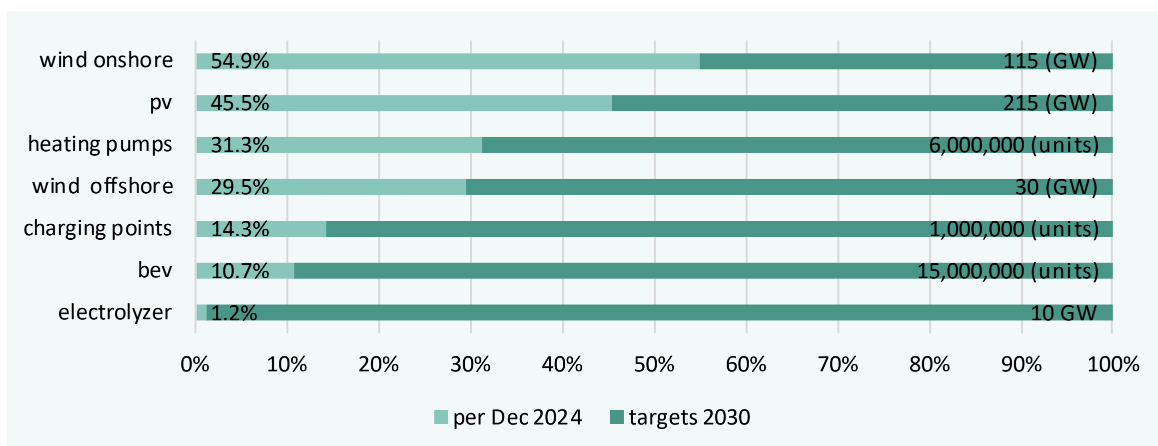
In light of their involvement in the transformation and recent developments, the commodity markets have also caught the interest of financial investors. This was temporarily reflected in the TTF prices for summer 2025 (6- month contract) which were higher than those for year-end 2025 (1-year contract).

Transformation: Onward in the wake of the polycrisis

Analyst: Thomas Wybierek

Closing the gap between aspiration and reality by 2030 is becoming increasingly challenging
The European Green Deal's timeline was already ambitious, but that is even more the case where the timeframes at the national level are concerned. This applies in particular against the background of still unresolved questions as to necessary infrastructures (electricity, hydrogen, charging points), funding dimensions and sources) and impacts of the transformation (industry, real estate, municipalities). While external shocks such as the war in Ukraine and its consequences are hardly predictable, they are all the more difficult to deal with when working with inflexible goals. At least phases of economic slowdown and recession are inevitable in long periods of observation. In our opinion, this reflects the current situation, which will most likely continue in 2025 due to the complex international situation and the ongoing geopolitical risks.

Chart: Progress status of the energy transition in Germany



Sources: openernergytracker; NORD/LB Research

It should be kept in mind that what would have to be built up within the coming 6 years (incl. 2030) is many times more than what has been achieved in the past over a significantly longer period. Doubts are justified against the background of globally unstable supply chains, the threat of protectionism (PV products or rotor blades from China), and the economic situation linked to the willingness and/or ability to invest. In our view, an extension of intervals, adjustments of expansion goals or a combination of both would be a sound option without necessitating any deviation from the energy transition path.

Market data *Spot; **Day Ahead; ***Front Month Future	Rate	12-month high on daily basis		12—month low on daily basis		NORD/LB forecast		
	12.12.24					1 month	6 months	12 months
Brent crude (USD/barrel)*	73.34	91.01	04.04.24	69.65	10.09.24	73	71	73
WTI crude (USD/barrel)*	69.60	86.83	08.04.24	65.72	10.09.24	70	68	71
Electricity price (EUR/MWh)**	104.97	121.41	19.11.24	50.75	04.04.24	115	86	97
CO2 certificates (EUR/metric ton)**	66.10	77.55	01.01.24	50.52	23.02.24	68	70	72
Natural gas TTF (EUR/MWh)**	42.48	48.43	03.12.24	23.06	23.02.24	47	44	44
Hard coal Rotterdam (USD/metric ton)***	112.55	122.75	15.11.24	93.80	14.02.24	118	115	117

Sources: Macrobond, NORD/LB Research

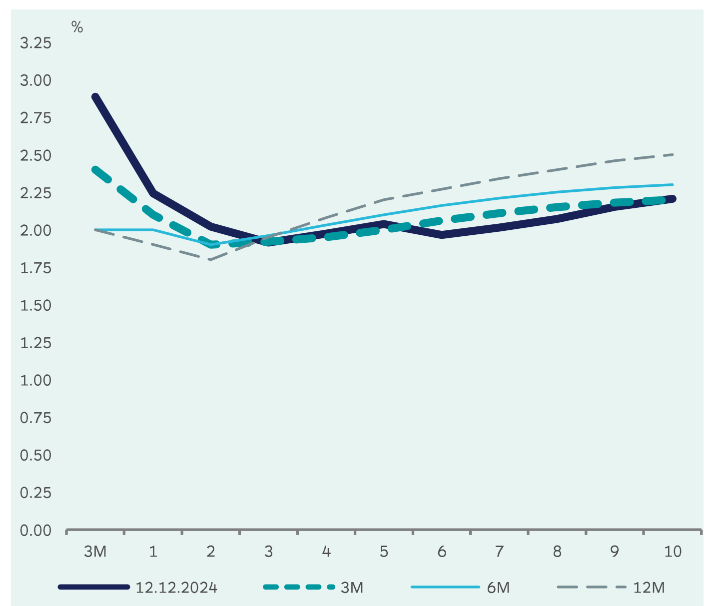
Portfolio strategies
Yield curve, Euroland

Yields and forecasts (Bunds/Swap)

Yields (in %)		NORD/LB forecasts for the horizons		
	Current	**3M**	**6M**	**12M**
3M	2.89	2.40	2.00	2.00
1Y	2.24	2.10	2.00	1.90
2Y	2.02	1.90	1.90	1.80
3Y	1.91	1.92	1.96	1.95
4Y	1.97	1.95	2.03	2.08
5Y	2.04	2.00	2.10	2.20
6Y	1.97	2.06	2.16	2.27
7Y	2.01	2.11	2.21	2.34
8Y	2.07	2.15	2.25	2.40
9Y	2.15	2.18	2.28	2.46
10Y	2.21	2.20	2.30	2.50
2Y (Swap)	2.16	2.05	2.05	2.00
5Y (Swap)	2.13	2.15	2.25	2.40
10Y (Swap)	2.22	2.30	2.40	2.70

Sources: Bloomberg, NORD/LB Macro Research

Yield curve forecasts (Bunds)



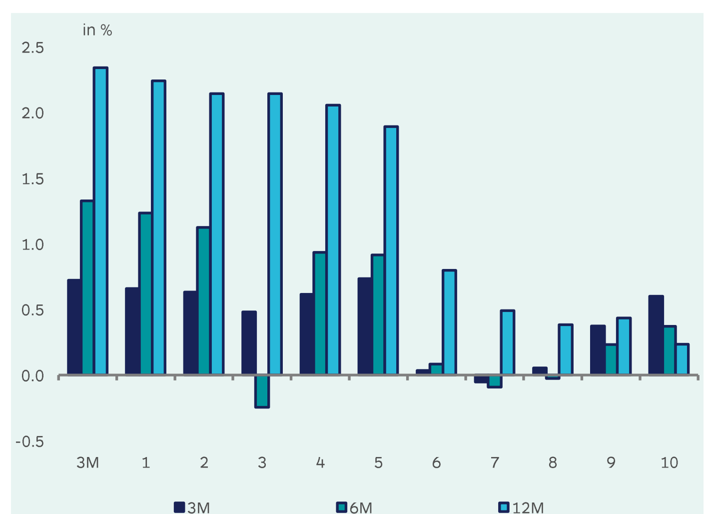
Sources: Bloomberg, NORD/LB Macro Research

Forecasts and total returns

	Total returns (in %) for horizons...		
	3M	**6M**	**12M**
3M	0.72	1.33	2.34
1Y	0.66	1.23	2.24
2Y	0.63	1.12	2.14
3Y	0.48	-0.25	2.14
4Y	0.61	0.93	2.05
5Y	0.73	0.92	1.89
6Y	0.04	0.08	0.80
7Y	-0.05	-0.09	0.49
8Y	0.05	-0.03	0.38
9Y	0.37	0.23	0.43
10Y	0.60	0.37	0.24

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns



Sources: Bloomberg, NORD/LB Macro Research

A total return is the absolute profit from an investment in the time period under consideration, with account being taken of the pro-rata yields plus the price gains or losses to be anticipated on the basis of the forecast yield curve change.

Portfolio strategies International yield curve: 3-month & 12-month horizons

3-month horizon

Expected total returns (as percentage) in euro					
	EUR	**USD**	**GBP**	**JPY**	**CHF**
1Y	0.7	0.5	2.1	1.0	1.6
2Y	0.6	0.4	2.3	1.0	1.5
3Y	0.5	0.8	2.2	0.8	1.6
4Y	0.6	1.2	2.3	0.7	1.6
5Y	0.7	0.9	3.0	0.6	1.5
6Y	0.0	2.9	2.7	0.3	1.6
7Y	-0.1	2.1	3.2	0.2	1.7
8Y	0.1	2.3	3.5	0.2	1.8
9Y	0.4	2.5	3.7	0.3	1.7
10Y	0.6	0.7	3.9	0.8	1.9

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	**GBP**	**JPY**	**CHF**
1Y	1.7	1.4	-0.1	0.1
2Y	1.7	1.5	-0.3	0.0
3Y	2.1	1.4	-0.3	0.0
4Y	2.4	1.6	-0.5	0.1
5Y	2.2	2.3	-0.5	0.0
6Y	4.2	2.0	-0.8	0.1
7Y	3.4	2.5	-0.9	0.2
8Y	3.6	2.7	-0.9	0.3
9Y	3.8	3.0	-0.8	0.2
10Y	2.0	3.1	-0.3	0.3

Sources: Bloomberg, NORD/LB Macro Research

12-month horizon

Expected total returns (as percentage) in euro					
	EUR	**USD**	**GBP**	**JPY**	**CHF**
1Y	2.2	1.6	5.2	7.7	1.7
2Y	2.1	1.9	5.8	7.4	1.6
3Y	2.1	2.3	6.0	7.0	1.6
4Y	2.1	2.8	6.7	6.7	1.7
5Y	1.9	3.3	7.9	6.4	1.8
6Y	0.8	5.2	8.0	5.8	1.5
7Y	0.5	4.5	9.1	5.6	1.6
8Y	0.4	4.9	10.2	5.3	1.8
9Y	0.4	5.4	10.0	5.1	1.6
10Y	0.2	5.9	9.4	5.5	1.0

Sources: Bloomberg, NORD/LB Macro Research

Expected total returns (as percentage) in national currencies				
	USD	**GBP**	**JPY**	**CHF**
1Y	4.8	4.5	0.4	0.2
2Y	5.2	5.0	0.2	0.1
3Y	5.6	5.2	-0.2	0.1
4Y	6.0	6.0	-0.5	0.2
5Y	6.6	7.1	-0.8	0.2
6Y	8.6	7.2	-1.3	-0.1
7Y	7.8	8.4	-1.6	0.0
8Y	8.3	9.4	-1.8	0.3
9Y	8.8	9.3	-1.9	0.0
10Y	9.2	8.6	-1.6	-0.5

Sources: Bloomberg, NORD/LB Macro Research

A total return is the absolute profit from an investment in the time period under consideration, with account being taken of the pro-rata yields plus the price gains or losses to be anticipated on the basis of the forecast yield curve and exchange rate change.

Portfolio strategies
Stock market strategy; 3-month, 6-month & 12-month horizon

Levels and performance

Index	Level as at	Status		Performance since	
	12.12.2024	**Prev. month**	**Start of year**	**Prev. month**	**Start of year**
DAX	20,426.27	19,626.45	16,751.64	4.08%	21.94%
MDAX	26,812.99	26,320.47	27,137.30	1.87%	-1.20%
EuroSTOXX50	4,965.53	4,804.40	4,521.44	3.35%	9.82%
STOXX50	4,416.65	4,328.45	4,093.37	2.04%	7.90%
STOXX600	519.20	510.25	478.99	1.75%	8.39%
Dow Jones	43,914.12	44,910.65	37,689.54	-1.70%	17.14%
S&P 500	6,051.25	6,032.38	4,769.83	0.86%	27.56%
Nikkei	39,849.14	38,208.03	33,464.17	4.30%	19.08%

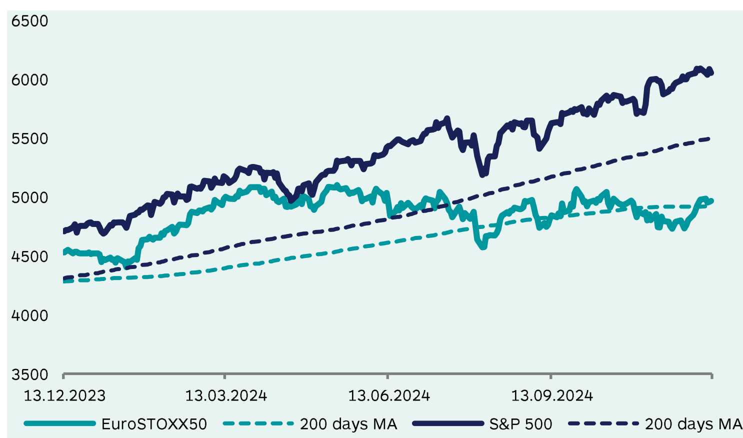
Sources: Bloomberg, NORD/LB Macro Research

Index forecasts

Index	NORD/LB forecast for the horizons ...		
	3M	**6M**	**12M**
DAX	19,500	20,500	22,000
MDAX	25,500	26,500	27,000
EuroSTOXX50	4,750	4,950	5,150
STOXX50	4,300	4,450	4,750
STOXX600	490	510	550
Dow Jones	43,000	44,500	46,500
S&P 500	5,750	6,000	6,600
Nikkei	37,500	39,000	41,000

Sources: Bloomberg, NORD/LB Macro Research

EuroSTOXX50 and S&P500



Sources: Bloomberg, NORD/LB Macro Research

Date of going to press for data, forecasts and texts was **Friday, 13 December 2024**.

Overview of forecasts

Fundamental forecasts

in %	GDP growth			Rate of inflation			Unemployment rate[1]			Budgetary balance[2]		
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
USA	2.9	2.7	1.7	4.1	2.9	2.4	3.6	4.1	4.7	-6.5	-6.4	-5.1
Euroland	0.5	0.7	1.0	5.4	2.3	2.0	6.6	6.4	6.4	-3.6	-2.9	-3.0
Germany	-0.3	-0.2	0.2	6.0	2.4	2.1	5.7	6.0	6.3	-2.6	-1.7	-2.3
Japan	1.5	-0.1	1.3	3.3	2.7	2.2	2.6	2.5	2.4	-5.2	-4.7	-4.0
Britain	0.3	1.0	1.4	7.3	2.5	2.3	4.0	4.3	4.5	-5.0	-4.5	-3.7
Switzerland	1.1	0.9	1.5	2.1	1.1	0.4	2.0	2.4	2.7	0.3	0.3	0.2
China	5.2	4.8	4.5	0.3	0.4	1.0	5.5	5.1	5.1	-4.6	-5.0	-5.5

Change vs previous year as percentage; [1] as percentage of the labour force (Germany: as per Federal Employment Office definition); [2] as percentage of GDP
Sources: Feri, NORD/LB Macro Research

Key interest rates

In %	12.12.24	3M	6M	12M
USD	4.75	4.25	3.75	3.50
EUR	3.00	2.50	2.00	2.00
JPY	0.25	0.50	0.75	0.75
GBP	4.75	4.50	4.25	3.75
CHF	0.50	0.25	0.00	0.00
CNY	1.50	1.50	1.50	1.50

Sources: Bloomberg, NORD/LB Macro Research

Exchange rates

EUR in...	12.12.24	3M	6M	12M
USD	1.05	1.06	1.08	1.08
JPY	160	158	157	149
GBP	0.83	0.82	0.82	0.82
CHF	0.93	0.92	0.92	0.92
CNY	7.61	7.63	7.88	7.88

Interest rates (government bonds)

	3M rates				Yields 2Y				Yields 5Y				Yields 10Y			
	12.12.	3M	6M	12M	12.12.	3M	6M	12M	12.12.	3M	6M	12M	12.12.	3M	6M	12M
USD	4.36	4.10	3.60	3.40	4.19	3.70	3.30	3.10	4.18	3.60	3.30	3.10	4.33	3.90	3.50	3.40
EUR	2.89	2.40	2.00	2.00	2.02	1.90	1.90	1.80	2.04	2.00	2.10	2.20	2.21	2.20	2.30	2.50
JPY	0.62	0.65	0.80	0.90	0.06	0.70	0.85	0.95	0.26	0.85	1.02	1.12	0.66	1.10	1.30	1.40
GBP	4.64	4.30	4.05	3.55	4.27	3.90	3.78	3.39	4.18	3.88	3.58	3.40	4.36	4.10	4.00	3.95
CHF	0.45	0.20	0.00	0.10	0.10	0.10	0.10	0.10	0.13	0.15	0.15	0.20	0.28	0.25	0.25	0.40

Quelle: Bloomberg, NORD/LB Macro Research

Spreads (bp)

	3M EURIBOR				2J Bund				5J Bund				10J Bund			
	12.12.	3M	6M	12M	12.12.	3M	6M	12M	12.12.	3M	6M	12M	12.12.	3M	6M	12M
USD	147	170	160	140	217	180	140	130	215	160	120	90	212	170	120	90
JPY	-226	-175	-120	-110	-196	-120	-105	-85	-178	-115	-108	-108	-155	-110	-100	-110
GBP	175	190	205	155	225	200	188	159	214	188	148	120	216	190	170	145
CHF	-244	-220	-200	-190	-193	-180	-180	-170	-191	-185	-195	-200	-193	-195	-205	-210

Sources: Bloomberg, NORD/LB Macro Research

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Financials
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Governments
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Federal States/Regions
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Frequent Issuers
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Corporate Sales

Corporate Customers
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