



AURORA

EU Chartbook – Tariffs Edition - February 3, 2025

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Growth disappoints; Trump tariffs and domestic politics are key risks; political paralysis means the ECB is still the only game in town

- A tough Q4 GDP print is **forcing the ECB's hand**—inflation is now (rightly) a secondary consideration.
- We expect **50bps of cuts** in the next two meetings; a jumbo cut in March may be underpriced.
- U.S. President Donald Trump has **threatened the EU with tariffs**; we think he intends to follow through, but the EU will retaliate.
- **German politics is broken** and cannot produce a strong government. French politics is getting a short-term fix.
- Overall, we expect **no fiscal effort** this year and a looser monetary policy stance to **boost EU consumption**.
- Over the medium term, **EUR is probably too cheap here** and EU equities could **continue outperforming** the U.S.

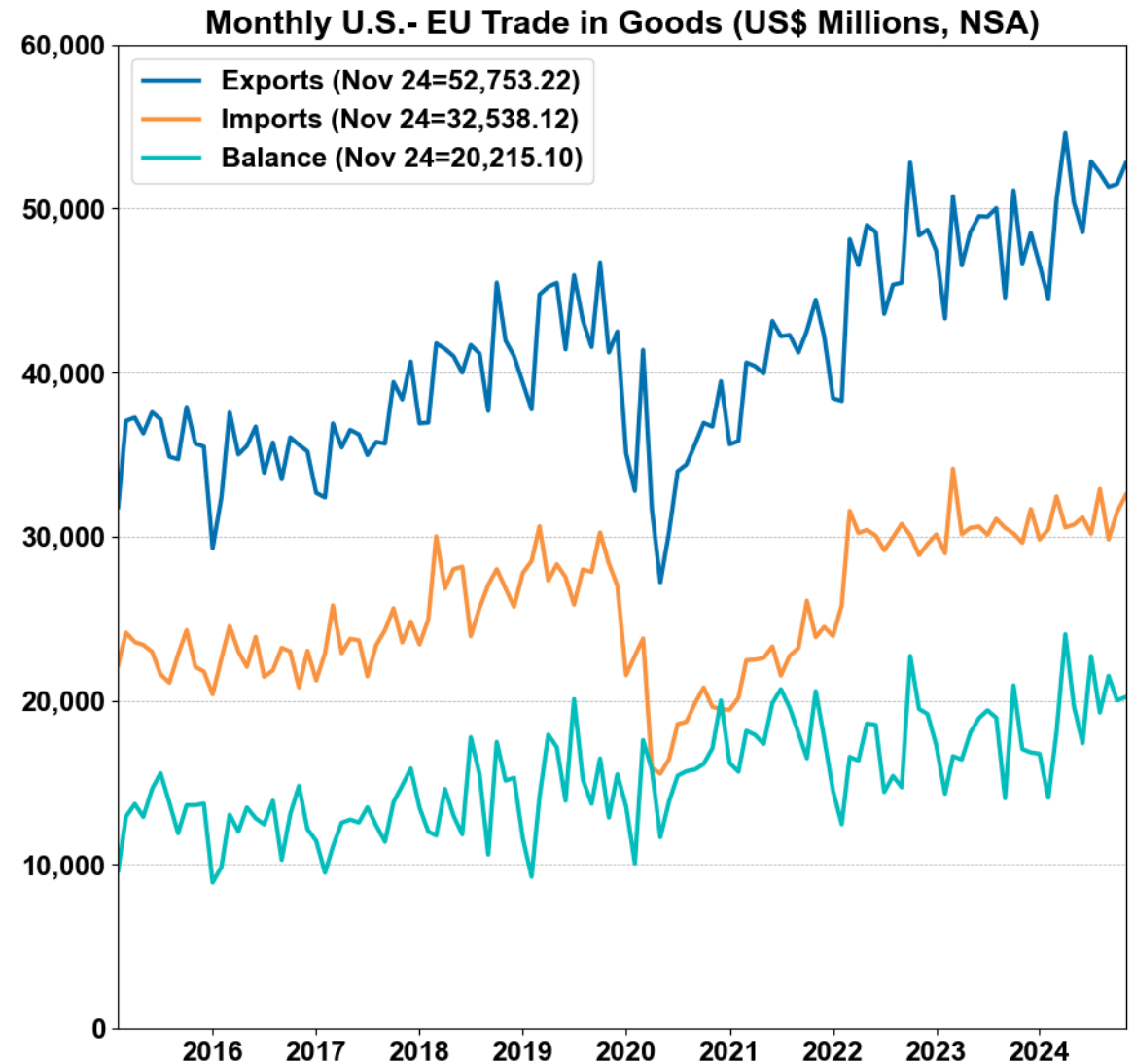
Upcoming Events

Feb 06	Retail Sales
Feb 14	Employment
Feb 14	GDP Release
Feb 17	Trade Balance
Feb 20	Consumer Confidence
Feb 23	Germany General Election
Feb 24	CPI Release
Feb 27	Consumer Confidence
Feb 27	M3 Money Supply YoY
Mar 02	Hamburg State Election
Mar 03	CPI Release
Mar 04	Unemployment Rate



How To Think About U.S.-EU Trade

- Following his threat of tariffs on Canada, Mexico, and China, U.S. President Donald Trump has now threatened the EU, hinting tariffs would come “pretty soon.”
- We do not doubt he means it and fully **expect a U.S.-EU tariff announcement** in the next two months.
- The EU has a monthly trade surplus of roughly \$20 billion with the U.S. The U.S. is the EU’s largest export partner and second largest import partner after China.
- The EU will **doubtless retaliate**; DG Trade has already prepared politically sensitive U.S. export targets.
- The EU also has easy red meat to throw at Trump: **purchasing more U.S. energy**, which both U.S. and EU policymakers have identified as a possible deal.
- More enterprising EU corporates stand to benefit from the trade war by picking off Trump’s targets.





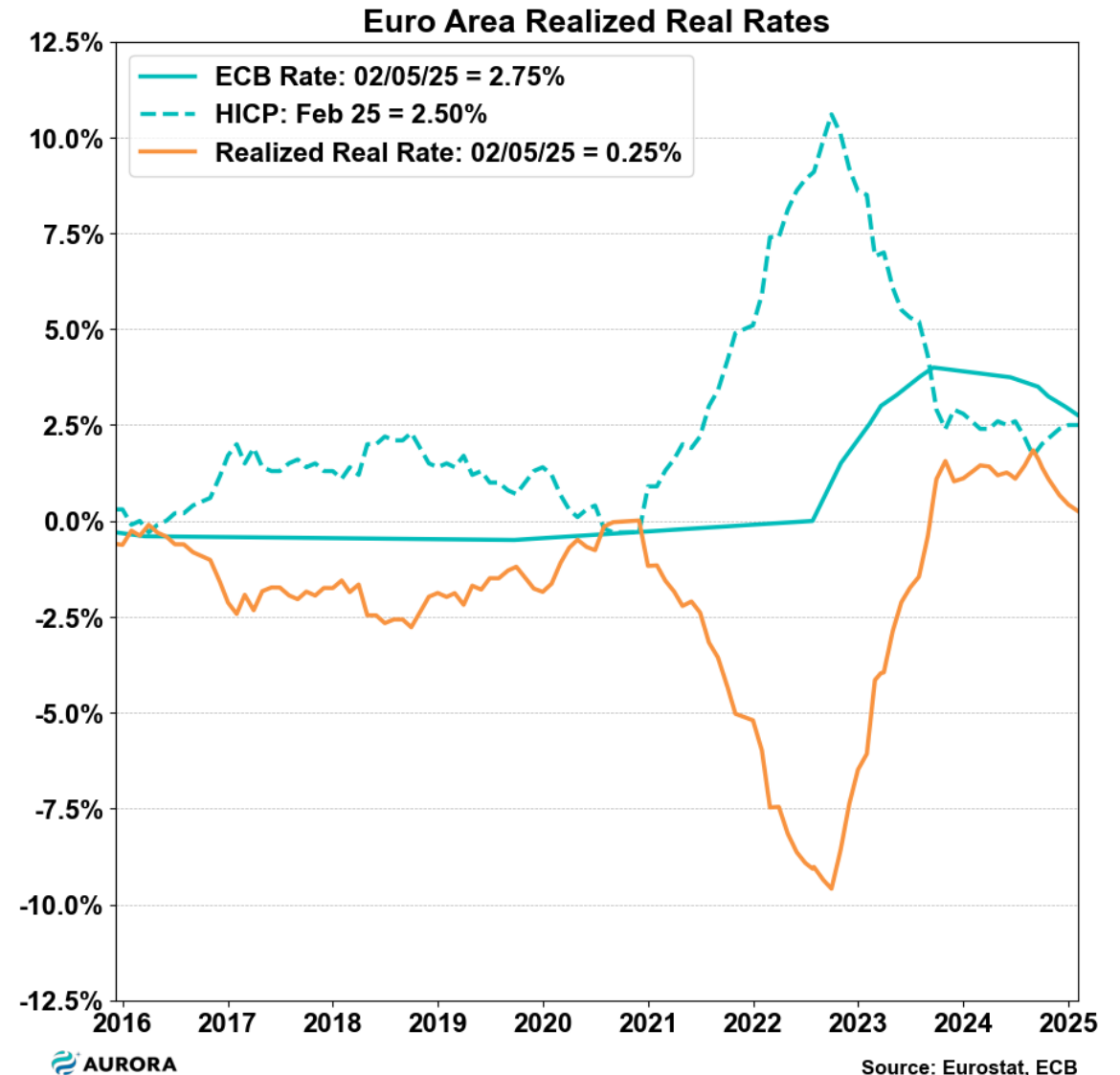
Macro-significant Politics in Brief

- **France:** PM Bayrou will use Article 49.3 to force a vote of no confidence. With the Socialists set to abstain, the government will live to die another day—likely, but not certainly, this summer. **Bullish for OATs, French GDP.**
- **Italy:** One of the few major countries to pass a timely 2025 budget, Italy is on path to cut the deficit to below the EU's 3% despite tepid growth. Internationally, Prime Minister Giorgia Meloni has positioned herself as a bridge between the EU and the Trump administration. For more, see our recent [Italy Report](#).
- **Germany:** CDU leader Merz has attempted a risky rapprochement with the far right (see recent [election update](#)). This will make coalition negotiations much more challenging, making Germany's next government another lame duck. **Bearish for German GDP, bullish/neutral Bunds**
- **UK:** Chancellor Reeves outlined major infrastructure investments in a recent speech including official government backing for expansions to Heathrow, City, and Stansted airports. PM Starmer has been invited to an EU summit in February, as voters [favor](#) closer trade integration with Europe over America. **Bullish Gilts.**
- **Belgium:** Bart De Wever was sworn in as Belgium's PM today after seven months of coalition negotiations. The first Flemish nationalist to lead the country, he vows to clamp down on illegal immigration and meet NATO's 2% defence spending target. His right-wing New Flemish Alliance (N-VA) is part of Meloni's ECR group in the European Parliament.
- **Spain:** Last week, Spain's government reached a [deal](#) with Catalan separatist party Junts to break the parliamentary deadlock on key economic measures. The agreement boosts chances for a 2025 budget after two years of rolling over 2023's budget, and includes pension hikes, public transport subsidies, and relief funds for Valencia.



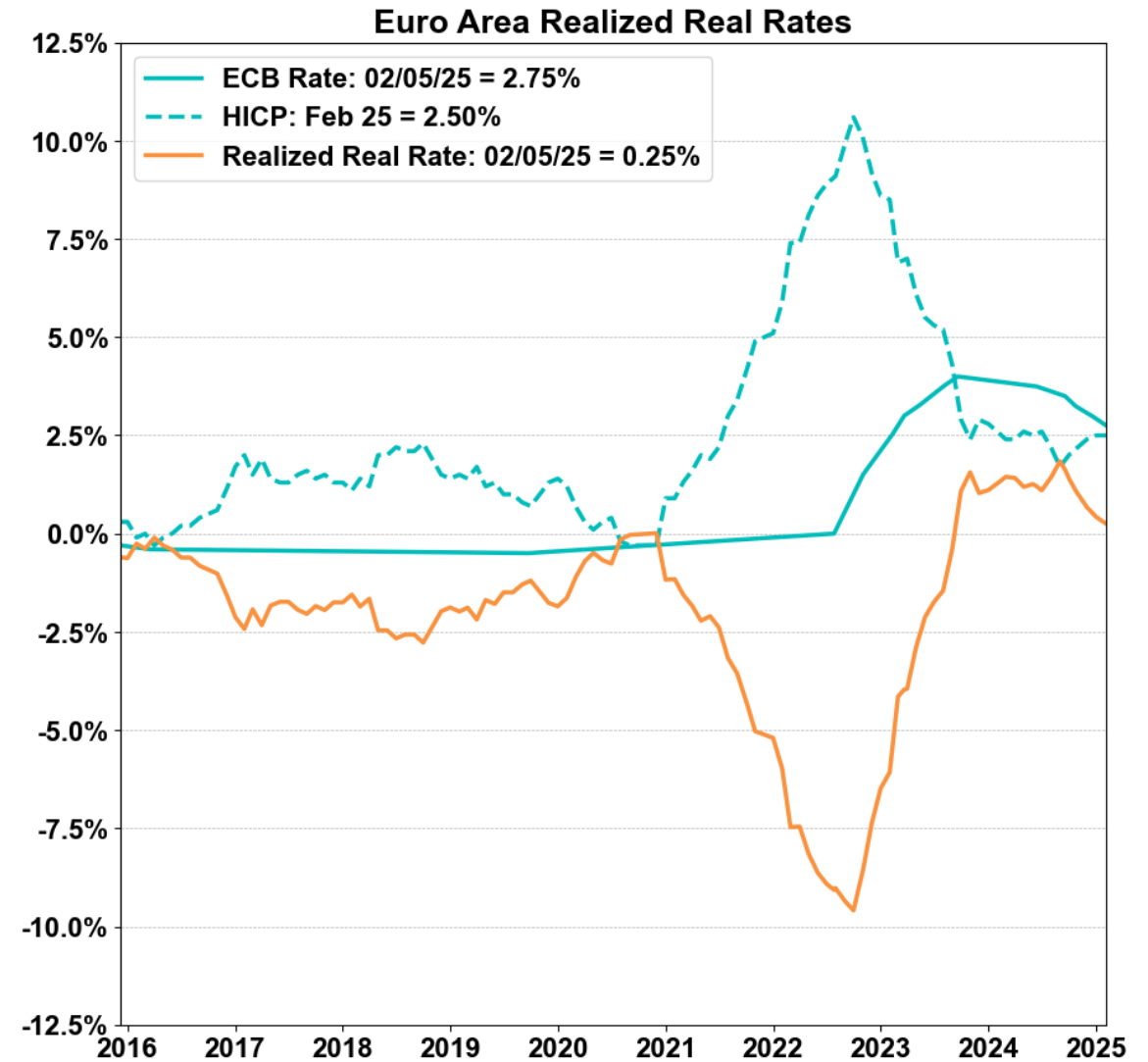
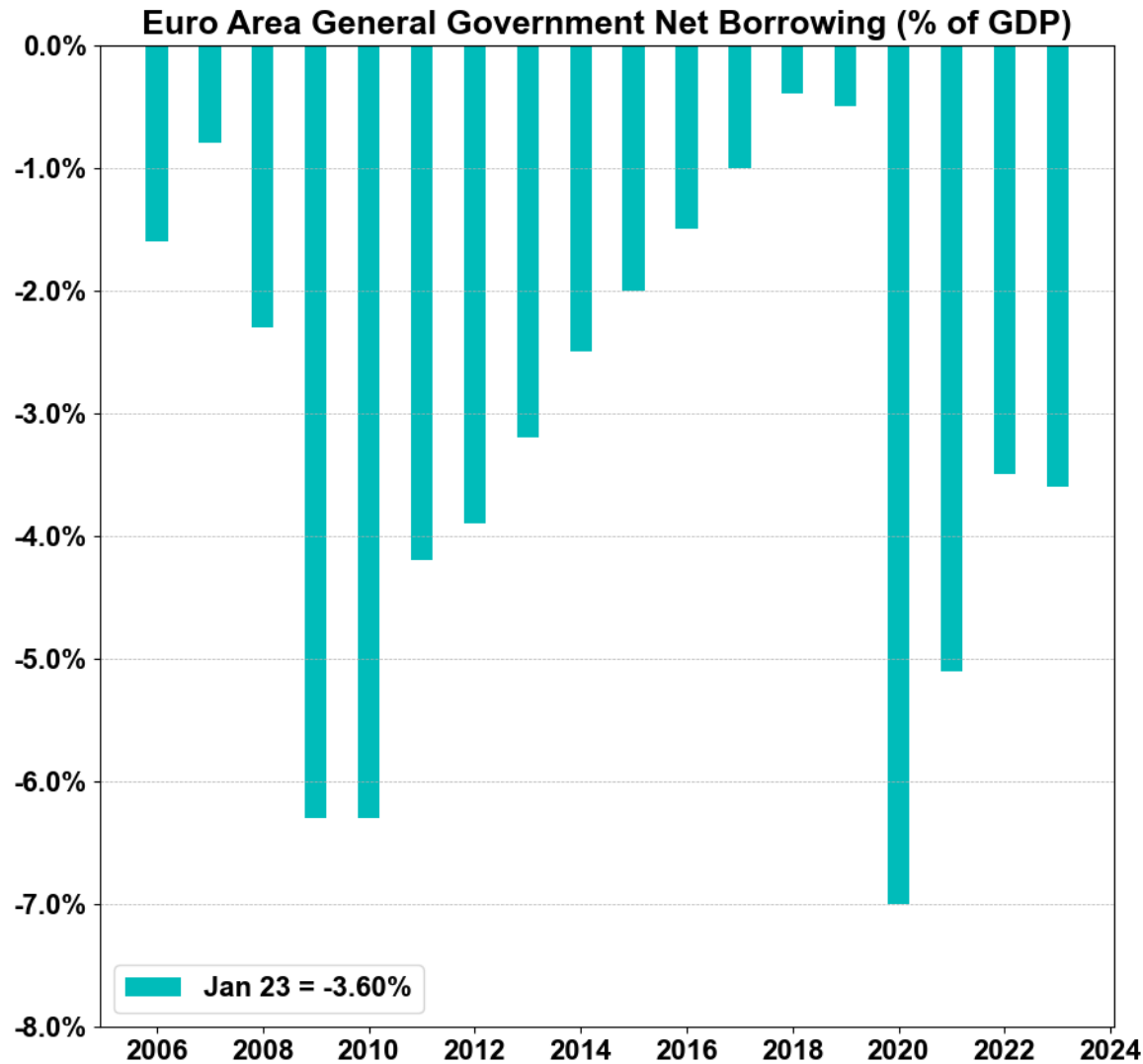
ECB: Still the Only Driver

- Following the latest cut, EU realized real rates are now in **mildly expansionary territory**.
- EU GDP continued to languish, posting 0% growth in Q4, dragged down by Germany and France.
- We continue to **expect 2025 growth to outperform 2024**.
- The ECB remains behind the curve, Lagarde's focus on lending statistics and the Bank Lending Survey [see [Section 4](#)] makes us hopeful that the Governing Council has started thinking about growth in the underlevered European economy.
- At the same time, if the ECB doesn't generate EU growth, nothing will [see [Section 3b](#)].
- We expect 2x25bps cuts at the next two meetings and view a jumbo cut in March as attractively priced.





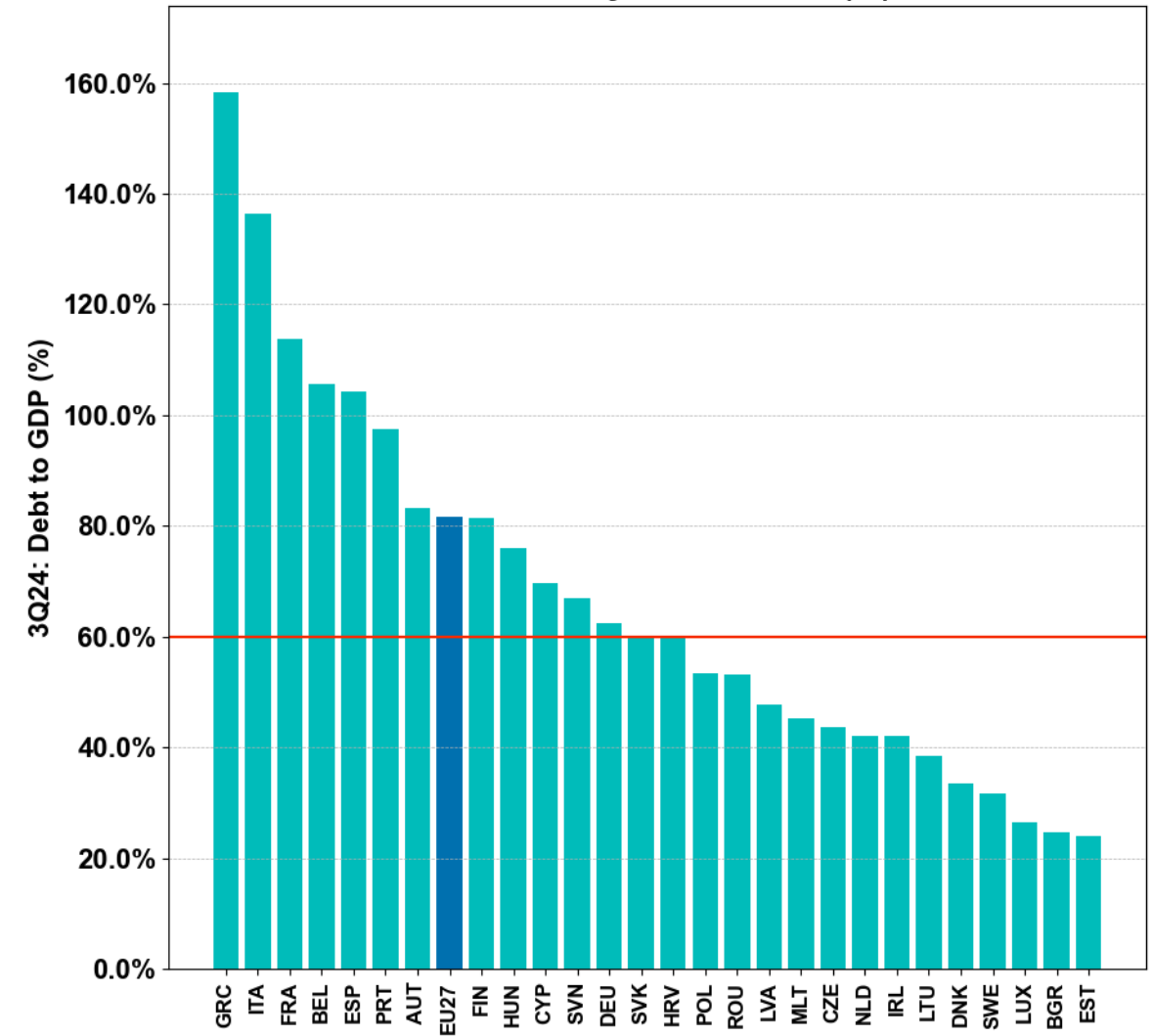
1a. Policy Overview



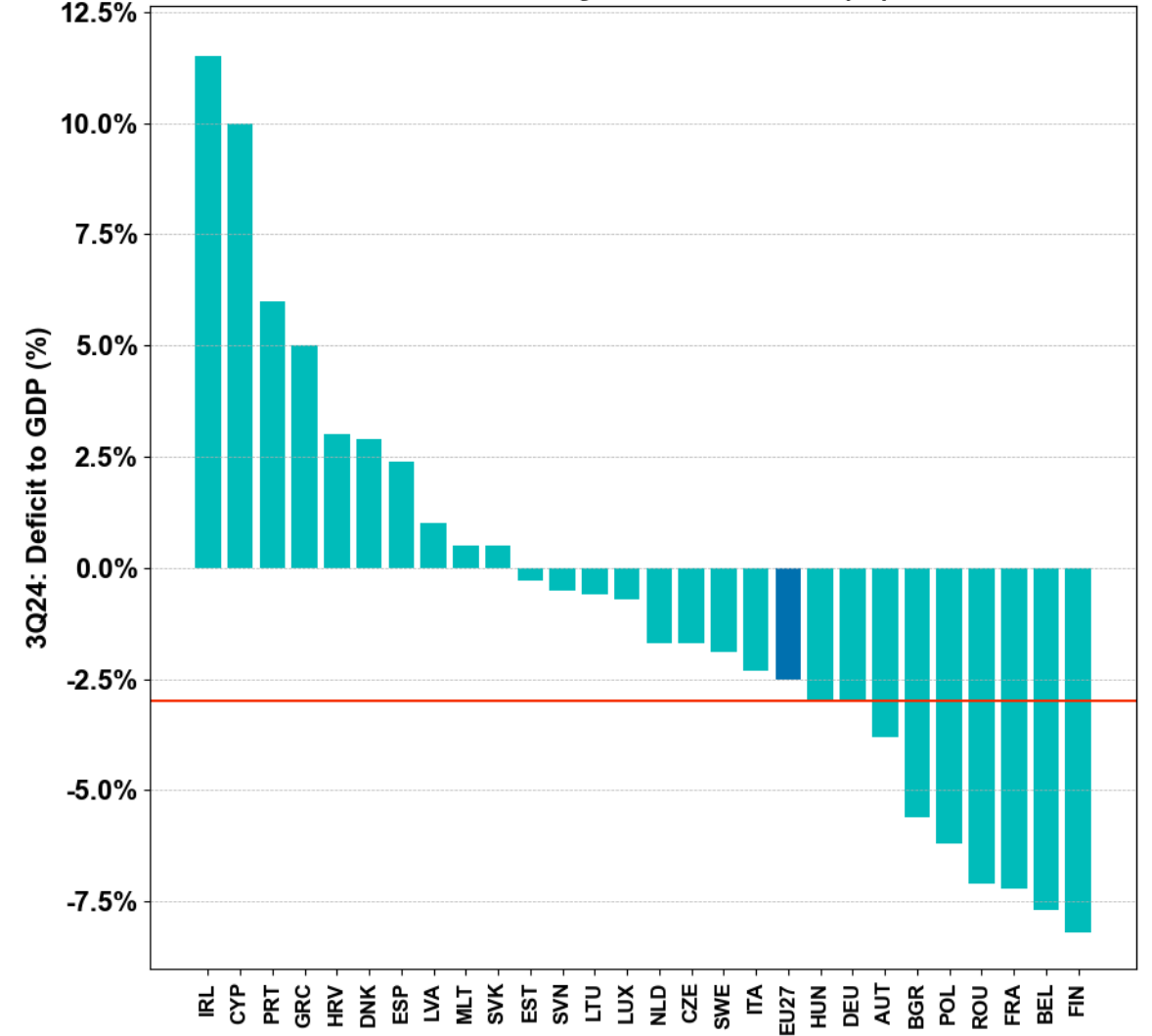


1b. Fiscal Overview

EU Quarterly Debt to GDP (%)

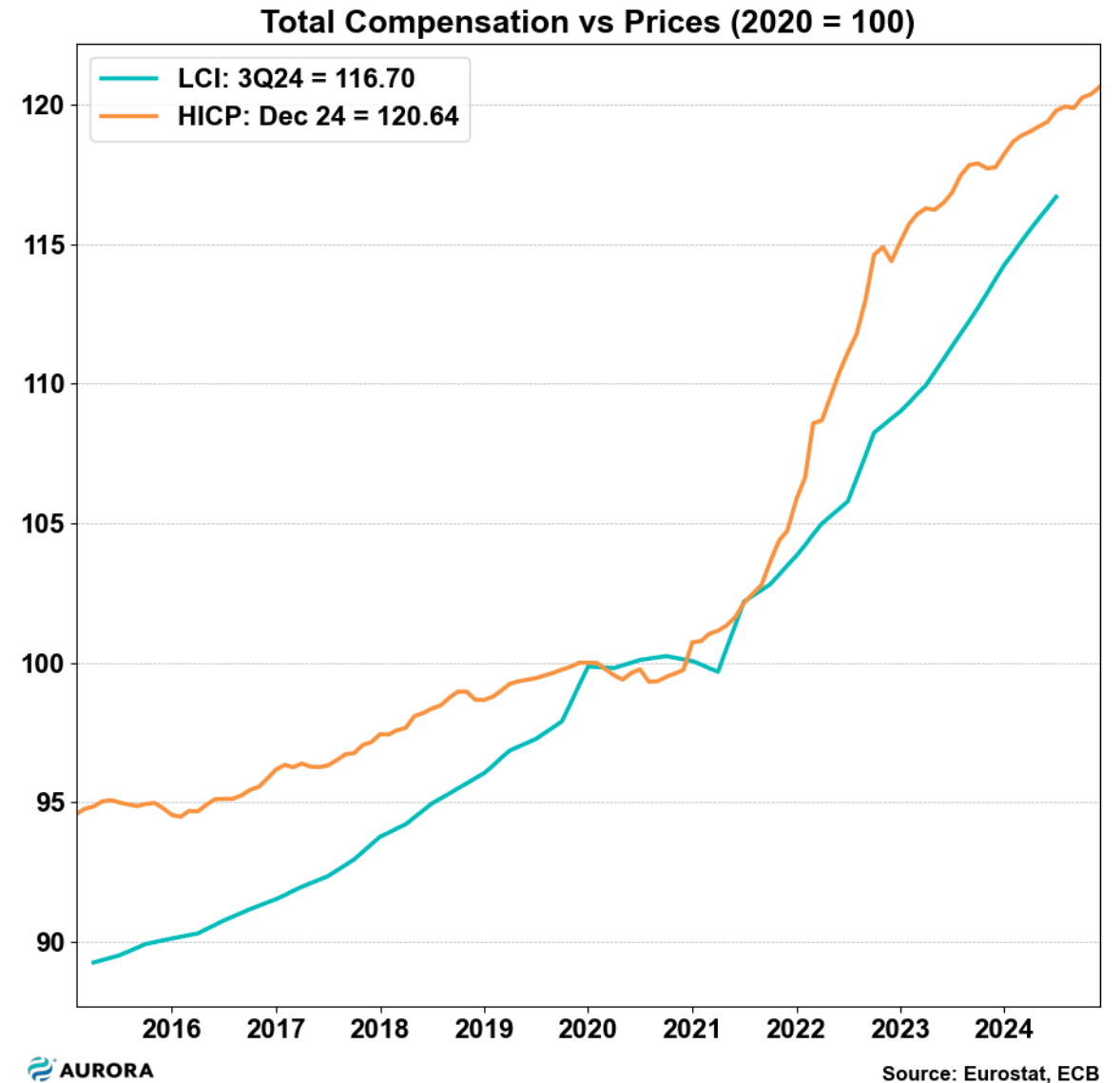
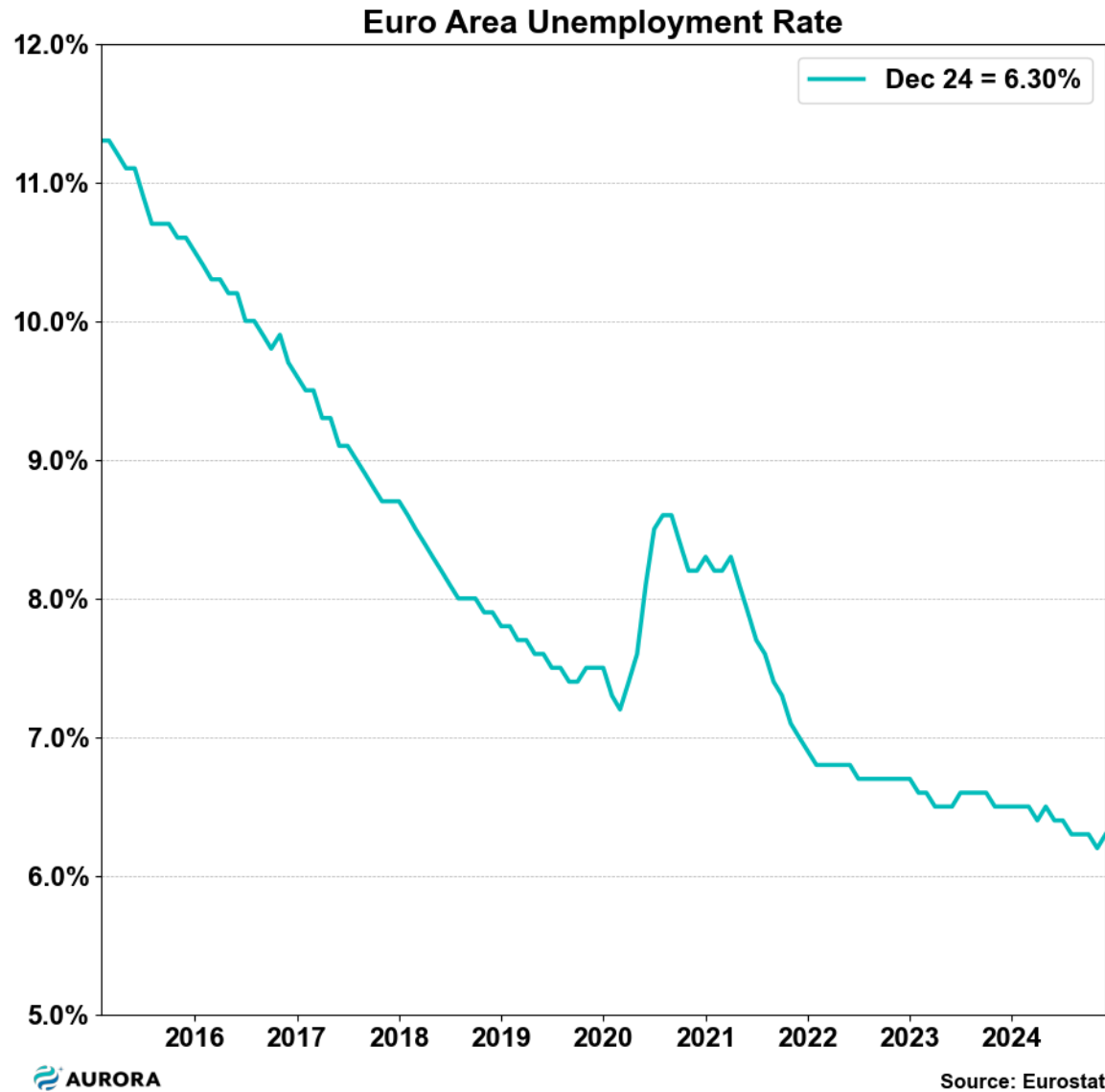


EU Quarterly Deficit to GDP (%)





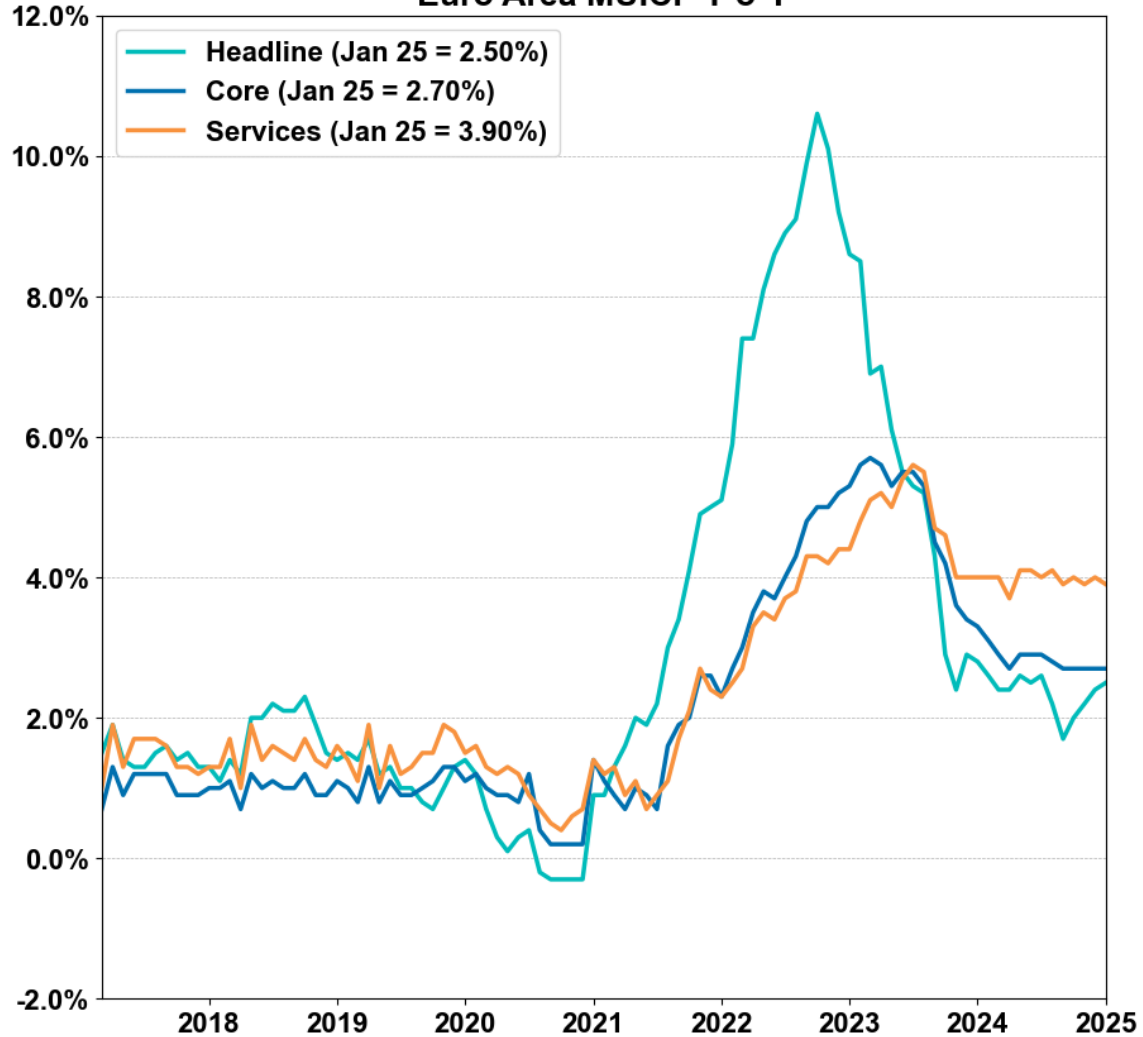
1c. Labor Market Overview



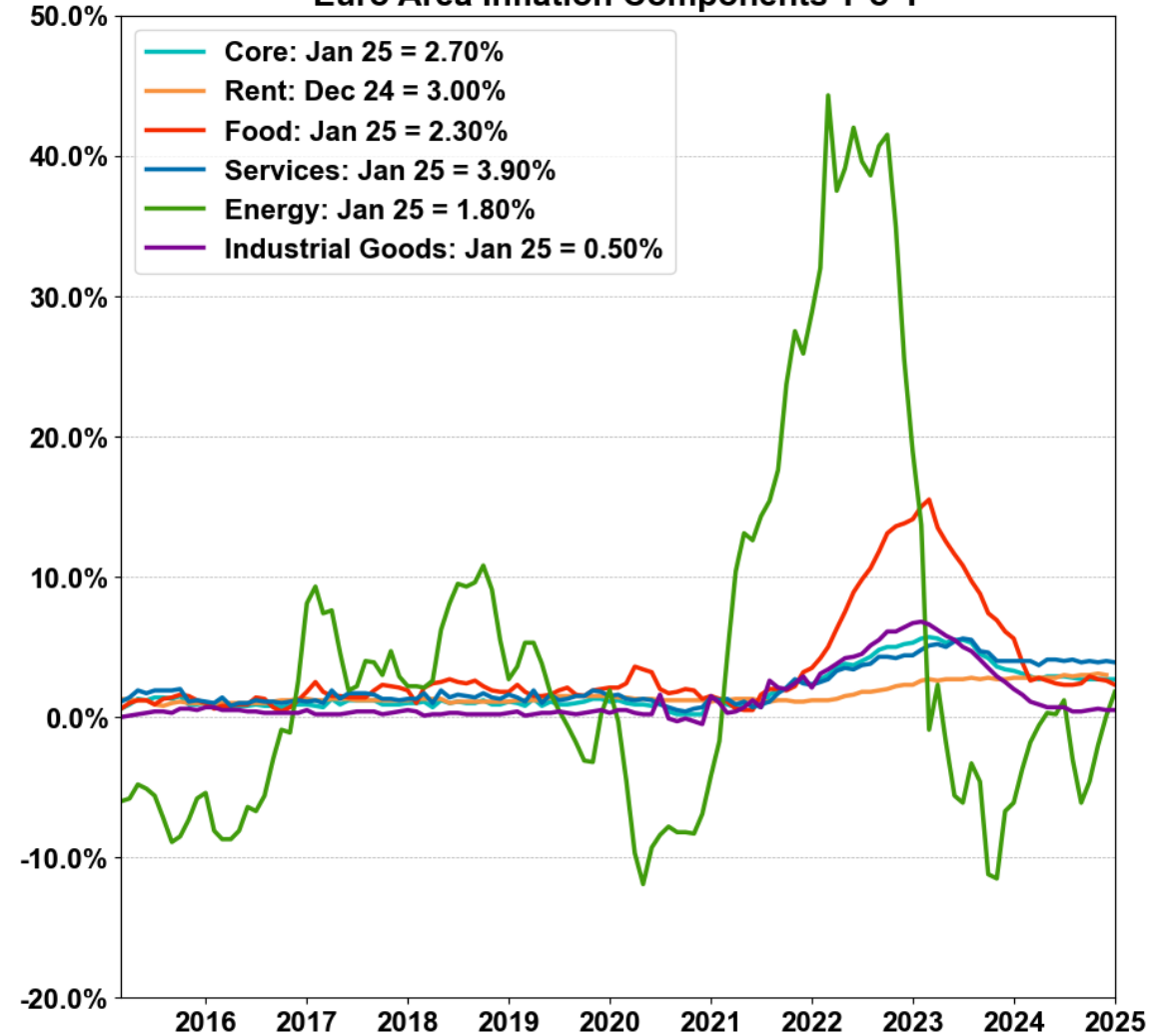


1d. Prices Overview

Euro Area MUICP Y-o-Y

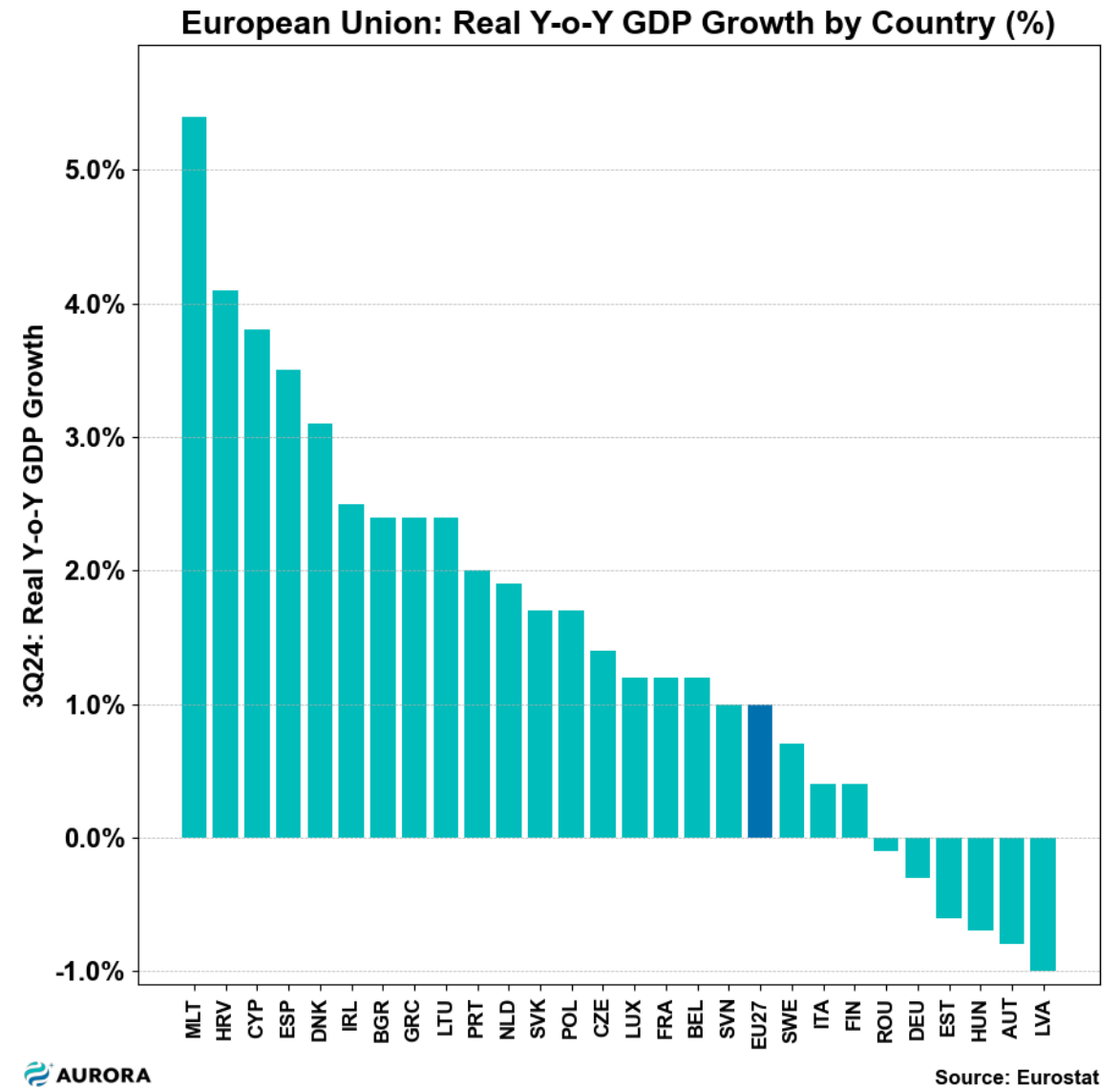
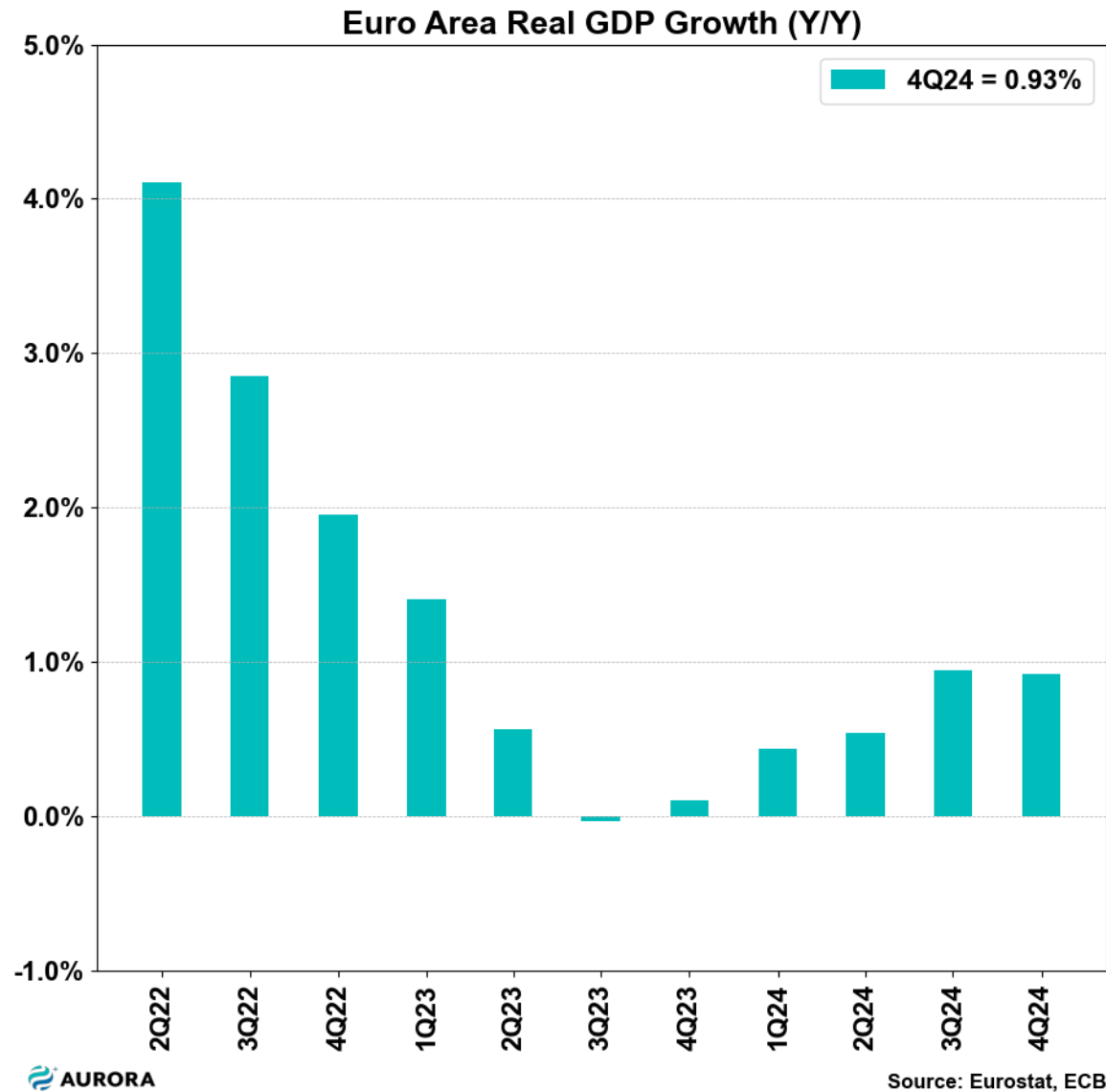


Euro Area Inflation Components Y-o-Y





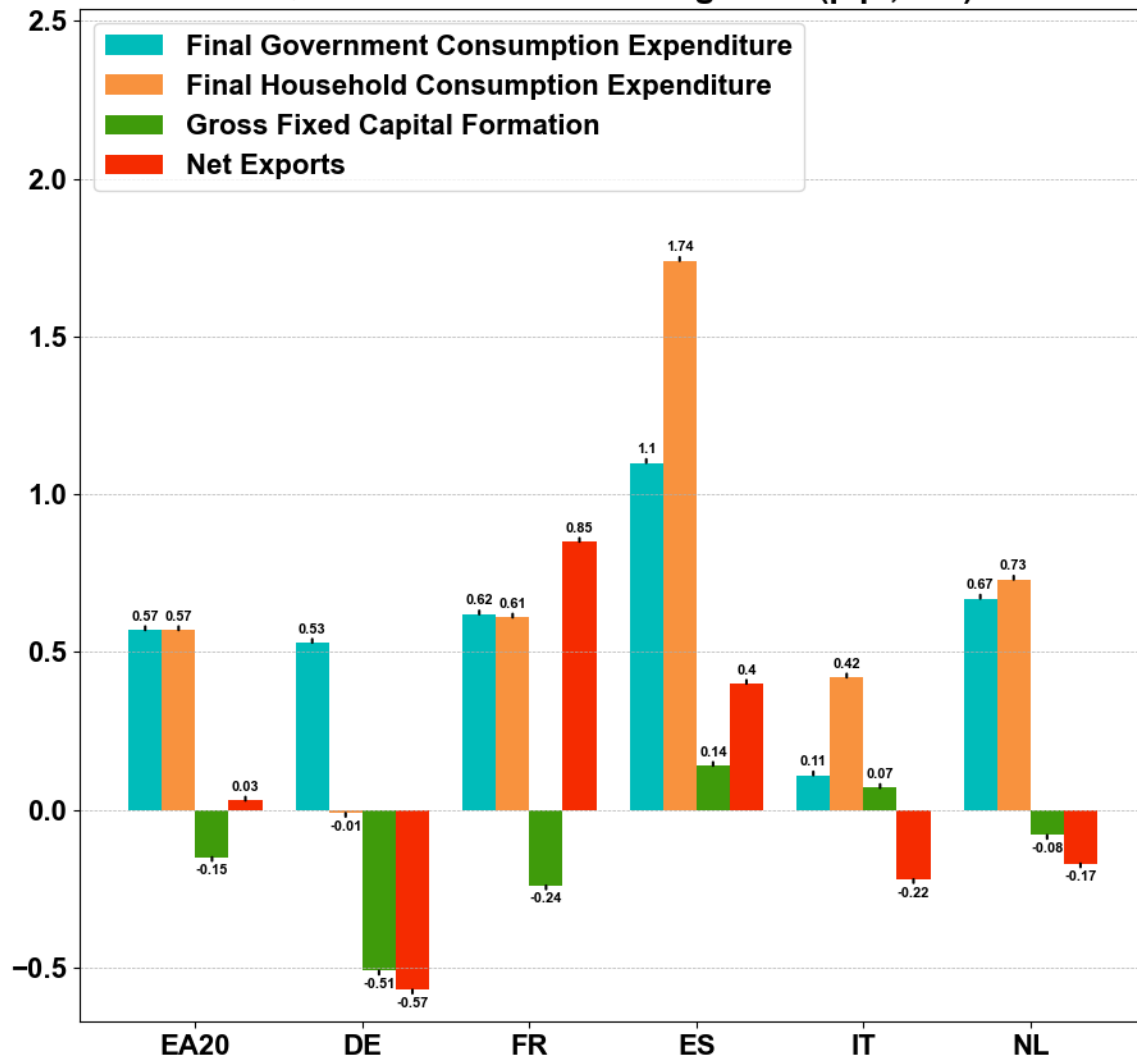
2a. Economic Growth



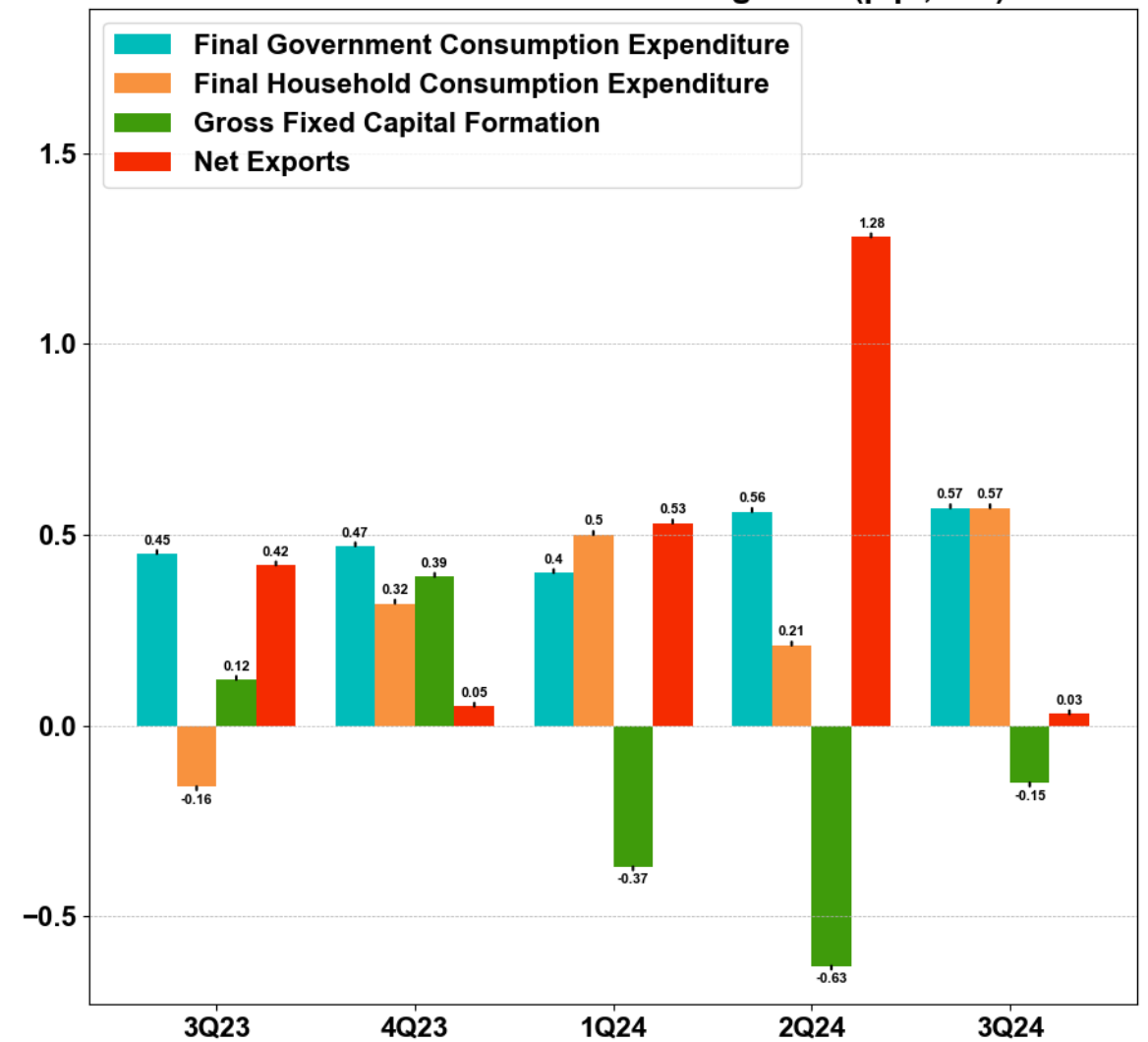


2b. Economic Growth

3Q24: Contribution to GDP growth (p.p., Y/Y)

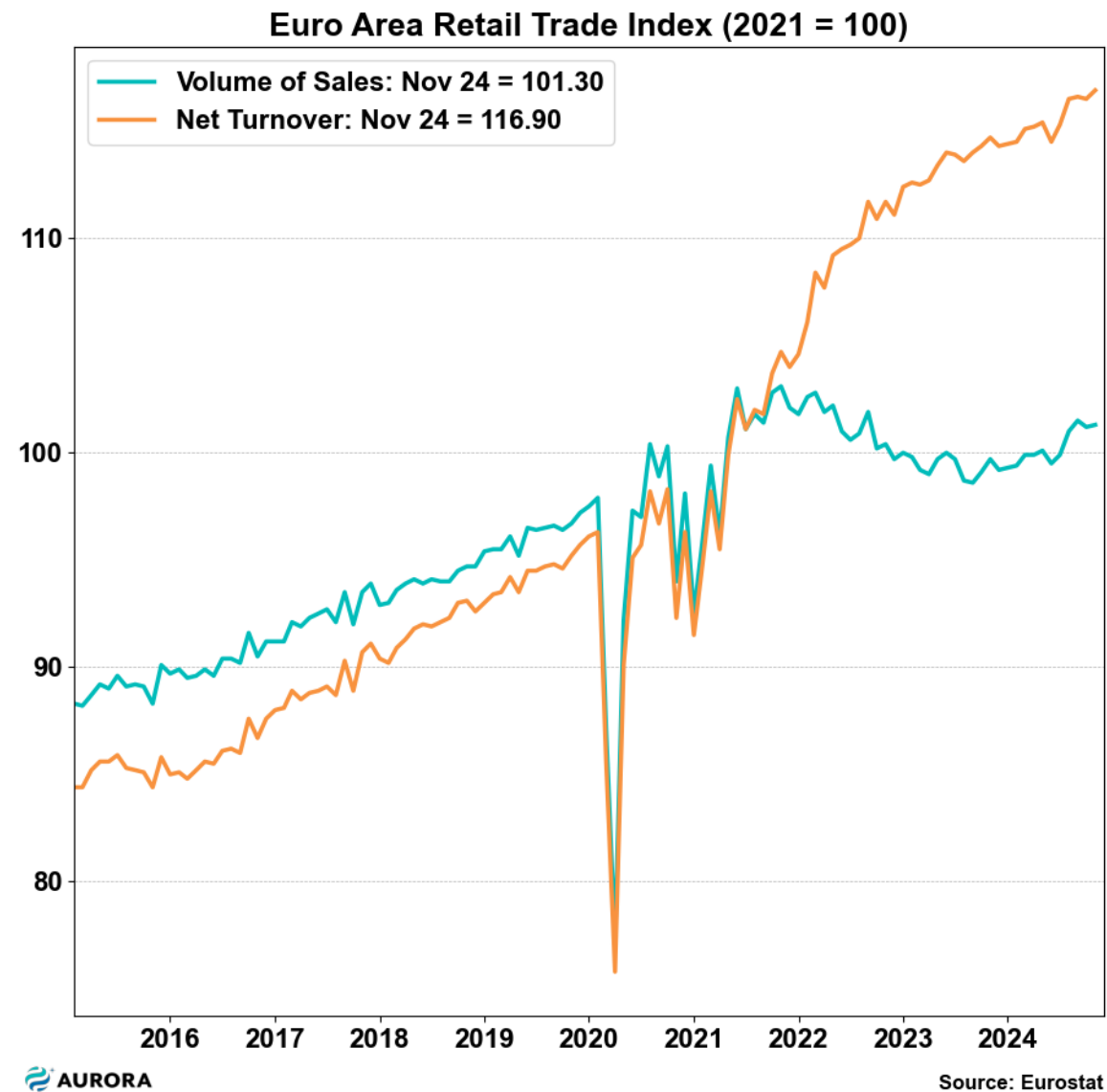
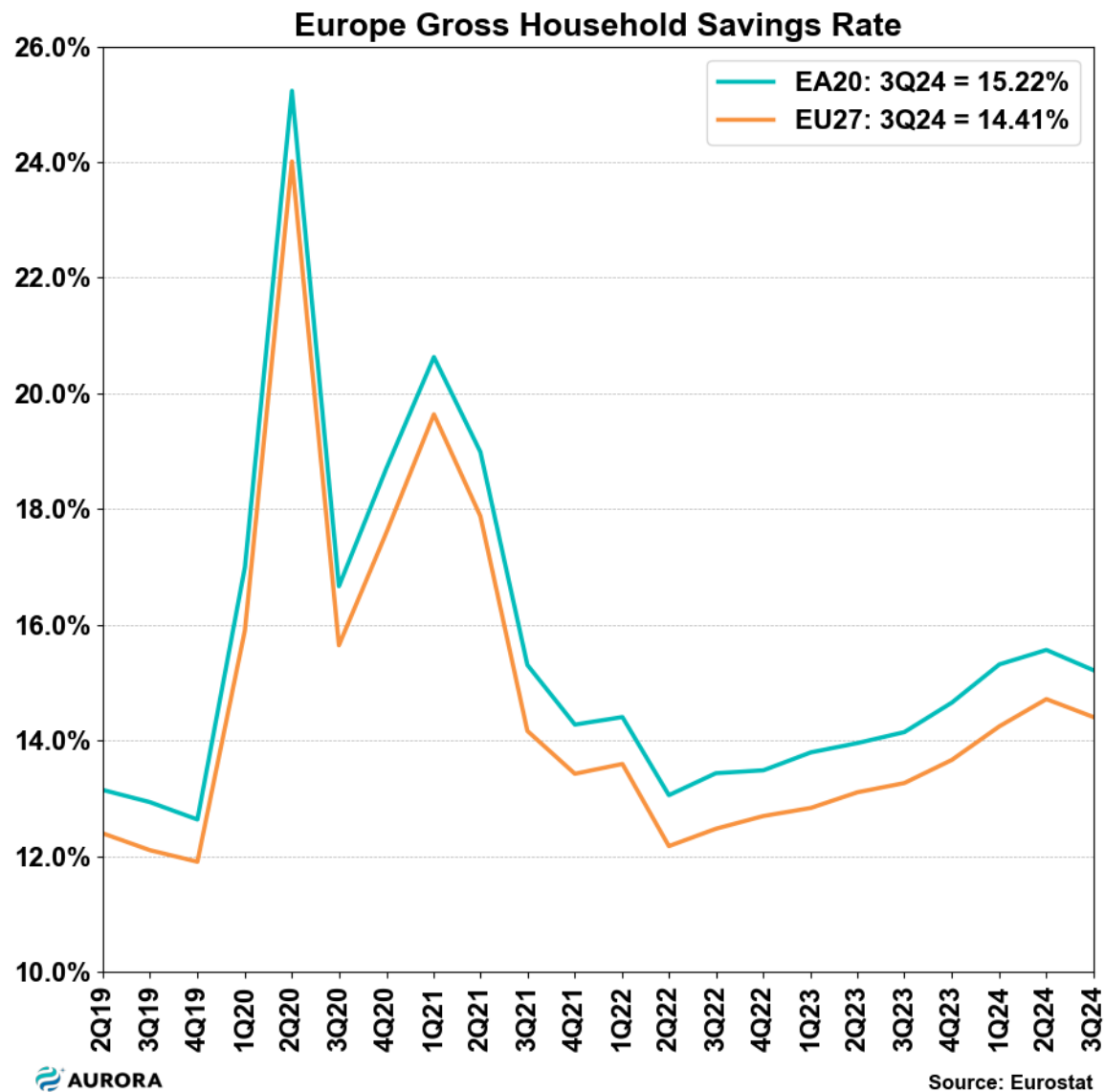


Euro Area: Contribution to GDP growth (p.p., Y/Y)





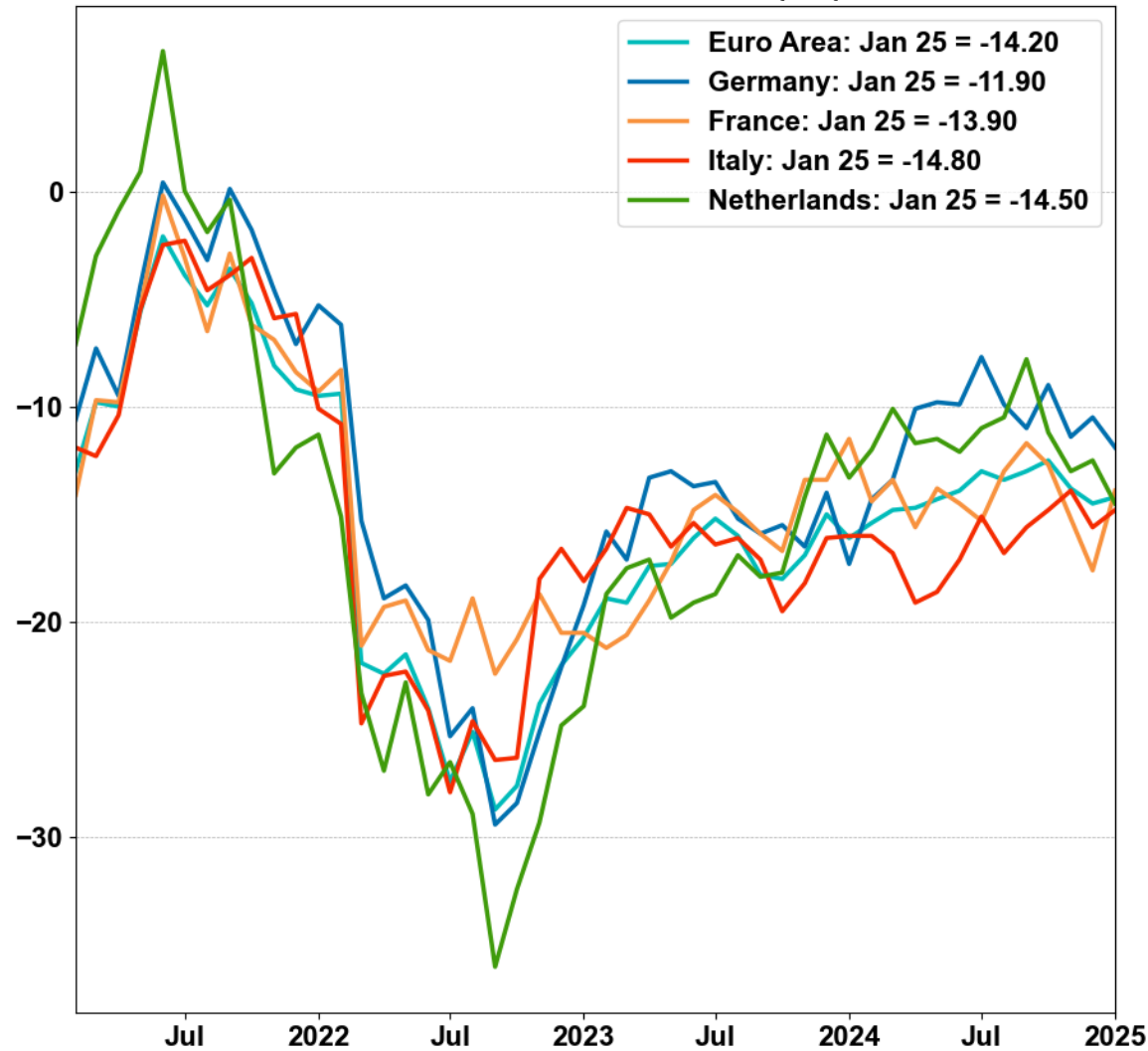
3a. Consumption



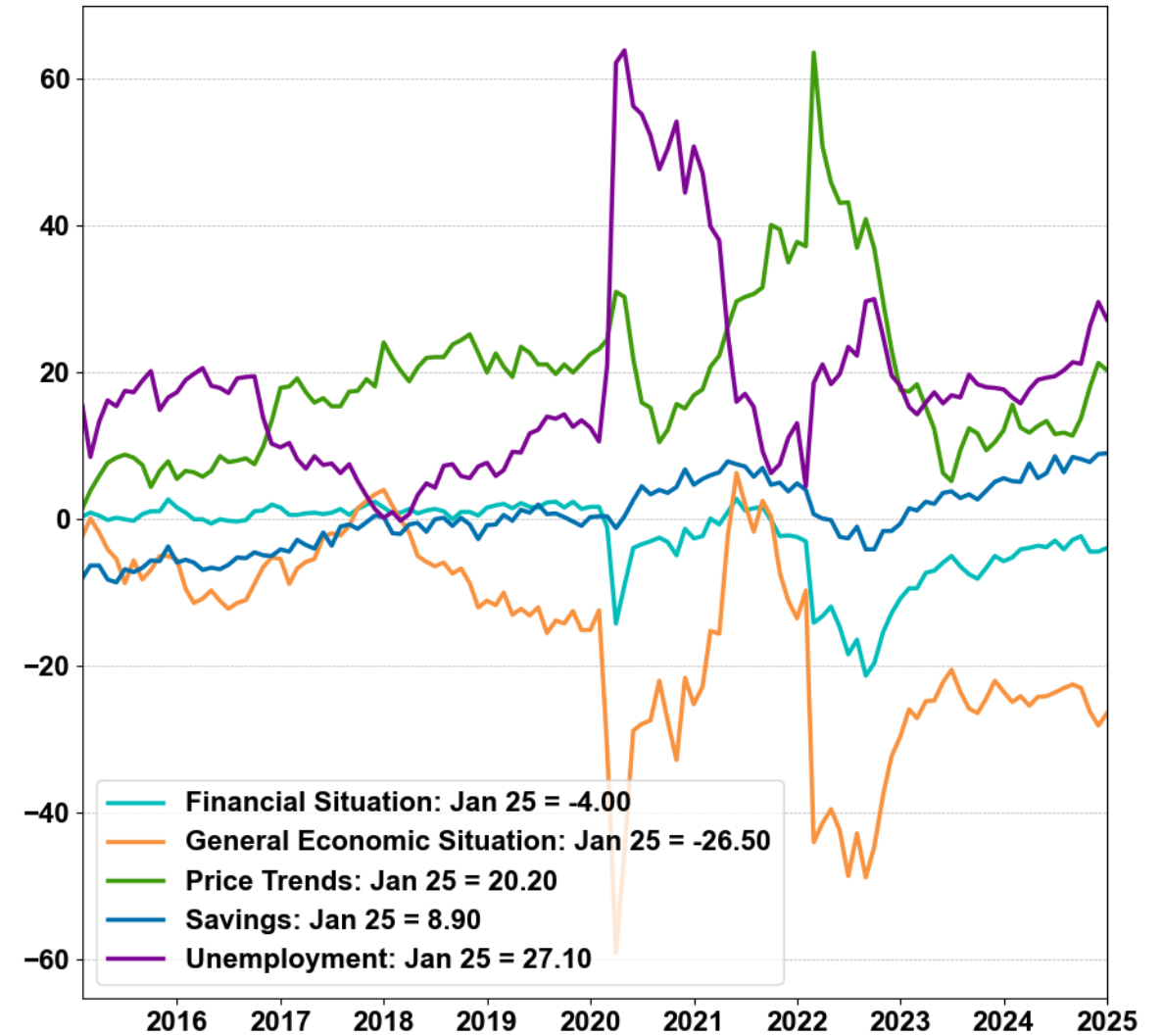


3b. Consumption

EU Consumer Confidence (SA)



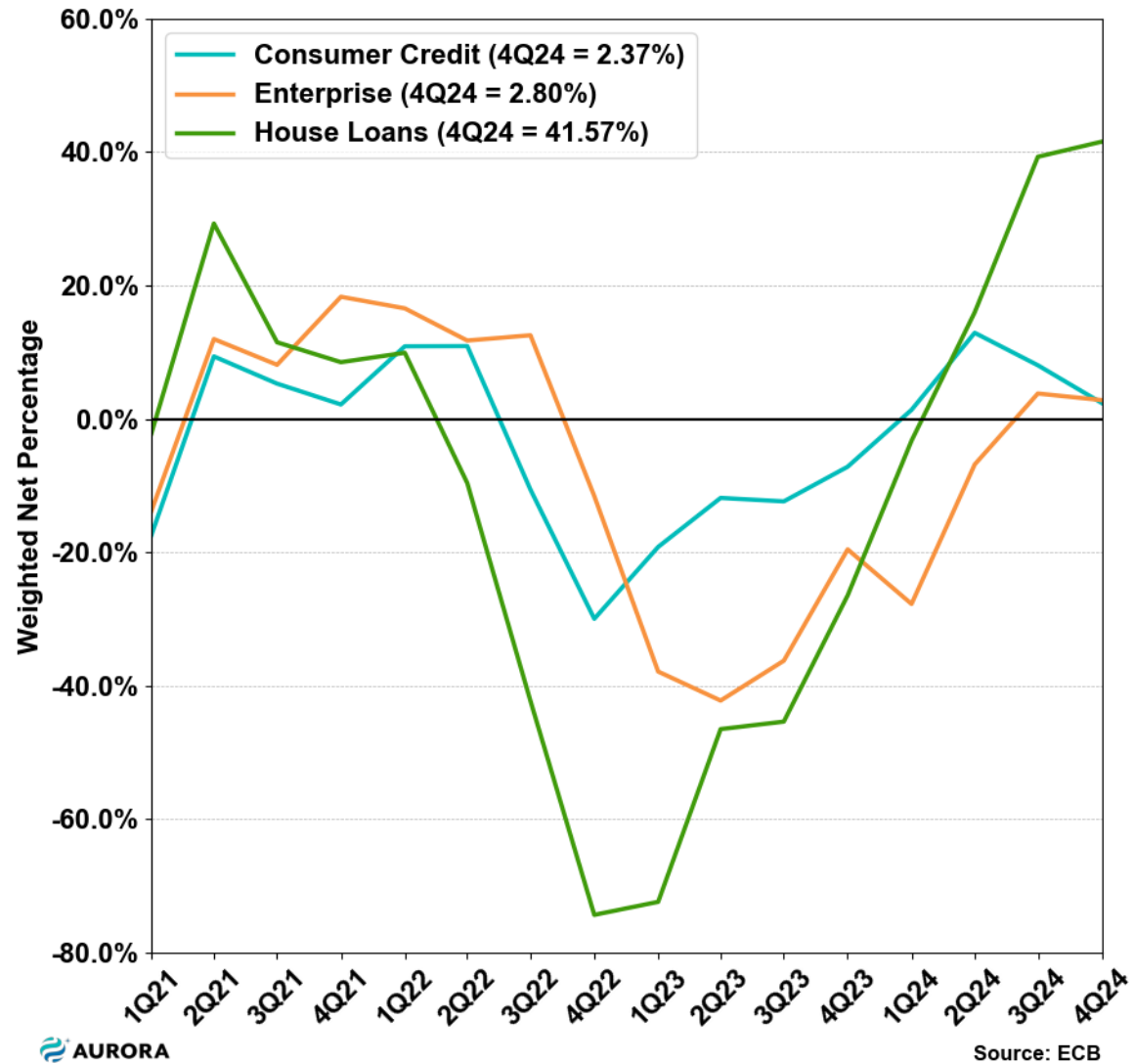
Euro Area Consumer Forecasts For Next 12 Months



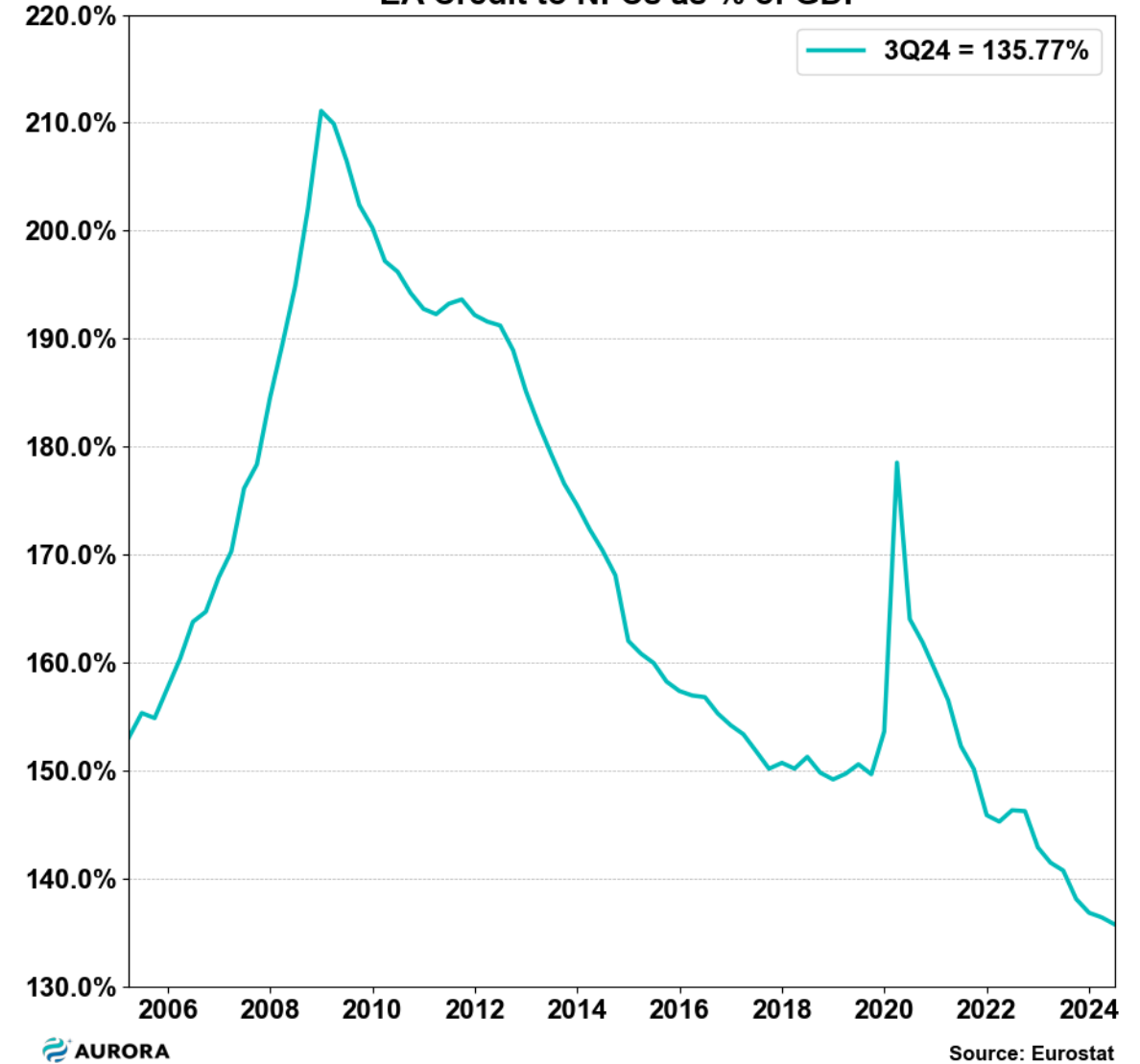


4. Leverage

ECB Bank Lending Survey: Change in Net Loan Demand by Type

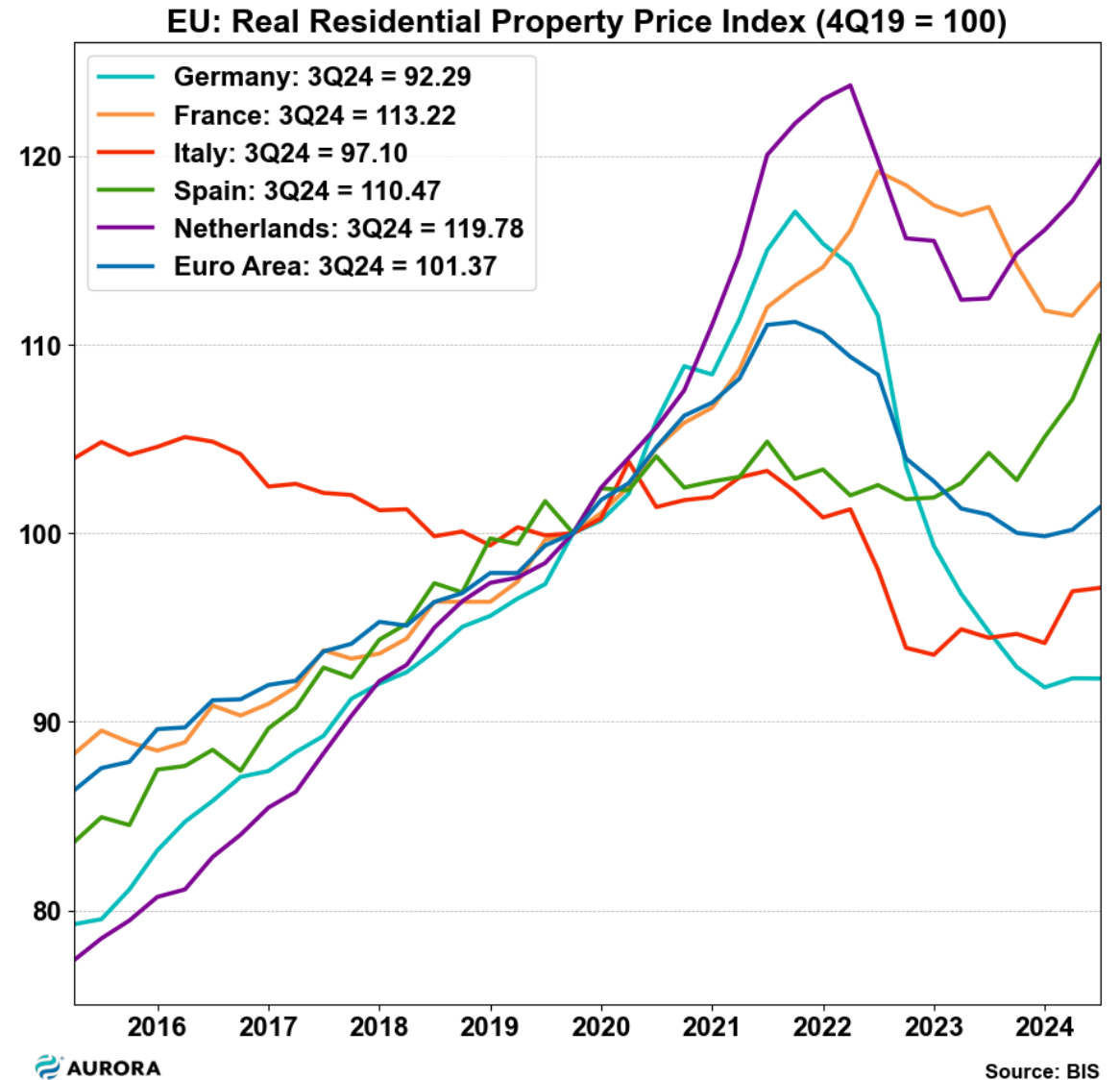
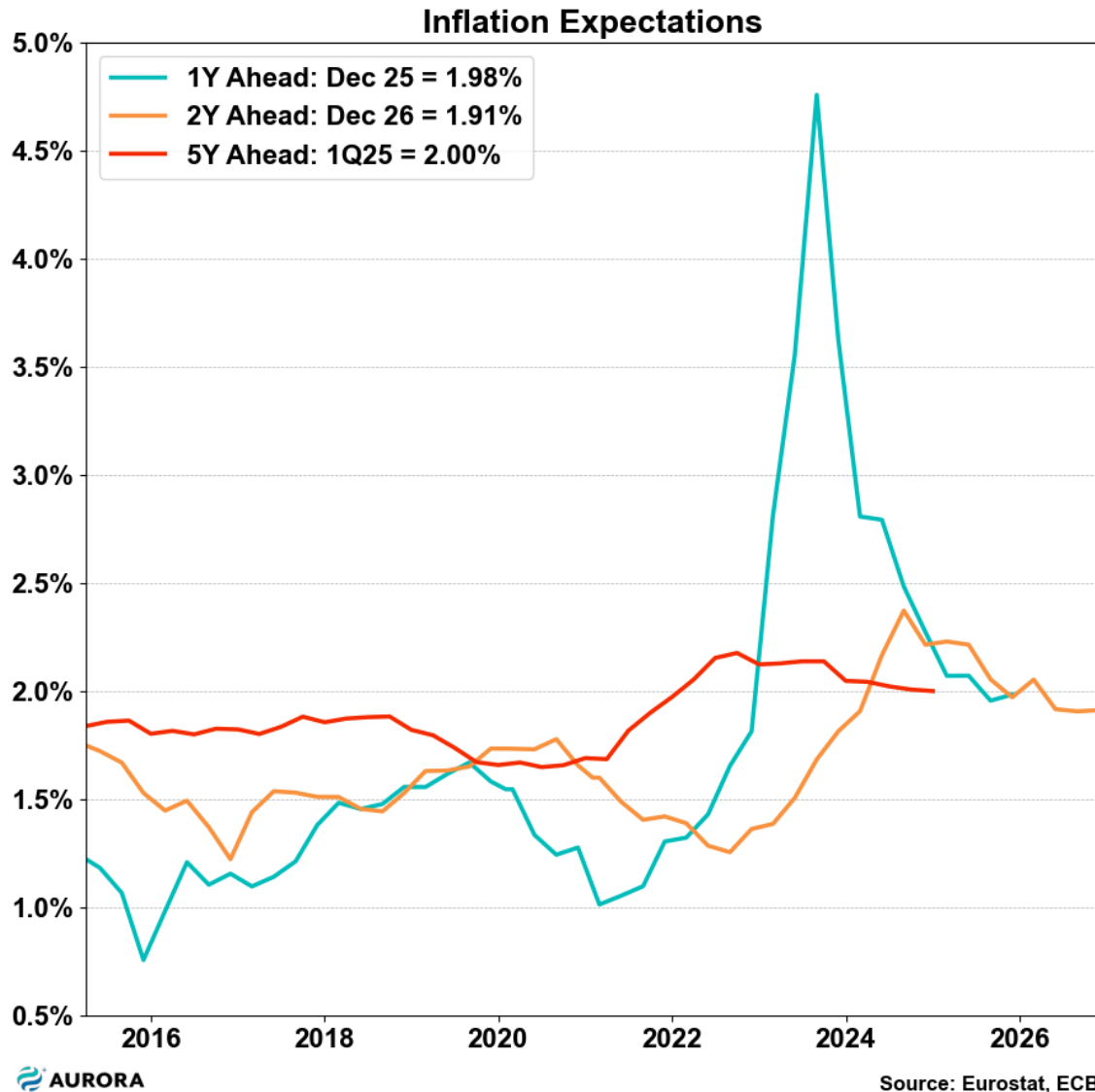


EA Credit to NFCs as % of GDP



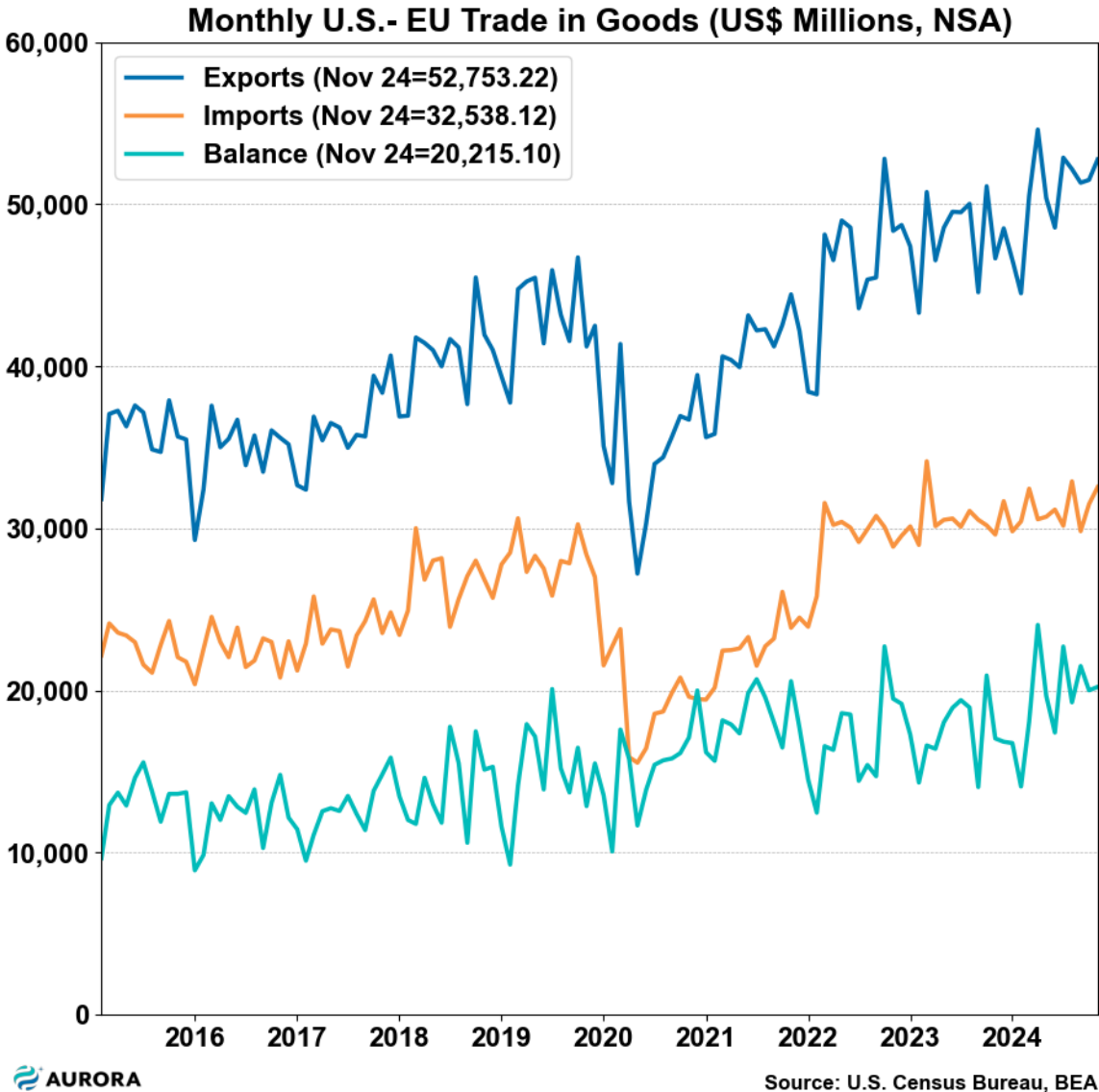
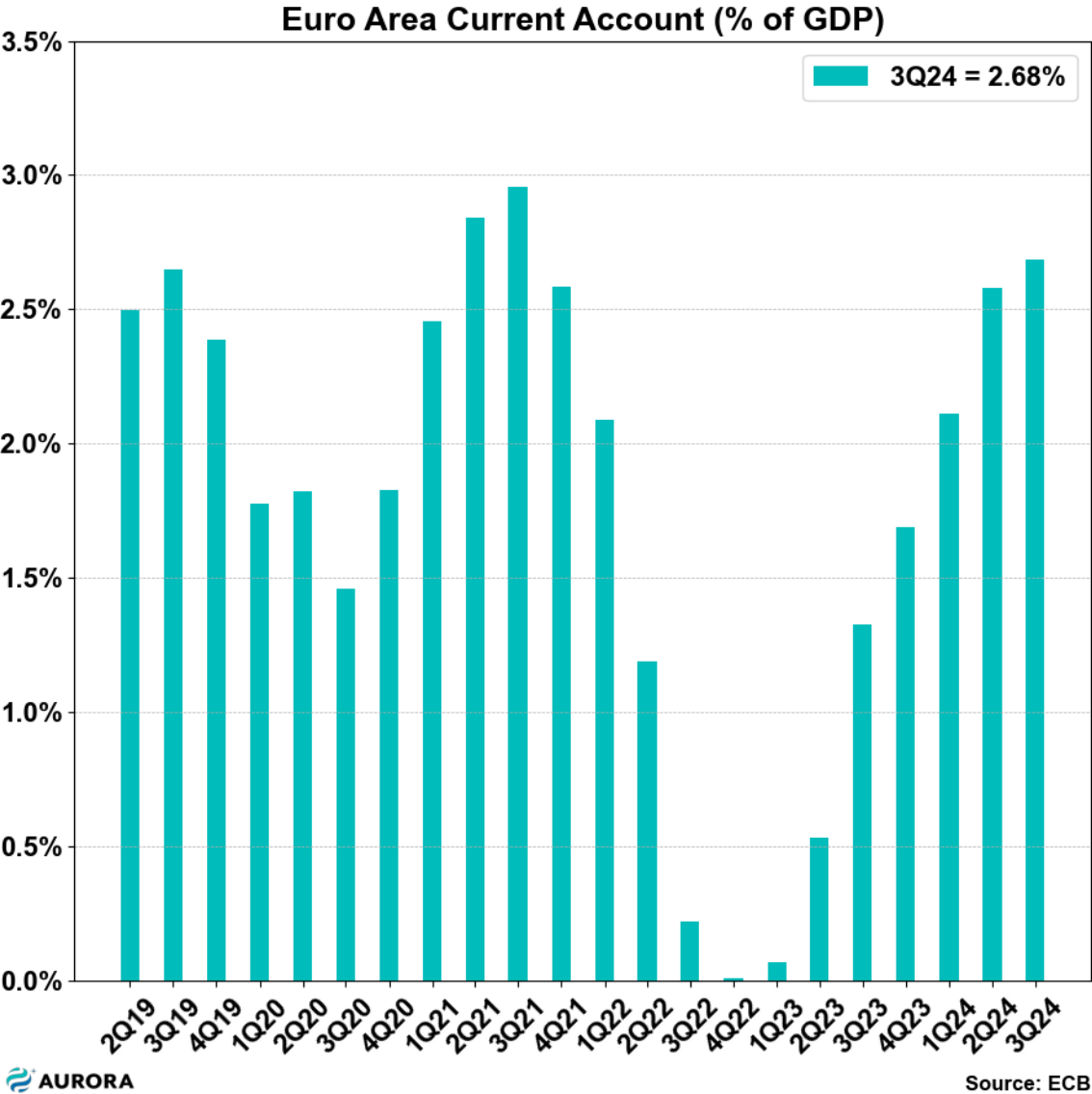


5. Inflation Expectations and Real Estate





6. International Trade





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