Flash Economics

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United States and Euro zone: everything going according to plan

In the United States, the rise in customs duties and the halt to immigration, particularly illegal immigration, have led, as expected, to weaker growth and job creation (with all the components of demand slowing) and to higher inflation (with customs duties and the start of a rise in tension on the labour market), with no positive effect on direct investment in the United States.

In the Euro zone, the slowdown in world trade has resulted in very weak growth, but underlying inflation remains slightly above the ECB's target, since the lack of productivity gains is keeping unemployment low despite the absence of growth.

The two central banks (the Federal Reserve and the ECB) are therefore faced with a difficult situation, since growth is weak, but inflation is resilient.

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In the United States, the effect of higher tariffs and curbs on immigration

Since taking office, Donald Trump has pursued:

- A **protectionist policy** with a sharp rise in tariffs (**Chart 1**);

Chart 1
United States: Duties collected on total imports (as %)



- **A policy hostile to immigration**, which can be seen in the decline in the number of immigrants: in January 2025, 53.3 million immigrants (people born outside the United States and residing in the United States) were living in the United States; this number falls to 51.9 million in June 2025; 20% of jobs were held by immigrants in January 2025, and only 19% of jobs in June 2025. The population of "unauthorised", illegal immigrants fell by one million between January and June 2025 (these figures come from the Pew Research Center).

  The consequences of these developments are in line with expectations:

  - **Decline in growth** (**Chart 2**) **and job creation** (**Chart 3**), as a result of the decline in all the components of demand: consumption, residential and business investment, and exports;

Chart 2
United States: Real GDP growth (Q/Q annualized, %)

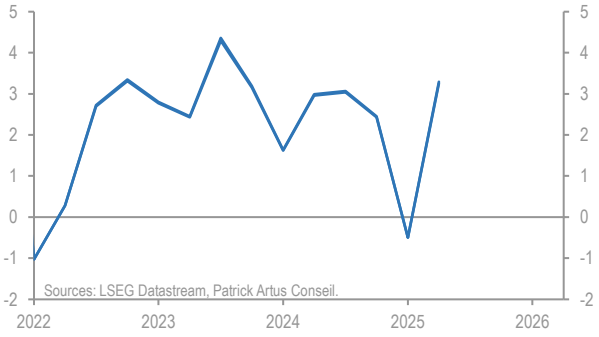
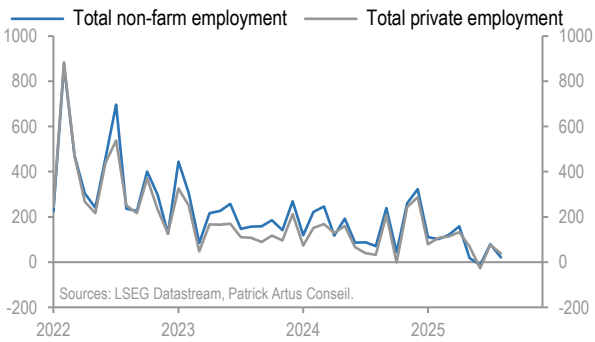
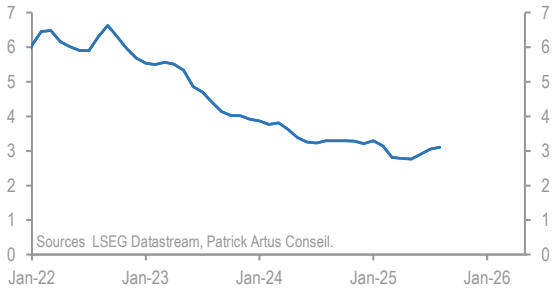


Chart 3
United States: Change in payroll employment
(M/M, thousands of person)



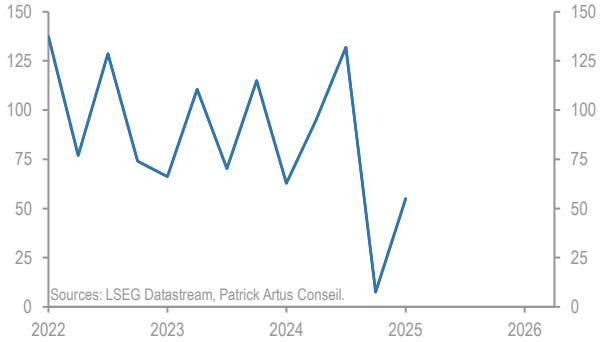
  - **recovery in core inflation** (**Chart 4**).

Chart 4
United States: Core inflation
(CPI excl. food and energy, Y/Y as %)



In addition, foreign direct investment in the United States will be lower in 2025 than in 2024 (Chart 5).

Chart 5
United States: Direct investment inflows*
(in USD bn)



(*) Direct investment inflows are capital inflows leading to an increase in liabilities (in this case for the United States) and therefore have a positive sign.

In the Euro zone, very weak growth and lack of productivity gains prevent inflation from falling

Growth in the Euro zone has already been very weak since 2023 (Charts 6A/B), but this weakness will be confirmed in 2025, after the first quarter was artificially boosted by increased exports to the United States in anticipation of tariffs.

Chart 6A
Euro zone: Real GDP growth (Q/Q as %)

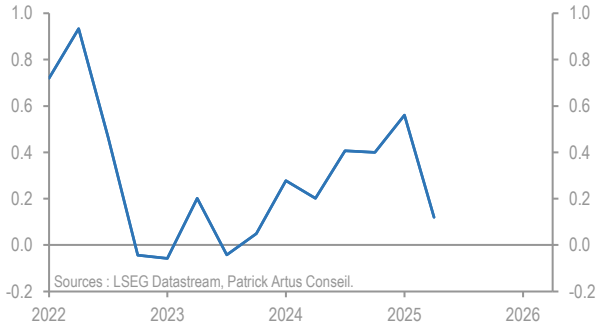
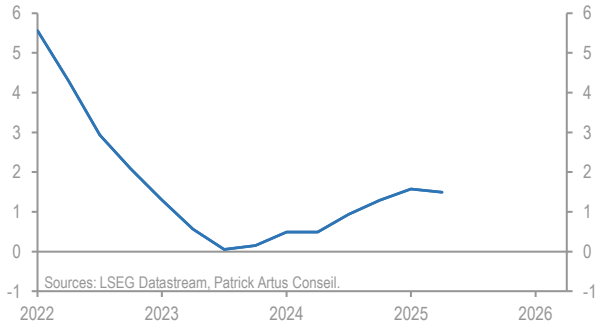


Chart 6B
Euro zone: Real GDP growth (Y/Y as %)



The stagnation of labour productivity (Chart 7) is the main cause of weak growth (due to qualification problems, insufficient investment in new technologies and low spending on research and development). In 2025, the slowdown in world trade, which is weakening exports, will be added to the explanation for weak growth (Chart 8). Indeed, while world trade in goods had risen by 2.9% in 2024, the WTO is forecasting growth of just 0.9% in 2025.

Chart 7
Euro zone: Productivity per head (2010.Q1 = 100)

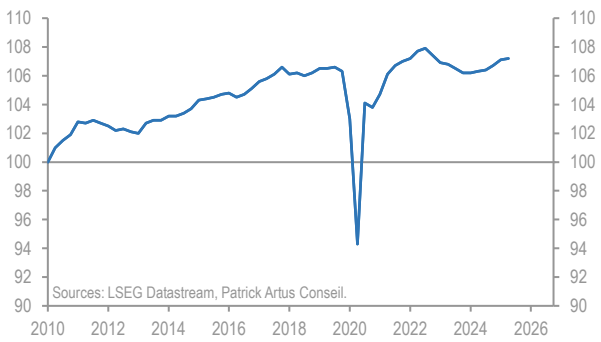
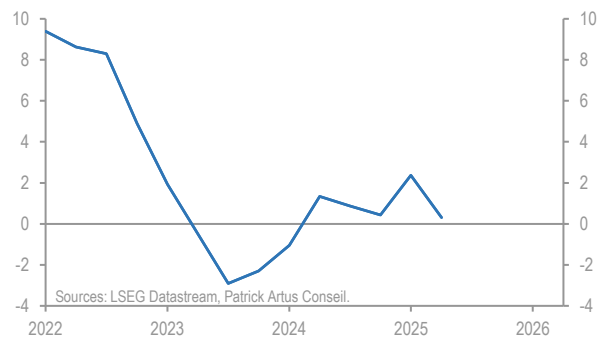


Chart 8
Euro zone: volume growth of goods and services exports* (Y/Y as %)



* including intra-euro zone

The absence of productivity gains has also meant that **unemployment has remained low** despite weak growth (**Chart 9**), pushing up wages and **keeping underlying inflation above the ECB's target** (**Chart 10**).

Chart 9
Euro zone: Unemployment rate (as %)

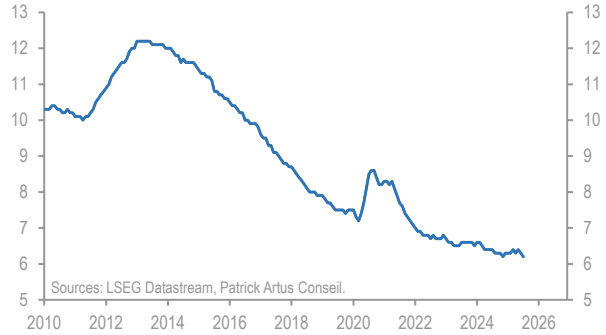
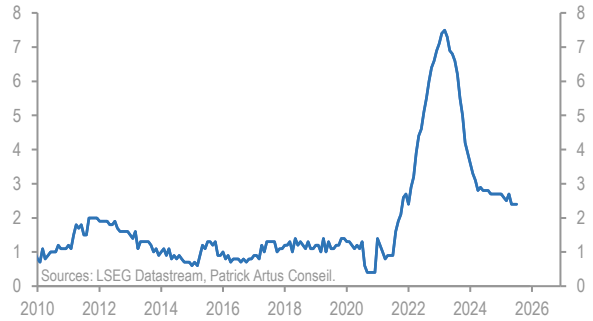


Chart 10
Euro zone: Core inflation
(HICP excl. energy and unprocessed food, Y/Y as %)



Summary: a difficult situation for the two central banks

What could have been expected as a consequence of the economic policy pursued by the Trump administration (support for inflation, decline in growth and growth in world trade) is therefore coming true. The Federal Reserve and the ECB are therefore faced with a difficult situation: weak growth and above-target inflation.

As a result, key interest rates will do little to stimulate the economy unless, in the United States, the Federal Reserve loses its independence.

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