BEHIND THE HEADLINES

with **Ronald Temple**, Chief Market Strategist

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The Week Behind

1. **The Federal Open Market Committee (FOMC) delivered a hawkish pause.**

   The FOMC held rates constant and delivered few clues as to the likely trajectory of rates in 2025. Fed Chair Jay Powell judiciously avoided any commentary on political issues in the press conference while the FOMC statement indicated that "Inflation remains somewhat elevated," suggesting no further easing in the immediate future. Markets were unmoved with ~46 basis points (bps) of rate cuts expected by year end before and after the FOMC meeting.

2. **US GDP rose by 2.8% in 2024 while Q4-24 growth decelerated to an annualized rate of 2.3%.**

   US Q4-24 GDP growth of 2.3% annualized quarter-on-quarter (q-o-q) fell short of the 2.6% consensus expectation. The growth was largely driven by strong consumer spending with final sales to private domestic purchasers, the best gauge of sustainable demand, rising at a 3.2% annualized rate versus the 3.4% rate in Q3-24 and 3.5% in Q4-23. Auto sales contributed heavily to demand with a 24% increase in new car sales boosting the increase in durable goods consumption to a 12.1% annualized rate. The impact of hurricanes and the pull forward of electric vehicle sales ahead of the likely end of federal tax credits likely boosted these figures.

   Business investment and the volatile inventories component were weaker than expected and partially offset the private consumption strength.

3. **US Personal Consumption Expenditure (PCE) inflation was in line with expectations while personal spending rose more than expected.**

   Headline US PCE inflation in December was 0.3% month-on-month (m-o-m) and 2.6% year-on-year (y-o-y) while core PCE inflation was 0.2% m-o-m and 2.8% y-o-y, as expected. Personal income rose 0.4% m-o-m while personal spending rose a stronger-than-expected 0.7% m-o-m.

4. **The US Employment Cost Index (ECI) rose in line with expectations at 0.9% q-o-q.**

   The ECI encompasses all wages and benefits and compares the cost of workers in the same roles without the distortion of mix shifts in the labor market. The increase of 0.9% q-o-q was slightly higher than the Q3-24 rise of 0.8%, but still in line with expectations. For the full year, compensation costs rose 3.8%, down from the 4.3% rate of 2023 and 5.1% in 2022.

LAZARD

5. **China's National Bureau of Statistics (NBS) Purchasing Managers' Index (PMI) disappointed.**

   The NBS PMI, which focuses more on large, state-owned companies, slipped back into contractionary territory with a reading of 49.1 for manufacturing (consensus 50.1) and 50.2 for non-manufacturing (consensus 52.2). The composite PMI fell to 50.1 from the prior month's 52.2.

   Weaker results for new orders and production pulled the manufacturing figure down while both services and construction lowered the non-manufacturing index.

   Overall, the NBS PMI suggested that the stimulus measures announced in Q3-24 and Q4-24 have, yet again, failed to stimulate demand on a sustainable basis.

6. **The European Central Bank (ECB) cut the deposit rate by 25 bps to 2.75%.**

   The ECB decided on a unanimous basis to cut rates. Markets translated the commentary around the easing to signal another rate cut in March, but ECB President Christine Lagarde avoided any commitments regarding the level of the neutral rate (which many view as being between 1.75% and 2.25%). I continue to expect more rate cuts from the ECB in 2025 than are anticipated by markets. Markets currently suggest that the overnight rate will end the year slightly below 2% while I believe the ECB may well take rates down to 1.5% if the United States imposes tariffs on European exports.

   Given my dovish expectations for Eurozone interest rates, I continue to expect further weakening of the euro to levels below parity with the US dollar.

7. **Eurozone GDP stagnated in Q4-24.**

   Eurozone GDP disappointed already extremely low expectations for Q4-24 with no growth versus consensus expectations for an increase of 0.1% annualized in the quarter. The y-o-y growth of 0.9% fell slightly short of the consensus expectation for 1.0% growth. On a country level, Germany disappointed with a 0.4% annualized q-o-q contraction and a 0.2% y-o-y decline. France sustained a 0.1% annualized q-o-q decline while the y-o-y increase was a slightly weaker-than-expected 0.7%. Italy just missed expectations with q-o-q annualized GDP being flat and y-o-y growth of 0.5%. Yet again, Spain was the standout with q-o-q growth of 0.8% (not annualized) and y-o-y growth of 3.5% each outpacing the expected 0.6% and 3.2% consensus rates.

8. **French, German, and Spanish Consumer Price Index (CPI) inflation figures were in line with expectations.**

   Inflation in the Eurozone continued to stabilize at levels approaching the ECB's 2% target. On a y-o-y basis, inflation in France remained below the 2% target while German and Spanish inflation figures remained just below 3%.

EU Harmonized HICP for January

Release Date	Country		Consensus	Actual	Prior Reading
1/30/2025	Spain	Headline m-o-m	-0.3%	-0.1%	0.4%
		Headline y-o-y	2.8%	2.9%	2.8%
1/31/2025	Germany	Headline m-o-m	-0.2%	-0.2%	0.7%
		Headline y-o-y	2.8%	2.8%	2.8%
1/31/2025	France	Headline m-o-m	-0.1%	-0.2%	0.2%
		Headline y-o-y	1.9%	1.8%	1.8%

Source: Bloomberg, German Federal Statistical Office, INSEE National Statistics Office of France, Spain National Statistics Institute

The Week Ahead

1. **US labor market reports could offer signals regarding whether "labor hoarding" is obfuscating employment data.**

   The Job Openings and Labor Turnover Survey (JOLTS) is likely to show a decline in open positions. I will be watching the voluntary quit rate and hire rate to identify signs of labor market strengthening. The hire rate has recently fallen to levels last seen in 2013 while the quit rate is down to levels seen in 2015. Neither figure neatly parallels the 4.1% unemployment rate which would suggest a full-employment economy.

   On Friday, the Employment Situation report is expected to show nonfarm payroll growth of 150k versus the very strong 256k in December. The unemployment rate is expected to be unchanged at 4.1% with average hourly earnings growth of 0.3% m-o-m and 3.8% y-o-y.

2. **China Caixin PMI is expected to show moderate expansion.**

   China's Caixin PMI which focuses more on small, privately-owned export-oriented companies is expected to be roughly unchanged from the prior month at levels suggesting slight expansion. The manufacturing index is expected to nudge upward to 50.6 from 50.5 while the services index is expected to increase to 52.5 from 52.2. Given the significant decline in the NBS PMI figures last week, this data will be important to confirm whether recent stimulus measures have already faltered.

3. **Eurozone and Italian CPI inflation figures will be released.**

   Eurozone headline CPI is expected to nudge upward on a y-o-y basis to 2.5% from 2.4% in December while core CPI is expected to subside to 2.6% from 2.7% on y-o-y basis. The m-o-m CPI is expected to swing to -0.3% from 0.4% in December.

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