Macro Month Ahead
March 2025

Burgeoning uncertainties and four major interrogations ahead of spring

Spring is not here yet, but new uncertainties already emerged for investors after a start to the year that has disrupted the established order in many ways. For his first weeks in office, President Trump has lived up to his promises of disruption, on international relations and geopolitics, trade or federal administrations and budgets. Meanwhile, Europe is coming to terms with a shifting global order, where it must swiftly take control of its own destiny—whether in defence, security, or economic reforms. Crucial decisions will have to be made in the coming months, that will require the leadership of Europe's largest economy, Germany. After February's elections, the future Chancellor Friedrich Merz must build a coalition and form a government swiftly, while finding ways to finance higher defence spending and to revive the economy after two years of recession. China has been suffering from sluggish growth in the past years as well, and a much-awaited plan to support domestic consumption is still to be announced to balance the impact of rising US tariffs.

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In this context, the month of March opens with four major interrogations:

- After all the talks, will US tariffs be finally effectively imposed on Mexican, Canadian, Chinese and European goods? Or will the threat of tariffs remain a bargaining tool for President Trump to push US trade partners to efforts and concessions in other domains?
- Are the recent tentative signs of economic slowdown in the US the beginning of a concerning trend, or merely a temporary soft patch in the robust growth trajectory of the US economy?
- Will Friedrich Merz make progress in forming a coalition and manage to free up some fiscal room for manoeuvre?
- Will China finally announce a significant fiscal policy package to spur domestic consumption?

Answers to these key questions could all come within the coming weeks and will have the potential to influence decisively the trajectory of financial markets. As if it were not enough, all major central banks will hold monetary policy meetings in March, with further rate cuts expected in the Eurozone and Switzerland, and an update of the Fed's economic and rate projections. We review below the key events and data to watch for not being caught off guards over the month. Meanwhile, don't forget to switch to Daylight Saving Time (**9/03** in the US, **30/03** in Europe) as, regardless of all the uncertainties, spring is coming!

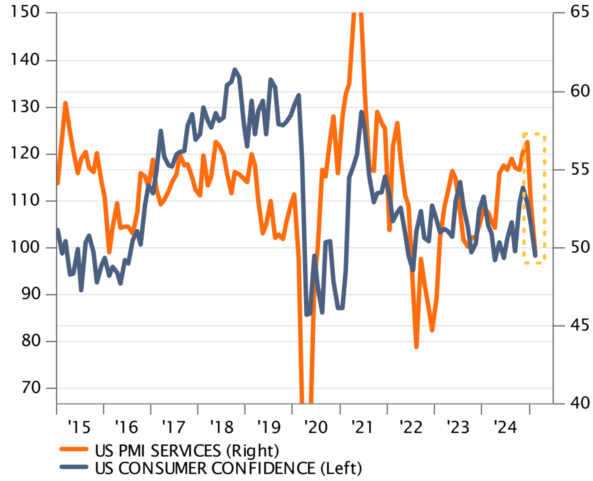
Will US tariffs be finally effectively imposed on Mexican, Canadian, Chinese and European goods?

Tariffs on US imports of foreign goods have been set as a major economic tool by President Trump even before he was re-elected for a second term. However, after his first weeks back in the Oval Office, it remains unclear whether President Trump intends to effectively impose trade tariffs on imports from its main trade partners, or if he is using tariffs as a threat to push those partners to be more conciliant on other matters. The ambiguity is likely intentionally maintained, and the uncertainty thus created is probably part of the strategy, even if it may have negative spillover on US domestic activity (see below).
At the time of writing, 25% tariffs on Mexican and Canadian goods will take effect on Tuesday **4/03**, after having been postponed for a month to let those two countries take measures to stop the flows of fentanyl in the US. On the same day, an additional 10% duty will be imposed on imports from China. While the threat cannot lightly be ignored, it may be worth remembering that those tariffs were already announced a month ago, before being suspended a few hours ahead of the scheduled implementation. Let's see what will happen this time.
As far as Europe is concerned, the so-called "reciprocal tariffs" designed to compensate for the impact of European VAT are currently scheduled to enter into force in early April **(2/04)**. But the ongoing discussions around Ukraine, the attitude of European leaders toward the US-Russia negotiations, or potential announcements around a significant increase in defence spendings in Germany, could lead President Trump to reconsider this timeframe in one direction or the other. It might be that tariffs prove to be a powerful stick to push partners, former partners or rivals into the direction the US wants, but that they end up not being implemented, or in a much less spectacular way than claimed. The negative impact on sentiment that this uncertainty creates, and the likely inflationary impact of tariffs for US consumers, must be in President Trump's mind, who likely doesn't want to see the economy slowing down in the first year of his term.

Are the recent tentative signs of economic slowdown in the US the beginning of a concerning trend?

Some economic data release released in the past few weeks have cast doubt on the growth momentum of what seemed to be an unbreakable US economy. Soft consumption data, a deterioration in confidence, higher inflation numbers and hints of a brisk slowdown in service sector activity brought back fears of US growth slowdown in investors' mind. In this context, economic data released in March will be particularly scrutinised to gauge whether this was just a temporary soft patch, possibly caused by a combination of seasonal effects, weather conditions and uncertainties caused by the first weeks of President Trump in office, or if this was the beginning of a more concerning stagflationary trend.
The labour market has so far remained a powerful support to consumption, and employment data will be closely watched to see if the main underlying driver of US growth still holds firm. The ADP report on private sector employment **(5/03)**, Nonfarm Payrolls and the Unemployment Rate **(7/03)**, as well as the JOLTS report **(11/03)** will set the tone in that respect. In the first days of the month, the usual ISM Manufacturing **(3/03)** and ISM Services **(5/03)**, as well as the final PMI on the same days, will shed light on February's growth dynamics and help to put the surprise drop in the Flash PMI Services into context. The NFIB index of Small Business Optimism **(11/03)** will also be closely watched after it pulled back slightly in January following the Q4 2024 surge. Later in the month, early surveys on March's activity trend aren't to be missed (Empire Manufacturing **17/03**, Philadelphia Fed **20/03**, Flash PMI **24/03**).

Was the early-2025 decline in consumer confidence and service sector activity only temporary?



Source: FactSet Research Systems, Banque Syz

With concerns around the US consumer on the rise, retail sales **(17/03)** and personal consumption data **(28/03)** will focus attention. Consumer confidence indices will also be scrutinised after they dropped in February (University of Michigan index **14/03**, Conference Board index **25/03**). Being a likely factor of weaker consumer spendings and sentiment, inflation releases will once again be a major event of the macroeconomic month ahead. This will be especially true of the CPI inflation report **(12/03)** after the upside surprise of last month, but the PPI inflation report **(13/03)** and the PCE deflator **(28/03)** will also be of interest. Finally, the FOMC meeting **(19/03)** should see the Fed keep its rate unchanged, but it will give Fed's members the opportunity to adjust their economic forecast and rate cut projections.

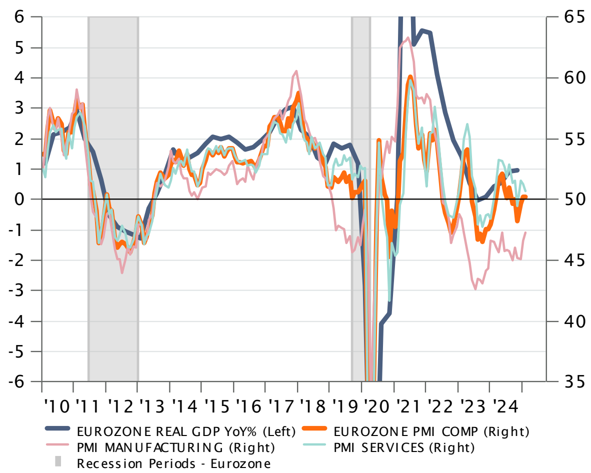
Will Friedrich Merz make progress in forming a coalition and manage to free up some fiscal room for manoeuvre?

The German elections brought results broadly in line with polls' expectations. The centre-right CDU/CSU came first, and Friedrich Merz will likely become the next chancellor. From an economic point of view, the results left the prospect of fiscal policy easing more limited, as opposition parties will be able to block a constitutional reform of the debt brake in the newly elected Parliament. With the CDU/CSU set to form a coalition with the SPD, the new government will face critical economic challenges, including revitalising Germany's stagnating economy amidst geopolitical uncertainties. The coalition negotiations are expected to be intense but crucial for the country's future leadership and economic direction. And time is of the essence for at least two reasons:

- A fully operative German government in necessary to take the crucial decisions required by the revamping of transatlantic relationships. From the increase in defence spendings to the reshaping of Europe's security architecture, the ongoing discussions for peace in Ukraine or the reaction to potential US tariffs, Germany and Europe cannot afford to remain without leadership for long. Friedrich Merz has pledged to form a government before Easter (i.e. 20 April) but a faster coalition agreement would be more than welcomed in the current context. At least some progress in the discussions is be expected over the course of March.

- Given the results of the elections, parties in favour of a loosening in fiscal policy will not hold the two-third majority in the Bundestag that is required to amend the constitution or allow special off-balance sheet fundings. Given the huge funding needs for defence spendings and economic stimulus, the possibility of having the former Bundestag (where a two-third majority could be found) voting on those measures is contemplated, before the new Bundestag is inaugurated (25/03). This would give the next government the fiscal room for manoeuvre to raise defence spending and implement a pro-growth agenda. It may also facilitate the negotiations to form a coalition with the SPD by loosening somewhat the fiscal straitjacket that has suffocated Germany in the past two years.

Eurozone activity has stabilised after the 2024 slowdown, but it remains weak, with manufacturing activity still contracting



Source: FactSet Research Systems, Banque Syz

However, any potential relaxation of the German fiscal orthodoxy would not significantly impact the economy before the second half of the year. In the short run, the economic dynamic remains subdued even if it has stabilised after the weakness experienced in 2024. The release of final PMI Manufacturing **(3/03)** and Services indices **(5/03)** for February, the Flash estimate of the same indices for March **(24/03)** and the Economic Sentiment Index **(28/03)** may provide interesting insights on the impact of recent political and geopolitical developments. CPI inflation data **(3/03)** will also be of interest, especially for the ECB that is due to hold a monetary policy meeting in the first week of March **(6/03)**. The central bank is expected to further cut its key rate by 25bp. It will also update its growth and inflation projections, which will influence expectations on the continuation of the rate cut cycle in 2025.

Will China finally announce a significant fiscal policy package to spur domestic consumption?

After three years of continuous slowdown and weaker economic activity, the Chineses authorities had decided to act in September last year. A policy package designed to facilitate the access to credit, stop the slump of the real estate market and support the equity market was introduced, that has helped economic activity to stabilise China's economic growth around the 5% rate targeted by the authorities. However, to complement those "supply-side" measures, significant measures to support domestic demand have been expected since then, in vain up to now. The government has hinted several times at some economic policy easing in 2025, but nothing concrete has been announced yet.
This month might be the occasion. In the first week of March, (4/03 and **5/03**), China's 2025 "Two Sessions" will kick off with the aim of setting economic priorities, and more specifically to announce growth, inflation and public spending targets. In a context of rising trade tensions with the US, this might be an occasion for the Chinese government to eventually unveil the long-awaited fiscal stimulus to households and domestic consumption.
The release of the usual monthly data should be taken with a pinch of salt as February data are often affected by the Chinese New Year holiday period. For the record, industrial production, house prices and retail sales data will be released on **17/03**, CPI and PPI inflation on **9/03** and the Government PMI for March on **31/03**.

All major central banks hold monetary policy meetings in March

Central bank watchers face a heavy month in March, with a flurry of monetary policy meetings across the globe. The global rate cut cycle initiated in 2024 remains in place and rates are heading lower across most economies, with the noticeable exceptions of Japan and Brazil. However, while some central banks will likely cut rate this month (ECB **6/03**, SNB **20/03**, Norgesbank **27/03**), others may stay non hold this month (Fed **19/03**, BoC **12/03**, BoE **20/03**, Riksbank **20/03**). After its January rate hike, the BoJ is not expected to hike rate again before the second half of the year and should remain on hold in March **(19/03)**.
Several large emerging economies will also see central bankers' activity: the Central Bank of the Republic of Turkey **(6/03)**, the Banco Central do Brasil **(19/03)**, the Bank Indonesia **(19/03)**, the South African Reserve Bank **(20/03)** and the Banco de Mexico **(27/03)** hold their meeting in March.

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