2024 ends on diverging dynamics

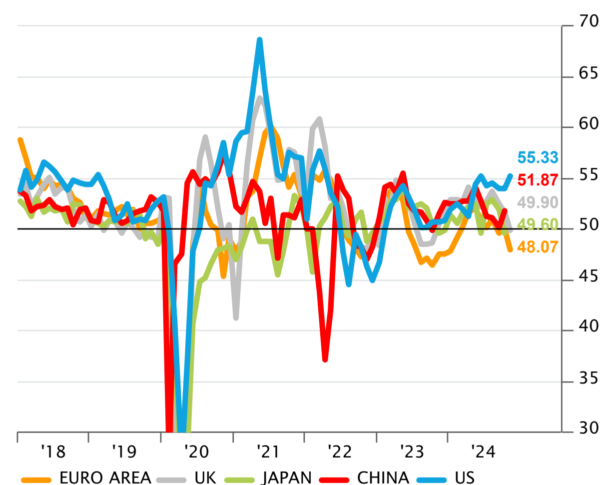
No landing in the US, recession risks in Europe, early signs of pickup in China

As 2024 comes to an end, global economic growth remains positive, but divergences that appeared over the summer remain. The US economy remains remarkably resilient and shows no signs of landing, led by robust consumption and buoyant activity in the service sector, supported by a still strong labour market. US GDP is on track for another quarter of above-potential growth and the prospect of pro-business policies in 2025 under the incoming Trump and Republican administration adds tailwinds to an already roaring economy.

The contrast is striking with the Eurozone, where most recent indicators point to economic stagnation and a deterioration of the labour market, in a complex political environment that makes the possibility of fiscal support a pipe dream for the time being. Europe has already faced significant challenges: the abrupt end of cheap Russian energy, declining Chinese demand for manufactured goods, a shift from conventional cars to EVs, and a sharp rise in interest rates. Now, the added threat of US tariffs on its exports could be the final blow to its growth prospects next year. The Swiss economy returned to growth in 2024, driven by robust domestic consumption and a recovery in external demand from key export markets like the US and China.

However, weak demand in Germany—Switzerland's second-largest export market—and the strong Swiss franc continue to pose challenges as we move into 2025.

Growth dynamics diverge among key economic areas at the end of 2024



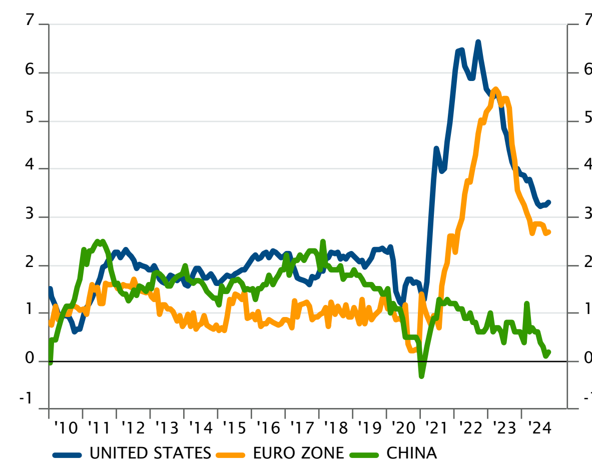
Source: Bank Syz, FactSet

China also is under threat of a significant blow to its export sector next year, as the contemplated increase in US tariffs would be most important on Chinese goods. However, unlike Europe, the authorities can prepare for this coming shock. They have unveiled a comprehensive package of measures to revive economic activity following the summer slowdown. Additionally, the finance minister has committed to implementing a "forceful fiscal policy in 2025," with plans already underway for further countercyclical actions. These efforts aim to offset the negative impact of US tariffs on export-dependent industries.

Upside risks on inflation fuelled by government policies

Divergences are also visible on inflation dynamics in the last part of 2024. In the United States, the disinflationary trend at play throughout the spring has given way to firmer underlying pressures in the recent months that have stopped the slowdown in "core" inflation. The resilience of the employment market is also keeping wage growth above the level consistent with the medium-term inflation target of 2%, and Trump's economic policies will likely add inflationary pressures at least in the short run. This is at odds with inflation dynamics in the Eurozone, that are dampened by the weakness in domestic demand. The deterioration in forward-looking employment indicators points to slowing wage growth ahead, after a surprisingly strong increase in Q3, and inflation will likely reach the 2% target over the course of next year. China has grappled with deflationary pressures over the past two years amid sluggish economic growth, and recent signs show further easing of inflationary pressures. However, a combination of rate cuts, liquidity injections, and fiscal policy easing is expected to reverse this trend, alleviating deflation concerns and steering inflation back on an upward path.

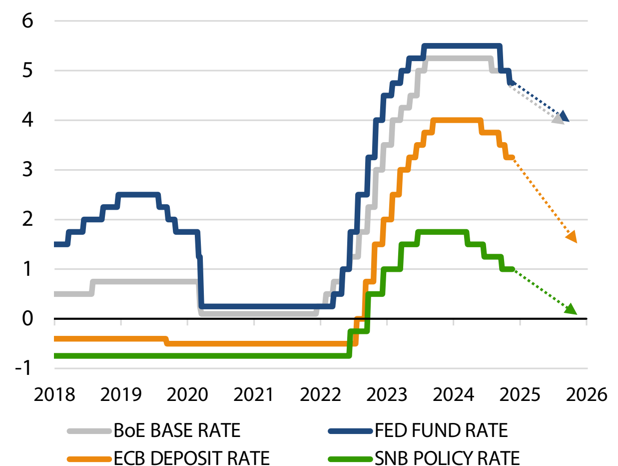
"Core" CPI inflation (YoY%) in the US, the Eurozone and China



Source: Bank Syz, FactSet

Central bank rate differentials widen

Diverging growth and inflation dynamics naturally result in varied monetary policy approaches. Following the synchronised global rate hikes of 2022–23, the anticipated rate cut cycle of 2024 is already proving far less aligned. All major central banks have cut interest rates this year, following the easing in inflationary pressures from their peak. But in these last months of 2024, rate cut expectations are being adjusted in response to differing growth and inflation developments. In the Eurozone, weak activity and slowing inflation warrant the ECB to forcefully cut rates to bring the monetary policy stance toward a neutral (or possibly accommodative) stance. In Switzerland, slowing inflation and upward pressures on the CHF require the SNB to lower rates back toward zero. In contrast, in the US and in the UK, the combination of persisting inflation and prospects of fiscal stimulus next year clearly reduces the need for adjusting monetary policy. As investors look toward 2025, they now expect that the Fed and the BoE will not have to cut significantly their key rate in the coming months.



Source: Bank Syz, FactSet

The global economic cycle is therefore clearly desynchronising in the late part of 2024. The US economy continues to defy expectations of any form of slowdown and will benefit from a pro-growth policy mix in 2025. The fears of a "hard landing" have been dismissed, and even expectations of a "soft landing" are now challenged by the resilience of the activity and the pickup in inflation dynamics. On the contrary, Europe and China have been through a clear slowdown in activity in the middle of 2024. But only China has so far been able to react with a policy package designed to trigger a pickup in activity. Europe remains stuck on a worrying downward trend, plagued by an accumulation of headwinds and by political paralysis in the two largest economies of the continent.

What to expect in 2025?

Our five key macro themes:

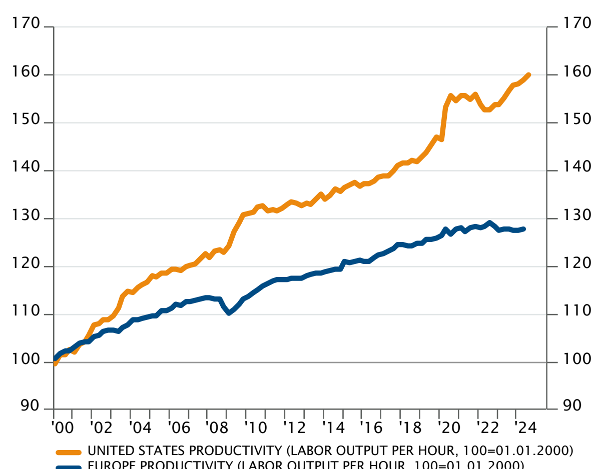
Fiscal policy supports growth in several large economic regions

Government policies in several major economies will actively bolster economic activity in 2025, helping to mitigate potential risks to global growth. In the United States, the exact mix of economic policies under the Trump administration is not known yet but it is already clear that fiscal policy will be supportive of growth. With a Republican majority in both chambers of Congress, President Trump will be able to implement its emblematic economic measures such as lowering the corporate tax rate to 15%, extending the expiring tax reductions for households and introduce new tax breaks. US GDP growth will therefore benefit from a positive fiscal impulse, at the expense of still large, and likely wider public deficits. The anticipated rise in public deficits could be partially offset by reduced government spending under Elon Musk and Vivek Ramaswamy's leadership, along with revenue from import tariffs if formalised into law rather than issued as decrees. However, the upward trajectory of US public debt is likely to continue in 2025. In the meantime, China will also benefit from government policy stimulus, with the combination of increased financing capacity for local governments, support to the real estate and stock markets and the liquidity injections already announced. Direct fiscal support to households and consumption is likely to be added to the policy mix in 2025. These measures will help China's growth rate to pick up and stabilise at a decent level next year, reversing the post-pandemic downward trend and balancing the negative impact of US tariffs on export sectors. With favourable government policies supporting the world's two largest economies, growth prospects for both, as well as for global GDP, gain significant momentum heading into 2025.

Europe faces existential choices

Europe has experienced a second consecutive year of (very) weak growth and ends 2024 on a worryingly negative momentum. The release of Mario Draghi's report on the future of European competitiveness has laid clearly what needs to be done to revive growth on the Continent. It comes at a timely moment, as the aftermath of the Covid pandemic has mostly dissipated, with deteriorating growth now requiring action, and before the European economy faces greater challenges as the global trade order is redefined. Draghi's clear call for urgent and bold action sets a path forward for improving the currently bleak outlook of the European economy. This report also comes in a difficult political context. The European elections have shown a rise of anti-establishment and populist parties across virtually all European countries, reflecting declining popular support for a common European project. Elections in France have led to a political paralysis, along with a shrinking base for pro-European parties that looks unlikely to change if new elections are held next year. In Germany, snap elections have been scheduled for February 2025, with hopes for a potential shift in fiscal policy to support growth depending on the outcome of the future coalition. The ongoing monetary policy easing by the ECB, and an expected rebound in China's demand will likely provide some short-term relief to the struggling European economy, but it is up to European leaders to take bold decisions to improve medium and long-term growth prospects and reverse the ongoing economic decline.

Europe is stagnating, from a growth and competitiveness perspective. Changes in policies must be enacted to resume a positive trend.



Source: Bank Syz, FactSet

Global trade enters more uncertain times

The election of Donald Trump raises uncertainties around the outlook for global trade, as it will likely reinforce a trend that has been at play for some time. Indeed, during Trump's first mandate, tariffs had already been introduced on Chinese exports to the US, as well as on a range of US imports from other countries including Europe. Since then, policies designed to protect the US economy from China's competition have even been reinforced under the Biden administration, and Europe has also taken measures in that direction. But 2025 could see a significant acceleration in that dynamic, as tariffs have been one of the core proposals of Trump's agenda. The new president intends to impose trade tariffs not only on China, but potentially to all countries exporting to the US, including its other major trade partners such as Mexico, Canada or the European Union. Smaller emerging economies with significant trade surpluses with the US could be significantly affected by this approach, and the prospect of US tariffs and likely retaliations from the targeted countries could negatively impact global trade and economic growth in 2025. It remains unclear at this stage whether the new US administration will implement fully and permanently the level of tariffs that has been floated during the electoral campaign, as their threat may prove to be a negotiation tool more than an effective economic policy. In any case, uncertainties on global trade dynamics and the risk of a trade war will likely linger over the first year of Trump's second mandate.

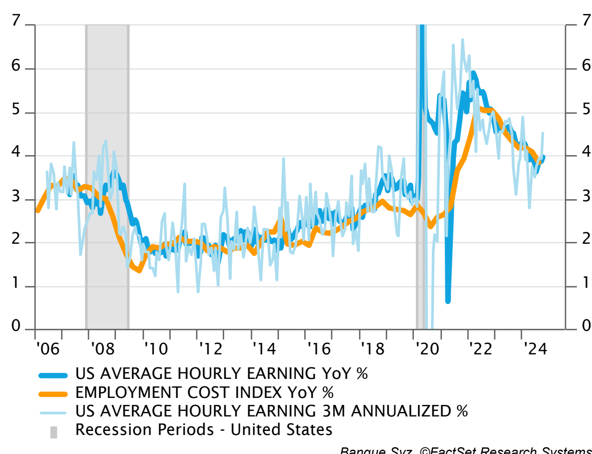
Upside risks on inflation

Inflation in the US has been trending downward in 2024, except for a temporary increase in the early months of the year. On top of lower energy prices, the normalisation of the US labour market and the resulting slowdown in wage growth have helped cooling down underlying pressures on prices. This has given the Fed confidence by the end of summer that it was time to shift to a more neutral monetary policy stance, with risks now leaning toward slower economic growth and higher unemployment. However, economic activity has remained solid in the last part of 2024, the labour market is showing little signs of deterioration, and the recent inflation data have pointed to firmer price pressures, putting the disinflationary dynamic on pause again.

In fact, the conditions are gathering for inflation to start picking up again in 2025, as two developments will likely fuel already resilient inflationary pressures in the US. Firstly, the imposition of tariffs on imported goods from China, but also from other large trade partners such as Mexico, Canada or the European Union, will likely push inflation temporarily higher in the course of 2025. Secondly, supportive fiscal policy under Trumponomics will fuel domestic demand and is likely to prevent inflation from slowing down toward the 2% target. By supporting domestic demand, fiscal policy could even contribute to drive inflation higher next year.

Another aspect of Trump's agenda that could contribute to inflationary pressures, particularly over the medium term, is tighter immigration policies. The potential deportation of illegal immigrants could lead to a resurgence in wage pressures as labour shortages reemerge in certain sectors. Energy prices might help contain the rise in headline inflation, as oil prices appear poised to remain under pressure from elevated global supply and Trump's energy policy. However, after two years of slowdown, the outlook is more balanced for inflation, and upside risks are real for 2025.

Wage growth might remain elevated in 2025 as robust economic growth and immigration policies bring back tensions on the labour market.



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Most central banks continue to cut rates, but some less than others

The global rate cut cycle that started in 2024 will likely continue in 2025. Most central banks must adjust rate levels to the slowdown in inflation that has made monetary policies generally restrictive. Real short-term rates (central bank's rate minus inflation) have reached elevated levels, first led by the global rate hike cycle of 2022/23, and then by the slowdown in inflation that has contributed to making monetary policy increasingly restrictive over the past year. A recalibration of monetary policies toward a more neutral stance appears warranted now that economic conditions have tended to normalise, and all major central banks will likely continue to cut rates in 2025.

However, diverging growth and inflation dynamics could result in significant differences in the evolution of rates. In some economies, typically the Eurozone and Switzerland, restrictive monetary policy is not balanced by supportive fiscal policies and is therefore increasingly weighing on economic growth and inflation. To avoid an unwarranted further deterioration in activity, those central banks will have to rapidly cut rates at least to a neutral level, and possibly even move to an accommodative stance. Real short-term rates will tend toward zero with a reduction of central banks' rates toward the level of inflation experienced in those economies.

In other economies such as the US or the UK, the current monetary policy stance is balanced by accommodative fiscal policies that support economic activity. For those central banks, the scope for rate cuts appears much more limited as lingering inflationary pressures will remain. Maintaining a positive real rate, i.e. a central bank rate above the level of inflation, might be warranted. In parallel, the liquidity drain from central banks' balance sheet will likely come to a halt after two years of normalisation from the pandemic-related liquidity injections. In some cases, central banks might even have to resume asset purchase programmes for reasons specific to their economy's structure.

In Switzerland, the SNB could have to intervene again on FX markets to prevent an undue appreciation of the Swiss franc. In the Eurozone, the ECB could face renewed pressures to intervene on the sovereign bond market in case of volatility triggered by political uncertainty and worrying public debt trajectories. In China, the recent policy shift has released significant liquidities to stem deflationary pressures and the weakness of credit growth. As a result, overall liquidity conditions will likely improve in 2025, with the end of Quantitative Tightening and various forms of liquidity injections in some economies.