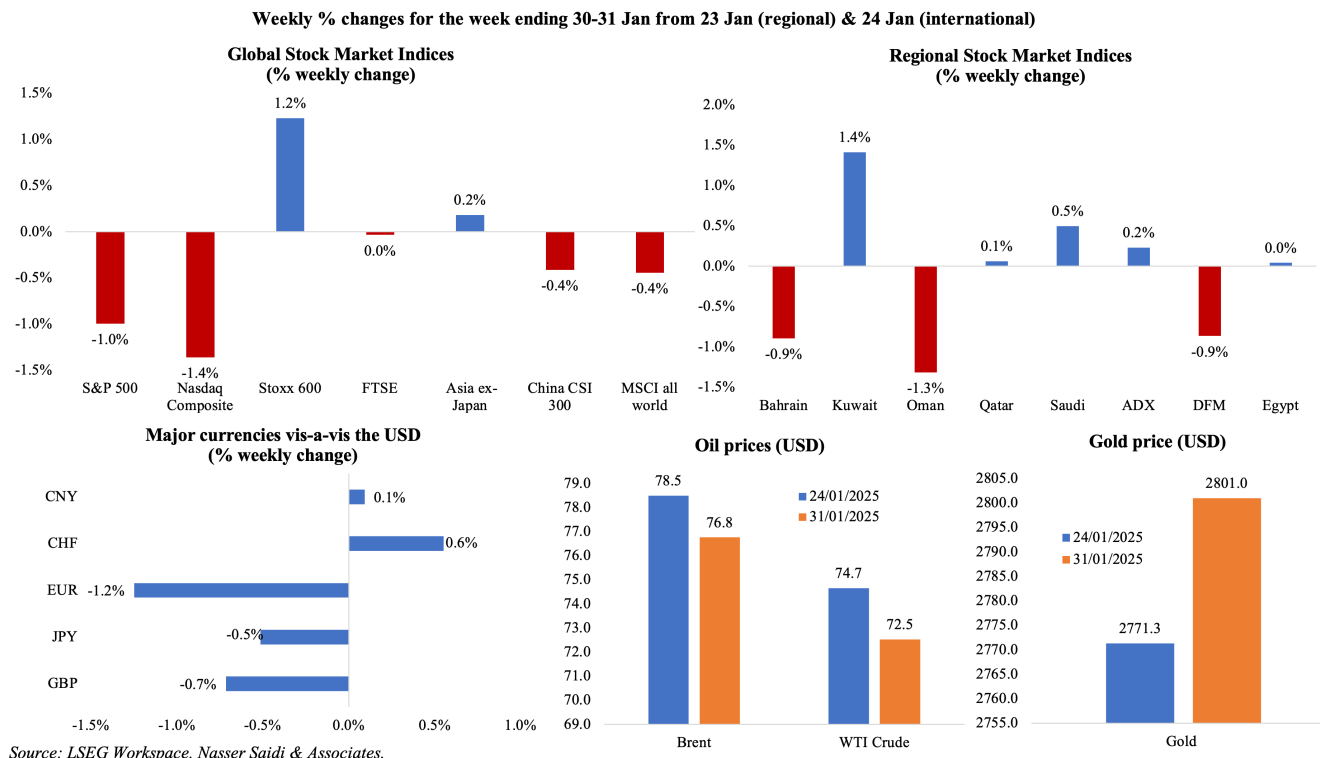


Weekly Economic Commentary – Feb 3, 2025

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Markets

Major equity markets lost ground last week: with the AI-related news early last week and ending with expectations that the Trump tariffs would raise inflation, leading to higher-for-longer rates and lowering economic growth. European stocks however closed at a record high, supported by tech stocks. Regional markets were mixed, with banking stocks supporting gains in UAE. The dollar strengthened ahead of Trump's threat of tariffs (sending the Canadian dollar and Mexican peso to multi-year lows), the euro declined vis-à-vis the greenback, posting the biggest drop since end-Dec, and the pound fell (losing more than 7.5% since Sep's 2.5 year high and ahead of the BoE meeting this week). Oil prices fell by more than 2% on a weekly basis (with expectation of duties on Canadian oil and ahead of the OPEC+ meeting this week). Safe-haven asset gold saw its price cross USD 2,800 and Bitcoin fell to below USD 100k, its weakest in three weeks.



Global Developments

US/Americas:

- **President Trump announced a 25% tariff on Canada and Mexico and an additional 10% on Chinese goods** – which come into force on Tuesday. China, Mexico and Canada together accounted for more than 40% of imports into the US last year. Retaliatory tariffs were announced by Canada (in 2 phases) and Mexico's President ordered an implementation of a "Plan B" tariff and non-tariff measures (details are yet to be revealed) while China is seeking legal challenges with the WTO. Trump on Sunday also threatened to impose tariffs on the EU.
- **The Fed left the overnight interest rate unchanged in the 4.25-4.5% range**, with the current statement removing a phrase from the previous one that inflation has "made progress", reflecting uncertainty with the future course of inflation.
- **GDP in the US grew at an annualised rate of 2.3% in Q4** (Q3: 3.1%), the weakest Q4 reading since 2018. Consumer spending was up by 4.2% in Q4 (Q3: 3.7%), the fastest

since Q1 2023 and inventory accumulation slowed. PCE ticked up by 0.3% mom in Dec, the largest rise since Apr 2024; in yoy terms, it rose to a 7-month high of 2.6% (Nov: 2.4%). Core PCE rose by 0.2% mom and 2.8% yoy

- **Personal income in the US grew by 0.4% mom in Dec** (Nov: 0.3%). **Personal spending rose by 0.7%** (vs 0.6% in Nov), **causing the saving rate to fall to a 2-year low of 3.8%** (Nov: 4.1%).
- **US durable goods orders fell by 2.2% mom in Dec** (Nov: -2.0%) with orders excluding transportation up by 0.3%. Transportation equipment orders fell by 7.4%, largely due to the plunge in non-defence aircraft and parts (-45.7%). Non-defence capital goods orders excluding aircraft rose by 0.5% (vs 0.9% in Nov).
- **New home sales grew by 3.6% mom to 698k in Dec**, with the median new home price up 2.1% to USD 427k. Furthermore, new homes inventory rose to 494k units, the highest since Dec 2007. **Pending home sales fell by 5.5% mom in Dec**, following four months of gains, as mortgage rates increased (to a high of 7.14% on Dec 19 vs 6.68% on Dec 6th).
- **S&P Case Shiller home price index inched up by 4.3% yoy in Nov** (Oct: 4.2%) and the national index touched the 18th consecutive all-time high.
- **Dallas Fed manufacturing business index surged to 14.1 in Jan** (Dec: 4.5), with new orders rising to the highest since Apr 2022 (+7.7 from Dec's -0.9) and gains across production (12.2 from 3.9) as well as capacity utilisation (5.0 from -2.5).
- **Richmond Fed manufacturing index moved to -4 in Jan** (Dec: -10): shipments edged up to -9, new orders increased to -4, and employment rose to 3 from -8.
- **Chicago PMI rose to 39.5 in Jan** (Dec: 36.9), though staying in contractionary territory for the 14th straight month.
- **Chicago Fed national activity index rebounded in Dec**, up to a 7-month high of 0.15 from Nov's -0.01 reading,

thanks to an uptick in production-related indicators.

- **Goods trade deficit in the US widened to a record high USD 122.1bn in Dec** (Nov: USD 103.4bn), with businesses frontloading imports ahead of the tariff hikes. Imports grew by 3.9% to USD 289.6bn in Dec (Nov: 4.3%), largely owing to the surge in industrial supplied (+18.9%). Exports however fell by 4.5%, with consumer goods and motor vehicles fell by 8.5% and 6.7% respectively.
- **Initial jobless claims fell by 16k to 207k in the week ended Jan 24**, leading to a decline in the 4-week average to 212.5k (by 1k). **Continuing jobless claims eased by 42k to 1.858mn** in the week ended Jan 17.

Europe:

- **The ECB lowered interest rates by 25bps to 2.75% and signalled more easing ahead.** The ECB staff will publish a new estimate of the neutral rate on Feb 7th.
- **Preliminary estimates showed that eurozone's GDP grew by 0.9% yoy in Q4** (Q3: 0.9%). In qoq terms, GDP was flat (Q3: 0.4%). Germany and France posted worse-than-expected declines while Spain grew by 0.8%.
- **EU economic sentiment indicator increased to 95.2 in Jan** (vs Dec's 4-year low of 93.7), thanks to a rebound in production expectations and improvement in service providers confidence. **Consumer confidence stayed at -14.2** alongside a slight decline in business climate (to -0.94 from -0.91).
- **Unemployment rate in the eurozone inched up to 6.3% in Dec** (Nov: 6.2%) with the number of unemployed persons up by 96k to 10.83mn. Spain posted the highest unemployment rate (10.6%) while Germany recorded the lowest (3.4%). Youth unemployment rate eased to 14.8% in Dec.
- **GDP in Germany fell by 0.2% qoq and 0.2% yoy in Q4** (Q3: 0.1% qoq and -0.3% yoy), with an uptick in household and government consumption expenditures while exports were significantly lower. Separately, **harmonised index of**

consumer prices in Germany held steady at 2.8% yoy in Jan (Dec: 2.8%).

- **German retail sales fell by 1.6% mom in Dec**, worsening from Nov's 0.1% dip. In yoy terms, sales were up by 1.8% (Nov: 2.9%). For the full year, retail sales rose 1.1% in inflation-adjusted terms.
- **Germany's Ifo business climate index increased to 85.1 in Jan (Dec: 84.7)**. the current assessment improved (up one point to 86.1) while expectations fell to 84.2 (from 84.4).
- **GfK consumer confidence index in Germany plunged further in Feb**, to -22.4 from -21.3 the month before – with weaker readings for economic prospects (-1.6 from 0.3), income expectations (-1.1 from 1.4) and willingness to buy (-8.4 from -5.4).

Asia Pacific:

- **China NBS manufacturing PMI slipped to 49.1 in Jan (Dec: 50.1)**, the first reading below-50 since Sep, as output shrank for the first time in 5 months (49.8 from 52.1) and new orders fell for the first time since Sep (49.2 from 51.0). **Non-manufacturing PMI eased to 50.2 (Dec: 52.2)** as domestic and foreign orders fell (to 46.4 and 44.6 respectively).
- **Inflation in Tokyo inched up to 3.4% in Jan (Dec: 3.1%)**, the fastest pace in almost 2 years as food prices increased. Excluding food and energy prices were up to 2.5% (from 2.4%), the fastest pace since Feb 2024. Excluding fresh food, prices rose to 1.9% (from 1.8%).
- **Industrial production in Japan fell for the second month in a row in Dec, by 1.1% yoy (Nov: -2.7%)**. In mom terms, IP rebounded (+0.3% from Nov's 2.2% drop) given the increase in production machinery (2.9%), electronic parts (2.1%) and chemicals (1.4%).
- **Japan's consumer confidence index decreased to 35.2 in Jan (Dec: 36.2)**, the lowest since Sep 2023, as all

components (overall livelihood, income growth, employment and willingness to buy) posted declines ranging between 0.2 to 1.9 points compared to the month before.

- **Unemployment rate in Japan eased to 2.4% in Dec** (Nov: 2.5%), with the number of unemployed up by 20k to 1.7mn. Jobs to applicants' ratio was unchanged at 1.25.
- **Retail sales in Japan grew by 3.7% yoy in Dec** (Nov: 2.8%), supported by rising wages. Sales grew across non-retailers (9.3%), machinery & equipment (4.9%) and food & beverages (1.7%) while automobile sales fell (-3.4%). Large retailer sales held steady at 3%.
- **The main highlight of India's budget was tax relief** wherein the government raised income tax exemption limits (annual earnings of up to INR 1.2mn or USD 14,800 was made entirely tax free). While **infrastructure expenditure target was increased** to INR 11.2trn (from INR 11.1trn) in 2025-26, the budget **committed to lowering fiscal deficit to 4.4% for 2025-2026** from the revised 4.8% in the current financial year.
- **Unemployment rate in Singapore remained unchanged at 1.9% in Q4**, the lowest since Q2 2023. For the full year 2024, jobless rate inched up to 2.0% (2023: 1.9%).

Bottom line: US imposed tariffs on Canada, Mexico and China – its three largest trade partners – with retaliatory tariff plans already announced by the former two; China's response has been restrained, only stating that it will take "corresponding countermeasures". Whether this is the start of a long saga of trade tensions (the order allows Trump to raise tariffs in the event of retaliatory tariffs) or long-drawn out weeks of negotiations to appease the US, it will spark greater global uncertainty concerning US global trade wars. Other countries will be preparing their own Plan B's to deal with potential tariff hikes in the future. From the region, anti-dumping measures could affect GCC's industrial exports to US including steel, aluminium and petrochemicals. The AI market

volatility last week from China's DeepSeek adds another element in the ongoing US-China chip and tech war. Lastly, the Bank of England meets this week and is expected to lower rates by another 25bps given recent signs of weakness (especially in labour market and retail sales).

Regional Developments

- **Bahrain approved plans to increase oil revenue contributions to the wealth fund** – under this revised law, the allocation will depend on the price of oil. For prices between USD 40-60(/ USD 60-80 / USD 80-100 / USD 100-120/ USD 120+), USD 1(/ 2/ 3 /4 / 5) from every exported barrel is allocated to the fund. The change will come into effect from next fiscal year.
- **MPs in Bahrain once again approved a 2.0% expat remittance tax**, roughly a year after it was rejected by the Shura Council. If the shura Council rejects another time, a joint session of the National Assembly will have to vote on the plan. The tax is expected to amount to less than 0.1% of Bahrain's GDP (USD 47.8bn).
- **Non-oil domestic exports from Bahrain fell** by 1.0% yoy to BHD 1.002bn (USD 2.64bn) **in Q4 2024**, with Saudi Arabia (BHD 230mn or 23% of total), US (13%) and UAE (8%) the top destinations. Non-oil imports meanwhile inched up by 1% to BHD 1.49bn, with the top 10 nations accounting for 71% of total imports value.
- **Egypt grew by 3.5% yoy in Q1 2024-2025** (Q4: 2.4%), supported by manufacturing, tourism and ICT sectors, according to the minister of finance. At the WEF meeting, the minister also disclosed that the ratio of Egypt private to state investments exceeded 63%.
- The central bank of **Egypt** revealed that **household sector accounted for 74.7% of all bank deposits** in Sep and that foreign currency deposits share stood at 27.29% of total. Credit facilities grew by 5.4% mom to EGP 7.8trn, largely due to an increase in government credit

facilities (+11% yoy to EGP 785.5bn).

- **Remittances into Egypt surged by 65.4% yoy to around USD 2.6bn as of Nov 2024.** Between July and November 2024, remittance inflows grew by 77% yoy to USD 13.8bn.
- Bloomberg reported that **Kuwait may approve a public debt law “shortly”** allowing the country to raise debt. The last time it raised debt was in Mar 2017 (to the tune of USD 8bn).
- **Kuwait is going ahead with the plan to merge its 8 state-owned oil companies**, overseen by Kuwait Petroleum Corporation (KPC), reported *Alseyassah* The merger of two KPC-affiliated businesses could start in Apr.
- **Consumer spending in Kuwait surged to KWD 47.81bn in 2024**, up 4.4% yoy, according to central bank data. While PoS transactions increased by 8.02% yoy to KWD 18.92bn in 2024, cash transactions fell (by 5.93% to KWD 10.08bn).
- **Value of projects in Kuwait jumped to KWD 2.7bn in 2024** (44% yoy), the highest value since 2017, with construction sector accounting for half the awards. In Q4, project awards rose to KWD 1.2bn, the best quarterly performance in eight years.
- **Inflation in Oman inched up by 0.7% yoy in Dec** (Nov: 0.5%), with health costs up by 3.2% alongside a 1.7% uptick in prices of food and beverages while transport costs fell (-0.8%).
- **Oman issued a new draft personal income tax law with key amendments:** this has been approved by the State Council and Majlis Al Shura and has been sent to the Sultan for final approval. The latest draft **raises the exemption threshold** (to OMR 50k or USD 130k) **and lowers the proposed tax rates** (to 5% from 15%). No timeline has been announced for the law's implementation.
- **Trade surplus in Oman widened by 2.0% yoy to OMR 7.14bn** in Nov, supported by the jump in oil and gas exports (7.7% yoy to OMR 22.23bn) while imports were up by 10.6% to OMR 15.09bn. **UAE was the top exporter to Oman**, top

trade partner in non-oil exports and leading destination for re-exports from Oman.

- **Oman and India signed an amended protocol for the double taxation avoidance agreement** and prevention of financial evasion.
- **Qatar Financial Centre reported a 156% yoy growth in new firms registrations last year:** 836 new firms joined the centre, raising the total number of firms to 2489 and combined assets under management to USD 33mn+.
- **UAE emerged as the largest supplier of oil to Japan in Dec**, providing 35.97mn barrels or 45.6% of total imports (that amounted to 78.85mn barrels). Saudi Arabia exported 31.05mn barrels to Japan in Dec, or 39.4% of its oil imports, followed by Kuwait, Qatar and Oman (with 5mn, 3.41mn and 0.5mn barrels respectively).
- **Funding deals for startups in MENA grew by 3.5% yoy in 2024**, with a total 610 deals though funding value fell by 42% yoy to USD 2.3bn. The **fintech** sector attracted 30% of total funding (or USD 700mn) last year; Web 3.0 and e-commerce attracted USD 256.8mn and USD 253mn in funding respectively.
- **Middle Eastern airlines' international Revenue Passenger Kilometers (RPKs) or volume of passengers grew by just 7.7% yoy in Dec**, the second-lowest compared to North America's 5.1% gain – mainly due to the multiple conflicts in the region. While overall **cargo** tonne-kms (CTKs) in the Middle East grew by 3.3% yoy in Dec, the **Middle East-Europe air cargo route expanded the most globally** in 2024 vs 2023 (26% yoy).

Saudi Arabia Focus



- **Saudi Arabia's real GDP grew for the second consecutive quarter, up by 4.4% yoy in Q4 2024**(Q3: 2.8% Q2: -0.3%). This was the highest quarterly gain in 2 years (previous high was 5.6% in Q4 2022). In qoq terms, GDP grew by 0.3% (Q3: 0.9%). **Non-oil sector grew by 4.6% in Q4** (Q3:

4.3%) alongside a 2.2% uptick in government sector activity (slower than the 3.1% gain in Q3). Oil sector growth has returned to positive, up by 3.4% yoy in Q4 after a flat reading in Q3. **GDP grew by 1.3% yoy in the full year 2024, rebounding from 2023's 0.8% decline.** This was supported by non-oil sector (4.3% in 2024 from 4.4% in 2023) and government sector (2.6% from 2.1% in 2023); meanwhile oil sector posted a decline of 4.5% in 2024 (2023: -9.0%).

- **Credit & deposits in Saudi Arabia grew by an average 10.3% and 9.1% respectively in 2024,** with claims on public sector outpacing private for the 3rd month in a row in Dec. Government deposits plunged by 1.1% mom and 6.6% yoy in Nov. **Residential new mortgages finance rose to the highest since Aug 2022 & net foreign assets fell by 4.9% mom to SAR 1.555trn, lowest level since Oct 2009.**
- **Profits at Saudi Arabia's commercial banks increased by 15% yoy to a record SAR 89.97bn in 2024,** according to the central bank. Claims on the public sector grew 15.7% yoy to SAR 794.99bn in 2024, while claims on the private sector rose by 13.4% to SAR 2.86trn.
- **Derayah Financial Co. set the price range for its IPO at SAR 27-30 per share;** the offering of 49.95mn shares is equivalent to 20% of the company's issued share capital.
- **Saudi Arabia's Capital Market Authority revealed that it would allow foreign investment in listed companies that own real estate in Mecca and Medina,** leading to a surge in the price of such Tadawul-listed companies. The move will attract foreign capital and support the development of the 2 cities (expected to welcome 30mn pilgrims for Haj and umrah annually by 2030).
- According to the governor of the General Authority for Military Industries, **military spending in Saudi Arabia grew at an annual rate of 4.5% since 1960, amounting to USD 75.8bn in 2024** (or 3.1% of global defence spending). In the 2025 budget, USD 78bn has been set aside for the

military sector, around 21% of total spending and 7.19% of GDP.

- **Fitch affirmed Saudi Arabia's Long-Term Foreign-Currency Issuer Default Rating at 'A+' with a Stable Outlook.**
- **Value of contracts issued by Saudi Arabia rose by almost 25% yoy to a record USD 146.8bn in 2024**, amounting to more than half of the value of all contracts issued in the GCC, according to a report by Kamco Investment Company. This was driven by the power sector (to USD 55bn thanks to renewable energy projects, from USD 23bn in 2023), as well as oil and gas sectors (the latter almost doubled to USD 19.1bn). In contrast, construction projects dropped by 10.6% to USD 28.4bn.
- **Saudi Arabia's Human Resources Development Fund (Hadaq) successfully placed 437k citizens in the private sector last year, up 17% yoy.**

UAE Focus



- **The UAE Federal Tax Authority will impose a monthly penalty of 14% per annum for unpaid corporate tax.** Payments are to be made no later than 9 months after the end of the tax period.
- **ADNOC signed a three-year LNG supply agreement with Japan's Jera Global Markets** worth a total of AED 1.65bn (USD 450mn). The gas will be supplied from the 6mn tonnes per annum Das Island liquefaction facility.
- **Dubai International Airport welcomed a record 92mn travellers last year**, up by almost 6% yoy, disclosed Dubai's ruler in a post on X.
- The Abu Dhabi Real Estate Centre reported a **45% rise in transaction value** to AED 96.2bn (USD 26.19bn) **in Abu Dhabi's real estate market in 2024**. The number of transactions increased by 24.2% yoy to 28.249. FDI into the sector surged by 125% yoy to over AED 7.86bn, from 2302 investors across 105 countries.
- Official data showed that the **value of real estate**

transactions in Dubai surged 20% yoy to AED 761bn (USD 207.2bn) in 2024 while number of transactions were up 36% to 226k. Around 110k new investors flocked to the sector, up 55% yoy.

- **Dubai's residential sales jumped by 30% yoy to AED 119bn in Q4**, according to CBRE Middle East. Prices also increased with apartment prices up 18% (to AED 1,647 per square foot) and villa prices up 20% (to AED 2,024).
- **Ras Al Khaimah Economic Zone** disclosed that **13,141 new companies joined** the free zone **in 2024**, up 66% yoy. General trading, e-commerce, and related businesses together accounted for 53% of the new company registrations while consultancy accounted for 25%.
- UAE's wealth fund **ADQ and Orion Resource Partners** formed a 50-50 joint venture **to invest USD 1.2bn in metals and mining** in emerging markets in Africa, Asia and Latin America.

Media Review:

The future of the USMCA

<https://www.piie.com/microsites/2025/future-usmca>

<https://www.piie.com/blogs/realtime-economics/2025/trumps-threatened-tariffs-projected-damage-economies-us-canada-mexico>

The future of international economic institutions is up for grabs

<https://www.ft.com/content/124de8d7-b5df-4648-9e62-72d16a014074>

Kuwait ready to move on long-awaited mortgage law

<https://www.agbi.com/banking-finance/2025/01/kuwait-ready-to-move-on-long-awaited-mortgage-law/>

Dubai billionaire Habtoor pulls out of Lebanon

<https://www.reuters.com/world/middle-east/emirati-businessman-khalaf-al-habtoor-cancels-all-planned-investment-lebanon-2025-01-28/>

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