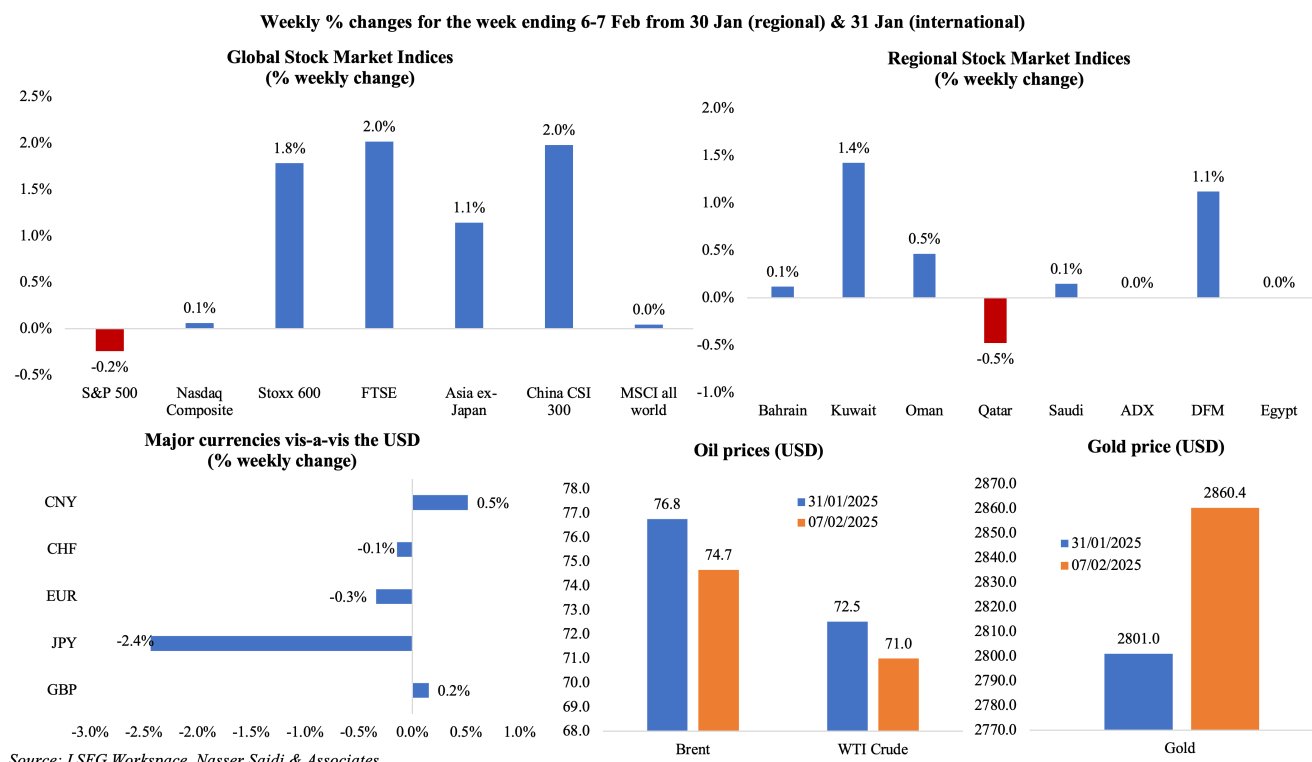


Weekly Economic Commentary – Feb 10, 2025

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Markets

Major equity markets (other than in the US) gained last week while US had a volatile week with mixed data and announcement of more tariffs this week. Regional markets performance was influenced by corporate earnings – for example, some financial firms' performance dragged down indices in Qatar and Abu Dhabi. The dollar was strong given tariff threats, fell against the JPY (below JPY 151) on expectations that BoJ will raise rates more than expected. The GBP fell more than 0.5% after the BoE cut rates and lowered growth projections but gained ground afterwards. Oil prices fell for the third consecutive week after sanctions were imposed on Iran's crude exports and tariff threats evoking fears of weaker oil demand. Gold price gained for the sixth week in a row on trade uncertainty and escalating tariff threats.



Global Developments

US/Americas:

- **President Trump revealed on Sunday that he would announce new 25% tariffs on all steel and aluminium imports** into the country. In the first term, though tariffs were imposed on steel and aluminium (25% and 10% respectively), concessions were later granted to trade partners including from the Middle East.
- **Non-farm payrolls increased by 143k in Jan**, much lower than Dec's 307k, affected partly by the extreme weather conditions (including wildfires in California). Average hourly earnings were up by 0.5% mom and 4.1% yoy in Jan, but **the average working week dropped to 34.1 hours** (similar to pandemic lows). Labour force participation rate inched up to 62.6% and **unemployment eased to 4%** (from 4.1%).
- **Private sector in the US added 183k jobs in Jan** from an upwardly revised Dec reading of 176k, with the services sector adding 190k jobs (trade & transportation and leisure & hospitality gaining 56k and 54k jobs

respectively) and about 13k jobs lost in manufacturing.

- **JOLTS job openings declined by 556k to 7.6mn in Dec, the largest drop since Oct 2023**, and there were 1.1 job openings per unemployed persons (vs 1.15 in Nov).
- **Nonfarm productivity rose at a 1.2% annualized rate in Q4**, slower than Q3's revised 2.3% gain; productivity expanded by 2.3% in 2024, up from 1.6% in 2023. Unit labour costs rose by 3.0% in Q4 (Q3: 0.5%), with hourly compensation rising at 4.2% (Q3: 2.9%).
- **Initial jobless claims increased by 11k to 219k in the week ended Jan 31**, leading to an uptick in the 4-week average to 216.75k (by 4k). **Continuing jobless claims rose by 36k to 1.886mn in the week ended Jan 24**.
- **Factory orders in the US fell by 0.9% mom in Dec** (Nov: -0.8%), given the plunge in civilian aircraft orders (-45.7%). Orders excluding transportation inched up by 0.3%.
- **Goods and services deficit in the US widened to USD 98.4bn in Dec, the highest since Mar 2022** and from Nov's USD 78.9bn, as imports touched a record high **USD 364.9bn** – as companies imported goods ahead of the implementation of tariffs under President Trump. Trade deficit for the full year 2024 touched USD 918.4bn, the largest since 2021, and the largest trade deficits recorded with China (USD 295.4bn), EU (USD 235.6bn), Mexico (USD 171.8bn) and Vietnam (USD 123.5bn).
- **S&P Global manufacturing PMI rose to expansionary territory in Jan, clocking in 50.9** (Dec: 45.4). Services PMI inched up to 52.9 (prelim: 52.8) and so did composite PMI (to 52.7 from 52.4).
- **ISM manufacturing PMI ticked up to 50.9 in Jan** (Dec: 49.3), the first expansion after 26 months, thanks to increases in new orders (55.1 from 52.1), production (52.5 from 49.9) and employment (50.3 from 45.4) while prices paid inched up to 54.9 (from 52.5). **ISM services PMI slipped to 52.8 in Jan** (Dec: 54), as business activity and new orders declined to 54.5 and 51.3 (from

58 and 54.4 respectively) while employment index rose by one point to 52.3 and prices paid slipped four points to 60.4.

- **The preliminary reading of the Michigan consumer sentiment index eased to 67.8 in Jan (Dec: 71.1), the lowest since Jul 2024. The 1-year and 5-year inflationary expectation ticked up to 4.3% (highest since Nov 2023, from 3.3%) and 3.3% (highest since Jun 2008, from 3.2%) respectively.**

Europe:

- **Inflation in the eurozone inched up to 2.5% in Jan (Dec: 2.4%),** staying above the ECB's target 2% for the third month in a row. The increase was driven by energy prices (1.8% from Dec's 1.0%) and services sector inflation was a high 3.9%. **Core inflation remained unchanged at 2.7%.** The threat of tariffs looms large, with Trump stating a 10% tariff on EU goods would "definitely happen", which could result in higher consumer prices.
- **Manufacturing PMI in the eurozone was revised upwards to 46.6 in Jan** from the preliminary 46.1 and Dec's 45.1. While output, new orders and employment continued to decline, output prices were unchanged with firms opting not to pass along higher costs. **Services PMI slipped to 51.3** (prelim: 51.4; Dec: 51.6), with the modest expansion stemming from domestic demand-supported new orders. Composite PMI was unchanged at 50.2.
- **Producer price index in the eurozone ticked up 0.4% mom in Dec** (Nov: 1.7%), with prices of energy goods rising the most (+1.4%). In yoy terms, prices were flat, after a 1.2% drop in Nov. For the full year, prices rose 4.2% yoy in the euro area and 4% in the EU.
- **Retail sales in the euro area fell by 0.2% mom in Dec,** after a flat reading in Nov, with sales lower for food, drinks & tobacco (-0.7%) while automotive fuel and non-food products were up by 0.2% and 0.3% respectively.

Sales were up 1.9% yoy in Dec (Nov: 1.6%), taking the full year growth to 1.0%.

- **German exports increased by 2.9% mom in Dec** (Nov: 2.3%) **and imports grew by 2.1% mom in Dec** (Nov: -2.7%). For the full year, exports declined by 1.0% yoy to EUR 1.6bn while imports fell by a sharper 2.8%, resulting in a trade surplus of EUR 241.2bn. The **US was Germany's top trade partner in 2024**, and German trade surplus with the US reached a record high EUR 71.4bn last year.
- **Industrial production in Germany fell by 2.4% mom and 3.1% yoy in Dec** (Nov: +1.3% mom and -2.8% yoy). Sector wise, automotive industry and machine maintenance declined by 10% mom and 10.5% respectively while pharma industry gained (+11.6%). Capital goods production fell by 4.7% mom while consumer goods grew by 0.9%.
- **Factory orders in Germany rebounded in Dec**, up 6.9% mom (Nov: -5.2%), aided by the substantial growth in large-scale orders (+55.5%). However, in yoy terms, it plunged by 6.3% yoy, the largest drop since Jun, and worsening from Nov's 1.4% drop.
- **Germany's manufacturing PMI moved up to 45 in Jan** (prelim: 44.1; Dec: 42.5) as the decline in output and new orders slowed while job cuts continued for the 19th month. Services PMI gained (to 52.5 from 51.2 in Dec), with business activity supporting the uptick. Overall, businesses are optimistic, with hopes of a lower interest rates and post-election boost.
- **The Bank of England lowered interest rates by 25bps to 4.5%**, with all committee members voting unanimously for a cut (though two of them voted for a 50bps cut). The apex bank expects growth to touch 0.75% in 2025, down from its earlier estimate of 1.5%, and upgraded its predictions for both 2026 and 2027 to 1.5%.
- **UK services PMI slipped to 50.9 in Jan** (from 51.2 in Dec), with new work declining for the first time since Oct 2023 and overall cost inflation was the highest for 9 months. Composite PMI also slowed to 50.6 (from 50.9).

Asia Pacific:

- **Inflation in China increased to 0.5% yoy in Jan** (Dec: 0.1%), the fastest in 5 months, while core inflation moved to 0.6% (Dec: 0.4%). The uptick coincided with the Lunar New Year holidays, with an increase in prices for food items and tourism-related services. **Producer price index fell by 2.3% yoy** (unchanged from Dec), remaining deflationary for the 28th month in a row.
- **China's Caixin manufacturing PMI eased to 50.1 in Jan** (Dec: 50.5), with foreign orders declining for the second month in a row and employment falling the most since Feb 2024. Selling prices fell at the fastest pace since Jul 2023 as input prices remained stable. **Services PMI also eased**, unexpectedly, to 51 from 52.2: though sales growth was supported by domestic demand and foreign orders, employment was at the lowest since Apr 2024 and new business growth slipped to a 4-month low.
- **The final reading of manufacturing PMI in Japan eased to 48.7 in Jan** (prelim: 48.8, Dec: 49.6), staying in contractionary territory for the seventh month in a row, with output and new orders declined (the most in 10 and 6 months respectively). **Services PMI moved higher to 53.0** (from a preliminary estimate of 52.7 and Dec's 50.9), thanks to an uptick in overseas sales and job creation rising for the 16th month in a row though output prices rose to an 8-month high.
- **Overall household spending in Japan rebounded in Dec, up by 2.7% yoy in real terms** (Nov: - 0.4%) – this was the first gain since Jul, and the fastest pace since Aug 2022. The ministry attributed the increase to one-off factors such as equipment repairs, automobile purchases and winter apparel demand (due to cold weather). For the full year 2024, spending declined by 1.1% yoy.
- **Japan's labour cash earnings grew by 4.8% yoy in Dec** (Nov: 3.9%), thanks to strong bonuses and an increase in the minimum wage, while inflation-adjusted wages rose

0.6% yoy (Nov: 0.5%). Increase in cash earnings will support growth in consumption.

- **The Reserve Bank of India lowered repo rates by 25bps to 6.25%**, the first rate cut in 5 years, while reverse repo rates were left unchanged at 3.35%; the bank maintained a “neutral” stance. Indian rupee last week posted its worst weekly performance since Dec 2022. But, the rate cut and the budget’s tax incentives for the middle class should support consumer demand in the near-term.
- **Manufacturing PMI in India slowed to 57.7 in Jan** from the preliminary estimate of 58, but higher than Dec’s 56.4. New orders rose the most in 6 months, with underlying export orders at a nearly 14-years high, and employment climbed to the most in almost 20 years. **Services PMI also eased, to 56.5 in Jan** (prelim: 56.8; Dec: 59.3) with new businesses easing to the least since Nov 2023 and prices accelerating amid an acceleration in job creation.
- **Korea’s manufacturing PMI moved up to 50.3 in Jan** (Dec: 49.0), thanks to increase in foreign orders. However, employment fell for the third month in a row and input prices increased the most since Jul 2022.
- **Retail sales in Singapore fell for the second month in a row in Dec**, down by 1.5% mom and 2.9% yoy. This was attributed to outbound travel by Singaporeans and delayed spending for the Lunar New Year (towards end-Jan).

Bottom line: Tariff announcements, retaliation, pauses & more in the span of a week – the tariffs imposed on Canada and Mexico by the US were paused. However, tariffs on Chinese imports resulted in a retaliatory fresh round of tariffs on US goods (15% on coal and LNG, 10% tax on crude oil and agricultural machinery). As we await more tariffs on steel and aluminium imports (to be announced today), this week also sees the release of US inflation data for Jan (likely to remain higher than the Fed target). Last week, two central banks (UK

and India) lowered rates: in the US, it is getting clearer that tariffs and resulting inflation will dictate Fed moves in the near-term. On the tech front, a big AI Summit in France is expected to tackle many issues including regulation, impact on energy/ climate and new jobs/ displacement.

Regional Developments

- **Bahrain's Economic Development Board (EDB)** chief executive disclosed that EDB **attracted direct investments** to the tune of **BHD 680mn** (USD 1.804bn) into the country in **2024**. The **industrial sector** secured the **largest share** followed by IT, tourism and financial sectors, and the investments are estimated to create 7400+ job opportunities over 3 years.
- **Egypt's PMI moved into expansionary territory, clocking in 50.7 in Jan** (Dec: 48.1) – the highest since Nov 2020 and rising above-50 only once before (in Aug 2024). Output and new orders climbed to 51.1 and 51.3 respectively (from 47.1 and 46.4), though the sub-index for expected future output fell to 52.8 (Dec: 53.8).
- **Non-oil trade deficit in Egypt narrowed to USD 37.3bn in 2024**, largely owing to a 14.5% surge in exports to USD 40.9bn while imports grew by 4.6% to USD 78.3bn.
- **Net foreign assets in Egypt declined for the third month in a row in Dec**, to the equivalent of USD 5.29bn (end-Nov: USD 5.96bn). Separately, **net international reserves inched up** to USD 47.265bn at end-Jan (end-Dec: USD 47.109bn).
- **Egypt welcomed 15.78mn tourists in 2024**, up 60% yoy, with hotel occupancy rising to an average 69% in Dec (vs 25% in Dec 2023). Tourism revenues touched USD 15.3bn in 2024 and compares to USD 7.2bn a decade back in 2014.
- **Iran's currency fell to an all-time low of IRR 892,500 vis-à-vis the USD on the unofficial market** on Saturday (from around IRR 690k at the time of the US elections in Nov) following Trump's comments of resuming the "maximum

pressure” campaign on Tehran.

- **The 2025-26 budget in Kuwait projects a third consecutive year of deficit:** at KWD 6.3bn, it is wider than the previous budget's KWD 5.6bn and the largest deficit excluding the Covid-hit year of 2020-21. Compared to the 2024-25 budget, **oil revenues are estimated to decline by 5.8%** while expenditures are projected to edge down by 0.2% to KWD 24.5bn (compared to the 2023-24 budget). Nearly KWD 1.7bn (USD 5.6bn) was approved for 124 projects in the draft 2025-2026 budget.
- **Kuwait PMI inched down to 53.4 in Jan** (Dec: 54.1), with the pace of job creation at a joint-fastest equal with June and Nov 2024 and higher new exports orders from Arab nations.
- **The number of Kuwaiti citizens working in the private sector declined** by 2% yoy to **70,756 by end-Dec 2024**. The government sector saw an uptick in citizens, up 3,125 persons to 400k+.
- **The US approved the potential sale of military-related design and construction services to Kuwait** for an estimated cost of USD 1bn, according to the Pentagon.
- **Lebanon formed a new government on Saturday**, with the 24-member cabinet said to focus on financial reforms, reconstruction and the implementation of a UN resolution for stability at the border. This should help initiate a solution to refund the locked bank deposits of customers, estimated at around USD 90bn in Jun 2024.
- **PMI in Lebanon rose to 50.6 in Jan 2025** (Dec: 48.8), with new orders and business activity rising for the first time in 18 months and the pace at the most since May 2013. The optimism was supported by the election of a new President and PM though a few factors will influence sentiment going forward include how effective the new government is and whether it will be able to pass the much-needed reforms.
- **Broad money supply in Oman grew by 11% yoy** to OMR 24.8bn **by end-Nov**. Separately, **trade surplus widened** to OMR

7.138bn **in Jan-Nov 2024**, with exports up 7.7% yoy to OMR 22.225bn and imports surging by 10.6%. Exports of hydrocarbons grew by 2.5% to OMR 9.125bn while non-oil exports fell by 16.6% to OMR 5.642bn.

- **Oman announced the establishment of a specialised Investment and Commercial Court** to meet the objectives of resolve disputes swiftly, enhance investor trust, and create a fair playing field for international and domestic businesses.
- UK mining company, Power Metal Resources, unearthed **major copper deposits in Oman**: work was started in the area in Q4 2024.
- **Inflation in Qatar eased to 0.24% yoy in Dec** (Nov: 0.95%), as prices declined across housing & utilities (-4.23%) and food & beverages (-1.05%) while communication and recreation & culture prices were up by 4.44% and 2.54% respectively.
- **Qatar PMI slipped to 50.2 in Jan** (Dec: 52.9), with a fall in new businesses (especially construction) while the report stated that “the non-energy economy has added more jobs than in any previous period since the survey began in 2017”.
- Qatar reported that **10,500 passengers used the Qatar stopover initiative in Jan**, up 58% yoy. It was reported that the participants taking up the option surged by 165% yoy.
- **OPEC oil output stood at 26.53mn barrels per day in Jan**, down 50k bpd from Dec, reported Reuters. Nigeria and Iran posted the biggest declines in Jan.
- **Around USD 3bn worth construction contracts have been awarded for Hafeet Rail** (previously the Oman and Etihad Rail Company). The line will connect the Sohar Port freezone in north-eastern Oman to the UAE railway network.

- **Saudi Arabia's PMI increased to 60.5 in Jan (Dec: 58.4), the highest level since Sep 2014.** The uptick is visible in domestic-demand driven new orders (71.1 from 65.5, the fastest rise since Jun 2011) and export orders (the most in 1.5 years), while employment levels continued to rise.
- **Investment licenses surged 67.7% yoy to 14,321 in 2024:** about 4,615 licenses were issued in Q4, up 59.9% yoy.
- **The Saudi Arabian Mining Co., or Ma'aden's USD 1.25bn debut sukuk was 9.2-times oversubscribed:** the funds are to be used for general corporate purposes. The firm is rated "Baa1" by Moody's and "BBB+" by Fitch.
- **Saudi Fund for Development and Pakistan signed an agreement to defer USD 1.2bn payment for Saudi oil imports by one year.**
- **Saudi Arabia's Small and Medium Enterprises Loan Guarantee Program (Kafalah) issued loan guarantees worth more than SAR 12.1bn until end-Dec 2023,** with more than 5300 SMEs benefiting from the program. Nearly 1,076 businesswomen benefited from the program's services in 2023, with their loan guarantees exceeding SAR 1.7bn.
- **Remittances from Saudi Arabia grew by 14% yoy to SAR 144bn in 2024, the highest level since 2022,** according to SAMA data.
- **Saudi Arabia and Germany signed a green hydrogen export deal,** for 200k tonnes annually from Saudi to Europe by 2030.
- **ACWA Power and Saudi Aramco signed two agreements to accelerate the deployment of renewable energy projects –** one is the development of an advanced photovoltaic energy forecasting project and two, to evaluate the efficiency and durability of vanadium flow batteries.

UAE Focus



- **Non-oil goods trade in the UAE increased by 14.6% yoy to a record-high AED 2.997trn in 2024.** This was supported

by the 27.6% surge in non-oil goods exports (to AED 561.2bn) alongside upticks in re-exports and imports by 7.3% and 14.2% respectively (to AED 734.4bn and AED 1700bn). **Exports to CEPA partner nations grew by 42.3% yoy to AED 135bn in 2024**, according to the Minister of State for Foreign Trade.

- **UAE PMI inched lower to 55.0 in Jan**, down from Dec's 9-month high of 55.4, with strong readings in business activity and new orders (even as the latter eased slightly to 59.0 from 59.3) while input cost inflation fell to a 13-month low. **Dubai PMI ticked lower to 55.3** (Dec: 55.5) on subdued optimism for future activity.
- **Dubai real GDP grew by 2.9% yoy to AED 108.1bn in Q3 2024**, following growth rates of 3.3% and 3.2% in Q2 and Q1 respectively. In Q3, the fastest growing sectors were health & social work (13% vs 0.1% in Q2), followed by mining & quarrying (7.0% vs 3.1%) and agriculture (rebounding to 5.4% vs Q2's 1.8% drop). **GDP grew by 3.1% to AED 339.4bn in Jan-Sep 2024**, with growth was fastest in transportation & storage (5.3%), followed by health & social work (5.2%), financial & insurance activities (4.5%), information & communications (4.1%) and accommodation & food services (3.7%).
- **Dubai welcomed a record-high 18.72mn international overnight visitors in 2024**, up 9% yoy, crossing the previous record set in 2023 (17.15mn). Average occupancy at Dubai's hotels rose to 78.2% (2023: 77.4%) and occupied room nights grew by 3% yoy to a high 43.03mn.
- The Ruler of **Fujairah announced a 20% increase in the salaries of local government employees**, effective from Feb 1st.
- TA'ZIZ (a JV between DNOC and ADQ) awarded a **USD 1.7bn contract to Samsung E&A to build the UAE's first methanol plant** – this is expected to produce 1.8mn tons of methanol every year upon completion in 2028.
- **France and UAE agreed to develop a 1GW AI data centre**, with investments of USD 30-50bn, ahead of a summit on AI

in Paris.

- The **Wynn Resorts joint venture secured a 7-year USD 2.4bn loan facility** to finance its development of the GCC's first casino in Ras Al Khaimah. An update of the USD 4bn project, which is due to open in Q1 2027, states that 80% of its total 1542 rooms and suites have already been completed.
- Bloomberg reported that **Alec Engineering and Contracting** (behind the Wynn Resort & Saudi's Qiddiya water theme park) **is planning to go for an IPO by mid-2025** and is expected to raise up to USD 500mn from the IPO. The company is part of the portfolio of the Investment Corporation of Dubai.
- The **sixth phase of the UAE's Mohammed bin Rashid Al Maktoum Solar Park is currently underway**, with investments of up to AED 5.5bn: once it is completed in 2026, it will bring the total capacity to 4,660MW. Capacity from the first 5 phases totalled 3,060MW by end-2024.

Media Review:

Investors return to new-look Middle East, but Trump causes some concern

<https://www.reuters.com/world/middle-east/new-look-middle-east-had-started-draw-investors-then-came-trump-2025-02-09/>

It's not over: Donald Trump could still blow up global trade

<https://www.economist.com/leaders/2025/02/06/its-not-over-donald-trump-could-still-blow-up-global-trade>

How Not to Respond to Trump's Tariffs

<https://www.project-syndicate.org/commentary/trump-tariffs-how-to-respond-by-dani-rodrik-2025-02>

The baffling WFH puzzle

<https://www.ft.com/content/6955033b-0ca8-49f8-857a-539e32d732ea>

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