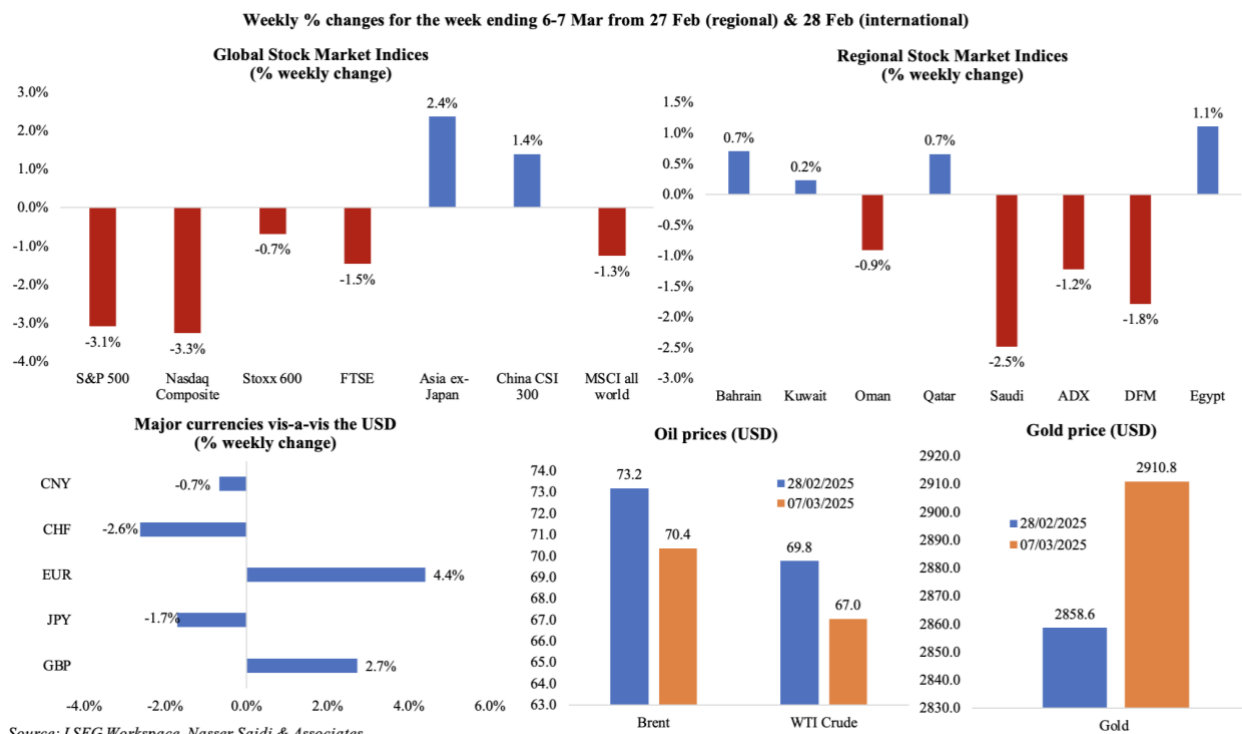


Politics and Tariff Uncertainty continue to dominate the news cycle and markets

Weekly Economic Commentary, 10 Mar 2025

Markets

Equities markets in the US plunged last week, with the tariff uncertainty sparking concerns about an economic recession in the US, while the US trade deficit jumped to a record-high affected by a pre-tariff surge in imports. European markets were affected by the sell-off as well, but to a lesser extent as US moves pushed for a more integrated response from the EU. Regional markets behaviour reflected the tariff-worry-led market losses, with Saudi declining the most during the week ended 7th March (partly also due to the Aramco’s profits drop). As the dollar weakened (worst weekly performance since Nov 2022), the euro and UK pound emerged best performers, with the euro posting the largest weekly gain since 2009; JPY was the strongest in 5 months. Oil prices fell by more than 3.8% from a week ago and the Brent touched its lowest since Dec 2021 – on tariffs and the announcement of OPEC+ about hikes from Apr. Safe-haven asset gold saw price rise by 1.8% to above USD 2900 (just shy of its all-time high).



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Global Developments

US/Americas:

- **US non-farm payrolls increased by 151k in Feb (from a downwardly revised 125k in Jan), with healthcare sector reporting the highest additions (52k) alongside the financial sector adding another 21k while federal government employment declined by 10k** (the current layoffs happened after the BLS survey and are hence likely to be reflected in the Mar report). Furthermore, persons holding part-time jobs but wanting full-time positions expanded by 460k to 4.9mn in Feb. **Labour force participation rate moderated to 62.4%** (from 62.6%), the lowest level since Jan 2023. Average hourly earnings grew by 4% yoy in Feb (Jan: 3.9%) and **unemployment rate rose to 4.1% in Feb** (Jan: 4%).
- **Private sector in the US added just 77k jobs in Feb** (Jan: 186k), with the trade, transportation and utility sector reporting a loss of 33,000 jobs alongside a 28k drop in education and health services.
- **Non-farm productivity increased by 1.5% in Q4 (higher than the preliminary estimate of 1.2%) and unit labour costs were up by 2.2% (from 3%)**. For the full year 2024, average productivity reported a gain of 2.7%.
- **Initial jobless claims unexpectedly fell by 21k to 221k in the week ended Feb 28**, with the 4-week average up by 0.25k to 224.25k. The unemployment compensation for federal employees (UCFE) program rose to a 4-year high of 1634 in the week ending Feb 21 (from 614 the week before). **Continuing jobless claims increased** by 42k to 1.897mn in the week ended Feb 21.
- **Fed Beige book showed that economic activity rose “slightly” since mid-Jan**, amid worries related to tariffs. The Beige Book report had 47 mentions of uncertainty, up from 17 in the Jan report, and 49 mentions of tariffs, up from 23 and 11 in Jan and Dec respectively.
- **Factory orders in the US rebounded in Jan**, up 1.7% mom in Jan (Dec: -0.6%), supported by the jump in civilian aircraft bookings (+93.9% from Dec’s -28.9%). Excluding transportation equipment, factory orders gained 0.2%.
- **Goods trade deficit in the US widened to USD 156.8bn in Jan** (Dec: USD 153.3bn), as goods imports leapt to a record USD 329.5bn (+12.3% yoy). **Including goods and services, trade deficit jumped to a record-high** of USD 131.4bn (from USD 98.1bn) as imports increased by 10% (the most since Jul 2020) to USD 401.2bn, affected by a pre-tariff surge in imports.
- **S&P Global manufacturing PMI rose to 52.7 in Feb** (prelim: 51.6 and Jan: 51.2), the best reading since Jun 2022. Output was the highest since May 2022 and new orders rose at the fastest in a year. However, prices are surging too – with input prices rising to the highest level since Nov 2022 and output charges at a 2-year high. **Services PMI moved into expansionary territory**, clocking in at 51 (from 49.7).
- **ISM manufacturing PMI eased to 50.3 in Feb** (Jan: 50.9), with declines across both new orders (48.6 from 55.1) and employment (47.6 from 50.3) while prices paid jumped to 62.4

(from 54.9). **ISM services PMI increased to 53.5 in Feb** (Jan: 52.8), thanks to upticks in new orders (52.2 from 51.3) and employment (53.9 from 52.3) alongside a rise in prices (+2.4 points to 62.6).

Europe:

- **The ECB cut rates by 25bps at its latest meeting**, making it the sixth cut in the last nine months. The ECB lowered the deposit facility rate to 2.5%, the main refinancing operations rate to 2.65% and the marginal lending facility rate to 2.9%. **The ECB now projects headline inflation to average 2.3% in 2025**, 1.9% in 2026 and 2.0% in 2027.
- **Q4 GDP in the eurozone was revised up slightly**: it grew by 0.2% qoq and 1.2% yoy in Q4 (prev estimates: 0.1% qoq and 0.9% yoy), thanks to revisions in household spending (+0.6%) and government spending (+0.3%). However, both Germany and France saw GDP contracting, by 0.2% qoq and 0.1% respectively.
- **Inflation in the eurozone eased to 2.4% yoy in Feb** (Jan: 2.5%), as did core inflation (2.6% from 2.7%). Services inflation fell to the lowest level since Apr 2024 (3.7% from Jan's 3.9%).
- **Eurozone's manufacturing PMI remained contractionary in Feb but moved up to 47.6** (prelim: 47.3 and Jan: 46.6). Output and new orders declined at the slowest pace in 9 months and almost 3 years respectively while jobs were declining at the fastest pace in 4.5 years. **Service PMI edged lower by 0.1 point to 50.6**.
- **Unemployment rate in the eurozone remained unchanged at 6.2% in Jan**, with the number of unemployment declining to 10.765mn and youth unemployment rate trickling down to 14.1% (from 14.2%).
- **Producer price index in the eurozone increased 1.8% yoy in Jan** (Dec: 0.1%), the largest reading since Mar 2023. Energy prices led to the increase (3.5% from Dec's 1.6% drop) while prices of capital goods and durable consumer goods also rose (1.6% and 1.5% respectively). In mom terms, prices were up by 0.8% (Dec: 0.5%).
- **Eurozone retail sales unexpectedly fell by 0.3% mom in Jan** after a flat reading in Dec, remaining subdued for the fourth month in a row. Among countries, Germany posted a slight increase (+0.1%) though sales in France and Italy tipped lower by 0.1% and 0.4% respectively. In annual terms, overall sales were up by 1.5% (Dec: 1.9%).
- **Manufacturing PMI in Germany ticked up to 46.5 in Feb** (prelim: 46.1 and Jan: 45.0), with output, new orders and export sales posting moderated drops. **Service PMI remained expansionary**, though slipping by 1.1 points to 51.1.
- **Factory orders in Germany plunged by 7% mom and 2.6% yoy in Jan**. This was the sharpest monthly decline since Jan 2023, with orders declining across the board – capital, consumer and intermediate goods, all declined by 11%, 2% and 1.4% respectively.
- **UK manufacturing PMI rose to 46.9 in Feb** (preliminary: 46.4) but was still the lowest reading since Dec 2023. Consumer goods performed the worst, clocking in the steepest declines across production, new business and foreign demand. **Services PMI edged slightly lower to 51** (from 51.1).

Asia Pacific:

- **Economic growth target for this year has been set at “around 5%” in China**, despite the potential trade war with the US and weak domestic demand (amid property slump). The government also disclosed that it would issue CNY 1.3trn (USD 180bn) in ultra-long term bonds (from CNY 1trn in 2024) and that budget deficit would rise to 4% of GDP amid defence spending growing by 7.2% yoy to CNY 1.78trn (USD 245bn) - behind only the US.
- **Inflation in China turned negative in Feb** (to -0.7% from Jan’s +0.5%), for the first time since Jan 2024, dragged down by food (-3.3%) and service (-0.4%) prices. Core CPI recorded its first negative reading since Jan 2021 (-0.1%). **The government has set an inflation target of “around 2%” this year**, the lowest in more than two decades. **Producer prices fell by 2.2%** (for the 29th month in a row) from the 2.3% drop in Jan, but the reading was the smallest decline in 6 months.
- **China’s Caixin manufacturing PMI rose to 50.8 in Feb** (Jan: 50.1), the most since Nov, as both output and new orders expanded alongside an increase in foreign sales (after 2 months of declines) while employment was down for the sixth month in a row. **Caixin services PMI ticked up** by 0.4 points to 51.4.
- **Exports from China grew by 2.3% yoy in Jan-Feb** while **imports plunged by 8.4%** (reflecting weak domestic demand), taking the trade surplus to a record USD 170.51bn (from USD 104.84bn).
- **Japan manufacturing PMI inched up to 49 in Feb** (prelim: 48.9 & Jan: 48.7), with softer reductions reported in output and new orders. Input costs rose to the joint-strongest since Aug and selling prices also increased. S&P reported that **the 12-month ahead outlook weakened to the lowest since mid-2020**, on “the potential downside risks of US protectionist trade policies and a slower-than-anticipated economic recovery”.
- **Unemployment rate in Japan increased to 2.5% in Jan** (Dec: 2.4%), with the number of unemployed growing to a 6-month high of 1.74mn. Jobs to applicants’ ratio ticked up to a 9-month high of 1.26 (from 1.25 in all 3 months of Q4).
- **Manufacturing PMI in India edged down to 56.3 in Feb** (prelim: 57.1 and Jan: 57.7), the lowest reading since Dec 2023. However, strong domestic and international demand has kept orders strong and job creation was the second-highest ever; output costs were above its long run average as firms passed on higher costs (including for labour). Composite PMI also moderated, slipping to 58.8 (from 60.6) **as services PMI softened to 59** (from 61.1).
- **Inflation in Korea eased to 2.0% in Feb**, after increasing for four months in a row, and from Jan’s 6-month high of 2.2%. The central bank had lowered rates by 25bps last month on growth concerns and has stated that there would be more easing this year.
- **Singapore’s retail sales rebounded in Jan**, growing by 2.4% mom and 4.5% yoy (Dec: -2% mom and -2.9% yoy), supported partly by the Chinese New Year holidays. Excluding motor vehicles, retail sales went up 4.8% (Dec: 4%).

Bottom line: Politics continue to dominate the news cycle be it the strong Europe front (including increased defence spending) to counteract the US narrative, or the approval from Arab States for Egypt's Gaza reconstruction/ redevelopment plan, or the election of Mark Carney (ex-governor of the Bank of England) as the incoming PM of Canada (a snap election could be on the cards) even as the Ukraine-Russia war negotiations start in Saudi Arabia along with representatives from the US. Inflation data for the US will be closely watched – a higher reading will call into question the number of Fed rate cuts (markets are now pricing in three, compared to two a few weeks ago). While the US established a Strategic Bitcoin Reserve and a Digital Asset Stockpile, all the AI action and chatter seems to be coming from China, with the latest release of AI Manus (close on the heels of DeepSeek).


Regional Developments

- **Middle East leaders have proposed an alternative reconstruction plan for Gaza** that was put forward by Egypt in contrast to Trump's plan that involves displacement/ relocation of Palestinians. Egypt's plan is estimated to cost USD 53bn, and questions remain as to who will foot the bill (potentially the GCC and other international donors, with the fund likely to be located at the World Bank) and also run the enclave (an administrative committee of independent, professional Palestinian technocrats will be created).
- **OPEC+ will proceed with its planned April oil output increase** of 138,000 barrels per day: it would hence be the first rise since 2022.
- **Egypt's PMI eased to 50.1 in Feb from Jan's 50-month high of 50.7**, largely due to a slight drop in manufacturing orders and drop in employment. Business confidence dropped to its lowest since Nov 2024 on firms' cautious outlook on economic and geopolitical risks.
- **Egypt's net foreign assets increased to the equivalent of USD 8.7bn in Jan** (Dec: USD 5.2bn), supported by the sale of dollar-denominated bonds (worth USD 2bn) – a major shift from the USD 29bn deficit reported a year ago. Total foreign assets of the banking sector rose to EGP 3.579trn in Jan, up from EGP 3.506trn in Dec 2024.
- **Egypt's foreign exchange reserves increased to USD 47.39bn in Feb** (Jan: USD 47.265bn), according to the central bank.
- **Trade deficit in Egypt widened to USD 4.15bn in Dec 2024**, up 13% yoy, with imports and exports growing by 11.3% and 9.6% respectively (to USD 8.11bn and USD 3.96bn). The surge in imports were largely due to almost doubling of gas imports while oil exports were down by 66%.
- A group of **41 private companies in Egypt is setting up the Arab Alliance for Industrial Investment** with an objective to boost Egypt's exports across the Arab countries, thereby increasing economic growth.
- **Egypt is inviting international firms to bid to develop around 13 new oil and gas sites** - seven undeveloped discoveries and six exploration areas. The sites could attract USD 700mn of investment (or more if discoveries are made) and bidding will close on May 4th.

- **US ended Iraq’s waiver to buy electricity from Iran**, with the Trump administration restoring its “maximum pressure” policy on Iran. An adviser to the Iraqi PM stated that this “presents temporary operational challenges”.
- **Kuwait’s PMI slipped to 51.6 in Feb** (Jan: 53.4), the weakest reading since Sep, as employment fell for the first time in 6 months and gains in output and new orders slowed.
- **Fitch Ratings reaffirmed Kuwait’s Long-Term Foreign-Currency Issuer Default Rating at AA- with a stable outlook**, citing its strong fiscal position and external financial consistency.
- **PMI in Lebanon inched lower to 50.5 in Feb** (Jan: 50.6): gains were recorded in orders (including export orders) and employment (firms raised staffing for the first time since Nov 2023) while output prices jumped to a 23-month high.
- **The World Bank estimates Lebanon’s reconstruction and recovery needs at USD 11bn**, based on the period Oct 8, 2023 to Dec 20, 2024, amid the conflict with Israel. Of the total amount USD 3-5bn will be publicly financed while the rest will need private financing according to the organisation. Read the report via:
<https://documents1.worldbank.org/curated/en/099030125012526525/pdf/P5063801f58e97062197c31ebf5a511c4e1.pdf>
- **GDP in Oman averaged 3.9% in the years between 2021 and 2023**, while **inflation for the period 2021-24 averaged 1.4%** (within the 2.8% target set in the 5-year development plan for 2021-2025).
- **Oman’s foreign trade grew by 7% yoy to USD 63bn in 2024**, thanks to a 18% surge in oil and gas exports (to USD 42bn). Non-oil exports fell by 16% to USD 16bn while imports grew by 12% to USD 43bn. Major trading partners last year were the UAE, Saudi Arabia, Qatar, India, South Korea, Japan and China.
- **FDI into Oman grew by 17.6% increase over the past five years** to a cumulative value of OMR 26.677bn (USD 69.3bn) by end of Q3 2024, according to the Minister of Commerce, Industry, and Investment Promotion. UAE was the third largest investor, with USD 2.2bn. Separately, **Oman is planning to set up a commercial court to resolve business disputes** to boost investor sentiment and confidence.
- **Oman-based state-run firm Asyad Shipping raised OMR 128mn (USD 333mn) from an IPO of 20% of its shares** on the Muscat stock exchange. About 75% of the more than 1 billion shares was allocated to institutional investors. The firm plans to pay an annual dividend of USD 150mn in 2025 and 2026.
- **Qatar’s PMI increased to 51.0 in Feb** (Jan: 50.2), with employment moving up to a record-high; despite salaries rising at the second-fastest pace on record, selling prices declined for the seventh month in a row.
- **International reserves and foreign currency liquidity in Qatar grew by 3.81% yoy to QAR 255.916bn in Feb**, according to central bank data. Official reserves increased by QAR 9.218bn to USD 196.817bn at end-Feb.

- Bloomberg reported that a **delayed Qatar-US LNG export project has received a go-ahead from the Trump administration**: the date to ramp up development and start production has been moved to Nov 30th, 2029.
- **Investment in MENA-based startups** saw equity investments driving growth in Feb: **funding touched USD 494mn in Feb, across 58 deals**. Saudi Arabia, UAE and Egypt were the leaders in regional investment (raising USD 250.3mn, USD 203.5mn and USD 27.5mn respectively) while fintech sector attracted the most funding (USD 274mn from 15 deals).
- The **primary debt issuances of bonds and sukuk in the GCC rose to USD 147.9bn** from 296 issuances in 2024, according to Markaz. **Saudi Arabia issuances topped the list**, raising USD 79.5bn from 79 issuances followed by UAE (USD 38.5bn from 109 issuances) and Qatar (USD 15.8bn from 74 issuances).
- **The value of construction and investment deals under China's Belt and Road Initiative in the Middle East touched USD 39bn in 2024**. The value of construction projects doubled and Saudi's deals alone stood at USD 19bn (vs USD 5.9bn in 2023).
- **Labour force in the GCC countries stood at 31.8mn, according to GCCStat data**. This represents 54.2% of the total population, and male employees accounted for the largest share (78.7%). GCC citizens were 5.6mn or 23.4% of the workforce and there has been a substantial increase in number of working women (+600k since 2011).

Saudi Arabia Focus

- **GDP in Saudi Arabia expanded by 4.5% yoy in Q4**, highest in 2 years, and up from the preliminary estimate of 4.4% and Q3's 2.8% growth. Growth was evident across the board, rising the fastest in non-oil sector (4.7%), followed by the oil (3.4%) and government (2.2%) sectors. **Real GDP grew by 1.3% yoy in 2024**, supported by the expansion in non-oil (4.3%) and government (2.6%) sectors while oil activity declined 4.5%. 
- **Saudi Arabia's non-oil sector PMI moved to 58.4 in Feb** (from Jan's 10-year high of 60.5), with a decline in new orders sub-index (A robust 65.4 in Feb, from Jan's 71.1) and ease in output. Employment rose at the fastest pace in 16 months, especially in the manufacturing and services sectors. The year-ahead business sentiment ticked up to a 15-month high.
- **Aramco announced that it would reduce its dividend payouts** to USD 85.4bn (by nearly 30% from last year's USD 124bn which included USD 43.1bn in performance-linked dividends) **in 2025**, as the firm's profits fell over 12% to USD 106.2bn. **Aramco also lowered its projection for the production of low carbon ammonia to 2.5mn tonnes per annum** (mpta) from 11.0 mpta before: the reduction is a result of high costs and low demand, according to the CEO.
- **US President Trump** mentioned during a press meet that he **would probably travel to Saudi Arabia within the next month and half** to finalise the potential USD 1trn investment deal (over four years, including Saudi's purchase of military equipment).
- **Saudi consumer spending increased in the week ahead of Ramadan**: weekly PoS transaction data indicate a 10.1% increase in the number of transactions and a 34.7% jump in value; among the largest spend was on beverages & food (+74.9% to SAR 3.3bn) while

education and hotels posted a decline in value of transactions (by 33.6% and 0.5% respectively to SAR 82mn and SAR 365mn).

- **Commercial registrations in Saudi Arabia surged by 67% yoy to 1.6mn in Q4 2024**, according to Monshaat's quarterly SME Monitor Report, with Riyadh accounting for 39% of the total registrations.
- **Saudi Arabia approved 26 mergers and acquisitions applications in Feb**, up 62.5% mom, according to the General Authority for Competition. Acquisitions accounted for 73% of the total, followed by joint ventures (19%) and mergers (8%). This follows 202 such requests approved in 2024 (up 17.4% yoy to the highest-ever).
- **PIF signed a USD 3bn agreement with Italy's state export credit agency SACE** to provide "financing support for cooperation between Italian companies in the private sector and PIF and its portfolio companies".
- Saudi state mining firm **Ma'aden is planning to invest between SAR 8.6-10.6bn (USD 2.3-2.8bn)** in 2025, thanks to a rebound in profits (+82% yoy to SAR 2.87bn in 2024). The profits stemmed from improved sales, higher commodity prices and a drop in raw materials costs.
- **Saudi Arabia attracted around 2.5mn sports tourists in the four years till 2024**, according to the tourism minister. He stated that the Formula One race in Jeddah alone created 20k jobs and generated SAR 900mn in economic impact.
- **Private equity deals in Saudi Arabia clocked in at USD 2.8bn across 15 transactions in 2024**, according to MAGNiTT. This reflected a 27% decline in value (2023: USD 3.9bn) and a 60% plunge in number of transactions (2023: 37), "driven by a market recalibration toward higher-quality, mid-market growth opportunities over large-scale buyouts".

UAE Focus

- **GDP in the UAE grew by 3.8% yoy in Jan-Sep 2024**, according to the Ministry of Economy, supported by non-oil sector performance (+4.5% to AED 987bn) while oil activity contributed 25.4% of total GDP.
- **UAE PMI stood unchanged at 55.0 in Feb**, with increases in output and employment, alongside an increase in input costs (the first time since Jul 2024) and output costs (to a 5-month high). **Dubai PMI eased to a 3-month low of 53.4 in Feb** (Jan: 54.7) though new orders were strong.
- **UAE signed a Comprehensive Economic Partnership Agreement (CEPA) with the Central African Republic**, with a target of boosting bilateral trade to AED 3.67bn+ over 5-7 years. Bilateral non-oil trade stood at AED 925mn+ in 2024, and the deal grants a 98% tariff removal for goods from the Central African Republic and a 99.5% tariff removal for UAE exports.
- **There are nearly 15,500 Chinese firms present in the UAE markets**, disclosed UAE's Minister of Economy, and more than USD 6bn has been invested in UAE over the past decades. He also revealed that China is UAE's largest trading partner, and the UAE is China's largest partner in the MENA region.
- **Dubai International Chamber reported that 62.7% of the MNCs it attracted in 2024 were from Asia**, while another 11.8% were from Latam & Europe and 9.7% were from the Middle



East & Eurasia. Five sectors - construction, trade and logistics services; manufacturing; information and communication technology - accounted for a share of 10% each.

- **ADNOC is considering a listing of its international investment arm XRG on an exchange outside the UAE** (with London and New York among the venues considered), reported Reuters. The discussions are in very early stages and floatation would only be in about 5 years.
- Though no official date was announced for **Etihad Airways USD 1bn IPO**, Reuters reported that it **will likely be delayed to after the Eid holidays** – with no specific reason given for the delay. The company reported a tripling of profits in 2024, and an announcement was expected soon after.
- **Dubai World Trade Centre and Informa have created a joint venture**, to manage exhibitions and event management, and will be operational from Q4 2025.

Media Review:

Chatham House webinar: “What does Lebanon’s new government mean for its future?”, 6 Mar 2025

<https://www.facebook.com/CHMENAProg/videos/2603126923230475>

COVID-19 shut us down five years ago. Here's how its economic impact continues

<https://www.reuters.com/business/healthcare-pharmaceuticals/five-years-economic-impact-covid-19-lingers-2025-03-08/>

“The Talent Equation”, IMF Finance & Development, Mar 2025

<https://www.imf.org/en/Blogs/Articles/2025/03/04/how-talent-fuels-growth>

<https://www.imf.org/en/Publications/fandd/issues/2025/03> (PDF file)

Artificial Intelligence in Qatar: Assessing the Potential Economic Impacts, IMF Selected Issues paper, Mar 2025

<https://www.imf.org/en/Publications/selected-issues-papers/Issues/2025/03/06/Artificial-Intelligence-in-Qatar-Assessing-the-Potential-Economic-Impacts-563004>