



• OCTOBER 2025

Macroeconomic Focus

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United States

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Eurozone

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China

LAZARD
FRÈRES GESTION

United States



Contrast between business climate and consumer sentiment

The U.S. government has been in shutdown since October 1. In general, such events pose only a moderate risk to economic growth — estimated at about -0.1% of GDP per week — since the frozen expenditures represent only a fraction of the federal budget (6.4% of GDP). This year, however, the shutdown could drag on. Democrats, typically reluctant to leave certain public services unavailable, may be willing to leverage the shutdown as a political tool. As a result, more sectors could feel the impact of absent federal employees. During this period, the release of economic data will also be limited.

Uncertainty on the trade front has eased somewhat, though risks remain — including tensions with China over rare earths and frictions with Canada. The implementation of new trade barriers requires an adjustment period for U.S. customs, meaning tariff rates could continue to rise in the coming months. In September, price increases on certain tariff-affected goods were evident, but they were more than offset by a sharp drop in housing costs. Consequently, core inflation slowed to 3%, below economists' forecasts. While still above the Federal Reserve's target, the trend is moving in the right direction.

To address rising risks in the labor market, the Fed cut its key interest rate in September. Only 22,000 net jobs were created in August — the weakest monthly gain since 2021 — and the unemployment rate climbed to 4.3%, its highest level in a year. Layoffs remain limited, but hiring is at one of the lowest rates in the past 25 years.

Concerns about the job market and inflation continue to weigh heavily on consumer sentiment, as reflected in surveys from the University of Michigan and the Conference Board. The consumer anxiety contrasts with improving business confidence. Following more upbeat ISM surveys over the summer, October's PMI indices showed a notable rebound driven by stronger new orders. These indicators suggest the U.S. economy remains resilient. For growth to accelerate, however, the labor market will need to gain more positive momentum — and political shocks remain a potential headwind.

3.0%

↘ Core inflation
over 12 months (Sept.)

4.3%

↗ Unemployment rate
(in August)

-0.1%

Impact on GDP of
each week of US
shutdown

3.50-3.75%

Fed rate anticipated by
the market at year-end

United States | Consumer confidence



Source: University of Michigan, as of October 24, 2025.

Eurozone



Tariff impact evident, but signs of recovery emerge

Economic growth is running at around 1% — broadly in line with the pace seen in the United States this year — despite ongoing trade headwinds. Exports have been hit by tariffs since the second quarter, and the trade balance with the U.S. has worsened sharply after a first-quarter surge in shipments made in anticipation of those measures. Tariffs on healthcare products could extend these challenges, though the third quarter is expected to be less difficult than the second.

Since the summer, Germany's manufacturing PMI surveys have shown steady improvement. In October, services saw an exceptional rebound, pointing to a possible recovery in domestic demand in Germany. This outlook is supported by a stimulus budget worth 1.6% of GDP from the NextGen EU plan and the early rollout of Germany's own fiscal package.

France, meanwhile, continues to struggle with reducing its public deficit, and business sentiment has been dampened by political uncertainty. The Lecornu government managed to avoid censure by compromising on its finance bill, but fiscal consolidation efforts will be modest. Uncertainty over the budgetary trajectory naturally poses a risk for credit ratings, with S&P downgrading France from AA to A+ in October. This is not a new development — it has been weighing on sentiment for several months. In October, consumer confidence began to stabilize.

Against this backdrop of moderate European growth, core inflation remains lower than in the United States (+2.4% in September), helped by slow wage growth. At this level, the balance of risks is improving, giving the ECB greater flexibility. With economic activity stable, the central bank has room to act if domestic demand weakens.

2.4%

↗ Core inflation
over 12 months (Sept.)

6.3%

↗ Unemployment rate
(in September)

52.5 pts

Composite PMI
(October)

1.5%

GDP growth in Q2
(year-on-year, latest
estimate)

Eurozone | Exports to the United States
(In EUR billion)



Source: Bloomberg, latest data: August 2025.

China



Strong exports and domestic challenges

Despite ongoing tensions, trade has continued to support growth. The drop in exports to the United States has so far been offset by stronger shipments to other markets. Industrial production rose by 6.5% in September, following a solid August, underscoring the resilience of China’s export engine at the end of the third quarter. This strength has helped cushion the slowdown in domestic demand.

Retail sales growth eased to 3% in September, down from 3.4% in August. More importantly, investment is showing clear signs of weakness — not only due to the collapse in real estate activity, but also, in all likelihood, because of “anti-involution” measures designed to restore healthier dynamics in industries plagued by price wars.

In some sectors, China’s production capacity alone exceeds global demand, creating a damaging spiral for producer prices and margins. The 2015-2016 reforms had boosted producer prices, but today’s challenge is broader: overcapacity affects both traditional industries and new, innovative private sectors. The goal is no longer simply to lift commodity prices, but to foster a virtuous cycle in a more value-added industrial base. Cutting capacity, however, would mean closing factories, laying off workers, and accepting slower growth — outcomes that run counter to the government’s economic objectives.

Over the first nine months of the year, China has managed to strike a balance: fixed capital formation fell by 0.5% year-on-year without derailing overall growth. Between January and September, GDP expanded by 5.2% — a solid performance given the headwinds from the United States. Achieving 4.5% growth in Q4 would be enough to meet the annual target of 5%. This momentum should encourage policymakers to press ahead with “anti-involution” reforms, while weak domestic demand is likely to be cushioned by more accommodative fiscal and monetary policies if needed.

-0.3%

12-month inflation
(in September)

5.2%

↳ Unemployment rate
(in September)

+8.3%

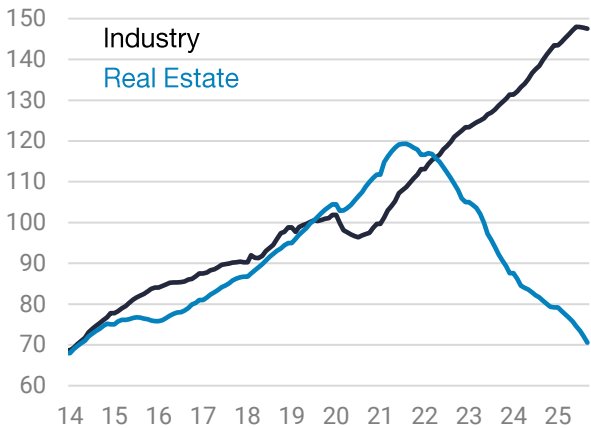
Export growth
(in Sept., year-on-year)

+5.2%

GDP growth
from Q1 to Q3 2025
(year-on-year)

China | Investment

Rolling 12-month total, 100 in 2019



Source: Bloomberg. Latest data: September 2025.

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Document completed on October 29, 2025.

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