AXA Investment Managers

Investment Institute Macroeconomics

Joseki in international trade

Monthly Investment Strategy

AXA IM Macro Research

May 2025

Summary: May 2025

Theme of the month: The forces reshaping China's labour market

- China continues to face domestic challenges even in the face of fluctuating trade policy headwinds.
- We explain that China's unemployment metric is not the efficient summary of labour market slack as seen in most economies, largely as it fails to account for the large internal migrant worker block. Despite being only at the start of a shrinking labour supply – a trend projected to accelerate over coming decades – China's labour market suggests growing excess demand, with labour supply falling faster than demand over the last decade.
- Yet despite evidence of growing labour shortages, real wage growth has slowed. In part this likely reflects slower growth in industrial profits. Structural rigidities also play a role, with China still seeing labour mobility restrictions impeding workers moving to labour-shortage areas. While educational inefficiencies are also important, not least with an over-supply of mid-educated workers relative to relative scarcity for low-skilled and high-skilled workers.
- We also consider slower wage growth to reflect a compositional effect as China's employment share in services has increased relative to industrial growth but has been restricted until recently by government measures. Such a reorientation of economic activity towards services from industry is typical of a maturing economy. It is the very dynamic that US President Trump rails about, blaming China for in the US. Yet where it occurs too soon in an emerging economy, it can contribute to the risk of falling into the Middle-Income Trap.

Macro update: Tariffs add to GDP volatility as uncertainty remains high

- Markets have been buoyed by further tariff reductions and financial conditions have eased, increasing growth support. This could prove temporary. Tariffs remain elevated. Trade deals look unlikely to restore the status quo ante. And the US fiscal bill renews risks of rotation away from US assets as flagged by the Moodys' recent sovereign credit rating downgrade.
- US tariffs contributed to the first fall in US GDP in three years in Q1. However, the tariff-inspired rush to imports that weighed on growth should reverse in Q2 and underlying growth remained solid. We look to a weakening in this underlying growth in H2 and a consequent mild recession.
- In other countries tariff also added to GDP volatility, but in the opposite direction. In Europe, strong industrial production led to 0.3% gains in the Eurozone and 0.7% in UK – the latter likely seeing some seasonal distortion. Both are likely to slow over the rest of the year and we expect central banks in both regions to cut by more than markets currently price.
- China was able to brush off a steep drop in exports to the US, with increases to other areas, particularly to other ASEAN countries in what looks like export re-routing. The de-escalation of US tariffs in May removes some of the urgency for further fiscal stimulus, but the PBoC finally delivered monetary policy easing. Nevertheless, domestic pressures remain and we continue to see growth of 4.3% this year, below Beijing's growth target.
- Japan also saw solid goods exports, but exceptionally, weak services exports, something idiosyncratically impacted by tourism. Q1 GDP contracted but looked firm in underlying terms. We expect the BoJ to hike again in September, but after Upper House elections and a trade deal with the US.
- ASEAN economies also saw a trade boost, some appearing to confirm suspicions of Chinese export re-routing. This is likely to prove temporary, and economies face the need to offset that slowdown. In Asia, economies are turning to fiscal support, both where there is and is not fiscal space. Latin American economies face an additional complication of weaker oil prices, impacting budget deficits and balance of payments differently. In Central Europe fiscal policy has been loose ahead of elections, Poland has started to ease monetary policy.

Central scenario

Summary – Key messages

Our central scenario: Global economy slows as adjusts to new US policies.

Global growth expected 2.6% in 2025, to slow to 2.4% in 2026.

New US policies to have global impact, scale of implementation remains uncertain. Divergence expected in key economies.

Monetary policy

Expected changes in US trade policy to lead most developed central banks to pursue more easing. Some EM's more constrained.

Fiscal policy

Expansive. Germany leads in fiscal expansion of infra and defence, but broader EU defence increase. China lifts borrowing to spur growth. US deficits likely to rise for tax cuts. Markets increasingly vigilant.

Emerging Markets

Face volatility in US trade policy, but some offset by regional anchors. Require wise use of fiscal and monetary policy. Some have more space than others.

FX

Dollar retraces from 40-year highs (real, TW) as exceptionalism expectation fades and overseas investors become more wary. Short-term gains possible, but policy response to see further pull back into 2026.

Rates

European yields rise on fiscal expansion. US yields rise as broader concerns lift term premia and growth concerns ease. Japanese yields trend higher in normalisation. China yields bounce off lows.

Growth

Several economies to brush with recession after US trade policy, including the US. Domestic policies become more supportive.

Inflation

Upside inflation risks for US on policy initiatives and rising inflation expectations. Disinflationary shock elsewhere, particularly as dollar declines. Core disinflation to broaden, some stickiness in services.

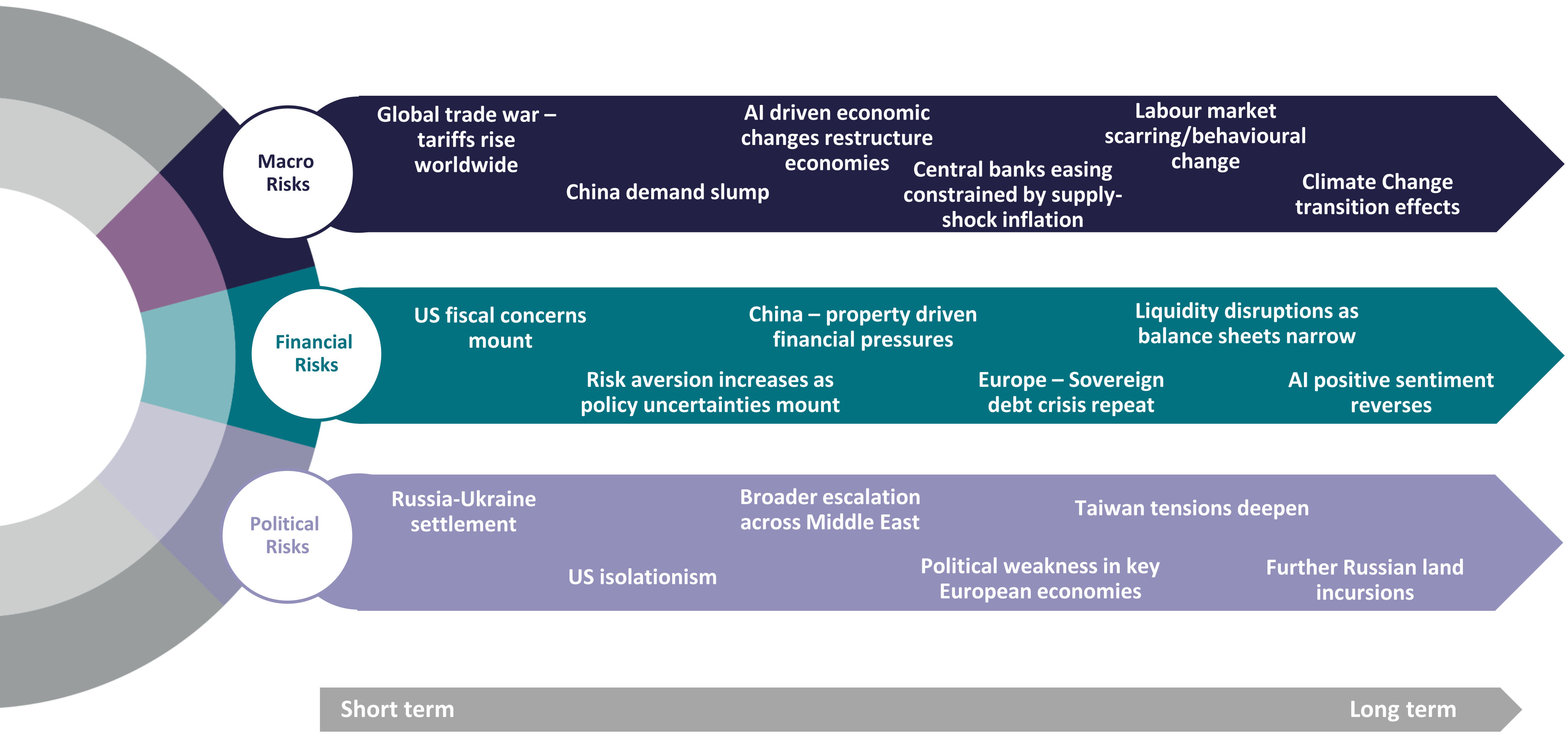
Alternative scenarios

Summary – Key messages

Entrenched supply shock Probability 25%		A global boost Probability 10%
- Full scale Trumponomics: protectionism, migration clampdown - Geopolitical tensions escalate: Ukraine, Middle East and Indo-Pacific - Inflation expectations rise, affecting wages and inflation persistence	What could be different?	- US pares back global tariffs more aggressively post trade deals - Productivity boost post-pandemic adjustments, AI more visible - De-regulation prompts more efficient government - Ukraine settlement lowers short-term energy prices
- Growth weaker, employment slows, but inflation remains above targe - Monetary policy ill-equipped to deal with supply shocks and financial instability, deteriorating inflation credibility forces still tighter policy in DMs	What it means	- Growth surprises on the upside in most regions - Inflation fades more quickly towards and below central bank targets - Monetary policy eases quicker than signalled
- Risk appetite deteriorates / equities sell off / credit widens - Sovereign yields reprice higher - Dollar remains elevated - EM debt to come under pressure	Market implications	- Risk-on environment, equities make further gains, growth retains lead over value - UST softens, EUR strengthens - Spreads grind tighter

RISk Radar

Summary – Key messages



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Theme of the month

The forces reshaping China’s labour market

Chinese unemployment metric fails to capture labour market slack

China’s two-tier labour force and skewed unemployment metric

- China’s labour market remains structurally divided between urban and rural workers, a separation reinforced by the ‘hukou’ (household registration) system, which classifies residents based largely on birthplace.
- The official unemployment rate focuses only on urban areas. Even after the National Bureau of Statistics replaced the quarterly ‘jobless claims’ measure with a monthly surveyed unemployment rate, the new metric still excludes migrant workers who have returned to rural areas. As a result, the measured unemployment rate fails to capture the full labour market picture.

An ageing demographic raises alarm

- China’s working-age population peaked in 2015 at around 1 billion and has been declining since. According to UN projections, it will shrink at an average annual rate of 1.2% over the next three decades.

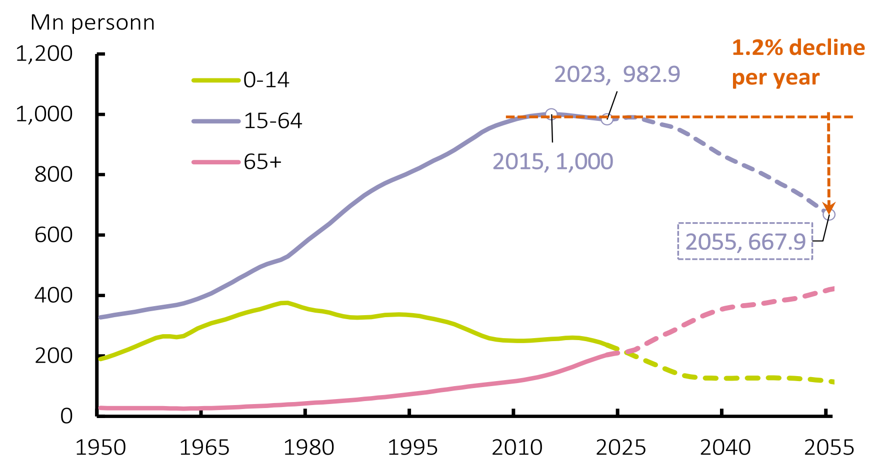
China’s unemployment rate bears little resemblance to activity

China - Unemployment rate vs. GDP growth rate (1980 - 2020)

Source: CEIC and AXA IM Macro Research, April 2025

Demographic projection not optimistic

China - Population by age groups



Source: United Nation and AXA IM Macro Research, April 2025

Note: Published full article [The forces reshaping China’s labour market]

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The forces reshaping China's labour market

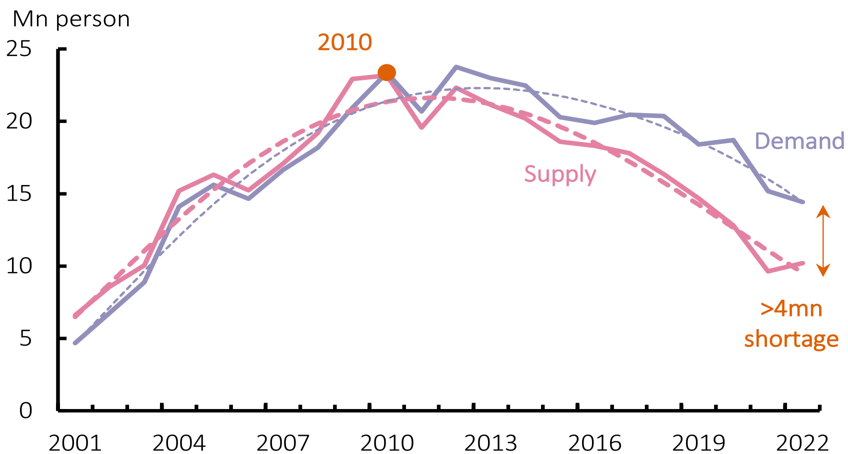
Slowing wage growth at odds with tight labour market?

The tight labour market and slowing wages conundrum

- Although a shrinking workforce represents a major structural shift, it does not fully explain the labour shortages observed since 2010.
- Labour demand growth – measured by new jobs created annually – has slowed alongside the contraction of China's labour-intensive manufacturing sector, as the economy transitions towards automation and higher-value production. However, labour supply – measured by job seekers – has fallen even faster.
- Despite labour demand outpacing supply since 2010, wage growth has slowed materially. Growth in total wages for urban workers in non-private enterprises and for migrant workers both peaked in 2010–2015 and have since decelerated.

A growing gap between labour demand and supply

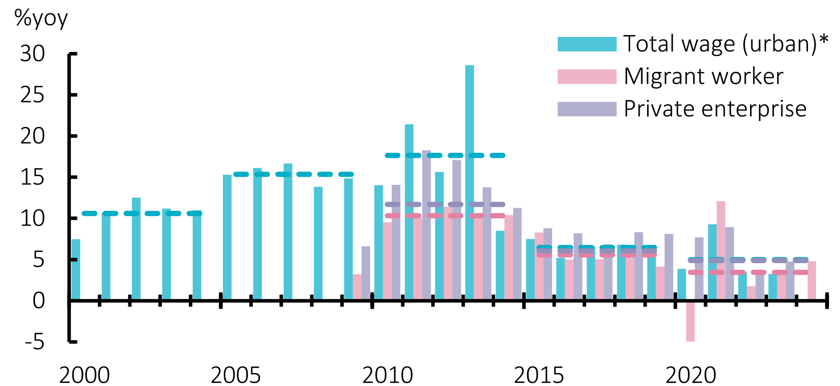
China - Labour demand & supply



Source: CEIC and AXA IM Macro Research, April 2025

Slowing income growth across the country

China - Real wage growth



*Total wage accounts for workers in the non-private enterprises in urban area.

Dashlines indicate multi-year average

Source: CEIC and AXA IM Macro Research, April 2025

The forces reshaping China's labour market

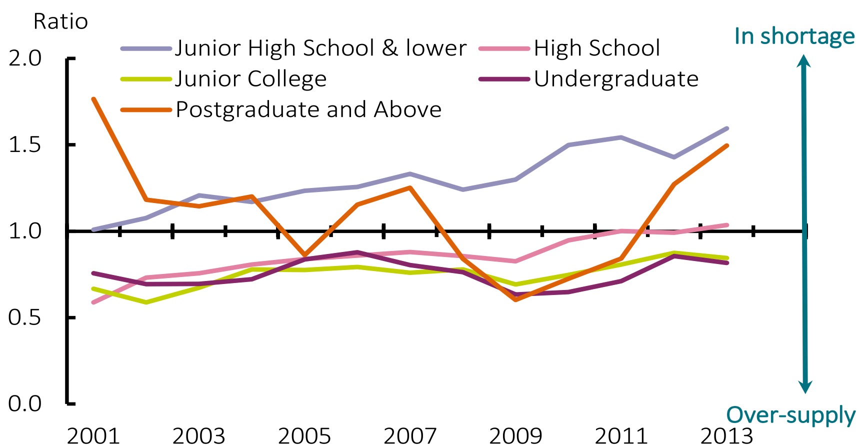
Labour shortages at tails of education distribution

Multiple dimensions of mismatch

- The puzzling labour market paradox – a shrinking workforce, persistent labour shortages, yet slowing wage growth – fundamentally reflects structural mismatches in education, sectoral demand shifts, and regional mobility constraints.
- China's labour market exhibits a "hollowing out" pattern similar to many Western economies, with strong demand for high – and low-skilled jobs but weaker demand for mid-skilled roles. However, the labour supply has moved in the opposite direction: a persistent oversupply of workers with 'middle education' (junior college and undergraduate degrees) has worsened employment prospects for this group, while workers with only high school education or advanced postgraduate degrees are in shortage.
- Geographical mismatches, exacerbated by restrictions on intra-regional mobility, are another factor. In prosperous regions, low-skilled labour shortages push wages higher, but this is offset nationally by surplus labour in less developed areas, where demand remains weak.

'Middle education' trap?

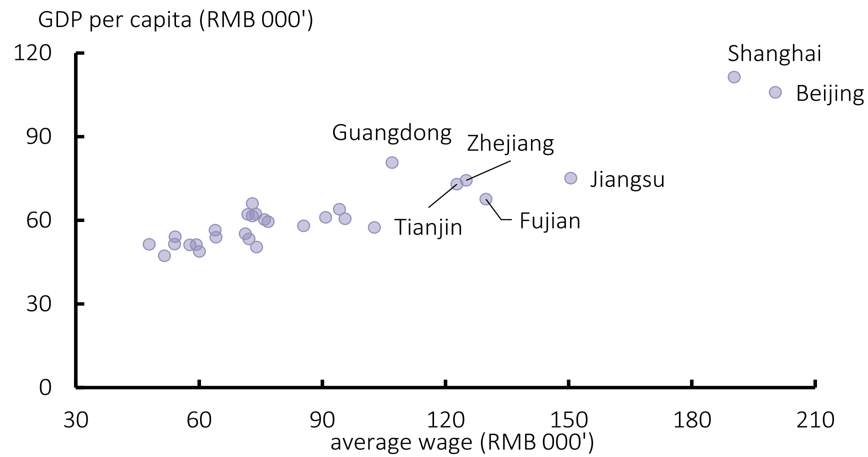
China - Demand/supply ratio in labour market (2001-2013)



Source: CEIC and AXA IM Macro Research, April 2025

Unbalanced regional development and wage level

China - Regional GDP vs. average wage (2023)



Source: CEIC and AXA IM Macro Research, April 2025

The forces reshaping China's labour market

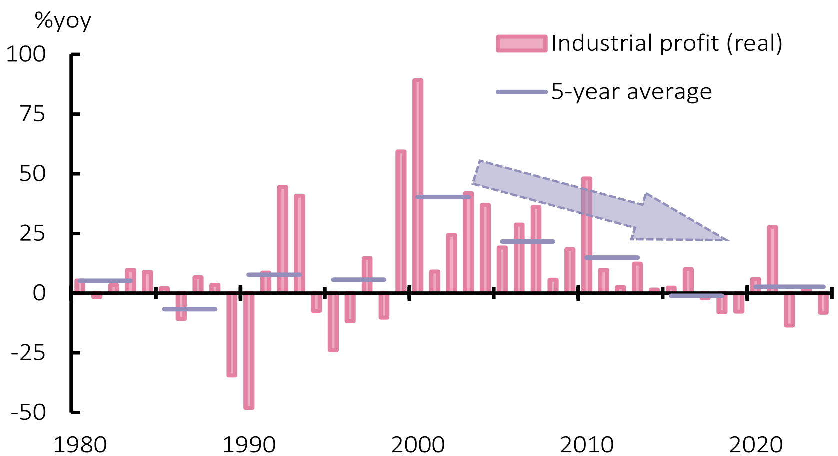
Structural change in sectoral growth

The waning role of industry

- The slowdown in wage growth has coincided with a persistent deceleration in industrial profit growth. After peaking in the early 2000s during China's rapid industrial expansion, industrial profits have slowed markedly over the past two decades. Meanwhile, government interventions in industrial pricing have likely added downward pressure on profits.
- China's economic structure has also rotated: from an agricultural economy before 1969, to an industrial economy up to 2011, and now to an increasingly services-dominated one. This shift led to a sharp increase in services employment. However, since 2017, service sector expansion has slowed, in part due to regulatory crackdowns on fast-growing private service industries such as private tutoring, video gaming, and fintech.

Industrial profit on the slide

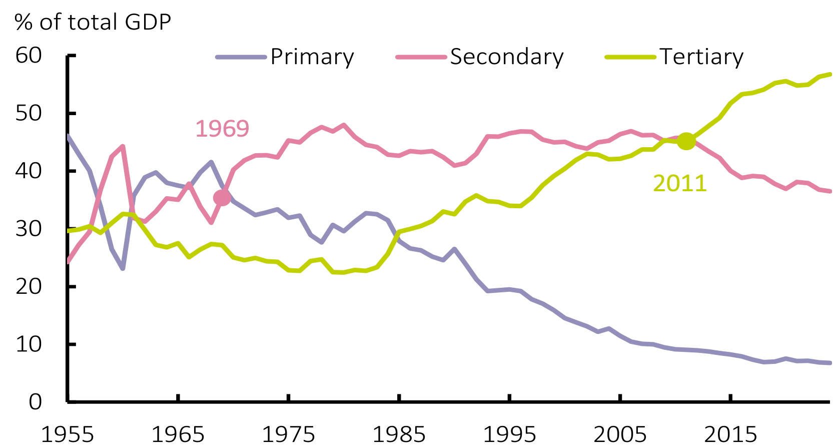
China - Growth of industrial profit (PPI adjusted)



Source: CEIC and AXA IM Macro Research, April 2025

Tertiary industry leading in GDP contribution

China - Contribution to GDP by industry



Source: CEIC and AXA IM Macro Research, April 2025

The forces reshaping China's labour market

China's divergent labour market metrics reveal a familiar deindustrialisation concern

A rush to services risks a middle-income trap

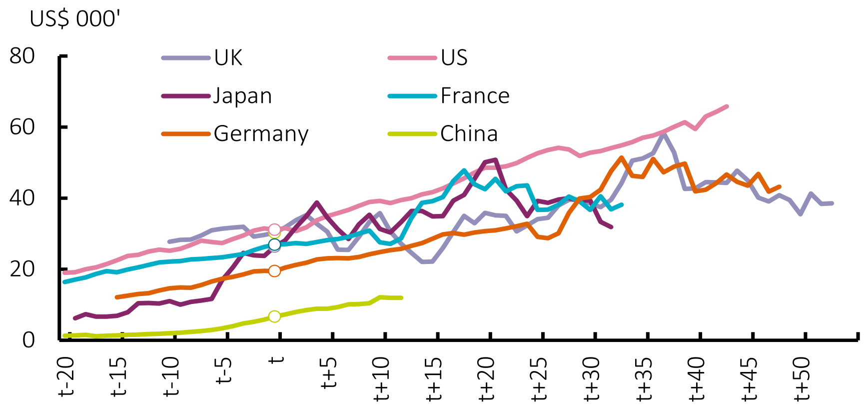
- China's *relative* deindustrialisation – the declining share of industry in GDP, shrinking industrial employment, and slowing industrial investment – is evident. While deindustrialisation is typical of a maturing economy, China's shift has occurred much earlier relative to its income level than in developed economies. At the point where signs of industrial decline became clear, China's real GDP per capita was only about one-third that of Germany at a comparable stage, and much lower compared to countries like France, Japan, the UK and the US. This premature structural shift risks slowing economic convergence, pushing workers into lower-productivity service jobs before achieving sufficient gains in industrial productivity.

Challenges alongside opportunities

- The full economic consequences of labour supply decline have not yet been felt, giving China time to adapt. Advances in technology could help raise productivity within the services sector, increase capital intensity, and facilitate a shift in China's growth model toward a more sustainable path.

China may experience a premature structural change

Real GDP per capita at the start of de-industrialisation

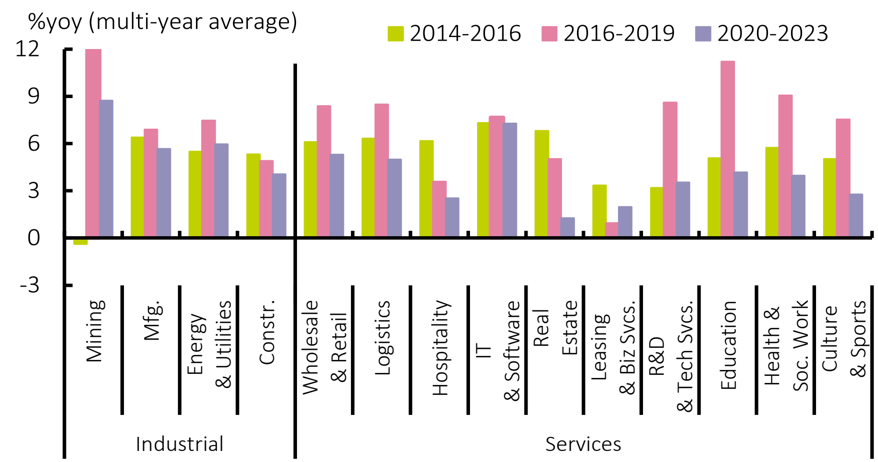


Note: t represents the year of obvious start of de-industrialisation for the UK (1970), the US (1980), Japan (1991), France (1990), Germany (1975) and China (2011)

Source: CEIC and AXA IM Macro Research, April 2025

Wage growth slowed more in low-end services

China - Average wage growth by sector



Source: CEIC and AXA IM Macro Research, April 2025

Macro outlook

Tariffs continue to dominate outlook

US

Tariffs again

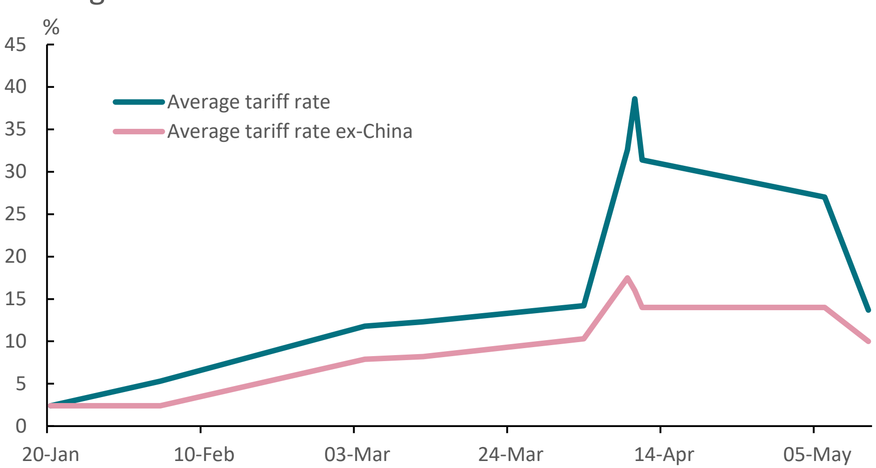
- The announced average tariff rate (weighted by 2024 imports) rose to 23% on Liberation Day and 26% on 9 April (driven by the increase on China tariffs despite rest-of-world reductions). Further US de-escalation with China from 12 May saw this fall to 17.8%. Allowing for substitution effects the effective tariff rate will likely be lower than this headline rate. However, the US effective tariff rate was 2.4% in 2024. Tariffs will still likely move about over coming months, but they remain far higher than before.

GDP contraction and short-term volatility

- Tariffs have already impacted GDP. A rush to beat the tariffs saw a surge in imports (c 50% saar) that stripped 5.5ppt off headline GDP. Even after increases in business and consumer spending and a rise in inventories was accounted for this still saw a 0.3% annualised contraction in GDP – its first in three years. The import surge will likely reverse next quarter boosting headline growth, even as underlying final demand sales will likely slow – a trend we expect to persist into H2 2025

Tariffs have fallen from peak but are still elevated from pre-Trump

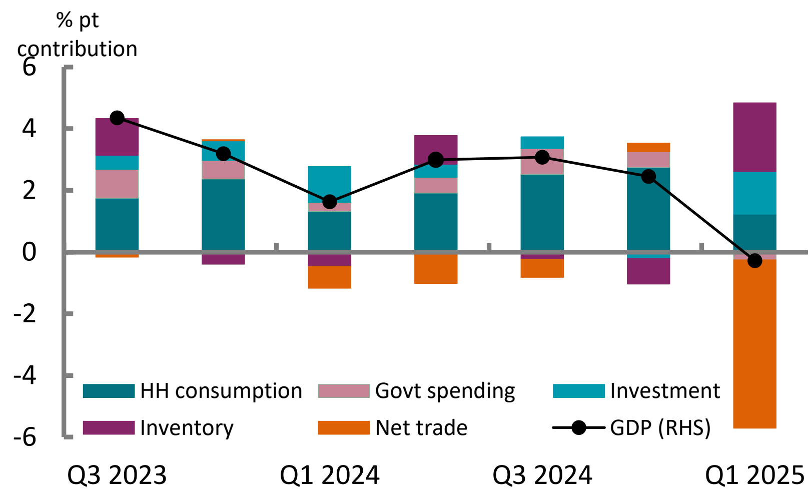
Average tariff rate



Source: OEC, AXA IM Research, May 2025

Volatile Q1 GDP contracts for first time in three years

US contributions to growth



Source: BEA and AXA IM Research, May 2025

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Slowdown ahead, scale uncertain

US

Recession threat and activity outlook

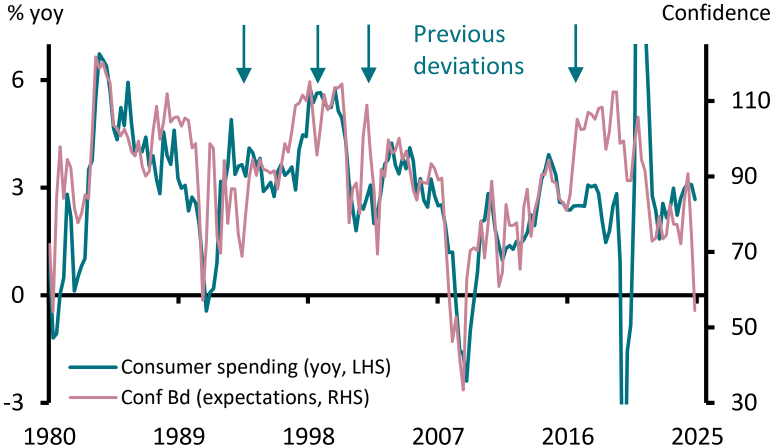
- The implementation of unorthodox policy looks set to slow activity in H2 2025, but the degree remains uncertain. Consumer confidence has fallen further and has not been lower outside of recession. Forward-looking employment survey suggests a weakening over the summer, although we expect unemployment to be stable. On balance, we expect deceleration to leave growth contracting in H2 2025 – a mild recession. We forecast growth of 1.2% in 2025 and 0.5% in 2026 (consensus 1.4% and 1.5%)

Fed not pre-emptive

- The Fed left policy unchanged in May. Powell said the Fed saw risks to both its employment and price mandates and that managing such a situation would be challenging. However, with no deterioration in either for now he said the Fed was in a good place to wait and see and could not be pre-emptive. If we are right about the scale of activity slowdown, the Fed will ease policy and we forecast this from September. We look for consecutive cuts to year-end to 3.75% and to 3.00% by Q2 2026.

Consumer confidence never lower outside of recessions

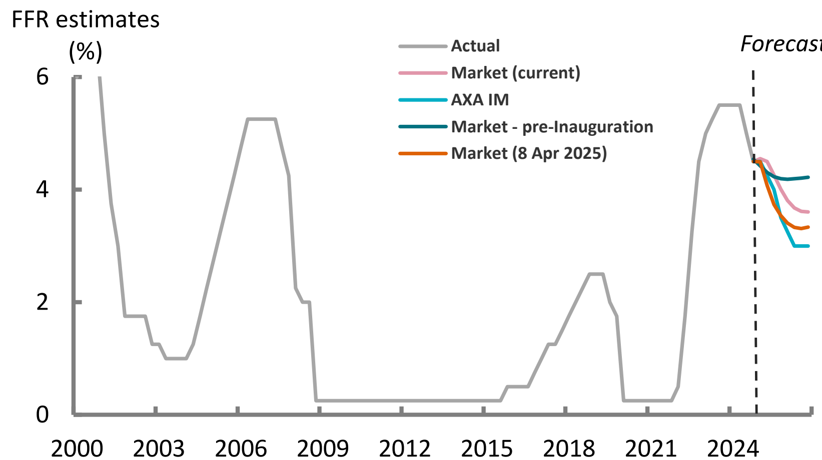
Consumer spending and sentiment



Source: Conference Board, BEA and AXA IM Research, May 2025

Fed to wait for decisive economic reaction

Fed Funds rate history and outlook



Source: FRB, Bloomberg and AXA IM Research, May 2025

Growth upside surprise likely behind us

Euro area

Trade tariffs front-loading in Q1

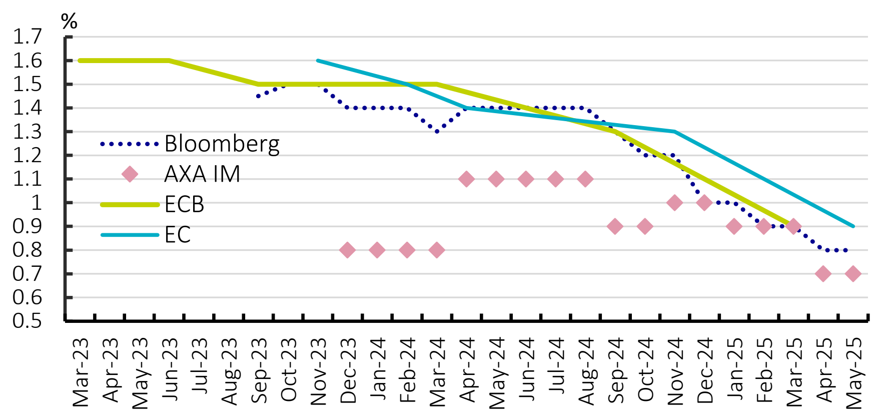
- Eurozone Q1 GDP growth was revised down (-0.1 ppt) to 0.3% q/q, in line with our initial above-consensus forecast. The data was likely boosted by trade frontloading. Industrial production rose by 2.2% in Q1 - the strongest quarterly outturn since the global financial crisis bar the pandemic – although manufacturing confidence has remained in the doldrums.

We remain conservative on the growth outlook

- Forward-looking indicators have been mixed at best. While manufacturing activity could bring some support in the very short-term, marked deterioration in services and consumer confidence bodes ill.
- While we acknowledge upside risks stemming from the latest US-China tariff agreement, we keep our baseline unchanged, projecting Eurozone growth to average 0.7% and 0.5% this year and next, including a small recession in the second half of 2025 – materially lower than the EC's (0.9/1.4%), or the Bloomberg consensus: (0.8/1.1%).

Rewarded so far, we maintain our conservative growth outlook

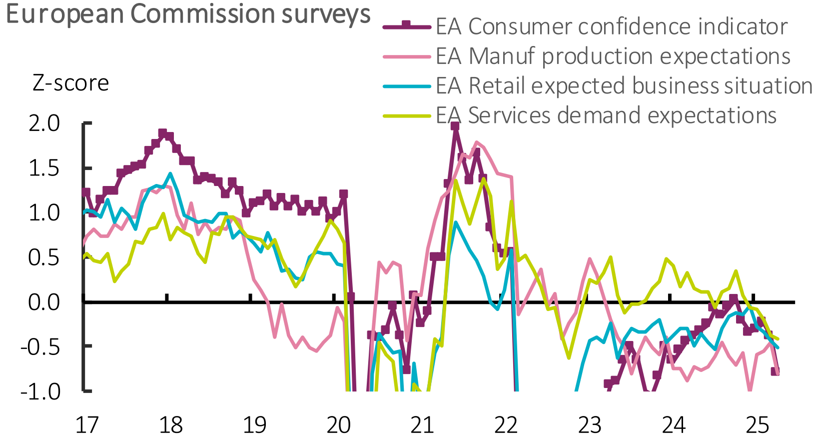
Eurozone 2025 GDP growth: AXA IM & consensus



Source: Bloomberg, AXA IM Research, ECB, European Commission, May 2025

Surveys bode ill for the outlook

European Commission surveys



Source: European Commission, AXA IM Research, May 2025

ECB’s path all but certain

Euro area

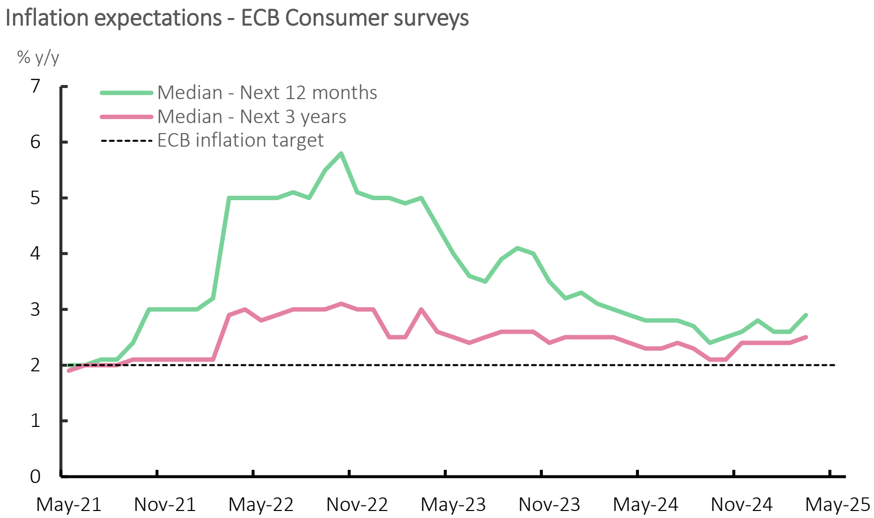
Hard to see building inflation pressures

- We project Eurozone core pressures to ease to 2.4% and 1.8% this year and next, while headline inflation should average 2.0% and 1.7%. As such, we put little weight into the three and one-tenth increases in one year and three years’ ahead inflation expectations shown in the ECB’s March consumer expectations survey – before the April tariff showdown - to 2.9% and 2.5% respectively.

Hard to see building inflation pressures

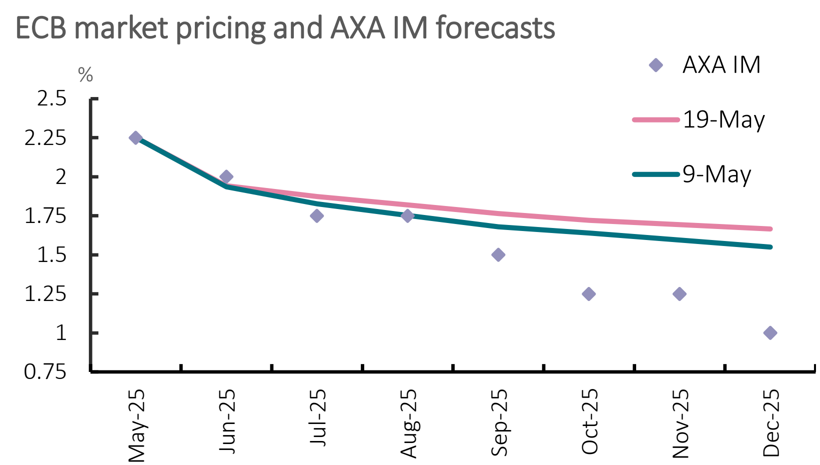
- We do not think that Isabel Schnabel’s hawkish tone (10 May speech) is warranted, given the weak underlying macro situation, the lack of obvious (persistent) inflation pressures, and the ongoing uncertainty. We think the June ECB meeting will likely strike a much more cautious and open tone about the future path of monetary policy – above and beyond the 25bps rate cut. Our baseline remains for cuts to bring policy rate into accommodative territory to reach 1% by year-end.

We are unfazed by slight pick-up in inflation expectations



Source: ECB, AXA IM Macro Research, as of May 2025

We continue to expect more ECB rate cuts than the market



Source: Bloomberg, AXA IM Macro Research, as of May 2025

Strong start but underlying momentum is likely weaker

UK

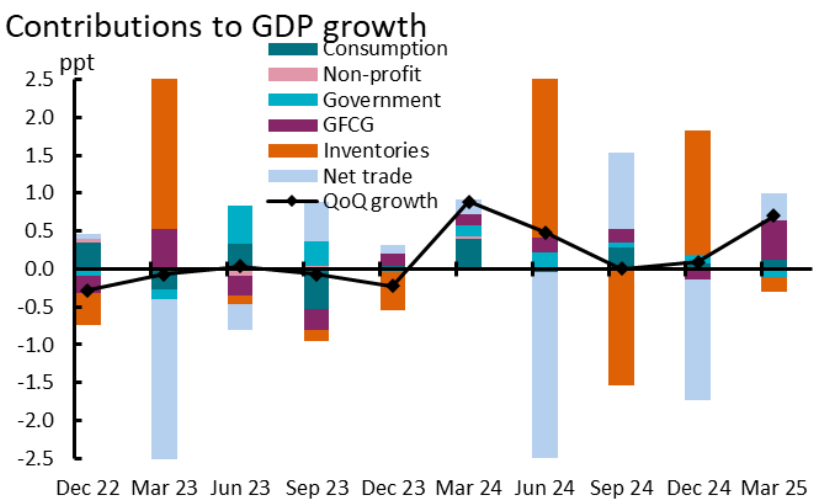
Q1 surprised to the upside

- GDP growth surprised in Q1, increasing by 0.7% on the quarter, above expectations for a 0.6% rise. In part, that likely reflects activity brought forward ahead of US tariff and UK business tax changes. But services activity rose by 0.7% and capex by a chunky 6%. We think Q1 growth will mark the peak; surveys fell in April; sentiment remains weak and real incomes growth is set to grind to a halt in the second half of 2025. We see 0.9% growth this year, with the quarterly pace slowing to a standstill mid-year.

Labour market still deteriorating

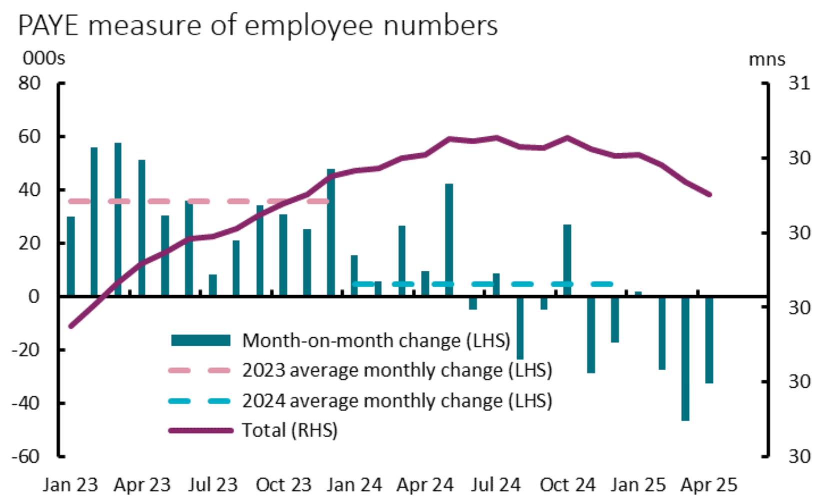
- The labour market is showing further signs of deterioration. The PAYE measure of employees fell by 33K in the month to April, following a 47K drop in March. That left the three-monthly pace down 0.2%, with private sector employment down 0.4%. Pay growth, meanwhile, is still high, despite the increase in slack. Total pay rose by 5.5% in March, with private sector wages up 5.6%. But underlying settlements data is weaker than official figures suggest with pay growth likely falling below 4% by year-end, underpinning a slowdown in domestic inflationary pressures.

Stronger-than-expected growth in Q1



Source: National Statistics and AXA IM Research, May 2025

Labour market slack increasing



Source: National Statistics and AXA IM Research, May 2025

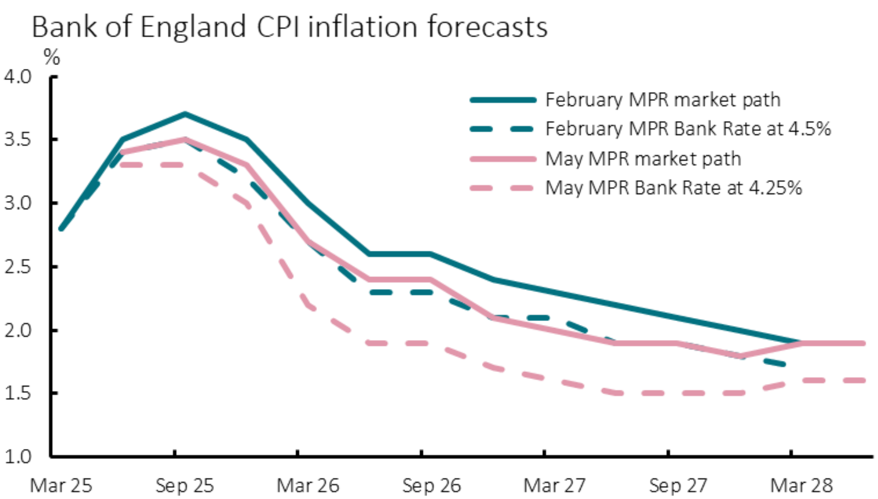
Bank of England to stick to gradual easing

UK

Increasing labour market slack to underpin 'gradual' cuts

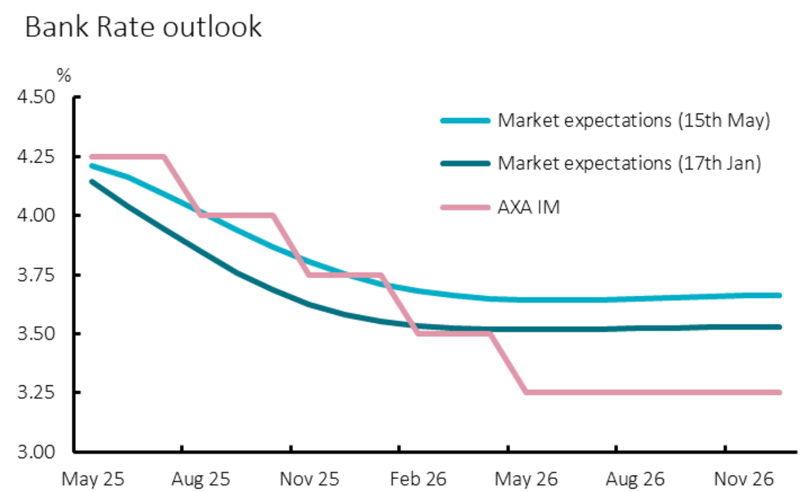
- The Bank of England (BoE) cut Bank Rate by 25bp to 4.25% from 4.50% in May as expected. But both the vote split and policy guidance were more hawkish than most anticipated, with two members voting for no change and a "gradual and cautious" approach still outlined. The Bank's forecasts remained marginally dovish, with inflation falling back to the 2% target by Q1 2027 – four quarters earlier than expected in February – and then holding at 1.9% in 2-3 years' time, compared to 2.3% and 1.9%.
- The BoE also saw greater slack emerging in the economy, in part due to a faster deterioration in the labour market. On balance, its current forecasts are in line with our call for two more rate cuts this year and then two next, leaving the Bank Rate at 3.25% at end-2026, around 25bps more than currently pencilled in by markets. But given the downside risks, we are increasingly focussed on the risk the Bank starts to move more quickly than we currently expect, with back-to-back cuts looking more and more likely in Q4.

BoE revised down its CPI inflation forecast in May MPR



Sources: National Sources, Bank of England and AXA IM Research, May 2025

BoE to continue gradual cutting cycle



Sources: The Bank of England and AXA IM Research, May 2025

Preliminary trade deal exceeds expectations

China

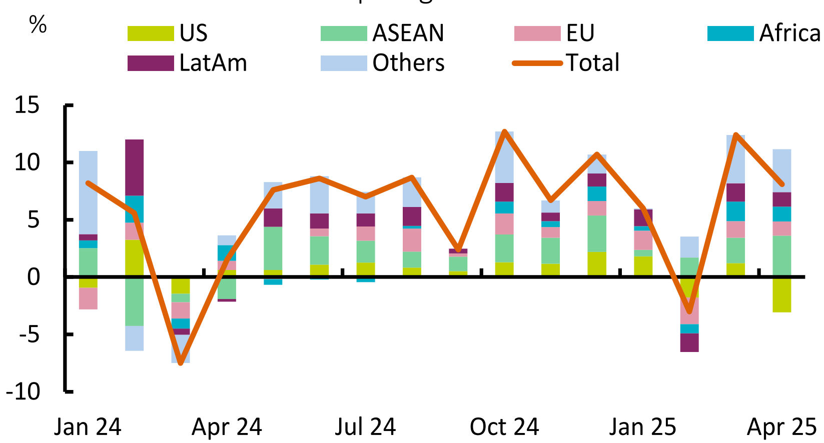
Substantial reduction in tariffs

- The US and China's de-escalation delivered upside surprises to the market. Both cancelled April's 'tit-for-tat' tariff increases, reducing 'reciprocal tariff' to 10% temporarily for 90 days as talks continue. The US has also cut tariffs on small 'de minimis' packages from China to 54%, partially reversing the decision to close that loophole with a 120% tariff that had been effective from 2 May. Further negotiations, especially around cooperation on drug trafficking, may ease the US 'fentanyl tariff' of 20%.
- Instead of using blanket tariff hikes to narrow the US trade deficit, we expect Washington to deliver a more targeted regime akin to the Phase One agreement of Trump's first term, which identified target purchases for China.

Trade growth held up well amid heightened tariff, export diversion underway

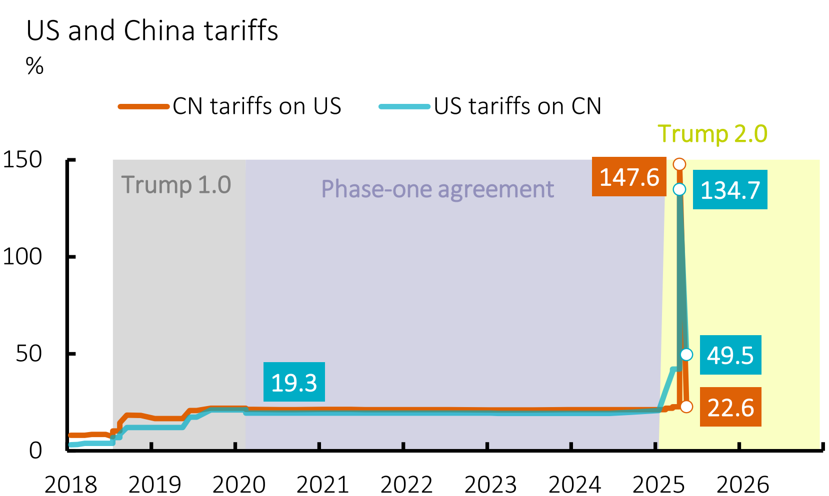
- China's exports to ASEAN countries have supported the headline growth, while export to the US declined by 21% in April.

Exports stay resilient amid trade diversion



Source: CEIC and AXA IM Research, May 2025

Tariff fell back substantially on both sides



Source: Peterson Institute and AXA IM Research, May 2025

Measured monetary easing

China

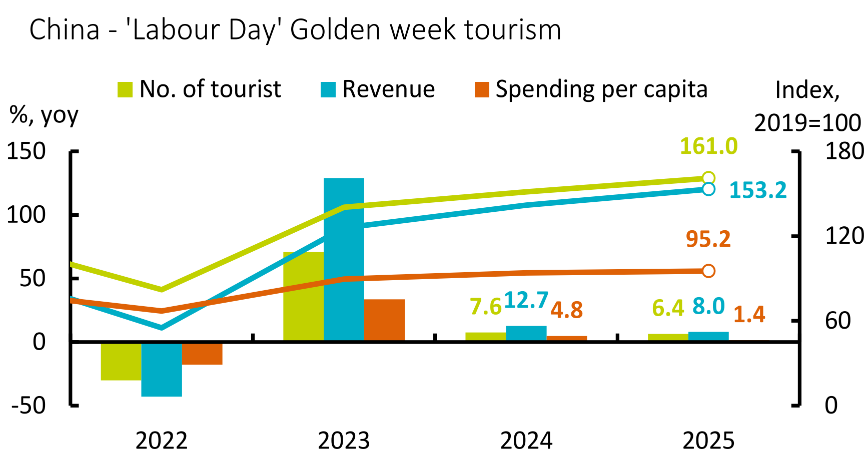
PBoC delivers less easing than expected

- The PBoC lowered its reserve requirement ratio by 50bps, and policy rate by 10bps. More importantly for the household sector, it cut the rate applied to the mortgage rate on the Housing Provident Fund for first-time buyers, by 0.25% to 2.6%, which is estimated to save households RMB20bn annually in interest payments.
- Concerns about financial system stability and declining net interest margins, which were highlighted in the latest central bank's monetary policy report suggests that future policy rate cuts may be replaced by targeted reduction in loan pricing.

Tourists were reasonably optimistic during recent Golden week

- Number of tourists and total tourism revenue continued to rise, albeit at a milder pace compared to last year.
- It suggests the pressure on employment and household income due to trade disputes started to materialise.

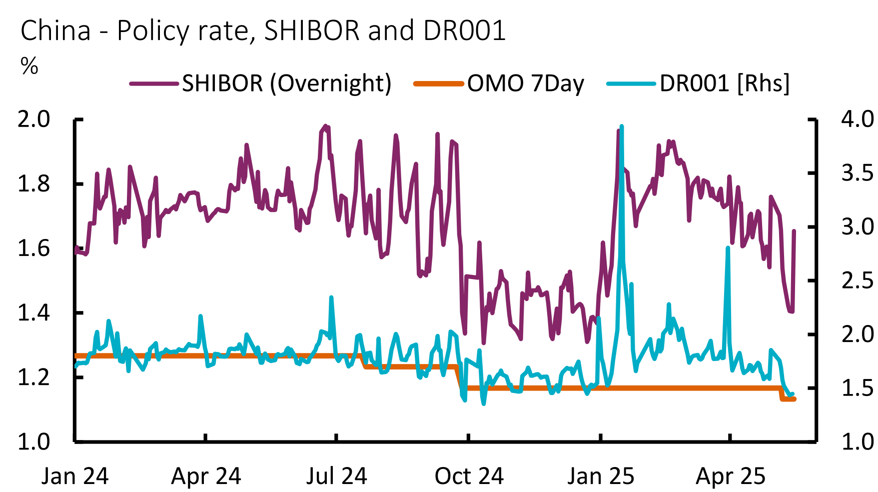
Tourism perform advanced marginally amid tariff concerns



Note: Bars: year-on-year change [Lhs]; Lines: index, 2019=100 [Rhs]

Source: CEIC and AXA IM Research, May 2025

Monetary policy eased, albeit further cut less likely



Source: CEIC and AXA IM Research, as of 16 May 2025

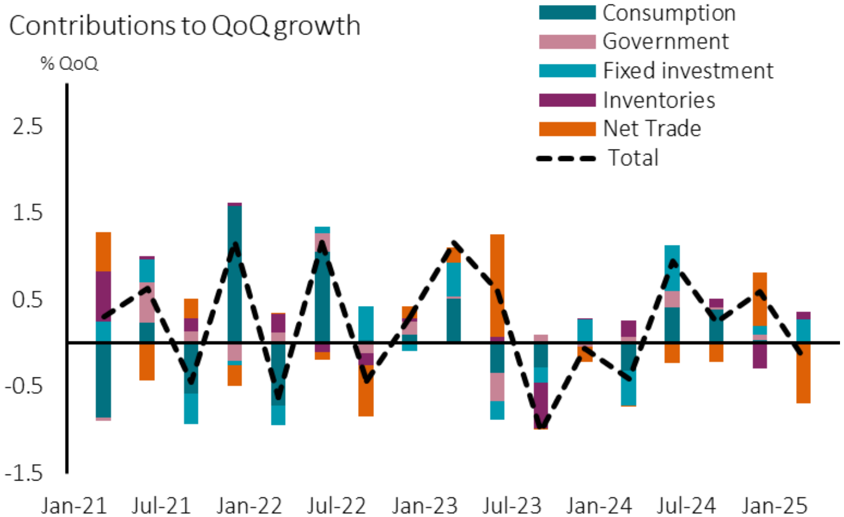
Bumpy start even before US tariff hit

Japan

Moderate quarterly pace expected through the rest of 2025

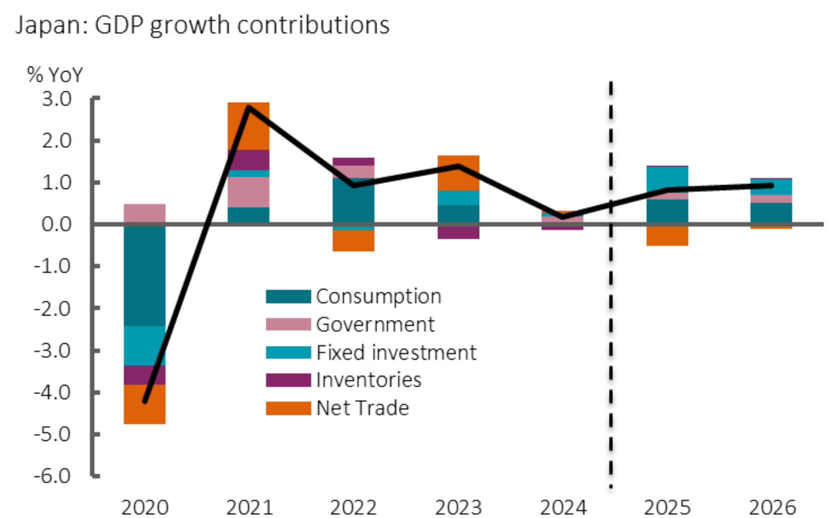
- Japan's Q1 GDP fell by 0.7% quarter-on-quarter annualised, the first negative print in four quarters and below analysts' expectations for a 0.3% drop. But the breakdown was more reassuring. Domestic private consumption rose by 3.5%, with household spending remaining in positive territory, despite the rocky start implied by the Bank of Japan's (BoJ) Consumption Activity Index and household spending data, while capex was up by 5.8%. This was offset by a drop in net trade, with exports down 2.3% quarter-on-quarter annualised, as services exports plunged by 12.8%. Notably, goods exports continued to rise, perhaps as some business was brought forward ahead of US tariff increases.
- Looking ahead, we think growth should recover in Q2, before slowing again in the second half on the year, largely due to a weaker US. We have revised down our GDP forecast for 2025 to 0.8%, from 1.1%.

Net trade delivers weak start to the year



Source: National Statistics and AXA IM Macro Research, May 2025

Consumption to keep growth positive in 2025



Source: National Statistics and AXA IM Macro Research, May 2025

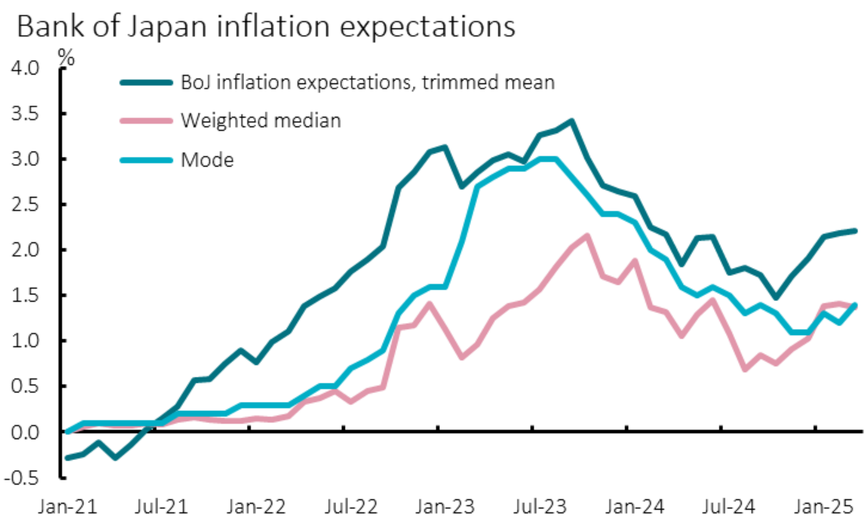
Bank of Japan to continue normalising in 2025

Japan

Heightened uncertainty won't halt rate hikes

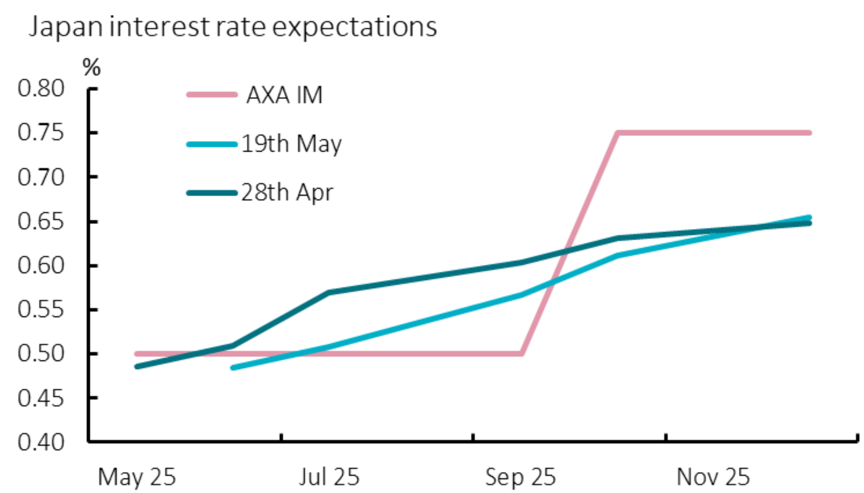
- Domestic dynamics are moving in the right direction. Inflation expectations have risen modestly, with the BoJ's trimmed mean measure up at 2.2% in March, compared to an average 2% in 2024, while the fifth tabulation of the Shunto wage negotiations showed a 3.75% rise in base pay, above the BoJ's 3% threshold it views as consistent with its 2% inflation target. The ageing population and depleting labour pool should keep wage growth elevated compared to the previous couple of decades.
- The BoJ voted unanimously to maintain its key policy rate at around 0.50% at its May meeting and pushed back expectations for CPI inflation to return consistently to the Bank's 2% target, in what some perceived as a dovish shift. But it still has faith that the virtuous wage/price spiral remains intact and is likely to continue with tentative policy normalisation, albeit more cautiously than before. Indeed, the BoJ expressed caution about the possibility of downward pressure on both growth and inflation in the near term due to the impact of trade negotiations following the US announcement of reciprocal tariffs. We see just one more hike this year to 0.75%, before an elongated pause throughout 2026, as Japan grapples with an expected US slowdown.

Inflation expectations are picking up again



Source: National Sources and AXA IM Research, May 2025

We expect a further 25bp hike in H2



Source: Refinitiv and AXA IM Research, May 2025

Investment Managers

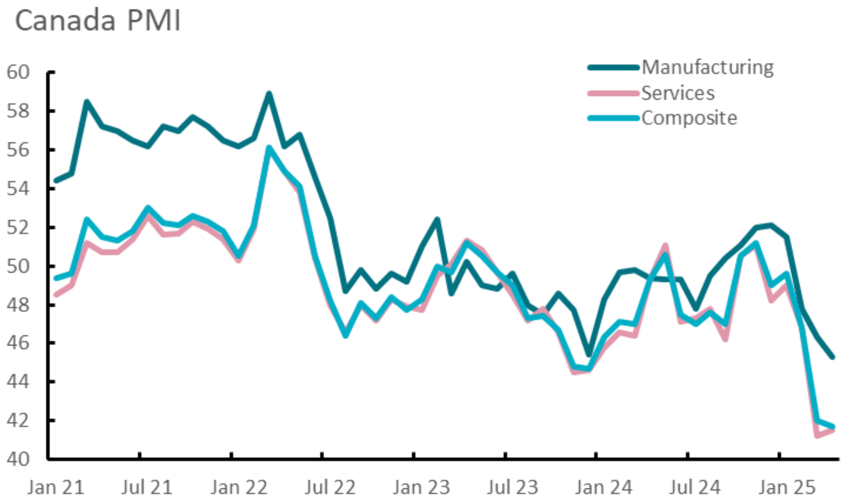
Canada a relative winner?

Canada

Growth still being hit

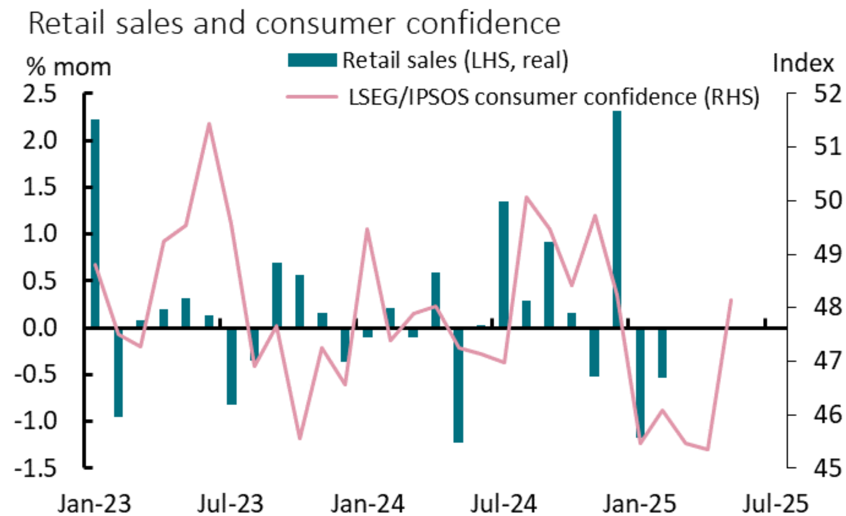
- The latest data suggest uncertainty over US trade policy continued to weigh on Canadian activity in April, despite coming out of the so-called 'Liberation Day' relatively unscathed. Indeed, the composite PMI remained well below the 50.0 mark, despite edging up to 42.0, from 41.7 and the IPSOS measure of consumer confidence decreased to 47.7, from 48.2 in March, its lowest reading since July 2024.
- Admittedly, the US government has appeared more open to trade deals over the past couple of weeks, having altered tariffs on autos and steel with the UK and lowering additional tariffs on China back to 30%, which could limit downside risks. But even if further deals are negotiated, tariffs are still far higher than before, consistent with a slowdown in global growth. We had always expected a row back on US tariffs and had baked it into our forecasts, so we continue to expect growth of 1.6% in 2025 and 0.6% in 2026, with quarterly growth grinding to a halt in Q3.

Surveys have taken a leg down post tariff debacle



Source: BoC and AXA IM Research, May 2025

Weak confidence to underpin slowdown



Source: CFIB, Nanos and AXA IM Research, May 2025

Weak macro backdrop points to further cuts

Canada

Labour market data gloomy

- The latest labour market data was mixed but continues to paint a gloomy picture on balance. Employment increased by 7.4K in April after a 32.6K drop in March. Note too that the jobs were created in the public sector, which likely reflects additional hiring in the run up to the election that may reverse in May. In addition, the increase in jobs was offset by an increase in the workforce, leaving the unemployment rate at its November high of 6.9%, from 6.8%.

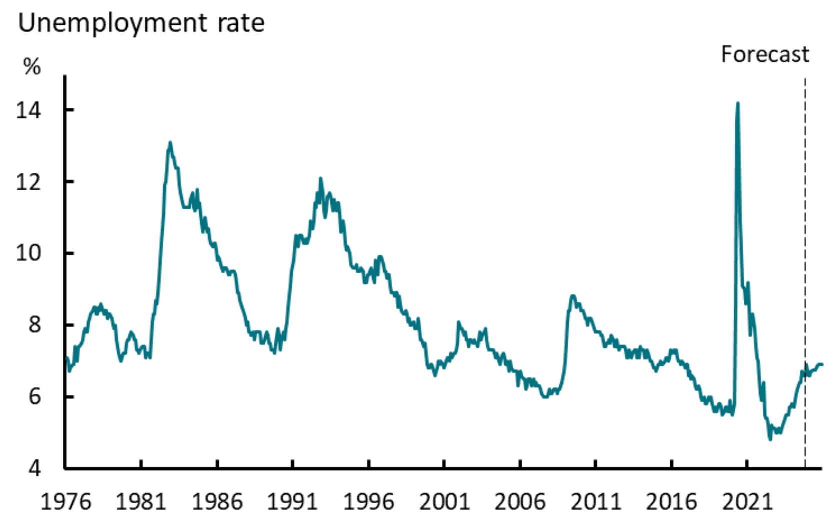
We see further cuts this year

- At April's Bank of Canada (BoC) meeting, Governor Tiff Macklem highlighted the high level of uncertainty meant the Bank would be placing more weight on near-term data, stating it would be less "forward-looking than usual". This boosts our confidence that the BoC will continue to loosen policy this year. And while we expect CPI inflation to rise over the coming quarters, as retaliatory tariffs boost import costs, we ultimately expect a larger opening of slack in the economy as growth slows and for this to prove more persistent than upward cost pressures. The BoC will likely cut twice more this year, leaving the policy rate at 2.25% by year-end.

Employment growth is starting to slow

Source: National Sources and AXA IM Research, May 2025

Pushing up the unemployment rate



Source: National Sources and AXA IM Research, May 2025

Fiscal support as growth prospects dim

EM Asia ex-China

Fiscal stimulus and tariff negotiations will be priorities for South Korea's new president

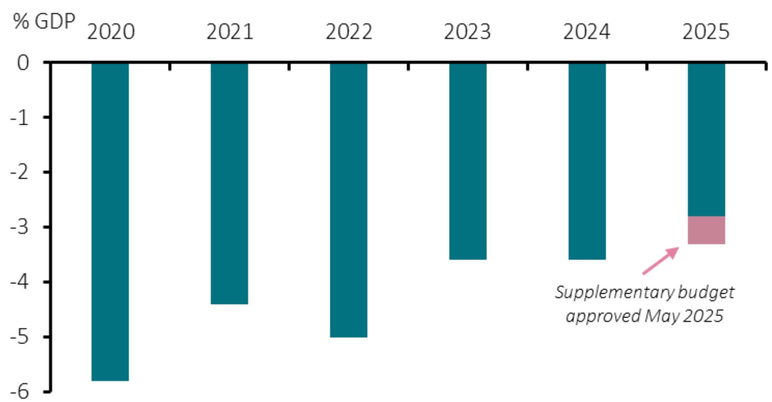
- After the 3 June election, the new president will prioritise assessing the need for a new fiscal package and finalising a US trade deal. Amid domestic economic weakness, lawmakers recently approved a supplementary budget that could push the fiscal deficit to 3.3% of GDP, up from the 2025 budget target of 2.8%. With the Democratic Party's Lee Jae-myung favoured to win the election, a more expansionary fiscal stance is likely. The need for this (and size) will partly depend on the outcome of US talks.

Thailand planning new stimulus package, while the Philippines is struggling with fiscal consolidation

- The Thai government is also proposing additional fiscal support for its flagging economy but has relatively little space; with an expansionary budget for the current FY, including cash handouts under the digital wallet scheme, the deficit was already set to widen to 3.6% of GDP (from 2.2% last FY), and public debt to rise to 64.7%. In the Philippines, given the weak Q1 GDP outturn and signs of a disappointing outcome in the mid-term elections for President Marcos Jr., there is a growing risk of fiscal slippage.

South Korea with space to provide fiscal support

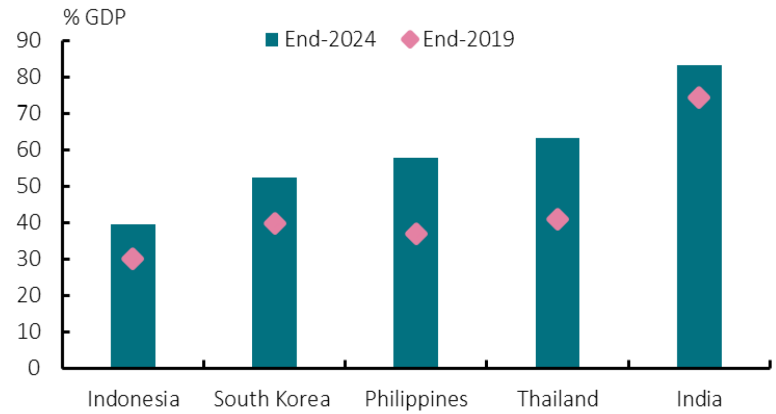
Managed fiscal balance



Source: IMF and AXA IM Research, May 2025

The Philippines and Thailand have limited room

General government debt



Source: IMF, IIF and AXA IM Research, May 2025

Central Europe: Global and domestic factors closer to align for monetary easing

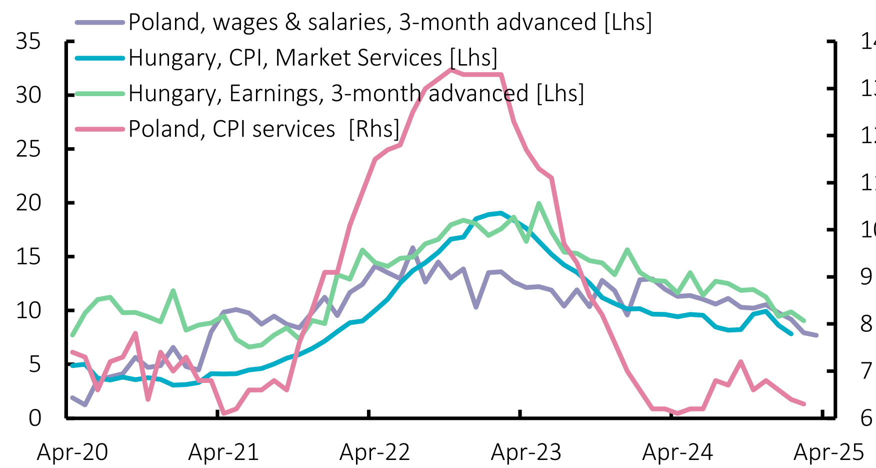
With the exception of Romania

Monetary easing initiated in Poland, to follow in Hungary:

- External conditions have become conducive to monetary easing in Central Europe, thanks to lower oil prices, generally stronger currencies and expected trade diversion from China. Domestic conditions have also turned more benign after tight labour markets kept wage inflation persistently high over recent years, feeding into service inflation. Yet in contrast to Poland which has embarked on monetary easing, the central bank of Hungary has yet to change its hawkish rhetoric and focus on financial stability.
- Fiscal policy and the election cycle will also shape monetary policy. Fiscal policy has yet to contribute to disinflation in Poland contrary to Hungary. Upward pressure on spending in Poland ahead of presidential elections (second round on 1st June) has widened the year-to-date deficit to -2.1% of GDP in March 2025 (-0.7% of GDP in March 2024).
- In Romania, where sources of disinflation have only been imported, the key requirement for macroeconomic stability is fast and large fiscal tightening post-presidential elections after the deficit reached an annualised 9.5% of GDP in Q1 2025.

Poland and Hungary: Service inflation to soften

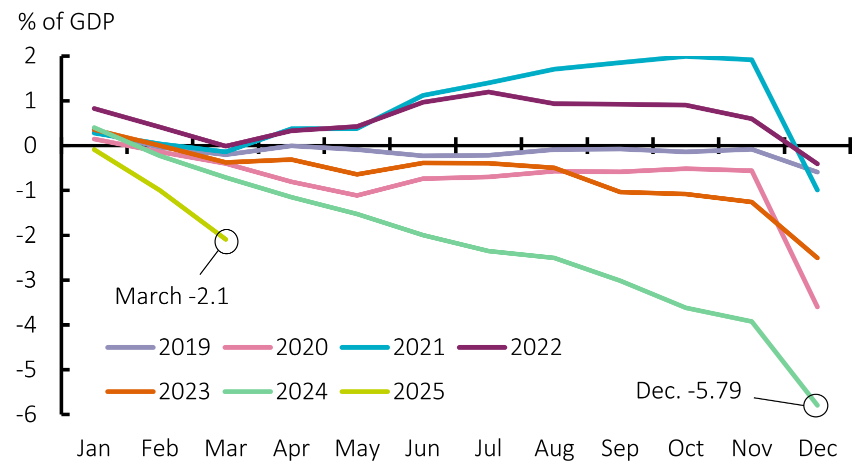
Domestic sources of inflation, %yoy



Source: Macrobond and AXA IM Research, May 2025

Poland: Ongoing fiscal deterioration

Poland - Central Government budget balance, cumul. ytd



Source: Macrobond and AXA IM Research, May 2025

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Oil: A differentiated impact

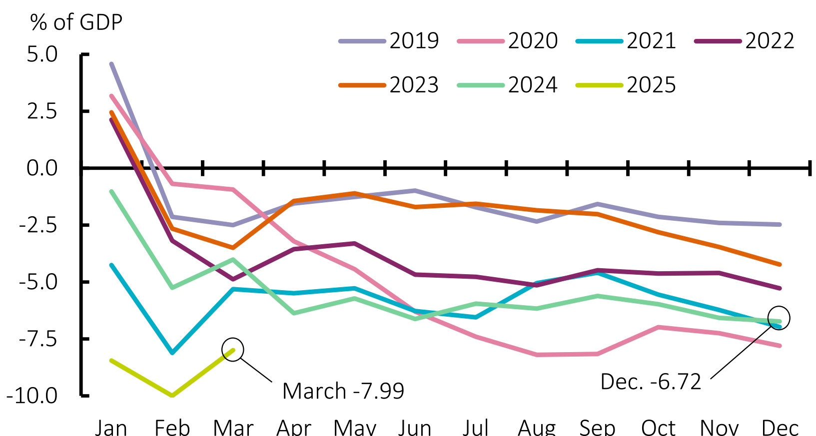
Latin America

The impact from lower oil prices

- The balance-of-payment strength of oil importers such as Chile or Peru will be reinforced. For Mexico, a net oil exporter, the risks concentrate on the fiscal side.
- In Colombia, lower oil prices could widen the budget deficit by close to 0.3 ppt of GDP this year. With the cumulative deficit tracking 8% of GDP annualised in Q1 2025, the focus firmly remains on corrective fiscal measures. But restoring the credibility of fiscal policy may have to wait for the presidential election in May 2026. In comparison, with the current account deficit contained at 2.3% of GDP, the negative impact of oil prices should not jeopardise external stability.
- In Brazil, lower oil prices could prevent further normalisation of Brazil's country risk premium. The year-to-date decline in oil prices will result in a 0.3 ppt of GDP hit to its current account balance and a similar negative impact for its budget balance. The current account deficit has widened to 3.2% of GDP in the past 12 months, the widest since 2019. The impact from lower oil prices on the budget would require policy action, with the public sector deficit close to 8% of GDP in the year to March 2025.

Colombia: Major fiscal slippage

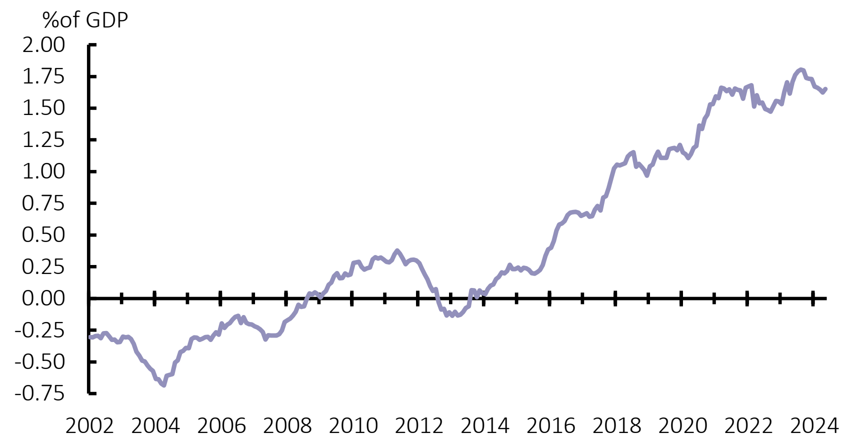
Colombia - Central Government budget balance, cumul. ytd



Source: Macrobond and AXA IM Research, May 2025

Brazil has become a significant oil exporter

Brazil oil trade balance



Source: Macrobond and AXA IM Research, May 2025

Forecasts & Calendar

Macro forecast summary

Real GDP growth (%)	2024	2025*		2026*	
	AXA IM	AXA IM	*Consensus*	AXA IM	*Consensus*
World	3.3	2.6		2.4	
Advanced economies	1.6	1.1		0.6	
US	2.8	1.2	1.4	0.5	1.7
Euro area	0.9	0.7	0.9	0.5	1.2
Germany	-0.2	-0.2	0.1	0.2	1.3
France	1.1	0.4	0.6	0.6	1.0
Italy	0.5	0.3	0.5	0.2	0.8
Spain	3.2	2.4	2.5	2.0	1.9
Japan	0.1	0.8	1.0	0.9	0.7
UK	0.9	0.9	0.7	1.1	1.1
Switzerland	1.3	0.7	1.1	1.0	1.5
Canada	1.3	1.6	1.0	0.6	0.8
Emerging economies	4.2	3.4		3.4	
China	5.0	4.3	4.5	4.0	4.2
Asia (excluding China)	5.4	4.4		4.6	
India	6.7	6.3	6.3	6.1	6.5
South Korea	2.1	0.4	1.3	2.0	1.9
Indonesia	5.0	4.5	4.9	4.9	5.0
LatAm	2.4	1.8		2.0	
Brazil	3.4	1.9	1.9	1.8	1.7
Mexico	1.5	0.0	0.2	0.8	1.4
EM Europe	3.3	2.1		2.0	
Russia	4.1	1.5	1.7	0.9	1.2
Poland	2.9	2.8	3.3	2.9	3.2
Turkey	3.2	3.0	2.9	3.4	3.4
Other EMs	2.8	3.2		3.7	

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 21 May 2025
**Forecast*

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Expectations on inflation and central banks

Forecasts

Inflation Forecasts

CPI Inflation (%)	2024	2025*		2026*	
	AXA IM	AXA IM	*Consensus*	AXA IM	*Consensus*
Advanced economies	2.6	2.7		2.4	
US	2.9	3.2	3.2	3.2	2.3
Euro area	2.4	2.0	2.0	1.7	2.0
China	0.2	0.4	1.3	0.6	1.6
Japan	2.7	2.9	2.0	1.5	1.7
UK	2.5	3.2	2.3	2.0	2.0
Switzerland	1.1	0.2	1.0	0.5	1.0
Canada	2.4	2.4	2.1	2.6	2.1

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 21 May 2025

**Forecast*

Central banks' policy: meeting dates and expected changes

Central bank policy
Meeting dates and expected changes (Rates in bp / QE in bn)

		Current	Q2-25	Q3-25	Q4-25	Q1-26	Q2-26	Q3-26	Q4-26
United States - Fed	Dates	4.50	17-18 Jun	29-30 Jul 16-17 Sep	28-29 Oct 9-10 Dec	27-28 Jan 17-18 Mar	28-29 Apr 16-17 Jun	28-29 Jul 15-16 Sep	27-28 Oct 8-9 Dec
	Rates		unch (4.50)	-0.25 (4.25)	-0.50 (3.75)	-0.50 (3.25)	-0.25 (3.00)	unch (3.00)	unch (3.00)
Euro area - ECB	Dates	2.25	05-Jun	24 Jul 11 Sep	30 Oct 18 Dec	5 Feb 19 Mar	30 Apr 11 Jun	23 Jul 10 Sep	29 Oct 17 Dec
	Rates		-0.25 (2.00)	-0.50 (1.50)	-0.50 (1.00)	unch (1.00)	unch (1.00)	+0.25 (1.25)	+0.25 (1.50)
Japan - BoJ	Dates	0.50	16-17 Jun	30-31 Jul 18-19 Sep	29-30 Oct 18-19 Dec	Jan Mar	May June	Jul Sep	Oct Dec
	Rates		unch (0.50)	+0.25 (0.75)	unch (0.75)	unch (0.75)	unch (0.75)	unch (0.75)	unch (0.75)
UK - BoE	Dates	4.25	19-Jun	7 Aug 18 Sep	6 Nov 18 Dec	5 Feb 19 Mar	30 Apr 18 Jun	30 Jul 17 Sep	5 Nov 17 Dec
	Rates		unch (4.25)	-0.25 (4.00)	-0.25 (3.75)	-0.25 (3.50)	unch (3.50)	unch (3.50)	unch (3.50)
Canada - BoC	Dates	2.75	04-Jun	30 Jul 17 Sep	29 Oct 10 Dec	Jan Mar	May June	Jul Sep	Oct Dec
	Rates		unch (2.75)	-0.25 (2.50)	unch (2.50)	-0.25 (2.25)	unch (2.25)	unch (2.25)	unch (2.25)

Source: AXA IM Macro Research - As of 21 May 2025

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Calendar of key events

2025	Dates	Events
June	4-Jun	BoC meeting
	5-Jun	ECB meeting
	15-17 Jun	G7 Leaders' Summit
	16-17 Jun	BoJ meeting
	17-18 Jun	FOMC meeting
	19-Jun	BoE meeting
	24-25 Jun	North Atlantic Treaty Organization (NATO) Summit
July	6-7 Jul	BRICS Summit
	27-Jul	Japanese House of Councillors election
	24-Jul	ECB meeting
	29-30 Jul	FOMC meeting
	30-Jul	BoC meeting
	30-31 Jul	BoJ meeting
August	7-Aug	BoE meeting
September	9-Sep	UN General assembly
October	17-19 Oct	World Bank annual meeting
	20-Oct	Canada federal elections
	30-Oct	End of FY2025
November	5-Nov	US Mid term elections
	10-21 Nov	Brazil host COP30
	22-23 Nov	G20 Summit
December	31-Dec	Temporary provisions of Tax Cuts &Jobs Act expire
2026	**Dates**	**Events**
February	5-Feb	New START Nuclear Treaty Expires
March	Mar	France Municipal elections
May	15-May	Powell term as Fed Chair expires
July	1-Jul	First review of USMCA
November	3-Nov	US midterm elections

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