

TAC
ECONOMICS

2025 Q1
DEVELOPED ECONOMIES
OUTLOOK

Key Messages



Key messages - 2025 Q1

Divergent Economic Growth

The U.S. is expected to outperform with growth around 2.5%, driven by fiscal stimulus and robust consumer spending. In contrast, the Eurozone and UK will see slower recoveries due to weak investment, labor market constraints, and trade uncertainties.

Moderating Inflation, but Core Pressures Persist

Headline inflation will ease globally due to falling energy prices. However, core inflation remains elevated in major economies, driven by structural issues in labor markets, with risks tilted to the upside in line with tariffs threats

Monetary Policies in Transition

Central banks are cautiously shifting toward easing policies. The Fed is likely to pause rate cuts in H12025, while the ECB and BoE are expected to pursue gradual rate reductions. The BoJ will continue its normalization.

Geopolitical and Trade Risks

Geopolitical tensions, particularly between the U.S. and China, and protectionist trade policies under a new U.S. administration will create uncertainty, disrupt global trade flows, and impact growth trajectories, especially in export-reliant regions like the Eurozone.

Structural Challenges and Fiscal Stimulus

Fiscal policies, such as tax cuts in the U.S. and increased public spending in the UK and Japan, will provide temporary growth support. However, long-term challenges, including demographic shifts, labor market mismatches, and productivity concerns, remain critical obstacles to sustainable growth.

United States

yearly average GDP Growth: 2.6%, yearly average inflation: 2.6%

- Growth Drivers: Strong consumer spending, supply-side reforms, and fiscal expansion.
- Inflation: Headline inflation is expected to moderate, but core pressures persist due to labor market constraints and fiscal policies.
- Policy Outlook: The Federal Reserve is expected to maintain cautious rate cuts, keeping rates steady at around 4.0%.

Eurozone

yearly average GDP Growth: 0.8%, yearly average inflation: 2.3%

- Challenges: Weak consumer confidence, subdued investment, and external pressures from U.S. trade policies.
- Inflation Outlook: Headline inflation is expected to stabilize near 2%, while core inflation remains elevated due to wage growth and structural inefficiencies.
- Monetary Policy: The ECB is likely to pursue an easing approach, with the deposit rate projected to reach 1.75%.

United Kingdom

yearly average GDP Growth: 1.1%, yearly average inflation: 2.6%

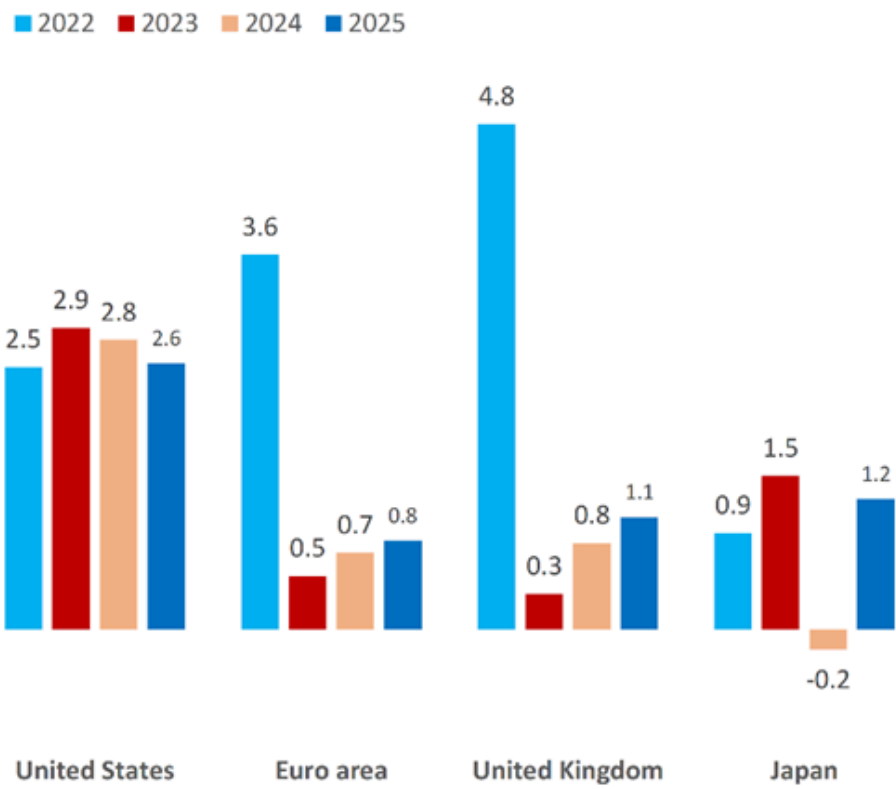
- Economic Outlook: Fiscal stimulus measures will support growth, but declining employment and global trade uncertainties pose risks.
- Inflation: Persistent inflation, driven by robust wage growth and rising import costs due to a weaker pound.
- Monetary Policy: The Bank of England is expected to start gradual rate cuts, bringing the policy rate to 3.25% by year-end.

Japan

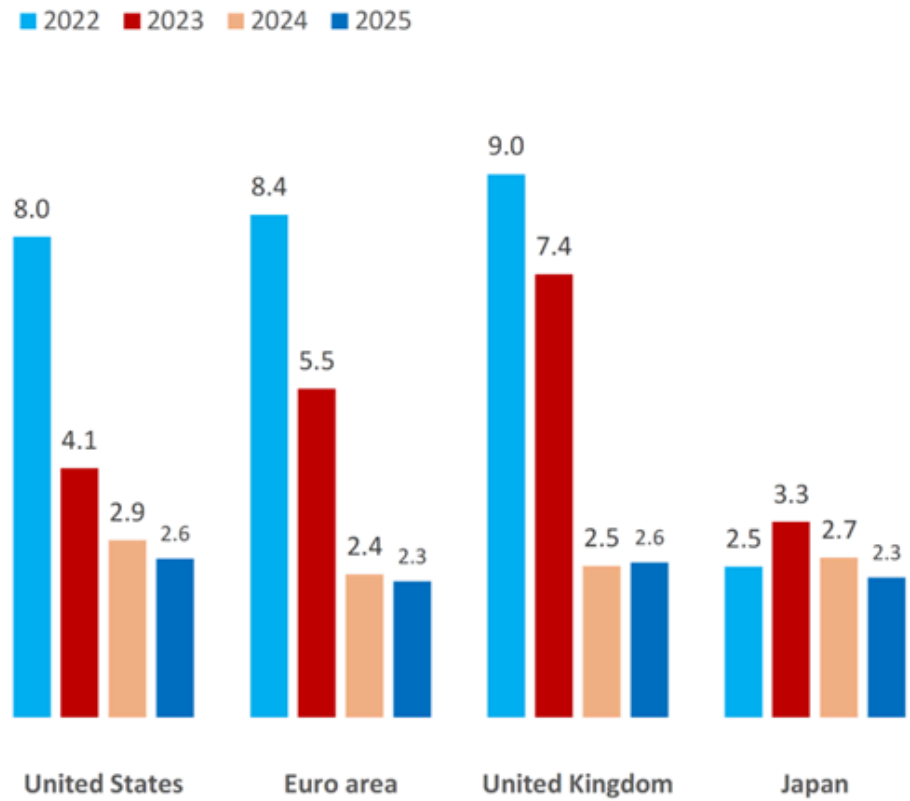
yearly average GDP Growth: 1.2%, yearly average Inflation: 2.0%

- Growth Drivers: Fiscal stimulus focused on public investment and wage hikes to boost consumption.
- Inflation Outlook: Inflation is expected to stabilize at 2%, with wage growth offsetting some cost pressures.
- Monetary Policy: The Bank of Japan will continue its gradual normalization, with modest rate hikes to manage inflation and currency depreciation.

Real GDP growth forecasts (Avg y/y, in %)



Real inflation forecasts (Avg y/y, in %)



Source, TAC ECONOMICS Datalab



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