Top of Mind Issue 137

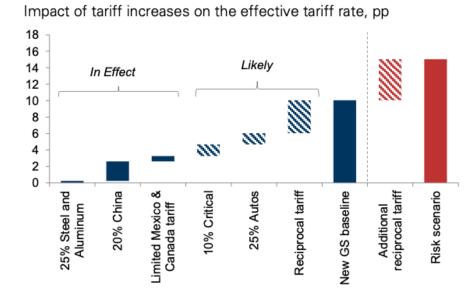
## Macro news and views

We provide a brief snapshot on the most important economies for the global markets

#### Latest GS proprietary datapoints/major changes in views • We now assume a 10pp increase in the US effective tariff

- rate (vs. 4-5pp prior) as reciprocal tariffs and further increases in product-specific tariffs now seem likely. We raised our Dec 2025 core PCE inflation forecast to ~3%
- (from 2.5%, yoy), lowered our 2025 GDP growth forecast to 1.7% (from 2.4%, Q4/Q4)—our first below-consensus call in 2.5 years—and slightly raised our end-2025 unemployment rate forecast to 4.2% (from 4.1%) and our 12m recession odds to 20% (from 15%) to reflect our new tariff base case.
- Datapoints/trends we're focused on Fed cuts; we still expect two in 2025 and one more in 2026.

#### A much more adverse tariff base case



Source: Goldman Sachs GIR.

#### Europe

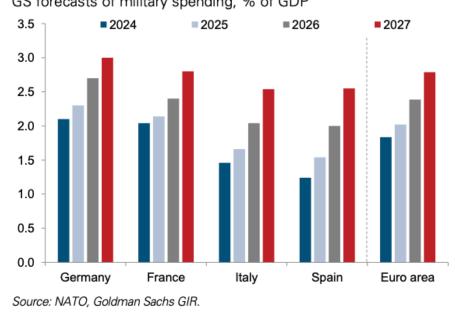
#### Latest GS proprietary datapoints/major changes in views • We recently raised our 2025/2026/2027 Euro area real GDP forecasts to 0.8%/1.3%/1.6% (from 0.7%/1.1%/1.3%) and, in turn, our ECB terminal rate forecast to 2% in Jun (from

1.75% in Jul) to reflect the higher European defense

#### spending we expect over the next few years. Datapoints/trends we're focused on

- Germany's substantial fiscal package, which we expect to
- pass, though it is far from a done deal given political hurdles. Potential Russia-Ukraine ceasefire, which we think would result in a modest Euro area GDP boost (+0.2%), unless it entails a comprehensive resolution to the conflict (+0.5%).

A European defense renaissance likely ahead GS forecasts of military spending, % of GDP



Goldman Sachs Global Investment Research

#### Latest GS proprietary datapoints/major changes in views No major changes in views.

### Datapoints/trends we're focused on

- BoJ policy; we expect the BoJ to continue hiking rates at a pace of two hikes per year, with the next hike in July.
- Shunto spring wage negotiations; we expect a shunto base pay rise of least in the low 3% range for this year, with risks skewed to the upside given strong wage requests.
- Japanese consumer sentiment, which softened for a third consecutive month in February.
- Japan's industrial production, which fell for a third consecutive month in January.

#### A strong spring wage negotiation season

Shunto wage hike requests and actual base pay rise, % change yoy --- Average base pay requests by trade unions —Actual base pay rise 2025 base pay requests 2024 agreed base pay rise 2000 2005 2010 2015 2020

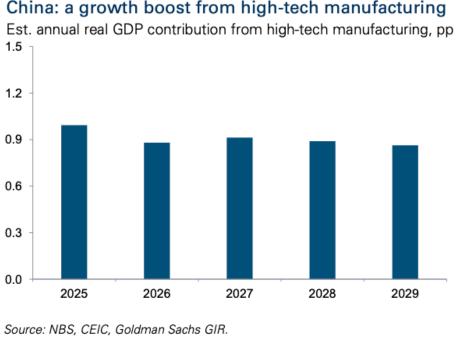
#### **Emerging Markets (EM)**

## Latest GS proprietary datapoints/major changes in views

Source: JTUC-RENGO, Keidanren, Goldman Sachs GIR.

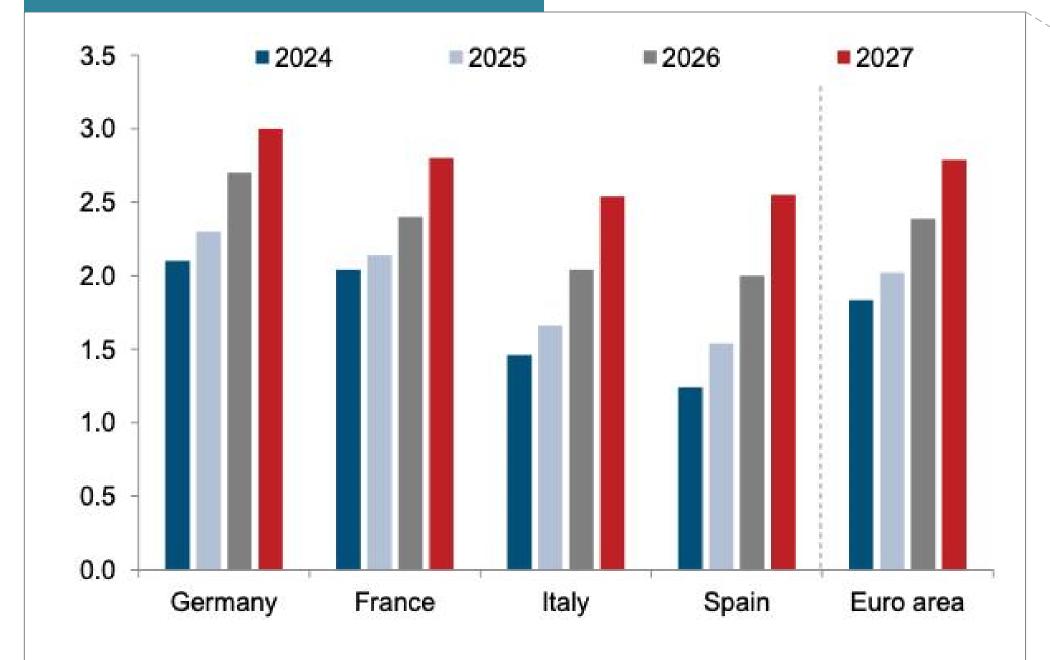
- No major changes in views. Datapoints/trends we're focused on China growth; we expect high-tech manufacturing to continue
- playing an important role in supporting China's growth ahead. • China CPI inflation, which fell sharply in February, though this mainly owed to distortions related to the earlier-than-usual Lunar New Year holiday.
- India's cyclical growth slowdown, the worst of which we
- think is now over, but we expect an only-gradual recovery. CEEMEA growth, which would benefit from a potential

resolution to the Russia-Ukraine conflict. China: a growth boost from high-tech manufacturing



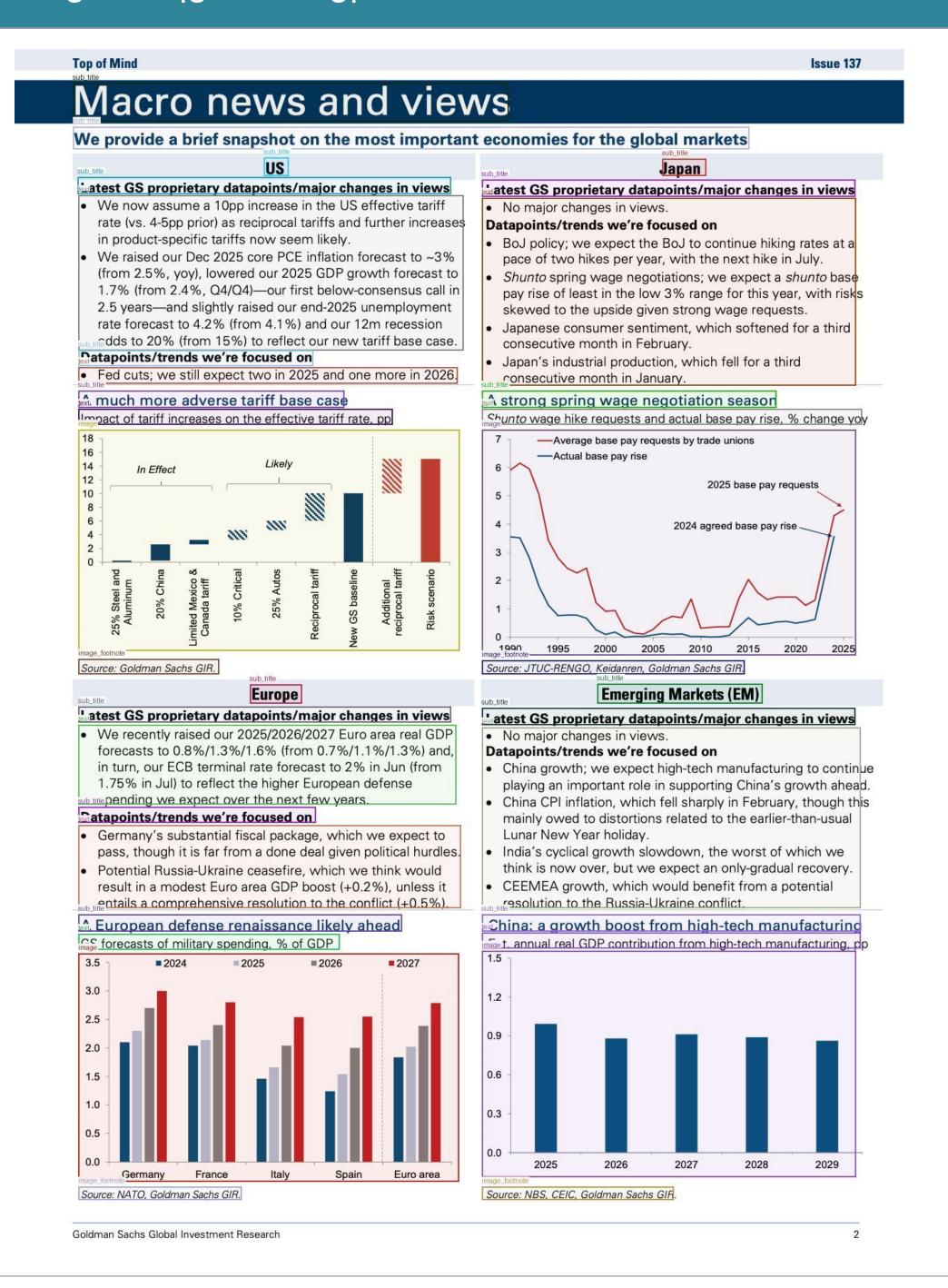
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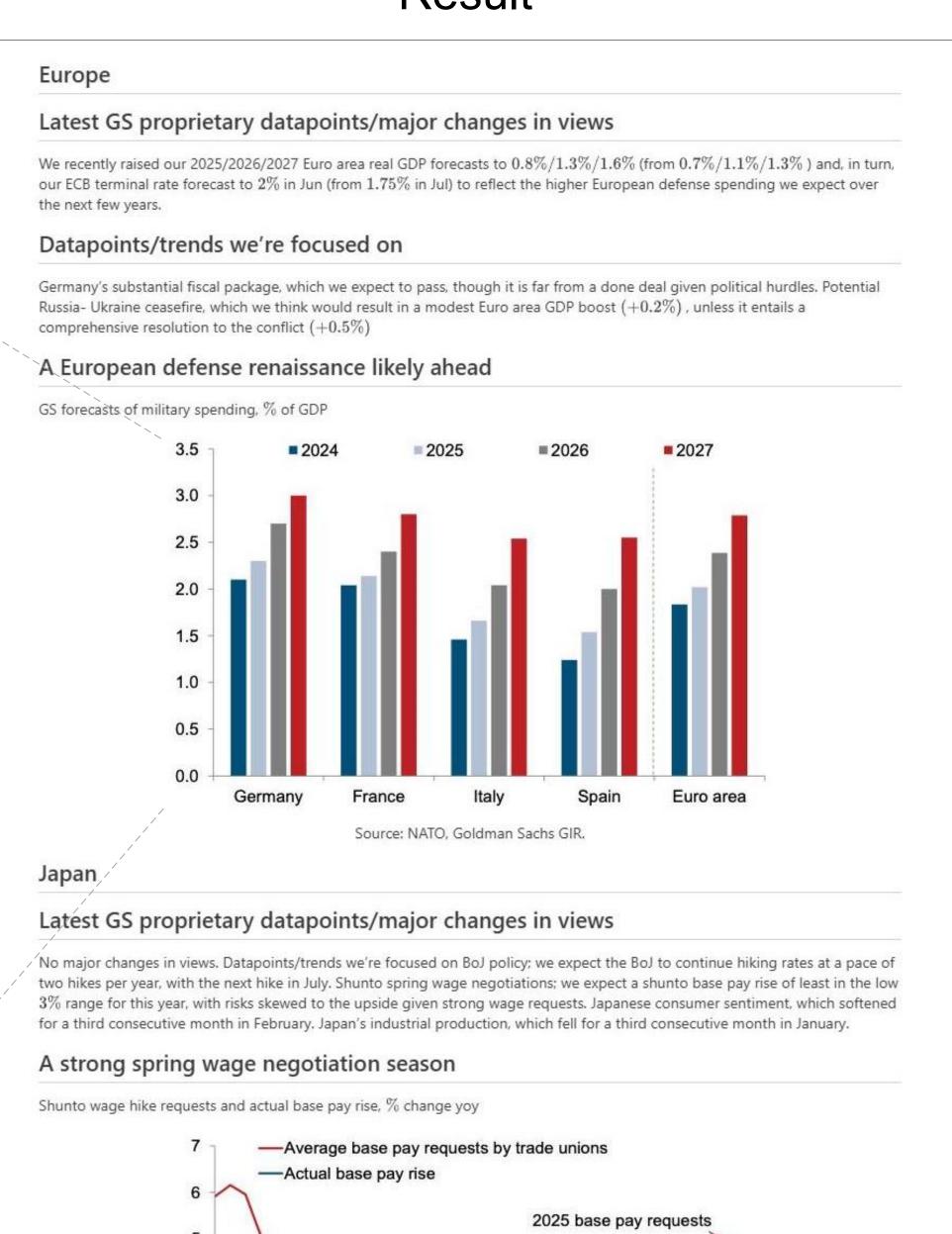


	2024	2025	2026	2027
Germany	2.1	2.3	2.7	3.0
France	2.05	2.15	2.4	2.8
Italy	1.45	1.65	2.05	2.55
Spain	1.25	1.55	2.0	2.55
Euro area	1.85	2.05	2.4	2.8

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# Result



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2024 agreed base pay rise