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What to watch: Eurozone’s robust Q1 growth, US tariff-induced recession, inventories and storage to the rescue and major insolvencies further on rise

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In summary

Eurozone: Robust growth before tariffs bite. The Eurozone economy started 2025 with strong growth momentum (+0.4% q/q), surpassing expectations due to robust performances in Spain, Ireland and Italy while core Europe lagged behind. Germany showed a modest recovery (+0.2% q/q) driven by consumer spending and investment, in contrast to France's sluggish growth affected by reduced consumer and government spending. Overall Eurozone growth was supported by rising exports, particularly to the US ahead of anticipated tariff hikes. As challenges still loom amid trade restrictions and the US recession, we continue to expect subdued Eurozone growth of +0.8% in 2025. With inflation cooling further, we maintain our view of the ECB cutting its policy rate below neutral to 1.5% by September.

US: Tariff-damage increasingly visible, but the Fed will wait out the storm. Q1 GDP dropped slightly (-0.3% q/q annualized), mainly due to a pre-tariff surge in imports (41% q/q annualized). Underlying domestic demand remained solid, with the consumer (+1.8%) frontloading purchases ahead of the tariffs as well as firms for industrial supplies (business investment +9.4%). But data at US ports indicate that inbound shipments started to fall in April as spending started to weaken. Moreover, US households are as gloomy as during the 2022 inflation spike and businesses are reporting falling capex plans. The US is expected to flirt with a recession over Q3-Q4 2025. With inflationary pressures rising, the Fed will remain on hold next week. We expect the Fed to (cautiously) start the easing cycle in October.

Inventories: It is costly to stockpile your way out of a trade war. We estimate that the average cost of inventory for main consumer industries in the US varies between 2 to 3 months of turnover, offering them a buffer to hedge against short-term swings in demand. While certain sectors are benefiting from strong demand and seizing the moment to build buffer stocks (i.e. defense, transport equipment), others are retrenching because they fear either a profitability squeeze or have already high inventories (e.g. appliances, auto, textiles) or are simply unwilling to stockpile (e.g. pharma, telecom). To mitigate the impact of tariffs, firms are increasingly turning to storage facilities in free-trade zones and bonded warehouses as a way to defer entry taxes rather than stockpiling. The rise of the vacancy rate of storage solutions (8.5%, +330bps y/y) suggests limited interest for reshoring.

More than one large bankruptcy per day since the beginning of the year. 122 companies with turnover of EUR50mn or more filed for insolvency in Q1 2025. This is a record high since 2015. Western Europe continues contribute the most (+10 cases y/y to 74) while the US leads when it comes to the size of insolvent companies, accounting for 8 out of the top 20 insolvencies in Q1 2025. Overall, services and retail were hit the hardest, particularly in Western Europe and North America, followed by construction in Western Europe and Asia. The trade war and structural shifts could push 2025 to set a new record for large insolvencies, raising risks of a domino effect on suppliers and subcontractors.

Eurozone: Robust growth before tariffs bite

Preliminary GDP data shows that the Eurozone economy started 2025 on a strong note, with growth accelerating from +0.2% q/q (+1.2% y/y) in Q4 to +0.4% q/q (+1.2% y/y) in Q1, surpassing both consensus expectations (+0.2% q/q) and our own (+0.1% q/q). However, initial numbers have to be taken with a grain of salt, with the flash estimate based on a limited set of national level contributions that are prone to revisions in subsequent readings. Among the larger economies, Spain is shining again with ongoing robust growth, while core Europe, in particular France, Germany and the Netherlands, continue to fall behind their potential growth rates (Figure 1). Ireland stands out, growing by +3.2% q/q (10.9% y/y) in Q1, surpassing any other nation by far. Despite representing only 4% of the Eurozone economy, its GDP growth contributed roughly 36% of the Eurozone's overall growth in Q1. However, with Ireland's growth notoriously volatile and prone to strong backward revisions (for Q4 the initial estimate for Ireland was -1.3% q/q compared to +3.6% in the final reading) it is worth looking at Eurozone growth excluding Ireland, which looks a bit less rosy over the last three quarters (Figure 2).

Demand-side contributions to economic growth are also not yet available in the preliminary reading for the Eurozone aggregate, but judging from other data series and countries that have already published them, it looks like growth was supported by investment and consumption, and to a significant extent by net exports. Various export nations have front-run US tariffs and spurred their exports to the US in advance. Extra-EU trade data show that exports to the US, which is the biggest export destination for the EU, jumped +22% y/y by February 2025 – the latest data point available. Despite this upside surprise in growth, we continue to be cautious about our outlook and project +0.8% annual growth for 2025 as external demand will suffer strongly with higher tariffs against the US now in place and a general slowdown of the global economy.

After two years of recession, Germany's economy grew by +0.2% q/q in Q1 2025 (consensus: +0.2%, Allianz Research estimate: +0.0%), driven by stronger private consumption and investment. Household spending rose on the back of solid real wage growth and improved consumer sentiment, while investment was buoyed by expectations of pro-growth reforms under a new government (Figure 1). However, manufacturing remains in recession as reflected in PMIs and the IFO business climate survey. In contrast, the services sector, though resilient, showed early signs of weakness in April. The outlook for 2025 is fragile. Despite plans to unleash billions to boost growth through defense and infrastructure spending, rising tariffs could offset much of the gains. Fiscal stimulus is expected to add only modestly to growth (+0.1% in 2025). Growth is projected to rebound to +1.6% in 2026, provided structural reforms materialize. The coalition's program includes incentives for German businesses – like a 30% super depreciation until 2027, lower corporate taxes from 2028, abolishing the Supply Chain Act and easing electricity costs. Yet, the agreement is a mixed bag and lacks the bold reforms many had hoped for.

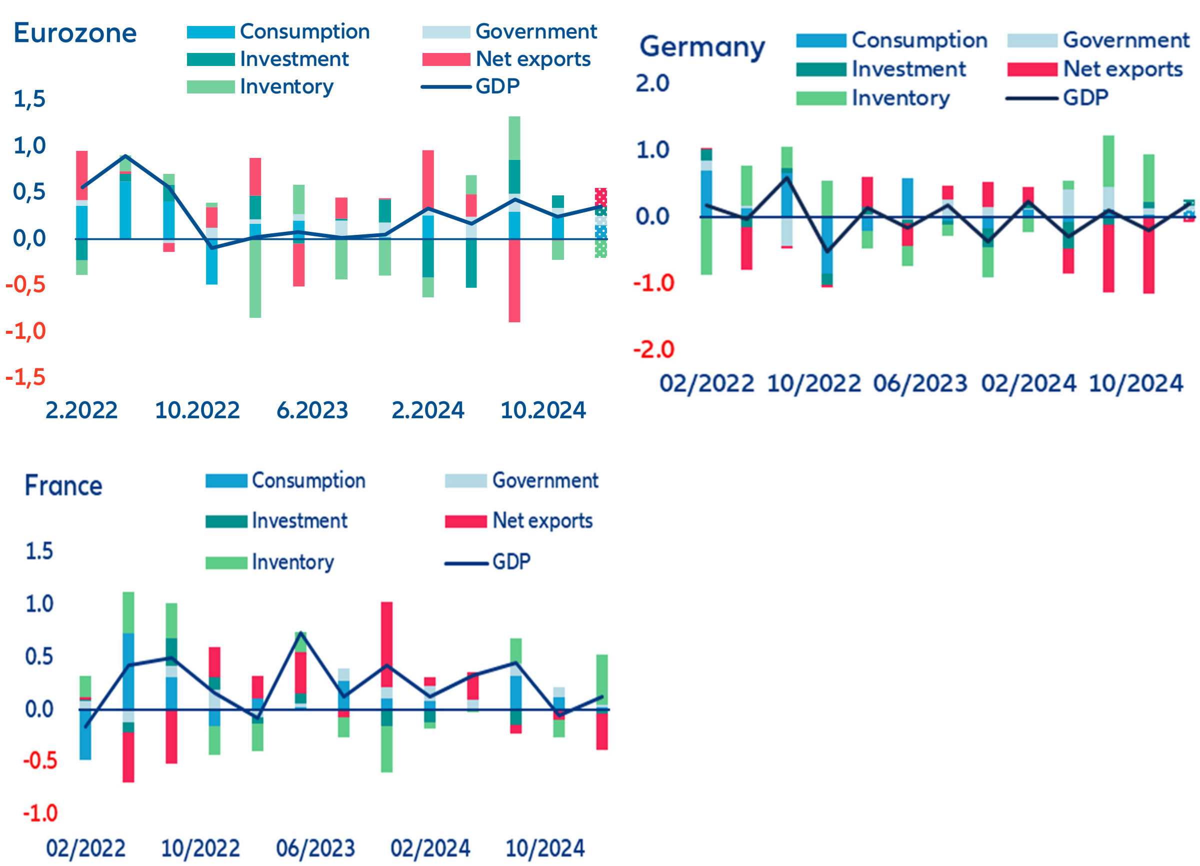
France's GDP increased by a muted +0.1% q/q in Q1 2025 (consensus: +0.1%, Allianz Research estimate: +0.1%), weighed down by weak goods consumption, construction output and exports. Household consumption growth stalled at +0.0% (after +0.2%), hit by economic policy measures (notably the reduction of the subsidy for car purchases) and low confidence. Reduced support from government policy also showed up in the slowdown of government consumption growth (+0.1% after +0.4/0.5% in the previous quarters). On the investment side, construction recorded another steep contraction (-0.8%), while investment in manufacturing products dropped back (-0.5%). Exports of goods declined (-1.2%), suggesting that French exporters did not front-load shipments massively to the US in anticipation of tariff hikes (this is confirmed by monthly trade data showing no increase to the US, though March data are not available yet). Interestingly though, companies in the chemical and pharmaceutical industries have increased inventories sharply, which could reflect both weakness in demand (domestic and/or external) and precautionary motives. In all, the services sector continued to be the main support of French GDP growth this quarter, with market services activity posting another solid (+0.9%) reading while household services consumption re-accelerated (+0.5%). For Q2 2025, business surveys are sending mixed signals but, overall, point to continuing weak momentum. We still expect Q2 2025 GDP to grow by +0.1/0.2%, in line with our April economic outlook.

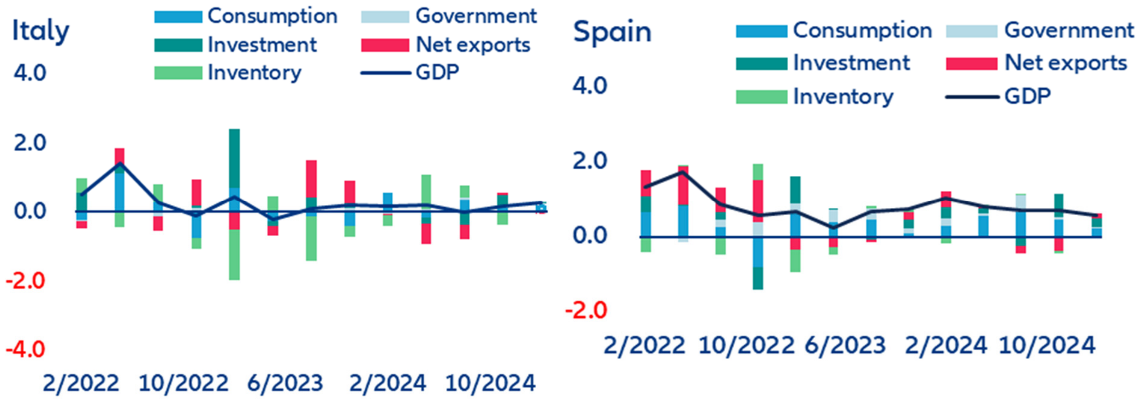
Italy's economy surprised to the upside, expanding by +0.3% q/q in the first quarter of the year (consensus: +0.2%, Allianz Research estimate: +0.1%). According to the preliminary estimate, domestic demand contributed positively to growth, while net trade weighed on activity. Additionally, Q4 2024 growth was revised up by 0.1pp to

+0.2% q/q, offering some support to this year's growth outlook ahead of the implementation of higher tariffs, which are dampening confidence, trade and investment decisions. Indeed, at the start of Q2, confidence deteriorated more than expected; consumer and business confidence fell in April to their lowest levels in 18 months and since March 2021, respectively. The drop was broad-based across subcomponents and sectors; however, the fall was more marked for services than for industry where production expectations have eased. With employment intentions also softening, we anticipate the prolonged period of falling unemployment rate to have reverted in March. We expect GDP to grow slightly – around +0.1% q/q – in the next couple of quarters, before gaining traction amid improving global trade prospects and restoring sentiment.

In Spain, economic activity eased at the start of 2025, though the country continued to post solid quarterly growth with GDP expanding by +0.6% q/q in Q1 (consensus: +0.7%, Allianz Research estimate: +0.3%) – still the slowest pace in seven quarters. Private consumption rose by +0.4%, moderating from the stronger quarterly dynamics seen in 2024. Investment increased by +1.1% q/q, supported by robust construction activity. Anticipating newly imposed tariffs, exports and imports of goods and services rose by +1.0% and +0.7% q/q, respectively. Despite a clouded global outlook, Spain's prospects for 2025 remain relatively positive. The growth carryover stands at a solid 1.7%, and the country's limited exposure to the US compared to peers provides some insulation. However, the recent large-scale blackout could weigh marginally on Q2 GDP (costing around 0.05-0.1% of GDP), which was already expected to decelerate due to rising global trade tensions.

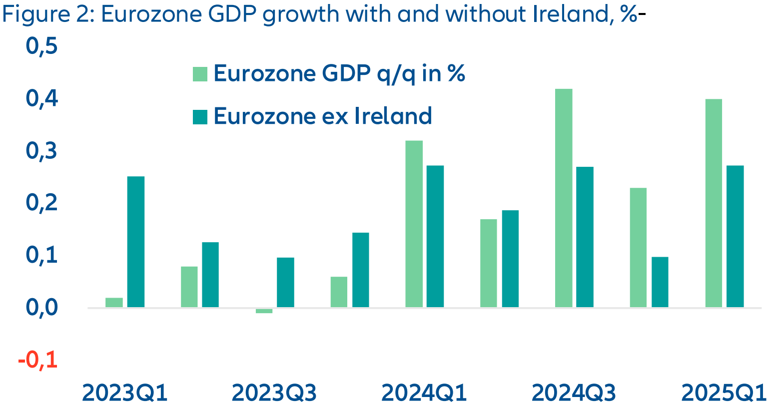
Figure 1: GDP contributions (EZ, DE, IT contributions for Q1 are Allianz Research estimates) %-





Sources: LSEG Datastream, Allianz Research-

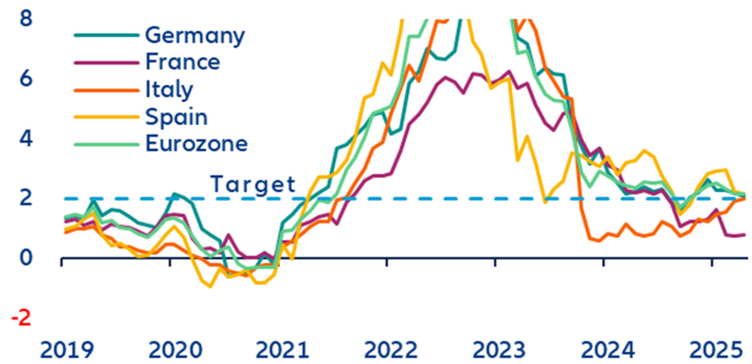
Figure 2: Eurozone GDP growth with and without Ireland, %-



Sources: LSEG Datastream, Allianz Research

Meanwhile, inflation in the Eurozone has remained stable in April compared to March while headwinds from the trade war will likely push it further down and below the ECB target of 2% over the course of 2025. In **Germany** inflation edged down by -0.1pp to +2.1% in April, mainly due to falling prices for goods (+0.5% in April after +1.0% in March), energy (-5.4% after -2.8) and food prices (+2.8% after +3.0). In contrast, services inflation rose again to +3.9%, up from +3.5% in March. In **France**, inflation steadied at +0.8% y/y in April. Food inflation accelerated sharply (+1.2% after +0.6%) but this was offset by a deepening of energy price deflation (-7.9% after -6.6%). Goods and services inflation steadied at -0.2% and +2.3%, respectively, confirming the absence of core inflationary pressures in France. In **Italy,** price growth edged up slightly to 2.0% y/y in April from 1.9% in March (+0.2% m/m), driven by higher regulated energy prices and transport prices. The latter mainly drove the services' inflation to 3.0% from 2.5% y/y in March. Core inflation increased from 1.7% y/y to 2.1%. Headline inflation in **Spain** declined to 2.2% y/y in April from 2.3% in March (+0.6% m/m), driven largely by falling gas and electricity prices. Meanwhile, core pressures reaccelerated and rose to 2.4% y/y from 2.0% in March. In both Southern European countries, the timing of Easter holidays could have played a role in temporarily reinforcing servicing inflation. **Eurozone** headline inflation holds steady at 2.2% in April, unchanged from March. However, underlying components reveal upward pressures, particularly from the services sector, where inflation rose to 3.9%, up from 3.5% the previous month driven mainly by Easter timing effects. Food inflation also edged slightly higher to 3.0%, compared to 2.9% in March. In contrast, inflation for goods remained stable at 0.6%, while energy prices continued to decline more sharply, falling by -3.5% compared to a -1.0% drop in March. Headwinds from the US trade war will likely push inflation below the ECB's 2% target over the course of 2025 as imported deflation amid overcapacities in China, lower energy prices and a stronger euro should lower price pressures further.

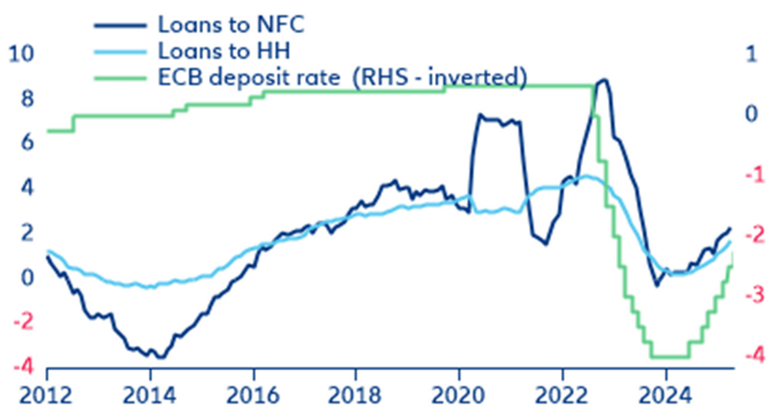
Figure 3: Inflation across Eurozone economies, % y/y



Sources: LSEG Datastream, Allianz Research
Notes: Scale is cut off for better readability.

Credit data released this week confirmed the trends anticipated by the ECB's recent Bank Lending Survey, with neither set of data reflecting concerns over the higher tariffs announced later. Credit growth to the private sector in the Eurozone increased moderately in March, with loan growth to households and corporates rising by 0.2pp from February, reaching 1.7% and 2.3% y/y, respectively (Figure 4). The survey reported that stronger demand for housing loans was primarily supported by declining interest rates, improving market prospects and consumer confidence. In contrast, some banks already cited rising economic and geopolitical uncertainty as a factor weighing on corporate loan demand, particularly for longer-term investment planning. As economic sentiment continues to soften following the tariff announcements in early April – reflected in the European Commission's Economic Sentiment Indicator, which declined to 93.6 in April from 95.0 in March – we anticipate a loss of momentum in credit recovery, even as the ECB moves to cut rates.

Figure 4: Eurozone loan growth, % y/y



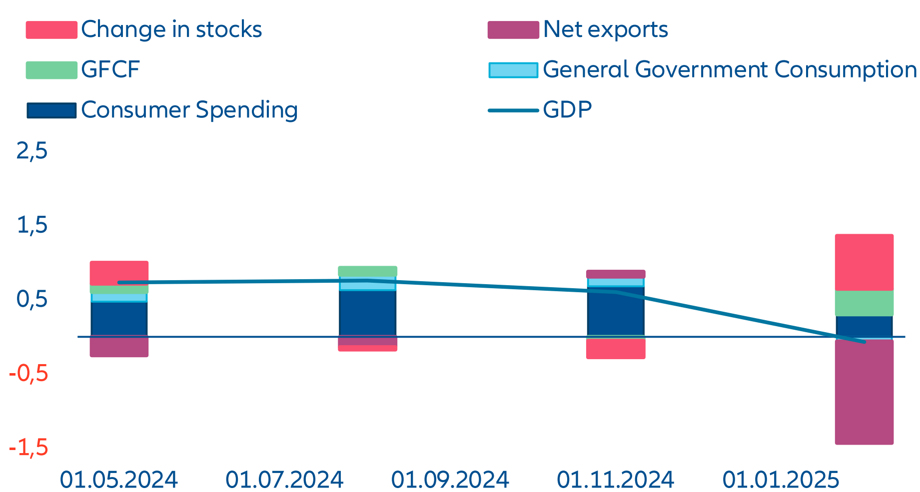
Sources: LSEG Datastream, Allianz Research

Against this backdrop, we expect further easing from the ECB into accommodative territory. With headwinds to growth and downward pressure on inflation largely stemming from global trade frictions and the expected slowdown of the US economy, we continue to expect the ECB to lower its target rate in a meeting-by-meeting approach to 1.5% by September 2025. This would be below the self-proclaimed neutral level of 1.75-2.25% and therefore be slightly accommodative to the economy.

US: Tariff damage increasingly visible, but the Fed should wait out the storm

In Q1, US GDP growth declined slightly by -0.3% quarterly annualized, dragged down by net trade as imports surged in anticipation of tariffs (consensus: +0.4%, Allianz Research estimate: -0.1%). Imports increased by a massive +9% (41.3% annualized), while exports grew by a muted +0.4%. Imports comprised mostly of industrial supplies in January (which include steel and aluminum products), indicating that US businesses rushed to beat the tariff hikes though consumer goods imports also increased sharply. After flatlining in February, imports surged anew in March, mostly for consumer goods, as US wholesalers and consumers increased their purchases ahead of "Liberation Day". The surge in imports was partly offset by a big boost to inventories. Growth in final sales to domestic purchasers, which is a much better gauge of underlying domestic economic strength than GDP, increased by a strong +0.6% (+2.3% annualized). However, consumption growth softened substantially, at +0.4% (+1.8% annualized), mainly due to unseasonably severe winter weather at the beginning of the year, as well as reduced non-profit spending after the elections. The sharp rise in policy uncertainty does not seem to have dented business investment yet: it grew by a red hot +2.3%, although this partly reflects a rebound in equipment investment following the Boeing strikes. Residential investment growth was still soft, growing by a muted +0.3%, amid prolonged high mortgage rent weighing on mortgage credit. Finally, government consumption growth dropped by -0.4%, a rare occurrence excluding post-crisis paybacks from strong growth. The DOGE crackdown on federal spending likely explains most of the fall.

Figure 5: US GDP growth and contributions (% quarter-on-quarter, non-annualized)



Sources: LSGE Workspace, Allianz Research
Note: GFCF (gross fixed capital formation) is overall investment (both non-residential and residential)

Hard data from March and April indicate that the US economy remained resilient at the end of Q1 and beginning of Q2, but that is thanks to the frontloading of purchases, which is starting to run its course. In March, manufacturing production (+0.3%) and household consumption (+0.7%) were solid, setting the stage for the continuing resilience of domestic spending into Q2, while the labor market did not show signs of weakening, with a still-low (and declining) layoff rate. Meanwhile, the hard data available so far for April – for instance, the weekly initial jobless claims or the Weekly Economic Index (WEI) of Lewis-Mertens-Stock[1] – point to ongoing resilience. However, some of the resilience in activity in March arguably reflected the frontloading of consumer purchases prior to the reciprocal tariffs announced on "Liberation Day" (see above). The looming end of the *de minimis* tariff-

[1] The WEI is a composite of 10 weekly economic indicators: Redbook same-store sales, Rasmussen Consumer Index, initial jobless claims, continued claims for unemployment insurance, adjusted income/employment tax withholdings (from Booth Financial Consulting), railroad traffic originated (from the Association of American Railroads), the American Staffing Association Staffing Index, steel production, wholesale sales of gasoline, diesel, and jet fuel and weekly average US electricity load.

exempted goods imports on 2 May might still have supported consumer spending in April. However, the latest shipping data already point to a big drop back in imports in early April, which indicates that frontloading is starting to run its course. Arguably, Chinese goods are now facing such prohibitive tariffs that US wholesalers are cutting down sharply on their purchases and imports will probably continue to fall back in May. Our composite recession indicator[2], based on 12 economic and financial variables[3], was flashing red for the US in April, at -1.2 (-1.5 is the threshold for a likely recession), but we expect the indicator to drop back below -1 as hard data come out, reducing recession risks for April.

Figure 6: Composite recession indicator per country, based on preliminary data for March-April

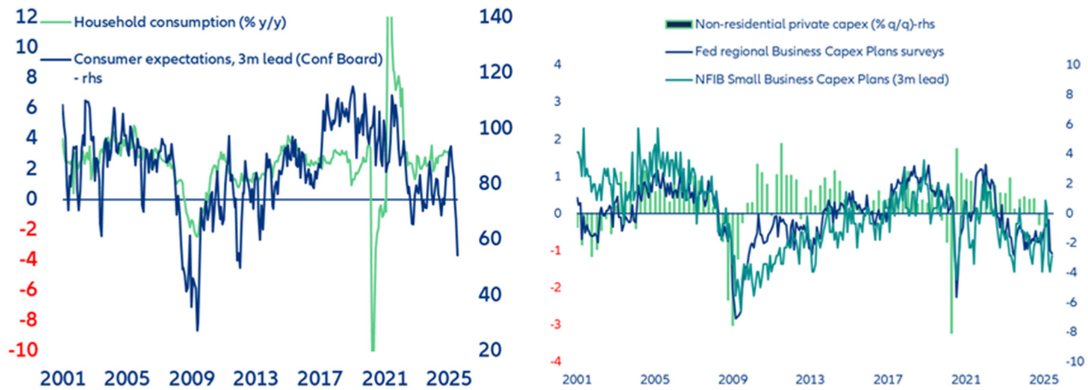
		15/03/2024	15/04/2024	15/05/2024	15/06/2024	15/07/2024	15/08/2024	15/09/2024	15/10/2024	15/11/2024	15/12/2024	15/01/2025	15/02/2025	15/03/2025	15/04/2025
Composite indicator	US	0.2	0.2	-0.3	-0.2	-0.3	-0.1	-0.4	0.0	-0.1	-0.1	0.1	-0.1	-0.3	-1.2
	France	0.4	0.4	0.0	0.1	-0.1	-0.2	-0.4	-0.4	-0.4	-0.1	-0.1	0.4	0.5	0.3
	Spain	0.6	0.7	0.6	0.3	0.4	0.3	0.4	0.5	0.7	0.7	0.7	0.5	0.3	0.4
	UK	0.4	0.4	0.4	0.0	-0.1	0.1	0.1	0.0	0.0	-0.1	-0.2	-0.3	-0.3	-0.6
	Italy	0.1	0.3	0.1	0.5	0.6	0.6	0.2	0.5	0.1	-0.1	0.4	0.6	1.0	0.6
	Germany	0.2	0.3	0.0	-0.1	-0.3	-0.2	-0.1	0.0	0.3	0.4	0.4	0.2	0.3	0.1
	Japan	0.8	0.7	0.6	0.8	0.5	0.2	0.2	0.0	-0.1	0.2	0.4	0.4	0.5	0.1

Sources: LSGE Workspace, Capital Economics, Allianz Research
Note: A recession is likely when the threshold crosses -1.5. However, the indicators in non-US countries for March-April are based only on a subset of available data and therefore might change as more data comes out. The same is true for the US in April (March is definitive). Data are smoothed to reduce volatility and noise and to extract the underlying signals.

Forward-looking sentiment surveys suggest a sharp deterioration of momentum heading into Q3. Consumer and business sentiment surveys point to a strong weakening of spending in the next couple of months. US households expect a weakening of the economy (Figure 7, left), a rise in unemployment and higher inflation (including over the medium term), while US businesses are slashing capex plans (Figure 7, right). While the predictive power of surveys has weakened in recent years and souring sentiment may over-state the weakening of spending, these forward-looking data are warning signals that the US economy is slowing down. The recent softening of the Trump administration's stance on tariffs (including on auto parts for cars produced in the US) could prop up sentiment in coming weeks, meaning the recession can be even milder. News reports suggest that there was a plan to more than halve the overall tariff rate on China from above 100% to between 50% to 65%, possibly using a tiered system that differentiates between types of goods. Solid aggregate household balance sheets and elevated labor shortages are factors of resilience for the US economy. Against this backdrop, market volatility spilling over to weakening financial institutions' balance sheets, prolonged high uncertainty and high inflation and high interest-rate fatigue remain factors of risk. For now, we are penciling in +1.8% annualized GDP growth in Q2 (revised up) but we still expect a negative GDP reading in Q3 (-0.5% annualized). The US could be flirting with a recession over Q3-Q4.

[2] We replicated the framework developed by Capital Economics (''How to gauge recession risks in DMs'', 9 September 2024).
[3] Construction output, manufacturing output, retail sales, consumer confidence, business confidence, new manufacturing orders, employment, unemployment rate, job vacancy rate, private credit impulse, corporate credit spread and equity prices.

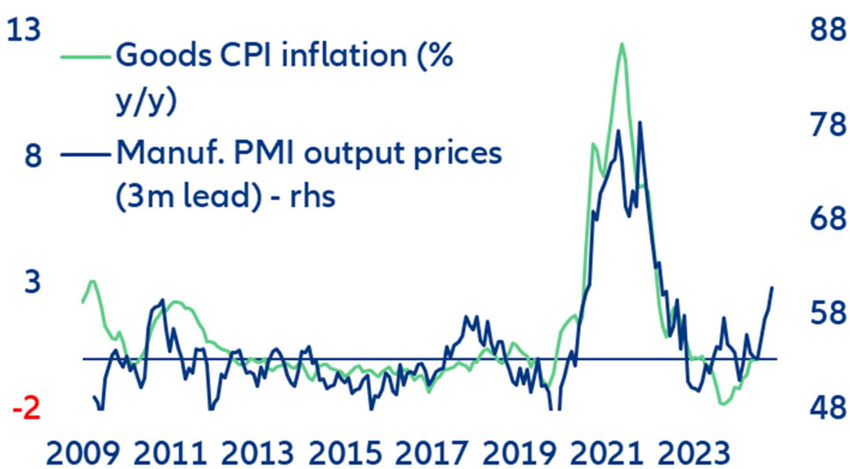
Figure 7: US households' consumption spending & sentiment (left) – US non-residential capex & capex plans (right)



Sources: LSGE Workspace, Allianz Research

We still expect the Fed to start lowering its policy rate in October. The FOMC meeting next week should see no change in interest rate policy as officials are waiting to process the impact of tariffs on activity, the labor market and inflation. With household inflation expectations shooting up in surveys, including for the medium-term horizon, the Fed is expected to reaffirm its commitment to bring inflation back to target by keeping policy tight despite mounting economic headwinds. Business surveys show that companies are starting to increase output prices, on the back of tariffs pushing up intermediate and finished product prices (Figure 8). This suggests that goods CPI inflation will easily top 3% by July (we expect at least double that rate), from 0% in March – indicating a pass-through of three to four months that is consistent with the economic literature. Admittedly, demand destruction will pull down services prices – a pattern al[2] ready visible in the March CPI data for airfares. But overall inflation should nevertheless head higher as the tariff effect will likely dominate in the next couple of months – unless the US economy slips into a deep recession (which is not our baseline scenario). We do not see the Fed cutting interest rates in this environment.

Figure 8: PMI output prices & CPI goods inflation

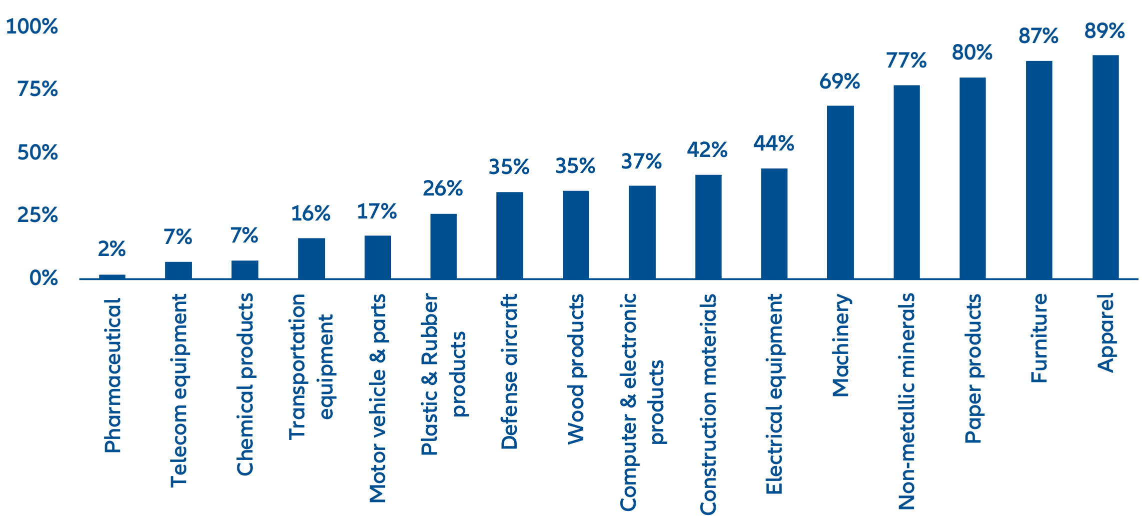


Sources: LSGE Workspace, Allianz Research

Inventories: It is costly to stockpile your way out of a trade war

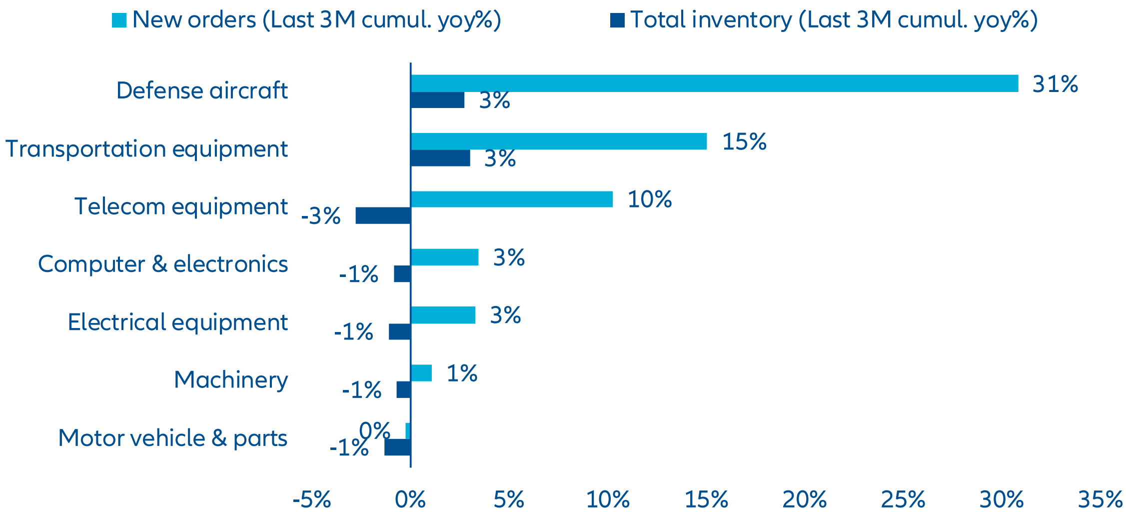
Increased stockpiling amid trade uncertainty but uneven strategies across sectors. US companies are responding to the revived trade war environment by ramping up strategic stockpiling, frontloading imports ahead of impending tariffs. This shift is already visible in the macro data: non-residential investment rose by +2.3% q/q in Q1 2025, reflecting increased import activity. Simultaneously, the use of short-term logistics strategies has soared, with 79% of international cargo shipping contracts now locked into the 0–3-month window - an increase of 19 pp compared to Q1 2024. This trend points to companies prioritizing agility and cost control while postponing long-term supply chain decisions in a volatile policy environment. However, the stockpiling response is far from uniform. Sectors like apparel, furniture, and paper products are facing a ceiling in their ability to build inventories, with inventory-to-sales ratios now near the top 20% of historical levels from the past decade (see Figure 9). These industries, already holding substantial buffer stocks, are reluctant to add more in the face of weak demand prospects and significant downside risks - if proposed tariffs are enacted they could lead to a potential USD 15–20 billion revenue hit to the apparel and footwear sector. Conversely, industries like pharmaceuticals, chemicals, telecom, transportation, and motor vehicles remain vulnerable due to their lower inventory levels. These sectors also typically feature long production cycles and heavy capital expenditure, making them more exposed to sudden trade disruptions. For them, the cost of inaction could be steeper than the cost of overstocking. On the other hand, sectors with strong end-market demand have seized the opportunity presented by the recent 90-day freeze in reciprocal tariffs. Defense, infrastructure, and telecom equipment manufacturers have notably increased inventory holdings, supported by a surge in new orders. In Q1 2025 alone, orders for defense aircraft jumped by +31% y/y, while transportation and telecom equipment orders rose +15% and +10% respectively (see Figure 10). These sectors appear to be betting on continued strong domestic demand and government-backed investment in industrial reshoring, green infrastructure, and national security.

Figure 9: Inventory to sales ratio of US manufacturing industries (Current level* vs. last 10-year corridor)



Monthly data as of February 2025. Sources: US Census Bureau, Allianz Research

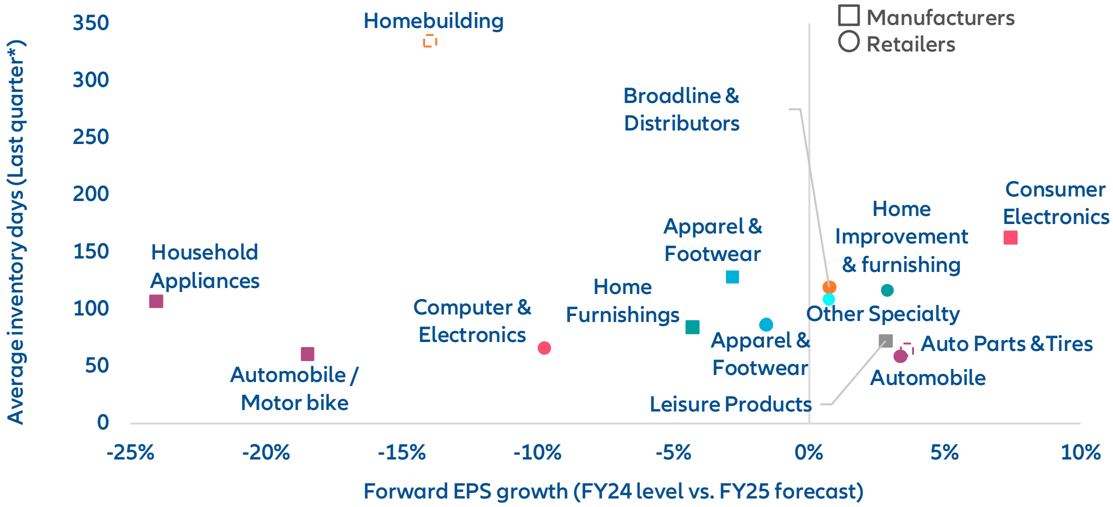
Figure 10: New order and inventory momentum in Q1 2025 from US manufacturing industries



Monthly data as of March 2025. Sources: US Census Bureau, Allianz Research

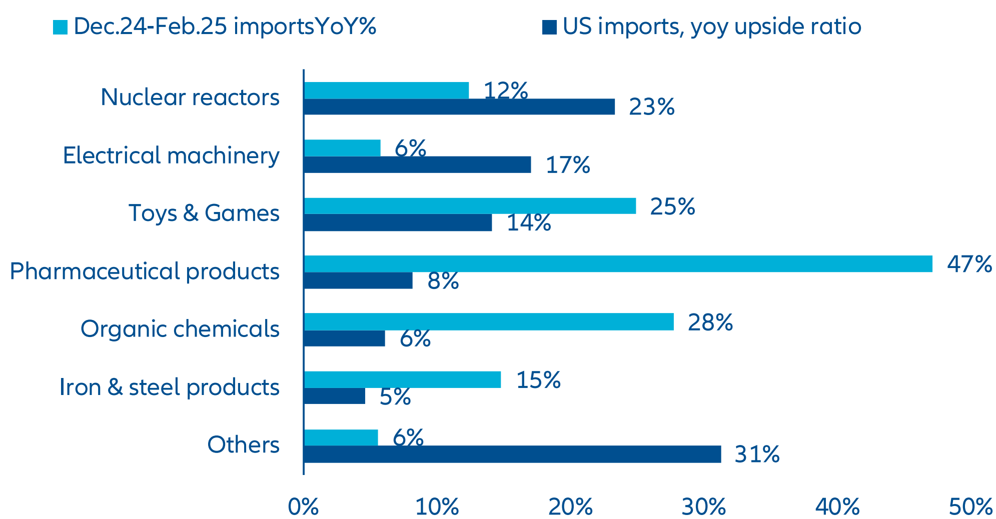
Some consumer sectors relying on Chinese imports are caught between a rock and a hard place. Companies in consumer-facing sectors such as household appliances, auto makers, and electronics are particularly exposed to a squeeze. Profitability is weak, inventories are low, and tariff-induced cost pressures are mounting. Some could face double-digit profit declines in 2025 if cost pass-throughs to consumers fall short. Fast fashion and discount players like Shein and Temu have already raised some prices by nearly 400%, and US inflation is now expected to peak at around 4.5% this summer as import buffers run dry. For firms in these sectors, lean inventory management is becoming a necessity, not a choice (see Figure 11). Companies in hardware, homebuilding, and auto manufacturing are aggressively reviewing cost structures and working capital to preserve margins. Meanwhile, more resilient segments—such as consumer electronics and broadline retailers—benefit from either stronger pricing power or somehow healthier inventory positions. This is also confirmed by recent trends in US-China trade: about 75% of the increase in US import demand in late 2024 and early 2025 came from just six products/sectors: nuclear reactors (23%), electrical machinery (17%), toys and games (14%), pharmaceuticals (8%), organic chemicals (6%), and iron and steel (5%) – see Figure 12. Consumer electronics, furniture, textile and some other consumer sectors with deep China exposure have shown minimal import boost/stockpiling activity. This muted response is partly due to already high inventories and weak end-market demand in some but also stems from the looming profitability squeeze for others.

Figure 11: Forward EPS growth vs. average inventory days from US-listed stocks*



**S&P 1500 Consumer Discretionary benchmark. Sources: US Census Bureau, Allianz Research*

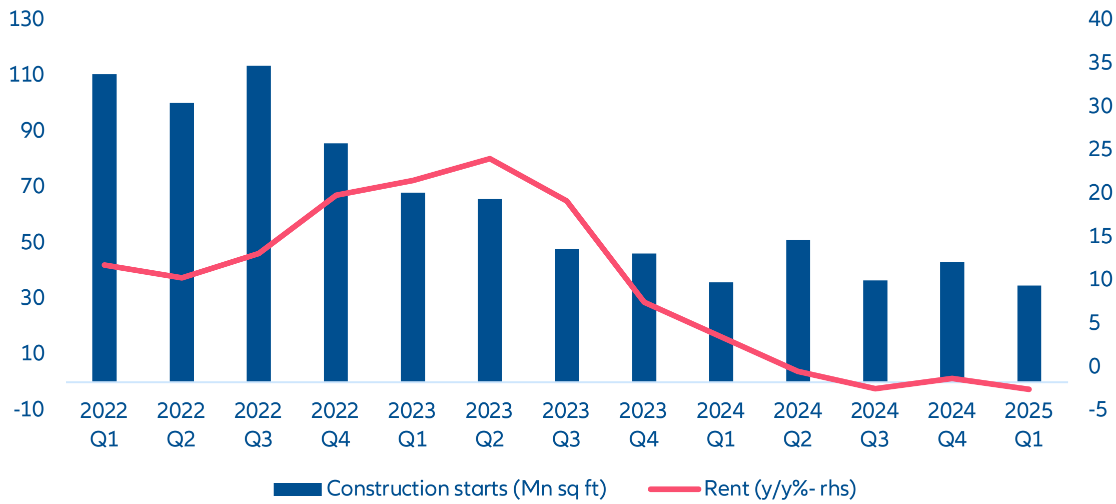
Figure 12: Sectors that explain most of the surge in US imports from China between December 2024 and February 2025 compared to one year ago



Sources: US Census Bureau, Allianz Research

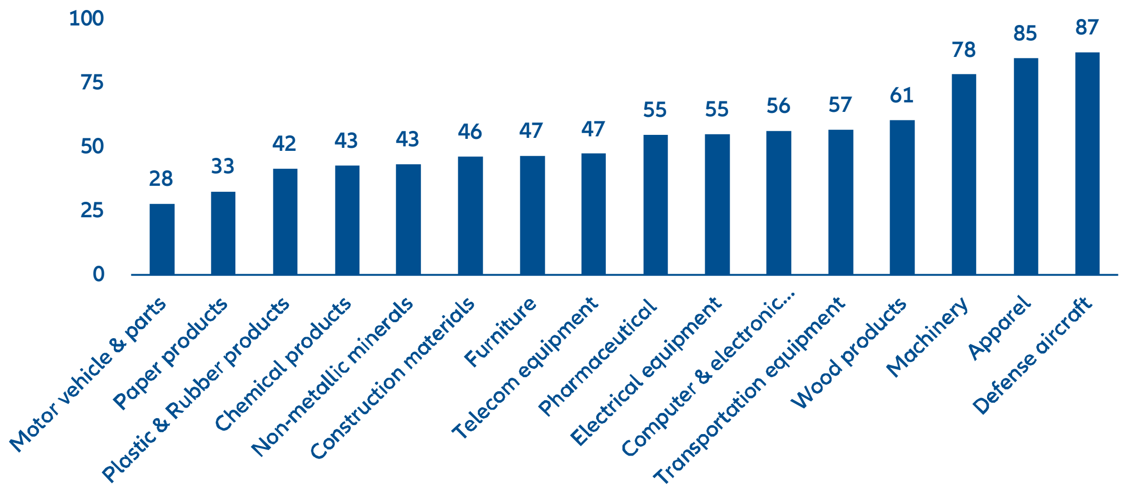
The warehouse boom is tactical, industrial and logistics real estate reveals corporates are not switching to "just-in-case (of tariffs)". To delay tariff payments and create operational flexibility, companies are increasingly turning to bonded and Free-Trade-Zone (FTZ) warehouses. Online traffic for these solutions surged by over 150% in recent months. Yet this warehousing boom signals tactical avoidance, not a strategic conviction. The industrial real estate market paints a sobering picture: construction starts have plunged to under 35 mn square feet—a post-COVID low—marking a 20% quarterly decline and extending a nine-quarter downtrend (see Figure 13). Current space under construction has dropped to 221 million square feet, the lowest since 2017. Developers are shifting away from speculative projects, focusing instead on build-to-suit facilities. Vacancy rates have climbed to 6.3%, their highest since 2014, largely due to move-outs from aging stock rather than a flood of new reshoring-driven activity. The number of large leases (over 1 mn sq ft) collapsed to just three in Q1, down from 16 a year ago. Even in markets seeing continued construction—like Texas and Arizona—the drivers appear to be demographic growth and e-commerce logistics, not manufacturing resurgence or warehousing boom. National asking rents, a key signal of market tightness, declined for the fourth consecutive quarter, now sitting below USD 11 per square foot—a 2.6% y/y drop. Tenants are increasingly bargaining from a position of strength, and industrial developers are responding cautiously. Despite bold political statements and high-profile corporate reshoring announcements, the data suggests the reshoring narrative is still more speculative than structural. While companies are proving nimble in responding to short-term trade shocks, few are betting big on a long-term domestic manufacturing revival or switching to a whole new inventory management strategy that would mean higher stocks for longer. Currently, most consumer discretionary manufacturers and retailers are maintaining a level of inventory equivalent to 2 to 3 months of turnover (including the opportunity cost to park stock value at a free rate), which should offer them enough flexibility to cope with short-term demand swings (higher or lower than usual) while hedging their balance sheets against macro, geopolitical and/or technology turnarounds. Given the rise of trade restrictions and the blurred picture on future cashflow (as seen in the lower FY25 guidance during the Q1 earnings season), corporates will not decide to opt for reshoring if their investment case has no solid argument.

Figure 13: Industrial & logistics real estate new construction and rents



Sources: CBRE, Allianz Research

Figure 14: Inventory cost per day of revenue over the last 3-month* (annualized, including opportunity costs)

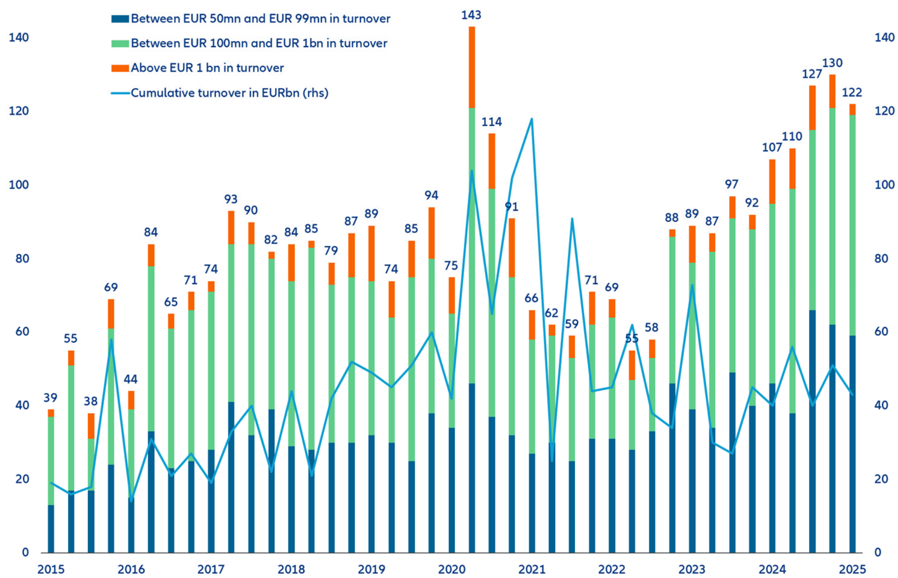


**As of March 2025. Sources: LSGE Workspace, Allianz Research*

More than one large bankruptcy per day since the beginning of the year

Insolvencies of large companies (turnover over EUR50mn) reached a high level once again in Q1 2025, with more than one case per day. In Q1, the number of major insolvencies reached 122 cases globally (see Figure 15), a moderate decrease compared to Q4 2024 (- 8 cases) but another increase compared to Q1 2024 (+15 cases) and the pre-pandemic average of 85 over 2017-2019 (+37). This marks the fourth-highest quarterly total since the start of our monitoring in 2015. Additionally, the combined turnover of insolvent major companies has risen +7% y/y to EUR43bn, pushing the average turnover to EUR352mn, slightly below the level observed in 2024 (EUR395mn). This elevated incidence of major insolvencies is unsurprising in light of the prevailing economic uncertainty and structural shifts across various sectors at a time of subdued growth –which is also contributing to the upward momentum in SME insolvencies. Our short-term economic and financial outlook suggests that these conditions may persist, exacerbated by the intensifying impacts of the trade war. If the current quarterly trend continues, 2025 is poised to set a new record. In this context, it remains crucial to closely monitor the risk of a domino effect on suppliers and subcontractors.

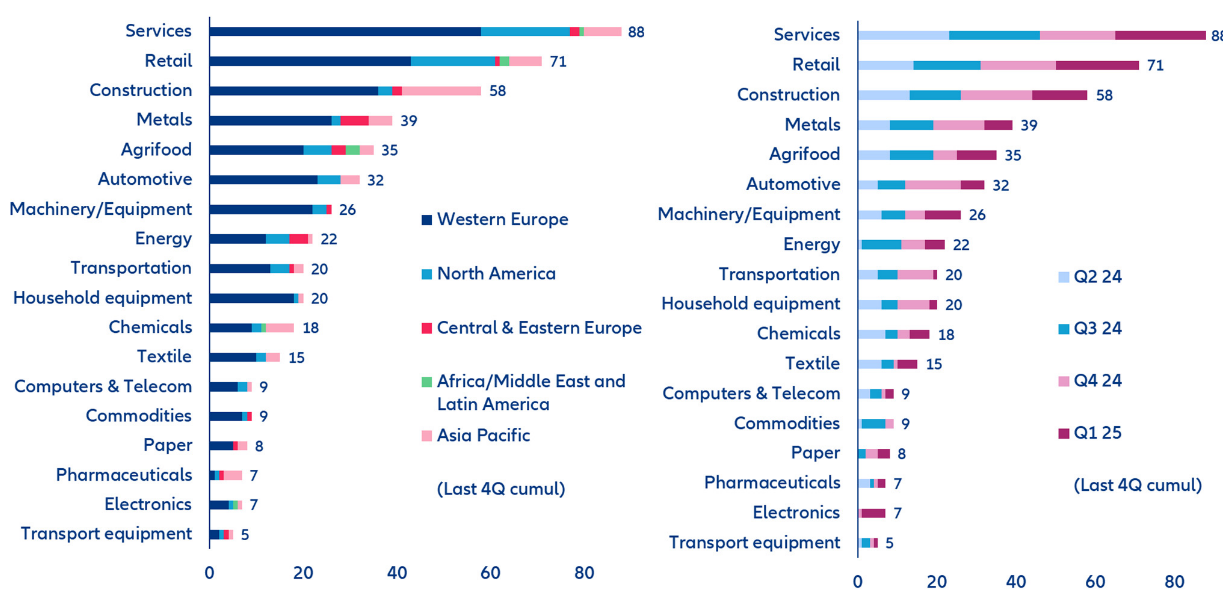
Figure 15: Major insolvencies, quarterly number, by size of turnover



Source: Allianz Trade

Western Europe continues to lead the global count, but the biggest cases are more broad-based than in 2024. Western Europe played a key role again in the global count of major insolvencies in Q1 (+10 cases y/y to 74), well ahead of North America (+1 case to 21) and Asia (-4 cases to 15). As a result, Western Europe accounted for 61% of the quarterly outcome, in line with the trend observed over the past years (51%, 53% and 64% in 2022, 2023 and 2024, respectively). However, the US leads when it comes to the size of companies, accounting for 8 out of the top 20 insolvencies for Q1 2025. Western Europe (4), Canada (2) and Australia (2) have replaced China (1) on the podium. In 2024, the latter stood out with a notable presence in the ranking, with several significant cases in the construction sector.

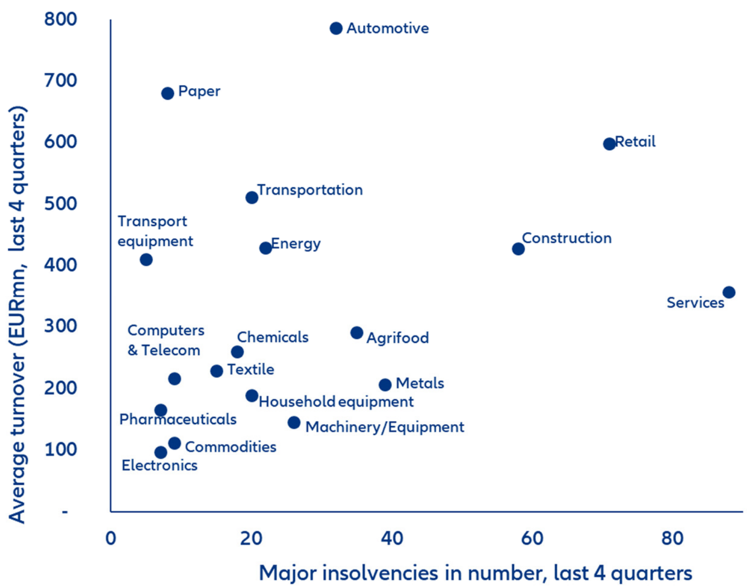
Figure 16: Major insolvencies, last Q4 numbers, by region (left) and by sector and quarter (right)



Source: Allianz Trade

Services and retail were the hardest hit, particularly in Western Europe and North America, as well as construction, especially in Western Europe and Asia. For the first quarter, the overall sectoral picture is close to that for 2024, with most cases in services (23 cases compared to 86 in FY 2024), retail (21 and 63, respectively) and construction (14 and 64, respectively). Yet, electronics and machinery equipment stand out for posting more large insolvencies than in recent quarters as well as, to a lesser extent, textiles and agrifood (see Figure 15). Looking at the details per region, it is striking that the sectors contributing the most to the global count are all in Western Europe: services (14 cases), retail (12) and construction (9). In Asia, construction recorded the largest number of cases (5), while in the US the largest number of insolvencies was in services (7) and retail (5). Insolvencies among companies with a turnover of more than EUR1bn remained limited, with 3 new cases in Q1, compared with 11, 12 and 9 cases in the previous three quarters. For the last four quarters combined (see Figure 17), the automotive sector stands out with the largest severity in terms of turnover (EUR786mn on average for 32 cases), due to the large case of China Grand Automotive Services Co. Ltd in Q1, followed by paper (EUR680mn for 8 cases), retail (EUR598mn for 71 cases) and transport equipment (EUR511mn for 20 cases). The average size of major insolvencies remains elevated in the services sector (EUR357mn, compared with the global average of EUR388mn).

Figure 17: Major insolvencies by sector, number of cases (x axis) and average turnover (y axis, EURmn), last Q4 numbers



Source: Allianz Trade

These assessments are, as always, subject to the disclaimer provided below.