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# Charts of the Week: The Year Ahead

A HAVER ANALYTICS<sup>\*</sup> podcast and publication

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## The Year Ahead

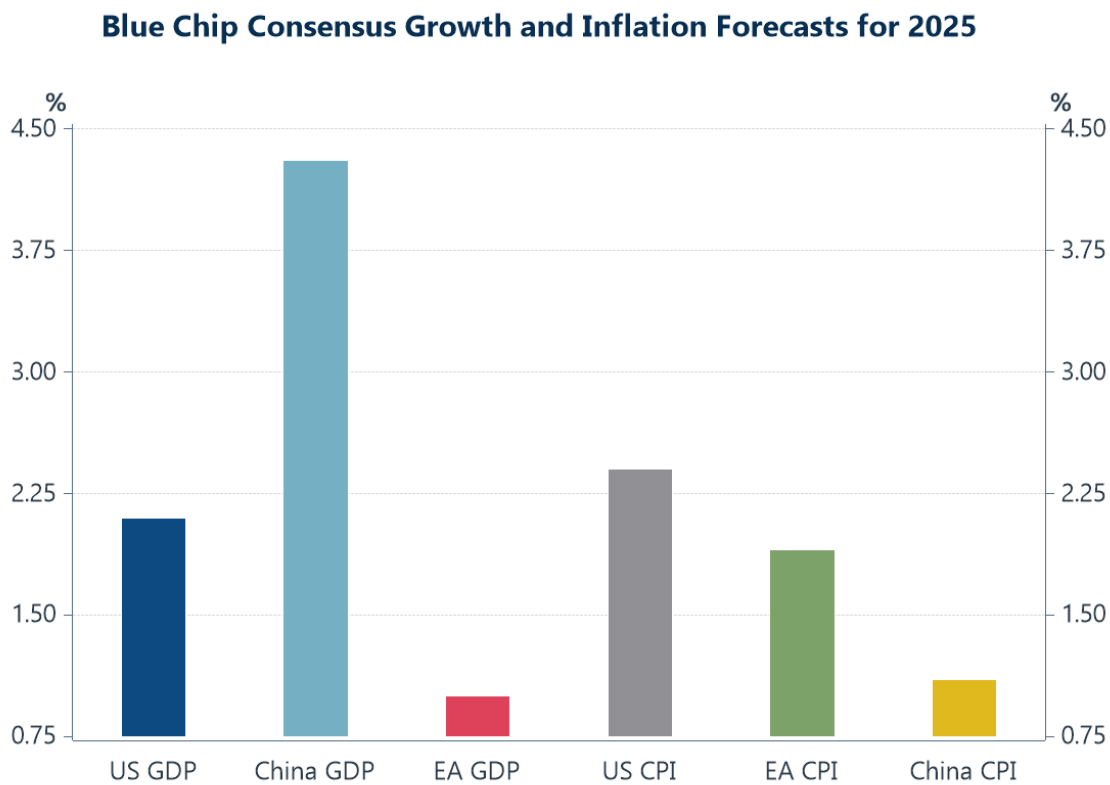
In our penultimate Charts of the Week publication for 2024, we turn our attention to the upcoming year and highlight several themes that are poised to mould the economic and financial market landscape. Although a soft-landing consensus for the world economy is presently implicit in most economic forecasts for next year (chart 1) that view is not without challenges. Uncertainty about the economic outlook has bolted sharply higher in recent weeks (chart 2) partly because of the likely major - and potentially disruptive - policy changes from a new US administration (chart 3). Lingering supply-side challenges, such as climate change and the energy transition, are also generating a great deal of economic and political instability at present, most notably in Europe (charts 4 and 5). In the meantime, many Asian economies face additional challenges, including the potential for higher tariffs on trade (chart 6) and lingering debt-related problems in China (chart 7). Generating sufficient domestic growth momentum to mitigate those problems is also proving to be tough for a number of countries, not least in Japan (chart 8). As Japan's policymakers are all too aware a key reason for weak domestic demand momentum is ageing demographics, a structural problem that will likely remain in vogue in 2025, not least in the realm of healthcare provision and fiscal policy (chart 9).

Geopolitical risks will also likely remain elevated even if there is some progress next year in mitigating those risks in Eastern Europe and the Middle East (chart 10). Finally, and ending on a more positive note, there are some offsets to these downside risks, not least via the productivity-enhancing potential of AI technology (chart 11). The rebound that has been unfolding in the travel and tourism sector in recent months is also noteworthy, and a push back against the trend toward a de-globalisation of the world economy in recent years (chart 12).

## A soft-landing consensus

Surveys of economic forecasters presently suggest that the world economy will enjoy a soft landing in 2025. GDP growth is forecast to slow in the US and China to respective rates of 2.1% and 4.3%, after 2.7% and 4.8% in 2024. GDP growth in the euro area, in contrast, is expected to quicken to 1.0% next year, albeit from a weak base of just 0.8% this year. As for CPI inflation, headline rates are expected to decline to average rates of respectively 2.4% and 1.9% in 2025 in the US and the euro area. China’s inflation rate is expected to climb but from a lower starting point and toward an arguably still uncomfortable rate of 1.1% in 2025.

Chart 1: The Blue Chip consensus for growth and inflation in 2025

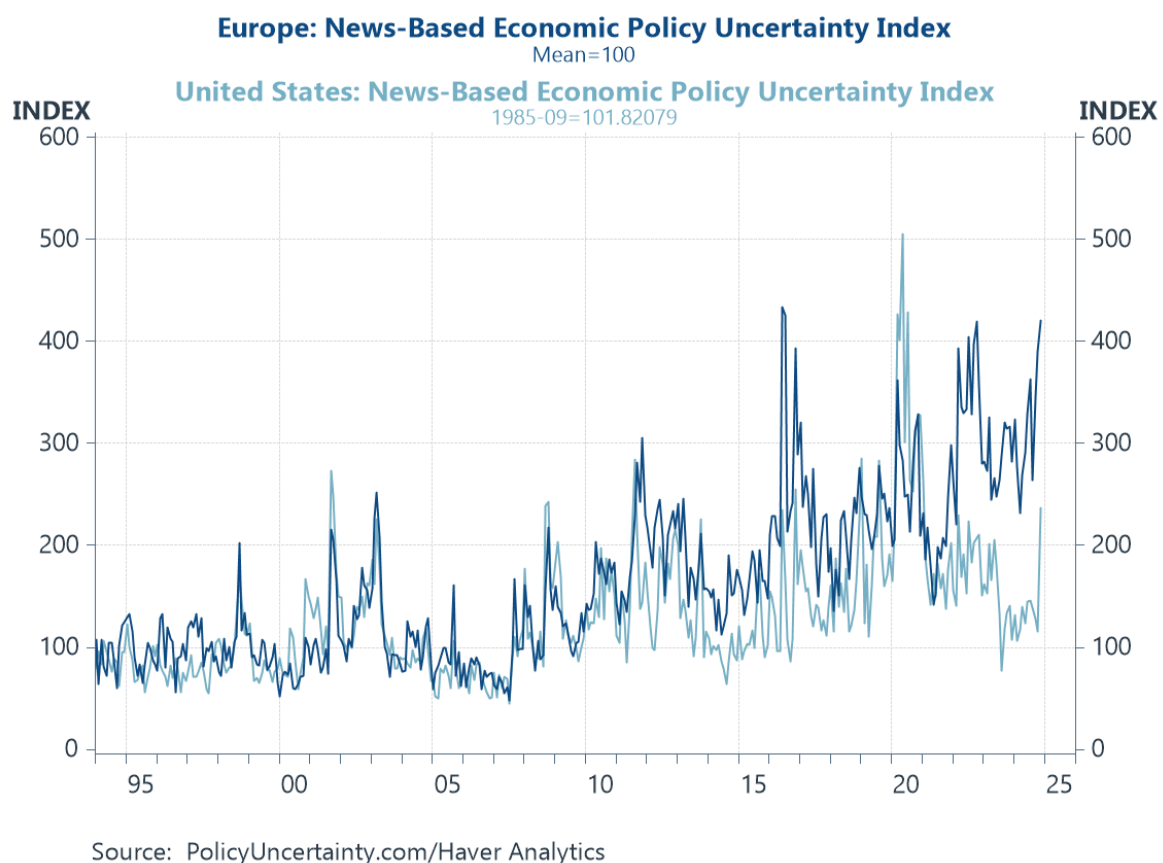


Source: Wolters Kluwer/Haver Analytics

## Supply side challenges and uncertainty

The risks to that consensus outlook stem from a number of factors, including the potential shift toward more protectionist US trade policy together with other more familiar forces that threaten to destabilise economic activity. The latter include climate change, the energy transition, and geopolitical instability together with high levels of debt. These factors are, in combination, conspiring to generate a very high level of uncertainty about the economic and policy outlook. As chart 2 below suggests, a gauge of policy uncertainty in Europe has lately jumped to a level that's close to a multi-decade high. US policy uncertainty has bolted sharply higher in recent weeks as well.

Chart 2: Policy uncertainty in Europe and the US

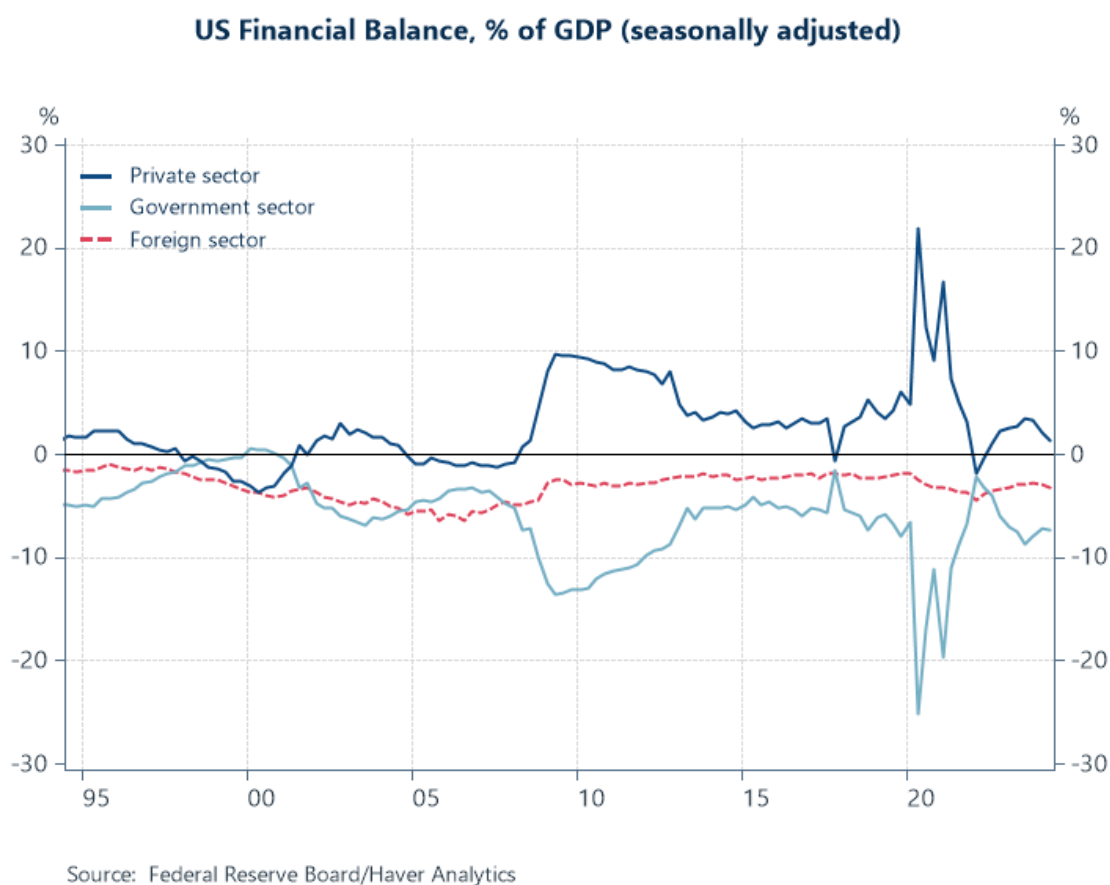


## Potential US policy conflict

While trade policy shifts threaten global economic stability, other focal points of policy under a new US administration also potentially invite conflict. As chart 3 below suggests, US financial imbalances – a persistent current account deficit, matched by a high fiscal deficit and a high private sector savings surplus – have been hallmarks of the US economic scene for many years. On the external front they reflect

structural forces such as excess savings in other major economies that have been readily absorbed by deep, flexible and liquid US financial markets. On the private sector side, they also reflect an ageing population, a higher proclivity of households and companies to save, as well as a structural pivot toward a services-led economy. And on the fiscal side, they reflect heavy government spending on areas such as healthcare. Against this backdrop, President-elect Trump's purported desire for a US trade surplus, for lower corporate taxation, for some de-regulation of the financial sector, as well as for a weaker US dollar and lower interest rates will – in combination with one another – may be hard, if not impossible, to achieve.

Chart 3: US financial balances

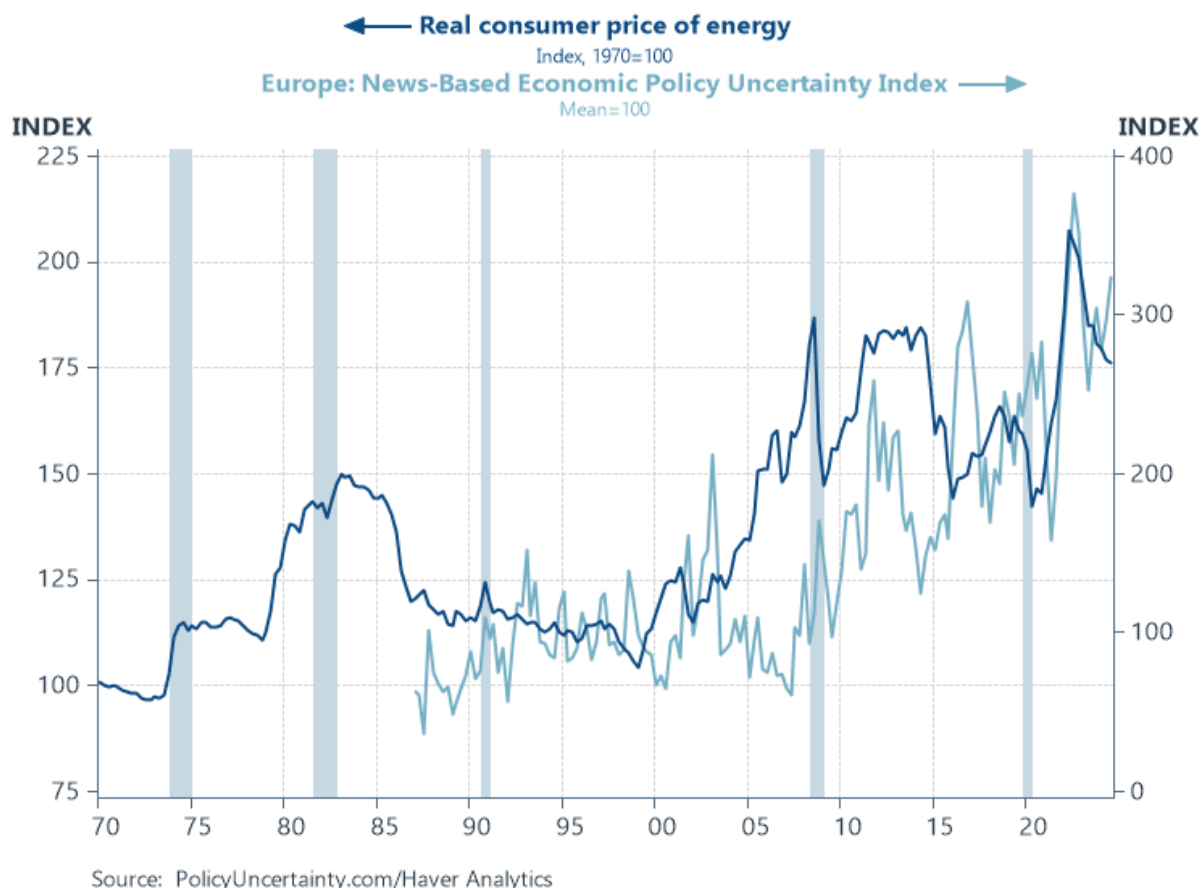


## The energy trilemma

At a broader global level, the energy transition – the shift from fossil fuels to renewables – is also arguably likely to generate more scrutiny in the year ahead. While a necessity for delivering on climate change objectives, it is equally proving to be a big source of macroeconomic and political disruption, particularly in Europe, as we discuss further below. The so-called energy trilemma—balancing energy security, affordability, and sustainability—has now become a central axis for understanding the global economy's current supply-side vulnerabilities. The trilemma underscores that achieving one objective often

compromises another. Transitioning to renewable energy too quickly, while enhancing sustainability, may nevertheless undermine affordability and, in the short term, energy security, if fossil fuel dependencies are unwound too quickly.

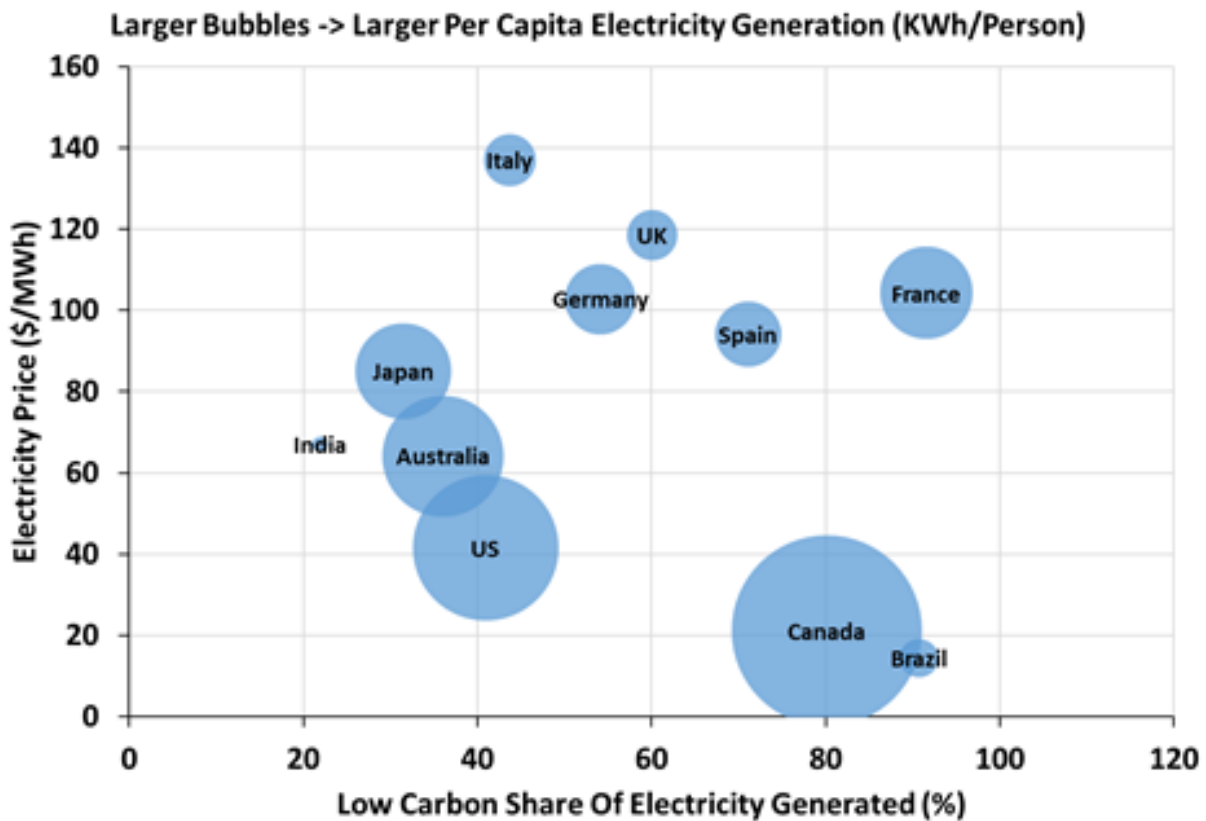
Chart 4: The real consumer price of energy in the OECD versus European uncertainty



## Europe's lack of energy

The political instability that has engulfed several European economies in recent weeks, and Germany in particular, can arguably be traced in part to this energy trilemma. Chart 5 below suggests that while Germany, France, Italy and the UK, have achieved significant shares of low-carbon electricity generation, they also experience relatively high electricity prices and relative low rates of per capita electricity generation. Germany's reliance on renewable energy subsidies and grid costs contribute to these elevated prices. This, in turn, has been a key source of economic instability in these economies and amplified political instability as well.

Chart 5: Renewable energy mix, electricity generation and electricity prices

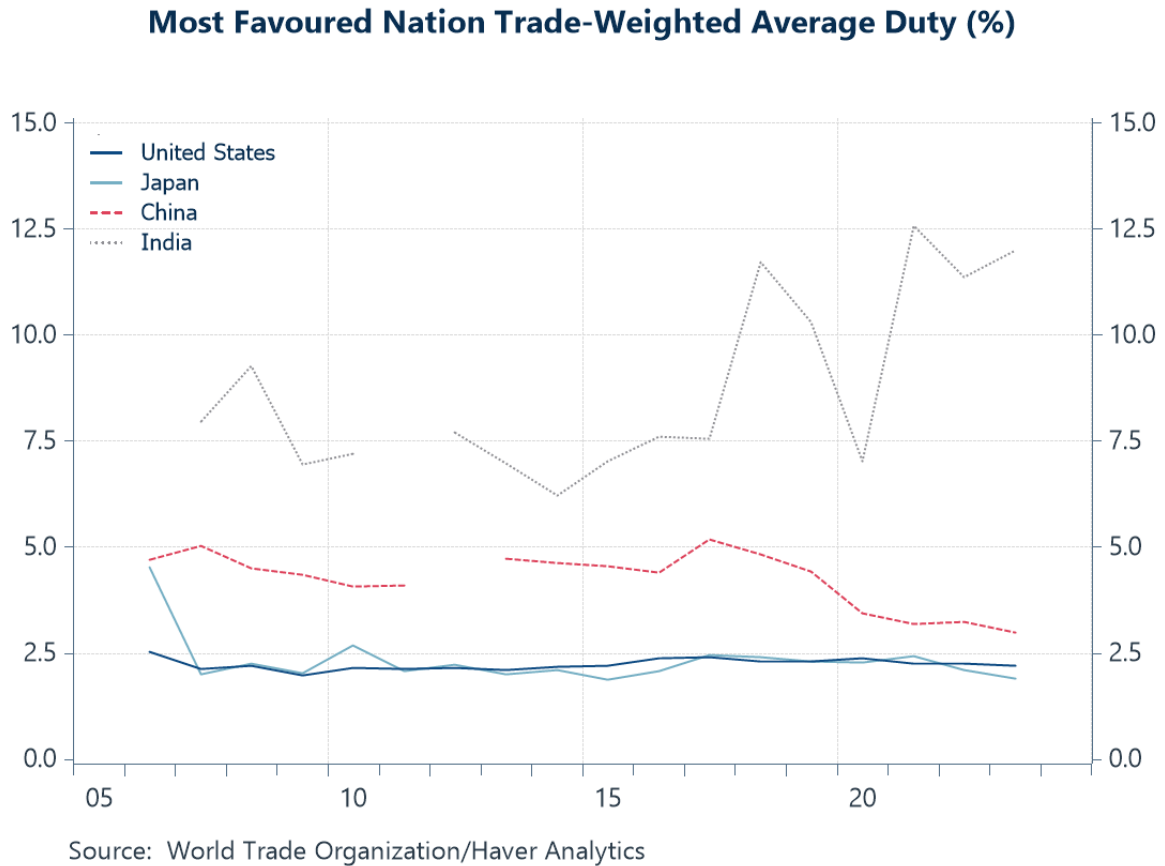


Source: Our World In Data, Energy Intelligence, Haver Analytics

## Trade, tariffs and Asia

We turn next to Asia, which is expected to experience some significant challenges with US President-elect Trump set to take office in January. A key focus is China, as Trump has threatened to revoke its Most Favoured Nation (MFN) status. Doing so would allow the US to impose targeted tariffs on China without being obligated to provide the preferential trade terms that come with MFN status. While this could hurt China's export-driven growth by reducing demand due to higher tariffs, it could also negatively impact the US, as much of its inputs are still sourced from China. More broadly, such a move could disrupt global supply chains and prompt a rerouting of trade flows to circumvent potential US tariffs on China. Currently, nearly all of the US's trading partners benefit from MFN status, and as of 2023, the US's MFN trade-weighted average duty stood at a low 2.2%, similar to Japan's, but lower than developing Asian economies like China and India (see chart below).

Chart 6: Most favoured nation trade-weighted average tariff rates

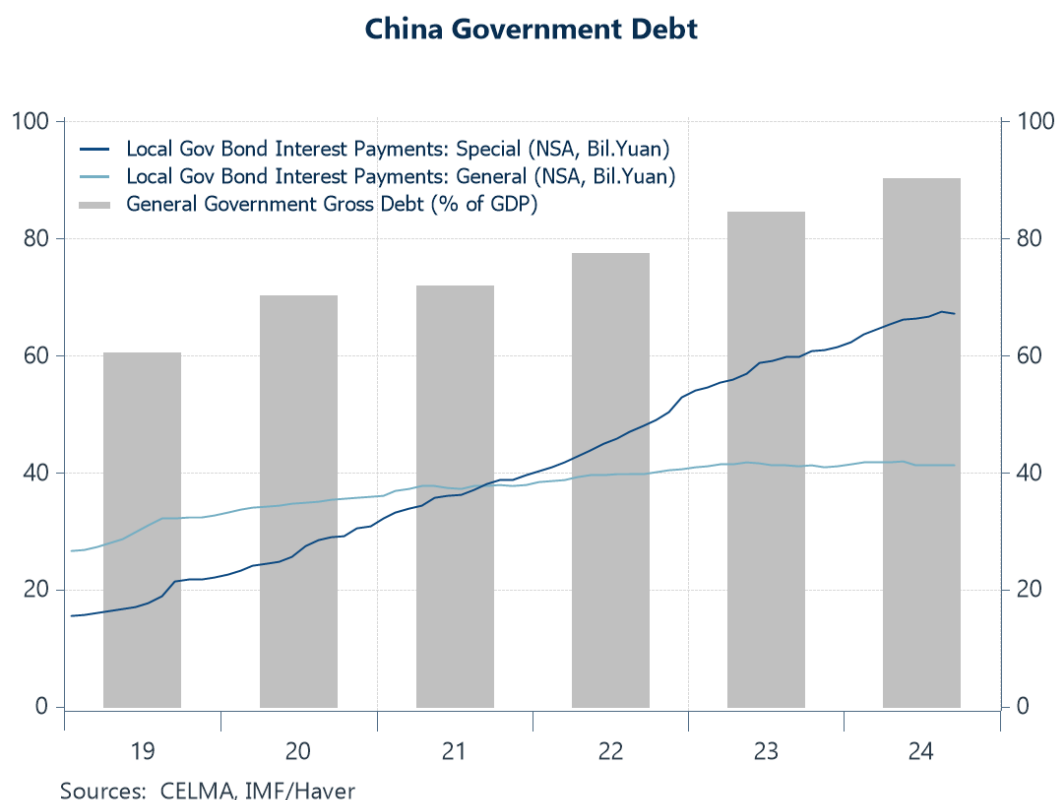


## China's debt challenges

Another potential source of instability concerns China's debt challenges. The country's effort to shift away from debt-fuelled growth remains difficult, especially in the current challenging economic environment. China finds itself between a rock and a hard place: on the one hand, large-scale stimulus—seen by many as a quick fix for near-term growth—would invite criticism for its continuing reliance on debt. On the other hand, China's relatively restrained approach to fiscal stimulus has disappointed markets, as evidenced by recent equity market sell-offs. Ultimately, China must find alternative ways to stimulate economic recovery, a daunting task, while also addressing the broader issue of ballooning local government debt and off-balance sheet liabilities. Despite these challenges, it may be a case of “better late than never,” as continuing to allow local governments to freely accumulate debt could soon lead to a situation where more revenue is spent on interest payments and less on other critical areas (see chart 7 below). Additionally, any trade actions by the US could further dampen China's already fragile growth prospects.



Chart 7: China government debt

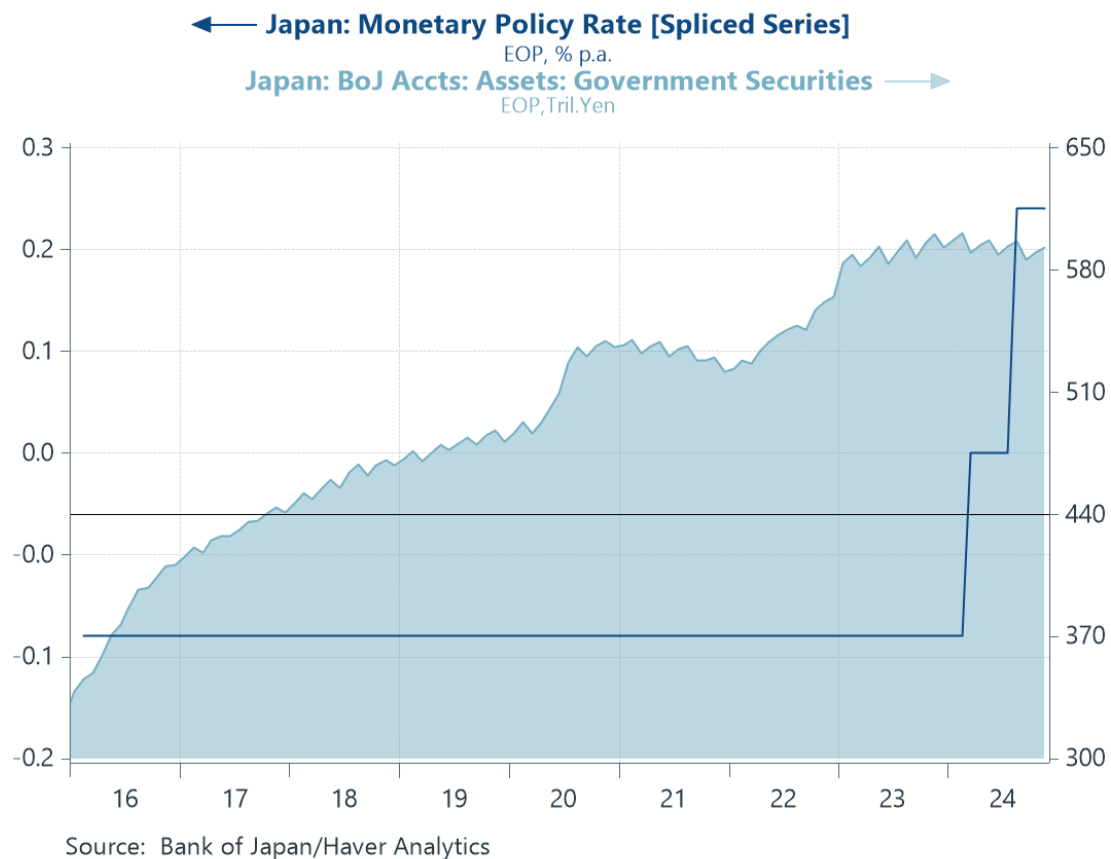


## Japan's monetary policy normalisation

Japan will also be closely watched next year for how its monetary policy normalization unfolds. This year marked a historic shift, with the Bank of Japan (BoJ) having delivered its first interest rate hike in 17 years. However, the BoJ's path to full normalization is expected by many to remain gradual, with only a few additional rate hikes anticipated next year. That said, expectations can change quickly and dramatically, with much depending on Japan's economic performance in 2025. One key area of focus will be Japan's Spring wage negotiations ("Shunto") in Q1, as the fiscal year-end for many Japanese corporations draws to a close. As in previous years, wage growth will be a critical factor influencing the BoJ's monetary policy decisions. While nominal wage growth remains strong, real wage growth continues to be restrained by inflation. A longer-term concern for the BoJ is its massive balance sheet, predominantly consisting of government securities (see chart below), which remains significantly higher than a decade ago. In this context, observers will be interested in whether the BoJ considers further reductions in its bond purchases to accelerate balance sheet normalization. Such a move could limit the Japanese government's ability to sell bonds to its largest buyer: the BoJ.



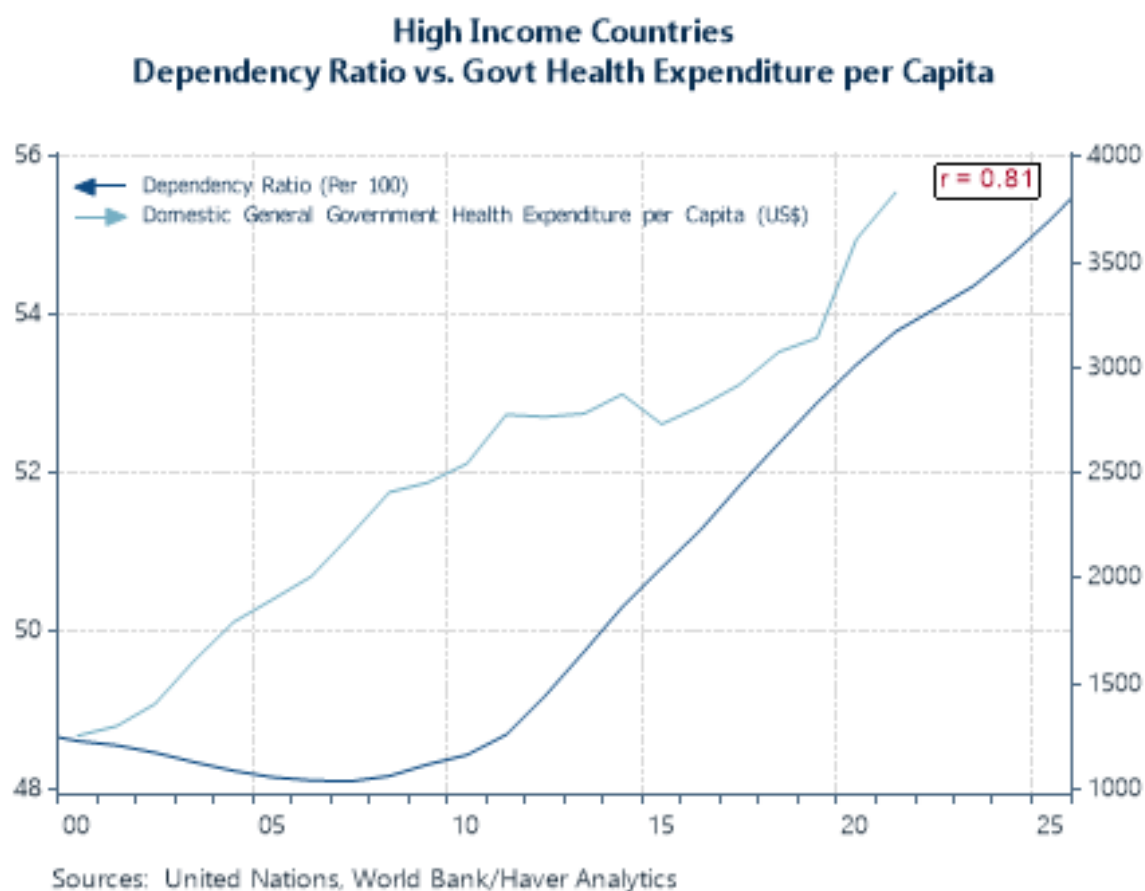
Chart 8: Japan policy rate and government security holdings



## Demographics, healthcare, and fiscal policy

Turning to long-term issues, we next address global demographic challenges and their implications for healthcare and fiscal policy. As shown in the chart below, high-income economies around the world have experienced a significant rise in their dependency ratios over the past decade, largely due to the rapid ageing of populations in several of these economies. This trend is particularly pronounced in developed Asian countries, such as South Korea, where the fertility rate has fallen below 1. This trend extends to other developed economies, though not always to the same extent, as seen in the US and the UK, which are also experiencing ageing populations. However, unlike South Korea, the US and the UK benefit from mitigating factors, such as strong immigration rates, which help supplement the workforce. In contrast, countries without such offsets will face a shrinking labour force, struggling to support a growing elderly population, leading to higher healthcare and social benefit costs, and increasing pressure on government budgets. This increased fiscal pressure could either erode fiscal surpluses or widen fiscal deficits, worsening overall debt levels. In contrast, economies with stable or improving fertility rates are less likely to face these demographic challenges.

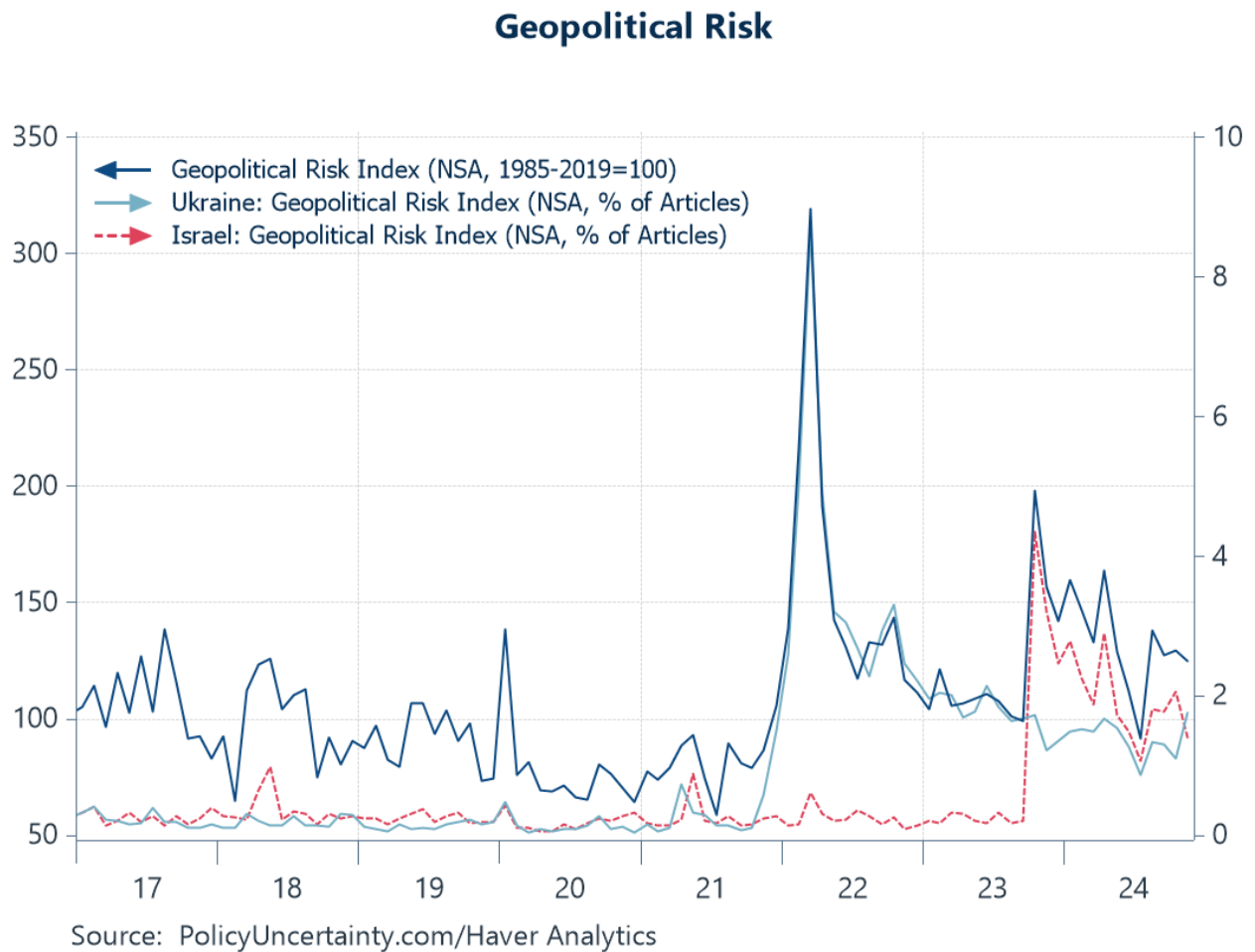
Chart 9: Dependency ratios vs. general government debt per capita in advanced economies



## Geopolitical stress

Next, we address the ongoing latent risk of further geopolitical flare-ups, which are likely to persist into at least early next year. As we've seen in the past, geopolitical tensions can escalate rapidly, as demonstrated by Russia's invasion of Ukraine in 2022 and the more recent Israel-Hamas conflict in 2023. As shown in the chart below, surges in global geopolitical risk, as measured by the newspaper-based Geopolitical Risk Index, have typically been driven by events in specific regions. These tensions have largely remained contained within specific parties and have not yet expanded into broader regional conflicts. Nevertheless, such flare-ups will continue to be closely monitored. They have the potential to disrupt global supply chains and affect the supply and prices of commodities produced in or passing through the affected regions.

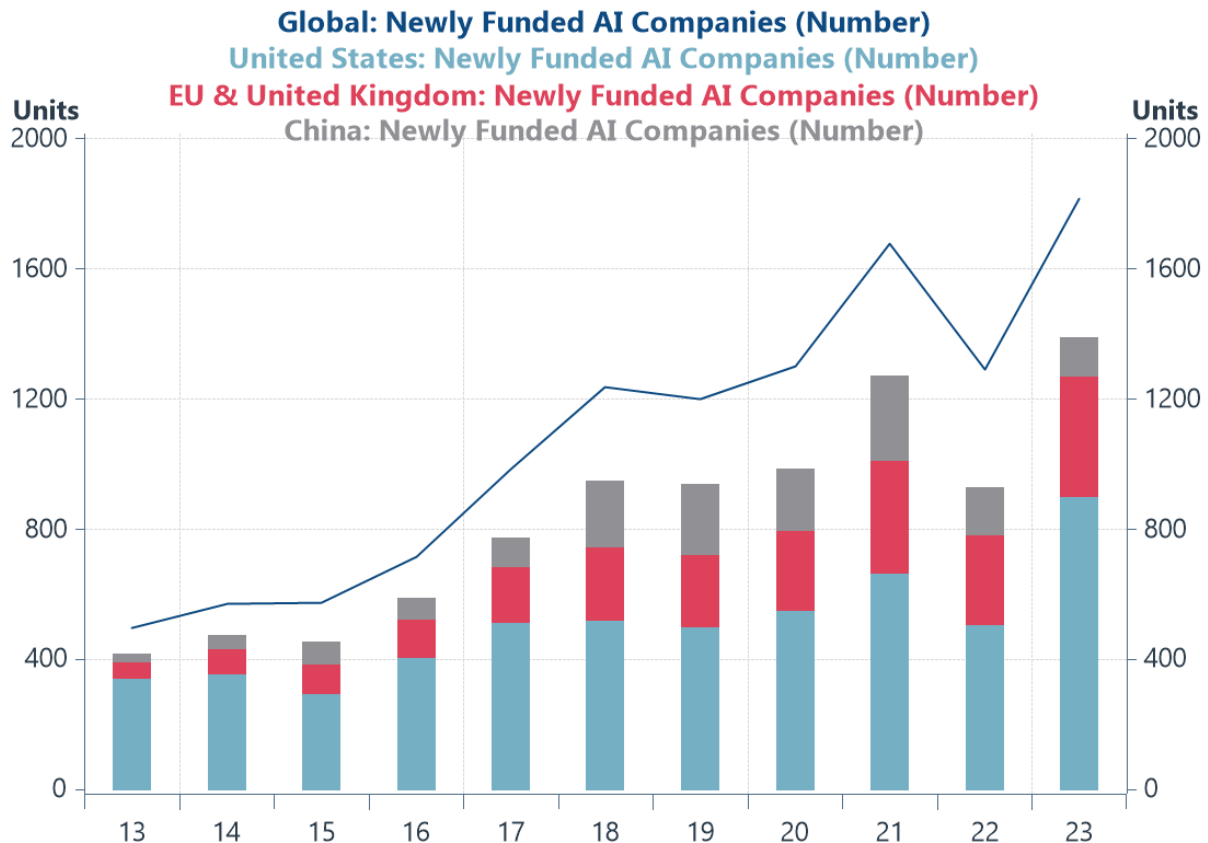
Chart 10: Global geopolitical risk



## Artificial Intelligence and productivity

As 2025 approaches, the question of whether artificial intelligence will finally deliver a long-awaited productivity surge remains another uncertainty. On the one hand, the major economies are buzzing with AI-driven innovations, from generative models reshaping content creation to advanced algorithms optimizing logistics and supply chains. Early adopters boast of efficiency gains and reduced costs, but scaling these benefits across industries is proving uneven. Much like electricity in its infancy, AI's transformative potential may take years to embed itself fully into workflows. For now, the boost to global productivity feels more like a slow burn than an explosive leap, with structural challenges—ranging from workforce reskilling to regulatory hurdles—dampening its immediate impact.

Chart 11: Newly funded AI companies

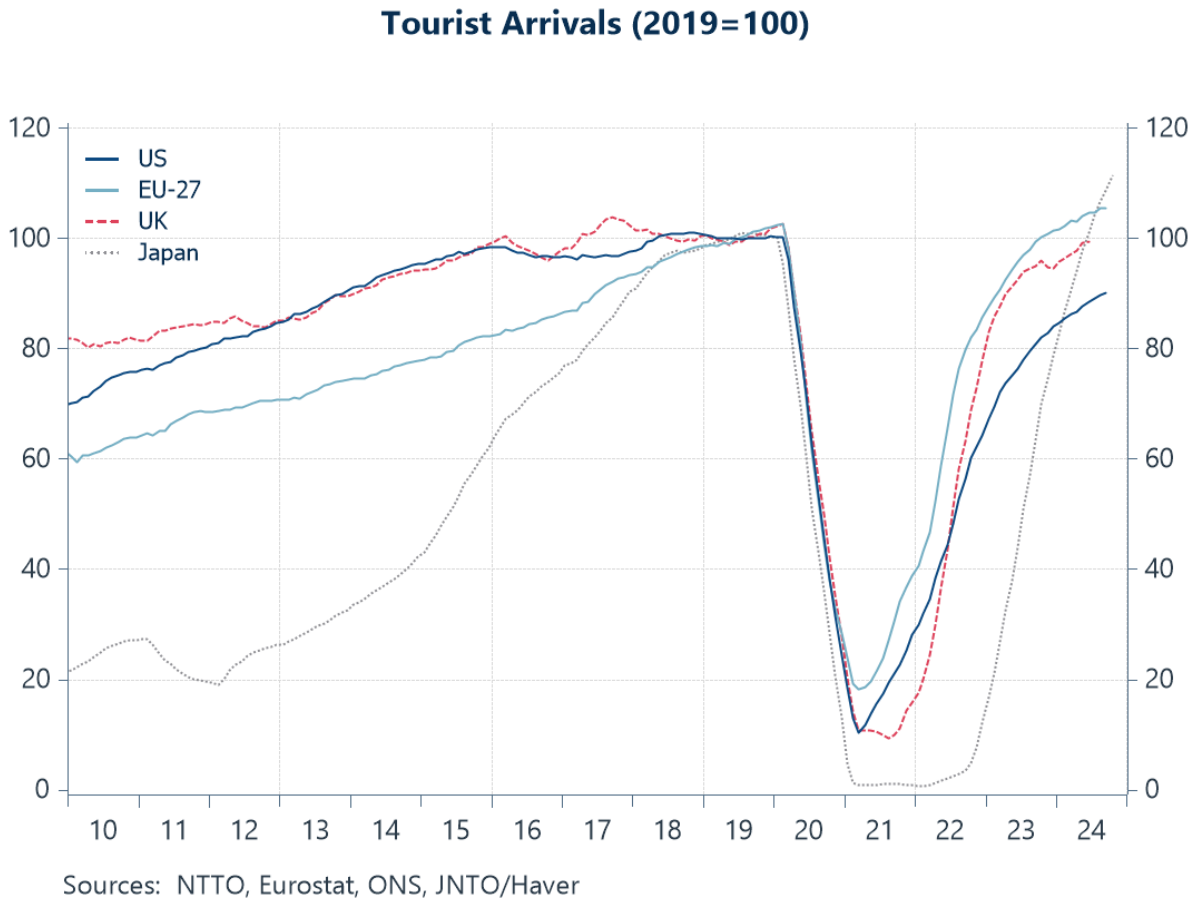


Source: Our World in Data/Haver Analytics

## Global travel

Our final destination is the travel sector, which continues to experience varying degrees of post-pandemic recovery across different economies. On the whole, however, it appears that global tourism has finally regained its footing, with the UN forecasting a full recovery in international tourism by the end of the year. Notably, tourism spending is growing faster than arrivals. Looking ahead, tourism performance will likely remain influenced in part by currency fluctuations. For example, Japan's weakened yen this year has spurred increased tourism, as it made the goods and services in the country relatively cheaper for foreign visitors. However, it remains to be seen whether other economies, such as South Korea—where recent political instability has led to a weaker domestic currency—will experience similar boosts to their tourism arrivals. Additionally, vulnerabilities persist. Currency effects are not the only drivers of tourism performance. For instance, energy prices, influenced by geopolitical factors, could discourage global travel if they surge due to tensions in oil-critical regions. Geopolitical events can also affect international travel patterns, steering tourists toward or away from certain destinations.

Chart 12: Tourist arrivals



## About the author



Haver Analytics is pleased to bring [Andy Cates's](#) commentaries on the state of the global economy to its clients.

Andy has more than 25 years of experience forecasting the global economic outlook and in assessing the implications for policy settings and financial markets. He

has held various senior positions in London in a number of Investment Banks including as Head of Developed Markets Economics at Nomura and as Chief Eurozone Economist at RBS. These followed a spell of 21 years as Senior International Economist at UBS, 5 of which were spent in Singapore. Prior to his time in financial services Andy was a UK economist at HM Treasury in London holding positions in the domestic forecasting and macroeconomic modelling units. He has a BA in Economics from the University of York and an MSc in Economics and Econometrics from the University of Southampton.

## Data featured in this commentary:

Chart 1: The Blue Chip consensus for growth and inflation in 2025

**Series 1: AAAD@BLUECHPC**

AAAD@BLUECHPC [BCEI: US Real GDP Consensus Forecast (Y/Y %Chg)]

**Series 2: ACND@BLUECHPC**

ACND@BLUECHPC [Blue Chip: China: Real GDP Consensus Forecast (%Chg)]

**Series 3: AEZD@BLUECHPC**

AEZD@BLUECHPC [Blue Chip: Euro area: Real GDP Consensus Forecast (%Chg)]

**Series 4: DAAD@BLUECHPC**

DAAD@BLUECHPC [BCEI: US Consumer Price Index Consensus Forecast (Y/Y %Chg)]

**Series 5: DEZD@BLUECHPC**

DEZD@BLUECHPC [Blue Chip: Euro area: Consumer Price Index Consensus Forecast (%Chg)]

**Series 6: DCND@BLUECHPC**

DCND@BLUECHPC [Blue Chip: China: Consumer Price Index Consensus Forecast (%Chg)]

Chart 2: Policy uncertainty in Europe and the US

**Series 1: N100VIUC@G10**

N100VIUC@G10 [Europe: News-Based Economic Policy Uncertainty Index (Mean=100)]

**Series 2: N111VIUC@G10**

N111VIUC@G10 [United States: News-Based Economic Policy Uncertainty Index (1985-09=101.82079)]

Chart 3: US financial balances

**Series 1: sa(S111ZCPP@G10)**

S111ZCPP@G10 [US: Private Sector Capital Balance as % of GDP(%)]

**Series 2: sa(S111ZCGP@G10)**

S111ZCGP@G10 [US: General Government Capital Balance as % of GDP (%)]

**Series 3: (-1 \* sa(S111ZCWP@G10))**

-1

S111ZCWP@G10 [US: Rest of the World Capital Balance as % of GDP (%)]

Chart 4: The real consumer price of energy in the OECD versus European uncertainty

**Series 1: index((N003PCEN@OECDMEI / N003PCXG@OECDMEI),1970=100) [+8]**

N003PCEN@OECDMEI [OECD Total: CPI: Energy [OECD Group] (NSA, 2015=100)][AGG=AVG, Default]

N003PCXG@OECDMEI [OECD Total: CPI: All Items excl Food and Energy [OECD Group] (NSA, 2015=100)][AGG=AVG, Default]

**Series 2: N100VIUC@G10**

N100VIUC@G10 [Europe: News-Based Economic Policy Uncertainty Index (Mean=100)]

Chart 5: Renewable energy mix, electricity generation and electricity prices

*\*Please refer to Excel file included in file download.*

Chart 6: Most favoured nation trade-weighted average tariff rates

**Series 1: TWUSAP@WTOTAR**

TWUSAP@WTOTAR [United States: MFN Trade Weighted Average Duty: All Products (%)]

**Series 2: TWJPAP@WTOTAR**

TWJPAP@WTOTAR [Japan: MFN Trade Weighted Average Duty: All Products (%)]

**Series 3: TWCNAP@WTOTAR**

TWCNAP@WTOTAR [China: MFN Trade Weighted Average Duty: All Products (%)]

**Series 4: TWINAP@WTOTAR**

TWINAP@WTOTAR [India: MFN Trade Weighted Average Duty: All Products (%)]

#### Chart 7: China government debt

**Series 1:** [movv\(N924FIPS@EMERGEPR,12\)](#)

N924FIPS@EMERGEPR [China: Local Gov Bond Interest Payments: Special (NSA, 100 Mil.Yuan)]

**Series 2:** [movv\(N924FIPG@EMERGEPR,12\)](#)

N924FIPG@EMERGEPR [China: Local Gov Bond Interest Payments: General (NSA, 100 Mil.Yuan)]

**Series 3:** [C924GGGD@IFS](#)

C924GGGD@IFS [China: General Government Gross Debt [Apr 2023] (% of GDP)]

#### Chart 8: Japan policy rate and government security holdings

**Series 1:** [JPNRTARE@JAPAN](#)

JPNRTARE@JAPAN [Japan: Monetary Policy Rate [Spliced Series] (EOP, % p.a.)]

**Series 2:** [ACGB@JAPAN](#)

ACGB@JAPAN [Japan: BoJ Accts: Assets: Government Securities (EOP,Bil.Yen)]

#### Chart 9: Dependency ratios vs. general government debt per capita in advanced economies

**Series 1:** [C110DE@UNPOP](#)

C110DE@UNPOP [High Income Countries: Dependency Ratio (Per 100)]

**Series 2:** [H110HEG@WDI](#)

H110HEG@WDI [High Income: Domestic General Government Health Expenditure per Capita (US\$)]

#### Chart 10: Global geopolitical risk

**Series 1:** [G001GPR@ESG](#)

G001GPR@ESG [Geopolitical Risk Index (NSA, 1985-2019=100)]

**Series 2:** [G926GPR@ESG](#)

G926GPR@ESG [Ukraine: Geopolitical Risk Index (NSA, % of Articles)]

**Series 3:** [G436GPR@ESG](#)

G436GPR@ESG [Israel: Geopolitical Risk Index (NSA, % of Articles)]

#### Chart 11: Newly funded AI companies

**Series 1:** [WOANATO@GLSECTOR](#)

WOANATO@GLSECTOR [Global: Newly Funded AI Companies (Number)]

**Series 2:** [USANATO@GLSECTOR](#)

USANATO@GLSECTOR [United States: Newly Funded AI Companies (Number)]

**Series 3:** [E0ANATO@GLSECTOR](#)

E0ANATO@GLSECTOR [EU & United Kingdom: Newly Funded AI Companies (Number)]

**Series 4:** [CNANATO@GLSECTOR](#)

CNANATO@GLSECTOR [China: Newly Funded AI Companies (Number)]

#### Chart 12: Tourist arrivals

**Series 1:** [index\(movv\(USNAF@TOURISM,12\),2019=100\)](#)

USNAF@TOURISM [US Tourism: Arrivals to the US (NSA, Persons)]

**Series 2:** [index\(movv\(EUENAF@TOURISM,12\),2019=100\)](#)

EUENAF@TOURISM [EU27: Foreign Tourist Arrivals (NSA, Thous. Persons)]

**Series 3:** [index\(movv\(GBNAF@TOURISM,12\),2019=100\)](#)

GBNAF@TOURISM [UK: Overseas Residents' Visits to the UK (NSA, Thous)]

**Series 4:** [index\(movv\(JPNAF@TOURISM,12\),2019=100\)](#)

JPNAF@TOURISM [Japan: Visitors from Abroad (NSA, Persons)]



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