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Charts of the Week: Tariff Trouble

A Haver Analytics® podcast and publication

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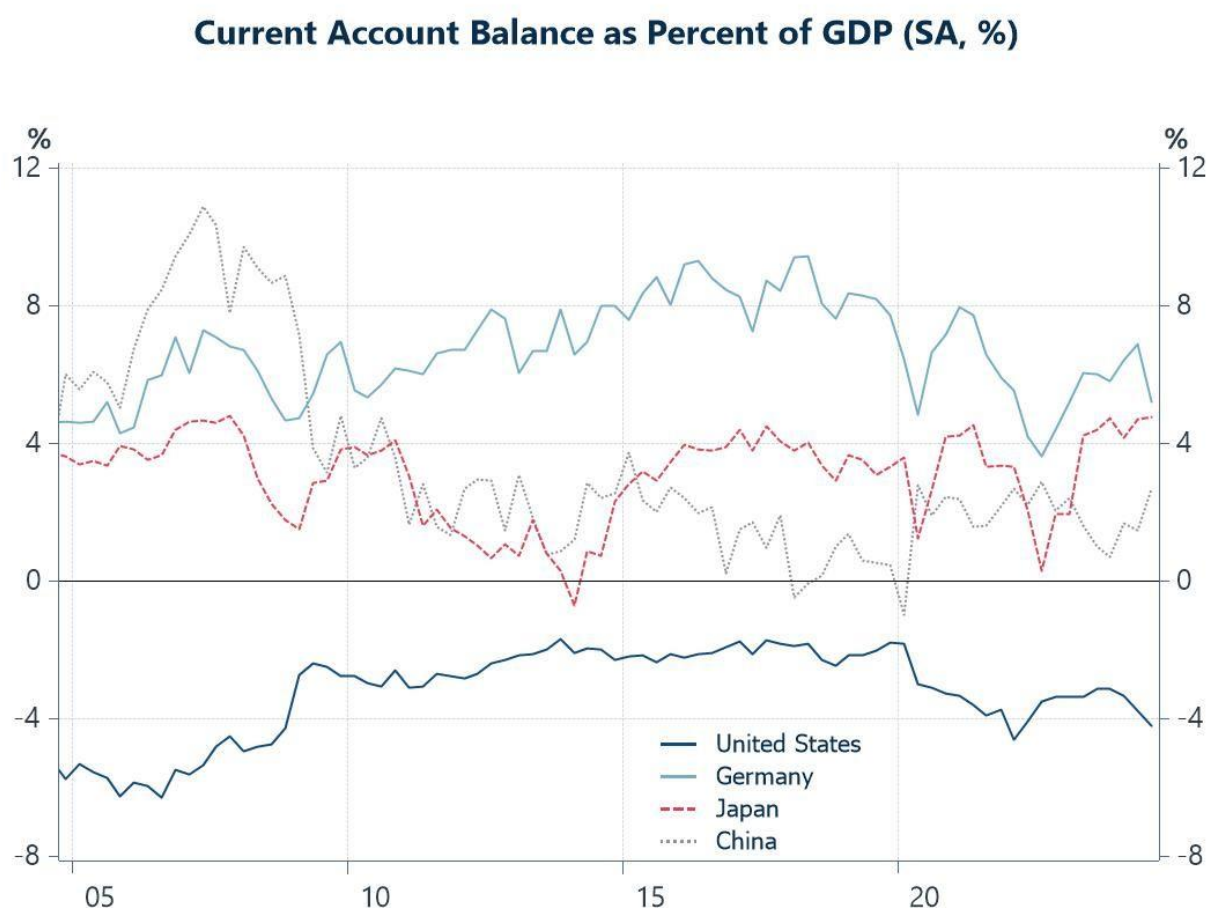
Written by [Andy Cates](#), Senior Economist

President Trump's tariff policies have been a major driver of financial market volatility in recent days, sparking sharp swings in equities and currencies. While the administration has temporarily reversed its proposal for a 25% tariff on imported goods from Canada and Mexico, uncertainty surrounding US trade relationships, the risk of retaliatory measures from key trading partners, and broader concerns about global growth continue to unsettle investors. A fundamental irony is that the US trade deficit—the very issue that President Trump purportedly aims to correct—is not primarily driven by so-called “unfair” trade practices but rather by global savings and investment imbalances (chart 1). Nations such as China, Germany, and Japan have maintained high savings rates for several years, and their excess capital is continually recycled into US financial markets, where superior returns and deep liquidity have made the US an attractive investment destination. The persistent inflow of foreign capital strengthens the US dollar, reinforcing the trade deficit rather than narrowing it (charts 3 and 4). Indeed, the multi-year highs in the trade-weighted value of the dollar serve as clear evidence that capital has continued to flow into the US, sustaining deficits despite protectionist measures. Ultimately, Trump's tariff-driven policies risk doing more harm than good, as they threaten to slow global growth, strain relationships with allies, and exacerbate inflationary pressures by raising input costs for US businesses and consumers. Rather than addressing the root causes of global imbalances (chart 5), such measures distort supply chains (chart 6), impair productivity growth, and fail to alter the fundamental drivers of trade deficits.

Global current account imbalances

Several US economic commentators have argued that US trade imbalances are fundamentally driven by capital account dynamics rather than trade policies or unfair competition. In other words, the US runs a persistent current account deficit not because of trade flows, but because of an excess capital account surplus—meaning that the US absorbs foreign savings surpluses from economies such as China, Germany, and Japan. These countries save more than they invest domestically, and their surplus savings are recycled into US financial markets due to their deep and flexible capital markets, and superior return prospects. This explains why fluctuations in Germany's, Japan's, and China's current account surpluses in recent years have been mirrored by corresponding shifts in the US current account deficit (chart 1).

Chart 1: Current account balances in the US, Japan, China and Germany

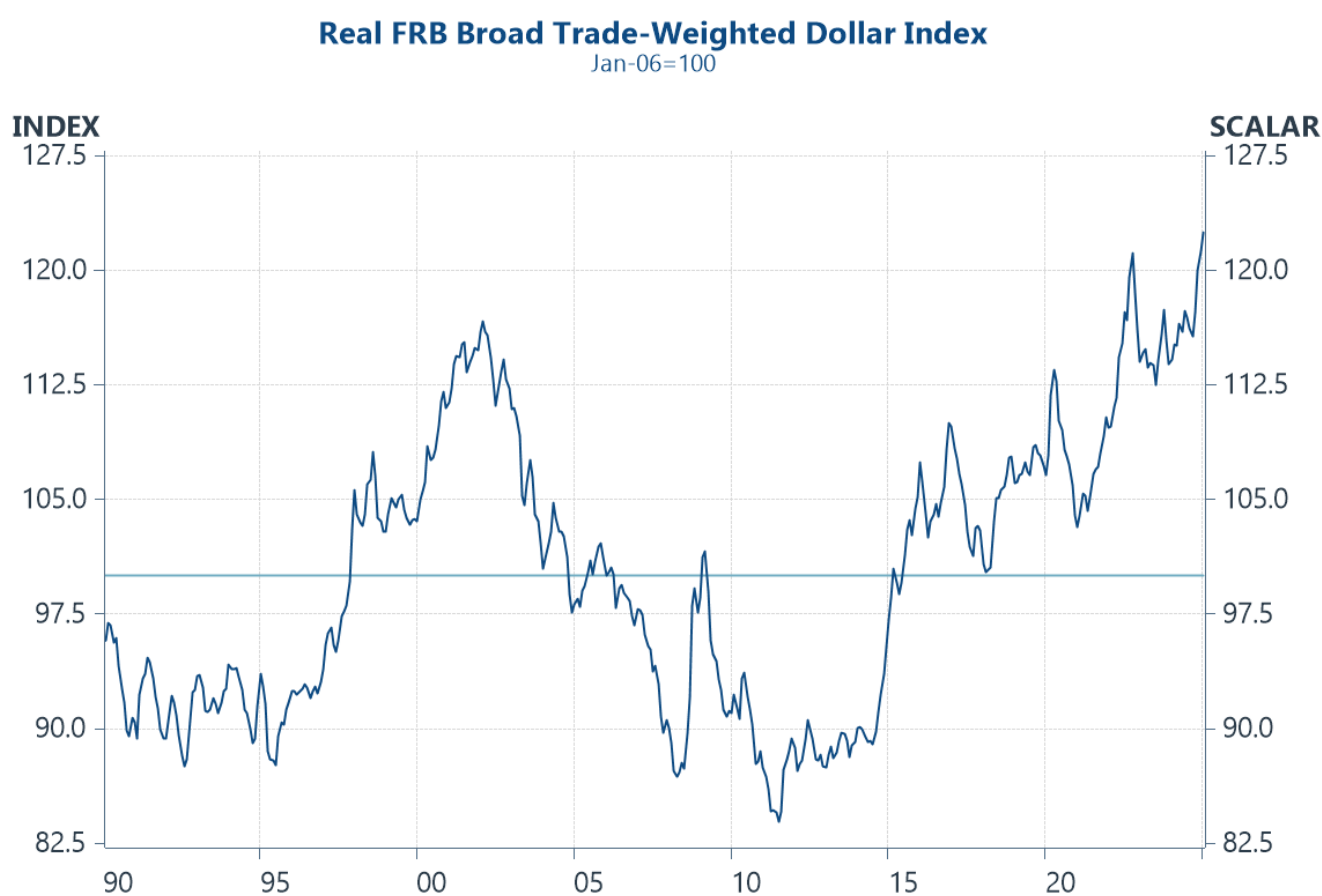


Sources: BEA/H, Bbk/H, BoJ/MF/H, SAFE/H/Haver

The US dollar

As noted, this continuous inflow of foreign capital has pushed up the value of the dollar (chart 2), making US exports less competitive while encouraging domestic consumption and imports, reinforcing the trade deficit. That means that policies aimed at reducing US trade deficits via tariffs could be ineffective because they fail to address these underlying global savings and investment imbalances.

Chart 2: The real trade weighted value of the US



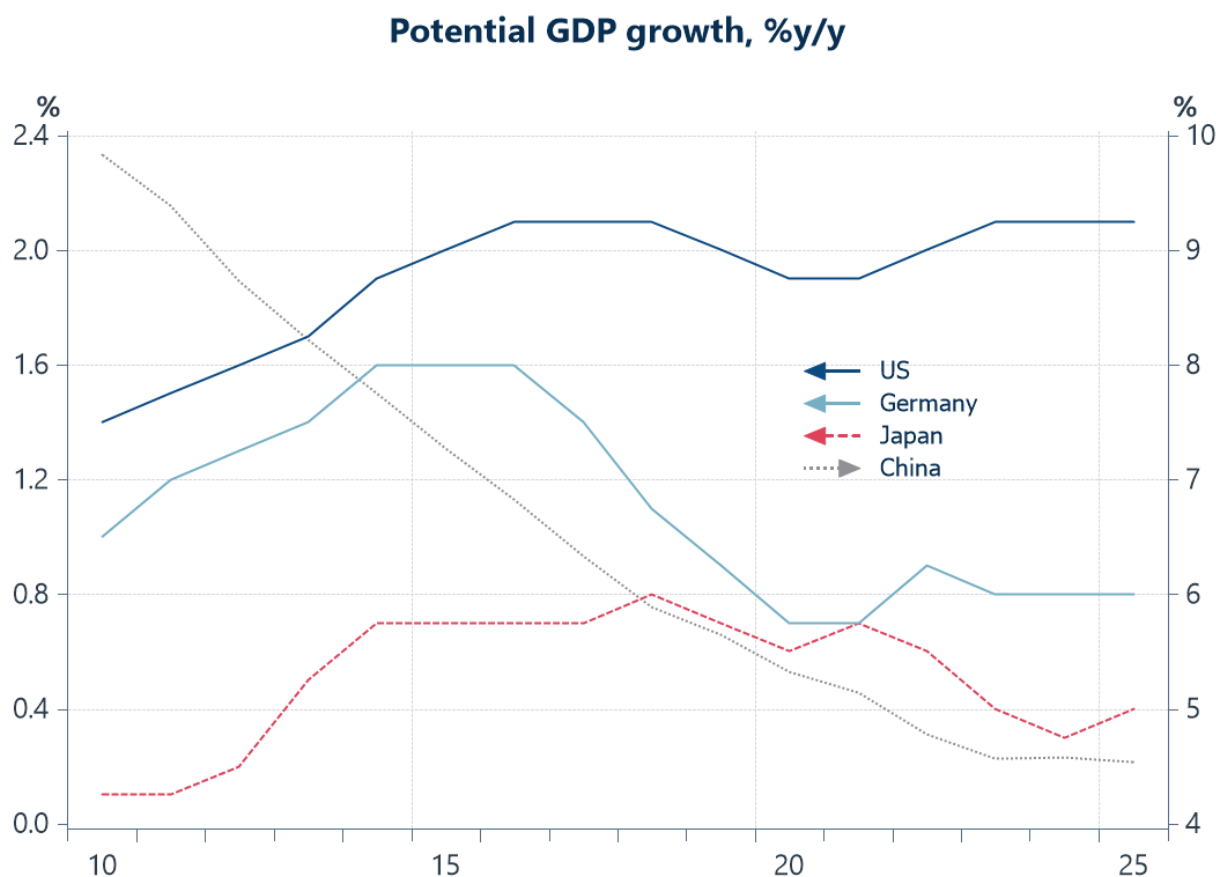
Source: Federal Reserve Board/Haver Analytics

Potential growth rates

As further noted, another key factor behind the global imbalances concerns the US economy's superior growth prospects compared with elsewhere. As Chart 3 illustrates, the US has maintained slightly higher

potential GDP growth over the past 10–15 years, in stark contrast to the declining potential growth rates in Germany and China (albeit from much higher levels). Meanwhile, Japan’s potential growth has remained relatively stable but at already subdued levels.

Chart 3: OECD estimates of potential GDP growth in the US, Germany, Japan and China

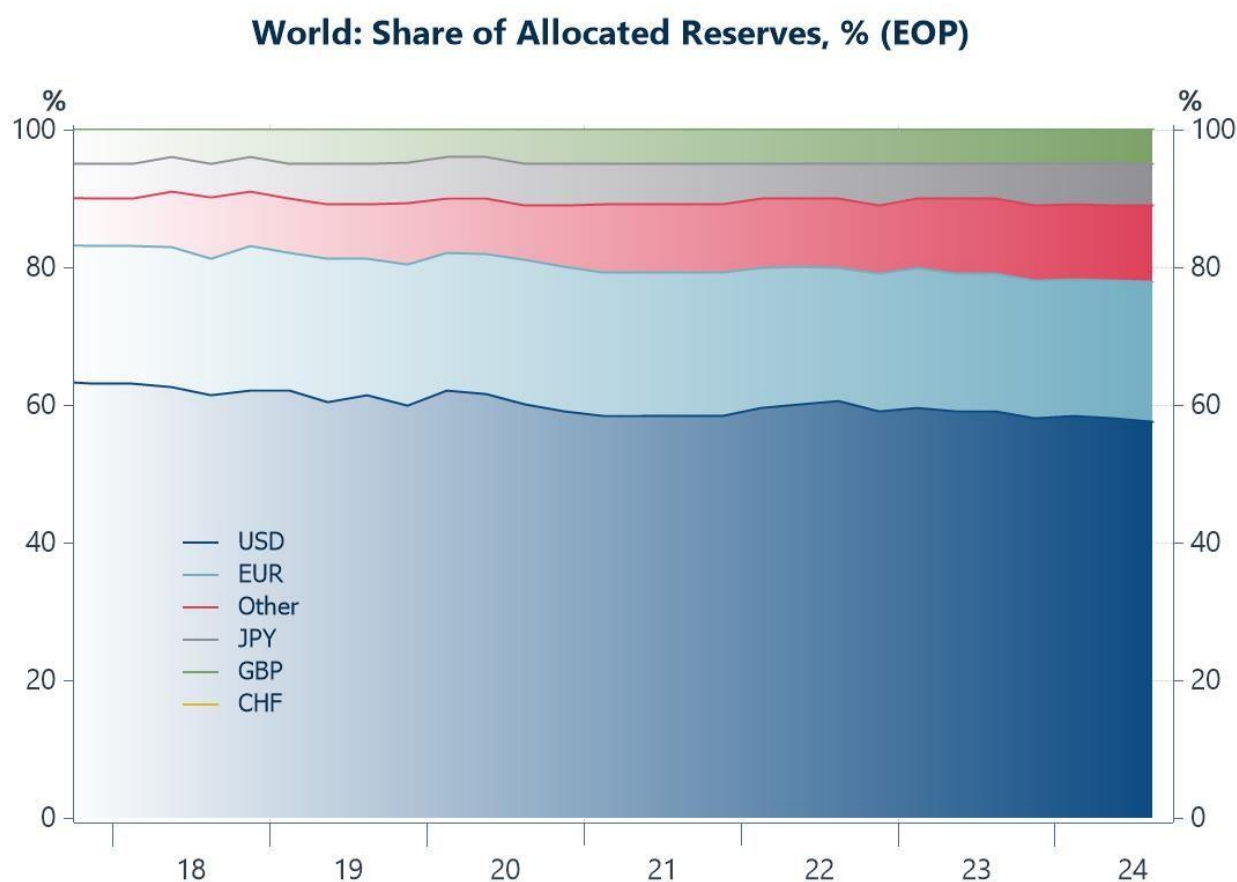


Source: OECD/Haver

Reserve currencies

Another key driver of the dollar – and the US current account deficit – is arguably the continued dominance of the US dollar in central banks’ reserves. Chart 4 below illustrates the global share of allocated foreign exchange reserves across major currencies over time. It shows that the US dollar has maintained a dominant share of these reserves, consistently accounting for over 55-60% of the total. This means that policies aimed at reducing the allure of the US dollar – and its financial markets – may find more success in reducing US trade imbalances compared with bilateral tariff policies.

Chart 4: Global foreign exchange reserves, shares of major currencies



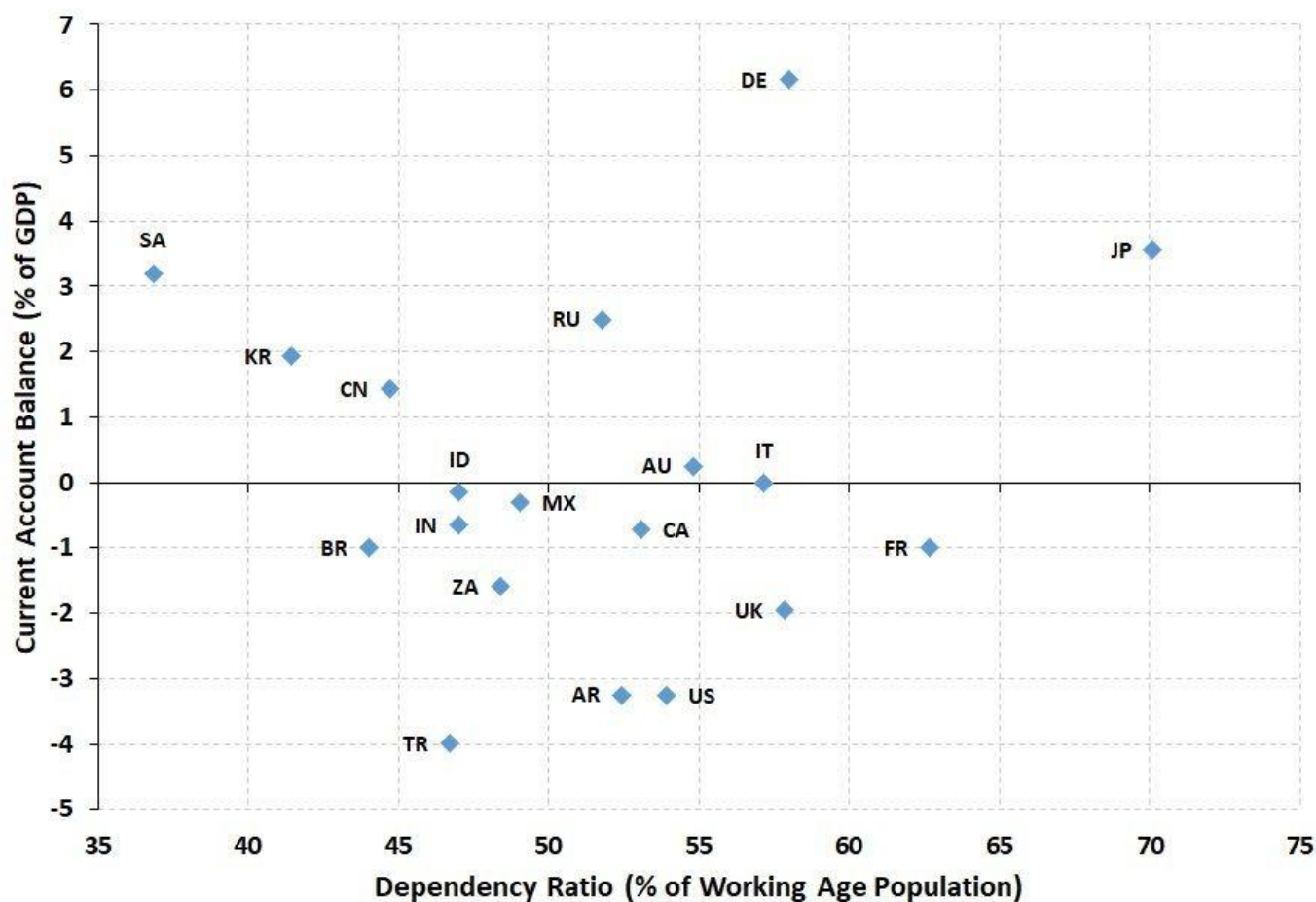
Source: International Monetary Fund/Haver Analytics

Savings, investment and demographics

Policies aimed at reducing savings surpluses in overseas economies could also be more effective than bilateral tariffs in addressing trade imbalances, but they are difficult to implement. Chart 5 highlights a (small) negative correlation between current account balances and dependency ratios, indicating that economies with higher dependency ratios (i.e., more children and elderly relative to the workforce) tend to have lower current account balances. This occurs because higher dependency ratios reduce national savings, as dependent populations consume more while contributing less to production and savings, leading to current account deficits. The US deficit appears broadly in line with other major economies, given its demographic structure and investment needs. However, Germany and Japan stand out as big outliers, running very large savings surpluses despite ageing populations. This is a function of several factors including their strong industrial base and a cultural aversion to debt accumulation, partly shaped by historical legacies. Policies that trigger a reduced aversion to debt and encourage greater domestic consumption and investment could help rebalance global savings and trade flows. In Germany, this could involve higher public spending, stronger wage growth, and tax incentives to boost household consumption,

while in Japan, reforms to pension systems and labour markets could incentivize higher domestic investment.

Chart 5: Investment and savings rates versus dependency ratios in 2023

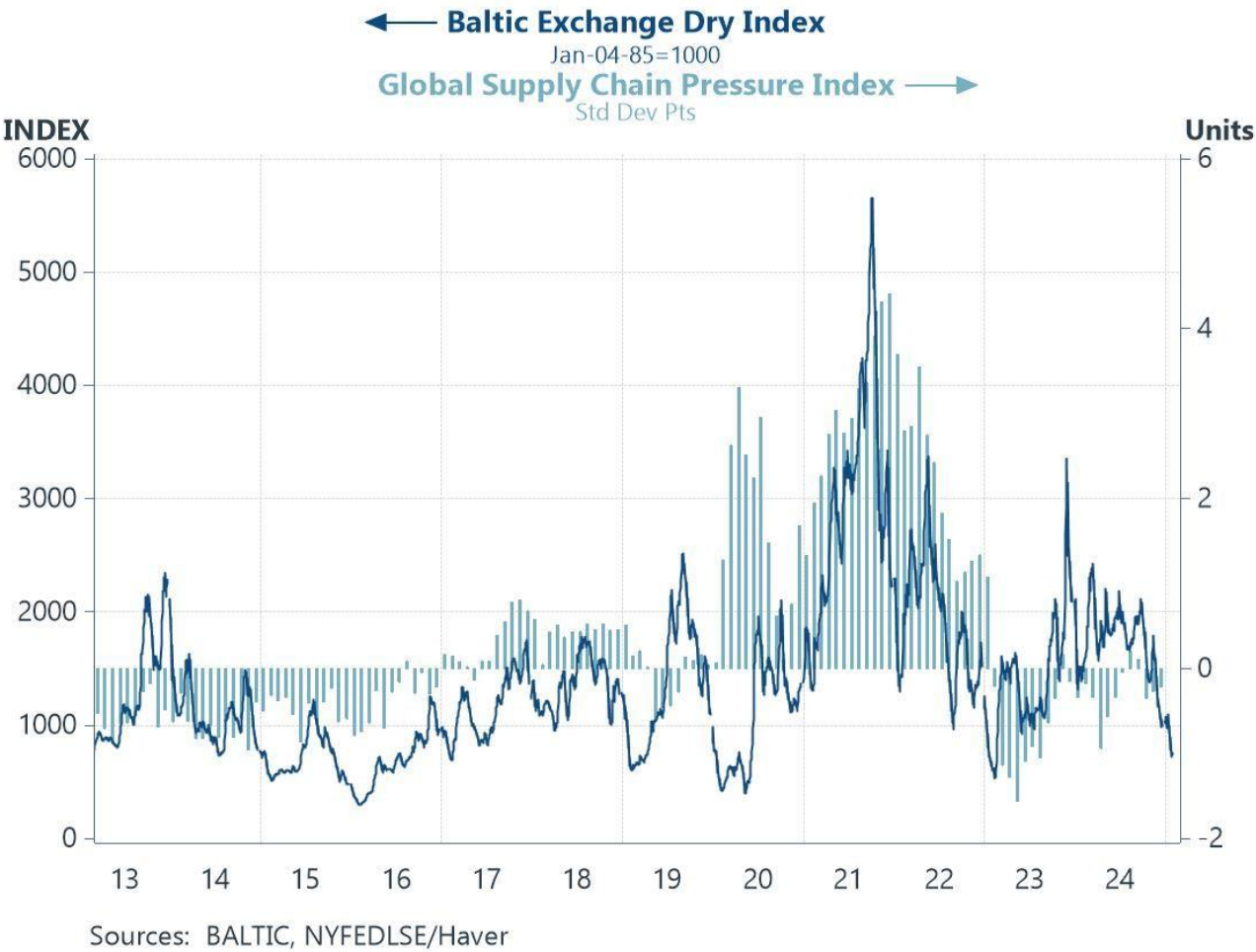


Source: IMF, World Bank, Haver Analytics

Global trade and supply chain pressures

Predicting how these developments will unfold and their broader impact on the global economy remains highly uncertain. The latest daily data from the Baltic Dry Index indicates that global shipping costs have fallen sharply in recent weeks, likely due to weaker demand for bulk shipping and container freight. Additionally, uncertainty surrounding trade policy may have led businesses to delay investment in global supply chains, further dampening shipping demand. However, in the longer term, higher tariffs could introduce new supply chain pressures. If tariffs provoke retaliatory trade measures from China or other key partners, logistics networks could come under renewed strain, leading to heightened supply chain volatility. This could, in turn, drive up costs, disrupt trade flows, and re-ignite global inflation risks, and add further complexity to an already fragile global economy.

Chart 6: The Baltic Cry Index versus the Global Supply Chain Pressure



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.

Series info:

Chart 1: Current account balances in the US, Japan, China and Germany

Series 1: [BSBCPG@USECON](#)

BSBCPG@USECON [Balance on Current Account as a % of GDP (SAAR, %)]

Series 2: [S134BCPG@G10](#)

S134BCPG@G10 [Germany: BOP: Current Account Balance as Percent of GDP (SA, %)]

Series 3: [S158BCPG@G10](#)

S158BCPG@G10 [Japan: Balance on Current Account as a % of GDP (SA, %)]

Series 4: [H924BCPG@EMERGE](#)

H924BCPG@EMERGE [China: Current Account Balance as a Percentage of GDP (SA, %)]

Chart 2: The real trade weighted value of the US

Series 1: [FXTWBDIC@USECON](#)

FXTWBDIC@USECON [Real FRB Broad Trade-Weighted Dollar Index (Jan-06=100)]

Series 2: [100](#)

Constant=100

Chart 3: OECD estimates of potential GDP growth in the US, Germany, Japan and China

Series 1: [R111GPOY@OUTLOOK](#)

R111GPOY@OUTLOOK [U.S.: Potential GDP [May24](Yr/Yr % Chg)]

Series 2: [R134GPOY@OUTLOOK](#)

R134GPOY@OUTLOOK [Germany: Potential GDP [May24](Yr/Yr % Chg)]

Series 3: [R158GPOY@OUTLOOK](#)

R158GPOY@OUTLOOK [Japan: Potential GDP [May24](Yr/Yr % Chg)]

Series 4: [R924GPOY@OUTLOOK](#)

R924GPOY@OUTLOOK [China: Potential GDP [May24](Year/Year % Change)]

Chart 4: Global foreign exchange reserves, shares of major currencies

Series 1: C010SRAD@IFS

C010SRAD@IFS [World: Share of Allocated Reserves: Claims in USD(%, EOP)]

Series 2: C010SRAE@IFS

C010SRAE@IFS [World: Share of Allocated Reserves: Claims in EUR (%, EOP)]

Series 3: (((C010SRAO@IFS + C010SRAR@IFS) + C010SRAC@IFS) + C010SRAA@IFS)

C010SRAO@IFS [World: Share of Allocated Reserves: Claims in Oth Currencies (%, EOP)]

C010SRAR@IFS [World: Share of Allocated Reserves: Claims in CNY (%, EOP)]

C010SRAC@IFS [World: Share of Allocated Reserves: Claims in CAD (%, EOP)]

C010SRAA@IFS [World: Share of Allocated Reserves: Claims in AUD (%, EOP)]

Series 4: C010SRAY@IFS

C010SRAY@IFS [World: Share of Allocated Reserves: Claims in JPY (%, EOP)]

Series 5: C010SRAP@IFS

C010SRAP@IFS [World: Share of Allocated Reserves: Claims in GBP (%, EOP)]

Series 6: C010SRAW@IFS

C010SRAW@IFS [World: Share of Allocated Reserves: Claims in CHF (%, EOP)]

Chart 5: Investment and savings rates versus dependency ratios in 2023

Please refer to the Excel file included in the VG3 folder download.

Chart 6: The Baltic Cry Index versus the Global Supply Chain Pressure

Series 1: BDI@BALTIC

BDI@BALTIC [Baltic Exchange Dry Index (Jan-04-85=1000)]

Series 2: W1NGSCPI@TRANSPRT

W1NGSCPI@TRANSPRT [Global Supply Chain Pressure Index (Std Dev Pts)]

Get in touch

Drop us a line on sales@haver.com and someone from our team will connect with you to discuss your data needs.