

27 February 2025

Charts of the Week: No Free Lunch

A HAVER ANALYTICS[®] publication

Link to online commentary: <https://haverproducts.com/charts-of-the-week/>

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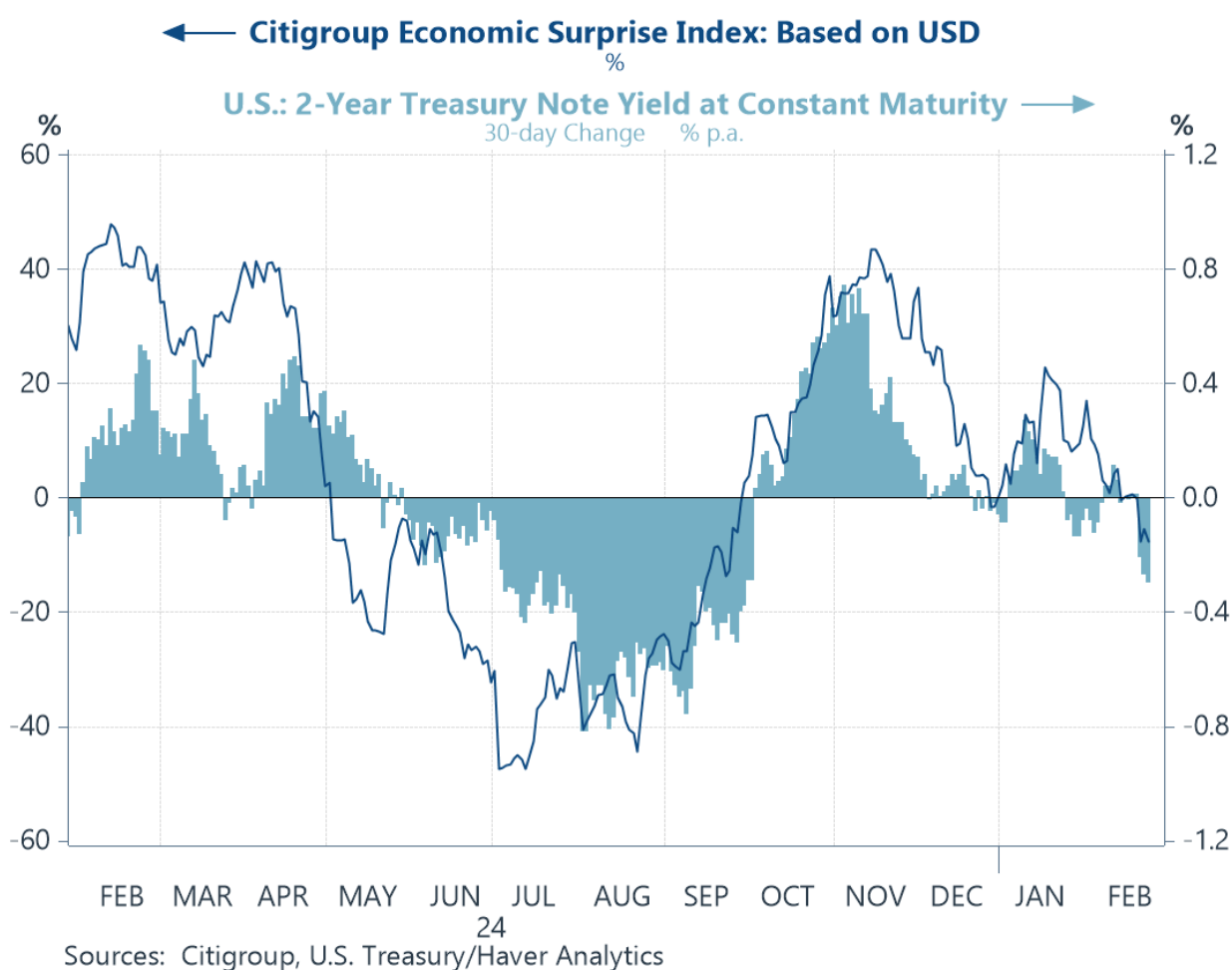
Written by [Andy Cates](#), Senior Economist

The global economy remains fragile, with financial markets showing resilience despite persistent policy uncertainties, geopolitical risks, and uneven growth. Investors have largely adopted a wait-and-see approach, balancing inflationary pressures and rising US trade protectionism against looser monetary policy and optimism about AI-driven productivity gains. This week's charts highlight the growing complexities in global trade and economic policy, where traditional tools, such as tariffs, could be increasingly misaligned with economic realities. Recent US survey data, for instance, indicate a sharp rise in inflation expectations, likely fuelled by concerns over tariffs, which have simultaneously weighed on consumer confidence (chart 1). Meanwhile, latest US trade figures reveal a record deficit in goods trade alongside a widening surplus in services trade, further emphasizing why tariffs alone are unlikely to correct trade imbalances (chart 2). At the same time, shifts in US trade policy have coincided with near-record highs in global economic policy uncertainty. By dampening business and consumer confidence, this could weaken US export demand, complicating the intended effects of trade restrictions. Another dynamic is unfolding in Europe, where geopolitical tensions are prompting governments to increase defence spending, introducing yet another layer of uncertainty into the macroeconomic outlook (chart 4). In short, downside risks to global growth are mounting. Sector-specific and country-level risk indicators, such as those provided by our data partner Dun and Bradstreet, and which capture these underlying pressures, will certainly be useful for monitoring broader economic risks in the months ahead (charts 5 and 6).

US growth surprises

Chart 1 below illustrates how the 2-year Treasury yield, a key gauge of market expectations for Fed policy, has closely tracked economic surprises in recent months. When data exceed expectations, yields have generally risen, whereas weaker-than-expected reports have coincided with declines. More recently, US economic data have increasingly underwhelmed, pushing the surprise index into negative territory and to its lowest level since last September. This downward shift in yields has occurred despite a notable rise in inflation expectations across several surveys, highlighting a growing disconnect between inflation concerns and broader growth momentum.

Chart 1: Citigroup Economic Surprise Index vs. U.S. 2-Year Treasury Yield

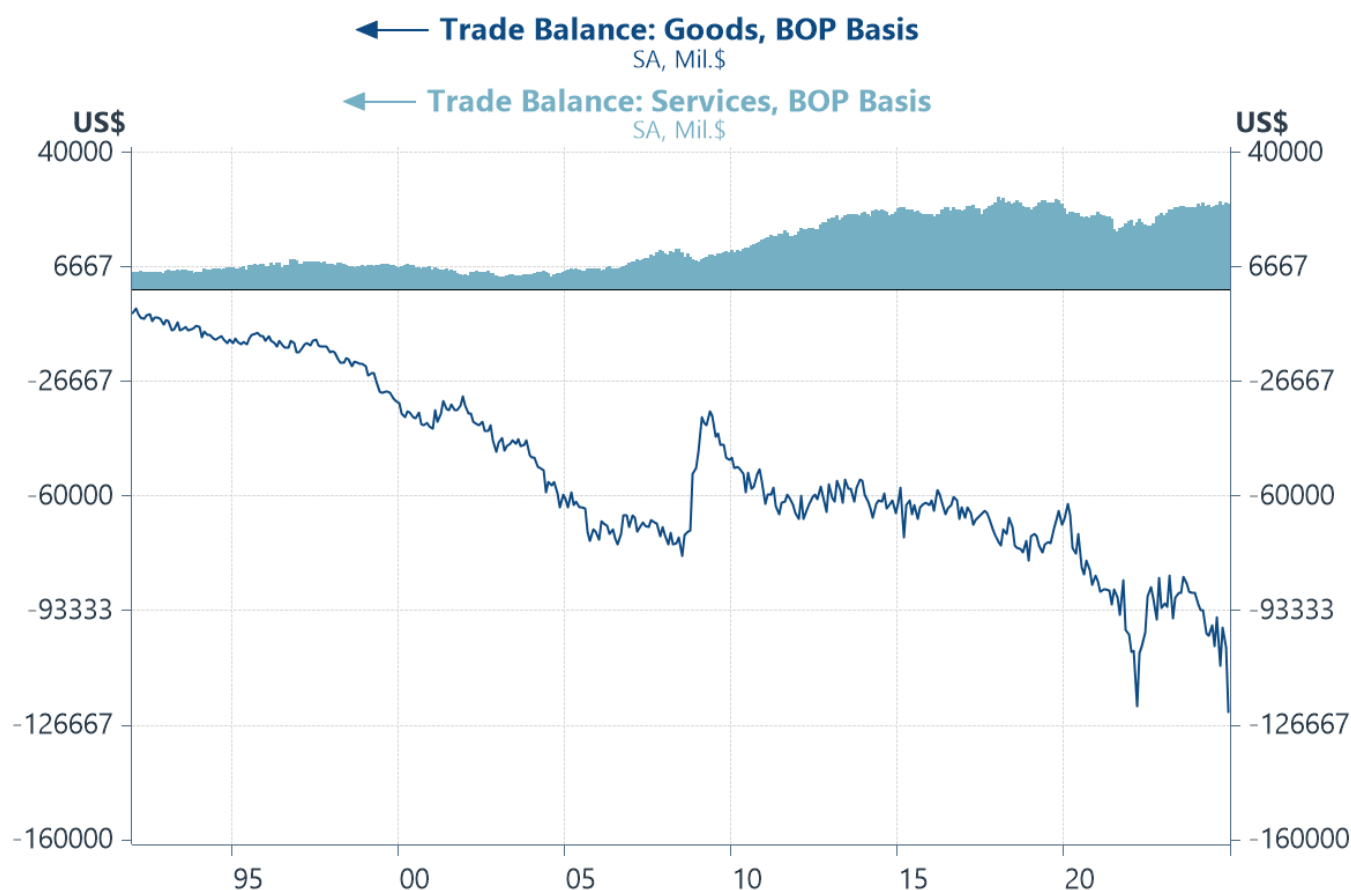


Shifting US trade dependencies

Latest US data also reveal a persistent and widening trade deficit in goods. This stands in contrast, moreover, to a relatively stable and steadily improving surplus in services trade. Over the past three decades, the US has become increasingly reliant on services exports, while continuing to import large

volumes of manufactured goods. The chart potentially suggests that protectionist measures have done little – so far - to reverse the downward trajectory of the goods trade balance. Meanwhile, the strength in services trade suggests that traditional trade policy tools, such as tariffs on physical goods, could be increasingly disconnected from the realities of a modern economy. As digital trade and knowledge-based services grow in prominence, the effectiveness of tariffs in addressing trade imbalances becomes increasingly questionable.

Chart 2: US trade in goods and services



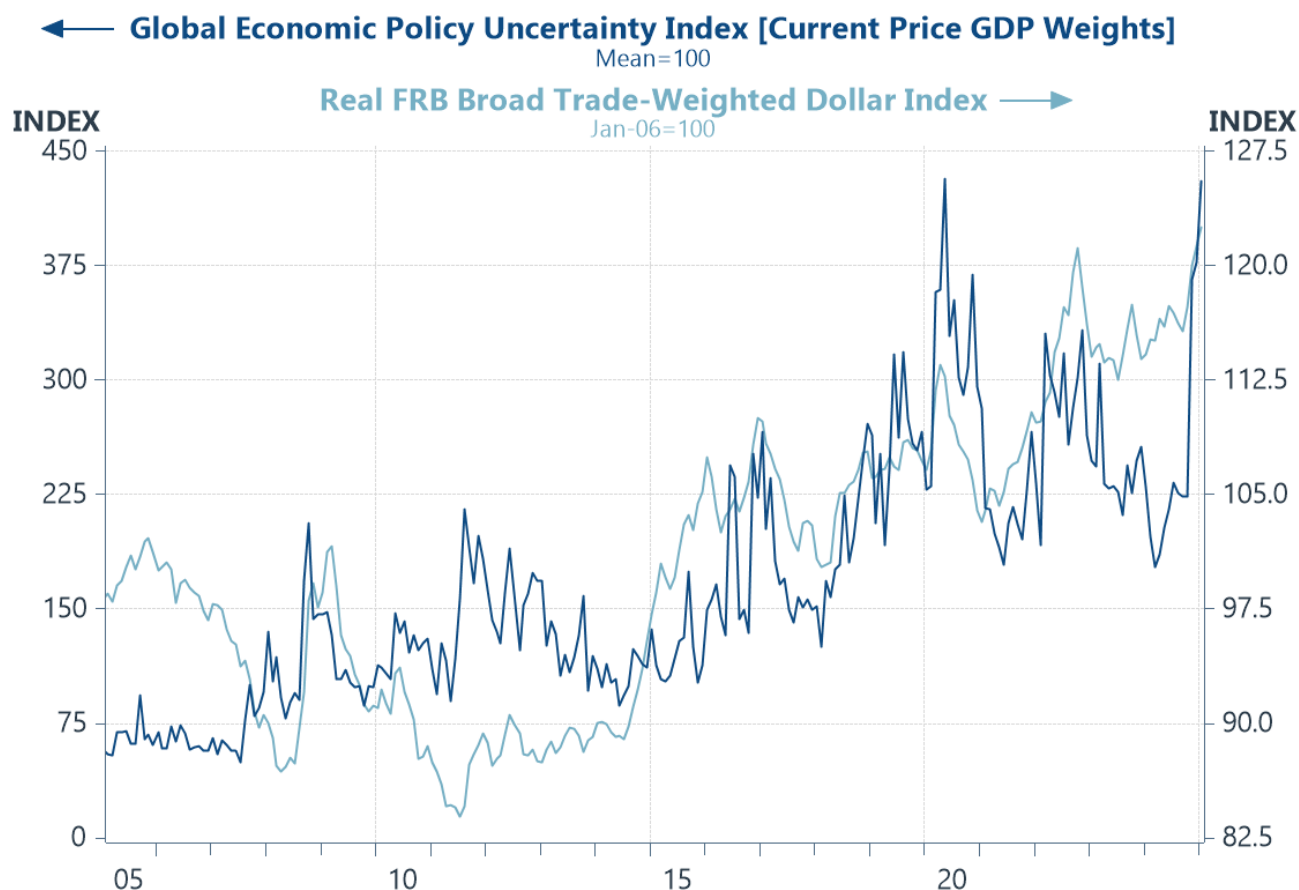
Source: Census Bureau/Haver Analytics

Uncertainty and the dollar

Chart 3 below suggests that economic policy uncertainty has jumped sharply higher in recent weeks, and at the global level, to near-record highs. Historically, periods of heightened uncertainty—driven by factors such as trade tensions, monetary policy shifts, and geopolitical instability—have been accompanied by an appreciation in the dollar as investors seek safe-haven assets. The recent surge in uncertainty certainly highlights how concerns over US trade policy and broader macroeconomic risks are creating tensions and

serves as a reminder that this can create feedback loops where heightened risk perceptions reinforce currency movements, amplifying global economic and financial instability.

Chart 3: Global economic policy uncertainty and the US dollar

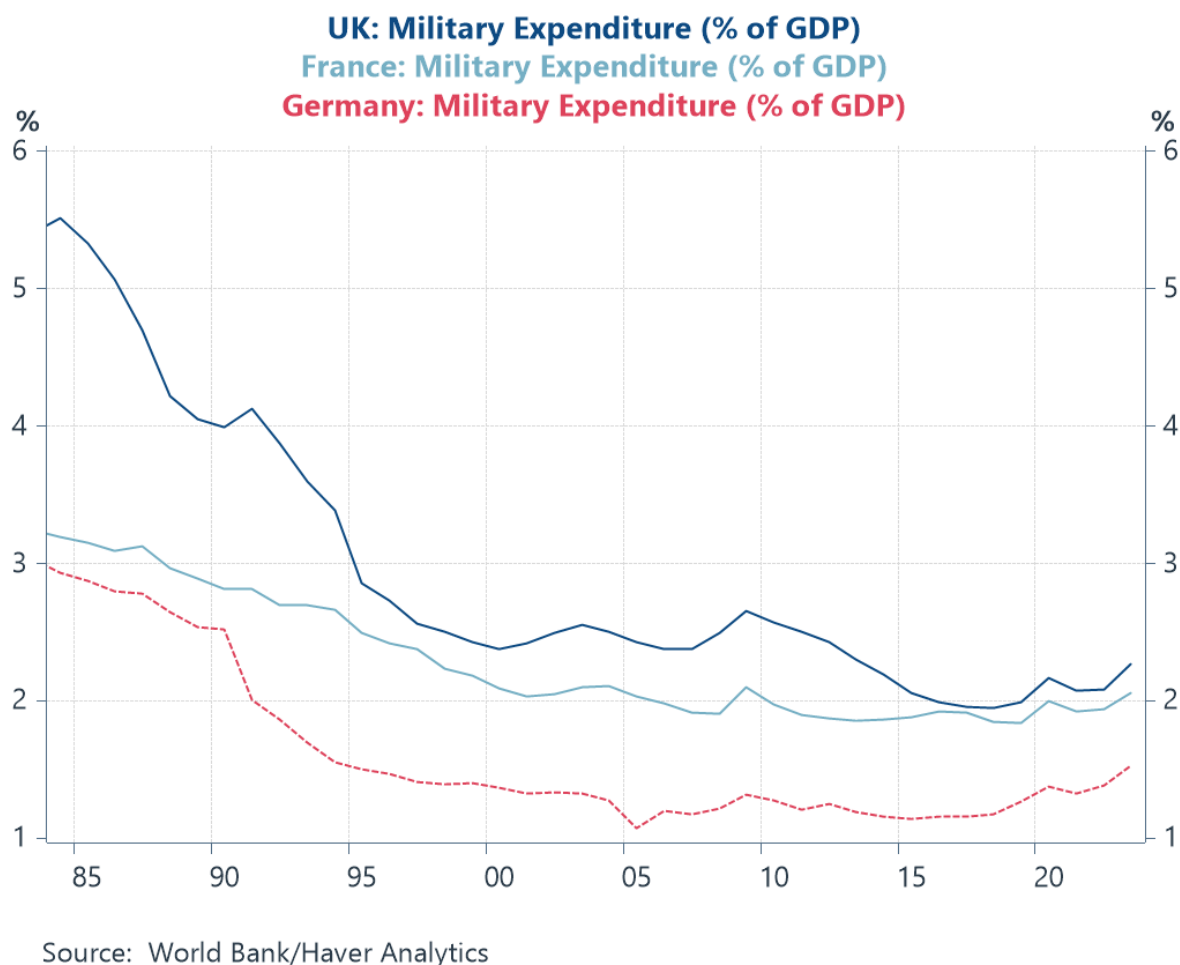


Sources: PolicyUncertainty.com, Federal Reserve Board/Haver Analytics

The end of the peace dividend?

Recent days have seen several European governments either commit to – or publicly opine on – lifting their defence expenditure. Prior to these developments there had been a long-term decline in military spending as a share of GDP across the likes of the UK, France, and Germany, a trend that began in the post-Cold War period (chart 4). While all three countries significantly reduced military expenditures during the 1990s and early 2000s, the pace of decline has been most pronounced in Germany, which has historically maintained a more restrained defence posture. However, in recent years, military spending has begun to tick upward, reflecting renewed geopolitical tensions, particularly in light of Russia’s invasion of Ukraine. The increase in defence budgets suggests a shift in priorities, with European nations facing pressure to contribute more to their own security amid broader concerns about NATO’s long-term cohesion.

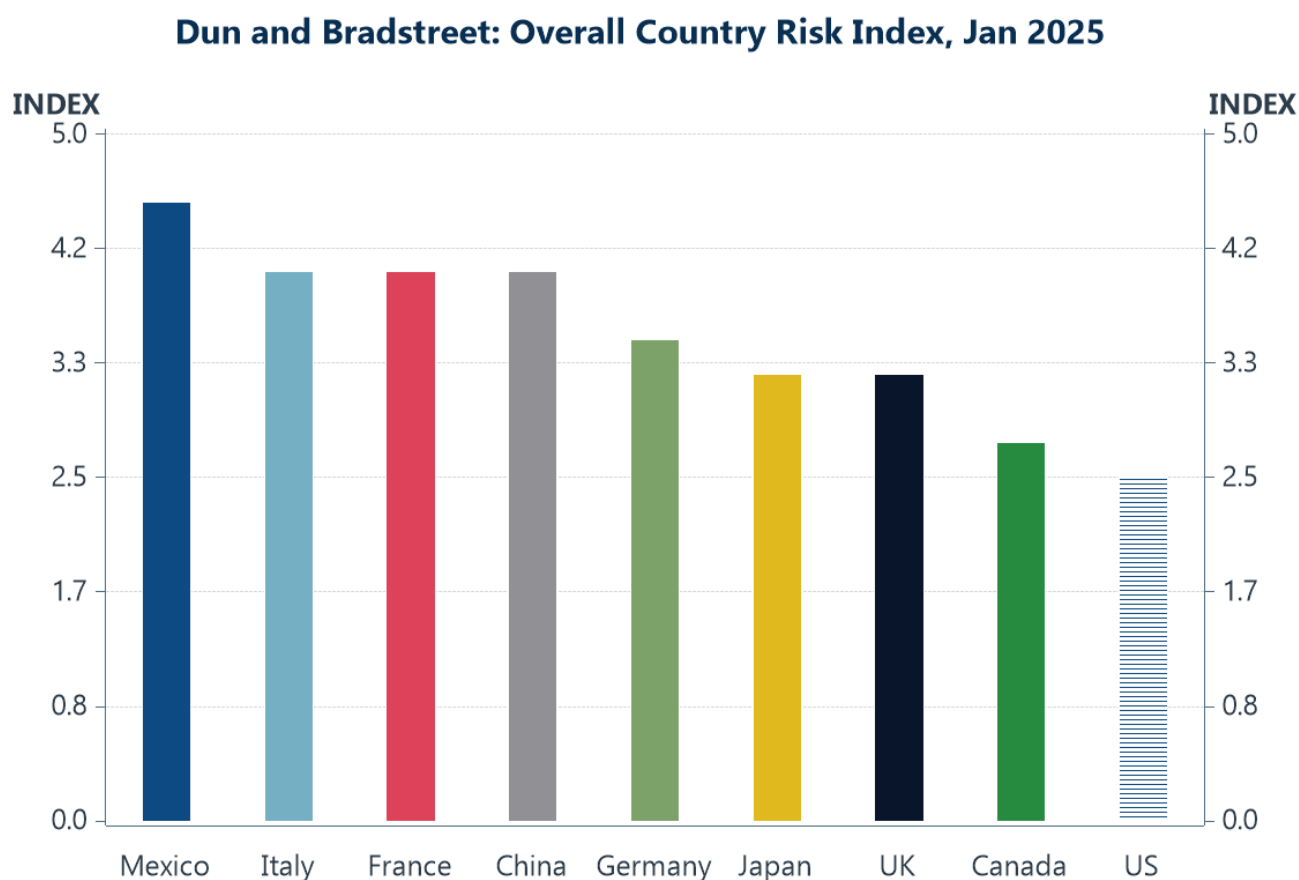
Chart 4: Military spending in Germany, France and the UK



Country risks

This next chart deploys the Dun and Bradstreet indicators that are now stored on Haver's platform to rank country risk based on a range of economic and political factors. Mexico appears to face the highest overall risk at present among the countries listed, likely due to its heavy exposure to US trade policies and domestic political concerns. Meanwhile, Canada and the US have some of the lowest risk ratings, suggesting relative economic stability. However, while these lower scores indicate resilience, they bear watching closely in the coming months for the growing risks tied to trade protectionism and shifting geopolitical alliances.

Chart 5: Dun & Bradstreet Overall Country Risk Index for selected major economies

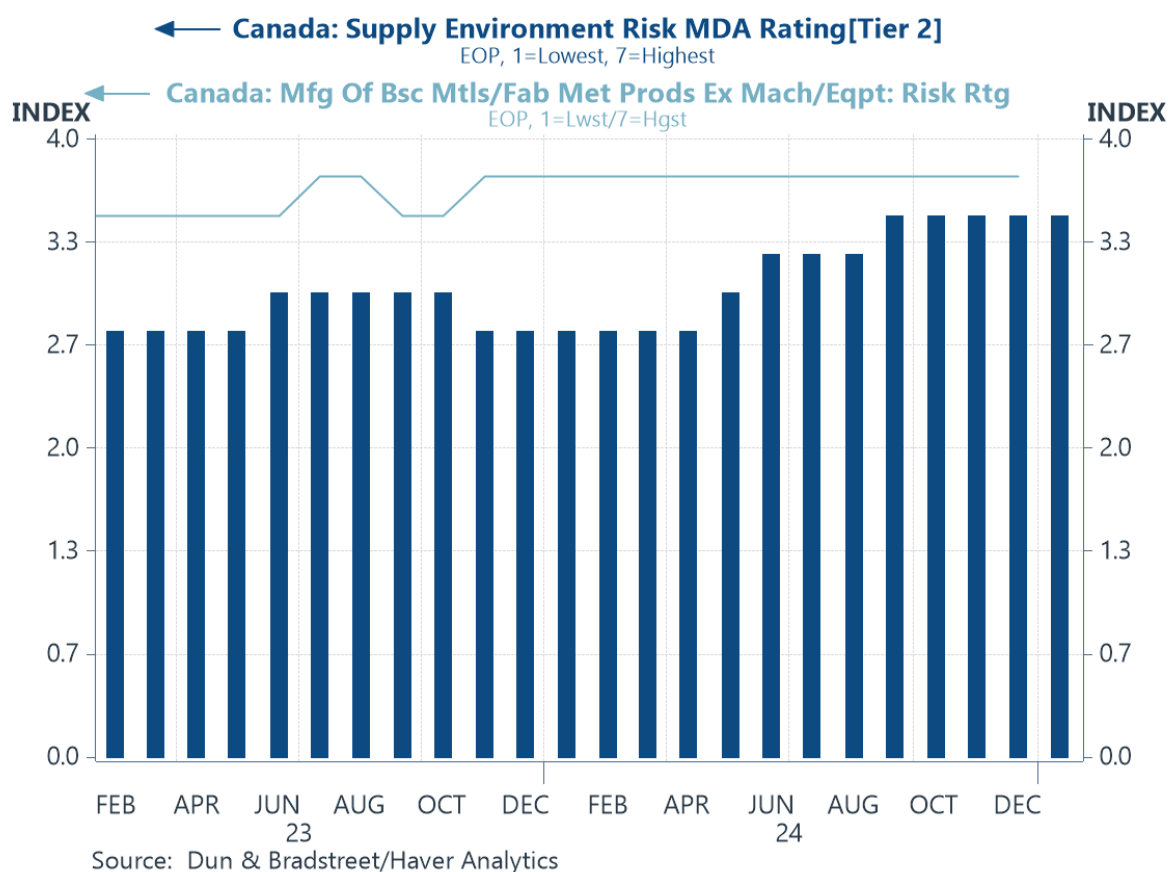


Source: Dun & Bradstreet/Haver Analytics

Canada's economy

Chart 6 below shows a steady increase in Canada's supply risk rating over the past two years and potentially points to growing challenges for businesses operating in the manufacturing sector. Rising trade frictions, supply chain disruptions, and geopolitical risks have all contributed to an environment where Canadian businesses face greater uncertainty and operational hurdles. While Canada has traditionally been viewed as a stable and reliable trade partner, the evolving landscape—particularly in the wake of shifting US trade policies—has introduced new complexities. The chart potentially underscores how trade uncertainty might translate into real economic consequences, with businesses needing to adapt to a more volatile and unpredictable global trade environment.

Chart 6: Canada: Supply Environment Risk Rating



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: Citigroup Economic Surprise Index vs. U.S. 2-Year Treasury Yield

Series 1: V111CSI@INTDAILY

V111CSI@INTDAILY [Citigroup Economic Surprise Index: Based on USD (%)]

Series 2: diff(R111G2@INTDAILY,30)

R111G2@INTDAILY [U.S.: 2-Year Treasury Note Yield at Constant Maturity (% p.a.)]

Chart 2: US trade in goods and services

Series 1: BPBMM@USINT

BPBMM@USINT [Trade Balance: Goods, BOP Basis (SA, Mil.\$)]

Series 2: BPBSVM@USINT

BPBSVM@USINT [Trade Balance: Services, BOP Basis (SA, Mil.\$)]

Chart 3: Global economic policy uncertainty and the US dollar

Series 1: N001VIUC@ESG

N001VIUC@ESG [Global Economic Policy Uncertainty Index [Current Price GDP Weights] (Mean=100)]

Series 2: FXTWBDIC@USECON

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

Chart 4: Military spending in Germany, France and the UK

Series 1: G112EXMG@WDI

G112EXMG@WDI [UK: Military Expenditure (% of GDP)]

Series 2: G132EXMG@WDI

G132EXMG@WDI [France: Military Expenditure (% of GDP)]

Series 3: G134EXMG@WDI

G134EXMG@WDI [Germany: Military Expenditure (% of GDP)]

Chart 5: Dun & Bradstreet Overall Country Risk Index for selected major economies

Series 1: DB273ROC@DNBCNTRY

DB273ROC@DNBCNTRY [Mexico: Overall Country Risk Rtg [Tier 1] (EOP, 1=Lowest Risk, 7=Highest Risk)]

Series 2: DB136ROC@DNBCNTRY

DB136ROC@DNBCNTRY [Italy: Overall Country Risk Rating [Tier 1] (EOP, 1=Lowest Risk, 7=Highest Risk)]

Series 3: DB132ROC@DNBCNTRY

DB132ROC@DNBCNTRY [France: Overall Country Risk Rtg [Tier 1] (EOP, 1=Lowest Risk, 7=Highest Risk)]

Series 4: DB924ROC@DNBCNTRY

DB924ROC@DNBCNTRY [China: Overall Country Risk Rating [Tier 1] (EOP, 1=Lowest Risk, 7=Highest Risk)]

Series 5: DB134ROC@DNBCNTRY

DB134ROC@DNBCNTRY [Germany: Overall Country Risk Rtg [Tier 1] (EOP, 1=Lowest Risk, 7=Highest Risk)]

Series 6: DB158ROC@DNBCNTRY

DB158ROC@DNBCNTRY [Japan: Overall Country Risk Rating [Tier 1] (EOP, 1=Lowest Risk, 7=Highest Risk)]

Series 7: DB112ROC@DNBCNTRY

DB112ROC@DNBCNTRY [United Kingdom: OA Country Risk Rtg[Tier 1] (EOP, 1=Lowest Risk, 7=Highest Risk)]

Series 8: DB156ROC@DNBCNTRY

DB156ROC@DNBCNTRY [Canada: Overall Country Risk Rtg [Tier 1] (EOP, 1=Lowest Risk, 7=Highest Risk)]

Series 9: DB111ROC@DNBCNTRY

DB111ROC@DNBCNTRY [United States: OA Country Risk Rtg[Tier 1] (EOP, 1=Lowest Risk, 7=Highest Risk)]

Chart 6: Canada: Supply Environment Risk Rating

Series 1: DB156RSE@DNBCNTRY

DB156RSE@DNBCNTRY [Canada: Supply Environment Risk MDA Rating[Tier 2](EOP, 1=Lowest, 7=Highest)]

Series 2: DB156CCH@DNBIND

DB156CCH@DNBIND [Canada: Mfg Of Bsc Mtls/Fab Met Prods Ex Mach/Eqpt: Risk Rtg(EOP, 1=Lwst/7=Hgst)]

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.