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# Charts of the Week: Goodwill Hunting

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

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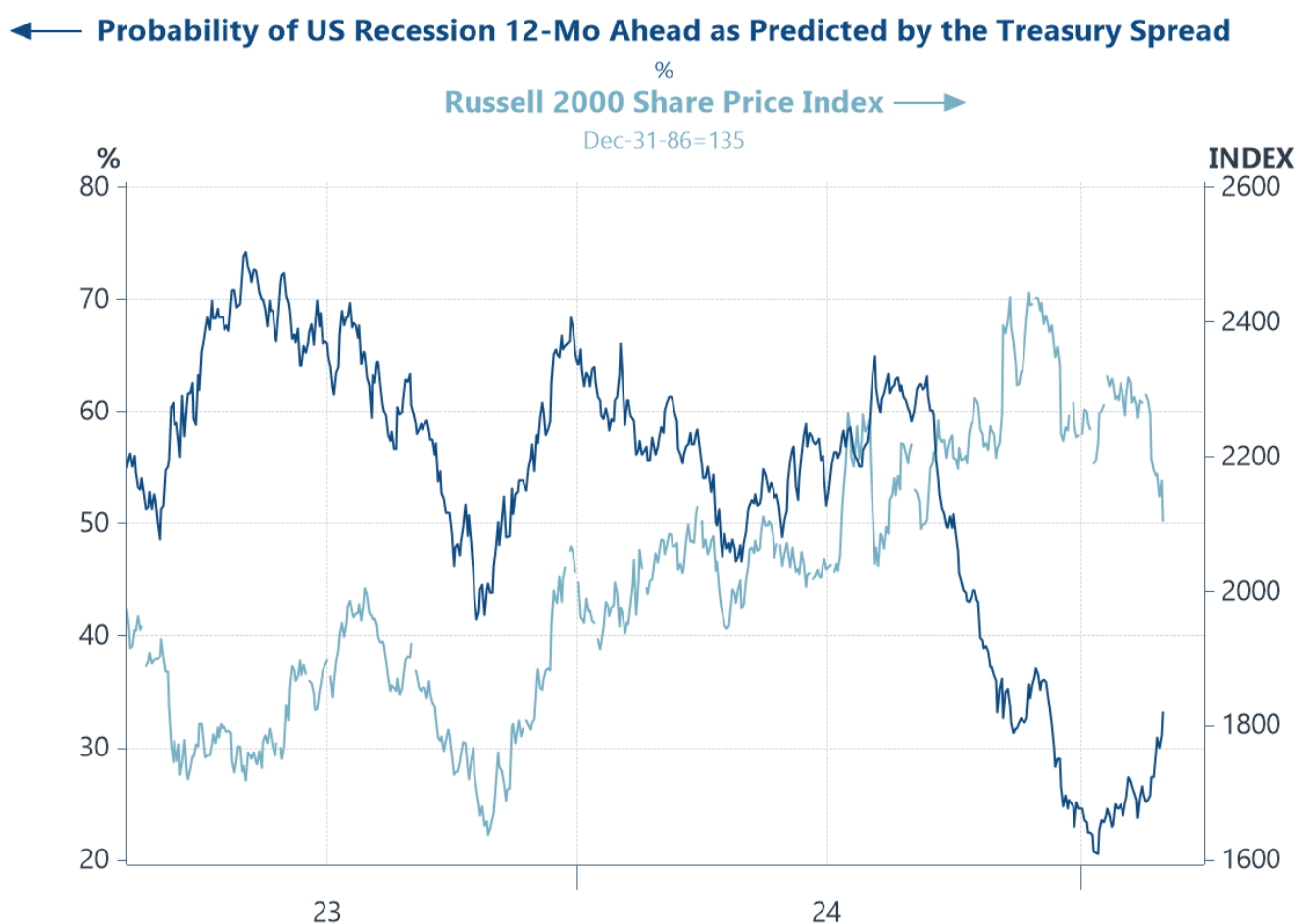
Written by [Andy Cates](#), Senior Economist

Financial markets have experienced heightened volatility in recent days, with investor sentiment rattled by rising US recession risks, escalating global trade tensions, and mounting geopolitical uncertainties. Sharp decline in US stocks, lower yields coupled with weaker confidence data reflect growing concerns that recent trade and economic policies from the US administration are sapping economic growth and increasing financial instability (chart 1). Beyond immediate market fluctuations, the long-term impact of these policies is also sparking a broader debate about the erosion of economic goodwill—the trust and stability that businesses and consumers historically associated with the United States (chart 2). Meanwhile, China and South Korea, two of the world’s most trade-dependent economies, are also feeling the strain with latest data from the latter suggesting sharply slower industrial production and weakening external demand (charts 3 and 4). The impact is also evident in Europe, where, having cut its key policy rates by 25bps this week, the ECB faces increasing challenges in calibrating monetary policy amid an uncertain economic landscape (chart 5). Finally, and looking at even broader issues, energy remains a critical variable in the global outlook. While the long-term energy transition continues, short-term concerns over trade-driven supply disruptions and geopolitical instability in energy markets add another layer of economic risk, reinforcing fears that persistent economic fragmentation could weigh on long-term growth across major economies (chart 6).

## US recession risks

Recession risks in the US have climbed sharply, albeit from low levels, over the past few days. That at least is the message from the US Treasury market – and the spread between 10 year bond yields and 3 month interest rates in particular (chart 1). The re-imposition of tariffs on Chinese imports, alongside new levies targeting Canadian and Mexican goods, has, following retaliatory measures, heightened fears of a global trade war. Coupled with efforts to cut costs and trim headcount in the government sector, latest US data have revealed a big drop in growth momentum. Against this backdrop the Russell 2000 stock price index, which is highly sensitive to domestic growth prospects, has also declined sharply.

Chart 1: Rising US Recession Risks



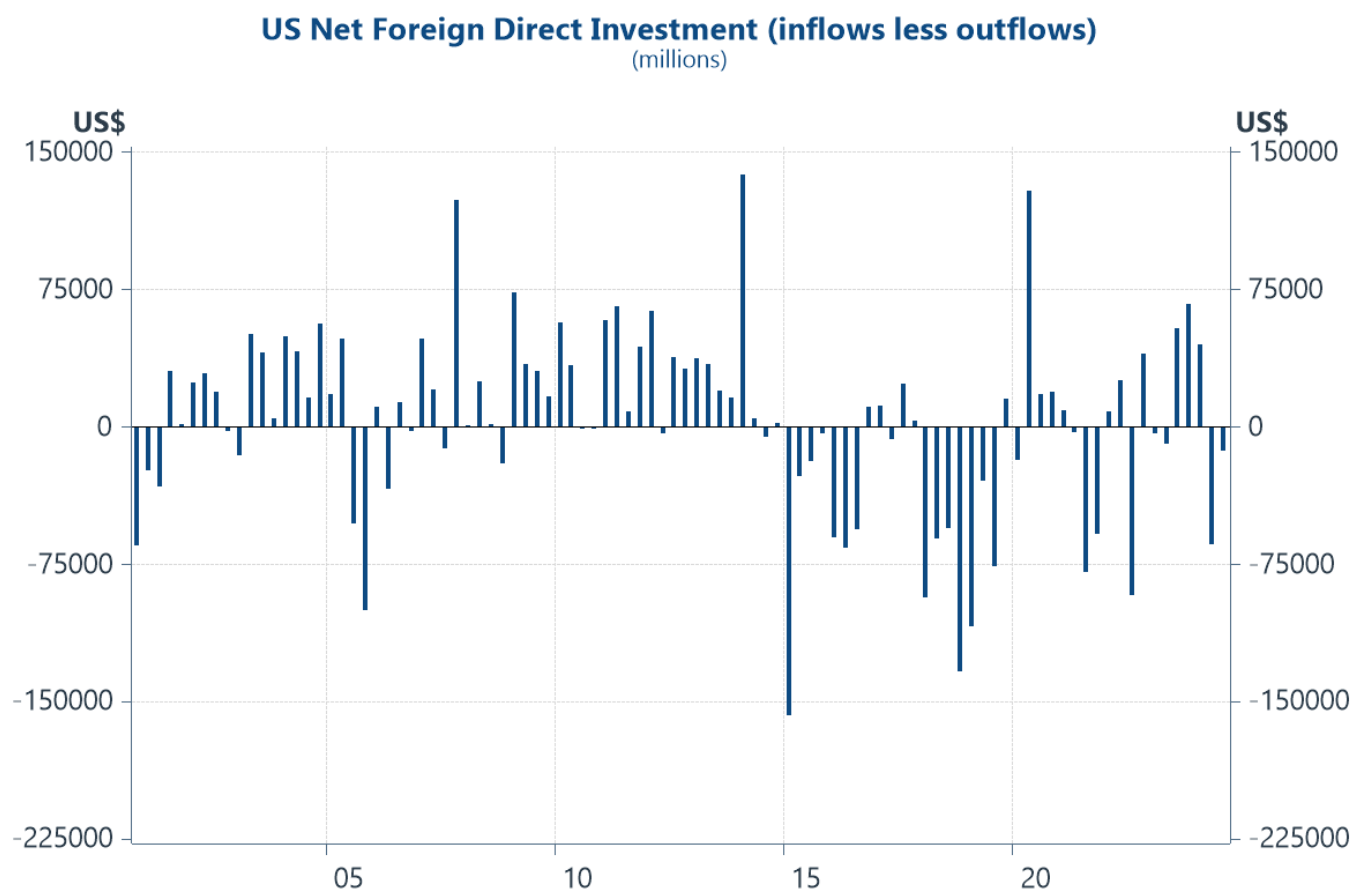
Sources: Haver Analytics, Wall Street Journal

## FDI and Goodwill

Between 2016 and 2020, US net foreign direct investment (FDI) flows exhibited volatility, reflecting the impact of the Trump administration's trade policies in that period. The imposition of tariffs on key trading partners, withdrawal from multilateral agreements, and the push for a reshoring of US manufacturing created uncertainty for multinational firms, leading to fluctuating investment patterns. But while corporate tax cuts

in 2017 initially encouraged some capital inflows, broader uncertainty around trade relationships arguably discouraged long-term commitments (chart 2). That could have been because these policies eroded the United States' economic goodwill—an intangible asset reflecting trust in stable business conditions and regulatory predictability.

Chart 2: US Foreign Direct Investment



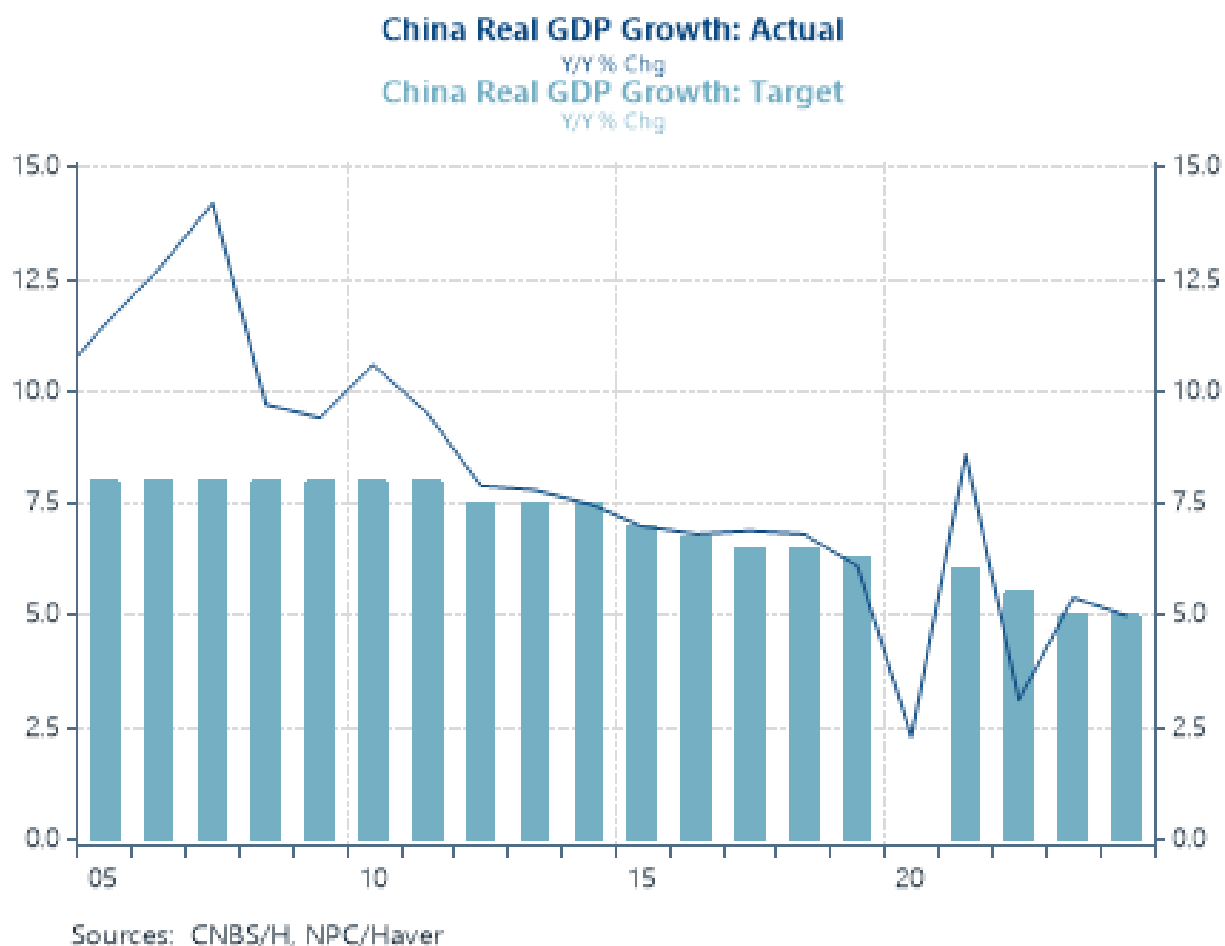
Source: Haver Analytics

## China growth target

China has not been spared from the latest round of trade actions by US President Trump, who doubled tariffs on Chinese imports from an initial 10% to 20%. This move prompted retaliation from China, which imposed tariffs ranging from 10% to 15% on US agricultural goods, among other measures. However, it may be important to note that China's response to US tariffs has been relatively restrained. Despite the potential growth-dampening effects of US policies and other risks, China has once again set its annual growth target at "around 5%". This target was revealed during China's annual National People's Congress, which began this week. Investors are now closely watching for specific policy details on government measures to support growth and navigate China's ongoing challenges. An early indicator of China's approach is the budget

deficit target of 4% of GDP this year, up from last year's 3%, marking the largest deficit in more than 30 years. This suggests the government is willing to increase spending significantly to support the economy. For context, China achieved exactly 5% growth last year, largely thanks to a strong Q4 performance as authorities' stimulus measures took effect and, somewhat ironically, due to a front-loading of imports from China in anticipation of possible US trade initiatives.

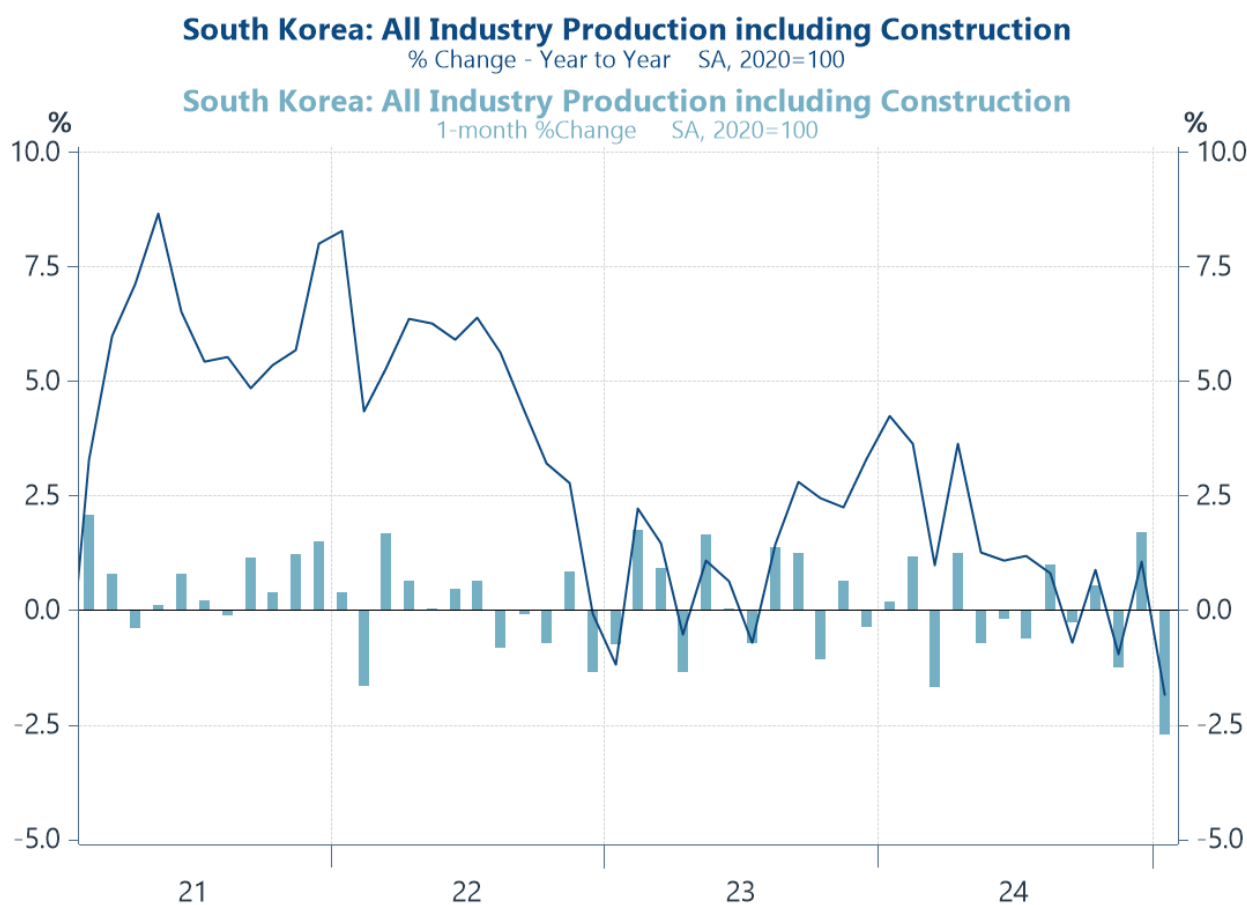
Chart 3: China's GDP growth – actual and target levels



## South Korea's economy

South Korea's industrial production has shown a noticeable slowdown in recent months (chart 4). This trend reflects broader economic challenges, including weakening global demand for semiconductors and possibly thanks to supply chain disruptions stemming from geopolitical tensions. The US administration's renewed protectionist trade stance may have added further strain. Additionally, diplomatic tensions with China—South Korea's largest trading partner—have complicated the trade environment, leading to weaker business investment and industrial activity.

Chart 4: South Korea's Industrial Production Faces Headwinds

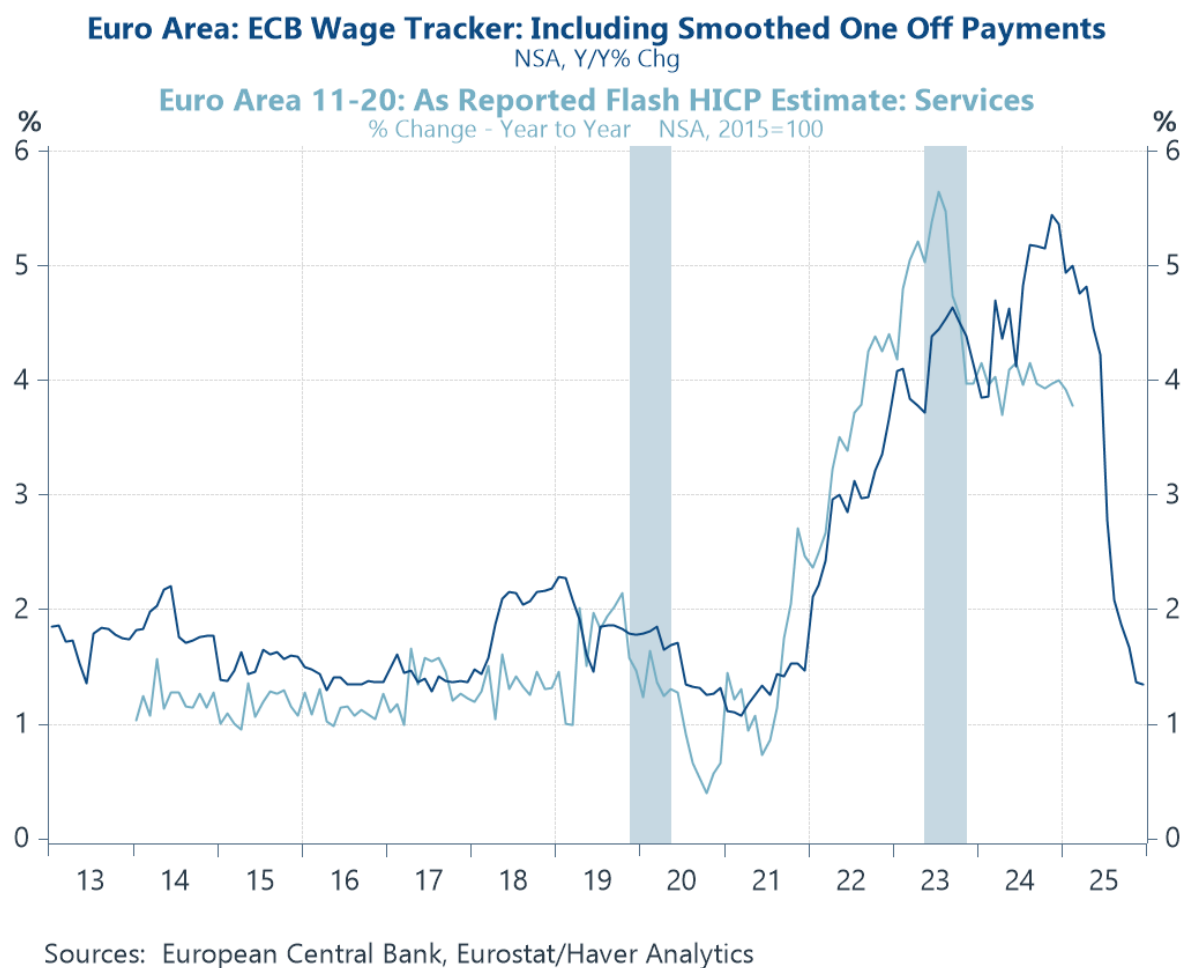


Source: Statistics Korea/Haver Analytics

## Inflation and the ECB

Wage growth in the euro area, as tracked by the ECB, has shown significant moderation after peaking in 2023, aligning with a broader decline in services inflation. That suggests the central bank's restrictive monetary policy is having its intended effect, easing inflationary pressures across the economy. And this was, in turn, a key reason behind the ECB's decision to lower its key policy rates by 25bps this week. That said, as the accompanying commentary suggested, policymakers remain cautious, emphasizing the need for sustained disinflation before committing to a further shift in the monetary policy stance.

Chart 5: Eurozone Wage Growth and Services Inflation

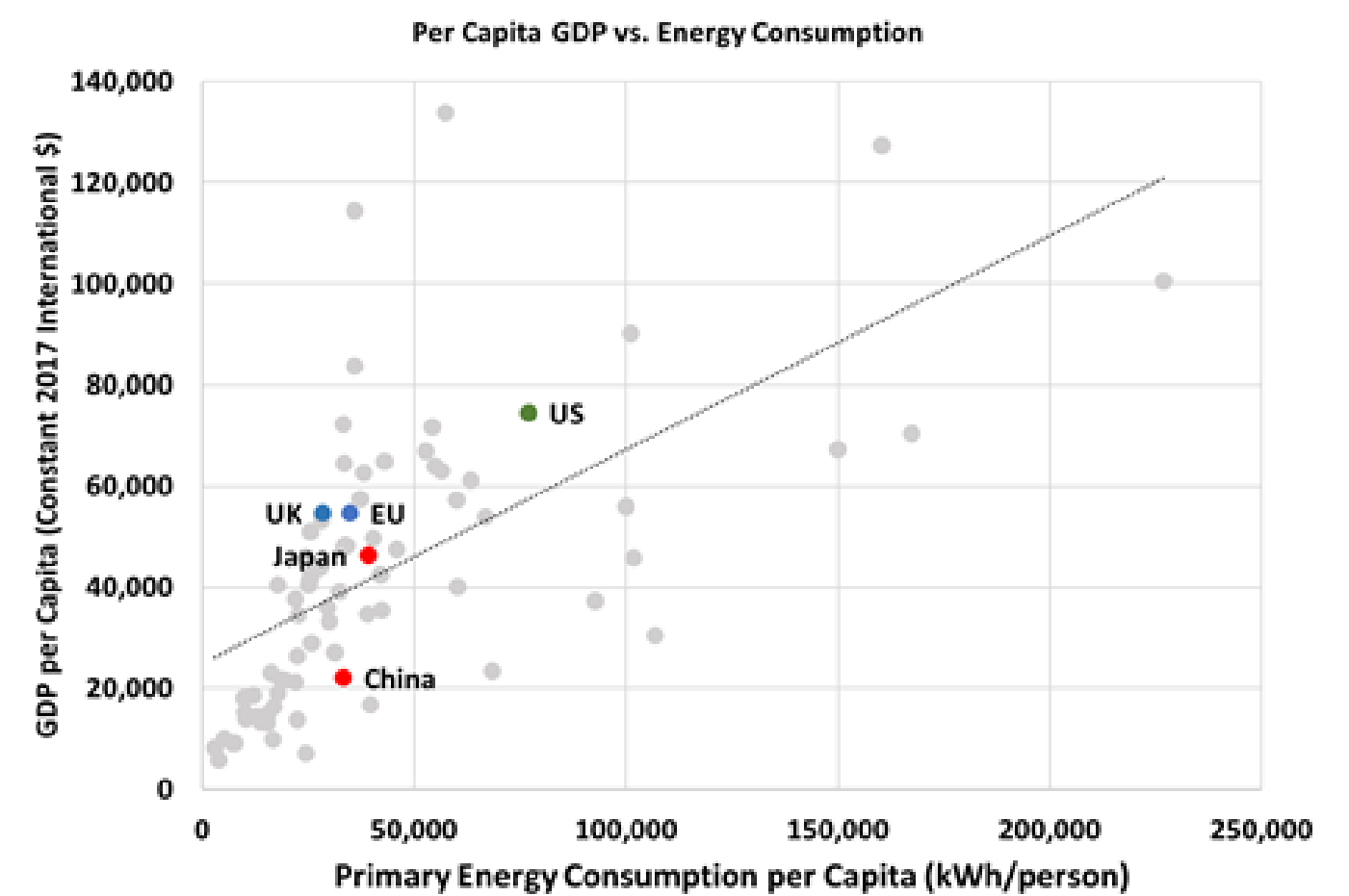


## Energy and growth

Finally, chart 6 below illustrates the relationship between per capita GDP and primary energy consumption per capita in the world's major developed and developing economies. It highlights how higher energy use tends to correlate with higher economic output and living standards. Energy is a fundamental driver of economic activity, supporting key factors of production such as capital, labour, and technology. Industrial productivity, transportation, digital infrastructure, and household consumption all rely on stable and affordable energy supplies. Economies with higher energy consumption, such as the United States, tend to have more advanced manufacturing, service sectors, and technological innovation, translating into higher GDP per capita. Meanwhile, lower energy consumption often reflects constraints on industrial capacity, infrastructure, and economic development, as seen in China and other emerging economies. However, the ongoing energy transition—shifting towards renewable energy sources—introduces challenges and opportunities. While reducing reliance on fossil fuels is necessary for sustainability, ensuring that clean

energy remains abundant and cost-effective is crucial for maintaining productivity and economic growth. The ability of countries to transition efficiently to renewable energy while sustaining high levels of economic output could define a country’s competitiveness in the years ahead.

Chart 6: Energy consumption versus GDP per capita



Source: IMF, Our World in Data, Haver Analytics

# 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: Rising US Recession Risks

Series 1: [RECPROB@DAILY](#)

RECPROB@DAILY [Probability of US Recession 12-Mo Ahead as Predicted by the Treasury Spread (%)]

Series 2: [SPRUS2@DAILY](#)

SPRUS2@DAILY [Russell 2000 Share Price Index (Dec-31-86=135)]

### Chart 2: US Foreign Direct Investment

Series 1: [BSBFIA@USINT](#) - [BSBFID@USINT](#)

BSBFIA@USINT [BOP: Financial Account: Direct Investment Assets (SA, Mil.\$)]

BSBFID@USINT [BOP: Financial Account: Direct Investment Liabilities (SA, Mil.\$)]

### Chart 3: China's GDP growth – actual and target levels

Series 1: [A924NGCY@EMERGEPR](#)

A924NGCY@EMERGEPR [China: GDP Index (Y/Y % Chg)]

Series 2: [A924VGDP@EMERGEPR](#)

A924VGDP@EMERGEPR [China: GDP Target Rate (Y/Y %Change)]

### Chart 4: South Korea's Industrial Production Faces Headwinds

Series 1: [yryr%\(S542DZ@EMERGEPR\)](#)

S542DZ@EMERGEPR [South Korea: All Industry Production including Construction (SA, 2020=100)]

Series 2: [diff%\(S542DZ@EMERGEPR,1\)](#)

S542DZ@EMERGEPR [South Korea: All Industry Production including Construction (SA, 2020=100)]

### Chart 5: Eurozone Wage Growth and Services Inflation

Series 1: [N023WTS@EUDATA](#)

N023WTS@EUDATA [Euro Area: ECB Wage Tracker: Including Smoothed One Off Payments (NSA, Y/Y % Chg)]

Series 2: [yryr%\(F023HS@EUDATA\)](#)

F023HS@EUDATA [Euro Area 11-20: As Reported Flash HICP Estimate: Services (NSA, 2015=100)]

### Chart 6: Energy consumption versus GDP per capita

\*Please refer to Excel file included in VG3 folder download.



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