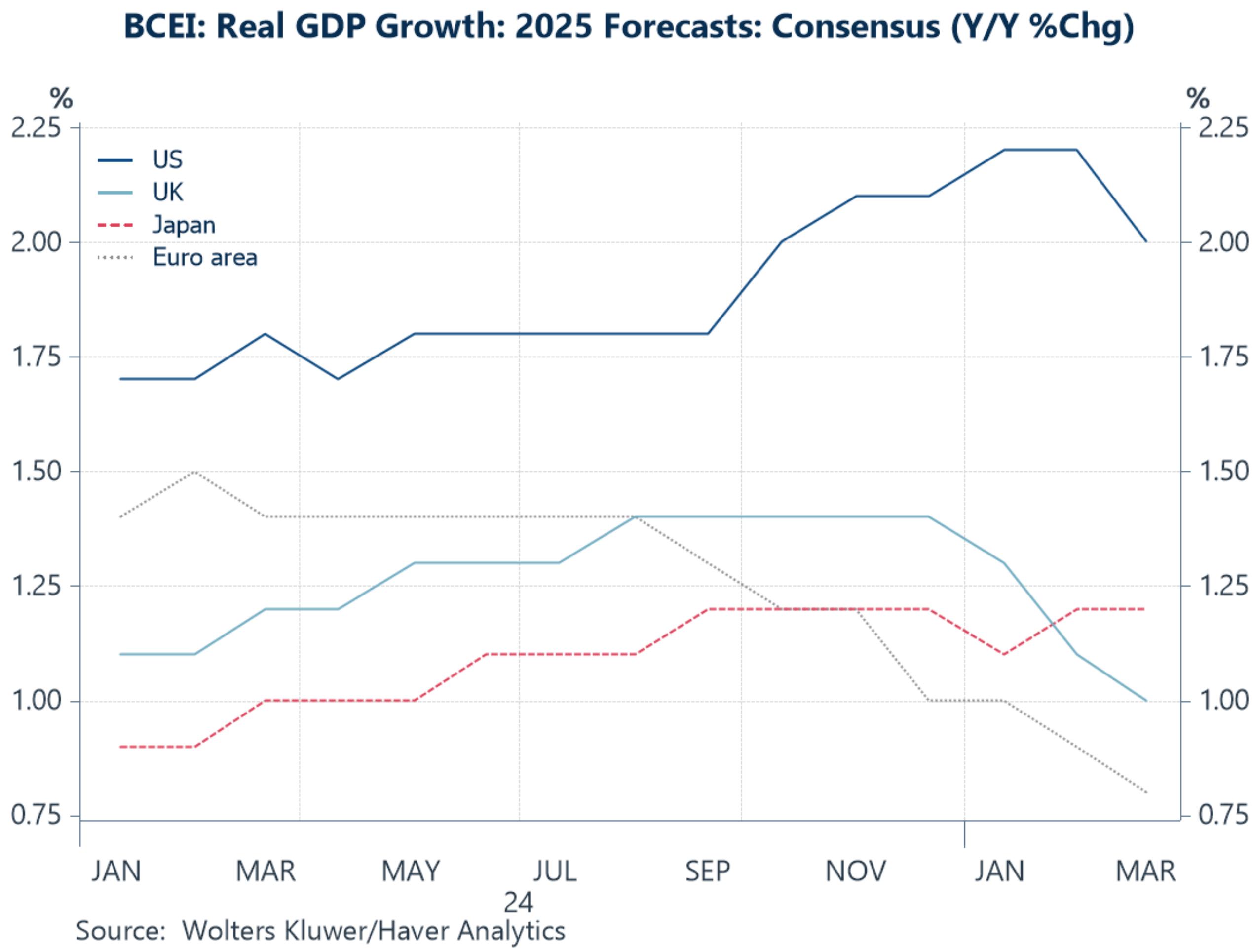
Link to online commentary: https://haverproducts.com/charts-of-the-week/
Listen to the podcast on Spotify or Apple Music
Written by Andy Cates, Senior Economist

The recent financial market volatility, marked by sharp swings in bond yields and equity market repricing, reflects growing uncertainty about the trajectory of the US economy amid a rapidly shifting policy environment. The US administration's latest tariff measures, and their conflicting objectives, have amplified uncertainty, stifled risk appetite and further ignited inflation concerns (charts 1 and 2). Markets are grappling with the inflationary impact of rising import costs, the potential supply chain disruptions caused by abrupt shifts in trade policy, and the broader implications of protectionism on corporate investment. Meanwhile, recent policy announcements from Germany and China, coupled with firming inflationary pressures in Japan, have pushed global (ex-US) bond yields sharply higher, potentially amplifying global financial instability (charts 3 and 4). These shifts could profoundly reshape global trade and investment, not just through economic fundamentals but also through a growing erosion of goodwill toward the United States. As policy unpredictability forces companies and governments to hedge against potential disruptions, trust in the stability of US economic leadership is weakening. At the same time, concerns are mounting over the effectiveness of US policy choices, particularly in relation to one of its core ambitions—reshoring manufacturing jobs (charts 5 and 6). The question remains whether these interventions will achieve their intended goals or simply accelerate automation and supply chain realignment elsewhere.

Falling US growth momentum

The latest Blue Chip Economic Indicators survey reflects a shifting global economic landscape, with the US experiencing a notable loss of momentum. After climbing above 2.0% on the back of a strong economic performance in late 2024, consensus forecasts for US growth in 2025 have now been revised downward for the first time in nearly a year. This reversal reflects weaker-than-expected economic data and emerging challenges tied to the policy shifts of the new administration. The downgrade in US growth projections also coincides with a further downward revision to an already subdued outlook for the UK and the euro area, reinforcing concerns about a sluggish global growth outlook (chart 1).

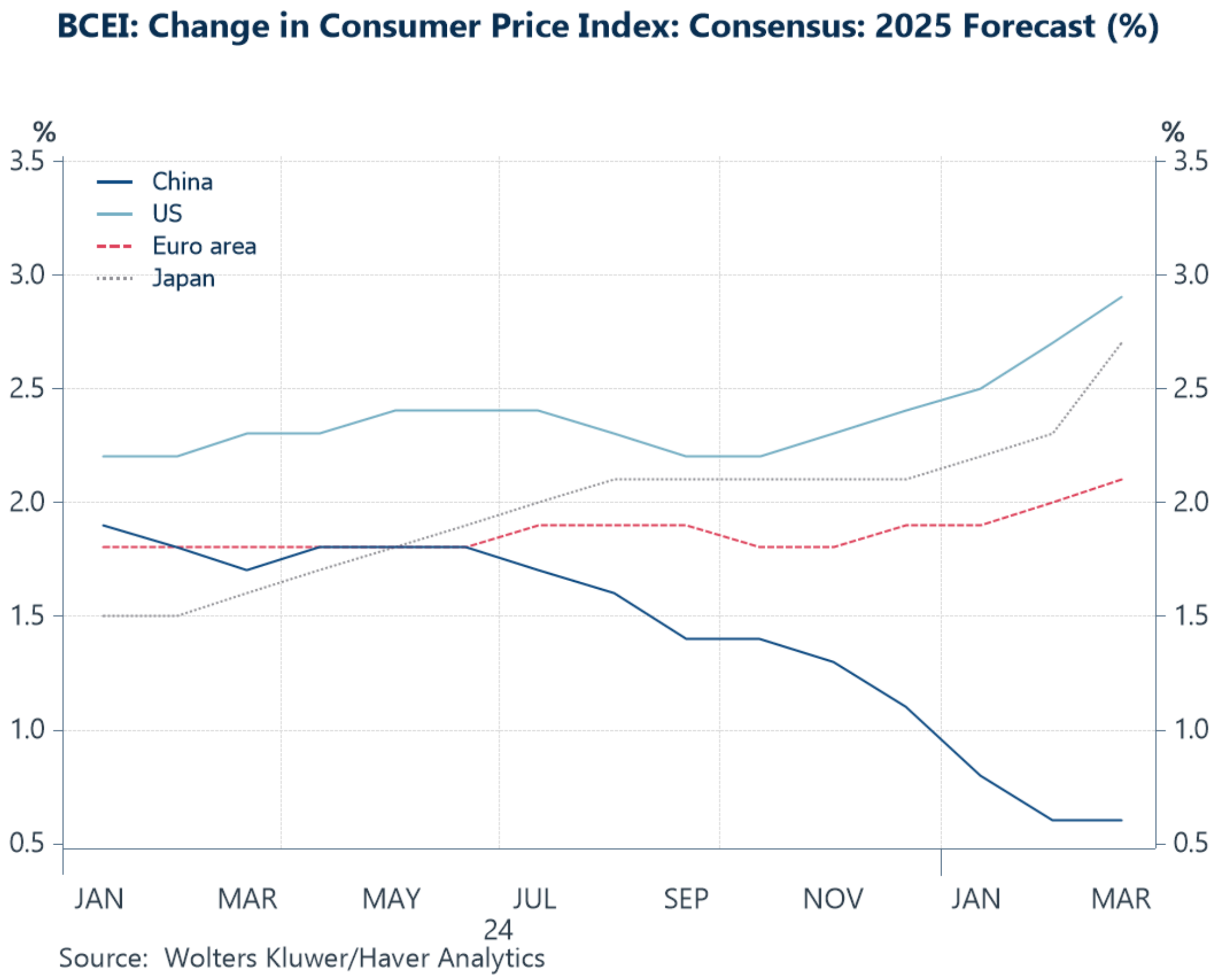
Chart 1: Policy Shifts Are Reshaping Economic Prospects for 2025



Global inflation expectations

In the meantime the same survey reveals growing concerns about the inflation outlook in the US and Europe this year, and possibly reflecting the impact of US tariff policies on global price pressures. Japan's inflation forecast for 2025 has also surged, as rising import costs and shifting trade dynamics have additionally contributed to stronger price pressures. This all stands in contrast to China with inflation expectations for this year falling below 1%, reinforcing concerns about deflation and weak demand (chart 2).

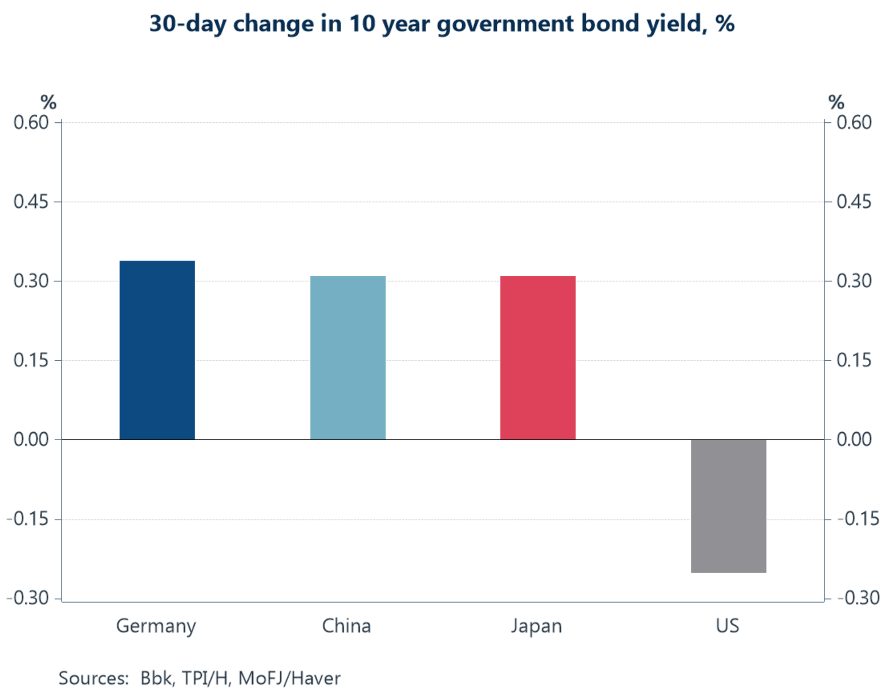
Chart 2: Inflation expectations for 2025



Global bond markets

Recent shifts in 10-year government bond yields reflect changing market expectations. While yields have risen sharply in Germany, China, and Japan, they have fallen in the US. Germany's increase is tied to expanded defense spending and industrial subsidies, while China's reflects a shift toward more aggressive fiscal easing, with its deficit target rising to 4% of GDP to counter deflation and weak demand. In contrast, falling US yields signal a reassessment of growth expectations under the new administration. This divergence suggests capital may be flowing toward economies with stronger fiscal stimulus, potentially weakening the dollar, increasing borrowing costs for US businesses, and complicating efforts to revive domestic manufacturing.

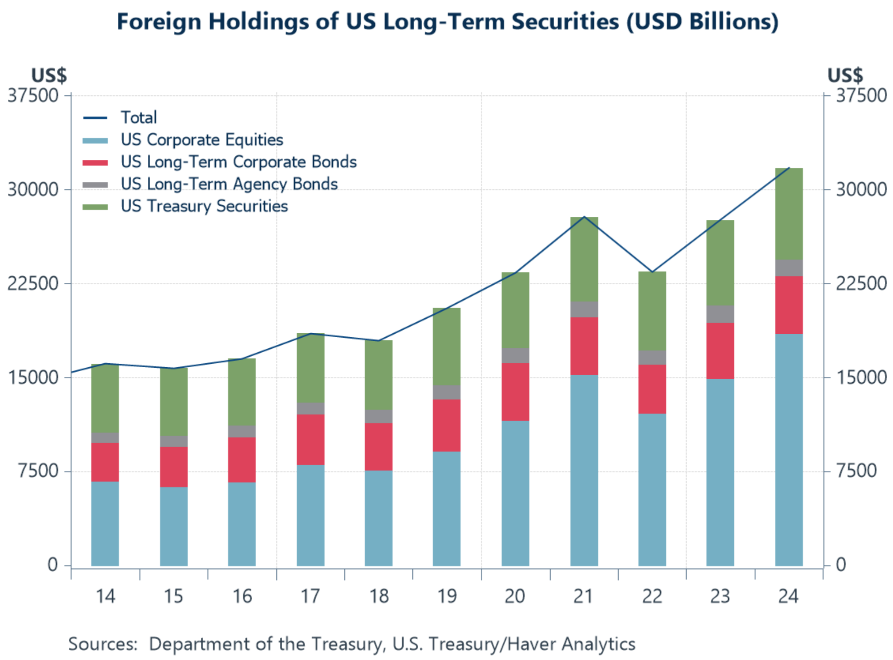
Chart 3: Falling US yields contrast with rising global (ex US) yields



Overseas holdings of US Securities

Latest data show that foreign-holdings of US long-term securities have risen steadily over the past decade, with a notable acceleration in the past two years. The most recent data additionally highlights a significant increase in foreign ownership of US corporate equities, reflecting, until recently, investor confidence in US companies.

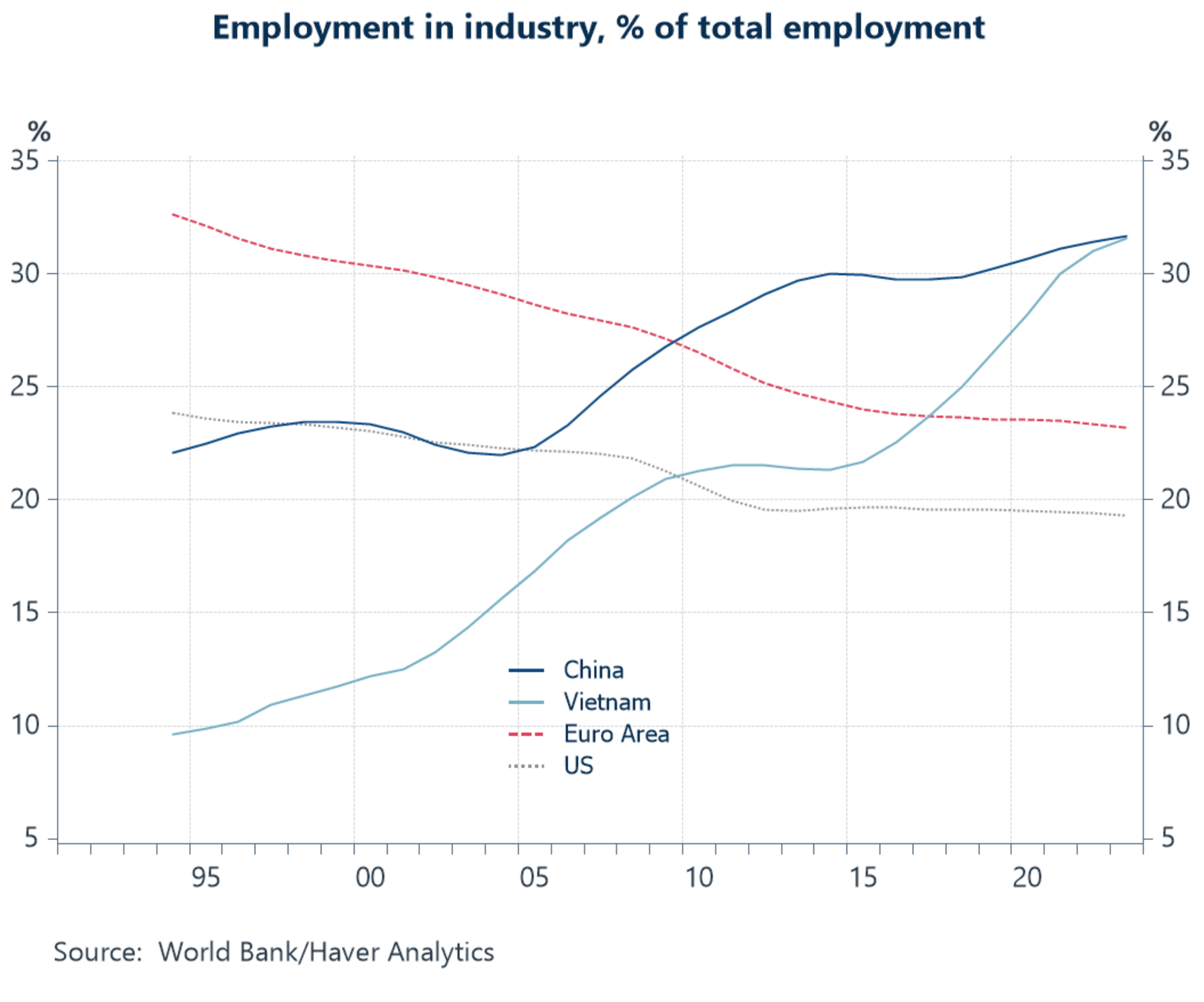
Chart 4: Foreign Holdings of US Long-Term Securities



Industrialisation versus de-industrialisation

Recent US policy shifts—particularly higher tariffs on Chinese imports—aim to address the long-term decline in domestic manufacturing jobs. However, their effectiveness is uncertain, given the growing role of automation and AI in reshaping industrial production. While tariffs may offer short-term relief, they are unlikely to reverse decades of global manufacturing shifts. China's rise from a low-value agrarian economy to an industrial powerhouse has reshaped trade patterns, while US industrial employment has steadily declined, mirroring trends in other advanced economies. Meanwhile, Vietnam and other emerging markets have absorbed manufacturing capacity, benefiting from shifting supply chains. The real challenge for US policymakers is not just bringing back jobs but ensuring domestic industries stay competitive amid changing cost structures and technological advancements.

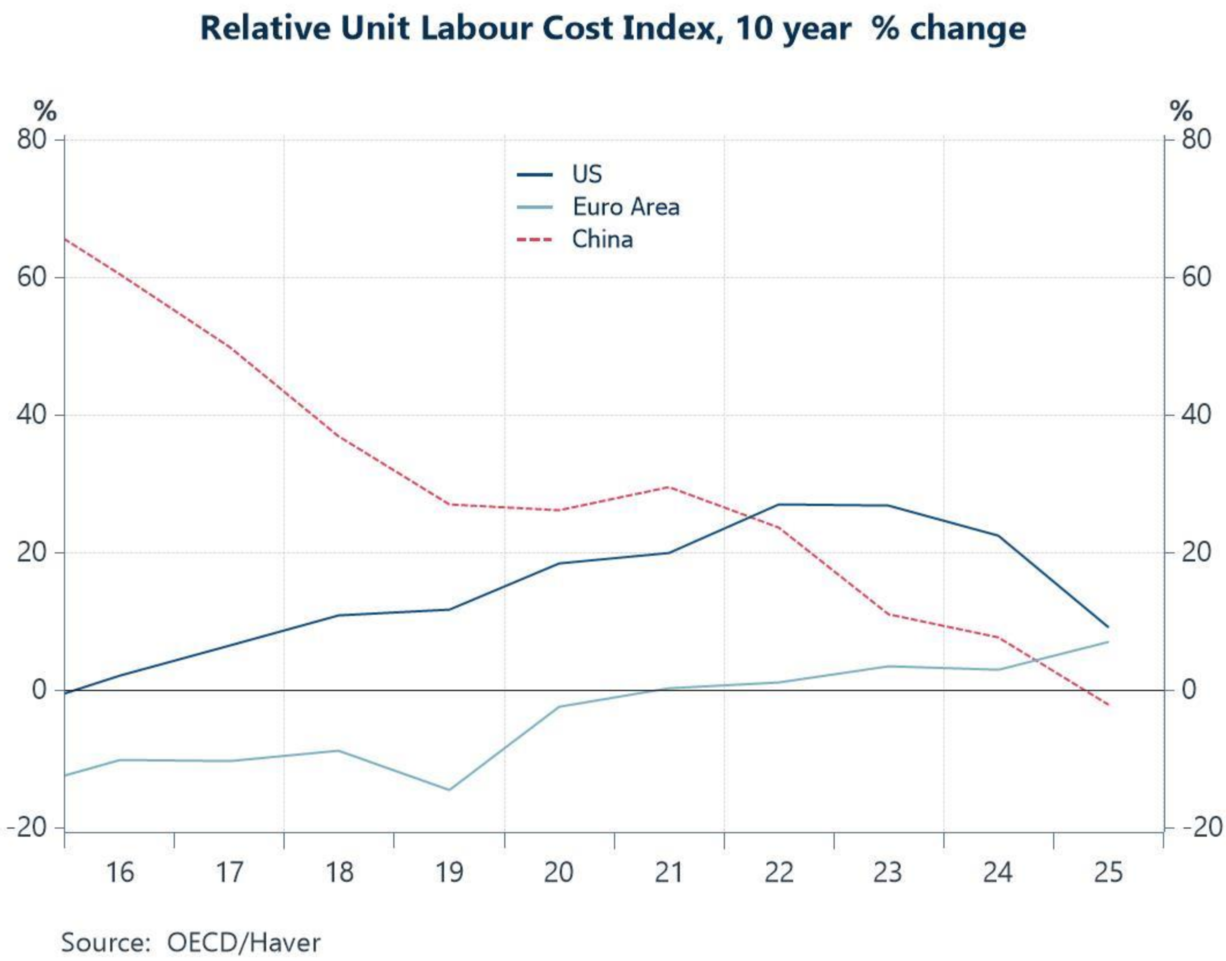
Chart 5: Manufacturing employment shares in the US, Europe, China and Vietnam



Global competitiveness

Historically, China's low unit labour costs provided it with a significant advantage, fuelling its manufacturing boom and accelerating the offshoring of US industrial jobs. However, as China's wages have risen due to economic development and increased productivity, and as US unit labour costs have remained relatively stable, the gap has narrowed considerably. Yet, still high labour costs in the US – coupled with rising trade barriers and rising input costs - still pose a challenge to the effectiveness of US policies, as firms may still find it difficult to maintain competitiveness without significant productivity gains. Indeed, as suggested above, there is a real risk that firms may instead accelerate their shift toward automation or relocate production to other low-cost regions (e.g. Vietnam), undermining the broader economic rationale for these interventions. The erosion of economic goodwill, combined with rising costs and financial market instability, additionally suggest that while the strategic objectives of US policy may be clear, the long-term implications remain highly uncertain.

Chart 6: Relative unit labour costs in the US, Euro area and China



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: Policy Shifts Are Reshaping Economic Prospects for 2025
Series 1: AAAD25@BLUECHIP
AAAD25@BLUECHIP [BCEI: US Real GDP: 2025 Forecasts: Consensus (Y/Y %Chg)]
Series 2: AGBD25@BLUECHIP
AGBD25@BLUECHIP [BCEI: Change in Real GDP: United Kingdom: Consensus: 2025 Forecast (%)]
Series 3: AJPD25@BLUECHIP
AJPD25@BLUECHIP [BCEI: Change in Real GDP: Japan: Consensus: 2025 Forecast (%)]
Series 4: AEZD25@BLUECHIP
AEZD25@BLUECHIP [BCEI: Change in Real GDP: Euro area: Consensus: 2025 Forecast (%)]

Chart 2: Diverging on inflation expectations for 2025 between the US, Europe, Japan and China
Series 1: DCND25@BLUECHIP
DCND25@BLUECHIP [BCEI: Change in Consumer Price Index: China: Consensus: 2025 Forecast (%)]
Series 2: DAAD25@BLUECHIP
DAAD25@BLUECHIP [BCEI: US Consumer Price Index: 2025 Forecasts: Consensus (Y/Y %Chg)]
Series 3: DEZD25@BLUECHIP
DEZD25@BLUECHIP [BCEI: Change in Consumer Price Index: Euro area: Consensus: 2025 Forecast (%)]
Series 4: DJPD25@BLUECHIP
DJPD25@BLUECHIP [BCEI: Change in Consumer Price Index: Japan: Consensus: 2025 Forecast (%)]

Chart 3: Falling US yields contrast with rising global (ex US) yields
Series 1: diff(R134G9R@INTDAILY,30)
R134G9R@INTDAILY [Germany: Central Govt Securities: 9 to 10 Years (% p.a.)]
Series 2: diff(R924MA@INTDAILY,30)
R924MA@INTDAILY [China: 10 Year Treasury Bond Mid Yield (% p.a.)]
Series 3: diff(R158GA@INTDAILY,30)
R158GA@INTDAILY [Japan: 10-Year Benchmark Government Bond Yield (% p.a.)]
Series 4: diff(R111MA@INTDAILY,30)
R111MA@INTDAILY [United States: 10 Year Treasury Bond Mid Yield (% p.a.)]

Chart 4: Foreign Holdings of US Long-Term Securities
Series 1: FH001LD@USINT
FH001LD@USINT [Foreign Holdings of US Long-Term Securities (EOP, Mil.$)]
Series 2: FH001LQ@USINT
FH001LQ@USINT [Foreign Holdings of US Corporate Stocks (EOP, Mil.$)]
Series 3: FH001LC@USINT
FH001LC@USINT [Foreign Holdings of US Long-Term Corporate Bonds (EOP, Mil.$)]
Series 4: FH001LY@USINT
FH001LY@USINT [Foreign Holdings of US Long-Term Agency Bonds (EOP, Mil.$)]
Series 5: FH001LT@USINT
FH001LT@USINT [Foreign Holdings of US Long-Term Treasury Securities (EOP, Mil.$)]

Chart 5: Manufacturing employment shares in the US, Europe, China and Vietnam
Series 1: movv(L924EMI@WDI,4)
L924EMI@WDI [China: Employment in Industry (% of Total)]
Series 2: movv(L582EMI@WDI,4)
L582EMI@WDI [Vietnam: Employment in Industry (% of Total)]
Series 3: movv(L025EMI@WDI,4)
L025EMI@WDI [Euro Area: Employment in Industry (% of Total)]
Series 4: movv(L111EMI@WDI,4)
L111EMI@WDI [U.S.: Employment in Industry (% of Total)]

Chart 6: Relative unit labour costs in the US, Euro area and China
Series 1: diff%(X111LCRM@OUTLOOK,10)
X111LCRM@OUTLOOK [US: Competitiveness Indicator, Relative ULC, Overall Economy [May24](2015=100)]
Series 2: diff%(X028LCRM@OUTLOOK,10)
X028LCRM@OUTLOOK [Euro Area 17: Competitiveness Indicator, Rel Unit Labour Cost[May24](2015=100)]
Series 3: diff%(X924LCRM@OUTLOOK,10)
X924LCRM@OUTLOOK [China: Competitiveness Indicator, Relative ULC, Overall Economy[May24](2015=100)]

Get in touch

Email sales@haver.com and someone from our team will connect with you to discuss your data needs.