

1 May 2025

Charts of the Week

Tariff Truce, Tenuous Trust

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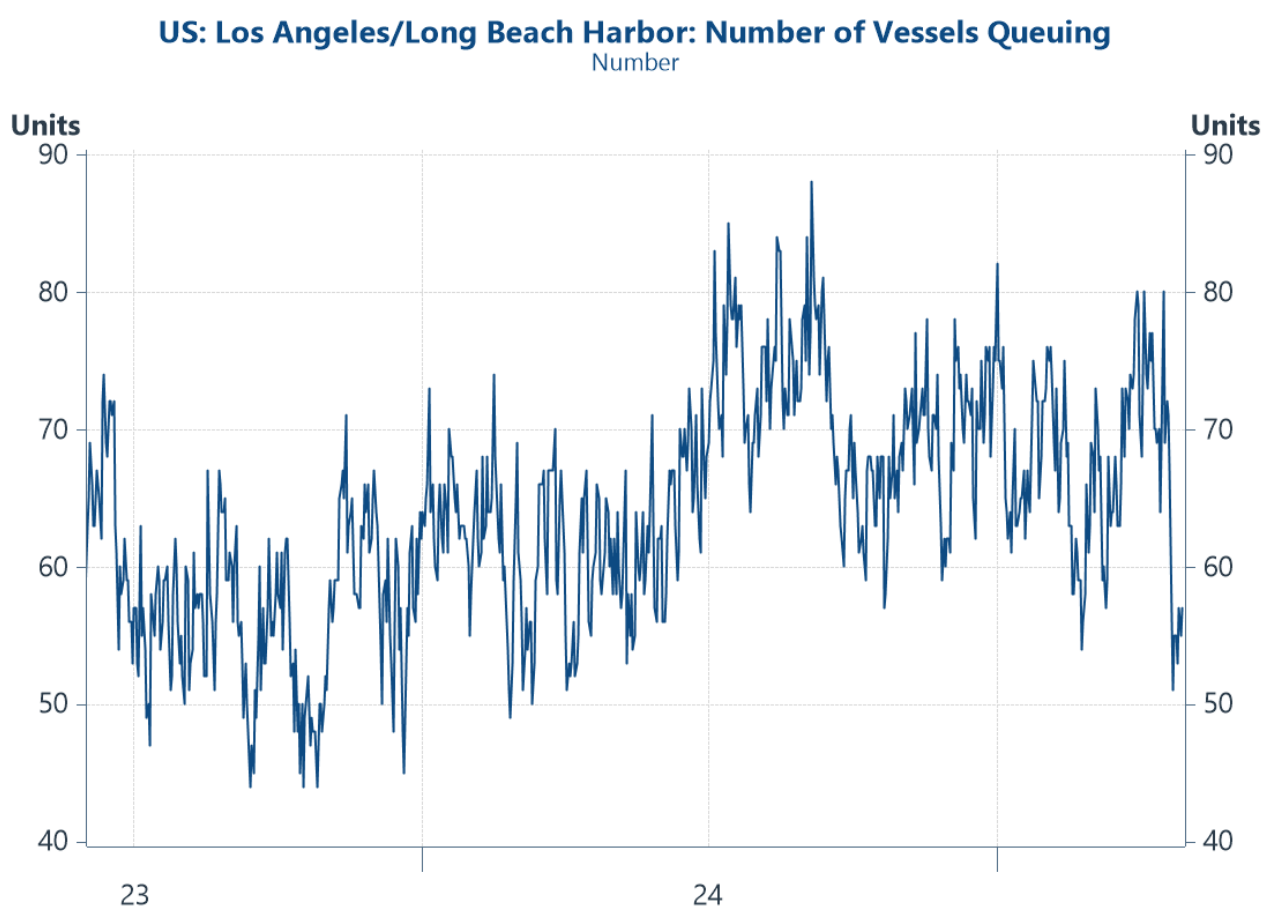
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Financial markets found a measure of calm this week, buoyed by some subtle shifts in tone from US policymakers. A softening in the administration's rhetoric around trade tariffs coupled with a less confrontational stance toward Federal Reserve Chair Jerome Powell, helped ease tensions that had roiled markets earlier in the month. Equities rebounded modestly, and volatility indicators edged lower, reflecting cautious optimism that the worst of the policy shocks may be behind us. But beneath the surface, significant downside risks persist. New shipping data point to a pronounced slowdown in US-China trade flows (chart 1), suggesting the damage from recent tariff escalations is already rippling through global supply chains. Meanwhile, incoming data for the US revealed an unexpected contraction in the economy in Q1 and further signs of weakness in the labour market (chart 2). The US dollar, in the meantime, while long supported by superior growth and yield differentials, has begun to decouple from traditional drivers (charts 3 and 4) suggesting growing pressure on capital flows. At the same time, structural imbalances are drawing renewed scrutiny: unit labour cost comparisons show the US steadily losing competitiveness (chart 5), while nominal wage disparities remain stark versus China and other Asian economies, further complicating any effort to restore trade balance without broader reforms (chart 6). In short, while markets may be drawing temporary comfort from a pause in tariff brinkmanship, the deeper economic and financial vulnerabilities exposed this month remain unresolved—and increasingly central to the global macro narrative.

China-US shipping activity

The economic fallout from escalating US-China trade tensions is becoming increasingly visible in the data. A clear example is the chart below, which highlights a sharp drop in vessel arrivals at the ports of Los Angeles and Long Beach, along with a notable decline in ships waiting offshore. These trends point to a tangible weakening in bilateral trade flows, as the effects of tit-for-tat tariffs imposed by both countries begin to bite. Given the outsized role the US and China play in global commerce, this slowdown is likely to reverberate through global supply chains, weighing on trade volumes, dampening demand, and curbing economic growth worldwide.

Chart 1: Number of vessels at the US ports of LA/Long Beach Harbor



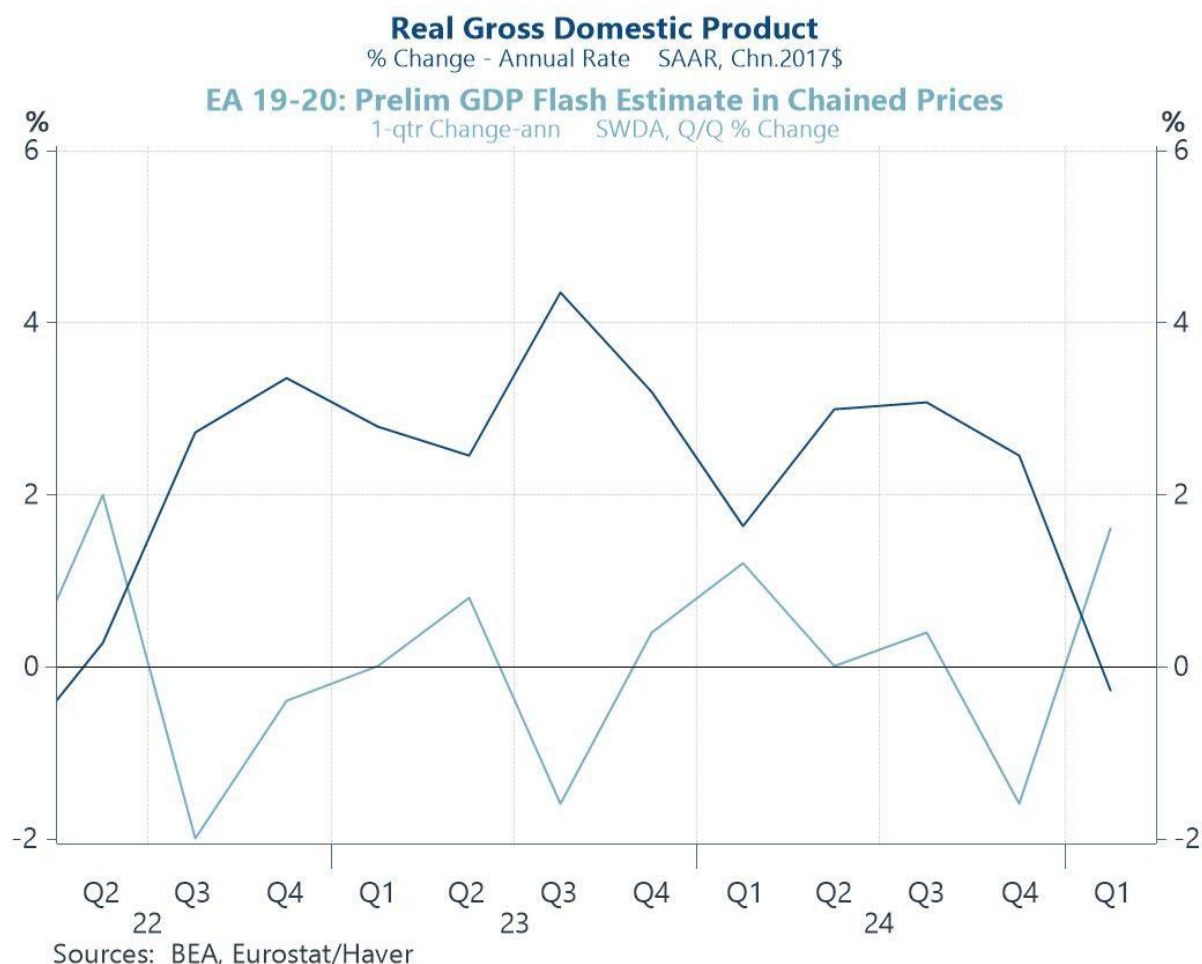
Source: The Marine Exchange of Southern California/Haver Analytics

GDP growth in Q1

Data this week showed that the US economy contracted, albeit modestly, in Q1 even as the euro area recorded a modest expansion—an unusual divergence. The contraction in US GDP can be largely attributed to a sharp increase in imports, as firms rushed to front-load purchases ahead of anticipated tariff hikes. In addition,

domestic demand was subdued, with weaker contributions from both consumer spending and government consumption. This decoupling between the US and euro area economies is particularly striking given the current global focus on the US dollar. While the euro area has shown unexpected signs of resilience, the US downturn raises important questions about its underlying momentum, especially as trade dynamics and policy uncertainty continue to cloud the outlook.

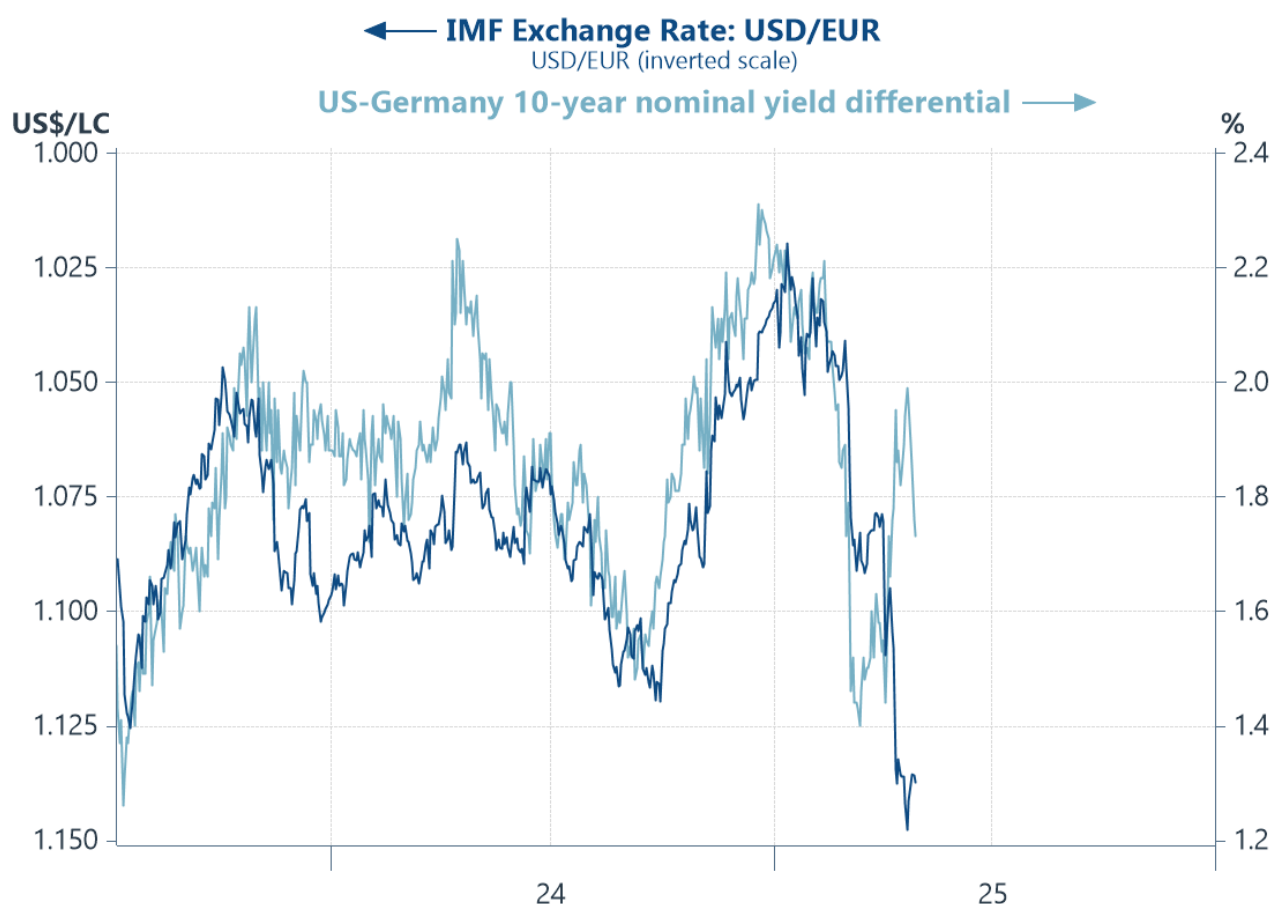
Chart 2: GDP growth in Q1 in the US and euro area



The US dollar versus yield differentials

Chart 3 below illustrates a sharp breakdown in the correlation between the US-Germany 10-year yield differential and the EUR/USD exchange rate. Historically, the dollar has moved closely with interest rate spreads, as yield-seeking capital flowed into US assets. But since early 2025—and more acutely following the April tariff actions—the dollar has weakened markedly even as the yield spread has narrowed only modestly. This decoupling underscores a critical shift: capital markets are reacting not just to monetary policy, but to rising trade and geopolitical uncertainty. In other words, the exchange rate is now being driven as much by risk sentiment as by interest rate arbitrage.

Chart 3: The EUR/USD versus US-German 10-year bond differentials

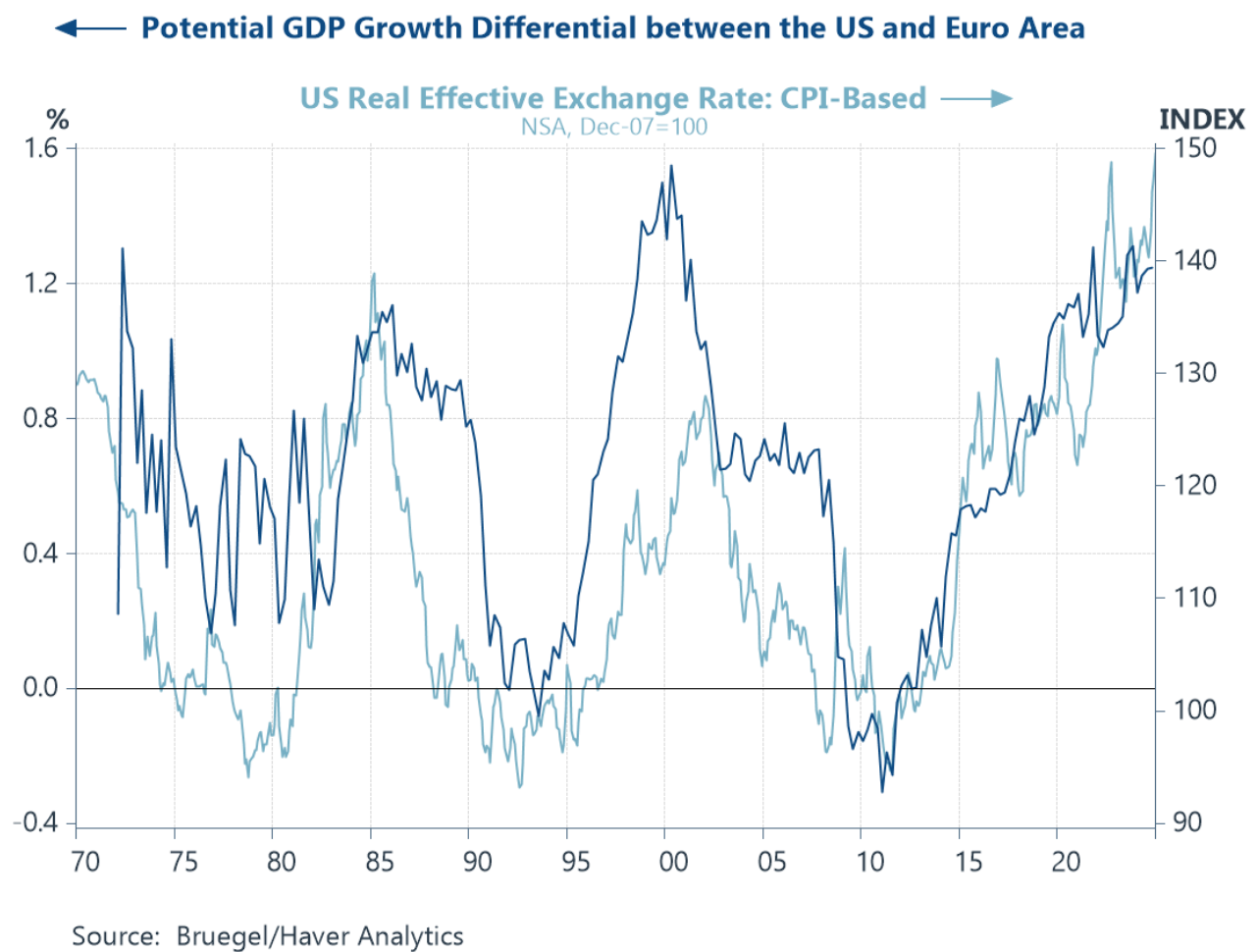


Source: International Monetary Fund/Haver Analytics

The US economy's structural outperformance and the dollar

A second dynamic, captured in the next chart, reveals a tight correlation between the US real effective exchange rate and the potential GDP growth differential between the US and euro area over the past 50-60 years. This raises the question: has dollar strength (until recently) merely been a reflection of US growth leadership—or are capital inflows themselves helping to sustain this growth outperformance? In effect, the tail may be wagging the dog. Global investors have long allocated capital to the US, attracted by its macroeconomic resilience, technological leadership, and deep, liquid financial markets. The danger now is that the US trade war may disrupt this equilibrium. A sharp or sustained reduction in capital inflows could undermine growth, weaken the dollar, and trigger broader financial instability. Moreover, reversing this dynamic is not straightforward—barring a credible structural resurgence in European (or Asian) growth, the global investment landscape remains tilted toward the US.

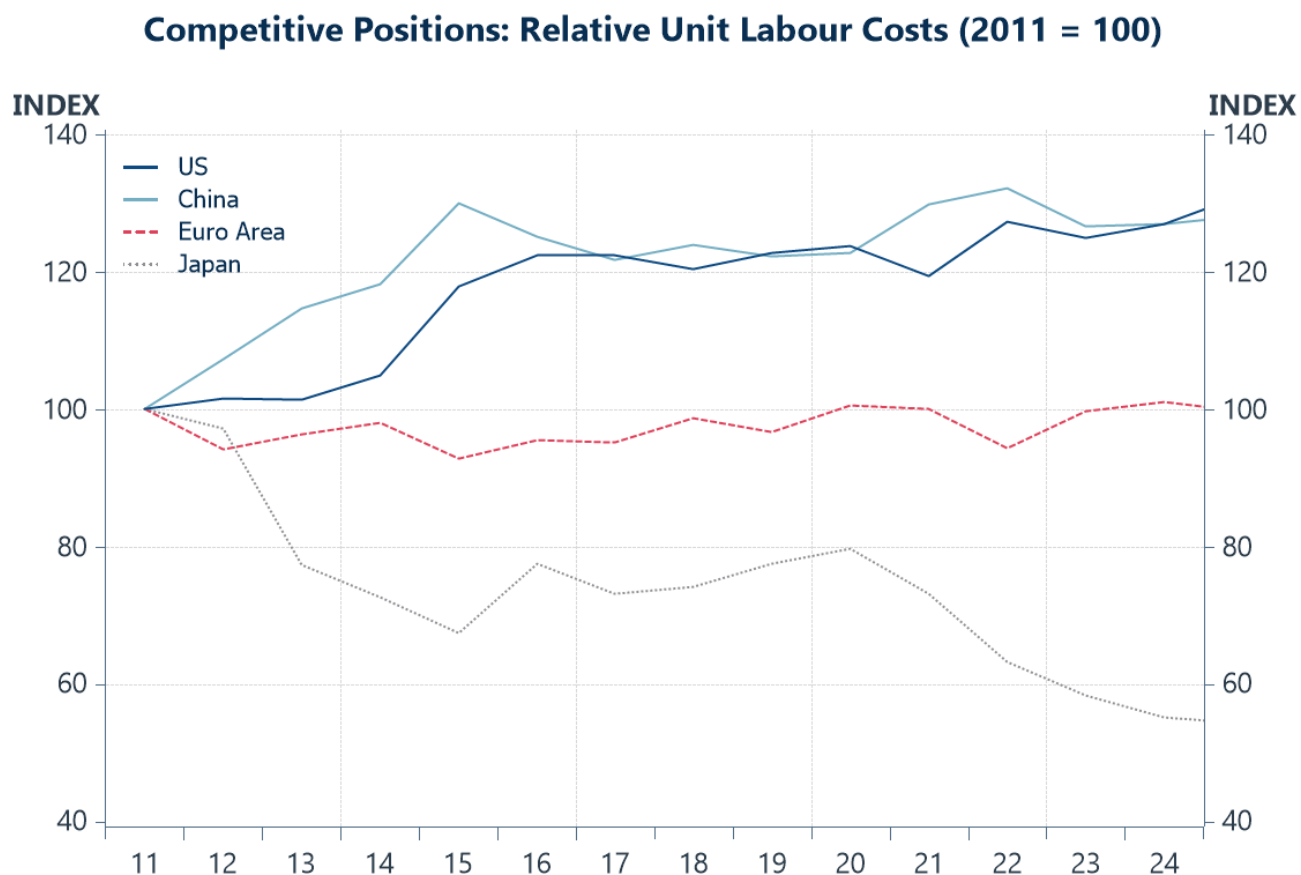
Chart 4: The real value of the US dollar versus US/Euro area potential growth differentials



US competitiveness versus Europe, China and Japan

The next chart below examines relative unit labour costs across major economies since 2011. The US and China have seen a broadly similar trajectory, with steady increases in relative cost structures, while the euro area has remained flat and Japan has seen dramatic improvement. This suggests that, from a cost competitiveness standpoint, the US is not uniquely disadvantaged vis-à-vis China. However, as we discuss further below, this parallel erosion of cost competitiveness is occurring at much higher nominal wage levels in the US, which blunts its ability to regain export share through tariff-related shifts alone. The trade war strategy—absent a corresponding improvement in productivity or structural reforms—risks imposing costs without delivering material competitiveness gains.

Chart 5: Relative unit labour costs in the US, China, Euro area and Japan

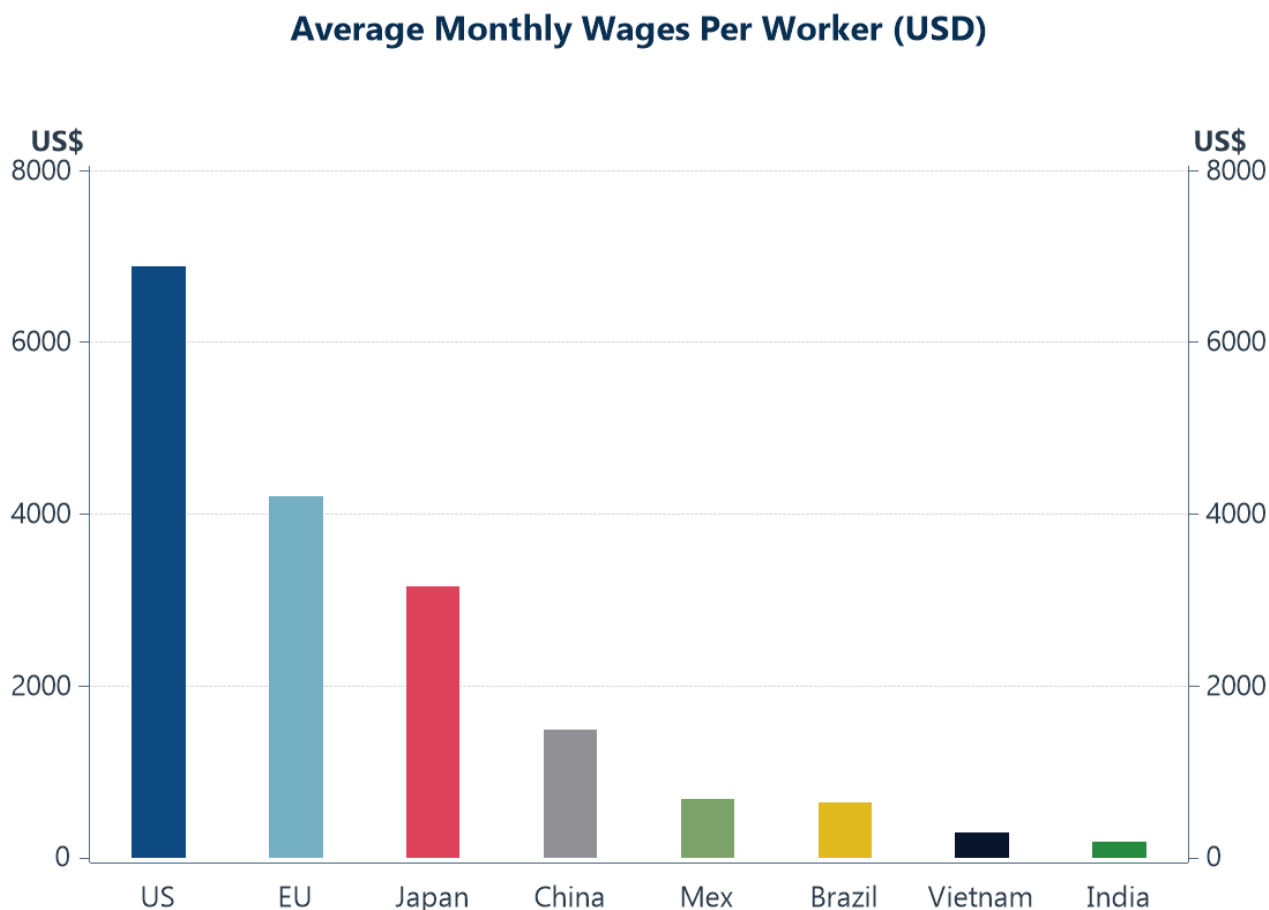


Source: OECD/Haver

Average wages in selected developed and developing economies

This point is reinforced by the final chart, which shows estimates for average monthly wages across countries in 2024. US labour remains much more expensive than in peer or emerging economies. So even if China's costs rise in tandem with the US, the global supply chain has ample alternatives. 'China plus one' strategies are accelerating, and the US remains structurally misaligned with low-cost production hubs. Tariffs aimed at reshoring supply chains are unlikely to deliver sustained gains unless accompanied by deep supply-side reforms, and risk further disincentivizing foreign direct investment if global firms perceive US trade policy as erratic or punitive.

Chart 6: Average monthly wages per worker in selected developed and developing economies



Source: Economist Intelligence Unit/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: Number of vessels at the US ports of LA/Long Beach Harbor

Series 1: USCLNFO@TRANSPRT

USCLNFO@TRANSPRT [US: Los Angeles/Long Beach Harbor: Number of Vessels Queuing (Number)]

Chart 2: GDP growth in Q1 in the US and euro area

Series 1: difa%(GDPH@USECON)

GDPH@USECON [Real Gross Domestic Product (SAAR, Bil.Chn.2017\$)]

Series 2: difa(F025GDPF@EUDATA,1)

F025GDPF@EUDATA [EA 19-20: Prelim GDP Flash Estimate in Chained Prices(SWDA, Q/Q % Change)]

Chart 3: The EUR/USD versus US-German 10-year bond differentials

Series 1: X111EAF@INTDAILY

X111EAF@INTDAILY [IMF Exchange Rate: USD/EUR (USD/EUR)]

Series 2: (R111GA@INTDAILY - R134G9R@INTDAILY)

R111GA@INTDAILY [U.S.: 10-Year Treasury Note Yield at Constant Maturity (% p.a.)]

R134G9R@INTDAILY [Germany: Central Govt Securities: 9 to 10 Years (% p.a.)]

Chart 4: The real value of the US dollar versus US/Euro area potential growth differentials

Series 1: (T111VGDP@G10 - T023VGDP@G10)

T111VGDP@G10 [US: Trend Growth Rate (%)]

T023VGDP@G10 [Euro Area: Trend Growth Rate (%)]

Series 2: N111XREN@G10

N111XREN@G10 [US: Bruegel Narrow REER: CPI-Based (NSA, Dec-07=100)]

Chart 5: Relative unit labour costs in the US, China, Euro area and Japan

Series 1: index(T111LCRM@OUTLOOK,2011=100)

T111LCRM@OUTLOOK [U.S.: Competitive Positions: Relative Unit Labor Costs (2021=100)]

Series 2: index(T924LCRM@OUTLOOK,2011=100)

T924LCRM@OUTLOOK [China: Competitive Positions: Relative Unit Labor Costs (2021=100)]

Series 3: index(T028LCRM@OUTLOOK,2011=100)

T028LCRM@OUTLOOK [Euro Area 17: Competitive Positions: Relative Unit Labor Costs (2021=100)]

Series 4: index(T158LCRM@OUTLOOK,2011=100)

T158LCRM@OUTLOOK [Japan: Competitive Positions: Relative Unit Labor Costs (2021=100)]

Chart 6: Average monthly wages per worker in selected developed and developing economies

Series 1: A111AVWG@EIUIAMER

A111AVWG@EIUIAMER [United States: Average Monthly Wages Per Worker (US\$)]

Series 2: A030AVWG@EIUIREGS

A030AVWG@EIUIREGS [Western Europe: Average Monthly Wages Per Worker (US\$)]

Series 3: A158AVWG@EIUIASIA

A158AVWG@EIUIASIA [Japan: Average Monthly Wages Per Worker (US\$)]

Series 4: A924AVWG@EIUIASIA

A924AVWG@EIUIASIA [China: Average Monthly Wages Per Worker (US\$)]

Series 5: A273AVWG@EIUIAMER

A273AVWG@EIUIAMER [Mexico: Average Monthly Wages Per Worker (US\$)]

Series 6: A223AVWG@EIUIAMER

A223AVWG@EIUIAMER [Brazil: Average Monthly Wages Per Worker (US\$)]

Series 7: A582AVWG@EIUIASIA

A582AVWG@EIUIASIA [Vietnam: Average Monthly Wages Per Worker (US\$)]

Series 8: A534AVWG@EIUIASIA

A534AVWG@EIUIASIA [India: Average Monthly Wages Per Worker (US\$)]

Get in touch

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

