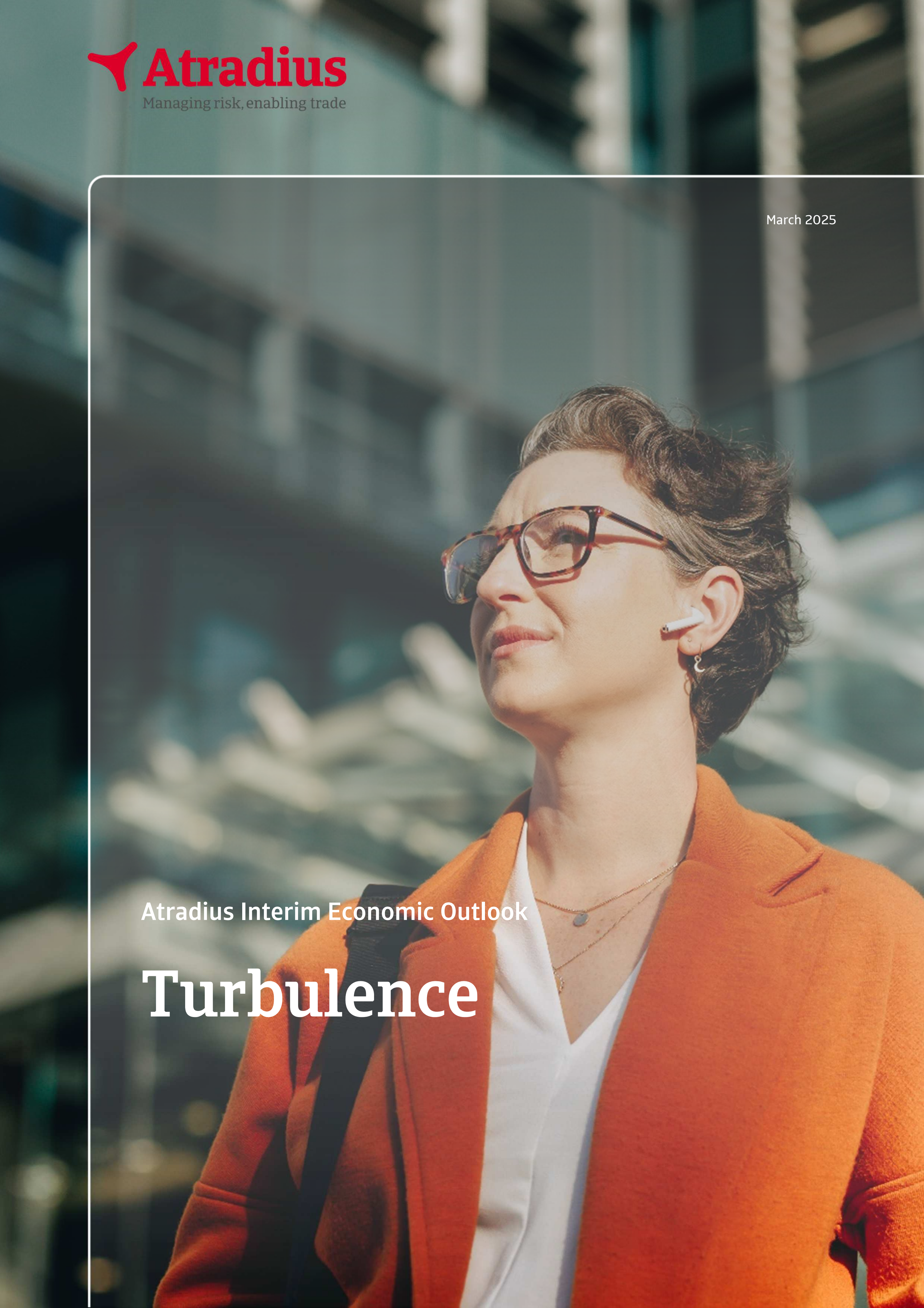
Atradius

Managing risk, enabling trade

March 2025



Atradius Interim Economic Outlook

Turbulence

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Executive summary

- **The US is escalating its global trade war more quickly and aggressively than we expected.** Where we previously anticipated a gradual phasing in of tariffs from later in the year, the US has cited emergency powers to already move forward with tariffs on major trading partners like China, Canada and Mexico. We expect these to escalate further in the coming months and for blanket tariffs on all European imports to come into effect in Q2. Steel and aluminium tariffs are also already in effect and the US will impose extra restrictions on major trading partners in Asia from Q3.

- **This translates to a cumulative 0.4 percentage points trimmed off our global GDP growth forecast for 2025 and 2026.** The trade war is causing lower growth through higher pressures on already sticky inflation and through high uncertainty which undermines consumer and business purchasing and investment plans. We do not believe this trade war will produce any winners at the macroeconomic level.

- **The US shoots itself in the foot, motivating the largest downward revision.** The US economy entered the year running near full capacity, but volatile policymaking and uncertainty have dealt a blow to confidence. Lower investments and the eventual strain on consumers from higher inflation will bring 2025 growth down to 2.0% (previously 2.6%).

- **US allies in Europe and North America are set to suffer the most.** One remarkable difference between this trade war the one in the first Trump administration is the more aggressive stance toward allies. Canada and Mexico have faced significant tariff volatility and we expect them to escalate before the USMCA trade agreement renegotiations are concluded in mid-2026. As these markets are most closely integrated with the US economy, the negative impact on growth will be most severe, plunging Canada into recession and slashing over 2ppt off Mexico's growth forecast by the end of 2026. The Eurozone is also facing 0.3ppt lower growth in both 2025 and 2026 due to anticipated blanket tariffs on European goods.

- **Emerging market economies are also exposed to the trade war but the relative impact is less severe (so far).** Excluding Mexico, our outlook for EMEs is broadly unchanged since December. This is largely thanks to fiscal stimulus and monetary easing in China that helps stimulate domestic demand to offset the negative impacts of US trade measures. China's direct exposure to US tariffs is also more limited than at the start of the first trade war in 2018.

- **Rising trade restrictions and tensions will drag on the nascent recovery in global trade**. After rising 1.8% in 2024, in line with our forecast, we now predict international trade to expand only 2.5% in 2025 and 2026 – down from 3.3% and 3.0% respectively expected in December. Rising tariffs directly increase the costs of trade while higher uncertainty reduces demand, especially for investment, indirectly undermining trade.

1. Global macroeconomic environment

1.1 Mild Trump 2.0 binned

In our December Economic Outlook we painted the picture of a global economy that was to develop relatively comfortably, albeit at an underwhelming pace. What we saw unfolding was a soft landing, one wherein inflation was moving back to target levels without a recession. The caveat was that the newly elected US president would not immediately after his inauguration on January 20 start shaking up the global order by, amongst others, imposing the tariffs on imports into the US he proposed during his presidential campaign.[1] The uncertainty that surrounded this was captured in the title of our Outlook, Fasten Your Seatbelts, warning on the potential turbulence that might come with the landing. A trade war was our alternative scenario, indeed with an unusually high probability.

It turned out not a warning too many. As from the date of inauguration an unprecedented number of executive orders were signed and policies announced covering a broad range of issues. Of course, we do not underestimate the relevance of the geopolitical pivot towards Russia and away from NATO. But arguably the most relevant for the global economy, at least for the relevant forecast horizon, is tariffs. Imports from China are to receive additional tariff hits as well as 25% imposed on imports from Canada and Mexico, US partners in the free trade zone USMCA. The EU is not to be spared either. Our assumption of a relatively slow imposition of the tariffs, which would be mild, is not a viable one to underpin our global economic forecast anymore. We may not yet be in a full-blown trade war, but our mild Trump 2.0 baseline scenario of December 2024 is to be binned.

Table 1.1 More prominence for Emerging Asia

Real GDP growth, % y-o-y

	2023	2024	2025*	2026*
Eurozone	0.5	0.8	0.9	1.2
United States	2.9	2.8	2.0	2.5
Emerging Asia	5.7	5.2	4.9	4.7
Latin America	2.1	1.8	1.9	2.1
Eastern Europe	3.2	3.2	2.9	1.9
World	**2.9**	**2.8**	**2.6**	**2.8**

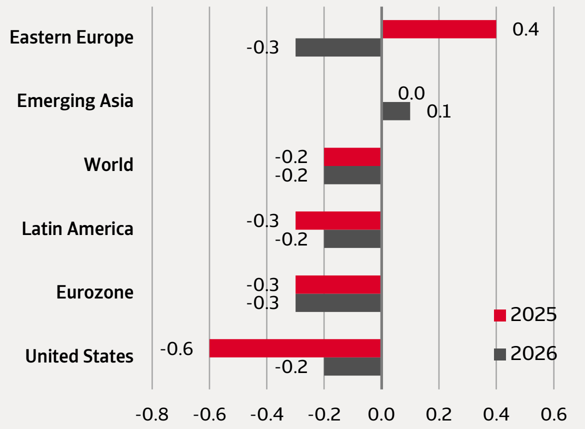
Source: Oxford Economics, Atradius (* forecast)

1.2 Turbulence but still a soft landing

In our revised baseline scenario, Turbulence, of which the assumptions will be explained below, the global economy takes a hit. Still, it is relatively a mild one of an overall 0.2 ppt downward revision for both 2025 and 2026 as compared to our December Outlook.

Figure 1.1 The US is hurting itself

Percentage point change in real GDP growth forecast since December 2024



Such mildness does not hold for the US, which is taking the largest hit. For the US 2025 our forecast is 0.6ppt lower than in December, for 2026 0.2ppt on top of this hit. As to the Eurozone, it was set for a hesitant growth recovery. Now the tariffs are expected to take their toll as well: a downward adjustment of growth by 0.3ppt for both years. The announced increase in defence spending as well as more German public spending will boost the economy only beyond the forecast horizon. The Latin America & Caribbean (LAC) forecast downgrade partly reflects the tariff impact on Mexico, partially offset by stronger growth in Brazil[2]. Emerging Asia escapes any downward adjustment, with 0 adjustment for 2025 and 0.1ppt higher growth expected in 2026, helped by carryover effects and stimulus in China. Eastern Europe shows a volatile picture, with a significant upward as well as downward adjustment. The underlying impact of the tariffs is felt in both years, as deep supply chain integration with the Eurozone in industries such as auto take their toll. Favourable incoming data from Poland and Turkey weigh against this, especially in 2025.

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1 President's Trumps love for tariffs was expressed for example during a rally on October 19, 2024, where he said 'The word tariff is the most beautiful word in our dictionary. More beautiful than love...'

2 Favourable incoming data in the early months on the year lift the forecast because they benefit GDP during the whole year and thus growth.

Despite these adjustments the overall growth picture remains relatively solid albeit underwhelming between 2.6% and 2.8% over the forecast period. That is similar to the past two years. Underwhelming in the sense that it is below levels seen during the two preceding decades. It is a divergent picture as well, with the US now significantly below the global average. The same holds for Eurozone growth, which is now forecasted even further below that average. Emerging Asia, including China, still stands out versus the other regions with growth of 4.9% and 4.7% respectively. Eastern Europe is also set to outperform in 2025 before falling in between the US and Eurozone in 2026. LAC's lacklustre growth will also keep it within that range.

1.3 Tariffs trigger new assumptions

Before we outline the adjusted assumptions more in detail it is useful to understand why the US president is so in love with tariffs. Apart from the potential use of tariffs as negotiating tools for matters such as border security and drug trafficking,[3] essentially two factors play a role. First, Trump is concerned about the trade deficit of the US with China, but also with the EU and other countries. He thinks this allows these countries to 'steal' from the US. The US buys more from these countries than vice versa. In his reasoning, by importing, foreign goods compete away US alternatives in the US market, taking away domestic jobs in manufacturing. By imposing tariffs, this can be countered. Higher import prices will shift demand towards US goods, boost US manufacturing, and in that sense contribute to Make America Great Again (MAGA). Second, in addition to this, and that argument is relatively recent, Trump correctly observes that tariffs imply income for the (federal) government. This comes in handy now that the US government needs money to finance the extension of his tax cuts imposed during the first leg of his presidency. The work of the Department of Government Efficiency (DOGE) run by Elon Musk, which evaluates the expenditure side of the federal government, can also be looked at in this context.[4]

Based on this trade deficit reasoning, which will be further discussed below, we assume in our new baseline that the tariffs are imposed on, in particular China, Canada, Mexico. In addition, Vietnam, Japan and South Korea will be hit. All tariffs, fluctuating between 10% and 25%. Like in Trump 1.0, tariffs will be imposed on steel and aluminium. We expect countries to retaliate with similar tariffs. Table 2 provides a more detailed overview.

This tariffs structure that we now use in the baseline is surrounded by an almost extreme level of uncertainty. Tariffs imposed announced on Canada and Mexico were postponed within days, after some 'good' calls between the White House and leaders of these countries. Economic reasoning is lacking.[5] Meanwhile they have been imposed and again delayed. The level of blanket tariff on the EU imports, announced, has recently been raised to 25% from 10%. But there is heavy lobbying by the EU against it, backed up with the threat of countermeasures that will hurt US exporters as well. We anticipate that the US business community will raise its voice as well, and get exemptions, like in Trump 1.0 for certain steel products imported from Europe. Apart from Vietnam and South Korea, India and Thailand are also candidates for tariff hikes given their trade deficit with the US. Then there is this US investigation into the need for reciprocal tariffs based on tariffs and nontariff barriers for US exports.[6] In short, the current tariff structure may be expanded or shortened.

Table 1.2 Turbulence tariff assumptions

Trade partner	US tariff	Retaliation	Start date
China	Blanket tariff of 10%, bringing level to 30%	10-15% on coal, LNG, agriculture, machinery, vehicles	March 2025
Canada*	25% on targeted imports, 10% on energy; ex. auto	25% on 43% of goods imports, metals, woods, food, agriculture, etc	March 2025
Mexico*	25% on all sectors other than autos	25% on US imports, excluding food, transport and machinery	April 2025
EU	Blanket tariff of 10% on all imports	Proportionate, targeting sectors	Q2 2025
Japan	10% on iron, steel, other basic metals and autos	10% on iron, steel, other basic metals and autos	Q3 2025
South Korea	10% on basic metals and autos	None	Q3 2025
Vietnam	10% on basic metals, autos and solar panels	10% on oil seeds, oleaginous fruits, medical plants, straw & fodder	Q3 2025

* Hikes to be reversed mid-2026 after renegotiated USMCA trade deal.

Source: Atradius

3 These were mentioned as the reason for the tariff levies on Canada and Mexico by the US president.

4 Of course this also allows the government to bring in civil servants with a profile more amendable to serving the Trump administration.

5 Instead building on concessions related to border controls and drugs trafficking.

6 The US administration seems to consider the VAT levy in Europe (which does not occur in the US) also as a tariff. This reflects a flawed understanding as a VAT levy is imposed on all, and not just imported, goods. Therefore, a VAT levy, unlike a tariff, does not benefit locally produced goods (in this case the EU).

1.4 Trump logic for tariffs

Before we further analyse the tariffs, we need to address the question if this policy of tariff levies make economic sense in general? Or does it address the trade deficit as thought? The answer is, very clearly: no, neither in general nor to address the trade deficit.

First, fundamentally, tariffs hamper optimal allocation of capital and labour, and thus production. It is protectionism, which is bad for global trade and production. Countries should be able to do and trade in what they are good at, as unhampered as possible. For example, France is good at making wine and the US at producing whiskey. Then the US imposes tariffs on wine. This may trigger the US making some wines where France is better at, while reducing making what the US is good at, whiskey. This reduces trade between France and the US and whiskeys and wines available for consumers. There is no escaping that economic logic.

Second, trade deficits of the US with individual countries, and with all other countries are not an economic issue. They simply reflect trade patterns. For example, if absent tariffs, in a certain period, US consumers badly want wine and France is willing to provide some against a debt obligation, this implies a trade deficit. But it is mirrored in the US debt obligation. France is willing to save wine consumption in that period to satisfy US consumption. Or, put otherwise, the US consumption is higher, and savings lower. That is essentially what trade deficits are reflecting: differences in savings. Therefore, the overall deficit of the US simply reflects low saving and high consumption. Then, if other countries are willing to accumulate US debt, this is not an issue.[7] [8]

1.5 The US shoots itself in the foot

With this verdict in mind, we turn to the question how tariffs affect the US and, in turn, global economy, more specifically? For this we need to depict the current economic situation of the US first and then impose tariffs and counter-tariffs.

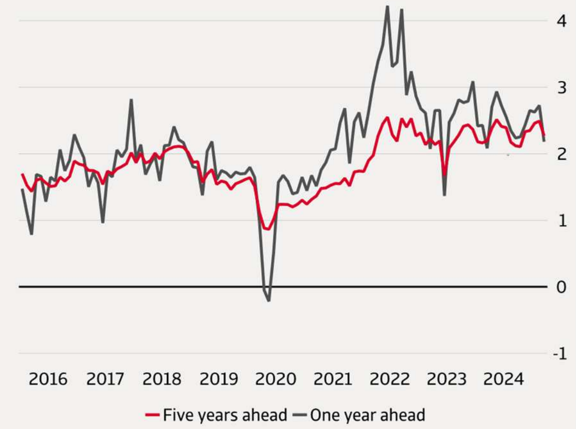
The US economy is currently running at almost full capacity. The Biden administration spent, under the Inflation Reduction Act, a lot of money to support industry, especially to help the energy transition. Apart from that, the US consumer has continued spending, helped by lower inflation and higher wages. Firms are spending as well, especially eyeing potential future AI gains, reflecting in a productivity boost. Unemployment is historically low, at around 4%. Inflation has eased but remains somewhat persistently above Fed target of around 2%.

Now impose the tariff shock. What we see then is that tariffs on imports raise input costs for importing firms. In fact, research on the effects of Trump's 2018 trade war shows that import prices on tariff-targeted goods did not decrease at all, implying that the costs are fully passed through to prices.[9] These firms will pass on that rise, at least partly, to other firms, and ultimately to the US consumer. It will therefore raise prices, which is equivalent to inflation.

True, the result would also be a switch to US produced goods and services, as they have become more competitive. But here a bottleneck arises: the US economy is already at full capacity. Additional demand on this capacity will then only reflect in higher prices for US products and services. This process is reinforced by another element of Trump 2.0 policies: deportation of illegal immigrants. As such arguably laudable, but economically problematic as the supply side of the US economy will come under additional pressure. Just by the sheer lowering of the US labour force. The result is additional inflationary impulse. This comes on top of an already persistent inflation prior to the tariffs, especially in the services sector. Inflation expectations reflect this view (figure 1.2).

Figure 1.2 Inflation expectations on the rise

United States CPI inflation expectations



Source: Federal Reserve, Macrobond

The US consumer, meanwhile, will see lower purchasing power as inflation goes up. This moves the economy away from full capacity indeed, lowering GDP. The resulting labour shedding reinforces this process of demand fallout. Just like the higher

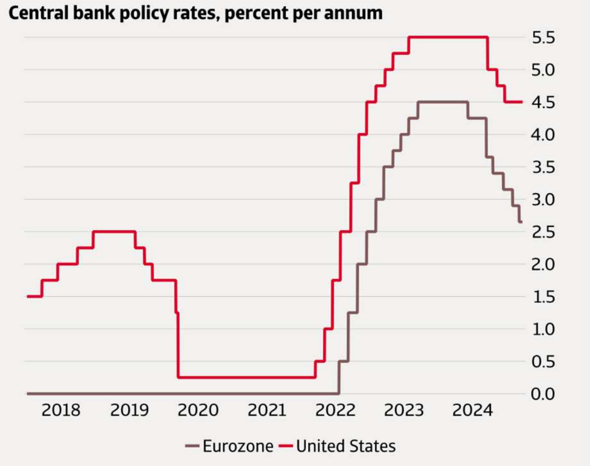
7 Apart from this, the Trump administration focuses on trade in goods, which is only a part of the story. Trade in services is ignored. This gives a flawed picture of the trade deficit. For example the US has a USD 235bn goods trade deficit with the EU. If services is included we end up with USD 126bn.

8 Former IMF chief economist Maurice Obstfeld highlights indeed that the US is just spending beyond its means, and that the deficit is just a reflection of that. See 'Tariffs are not going to solve America's ills.' Financial Times, March 4, 2025.

9 Fajgelbaum et. al., 2020, Return to Protectionism* | The Quarterly Journal of Economics | Oxford Academic.

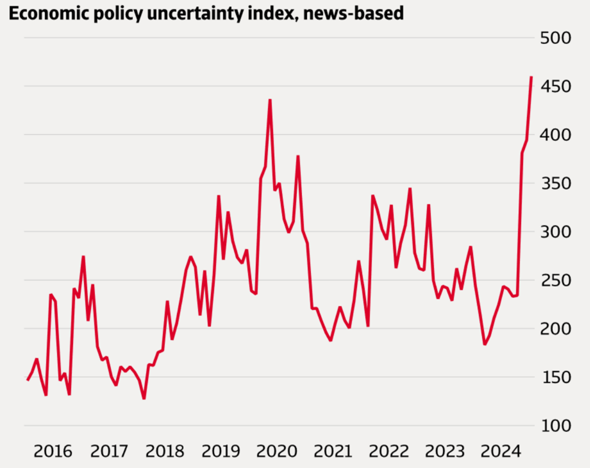
interest rates that the Fed, facing higher inflation (expectations), will be forced to keep rates higher for longer (see figure 1.3). Firms will simply spend less with higher rates. That depressing impact on investment, another component of demand, is reinforced by the very high, if not extreme, level of uncertainty that surrounds the current US trade policy (figure 1.4). Any firm potentially affected by these tariffs will wait with investment projects until the dust has settled.

Figure 1.3 Higher for longer US interest rates



Source: Macrobond

Figure 1.4 Unprecedented uncertainty



Source: Macrobond

To this story there is one caveat. Tariffs may not, or only to a very limited extent, end up in the import prices. That is the case if either foreign exporters take a hit and lower their prices or if the US dollar exchange rate appreciates. In such cases, exporters' profits are hit. In that context, the US is in a benign position. Precisely the uncertainty that comes with the tariff policy, and more broadly the US foreign policy, usually supports the USD exchange rate. The currency is usually a so-called 'safe haven' for investors in uncertain times.

Of course, retaliation by trade partners such as the EU will not help this situation. Indeed, it worsens it. Prices for exported US goods and services in foreign markets are very likely to rise. That limits foreign demand and adds to the fall in aggregate demand in the US. Again, the uncertainty around the US tariff levy and extent of retaliation will restrain US exporters in investment. It does not help either.

1.6 Pain for retaliating countries

Retaliation by trade partners faced with tariffs, such as China and the EU, may be sensible from a negotiating point of view, or even politically – but economically it is not. These exporting countries face the loss of demand from the US because of the lower economic growth and get lower prices for the goods that continue to be exported to the US due to their currency depreciation. That lowers their economic growth. In addition, the import levies imposed on US goods have essentially the same impact as the ones that the US levies on them. They are inflationary, and via that channel negatively affect consumption and investment. Moreover, as opposed to the US being the 'safe haven', these countries face the reverse, a depreciation of their currency. Inflation is then imported because more, say, euros need to be spent to purchase US goods. Higher inflation will keep the interest rate higher for longer, just like in the US case (see Figure 4). This is not helping investment, nor does the policy uncertainty that comes with the tit-for-tat reactions on tariffs imposed. The overall picture that appears is then that a trade war has no winners. We see this reflected in the global growth adjustments that we presented above.

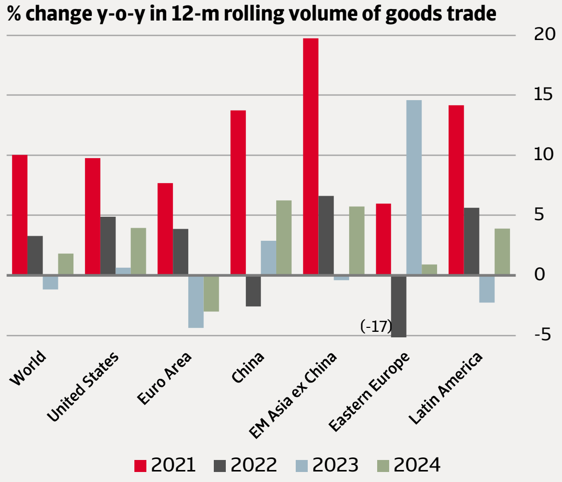
Although the starting situation for each economy that is brought into the trade war is different, its impact is essentially the same. That is to say: the impact runs via the same channels. The structure of the economy and phase in the business cycle then determines the ultimate impact. The impact on countries with a more open economy, such as Germany and the Netherlands, will be larger than countries like France that are less trade dependent. That is reinforced if the direct exposure to US goods imports is larger. The extent of supply chain integration between countries is an important element as well, the higher the more impact tariffs have. In the auto sector for example there are anecdotes about parts of the car crossing the US-Canadian border several times. If this is for example only three times, effective tariffs imposed on both sides of the border may already end up a lot higher than envisaged: 44% instead of 25% in our simple example.[10 11] Furthermore, we have seen that tariffs are raised on goods imports, not services. Then to the extent a country is less dependent on manufacturing, it is less affected by the tariffs. Services are ignored. Still, the impact is not limited to having direct exposure on the US either. CEE countries may see some of the largest negative effects in the EU due to their high supply chain integration and lower diversification in their economies.

1.7 Tariffs weaken trade growth recovery

In our December Outlook we forecasted global trade growth for 2024, based on September data, to come out at 1.8%, with only growth in the US, China and Emerging Asia, Europe still in the doldrums (figure 1.5).

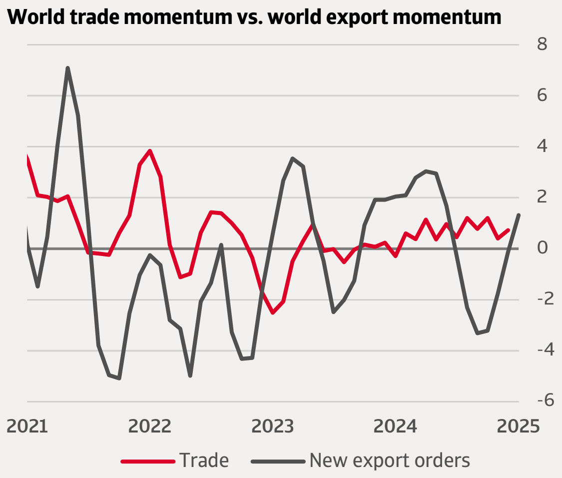
That 1.8% happened indeed in 2024. We now forecast global trade to pick up slightly to about 2.5% in 2025 and 2026, down from 3.3% and 3.0% respectively in our December Outlook. The recent rebound of the export momentum provides some support for this (figure 1.6). There are several reasons for downward adjustments of these figures. First and foremost, the tariffs and counter-tariffs that we see being imposed, a lot earlier and more intensely than previously anticipated. Tariffs raise the cost of trade, effectively lowering demand for traded goods, and thus trade growth. Time for the expected trading ahead of tariff that can push up trade temporarily is hardly there.[12] Second, apart from the switch to locally produced goods, there is also the development of GDP itself, as presented above. Output is increasingly undermined by inflation, higher interest rates, high level of uncertainty which reduces demand, especially for investment. The direct impact of tariffs on trade and indirect impacts on trade through reduced demand warrant at least a 0.5ppt downward revision to our trade growth outlook.

Figure 1.5 Goods trade paints dismal growth



Source: CPB

Figure 1.6 Rebound export momentum



Source: CPB, S&P

10 A stylised example. Imagine a car that crosses in various stages of production three times the US-Canadian border with 25% tariffs on each side. What will be the rise in price of a car that is sold for USD 80 in the US market, involving four firms that each add USD 20 value? We have four firms, two in Canada, two in the US. Each firm fully passes on the tariff cost. We start from Canada. For the first US firm importing from Canada the input cost will be USD 20 * 1.25% = USD 25. On this USD 20 is added, leaving USD 45 import for the second, Canadian, firm. With the 25% tariff this is USD 56.25 input cost to which USD 20 is added, getting to a USD 76.25 sales price to the US. The second, final, US firm then gets USD 95.53 as import cost including the tariff. With the USD 20 added value it leaves a price of USD 115.53 as compared to USD 80 without the tariff. The effective tariff is almost 44%.

11 In practice it may be a lot higher, with anecdotes talking about 8-9 border crossings, multiplying the effective tariffs as compared to the example.

12 Nevertheless, there is some anecdotical evidence that such pre tariff trade hoarding is taking place. Also, indirect evidence is there with the lower first months US GDP combined with relatively high imports.

2. Developments in major economies

2.1 Advanced economies in the front lines of the trade war

The economic outlook for advanced economies is much more negatively affected so far from the US trade wars than that for EMEs. We now forecast 1.5% growth in 2025 followed by 1.8% growth in 2026, down 0.4ppt and 0.3ppt respectively. This downward revision is primarily due to the US shooting itself in the foot. High uncertainty surrounding trade policy as well as domestic policies like immigration and government spending are dragging on sentiment and the investment outlook there.

All other major developed markets are also impacted. Canada, a direct early target of the US trade war, will be pushed into a recession by the end of the year carrying over into a 0.1% contraction in 2026, as tariffs and heightened trade policy uncertainty weigh heavily on investment and exports. The outlook for the Eurozone and Japan has also deteriorated due to anticipated direct tariffs. The UK's outlook is also down by 0.4ppt in 2025 and 0.2ppt in 2026, but the UK is more insulated from US trade policy than other advanced economies given the high share of services in its exports to the US. We do not assume blanket tariffs on UK goods in our baseline scenario. Instead, this downward revision reflects ongoing domestic weakness including sticky inflation and fiscal tightening, on top of historical data revisions – compounded by the negative impact of global uncertainty on investment and sentiment.

Table 2.1 Growth in the eurozone remains subdued

Real GDP growth, %

	2023	2024	2025*	2026*
Eurozone	0.5	0.8	0.9	1.2
United States	2.9	2.8	2.0	2.5
United Kingdom	0.4	0.9	1.0	1.5
Japan	1.5	0.1	1.0	0.6
Canada	1.5	1.5	1.1	-0.1
Advanced economies	**1.8**	**1.8**	**1.5**	**1.8**

Source: Oxford Economics, Atradius (* forecast)

2.1.1 US: cracks beginning to show

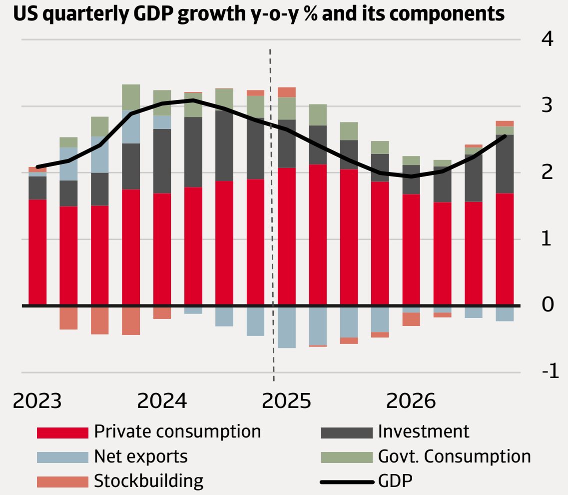
The United States economy entered 2025 on solid footing, arguably having achieved the coveted soft landing. But unorthodox policymaking and the associated uncertainty since January have cast doubt on the steady outlook. While the escalation of the trade war in particular is putting the global economy through another bout of turbulence, the US economy itself is currently set to suffer some of the most severe consequences. We now forecast 2.0% economic growth in 2025, 0.6ppt lower than predicted just three months ago. The fiscal boost should help push growth back up to 2.5% in 2026, 0.2ppt lower than forecast in December.

Economic growth expectations tempered

What's most remarkable about the US's dimmed outlook is that it's nearly fully self-inflicted. Unusually harsh winter weather played a role in disappointing consumer spending in January but it's primarily policymaking that is taking the steam out of the US economic engine. It's not just the trade war but also sweeping federal layoffs and the immigration crackdown – and especially the uncertainty surrounding them – that are weighing on the US economic outlook.

Figure 2.1 Domestic demand losing steam

US quarterly GDP growth y-o-y % and its components

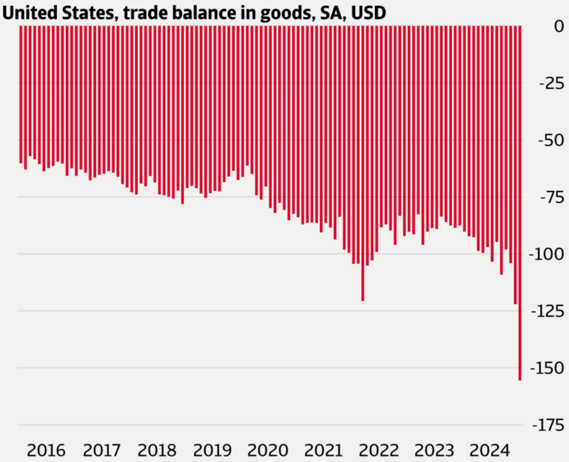


Source: Oxford Economics, Atradius

Net exports remain the only consistent drag to US GDP growth over the forecast period. Imports surged by 10% in January, ballooning the trade deficit to a record USD 156 billion (figure 2.2). This was in part due to increased gold shipments as traders rushed to pull gold from abroad ahead of potential tariffs on bullion. Since most of these imports will not be used in production, this will not subtract from GDP. But imports of electronics, pharmaceutical products and other goods also surged ahead of new tariffs which does take away from GDP.

Figure 2.2 US trade deficit balloons

United States, trade balance in goods, SA, USD



Source: Oxford Economics, Atradius

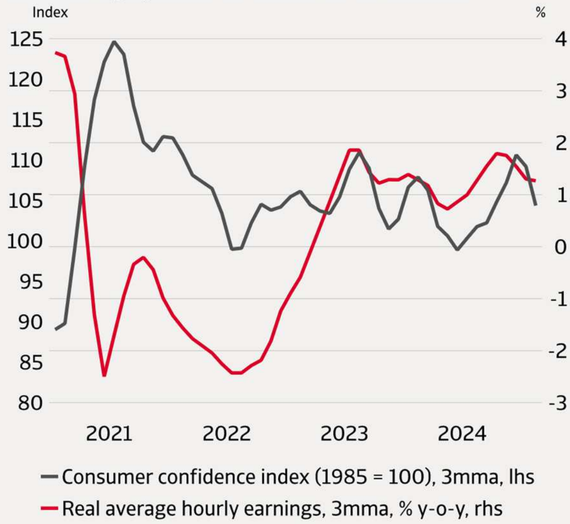
We believe this surge in imports marks a temporary stockpiling ahead of the imposition of tariffs and the drag to GDP growth will ease through the year. This is also what's likely behind the strong growth in the US's manufacturing purchasing managers' index (PMI) since December – as opposed to rising demand for domestic manufacturing. S&P's manufacturing PMI has climbed to 52.7, firmly in expansionary territory and the highest level since summer 2022. But this reading signals an increase in advanced purchases ahead of potential price increases and supply disruptions linked to expected tariffs. The Institute for Supply Management's manufacturing PMI on the other hand shows a drop to 50.3 as companies experienced the first shocks from the administration's tariff policy including supply disruptions and de-staffing.

Private consumption remains firm, offering some room for policy manoeuvre, but momentum is waning. This reflects the stable but easing labour market dynamics. Average hourly earnings corrected for inflation continue to rise, up 1.3% y-o-y in the three months up to and including February, down from 1.8% in November 2024 (figure 2.3). The rate of unemployment stands at 4.1%, within the narrow, historically low range it's been in over the past year. But the pace of job growth has been slowing and the average workweek hours dipped, suggesting that demand for workers is easing. Federal layoffs are also a downside risk for the labour market, but the economy-wide impact should remain limited.

The nascent recovery in consumer sentiment flagged in December has reversed (figure 2.3) and inflation expectations are elevated, as we presented in section 1.5. Headline inflation remains high at 2.8% y-o-y in February after a spike to 3.0% in January. While this was a welcome reversion, energy and food prices ticked up – both sectors that are vulnerable to trade war shocks. As discussed in chapter 1, upward pressure on goods prices is expected as tariffs on Mexico, Canada, the EU and China take effect over the coming months. Therefore, we don't expect relief from sticky inflation over the coming year with headline CPI averaging 3.0%. This will keep interest rates elevated, with the federal funds target range remaining between 4.25% and 4.50% until December. We expect the Federal Reserve to remain in wait-and-see mode, at least until December, as the impact of trade, fiscal and immigration policies take effect.

Figure 2.3 US labour market remains tight

US real wage growth vs. consumer confidence



Source: US Bureau of Labor Statistics, The Conference Board, Macrobond

The softening labour market, sticky inflation and higher-for-longer interest rates will cause private consumption to start easing more meaningfully from Q4 2025 (figure 2.1). It will remain the main GDP driver, but higher prices and uncertainty will suppress some consumer spending.

Stock market turbulence is a significant downside risk for the consumption outlook. Earlier in March, the S&P 500 crossed into correctional territory, down 10% since inauguration day (at time of writing it's down 7.2%). This wiped out a significant portion of household net wealth. On top of the direct wealth effects, the uncertainty sparked by further volatility drags on consumer sentiment and confidence in personal finances. So how sustained the financial downturn is poses a key risk to the consumer outlook.

Financial volatility and overall uncertainty are also dragging on investment. Fixed investment was the second most significant driver of US growth in 2024, contributing 1.0 percentage point to headline growth. But the contribution will be slashed in half to 0.5ppt in 2025, the main driver of the downward growth revision. Surging policy uncertainty will pose a drag on business investment this year, but as firms adapt to this new normal, investment should recover in 2026.

Fiscal situation is on less solid ground

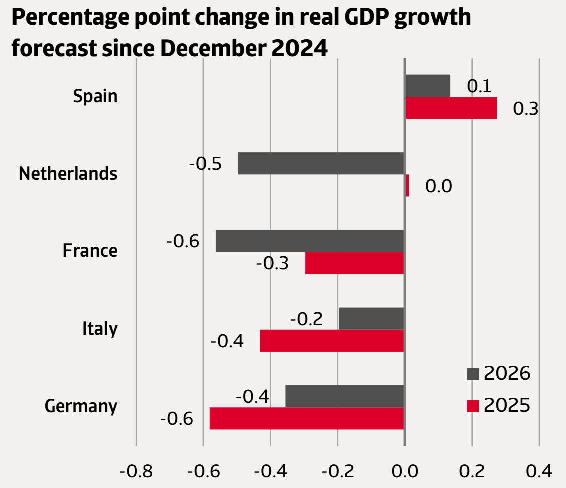
While the economic situation is relatively strong, the fiscal situation inherited by the second Trump administration is more dire. The federal budget deficit exceeded 6% of GDP in 2023 and 2024. Given Trump's fiscal platform to tax less and spend more this will continue over the forecast period. Revenues gained from raising tariffs will likely be offset by increased spending on sectors of the economy that are hurt by the trade wars, as was the case for farmers in Trump's first term. Moreover, the increased government income won't be sufficient to counterbalance the lost revenue from the extension of corporate and individual tax cuts. The potential to cut government spending without touching major programmes like Medicare or national defence is very limited.

We expect the federal deficit to near 7.0% of GDP in 2025 and 6.5% in 2026. Government debt in turn will continue rising further above 120% of GDP, where it currently stands. Long-term bond yields will remain elevated over the coming years, keeping interest costs high.

2.1.2 Eurozone: negative growth revisions in several major countries

We predict that growth in the eurozone will be a cumulative 0.6 percentage points lower in 2025 and 2026 compared to our forecast at the beginning of 2025. This revision is mostly the result of a 10% blanket import tariff that we think the United States will impose on imported goods from the EU, starting from Q2 of 2025. Germany, France and Italy are faced with the strongest negative growth revisions. Germany is mostly exposed to the US market through its automobile sector and machinery production. In Italy, food products and industry are sectors with substantial US exposure. France is not the most exposed EU country in terms of trade with the US, but the tariffs will nevertheless have an impact and in combination downbeat sentiment and political instability this has led to a downward revision. At the other end of the spectrum, Spain is seeing a mild upward revision due to stronger-than-expected growth in the services sector. In Spain, strong consumer spending, underpinned by employment gains, was the driving force behind the robust growth figures in the past years. The growth adjustment in the Netherlands is neutral in 2025 as better-than-expected growth figures in Q4 of 2024 are offset by the negative impact of trade tariffs.

Figure 2.4 Negative GDP revisions in 2025 and 2026 for most eurozone countries



Recent survey data show some bottoming out of sentiment. The ESI improved to 96.1 in February, the second consecutive month of improvement. The composite PMI was flat in February at 50.2, just above the neutral level of 50. However, there is an interesting disparity between the two sub-indices of the PMI: the manufacturing index is showing improvement, while the services index slightly deteriorated in the past two months. Furthermore, there is a disparity in fortunes between the eurozone's largest economies France and Germany: Germany is recovering (composite PMI of 50.4), while France has surprisingly negative results (45.1).

Overall, we expect growth to pick up in the first half of 2025, driven by stronger consumer spending and a potential increase in exports to American companies that are stockpiling and anticipating the introduction of import tariffs. The overall GDP growth in 2025 is forecast to be 0.9%. For 2026, we predict a slightly higher GDP growth rate of 1.2% due to ongoing consumption recovery.

Table 2.1 Growth in the eurozone remains subdued

Real GDP growth, %

	2023	2024	2025*	2026*
Austria	-0.9	-1.3	-0.1	1.5
Belgium	1.3	1.0	1.1	1.6
France	1.1	1.1	0.5	1.0
Germany	-0.1	-0.2	0.0	0.9
Greece	2.3	2.2	2.1	2.0
Ireland	-5.6	1.2	3.1	2.5
Italy	0.8	0.5	0.4	0.7
Netherlands	0.1	0.9	1.3	0.8
Portugal	2.6	1.9	2.5	2.0
Spain	2.7	3.2	2.6	1.7
Eurozone	**0.5**	**0.8**	**0.9**	**1.2**

Source: Oxford Economics, Atradius (* forecast)

ECB sees inflation moving back to target

Inflation in the eurozone has remained roughly on the same level in the past three months. The latest figure was 2.4% in February. We expect inflation to average at 2.1% this year. Part of this is directly caused by tariffs, which will raise the cost of most goods, but it is also a consequence of exchange rate dynamics, with a weaker euro adding to inflationary pressures. For 2026 we predict an inflation rate of 1.8%.

The stagflationary nature of the tariff shock – pushing growth and inflation in opposite directions – puts the European Central Bank in a dilemma. Furthermore, Germany is likely to abandon the debt brake and across the EU defence spending is likely to go up, bolstering inflation prospects. In the monetary policy meeting of March, the ECB has cut the deposit rate by 25 bps to 2.5%.

The ECB assesses that its policy stance has gotten meaningfully less restrictive. That makes a slower pace of easing, or a policy pause more likely. We expect the ECB will continue to cut rates in April and June, and then pause. The governing council is expected to become even more data-dependent, cutting rates only when growth and inflation data signal that further policy easing is warranted. On inflation, the ECB remains convinced that the disinflation process is well on track. Most importantly, services inflation eased in February and there are signs that there is a continued moderation in labour cost pressures. This gives the ECB enough comfort that inflation is still gradually returning to its 2% target.

Consumption growth worsening slightly

The labour market remains tight. The unemployment rate remained at 6.2% in January, which is the lowest level since the euro was introduced. However, there are signs that the labour market is cooling. Firms' hiring intentions have steadily declined since 2023, dipping below the long-term average in mid-2024. In February 2025, the employment expectations indicator deteriorated to -1.2 points. Employment expectations were down in services, construction and industry, with retail being the only sector that showed some improvement. Although we anticipate weaker employment growth next year, the overall unemployment rate is expected to remain low at 6.4% in 2025 and 2026.

We expect that private consumption will remain a key growth driver, with an expansion of 1.5% in both 2025 and 2026. This expectation is primarily based on a continuing strong labour market, with a rebound in real income driven by both solid nominal income growth and lower inflation. However, we see downside risks for income growth and balanced risks for the willingness to spend. The main factor holding back consumer spending is households' savings behaviour. The household savings rate in the eurozone aggregate hovers around 15.5%, about 2.5 percentage points above the long-term pre-pandemic average.

Figure 2.4 Wage growth exceeds inflation

Source: Eurostat, ECB, Atradius

Tariffs will negatively affect spending, as higher prices due to tariffs will reduce consumers' purchasing power, though the hit is likely to be small compared to trade or investment. We expect this to mostly work through the income channel. We expect tariffs will add 0.2 percentage points to inflation in 2025, resulting in the corresponding decline in real income. A key downside risk stems from the sectoral impact and supply-chain linkages through which the tariffs will feed. Sectors hit hardest by tariffs will be those already struggling and shedding jobs, like manufacturing.

More uncertain investment climate

Investment is projected to gradually strengthen to 1.2% in 2025 and 1.4% in 2026, mostly reflecting the waning drag from past monetary policy tightening, as well as support from increasing profits, the deployment of EU investment funds and improving demand.

According to simulations of the impact of American import tariffs on EU goods, there is a negative impact on private investment in the eurozone by 2 percentage points by the end of 2027. This is due to the combination of business uncertainty, lower demand, and higher costs hampers firms' willingness to commit to long-term capital spending plans.

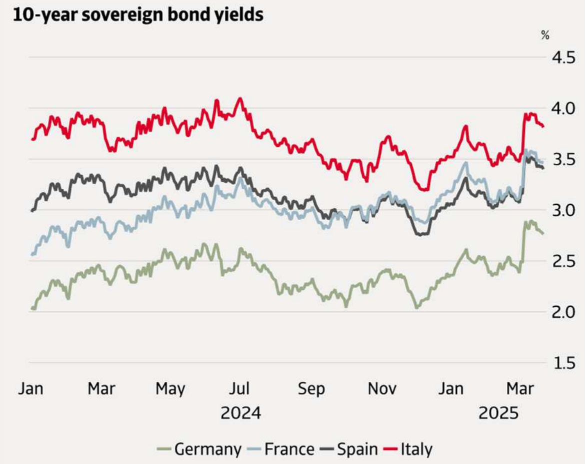
Even if a deal is eventually reached, the uncertainty around future trade negotiations is likely to present a large, long-lasting drag on capital spending. First, capital spending involves significant upfront costs to build productive capacity, aiming to boost future production. In uncertain times, firms may hesitate to invest due to potential weaker demand or may delay capital spending until the uncertainty subsides. Second, greater uncertainty can lead to higher credit spreads, especially for long-term loans, as creditors seek compensation for the added risk. This raises the cost of capital and further discourages investment. However, historically trade uncertainty shocks have led to lower long-term yields because the markets perceive the combination of tariffs and trade policy uncertainty as deflationary.

Higher fiscal spending on defence

Russia's invasion of Ukraine and doubts around security guarantees from the US have sparked defence concerns across Europe. In response, spending on defence has increased. While the EU spends slightly less than 2% of its GDP on defence today, European leaders are openly debating lifting spending to as much as 3.5% of GDP or higher in the coming decade. The European Commission has proposed to exempt EUR 800 billion in additional borrowing by EU governments from the bloc's rules on debts and deficits. The proposal includes creating a EUR 150 billion fund from which countries can borrow specifically for defence purposes.

While economically it could make sense to increase spending on defence, from a public financing perspective it will prove to be challenging. Many eurozone countries are still struggling with budget deficits that are too high. If EU countries would increase defence spending immediately to a higher target of 3% or 3.5% of GDP, without changing any other government finances, this would result in a breach of the 3% deficit rule for most eurozone countries. Following the recent announcement of substantial planned additional expenditures on defence at the EU level, 10-year government bond yields have risen in Europe. The spreads with Germany have remained benign so far, which means that while interest rates are up, markets are not too concerned yet about the relatively indebted countries. For the high debt countries, there remains a risk that higher government debt could at some point trigger a negative market reaction.

Figure 2.5 Bond yields are up on the expectation of higher defence spending



Source: Macrobond, Atradius

2.2 Diverging prospects beneath slightly brighter EME outlook

We forecast 4.1% growth across emerging market economies (EMEs) in 2025 and 4.0% in 2026, both 0.1ppt higher than in December. The upward revision is primarily due to stronger-than-expected momentum in China at the start of the year. EMEs in general are exposed to assertive US trade policy directly through tariffs and indirectly through higher borrowing costs, financial volatility and currency depreciations. The global uncertainty also undermines international investment flows. This throws additional sand into the wheels for EMEs' economic outlooks which were already losing momentum. China has been the main target of restrictive US trade policy since 2018. It remains a target this time around, but Trump is focusing punitive measures more acutely on allies. For EMEs, that means Mexico is at the highest risk, as reflected in the 1.3ppt drop in Mexico's GDP growth outlook for 2025 to 0.4%.

Table 2.2 Diverging growth forecasts across EMEs

Real GDP growth, %

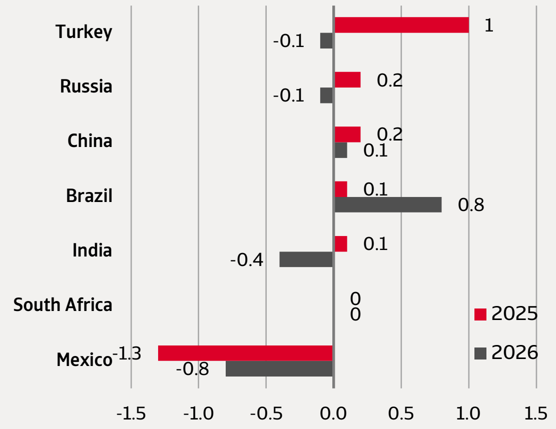
	2023	2024	2025*	2026*
China	5.4	5.0	4.6	4.2
India	7.7	6.4	6.5	6.5
Brazil	3.2	3.4	2.1	1.8
Mexico	3.3	1.3	0.4	1.4
Russia	3.6	3.9	1.8	-0.6
Turkey	5.1	3.2	2.9	2.3
South Africa	0.7	0.7	1.5	1.6

Source: Oxford Economics, EIU, Atradius (* forecast)

While the overall EME forecast is slightly better than in December, this headline figure masks substantial forecast revisions, both up and down, in major markets. This heterogeneity primarily reflects idiosyncratic developments across markets, not just differing impacts from the escalating trade war. Consistent with the picture painted in section 1.2, the main markets of Eastern Europe (Turkey and Russia) have seen upward revisions to their 2025 forecasts whereas the Latin America and the Caribbean (Mexico; offsetting improvements in Brazil) have seen significant downward revisions. The outlook for South Africa is unchanged, while the powerhouses of Emerging Asia (India and China) see modestly brighter prospects for 2025.

Figure 2.6 Mexico's 2025 outlook has been slashed

Percentage point change in real GDP growth forecast since December 2024



Source: Oxford Economics, Atradius

Turkey leads with a 1ppt upward revision for its 2025 growth outlook to 2.9%. This revision is motivated by much stronger-than-expected growth, fuelled by private consumption, at the end of 2024 which brought that year's growth rate up to 3.2% from an expected 2.7%. Retail sales have increased further in the first months of 2025, so we expect this momentum to carry into the year. **Russia**'s 2025 forecast of 1.8% is also 0.2ppt higher thanks to carryover effects from stronger-than-expected output in the final months of 2024. Russian demand is also boosted by unusually high budgetary spending in January.

India will maintain the highest growth rate (6.5%) in both 2025 and 2026. This constitutes a 0.4ppt downward revision for 2026 partially due to uncertainty and investment outflows from EMEs. While US tariffs on India are not (yet) part of our baseline scenario, there remains risk of implementation, and this uncertainty will drag on India's economic outlook. India's trade-weighted import duties are among the highest in the world and it has a large trade surplus with the US, so it is a prime target for US restrictions. The potential impact on the Indian economy would be limited though as it's less trade reliant than EME peers. As the Indian government has already taken steps to reduce tariffs on some US products to appease President Trump, there is some silver lining for India to shed some of its protectionism and further open up its economy.

China's economy continues to slow down but at a more gradual pace than we previously expected. From 5.0% in 2024, growth is set to ease to 4.6% in 2025 (up 0.2ppt from December) and further to 4.2% (up 0.1ppt). This upward revision comes on the back of strong Q4 2024 growth. Stimulus measures, front-loaded export orders and relatively good weather conditions all contributed to this higher growth carryover effect. But this statistical adjustment does not change the fact that the Chinese economy is losing steam. As US tariffs come into effect, surging exports will slow as well as investments in domestic manufacturing. This depresses household and business confidence while the property sector continues to decline. We expect to see some offsetting of the impact from US trade measures through government policies to stimulate domestic demand (fiscal expansion, monetary easing) and depreciation of the yuan. Another mitigating factor is that China is now less directly exposed to US tariffs compared to the start of the first trade war in 2018 due to less direct bilateral trade with the US.

The brunt of the impact of Trump's trade policy, in its current scope, will be felt in Latin America. **Mexico** is facing a much tougher economic environment in 2025 due to US policy and the associated uncertainty. We now forecast just 0.4% growth in 2025, a full 1.3ppt lower than forecast in December. The optimism for nearshoring opportunities in Mexico that characterised the late Biden administration has been washed away with more aggressive-than-expected US tariffs on USMCA partners. The on-again off-again nature of these policies is fuelling uncertainty and dragging down sentiment, already hit by growing concerns over institutional quality following judiciary reforms in the fall of 2024. This will cause fixed investment to contract some 5% this year, the main motivation for the weaker 2025 outlook. We've also revised down our 2026 outlook by 0.8ppt to 1.4% as we become less optimistic that investments will meaningfully recover. Uncertainty surrounding USMCA renegotiations will persist into 2026 which will weigh on investor sentiment.

Brazil's outlook, on the other hand, is steady for 2025 (up 0.1ppt) with a significant 0.8ppt upward revision for 2026. This reflects stronger economic activity in January and February compared to Q4 2024 driven by the agricultural sector and a slower-than-expected loss of momentum. Monetary tightening and uncertainty ahead of the October 2026 elections will dampen investment and consumption over the forecast period. But Brazil's currency, the real, has been appreciating so far this year, up some 9% against the USD, reflecting interest rate hikes and the receding threat of universal US tariffs affecting Brazilian exports. This should allow the central bank to lift policy rates by less than expected and to start cutting rates in 2026. As a large, relatively closed economy with limited trade with the US, Brazil's exposure to the US trade wars is limited.

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Appendix

Table A1 Key macroeconomic forecasts

	GDP growth (% change p.a.)			Inflation (% change p.a.)			Budget balance (% of GDP)			Gross government debt (% of GDP)			Current account (% of GDP)			Export growth (% change p.a.)		
	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026
Australia	1.0	2.1	2.5	3.2	2.8	3.2	0.1	0.0	0.0	57	57	56	-1.9	-2.7	-3.2	0.9	4.5	4.3
Austria	-1.5	-0.1	1.7	2.9	2.9	1.5	-4.4	-3.1	-1.5	119	116	114	2.7	1.7	1.6	-4.3	-0.7	2.4
Belgium	1.0	1.1	1.6	3.1	2.1	1.7	-4.2	-3.1	-1.9	111	111	108	-0.4	1.1	2.0	-4.1	0.0	2.5
Brazil	3.4	2.1	1.8	4.4	5.5	4.3	-6.6	-9.5	-9.7	77	82	86	-2.6	-2.5	-2.3	2.1	-1.4	1.9
Canada	1.5	1.1	-0.1	2.4	3.4	2.0	-1.5	-1.7	-2.6	103	101	102	-0.5	-0.6	-0.7	0.6	1.8	-2.3
China	5.0	4.6	4.2	0.2	0.4	1.0	-8.5	-10.3	-10.0	60	68	74	2.2	1.5	1.7	13.6	-0.2	1.5
Denmark	3.6	3.3	1.9	1.4	2.2	2.2	3.6	2.4	2.1	38	33	31	13.8	14.6	13.8	7.6	4.0	1.0
Finland	-0.2	0.9	1.3	1.6	1.7	2.3	-4.7	-3.5	-2.2	83	87	87	0.2	2.0	0.6	0.1	0.8	0.6
France	1.1	0.5	1.0	2.0	1.5	1.9	-6.2	-5.9	-5.2	128	131	132	-0.3	0.2	0.3	1.1	0.5	1.2
Germany	-0.2	0.0	0.9	2.3	2.1	1.8	-2.8	-2.0	-1.4	58	59	59	5.6	4.8	5.0	-1.0	-1.4	1.4
Greece	2.2	2.1	2.0	2.7	2.4	2.0	1.7	0.1	-0.7	193	183	177	-6.6	-6.0	-6.1	0.7	3.1	3.0
Hong Kong	2.5	1.9	2.4	1.7	1.8	1.7	1.9	-0.2	-1.3	9	9	10	12.7	8.1	5.7	4.7	-0.4	5.2
India	6.7	6.5	6.5	4.9	4.4	4.6	-4.9	-4.6	-4.2	81	79	77	-0.7	-0.6	-0.5	7.1	7.7	6.6
Ireland	1.2	3.1	2.5	2.1	1.8	2.0	4.5	1.4	0.8	30	27	25	17.3	7.8	7.5	11.9	0.4	1.5
Italy	0.5	0.4	0.7	1.0	2.1	1.8	-3.5	-3.2	-3.0	148	150	152	1.4	1.5	2.0	-0.3	1.0	2.2
Japan	0.1	1.0	0.6	2.7	2.7	1.8	-3.3	-3.4	-3.3	235	233	234	4.7	5.0	4.7	1.0	1.1	0.6
Luxembourg	0.5	2.2	2.5	2.1	1.7	1.7	-0.3	-0.5	-0.1	27	27	25	9.3	6.0	5.3	0.0	3.1	3.2
Netherlands	0.9	1.3	0.8	3.3	2.9	2.1	-0.4	-1.5	-2.4	50	50	51	9.9	9.4	8.9	0.1	1.3	0.5
New Zealand	-0.3	1.2	3.5	2.9	1.8	1.6	-3.1	-1.5	-1.1	50	50	48	-5.7	-3.3	-3.0	4.0	9.1	6.5
Norway	2.1	-0.3	0.8	3.1	2.6	2.1	13.2	11.5	10.1	44	44	44	17.1	16.8	13.6	5.7	-0.7	-0.1
Portugal	1.9	2.5	2.0	2.4	2.2	1.9	2.0	1.1	-0.4	102	96	93	2.2	1.2	1.2	3.4	1.8	1.9
Russia	3.9	1.8	-0.6	8.4	9.4	6.0	-2.2	-1.5	-2.7	16	14	17	2.7	1.1	2.9	0.1	-6.3	6.7
Singapore	4.4	2.8	1.6	2.4	1.3	1.3	0.3	0.3	-0.1	173	173	178	17.6	22.7	21.1	5.4	5.1	2.2
Spain	3.2	2.6	1.7	2.8	2.5	1.8	-3.2	-2.9	-3.0	109	107	106	3.0	3.3	3.1	2.9	1.9	1.7
South Africa	0.6	1.5	1.6	4.4	3.7	4.8	-4.4	-5.0	-5.5	77	79	82	-0.6	0.0	-0.8	-2.0	1.7	1.8
South Korea	2.1	1.6	2.2	2.3	1.9	2.0	-1.8	-0.7	0.0	49	49	47	5.3	3.8	3.7	6.9	1.7	2.1
Sweden	0.9	2.3	2.1	2.8	1.5	2.2	-1.5	-1.5	-1.3	42	42	41	7.1	5.0	4.7	2.4	2.0	0.9
Switzerland	1.3	0.8	1.2	1.1	0.4	0.5	0.0	0.1	0.0	24	24	23	2.4	4.6	5.2	2.0	2.2	2.5
Turkey	3.2	2.9	2.3	58.5	32.3	18.7	-5.1	-3.2	-2.0	26	25	25	-0.9	-1.7	-1.5	0.9	1.8	2.6
United Kingdom	0.9	1.0	1.5	2.5	3.2	2.6	-6.0	-3.6	-3.1	101	101	100	-2.8	-2.9	-2.9	-2.2	-1.6	0.9
United States	2.8	2.0	2.5	3.0	3.0	2.1	-7.5	-7.1	-7.4	138	139	140	-3.8	-3.8	-3.7	3.2	2.5	1.6
Eurozone	0.8	0.9	1.2	2.4	2.1	1.8	-3.0	-2.9	-2.5	-	-	-	2.8	2.2	2.4	1.0	0.4	1.6

Source: Oxford Economics, Atradius

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