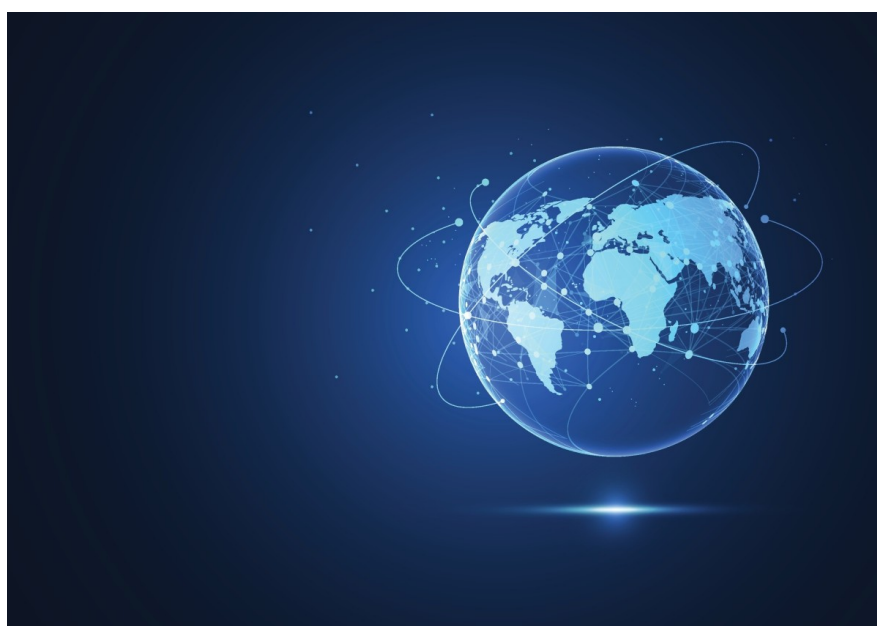


# The latest upside and downside risks to our global outlook

All of the latest from our team on what could go right or wrong for the global economy over the coming months



## Five upside risks

### 1. Eurozone embarks on major fiscal expansion

After complicated coalition talks, the new German government eventually decides on a special fund to boost infrastructure investment. This fund comes on top of earlier agreed special funds for defence spending. At the European level, there is an agreement on a European Defence Fund.

### 2. Trade war delayed – tariffs largely avoided

Given the significance of the US sales market, countries facing potential US tariff action make significant concessions. This dynamic ultimately results in improved global trade relations, as countries reduce their tariff rates in line with the Most Favoured Nation (MFN) principle. Consequently, the favourable tariff reductions extended to the US are also applied to all other trading partners. This process not only fosters a more open and competitive global market but also encourages international cooperation and economic stability.

### 3. European consumer renaissance

In contrast to the United States, the European savings ratio is some three percentage points above its long-term average. Admittedly there's some debate about how much of that is in liquid bank deposits. But with the jobs market strong and real wage growth still positive, the deployment of that savings buffer and a return to the pre-Covid average could lift growth by more than a percentage point. The issue currently is that consumer confidence is weak – but if that changes, the European consumer is a major source of potential upside.

### 4. Trump unshackles America

Optimism that US President Donald Trump's tax cuts and deregulation plans can deliver meaningful growth encourages businesses to resume hiring and investment while immigration controls constrain labour supply, keeping wage growth robust. Tariff threats succeed in opening up foreign markets to US companies while also prompting announcements of foreign companies investing in US production facilities. Tariffs are subsequently watered down and look less troubling for inflation and growth. Bond markets give Trump the benefit of the doubt on fiscal sustainability, limiting the upside for Treasury yields. In turn, they present less of a headwind to growth than under our base case.

### 5. Chinese policymakers deliver at Two Sessions

Markets are expecting stronger policy support this year to help boost domestic demand to offset what will likely be a weaker external environment, but what this policy could look like is still unclear at this point. The Two Sessions will give policymakers a chance to communicate this year's policy focus – the growth target will be the primary focus, but more details on what form fiscal stimulus could take will also be watched closely. Clear and actionable policy direction could go a long way in bolstering market confidence.

## Five downside risks

### 1. The US jobs market capitulates

Fears of a jobs market recession have all but faded since last summer's surprise pickup in the unemployment rate. But roughly 90% of job creation over the past two years have been in just three sectors: private health and education, leisure and hospitality and government. That suggests the underlying story in the jobs market is less healthy than the headline numbers indicate. Until now, the US consumer has been unrelentingly strong, helped by higher income households. A surprise rise in redundancies could quickly change that.

### 2. President Trump returns to 60% tariffs on China and 20% on everyone else

Based on the US having imported \$3.3tr goods in 2024, such aggressive tariffs raise over \$800bn in revenue. Despite assurances that "foreigners will pay", importers and retailers experience higher costs and this is passed onto consumers. In a worst-case scenario of zero substitution for American made products and full cost pass through to the consumer this averages nearly \$2500 for every American and severely erodes household spending power. Even in a less extreme scenario, with some switching to American products and some profit margin compression, consumer spending cools due to the pressure on household finances. At the same time, reciprocal tariffs from foreign trading nations hurt the competitiveness of US exporters.

### 3. Oil prices spike on sanctions risk

Stricter enforcement of sanctions against Iran – and if Biden's departing sanctions against Russia turn out to be effective – will not only erase the surplus we expect for this year but push the market into a fairly large deficit, with as much as 1.7m b/f of supply at risk. The market is then left relying on OPEC+ to fill the gap, but with its fiscal breakeven levels above current prices, it will be in no rush to bring supply back quickly.

### 4. Broken transatlantic relationship weighs on Europe

US tariffs on European goods, particularly automobiles, further dent the very fragile recovery and add to Europe's industrial worries, leading to a faster turning of the labour market. At the same time, a deal on Ukraine between the US and Russia, with subsequent withdrawal of US troops from Europe, brings new geopolitical uncertainty. In turn, consumption and investments are held back.

### 5. China-US negotiations fall through

While there have been reports of regular dialogue between working level officials of the two nations, so far it has been a little surprising that Chinese leader Xi Jinping and Trump have yet to have a formal high-level discussion. Early restraint from both sides on tariffs gives room for de-escalation, but this is far from a given. The clock is ticking to find a new trade deal or framework ahead of early April, when an investigation on China's Phase One Trade Agreement purchases will be published and Trump's moratorium on the TikTok ban will expire. An additional point of concern is reports that the US is now asking Mexico to also add tariffs on China. If this sort of coordinated attack on China is expanded, there are risks for an even more damaging global trade war.

## Author

### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

### James Knightley

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

### Lynn Song

Chief Economist, Greater China

[lynn.song@asia.ing.com](mailto:lynn.song@asia.ing.com)

### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

### Inga Fechner

Senior Economist, Germany, Global Trade

[inga.fechner@ing.de](mailto:inga.fechner@ing.de)

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