

2024: Resilience Almost Everywhere 2025: Reconfiguration, Not Rebalancing

Global Chief Economist Paul Gruenwald's Year-End Reflections

December 19, 2024

This report does not constitute a rating action

For the final 2024 edition of our Essential Economics Newsletter, we asked each S&P Global Ratings chief economist to share insights on the following questions:

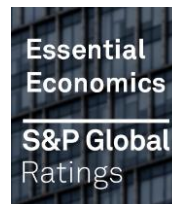
- What was the biggest surprise for you in 2024 and what are the takeaways?
- What will you be watching most closely in 2025, and why?

2024: Resilience Almost Everywhere

The resilience of household services spending and the strength of labor demand was the biggest surprise for me in 2024. Growth stayed higher for longer in the U.S. and recovered a bit faster in Europe than expected. Unemployment rates remain near multi-decade lows across a wide swath of advanced economies. Yes, the team did forecast stickier inflation and a slower pace of policy rate cuts than the consensus, but the resilience was still a surprise. It still is: The U.S. economy is tracking close to 3% growth as we approach year-end. We continue to flag the strong services employment nexus as key to our soft-landing baseline scenario.

Contacts

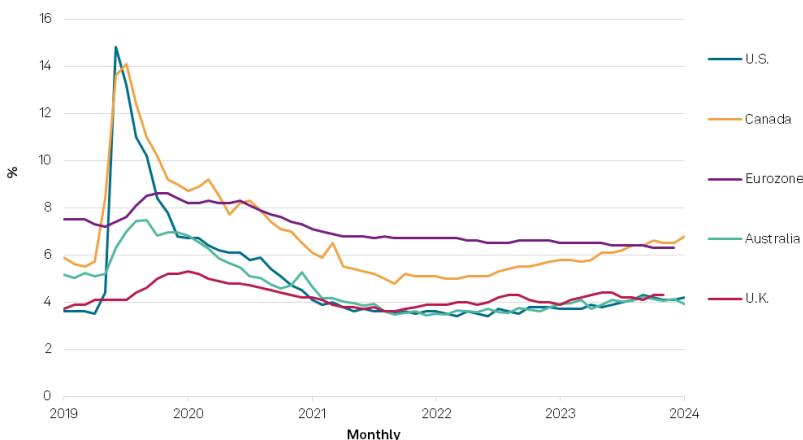
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Chart1

Unemployment rate



Source: BLS, ONS, Statistics Canada, Eurostat, ABS, S&P Global Ratings Economics, Data through November 2024 (US, Canada, Australia), October 2024 (UK and Eurozone)

Bottom Line: The new resilience means that policy rates will need to be higher for longer, and the decisive break in inflation dynamics relative to the pre-pandemic period is complete.

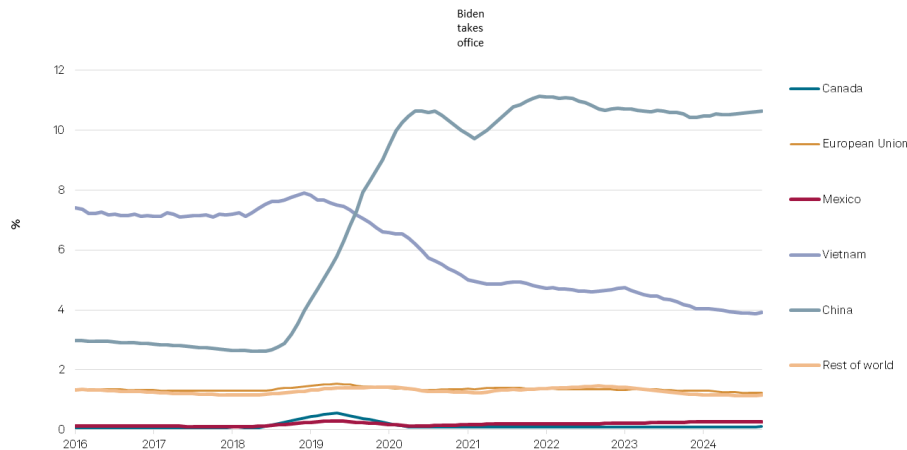
2025: Reconfiguration, Not Rebalancing

The new year will almost certainly feature large tariff policy moves by the U.S. Some of these may be proposed for economic reasons, and others will not. Unlike over the past half decade, the tariffs may not be primarily directed at China. Absent a rise in U.S. savings, the overall U.S. trade (current account) deficit will not change. Trade will not be rebalanced, only reconfigured.

How the global trade and financial re-configuration evolves will reflect not only U.S. policy moves, but also those of the rest of the world. It is these reaction functions that I will watch in 2025:

- Will non-U.S. countries adopt retaliatory tariffs? Will those reduce trade or redirect it?
- Will foreign direct investment flows work with tariffs or seek to get around them?
- Will other advanced countries' trade (and investment) with China differ from the U.S.?
- How will trade between the “North” and “South” play out in response to these tariff “wars”?

US effective tariff rate by import source country, 12-month rolling average



Source: U.S. Census Bureau, S&P Global Ratings Economics. The US effective tariff rate, 12-month rolling average has been calculated using the monthly effective rates from January 2015 onwards. The individual month effective rates were calculated using official collected custom duties as appraised by U.S. Customs and Border Protection. The values were obtained by dividing the total tariff revenue collected by the total import value. The value of imports for this measure are the customs value (Customs Value (Gen)(US\$)) for all imports as reported by the U.S. Census Bureau Trade Data Source Selection tool for Imports. Collected customs duties for China are sourced from the U.S. Census Bureau Trade Data Source Selection tool using the calculated duty measure (Calculated Duty (US\$)).

Bottom Line: The U.S. will be a first mover on trade policy, but not the only one. Countervailing policy moves by other countries will equally shape the global trade landscape in 2025.

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