

## Tariff threats

- ◆ In recent weeks, the introduction and threats of US tariffs...
- ◆ ...have caused shocks across markets...
- ◆ ...and threatens what had been a steadily improving growth-inflation mix

Uncertainty is back with a vengeance in the global economy, with the first few weeks of President Trump's second term leading to tariff announcements and delays, triggering market volatility across currencies, rates, equities, and cryptocurrencies.

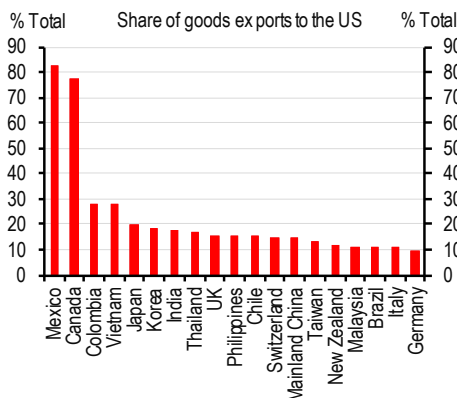
### Tariff impacts

Should US tariffs and retaliatory action take effect, the impact could be significant, particularly for Canada and Mexico, given more than 75% of their exports go to the US (Chart 1). For now, US inflation has remained broadly under control (Chart 2), **but tariffs risk upsetting that trend**, potentially adding to goods inflation, even if US imports of goods are less than 10% of GDP.

**Tariffs could stoke inflation, and hit trade and growth**

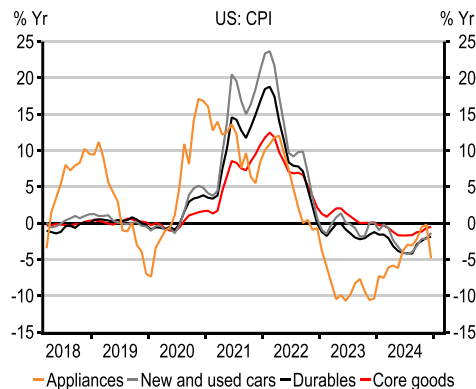
At the same time, **tariffs threaten both global trade and broader growth**. The increased level of uncertainty in the global trading system is likely to weigh on investment plans, whilst supply chains are ripe for rejigging around any potential tariff targets.

**1. Some economies are more exposed to the US**



Source: Macrobond, IMF DOTS

**2. The period of negative goods inflation in the US is at risk**



Source: Macrobond. Note: Estimates are baselines.

### Activity data have been strong in the US...

US growth remains robust

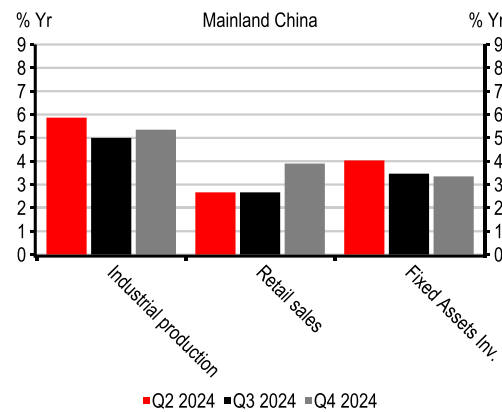
That said, the US is starting the year from a position of strength after a barnstorming Q4 for consumers that saw consumption rise by 4.2% q-o-q annualised on the back of strong real income growth. Survey data suggest **there could be further growth momentum into 2025**, even if labour market indicators are a little more mixed.

### ...but generally softer across the globe

Q4 GDP growth picked up in mainland China, but confidence remains low

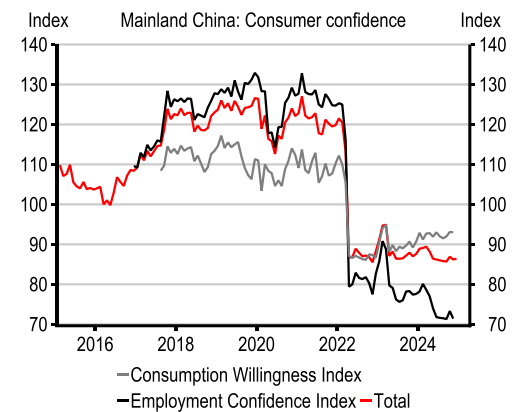
The rest of the world is vulnerable to this uncertainty – particularly mainland China – where an additional 10% tariff was imposed on 4 February. Growth revived in some areas in Q4 (Chart 3), but uncertainty over the future for exports and still subdued confidence look likely to **hold back any significant growth recovery**, absent a further substantial fiscal stimulus package.

#### 3. Consumer spending edged up in Q4



Source: Macrobond

#### 4. Consumer confidence remains subdued



Source: Macrobond.

Confidence and GDP remains weak in Europe and the UK

In Europe, tariff threats further cloud a gloomy outlook, where continued struggles on the industrial front are not being offset by consumers opening their wallets. Despite tight labour markets in most economies and improving real incomes, **confidence remains weak and GDP growth has ground to a halt** in both the eurozone and the UK.

Across the emerging world, the previous growth star of India has shown some wobbles of its own, leading the Reserve Bank of India (RBI) into cutting rates, while in Brazil stronger growth data and a deteriorating inflation outlook have played a role in driving even more tightening from the central bank.

### Heightened uncertainty

It's a challenging world for central banks weighing up the inflationary and growth consequences of a tariff-related supply shock – at a time when food and gas prices are rising. The job isn't made any easier as 2025 has started with **the level of uncertainty pushed into a new gear**.

**Key recent releases**

Date	Market	Release	Period	Actual	Consensus expectation	Prior	Actual vs. Consensus
30 Jan	US	Real GDP (% q-o-q, ann.)	Q4, 1st rel.	2.3	2.6	3.1	↓
3 Feb	Mainland China	Caixin manufacturing PMI (Index)	Jan	50.1	50.6	50.5	↓
3 Feb	Eurozone	HICP (% y-o-y)	Jan, flash	2.5	2.4	2.4	↑
3 Feb	US	ISM manufacturing (Index)	Jan	50.9	50.0	49.2	↑
5 Feb	Mainland China	Caixin services PMI (Index)	Jan	51.0	52.4	52.2	↓
5 Feb	US	ISM services (Index)	Jan	52.8	54.0	54.0	↓
6 Feb	UK	Bank of England Bank Rate (%)	-	4.50	4.50	4.75	→
7 Feb	US	Nonfarm payrolls, monthly change (000s)	Jan	143	175	307	↓

Source: Bloomberg, HSBC

↑ Positive surprise – actual is higher than consensus, ↓ Negative surprise – actual is lower than consensus, → Actual is in line with consensus

**Key upcoming events**

Date	Market	Release	Period
13 Feb	UK	GDP	Dec, Q4
14 Feb	Eurozone	GDP	Q4
14 Feb	US	Retail Sales	Jan
19 Feb	US	CPI	Jan
20 Feb	Mainland China	People's Bank of China interest rate announcement	-
21 Feb	UK	Retail Sales	Jan
21 Feb	EU/UK/US	PMIs	Feb
3 Mar	Eurozone	HICP	Feb
5 Mar	Mainland China	Caixin Services PMI	Feb
6 Mar	Eurozone	European Central Bank interest rate announcement	-
7 Mar	US	Non-Farm Payrolls	Feb
9 Mar	Mainland China	PPI/CPI	Feb

Source: LSEG Datastream, HSBC

# Disclosure appendix

## Important disclosures

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