Quarterly Global Economic Outlook – Q1 2025

Threats of trade war stoke uncertainty, denting business optimism

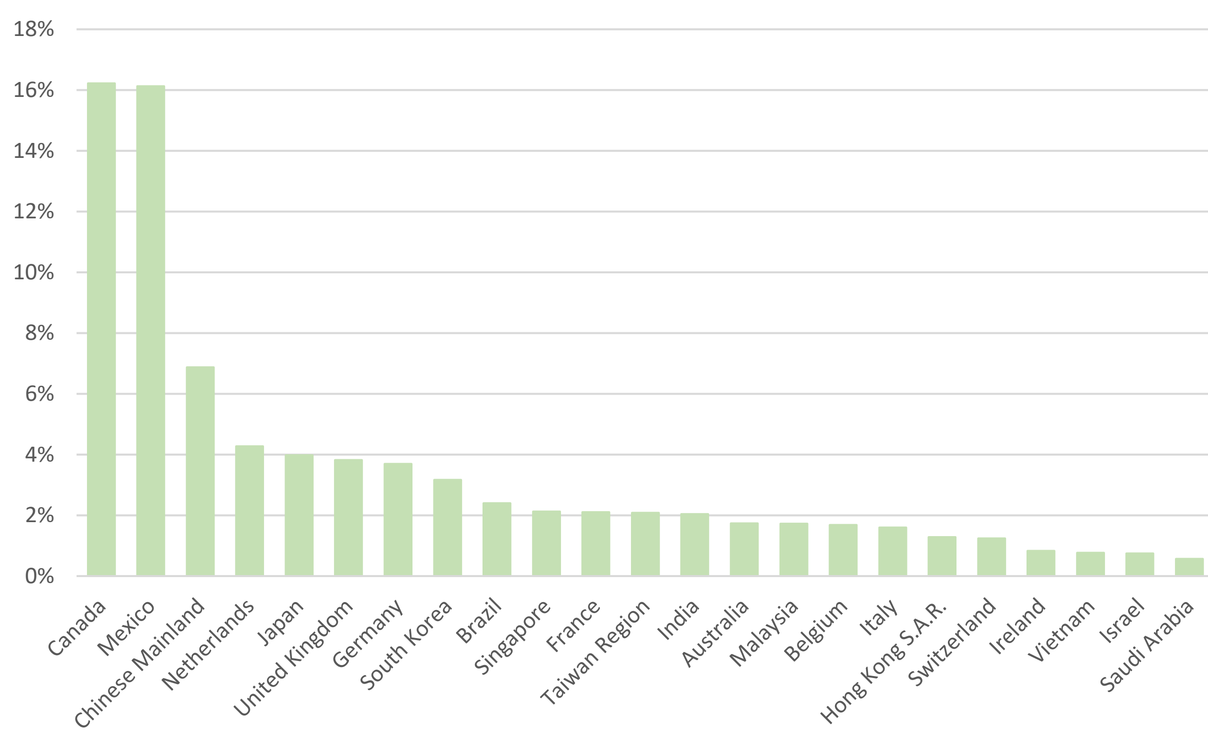
Commentary:

"As 2025 begins, it is clear the wide-ranging consequences of last year's elections will continue for some time. In Europe, political fragmentation puts at risk the continent's collective response to a rapidly changing external landscape, while uncertainty around the shape of future U.S. policies has put many policymakers and businesses on hold. Our latest Dun & Bradstreet Global Business Optimism Insights report reflects a sense of collective uncertainty, following a decline in optimism for Q1 2025 across nearly all economies and indexes." ***Dr. Arun Singh, Global Chief Economist, Dun & Bradstreet.***

Global Overview

Two narratives dominated macroeconomics and country risk in 2024: inflation and elections. Both are likely to continue to shape the global economy in 2025, though in different ways than in 2024. Disinflation is likely to continue, though with variation across economies, and has recently accelerated in the Eurozone and the U.S. Central banks continue to signal a path to looser monetary policy in 2025, though in Q4 2024, markets scaled back expectations about the pace of rate cuts following increased expectations that the incoming U.S. administration will introduce policies such as tariffs, tax cuts, and immigration controls that may cause inflation to reaccelerate. The implications of U.S. government policies may reverberate across the world, though much depends on the extent and sequencing of policy changes.

Largest goods exporters to the U.S. have been singled out for priority tariff treatment

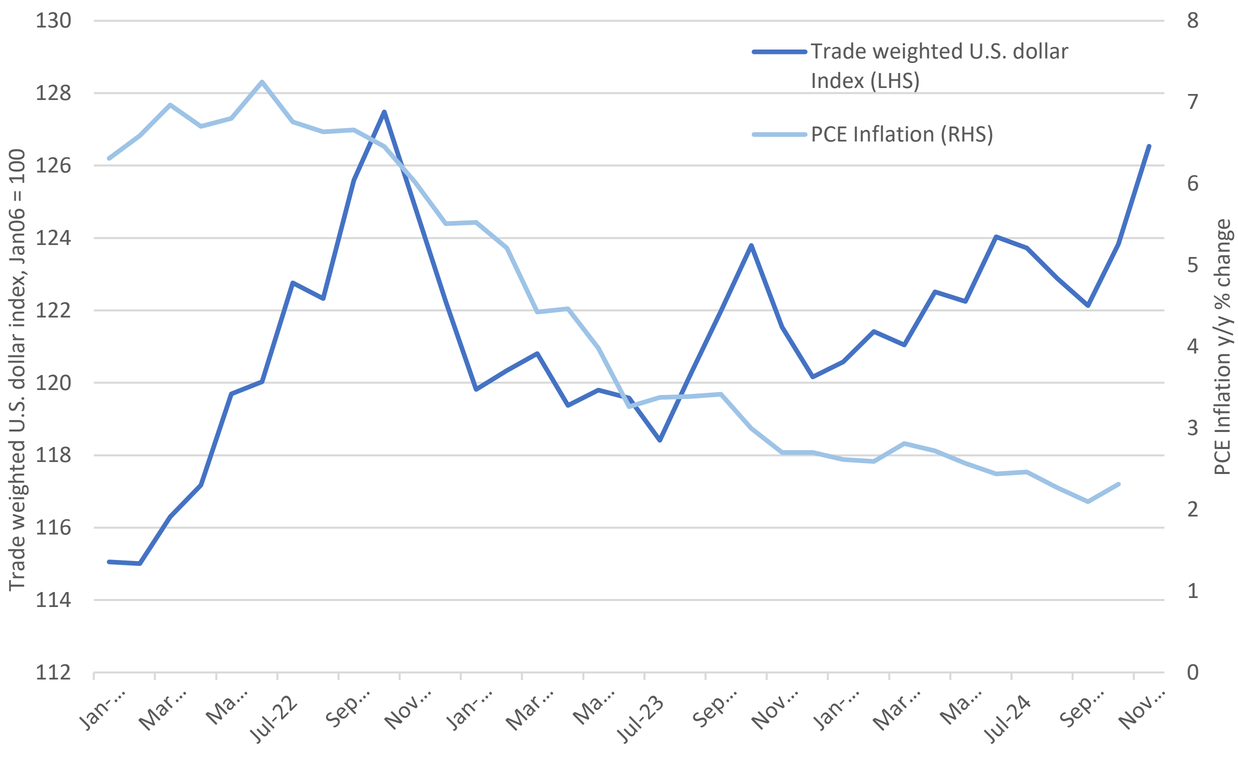


Sources: U.S. Bureau of Economic Analysis, Dun & Bradstreet. Notes: Data are for Q3 2024 (seasonally adjusted) and show goods exports per country as % of total goods exports to the U.S.

A record number of elections took place in 2024, reshaping political landscapes. Cohesive, pragmatic governments will likely be better placed to react to the new policy objectives of the incoming U.S. administration. Political paralysis in Europe presents a significant risk of an uncoordinated response to potential trade negotiations with the U.S. In Germany, a snap election will take place in February following the collapse of the government in November and a vote of no-confidence in Chancellor Olaf Scholz in December. In France, newly appointed Prime Minister Francois Bayrou faces political polarization across the country and the same parliamentary gridlock as his predecessor. Instability in Germany and France threatens policymaking and Europe's place on the world stage at a time when a collective response from the European Commission will play a central role in U.S.-EU relations, including on trade and increased defense spending. Political challenges in the wake of elections may be a continued source of stress on economies.

In 2025, positive sentiment from the U.S. Federal Reserve's rate cuts is likely to continue, with more rate cuts expected this year. Emerging economies are likely to subscribe to a slow path of rate normalization due to currency-related challenges linked to the strength of the U.S. dollar. And though some emerging economies have been making alternative trade arrangements due to expectations of a more fragmented global landscape, the outlook for the group is likely to be in line with outcomes in 2024. The Chinese Mainland's softer economic outlook may provide the U.S. strength in trade negotiations, but Beijing remains a growing key trade partner of other economies, particularly in Latin America.

U.S. dollar strength has gathered pace on Trump's victory and higher inflation expectations

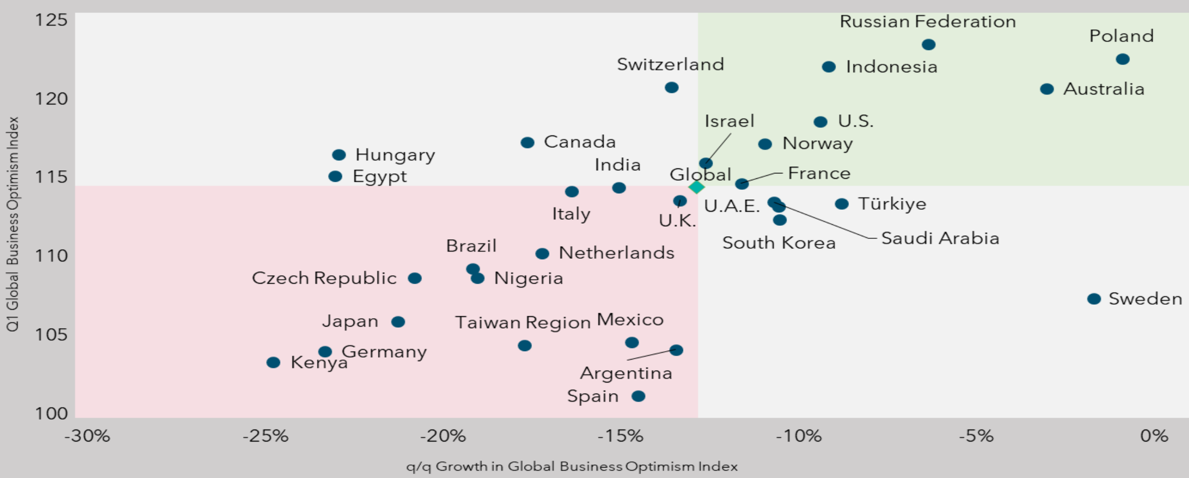


Sources: Haver Analytics, Dun & Bradstreet.

The [Q1 2025 Dun & Bradstreet Global Business Optimism Insights] reveals a sharp drop in business optimism, reflecting elevated levels of uncertainty around trade policy and the path of inflation and interest rates.

Q1 2025 Global Business Optimism Insights

The Dun & Bradstreet Global Business Optimism Index declined 12.9% q/q for Q1 2025, its first decline since the series began in 2023, with all 32 surveyed economies seeing a downturn. This reflects concerns about weak global growth, rising geopolitical risks, and trade policy uncertainty. However, the overall trend suggests a correction from high optimism levels, with **businesses in most economies still more optimistic than a year ago**. The chart below shows the reading and change in this index for Q1 2025.



The Global Supply Chain Continuity Index declined 10.4% q/q for Q1 2025, with advanced economies down 9.7% and emerging economies down 12.9%. Medium-sized businesses saw a steep 36.0% decline, while small businesses declined 3.5%. Large businesses showed resilience with a 10.7% improvement. Key sectors such as utilities, textiles, and chemicals saw the biggest falls in optimism levels. **Global supply chains faced challenges such as rising freight rates, container shortages, geopolitical disruptions, and payment delays, especially for small and medium-sized businesses**.

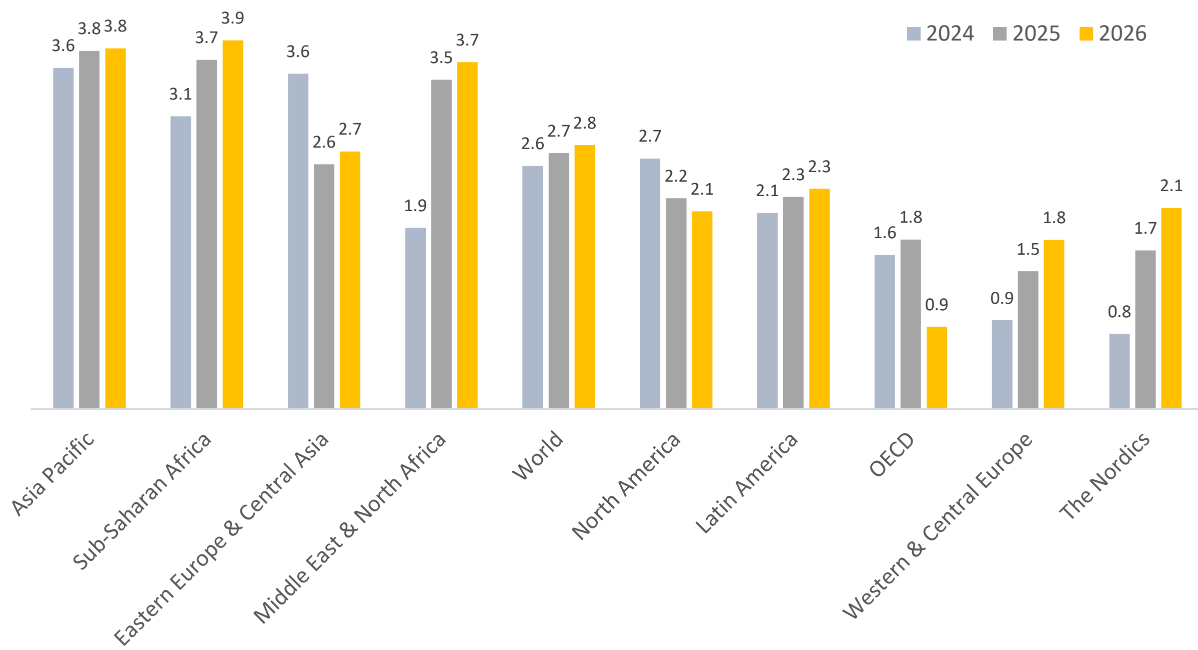
The Global Business Financial Confidence Index declined 8.9% q/q for Q1 2025, driven by the uncertain macroeconomic environment, persistent weak demand, increased balance sheet risk, and declining financial risk appetite, especially for small and medium-sized businesses. **The optimism level for large businesses improved 12.7%, exhibiting resilience, while small and medium-sized businesses faced significant declines in optimism levels.** Both advanced (-8.8%) and emerging (-9.2%) economies registered declines.

The Global Business Investment Confidence Index declined 4.7% q/q for Q1 2025 but remains significantly above the Q2 2024 index value. Central banks have continued to lower their policy rates in key markets such as the U.S., the E.U., and the U.K.; however, optimism around capital spending has been tempered. Many governments are expected to change going into 2025, and **businesses are in 'wait-and-see' mode in case of any sharp changes in policy directives**.

The Global Business ESG Index rose 2.4% q/q in Q4 2024, highlighting the focus on sustainability despite challenging economic conditions. The survey responses about businesses' plans to increase budgets for sustainability initiatives in Q1 2025 reveal a notable contrast in automotive manufacturing spending between the U.S. and the E.U. This divergence is likely due to differing focuses on sustainability policies, with the uncertainty surrounding these policies contributing to the contrasting budget allocations.

Regional Summaries

Policy and trade uncertainty likely to weigh on global real GDP growth in 2025



Sources: Haver Analytics, Dun & Bradstreet.

North America

Economics

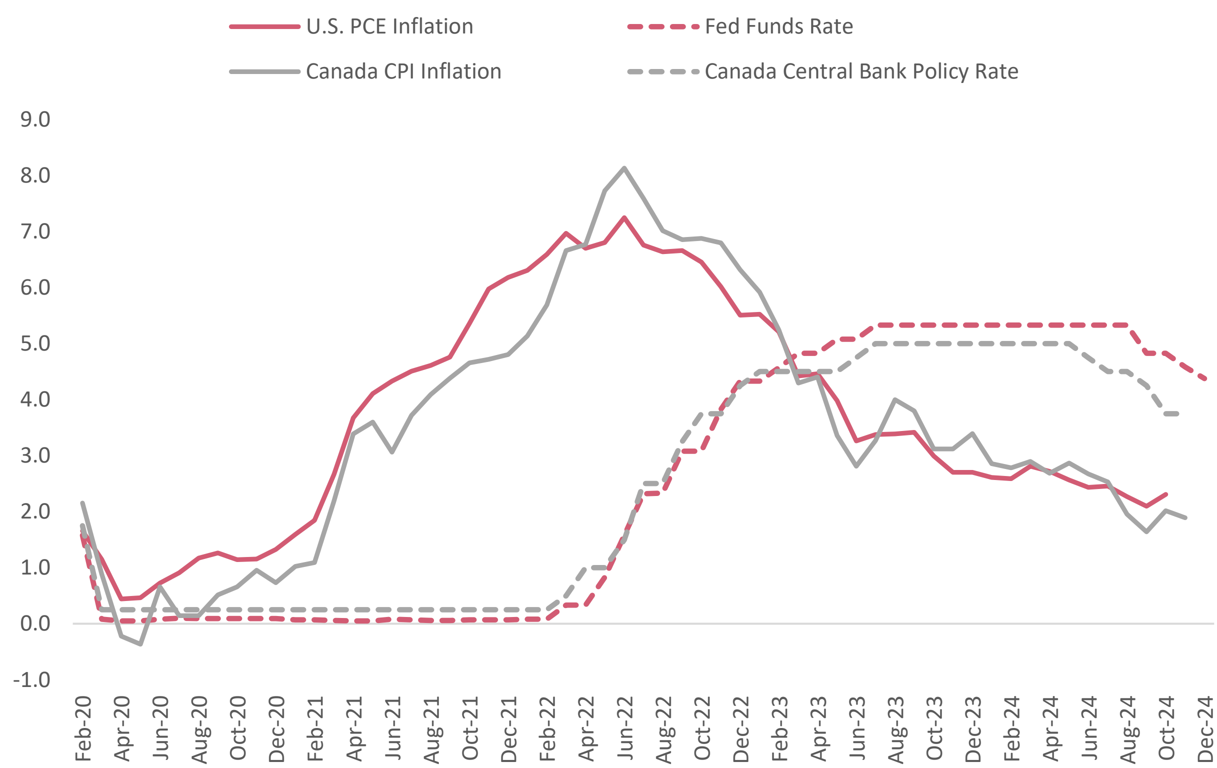
The U.S. economy is in a good position and continues to grow strongly on the back of robust underlying consumer fundamentals. Inflation is trending back towards the Federal Reserve's target and the labor market is rebalancing but remains strong. Tariff increases, tighter immigration policies, and tax cuts form part of the economic policy pledges made by U.S. President-elect Donald Trump. The impact of a combination of these policies through an increased cost of goods and potential supply-side labor market constraints **may mean a resurgence of inflation in 2025**.

The Fed is likely to continue easing policy in 2025, as is the Bank of Canada; inflation in Canada is expected to remain within the central bank's target into the new year, which should provide room for further interest rate cuts. Consumer spending and investment will likely boost Canadian growth in 2025, though Canadian businesses may put substantial hiring on hold given the economic uncertainty, caused at least in part from the anticipated policies of the incoming U.S. administration.

Politics

The new U.S. administration takes charge on Inauguration Day, 20 January 2025. **There continues to be uncertainty around proposed policies and their potential impact.** During the presidential campaign and in announcements following the election, President-elect Trump suggested tariffs would be applied across the board, but he has more recently singled out Mexico, Canada, and the Chinese Mainland. Having survived two votes of no confidence last year, in early January 2025, Canadian Prime Minister Justin Trudeau stood down. The opposition Conservative Party of Canada currently leads in polls.

Both U.S. and Canadian inflation continues to trend lower, though the pace of disinflation has slowed



Sources: Haver Analytics, Dun & Bradstreet. Notes: Inflation data are % y/y change, policy rates are %..

Western Europe

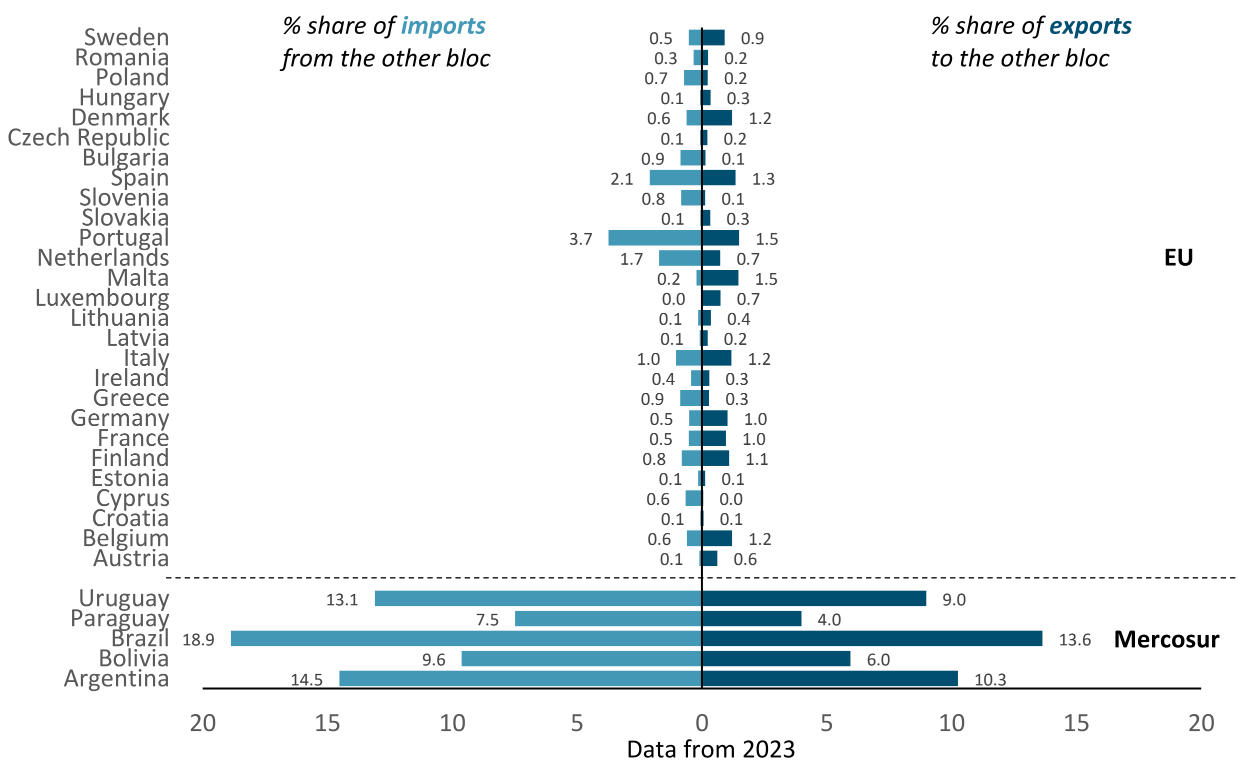
Economics

In December 2024, the EU and Mercosur agreed on a free-trade arrangement which will lower tariffs on most imports, including automobiles, industrial goods, and agricultural products – though the deal requires the approval of national parliaments. **In 2023, 12.6% of all Mercosur exports went to the EU and 17.0% of imports came from the EU, compared with 0.9% and 0.8%, respectively, for EU reliance on Mercosur trade. Hence, the immediate benefit will be concentrated among Mercosur members rather than EU members.** On December 15, the U.K.'s accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) came into effect. Joining the bloc is unlikely to meaningfully impact the U.K. economy in the short run. Also in December, the European Central Bank (ECB) cut its key policy rate by a further 25bps and set the stage for more cuts in 2025. The bank is confident that inflation is contained but is concerned about weak demand. Meanwhile, the Bank of England maintained its key policy rate at 4.75% in December and signaled that policy would remain restrictive to contain inflation.

Politics

Political instability has gripped two of the two largest economies in Western Europe. In December 2024, the German government lost a vote of no confidence, forcing a federal election in February 2025. Public support for the incumbent parties has fallen since 2021, in favor of the center-right CDU-CSU alliance and the far-right AfD; both back more conservative policies. The French government collapsed following an attempt to approve the 2025 fiscal budget without parliamentary approval. President Emmanuel Macron appointed long-term ally Francois Bayrou as the new prime minister – he will face significant challenges to pass a deficit-reducing fiscal budget.

EU less likely to benefit from trade deal than Mercosur



Sources: Haver Analytics, Dun & Bradstreet.

Asia Pacific

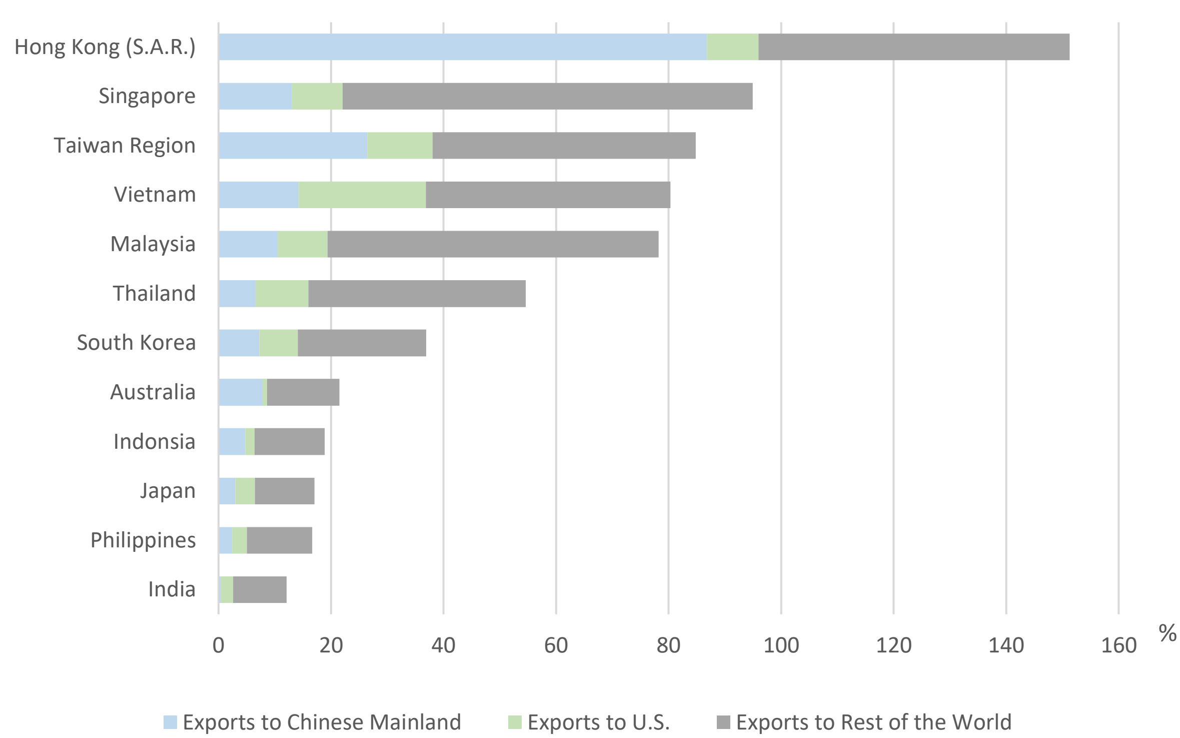
Economics

Export-dependent Asia-Pacific economies are bracing for a moderation in trade growth as global demand softens, led by the Chinese Mainland, alongside rising trade protectionism. Key Asian exporters — including Vietnam, Taiwan Region, Thailand, Hong Kong S.A.R., Singapore, Malaysia, and South Korea — are particularly exposed to these dynamics, given their reliance on the U.S. and Chinese Mainland markets. Southeast Asia is a notable bright spot, with Malaysia, Singapore, and India positioning themselves as emerging players in high-tech exports. Established leaders such as South Korea, Japan, and Taiwan Region are also enhancing their competitiveness in this space. Beijing's recovery, though supported by fiscal stimulus, is fragile due to ongoing headwinds in its property sector and lingering tariff threats. India's GDP growth dipped to a seven-quarter low in Q2 FY2024-25, driven by cyclical factors.

Politics

Asia Pacific's political environment in early 2025 is marked by shifting domestic priorities and heightened geopolitical complexities. Following the 2024 presidential election in Taiwan Region, when a perceived pro-independence leader assumed office, tensions with Beijing have escalated. The Chinese Mainland has intensified military maneuvers around Taiwan Region, prompting strong responses from the U.S. and Japan. The South China Sea continues to be a geopolitical hotspot, with Beijing's assertive actions drawing resistance from Vietnam, the Philippines, and other stakeholders advocating for adherence to international norms. South Korea meanwhile faces domestic upheaval following President Yoon Suk-Yeol's failed attempt to impose martial law and subsequent impeachment in late 2024, which sparked widespread public protests. Following air raids in December targeting the Pakistan Taliban (TPP) in Afghanistan, the TPP has stated it will target Pakistan military business interests.

Asian economies are heavily exposed to trade with the U.S. and the Chinese Mainland



Sources: Haver Analytics, Dun & Bradstreet. Notes: Data show exports as share of GDP in 2023.

Eastern Europe & Central Asia

Economics

Eastern Europe is poised for steady growth due to resilient domestic demand and intentional economic diversification away from Western Europe-centric export-led growth. Inflation is expected to remain moderate, although upside risk persists. The trade balance is improving, particularly in Poland. Foreign direct investment (FDI) is set to rise, particularly in manufacturing and tech, and wage growth is expected to make robust gains. **Central Asian economies continue their robust performance, fueled by strong energy exports.** The region's economic outlook for Q1 2025 is positive, with growth driven by Kazakhstan's energy exports and strong industrial performance in Uzbekistan and Turkmenistan. Inflation remains a concern, especially in the Kyrgyz Republic and Tajikistan.

Politics

Eastern Europe's outlook is shaped by the ongoing Russia-Ukraine conflict, energy security concerns, and trade disruptions. NATO's expanding presence and EU support offer some stability, but risks remain from geopolitical instability, including U.S.-Chinese Mainland tensions and instability in the Middle East. **Central Asia's political outlook is marked by stability under authoritarian regimes, with gradual reforms in countries such as Kazakhstan.** Maintaining close ties with Russia and the Chinese Mainland, the region faces rising political polarization, particularly in the Kyrgyz Republic and Tajikistan, which could lead to unrest. Governments are focused on stability through economic diversification, but geopolitical pressures from major powers will continue to shape internal politics.

Russian GDP growth to decelerate over next couple of years as high interest rates weigh on activity

Sources: Haver Analytics, Dun & Bradstreet. Notes: Data are shown as % growth.

Latin America

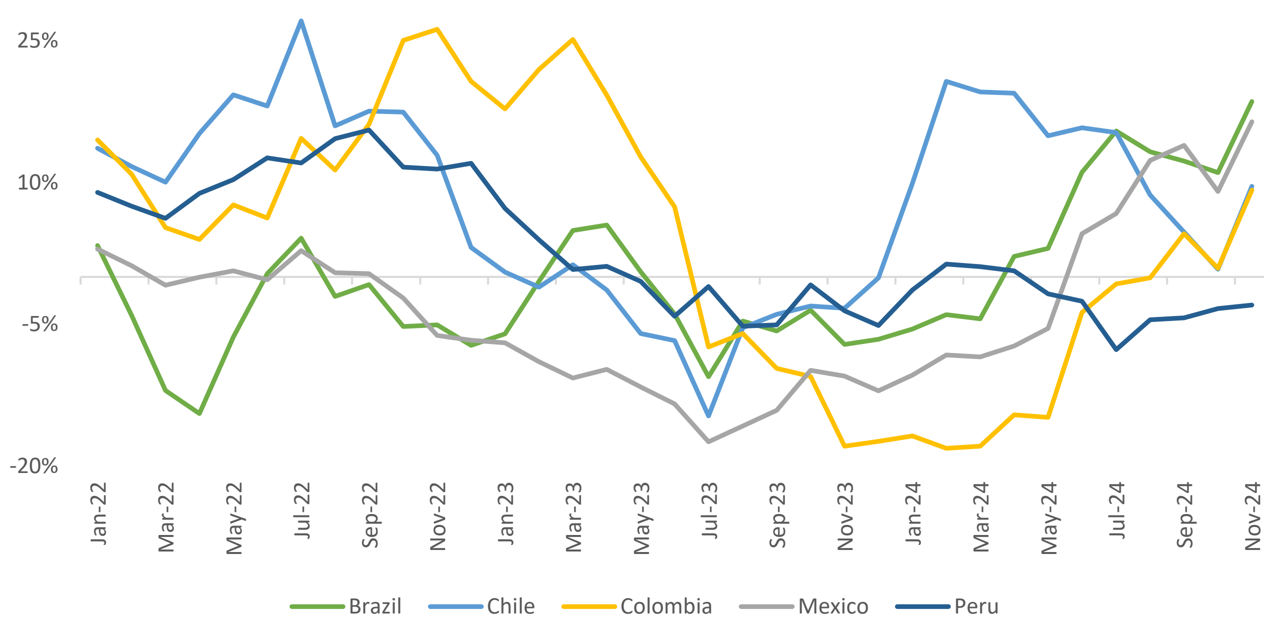
Economics

In 2024, for the fourth consecutive year, more Latin American countries experienced slowdowns than recoveries. Though this trend may reverse in 2025, downside risks remain high. Fewer U.S. Federal Reserve rate cuts, weaker exchange rates, and persistent inflationary pressures mean more gradual adjustments to easing cycles through 2025 in most economies. Fiscal challenges will continue to persist. Sluggish growth limits revenue increases, while public spending and rising debt burdens strain fiscal sustainability. Investment in the region is subdued, hindered by political instability, high debt levels, and structural inefficiencies. **The recently finalized EU-Mercosur** (Argentina, Brazil, Paraguay, Uruguay, and Bolivia) **agreement, after 25 years of negotiations, offers significant opportunity.** The deal enhances EU access to Mercosur markets while granting agricultural products – where Mercosur has a strong comparative advantage – preferential entry to Europe.

Politics

Latin America is likely to continue confronting a difficult political environment in 2025, shaped by domestic challenges and shifting global dynamics. U.S. President-elect Trump's potential tariff policies carry implications for the region. In Argentina, President Javier Milei aims to stabilize inflation and attract foreign investment but faces mounting poverty, inflation shocks, and currency devaluation. **Brazil enters 2025 navigating challenges such as rising public debt and potential strikes over budget cuts.** Elections in Ecuador (February) and Chile (November) could well be overshadowed by security concerns. In Mexico, President Claudia Sheinbaum's push for judicial reforms is causing concern for businesses, and insecurity and organized crime persist.

Currency depreciation and persistent inflation suggest gradual adjustments to easing cycles in 2025



Sources: Haver Analytics, Dun & Bradstreet. Data show exchange rates vis-à-vis U.S. dollar, y/y % change.

Middle East & North Africa

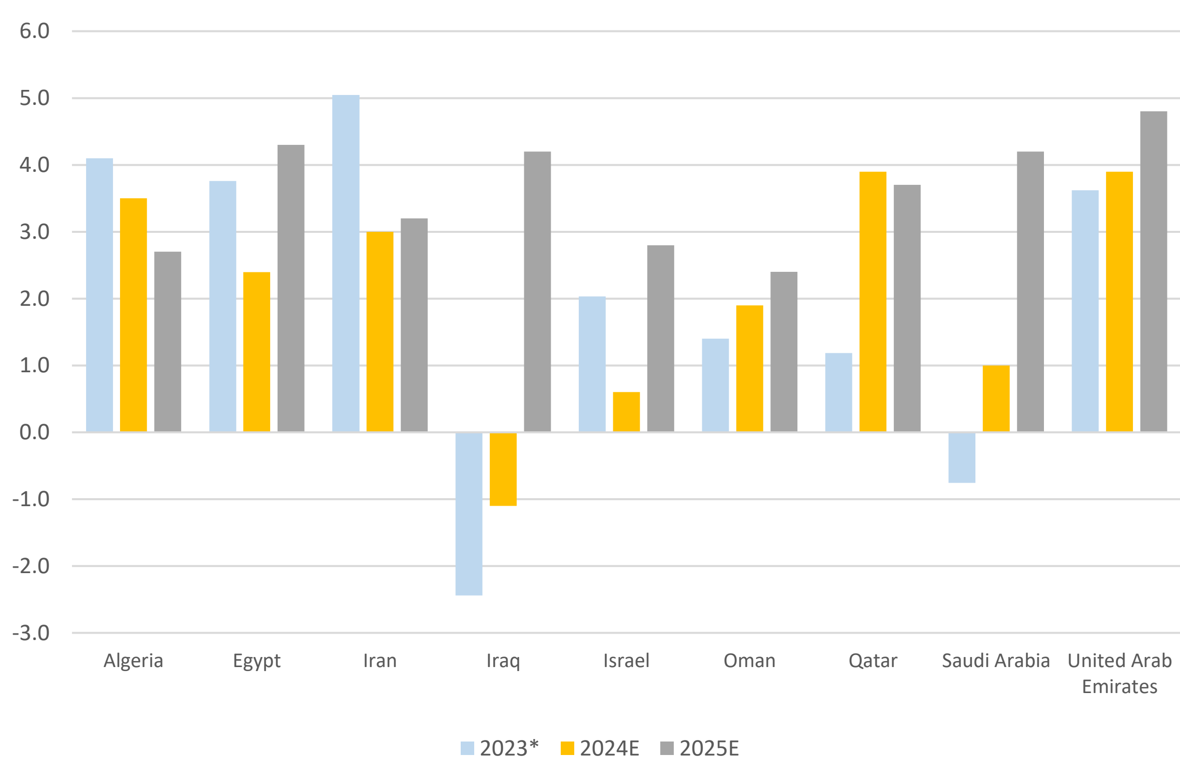
Economics

In 2025, the Middle East and North Africa (MENA) region is projected to experience modest economic growth. After a year of slow growth, economic activity in North Africa should pick up in 2025, powered by interest rate cuts and market reforms. The region's most exposed economies – Egypt, Tunisia, and Morocco – have secured support to tackle economic imbalances and sovereign debt pressures. However, significant policy shifts and geopolitical tensions pose a major risk to this recovery. Gulf Cooperation Council (GCC) growth is expected to strengthen in 2025, supported by non-oil activities and a gradual resumption of oil production. Despite this positive outlook, the region faces challenges due to subdued oil prices and extended OPEC+ production cuts, which have led to lower oil revenues. Consequently, countries such as Saudi Arabia have been compelled to reprioritize infrastructure spending, focusing on projects that yield immediate economic benefits.

Politics

The geopolitical landscape of the Middle East underwent significant shifts in 2024. **Iran's influence has eroded considerably, further exacerbated by the fall of the Assad regime in Syria** — a development indirectly linked to Iran's diverted focus and resources due to the Israel-Hamas war. Conversely, Turkiye has emerged in a stronger strategic position amid these changes. The Israel-Hezbollah ceasefire has also opened the door to potential diplomatic progress elsewhere. **There is renewed optimism for a peace agreement between Israel and Hamas, which could contribute to greater stability in the region.** Additionally, we anticipate discussions regarding the normalization of relations between Saudi Arabia and Israel to resume towards the end of 2025, provided the peace deal goes through, signaling a potential realignment of alliances and a move towards broader regional cooperation.

Real GDP Growth outlook for 2025 for the MENA region is positive



Sources: Haver Analytics, Dun & Bradstreet. Notes: Chart shows real GDP growth.

Nordics

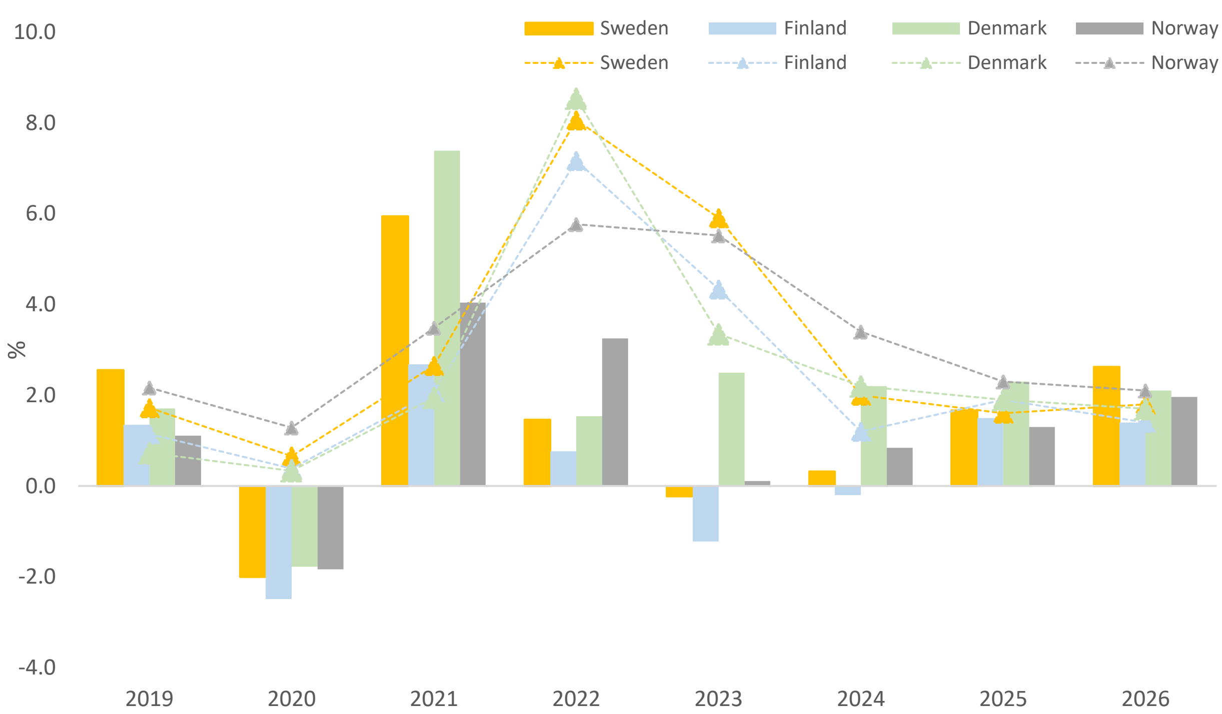
Economics

The Nordic economies are poised for a gradual recovery, with a noticeable pivot from reliance on external trade to domestic demand as the primary driver of economic recovery amid fiscal support, rate cuts, and stabilizing key indicators. Sweden and Finland exemplify this trend. Central banks, including the Riksbank (Sweden) and Norges Bank (Norway), are expected to ease monetary policy in response to below-target inflation. Denmark stands out for its robust export performance, particularly in high-value sectors such as pharmaceuticals, while other Nordic economies seek to balance trade uncertainties with domestic growth. **Inflation is projected to remain subdued across the region, prompting monetary easing.** Nordic currencies are expected to face bearish pressures in the near term. Geopolitical uncertainties impacting trade routes and energy security remain significant concerns.

Politics

The Nordics face a complex geopolitical landscape, shaped by global tensions and regional challenges. Proximity to Russia underscores security concerns, with Sweden and Finland's NATO membership improving defense coordination but also increasing their visibility as Western allies. **Global trade disruptions, driven by U.S.-Chinese Mainland tensions and Germany's economic instability, weigh on Nordic exports, while domestic political polarization complicates structural reforms and fiscal policy.** Geopolitical uncertainties, including the Russia-Ukraine war, tensions in the Middle East, and risks in the Taiwan Strait, further threaten supply chains and economic stability. Despite these challenges, the Nordics' strong institutions and economic resilience position them to mitigate risks through strategic defense, economic diversification, and deepening alliances within NATO and the EU.

Return to long-term inflation & growth trajectory expected by 2026 following 2025 recovery



Sources: Haver Analytics, Dun & Bradstreet. Notes: Real GDP growth represented by bars, Inflation (y/y % change) by lines.

Sub-Saharan Africa

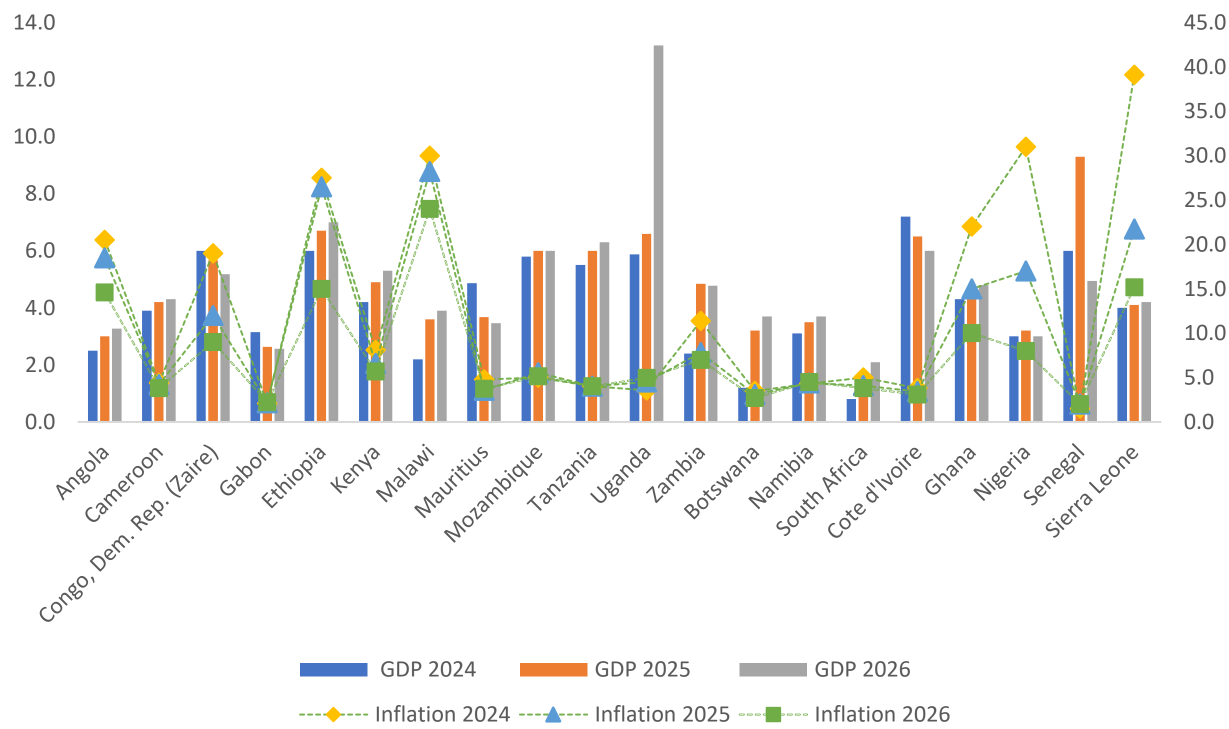
Economics

Following a weaker performance in H2 2024 due to subdued commodity prices and climate-induced agricultural disruptions, diversified economies such as Kenya and South Africa are likely to outperform their resource-dependent counterparts. Inflation is projected to decline in 2025, driven by falling energy prices and the anticipated build-up of La Niña patterns, which are expected to improve agricultural output and reduce import-led price pressures. With easing inflationary pressures, central banks across the region are likely to gain space for monetary policy loosening. However, risks persist, particularly from currency volatility in flexible exchange rate regimes. The African Continental Free Trade Area (AfCFTA) presents substantial growth opportunities, while unlocking access to a market of 1.3bn people.

Politics

Sub-Saharan Africa's political landscape in 2025 is set for significant shifts, driven by external and internal factors. The region is witnessing renewed Western interest as the U.S. and Europe seek to counterbalance the Chinese Mainland's dominant economic presence, while African markets increasingly embrace a multipolar approach to reduce dependency on any single power. Anti-incumbency trends remain strong, particularly in Southern Africa, where recent leadership changes in South Africa, Botswana, and Mauritius signal heightened political competition. Structural issues, such as inequality and governance weaknesses, continue to fuel social instability, constraining the political capital of new administrations despite recent elections in 13 countries.

Sub-Saharan economies eye recovery amid easing inflation, but credit risk remains high



Source: Dun & Bradstreet. Notes: GDP is on LHS, Inflation is on RHS.

Global Risks

The distribution of risks is tilted to the downside, largely because of the huge amount of uncertainty around U.S. policy and the potential for disruptive retaliatory policy changes in other countries. Geopolitical risks are elevated, particularly related to regional conflicts and a disruptive trade war. Political/insecurity risk has been a key risk category this year and will likely remain a high priority in 2025. Governments have collapsed, or nearly collapsed, in Germany, France, and the Netherlands, threatening prolonged periods of paralysis, as do prolonged coalition talks in Belgium. Germany faces losing its position as Europe's regional powerhouse, undermining the continent's wider geopolitical influence.

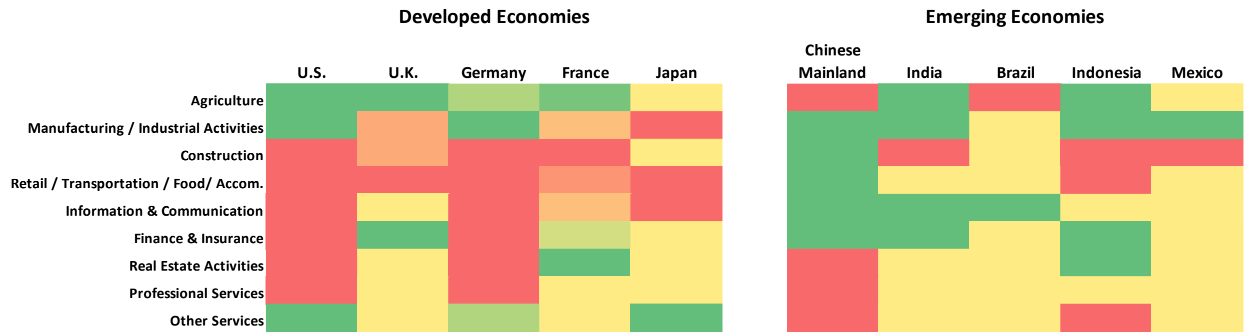
The path of global disinflation – and the interrelated path of monetary policy easing – is a key global risk. Global growth has slowed in some regions, alongside a drop in commodity prices. Most major central banks are undertaking rate cutting cycles, though markets are repricing rate cuts. A delayed path of interest rate cuts will push the positive effect of looser policy further down the line in 2025 and into 2026. Much will depend on the impact of potentially inflationary U.S. tariffs and subsequent retaliatory actions. And though inflation is generally falling, prices remain higher, meaning that cost-of-living challenges have further to run.

Trump's win, strong economic growth, and higher-for-longer interest rates in the U.S. have helped send the U.S. dollar to record highs vis-à-vis other currencies. A more conservative path of rate cuts in 2025 will likely support greater demand for U.S. dollars from overseas investors, giving U.S. consumers greater purchasing power when buying goods and services priced in other currencies. A stronger U.S. dollar may depress global trade growth but would also put pressure on currencies in emerging economies, particularly those with dollar-denominated debt.

Sectoral Risk Ratings

Our latest Sectoral Risk Ratings indicate that the construction sector is relatively high risk across major economies. Globally, construction businesses are facing financial pressures and dealing with surging materials costs and restrictive credit conditions. The construction sector has faced an uptick in insolvencies, reflecting broader liquidity and financial health difficulties within the industry.

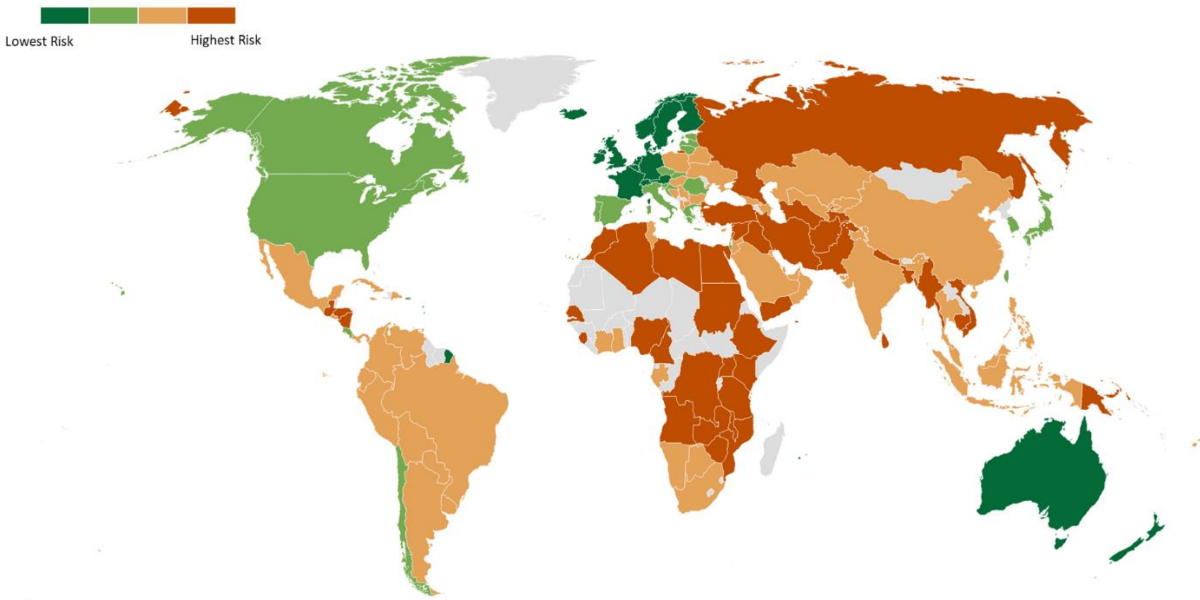
Latest Sectoral Risk Ratings indicate higher risk in construction sector



Source: Dun & Bradstreet. Notes: The heatmap indicates lower risk with a lighter color and higher risk with a darker color. The heatmap shading should be viewed within country only, rather than across countries. Sector Risk Ratings are multi-dimensional risk ratings of the current economic environment by industry, sitting between the macro-level Country Risk Ratings and the entity-level Dun & Bradstreet analytical scores. Ratings are allocated into seven bands, in line with our Country Risk Ratings. Sector risk is aggregated at three layers for 130 countries: 10 sectors at the highest level of aggregation, 18 sectors at the intermediate level and 35 at low aggregation (according to ISIC industry classification). The highest aggregation level is used here.

Country ESG Ratings

The latest Dun & Bradstreet Country ESG Ratings reveal pockets of high risk in parts of sub-Saharan Africa, emerging Asia, the Middle East, and Latin America. These regions face a considerable degree of uncertainty associated with climate change, quality of governance, and quality of life. We recommend that customers should actively manage their exposures to be compliant with ESG regulations imposed by third parties. In large parts of Western Europe, ESG risk ratings are low or the lowest risk. The U.K., France, Germany, and Australia all have the very lowest level risk ratings, indicating that these countries have the highest degree of accountability in environmental aspects and responsibility towards citizens. The USD300bn annual climate finance pledge by developed economies at COP29 should boost ESG progress in emerging economies.



Source: Dun & Bradstreet. Notes: The heatmap indicates lower risk with a lighter color towards green and higher risk with a darker color towards dark orange. Our Country ESG Ratings use nearly 100 quantitative and qualitative parameters and aggregates them using statistical measures for 132 countries. Ratings are allocated into seven bands, in line with our Country Risk Ratings. Map is not to scale.

How Dun & Bradstreet Can Help

Dun & Bradstreet's Country Insight Solutions provide forecasts and business recommendations for 132 economies, allowing businesses to monitor and respond to economic, commercial, and political risks.

To learn more, visit dnb.com/country-insight.