

# The Forward View - Global Dec. 2025

Ending 2025 on a positive note

NAB Economics & Market Research



## Overview

- A feature of the second half of 2025 has been forecast upgrades, and again this month we raise our global growth estimate (by 0.1ppts in 2025 and 2026). Growth in 2025 is tracking a bit above its 2024 pace despite the large shock to global trade and sentiment from US tariff increases. Tariffs reached their peak in April ('Liberation Day' and subsequent China-US tariff escalation) and while there was some subsequent pull back, US tariffs now in place are substantial and higher than our forecast assumption in December 2024.
- Around half of the forecast revision to 2025 global growth between December 2024 and this month is due to India. Western Europe (Euro-zone, UK) are also tracking higher; India/Western Europe, as well as Japan, are the main reason why 2025 growth is set to exceed 2024. Growth in China and non-Japan/China East Asia is tracking close to its 2024 level, but this is a better than expected outcome given their exposure to US tariffs.
- India's strong performance this year reflects favourable monsoon conditions, which has supported agricultural production and, by lowering food prices, boosted real incomes. Domestic policy support has also assisted. Globally, the investment in AI has also been a factor - this has driven US business investment this year, which is heavily reliant on imports, particularly from Asia - as has exporters' ability to adjust and re-direct trade.
- Concerns around the growth outlook saw a shift to more supportive policy settings this year. While fiscal support was mixed it was evident in China, particularly in H1. There was also a decline in central bank policy rates across advanced and emerging economies. Japan is an outlier but even here concerns over the global outlook saw the BoJ on an extended pause, which we expect will end this week with a rate increase of 25bps.
- A divergence between growth and labour market outcomes also contributed to central bank easing in some countries, such as the UK and the US where policy rates were made less restrictive even with still elevated inflation. The Fed cut rates by 25bp last week and we expect the Bank of England to do the same this week. We expect further cuts next year, but for the Fed we do not expect these to occur until mid-2026 onwards.
- We still see growth global slowing next year (to 3.1%), largely due to lower growth in India (as growth normalises) and China. China activity data have been very weak in recent months, with only exports and, relatedly, industrial production holding up. Authorities are signalling only modest further policy supports (for now) but the likelihood that they will set a growth target close to 5% means there is upside risk to our 2026 China forecast.

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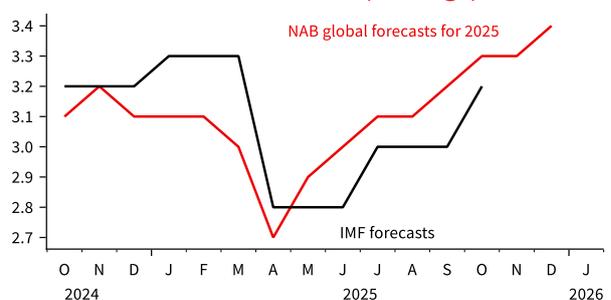
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## Key Economic Forecasts

(Change since previous Forward View in brackets)

	2024	2025		2026		2027	
US	2.8	2.0		2.1		1.9	
Euro-zone	0.8	1.5	(0.1)	1.4	(0.3)	1.5	(0.2)
Japan	-0.2	1.2	(-0.2)	0.8	(0.2)	0.7	(0.1)
UK	1.1	1.4		0.9	(0.1)	1.0	
Canada	2.0	1.7	(0.6)	1.1		1.7	(-0.2)
China	5.0	4.9		4.2		3.9	
India	6.7	7.7	(0.6)	6.3	(0.1)	6.2	(-0.2)
Latin America	2.4	2.1		1.6		1.8	
Other East Asia	4.0	4.0	(0.1)	3.6	(0.2)	3.5	
NZ	-0.6	0.4	(0.2)	2.7	(0.2)	2.5	
Global	3.3	3.4	(0.1)	3.1	(0.1)	3.0	
Major trading partners	3.5	3.7		3.3	(0.1)	3.1	

## 2025 Global forecast - evolution (% change)



Source: National Australia Bank, Note IMF forecasts were updated Oct '24, Jan '25, April '25, July '25 and Oct '25.

## Fed policy update

**The Federal Reserve cut the fed fund rate by 25bps (to 3.50-3.75) at its December meeting,** bringing the cumulative reduction since the September meeting to -75bps. There were 3 dissents – one for a 50bp cut and two for a hold; however, six members projected no change for December, highlighting the split of views in the committee.

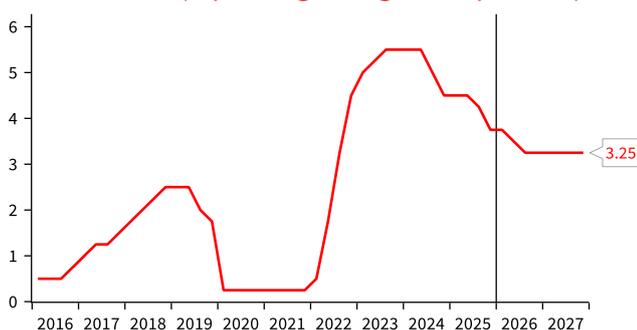
An increase in downside risks to employment was again cited as the reason for the decision. However, this may prove to be the last of the risk adjustment rate cuts.

The meeting statement included the phrasing “In considering the extent and timing of additional adjustments...”, which is what was used in the December 2024 statement ahead of the Fed going on hold.

In his press conference **Chair Powell stated several times that the Fed is now “...well positioned to wait to see how the economy evolves.”** Powell noted that when the two sides of the Fed’s mandate are in tension (and equally at risk) then rates should be neutral – and that having moved rates in the direction of neutral, rates are now at the top of the neutral range.

Powell noted that the recent cuts “...should help stabilize the labour market”. While he sees progress being made on inflation (ex tariffs), it is likely to remain high over coming months, so any additional cuts in coming meetings will need to be justified by further labour market weakening. The median Fed projection for the unemployment rate is for 4.5% by end 2025 and for it to then edge down. If indicators of labour market slack keep pushing higher then the Fed could cut rates further in Q1. While the unemployment rate moved up to 4.6% in November, shutdown impacts cloud interpretation (see page 3) and the December employment report should provide a cleaner read – however, on its face, the November labour market data suggest a further cut at the January or March meetings can’t be ruled out.

**Fed funds rate (top of target range, end quarter %)**



Source: National Australia Bank, Macrobond

Beyond the labour market weakening more than expected progress on reducing inflation will likely be needed before further cuts are considered. While Powell assesses that a reasonable baseline case is that tariffs will have a one-off impact on the price level, the risk of an ongoing impact remains. A reduction in inflation would provide the reassurance that this baseline view is correct and enable the policy rate to be brought down towards the majority’s view of neutral. While Powell indicated rates are now within the neutral range, only three of the nineteen FOMC members

consider the neutral rate to be higher than 3.5%, with the median voter seeing it at 3.00%.

**We don’t expect those conditions for further easing being met before mid-year, when we expect a further 50bps of cuts (June and September).** Note there will be a new Fed Chair in May who, at least initially, should be dovish, increasing the likelihood of cuts at this time. President Trump has indicated that it is likely to be Kevin Warsh or Kevin Hasset, but whoever it is will still need to be able to persuade the other members of what is now quite a split Committee.

Threats to Fed independence have been a focus this year. One was around the possibility of the regional fed presidents being replaced as part of the five yearly review due by 28 February. However, last week **the Fed announced the reappointment of most of the current regional presidents** (the exception being Bostic of the Atlanta Fed who is retiring). The press release indicated this was a unanimous decision by Fed Board members (so included uber dove Stephen Miran).

The President’s power to dismiss Governor Lisa Cook is subject to court review. The Supreme Court will hold hearings on this case in January. Its ruling will clarify the President’s powers to remove Governors, and thereby his ability to shape the membership of the Fed (outside of resignations).

## Global trade & tariffs

It has been relatively quiet on the trade front over the last month. President Trump reduced tariffs on certain agricultural imports from Brazil. This follows a recent series of trade ‘deals’ with countries in Asia and Latin America which included some tariff reductions. While a large shift in the US average tariff rate this year remains in place, this perhaps indicates that domestic cost-of-living concerns are now influencing the administration’s actions.

President Trump also announced the removal of export controls on the sale of Nvidia H200 chips to China. China has made some purchases of US soybeans, so last month’s truce holds for now as mid-term elections draw closer.

Uncertainty about US tariffs remains high. An impending court decision on the legality of tariffs based on the International Emergency Economic Powers Act (IEEPA) has the potential to temporarily lower tariffs but would add confusion as the administration seeks to use its other trade powers to replace them. Decisions on other sectoral tariffs, including pharmaceuticals and electronic products/semi-conductors, are still pending. The US-Canada-Mexico free trade agreement (USMCA) is due for review next year and the US Trade Representative Jamieson Greer recently raised the possibility that the US would withdraw from it.

Outside of the US, as China has redirected its exports elsewhere, other countries have reacted or are considering doing so. This month, following an earlier government announcement, the Mexican Congress legislated tariffs of up to 50% on certain goods from countries it does not have a free trade agreement with, including Chinese autos and parts. The EU is also moving to end tariff exemptions on small parcels (which will mainly affect China) and the French President has warned China that tariffs could be imposed if a rising trade imbalance with the EU is not addressed.

## United States

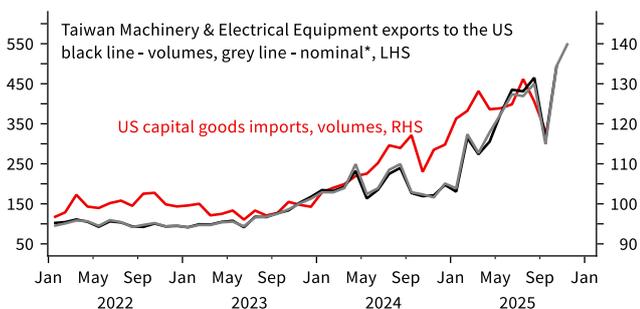
**The US economy likely grew at a rapid pace in Q3. We expect growth to then moderate, but remain solid,** although the Government shutdown will create some volatility in the Q4/Q1 data. While the impact of tariffs (and ongoing uncertainty about future actions) is still feeding through, fiscal and monetary policies have turned more supportive, and major investment in AI is still underway. This suggests that **labour market slack should stabilise early in 2026**, although with immigration policies driving weak labour supply this does not imply a return to strong job gains.

Even with the Government re-opened since 12 November, the data flow remains limited but has allowed for estimates of Q3 to be firmed up. Based on the latest data we expect GDP growth in Q3 of 3.5% qoq, annualised (up from 3.3%)

**Consumption ended Q3 on a soft note** – unchanged from August. A downward revision to August growth means Q3 consumption growth is a bit softer than had been expected although it still solid at 0.7% qoq. The flat September consumption outcome, soft October retail sales, and the weakness in jobs growth and population, suggests consumption growth will moderate in Q4.

Machinery and equipment investment is still set for another quarter of robust growth even with mixed recent data. Non-defence capital goods shipments declined in September, but for Q3 grew 2.3% qoq – unchanged from Q2. There was also a large decline in capital goods imports in September. Export data from east Asia suggests that the September fall in equipment imports will only be temporary. With core capital goods orders again growing by 0.9% mom in September, the outlook remains positive.

### US capital imports, Taiwan equip. exports (2022=100)



Source: National Australia Bank, U.S. Census Bureau, Taiwan Ministry of Finance, Macrobond. \* Volumes estimated by using export price index for all machinery & equipment exports; data s.a. by NAB

Non-residential structure investment is still likely to have declined in Q3, and surveys of future capex intentions remain weak, although they have improved somewhat (and do not capture the concentrated AI investment underway).

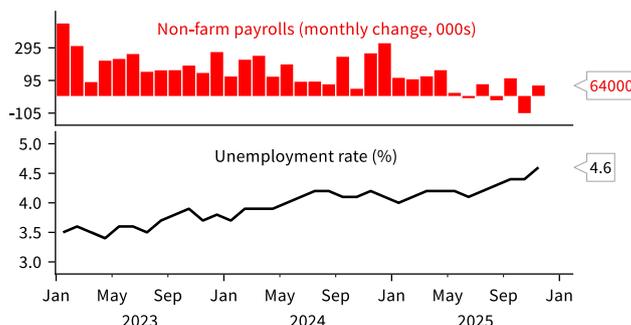
The improvement in business surveys (evident since April) remains in place, even with our composite ISM/PMI indicator edging down in November.

**The labour market has continued to cool. The unemployment rate rose to 4.6% in November**, from 4.4% in September (there are no data for October). However, the BLS advised that due to complications from the Government shutdown standard errors on the survey are larger than normal. Federal employees were counted as employed in November, as the shutdown ended during the survey period,

but a large jump in the number of people on temporary layoffs suggests there may be some impact.

Non-farm employment fell 105k in October but was up 64k in November. The October decline was due to a decline in Federal government employees (-162k) as deferred resignations from earlier in the year (part of the DOGE cutbacks) kicked in. Private sector employment averaged monthly gains of 75k over the last three months, up from 13k over the previous three month period, but it was narrowly based (largely driven by health care).

### US labour market indicators



Source: National Australia Bank, U.S. Bureau of Labor Statistics (BLS), Macrobond

Core PCE inflation was 0.2% mom in September, with yoy growth edging down to 2.8% from 2.9%. Core goods inflation picked up mom, but remains below its April to June levels. While it may be the case that tariff pass through is taking longer than expected, at this stage its impact has been below expectations and **we now see core PCE inflation peaking at 2.9% yoy**, before gradually easing. Inflation expectations measures have eased recently, particularly at the shorter end although some measures are still high.

Fed Chair Powell in his December press conference stated that, outside of tariffs, **progress has been made on inflation**. The employment cost index for Q3 grew by 3.5% yoy (0.8% qoq); while only marginally down from Q2, this is the lowest annual rate in over four years. So far, this suggests no sign of any tariff flowthrough into wages. Powell again reiterated his view that a reasonable baseline is that tariff impacts will cause a ‘one time shift in the price level’.

### Core PCE inflation (yoy%)



Source: National Australia Bank, U.S. Bureau of Economic Analysis (BEA), Macrobond

**The Fed cut the federal funds rate by 25bps at its December meeting.** We expect the Fed to go on pause from here with further a further 50bps of cuts possible from mid-next year if inflation shows signs of tracking back to 2%. For further discussion on the Fed outlook, see page 2.

## China

**The December Politburo and Central Economic Work Conference (CCEW) meetings signalled that authorities will deliver further support to the economy, although the scale may be modest.** The call for more proactive and impactful macro policies suggests some further fiscal support is likely to boost domestic demand, with an emphasis on refocusing support to get more concrete results. Officials subsequently indicated that measures will be taken to stabilise investment growth.

While the pledge to keep monetary policy “moderately loose” is not new the readout from the CCEW explicitly mentioned employing tools such as reserve requirement ratios and interest rates. Our expectation for a policy rate reduction in the back half of 2025 has not been realised, but this points to some (modest) monetary easing next year.

As we noted last month, guidance from officials indicates that the aim for annual real GDP growth over the next 10 years is 4.2%. The implication for next year’s growth target – expected to be released in March - is less clear; it is possible that it falls below 5% but it is likely to be above our current forecast for GDP growth in 2026 (4.2%). The likelihood that the official growth target will be higher suggests there is upside risk to our 2026 growth forecast of 4.2% but, given the weak activity data in recent months, and the signal of only further modest policy support, we will wait for more clarity before making any change.

**The weakening in the monthly activity data continued into November.** This was most evident in retail sales, where growth decelerated to 1.3% yoy (from 2.9% in October), the lowest growth since the COVID period. With CPI inflation picking up in the month, the real rate of growth likely came under even more pressure. While the unwinding of previous trade-in subsidies may be a factor, household sentiment is low, the labour market soft and the ongoing downturn in the housing market is detracting from household wealth.

### Retail sales growth (yoy%)



Source: National Australia Bank, China National Bureau of Statistics (NBS), Macrobond. Real retail sales estimated by NAB using the CPI

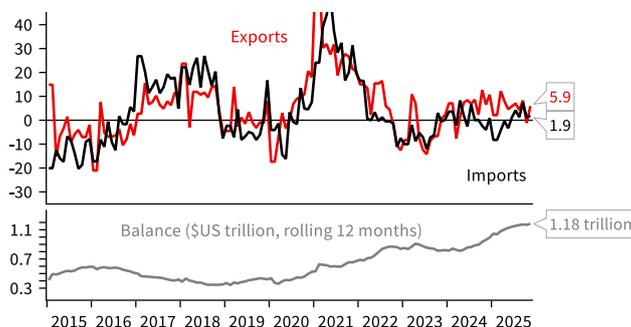
Fixed asset investment and industrial production were little changed in November, but this provides little comfort. While industrial production growth was only marginally lower at 4.8% yoy (from 4.9%), this was the lowest rate of growth in over a year.

Fixed asset investment (FAI) growth remained negative – but at -11.1% in November (-11.2% yoy in October) it is showing signs of stabilising. By category the improvement came from manufacturing (-4.5% yoy from -6.7% yoy) while

infrastructure (-9.7% yoy) and real estate investment (-31.3% yoy) weakened further. There is a suspicion that some of the fall in reported FAI reflects changes in local government reporting in response to the anti-involution campaign, and the results cannot be directly translated to GDP. That said, ongoing deflation and over-capacity in many sectors means an underlying slowdown in FAI growth may be underway.

**Exports rebounded in November (5.9% yoy, up from -1.1% yoy in October).** Volume growth is stronger given export prices have been trending down. The October weakness likely reflected extended holidays. While export growth has remained resilient, even in the face of US tariffs, growing non-US trade barriers highlights the risk of relying on a strong net export contribution to drive GDP growth next year. Import growth ticked higher but was soft (1.9% yoy) on the back of weak domestic demand as well as the depreciation in China’s real effective exchange rate this year.

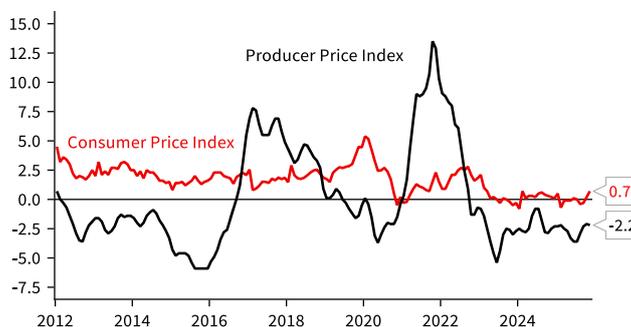
### China exports, imports and trade balance



Source: National Australia Bank, Macrobond. Scale truncated around COVID period

**In November, the CPI rose again but broader deflationary pressures remain evident.** Due to rising food prices, CPI inflation accelerated to 0.7% yoy in November (from 0.2% yoy) its highest level since early 2023. On an ex food and energy basis it was unchanged at 1.2% yoy. In contrast, producer prices were down -2.2% yoy (from -2.1% in October). At the same time, residential real estate prices continue to fall.

### Chinese inflation (% yoy)



Source: National Australia Bank, Macrobond

**Total social financing (TSF) growth was unchanged in October** at 8.5% yoy helped by a further pick up in corporate bond growth. Growth in government bonds again eased as issuance was front-loaded (but remains high at almost 19%), while loan growth continues to ease and is very low by historical standards (6.0%). While business loan growth has eased, it is particularly weak for households (1.5% yoy).

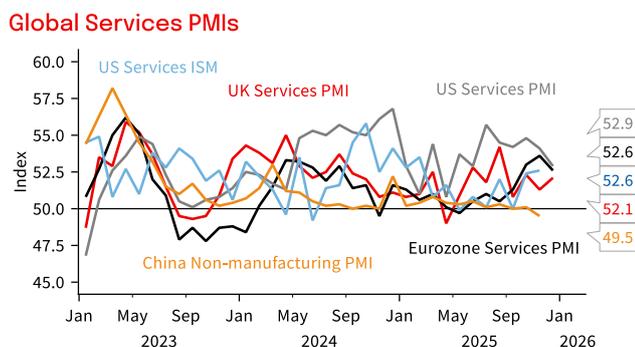
## Euro-zone

**As the year draws to a close, some of the pessimism surrounding the EZ economic growth is fading. GDP growth has picked up in H2, while services PMIs are robust and policy settings are supportive.** Progress on reforms is too slow, but it will continue. Political challenges remain, but a Russia-Ukraine deal would boost Europe’s terms of trade, ushering in even lower energy prices.

There is a sense of buyer’s remorse when assessing the results of the anticipated pick up in EZ economic growth early in 2025 following its decision to increase defence spending. While European defence-related stocks have been the outperformers of the year, surpassing by some margin the US’s Magnificent 7 stocks, it is fair to say EZ economic growth has not lived up to what many expected.

Frustration at the slow pace of Draghi-initiated reforms at the EU Commission and comparisons with the apparent dynamism on display in the United States leave many believing Europe will just continue to lag further behind. From an economic growth point of view, the EZ is ending 2025 on a more positive note with stronger Q3 GDP and a likelihood Q4 will improve on that, thanks to more of a contribution from Germany.

Services activity appears to be taking over from manufacturing across the EZ, drawing strength from stable monetary policy and low rates, with inflation tame, a still strong labour market despite trade headwinds. Increased fiscal spending, led by Germany in defence and infrastructure and the tailwinds of the NextGenerationEU scheme will increasingly meld with further progress on the Draghi reforms.



Source: National Australia Bank, S&P Global, Institute for Supply Management (ISM), China Federation of Logistics & Purchasing, Macrobond

Here, think, progress on competitiveness, raw minerals procurement, AI and quantum computing, start-ups/scale-up financing and energy. Expect some progress on the Savings Investment Union. More broadly the promise of higher defence spending should deliver a bigger punch in 2026.

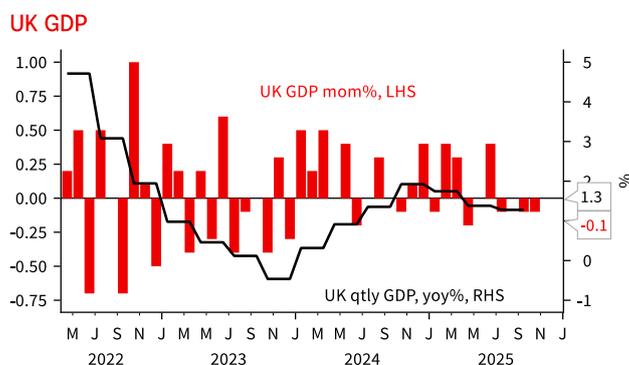
Europe clearly faces challenges in the form of trade headwinds from both the US and China. For all the recent discussion about the ECB’s next move being a hike, the trade threat and EUR strength mean the ECB cannot yet rule out further easing in 2026, were these issues to really bite. For that reason, we see the broader ECB not wanting to endorse Schnabel’s recent hawkish stance.

Domestic politics and the ongoing rise of populist parties remains a focus ahead of regional elections in Germany later in 2026 and France in 2027. How the Russia-Ukraine war turns out is likely to be of great importance. We see little alternative to Europe using Russia’s frozen assets to fund Ukraine. A Russia-Ukraine deal, depending on the nature of US security guarantees, could leave the EU with no option but to accelerate its own defence capabilities. Meanwhile a peace agreement offers positive demand and supply shocks via an accompanying further decline in energy costs, boosting the EZ’s terms of trade and supporting the EUR.

## United Kingdom

**Soft UK GDP data over the last six months combined with a lack of business and consumer confidence as taxes rise paints a negative picture of the UK.** We remain generally pessimistic in our outlook, but the passing of the Budget and easing inflation suggest a slightly less bleak outlook in 2026. Lower inflation and BoE rates can help. One significant risk ahead is internal Labour politics.

As we look ahead into 2026, the omens for the UK start pretty pessimistic but could improve a little in the months to come. GDP growth disappointed again in October at -0.1% m/m, two-tenths below the consensus, which brings the tally to just one month of positive output in the last seven. In the three months to end October, growth also fell 0.1%. Q4 may end with a tepid 0.1% growth outturn. All this plays to our below consensus view of 1.1% GDP for 2025.



Source: National Australia Bank, U.K. Office for National Statistics (ONS), Macrobond

Months of unending warnings of what tax increases would be required to fill a hole on the public finances jarred with businesses and households still reeling from the late 2024 Budget tax rises. The ensuing uncertainty knocked confidence and output that was not helped by a softening labour market that has seen unemployment climb to a 10-year high (ex Covid) of 5.1%.

Some of the downward pressure on GDP came from a cyber attack at Jaguar Land Rover that stopped vehicle production for over two months. Output should recover now that production has restarted, but the pickup will be staggered given the impact the shutdown had on a myriad of local suppliers.

With the Budget now in the rear-view mirror, businesses know the fiscal and legislative backdrop and should be able to plan accordingly. The easing in monetary policy and US

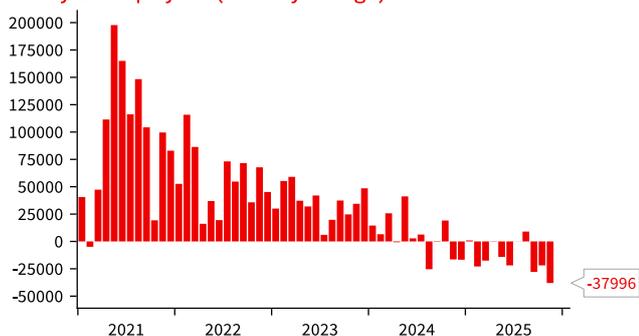
tariff uncertainty should also help. These developments should at least lead to an end to over half a year of flat-lining growth.

A significant issue is confidence. Businesses bore the brunt of tax hikes in the 2024 Budget with significant rises in employer taxes, a higher National Living (minimum) Wage and a raft of higher cost worker protection. Outside of a further rise in the National Living Wage it is households that have been hit more by tax increases in the recent Budget.

While businesses may respond to the latest rise in labour costs by reducing hiring or trying to recoup additional costs, it is possible businesses will become a little less gloomy relative to last year.

Households and consumers are now bearing the brunt of the rise in taxes projected to reach a multi-decade high of 38% of GDP over coming years. A doubling of the savings ratio from just above 5% in the three years before the pandemic to above 10% points to some capacity to absorb higher taxes without reducing spending. However, the rise in unemployment, a slide in payrolled employees and signs that nominal wages are easing more rapidly may not help here.

UK Payroll employees (monthly change)



Source: National Australia Bank, U.K. Office for National Statistics (ONS), Macrobond

A positive for the UK is an anticipated decline in inflation, which we believe peaked in this cycle at 3.8% in September. The recent Budget announced freezes in fuel duties and rail fares, while there were cuts to green levies on energy bills which are estimated to cut 0.3/0.4ppts off headline inflation in the spring. Even before this, headline CPI was expected to fall toward 2.5% by mid-2026. It will likely take until early 2027 before UK CPI gets back down to the 2% target.

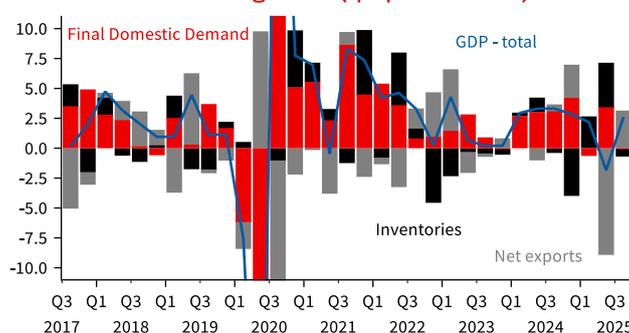
That in turn should provide the Bank of England (BoE) with comfort to cut rates again after an expected easing to 3.75% this week. We look for two more cuts to 3.25% in 2026, with the decline in inflation a key driver. We look for below consensus annual growth in 2026 of 0.9%. A slide in the political opinion polls combined with weak economic growth raises the risk the governing Labour Party turns on PM Starmer and Chancellor Reeves. This could happen before or around the May local and regional elections and would likely result in a new team veering left, with higher spending, borrowing and taxes. Investors will react by selling UK bonds and GBP.

## Canada

**Q3 GDP data confirm that the Canada economy has passed the trough in activity, but the path ahead is likely to be rocky**, as the economy adjusts to the changed trading relationship – and the lingering uncertainty around its final form – with the US, while weak population growth remains a constraint. Domestic policy settings will assist the transition with fiscal and monetary easing put in place this year.

GDP grew by a much stronger than expected 0.6% qoq in Q3. However, domestic final demand actually edged down, with falls in private consumption and business fixed investment. Business investment has now fallen in each of the last three quarters as US trade policy weighs on businesses. The increase in GDP reflected a large net export contribution – mainly due to a fall imports – partly reversing the negative contribution in Q2.

Contributions to GDP growth (qoq annualised)



Source: National Australia Bank, Macrobond. Y-axis truncated to exclude COVID extremes

The monthly GDP data were revised upwards but the advance estimate for October is -0.3% mom indicating that Q4 growth is likely to be far more modest. Business surveys also point to ongoing headwinds. The S&P Global PMI, particularly for the service sector, fell in November, with the composite measure at its lowest level since June, although the CFIB survey indicates small business sentiment has improved.

**There has been a major improvement in labour market indicators** in recent months. Employment has rebounded strongly from the falls in July and August while the unemployment rate has fallen 0.6ppts since September and, at 6.5%, is at its lowest level since mid-2024.

**The Bank of Canada (BoC)** left rates on hold in December stating that the "...policy rate is at about the right level". The current policy rate is 2.25%, around the bottom of the BoC's estimate of neutral. While inflation remains above target on the core measures (which fell a bit below 3% in November) the BoC still assesses underlying inflation to be around 2.5% yoy, with slack in the economy (which is expected to persist) likely to keep inflation close to target. We retain **our view that the BoC will remain on hold through 2026**. We had considered the skew of risks around this as tilted to further cuts, but in light of the improvement in labour market indicators, we now consider them more balanced.

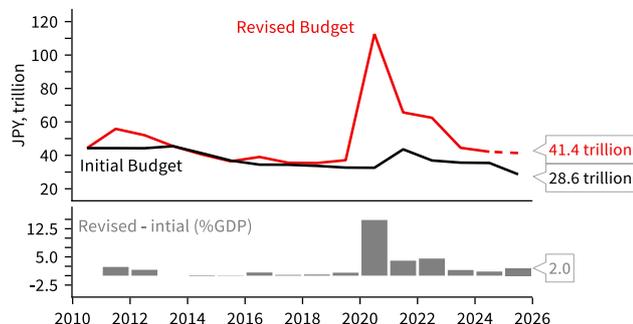
## Japan

**The fall in Japanese GDP in Q3 was revised to -0.6% qoq from -0.4% qoq.** The revised estimate included a downward revision to non-residential fixed investment (-0.2% qoq, from 1.3% qoq). There remain drags from residential investment – due to changes in building regulations – net exports, and inventories, but these should be transitory and suggest a better outcome than the headline indicates.

**Despite the Q3 result, the outlook remains positive,** and growth should resume in Q4. The BoJ’s consumption activity indicator in October was 0.5% above its Q3 average, and business investment should be supported by growth in corporate profits. This view is supported by the **Q4 BoJ Tankan business survey, where the all-industry business conditions index rose to its highest level since 2018.** This is consistent with ongoing strength in profits which should support business investment. The Capex intentions indicator for FY 25 is at a solid level while the employment conditions index continues to flag a shortage of labour.

Prime Minister Takaichi is pursuing a growth agenda. A growth plan is to be developed by mid-2026, with a focus on 17 sectors, including AI, defence and semiconductors, as well as addressing challenges for start-ups and reforms to the labour market. Achieving sustained productivity gains will be important to lift Japan’s growth rate given challenging demographics (population decline and ageing) – the BoJ estimates potential growth is only 0.5% per year.

### Central Government Budget - Government Bond Issues



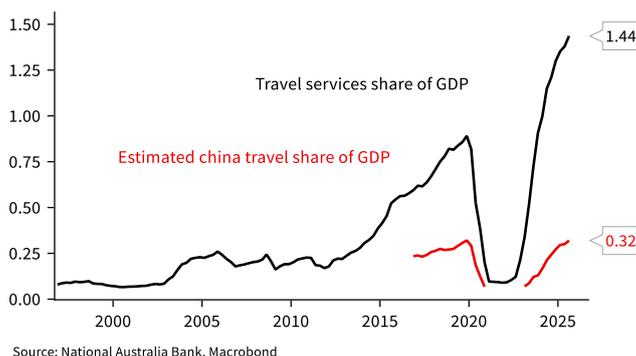
More immediately, the **Government has announced a large FY25 supplementary budget** of ¥18.3 trillion, which is almost 3% of GDP although we expect a much smaller growth impact than this might suggest (of around 0.4ppts). Firstly, the headline budget number overstates the degree of new spending – planned new JGB bond issuance of ¥12.7 trillion is a better guide. Secondly, the initial budget implied a large degree of fiscal restraint so this partially just offsets that. Lastly, capacity constraints will limit growth flow through.

**Fiscal stimulus in the context of capacity constraints will add to underlying inflationary pressures,** although the budget includes some measures that will lower headline inflation (e.g. electricity and gas subsidies). CPI inflation ticked up again in October, to 3.0% yoy.

**The Bank of Japan (BoJ) is moving towards a rate hike, most likely at this week’s meeting.** In a speech early this month, Governor Ueda noted that the uncertainty around the economic outlook was diminishing and the likelihood of the bank’s baseline economic forecasts being achieved is increasing. Last month we pushed back our expectations for when the BoJ would raise rates from December to January, largely on the back of comments from Ueda that the bank wants to see initial indicators of next year’s wage talks. However, in his speech, he noted a range of positive indicators regarding these talks. Whether it is December or January, we don’t expect it signals any change in the BoJ’s ultra cautious approach in lifting rates.

A risk that has recently emerged is China’s response to comments made by PM Takaichi regarding Taiwan. Reports indicate that there have been widespread cancellations in China of planned travel to Japan and airlines have been told to make less flights. China has also suspended seafood imports from Japan (which had only just resumed after an earlier ban). While tourism has been growing rapidly, China’s share has of tourism been falling. Total spending by Chinese tourists is only around 0.3% of GDP. However, further escalation remains a risk.

### Japan - travel % GDP



## East Asia (ex Japan, China)

**Growth across the East Asian (ex Japan and China)<sup>1</sup> economies has held up this year.** This is despite being generally subjected to relatively higher US reciprocal tariff rates and being more exposed to the Chinese economy than other regions.

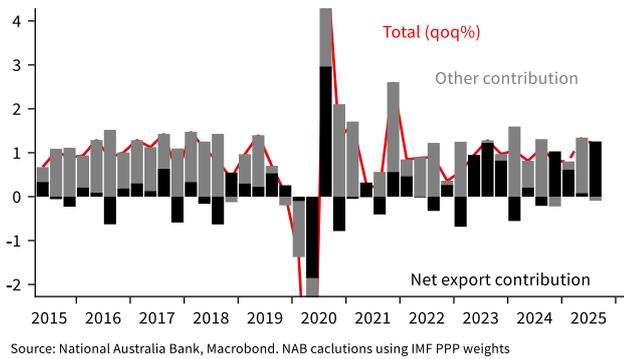
**Several factors have helped – US tariff exemptions, investment in AI, the resilience of China’s economy – supporting a large net export contribution to growth, and domestic policy support.**

Some of the exemptions to reciprocal tariffs have meant that the effective average US tariff rate faced is not nearly as high as the reciprocal rates suggest. In particular, electronic products, including semi-conductors, are exempt from reciprocal tariffs – an important factor for countries involved in producing and exporting these goods, such as Taiwan, or countries within the region that supply related intermediate

<sup>1</sup> South Korea, Taiwan, Indonesia, Malaysia, Thailand, Singapore, Hong Kong, Philippines

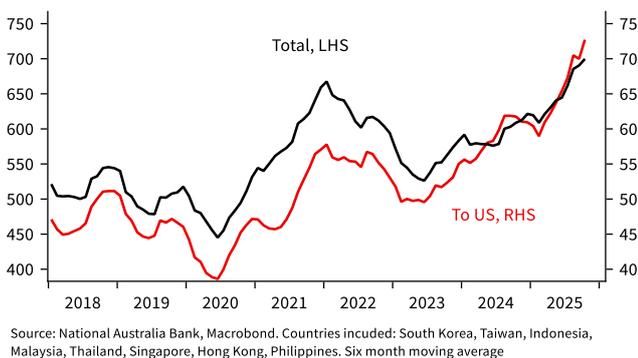
inputs. With US sectoral tariffs on these products still expected, US importers may still be front loading their imports.

**Non-Jpn/China asia - contribution to qoq GDP (ppts)**



Reinforcing this has been the ramp up in investment in AI, particularly in the US. While data centre construction often gains the focus, a lot of the equipment and inputs are imported. As a result, exports to the US have risen strongly (up 37% yoy in October, in value terms). While there may be an element of China exports to the US being re-routed through some of these countries, the strongest export growth has come from Taiwan – with tech exports the key driver. Strong growth in exports to other countries also points to an underlying strength in demand for products from the region.

**Non Japan/China East asia exports (USD, billions)**

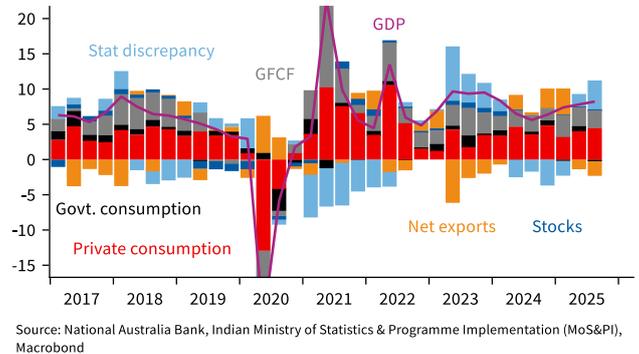


Monetary policy has also been eased over the last 12 months in most of the economies in this region. Fiscal policy settings have been more mixed but, overall, the fiscal impulse in 2025 is estimated to have been marginally stronger.

**India**

**India GDP grew by a faster than expected 8.3% yoy in Q3 2025, its fastest pace since early 2024.** Both private consumption and fixed investment grew by over 7%, although there was a fall in government consumption. Exports rose 5.6% but a 13% increase in imports meant net exports detracted from growth. By sector, growth was strongest in manufacturing and the services sectors.

**Indian real GDP – contributions (ppts, yoy)**



**GDP growth is being supported by favourable monsoon conditions** (which support agricultural production and, through lowering prices, household income) as well as **interest rate reductions** by the Reserve Bank of India (RBI). Recent changes in the GST should also provide some support.

**However, growth is likely to moderate.** While exports have held up following US tariffs, the December S&P Global manufacturing PMI reported its lowest reading since end 2023 (and the services PMI has also come down over recent months). More broadly, the Composite PMI has declined since August. Reported GDP growth also likely overstates growth due to deflator issues and the statistical discrepancy accounts for almost half of growth over the last year.

**The RBI reduced the policy rate by 25bps at its December meeting,** the first change since June, taking the policy rate to 5.25% (it was 6.25% at the start of the year). While growth is strong, well below target (2-6%) inflation was the key driver of the decision – at the time of the decision. CPI inflation was at an all time low of 0.3% yoy (October). Core CPI was a bit above the mid-point of the target at 4.4% but this reflected a large impact from gold and so overstated underlying inflation pressures. However, the RBI expects inflation to start to rise from here – already evident in the November CPI (which rose to 0.7% with core a bit lower at 4.3%).

## Central bank monitor

	Inflation and output gap indicators				Central bank rates		
					NAB forecasts		
	Core inflation*	Unemployment	GDP	Policy rate**	bias	next meetings***	year-end forecast
<b>US Federal Reserve</b>	2.8% 	4.6% 	2.1% 	3.75% 	easing	28 Jan 3.75 18 Mar 3.75	end 2025 3.75 end 2026 3.25
The Fed cut rates in Sept, Oct and Dec, on a changed risk assessment. If the labour market stabilises by early 2026 as we expect, then inflation will need to moderate for further cuts in 2026							
<b>European Central Bank</b>	2.4% 	6.4% 	1.4% 	2.00% 	hold	18 Dec 2.00 5 Feb 2.00	end 2025 2.00 end 2026 2.00
The ECB is likely to remain on hold through to end 2026 with the economy looking solid and fiscal policy becoming supportive. With inflation projected to be below target, the risk is that easing re-starts next year.							
<b>Bank of Japan</b>	1.3% 	2.6% 	0.7% 	0.50% 	tightening	19 Dec 0.75 23 Jan 0.75	end 2025 0.75 end 2026 1.25
Comments from BoJ Governor Ueda point to a hike this week (failing that, January). With inflation above target, a tight labour market and growth solid, further tightening is likely but the BoJ will continue its cautious approach							
<b>Bank of England</b>	3.4% 	5.1% 	1.3% 	4.00% 	easing	18 Dec 3.75 5 Feb 3.50	end 2025 3.75 end 2026 3.25
Dovish hold by the BoE in November; but a deteriorating labour market, with wage growth slowing, and a contractionary Nov. Budget expected, we expect a 25bps cut in December and two further cuts in H1 2026							
<b>Bank of Canada</b>	2.8% 	6.5% 	1.4% 	2.25% 	hold	28 Jan 2.25 18 Mar 2.25	end 2025 2.25 end 2026 2.25
The BoC cut rates in October (following a Sept. meeting cut) but indicated rates now at 'right level'. With signs of a recovery underway, with the Federal Budget adding stimulus, and inflation above, the BoC is now on hold.							
<b>Reserve Bank of New Zealand</b>	2.4% 	5.3% 	-0.6% 	2.25% 	hold	18 Feb 2.25 8 Apr 2.25	end 2025 2.25 end 2026 2.25
The RBNZ cut rates by 25bp in November but signalled that it is highly likely the easing cycle is done.							
<b>People's Bank of China</b>	1.2% 		4.8% 	1.40% 	easing	na	end 2025 1.40 end 2026 1.20
Further easing likely to support growth and given ongoing deflationary pressures							

\* Core based headline ex food and energy, except Japan (also excludes alcoholic beverages), UK (also excludes alcoholic beverages & tobacco), NZ(RBNZ's factorial model), Canada (TRIM measure). US PCE measure used, CPI for all others

\*\*For federal funds rate the top of the target range is shown \*\*\* For meetings spanning two days, the final day is shown

Note: number at top of each chart is latest observation (yoy change for GDP and inflation, level for unemployment rate and policy rate)

## Economic forecast detail - advanced economies

	2025				2026				2027			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>United States</b>												
<b>GDP</b>												
qoq%	-0.2	0.9	0.9	0.2	0.5	0.4	0.5	0.5	0.5	0.5	0.4	0.4
qoq, annualised %	-0.6	3.8	3.5	0.9	2.2	1.8	2.2	2.1	2.0	1.8	1.7	1.7
yoy%	2.0	2.1	2.1	1.9	2.6	2.1	1.8	2.1	2.0	2.0	1.9	1.8
year-average				2.0				2.1				1.9
<b>PCE deflator</b>												
Headline - yoy%	2.6	2.4	2.7	2.7	2.5	2.5	2.4	2.3	2.2	2.1	2.0	2.0
Core												
qoq%	0.8	0.6	0.7	0.7	0.7	0.6	0.6	0.5	0.5	0.5	0.5	0.5
yoy%	2.8	2.7	2.9	2.9	2.7	2.7	2.6	2.5	2.3	2.2	2.1	2.1
<b>Unemployment rate</b>												
qly average %	4.1	4.2	4.3	4.5	4.5	4.5	4.4	4.4	4.3	4.3	4.2	4.2
<b>Fed funds rate</b>												
Top of target band (%)	4.50	4.50	4.25	3.75	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25
<b>Euro-zone</b>												
<b>GDP</b>												
qoq%	0.6	0.1	0.3	0.3	0.4	0.4	0.5	0.4	0.4	0.3	0.3	0.3
yoy%	1.6	1.6	1.4	1.3	1.1	1.4	1.6	1.7	1.6	1.6	1.4	1.4
year-average				1.5				1.4				1.5
Policy rate (%)	2.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00				
<b>United Kingdom</b>												
<b>GDP</b>												
qoq%	0.7	0.2	0.0	0.2	0.3	0.3	0.2	0.2	0.3	0.3	0.4	0.4
yoy%	1.7	1.6	2.1	1.2	0.7	0.7	1.0	1.0	1.0	1.0	1.2	1.3
year-average				1.4				0.9				1.0
Policy rate (%)	4.50	4.25	4.00	3.75	3.50	3.50	3.25	3.25				
<b>Japan</b>												
<b>GDP</b>												
qoq%	0.4	0.5	-0.6	0.4	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1
yoy%	1.6	1.9	0.7	0.7	0.6	0.4	1.1	0.9	0.8	0.7	0.6	0.6
year-average				1.2				0.8				0.7
Policy rate (%)	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25				
<b>Canada</b>												
<b>GDP</b>												
qoq%	0.5	-0.5	0.6	0.0	0.3	0.4	0.4	0.5	0.5	0.4	0.3	0.3
yoy%	2.9	1.6	1.4	0.7	0.4	1.3	1.1	1.6	1.8	1.8	1.7	1.5
year-average				1.7				1.1				1.7
Policy rate (%)	2.75	2.75	2.50	2.25	2.25	2.25	2.25	2.25				

Source: NAB Economics and Markets Research

## FX forecasts

	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
AUD/USD	0.67	0.69	0.71	0.72	0.71	0.70	0.69
NZD/USD	0.59	0.60	0.62	0.63	0.63	0.63	0.62
USD/JPY	146	144	140	135	135	135	135
EUR/USD	1.19	1.20	1.21	1.23	1.22	1.21	1.20
GBP/USD	1.35	1.35	1.36	1.38	1.37	1.36	1.35
USD/CHF	0.78	0.77	0.76	0.75	0.76	0.76	0.77
USD/CAD	1.37	1.36	1.32	1.28	1.30	1.29	1.28
USD/CNY	7.08	7.05	6.95	6.90	6.85	6.85	6.85

Australian Cross Rates							
AUD/NZD	1.14	1.15	1.15	1.14	1.13	1.11	1.11
AUD/JPY	98	99	99	97	96	95	93
AUD/EUR	0.56	0.58	0.59	0.59	0.58	0.58	0.58
AUD/GBP	0.50	0.51	0.52	0.52	0.52	0.51	0.51
AUD/CHF	0.52	0.53	0.54	0.54	0.54	0.53	0.53
AUD/CAD	0.92	0.94	0.94	0.92	0.92	0.90	0.88
AUD/CNY	4.74	4.86	4.93	4.97	4.86	4.80	4.73

[Global FX Strategist](#) provides details on our FX views

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