

The Forward View – Global Sept. 2025

The Fed restarts the easing cycle

NAB Economics



Overview

- The US Federal Reserve reduced the federal funds rate by 25bp this week, the first cut since December 2024. The move reflects concerns that downside risks to the labour market have increased and that a less restrictive policy setting policy is needed to better balance the risks to the Fed's dual mandate. We expect further rate reductions this year (-50bp) and, after a pause at the start, next year (also -50bps, for a cumulative -100bp).
- While the Fed is restarting its easing cycle, other central banks are drawing close to ending or pausing rate cuts – this includes the European Central Bank (ECB) and the Bank of England (BoE). Similarly, while the Bank of Canada (BoC) also cut rates this week, after having been on pause, we only expect one more cut. The Bank of Japan is moving in the other direction – policy is loose and with inflation high it is likely to gradually raise rates.
- Global activity data continues to be resilient and this month our forecast for 2025 global growth ticked up 0.1 ppt to 3.2% (with the 2026 and 2027 forecasts unchanged at 2.9% and 3.0% respectively). This reflects upwards revisions to previously reported GDP data and higher than expected growth in India for Q2, as well as solid US activity data early in Q3. Growth in the first half of the year was supported by a bringing forward of activity ahead of US tariffs, policy support in China, and AI related investment and production.
- Even so, US growth is tracking at a slower pace this year than in 2024, the impact on Canada of US tariffs have become evident with a Q2 fall in GDP, and China activity data for Q3 have notably weakened as the bringing forward in activity from policy measures unwinds. US tariffs increased again in August and the shift in tariffs still represents a headwind for global growth. As a result, we expect growth to ease in H2 but, with fiscal policy set to become more supportive later this year and into 2026, and tariff impacts likely to fade over time, growth should then move higher over 2026.
- The error margin around any set of economic forecasts remains high. While risks of extreme US tariff outcomes have eased, trade policy uncertainty remains high and further tariff measures are likely. There is a concern that the weakening in the US jobs market is a harbinger of weaker activity growth. Many governments still have large budget deficits, leaving fiscal policy room constrained and any perceived loss of fiscal discipline could see a negative financial market reaction. Upside risks come from the AI roll-out, and potential productivity benefits from this investment, and the easing of tariff fears may see investments (in labour or capital) that had been delayed being reinstated.

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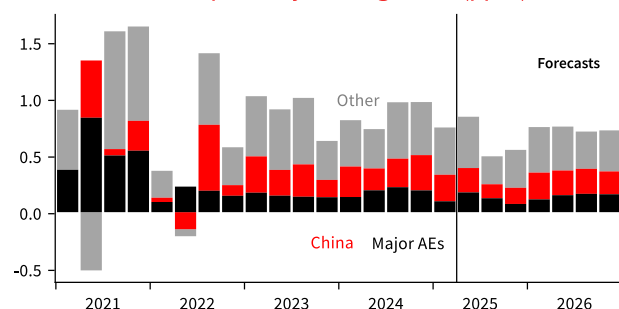
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Key Economic Forecasts

(Change since June Forward View in brackets)

	2024	2025		2026		2027	
US	2.8	1.8	(0.1)	1.7	(0.1)	1.9	
Euro-zone	0.8	1.3		1.1	(-0.1)	1.3	
Japan	0.1	1.4	(0.2)	0.7		0.7	
UK	1.1	1.3		1.0		1.3	
Canada	1.6	1.1	(-0.2)	0.9		2.1	
China	5.0	4.8		4.0		3.9	
India	6.7	7.1	(0.4)	6.2		6.4	
Latin America	2.4	2.2	(-0.1)	1.8	(0.1)	2.0	(0.1)
Other East Asia	4.0	3.4		3.2		3.4	
NZ	-0.6	0.6	(-0.1)	2.8	(0.1)	2.5	(0.1)
Global	3.3	3.2	(0.1)	2.9		3.0	
Major trading partners	3.5	3.5	(0.1)	3.1	(0.1)	3.1	

Contributions to quarterly world growth (ppts)



Fed update

Overnight, the US Federal Reserve lowered its target range for the federal funds rate by 25bp to 4.00-4.25%, citing a change in the balance of risks due to increased downside risks to employment. This was reiterated in Chair Powell's press conference where he described the move as a 'risk management cut'. There was one dissent, by the new (temporary) Fed Governor Stephen Miran, who wanted a 50bp reduction.

The updated median Fed member projection did not set out a materially different economic outlook. Growth expectations were nudged a bit higher, as was core inflation over 2026, but the peak is still expected to be 3.0% yoy (in 2025). The unemployment rate is also expected to peak this year at 4.5% (unchanged) but is now expected to edge down in 2026. These forecasts are not materially different to our own.

For the fed funds rate, the median member has a further 50bp of cuts pencilled in for this year (an extra 25bp from June), but seven participants see no further easing this year. There is little support for more than 50bp of cuts over the next two meetings (only one member had more). For 2026, the median projection only has a further 25bp rate reduction, and the same again in 2027 which would take the fed funds rate target range to 3.00-3.25%, around the Fed's view of neutral.

Having judged that the balance of risks has shifted, a single 25bp cut is unlikely to be the end of the adjustment (barring a major data surprise). We expect the labour market to show some further weakening this year, which will keep the Fed attentive to labour market risks in coming months and so **cuts (of 25bp) at each of the next two meetings are likely**, which would take the fed funds rate target range to 3.50% to 3.75% by the end of the year.

However, inflation is expected to move higher this year and remain above target through 2026. While the Fed Chair reiterated his previous view that a reasonable base case is that tariffs will have a one-off impact on prices, he again noted the risk that the inflationary impact could be more persistent and that it is a 'risk to be assessed and managed'. With core inflation likely to be around 3.0% early in 2026, this suggests that, after recalibrating policy settings this year, **the Fed will then go on hold in Q1 2026, with easing only resuming around mid-year** as it becomes clearer that inflation is moderating and tracking back to target. **We still see the Fed ending the easing cycle in 2026, when the target range for the fed funds rate reaches 3.00-3.25%.**

Relative to our previous call, we have effectively brought the 25bp cut we had in Q1 2026 into Q4 2025.

Projected federal funds rate (% , top of target band)

	2025		2026		2027					
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Previous	4.25	4.00	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25
Revised	4.25	3.75	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25

Global trade & tariffs

Steps have been made over the last month to implement the US-Japan and US-EU trade deals. While this points to a further pull back in trade-related risks, the tariffs put in place by the US are substantial and further measures are expected. Rising trade barriers is a broader issue than just the US, highlighted by Mexico's recent decision to increase tariffs.

Over the last month, the US administration and its EU and Japanese counterparties have moved to implement trade deals as well as open up opportunities for further deals. This includes executive orders (EO) on 4 September, on [implementing the US-Japan deal](#) and on 5 September making some [modifications to reciprocal tariffs and setting up procedures for implementing trade deals](#).

In relation to the Japan deal there was also a Memorandum of Understanding regarding the focus and administration of the investments that Japan agreed to make in the US, as well as a Joint Statement confirming improved access for US exports in Japan.

The EU has formally proposed to reduce tariffs on various US imports and the 5 September EO gives further affect to US tariff concessions made under that deal. The 5 September EO also provides a list of imports for which President Trump would consider a zero percent reciprocal tariff rate, signalling opportunities for other countries wishing to obtain a trade deal. This includes products that are not "grown, mined, or naturally produced" in the US (or in sufficient quantities), and certain agricultural products; aircraft and aircraft parts; and pharmaceutical related articles. The EO also adjusted the scope of reciprocal tariffs, removing some items and adding others.

These ongoing changes highlight that US tariffs remain in a state of flux, even if the level of uncertainty has lessened and that, while future tariff announcements on sectoral tariffs are likely, there are still opportunities to reduce tariff rates through trade deals. The US remains in talks with other countries including China and India.

Overhanging all of this is the prospect that US courts may invalidate certain tariffs. A court ruling in May invalidating the 'Fentanyl tariffs' (on China, Mexico and Canada) and the reciprocal tariffs was upheld this month by the Federal Court of Appeals. (Sectoral tariffs, e.g. on autos are unaffected.) The tariffs remain in place pending consideration by the Supreme Court of an appeal in November.

This month Mexico announced that it intends to increase tariffs on certain imports from countries with free-trade deals (including an increase in the tariff on China auto imports to 50%). While this may be in part an attempt to shore up negotiations with the US, Mexico has announced a series of tariff increases on various Asian countries, including China, since August 2023. In short, it's not only the US that is seeking to protect its domestic industries from external competition.

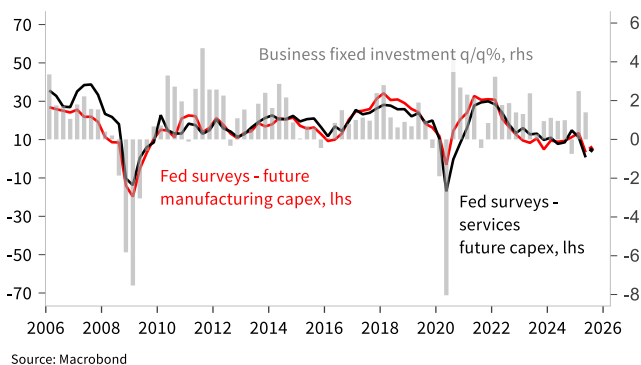
United States

Recent positive activity data point to a **US economy remaining resilient in the face of policy headwinds** (trade and migration policy). Complicating the outlook is the **deterioration underway in the labour market, with the risk that it leads to a material weakening in consumption and is a signal businesses are becoming more cautious.**

Q2 GDP growth was revised up to 0.8% qoq (from 0.7% qoq), mainly on the back of upwards revisions to non-residential (business) fixed investment. **Business investment indicators for July were also positive overall** as non-defence capital goods shipments rose strongly, in part due to the volatile aircraft category. Non-residential construction investment, however, remains weak.

This contrasts with regional Federal Reserve surveys of capex intentions, which remain weak. These surveys measure breadth, but **recent business investment appears to have been highly concentrated in the AI roll-out and aircraft.** We estimate that business investment components most closely linked to AI accounted for around half of the growth in business fixed investment over the last year, and probably more if other related categories are included (such as energy sector investment).

US business investment indicators



Personal consumption also started the quarter on a positive note, rising 0.3% mom in July in real terms, and nominal retail sales growth was solid in August. However, this follows several soft months, and there has been a clear slowdown in real consumption growth this year. Nor do we expect strong growth in coming months, as the weakness in job gains and the continuing pass through of tariffs will weigh on real incomes. Further, measures of consumer confidence remain weak and, even though equities are rising, falling house prices may be weighing on household wealth.

The July data pre-date the August tariff increases (worth around 0.4% of GDP pre-substitution effects). There have been large swings in trade flows this year, caused by attempts to front-run tariffs. With sectoral tariffs on several goods yet to be announced, and tariffs (24%) on China on pause, it is possible that this is still occurring.

The trade volatility continued into July with 6.6% mom rise in goods import volumes (and a small fall in exports), although a large part of this was gold imports which do not feed into GDP calculations.

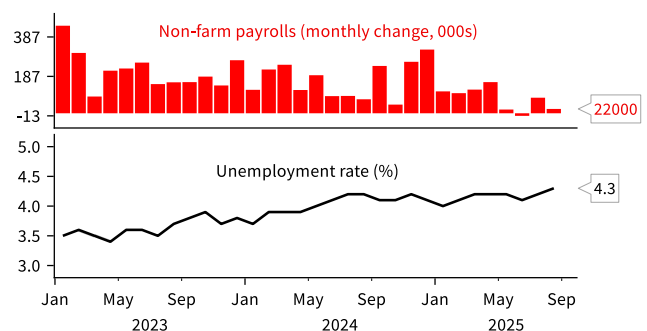
Over the last month, there have been moves to implement the trade deals with the EU and Japan. As a result, while trade related uncertainty remains, it continues to decline.

Reflecting the overall positive July data, **we have revised up our Q3 GDP estimate from 0.3% qoq to 0.5% qoq.** Tracking indicators, such as the Atlanta Fed's GDP now, are higher, but we still consider that tariffs and migration policy changes are material headwinds to growth and expect upcoming data readings to be softer. The tariffs that have been put in place amount to a large tax increase but the fiscal impact of this will be largely unwound by the recent budget bill. Together with an easing in monetary policy (see page 2), this should lead to stronger growth over 2026 and 2027.

While the activity indicators have been stronger than expected, this has not stopped a marked weakening in jobs growth. Non-farm employment only rose 22k in July and total hours worked (based on private sector average weekly hours) have declined on a 3mth/3mth basis.

The unemployment rate also increased in August to 4.3% (from 4.2%) – breaking out of the range it had been in for around a year. Broader measures of slack, such as the U6 measure, have also increased. While layoffs remain low, and changes in migration policy and enforcement this year have probably suppressed labour supply, this suggests that **excess capacity in the labour market is starting to open up.** The move up in the unemployment rate was in line with our forecasts and, with growth holding up better than expected in Q3 and likely to improve over 2026, we still see the unemployment rate peaking at around 4.5%.

US labour market indicators



Inflation remains high, although it has risen less than we expected and we have lowered our forecast peak in core PCE inflation to 3.2% (from 3.4%). That said, we expect some of the shortfall (from expectations) is due to a more delayed pass through of tariffs than expected. As noted before, while the slow pass through might indicate that businesses are constrained from passing on costs, there are other possible explanations, including that they have been waiting to get more certainty on where tariffs might land before fully adjusting prices.

In August, core CPI inflation increased 0.35% mom leaving the annual rate unchanged at 3.1% yoy. At the same time there was a small fall in core PPI inflation, although monthly core goods PPI inflation (0.3% mom) was unchanged and the annual rate reached its highest level since April 2023.

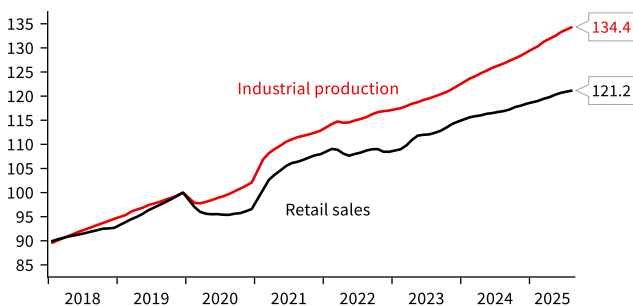
Based on the CPI and PPI data, core PCE inflation in August is expected to be around 0.2% mom. This would leave the annual rate unchanged at 2.9%, its highest level since February.

China

Data for July and August suggest softer economic conditions in China in Q3, compared with above target growth in the first half, as the positive impacts of fiscal support fade.

Soft consumption trends that emerged in July continued into August. Real retail sales – a limited but at least timely consumption indicator – increased by 3.8% yoy, marginally up from 3.7% yoy in July but well below the robust growth (near 6% yoy on average) between March and May. The earlier strength was driven by a consumer goods trade in scheme, which brought consumption forward rather than building a sustainable base for longer term growth.

China supply-demand imbalance (Index Dec-2019 = 100, 12mma)



Source: National Australia Bank, Macrobond

Similarly, **fixed asset investment recorded relatively strong growth in the first half of the year, but has dramatically slowed more recently.** Real investment fell by 3.4% yoy, led by a steeper downturn by private sector firms. Real estate investment continues to contract rapidly, as the fallout from the property bubble bursting rolls on.

Industrial production was slightly softer in August, increasing by 5.2% yoy (compared with 5.7% yoy in July and 6.8% yoy in June). That said, **this increase remained well above that of real retail sales**, highlighting the imbalance between the domestic supply and demand of goods, leading to the over-reliance on exports for China's industrial sector.

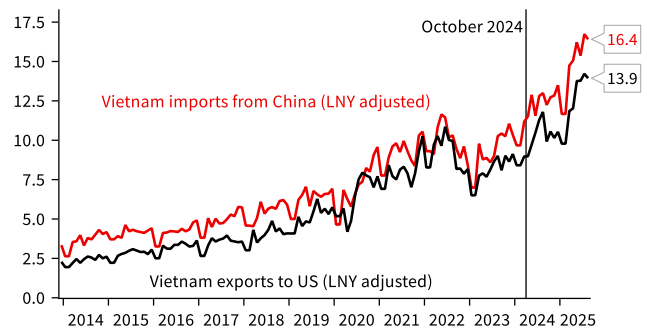
We have kept our forecasts for China's growth unchanged again this month – we expect China's economy to expand by 4.8% in 2025 and 4.0% yoy in 2026.

China's trade surplus rose a little higher in August – up to US\$102.3 billion (from US\$98.2 billion in July). The value of China's exports was largely unchanged month-on-month, while the values of imports eased a little.

The rolling twelve-month surplus set another record high in August – increasing to US\$1.17 trillion. This measure has been trending steadily higher since April 2024, reflecting an increase in shipments to Asia, the European Union, Latin America and non-EU Europe, while the surplus with the United States has slowly waned (at least officially).

This overlooks the impact of trans-shipments – where Chinese exports are routed to the United States via another country. Vietnam is seen as one example – with imports from China and exports to the United States increasing strongly since April 2024. We are yet to see if the punitive tariffs on identified trans-shipped goods will curtail this activity.

Vietnam trade with China and US (US\$ billion)



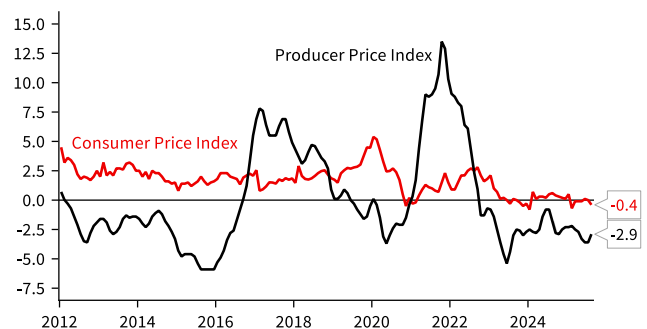
Source: National Australia Bank, Macrobond

Mexico's proposed tariffs on Chinese imports **highlights the risk that countries outside the United States – particularly those that have seen a rapid increase in imports in recent years – may raise their own trade barriers to protect domestic industries.**

China's inflation data continues to highlight the domestic imbalance between supply and demand. The headline consumer price index fell by 0.4% yoy in August (compared with no change in July), however this was largely driven by a steep fall in food prices (down 4.3% yoy). Non-food prices edged higher – up by 0.5% yoy, from 0.3% yoy in July.

Producer prices fell more modestly in August – down by 2.9% yoy (compared with -3.6% yoy in July – however this was the thirty-fifth month in a row of year-on-year declines. It is far too early to see any impact of China's "anti-involution" campaign, that seeks to curb over-capacity and disorderly price competition, in these data.

Chinese inflation (% yoy)



Source: National Australia Bank, Macrobond

In the first eight months of 2025, China's new credit issuance rose by 21.3% yoy. This increase has overwhelmingly been driven by government bond issuance – which rose by almost 82% yoy over this period. That said, it appears that bond issuance – particularly by local governments – has been front loaded this year and will slow across the remainder of 2025 as annual quotas are reached. Bank lending (which represents the largest share of credit issuance) fell by 3.1% yoy in the first eight months.

Interest rate subsidies (of 1 percentage point) on bank loans for households and service sector firms commenced on 1 September. This policy is intended to boost consumption, but given that there was no shortage of funds available for lending, it is not yet clear that this measure will lead to an increase in borrowing, and with it, domestic demand.

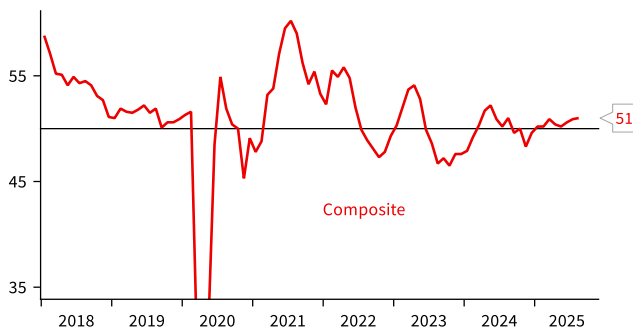
Euro-zone

Indicators are consistent with only modest growth, and we expect this to remain the case in H2 2025 before some acceleration over 2026. Tensions remain but progress has been made implementing the US-EU trade deal.

The latest estimates of Euro-Zone GDP left growth in Q2 unchanged at 0.1% qoq but included an expenditure breakdown for the first time. Household consumption growth slowed in Q2 and there was a large fall in fixed investment, resulting in a fall in domestic final demand (-0.2% qoq). As expected, net exports also contracted from growth as the earlier lift in exports to the US was reversed, with these drags offset by inventory accumulation.

Early data on consumer activity for Q3 are soft. Retail sales volumes fell a 0.5% mom in July. Real household disposable income growth (data to Q1) has been slowing, and this is likely to continue as employment and wage indicators are easing, which will constrain near term household activity.

Euro-zone PMIs



Source: National Australia Bank, Account in-house, Macrobond

A potential drag from US trade measures and uncertainty remains a concern but less so than before. Euro-zone exports to the US showed signs of stabilising in July, but have faced higher tariffs from 7 August, which may impact demand. Uncertainty around future tariff rates continues to recede, with progress being made on implementing the US-EU trade deal. A joint statement on 21 August formalised the deal, the EU on 28 August put forward a proposal to reduce tariffs on various US imports, and a 5 September executive order from President Trump will also facilitate implementation. However, President Trump continues to threaten the EU with tariffs due to issues related to the treatment of US tech firms.

Perhaps reflecting an easing in trade concerns, as well as ongoing growth in the economy, the **Euro-zone composite PMI reached its highest level in a year in August**, although it is still on the low side by historical standards.

This is in line for our expectation for continued but **modest GDP growth in the second half of 2025. We still expect some acceleration in 2026**, due to the lagged impact of monetary policy easing, fading trade disruptions as well as more supportive fiscal policy (increased defence spending as well as broader measures in Germany), although the strength of the Euro will be a headwind. The recent collapse of the French government over planned budget cutbacks highlights ongoing fiscal constraints; the new Government is still likely

to attempt to reduce the fiscal deficit, but by a smaller amount.

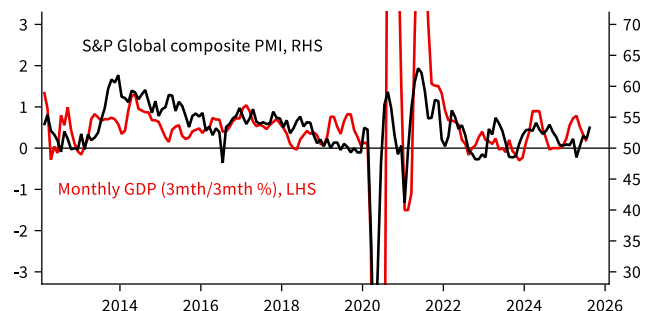
The **European Central Bank (ECB)** remained on hold in September and the ECB President again indicated that policy was in a 'good place' and that 'inflation is where we want to be'. However, the staff inflation forecasts continue to point to an inflation undershoot, with the core measure expected to fall to as low as 1.7% yoy in H1 2027 (0.1ppts lower than the June forecasts) before edging back to 1.9% by end 2027. The ECB President appears relaxed about this undershoot and ascribed it to lagged currency impacts. The ECB forecasts assume a largely unchanged USD/EUR from here, but we think the Euro is likely to appreciate further, placing further downward pressure on inflation (and also on the ECB's growth forecasts). Given this, and with only modest growth expected for the rest of this year, **we expect one further 25bp cut for this cycle, most likely in December.**

United Kingdom

While GDP growth was strong in the first half of the year, it is likely to be more modest in H2. The labour market is deteriorating but, with inflation increasing, the risk that the Bank of England goes on hold is rising.

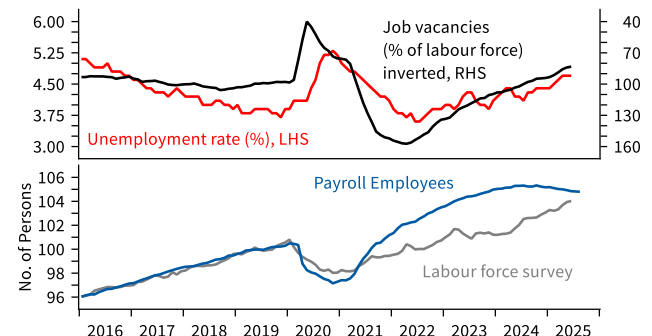
UK monthly GDP was flat in July, as this followed 0.4% mom in June, Q3 is still set to record modest growth. The PMI was more positive, with a 2pt increase in August, taking the composite measure to its highest level in a year. The PMI has not tracked GDP growth that well in recent quarters, but nevertheless likely suggests downside risks to the outlook have declined.

UK - Mthly GDP and PMI



Source: National Australia Bank, U.K. Office for National Statistics (ONS), Macrobond. Scale truncated to remove COVID extremes

UK labour market indicators



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

In contrast to the strength of growth in H1 2025, **labour market indicators have generally continued to**

deteriorate. While the Labour Force Survey continues to show job gains, the payroll employees measure (considered by the ONS to be more reliable) declined 0.4% over the year to August. The unemployment rate has also been trending up and vacancies continue to decline. A range of indicators also point to slowing wage growth, although it remains high.

We continue to see only modest growth over H2, with some improvement in 2026 reflecting the lagged impact of monetary policy easing and assisted by stronger growth in the Euro-Zone (the UK's major trading partner). **Fiscal policy is a downside risk**, as it looks likely that the 26 November Budget will add to the fiscal headwind on the economy.

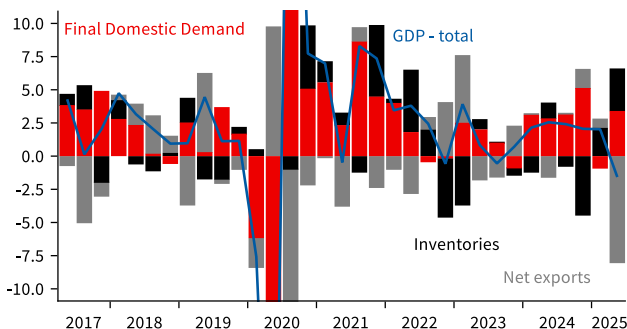
Inflation continues to rise, and in July was at 3.9% yoy (3.7% on the core measure); the **Bank of England's** August forecast saw a peak of 4.0% in September. Faced with competing pressures – growing signs of slack in the economy but still high inflation – the Bank has been reducing rates in a 'careful and gradual' way (i.e. 25bp per quarter) to make the policy setting less restrictive. We noted last month that any upside surprises in inflation could put the expected November cut at risk (pushing it into next year), and the recent data flow, including a rise in household inflation expectations, has increased the possibility of a hold in November. **We will review our call for a November cut (to 3.75%) after today's meeting.** With inflation likely to be well above target out to end 2026, we see a low for Bank Rate of 3.50% (i.e. still somewhat above neutral).

Canada

The impact of US tariffs was crystallised in Q2, with GDP declining, and H2 growth will likely be weak. Labour market deterioration should see the Bank of Canada resume the easing cycle.

GDP declined in Q2 by 0.4% qoq. Monthly GDP showed a decline in each month of the quarter, but the advance estimate points to growth resuming in July, but only modestly (0.1% mom).

Contributions to GDP growth (qoq annualised)



The fall in GDP was driven by trade, as the earlier lift in exports to the US was more than unwound in Q2. This was partly offset by a bounce back in final demand, supported by strong growth in public demand and household consumption. The latter is unlikely to be sustained, with real household income growth only modest. In contrast, business

fixed investment declined again in Q2, as tariffs and the uncertainty around future developments took its toll.

Business surveys were mixed in August but, while still low, have shown some improvement in recent months. Higher US tariffs kicked in on 1 August, but from 1 September, the Canadian government removed many its retaliatory tariffs on most US imports (but maintained them on autos, steel and aluminium). This may facilitate trade discussions with the US but for now the uncertainty around future trading arrangements persists.

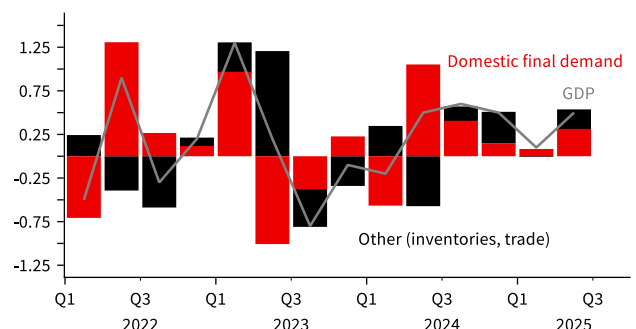
With data pointing to a weaker economy and labour market (with the unemployment rate increasing 0.2ppt in August to 7.1%), and upside inflation risk considered to have eased (in part due to the Canadian government's removal of some retaliatory tariffs), the **Bank of Canada** cut rates by 25bp at its September meeting. We still expect one further cut by the BoC, which we have brought forward to Q4 from Q1 2026.

Japan

Q2 GDP growth was revised up, reinforcing a solid outlook for the Japanese economy. With the labour market tight, inflation high and monetary policy settings loose, the BoJ will likely resume its gradual policy tightening later this year.

Japanese GDP growth for Q2 was revised up by 0.2ppts to 0.5% qoq. Domestic final demand growth was little changed – with upwards revision to consumption growth offset by weaker growth in fixed investment. The big change was to inventories which are now estimated to have been less of a drag but, with inventory accumulation still high, we expect this to drag on headline growth in coming quarters.

GDP - contributions to growth (qoq, ppts)



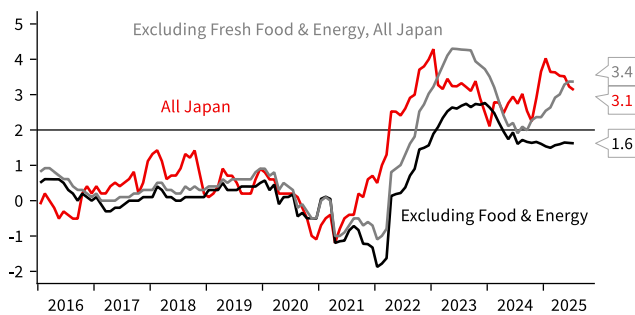
Domestic final demand has grown over each of the last five quarters, indicating solid domestic economic conditions (including tourism). The labour market is tight – the unemployment rate in July fell to its lowest level since 2019, and strengthening employment and wage growth, even in the face of high inflation means households are seeing real income gains. This also evident in business surveys, where the services sector has consistently outperformed manufacturing since mid-2022.

However, export volumes have held up (to July), assisted by demand for tech related goods, and manufacturers appear to have been buoyed by the recent trade deal with the US, even as the import tariff on imports from Japan increased last

month (from 10% to 15%). The Reuters Tankan measure survey of manufacturing business conditions reached its highest level in 3 years in August.

The US and Japan are moving to implement the trade deal announced in July, with an executive order from President Trump on 4 September (fully implementing US tariff aspects of the deal), a Memorandum of Understanding relating to Japanese investments into the US, and a Joint Statement confirming improved access for US producers in the Japanese market.

Japan CPI (yoy%)



Source: National Australia Bank, Japanese Statistics Bureau, Ministry of Internal Affairs & Communications, Macrobond

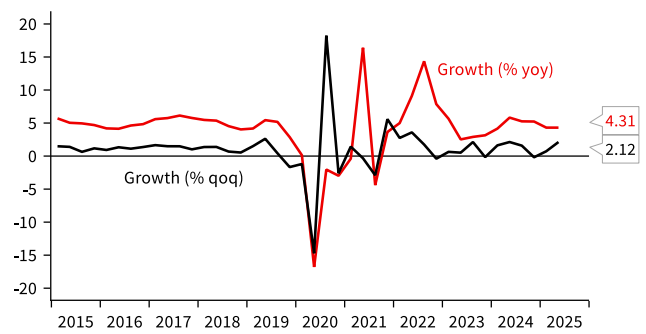
Consumer price inflation remains high and with a solid domestic economy, a tight labour market and accommodative monetary policy settings, this would normally point to the **Bank of Japan (BoJ)** raising rates. However, it has been on hold since January due to concerns over the global outlook, US tariff impacts and, more recently, domestic political instability. However, tail risks around US tariffs have diminished, the global outlook has held up better than expected and the domestic political situation may become clearer in early October when the LDP selects a new leader. As a result, while we had expected the BoJ to remain on hold this year, **we now expect a 25 policy rate increase by December and a further 50bp tightening over 2026**, although it is possible that they continue to act cautiously and remain on hold this year.

Other East Asia – Malaysia in focus

Malaysia's national accounts data showed its economy grew by 4.3% yoy in Q2, unchanged from Q1. This represents a sizeable acceleration in quarter-on-quarter terms – from 0.7% qoq in Q1 to 2.1% qoq in Q2 – albeit seasonally adjusted quarterly growth has been far more volatile in the post-COVID pandemic period than prior.

Over the past year, private consumption and gross fixed capital formation have been the key contributors to Malaysia's economic growth – with Bank Negara Malaysia (BNM) noting that robust labour market conditions have supported household spending.

Malaysian economic growth (%)



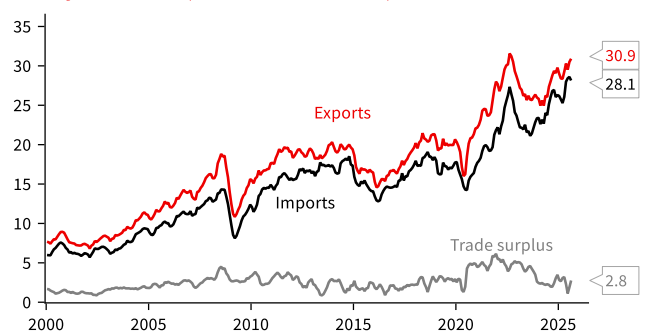
Source: National Australia Bank, Department of Statistics Malaysia (DOSM), Macrobond

The unemployment rate has tracked broadly sideways at 3% since March, having trended lower from its peak near 5% in late 2020.

Data centre construction has been a contributor to the overall investment growth, with Malaysia being the key South East Asian economy for these developments, much of it occurring in the state of Johor that neighbours Singapore. However, Malaysia's government is attempting to rein in these developments, reflecting growing pressures on domestic electricity and water supply as well as US concerns around the risk of high-end chips being routed to China.

Malaysia's trade balance has shifted considerably in recent years, when compared with relative stability prior to the COVID-19 pandemic. Growth in exports outpaced imports across the second half of 2020 and 2021, driving the trade surplus to a record high in the latter part of 2021. From this point onwards, imports rose more rapidly, led by increased shipments from China, Taiwan and Singapore, which has driven the surplus back to its pre-pandemic range.

Malaysia trade (US\$ billion, 3mma)



Source: National Australia Bank, Macrobond

Malaysia's headline inflation has trended lower since the latter months of 2022 – with the peak of 4.7% well below that of most advanced economies. Headline CPI dropped below 2% yoy in late 2023 and has remained comparatively subdued – it was just 1.2% yoy in July.

The **BNM** is not an inflation targeting central bank, meaning that the comparatively subdued inflation has not triggered a substantial easing in monetary policy. The BNM raised the Overnight Policy Rate (OPR) by 125 basis points between mid-2022 and mid-2023 and has subsequently made a single cut in July, bringing the OPR to 2.75%. At its September meeting, the Monetary Policy Committee noted that it views the OPR setting as appropriate and supportive of the economy amid price stability.

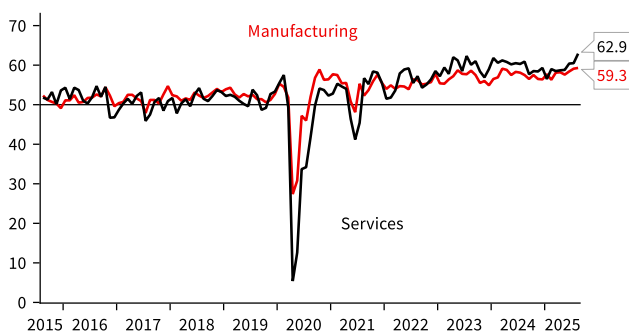
India

Reflecting the stronger than expected growth in India's economy in Q2, we have **revised our near-term GDP growth forecast higher to 7.1% in 2025** (from 6.7% previously). Our forecast for 2026 is unchanged at 6.2%.

India's latest national accounts data showed its economy expanded by 7.8% yoy in Q2 – well above market expectations and marginally above our forecast for this period (which were 7.4% yoy). While domestic consumption provided the largest share of this growth, there was also a sizeable contribution from the statistical discrepancy. The large swings evident in the statistical discrepancy since 2023 adds some uncertainty around the accuracy of India's national accounts data.

Business surveys remain strong – consistent with the robust economic growth data – with the manufacturing and services PMIs rising to multi-year highs (17 years and 15 years respectively) in August. The strength of the manufacturing PMI was somewhat surprising, given softer output growth in recent months and the potential impact of the elevated tariffs imposed by the United States.

India PMI surveys



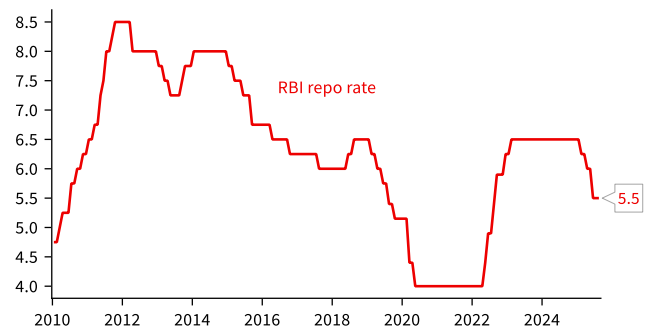
Source: National Australia Bank, Macrobond

Indian industrial production partially recovered in July – rising by 3.5% yoy (up from 1.5% yoy in June) – but remained well below the trend evident across 2022 and 2023.

India's headline inflation remains close to the bottom of the **Reserve Bank of India's** (RBI) target range (of 2-6%), at 2.1% yoy in August, having declined from over 6% in October 2024. Key to this disinflation has been a sharp downturn in food prices – which increased strongly in Q4 2024, but rose by just 0.3% yoy in August.

The RBI commenced its rate cutting cycle in February 2025, bringing the repo rate down by 100 basis points to 5.5% in June. The RBI remained on hold at its August meeting – noting that it was waiting to see the impact of its earlier cuts while highlighting the heightened level of uncertainty globally. Financial market pricing indicates an expectation that the central bank will remain on hold again at its next meeting (which concludes at the start of October) but that it could cut again in early 2026.

Indian central bank policy rate (%)



Source: National Australia Bank, Reserve Bank of India (RBI), Macrobond

Central bank monitor

	Inflation and output gap indicators			Central bank rates		
				NAB forecasts		
	Core inflation*	Unemployment	GDP	Policy rate**	bias	next meetings***
US Federal Reserve	2.9%	4.3%	2.1%	4.25%	easing	29 Oct 4.00 10 Dec 3.75
The Fed has resumed easing and further cut(s) likely this year on a changing risk assessment. If the labour market stabilises in early 2025 as we expect, then inflation will need to moderate for further cuts in 2026						
European Central Bank	2.3%	6.2%	1.5%	2.00%	easing	30 Oct 2.00 18 Dec 1.75
ECB considers policy is in a good place. While this may mean the easing cycle had ended, inflation is projected to be below target and currency appreciation is likely to put further downwards pressure, and so one more cut is likely						
Bank of Japan	core inflation* 1.6%	Unemployment 2.3%	GDP 1.7%	Policy rate 0.50%	tightening	19 Sep 0.50 30 Oct 0.50
Economy is solid, labour market tight, inflation high, monetary policy loose - all adds up to rate hikes but BoJ has been cautious. We expect a hike in Q4, but risk is that it is delayed						
Bank of England	3.7%	4.7%	1.2%	4.00%	easing	18 Sep 4.00 6 Nov 3.75
We expect a 25bps cut in November as the Bank looks to make policy gradually less restrictive as it balances labour market deterioration against high inflation. The risk is that the Bank is on hold for the rest of this year.						
Bank of Canada	Core inflation* 3.0%	Unemployment 7.1%	GDP 1.2%	Policy rate** 2.50%	easing	29 Oct 2.50 10 Dec 2.25
The BoC cut rates in September on a changing risk assessment - weaker economy & labour market, and less upside risk to inflation. We expect another cut in December.						
Reserve Bank of New Zealand	2.3%	5.2%	-0.7%	3.00%	easing	8 Oct 2.75 26 Nov 2.50
With a excess capacity in the economy and medium term inflation pressures contained, we expect the RBNZ to cut rates by a further 50bps						
People's Bank of China	0.9%		5.2%	1.40%	easing	na
Further easing likely as the economy slows in H2 2025 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
United States												
GDP												
qoq%	-0.1	0.8	0.5	0.2	0.3	0.4	0.5	0.5	0.5	0.4	0.4	0.4
qoq, annualised %	-0.5	3.3	2.2	0.8	1.3	1.8	2.2	2.2	1.9	1.8	1.7	1.7
yoy%	2.0	2.1	1.8	1.4	1.9	1.5	1.5	1.9	2.0	2.0	1.9	1.8
year-average				1.8				1.7				1.9
PCE deflator												
Headline - yoy%	2.5	2.4	2.8	3.1	2.8	2.9	2.6	2.2	2.1	2.0	2.0	2.0
Core												
qoq%	0.9	0.6	0.8	1.0	0.7	0.6	0.6	0.5	0.5	0.5	0.5	0.5
yoy%	2.8	2.7	2.9	3.2	3.1	3.1	2.9	2.4	2.2	2.1	2.1	2.0
Unemployment rate												
qtlly average %	4.1	4.2	4.3	4.4	4.5	4.5	4.5	4.4	4.3	4.3	4.2	4.2
Fed funds rate												
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
Euro-zone												
GDP												
qoq%	0.6	0.1	0.2	0.2	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3
yoy%	1.6	1.5	1.2	1.0	0.8	1.0	1.2	1.3	1.4	1.3	1.2	1.3
year-average				1.3				1.1				1.3
Policy rate (%)	2.50	2.00	2.00	1.75	1.75	1.75	1.75	1.75				
United Kingdom												
GDP												
qoq%	0.7	0.3	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.4	0.3
yoy%	1.3	1.2	1.4	1.5	1.0	0.8	0.9	1.1	1.2	1.3	1.3	1.4
year-average				1.3				1.0				1.3
Policy rate (%)	4.50	4.25	4.00	3.75	3.50	3.50	3.50	3.50				
Japan												
GDP												
qoq%	0.1	0.5	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1
yoy%	1.6	1.7	1.2	0.9	0.9	0.6	0.7	0.7	0.8	0.7	0.6	0.6
year-average				1.4				0.7				0.7
Policy rate (%)	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25				
Canada												
GDP												
qoq%	0.5	-0.4	0.0	0.1	0.2	0.4	0.5	0.6	0.5	0.5	0.5	0.5
yoy%	2.3	1.2	0.6	0.2	-0.1	0.7	1.2	1.7	2.0	2.1	2.1	2.0
year-average				1.1				0.9				2.1
Policy rate (%)	2.75	2.75	2.50	2.25	2.25	2.25	2.25	2.25				

Source: NAB Group Economics.

FX forecasts

	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
AUD/USD	0.66	0.68	0.71	0.72	0.73	0.73	0.74	0.75
NZD/USD	0.60	0.62	0.64	0.65	0.67	0.67	0.68	0.69
USD/JPY	142	138	130	128	126	126	124	121
EUR/USD	1.20	1.23	1.24	1.26	1.27	1.28	1.26	1.25
GBP/USD	1.36	1.38	1.39	1.41	1.44	1.45	1.45	1.44
USD/CHF	0.78	0.76	0.76	0.75	0.73	0.73	0.74	0.74
USD/CAD	1.36	1.33	1.28	1.28	1.28	1.26	1.24	1.22
USD/CNY	7.15	7.00	6.90	6.80	6.80	6.80	6.80	6.80

Australian Cross Rates								
AUD/NZD	1.10	1.10	1.11	1.11	1.09	1.09	1.09	1.09
AUD/JPY	94	93	92	92	92	92	92	91
AUD/EUR	0.55	0.55	0.57	0.57	0.57	0.57	0.59	0.60
AUD/GBP	0.49	0.49	0.51	0.51	0.51	0.50	0.51	0.52
AUD/CHF	0.52	0.52	0.54	0.54	0.53	0.53	0.55	0.56
AUD/CAD	0.90	0.90	0.91	0.92	0.93	0.92	0.92	0.92
AUD/CNY	4.72	4.76	4.90	4.90	4.96	4.96	5.03	5.10

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

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