The Forward View - Global March 2025

NAB Economics

Overview

Higher US tariffs have been put in place more quickly than expected and further increases in early April look highly likely. Apart from the direct impacts of tariffs, the elevated uncertainty around US policy will also likely weigh on business investment and potentially consumer activity.

As a result, financial markets have come under stress – particularly US equities, with weak early 2025 economic data for the US also a factor.

For the US, tariff increases are part of a growing fiscal drag, which also includes Federal government spending and job cuts. Tax cuts may still occur – but again there is a lack of clarity – and in any event this is more a 2026 story. As a result, we have lowered our global growth forecasts, driven by downward revisions to the US, Canada and Mexico.

While lower US growth prospects would normally be expected to drag on rest of the world growth, we have not made other major changes at this stage. Key will be how policy in other countries shifts in response to US policy shifts.

This is already evident in Europe, where fiscal policy is moving in a stimulatory direction, with the prospect of large increases in defence spending and a broader relaxation of fiscal rules in Germany. This should provide some offset to the tariff headwinds, initially through positive sentiment and ultimately through demand stimulus.

China's National People's Congress also left the official growth target unchanged – at "around 5%". While the likely extent of policy support remains unclear, we see this as indicating that Chinese authorities will step in to support activity if external factors end up being a material drag. That said, we still expect the combination of growing trade barriers and deeper structural issues, to lead to some moderation in growth in 2025.

Monetary policy settings continue to ease, with the Bank of Canada and European Central Bank again cutting rates this month. The US Fed is currently on pause, but we expect it to start reducing rates later this year and, apart from Japan, some further easing across the other major AE central banks is likely.

Overall, we expect global economic growth, in year average terms, to slow from 3.3% in 2024 to 3.0% in 2025 and 2.9% in 2026, a weak result by recent historical standards.

Risks around any central estimates remain elevated, and weighted to the downside as, based on public pronouncements, the US may announce greater tariff increases than assumed in our forecasts (with retaliatory tit-for-tat escalation beyond that possible).

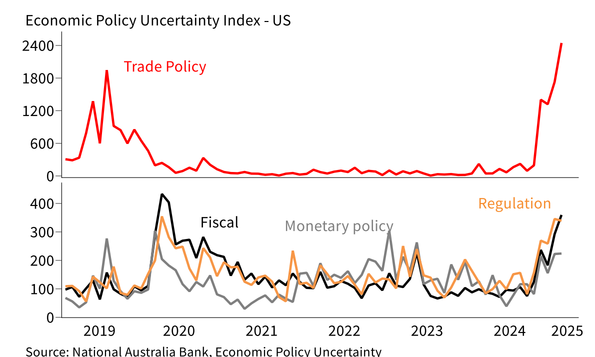
Contents

Overview	1
Financial markets	2
Inflation and monetary policy	2
Global trade & tariffs	3
Advanced economies	3
Emerging markets	4
Forecasts and risks	5

Key Economic Forecasts

	2023	2024	2025	2026
US	2.9	2.8	1.8	1.6
Euro-zone	0.5	0.8	1.0	1.4
Japan	1.5	0.1	1.2	0.6
UK	0.4	0.9	0.9	1.1
Canada	1.5	1.5	1.5	1.1
China	5.4	5.0	4.6	4.2
India	8.6	6.5	6.0	6.2
Latin America	2.2	1.8	1.9	1.8
Other East Asia	3.1	4.0	3.6	3.5
Australia	2.1	1.0	2.0	2.2
NZ	1.8	-0.6	0.8	3.1
Global	**3.3**	**3.3**	**3.0**	**2.9**

US policy uncertainty weighing on sentiment



Source: National Australia Bank, Economic Policy Uncertainty

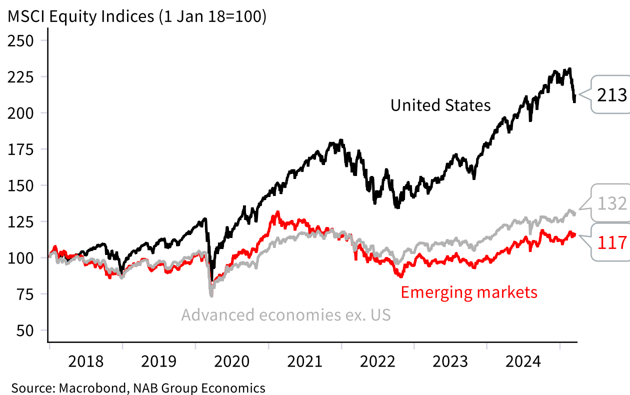
19 March 2025 | Authors: Gerard Burg, Antony Kelly

© National Australia Bank Limited ABN 12 004 044 937 AFSL and Australian Credit Licence 230686

Financial markets

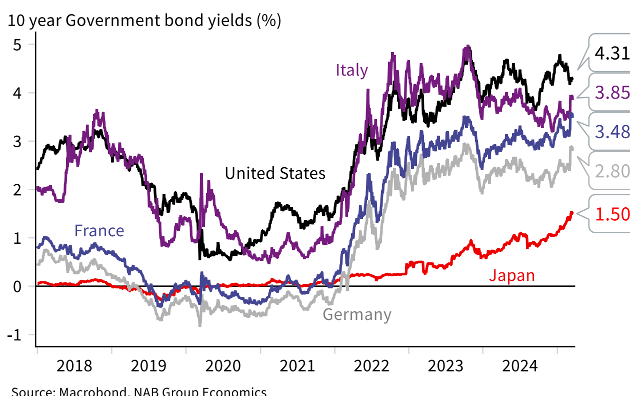
The uncertainty generated by rapid shifts in US government policies has had a negative impact on financial markets since mid-February. Proposed cuts to government spending and employment, tariffs, the discussion of near-term economic pain by Trump Administration officials have hit sentiment.

This has been particularly evident in US equity markets. From a record high in mid-February, the US MSCI index fell sharply – down by around 11% by mid-March. The falls have been concentrated among the largest tech stocks, with non-tech prices trending higher since early January.

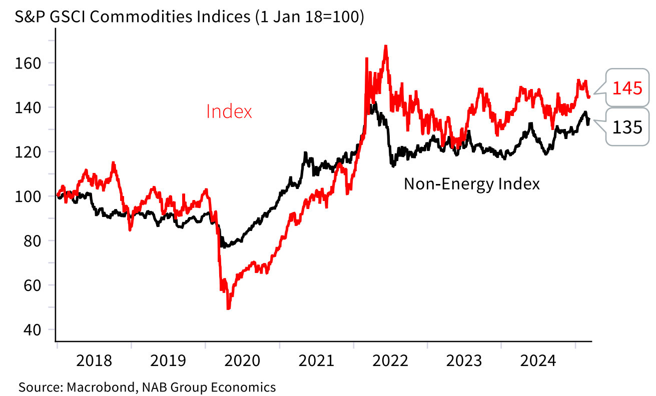


In contrast, other advanced economy equity markets have broadly tracked sideways over this period, while the emerging market index initially declined as the US increased the tariffs on China in early March before recovering most of its losses.

The divergence between US and other advanced economies extended to government bond markets. Yields on 10 year US government bonds drifted lower from mid-February, down from over 4.6% to almost 4.2% at the time of writing, reflecting the weaker economic sentiment. In contrast, there was a sizeable jump in European government bonds from late February, as a number of these countries flagged increases in government spending.



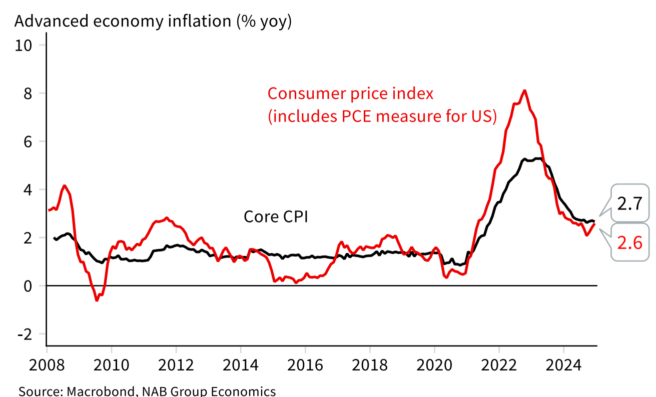
As measured by the S&P GSCI, commodity prices have also tracked lower since mid-February. While this may also reflect the negative economic sentiment, particularly among industrial metals, energy prices also declined as OPEC+ confirmed that it would gradually unwind its voluntary production cuts from 1 April. This saw WTI crude oil fall to its lowest levels since late 2021. The main exception to the weaker trend has been gold, which rose to another record high in mid-March.



Inflation and monetary policy

Headline inflation in advanced economies (AEs) has continued to climb since its recent cycle low of 2.1% yoy in September 2024 – edging up to 2.7% yoy in January 2025. Around half the increase in January was driven by an uptick in the European Union (back up to 2.8% yoy), while Japan and the United Kingdom also had sizeable contributions.

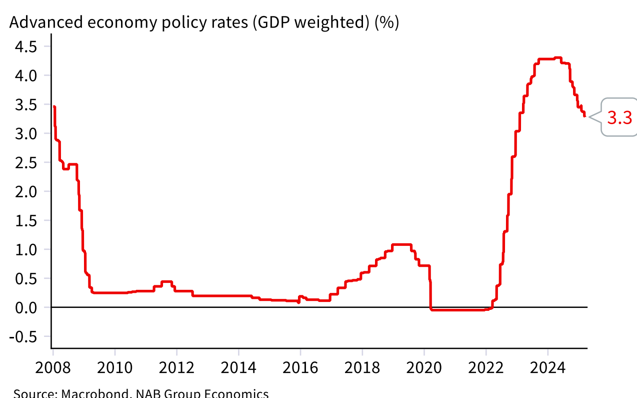
The majority of the changes to inflation over the past year have been in volatile items – such as food and energy. This has meant that there has been comparatively little change to core CPI among advanced economies – with this measure remaining at 2.7% yoy in January, unchanged since October 2024 and only marginally below the rate recorded in April last year. That said, core inflation trends have diverged between individual countries recently – both Canada and South Korea are close to their respective central bank targets – while core inflation in the UK accelerated in January.



Core inflation in the United States has remained above target – tracking within a range of 2.6-2.9% yoy since April 2024. After cutting rates by 100bps last year, the Fed paused at its January meeting and is expected to remain on hold at its meeting overnight. Policy is still regarded as restrictive, and the Fed retains an easing bias, but it will need to see progress on inflation or a deterioration in the labour market before its next move. Tariffs are an added complication, and the rise in inflation expectations measures mean that the Fed will be unwilling to completely 'look through' tariff impacts on inflation. We expect the Fed to gradually resume cutting rates

starting around mid-year (and have 100bps of cuts pencilled in).

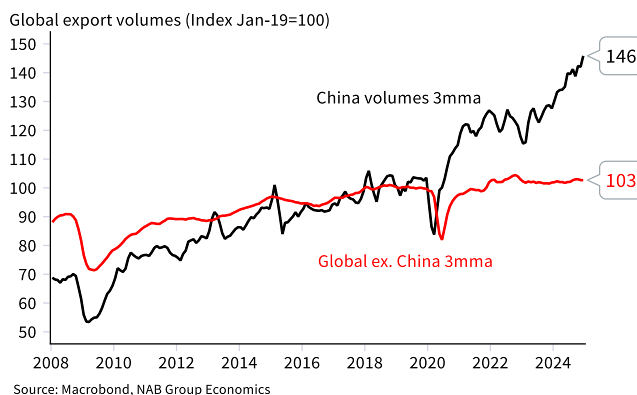
The Bank of Canada again cut rates by 25bps this month, bringing the cumulative reduction in its policy rate to 225bps this cycle; the downwards pressure on its economy from the US trade policy means further cuts are possible. The European Central Bank also reduced rates this month, but we expect only one more cut this year (in June) as rates are now close to estimates of neutral and the turn in fiscal policy underway also reduces the need to lower rates. The Bank of England is also expected to further reduce rates, but only gradually given ongoing inflationary pressures. The Bank of Japan has long been the outlier and looks set to continue gradually lifting rates.



Global trade & tariffs

Global trade volumes expanded strongly in 2024 – up by 5.9% for the full year – the largest increase since the COVID-19 rebound of 2021, or 2014 if the pandemic period is excluded.

However, this robust growth was not widespread. China's export volumes rose by 11.3% in 2024. Volumes from all other countries combined only increased by 0.6%.



The rapid expansion in China's exports reflects the imbalances in its economy – with strong growth in industrial capacity, including during the pandemic period, while domestic demand has remained comparatively weak – as well as efforts by US importers to beat the imposition of tariffs.

The surge in China's exports from mid-2023 has fuelled widespread trade tensions – beyond just the relationship between China and the United States. A number of countries imposed tariffs on selected Chinese goods last year, with China announcing retaliatory tariffs on Canada in March (100% on canola oil, oil cakes and peas; 25% on seafood and pork – with the combined value of around US$2.6 billion in 2024) in response to Canada's measures on electric vehicles, steel and aluminium.

US trade policy is the primary focus at present – not only have additional tariffs been put in place and other increases flagged, the regular sudden shifts in what it might do is creating considerable uncertainty. Tariffs on Chinese imports were increased in early March – as a second 10% tariff was applied – followed mid-month by the 25% tariff on steel and aluminium imports from all countries (of which Canada and Mexico are the largest suppliers). Proposed 25% tariffs on Canada and Mexico have been announced but now twice deferred – although they remain in place on goods that are 'non-compliant' with the US-Mexico-Canada Agreement (USMCA). This is creating a chaotic environment for firms that operate in an otherwise free trade regime under the USMCA.

Further US tariff announcements are expected in April, including the decision on deferred tariffs on Canada and Mexico, potential tariffs on imports from the European Union as well as on autos, pharmaceutical and semi-conductors and reciprocal tariffs, which may be linked to foreign value added taxes (VATs).

The ultimate goals of Trump's broader tariff agenda are unclear, making it hard to see where trade policy will settle. Stated goals include a reduced trade deficit (through lowering imports), an increase in domestic production and generating revenue. However, significant tariff revenue will not be achieved if there is a large reduction in imports. Tariffs have also been threatened in an attempt to alter policies in target countries but, if successful (and the tariffs do not go ahead), then this cuts against the lower imports and revenue objectives.

Advanced economies

Divergent pressures are building across the advanced economies. There is a growing fiscal drag in the US both from tariffs and federal government cuts backs. Tariff uncertainty is also weighing on sentiment and financial markets, and increases the chance that investment and other spending could be deferred or scaled back.

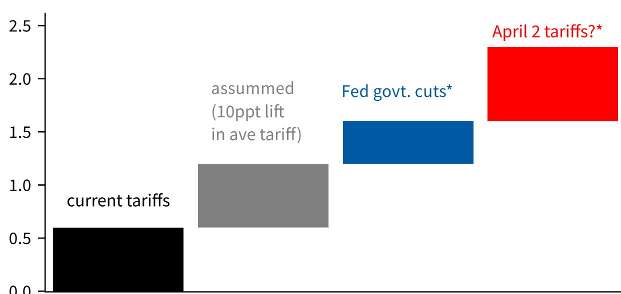
While some of these considerations will also weigh on the Euro-zone, particularly if the US goes ahead with tariffs on EU imports in April (as well as from any retaliatory tariffs), there is a potentially large change in European fiscal policy underway supporting growth prospects.

For the US, our forecasts have been based around two key assumptions – an average tariff increase of around 10ppts, implemented over about a year – but broadly neutral fiscal policy. Based on indications from President Trump around tariffs that may be implemented on April 2, a 10ppt increase in the average tariff rate may prove to be optimistic. While the

ultimate level of tariffs is uncertain, what is more likely is that the speed with which they are implemented is faster than we had assumed.

With any tax cuts by Congress unlikely to be agreed until later in the year, tariffs are contributing to a building fiscal drag. Assuming full pass through to the US and no import substitution, a 10ppt increase in the average tariff rate represents a drag of 1.2% of GDP (relaxing these assumptions would lower the estimated drag but it would still be significant). At the same time, federal government hiring freezes, layoffs and reviews of grants and other measures are an additional fiscal headwind, although the magnitude is hard to precisely estimate. As with tariffs, the uncertainty caused by these changes can also weigh on activity.

Estimates of US fiscal drag (from baseline), % GDP



Source: National Australia Bank. * Fiscal drag from tariffs based on full pass through to the US & no import substitution and are only approximate. April 2 tariffs assumed to included 25% tariff on EU, auto, pharamceutical & semi-conductor imports. Fed gpvt cuts based on possible extent of job cuts

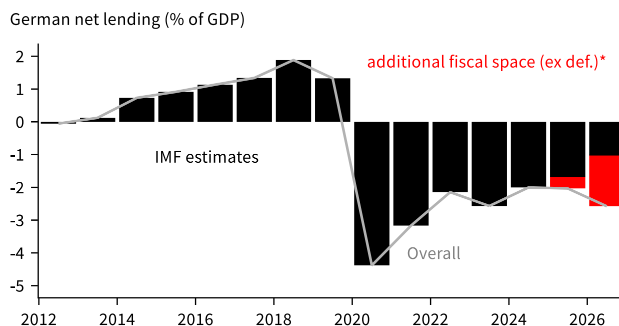
Adding to concerns around the potential impact on US growth from these policy shifts, early Q1 data have been decidedly weak. Household consumption fell 0.5% in January and January net trade data point to a significant detraction from Q1 growth. While data can be volatile and are, on the face, inconsistent (the surge in imports is not (yet) showing up in consumption or inventories) it does suggest Q1 GDP growth will be lower than previously expected.

Taking these factors into account, we have lowered our forecast for US growth by around 0.4ppts over 2025. We have also lowered our Canada forecast as the pause on tariffs does not cover all goods, the Canadian government's retaliatory measures are an additional headwind and to allow for a negative impact from elevated uncertainty. A better than expected 2024 Q4 outcome and a bringing forward of activity ahead of the tariffs (exports to the US surged over December and January) means the impact, in year-average terms, is mainly in 2026.

Euro-zone fiscal policy is moving in the other direction. Euro-zone fiscal policy settings have been, and had been expected to remain, contractionary – even with some attempts to moderate the extent. However, a move within the EU to increase defence spending, and a broader attempt to create more fiscal space in Germany could see fiscal policy turn into a tailwind.

The EU has raised the prospect of a 1.5% of GDP increase in defence spending. How this will fit with its fiscal rules, and whether all countries will implement such an increase is unclear. The new German government is also planning a major relaxation of its own fiscal rules (the 'debt brake') – excluding defence spending above 1% of GDP from the debt brake, a 10 year €500b infrastructure fund (over 1% of GDP if allocated evenly over time) and a relaxation of state/local government deficit constraints.

German net lending (% of GDP)



Source: National Australia Bank, International Monetary Fund (IMF), Macrobond. Extra fiscal space - based on infrastructure fund evenly distirubed by year (from 2026), state/local deficit allowance (assumed from '25). Defence excluded.

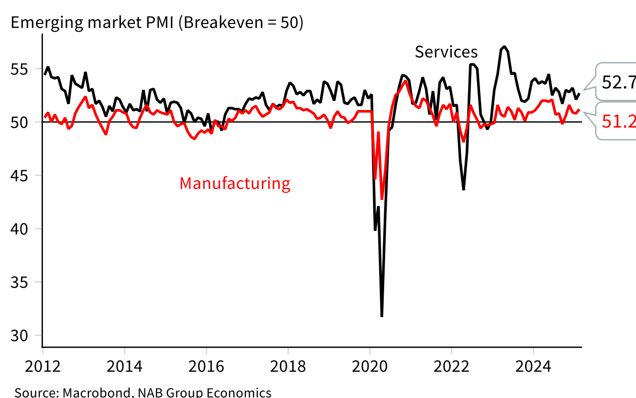
At the time of writing, it appears likely that the proposed fiscal package for Germany will pass through the Bundestag, but by how much and how quickly spending is ramped up is uncertain. This expected easing of fiscal policy has also triggered a tightening in financial conditions, including through a lift in bond yields and an appreciation of the Euro.

Given these conflicting forces, for now, we hold our forecast for Euro-zone growth over 2025 unchanged (noting year average growth forecast moves up due to Q4 2024 being revised up) but allow for modestly stronger growth in 2026.

Emerging markets

Despite the volatility and uncertainty in global markets, emerging market business surveys were somewhat stronger in February. The EM composite PMI moved up in February to 52.4 points – the same level as December 2024 – from 51.9 points previously.

Emerging market PMI (Breakeven = 50)



Source: Macrobond, NAB Group Economics

The EM services PMI moved up to 52.7 points (from 52.1 points in January). This increase was largely driven by an uptick in India, while more modest gains in Brazil and China were largely offset by Russia.

The EM manufacturing PMI was also slightly stronger – up to 51.2 points (from 50.8 points previously). China's survey was stronger (led by output and new orders), while India and Russia were softer.

China's economic priorities for 2025 were outlined at March's National People's Congress. The official growth target was unchanged – at "around 5%" – despite the growing trade

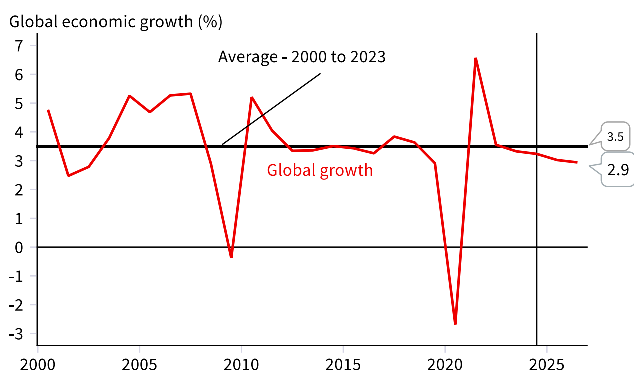
barriers adding to its existing headwinds (such as the property downturn that has hit construction and weak domestic demand). While the central government budget deficit target has been lifted to 4% of GDP (from 3% previously), this does not give a full picture of fiscal expenditure, given most spending is provided by local governments – who remain constrained by weak revenues.

Following the NPC, China's State Council announced a 30-point plan of "special initiatives to boost consumption". So far, the plan is relatively light on detail – with various statements around boosting consumption and wage growth that echo others over many years. One area which we see as potentially positive is increases to pensions and medical insurance for rural and retirees – as, if this is implemented at a sufficient level, it could reduce the need for households to save as a form of self-insurance. A key concern is that the implementation of these policies is allocated to local governments.

Forecasts and risks

Compared with our previous release in February, we have marginally lowered our global outlook. We continue to see a slowing trend – from around 3.3% in 2024 down to 3.0% in 2025 and 2.9% in 2026 (from 3.1% and 3.0% previously). This is compared with an average rate of growth of 3.5% since the start of the century.

Reflecting the extreme levels of policy uncertainty at present, the confidence bands around any forecast are comparatively wide.



Source: Macrobond, NAB Group Economics

Key to the downward revision to our outlook are the softer growth forecasts for the United States (along with Canada and Mexico) outlined above. Our forecasts for China are unchanged – we see China's growth falling below target in 2025 (at 4.6%), however the potential for additional tariffs from the US and other countries, along with any domestic policy measures to offset this negative impact, adds uncertainty to this outlook.

The risk of escalation to a broader trade war is also a concern. In March, the European Union announced retaliatory measures on US goods (up to 50% tariffs on products including whiskey, jeans and motorcycles) in response to the steel and aluminium tariffs. In response, Trump has flagged an additional tariff on European wine and other beverages. This style of tit-for-tat tariff escalation led to the 2018 US-China trade war, and a similar progression would have a negative impact on the global economy.

Further disruptions to global trade would be likely to have an impact on inflation – likely slowing the return of inflation to the targets of major advanced economy central banks. The extent to which this affects the path of policy rate cuts will depend on the impact on growth and central bank's willingness to look through the price impacts.

Geopolitical factors could also impact the global economy in coming years. Changes to US trade and foreign policies have negatively impacted its relationship with long term allies (including Canada and European Union member states), which could have ramifications for longer term trade and investment flows, economic integration and skilled migration. In the near term, geopolitical issues related to the Russia-Ukraine war and the Middle East remain unresolved.

Group Economics

Alan Oster
Group Chief Economist
+(61 0) 414 444 652

Jacqui Brand
Executive Assistant
+(61 0) 477 716 540

Dean Pearson
Head of Behavioural & Industry Economics
+(61 0) 457 517 342

Australian Economics

Gareth Spence
Head of Australian Economics
+(61 0) 422 081 046

Michelle Shi
Senior Economist
+(61 0) 426 858 831

Behavioural & Industry Economics

Robert De Iure
Senior Economist – Behavioural & Industry Economics
+(61 0) 477 723 769

Brien McDonald
Senior Economist – Behavioural & Industry Economics
+(61 0) 455 052 520

Thao Nguyen
Economist – Data & Analytics
+(61 0) 451 203 008

International Economics

Tony Kelly
Senior Economist
+(61 0) 477 746 237

Gerard Burg
Senior Economist – International
+(61 0) 477 723 768

Global Markets Research

Skye Masters
Head of Research
Corporate & Institutional Banking
+(61 2) 9295 1196

Important notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances.

NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click here to view our disclaimer and terms of use.