The Forward View – Global April 2025

NAB Economics

Overview

The large tariff increases announced by the Trump Administration this month will place significant pressure on global growth. We have lowered our 2025 and 2026 growth forecasts for a wide range of countries, particularly China and (last week) the US, and we now expect global growth of around 2¾% in both years (previously around 3.0%). Recessions are highly likely in some countries (e.g. Canada and Mexico) and are a risk for others, including the US. It is worth stressing that forecast uncertainty is higher than normal.

Apart from the direct impacts of tariffs, heightened policy uncertainty, weakening business and consumer sentiment, and financial market volatility will all take their toll. How policy makers react will also be important. In the US, Congress is considering tax cuts, the Euro-zone was already moving towards extra fiscal spending, while China is also likely to increase policy support for its economy, as are other countries.

Central banks can also move to support economies, although for the US Fed (and Bank of Canada), given tariffs will lift inflation, how inflation expectations evolve (and whether there is any sign of de-anchoring) are important factors to watch.

The uncertainty is unlikely to recede any time soon. US reciprocal tariffs above 10% are on a 90 day pause and further sector specific tariff increases are expected. There is a clear incentive for many businesses to delay investments (and hiring).

Global equity and commodity markets plunged following the tariff announcement and there have been large moves in bond and currency markets. Typically the US experiences safe haven flows in times of volatility and weakening growth prospects, however the fall in the US dollar and increase in US sovereign bond yields point to changing investor views on the US as a destination for investment capital.

The extreme tariffs on US-China trade in both directions means that trade between the world's two largest economies is likely to slow to a trickle. A work-around may occur through trade diversion where the US/China source imports from elsewhere, but given the tariff uncertainties, the incentive to build up extra capacity is likely limited (and takes time to put in place in any event). There is also the risk that Chinese exporters seeking alternative markets may lead countries to impose trade barriers on imports from China to protect domestic producers.

Export controls imposed by China on critical minerals add to near term supply chain pressures. This follows US controls on certain technology exports to China. The de-coupling in global trade underway – mainly between China and US but with the risk countries will have to pick a side – is a clear negative risk for longer-term global productivity and hence growth.

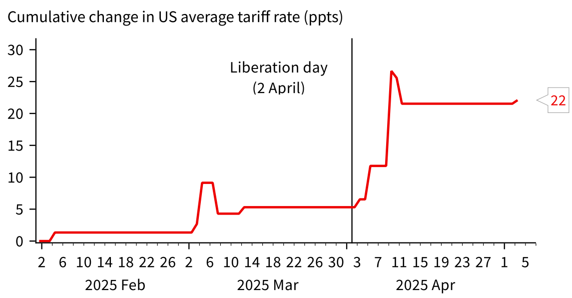
Contents

Key Economic Forecasts

	2024	2025		2026	
US	2.8	1.3	(-0.5)	1.5	(-0.1)
Euro-zone	0.8	0.9	(-0.1)	1.3	(-0.1)
Japan	0.1	1.0	(-0.2)	0.5	(-0.1)
UK	1.1	0.9		0.9	(-0.2)
Canada	1.5	1.1	(-0.4)	0.8	(-0.3)
China	5.0	4.1	(-0.5)	3.9	(-0.3)
India	6.5	6.0		6.2	
Latin America	1.8	1.6	(-0.3)	1.7	(-0.1)
Other East Asia	4.0	3.4	(-0.3)	3.3	(-0.2)
Australia	1.0	1.8	(-0.2)	2.2	
NZ	-0.6	0.8		2.7	(-0.4)
Global	**3.3**	**2.7**	(-0.3)	**2.8**	(-0.2)

(Change since March Forward View in brackets)

'Liberation Day' heralds a major US tariff increase



Source: National Australia Bank. NAB calculations based on 2024 trade flows before substitution effects. 75% of Canada/Mexico exports to US assumed to be USMCA compliant and 40% of content of Can/Mex. auto imports assumed to be US in origin. Auto parts tariff assumed to be implemented 3 May

16 April 2025 | Authors: Gerard Burg, Antony Kelly

Global trade & tariffs

The Trump Administration revealed its reciprocal tariff measures on 2 April which apply to all imports but with certain product exclusions. There was substantial variation by country, with the reciprocal tariff rate set between 10 to 50%, although a subsequent announcement of a pause means the rate is now set at 10% for all countries (until 9 July), excluding China.

For China, a series of tit-for-tat retaliations has left the reciprocal tariff rate at 125% (and the total tariff on China imports announced this year at 145%, excluding certain products), while China has imposed a tariff rate of 125% on imports from the US. China also imposed new controls on exports of key minerals to the US.

The scale and speed of implementation of new US tariffs was well in excess of what had previously been factored into our forecasts. Following the US Presidential Election, we assumed a 10 ppt increase in the average applied tariff rate for the United States. On our calculations, tariffs announced this year so far amount to an increase in the average tariff rate of around 22%. This is based on 2024 trade data and before any substitution effects. However, the extreme differential between the China and non-China tariff rate (if sustained) means that such average tariff rate calculations have less salience as there is likely to be a substantial diversion away from China imports.

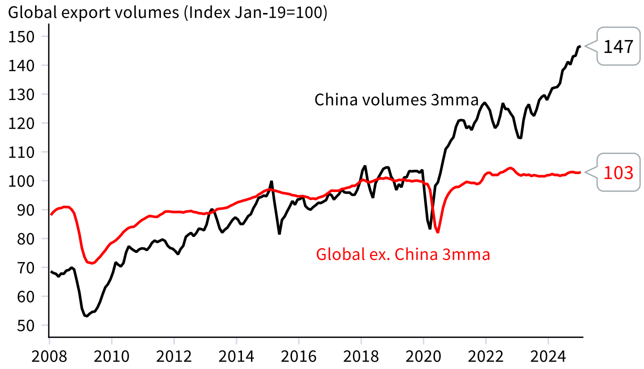
The extent to which trans-shipments, whereby China re-routes exports to the US through a third country with a lower tariff rate (with only a low value-added component in that country), will provide a pressure release is unclear. In any event, it may however be only a short-term one as, if it is substantial, it could see US action.

Canada has also announced retaliatory tariffs, as has the European Union, although the later have been paused (matching the pause on US reciprocal tariffs above 10%). Other economies are reportedly attempting to negotiate with the Trump Administration, and some have announced that will not retaliate (e.g. Taiwan and most ASEAN economies) while others have indicated they may lower their tariffs on US imports (e.g. Vietnam).

The reciprocal tariffs announced by the US excluded certain goods – such as pharmaceuticals, copper, semi-conductors and electronic devices such as phones and lumber. However, it is expected that the US will announce tariffs on these goods at a later date.

All up, this suggests that further changes to tariffs rates are highly likely and that there will be no immediate let up in the uncertainty facing global firms around where trading arrangements will eventually settle.

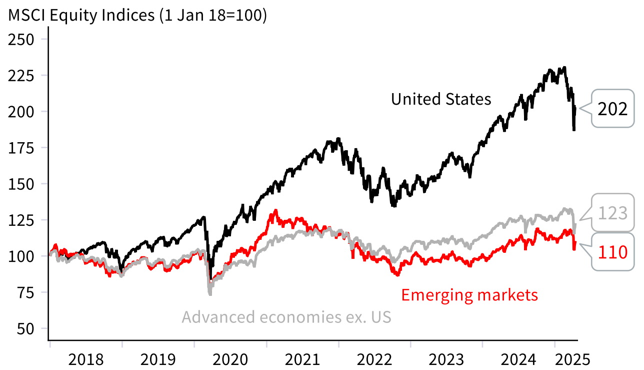
We also cannot rule out the prospect of other countries raising their tariffs against China. In 2024, the US accounted for around 14.6% of China's total exports, and with these exports likely to fall substantially, Chinese producers are likely to try and divert exports to other markets. This will only elevate existing trade tensions – given the rapid increase in Chinese exports since mid-2023 – and may result in increased protectionism outside the US.



Source: Macrobond, NAB Group Economics

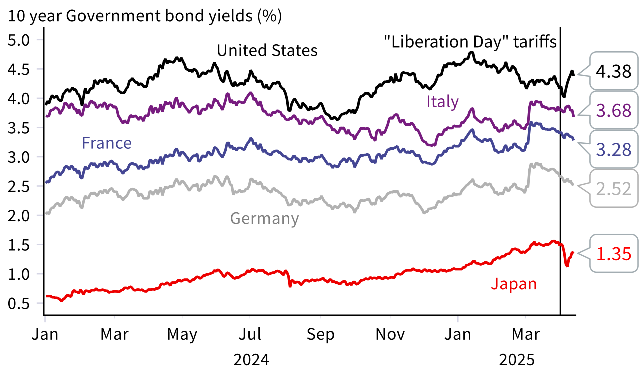
Financial markets

Global equity markets plunged in response to the Trump Administration's tariffs, with double digit declines in the days following its announcements. This reflects the rapid shift in market sentiment towards economic prospects, with the tariff increases likely to materially lower economic growth and other countries – and raising the risk of recession in a range of countries.



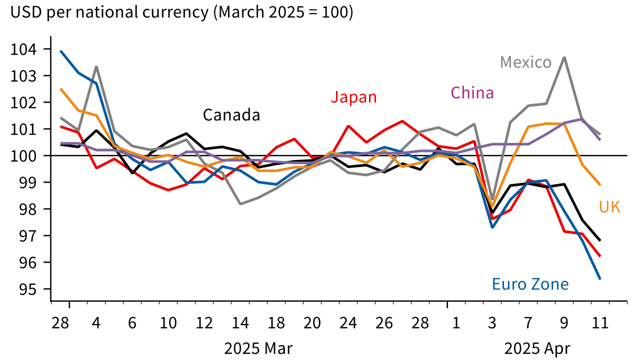
Source: Macrobond, NAB Group Economics

The increased risk of recession also impacted bond markets. US yields fell rapidly in early April – down by as much as 25 basis points before rebounding to be higher than they were in the lead up to the 2 April tariff announcement. The 10 year Japanese bond yield also declined, while Euro-zone country yields also retraced some of the rise they experienced in early March (that reflected expectations of an expansion in government spending).



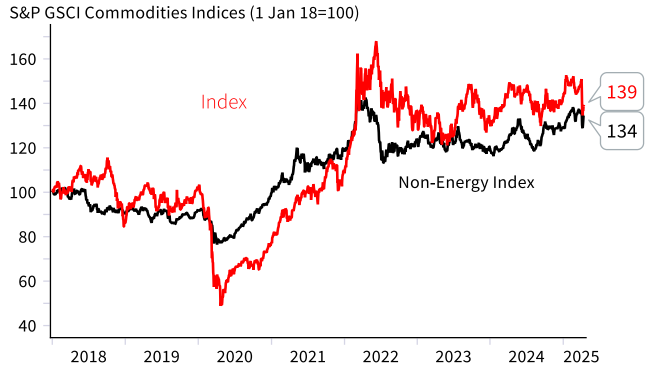
Source: Macrobond, NAB Group Economics

The rebound in US bond yields was surprising given the much weaker growth outlook but likely reflected negative market perception towards the US following the tariff announcements. Similarly, while the US dollar often increases when economic stress rises – on safe haven flows – this time around the dollar experienced large falls against other major currencies, including the Euro and Yen.



Source: National Australia Bank, Macrobond Financial AB, Macrobond

Commodity prices climbed gradually over March, but also plunged in the wake of the tariff announcements. This has seen the S&P GSCI measure fall by around 11%, before a modest recovery. China is the world's largest consumer of most major commodities (with oil being the main exception), and the sizeable tariffs imposed by the United States could negatively impact its commodity demand while the broader slowdown in global growth suggests the slack won't be picked up elsewhere. Ultimately, much will depend on how China's policy makers respond – particularly whether there are meaningful policies to boost domestic demand.

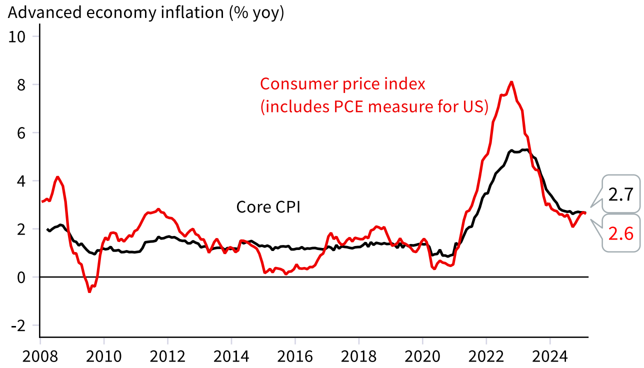


Source: Macrobond, NAB Group Economics

Inflation and monetary policy

Headline inflation in advanced economies (AEs) has remained elevated – edging down to 2.6% yoy in February (from 2.7% yoy in January). Inflation has tracked higher in recent months, following the cyclical low of 2.1% yoy in September 2024.

The key driver of the recent movement in inflation in recent months has been volatile items, such as food and energy. When these items are excluded, core inflation has remained relatively stable – at around 2.7% yoy since October 2024 – and above the target for most advanced economy central banks. In most advanced economies, prices for services (which often carry a sizeable labour cost component) have remained elevated, while goods prices have been softer.



Source: Macrobond, NAB Group Economics

US CPI inflation moderated in March to 2.8% y/y in March - the lowest it has been in four years, but it is likely to rise substantially from here. For the other major AEs, the impact of US tariffs on inflation is less clear – US exporters may pass on higher input costs, retaliatory tariffs on US imports (limited to Canada at this stage), and disruptions to supply chains may add upwards pressure to some products. However, major AE currencies have appreciated against the US dollar and energy prices have fallen. Trade diversion – with China exporters looking for alternative markets – may also place some downwards pressure on prices but the risk is that in time this triggers higher barriers to trade for China in other countries.

For the Fed (and also the Bank of Canada) the combination of higher inflation due to import tariffs coupled with a weakening economy, is a challenging environment. Crucial will be whether the impact of tariffs on prices are 'one-off' or feed through into ongoing changes in pricing behaviour. Some measures of inflation expectations have lifted appreciably in the US but financial market derived measures have been better contained. We expect the US Fed to manage the risk that inflation expectations de-anchor by not fully 'looking through' the tariff price impacts, but that rising unemployment will see them lower rates. We expect the Federal Reserve to reduce rates by 125bp over 2025/2026 starting from around the middle of this year.

Advanced economies

The tariffs announced by President Trump on 2 April were substantially larger than our forecasts had allowed for, and this remains the case even after the pause on reciprocal tariffs above 10% (ex. China).

Based on the 2 April announcement, (as well as weak data for Q1 to-date) we lowered our US growth forecast earlier this month. The revised forecast had growth slowing to a crawl over 2025 (0.6% on a year-ended basis or 1.3% in year average terms).

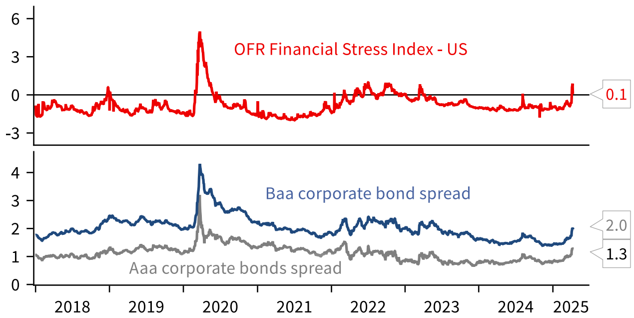
While this forecast change pre-dated the 90 day pause on reciprocal tariffs, the latter was also accompanied by a significant increase in the tariff on China imports. With the additional tariffs on China now standing at 145% there is likely to be substantial diversion in US-China trade flows.

Retaliatory tariffs on US exports have also increased, with measures put in place by both China and Canada. The EU has also announced tariffs in retaliation to the earlier steel/aluminium tariffs but they are currently paused.

The uncertainty around where tariffs and other US policy measures will land – and the incentives this creates to delay spending decisions – will drag on growth. Broader sentiment measures are also falling, possibly signalling greater risk aversion. While US household and corporate balance sheets were in good shape heading into this year, the extent to which they will utilise existing buffers – e.g. by drawing down on savings – is unclear but large falls in sentiment measures are not positive in this regard.

Financial conditions are also tightening. The large fall in equity prices lowers household wealth and may impact consumption. Spreads on US corporate bonds are moving wider, while broader measures of financial market stress have also risen but are still well shy of past major stress events. In this environment banks are also likely to tighten lending standards.

US bond stress and financial market stress

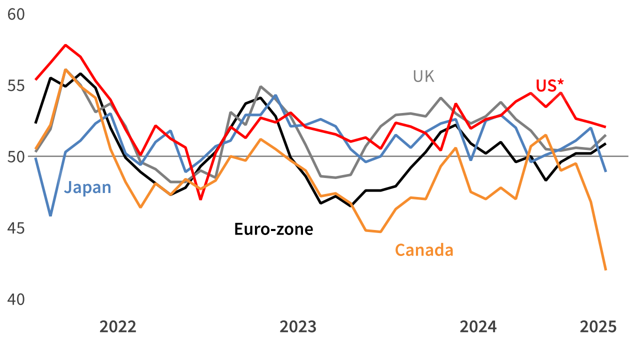


Source: National Australia Bank, The Office of Financial Research (OFR), Macrobond. Bond spreads calculated against US 10 yr Treasury yields

While we have not made any further adjustment to our US growth forecast in this publication, growing negative sentiment and tightening financial conditions, as well as the possibility of further tariffs (and retaliation) means that risks remain tilted to the downside; if realised this could tip the US into recession.

Business surveys readings, through to March (so before the 2 April announcement), have come off for the US although remain at levels consistent with positive growth. Similarly, the recent improvement for the Euro-zone continued into March, while UK also saw an improvement. In contrast, the Canadian composite PMI has plunged, while that of Japan has also dipped.

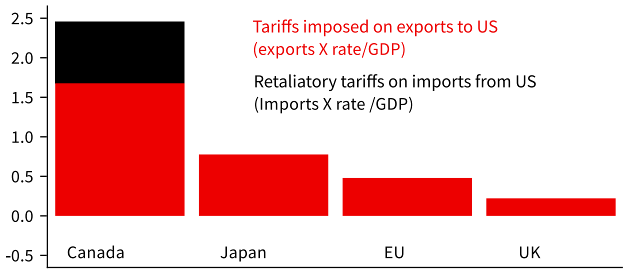
Composite PMIs



* Based on S&P Global and NAB weighted composite of US ISM PMIs

The differences in survey readings across the non-US major AEs broadly align with their trade exposure to the US. Canada is the most exposed with exports in 2024 equivalent to around 20% of Canadian GDP. Scaling the export exposure by the increase in the average tariff rate for each country to-date (based on 2024 trade data and so before any import substitution effects), leaves this conclusion unchanged. Next most exposed is Japan, followed by the Euro-zone and UK. In the case of Canada, the retaliatory tariffs imposed on imports by the US represent an increase in taxes on Canadians and so is an additional economic headwind.

Major AE tariff exposure (% GDP)*



Source: National Australia Bank, Macrobond. * Exposure calculated as value of import or export X tariff rate. Tariffs imposed on exports (imports) are US tariffs (retaliatory tariffs on US imports). US 2024 trade data used for calculations. 75% of Canada exports to US assumed to be USMCA compliant, and US content of Canada auto exports 40%

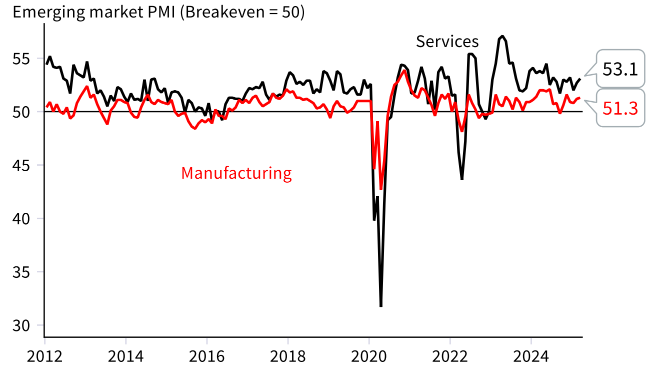
While some of the incidence of the tariff increases will be borne by the US, a weaker US economy tends to flow through to other economies. It is possible that the now significant difference between US tariffs on China and all other countries means that there may be some offset via US importers switching away from China as an import source to other countries (although whether anyone would be prepared to invest in any extra capacity at this stage is doubtful). However, policy uncertainty, negative sentiment and financial market volatility will weigh on all economies.

Accordingly, we have revised down our growth forecasts for Canada, Japan, Euro-zone, and UK growth this month. In the case of Canada, we expect its economy will contract at some point this year. In contrast, the Euro-zone should see moderate growth which may strengthen into next year should anticipated increases in government spending on defence and (in the case of Germany) infrastructure be realised, although the ultimate timing and magnitude is unclear at this stage.

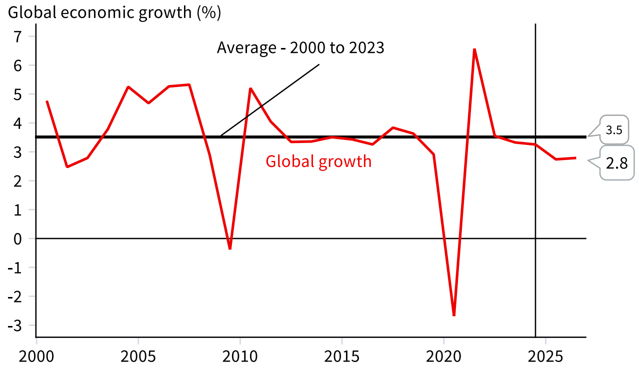
Emerging markets

Monthly business surveys in emerging markets (EMs) came before of the Trump Administration's 2 April tariff announcements, meaning the signals in PMIs are of questionable significance to the direction of these economies heading forward.

With that caveat in mind, the uptick in the EM composite PMI in March – to 52.6 points (from 52.2 points previously) was driven primarily by services – which are less likely to face a direct impact from tariffs than manufacturing. Both China and Brazil recorded stronger readings for services, but this was partially offset by a weaker outcome for India. That said, the potential for weaker income due to trade measures could negatively impact demand for services in EMs.



Source: Macrobond, NAB Group Economics



Source: Macrobond, NAB Group Economics

China's economic growth was overly reliant on exports in 2024. Official data suggests that net exports of goods and services accounted for just over 30% of growth last year – its highest contribution since 1997. With the majority of its exports to the US likely to be uncompetitive in the wake of the 145% increase in tariffs this year, Chinese exporters could seek to divert trade to other markets – however this is likely to further raise trade tensions (most notably with the European Union, India and ASEAN economies).

The prospects for export growth in other EMs is far from clear. The Trump Administration's initial reciprocal tariffs represented a substantial burden on a broad range of EMs – with Vietnam, Thailand, Taiwan and Cambodia among the economies to receive a tariff impost in excess of 30%. The 90 day pause brings these rates back to 10%. This means that some countries may benefit from a diversion of US trade away from China but EM exporters may have limited confidence that tariffs will remain at these levels – particularly if the extreme measures imposed on China leads to an increase in the US trade deficit with other EMs.

Forecasts and risks

This month we have made some significant downward revisions to our global economic forecasts – reflecting the negative impact of the Trump Administration's tariffs as well as the heightened state of policy uncertainty more generally. We now see a significant slowing in global growth – down to around 2¾% in both 2025 and 2026 (from around 3.3% in 2024). These growth rates would be the lowest experienced – excluding the GFC and COVID shocks - since the early 2000s.

We previously anticipated growth of 3.0% in 2025, and this downward revision is mainly driven by cuts to our forecasts for China, the United States and (to a lesser extent) East Asia (reflecting the region's close trade ties to China), although we have also lowered our forecasts across a range of other countries. The elevated level of policy uncertainty, and lack of recent historical precedent for the large US tariff increases, means that there are wide confidence bands around any forecast at present.

Our revised China forecast is predicated on a number of assumptions. First is a substantial reduction in exports to the United States starting in Q2, and a limited capacity to divert trade to other markets (due to existing trade tensions that could drive other countries to raise tariffs on China's exports). Overall, this would lead to a negative contribution from trade to economic growth. We also assume that Chinese authorities will provide additional fiscal support over and above the 30-point consumption plan unveiled in mid-March, which we expect will be in a series of measures (potentially including stronger support for pensions, childcare and healthcare that reduce the necessity of household savings) spread over time. The policy response is likely to lag the trade downturn (and its size will depend on the scale of the trade downturn) – meaning that we don't anticipate the impact of this support to be felt until late 2025. Chinese authorities have flagged some monetary easing in 2025 (both cuts to its policy rate and to the Reserve Requirement Ratio), although should loan demand remain weak this year, monetary easing would remain ineffective (as was the case in 2024). We now see China's economy growing by 4.1% in 2025 and 3.9% in 2026 (compared with 4.6% and 4.2% respectively previously) – well below its target of "around 5%".

Trade policy remains a key risk to our economic outlook. The only certainty is the likelihood of further changes – given the Trump Administration has flagged further increases on a range of specific products, uncertainty around reciprocal beyond the 90 day pause period (and potential negotiations) and the risk of further retaliation and escalation – as seen with the relationship with China.

The other major US policy uncertainty is the broader fiscal stance. Tariffs are a tax, so by themselves the announced measures represent a substantial fiscal drag. However, Congress is currently considering extending expiring tax provisions and lowering other taxes, but the extent to which these will be offset by net spending reductions is unclear.

Geopolitical tensions could also have an impact on the global economy. The Russia-Ukraine war persists, while Middle East tensions remain unresolved. The Trump Administration's trade policies have negatively impacted the relationship between the United States and its closest allies, and this could have long term ramifications.

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