

The Forward View – Global July 2025

Kicking the tariff can down the road

NAB Economics



Overview

- The start date for US reciprocal tariffs was extended to 1 August, allowing more time for trade negotiations. The extension came with some changes to the reciprocal tariff rates. New sectoral tariffs are also looming – either sooner (copper) or later (pharmaceuticals). The US is also focussed on trans-shipments, which risks reigniting tensions with China.
- Where US tariffs ultimately settle is still very unclear. As there is a high of chance of further tariff increases, risks to the global outlook are tilted to the downside. In the meantime, trade policy uncertainty remains elevated, weighing on business and consumer sentiment. Financial markets have largely taken recent developments in their stride, but this may change if new tariffs were to be implemented.
- Fiscal policies are moving to offset tariff impacts. In the US, the One Big Beautiful Bill Act has been passed and will provide fiscal stimulus, mainly from later this year. This is on top of a move to more supportive fiscal settings in the Euro-zone.
- Monetary policy is also generally becoming more supportive. Although the US Fed is currently on pause, as it assesses how tariffs will affect both sides of its mandate (inflation and full employment), we expect rate cuts by the end of the year.
- Growth in the US economy is expected to be soft in the second half of 2025, as tariff impacts will dominate but it should then start to improve as fiscal support and rate cuts come through. Some other countries – such as in the Euro-zone, UK and Canada – saw growth initially supported by a bringing forward of activity ahead of tariffs, but this has been unwinding, and growth is likely to be modest for the rest of 2025 (with a contraction possible in Canada) before improvement in 2026.
- We have revised our forecasts for China's growth this month (reflecting the resilience in export volumes in Q2). We see China growing by 4.8% in 2025 (4.3% previously) and 4.0% in 2026 (unchanged).
- Our global forecasts have been revised slightly higher but we still only see soft growth by historical standards. The 2025 growth forecast has been revised up to 3.1% (from 3.0%) on the back of China's first half resilience. The 2026 forecast is also up – to 2.9% from 2.8% but to two decimal places the change is only 0.01ppts. We have extended our forecasts out to 2027 and see slightly better growth that year (3.0%), with gains across many regions held back by the ongoing structural slowing in China.

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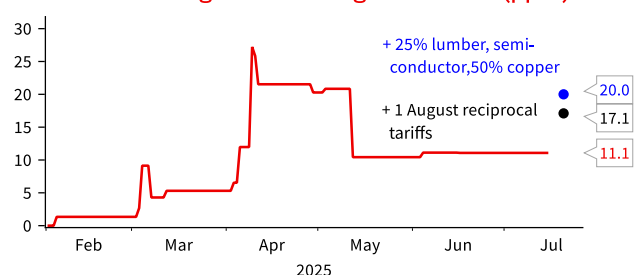
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Key Economic Forecasts

	2024	2025		2026		2027
US	2.8	1.6	(-0.1)	1.6	(-0.1)	1.9
Euro-zone	0.8	1.2		1.2		1.3
Japan	0.2	1.0		0.7		0.6
UK	1.1	1.1	(0.1)	0.9		1.5
Canada	1.6	1.2		0.8	(-0.1)	2.1
China	5.0	4.8	(0.5)	4.0		3.9
India	6.7	6.7		6.2	(0.1)	6.4
Latin America	2.4	2.2	(0.1)	1.7		1.9
Other East Asia	4.0	3.3		3.2	(-0.1)	3.4
NZ	-0.6	0.7	(-0.4)	2.7	(-0.1)	2.4
Global	3.3	3.1	(0.1)	2.9	(0.1)	3.0
Major trading partners	3.5	3.4	(0.1)	3.0	(-0.1)	3.1

(Change since June Forward View in brackets)

Cumulative change in US average tariff rate (ppts)



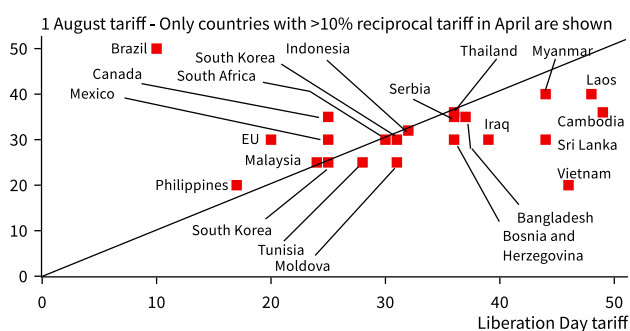
Source: National Australia Bank. NAB calculations based on 2024 trade flows before substitution effects. 75% of Canada/Mexico exports to US assumed to be USMCA compliant. "+ sectoral tariffs" assumes 25% tariff on semi-conductors and other electronics, copper, lumber and pharmaceutical. Reciprocal tariffs based on original notice but modified by Trump 'letters'

Global trade, tariffs & other risks

Uncertainty around the global trade environment persists, with President Trump extending the pause in reciprocal tariffs above 10% to 1 August (from 9 July) but detailed variations to the previously published rates in letters to trading partners.

While in many cases the new rates closely mirrored those announced in April, there were reductions for countries facing the highest tariffs. However, there were notable increases in rates for major US trading partners such as the EU, Canada and Mexico. Canada and Mexico were not part of the April 'reciprocal' tariffs but had a tariff rate of up to 25% imposed in March. USMCA compliant goods were exempted from tariffs in March but it is unclear whether this will still apply.

US tariff rates (%)



Source: National Australia Bank, White House, Macrobond

Brazil's revised tariff was increased to 50%, from 10% in April for non-trade reasons (given Brazil has a trade deficit with the US). This highlights the willingness of the Trump Administration to use tariffs as a broad tool to achieve its goals.

The delay in applying the full reciprocal tariffs allows more time for negotiations. Many countries, including Japan and the EU are seeking a trade deal to lower the reciprocal tariff rates and to obtain carve outs from sectoral tariffs. Countries that did not receive letters from the US government may face blanket tariffs in the range of 15-20% (as opposed to the current minimum 10%), possibly including Australia.

The letters from President Trump also take aim at trans-shipments – targeting Chinese exports (even if not explicitly). For example, the revised reciprocal tariff for Vietnam was set at 20% (down from the 46% rate announced in April) but this rises to 40% for trans-shipped goods. More rigorous evidence regarding the origin of products could add additional costs through global supply chains.

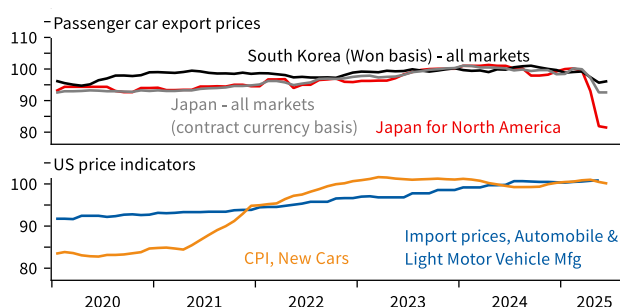
It is difficult to directly demonstrate that Chinese firms are engaging in trans-shipments, however official trade data shows a considerable redirection of exports in 2025. The total value of China's exports increased by 5.8% yoy in June, with a decline of 16.1% yoy to the US, offset by an increase in exports to emerging Asia of 15.8% yoy. While not explicitly outlining any potential measures, commentary in China's state-run People's Daily newspaper suggested the country could retaliate to trans-shipment restrictions.

Further sector-specific tariff increases remain likely. The Trump Administration has signalled that a 50% tariff on copper imports would be implemented soon. US market copper futures spiked to record highs in response – reflecting efforts of consumers to secure supplies ahead of this increase. Data from the US Geological Survey shows that domestic refined copper production and imports had a similar share of US consumption in 2024, with the capacity of the copper refining sector a key constraint in the short term.

The Trump Administration also signalled even higher pharmaceutical tariffs – around 200% – but that these measures may be deferred for 12-18 months. Other sector specific tariffs (semi-conductors, lumber etc) are anticipated.

The response of global producers, and flow through to US importers and consumers, has been mixed. In some cases, exporters have decided to absorb the tariffs into their margins – such as Japanese auto producers. However, not all producers are following the same approach – e.g. there has been little change in South Korean motor vehicle export prices and overall US import prices for autos (measured on a pre-tariff basis) are little changed. Even where exporters have absorbed tariffs, it remains to be seen whether this trend is sustained once pre-tariff inventory runs down and businesses have greater clarity on where tariffs will settle.

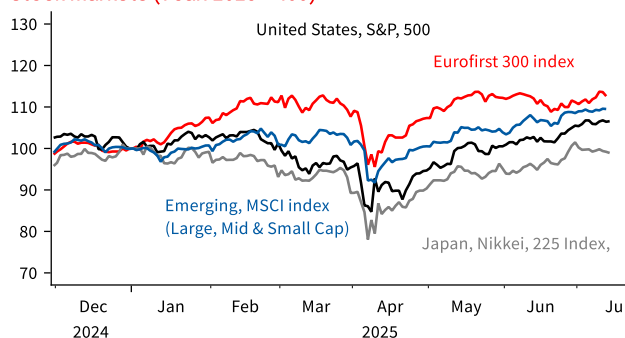
Auto prices (2024 = 100)



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

While the recent announcements on US reciprocal and sectoral tariffs are a reminder that possibly large tariff increases lie ahead, **financial market reaction has been muted.** In April, the liberation day announcements, as well as US-China retaliatory measures – caused large moves in markets. Changes in financial conditions are an additional channel for tariffs to impact the growth outlook, so the limited reaction (so far) is a positive sign, although the risk is that the reaction is different if the tariffs are actually imposed.

Stock markets (1 Jan 2025 = 100)

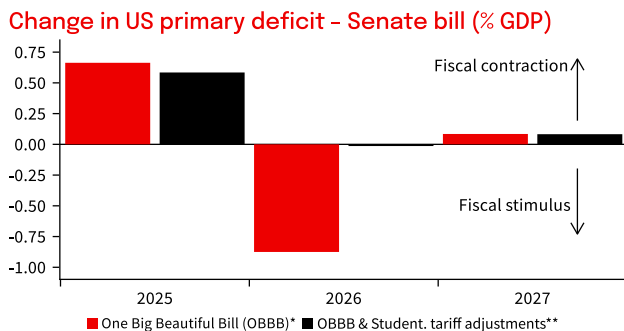


Source: National Australia Bank, FTSE Russell, S&P Global, Nikkei Inc., MSCI, Macrobond

United States

The OBBBA passed, confirming fiscal settings will turn more supportive later this year, while the 9 July reciprocal tariff deadline has been pushed out to 1 August, extending tariff uncertainty. The unemployment rate fell in June, leaving the Fed on the sidelines.

The One Big Beautiful Bill Act (OBBBA) was enacted on 4 July and contains a mix of (net) spending and taxation cuts. It will add around 0.8% of stimulus to the US economy in FY 2026, broadly reversing the full year fiscal impact of tariffs currently in place.



Source: National Australia Bank. Years are financial years (to September). *Based on CBO costing of 29 June of Senate Bill **NAB adjustment for student loan treatment (spreading out present value calculation impacting FY 2025 over time) and for tariff revenue (tariffs of early June)

The risk remains that tariffs will rise from here, possibly significantly, providing an additional drag on growth.

While reciprocal tariffs above the current 10% rate have been delayed until 1 August, further increases appear likely. Decisions on some sectoral tariffs also appear likely, although implementation may be delayed in the case of pharmaceuticals and trade deals may constrain the overall increase. The tariff rates that may ultimately apply (including retaliatory tariffs) remain highly uncertain possibly leading to a deferral of business investment. Business survey measures of investment intention remain at low levels.

Partial data over the last month has been on the soft side, and we have trimmed our expectation for Q2 GDP growth to 2.6% qoq (annualised) from 3.0%. Personal consumption fell in May, as did construction spending (both residential and business). Net trade is still set to make a large positive contribution to growth (only partially offset by inventories) – reversing the dynamic of Q1 where there was a bringing forward of imports (and buildup of inventories) ahead of tariffs.

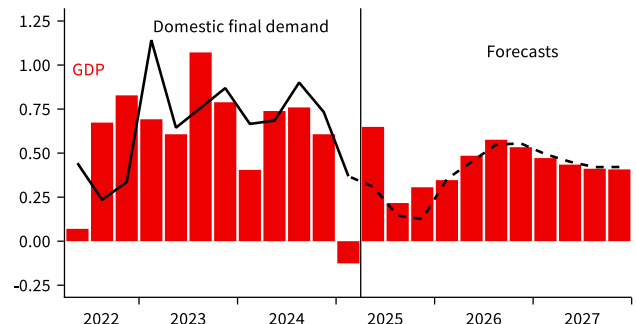
Overall, there appears to have been **a slowdown in GDP and domestic final demand growth H1 2025, and we expect further moderation in H2**. This reflects the impact of tariff changes, federal cutbacks (with a court case this month freeing the way for more layoffs), and the impact on sentiment and investment. We expect GDP over this year of 1.0% yoy (revised down from 1.2% yoy) based on tariffs currently in place.

As the impact of the OBBBA comes through, growth should stabilise later this year and strengthen into 2026, although if tariff risks are realised, any pickup may be muted. An easing in monetary policy should also provide some support.

A downside growth risk is migration policy. Border encounters have already slowed to pre-COVID levels and the OBBBA provides extra immigration enforcement funds. Our

forecasts allow for a return to pre-COVID population growth but there is a risk is that it will be lower. Some [research](#) has flagged the possibility of negative net migration. Around two million migrants have recently lost, or are in the process of losing, their legal status which will reduce labour supply. These changes are a negative for GDP and employment growth but with a less clear impact on inflation as they weigh on both demand and supply.

US economic growth (qoq%)



Source: National Australia Bank, Macrobond

To date, unemployment remains low, but we expect it to rise to 4½%. The June Payrolls report was solid. Non-farm employment grew by a solid 147k and the unemployment rate fell 0.1ppt to 4.1%. That is within the range it has been in over the last year with the labour market continuing to be characterised by unusually low hiring and layoff rates. Soft employment indicators in business surveys and a gradual rise in continuing claims suggest the slowdown in growth is translating through to labour demand, even if only gradually.

Recent inflation prints have been relatively muted. That said, annual core PCE inflation was 2.7% in May, similar to where it has been for the last year, although easing service sector inflation is a positive signal. Core June CPI was only a moderate 0.2% mom, although the details in the report suggest the core PCE measure is likely to be higher than this. Excluding autos, core goods CPI rose 0.5%, with tariff impacts evident at the product level. **We expect that tariffs will push inflation higher and see core PCE inflation peaking at 3.4% yoy this year, before moderating in 2026,** based on tariffs currently in place.

For the **FOMC**, participants see the risks to both the unemployment and inflation projections as being weighted to the upside, and a need to balance the full employment and inflation mandates.

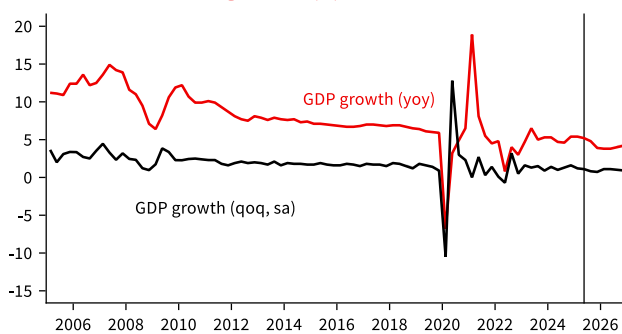
Fed Governors Waller and Bowman have indicated they could be ready to support a cut as soon as July, but that view is not shared more broadly in the FOMC. For now, the June Minutes describe growth as solid and the unemployment rate as low, leaving participants generally looking for more clarity on tariff settings, inflation passthrough, and economic momentum in data through the summer.

We continue to expect rate cuts to commence at the Fed's October meeting. We pencil in 50bps of cuts by year-end and another 75bps over 2026 to take the cash rate to 3.00-3.25%.

China

China's economic growth remained robust in Q2 – up by 5.2% yoy (compared with 5.4% in Q1) – meaning that its economy outpaced the full year 5% growth target over the first half. That said, this growth was overly reliant on export activity, while consumption was brought forward in Q2 by the consumer trade-in scheme (for which the quotas appear to be largely exhausted). The fading of these effects should see slower growth in the second half of the year.

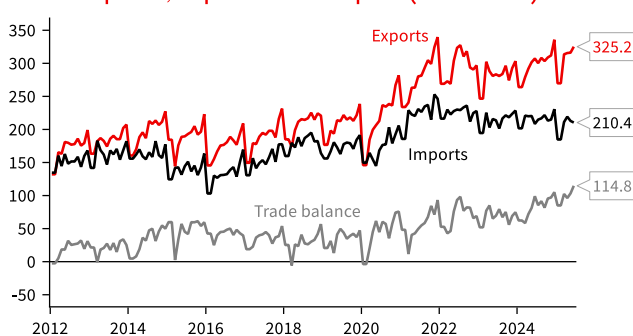
Chinese economic growth (%)



China's trade surplus rose to a new record high in June of US\$114.8 billion (up from US\$103.2 billion in May). The value of exports rose by 5.8% yoy in June, while imports edged up by just 1.0% yoy. There remains considerable divergence between major trading partners – with a 16.1% yoy fall in exports to the United States (albeit this is compared with a 34% yoy decrease in May), while exports to Hong Kong and emerging Asian economies rose by 16.7% yoy and 15.8% yoy respectively.

Export volumes (which are reported with a one month lag) grew more modestly in May – up by 7.7% yoy – compared with a 13.0% yoy increase in April. Export prices continue to fall year-on-year, albeit at a slower rate than in the second half of 2024.

China exports, imports and surplus (US\$ billion)

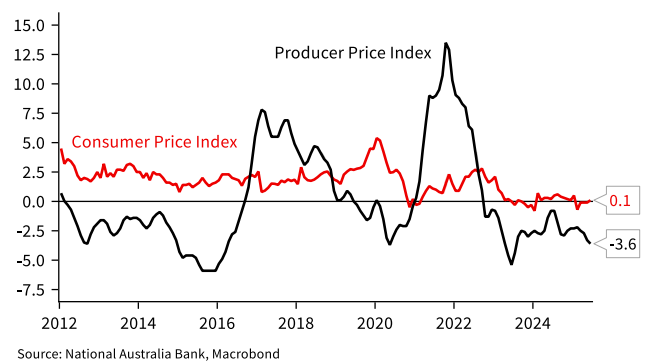


With Q2 growth stronger than we had previously anticipated (reflecting the resilience in export volumes) – we have revised our forecast for China's 2025 GDP growth to 4.8%. This assumes that the impact of US tariffs – and in particular measures to constrain trans-shipments – will slow export growth over the second half. There remains considerable uncertainty around fiscal support from China's government – with the potential for above target growth in

the first half to lead to policy inaction, while there is also a risk that authorities could be more proactive than expected.

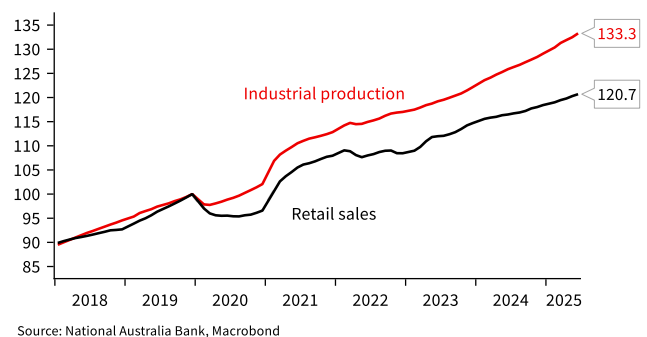
Inflation in China has remained subdued, with consumer prices increasing by just 0.1% yoy (following three straight months of 0.1% yoy declines), while producer prices fell by 3.6% yoy (with this being the thirty-third month in a row of falling factory gate prices). These trends continue to highlight the imbalance in domestic supply and demand.

Chinese inflation (% yoy)



This imbalance remains evident in partial indicators such as industrial production and retail sales. Industrial production rose by 6.8% yoy – with electronics and motor vehicles growing by 11.0% yoy and 8.8% yoy respectively – while retail sales grew by just 4.8% yoy (down from 6.4% yoy in May).

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



Overall loan demand still appears weak. In the first six months of the year, China's total credit issuance surged by 26% – however this was overwhelmingly driven by government bonds, where issuance expanded by 129% yoy. In contrast, bank lending was marginally stronger – up by 1.8% yoy – with most of this increase occurring in the month of June alone.

The People's Bank of China (PBoC) has an easing bias with respect to monetary policy, but it has held its main policy rate (the 7 day repo rate) unchanged at 1.4% since May. We continue to expect three 10 basis cuts to the policy rate this year, along with further easing of the Reserve Requirement Ratio (RRR), as authorities seek to provide further monetary support to the economy. However, weak loan demand could constrain the effectiveness of such policy measures.

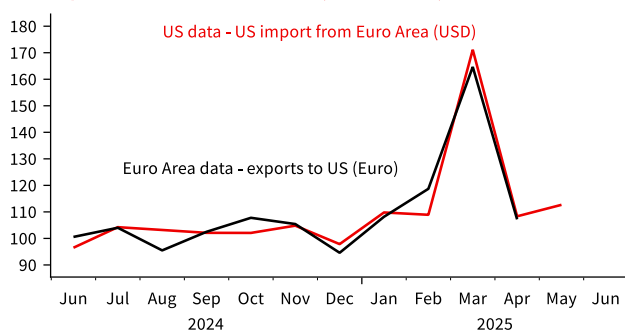
Euro-zone

After a strong start to 2025, we expect Euro-zone economic growth to be soft in coming quarters, before more supportive policy settings lift growth.

Q2 partial data have been mixed. Retail sales volumes fell in May but are still tracking above their Q1 level. Manufacturing production has been volatile – but has moved to a higher level this year; a 4% increase over the first three months of 2025 was followed by a 2.0% fall in April and a 1.4% rise in May. Larger (but directionally the same) moves were evident in pharmaceutical production, suggesting that part of the strength reflects tariff front running, with the May recovery indicating this process is not yet finished.

Even if this does feed into better trade data in June, the unwinding of the Q1 export surge to the US evident over April/May is likely to detract from Q2 GDP growth.

US imports from Euro-zone (2019 = 100)



The S&P Global PMI for the Euro-zone again improved in June although it remains below its March level. While there was only a small gain in the manufacturing PMI, there has been a clear improvement this year, while the services PMI has weakened. The former could potentially reflect a bringing forward of activity ahead of tariffs. The level of the composite PMI remains low and is only consistent with modest growth.

US trade policies remain a risk, not just from their direct trade effects but also through their impact on global growth and by adding to uncertainty and depressing sentiment. This risk is highlighted by President Trump's threat to lift the reciprocal tariff rate on EU imports from 10% to 30%, which would apply to Euro-zone exports worth around 2% of GDP. Moreover, relative to the position at the start of the year, it would leave the change in tariffs equal to that faced by China, negating the potential benefits from trade diversion, while leaving the EU with a higher tariff than some competitors in the US market (e.g. Japan and the UK).

Domestic policy settings in the Euro-zone are, however, becoming supportive. This includes commitments to increase spending on defence as well as a broader fiscal boost in Germany.

The **European Central Bank (ECB)** has been easing policy, including at its most recent meeting, with a 200bps reduction in rates since mid-2024. However, the ECB President indicated last month that the easing cycle was 'nearing its end'. With growth still soft and inflation around target, and likely to be weighed down by the appreciation of the Euro, we

expect one more 25bps cut, most likely in September following a pause in July. US policy remains a risk to this call as an increase in US tariffs on the Euro-zone to 30% would likely be seen as a negative for both growth and inflation, possibly inducing further cuts.

United Kingdom

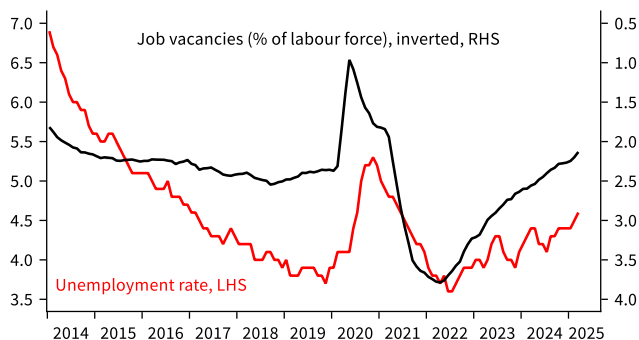
We see only modest growth for the UK, with fiscal policy a constraint, and only gradual monetary policy easing.

After strong growth in Q1 – supported by a bringing forward of activity ahead of UK taxes increases and US tariffs – the monthly GDP indicator fell in both April and May. While the S&P Global UK composite PMI is sending a more positive signal – it improved over May and June to its highest level since September 2024 – the Q2 BCC survey was less positive, with sales still soft as are business investment intentions.

While monetary policy has been easing, it remains restrictive and some additional fiscal policy tightening lies ahead if the government is to stick to its fiscal rules. UK Gilts yields rose in July on fiscal concerns (and the future of the Chancellor), highlighting the UK's limited fiscal room for manoeuvre.

The labour market is softening. While indicators of employment are mixed, the unemployment rate is rising and job vacancies continue to ease.

UK labour market indicators



The Bank of England is likely to continue to ease policy gradually and we expect two more rate cuts this year.

With inflation still high, and concerns around inflation expectations, the Bank considers restrictive policy is still required. However, with growth weak and the labour market under pressure, it has been gradually making policy less restrictive. Wage growth remains high, but it has been easing and the deterioration in the labour market is likely to reinforce this trend. While remaining on hold at its June meeting, three members voted for a rate cut citing labour market concerns, and if there were to be further material weakening in the labour market this could see the Bank speed up the pace of cuts.

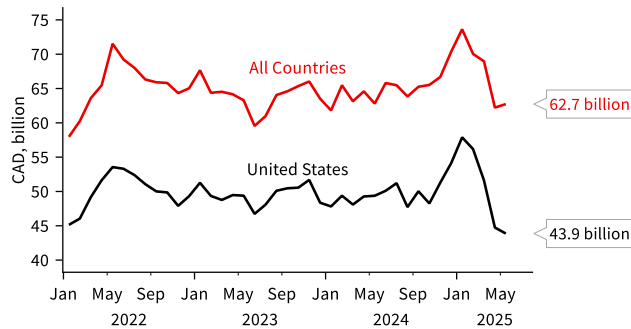
Canada

After solid growth in Q1, the Canadian economy is likely to struggle over the rest of the year. Growth in Q1 was supported by tariff front-running, but monthly trade data point to this unwinding in April/May, although with US tariffs

still in flux, some further bringing forward of trade is possible. The monthly GDP indicator declined by 0.1% in April, and the advance estimate is for a similar fall in May. Similarly, while business surveys have stabilised in the last two months, they are at low levels.

The threat by the US President to increase the tariff on Canadian imports to 35% from 1 August is an added headwind. At the least, it adds to uncertainty, which may delay investment and detract from sentiment. With the USMCA agreement due for renegotiation in 2026, trade policy uncertainty is likely to persist for an extended time.

Canada exports



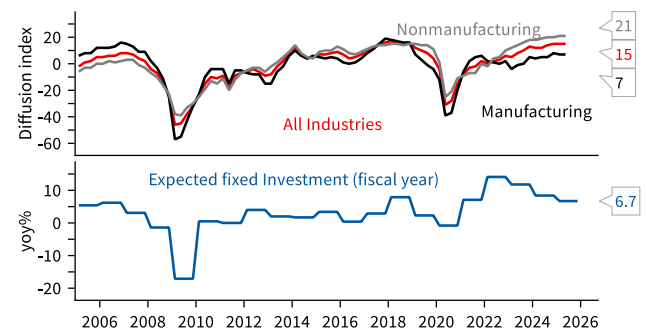
Despite the signs of stress in the economy, the **Bank of Canada** has been on hold since March 2025. A lift in core inflation measures this year, concerns over the impact of tariffs on prices and better labour market data in June (with a rebound in employment after several poor results and a small fall in the unemployment rate) is likely to see rates left unchanged at the July meeting. However, **we expect another 50bps of rate cuts this year** as the labour market comes under renewed pressure, with the opening up of spare capacity reducing inflation risks.

Japan

The Japanese economy is expected to see modest growth but US trade policy remains a downside risk. President Trump has indicated that the tariff on Japanese imports will rise to 25% from 10% on 1 August. This excludes sectoral tariffs, including those already imposed on autos, which are a large part of Japan's exports to the US. Japan and US officials have been negotiating a trade deal, and our forecasts remain based on tariffs currently in place, pending further clarity.

Japan's auto makers initial reaction to the US auto tariffs was to lower their prices and, by implication, their margins. While this approach will support export volumes, the resulting lower profits, when combined with trade policy uncertainty, could weigh on business investment. However, for now, the quarterly Tankan survey suggests that business conditions are holding up and investment intentions still appear reasonable by historical standards. It is possible that the pricing response was only a temporary one, pending US-Japan trade negotiations, and reports suggest that prices are beginning to move higher.

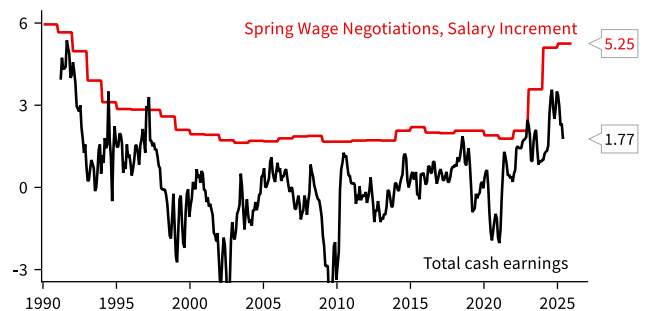
Japan, BoJ Tankan Business Survey



While business investment appears to be holding up, private consumption growth has been impacted by higher inflation this year (3.5% yoy in May). The Bank of Japan (BoJ) consumption activity index has fallen in each of the last three months (to May). While it doesn't closely match the national accounts consumption measure, this suggests there is some downside risk to our Q2 GDP forecast.

That said, this year's **wage negotiations saw the biggest increase in 34 years**, and with employment growing, this should support household purchasing power.

Japan - inflation and wages (y/y%)



The lift in wages reinforces the likelihood that there has been a permanent lift in inflation in Japan, suggesting that monetary policy should be less stimulative. The **Bank of Japan (BoJ)** has been very gradually tightening policy since early 2024 but it has indicated that it is on hold for now. This reflects concerns around the economic impact of US tariff policy. As a result, we don't expect any further rate increases this year. That said, in its Summary of Opinions on its June meeting, the BoJ indicated that "If [the BoJs] outlook for economic activity and prices will be realized, the Bank ... will continue to raise the policy interest rate". So the bias is still one of tightening and if trade risks were to diminish, a rate hike later this year is still possible.

The government has also been under pressure to provide fiscal stimulus – the results of upcoming upper house elections may be important in this regard.

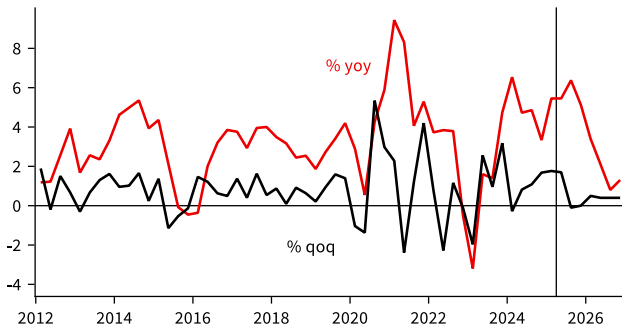
Other East Asia – Taiwan in focus

Taiwan's economy recorded strong growth in Q1 2025 – increasing by 1.8% qoq – however this increase was overwhelmingly driven by a surge in exports during the quarter, with domestic demand contracting by 0.9% qoq.

Growth in household consumption has been relatively modest since Q3 2023, while investment fell by 3.0% qoq (following a sizeable increase in Q4 2024).

We forecast Taiwan's economy to expand by 5.1% in 2025 – albeit most of this growth is expected to occur in the first half of the year – but slow to 1.5% in 2026, as the impetus from exports fade.

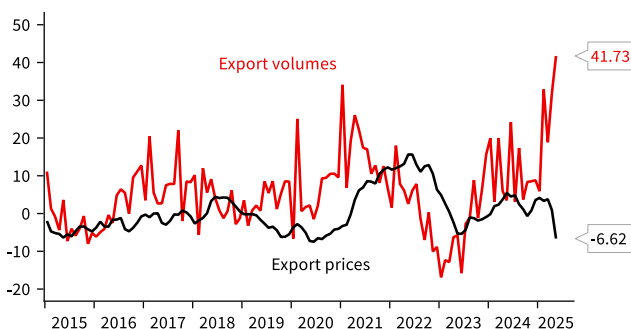
Taiwanese economic growth (%)



Export volumes of goods and services rose by 11.5% qoq in Q1, and Taiwan's monthly trade index points to this strength in goods exports persisting in April and May. This increase was driven by machinery and electrical equipment shipments – much of this being electronics shipments to the United States ahead of potentially more punitive tariffs. This suggests sizeable downside risk to exports in the second half of 2025, particularly if the long mooted semi-conductor specific tariffs are introduced. A more favourable underlying dynamic for Taiwan export growth is the rapid expansion of AI (including data centre investment).

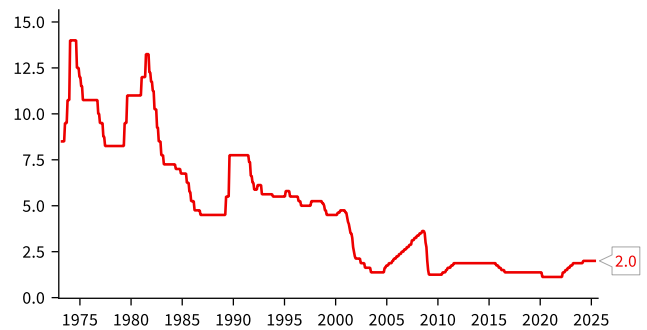
This will not necessarily negatively impact Australian trade with Taiwan – unless a downturn in exports physically impacts energy demand. By value, energy commodities – coal and natural gas – accounted for almost 70% of Australia's exports to Taiwan in 2024, followed by iron ore at just over 10%.

Taiwanese exports (% yoy)



Given the weakness in Taiwan's domestic economy, inflation has remained relatively subdued – with both headline and core consumer prices rising by 1.6% yoy in May. When compared with other economies, inflation was comparatively weak in recent years – closer to China's post-COVID-19 experience than that of major advanced economies.

Taiwanese policy rate (%)

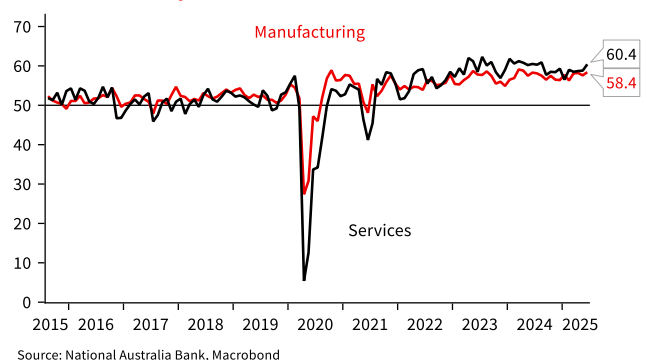


This meant that **Taiwan's central bank did not hike rates as aggressively as most other advanced economies** – gradually lifting the Discount rate from 1 1/8% in March 2022 to 2% by March 2024. The central bank has subsequently kept rates on hold. At its latest meeting it noted that it is watching how tariff policies evolve, the policy decisions of other central banks and how geopolitical tensions shift. The bank also noted concerns that a policy rate cut could add pressure to domestic housing prices.

India

Business surveys provide comparatively timely indicators of trends in India's economy, where other data are somewhat limited. **PMI surveys for both manufacturing and services have exhibited a considerably stronger trend in the post-COVID-19 pandemic period than prior, particularly in services.** That said, there is not a close correlation between these measures and national accounts data – meaning that there is no guarantee that the strong PMI readings in Q2 will translate to robust growth in economic growth. Other indicators – such as year-on-year growth in industrial production – slowed in April and May, compared with strong rates in Q1.

India PMI surveys

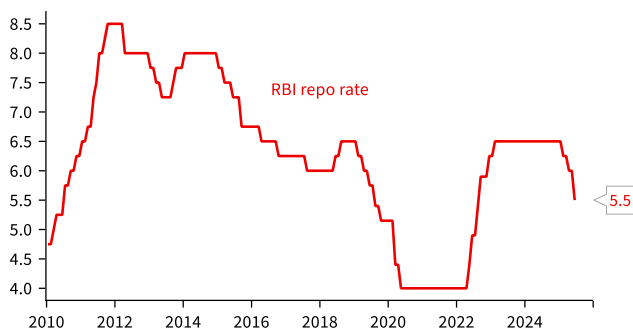


Overall, **our annual forecast for India's economic growth remains unchanged** this month. We expect India to grow by 6.7% in 2025, the same rate recorded in 2024, in contrast to a broader slower trend across the global economy. We expect growth to ease to 6.2% in 2026.

Headline inflation in India has continued to slow – down to 2.8% yoy in May – however core CPI is heading in the opposite direction, moving up to 4.2% yoy (with the divergence between the two measures reflecting the impact of strong

agricultural production on food prices). These measures remain well within the Reserve Bank of India's (RBI) target range (2-6% for headline CPI).

Indian central bank policy rate (%)



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

The RBI cut rates aggressively at its June meeting, bringing the repo rate to 5.5% (from 6.0% previously). This rate cut was larger than expected, however markets are not pricing any additional cuts at upcoming meetings.

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
US Federal Reserve	2.7% 	4.1% 	2.0% 	4.50% 	easing	30 Jul 4.50 17 Sep 4.50	end 2025 4.00 end 2026 3.25
Caught between expected higher inflation and unemployment from tariffs the Fed is on hold for now, but will likely ease from Q4 as labour market deteriorates							
European Central Bank	2.3% 	6.3% 	1.5% 	2.00% 	easing	24 Jul 2.00 11 Sep 1.75	end 2025 1.75
Nearing end of easing cycle but with growth subdued, and currency appreciation to weigh on inflation, one more cut is likely (barring major tariff increases)							
Bank of Japan	core inflation* 1.6% 	Unemployment 2.5% 	GDP 1.7% 	Policy rate 0.50% 	tightening	31 Jul 0.50 19 Sep 0.50	end 2025 0.50
Global concerns will probably keep the BoJ on hold this year, but lift in inflation and current loose policy settings mean the next move is up							
Bank of England	3.5% 	4.6% 	1.3% 	4.25% 	easing	7 Aug 4.00 18 Sep 4.00	end 2025 3.75
Easing to continue, reinforced by a weakening labour market, but only gradually due to ongoing inflation concerns							
Bank of Canada	3.0% 	7.0% 	2.3% 	2.75% 	easing	30 Jul 2.75 17 Sep 2.50	end 2025 2.25
Have been on hold but as the economy deteriorates further cuts are likely							
Reserve Bank of New Zealand	2.4% 	5.1% 	-0.7% 	3.25% 	easing	20 Aug 3.00 8 Oct 2.75	end 2025 2.75 end 2026 3.00
The RBNZ paused this month but it considers there is 'significant spare capacity' and sees medium-term inflation around target. The RBNZ indicated that it expects further rate cuts - we see this occurring at the next two meetings							
People's Bank of China	0.7% 		5.4% 	1.40% 	easing	na	end 2025 1.10
Further easing likely as China to struggle to meet its growth target and is battling deflation							
* 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	0.6	0.2	0.3	0.3	0.5	0.6	0.5	0.5	0.4	0.4	0.4
yoy%	2.0	1.9	1.4	1.0	1.5	1.4	1.7	2.0	2.1	2.0	1.9	1.7
year-average				1.6				1.6				1.9
PCE deflator												
Headline - yoy%	2.5	2.4	3.0	3.2	2.9	2.9	2.4	2.1	2.0	2.0	2.0	2.0
Core												
qoq%	0.9	0.6	1.1	0.8	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5
yoy%	2.8	2.7	3.3	3.4	3.2	3.1	2.5	2.2	2.1	2.1	2.1	2.1
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
Euro-zone - GDP												
qoq%	0.6	0.0	0.1	0.2	0.4	0.5	0.4	0.3	0.3	0.3	0.3	0.3
yoy%	1.5	1.3	1.0	0.9	0.7	1.2	1.5	1.6	1.5	1.3	1.2	1.2
year-average				1.2				1.2				1.3
United Kingdom - GDP												
qoq%	0.7	0.1	0.1	0.2	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.3
yoy%	1.3	0.9	1.0	1.0	0.5	0.7	1.0	1.2	1.4	1.5	1.5	1.5
year-average				1.1				0.9				1.5
Japan - GDP												
qoq%	0.0	0.2	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1
yoy%	1.7	0.9	0.8	0.4	0.6	0.6	0.7	0.7	0.8	0.7	0.6	0.6
year-average				1.0				0.7				0.6
Canada - GDP												
qoq%	0.5	-0.1	-0.3	0.1	0.2	0.4	0.5	0.6	0.5	0.5	0.5	0.5
yoy%	2.3	1.5	0.7	0.3	-0.1	0.4	1.2	1.7	2.0	2.1	2.1	2.0
year-average				1.2				0.8				2.1

Source: NAB Group Economics.

FX forecasts

	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
AUD/USD	0.68	0.70	0.72	0.73	0.73	0.73	0.74	0.75
NZD/USD	0.63	0.65	0.67	0.68	0.68	0.68	0.69	0.70
USD/JPY	130	125	120	119	118	117	116	115
EUR/USD	1.24	1.23	1.25	1.26	1.27	1.28	1.26	1.25
GBP/USD	1.43	1.41	1.44	1.45	1.46	1.47	1.45	1.44
USD/CHF	0.74	0.75	0.74	0.73	0.72	0.72	0.73	0.74
USD/CAD	1.33	1.30	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	1.08	1.08	1.07	1.07	1.07	1.07	1.07	1.07
AUD/JPY	88	88	86	87	86	85	86	86
AUD/EUR	0.55	0.57	0.58	0.58	0.57	0.57	0.59	0.60
AUD/GBP	0.48	0.50	0.50	0.50	0.50	0.50	0.51	0.52
AUD/CHF	0.50	0.52	0.54	0.53	0.52	0.52	0.54	0.56
AUD/CAD	0.90	0.91	0.92	0.93	0.93	0.92	0.92	0.92
AUD/CNY	4.86	4.90	4.97	4.96	4.96	4.96	5.03	5.10

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

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