

# The Forward View – Global August 2025

## Global growth headed for a H2 trough as tariffs start to bite

### NAB Economics



## Overview

- As expected, the US increased import tariffs in early August. The overall increase was smaller than had been threatened, and various trade deals meant that some tariff rates will decline (e.g. for autos from the EU and Japan). Financial markets largely took the changes in their stride, in contrast to the turmoil in April. Higher tariffs are a negative for the global economy, but with some of the extreme tariff scenarios now ruled out, downside growth risks have receded. That said, uncertainty remains high – there are trade deals yet to be fully detailed and formalised, and further sectoral tariffs are expected.
- Tariffs have led to large swings in trade data – as activity was brought forward – and this has also been reflected in GDP. US GDP bounced back in Q2 (after a small fall in Q1), as did GDP in Japan, while growth in the Euro-zone eased as exports started to unwind. Across the major advanced economies (except Canada which is yet to report), Q2 GDP was 0.1-0.2ppts higher than we expected, leading to upward forecast revisions for 2025. Broadly, however, the outlook is unchanged – tariffs and other factors are weighing on growth, but there should be improvement in 2026 and 2027 as tariff impacts ease and due to more supportive fiscal policy (US and Eurozone) and the lagged impact of monetary policy easing (ex. Japan).
- In China, part of the strength in activity in the first half of the year was due to transitory policy support; this was evident in the July data with retail sales growth recording a clear slowdown, while the contraction in the real estate sector is continuing. As neither of these developments were unexpected, our forecasts for China are unchanged this month.
- A clear slowdown in US job creation has raised expectations of a Fed rate cut, with markets expecting a September easing. However, the unemployment rate – the main number to look at according to the Fed Chair – is still tracking sideways and inflation remains elevated (and likely to move higher). This makes for a challenging environment for the Fed. How political pressure affects decision making is also uncertain. For the other major central banks, we expect some further rate reductions (ex. Japan), but the ECB is close to the end of its rate cutting cycle (if baseline expectations hold).
- Our global growth forecasts are unchanged, with growth of 3.1% expected this year, and 2.9% in 2026 before some improvement in 2027. On a quarterly basis, growth is expected to trough in H2 this year, before improving in 2026. These rates of growth are relatively weak by the standards of recent decades.

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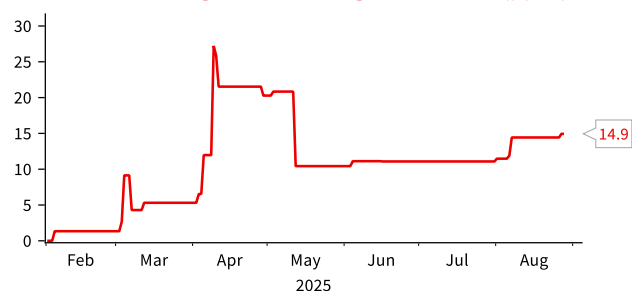
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## Key Economic Forecasts

(Change since June Forward View in brackets)

	2024	2025		2026		2027	
US	2.8	1.7	(0.1)	1.6		1.9	
Euro-zone	0.9	1.3	(0.1)	1.2		1.3	
Japan	0.1	1.2	(0.2)	0.7		0.7	(0.1)
UK	1.1	1.3	(0.2)	1.0	(0.1)	1.3	(-0.2)
Canada	1.6	1.3	(0.1)	0.9	(0.1)	2.1	
China	5.0	4.8		4.0		3.9	
India	6.7	6.7		6.2		6.4	
Latin America	2.4	2.3	(0.1)	1.7		1.9	
Other East Asia	4.0	3.4		3.2		3.4	
NZ	-0.6	0.7		2.7		2.4	
Global	3.3	3.1		2.9		3.0	
Major trading partners	3.5	3.5	(0.1)	3.1	(0.1)	3.1	

## 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. Based on formal orders so does not include tariff changes flagged in 'trade deals'.

## Global trade, tariffs & other risks

**Future US tariff levels are becoming clearer, but uncertainty remains, with trade deals yet to be finalised and further sectoral tariffs to come. Threatened retaliation against US exports has largely come to naught, with recent announcements seeing some relaxation of barriers faced by US exporters.**

**A series of bilateral trade deals with the were announced towards the end of July.** These included deals between the US and the EU, Japan and South Korea. Common features of these deals included:

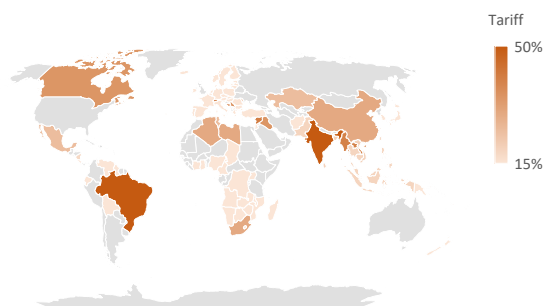
- A lower general tariff rate than had been threatened – 15% for Japan, South Korea and the EU, which will also apply to autos.
- A removal or easing of trade barriers for US exporters.
- Promises of investment into the US economy and purchases of US exports (such as energy or aircraft).
- Limits around the application of expected future US sectoral tariffs (e.g. capped at 15% for the EU).

However, **these deals are yet to be formalised** through joint (signed) agreements, and there have been (reported) disagreements between the US and the other counterparties about some of terms. How some of the promises will be enforced is unclear as they involve decisions by parties not part of the agreement (specifically private businesses purchasing US exports or investing into the US).

In late July, the US also announced **increases to reciprocal tariff rates (with effect from 7 August) as well as a 50% tariff on certain copper products.**

Reciprocal tariff rates of 10% have been in effect since April with tariffs above this level paused. Relative to the tariffs originally imposed on 'Liberation Day' in April, the new reciprocal tariff rates are generally lower. Including Fentanyl tariffs, one notable feature is that tariffs are **generally higher in East and South East Asia than in other regions.**

Reciprocal & Fentanyl tariffs above 10%



Note: for Canada, based on non-energy tariffs. Effective tariff on Canada/Mexico is lower due to USMCA/US content exemptions. Includes additional 40% and 25% tariffs imposed on Brazil and India on top of the reciprocal tariff rate.

This probably reflects US trade deficits with countries in the region as well as a desire to limit transshipments of exports (where exports from a high tariffed country, such as China, are channelled through other countries to obtain a lower tariff rate). The reciprocal tariff order also specifies an

additional 40% tariff for any imports identified as transshipments (as well as other penalties).

The reciprocal (ex. fentanyl) tariff on China is currently set at 10%. An additional 24% tariff has been on pause, and on 11 August President Trump extended the suspension of this tariff until 10 November.

The US also recently announced a relaxation of controls of exports to China for certain semi-conductor chips.

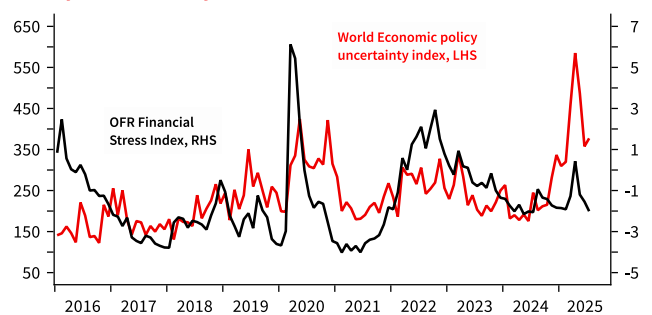
With a 24% additional tariff on China exports by the US still on the table, and with **sectoral tariffs for pharmaceuticals, semi-conductors and some other goods still expected**, the final state of US tariff arrangements remains far from settled.

The reality is that US tariff changes are likely to continue to be an issue, although changes may become more targeted. Tariffs are a favoured tool for US President Trump to exert pressure to also achieve non-trade related outcomes. Most recently this can be seen in the additional 40% tariff imposed on Brazil and an additional 25% tariff on India.

The additional tariff on India is related to purchases of Russian oil and does not go into effect until late this month. This delay raises the possibility that it will not be implemented, particularly if current efforts to secure a Russia-Ukraine peace deal succeed. **A Russia-Ukraine peace deal would also potentially have implications for energy and agricultural markets.**

While a large degree of uncertainty remains around future US tariffs and trading arrangements, the recent announcements do suggest that the some of the more extreme scenarios are now unlikely and that a feared **ruinous cycle of tit-for-tat retaliation appears to have been avoided**. This is likely one of the reasons why financial market reaction to what still amount to substantial tariff increases has been muted (particularly when compared to the days following 'Liberation Day').

Policy uncertainty and financial stress



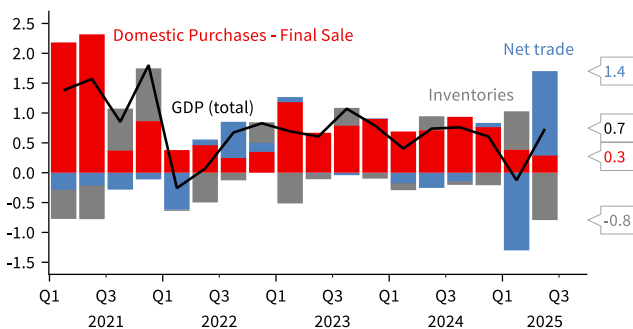
Source: National Australia Bank, Economic Policy Uncertainty, The Office of Financial Research (OFR), Macrobond

## United States

**Q2 GDP growth numbers confirm a clear slowdown in US growth, which we expect to remain soft in H2 before improving over 2026. Job growth has slowed markedly, increasing the chance the Fed cuts rates in September.**

As expected, there was a rebound in US GDP growth in Q2. GDP grew by 0.7% qoq (3.0% annualised), slightly higher than expected. The improvement in GDP reflected a large net trade contribution, only partially offset by a run down in inventories. This was the reverse of Q1 and reflects the impact of tariffs on trade flows. Given the large swings in the latter, the Q1 and Q2 data are best considered together, and point to a slowdown in growth in the first half of 2025 (also evident in domestic final demand).

Contribution to qtlly GDP growth (ppts)



Source: NAB, U.S. Bureau of Economic Analysis (BEA), Macrobond. Residual not shown

**While consumption growth strengthened from Q1 (0.4% qoq) it was still well below its 2024 pace.** July retail sales data were positive, rising 0.5% mom, and point to Q3 consumption growing at around its Q2 level. With employment gains slowing, and inflation likely to rise further, consumption growth will remain under pressure. Any positive wealth impact from the recovery in equities is being offset by falling house prices. Growth in Government consumption and investment remained weak reflecting Federal cutbacks.

Business fixed investment growth softened in Q2, growing by only 0.1% qoq (after a strong 2.5% qoq in Q1). While it continues to see support in categories aligned with AI, as well in aircraft, outside of this investment fell. Regional Fed surveys on future capex intentions remain weak, suggesting this broader investment weakness is likely to persist in H2.

**Tariffs announced this month amount to around a 0.4% of GDP increase in the tax take** before any substitution impacts (taking the total for the year to around 1.7% of GDP). Further tariff increases appear likely, although it is possible some further trade deals will be struck, but even these are often light on detail. The resulting continued high level of uncertainty is likely to drag on investment.

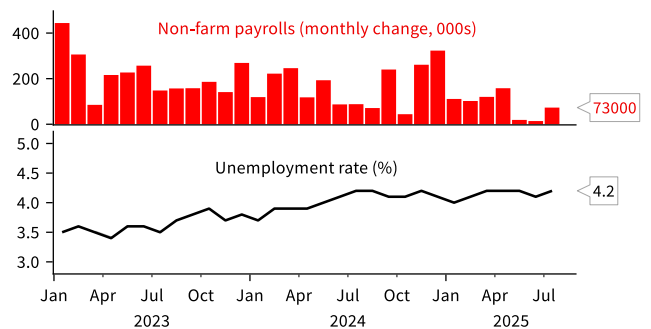
We have upgraded our estimate for Q3 GDP (to 0.3% qoq). With Q2 also a bit higher than expected, **GDP growth over 2025 is now expected to be 1.2% (was 1.0%), a still weak outcome** reflecting tariff induced headwinds on consumption and investment. We nudged down our 2026 forecasts due to the recent rise in tariffs, but we still see growth strengthening over the course of the year due to the impact of the recent budget bill and easing financial conditions.

The impact of softer economic growth is evident in the labour market, with **jobs growth slowing markedly in recent**

**months.** Non-farm employment rose 73k in July and there were large downward revisions to the prior two months; on a 3 monthly basis this is the weakest growth in employment in this expansion.

However, the unemployment rate has been tracking sideways for over a year. Changes in migration policy and enforcement this year are likely suppressing labour supply, **so it is not clear that the slowdown in employment growth is opening up excess capacity in the labour market.** There are also signs that the moderation in wage growth may have stalled at levels not necessarily consistent with the 2% inflation target. As the drags on the economy are broader than the supply side shock to the labour market, we still expect the unemployment to rise, albeit gradually, to around 4½%.

US labour market indicators



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

Core CPI inflation rose 0.3% mom July, up from 0.2% mom in June, due to higher services inflation. Core goods inflation was little changed, although it has strengthened this year, at least partly due to tariffs. There was also a large rise in PPI inflation in July, consistent with tariffs continuing to add to consumer inflation in coming months. Based on the CPI and PPI releases, **core PCE inflation is likely to be just under 0.30% mom or 2.9% yoy in July, which we expect will rise to as high as 3.4% this year.**

The weakness in the jobs number in the July employment report led to a **change in market expectations of when the FOMC may start cutting rates, with a September rate cut now seen as highly likely.**

Fed Governors Waller, Bowman and San Francisco Fed Daly have indicated they will support a rate cut in September, as would Stephen Miran, the proposed (temporary) replacement for the departing Governor Kugler, if in place by then. However, at his July meeting press conference, Fed Chair **Powell's view was that the 'main' number to look at was the unemployment rate** as he viewed slower jobs growth as being accompanied by weaker labour supply.

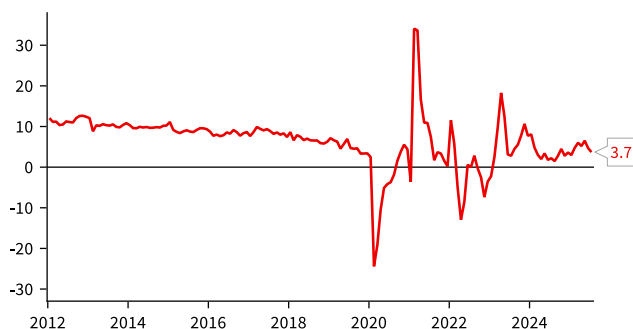
It's not clear that the July employment number changes this calculation, although the Chair also noted downside risks to the labour market and these may take on greater salience. **For now, we leave our call the first cut will be in October unchanged, but will review following Powell's Jackson Hole speech** on 22 August. The bigger issue is not whether the Fed goes in September or October, but how quickly (and how far) it then reduces rates. Our expectations of 50bps of cuts by end 2025, and a further 75bps by end 2026 are not significantly different to market pricing at the time of writing.

## China

**Official national accounts data suggests that China's economy beat expectations in the first half of 2025 – with growth above the full year target of 5% over this period. Subsequent data for July were notably weaker.**

**Real retail sales slowed to 3.7% yoy in July** (compared with a recent peak of 6.5% yoy in May) – with anecdotal evidence suggesting that earlier spending was boosted by the consumer goods trade in scheme for which its quotas are reportedly exhausted. This brought consumption forward, rather than providing a sustainable boost.

Chinese real retail sales (% yoy)



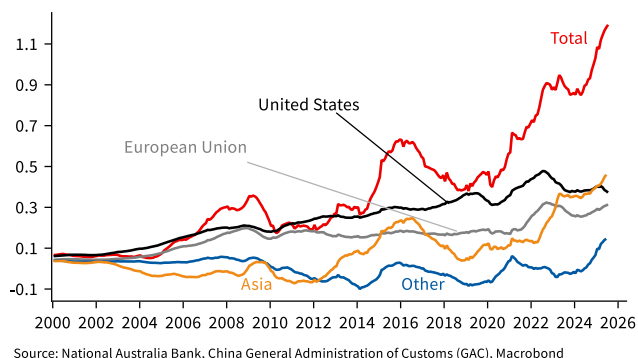
Fixed asset investment contracted in July – down by 1.6% yoy in real terms (compared with a 4.1% yoy increase in June), as real estate investment fell more rapidly than in H1 2025.

**In contrast, industrial production remained robust – increasing by 5.7% yoy** (albeit this was down from 6.8% yoy in June). The strength of this increase, compared with modest retail sales growth, highlights the substantial domestic supply-demand imbalance that has made producers overly reliant on exports (one third of GDP growth in H1 2025) and embedded disinflationary pressures.

**Our forecasts for China's growth are unchanged this month** – we expect China's economy to grow by 4.8% in 2025 and 4.0% in 2026.

China's trade surplus eased a little in July – down to US\$98.2 billion (from a record high of US\$114.8 billion in June). This reflected a modest easing in the value of exports, while imports rose substantially month-on-month.

China trade surplus (US\$ trillion, 12 month rolling sum)



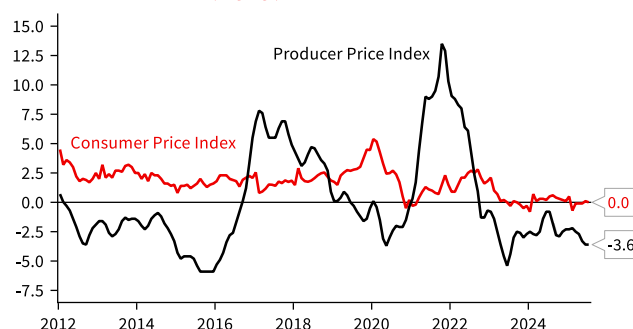
However, **the rolling twelve-month surplus rose to another record high in July – at US\$1.16 trillion**. Since its cycle low

in April 2024, the increase in this surplus has been driven by an increase in net exports to Asia, Latin America and non-EU Europe. In contrast, exports to the United States – at least officially – are only marginally higher.

**It is widely believed that Chinese exports are ultimately reaching the US via trans-shipments through third countries in Asia and Latin America.** It remains to be seen whether the increase in tariffs on other Asian economies as well as higher tariffs on trans-shipments – as threatened in the most recent round of tariff announcements by the Trump Administration – will be sufficient to curtail this practice. If this were to occur, it could significantly reduce growth in the latter part of this year and into 2026.

**Inflation continues to point to the weakness in domestic demand relative to supply.** The headline consumer price index was unchanged year-on-year in July, compared with a 0.1% increase in June – albeit this reflected a sizeable fall in food prices, while non-food prices edged up by 0.3% yoy. Producer prices fell by 3.6% yoy – marking the thirty-fourth month in a row of price falls, the longest period on record.

Chinese inflation (% yoy)



**Chinese authorities see excess price competition in domestic markets as a key issue and have announced an “anti-involution” campaign** intended to curb industrial over-capacity, reduce disorderly competition and improve corporate profitability. The initial focus has been on pricing, specifically banning firms from selling below cost. However addressing over-capacity in key sectors – such as electric vehicles and solar panels – could prove challenging as these industries are dominated by private sector firms.

**China's new credit issuance rose rapidly over the first seven months of 2025 – increasing by 27.1% yoy.** However, this increase has **overwhelmingly been driven by government bond issuance**, which rose by 121% yoy. Bank loans fell by 0.3% yoy, with net bank lending contracting in the month of July, with more loans repaid than issued.

In August, **the Ministry of Finance released a plan intended to boost bank lending and support consumption.** The plan provides interest rate subsidies (of 1 percentage point) for lending to service sector firms and households – with the latter capped at RMB 50 000. Given that there has been no shortage of available credit within the financial system, it is not clear that this plan will sustainably boost domestic demand – we have long argued that more direct demand side programs are necessary to lower the typically high household savings rates.

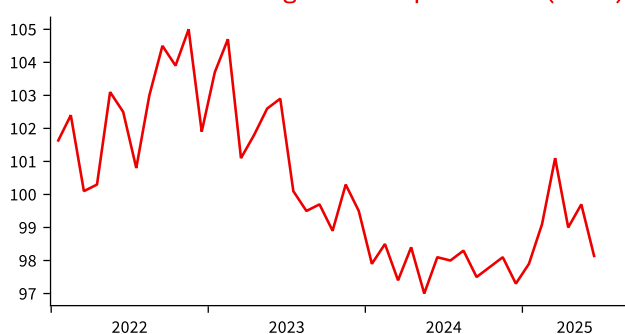


## Euro-zone

**Euro-zone GDP growth slowed in Q2 as tariff front running unwound. Tariffs are a drag, but the US-EU deal means downside risks have lessened and easing fiscal and monetary policy points to stronger growth in 2026.**

As expected, **there was a step down in Euro-zone GDP growth in Q2**, after a bringing forward of activity ahead of US tariffs. GDP grew by 0.1% qoq (slightly higher than our expectation of 0.0%). While details (on an expenditure basis) are not available, trade data indicated that the spike in trade was unwinding, which can also be seen in industrial production. The two countries that gained the most from the export/production (concentrated in pharmaceuticals) were Germany and Ireland, which both saw GDP decline in the quarter (as did Italy).

**Euro-zone manufacturing industrial production (index)**



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

While the **trade 'deal' reached between the US and the EU in late July increased the (general) tariff rate on EU exports from 10 to 15%, it substantially reduces trade related risks**. The increase in the tariffs is not as much as it appears at first glance – the initial 10% tariff was in addition to existing (Most-Favoured Nation - MFN) tariffs but the 15% rate is inclusive of those (except where the MFN tariff was above 15% in which case there is no additional tariff). Importantly, auto tariffs were also part of the agreement (previously tariffed at 27.5%) and, while the US has yet to announce sectoral tariffs on pharmaceuticals and semi-conductors, these will also be capped at 15% for the EU.

That said, apart from initial statements from the US and EU, the deal has yet to be formalised, although the general tariff rate of 15% has been put into effect.

So while risks have receded, there is still a degree of uncertainty. Even if not as bad as feared, the increase in US tariffs this year is still a negative for the Euro-zone economy. The higher tariffs (and currency appreciation) may reduce demand for its exports, and countries facing higher tariffs may seek to gain market share within Europe. The negative impact on sentiment is also a drag.

As a result, **we still see growth remaining soft over the remainder of this year**. While the S&P Global composite PMI improved between May and July, it remains at a low level. That said, we do see growth moving higher over 2026. Fiscal policy (defence and more broadly) is turning more positive and there has been a substantial easing in monetary policy,

with rates now around their neutral level, and the trade drag (on growth rates) will lessen over time.

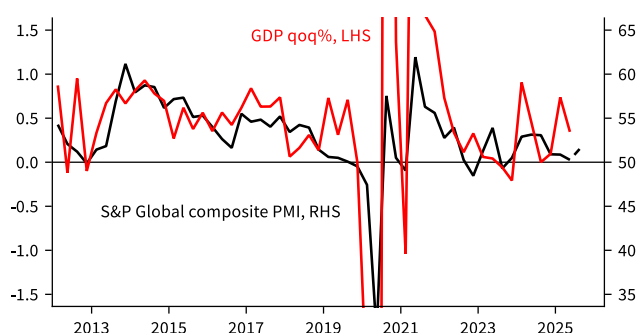
The **European Central Bank (ECB)** held policy rates unchanged at 2.0% in July. The ECB President again indicated that policy was in a 'good place'. However, with immediate growth prospects still weak (and facing an additional headwind from this month's US tariff increase), and the prospect of an appreciating Euro, lower energy prices and some deflationary pressure from a re-routing of China goods to Europe, taking inflation below the ECB's 2% target, **we anticipate one further (25bp) rate cut**. We have had this pencilled in for the September meeting, but with Lagarde indicating a tolerance for some undershooting of the inflation target, and the latest data suggesting headline HICP could rise a few tenths further first, it is possible that this is delayed to October or December. Were there to be a Russia-Ukraine peace agreement that would exacerbate a higher EUR and possibly lower energy prices.

## United Kingdom

**UK growth was robust over H1 but is likely to be more modest in H2 given weakness in the private sector. The Bank of England cut rates in August as expected but the Bank appears divided on renewed inflation concerns.**

UK GDP grew by a stronger than expected 0.3% qoq in Q2. Growth in Q2 was driven by government consumption which was up 1.2%, after falling 0.4% in Q1; the latter was surprising given the lift in public spending in the October budget. The monthly GDP data also pointed to solid growth in June, of 0.4% mom, which sets up positive base effects for Q3.

**UK GDP and PMI**



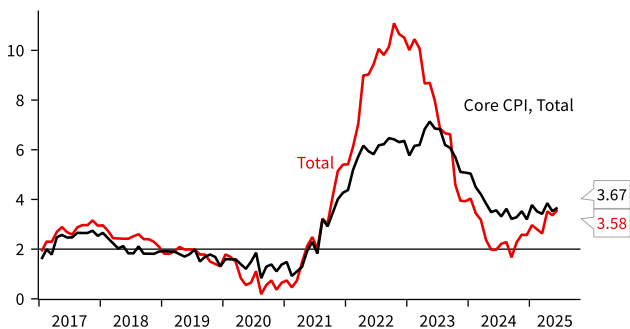
Source: National Australia Bank, U.K. Office for National Statistics (ONS), Account in-house, Macrobond

The PMI business surveys have shown some improvement recently, but remain soft, and are consistent with more modest growth in Q3. It is unlikely that government demand will again grow strongly while signs of private sector weakness are evident. In Q2, household consumption grew by only 0.1% qoq and business fixed investment fell 4.0% qoq. The increase in taxes in last year's budget were met by a decline in business hiring intentions, while minimum wage increases and a rising regulatory burden have been added pressures. **A rising unemployment rate and declining vacancies point to a softening labour market.**

Overall fiscal policy settings are restrictive and there is **a risk of a further fiscal tightening** given expectations that the government is falling short of its fiscal rules.

**The Bank of England monetary policy committee (MPC) cut rates this month (by 25bps to 4.0%),** the fifth cut in this cycle. A weakening labour market supports further easing, particularly with rates still above neutral. However, wage growth remains high (even if easing) and the **MPC is increasingly concerned about inflation.** Inflation has trended higher since late 2024, rising to 3.6% yoy in June (3.7% on a core basis) and the BoE expects it to peak at 3.8% in Q3. There is a risk that at this level it will trigger second-round inflationary impacts. Four MPC members voted against a cut (five for) in August. **We still expect a further 25bp cut in November,** but any upside surprise in coming inflation data would put this at risk.

UK consumer price inflation (yoy%)



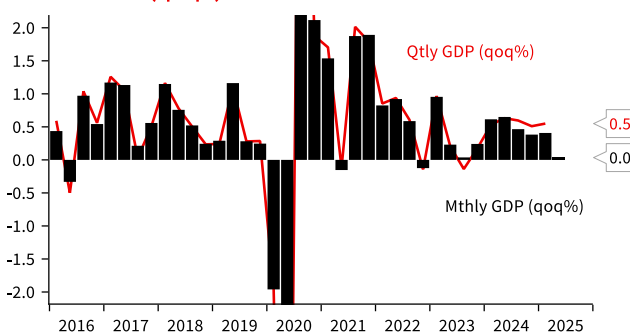
Source: National Australia Bank, U.K. Office for National Statistics (ONS), Macrobond

## Canada

**Growth in Canada's economy has slowed to a crawl, but is showing a degree of resilience.** The increase in the US tariff on Canadian imports highlights the uncertain and difficult environment for businesses.

Monthly GDP (industry basis) data point to small decline in GDP between January and May. The advance estimate of 0.1% mom growth in June implies that growth was flat in Q2. However, the quarterly expenditure GDP series can diverge from the industry data, and with a large fall in exports over the quarter (partly due to a reversal of exports brought forward ahead of tariffs), we retain our forecast for a decline in Q2.

Canada GDP (qoq%)



Source: National Australia Bank, Statistics Canada, Macrobond

That said, there has been improvement in business surveys. The S&P Global composite PMI and Ivey PMI have lifted over the last two months, and the CFIB outlook indices have been rising since March, although they remain at a low level by historical standards.

These surveys were conducted before the additional US tariff, to 10%, on certain Canadian imports from 1 August. While the increase in US tariffs on Canada (on average) this year is smaller than many countries (due to USMCA and US content exemptions), Canada's high trade exposure to the US means any overall negative impact is more consequential.

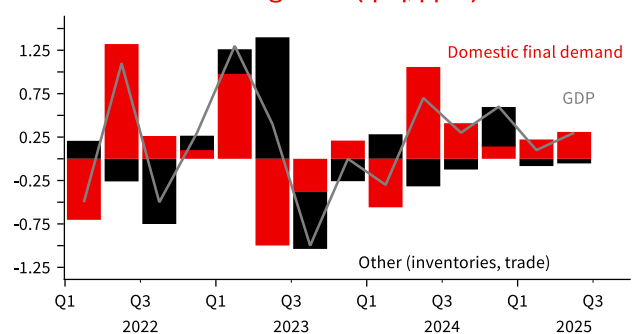
The **Bank of Canada (BoC)** has been on hold since March 2025. Core inflation measures (median, trim mean, ex. food & energy) have risen this year but have levelled out in recent months (to be between 2.5-3.1% in June). Following the July meeting, the BoC Governor indicated that he saw underlying inflation at 2.5% and that there were reasons why it might gradually unwind. At the same time, the BoC considers there is excess supply in the economy. As a result, we still expect a further 50bps of rate cuts. However, we have pushed back the timing – we had expected this policy easing to be in place by year-end but the unemployment rate has been stable over recent months, giving the BoC some breathing room in which to assess the full implications of higher US tariffs. **We now expect a single 25bps cut this year (December) and then another 25bps reduction in early 2026.**

## Japan

**GDP growth was solid in Q2. US tariffs remain a negative factor but downside risks have eased on the US-Japan trade deal. Domestic political instability and uncertain tariffs impact are keeping the BoJ on hold for now.**

**Japanese GDP grew by 0.3% qoq,** a little higher than we had expected (0.2%). The previously reported small decline in Q1 was also revised away. The details of the Q2 outcome were also positive – domestic final demand growth remained solid, with both private consumption and, in particular, fixed investment, rising. Net trade made a positive contribution to growth, but this was largely offset by inventories.

GDP - contributions to growth (qoq, ppts)



Source: National Australia Bank, Japanese Cabinet Office (CAO), Macrobond

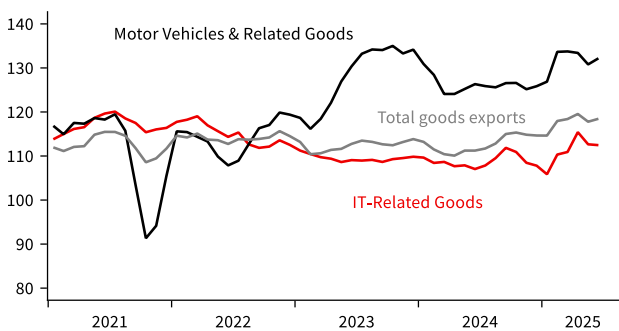
Solid demand growth should continue to support fixed investment, as should difficulties in finding staff. This is being accompanied by rising wage costs – this year's wage negotiations saw the largest wage increase in 34 years and the Government has announced a 6% minimum wage increase from October – which all else equal will support capital deepening, particularly while profits appear healthy.

**The US increased this month the general import tariff on imports from Japan from 10% to 15%.** While, on its own, this is a negative, this is partly offset by an agreement to

reduce the tariff on auto imports to 15% (from 27.5%), a major export to the US. Japan government reporting also indicates that for future US sectoral tariffs on pharmaceuticals and semi-conductors, the tariff on Japan will be set at the lowest possible level offered to other countries (Euro is already capped at 15%). However, the deal has not yet been formalised. Until now, auto makers appear to have largely absorbed US tariff increases into their margins, but this may change now that there is greater certainty about the future level of tariffs.

Trade data do suggest that there has been some bringing forward of exports due to tariffs, but with signs that this is starting to unwind. However, the lift wasn't major and, in the case of IT products, there is also likely a structural element related to the rapid roll out of AI.

#### Japan, exports (index, constant prices 3mth m.a.)



Consumer price inflation has been above the Bank of Japan's (BoJ) inflation target now for over three years. Combined with solid growth, a tight labour market and a below neutral level of interest rates, this all points to policy tightening. However, the BoJ is only moving cautiously – it last raised the policy rate in January. This in part reflects its long battle with deflation and not wanting to claim premature victory. Concerns over US trade policy have also acted as a brake, even post the US-Japan trade deal, it considers 2-3 months are needed to assess tariff impacts. Domestic political instability is an added concern. As a result, we **expect the BoJ to remain on hold this year, with tightening to occur next year**, but there is a chance of a rate hike by year end.

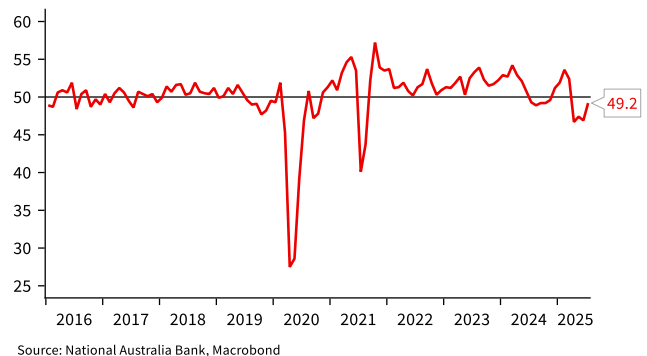
## Other East Asia – Indonesia in focus

According to official national accounts data, **Indonesia's economy grew by 5.1% yoy in Q2 2025, up from a comparatively weak 4.9% yoy increase in Q1** (this was the weakest rate of growth since Q3 2021). It is worth noting that the unusual stability of Indonesia's growth rates over the past decade (with the exception of the COVID-19 pandemic period) has raised questions around the veracity of the data.

If the data are accurate, **there are some warning signs for Indonesia's economy**. When compared with the pre-pandemic period, **household consumption has been comparatively weak since the start of 2023** – with trend growth lagging below that of overall GDP, whereas it was similar to GDP in the period between 2013 and 2019.

Similarly, **industrial production data has tracked lower since October 2024** – contracting by 2.8% yoy in March (the most recent data available).

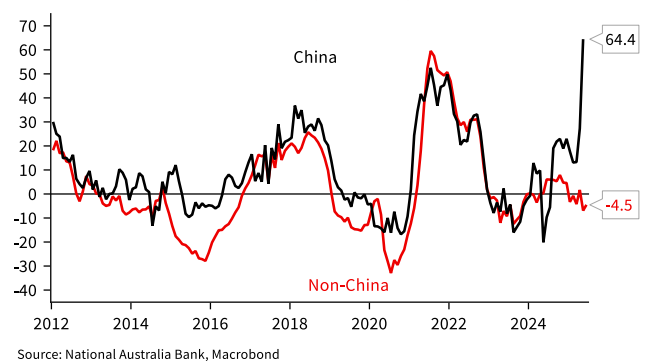
#### Indonesian manufacturing PMI (Index)



**More timely measures, such as the Nikkei manufacturing PMI have been weaker in recent months** – dropping to a contractionary 46.9 points in June (compared with a fairly strong 53.9 points in February) before moving closer to neutral (49.2 points) in July. Employment measures in this survey have also been negative – consistent with anecdotal reports of sharp job losses in the sector.

**The industrial sector is facing substantial challenges from low cost imports from China – with US dollar denominated imports rising by 118% yoy in May** (following a 51% yoy increase in April) – albeit both recent months have been boosted by base effects. A far more modest increase in exports to the United States – up 25% yoy from a far smaller base – suggests that trans-shipments are not an explanation.

#### Indonesian import growth (% 3mma)



In mid-2024, Indonesia's Trade Minister proposed large scale tariffs on Chinese textile, clothing and footwear imports, however this did not eventuate – likely reflecting the importance of China as an export destination.

**Headline inflation has tracked higher in recent months – from -0.1% yoy in February to 2.3% yoy in July**. This lift has brought inflation close to the mid-point of the Bank of Indonesia's (BI) target range (set at 1.5%-3.5% for 2025). Core inflation has trended marginally lower over this period – from around 2.5% in February to 2.3% in July.

The Bank of Indonesia (BI) commenced its rate cutting cycle in September 2024, lowering the BI Rate by 100 bps by July 2025 to 5.25%. While the subsequent statement from the BI noted that it will consider further rate cuts, financial markets

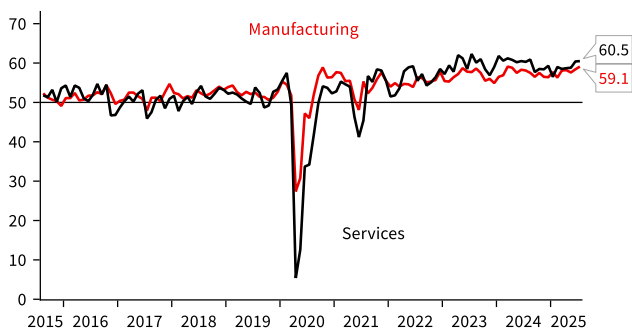
do not fully price any additional cuts and anticipate rate increases in the future.

## India

**Our forecasts for India's economic growth are unchanged again this month. We forecast India to grow by 6.7% in 2025 (the same rate as 2024) before easing to 6.2% in 2026.**

**Business surveys continue to point to robust conditions in India's economy.** Both the manufacturing and services have trended higher since the start of the year, pointing to near-term strength, however business confidence among manufacturers dropped to its lowest levels in three years.

### India PMI surveys



Source: National Australia Bank, Macrobond

**In contrast to the strength in PMIs, along with Q1 GDP, other indicators have been less positive. Growth in industrial production has slowed significantly over recent months** – down from 5.2% yoy in January to 1.5% yoy in June.

Indian exporters could face a more challenging export environment than their regional peers in coming months, if the additional US tariffs (related to India's purchases of Russian oil) go ahead.

**Similarly, credit growth has slowed since mid-2024, with the year-on-year increase dropping below 10% in May and remaining there in June** – half the rate of May 2024.

According to Reuters, corporate earnings among the largest listed firms in India have slowed across recent quarters. Higher tariff rates on Indian exports to the US – when compared with other economies in Asia – could further impact major firms and broader economic growth going forward.

**India's headline inflation has continued to ease – down to just 2.1% yoy in June (the lowest rate in around 6 years),** close to the bottom of the Reserve Bank of India's (RBI) target range (2-6%). In a large part, the downward pressure has come from food prices – with agricultural production benefiting from last year's above average monsoon, with another similar season expected this year as well. In contrast, core inflation has trended higher since mid-2024, up by 4.4% yoy in June.

**The RBI has cut its policy rate by 100 basis points in the first half of 2025, bringing the repo rate to 5.5% in June, but remained on hold in August** – noting that transmission

from earlier cuts is still unfolding against a backdrop of global uncertainty. While low headline inflation may provide some scope for cuts, the central bank is expected to remain on hold until at least early 2026.



## Central bank monitor

	Inflation and output gap indicators			Central bank rates			
				NAB forecasts			
	Core inflation*	Unemployment	GDP	Policy rate**	bias	next meetings***	year-end forecast
<b>US Federal Reserve</b>	2.8% 	4.2% 	2.0% 	4.50% 	easing	17 Sep 4.50 29 Oct 4.25	end 2025 4.00 end 2026 3.25
Further signs of labour market deterioration will push the Fed to ease policy soon, with September a possibility. As inflation remains high and the ultimate impact of tariffs uncertain, the Fed will likely move gradually							
<b>European Central Bank</b>	2.3% 	6.2% 	1.4% 	2.00% 	easing	11 Sep 1.75 30 Oct 1.75	end 2025 1.75
Nearing end of easing cycle but with growth subdued, and energy prices and currency appreciation to weigh on inflation, one more cut is likely							
<b>Bank of Japan</b>	1.6% 	2.5% 	1.7% 	0.50% 	tightening	19 Sep 0.50 21 Sep 0.50	end 2025 0.50
Global concerns and domestic political instability have the BoJ on hold for now, but a tight labour market and inflation pressures should mean the next move is up.							
<b>Bank of England</b>	3.7% 	4.7% 	1.3% 	4.00% 	easing	18 Sep 4.00 6 Nov 3.75	end 2025 3.75
There is a risk that the August rate cut will be the last for the year with inflation concerns rising. However, with the labour market weakening and rates above neutral, we still expect a 25bps cut in November.							
<b>Bank of Canada</b>	3.0% 	6.9% 	2.3% 	2.75% 	easing	17 Sep 2.75 29 Oct 2.75	end 2025 2.50
Have been on hold but with growth, and the labour market, under pressure, further cuts are expected - most likely in December and then again early in 2026							
<b>Reserve Bank of New Zealand</b>	2.3% 	5.2% 	-0.7% 	3.25% 	easing	20 Aug 3.00 8 Oct 2.75	end 2025 2.75 end 2026 3.00
With a excess capacity in the economy and medium term inflation pressures contained, we expect the RBNZ to cut rates by a further 50bps							
<b>People's Bank of China</b>	0.8% 		5.2% 	1.40% 	easing	na	end 2025 1.10
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
<b>United States</b>												
<b>GDP</b>												
qoq%	-0.1	0.7	0.3	0.2	0.3	0.4	0.5	0.5	0.5	0.4	0.4	0.4
yoy%	2.0	2.0	1.6	1.2	1.6	1.3	1.5	1.9	2.0	2.0	1.9	1.7
year-average				1.7				1.6				1.9
<b>PCE deflator</b>												
Headline - yoy%	2.5	2.4	2.9	3.2	2.9	2.9	2.6	2.2	2.0	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	3.0	3.4	3.2	3.1	2.8	2.4	2.2	2.1	2.1	2.1
<b>Unemployment rate</b>												
qtlly average %	4.1	4.2	4.3	4.4	4.5	4.5	4.5	4.4	4.4	4.3	4.3	4.2
<b>Euro-zone - GDP</b>												
qoq%	0.6	0.1	0.1	0.2	0.3	0.5	0.4	0.3	0.3	0.3	0.3	0.3
yoy%	1.5	1.4	1.1	1.0	0.8	1.1	1.4	1.5	1.5	1.3	1.3	1.2
year-average				1.3				1.2				1.3
<b>United Kingdom - GDP</b>												
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
<b>Japan - GDP</b>												
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%	1.8	1.3	1.2	0.7	0.7	0.7	0.7	0.7	0.8	0.7	0.6	0.6
year-average				1.2				0.7				0.7
<b>Canada - GDP</b>												
qoq%	0.5	-0.1	0.0	0.1	0.2	0.4	0.5	0.6	0.5	0.5	0.5	0.5
yoy%	2.3	1.5	0.9	0.5	0.2	0.7	1.2	1.7	2.0	2.1	2.1	2.0
year-average				1.3				0.9				2.1

Source: NAB Group Economics.

## FX forecasts

	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
<b>AUD/USD</b>	0.66	0.68	0.71	0.72	0.73	0.73	0.74	0.75
<b>NZD/USD</b>	0.61	0.63	0.65	0.66	0.67	0.67	0.68	0.69
<b>USD/JPY</b>	142	138	130	128	126	126	124	121
<b>EUR/USD</b>	1.20	1.23	1.24	1.26	1.27	1.28	1.26	1.25
<b>GBP/USD</b>	1.36	1.38	1.39	1.41	1.44	1.45	1.45	1.44
<b>USD/CHF</b>	0.78	0.76	0.76	0.75	0.73	0.73	0.74	0.74
<b>USD/CAD</b>	1.36	1.33	1.28	1.28	1.28	1.26	1.24	1.22
<b>USD/CNY</b>	7.15	7.00	6.90	6.80	6.80	6.80	6.80	6.80

<b>Australian Cross Rates</b>								
<b>AUD/NZD</b>	1.08	1.09	1.09	1.09	1.09	1.09	1.09	1.09
<b>AUD/JPY</b>	94	93	92	92	92	92	92	91
<b>AUD/EUR</b>	0.55	0.55	0.57	0.57	0.57	0.57	0.59	0.60
<b>AUD/GBP</b>	0.49	0.49	0.51	0.51	0.51	0.50	0.51	0.52
<b>AUD/CHF</b>	0.52	0.52	0.54	0.54	0.53	0.53	0.55	0.56
<b>AUD/CAD</b>	0.90	0.90	0.91	0.92	0.93	0.92	0.92	0.92
<b>AUD/CNY</b>	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

## Group Economics

Sally Auld  
Group Chief Economist  
+(61 0) 422 224 752

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

Michael Hayes  
Junior Economist  
+(61 0) 411 186 777

## 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

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