FitchRatings

Global Economic Outlook – September 2025

World Growth Forecasts Revised Up, but US Economy Is Slowing Down

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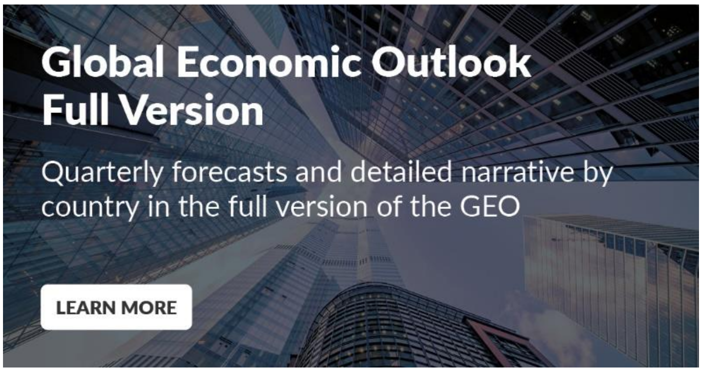
"Greater clarity about US tariff hikes does not alter the fact that they are huge and will reduce global growth. And evidence of a slowdown in the US is now appearing in the hard data; it's no longer just in the sentiment surveys."

Brian Coulton, Chief Economist, Fitch Ratings



Fitch Ratings has raised its world growth forecasts for 2025 moderately since the June Global Economic Outlook (GEO) on better-than-expected incoming data for 2Q25. But there is now evidence of an underlying US slowdown in hard economic data and recent positive surprises on eurozone growth have partly reflected US tariff front-running. Fitch still expects world GDP to slow significantly this year. Global growth is now forecast to be 2.4% in 2025, up 0.2pp since June but a sizeable slowdown from 2.9% last year and below trend. China's forecast has been revised up to 4.7% from 4.2%, the eurozone's to 1.1% from 0.8% and the US to 1.6% from 1.5%. World growth for 2026 is edged up by 0.1pp to 2.3%.

Greater clarity on US tariff policy has emerged after a flurry of announcements. Our latest estimate of the average US effective tariff rate (ETR) is 16%, very close to the ETR assumed in June. Mexico and Canada face lower ETRs, due to better USMCA compliance and Europe's ETR is also slightly lower, but this is offset by higher-than-expected reciprocal rates for Asia excluding China.

US Slowdown Now Evident in 'Hard' Data

Pass-through from this huge jump in the ETR to US CPI inflation has been modest so far, with some evidence in the national accounts that it has partly been offset by downward pressure on corporate profits. But we expect pass-through to accelerate later this year. Higher inflation will dampen real wage growth and weigh on consumer spending, which has already slowed notably in 2025. Job growth has decelerated markedly, partly reflecting the impact of the immigration squeeze on labour force growth. A widening fiscal deficit should support demand in 2026, but Fitch expects the annual average GDP growth rate to remain well below trend at 1.6%.

China Sustains Exports, Rebalancing Slowly

China's export growth has held up well in the face of the US tariff shock as a depreciating nominal effective exchange rate and falling export prices have helped a redirection of foreign sales. Fiscal easing is supporting growth, but private domestic demand growth seems to be weakening, and deflation is increasingly entrenched.

Eurozone Holds Up but Lull in Growth Ahead

Eurozone exports are unlikely to sustain their 1H25 pace and, with the consumer recovery fading, we do not expect GDP to expand in 2H25. German fiscal easing will provide more support next year.

Fed Now Likely to Cut Twice by Year-End

The weakening in the job market should persuade the FOMC to cut rates more quickly than we previously anticipated. We expect cuts of 25bp in September and December, and three more in 2026.

Dollar, Long-Term Bonds Still Under Pressure

With the ECB now looking likely unlikely to lower rates again, we see little prospect of a rebound in the dollar after the broad-based depreciation witnessed in 1H25. Long-term 30-year government bond yields in the US, UK, Germany and Japan continue to see upward pressure, possibly reflecting market concerns about supply.

Related Research

Global Economic Outlook (June 2025)
US. Effective Tariff Rate Monitor (August 2025)
Developed Economies' Potential Growth Revised to 1.6% (August 2025)

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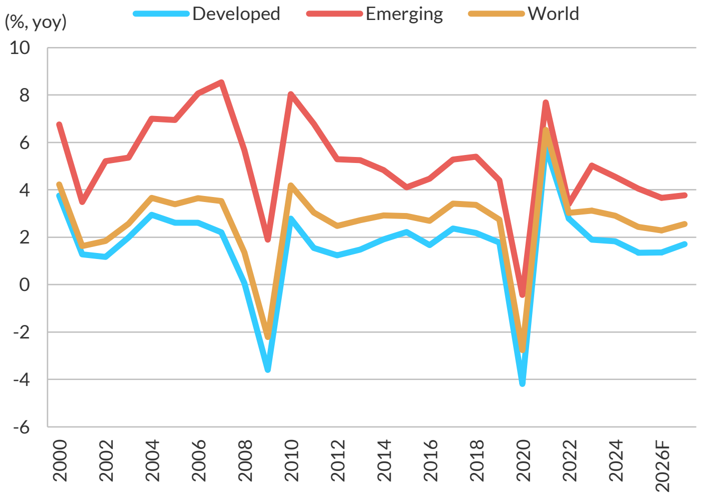
Global Forecast Summary

(%)	Annual Average 2020-2024	2024	2025F	2026F	2027F
GDP Growth					
US	2.4	2.8	1.6	1.6	2.1
Eurozone	1.1	0.9	1.1	1.1	1.2
China	4.9	5.0	4.7	4.1	4.1
Japan	0.2	0.1	1.2	0.6	0.6
UK	0.9	1.1	1.2	1.2	1.5
Developed [a]	1.6	1.8	1.4	1.4	1.7
Emerging [b]	4.0	4.5	4.1	3.7	3.8
Emerging ex China	2.8	4.0	3.3	3.1	3.4
World [c]	2.5	2.9	2.4	2.3	2.6
Inflation (end of period)					
US	4.0	2.9	3.6	3.3	2.4
Eurozone	3.6	2.4	2.2	1.8	2.0
China	1.7	0.1	0.4	1.2	1.4
Japan	1.2	3.7	2.2	2.0	2.0
UK	4.3	2.6	3.2	2.4	2.2
Interest Rates (end of period)					
US	2.05	4.50	4.00	3.25	3.00
Eurozone [d]	0.44	3.00	2.00	2.00	2.00
China [e]	2.94	1.50	1.20	1.00	1.00
Japan	-0.03	0.25	0.75	1.50	1.50
UK	1.47	4.75	3.75	3.25	3.00
US 10 Year Yield	2.69	4.57	4.40	4.40	4.25
Exchange Rates and Oil					
Oil (USD/barrel)	74.8	79.5	70.0	65.0	65.0
USDJPY (end-period)	119.5	156.7	147.0	140.0	136.0
USDEUR (end-period)	0.90	0.96	0.86	0.86	0.86
GBPUSD (end-period)	1.28	1.25	1.33	1.31	1.30
USDCNY (end-period)	6.82	7.30	7.20	7.30	7.30

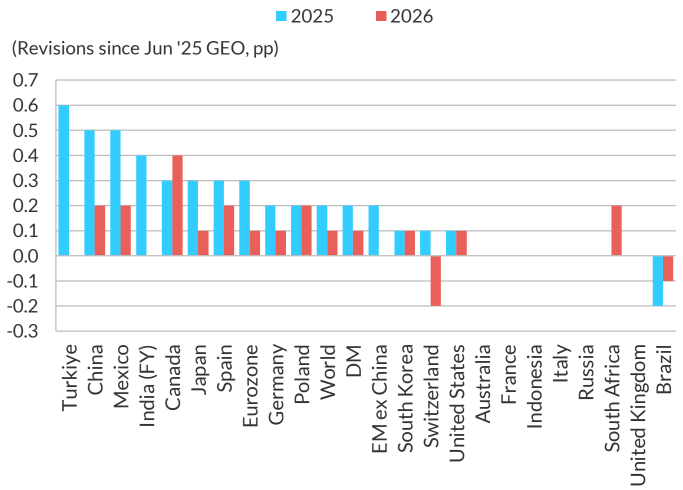
[a] US, Japan, France, Germany, Italy, Spain, UK, Canada, Australia and Switzerland.
[b] Brazil, Russia, India, China, South Africa, Korea, Mexico, Indonesia, Poland and Turkiye.
[c] 'Fitch 20' countries weighted by nominal GDP in US dollars at market exchange rates (three-year average).
[d] Deposit facility rate.
[e] 7-Day Reverse Repo Rate.
Source: Fitch Ratings

World GDP Growth



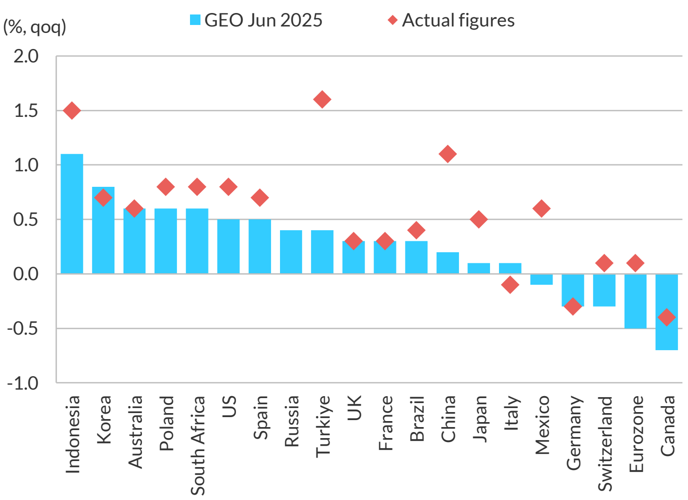
Source: Fitch Ratings' estimates

Revisions to Annual GDP Growth Forecasts



Source: Fitch Ratings' estimates

2Q25 GDP Outturns Versus Forecasts



Source: Fitch Ratings' estimates, national statistical offices, Haver Analytics

Forecast Highlights

Fitch has increased its world GDP growth forecast for 2025 to 2.4% from 2.2% in June's GEO. The forecast for growth this year in China has been raised by 0.5pp to 4.7%, the eurozone by 0.3pp to 1.1% and the US by 0.1pp to 1.6%.

Upward revisions to 2025 growth have been very broad-based with India, Turkiye, Mexico, Japan and Canada all seeing sizeable increases. For India, Turkiye and Japan, this reflects strong data for 2Q25 while in Mexico and Canada it is partly due to a lower US ETR assumption as the share of exports to the US qualifying for USMCA status – and hence tariff-free – has increased surprisingly quickly.

Among the Fitch 20 countries covered in the GEO, only Brazil has seen its 2025 forecasts cut. Sharp monetary tightening from late last year is restraining activity to a greater extent than anticipated. The US tariff shock has also been higher than expected for Brazil, as it was for Switzerland, where our 2026 growth forecast has also been cut (by 0.2pp).

Better-than-expected incoming GDP data have been a key driver of improved forecasts. Growth was a lot stronger in China in 2Q25 than we expected, with exports being surprisingly resilient. The eurozone defied our expectation that GDP would decline in 2Q25 after tariff-front running boosted growth in 1Q25. US growth was 0.8% (not annualised) in 2Q25 versus our forecast of 0.3%.

But upward revisions do not alter the picture of a significant slowdown in global growth from last year, when world GDP expanded by 2.9%. US growth is forecast to slow to 1.6% this year from 2.8% in 2024 as final domestic demand – including private consumption and government spending – decelerates. Fitch expects growth in China to slow to 4.7% from 5.0% in 2024 as the boost from net trade moderates and private spending growth remains subdued. Growth in emerging markets excluding China is also expected to slow to 3.3% from 4.0% in 2024 as earlier monetary tightening dampens activity in Russia and Brazil, and the US tariff shock hits Mexico.

Fitch forecasts world growth to remain substantially below trend at 2.3% in 2026, albeit 0.1pp higher than in June. In 2025 and 2026, we expect a cumulative shortfall in world growth of 0.7pp relative to its long-run historical average of 2.7% a year. This highlights the adverse impact of the trade war.

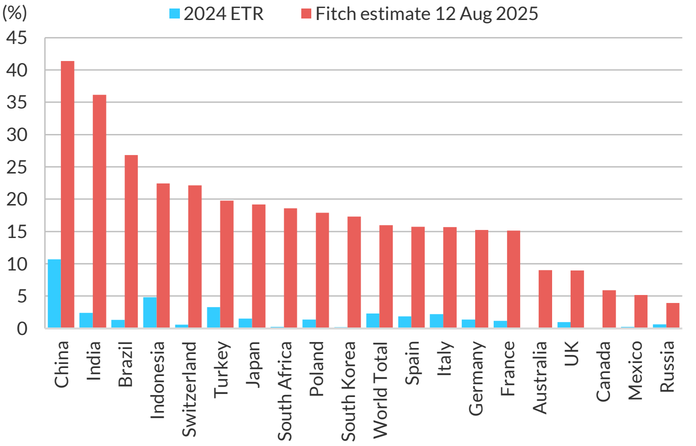
Clarity Emerging on Size of US Tariff Shock

The fog is lifting on the US tariff shock after massive uncertainty and volatility in 2Q25. So-called reciprocal tariff rates were assigned across the board in July after the 90-day delay announced in April, China's reciprocal rate of 10% was extended by another three months through November and several 'trade deals' have been agreed in recent months, including with the EU and Japan.

The reduction in uncertainty about where US tariffs will settle is helpful to the global business community but there is no denying the severity of the shock. Our best estimate of the US ETR implied by the latest policy announcements (and assuming the same product and geographical mix of US imports as in 2024) is 16%. This is up from 2.4% in 2024 and would be the highest since 1936.

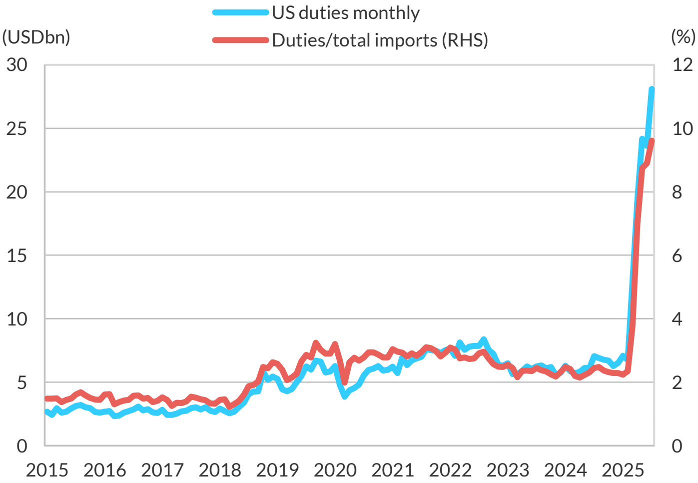
The high trade barriers that the US has erected put paid to earlier media and market speculation that tariff threats were largely a negotiation tactic to achieve other international policy goals.

US Effective Tariff Rate - Policy Based[a]



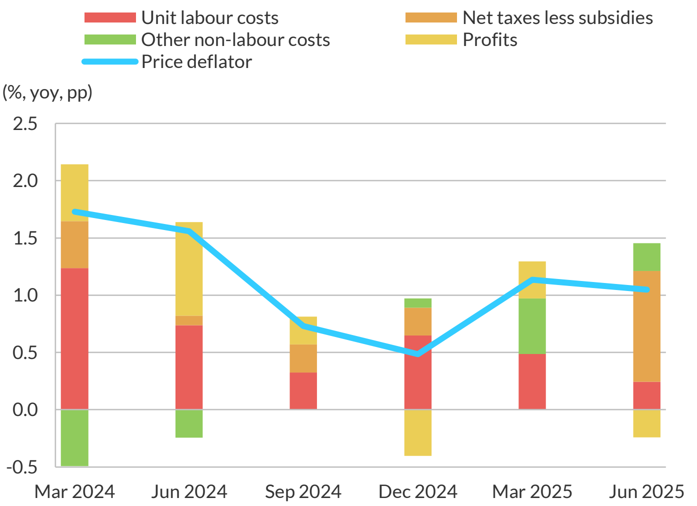
[a] Based on latest announced tariff rates and 2024 product and geographical mix of US imports.
Source: Fitch Ratings

US Duties Collected and Realised Effective Tariff Rate



Source: Fitch Ratings, US Customs, Haver Analytics

US - Corporate Sector Price Deflator and Unit Costs



Source: Fitch Ratings, BEA, Haver Analytics

Rather, it has become clear that high tariff rates are seen as a key policy lever to help achieve the objective of import substitution. This reduces the likelihood that recent legal challenges to tariff hikes would culminate in a sharply lower overall ETR.

Our latest ETR estimate is not significantly different from the 16.8% assumed in the June GEO. However, there are some important changes at the regional and country level, some of which have forecast implications. Reciprocal rates imposed on several major trade partners in Asia (exc. China) imply ETRs that are significantly higher than the 15% assumption used in June. Our ETR monitor shows an ETR for Japan of 19%, 17% for Korea, 22% for Indonesia, 19% for Vietnam and 36% for India (including an additional 25% rate tariff related to US concerns about India's Russian oil purchases). Brazil is also facing a 27% ETR and Switzerland 22%.

These higher ETRs are offset by a sharp reduction in our estimates for Canada and Mexico. As of July 2025, 90% of total goods imports from Canada and 81% from Mexico remained tariff-free, reflecting stronger USMCA compliance and broader carveouts. Fitch now assumes that a greater share of Canadian and Mexican imports will ultimately remain exempt from tariffs. Based on this, our latest ETR estimates for Canada and Mexico are 5.9% and 5.2%, respectively, down from 7.6% and 9.2% in the June GEO.

The US-EU agreement also implies a lower ETR for EU exporters, at just over 12%. The agreement sets a headline 15% tariff on most exports from the eurozone and brings relief in the form of exemptions for some of its main exports. Under the agreement, tariffs on autos fall from 25% (or 27.5% including most-favoured nation tariffs of 2.5%) at present to 15% once the EU implements its commitments including scrapping tariffs on US industrial goods.

According to a joint statement on the deal on 21 August, the US tariff on Europe's pharmaceuticals and semiconductors will also be bound by the 15% rate. Aircraft and parts, and generic pharmaceuticals, will be free of tariffs. These details illustrate the benefit of reduced tariff uncertainty. The agreement attenuates the risk of a significantly higher ETR for the EU following pending US Section 232 actions on pharmaceuticals and semiconductors.

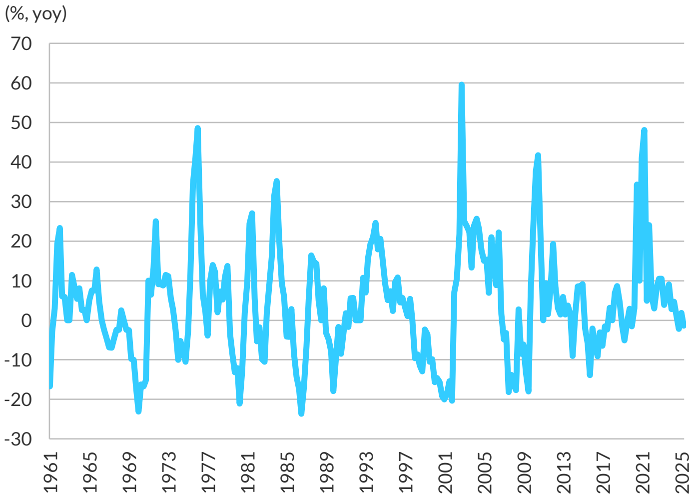
Tariff Pass-Through to US CPI to Accelerate

The impact of tariff hikes on US CPI inflation has been modest so far. Core goods inflation has returned to positive territory in annual terms since April, but prices only rose by 0.2% a month in June and July. However, pass-through is likely to accelerate soon.

Limited pass-through to date partly reflects delays between tariff change announcements and movements in actual realised tariff rates. Data through July show the realised ETR – duties collected as a share of total goods imports – had only risen to around 9.6%, well short of the 16% rate we estimate based on the latest policy announcements. The delay in the implementation of higher rates until August has played a part, but trade diversion has also been a factor. The share of US goods imports originating from China – where tariff rates are much higher – fell to 9% in July from 13% in 2024, offset by a rising share from Vietnam and other suppliers in Asia. This redirection could become more difficult over time as broader-based US tariff hikes and trade measures kick in, including initiatives to limit trade diversion.

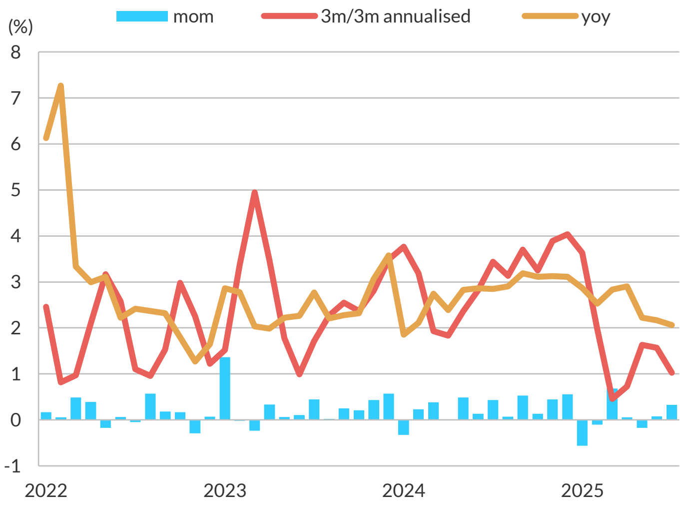
The build-up in imported inventories sourced before tariffs rose may also have delayed pass-through, but this effect will fade as

US - Corporate Sector Profit per Unit of Real GVA



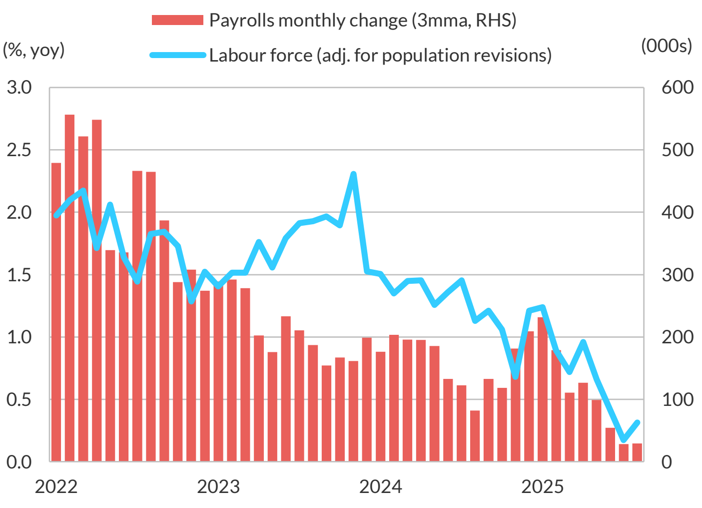
Source: Fitch Ratings, BEA, Haver Analytics

US Real Consumer Spending Growth (%)



Source: Fitch Ratings, BEA, Haver Analytics

US Employment and Labour Force Growth



Source: Fitch Ratings, BLS, Haver Analytics

these inventories are depleted. Massive uncertainty in 2Q25 about the duration of announced changes may also have made firms reluctant to pass on tariff increases quickly. Sellers' attitudes may change as it becomes clear that higher tariffs are here to stay.

A notable feature of the macro data is that US import prices – which are measured excluding duties – have not fallen. Exporters do not appear to be lowering their export prices to offset the extra duties being levied once the goods arrive in the US. This points to the higher import tax bill being fully borne by US residents. With the limited pass-through to the CPI, this would imply that US firms have, so far, squeezed profit margins or borne down on other costs.

There is some tentative evidence to suggest profits have been under pressure in the 2Q25 national accounts. The corporate sector gross value-added deflator breaks down the price charged by non-financial firms into unit labour costs, profits per unit and other non-labour unit costs which include taxes on production and imports (net of subsidies). Price inflation on this measure remained steady in 2Q25 at 1% despite a sharp jump in the tax component of other unit costs, which, in turn, reflected the rise in import duties. Profits per unit fell by 1.1% yoy. Unit labour costs growth remained positive but also slowed to 0.4% yoy from 1.3% in 2024. Corporate pricing behaviour in the post-pandemic inflation episode – when unit profits grew rapidly in 2021 and 2022 despite supply-chain disruptions and related cost shocks – suggests that companies may be unlikely to tolerate lower margins for too long.

Other indicators also point to a stronger pass through ahead, including upstream producer price inflation measures and business survey responses. A micro study from Harvard University also suggests that imported goods prices have risen faster than domestically sourced products at major US retailers since the tariff increases began. Our forecasts anticipate a significant pick-up in CPI inflation to 3.6% by December as tariff hikes feed through more strongly to core goods prices.

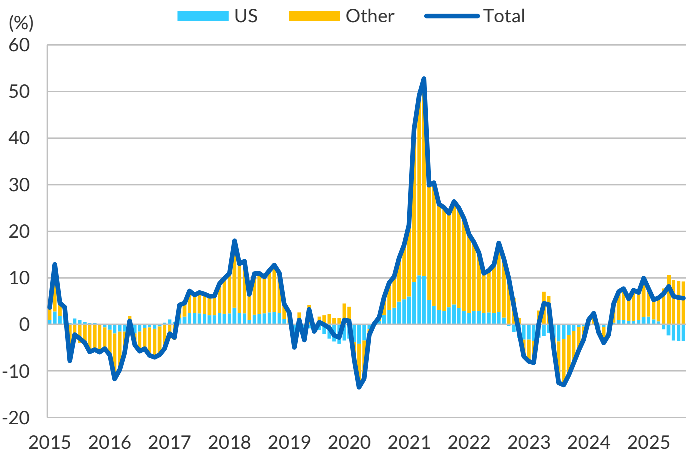
Evidence of US Consumer Slowdown

Rising inflation will dampen real wage growth given that nominal wage inflation is either steady or declining modestly (depending on which measure is tracked). This will put downward pressure to consumer spending dynamics, which have already cooled. Consumption slowed to 1.6% annualised in 1H25 from 2.8% in 2024 and in the three months to July, annualised growth weakened further to 1.0%. Spending on services, which account for two-thirds of consumption and historically has been less volatile than goods spending, has eased markedly this year. The saving ratio has risen by around 1pp since end-2024 as consumer confidence has fallen.

A slowdown in job growth is also weighing on confidence and aggregate household real income. Payrolls expanded by just 29,000 per month in the three months to August which was the slowest rate since 2010 (excluding the pandemic). This partly reflects a sharp decline in labour supply growth which dipped to just 0.3% yoy in August (using BLS Household Survey data adjusted for population revisions), down from 1.2% in 2024. The squeeze on immigration is reducing population growth as reflected in our recent update to US supply-side potential growth. The US population grew by 1% a year in 2023 and 2024, mainly due to net immigration, but we expect annual population growth to fall to 0.3% over the next few years as net immigration slows to less than 500,000 from 2.5 million a year in 2023 and 2024.

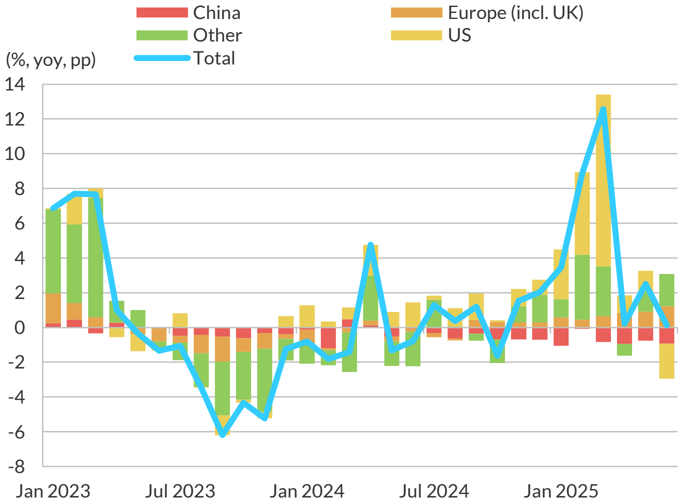
China Goods Exports (USD)

3mma - change on year earlier



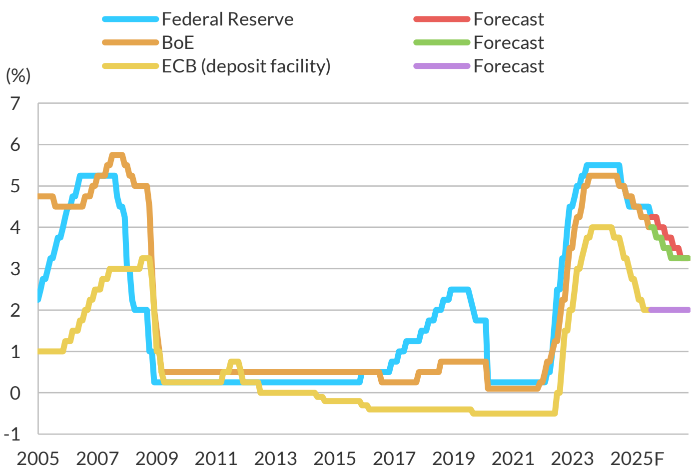
Source: Fitch Ratings, GAC, Haver Analytics

Eurozone – Export Growth by Destination



Source: Fitch Ratings, Eurostat, Haver Analytics

Fitch Policy Interest Rate Forecasts



Source: Fitch Ratings, Fed, BOE, ECB

Fitch expects consumer spending to slow further in 2H25 before picking up sequentially in 2026 as fiscal easing and tax cuts support demand and policy interest rates fall.

China's Growth Rotation Progresses Slowly

When the global trade war commenced this year, we assumed that China would see a shift from external to domestic demand as the key driver of economic growth, and that the Chinese authorities would respond to the tariffs through a combination of fiscal and monetary stimulus and by allowing the exchange rate to depreciate. Looser policy would then support domestic demand, alleviating domestic deflationary pressures.

For now, there are only tentative signs that this rotation is under way. Fiscal stimulus is supporting capital spending on infrastructure (which had grown steadily in 1H25) and consumer spending through durable goods trade-in programmes. Retail sales growth strengthened in the first months of the year but data for July point to weakening demand, and we do not expect the pace of fiscal stimulus to increase over the final months of the year. Export growth has held up well, despite sharp year-on-year declines in exports to the US. We expect GDP growth to slow in 2H25, after strong outturns in 1H25.

There are risks to the outlook for domestic demand and Fitch believes that the durability of the recovery in consumption is unclear without a rebound in consumer confidence, which remains stuck at very low levels, around two standard deviations below the mean. Low confidence reflects, among other factors, negative wealth effects from the ongoing property sector correction.

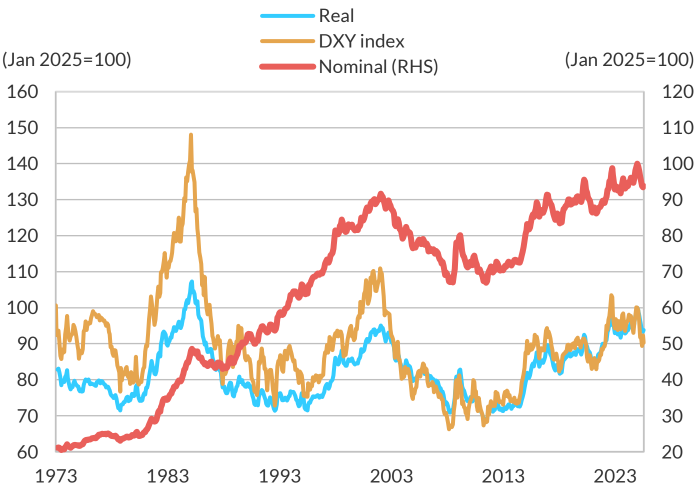
Monetary policy has taken a back seat in terms of policy response. The People's Bank of China (PBoC) has been more cautious than we expected in loosening policy and has kept its policy rate at 1.4% after cutting in May by just 10bp. Moreover, the renminbi has appreciated since June and the PBoC is leaning against any depreciating pressures. This may seem surprising given that a weaker exchange rate could offset the impact of higher tariffs through lower local-currency export prices. But China's overall competitiveness has improved through other currencies' strength versus the dollar (and the renminbi), and lower price pressures than China's trading partners, thus bearing down on the real exchange rate. This has helped China redirect export sales to other countries as exports to the US have fallen.

Domestic price pressures remain weak despite the recovery in consumer spending, with headline inflation close to zero, producer price inflation still negative and signs of weakness in the labour market. The GDP deflator has declined in annual terms for nine consecutive quarters up to 2Q25. The Chinese authorities are now acknowledging the downsides of excess capacity and price competition across industrial sectors and have indicated that supply-side initiatives will be used to address deflationary pressures. But it is unclear to what extent these initiatives will translate to upward pressures on prices. These measures could also weigh on GDP growth by reducing investment, which may have been a factor in the sharp drop in fixed-asset investment in July.

Eurozone Holds Up but Lull in Growth Ahead

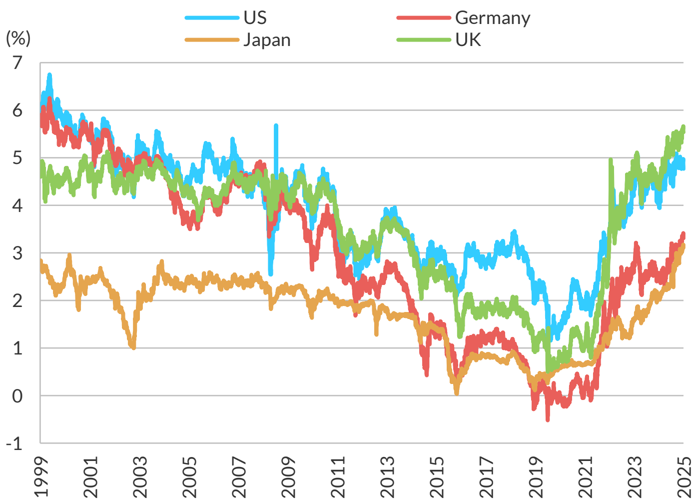
Our higher eurozone growth forecast for 2025 is largely due to stronger carry over from a better-than-expected outturn in 1H25.

US Dollar Broad Effective Exchange Rate Indices



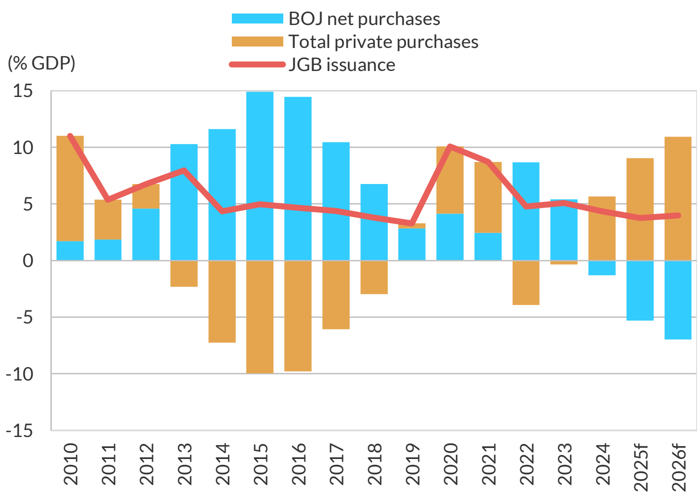
Source: Fitch Ratings, FRB, Haver Analytics

Long-Term (30 Year) Government Bond Yields



Source: Fitch Ratings, LSEG, Ministry of Finance Japan, Haver Analytics

JGB Issuance and BOJ Net Purchases



Source: Fitch Ratings, JSDA, BOJ, Haver Analytics

But the arithmetic disguises a quite fragile recovery. A key driver of 1H25 surprise was front-running of exports to the US ahead of tariff increases. Exports from Ireland grew particularly rapidly in 1Q25 with pharmaceuticals exports surging. With US Section 232 tariffs on the sector yet to be implemented, EU exports to the US continued to be exceptionally strong in 2Q25. This strong export dynamic now looks to have run its course: eurozone total exports were flat yoy in June and sales to the Americas were down nearly 10%. The appreciation of the euro could also amplify headwinds on net trade over the next year.

The tariff shock is particularly impactful for Germany's export-oriented economy, where recent GDP revisions revealed that the recession in 2023 and 2024 was deeper than previously thought. The gradual pick-up in consumer spending that began in early 2024 has faded in recent months. Consumption grew just 0.1% qoq in 2Q25 in the eurozone, despite real wages continuing to rise. Consumer confidence has fallen and the saving ratio has risen in France. We anticipate zero GDP growth in 2H25. Quarterly growth should pick up in 2026 as German fiscal easing gains more traction and public investment in Italy and Spain benefits from Next Generation EU fund disbursements. With credit growth picking up there should also be some impetus from earlier ECB rate cuts. Some forward-looking manufacturing surveys have also improved of late.

Fed Now Likely to Cut Twice by Year-End

The recent deterioration in job growth is likely to persuade the Federal Reserve to cut by 25bp in September. While the FOMC expects inflation to pick up as tariff pass-through strengthens, a 25bp cut would leave rates clearly in restrictive territory allowing the Fed to argue that it is not taking undue risks with inflation. The vote at the July meeting was already split, with two members opting for a 25bp cut. Fed Chair Powell recently noted that downside risks to employment are rising and that tariff impacts could be a one-off hit to the price level rather than a source of ongoing inflationary pressure. We anticipate a further 25bp cut in December and then three more in 2026 as tariffs stabilise and unemployment rises. The ECB is expected to keep rates unchanged at 2%, a change from our previous forecast of one further cut to 1.75%. Recent ECB commentary has sounded less dovish as activity has held up, growth forecasts have improved and unemployment has remained low. But with inflation back at target and wage growth easing it would not take too much to persuade the ECB to move rates below neutral.

Dollar and Long-Term Yields Under Pressure

These monetary policy developments are unlikely to provide much support to the US dollar. The dollar has stabilised since the end of June as uncertainties about US trade policy have eased, but it remains around 9% to 10% weaker than at the start of the year. Our end 2025 EURUSD assumption of 1.16 is about 4% weaker than assumed in June. Nevertheless, from a historical perspective the dollar remains strong in nominal and real effective terms. Upward pressures persist on 30-year government bond yields in the US, UK, Japan and Europe. Japanese yields have risen particularly fast, possibly related to the very aggressive pace of quantitative tightening by the Bank of Japan. Rising term premia in US Treasury yields could reflect market concerns about supply. Real (inflation-protected) US yields are back to pre-2008 levels and the 30-year real yield is a strikingly high 2.7%. These high rates are dampening activity in US real estate, where investment continues to fall.

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