

# Bracing for impact

- The tariff deals the US struck over the summer have averted a worst case scenario for the global economy
- The impact of tariffs remains uncertain, and depends on how, when and where businesses pass on the tariffs to consumers
- We have modestly downgraded our eurozone growth forecast as tariff rates came in somewhat higher than the base case
- Stronger domestic demand is helping, amid US and China weakness
- **Spotlight:** Fed Chair Powell is likely to keep his options open at Jackson Hole, given uncertainty in US inflation and labour market data
- **Regional updates:** The US tariff impact is unfolding more gradually in **eurozone**; we now expect the ECB to keep rates on hold
- **Prinsjesdag** is in focus in the **Netherlands**, as the October election looms
- In the **US**, growth is stalling outside of the data centre boom
- **China** data weakness increases the urgency to step up stimulus



**Bill Diviney**  
Senior Economist Eurozone/Head Macro  
[bill.diviney@nlabnamro.com](mailto:bill.diviney@nlabnamro.com)



**Jan-Paul van de Kerke**  
Senior Economist Eurozone/Netherlands  
[jan-paul.van.de.kerke@nlabnamro.com](mailto:jan-paul.van.de.kerke@nlabnamro.com)



**Aggie van Huisseling**  
Economist Netherlands  
[aggie.van.huisseling@nlabnamro.com](mailto:aggie.van.huisseling@nlabnamro.com)



**Rogier Quaedvlieg**  
Senior Economist US  
[rogier.quaadvlieg@nlabnamro.com](mailto:rogier.quaadvlieg@nlabnamro.com)



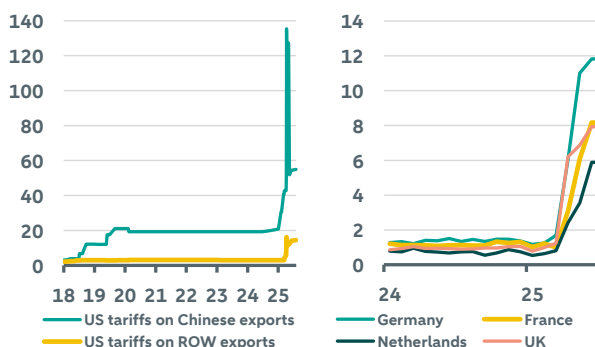
**Arjen van Dijkhuizen**  
Senior Economist China/World Trade  
[arjen.van.dijkhuizen@nlabnamro.com](mailto:arjen.van.dijkhuizen@nlabnamro.com)

## Global View: With deals now struck, attention is shifting to how much impact US tariffs will have

After six months of tariff drama, the contours of the US's new trading regime are coming into view. Frameworks – to the extent that they stick – have been signed, and US tariff rates are generally somewhat higher than expected, although not catastrophically so. Now that agreements have been struck and we know what we are dealing with, the focus is shifting to what kind of impact the tariffs will have. US tariffs will still act as a significant dampener on the global economy, but they are unlikely to cause recessions. Still, the nature of the shock is unprecedented in modern times. On the one hand, the shock to global trade could be bigger than we forecast, with unforeseeable nonlinearities. On the other hand, if we see more extensive/sustained 'spreading of the pain' by multinationals or by exporters to the US in order to limit demand effects, the impact could be milder than we forecast. Tariffs aren't the only game in town of course. Whether Russia and Ukraine make peace or not, Europe looks determined to significantly raise defence spending over the coming years<sup>1</sup>, which is expected to start lifting growth in 2026. In the US, immigration policy is also playing a key role in shaping the impact of a slowing economy on the labour market, and in turn its effect on inflation [and Fed policy](#). And in China, while exports have been resilient in the face of US tariffs, the government is still struggling to stimulate weak domestic demand amid a four-year long property bust. As we brace for the tariff impact, attention is also likely to increasingly shift to new economic drivers.

### Tariff rates are settling a bit higher than our base case

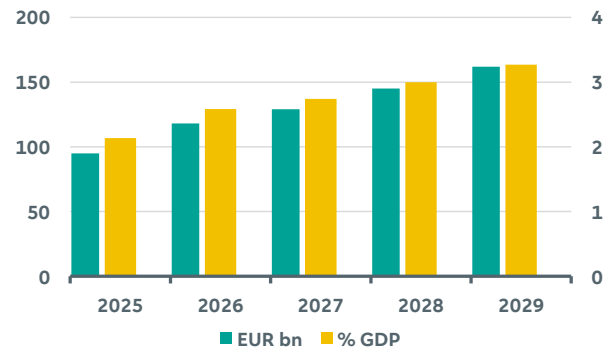
Effective US tariff rates, % (lhs chart weighted by 2017 trade shares)



Source: PIIE, Bloomberg, ABN AMRO Group Economics

### Germany is set to rapidly raise spending

German defence spending as budgeted, EUR bn (lhs) and % GDP (rhs)



Source: German government, ABN AMRO Group Economics

<sup>1</sup> Either way, Europe is unlikely to go back to importing Russian gas on a large scale.

## Trade deals turned out a bit worse than our base case, but not alarmingly so

In line with our expectations in the last [Global Monthly](#) before the summer break, the US ended up agreeing tariff deals in July and August with its biggest trade partners, averting a damaging escalation and renewed uncertainty over the outlook. Broadly speaking the US has divided the world into three buckets: 1) developed markets, whose goods face a baseline tariff of c15% when entering the US<sup>2</sup>, 2) emerging markets<sup>3</sup> ex-China, with a higher tariff of c20-30%, and 3) China, which faces an effective tariff of c40%. Alongside these country specific tariffs, there are higher tariffs for certain sectors such as steel & aluminium and cars, though here as well, there are numerous carve-outs. Meanwhile, around 1/3 of US imports – including consumer electronics, pharmaceuticals, and semiconductors – remain entirely exempt of tariffs, at least for the time being. Tariffs are still far from universal.

As each other's biggest trade partners, the most consequential of all the agreements was that between the US and the EU on [27 July](#). Ultimately, the EU agreed to accept a 15% tariff on most of its exports to the US, with some key exemptions for aircraft and certain chemicals. This 15% rate was higher than our base case expectation for a 10% tariff, though the difference is blunted by 1) the fact that the 15% no longer 'stacks' on top of pre-existing (most-favoured nation) tariffs, 2) a 15% tariff ceiling for key sectors such as cars (was 25%), as well as pharmaceuticals – which are currently exempt but where much higher (as much as 250%) tariffs have been threatened.

Taken together, while worse than our base case, the EU-US trade deal was by no means catastrophic, and is unlikely by itself to tip either side into a recession. We have made a downgrade to our eurozone growth forecast for next year, though this also reflects two other important factors that have come to light in recent months: 1) that the frontloading of exports to the US at the beginning of the year is unwinding more slowly than we thought it would, and 2) that businesses seem to be taking longer to pass tariffs on through supply chains and to consumers. These factors slightly raise our 2025 growth forecast to 1.2% from 1.1%, while taking our forecast for 2026 back down to 0.8% from 1.1% previously<sup>4</sup>. In quarterly terms, we expect q/q growth to stay below trend in the near term, before picking up towards the end of the year.

### Frontloading unwind still has further to go

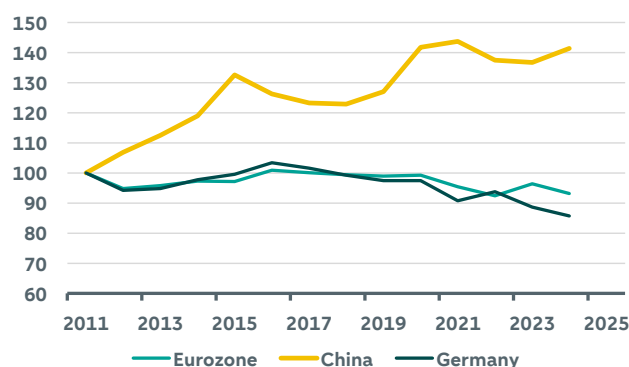
Monthly EU exports to the US, EUR bn



Source: Bloomberg, ABN AMRO Group Economics

### German competitiveness under pressure

Index, 2011 = 100, log scale, global market shares in goods exports



Source: Bundesbank, ABN AMRO Group Economics

## Impact of trade tariffs appears to be unfolding more gradually than expected

First, on the unwind of frontloading. While European exports to the US fell by some 42% from March to June, this followed an extraordinary spike in exports in Q1, as exporters tried to get ahead of the tariffs implemented in April. Current levels of exports represent a mere normalisation rather than full payback for the earlier jump. Assuming US inventories are not now kept permanently higher, a further fall, or extended slump, in exports looks unavoidable. We suspect that different dynamics in different product categories explain why frontloading has not fully unwound yet. For instance, given that tariffs on pharmaceuticals have yet to be implemented (they are subject to a Section 232 investigation, which is due to complete in November at the latest), some frontloading is probably still happening in this category, offsetting bigger declines in other categories. This softens the blow of the frontloading hangover.

<sup>2</sup> The UK, Australia and Singapore face a lower 10% tariff, likely reflecting that they have a trade deficit rather than a surplus with the US.

<sup>3</sup> India and Brazil are notable exceptions, which face higher tariffs. For India, this is linked to its oil imports from Russia, and Brazil due to the treatment of former President Bolsonaro.

<sup>4</sup> This brings us full circle back to our Global Outlook projections [last November](#). While tariffs have surprised negatively since then, German government spending plans have surprised positively, and these two factors can be thought of as broadly offsetting.

Second, anecdotal reports (see [eurozone](#)) suggest that European multinationals with subsidiaries in the US view tariffs as a hit to margins rather than a reason to immediately raise prices. Over time we expect businesses to recover their margins by raising prices. This will depend crucially on the consumer demand environment in the US, which is looking fragile of late (see [US](#)). Still, the ability of businesses to absorb some of the tariff rise – even if temporary – helps to dampen the demand shock. Another means by which the demand shock might be managed is if businesses opt to implement small but global price rises rather than concentrated, big price rises in the US. The latter would likely induce a much bigger demand shock. This would seem to incentivise multinationals to “spread the pain” if anything. Indeed, the fact that eurozone demand is strengthening just as US demand is weakening would also work to encourage this type of response.

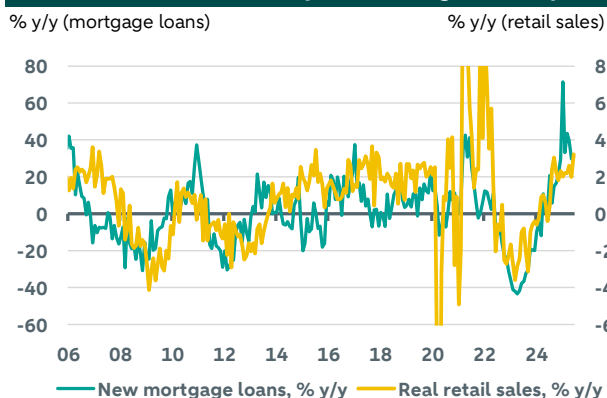
Still, the tariffs could not come at a worse time for the European – especially German – export industry. In trade-weighted terms Germany is the hardest hit of the major eurozone economies, with an effective tariff rate of almost 12% as of June (see chart on front page). But tariffs are just the latest setback for German exports. According to Bundesbank estimates, Germany’s market share in goods exports have fallen since 2017 and have been particularly weak since 2021, especially in machinery and energy-intensive industries. High energy prices and structural factors like bureaucracy and demographics are major drags. More recently, the stronger euro has presented an additional challenge, and we expect further euro strength next year (our end-2026 forecast for EUR/USD stands at 1.26). But most important has been China going from a source of demand for German exports to a competitor – even in home markets (see chart above). This looks unlikely to change dramatically in the near-term, with the Chinese authorities still struggling to resuscitate consumer demand. All told, the combination of US tariffs and competitiveness pressures are likely to continue weighing on the eurozone external sector at least through 2026.

### Eurozone domestic demand saves the day, amid US and China weakness

By almost lucky coincidence, eurozone domestic demand is strengthening, helped by ECB rate cuts, and an upturn in the credit cycle (see chart below). Domestic demand is likely to strengthen further as Germany starts spending its fiscal bazooka. Higher defence spending in particular is likely to give industry a much needed new source of demand, just as export markets continue to soften. Germany plans to raise defence spending to 3.5% of GDP by 2029 – far ahead of the NATO target of 2035 (see above). German infrastructure spending is also set to rise more quickly than we originally expected. The more accelerated opening of the German fiscal taps is one of the main reasons we [no longer expect](#) the ECB to cut rates further.

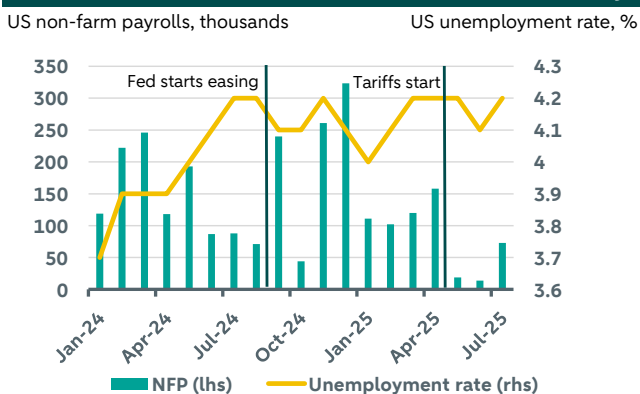
Elsewhere, our base case is largely unchanged. In the US, underlying growth has already slowed considerably (as we discuss in the US section), and we expect further weakness as tariffs are passed on to consumers, depressing real incomes. An additional drag is coming from the softening labour market. All told, US growth is expected to stay well below trend over the next year, only picking up towards the end of 2026. A key uncertainty is when the Fed starts to cut rates. As we discuss in our Spotlight next, this is highly dependent on the data flow of the coming weeks, and US data has so far failed to paint a clear and convincing picture in either direction. And in China, we expect the authorities to step up stimulus, with recent weakness in data likely increasing policymakers’ sense of urgency. However, this is likely to be more about limiting the downside rather than sparking a new boom: we still expect (annual) GDP growth to slow in 2H-2025.

#### Eurozone: Turn in credit cycle is lifting consumption



Source: LSEG, ABN AMRO Group Economics

#### Labour market weakness amid tariffs and uncertainty



Source: LSEG, ABN AMRO Group Economics

## Spotlight: Jackson Hole will not confirm September cut

Rogier Quaedvlieg - Senior Economist US | [rogier.quaedvlieg@nlabnamro.com](mailto:rogier.quaedvlieg@nlabnamro.com)

- Last year, Jackson Hole was pivotal in sending a signal that rates would be cut in September
- With pivotal data releases between his speech and the FOMC meeting, Powell will not want to commit
- The macro outlook remains murky, with inflation rising, but not surging, and the labour market weakening, but not crashing

This Friday marks the start of the Fed's annual gathering in Jackson Hole. The chair's annual speech has often been used to signal policy shifts. Last year, Powell chose to very clearly signal an impending cut by characterizing the labour market. Unemployment had risen to 4.3%, and the BLS had just released its annual non-farm payrolls (NFP) benchmarking revision, which lowered employment by more than 800k. Powell then described the labour market as undergoing an 'unmistakable cooling,' and used a phrase we consistently heard throughout the latest easing episode: 'we do not seek or welcome further cooling in labour market conditions.'

Last year, inflation was on the decline, and the labour market was deteriorating, a clear case for rate cuts. This year, inflation is on the rise, and the labour market is deteriorating. On top of that, there is substantial political pressure to lower rates. A decidedly worse place to be as a central banker. Correspondingly, uncertainty is also higher. Reasonable cases can be made for keeping rates steady, for a 25 bps cut, and some are even advocating a 50 bps cut following the NFP revision. Initially, this resulted in markets pricing in more than 25bps of easing for September, but after last week's PPI data, markets have shifted to about 20 bps, implying an 80-85% probability of a 25bps cut. This means that Powell does not have to give a very strong market-moving signal to keep his options open, which we believe is what he will aim for.

The extent of the labour market decline will be vital in discerning between these three policy options, and at the time of the Jackson Hole speech, Powell will not have full information. In the weeks between this speech and the FOMC meeting on 16-17 September, the annual NFP benchmarking revision will be revealed (and preliminary QCEW data is pointing towards a revision of similar magnitude to last year), and the August labour market report is due to be published, although the new Trump-appointed head of the BLS – 'EJ' Antoni – initially suggested that he might not publish new monthly statistics until their models are in order. Luckily, he has since backed off of the idea.

On the other side, policy has remained moderately restrictive in anticipation of tariff-induced inflation. While there are increasing signs of tariffs impacting prices, the overall pass-through has been limited. There are a variety of reasons why prices have yet to reflect the full magnitude of tariffs, including frontloading and policy uncertainty. Still, various indicators show that that inflation bump is around the corner, including the PMI on output prices, and recent PPI data, where the headline figure increased by 0.9% m/m, the largest gain since 2022. The August CPI report, also prepared by the BLS, may or may not reflect this already, but some further evidence of tariff pass-through will be vital for the hawks on the FOMC to make their case. We don't expect this month's PCE inflation report to provide that impulse either, with core likely coming in at 0.3% m/m.

In short, we do not expect a clear rate signal at Jackson Hole, but rather a clear message of data-dependence. We do expect Powell to provide a somewhat hawkish interpretation of the labour market, highlighting the lower break-even rate of non-farm payrolls and re-emphasizing the need to consider labour market balance, not just demand (see also our latest [research](#)). He will highlight concerns about tariff-induced inflation on the horizon. This should keep markets in between one or no cuts for September, keeping the FOMC's options open. Powell is also expected to announce the conclusions from the FOMC's framework review, with the most important change expected to the Fed's policy of 'flexible average inflation targeting.' This policy was introduced in 2019-20 framework review, and was a response to the persistently below target inflation preceding the pandemic, and suggested to target average inflation of 2% over an unspecified period of time. It would imply that the Fed might have to target *below* 2% inflation for an extended period following the latest inflation wave. Rather, they are likely to take the opportunity to reaffirm a strong focus on the symmetric 2% target. As only one side of the mandate, this would not necessarily reflect a strong hawkish signal for the current juncture.

Our base case remains for the Fed to not cut rates this year, with weak labour supply mitigating the effects of weak labour demand, and tariff induced inflation requiring rates to remain somewhat restrictive. Following the peak of tariff induced inflation, they can start easing in the first quarter of 2026. As detailed above, incoming data, particularly a weak labour market report, may force the Fed to cut as early as this September. We will update our view when all relevant data is available.

## Eurozone: Spreading the pain

Bill Diviney – Senior Economist | [bill.diviney@nl.abnamro.com](mailto:bill.diviney@nl.abnamro.com)

Jan-Paul van de Kerke – Senior Economist | [jan-paul.van.de.kerke@nl.abnamro.com](mailto:jan-paul.van.de.kerke@nl.abnamro.com)

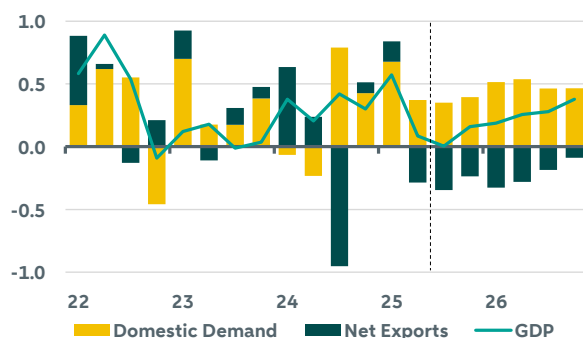
- The tariff shock is unfolding more gradually, with a milder but more prolonged growth hit
- The impact is also blunted by solid consumption, helped by falling rates and benign inflation
- The ECB is now expected to look through the undershoot of its 2% inflation target. This means no further rate cuts on our forecast horizon, and the deposit rate holding at 2% for the foreseeable future

The eurozone proved more resilient than expected in Q2, with the economy eking out growth of 0.1% q/q, following the 0.6% jump in Q1; we had expected a small contraction reflecting the unwinding of US export frontloading in Q1. While that unwind is happening, it is unfolding more gradually than expected. A number of factors likely explain this. First, we have yet to see any tariffs on pharmaceuticals, which represent ¼ of EU exports to the US. With tariffs still looming for this sector, it is likely that the frontloading that started in Q1 extended into Q2. Second, it appears that large multinationals are initially opting to take a hit to their margins rather than immediately passing on the tariff to US consumers. Some European car and alcoholic beverage brands have pointed to margin hits from tariffs in their investor communications rather than price rises. This will not be sustainable over time, as businesses will be unlikely to accept a permanently lower profit margin (or even losses) in one of their biggest markets. But for the time being, this response to tariffs is blunting the consumer demand impact, which in turn blunts the fall in exports to the US. This means a milder near-term shock from tariffs than we previously assumed, but this spreads the pain over a longer time horizon rather than avoids it entirely (see also this month's [Global View](#)).

The other factor keeping the economy going is a further solid expansion in consumer spending. While we do not have the full breakdown for Q2 GDP as yet, monthly data for retail sales and services in April-May points to growth of c0.3% q/q in private consumption. Consumption is being helped by falling interest rates, which are lifting housing transactions, as well as rising real incomes as wage growth continues to outpace inflation. Indeed, inflation remained broadly benign in July, with services inflation in particular normalising more quickly than expected. With that said, food inflation has been picking up again over the past few months, and this bears close watching given the outsized impact this typically has on household inflation expectations. Goods inflation also surprised to the upside, though this was more likely to be an anomaly. If anything, we expect goods inflation to face downward pressure over the coming year, on weaker demand from the US on the back of tariffs, as well as from more intense competition from Chinese goods. All told, we continue to expect falling energy prices to drive an undershoot of the ECB's 2% inflation target in the coming quarters.

### Tariff shock now shallower but more prolonged

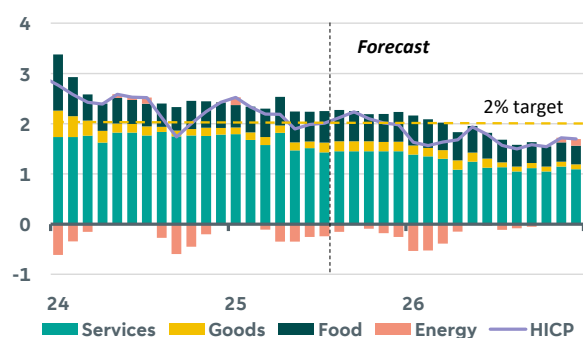
pp contribution to GDP, % q/q



Breakdown for Q2 is our estimate. Source: LSEG, ABN AMRO Group Economics

### Inflation still expected to go below the 2% target

pp contribution to HICP inflation, % y/y



Source: LSEG, ABN AMRO Group Economics

Despite the expected inflation undershoot, recent communication from the Governing Council (President Lagarde: policy is in “a good place”) suggests it is happy to look through this on the basis that inflation will eventually return to target during 2027. Although the ECB's inflation projections factor in one more 25bp rate cut (based on market rate expectations in June), we doubt the Governing Council is minded to fine-tune policy to that degree. Cutting rates once after an extended pause risks sending confusing signals to markets. Given the recent emphasis in ECB communication on policy being in a good place, the more gradual hit from US tariffs, and the upside risks to growth in 2026 from higher German fiscal spending, we now expect the ECB to keep rates as they are for the foreseeable future, with the deposit rate staying at 2%. This represents a change to our previous base case that there would be another 50bp of rate cuts.

## The Netherlands: Heading into budget and election season

Jan-Paul van de Kerke - Senior Economist | [jan.paul.van.de.kerke@nl.abnamro.com](mailto:jan.paul.van.de.kerke@nl.abnamro.com)

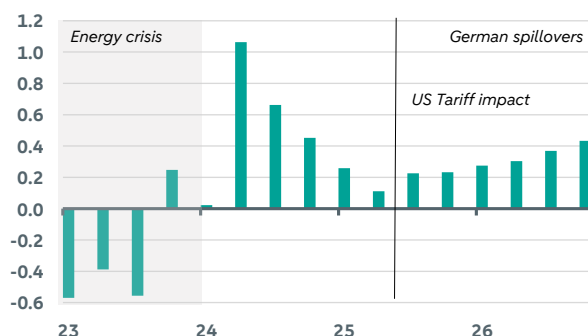
Aggie van Huisseling – Economist | [aggie.van.huisseling@nl.abnamro.com](mailto:aggie.van.huisseling@nl.abnamro.com)

- Q2 GDP came in at 0.1% q/q, roughly in line with our expectations (0.2% q/q), leading to small tweaks to our annual forecast of 1.5% in 2025 (from 1.6%) and 1.1% in 2026 (from 1.3%)
- Tariffs will weigh on activity in the near term, directly and indirectly via main trading partners
- 2026 growth benefits from rate cuts, solid demand and fiscal spending in main trading partner Germany
- After summer, it is all eyes on the Hague, with the caretaker government presenting the 2026 budget, and the election campaign ahead of the 29 October elections

After the summer break it is all eyes on the Hague in the upcoming months. First, the third Tuesday of September is the traditional timing of 'Prinsjesdag'; Dutch budget day. The current caretaker government will present the 2026 budget. More likely is that budget negotiations are taken hostage by the elections that take place roughly a month later. Typically, the caretaker status of government would mean that no new policies or large changes are forthcoming in the 2026 budget. But in light of the elections, however, the cabinet might announce some additional purchasing power measures to sway voters. Furthermore, we expect some news in areas where earlier decisions were postponed, such as financing of nitrogen policy and additional climate measures. Finally, perhaps the government will provide a first glimpse of how it intends to reach the new NATO target of 3.5% of GDP in core and 1.5% indirect defence spending, for which there was broad support in parliament. In any case, long term decisions and reforms, which are much needed given the many supply side constraints and future challenges faced by the Dutch economy, are not expected soon and subject to the outcome of the upcoming elections and following the formation process. Indeed, 1.5 month later, budget day is followed by the elections. Recently, the political campaign is slowly picking up steam. Current polls, which obviously can still change a lot, already signal large shifts in voting intentions. The previous government, before the far-right PVV quit the coalition, is projected to have just 56 seats left from the 88 seats they currently have in parliament, with more recent polls signalling an even bigger decline. While too early to be conclusive, a more centrist government, after the previous right-wing government, seems likely at this stage, but a lot can still happen.

### Growth weak in the near term, 2026 constructive

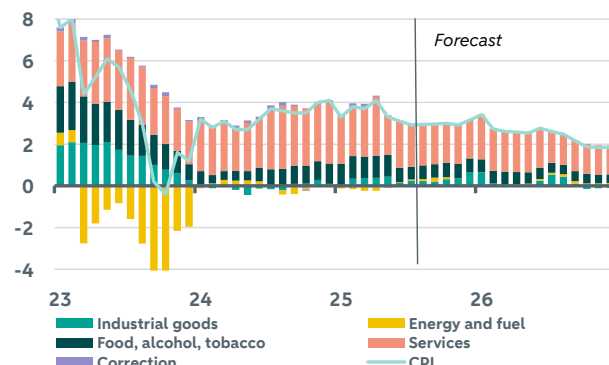
%, q/q



Source: LSEG, ABN AMRO Group Economics

### Services to keep Dutch inflation elevated above 2%

%, CPI inflation



Source: LSEG, ABN AMRO Group Economics

In the background the economy is performing as expected. After a solid Q1, growth slowed in Q2 and is expected to stay weak in the near term, partly on the back of a direct and indirect impact from US trade policy, tariffs and uncertainty. It is private consumption and government spending that remain resilient and drive growth over the coming quarters. This is helped by a strong labour market. After ticking up slightly at the end of 2024, unemployment has been roughly stable at 3.8% in the year to date and is set to creep only a little higher, to average 3.9% in 2025, on the back of slowing employment growth and further easing in labour market tightness. Looking through to 2026 the outlook is more constructive. Uncertainty should decrease from current levels, which should also lead to some normalisation in the household savings rate. Also supportive of private consumption is the fact that CLA wage growth remains elevated, while inflation continues to moderate. Other factors supporting activity in 2026 are the pass through of ECB rate cuts, leading to a more accommodative credit cycle, and the expansive fiscal stance in Germany which has spillovers to the Netherlands. Finally, perhaps by 2026 we will have the initial contours of a new government, which should provide some clarity on the domestic policy front.



## US: AI boom catches private demand bust

Rogier Quaedvlieg – Senior Economist | [rogier.quaedvlieg@nl.abnamro.com](mailto:rogier.quaedvlieg@nl.abnamro.com)

- The US economy slowed sharply in the first half of this year, only held up by the AI boom
- Consumption has slowed down and the consumer is under increasing pressure
- Private demand has all but stalled, with two thirds of growth coming from investment in data centers

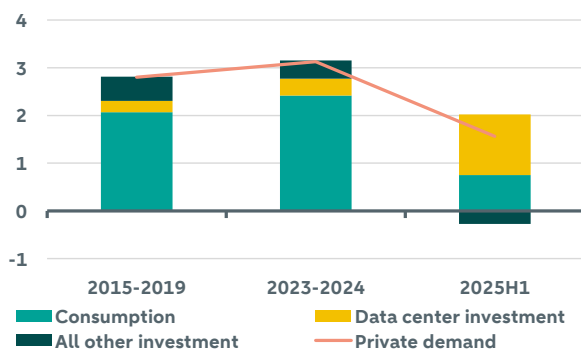
Over the summer, Q2 GDP growth surprised somewhat to the upside, rising 3.0% on an annualized basis. While a fantastic figure by itself, the devil is in the details. Global GDP figures in the first half of this year, and likely for some time to come, are distorted by the unprecedented shock in global trade from the US' tariff policy. Due to frontloading effects in US imports, Q1 showed a contraction, exaggerating the downturn, while the (partial) reversal in Q2 pushed the headline figure up far beyond the actual pace of the economy. Total growth over the first half of the year provides a better view of the actual underlying pace of the economy, but trade has certainly not normalized yet. The clearest signal therefore comes from private demand, a measure that strips out dynamics in net exports, inventory changes and government spending. What is left is consumer spending and private fixed investment. How are these two fairing?

The chart below plots average annualized private demand growth for the last half year, as well as reference periods including the last two years, and the five-year period preceding the pandemic. In all those periods, private demand grew at about 3.0% per year, which was still the quarterly pace in the fourth quarter of 2024. In 2025, private demand grew at an annualized 1.9% in Q1, and 1.2% in Q2. This is a clear slowdown, predominantly driven by weaker consumption growth, which slowed from well over 2% last year to below 1%. Investment has remained more resilient and is still growing at a steady pace, though as we explain below, this is now much more narrowly driven.

First we consider consumption, which showed the weakest half year growth in more than a decade if we exclude the pandemic. Real retail sales have declined since the start of year and are well below their peak in 2022. Economic Policy Institute microdata shows that for the bottom quintile, wages rose only 1% y/y as of July, i.e. real wages declined, while real wages marginally increased for the remaining households. Consistent with this, credit delinquency rates have steadily been increasing. The first two quarters of the year saw a sharp increase, not unlike the one in 2007-08. Decomposition by loan-types show that a large part of the recent pickup is related to the end of the payment pause that was part of the pandemic-related CARES package of March 2020, and therefore is largely technical in nature. Still, this means that delinquencies are rising fastest for people aged 18-39, and this has spillovers to delinquencies in other loan categories, predominantly credit card debit where delinquencies are also substantially elevated. Moreover, the return of student loan delinquencies, and this feeding into credit scores, will lower credit availability for a large percentage of households, further suppressing consumption. Still, other categories are below their pre-pandemic rates, and household balance sheets are generally looking a lot more healthy than 2007-08.

### AI investment carries private demand

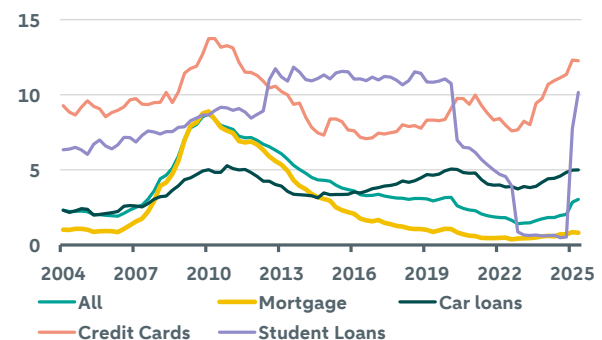
Average annual growth rates, decomposed %.



Source: LSEG, ABN AMRO Group Economics

### Credit delinquencies on the rise

Percent of Balance 90+ days delinquent, %.



Source: NY Fed consumer credit panel, ABN AMRO Group Economics

As for investment, the chart shows a decomposition of private investment in 'Information processing equipment' –essentially, investment in data centers – and all other private investment. This remainder actually contracted in the first half of the year, while data center construction boomed. Without data center investment, growth in the first half year would have been below 0.5%, less than the eurozone. This boom is unlikely to stop any time soon, with Trump doubling down on AI competition with China, by cutting regulations to accelerate AI development in the US, including construction of new data centers, factories, and energy plants. Even if the real macro effects of AI are still highly uncertain, investment in its future is already driving macro developments. The concentration of activity – which mirrors equity markets – is however worrying.

## China: After resilience comes the slowdown ... and more support

Arjen van Dijkhuizen – Senior Economist | arjen.van.dijkhuizen@nl.abnamro.com

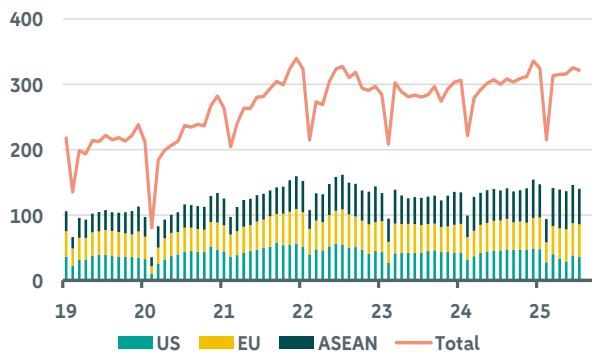
- Q2 GDP data showed a remarkable resilience, with exports holding up despite tariff war...
- ...but recent activity data confirm domestic imbalances, and weakening growth momentum
- Beijing focuses on 'excessive competition'; additional demand support still likely

### Q2 GDP data showed a remarkable resilience on the external front...

Considering how the second quarter started, with US-China tariffs initially skyrocketing in the post-US 'Liberation Day' escalation, the Chinese economy has been remarkably resilient. Quarterly growth slowed marginally to 1.1% q/q (Q1: 1.2%) and annual growth to 5.2% y/y (Q1: 5.4%). Exports held up well despite tariffs. The drop in direct exports to the US in April/May following the tariff escalation was offset by trade rerouting and reorientation, with exchange rate and inflation developments supporting competitiveness. Following the Geneva truce agreed mid-May, which reduced new US tariffs from 145% to 30%, Chinese exports to the US recovered a bit in June/July. Although US-China tensions flared up from time to time since, with the focus shifting from tariffs to chokepoints (see [here](#)), talks in London (June) and Stockholm (July) confirmed the status quo, in line with our expectations. The tariff pause has now been extended until mid-November, and there are talks of a potential meeting between presidents Trump and Xi in late October.

#### Chinese exports resilient during US tariff war

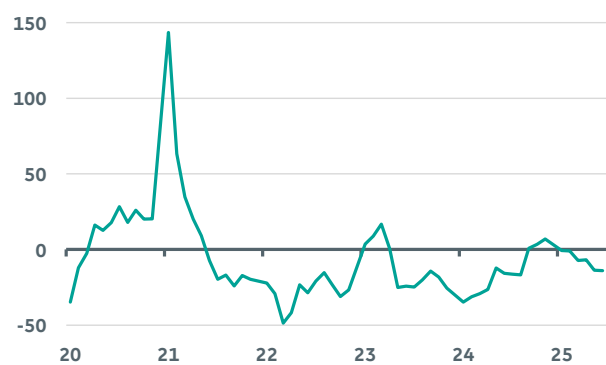
Chinese exports by destination, USD bn



Source: ABN AMRO Group Economics, Bloomberg

#### Real estate sector shows new signs of weakening

Residential home sales, % y/y



Source: Bloomberg, ABN AMRO Group Economics

### ...but recent activity data confirm domestic imbalances and a weakening momentum

Despite this external resilience, domestic imbalances remain. Except for foreign trade, July data surprised to the downside, and pointed to weaker momentum. Retail sales slowed more than expected, with the effects of consumer subsidies fading. Particularly striking was the turnaround in fixed investment, with manufacturing investment cooling sharply and infrastructure investment showing a rare monthly contraction. Next to some specific, technical issues, the crackdown on so-called disorderly ('involutionary') competition seems to be a key driver (see below). Deflationary pressures are also still abundant (ongoing producer price deflation and weak corporate profitability go hand in hand), although core inflation rose to a 17-month high of 0.8% y/y. The negative feedback loop from real estate to demand has not yet been broken, with the annual contraction in property investment and new home sales deepening. The labour market also shows signs of weakness, with the jobless rate picking up to 5.2% in July (June: 5.0%).

### Beijing focuses on 'excessive competition'; additional demand support still likely

Beijing's recent crackdown on excessive competition aims to fight deflation and restore corporate profitability by trying to prevent aggressive price wars in some sectors (like EVs) and to keep supply abundance in check. It remains questionable to what extent this crackdown will be effective, as the deflationary environment is in the first place a function of broad supply-demand imbalances, and previous crackdown policies haven't often caused counterproductive side effects on confidence and demand. Although we have marginally raised our 2025 growth forecast (to 4.9%, from 4.7%) on resilient Q2 GDP data, we still expect (annual) growth to slow materially in 2H-2025, partly reflecting base effects from last year. All in all, we still expect more fiscal support and piecemeal monetary easing aimed at stabilising domestic demand, the key policy goal for 2025, with the July data likely adding some sense of urgency. In fact, recent announcements already point to a stepping up of specific income support for households. Stabilising property will also remain a focus area, with plans to create room for SOEs to buy unsold homes from developers now floating around.



## Key views on a page

Global growth is slowing, as the US tariff shock drives an unwind of the frontloading of exports that occurred in Q1. While the tariff hit to growth remains significant, the deals struck over the summer – to the extent that they stick – have limited the downside risks. Interest rate cuts and other forms of policy support are a cushioning factor in the eurozone and China, while in the eurozone specifically, defence spending, and in Germany new infrastructure spending will support growth in late 2025 and into 2026. Still, the nascent recoveries in domestic demand in the eurozone and China face downside risks from weaker confidence, while in the US, demand will be hit by the tariff impact on real incomes. Inflation in the US is expected to reaccelerate, but to fall below target in the eurozone. This maintains the divergence in Fed & ECB policy, with the Fed expected to keep policy in restrictive territory until 2026, and the ECB keeping rates a little above our estimate of neutral.

Macro	Central Banks & Markets
<p><b>Eurozone</b> – Growth in the near term is slowing on the back of US tariffs and an unwind of US export frontloading, though the recovery in domestic demand (helped by rate cuts) is a key offset. Next year, higher defence and German infrastructure spending are likely to drive higher quarterly growth. Disinflation is continuing, with services inflation falling more quickly than expected, and wage growth continuing to cool. Food prices bear close watching given their importance for expectations. Still, falling energy prices are likely to drive an undershoot of the 2% inflation target later this year, helped by a stronger euro.</p>	<p><b>ECB</b> – The Governing Council kept policy on hold in July, and is likely to remain on hold for the foreseeable future. President Lagarde has said that the ECB is ‘well positioned’ to face the coming period of tariff impact and uncertainty. Despite the expected undershoot of the 2% inflation target, the GC seems minded to look through this on the expectation that inflation will return to target in 2027. Although the ECB’s inflation projections factor in one more 25bp rate cut (based on market rate expectations in June), we doubt the Governing Council is minded to fine-tune policy to that degree.</p>
<p><b>The Netherlands</b> – After the summer break, we are moving into budget and election season, with Budget day in September and Dutch elections scheduled for 29<sup>th</sup> of October. Growth in Q2 came in at 0.1% q/q, roughly in line with expectations. Due to the (in)direct effect of tariffs and related uncertainty, growth will cool over the course of 2025. In 2026, higher defence spending in the eurozone and fiscal spending in Germany, as well as rate cuts feeding through to the economy, will provide an upside to growth. Inflation will ease, but stay elevated compared to the eurozone in the coming quarters.</p>	<p><b>Fed</b> – In our base case, the massive amount of uncertainty on tariff pass-through to the real economy keeps the Fed rate at 4.5%. Throughout the year, the price stability mandate will carry more weight than the employment mandate, such that the Fed will keep rates restrictive. The recent downward revision of labour market statistics has however increased the probability that the Fed will choose the employment mandate and starts gradually easing in September. Otherwise, the resumption of disinflation in the new year will allow the Fed to start easing in the first quarter of 2026, by 25bps per quarter.</p>
<p><b>UK</b> – The economy is slowing on the back of the US tariff shock, as the frontloading of trade in Q1 is unwound in Q2. Still, the UK is less vulnerable to US tariffs than the eurozone, as it is less export dependent and faces a lower tariff rate. Lower interest rates and higher government spending are also giving some support to growth. Services inflation remains stubbornly high, with wage growth still well above levels consistent with 2% inflation. The rise in food inflation is a concern for inflation expectations, which have been historically high in the UK.</p>	<p><b>Bank of England</b> – The MPC lowered Bank Rate to 4.00% in August, in line with our expectations. Four of the nine MPC members dissented in favour of no change, reflecting the recent upside surprises in inflation and risk of inflation expectations de-anchoring. Our base case continues to see two final 25bp cuts in November and February, taking Bank Rate to 3.5%. If wage growth fails to continue normalising, and/or if inflation expectations stay elevated, the risk is for these cuts to be delayed to later in 2026.</p>
<p><b>US</b> – Tariffs and elevated uncertainty continue to slow down the economy. The impact of the Trump administration’s policy will gradually build in the hard data. We expect growth to slow down to 1.5% in 2025 and 1.2% in 2026. Tariffs will lead to an increase in PCE inflation to 3.1% by year end. Despite downward revisions in non-farm payrolls, deterioration in the labour market remain relatively contained as lower labour demand is paired with lower labour supply due to lower immigration. The unemployment rate only rises gradually to 4.5 by year end.</p>	<p><b>Bond yields</b> – The ECB’s rate-cutting cycle seems to have ended, leaving little scope for German 10y yields to fall further. We expect long-term yields to face upward pressure, driven by a rising term premium in Germany, reflecting higher government spending and increased debt supply in the coming years. Meanwhile, US 10y yields remain relatively low as markets price in substantial rate cuts. However, we believe the Federal Reserve will hold its current stance, prompting a significant market repricing to align with macroeconomic fundamentals.</p>
<p><b>China</b> – Q2 GDP data point to resilience, with exports holding up well during the US tariff war so far, and the ‘Geneva’ truce agreed in mid-May now extended to mid-November. Despite this (external) resilience, domestic supply-demand imbalances remain. July data generally surprised to the downside, pointing to a weaker growth momentum. Investment was hit by the recent crackdown on excessive competition. Although we marginally raised our growth forecasts, we still expect (annual) growth to slow in H2-25, and foresee more macro support aimed at stabilising domestic demand and the property sector.</p>	<p><b>FX</b> – Since EUR/USD set a high at 1.1829 on 1 July the move has lost momentum. The holiday period probably had something to do with this, and the market is looking for fresh news. Meanwhile we recently changed our ECB view (see above). Our ECB view change by itself implies a somewhat higher EUR/USD forecast, but uncertainty around the Fed path means that we prefer to keep our FX forecasts unchanged for now. Our forecast for EUR/USD end 2025 stands at 1.15 and end 2026 stands at 1.25.</p>

Main economic & financial market forecasts												
	GDP				Inflation				Policy rate			
	2023	2024	2025	2026	2023	2024	2025	2026	2023	2024	2025	2026
Eurozone	0.7	0.9	1.2	0.8	5.4	2.4	2.1	1.6	4.00	3.00	2.00	2.00
Netherlands	-0.6	1.1	1.5	1.1	4.1	3.2	3.2	2.4				
Germany	-0.7	-0.5	0.5	1.1								
UK	0.4	1.1	1.2	1.1	7.3	2.5	3.4	2.7	5.25	4.75	3.75	3.50
US	2.9	2.8	1.5	1.2	3.8	2.5	2.7	2.8	5.50	4.50	4.50	3.50
China	5.4	5.0	4.9	4.3	0.2	0.2	0.1	1.0	3.45	3.10	2.80	2.60

Note: Annual average for GDP and inflation, end of period for the policy rate

	2024	18/08/25	Q4 25	2025	2026	Energy	2024	18/08/25	Q4 25	2025	2026
US Treasury	3.88	4.34	4.45	4.45	4.65						
German Bund	2.02	2.78	2.80	2.80	2.95	Brent - USD/bbl*	74.64	66.60	60	58	60
EUR/USD	1.04	1.17	1.15	1.15	1.25	WTI - USD/bbl*	71.72	63.42	56	54	56
USD/CNY	7.30	7.19	7.00	7.00	6.80	TTF Gas - EUR/MWh*	46.68	31.28	38	38	32
GBP/USD	1.25	1.35	1.36	1.36	1.42						

\* Brent, WTI: active month contract; TTF: next calendar year

	2024				2025				2026			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP (q/q)												
Eurozone	0.4	0.2	0.4	0.3	0.6	0.1	0.0	0.2	0.2	0.3	0.3	0.4
Netherlands	0.0	1.1	0.7	0.5	0.3	0.1	0.2	0.2	0.3	0.3	0.4	0.4
US (saar)	1.6	3.0	3.1	2.5	-0.5	3.0	0.7	0.2	1.2	1.4	1.5	1.8
China (y/y)	5.3	4.7	4.6	5.4	5.4	5.2	4.8	4.3	4.3	4.3	4.4	4.3
Inflation												
Eurozone	2.6	2.5	2.2	2.2	2.3	2.0	2.1	2.0	1.6	1.8	1.5	1.6
Netherlands	3.0	2.9	3.3	3.7	3.3	3.7	3.0	3.0	2.8	2.4	2.5	1.8
US (PCE)	2.7	2.6	2.3	2.5	2.5	2.4	2.9	3.1	3.0	3.0	2.7	2.3
China	0.0	0.3	0.5	0.2	-0.1	0.0	-0.1	0.7	1.0	1.0	1.1	1.1
Unemployment												
Eurozone	6.5	6.4	6.3	6.2	6.3	6.2	6.3	6.4	6.4	6.4	6.4	6.3
Netherlands	3.6	3.6	3.7	3.7	3.8	3.9	4.0	4.1	4.2	4.2	4.3	4.3
US	3.8	4.0	4.2	4.1	4.1	4.2	4.4	4.5	4.6	4.7	4.7	4.7
Policy rate												
Eurozone	4.00	3.75	3.50	3.00	2.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00
US	5.50	5.50	5.00	4.50	4.50	4.50	4.50	4.50	4.25	4.00	3.75	3.50
UK	5.25	5.25	5.00	4.75	4.50	4.25	4.00	3.75	3.50	3.50	3.50	3.50
China	3.45	3.45	3.35	3.10	3.10	3.00	2.90	2.80	2.70	2.60	2.60	2.60

Source: LSEG, Bloomberg, ABN AMRO Group Economics

(saar = season adjusted annual rate)

## Macro Research Team

**Sandra Phlippen**, Chief Economist | [sandra.phlippen@nl.abnamro.com](mailto:sandra.phlippen@nl.abnamro.com)

**Aggie van Huisseling**, Economist | [aggie.van.huisseling@nl.abnamro.com](mailto:aggie.van.huisseling@nl.abnamro.com)

**Arjen van Dijkhuizen**, Senior Economist | [arjen.van.dijkhuizen@nl.abnamro.com](mailto:arjen.van.dijkhuizen@nl.abnamro.com)

**Bill Diviney**, Head of Macro Research | [bill.diviney@nl.abnamro.com](mailto:bill.diviney@nl.abnamro.com)

**Jan-Paul van de Kerke**, Economist | [jan-paul.van.de.kerke@nl.abnamro.com](mailto:jan-paul.van.de.kerke@nl.abnamro.com)

**Nick Kounis**, Head of Financial Markets Research | [nick.kounis@nl.abnamro.com](mailto:nick.kounis@nl.abnamro.com)

**Rogier Quaadvlieg**, Senior Economist | [Rogier.quaadvlieg@nl.abnamro.com](mailto:Rogier.quaadvlieg@nl.abnamro.com)

## FX & Rates Research

**Georgette Boele**, Senior FX & Precious Metals Strategist | [georgette.boele@nl.abnamro.com](mailto:georgette.boele@nl.abnamro.com)

**Sonia Renoult**, Rates Strategist | [Sonia.renoult@nl.abnamro.com](mailto:Sonia.renoult@nl.abnamro.com)

## DISCLAIMER

This document has been prepared by ABN AMRO. It is solely intended to provide financial and general information on economics. The information in this document is strictly proprietary and is being supplied to you solely for your information. It may not (in whole or in part) be reproduced, distributed or passed to a third party or used for any other purposes than stated above. This document is informative in nature and does not constitute an offer of securities to the public, nor a solicitation to make such an offer.

No reliance may be placed for any purposes whatsoever on the information, opinions, forecasts and assumptions contained in the document or on its completeness, accuracy or fairness. No representation or warranty, express or implied, is given by or on behalf of ABN AMRO, or any of its directors, officers, agents, affiliates, group companies, or employees as to the accuracy or completeness of the information contained in this document and no liability is accepted for any loss, arising, directly or indirectly, from any use of such information. The views and opinions expressed herein may be subject to change at any given time and ABN AMRO is under no obligation to update the information contained in this document after the date thereof.

Before investing in any product of ABN AMRO Bank N.V., you should obtain information on various financial and other risks and any possible restrictions that you and your investments activities may encounter under applicable laws and regulations. If, after reading this document, you consider investing in a product, you are advised to discuss such an investment with your relationship manager or personal advisor and check whether the relevant product – considering the risks involved – is appropriate within your investment activities. The value of your investments may fluctuate. Past performance is no guarantee for future returns. ABN AMRO reserves the right to make amendments to this material.

© Copyright 2025 ABN AMRO Bank N.V. and affiliated companies ("ABN AMRO")