

**“WHAT SHOULD WE TAKE AWAY FROM THIS SUMMER’S ECONOMIC DEVELOPMENTS, AND WHAT SHOULD WE MONITOR THIS FALL?”**

ECONOMIC RESEARCH



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## WHAT SHOULD WE TAKE AWAY FROM THIS SUMMER'S ECONOMIC DEVELOPMENTS, AND WHAT SHOULD WE MONITOR THIS FALL?

Broadly speaking, the economic outlook for the global economy at the beginning of September remains largely unchanged from that at the end of July: namely, an economy that, overall, continues to withstand the double blow of US tariffs and uncertainty. Our current scenario expects an average annual growth of 1.6% in the United States in 2025, followed by 1.5% in 2026 and 1.3% in the Eurozone for both years (after 2.8% and 0.8% respectively in 2024). So, while the pace of US growth is expected to remain higher than that of the Eurozone, the outlook is for a slowdown across the Atlantic. On the Eurozone side, however, signs of recovery, albeit tentative, tend to predominate, to the point where the Fed is ready to resume its rate cuts and the ECB is ready to halt them. However, there are still many risks to growth. This fall, heightened uncertainty over US “reciprocal” tariffs will remain a key issue. Political pressure on the Fed’s independence, new political and fiscal uncertainties in France, financial market leniency, and latent tensions in the bond markets will also need to be monitored.

### HIGHER TARIFFS, RENEWED UNCERTAINTY

Among the latest developments to note on the US tariff policy front, we can mention, in chronological order, the conclusion of a deal between the United States and the European Union on July 27, which closes one chapter: while the damage has been successfully limited<sup>1</sup>, the game is far from over. The same is true of the disclosure on August 1<sup>st</sup> by the US of their updated list of “reciprocal” tariffs. This new version has restored some visibility on the level of customs duties and confirmed a high overall landing point, while many issues remain unresolved<sup>2</sup>.

And the slight improvement was quickly lost: on Friday, August 27, a US federal appeals court upheld the International Trade Tribunal’s ruling that “reciprocal” tariffs imposed under the International Emergency Economic Powers Act (IEEPA) were illegal. The US administration has until October 14 to bring the case before the Supreme Court. In the meantime, the tariffs remain in place. If the Supreme Court confirms their illegality, a major part of Donald Trump’s economic policy would be called into question. However, the US president has said in previous statements that he is prepared to circumvent the problem by relying on other legal grounds.

What new combination of tariffs could this lead to? This is yet another factor of uncertainty to keep in mind. If the “reciprocal” tariffs were abandoned, this would reduce fears about growth and inflation but increase concerns about financing the budget deficit. A ruling against the tariffs would be politically favorable to Trump but damaging from an economic and institutional standpoint.

These considerations further complicate the monitoring and analysis of the impact of tariffs. One of the important questions to ask is how the additional costs will be shared (between US consumers and US and foreign companies). The outcome will determine the extent of the impact of tariffs, which is currently limited, on US inflation and global growth. The first signs of impact are visible on global trade<sup>3</sup>, but overall, it is still showing resilience<sup>4</sup>.

In part, this is not surprising, as the tariff shock only dates back a few months and the multitude of turnarounds, as well as uncertainty about the landing point, have encouraged a wait-and-see attitude. The full effects of the tariff shock are yet to come. August and September data should show clearer signs of this, impacted by the current tariff levels, which will be effective until at least mid-October. After that, it will depend on whether or not the tariffs remain in place while the Supreme Court reviews the case and issues its final ruling.

### MORE DOVISH STANCE FROM THE FED

The second major turning point of the summer was Jerome Powell’s change of heart. In his last speech at Jackson Hole as Fed chair, he opened the door to a rate cut at the next FOMC meeting on September 16-17, citing a “shifting balance of risks.”

The downside risk on the labor market is seen as increasing, due to the “curious balance” that characterizes it (downward momentum in both labor demand and supply<sup>5</sup>) and exposes it to non-linear developments (i.e., a more sudden deterioration than hitherto). And this downside risk on the labor market seems to be outweighing the upside risk on inflation. The latter is clearly expressed and acknowledged. The latest available data all confirm this: whichever indicator we look at (CPI, PCE, PPI, household expectations, input price components of business surveys), the inflation trend is clearly pointing upwards.

But Jerome Powell tempers this inflationary risk by pointing to the more likely transitory nature of the inflation bump due to tariffs. The Fed’s task is made even more difficult by the intensifying political pressure to which Donald Trump is subjecting it. This is another major development and negative risk to monitor in the coming months.

On the growth front, it certainly remains strong on the surface<sup>6</sup>: in Q2, the expected rebound materialized and the second estimate even raised it (3.3% annualized quarterly rate instead of 3% according to the first estimate). But this high figure masks a clear deceleration in final domestic demand. And the latest confidence surveys paint a mixed picture, slightly negative on balance.

1 Isabelle Mateos y Lago, *EU-US Trade Deal: A Damage Limitation Success*, July 28, 2025.

2 Christine Peltier, *US tariffs in emerging countries: is the picture clearer now?*, August 27, 2025.

3 Jean-Luc Proutat, *The first effects of the Trump tariffs are measurable, and they are massive*, July 16, 2025.

4 On August 8, the WTO revised its global merchandise trade growth projections for 2025 upward to +0.9% on average for the year, compared with the 0.2% contraction projected in April. While this figure is positive, it is still significantly lower than the 2.7% growth rate anticipated before the increase in US tariffs. And 2026 projections have been significantly lowered, to 1.8% from 2.5% previously.

5 Anis Bensaidani, *United States: Yellow Alert on Activity*, August 6, 2025.

6 Including in Q3, according to the latest available estimate from the Atlanta Fed’s GDPNow (+2.2% annualized quarterly rate).



## EDITORIAL

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**ECB: IN A MORE FAVORABLE POSITION TO END ITS CYCLE OF RATE CUTS**

In the Eurozone, the economic data published during the summer remain mixed, slightly positive on balance. Confidence surveys continue to blow hot (PMI) and cold (ESI). But the marked recovery in the manufacturing PMI since the beginning of the year is really encouraging, while the ESI is only suffering from a lack of improvement. The unemployment rate remains low (6.2% in June). Q2 growth figures were decent, according to initial estimates<sup>7</sup>. Since then, German growth has been revised downwards (to -0.3% q/q instead of the initial -0.1%), but the French rebound has been confirmed (+0.3% q/q).

The economic recovery in the Eurozone remains sluggish and short-term risks still lie on the downside. For France, these risks are accentuated by the new political turmoil and the risks it poses for budget planning and fiscal consolidation. On the one hand, however, inflation is not a problem. And on the other hand, the observed and anticipated improvement in growth (driven by the German investment plan, increased military spending in Europe and a proactive stance on the necessity of an EU wake-up, as recently reiterated by Mario Draghi) is sufficient for us to no longer anticipate any further rate cuts, in line with the ECB's communication. The Fed and the ECB would thus swap positions.

**UNITED KINGDOM, JAPAN: GROWTH BUT A COMPLICATED POLICY MIX**

In the first half of 2025, UK growth surprised on the upside and was the highest in the G7 (1% compared to H2 2024). Next, in descending order according to this metric, are the United States (0.6%), Japan (0.6%), Canada (0.6%), Italy (0.4%), Germany (0.3%), and France (0.3%). But behind this performance, the situation remains complicated for the BoE and the government, amid persistent inflation (which limits the BoE's room for maneuver to continue easing its monetary policy) and a difficult calibration of fiscal consolidation, which remains under pressure from bond markets.

In Japan, the policy mix is the opposite but no easier to implement. Monetary policy is tightening to contain inflation, while the expansionary bias of fiscal policy is likely to persist and fuel inflationary pressures, with the economy at full employment. The challenge for the BoJ is to avoid falling "behind the curve" by raising rates too little and/or too late, while fiscal concerns are also putting upward pressure on Japanese long-term rates.

**CHINA: INCREASED FOCUS ON EXCESS SUPPLY, IN ADDITION TO THE ATTENTION TO THE DEMAND DEFICIT**

The key development this summer has been the greater and timely attention that the Chinese authorities seem to be paying to deflationary pressures. For the moment, this so-called "anti-involution" campaign is limited to expressing their desire to better regulate competitive practices and better control the increase in production capacity through greater self-discipline. This will probably not be enough to remedy the problem. While China appears to be playing its cards right in US trade war for the time being, its economy remains fragile due to significant internal imbalances, to which the authorities are currently offering only modest responses.

**FINANCIAL MARKETS ARE FAIRLY REASSURED AND REASSURING, BUT FOR HOW LONG?**

The US stock market remains buoyed by the tech-AI wave and is showing little or no sensitivity to negative economic news. This is supporting growth. But it is not immune to derailment. What could be the trigger? This is one of the known unknowns to keep in mind.

Credit markets also remain relaxed. Too relaxed? Bond markets have already shown signs of nervousness, while remaining generally complacent of the ever-increasing public borrowing needs of the world's largest economies. Additional pressure on long-term rates remains a risk to watch<sup>8</sup>. In the foreign exchange market, the depreciation of the US dollar is orderly and broadly beneficial: for the United States, as long as it remains growth-supportive and inflation does not play too much of a spoiler; for the rest of the world, as long as the moderating effects on inflation facilitate rate cuts and growth is not too severely penalized. The risk of more destabilizing developments in the FX market cannot be ruled out, but it appears to be less significant than in other markets (equities, credit, bonds).

The relatively low price of oil is another positive factor in the current global economic landscape (lower inflation, higher growth for importer countries). According to our analysis, the supply-demand balance in the market points to prices remaining low, but geopolitical tensions are a risk factor.

Hélène Baudchon

<sup>7</sup> Resilient growth in Q2, in both the Eurozone and the United States, July 31, 2025.

<sup>8</sup> For a detailed analysis of this metric, see Céline Choulet and Anis Bensaidani, [The US Treasuries Market: An Idol with Feet of Clay. US Federal Debt: The Risks of Abundance \(part 1\), August 29, 2025.](#)



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## INTERNATIONAL

**Reciprocal tariffs suspended pending Supreme Court ruling.** A US Court of Appeals decision has upheld the Court of International trade's ruling that the tariffs imposed by Donald Trump under the International Emergency Economic Powers Act (IEEPA) are illegal. This applies to "reciprocal" tariffs and those related to opioids. Tariffs remain in effect until 14 October to give the Administration time to appeal to the Supreme Court.

## ADVANCED ECONOMIES

## UNITED STATES

**New tensions surrounding the Fed and rise in core inflation.** President Trump announced the immediate dismissal of Fed Governor L. Cook (whose term expires in 2038) following reports of possible misconduct involving real estate loans. This is the first attempt by a US president to dismiss a Fed governor, an institution whose independence is guaranteed by law, as recently reiterated by the Supreme Court. Replacing L. Cook would result in a majority of members appointed by D. Trump on the Board of Governors. L. Cook has taken legal action against this decision, asking the court to allow her to continue to perform her duties until a decision on the merits is made. This legal case will ultimately be decided by the Supreme Court, where it will set an important precedent on the limits of the Fed's independence. Inflation, as measured by the PCE, was stable in July at +2.6% y/y overall and rose to +2.9% y/y for the core measure. GDP growth in Q2 has been revised to +3.5% annualised from +3.0% initially (and -0.5% in Q1), due to residential investment (+5.5% annualised from +1.9% previously). According to the Conference Board's monthly survey, the labour differential (the balance of opinions judging jobs to be easy and difficult to find) deteriorated for the eighth consecutive month, and inflation expectations (1 year) rose again (6.2%, +0.5pp). *Coming up: Employment situation (Friday), ISM manufacturing (Tuesday) and non-manufacturing (Thursday).*

## EUROZONE

**A step forward towards formalising the trade agreement with the United States.** The European Commission has submitted its proposal to co-legislators to remove its tariffs on US industrial goods, in accordance with the terms of the joint communiqué with the United States dated 21 August. This step should trigger a reduction in US tariffs on European automobile from 27.5% to 15%, retroactive to 1 August. The European Commission's Economic Sentiment Indicator (ESI) fell in August (-0.5 points to 95.2) due to consumer, industrial and construction confidence, while the services index improved. According to the minutes of the ECB's latest monetary policy meeting (23-24 July), the majority of Committee members consider the risks to inflation to be "broadly balanced" and the monetary status quo to be preferable for "managing shocks and two-sided inflation risks". According to the ECB, median household inflation expectations remained stable in July over a one-year horizon (2.6%) and five-year horizon (2.1%).

**Germany: Inflation and economic sentiment rose slightly to 2.1% y/y in August** (from 1.8% in July), supported by a rebound in goods inflation (1.3%, the highest figure since December 2024). The Ifo business climate index continued to rise in August, reaching 89 (+0.4 pts m/m), its highest level since May 2024. Business expectations for the coming months improved (91.6 vs. 90.7), while the assessment of the current situation remained stable. The manufacturing PMI reached 49.8 in August, its highest level in more than three years. The GfK index of household sentiment for September fell (to -23.6, compared with -21.7 in August). Retail sales fell by 1.5% m/m in July, a trend that affected all categories of goods.

**France: Positive data (business start-ups, labour market, purchasing power) but confidence is down.** Business start-ups reached a new record in July. On a steady upward trend since April, there were nearly 100,000 creations in July, compared with an average of around 95,000 previously. The manufacturing PMI recovered to 50.4 in August (48.2 in July), moving into expansion territory for the first time since January 2023. Job creation was observed (+50k), mainly in market services, in Q2 after two quarters of job losses. Purchasing power rose by 0.4% q/q in Q2 (+0.1% in Q1), supported by faster wage growth than price growth. Nevertheless, consumption stagnated in Q2, leading to a further increase in the savings rate to 18.9% (compared with 18.6% in Q1). Harmonised inflation fell from 0.9% y/y in July to 0.8% in August, due to a more moderate rise in service prices. Household confidence fell to 87 in August from 88 in July, penalised by a further deterioration in perceptions of living standards (down 3 points for the past and 2 points for the future). However, the intention to purchase a home within two years rebounded (9% of households in August, compared with 8% in July and 6.5% three months ago). The Prime Minister announced a vote of confidence on 8 September. A negative response from the majority of MPs (abstentions will not be counted) seems likely, according to statements from the various parties. This would lead to the fall of the government, raising the risk of delaying the budget process. Reflecting renewed market concerns, the spread between the French 10-year rate and its German equivalent has risen to nearly 80 bp, compared with 70 bp before the announcement.

**Spain: The business climate deteriorated but remained positive in August** (101.7; -2.6 points m/m). This was due to a sharp drop in confidence in the construction sector (-9.6 points m/m to 8.8; the worst level since March 2024), where declining new orders, financial constraints and labour shortages are limiting production. Industrial activity fell compared with the previous month (-1.3 pts m/m to -5.8): new orders are down, as are hiring expectations, and finished product inventories are rising significantly. Nevertheless, companies' expectations for production in the coming months are improving. Harmonised inflation remained stable at 2.7% y/y in August. *Coming up: Manufacturing PMI and unemployment rate (Monday), Composite and Services PMI (Wednesday), third estimate of real GDP (Friday).*

**Italy: Private sector activity deteriorated again in August** (ESI at 98.4; -1.0 pts m/m), mainly due to a fall in confidence in construction (-2.5 pts m/m to 1.0, the worst level since 2021). In industry, activity remains sluggish (-7.7; -0.6 pts m/m), but confidence remains close to the level observed over the last twelve months. The situation is better in the services sector (2.3; +1.3 pts m/m). Consumer confidence is improving (+0.2 pts to -16.8, the highest level since May). Harmonised inflation remained stable at 1.7% y/y in August. *Coming up: Manufacturing PMI and unemployment rate (Monday), composite and services PMI (Wednesday), third estimate of real GDP (Friday).*



## UNITED KINGDOM

**New tensions on the bond market amid fears of stagflation.** On 27 August, 30-year rates briefly reached their highest level in four months.

## JAPAN

**Positive news on employment.** While all four sub-components are improving, the highest results and growth are on the employment side. In July, retail sales (0.3% m/m, -1.6pp) and industrial production (-1.6% m/m, -3.7pp) fell short of expectations, while the unemployment rate dipped to 2.3% (-0.2pp). Consumer confidence improved in August, reaching 34.9, its highest level since January.

## EMERGING ECONOMIES

## CHINA

**Slight improvement in activity in August.** The manufacturing PMI published by RatingDog (formerly Caixin) is once again above 50 (standing at 50.5), while the official PMI rose from 49.3 in July to 49.4. The "production" sub-component of the official PMI rose to 50.8, but the "new orders", "new export orders" and "employment" sub-components remain below 50.

## INDIA

**Faster-than-expected growth in the spring.** Real GDP growth accelerated to 7.8% y/y in the first quarter of the 2025/2026 fiscal year (April-June), compared with 7.4% in the previous quarter. Although probably overestimated due to a very low GDP deflator (+0.9% y/y), real GDP growth was driven by public and private domestic demand. However, it could slow sharply in the coming months if the 50% reciprocal tariffs imposed by the United States since 27 August are maintained.

## POLAND

**Draft budget for 2026: minor consolidation.** For 2026, the government is forecasting a budget deficit of 6.5% of GDP (the official forecast for 2025 has been revised upwards by 0.6 p.p. to 6.9%) and public debt of 66.8% of GDP. Defence and health are among the main expenditure items (4.8% of GDP and around 6% of GDP respectively). According to government projections, financing requirements for next year remain high, estimated at PLN 423 billion (10.2% of GDP). It should be noted that the budget may be subject to a presidential veto.

## SOUTH KOREA

**Extended pause in monetary easing.** For the second consecutive time, the Central Bank left its policy rate unchanged at 2.5% at its meeting on 28 August. On this occasion, the inflation forecast for 2025 was raised to 2% (from 1.9% previously) and the GDP growth forecast was revised to 0.9% (from 0.8%), which was confirmed by a slight increase in industrial production and retail sales in July. The statement specifies that the easing cycle may resume when export activity slows down as a result of US tariffs. For the time being, the Central Bank is giving priority to financial stability. Despite stricter regulations, mortgage lending growth has continued to accelerate, and fears of a property bubble persist.

## TURKIYE

**Economic growth accelerated in Q2 2025** (+1.6% in CVS-CIO data after 0.7% in Q1). Year-on-year growth was 4.6%. Household consumption was the main support factor, rising by 5.1%, the strongest growth since Q2 2024.





# MARKETS OVERVIEW

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## Bond Markets

	In %	In bps			
	29/08/2025	1-Week	1-Month	Year to date	1-Year
Bund 2Y	1.93	-0.4	+2.1	-13.5	-67.4
Bund 5Y	2.21	-1.2	-1.4	+9.9	+3.9
Bund 10Y	2.68	+0.3	+2.9	+31.5	+45.8
OAT 10Y	3.51	+9.0	+16.0	+38.5	+58.7
BTP 10Y	3.60	+6.8	+8.9	+18.3	-1.1
BONO 10Y	3.27	+3.4	+5.9	+24.9	+21.7
Treasuries 2Y	3.67	-5.5	-23.4	-58.3	-26.3
Treasuries 5Y	3.68	-7.2	-21.4	-70.7	-1.7
Treasuries 10Y	4.21	-3.8	-11.8	-37.0	+33.4
Gilt 2Y	3.96	+0.7	+5.0	-19.1	+1.0
Treasuries 5Y	4.11	+0.9	+3.5	-23.6	+19.1
Gilt 10Y	4.72	+3.4	9.0	+15.1	+70.5

## Currencies & Commodities

	Level	Change, %			
	29/08/2025	1-Week	1-Month	Year to date	1-Year
EUR/USD	1.17	-0.1	+1.6	+13.0	+5.7
GBP/USD	1.35	-0.1	+1.4	+7.9	+2.7
USD/JPY	146.82	-0.0	-1.1	-6.6	+1.0
DXY	111.99	+7.9	+11.5	+10.5	+6.1
EUR/GBP	0.87	-0.0	+0.2	+4.8	+3.0
EUR/CHF	0.94	-0.4	+0.5	-0.3	-0.4
EUR/JPY	171.86	-0.1	+0.4	+5.6	+6.8
Oil, Brent (\$/bbl)	68.15	+0.6	-6.1	-8.8	-15.1
Gold (\$/ounce)	3441	+1.9	+3.3	+31.1	+36.4

## Equity Indices

	Level	Change, %			
	29/08/2025	1-Week	1-Month	Year to date	1-Year
World					
MSCI World (\$)	4178	-0.4	+1.8	+12.7	+15.0
North America					
S&P500	6460	-0.1	+1.4	+9.8	+15.5
Dow Jones	45545	-0.2	+2.0	+7.1	+10.2
Nasdaq composite	21456	-0.2	+1.7	+11.1	+22.5
Europe					
CAC 40	7704	-3.3	-2.0	+4.4	+0.8
DAX 30	23902	-1.9	-1.3	+20.1	+26.4
EuroStoxx50	5352	-2.5	-0.5	+9.3	+7.8
FTSE100	9187	-1.4	+0.6	+12.4	+9.6
Asia					
MSCI, loc.	1576	-0.7	+4.2	+10.1	+13.7
Nikkei	42718	+0.2	+5.0	+7.1	+11.4
Emerging					
MSCI Emerging (\$)	1258	-0.6	+0.5	+16.9	+14.9
China	82	-0.6	+2.1	+26.6	+46.2
India	1003	-3.1	-3.6	-2.4	-10.4
Brazil	1499	+2.6	+9.1	+27.4	-0.7

## Performance by sector

### Eurostoxx600

Year 2025 to 29-8, €

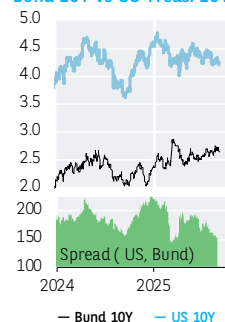
+40.2%	Banks
+19.1%	Insurance
+16.5%	Industry
+14.4%	Construction
+13.5%	Oil & Gas
+13.0%	Utilities
+12.8%	Telecoms
<b>+8.4%</b>	<b>Eurostoxx600</b>
+6.5%	Financial services
+4.9%	Food industry
+0.6%	Travel & leisure
+0.3%	Real Estate
-0.8%	Chemical
-1.8%	Commodities
-3.0%	Technology
-3.9%	Health
-4.6%	Retail
-9.2%	Consumption Goods
-13.2%	Media

### S&P500

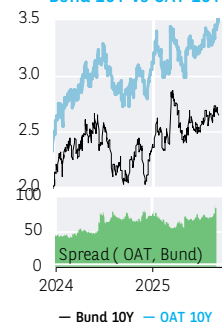
Year 2025 to 29-8, \$

+26.8%	Semiconductors
+24.1%	Real Estate
+20.0%	Bank
+19.4%	Capital Goods
+18.2%	Telecoms
+17.1%	Media
+10.7%	Utilities
+10.3%	Materials
<b>+9.8%</b>	<b>S&amp;P500</b>
+8.6%	Food, Beverage & Tobacco
+8.3%	Consumer Services
+6.1%	Consumer Discretionary
+5.9%	Commercial & Pro. Services
+4.8%	Energy
+4.6%	Retail
+3.4%	Insurance
+0.1%	Pharmaceuticals
-1.2%	Healthcare
-1.6%	Tech. Hardware & Equip.
-14.1%	Automobiles

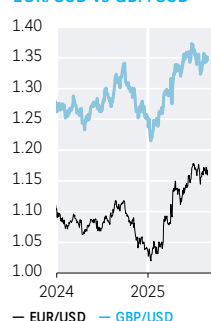
## Bund 10Y vs US Treas. 10Y



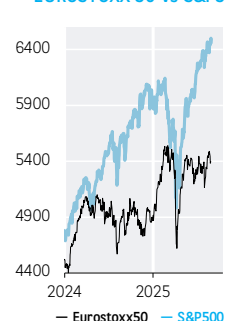
## Bund 10Y vs OAT 10Y



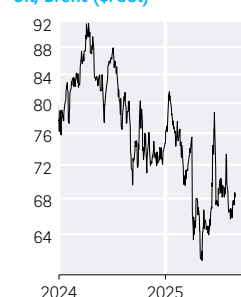
## EUR/USD vs GBP/USD



## EUROSTOXX 50 vs S&P500



## Oil, Brent (\$/bbl)



## Gold (\$/ounce)



## MSCI World (\$)



## MSCI Emerging (\$)



SOURCE: LSEG, BLOOMBERG, BNP PARIBAS  
DATA VISUALISATION AND CARTOGRAPHY: TARIK RHARRAB



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