

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 limited¹, the game is far from over. The same is true of the disclosure on August 1st 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 unresolved².

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 trade³, but overall, it is still showing resilience⁴.

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 supply⁵) 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 surface⁶: 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

4

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 estimates⁷. 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 watch⁸. 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.

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

⁸ 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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