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World Economic Environment:

Resilient Global Growth – For Now

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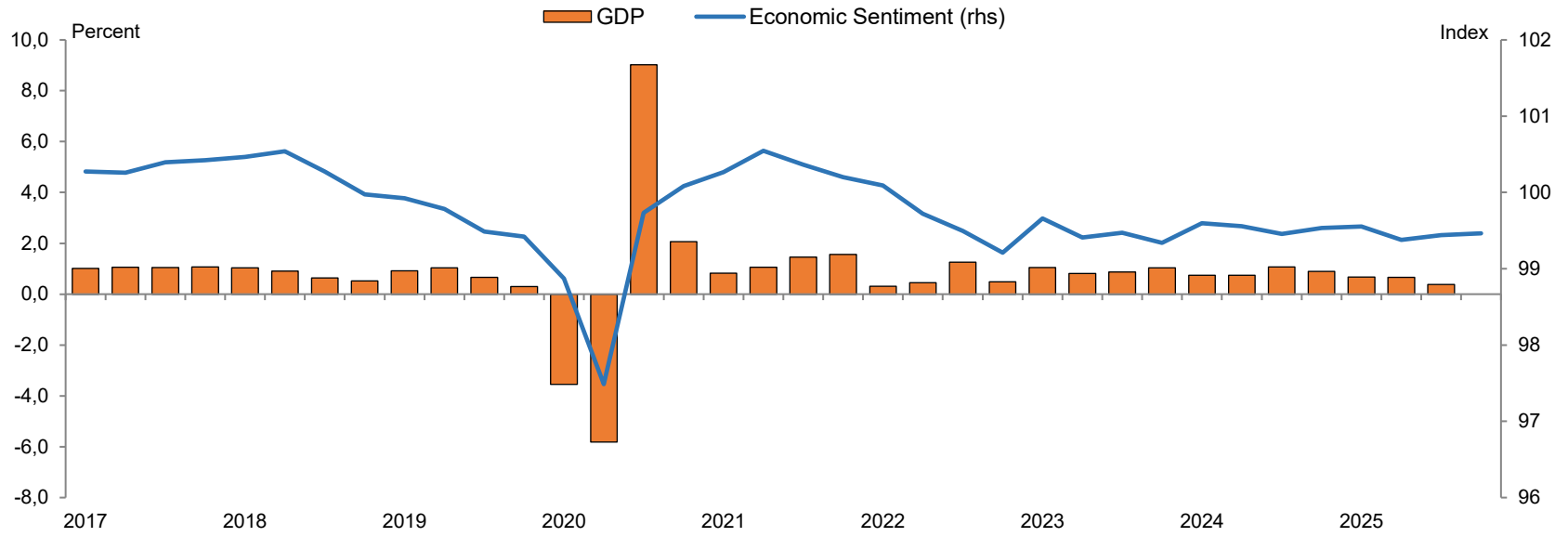
Global growth lost momentum, but not substantially

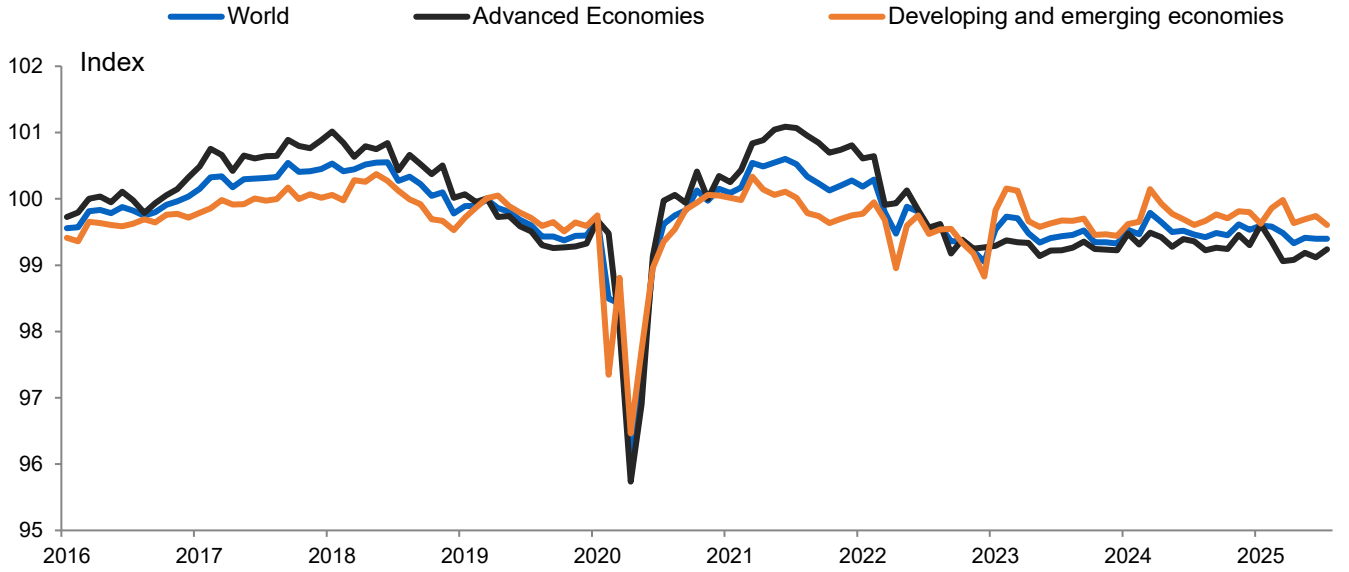
Global Economic Activity



Quarterly data, seasonally adjusted.
Sentiment: 42 economies; GDP: 46 economies; price adjusted, change over previous quarter.
Sources: national sources, Kiel Institute calculations.

Business sentiment slightly depressed since spring

Business sentiment by groups of countries

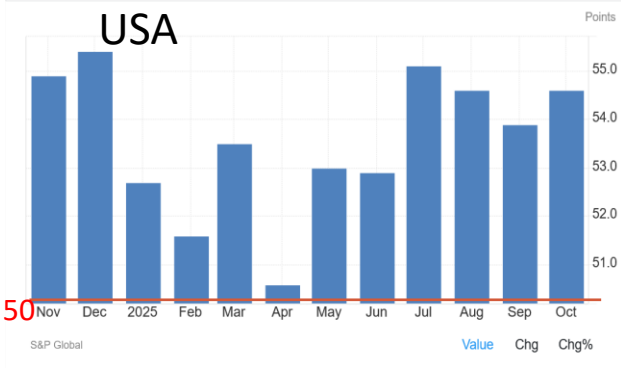


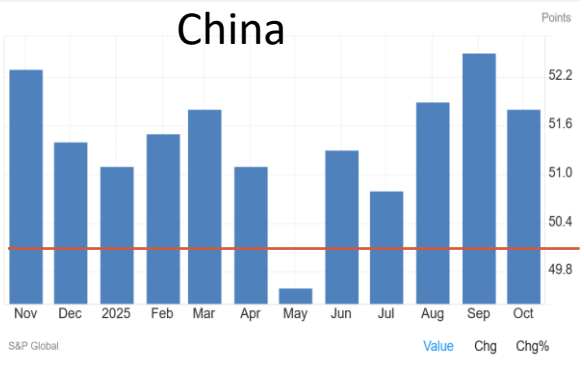
Monthly data, seasonally adjusted. Indicators are based on buisness expectations in 42 countries (33 advanced economies and 9 emerging economies).

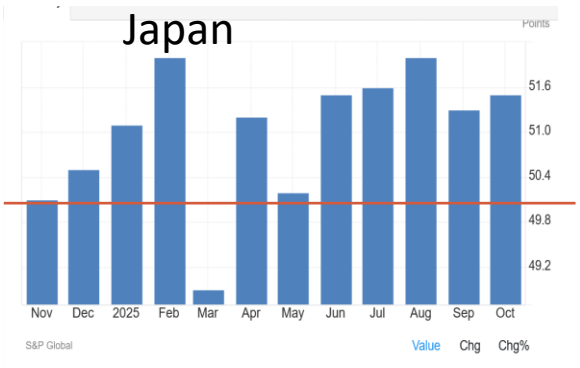
- AE: drop inspring, gradually improving since then
- EE: steady

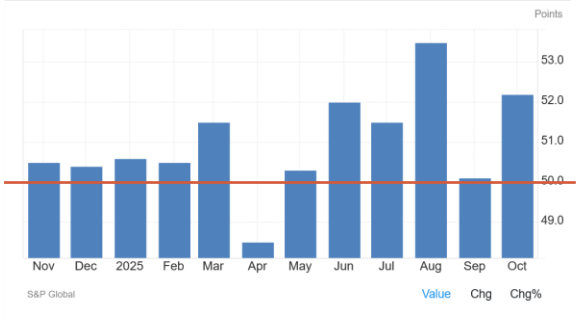
PMIs have recovered from spring trade shock

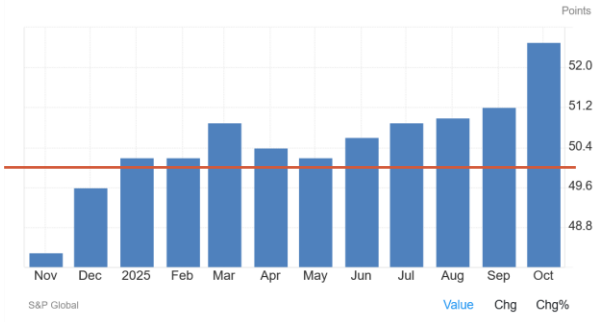
Composite PMIs

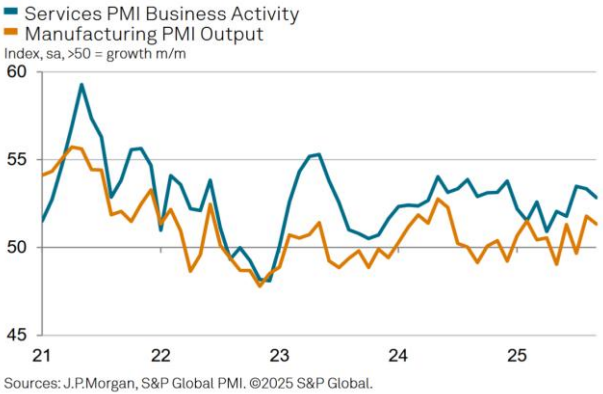






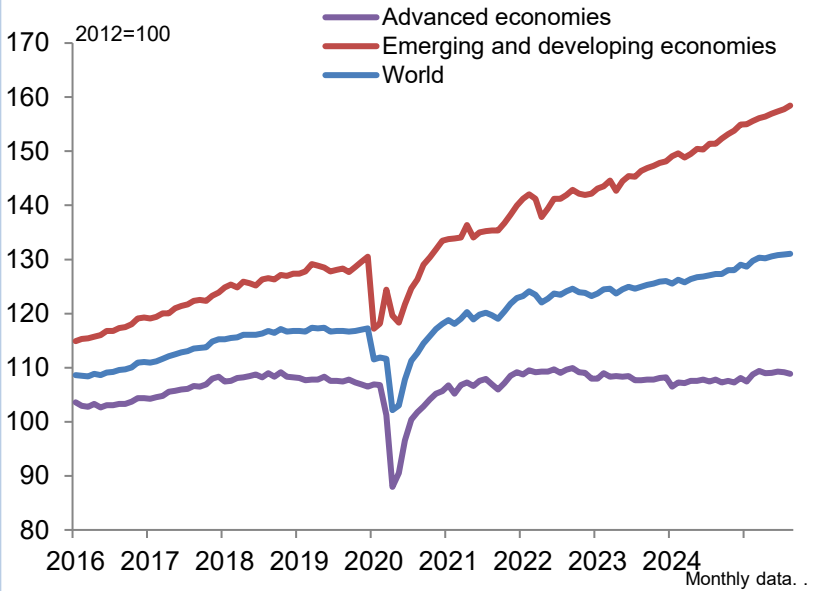






Industrial production remained on a moderate upward trend, pulled by decent growth in emerging economies

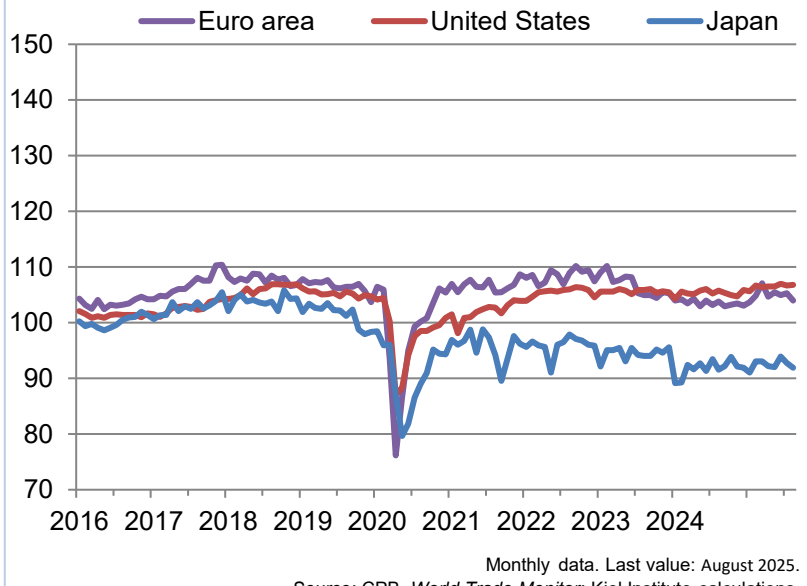
Industrial production by country groups



Monthly data. .

Source: CPB, World Trade Monitor, Kiel Institute calculations.

Industrial Production in large AE

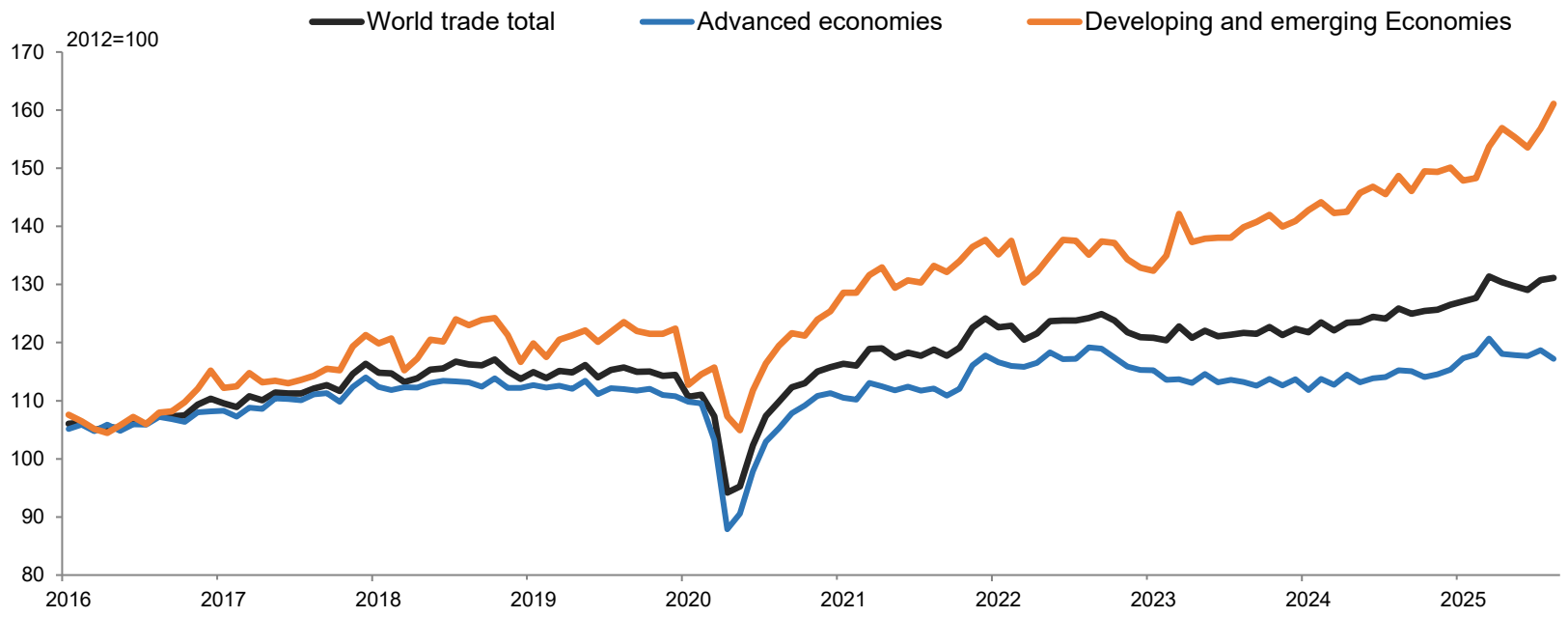


Monthly data. Last value: August 2025.

Source: CPB, *World Trade Monitor;* Kiel Institute calculations.

World trade received an uplift in anticipation of tariffs, which still has not reversed

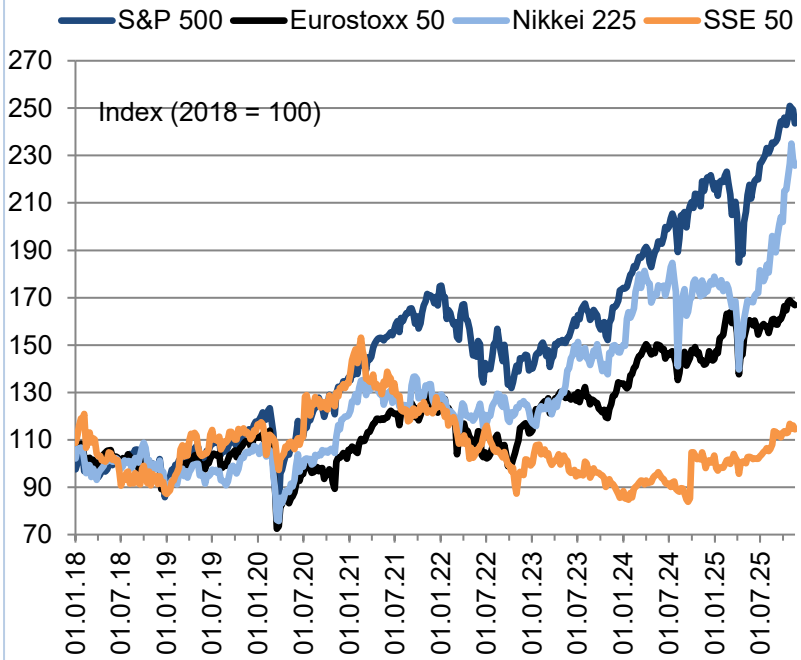
World Trade



Monthly data; price and seasonally adjusted.
Source: CPB, World Trade Monitor; Kiel Institute calculations.

Bullish financial markets – euro strenth

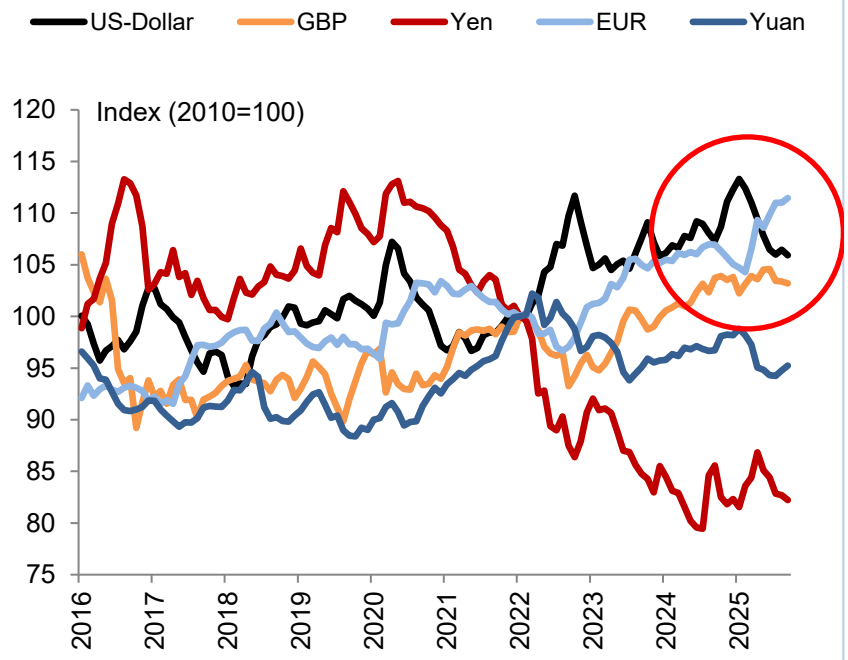
Equity prices in major stock markets



Weekly data

Source: Refinitiv.

Nominal exchange rates

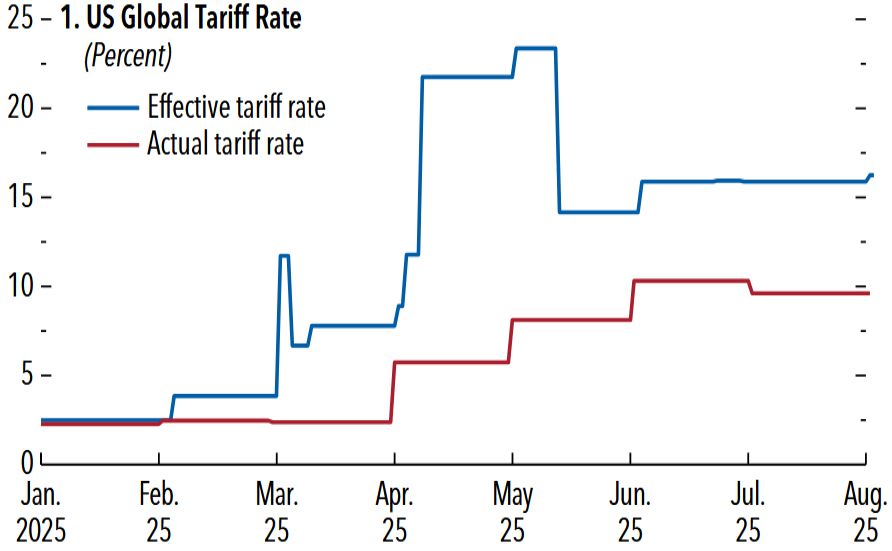


Monthly data

Source: Refinitv.

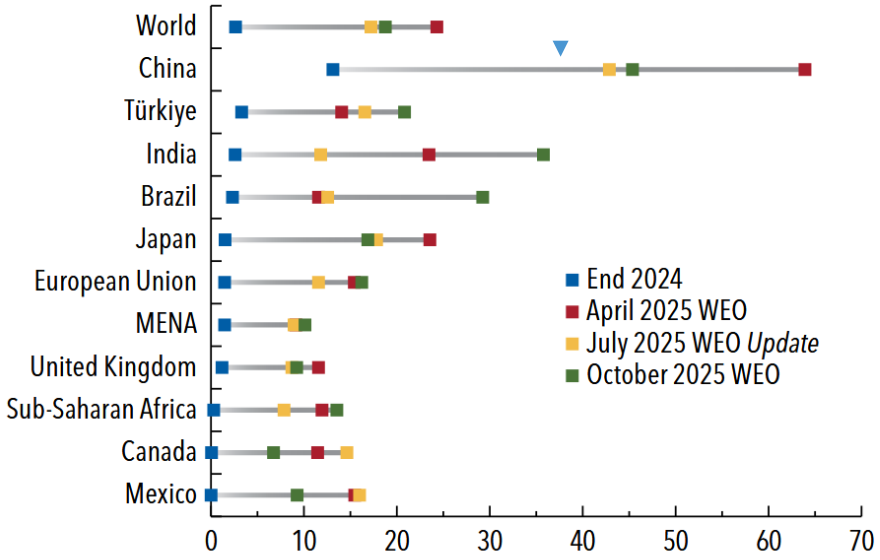
Trump tariffs historically high and uncertainty remains

Average US tariff rate



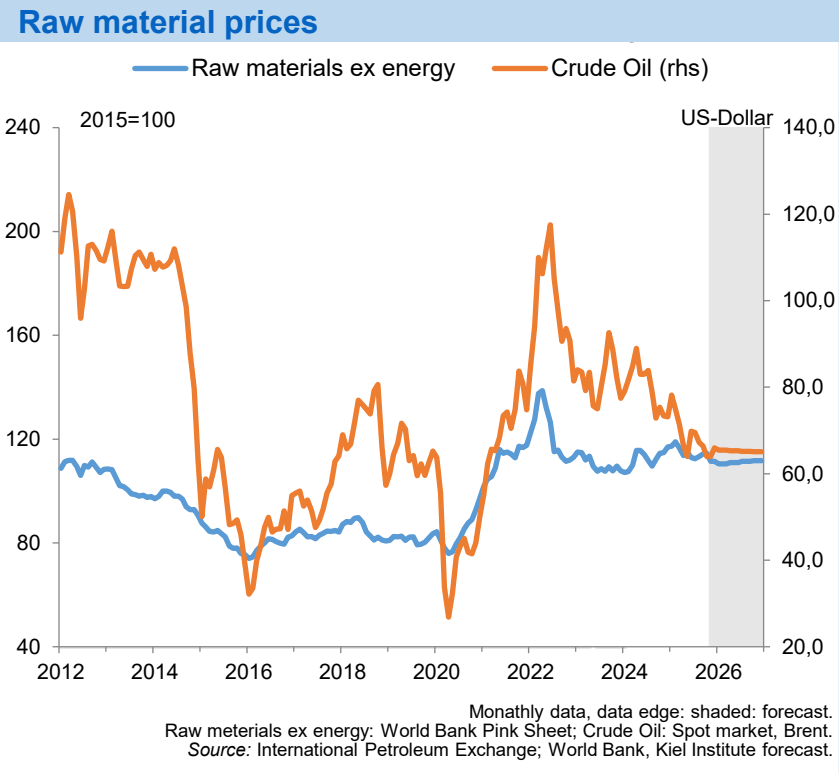
Source: IMF WEO

Figure 1.1. US Effective Tariff Rates by Country
(Percent)



Sources: US International Trade Commission; WTO-IMF Tariff Tracker; and IMF staff calculations.

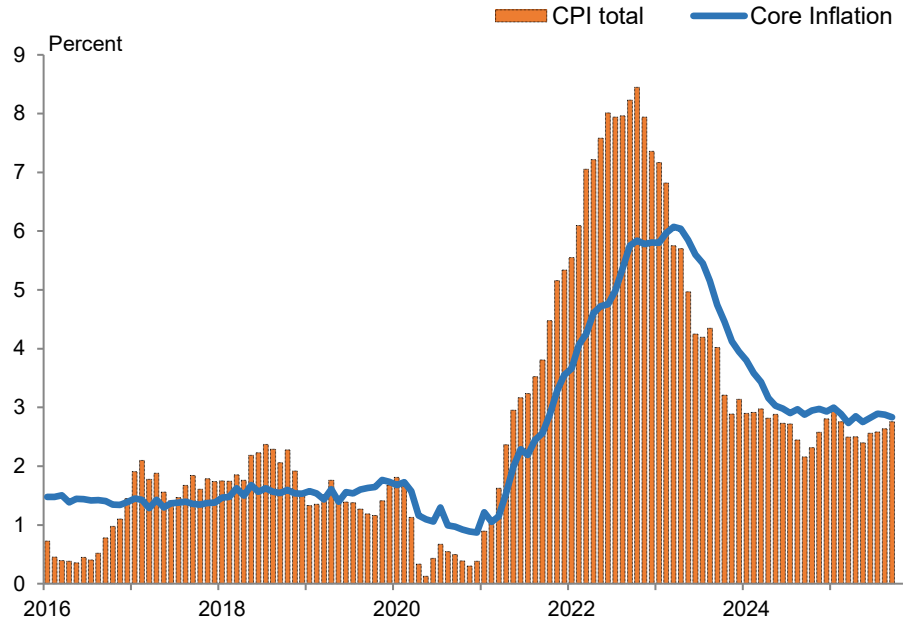
Downward pressure on commodity prices



- Downward trend in oil prices with temporary spikes in oil prices
  - » Structurally ample supply
  - » OPEC+ easing of quotas
  - » Robust supply growth from outside OPEC
  - » Growth scare after „reciprocal“ tariffs
- LNG suggest relaxed market situation
  - » TTF trades below $30/MWh recently
- Non-energy commodities mixed bag
  - » Grains softening amid ample supply
  - » Beverages easing from extremely high levels
  - » (precious) Metals prices picked up in Sep/Oct

Inflation is still an issue

CPI Inflation in Advanced Economies

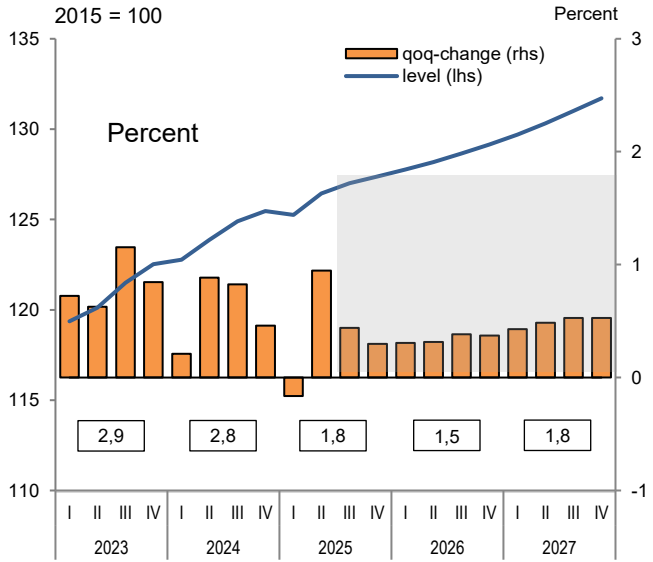


Monthly data, yoy-change; United States, Euro Area, Japan, United Kingdom.
Core Inflation: CPI ex energy and food.

- Inflation remains elevated, creeping up again lately
  - » US: 3% in Sep (2.8% PCE)
  - » Euro area: 2.1% (Oct)
  - » UK: 3.6%
  - » Japan: 2.9%
- Core inflation persistent at similar levels

USA: Stabilization of growth at lower level

USA: real GDP Growth

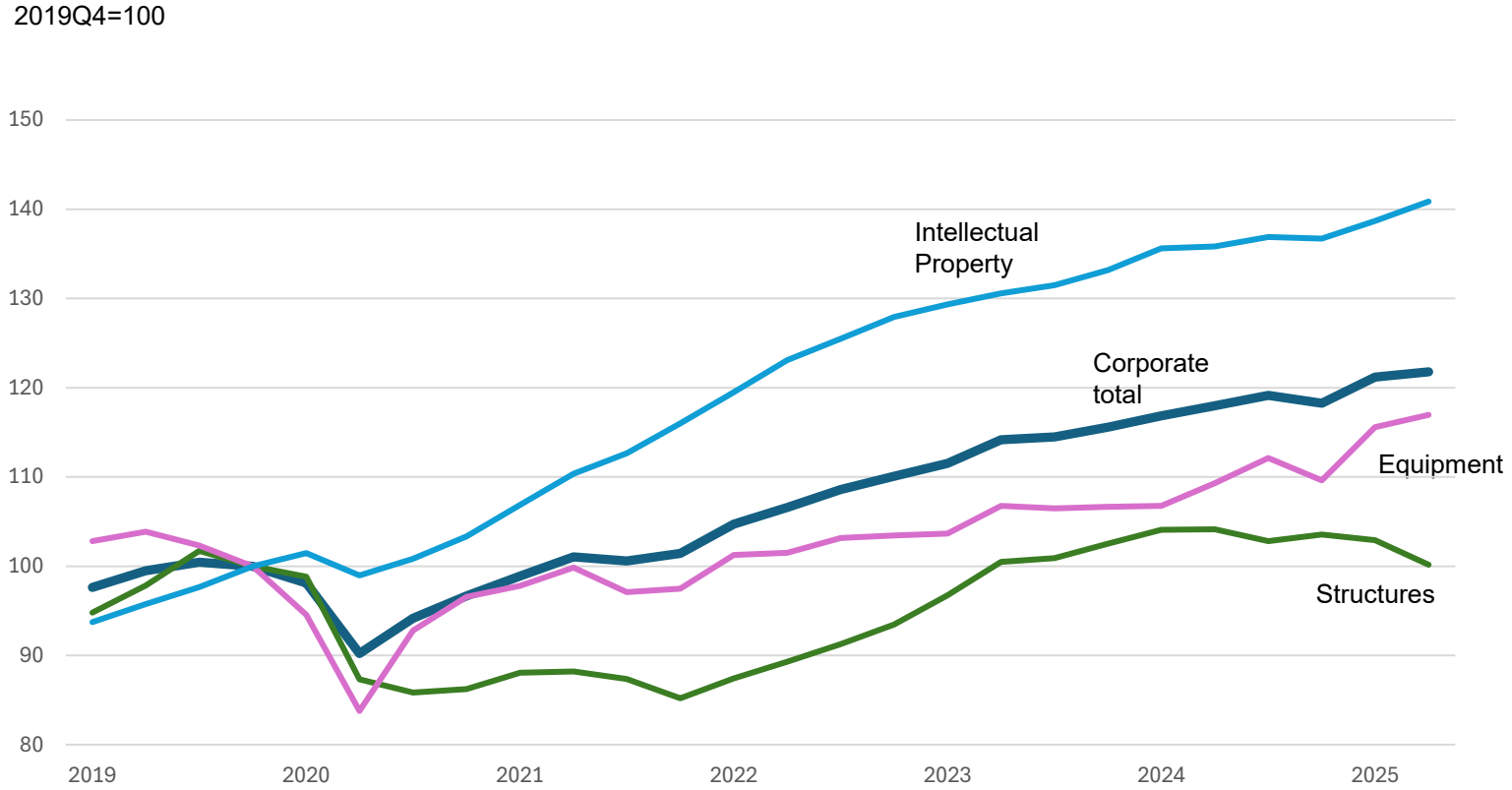


Quarterly data, price, seasonally and calendar adjusted, qoq-change; annual rate of change (boxes).

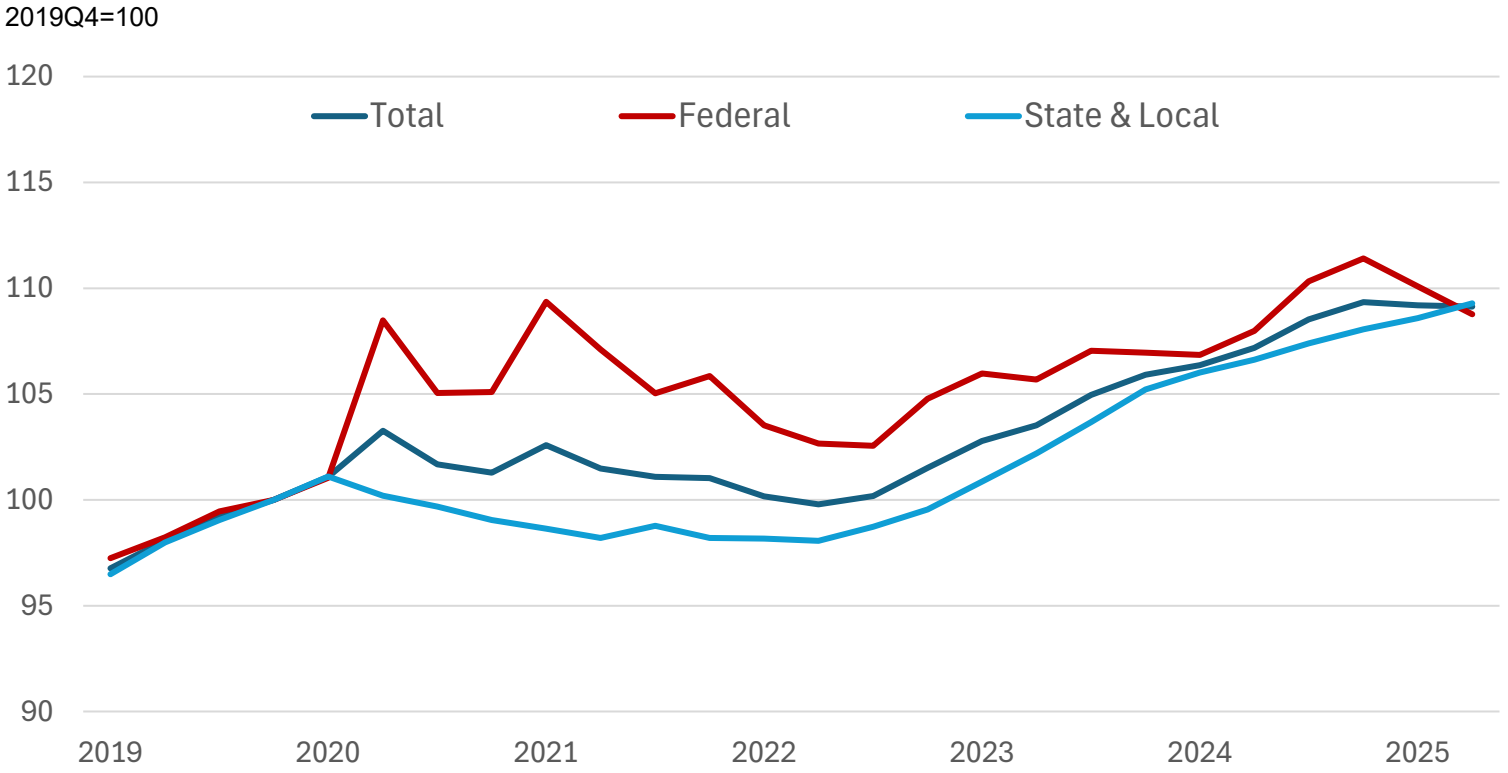
Source: Bureau of Economic Analysis; shaded: Kiel Institute forecast.

- 3rd quarter data still missing (government lockdown)
- Volatile growth in 2025H1 due to swings in trade and inventories. On average slowdown compared to the two years before, but shy of recession
- Private consumption lost momentum, but showed signs of re-acceleration over the summer
- 3rd quarter growth looks solid, probably higher than our September forecast of 0.6%
- 4th quarter likely depressed by effects of government shutdown

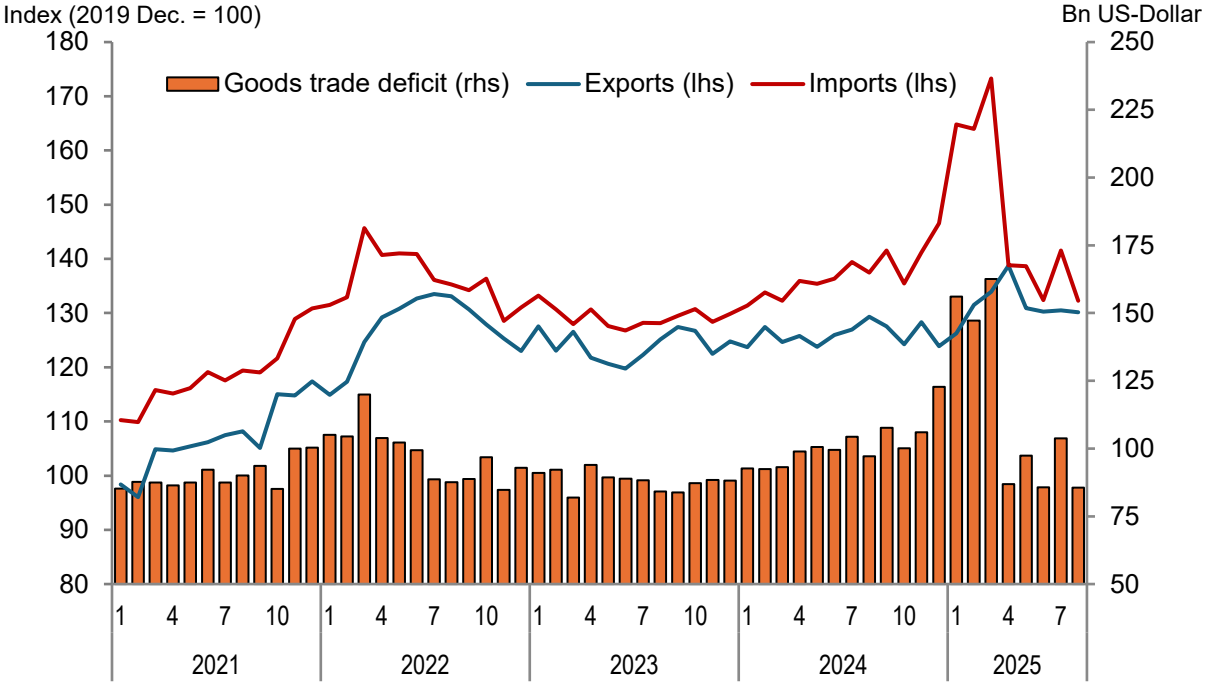
Private nonresidential fixed investment: Robust, driven by AI



Government expenditures decline (only) at the federal level



Trade deficit after spike back to normal, but not below

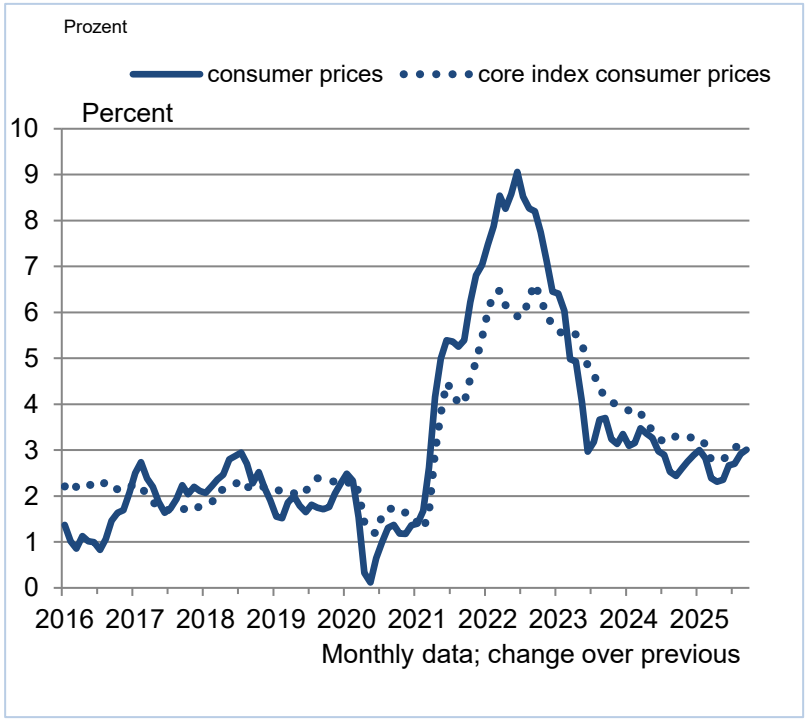


Monthly data, seasonally adjusted.

Source: US Census Bureau, U.S. Bureau of Economic Analysis; *U.S. International Trade in Goods and Services*.

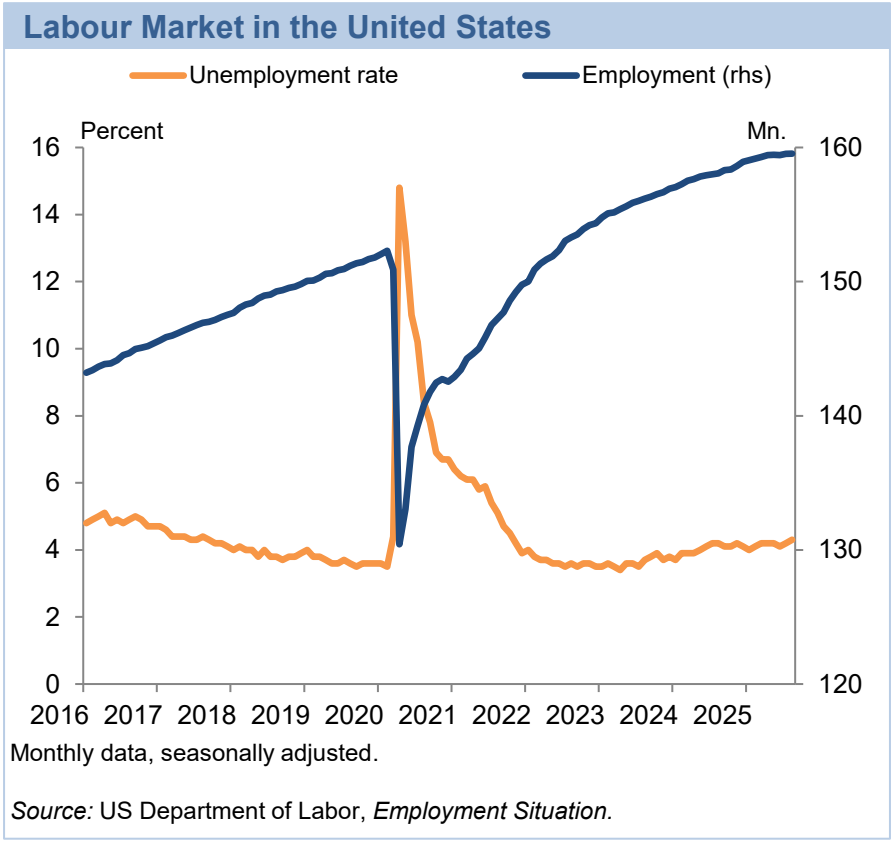
Where is the impact of tariffs on inflation?

USA: Consumer price inflation



- Disinflation seems to have stopped for now
- Inflationary pressure recently from non-energy goods prices
- Impact of tariffs gradually unfolding
  - Tariffs implemented gradually
  - Exporters took some of the bill
  - (temporary) cushion by domestic traders
  - All in all: Full pass-through takes time

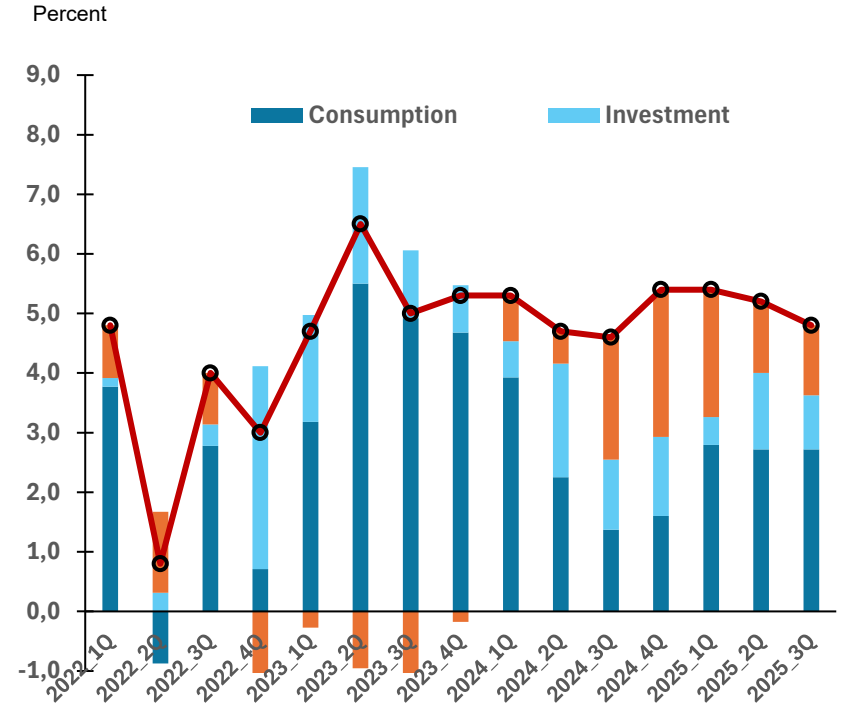
US Labour market has stalled



- Almost stagnation in non-farm employment over the summer – weakest performance since Covid and Great recession
- Unemployment up, but only slightly
- Labour supply growth depressed by sudden stop in immigration
- Average hourly earnings gradually slowing (3,7% in August)
- Disposable income almost stagnating recently
- Impact on consumption mitigated by declining savings rate, for the time being

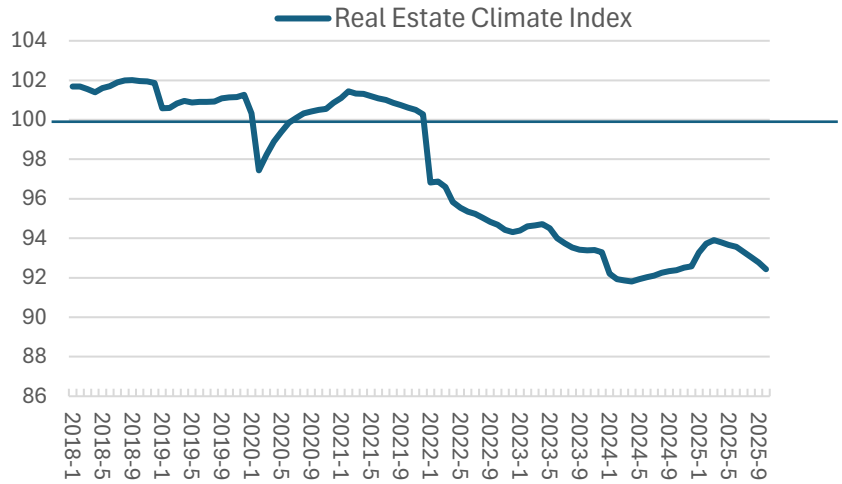
China: Running on exports again

GDP y-o-y growth rate (contributions of demand components)



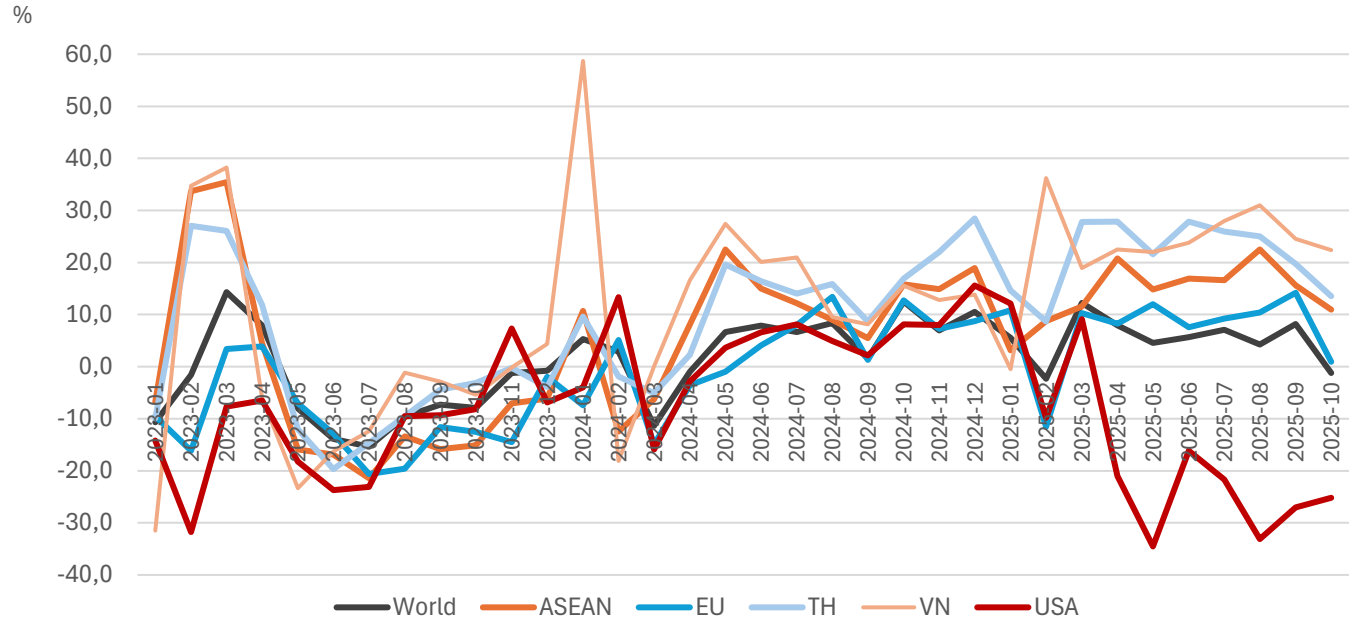
Source: National Bureau of Statistics, China - Gross Domestic Product Index and contributions from the demand side

- Chinese economy has been kept afloat by rising exports and government stimulus.
- Property market remains in the doldrums

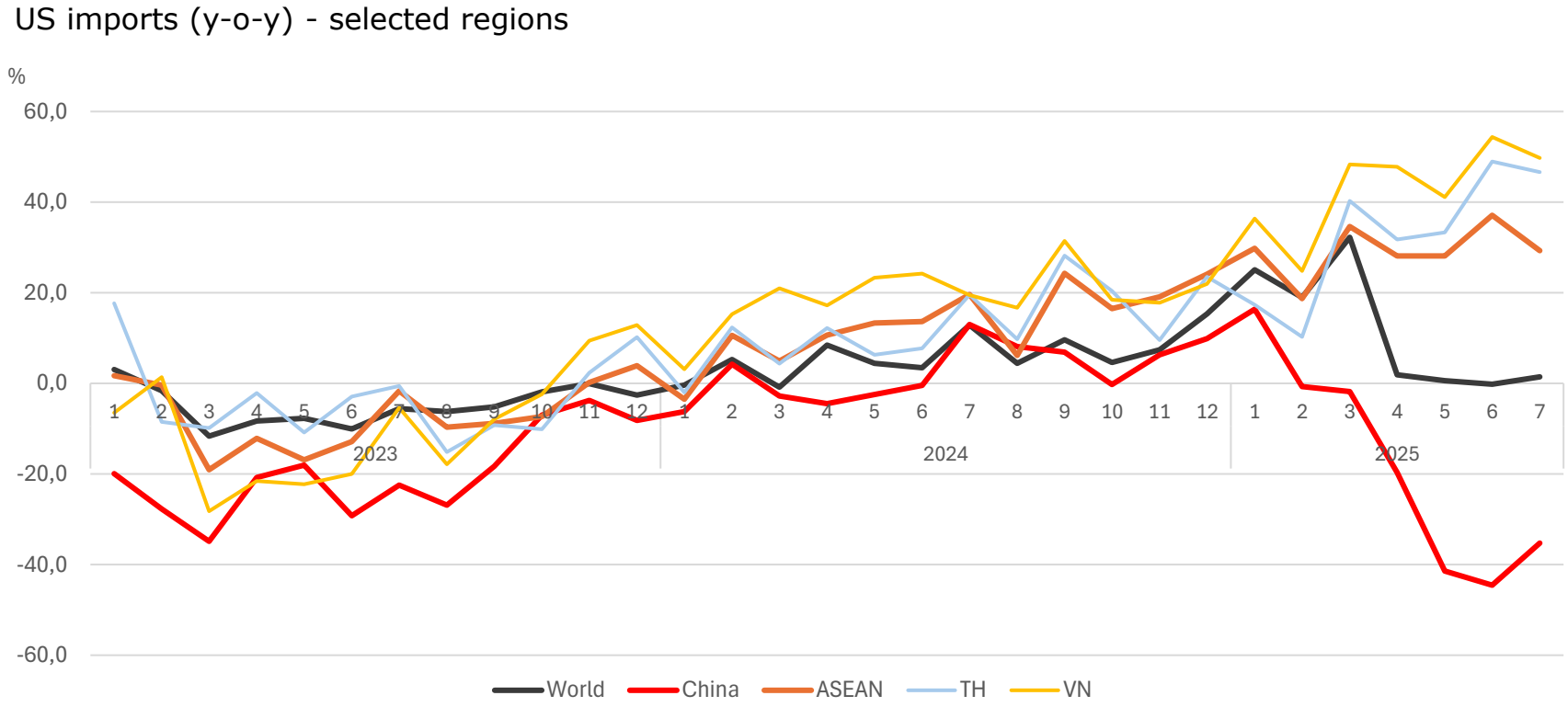


Chinese exports: diversion and rerouting

Chinese exports (y-o-y) – selected regions

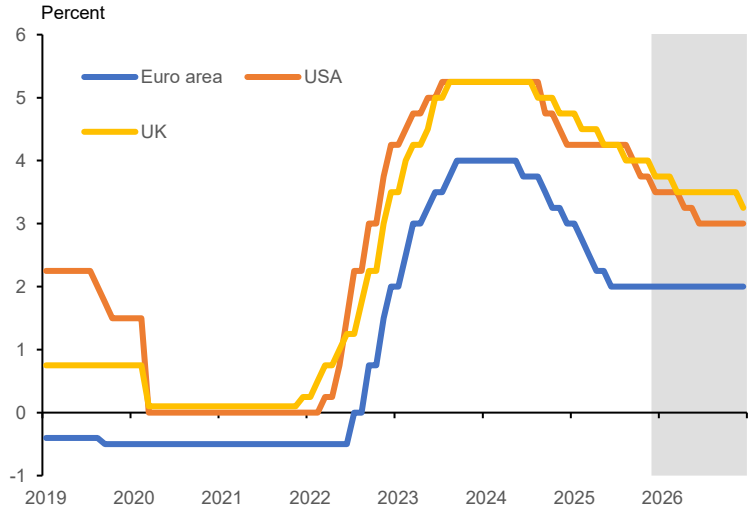


US imports from ASEAN rise as imports from China drop



Monetary Poliy: US Fed has resumed cutting interest rates

Policy rates in major advanced economies



Monthly data. Euro area: Deposit Facility Rate, USA: Federal Funds Rate, UK: BoE base rate.

Source: LSEG Datastream. shaded area: forecast of IfW Kiel.

- Difficult task to navigate between signals of economic weakness and inflationary pressures
- Markets expect another 3 cuts
- Risks to both sides
- Political pressure to ease more significantly could increase further

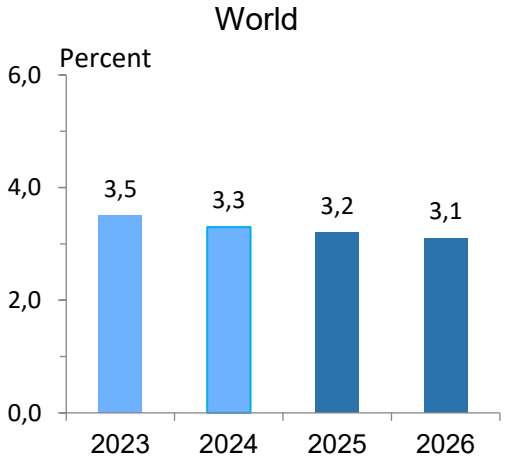
Fiscal policy: little consolidation despite high and rising debt

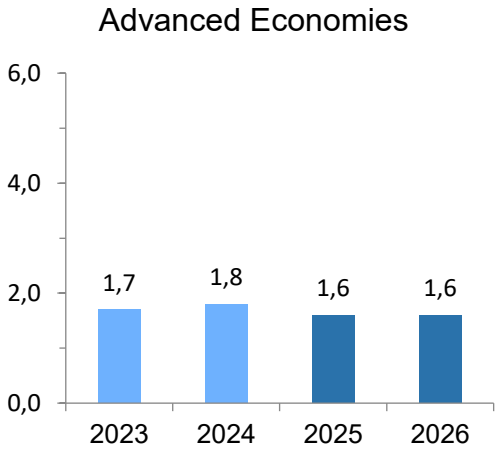
- China: Expansive
  - » Public investment and consumer incentives support the economy. Policy stresses the important role of the consumer
- Japan: about neutral
  - » Policy prepares (another) stimulus package to cushion effects of high inflation and avoid a fiscal cliff
- US: modestly restrictive (?)
  - » Tax cuts (mostly relative to baseline)
  - » Tariffs as a tax increase
  - » Unwinding of IRA subsidies
  - » Cuts in government payrolls and social expenditures, but increases in other expenditures
  - » Uncertainty!

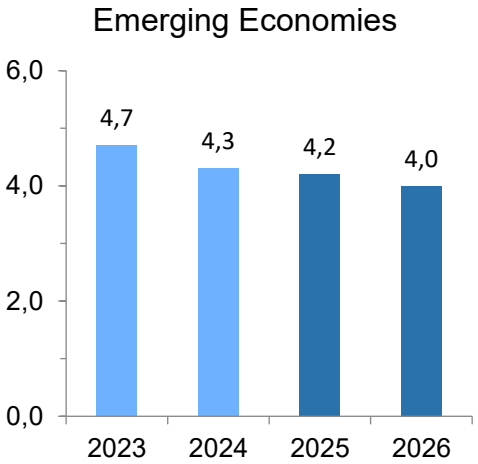
Selected emerging economies

- Strong growth in India
  - » YoY growth increased to 7.8% in Q2, in sequential terms slight deceleration but still strong. Bumper harvests and associated record low inflation support growth, but may be temporary.
  - » India is benefiting from international investors trying to diversify production chains
- Generally robust expansion in South East Asia
  - » High demand for IT products, robust domestic demand, rerouting from China
  - » Recent acceleration after soft patch in 2024
- Latin America is a mixed bag, but generally slowing
  - » Restrictive monetary policy in Brazil, faltering recovery in Argentina, trade stress in Mexico

IMF projections for growth: revised up from Spring – only slight deceleration ahead







Points to discuss

- Why has the tariff shock not shocked the global economy? What did we miss? Is the worst still to come?
- What is the role of the AI boom? What are the macro risks associated?
- Is there a fiscal time bomb ticking?
- Inflation risks in the USA and implications for the rest of the world?

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Thank you

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