The Forward View - Global Nov. 2025

Global outlook unchanged as US-China trade risks ease

NAB Economics & Market Research

Overview

- Our global forecasts are unchanged this month - we expect global growth of 3.3% in 2025 and 3.0% in 2026 and 2027. While this represents a pause on the upwards revision to our forecasts since 'Liberation Day' in April, the generally strong Q3 GDP results for North and South-East Asia (excluding China and Japan) highlight the global resilience to the US trade policy shock. This has been partly due to policy supports, including from monetary and fiscal policy.
- Event risks around the global outlook remain high but eased over the last month. The shutdown of the US Federal government is over and the escalation of US-China trade tensions ended with lower tariffs and some winding back of export controls. The US has also entered into trade arrangements with some other countries which will see some winding back in trade barriers. That said, further sectoral tariffs are likely and, adding to the uncertainty, is the risk that US courts revoke the reciprocal and 'fentanyl' tariffs.
- While the US data flow is limited given the shutdown, available indicators point to continued growth and ongoing, even if only gradual, cooling in the labour market. We think growth will hold up in 2026, even with lingering trade headwinds and low population growth, with fiscal policy becoming supportive, financial conditions having eased and investment in AI continuing.
- October activity data for China were weak. While some transitory factors may have been in play, over capacity remains an issue suggesting ongoing pressure on business investment and prices is likely. The Government has recognised the need to rebalance the economy, with the recent Fourth Plenary Session calling for measures to lift consumption and to make domestic demand a larger growth driver. However, with industrial policy still prominent, how quickly, and to what degree, they will move in this direction is unclear.
- The degree of monetary easing is likely to moderate next year. We think the US Federal Reserve will cut rates once more as part of its adjustment to a changed risk assessment – most likely at its December meeting but it is not certain. With inflation high, and growth holding up, we think that the Fed will then go on hold until mid-2026. After easing policy earlier in the year both the European Central Bank and Bank of Canada are indicating that rates are on hold while the Bank of Japan should soon resume its gradual policy tightening. For the Bank of England, however, we have added an extra rate cut to our call as we expect the November budget to weigh on growth and inflation is moderating.

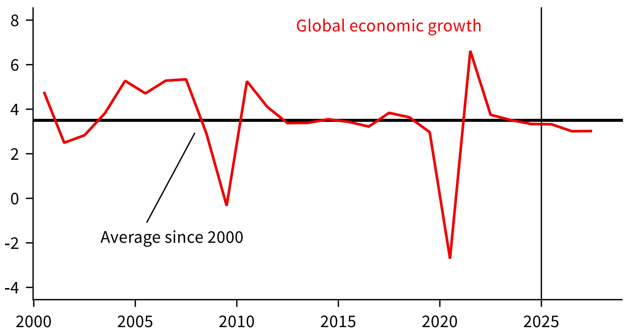
Contents

Key Economic Forecasts

(Change since previous Forward View in brackets)

	2024	2025		2026		2027	
US	2.8	2.0		2.1	(0.1)	1.9	
Euro-zone	0.8	1.4	(0.1)	1.1		1.3	
Japan	0.1	1.4		0.6	(-0.1)	0.6	
UK	1.1	1.4	(-0.1)	0.8	(-0.2)	1.0	(-0.3)
Canada	1.6	1.1		1.1	(0.2)	1.9	(-0.2)
China	5.0	4.9		4.2		3.9	
India	6.7	7.1		6.2		6.4	
Latin America	2.4	2.1	(-0.1)	1.6		1.8	(-0.1)
Other East Asia	4.0	3.9	(0.2)	3.4	(0.1)	3.5	
NZ	-0.6	0.2		2.5		2.5	
Global	**3.3**	**3.3**		**3.0**		**3.0**	
Major trading partners	3.5	3.7		3.2		3.1	

Global economic growth (%)



Source: National Australia Bank, Macrobond (IMF)

19 November 2025 | Authors: Antony Kelly, Gavin Friend

Global trade & tariffs

After last month's fears of a major breakdown in US-China trade relations, talks between the US and China saw a modest wind back in tariffs and a suspension of some export controls. The US has also entered into agreements with some other countries, and lowered tariffs on food products. This still leaves in place high US tariffs and, particularly given the risk that US courts will invalidate a significant portion of the tariffs imposed this year, considerable uncertainty over future trading arrangements.

From a threatened 100% additional tariff on China last month, as well as the prospect of the pause on a 24% reciprocal tariff ending, this month the US **'Fentanyl' tariff on China was reduced from 20% to 10% (from 10 November)**.

China also agreed to buy US agricultural products and remove some of its retaliatory tariffs on US imports. It also agreed to suspend rare earths export controls while the US is putting on hold its plans to extend tech-related export controls to Chinese subsidiaries (the expansion of the 'entity list' from changes in the affiliates rule). Similarly, both countries agreed to suspend recently introduced port fees on each other's shipping.

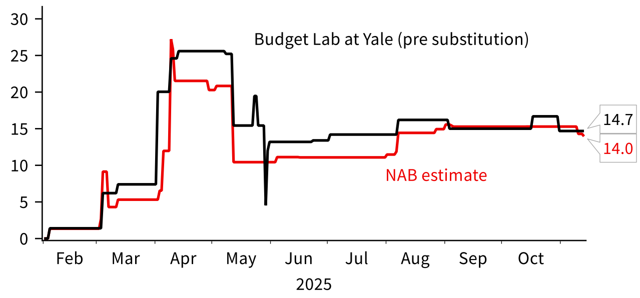
Over the last month the US has entered into trade deals or framework agreements with a range of countries.

Towards the end of October the US entered into a trade deal with South Korea (building on a July framework agreement) and a series of agreements or understandings with other Asian economies – Thailand, Cambodia, Malaysia and Vietnam. These agreements left reciprocal tariff rates unchanged, although there were some US tariff reductions (notably on South Korean imports and certain Malaysia products) or scope for tariff reductions on certain goods. In return, these agreements include a lowering on trade barriers on imports from the US. undertakings to import certain US goods or to invest in the US.

Similar framework agreements with Argentina, El Salvador, Ecuador and Guatemala, as well as Switzerland and Lichtenstein were agreed this month. The framework agreement with Switzerland differs from the others in that it includes a large reduction in the reciprocal tariff rate (from 39% to 15%)- although the implementation date is not known (aim is for early 2026) and limits (to 15%) the extent of any future section 232 tariffs on pharmaceuticals and semi-conductors/electrical goods.

President Trump also announced, on 14 November, that **certain agricultural products would have no tariff -** including tea, coffee, tropical fruits, bananas, oranges, beef and some additional fertilisers. This change was effective immediately. The products were selected either on the basis that they are not either produced in the US or not in sufficient quantities. On our estimates, these food product exemptions will reduce the average tariff rate (based on 2024 trade flows) by 0.3ppts, on top of a 1ppt reduction from the reduction in the China tariff.

Cumulative change in US average tariff rate (ppts)



Source: National Australia Bank. NAB calculations based on 2024 trade flows before substitution effects. 75% of Canada/Mexico exports to US assumed to be USMCA compliant. Based on formal orders so does not include tariff changes flagged in 'trade deals' but not yet implemented

As a result, the average US tariff rate (based on 2024 trade shares) has actually fallen slightly since the finalisation of reciprocal tariffs in early August.

That said, this still **leaves in place a significantly higher level of US tariffs than at the start of the year**. As we have previously noted, other countries have also moved to impose some tariffs on China this year (e.g. Mexico and the EU). Exporters negatively impacted by changing trade barriers will look for alternative markets, which can, in turn, create pressure for other countries to raise barriers to protect domestic producers.

Uncertainty about how trading arrangements will unfold remains high. While the US and China appeared to have reached a détente for now, there is a risk that it will breakdown. Further sectoral tariffs are expected (including on pharmaceuticals, semi-conductors and other electrical equipment), the US-Mexico-Canada trade agreement (USMCA) is due to reviewed next year, and the US is still in negotiations with various countries including Brazil, India, Mexico and Canada (although talks with the latter recently broke down with the US threatening an additional tariff).

Adding to tariff related uncertainty is the possibility that **tariffs based on the International Emergency Economic Powers Act (IEEPA) will be revoked by the courts**. Tariffs based on IEEPA include all the reciprocal tariffs, the general tariffs imposed on Canada and Mexico as well as the China 'fentanyl' tariff. As such it covers a substantial proportion of the tariff increase seen this year; so-called sectoral tariffs (based on Section 232) are not part of the court case.

Lower court rulings have already found these IEEPA tariffs invalid, but the Supreme Court will have the final say. It has already held hearings with a decision expected by the end of the year or early next year. If the IEEPA tariffs are revoked refunds may need to be paid. The administration can advance its tariff agenda using other powers. Section 122 allows for a 15% tariff for a period of 150 days which may be a short-term option, with Section 232, 301 or 338 tariffs other more enduring options. One thing is clear, if the IEEPA tariffs are revoked, then uncertainty around trading arrangements will increase (from a still high level).

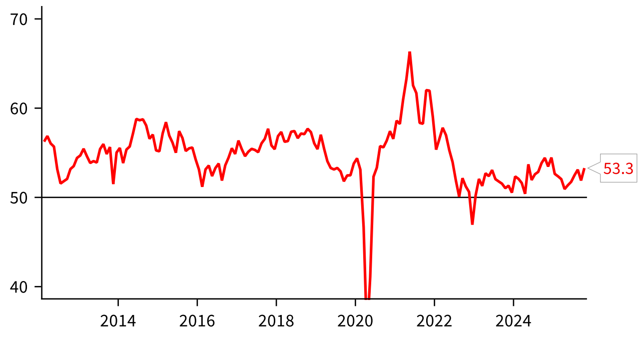
United States

We expect the rate of growth in the US economy to slow from its elevated Q2/Q3 pace. Labour market weakness means recent strong consumption growth will be hard to sustain and, while AI-related investment will likely continue to grow, it will be harder to sustain the high growth rates seen over the last year. The US government shutdown will add volatility (lowering growth in Q4 and increasing it in Q1).

That said, we still see solid growth in an underlying sense through 2026 as policy supports (fiscal and monetary) offset ongoing tariff drags. With labour supply also under pressure from greater enforcement of migration laws, this outlook suggests that **labour market conditions, which have been cooling, should stabilise early in 2026.**

Business surveys point to continued growth. Our composite ISM/PMI indicator has strengthened in recent months even if it remains low by historical standards. Regional fed surveys still point to soft business capex intentions, but broad weakness has been offset by strong investment in a few areas – in particular, the AI capacity rollout. Consumption growth has been solid but the Chicago Fed's retail spending indicator rose 0.3% mom in October after -0.2% mom in September, suggesting some potential softening in growth.

US business surveys (ISM and S&P Global average)

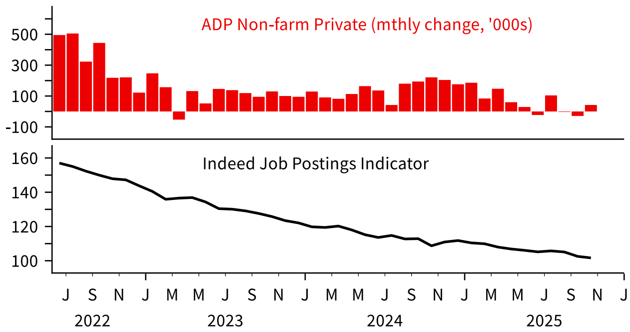


Source: National Australia Bank, Account in-house, Macrobond

The US Federal government shutdown from 1 October to 12 November will depress GDP growth in Q4, with a subsequent rebound in Q1. The CBO estimated that a six week shutdown would lower (annualised) growth by 1.5%, before a 2.2% qoq rise in Q1 (and small negatives in subsequent quarters). This is a bigger impact than evident in past shutdowns and we assume a smaller impact. The longer than anticipated shutdown means we have lowered our Q4 GDP growth estimate and lifted our Q1 estimate.

Labour market indicators point to an ongoing softening in conditions broadly consistent with Chair Powell's October FOMC press conference prepared remarks that the labour market is gradually cooling (although, in answering questions, this was marked down to 'very gradual cooling'). While the ADP non-farm employment indicator turned positive in October, growth was only modest and their weekly tracker has since turned negative. Business survey indicators have improved recently but remain at a low level, while job openings are trending down. The Challenger & Gray announced layoffs indicator also spiked higher in October but initial jobless claims do not point to any increase in layoffs yet. The upwards creep in continuing jobless claims suggests upwards pressure on the unemployment rate remains.

Labour market indicators



Source: National Australia Bank, Automatic Data Processing, Inc. (ADP), Indeed Hiring Lab, Macrobond

Chair Powell also stated that core PCE inflation, excluding tariff impacts, might be 2.3 to 2.4%. The last time core PCE inflation was under 2.5% was in early 2021 and would suggest underlying progress assuming tariffs have a one-off impact on the price level. Chair Powell considers that a reasonable base case (albeit still a risk that needs to be managed).

September core CPI inflation was 0.23% mom, down on the previous two months, and the annual growth fell to 3.0% yoy from 3.1%. Tariffs have added to core goods inflation but by less than expected. Regional survey indicators on prices received are still high, but have eased, suggesting tariff pass through will continue for a while.

Similarly, estimates of tariff pass through vary considerably but suggest **prices have not fully adjusted and tariffs will keep adding to inflation in the near term**. The Yale Budget Lab in early September estimated tariff pass through of just under 72-80% to core goods prices. In contrast the HBS Pricing Lab has estimated only a 20% pass through. However, this was based on a high estimate of the full impact of tariffs, and the estimated impact of 0.7ppts on prices to early September is above Powell's. While we agree with Chair Powell's view that a transitory impact from tariffs on inflation is a reasonable baseline, the impact will be spread over time.

As expected, the Federal Reserve cut the fed funds rate by 25 bps last month (following -25bps in September) as it continued its adjustment to policy settings following a changed risk assessment on labour market concerns. September meeting Fed projections pointed to a third rate cut in December but also revealed a split committee. In his October press conference, Chair Powell stated that a December rate cut was far from a foregone conclusion. Although no change would not be a major surprise, given the labour market still appears to be cooling **we expect a Fed cut in December, before it goes on hold until mid-2026**. Given inflation will still be high; keeping rates in modestly restrictive territory will be appropriate until inflation is clearly tracking back to the Fed's 2% target.

A wrinkle would be if the Fed keeps rates unchanged in December because of a lack of data due to the government shutdown - a possibility Chair Powell alluded to ("what do you do if you're driving in the fog? You slow down"). A pause for this reason would leave open a January cut. With the shutdown over, data is again being published. October indicators may be affected by missed data collection, but November payrolls is likely to be available as scheduled ahead of the December meeting, though the picture on inflation may remain murky until early 2026.

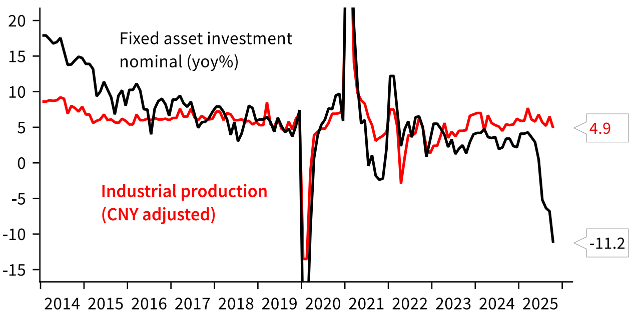
China

Last month's CPC Central Committee's **Fourth Plenary Session acknowledged the need to rebalance the economy to address the domestic supply/demand imbalance**. The plenum's recommendations included a 'notable increase in household consumption as a share of GDP' with domestic demand to play a greater role in driving growth. Industrial development was not ignored with the manufacturing share of the economy to be maintained at an 'appropriate' level with an emphasis on advanced manufacturing.

To support consumption, the need for 'special initiatives' and increased fiscal spending on public services was noted. The recommendations also reference increasing personal income in step with economic growth, optimising income distribution (more middle-income earners), refining the social security system and more equitable access to basic public services.

Overall, this does not clearly signal a rapid change to the consumption share of the economy. However, China has recently made steps in this direction (subsidies for consumer goods and new social programs). The Plenum's recommendations are part of the development of the 15th Five Year Plan to be released in March. Guidance since the plenum indicates an aim for annual real GDP growth of 4.2% over the next 10 years; the implication for next year's growth target is less clear, but it is possible that it falls below 5%.

China industrial prodn. & fixed asset investment (yoy%)



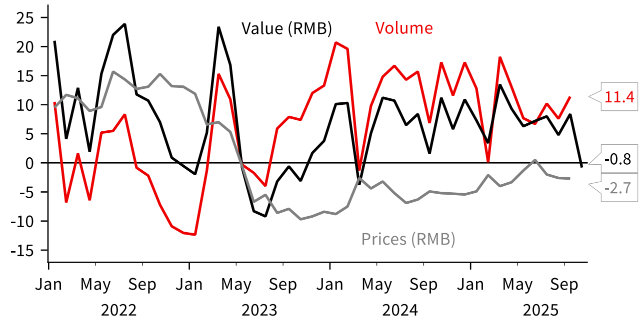
Source: National Australia Bank, China National Bureau of Statistics (NBS), Macrobond, Account in-house. Scale truncated for COVID extremes

The monthly activity data weakened further in October. After picking up in September, industrial production growth dropped back to 4.9% yoy, its lowest level in over a year, partially mirroring the weakness in exports in the month. Retail sales (yoy basis) were little changed but likely eased further in real terms.

The plunge in fixed asset investment (FAI) continued. FAI fell 11.2% yoy (from -6.8% in September). Real estate FAI has been falling for a while, but manufacturing and infrastructure FAI are now also declining. A very wet summer is possibly one factor, but the property sector downturn and general over capacity are ongoing headwinds. The downturn outside real estate coincides with the ramping up of the anti-involution campaign although seems too sharp given the actual measures put in place.

Exports fell in October, down -1.1% yoy (from +8.3% yoy in September) with the lift in exports earlier this year, as US tariffs were put in place, unwinding. Imports growth also weakened (to 1.0% yoy from 7.4%); as a result, the trade balance was little changed. On our seasonal adjustment, the shift down in exports was partly due to base effects but there has also been a fall over the last two months.

China exports (yoy%)



Source: National Australia Bank, Macrobond

The October weakness may partly be due to extended October holidays this year. While the NBS manufacturing PMI new export orders index also fell to a six-month low in October, this may have reflected elevated US-China trade tensions in the month which have since receded. Rather than tariffs going up, as feared last month, the US tariff on imports from China has been lowered by 10 ppts. Export controls announced by both countries have been scaled back.

As we noted last month, China's export share to the US has declined substantially this year. Lower tariffs offer an opportunity to Chinese exporters although it may manifest as less pressure on export prices (which have been falling) rather than an increase in aggregate export volumes. With a period of détente now seeming likely, a remaining risk is how strictly the US implements its 40% tariff on transshipments.

Our GDP growth forecasts are unchanged (4.9% in 2025 and 4.2% in 2026). On a quarter-on-quarter basis we had expected the weakest growth in two years in Q4 and the recent data support that assessment.

Deflationary pressures remain although data point to some recent moderation. CPI inflation rose 0.2% yoy in October (from -0.3% yoy) while ex food and energy it increased 1.2% yoy, its strongest reading since early 2024. However, producer prices continue to fall – the PPI fell 2.1% yoy in October (-0.1% mom s.a.) although the pace has decelerated recently. The moderation in deflationary pressures may reflect some impact from the government's "anti-involution" campaign but other, likely more transitory factors (such as higher gold prices) are also a factor. At the same time, residential real estate prices continue to fall.

Total social financing (TSF) growth again eased in October to 8.5% yoy. The support to TSF from government bond issuance has been unwinding in recent months (19.2% yoy down from 21.9% yoy in July) as the use of issuance quotas was front-loaded. The Ministry of Finance has indicated that it will front load the 2026 local government bond quota which may provide some support. Loan growth has been easing rapidly since early 2023. Household loan growth is particularly soft, likely reflecting the ongoing housing market correction, but business loan growth has also eased.

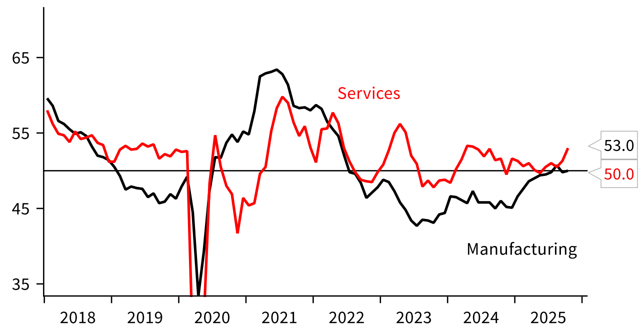
Euro-zone

For all the pessimism over the EZ's economic performance quarterly GDP growth improved in Q3. While output looks lopsided with Germany and Italy stagnating, the PMIs point to optimism in services. Even trade turned around in September. There is much work to do and ongoing frustration with the pace of reforms, but monetary policy settings are stable and supportive, while fiscal spending is about to pick up.

Euro-zone (EZ) GDP **surprised consensus to the upside in Q3, but was in line with our forecast, with a 0.2% qoq expansion.** This was stronger than in Q2 (0.1%). Growth in Spain (+0.6%), Portugal (+0.8%) and France (0.5%) led the way. Germany and Italy however both failed to grow (0%). Their relative size means countries representing 49% of the EZ's GDP remain in a slump.

The overall outturn plays to the upturn in the PMI data, driven by the services sector. ECB President Christine Lagarde recently highlighted the services boost with strong tourism and a pickup in digital services. Surveys show many firms stepping up their efforts to modernise their IT infrastructure and integrate AI into their operations.

Euro-zone PMIs



Source: National Australia Bank, Account in-house, Macrobond

The services sector should continue to benefit from an unemployment rate which, at 6.3%, is close to historic lows and rising real incomes. Households continue to save an unusually large proportion of their income, but this at least provides a greater margin to spend.

Meanwhile US tariffs continue to impact goods trade. Goods exports declined from March through to August, but **September data saw the EZ's trade surplus surge from EUR10.6bn in August to EUR18.9bn**. Exports rose nearly 5% mom, while imports rose 1.3%. Exports to the US rose, led by an almost 40% ramp-up in chemical products that includes pharmaceuticals – possibly a final front-loading as the US 15% tariff on pharmaceuticals from the EU went into effect in September. The net trade contribution to quarterly GDP growth in Q3 likely turned positive (from -0.2ppts in Q2) but we expect it to be close to neutral in Q4.

So far there is little official evidence of a surge in Chinese exports to the EZ, but this remains the fear amid re-routing from the US market and China over-production.

With inflation close to the ECB's 2% target and unlikely to move far in the foreseeable future, while parts of the EZ economy exhibit resilience, **the ECB looks set to remain in its 'good place' and on hold at 2%.** We expect a modest upgrading of GDP and HICP inflation forecasts at the December meeting, pulling up the 1.7% 2026 inflation forecast up to 1.9% or so.

We retain our view that in 2026, the risks for ECB policy are asymmetrically skewed to a further easing, should the headwinds from US tariffs, China export diversion and a stronger EUR come to pass. The EZ will however continue to benefit from the 200bps of rate cuts and as fiscal spending in infrastructure and defence picks up in 2026. Moreover, while the pace of reforms under 'Operation Compass' (the Draghi review) are slow they will continue to assist.

United Kingdom

UK GDP data were weak in Q3 ahead of expected tax increases in the late November Budget. Business and household confidence remains low, but inflation looks to have peaked, aided by moderating wage settlements. The Budget is likely to impact growth, and speculation over the extent and specifics of the measures to be adopted has caused volatility in bond yields.

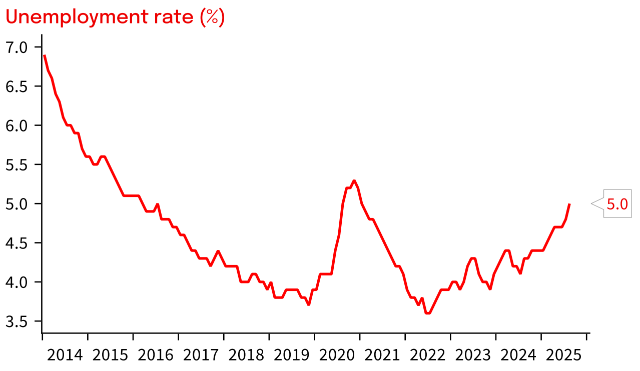
GDP growth continues to disappoint, with **September monthly GDP falling 0.1% mom after a downwardly revised 0% in August and -0.1% in July.** Reflecting base effects, growth was positive in Q3, but at 0.1% qoq was lower than our, and Bank of England (BoE) expectations, of 0.2%.

Part of the reason for the meagre Q3 performance was the hit to manufacturing in September after Jaguar Land Rover production was halted by a cyberattack. **That saw motor vehicle production fall 27% mom, pulling GDP down by 0.17pppts.** While some observers expect a rebound in October, JLR remained mostly shut until November, suggesting a more gradual recovery in production data.

On the expenditure side, government investment from the late 2024 Budget helped fixed capital formation rise 1.8% qoq, **but business investment fell 0.3% qoq**. Household consumption remained relatively soft at 0.2% qoq, with eyes on tax rises in the coming 26 November Budget and amid still elevated inflation at 3.8%. Imports were soft at -0.3% qoq.

Growth was strong early in the year partly on the back of exports front-running US tariffs, but this has more than reverted back. Sentiment has been soured by a failure of various government initiatives to spur growth and productivity and the never-ending churn of official warnings that taxes will have to rise. Business and household sentiment remains downbeat and **the savings rate is an elevated 10.7%.**

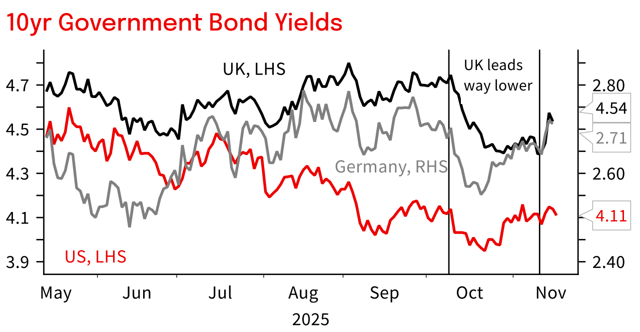
Inflation rose to a 3.8% headline in August, peaking at below the BoE's 4% August forecast. Private sector wage settlements continue to moderate and at a slighter faster pace than the BoE had assumed, a development that bodes well for services inflation in 2026. **This week's September inflation release should see a further drop in the headline rate to circa 3.5%** and, while the October release could see a 0.2ppt rebound, headline inflation is expected to drop back below 3% early in 2026. **Unemployment, meanwhile, has risen to a new cycle high of 5%**.



Source: National Australia Bank, U.K. Office for National Statistics (ONS), Macrobond

The upcoming Budget is shaping as a significant event that has the capacity to impact sentiment, economic growth and determine the pace and extent of BoE rate cuts. Measures to address a fiscal black hole of between £25-£30bn will weigh on the economy and we have lowered our forecast for 2026 as a result.

However, the details will be important, including whether the fiscal projections are credible, as well as the form the measures take. **Speculation over the extent, and the specifics of measures, to be adopted has contributed to swings in UK bond yields.** Earlier hints from the UK Chancellor of income tax hikes were received well by bond markets, which like the idea of higher income tax as it is seen as more effective than a patchwork of small measures. As a result, gilts outperformed with 10-year yields falling to a greater degree than those in the US or Europe since October, aided by a slowdown in BoE QT and growing thoughts of BoE rate cuts.



Source: National Australia Bank, Macrobond, Bloomberg

However, a briefing that the Government will not need to resort to income tax rises, as it believes the fiscal shortfall may now be smaller than initially thought as higher wages have helped revenues, has not been taken well by markets. Markets are sceptical this is true, given the zigzagging on the issue, and would rather the government take the hard decisions to get ahead of the problem. No shortage of media coverage regarding threats to the position of both Chancellor and PM from backbench MPs has given rise to the suggestion the decision to back away from income tax rises may have been political. Gilt yields have risen abruptly as a result, increasing the risk that higher debt servicing costs may follow, eating into public finances.

We continue to look for a December rate cut to 3.75%, then 3.5% in February. We have added a third cut to the end July meeting, reflecting our lower growth expectations. That final cut to 3.25% could come in late April if conditions permit, while the February cut could also be delayed to April in what remains a fluid situation.

Canada

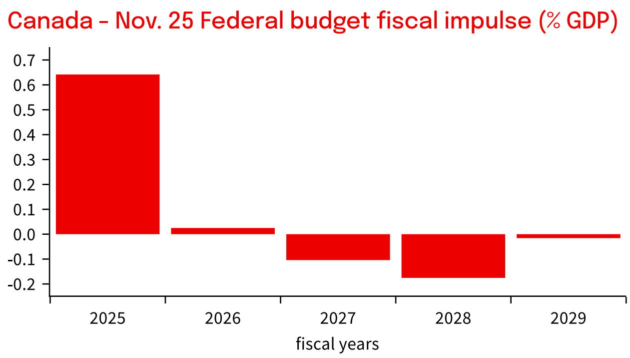
Activity indicators remain soft, but there are signs of a recovery underway and labour market indicators have stabilised recently. The Bank of Canada indicated that rates are at the 'right level', signalling it is on hold, while the Federal budget provides some fiscal stimulus.

Monthly GDP declined 0.3% mom in August, reversing the July gain. Stats Canada advance estimate for September is for growth of 0.1% mom. Overall, **this suggests that the Q2 contraction in activity will not be repeated in Q3** (we expect 0.0% qoq but with upside risk).

The broader, tentative, message is that the economy is past the **trough** (June 2025 on the monthly GDP data), albeit with only a weak recovery since. The level of GDP is only up 0.3% since December 2024, compared to 2% plus growth over 2024, reflecting trade headwinds and a sharp decline in population growth.

The labour market is showing signs of stabilising. The unemployment rate declined to 6.9% in October – taking it back to its July level – and employment grew strongly for the 2nd consecutive month.

The Federal government's November Budget puts in place modest fiscal stimulus. The net cost of policy measures for the FY 2025-26 is +0.6% of GDP, although the mix of public sector job cuts and increased infrastructure investment means the impact is likely to be uneven over time. Improved infrastructure could add to potential growth but, as the Budget also puts in place reductions in temporary and permanent resident admissions, its overall impact is unclear.



Source: National Australia Bank, Macrobond. Fiscal impulse equals change in budget balance from previous year (% of GDP) due to policy menasures

Policy support has also come from the Bank of Canada (BoC) which cuts rates by 25bps in September and in October. The policy rate, at 2.25% is now at the bottom of the BoC's estimated range for the neutral rate (2.25% to 3.25%). As the Bank estimates that output is 0.5 to 1.5% below potential, but that underlying inflation is an above target 2.5%, the policy rate (relative to neutral) is being pushed in both directions. In its October meeting statement, the **BoC stated that it considers that the policy rate is "at about the right level"**. This suggests a high bar for a change at the December meeting, particularly with fiscal policy turning more supportive. **We expect the BoC to remain on hold through to end 2026** but given the weak state of the labour market and only a tentative recovery in output, we see the risks skewed towards further easing in H1 2026.

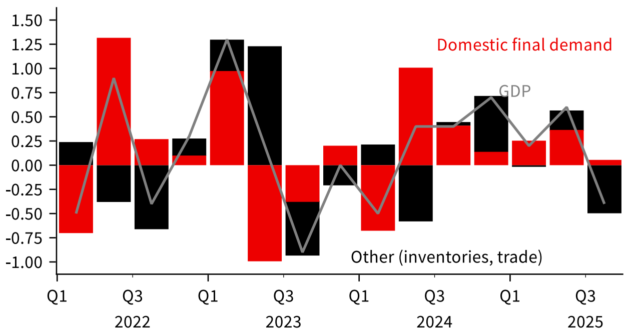
Japan

Japanese GDP fell by 0.4% qoq in Q3. Household consumption growth moderated, but was a still a decent 0.15% qoq, while non-residential fixed investment growth ticked up to 1.0% qoq. Public demand was also robust.

The weakness in Q3 GDP reflected a large fall in residential fixed investment (-9.4% qoq), the largest fall since the aftermath of the GFC, as well as a slowdown in inventory accumulation and a fall in exports. Residential investment detracted -0.3 ppts from quarterly growth - excluding this factor, private demand rose 0.3% continuing a recent solid run. Japan experienced heatwave conditions early in Q3 and it is possible this factor, as well as changes to building regulations earlier in the year, which reportedly delayed building permits, account for the sharp pull back.

The heatwave may also have depressed consumption activity; the consumption activity index fell in July and August but bounced back in September. On the export side, monthly trade data point to a fall in exports to the US but overall trade volumes have stabilised in recent months.

GDP - contributions to growth (qoq, ppts)



Source: National Australia Bank, Japanese Cabinet Office (CAO), Macrobond

We expect GDP to bounce back in Q4 and for growth to be sustained over 2026. A tight labour market will support employment and wage growth (and household incomes) and business investment to address capacity issues. Japan is also benefiting from the global investment in AI.

Inflation indicators generally remain elevated. CPI inflation ticked up slightly in September but remained below 3% yoy for the second consecutive month. Core measures have diverged – CPI ex food and energy was 1.3% yoy, but CPI ex fresh food and energy was 3.0%.

Japan's Prime Minister Takaichi will be submitting a supplementary budget to the Diet, with details likely by the end of this week. She has flagged measures to provide cost-of-living relief and support for SMEs, strategic investments, and to move more quickly towards the 2% of GDP defence spending commitment. However, she has also committed to lowering the government debt to GDP ratio, and the new initiatives could be offset by savings elsewhere. Overall, **there is a risk of some net fiscal stimulus in 2026.**

The labour market remains tight. The unemployment rate was unchanged at 2.6% in September, and while it has risen a little this year, it remains low. The BoJ Tankan employment conditions index indicates there is a shortage of labour.

The Bank of Japan (BoJ) remained on hold in October. It indicated that if the economy evolves as expected, and given the current low level of real interest rates, it will raise the policy rate. However, BoJ Governor Ueda indicated that before any move, the BoJ wants to see initial indicators of next year's wage talks. Comments by various government officials/politicians have also been interpreted as putting pressure on the BoJ not to raise rates.

Our view has been that the BoJ would hike either in December or January, with December our formal call. While a December rate hike remains possible, highlighted by hawkish dissents at the last two meetings, the desire for information on wage discussions and the need to manage political pressures (while still maintaining credibility) makes January more likely. Accordingly, **we have changed our call and expected the next hike to be in January. Beyond this, we see only one further rate increase over 2026** given the BoJ's cautious approach.

One factor that could force the BoJ to move more quickly would be if the supplementary budget were to add substantial stimulus to the economy. Risks in the other direction is that a solid read on the next wage round could still take longer to gather, or that the recent souring in China-Japan relations persists, resulting in a negative economic impact (reports suggest there has already been widespread cancellations of planned trips to Japan).

India

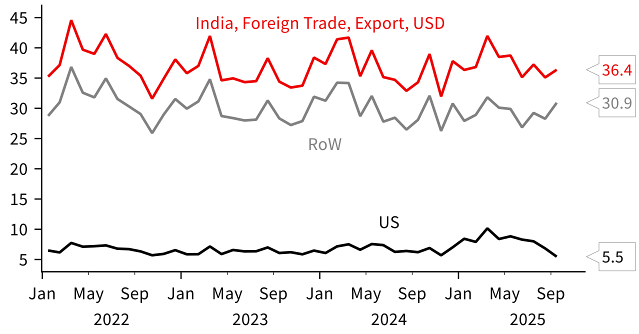
India's economy has been growing strongly. Business survey readings have come-off their highs but favourable monsoon conditions – which are boosting agricultural production and household real incomes (through lower prices), as well as policy supports, should sustain solid growth. Exports have held up in the face of US tariffs.

Inflation has fallen considerably. Over the year to October, the CPI grew by just 0.3% yoy, down from 6.2% yoy in October 2024. This reflects favourable monsoon conditions as well as, in October, some downwards pressure from GST changes. Core measures of inflation are higher, around the middle of the Reserve Bank of India's target band, partly because of elevated gold prices.

The favourable monsoon conditions are a plus for agricultural production, while the resulting downward pressure on food prices is providing households with a real income boost. Monetary policy as well as fiscal policy are also supporting growth in the economy.

So far exporters are weathering the high US tariff rates. The US is India's major goods export destination (with a share of just under 20% of total goods exports in 2024). September is the first full month since the US increased the reciprocal tariff on imports from India from 25 to 50%. While exports to the US fell, and are now down 11.9% yoy, total exports rose (and are up 6.1% yoy). The Government has also announced a support scheme for exporters.

Indian foreign trade (US$ billion)

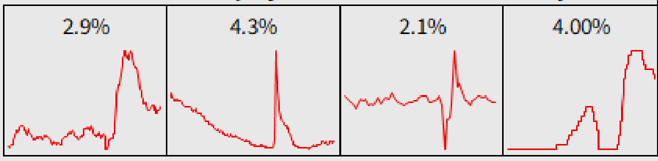
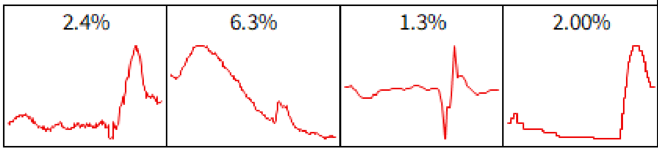
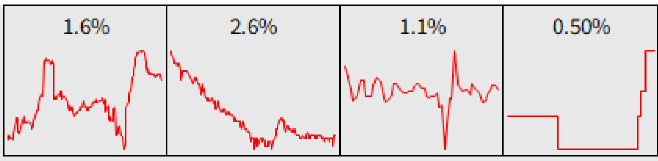
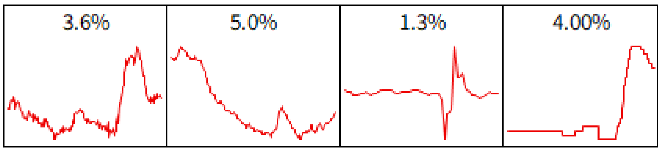
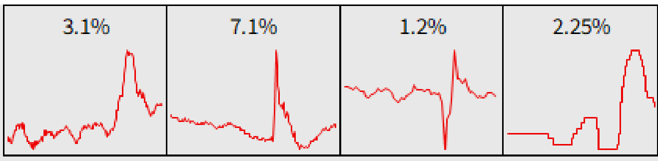
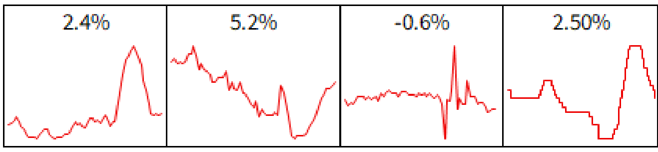
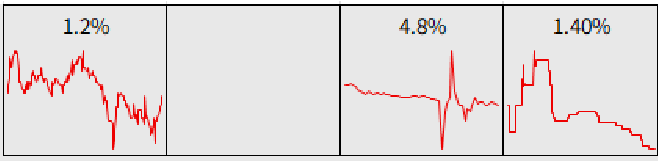


Source: National Australia Bank, Macrobond

The S&P Global PMIs have moderated over the last two months pointing to some easing in the growth towards the end of the year. Consistent with the export data, the pull-back has not been driven by the trade exposed manufacturing sector but instead by services.

As we noted last month, the Reserve Bank of India (RBI) left the policy rate unchanged in October. The RBI is in wait and see mode as it weighs up the impact of the different cross currents affecting the economy. While the RBI indicated that space has opened up for further easing, market pricing indicates that a further rate cut is possible in upcoming meetings.

Central bank monitor

	Inflation and output gap indicators			Central bank rates	NAB forecasts		
	Core inflation*	**Unemployment**	**GDP**	**Policy rate****	**bias**	**next meetings*****	**year-end forecast**
US Federal Reserve	2.9%	4.3%	2.1%	4.00%	easing	10 Dec 3.75 28 Jan 3.75	end 2025 3.75 end 2026 3.25
							
	The Fed cut rates in Sept/Oct, and we expect another in Dec, on a changing risk assessment. If the labour market stabilises in early 2026 as we expect, then inflation will need to moderate for further cuts in 2026						
European Central Bank	2.4%	6.3%	1.3%	2.00%	hold	18 Dec 2.00 5 Feb 2.00	end 2025 2.00 end 2026 2.00
							
	The ECB is likely to remain on hold through to end 2026, even though inflation is projected to be below target. This suggests the risk is that easing re-starts next year but they appear to have some tolerance for below target inflation.						
Bank of Japan	1.6%	2.6%	1.1%	0.50%	tightening	19 Dec 0.50 23 Jan 0.75	end 2025 0.50 end 2026 1.00
							
	With a tight labour market, inflation close to or above target and monetary policy loose the next move in rates will be up. BoJ caution means that, while a December hike is possible, January is more likely.						
Bank of England	3.6%	5.0%	1.3%	4.00%	easing	18 Dec 3.75 5 Feb 3.50	end 2025 3.75 end 2026 3.25
							
	Dovish hold by the BoE in November; but a deteriorating labour market, with wage growth slowing, and a contractionary Nov. Budget expected, we expect a 25bps cut in December and two further cuts in H1 2026						
Bank of Canada	3.1%	7.1%	1.2%	2.25%	hold	10 Dec 2.25 28 Jan 2.25	end 2025 2.25 end 2026 2.25
							
	The BoC cut rates in October (following a Sept. meeting cut) but indicated rates now at 'right level'. With signs of a recovery underway, with the Federal Budget adding stimulus, and inflation above, the BoC is now on hold.						
Reserve Bank of New Zealand	2.4%	5.2%	-0.6%	2.50%	easing	26 Nov 2.25 18 Feb 2.25	end 2025 2.25 end 2026 2.25
							
	With a excess capacity in the conomy and medium term inflaton pressures constained, we expect the RBNZ to cut rates by another 25bps						
People's Bank of China	1.2%		4.8%	1.40%	easing	na	end 2025 1.30 end 2026 1.10
							
	Further easing likely to support growth and given ongoing deflationary pressures						

* Core based headline ex food and energy, except Japan (also excludes alcoholic beverages), UK (also excludes alcoholic beverages & tobacco), NZ(RBNZ's factoral model), Canada (TRIM measure). US PCE measure used, CPI for all others

For federal funds rate the top of the target range is shown * For meetings spanning two days, the final day is shown

Note: number at top of each chart is latest obvservation (yoy change for GDP and inflation, level for unemployment rate and policy rate)

Economic forecast detail - advanced economies

	2025				2026				2027			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
United States												
GDP												
qoq%	-0.2	0.9	0.8	0.2	0.5	0.4	0.5	0.5	0.5	0.4	0.4	0.4
qoq, annualised %	-0.6	3.8	3.3	1.0	2.2	1.8	2.2	2.1	2.0	1.8	1.7	1.7
yoy%	2.0	2.1	2.1	1.8	2.6	2.1	1.8	2.1	2.0	2.0	1.9	1.8
year-average				2.0				2.1				1.9
PCE deflator												
Headline - yoy%	2.6	2.4	2.8	3.0	2.8	2.9	2.6	2.3	2.1	2.0	2.0	2.0
Core												
qoq%	0.8	0.6	0.8	0.9	0.7	0.7	0.6	0.5	0.5	0.5	0.5	0.5
yoy%	2.8	2.7	2.9	3.2	3.1	3.1	2.8	2.5	2.3	2.1	2.1	2.1
Unemployment rate												
qtly average %	4.1	4.2	4.3	4.4	4.5	4.5	4.4	4.4	4.3	4.3	4.2	4.2
Fed funds rate												
Top of target band (%)	4.50	4.50	4.25	3.75	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25
Euro-zone												
GDP												
qoq%	0.6	0.1	0.2	0.2	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3
yoy%	1.6	1.5	1.4	1.1	0.9	1.1	1.2	1.4	1.4	1.3	1.3	1.3
year-average				1.4				1.1				1.3
Policy rate (%)	2.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00				
United Kingdom												
GDP												
qoq%	0.7	0.3	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
yoy%	1.8	1.4	1.3	1.2	0.8	0.7	0.8	0.8	0.9	0.9	1.1	1.2
year-average				1.4				0.8				1.0
Policy rate (%)	4.50	4.25	4.00	3.75	3.50	3.50	3.25	3.25				
Japan												
GDP												
qoq%	0.2	0.6	-0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1
yoy%	1.8	2.0	1.1	0.7	0.6	0.3	0.9	0.8	0.8	0.7	0.6	0.6
year-average				1.4				0.6				0.6
Policy rate (%)	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00				
Canada												
GDP												
qoq%	0.5	-0.4	0.0	0.2	0.3	0.4	0.6	0.6	0.5	0.4	0.3	0.3
yoy%	2.3	1.2	0.6	0.3	0.1	0.9	1.5	1.9	2.1	2.1	1.8	1.5
year-average				1.1				1.1				1.9
Policy rate (%)	2.75	2.75	2.50	2.25	2.25	2.25	2.25	2.25				

Source: NAB Economics and Markets Research

FX forecasts

	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
AUD/USD	0.67	0.69	0.71	0.72	0.71	0.70	0.69
NZD/USD	0.59	0.60	0.62	0.63	0.63	0.63	0.62
USD/JPY	146	144	140	135	135	135	135
EUR/USD	1.19	1.20	1.21	1.23	1.22	1.21	1.20
GBP/USD	1.35	1.35	1.36	1.38	1.37	1.36	1.35
USD/CHF	0.78	0.77	0.76	0.75	0.76	0.76	0.77
USD/CAD	1.37	1.36	1.32	1.28	1.30	1.29	1.28
USD/CNY	7.08	7.05	6.95	6.90	6.85	6.85	6.85
Australian Cross Rates							
AUD/NZD	1.14	1.15	1.15	1.14	1.13	1.11	1.11
AUD/JPY	98	99	99	97	96	95	93
AUD/EUR	0.56	0.58	0.59	0.59	0.58	0.58	0.58
AUD/GBP	0.50	0.51	0.52	0.52	0.52	0.51	0.51
AUD/CHF	0.52	0.53	0.54	0.54	0.54	0.53	0.53
AUD/CAD	0.92	0.94	0.94	0.92	0.92	0.90	0.88
AUD/CNY	4.74	4.86	4.93	4.97	4.86	4.80	4.73

Global FX Strategist provides details on our FX views

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