

The Forward View – Global Oct. 2025

Resilience as US-China tensions resurface

NAB Economics & Market Research



Overview

- We have revised upwards our global growth forecasts, highlighting the resilience in the global economy. We now expect global growth of 3.3% in 2025 (previously 3.2%) and 3.0% in 2026 (from 2.9%) and 2027 (unchanged). Growth at these levels is still relatively subdued but substantially better than was expected following 'Liberation Day' in April (when we projected global growth of 2.7% for 2025 and 2.8% for 2026).
- A bring forward of activity ahead of US tariff increases helped sustain activity earlier this year but this is now fading. Policy support has also been evident, including from Chinese authorities in the first half of the year and through monetary policy easing. Support has also come from investment in AI – it has been a particular driver in US business investment – supporting global manufacturing production.
- For the US, while Q3 growth is on track for a solid outcome we expect a near term slowdown as slowing real income gains constrain consumption and as trade and other policy uncertainty remains a drag. The government shutdown will also weigh on Q4 growth. However, fiscal easing by Congress, Fed rate cuts and growing AI investment should support the economy in 2026. While business investment has been strong, jobs growth is very weak – how these conflicting signals of business sector intentions are resolved represents a major uncertainty for the outlook.
- For China, the upwards growth revision reflects a stronger than expected Q3 quarterly growth rate and additional policy supports. That said, indicators of domestic demand are weak with growth being sustained by industrial production amidst resilient export growth. The reliance on trade for growth, in a world of increasing trade barriers, remains a risk for the outlook. Other challenges include the domestic supply-demand imbalance, which is causing deflationary pressure, and the ongoing housing market downturn.
- The risk of extreme trade disruptions re-emerged this month, with the US and China announcing further export controls and the US threatening an additional 100% tariff on Chinese imports. Our forecasts assume that this tariff increase does not occur.
- The margin of error around the economic forecasts remains higher than normal. Apart from the ongoing trade risks, many countries still have large budget deficits, leaving fiscal policy room constrained. Upside risks come from the AI roll-out and potential productivity benefits from this investment, as well as any investment delayed by the major policy uncertainty this year being reinstated as businesses adapt.

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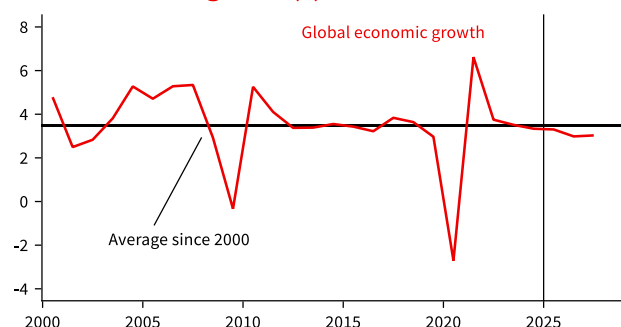
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Key Economic Forecasts

(Change since previous Forward View in brackets)

	2024	2025		2026		2027	
US	2.8	2.0	(0.2)	2.0	(0.3)	1.9	
Euro-zone	0.8	1.3		1.1		1.3	
Japan	0.1	1.4		0.7		0.6	(-0.1)
UK	1.1	1.5	(0.2)	1.0		1.3	
Canada	1.6	1.1		0.9		2.1	
China	5.0	4.9	(0.1)	4.2	(0.2)	3.9	
India	6.7	7.1		6.2		6.4	
Latin America	2.4	2.2		1.6	(-0.2)	1.9	(-0.1)
Other East Asia	4.0	3.7	(0.3)	3.3	(0.1)	3.5	(0.1)
NZ	-0.6	0.2	(-0.4)	2.5	(-0.3)	2.5	
Global	3.3	3.3	(0.1)	3.0	(0.1)	3.0	
Major trading partners	3.5	3.7	(0.2)	3.2	(0.1)	3.1	

Global economic growth (%)



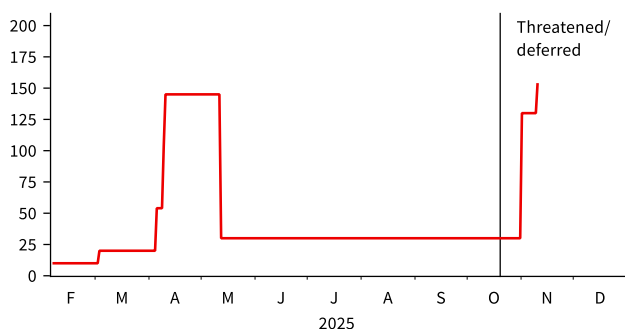
Source: National Australia Bank, Macrobond (IMF)

Global trade & tariffs

Trade risks re-emerged over the last month, highlighted by a threatened additional 100% tariff on China on 1 November. US and China export controls also expanded. Talks – including between President Trump and President Xi Jinping at the upcoming APEC meeting – may mean that recent trade actions and threats are wound back. Even if the ‘détente’ that had been in place is re-instated, the risk of future US-China flare-ups is likely to remain high. Other countries are caught in the middle and re-acting to pressure to protect their own domestic industries.

The threatened additional 100% US tariff on imports from China – if implemented – would take the additional tariffs imposed imports this year (excluding products covered by sectoral tariffs or investigations), to 130%. This would only be a bit below the peak rate which applied for around a month (145%) over April/May. There is also currently a 24% tariff on China imports paused until 10 November. In addition, to the 100% tariff threat, President Trump indicated there could be new export controls on the export of critical software.

US ‘fentanyl’ & reciprocal tariffs on China (ppts)



Source: National Australia Bank, Macrobond

The 100% tariff threat did not come in isolation but followed China’s decision to tighten rare earth export controls (scheduled to go into effect over November/December), with foreign exporters needing a license before re-exporting goods containing rare earths above a certain value, and additional requirements on Chinese exporters. The controls also covered rare-earth technology and equipment, magnets and batteries. China also imposed fees on US vessels entering Chinese ports.

The tightening of rare-earth restrictions, in turn, followed a series of US measures – including anti-dumping measures on chemicals, timber duties (including, but not specific to, China), fees on Chinese container ships using US ports, and expansion of the ‘entity list’ which will affect China’s ability to import US technology (including advanced semi-conductor chips).

Whether all of these steps were a deliberate ramping up in trade barriers, or seen as normal trade enforcement and implementation of prior announcements, is unclear. Even if the 100% tariff is avoided, it illustrates that trade tensions between the US and China are likely to continue to bubble away, with the risk of a major escalation at any time.

China’s export controls on rare earths, as was the case earlier this year, were apply to all countries. Deals between the US

and other countries to limit reciprocal tariffs (such as the EU and Japan) have included commitments around securing supply chains and limiting ‘technology leakage to destinations of concern’. These have been seen as targeted to China.

Moreover, the US is not the only country seeking to protect its domestic industry from imports – the EU Commission has proposed doubling the tariff on above quota steel imports from 25% to 50%, with the tariff free quota to be almost halved. Similarly, last month Mexico announced its intention to increase tariffs on certain imports from countries without free-trade deals (including an increase in the tariff on China auto imports to 50%).

The increase in US tariffs this year – including a relatively high rate for China – means that impacted exporters will search for new markets, increasing the potential for other countries to impose tariffs in response to protect domestic industry.

Outside of the US-China re-escalation, US tariffs continue to rise. This month tariffs on some timber and furniture products (of 10-25%) came into effect (14 October), while next month (1 November) tariffs on medium and heavy vehicles, including parts, will rise by 10% (buses) or 25% (trucks). In both cases there were some carve outs – the furniture related tariffs are lower for the UK, Japan and Euro-zone in accordance with limits under recent trade deals, while for trucks US content of imports from Canada/Mexico is exempt, and producers can get an import adjustment offset on parts of a vehicle which is assembled in the US.

Further sectoral tariffs are still expected in several product categories, including pharmaceuticals and semiconductors and other electronic goods.

Adding to tariff related uncertainty is the possibility that the reciprocal and ‘fentanyl’ tariffs may be invalidated. Court rulings have found that these tariffs are invalid, but they remain in place subject to consideration of an appeal by the Supreme Court, with hearings scheduled for 5 November.

United States

Growth in US GDP is on track for another solid outcome in Q3, while jobs growth continues to look weak. These conflicting signals, combined with ongoing trade and other policy changes, including the risk of a major increase in US/China trade barriers next month, means **uncertainty around the outlook remains particularly high.**

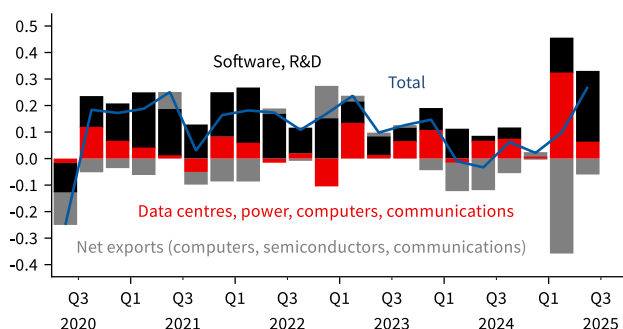
The risk is that the downshift in job gains triggers a marked weakening in consumption and signals a broad pull back business investment. Ongoing strict migration enforcement, tariff flowthrough and uncertainty over future tariffs – highlighted by the threatened additional 100% tariff on China from 1 November – add to this risk.

Our baseline forecast is for the economy to continue to grow, but with some near-term slowdown as these drags play out, reinforced by the current government shutdown. However, the stimulus from the One Big Beautiful Bill, easing monetary policy, and the large (and growing) investment in AI, should support activity and stabilise the labour market.

This month we have again revised up our US growth forecasts. This mainly reflects an upward revision to Q2 growth by the BEA, and partial data pointing to a strong outcome in Q3.

Upward revisions to prior data and strong growth in August (0.4% mom) point to robust consumption growth in Q3. The Chicago Fed CARTS indicator estimates there was also solid real growth in goods and food services consumption in September (0.2% mom). However, consumption growth is likely to moderate over the rest of the year - it has been running above disposable income growth which is likely to remain soft in the face of faltering employment gains and pressure on prices from tariffs.

AI proxy - contributions to US GDP (qoq)



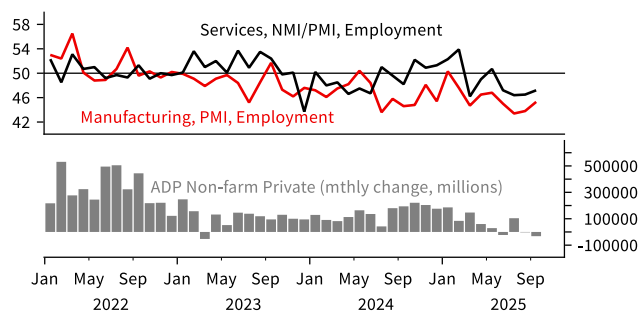
Overall business investment remains positive, albeit narrowly concentrated in tech and related sectors. The key driver is likely AI – the importance of which can be gauged by looking at categories where it is potentially a key driver of growth – software, research & development, data centres, power generation and communications equipment. As a lot of equipment investment is imported this also needs to be taken into account in assessing the contribution to GDP.

The contribution of these AI related investment categories to H1 GDP growth was around 0.4ppts (not annualised), or around half of total GDP growth. This is probably an upper estimate of the direct impacts of AI on GDP, as growth in software over the last year (12%) is not that different to past growth (~10% per annum over preceding decade). AI can also

indirectly impact activity – while the net impact on employment is unclear, tech has been a driver in stock market gains and wealth impacts can boost consumption.

The government shutdown since 1 October continues. 700,000 or more Federal employees have been furloughed, and some layoffs announced. GDP will be directly impacted through a reduction in Federal non-defence consumption and investment but there may also be indirect impacts, e.g. on consumption and through contractors. A common estimate is that each week reduces quarterly GDP by around 0.1-0.2% annualised, which will mostly reverse when the shutdown ends.

Employment indicators



Due to the shutdown, the September employment report has not been released. Other indicators are mixed but overall point to **continued weakness in jobs growth** and declining vacancies, but with still low layoffs. The impact on unemployment of weak jobs growth is being offset by the negative impact on labour supply of tighter migration enforcement. We expect the **unemployment rate to peak at 4.5%** (4.3% currently).

The September CPI release has also been delayed. August core PCE inflation was 0.2% mom/2.9% yoy - unchanged from July. Core goods inflation reached its highest rate in over two years (3mth/3mth basis) reflecting tariff and currency pass through. Business surveys released over September/October point to **ongoing inflationary pressure and we still expect core PCE inflation to peak above 3% yoy this year.**

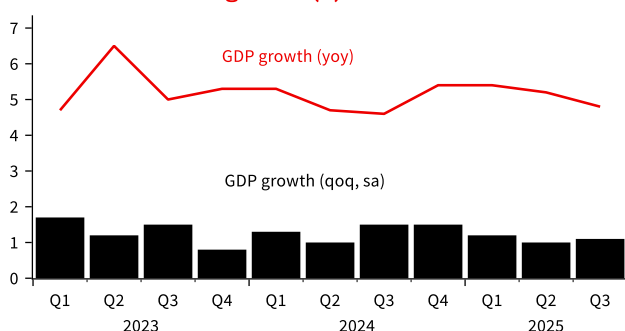
Last month the **Federal Reserve** lowered the fed funds rate target range by 25bp. **Our expectation is for two further cuts (each 25bp) this year and then a pause before a further 50bps of cuts from around mid-2026.** The cuts this year are based on a changing risk assessment, brought about by the marked slowing in jobs. This assessment was restated by Chair Powell in a speech last week – he also referenced ‘rising downside risks to employment’ while downplaying the increase in inflation this year (up ‘only slightly’ and being driven by tariffs rather than broader inflationary pressures’). These comments, as well as those by other Fed members, means an October meeting rate cut is highly likely.

Markets pricing for the fed fund’s rate has recently moved around as concerns over credit losses at regional banks first rose, then eased. It is worth noting that, for the Fed, the first port of call to address banking stress would be other policy tools, not the fed funds rate (as was the case in early 2023 when several bank failures did not stop the Fed raising rates).

China

China's annual GDP growth rate declined to 4.8% yoy in Q3, the lowest it has been for a year. However, the quarterly growth rate ticked up to 1.1% qoq (from 1.0% qoq in Q2) despite the weakness across the monthly domestic activity data outside of industrial production and trade. The reliance on exports – amidst growing trade barriers – is a risk to the outlook, while at the same time the structural challenges facing the economy – a supply/demand imbalance and stressed property market remain.

Chinese economic growth (%)



Source: National Australia Bank, Macrobond

We have revised up our forecasts for Chinese GDP growth on the back of the stronger quarterly outcome and some recent modest policy measures. We expect China's economy to expand by 4.9% in 2025 (was 4.8%), 4.2% yoy in 2026 (was 4.0%) and 3.9% in 2027 (unchanged).

The recent softness in consumption continued in September. Real retail sales were up 3.4% yoy, down from 3.8% in August (and the over 6% growth seen as recently as May). The shift down is likely due to the bring forward in activity, from a consumer goods trade in scheme, fading and possibly a drag from falling house prices.

Similarly, **the recent plunge in fixed asset investment growth (since mid-year) continued into September.** Investment fell by 6.8% yoy (or 4.5% in real terms). Real estate investment continued its rapid decline (down 21% in yoy terms) but manufacturing and infrastructure investment also declined in September.

Industrial production growth, in contrast, rebounded, rising by 6.5% yoy in September (5.2% in August) although growth remains within the range seen since early 2024. With indicators of domestic demand growth weak or falling this suggests growth is being supported by exports, highlighting the imbalance between the domestic supply and demand of goods.

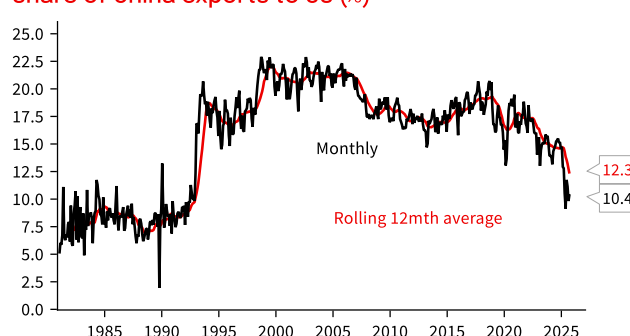
China's trade surplus eased in September, to US\$90.4 billion (from US\$102.3 billion in August). There was a 8.4% mom (nsa) fall in the value of imports but **exports remained resilient**, rising 2.2% mom (8.3% yoy). The rolling twelve-month surplus reached a new high in September – increasing to US\$1.174 trillion – driven by an increase in China's trade balance with most regions, partly offset by a fall in the surplus with the US.

Trade tensions with the US have re-escalated, with export controls being announced by both countries, and President

Trump threatening an additional 100% tariff on Chinese imports. In 2024, China's exports to the US made up around 15% of total exports, but the latter has declined to around 10%. This suggests that **direct exposure to US tariffs has declined.** While the decline in US trade may be exaggerated by exports being re-routed through other countries (transshipments), it is only direct trade that would be immediately impacted by a higher tariff.

Even with this reduced exposure, **a 100% tariff would severely reduce US-China trade. Our baseline forecast assumes that it is not put in place.** If it were, the economic impact would depend on the government's policy response and the ability of exporters to source alternative markets or re-route exports to the US through other countries. This could raise trade tensions with other countries as well as further US efforts to curb transshipments.

Share of China exports to US (%)



Source: National Australia Bank, China General Administration of Customs (GAC), Macrobond

China's supply-demand is reflected in ongoing deflationary pressures. The consumer price index fell by 0.3% yoy in September, although non-food inflation again ticked up – to 0.7% yoy from 0.5%, its highest level in over a year. Similarly, the fall in producer prices moderated to -2.3% yoy, (from -3.6% yoy in July). While it is tempting to attribute this to China's "anti-involution" campaign, that seeks to reduce over-capacity and price competition, the September outcome is within the range of recent years.

Total social financing (TSF) growth eased in September, for the second consecutive month, to 8.7%. While bank lending has been steadily easing this year, TSF has been supported by government bond issuance (20.2% yoy), although this too has started to moderate. Government bond issuance is likely to come under further pressure as the use of issuance quotas was front-loaded.

Growth in the stock of loans again eased, to 6.6% yoy in September, with lending to both households and corporates and government entities slowing. There is no evident impact from Interest rate subsidies (of 1 percentage point) on bank loans for households and service sector firms from 1 September, suggesting weak demand remains the major constraint.

In the face of the slowdown in growth **additional policy support is being put in place.** The National Development and Reform Commission announced a new policy financing tool (equal to around 0.4% of GDP) with the intention of that it will provide capital for investment projects. The Ministry of Finance has also indicated that it will frontload the bonds from the 2026 local government bond quota.

Euro-zone

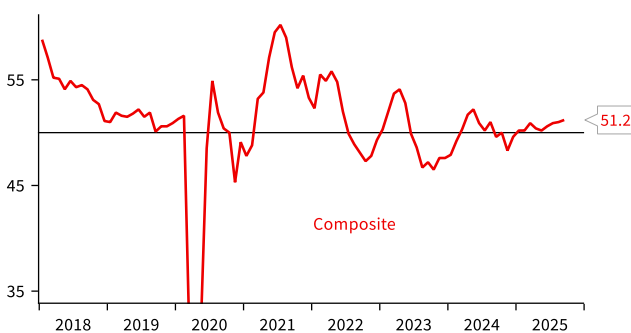
Our forecast of modest Euro-zone (EZ) growth in H2, 2025 continues to look on track as Q1 export frontloading reverses and industrial production slumped in August. While there has been a steady improvement in PMI readings and neutral monetary policy settings will continue to support the recovery into 2026 alongside increased fiscal spending, the EU remains flat-footed in respect of implementing much needed Draghi reforms.

EZ GDP slowed in Q2 to 0.1% qoq after much stronger growth of 0.6% in Q1 amid frontloading of exports in anticipation of US tariffs. Q3 GDP will be released towards the end of October. The ECB's September staff projections look for growth to stagnate at zero in Q3 on a further unwinding of export frontloading – particularly in Ireland – and on higher tariffs. We are somewhat more positive but still expect only modest growth (0.2% qoq).

Manufacturing and industrial production slumped in August, and retail sales are tracking below their Q2 level, seemingly corroborating the ECB forecast, **but PMI readings have improved**, with the composite forging a steady rise to 51.2 in September, it's best reading since May 2024 that sees the EZ fare well with its peers. Germany was central to the improvement with a composite PMI rise to 52, a 16-month high.

Trade data point to short-term downward pressure on EZ goods trade from the US tariffs, but with a smaller net export drag on GDP growth in Q3 than Q2. While the August trade surplus rose to EUR9.7bn from EUR6bn in July, the details revealed a larger 2.4% decline in imports, while exports fell by 0.8%. Exports to non-EU countries rose but not be enough to offset a decline to the US, China and UK.

Euro-zone PMIs



After holding rates steady in September amid much **European Central Bank (ECB)** comment about policy being in a 'good place' with headline inflation just above target, there is increasing speculation the ECB has finished cutting. Our view has been further EUR gains, benign energy prices, economic headwinds from US tariffs and a recycling of China exports from the US into Europe would allow for a further rate cut to 1.75%, possibly at the December meeting. While such a scenario cannot be ruled out, headline inflation seems set to hold around the low 2s for the coming months. Any further easing arguably looks better placed for later in 2026, when core and services inflation will decline closer to 2%, and the impact of China export dumping and US tariff headwinds

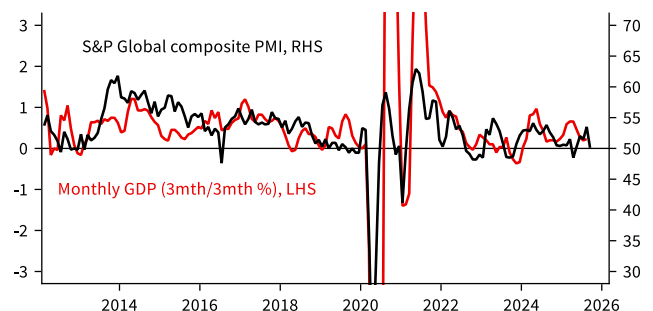
may be more pronounced. **We are thus removing our December 2025 rate cut forecast.**

United Kingdom

GDP growth early in the second half of 2025 is flatlining after a stronger first half, as tax rises and high interest rates weigh on activity. Inflation continues to rise, but with the labour market continuing to soften the Bank of England is divided on the timing of rate cuts. Businesses and households are braced for further tax hikes in November.

GDP growth in August rose 0.1% m/m, while July's 0% was revised lower to -0.1%, underpinning ours and the consensus view that H2 growth will be suitably softer than H1. In Q1 GDP grew 0.7% thanks to pre-tariff activity and government spending, easing to 0.3% in Q2. August's 0.1% mom rise marks only the second month of growth since April, when higher NIC taxes hit employers. Key services activity has been 0% for two consecutive months. PMIs have not been a great predictor of growth in recent quarters, but the latest softer PMI readings (50.8 services, 46.2 manufacturing) look more aligned.

UK - Mthly GDP and PMI



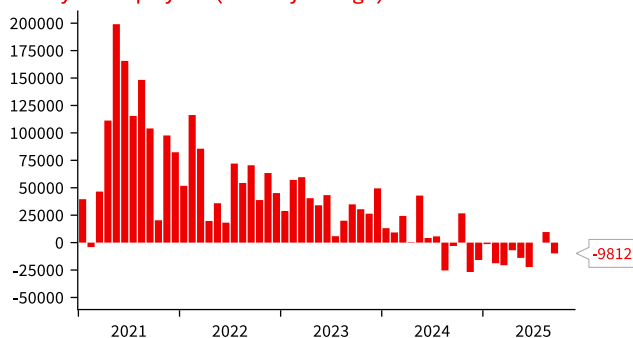
While annual growth still looks to be on course for 1.3% over 2025, **momentum into the end of the year is slowing as businesses and households brace for more tax increases and spending cuts to fulfil fiscal targets.** Tax rises announced in late 2024 have helped push up inflation to 3.8% from a 1.7% low a year ago as companies seek to recoup higher employment costs. Food price inflation rose for a fifth month in August to 5.1% y/y. Water bills have risen 27% y/y, while energy prices remain elevated compared to pre-Ukraine invasion levels and are set to rise again.

Headline inflation is forecast to reach 4% in September, double the BoE's 2% target and while the BoE forecasts a peak there, the decline back to 2% will take until H1, 2027. Against this backdrop and where UK average earnings remain elevated, helping to keep services inflation just below 5%, some BoE members worry about renewed second-round effects and want to delay further rate cuts. For three of the nine MPC members we expect an 'on-hold' rates vote at the 6 November MPC meeting.

However, **the labour market continues to soften.** Private sector earnings eased in August to 4.4% 3mma yoy, closer to the 3%-4% area the BoE considers more stable. The

unemployment rate has risen to a new cycle high of 4.8% and payrolled employees have fallen in nine of the last eleven months. For three BoE members, these dynamics require further rate cuts in line with the quarterly pace thus far and therefore as soon as the November meeting.

UK Payroll employees (monthly change)



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

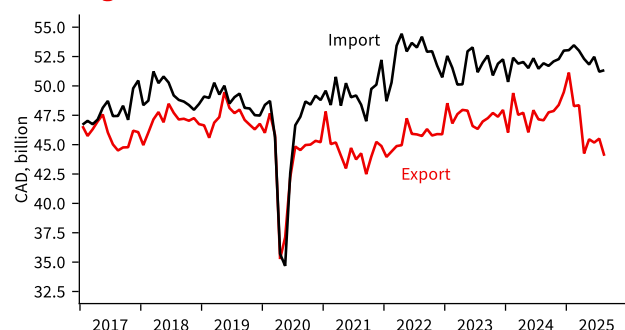
In our view the decision on rates on 6 November is more finely balanced than markets price at just a 10% probability. September CPI due 22 October, including core and services measures will be the last important input, but the decision will come down to Governor Bailey's assessment and proposition. If rates are cut, we see a further easing in February to 3.5%. If rates are held, we will look for February and May cuts but retain the option of an easing in December after the Budget (and then February).

Canada

The economy is still battling trade headwinds but as their impact, in a growth sense, recedes and policy supports come through, growth should start to improve. A weak labour market is likely to see the Bank of Canada cut rates again by the end of the year.

Data for Q3 are mixed, but overall point to little or no growth in the economy in the quarter. Retail trade volumes declined 0.8% mom in July indicating that consumption growth is likely to be subdued after a strong Q2.

Canada goods trade volumes



Source: National Australia Bank, Statistics Canada, Macrobond

Trade data also continues to look weak, with goods exports volumes touching a new low for the year, to be down 6.4% yoy, although the data have stabilised over recent months. That said, the US imposed tariffs on certain copper imports from 1 August, while additional tariffs on softwood lumber, and certain furniture and kitchen cabinet products

commence 14 October. With the USMCA to be reviewed next year, uncertainty around future trading arrangements is likely to persist which will continue to weigh on business investment.

Business surveys were also mixed – in September the Ivey PMI reached its highest level in more than a year, while the S&P Global composite PMI fell for the 2nd consecutive month (albeit it remains well above its lows from earlier in the year). Monthly GDP, rose 0.2% mom in July (after three consecutive falls), although the advance estimate suggests no growth for August.

September labour market data provided some reprieve but still indicate that **the labour market is weak**. The unemployment rate was unchanged at 7.1%, while employment was up 60k. Looking through the monthly volatility, employment has largely stalled this year. Labour supply has also weakened (low population growth and declining workforce participation) but not enough to stop unemployment rising.

The **Bank of Canada** (BoC)'s 'preferred' trimmed mean and median inflation edged up in September (averaging 3.15% yoy from 3.1% in August) although on a 3mth/3mth basis they are lower and edged down in the month. However, the bank has been placing less reliance on these indicators of late - in September it assessed that underlying inflation is around 2.5% and that upside inflation risks had eased. This assessment, together with softer labour market data in August, led it to cut the policy rate to better balance the risks. As part of this changed risk assessment, we expect another rate reduction. Whether it occurs in October or December is a close call. However, the BoC has indicated that it will move cautiously, and 'look over a shorter time horizon than normal'. With the September data pointing to no further labour market deterioration and mixed signals in the September inflation data, we retain our view that **the next 25bp reduction in rates will be in December**. After the next cut we expect the bank to go on hold (although the risk is that they will further ease policy).

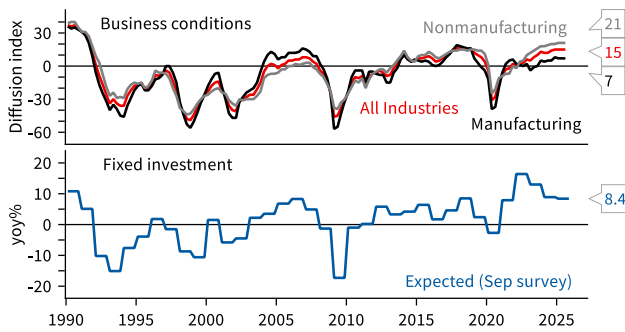
Japan

Japan's economy remains on a solid footing, although growth looks set to take a step down in Q3. Japan's new Prime Minister clouds the immediate outlook for the BoJ but capacity constraints and high inflation point to ongoing pressure to tighten policy settings.

The Bank of Japan's Q3 Tankan Survey provided a largely positive signal on the economy. The index for all industry business conditions was again unchanged at its highest level since 2018. There was a slight uptick in the expectations measure. Business fixed investment expectations were revised up from the Q2 survey and are solid by historical standards.

The only wrinkle is that historically, changes in the index correlate more closely with GDP growth than does the level. This suggests that growth momentum is easing although capacity indicators remain tight.

Japan, BoJ Tankan Business Survey

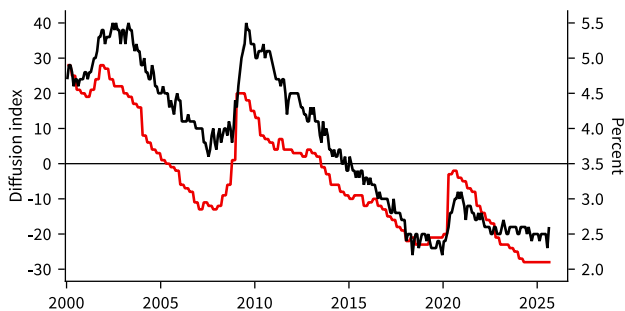


Source: National Australia Bank, Bank of Japan (BOJ), Macrobond

GDP growth was strong in Q2, at 0.5% qoq, but we expect a slower pace in Q3. Private consumption is likely to be soft in the quarter, with the BoJ's consumption activity index (to August) tracking below its Q2 level. Goods exports volumes also look likely to decline, driven by sharply lower exports to the US, but import growth looks even weaker, signalling a positive net trade contribution.

CPI inflation fell below 3% yoy in August, to its lowest level since October 2024. However, this reflects government energy subsidies, and CPI ex fresh food and energy was little changed at 3.3% yoy, suggesting **still elevated underlying inflation**. Labour market data have been volatile of late, with a fall in July (to its lowest level since 2019), more than reversed in August. Regardless, the unemployment rate remains low and the BoJ Tankan employment conditions index also suggests that the labour market remains tight.

Japan - labour mkt capacity indicators



Source: National Australia Bank, Bank of Japan (BOJ), Japanese Statistics Bureau, Ministry of Internal Affairs & Communications, Macrobond

While it looked like the BoJ was considering a rate hike in October, this is unlikely with a new Prime Minister only just selected (Sanae Takaichi) and US-China trade tensions bringing global uncertainties back into stark relief. Takaichi, in the past, has pushed for more stimulatory policy settings but it will take time to assess how fiscal policy may change in her administration, although the general direction of the political debate has been for cost-of-living relief. **We maintain our call for a 25bp policy rate increase in December and a further 50bp tightening over 2026**, with the risk being that the next rate hike slips into next year.

India

India's economy has been performing strongly, reflecting strong domestic demand, assisted by strength in the agriculture sector (due to a favourable monsoon). **US tariffs could be a material headwind**, but recent changes to the GST may provide some offset. Business surveys eased in September but remain strong, and manufacturers reported a pick-up in new export orders even in the face of US tariffs.

The US put in place a 25% tariff on Indian imports (up from 10%) in early August, and this increased to 50% near the end of the month. While this does not apply to all exports, a 50% tariff rate is extremely high and well above that faced by most other exporters to the US.

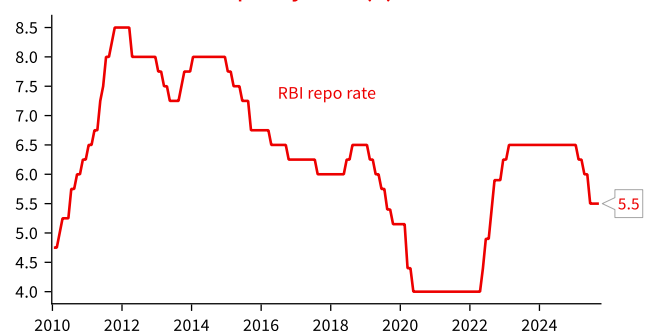
September exports rose 3.7% mom in September (6.1% yoy) even with a 27% fall in exports to the US. US exports have almost halved since March – this partly reflects an unwinding of a spike due to tariff front-running, but they are also 17% below their year ago level.

The US is India's major goods export destination – receiving around 18% of goods exports (in 2024). While, as a share of the economy, US exports are only just above 2%, the magnitude of the US tariff represents a material downside risk, unless exporters can find alternative markets. The September exports data suggests the latter is possibly unfolding, but it is too early to draw strong conclusions.

On a more positive note, on 22 September, **India's Goods and Services Tax was simplified, including a reduction in the number of rates**. The overall GST burden, as well as compliance costs, is expected to be lower, although the overall estimated savings to households are modest.

India's headline inflation remains low and moved below the **Reserve Bank of India's (RBI)** target range (of 2-6%) in September to 1.5% (from 2.1% yoy). Food prices remain the key driver (down 1.4% yoy). The changes to the GST will place further downward pressure on inflation in the near-term. The RBI remained on hold in October. The RBI is in wait and see mode as it weighs up the impact of fiscal policy changes and past monetary easing against trade headwinds and global uncertainties. That said, the RBI considers that space has opened up for further easing. Market pricing indicates that the RBI is likely to remain on hold at its December meeting, but a cut in early 2026 is likely.

Indian central bank policy rate (%)



Source: National Australia Bank, Reserve Bank of India (RBI), Macrobond

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% 	4.25% 	easing	29 Oct 4.00 10 Dec 3.75	end 2025 3.75 end 2026 3.25
The Fed has resumed easing and further cut(s) likely this year on a changing risk assessment. If the labour market stabilises in early 2025 as we expect, then inflation will need to moderate for further cuts in 2026							
European Central Bank	2.4% 	6.3% 	1.5% 	2.00% 	hold	30 Oct 2.00 18 Dec 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% 	1.7% 	0.50% 	tightening	30 Oct 0.50 19 Dec 0.75	end 2025 0.75 end 2026 1.25
Economy is solid, labour market tight, inflation high, monetary policy loose - all adds up to rate hikes but BoJ has been cautious. We expect a hike in Q4, but risk is that it is delayed							
Bank of England	3.6% 	4.8% 	1.4% 	4.00% 	easing	6 Nov 3.75 18 Dec 3.75	end 2025 3.75 end 2026 3.50
We expect a 25bps cut in November as the Bank looks to make policy gradually less restrictive as it balances labour market deterioration against high inflation. The risk is that the Bank is on hold for the rest of this year.							
Bank of Canada	3.1% 	7.1% 	1.2% 	2.50% 	easing	29 Oct 2.50 10 Dec 2.25	end 2025 2.25 end 2026 2.25
The BoC cut rates in September on a weaker economy/labour market and lower inflation risk. We expect another cut in either October or December before it goes on hold (but risks around this are biased to further easing)							
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 economy and medium term inflation pressures constrained, we expect the RBNZ to cut rates by another 25bps							
People's Bank of China	1.0% 		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 factorial 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 observation (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	0.3	0.4	0.5	0.5	0.5	0.5	0.4	0.4	0.4
qoq, annualised %	-0.6	3.8	3.3	1.1	1.7	1.8	2.2	2.1	2.0	1.8	1.7	1.7
yoy%	2.0	2.1	2.1	1.9	2.5	2.0	1.7	2.0	2.0	2.0	1.9	1.8
year-average				2.0				2.0				1.9
PCE deflator												
Headline - yoy%	2.6	2.4	2.8	3.0	2.8	2.8	2.6	2.2	2.1	2.0	2.0	2.0
Core												
qoq%	0.8	0.6	0.8	0.9	0.7	0.6	0.6	0.5	0.5	0.5	0.5	0.5
yoy%	2.8	2.7	2.9	3.2	3.0	3.0	2.8	2.4	2.2	2.1	2.1	2.0
Unemployment rate												
qtrly average %	4.1	4.2	4.3	4.4	4.5	4.5	4.4	4.4	4.3	4.2	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	1.2	1.0	0.8	1.0	1.2	1.3	1.4	1.3	1.2	1.3
year-average				1.3				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	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.4	0.4	0.3
yoy%	1.7	1.4	1.4	1.3	0.9	0.9	1.0	1.1	1.2	1.3	1.4	1.4
year-average				1.5				1.0				1.3
Policy rate (%)	4.50	4.25	4.00	3.75	3.50	3.50	3.50	3.50				
Japan												
GDP												
qoq%	0.1	0.5	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1
yoy%	1.6	1.7	1.2	0.9	0.9	0.6	0.7	0.7	0.7	0.7	0.6	0.6
year-average				1.4				0.7				0.6
Policy rate (%)	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25				
Canada												
GDP												
qoq%	0.5	-0.4	0.0	0.1	0.2	0.4	0.5	0.6	0.5	0.5	0.5	0.5
yoy%	2.3	1.2	0.6	0.2	-0.1	0.7	1.2	1.7	2.0	2.1	2.1	2.0
year-average				1.1				0.9				2.1
Policy rate (%)	2.75	2.75	2.50	2.25	2.25	2.25	2.25	2.25				

Source: NAB Group Economics.

FX forecasts

	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
AUD/USD	0.66	0.67	0.69	0.71	0.72	0.71	0.70	0.69
NZD/USD	0.60	0.59	0.60	0.62	0.63	0.63	0.63	0.62
USD/JPY	142	146	144	140	135	135	135	135
EUR/USD	1.20	1.19	1.20	1.21	1.23	1.22	1.21	1.20
GBP/USD	1.36	1.35	1.35	1.36	1.38	1.37	1.36	1.35
USD/CHF	0.78	0.78	0.77	0.76	0.75	0.76	0.76	0.77
USD/CAD	1.36	1.37	1.36	1.32	1.28	1.30	1.29	1.28
USD/CNY	7.15	7.08	7.05	6.95	6.90	6.85	6.85	6.85

Australian Cross Rates								
AUD/NZD	1.10	1.14	1.15	1.15	1.14	1.13	1.11	1.11
AUD/JPY	94	98	99	99	97	96	95	93
AUD/EUR	0.55	0.56	0.58	0.59	0.59	0.58	0.58	0.58
AUD/GBP	0.49	0.50	0.51	0.52	0.52	0.52	0.51	0.51
AUD/CHF	0.52	0.52	0.53	0.54	0.54	0.54	0.53	0.53
AUD/CAD	0.90	0.00	0.94	0.94	0.92	0.92	0.90	0.86
AUD/CNY	4.72	4.74	4.86	4.93	4.97	4.86	4.80	4.73

Global FX Strategist provides details on our FX views

Contacts

Economics

Sally Auld

Group Chief Economist
+61 422 224 752
sally.auld@nab.com.au

Gareth Spence

Head of Australian Economics
+61 436 606 175
gareth.spence@nab.com.au

Taylor Nugent

Senior Markets Economist
+61 452 671 752
taylor.nugent@nab.com.au

Tony Kelly

Head of International Economics
+61 477 746 237
antony.kelly@nab.com.au

Dean Pearson

Head of Behavioural Economics
+(61 0) 457 517 342

Markets Research

Skye Masters

Head of Research
+61 2 9295 1196
skye.masters@nab.com.au

Foreign Exchange

Ray Attrill

Head of FX Strategy
+61 2 9293 7170
ray.attrill@nab.com.au

Rodrigo Catril

Senior FX Strategist
+61 2 9293 7109
rodrigo.h.catril@nab.com.au

London/Europe

Gavin Friend

Senior Markets Strategist
+44 207 710 1588
gavin.friend@eu.nabgroup.com

Fixed Income

Kenneth Crompton

Senior Interest Rate Strategist
+61 2 9293 7132
Kenneth.crompton@nab.com.au

Gregorius Steven

Senior Associate, Interest Rate Strategy

Michael Bush

Head of Credit Research
+61 3 8641 0575
michael.d.bush@nab.com.au

Evy Noble

Analyst, Credit Research
+61 2 7226 7336
evy.noble@nab.com.au

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