Macro Monthly

Economics
Global

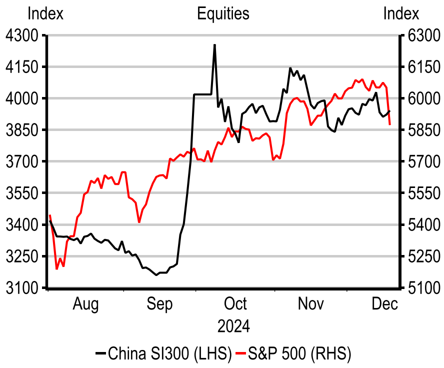
The global economy in 2025

- The world is bracing for the impact of Trump's proposed policy measures…
- …and waiting for action following China's promises to loosen monetary policy and lift consumer spending
- Given ongoing geopolitical, fiscal and inflation uncertainty, many monetary policy challenges lie ahead

2025 promises to be an eventful year for politics, geopolitics, economics and policy. Since the US election in November, a still-robust US economy, expectations of corporate tax cuts, a broad deregulatory agenda and, seemingly, a view that the worst outcomes for global trade will be avoided, have pushed up US stocks. China has also suggested looser monetary and fiscal policy to support growth.

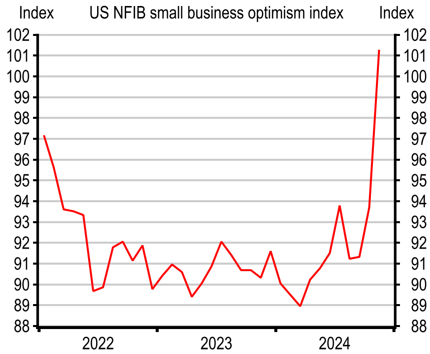
While there is a great deal of uncertainty ahead, we have taken a view on the likely sequencing of US government policy. We expect **talks of tax cuts and quick action on trade tariffs and immigration** soon after the US presidential inauguration on 20 Jan but investors may hope the new administration treads a little more cautiously than feared on fiscal, immigration and trade-related measures that could reignite inflation.

1. US and China policy pledges lifted stock markets…



Source: Macrobond

2. …and small businesses in the US seem to be pretty happy with the result



Source: Macrobond

The return of the non-US consumer

Consumers in EU and China may lift spending next year

Consumer spending is likely to remain the **major growth engine next year**. We think consumers in Europe and mainland China may finally open their pockets a little wider, on the back of improving real wages and falling interest rates in the former and government-led stimulus in the latter. Improving job prospects and property prices will be needed to sustain any consumer spending uplift in China.

Any meaningful improvement in investment in much of the world seemingly hinges either on the public sector directly – for infrastructure and defence spending – and/or indirectly through more active industrial policy. Could 2025 finally be the year that the enormous IRA and CHIPS act-fuelled manufacturing investment boom in the US sees a positive payback in a revival in industrial production and productivity?

Trade tariffs and trade shifts

Global trade looks to be slowing

The global industrial cycle, even for areas of electronics, looks to be softening. Our trade forecasts are the main areas that we have trimmed given the prospect of an escalation in tariffs. We recently **lowered our world export volume forecast for 2025 from 3.5% to 1.9%,** although trade may not soften immediately as shipments are frontloaded ahead of new tariffs.

It is clear that Trump intends to use tariffs as a means of addressing not just trade imbalances but a range of other policy priorities, from drugs to immigration control. So while we cannot know the precise timing or magnitude, tariffs on some economies and products appear inevitable, impacting on profits and inflation in the US (and in trading partners if there is retaliation) and weighing on global trade flows and sentiment.

Major trading economies are, therefore, looking to strengthen relationships elsewhere. In the past, big stimulus in China offered opportunities for European manufacturing exporters. But this time it appears China's policy support will target consumption and many firms are fearful that higher US tariffs on China could result in more trade-diversion towards Europe, Asia and elsewhere, triggering further trade restrictions between third countries and an additional hit to world trade growth.

Modest forecast changes

We forecast global GDP to grow 2.7% in 2024 and 2025

The revisions to our global growth forecasts are small at this point and the biggest country revisions are upwards to Spain and downwards to Poland. In some regions like mainland China, the reduction in our export growth forecast should be offset by the impact of forthcoming fiscal stimulus.

Key GDP growth forecasts

% Year	2024 forecast		2025 forecast		2026 forecast	
World	**2.7**	**(2.7)**	**2.7**	**(2.6)**	**2.6**	**(2.7)**
US	2.8	(2.7)	2.2	(1.9)	1.8	(1.8)
Mainland China	4.9	(4.9)	4.5	(4.5)	4.4	(4.4)
Japan	-0.2	(0.1)	1.3	(1.3)	0.9	(0.8)
India*	6.5	(7.1)	6.5	(6.7)	6.5	(6.5)
Eurozone	0.7	(0.7)	0.9	(1.0)	1.3	(1.3)
UK	0.8	(1.1)	1.5	(1.4)	1.9	(1.8)
Brazil	3.5	(3.4)	2.5	(2.4)	2.6	(2.6)
Mexico	1.6	(1.4)	1.3	(1.0)	2.3	(2.5)

Note: *India data is calendar year forecast here for comparability. Previous forecasts are shown in parenthesis and are from the Macro Monthly dated 11 July 2024. Green indicates an upward revision, red indicates a downward revision.
Source: Bloomberg, HSBC Economics

Changes to our global inflation forecasts are also modest **but they are higher**. Our 2025 projection rose from 3.3% to 3.4%, all explained by the developed world which increased from 2.3% to 2.5% with a notable rise in Japan. The lack of an upward revision to the emerging market aggregate of 4% is only because of a reduction in our forecast for China from 1.1% to 0.6% which more than offsets an increase in our Brazil inflation forecast.

Tariffs and food prices are key risks to inflation

In 2025 the impact of potential **US tariffs and retaliation** risks adding to inflation (and hurting growth) while in some countries the bigger threat to inflation comes from the **rise in food prices**, which can also hit growth and raise inflation perceptions. Surging coffee and cocoa prices are grabbing the headlines, but domestic harvests played the major role in lifting prices in India, where food makes up nearly half of the CPI basket.

More divergent monetary policy

We see further interest rate reductions in 2025

Despite those uncertainties on inflation, which in some countries will be exacerbated by currency depreciation, we still see **scope for rate cuts in many economies in 2025**, with the key exceptions of Brazil, set to deliver further hefty rate rises in the early months of the year, and the Bank of Japan on track for more gradual modest ones. In Asia, we forecast short and/or shallow easing cycles, that would likely be even shallower if the Federal Reserve cuts by less than we forecast.

We see **the US slowing the pace of easing in 2025**, lowering the Fed funds rate to 3.5-3.75% by end-2025, then staying on hold. We expect the European Central Bank to cut policy rates to a trough of 2.25%, which means an earlier halt to the easing cycle than current market pricing implies, while the Bank of England looks set to lag other G10 central banks which have been cutting more rapidly.

Key recent releases

Date	Market	Release	Period	Actual	Consensus expectation	Prior	Actual vs. Consensus
9 Dec	Mainland China	CPI, % y-o-y	Nov	0.2	0.4	0.3	↓
10 Dec	Mainland China	Exports, % y-o-y	Nov	6.7	8.7	12.7	↓
11 Dec	US	CPI, % y-o-y	Nov	2.7	2.7	2.6	→
12 Dec	Eurozone	ECB deposit facility rate, %	-	3.0	3.0	3.25	→
13 Dec	UK	Monthly GDP, % m-o-m	Oct	-0.1	0.1	-0.1	↓
13 Dec	UK	Industrial production, % y-o-y	Oct	-0.7	0.2	-1.8	↓
16 Dec	Mainland China	Retail Sales, % y-o-y	Nov	3.0	4.6	4.8	↓
19 Dec	US	Fed Funds Target Rate, %	-	4.25-4.5	4.25-4.5	4.5-4.75	→

Source: Bloomberg, HSBC
↑ Positive surprise – actual is higher than consensus, ↓ Negative surprise – actual is lower than consensus, → Actual is in line with consensus

Key upcoming events

Date	Market	Release	Period
31 Dec	Mainland China	NBS Manufacturing PMI	Dec
3-10 Jan	Mainland China	Caixin Services PMI	Dec
7 Jan	Eurozone	HICP Flash	Dec
10 Jan	US	Non-Farm Payrolls	Dec
10-15 Jan	Mainland China	PPI / CPI	Dec
15 Jan	UK	CPI	Dec
15 Jan	US	CPI	Dec
15-21 Jan	Mainland China	Retail Sales	Dec
16 Jan	UK	GDP	Nov
16 Jan	US	Retail Sales	Dec
17 Jan	UK	Retail Sales	Dec
17-28 Jan	Mainland China	GDP	Q4

Source: Refinitiv Eikon, HSBC

Disclosure appendix

Important disclosures

1. This report is dated as at 20 December 2024.
2. All market data included in this report are dated as at close 19 December 2024, unless a different date and/or a specific time of day is indicated in the report.
3. HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking, Principal Trading, and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.
4. You are not permitted to use, for reference, any data in this document for the purpose of (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments, (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument, and/or (iii) measuring the performance of a financial instrument or of an investment fund.

Disclaimer

[1249780]