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**Innes McFee**

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Chief Global Economist

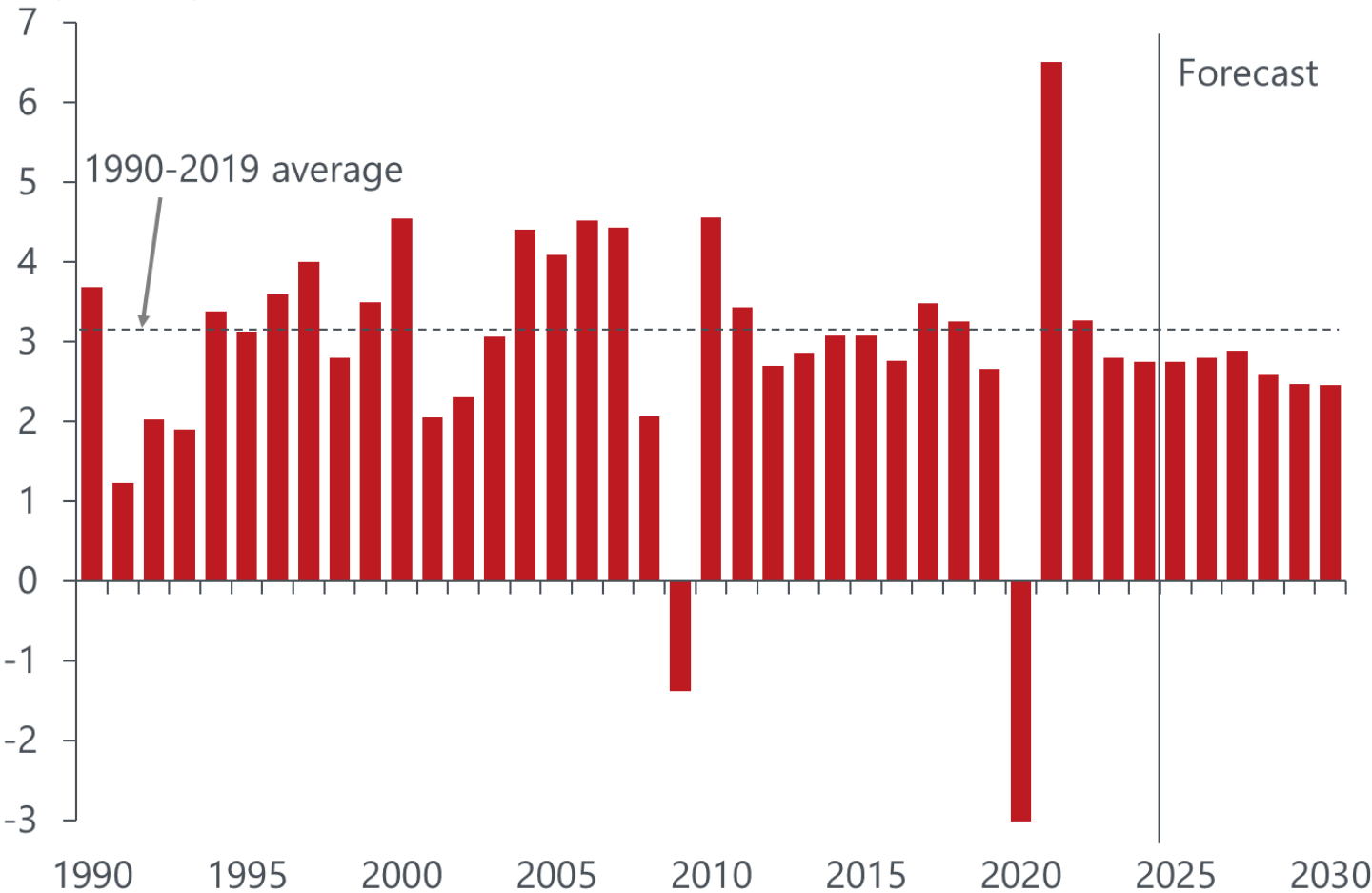


# The shifting pattern of global growth

# Global growth is steady, but slow

Global: real GDP growth

%, year on year

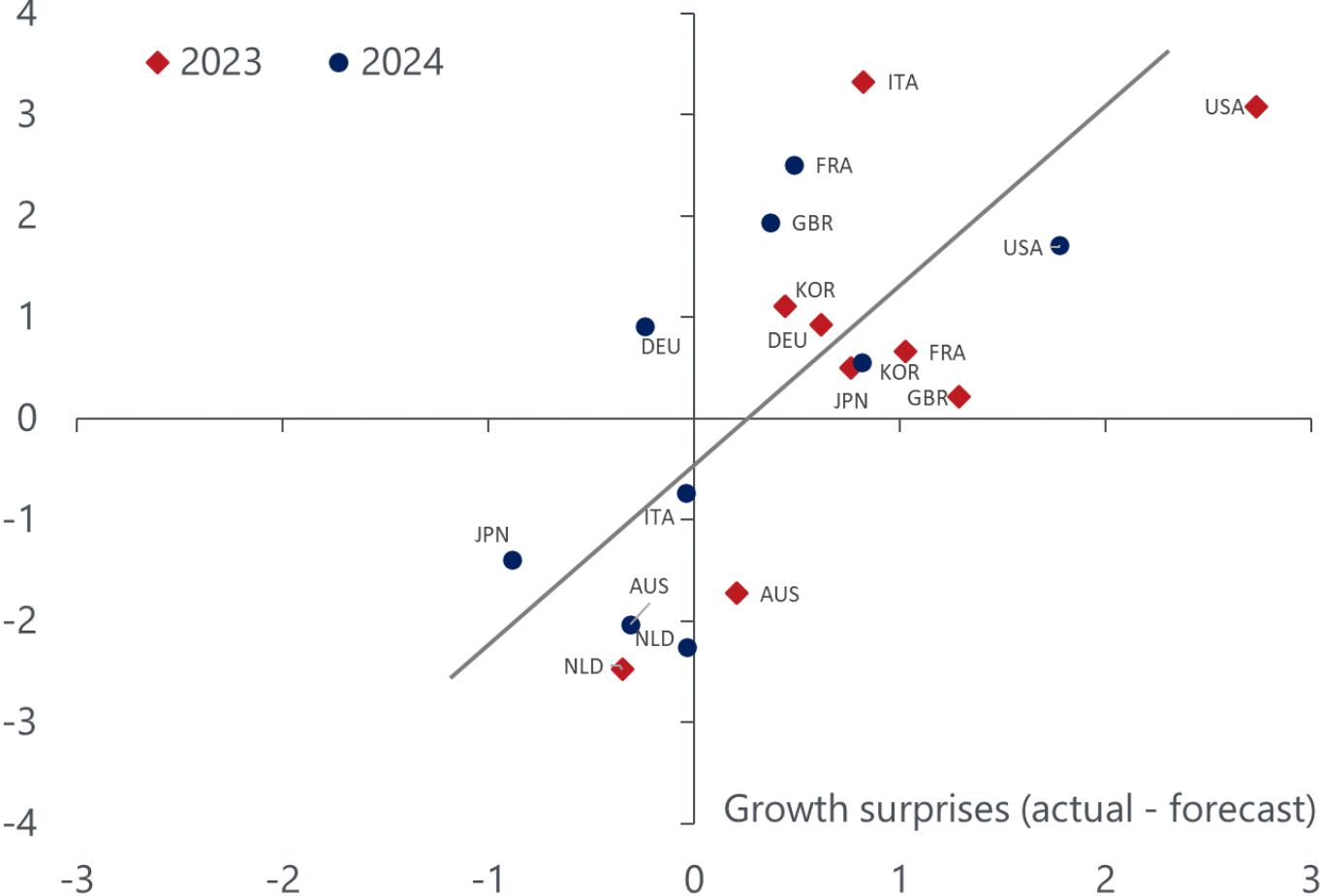


Source: Oxford Economics/Haver Analytics

# Fiscal policy has been key to relative prospects

Global: growth and fiscal policy surprises

Structural balance surprises (actual - forecast, inverted)

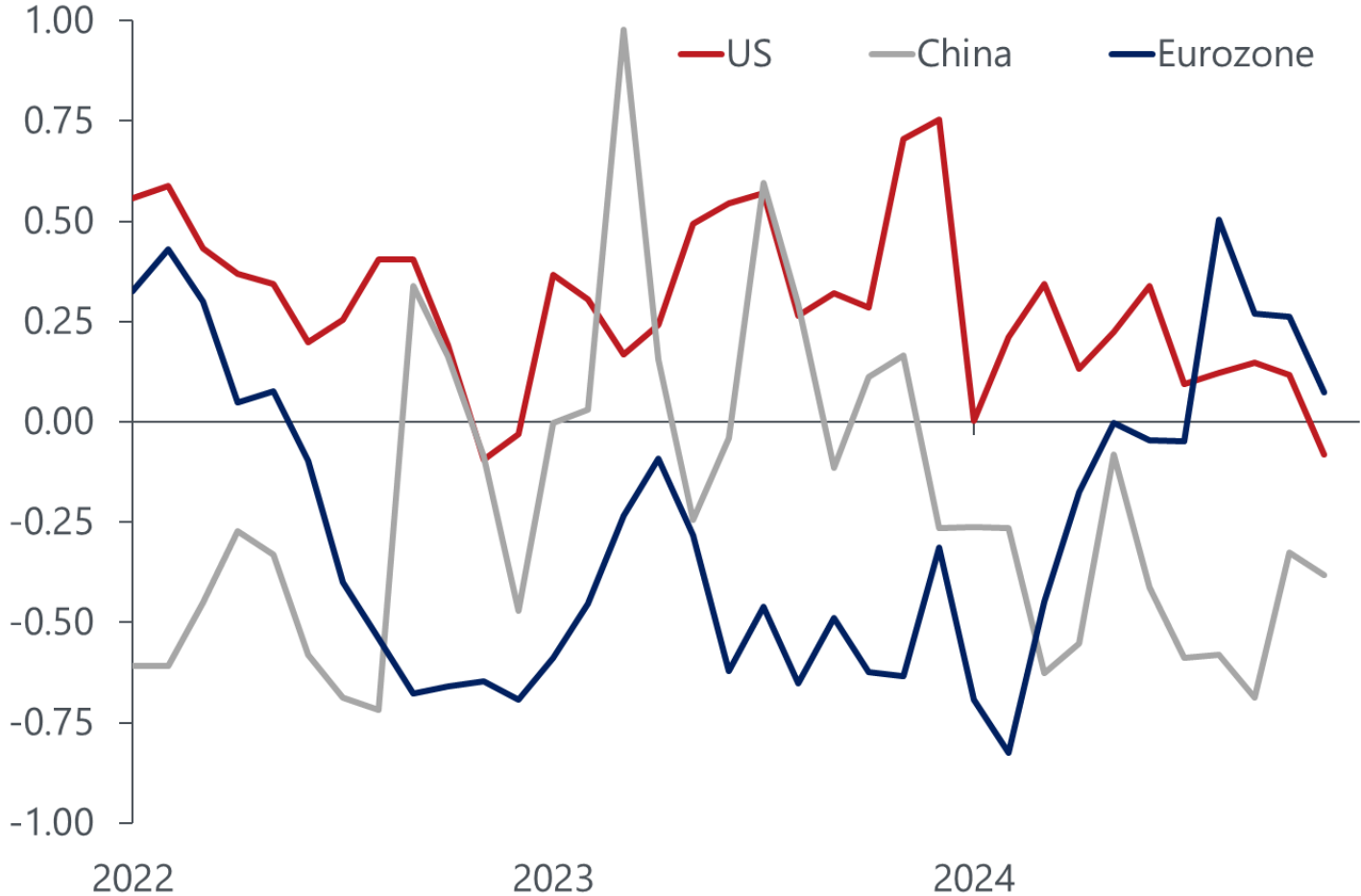


Source: Oxford Economics

# Masking three diverging stories

Global: Oxford Economics' Business Cycle Indicator

Index, single month



Above trend growth

Trend growth

Below trend growth

Source: Oxford Economics

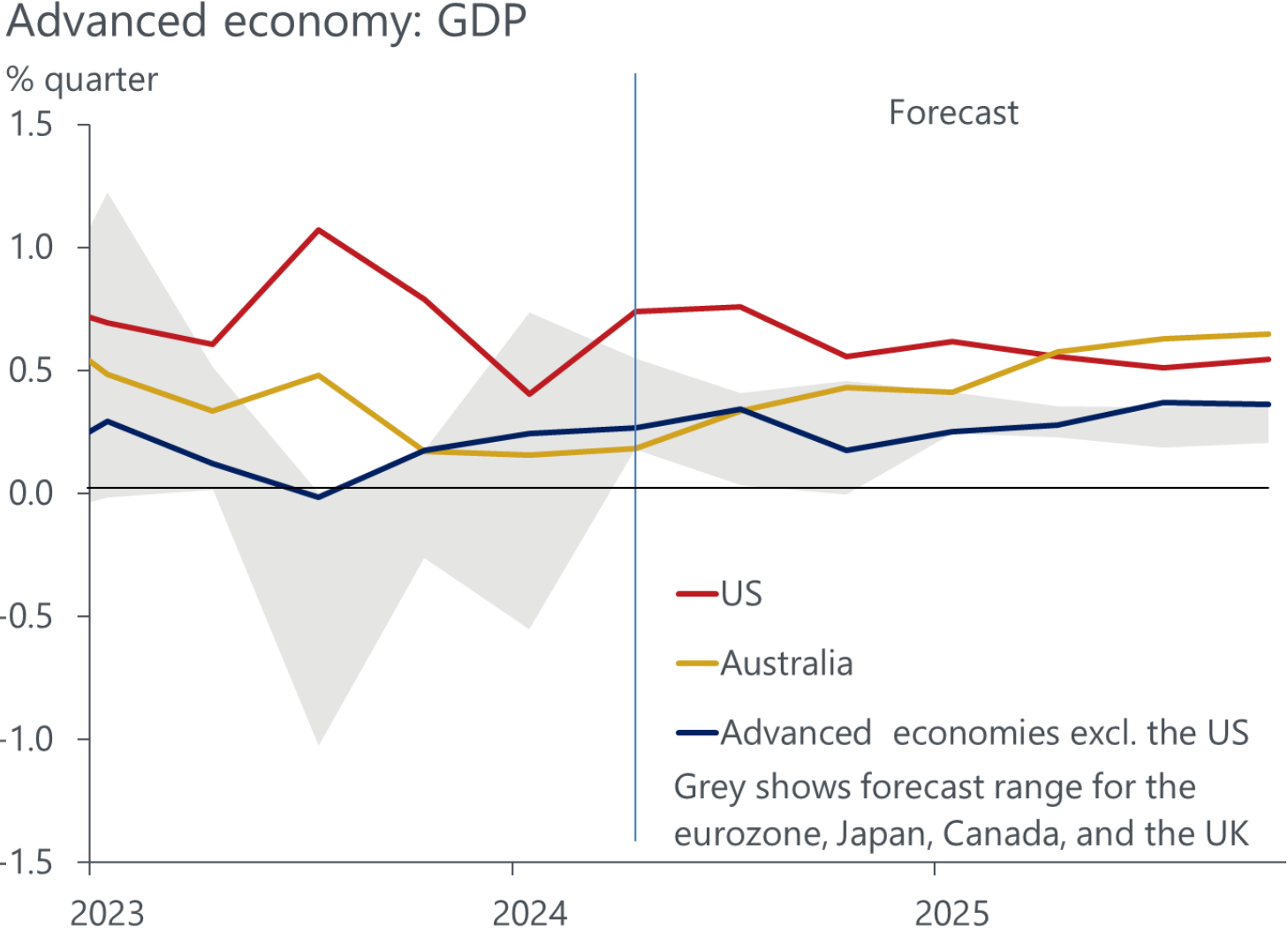


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## US exceptionalism

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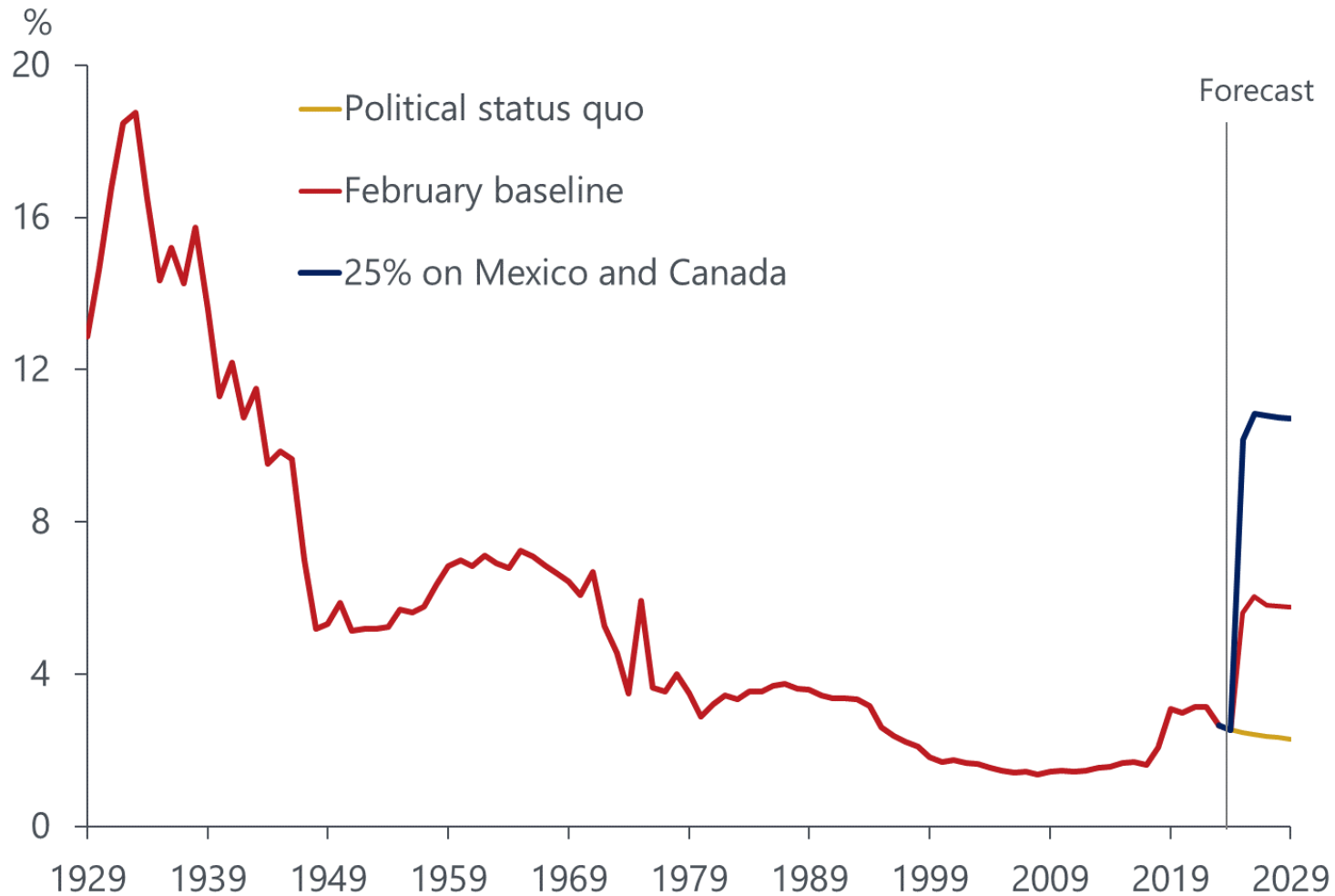
# US exceptionalism to continue



Source: Oxford Economics/Haver Analytics

# These tariff proposals are very different

## US: Effective tariff rate



Source: Oxford Economics/Haver Analytics

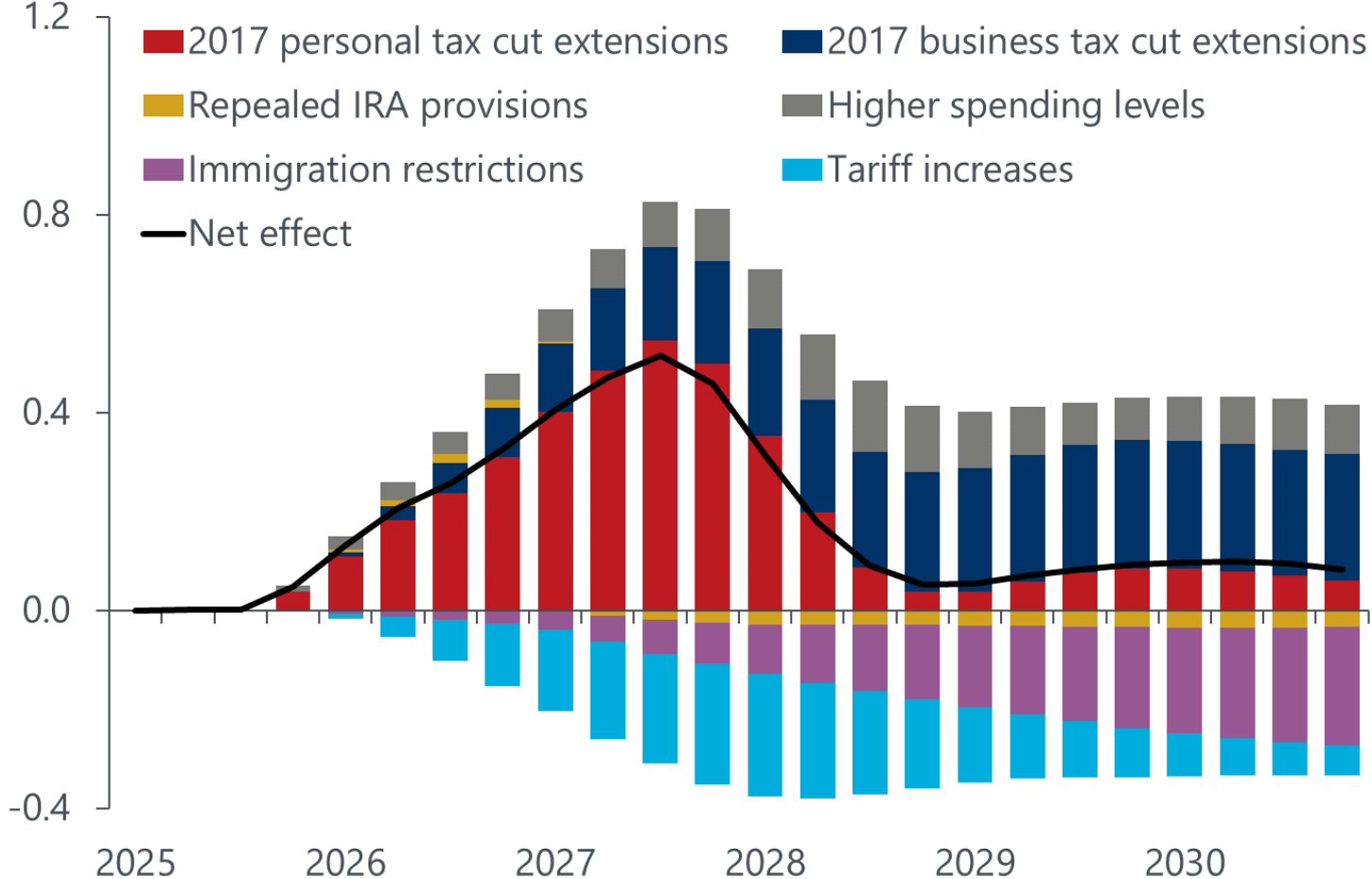
## This time is different to Trump 1.0

- **Timing:** immediate rather than a phased approach
- **Scope:** Across the board tariffs compared with targeted on specific sectors
- **Integration:** Tariffs levied on much more integrated economies – Mexico and Canada rather than just China
- Considerable uncertainty over the second-round impacts on supply chains and inflation

# Changes to the forecast post-election...

## US: Policy effects in the baseline forecast

Impact on real GDP, % difference from pre-election forecast

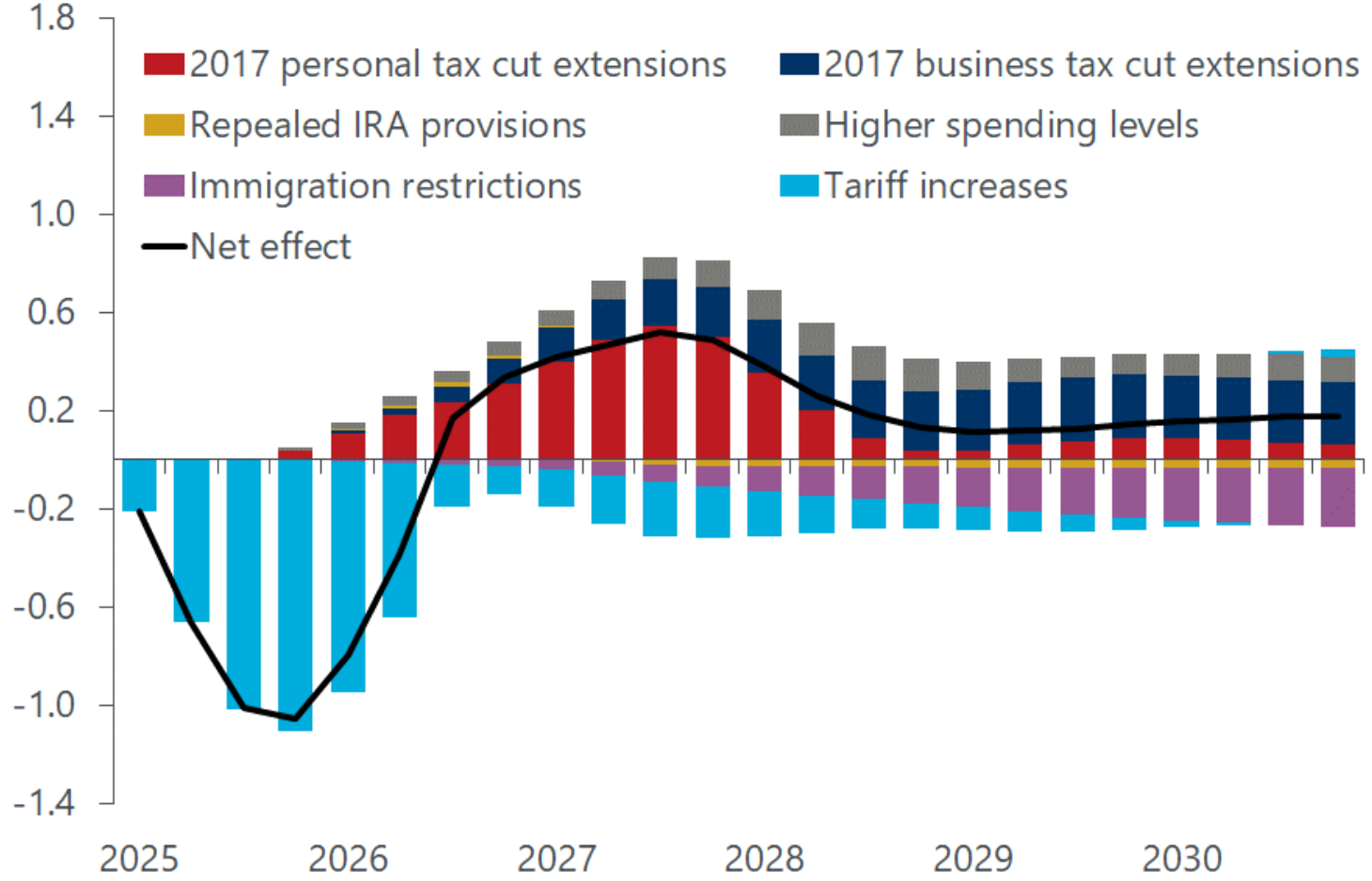


Source: Oxford Economics



# ...and under more aggressive tariff assumptions

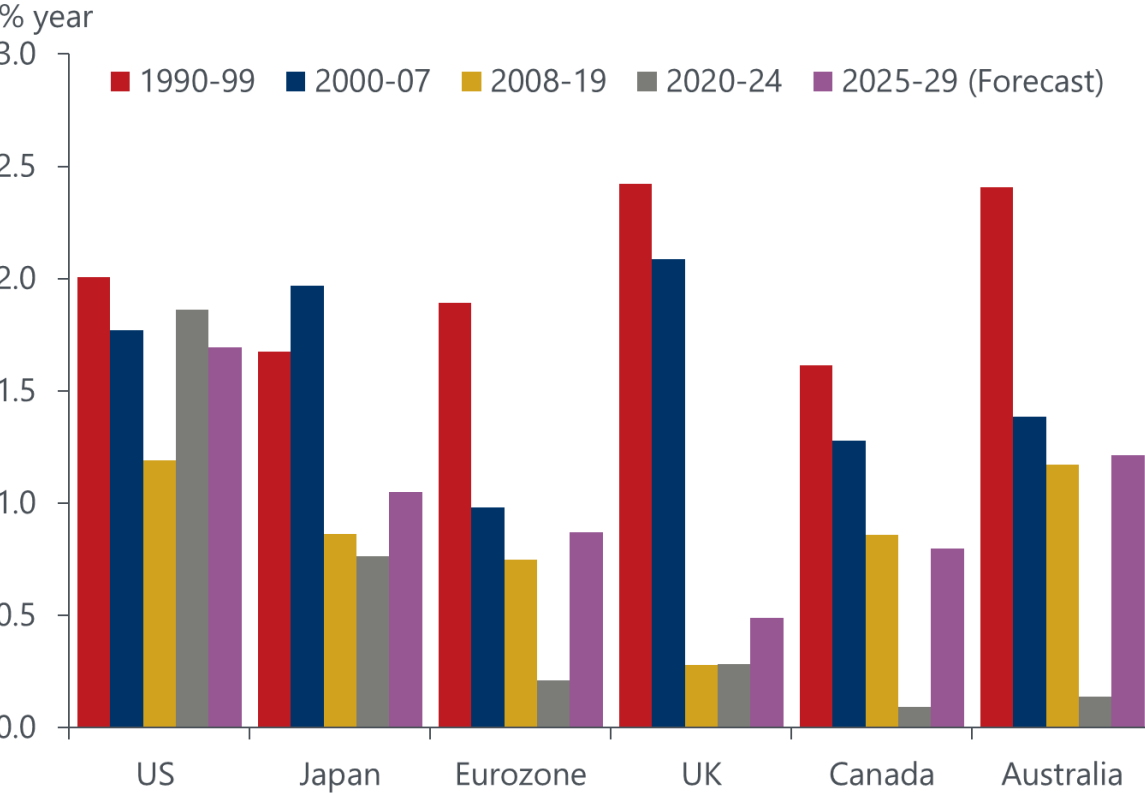
US: Policy effects in the baseline forecast  
Impact on real GDP, % difference from pre-election forecast



Source: Oxford Economics

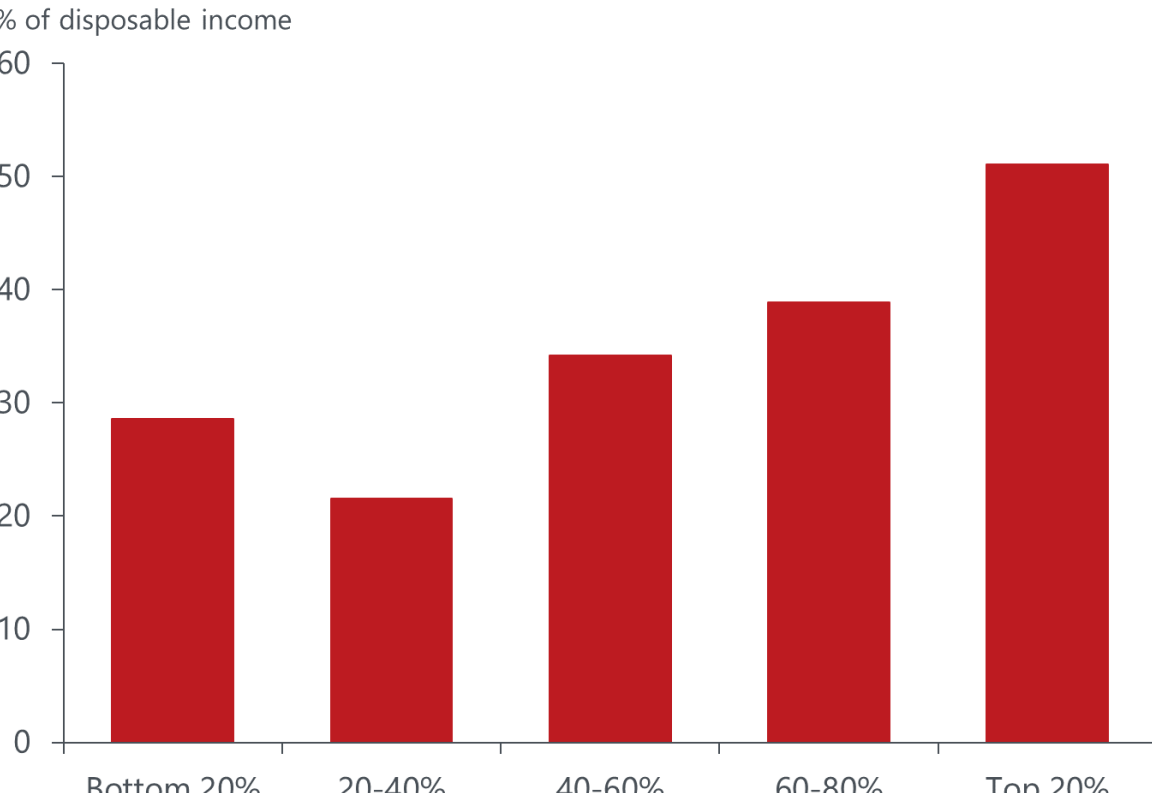
# Underlying resilience powered by productivity growth

Advanced economies: Hourly labour productivity



Source: Oxford Economics/Haver Analytics

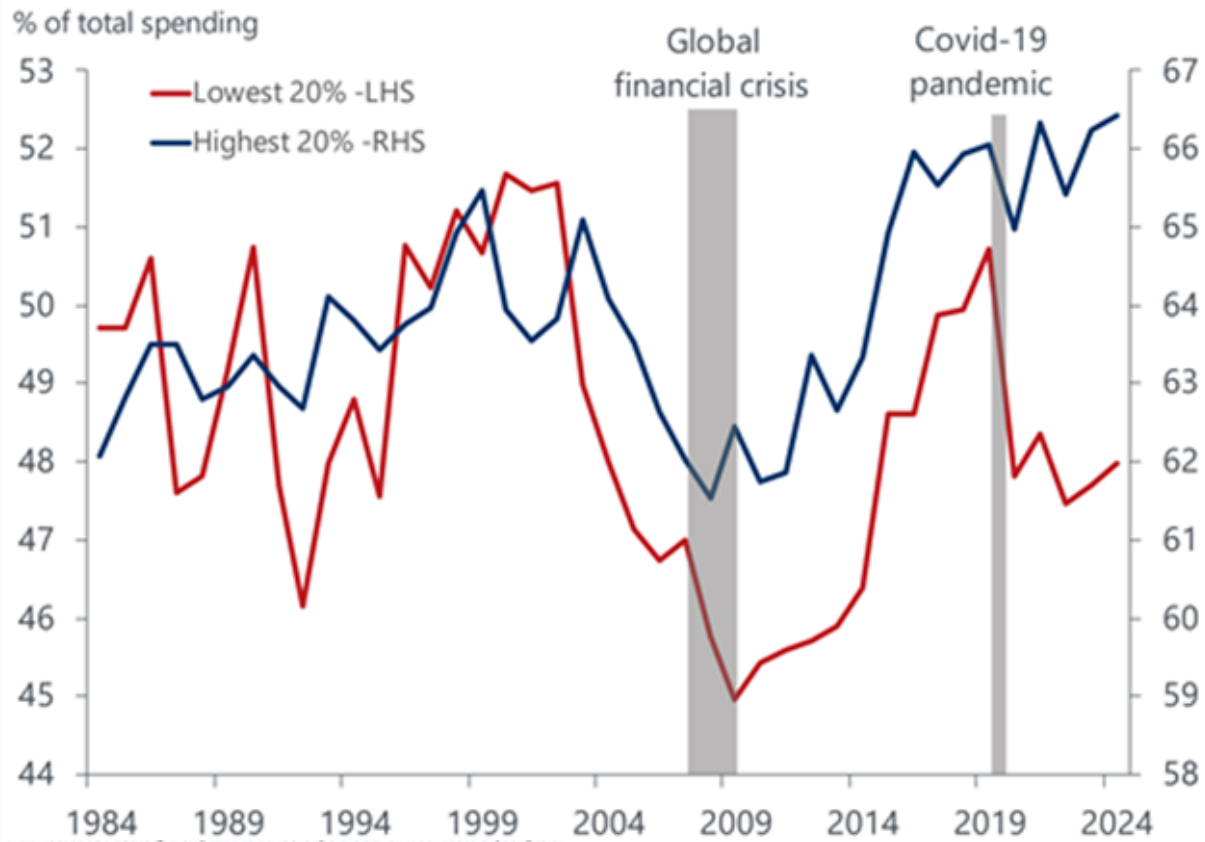
US: Change in housing equity Q4 2019 to Q3 2024



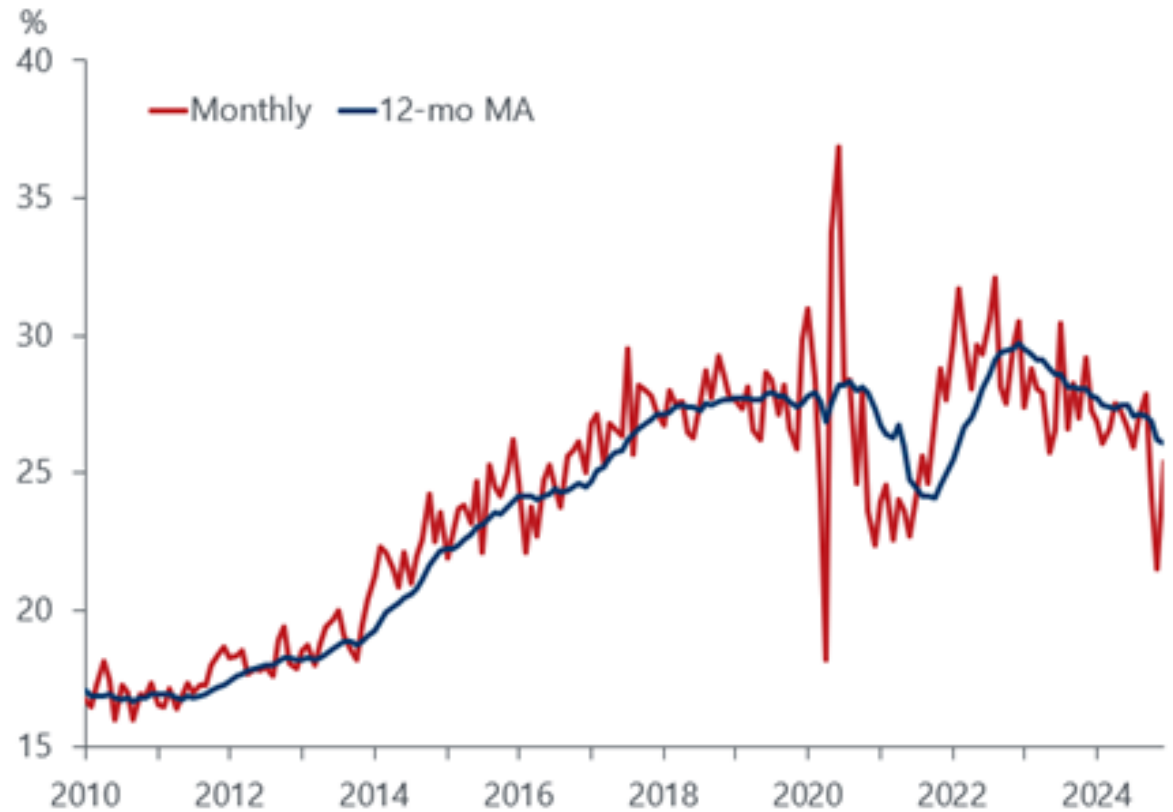
Source: Oxford Economics/Haver Analytics

# But it is a very divided economy

US: Share of spending on discretionary items by income

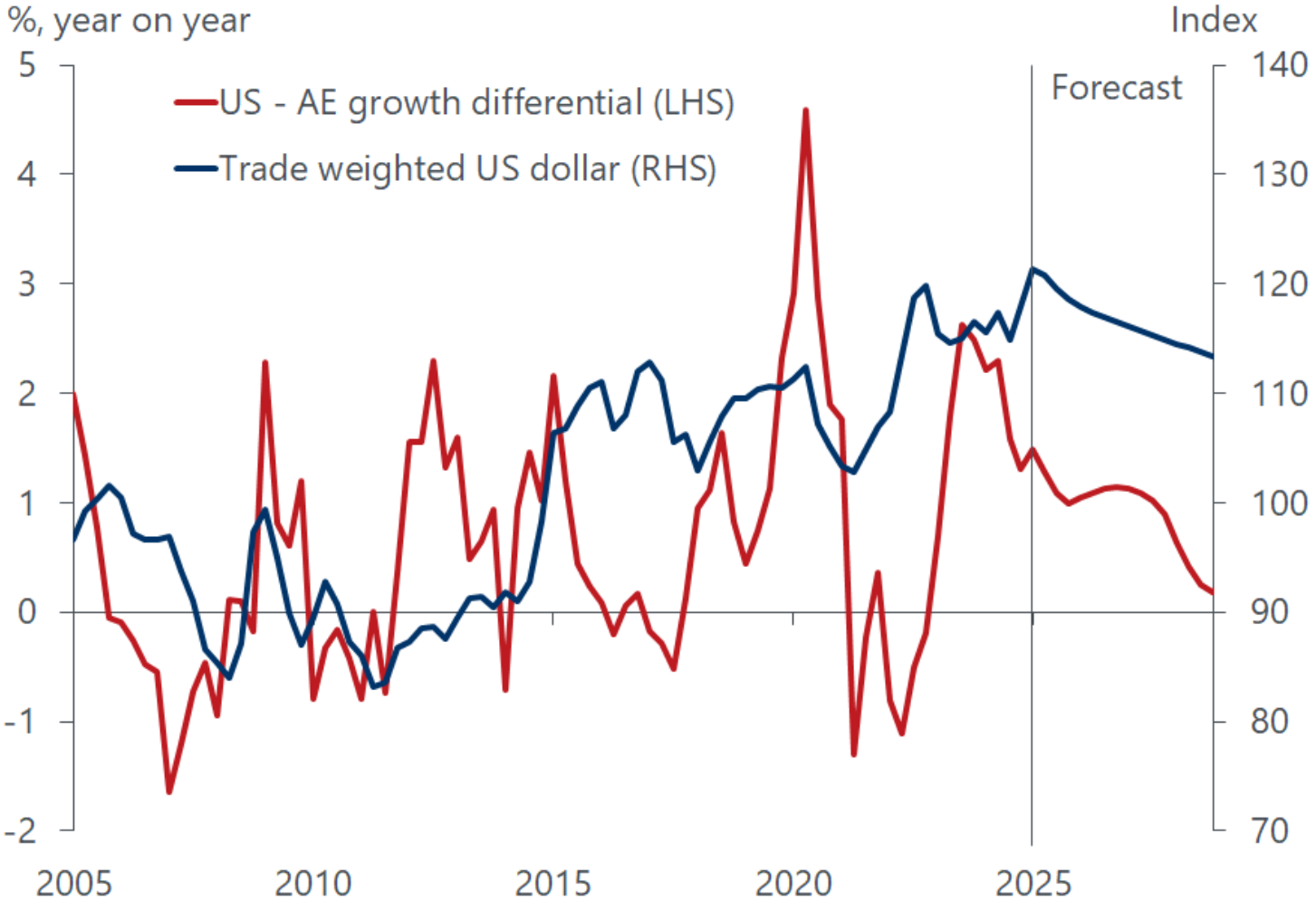


US: Job finding rate



# US dollar strength to endure

Global: US growth outperformance and the dollar



Source: Oxford Economics/Haver Analytics



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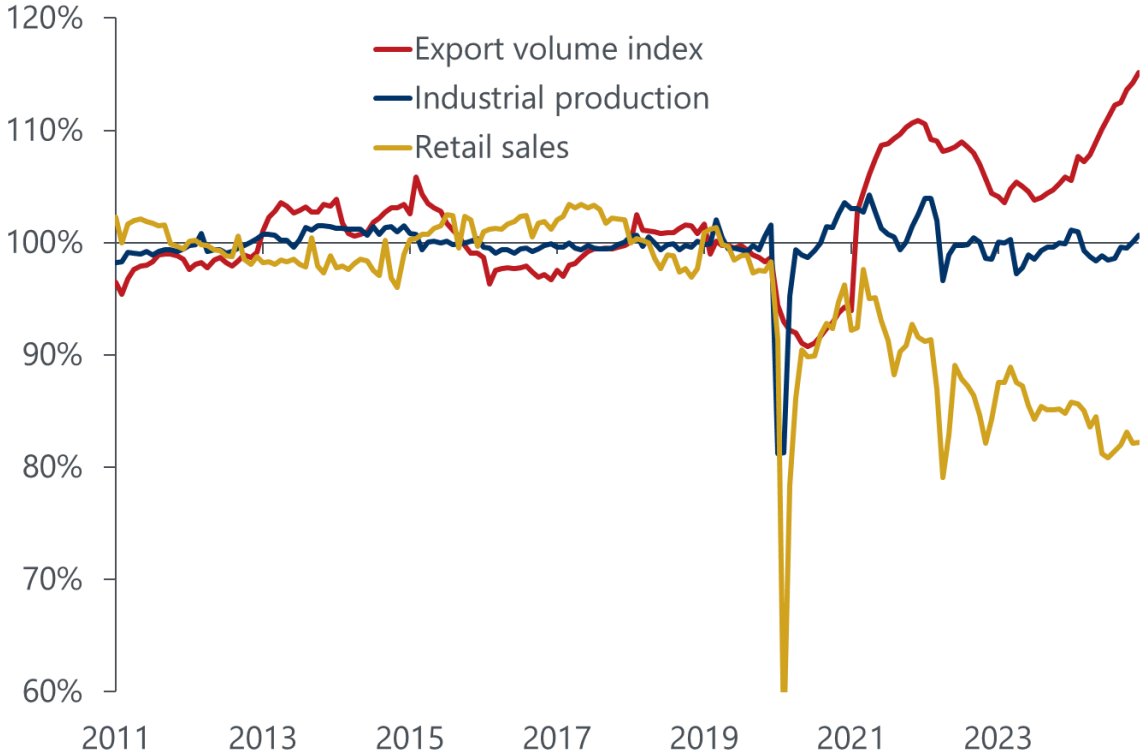
## China's balance sheet downturn

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# China's bifurcated economy

## China: high frequency activity indicators

% deviation from pre-Covid trend



Source: Oxford Economics/NBS/China Customs/Haver Analytics/Haver Analytics

## China: Consumer activity indicators

Index (2019 = 100)

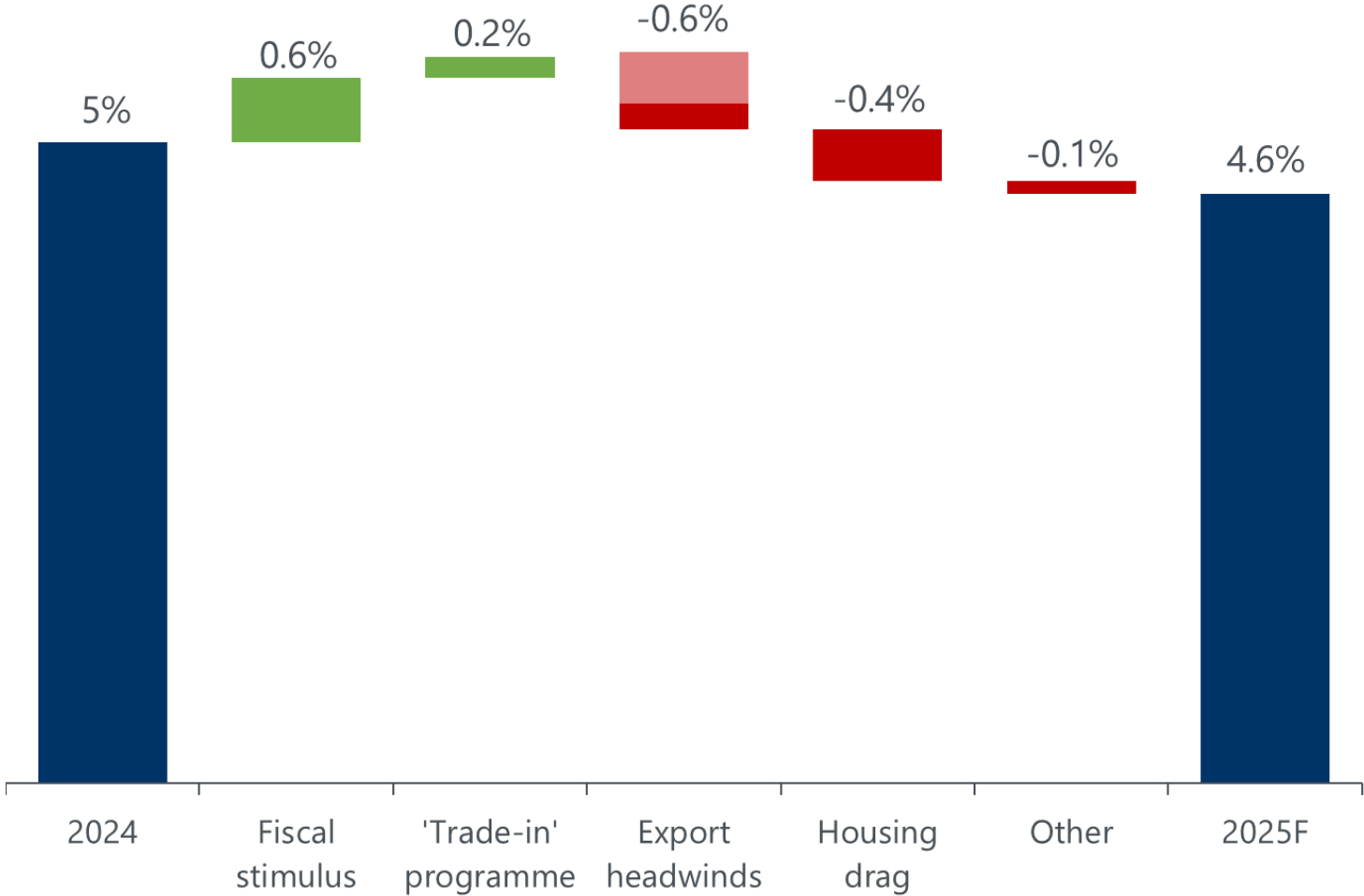


Source: Oxford Economics/NBS/Haver Analytics

# Fiscal stimulus is key to offsetting the downturn

China: contributions to real GDP growth

%, year on year

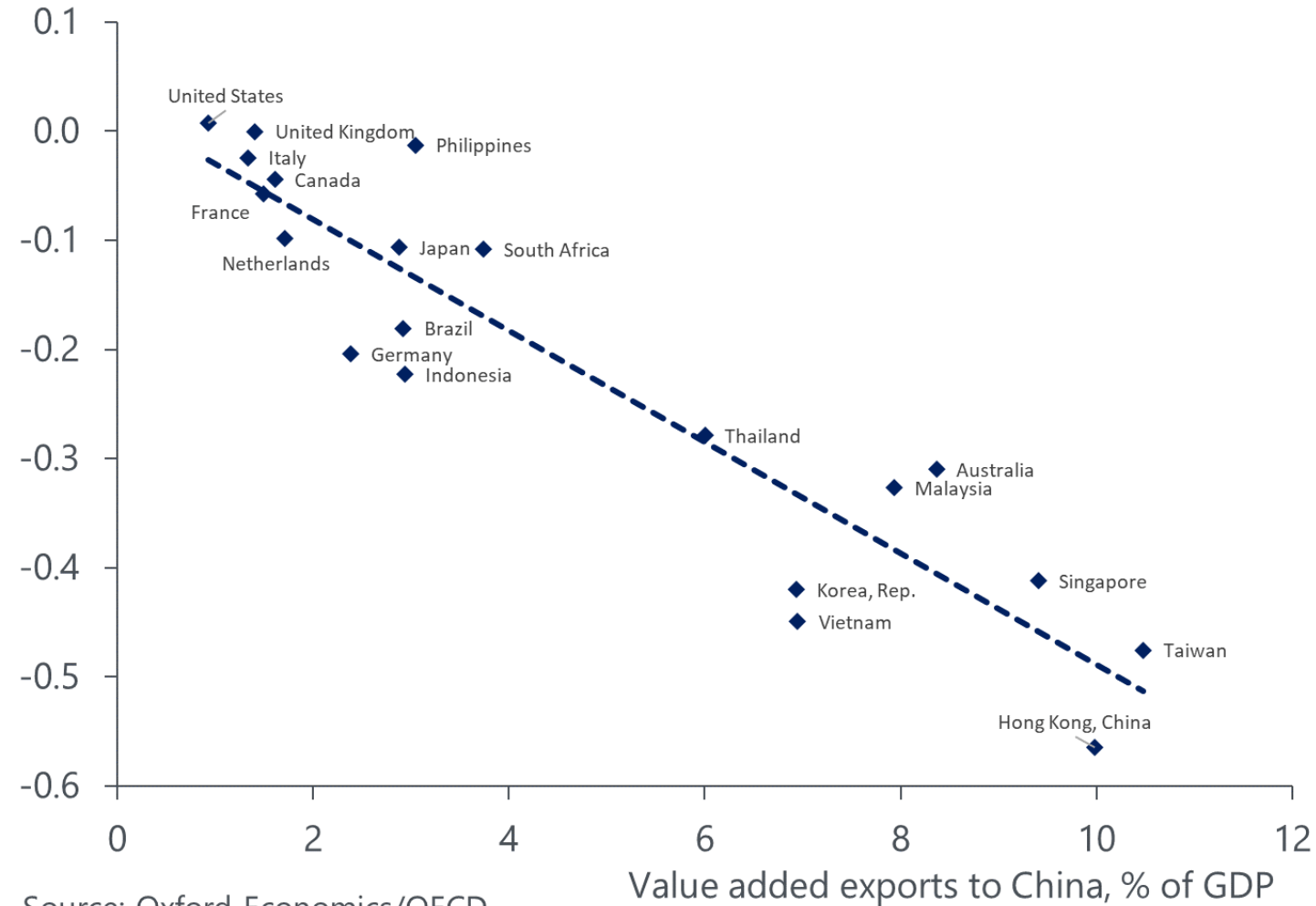


Source: Oxford Economics/Haver Analytics

# But limited implications for the global economy

Global: 2026 GDP impact of a China slowdown

% difference from baseline in 2026



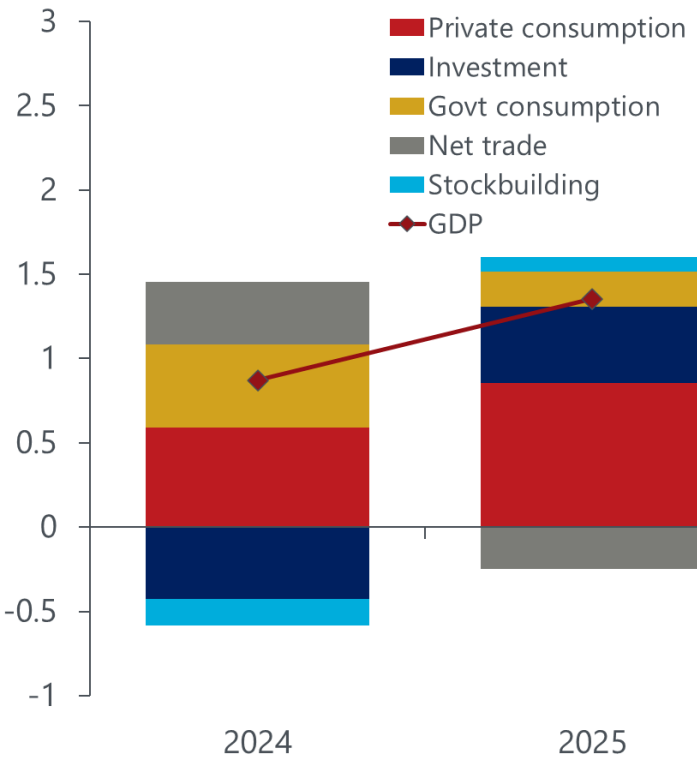
Source: Oxford Economics/OECD



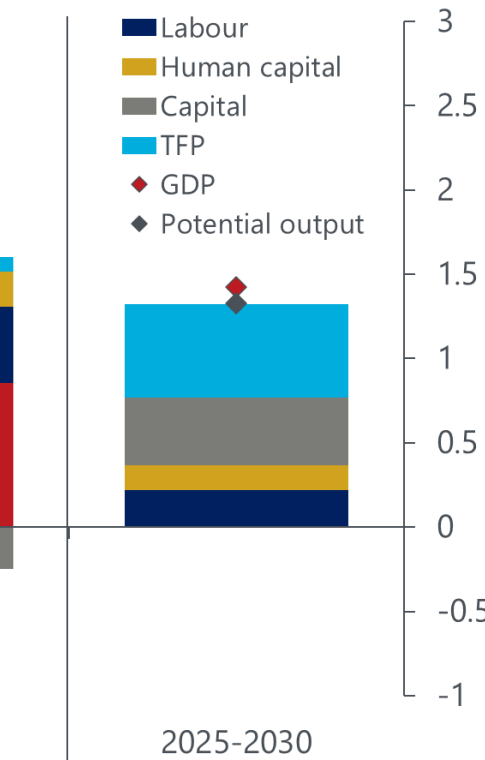
# European stagnation continues

## Eurozone: GDP growth and potential

%y/y, ppts contributions



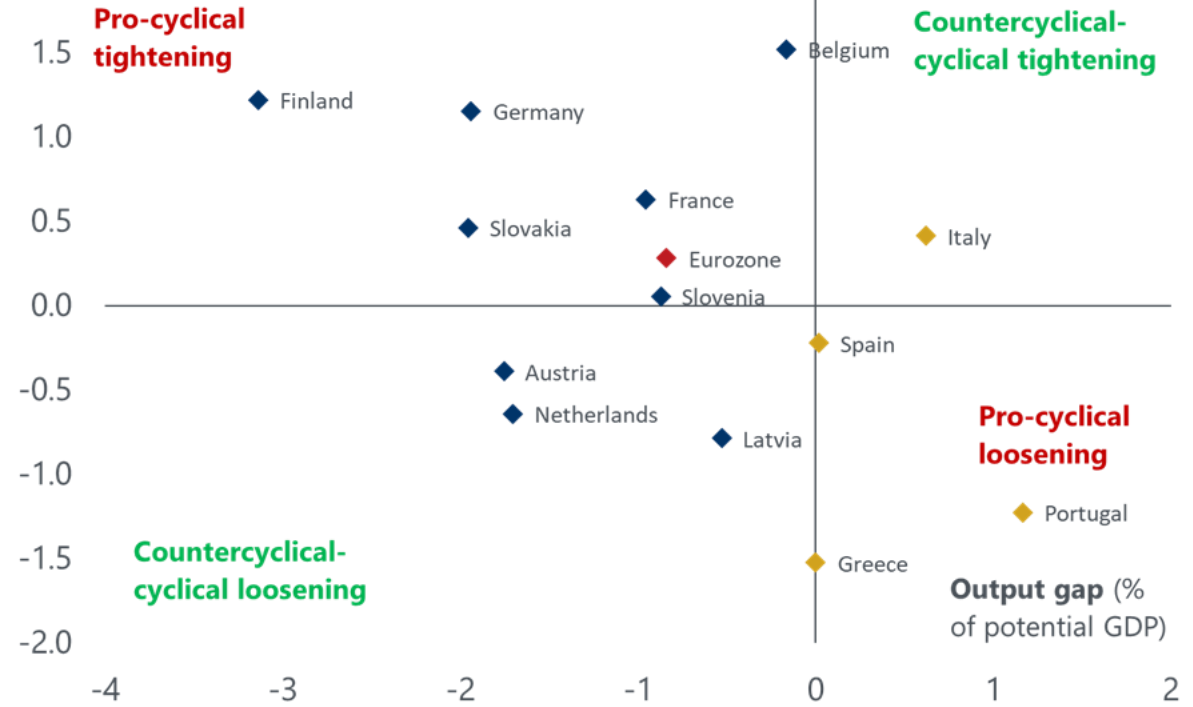
average %y/y, ppts contributions



Source: Oxford Economics/Haver Analytics

## Eurozone: Cyclical & fiscal position in 2025

Change in structural balance (ppts of GDP)



Source: Oxford Economics/Haver Analytics



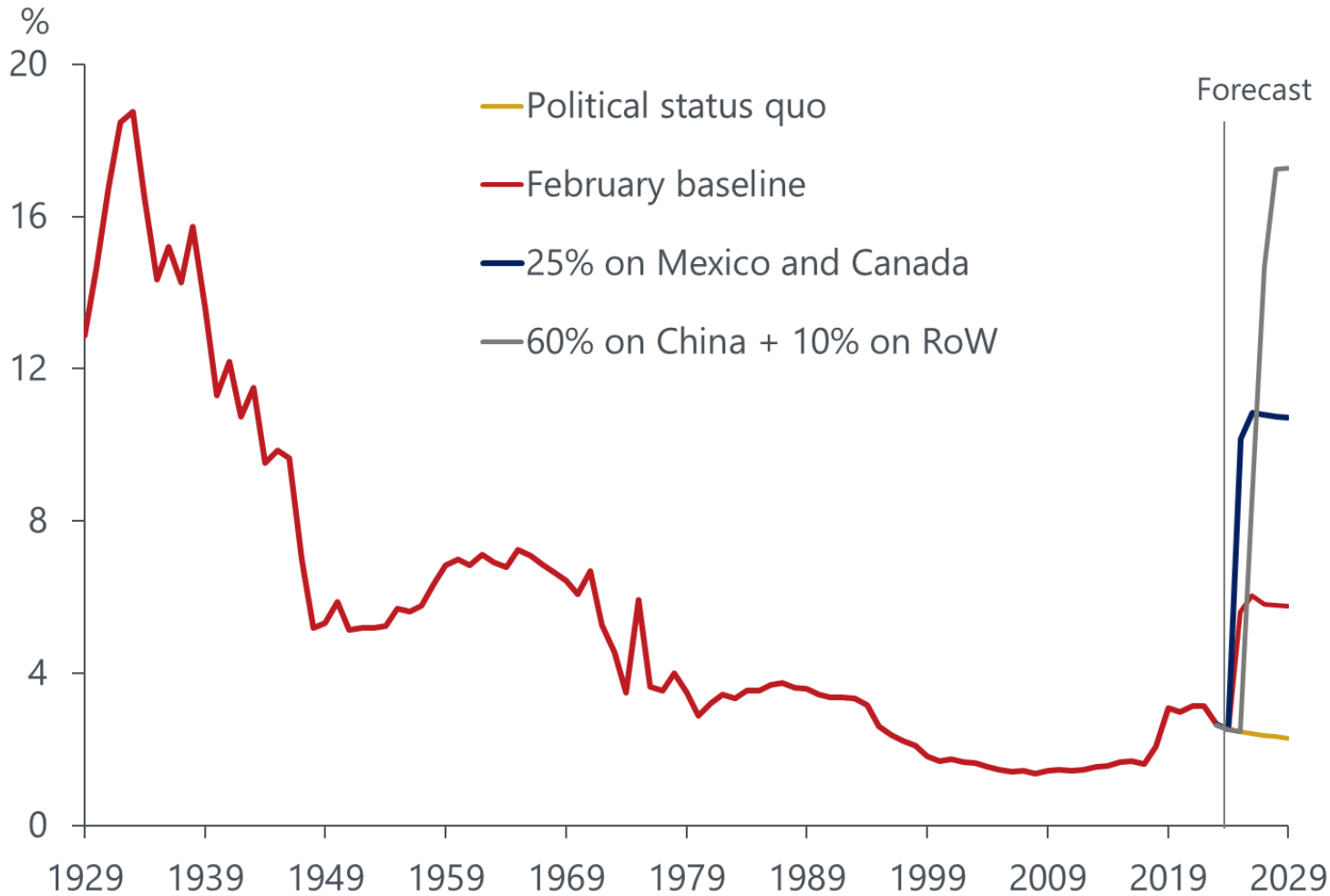
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## Lasting policy uncertainty

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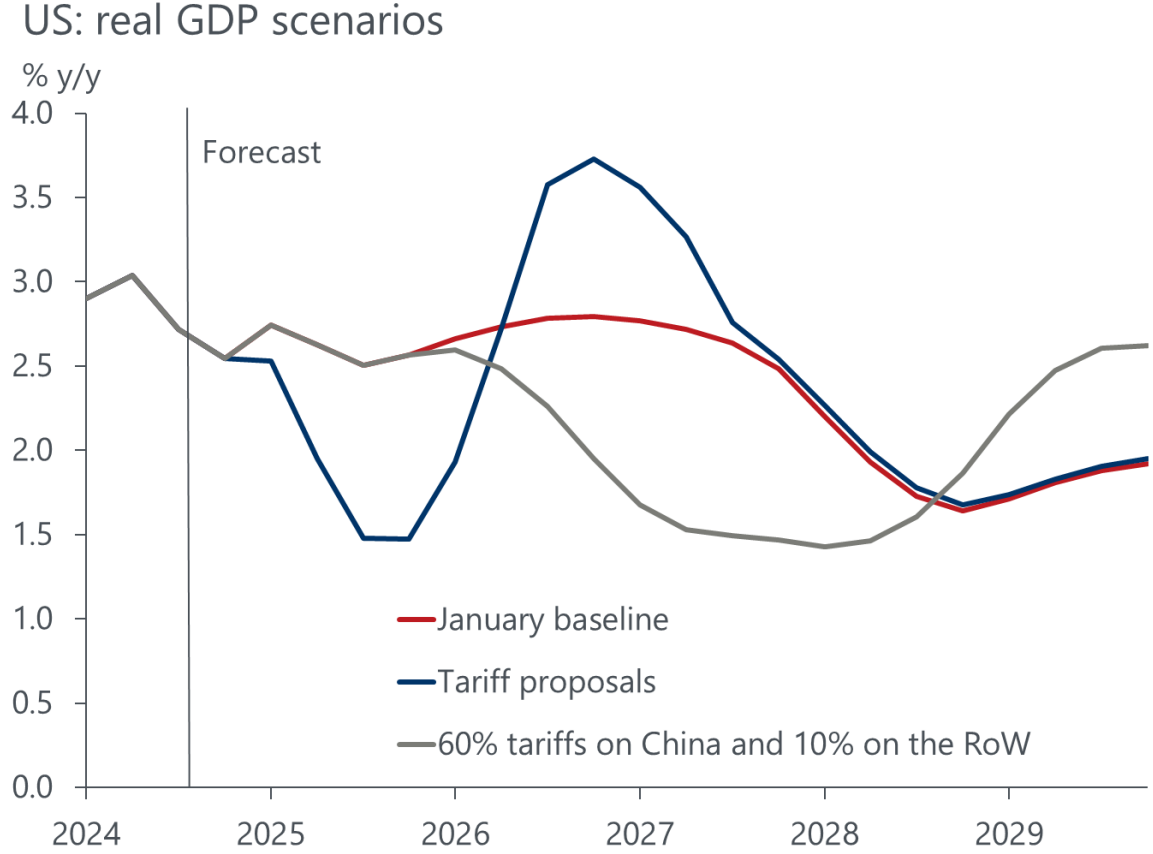
# How far and how fast will tariffs rise?

US: Effective tariff rate

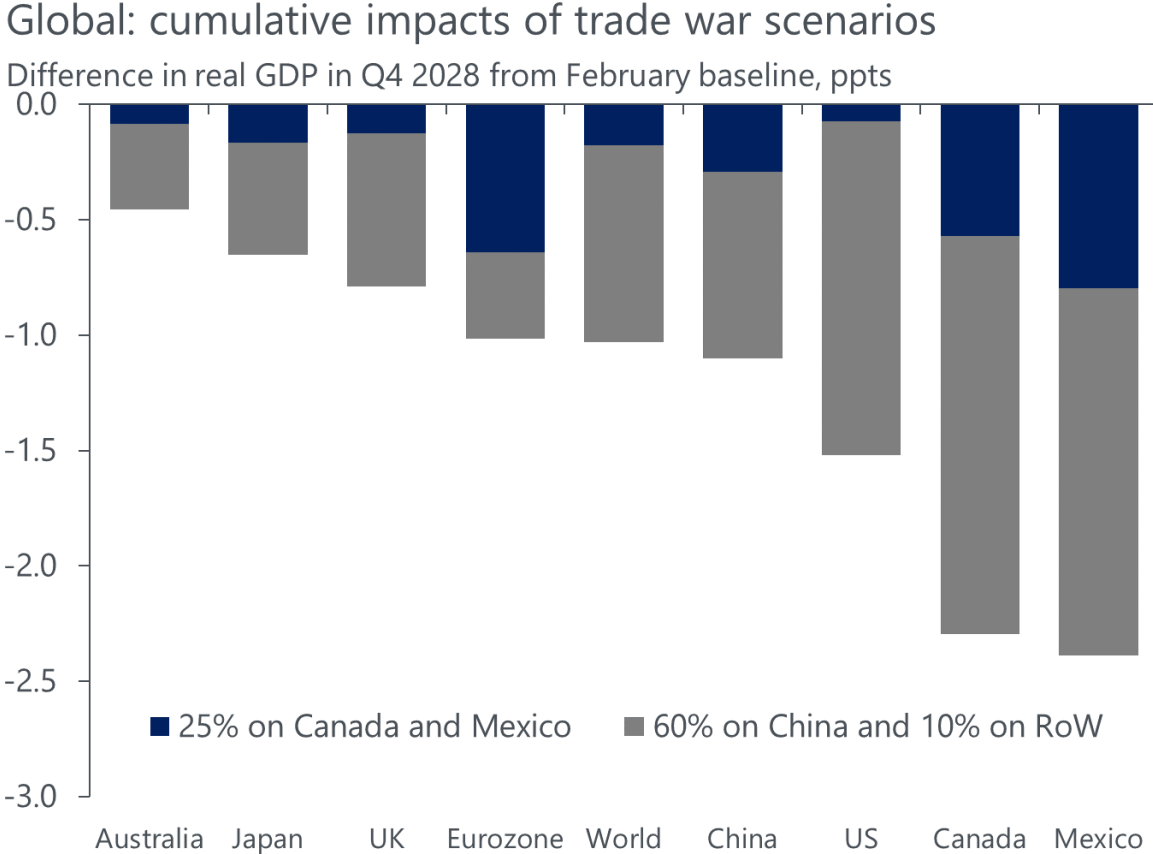


Source: Oxford Economics/Haver Analytics

# The speed as well as the scale of tariff hikes are important



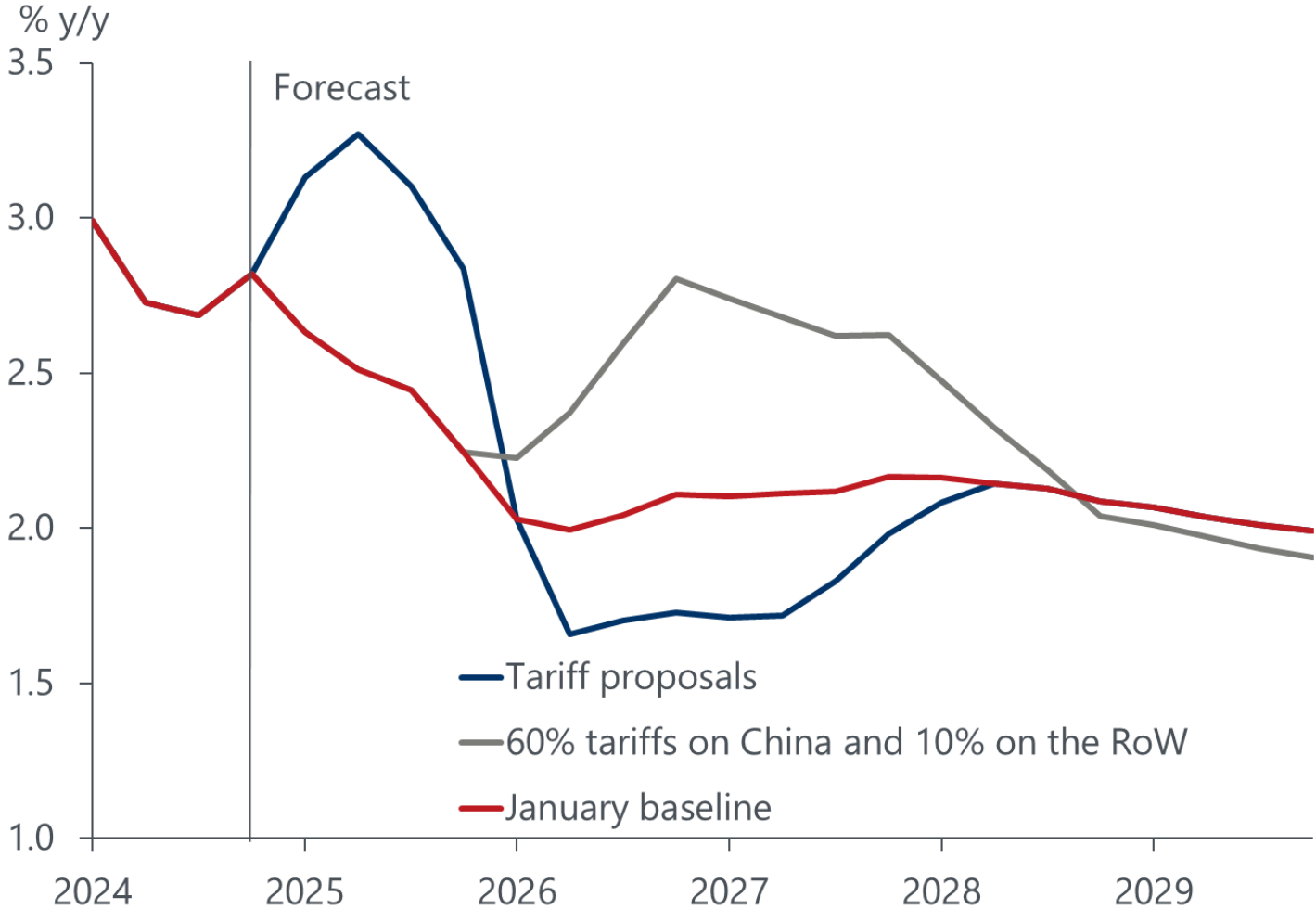
Source: Oxford Economics/Haver Analytics



Source: Oxford Economics/Haver Analytics

# Inflation impacts are significant but not huge

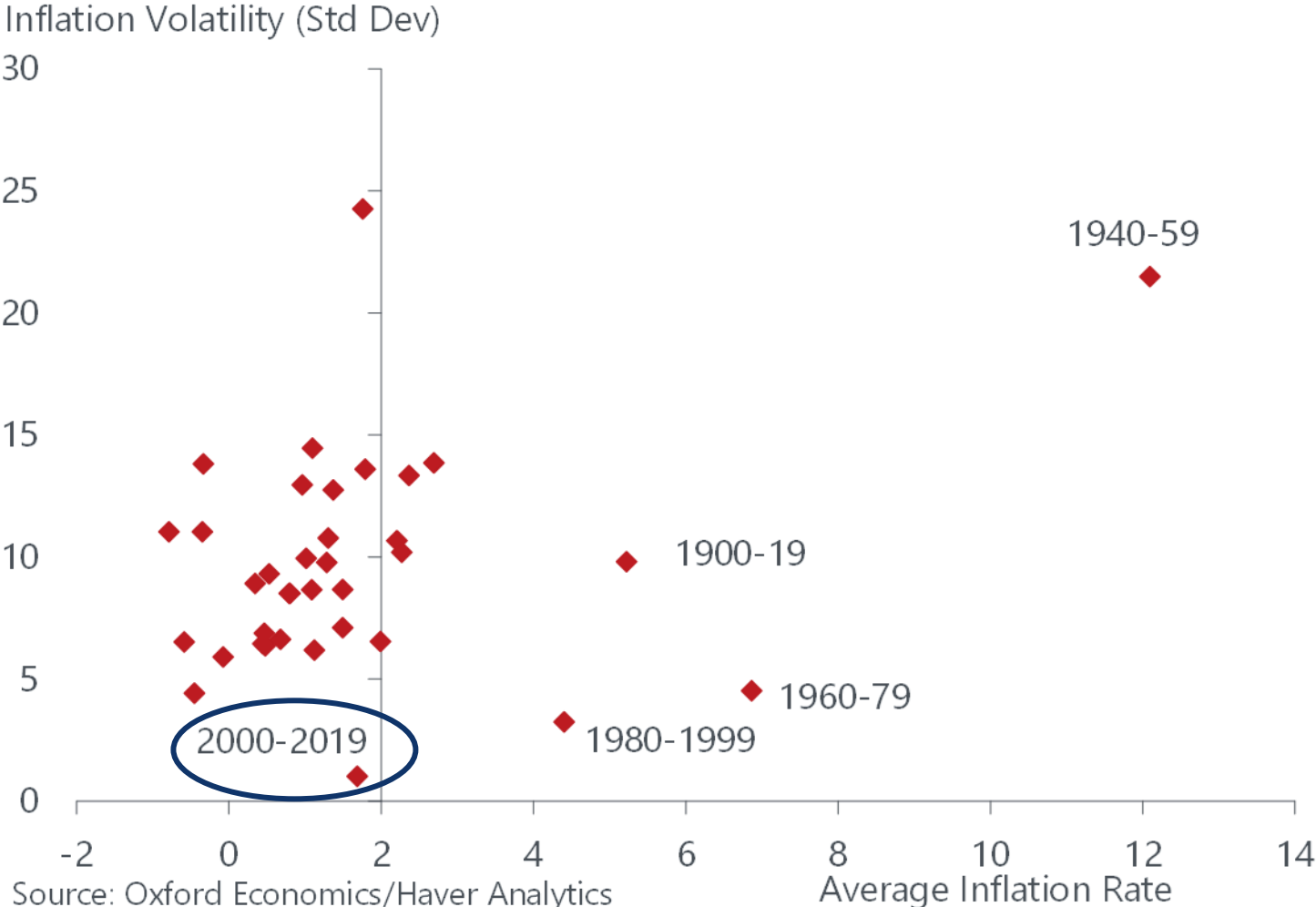
US: Core personal consumption expenditure deflator



Source: Oxford Economics/Haver Analytics

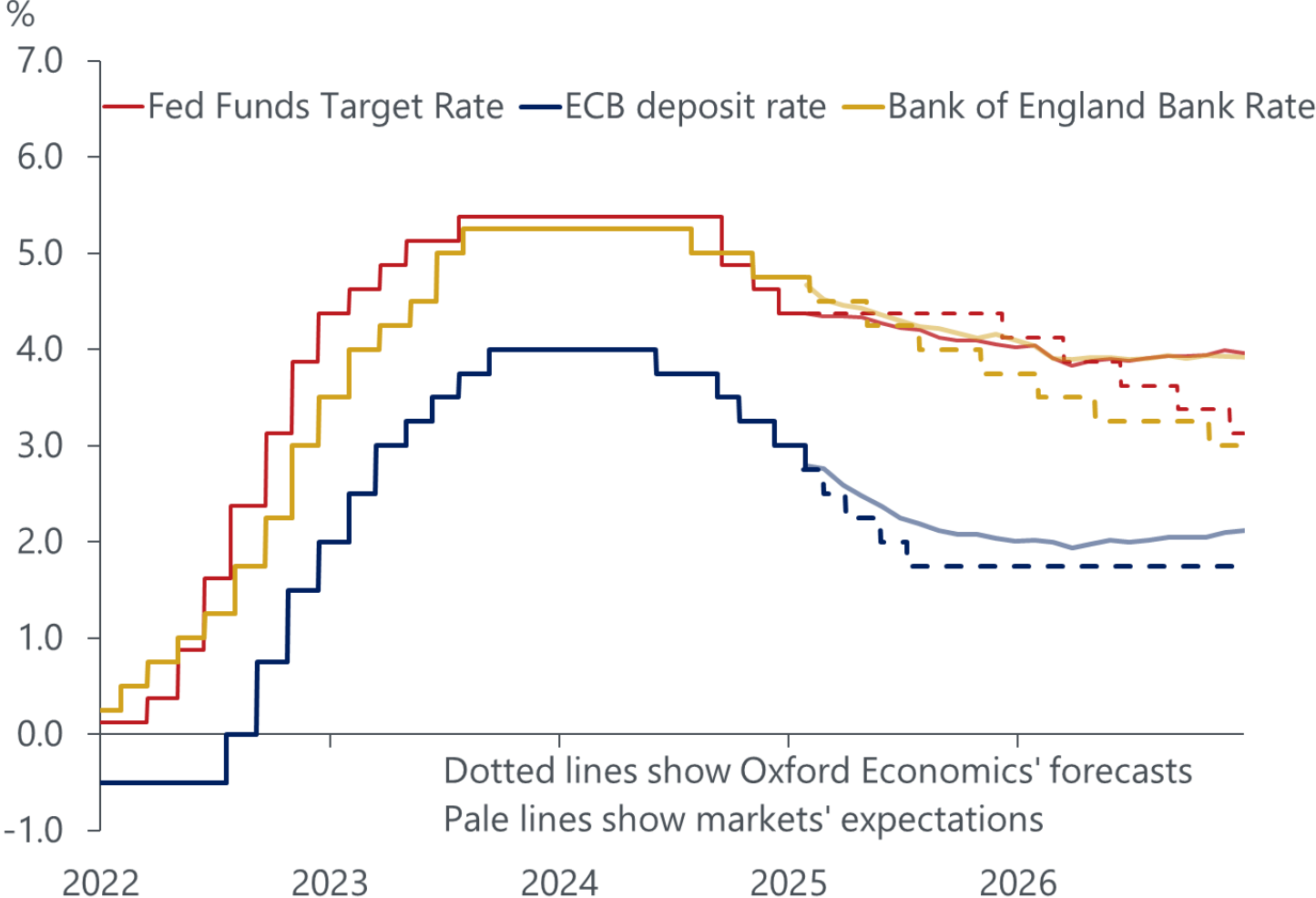
# A new era of volatile inflation

Advanced Economy Average Inflation and Inflation Volatility in Successive 20-Year Periods Since 1320



# Central banks to cut cautiously

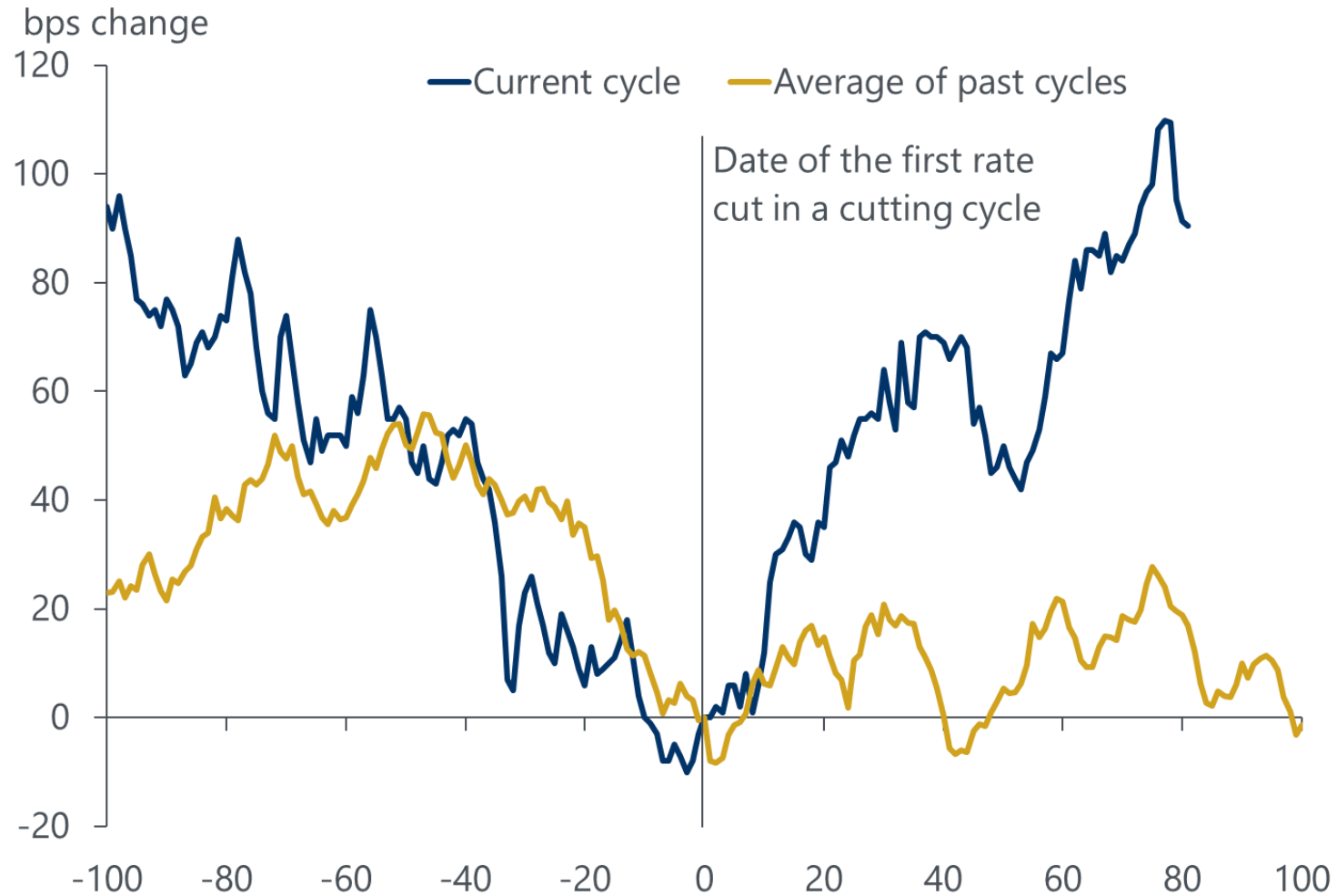
Advanced Economy: Policy rate forecasts



Source : Oxford Economics/Haver Analytics/Refinitiv

# But rate cuts won't cure the economy

US: movement in 10-year yields around the first rate cut



Source: Oxford Economics/Haver Analytics



# Resilience amid rising uncertainty

## Summary of International Forecasts

(Annual percentage changes unless specified)

	2021	2022	2023	2024	2025	2026
<b>Real GDP</b>						
<b>North America</b>						
United States	6.1	2.5	2.9	2.8	2.4	2.5
Canada	6.0	4.2	1.5	1.3	1.4	1.6
<b>Europe</b>						
Eurozone	6.3	3.6	0.5	0.7	0.9	1.2
Germany	3.6	1.4	-0.1	-0.2	0.1	0.8
France	6.8	2.6	1.1	1.1	0.6	1.0
Italy	8.8	4.8	0.8	0.5	0.4	0.7
Spain	6.7	6.2	2.7	3.2	2.6	1.6
UK	8.6	4.8	0.4	0.8	1.0	1.6
EU27	6.3	3.5	0.5	0.8	1.1	1.4
<b>Asia</b>						
Japan	2.8	0.9	1.5	-0.2	1.1	0.8
Emerging Asia, excl Japan	7.9	3.8	5.0	4.8	4.5	4.4
China	8.6	3.1	5.4	5.0	4.6	4.2
India	9.4	6.5	7.7	6.4	6.5	6.5
<b>World</b>	6.5	3.3	2.8	2.7	2.8	2.8
<b>World 2015 PPPs</b>	6.6	3.5	3.3	3.2	3.2	3.2
<b>World trade</b>	12.9	4.5	-1.2	2.2	3.0	2.5

## Key takeaways

- Global growth to take a knock from tariffs in 2025 and beyond but not catastrophically.
- Three very different stories playing out: US exceptionalism, structural downturn in China and European malaise.
- Interest rates to fall gradually outside of Europe but fiscal policy is key to prospects.
- Trade policy uncertainty is the key risk to our baseline forecast.



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# Thank You



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## Feedback

