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Economic Dynamics 2025: 10 Key Trends and Forecasts

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Contributors

Ben Herzon, Economics Executive Director, S&P Global Market Intelligence

Diego Iscaro, Economics Associate Director, S&P Global Market Intelligence

Hanna Luchnikava-Schorsch, Principal Economist, Asia Pacific, S&P Global Market Intelligence

Ken Wattret, Vice-President, Global Economics, S&P Global Market Intelligence

Thea Fourie, Economics Director, S&P Global Market Intelligence

Yating Xu, Principal Economist, China Regional, S&P Global Market Intelligence

Likely post-election policy shifts in the US and their implications are at the core of our assessment of economic prospects and risks for 2025.

1: The US economy is still forecast to experience a "soft landing," although not as soft as previously expected

US real GDP growth is forecast to moderate to a below-potential rate in 2025, reflecting several factors including financial fallout from a re-emergence of inflation stemming from tariffs and deportations.
Prior to November's election, several factors were contributing to a projected slowdown next year, including the ongoing effects of prior tightening by the Federal Reserve (Fed), diminished fiscal tailwinds, dollar strength, and an expected cessation of rapid gains in equity values. With a new and substantial round of tariffs now expected as soon as the first half of 2025, and with deportations expected to lead to labor shortages in several industries, consumer price inflation, which has been moderating, is likely to reverse course.

To prevent a period of elevated inflation from morphing into a more pernicious dynamic — as would occur if inflation expectations were to become un-anchored — we expect the Fed to pause its easing cycle in mid-2025. This pause, along with expectations for persistently higher US interest rates, will result in tighter financial conditions more broadly and reinforce the other factors that were already expected to contribute to slower growth.

2: Growth in mainland China is projected to slow , given higher tariffs and fragile private-sector confidence

Key factors driving the expected slowdown include higher tariffs on exports to the US and ongoing strains on the property sector. We expect a range of stimulus measures in 2025. These include further interest rate cuts, an increased fiscal deficit, and a central government initiative to expand debt and reduce housing inventory. These will be complemented by the local debt swaps and property market relaxations introduced since September 2024, aimed at supporting domestic demand. Currency depreciation and ongoing export diversification should also help to partly counter the tariff shock.

However, we do not believe that the measures will be sufficient to fully offset the combination of the direct effect of the tariffs on exports, and the spillover effects onto private-sector confidence, which will dampen manufacturing investment and household consumption. Real GDP growth in 2025 is therefore likely to fall short of the government's target of around 5%.

3: Western Europe's largest economies are forecast to remain weak, with increased risk of "technical" recessions

The region's major economies will face multiple headwinds to growth during 2025. Increased protectionism will be a drag on the industrial sector, which is already under pressure from structural factors, and hinder export growth. Heightened uncertainty, including political instability in Germany and France, will hold back investment and employment. Fiscal adjustments in many economies are also set to weigh on domestic demand.

Recessionary conditions in the region are not the base case, with improving real income gains resulting from lower inflation a positive for household finances and private consumption. The drag from prior monetary policy tightening is also expected to ease, with central banks forecast to continue to lower their policy rates. Still, the risk of real GDP contractions has increased, particularly for the most export-sensitive economies, including Germany.

4: Less favorable financial conditions are expected to dampen growth in emerging economies; in some regions, key growth drivers will differ from the norm

High-for-longer US interest rates and currency weakness will constrain the room for monetary policy easing across emerging economies. Along with weaker global trade, this will weigh on growth momentum in 2025, although economic prospects are not uniform.

In some regions, the scope for growth outperformance is strongest outside the traditional regional anchor economies like mainland China, Brazil, Turkey, and Russia. For example, strong growth in India, Vietnam, the Philippines, and Indonesia — supported by infrastructure investment, economic diversification, and supply chain realignment — will bolster the Asia-Pacific region. Argentina's expected recovery in 2025 is a positive for Latin America, although fiscal problems, particularly in larger economies like Brazil, are expected to hinder the region's overall performance. In the Middle East and North Africa, along with sub-Saharan Africa, policy reforms and improving investment are expected to drive a pick- up in key economies like Saudi Arabia, Egypt, South Africa, and Nigeria. Key economies in Emerging Europe, meanwhile, remain vulnerable to their dependence on Germany's struggling manufacturing sector.

5: National inflation dynamics are forecast to become more divergent

Common shocks related to the COVID-19 pandemic led to a surge in consumer price inflation rates from 2021. As supply and demand subsequently rebalanced, inflation rates came down, initially rather rapidly due to favorable base effects but then more gradually as those effects waned.

National inflation drivers are forecast to become more variable in 2025, with implications for monetary policy. In the US, a combination of tariffs, relatively robust demand and labor shortages points to renewed inflationary pressures. In Western Europe, in contrast, weak demand conditions suggest that underlying disinflationary trends will persist despite expected currency depreciation.
The same applies to mainland China, where the adverse effects of tariffs are likely to exacerbate the supply- demand imbalance. In emerging economies with less well anchored inflation expectations, currency weakness is likely to be more inflationary.

6: For core inflation rates to settle around central bank targets, services inflation will need to moderate further

Core inflation rates have fallen markedly from their pandemic-driven peaks. To date, this has been driven primarily by disinflation in core goods which tend to be sensitive to global factors such as supply chain conditions and commodity price changes. According to S&P Global Market Intelligence estimates, the consumer price inflation rate for core goods in the G5 group of economies (the US, mainland China, eurozone, UK and Japan) was below zero in each of the past seven months, having peaked at over 8% in early 2022. Various indicators suggest that core goods inflation will remain low in the very short term, but it already looks to have bottomed out and tariffs will be a source of upward pressure in 2025.

Services inflation rates tend to be more “sticky” and are influenced more by domestic economic conditions and particularly labor cost trends. Services inflation in the G5 economies has been broadly stable at a little over 4% in recent months, just a couple of percentage points below early 2023’s peak. Pricing surveys, including S&P Global’s Purchasing Managers’ Indices™ (PMIs®), suggest that the gradual moderation will continue in 2025, which is our expectation. Should labor market conditions remain tight, and labor cost growth elevated, at the same time as core goods inflation starts to pick up, this would limit the room for central banks to loosen monetary policy.

7: Commodity price trends are expected to mitigate some of the inflationary effects of US trade policy

The balance of supply and demand favor somewhat lower crude oil prices in 2025. An average Dated Brent crude oil price of US$72/barrel (/b) for next year will be incorporated into our December economic forecasts, broadly unchanged from the current assumption and implying a decline from 2024’s estimated average of around US$80/b. This forecast assumes that OPEC+ producers will not follow through on the plan to raise production by an average of 2.5 million barrels per day in 2025. A larger-than-expected production increase would therefore imply downside risk to prices. For non-energy commodity prices, only a modest increase on aggregate is expected in 2025, primarily related to production curbs with the demand outlook expected to remain sluggish.

8: Global financial conditions will be less accommodative than previously forecast, dampening global growth along with various structural headwinds

While we expect gradual Fed rate cuts to continue in the short term from the current — still rather restrictive — level, our modified forecasts for US inflation result in a projected pause in the easing cycle in mid-2025. Our preliminary revised projection for the upper end of the Fed funds range at the end of 2025 is 4%, 100 basis points above our November projection.

Less US easing implies less accommodative financial conditions globally, with the room for other central banks to loosen their monetary policy constrained by concerns over currency depreciation pressures and capital flight. That said, for the central banks facing challenging economic conditions, including those in Western Europe, we expect easing cycles to continue through 2025, contributing to currency weakness.
In tandem with structural headwinds including adverse demographics and high debt burdens, less accommodative global financial conditions will contribute to an expected slowdown of global growth next year.

Our forecast for the terminal US policy rate is also being revised upwards, by 50 basis points to 3.25%. In the major economies, our forecasts of where policy rates will ultimately settle are driven by estimates of the equilibrium level of real interest rates. Estimating the equilibrium level of real interest rates is not straightforward, but major central banks are generally lifting their estimates due to various post-pandemic shifts, including elevated government expenditure and debt. Upward pressure on estimates of the equilibrium level of real interest rates is one of several reasons not to expect a return to the ultra-low levels of interest rates of before the pandemic.

9: The US dollar's elevation is expected to last for longer than previously forecast

The gradual depreciation in our measure of the broad, real effective US dollar index came to an abrupt halt in October and November. The index rose by almost 4% over the two months, related to political developments in the US and their expected economic and policy implications. Consistent with our reappraisal of US inflation and interest rate prospects, and adjustments in the currencies of key US trading partners in anticipation of expected tariffs, we are revising up our forecast for the dollar in 2025, from what is already an elevated level by historical standards.

Among the currencies of the US' major trading partners, the Mexican peso's underperformance is expected to continue, related to post-election policy uncertainty and a relatively rapid forecast decline in interest rates. Widening interest rate differentials and challenging economic conditions are also expected to weigh on the euro and UK pound. The yen is forecast to outperform, consistent with continued monetary policy divergence.

10: Persistent high fiscal deficits and debt are likely to be an increasing source of concern

Our forecasts for US Treasury yields are being revised upwards, consistent with changes to the outlook for US inflation and policy rates. Yield spreads between the US and Europe will be wider than previously forecast, supporting the US dollar.

Although a debt crisis is not our base case, an unstable combination of persistent large budget deficits, elevated interest rates, subdued growth, already high debt burdens, and political and social obstacles to effective fiscal consolidation suggest a rising risk of a loss of confidence in debt sustainability and related market pressure on governments to take swifter, more substantive, corrective action. For the world's 10 largest economies, we forecast a weighted average general government deficit to GDP ratio in excess of 5% in 2025 for the sixth successive year. While exceptionally strong nominal growth coming out of the pandemic contributed to welcome declines in general government debt-to-GDP ratios, relative growth and interest rate prospects are becoming less favorable from a debt sustainability perspective.

CONTACTS

Americas: +1 800 447 2273
Japan: +81 3 6262 1887
Asia-Pacific: +60 4 291 3600
Europe, Middle East, Africa: +44 (0) 134 432 8300

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