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Resilient Growth but with Increasing Fragilities

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Editorial

Resilient growth but with increasing fragilities

The global economy has been resilient this year, despite concerns about a sharper slowdown in the wake of higher trade barriers and significant policy uncertainty. Activity has held up thanks to front-loading of production and trade, strong AI-related investment, and supportive fiscal and monetary policies.

Yet, global trade growth moderated in the second quarter of this year, and we expect higher tariffs to gradually feed through to higher prices, reducing growth in household consumption and business investment. Labour markets are still relatively tight, but are showing signs of easing, as job openings have fallen back to their pre-pandemic levels of 2019.

Our projections point to a moderation of global GDP growth, from 3.3% in 2024, to 3.2% in 2025 and 2.9% in 2026, followed by a small rebound to 3.1% in 2027. Inflation is expected to gradually return to target in most major economies by mid-2027.

This outlook remains fragile. A further rise in trade barriers, especially around critical inputs, could inflict significant damage on supply chains and global output. High asset valuations based on optimistic expectations of AI-driven corporate earnings pose a risk of potentially abrupt price corrections. Fiscal vulnerabilities may push long-term sovereign yields higher, tightening financial conditions and hampering growth.

Constructive dialogue between countries is central to ensure a lasting resolution to trade tensions and improve the economic outlook. All other things being equal, well-functioning open global markets mean better living standards and stronger growth. Governments should engage productively with one another to make international trading arrangements fairer and function better, in a way that preserves the economic benefits of open markets and rules-based global trade.

Central banks should remain vigilant, continuing to lower rates where inflation is firmly at or returning to targets, yet be ready to adjust course in case of renewed inflationary pressures or unexpected labour market weakness. Financial regulators must ensure effective oversight of non-bank financial institutions and crypto assets, to ensure financial innovation does not lead to undue financial stability risks.

Fiscal discipline is necessary to tackle high and rising public debt, and maintain fiscal space to react to shocks. Systematic and regular spending reviews, strengthened public procurement practices, greater digital technology adoption in government, and better targeting of social benefits would improve efficiency of public spending and free up spending for areas that better support opportunities and growth.

Ambitious structural reforms are important to unlock stronger prospects for economic growth. Current potential GDP per capita growth in the OECD is estimated at 1.4%, down from around 2.2% in the late 1990s. Policy reforms that reduce red tape, simplify regulations and lower entry barriers in service sectors are key for enhancing competition, innovation, productivity and business dynamism.

This OECD Economic Outlook projects a relatively mild negative impact of recent trade shocks and elevated uncertainty on the global economy. Policymakers need to tackle underlying fragilities, advance structural reforms and optimise public finances, in order to durably strengthen growth prospects and living standards.

2 December 2025

Mathias Cormann

OECD Secretary-General

1. General assessment of the macroeconomic situation

Introduction

The global economy has proved more resilient than expected this year, but underlying fragilities remain. Supportive macroeconomic policies, improved financial conditions fuelled by optimism about the potential impact of new technologies, and rising AI-enabling investment and trade have helped underpin demand to a varying extent across economies, cushioning the headwinds from elevated policy uncertainty and rising barriers to trade. The full effects of higher tariffs have yet to be felt, but are becoming increasingly visible in spending choices, business costs and consumer prices, especially in the United States. Global trade growth has moderated after strong front-loading of merchandise trade early in the year ahead of anticipated tariff increases, and inflation has yet to return to target in some countries. There are also some signs of weakening labour demand across economies. Global GDP growth is projected to slow from 3.2% in 2025 to 2.9% in 2026, before picking up to 3.1% in 2027. Further policy interest rate reductions are expected, and little fiscal tightening is anticipated in many countries despite the need to address rising budgetary pressures. Labour markets are projected to continue to ease, putting additional downward pressure on labour cost growth and inflation. Annual consumer price inflation in the G20 countries is expected to moderate to 2.8% and 2.5% in 2026 and 2027 respectively, from 3.4% this year. By mid-2027, inflation is projected to be back to target in almost all major economies.

These projections are subject to substantial risks, which may interact with each other. Further increases or swift changes in trade barriers, including the application of higher tariff rates to a broader range of goods or stricter controls on the export of critical products such as rare earth elements, would weaken growth, add to policy uncertainty, and generate significant disruptions in global supply chains. Weaker-than-expected growth, lower-than-expected returns from net AI investment, or upside inflation surprises could all trigger widespread risk repricing given stretched asset valuations and optimism about corporate earnings, and be amplified by forced asset sales by highly leveraged non-bank financial intermediaries (NBFIs). The high price volatility of crypto-assets and the growing interconnectedness of NBFIs with the traditional financial system also raise financial stability risks. Failure to make progress in tackling fiscal vulnerabilities could prompt additional increases in long-term sovereign bond yields, tightening financial conditions, raising debt service burdens and adversely affecting growth prospects. On the upside, agreements that result in a reversal of the increase in trade barriers would provide additional support to growth and reduce inflation pressures. Businesses may also prove more adaptable than expected when faced with significant adverse shocks and elevated uncertainty, limiting the downside impact on growth. The future productivity benefits of new technologies could also emerge more rapidly and more widely than anticipated, providing an additional impetus to global growth prospects.

Against this backdrop, the key policy priorities are to ensure a lasting decline in trade tensions, policy uncertainty and inflation, address emerging financial stability risks, establish a credible fiscal path to debt sustainability, and implement ambitious reforms to strengthen productivity growth.

- Countries need to find ways of working together within the global trading system and to make trade policy more predictable. Agreements to ease trade tensions and deepen trade relations would improve policy certainty and strengthen the prospects for investment, productivity and output growth. Additional areas where opportunities exist for reforms include further improvements in trade facilitation, reductions in regulatory barriers that impede access to national services markets, and initiatives to enhance the cross-border digital delivery of services.
- Central banks should remain vigilant and react promptly to shifts in the balance of risks to price stability. Provided inflation expectations remain well anchored, policy rate reductions should continue in economies in which underlying inflation is projected to moderate or remain subdued. The issues facing policymakers will vary across countries, with the downside impact on demand and labour markets from higher uncertainty and weaker exports likely to be the key influence on policy decisions in most countries, but upside inflationary pressures being a more pertinent concern in countries raising tariffs.
- Faced with mounting risks to financial stability, and the increasing linkages between banks and many less regulated non-bank financial intermediaries (NBFIs), effective monitoring and supervision of banks, and progressing with robust regulatory policies for NBFIs and crypto-assets in line with internationally agreed recommendations by the G20 and the Financial Stability Board are key steps to safeguard stability.
- Governments need to ensure longer-term debt sustainability and maintain the ability to react to future shocks, with monetary policy normalisation and growth close to trend providing an opportune moment to act in many economies. Stronger efforts to contain and reallocate spending, improve public sector efficiency and enhance revenues, set within credible medium-term country-specific adjustment paths, will be essential for debt burdens to remain manageable and to conserve the resources required to address longer term spending challenges. Spending and tax choices should focus on the need to strengthen sustainable economic growth while preserving adequate support for those in need.
- Rising protectionism, geopolitical uncertainty and weak growth prospects reinforce the need for ambitious structural policy reforms that strengthen living standards, enhance resilience and help to improve prospects for debt sustainability. One area of focus should be regulatory reforms, particularly those that improve the incentives and ability for businesses to innovate and grow and the capacity for workers to move to those parts of the economy where their skills are most needed. Through enabling better resource reallocation, such improvements increase the adaptability of economies to future unexpected shocks and strengthen future productivity growth. Reforms to financial sector regulation can also support more efficient capital allocation and help buttress economies against systemic risks.

Table 1.1. Global GDP growth is projected to moderate next year and recover only slowly

	Average 2013-2019	2024	2025	2026	2027	2025 Q4	2026 Q4	2027 Q4
				Per cent				
Real GDP growth[1]								
World[2]	3.4	3.3	3.2	2.9	3.1	3.0	3.0	3.1
G20[2]	3.5	3.4	3.2	2.9	3.1	2.9	3.0	3.2
OECD[2]	2.3	1.7	1.7	1.7	1.8	1.5	1.8	1.8
United States	2.5	2.8	2.0	1.7	1.9	1.8	1.6	1.9
Euro area	1.9	0.8	1.3	1.2	1.4	1.0	1.5	1.4
Japan	0.8	-0.2	1.3	0.9	0.9	0.5	1.3	0.7
Non-OECD[2]	4.4	4.5	4.4	3.9	4.0	4.1	3.9	4.1
China	6.8	5.0	5.0	4.4	4.3	4.7	4.3	4.3
India[3]	6.8	6.5	6.7	6.2	6.4			
Brazil	-0.4	3.4	2.4	1.7	2.2			
OECD unemployment rate[4]	6.5	4.9	5.0	5.0	4.9	5.0	5.0	4.9
Inflation[1]								
G20[2,5]	3.0	6.3	3.4	2.8	2.5	2.9	2.6	2.4
OECD[6]	1.6	5.0	4.2	3.5	2.8	4.2	3.1	2.6
United States[7]	1.3	2.6	2.7	3.0	2.3	3.0	2.9	2.1
Euro area[8]	0.9	2.4	2.1	1.9	2.0	2.0	1.9	2.0
Japan[9]	0.9	2.7	3.2	2.2	2.1	2.7	2.2	2.1
OECD fiscal balance[10]	-3.1	-4.7	-4.5	-4.6	-4.6			
World real trade growth[1]	3.3	3.9	4.2	2.3	2.8	3.3	2.7	2.9

1. Per cent; last three columns show the change over a year earlier.
2. Moving nominal GDP weights, using purchasing power parities.
3. Fiscal year.
4. Per cent of labour force.
5. Headline inflation.
6. Moving nominal private consumption weights, using purchasing power parities.
7. Personal consumption expenditures deflator.
8. Harmonised consumer price index.
9. National consumer price index.
10. Per cent of GDP.

Source: OECD Economic Outlook 118 database.

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Recent Developments

Global growth has been surprisingly robust

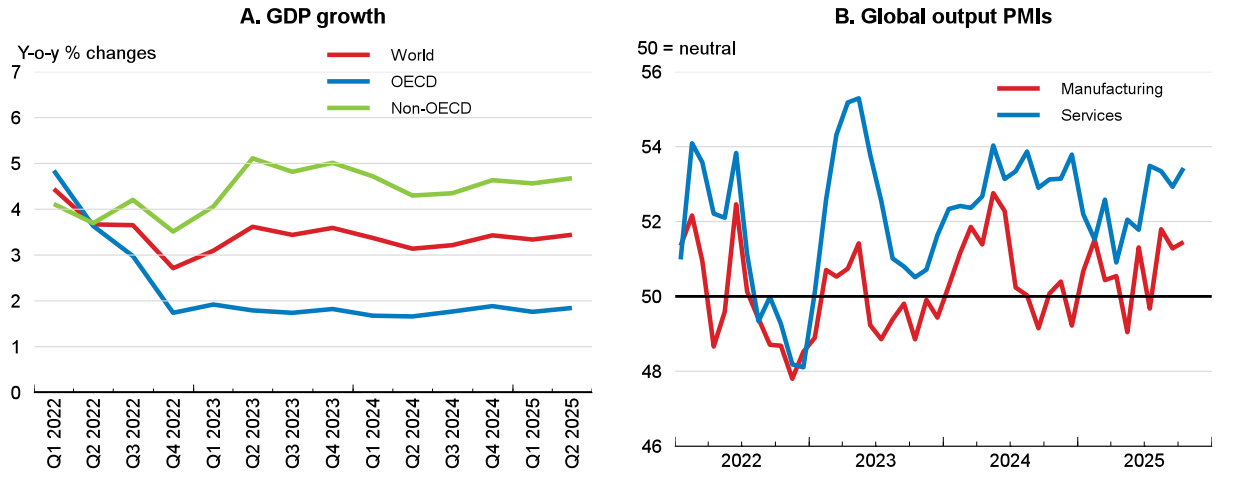
The global economy has shown surprising resilience in 2025 (Figure 1.1, Panel A). Front-loading of goods production and trade ahead of the introduction of higher tariff rates was a key factor in the early part of the year. Easier global financial conditions, supportive macroeconomic policies, real income growth, and strong demand for new AI-related investments in some countries, particularly the United States, are all providing broader support for demand, offsetting headwinds stemming from the gradual implementation of new trade policy barriers, still-elevated policy uncertainty, and declining residential investment.

Growth developments in advanced economies have been mixed. In the United States, private consumption growth has slowed compared with 2024, partly reflecting the imposition of higher tariff rates on imports and lower net immigration. The government shutdown in the fourth quarter has also resulted in some temporary weakness that should be reversed at least partially in the first quarter of 2026. However, very strong investment in information processing equipment and software has boosted growth (Box 1.1), and buoyant equity markets have generated favourable wealth effects for higher-income households. Private investment has also helped sustain output growth in Japan, even as relatively high inflation has weakened real household income gains, though residential investment fell in the third quarter of 2025. In contrast, in

the euro area, business investment growth has generally been sluggish, though disinflation, rising real incomes and fiscal easing supported activity through the first three quarters of the year. Accommodative fiscal policy, along with a decline in domestic policy uncertainty, has also underpinned stronger growth in Korea. In the United Kingdom, output gains have progressively slowed, with some activity pulled forward to the early months of the year in anticipation of tax increases and higher US tariff rates.

GDP growth has been surprisingly resilient in many emerging-market economies. Chinese production and demand were boosted by strong front-loading activity early in 2025, and the government trade-in programme for household durables, although the ongoing correction in the property market continues. Easier financial conditions, following reductions in policy interest rates, have helped to underpin domestic demand growth in several other emerging-market economies, including Colombia, India, Indonesia and Peru. Monetary policy easing also supported the Mexican economy through the first half of the year, though GDP and industrial production contracted in the third quarter amid high external and domestic policy uncertainty. In South Africa, monetary policy easing combined with pension reforms that eased access to retirement funds has boosted private consumption spending. In contrast, growth in Brazil has slowed as earlier monetary policy tightening has moderated domestic demand growth and agricultural production has returned to more normal levels following a spike in the first quarter of the year.

Figure 1.1. Global growth has remained resilient



Note: In Panel A, the global, OECD and non-OECD aggregates are derived using moving PPP weights. For Panel B, values below (above) 50 indicate that a balance of firms report a contraction (expansion).
Source: OECD Economic Outlook 118 database; S&P Global; and OECD calculations.

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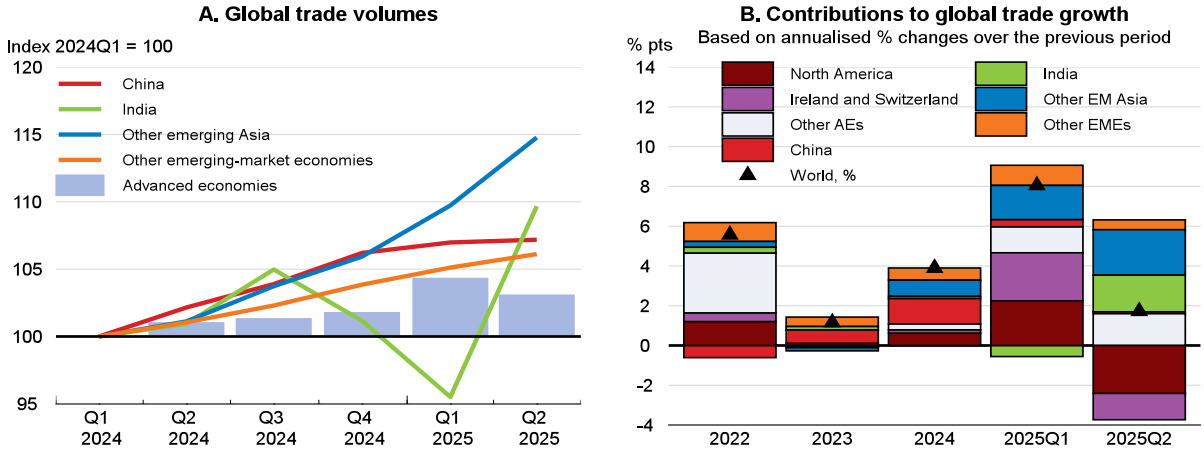
Global trade volumes (goods plus services) have also been surprisingly robust this year. Front-loading of exports in the first quarter ahead of anticipated US tariff increases was stronger than anticipated, with global trade volumes rising at an annualised pace of 8.1%. In the second quarter, import volumes in the United States fell at an annualised rate of 29.3% as a result. However, the impact on aggregate global trade growth was partly offset by strong trade in India and continued buoyant trade growth in the smaller emerging Asian economies (Figure 1.2, Panels A and B).

Sustained growth in emerging Asian trade partly reflected rapid growth in Chinese import volumes, which rose at an annualised pace of 9.8% in the second quarter even as exports to the United States fell. The OECD Trade in Value Added dataset highlights the importance of final demand in China for exports in the South-East Asian economies (Figure 1.3, Panel A). Trade in many Asian economies is also being supported by a strong rise in AI-enabling trade, linked to the rapid growth in ICT equipment investment in the United States and some other economies (Box 1.1). Tech exports from Korea and Chinese Taipei continued to rise into the third quarter (Figure 1.3, Panel B). Estimates suggest that AI-related trade makes

up about 15.5% of total world merchandise trade, with two-thirds of that originating in Asia, 3% in Europe and 2.5% in North America (WTO, 2025a).

Figure 1.2. Trade growth has been resilient



Note: The data correspond to quarterly trade of goods and services in volume (average of exports and imports). In Panel A, "Advanced economies" include OECD member countries other than Chile, Colombia, Costa Rica, Mexico, and Türkiye. "Other emerging Asia" includes Hong Kong (China), Indonesia, Malaysia, the Philippines, Singapore, Chinese Taipei, Thailand and Viet Nam. "Other emerging market economies" are all remaining emerging-market economies. In Panel B annual growth rates are shown for 2022-2024. "North America" includes Canada, Mexico and the United States. "Other AEs" in Panel B are the 33 advanced economies who are OECD members excluding "North America", Ireland and Switzerland. "Other EM Asia" corresponds to "Other emerging Asia" in Panel A. "Other EMEs" are the remaining emerging-market economies not shown separately.
Source: OECD Economic Outlook 118 database; and OECD calculations.

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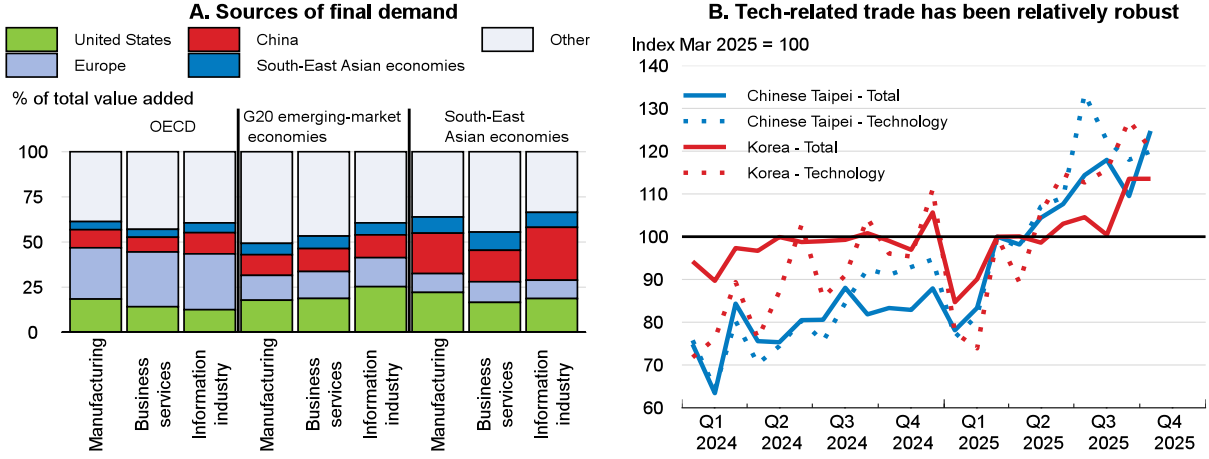
Figure 1.3. Strong tech-related demand is supporting trade, particularly in Asia



Note: Panel A is based on 2022 data. The green bar shows that almost 20% of OECD domestic value added of the manufacturing industry was consumed as a final good by the United States; the red bar shows that around 13% of G20 EME domestic value added of the information industry was consumed as a final good by China. South-East Asian economies include Hong Kong (China), Malaysia, the Philippines, Singapore, Chinese Taipei, Thailand and Viet Nam. The G20 emerging-market economies include Argentina, Brazil, India, Indonesia, Saudi Arabia and South Africa. Manufacturing includes all ISIC codes 10 to 33; business services from 45 to 82; and the information industry shows ISIC codes 25 and 58 to 63. Panel B is based on values of exports. The Chinese Taipei tech indicator includes integrated circuits; dynamic random access memory integrated circuits; bare printed circuit boards; computer storage devices; and computer parts and accessories; the Korean tech exports indicator is based on semiconductors.
Source: OECD Trade in Value Added (TiVA) 2025 edition; Korean Ministry of Trade, Industry and Resources; Chinese Taipei Ministry of Finance; and OECD calculations.

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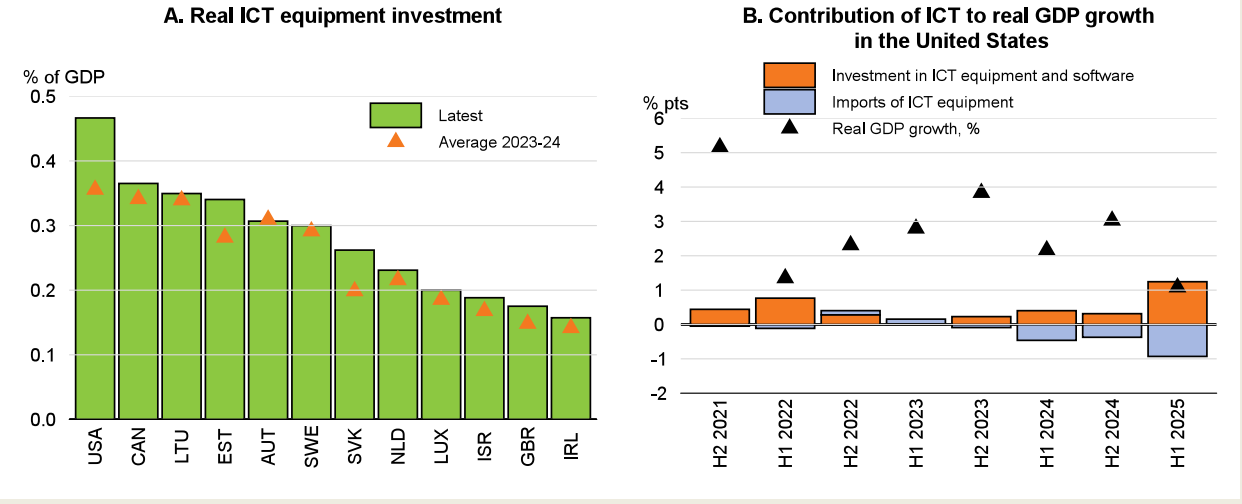
Box 1.1. Recent developments in ICT investment

Private investment in the information and communication technology (ICT) sector strengthened in the first half of 2025. Across those economies with comparable quarterly data, private investment in ICT equipment as a share of GDP has recently risen in many economies, most notably in the United States (Figure1.4, Panel A). The strong growth in real ICT equipment investment in the United States is particularly notable given the high level of such investment, which is equivalent to around twenty times that in the United Kingdom or Canada. ICT equipment and software investment contributed strongly to real GDP growth in the United States in the first half of 2025 (Figure 1.4, Panel B), though imports of ICT equipment also grew rapidly, suggesting a more modest net impact on domestic output growth.

Other technology-related investment has also been rising rapidly. In the United States, real investment in the construction of data centres increased by an annualised rate of 21% in the first half of 2025, accounting for over 5% of total investment in non-residential construction (see Figure 1.25 below). The United States was already the location for 43% of global installed data centre capacity in 2024, with 25% in China and 16% in Europe (IEA, 2025a). The recent strength in data centre investment in the United States is likely to partially reflect the increased deployment of AI technologies.

Rapid ICT investment has been accompanied by strong growth in tech sector industrial production in some economies. This has been particularly evident in the United States and several Asian economies that have significant ICT production sectors, such as Korea, Singapore, Japan and Chinese Taipei (shown collectively in Figure 1.5, Panel A). In China, value added growth in the sector has also been strong, at 9.3% over the year to October 2025. In contrast, in the European Union, growth in the production of computer and electronic products has remained relatively subdued.

Figure 1.4. Strong ICT investment has supported economic growth

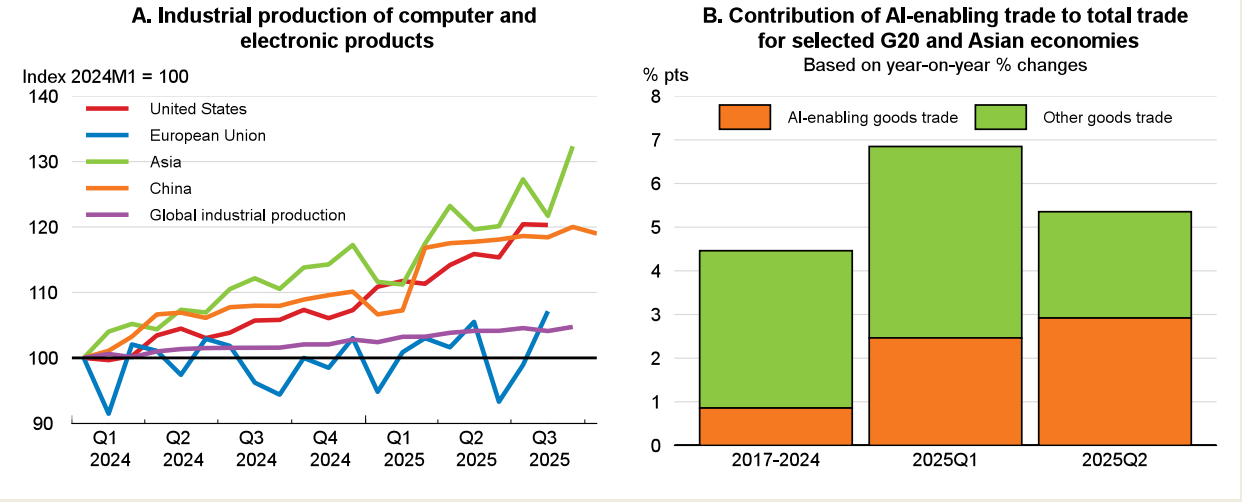


Note: In Panel A 'Latest' corresponds to 2025Q3 for Israel, the Netherlands and the United Kingdom, and to 2025Q2 for other countries. In Panel B, ICT equipment and software investment is defined as gross private domestic investment in information processing equipment and software. ICT equipment imports are defined as imports of computers, peripherals and parts.
Source: OECD Quarterly GFCF by Assets database; Bureau of Economic Analysis and OECD calculations.

StatLink https://stat.link/iqo38u

Strong growth in tech sector activity has underpinned global trade flows in the first half of the year. In particular, trade in goods that the World Trade Organisation defines as "AI-enabling" contributed over half the growth in trade for selected G20 and Asian economies in the second quarter of 2025, a substantial increase from the annual average contribution during the 2017-24 period (Figure 1.5, Panel B).

Figure 1.5. Global industrial production and trade are being supported by activity in the ICT sector



Note: Panel A is based on seasonally adjusted data in real terms. "Asia" is the weighted average of industrial production for Japan, Korea, Singapore and Chinese Taipei. The selected high-technology industries are: computer and electronic production for Asia, computer, electronic and optical products and electrical equipment for the EU (NACE Rev 2 C26), computers and peripheral equipment, communications equipment and semiconductors and related electronic components for the United States (NAICS 3341, 3342 and 3344), computer, communication & other electronic equipment for China. Panel B is based on monthly merchandise trade statistics in nominal USD terms. Trade values are computed as the average of exports and imports. The selected countries are G20 and South-East Asian economies for which timely customs data are available (Argentina, Australia, Brazil, Canada, China, European Union, United Kingdom, India, Japan, Mexico, Türkiye, the United States, South Africa, Hong Kong (China), Malaysia and the Philippines). These countries account for around two-thirds of global merchandise trade in 2024. AI-enabling goods are the 104 products at HS6 level defined by the WTO (2025b).
Source: OECD Main Economic Indicators database; Eurostat; General Administration of Customs China; Ministry of Economic Affairs Chinese Taipei; National Bureau of Statistics of China; Statistics Korea; Statistics Singapore; Ministry of Economy Trade and Industry of Japan; UN Comtrade; US Federal Reserve; and OECD calculations.

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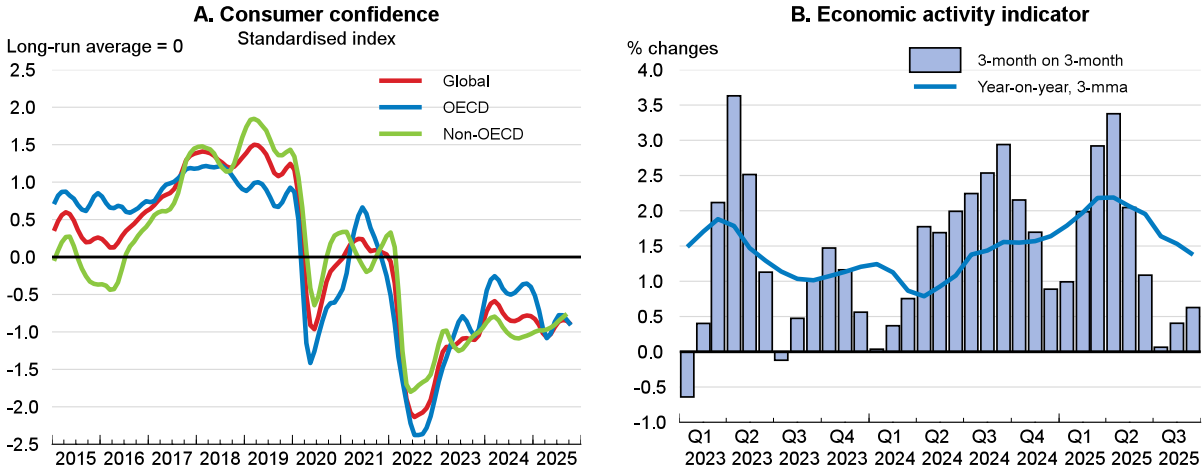
Recent activity indicators are mixed

Recent business survey indicators suggest that output growth continued to hold up in most economies through to October (Figure 1.1, Panel B), with preliminary estimates suggesting this was maintained in advanced economies in November, but there are some signs of slowing momentum in other monthly activity data. As front-loading of consumption and investment spending has unwound, industrial production growth has moderated in some major economies, including Germany and Japan. Yet, the slowdown in industrial production growth has not been universal, with activity continuing to expand steadily in China and the United States. Despite elevated policy uncertainty, textual analysis of transcripts from earnings calls held during October and November by the top 50 listed companies in the United States do not indicate a slowdown in investment intentions. Consumer sentiment does seem to be impacted though, with confidence remaining subdued by historical standards and below the level observed in late 2024, especially in OECD economies (Figure 1.6, Panel A). This may also reflect recent rapid increases in food prices in some economies. A composite indicator of monthly economy-wide economic activity across 14 advanced and emerging-market economies suggests softer output growth in these economies in the third quarter of 2025 (Figure 1.6, Panel B).

Changes in US bilateral tariff rates between mid-May and mid-November have lowered the (ex-ante) effective tariff rate on US merchandise imports to an estimated 14.0% in the latter half of November from the 15.4% rate assumed in the June OECD Economic Outlook. The revision reflects the net effects of a lower tariff on imports of goods from China, new higher tariffs imposed at the country level since August, some higher sector tariffs, and an upward reassessment of the proportion of imports from Canada and Mexico that are compliant with the US-Canada-Mexico Free Trade Agreement (Box 1.2). Import tariffs on secondary copper products were raised by 50 percentage points, steel and aluminium tariffs were raised from 25 percentage points to 50 percentage points, and new tariffs were imposed on timber, trucks and buses. Offsetting these changes, the United States has lowered the general tariff increase imposed this year on all goods imports from China to 10% from 20%, and has signed trade agreements with Japan and the European Union, which include lower tariff rates for cars and parts, and civil aircraft exports to the United States, and a guaranteed tariff ceiling on pharmaceutical product exports. Trade agreements have also been signed with Switzerland, Korea and several emerging-market economies, including Argentina, Indonesia, Malaysia, Thailand, and Viet Nam.[1] The range of exempted agricultural products has also been expanded. The revised assessment of the proportion of USMCA-compliant merchandise imports from Canada and Mexico reduces the aggregate effective tariff rate by just over 3 percentage points given the share of these countries in US trade.

Figure 1.6. Consumer sentiment remains subdued and some indicators of economic activity have slowed



Note: In Panel A, the global, OECD and non-OECD aggregates are derived using moving PPP weights. Panel B is based on monthly activity (largely output) data from 14 countries (Argentina, Brazil, Canada, Chile, Colombia, Costa Rica, Finland, Japan, Korea, Mexico, Norway, Peru, Sweden and the United Kingdom) up to 28 November 2025, weighted using moving nominal GDP shares in PPP terms. Bars show the annualised percentage change of the indicator average over the 3 months ending in the month depicted relative to the previous 3 months.
Source: OECD Main Economic Indicators database; LSEG; and OECD calculations.

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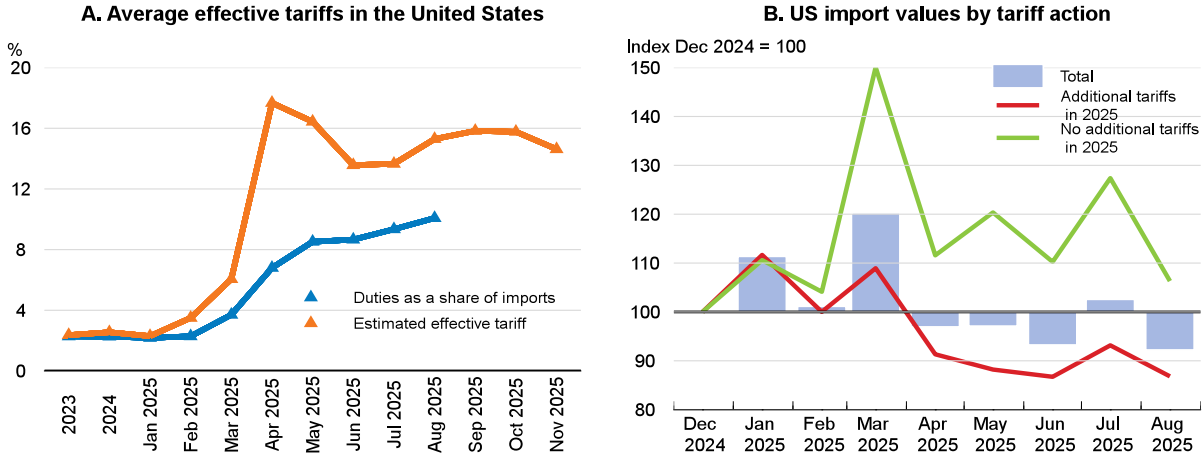
The impacts of higher tariff rates are yet to be fully felt in the US economy. This reflects a combination of factors, with firms making use of inventories and ample profit margins to avoid or absorb the initial impact of higher tariffs, lags between the announcement and imposition of higher tariff rates, and the exemption of goods already in transit from higher tariff rates. Observed (ex-post) monthly tariff rates calculated from United States revenue and trade statistics (reported customs duties divided by the value of merchandise imports) have risen sharply this year, but are lower than estimated effective tariff rates (Figure 1.7,

[1] An earlier trade agreement had also been completed with the United Kingdom.

Panel A), portending an increase in tariff collection in the coming months.[2] The extent of the gap between revenues and estimated effective tariffs differs across types of goods. Tariff collection rates on cars and parts as well as steel and aluminium, which have been in place for some time and have few global exceptions, are closer to their effective tariff rates than is the case for other goods.

Figure 1.7. The impact of US tariffs is increasingly being felt



Note: In Panel A, the monthly average 2025 estimated effective tariff rate is based on applicable rates to products and countries at the time they became effective, weighted by country-specific product shares of United States imports in 2024. The estimates include updated weights for compliance of imports from Canada and Mexico (see Box 1.2 for more details). Data before 2025 based on WITS average effective tariff rates, corrected for Section 301 actions on China undertaken between 2018 and 2024. 2025 tariff revenues estimated as a share of import values including cost, insurance and freight, based on monthly data from US Census Bureau. Data before this are from USITC (2025) "U.S. imports for consumption, duties collected, and ratio of duties to value, 1891-2024". Data in Panel B are based on import values. Goods which face no new tariffs in 2025 are all goods exempted from country-specific tariff increases as of August 2025, excluding goods imports in these categories from China (since the additional 20 percentage point tariff increase imposed on China in March 2025 is unaffected by the exemption).
Source: OECD Economic Outlook 118 database; US Census Bureau; United States International Trade Commission; World Integrated Trade Solution (WITS); and OECD calculations.

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Despite the lagged effects of higher tariffs, there is a sharp decrease in the value of US imported goods subject to tariffs compared to non-tariffed goods (Figure 1.7, Panel B). This suggests that tariffs are affecting demand, and will continue to weigh on trade volumes as announced tariffs come into full effect. This could in turn further weigh on the estimated effective tariff rate, reducing the divergence with collected duties. Continued strength in demand for technology products should still provide some support for global trade, although new export orders for manufacturing in most large economies remain relatively weak outside of the Asian emerging-market economies. Trade policy uncertainty has fallen from recent peaks, but recent announcements about further changes to bilateral tariff barriers and the possible broadening of licencing requirements for rare earth materials in China could add to uncertainty.

Box 1.2. US tariff rates: in law and in effect

In recent months the United States has continued to announce additional tariff increases on imports from most countries, alongside separate sector-specific tariffs on steel and aluminium, cars and parts, trucks, buses, timber, and copper. This box discusses some of the issues involved in calculating the aggregate

[2] The effective tariff rate in November 2025 is shown as 14.6% in Figure 1.7 rather than 14.0%. This is because a monthly average tariff rate is used in Figure 1.7 whereas the latter reflects the effective tariff rate following the policy changes that occurred by mid-November.

effective tariff rate for each country, focusing in detail on Canada and Mexico – two major trading partners with the United States.

The overall impact of tariffs is expected to vary widely by country, reflecting the differing composition of imports from each country as well as the different tariff rates applied to countries (see Figure 1.8).

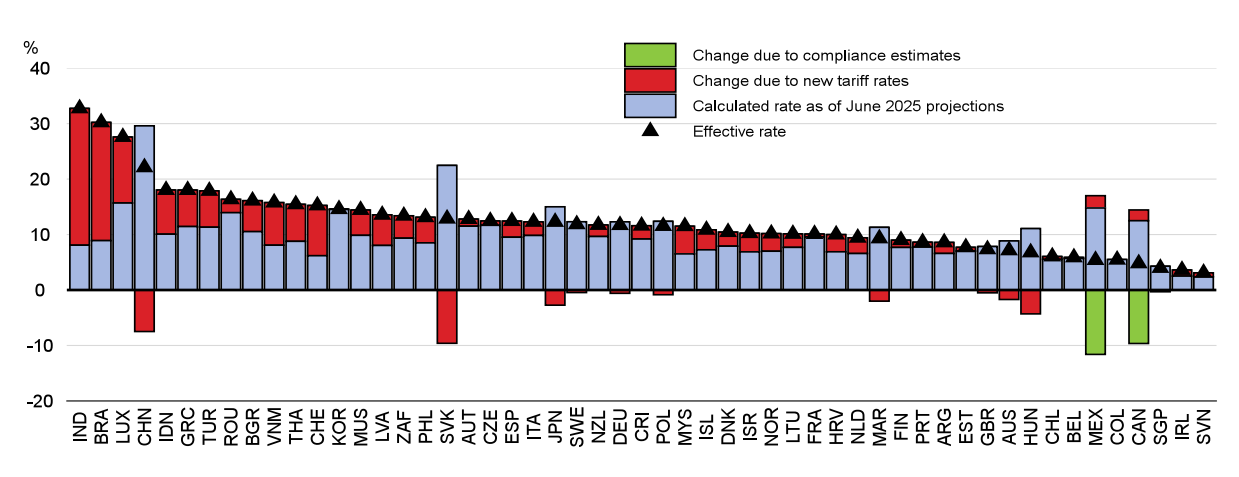
- The estimated effective tariff rate on Chinese goods entering the United States has fallen by close to 10 percentage points, in line with the decision to reduce the tariff rate applied to all Chinese goods from 20% to 10%.
- For the European Union, Japan and Korea, new trade agreements with the United States impose a maximum rate of 15% on most goods – including cars and parts, and timber, as well as a promise of a maximum 15 percentage point tariff increase on pharmaceutical and semiconductor products should the United States impose global sector tariffs on these goods. The global rate continues to be applied for steel and aluminium, copper, trucks and buses. These countries also qualify for an expanded list of zero-rated items.[1]
- As a result of these agreements, the effective tariff rates on imports from Germany, Hungary, Japan, Poland and the Slovak Republic are now estimated to have declined since mid-May, in part due to the lower autos tariffs they now face that make up a substantial share of their exports to the United States (Figure 1.8).
- The effective tariff rate on imports from Australia has also declined since May, as a larger share of items are now exempt from tariffs.
- By contrast, amongst EU member states, Luxembourg, Bulgaria and Greece face higher tariffs than before as they have a relatively low share of zero-rated exports to the United States and higher shares of steel and aluminium exports. However, their merchandise exports to the United States are relatively small shares of their total goods and services exports.
- Brazil and India now face additional tariffs of 40 percentage points and 25 percentage points respectively on a range of goods. Taking into account specific exclusions, including those announced in November, these tariffs are estimated to affect about 50% of Brazil's exports to the US and 57% of India's exports.
- The effective tariffs on imports from Switzerland is expected to decline by almost 10 percentage points by next year from the estimate in Figure 1.8, once negotiations are completed. The effective tariff applied to Malaysia's exports to the United States could fall a further 4.5 percentage points from the estimate in Figure 1.8 once the new bilateral agreement is ratified and applied. Together, these two changes could lower the aggregate US effective tariff to 13.8%.

There are also significant declines in the estimated effective tariff rates for Canada and Mexico. A particular complication for these two countries is the need to estimate the share of different US imports that are compliant with the United States-Mexico-Canada Agreement (USMCA). Such imports enter the United States on a tariff-free basis provided that certain conditions are met. As of 1 August, imports from Canada face a tariff of 35% on most goods (and 10% on energy and potash goods) which are not compliant with the USMCA. Mexico faces a 25% tariff on non-USMCA compliant goods.

There is evidence suggesting that USMCA compliance rates have risen since tariffs were raised this year, as the additional costs of the reporting procedures required to ensure compliance are now lower than the cost of the tariff applied to non-compliant goods. Previously, US duty rates of close to zero provided little incentive for many businesses to undertake the costs of compliance. In 2024, around 50% of US imports from Mexico and 40% from Canada were registered under the USMCA programme. This informed the assumption of a 50% compliance rate with USMCA in the effective tariff rate estimates reported in the June 2025 OECD Economic Outlook. Since then, the share of goods registered under the USMCA programme has risen, reaching 85% in July for both Canada and Mexico (Figure 1.9, Panel A). Moreover, the shares of duty-free goods in the total value of imports to the United States have remained broadly stable for Canada and Mexico, whereas they have

fallen elsewhere (Figure 1.9, Panel B). The updated effective estimates for Canada and Mexico now assume that 80% of goods imported into the United States will be USMCA-compliant.

Figure 1.8. Estimated US effective tariff rates



Note: Estimates based on trade policy announcements as of 14 November 2025 and calculated using weights based on product level data for US imports by country in 2024. These take account of country-specific tariff rates and sector-specific changes due to a 25% tariff rise for listed cars, parts, trucks and buses; a 50% tariff rise on steel, aluminium and copper products; and zero-rated general goods as well as those related to semiconductors. Europe, Japan and Korea face a maximum 15% tariff on cars and parts, and timber, and 0% tariffs are applied to civil aviation products, generic pharmaceuticals and certain natural resources). The United Kingdom faces a 25% tariff rise on steel and aluminium, 7.5% for British cars within the annual quota, 10% on timber products, and duty-free civil aviation products. China, Brazil and India face additional country-specific tariffs, with varying application across products. Data classifications are based on product-level lists published by the US administration.
Source: United States International Trade Commission; US Census Bureau, and OECD calculations.

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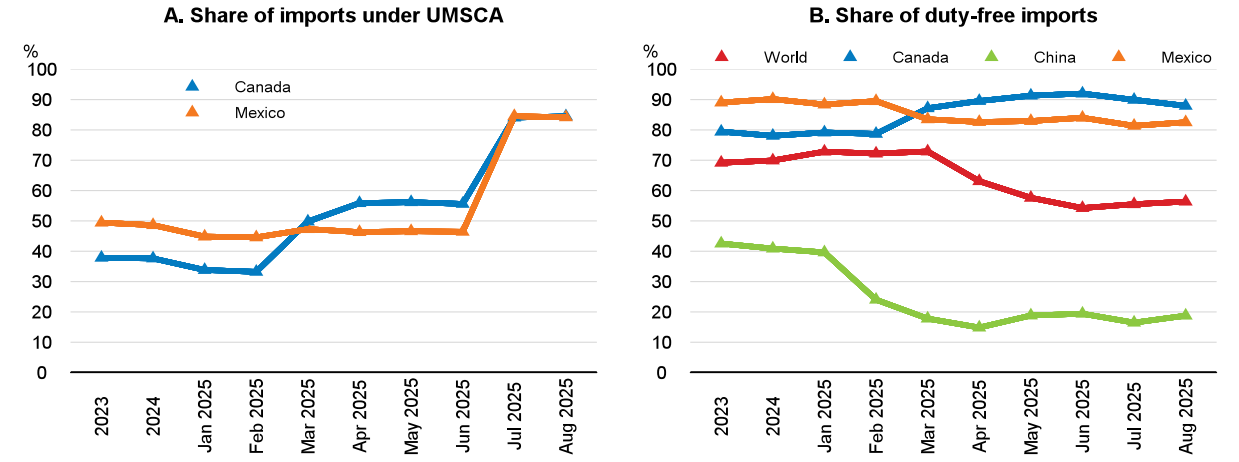
The share of duty-free imports is generally higher for imports from Canada and Mexico than elsewhere across a range of goods (Figure 1.10, Panel A). Taking the share of duty-free goods as a proxy for USMCA compliance, around 60% and 53% of car imports for Mexico and Canada respectively are USMCA compliant. For steel and aluminium, however, Canada has a compliance rate of just 33% compared to 66% for Mexico. For goods excluding imports of cars and parts, steel and aluminium, and items exempted from tariffs, compliance rates are 93% and 90% for Canada and Mexico, respectively.

Overall, these compliance rates result in US imports of cars and parts from Canada and Mexico currently incurring duties of 12% and 11% respectively, slightly less than half the 27% being charged on imports from many other countries (Figure 1.10, Panel B). For steel and aluminium, Mexican imports incur duties of 15% of import values, whilst those from Canada incur duties of 32%, close to the 33% incurred by imports from the rest of the world (Figure 1.10, Panel C). These rates will rise as the 50 percentage point tariff on steel and aluminium has been effective since late August 2025.

As a result of these changes in compliance across sectors, the estimated increase in the aggregate US effective tariff rate on imports from Canada and Mexico has declined. Currently, these are estimated to be 4.8% and 5.4% respectively, down from 12.5% and 14.8% based on developments up to mid-May. Incorporating these two changes, the estimated aggregate effective US tariff rate is approximately 3 percentage points lower than it otherwise would be, reflecting the importance of US trade with Canada and Mexico.

1. These trade agreements also included a number of other commitments, relating to investment and regulation.

Figure 1.9. USMCA compliance has limited effective tariff rates increases on US imports from Canada and Mexico



Note: Share of duty-free imports based on dutiable value as a share of CIF import values.
Source: United States International Trade Commission; US Census Bureau; and OECD calculations.

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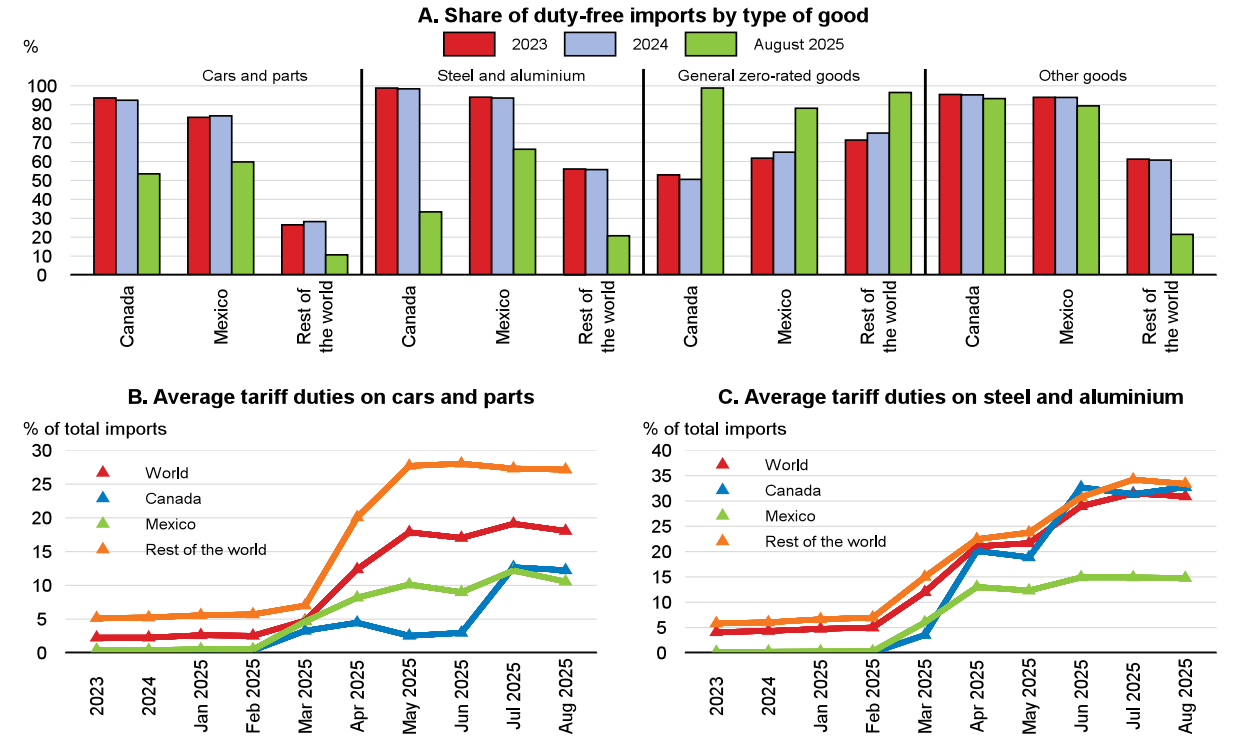
Figure 1.10. Different shares of duty-free trade with the United States result in wide variation in effective sectoral tariff rates



Note: Panel A "General zero-rated goods" refers to goods exempted from 2025 tariff increases in Executive Order 14257 other than items listed in the semi-conductors list. Duty-free goods are applied under USMCA and other provisions, and calculated as the share of non-dutiable value relative to import values including cost, insurance and freight. "Other goods" exclude the listed sectors, as well as items listed in the semi-conductors list, which have a share of duty-free exports above 95%.
Source: United States International Trade Commission; US Census Bureau; and OECD calculations.

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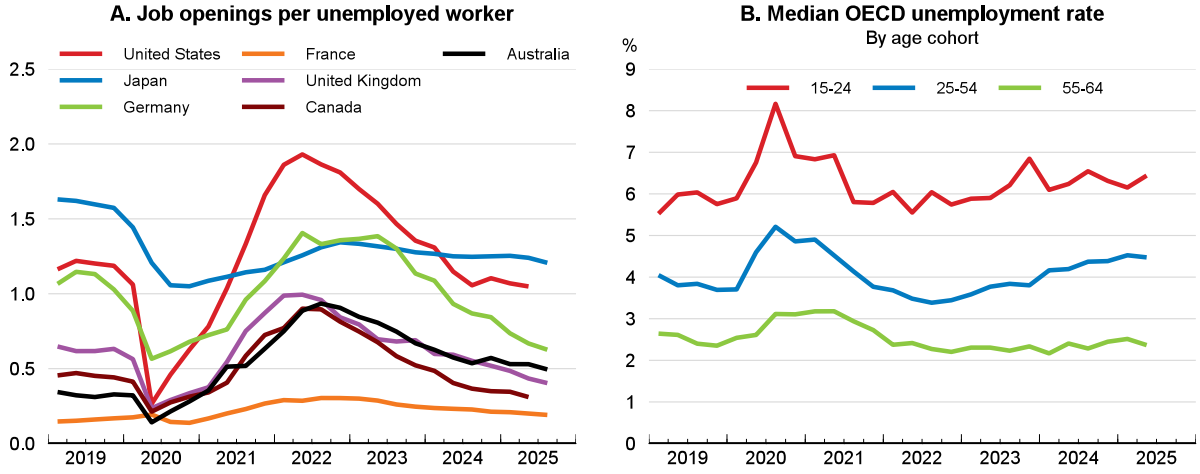
There are signs that labour markets have weakened

Labour demand has shown further signs of moderating this year. Job openings per unemployed worker have generally continued to decline and are now below the average level in 2019 in many major economies, including the United States, United Kingdom, Germany, Canada and Japan (Figure 1.11, Panel A). At an industry level, measures of job openings in administrative and support services, which includes temporary employment services, have fallen particularly notably across countries. The unemployment rate in the median OECD economy has drifted higher, from 5.2% in the first half of 2024 to 5.5% in the third quarter of 2025, owing to developments in the population aged 25-54 (Figure 1.11, Panel B). However, this has partly reflected increased labour force participation rates. Rising participation rates have been observed across all major age cohorts in many European economies, including Czechia, Denmark, France, Latvia, the Netherlands, Ireland, Spain and the United Kingdom.

Figure 1.11. Labour demand has slowed and unemployment rates have generally drifted higher



Note: In Panel A, the indicator is computed as the number of job vacancies to unemployed workers except for Japan where it represents the ratio of active job openings to active applicants. The median in Panel B is calculated across 36 OECD countries.
Source: OECD Infra-annual Registered Unemployment and Job Vacancies database; OECD Infra-annual Labour Statistics database; Eurostat; CEIC; Statistics of Japan; and OECD calculations.

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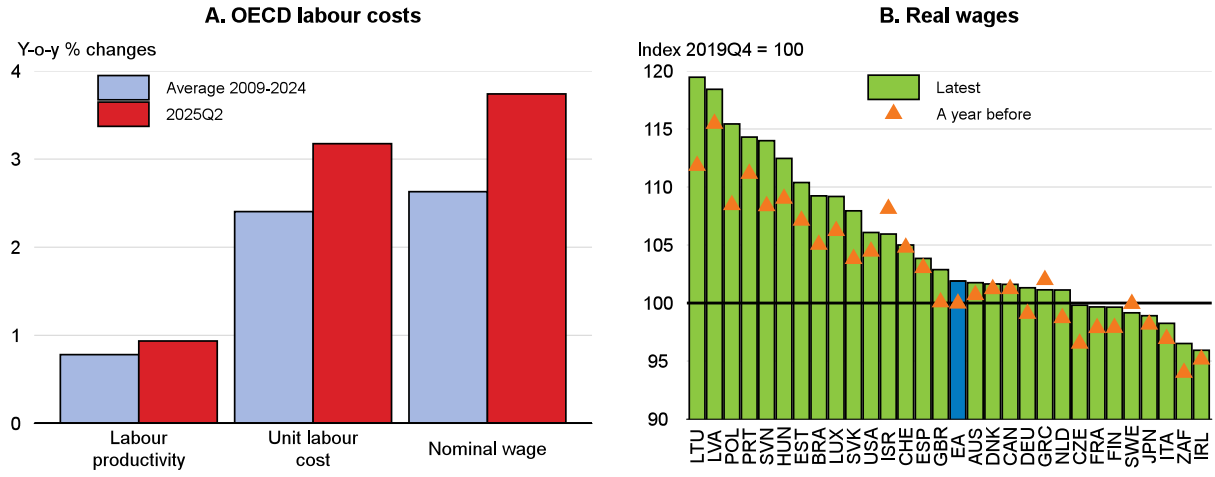
Nominal wage growth in most OECD economies has continued to slow, although strong minimum wage increases or wage indexation mechanisms based on past inflation have contributed to rapid wage gains in some economies, including Austria, Hungary, Greece, Bulgaria, Croatia and Colombia. Persistent inflation has also kept negotiated wage growth high in Japan. Largely reflecting patterns in nominal wage gains, unit labour cost growth has generally been declining but remains high relative to medium-term inflation objectives in many countries (Figure 1.12, Panel A). Real wages have continued to grow steadily where solid nominal wage growth has combined with ongoing disinflation, such as in many euro area economies. However, more persistent inflationary pressures have caused real wages to plateau elsewhere, including in Canada and Japan (Figure 1.12, Panel B).

Figure 1.12. Labour cost growth remains elevated and real wages have risen in most economies



Note: Panel B shows the compensation rate of employees deflated by the private consumption deflator except for Brazil, where it corresponds to real labour income (usual earnings). The latest historical point corresponds to 2025Q3 for Brazil, Japan, Spain and the United Kingdom, and 2025Q2 for remaining countries except Israel (2025Q1).
Source: OECD Economic Outlook 118 database; CEIC; and OECD calculations.

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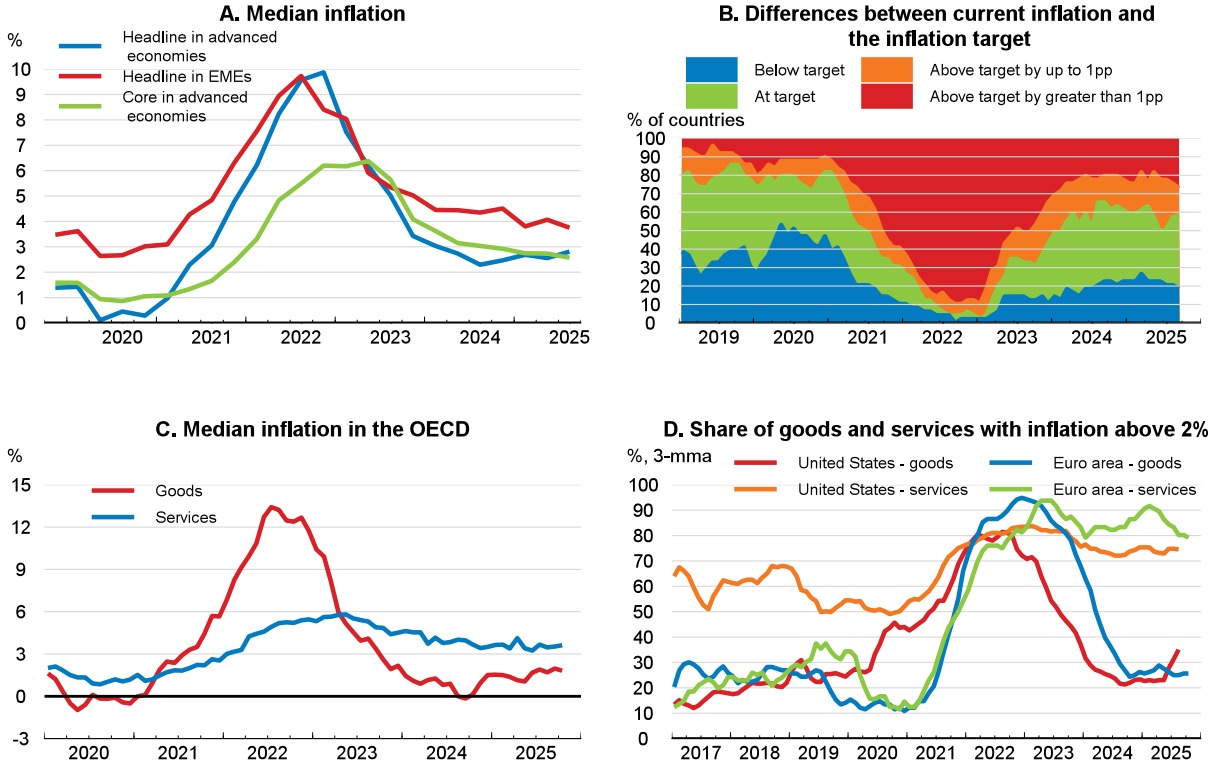
Inflation developments have recently diverged

Inflation developments continue to vary greatly between countries. The four largest euro area economies now have consumer price inflation around or below the area-wide 2% target. Inflation is also under 2% and below medium-term policy objectives in some emerging-market economies, including Costa Rica, India, Malaysia, Peru, the Philippines and Thailand. In China, consumer price inflation turned slightly positive in October, despite declining producer prices. Yet, disinflation progress has stalled in some other major economies, with inflation having levelled off above central bank targets. An increasing share of countries have inflation above target (or above the top of the target band) compared with late 2024 (Figure 1.13, Panels A and B). Headline inflation is still above central bank targets in the United Kingdom, United States and Japan, as well as in some emerging-market economies such as Brazil and Colombia. Despite having declined markedly, inflation remains at double-digit rates in Türkiye and Argentina.

Goods inflation has picked up and services inflation remains sticky in many economies. In the median OECD economy, annual goods inflation rose from 0.8% in the final quarter of 2024 to 1.8% in October 2025, while median services inflation edged up from 3.6% to 3.7% over the same period (Figure 1.13, Panel C). An increase in food inflation has been one factor pushing goods inflation higher. In the United States, tariff-rate increases have also contributed, with the share of consumer goods with prices rising by above 2% turning up since May 2025 (Figure 1.13, Panel D). Other policy changes have also temporarily pushed inflation higher in some countries, including the United Kingdom, with recent increases in administered prices and payroll taxes, and Indonesia, following the phase-out of a temporary electricity price discount. In services sectors, inflation in recreation and restaurant items remains elevated in many economies. However, weakening housing cost pressures are now helping to reduce inflation.

Figure 1.13. Disinflation has levelled off in some economies partly due to higher goods inflation



Note: Panel B covers headline consumer price inflation in 22 OECD economies (the euro area is included but not individual euro area member countries) and 28 non-OECD countries. For central banks targeting a range (a point target), 'Below target' refers to cases where headline inflation is below the lower threshold of the range (below the point target by more than 0.5pp); 'At target' is where headline inflation is within the target range (within 0.5pp of the point target); 'Above target by up to 1pp' where headline inflation is above the upper threshold of the range by less than 1pp (above the point target by between 0.5pp and 1.5pp); 'Above target by greater than 1pp' where headline inflation is above the upper range by more than 1pp (above the point target by more than 1.5pp). The last data point is based on September 2025 inflation for all countries other than the United States (August 2025).
Source: OECD Economic Outlook 118 database; OECD Consumer Prices database; Bureau of Economic Analysis; Eurostat; and OECD calculations.

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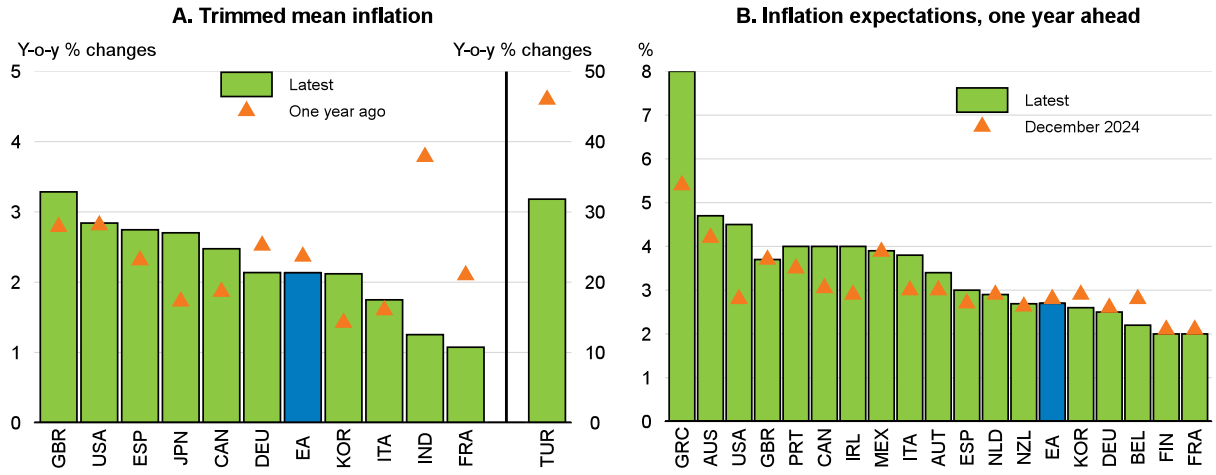
Underlying inflation developments have also diverged. A harmonised measure of monthly trimmed mean inflation has declined in France, India and Türkiye relative to a year earlier. However, trimmed mean inflation increased in some other major economies, including the United Kingdom, Spain, Japan and Canada (Figure 1.14, Panel A). Furthermore, short-term household inflation expectations have materially risen since the start of the year in Greece, the United States, Canada and Ireland (Figure 1.14, Panel B). Medium and longer-term household inflation expectations remain stable but above central bank targets in those economies with available data such as the United Kingdom, United States and euro area.

Figure 1.14. Underlying inflation and short-term inflation expectations have risen in some economies



Note: In Panel A, the latest data are for October 2025, except for the United States (August 2025). Trimmed mean inflation is the recomputed overall inflation rate after removing 10% of the consumer basket at the top and at the bottom of the distribution of inflation rates so that the most extreme price changes are excluded. In Panel B, the most recent monthly data are for November for Korea, New Zealand, the United Kingdom and the United States, October 2025 for Mexico, and September 2025 for other countries, except Australia and Canada (third quarter of 2025).
Source: Banco de Mexico; Bank of Canada; Bank of Japan; Bank of Korea; Bureau of Economic Analysis; European Central Bank; Eurostat; Federal Reserve Bank of Atlanta; Korean Statistical Information Service; Ministry of Statistics and Program Implementation; Office of National Statistics; Reserve Bank of Australia; Statistics of Japan; Turkish Statistical Institute; University of Michigan; YouGov/Citigroup; and OECD calculations.

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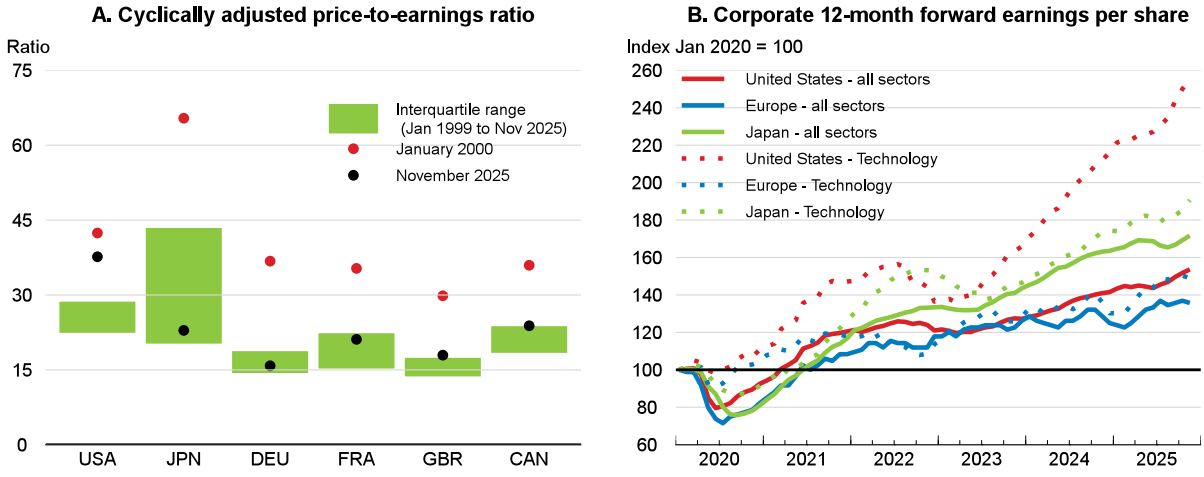
Financial market conditions have improved

Financial conditions have eased considerably since April in both advanced and emerging-market economies, with financial market volatility and stress indicators generally remaining low, strong equity returns, compressed credit spreads and the depreciation of the US dollar against most currencies this year. However, sovereign yield curves have steepened considerably at the long end, suggesting growing concerns about fiscal risks. Soaring gold prices and large-scale hedging of US dollar-denominated exposures also point to continued uncertainty.

Equity markets have risen strongly, particularly in the United States, where price-earnings valuations are approaching levels last seen in the late 1990s at the peak of the dot-com bubble (Figure 1.15, Panel A). Equity risk premia have also continued to decline, reaching levels last observed in 2005–06 prior to the global financial crisis, highlighting strong risk appetite. Despite some sell-offs in recent weeks, technology stocks remain the main driver of the surge in equity prices, reflecting investor enthusiasm for the potential gains from AI and stronger expected earnings growth than in other sectors and jurisdictions (Figure 1.15, Panel B). After soaring for most of this year, the market value of crypto-assets has declined sharply, by around 30% from the peak reached in early October. In the United States domestically focused US companies, often reliant on imported inputs, face higher costs and have continued to see more limited gains than other companies (Roulet and Tatomir, 2025). Japanese equities have also performed strongly, supported by robust earnings prospects, but equity prices have risen more slowly in Europe, reflecting softer expected earnings growth. Equity performance has remained weaker for firms heavily exposed to US tariffs in these jurisdictions.

Figure 1.15. Elevated equity valuations are supported by the higher expected earnings of technology companies



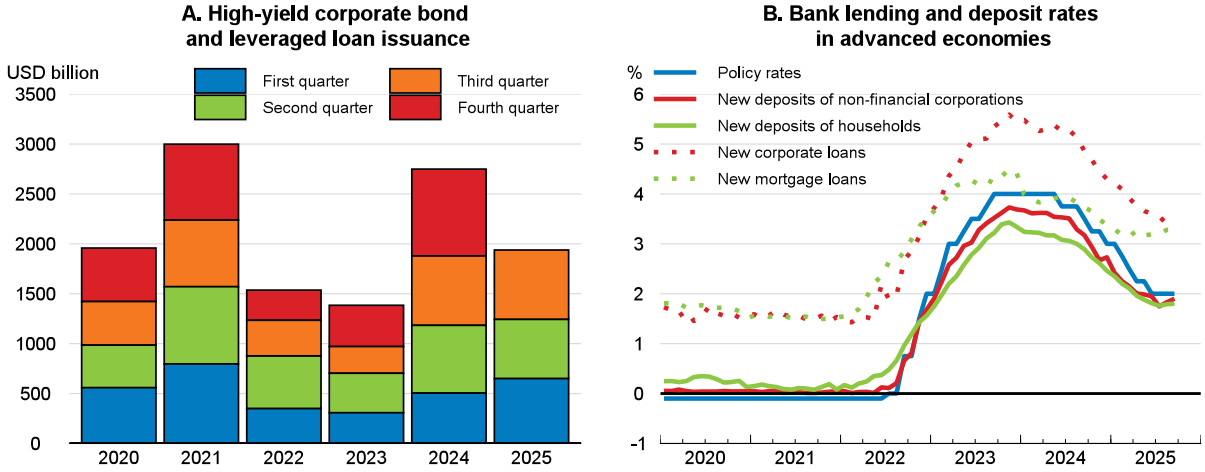
Note: Panel A shows monthly values of the cyclically adjusted price-to-earnings ratio (CAPE), computed with 10-year average earnings adjusted for subsequent changes in consumer prices. The value for November 2025 is based on observations up to 19 November.
Source: LSEG; and OECD calculations.

Spreads on high-yield corporate bonds remain close to historical lows, despite a recent uptick, and investment-grade bond yields have declined in recent months. Low credit risk premia and sustained portfolio inflows in the United States and the euro area have helped to support strong corporate bond and leveraged loan issuance during the first three quarters of 2025 (Figure 1.16, Panel A). Bank credit growth has also been recovering gradually in major advanced economies, albeit from low levels, supported by an ongoing decline in lending rates (Figure 1.16, Panel B).

Emerging-market economies have benefitted from higher global risk appetite. A weaker US dollar and declining exchange rate volatility have made emerging-market assets relatively more attractive. This has been accompanied by strong growth in equity prices, partly driven by a substantial rise of AI-related equities, with the main exception of India, where the stock market has been broadly flat, possibly reflecting the marked rise in the US tariff rate on imports of goods from India. Spreads on corporate bonds issued by emerging-market companies have continued to fall, reaching their lowest levels since 2007. In the sovereign bond markets of most emerging-market economies, long-term yields have broadly eased since June and spreads on US dollar-denominated bonds have declined.

In contrast, developments in sovereign debt markets in advanced economies have been less favourable. Ten-year yields have edged up in recent months in many jurisdictions and 30-year yields have increased by larger amounts, steepening the long end of the yield curve. Amid ongoing quantitative tightening and large net government debt issuance needs in the near future, that steepening could reflect growing concerns about long-run fiscal sustainability. In the United States, the 10-year sovereign yield has been underpinned by a persistently high estimated real term premium. In France, mounting political challenges have clouded the fiscal outlook, markedly widening French-German sovereign spreads since mid-August.

Figure 1.16. Sustained debt issuance and declining bank lending rates



Note: Panel A shows the sum of global high-yield corporate bond and leveraged loan issuance, deflated using the US consumer price index rebased to 2025Q3. A leveraged loan is a secured loan granted to a highly indebted (leveraged) company. Leveraged loans are defined as secured loans where the borrower is sub-investment-grade or the spread at issuance is above a certain threshold. Panel B shows median rates for selected advanced economies (Australia, Canada, France, Germany, Italy, Japan, Spain, Sweden, Switzerland, the United Kingdom and the United States). In the computation of median deposit rates, offer rates are used for Canada, Switzerland and the United States, and deposits of all sectors (without distinguishing between firms and households) are used for Japan and the United States. Average contract interest rates on loans and discounts are used for Japan in the computation of median lending rates (without distinguishing between firms and households).
Source: Bank of Canada; Bank of England; Bank of Japan; Board of Governors of the Federal Reserve System; European Central Bank; Federal Deposit Insurance Corporation; Mortgage Bankers Association; Reserve Bank of Australia; Sveriges Riksbank; Statistics Sweden; Swiss National Bank; and OECD calculations.

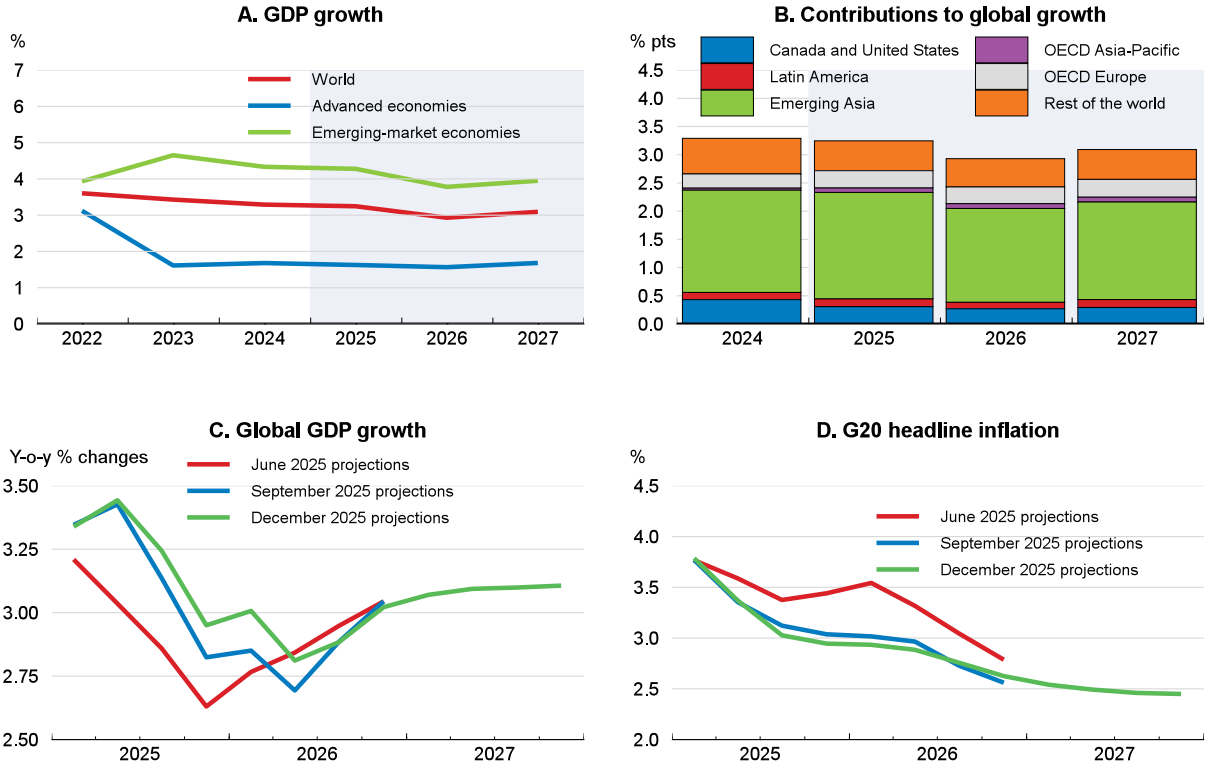
Stretched asset valuations and high economic uncertainty have led investors to increase their demand for gold and pursue hedging strategies to a greater extent. Gold prices have reached historically high levels, rising by more than 60% since January at their peak — the strongest performance since the 1979 oil price shock. The depreciation of the US dollar this year, only partially reversed since October, has been sustained by expectations of policy rate reductions, mounting fiscal concerns and foreign investors' hedging activities to mitigate potential losses on unhedged USD denominated exposures. The latter has been reflected in a notable decline in net long dollar positions in forward markets since April.

Projections

Global GDP growth is projected to slow from 3.2% in 2025 to 2.9% in 2026, before picking up to 3.1% in 2027 (Figure 1.17, Panel A; Table 1). Growth is expected to soften during the second half of this year, as front-loading activity further unwinds and higher effective tariff rates on imports to the United States and China pass-through further into business costs and final goods prices, dampening investment and trade growth. Elevated geopolitical and policy uncertainty will also continue to weigh on domestic demand in many economies. However, global growth is expected to recover through 2026, helped by the fading impact of higher tariff rates, favourable financial conditions, supportive macroeconomic policies and lower inflation, with emerging-market economies in Asia continuing to account for the majority of global growth (Figure 1.17, Panel B). The projections are based on a technical assumption that the bilateral tariff rates announced by mid-November persist through the rest of the projection period, despite ongoing legal challenges in the United States.[3]

[3] Switzerland and Malaysia are assumed to see a reduction in their tariff rates in line with agreements by 2026.

Figure 1.17. Global growth is projected to weaken before recovering gradually



Note: In Panel A, 'Advanced economies' include the OECD member countries except Chile, Colombia, Costa Rica, Mexico, and Türkiye, plus Croatia. 'Emerging-market economies' comprises all other economies. In Panel B, Emerging Asia comprises China, Hong Kong (China), India, Indonesia, Malaysia, the Philippines, Singapore, Chinese Taipei, Thailand and Viet Nam. Latin America comprises Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Peru. Contributions calculated using moving PPP shares of global GDP.
Source: OECD Economic Outlook 118 database; OECD Economic Outlook 117 database; OECD Interim Economic Outlook 118 database; and OECD calculations.

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The near-term growth projections are close to those in the September 2025 OECD Interim Economic Outlook but stronger than those in the June 2025 OECD Economic Outlook (Figure 1.17, Panel C). The change since June reflects several factors, including easier global financial conditions, evidence of stronger investment momentum in some OECD economies and more supportive macroeconomic policies than anticipated, with policy interest rates continuing to be lowered in many countries, and little fiscal tightening in the median OECD economy this year and next. Fiscal policies are also providing support for domestic demand in China, India (via the goods and services tax reform) and Indonesia. At the same time, inflation projections for G20 countries have been revised downwards to incorporate weaker-than-expected inflation outturns, most notably for the United States. Inflation in the G20 countries is anticipated to further moderate through 2026, with the inflationary impact from higher trade costs generally offset by softer growth (Figure 1.17, Panel D).

Central banks are assumed to lower monetary policy rates further as inflation continues to fall and labour market pressures ease. In most economies, real interest rates are assumed to decline to be around estimates of neutral levels by the end of 2026. Limited further monetary policy easing is assumed for 2027, with the exception being those economies where policy rates at the end of 2026 remain relatively restrictive, such as Brazil, Colombia and Türkiye. After a neutral stance in 2025 and 2026, fiscal policy is assumed to tighten modestly in most OECD economies in 2027, with relatively sizeable consolidation assumed in the United Kingdom, France, Italy and several smaller European economies. Fiscal policy is

assumed to be mildly restrictive in the majority of emerging-market economies in 2026-27, but little changed in some of the largest economies, including China, India and Indonesia.

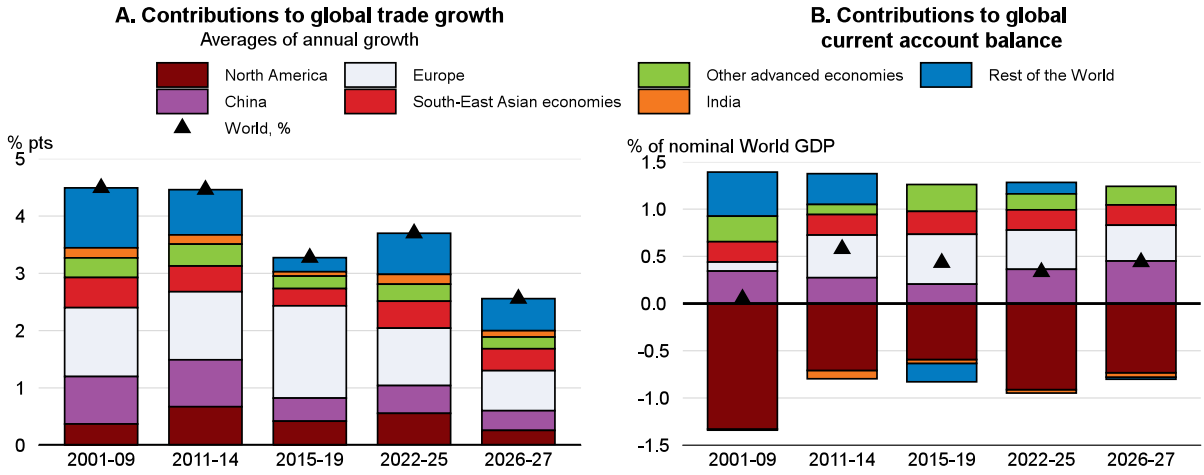
The prospects for individual major economies and regions are as follows:

- In the United States, output growth is expected to slow as the effects of substantially higher effective tariff rates on imports, cuts to the federal government workforce and a drop in net immigration are fully felt. As their peak impact passes, and with ongoing strength in AI-related investment and continued monetary policy easing, calendar year growth is expected to pick up in 2027. On an annual basis, GDP growth is projected to be 2.0% in 2025, 1.7% in 2026 and 1.9% in 2027. In Canada, real GDP growth is also anticipated to gradually recover as the economy further adjusts to the new trade environment, with growth of 1.1% in 2025, 1.3% in 2026 and 1.7% in 2027.
- The Japanese economy is expected to expand at a moderate pace, helped by expansionary fiscal policy next year, and with private consumption growth supported by real disposable income gains and business investment growth underpinned by healthy profits and government subsidies. Nonetheless, these factors will be somewhat offset by subdued external demand amid new trade restrictions and elevated trade policy uncertainty. Real GDP growth is projected to moderate from 1.3% in 2025 to 0.9% in both 2026 and 2027. In Korea, growth is projected to recover, from 1.0% in 2025 to 2.1% in both 2026 and 2027, supported by monetary policy easing and further modest fiscal expansion.
- Growth in the euro area is projected to ease modestly from 1.3% in 2025 to 1.2% in 2026, before increasing to 1.4% in 2027, with increased trade frictions being offset by improved financial conditions, ongoing capital spending from Recovery and Resilience Facility funds and resilient labour markets. Fiscal expansion is anticipated to boost economic activity in Germany, reflecting higher spending on defence and infrastructure, but expected consolidation in both France and Italy will dampen growth. In the United Kingdom, fiscal consolidation and uncertainty will also weigh on the pace of expansion, with real GDP growth projected to ease from 1.4% in 2025 to 1.2% in 2026 and 1.3% in 2027.
- In China, the unwinding of front-loading of exports, the imposition of higher tariff rates on exports to the United States, continuing adjustment in the real estate sector and the fading of fiscal support is expected to lower growth. While the anti-involution campaign is anticipated to weaken business investment growth in industries affected by excess capacity, the pace of public infrastructure investment is expected to pick-up. Real GDP growth is projected to be 5.0% in 2025 and 4.4% in 2026 and 4.3% in 2027.
- In India, growth is anticipated to be supported by rising real incomes, monetary policy easing and strong growth in public capital spending. However, higher tariff rates on many exports to the United States will weaken export growth, with real GDP projected to grow by 6.7% in the fiscal year 2025-26, 6.2% in 2026-27 and 6.4% in 2027-28. Similarly, in Indonesia, strong domestic demand growth is expected to be partially offset by a deceleration in export growth. Real GDP is projected to grow by 5.0% in both 2025 and 2026, followed by an uptick to 5.1% in 2027.
- The Mexican economy is projected to recover slowly as inflation eases and further cuts to policy rates take effect. However, higher tariffs on exports to the United States and weak public demand are headwinds to growth, with real GDP projected to rise by 0.7% in 2025, 1.2% in 2026 and 1.7% in 2027. In Brazil, growth is anticipated to weaken in the near-term as investment slows in response to higher interest rates, though monetary policy easing through 2026 will support activity. After easing from 2.4% in 2025 to 1.7% in 2026, output growth is projected to recover to 2.2% in 2027.

Global trade growth for 2025 is now expected to be 4.2%, reflecting stronger than expected front-loading in the first half of the year. This is being unwound only partially given the momentum of investment- and tech-related trade through 2025. Nonetheless, trade growth is projected to moderate to 2.3% in 2026 as the full effects of higher tariffs are felt, before recovering to 2.8% in 2027 as growth picks up.

The composition of trade growth is different to the pre-pandemic period (Figure 1.18, Panel A), with the emerging-market economies accounting for a larger share, even as all regions grow more slowly. In particular, the share of trade accounted for by the South-East Asian economies is expected to rise in 2026-27. In contrast, the contribution of China is projected to weaken slightly, as trade growth slows, and the contribution of advanced economies to global trade growth is expected to decline, especially that of Europe and the North American economies.

Figure 1.18. Trade patterns are evolving with emerging markets becoming a key driver of growth



Note: North America includes Canada, Mexico and the United States. Europe includes the 22 OECD countries which are members of the European Union, plus Iceland, Norway, Switzerland, Türkiye and the United Kingdom. South-East Asian economies include Hong Kong (China), Malaysia, the Philippines, Singapore, Chinese Taipei, Thailand, and Viet Nam. Other advanced economies include Australia, Israel, Japan, Korea and New Zealand. Statistical discrepancies mean that current account balances based on national data rarely equal zero at the world level.

Source: OECD Economic Outlook 118 database; and OECD calculations.

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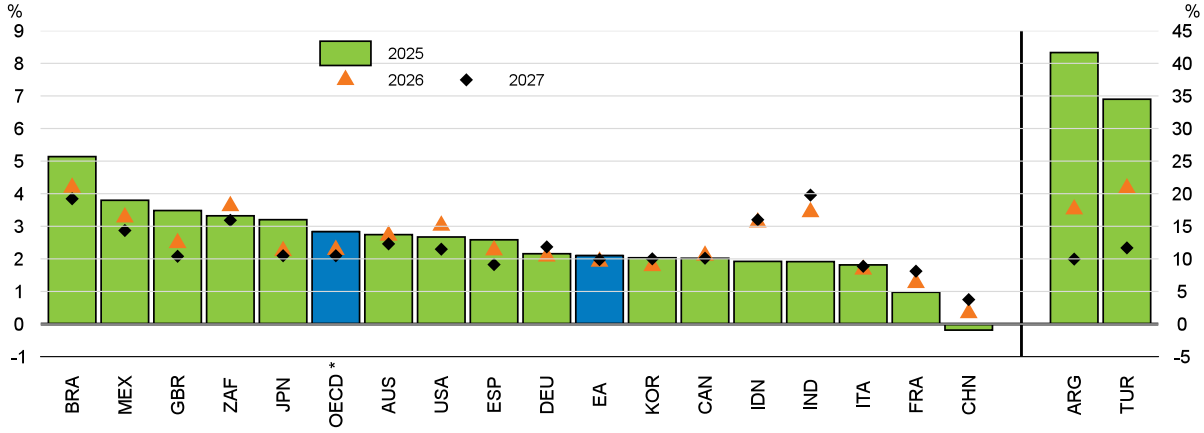
Global current account balances are projected to decrease slightly as a share of global GDP over the next two years (Figure 1.18, Panel B). In the United States, lower imports and reduced remittances linked to international migration, and continued strong growth in tech-related exports and services help to reduce the current account deficit from 2024 levels, despite a decline in export market performance. China's continued export growth, coupled with weak domestic demand and a continued policy orientation towards import substitution is projected to result in a higher external surplus. Sizeable surpluses are also projected to persist in Germany, Japan, Korea and a number of smaller economies, including Denmark, Ireland, the Netherlands, Norway, Sweden, Switzerland and Thailand. There is little change in the current account surplus in the euro area as a whole.

Headline inflation is projected to decline further in the advanced and emerging-market economies in which inflation is currently exceeding the central bank target (Figure 1.19). In the United States, inflation is expected to rise further over the next several quarters as tariff increases further pass through to final goods prices, peaking in mid-2026, before moderating slowly as excess capacity builds and tariff impacts fade. Headline inflation has exceeded 2% in Japan since mid-2022 and is projected to continue to do so over the coming quarters, with underlying inflation increasing partly due to solid nominal wage and unit cost growth. In some emerging-market economies, inflation is projected to pick up from very low levels. The expected reduction in excess capacity in China, with the introduction of anti-involution measures, is anticipated to help consumer price inflation rise from its current very low rate. In other emerging-market economies, such as Costa Rica, India, Indonesia and Thailand, the fading of temporary factors will push inflation higher but consistent with central bank targets. In contrast, inflation is projected to further decline in Argentina and Türkiye, partly reflecting fiscal restraint.

Figure 1.19. Inflation is projected to move towards central bank targets

Headline consumer price inflation



Note: Argentina and Türkiye are shown on the right-hand scale, all other countries on the left-hand scale. Data refer to the personal consumption expenditure price index for the United States, harmonised index of consumer prices for the euro area aggregate, euro area member states and the United Kingdom, and national consumer price indices for all other countries. India projections are based on fiscal years, starting in April. OECD is computed as the median of member countries.
Source: OECD Economic Outlook 118 database; and OECD calculations.

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OECD employment growth is expected to weaken from the pace of recent years, with annual growth in the median OECD country projected to ease from 0.9% in 2024 to be 0.6% over 2025-27. Employment growth is projected to be more robust in some non-OECD economies, such as South Africa, but to continue to slow in China as the ageing population further reduces labour supply. Labour force growth is also generally projected to further ease, with populations ageing and migration inflows moderating in some economies. After increasing from 5.2% in 2024 to 5.7% in 2026, the median unemployment rate across OECD economies is projected to remain stable in 2027. Nominal wage growth is projected to continue to decline in most economies as labour markets further loosen. Coupled with a projected gradual upturn in labour productivity growth, moderating wage pressures will ease unit labour cost growth and, in turn, reduce inflationary pressures.

Risks

Further changes in trade policies could significantly impact growth

Amid ongoing policy uncertainty, two key concerns are that bilateral tariff rates could be raised further on merchandise imports, and the possibility of more widespread restrictions on the export of critical products. Such moves could further raise international tensions and trade policy uncertainty, with implications for a broad set of countries and industries. The associated restructuring of production and supply chains might also result in additional costs that would feed through into prices and dampen growth and lower longer-term economic efficiency.

In October 2025, China announced plans for a significant extension of export controls on lithium ion-batteries and rare-earth materials and technologies, with licences required even for foreign-made products that use Chinese-sourced rare earths or rare earth technologies. Although these plans have subsequently been officially suspended until November 2026, their announcement highlights the potential supply chain and trade risks related to trade concentration. Rare earths are used primarily as magnets, catalysts and phosphors in a wide range of products - from hard drives, liquid crystal displays, lasers, semiconductors and superconductors, to electric vehicles and wind turbines (IEA, 2025b).[4] They are considered critical, even though they are used in small quantities, as they are difficult to substitute, recycle and produce.[5] China accounts for about 60% of rare earths mining and 94% of magnet production (Figure 1.20, Panel A), and around 8% of global exports and 40% of global imports (Figure 1.20, Panel B). Although trade in rare earths was just 0.04% of global merchandise trade values in 2024, the breadth and complexity of China's proposed controls could materially affect many supply chains in the short to medium term if restrictions are reimposed and licences are delayed or denied. Such adverse supply shocks would also materially impact the costs of products reliant on these inputs. Transport equipment, defence equipment and energy are where restrictions would be likely to have the greater impact (Alfaro et al., 2025; Banin et al., 2025; IEA, 2025b).

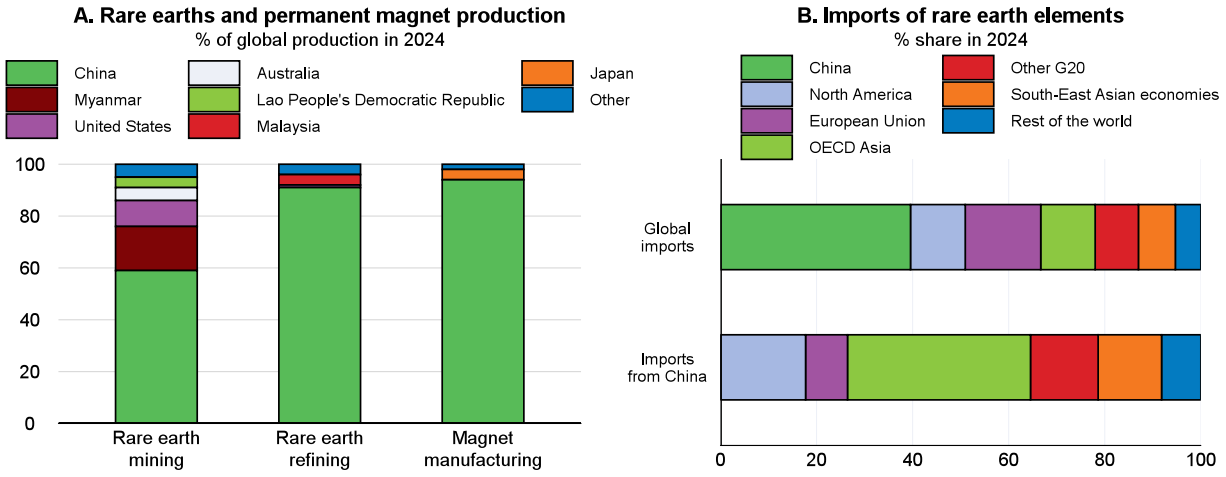
Another risk is the possibility of the application of tariff rate increases in the United States and China to a broader range of goods, including pharmaceuticals and semi-conductors, with supply-chain linkages propagating these widely. Higher prices for these goods could adversely affect demand from consumers as well as businesses. Many countries would be hit by weaker US demand for products from these affected sectors. For instance, US demand for final consumption and intermediates of pharmaceuticals represents 12.2% of Ireland's domestic value added in its exports and 4.4% in Switzerland, with a number of other European countries also exposed (Figure 1.21, Panel A). A reduction in this demand would likely affect both the pharmaceuticals sector and the chemicals sector. By contrast, a fall in US demand for computers and electronic products could have a significant impact on the domestic value added of both the computer and electronics sector and also services sectors (Figure 1.21, Panel B). These impacts would be relatively large in many South-East Asian economies.

Higher trade barriers could also be adopted in other economies to protect domestic industry against enhanced low-price competition, especially if trade is deflected away from tariff-raising economies. More broadly, frequent trade policy changes could raise policy uncertainty further with adverse impacts on investment and consumer confidence. Higher trade policy uncertainty would also slow trade growth further (Box 1.3). The associated restructuring of production and supply chains resulting from higher trade barriers would also be likely to result in a loss of economic efficiency, and additional costs that would feed through into prices and dampen growth.

[4] Phosphors are materials that absorb energy and release it as light, and are typically used in screen displays.

[5] Although rare earths are geologically abundant, they require specialised, energy-intensive and often highly polluting extraction processes (IEA, 2025b).

Figure 1.20. Global production and demand for rare earths is highly dependent on China



Note: Rare earth elements include products listed under HS codes 250810, 251320, 261400, 261510, 280530, 284610 and 284690. Panel B refers to the value of merchandise trade, and uses the Balanced International Trade Statistics database, so exports are equal to imports, and only direct trade is recorded. North America is Canada, Mexico and the United States. OECD Asia includes Japan and Korea. Other G20 includes Argentina, Australia, Brazil, India, Indonesia, Russia, Saudi Arabia, South Africa, Türkiye and the United Kingdom. South-East Asian economies include Hong Kong (China), Malaysia, the Philippines, Chinese Taipei, Thailand, Singapore, and Viet Nam. Rest of the world includes all remaining countries.
Source: Kim et al. (2025); IEA (2025b); OECD Balanced International Merchandise Trade Statistics database; and OECD calculations.

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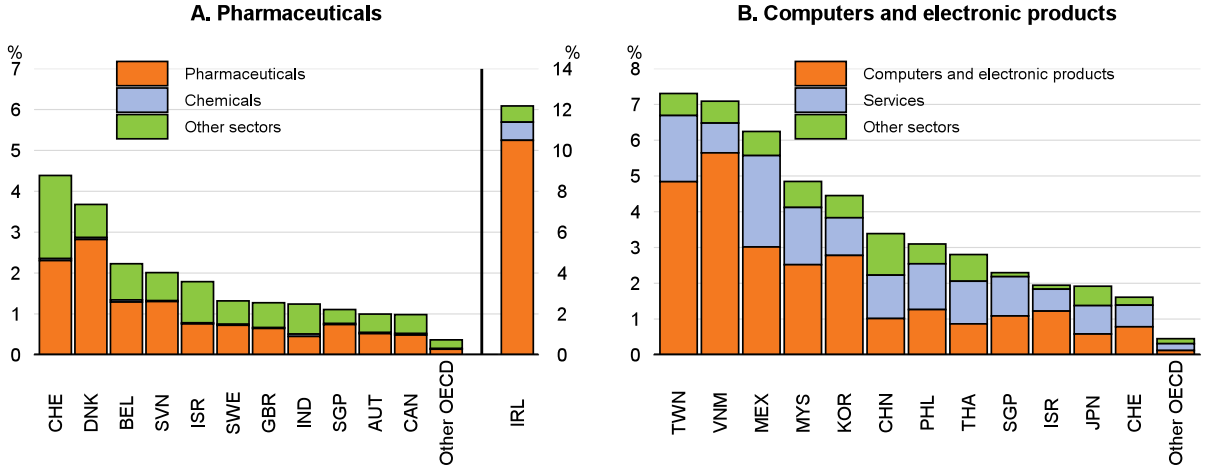
Figure 1.21. Tariffs on pharmaceutical products or semiconductors would hit output in many countries

Share of domestic value added in exports dependent on US demand



Note: In Panel A, Ireland is shown on the right-hand scale, all other countries on the left-hand scale. The panels show each country's total domestic value added by sector that is destined for US intermediate or final consumption of pharmaceutical products (or computer and electronic products), including direct and indirect trade linkages, expressed as a share of each country's domestic value added in total exports. "Pharmaceuticals" is the basic pharmaceuticals and preparations sector; "Chemicals" is the chemicals and chemical products sector. The computer and electronic products sector includes semi-conductor related products such as the design and use of integrated circuits.
Source: OECD Trade in Value Added (TiVA) 2025 edition; OECD ICIO 2025 edition; and OECD calculations.

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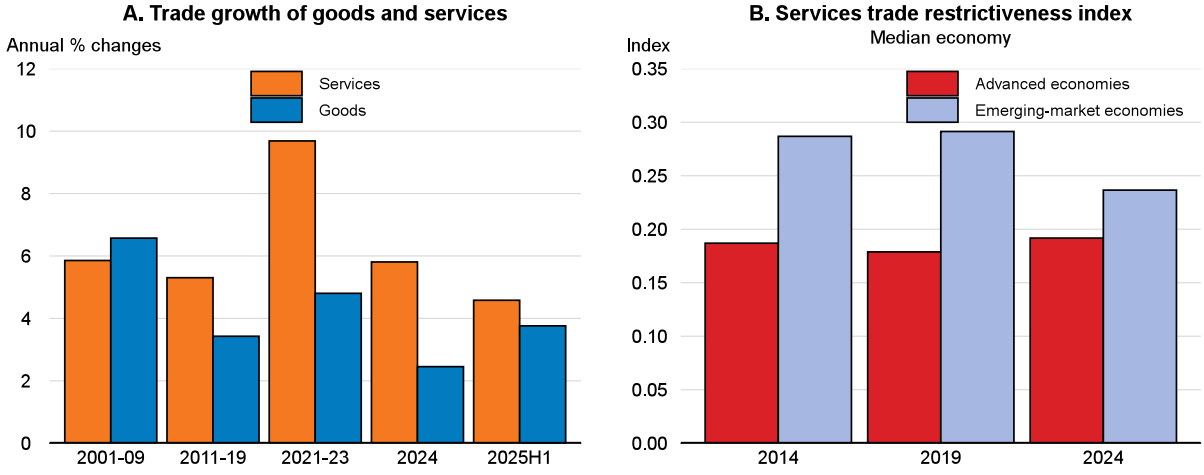
On the upside, agreements that lower bilateral tariff barriers from current levels and improve policy predictability would support stronger economic growth and trade, and lower inflation relative to the baseline. Benefits could also arise if there was to be further progress in tackling barriers to trade in cross-border services. Services trade has been relatively robust since the global financial crisis, while merchandise trade growth has moderated (Figure 1.22, Panel A), but barriers continue to impede cross-border trade in services. The OECD Services Trade Restrictiveness Index highlights the continued challenges of regulatory fragmentation and uneven conditions in access to cross-border markets (OECD, 2024a). Barriers to services are higher in emerging-market economies than in advanced economies, but they have declined since the pandemic, whereas those in the typical advanced economy have risen slightly (Figure 1.22, Panel B). The remaining barriers hamper trade in services as well as goods, because many services, such as logistics, are also crucial for global trade in goods. An upside risk is that new policy reforms that reduce services trade restrictiveness could reduce trade costs and result in stronger trade growth than projected.

Figure 1.22. Services trade needs to be supported to raise growth



Note: In Panel A, 2025 growth is annualised and based on those countries for which goods and services trade volumes are available in the first half of 2025, representing about 75% of world trade volumes. Panel B is based on the score for total services (including construction) for all emerging-market and advanced economies in the STRI database.
Source: OECD Economic Outlook 118 database; OECD Services Trade Restrictiveness Index; and OECD calculations.

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Box 1.3. The impact of policy uncertainty on trade growth

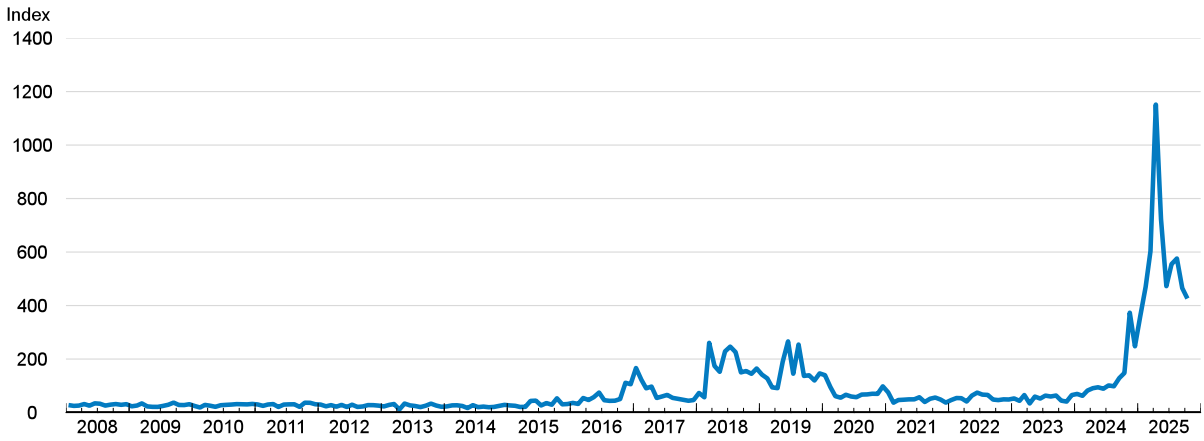
Trade policy uncertainty (TPU) has risen markedly over the past year (Figure 1.23) which should have a dampening effect on trade. This Box assesses the possible trade impact of higher trade policy uncertainty.

In the first half of 2025, the TPU index was almost four times higher than in 2018-19. The surge at that time may have caused as much as a 1 percentage point decrease in world trade growth (Costantinescu et al., 2019), with broader effects on prices, sourcing choices and inputs (Handley and Limão, 2022). More recently, Sampognaro (2025) estimates that monthly global merchandise trade volumes could be 5% lower than in the absence of the recent increase in uncertainty seen in 2024-25. Studies that use bilateral trade values and alternative trade uncertainty measures find a wider range of effects. Nana et al. (2025) estimate that an increase in global trade uncertainty by one standard deviation is correlated with a decline in bilateral trade values of 1.6%, whilst Jakubik and Ruta (2023) estimate that it will lower the value of bilateral trade by 3.1% between geopolitically distant countries.

Uncertainty tends to reduce trade as it increases the value of waiting rather than acting. However, in some circumstances trade could rise in the very short term when firms have an incentive to act immediately before anticipated, though unpredictable, costly policy changes. For instance, Sampognaro (2025) finds that global merchandise trade volumes increase by 1.5% in the first month following an uncertainty shock (of two standard deviations in the uncertainty index) before declining. Such a pattern was seen in the early months of 2025.

To explore these effects, the impact of trade policy uncertainty on global trade volumes is estimated using a panel vector autoregression (VAR) model and quarterly data. The model includes the growth rate of merchandise import and export volumes (consistent with national accounts data), the nominal effective exchange rate, consumption, investment and the trade policy uncertainty index.

Figure 1.23. Trade policy uncertainty has risen to historically high levels



Note: The Trade Policy Uncertainty Index is computed by counting the frequency of joint occurrences of trade policy and uncertainty terms across major US newspapers.
Source: Caldara, et al. (2019).

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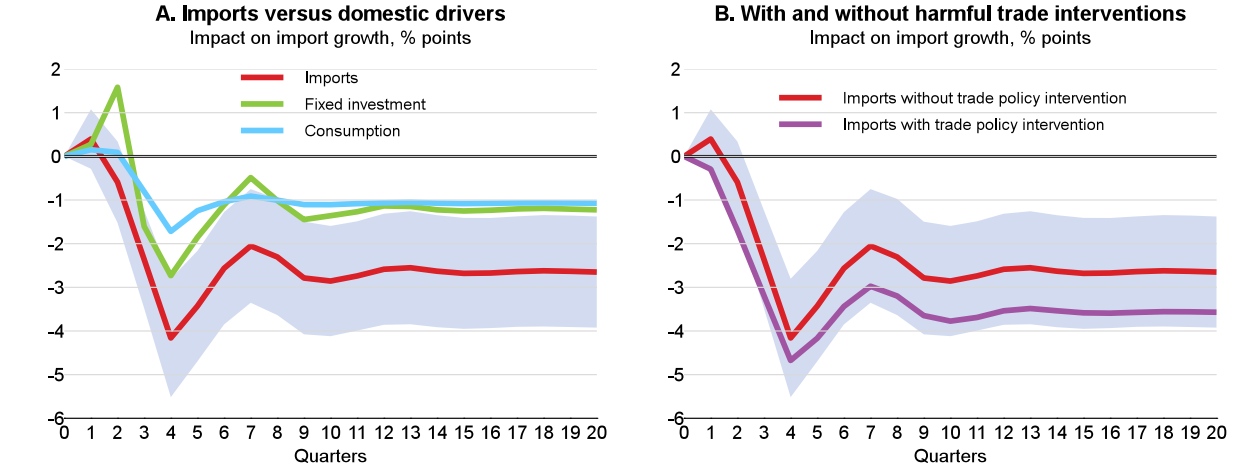
The results suggest that a one standard deviation increase in the global trade policy uncertainty index reduces global real merchandise import growth with a peak impact of around 4.2 percentage points after one year and about 2.6 percentage points after 3 years.[1] Trade policy uncertainty is accompanied by front-loading effects, which seem particularly related to investment, following a trade uncertainty shock (Figure 1.24, Panel A). This is consistent with the somewhat higher import intensity of investment compared to consumption. Based on this evidence, recent increases in trade policy uncertainty in the first three quarters of 2025, if sustained, could reduce growth in world import volumes of goods by about 3 percentage points after one year. This impact can be offset by positive shocks to other determining factors. For instance, upside surprises in investment (outlined in Box 1.2) in the first half of 2025 may have mitigated some of the downside impact of higher policy uncertainty on trade, at least in the near term.

The impact of TPU on trade volumes may also be influenced by announcements of more restrictive trade policy, although the direction of the impact is not always clear. Such policy announcements could mitigate uncertainty by making a clear policy change and reducing speculation. Alternatively, these trade policy announcements could add to the trade inhibiting effects of uncertainty, either by increasing the expected probability of negative trade policy outcomes and the expected loss (Handley and Limão, 2022), or by raising the prospects of additional action at a subsequent date.

When account is taken of the number of products affected by an import tariff at announcement date, global merchandise import growth is found to be reduced by an additional percentage point after 3 years following a one standard deviation increase in TPU (Figure 1.24, Panel B). A possible interpretation is that announcements of restrictive trade measures with a broader scope may be more likely to raise uncertainty than announcements focused only on a small number of products, particularly if they also raise uncertainty about possible retaliatory measures.

Figure 1.24. Trade policy uncertainty shocks inhibit trade growth

Cumulative impact of a one standard deviation increase in the trade policy uncertainty index



Note: Both panels show the estimated cumulative impact of a one standard deviation increase in the trade policy uncertainty index on merchandise import volume growth. Panel A compares the estimated impact on the growth rate of real merchandise imports, investment and household plus government consumption computed across 33 advanced countries and 23 emerging market economies. The shaded area depicts the 90% confidence band around the estimate for imports. Panel B compares the estimated impact on global import growth with and without accounting for harmful trade policy interventions proxied by the number of imported products affected by a tariff at announcement date. The shaded area depicts the 90% confidence band around the estimate for world without trade policy interventions. The dynamic panel VAR model is estimated using a generalised method of moments approach over 2017Q1-2025Q2. It includes four lags of the growth rates of real merchandise imports and exports, investment, total consumption, the effective exchange rate and the trade policy uncertainty index in the baseline version (Panel A) and it adds the number of harmful interventions on imported products as an exogenous variable in the extended version (Panel B).
Source: OECD calculations.

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1. The results are robust when excluding 2025 data, when the TPU rose sharply, as well as 2024 data.

Inflationary pressures could resurface

Inflation could surprise on the upside, requiring higher policy interest rates than currently assumed. Indicators of underlying inflation have not yet returned fully to target in many countries, recent progress in disinflation has been limited, and inflation expectations have risen in some economies. The observed easing in global financial conditions and higher inflation in salient items such as some food products heighten this risk. Inflationary pressures could also be exacerbated if any loss of central bank credibility were to threaten the anchoring of inflation expectations. Other potential triggers for a renewed bout of inflationary pressure include supply shocks that could arise through a broadening of geopolitical tensions and trade restrictions, or a further increase in the prevalence and intensity of natural disasters in some countries. An additional potential source, particularly in the United States, is that the pass-through of tariffs into prices could strengthen more quickly than anticipated once companies exhaust the scope to absorb higher costs in their profit margins. The risk of second-round effects from such a shock generating greater inflation persistence is particularly pronounced in those economies where inflation expectations are not well-anchored. Reflecting the recent divergence of inflation outcomes between countries, there are also downside risks in some economies where inflation outcomes have recently been benign, including China, if demand proves weaker than currently anticipated.

Financial market risks are rising

Corporate financial strains may lead to risk repricing in financial markets

Given high valuations by historical standards, repricing in equity markets is a key risk to the economy and financial stability. One trigger might be if investors' enthusiasm for AI proves overstated, with price corrections spreading from technology stocks to broader benchmark indices. The concentration of ICT investment in the major technology firms paired with stretched valuations, signals rising exuberance and mounting risks if substantial investments fail to deliver expected returns. [6] The impact on AI technology firms could be particularly severe if they are forced to write down the value of their AI-related assets due to underperformance. Despite their growing reliance on equity financing, listed AI technology firms have accumulated substantial debt (Figure 1.25, Panel A), including less transparent private debt and commercial mortgage-backed securities. This could result in a high correlation of default risk across multiple credit products.[7] Any substantive correction in AI equity prices would also have a noticeable impact on the overall equity market given the increasing share of market capitalisation accounted for by the major technology stocks and the rising importance of index-linked passive investment funds (OECD, 2025a). This could be amplified by abrupt deleveraging of balance sheets, with fire sales of assets to meet margin calls or to satisfy risk limits. A downward reassessment of expected returns from AI could also soften or even halt data centre investment. This has surged over the past three years (Figure 1.25, Panel B), helping to support activity in the overall commercial real estate sector.

[6] In 2024, the "Magnificent seven" (Alphabet (Google), Amazon, Apple, Meta Platforms (Facebook), Microsoft, Nvidia and Tesla) represented 60% of capital expenditures of listed AI technology firms.

[7] Asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) are structured credit products backed by bonds or mortgages issued to AI firms or used to finance AI-related projects, such as data centres.