Global Economics Wrap-Up: July 25, 2025

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Global Economics

7/25/25 1:00PM ET

- Global activity approaching stall speed?
  - We recently made several changes to our tariff assumptions but still don't expect the "letter tariffs" scheduled for August 1 to take effect.
    - We still expect an increase in the average effective tariff rate of about 14pp in 2025, but we now expect another 3pp increase to nearly 20% in 2026.
  - The effects of tariffs on the US economy have been smaller than anticipated so far, but we think this mostly reflects lags related to large-scale inventory building before the tariffs hit.
  - Even though tariffs are likely to lead to a one-time boost to prices, we expect the growing real income drag will weigh on consumption for the rest of the year.
  - Job growth has plummeted, but a drop in net immigration has kept the unemployment rate at 4.1%
  - The slowdown in activity has strengthened the case for earlier monetary policy easing, and we maintain our Fed forecast for three consecutive cuts in 2025 from September.
    - One risk to this forecast is threats to Fed independence destabilizing long-term inflation expectations, and market-implied inflation expectations have already edged up on these concerns.
  - Risks to our Euro area activity and rate forecasts remain tilted to the downside as the August 1st tariff deadline looms, but we generally expect a cyclical upturn in Germany and continued strength in Spain.
  - China's GDP growth has been surprisingly resilient in the face of US tariffs, but the bigger picture is unchanged with strength and industrial production and exports but weakness in housing and retail sales (outside the "cash for clunkers" program).
    - Growing concerns about a second China shock on manufacturing are likely to strengthen calls for higher trade barriers among China's trading partners.
- Quantifying the risks of AI-driven job displacement:

- A recent acceleration in AI adoption and reports of AI-related layoffs have renewed concerns that AI will lead to widespread labor displacement.
- Macro-level data shows little sign of a generative AI impact so far, but we are starting to see evidence of labor demand hits in the most AI-exposed industries.
  - Most notably, the tech sector's unemployment share has declined below its long-run trend and youth tech worker unemployment has risen by almost 3pp this year.
- We remain skeptical that AI will lead to large structural employment reductions, but frictional (temporary) unemployment has historically increased following adoption of labor-saving technologies.
- To assess the risk of temporary unemployment rate increases due to generative AI, we develop a set of bottom-up displacement-risk metrics for over 800 occupations that predict whether AI productivity gains will translate to displacement (as opposed to increases in output).
  - Our risk measures vary across occupations in an intuitive manner and our baseline estimates suggest that AI will displace 6-7% of workers, although displacement rates vary from 3-14% under different assumptions.
- Taken together, our baseline job displacement and AI adoption estimates imply that generative AI will raise the unemployment rate by up to ½pp relative to its trend during the AI transition.
  - We see risks as skewed to a larger increase, particularly if AI adoption is more frontloaded than expected.

- Services surge and manufacturing lags in July DM flash PMIs:
  - The DM composite PMI rose by +0.9pt in the July flash release to 52.7, reflecting an increase in the services component (+1.4pt to 53.4) and drop in the manufacturing component (-1.5pt to 49.5).
    - DM services were particularly strong in the US (+2.3pt to 55.2), Australia (+1.9pt to 53.8), and Japan (+1.8pt to 53.5).
  - Manufacturing suppliers' delivery times eased in major DMs and the DM manufacturing input/output price PMIs also fell.

US Economics

7/25/25 11:00AM ET

- We now expect the baseline "reciprocal" tariff rate to rise to 15% eventually:
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    - After our latest update, we now expect the following further tariff increases:
      - An increase in the baseline tariff rate from 10% to 15%.
      - A 50% tariff on copper and critical minerals.

    - Sectoral tariffs on heavy trucks and aircraft in 2026.
    - A delayed increase in tariffs on pharmaceuticals after the 2026 midterm elections.
  - We assume that most of the country-specific tariff rates proposed for August 1 will not take effect.
  - Our updated tariff forecast implies that the effective tariff rate will have risen 14pp by end-2025 (the same as our previous assumption) and 17pp by end-2027 (3pp higher than our previous assumption).
- We have updated our economic forecasts slightly to reflect our revised tariff forecast and early lessons about the impact of tariffs:
  -
    - Main lesson about tariffs so far is that passthrough to consumer prices is tracking somewhat lower than in 2019, with the passthrough from the earliest February tariff on imports from China up to 60% after 4 months.
    - While it is still very early to estimate passthrough, surveys that ask businesses how much they intend to raise prices eventually also indicate lower passthrough than last time.
    - Our revised tariff forecast and updated analysis imply the following effects on the economy:
      - *Inflation*: We expect tariffs to boost core PCE prices by 1.7% cumulatively over 2-3 years and now forecast yoy core PCE inflation of 3.3%/2.7%/2.4% in December 2025/2026/2027 (vs. 3.4%/2.6%/2.0% previously).
      - *GDP growth:* We expect tariffs to lower GDP growth by 1pp/0.4pp/0.3pp over each of the next 3 years; we now forecast 1.0% GDP growth in 2025 Q4/Q4.
- Net immigration appears to be stabilizing at an annual pace of 0.5mn (vs. 1mn before the pandemic):
  - We estimate that net immigration fell slightly to 0.5mn in June, driven by an increase in outflows.
  - We expect it to stabilize here, in part because legal and capacity constraints should limit further increases in deportations.
  - Recent immigrants' employment-to-population ratio remained stable in recent months, and the immigration crackdown does not appear to have led to a large loss of recent immigrant workers.
  - Lower immigration should reduce the breakeven rate of payroll growth from 90k today to 70k by end-2025 and even lower in later years.
- We lowered our Q2 GDP tracking estimate to +2.7% (qoq annualized) this week:
  - Existing home sales decreased by 2.7% but the May growth rate was revised up to +1.0%.

- New single-family home sales edged up by 0.6% but the may growth rate was revised up by 2.1pp to -11.6%.
- New orders for durable goods declined by 9.3% in June, reflecting a $31bn decrease in commercial aircraft orders following a spike in May; core capital goods shipments increased by 0.4%.

Europe Economics

7/25/25 6:30AM ET

- ECB holds in July; we now think the cutting cycle is over:
  - The Governing Council left all policy parameters unchanged and the formal policy language mostly unchanged.
  - The meeting points to a higher hurdle for another cut than we had anticipated.
  - The outlook for trade policy remains uncertain, but the likelihood of an EU-US agreement for a 15% tariff rate has risen.
    - Besides, we are notably more optimistic on growth in 2026 than the ECB given the expected German fiscal expansion.
  - We therefore no longer expect the Governing Council to cut rates in September.
  - We now believe that the cutting cycle is finished and raise our forecast for the terminal rate to 2% (from 1.75% before).
- July PMIs are mixed but both UK and Euro area remain above 50:
  - The Euro area composite flash PMI rose above expectations to 51.0, the highest level in 14 months, driven by services.
  - The composite improvement was driven by France and the periphery, while the German index softened.
  - The decline in area-wide manufacturing new orders suggests some further weakening ahead.
    - That said, the impact of tariffs and uncertainty seems limited for now.
  - The UK composite flash PMI declined to 51.0, below expectations, driven by softening of services activity.

Asia/EM Economics

7/24/25 2:20PM ET

- China – Policy in focus as July Politburo meeting approaches:
  - Equity markets have rallied on news that policymakers are increasing focus on limiting excessive price competition/deflationary pressures.
  - Our revamped wage tracker indicates a downward trend in China's wage growth since 2023Q1 when China exited from its zero-Covid policy.
  - Our recent progress check on China's local government debt swap program indicates contained bond market risks, improved fiscal spending, and better

LGFV cash flows.

        - However, high cost of servicing debt remains a challenge.
    - Recent announcement of 1.2tn RMB Tibet dam project a long-term strategic focus rather than a signal of short-term cyclical easing.

- Japan – LDP loses Upper House; trade deal with US:
    - Japan's Upper House election resulted in a small loss of the majority held by the ruling coalition (Liberal Democratic Party + Komeito).
    - Implications include broader issue-by-issue coalitions and risk of incrementally looser fiscal policy.
        - We do not expect a significant impact on the Bank of Japan's (BOJ) monetary policy and continue to forecast the next rate hike in January 2026.
    - Japan and the US announced a trade deal framework that agreed on:
        - 1) A reduction in US tariffs on passenger cars and auto parts from 25% to 15%;
        - 2) An increase in reciprocal tariff rates from 10% to 15%;
        - 3) US$550bn in Japanese investment into the US.
- More news on US tariffs on Asian economies:
    - The US lowered tariffs on Indonesian imports to 19% (from 32% on April 2) after Indonesia agreed to reduce trade barriers for US goods, including local content and licensing requirements.
    - The US and Philippines agreed on a 19% tariff (up from 17% on April 2) in exchange for 0% tariff on US goods.
    - Further (non-country-specific) US tariff increases are expected in specific sectors like semiconductors and pharmaceuticals.

GDP Forecast Tracker: GS vs. Consensus

Real GDP Growth	Annual Average					Q4/Q4
Percent Change yoy	2024	2025		2026		2025
	Actual	GS	Consensus	GS	Consensus	GS
US	2.8	1.6	1.5	1.6	1.6	1.0
Euro Area	0.9	1.0	1.0	1.1	1.1	0.6
Germany	-0.2	0.3	0.2	1.4	1.1	0.7
France	1.1	0.5	0.5	0.8	0.9	0.5
Italy	0.5	0.5	0.6	0.8	0.8	0.3
Spain	3.2	2.3	2.4	1.9	1.8	1.7
Japan	0.2	0.9	0.8	0.7	0.7	0.3
UK	1.1	1.2	1.1	1.1	1.2	1.3
Canada	1.6	1.5	1.4	1.3	1.1	0.9
Australia	1.0	1.5	1.6	2.5	2.2	1.7
China	5.0	4.7	4.7	3.9	4.2	4.0
India	6.7	6.6	6.6	6.6	6.4	6.0
Brazil	3.4	2.3	2.3	1.6	1.6	3.0
Russia	4.3	0.5	1.4	2.0	1.4	0.7
World	2.8	2.4	2.4	2.3	2.4	1.8

Note: All forecasts calculated on calendar year basis except when otherwise stated. IMF forecasts used for India 2026 consensus when quarters not available in Bloomberg. Global growth aggregates use market FX country weights.

Source: Bloomberg, Goldman Sachs Global Investment Research

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We, Joseph Briggs, Andrew Tilton, Katya Vashkinskaya, Jessica Rindels, Sarah Dong and Blair Turoff, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

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