Global Macro Research – Global Economic Outlook

11 April 2025

April 2025 | #Global / #Forecasts / #Scenarios

Tariff uncertainty dominates

We forecast a meaningful slowdown in global growth caused by the sharp increase in US tariffs on the rest of the world. In the US, this will play out as a stagflationary shock, although some monetary easing is still likely. For the rest of the world, this is a negative growth and inflation shock, into which central banks will cut rates.

US President Donald Trump's sweeping tariff announcements mean that we have dropped our previous "Trump 2.0" forecasts and adopted something closer to one of our risk scenarios as the base case. We are calling this base case "tariff uncertainty dominates".

In particular, we are currently conditioning the outlook on the US imposing:

- a 10% global baseline tariff (with limited retaliation);
- about half of the (currently paused) reciprocal tariff regime being reimposed;
- a 60% tariff on goods imports from China (with equivalent retaliation);
- 25% tariffs on Canada and Mexico, but with a carve-out for USMCA-compliant trade;
- 25% sector-specific tariffs on autos, metals, pharmaceuticals, and some other sectors.

A framework to think about this set-up, which is close to what Trump promised on the campaign trail, is that the baseline tariff is the revenue raiser, the China tariffs are part of long-term decoupling, and the sector tariffs are the industrial strategy component.

This combination would represent an enormous increase in average tariff rates relative to the start of Trump's second term. We calculate that the weighted average US tariff on the rest of the world would be 18% in this scenario (see Figure 1), up from 3%.

At the time of writing, US tariff rates are considerably above these levels, despite the 90-day pause of the reciprocal tariff element. In particular, the rapid tit-for-tat escalation in US-China tariffs has taken average US tariffs to perhaps 28%.

This is a bigger increase than the Smoot-Hawley tariff increases in 1930 that may have worsened the Great Depression, and more like 1800s levels. If the reciprocal tariffs come back on (either fully, or in part as we expect in the base case), or US-China retaliation keeps spiralling, this would move higher.

It goes without saying that there is profound uncertainty around where tariffs go next. Even in our base case, we would not be surprised to see considerable variability in tariffs along the path to the eventual base-case levels.

For example, the reciprocal tariffs could turn on and off as Trump tries to gain maximum leverage or even just as he gets frustrated with how talks are progressing. After all, it may be difficult for most countries to deliver a reduction in their bilateral trade deficits with the US. Negotiations will also encompass complex issues in addition to tariffs, such as standards, tax rates, defence spending, and currency policy.

And the path to our assumed eventual reduction in US-China tariffs could run through bigger increases in the near-term, before any off-ramp is found. Other retaliation, say by the EU or Canada, could also be met with US tariff increases.

So, there are many downside scenarios from here. For the purposes of building an explicit scenario distribution, we think a representative "retaliatory spiral" downside could involve the full reciprocal tariff regime being re-imposed, well above 100% tariffs on China remaining in place, all the sector-specific tariffs remaining in place and expanding over time, and the USMCA free trade agreement fully breaking down such that all goods from Canada and Mexico are subject to a 25% tariff. The US average weighted tariff rate would be an enormous 45% in that scenario.

There would also be a more generalised increase in tariff rates between countries not even involving the US, amid trade redirection and anti-dumping measures.

After all, it is perfectly plausible that the 90-day delay on the reciprocal tariffs proves to be just that, and they are fully reinstated. And mutual intransigence, not to mention superpower rivalry, could mean that the currently absurdly high level of US and China tariffs on one another could stick around, move higher, and the trade conflict expand to include things like critical mineral export bans. In extremis, this downside could see significant selling of Chinese treasury holdings, or the US taxing foreign holdings of US treasury assets, which would also see enormous selling pressure.

This would represent the end of the global trading system as previously constituted, a global recession, very aggressive cutting cycles from major central banks, and central bank liquidity injections comparable to the Global Financial Crisis (GFC) response.

On the other hand, there are still upside scenarios from here. The Trump administration may end up chastened by the treasury market joining the sell-off in other US assets, rapidly deteriorating consumer and business sentiment, pressure from donors, and the prospect of a big defeat at the midterms, leading to a more wholesale pivot away from tariff policy. A crucial feature of an upside would be firms and households gaining some certainty about the US and global tariff regime, even if it involved a still-high tariff level.

Again, an explicit "policy pivot" upside (which is only one representative scenario among many), might involve a 10% global baseline tariff, which is also the full extent of tariffs imposed on China, full carve-outs for some successful negotiators such as Japan, Israel, or even the UK, a full USMCA carve-out, but the sector specific tariffs left on. The US weighted average tariff rate may settle around 10%, which is broadly consistent with our old baseline scenario.

Per that previous baseline, US growth would slow somewhat from 2024, while inflation would be broadly unchanged above 2%, and the Fed would cut rates very modestly. Presumably, financial markets would rebound significantly in this scenario.

Returning to the details of the base case however, the rise in the average tariff rate, the big negative wealth effects from the equity market selloff, and all of this extreme uncertainty about where tariffs will go, will have significant economic impacts. Such a volatile policy and financial market environment makes economic planning for firms and households extremely difficult, and they are likely to pull back from large decisions around durable consumption, investment, and hiring while this uncertainty lingers.

We have therefore downgraded our global growth forecasts to 2.7% in 2025, 2.7% in 2026, and 3.1% in 2027 (see Figure 3). These are down a cumulative 0.8% from our pre-"liberation day" forecasts – which themselves incorporated a degree of tariff-induced slowdown.

We now expect US GDP growth of 1.3% in 2025 year-average terms, down from 1.6% previously. A lot of that growth reflects statistical carry from the previous year, so it's more useful to look at the Q4-over-Q4 growth rate at the end of 2025, which is now just 0.5% in our forecast. Moreover, quarters of negative growth would not surprise us. Indeed, we think that the probability of a recession in the US over the next 12 months is around 50%.

The level of US GDP at the end of 2027 is 1.4% below our pre-"liberation day" forecasts. If these tariffs are kept in place over the long run, the US economy will suffer from lower allocative efficiency and competitive pressure. So much of this decline represents a fall in potential growth and is not necessarily associated with a rising output gap.

US inflation is set to be higher this year, at 3.2% compared to 2.9% previously, and the underlying rate is also likely to be stuck around 3%. This increase is despite the pre-tariff moderation in inflation that the very latest data point to, and the sharp fall in oil prices, which will send gasoline prices lower. Very sharp moves higher in the month-over-month rates as tariffs take effect should be expected.

This creates a policy dilemma for the Fed. Many policymakers have stressed the importance of keeping long-run inflation expectations anchored in this environment (see Figure 2), so we remain concerned that the Fed will not be able to deliver the degree of easing that markets have priced. We are forecasting two Fed rate cuts this year in the base case (from one cut previously), with the fed funds rate falling to around 3% by the end of next year. The degree of monetary policy easing would be much greater in full-blown recession scenarios.

Meanwhile, we now think that Chinese growth will not hit the target of around 5%, and instead expect growth of 4.2% this year, rather than 4.6% previously. All told, we've increased the total hit to the level of Chinese GDP at the end of our forecast period from the trade war to slightly over 2%, up from 1% previously. Meanwhile, the nominal environment will remain extremely weak, and we expect a sustained period of economy-wide deflation.

Policy is set to ease further, with bond issuance sped up and further liquidity support measures likely to be announced. We expect further managed depreciation of the RMB, but this does carry risks of capital outflows.

For the Eurozone, US tariffs represent a disinflationary shock. Countries like Ireland and Germany will be particularly badly hit, and we are now incorporating a further 0.5ppt hit to GDP growth from the latest tariff developments. Meanwhile, weaker global demand, lower global export prices, a stronger euro, and the fall in energy prices will push down further on European inflation, and inflation will drop materially below the ECB's 2% target.

We now expect the ECB to cut interest rates to 1.75%, taking rates below the neutral level of 2% and into outright accommodative territory.

However, by the backend of our forecast horizon, we then expect rates to return to neutral as fiscal stimulus leads to modest tightening pressure.

The UK is likely to be relatively less hit by the direct impact of US tariffs, in part due to the trade balance being services dominated, although some sectors may be badly hit. However, a steep slowing in US and EU growth will weigh on the UK, and the economy remains extremely vulnerable to large externally driven swings in financial conditions.

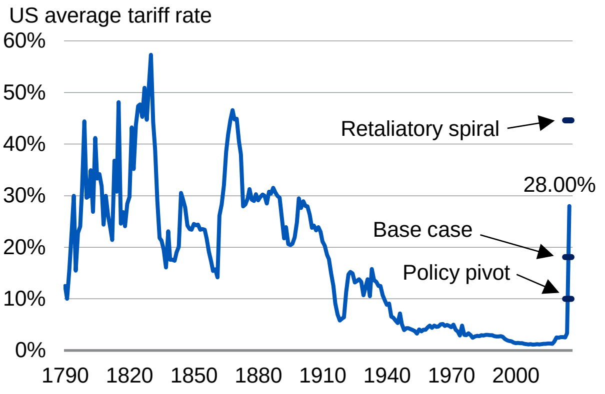
Indeed, with the gilt market proving extremely volatile, there may be greater impetus for the government to alter or abandon its fiscal rules. We continue to expect the Bank of England (BoE) to deliver its gradual easing cycle of quarterly rate cuts.

For emerging Asia, weaker currencies are no barrier to policy easing, given already subdued inflation and a high degree of exposure to global trade. Indeed, risks of inflation undershoots could be compounded if Chinese goods find their way onto local markets.

Policy easing could also be more aggressive if trade deals fail to materialise. And, while we expect many countries to strike deals, it may be difficult to open politically sensitive markets, such as agriculture, suggesting some "reciprocal" tariffs may come back after the 90-day pause.

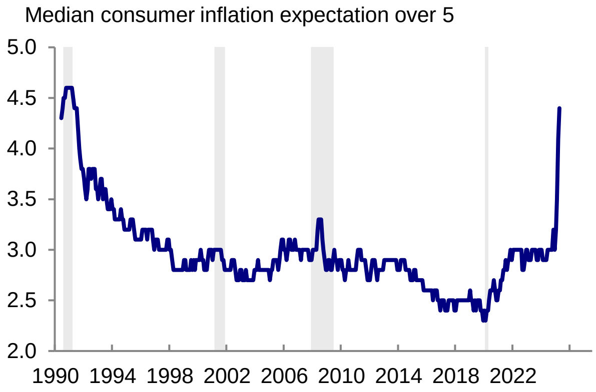
Finally, it's worth underlining that this is our first pass at systematically updating our global economic forecasts to reflect the profound tariff uncertainty. As events continue to unfold, we will keep our conditioning assumptions and economic forecasts under review.

Figure 1: A massive increase in the weighted average US tariff rate has occurred. Our base case assumes this will partially fall back, although the risks are enormous



Source: Aberdeen, United States International Trade Commission, April 2025

Figure 2: Surging US consumer inflation expectations, alongside the negative growth shock, are a difficult combination for the Fed



Source: Aberdeen, University of Michigan, April 2025

Figure 3: Global economic forecasts

	GDP (%)				CPI (%)				Policy Rate (%, year end)			
	2024	2025	2026	2027	2024	2025	2026	2027	2024	2025	2026	2027
US	2.8	1.3	1.4	1.6	2.9	3.2	2.8	2.4	4.375	3.875	3.125	3.125
UK	0.9	0.7	1.0	1.4	2.5	2.9	2.3	2.1	4.75	3.75	2.75	2.50
Japan	0.1	0.6	0.2	0.5	2.8	2.4	1.8	1.8	0.25	0.5	0.75	1.00
Eurozone	0.8	0.6	1.0	1.5	2.4	1.9	1.6	1.9	3.00	1.75	1.75	2.00
Brazil	2.9	1.4	1.4	2.3	4.4	5.2	4.4	3.8	12.25	15.00	12.00	10.00
India	6.6	6.0	6.1	6.1	4.9	3.8	5.1	4.7	6.50	5.50	5.75	5.75
China	5.0	4.2	3.5	4.2	0.2	-0.1	1.1	1.5	1.50	1.10	1.00	0.90
Global	**3.2**	**2.7**	**2.7**	**3.1**	**5.8**	**4.1**	**3.6**	**3.5**	**-**	**-**	**-**	**-**

Source: Aberdeen, April 2025

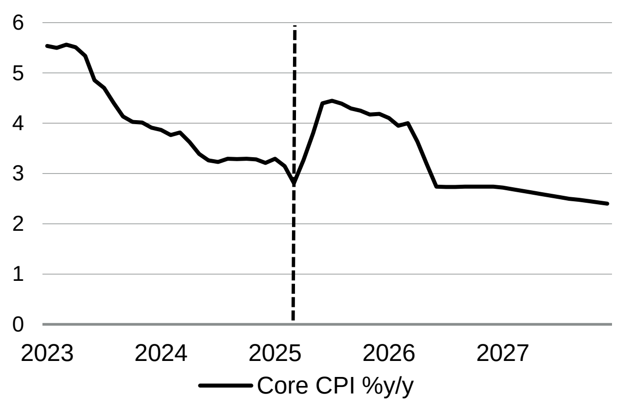
US

Activity: The US economy is about to be hit by a large stagflationary shock. Following the pause on reciprocal tariffs, recession risk has come down modestly and our base case involves weak positive growth rather than a recession. However, recession risk is still high compared to normal and around 50%. With policy uncertainty extremely elevated and financial conditions volatile, it is very difficult for economic policymakers to make significant or lasting decisions. So, the shock from tariffs could easily be larger. Over the long run, the US appears to be a less attractive place to put capital to work.

Inflation: US inflation is set to remain higher for longer in the face of protectionist trade policy (see Figure 4). Indeed, we now expect larger and broader increases in tariffs to drive consumer prices higher this year, absent any large offsetting currency moves or significant corporate margin compression. As such, the slowdown in core PCE inflation will stall over 2025, leaving the year-over-year rate running uncomfortably hot between 2.5-3%. Risks are tilted towards even higher inflation should tariffs rise more than we expect, or due to other aggressive policy action from the new administration, including on immigration and fiscal policy.

Policy: The combination of weaker growth and stronger inflation creates a policy dilemma for the Fed. Should bond market functioning concerns become severe, then the Fed is very likely to intervene with liquidity operations. But wholesale easing is difficult, absent a recession, given weakly anchored inflation expectations. This message is being reiterated by multiple policymakers. We pencil in two rate cuts this year, slightly less than the market is pricing given these inflation concerns. We then see rates falling to around neutral by the end of this year. But in a recession rates could easily fall towards 1%.

Figure 4: US core CPI inflation to rise substantially due to tariffs



Source: Aberdeen, Haver, April 2025

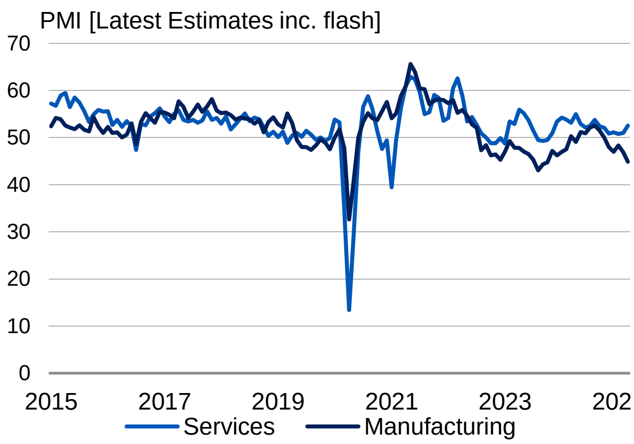
UK

Activity: UK GDP grew by a very solid 0.5% in February, while underlying activity growth remains weak (see Figure 5). The 10% US tariff on UK exports will hit some sectors, but the overall economic impacts are relatively small. However, slower growth in the UK's major trading partners will weigh on activity. Moreover, the economy remains vulnerable to external shocks to financial conditions, with the gilt market becoming extremely volatile during periods of elevated trade uncertainty. So while the Spring Statement restored headroom against the fiscal rules, the possibility of the rules being suspended or abandoned is growing.

Inflation: The net impact of the tariff shock on the UK is likely to be disinflationary given weaker global demand and exporters cutting prices to find new markets. Meanwhile, the fall in energy prices will blunt some of the forthcoming increase in the headline inflation rate, with inflation now likely to peak closer to 3%. Underlying inflation pressures remain elevated but are slowly moderating, with services inflation at 5%, broadly in line with the Bank of England (BoE)'s forecast. However, the increase in National Insurance could still lead to further rounds of inflationary pressure depending on firms' broader pricing power.

Policy: Higher US tariffs represent less of a policy dilemma for the BoE than for the Fed and should support easing at the margin. The Bank continues to deliver its "gradual and careful" message about future easing, while stressing that policy is not on a pre-set path. Even through the trade volatility we expect the Bank to stick with its quarterly pace of easing, with the next cut likely in May and then two more reductions in the second half of 2025. However, uncertainty around this path is high, and there are plausible scenarios with both less and more easing.

Figure 5: UK activity surveys point to weak but positive growth, although manufacturing is very weak



Source: Aberdeen, Haver, April 2025

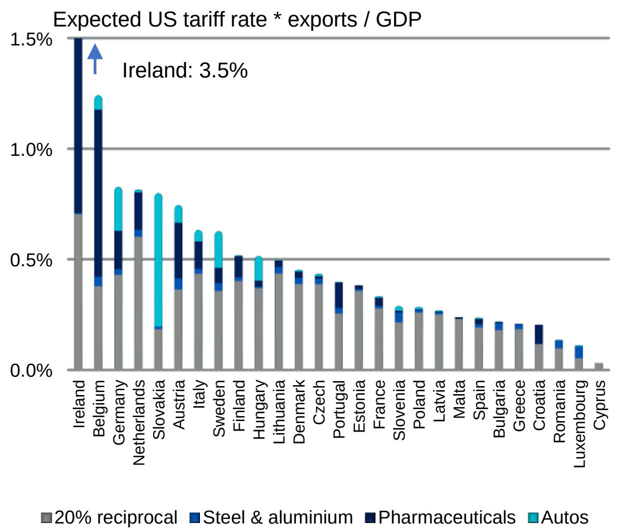
Eurozone

Activity: The US' 10% baseline tariff in addition to sectoral tariffs will give rise to a significant negative demand shock for the Eurozone. Worse, trading relations with the US might get even less favourable after the expiry of the 90-day pause on reciprocal tariffs (see Figure 6). And compounding the headwinds is a hit to wealth and confidence. These developments prompt us to factor in a further 0.5ppt shock to GDP on top of the 0.7ppt we had already incorporated in our base case. We expect the economy to just about avoid recession, but the risk of a downturn is elevated.

Inflation: Weaker demand, a stronger euro, and cheaper energy commodity prices will accelerate the Eurozone economy's already advanced process of disinflation. This will drive an undershoot of the European Central Bank (ECB)'s 2.0% target. Given the limited scope of the EU's proposed retaliatory measures and the US' relatively small share of total EU imports, the potential for this to reignite inflation is limited. We now see the headline rate averaging 1.9% this year and 1.6% in 2026.

Policy: With both growth and inflation outlooks now weaker, the case for more aggressive ECB easing is growing stronger. We continue to expect a 25bps cut next week. In addition, another reduction in the summer is now likely. However, comments by some Governing Council (GC) officials point at concerns over a rebound in inflation due to supply-side disruption. Is it not surprising to see policymakers remain cautious on inflation given the recent memory of the 2022/23 overshoot and anticipated fiscal easing. Despite their caution, we think a weak run of data will force a third additional cut later this year.

Figure 6: Reciprocal tariffs could hit GDP hard if they return, especially in Northern Europe



Source: Aberdeen, Haver, April 2025

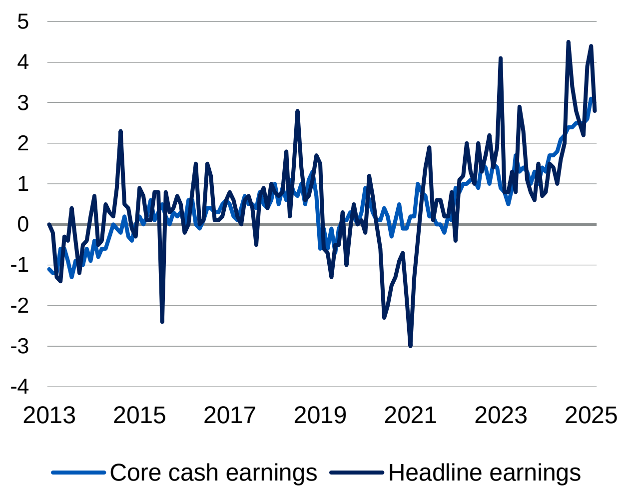
Japan

Activity: Even before the US tariff shock, consumption has disappointed over the past year. While nominal wage growth has improved significantly, real wages have deteriorated as food costs accelerated in recent months. Sticky inflation may dampen household confidence and hinder the recovery in domestic demand and core inflation. Now the trade engine of the Japanese economy will falter and likely push GDP lower this year and next.

Inflation: National CPI remains elevated at 4% year over year, driven by food prices. However, western core, which excludes food and energy, and core services slowed as underlying inflation remains muted. Soaring food prices should subside into H2. The Shunto wage negotiations got off to a strong start, with increases in small business wages particularly encouraging. Core base pay growth at 3.1% is in line with the Bank of Japan (BoJ)'s inflation target (see Figure 7) but the outlook for inflation has become more cloudy in the wake of tariffs. Japan may face more disinflationary forces over the coming years.

Policy: Bilateral trade negotiations between the US and Japan will apparently consider both trade and the exchange rate. This has spurred speculation of pressure on the BoJ to raise policy rates. Policymakers have expressed optimism over the prospect of spring wage negotiations filtering into a virtuous cycle for wages and prices, but they also remain cautious over the uncertainties arising from the impact of tariffs. We expect the BoJ to remain on hold this year at 0.5%. They will need greater clarity before hiking most likely in the first half of 2026.

Figure 7: Japanese wage growth is moving higher, in line with the BoJ's outlook



Source: Aberdeen, Haver, April 2025

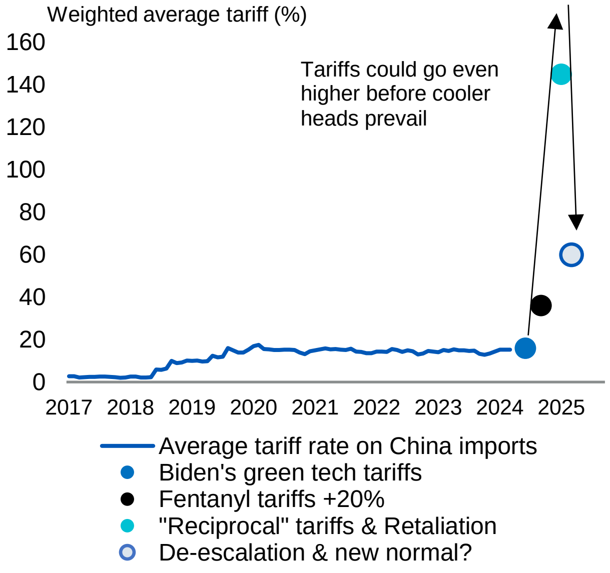
China

Activity: China will no longer hit the “around 5%” growth target. At the time of writing, US tariffs on China stood at 145% (see Figure 8). The path from here is unclear but further retaliation is possible. As higher import prices become visible in the US, a window to de-escalate may open. Even so, and with debt issuance brought forward and expanded to support growth, it will be difficult to offset the trade shock. We expect GDP growth of 4.2% (down 0.4ppts) and 3.5% (down 0.7ppts) for 2025 and 2026 respectively, and risks are skewed towards a sharper slowdown.

Inflation: Headwinds from the trade war and the ongoing supply-side bias to Chinese policy suggest deflation will be hard to shake. The March CPI print remained in negative territory, while falling oil prices will weigh on inflation, even if the authorities eventually condone a more significant FX depreciation. We have marked down our 2025 annual forecast to -0.1% and expect the GDP deflator to show a more marked fall in whole-economy prices, adding pressure on leveraged corporates and government finances.

Policy: The good news, such as it is, is that the authorities are easing and stand ready to do more. Fiscal plans outlined at the “two sessions” suggested total government deficit was set to expand by 1.5 – 2% of GDP, and this will almost certainly be increased, perhaps by another 1-2% or more. Larger rate cuts and liquidity provision will help, while we think the scale of trade war will be enough to overturn policymakers’ objections to more significant FX depreciation. Our China Financial Conditions Index should also get a boost from the 20bps fall in 10-year yields since “liberation day”.

Figure 8: The US and China remain locked in a dangerous spiral of retaliatory tariffs



Source: Aberdeen, U.S. Census Bureau, USTR, WITS, April 2025

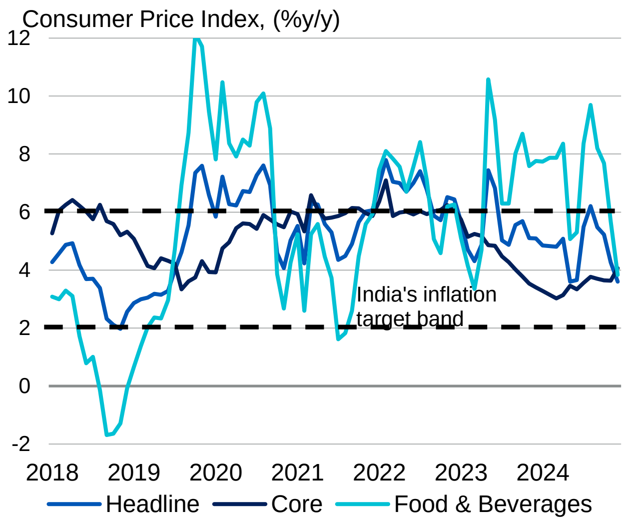
India

Activity: India's economy will continue to grow around 6.0%. The economy is likely to avoid major growth shocks from US-led trade disruptions due to its reliance on service exports and relatively small exposure to US goods demand. Nonetheless, lower global growth will weigh on the export sector and business investment may stall in some places, compounding the drag from fiscal consolidation. India is likely to secure a trade deal with the US, offering some modest medium-term upside to India’s position as a ‘reshoring winner’.

Inflation: Headline inflation cooled more than expected in early 2025, as the disinflationary effects from receding food prices proved large (see Figure 9). Lower global energy prices and softer external demand should keep inflation around the Reserve Bank of India (RBI)’s target mid-point of 4.0%. Indeed, underlying inflationary pressures remain contained. And while the rupee has depreciated against the dollar through the trade noise, it has avoided a sharp decline posing limited inflationary risks. Inflation will likely pick-up into 2026 on looser monetary conditions and rebounding food inflation.

Policy: Lower inflation and increasing growth concerns will spur the RBI to cut further this year, although a pause is likely amid trade uncertainty. At its April meeting, the RBI cut by 25bps and shifted its stance from neutral to accommodative citing rising growth concerns. However, this was before the 90-day pause announcement. If a trade deal with the US is secured or appears likely before the RBI’s June meeting, policymakers could opt to pause, before easing later in the year once trade clarity improves. Overall, we expect a further 50bps in cuts, taking the policy rate to 5.50% by year-end.

Figure 9: India’s easing inflation underpins RBI pivot



Source: Aberdeen, Haver, April 2025

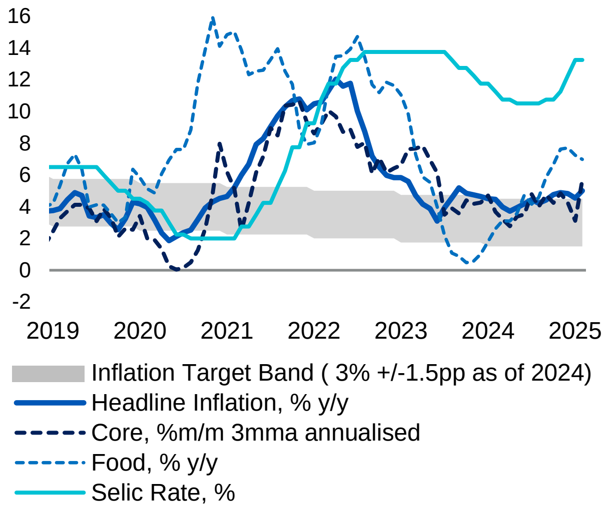
Brazil

Activity: Brazil got off comparatively lightly from "liberation day", suggesting it will not be a focal point for US ire. In the near term, Brazil's export sector may benefit from trade diversion, particularly from Chinese demand for its agricultural produce. However, slower global growth will ultimately weigh on Brazil's economy and, with the lagged effects of the Banco Central do Brasil (BCB)'s tightening still to materialise, growth in the second half of the year should slow. A weaker global backdrop and domestic politics ahead of the October 2026 general elections suggest further fiscal stimulus could be announced, complicating the BCB's job.

Inflation: Inflation has remained above the BCB's target range since October (see Figure 10), and a sustained return to target is unlikely until Q1 2026. Rebounding food inflation has coincided with continued stickiness for price growth, which, together with a weaker currency, will see inflation fluctuate in the 5-5.5% range for much of 2025. Lower oil prices and a slowing of growth should eventually facilitate greater disinflation into 2026. Potential for renewed *real* depreciation, should market concerns regarding fiscal policy escalate once more, poses upside risks to our baseline inflation forecasts.

Policy: The BCB's hiking cycle is nearing its end. Despite the weaker Q4 GDP, other factors that motivated the return to monetary tightening since September – including resurgent price pressures, rising inflation expectations and market concerns about fiscal policy – will encourage further tightening until May at least. This suggests that risks to our terminal Selic rate forecast of 15% are still skewed to the upside, even with a worse global backdrop. Absent a significant cooling of inflation, the BCB is unlikely to cut before early 2026. Fiscal largesse ahead of the 2026 elections could further limit the scope for rate cuts.

Figure 10: BCB's tightening cycle is nearing its peak, but sustained disinflation and rate cuts remain distant



Source: Aberdeen, Haver, April 2025

Mexico

Activity: Mexico's economy started 2025 in a fragile position: real GDP contracted by 0.6% quarter over quarter in Q4. Even before "liberation day", surveys pointed to a deceleration of annual GDP from 1.5% in 2024 to 0.4% in 2025 (see Figure 11). A breakdown of the USMCA remains a major downside risk, but the US stance on Mexico has at least eased. Our confidence in Mexico being a long-run beneficiary from nearshoring has risen – the flip side of the more aggressive US policy against China. But near-term investment will remain constrained until the USMCA is put onto a firmer footing.

Inflation: US trade policy is amplifying disinflationary pressure in Mexico. Mexico had already recorded progress on services disinflation in early 2025, which was likely to continue given soft domestic demand. But the growth shock both directly and indirectly from US tariff policy, combined with lower oil prices, is likely to reinforce disinflation. As Banco de Mexico (Banxico)'s latest minutes note, FX depreciation remains a potential driver of upward pressure on inflation in the near-term, but the risks to growth have also risen, suggesting the long-term impact from shifting US policy is still likely to be negative.

Policy: Banxico's Governing Board retains a dovish bias, having cut its policy rate by 200bps since August, despite the peso's depreciation. The board has signalled a willingness for further 50bps moves, with still elevated real rates providing scope for policy to remain "restrictive". The timing and extent of cuts will be highly USMCA-dependent, but we believe rates can still reach 7.5% or less by year-end. The return of a more aggressive trade policy from Washington, a hawkish Fed or market stress all have the potential to restrict Banxico's ability to ease quickly. Ultimately, weaker global growth should facilitate cuts.

Figure 11: Subdued domestic demand and US-related trade uncertainty are weighing on Mexico's prospects

Source: Aberdeen, Banxico, Haver, April 2025

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