Economic Outlook - July 2025

John Lorié Chief Economist

Global growth is expected to remain subdued at 2.4% in both 2025 and 2026, representing a downward growth revision for all major markets. In the first few months of the new US administration, trade tariffs followed each other in rapid succession, with 'Liberation Day' on April 2 as the provisional highlight. Since then, there have been many policy changes and uncertainties that have led to financial volatility, less confidence in American institutions, and poorer prospects for global trade.

The inflationary impact of trade tariffs has been limited so far, even for the United States.

According to textbook analysis, trade tariffs drive up inflation for the country that implements them, through higher import prices that will eventually be passed on to consumers. However, the impact thus far has been limited for several reasons, including that the current US tariff structure is still limited in size and scope. Another reason is that trade tariffs weigh on economic activity directly, while also injecting uncertainty in the economy that drags on demand, offsetting some price pressures. It also simply takes time for the price effects to come into practice. We expect inflation to pick up in the US in the remainder of the year.

We predict that trade growth will slow significantly this year, to around 1%, as a result of the tariff escalation and policy uncertainty.

Although global trade still showed robust growth in Q1 of 2025 as a result of the frontloading of export orders, we expect a contraction in the remainder of this year. Trade growth will be particularly weak in the United States, Canada and Mexico, and to a lesser extent Europe and China. We expect slightly higher trade growth in 2026 of around 2% as the global economy adjusts to the tariff shock.

Advanced economies are expected to grow at a meagre pace of 1.3% in both 2025 and 2026.

This is a downward revision from our earlier estimate, especially for 2026, because we no longer expect a significant recovery in the US. Volatile trade and domestic policies have undermined confidence in the US economy, leading to significant revisions for both 2025 and 2026. The eurozone economy faces relatively minor downward growth revisions due to the tariff escalation. Sentiment indicators point to a slow, but steady expansion, driven mostly by domestic spending. Debt sustainability is a concern across many advanced markets, with high debt levels in the US, Japan and several eurozone economies, as well as still elevated deficits and cost of borrowing.

The outlook for emerging market economies (EMEs) is on average stronger than that for advanced economies, but it remains weak by historical standards.

We expect 3.8% growth across EMEs in 2025 and 3.6% in 2026. Many EMEs, especially those with close trade relations with the US, such as Mexico and China, are directly exposed to US trade volatility. Indirectly, EMEs are also impacted by higher borrowing costs, financial volatility and currency depreciations. The global uncertainty also undermines international investment flows.

A re-escalation of the trade war to levels similar to April would bring the global economy nearly to a standstill in 2026.

The economic forecasts presented in this Outlook assume a limited trade war between the US and other countries. We also considered a downside scenario where the US increases tariffs further, triggering greater retaliation from trading partners and significant supply-chain disruptions. In this scenario of trade war escalation, the GDP impact for the US is much more severe. The effect on the retaliating countries, including China and the EU, becomes much more similar to that on the US in the baseline scenario.

Interested in finding out more?

For a complete overview of the impacts of the escalating trade war on our global economic outlook, please download the full report available in the related documents section below.