Swiss Re Institute

August 2025

Economic and financial risk insights

Global growth is cooling as tariff impacts heat up

Key takeaways

- **Growth:** global growth is cooling gradually with US growth projected to fall below trend in 2H25.
- **Inflation:** tariffs have started to raise US inflation, but the EU is on track to meet the ECB's 2% target while China continues to navigate weak prices.
- **Interest rates:** US hard data reaffirms our view for two Federal Reserve interest rate cuts by year end; lower EU inflation sees the ECB easing again.
- **Watch** our monthly video here.

What's new in our global macroeconomic view

- **Growth: the US slowdown starts to show in hard data.** Hard data from the US is weakening early in 3Q with July nonfarm payrolls adding only 73 000 jobs. A total 258 000 in downward revisions slowed the 3-month moving average of job growth to just 35 000 (see Figure 1), and we expect further employment weakness as labour demand moderates. Still, Q2 US real GDP growth surprised to the upside at 3.0%, distorted by trade effects (see Figure 2), prompting us to raise our full-year forecast by 20bps to 1.7% despite below-trend growth expected in 3Q25 and 4Q. We raise our euro area 2025 real GDP forecast by 40bps to 1.2%, again due to strong growth data linked to export frontloading early this year. US-EU and -UK trade deals alleviate some uncertainty, but sectoral tariffs (ie, pharma) are still a risk. Global business surveys remain weak (Figure 3). We also lift China's forecast 2025 growth by 10bps to 4.8%, but its manufacturing PMI declined further to 49.3 in June, pointing to slowing H2 GDP growth. Across Asia, the end of tariff frontloading adds downside risks to growth.
- **Inflation: hints of tariff impacts in the US; disinflation elsewhere.** We now see 2.8% annual average CPI inflation in 2025 and 2026, as strong services disinflation in 1H25 gives way to tariff effects and higher goods prices in 1H26. In June, headline US CPI picked up to 2.7% yoy while core inflation rose to 2.9%. In early signs of tariff pass-through, higher appliance and furnishing prices pushed core goods inflation further positive at 0.6% (Figure 4). The euro area's July flash Harmonised Index of Consumer Prices (HICP) held at the ECB's 2% target, with sticky services costs offset by a stronger euro and cheaper goods re-routing from Asia. China's CPI finally edged back into positive territory at 0.1% in June, but producer prices remain deeply negative (Figure 5), underscoring weak domestic demand.
- **Interest rates: rate cut pressure is building.** The US FOMC left the Fed funds rate at 4.25-4.50% in July, but not without two dissents signaling a growing divergence within the Fed over the current stance of policy. We continue to expect two cuts later this year as hard data softens further, keeping downward pressure on the 10-year Treasury yield at 4.2% by year end. The ECB paused in June after 100bps cumulative cuts since January, and we continue to expect one further rate cut before year end, while Bund yields hover near 2.7% (see Figure 6). In Beijing, the PBoC maintained its seven-day reverse-repo rate at 1.4% in July and more cuts remain possible. The 10-year CGB yield hovers near 1.7%.
- **Baseline view:** global growth is cooling gradually. US inflation accelerates in 2H25 and 1H26, while disinflation dominates elsewhere. Upward growth revisions are backward looking.

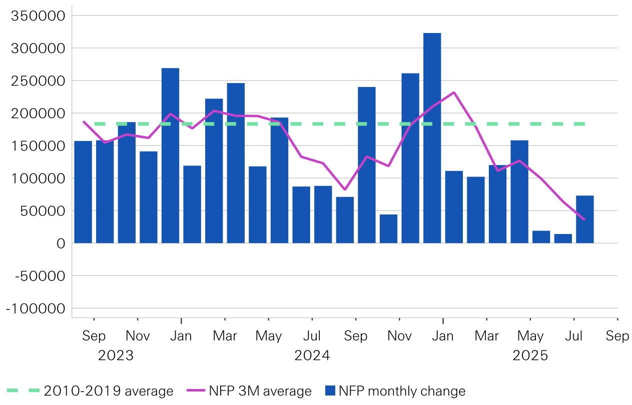
Key forecasts and scenarios (in %)

Key Forecast (in %)	Real GDP Growth Swiss Re		Consensus		CPI Swiss Re		Consensus		CB Policy Rate Swiss Re		Consensus		10y. Gov. Bond Yield Swiss Re		Consensus	
	2025	2026	2025	2026	2025	2026	2025	2026	2025	2026	2025	2026	2025	2026	2025	2026
World	2.4	2.4	2.3	2.4	3.4	3.0	4.3	3.6	--	--	--	--	--	--	--	--
US	1.7	1.8	1.5	1.6	2.8	2.8	2.9	2.9	3.9	3.4	3.9	3.4	4.2	4.2	4.3	4.1
Euro Area	1.2	1.3	1.0	1.1	2.0	2.0	2.1	1.9	1.8	1.8	1.8	1.8	2.7	2.9	2.6	2.8
China	4.8	4.3	4.6	4.2	0.2	0.8	0.2	1.0	1.2	1.2	--	--	1.7	1.9	1.6	1.6

IMF used for global GDP and CPI consensus, where GDP is FX-weighted and CPI is PPP-weighted. SRI's global GDP and CPI are both FX-weighted.
For the Euro Area, the policy rate used is the ECB's depo rate.

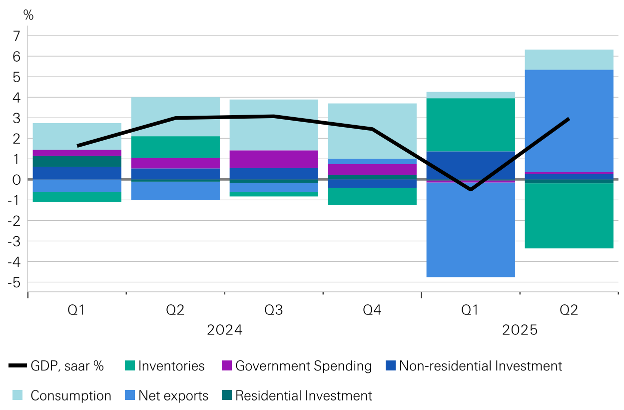
Sources: International Monetary Fund (IMF), Bloomberg, Macrobond, Swiss Re Institute

Figure 1: US nonfarm payrolls



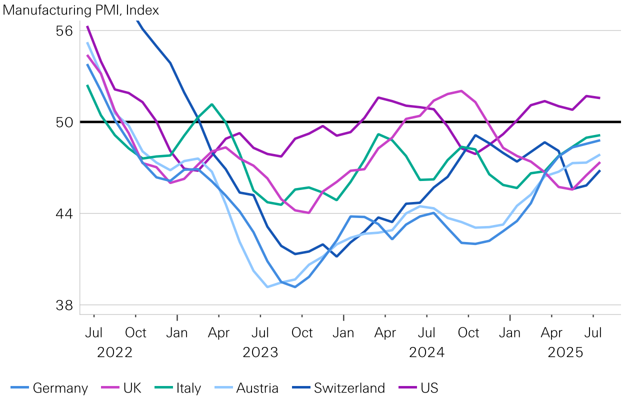
Source: NBER, BLS, Macrobond, Swiss Re Institute

Figure 2: US GDP contributions (%)



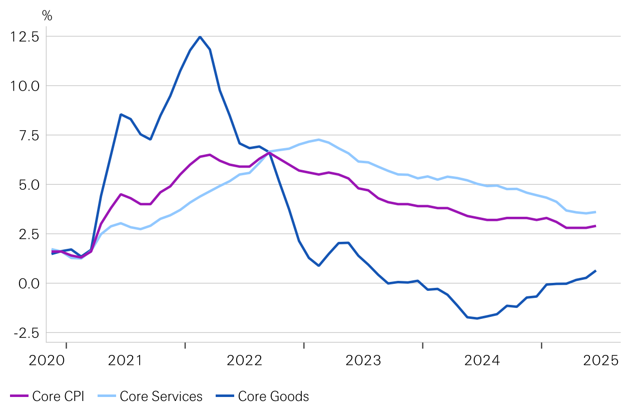
Source: BEA, Macrobond, Swiss Re Institute

Figure 3: Manufacturing PMIs



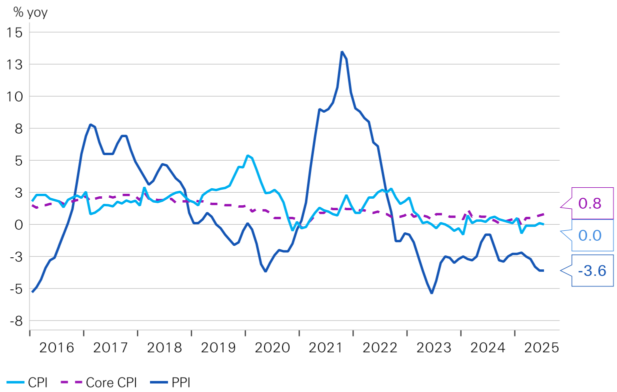
Source: S&P Global, Macrobond, Swiss Re Institute

Figure 4: US core CPI inflation



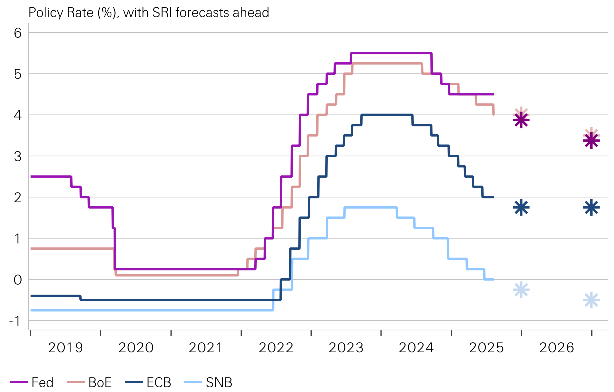
Source: BLS, Macrobond, Swiss Re Institute

Figure 5: China inflation measures



Source: NBS, Macrobond, Swiss Re Institute

Figure 6: SRI policy rate outlook



Source: Fed, BoE, ECB, SNB, Macrobond, Swiss Re Institute

Global risk monitor

Risks that could significantly shift our baseline outlook

Risk	Explanation
Financial market crisis	Further US tariffs announced on 1 August include a 10% global minimum and 15% higher duties on a range of countries, but negotiations are ongoing and sectoral tariffs still unclear. Failure to achieve tariff/trade deals soon would threaten a sharper global economic downturn and we do not believe current market pricing reflects this risk. The US dollar is roughly 9% weaker than at the start of 2025 as investors shift into havens such as gold and the Swiss franc. Strained funding markets could disrupt liquidity and credit availability, amplifying systemic risks that may force central banks to intervene if tariff negotiations do not develop positively.
Geopolitical risk	Deteriorating trade relations and the potential for new country/sector/company sanctions could force states to choose between trade with the US or China. Risks of US tariffs on pharmaceuticals add downside growth risks to Asian and European economies active in the supply chain. The EUR 800 billion "ReArm Europe" plan would improve the EU's strategic autonomy, but positive domestic spillovers may be limited as the EU's trade deal commits to buy US military equipment. China's commitment to reunification with Taiwan keeps Asia regional security concerns elevated. A resolution of the Russia-Ukraine conflict would be an upward risk for growth, especially for Europe.
Fiscal risks	The US fiscal trajectory would worsen if a global trade war triggers a recession. Recent tax proposals would see further unfunded revenue reductions. The passing of the One Big Beautiful Bill Act could add up to USD 5 trillion to the US deficit through 2034 if made permanent. Germany's spending plans will similarly shift the country towards a potentially worse debt outlook and risk violating the binding EU fiscal rules. In the UK, reversals on welfare spending reduction and revisions of potential growth forecasts put fiscal rules at risk.
Labour market risks	Persistent tightening in immigration policies in the US and other major economies may dampen labour supply growth, tighten labour markets and lead to wage inflation. The latter could moderate if demand for labour contracts due to a recession. Volatile and lagging data on labour markets is complicating policymaking, particularly in the US but also in other major markets.
Political risk	Unpredictable and sudden US policy changes may trigger economic instability and financial market volatility. This could accelerate a loss of trust in the US dollar and risk-free Treasuries. In Europe, policy uncertainty and social discontent remain key risks. In Germany, revived political polarisation could slow the fiscal disbursements and render them less effective.
Credit risk	A surge in private credit lending by non-bank financial institutions post the global financial crisis has accelerated again recently through the entry of private equity-backed insurers in the global life market. Exposure to alternative assets and hidden leverages are rising, notably through transfers of US pension and insurance assets to overseas jurisdictions. Private credit exposures have yet to be tested through a cycle. A sudden and broad-based deterioration in financial conditions may cascade into fire sales of assets and liquidity shortages, resulting in systemic stresses. A loss of trust in USD-denominated assets could be one trigger event.
Stronger global growth	Global economic growth faces potential upside risk from: easing in US tariff policy; AI- and technology- led productivity improvements; stabilised fiscal trajectory; a resolution of military conflicts in Ukraine and the Middle East; and a rebound of activity in China. The German government's significant fiscal stimulus is anticipated to support near-term growth. Coupled with defence spending increases across the continent, these measures could bolster domestic demand and have positive spillover effects on growth in Europe.

Regional forecast overview

	Swiss Re Institute		Consensus	
	2025	2026	2025	2026
Real GDP (% change)				
US	1.7	1.8	1.5	1.6
Eurozone	1.2	1.3	1.0	1.1
United Kingdom	1.0	1.3	1.1	1.2
Japan	0.8	0.8	0.8	0.7
China	4.8	4.3	4.6	4.2
CPI (% change)				
US	2.8	2.8	2.9	2.9
Eurozone	2.0	2.0	2.1	1.9
United Kingdom	3.4	2.5	3.2	2.4
Japan	3.0	1.8	2.9	1.8
China	0.2	0.8	0.2	1.0

Sources: Bloomberg Consensus, Swiss Re Institute

	Swiss Re Institute		Consensus	
	2025	2026	2025	2026
10y Gov. Bond Yield (%)				
US	4.2	4.2	4.3	4.1
Eurozone	2.7	2.9	2.6	2.8
United Kingdom	4.5	4.7	4.4	4.0
Japan	1.7	1.8	1.5	1.7
China	1.7	1.9	1.6	1.6
Central bank rate (%)				
US	3.9	3.4	3.9	3.4
Eurozone	1.8	1.8	1.8	1.8
United Kingdom	4.0	3.5	3.8	3.4
Japan	0.8	1.0	0.7	0.9
China	1.2	1.2	-	-

Sources: Bloomberg Consensus, Swiss Re Institute

In case you missed it ...

- **Expertise Publication:** *Unseasonal fires trigger above-trend catastrophe losses in first half 2025* (6 Aug)
- **Expertise Publication:** *Asia Life & Health consumer survey 2025* (29 July)
- **Expertise Publication:** *The growing role of commercial health insurance in China* (21 July)
- **US Property & Casualty outlook:** *sunny skies, but pack an umbrella* (16 July
- ***sigma* 2/2025:** *World insurance: a riskier and more fragmented world* (9 July)

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