

Macro Monthly

Economics
Global

Assessing the tariff fallout

- ◆ As reciprocal tariffs took effect in August, global data should remain volatile in the coming months
- ◆ US labour market data have clearly weakened – how will consumers and the Federal Reserve react?
- ◆ Inflationary pressure is building in the US, but less so elsewhere due to lower energy prices

2025 has been a year of very messy global data. Global trade readings have been distorted by tariffs and frontloading, as have inflation prints in the US. Big moves in the oil price have caused falls in inflation outside the US and we've had growth data hold up much better than many had expected. But after all the policy noise, what happens now?

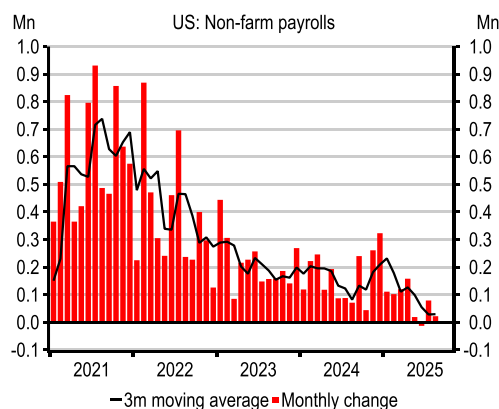
Tariff payback

The final third of the year is likely to be characterised by **how much payback there is** now that US tariffs are set at their August rates, the impact on the US economy, and how the Federal Reserve (Fed) reacts given that data. A September rate cut looks locked in, but after that, the trade-off between activity and inflation data will be key.

Meanwhile, the US labour market is clearly wobbling after the weak prints (and backward revisions) in July and August (chart 1). On the other side of the equation, the **US inflation data continue to show growing evidence of the tariff impact** (chart 2) – the detail here will be key in the coming months to see where these effects are being seen.

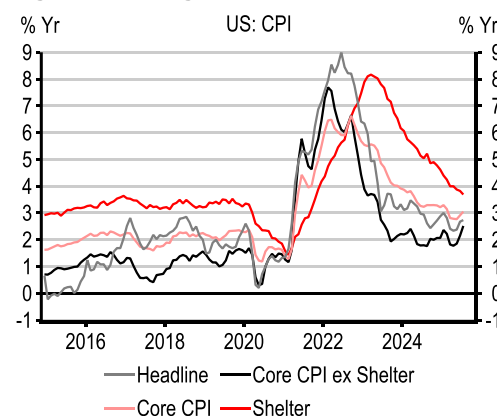
**Slowing US labour markets
could mean more rate cuts**

1. US employment growth has clearly slowed in recent months...



Source: Macrobond

2. ...and core inflation is already showing signs of picking up



Source: BLS

Consumer strength

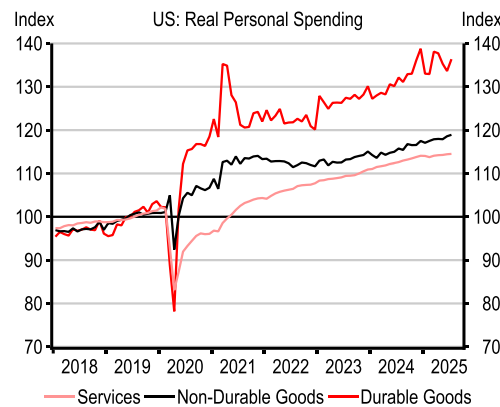
US consumers keep on spending...

...while growth is holding up across much of the world

Despite all of the uncertainty around tariff and fiscal policy, **the US consumer is, for now, still spending** (chart 3). Whether that resilience continues despite more worries about job security will play a big role in the global outlook in the coming months.

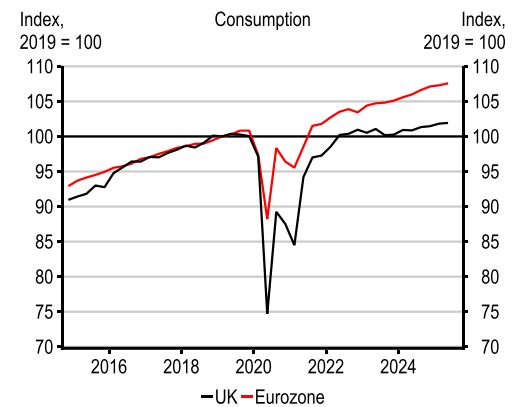
Because of the combination of better exports so far this year and lower inflation (helped by lower oil prices), we're seeing a **better-than-expected set of growth data** across much of the rest of the world. Consumers in Europe, Asia and Latin America are seeing a better real wage picture, and while spending has held up (chart 4), caution is clearly limiting how much of that increased income is spent.

3. US consumption expenditure is still holding up



Source: Macrobond

4. Consumption in Europe is improving



Source: Macrobond

Payback in US imports is likely in H2 2025

The trade picture will also become even more clouded in the next few months. July's data saw another wave of US imports picking up, and while this should drop back in August after the new tariffs, the path after that is less certain given impending sector tariffs. **We still expect a pay back in terms of exports** to the US for many economies.

Fiscal challenges

For policymakers, it's not an easy mix to digest. We continue to expect the **Fed to cut in September, December and March**, and while the European Central Bank is most likely finished with its easing cycle, elsewhere central banks are still broadly cutting rates. However, despite lower policy rates, government bond yields remain high, and in some cases are rising – highlighting the **scale of the fiscal challenge** many governments are facing in these uncertain times.

Key recent releases

Date	Market	Release	Period	Actual	Consensus expectation	Prior	Actual vs. Consensus
14 Aug	UK	GDP (% y-o-y)	Q2, flash	1.2	1.0	1.3	↑
15 Aug	Mainland China	Retail sales (% y-o-y)	Jul	3.7	4.6	4.8	↓
15 Aug	Mainland China	Industrial production (% y-o-y)	Jul	5.7	6.0	6.8	↓
20 Aug	UK	CPI (% y-o-y)	Jul	3.8	3.7	3.6	↑
2 Sep	Eurozone	HICP (% y-o-y)	Aug, flash	2.1	2.1	2.0	→
4 Sep	US	ISM services (Index)	Aug	52.0	51.0	50.1	↑
5 Sep	UK	Retail sales (% y-o-y)	Jul	1.1	1.3	0.9	↓
5 Sep	US	Nonfarm payrolls, monthly change (000s)	Aug	22	75	79	↓

Source: Bloomberg, HSBC

↑ Positive surprise – actual is higher than consensus, ↓ Negative surprise – actual is lower than consensus, → Actual is in line with consensus

Key upcoming events

Date	Market	Release	Period
11 Sep	Eurozone	European Central Bank interest rate announcement	-
11 Sep	US	CPI	Aug
12 Sep	UK	GDP	Jul
15 Sep	Mainland China	Retail sales	Aug
16 Sep	US	Retail sales	Aug
17 Sep	UK	CPI	Aug
18 Sep	US	Federal Reserve interest rate announcement	-
18 Sep	UK	Bank of England interest rate announcement	-
19 Sep	UK	Retail sales	Aug
22 Sep	Mainland China	People's Bank of China interest rate announcement	-
23 Sep	EU / UK / US	PMIs	Sep
30 Sep	Mainland China	NBS Manufacturing PMI	Sep
1 Oct	Eurozone	HICP	Sep
3 Oct	US	Non-farm payrolls	Sep

Source: LSEG Eikon, HSBC

Disclosure appendix

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