Marubeni Institute
株式会社丸紅経済研究所

2025 World Economic Outlook

The World Faces Trump 2.0

January 17, 2025

*Translated from the original Japanese version released at the end of December 2024 (slightly modified)

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Global Economy Set to Slow Down

Global growth is expected to slow down to 3.0 percent in 2025 alongside Trump 2.0

▽Real GDP Growth Forecast (YoY, %)

	Global Share 2023 (%)	2023 Actual	2024 Estimate	2025 Forecast	2026 Forecast
World	**100**	**3.3**	**3.1**	**3.0**	**2.9**
Advanced Economies	**40.7**	**1.7**	**1.7**	**1.6**	**1.5**
United States	15.0	2.9	2.8	2.2	2.0
Euro Area	11.9	0.4	0.8	0.7	0.9
United Kingdom	2.2	0.3	0.9	0.9	0.9
Japan	3.5	1.7	▲0.3	1.0	0.6
(FY)	-	0.8	0.2	0.8	0.5
Emerging Market and Development Economies	**59.3**	**4.4**	**4.2**	**3.9**	**3.9**
China	18.7	5.2	4.8	4.2	3.9
India	7.9	7.7	6.8	6.5	6.3
ASEAN-5	5.1	4.0	4.5	4.2	4.2
Emerging and Developing Europe	7.8	3.3	3.2	2.0	2.2
Latin America and the Caribbean	7.3	2.2	2.1	2.3	2.4
Middle East and Central Asia	7.3	2.1	2.4	3.7	3.7
Sub-Saharan Africa	3.2	3.6	3.6	4.0	4.1

Composition of each region/group is based on IMF. Global shares are calculated based on purchasing power parity (PPP).
Source: Marubeni Institute (Actual: IMF)

- **Global economic growth in 2025** is expected to be 3.0%, down from 3.1% in 2024. While lower inflation and gradual monetary easing will support economic growth, further global fragmentation will significantly weigh on the global economy.
- **The policies of the new US President Trump**, the most important factor in 2025, will inject more uncertainty not only in the US but also in the global economy as a whole. Although Trump's trade policies will likely hit the Chinese economy most significantly, other trading partners in the existing value chains will also be affected negatively. Sentiments for trade and investment stagnates as uncertainty deepen, which could make global economic growth much lower.
- **Inflation** continues to contract worldwide, but disinflation pace in the US will be slower due to the impact of additional tariffs as well as concerns about labor supply related to new immigration policies. **The Federal Reserve Board** should become more cautious on monetary easing, **while the European Central Bank** will keep on lowering its policy rate. **The Bank of Japan** will continue to raise interest rates, but the range of rate hikes will be limited amid a lackluster economic recovery.
- **Among developed economies**, the US economy will be slowing, but sustain a rather high growth rate, mainly due to a base effect. While the recovery in **the** European economy weakens, Japan's economic growth will rebound from the contraction in 2024. **As for emerging economies**, China's growth will be slower due to the worsening relation**s** with the United States. ASEAN and other economies which have strong ties to China will also come under downward pressure amid weaker external demand. On the other hand, economies led by domestic demand, such as India, will maintain a relatively robust growth pace.
- **Commodity prices** are set to decline mainly due to weaker demand caused by the global economic slowdown, particularly in China.
- **Risks** to the baseline scenario are generally tilted to the downside, including greater-than-expected global fragmentation, recurring inflation, turmoil in regional conflicts, and serious debt **crises** in fragile economies.

Trump 2.0: Baseline Scenario

Overall, Trump 2.0 has a negative impact on both US and global economies in 2025

- The re-election of the US President Trump is the most important factor for the global economy in 2025. Below is our assumption on Trump 2.0's policies along with our evaluation on the impact of these policies over both the US and global economies.

▽ Assessment of the impact on the US and global economies

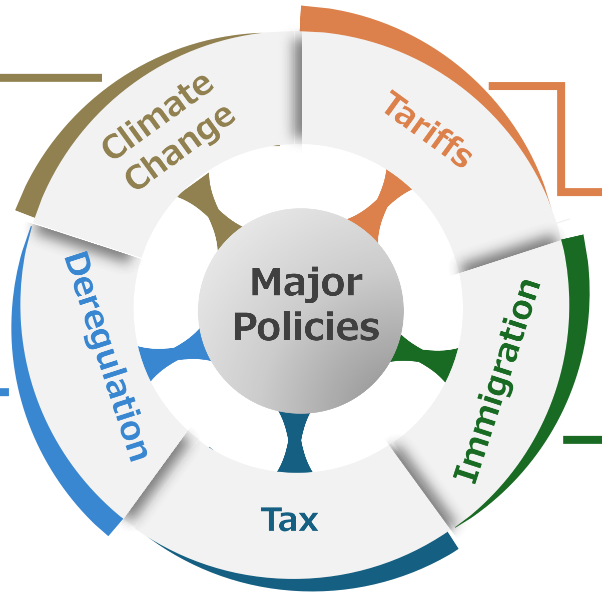
	Main Scenario in 2025	US Economy	Global Economy
Tariff	●Additional tariffs on China: Average 60% to be implemented in the first half of 2025 ●Universal additional tariffs: Average 10% will be implemented in the second half of 2025 ●China retaliates by restricting exports of critical minerals and adding US companies to the Entity List. The EU imposes additional tariffs as a countervailing measure. Japan and other countries avoid direct retaliation while negotiating with the US.	Inflationary pressures and increased burden on companies (negative) (positive)	Downward pressure on international trade and the Chinese economy
Immigration	●Half a million illegal immigrants are deported each year *Pew Research estimate (24/7) : As of 2022, there are 11 million illegal immigrants in the United States of which 8.3 million are employed.	Decreasing labor supply	Spillover from US economy and impacts on neighboring countries
Tax	The following will be implemented in 2025: ●Extension of the Trump Tax Cuts of 2017 (TCJA) (which expires at the end of 2025) ●Corporate tax cuts (21% → 20%, 15% for companies manufacturing in the US)	Reducing corporate tax burden	Spillover from the US economy
De-regulation	The following deregulation measures were implemented in 2025: ●Relaxation of emission regulations for thermal power generation and automobiles ●Relaxation of methane emission regulations ●LNG exports Resumption ●Postponement of the implementation of the final international banking regulations (Basel III) (originally scheduled for July 2025)	Expansion of the energy industry, etc.	Spillover from the US economy
Climate Change	The following will be implemented in 2025: ●Withdrawal from the Paris Agreement ●Cancellation of unimplemented funds from the Inflation Reduction Act (IRA), amendments to the EV tax credit, etc.	Renewable energy business (-) / Fossil fuel business (+)	Cautious stance on decarbonization investments
Total	●(Economy) US: Effects of tax cuts and deregulation are limited while Tariffs and immigration restrictions weigh on economy. World: Additional tariffs hurt global trade and Chinese economic sentiment ●(Inflation) US: Additional tariffs, tightening labor market due to immigration restrictions has an upward inflation pressure. World: Strong dollar puts upward pressure on import prices in some countries while global economic slowdown puts downward pressure on prices	The effects of tax cuts and deregulation are limited	Additional tariff policies put downward pressure on business

Source: Marubeni Institute

Trump 2.0: Pathways of Impact on Economy and Industry

Trump 2.0 will damage the US economy in the medium to long term and go against global climate control trends

- Tariffs will raise import prices in the United States, while possible disruption over the trade of intermediate goods will damage the export industry. Immigration policies will put pressure on the U.S. economy in the medium term from both the direct impact on production due to labor shortage, and the upward pressure on prices through raising wages. These impacts are not limited to the United States, but will spread to closely related economies.
- Tax cuts and deregulation have a certain effect in supporting the US economy, but if there is a significant cut in government spending, the positive effect may be partially canceled out. On the other hand, there remains a risk of fiscal loosening, and there is a possibility that interest rates will remain high.



Reconsidering policies on Climate change and fossil fuels

- IRA-related cases stalled or stopped (**US**)
- Climate change investment and employment stagnate (**US**)
- Energy Stocks Rise (**US**)
- Auto manufacturing performance improves (**US**)
- Downward effect on energy prices (**US**)
- Climate change investments stagnate in various countries (**World**)

The negative impact of rising prices in the U.S. is spreading overseas

- Switching of suppliers and disruption of domestic and international logistics (**US / World**)
- Rising import prices put downward pressure on consumption (**US**)
- Rising intermediate product prices put pressure on corporate performance (**US**)
- Retaliatory tariffs by other countries (**US / World**)
- Deteriorating performance of export industries, particularly agriculture and energy sectors (**US**)
- International trade stagnates (**World**)
- Sentiment worsens in exporting countries (esp. developing countries) (**World**)

Positive impact from reduced corporate costs and increased exports

- Cost reductions in related sectors (energy, automobiles, finance) (**US**)
- Energy (esp. LNG) exports increase (**US / World**)
- Expansion of cryptocurrency market (**US**)
- Lowering prices and economic support (**US**)
- Positive impact of the US economy on other countries (**World**)

While the effect of supporting the economy is limited in 2025, fiscal concerns may keep interest rates high

- Increased corporate value, rising stock prices, investment stimulation, supporting personal consumption (**US**)
- Improving corporate performance and investment / supporting employment (**US**)
- Interest rates remain high due to the rise of concerns about worsening government's finance (**US**)
- Spillover from US economy (**World**)

Economic slowdown caused by labor shortage due to tighter immigration policy spreads overseas

- Labor supply declines in sectors employing large numbers of illegal immigrants (**US**)
- Labor shortage leads to lower production, investment, and further reduction in productivity (**US**)
- Rising labor costs and potential upward pressure on prices (**US**)
- Domestic economic slowdown spreads to neighboring countries (**World**)

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Inflation and Monetary Policies

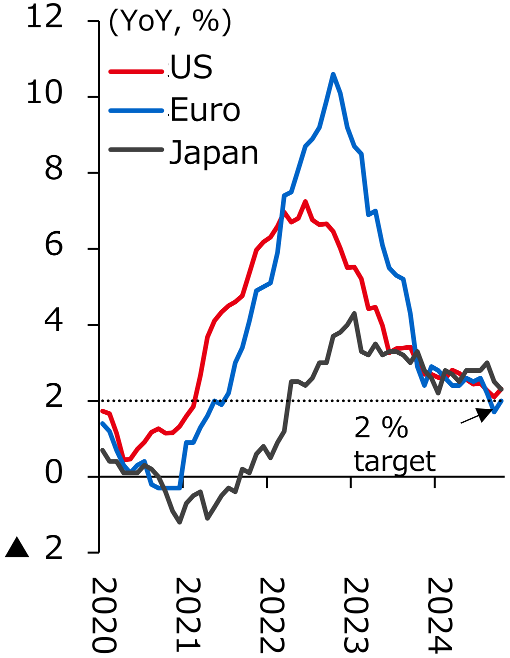
Trump 2.0 will keep inflation higher than expected and slow the pace of rate cuts

- In most countries, inflation rates are expected to gradually decline toward their central bank targets as economies slowdown.The United States, on the other hand, will likely face relatively sticky inflation due to the policies proposed by President Trump and an unexpectedly robust domestic economy. Although the level of inflation will not reach to that of 2022, tighter labor markets will keep inflation higher than expected.
- The US will continue to cut interest rates towards the neutral interest rate, but the pace will be slow in order to assess the impact of Trump's policies on prices and employment. The ECB will cut interest rates faster amid growing concerns about an economic downturn. On the other hand, Japan will raise interest rates but only cautiously due to uncertainty of the economic situation. Real interest rates, which are nominal interest rates minus the inflation rate, are declining gradually in Europe and the US, but a tightening environment will continue, while Japan is expected to maintain an accommodative environment for the time being.

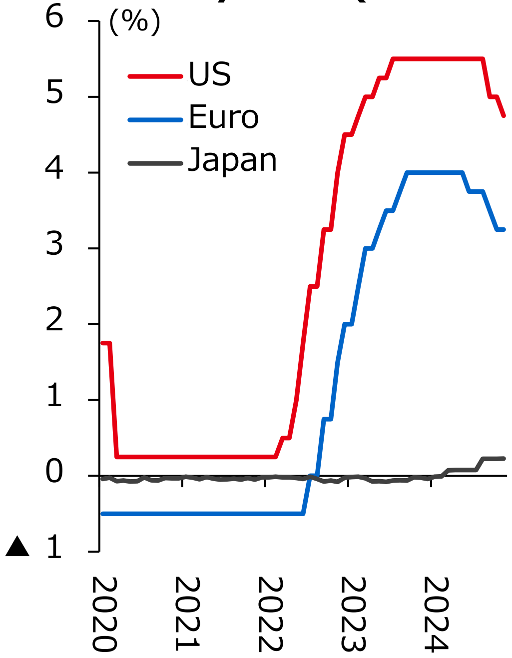
▽Trump's main pledges & Impact on prices

Tax cuts	↑	Making Trump's tax cuts permanent, lowering corporate tax rates, etc. (→ Boosting demand)
Customs Duties	↑	General tariffs (10-20%), tariffs on China (60%) , etc. (→ Pushing up import costs)
Immigra-tion	↑	Restrictions on entry of illegal immigrants, deportation of illegal immigrants, etc. (→ Shortage of goods supply, pushing up labor costs)
Energy	↓	Deregulation of oil and gas production, etc. (→Energy prices pushed down)

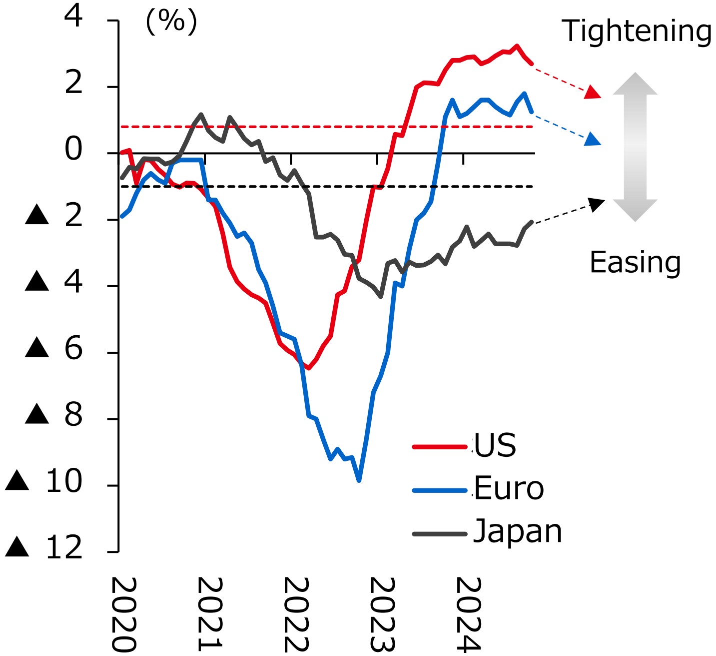
▽Inflation



▽Policy Rate (nominal)



▽Policy Rate (real)



*Inflation indicator: (US) PCE deflator, (Euro area) HICP, (Japan) CPI. Real policy interest rate is the policy interest rate minus inflation rate (YoY). The dotted line shows neutral interest rate caluculated by the central banks (there is a range of estimated values and it is not a uniquely determined value in reality).
Sources: BEA , Eurostat , FRB , ECB , Bank of Japan, Japanese Ministry of Internal Affairs and Communications.

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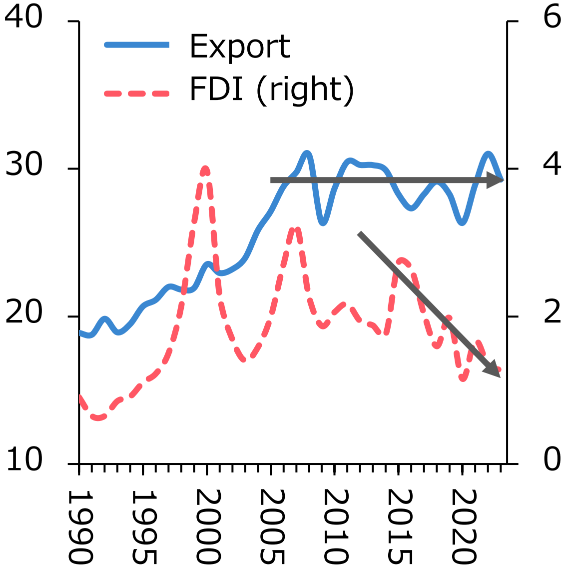
Trade and Investment

Trump 2.0 will accelerate the change in the flows of global trade and investment

- In recent years, amid the US-China trade war, the COVID-19 pandemic, and the Russia-Ukraine war, the ratio of global trade to GDP has stagnated, while foreign direct investment to GDP has also declined. Under the new US administration, it is likely that the fragmentation of the international community and the disruption of global trade and investment flows will accelerate.
- US imports from China have already declined due to high tariffs (around 20% on most imports) which has been already implemented since 2018. If an additional 60% tariff is implemented, imports are likely to fall further. Strict anti-circumvention measures will likely be implemented on countries like Mexico and Vietnam, which will make related trade decline as well. It is well recognized that China has huge excess production capacity that far exceeds domestic demand, and if access to the US market is restricted, it may intensify its aggressive export to other markets which could cause other trade conflicts.

▽Global exports and direct investment

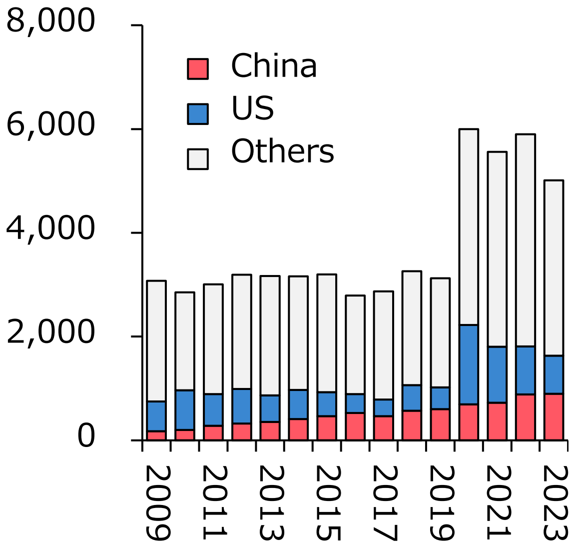
(Nominal GDP ratio, %) (Same as left)



*Arrows: Trend lines
Source: Macrotrends, UNCTAD, IMF, Marubeni Institute

▽Trade and investment intervention measures

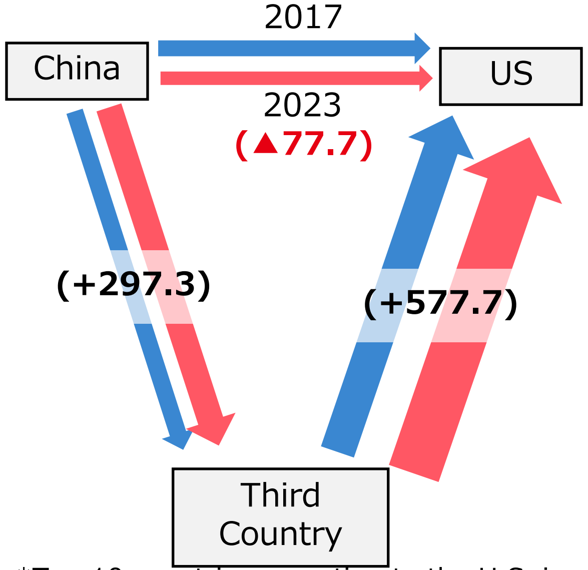
(Number of installations)



*Measures include tariffs, import quota, export controls, export subsidies, etc., which the source judges to be harmful.
Source: Global Trade Alert

▽Changes in trade flows

Billion (USD)



*Top 10 countries exporting to the U.S. in 2023, excluding China: Mexico, Canada, Germany, Japan, South Korea, Vietnam, Taiwan, India, Ireland
Source: ITC

▽ Major trade policies of the new US administration

Measures		Global Trade	Global FDI
Tariffs	60% on China 10% of the world	↓	↓
Measures on export circumvention	Mexico, Canada, etc.	↓	↓
Export Control	Advanced Technology, Mainly China	Mainly China ↓	–
Investment Regulation	Mainly China	–	Mainly China ↓
Other issues	Currency manipulator, revocation of MFN status, etc.	Mainly China ↓	–

*Down arrow indicates downward pressure
Source: Marubeni Institute

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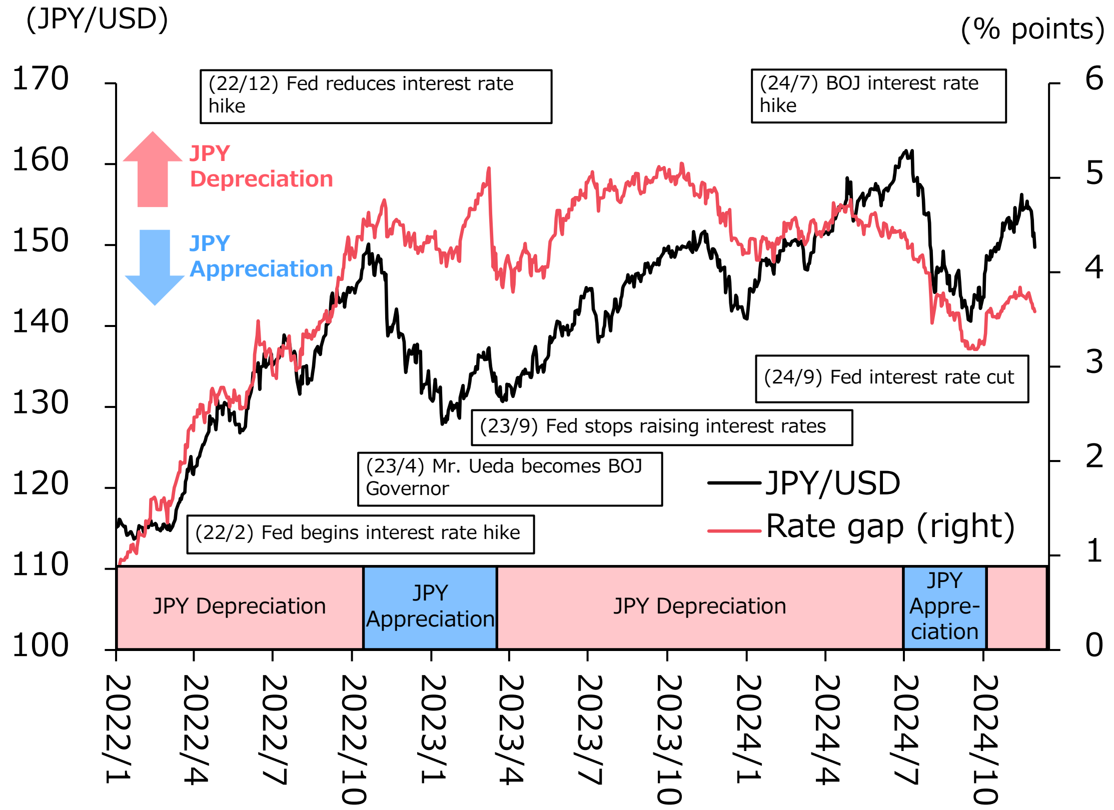
FX Market (JPY/USD)

The pace of JPY appreciation will be slower than expected due to Trump 2.0

- The underlying economic and inflationary trends in Japan and the US, and the accompanying revisions to monetary policy, tend to strengthen the yen and weaken the dollar through narrowing the Japan-US interest rate gap. Trump's policies including additional tariffs, however, will raise concerns about high inflation in the US and slow the pace of interest rate cuts by Federal Reserve Board (FRB). Although President Trump's priority of reducing trade deficit implies reversal of dollar appreciation, the policies he advocates indicate pressure for a stronger dollar on the contrary.

▽JPY/USD and



*Rate gap: US 2-year bond yield - JP 2-year bond yield
Source: LSEG

▽JPY/USD and Trump 2.0

Baseline		**(Japan and the US economy, inflation, and monetary policy)** **US interest rate cut, Japan interest rate hike** → Japan-US interest rate gap shrinks → Buy yen, sell dollars	**Dollar Depreciation** ▼▼
Impact of Trump policies	Tariffs	**Introduction of additional tariffs** →Rising import prices →Inflation → Fed's pace of interest rate cuts slows	**Dollar Appreciation Pressure** ▲
	Immigration	**Deportation of illegal immigrant workers** Labor shortage → wage increases → rising corporate costs → worsening performance of US companies → weak dollar	**Dollar Depreciation Pressure** ▼
	Tax cuts	**Corporate tax cuts** (Economic stimulus) → Increased demand → Inflation (Increase of US financial risk) → Selling of government bonds → Rising US interest rates	**Dollar Appreciation Pressure** ▲
	De-regulation	**Deregulation of fossil fuel businesses** As the United States becomes a net exporter of crude oil, the relationship between crude oil prices and the dollar becomes more complicated. This has an impact on domestic prices in the United States, but the impact on the exchange rate is neutral.	**Neutral** ▬
Total		The economic and inflationary trends in Japan and the United States, and the accompanying direction of monetary policy, aim for a stronger yen and a weaker dollar, but Trump's policies are generally creating stronger pressure for the dollar.	**Limited Dollar Depreciation** ▼

Source: Marubeni Institute

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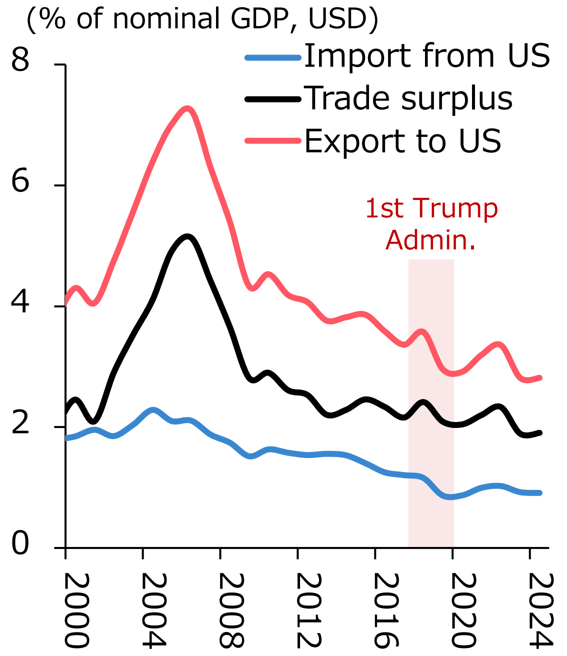
China in trouble

Trump tariffs will be the biggest downside factor while the room for Chinese policy narrows

- China's exports to the US (share of nominal GDP) have declined through the period which included the first Trump administration. They recovered once after the COVID-19 pandemic, but again fell to 2.8% in 2023. China is expected to retaliate against Trump's tariffs in a way that does not hurt its own economy seriously, such as imposing retaliatory tariffs limited to US agricultural products and devaluing the yuan. Nevertheless, if the announced high tariffs and restrictions on indirect exports are implemented, the negative impact on the Chinese economy is likely to be much greater than last time.
- In China, government debt (share of nominal GDP) has doubled over the past 10 years, due in part to the accumulation of past economic measures and the room for stimulus with additional government spendings is now much narrower than ever. Partly affected by Trump's tariffs, China's real GDP growth is expected to depreciate to below 4% YoY in the coming couple of years, which makes China's real challenge to manage economic policies while avoiding fiscal risks.

▽ China's trade with US



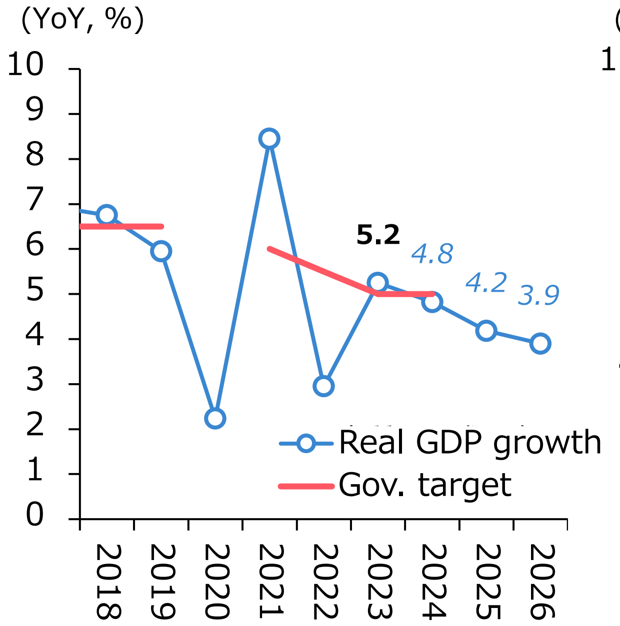
Source: General Administration of Customs of China, National Bureau of Statistics

▽Impact of Trump tariffs

	First Trump Administration	Second Trump Administration (Expected)
China tariffs	20% for most imports	60% for all imports (Early after assuming office)
China Retaliation	Retaliatory tariffs	Targeted tariffs, yuan depreciation, export subsidy, export restrictions on critical minerals, etc.
Trade Deal	Phase One trade deal in 2020	Unlikely to reach
Goods related to Climate Change	Limited impact due to China's immature supply chain	Significant impact due to China's reliance on climate change measures & goods
Influence on China	Relatively small	Significantly higher than the last time

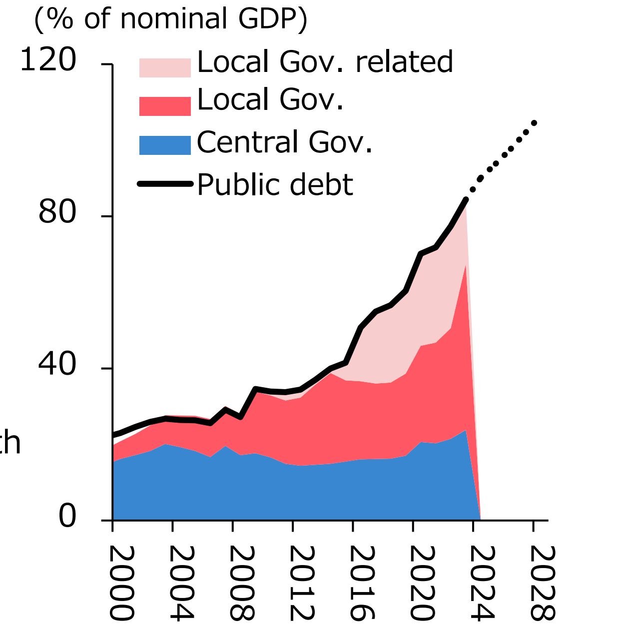
Source: Marubeni Institute

▽ Real GDP growth rate



*2024 to 2026 : Marubeni Research Institute forecast
Source: National Bureau of Statistics of China

▽Public debt outstanding



*The 14.3 trillion yuan of local government-related debt announced in November 2024 is included in local government debt for 2023.
Source: IMF, Ministry of Finance of China

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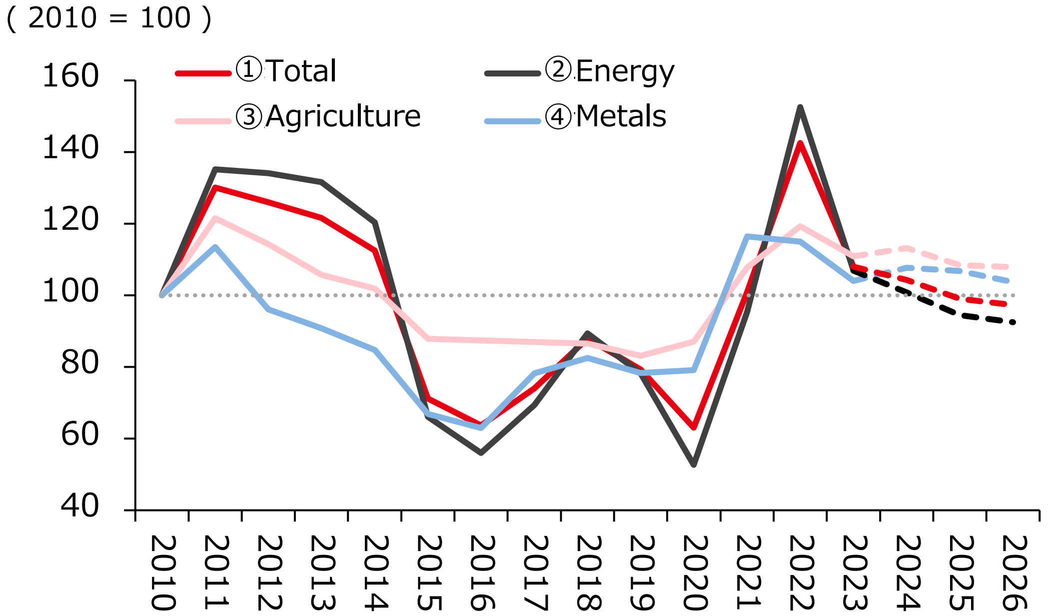
Further decline in commodity prices

Downward pressure continues from lacking demand and more than ample supply

- Commodity prices are expected to remain under downward pressure into 2025, falling to their lowest levels since 2020 for most goods. With ample inventory and supply capacity for major commodities, selling pressure is increasing due to a lack of demand caused by the slowdown in global economic growth, particularly the slump in the Chinese economy.
- In spite of more than ample supply globally, trade fragmentation may weaken the price adjustment function across economic blocs, which may induce localized price hikes. Note that price sensitivity to the changes in situations such as the Middle East situation (crude oil), Russia-Ukraine situation (natural gas and grains), and U.S.-China relations (all products) may increase.

Commodity Price Index



(Note) Each index is based on the World Bank's classification and is composed of ①all commodities; ②coal, crude oil and natural gas; ③agricultural products such as beverages, food and timber; and ④base metals, iron ore and precious metals.
Source: World Bank, Commodity Market Outlook, October 2024

	Major factors for commodity market
Energy	**Geopolitical risks (Middle East, Russia and Ukraine) ↑** ・Without actual supply chain disruption, the impact will be limited
Energy	**OPEC + out of step, production cuts eased (crude oil)** ・How long can OPEC tolerate non-OPEC production increases?
Energy	**US energy policy (LNG , fossil fuels, renewable energy) ↓** - Policy to strengthen development and export of fossil fuels
Energy	Shortage of demand due to decarbonization (fossil fuels) ↓
metal	**China's economic downturn ↓** The country's policies (economic stimulus measures, measures to curb excess production capacity) ↑
metal	**US-China relations (China's imports shrink ↓ , exports shrink ↑)**
Food	Weather (especially in North and South America, Russia): Good harvest ↓ La Niña expected to weaken in early spring in the Northern Hemisphere
Food	Russia-Ukraine War (decrease in exports from the Black Sea coast) ↑ The effects of war and weather have made the conditions for growing crops along the Black Sea coast the worst they've ever been.
Food	**US-China relations (China's imports shrinking ↓)**

*Arrows: the direction in which prices will be affected.
*Bold: Factors to be particularly focused on in 2025.
Source: Marubeni Institute

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Risks Tilted to the Downside

Uncertainty over U.S. policy is the biggest issue

	Downside Scenario	Upside Scenario
Trade Decoupling	**<u>Escalation beyond expectations</u>** In response to the large-scale tariff hikes by the US, major countries will take more aggressive retaliatory measures. The US is to set even higher tariffs on those countries that do not offer favorable terms to the US in their "deals".	**<u>Pragmatic "Tariff Man"</u>** The United States will postpone raising tariffs depending on the "deals" reached with each country. As for China, the impact on the domestic economy will be reduced by adjusting the tariff rates and on specific items. Each country will maintain a passive stance on retaliation in order to avoid tit-for-tat measures with the United States.
Economy, Finance	**<u>Sudden turbulence</u>** The pace of interest rate cuts will slow as inflation concerns resurface in the U.S.. The Chinese economy will deteriorate sharply due to Trump tariffs, while policy room has been narrowed by the housing slump and years of economic stimulus measures. In emerging countries, economic uncertainty is growing as a result of factors such as higher U.S. tariffs and a strong dollar, which are causing capital outflows from countries that are highly dependent on the U.S. or have weak fundamentals.	**<u>A robust US economy overcomes several negative factors</u>** Most of the tariff hike will be absorbed by corporate efforts, and a serious resurgence of inflation can be avoided. Major countries continue to lower interest rates as disinflationary trends returned. Uncertainty pertaining to the "Trump risk" will also be gradually resolved.
Geopolitics	**<u>Further prolonged conflicts</u>** Russia, seeing the stagnation of US support and the decline of morale on the Ukrainian side, will step up its offensive against Ukraine. Ceasefire talks are proving difficult, and instability continues in the surrounding region. the Middle East , Israel may intensify its offensive against neighboring countries. Anti-Iran hardliners are gaining a voice within the U.S. administration, escalating conflict with Iran. Risks to maritime traffic increases.	**<u>Non-Inverventionism brings "Peace without Justice"</u>** President Trump, who is reluctant to intervene militarily overseas, is to urge various countries to seek ceasefires and resolve regional conflicts, easing geopolitical risks in Russia, Ukraine and the Middle East.

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