

Economic Outlook 2025

Trump 2.0 Policy Assumptions and Impact on the Global Economy

Mizuho Research & Technologies, Ltd.

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Key points of our outlook

The global economy will face headwinds from tariff hikes by the U.S. and retaliatory actions by China and other countries. The contraction of global trade and rising prices will be downward pressure on the global economy. The short-term impact of tariffs is expected to be limited to -0.1% as countries try to mitigate the negative impact of tariffs by lowering export prices and accelerating expansion into the third country markets. However, it will take time for full-scale alternative production to start, and recovery in world trade volume is likely postponed until 2026 or later.

In the U.S., the incoming Trump administration is expected to implement policies such as tariff hikes while assessing the impact of tariff increases on prices and the boosting effects of tax cuts. Supported by income growth and rising asset prices, the U.S. economy is expected to remain robust in the near term, driven primarily by consumer spending. Although the Inflation rate is expected to continue slowing, it is likely to rise again from mid-2025 due to the impact of tariff hikes. The Federal Reserve is anticipated to end monetary easing at a level around mid-3% range.

In Europe, the impact of the Trump's tariffs on exports will be modest overall, but the impact on Germany and Italy, which have large trade surpluses with the U.S., is expected to be relatively large. The pace of investment recovery is likely to remain sluggish due to high interest rates.

In China, the adjustment in the real estate market is expected to continue and domestic demand is likely to remain sluggish. The growth rate in 2025 will slow to the low 4% range, partly due to downward pressure from the Trump's tariffs. In NIEs and ASEAN, exports are expected to maintain a recovery trend, led by the electronics sector, but the economy is likely to experience only a sluggish recovery due to the impact of tariff increases.

In Japan, the negative impact of the Trump's tariffs will be limited. With high level of corporate earnings and intensifying labor shortage, the wage increase rate in the spring labor negotiations will remain elevated. Supported by a favorable income environment, consumption is anticipated to recover. Consumer prices are expected to remain around +2% in the second half of FY2025, as companies move to pass on costs to consumers.

The BOJ is expected to raise interest rates to 1% in FY2025. Thereafter it is predicted to adopt a wait-and-see approach to assess the impact of the rate hikes. Long-term interest rates will rise to the mid-1% range. The dollar-yen exchange rate is expected to appreciate to the low-140 yen range by the end of FY2025, driven by a narrowing interest rate gap between Japan and the U.S.

Perspective of the World: The Global Economy Shaped by Trump 2.0 and the Response of Each Country



The U.S. Assessing the Effects and Side Effects of Trump 2.0

Applying pressure through tariffs to address bilateral issues.

While tariff hikes encourage partial domestic production, they also have side effect such as price hikes.

Adjusting policies while assessing the impacts.



China Accelerating its Move Toward Self-Reliance and Strength

Countering U.S. tariff hikes and export restrictions.

Mitigating the impact of U.S. tariffs by lowering export prices and accelerating expansion into the third country markets.

Leveraging U.S. export restrictions as an opportunity to strengthen domestic industry.



Geopolitics Narrows European Options

Euro's security strategy will depend on the future situation of the Ukraine. Countermeasures are limited due to considerations for NATO unity.

Germany and Italy are expected to be significantly affected.



Japan Struggling to its Response to The U.S. and China

Japan employs a strategy of emphasizing its contributions to the U.S. economy.

China will send overtures to Japan. The impact on Japan's exports will be limited.



Asia Aiming to Reap Benefits as a Bystander

Asia gains an advantage in price competition with China. The intensification of U.S.-China tensions serves as an opportunity to accelerate the attraction of foreign capital and aim for the advancement of manufacturing industries.

The U.S. tariff hikes pose headwinds for the global economy. Individual countries try to mitigate the impact of tariffs. **So short-term tariff impact on the global economy is minor (-0.1% downward pressure).**

On the other hand, the impact varies depending on each country's ability to respond to Trump's policies.

World Economic Outlook: The Reduction in Trade Volume Caused by Trump's Tariffs Weighs on the Global Economy

World Economic Outlook Summary Table

	(Year over year, %)			(%Pt)	
	2023	2024 (Outlook)	2025 (Outlook)	2024 (Comparison with the October 2024 outlook)	2025
Global real GDP growth	3.3	3.1	3.0	▲ 0.1	▲ 0.1
Japan, US, Europe	1.6	1.6	1.4	-	▲ 0.1
US	2.9	2.8	1.9	0.1	-
Eurozone	0.4	0.7	0.9	-	▲ 0.1
UK	0.3	0.9	1.4	▲ 0.1	▲ 0.2
Japan	1.5	▲ 0.2	1.2	-	-
Asia	5.3	5.0	4.6	▲ 0.1	▲ 0.1
China	5.2	4.8	4.2	-	▲ 0.2
NIEs	1.4	2.9	1.7	0.2	▲ 0.2
ASEAN5	4.4	4.9	4.8	0.1	-
India	7.7	6.5	6.4	▲ 0.3	-
Australia	2.0	1.1	1.6	▲ 0.4	▲ 0.1
Japan (FY)	0.7	0.4	1.0	-	-

The tariff hikes by the incoming Trump administration are expected to shrink global trade, dampening growth rates, particularly in China. The initiation of alternative production will take time, pushing the recovery of trade volumes beyond 2026.

While personal consumption exceeds expectations, Trump's tariffs are likely to push up domestic prices. Combined with a delayed timeline for the Federal Reserve's rate cuts, the growth rate is expected to be moderate.

The overall impact of Trump's tariffs is relatively limited. However, the increasing effects on specific industries, such as automobiles, will further intensify headwinds for the German economy.

Amid sluggish domestic demand, the significant increase in U.S. tariffs on Chinese goods weighs on the economy. While strong export competitiveness and corporate price cuts help mitigate the impact, Trump's tariffs are expected to push down the 2025 growth rate by 0.2%.

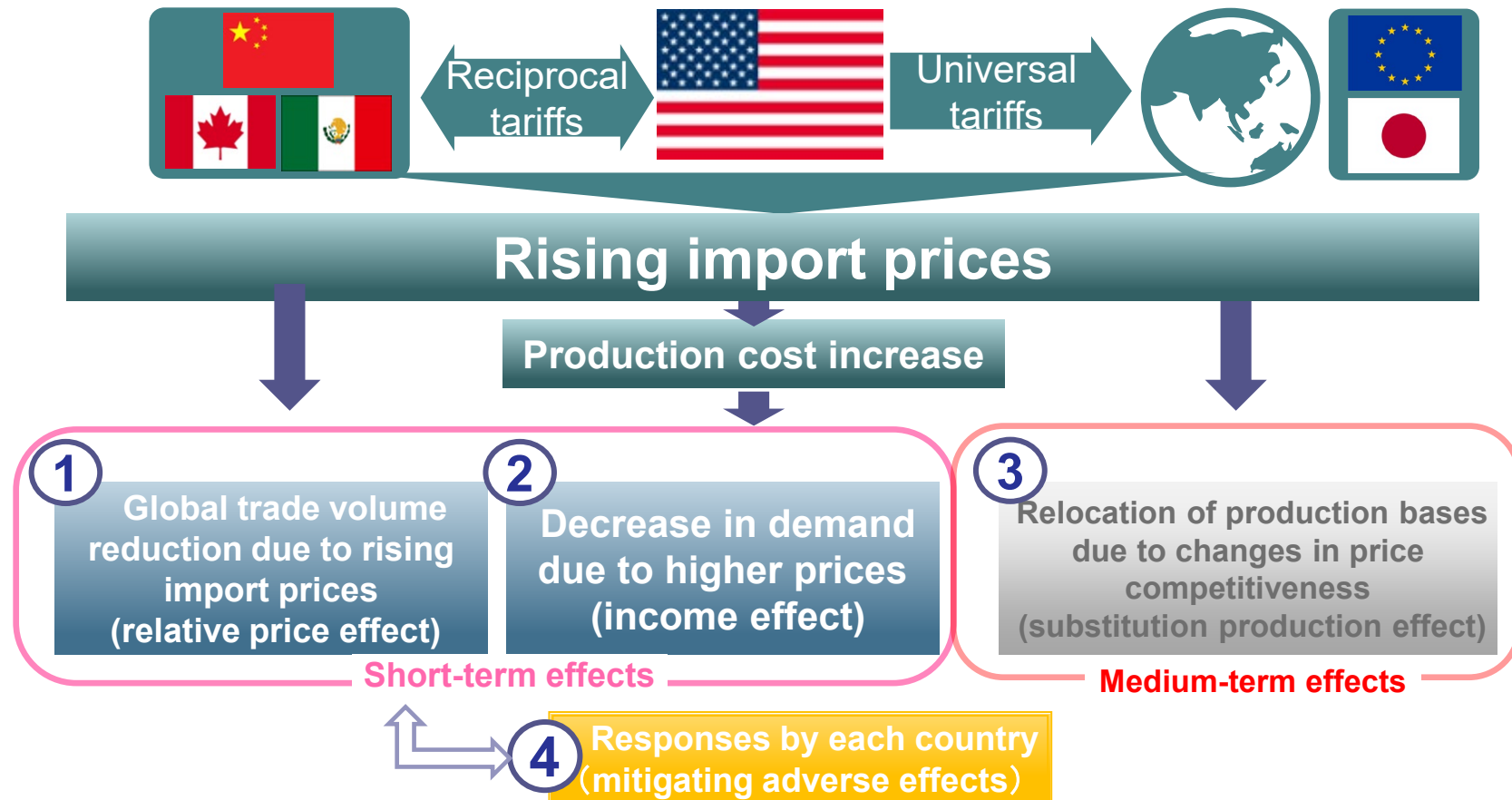
The direct impact of Trump's tariffs is limited, and the virtuous cycle of wages and prices is expected to continue. With robust wage growth, the Bank of Japan is anticipated to raise interest rates three times by the end of FY 2025.

Note: Shaded areas are forecasts. World growth rates are calculated based on the IMF's share of GDP (PPP).
Source: Compiled by Mizuho Research & Technologies based on IMF and country/regional statistics.

Tariff Wars Depress the Global Economy through Reduced Trade Volume and Rising Prices

- The ripple effect of rising import prices through tariff hikes:
 - A reduction in global trade volume due to the relative increase in the price of imported goods (negative)
 - A decline in demand caused by reduced purchasing power due to higher prices (negative)
 - Reorganization of production bases due to changes in price competitiveness (with mixed effects by country)

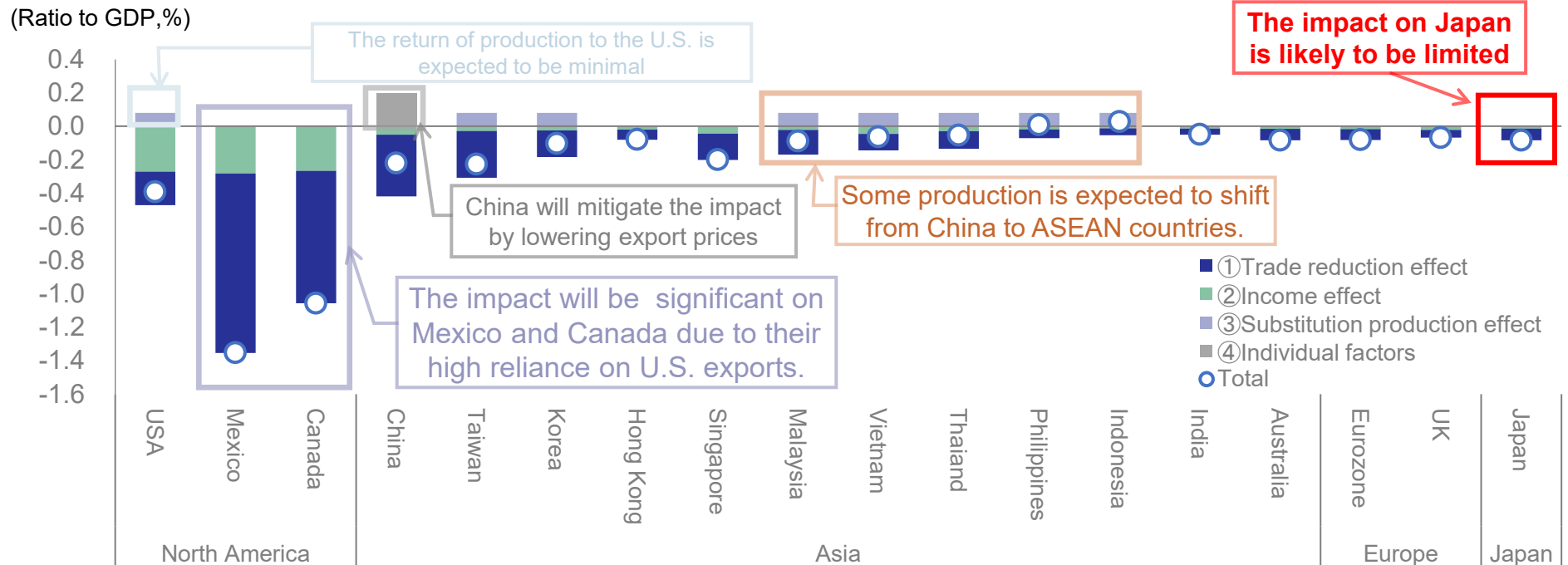
Paths of Impact of Tariff Hikes



The Impact of Trump's Tariffs on Japan is Expected to be Relatively Smaller Compared to Other Countries such as Mexico and Canada

- Taking into account alternative production and individual measures by each country, we estimate that tariff hikes will have a downward impact from 0.0% to 0.4% across countries.
 - Mexico and Canada are expected to be significantly impacted due to their high dependency on the U.S. The return of production to the U.S. is likely to remain limited.
 - In the Asian region except China, tariff impacts will be partially mitigated by the emergence of some alternative production.
 - Some goods produced in China hold a high market share, making alternative sourcing difficult. And the reduction in export prices to secure export volumes is also likely to mitigate the impact of Trump's tariffs.

The economic impact of tariff increases on various countries in 2025



Japan: High Level of Corporate Earnings will be Used for Wages and Capital Investment, Leading to a Moderate Recovery Led by Domestic Demand

- Japan's real GDP growth rate for fiscal 2024 is projected at +0.4% year-on-year (with an estimated 1Q/1Q growth rate of around +1%).
 - High corporate earnings are expected to drive domestic demand through increased wages and capital investment.
- The growth rate for fiscal 2025 is projected at +1.0% year-on-year.
 - While exports are anticipated to remain sluggish due to the slowdown in the global economy, personal consumption is expected to maintain a recovery trend, supported by continued robust wage increases. Sustained investment demand for labor-saving and decarbonization initiatives are also expected to drive domestic demand.

Japan Economic Outlook Summary Table

		2023	2024	2025	2024				2025				2026
		FY	(Outlook)		Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
GDP (real)	Q-o-q % ch	0.7	0.4	1.0	▲0.6	0.5	0.3	0.3	0.1	0.2	0.3	0.3	0.2
	Q-o-q % ch p.a.	—	—	—	▲2.2	2.2	1.2	1.3	0.6	0.9	1.1	1.3	0.8
Domestic demand		▲0.7	1.1	1.0	▲0.2	1.0	0.5	0.1	0.2	0.2	0.3	0.3	0.2
Private-sector demand		▲0.7	0.9	1.0	▲0.2	0.7	0.7	0.2	0.2	0.2	0.3	0.4	0.2
Personal consumption		▲0.4	0.6	1.1	▲0.6	0.6	0.7	0.1	0.2	0.2	0.2	0.3	0.4
Housing investment		0.8	▲1.9	▲0.6	▲2.7	1.2	0.4	▲1.0	▲0.6	0.3	0.1	▲0.0	▲0.2
Capital investment		▲0.1	1.9	1.6	▲0.4	1.1	▲0.1	0.4	0.3	0.5	0.5	0.5	0.5
Inventory investment		Q-o-q contribution, % pt (▲0.4)	0.1	▲0.1	(0.4)	(▲0.1)	(0.2)	(0.0)	(0.0)	(▲0.1)	(0.0)	(0.0)	(▲0.1)
Public-sector demand		▲0.7	1.5	0.9	▲0.2	1.7	▲0.1	0.1	0.3	0.3	0.2	0.3	0.2
Government consumption		▲0.8	1.6	1.2	0.2	1.0	0.1	0.2	0.3	0.3	0.3	0.3	0.3
Public investment		▲0.3	1.4	▲0.1	▲2.1	5.2	▲1.1	▲0.5	0.2	0.1	0.0	0.1	0.1
External demand		Q-o-q contribution, % pt (1.4)	(▲0.7)	(▲0.0)	(▲0.4)	(▲0.4)	(▲0.2)	(0.2)	(▲0.1)	(0.0)	(▲0.0)	(▲0.0)	(▲0.0)
Export		Q-o-q % ch	2.8	1.4	2.8	▲4.1	1.5	1.1	0.8	0.6	0.9	0.5	0.4
Import		Q-o-q % ch	▲3.3	4.4	2.8	▲2.4	3.3	1.8	0.1	0.9	0.8	0.6	0.5
GDP (nominal)		Q-o-q % ch	4.9	3.1	2.8	▲0.1	1.9	0.5	1.1	0.3	1.1	0.3	0.9
GDP deflator		Y-o-y % ch	4.3	2.7	1.8	3.1	3.2	2.4	2.6	2.4	2.1	1.9	1.8
Domestic demand deflator		Y-o-y % ch	2.5	2.2	1.3	2.1	2.6	2.1	2.2	1.9	1.6	1.4	1.2

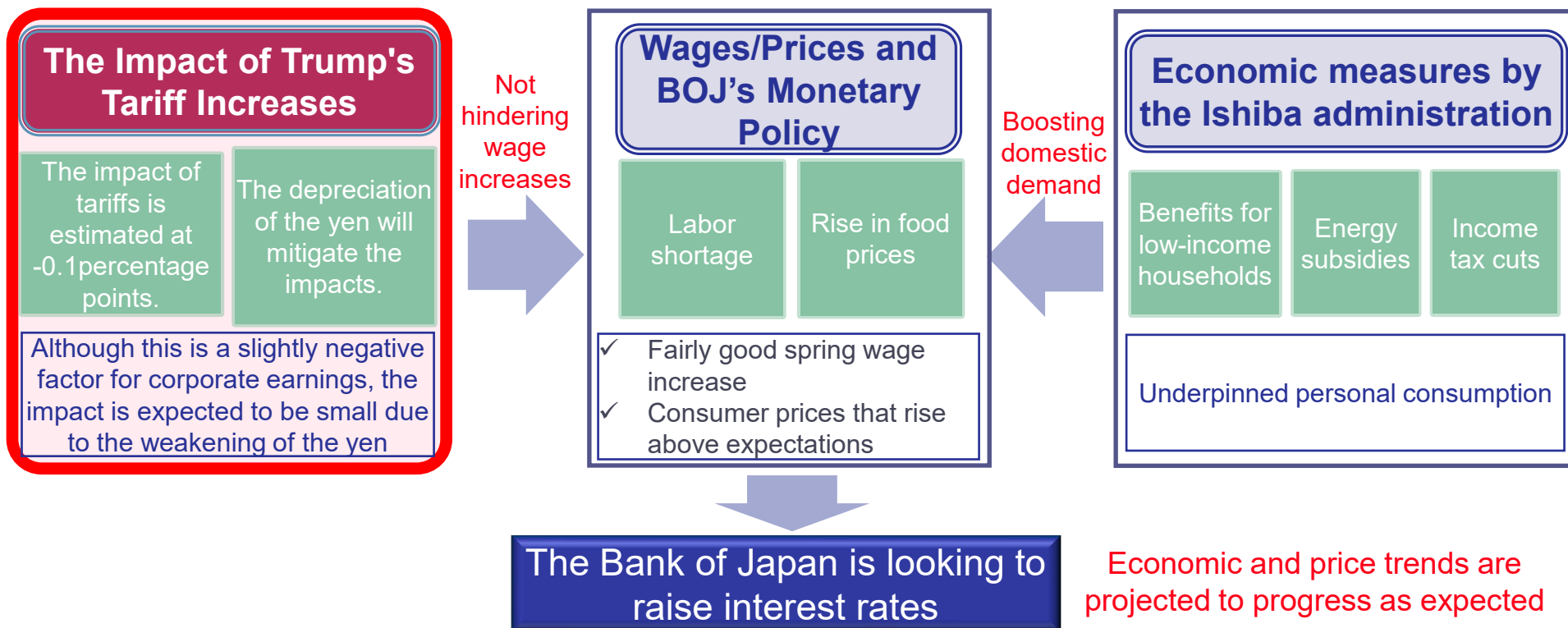
Note: Shaded figures are forecasts.

Source: Compiled by Mizuho Research & Technologies based on "Preliminary Quarterly GDP Report," Cabinet Office, Government of Japan

The Virtuous Cycle of Wages and Prices is Expected to Continue. The Impact of Trump's Tariffs is Likely to be Offset by the Fiscal Policies

- The drag on external demand from Trump's tariffs is expected to remain modest. Supported by the government's fiscal policies, domestic demand is likely to sufficiently offset the impact of Trump's tariffs.
 - The overall effect on corporate earnings is expected to be limited due to the continued depreciation of the yen against the dollar. This is unlikely to hinder wage increases.
 - Reflecting labor shortages, the momentum for wage and price increases is likely to persist. The Bank of Japan is anticipated to implement rate hikes approximately once every six months.

The Impacts of Trump Tariff Policy and Fiscal/Monetary Policies

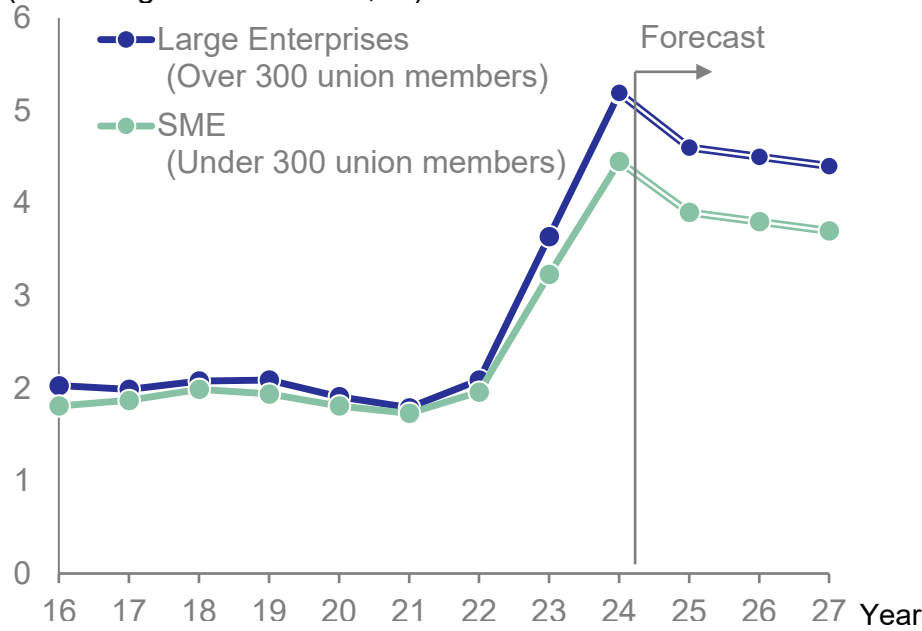


The Wage Increase Rate in the 2025 Spring Labor Negotiations is Expected to Remain at a High Level. Consumer Prices are Also Likely to Hover Around 2%

- Amid worsening labor shortages and rising prices, the 2025 spring labor negotiations are expected to result in a high wage increase rate of around the upper 4% range.
 - Labor unions' wage hike demands for the 2025 negotiations exceed those of 2024, driven by the severe labor shortage.
- In addition to high wage increases and yen depreciation, the reduction of government energy subsidies will act as an upward factor for prices.
 - The core CPI for FY 2025 is projected to hover around 2% year-on-year.

Outlook for Spring Pay Raise Rates

(Total wage increase rate, %)

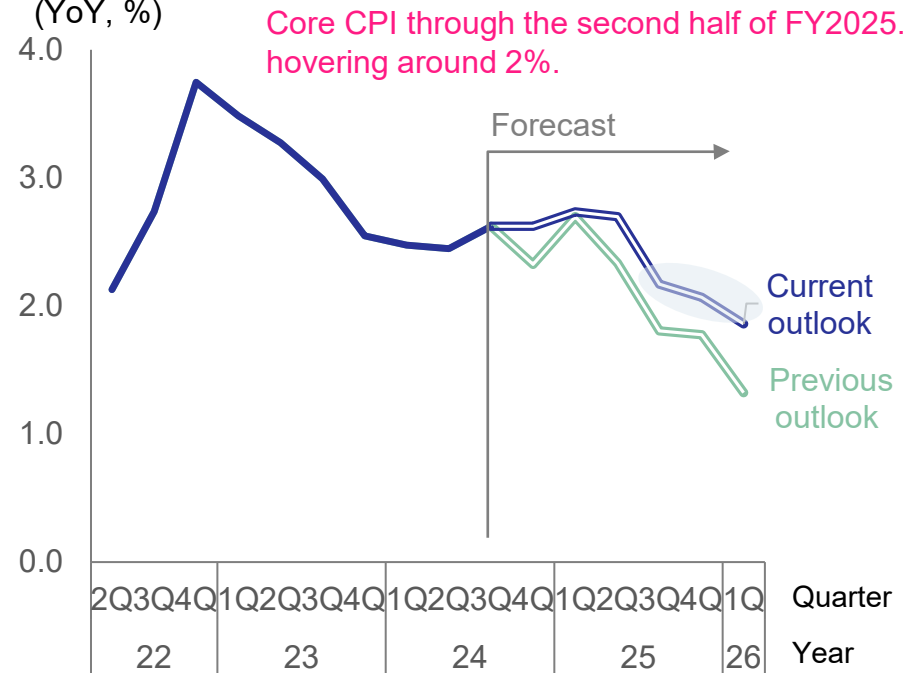


Note: Figures for actuals are federated totals.

Source: Compiled by Mizuho Research & Technologies based on data from the Japanese Trade Union Confederation (RENGO).

Core CPI Outlook

(YoY, %)



Source: Compiled by Mizuho Research & Technologies based on the Consumer Price Index by the Ministry of Internal Affairs and Communications.

The BOJ is Expected to Continue Raising Interest Rates in FY2025. Long-Term Interest Rates are Projected to Rise to Around the Mid-1% Range

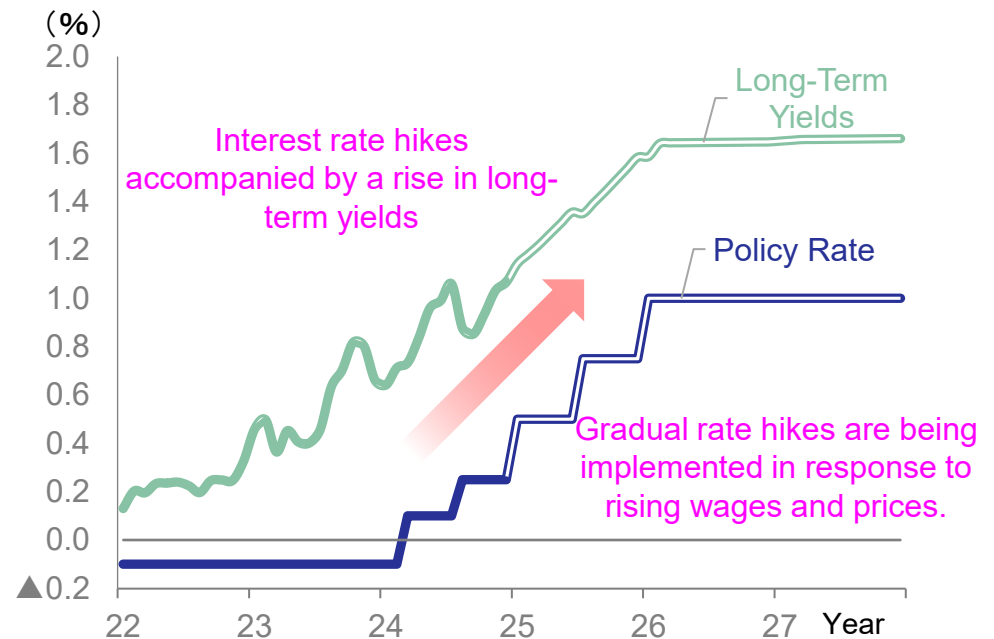
- The Bank of Japan is expected to raise interest rates to 1% while carefully assessing the impact of Trump's policies.
 - For FY2025, robust wage growth in the upper 4% range and inflation around 2% are anticipated, suggesting a strong likelihood that the BOJ will continue its gradual rate hikes.
 - The BOJ is projected to implement rate hikes at a gradual pace of about once every six months, taking into account the impact of Trump's tariffs and other economic considerations.
 - In the foreign exchange market, a moderate appreciation of the yen against the dollar is expected. Japan's long-term interest rates are likely to rise to the mid-1% range by the first half of 2026.

Conditions for BOJ Interest Rate Hike (FY2025)

✓ Supporting interest rate hikes	wages	The 2025 spring wage negotiations are expected to result in wage increases in the upper 4% range
✓ Supporting interest rate hikes	Prices	The core inflation rate is expected to remain around 2% in FY 2025
✓ Significant rate hikes are not necessary	Exchange Rate	A gradual appreciation of the yen against the dollar is anticipated
△ careful attention is needed	Trump Tariffs	Minimal economic impact, but there may be some impact on the stock prices, such as automobiles

Source: Compiled by Mizuho Research & Technologies

Outlook for BOJ's Policy Rates and Long-Term Interest Rates



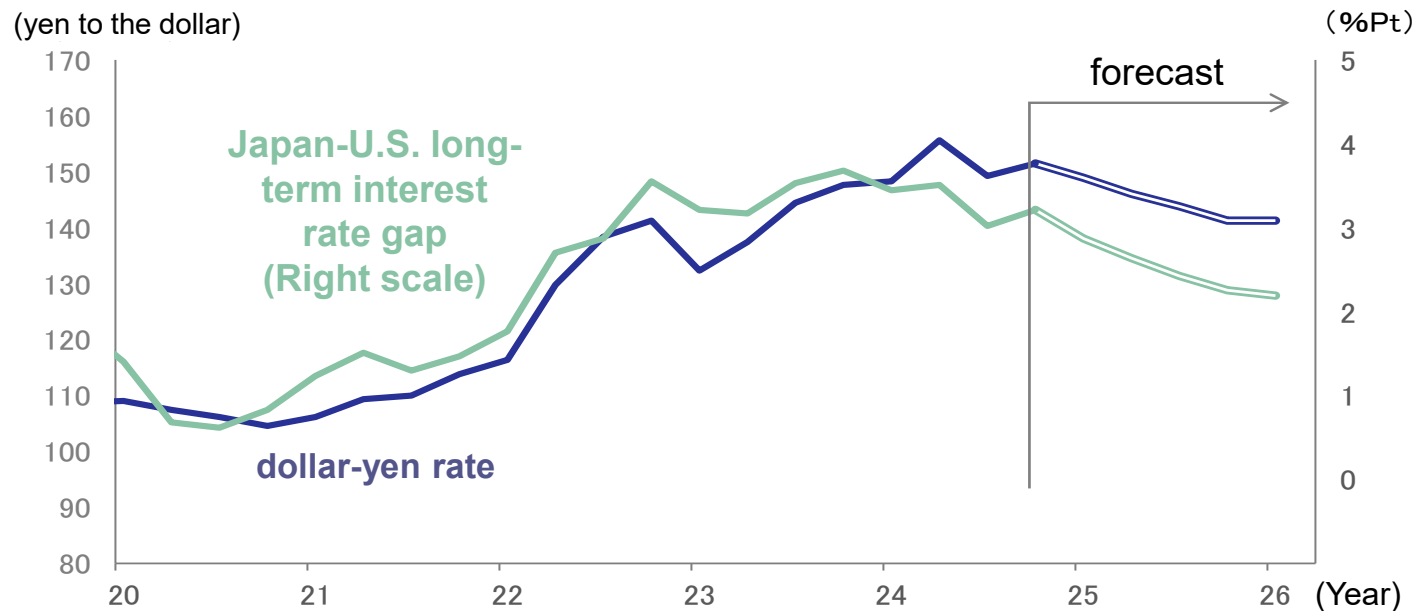
Note: Long-term interest rates are the 10-year JGB yield. Solid line: actual, double line: forecast.

Source: Compiled by Mizuho Research & Technologies from LSEG.

Assuming a Slow Appreciation of the Yen Through the End of 2025 Due to the Narrowing of the Japan-U.S. Interest Rate Gap

- While the BOJ is expected to continue gradual rate hikes, the Federal Reserve is projected to maintain moderate monetary easing, leading to a gradual narrowing of the Japan-U.S. interest rate gap.
 - In response to this narrowing, the USD/JPY exchange rate is forecast to strengthen the yen moderately, reaching the lower 140s by the end of 2025.
 - The Federal Reserve are expected to halt its easing cycle at higher-than-expected interest rate level, suggesting that the yen appreciation trend is unlikely to continue thereafter.
 - Additionally, speculative dollar buying driven by expectations of persistently high U.S. interest rates is seen as a factor that will slow the pace of yen appreciation.

Japan-U.S. Interest Rate gap and the U.S. Dollar/Yen Exchange Rate



Note: The difference between the Japanese and U.S. long-term interest rates is the difference between the Japanese and U.S. yields on 10-year government bonds.
Source: Compiled by Mizuho Research & Technologies from LSEG.

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