

Economic Forecast for 2025 and Beyond

Growth with Continued Inflation

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The economic forecast for 2025 shows growth, but at a slower pace than 2024.

Inflation will remain above the Federal Reserve's target, with President Trump's policies limiting production while stimulating spending.

Consensus projects the US will outperform expectations while the euro area lags behind amid fresh tariffs that are anticipated from the Trump administration.

Worldwide GDP is forecast to expand 2.7% next year on an annual average basis, just above the consensus forecast of economists surveyed by Bloomberg and matching the estimated growth in 2024. US GDP is projected to increase 2.5% in 2025, well ahead of the consensus at 1.9%. The euro area economy is expected to expand 0.8%, compared to the consensus of 1.2%.

In equities, the outlook for earnings is strong, yet valuations are already very high.

We still have global growth that's healthy, probably not too dissimilar to what we had last year. We still have inflation coming down a bit further and central banks cutting rates.

But there is a subtle shift!

Where valuations look more appealing, the earnings outlook is less enticing. In the US, we expect deregulation and lower taxes to extend economic and equity market exceptionalism. Trade tariffs will weigh on growth elsewhere. We favour Japanese equities in non-US developed markets and India in emerging markets.

Following new US trade and energy policies, 2025 will likely be a year of US dollar strength and lower oil prices. We expect gold to perform well on haven demand and structural buying from central banks, but returns are unlikely to be comparable to 2024. Industrial metals should be supported by positive economic growth.

Risks to the economic forecast.

International conflict poses significant risk to the U.S. economy. Absent big changes, though, the global economy looks stable.

Conflicts could certainly throw monkey wrenches into economic forecasts, as the Russia-Ukraine war did. China-Taiwan could certainly explode. The Middle East remains a prime locale for disruption.

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In the US, tariffs and retaliation could throw the United States economy into chaos.

Supply chains vary, but many are tight rather than flexible. Common commodities such as wheat, oil or copper can easily be sourced from different countries when tariffs push up the cost from one supplier.

Custom-made products, on the other hand, present a severe problem. If an automobile manufacturer, for example, contracts with a supplier for a particular style of component for one specific model of car, then it will be difficult to change suppliers.

Many internationally-traded products fit in between these two extremes. Although a trade war would not throw the global economy into recession, one could certainly bring growth to a standstill, with the most effected industries in actual recession.

On the positive side, artificial intelligence could boost output per worker in a number of sectors, including healthcare, finance, manufacturing and information technology. That would lead to more inflation-adjusted GDP despite limited growth of the labor force. However, the upside potential is not as big as the downside possibility.

With this perspective, businesses should put relatively little effort into contingency planning for alternative economic forecasts and more effort into sector and industry-specific supply risks. Those risks could come from new policies related to tariffs and immigration, as well as supply chain problems.

Real GDP growth forecasts

(% change, yoy)

	<u>2024E</u>	<u>2025E</u>	<u>2026E</u>
World	2.7%	2.7%	2.6%
US	2.8%	2.5%	2.3%
Euro Area	0.8%	0.8%	1.0%
Germany	-0.1%	0.3%	0.8%
France	1.1%	0.7%	1.0%
Italy	0.5%	0.6%	0.9%
Spain	3.0%	2.0%	1.5%
China	4.9%	4.5%	4.0%
Japan	-0.2%	1.2%	1.1%
UK	0.9%	1.3%	1.3%
Canada	1.1%	1.9%	2.0%
India	6.7%	6.3%	6.7%
Brazil	3.1%	2.0%	2.3%
Russia	3.5%	1.2%	2.1%

Source: Goldman Sachs