Macro Monthly

Economics
GLOBAL

Tariff risks weighing on global growth

- US tariffs and heightened uncertainty look set to deliver a significant blow to global growth through various channels
- US inflation is likely to rise, but lower energy prices, stronger FX, and China trade diversion could lower inflation elsewhere
- We recently lowered our global GDP growth forecasts to 2.3% for both 2025 and 2026

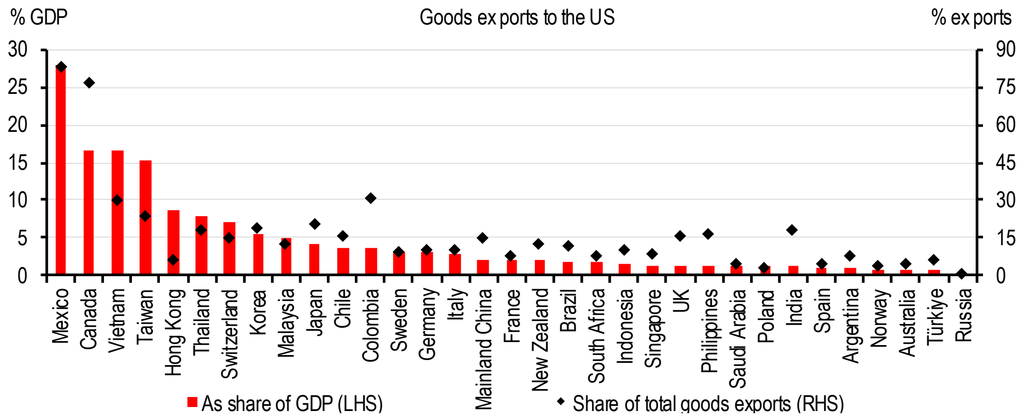
The pace of US policy shifts since the 'Liberation Day' announcements has been dramatic. The reciprocal tariffs, related financial market turmoil, the US's rapid U-turn, and a doubling down on mainland China tariffs will undoubtedly weigh on trade flows, investment plans, and broader activity. And for many economies the impact is likely to be substantial.

Relative winners and losers

Countries with lower US exposure are more immune

The tariff turmoil is bad news for the global economy but there will still be relative winners and losers. Countries with **lower exposure to US imports of tariffed items**, particularly if also set to benefit from China and EU fiscal stimulus, **will be more immune**, and vice versa. Others could gain by supplying goods currently sourced from China, if US trade actions make them prohibitively expensive. Vietnam, Mexico, Thailand, and India are top of that list, if they can avoid large tariffs themselves. Meanwhile, economies like Brazil could benefit if China sources more agricultural products from outside the US.

1. A 10% tariff could still hurt many economies



Note: Mexico and Canada are exempt from the baseline 10% tariff.
Source: IMF DOTS

US import compression

The US could be most at risk from tariff uncertainties

The biggest uncertainty effects **may be in the US itself**. At a minimum, there will be enormous disruptions to supply chains for a vast array of small and large US companies. The tariffs might slow imports and push up prices for companies and consumers. US profit margins are likely to be squeezed. And companies reliant on foreign components could be less competitive in international markets and consumer goods prices will rise.

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Sector-specific vulnerabilities

Exports from energy producers are less affected

As well as overall dependence, product mix of trade flows will also determine the direct impact. Some products are exempt from the 10% baseline reciprocal tariffs – either because they fit into the categories of **energy and critical minerals**, or because the US can't easily source them domestically – for example zinc, tin, and other base metals. Products that face higher tariffs include autos, steel, and aluminium (already in place), and, potentially, pharmaceuticals and semiconductors.

US-China breakdown

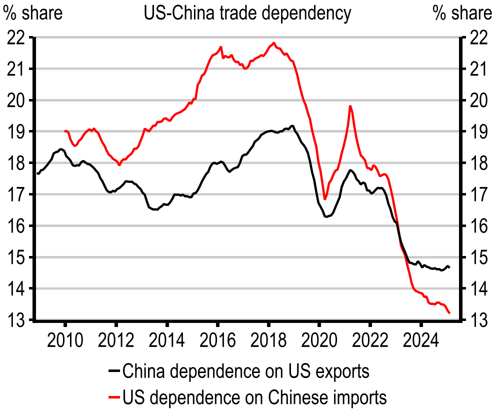
The main area of bilateral trade with the US that looks set to plummet is between the US and China. However, the world's two largest economies are **less reliant on each other than in the past**: just over 13% of US imports are from mainland China and less than 15% of mainland China's exports go to the US. On the other side of the relationship, only c7% of US exports go to mainland China and only c6% of mainland China's imports are from the US (Chart 2).

Inflationary impact

Inflation expectations in the US are on the rise

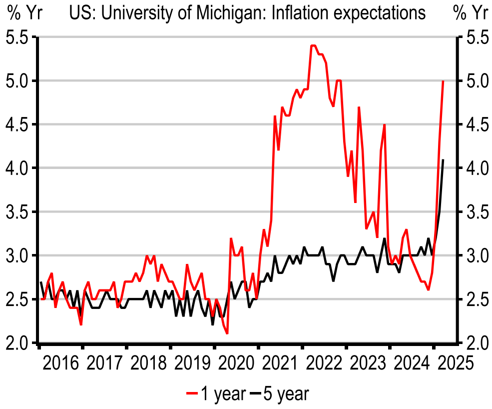
The path for inflation is uncertain, but tariffs are likely to mean **US goods prices are higher**, even if much of the tariff impact weighs more on US growth. That risk is clearly being reflected in consumer surveys, with inflation expectations rising (Chart 3). Elsewhere, weaker growth, lower oil and gas prices, and recent currency appreciation point to lower inflation. Trade diversion may also mean a near-term disinflationary impulse as goods intended for the US market are re-routed: just how much depends on how many more trade actions are taken by other countries vis-a-vis China.

2. The US-China trade relationship is less important than it was, but is still key



Source: Macrobond

3. Some surveys of inflation expectations have shot up



Source: Macrobond

Our forecasts

We have lowered our global GDP growth forecasts

We recently lowered our global GDP growth forecasts **to 2.3% (from 2.5%) for 2025** and to 2.3% (from 2.7%) for 2026. Our forecasts for nearly every economy have been lowered, even Canada and Mexico, which were not hit by additional tariffs in April, in response to the deteriorating outlook for US growth.

There has been a more diverse impact on our inflation and monetary policy forecasts. Although we have lowered our US growth forecast materially to 1% 4Q/4Q in 2025, the deteriorating growth-inflation trade-off means we have not changed our long-held Federal Funds view of **no more than 75bp of rate cuts in 2025-26**.

We expect stronger policy responses elsewhere, including more from the European Central Bank and many emerging economies, even though we are not expecting aggressive rate cuts. It is not just monetary policy that could soften the blow from trade uncertainty, which is already spurring fiscal, deregulatory, and structural measures from Europe to Asia.

Key GDP growth forecasts

% Year	2024		2025 forecast		2026 forecast	
World	**2.7**	**(2.7)**	**2.3**	**(2.7)**	**2.3**	**(2.6)**
US	2.8	(2.8)	1.6	(2.2)	1.3	(1.8)
Mainland China	5.0	(4.9)	4.3	(4.5)	4.0	(4.4)
Japan	0.1	(-0.2)	0.7	(1.3)	0.4	(0.9)
India*	6.7	(6.5)	6.2	(6.5)	6.0	(6.5)
Eurozone	0.8	(0.7)	0.6	(0.9)	1.4	(1.3)
UK	1.1	(0.8)	0.9	(1.5)	1.0	(1.9)
Brazil	3.4	(3.5)	2.1	(2.5)	2.3	(2.6)
Mexico	1.5	(1.6)	0.2	(1.3)	2.0	(2.3)
ASEAN-6	4.9	(4.9)	3.9	(4.6)	4.1	(4.6)

Note: *India data is calendar year forecast here for comparability. Previous forecasts are shown in parenthesis and are from the Macro Monthly dated 20 December 2024. Green indicates an upward revision, red indicates a downward revision.
Source: Bloomberg, HSBC Economics

Key recent releases

Date	Market	Release	Period	Actual	Consensus expectation	Prior	Actual vs. Consensus
26 Mar	UK	CPI (%y-o-y)	Feb	2.8	3.0	3.0	↓
28 Mar	UK	Retail sales (%y-o-y)	Feb	2.2	0.6	0.6	↑
1 Apr	Mainland China	Caixin Manufacturing PMI (Index)	Mar	51.2	50.6	50.8	↑
1 Apr	Eurozone	HICP (%y-o-y)	Mar, flash	2.2	2.2	2.3	→
1 Apr	US	ISM manufacturing (Index)	Mar	49.0	49.5	50.3	↓
3 Apr	Mainland China	Caixin Services PMI (Index)	Mar	51.9	51.5	51.4	↑
3 Apr	US	ISM services (Index)	Mar	50.8	52.9	53.5	↓
4 Apr	US	Nonfarm payrolls, monthly change (000s)	Mar	228	140	117	↑
10 Apr	Mainland China	CPI (%y-o-y)	Mar	-0.1%	0.00	-0.7%	↓
11 Apr	UK	Monthly GDP (%3m-3m)	Feb	0.6%	0.4%	0.3%	↑

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

Key upcoming events

Date	Market	Release	Period
21 Apr	Mainland China	People's Bank of China interest rate announcement	-
25 Apr	UK	Retail Sales	Mar
30 Apr	Eurozone / US	GDP	Q1
2 May	US	Non-Farm Payrolls	Apr
8 May	US	Federal Reserve interest rate announcement	-
8 May	UK	Bank of England interest rate announcement	-
10 May	Mainland China	PPI/CPI	Apr
13 May	US	CPI	Apr
15 May	UK	GDP	Mar
15 May	US	Retail sales	Apr

Source: LSEG Eikon, HSBC

Disclosure appendix

Additional disclosures

1 This report is dated as at 17 April 2025.

2 All market data included in this report are dated as at close 16 April 2025, unless a different date and/or a specific time of day is indicated in the report.

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