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Weekly economics podcast: Economic roundup August 2025

By Perpetual Corporate Trust

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Economic data released in August have prompted upward revision to the global economic growth outlook relative to the pronounced slowing feared as the US turns toward higher tariffs on international trade. Q2 GDP reports from the US, Europe and China have come in a little firmer than expected, while inflation reports are showing little or no upward pressure from the first few months of US tariff changes. Central banks are breathing easier with a hint from Federal Reserve Chairman, Jerome Powell, that a return to cutting the Federal Funds rate could be on the cards in September. In Australia, the RBA seems to have taken a less cautious turn cutting the cash rate at the August policy meeting and indicating more cuts ahead.

In the United States, the advance reading of Q2 GDP growth showed a greater than expected 3.0% annualised increase after a 0.5% reduction in Q1. The rebound in growth came mainly from a lift in contribution to US growth from international trade as imports to the US plunged in Q2 after a sharp rise in Q1 as US companies tried to run ahead of President Trump's imposition of higher tariffs. The improvement in GDP growth was not all international trade related, however, real consumer spending rose at 1.4% annualised pace, up from 0.5% in Q1. There is some evidence that US consumers are continuing to spend more freely early in Q3 with retail sales up 0.5% m-o-m in July after an upwardly revised 0.9% lift in June (initial report +0.6% m-o-m).

US economic growth is still moderating relative to where it was in 2024, but not as much as analysts feared when President Trump made his initial higher tariff announcement in early-April. Many economic indicators in the US can best be described as mixed-strength. Consumer and business sentiment indicators are running softer, although not as soft as they were three months ago. Labour market conditions eased in May and June but seem to have firmed again in July.

On the inflation front, the CPI appears sticky at 2.7% y-o-y in both June and July while producer prices rising 3.3% y-o-y in July from 2.4% in June may be a sign of higher US inflation still coming down the track. The Federal Reserve, while still concerned about inflation holding above 2.0% target is also starting to view moderate economic growth as giving it some wriggle room to lower the Fed Funds rate from the current and restrictive level of 4.50%. A 25bps rate cut in September is likely, given the most recent comments from Fed Chairman Powell at the Central Banker's Symposium at Jackson Hole. Reducing the Funds rate further beyond may still prove to be a slow affair if moderate-paced US economic growth continues working in favour of higher tariffs passing through to higher consumer prices in the US.

In China, Q2 GDP growth was firmer than expected, up by 1.1% q-o-q, 5.2% y-o-y from +1.2 q-o-q, +5.4% y-o-y in Q1, but there are signs that growth is moderating in Q3. July economic readings were mostly softer than expected, other than exports where the relative strength is unlikely to persist. On the domestic spending front, July fixed asset investment moderated to 1.6% y-o-y from 2.8% in June; industrial production up 5.7% y-o-y in July was down from 6.8% in June; and retail sales moderated to 3.7% y-o-y in July from 4.8% in June. China's unemployment rate rose to 5.2% in July from 5.0% in June and house prices continue to decline, -2.8% y-o-y in July. Falling producer prices, -3.6% y-o-y in July and almost no inflation with the CPI up only 0.3% y-o-y tell the continuing story of substantial excess capacity. China's economy needs a substantial lift in spending by the household sector, but China's economic policies are still set against that occurring with no meaningful lift in budget spending aimed squarely at bolstering household disposable income and monetary policy still set at restrictive level (a real official interest rate above 3.0%).

In Europe, Q2 GDP growth was a little stronger than expected, up 0.1% q-o-q, 1.4% y-o-y from +0.6% q-o-q, 1.5% y-o-y in Q1. Growth in Europe is supported by a combination of relatively easy monetary policy – the ECB's deposit rate at 2.00% is the same as the EU's CPI, 2.0% y-o-y in July, and below the 2.3% y-o-y underlying CPI in July. Budget spending is also rising, driven partly by greater defence spending, but also by relaxation of rules holding restricting the size of the budget and government borrowing in Europe's biggest economy, Germany. Policy easing is helping to counter the negative impact of US trade restrictions on Europe's exports. Also, domestic spending is still supported by record-low EU unemployment at 6.2% in July.

In Australia, the RBA delivered a widely expected 25bps cash rate cut to 3.60% at the August policy and indicated the possibility of more cuts to come, albeit at gradual pace, and possibly

taking the cash rate down to 2.85% over the next year. Further rate cuts depend upon inflation returning to the middle of the RBA's 2-3% target band in 2027 after a brief lift to around 3% through 2025-26. The RBA's inflation forecasts in turn depend upon demand, or GDP growth, not being too strong over the next two years. The RBA revised lower its growth forecasts in the May Quarterly Monetary Policy Statement to show only moderate improvement in annual GDP growth to around 2.0% y-o-y through 2026 and 2027.

The RBA's downward revisions to GDP growth prospects sit at odds with recent economic readings that point to quite pronounced acceleration in economic growth. In particular, spending on housing seems to be accelerating. Broader household spending also looks much stronger in Q2, up around 0.7% q-o-q in real terms. Business and consumer sentiment surveys have turned stronger. Wages growth was higher than the RBA expected in Q2 at 3.4% y-o-y while the unemployment rate is tracking a touch below RBA forecast at 4.2% in July. Q2 GDP growth out next week is tracking towards a 0.6% q-o-q or higher result. That would only lift annual GDP growth to 1.7% y-o-y or a little higher, but is above the 1.6% growth rate the RBA had for Q2 in the latest August forecasts.

Economic data running a little stronger than implied by the RBA's latest economic growth forecasts will not prevent the RBA from cutting the cash rate again, but it will delay delivering another rate cut until November when it has opportunity to reaffirm, or otherwise, that its inflation forecasts are still on track. Our view is that the way the GDP growth outlook is shaping up (a little stronger than the RBA's August forecasts) it will become increasingly doubtful whether inflation after the 2025-26 blip upwards will return to mid-2-3% band in 2027. That is likely to slow if not stop the RBA cutting rates after the next 25bps cut to 3.25% in November or December.

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