World Economic Trends Ⅰ
<The 2025 Spring/Summer Report>

—Global Economic Trends in Response to U.S. Trade Policy—

(Summary)

August 2025

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Cabinet Office, Government of Japan

Contents

This material has been tentatively prepared to explain the World Economic Trends.
For quotations and other purposes, please refer to the text of the World Economic Trends.

"World Economic Trends" : This report surveys and analyzes the trends of the world economy since 2002. This is the 46th issue.

1-1 Economic Trends in U.S.

- In U.S., the pace of economic expansion is moderating along with slowing personal consumption expenditures (Figures 1-3).
- While capital investment is trending upward, fluctuations are also visible, particularly in Information processing equipment due to tariff hikes (Figure 4).
- Residential investment has remained largely flat amid persistently high mortgage rates (Figure 5). The impact of the strict immigration policy also warrants attention (Figure 6).

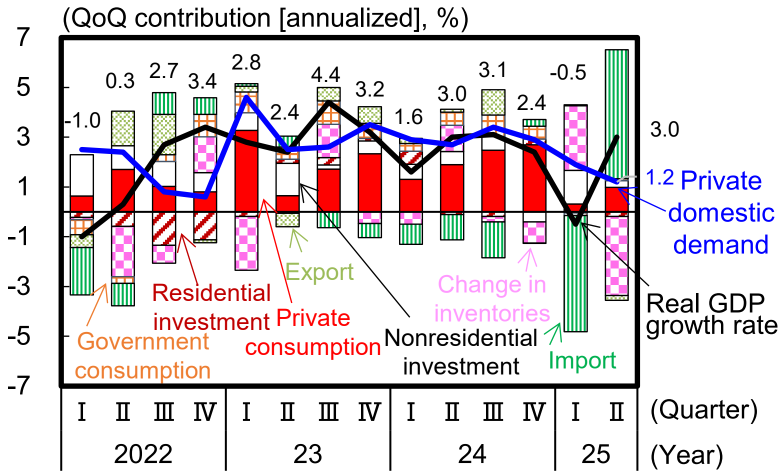


Figure 1. Real GDP Growth Rate

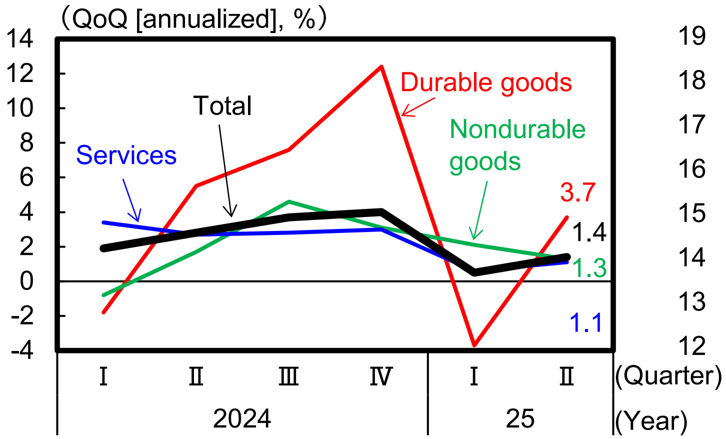


Figure 2. Real Personal Consumption Expenditures

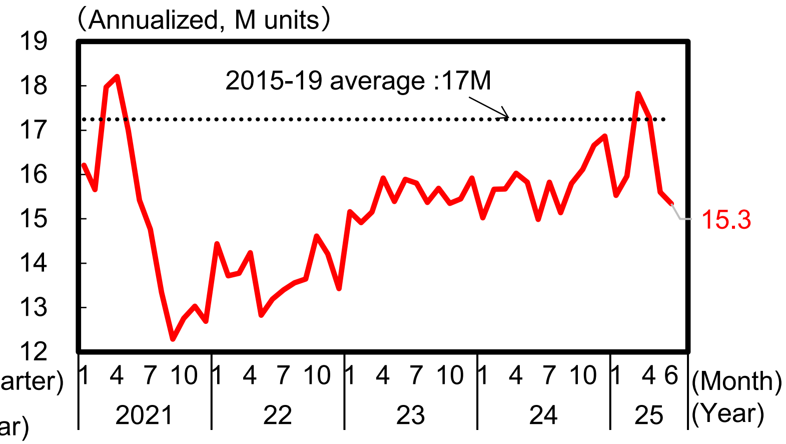


Figure 3. New vehicle sales

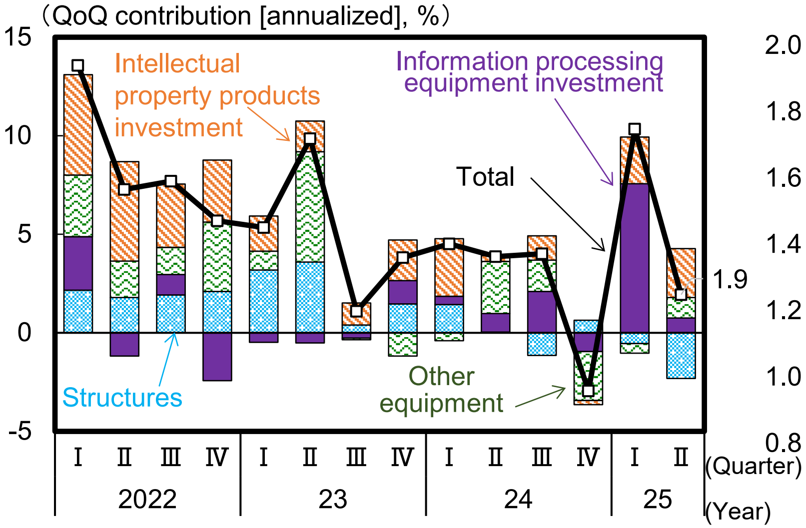


Figure 4. Real Private Nonresidential Investment

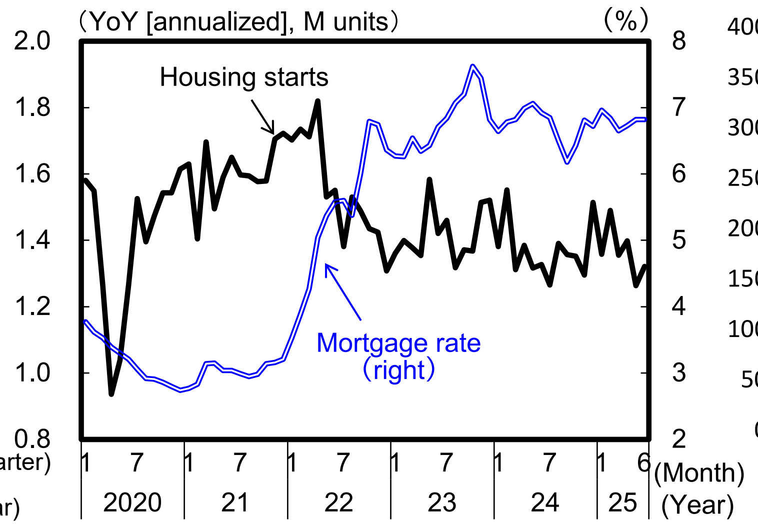


Figure 5. Housing Starts and Mortgage Rate

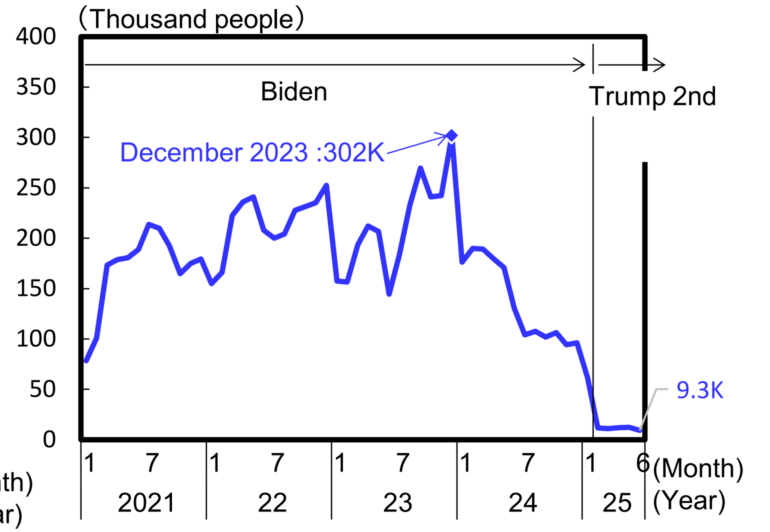


Figure 6. Strict immigration policy

(Sources) (Figures 1-4) U.S. Census Bureau. (Figure 5) U.S. Census Bureau and the Federal Home Loan Mortgage Corporation. Mortgage interest rate is the monthly average for a 30-year fixed rate.
(Figure 6) U.S. Customs and Border Protection. Data represents the number of encounters at the Southwest border, including arrests by U.S. Border Patrol, inadmissibles and expulsions by the Office of Field Operations, and refusals of entry by Customs and Border Protection.

1-2 Economic Trends in China

- China's economy remains stagnant as domestic demand, mainly consisted of consumption and capital formation, struggles to gain momentum (Figure 1).
- Policies supporting the replacement of large-scale equipment upgrades and consumer goods trade in programs (the "Two New" policies) are underpinning the economy, but real estate development investment continues to decline (Figures 2 and 3).
- Exports show a moderate increase as a whole despite the impact of trade disputes with the United States (Figure 4), while imports are declining, partly due to weak domestic demand (Figure 5). The consumer price has been around negative to near zero range since the start of 2025 (Figure 6).

Figure 1. Real GDP Growth Rate

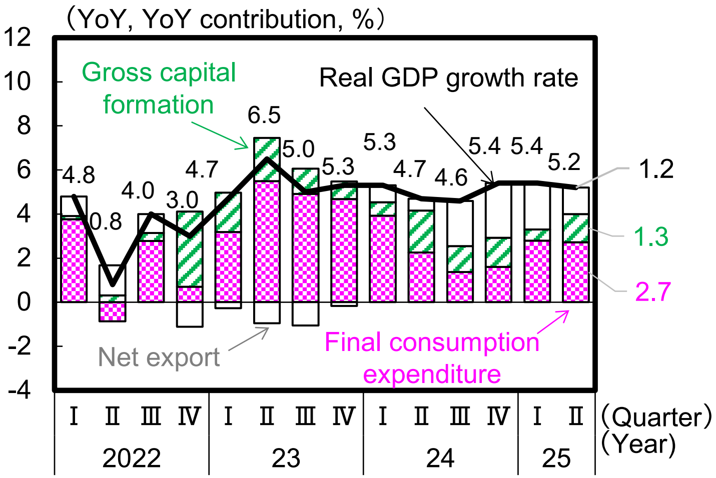


Figure 2. Nominal Retail Sales and Automobile Sales Unit

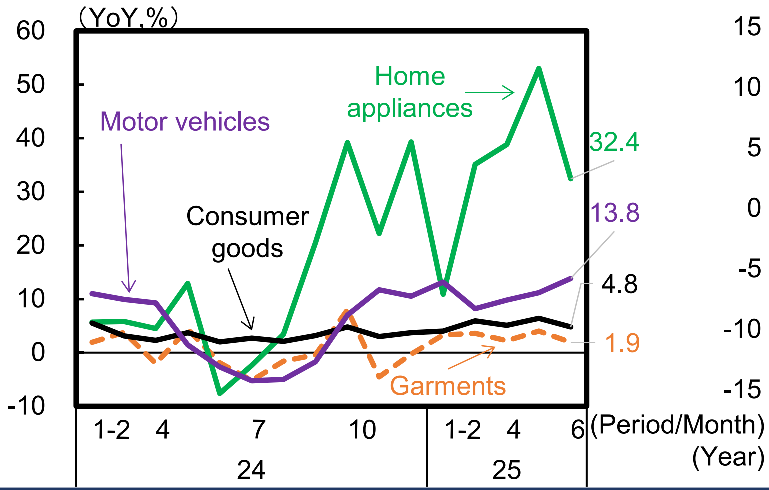


Figure 3. Fixed assets investment

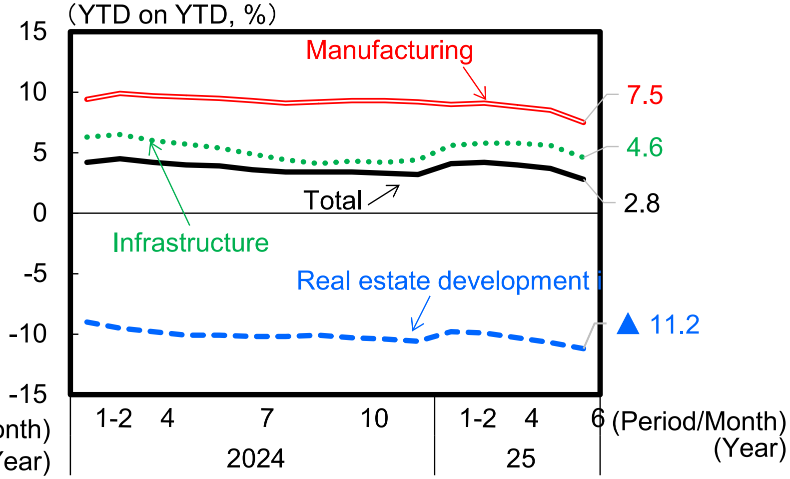


Figure 4. Exports

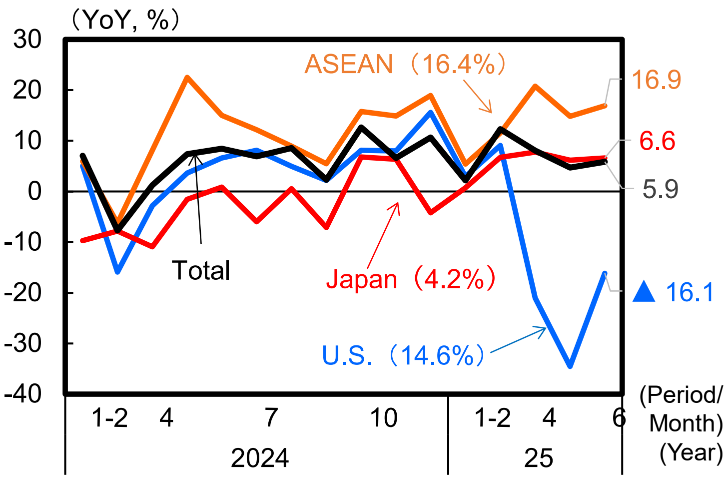


Figure 5. Imports

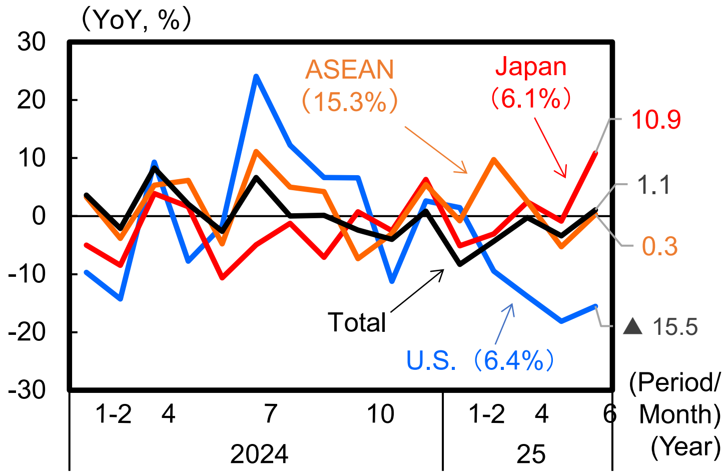
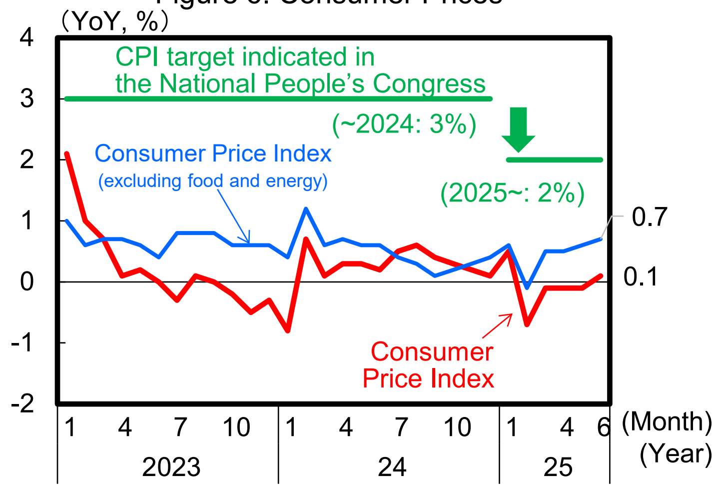


Figure 6. Consumer Prices



(Sources) (Figures 1, 3, 6) National Bureau of Statistics of China. (Figure 2) National Bureau of Statistics of China and China Association of Automobile Manufacturers. (Figures 4, 5) General Administration of Customs of the People's Republic of China. Figures in parentheses indicate 2024 share by import/export partner countries and economies.

1-3 Economic Trends in Europe

- Economic recovery continues in the Euro area (Figure 1).
- In Q1 2025, the euro area saw front-loaded exports in response to the U.S. trade policy (Figure 2). Capital investment is recovering, supported by lower interest rates and expansionary fiscal policies (Figure 3).
- The UK economy is recovering (Figure 4). However, real wage growth is slowing amid persisting inflation (Figure 5). Labor demand is trending downward, partly due to premium hike on employers' social security contributions (Figure 6).

Figure 1. Real GDP Growth Rate in the Euro area

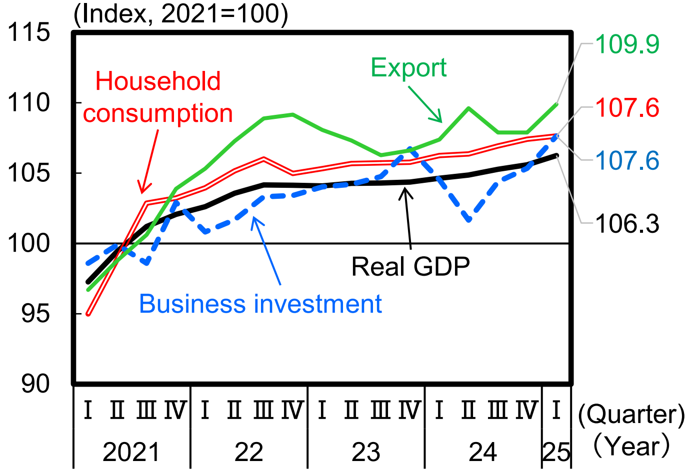


Figure 2. Exports of Goods to the U.S. from the Euro area

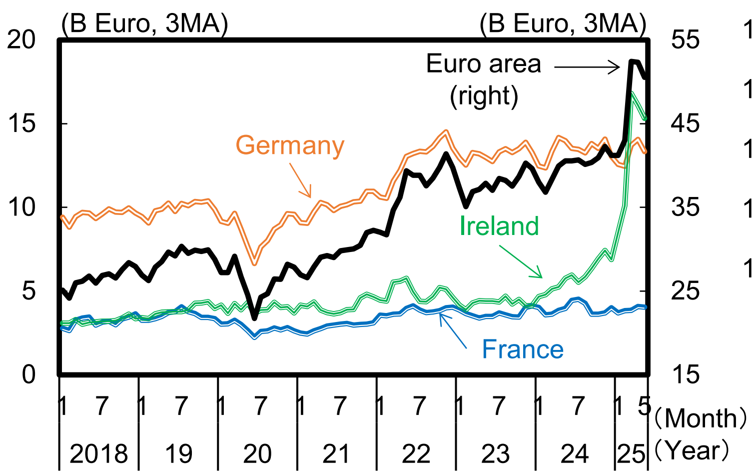


Figure 3. Real nonresidential Equipment Investment in the Euro area

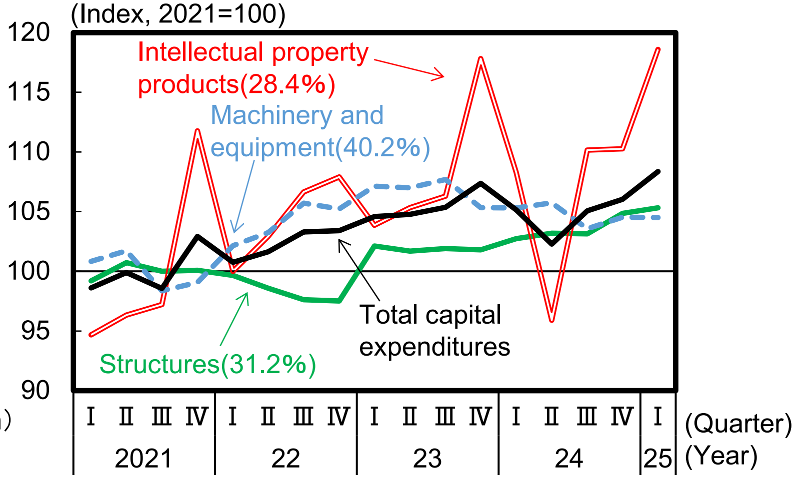


Figure 4. Real GDP Growth Rate in the U.K.

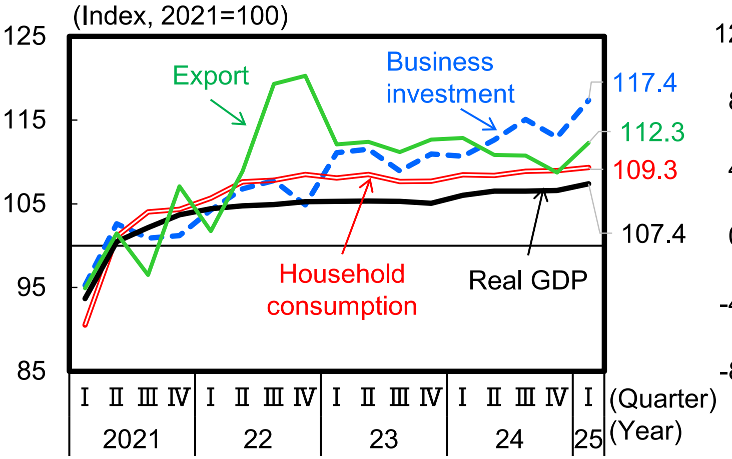


Figure 5. Price and Wage in the U.K.

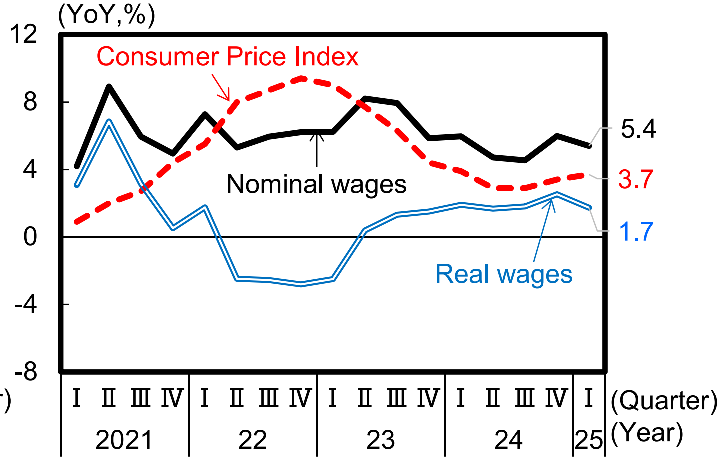
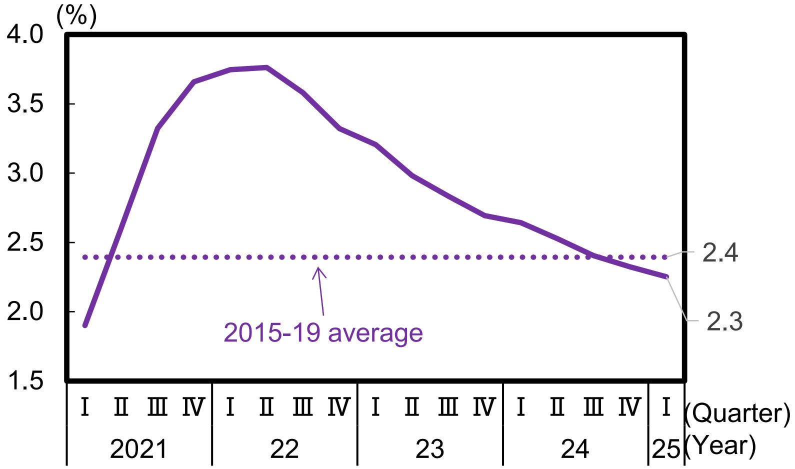


Figure 6. Job Vacancy Rate in the U.K.



(Sources) (Figure 1) Eurostat. (Figure 2) Eurostat. Moving average for three months based on nominal amounts. (Figure 3) Eurostat. Figures in parentheses indicate the share of total capital investment in 2024.
(Figure 4) U.K. Office for National Statistics. (Figure 5) U.K. Office for National Statistics. Real earnings are Average weekly earnings(nominal) deflated by the The Consumer Prices Index.
(Figure 6) U.K. Office for National Statistics. The job vacancy rate is the ratio of job vacancies to the sum of job vacancies and employed persons.

1-4 Global Economic Outlook and Risks

- The OECD forecasts that global economic growth will slow down to 2.9% in 2025, with slowing growth in the United States and China due to factors including high tariff rates (Figure 1).
- Attention needs to be paid for future policy developments, including U.S. trade policies and counter measures of trading partners (Figure 2).
- Additionally, attention needs to be paid in persistently high long-term interest rates in Europe and the United States which reflects concerns about fiscal sustainability (Figure 3), and the stagnation in China's real estate market (Figure 4).

Figure 1. Global Real GDP Growth Forecast (OECD, June 2025)

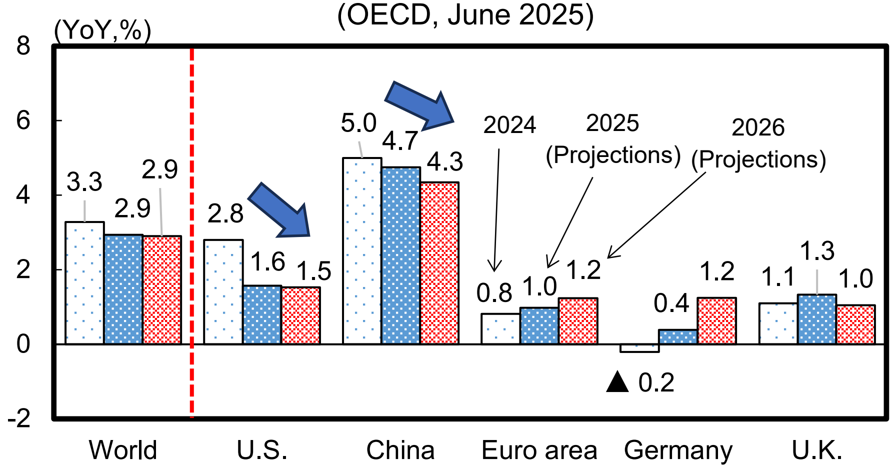


Figure 2. Effective Tariff Rates for U.S. Imports

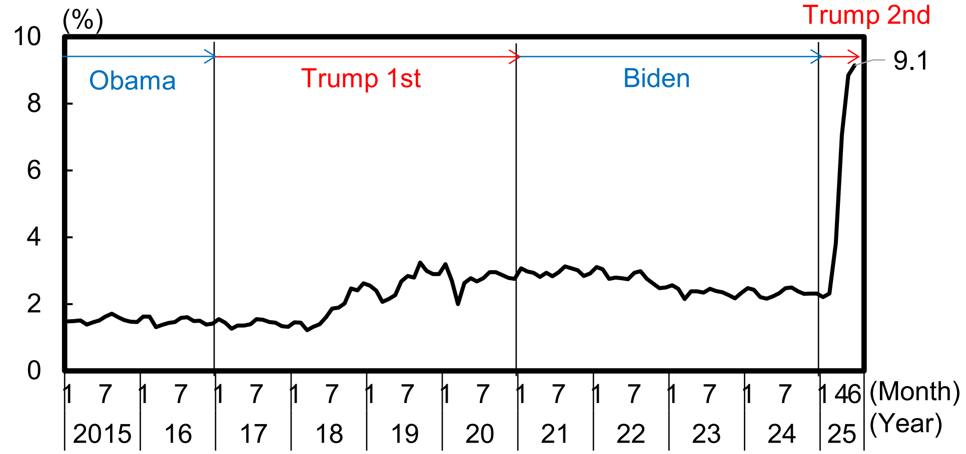


Figure 3. Government bond yeilds (10-year) of major European and American countries

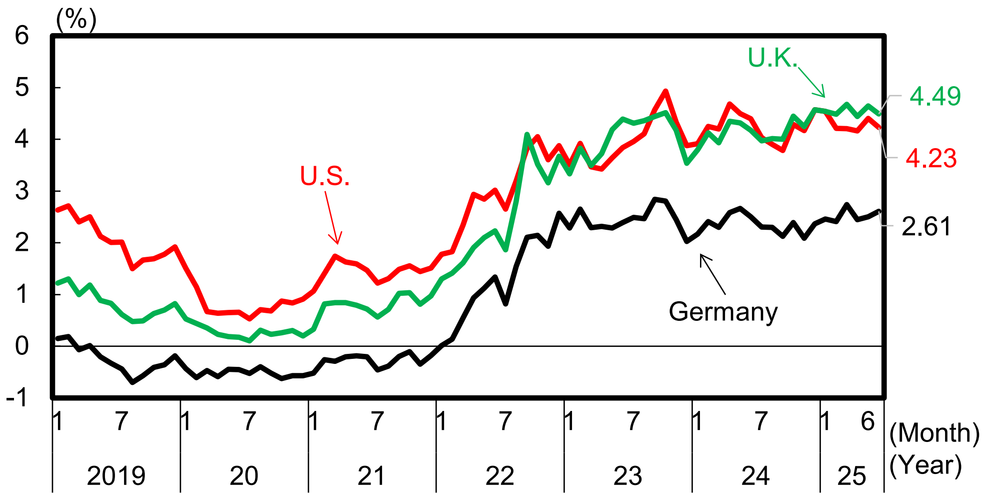
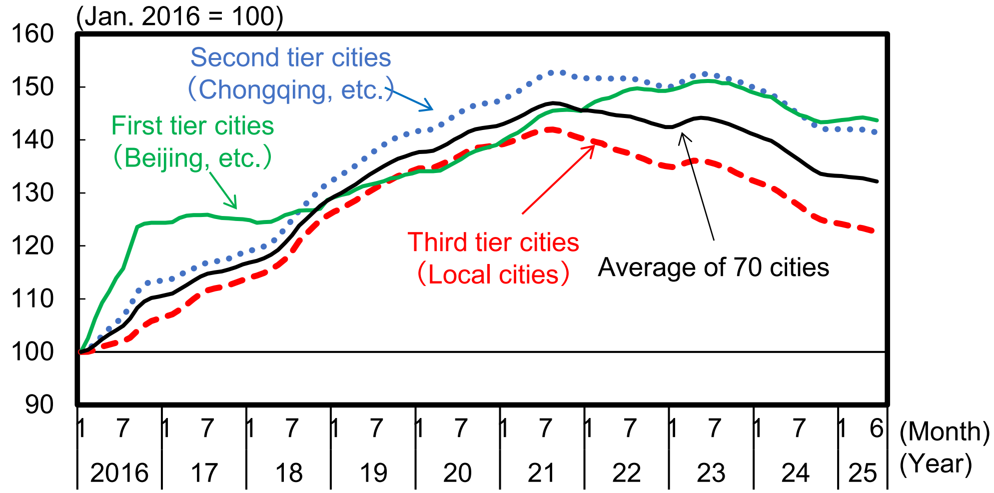


Figure 4. Sales price of newly constructed commercial residential buildings in China

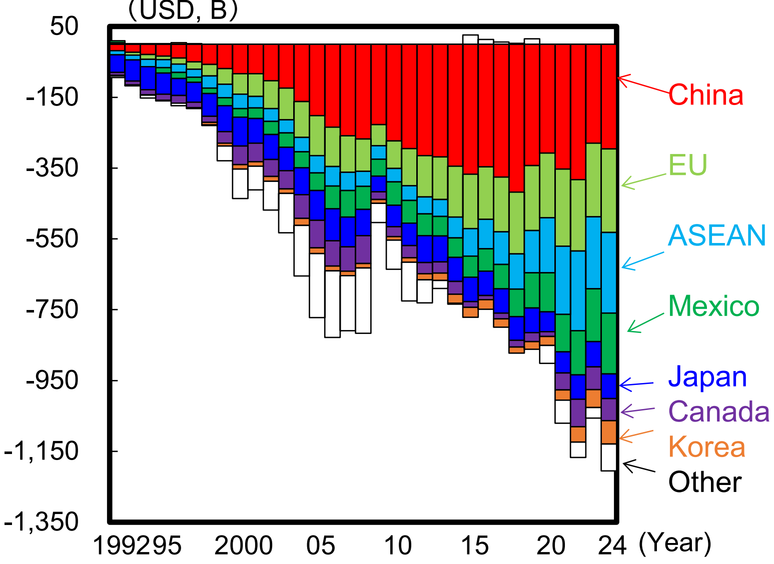


(Sources) (Figure 1) OECD "Economic Outlook" (June 2025). (Figure 2) United States International Trade Commission. The effective tariff rate here is calculated by dividing the monthly calculated duties by the customs value. (Figure 3) Bloomberg. End-of-month values. (Figure 4) National Bureau of Statistics of China.

2-1 Structure of U.S. Goods Trade Deficits

- Goods trade deficits continue to widen (Figure 1). While the deficits with China is narrowing, deficits with ASEAN, the EU, and others are expanding (Figure 2).Smartphones and apparel and footwear imports are predominantly from China, while imports of pharmaceutical preparations are largely from the EU, including Ireland (Figure 3).
- Imports of automotive vehicles, parts and engines are largely from Mexico, Canada and Japan, while imports of semiconductors are predominantly from ASEAN countries (Figure 4).
- Goods trade balance as a percentage of GDP has been averagely unchanged, indicating that goods trade deficits have not been a factor hindering Economic Growth (Figure 5).

Figure 1. Trends and Averages of Goods Trade Balance by Countries and Economies



(Average Trade Balance of Goods) (USD, B)

	2012-16	2021-24	Difference in change
World	-764	-1,125	-361
China	-337	-328	9
Japan	-67	-67	-0
Canada	-21	-47	-27
Mexico	-24	-63	-39
EU	-71	-138	-67
ASEAN	-142	-216	-74

Figure 2. Top Countries and Economies with Goods Trade Deficits (2024)

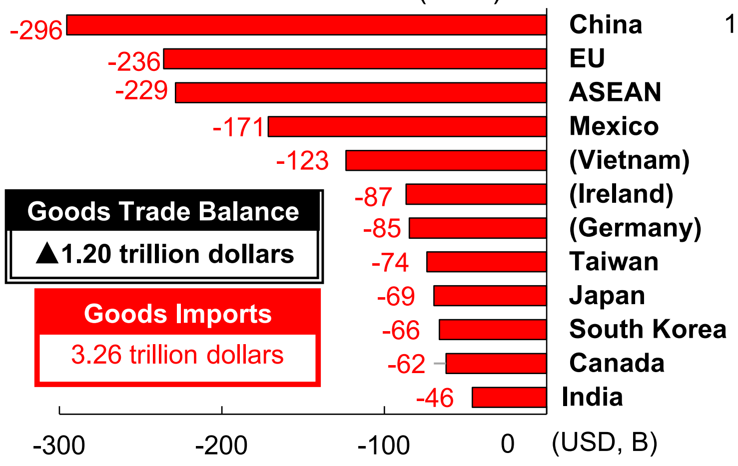


Figure 3. Major Countries and Economies for Consumer Goods (2024)

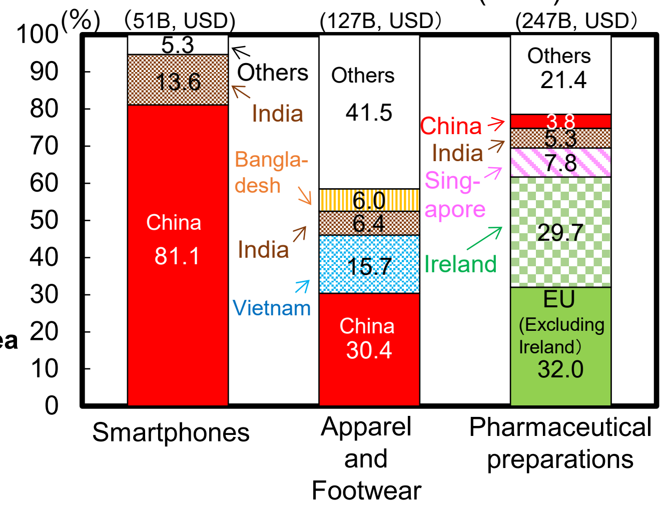


Figure 4. Major Countries and Economies for Capital goods Imports (2024)

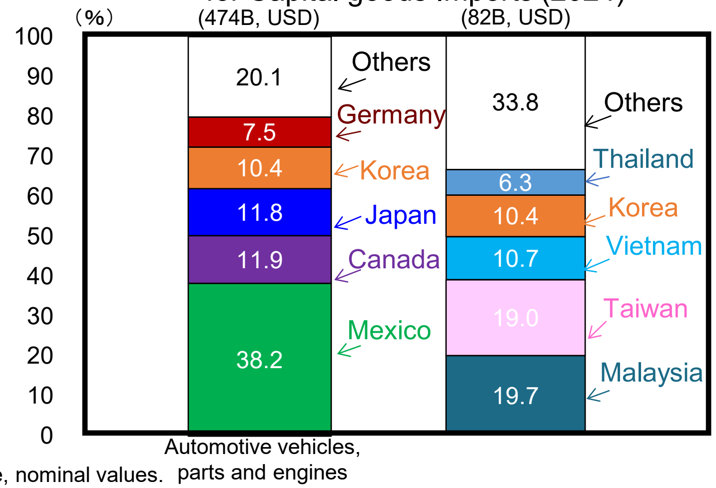
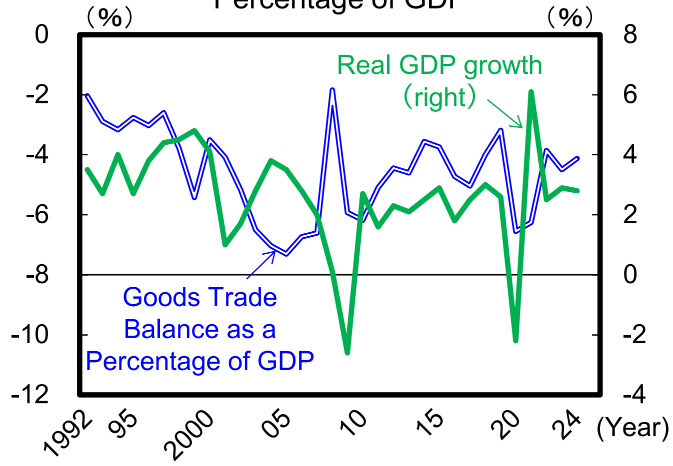


Figure 5. Goods Trade Balance as a Percentage of GDP



(Sources) (Figures 1–5) U.S. Census Bureau.
Except for real GDP growth rate in Figure 5, Custom Value, nominal values.

2-2 U.S. Trade Policy and Its Impact on Goods Trade and Prices

- Under the 2nd Trump administration's trade policies, the U.S. effective tariff rate has risen to levels last seen around 1900, according to the IMF (Figure 1).
- The upward pressure on prices by tariff hike starts to appear in upstream intermediate goods (Figure 2).
- Imports account for 6.0% of total personal consumption expenditures, while the margin on goods prices is around 50% (Figure 3). Daily goods have a high import share and prices are susceptible to tariff hikes. However, costs from tariff hikes may be absorbed by margin compression, potentially limiting tariff hike effect on pushing up consumer prices (Figure 4).

Figure 1. Long-Term Trend of U.S. Effective Tariff Rates

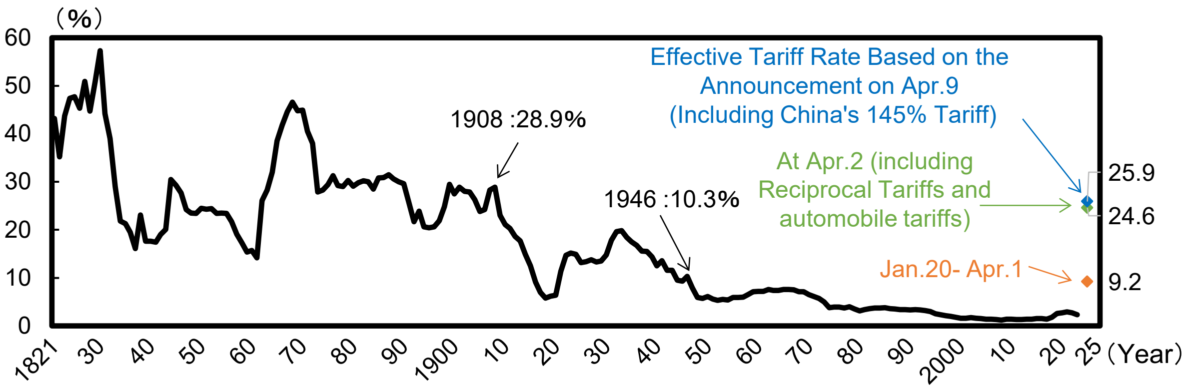


Figure 2. Producer Price Index and Consumer Price Index for Goods

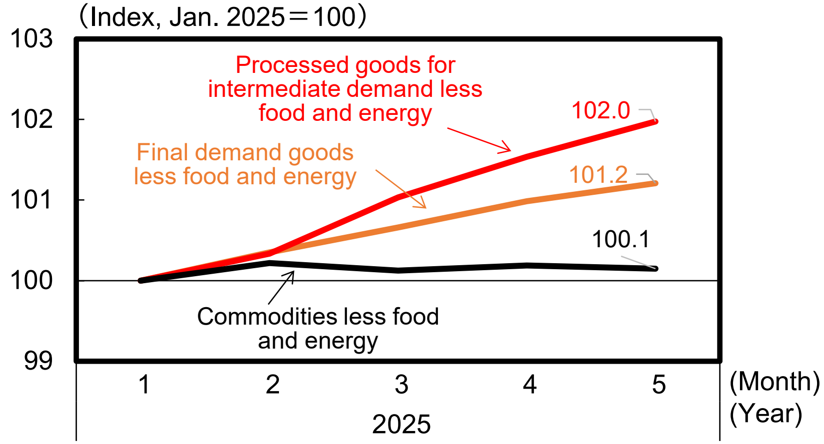
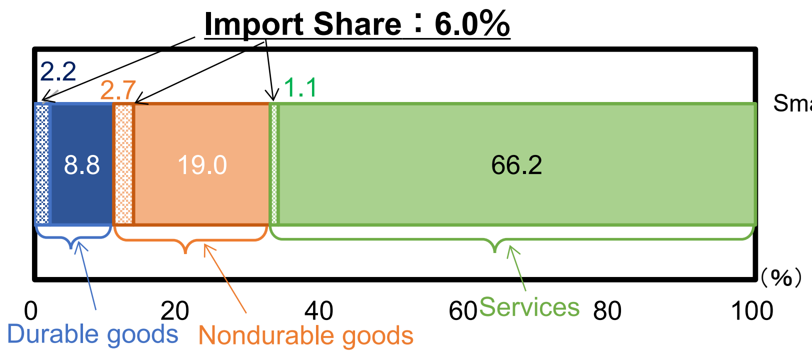
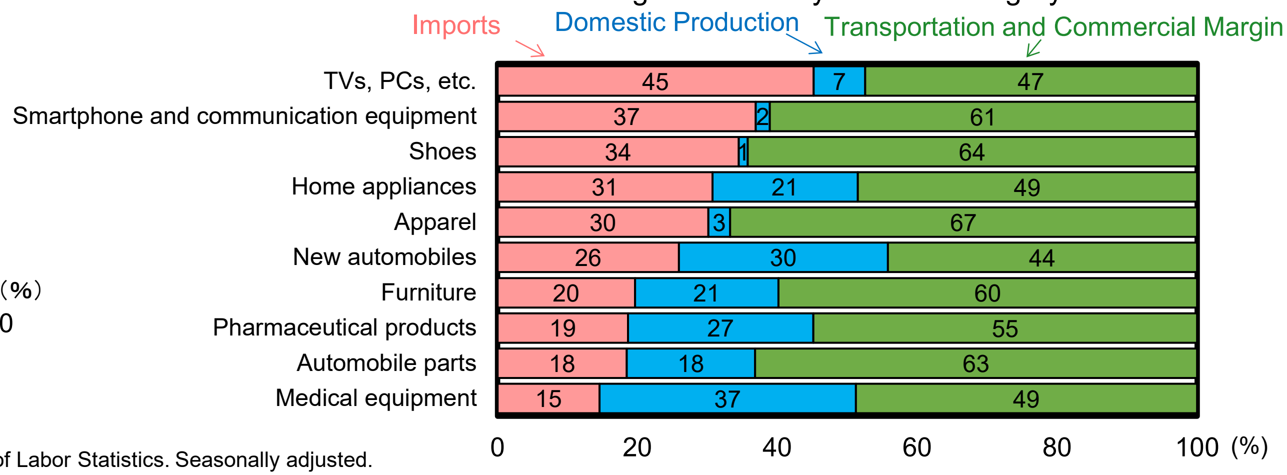


Figure 3. Import Share in Personal Consumption Expenditures of Durable Goods, Nondurable Goods, and Services



※Share of Transportation and Commercial Margin
Durable goods：50.3%　Nondurable goods：52.7%

Figure 4. Imports, Domestic Production, and Transportation and Commercial Margins Shares by Product Category



(Sources) (Figure 1) IMF "World Economic Outlook" (April 2025). (Figure 2) U.S. Bureau of Labor Statistics. Seasonally adjusted.
(Figure 3) U.S. Census Bureau. Using the2017 The Use Table, Import Matrix, etc., durable goods, nondurable goods, and service expenditure (consumer price) were decomposed into:
① the import component of personal consumption expenditures (producer price) and ② other components.
(Figure 4) U.S. Census Bureau. Using the2017 The Use Table, Import Matrix, etc., each item is decomposed into:
① Imported portion of personal consumption expenditures (producer price), ② Domestic Production portion of personal consumption expenditures (producer price), and ③ Transportation and Commercial Margin.

2-3 U.S. International Trade in Services , Income and Investment Structure

- Exports of services to Ireland have increased (Figure 1). Exports to Europe are dominated by digital and charges for the use of intellectual property (Figure 2).
- The foreign holding ratio of U.S. Treasuries is declining (Figure 3). The shares held by Japan and China are decreasing, and holding ratio is becoming more diversified into many foreign countries (Figure 4).
- Manufacturing accounts for over 40% of the stock of direct investment in the United States, with Japan being the largest investor (Figure 5). Direct investment inflows data reveals that while reinvestment of earnings is increasing, net inflow of equity capital is struggling to grow (Figure 6).

Figure 1. Services Balance

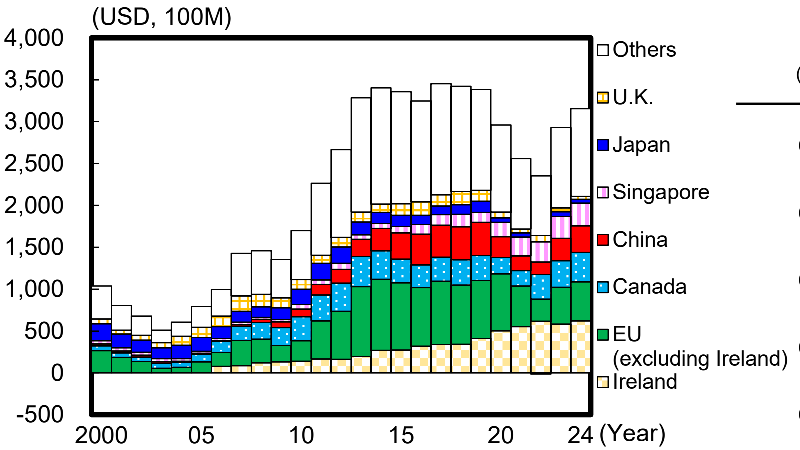


Figure 2. Share of Exports of Services by Category (2024)

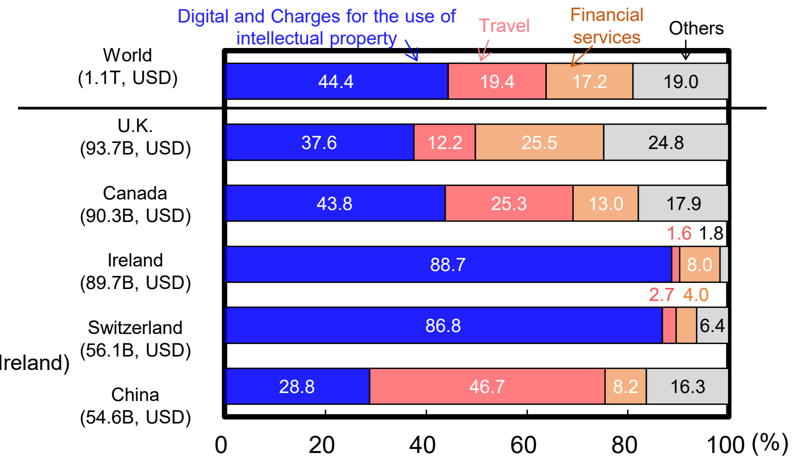


Figure 3. Foreign Holding Ratio of U.S. Treasuries

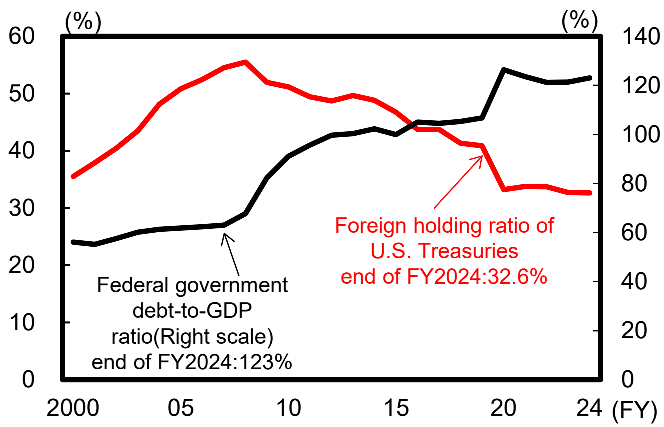


Figure 4. US Treasury Bond Holders

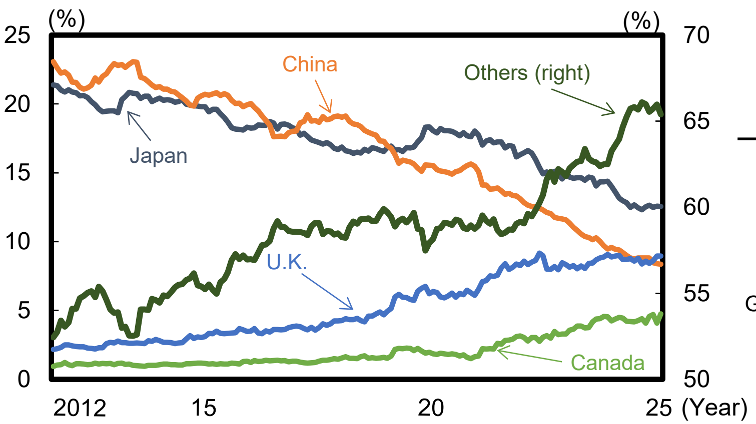


Figure 5. Direct Investment Position in the United States (as of end of 2023)

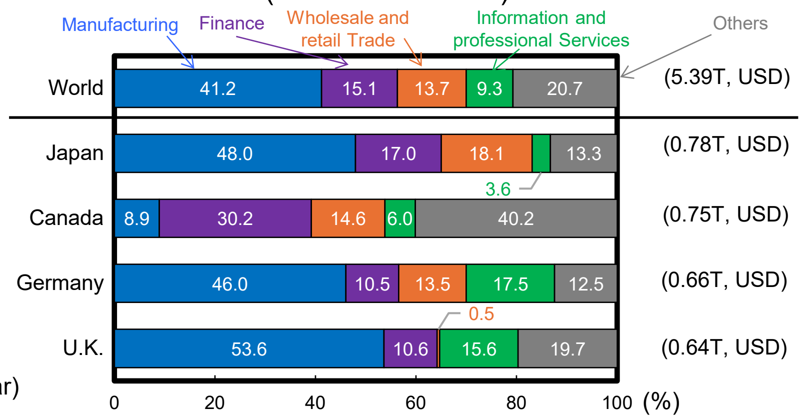
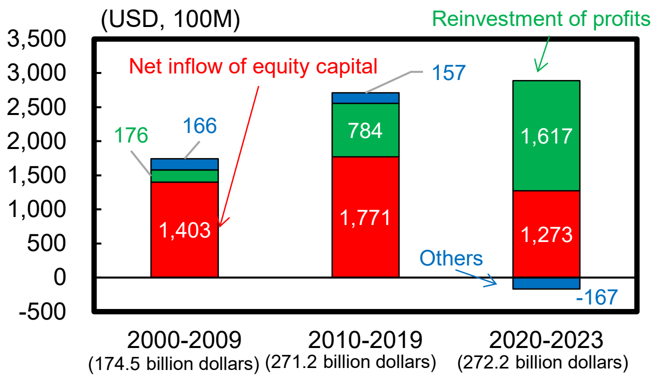


Figure 6. Direct Investment Inflows to the U.S. (Annual avg.)



(Sources) (Figures 1 and 2) U.S. Census Bureau, based on Balance of Payments (BOP). Digital and Charges for the use of intellectual property include "consulting services, R&D, etc.", "Charges for the use of Itellectual property", and "Telecommunications, computer, and information services". (Figure 3) U.S. Census Bureau, U.S. Department of the Treasury, and the Federal Reserve Board. The U.S. Fiscal Year runs from October to September of the following year. (Figure 4) U.S. Department of the Treasury. (Figure 5) U.S. Census Bureau. Figures in parentheses indicate total amounts. (Figure 6) U.S. Census Bureau. Other represents Debt Instruments, including Lending and Borrowing and Bond Investment.