Provisional Translation

# World Economic Trends I
# <The 2026 Spring/Summer Report>

—Heightened Level of Tension in the Middle East and

Policy Responses—

## (Summary)

July 2026

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Cabinet Office, Government of Japan

# Contents



This material has been tentatively prepared to explain the World Economic Trends 2026 Spring/Summer Report.
For quotations and other purposes, please refer to the full text of the World Economic Trends 2026 Spring/Summer Report.

"World Economic Trends" : This report surveys and analyzes the trends of the world economy since 2002. This is the 48th issue.

# 1-1: Impact of the Situation in the Middle East on the Global Economy ①

- Due to the heightened level of tension in the Middle East, navigation through the Strait of Hormuz—a key chokepoint for energy trade—has been significantly restricted since March 2026 (Figure 1), and prices for energy commodities such as crude oil have risen sharply (Figure 2). Rising prices for downstream products, such as gasoline, have also contributed to inflation in major economies (Figure 3). Although crude oil prices have fallen since mid-June, attention must also be paid to the pass-through of previous price increases.
- Looking at the real economy, in Asia—which had been highly dependent on the Strait of Hormuz for crude oil imports (Figure 4)—crude oil import volumes have fallen below normal levels since March (Figure 5). In particular, China's crude oil imports in May were approximately 30 percent below the historical average.

**Figure 1: Cargo Volume of Tankers Passing Through and Departing from the Gulf Region**

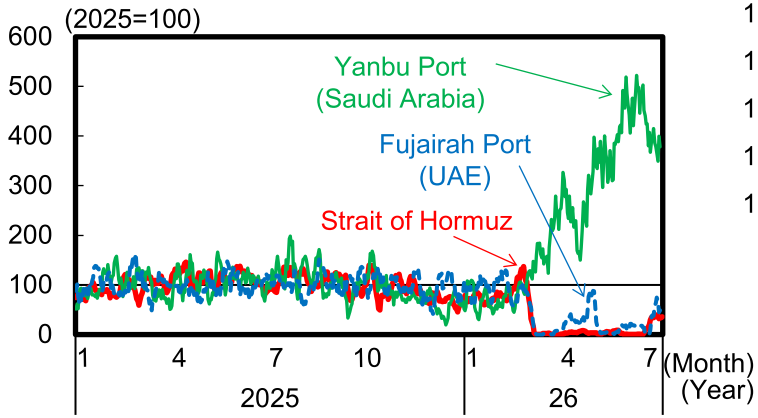



**Figure 2: Crude Oil Prices**

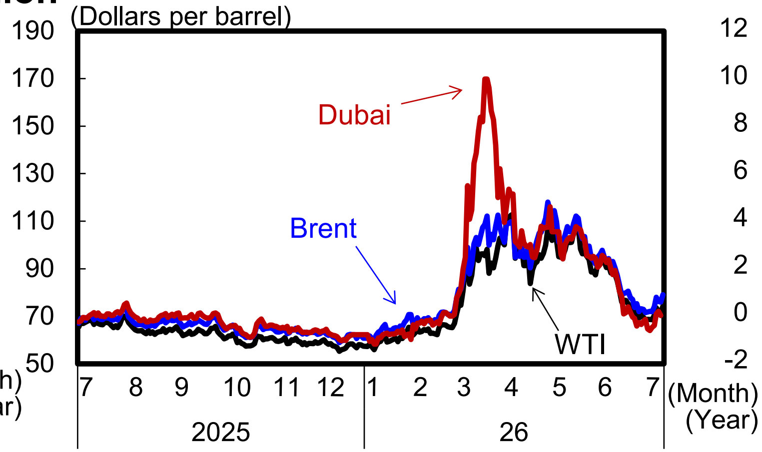



**Figure 3: Consumer Price Index**

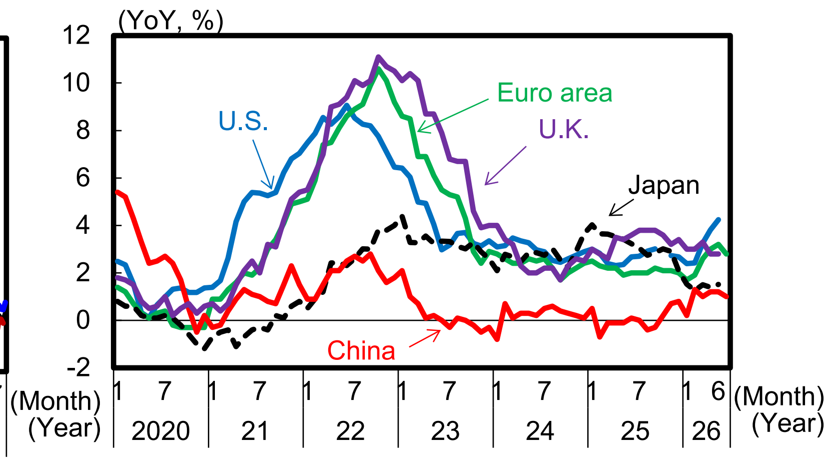



**Figure 4: Dependence on the Strait of Hormuz for Crude Oil Imports (2025)**

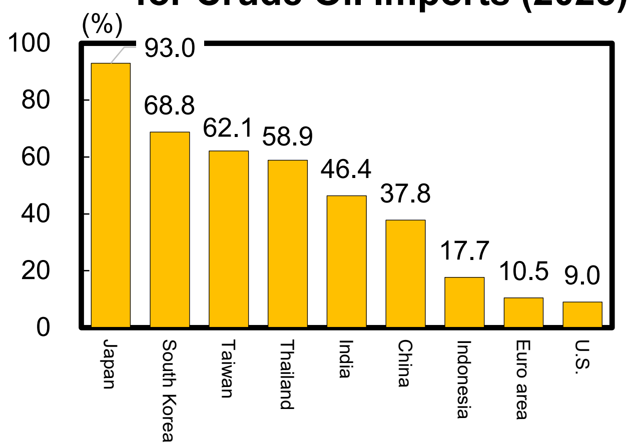
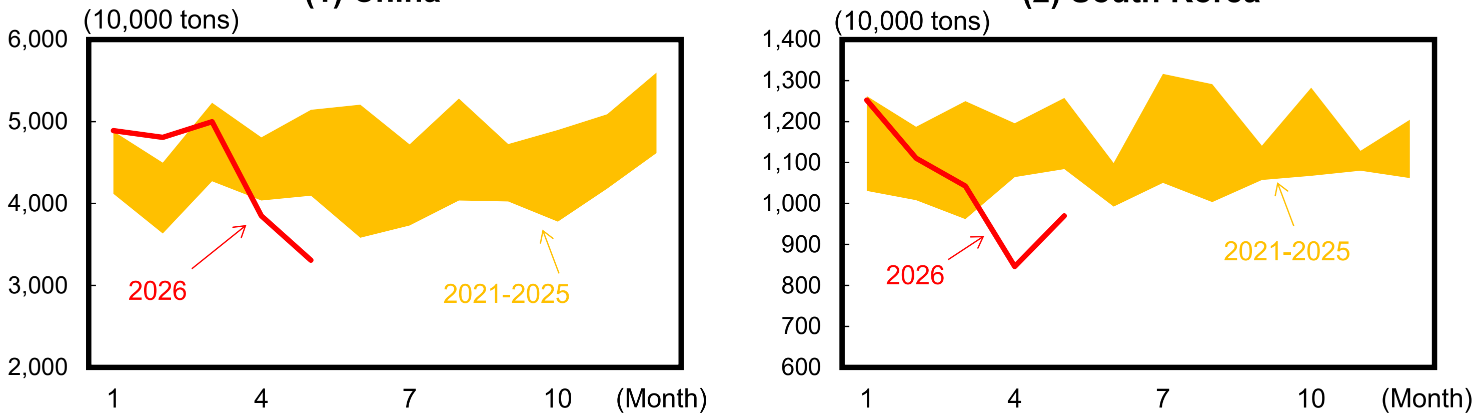



**Figure 5: Crude Oil Import Volumes**

**(1) China** **(2) South Korea**



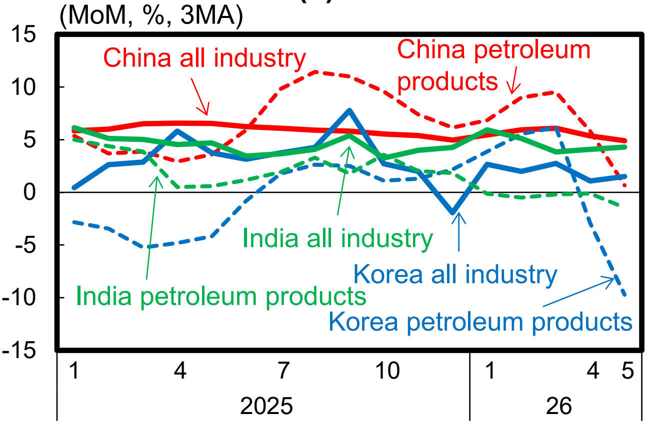

(Sources) Ministry of Internal Affairs and Communications, National Bureau of Statistics of China, General Administration of Customs of the People's Republic of China, Korea Customs Service, U.S. Bureau of Labor Statistics, U.K. Office for National Statistics and national statistics, Eurostat, IMF PortWatch, Bloomberg, Nikkei NEEDS,

# 1-2: Impact of the Situation in the Middle East on the Global Economy ② Policy Responses by Countries

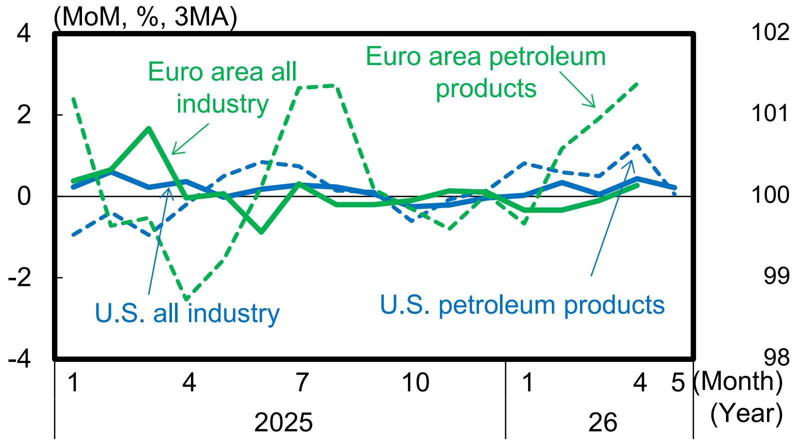
- While China and South Korea, where crude oil imports have declined, have seen a drop in petroleum product production, there has been no significant impact on total industrial production in major economies (Figure 1). On the demand side, however, energy consumption has been held back by soaring prices, and signs of a slowdown in overall consumption have emerged in Europe (Figure 2).
- Countries have implemented various measures addressing both the supply and demand sides of the energy market (Figure 3). In particular, the drawdown of public and private inventories, led by the United States (Figure 4), and efforts to secure alternative supplies from the Americas, Africa, and other regions (Figure 5) have mitigated the impact of reduced imports from Gulf countries.

## Figure 1: Industrial Production

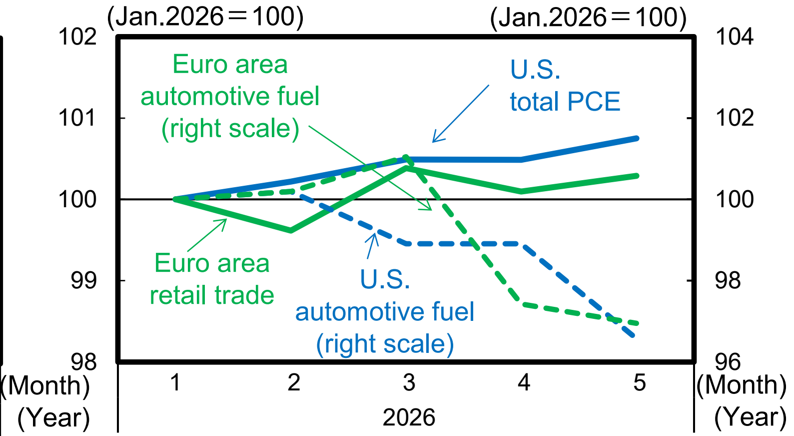
### (1) Asia




### (2) Europe and the U.S.



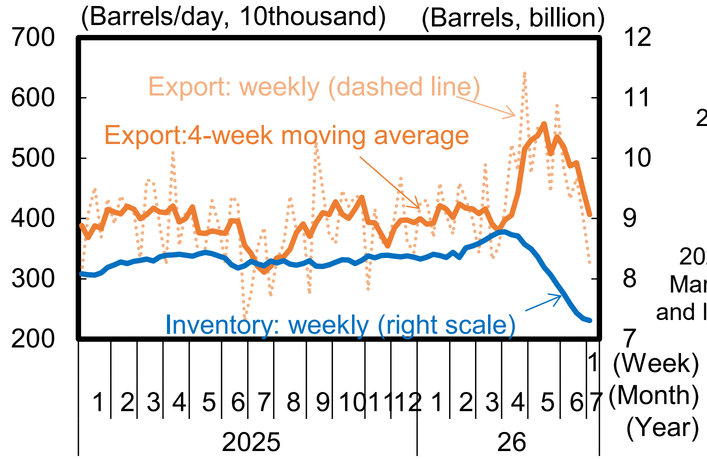

## Figure 2: Indicators Related to Automotive Fuel Consumption in Europe and the U.S.



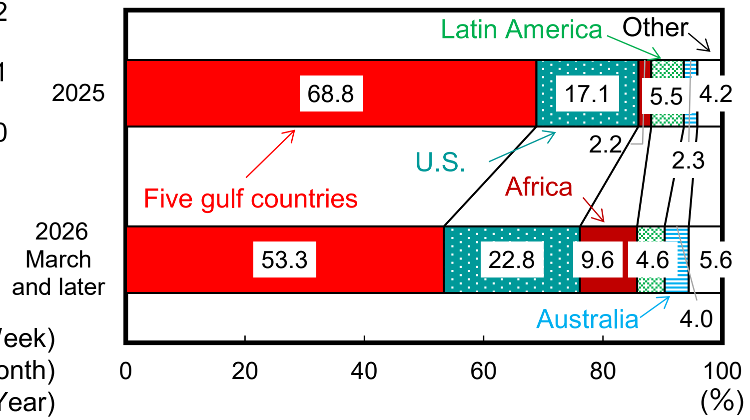

## Figure 3: Policy Responses by Countries

| | | Number of countries implementing measures (IEA data) | Specific examples |
|---|---|---|---|
| Securing supply | | — | [32 IEA Member Countries] Agreed to the largest ever coordinated stock release totaling over 400 million barrels |
| Energy conservation | Campaign | 40 | [South Korea] Call for energy conservation among citizens |
| | Transport | 24 | [South Korea] Public sector automobile use restricted to one day per week based on license plate numbers |
| Consumer support | Taxation | 55 | [Australia] Temporary fuel excise reduction measures |
| | Fuel subsidies | 32 | [France] Fuel aid for "Heavy Driver" Workers. Distribution of energy vouchers for low-income households |
| | Price caps | 23 | [China] Implementation of temporary control measures to ease the burden amid petroleum product price hikes |

## Figure 4: U.S. Crude Oil Exports and Inventories




## Figure 5: Changes in South Korea's Crude Oil Import Sources

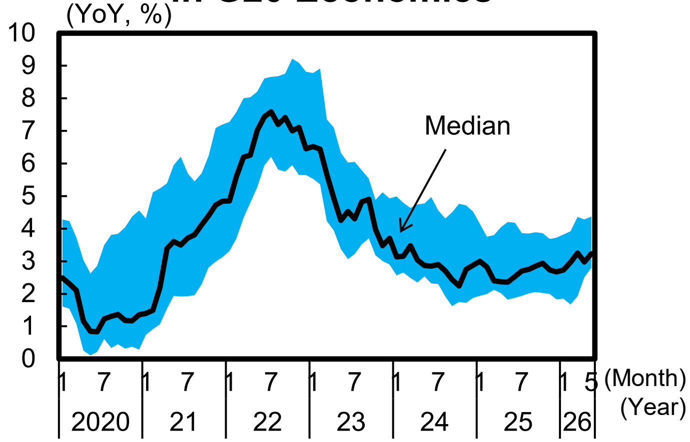



(Sources) National Bureau of Statistics of China, India's Ministry of Statistics and Programme Implementation, Korea Customs Service, U.S. Bureau of Economic Analysis, U.S. Energy Information Administration, Federal Reserve, Eurostat, IEA

# 1-3: Shifts in Monetary Policy in Major Economies

- Following a slowdown in consumer price inflation, global policy rates have been on a downward trend since around 2024. However, with signs of inflation reappearing in 2026, central banks in various countries and regions are beginning to shift toward raising policy rates (Figures 1 and 2).
- Amid the recent rise in energy prices, the Euro area raised its policy rate in June, anticipating that inflation would remain above target (Figure 3). In the United States, while policy rates were held steady, the outlook for policy rates within the year shifted toward a rate hike (Figure 4).
- As expectations for U.S. rate hikes grow, there are also movements of rate hikes aimed at stabilizing exchange rates (Figure 5).

## Figure 1: Consumer Price Index in G20 Economies

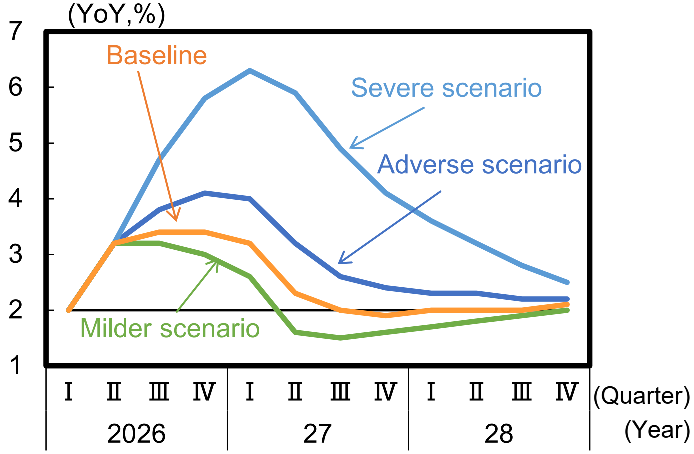



## Figure 2: Policy Rates in G20 Economies

■: Rate hike, ■: Rate cut

| Year | 2020 | | | | 21 | | | | 22 | | | | 23 | | | | 24 | | | | 25 | | | | 26 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Quarter | Ⅰ | Ⅱ | Ⅲ | Ⅳ | Ⅰ | Ⅱ | Ⅲ | Ⅳ | Ⅰ | Ⅱ | Ⅲ | Ⅳ | Ⅰ | Ⅱ | Ⅲ | Ⅳ | Ⅰ | Ⅱ | Ⅲ | Ⅳ | Ⅰ | Ⅱ | Ⅲ | Ⅳ | Ⅰ | Ⅱ |
| Argentina | 38.00 | 38.00 | 38.00 | 38.00 | 38.00 | 38.00 | 38.00 | 38.00 | 44.50 | 52.00 | 75.00 | 75.00 | 78.00 | 97.00 | 118.0 | 100.0 | 80.00 | 40.00 | 40.00 | 32.00 | 29.00 | 29.00 | | | | |
| Australia | 0.25 | 0.25 | 0.25 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.85 | 2.35 | 3.10 | 3.60 | 4.10 | 4.10 | 4.35 | 4.35 | 4.35 | 4.35 | 4.35 | 4.10 | 3.85 | 3.60 | 3.60 | 4.10 | 4.35 |
| Brazil | 3.75 | 2.25 | 2.00 | 2.00 | 2.75 | 4.25 | 6.25 | 9.25 | 11.75 | 13.25 | 13.75 | 13.75 | 13.75 | 13.75 | 12.75 | 11.75 | 10.75 | 10.50 | 10.75 | 12.25 | 14.25 | 15.00 | 15.00 | 15.00 | 14.75 | 14.25 |
| Canada | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.50 | 1.50 | 3.25 | 4.25 | 4.50 | 4.75 | 5.00 | 5.00 | 5.00 | 4.75 | 4.25 | 3.25 | 2.75 | 2.75 | 2.50 | 2.25 | 2.25 | 2.25 |
| China | 2.20 | 2.20 | 2.20 | 2.20 | 2.20 | 2.20 | 2.20 | 2.20 | 2.10 | 2.10 | 2.00 | 2.00 | 2.00 | 1.90 | 1.80 | 1.80 | 1.80 | 1.80 | 1.50 | 1.50 | 1.50 | 1.40 | 1.40 | 1.40 | 1.40 | 1.40 |
| Euro area | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | 0.75 | 2.00 | 3.00 | 3.50 | 4.00 | 4.00 | 4.00 | 3.75 | 3.50 | 3.00 | 2.50 | 2.00 | 2.00 | 2.00 | 2.00 | 2.25 |
| India | 4.40 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.90 | 5.90 | 6.25 | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 | 6.25 | 5.50 | 5.50 | 5.25 | 5.25 | 5.25 |
| Indonesia | 4.50 | 4.25 | 4.00 | 3.75 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 4.25 | 5.50 | 5.75 | 5.75 | 5.75 | 6.00 | 6.00 | 6.25 | 6.00 | 6.00 | 5.75 | 5.50 | 4.75 | 4.75 | 4.75 | 5.75 |
| Japan | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | 0.05 | 0.05 | 0.25 | 0.25 | 0.50 | 0.50 | 0.50 | 0.75 | 0.75 | 1.00 |
| South Korea | 0.75 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.75 | 1.00 | 1.25 | 1.75 | 2.50 | 3.25 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.00 | 2.75 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 |
| Mexico | 6.50 | 5.00 | 4.25 | 4.25 | 4.00 | 4.25 | 4.50 | 5.50 | 6.50 | 7.75 | 9.25 | 10.50 | 11.25 | 11.25 | 11.25 | 11.25 | 11.00 | 11.00 | 10.50 | 10.00 | 9.00 | 8.00 | 7.50 | 7.00 | 6.75 | 6.50 |
| Russia | 6.00 | 4.50 | 4.25 | 4.25 | 4.50 | 5.50 | 6.75 | 8.50 | 20.00 | 9.50 | 7.50 | 7.50 | 7.50 | 7.50 | 13.00 | 16.00 | 16.00 | 16.00 | 19.00 | 21.00 | 21.00 | 20.00 | 17.00 | 16.00 | 15.00 | 14.25 |
| Saudi Arabia | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.25 | 2.25 | 3.75 | 5.00 | 5.50 | 5.75 | 6.00 | 6.00 | 6.00 | 6.00 | 5.50 | 5.00 | 5.00 | 5.00 | 4.75 | 4.25 | 4.25 | 4.25 |
| South Africa | 5.25 | 3.75 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.75 | 4.25 | 4.75 | 6.25 | 7.00 | 7.75 | 8.25 | 8.25 | 8.25 | 8.25 | 8.25 | 8.00 | 7.75 | 7.50 | 7.25 | 7.00 | 6.75 | 6.75 | 7.00 |
| Turkey | 9.75 | 8.25 | 10.25 | 17.00 | 19.00 | 19.00 | 18.00 | 14.00 | 14.00 | 14.00 | 12.00 | 9.00 | 8.50 | 15.00 | 30.00 | 42.50 | 50.00 | 50.00 | 50.00 | 47.50 | 42.50 | 46.00 | 40.50 | 38.00 | 37.00 | 37.00 |
| United Kingdom | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.25 | 0.75 | 1.25 | 2.25 | 3.50 | 4.25 | 5.00 | 5.25 | 5.25 | 5.25 | 5.25 | 5.00 | 4.75 | 4.50 | 4.25 | 4.00 | 3.75 | 3.75 | 3.75 |
| United States | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.50 | 1.75 | 3.25 | 4.50 | 5.00 | 5.25 | 5.50 | 5.50 | 5.50 | 5.50 | 5.00 | 4.50 | 4.50 | 4.50 | 4.25 | 3.75 | 3.75 | 3.75 |

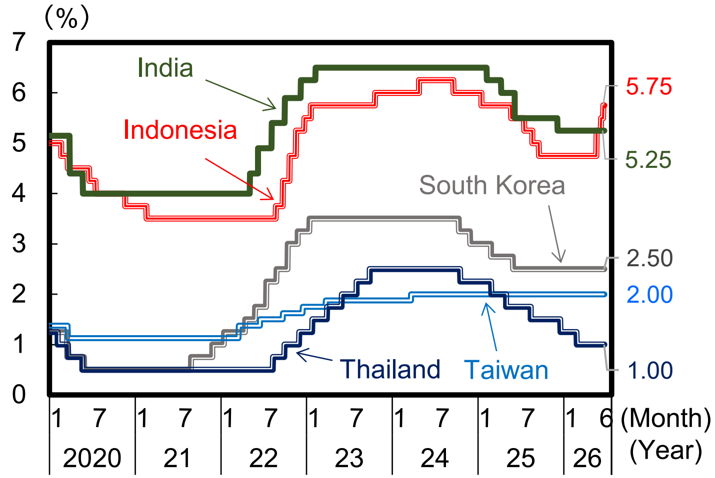
## Figure 3: Consumer Price Inflation Rate in the Euro area (ECB Staff Projections) (June)




## Figure 4: Policy Rate Projections of FOMC Participants

| Target range for the Federal Funds Rate (%) | End-2026 | | |
|---|---|---|---|
| | Dec-26 | Mar-26 | Jun-26 |
| 4.25～4.50（4.375） | | | 1 |
| 4.00～4.25（4.125） | | | 5 |
| 3.75～4.00（3.875） | 3 | | 3 |
| 3.50～3.75（3.625） | 4 | 7 | 8 |
| 3.25～3.50（3.375） | 4 | 7 | 1 |
| 3.00～3.25（3.125） | 4 | 2 | |
| 2.75～3.00（2.875） | 2 | 2 | |
| 2.50～2.75（2.625） | 1 | 1 | |
| 2.25～2.50（2.375） | | | |
| 2.00～2.25（2.125） | 1 | | |
| Total (participants) | 19 | 19 | 18 |
| Median (%) | 3.375 (One rate cut) | 3.375 (One rate cut) | 3.75 (0.5 rate cuts) |
| Avergage (%) | 3.296 | 3.349 | 3.833 |

## Figure 5: Policy Rates in Asia




(Sources) National statistical data, Federal Reserve, ECB and national central banks, BIS, IMF

# 2-1 Economic Trends in U.S.

- In the United States, despite headwinds from inflation driven by the situation in the Middle East, personal consumption expenditures continue to grow at a moderate pace. However, the environment surrounding consumption is becoming increasingly challenging; income growth is failing to keep pace with inflation, and the household budgets of lower- and middle-income earners are under strain due to rising prices for necessities such as groceries and gasoline (Figures 1–3).
- The resilience of the economy is underpinned by robust demand for AI-related products, with a notable increase in related investments (Figure 4). It is believed that higher-income households are underpinning personal consumption expenditures through rising stock prices, particularly in AI-related stocks, and overall, the economy' s dependence on AI for growth is increasing (Figure 5).

**Figure 1: Trends in Personal Consumption Expenditures and Disposable Personal Income**

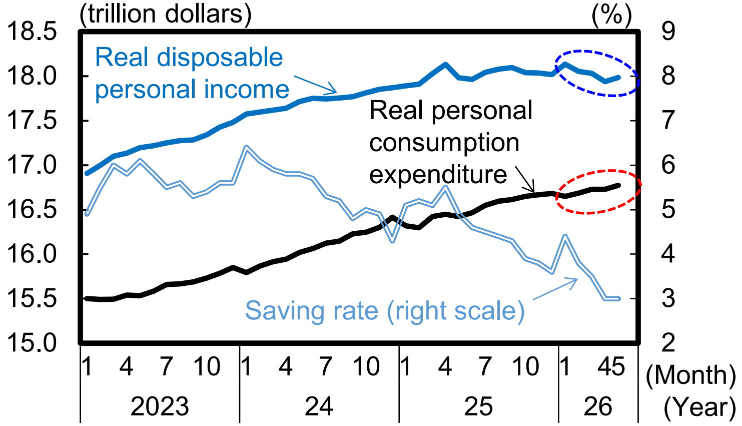



**Figure 2: Inflation in the Prices of Daily Necessities**

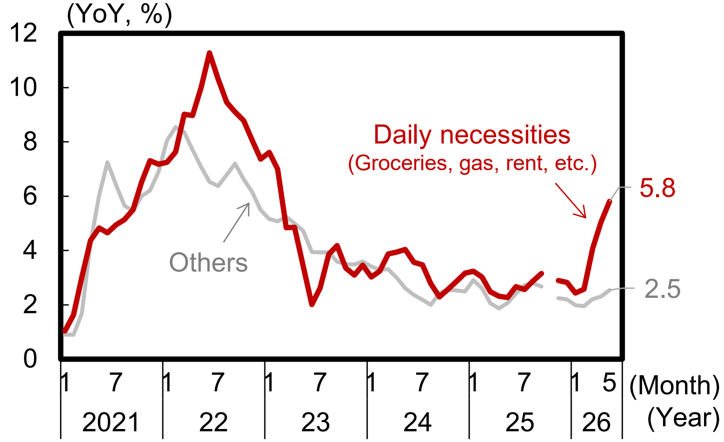



**Figure 3: Consumer Sentiment by Income Status**

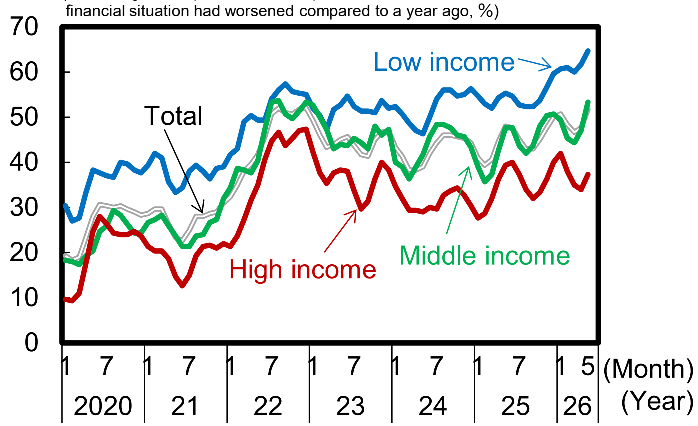
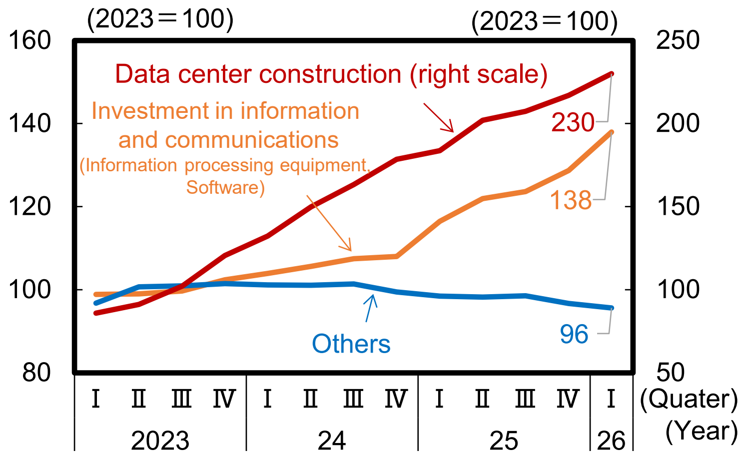



**Figure 4: Private Nonresidential Investment**

**(1) Investment in AI-Related Fields**




**(2) Capital Expenditures by Large Cloud Companies**

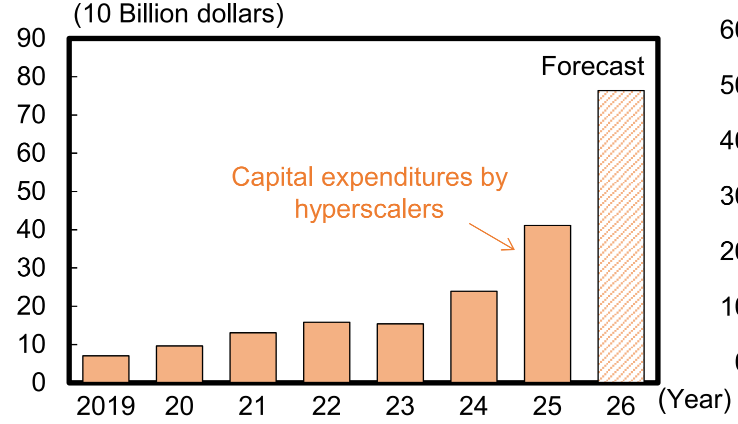
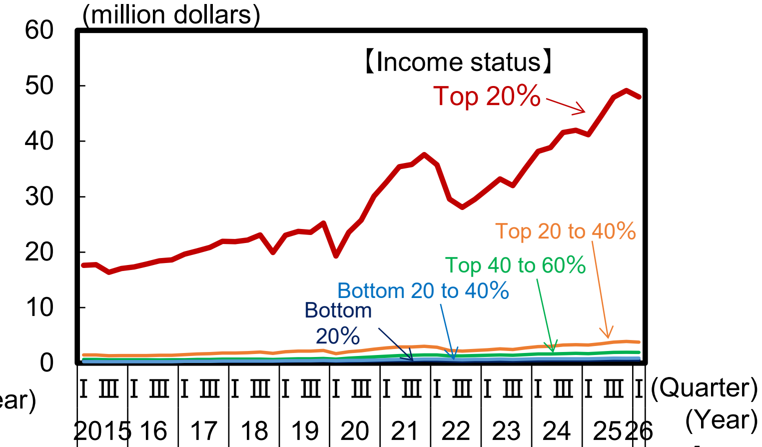



**Figure 5: Household Holdings of Stocks and Mutual Funds**




(Sources) U.S. Census Bureau, U.S. Department of Labor, University of Michigan, Federal Reserve, Bloomberg

# 2-2 Economic Trends in China

- In China, growth in domestic demand—led by consumption—has not picked up, and the economy is experiencing a slowdown gradually (Figure 1). Consumption has been weakened, with Automobile and Home Appliance retail sales currently posting double-digit YoY declines, and fixed assets investment has also decreased compared to the previous year (Figures 2 and 3). While overproduction continues to prevail, with production outpacing growth in consumption and investment, Goods Exports of Electronic Integrated Circuits continue to rise (Figures 4 and 5).
- The GDP deflator has approached zero YoY, primarily due to external factors such as weather and the situation in the Middle East; however, this does not indicate a significant shift in the underlying trend of falling prices (Figure 6).

**Figure 1: Real GDP Growth Rate**

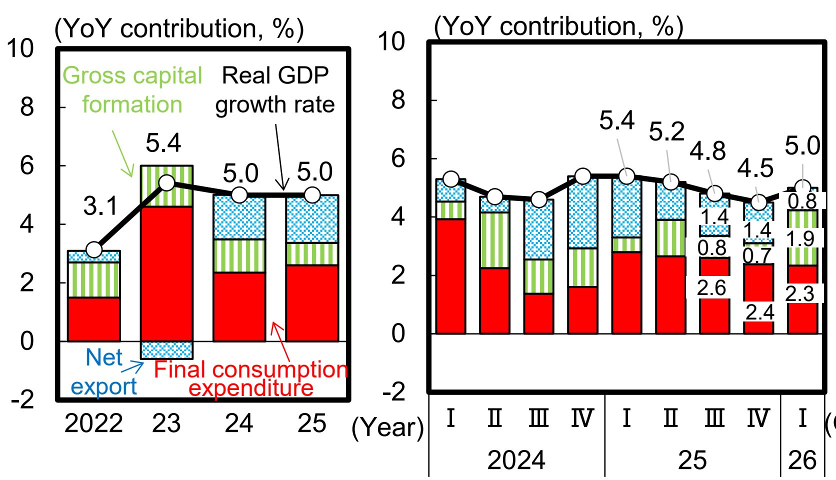



**Figure 2: Nominal Retail Sales**

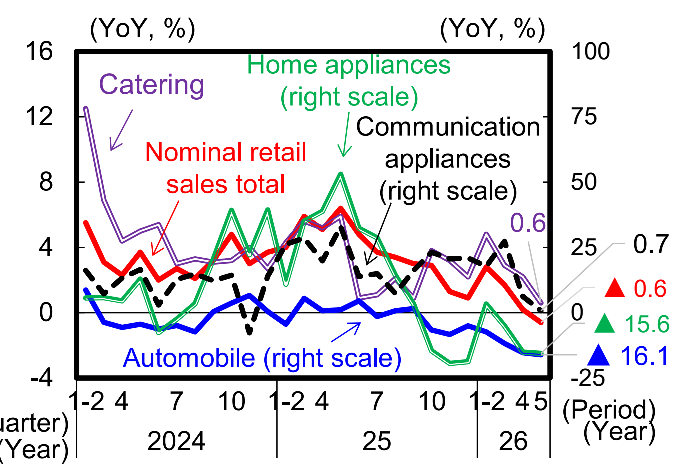



**Figure 3: Nominal Fixed Assets Investment**

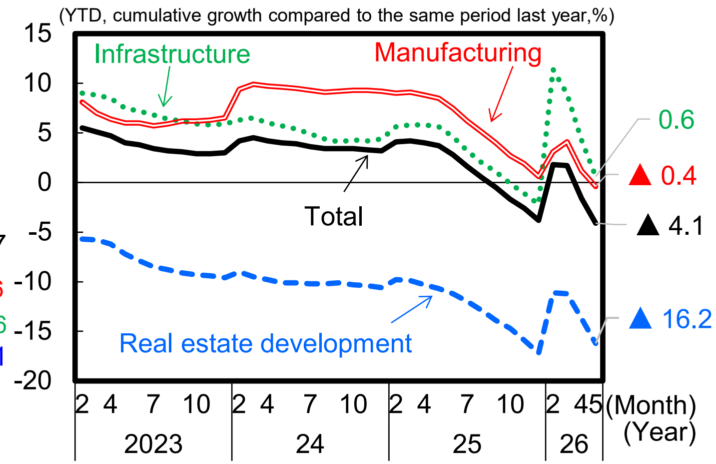



**Figure 4: Production**

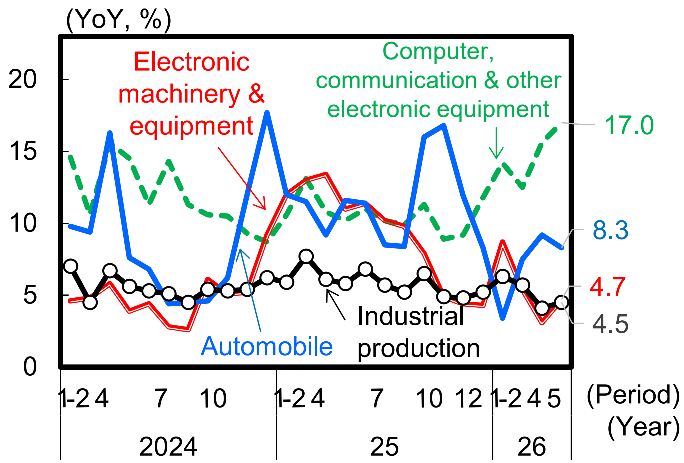



**Figure 5: Goods Exports**

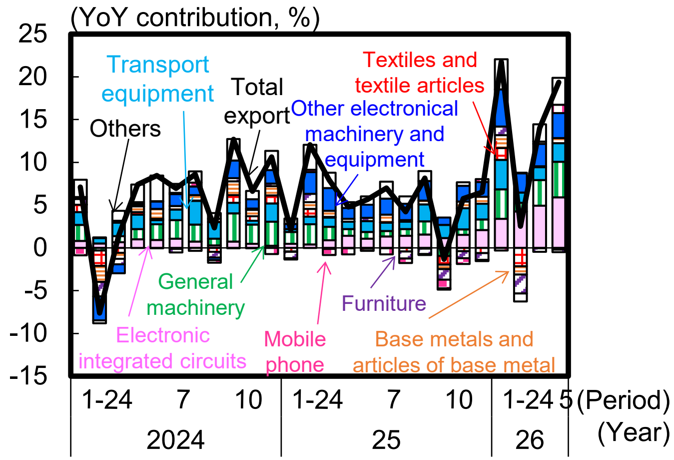
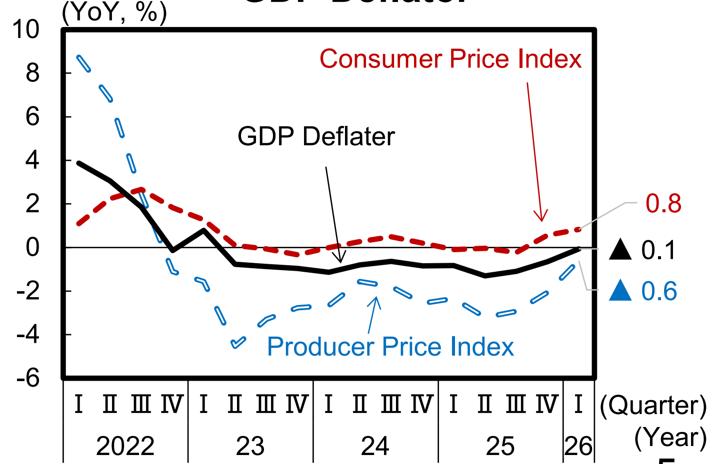



**Figure 6: Price Index and GDP Deflator**




(Sources) National Bureau of Statistics of China, General Administration of Customs of the People's Republic of China

## 2-3 Economic Trends in Europe

- In the Euro area, the economy is showing signs of picking up, supported by government spending. On the investment front, growth in investment in machinery and equipment is slowing, and business sentiment is trending downward. Currently, the impact of the situation in the Middle East is beginning to be reflected in consumption through higher inflation, and domestic demand continues to lack momentum (Figures 1–3).
- In the United Kingdom, the economy is recovering. Supported by moderating consumer price inflation and improving real wages, domestic demand is on a recovery trend, led by household consumption. Going forward, attention should be given to high interest rates and downside risks to employment (Figures 4 and 5).

**Figure 1: Real GDP Growth Rate in the Euro area**

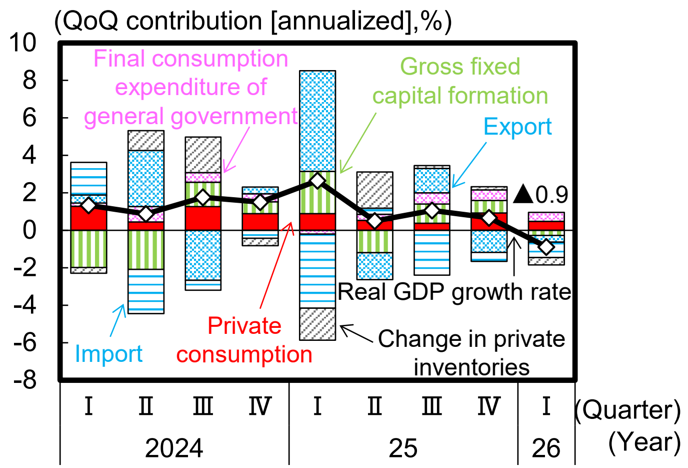



**Figure 2: Nonresidential Investment in the Euro area**

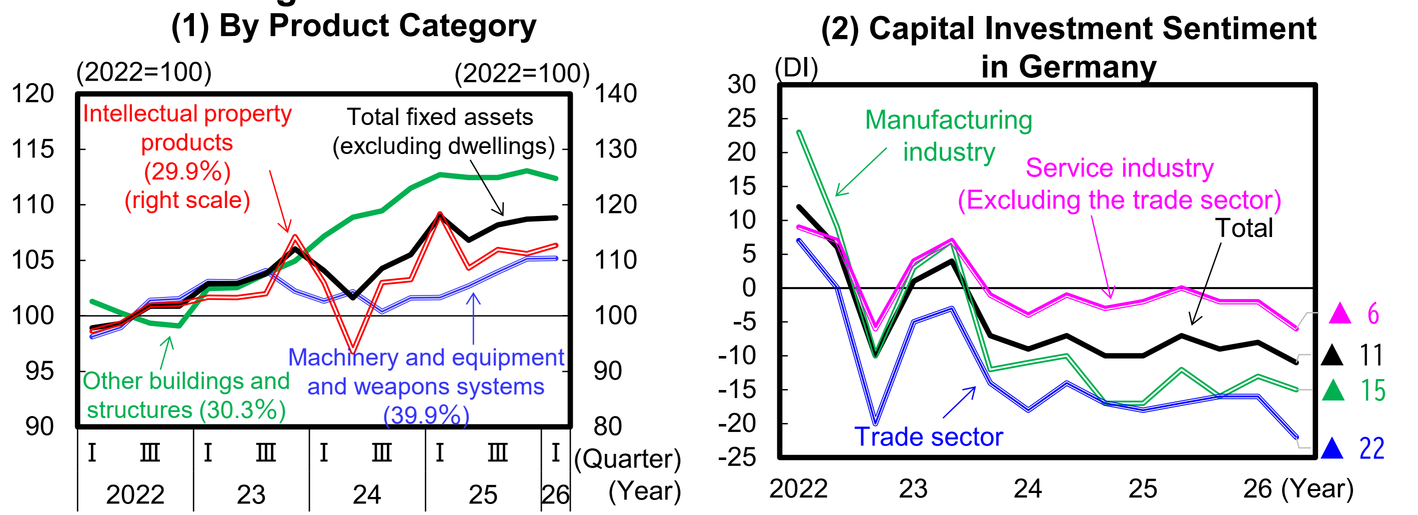



**Figure 3: Retail Trade Volume in the Euro area**

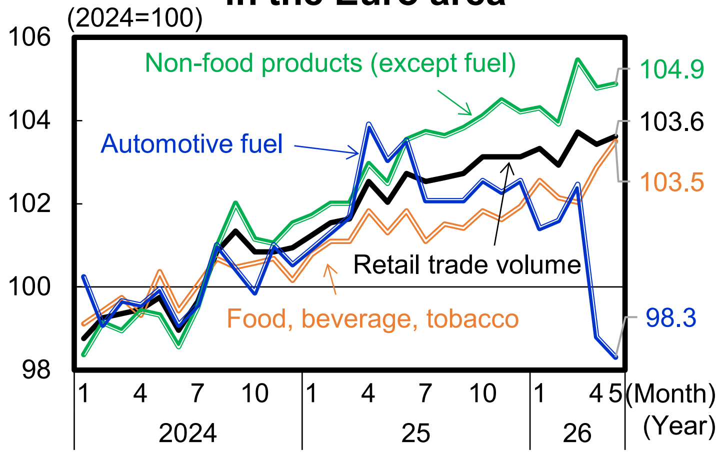



**Figure 4: Real GDP Growth Rate in the U.K.**

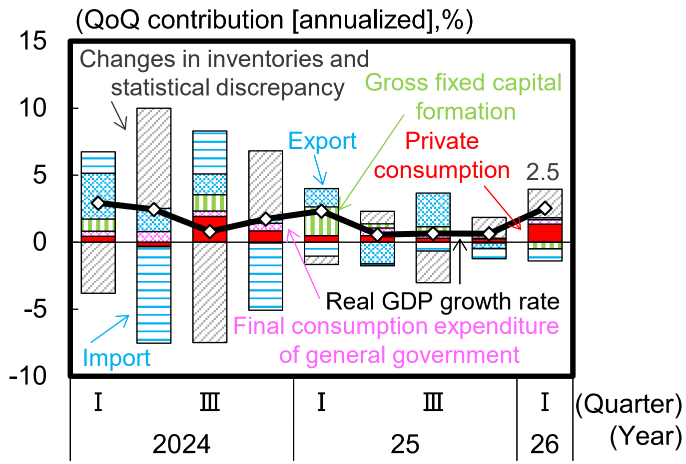
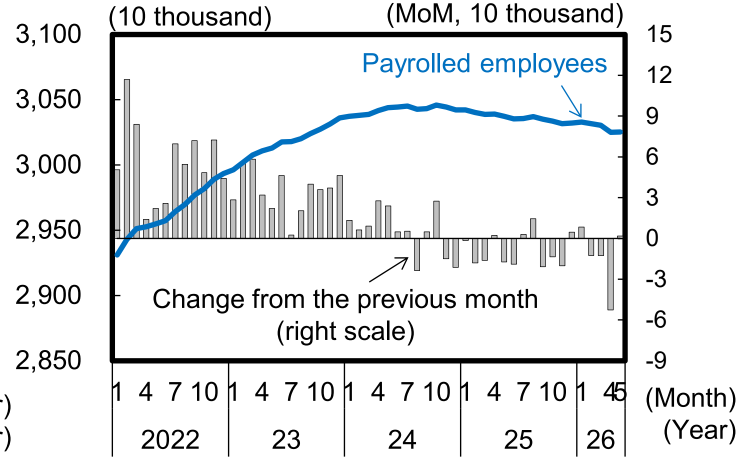



**Figure 5: Employment in the U.K.**




(Sources) German Chamber of Commerce and Industry, U.K. Office for National Statistics, Eurostat

# 2-4 Global Economic Outlook and Risks

- In light of the uncertainty surrounding the situation in the Middle East, international organizations have presented economic outlooks based on multiple scenarios. The global consumer price inflation rate in 2026 is projected to remain around the average for the past 30 years under the scenario with minimal impact, , while real GDP growth is forecast to fall below the historical average in all scenarios (Figure 1).
- Key risks to the outlook include developments in the situation in the Middle East, as well as volatility in financial and capital markets (Figure 2), U.S. policy trends (Figure 3), and export control measures imposed by various countries on critical materials (Figure 4). On the other hand, growing demand for AI-related products could provide a further boost to the global economy (Figure 5).

**Figure 1: Global Real GDP Growth and Consumer Price Inflation (Actual Data and 2026 Forecast)**

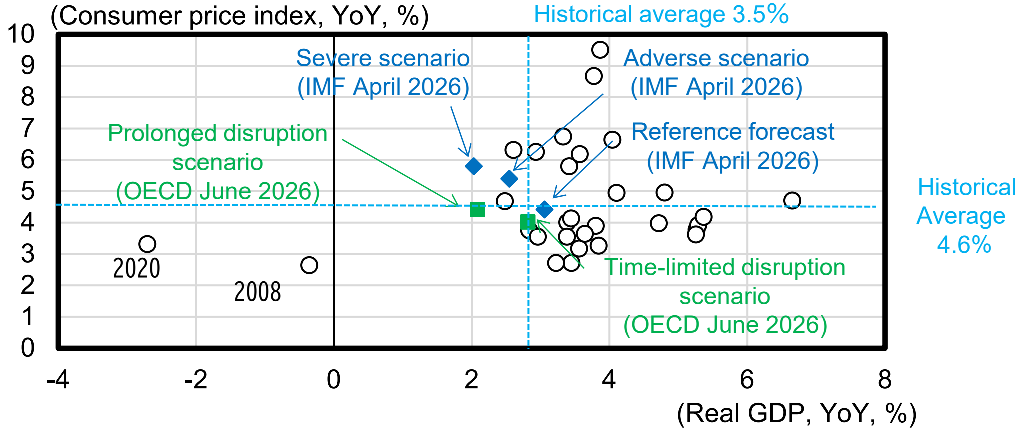



**Figure 2: 1-Year Forward P/E Ratios in the U.S.**

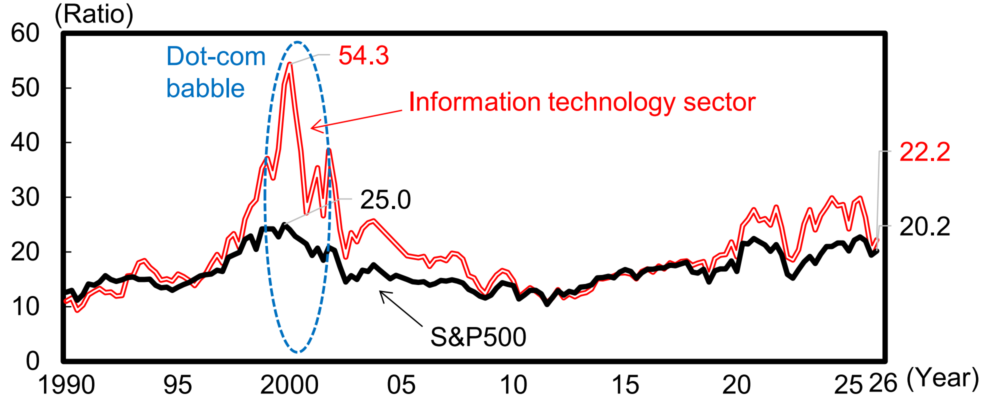



**Figure 3: U.S. Economic Policy Uncertainty Index**

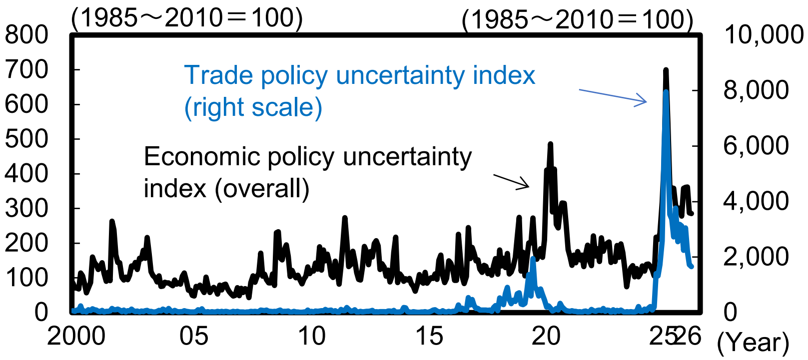



**Figure 4: Value of China's Exports of Rare Earths and Rare Earth Products**

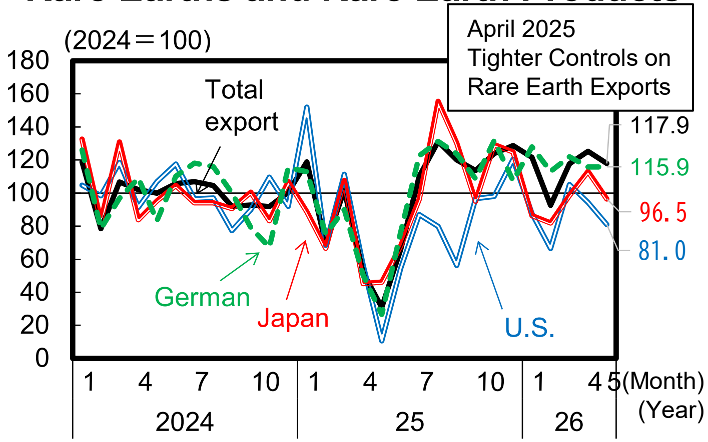
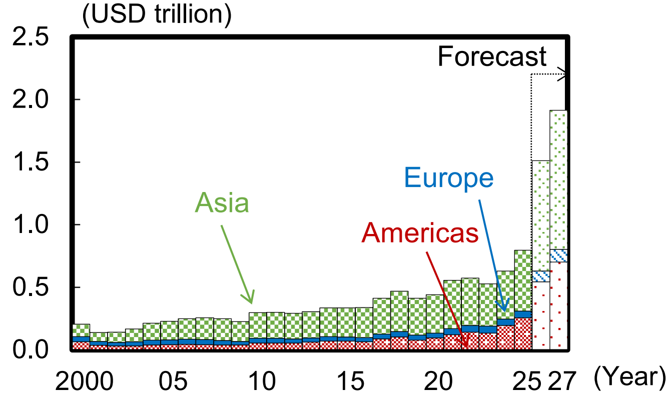



**Figure 5: Semiconductor Billings by Market**




(Sources) General Administration of Customs of the People's Republic of China, IMF, OECD, Economic Policy Uncertainty Index (Baker, Bloom and Davis), World Semiconductor Trade Statistics , Bloomberg