

Economic Round-up: July 2025

There remains high degree of uncertainty around the tariffs announced by the US on its trading partners. Ahead of 1 Aug deadline, President Donald Trump announced new tariff rates for major economies. Countries which had struck a deal with the US before that date noted reduction in rates (UK, Japan, Indonesia, Vietnam, EU and S. Korea). For others (including India) rates were broadly similar/slightly lower than what were announced on the 'Liberation day' (2 Apr). These new tariffs rates are expected to come into effect after the 7th Aug deadline. In addition, to deal with war between Russia and Ukraine, US has also intended to penalise buyers of Russian oil. This poses direct threat to India and China, which are amongst the largest consumers of Russian oil. Further, Trump administration also plans to announce tariffs on its pharmaceutical imports which could be small to begin with, but may reach 250% by the end of a year and a half. Since a significant portion of India's exports to the US constitute as pharma products, this could be a probable cause of concern. US macro data is showing that tariffs are already impacting the economy, with inflation surprising on the upside and labour market, manufacturing and real estate sector reeling under pressure. Elsewhere, growth in Q2CY25 remained weak in China and German economy also contracted. Domestically, fundamentals remain strong. Good monsoon is expected to support agriculture growth and rural demand. Service sector indicators are also showing growth momentum.

Global Central Banks: In Jul/Aug'25, in line with market expectations, RBI, US Fed, ECB and BoJ held rates steady. BoE is expected to lower the rates by 25bps tomorrow, despite inflation remaining temporarily elevated. Growth outlook is likely to be prioritised while taking this decision. In case of the US, weakness in the labour market is expected to add pressure on the central to reduce rates by 25bps in its Sep'25 meeting. Analysts are pricing in 3 back to back cuts this year by Fed. RBI on the other hand signalled a hawkish pause in its latest meeting, indicating that growth fundamentals continue to hold ground so far and the front-loading of its 100bps rate cut should be given more time to show its impact before continuing on rate cut cycle again. Prospects of elevated inflation in Q4FY26 and Q1FY27 also curtails RBI's room to lower rates any further.

Key macro data releases: **Headline CPI** softened further to 2.1% in Jun'25. Moderation in food inflation continues to drive the downward trajectory of CPI. Within food, prices of vegetables and pulses declined sharply, even as cereals and meat prices also decelerated. **Core inflation** has remained sticky at ~4% mark. However, tariff driven commodity price shocks can tend to lead to some upward bias in core. **WPI inflation** declined to (-) 0.1% in May'25—lowest in 20 months, from 3.4% in Jun'24. It was also lower when compared with last month's (May'25) increase of 0.4%. From last year, food inflation has noted significant moderation, helped by vegetables. Manufactured product inflation however inched up, led by items like wearing apparels, pharma products, chemicals, other transport equipment etc. **IIP growth** was 2% (3MMA basis) in Jun'25 compared with 5.4% last year (Jun'24). Mining and electricity slipped into the negative territory. But manufacturing did rather well at 3.4% over 4.2% last year. Infra related industries where the government is spending have also done well registering over 8% growth.

Macro developments

Global growth: Tariff deadline looms

Latest data points from the **US** are indicating that risks of stagflation might be increasing. Retail inflation (CPI) for Jun'25 surprised on the upside as it rose by 2.7% (YoY) from 2.4% in May'25. Even core CPI was up at 2.9% in Jun'25. Even PCE inflation rose came in hotter than expected as it was up by 0.3% (MoM) from 0.2% in May'25. This was driven by prices of furnishing, household equipment, recreational goods and vehicles. Core PCE, preferred gauge of Fed, also rose by 0.3% (2.8% on YoY basis unchanged from May'25) in Jun'25. Labour market indicators are signalling build up in stress. Non-farm payrolls in Jul'25 rose by 73k, sharply lower than estimated 110k, but higher than 14k in Jun'25 (revised down from 147k). Unemployment rate also inched up to 4.2% in Jul'25 from 4.1% in the previous month. Industrial activity appears to be reeling under pressure with ISM manufacturing index signalling faster contraction in activity with index dropping to 48 in Jul'25 from 49 in Jun'25. New export orders, supplier deliveries and employment fell steeply. Even factory orders in Jun'25 fell by (-) 4.8% (MoM) following 8.3% rise in May'25, dragged by construction machinery and transportation equipment (particularly vehicles). Real estate is also getting hampered by elevated rates, as new home sales in May'25 fell (-13.7%) most steeply since Jun'22. Weakness in the economy is expected to add pressure on Fed to cut rates in its Sep'25 meeting.

In case of **Eurozone**, manufacturing PMI indicates near stabilisation of production activity as the index inched up to 49.8 (3-year high) in Jul'25 from 49.5 in Jun'25. Services activity has also seen a pickup with PMI index rising to 51 in Jul'25 from 50.5 last month. Country-wise, while Germany, Spain and Italy continue to perform better, activity in France remains weak. This signals that economic activity in all major economies of the Eurozone has broadly bottomed out and may be on path of recovery supported by sharp reduction in rates by the ECB and also due to policy support given by Germany's new government to boost growth. As a result, Germany's business sentiment index has shown an improvement as it rose to 88.6 in Jul '25 from 84.4 in Jun'25. This was more on account of pick in current situation index, implying that participants expect growth to have picked in Q3CY25. Even the ZEW economic sentiment index rose by 5.2 points to 52.7, supported by 12.5 point increase in the current situation index. Fiscal measures (€ 500bn infra fund) and large commitment by corporates (€ 631bn) regarding investments over next 3 years has fuelled a wave of optimism regarding recovery in growth. In Q2CY25 however, German economy contracted by (-) 0.1%, following 0.3% increase in Q1, on QoQ basis.

China's official manufacturing PMI surprised on the downside as it fell to 49.3 in Jul'25 (est.: 49.7) from 49.7 in Jun'25. This was mainly on account of dip in sub-index of new orders (49.4 versus 50.2), in particular, new export orders (47.1 versus 47.7). Employment on the other hand showed minor improvement. Non-manufacturing PMI also eased, to 50.1 in Jul'25 from 50.5 in Jun'25. In Q2CY25, China's GDP had expanded by 5.2% (YoY), following 5.4% rise in Q1. These growth rates were maintained due front loading of demand by importers of Chinese goods ahead of tariff deadlines. Even monthly reflected a similar trend. In Jun'25, industrial production rose by 6.8% (est.: 5.7%) from 5.8% in May'25. In contrast, domestic activity remained weak. Retail sales growth eased to 4.8% in Jun'25 from 6.4% in May'25. FAI (proxy for domestic investment) also moderated to 2.8% in H1CY25 from 3.7% between Jan'25 and May'25. Given visible weakness in production in activity in Jul'25, Q3 GDP growth can be expected to be lower if there is no fiscal policy support.

Indian economy: mixed performance

In FYTD26 so far (Apr-Jul'25), high frequency indicators are signalling mixed signs of growth across sectors. For instance, on one hand certain indicators such as GST collections, diesel consumption, toll collections, and unemployment rate have noted an improvement, other indicators like airline passenger growth, vehicle registration, and deposit and credit growth, e-way bill generations have risen at a slower pace than last year. GST collection a reflection of private consumption demand, rose by 10.7% between Apr-Jul'25 versus 10.2% during the same period last year. This is despite lower inflation in Q1FY26 (2.7% versus 4.9%). Similarly, diesel consumption has also increased by 2.6% from 2.3% last year. Due to normal monsoon activity, rural demand also remains robust, as reflected in 2W sales which rose by 5% in Q1FY26 versus 4.9% between Apr'25 and May'25. Even now monsoon remains 4% above LPA (cumulative basis till 4 Aug 2025), suggesting that rural demand and agriculture growth can be expected to perform well even this year. In contrast, both credit and deposit growth (9.9% and 10.1%, respectively) are running lower than last year (18.5% and 12.7% respectively). Services PMI (59.6 versus 60.5 last year) also indicates some moderation, while manufacturing PMI (58.3 versus 58.2) suggest broad steadiness in activity. Frontloading of rate cuts RBI is likely to support credit and investment growth in the coming months.

Central bank actions

RBI's MPC unanimously decided to keep the repo rate unchanged at 5.5%, after frontloading rate cuts in its previous policy meet and the impact of the same is still unfolding. The stance was also kept unchanged at 'neutral' signalling that there remains limited room for future rate cuts in near run. GDP projection has been retained, as RBI noted that the domestic growth has been holding up in line with its assessment. However, RBI has lowered its there could be low probability of further reduction in rates and there is limited room for the same given the inflation is projected to be higher and above the 4% mark both in Q4F26 and Q1FY27. However, if conditions change, we at most expect one rate cut of 25 bps in Q3FY26 as RBI will remain data dependent and closely track the evolving developments especially on external front.

US Fed held its policy rate steady in the range of 4.25-4.50% in its latest meeting in Jul'25, citing "somewhat elevated" inflation in the country. Ongoing uncertainty around the economic outlook due to tariff war also impacted members' decision. However, two board of Governors dissented and voted for a 25bps cut, a first non-unanimous since 1993. For the period ahead, the central bank Chair Powell hinted that incoming macro data until mid-Sep'25 will be critical in deciding the rate cut trajectory. Now given the weakness in the labour market (slowdown in non-farm payroll additions and rise in unemployment rate), cracks have open wide for a rate cut in Sep'25. As per CME FedWatchTool there is currently ~80% probability of 25bps cut in the upcoming meeting.

Bank of England (BoE), kept its policy rate steady at 4.25% in Jun'25 following a 25bps reduction in May'25. In its Aug'25 meeting tomorrow, the central bank is widely expected to lower rates by another 25bps, thus sticking to its quarter point reduction in rate in each quarter. This is expected given the backdrop weakness in economic growth, even as inflation remains elevated. CPI for Jun'25 rose by 3.6% from 3.4% in May'25, a tad higher than central bank's forecast. Inflation in 3.5-4% is worrisome for BoE as it carries the risk of getting embedded. However, for now BoE believes this is a temporary spike in inflation, given April's tax and minimum wage changes. New inflation forecast can be expected in this meeting, and rate cut decision is expected to be passed with 7-2 majority.

The **ECB** reduced its policy rates by 25bps in Jun'25 on expected lines. Following continuous rate reduction since last year, ECB opted for a pause in its Jul'25 meeting and held its main interest rate steady at 2%. This was done keeping in view of significant policy support that has already been provided by the central bank by bringing rates down from a peak of 4% to 2% now, and due to ongoing uncertainty around the tariff war. Going forward, the statement clarified that "the Governing Council's interest rate decisions will be based on its assessment of the inflation outlook and the risks surrounding it, in light of the incoming economic and financial data, as well as the dynamics of underlying inflation and the strength of monetary policy transmission. The Governing Council is not pre-committing to a particular rate path". Most analysts now expect a prolonged pause by ECB for the remaining part of the year. Some market participants are pricing in one last 25bps reduction in rate before the year-end.

Bank of Japan, maintained its policy rate on hold at 0.5% in its Jul'25 meeting. The central bank cited that the recently concluded trade deal between Japan and the US has provided them with clarity on the future economic outlook. As a result, GDP forecasts for the current fiscal year were revised upward to 0.5-0.7% from 0.4-0.6% projected in Apr'25. Further, given the stickiness in food inflation, and solid wage growth, BoJ also raised its inflation projection for this year to 2.7-2.8% from 2-2.3% earlier. Given less bleak economic outlook and expectation of persistently high inflation, some analysts are expecting BoJ hike rate in its Oct'25 meeting.

Data Releases

Fact sheet on US trade deals so far

US-UK trade deal: UK was amongst the first countries to secure a trade deal with the US on 8 May 2025. This was much earlier than the 31 Jul deadline imposed by the US. The trade deal, termed as the Economic Prosperity Deal (EDP), is expected to boost trade and improve market access for both countries. As per the terms of the deal, the reciprocal tariff rate of 10% remains in place.

US-Indonesia trade deal: The joint framework for US-Indonesia Agreement on Reciprocal Trade was announced on 22 July 2025. Under this, the US agreed to substantially reduce reciprocal tariffs on Indonesia to 19% versus 32% announced on 2 April 2025. In comparison, Indonesia has agreed to eliminate tariffs on 99% of US goods including agricultural and industrial products.

US-Japan trade deal: After days of constant back and forth, the US Government on 23 July 2025 announced the successful completion of the US-Japan Strategic Trade and Investment Agreement. Under this agreement, Japan agreed to pay a tariff of 15% on its exports to the US. Incidentally, US had slapped a 24% tariff on Japan as per the Liberation Day schedule. Later, the US President had notified through a letter to the Japanese government, plans to impose a 20% tariff on imports from Japan.

US-EU trade deal: EU was the latest trading partner to secure a trade deal with the US. The US and EU agreed on a widely anticipated trade deal on 28 July 2025 which is dubbed as the biggest trade deal in the World. Under the deal, EU's exports to the US will incur a tariff rate of 15%. This was lower than the 20% tariff rate proposed under the Liberation Day announcement, and also the 30% tariff rate threatened by the US President subsequently. Both the countries have also agreed on holding talks to address the issue of non-tariff barriers impacting agricultural products. With respect to digital access, the US and EU have agreed to have zero custom duties on electronic transmissions.

Other trade deals: The US President also announced an in-principle framework for a trade deal with Vietnam. While finer details of the deal have not been announced formally so far, the US President stated that under the deal tariff on Vietnamese exports was reduced to 20%, more than half the 46% referred to in the Liberation Day tariff announcement. Further, tariff on “transhipped” goods was set at 40%. In comparison, US exports to Vietnam would face zero duty. Along similar lines, US is said to have reached a trade agreement with Philippines, which provides duty-free access to US. At the same time, imports from Philippines would face a tariff of 19% in the US, down from 20% announced earlier. Recently, a trade deal has also been announced with South Korea. Under the agreement, Korea’s exports would attract a tariff rate of 15%. This tariff rate will also be applicable on exports of semiconductors and auto, even as steel and aluminium will continue to be taxed at 50%. Additionally, South Korea has agreed to invest US\$ 350bn in the US.

WPI slips into deflation

WPI inflation declined to (-) 0.1% in May’25—lowest in 20 months, from 3.4% in Jun’24. It was also lower when compared with last month’s (May’25) increase of 0.4%. From last year, food inflation has noted significant moderation, helped by vegetables (onion, tomato, and potato, ginger), spices, pulses, paddy, and eggs, meat and fish. Fuel inflation remained in deflation for the 3rd consecutive month in Jun’25 and was also lower compared with Jun’24. Drop in mineral oil index, mirrors the trend in international oil prices. Manufactured product inflation however inched up, led by items like wearing apparels, pharma products, chemicals, other transport equipment etc. Inflation in key components under basic metals (copper and lead) noted higher inflation, while their prices internationally are down. Going forward, as tensions in the Middle East have de-escalated, oil prices have registered some relief. In addition, there appears to be increasing pressure on global growth as tariff war has been reignited. Timing of Fed rate cuts remains uncertain once again. All these factors will exert downward pressure on international commodity prices and help domestic WPI ease further.

CPI at its lowest since Jan’19

Headline inflation softened further to 2.1% in Jun’25. Moderation in food inflation continues to drive the downward trajectory of CPI. Within food, prices of vegetables and pulses declined sharply, even as cereals and meat prices also decelerated. With this, CPI in Q1 FY26 averaged 2.7%, lower than RBI estimate of 2.9%. With food prices showing a declining trend even in Jul’25 (BoB ECI at -3.3%), this trend is likely to continue. Food inflation trajectory looks benign, supported by ample rainfall, even though the spatial distribution of rainfall will require careful monitoring. Core inflation has remained sticky at ~4% mark. However, tariff driven commodity price shocks can tend to lead to some upward bias in core. Overall, we believe that inflation is likely to remain below RBI’s target of 4% this year. Climate-related risks and US tariff policy and its likely impact on global commodity prices remain key risk to our view.

IIP numbers mixed

Overall growth was 2% (3MMA basis) in Jun'25 compared with 5.4% last year (Jun'24). Now, this is low and when we talk of GDP growth for the year being in the region of 6.5%, IIP should be closer to the 5% mark. But this need not be the case as the following analysis shows. The internals are interesting. Mining and electricity have slipped into the negative territory with growth of -3% and -1.9% respectively. The monsoon surely has affected mining, but lower demand for electricity can be linked to a very high base effect of +10.9%. But manufacturing has done rather well at 3.4% over 4.2% last year. The good part of the story is that the infra related industries where the government is spending have done well registering over 8% growth like base metals, metal products, electric and non-electric machinery. Vehicles is up by 8.9% and tobacco products by 9.2%. This is also reflected in capital goods growing by 10% and infra industries by 6.3%. The not so good picture comes on the consumer side: beverages, textiles, leather, paper pharma are in the negative zone. Garments have done surprisingly well with 4.9% growth. The FMCG or non-durables have registered -1.3% de-growth over -0.3% de-growth last year. This is what we hear from the commentaries from companies in this sector.

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