Weekly economics podcast: Economic roundup September 2025

By Perpetual Corporate Trust

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The global economy seems to be muddling through quite well according to economic data released in September. Economic growth appears to be holding up better than most analysts predicted after US President Trump upended the global international trading system by imposing higher tariffs on goods and services imported to the US. One consequence of growth holding up better than expected is that progress reducing inflation is stalling, and in some cases is showing disturbing signs of starting to reverse. Central banks' ability to prime growth by easing monetary policy showed signs of becoming more limited during September.

In the United States, the final reading of Q2 GDP showed surprising upward revision to 3.8% annualised growth, from 3.3% posted previously. Much of the upward revision came from stronger domestic spending in the US, notably real consumer spending revised upwards to 2.5% annualised growth from 1.6% previously and up from only 0.5% annualised growth in Q1. The consumer in the US appears to be back in Q2, providing firm support for GDP growth. Moreover, consumer spending has stayed strong in the first two months of Q3 with personal spending up 0.6% m-o-m in August after an increase of 0.5% in July.

Not all US economic readings were stronger in September. The labour market showed softer signs with nonfarm payrolls up only 22,000 in August after an increase of 79,000 in July

causing the unemployment rate to lift to a 4-year high of 4.3% in August from 4.2% in July. The softer labour provided wriggle room for the Federal Reserve for the first time this year to cut the Funds Rate by 25bps to 4.25%. The Fed remained under pressure from President Trump to cut rates much more, but for the present remains on a cautious path cutting rates, caught between the mix of softer and stronger data as well as sticky inflation.

Annual CPI inflation remained at 2.7% y-o-y in July while the core CPI rose to 3.1% y-o-y in July from 2.9% in June. Inflation continues to track above the Fed's 2% target and the slow implementation of tariffs implies a long tail of higher inflation readings over the next few months. The Fed's ability to cut the Funds Rate is becoming more limited and if President Trump succeeds in forcing the Fed to lower the Funds rate more sharply, the casualty is likely to be US longer-term interest rates pushing higher and reflecting greater US inflation risk ahead.

In China, the data released in September continues to point to softening economic conditions. China's domestic demand is running softly, and that is true especially of consumer spending. August retail sales growth faded more than expected to 3.4% y-o-y from 3.7% in July. Growth in fixed asset investment spending is also running soft, up only 0.5% y-o-y in August, compared with 1.6% y-o-y in July. Domestic spending growth is fading at a time when China's exports are coming under pressure from US tariff changes. August export growth was 4.4% y-o-y, down from 7.2% y-o-y in June. China's inflation readings are also screaming that China is over-producing. The CPI deteriorated to -0.4% y-o-y in August while producer prices were down by 2.9% y-o-y. Economic policies are aiming to make excess capacity worse, focusing on oversupplying tech products including electric cars and AI. Meanwhile China's consumers have little reason to spend more freely. Unemployment is rising, 5.3% in August, house prices continue to fall, -2.5% y-o-y in August, and government policies are not aiming squarely at improving household disposable income and social welfare.

Despite mounting political instability in parts of Europe, the economy is another example of muddling through. Q2 EU GDP growth was revised up slightly to 1.5% y-o-y from 1.4%, not strong, but relatively respectable by European standards. Unemployment is running at the lowest level this century, 6.2% in July from 6.3% in June. Wage growth at 3.7% y-o-y in Q2, up from 3.5% in Q1 is running well above inflation at 2.0% y-o-y in August. Also, Europe's biggest economy, Germany, is running much easier fiscal policy, ending years of restraint. The European Central Bank has been a front-runner easing monetary conditions with a low 2.0% official deposit rate. The ECB will be more constrained in the months ahead with inflation showing signs of lifting. Across the channel in the UK the position is different with inflation already pushing higher (above 3.5% y-o-y) halting the Bank of England's monetary policy easing campaign.

In Australia, economic growth picked up pace in Q2 and driven by greater household spending. Real GDP rose in Q2 by more than expected, +0.6% q-o-q , +1.8% y-o-y with consumer spending up 0.9% in the quarter compared with a 0.4% rise in Q1. There are signs that the strong lift in consumer spending continued early in Q3 with July household spending up 0.5% m-o-m, 5.1% y-o-y.

Consumer spending and economic growth appear to be rising more strongly than the RBA forecast in the latest (August) quarterly Monetary Policy Statement.

Also, there are tentative signs that the blip upwards in inflation forecast by the RBA to take the CPI up to around 3% at the end of this year with underlying (trimmed mean) inflation at 2.6%, could be a bigger blip than forecast. Both the July and August monthly CPI readings were higher than expected. In July the monthly CPI showed a lift from 1.9% y-o-y in June to 2.8% in July. In August, the CPI rose again to 3.0% with trimmed mean inflation at 2.6% y-o-y. It is highly likely that both of these inflation measures will rise further over the remaining months of this year. With headline CPI inflation nearer to 3.5% y-o-y in prospect at the end of this year, as well as underlying inflation nearer to 3.0%. The RBA may need to wait several months to judge comfortably, or uncomfortably, whether inflation will top out at a level that makes a return of inflation to the middle of the 2-3% target band a reasonable prospect from late 2026.

If the labour market continues to soften (total employment fell 5,400 in August, although the unemployment rate held steady at 4.2%) that may provide hope of inflation returning to a falling trend from mid-2026. However, if the signs of stronger consumer spending continue taking annual GDP growth noticeably above 2.0% y-o-y in Q4 or in Q1 2026, labour market conditions are likely to firm again and destroy hope of inflation returning to target band. The RBA looks set for a long period monitoring the economic data. That implies that the cash rate will stay on hold at 3.60% through to mid-2026. Beyond that the portents of inflation will determine whether the next rate move is a cut or a hike.

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