

Economic Round-up: August 2025

Global growth turmoil continues as tariff related uncertainties and its impact are beginning to slowdown the US economy as well. Weak labour market data (non-farm payrolls, unemployment rate), along with moderation in domestic consumption (retail sales), industrial growth (factory orders) and real estate market (new home sales) are all pointing towards the same. Noting these trends, US Fed is widely expected to lower its policy rate by 25bps in its Sep'25 meeting and is estimated to reduce rates in its Oct'25 and Dec'25 meetings as well. US has applied steep tariffs on India (50%—amongst the highest and at par with Brazil), while it has extended its truce with China for a 90-day period, ending 10 Nov'25. Domestically, growth so far remains robust with GDP in Q1FY26 jumping to 7.8% from 6.5% last year and 7.4% in Q4FY25. To maintain this momentum, central government has recently announced GST overhaul. As per the revised tax structure, good and services will be taxed under 2 main slabs—5% and 18% and sin goods will be charged at a higher rate of 40% versus 28% earlier. Majority of the everyday items have been moved to the 5% bracket or are now tax free. Higher value items are in 18% bracket, reflecting progressive nature of the indirect tax regime. This move is expected to provide FY26 GDP a boost of 0.2-0.3%. Festive demand and agriculture growth will also be supportive of GDP growth in the coming quarters.

Global Central Banks: In Aug'25, in line with market expectations, US Fed, ECB and BoJ held rates steady. BoE lowered the policy rate by 25bps in view of slowing economic growth. In Sep'25, US Fed is expected revive its rate cutting cycle as it may deliver 3 back-to-back rate cuts in the remaining months of CY25. In contrast, ECB appears to have come to an end of its rate cut cycle as inflation is tracking near its targeted level and there are some indications of pick up in growth. BoE is also expected to hold rates stable this month in view of renewed price pressures. RBI 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. For now, we expect RBI to maintain status quo.

Key macro data releases: **CPI inflation** softened significantly to 1.55% in Jul'25 (in line with BoB forecast of 1.5%), on YoY basis compared to 3.6% inflation seen in Jul'24. The fine prints show that food index remained in deflation territory for 2 consecutive months in a row, falling by (-) 1.8% in Jul'25 compared to 5.4% in Jul'24. **Core CPI (excl. food and fuel)** also softened to 4.1%, on YoY basis. Among major sub-components, transport and communication (led by favourable base) and education have been the major drag down. **INR depreciated** to a record low in Aug'25 as the additional US tariffs took effect. Month-end demand from importers and sustained FPI outflows from the domestic equity markets also contributed to the decline in the domestic currency. INR declined by 0.7% in Aug'25. **We are anticipating a range of 87.5-88.5/\$ in the near-term.** India's **10Y yield** also showed significant firmness in Aug'25, with longer part of the curve exhibiting maximum movement, a phenomenon called bear steepening. This was primarily led by lower expectations of rate cut by RBI amidst growth holding ground. Apart from this, concerns of excess supply of government papers also weighed on sentiments. **We expect India's 10Y yield to trade in the range of 6.50-6.60% in the current month.**

Macro developments

Global growth: All eyes on Fed rate cut

Macro data from US is indicating that the economic momentum is beginning to lose steam. Labour market, domestic consumption, real estate and industries all are showing signs of fatigue. Widely tracked non-farm payrolls rose by just 22k in Aug'25, sharply down from estimated 75k increase and 79k increase in Jul'25. Jun'25 data showed net loss in jobs to the tune of 13k. Unemployment rate has also inched up to 4.3% in Aug'25 from 4.2% in Jul'25. Retail sales slowed to 0.5% in Jul'25 following 0.9% rise in Jun'25. Sales of building materials, electronic appliances and restaurants and bars fell. In the real estate market, new home sales fell by (-) 0.6% (MoM) in Jul'25, even as median house price fell by (-) 5.9% (YoY). Elevated mortgage rates and subdued demand are holding back growth. Amongst the industries, factory orders fell by (-) 1.3% in Jul'25, compared with (-) 4.8% drop noted in Jun'25. In view of this recent slowdown, it is almost confirmed that the Fed will lower its policy rate by 25bps in its upcoming Sep'25 meeting. In Aug'25, both manufacturing and services activity appears to have picked up. ISM manufacturing PMI rose to 48.7 from 48 in Jul'25, helped by pick up in new orders. ISM services also saw some revival as the index inched up to 52 from 50.1.

In case of **Eurozone**, manufacturing PMI showed pickup in activity in Aug'25—a first since Jun'22 as the index rose to 50.7 from 49.8 in Jul'25. New orders increased on the back of domestic sales, while export orders continued to decline. Employment fell at the softest pace in 27 months. Price pressure noted a buildup, leading to higher operating cost for manufacturers. Services sector activity eased a tad as the index fell to 50.5 in Aug'25 (2-month low) from 51 in Jul'25. Contraction was visible across all 4 major Eurozone economies—Germany, France, Spain and Italy. Employment moderated, while input price pressures appear to be mounting. In Germany, Ifo business sentiment index rose to 89 in Aug'25 from 88.6 in Jul'25 due to improvement in future expectations index, while current situation index worsened. Looming tariff threat has cast doubt on current growth prospects. Ifo has lowered its growth projection for CY25 to 0.1% from 0.3% earlier. In CY26, public spending will boost GDP to 1.3% and further to 1.6% in CY27.

China's official manufacturing PMI contracted at a slower pace as the index rose to 49.4 in Aug'25 (est.: 49.5) from 49.3 in Jul'25. New orders continue to decline (49.5 versus 49.4), albeit at a slower pace. In contrast, production sub-index picked up pace (50.8 versus 50.5) and even the business sentiment expectations improved for the second consecutive month in Aug'25 to 53.7 from 52.6 in Jul'25. Non-manufacturing activity rose, as the index increased to 50.3 in Aug'25 from 50.1 in Jul'25. This was supported by sectors such as transportation, telecom, and capital market services. On the other hand, performance of businesses such as retailing and real estate remained sub-par. Official data also shows that industrial production was weak in Jul'25 as well, as it slowed to 5.7% (est.: 5.9%) from 6.8% in Jun'25. Retail sales also missed analyst expectations (4.6%) as it slipped to 3.7% from 4.8%. Fixed asset investment also softened to 1.6% on CYTD basis (Jan-Jul) from 2.8% in H1CY25 and estimated 2.7%. Apart from seasonal factors (heavy rainfall, unusually high temperatures), government crackdown (to curb excessive competition impacting profitability and deflation) also played a part in the slowdown in the economic activity in Jul'25. Given visible weakness in production in activity in Jul-Aug'25, Q3 GDP growth can be expected to be lower if there is no fiscal policy support.

Indian economy: GST bonanza

Central government has recently announced overhaul to its GST tax structure, making it simpler for the businesses and has reduced cost burden for the consumers. As per GST 2.0, there now exists only 2 major tax slabs—5% and 18%. Majority of the daily need items have been brought under the 5% bracket or have been

made tax free. Sin goods will be taxed at higher rate of 40% versus 28% earlier. This is expected to bring significant boost to the consumption and FY26 GDP may get a support of 0.2-0.3% in H2 alone. In Q1FY26, growth surprised on the upside as it rose by 7.8%, up from 6.5% last year and 7.4% in Q4FY25, led by services activity and government spending. However, in FYTD26 so far (Apr-Aug'25), high frequency indicators are showing diverging trends in economic activity. On one hand, indicators such as diesel consumption (2.2% versus 1.3%), toll collections (16.7% versus 5.9%), centre capex (32.8% till Jul'25 versus -17.6% till Jul'24), revenue spending (17.1% versus -2.3%) have shown 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 collections have also seen some moderation (Apr-Aug) noting 9.9% growth versus 10.1% growth between Apr and Aug'24, possibly due to lower inflation. As monsoon activity enters its final phase, the progress so far has remained healthy (9% above LPA as of 5 Sep'25). However, concerns persist regarding excessive flooding in the northern part of the country. Services activity, as reflected by the PMI index, shows momentum being maintained in Q2FY26 till Aug'25, with the index averaging at 61.7 (Jul-Aug) versus 59.3 in Q1. It is also higher than last year Jul-Aug (60.6). Manufacturing PMI index also exhibits a similar trend.

Central bank actions

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. As per Fed Chair Jerome Powell's latest speech (Jackson Hole), he reiterated that due to tariffs inflation risks continue to pose upside threat and labour market is showing signs of slowdown. He also highlighted that the central bank will finely balance the need to keep inflation under control and provide boost to the economy. The slightly more dovish remarks have led analysts to believe that there exists ~98% chance of a 25bps rate cut in the Sep'25 meeting. Markets believe that it is almost certain that Fed will continue lowering rates consecutively until Dec'25.

Bank of England (BoE), reduced its policy rate by another 25bps to 4% in Aug'25 meeting. The decision had arrived with a vote of 5-4 majority in the second round of voting. The statement cautioned that "any future rate cuts will need to be made gradually and carefully". The central bank also published its updated forecasts indicating that it expects inflation to peak at 4% in Sep'25, due to higher food costs. Latest CPI print came in at 3.8% in Jul'25, up from 3.6% in Jun'25. Despite continued weakness in the labour market, investors expect at most one more rate cut by BoE this year. Stickiness in inflation remains a key concern for BoE.

The **ECB** kept its policy rate unchanged in Jul'25 at 2%, after reducing it by 25bps in Jun'25. The decision was taken keeping in view sustained reduction in inflation, inching closer to its 2% target level and slowdown in wage growth. In addition, the policy highlighted that ECB remains vigilant about ongoing global trade tensions and thus is currently in wait and watch mode, before taking any call on another rate cut decision. In its upcoming Sep'25 meeting also the central bank is expected to maintain status quo. Inflation has slowed from 2.5% at the beginning of the year (Jan'25) to 2.1% currently (Aug'25). Officials have signalled satisfaction with current policy settings, leading investors to believe that ECB may have reached the end of its rate cutting cycle.

Bank of Japan, maintained its policy rate on hold at 0.5% in its Jul'25 meeting. 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. Following US-Japan trade, risks to economic growth have declined somewhat. In contrast, inflation appears to be sticky. Latest statement of some BoJ board members hints at talks of another rate hike in the offing. In the Sep'25 meeting, the central bank is expected to maintain status quo, while there seems increased probability (~42%) of a rate hike in Oct'25, in view of second round of price effects taking place.

Data Releases

Currency update

INR depreciated to a record low in Aug'25 as the additional US tariffs took effect. Month end demand from importers and sustained FPI outflows from the domestic equity markets also contributed to the decline in the domestic currency. INR declined by 0.7% in Aug'25; however, if seen in the context of a weaker dollar, the loss appears more pronounced. We expect some pressure on the rupee in the near-term as investors continue to seek clarity on impact of tariffs and developments surrounding trade negotiations. RBI intervention is likely to be limited to preventing sharp volatility in the exchange rate, with a higher tolerance for a weaker domestic currency. We are anticipating a range of 87.5-88.5/\$ in the near-term. Over the longer-term, we continue to believe that robust macro-fundamentals should support the domestic currency.

Bonds Wrap

Global yields traded in a wide range with no directional convergence between 10Y yield of major economies. For US, we have seen a softening bias in yields. This was further supported by Fed Chair's recent statements hinting at rate cut in Sep'25. CME Fed watch tool is also showing that traders are pricing in a higher probability for the outcome of rate cut in Sep'25. However other Advanced Economies (AEs) showed stickiness in yield amidst growing expectation of a wait and watch policy response in the near term. India's 10Y yield also showed significant firmness in Aug'25, with longer part of the curve exhibiting maximum movement, a phenomenon called bear steepening. This was primarily led by lower expectations of rate cut by RBI amidst growth holding ground. Apart from this, concerns of excess supply of government papers also weighed on sentiments. We expect India's 10Y yield to trade in the range of 6.50-6.60% in the current month. The release of H2 borrowing calendar would only give a clearer picture about the allocation of securities towards different maturity buckets, and hence some respite in yields may be seen. Another point of comfort for yields could be the rising interest rate differential with the US in the wake of Fed again embarking on the rate cut cycle and RBI maintaining status quo momentarily.

Monsoon and Sowing: Update

Aided by strong rainfall, kharif acreage has picked up pace and registered an improvement since last year. Crop wise, higher sown area has been noted for rice, pulses and coarse cereals, while oilseed and cotton registered lower sowing. Out of 36, 33 sub-divisions (81% of the country) have received normal to excess rainfall during this period, while 4 states are in deficient zone. Region-wise, with the exception of East and Northeastern India which has reported deficient rainfall (-18%), other regions such as Northwestern (36%), Southern Peninsula (10%) followed by central region (9%) have reported surplus rainfall. Month wise, surplus rains have also been noted in Aug'25, though it has been lower than last year. As per the NOAA, the ENSO neutral conditions are expected to prevail through Oct'25 and will be followed by La Nina conditions for a brief period, before reverting back to ENSO neutral.

Inflation is still in good books

CPI inflation softened significantly to 1.55% in Jul'25 (in line with BoB forecast of 1.5%), on YoY basis compared to 3.6% inflation seen in Jul'24. The fine prints show that food index remained in deflation territory for 2 consecutive months in a row, falling by -1.8% in Jul'25 compared to 5.4% in Jul'24. The underlying components of food inflation showed that 5 out of 10 broad categories remained in deflation and the pace was sharper compared to last month. The significant loss of momentum was noticed in case of vegetables, pulses and products, cereals and product and eggs. The outlook for food inflation seems favourable at the current juncture with supply data remaining in favour. Cereals, especially rice, is supported by better production data. Some stickiness is visible in case of international price of oilseeds led by robust global import demand. Even the sowing pattern of oilseeds on domestic front has been weaker. Core CPI (excl. food and fuel) also softened to 4.1%, on YoY basis. Among major sub-components, transport and communication (led by favourable base) and education have been the major drag down. However, some consumer-oriented services such as household goods and services maintained momentum. Core excl. Transport and Communication have remained sticky at 4.5%.

IIP: Manufacturing sector holds ground

IIP growth was lower at 3.5% in Jul'25 compared with 5% in Jul'24, however it was higher than 1.5% in Jun'25. Compared with previous year (Jul'24), slower growth was noted mainly in the mining and electricity production. Manufacturing output accelerated to 6-month high in Jul'25. Within manufacturing, major sub-sectors which registered higher growth compared with last year included basic metals, machinery and motor vehicles. In case of use-based industries, infrastructure and construction goods growth touched 21-month high and that of consumer non-durables also performed well. On the other hand, growth of primary goods continued to contract, while that of consumer durables, intermediate and capital goods noted some moderation. This sector is set to get a substantial boost from reduction in GST rates. Steady domestic consumption so far (as reflected in GST collections) also provide a positive outlook for the upcoming festive demand.

WPI contracts sharply

WPI inflation declined by (-) 0.6% in Jul'25—fastest pace of deceleration since Jul'23, from 2.1% in Jul'24. It was also lower when compared with last month's (Jun'25) decline of (-) 0.1%. From last year (Jul'24), food inflation has noted significant moderation, helped by vegetables (onion, tomato, and potato, cabbage, ginger), spices, pulses, fruits and paddy. Fuel inflation remained in deflation for the 4th consecutive month in Jul'25. Drop in mineral oil index, mirrors the trend in international oil prices. Manufactured product inflation however inched up, led by items like transport equipment, wearing apparels, pharma products, chemicals, paper and leather products etc. Inflation in key components under basic metals (Aluminium and Lead) noted higher inflation, in line with movement seen in international prices. Going forward, as uncertainties remain regarding US sanctions on importers of Russian oil and status of a cease fire deal also remains in limbo, oil prices are noting some upward pressure. However renewed tariff related tensions are set to exert downward pressure on commodity prices as global growth prospects weaken. As a result, we expect WPI to remain contained in the coming months.

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For further details about this publication, please contact:

Economics Research Department
Bank of Baroda
chief.economist@bankofbaroda.com