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Economic Round-up: September 2025

Major economies across the globe are beginning to show signs of slowdown in economic activity. This trend is being led by US, Eurozone and China. In the US, labour market, manufacturing and services sector, all are pointing towards easing activity. However, retail sales and real estate sector continues to remain resilient. In case of Eurozone, manufacturing sector is impacted by slowdown in both Germany and France. Reforms in Germany are proving to be slower than expected, which is also denting the business optimism index. Services sector however remains steady so far. In France, political instability is a major cause of concern. China's manufacturing activity appears to be improving in Sep'25, but still remains in contraction, dragged by export orders. Domestic activity is also weak as reflected by moderation in retail sales and steep loss in momentum in fixed asset investments. Given weakening economic outlook in the US, Fed is expected to lower rates twice more in CY25. PBOC may also be pushed to provide monetary stimulus to support domestic activity. In India, RBI remains on hold so far but has signalled that there remains room for one more rate cut, following sharp decline in inflation expectations. In the ongoing quarter, GST rate cut, and festive spending is expected to provide major support to growth.

Global Central Banks: In Sep'25, in line with market expectations, US Fed lowered its policy rate by 25bps, while ECB and BoJ held rates steady. BoE lowered the policy rate by 25bps in view of slowing economic growth. As labour market in the US comes under pressure, Fed is expected to lower rates by 50bps (cumulatively) in the remainder of the year. ECB is expected to remain on pause even as growth appears to be faltering once again. BOE may lower rate once more, but the probability of that is slim as inflation remains elevated and sticky, notably above the 2% target mark. RBI will also cut rate once more as inflation has considerably weakened. Monetary stimulus is also expected from PBOC to support domestic growth.

Key macro data releases: CPI inflation reading came in at 2.1% in Aug'25, on YoY basis (in line with BoB forecast of 2%), compared to 3.7% inflation seen in Aug'24. The print is comforting even when this month did not have the advantage of a higher base. The fine prints showed that food index remained in deflation territory for 3rd consecutive month in a row, falling by (-) 0.7% in Aug'25 compared to 5.7% in Aug'24. **Core CPI** (excl. food and fuel) remained steady at 4.1%, on YoY basis. **RBI's MPC** unanimously decided to keep the repo rate unchanged at 5.5%, as it monitors the twin impact of tariff shock and GST rationalisation on growth. Stance of the monetary policy was kept at neutral. Further, RBI also revised its growth projection for FY26 upwards to 6.8% from 6.5% estimated earlier. This was following upward revision to H1 GDP. In case of inflation, in line with expectations, RBI lowered its projections downward to 2.6% for FY26 (3.1% earlier).

Macro developments

Global growth: Activity losing steam

Macro data from US is pointing towards mixed signs of growth across different sectors. US ISM manufacturing index shows that activity continued to decline in Sep'25 (49.1), but at a slower pace than Aug'25 (48.7), as production picked up (51 versus 47.8). However, new orders and particularly export orders declined at a faster rate. In case of services, activity slowed as the ISM index settled at 50 from 52 in Aug'25. Production, new export orders and employment fell, while new orders growth slowed. Labour market also appears to be losing steam with non-farm payrolls rising by only 22k in Aug'25, compared with downwardly revised 74k additions in Jul'25. Taking these factors into account, Fed lowered its policy rate by 25bps in Sep'25. The dot plot however provided a mixed picture regarding the trajectory of future rate cuts. This in a way signals that Fed will continue to remain more data dependent with regard to future decisions. Contrasting signals for Fed are provided by resilience in domestic consumption. Retail sales growth has risen steadily by 0.6% in Aug'25 (unchanged pace from Jul'25), helped by higher sales of clothing, sporting goods, and electronics and appliances. New home sales also appear to be rebounding, as interest rates are set to decline and builders are giving price discounts to lower their inventories. Home sales rose by 20.5% in Aug'25 (fastest pace since early CY22). Going forward, current government shutdown will also have an impact on labour market and consumption. Analysts thus expect 2 more rate cuts by Fed in CY25.

In case of **Eurozone**, manufacturing PMI once again contracted in Sep'25 (49.8), after picking up for the first time in 3 years in Aug'25 (50.7). The drag was visible across both the major economies—Germany and France and was due to decline in new orders and employment. Services activity in contrast jumped to 8-month high in Sep'25, as the index rose to 51.3 from 50.5 in Aug'25. Germany and Spain noted most notable improvement, followed by Italy and Ireland. France remained an outlier with contraction in activity due decline in new work. However, business morale in Germany is seen weakening as the IFO business climate index dropped to 87.7 in Sep'25 from 88.9 in Aug'25. Both current situation and expectations index were down, as reforms of the new government are believed to be slower and smaller in reality, than previously expected. Germany economy contracted by (-) 0.3% in Q2CY25, and Ifo expects 0.1% growth in CY25.

China's official manufacturing PMI continues to signal slowing pace of contraction in the activity as the index rose to 49.8 in Sep'25 (est.: 49.6) from 49.4 in Aug'25. This was helped by higher production (sub-index at 6-month high) and smaller decline in new orders and inventories. New export orders helped production regain momentum. In contrast, the official non-manufacturing PMI eased to 52.9 in Sep'25 from 53 in the previous month, dragged by decline in construction activity. Services sector showed improvement on the other hand. Other macro points are showing that overall weakness in the economy continues to persist. Retail sales growth moderated to 3.4% in Aug'25 from 3.7% in Jul'25, and industrial production output eased to 5.2% (slowest increase in a year), following 5.7% rise recorded in the previous month. Also, Fixed Asset Investment, FAI growth also rose by mere 0.5% between Jan and Aug'25 versus 1.6% expansion seen between Jan-Jul'25. Given visible weakness in Q3CY25, it is expected that PBOC may provide monetary support in the coming months, by reducing policy rates.

Indian economy: RBI stays put

The MPC unanimously decided to keep the repo rate unchanged at 5.5%, by a unanimous vote as it monitors the twin impact of tariff shock and GST rationalisation on growth. Stance of the monetary policy was kept at neutral. Two members had voted to change the stance to 'accommodative'. Further, RBI also revised its growth projection for FY26 upwards to 6.8% from 6.5% estimated earlier. This was following upward revision to H1 GDP. However, RBI expects growth in H2FY26 to moderate. For Q2FY26, GDP growth has been revised up by 30bps. On the other hand, GDP growth in Q3 and Q4 is now projected to be lower by 20bps and 10bps respectively. In case of inflation, in line with expectations, RBI lowered its projections downward to 2.6% for FY26 (3.1% earlier). Most notably, RBI now expects inflation in Q3FY26 at 1.8% versus 3.1% earlier. Going forward, as the policy statement noted that "the current macroeconomic conditions and the outlook has opened up policy space for further supporting growth", we can expect another rate cut in the ongoing fiscal year. High frequency indicators are signalling some slowdown in momentum in Q2FY26, as reflected by air passenger traffic, port cargo traffic, and rail freight traffic. In contrast, diesel consumption, government spending, and bank credit growth have recorded some pickup in momentum. In Q3, recent reduction in GST rates and festive spending is expected to provide a major boost to GDP growth.

Central bank actions

US Fed in its Sep'25 meeting, lowered its policy rate by 25bp to 4-4.25%, as it noted that "uncertainty about the economic outlook remains elevated. The Committee is attentive to the risks to both sides of its dual mandate and judges that downside risks to employment have risen". In the press conference, Fed Chair Jerome Powell however cautioned that "inflation has moved up and remains somewhat elevated". He also termed the latest rate cut as more of a "risk management" measure. The central bank also released its latest economic projections, which show that inflation next year (both PCE and core PCE) is expected to inch up to 2.6% from 2.4% estimated earlier in Jun'25. Next year, GDP growth is also expected to be higher at 1.8% from 1.6% earlier. This year (CY25) as well, while inflation forecasts remain unchanged, GDP is projected to be higher at 1.6% from 1.4%. as a result, the dot plot indicates a divided house going forward. Despite this and changes in economic projections (accelerating growth and sticky inflation), market participants are expecting 2 more rate cuts by Fed this year.

Bank of England (BoE) in its Sep'25 meeting held rates steady at 4%. Earlier in Aug'25, it had reduced its policy rate by 25bps to 4%. The decision had arrived with a vote of 5-4 majority in a rare second round of voting. In the latest meeting, Governor Andrew Bailey cautioned that "we're not out of the woods yet so any future cuts will need to be made gradually and carefully". As a result, investors expect limited possibility of one more rate cut in the remainder of CY25 and possible next one around Apr'26, as inflation continues to remain much higher than central bank's 2% target.

The **ECB** kept its policy rate unchanged in both Jul'25 and Sep'25 meeting at 2%, after reducing it by 25bps in Jun'25. The decision was taken keeping in view that inflation remains under control (near its 2% target) and there remains uncertainty around tariffs and global growth outlook. However, more recently inflation has seen some pickup as it rose to 2.2% in Sep'25 from 2% in Aug'25, which could make ECB more cautious. Although ECB President Christine Lagarde has recently commented that there remains room for lowering rates further if economic situation warrants. She also stated that risks to inflation were "quite contained in both directions".

Bank of Japan, maintained its policy rate on hold at 0.5% in its Sep'25 meeting, however the decision was not unanimous as 2 members voted for hiking rates by 25bps to 0.75%. The latest minutes of the meeting show that

members argues that if hard data shows that domestic economic activity remains resilient in spite of tariff uncertainty, then a rate hike is warranted. Most recent Tankan survey of manufactures indicates sustained investment optimism amongst major manufacturers. For non-manufacturers also index improved. Thus, analysts now expect 60% chances of rate hike by BoJ towards the end of Oct'25.

Data Releases

The Big Bang festival spending is here

India remains on track to remain the fastest growing major economy in the world. While there are challenges on the external front due to tariff related uncertainties, India continues to remain a domestic consumption driven economy which insulates it from the external headwinds to a large extent. In this regard, the recent changes in the GST rate structure are a major positive for consumption growth, especially since these reforms have coincided with the festive period, along with the auspicious marriage dates. Based on our analysis, we estimate a significant boost to consumption in the range of Rs. 12 lakh crores to Rs. 14 lakh crores, with a major proportion of this spending being accounted for by wedding-related expenses. At the same time, consumers are also likely to spend generously on items such clothing, auto, and electronics. FMCG and QSR sectors are also likely to benefit from increased consumption by individuals as well as gifting purposes. Other sectors such as aviation and railways are also likely to see higher demand. It must be noted that these estimates denote actual consumption and would provide an impetus to growth and kickstart the much-needed revival in urban consumption as well as private sector investment.

Central government borrowing calendar

The H2FY26 gross issuance calendar has been pegged at Rs 6.77 lakh crore, thereby making the total gross borrowing for FY26 at Rs 14.72 lakh crore. This also include Rs 10,000 crore as part of sovereign gold bonds. With this, share of gross borrowing for H2FY26 stands at 46%, tad higher than long run average for H2, though it has been marginally lower than H2FY25. The total allocation for 10Y securities has been higher in H2FY26 against H1FY26. Notably, there has been preference for the short-term securities as has been evident from the higher share of allocation for securities with shorter tenor. The share of issuances has been higher for both 3Y and 5Y tenor in H2FY25 at 6.6% (5.3% in H1) and 13.3% (11.3% in H1) respectively. For Q3FY26, the T-bill issuances have been lowered at Rs 2.47 lakh crore against Rs 2.69 lakh crore in Q2FY26. This includes Rs 91,000cr (91-D), Rs 78,000cr (182-D) and Rs 78,000cr (364-D).

Inflation is still in a comfort zone

CPI inflation reading came in at 2.1% in Aug'25, on YoY basis (in line with BoB forecast of 2%), compared to 3.7% inflation seen in Aug'24. The print is comforting even when this month does not have the advantage of a higher base. The fine prints show that food index remained in deflation territory for 3 consecutive months in a row, falling by -0.7% in Aug'25 compared to 5.7% in Aug'24. The underlying components of food inflation showed that 5 out of 10 broad categories recorded disinflation. The significant loss of momentum was also noticed in case of fruits, pulses and products. The outlook for food inflation seems favourable at the current juncture with supply dynamics remaining in favour. Cereals and pulses have already seen better sowing; thus, prices would get the desired support from better production statistics. Core CPI (excl. food and fuel) remained steady at 4.1%, on YoY basis. Among major sub-components, broad-based disinflation is visible with education component moderating significantly. Apart from this, clothing and footwear also softened. Within core, only personal care and effects are in double digits at 16.6% in Aug'25, on YoY basis and on a sequential basis have picked up by +0.5%. This is attributable to higher international gold price which rose by 0.8% in Aug'25, on sequential basis. In the coming days as well, this component of inflation is likely to exhibit volatility due to safe-haven demand for gold and frontloading of demand ahead of festive season.

IIP growth improves

IIP growth picked up to 4% in Aug'25, compared with a flat growth in Aug'24. Mining production improved significantly, rebounding from a decline of 4.3% in Aug'24 to 6% in Aug'25. Electricity output was also higher. More importantly, manufacturing output improved to 3.8% in Aug'25 from 1.2% in Aug'24. Performance within manufacturing was mixed, with production of transport equipment and vehicles and basic metals registering a stronger growth momentum vis-à-vis last year. On the other hand, export oriented sectors such as textiles, wearing apparels, pharma and chemicals continued to show weaker growth, likely due to the tariff impact. In the coming days, festive demand, along with recent government policies should likely aid a more broad-based recovery in domestic production. In particular, we expect a strong recovery in production of consumer non-durables and auto products.

WPI inflation turns positive

WPI inflation rose by 0.5% in Aug'25 following 1.2% increase in Aug'24. However, compared with Jul'25, wholesale inflation rebounded from (-) 0.6% decline. Compared with last year (Aug'24), softening in prices was helped by food and fuel and power inflation. On the other hand, manufactured product inflation increased. Core inflation also crept up to 1.6% in Aug'25 from 0.9% in Aug'24. Within food, vegetable, fruits and spices helped drag the index down, while protein inflation (eggs, meat and fish) increased. Food grain inflation remains subdued, led by pulses. Amongst cereals, paddy prices have declined more notably. Under manufactured products, basic metals, other manufacturing and other transport equipment led inflation higher. Within basic metals, aluminium, copper and Lead are facing upward pressure. Deflation in fuel inflation was driven by mineral oil index, particularly given weaker international oil prices. However, more recently, oil prices have seen some build-up in pressure which could have an impact on headline WPI as well. Going forward, international commodity prices will remain a concern, given tight supplies, increased demand and tariff related impact.

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