BEA 東亞銀行

Economic Research

August 2025

Market Monitor – United States

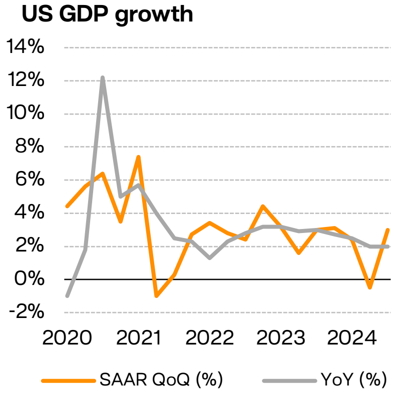
Consequential trade agreements were announced

- The US economy grew by 3.0% SAAR in Q2 2025, led by a drop in imports while investment contracted considerably.
- The US announced a new batch of landmark trade deals with the European Union, Japan and South Korea.
- The Fed held rates unchanged in July, while pressure on the Fed to cut rates continues to build.

The US economy rebounded, but underlying concerns remained

The US economy resumed growth in Q2 2025. Advance estimates indicated that US real GDP expanded at a seasonally adjusted annual rate (SAAR) of 3.0% in Q2 2025, following a 0.5% contraction in Q1 2025. However, both figures were somewhat disrupted by rampant changes in tariffs, which led to heightened volatility in imports. On a year-on-year (YoY) basis, US real GDP grew by 2.0% in Q2 2025, the same pace as in Q1.

US GDP growth



Source: Bloomberg

Among the major components of GDP, personal consumption expenditures rose by 1.5% SAAR in Q2, accelerating from 0.5% in Q1 and contributing 0.98 percentage points (ppts) to headline GDP growth. Net exports were another driver of growth. However, this was a result of a sharp reduction in imports, dropping by 30.3% SAAR in Q2 after rising by 37.9% in Q1, while exports also fell in Q2 by 1.8% SAAR, a much slower pace than imports. Overall, net exports added 4.99 ppts to headline GDP growth in Q2. Besides, investment weighed on growth in Q2, contracting by 15.6% SAAR after expanding by 23.8% in Q1. It subtracted 3.09 ppts from headline GDP growth, with change in private inventories accounting for a bulk of the drag, subtracting 3.17 ppts from the headline figure. Government spending remained muted, only growing by 0.4% SAAR in Q2 compared to a 0.6% decline in Q1.

Despite an acceleration of headline GDP growth to 3.0% SAAR in Q2, the figure masks an underlying weakness, as growth was primarily driven by a sharp reduction in imports rather than robust domestic demand. Going forward, despite prospective monetary easing ahead, the US economy is expected to grow at a more moderate pace as tariff impacts are fully realised when the higher tariff rates go into effect, along with significant policy uncertainties.

The US secured a series of high-profile trade agreements

US New Baseline Tariff Rates	
Select Economies	Tariff Rates
European Union	15%
Japan	15%
South Korea	15%
Indonesia	19%
Vietnam	20%
Pakistan	19%
Taiwan	20%
Malaysia	19%
Thailand	19%
India	50%

The US and EU reached a massive trade deal. On 27 July, US President Donald Trump and European Commission President Ursula von der Leyen unveiled a bilateral trade deal, avoiding a devastating transatlantic trade war between the two sides. The US-EU trade deal is centred around a 15% baseline tariff on most goods entering the US from the EU, while certain goods such as steel and aluminium will still face a 50% tariff by the US. Going the other way, the EU will lower its tariffs on certain US products to zero. Additionally, the EU will purchase USD 750 billion of US energy products and invest USD 600 billion in the US by 2028. Given that the EU collectively ranks as the largest trading partner of the US, the deal is significant and should aid in re-writing the relationship between the US and the EU.

The US also announced deals with several Asian trading partners. In early July, the US made another breakthrough, finalising trade agreements with Japan and South Korea, alongside the US-EU deal. The US-Japan deal features a 15% tariff on most Japanese goods as well as USD 550 billion of new investments in the US. The US-South Korea deal also agrees on a 15% tariff for most Korean goods, with South Korean committing to investing USD 350 billion in the US and purchasing an additional USD 100 billion in energy products. These deals underscore the US's strategy to use tariff leverage to extract new investments and expand energy exports. Meanwhile, the US also announced trade agreements with Indonesia, the Philippines, and Pakistan.

Negotiations with other economies continue. In addition to the above deals, trade negotiations between the US and other major trading partners, including China, India, Mexico, and Canada, are ongoing. Specifically, US-China talks have continued, with a potential extension of the current tariff deadline (12 August). While the US hit India with 50% tariffs, negotiations are reportedly underway. The US granted Mexico an additional 90-day extension to allow for further negotiations. Meanwhile, the US raised the tariff rate on Canada to 35% on non-USMCA goods, though trade talks persist. In addition, President Trump announced a 50% tariff on semi-finished copper products, effective on 1 August. On 6 August, Trump signalled the intention to impose a 100% tariff on semiconductors and chips, but not for companies that will "build" in the US.

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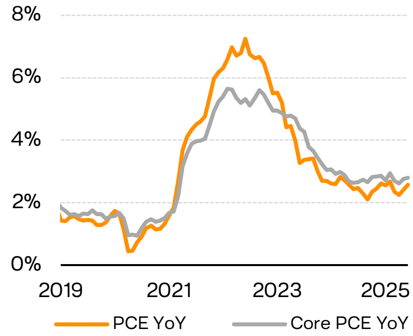
The US jobs market slowed markedly in July

US inflation ticked up in June. Headline PCE inflation rose 2.6% year-on-year (YoY) in June, 0.2 ppts higher than in May. Core PCE inflation, which excludes food and energy prices, rose by 2.8% YoY in June, the same as in May. On a monthly basis, the headline and core PCE inflation rates both rose by 0.3% month-on-month (MoM) in June, both 0.1 ppts higher than in May. These readings were mostly in line with expectations. While tariff impacts continued to feed into inflation readings, US inflation outlook is likely to remain uncertain.

US PCE Inflation



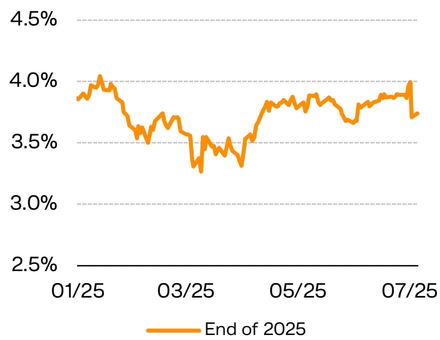
Source: Bloomberg, data as of 31/07/2025

The labour market unexpectedly slowed. Nonfarm payroll employment increased by 73,000 in July, below expectations. Job gains for May and June were also revised down to just 19,000 and 14,000, respectively, a combined downward revision of 258,000 from initial estimates. The unemployment rate ticked up by 0.1 ppts to 4.2%. In terms of wage growth, average hourly earnings rose by 3.9% YoY and 0.3% MoM in July, both 0.1 ppts higher than June's figures. The marked slowdown in hiring represents a loss of momentum in the US labour market, which probably reflects cautious business sentiment as employers navigate the uncertain economic environment and should increase the odds of a rate cut in September.

Fed Chairman Powell retained hawkish tone after July's meeting

The Fed held rates unchanged in July. The FOMC voted to hold the federal funds rate unchanged at 4.25-4.50% during its July meeting. However, the decision came with two dissenting votes from governors, the first time since 1993, as they preferred to reduce interest rates by 25 basis points. This reflected diverging views for further monetary easing within the committee. When speaking to the press, Fed Chairman Powell retained a hawkish tone, refusing to deliver clear forward guidance on a rate cut in September. With inflation readings largely in range-bound and slower hiring, pressure is building on the Fed to cut rates.

US Rate Expectations

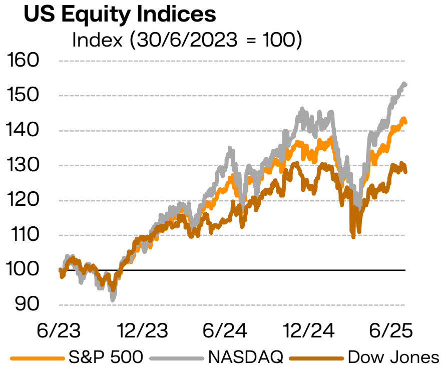


Source: Bloomberg, data as of 04/08/2025

Mixed momentum in US markets

Major US stock markets rose with slowing momentum in July. In July, the S&P 500 and Nasdaq rose by a solid 2.2% MoM and 3.7%, respectively, while the Dow Jones Industrial Average rose by a meagre 0.1%. During the month, US stock markets were driven by a mix of trade optimism, resilient corporate earnings, and reduced tariff uncertainty. However, rising momentum in stocks weakened towards the end of the month. The US 10-year treasury yield fluctuated between 4.2-4.5% in July, reflecting reactions to shifting expectations on the Fed's rate cut trajectory, weak jobs data, an uptick in inflation, and optimism surrounding US trade deals, before eventually settling at 4.376% at the end of the month. After weakening during 1H 2025, the US dollar index rose significantly in July by 3.2% MoM to 99.968.

US Equity Indices



Source: Bloomberg, data as of 31/07/2025

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