

GLOBAL ECONOMY

Crisil Insights

September 2026

The Crisil Insights Global Economy series presents our outlook on the financial scenario across the world and provides a perspective into its shape in the near future.

Fed moves the cheese

- For the first time in three years, the US (United States) Federal Reserve (Fed) raised the policy rate (25 basis points to 3.75-4.0%) at its September meeting. The Fed dot plot indicates another rate hike is likely this year
- Inflation in the Eurozone rose further, to 3.2% in August from 2.9% in July. Energy inflation is the key driver of the increase, but non-energy industrial goods are also surging
- The GEP Global Supply Chain Volatility Index indicates that in August, the supply-chain pressure rose for the first time in three months

Rising inflation expectations due to the conflict in West Asia have increased the likelihood of rate hikes by key central banks across the world. In the US, the Fed raised rates for the first time since 2023 in September as inflation remained above the 2% target.

The European Central Bank and Bank of Japan have also hiked interest rates this year. While the European Central Bank raised rates (25 basis points) for the second time this year at its September meeting, the Bank of Japan raised its key policy rate to 1.25% from 1.0%.

High global energy prices and supply-chain pressures persisted, given the renewed tensions in West Asia.

GDP heat map

GDP growth (q-o-q SA annualized %)

	Q4-24	Q1-25	Q2-25	Q3-25	Q4-25	Q1-26	Q2-26
US	1.9	-0.6	3.8	4.4	0.5	2.1	1.5
UK#	0.4	0.6	0.2	0.1	0.1	0.6	0.4
EA#	0.3	0.6	0.0	0.3	0.2	0.0	0.6
Japan	1.6	2.0	0.5	-1.5	1.1	1.9	1.4
China	5.4	5.4	5.2	4.8	4.5	5.0	4.3

Note: #q-o-q, not annualized * y-o-y

Source: Statistical bureau, respective countries

Improved

Declined

Unchanged

US economy

Employment rises, inflation unchanged

Eurozone economy

Inflation hardens, trade surplus widens

The engine thrums in the US

Manufacturing activity remained healthy in the US, with the S&P Global US Manufacturing Purchasing Managers' Index (PMI) remaining at 53.9 for the third straight month in August. However, production growth eased due to pressures from the West Asia conflict and continued inventory building, with backlogs rising at a faster pace. The S&P Global US Services PMI surged to a 20-month high of 56.5 from 54.6, driven by new business. Foreign sales improved following a rise in export orders.

The labor market strengthened in August. Non-farm payroll employment rose 162,000, compared with an upwardly revised 21,000 in July (earlier estimates for July showed a decline of 23,000). Consumer Price Index (CPI) inflation was unchanged at 3.4% in August. Although energy inflation increased (16.3% vs 14.7%) led by gasoline (27.4% vs 24.6%), this was offset by easing food and beverages (2.6% vs 2.9%) and core inflation (2.4% vs 2.5%). At its September meeting, the US Fed raised the policy rate for the first time since 2023 by 25 basis points to 3.75-4.0% and signaled another rate hike was likely this year. Exports fell 2.1% in July, while imports rose 2.8%, leading to a rise in the trade deficit to \$88.6 billion from \$71.1 billion in June.

Eurozone ticks up

The Eurozone gross domestic product growth estimate for the second quarter was raised to 0.6% (seasonally adjusted) from 0.4% in the previous estimate. The S&P Global Eurozone Manufacturing PMI reached a 51-month high of 52.7 in August, compared with 51.9 in July, buoyed by healthy export business that rose for the second time in four-and-a-half years. Among the key European economies, Germany and France saw expansion in activity, while Italy and Spain dragged. The S&P Global Eurozone Services PMI Business Activity Index was broadly steady at 51.6 (vs 51.7), remaining in expansion zone. Services activity was led by domestic demand, while export demand was marginally weaker.

Inflation rose further, to 3.2% from 2.9% in July. Energy inflation was the key driver of the increase (14.3% vs 10.3%), but non-energy industrial goods also surged (1.2% vs 0.9%). However, core inflation (CPI excluding energy, food, alcohol and tobacco) softened slightly to 2.4% from 2.5%. For the second time this year, the European Central Bank raised rates (by 25 basis points) at its September meeting. The deposit facility now stands at 2.5%, while the main refinancing rate stands at 2.65%. The Eurozone's goods trade surplus widened to a nine-month high of €14.2 billion in July (from €10.7 billion) as exports surged 9% while imports grew a relatively softer 7.9%.

Price up in the UK

The S&P Global United Kingdom (UK) Manufacturing PMI softened a tad but remained healthy at 51.7 in August vs 51.9 in July. Output continued to rise, supported by domestic and foreign demand. The S&P Global UK Services PMI rose further to 52.5 in August from 52.1 in July as business and consumer spending improved.

CPI Inflation in the UK rose to 3.1% in August from 2.9% in July, led by inflation in transport that rose to 4.6% from 3.6%. Inflation in food and non-alcoholic beverages (1.3%) and core inflation (2.6%) remained stable. The Bank of England voted 6-3 to keep the policy rate at 3.75% at its September meeting. Three members of the Monetary Policy Committee voted in favor of a 25 basis points rate hike. The UK's trade deficit narrowed to £3.6 billion in July, compared with £5.5 billion in June.

Consumer price inflation (y-o-y %)

	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26
US	3.3	3.8	4.2	3.5	3.4	3.4
UK	3.3	2.8	2.8	2.6	2.9	3.1
EA	2.6	3.0	3.2	2.8	2.9	3.2
Japan	1.5	1.4	1.5	1.6	1.9	1.9
China	1.0	1.2	1.2	1.0	0.5	0.8

Source: Statistical bureau, respective countries

Policy interest rate (end-of-month %)

	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26
US	3.5-3.75	3.5-3.75	3.5-3.75	3.5-3.75	3.5-3.75	3.5-3.75
UK	3.75	3.75	3.75	3.75	3.75	3.75
EA	2.00	2.00	2.00	2.25	2.25	2.25
Japan	0.75	0.75	0.75	1.00	1.00	1.00
China (1 year loan prime rate)	1.40	1.40	1.40	1.40	1.40	1.40

Source: Central bank, respective countries

Japan economy

Inflation steady, trade deficit widens

China economy

Manufacturing strengthens, trade surplus rises

Manufacturing PMI climbs up in Japan

Government's growth estimate for Japan was raised to an annualized 1.4% in the second quarter of 2026 from the previous estimate of 1.1%. The S&P Global Japan Manufacturing PMI remained in the expansionary zone of above 50 for the eighth straight month in August. It rose further in August to 54.9 from 54.5 in July. New orders strengthened, with the quantum of new orders at an eight-and-a-half-year high. Semiconductor and artificial intelligence sectors continued to support demand. Services activity also picked up, with the S&P Global Japan Services PMI rising to 52.5 from 51.2.

CPI inflation was steady at 1.9% in August. The Bank of Japan raised its key policy rate to 1.25% from 1.0% at its September meeting. Japan's trade deficit widened sharply on-year to ¥1105.6 billion in July from ¥294.1 billion in July 2025 as imports surged 28% on-year while exports rose 19.3%.

Inflation picks up in China

The S&P Global RatingDog China General Manufacturing PMI rose to 51.5 in August from 50.9 in July, as stronger client demand and new clients led to a rise in new orders. The RatingDog China General Services PMI rose to 51.4 from 50.4. Domestic business was the key driver of new business, supported by a rise in new work from abroad.

A rise in non-food inflation (1.2% in August vs 0.9% in July) led to a rise in headline inflation to 0.8% from 0.5%. However, food prices continued to decline on-year (-1.4% in August vs -1.5% in July). The People's Bank of China kept the one-year loan prime rate (3.0%) unchanged for the 15th straight meeting in August. A 25% on-year rise in exports led to a high trade surplus of \$119.1 billion in August (vs \$101.1 billion in August 2025).

Supply chains under the pump

The GEP Global Supply Chain Volatility Index indicated that supply-chain pressures rose for the first time in three months in August, driven by safety stockpiling activities due to the uncertainties stemming from the conflict in West Asia.

Among key geographies, the index rose (implying intensifying supply-chain pressure) for North America (0.87 in August vs 0.76 in July) and Europe (1.27 vs 0.68). On the other hand, Asia continued to see easing supply-chain pressure (1.24 vs 1.37).

Commodities ascend

World Bank data shows global commodity prices rose 6.5% on-month in August, led by an 8.8% rise in energy prices. Non-energy prices rose 2.3%.

Among key energy commodities, crude oil and European natural gas led the surge, driven by renewed tensions in West Asia. Brent crude oil prices rose 9% to \$90.9 per barrel and European natural-gas prices rose 16.9% to \$21.1 per MMBtu.

Among key non-energy commodities, prices of metals and minerals increased 4.1% as zinc (7.7% to \$3,875 per MT), copper (5.8% to \$14,326 per MT) and tin (4.6% to \$55,385 per MT) prices rose. Agriculture prices climbed 1.6%, with grains (4.3%) seeing the sharpest rise.

After declining for five straight months, prices of precious metals rose 8.8%. Silver (11.2% to \$65.4 per troy oz), platinum (9.7% to \$1,780 per troy oz) and gold (8.3% to \$4,411 per troy oz) saw price hikes.

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