Crisil
Integral IQ

GLOBAL ECONOMY

Crisil Insights

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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.

Momentum holds

- Estimate of United States gross domestic product growth in the second quarter (April-June) was revised up 70 basis points to an annualized 2.2%
- Inflation in the Eurozone rose to 3.8% in September from 3.2% in August, driven by higher energy and services prices
- Global energy prices jumped 25.7% on-month in September, according to World Bank data, amid renewed escalation of the conflict in West Asia. As a result, overall commodity prices were up 17.1%

Global growth has held up better than expectations despite a surge in crude oil prices and worldwide trade disruptions. Investments related to artificial intelligence (AI) and fiscal measures to mitigate crude-driven inflation have kept demand relatively resilient. S&P Global revised up its global growth forecast for calendar year 2026 10 basis points (bps) to 3.2% as economic activity held up. Growth will, however, be lower than the 3.4% in 2025, with energy shocks and policy uncertainty expected to impact growth adversely.

Among major economies, S&P Global's growth projections for this year were revised up for the United States (US; 10 bps to 2.2%), Eurozone (40 bps to 0.9%), the United Kingdom (UK; 40 bps to 1.3%) and Japan (20 bps to 0.8%). Barring the US, the economies are expected to see lower growth against 2025. The forecast for China was lowered.

Inflation projections have been raised, reflecting higher price pressures. Inflation will likely surge across key economies this year, prompting central banks to raise rates.

GDP heat map

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

	Q4-24	Q1-25	Q2-25	Q3-25	Q4-25	Q1-26	Q2-26
United States	2.4	0.1	4.0	3.9	0.2	2.5	2.2
United Kingdom#	0.4	0.6	0.0	0.2		0.6	0.5
Euro area#	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

by S&P Global

US economy

GDP ticks up, labor market weakens

Eurozone economy

Inflation rises, trade balance in deficit

US economy

Manufacturing and services activity surges in the US

S&P Global expects the US economy to grow 2.2% this calendar year (up 10 bps from its June forecast). This is higher than the 2.1% growth in the previous calendar year. The AI build-out is supporting growth. S&P Global noted over the past four quarters, AI-centric fixed investment as responsible for 55% of the growth in domestic real private final demand.

For the second quarter, US GDP growth was raised 70 bps to an annualized rate of 2.2%. Recent Purchasing Managers' Index (PMI) data indicates that manufacturing activity picked up in the US in September. The S&P Global US Manufacturing PMI rose to 55.9 from 53.9 in August, driven by surging new orders. The S&P Global US Services PMI also rose sharply to 58.8 from 56.5 in August.

The US labor market weakened in September. Non-farm payroll employment was broadly unchanged, rising just 29,000 compared with an increase of 133,000 in August and an average monthly increase of 45,000 in the last 12 months. Consumer Price Index (CPI) inflation rose to 3.7% in September from 3.4% in August, driven by a sharp rise in energy prices. The seasonally adjusted US trade deficit widened sharply in August as export growth of 1.4% on-month was much lower than the import growth of 4.3%. The US trade deficit stood at $105.6 billion in August compared with $92.8 billion in July.

Eurozone economy

Eurozone economy grows

S&P Global raised its growth forecast for the Eurozone for calendar year 2026 40 bps to 0.9% as demand was stronger than expected. The Eurozone economy grew 0.6% in the second quarter, compared with S&P Global's expectation of a mild contraction. However, growth is expected to moderate compared with the 1.3% seen in calendar 2025. Higher inflation and a tighter monetary policy are expected to weigh on growth. The S&P Global Eurozone Manufacturing PMI rose slightly to 52.9 in September from 52.7 in August, its highest reading since May 2022. All economies tracked by the Eurozone PMI—Austria, France, Greece, Germany, Ireland, Italy, the Netherlands and Spain—recorded readings in expansionary territory.

The S&P Global Eurozone Services PMI Business Activity Index rose to 53 from 51.6, driven by an increase in domestic orders. Inflation in the Eurozone rose to 3.8% in September from 3.2% in August, driven by higher energy and services prices. The Eurozone's goods trade balance swung to a deficit of €16.1 billion in August from a surplus of €10.7 billion in July as exports grew slower than imports (9.9% on-year vs 16.7%).

UK economy

Prices rise in the UK

S&P Global expects the UK economy to grow 1.3% in calendar year 2026, unchanged from the previous calendar year and 40 bps higher than its previous forecast. The UK's GDP growth for the second quarter was raised to 0.5% from 0.4%. The S&P Global UK Manufacturing PMI rose marginally to 51.9 in September from 51.7 in August. The volume of new business grew faster than in August. The S&P Global UK Services PMI declined to 52.1 from 52.5. Input cost pressures weighed on new orders, which increased only marginally. CPI inflation in the UK rose to 3.5% in September from 3.1% in August, led by higher transport costs. The UK's trade deficit narrowed to £0.9 billion in August from £2.3 billion in July.

Consumer price inflation (y-o-y %)

	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26
US	3.3	3.8	4.2	3.5	3.4	3.4	3.7
UK	3.3	2.8	2.8	2.6	2.9	3.1	3.5
EA	2.6	3.0	3.2	2.8	2.9	3.2	3.8
Japan	1.5	1.4	1.5	1.6	1.9	1.9	2.1
China	1.0	1.2	1.2	1.0	0.5	0.8	0.9

Source: Statistical bureau, respective countries

Policy interest rate (end-of-month %)

	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26
US	3.5-3.75	3.5-3.75	3.5-3.75	3.5-3.75	3.5-3.75	3.75-4.00
UK	3.75	3.75	3.75	3.75	3.75	3.75
EA	2.00	2.00	2.25	2.25	2.25	2.50
Japan	0.75	0.75	1.00	1.00	1.00	1.25
China	1.40	1.40	1.40	1.40	1.40	1.40

Source: Central bank, respective countries

Japan economy

GDP to moderate, inflation rises

China economy

PMI rises, trade surplus widens

Japan PMI eases

S&P Global expects Japan's GDP growth to moderate to 0.8% this calendar year (up 20 bps from the previous forecast) from 1.2% in the previous calendar year. The S&P Global Japan Manufacturing PMI eased to 54.1 in September from 54.9 in August but remained firmly in the expansionary territory. Growth in output and new work softened but remained healthy. Export growth was strong and remained close to August's eight-and-a-half year high.

The S&P Global Japan Services PMI also declined to 51.3 from 52.5 in August. Services activity in some areas was affected by the Kumamoto earthquake. CPI inflation rose to 2.1% in September from 1.9% in August, crossing the central bank's target. Japan's trade deficit narrowed to ¥536.6 billion in September from ¥638 billion in the previous month.

Inflation inches up in China

Unlike other key economies, S&P Global lowered 10 bps its growth forecast for China for this calendar year to 4.3%, below the 5% growth recorded in the previous calendar year. Subdued domestic demand is expected to weigh on growth. The S&P Global RatingDog China General Manufacturing PMI rose to 52.1 in September from 51.5 in August as client demand improved, partially driven by stockpiling. Production rose on the back of a rise in new work.

The RatingDog China General Services PMI rose marginally to 51.6 from 51.4. Successful business development efforts and improving demand conditions supported services activity.

Headline inflation edged up to 0.9% in September from 0.8% in the previous month but remained contained amid subdued domestic demand. The People's Bank of China kept the one-year loan prime rate (3.0%) unchanged for the 15th consecutive month in August. A 25% on-year rise in exports led to a large trade surplus of $119.1 billion in August (vs $101.1 billion in August 2025).

Supply chain pressure intensifies in Asia

The GEP Global Supply Chain Volatility Index indicates that supply chain pressures increased in Asia and North America, while the pressure eased in Europe. Overall, procurement of raw materials rose due to improving demand conditions. The index for North America rose to 1.13 (vs 0.87 in August) as manufacturing activity strengthened in the US. For Asia, the index increased to 1.49 (vs 1.24). The index for Europe fell to its lowest level since March at 0.66 (vs 1.27).

Energy prices surge amid West Asia escalation

Global energy prices jumped 25.7% on-month in September, according to World Bank data, driven by renewed uncertainty in West Asia. As a result, overall commodity prices increased 17.1%. Brent crude oil and European natural gas recorded the sharpest increases. Brent crude oil prices surged 28.5% to $116.8 per barrel, following a 9% rise in August. After rising 16.9% in August, European natural gas prices rose a further 20.4% to $25.5 per MMBtu.

According to the International Energy Agency (IEA), on the demand side, persistently high crude and refined product prices are expected to weigh on global consumption. The IEA expects global oil demand to decline 2.6 mb/d this calendar year. However, global oil supply to contract by an average of 5.8 mb/d this calendar year. This deficit is expected to maintain upward pressure on crude oil prices in the near term. Gasoil market balance is also expected to remain tight in 2027 and is dependent on recovery of product supply from the Middle East.

Non-energy prices rose 1.3%. The rise was led by food, which jumped 3.8%. The increase was driven by oils and meals (5.5%) led by soyabean (8.7%) and grains (5%) led by wheat (5.5%). According to the Food and Agriculture Organization, logistical concerns in the Black Sea region weighed on global wheat prices.

Prices of metals and minerals were relatively stable, rising 0.9%. After rising 8.8% in August, prices of precious metals declined 1.9% in September. They have declined in six of the last seven months. Both silver (down 1.2% to $64.6 per troy oz) and gold (down 2.1% to $4,319 per troy oz) prices went down.

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