

Economic Outlook

September 2025

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The better the question. The better the answer. The better the world works.

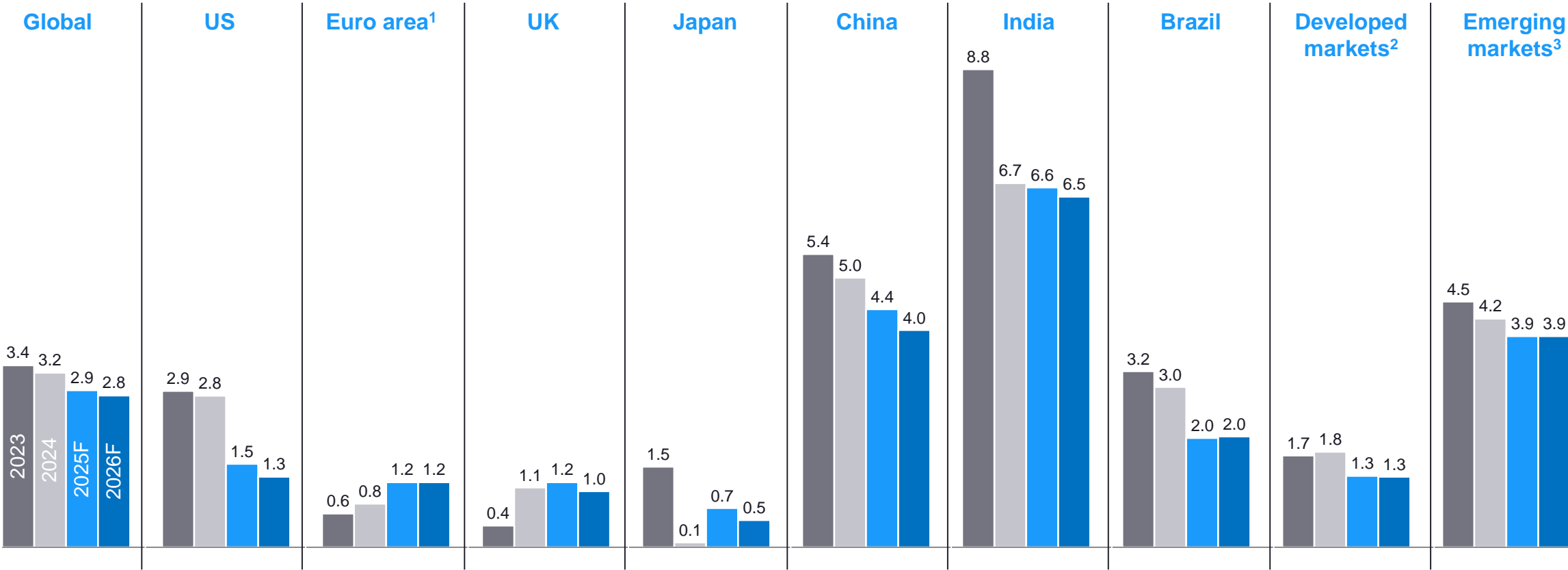
EY Parthenon
Shape the future with confidence

Agenda

- ▶ **Global overview**
- ▶ Key US policy developments
- ▶ US economic outlook

The global economy is holding up, but growth is on a slowing trajectory amid elevated trade and geopolitical tensions in addition to persistent policy uncertainty

Year-over-year (y/y) percentage change in real GDP
June forecast, 2023-26F

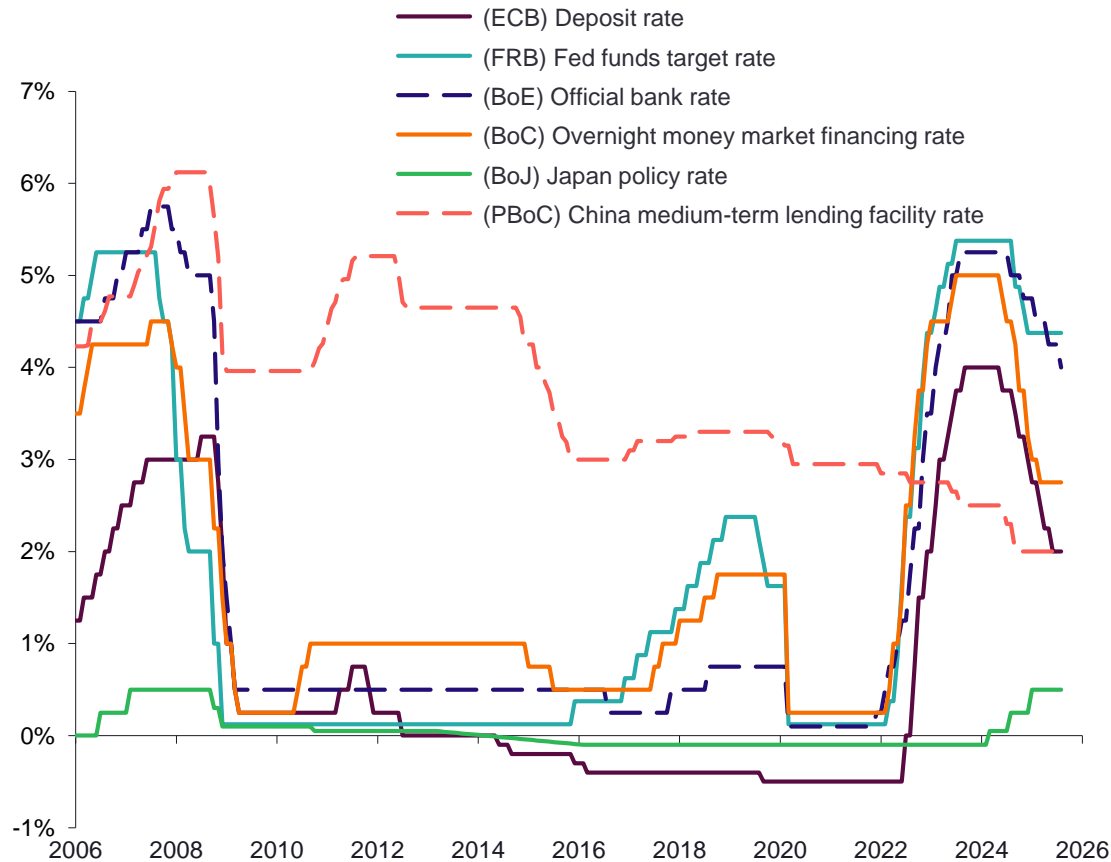


1. Euro area includes 20 countries.
 2. Developed markets according to definition of advanced economies from the International Monetary Fund (IMF).
 3. Emerging markets is the rest of the world.

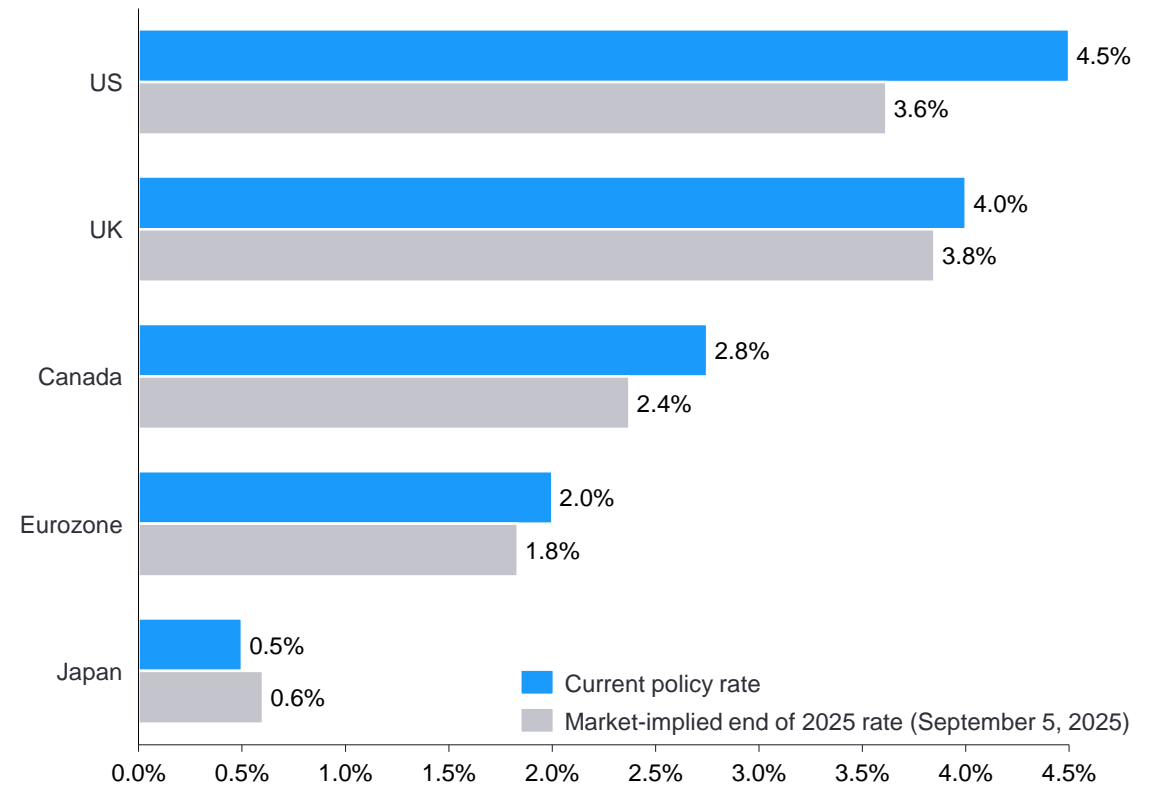
Source: EY-Parthenon

Major central banks maintain an easing bias with the Fed now pivoting toward a less restrictive policy stance with a greater focus on tariff-induced growth constraints

Central bank rates
January 2006–July 2025¹



Current policy rates and market-implied rates by the end of 2025²



1. Most recently available data points shown for all geographies.

2. Based on Bloomberg analysis, as of September 5, 2025.

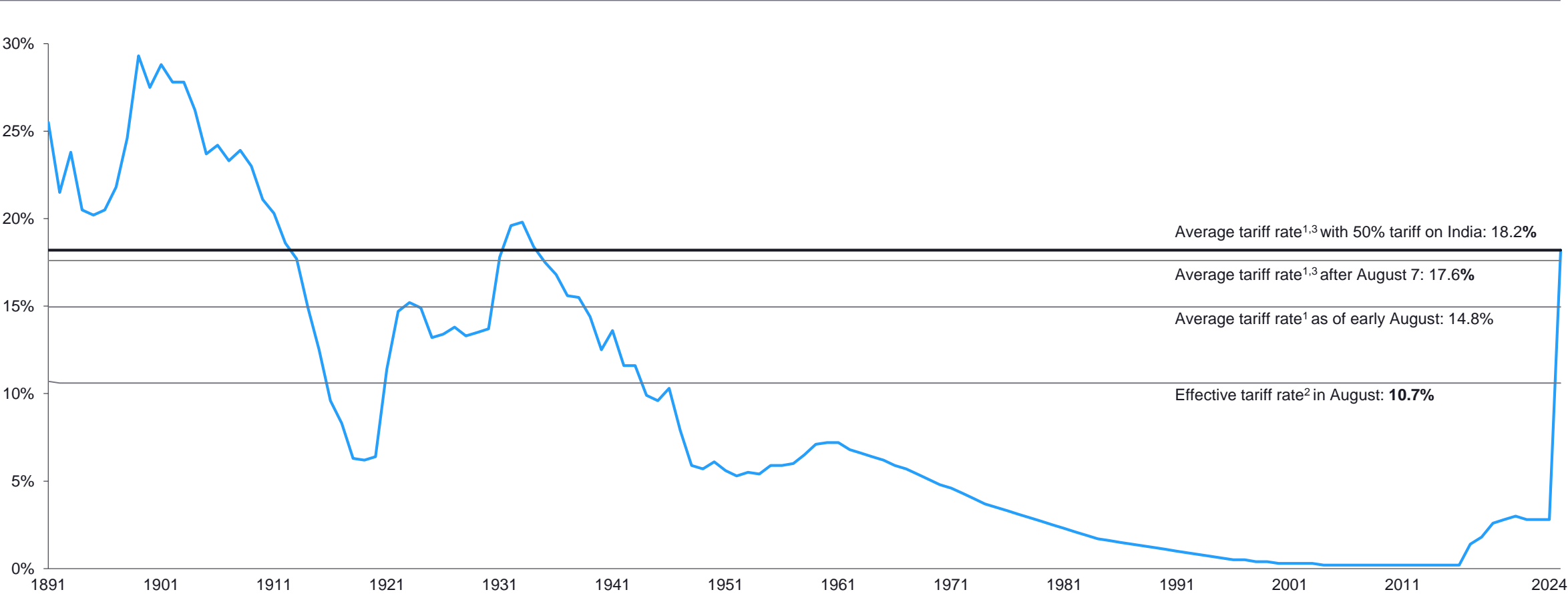
Source: Respective country or jurisdiction central banks; Bloomberg; EY-Parthenon

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New US tariffs that took effect in August have raised the average tariff rate to 18.2% – the highest level since the early 1930s – from 2.8% at the start of the year

Average US tariff rate and effective tariff rate^{1,2}
1891-2025



1. Average tariff rate equates to the weighted average of tariffs across trading partners based on 2024 US imports.

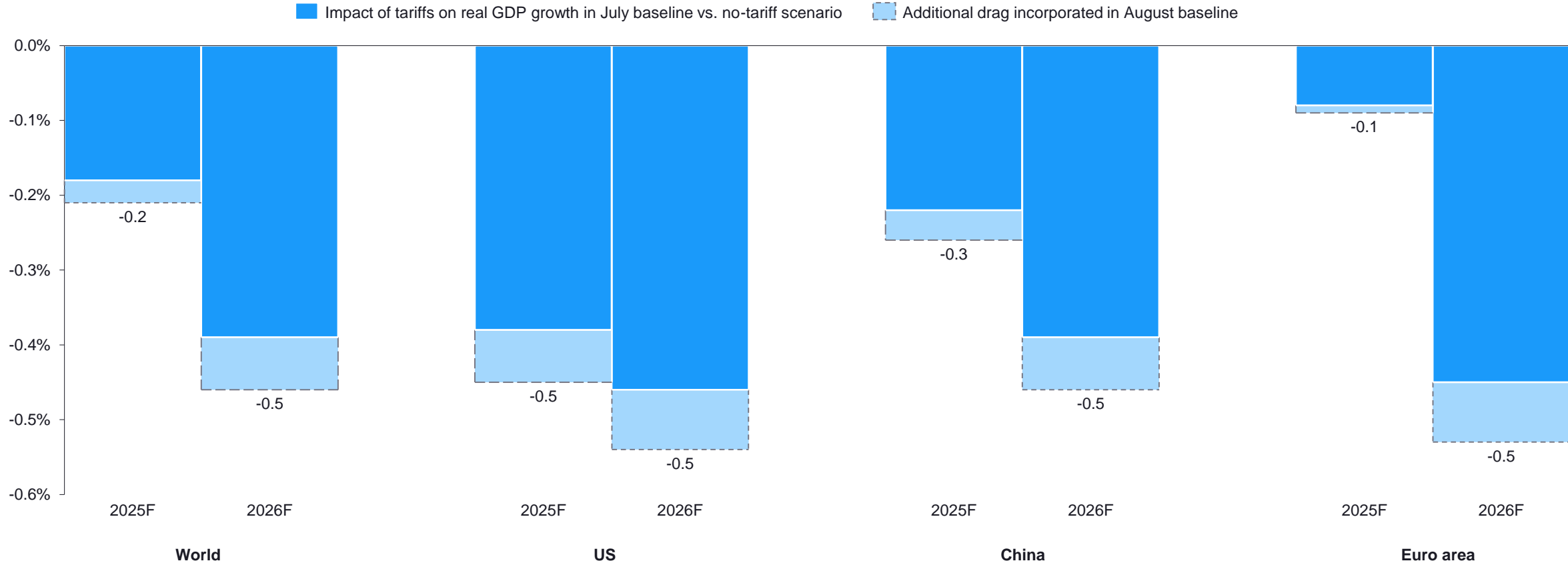
2. Effective tariff rate equates to collected customs duties relative to total merchandise imports value; currently illustrated using July customs taxes and June imports values, the latest available data.

3. India's 50% tariff rate is scheduled to take effect on August 27, which may increase the potential average tariff rate to 18.2% on August 27

Source: U.S. International Trade Commission; Daily Treasury Statement; EY-Parthenon

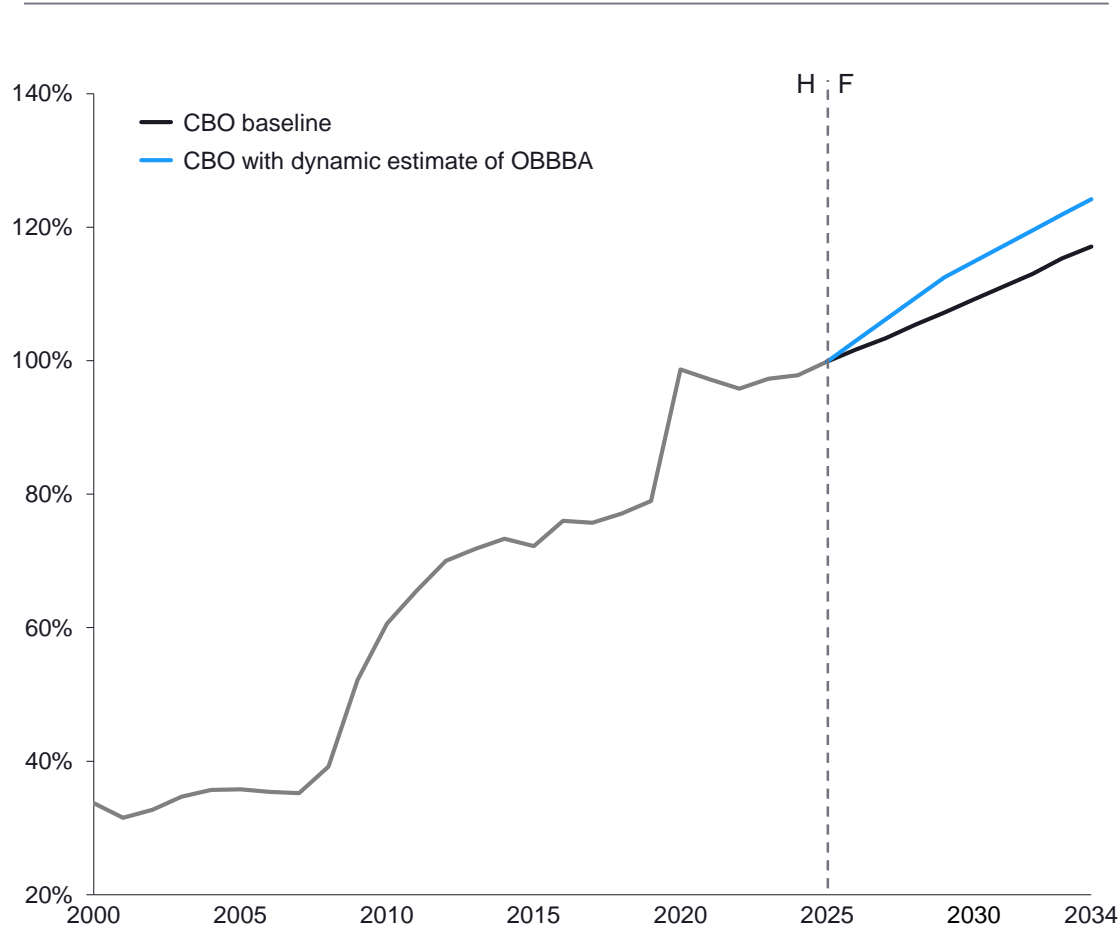
The US imposition of tariffs on most trading partners will lead to a drag on global GDP around 0.7% and a drag on US GDP worth around 1.0%

Tariff-induced drag on real GDP growth assumed in the EY-Parthenon July/August baseline vs. a no-tariff scenario
2025F-26F

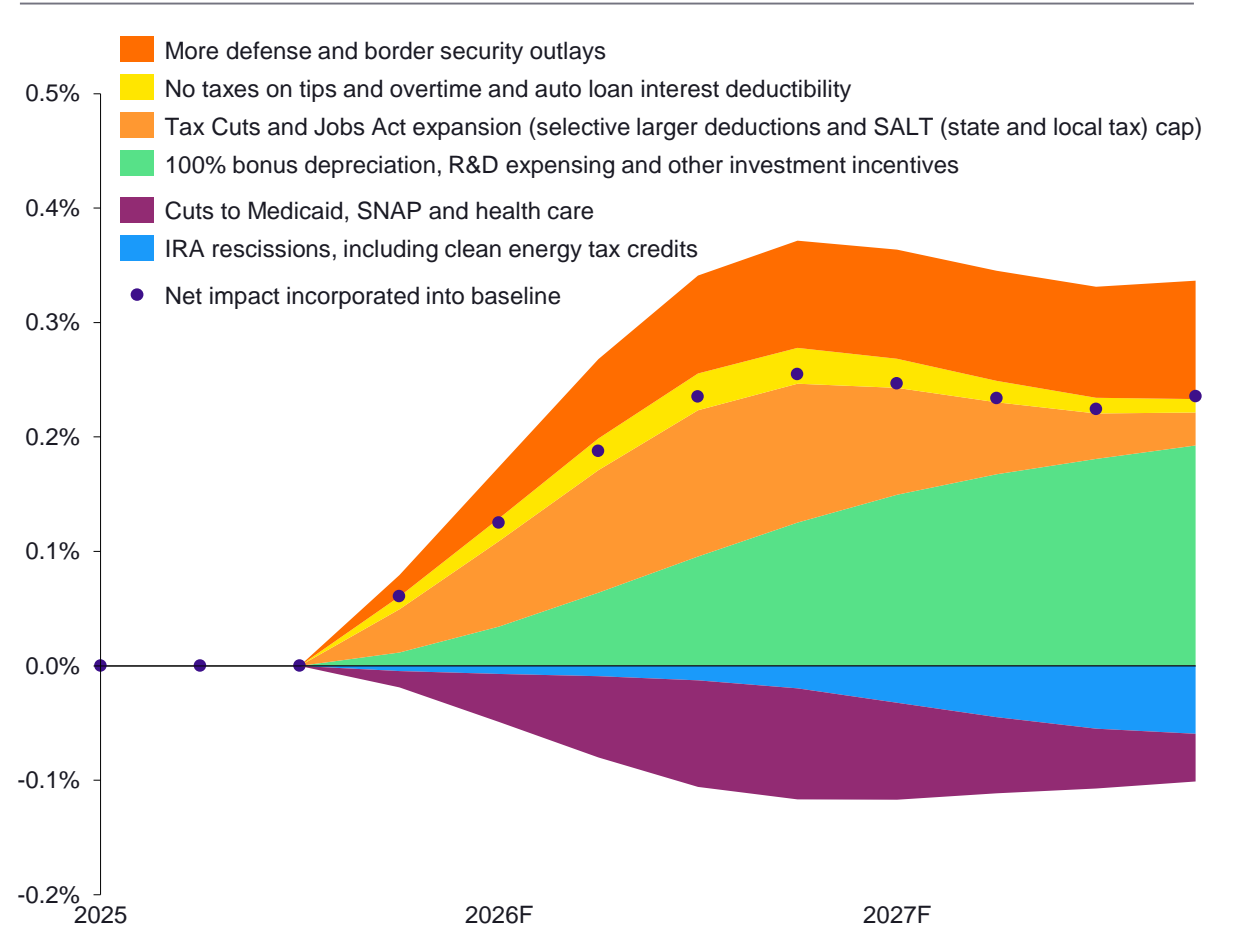


A cost-benefit analysis of the OBBBA reveals a substantial cost close to \$4t, pushing the debt to GDP ratio toward 125%, and a fairly limited GDP boost of 0.2-0.3%

US federal debt held by the public as a percentage of GDP
2000-34F

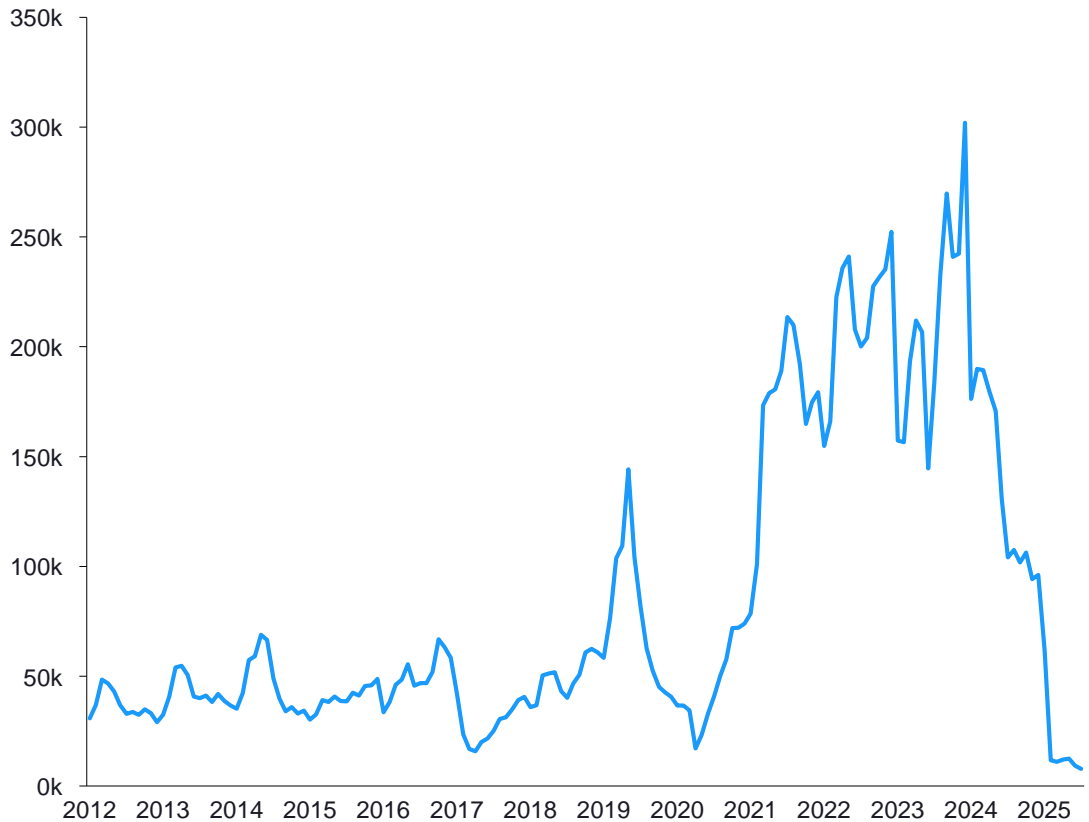


Impact of OBBBA on EY-Parthenon baseline US real GDP level forecast
Q1 2025-Q4 2027F

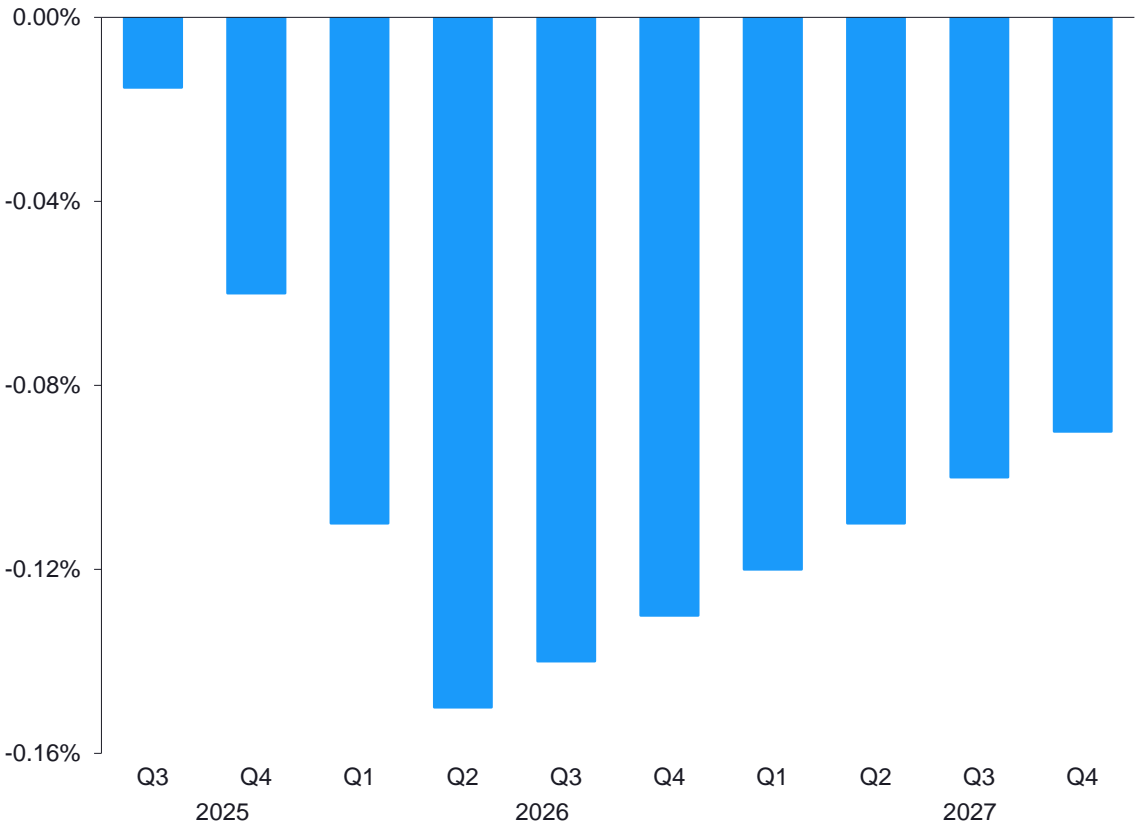


Stricter border enforcement and immigration restrictions are weighing on consumer spending, employment, and housing demand with a GDP growth drag of 0.2%

US border encounters on the Southwest land border
January 2012–July 2025



Impact of immigration policy assumptions on US real GDP y/y growth forecast
2025–27F



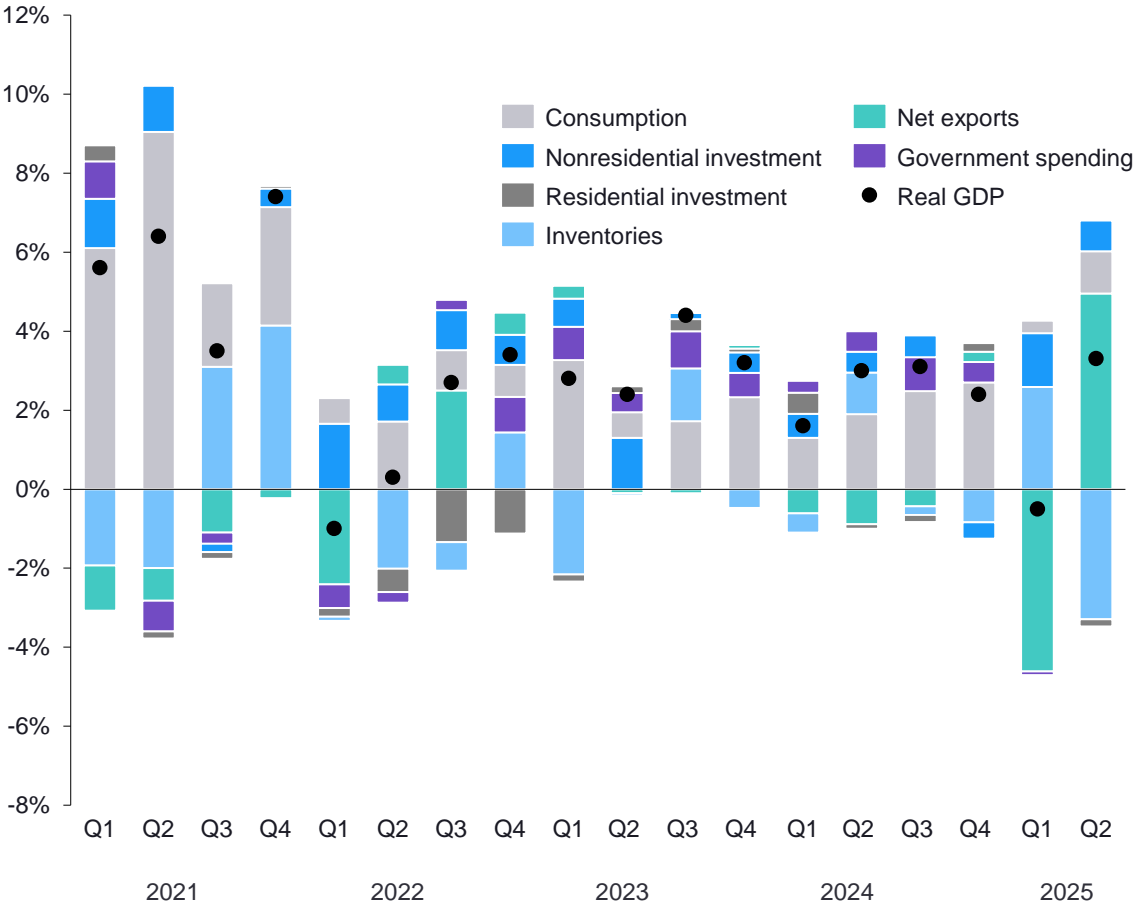
Source: U.S. Customs and Border Protection; EY-Parthenon

Agenda

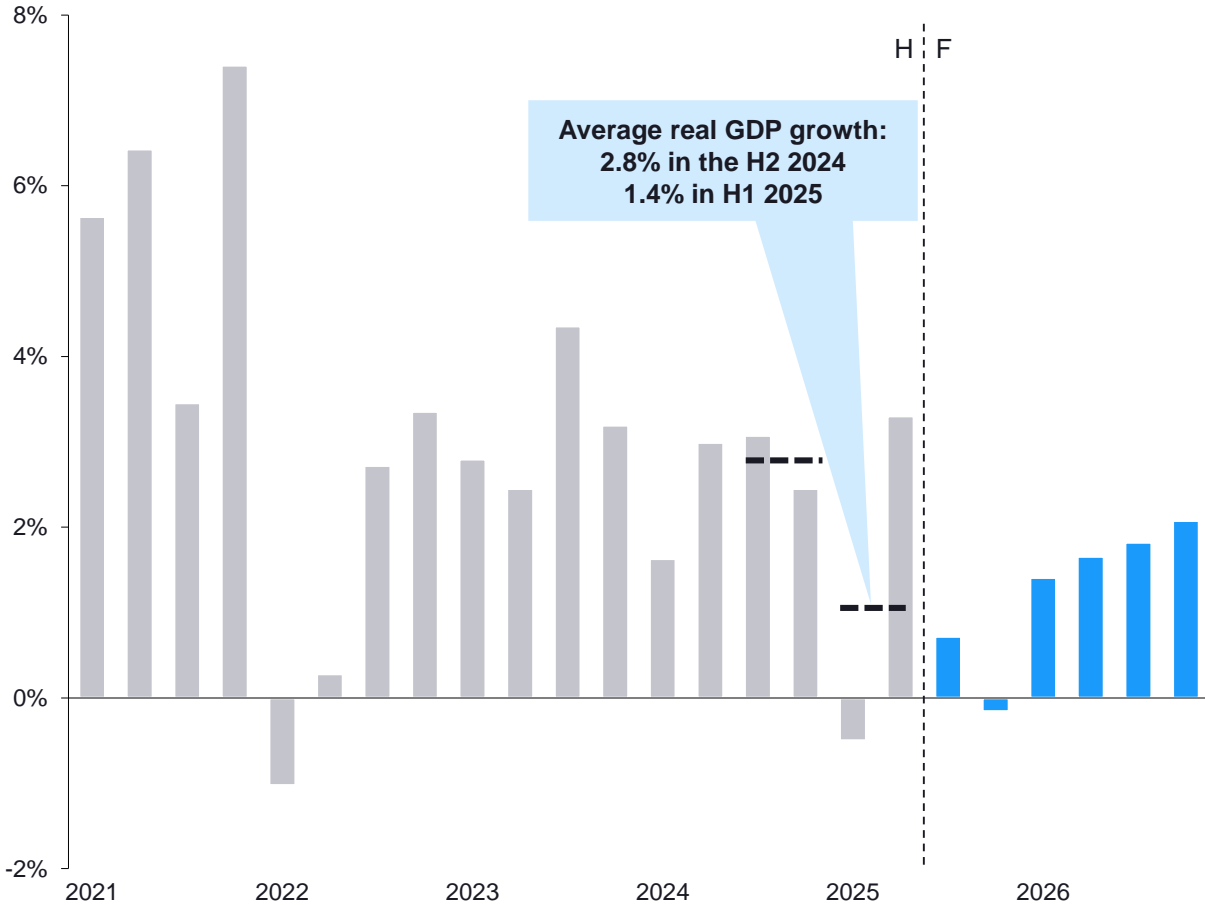
- ▶ Global overview
- ▶ Key US policy developments
- ▶ **US economic outlook**

The economy appeared to rebound strongly in Q2, but the strength was largely caused by tariff-driven import shifts, masking weak private sector demand

US real GDP growth contributions (q/q annualized)
Q1 2021–Q2 2025



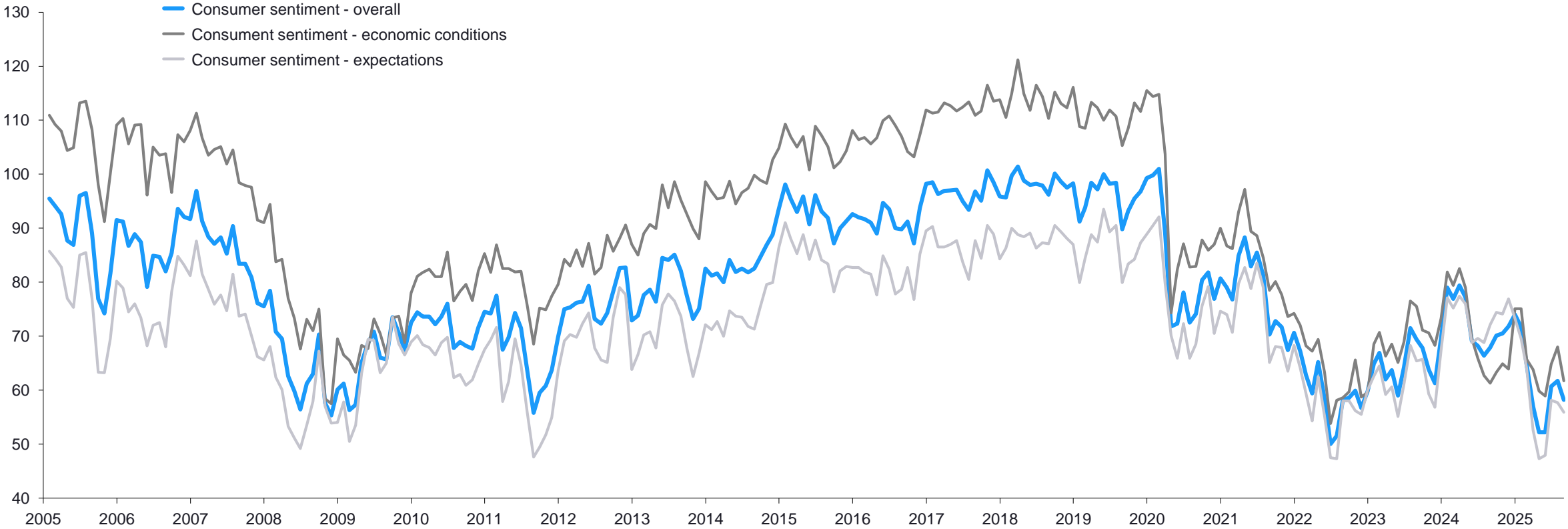
US real GDP growth
(quarter-over-quarter (q/q) annualized rate)
2021–26F



1. Measure of the total value of goods and services purchased by consumers, businesses and governments within a country, adjusted for inflation.
 2. Measure of the total value of goods and services purchased by consumers and businesses within a country, adjusted for inflation.
 Source: U.S. Bureau of Economic Analysis; U.S. Census Bureau; EY analysis

Widespread declines in consumer sentiment reflect growing unease over inflation, labor market conditions, and policy uncertainty

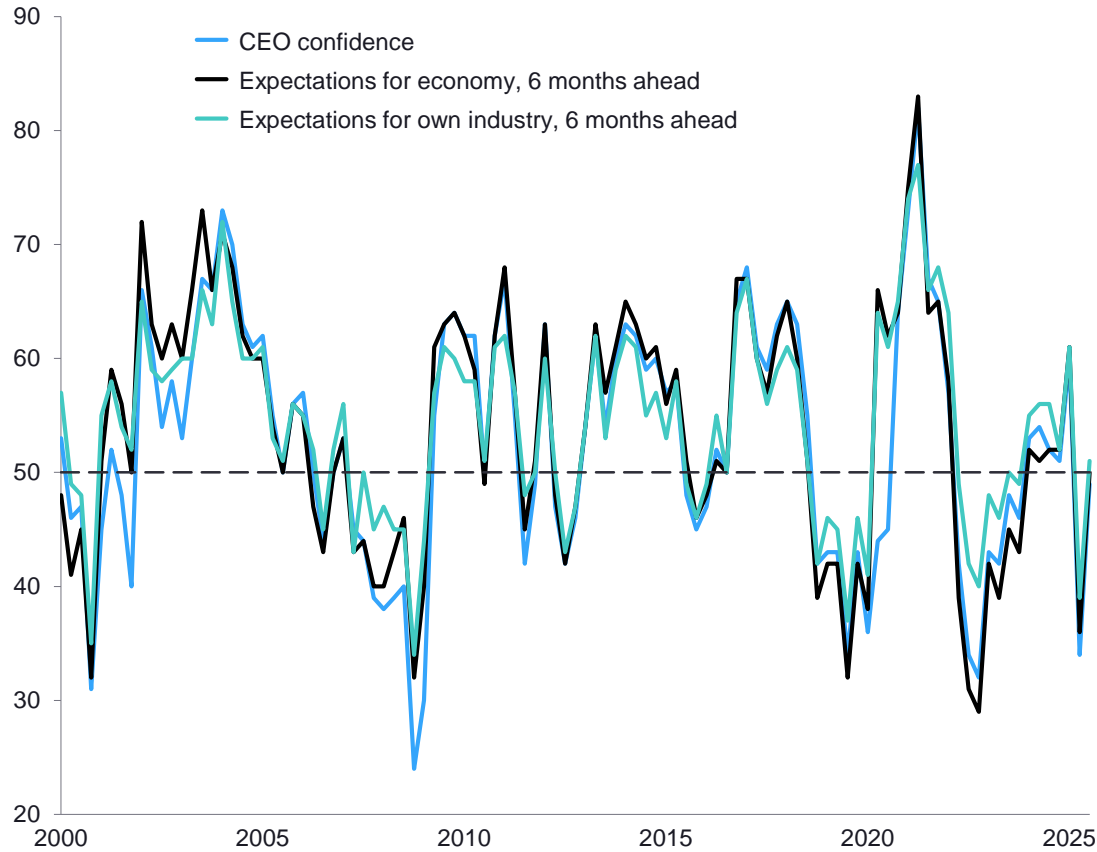
University of Michigan US consumer sentiment index by income bracket
January 2000–August 2025 (1966Q1 = 100)



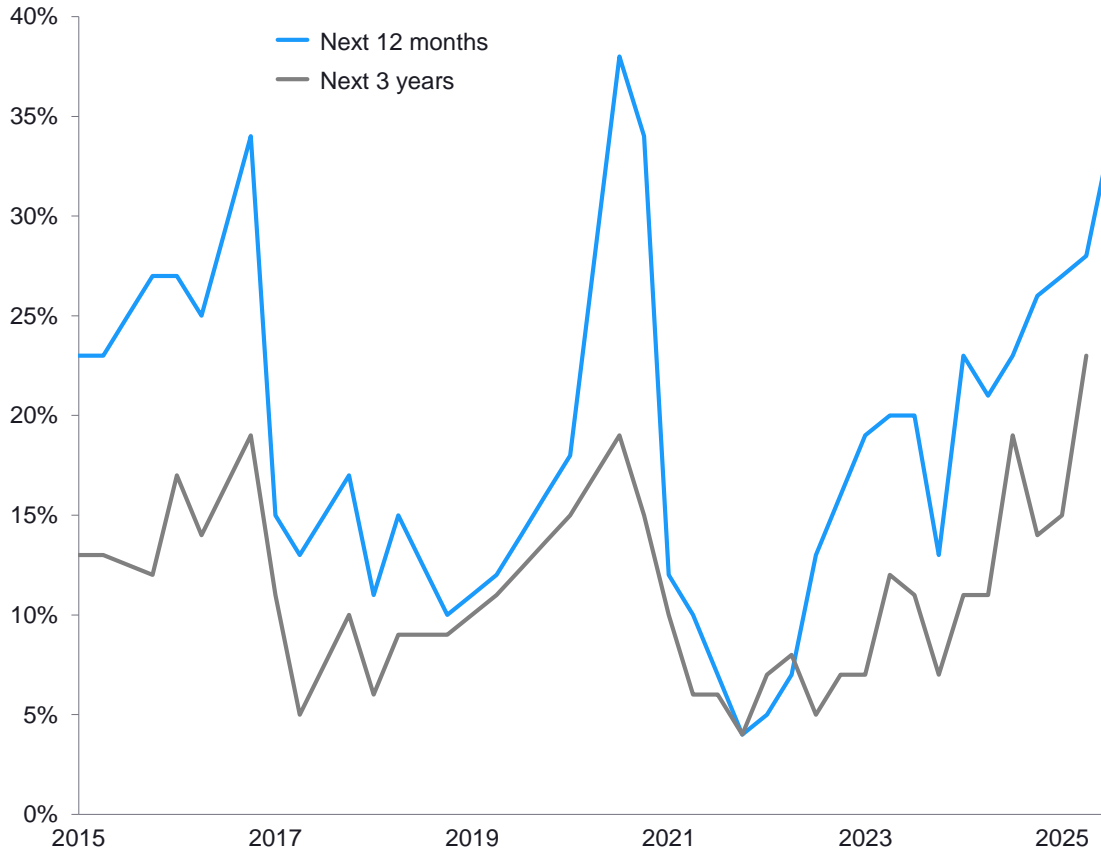
Source: University of Michigan; The Conference Board

CEO confidence rebounded in Q3 following a collapse in Q2, but CEOs remain on net pessimistic, with one in three planning workforce reductions in the coming year

CEO Business Confidence Index (50+ = positive)
Q1 2000–Q3 2025F



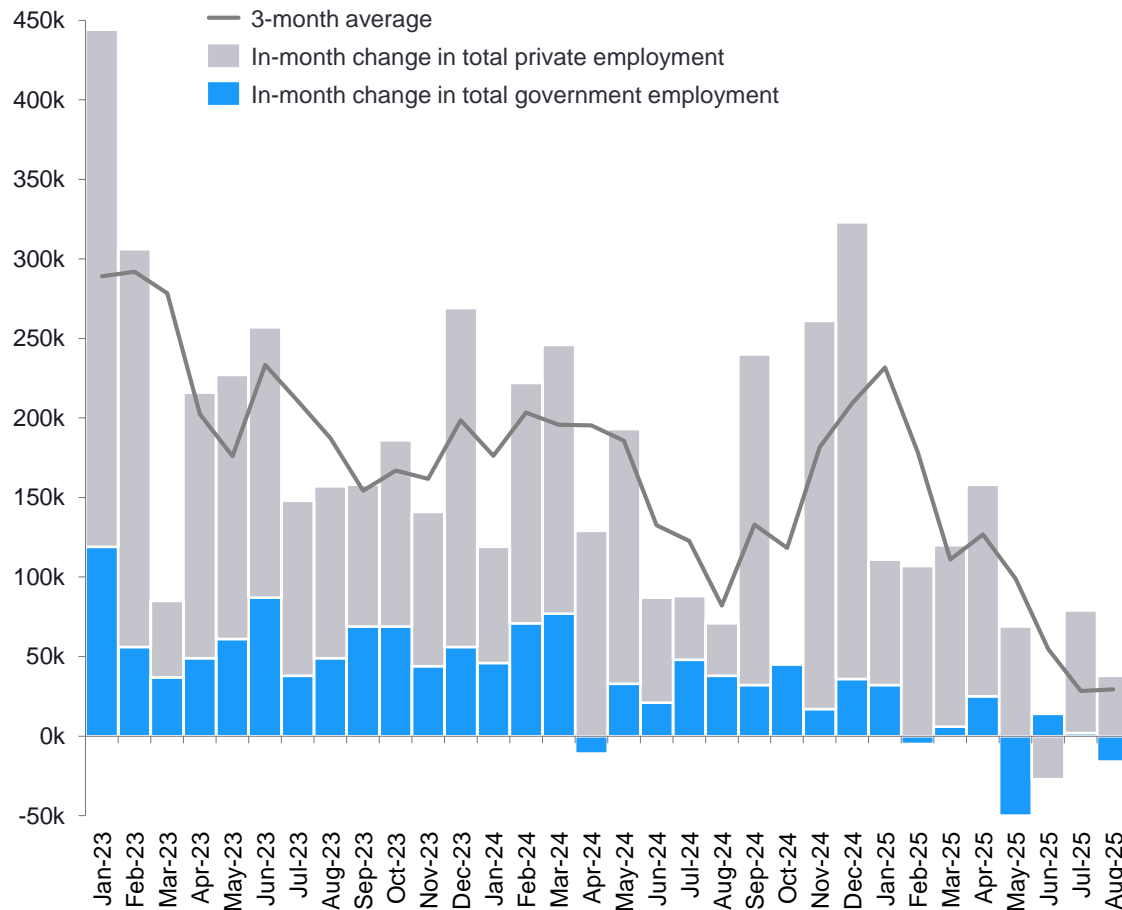
CEO confidence: share expecting a net reduction in workforce¹
Q1 2015–Q3 2025F



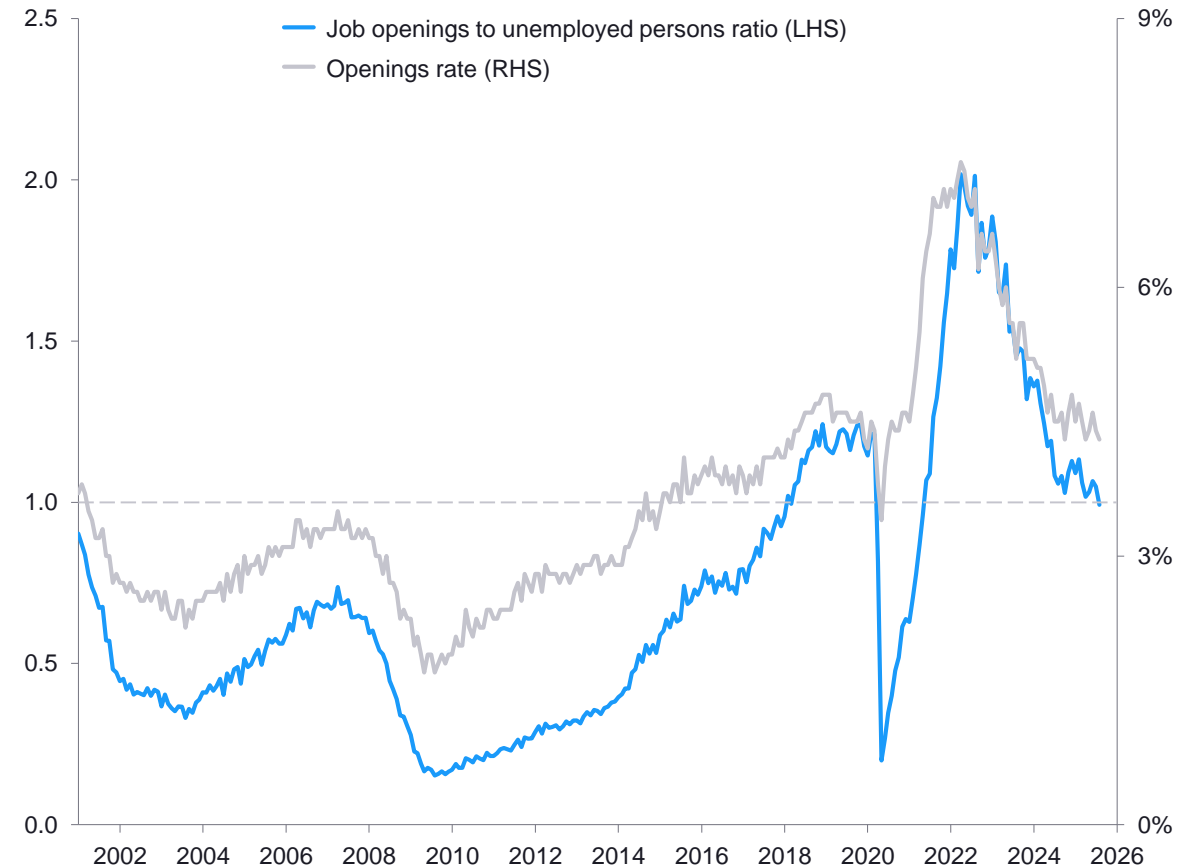
1. Measures CEOs' expectations for their own company's workforce.
Source: The Conference Board

The labor market is rapidly cooling; job growth has slowed to its weakest pace since 2020 and there are now fewer job openings than unemployed individuals

US m/m change in total nonfarm employment
January 2023–August 2025

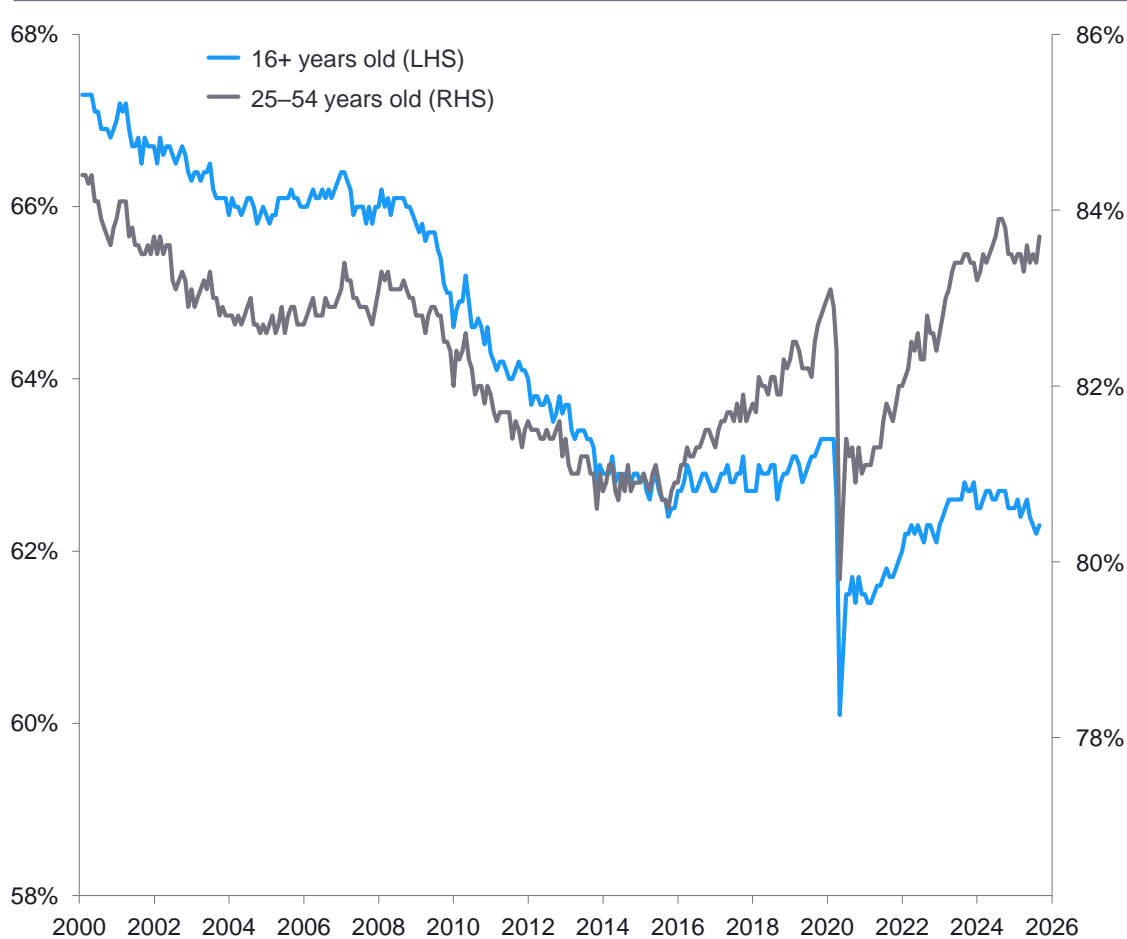


US job openings to unemployed persons ratio
December 2000–July 2025

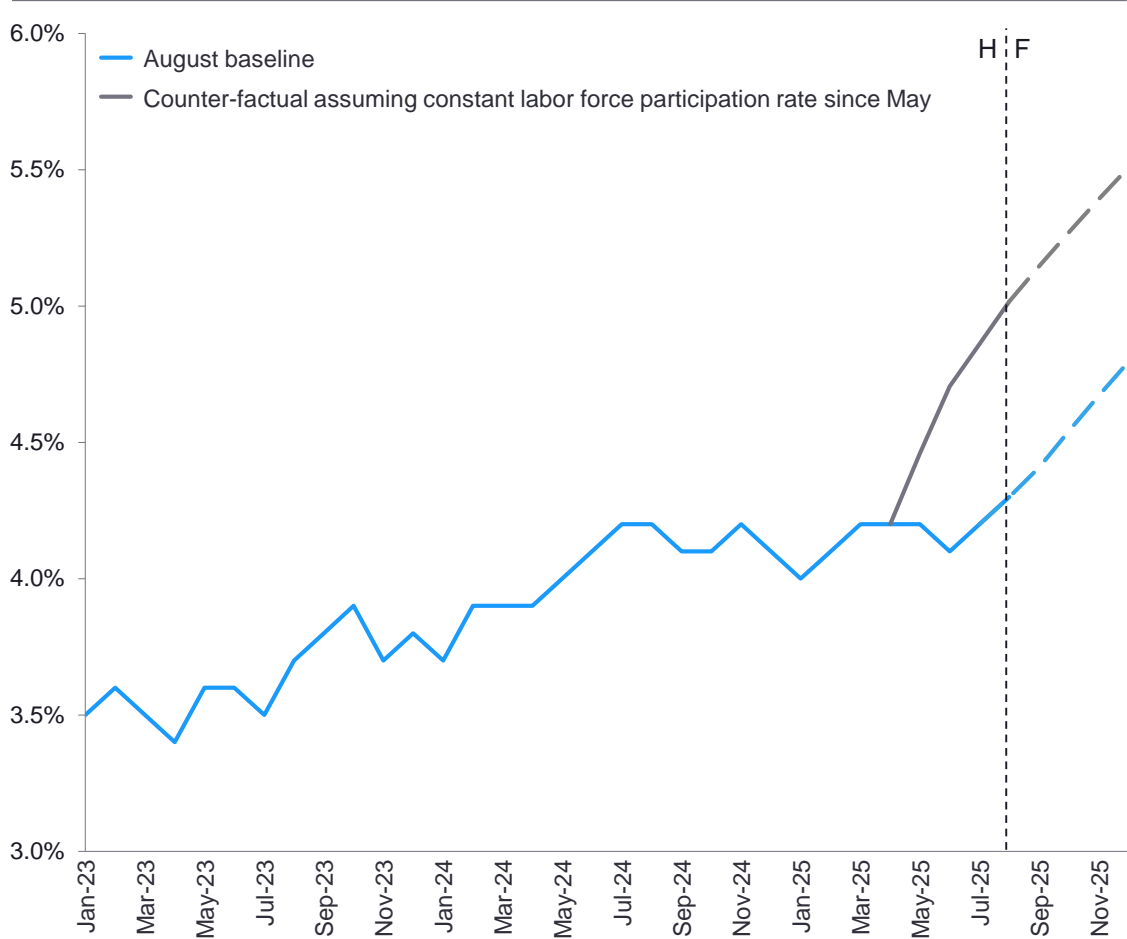


Labor supply is easing amid slower immigration; the labor force participation rate is sitting close to a 2.5-year low, which is helping keep unemployment contained

US labor force participation rates
January 2000–August 2025



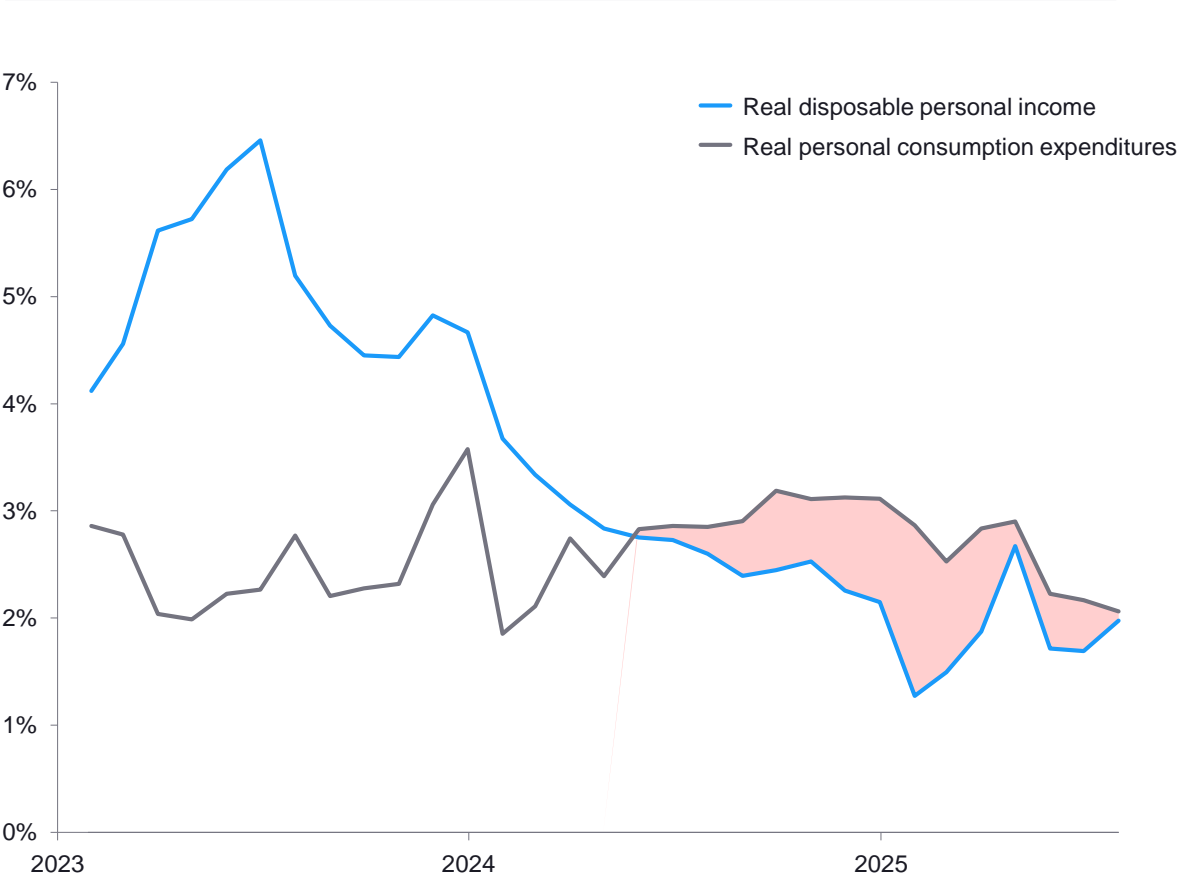
US unemployment rate – EY forecast
2023–25F



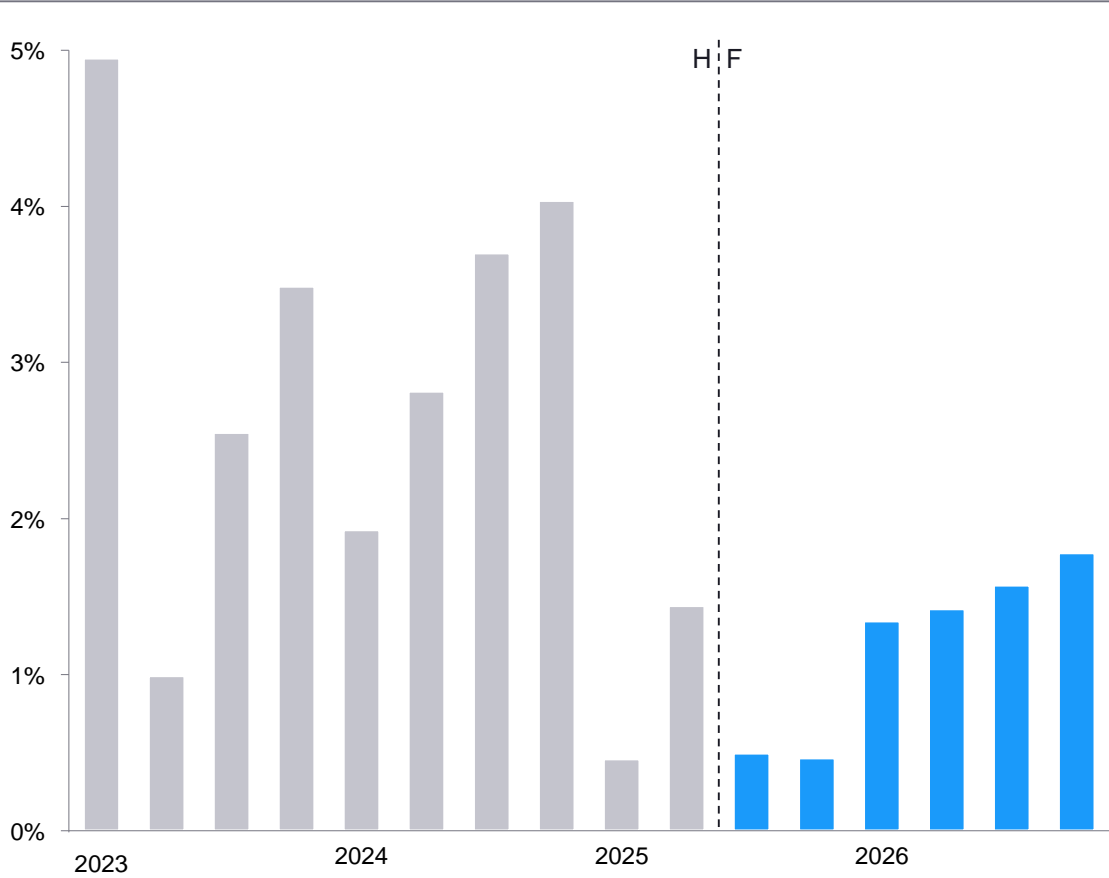
Source: U.S. Bureau of Labor Statistics; EY-Parthenon

Consumer spending will come under increased pressure with income growth slowing and inflation reaccelerating in H2 2025

US y/y percentage change in real disposable personal income and consumption expenditures
January 2023–July 2025



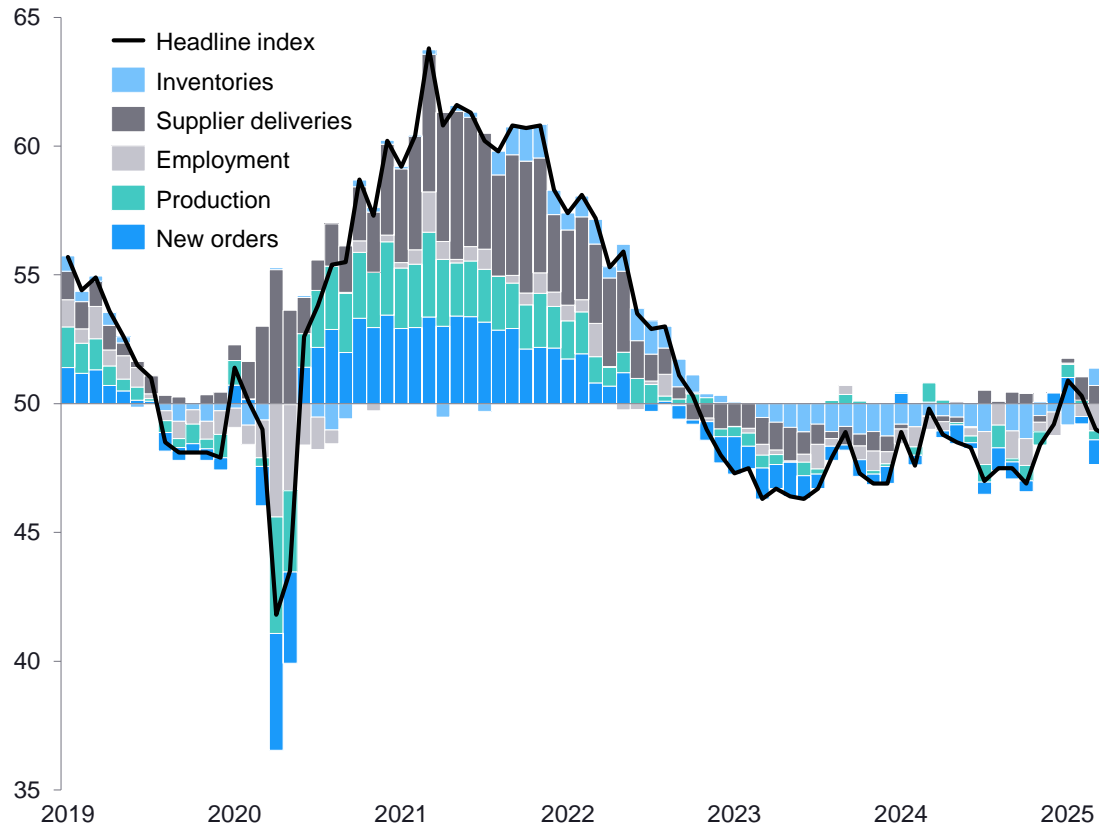
US percentage change in real personal consumer expenditures (q/q annualized rate)
Q1 2023–Q4 2026F



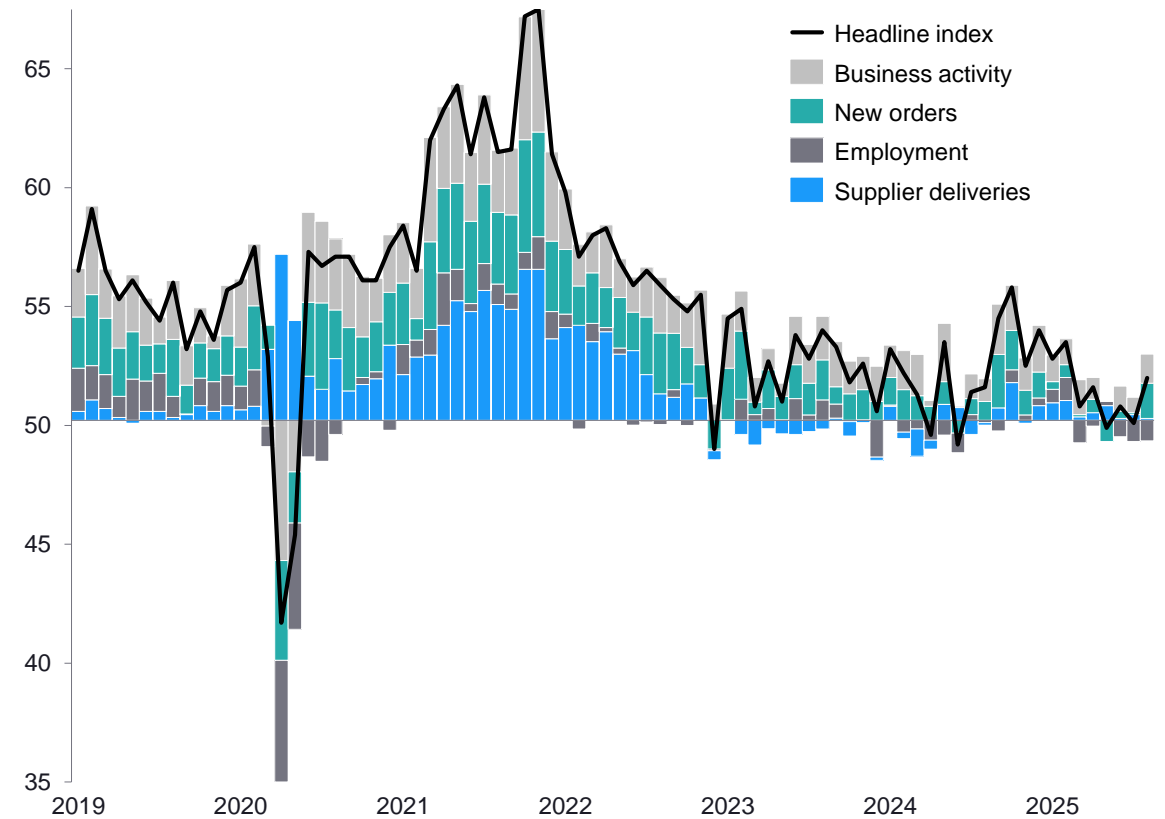
Source: U.S. Census Bureau; U.S. Bureau of Economic Analysis; EY-Parthenon

Tariffs are raising the cost of doing business for manufacturers and service-sector firms, while uncertainty is leading to order delays and cancellations

US ISM manufacturing index by component contribution¹
January 2019–August 2025



US ISM services index by component contribution¹
January 2019–August 2025

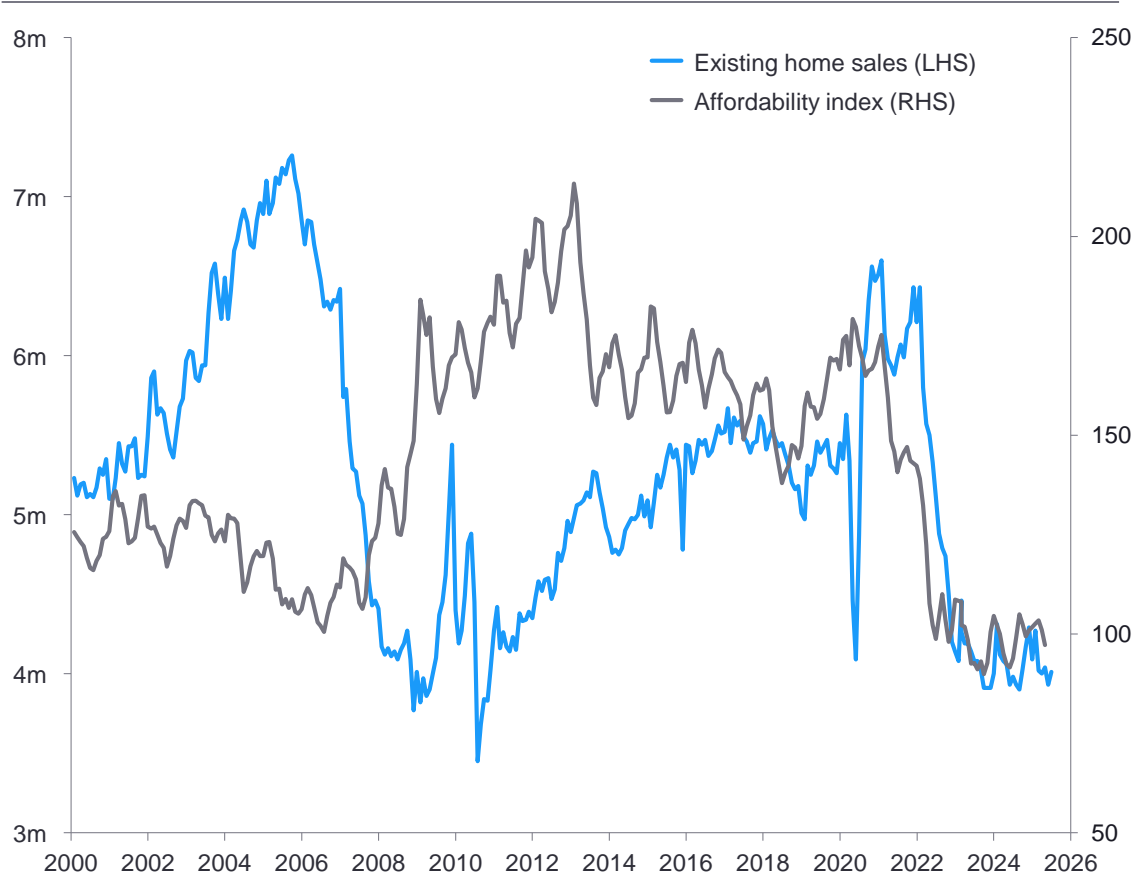


1. The Institute for Supply Management (ISM) measures PMI (Purchasing Managers' Index) by surveying manufacturing and service firms on their orders, production, employment, deliveries and inventories. The index indicates business activity in both sectors. This is a diffusion index, with readings above 50 indicating expansion and readings below 50 indicating contraction in activity.

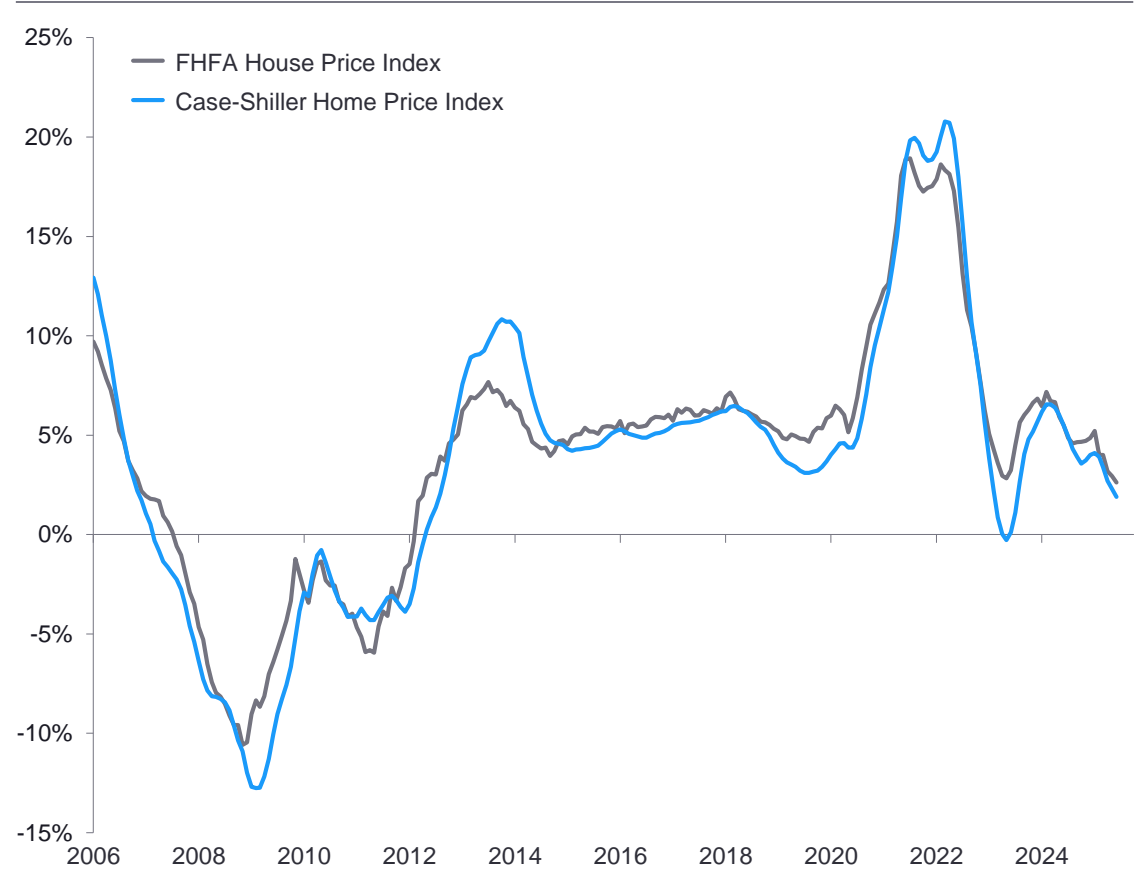
Source: Institute for Supply Management

Low housing affordability, from still-high prices and mortgage rates, continues to weigh on sales; home price inflation will likely turn negative by year-end

Existing home sales and Housing Affordability Index¹
January 2000–July 2025



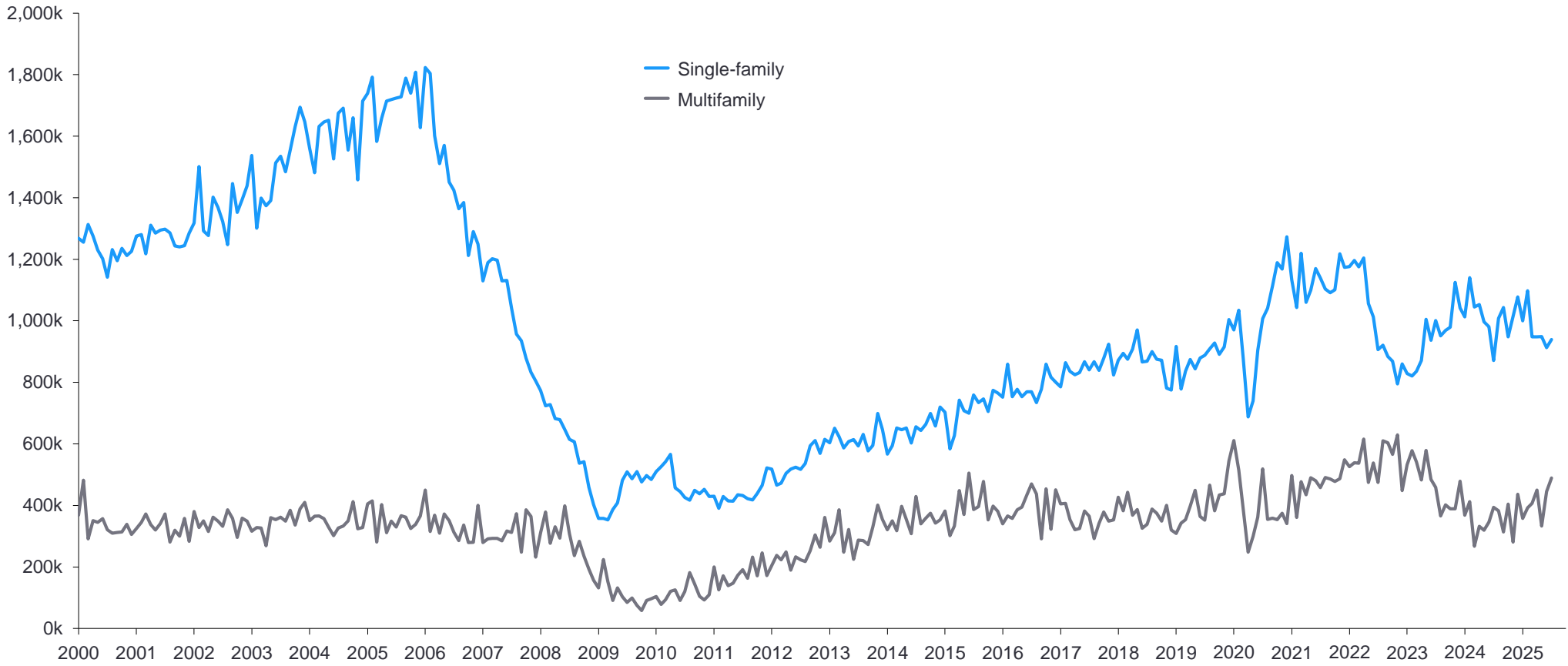
US y/y percentage change in home price indexes
January 2005–June 2025



Source: National Association of Realtors; S&P Global; CoreLogic; EY-Parthenon

With demand under pressure and construction costs still elevated, builders are cautious about new starts and selective in offering homebuying incentives

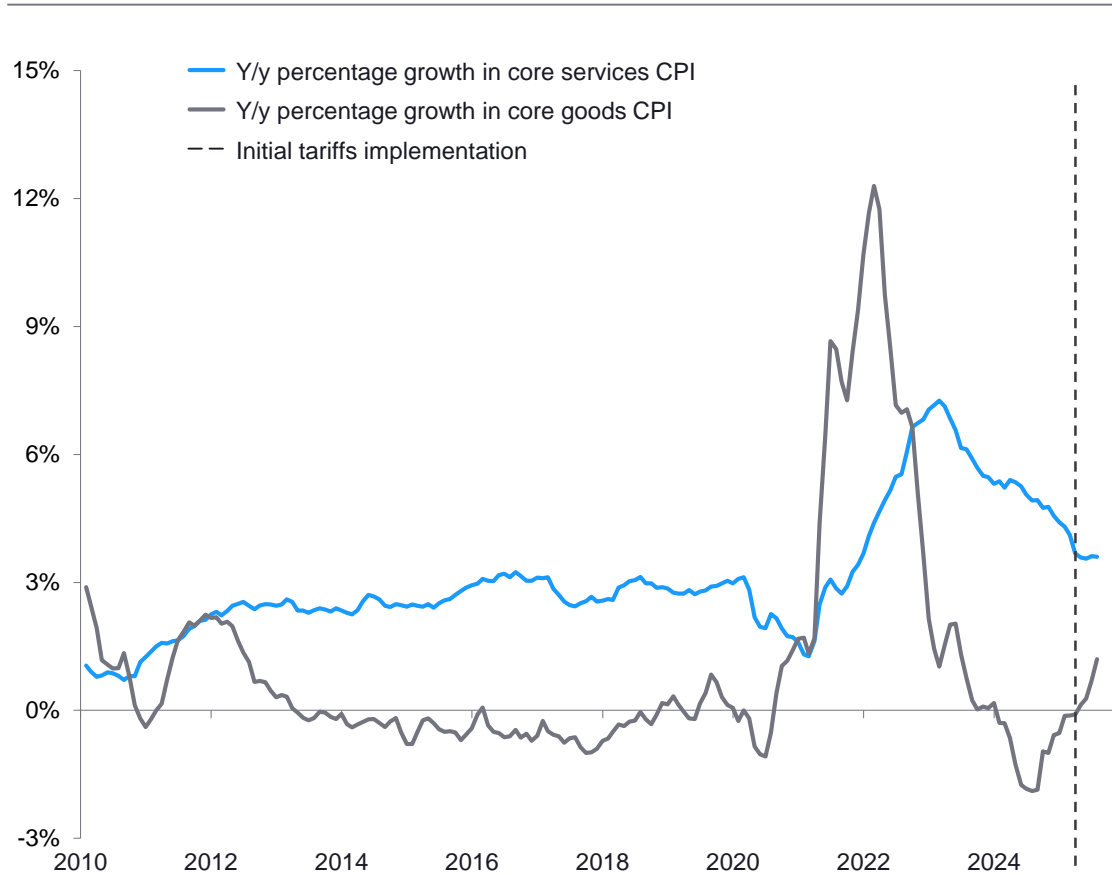
US housing starts (SAAR)
January 2000–July 2025



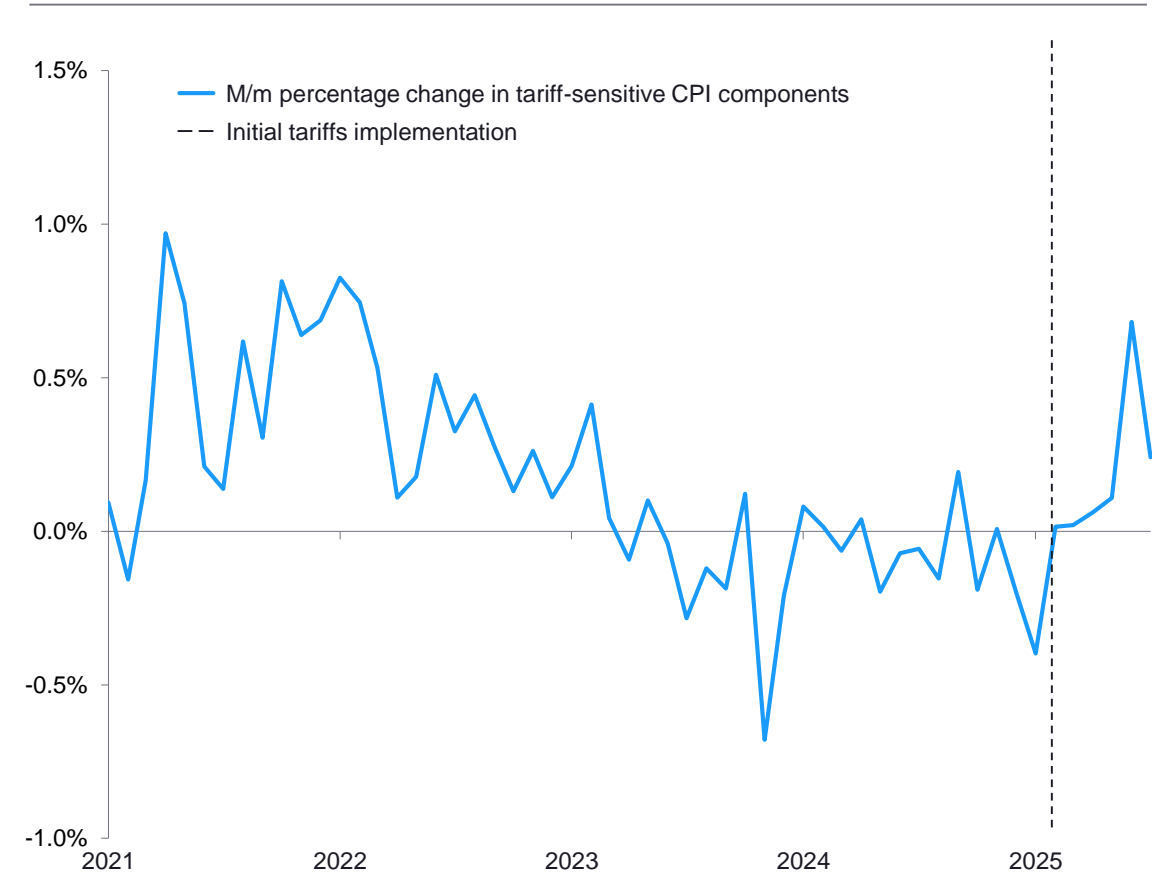
Source: U.S. Census Bureau; EY-Parthenon

The impact of tariffs is gradually and unevenly filtering through with core goods prices up for a fourth consecutive month in July and inflation at its highest since 2023

US y/y percentage change in core goods and services CPI
January 2010–July 2025



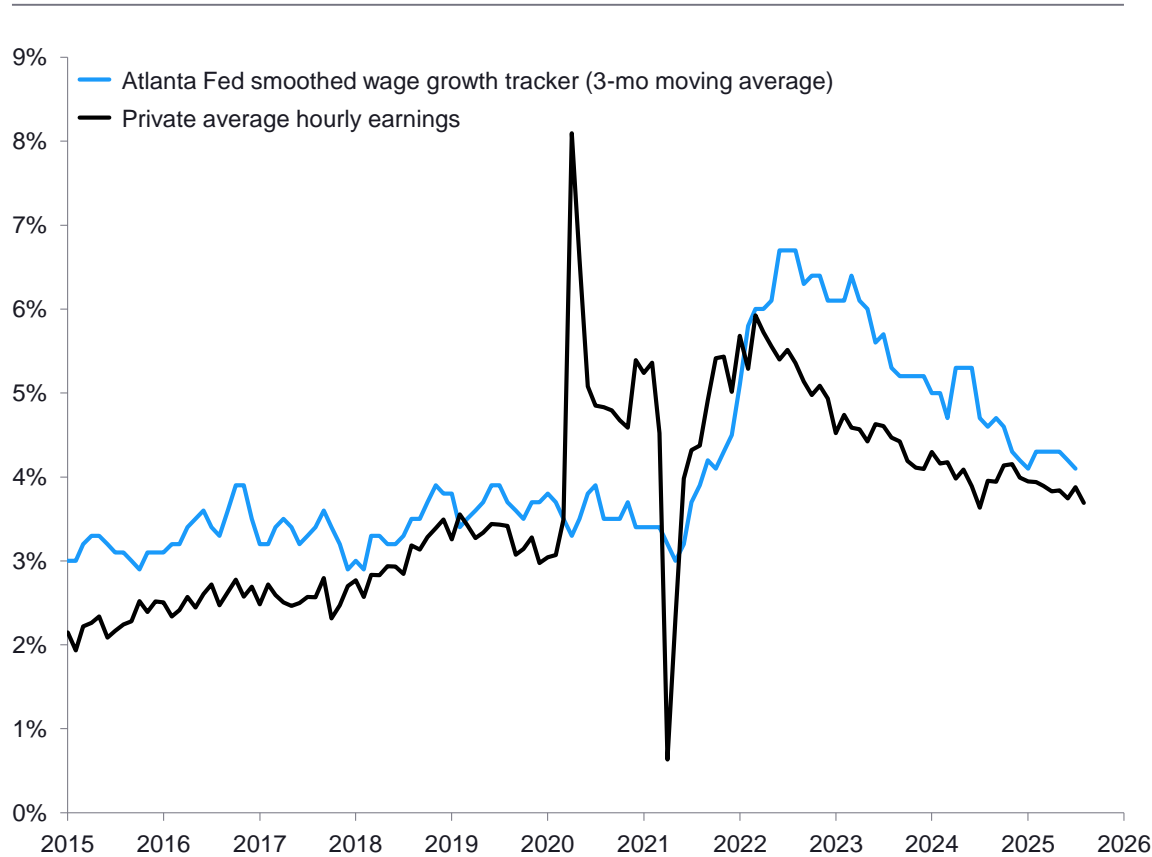
US m/m percentage change in tariff-sensitive¹ CPI components
January 2021–July 2025



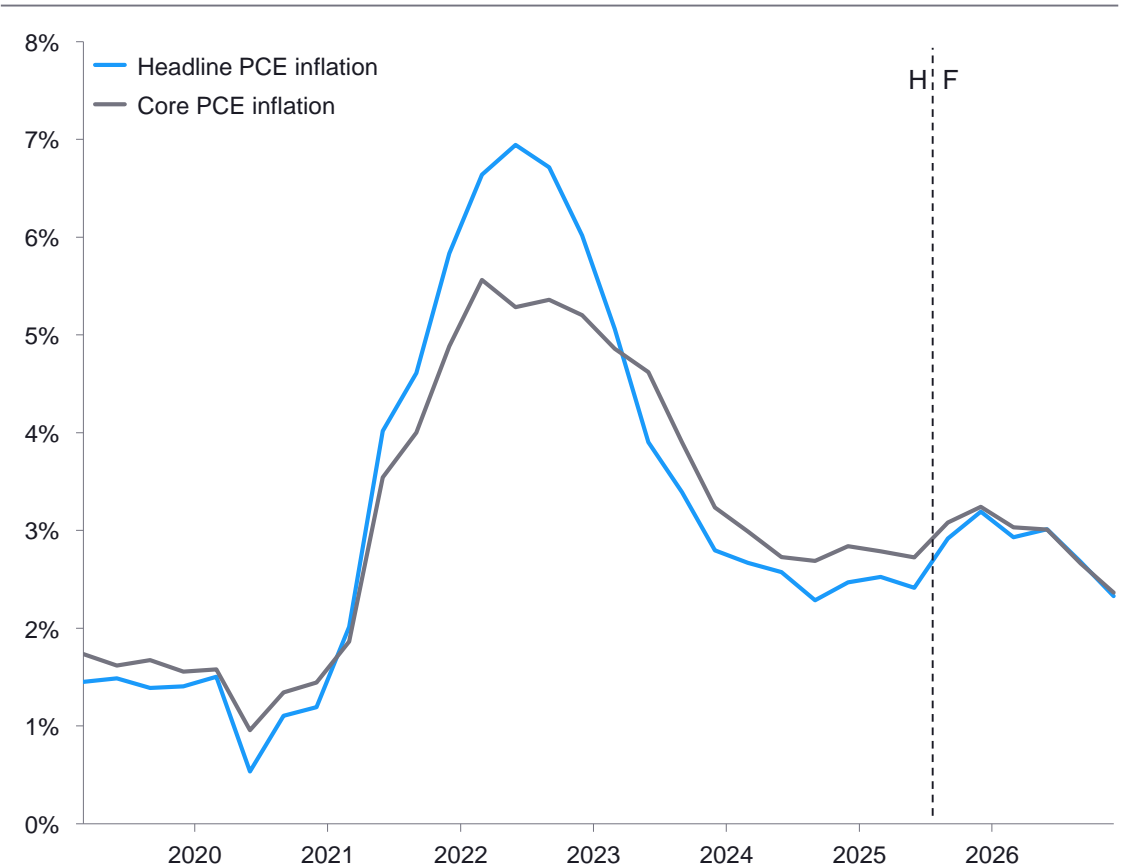
1. Tariff-sensitive includes fruits and vegetables, apparel, household furnishings and supplies, recreational goods, information technology goods (including computers), and alcoholic beverages.
Source: U.S. Bureau of Labor Statistics; EY-Parthenon

Trade policy is creating a stagflationary shock where price pressures are rising but economic activity is slowing because of reduced income growth

US wage growth y/y percentage change
January 2015–August 2025

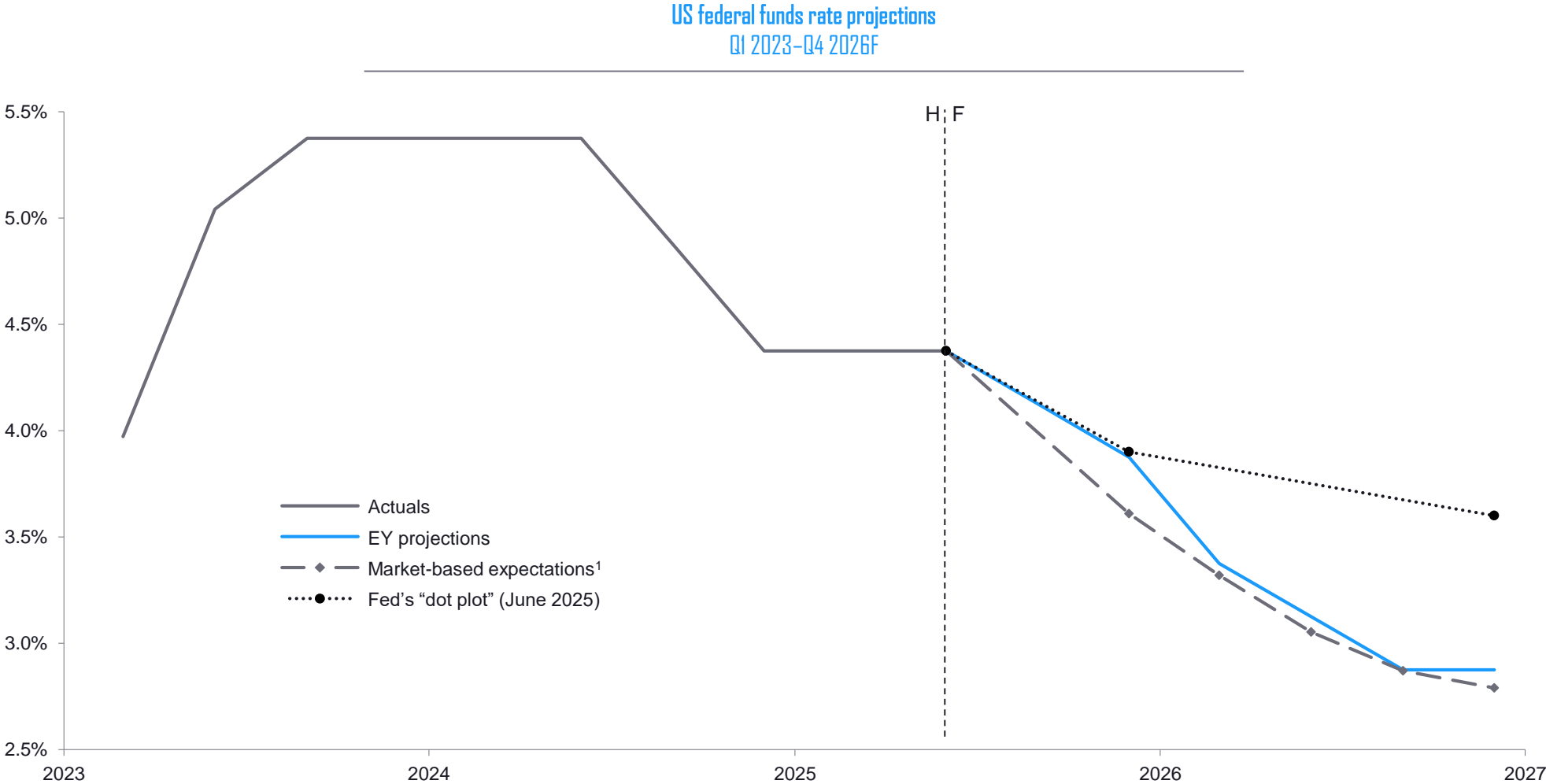


US y/y percentage change in PCE inflation
2019–26F



1. Headline CPI includes the prices on a fixed basket of goods. Core CPI removes the CPI components that can exhibit large amounts of volatility from month to month, such as food and energy.
Source: U.S. Bureau of Labor Statistics; EY-Parthenon

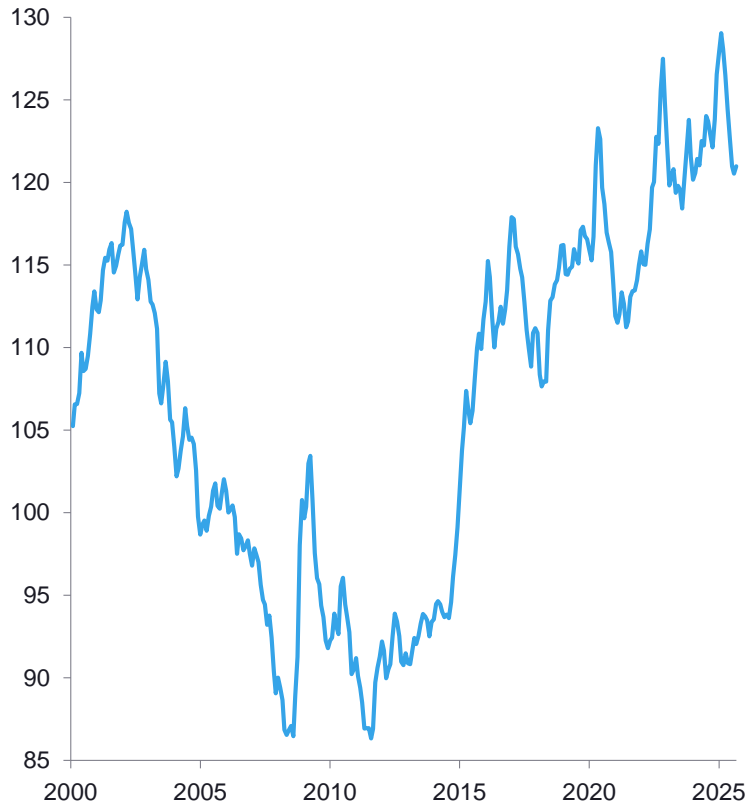
While a cautious and patient Fed decided to keep policy steady at its July meeting, the easing cycle is likely to resume in September as the economy loses steam



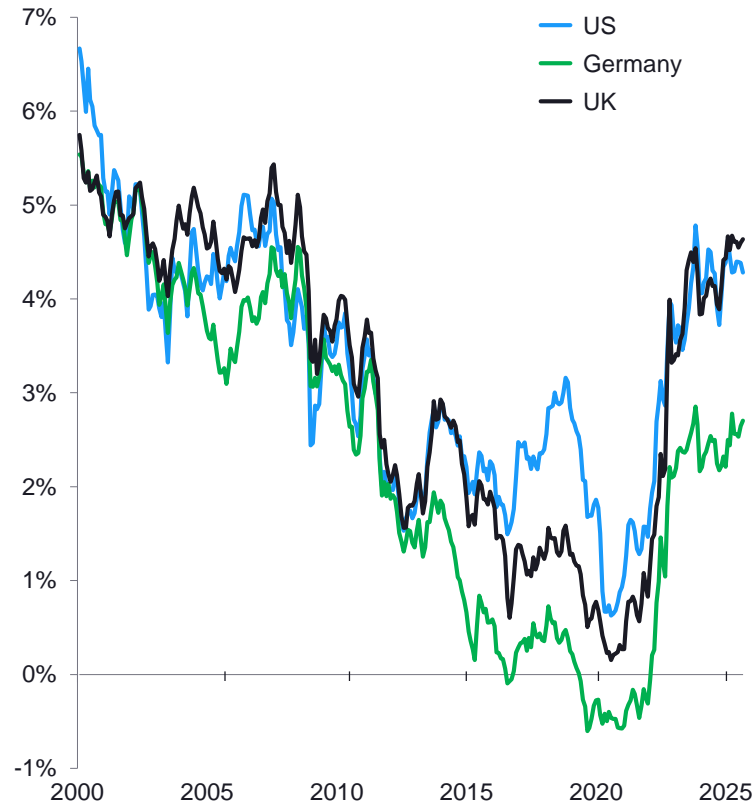
1. Based on Bloomberg analysis, as of September 5, 2025.
Source: Federal Reserve Board

Pressure on long-term rates and the US dollar can amplify idiosyncratic shocks to business investment, housing activity and consumer spending

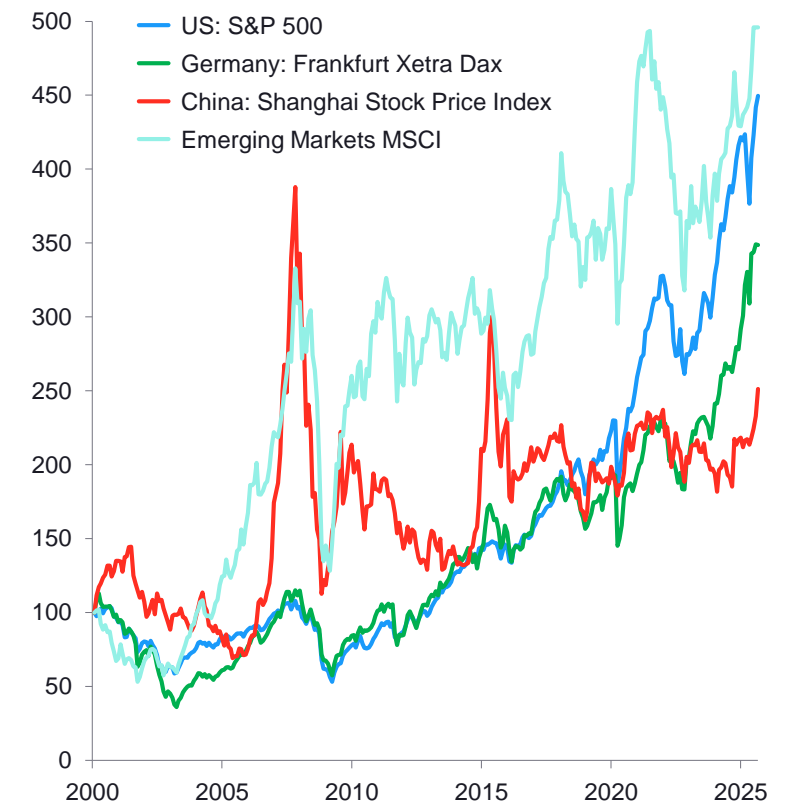
US nominal broad trade-weighted dollar index¹
January 2000–August 2025
(January 2006 = 100)



US, Germany, UK 10-year treasury yield
January 2000–August 2025



Major stock market indices
January 2000–August 2025
(January 2000 = 100)



1. The trade-weighted dollar is a weighted average of the foreign exchange value of the US dollar against the currencies of a broad group of major US trading partners.
Source: Federal Reserve Board; London Stock Exchange Group; Standard & Poor's; Financial Times; Shanghai Stock Exchange; MSCI; EY-Parthenon

In an environment marked by policy fluidity, economic desynchronization and supply fragilities, leaders should prioritize core imperatives: resilience and robustness

Resilience and Robustness in a Supply-Fragile World

Agility and adaptability for strategic resilience

- Navigate complexity by embedding flexible planning frameworks that allow for rapid recalibration.
- Develop scenario-based strategies that incorporate geopolitical shifts, trade disruptions, and regulatory swings.
- Embrace modular operations, responsive pricing, and cross-functional coordination to adjust to diverging market conditions across regions and sectors.

Shock absorption and structural robustness

- Reinforce the organization's capacity to weather volatility by strengthening supply networks, diversifying input sources, and investing in robust digital and operational infrastructure.
- Focus on cost discipline, liquidity management, and workforce resilience—while leveraging productivity gains from AI and automation to mitigate the impact of renewed inflationary or financial shocks.

EY | Building a better working world

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All in to shape the future with confidence.

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