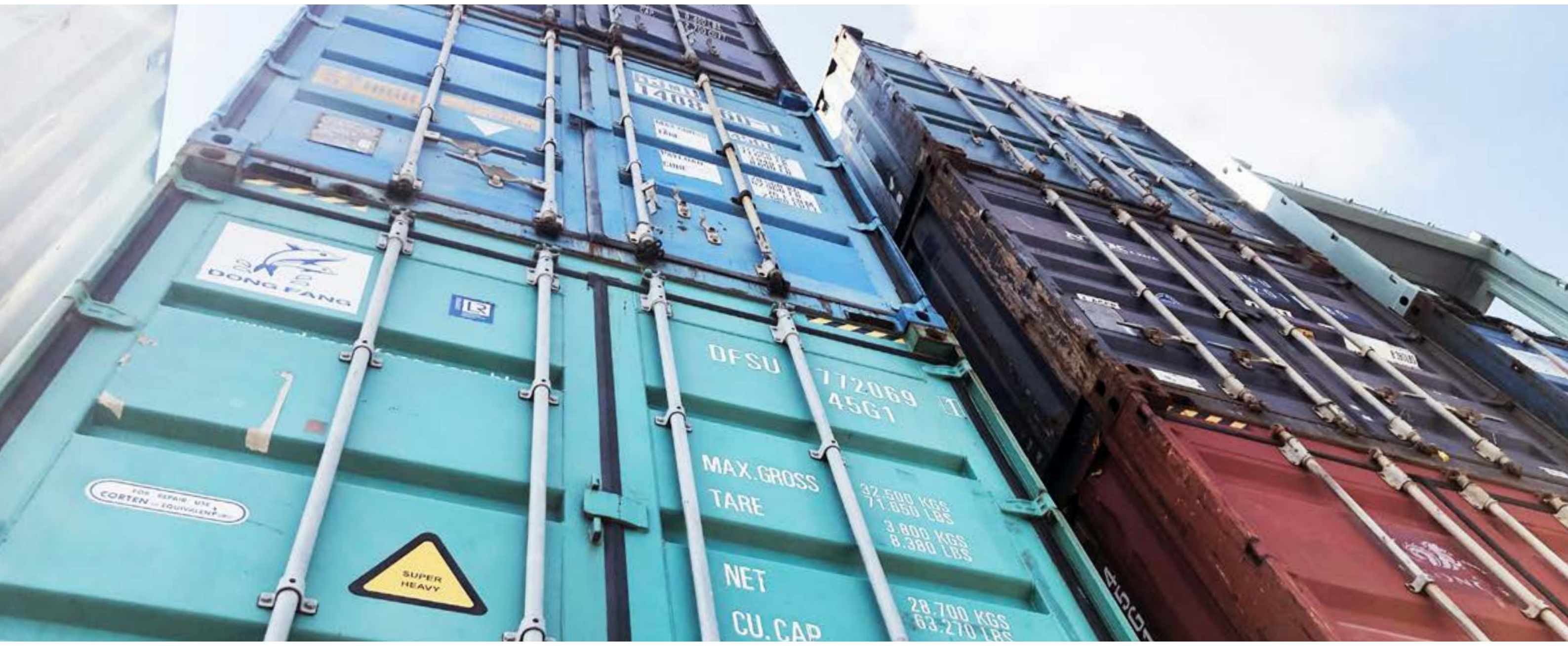


Tariff impact set to intensify towards winter

- **The US economy has continued to evolve well in line with our expectations, and we make only small adjustments to the forecasts. While current tariff levels are slightly higher than we expected in early summer, more front-loaded stimulus from the 'Big Beautiful Bill' and recent easing in financial conditions mitigate downside risks to growth.**

- **We forecast 2025 GDP growth at 1.6% (unchanged) and 2026 at 1.4% (from 1.3%). In quarterly terms, we think majority of the negative tariff impact on growth will be felt over Q3 and Q4 and expect sequential growth to recover towards 2026.**

- **Inflation is also developing in line with our earlier forecasts. While strictly tariff-driven inflation has so far been limited, majority of increased costs will be passed through to consumer prices only towards the fall. We maintain our headline inflation forecast at 2.8% in 2025 (unchanged) and 2026 at 2.6% (unchanged), and our 2025 core inflation forecast at 3.0% in 2025 (unchanged) and 2026 at 2.8% (unchanged).**

- **We still expect the Fed to resume 25bp rate cuts from September and follow up with quarterly reductions until a terminal rate of 3.00-3.25% is reached in September 2026. We see increasing two-sided risks around the policy rate outlook. Elevated inflation expectations, easier financial conditions and more supportive fiscal policies could force the Fed to delay rate cuts further, while political pressure could have the opposite effect.**

3 September 2025
Important disclosures and certifications are contained from page 3 of this report.

	2024	Forecast 2025	2026
GDP Growth	2.8%	1.6% (1.6%)	1.4% (1.3%)
Inflation	3.0%	2.8% (2.8%)	2.6% (2.6%)
Unemployment	4.0%	4.2% (4.3%)	4.4% (4.4%)
Fed Funds*	4.50%	4.00% (4.00%)	3.25% (3.25%)

Parentheses are the old projections (From June 2025)
**End of period*
Source: Danske Bank, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Fed

In many ways, the US economy has withstood the tariff and political uncertainty much better than feared. Employment growth has slowed down, but both job openings and layoffs have remained stable at healthy levels. A significant part of the slowdown in employment growth is likely explained by the sharp decline in foreign labour supply growth, and the labour market balance has remained relatively steady. Nominal wage growth hovers well above typical pre-pandemic pace, reaching 4.1% Q/Q AR in Q2, which has maintained wage sum growth surprisingly steady through 2025. This, in turn, has shielded consumer demand from tariff-inflation for now.

Even private fixed investment growth remained resilient despite the blurry outlook. Importantly, financial conditions have eased significantly over past months, as equity markets have recovered, credit spreads remain tight, and the broad USD has weakened. This will likely have a positive impact on growth momentum towards the winter period. In addition, the 'Big Beautiful Bill' will offer the economy more front-loaded stimulus than we previously assumed, as it will lift public deficits by around 1.5%

The US economy is experiencing both a negative supply shock stemming from sudden halt in immigration and tariffs constraining imports, as well as a positive demand shock from easing financial conditions and fiscal policy.

Antti Ilvonen, Senior Analyst

of GDP in 2026 and by 1.8% in 2027. Not only does the bill offset the expected positive revenue impact from the tariffs, but it also cements US fiscal policy to an expansionary path for the years to come.

On the other hand, inflation outlook has become increasingly concerning. In our baseline forecasts, we have assumed that the tariffs will lead to only a temporary, one-time level shift in prices. But as the US economy is experiencing both a negative supply shock stemming from sudden halt in immigration and tariffs constraining imports, as well as a positive demand shock from easing financial conditions and fiscal policy, the risk of more persistent acceleration in inflation has increased.

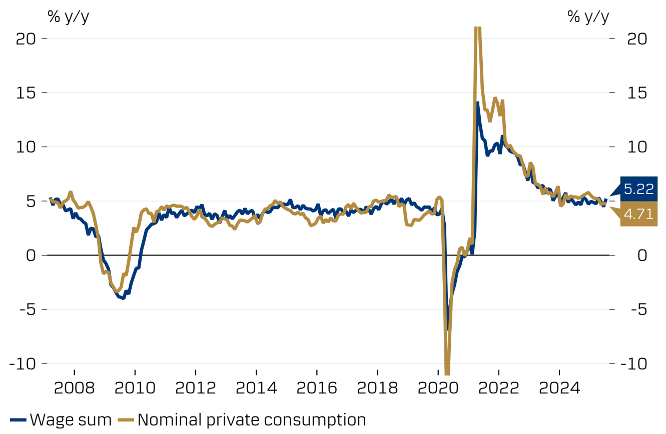
So far, the tariffs have had only a limited direct impact on consumer prices, but data on producer prices suggests that the current elevated level of inflation expectations has already offered retailers and wholesalers an opportunity to start increasing sales margins (**see Reading the Markets USD, 19 August**). When inflation is driven by higher inflation expectations, rather than just higher costs, the risk of underestimating both the scale and duration of the price pressures increases.

Also, majority of the direct costs related to tariffs are still looming ahead. US import volumes have remained unusually low throughout the summer, as businesses have drawn down inventories of inputs and finished goods, that were front-loaded earlier in the year. Similarly, exporters have looked for ways to re-route trade flows to avoid paying the highest tariffs. This is the most visible in China, where direct exports to the US have declined by nearly 22% y/y, but overall export volumes have grown more than anticipated.

The average applied tariff rate on all US imports hovers around 20% before substitution. With 2024 import values, the annual cost of increased tariffs would be as high as USD660bn. But so far, firms' cumulative tariff payments in 2025 are only USD93.9bn higher than at the same time of the year in 2024. When inventories have been depleted and as re-routing will become increasingly difficult with the tariffs now spanning more than 70 economies, importers will have to accept further increases in tariff costs towards the fall.

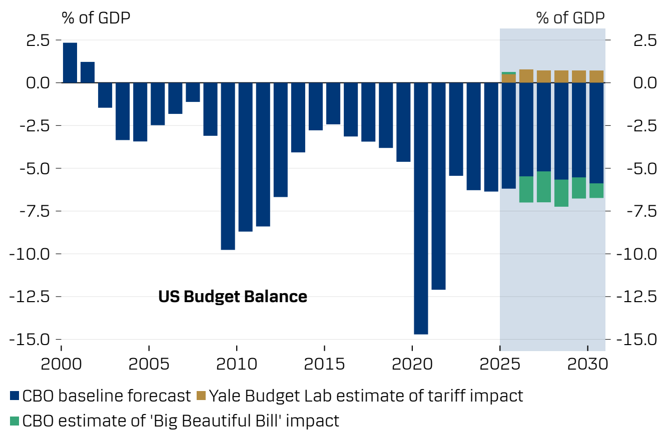
We continue to forecast a 25bp rate cut from the Fed in the upcoming September meeting, followed by quarterly reductions until the policy rate target reaches 3.00-3.25% in September of 2026. We have made no changes to our call since the previous edition of Nordic Outlook. While political pressure to accelerate policy easing inarguably complicates the outlook, we think risks are skewed towards slower, rather than faster, rate cuts given the risk of more persistent inflation.

Solid wage growth continues to shied consumer demand from tariff-driven inflation



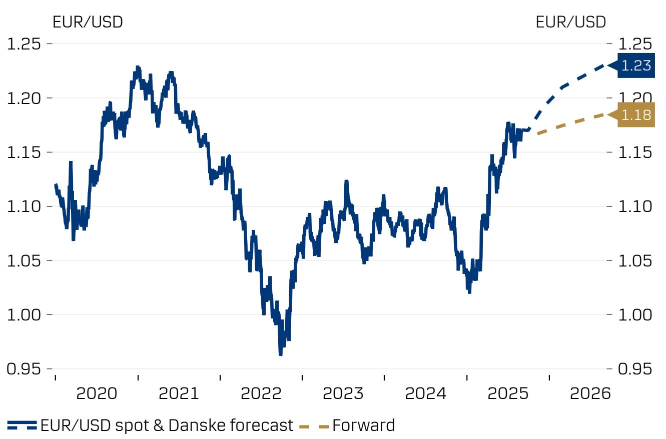
Sources: Macrobond Financial, U. S. Bureau of Labor Statistics (BLS), U. S. Bureau of Economic Analysis (BEA), Danske Bank

The Big Beautiful Bill does not just offset the expected positive revenue impact from the tariffs, but it also cements US fiscal policy on expansionary path for the years to come.



Sources: Macrobond Financial, U. S. Congressional Budget Office (CBO), Yale Budget Lab, Danske Bank

We expect relatively faster inflation in the US to continue lifting the EUR/USD rate over the coming year



Sources: Macrobond Financial, LSEG, Danske Bank. Note: Past performance is not a reliable indicator of current or future results.

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Editorial deadline: 2 September 2025, 16:00 CET
Economics Research

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Report completed: 2 September at 16:00 CET

Report first disseminated: 3 September at 06:00 CET

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