Goldman Sachs Exchanges: Outlook 2026

Episode 2: Regional Perspectives

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Allison Nathan: Is the US economy poised for another strong year? What will China's trade surplus mean for the rest of the world? And are there fresh reasons for optimism in Europe? I'm Allison Nathan and this is Goldman Sachs Exchanges.

This is part two of Outlook 2026, our special 3-part series examining the trends that will define the global economy in the coming year. Today, we're taking a tour of economies around the world and what our regional experts see for them in 2026. We start in the United States with my colleague David Mericle, the chief US economist at

Goldman Sachs. David, very good to see you.

David Mericle: Thanks, Allison, great to be here.

Allison Nathan: So David, in part one of this series we got a sense of the tailwinds propelling the US economy as 2026 gets underway, so let's dig into some of the details behind that. You expect pretty strong growth again in 2026 for the US economy. Since trade policy was such a big focus in 2025, I thought we would start there. What do you expect in terms of US tariff policy? And what do you think will be the implications for growth this year?

David Mericle: Sure. We've changed our tariff forecast a fair bit over the last few months. There were a number of tariffs that the administration had talked about implementing, some of which haven't happened. And we think that with the midterms coming up and the Democrats getting some traction with the affordability theme, more likely actually the administration probably won't raise tariff rates further. And if, as prediction markets think, that Supreme Court rejects the IEEPA tariffs, while they probably would be replaced, we think that they would be replaced by something a little bit smaller on that because the replacement tariffs under a new authority would be capped at 15%.

So bottom line is we actually think that the effective tariff rate will fall a touch in 2026 from about an 11 percentage point increase since the Trump administration took office, we think that'll be closer to maybe a 9.5 percentage point increase. So not down a huge amount but down a little bit.

Allison Nathan: And how does that impact the growth forecast?

David Mericle: It basically means that the negative effects for growth from tariffs will have been mainly felt in 2025, but this should be less of a 2026 story. It's not a huge change in policy but, because we think that most of the tax-like impact or the uncertainty impact happens pretty quickly after the tariffs are implemented, if we're right that we don't get further tariff increases in 2026, I would not expect that to be a drag on growth this year.

Allison Nathan: And what about fiscal policy? The impact of household budgets from federal tax cuts is estimated to be $100 billion in the first half of the year alone. What could that mean for economic growth?

David Mericle: Yeah. So we think that the fiscal bill that was passed last year will give us a front-loaded fiscal boost, primarily in the first and second quarters. We think that the fiscal impulse will be worth more than half a percentage point on GDP growth. Now, that's not any one huge item. It's a combination of many things hitting at the same time.

So exactly as you said, we have some new personal tax cuts, making good on trump promises. We have made the Tax Cuts and Jobs Act tax cuts a little bit more incrementally generous. There are some new business tax cuts. There are some spending increases in some areas. So the combined effect of all of that we think is worth a little more than half a percentage point on growth in the first half of the year.

Now, by the end of the year, that dies out to be roughly neutral. And at a next-year horizon, the spending cuts would dominate the impact, and we'd have a slightly net negative fiscal impulse.

Allison Nathan: Right. So a boost this year but a little bit of payback next year. Let's lastly talk about financial conditions. You see a continued easing of inflation in 2026 and, with it, lower interest rates. So how important will that be for economic growth?

David Mericle: We are making a neutral assumption about where financial conditions go from here. I think if we're right that inflation comes down and the Fed eventually feels comfortable delivering a couple more cuts, it's not obvious that should have a big impact on financial conditions because that's basically already priced by the bond market. And delivering on cuts that are already anticipated shouldn't necessarily move interest rates out the curve all that much.

What I would say, though, is we've had a big easing in financial conditions recently, led by an ongoing stock market rally. We think the impact of that occurs gradually over time, and so there is still a little bit of a growth boost, again, especially in the front half of the year from the past easing and financial conditions we've already seen.

Allison Nathan: And if we put this all together in terms of implications for the Fed, we are seeing growth holding up or we're expecting growth to hold up, but we think inflation's going to come down. The job market also will continue to slow, so ultimately what is that all going to mean for the Fed? Give us more. Build on what you just said.

David Mericle: Look, I think our higher conviction views are that growth will be stronger than consensus expects. We're going from tariff drag to a fiscal boost. And that supplemented by the easing in financial conditions we think will give us a year of solid roughly 2.5% GDP growth on a Q4-Q4 basis. We also are confident that inflation will continue to fall. I actually think we made quite a bit of progress in 2025. It was just masked by a bump in goods categories coming from tariffs, but that is a one-time price level effect. And if we're right that we don't get further tariffs then we would expect, at least by the end of the year, for the tariff bump to kind of drop out of the year-on-year rate and that ongoing progress that we've made as catch-up inflation has come to an end, as the labor market has rebalanced, for that to shine through a little bit more clearly.

Now, if we eventually get to a point where inflation, whether you look at it inclusive or exclusive of tariffs, kind of tells you the same story, that we're pretty close to the 2% target, I think that would be one thing that would help to resolve differences of opinion among different Fed officials. If you look at the December dots, there are no fewer than six different opinions about what the right stopping point is for the Fed Funds Rate.

I think the debate will range anywhere from, "We're already there; 3.5-3.75 is perfectly good," all the way to, "No, we should go another 100 basis points." Our forecast is that FOMC participants will compromise by meeting in the middle at about 3-3.25. That would be two more 25-basis-point cuts. So, yeah, I'd say the risks are probably tilted to the downside over the next year or two on a probability-weighted basis. Our views are dovish relative to market pricing, but for this year we think two is a pretty good guess.

Allison Nathan: So all in all, David, a pretty positive outlook for the US in 2026. What are the risks you're most focused on?

David Mericle: I would say a positive outlook in the sense that we expect solid growth and falling inflation, but the area of greatest uncertainty to our forecast is the labor market. We've been on a softening trend over the last half year-plus. We think that job growth is running too weak to keep up with labor supply growth, so the starting point is not very impressive. And increasingly, in recent corporate commentary from earnings season, we see a lot of chatter about layoffs and we see a pretty strong focus on finding ways to use AI to reduce labor costs.

Our baseline forecast is stronger final demand growth and reduced policy volatility on uncertainty should give a boost to hiring and that should be enough to stabilize the labor market. But I'm not certain about that, and if instead we see ongoing labor market softening, I think that could feel like a pretty different outcome for the US economy. And certainly it could mean a pretty different outcome for monetary policy. Then I think the case for rate cuts possibly earlier and larger would be a lot stronger.

Allison Nathan: So watch the labor market in the US.

David Mericle: I think that's right.

Allison Nathan: Thanks so much for joining me, David.

David Mericle: Thank you.

Allison Nathan: Now to China and Asia more broadly. Our forecast sees 4.8% growth in China in 2026, above the consensus view. But the picture in China is perhaps more complicated than in the US. To dig into it, I'm happy to welcome Andrew Tilton, our chief Asia Pacific economist and head of Emerging Market Economic Research at Goldman Sachs. Andrew, very good to speak with you.

Andrew Tilton: Thanks for having me.

Allison Nathan: So let's get right down to it. I want to break down our view on China into two parts. We have headwinds and we have tailwinds, so let's start with the headwinds. We know that the property downturn there is straining the economy, but how much is that really a drag at this point?

Andrew Tilton: It's been a major drag. We're in the fifth year of the property downturn in China. We estimate that through all the different channels through which the housing market affects the economy in China, not just the construction but also the impact on local government finances and spending, for example, that the property sector took almost two points off Chinese GDP growth in 2025. We estimate that drag to be smaller in 2026 but still almost 1.5 points. That drag will continue to fade but be material through 2027, in our view. So this has been a very important impact on China's overall growth trajectory.

Allison Nathan: And how important has that been to Chinese consumer demand? Obviously, property prices being a big component of the consumer.

Andrew Tilton: It's very important for the consumer directly because, with fewer home purchasers, there's fewer home-related items such as appliances, furniture, and so forth. But probably more importantly, because housing represents about two thirds of household wealth in China, so the 25-30% decline in home prices has had a major impact on household balance sheets. While the equity market has done better and been a nice offset, it's a much smaller component of household wealth, around 10% or a bit less. So much more significant is the decline in housing.

Beyond that, another challenge for consumer spending has been the soft labor market that's evident in weak hiring demand that we can see in the Purchasing Managers Indexes; high youth unemployment rate where we see employed people often keeping their jobs, but it's hard for new entrants to the labor market; and decelerating wage growth. Wage growth has slowed. So all of those things have contributed to a slower rate of consumer spending growth in China.

Allison Nathan: And you think that's set to continue in 2026?

Andrew Tilton: We do think that consumer spending growth will remain pretty muted. The potential upside is that there is a lot of saving. Official data in China suggests the saving rate is in excess of 30%, and there are huge amounts of household excess deposits, overall household deposits on the order of 100 trillion RMD. So there's a lot of funds there, but the challenge is how to convince households they don't need to self-insure as much.

Right now, they self-insure because the social safety net is relatively limited. So consumer spending, while we expect it to grow, we think the contribution to overall growth will remain fairly muted.

Allison Nathan: Okay, let's move on to the tailwinds. There are some very strong tailwinds. What are the biggest positive catalysts heading into 2026?

Andrew Tilton: The biggest tailwind in our view is the extraordinarily competitive manufacturing sector. Our equity analysts find 20-40% cost advantages over key global competitors in the number of mid- to high-tech sectors. And export volume growth from China has been well ahead of global growth or overall global trade growth, and so we're seeing China gain market share in global manufacturing over time.

We expect that to continue. We expect Chinese exports to grow five or 6% annually in volume terms over the next few years. And the link to that manufacturing success is technological development. China's seen very strong performance in sectors like batteries, electric vehicles, electronics, it's moving up the semiconductor supply chain, though clearly still behind the top global players, making progress in technological development in a number of different areas. And that success both in technology and manufacturing and exports creates a challenge for other Asian exporter-oriented economies, how to compete with China without a cost advantage, which is really challenging. You need a niche. For example, Taiwan producing high-end semiconductors, India service exports. Without those kind of differentiated export exposures, differentiated advantages, it will be very difficult for other economies in the region to grow goods exports, and we think they'll have to rely more on boosting their own domestic demand.

Allison Nathan: Well, let's spend a couple minutes talking about some of those other economies. Japan is an outlier in some respects. How do you see Japan's economy performing this year, especially in comparison to other economies in the region?

Andrew Tilton: Well, from a growth perspective, we think it will be fairly steady, just under 1% real GDP growth. That is typical, maybe even a little above average for Japan but slow relative to some of the fast-growing emerging markets in the region. This year, growth will be helped by slightly looser fiscal policy among other things.

Inflation is relatively high, certainly by Japanese standards. The headline inflation measures have been above the 2% Bank of Japan target but should be coming down this year. The core inflation measure that's comparable with global measures with other countries, ex-food and energy, is running just below two. So inflation, the headline measure's been a bit high but should be coming down.

The big difference with other regional economies is that most of them have been easing macro policy, whereas Japan will be tightening or at least tightening monetary policy. The Bank of Japan just raised rates to three quarters of a percent, 0.75%. That's the highest level in 30 years. And market yields, particularly government bond yields, have been moving significantly higher with Japanese government bond yields around the 2% range, actually above China government bond yields. So those are very different trajectories than we've seen in a lot of the rest of the region.

Allison Nathan: Andrew, thanks so much for joining us.

Andrew Tilton: Thanks. It was great to speak with you.

Allison Nathan: We touched upon China's powerhouse manufacturing economy. Now we'll explore how it impacts Europe with Jari Stehn, the chief European economist at Goldman Sachs. Jari, thanks for being here.

Jari Stehn: Great to be here. Thanks, Allison.

Allison Nathan: So Jari, let's follow that thread from China to Europe. How is this increasing competition from China exacerbating Europe's existing weaknesses? I'm thinking of its demographics, its regulatory picture, its energy costs, all of the weaknesses we've discussed before.

Jari Stehn: Yeah, so clearly as you say, Europe continues to struggle with these structural issues. High energy costs or high regulatory burden, high wage costs, and aging population and so on. It hasn't really done very much to improve the structural outlook. There's been little in terms of structural reforms. When you look at the Draghi Report, for example, only 11% of that has been implemented. There's been little done to improve scale and competitiveness across Europe. And I think this has really left Europe vulnerable to increasing export competition from abroad, particularly from China. And we see that Europe has already lost market share, particularly since COVID. China has picked up market share. And we expect that trend to continue as China doubles down on this export-led growth strategy.

Allison Nathan: But despite those headwinds, we still do expect to see growth in Europe and perhaps a bit more growth than consensus and expecting. So what are the bright spots that are driving you to be a bit more optimistic? We hear a lot in particular about the fiscal impulse in Germany. How does that factor in?

Jari Stehn: Yeah, that's right. I would highlight three drivers here of cyclical improvement for this year. The first and most important, as you say, is more expansionary fiscal policy in Germany. We expect public spending there to rise by about 2% of GDP over the next couple of years.

The second driver I would highlight is really fading trade tensions. We think Europe has by now digested most of the tariff increases from last year. We are seeing that kind of uncertainty around trade policy has receded. Our forecasts for growth in the rest of the world are quite constructive, and so we think that headwind from the global trade tensions is receding as we go through the year.

And then the last point I would highlight is the backdrop for consumption, which we think is constructive. We are seeing that inflation has fallen. The saving rate is high in Europe. Labor markets are resilient, particularly in the south of Europe. And we think this should support consumption as we go through the year. And so you're really looking at a picture where we're seeing cyclical improvement on the back of these drivers, but a structural drag related to the lack of competitiveness and this rising export competition with China.

Allison Nathan: And so where does that, on net, leave your growth forecast for 2026?

Jari Stehn: So it leaves us on net at 1.3% for the euro area for 2026. That's a bit better than last year. It's slightly above the consensus. When you look across countries, we see the biggest improvement in Germany where we are going essentially from years of stagnation to an above-trend growth pace on the back of those fiscal shifts, but that's also pretty well incorporated into consensus at this point. So our forecast here is actually only slightly above other forecasters.

Relative to consensus, we're most optimistic in the south of Europe. So Spain, Portugal, and Greece. The growth numbers there have continued to look strong, and we see a number of structural shifts -- immigration, public investment, and so on -- that we expect to continue to support growth there this year.

Allison Nathan: And how will the ECB then respond to all of these trends?

Jari Stehn: So we think there's little for the ECB to do here, and we have them on hold at 2% through the year. So this should be relatively uneventful. There are of course risks and scenarios where they might have to move rates. So if the growth outlook deteriorates, if we do not get this cyclical improvement, then they might have to cut again. In that case, probably more than once.

And, you know, on the other side, of course it's possible that towards the end of the year, if inflation proves sticky, they might have to turn to rate hikes. But we think the hurdle here is a little higher, and it would really require demand-led inflation in services and wages to be moving up for them to hike. So if you take that together, relatively uneventful with unchanged rates the most likely outcome.

Allison Nathan: Right. So ECB remains on hold, but it's actually quite a different picture for the BOE in your opinion. You expect three more cuts from the BOE this year. Talk us through why that is.

Jari Stehn: Yes, that's right. The fundamental picture in the UK is quite different. We have bank rate falling from 3.75% to 3% as we go through the year. And I would really highlight three factors here. First is that the unemployment rate continues to rise. The jobless rate is already up about a percentage point over the last year, and we see more upward pressure in coming months. One important aspect to watch here is the redundancy rate.

We're seeing signs that firing or job separations are beginning to move higher, and we think that will matter for the bank.

The second is that we're going to see a large improvement in inflation over the next few months. And then the last reason is that we still think that policy is restrictive. Our estimates are that a neutral rate is closer to 3%, maybe a little bit below, and we think the bank will lower rates towards that level through the year. But the exact timing of the rate moves is going to be quite sensitive I think to the data, so the conviction really is about the terminal rate, 3%, which is more dovish, significantly more dovish than what's priced. And we expect that to be reflected also in lower gilt yields and in lower sterling against the euro.

Allison Nathan: Jari, thanks so much for joining me.

Jari Stehn: Thank you.

Allison Nathan: And thanks to all of you for joining me on my tour with Goldman Sachs experts from around the world for the second part of our Outlook 2026 series. Thanks also to David Mericle from New York, Andrew Tilton from Hong Kong, and Jari Stehn from London.

Up next in our final special episode, we'll be talking to Goldman Sachs experts about our 2026 expectations for asset classes from equities to currencies to commodities. We hope you'll join us.

This episode of Goldman Sachs Exchanges was recorded on Wednesday, January 7th, 2026. I'm your host, Allison Nathan.

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