

SBI RESEARCH

US economy heading towards (un)exceptionalism?..... Trends indicate that the jump in US economy post COVID may have been an outlier because of policy extravaganza.... Long trends indicate possible downturn in US economy GDP growth along with slowdown in US exports and consumption...The overall US value add is showing declining trend with shrinking TFP growth....Net savings to GDP is also at the lowest level since 2011...India however stands to gain in an increasingly uncertain world of tariffs

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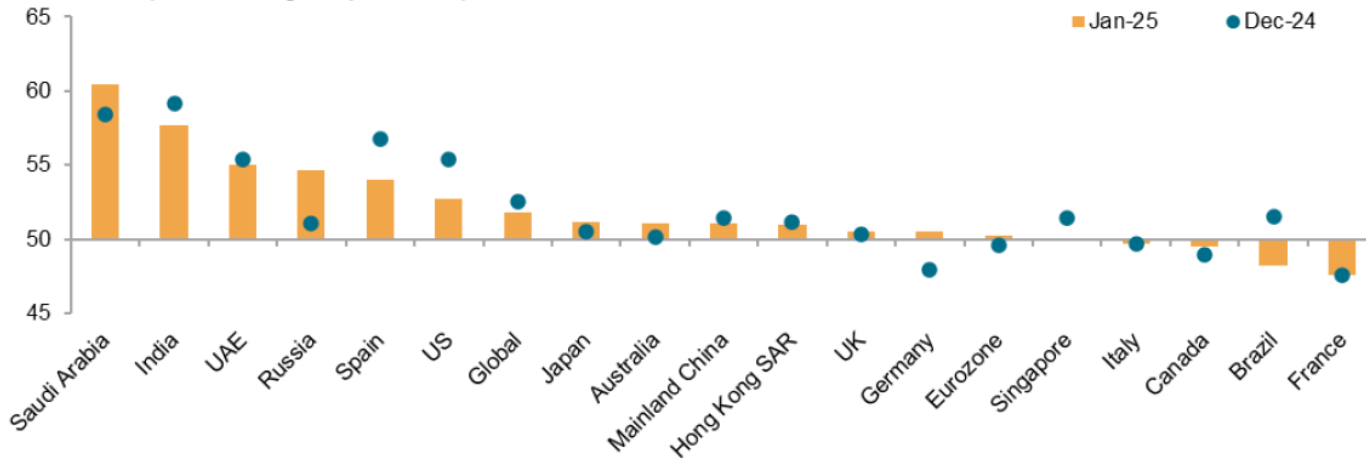
- ❑ Trends indicate that the jump in US economy post COVID may have been an outlier as a result of policy extravaganza.... Long trends indicate possible downturn in US economy GDP growth along with slowdown in US exports and consumption...The overall value add is showing declining trend with shrinking TFP growth.... High US wages could hold back new investment....Net savings to GDP is also at the lowest level since 2011... second lowest since 1951
- ❑ The US debt to GDP ratio shows a secular rising trend....ironically... the US currency showing strength show cyclical trends with falling peaks
- ❑ If the structural adjustment gains traction, then only US potential GDP trend can see a upward shift. The crowding in of the private sector that follows along with technical progress can add to growth prospects. **However, this adjustment will have short term costs and has lots of “if’s and buts”**
- ❑ After doling out stupendous returns, most markets including the US markets (M-Cap of S&P was hovering around \$52.9 Trillion as of Feb’25) are appearing to have run out of breath, trimming all intermittent gains as investors increasingly question earnings guidance against ‘pricing in’ of unebbing volatility.... The magnificent Seven (including NIFTY50) too are showing signs of crack after the Deep Seek phenomenon..
- ❑ Donald Trump's 25% tariff on all steel and aluminum imports have gone into effect on 13th Mar’25...India has a trade deficit for Aluminium (\$13 mn) and Steel (\$406 mn) trade with US.. **India can potentially take advantage...**
- ❑ The decline in exports from India to US could be in the range of 3-3.5% post reciprocal tariffs, if any... **which again should be negated through higher export goals across both manufacturing and services fronts**, as India has diversified its exports kitty, pitched value addition, exploring alternate areas and works on new routes that transcend from Europe to USA via the Middle-East, redrawing new supply chain algorithms

- As per PMI by S&P Global, global economic expansion slowed for a second successive month in March with decelerating services offsetting improvements in the goods producing sector
- Cost pressures intensified while employment and business optimism levels fell in February

Regional comparisons

S&P Global Composite PMI regional comparisons

S&P Global PMI (Purchasing Managers' Index) Output Index
Diffusion index (50 = no change on prior month)



Sources: S&P Global PMI with au Jibun Bank, Caixin, HCOB, HSBC, JPMorgan, Riyad Bank
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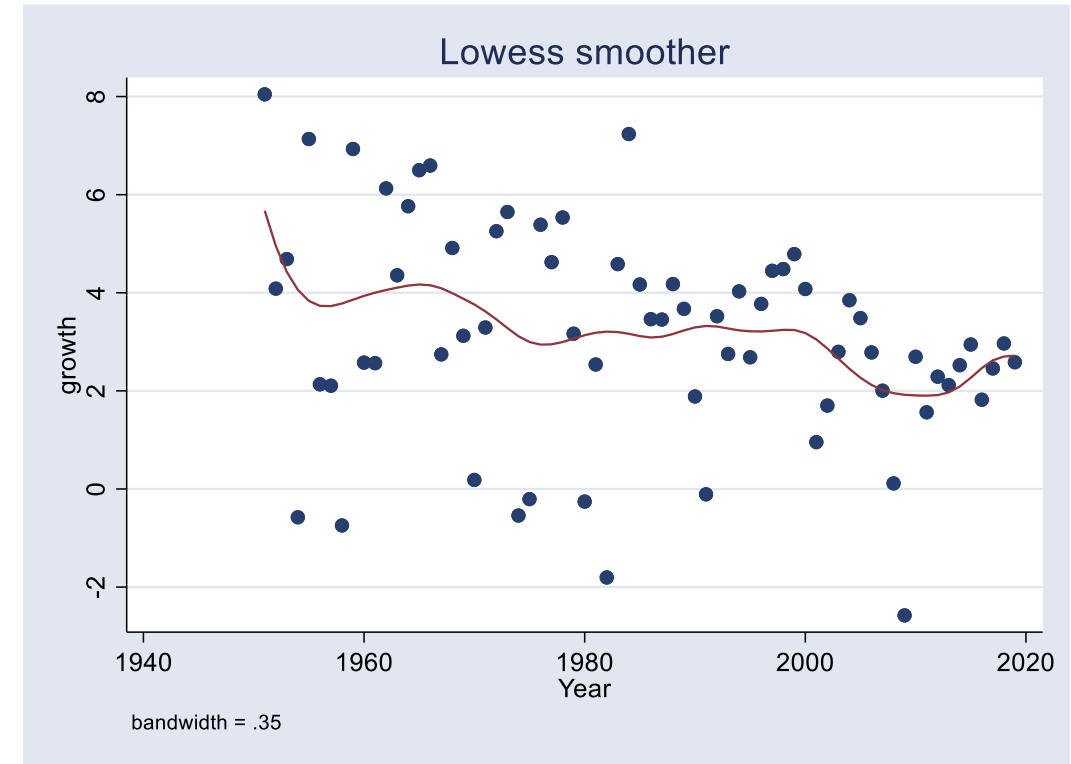
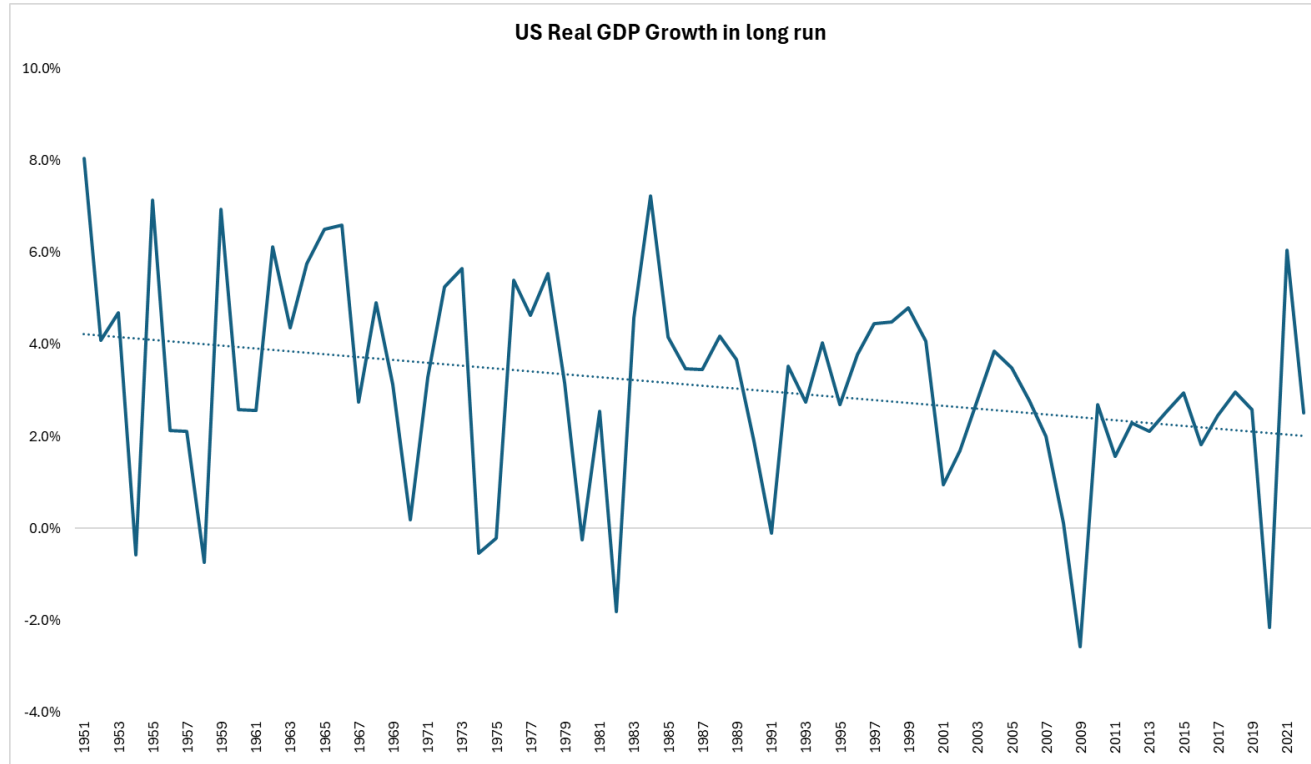
Global economic growth and the PMI



Data compiled March 5 including PMI data to February 2025.
PMI (Purchasing Managers' Index) value of 50 = no change on prior month.
Source: S&P Global PMI with J.P. Morgan, S&P Global Market Intelligence.
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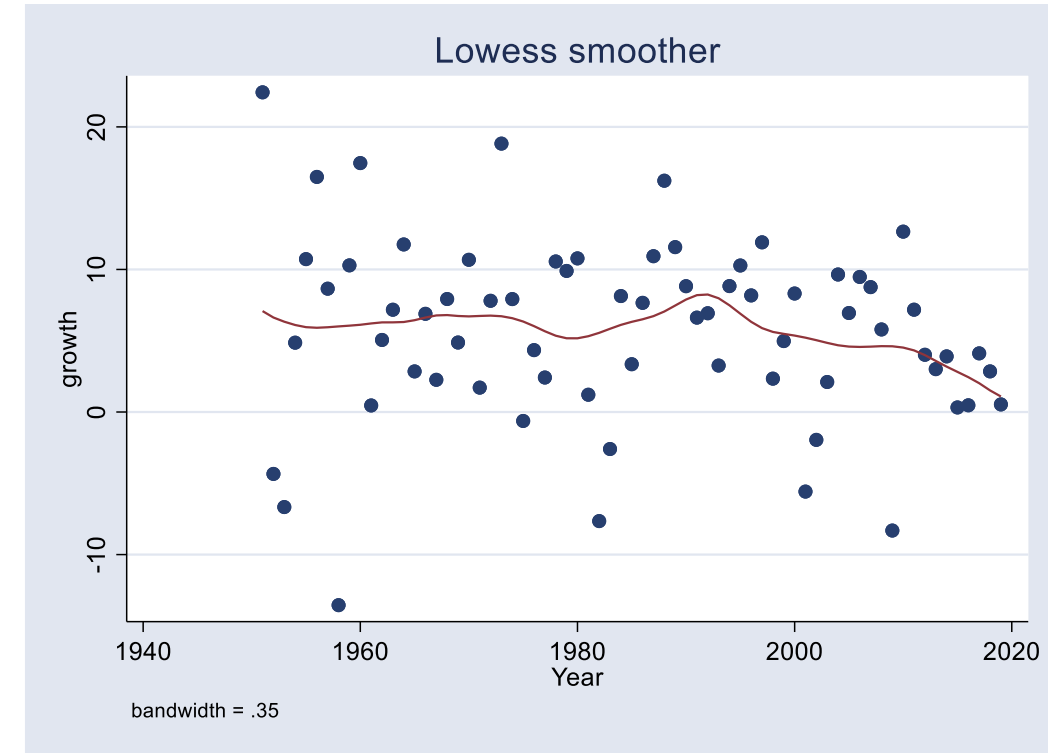
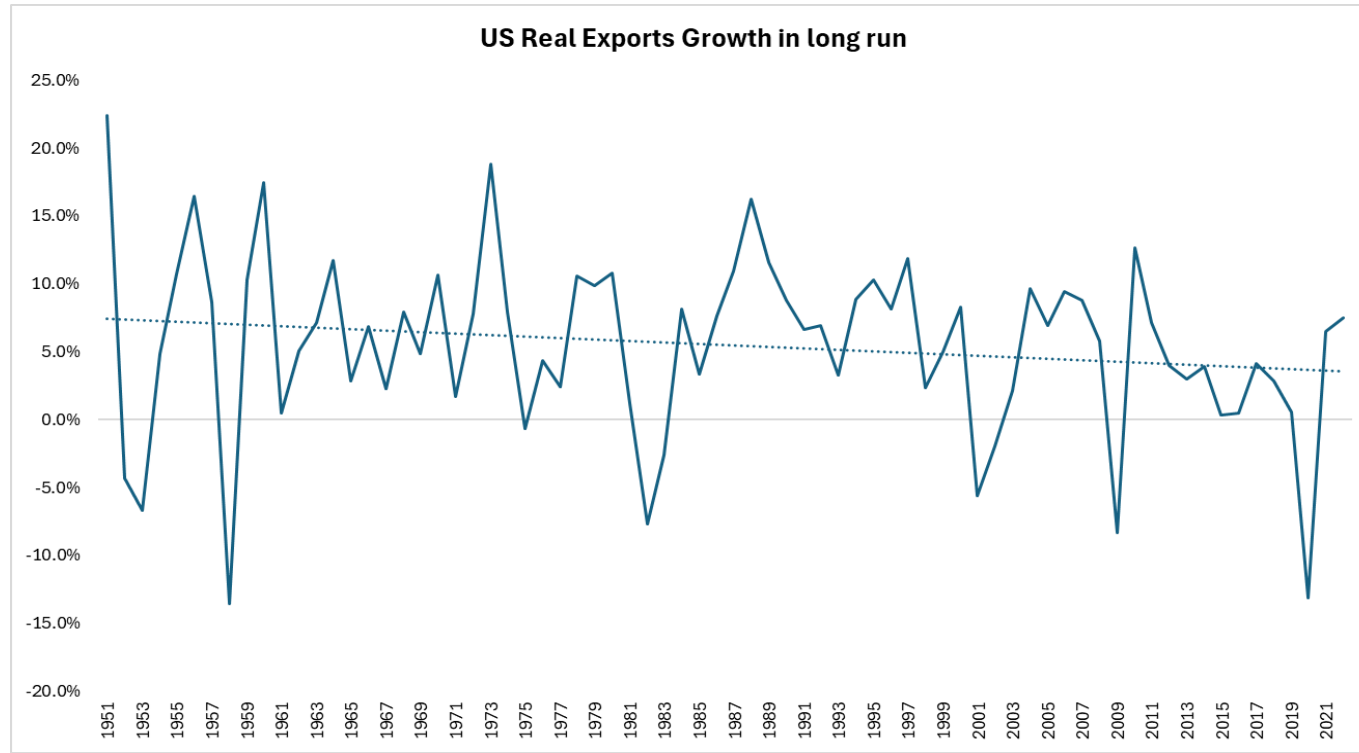
Plight of US Economy

Long term US GDP growth shows a declining trend, more pronounced after 2000

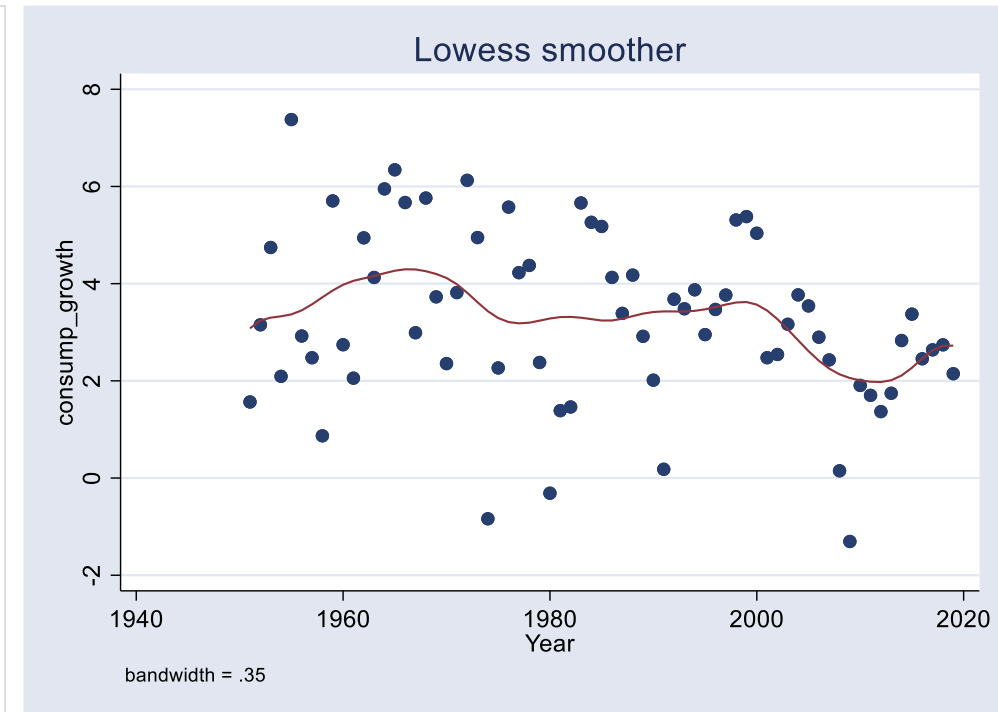
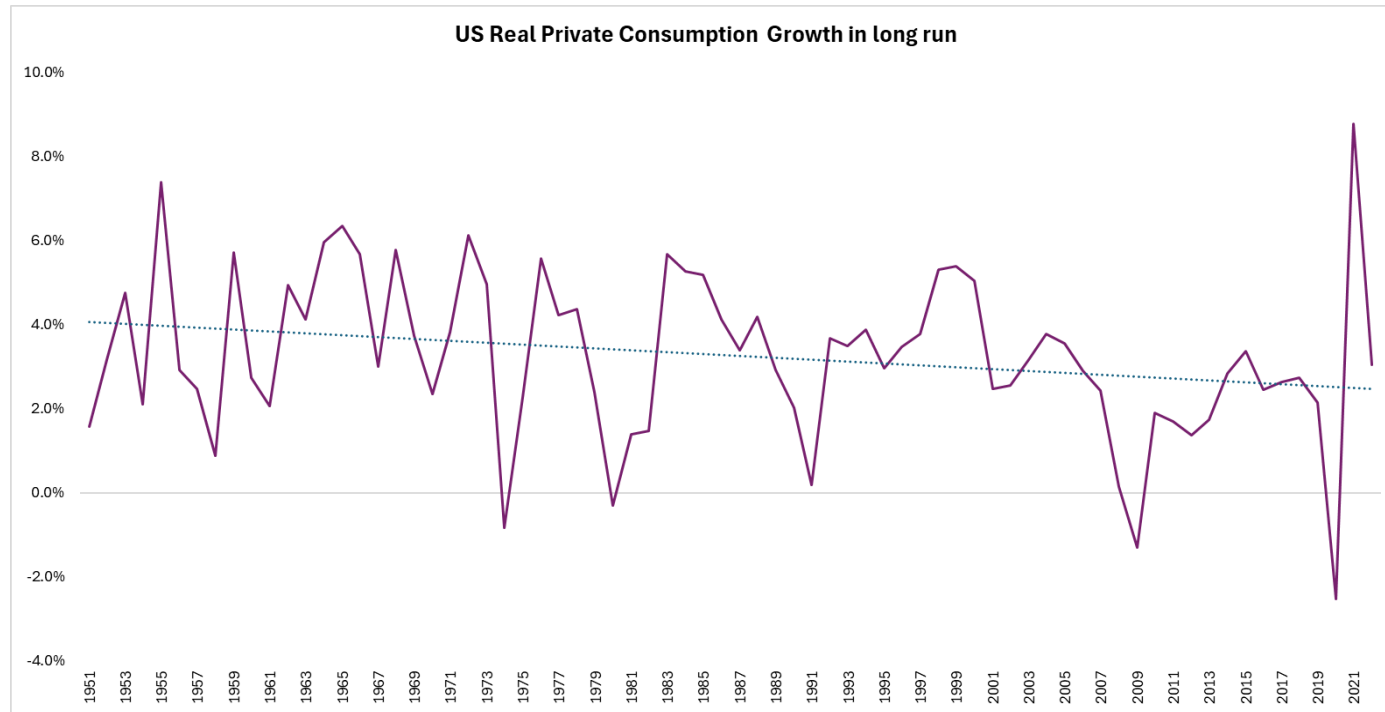


- ❑ Our estimated Lowess Smoother confirm the declining trend in US real GDP growth
- ❑ The trends indicate that the jump in US economy post COVID may have been an outlier as a result of policy extravaganza.... **Long trends indicate possible downturn in US economy**

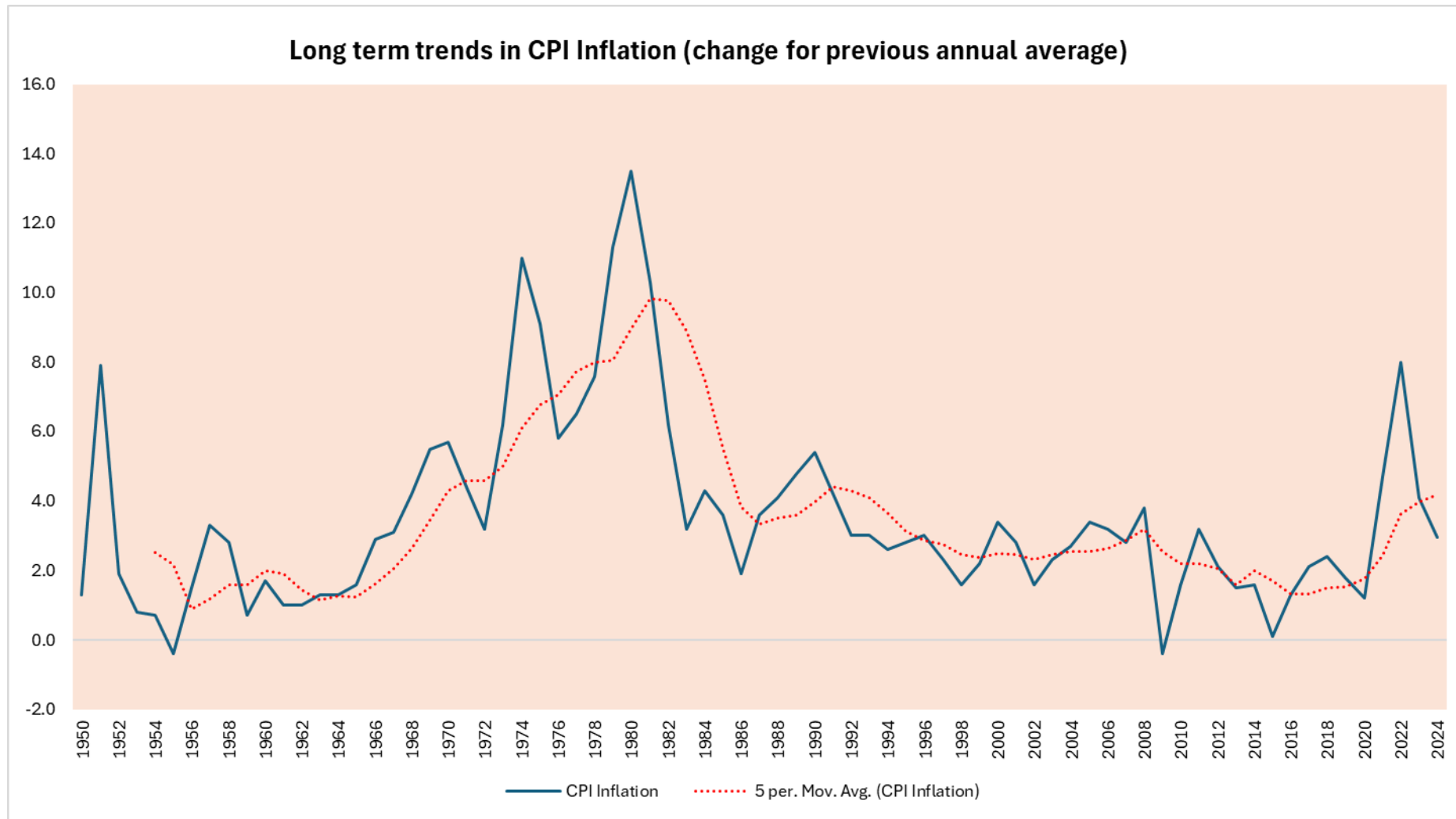
The long-term US export growth show declining trend after its peak in 1990s



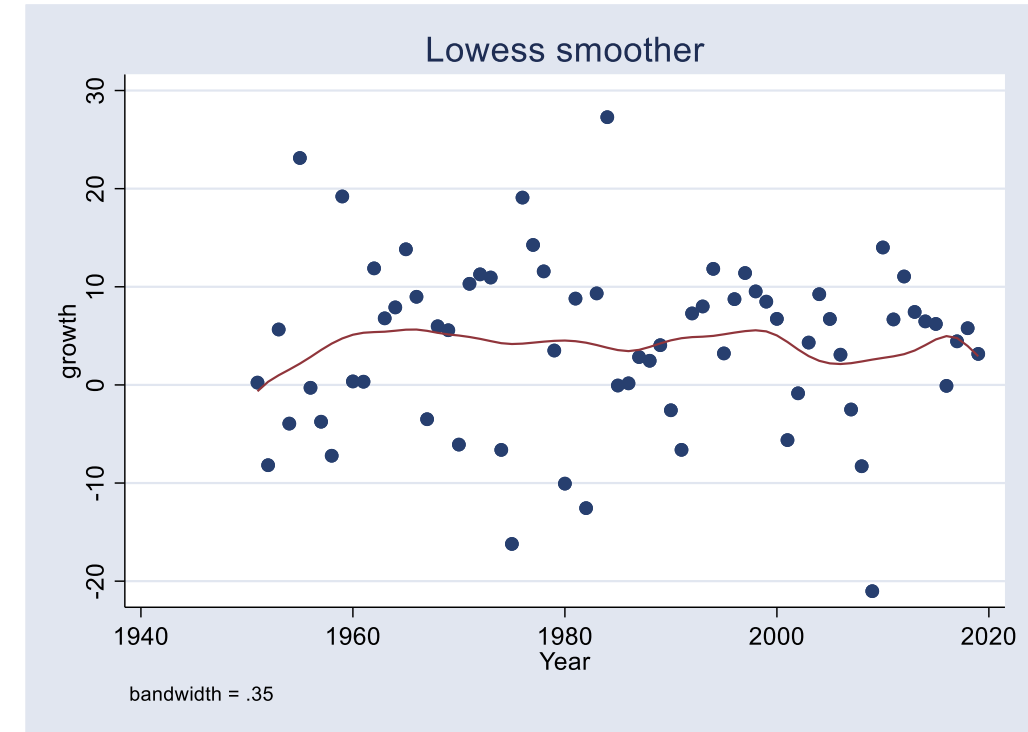
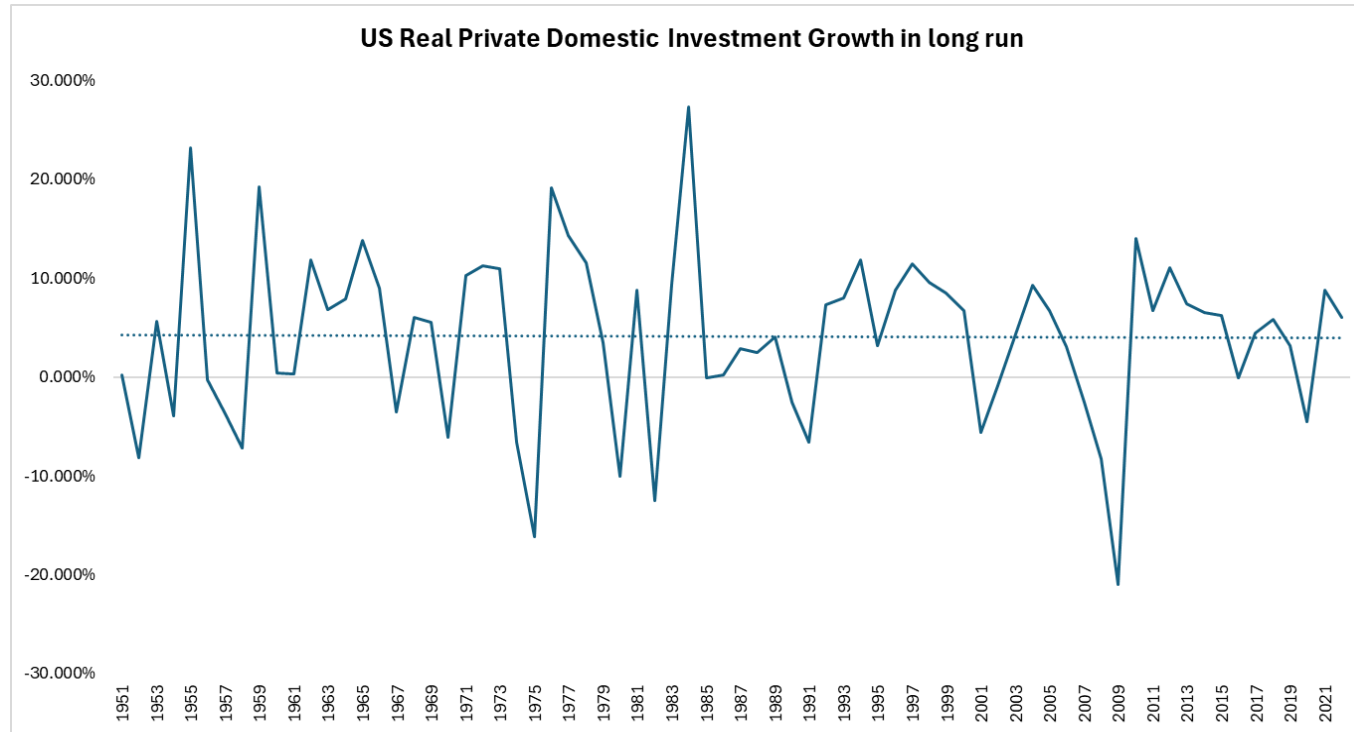
The US private consumption growth also declining since 2000.....



- ❑ The current momentum in consumption will also lose momentum if overall GDP growth slows down as expected

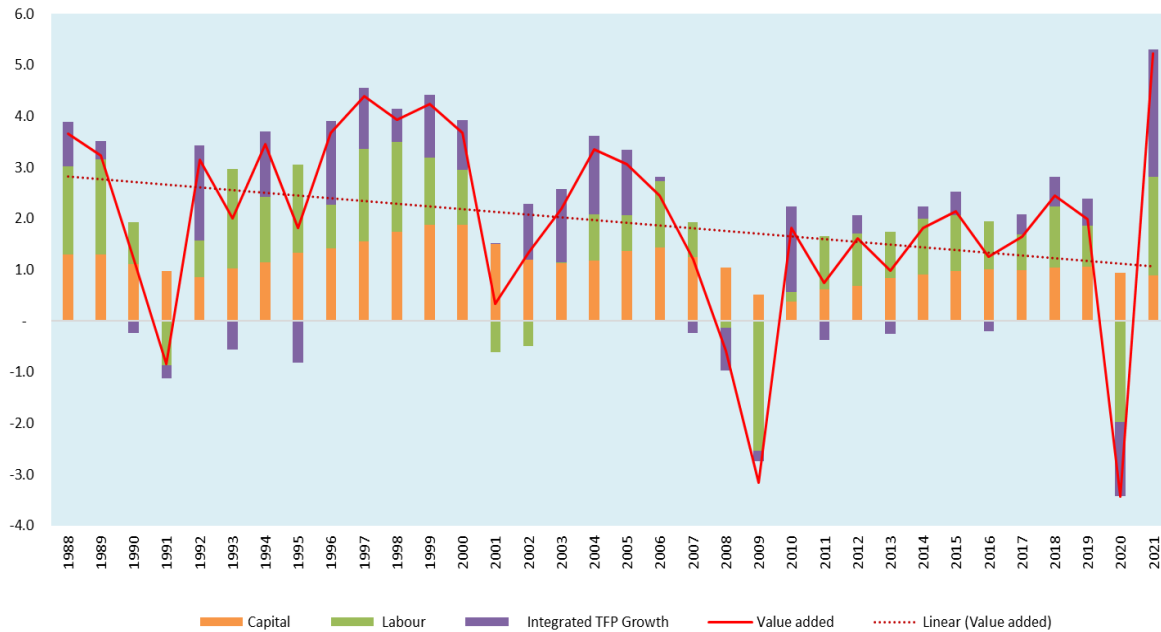


The real private investment has remained flat and is declining since 2020

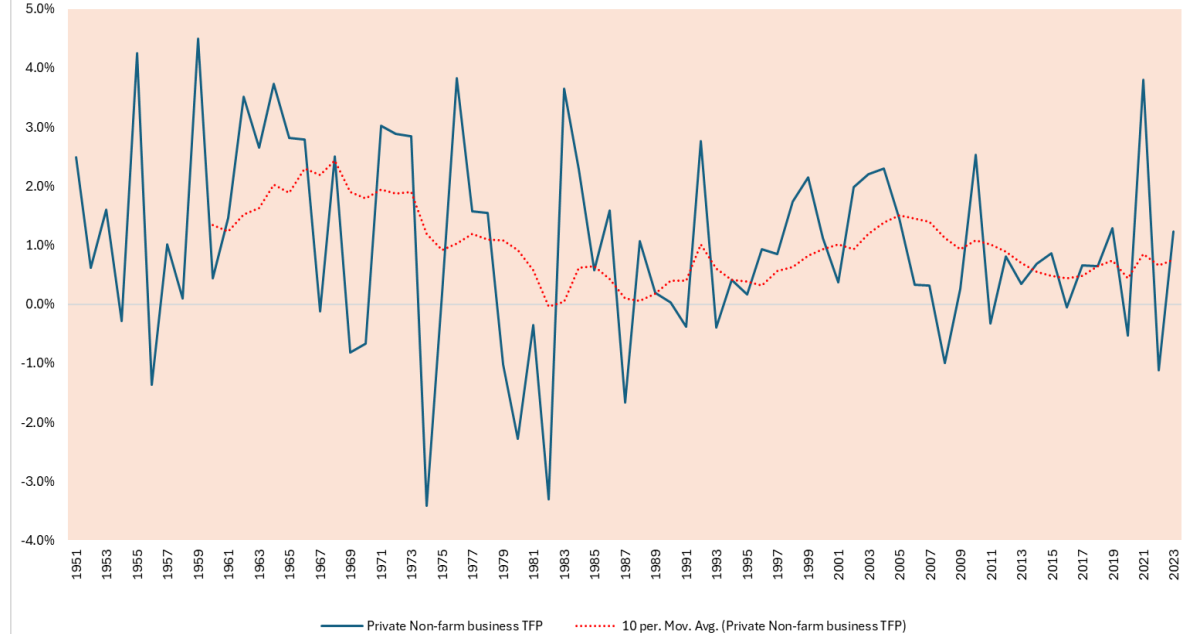


The overall value add is showing declining trend with shrinking TFP growth

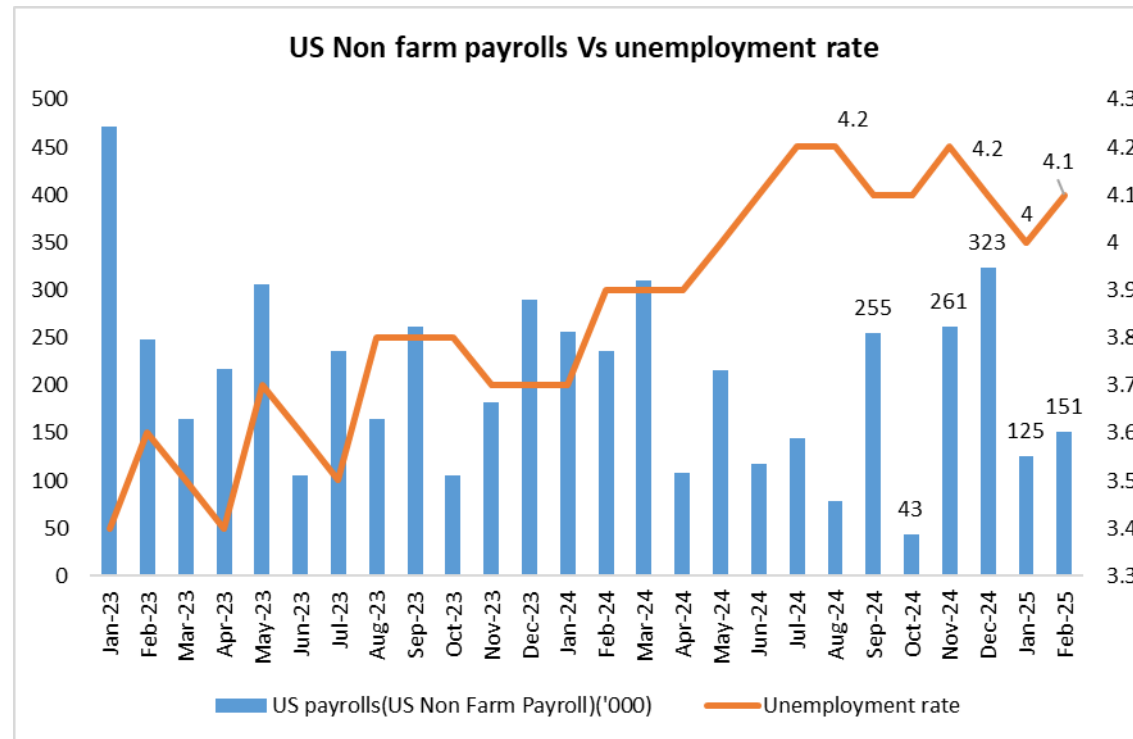
Contribution to Value added Growth



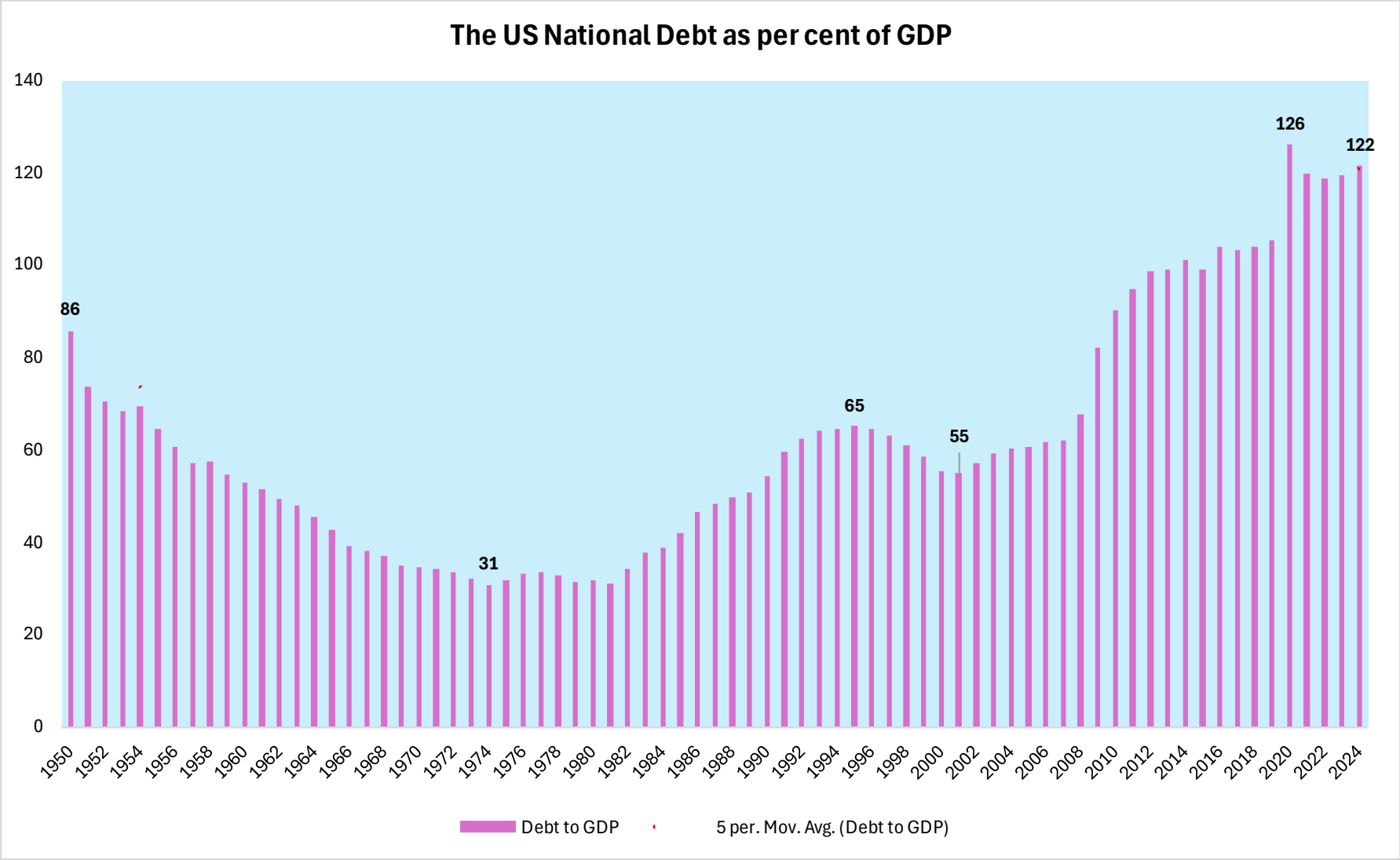
Private non-farm business total factor productivity

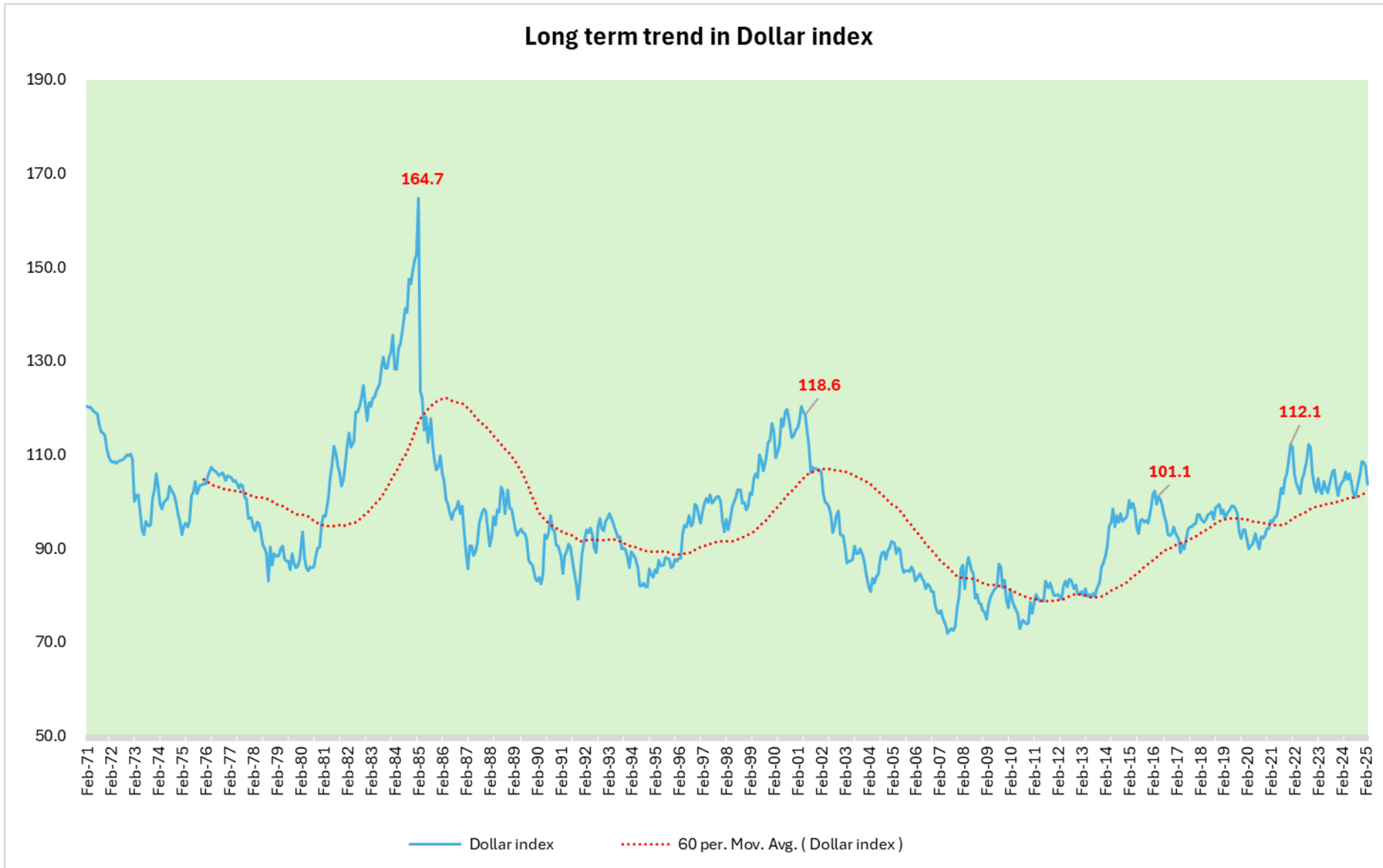


- ❑ NFP for Feb'25 showed addition of 1,51,000 jobs, a little lower than estimates (1,56,000) whereas the unemployment rate is moving in a tight zone around 4%..... Still, the Fed can be in a dilemma due to inflationary impact of tariffs that could impede economic growth
- ❑ Employer costs for private industry workers averaged \$31.47 per hour worked for wages and salaries and \$13.20 for benefits in December 2024. Employer costs in leisure and hospitality averaged \$16.25 per hour worked for wages and salaries and \$3.65 for benefits..... such high compensation costs can counter check trillions of investments being sought under the new political regime, in particular, in traditional manufacturing



The debt to GDP ratio shows a secular rising trend....



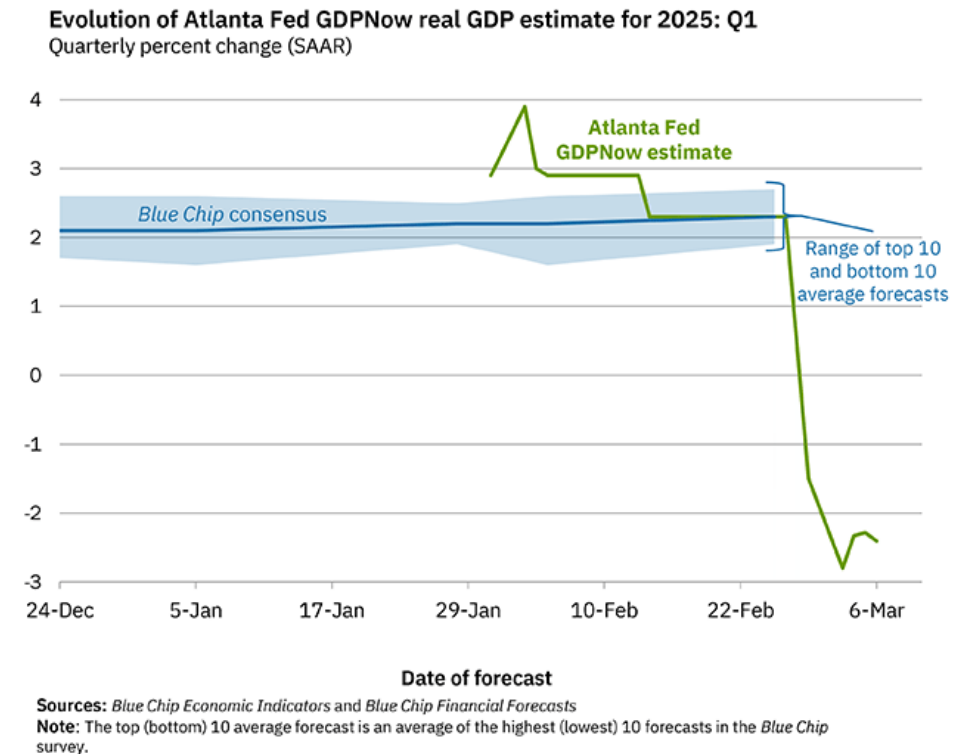
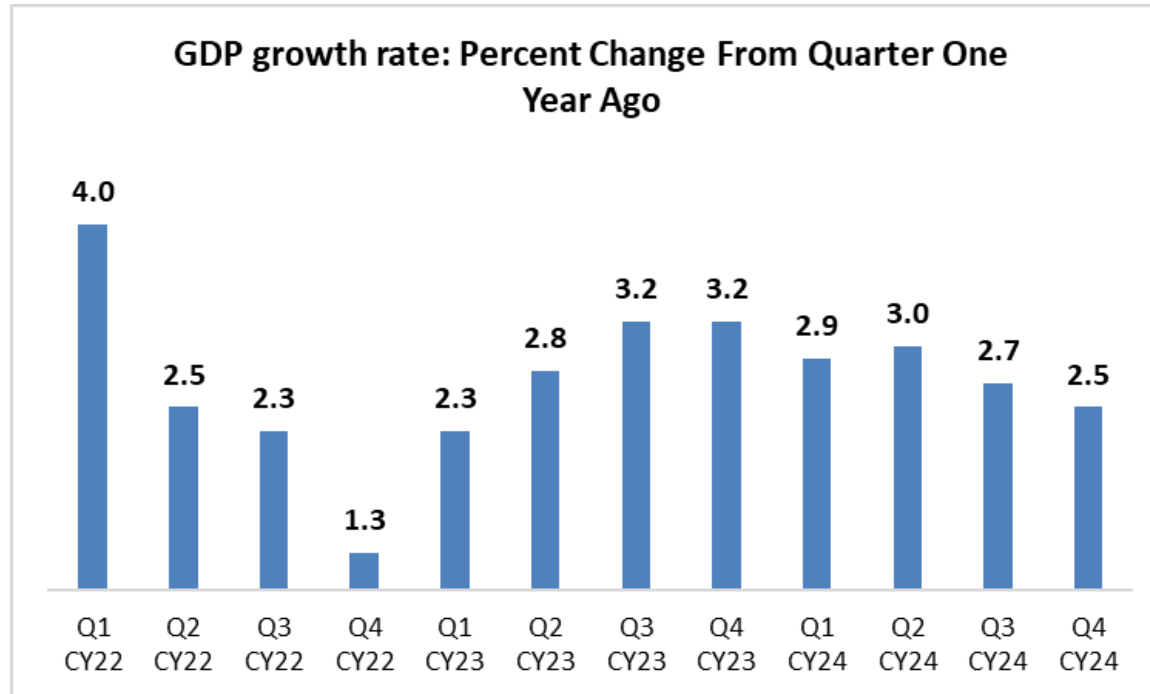


- ❑ The zealotry mission of departments like DOGE can “undo” a lot of ground works done in the previous decades, putting downward pressure on the beleaguered economy

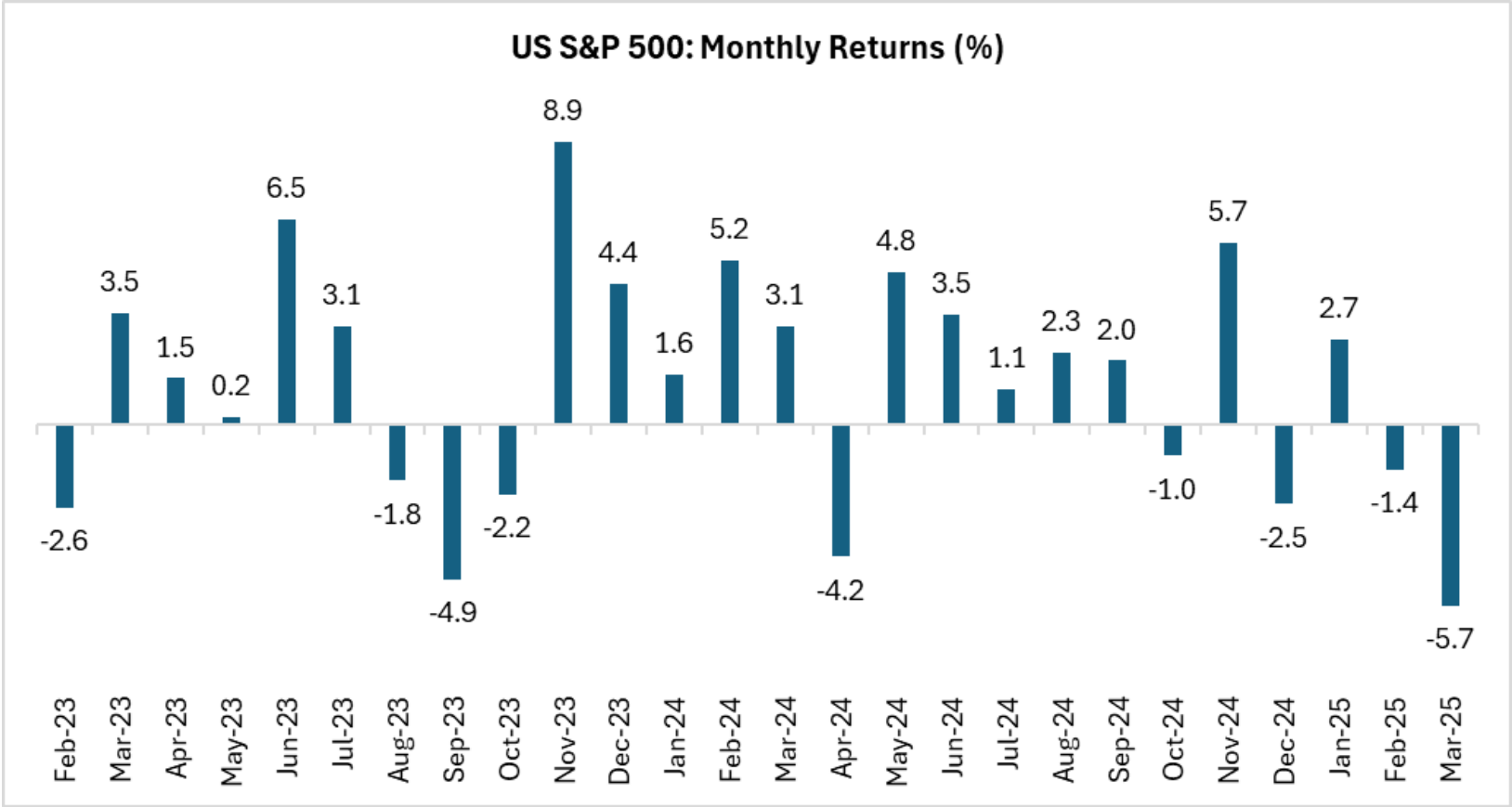


- ❑ The US economy long-term trends in GDP indicate decline in potential GDP, demand and investments
- ❑ The US indebtedness has sharply increased over the years, crowding out the private sector
- ❑ **Although high debt has not reflected in US dollar, which shows cyclical trends its strength has over the years has declined**
- ❑ **The current tariff policy will have short term pain and US GDP will not see acceleration in material way**
- ❑ The economic rational of US DOGE is evident from long-term term trends
- ❑ **If the structural adjustment gains traction, then potential GDP trend can see a upward shift. The larger national savings that come from exercise despite nominal improvement in productivity can still push the potential GDP up. The crowding in of the private sector that follows along with technical progress can add significantly to growth prospects. However, this adjustment will have short term costs**

- ❑ US economic growth is sliding in the last one year. From 3.2% in Q4 2023 GDP growth decelerated to 2.5% in Q4 2024
- ❑ The GDP Now model estimate from Atlanta Fed for real GDP growth (seasonally adjusted annual rate, running estimate) in the first quarter of 2025 is -2.4% on 06 Mar, down from +2.9% on 31 Jan (first estimate)



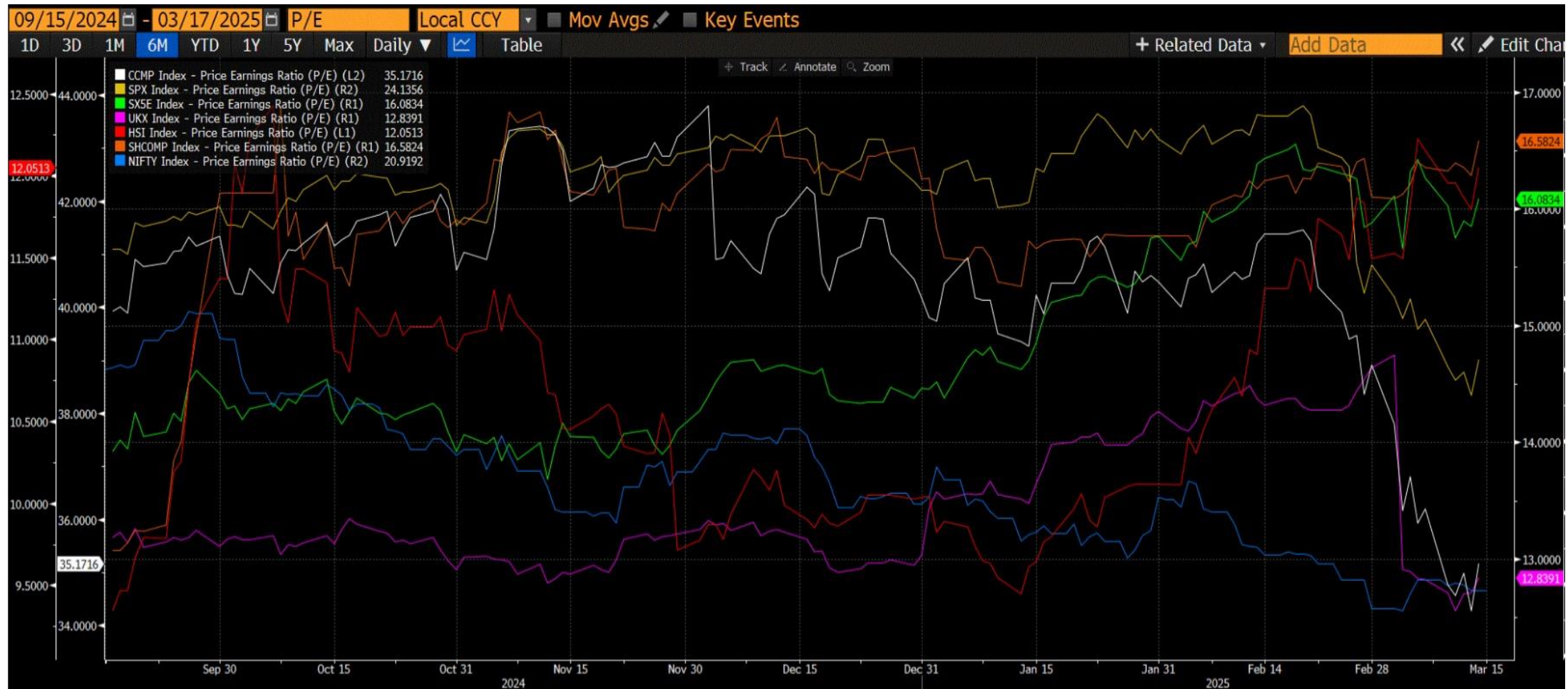
- ❑ The S&P500 has given up all its gains since the November elections and the monthly return for Mar'25 month are going to be lowest since Covid-19





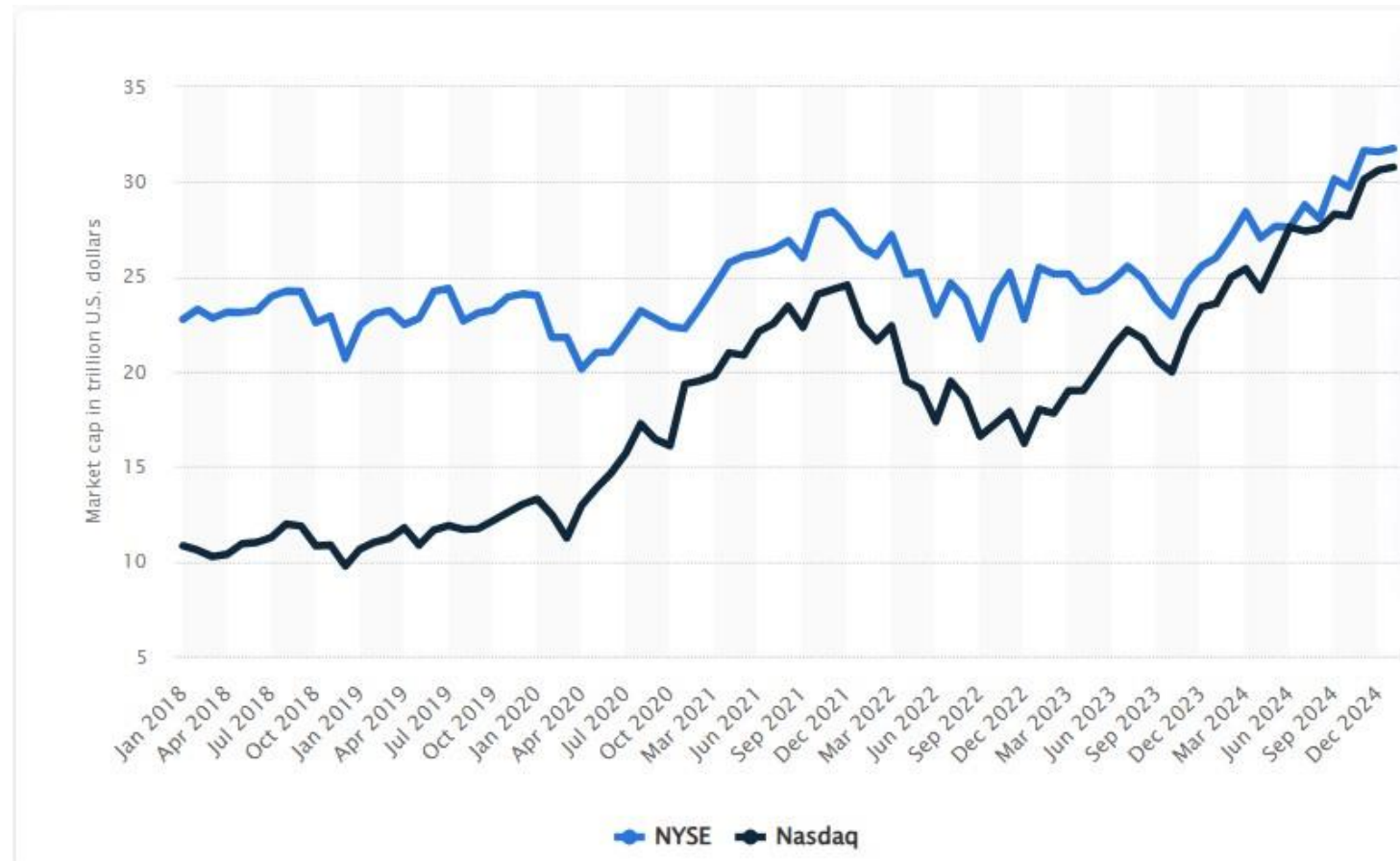
- ❑ After doling out stupendous returns, most markets including the US markets (M-cap of S&P is hovering around ~52.9 Tn (Feb'25)) are appearing to have run out of breath, trimming all intermittent gains as investors increasingly question earnings guidance against 'pricing in' of unebbing volatility.... The magnificent 7 too are showing signs of crack after Deep Seek phenomenon, with 'flight to safety' being questioned in sound stocks like Apple too!

P/E multiples are stretched for most markets, warranting a 'due' correction

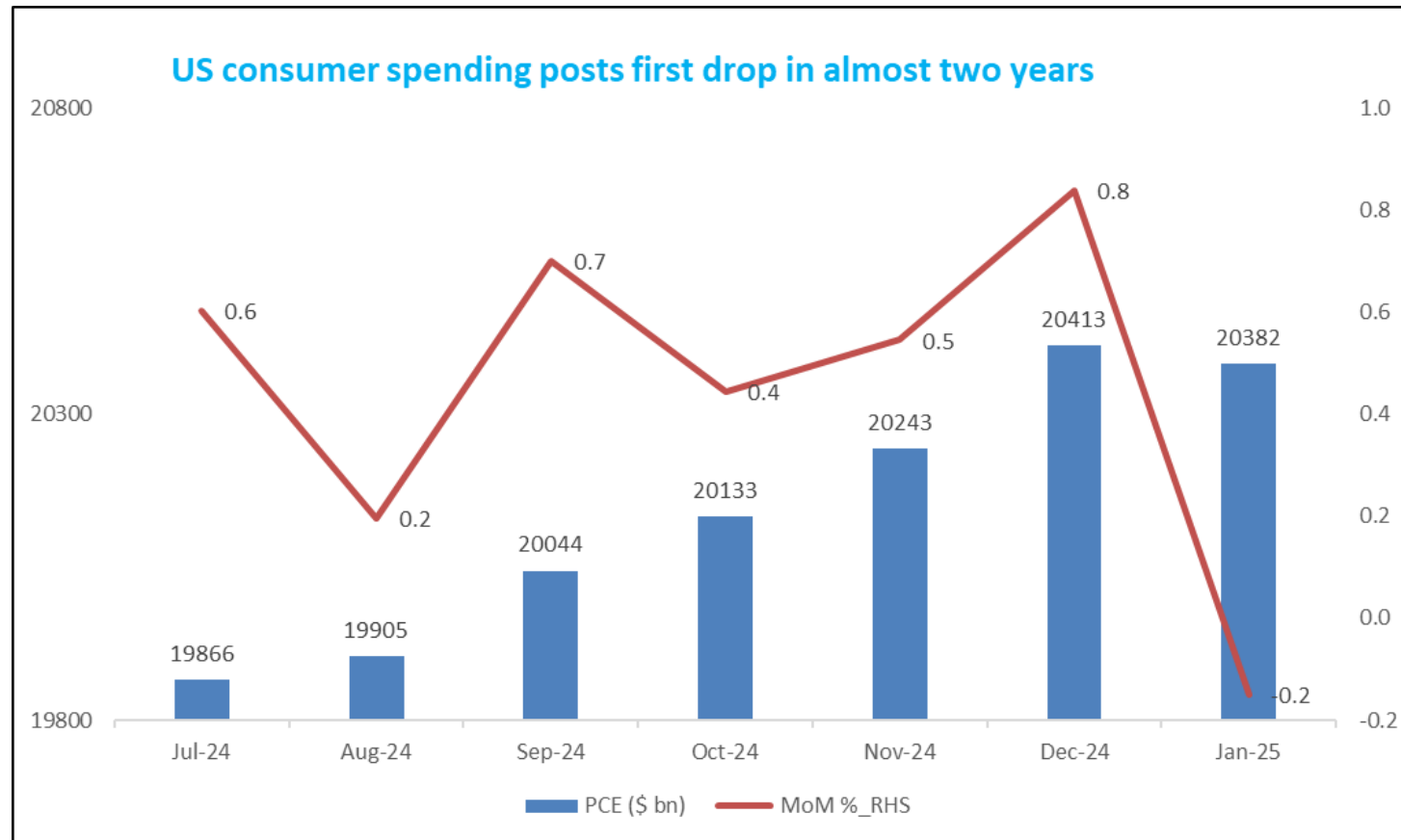


- Capital flows are increasingly being routed to jurisdictions that are relatively cheaper as returns hungry investors bay for higher returns there, all other things being (un)equal as heightened flows to mainland China / Hong Kong suggests... a strong likelihood of mean reversion for runaway markets is also not being ruled out.... The ongoing cycle of reciprocal, and retaliatory tariffs prepares a perfect breeding ground for the volatility laced downswings in coming periods

- ❑ The NYSE and the Nasdaq - the two largest stock exchange operators in the US - held a combined M-Cap for domestic listed companies of over USD 62 trillion as of January'25, with parity being approached in their sizes at ~USD 32 trillion and ~USD 30 trillion, in a sign of reversal of fortunes since early 2018 when their respective domestic M-Caps were ~USD 23 Tn and ~USD 11 Tn, the later buoyed by the galloping Technology majors' supremacy

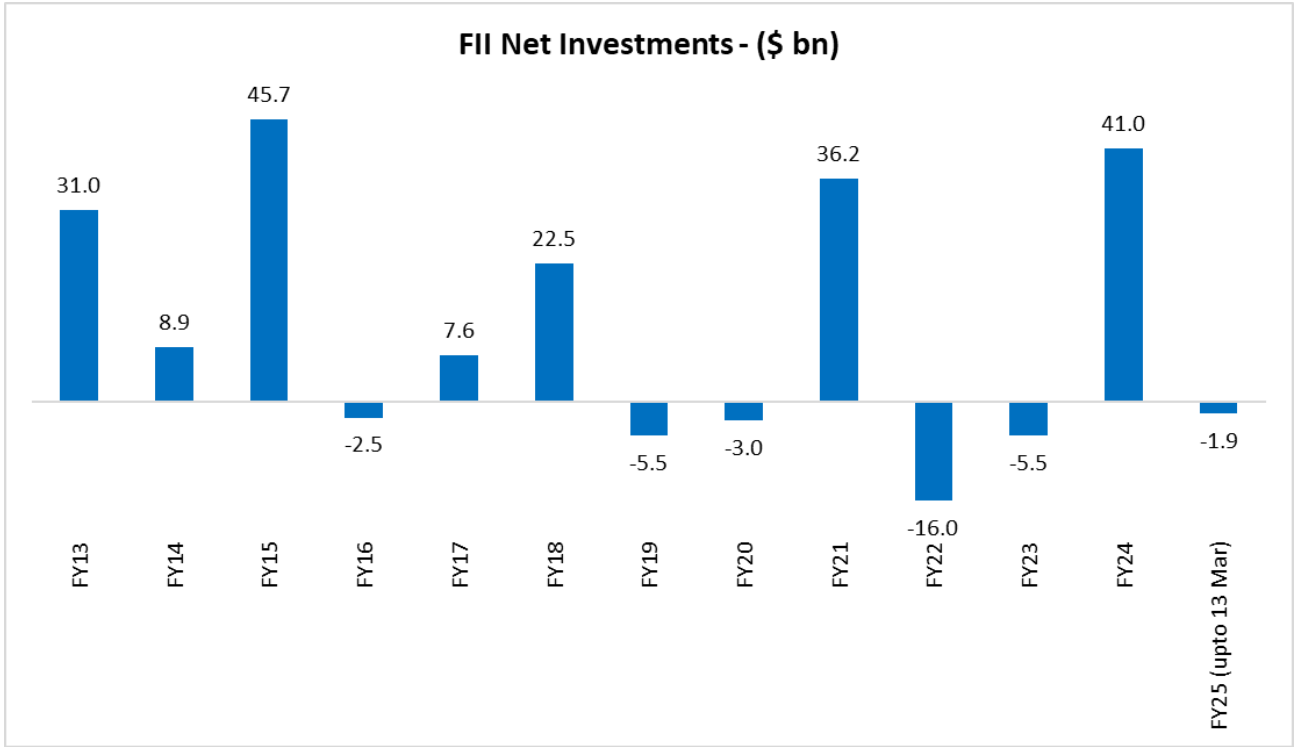


- Consumer spending fell for the first time in nearly two years in January and the goods trade deficit widened to a record high as businesses front-loaded imports to avoid tariffs, setting up the economy for weak growth or even a contraction this quarter



Resilience of Indian Economy

- While FY25 is expected to an FII outflow year, during FY24, India received FII inflows of \$41 billion, highest since FY16
- Sector wise data indicate that there are plethora of robust sectors which received inflows in last 3 FYs
- Only two sector exhibited continuously outflows in last three FYs



Sector wise Net FII inflows(\$ mn)			
Sectors	FY23	FY24	FY25 (Apr-Feb)
Sovereign	391	11305	10861
Telecommunication	171	2658	3907
Others	-260	5183	3574
Healthcare	2061	1983	2444
Realty	-76	1559	1813
Capital Goods	2136	5722	1346
Chemicals	173	-181	706
Information Technology	-6488	704	462
Textiles	-180	96	342
Services	1448	360	338
Utilities	23	-11	73
Forest Materials	103	-8	55
Diversified	-13	-44	53
Media, Entertainment & Publication	-305	-740	48
Metals & Mining	-27	-1021	-377
Consumer Durables	-1414	776	-454
Consumer Services	1375	3981	-594
Construction Materials	-120	722	-1479
Construction	912	-547	-1648
Power	91	714	-2155
Automobile and Auto Components	1275	3635	-3723
Fast Moving Consumer Goods	2118	198	-3725
Financial Services	-4169	4701	-5982
Oil, Gas & Consumable Fuels	-4696	-703	-6975
Grand Total	-5472	41041	-1107

- ❑ India has been talking about free trade agreements with several partners – both bilateral and regional – in a bid to boost export-oriented domestic manufacturing.
- ❑ These FTAs cover a wide array of topics, such as tariff reduction impacting the entire manufacturing and the agricultural sectors; rules on services trade; digital issues such as data localization; intellectual property rights that may have an impact on the accessibility of pharmaceutical drugs; and investment promotion, facilitation, and protection
- ❑ India has signed 13 FTAs in the last five years with its trading partners like Mauritius, UAE, Australia, etc.
- ❑ India is negotiating FTAs with the UK, Canada, and the EU, targeting sectors like services, digital trade, and sustainable development. The FTA with the UK alone is expected to increase bilateral trade by \$15 billion by 2030. Future FTAs will likely focus on enhancing digital trade, with projections indicating that the digital economy could add \$1 trillion to India's GDP by 2025
- ❑ The shift towards regional supply chains and the impact of geopolitical changes, such as US tariff war are influencing India's FTA strategies to ensure alignment with global trade dynamics

- ❑ Donald Trump's 25% tariff on all steel and aluminum imports go into effect on 13th Mar'25
- ❑ US imports of steel and aluminum have shown an upward trend despite the trade war beginning in 2018
- ❑ Primary steel imports reached \$31 billion in 2024, showing an increase from \$29.5 billion in 2018
- ❑ Major steel suppliers are Canada, Brazil and Mexico
- ❑ Major aluminium suppliers are Canada, China and Mexico
- ❑ India has a trade deficit for Aluminium (\$13 mn) and Steel (\$406 mn) trade with US.. India can potentially take advantage...

US Iron and Steel Imports from top 10 countries(\$ mn)				
	2018	2024	% share in 2018	% share in 2024
Canada	5702	7594	19.3	24.2
Brazil	3106	4677	10.5	14.9
Mexico	2202	3183	7.5	10.1
South Korea	1543	1836	5.2	5.9
Germany	1221	1454	4.1	4.6
Japan	1104	1163	3.7	3.7
Taiwan	793	1048	2.7	3.3
Vietnam	727	983	2.5	3.1
Netherlands	621	809	2.1	2.6
Trinidad and Tobago	563	624	1.9	2.0
Total	29553	31374	100.0	100.0
Memo:				
China	656	492	2.2	1.6
India	293	456	1.0	1.5
Source:US Official Website of the International Trade Administration				

US Aluminum imports from top 10 countries (\$ mn)				
	2018	2024	% share in 2018	% share in 2024
Canada	8170	11372	34.8	41.4
China	2857	2876	12.2	10.5
Mexico	1183	1827	5.0	6.7
United Arab Emirates	1503	1195	6.4	4.4
South Korea	319	928	1.4	3.4
India	696	780	3.0	2.8
Bahrain	669	695	2.9	2.5
Colombia	215	654	0.9	2.4
Germany	660	593	2.8	2.2
Argentina	444	495	1.9	1.8
Total	23463	27442	100.0	100.0
Source:US Official Website of the International Trade Administration				

US Iron and Steel Exportsto top 10 countries(\$ mn)				
	2018	2024	% share in 2018	% share in 2024
Mexico	4616	7055	28.0	36.0
Canada	4601	4779	27.9	24.4
Turkey	1099	1764	6.7	9.0
India	509	862	3.1	4.4
Bangladesh	295	658	1.8	3.4
Taiwan	770	468	4.7	2.4
Thailand	220	439	1.3	2.2
Pakistan	225	406	1.4	2.1
China	556	319	3.4	1.6
Italy	188	259	1.1	1.3
Total	16488	19590	100.0	100.0
Source:US Official Website of the International Trade Administration				

US Aluminum export to top 10 countries (\$ mn)				
	2018	2024	% share in 2018	% share in 2024
Mexico	4390	4162	34.9	28.9
Canada	3252	3210	25.8	22.3
Malaysia	297	1299	2.4	9.0
South Korea	617	806	4.9	5.6
India	361	793	2.9	5.5
Thailand	61	759	0.5	5.3
Japan	341	404	2.7	2.8
China	1009	385	8.0	2.7
Hong Kong	100	337	0.8	2.3
France	195	225	1.6	1.6
Total	12581	14412	100.0	100.0
Source:US Official Website of the International Trade Administration				

- We estimated the decline in exports in the range of 3-3.5% which again should be negated through higher export goals across both manufacturing and services fronts, as India has diversified its exports kitty, pitched value addition, exploring alternate areas and works on new routes that transcend from Europe to USA via the Middle-East, redrawing new supply chain algorithms

India's top 10 items import from US (Apr-Dec FY25)				
6 digit HS code	code	\$ mn	% share	MFN tariff rate
270900	Petroleum Oils and Oils obtained from Bituminous Minerals Crude	4957	14.2%	5.0%
270119	Other Coal	2533	7.2%	5.0%
271111	Liquified Natural Gas	2229	6.4%	2.5%
710239	Diamonds whether or not worked, Others	1900	5.4%	10.0%
710812	Gold (Other Unwrought Forms)	1774	5.1%	10.0%
890120	Tankers	1019	2.9%	10.0%
880240	Aeroplanes and othr aircraft, of an unladen weight exceeding 15000 Kg	1017	2.9%	2.5%
80211	Almonds frsh or dried in shell	707	2.0%	Rs 4.2/kg
760200	Aluminium waste and scrap	684	2.0%	2.5%
271311	Petroleum coke not calcined	681	1.9%	10%
Source: Ministry of commerce and industry, Indian trade portal				

India Vs US tariff comparison	
Indian imports from US	Simple average MFN applied
All products	13.70%
Agricultural products	40.60%
Non-agricultural products	11.60%
US imports from India	Simple average MFN applied
All products	3.70%
Agricultural products	6.60%
Non-agricultural products	3.40%
Source of data: WTO IDB, Trade Data Monitor	

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Contact Details:**Dr. Soumya Kanti Ghosh**

Group Chief Economic Adviser
State Bank of India, Corporate Centre
Nariman Point, Mumbai - 400021

Email: soumya.ghosh@sbi.co.in
gcea.erd@sbi.co.in

Phone: 022-22742440

 : @kantisoumya