

Inflation Focus Q4

11 December 2025



Key Points

- Inflation is well-behaved globally but divergent, with tariff pass-through evident
- Growth should remain resilient despite tariff headwinds, supported by tech investment and fiscal spending
- Labour markets are weakening, helping to contain wage growth and services inflation
- The global rate cutting cycle has further to run, but prospects for further rate cuts are limited

The global economy is resilient, with growth at a trend-like pace

The global economy has been remarkably resilient, with growth at a trend-like pace despite tariff headwinds. Activity is supported by monetary easing, expansionary fiscal policy and robust tech related investment. US tariffs have landed at levels close to the election pledges but well below the 'liberation day' announcements, with retaliation largely avoided. While tariffs are a headwind for the global economy, the US-China trade truce has been critical for avoiding more disruptive developments, including around inflation.

Benign goods inflation globally, but divergent trends

At a global level, inflation has moved largely sideways over the last quarter, but with divergences between the US and the rest of the world. Due to the government shutdown, US inflation data are only available until September. At that time, modest tariff pass-through was still underway, with upward price pressure on goods with high import content, including household goods, apparel, and car parts and repairs. Importantly, there was little evidence of spillover to prices more broadly. Survey data indicate that these trends have continued in Q4.

By contrast, goods inflation has ticked lower in the rest of the world, in part reflecting persistent over-capacity in China, and downward price pressures in global supply chains as exporters to the US have been forced to cut prices. Pricing weakness has been most marked in the auto sector, which suffers from weak demand and a glut of supply, while regional weakness has been driven by Asia.

Services inflation should slow amid a softer labour market

Services inflation is still elevated and even ticking higher in the US and the Eurozone. This is happening despite a weaker labour market and persistently downbeat consumer sentiment, and in spite of a tailwind from falling housing-related services inflation. Looking forward, we continue to expect services inflation to grind lower as unemployment is ticking higher and job security has fallen. The softer labour market dynamics are also visible in slowing wage growth, particularly in the Eurozone and the UK.

Slowing services inflation in combination with soft goods prices underpin our view that inflation should remain contained in 2026, grinding lower in most regions while moving sideways in the US. The risk to this view is that, with global growth close to trend, labour markets and consumption hold up better than expected, leading to further stickiness on the services side.

Fiscal spending provides an upside risk to inflation

2026 will be a year of fiscal expansion in the US and Europe as well as Japan and China. While this is a key reason why we expect growth to hold up reasonably well, there is a risk that this adds to price pressures and labour market tightness, especially against the backdrop of rapidly weakening demographics. While the US-China trade truce should help to avoid bottlenecks around the supply of critical components and keep global trade and supply chains open, accelerated spending on tech and infrastructure investment could trigger pockets of higher inflation.

Low oil prices provide an anchor, despite rising electricity prices

The price of oil remains subdued, down 15% compared to one year ago, which is helping to anchor price pressures globally. In the US, however, a new energy trend is emerging, as the rapid buildout of AI infrastructure has triggered a surge in electricity demand and rapidly rising electricity prices, despite weak oil prices. The direct impact of this on consumer prices has been limited so far, given the relatively low share of household spending that goes to electricity. However, rapidly rising electricity prices could potentially trigger broader based price pressure in the future, if capacity does not adjust. Of course, the AI build-out should also help to contain inflation if it proves to boost productivity and reduce production and labour costs.

Central banks need to remain vigilant

The global rate cutting cycle has further to go, but prospects for additional policy easing are limited, with interest rates generally deemed to be approaching what would be considered a neutral level. While unemployment has begun to rise, the pace of labour market deterioration is not worrying, with recessionary concerns muted. Financial conditions are supportive, and inflation is still tracking above target in many regions. As a result, central banks need to remain vigilant, refraining from easing policy significantly further as long as growth holds up. The Bank of Japan is a key outlier, where further rate hikes are likely to be forthcoming.

<p>US Inflation rates are expected to fall from elevated levels</p>	<p>Due to the government shutdown, US CPI data are only available until September. At that point, headline CPI had risen to 3.0% YoY, up from a low point of 2.3% earlier in the year. Core CPI was also 3.0%, a tick down from the prior month. Tariffs have left their mark in certain segments of goods prices, but stubbornly high services inflation throughout 2025 is the main reason that overall inflation has not moved closer to the Fed's target. Services strength can partly be explained by sector-specific outliers like healthcare and financial services, but business surveys, including the ISM, continue to reflect broader-based price pressure. Looking forward, it is a promising signal that services inflation has slowed markedly according to the latest ISM report, though it remains elevated.</p> <p>Reassuringly, longer-term inflation expectations have receded in the second half of 2025, indicating that market participants are not particularly worried about the long-term impact of tariffs, fiscal stimulus or a more dovish Fed. A weaker labour market should help to keep a lid on wage growth, mitigating a potential inflation risk, while the fading impact of the tariff surge will weigh on goods prices later in the year. Meanwhile, shelter inflation should continue to fade as indicated by more modest home prices and rental inflation.</p>
<p>UK Inflation will gradually move towards the BoE's target</p>	<p>Headline inflation slowed to 3.6% YoY in October from 3.8% the month before while core inflation ticked down to 3.4%. Service prices remain a crucial driver of inflation with services inflation still at 4.5% YoY in October, only a modest slowdown compared to September. Inflation is projected to ease further in 2026, moving closer to the Bank of England's 2% target as price pressures unwind and domestic cost growth normalises.</p> <p>Wage growth remains above historical averages, however, contributing to persistent cost pressures in labour-intensive service sectors. Nevertheless, the cooling of labour demand has started to temper wage pressure, which will allow the Bank of England to cut rates further despite still elevated inflation. Overall, with the unemployment rate rising to 5% in September, the highest level since February 2021, a weakening labour market should help to keep a lid on wage growth. Nonetheless, services inflation may remain sticky in the near term due to structural labour shortages in key sectors, including construction and agriculture, and the lingering effects of past wage increases. Core inflation is expected to fall gradually, although energy price volatility and global geopolitical disruptions remain upside risks.</p>
<p>Eurozone Inflation back at target</p>	<p>Inflation in the Eurozone printed at 2.2% YoY in November, close to, but slightly above, the ECB's target. Core inflation stands at 2.4% and has shown limited slowing in the second half of this year. We continue to see disinflationary pressures coming through next year and expect overall CPI to average below 2% in 2026. Services price growth remains too high, most recently accelerating to 3.5% YoY, contrasting with goods inflation at around 1%. We expect services inflation to slow markedly next year, based on a combination of slowing annual price resets as well as a broad slowing in wage growth. This latter point is crucial, with forward-looking indicators such as the ECB's negotiated wage indicator suggesting low labour bargaining power for next year.</p> <p>The ECB is currently telling us it sees both growth and inflationary risks as two-sided. Over the near term, we disagree with this assessment and see more downside pressure to both. As such, we continue to expect the ECB's rhetoric and policy to shift towards further easing. We agree however that inflationary risks to the upside do remain in the long term, primarily arising from security-driven protectionist policies leading to trade restrictions and increasingly domestically contained supply chains.</p>
<p>Switzerland Inflation weakness persists</p>	<p>Annual CPI inflation fell back to zero in November and inflation is once again undershooting the SNB's forecast. Core inflation has weakened, and unless monthly inflation dynamics strengthen markedly the annual rate is set to turn negative in early 2026. Weakness continues to reflect deflationary import prices while domestic inflation is holding up better. That said, CPI excluding housing rents is in deflation, confirming broader weakness. While steep US tariffs on Switzerland are likely to be reduced, the Swiss franc remains strong, and businesses are likely to be focused on keeping costs and prices in check, which will probably contribute to a more subdued domestic pricing environment. Deflationary risk is consequently high, though our basecase remains that inflation should stay in positive territory in 2026. A key reason for this is that nominal wage dynamics are holding up, with a range of wage surveys indicating wage growth of around 1.3% in 2026. This is a marked shift compared to the pre-Covid period, when wage growth was anemic at close to 0.5%. The weakening labour market and stalling job growth pose downside risks to wage developments, however.</p> <p>While we do not expect any further SNB rate cuts, risk to the rate outlook is firmly skewed to the downside. Should inflation weakness persist, further policy easing is justified.</p>
<p>Japan Conditions align for the BoJ to move the policy rate to 1%</p>	<p>Headline CPI edged higher in October, reaching 3% YoY, while core CPI (excluding fresh food and energy) remained steady at 3.1% YoY. Services CPI, excluding rent, continues to hover above 2%. Although food prices have peaked, they were still elevated at 6.4% YoY in October. The BoJ's September survey also indicate that nearly 90% of households expect prices to continue to rise over the next year. Despite decent nominal wage growth, wages continue to lag behind inflation, resulting in negative real wage growth. Nonetheless, household spending has been broadly resilient, signalling a shift away from the old habit of delaying purchases in anticipation of falling prices.</p> <p>Looking ahead, we expect headline inflation to ease in 2026 due to large base effects and government subsidies on food and energy. However, core inflation is likely to stay firm at around 2% with potential for upside surprises given potentially strong domestic demand amid higher fiscal spending and tax cuts. With underlying price pressures showing greater persistence and fiscal policy set to become more expansionary, the conditions are aligning for the policy rate to move to 1% in 2026.</p>

China

No sight of escape from deflation trap

Both CPI and PPI inflation ticked up last quarter, but the underlying deflationary trend remains intact, with producer price inflation at -2.2% YoY. October's CPI was 0.2% YoY, while PPI stayed negative at -2.1% YoY, highlighting persistent weak demand and overcapacity. The government's 'anti-involution' campaign is beginning to impact prices in selected sectors, with constrained coal mining output following stricter environmental and safety inspections and reduced capacity in new-energy areas like battery production. However, these targeted efforts only address the surface of the overcapacity issue and are unlikely to resolve the deeper deflationary pressures. Because aggressive production cuts as part of the anti-involution strategy would lead to employment challenges, we expect policymakers to proceed with caution.

A meaningful recovery in China will require stronger consumer demand and a more stable housing market, both of which weakened last quarter, underscoring the need for further stimulus. The December Politburo meeting reiterated the importance of boosting consumption, but concrete measures have yet to be announced and are not expected until March. For now, China's deflationary trend looks set to persist. The longer it lasts, the more difficult it will be to escape.

Australia

A reacceleration in inflation puts the RBA on hold

In a meaningful reversal of the prior easing trend, both headline and core CPI rose ahead of expectations in Q3. Headline inflation jumped to 3.2% YoY, up from 2.1% in Q2 and above the 3.0% that was expected. The largest contributor was electricity costs, up 24%, as electricity subsidies that were put in place prior to the election were reduced. However, the pick-up in inflation was not only driven by electricity prices, other goods prices also rose notably. Services inflation increased modestly, up 3.5% versus 3.3% previously, with higher rents and medical and hospital services being the main contributors. Trimmed mean inflation rose to 3%, while wage growth held steady at 3.4%. The October monthly CPI suggests a similar trend as it showed inflation reaccelerating to 3.8%, with 70% of the CPI basket increasing by more than 3%.

Given the broad-based increase in inflation coupled with capacity constraints, we expect inflation to remain above the RBA's target range heading into 2026. The market is now pricing in a high possibility of rate hikes by the RBA in 2026, given the reacceleration in inflation. However, we think the RBA will remain on hold to assess the stickiness of inflation going forward, and we believe the next policy move will be highly data dependent.

EM Asia

Weak inflation persists

Inflation remains subdued across ASEAN. Thailand is still experiencing deflation, given soft domestic demand and significant spare capacity, and other countries are posting very low inflation rates between 1-3% YoY, well below historical norms. Looking ahead to 2026, the growth outlook for the region remains muted as strong front-loading of exports is fading, although resilient tech exports should provide some support. While headline inflation is expected to rebound from a low base, underlying inflation will likely stay weak. Most central banks are approaching the end of their rate-cutting cycles following aggressive easing in 2025. There is still scope, however, for modest further cuts in Indonesia, the Philippines, and Thailand, while Malaysia and Singapore are set to hold steady.

In India, CPI inflation is also projected to stay soft in the coming quarters, supported by lower food prices and the disinflationary impact of recent tax cuts. However, strong growth momentum and base effects may push inflation towards target next year. Against this backdrop, we expect the RBI to maintain its current policy stance after the recent rate cut.

Brazil

The disinflationary trend gains traction, paving the way for a policy pivot

Brazil's disinflation trend has gained traction, supported by a softer US dollar and the Central Bank's (BCB) restrictive policy stance. After peaking above 6% early in the year, core inflation metrics have moderated significantly, with the three-month annualised rate now hovering around 3%. Headline CPI eased to 4.7% YoY in October vs 5.4% at the end of Q2. We expect inflation to close 2025 at around 4.5% YoY and continue decelerating next year towards the 4.0% threshold, inside the BCB's tolerance band of 3% ± 1.5%.

Despite acknowledging progress on disinflation, the BCB has remained consistently hawkish, keeping the Selic rate at 15% since last June. However, a weakening economic backdrop and continued falling inflation expectations may pave the way for easing as soon as Q1 2026. Overall, we expect the Selic reference rate to end next year at 12%, implying a cumulative 300bp reduction. Even after this adjustment, real rates would remain firmly contractionary, though easing from the current two-decade high of above 10%, converging toward 2023–24 averages.

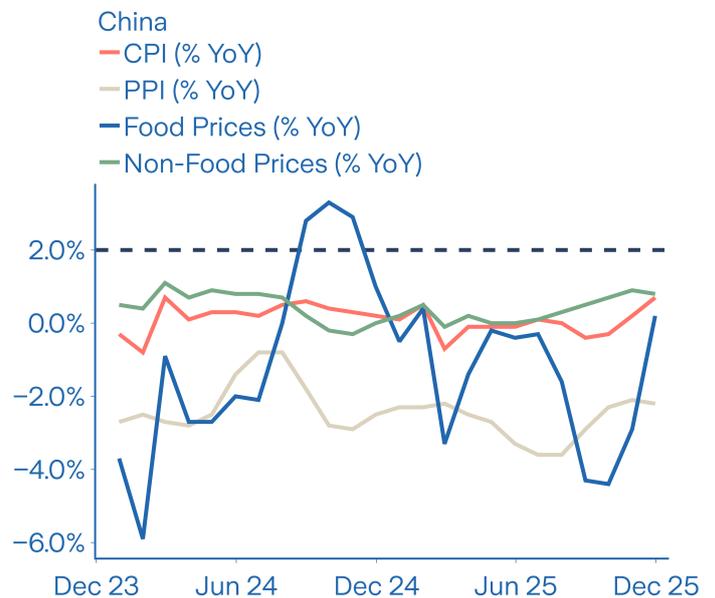
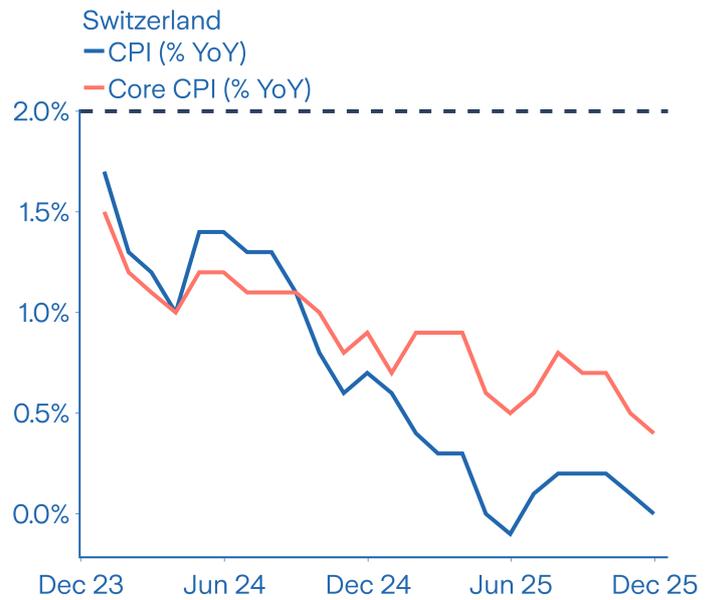
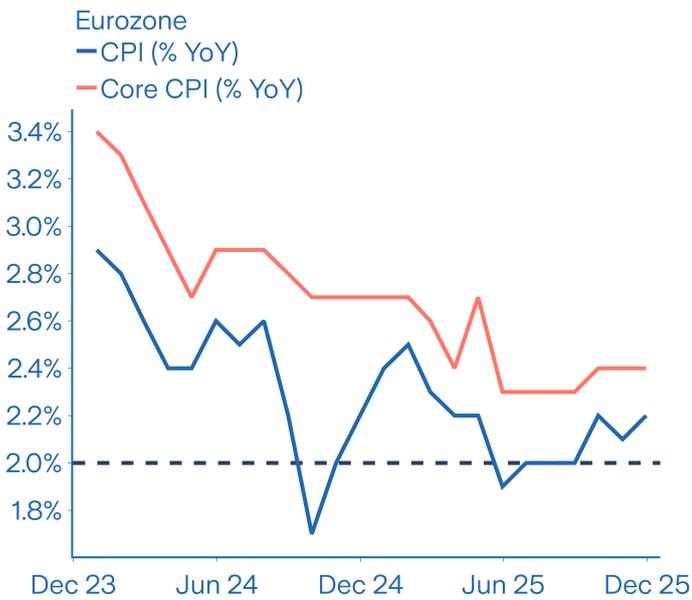
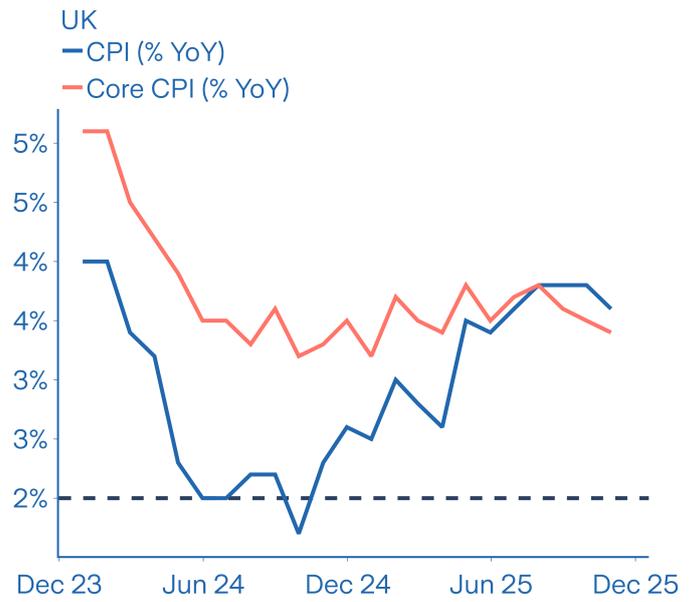
LatAm

Further easing amid falling headline inflation, yet core CPI pressures persist

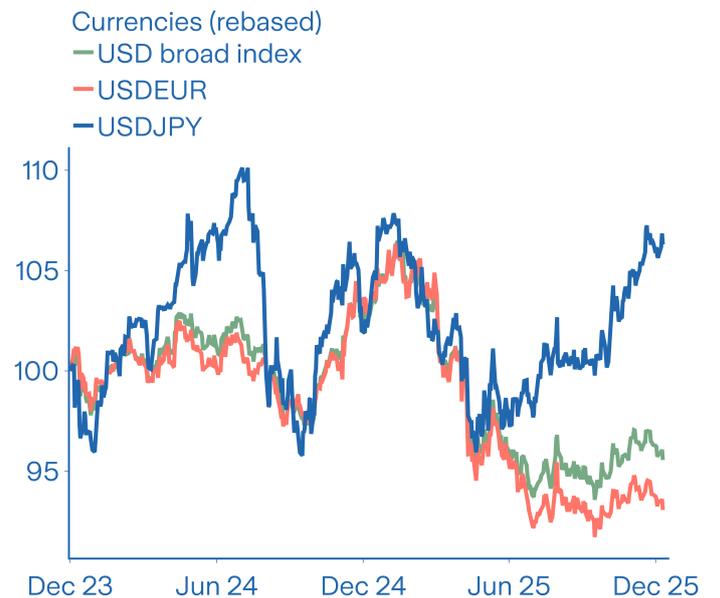
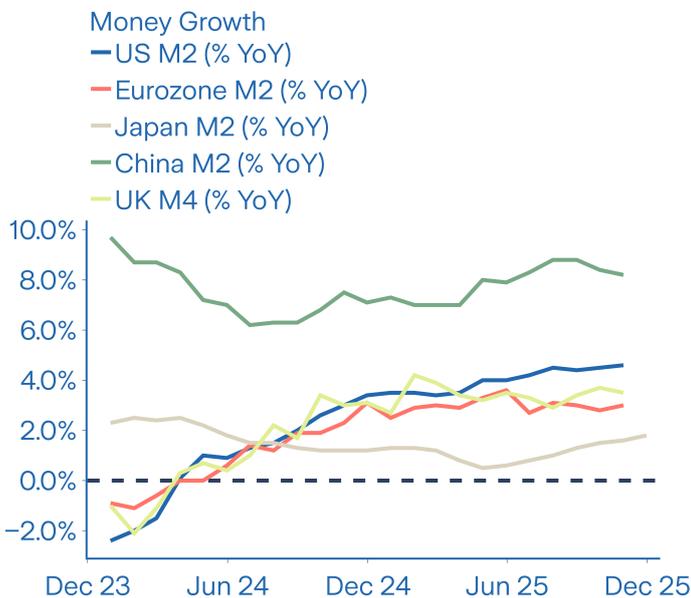
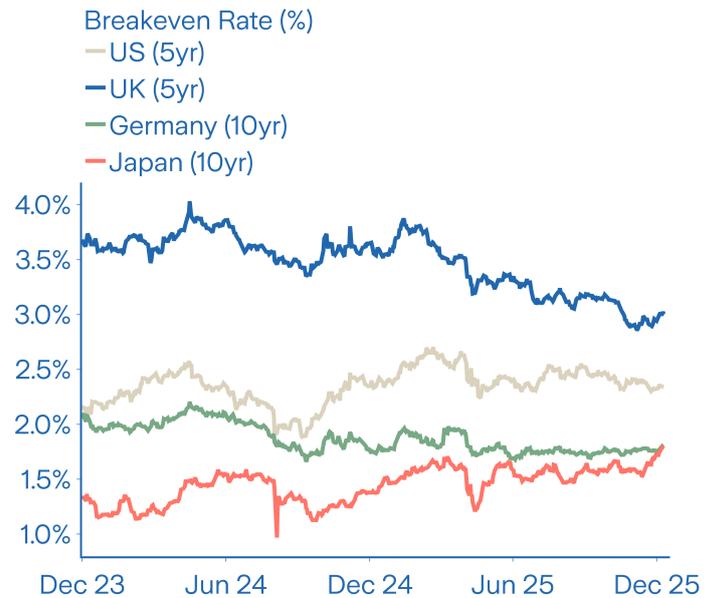
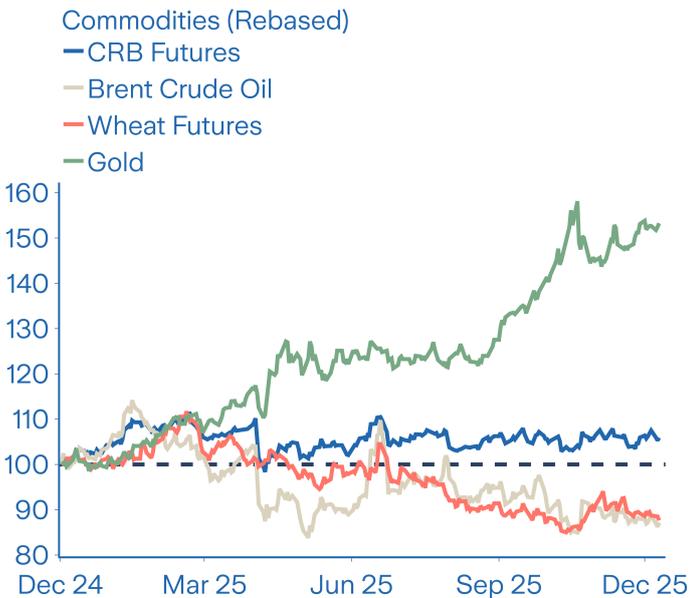
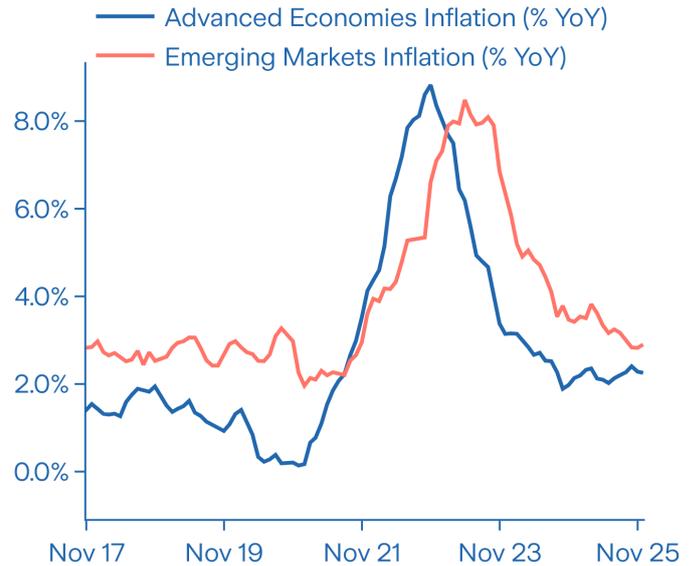
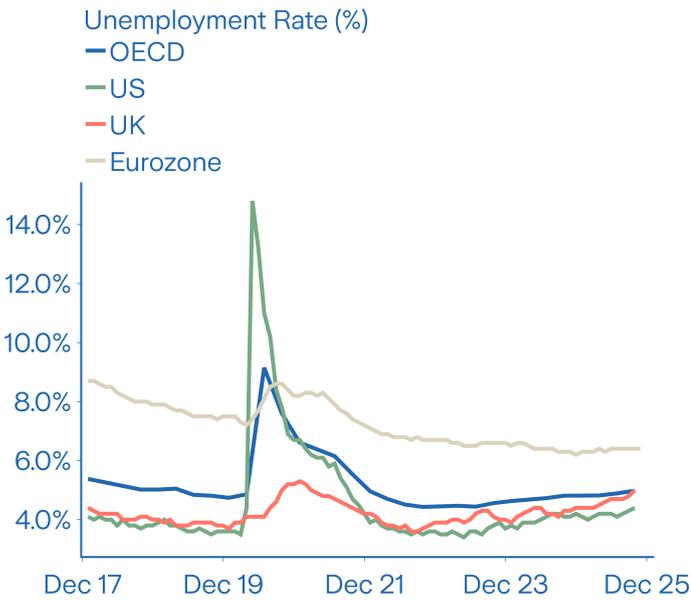
Mexico's inflation has continued to ease. Headline CPI was below Banxico's 4% upper bound at 3.6% YoY in October, down from 4.3% at the end of Q2. This improvement was mainly driven by non-core components, while core inflation remains elevated amid rising real wages and a resilient labor market. We expect inflation to close the year at 3.8% and stay near that level in 2026 given potential non-core reversals. On monetary policy, Banxico has maintained a dovish tone amid a weakening backdrop. We anticipate a final 25bp cut by year end to 7%, followed by a more cautious approach next year as rates hover near neutral.

In Chile, the disinflation process continues, with headline inflation falling from 4.3% at the end of Q2 to 3.4% in November. The Central Bank's cautious stance, alongside a modest CLP appreciation and relatively contained fiscal spending, has supported this outcome. In this context, we expect inflation to converge to the 3% target in 2026, creating room for further monetary easing. Indeed, we maintain our view that the BCC will deliver a final 25bp rate cut at its last meeting of the year, bringing the policy rate to 4.5%, with additional cuts likely next year to reach a neutral level.

Current and historic inflation



Key Indicators



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