KPMG Global Economic Outlook

Webinar recap

5 June 2025 broadcast

KPMG International | kpmg.com/globaleconomicoutlook

Contents

Introduction

On June 5, 2025, KPMG hosted its inaugural Global Economic Outlook Webinar, designed to offer clarity amidst the growing complexities of the global economic landscape. The event attracted a diverse audience of board members, C-suite leaders, and public sector executives from around the world, all seeking to navigate the murky waters of geopolitical upsets, economic signals, and regulatory shifts. The 60-minute session was structured to deliver a sweeping geopolitical briefing, regional economic insights, and pragmatic perspectives from seasoned advisors, culminating in a dynamic roundtable discussion.

Regina Mayor, Global Head of Clients & Markets at KPMG International, served as the moderator, setting the stage with an urgent tone reflective of the current global scenario. She noted, "We designed this program to help you understand those signals, because it's not just an economic forecast — it's an action-oriented way to get through all the signals that you're facing."

The webinar featured an esteemed panel of KPMG subject matter experts, including:

- **Stefano Moritsch**, Global Geopolitics Lead
- **Diane Swonk**, Chief Economist for the Americas
- **Yael Selfin**, Chief Economist for the EMA region
- **Dr. Brendan Rynne**, Chief Economist for the ASPAC region
- **Nancy Chase**, Global Head of Risk Services
- **Andy Siciliano**, Global Head of Trade and Customs Services

Regina opened the session by emphasizing the pressing issues at hand — political volatility, economic interdependence, and shifting trade policies — all of which have far-reaching impacts on businesses.

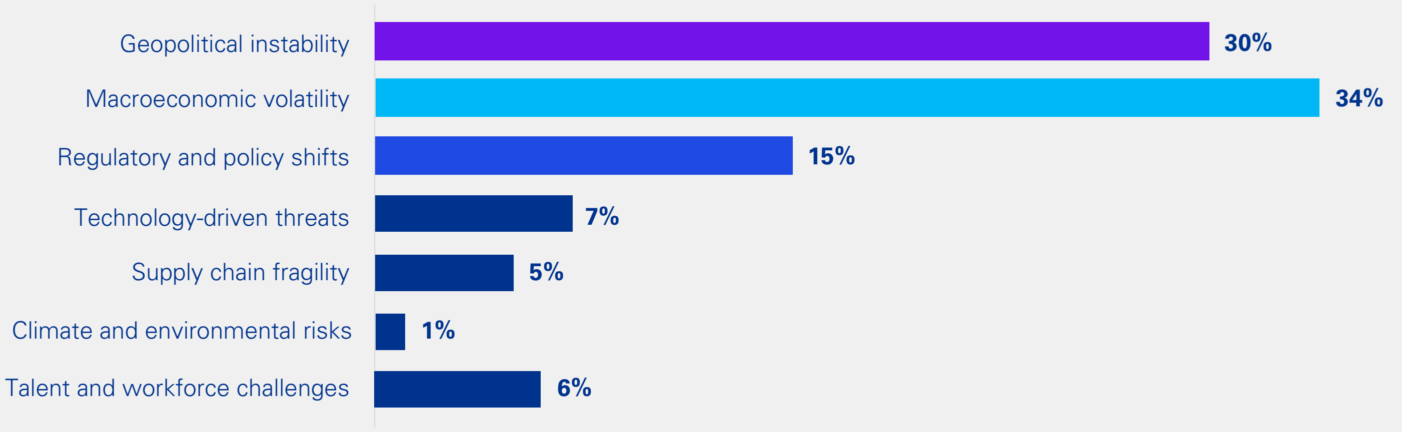
We designed this program to help you understand those signals, because it's not just an **economic forecast** — it's an action-oriented way to get through all the signals that you're facing.

Global geopolitical outlook

Stefano Moritsch commenced his address with a 'helicopter view' of the geopolitical environment, capturing its volatile essence with precision. Setting the tone for a comprehensive analysis, Stefano described the current global scenario as a 'Geopolitical Recession' — a transitional phase moving from a US-led globalization era to a more multipolar world. This shift sees emerging powers such as China, India, Brazil, Mexico, Türkiye, and economies in Southeast Asia as well as the Gulf asserting their influence, leading to a more contested geopolitical environment.

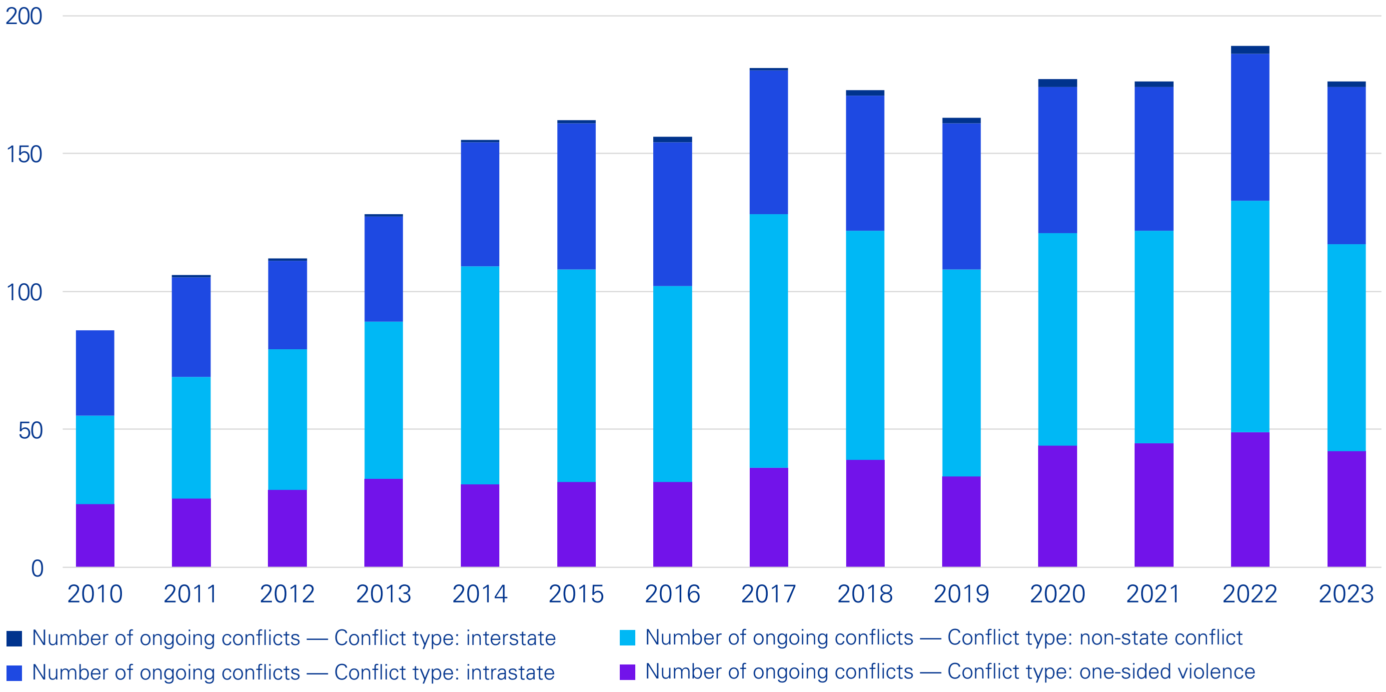
Stefano elucidated how this transition challenges the effectiveness of global institutions that flourished throughout the 1990s and early 2000s, thereby increasing the complexity of international relations. The rise of these new powers has

Top threats in today's business landscape: A benchmark of business leaders's concern



In a world dominated by uncertainty, 660 senior business leaders reveal that macroeconomic volatility and geopolitical instability are the primary threats facing their organizations today. With 34 percent of respondents identifying macroeconomic fluctuations as their biggest concern, this sentiment is particularly pronounced in the financial services sector (45%) and asset management (41%), where inflation and interest rate fears loom large. Meanwhile, geopolitical turmoil resonates as a significant anxiety for leaders in life sciences (39%), consumer, retail & leisure (36%), and energy & natural resources (35%), reflecting the intricate dance of global trade and sanctions. These insights underscore the pressing challenges that demand both strategic foresight and nimble adaptation.

Number of armed conflicts



Source: Uppsala Conflict Data Program and Peace Research Institute Oslo (2024) — processed by Our World in Data.

increased competition and complexity in the international sphere, affecting the stability and dynamics of global cooperation.

Despite the surge in global conflicts, Stefano pointed out that these geopolitical shifts also present substantial opportunities, particularly for middle powers. Emerging countries around the worldare adopting flexible, transactional strategies and selectively engaging with major powers. This pragmatic approach opens new avenues for trade and investment, even amid geopolitical volatility. These middle powers are strategically maneuvering their diplomatic and economic engagements, thus offering potential growth opportunities for businesses ready to navigate these complexities.

Emerging countries around the world are adopting flexible, transactional strategies and selectively engaging with major powers.

However, Stefano emphasized a significant downside: the absence of effective global leadership has led to a dramatic rise in conflicts.[1] Quoting from Global Peace Index data, he mentioned that, "We now face more global conflict than at any time since 1946." This historic surge in turmoil adversely affects supply chains and operations, particularly near critical trade nodes such as the Middle East, the South China Sea, and the Suez Canal. These areas, essential for global trade, are increasingly vulnerable to disruptions owing to regional conflicts and overlapping sovereignty claims.

Stefano highlighted several ongoing conflicts of paramount importance in terms of impact on the business environment:

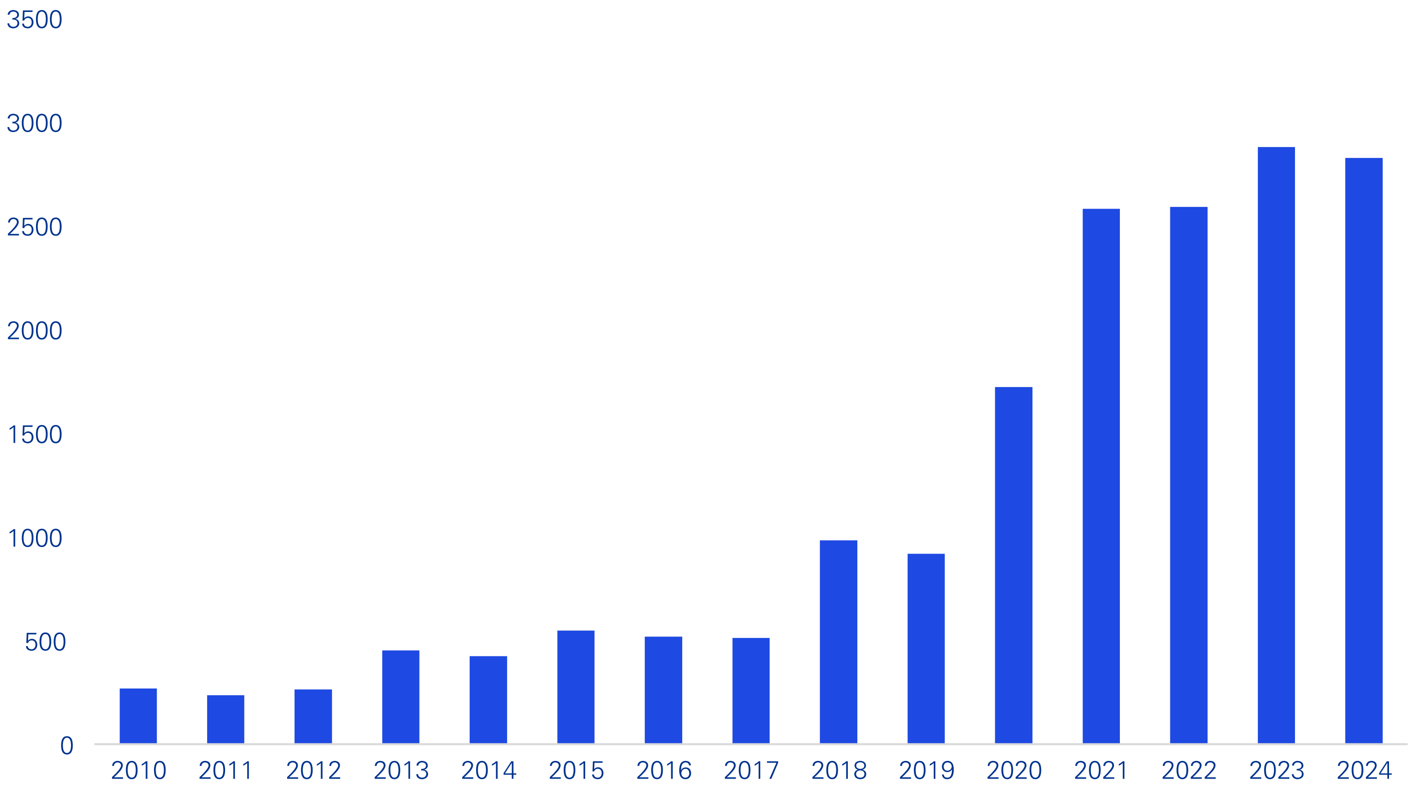
- **Russia and Ukraine:** The ongoing war continues to reshape the European security architecture and has substantial repercussions on energy and commodity trade.
- **Middle East:** The negotiation outcomes between the United States and Iran regarding Iran's nuclear program will significantly influence regional stability and global economic conditions.

The accompanying chart underscores the substantial increase in global conflicts post-2020, as geopolitical volatility heightens.

Another critical trend Stefano identified is the shift from efficiency to resilience in trade policies. This paradigm shift, catalyzed during the pandemic, marks a significant increase in trade protections designed to bolster supply chain security rather than prioritize economic competition and efficiency. "We had a peak of over 3,000 trade restrictions globally," Stefano highlighted. These restrictions include tariffs, subsidies, and industrial regulations aimed at insulating essential industries from dependencies on strategic competitors.

The evolution of harmful trade policy interventions chart captures the significant rise in trade protections from 2013 to 2023, reflecting the growing trend of resilience-focused measures. As illustrated, almost 3,000 inbound harmful trade interventions were implemented in 2023 alone vs. less than 500 a decade earlier.

Evolution of harmful inward trade policy interventions (2014–2024)



Source: Global Trade Alert. Harmful Trade Policy Measures. (Measures, January, 2025)

[1] Global Peace Index 2024, accessed on June 5 2025 https://www.economicsandpeace.org/wp-content/uploads/2024/06/GPI-2024-web.pdf

Such measures inherently elevate costs and have an inflationary impact, thereby raising the cost of capital. Businesses now face a more prolonged period of higher costs of capital, compelling a shift in investment strategies and prompting companies to hedge risks instead of pursuing growth opportunities aggressively.

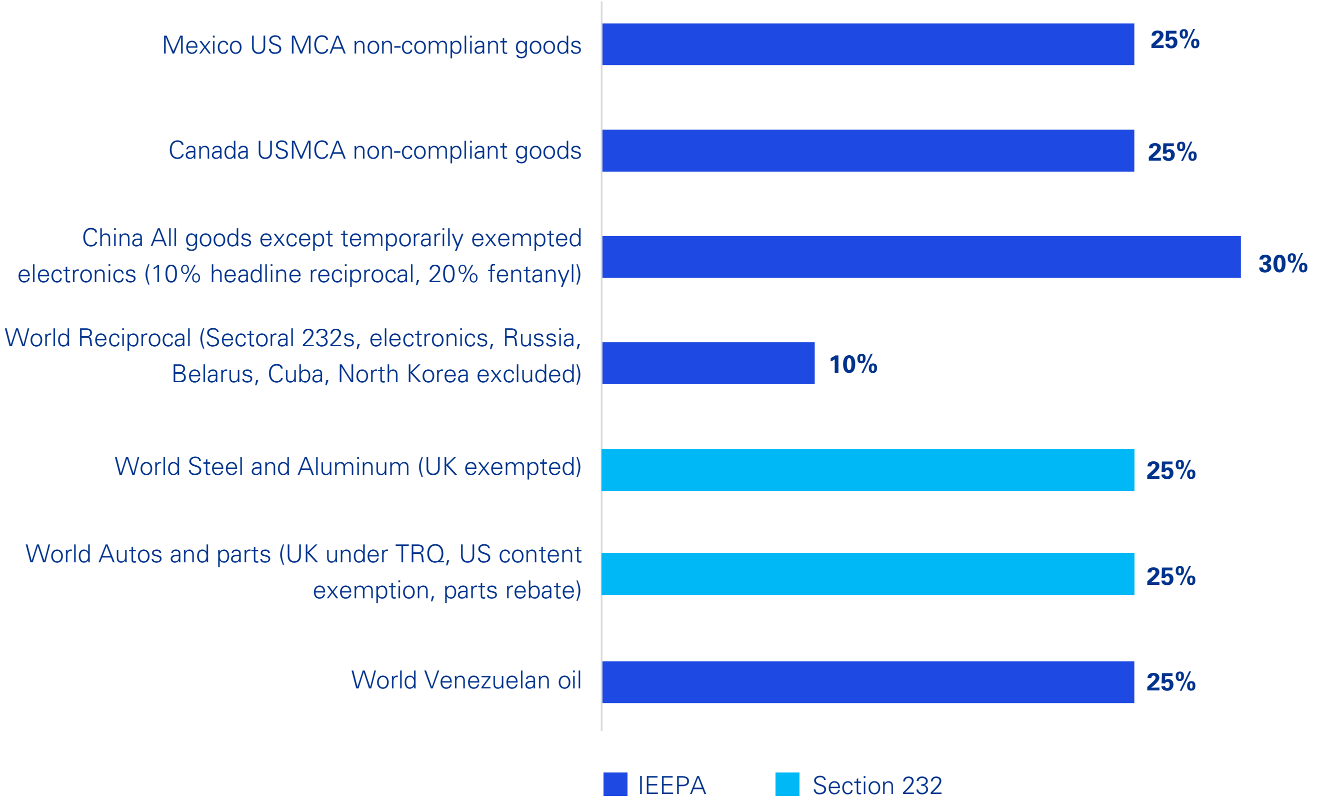
Stefano noted that the future of tariff policies from Washington remains a critical piece of the puzzle. The existing policy uncertainty causes companies to delay major investment decisions until more clarity emerges regarding the specifics of announced tariffs. "Businesses are waiting until July when the 90-day delay period from the April 2 tariff announcements expires, to assess the potential impact on their supply chains," Stefano stated.

Two significant issues at the forefront of geopolitical discussions, in Stefano's view, are:

1. **Transatlantic relations:** The future of EU-US trade relations, also primarily driven by defense and strategic interests, represents a considerable portion of global trade. The outcome of current negotiations will either yield a compromise or lead to reciprocal tariffs.

2. **US-China relations:** The trajectory of economic and strategic decoupling between the US and China remains a pivotal concern for businesses. The sectors critical for national security — technology, defense, biotechnology, food, and energy — are central to this ongoing decoupling.

Tracking US tariffs (as of 30 May 2025)



Note: USMCA-compliant imports from MEX/CAN are temporarily exempt from IEEPA tariffs, energy and potash face lower rate of 10%. For auto 232 tariffs, USMCA-compliant auto parts are fully exempt, but for USMCA-compliant finished vehicle imports, non-US content still faces a 25% tariff.

Sources: Eurasia Group, USTR Press Releases, White House Fact Sheets, Executive Orders 14220, 14223, 14228, 14257, 14266, 14269, 14272, 14289, Proclamations 10895, 10896, 10908, 10925.

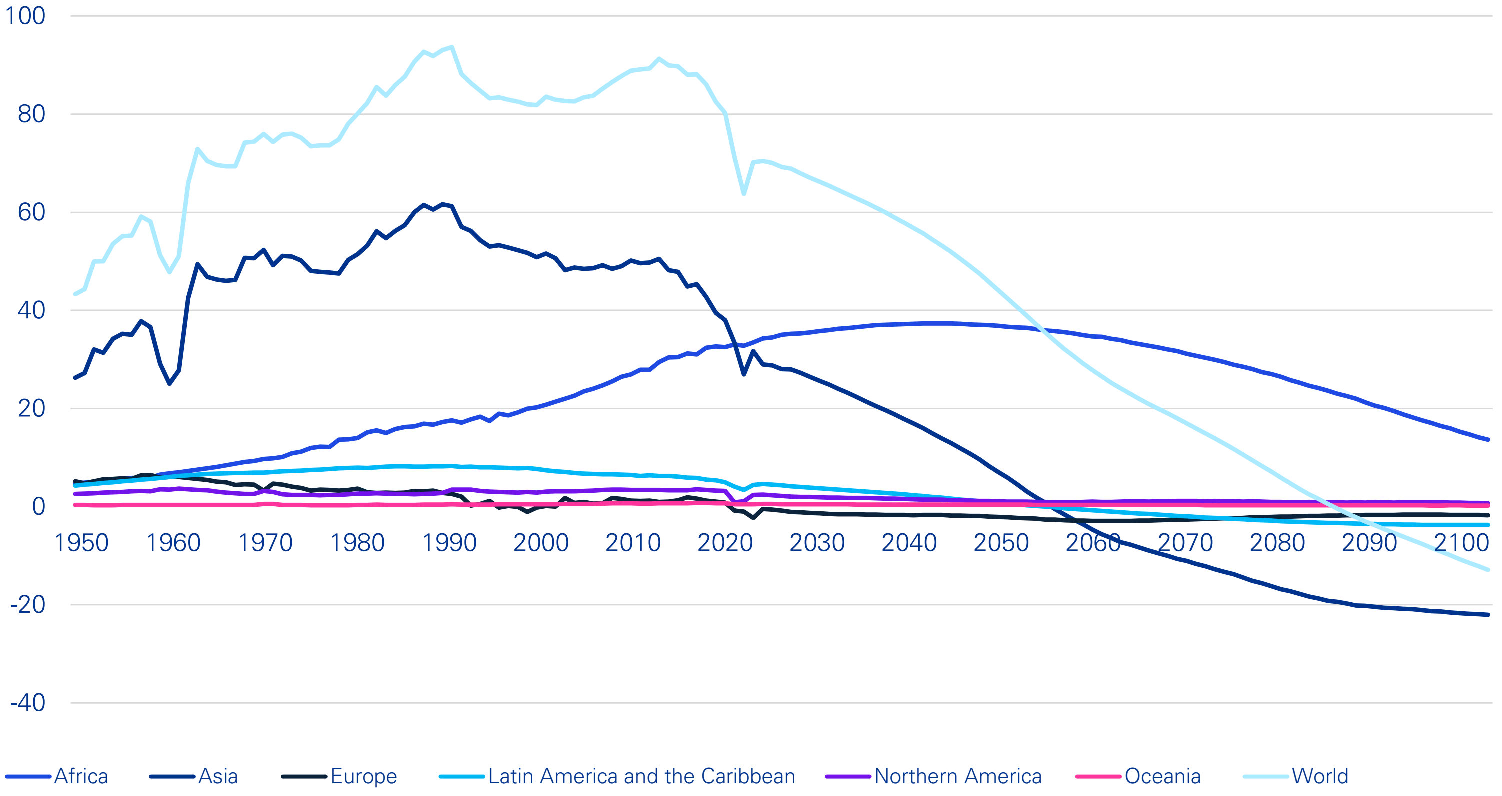
Another theme Stefano touched upon was the dramatic demographic shifts globally. Countries like Italy, Germany, China, South Korea, and Japan are experiencing rapid demographic declines, posing challenges in labor productivity and investment capacities. By 2050, Africa will account for 90% of global demographic growth. This demographic evolution presents both a challenge and an opportunity, contingent on how aging countries adapt their migration policies amid prevailing inward-looking and protectionist tendencies.

The population change chart from 1950 to projected 2090 highlights the need for strategic foresight in addressing labor productivity and investment gaps.

In conclusion, Stefano emphasized that businesses should treat geopolitical risk as an asset, proactively integrating risk management into strategic planning. "Volatility is the new normal, and companies should treat geopolitical risk as an asset and not just as a threat," he reiterated. The imperative for businesses now is to develop a clear vision of how these geopolitical trends will affect their strategic objectives not only in the immediate term but over the coming years.

With a deeper understanding of these geopolitical dynamics and proactive engagement in risk management, businesses can navigate the turbulent environment more adeptly, turning uncertainties into opportunities.

Population change in millions



Source: UN Population 2024

Regional economic signals

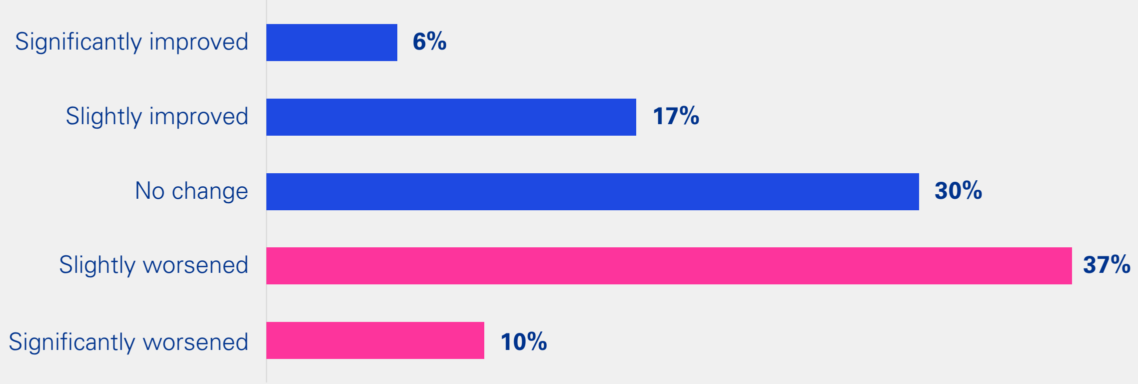
Americas region

Diane Swonk shared a perspective on the economic landscape across North and South America. Her insights underscored the intricate challenges posed by rampant policy shifts, escalating trade tensions, and the resultant economic slowdown.

Diane illustrated how the deluge of executive orders and proclamations from the administration has sown seeds of uncertainty across the region. This pervasive uncertainty functions as an economic tax, stalling business investments and decision-making as executives grapple with the unpredictable policy environment. She emphasized that this environment of uncertainty is analogous to a broken stoplight at a busy intersection: it causes traffic to back up and leads to an economic standstill as businesses wait for clarity to proceed.

Global GDP on a purchasing power parity basis is poised to slow from 3.2% in 2024 to 2.7% in 2025 and about the same in 2026. The two years are the weakest two-year span prior to the pandemic of since the global financial crisis in 2008-09. This deceleration is exacerbated by the policy-induced hesitation that dampens business confidence and stifles investment.

Economic outlook revealed: How leaders view growth in 2025



Amidst a mixed global recovery, insights from 694 executives reveal a cautious outlook on growth prospects, with nearly half (47%) reporting a deterioration. This sentiment is acutely felt in the healthcare (57%) and consumer, retail & leisure (56%) sectors, where leaders cite persistent headwinds. Contrarily, the TMT sector (29%), buoyed by rapid technological adoption, stands out with a more optimistic view, echoing its investment in digital transformation. These divergent outlooks illustrate the complex tapestry of challenges and opportunities facing sectors in 2025, underscoring the need for agility and strategic recalibration.

One of the most pressing concerns is the risk of stagflation — a toxic mix of rising inflation paired with escalating unemployment. This scenario delays potential interest rate cuts by the Federal Reserve, even though other central banks in the region, like the Bank of Mexico, might move towards rate reductions to stimulate their economies.

Diane pointed out that Canada is teetering on the brink of recession due to the severe drag from tariffs and reduced export activities. "Canada is expected to slip into a recession in 2025," she stated. Similarly, Mexico faces substantial industrial sector challenges, with the risks of recession underscored in its economic projections. Mexico's industrial sector is particularly vulnerable, needing strategic planning and diversification to manage the adverse impacts and steer towards stability.

The US is not immune to these disruptions. "Tariffs are predicted to rise significantly, scaling from a rate of 2.8% to over 20% by year-end," Diane highlighted. The first quarter of 2025 witnessed an unprecedented surge in the US trade deficit, almost doubling previous records due to stockpiling ahead of tariff implementations. This surge in imports points to the frantic efforts by businesses to mitigate immediate tariff impacts, reflecting a reactive rather than proactive strategic approach.

The president is intent on making good on his campaign promises of 60% tariffs on imports from China and 10% on the rest of the world. That is the threshold to start with. Sector tariffs on semiconductors, pharmaceuticals, copper and lumber are all ahead of us, as are the return of some "reciprocal tariffs." Those are in additions to steel, aluminum and all the other tariffs still in effect.

Despite the pervasive challenges, Diane stressed that opportunities do exist. Brazil, for instance, stands out as a beacon of potential amidst the gloom. Leveraging its close trade relationship with China, Brazil offers unique growth avenues, particularly in agricultural exports. The country's strategic ties with China could mitigate some of the adverse impacts from US trade policies, positioning Brazil as a relatively stable player in the region.

Summarizing her narrative, Diane articulated, "Economics is nothing if not the study of collective human behavior. When faced with extreme uncertainty, we hesitate, which is the exact opposite of moving forward... the broken stop light analogy is key, as it underscores the caution we are seeing on a global scale, but most notably in the US." Her analogy captures the essence of the current economic sentiment, where caution and hesitation prevail, mirroring the broader landscape of economic indecision.

Country-specific challenges and responses

- **Brazil:** Despite regional challenges, Brazil's close trade relationship with China offers opportunities, particularly in agricultural exports.
- **Canada:** Is expected to suffer a full-fledged recession in 2025 and pick up modestly in 2026, buoyed by rate cuts by the Bank of Canada.
- **Mexico:** Narrowly missed a recession and is forecast to move sideways, and flirt with recession in 2025. The industrial sector is already in a contraction.
- **United States:** Growth for the US is expected to slow from 2.8% in 2024 to 1.2% in 2025. The headwinds of tariffs and trade wars create stagflation — a toxic mix of rising inflation and escalating unemployment.

> The global economy is fragmented, fragile but not yet fractured. There is still time to break bread instead of ties.

EMA region

Yael Selfin provided a nuanced outlook for Europe, the Middle East, and Africa. Her narrative blended positive economic indicators with critical fiscal challenges, reflecting the region's complex dynamics.

Europe's economic landscape is a tapestry of promising developments interwoven with significant challenges. Inflation rates have moderated considerably, aligning closer to central bank targets, while interest rates are falling. Additionally, unemployment rates remain relatively low, with several countries reporting figures below pre-pandemic levels.

Interest rates across Europe are anticipated to continue their downward trajectory over the next two years. Together with a vibrant labor market, these trends are likely to bolster consumer spending while lower cost of capital should also boost investment, providing a much-needed economic stimulus amid external uncertainties.

However, fiscal health remains a concern. The region is grappling with elevated public sector debt, and growing spending demands Yael mentioned that "In the medium to longer term, there will likely be a need to go back to the fiscal rules and see a more moderate level of debt." Such fiscal adjustments will necessitate tough decisions regarding welfare provisions and tax burdens.

Regarding the potential implications of trade frictions, Yael shared detailed scenarios: "In our main scenario, we factor in a tariff of around 10% for most products, which could lead to a GDP reduction of approximately 0.5% to 1.3% for various European economies. If we see a more severe scenario with around 50% tariffs, the impacts could be even more pronounced."

Yael emphasized that, despite these challenges, many European economies are positioned to maintain stable growth patterns, driven by rising public pending and relatively healthy households' balance sheets.

Country-specific challenges and responses

- **France:** Stretched public finances means that France will need to navigate a difficult path of fiscal consolidation while fostering economic growth.
- **Germany:** Forecasts for 2026 have been revised upwards, partly due to the potential impact of higher defense and infrastructure spending in driving momentum in the manufacturing sector.
- **Italy:** Tight fiscal rules and relatively weak productivity growth could continue constraining growth.
- **Spain:** While a standout performer within the EU last year, as tourism spending and EU-funded investment taper off, growth is expected to moderate.

Diane highlighted that opportunities do exist, particularly in countries like Brazil which can capitalize on their close economic ties with China to mitigate some impacts of US trade policies.

Yael emphasized that, despite these challenges, many European economies are positioned to grow around their long term potential, thanks to a combination of higher public spending for those economies that have some fiscal room to spare and resilient consumer demand.

Europe's economic landscape is a tapestry of promising developments interwoven with significant challenges. Inflation rates have moderated considerably, aligning closer to central bank targets, and interest rates are moderating.

Asia-Pacific region

Dr. Brendan Rynne delivered an in-depth assessment of the economic conditions within Asia-Pacific, highlighting the profound impacts of the new US trade policies on the region's economies.

The Asia-Pacific region is experiencing substantial economic pressures, primarily due to its high reliance on international trade. Economies like Singapore and Hong Kong (SAR), China stand out with their extraordinary export proportions, constituting 190% and 170% of GDP, respectively. This immense reliance on exports makes these economies particularly vulnerable to trade policy changes. Brendan projected that Singapore's GDP growth could plummet by approximately 3% by early 2026, likely pushing it into a recession. Similarly, Hong Kong's GDP growth is expected to decline by about 1.5% within the same period, underscoring significant economic downturns.

China, the region's economic behemoth, is also slated to experience a slowdown. Its GDP growth is predicted to reduce by about 0.5% by the end of 2025, with the impact intensifying to around 0.9% by 2027 due to the imposition of US tariffs. Japan and South Korea are not spared from these economic shocks either; Japan's growth is likely to decrease to around 0.5% in 2026, while South Korea is expected to see a reduction of 1.5% by 2028.

Brendan emphasized, "The new US administration's trade policy changes are going to have some serious consequences for ASPAC economies." These repercussions are particularly severe due to the region's intertwined trade networks.

Country-specific challenges and responses

- **China:** China's extensive global trade linkages mean that heightened US tariffs will significantly impact its economy, slowing GDP growth by about 0.5% by the end of 2025, escalating to approximately 0.9% by 2027.
- **India:** Although India's export dependency is lower compared to other ASPAC nations, it is still expected to experience a GDP growth reduction of 0.7% by 2028 due to cumulative US trade policies.
- **Hong Kong (SAR), China:** As a pivotal global financial and trading hub, Hong Kong is forecasted to endure substantial setbacks, with its GDP growth predicted to drop by 1.5%.
- **Japan:** Japan faces a potential GDP growth reduction to around 0.5% in 2026 due to decreased export activities and intensified trade friction.
- **Singapore:** Singapore's critical status as a global trading hub makes it especially susceptible to disruptions. The nation's GDP growth is expected to decrease by 3% by early 2026, potentially leading to recession.
- **South Korea:** The South Korean economy is projected to encounter a GDP growth reduction of about 1.5% by 2028, impacted by tariffs on motor vehicles exported to the US.

Brendan highlighted that ASPAC economies must strategically pivot in response to these changes, whether through diversifying trade partnerships, investing in technology to enhance production efficiency, or bolstering domestic markets to mitigate impacts.

In conclusion, the economic signals emanating from the ASPAC, EMA, and Americas regions depict a global landscape fraught with uncertainty yet replete with opportunities. Each region faces distinct challenges influenced by trade policies, geopolitical shifts, fiscal pressures, and demographic trends. The insights provided by Diane Swonk, Yael Selfin, and Dr. Brendan Rynne equip businesses with the knowledge to navigate these complexities strategically.

By understanding and integrating these regional economic signals, businesses can proactively manage risks, capitalize on growth opportunities, and adapt to the ever-evolving global economic environment. This comprehensive analysis underscores the importance of strategic foresight and agile decision-making in turning today's challenges into tomorrow's opportunities for sustainable growth.

How organizations are responding

Nancy Chase, Global Head of Risk Services, and Andy Siciliano, Global Head of Trade and Customs, offered compelling strategies and sector-specific approaches to guide businesses through these uncertain times.

Building Organizational Resilience

Nancy Chase emphasized the paramount importance of resilience in her discussion. She noted, “The key is shoring up your organization’s resilience. This is critical at this point in time. It’s all about being able to move forward with confidence under this volatility and uncertainty to ensure that you don’t fall behind.” Leaders are increasingly focusing on several core strategies to bolster resilience and adapt to changing conditions.

Third-Party Risk Management

With supply chains becoming increasingly vulnerable to disruptions, businesses are intensifying their efforts to manage third-party risks. Utilizing data analytics, companies scrutinize their suppliers’ reliability and assess critical dependencies.

This approach quantifies vulnerabilities and impacts on sales, costs, and efficiency, ensuring that businesses can safeguard their operations amidst uncertainties. Nancy emphasized, ‘Companies must analyze their supply chains to understand critical dependencies and ensure business continuity. Given the importance of compliance, we are seeing a big uptick in automating monitoring with the use of AI, enabling businesses to more rapidly adjust to new risks.’ Leveraging AI and data for dynamic risk assessments, including scenario analysis, is fundamental.

Contract Compliance

Given the dynamic nature of global trade policies, organizations are leveraging AI and data analytics to review large volumes of contracts efficiently. This enables businesses to assess compliance with renegotiated terms and pricing adjustments swiftly. “We are seeing a big uptick in automating compliance monitoring with the use of AI, The application of AI and data analytics to review contractual obligations at pace helps businesses adjust rapidly to changing economic conditions and maintain compliance.” Nancy noted.

Dynamic Enterprise Risk Management

Regular risk assessments involving comprehensive “what-if” scenario analyses are essential for businesses to evaluate potential impacts of shifts in consumer buying patterns, costs, product mix, and market conditions. Facilitated by chief risk officers, these workshops leverage data-driven analysis to enable faster, informed decision-making. Nancy’s insight: “Dynamic risk assessment, including what-if scenario analysis, is vital. It allows businesses to be proactive rather than reactive, ensuring preparedness for potential changes. Leveraging data to model and understand potential impacts is essential.”

By integrating these strategies into their organizational frameworks, businesses can fortify their resilience and capitalize on emerging opportunities despite global economic challenges.

Strategies for navigating uncertainty

Supply Chain Resilience

Leaders are shifting their focus from efficiency to resilience in supply chain management. This involves diversifying supplier bases, reconfiguring supply chains to reduce dependency on single sources, and exploring opportunities in foreign trade zones to delay tariff costs and improve cash flow.the current economic sentiment, where caution and hesitation prevail, mirroring the broader landscape of economic indecision.

Andy Siciliano highlighted, "The strategic use of foreign trade zones can provide significant cash flow benefits and mitigate immediate tariff impacts."

Technology and Innovation

Investment in technology, particularly AI, can play a pivotal role in navigating current economic challenges. Businesses are ramping up their investments in AI to automate compliance monitoring, enhance productivity, and enable rapid adaptation to changes in trade policies.

Nancy emphasized, "Leveraging technology is crucial. AI enables businesses to monitor compliance effectively and make agile adjustments to their strategies."

Talent Management

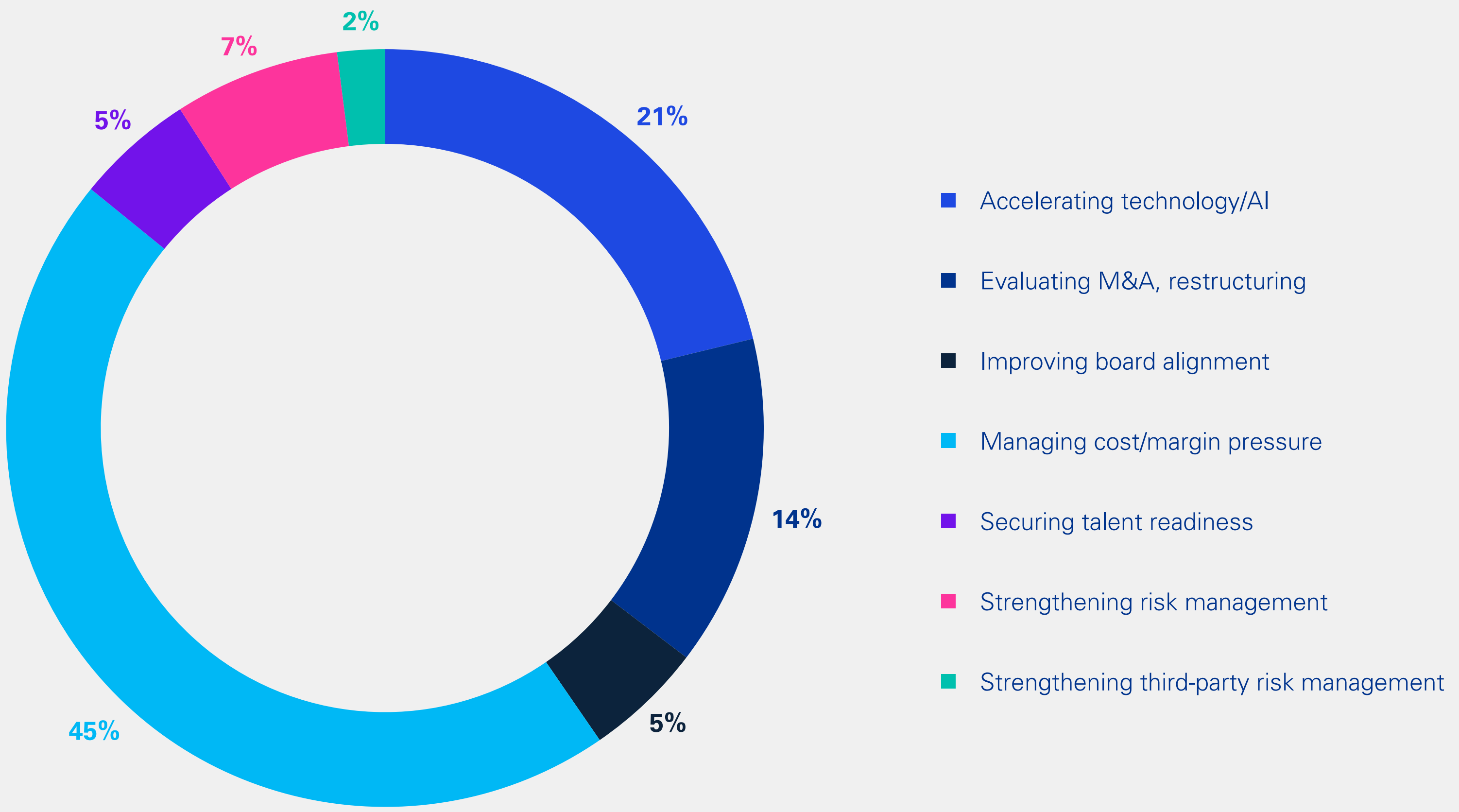
Demographic shifts and talent shortages in several regions compel companies to implement comprehensive talent management strategies. These include upskilling existing employees, attracting new talent through competitive packages, and leveraging flexible work arrangements to ensure workforce readiness.

Nancy suggested, "Leveraging technology, particularly AI, for compliance and dynamic risk assessments is crucial. Effective talent management is equally critical in times of demographic shifts. Investing in upskilling and adopting flexible work policies can bridge the skills gap and enhance productivity."

Supply Chain Resilience Tactics

- Diversifying supplier bases
- Reconfiguring supply chains
- Utilizing foreign trade zones for tariff mitigation

Navigating volatility: Leaders' strategic priorities for the future



Faced with an evolving global landscape, 717 senior leaders are sharpening their strategic focus, honing in on key areas to buffer against volatility. Defying economic challenges, 45% emphasize managing cost and margin pressures, a priority particularly resonant in Consumer, Retail & Leisure (60%) and TMT sectors (53%). Meanwhile, the upward trajectory of technology finds 21% accelerating AI adoption, spearheaded by life sciences and industrial manufacturing sectors (28% each). Evaluating M&A and restructuring options capture the strategic imagination in life sciences (23%) and asset management (22%). These focal points highlight the calculated moves organizations are making to fortify their position in an uncertain world.

Addressing tariffs

The evolving landscape of tariffs presents a significant challenge for global businesses. Andy Siciliano delved into how companies respond to the complexities of tariff management. He emphasized that tariffs are no longer just a trade issue, but a business challenge requiring strategic adjustments across various facets of operations.

Tariff mitigation strategies

01

Foreign trade zones: Utilizing foreign trade zones allows companies to delay immediate tariff costs by stockpiling goods in designated areas. This approach can provide cash flow benefits and enables businesses to manage tariff impacts more effectively. Andy noted, "The strategic use of foreign trade zones can provide significant cash flow benefits and mitigate immediate tariff impacts."

02

Customs valuation and transfer pricing: Adjusting valuation tactics and transfer pricing strategies can minimize tariff liabilities. This includes employing methods such as first sale for export and value unbundling to reduce taxable amounts. Andy highlighted, "Exploring customs valuation and transfer pricing adjustments can have a substantial impact on reducing tariff-related costs."

03

Duty drawback: Companies can leverage duty drawback programs to recover tariffs paid on imported materials that are subsequently exported. This approach helps ensure that businesses can reclaim a portion of their tariff expenditures, providing significant savings. Andy mentioned, "Duty drawback programs offer businesses a way to recuperate tariff expenses, providing a critical financial relief."

04

Strategic sourcing: Shifting sourcing strategies to countries with favorable trade agreements can help mitigate tariff impacts. Businesses are exploring opportunities to source goods from regions with lower tariffs or agreements that provide exemptions. Andy stated, "Adopting strategic sourcing from regions with beneficial trade agreements can be an effective method to minimize tariff costs."

05

Product engineering and reclassification: Reengineering products to fall under different tariff classifications or using alternative materials can reduce tariff burdens. This involves reassessing the bill of materials and exploring modifications that enable tariff savings. Andy observed, "Reengineering products and reclassifying under different tariff codes can provide significant tariff savings."

Examples of business adaptation

1 Retail business resilience

A global retail company operating across 15 countries ramped up its resilience strategies in response to tariffs. By leveraging data analytics, the company analyzed critical dependencies in its supply chain and identified alternative suppliers. This move ensured continuity and mitigated the risks posed by increased costs. Additionally, the company utilized AI to automate contract compliance monitoring, enabling swift adjustments to pricing and terms.

Nancy reflected, "This retail company's proactive approach to analyzing dependencies and automating compliance allowed them to navigate disruptions effectively."

2 Trade adaptation

Several organizations faced significant challenges due to elevated tariffs. These organizations strategically utilized foreign trade zones to stockpile goods, thereby delaying tariff costs. By diversifying their supplier base and exploring opportunities for local production, they maintained cost efficiency despite the challenging trade environment.

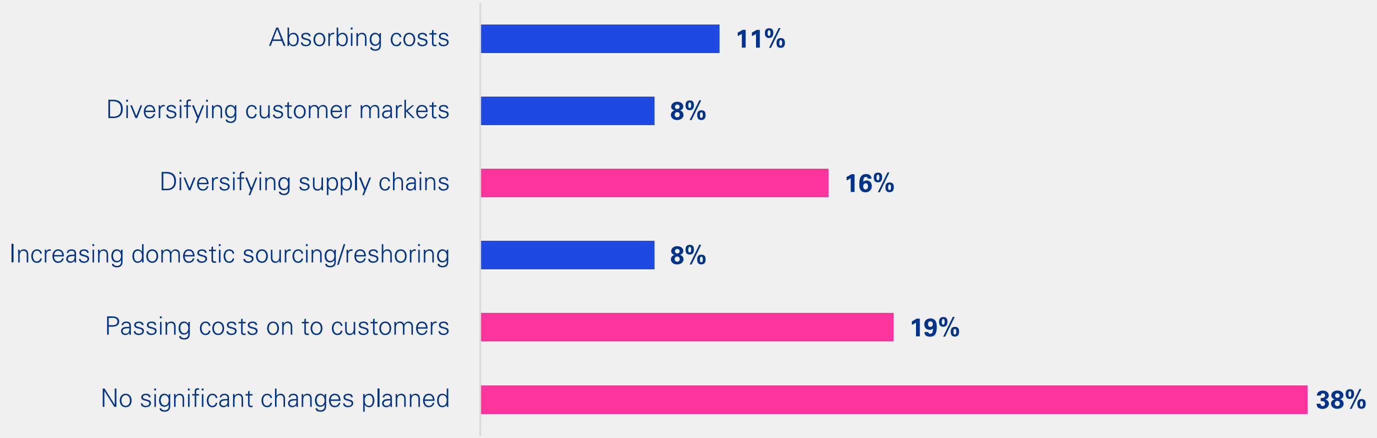
Andy commented, "Foreign trade zones provide a big cash flow benefit because the tariffs aren't due until the goods leave the zone. This strategy helps companies react quickly to tariff changes and gives them a competitive edge in managing trade disruptions."

3 Organizational adaptation

Several organizations are embracing AI to enhance compliance monitoring across their global operations. Their automation of contract reviews and scenario analyses enables them to adapt quickly to regulatory changes and economic shifts. Additionally, these organizations are investing in upskilling their workforce to leverage AI capabilities effectively, helping to ensure continuous productivity and competitive advantage.

Nancy noted, "We are seeing a big uptick in automating compliance monitoring with the use of AI, enabling businesses to more rapidly adjust to new risks. Dynamic risk assessment, including what-if scenario analysis, is vital. It allows businesses to be proactive rather than reactive, ensuring they're prepared for potential changes."

Trade dynamics unveiled: Strategic responses from business leaders



In the face of shifting geopolitical sands, 665 executives weigh in on their strategic compass amid evolving trade dynamics. Interestingly, 38% of leaders are opting for stability, with no significant changes planned, a sentiment prevailing in financial services (54%) and asset management (50%). Simultaneously, a bold 19% intend to pass costs onto customers — a strategy prevalent in Infrastructure & transport (33%) and Consumer, retail & leisure sectors (31%). Notably, 16% are diversifying supply chains, with life sciences (31%) leading this charge towards resilience. These approaches underscore a nuanced balancing act between adaptability and caution, as businesses position themselves to navigate a complex global trading environment.

38%

of leaders are opting for stability, with no significant changes planned, a sentiment prevailing in financial services (54%) and asset management (50%).

5 Strategic moves businesses are making now

Enhancing third-party risk management
Businesses are scrutinizing their supply chains to understand dependencies and vulnerabilities. By refreshing supplier selection and monitoring practices, organizations can ensure business continuity amidst disruptions.

Utilizing AI for contract compliance
Leveraging AI and data analytics for contract review and compliance monitoring enables businesses to adjust rapidly to changes in trade policies and economic conditions.

Conducting dynamic risk assessments
Regular scenario analyses and risk assessments help businesses prepare for shifts in consumer buying patterns, costs, and market conditions, ensuring informed decision-making.

Exploring foreign trade zones
The strategic use of foreign trade zones can delay tariff costs, improve cash flow, and enhance operational resilience, providing significant benefits in managing tariff impacts.

Proactively planning for tariff mitigation
Businesses are exploring various tariff mitigation strategies, including adjusting valuations, transfer pricing, and maximizing trade benefits under existing agreements to navigate the challenging trade environment.

In conclusion, the strategic responses from businesses underscore the importance of resilience, innovation, and proactive planning in managing the complexities of today's economic landscape. By enhancing third-party risk management, utilizing AI for contract compliance, conducting dynamic risk assessments, exploring foreign trade zones, and proactively planning for tariff mitigations, companies can navigate uncertainties with confidence.

The insights provided by Nancy Chase and Andy Siciliano highlight the necessity for businesses to remain agile, well-informed, and prepared to turn potential threats into opportunities for sustainable growth. As the global economic environment continues to evolve, these strategic moves will enable organizations to thrive amidst volatility and uncertainty.

By integrating these strategies into their organizational frameworks, businesses can fortify their resilience and capitalize on emerging opportunities despite the global economic challenges.

Roundtable discussion

During the webinar, two key questions were posed by the audience, reflecting their concerns about navigating tariff uncertainties and managing supply chain disruptions. Regina Mayor brought together all the webinar speakers to facilitate a discussion on these questions and provide practical answers for the audience to leverage:

1. How should global companies best manage all the back and forth on tariffs?
2. What signals are you looking at that might indicate potential significant economic impact in the next 3–6 months?

Managing through tariffs: Strategic amidst uncertainty

Diane Swonk, Chief Economist for the Americas, emphasized the broad economic impact of the new US administration's tariff policies. "The administration in the United States has issued over 200 executive orders and proclamations since Inauguration Day, with more than a quarter related to tariffs," Diane noted.

Dr. Brendan Rynne, Chief Economist for the ASPAC region, highlighted the pronounced impact tariffs would have on ASPAC economies due to their high level of trade dependency. "ASPAC economies provide around 43% of all imports into the United States," Brendan explained. He suggested companies outside the US should remain vigilant and adaptable, ready to pivot their supply chains and consider exploring new markets such as the European Union.

Andy Siciliano, Global Head of Trade and Customs, provided detailed strategies for businesses to mitigate tariff impacts, emphasizing the need for robust trade data and strategic planning. Companies need to prepare for evolving tariffs with strategies such as foreign trade zones utilization, customs valuation adjustments, and duty drawback programs. The landscape is dynamic, with several tariffs pending, including on semiconductors and pharmaceuticals. He discussed various mitigation tools like duty drawback, foreign trade zones, and adjusting valuation and transfer prices; "Use these mechanisms to minimize tariff costs and have a plan in place to adapt as tariffs evolve."

Nancy Chase, Global Head of Risk Services, Nancy discussed the broader strategic implications of tariffs, emphasizing the importance of risk management and scenario planning. She highlighted the necessity for robust third-party risk management, contract compliance, and dynamic risk assessment in order to enhance organizational resilience. "We have to understand critical dependencies and quantify vulnerabilities to better prepare for market disruptions," she stated. Nancy also emphasized the use of AI and data analytics to manage and predict the impacts of tariffs effectively.

Across the board, all speakers stressed the importance of proactivity and strategic management in handling tariff uncertainties. They emphasized the value of data-driven decision-making, preparedness, and the ability to pivot as key strategies for mitigating risks and leveraging opportunities presented by the volatile tariff landscape.

Signals for econmic impact: Monitoring the next 3–6 months

Stefano Moritsch, Global Geopolitical Lead, identified the US-China relationship as the foremost signal. “The medium to long-term trajectory of US-China relations will impact the business environment significantly,” he remarked, underscoring the strategic competition and potential decoupling in sectors critical to national security. Additionally, he highlighted the importance of transatlantic relations, particularly US-EU trade negotiations, in shaping future economic conditions.

Yael Selfin, Chief Economist for the EMA region, encouraged listeners to focus on those trends that are more certain, such as high public debt levels, rising defense spending, the evolution of technology, and aging population. Selfin stressed that for some businesses, rather than waiting for uncertainty to dissipate in some areas like trade before acting, it may be better to focus on opportunities they can already identify and take an early lead.

Dr. Brendan Rynne, Chief Economist for the ASPAC region, pointed out the regional impacts of rising Japanese bond yields and broader shifts in trade policies. “The impacts of tariffs on South Korea and Japan will be pronounced, exacerbated by their high trade dependencies,” Brendan stated. He suggested monitoring these factors closely as they could signal economic slowdowns or shifts in trade dynamics.

Diane Swonk, reiterated the importance of monitoring macroeconomic indicators such as trade balances and inflation rates. “The uncertainty is its own tax on the economy,” she remarked, emphasizing the indirect costs of policy uncertainties. Diane urged businesses to stay informed and prepared to respond to shifting economic conditions.

Nancy Chase focused on the practical aspects of risk management, recommending the use of AI and data analytics for real-time scenario planning. “Leveraging data to model and understand potential impacts is essential,” she stressed. Nancy emphasized the importance of dynamic risk assessment and continuous monitoring to stay ahead of potential disruptions.

As the discussion wrapped up, a shared understanding emerged: businesses should enhance their resilience through strategic foresight, comprehensive risk management, and agile operational adjustments. The webinar underscored that in an era where uncertainty is the only constant, having robust, flexible, and data-driven strategies is imperative.

Regina Mayor aptly summarized the sentiment, noting that business leaders should treat geopolitical risk as an asset, not just as a hazard, and leverage this understanding to navigate the complex global economic landscape effectively. The call to action was clear: stay informed, be prepared, and ensure flexibility to adapt to rapidly changing conditions.

As the discussion wrapped up, a shared understanding emerged: businesses should enhance their resilience through strategic foresight, comprehensive risk management, and agile operational adjustments. The webinar underscored that in an era where uncertainty is the only constant, having robust, flexible, and data-driven strategies is imperative.

Leadership takeaways

Insights from webinar speakers underscore five key critical implications:

01 | **Geopolitical dynamics as strategic considerations:** Business leaders should consider adapting to a world transitioning from a unipolar to a more multipolar landscape. This shift may necessitate a reassessment of global strategies as emerging powers assert their influence. Organizations benefit from proactively monitoring geopolitical developments and embracing flexible, transactional approaches to harness new trade and investment opportunities.

02 | **Elevated operational costs and tariff pressures:** With the surge in trade disruptions and tariff impositions worldwide, businesses might find it advantageous to diversify their supply chains geographically. Strategies such as increasing regional sourcing or reshoring can help mitigate rising costs and ensure resilience, allowing companies to sustain competitive pricing amid these disruptions.

03 | **Fiscal discipline amid debt challenges:** As many economies grapple with significant public debt coupled with evolving spending priorities, business leaders might focus on fiscal prudence and efficient capital allocation. Emphasizing cost management and strategic investments could promise sustainable, long-term growth while navigating financial constraints.

04 | **Navigating major trade relationships:** The shifting dynamics of key global trade relationships will likely have lasting impacts on international business. Enterprises might prepare for potential strategic decoupling in critical sectors such as technology and defense. Diversifying markets and reducing reliance on single geopolitical entities can be crucial in building resilient business models.

05 | **Technological adoption and workforce strategies:** As technological advancements continue to disrupt industries; business leaders can accelerate digital transformation efforts by integrating AI and advanced analytics to drive efficiency and innovation. Furthermore, adapting workforce strategies to leverage talent from diverse regions and addressing demographic shifts could be essential to maintaining competitive advantage.

Overall, these insights emphasize the importance of proactive risk management and strategic flexibility. KPMG professionals worldwide are ready to support business leaders in navigating these complexities, providing the clarity and actionable strategies necessary to manage current uncertainties and seize emerging opportunities.

Contacts

Regina Mayor

Global Head of Clients & Markets,
KPMG International (Moderator)
E: rmayor@kpmg.com

Andrew Siciliano

Global Trade & Customs Services Leader,
KPMG in the US
E: asiciliano@kpmg.com

Diane Swonk

Americas Regional Chief Economist,
KPMG in the US
E: dswonk@kpmg.com

Nancy Chase

Global Risk Services Leader,
KPMG in Canada
E: nchase@kpmg.ca

Dr. Brendan Rynne

Asia Pacific Regional Chief Economist,
KPMG Australia
E: bjrynne@kpmg.com.au

Stefano Moritsch

Global Geopolitics Lead,
KPMG International
E: stefanomoritsch@kpmg.co.ke

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com

Designed by Evalueserve.

Publication name: KPMG Global Economic Outlook

Publication number: 140063-G | Publication date: June 2025