

# Teflon economy shaking off another shock

- The global economy remains resilient in the face of persistent shocks
- The AI boom, defence spending and the energy transition ‘capex troika’ are likely to continue supporting growth going forward
- Still, AI bubble risk, and sovereign debt dynamics remain a worry
- Also this month: [Four summer themes](#) – 1. Will goods inflation continue rising? 2. Will the Fed hike rates? 3. Will we see an EU-China trade war? 4. Will the energy shock drive a resurgence in eurozone wage growth?
- **Spotlight:** Oil forecasts downgraded, but still expect an uptick from here
- Regional updates: EV surge is supporting consumption in the [eurozone](#)
- Political uncertainty weighs on [Germany](#) despite pension reform promise
- Pressure is building in the [Netherlands](#) for purchasing power support
- Data is at ‘peak hawk’ in the [US](#) and is likely to soften from here
- Growth risks in [China](#) tilting upward, but imbalances are getting worse

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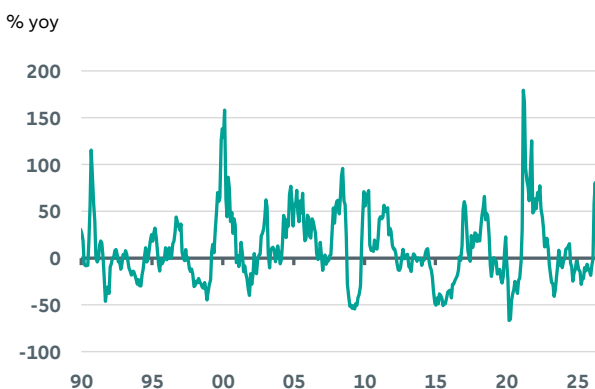
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## Global View: Conditions in place for ongoing expansion

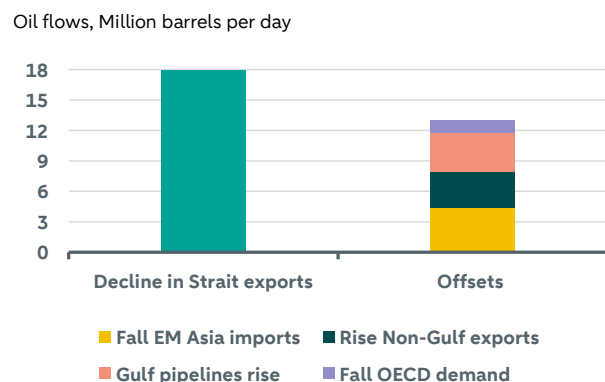
The global economy has continued to expand solidly despite what has been dubbed as the largest energy supply shock in history. This marks the continuation of a theme: resilience in the face of shocks. Just as the global economy took last year’s US import tariff jump in its stride, the energy shock does not look to have derailed economic growth either. Nothing seems to be sticking on this ‘Teflon economy’, though of course that does not mean this will remain the case in the future. So what explains this resilience? First of all, the rise in energy prices – even before their post-Iran deal decline – was not particularly large from a historical perspective. The supply shock was large, even if the ultimate price shock wasn’t, bearing some resemblance to the large supply shock from tariffs last year, whose impact was ultimately not as big as feared. The energy supply gap was partially closed by a number of offsets, with the remaining gap picked up by inventories, which declined sharply (see our Spotlight [here](#)). Second, the energy intensity of the economy has declined over the years, meaning that the impact of energy prices on economic growth has diminished. Third, the global economy was building momentum going into the conflict, with AI, energy and defence investment supporting demand. Looking forward, conditions remain in place for ongoing expansion at roughly trend rates across regions. Inflation will likely remain elevated for a while, but the fall in energy prices from their peaks means that upside risks to inflation have eased and central banks will only have to step on the brakes softly in some cases (ECB, BoJ), and not at all in others (Fed, BoE). The main risks to this view come from the possibility that the AI boom will lead to an AI crash, which would see capex go into reverse and tighten financial conditions, as well as fiscal vulnerabilities in a number of economies.

### Oil price shock not that big even before the deal



Source: Bloomberg, ABN AMRO Group Economics

### Offsets partly closed energy supply gap



Source: IEA, ABN AMRO Group Economics

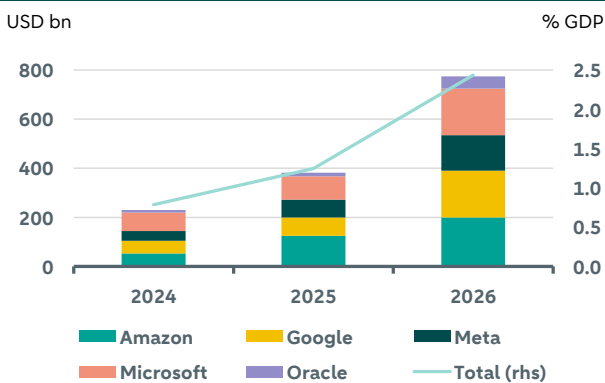
## US-Iran deal looks likely to stick

Developments since the MoU signed between the US and Iran to reopen the Strait of Hormuz and extend the ceasefire by 60 days have been far from smooth. However, both sides have shown a willingness to keep negotiations on track. Incentives to keep gasoline prices from surging on the US side, and to keep their oil exports flowing on the Iranian side, appear to have been keeping both sides on the table for weeks now. We have seen breakdowns in the ceasefire, but these have been relatively short-lived. At the same time, the parallel Israel-Lebanon framework agreement seems to have eased – though not erased – the risk that an ongoing conflict in Lebanon would derail the US-Iran deal. On balance we expect the deal to stick. This leaves the question of how quickly energy supply will normalise. The oil market’s answer to that question – with prices roughly back to pre-conflict levels – seems to be ‘very quickly’. We are a little more sceptical and expect the supply deficit will likely persist until towards the end of the year, with inventories continuing to fall (see [here](#)). This could push oil prices back up to around the USD 80 per barrel mark in terms of Brent. Still, whether oil prices are at USD 70 or USD 80 is not really a big deal for economic growth. Some re-firming of oil prices would however help to keep central banks hawkish for a while.

## A troika of capex booms

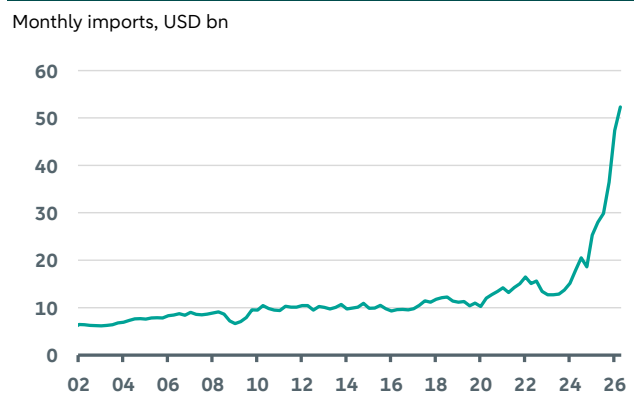
The agreement should bring a sharper focus on a number of positive drivers for the outlook. While we are not changing our forecasts for economic growth on the back of the deal (as it was part of our base case), downside risks to the economic outlook have certainly eased. There were heightened concerns that if the Strait of Hormuz had remained closed through the summer, the energy price shock would have become much bigger. The easing of this uncertainty should also be supportive for consumer and business confidence. In Europe for instance, private sector savings ratios have remained elevated despite strong balance sheets and we see room for these to decline with consumer and investment spending gradually firming (see also this month’s [Eurozone](#)). In addition, the troika of capex booms (AI, energy infrastructure and defence) should continue to support the global economy. AI-related investment of just the big five US companies is planned at almost 2.5% GDP this year, a number which was revised up recently. This is also super-charging global trade, especially in Asia (but even closer to home in the Netherlands), as US AI-related imports are currently growing at more than 80% yoy. Partly related to the AI infrastructure build out, clean energy investment continues to grow strongly according to the IEA. This is particularly the case for investment in electricity grids, which is set to expand by around 20% globally this year, double the rate in 2025. Meanwhile, European defence spending is picking up, most noticeably in Germany, with annual growth running at around 20% so far this year. Finally, financial conditions are accommodative.

**US AI-related capex big 5 doubling this year**



Source: Bloomberg, company reports, ABN AMRO Group Economics

**US AI-related imports continue to surge**



Source: Bloomberg, ABN AMRO Group Economics

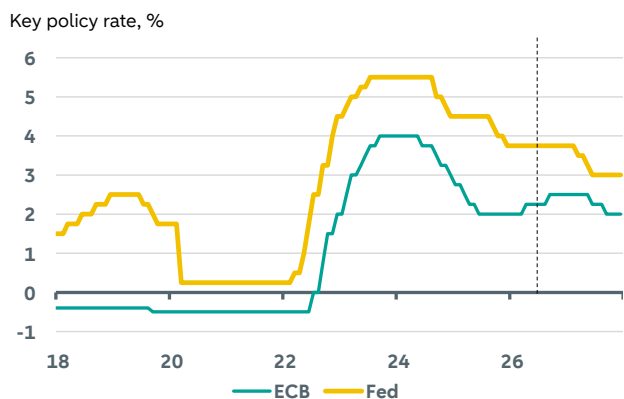
## Central banks to keep a modestly hawkish bias

The latest round of central bank monetary meetings last month generally had a strong hawkish bias, reflecting the rise of headline inflation because of the jump in energy prices, signs of spillovers into other goods and services, and upside risks to inflation because of the possibility of a bigger energy price shock if the Strait of Hormuz remained closed over the summer. However, the situation has changed materially since those meetings, with the US-Iran deal to re-open the Strait leading to a sharp fall in energy prices and reducing the risk of second round effects.

This does not mean that we will hear declarations of victory on the inflation front just yet. Headline inflation will still remain above target for some time (in the case of the US prolonging an already lengthy 5-year period of above-target inflation), there is still uncertainty about how quickly energy supply will recover and whether the deal will hold, while there will still be some pass through of the energy price rise into other goods and services. In addition, the AI boom is also adding upward

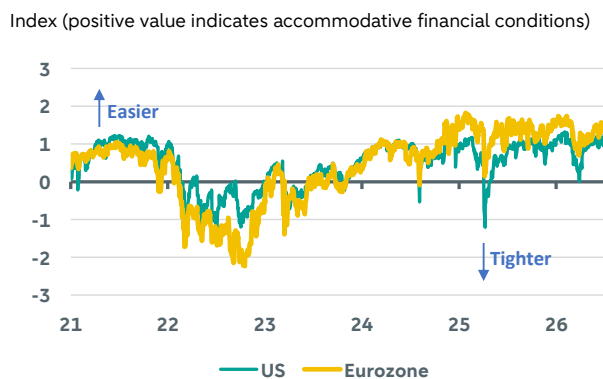
pressure on goods price inflation (see [below](#)). Finally, generals often are busy fighting the last war, and the last war in the case of central banks was the 2022-2023 inflation surge, where it was generally felt that they were slow to act. So overall, we are still likely to see a hawkish bias over the next few months, but the tone will almost certainly soften compared to the June round of meetings. For the ECB we expect one more 25bp rate hike in September (see [here](#)), while for the Fed we expect a further period of unchanged rates that should extend into 2027 (see [below](#) and [here](#)). Eventually, the hawkish bias of central banks should give way to a rate cut cycle. We expect both the Fed and the ECB to eventually cut interest rates next year, with the former likely to be the first mover.

### Central bank rates will eventually come down



Source: Bloomberg, ABN AMRO Group Economics

### Financial conditions

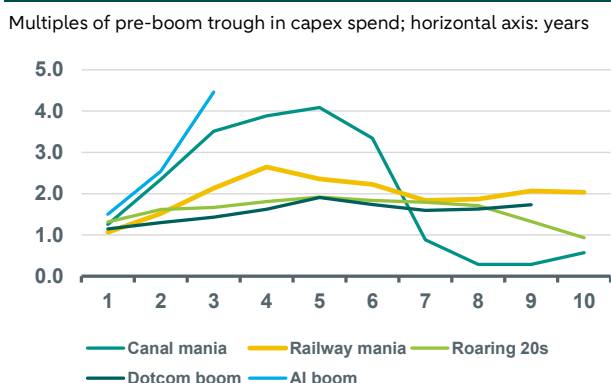


Source: Bloomberg, ABN AMRO Group Economics

## Potential AI bust and fiscal vulnerabilities

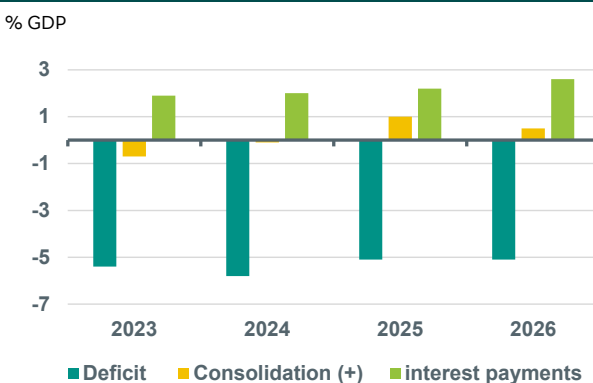
There are of course still downside risks to this view of the outlook, with two that are important to highlight. First of all, the AI boom could turn to bust with capital spending falling back and equity markets re-valuing leading to tighter financial conditions. While the AI revolution will almost certainly lead to significant productivity gains eventually, there are question marks about whether the gains will be sufficient (and the extent to which they will be monetised) to justify the incredible capex rises that we are seeing. Meanwhile, as we explain [below](#), supply-side bottlenecks are starting to appear leading to rising cost pressure. Finally, a recent BIS note (see [here](#)) makes the point that historical innovation-related investment booms driven by expectations of commercial returns over and above what a genuine technological breakthrough delivered have eventually turned to bust. However, we also note that compared to these episodes, the AI capex boom is at a relatively early stage. On average in these episodes, the peak is in year five, so if that is anything to go by, the AI capex boom could have some more room to run. Furthermore, in the most recent episode – the Dotcom boom – although famously led to an equity price crash, investment actually held up relatively well through this.

### Innovation-related capex booms and busts



Source: BIS, ABN AMRO Group Economics

### Breakdown of France public finances



Source: European Commission, ABN AMRO Group Economics

A second risk is fiscal vulnerabilities in a number of large advanced economies. The US and France stand out in this regard. The ongoing sharp rise in public debt and debt service costs projected on current policy settings in both cases, means that term premia may rise even more sharply than in our base case, which could lead to spillovers to other asset classes, driving a sharp tightening of financial conditions. In the case of France, fiscal consolidation over the last two years has been partly offset by rising debt service costs, keeping the budget deficit high. The fiscal consolidation needed to stabilise debt

(around 5% GDP) would be very challenging for even a stable government (see also our note late last year on this [here](#)). Against this background, political uncertainty given next year's elections could be a trigger for greater market concerns.

## Four themes to watch over the summer

With our customary summer break about to start (we resume publishing in early September), the Macro Research team previews four key themes to watch over the coming months. In addition to these themes, this month's Spotlight lays out our expectations for energy prices in light of the recent US-Iran ceasefire deal.

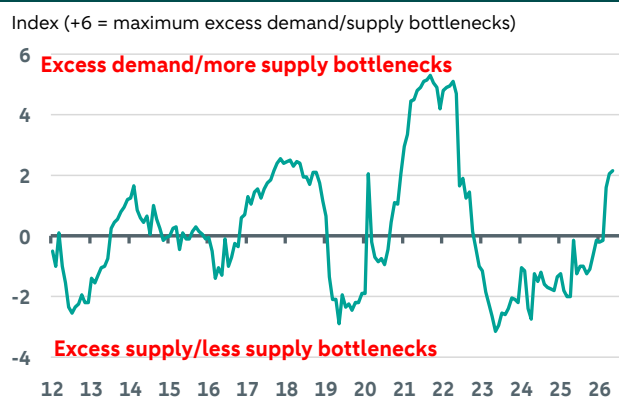
### 1. Will supply bottlenecks and the global tech boom push global goods inflation higher?

*The rise in goods inflation likely still has further to run, but falling energy prices should keep this in check.*

As described in this month's [Spotlight](#), oil prices have fallen sharply since the US and Iran agreed on a Memorandum of Understanding and the Strait of Hormuz was reopened. While we have revised our oil price forecasts down again on the back of this, we expect the oil market to stay in a supply deficit this year, pushing prices back above pre-conflict levels for a while. Although the path for headline inflation will be dominated by the surge and subsequent slump in oil prices, the path for core inflation may be less straightforward. As signalled by the ECB in its [June monetary policy statement](#), 'the longer energy price stay high, the more likely they are to drive up broader inflation through indirect and second-round effects'. The ECB also points to broader disruptions in global supply chains, ongoing trade tensions leading to more fragmented global supply chains, curtailment of critical raw materials and a worsening of capacity constraints, that could drive inflation higher.

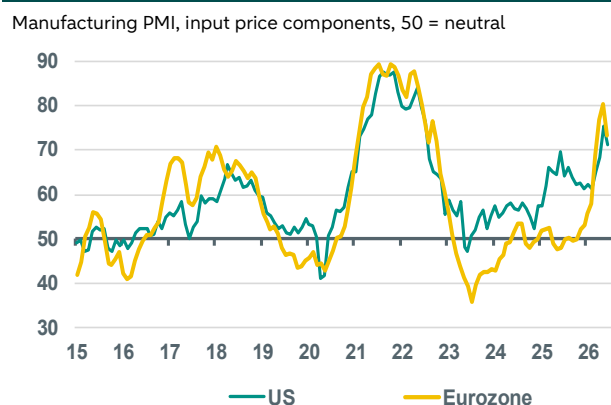
Disruptions in global supply chains are also captured by ABN AMRO's global supply bottlenecks index, which rose to the highest level in four years in May (although we may see some easing in future updates following the reopening of the Strait). This rise is led by the delivery times subindices including in our index, and – to a lesser extent – by indicators capturing shipping tariffs (also see [here](#)). In May, the delivery times subcomponent of the global manufacturing PMI for developed economies dropped to the lowest reading since July 2022 (lower readings point to longer delivery times). We should add that this rise in delivery times likely not only reflects the additional global supply bottlenecks stemming from the Iran conflict, but also the ongoing remarkable strength of the global tech/AI cycle. Note that the delivery times component of the global PMI for electronic equipment – which is also included in our bottlenecks index – is currently also at a four-year low.

#### ABN AMRO Global Supply Bottlenecks Index



Source: ABN AMRO Group Economics, LSEG, Bloomberg

#### PMI price components high, but seem to have peaked



Source: ABN AMRO Group Economics, LSEG

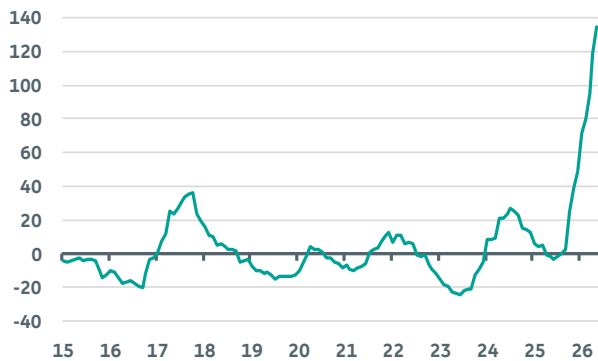
There are more signals that the pass-through of higher energy prices stemming from (the supply bottlenecks related to) the Iran conflict, coupled with the ongoing strength of the global tech/AI cycle, are going hand in hand with rising price pressures in global industry. For instance, the global manufacturing PMI's subindices for input and output prices have been picking up since Q4-2025, and are still at the highest levels in four years. That said, they remain well below the peaks seen during the pandemic and the Russia-Ukraine energy crisis in 2022. Moreover, flash PMIs for the developed economies show that these subindices have fallen somewhat again in June. More broadly, the issue with PMI surveys is that the pick-up in these components is more an illustration of the breadth of price rises captured by these surveys, rather than a precise measure of their magnitude.

Still, more direct price indicators also signal that price pressures in global industry have been building up. Most striking are the price spikes in the global tech/AI sector, with for instance Korean semiconductor prices accelerating to 135% y/y in May. Looking more broadly, pipeline pressure have been increasing everywhere, at least until May. Producer price inflation

(PPI) has risen sharply in recent months in all the key economies that we are following, although remaining well below the peaks seen after the 2022/23 energy crisis.

### Korean semiconductor prices surge

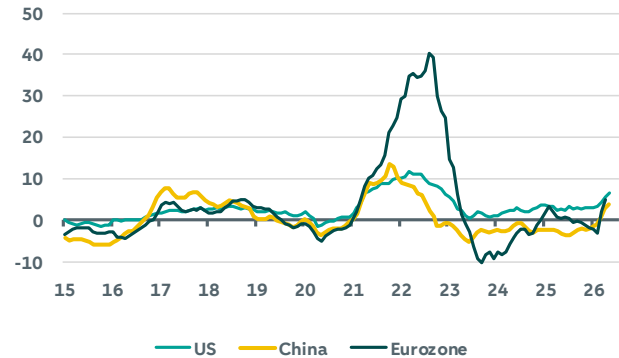
South Korea, PPI semiconductors, % y/y



Source: Bloomberg, Bank of Korea, ABN AMRO Group Economics

### Producer price data confirm rising pipeline pressures

'Headline' PPI indices, % y/y



Source: Bloomberg, ABN AMRO Group Economics

In the US, underlying PPI data suggest that the pass-through into consumer prices may be larger than usual (see [here](#)). The core PCE goods component has picked up since February in y/y terms, although easing a bit again in May (from 2.8% y/y to 2.4%). In the eurozone, rising industrial producer prices in March/April go in tandem with some acceleration in the core CPI component for goods (up to 0.9% y/y in May). It should be noted that the surge in the headline PPI for the eurozone was much higher in 2022-23, as the energy crisis that followed the Russia-Ukraine conflict had Europe at its epicentre. Meanwhile in China, the rise in PPI inflation since March (following 3.5 years of PPI deflation) is the most visible impact of the Iran conflict and this is going hand in with rising export prices, although the trickling down into higher consumer prices is being softened by ongoing supply/demand imbalances and government policies. All in all, recent trends in global industry suggest that the rise in global goods inflation may still have further to run, but the reopening of the Strait of Hormuz – if maintained – and the related drop in energy prices should keep this in check. (Arjen van Dijkhuizen)

## 2. How likely is it that the Fed hikes rates over the coming months?

*We think both the latest energy shock and the case for rate hikes are transitory.*

Markets have dramatically changed their expectations of the Fed's policy path since the start of the Iran war. Early-year expectations of two to three rate cuts in 2026 were fully priced out by mid-April following the energy shock, and since May markets have begun to price in hikes for this year. Kevin Warsh's [first FOMC meeting](#) pushed pricing sharply higher, as the press release, and to a lesser extent the chair himself, surprised strongly to the hawkish side. This hawkish shift in tone was the result of an equally significant shift amongst the committee, corroborated by an upward move in the dot plot (see right chart below). Half the members now expect at least one rate hike by year-end; many see two or more.

Nevertheless, we still expect the next policy move to be a rate cut. The Fed appears comfortable staying on hold while it assesses the economic impact of the latest shock. The dataflow is currently in peak-hawk territory ([see US regional](#)), but we expect the dataflow to turn in a decidedly more dovish direction in the coming months. As a result, we expect the narrative in the third and fourth quarter of this year to shift in a more dovish direction, ultimately preventing rate hikes. In the following, we assess the case for and against hikes, and our updated Fed policy rate outlook.

**The case for rate hikes.** Compared to recent years, the Fed is arguably in a good position. Whereas both the labour market and inflation were a concern for much of the past two years, recent data points primarily to an inflation problem. Inflation has surged on the back of the energy shock, adding to an overshoot that has already persisted for more than five years. Moreover, even before Hormuz closed, we were projecting that inflation would [reaccelerate](#) this year.

The standard central bank response is to look through energy shocks, waiting for them to fade while monitoring second-round effects. Rate hikes do not resolve the underlying supply constraint and risk further squeezing consumers whose purchasing power is already under pressure. This logic applies to all supply shocks and also guided the Fed's response to tariffs, where it stayed on hold until second-round effects were deemed limited before resuming easing.

### Markets started pricing in rate hikes in May ...

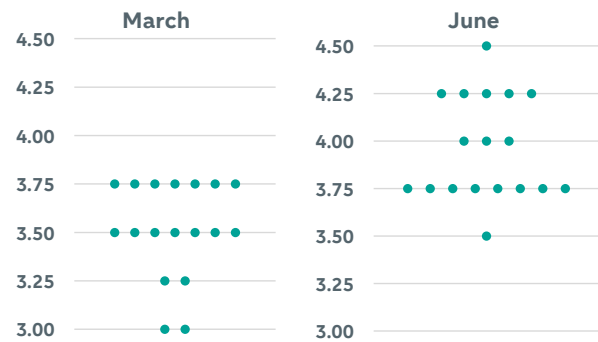
Market pricing for upper bound of fed funds rate by date, %



Source: Bloomberg, ABN AMRO Group Economics

### ... and the Fed has followed suit

Fed dots, upper bound of fed funds rate by December 2026



Source: Bloomberg, ABN AMRO Group Economics

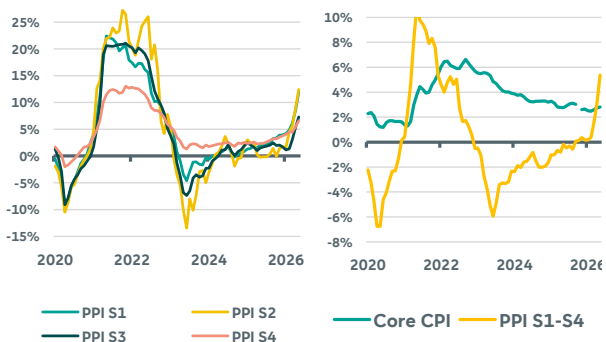
The main argument for hiking now is therefore simply the duration of the shock. Inflation has been above target for too long. One can look through supply shocks, but their combined impact has now led to inflation being above target for so long, that the latest one must be quelled. This argument appeared to be made by Kevin Warsh in the opening remarks of his first press conference. However, with oil supply likely to normalise over the coming year, the inflation trajectory should improve. Hikes would only accelerate the return to target, but potentially at significant cost. The bar for action is therefore likely higher, requiring clear evidence of second-round effects.

In that context, PPI data provides the strongest argument. The chart on the bottom left shows an [update](#) to our PPI analysis, and the latest datapoint since then shows a clear deterioration, with pressures in the supply chain intensifying as the energy shock cascades. This points to pipeline consumer price pressures that may justify upward revisions to inflation forecasts, and accordingly, pave the way for hikes.

A final argument is that the current inflation pickup is not purely supply-driven. Part of the overshoot reflects demand, with strong price increases in chip- and memory-related goods linked to the AI buildout (see also [here](#)), alongside additional demand from larger-than-usual tax rebates. A policy rate hike would at the very least reduce this demand driven inflation, bringing the Fed closer to target.

### Inflation and inflation pressures are rising...

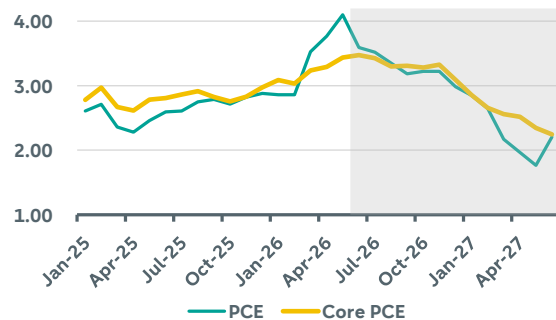
lhs: PPI y/y%, rhs : CPI, y/y%



Source: LSEG, ABN AMRO Group Economics. Note: PPI S1 to S4 signal early-stage to near-consumer stages in the production cycle.

### ...but peak headline inflation is behind us

Share of PCE inflation at 3m annualized rate, %



Source: LSEG, ABN AMRO Group Economics

**The case against rate hikes.** The primary argument against rate hikes is that they do not address the current inflation problem. Higher rates will not restore energy supply and even on the demand front, they are unlikely to derail the AI buildout. While they would further suppress demand, the benefit would be limited and come at significant cost to an already pressured US consumer. We see limited risk of second-round effects. The labour market remains in a low-hiring, low-firing equilibrium, with subdued wage pressures ([see US regional](#)). Demand is already easing, reflecting both the hit from higher energy costs and tighter financial conditions via higher long-term rates, even without additional policy

tightening. We expect PPI pressures to ease alongside energy prices, though some pass-through to core will persist. As highlighted in the US chapter, the lack of breadth in inflation reduces the risk of price cascading. Taken together, these factors do not point to a meaningful reacceleration in inflation.

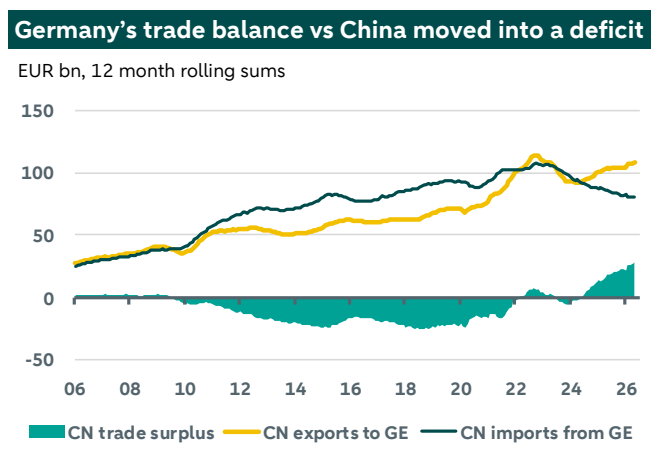
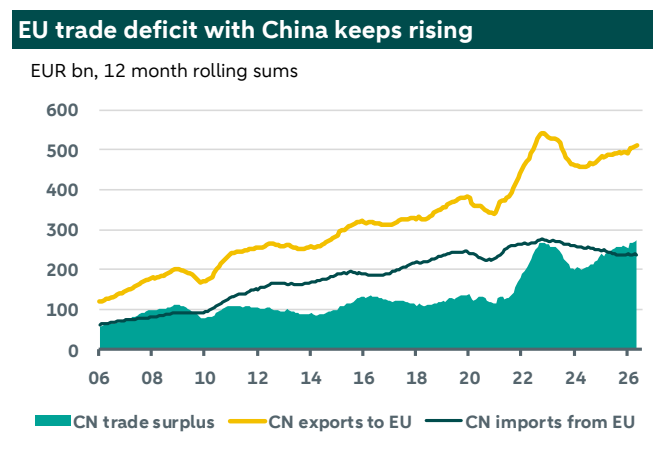
**Our Fed view.** Overall, signals on inflation remain mixed. The Fed is likely to take its time to assess whether recent shocks will meaningfully lift core inflation. Our models suggest headline inflation peaked in May, with core inflation likely to have peaked in June. Headline, and to a lesser extent core, inflation are then expected to ease quickly thereafter. At the same time, labour market momentum is set to slow due to earlier frontloaded hiring, weighing on job gains in Q3 and Q4. Together, this should shift the policy narrative from tightening to neutral, and eventually to the possibility of easing by the second half of the year. However, we do believe that the persistence of the energy shock is likely to delay the actual decrease in the policy rate until next year. We therefore now expect the first rate cut in Q1 2027, with another 50 bps of cuts in Q2, bringing the Fed Funds upper bound to 3.00% by June. Previously, we expected cuts to start in December. (Rogier Quaedvlieg)

### 3. Is this the start of a new EU-China trade war?

*Although the EU is slowly moving toward a firmer stance on China, economic dependence and different intra-union stakes are likely to make it tread carefully in the near term*

Just before the summer break, EU leaders hardened their rhetoric on China and gave the European Commission the mandate to build on growing concerns around the need to rebalance the EU’s trading relationship with China. This relationship is increasingly characterised by a widening trade deficit, weighing on core economies such as Germany and key industrial sectors including automotive, chemicals, and machinery. At the same time, Europe’s dependence on China has increased due to its dominant position in critical supply chains. With the Commission expected to move swiftly on new policy proposals, EU-China relations will remain a key theme to follow over the summer.

The macroeconomic backdrop is clear. Over the past decade, with Beijing focussing sharply on high tech industrial policy, China has moved up the technological value chain, transitioning from a source of demand into a direct competitor for European industry, both domestically and in third markets (also see the China special in our 2026 Outlook [here](#)). Meanwhile, weak domestic demand in China has added to the issue of export overcapacity, while China is managing its currency partly with an eye to preserve external competitiveness. In addition to increasing its market share in key industrial sectors, China retains significant control over critical inputs and raw materials, with rare earth minerals being the most evident case. If needed, for instance at the height of trade tariff tensions with the US last year, Beijing has shown a clear willingness to use this leverage, by stepping up export controls.



Source: ABN AMRO Group Economics, Bloomberg

Source: ABN AMRO Group Economics, Bloomberg

Germany, previously a major beneficiary of Chinese demand, has increasingly felt the impact of what is now widely referred to as the “Second China Shock.” Its trade surplus with China has reversed into a deficit, which keeps widening to record levels. This trend has accelerated since the outbreak of the war in Ukraine, which disproportionately affected European, and in particular German, energy-intensive industries. Moreover, the 2nd China shock has intensified amidst US-China trade decoupling seen last year, with a larger part of Chinese exports heading for other destinations (mainly ASEAN, but also the EU).

These macroeconomic dynamics have preceded the recent tightening in tone among European policymakers. While countries such as France have traditionally been a proponent of a more protectionist stance, the shift in Germany's position is particularly illustrative of a broader consensus forming within the EU. In 2024, under the previous German government, Berlin opposed EU tariffs on [Chinese electric vehicles](#). More recently, however, Chancellor Merz reportedly characterised China as “flooding markets through high subsidies,” pointing to “subsidised overcapacity” and an “undervalued yuan.” Although Germany remains cautious about jeopardising remaining export demand from China, the shifting policy stance is increasingly evident in Europe's largest and most exposed economy. It however does not secure full consensus among the EU yet as Spain, a recipient of Chinese FDI, remains an advocate for the status quo.

EU leaders gave Von der Leyen's Commission a mandate to i) continue addressing imbalances diplomatically, but ii) also investigate how to complement the existing policy toolkit in trade defence and industrial policy. The current framework is perceived as too slow, too constrained, and, in some cases, too costly to deploy.

The goal would be two objectives. First to reduce strategic dependencies, in line with recent G7 [commitments](#). A so-called “diversification instrument,” would require firms to source no more than 40% of inputs from a single supplier and country – a measure aimed at enhancing supply-chain resilience. The second objective is more explicitly defensive, focusing on enabling the EU to respond more rapidly to perceived unfair trade practices. This could include ways to implement tariffs; ideas in line with the US' Section 301 framework, have been advocated by President [Macron](#).

Looking ahead, the EU is likely to act cautiously due to differing national economic interests and views on how to approach China. A more assertive stance towards China will almost certainly trigger retaliation. In the near term this would come at a time when the European economy is still digesting the fallout from the Iran energy shock. European industry is also still very much dependent on Chinese inputs, and there are still issues to tackle regarding the trade relationship with the EU's most important export partner (US). While new Commission proposals could be presented as early as the September State of the Union, translating these into concrete measures will take time. Political willingness across member states must first be secured, and proposals will need to be converted into legislation. Crucially, the EU's ability to sustain a tougher stance will depend on meaningful progress in supply chain diversification. This means that the status quo, and thus competitive pressures for European industry, is unlikely to change in the near term. Even so, signalling to Beijing that the EU is considering some measures may lead to more sense of urgency amongst Chinese policy makers to address domestic supply-demand imbalances. Meanwhile, the EU's trade representative Sefcovic and China's Commerce Minister Wang agreed on 29 June to install an October deadline for ‘tangible results on trade and investment balancing, export controls, market access and a joint monitoring system’.

Zooming out, the need to act on China Shock 2.0 may be increasingly compelling, but it should not detract from the need for domestic reform. The EU does have some leverage in the US-China trading relationship; access to its single market with 450 mn consumers. Further improving the single market by reducing internal barriers to investment and trade remain as important. It is not just Chinese industrial policy that shaped the current imbalances. Europe's weak productivity trend and broader competitiveness issues as signalled by Draghi also play a role, and need a firm and timely response. (Jan-Paul van de Kerke & Arjen van Dijkhuizen)

#### **4. Will eurozone wage growth heat up in response to the energy shock?**

*Our baseline is that wage growth stays elevated but does not return toward 2022-style acceleration.*

A lesson from the previous energy shock was that wage catch-up was an important contributor to the persistence of services – and in turn overall – inflation. While the latest energy shock is now dissipating, the question of whether this dynamic will repeat itself remains a pertinent one. There are three major differences between this shock and the last one, which give us confidence we won't see a repeat of that episode: 1) the current shock to energy prices is much smaller than in 2022, 2) labour market tightness has eased significantly, and 3) back then households came out of the pandemic with considerable pent-up demand. Still, wage growth remains above pre-pandemic rates and services inflation has not yet fully normalized<sup>1</sup>. This makes wage growth a key variable to follow over the summer. A renewed acceleration could become concerning if it sparks a rise in (services) inflation rather than being absorbed by profit margins. Below we take stock of the [three most important drivers](#) of wage growth.

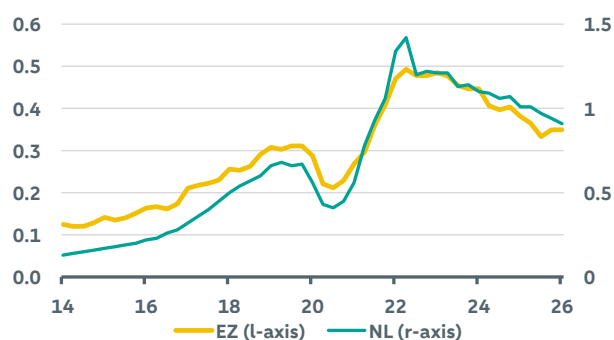
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<sup>1</sup> We [previously estimated](#) that to be consistent with 2% inflation, wage growth would be equivalent to the inflation target plus long-run productivity growth. For the eurozone this ranges from 2.7 to 3.0%.

Let's first consider labour market tightness. As [previously described](#), the job vacancy ratio is a more useful measure of underlying labour market tightness than the unemployment rate. On this measure, labour market tightness has eased significantly from the 2022 peak – without a meaningful rise in the unemployment rate. Generally, labour markets are cooling but expected to stay relatively tight due to labour demand in specific areas, such as in healthcare and defence. This suggests bargaining power is no longer as strong as it was in the previous energy crisis, which should reduce the upside on wage growth.

### Vacancy ratio declined from peak

Vacancies per unemployed



Source: LSEG, CBS, ABN AMRO Group Economics

### Price expectations on the decline again

Consumer price expectations, 12m ahead



Source: EC, ABN AMRO Group Economics

Inflation expectations are another factor that can affect wage dynamics, both in the short and longer term. When households expect inflation to stay high, they are more likely to demand compensation through wages. This can happen even if longer-term expectations remain broadly anchored. This time, expectations have risen again, but in the eurozone at least, not to the same extent as in the 2022 energy crisis. More recent numbers also point to some easing, which suggests limited additional pressure on wage growth from forward-looking expectations, though wage growth can still be influenced by realised inflation and purchasing-power losses.

Finally, for the eurozone aggregate, compensation per employee has broadly recovered the real income losses suffered in the previous energy crisis, which reduces the scope for large additional wage catch-up at the aggregate level. Generally, some pressure on wage growth is likely through the real wage catch-up channel, but the size of that pressure depends on the duration and intensity of the shock, as well as the aforementioned tightness – and therefore bargaining power of workers. With the shock itself already dissipating and labour markets much looser, we see limited scope for wage growth moving considerably higher on the back of this shock.

Given all the above, our baseline is that wage growth stays elevated but does not return toward 2022-style acceleration on the back of the recent energy price shock. This is so far consistent with forward-looking indicators such as the ECB wage tracker and Indeed wage growth. Still, given the risk for services inflation, wage growth developments bear close following. (Aggie van Huisseling & Bill Diviney)

## Spotlight: Oil's bearish turn premature, but worst looks behind us

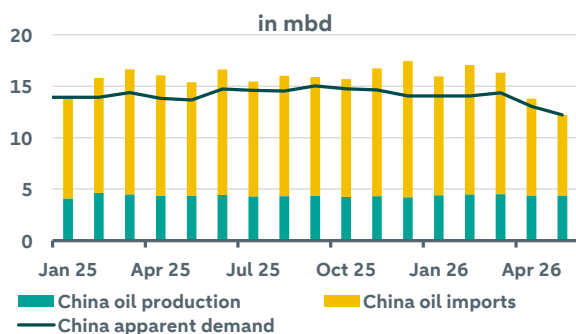
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- Oil prices have fallen sharply, but current levels appear low relative to tight physical market conditions
- Inventories remain low, while summer travel and refinery activity should support oil demand
- Supply is expected to recover next year, while demand growth should be limited by ongoing decarbonisation in transport
- Our new end-year forecasts are USD 80 per barrel for Brent and USD 75 for WTI; for end-2027 we expect USD 70 for Brent and USD 65 for WTI

Oil prices stayed relatively contained during the crisis, even though the IEA described it as the worst energy shock on record. This was due to several factors. The shock hit an oil market that was oversupplied at the start of 2026, and global decarbonisation trends and eurozone efforts to improve energy security helped to further soften the effect of the crisis. Most importantly, there were also several important offsets. On the supply side, the US kept oil production close to maximum capacity and exported a large share of its output, even as domestic inventories declined. Saudi Arabia, the UAE and Iraq were able to increase supply through pipelines, limiting the fall in oil exports.

### Oversupply in China coming into the conflict

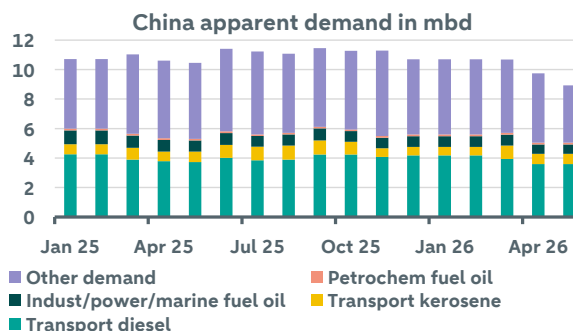
In million barrels per day



Source: Bloomberg, ABN AMRO Group Economics

### Decline in other demand and transport demand

In million barrels per day



Source: Bloomberg, ABN AMRO Group Economics

On the demand side, Chinese oil imports dropped significantly. Before the conflict, China had been importing more oil than it needed, adding the extra supply to its reserves. When the Strait of Hormuz closed, China was still able to secure a sizeable amount of oil from the Middle East, unlike Japan and some other Asian countries. China could also draw on its earlier supply buffer, limit its exports of refined products, and encourage domestic demand to shift away from liquid fuels towards coal and electricity, including electric vehicles. The chart on the left shows China's oil balance, while the chart on the right shows which sectors recorded lower oil demand. Demand for diesel and gasoline in transport declined, but the largest drop was in "other demand". It is unclear what this category includes, but we think it may include refined oil products, some of which are normally exported, mainly to the rest of Asia.

### A sharp drop in OECD commercial inventories

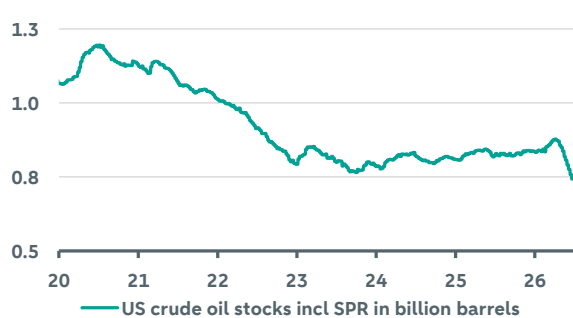
In billion barrels



Source: DOE EIA

### US crude oil stocks are at their lowest level

In billion barrels



Source: DOE EIA, ABN AMRO Group Economics

Despite the offsets the market was still in a deficit, so inventories fell sharply. Total global oil inventories are often estimated at around 7.5–8.0 billion barrels, but usable land-based reserves are only about half of that amount. The reserves that are reported are shown in the charts above. The chart on the left shows a sharp decline in OECD commercial inventories, which are approaching their 2022 lows. As the data are from the end of May, inventories are likely to have already fallen below that level. The chart on the right shows US crude oil stocks, including strategic petroleum reserves, at their lowest level since the early 1980s. Putting these figures into further context, China’s crude oil reserves are estimated to have reached around 1.4 billion barrels by the end of 2025 after several years of reserve building, although these figures are not publicly reported. It is also not clear to what extent they’ve been drawn down over the past few months.

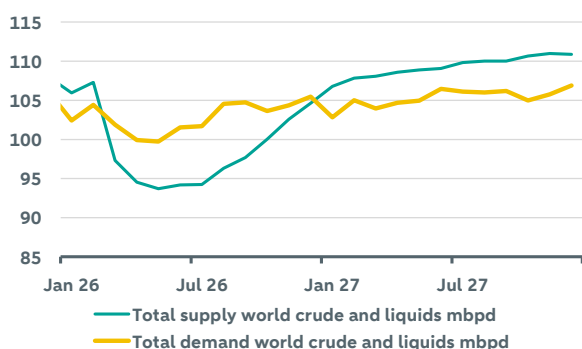
## What to expect from oil prices going forward

Since the US and Iran agreed a Memorandum of Understanding and the Strait of Hormuz reopened, oil prices have fallen sharply to around USD 70 per barrel. This is more than 40% below the peak reached during the conflict and close to where prices stood when the conflict began.

Looking ahead, we think the war risk premium in reference to the US-Iran conflict has now largely disappeared from prices. The strong US dollar has also contributed to recent oil price weakness. However, we do not think current oil price levels fully reflect the supply and demand balance in the market. Currently, oil prices and the forward curve appear to reflect expected oversupply next year but seem to ignore the undersupply this year. It will take time to restore oil supply in the Middle East. Meanwhile, demand is set to recover. Inventories are very low and prices are relatively attractive, so countries are likely to try to rebuild reserves to reduce their vulnerability to future shocks. Summer demand is also usually high, while product inventories, including kerosene, gasoline and other oil products, remain low. Refined product prices have fallen less sharply than crude oil prices, and refinery margins have increased. This is partly because Brent for immediate delivery has declined. This should support additional oil demand from refineries. On net, in line with the EIA, we therefore expect upward pressure on oil prices, and a continued drawdown of oil inventories this year. For next year, we expect supply to increase (see graph below on the left). This could come from the UAE after it left OPEC+, from Iran if the embargo is lifted, and from Iraq if it receives a higher OPEC quota. We also expect demand to recover, but to a lesser extent, as the transport sector continues to decarbonise, in particular the shift to electric vehicles. China is already well advanced in this process. As a result, we expect oversupply in 2027, as shown in the chart below right.

### Supply and demand for crude and liquid products

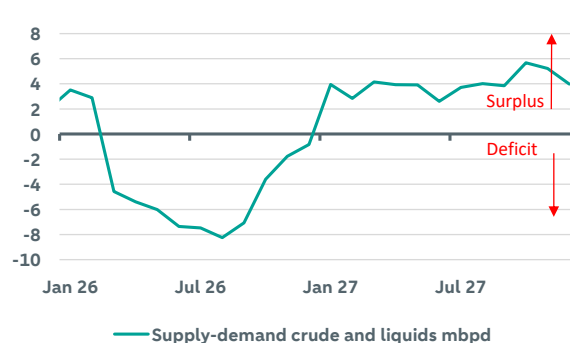
In million barrels per day



Source: DOE EIA STOE June 2026, ABN AMRO Group Economics

### EIA expect oversupply to start in 2027

In million barrels per day



Source: DOE EIA STOE June 2026, ABN AMRO Group Economics

These dynamics are the basis for our revised oil price forecasts. We now expect Brent to end this year at USD 80 per barrel and WTI at USD 75 per barrel. For the end of 2027, we forecast Brent at USD 70 and WTI at USD 65 per barrel.

### ABN AMRO oil price forecasts

	2026				2027				
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	
<b>Brent Oil</b>	118	75	80	80	75	75	70	70	
<b>WTI</b>	101	70	75	75	70	70	65	65	
<b>Averages</b>	2026				2027				
	Q1	Q2	Q3	Q4 Full year	Q1	Q2	Q3	Q4 Full year	
<b>Brent oil</b>	78	97	83	80	86	75	70	70	73
<b>WTI</b>	72	93	75	75	78	70	70	65	68

## Eurozone: The energy shock is dragging – and driving – consumption

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- Surging EV sales suggest consumption was not only hindered, but also helped by the energy shock
- With the energy shock fading, consumer confidence is likely to recover, further helping consumption
- The ECB is still expected to hike once more in September, with rate cuts expected in Q2-Q3 2027

Eurozone GDP ultimately contracted by 0.2% q/q in Q1, with the 12% q/q plunge in Irish GDP even more extreme than in the 1<sup>st</sup> estimate (-2%). Ireland alone has led us to downgrade our 2026 growth forecast to 0.5% from 0.8%, though we urge readers not to take any signal from this: as explained last [month](#), underlying GDP growth has actually been solid, and ex-Ireland Q1 GDP growth was even revised *up* to 0.3% q/q in the 3rd estimate. This is remarkable given the energy shock, and underlying growth is expected to have stayed solid in Q2. It turns out that while the energy shock was a drag on consumption in many areas (naturally for petrol sales, but more broadly retail sales), it was a stimulus in others – specifically, EV sales jumped 40% y/y in the 3 months to May, more than offsetting the ongoing decline in ICE car sales and driving overall car sales up 6.4% y/y. The obvious interpretation of this is that higher petrol prices acted as an accelerant to the adoption of EVs, given that electricity prices (and therefore EV charging tariffs) have been stable through the shock, unlike in 2022-23. Whatever the reason, the strength in car sales helped private consumption to see modest growth of 0.2% in Q1, which comes despite the sharp drop in consumer confidence following the outbreak of the Iran war. With the energy shock now receding and inflation expectations falling, confidence has already started to return. The question now is, how prepared will households be to lower their still historically high savings rates and start consuming again? Our (and the ECB's) base case is that this will happen gradually over the coming quarters and – assuming no new shocks – the consumer should become a bigger growth driver as we move into 2027.

Falling inflation will surely help consumer confidence to recover, though despite the significant fall in energy prices, we expect inflation to remain somewhat elevated over the coming months. This is because inflation itself has broadened beyond being a mere energy story, with goods inflation also seeing a rise on the back of an increase in supply bottlenecks – particularly in the AI-linked tech sector. As a result, while we this month downgrade our headline inflation forecast for 2026 by 0.3pp to 2.5% on the back of lower energy prices, we also upgraded our core inflation forecasts, and inflation next year is now expected to stay a little above the ECB's target at 2.1%.

### EV sales have surged in recent months

Monthly EU EV sales, thousands, 3mma



Source: LSEG, ABN AMRO Group Economics

### How quickly might the consumer bounce back?

Eurozone consumer confidence, index



Source: Bloomberg, ABN AMRO Group Economics

## ECB now likely to hike just once more in September

The firmness in core inflation is likely to keep the Governing Council erring on the hawkish side at coming meetings. While even hawks appear now to be ruling out a hike in July (Kazaks on 30 June: “the urgency of consecutive moves has decreased significantly”), we are pencilling in one more hike, to take place in September. Prior to the announcement of the US-Iran deal, the ECB's surprising hawkishness at the June Governing Council meeting had led us to think the ECB would go even further and hike a third time in December. However, with energy prices falling more significantly and durably than we previously thought, this now looks unlikely. Assuming no significant spillovers to wage growth from the inflation wave (see [here](#)), we continue to think the ECB will dial back policy tightening in the course of next year, with two rate cuts each expected in Q2 and Q3 2027.

# Germany: Political uncertainty keeps weighing on economy

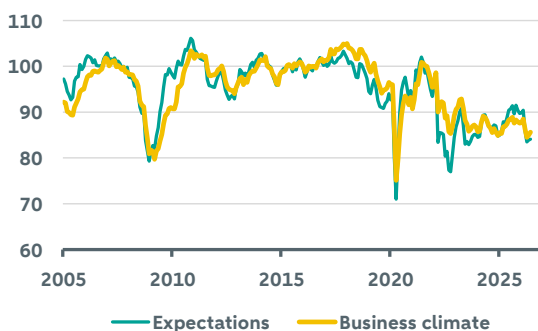
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- The economy is stabilizing but remains fragile, with inflation above target
- Some progress on pension reforms, but internal tensions persist
- Rising political risks and uncertainty due to voter dissatisfaction

Following a setback in February, the latest sentiment indicators point to a bottoming out. For instance, the Ifo index has increased albeit remaining at a low level. Consumer confidence has risen as well, reflecting a more favourable labour market outlook according to the IAB and Ifo. These tentative improvements follow reports of a ceasefire between the US and Iran and may continue if peace negotiations develop positively. Earlier, in response to the conflict and the resulting rise in energy prices, we revised our GDP growth forecasts downwards to 0.8% for this year and 1% for next year. At present, we see no reason to adjust these projections further. Although uncertainty continues to weigh on consumption and business investment, the economy is supported by higher public spending. The government is investing in defence, infrastructure and climate measures, albeit more slowly than anticipated. The 2025 elections forced the government to operate under a provisional budget for an extended period, resulting in only 65% of the €37 billion infrastructure fund being spent last year. In 2026, implementation has accelerated, with 28% of the €40 billion allocation deployed by April. Nevertheless, sluggish fiscal roll-out at the local government level continues to justify our cautious growth outlook. According to preliminary figures inflation fell to 2.3% year-on-year in June, down from 2.6% in May, and 2.9% in April. Inflation is currently being depressed by the reduction in fuel duties introduced in May, as well as the recent drop in energy prices. The fuel duty cut will lapse as planned in July, and although energy prices are now falling, rising core inflation (especially goods) is expected to keep overall inflation above target for some time.

## Confidence bottoming out after US-Iran agreement

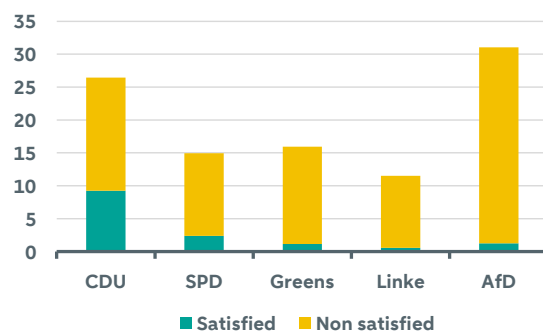
Index, 2015 = 100, seasonally adjusted



Source: ABN AMRO Group Economics

## Discontent with coalition even within its own ranks

% share voters 5 major parties & corresponding government satisfaction



Source: PolitPro, ABN AMRO Group Economics

The government took first steps towards pension and labour market reforms. It intends to supplement the pay-as-you-go scheme with a funded pillar that invests in riskier, but potentially higher-yielding, capital market assets. Progress on this front is welcome, as little has so far come of Merz's election pledge to implement structural reforms, aside from changes in healthcare and a new heating law. Merz had promised to put an end to the infighting that characterised the previous government but has failed to do so. Nor has he delivered on his pledge to halve support for the AfD. Recent polls suggest that the pro-Russia, anti-Nato and anti-EU AfD is now leading. Many voters are not so much drawn to AfD out of conviction, but rather out of disappointment with the established parties. Indeed, nearly half of voters believe the coalition should not serve out its full term. The coalition has already suffered setbacks in two state elections and several elections on the municipality level and risks further losses in three more elections scheduled for September. The SPD in particular is bearing the brunt. It faces a difficult dilemma: whether to adopt a more socially conservative stance to win back voters from the AfD, or to pursue a more progressive course that appeals to those who have defected to the Greens and Die Linke. Further political fragmentation appears likely in the event of a poor electoral outcome. It is even conceivable that the SPD could withdraw from the government. CDU/CSU might then opt to govern without a fixed coalition, seeking ad hoc majorities on a case-by-case basis. The Dutch experience, however, illustrates the challenges of such an arrangement. This applies all the more to Merz, who is unpopular even among CDU voters. Overall, the government remains on fragile footing. Early elections are a possibility, with the AfD potentially gaining further ground. For the economy, this would mean heightened uncertainty and a risk of delays in reforms and decisions on defence and infrastructure spending. All the more reason for the current coalition to press ahead with reforms.

## The Netherlands: The Harry Styles effect

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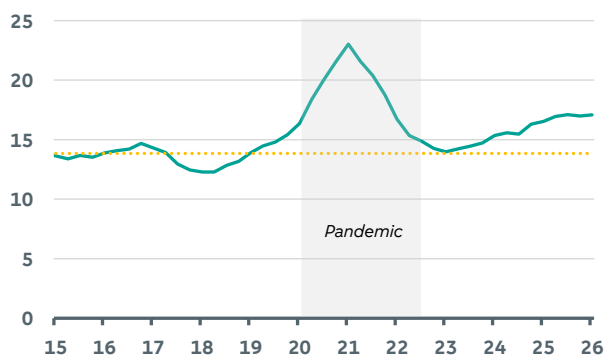
- Q1 GDP upwardly revised to 0.2% q/q. We expect growth to average 0.9% in 2026 and 1.1% in 2027
- CPI inflation rose sharply to 3.5% y/y in May, largely driven by airfares and accommodation
- With Prinsjesdag (Budget Day) approaching, attention is turning to purchasing power support

GDP figures for Q1 were upwardly revised in the second calculation to 0.2% q/q (was 0.1%), on the back of higher household spending and a less sharp decline in exports. These figures were therefore more in line with our [initial view](#) that the growth impact of the conflict in the Middle East was expected to be more limited in the near term compared to the energy shock of 2022. While households remain cautious, as reflected by the still elevated savings rate, consumer confidence rose sharply in June. Still, it remains below historical averages, signalling continued caution. June was also the month of the MATCH Act, a US bill seeking to tighten export controls by the US and its allies on China, increasing the risk that the Dutch semiconductor value chain becomes once again a focal point of geopolitical tensions. Still, with the Iran deal looking more likely to stick ([see Global View](#)) alongside the resulting decline in energy prices, in combination with an upwardly revised Q1 figure, risks to our growth forecasts are becoming more balanced.

CPI inflation rose sharply to 3.5% y/y in May, up from 2.8% in April. The largest driver of the uptick was services inflation, with the contribution to the total figure rising to 2.4pp (from 1.9 in April). Underlying this uptick were airfares and accommodation. The former is related to the large rise in jet fuel after the conflict in Iran broke out. The latter likely has to do with Harry Styles. As the British singer only visited Amsterdam and London during his Europe tour, this was a reason for many tourists to travel to the Netherlands. Airfares and accommodation together explain 0.41pp of the rise in services inflation. The June CPI figure declined again to 2.9% j/j. More generally, we expect Dutch HICP inflation to average 3.0% in 2026 and 2.6% in 2027, with elevated energy prices gradually filtering through to other inflation categories such as industrial goods and food. The decline in energy prices on the back of the agreement between the US and Iran, and the accompanying opening of the Strait of Hormuz, forms a downward risk for the inflation forecasts. Part of the earlier energy price shock, however, is still in the pipeline and has a lagged effect on consumer prices.

### Uncertainty causes household prudence

Savings rate, yearly moving average. 2015-19 average in yellow.



Source: CBS, ABN AMRO Group Economics

### May CPI rise driven by transport and accommodation

Pp contribution to services inflation (CPI)



Source: CBS, ABN AMRO Group Economics

After the summer, all eyes will be on Prinsjesdag (Budget Day). With inflation well above assumptions underlying the Coalition Agreement, previously expected gains in purchasing power will erode, while tax increases are still planned for 2027. The [CPB](#) recently calculated that, under a “market expectations scenario”, the average household will see its disposable income fall by less than 1% in 2026 and 2027. While this is considerably smaller than the purchasing power losses during the previous energy crisis, it remains meaningful. According to preliminary reports this has started up the discussion for purchasing power support come Budget Day. Perhaps that’s understandable from today’s perspective, but less preferable if it would serve as a distraction from much needed broader reforms, such as solving the various bottlenecks that are weighing on economic activity (grid congestion, limited business dynamism, stringent nitrogen standards). From this perspective, news on policy developments over the summer will be important to monitor. In general, it will be the first Budget Day of the minority Jetten Cabinet. While the war in Iran has altered the outlook, the coalition continues to face a challenging political environment, particularly when it comes to securing parliamentary majorities. The upcoming budget therefore serves as an important indicator of the coalition’s strategy.

## US: Hawk at the summit, Dove on the horizon

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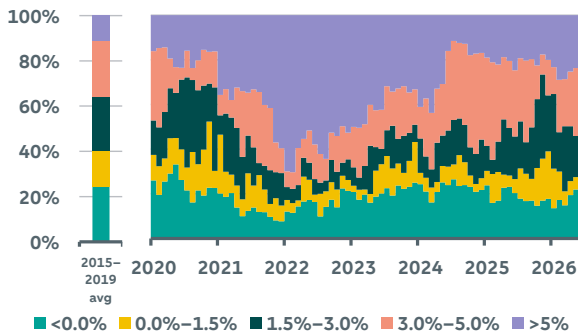
- Inflation has increased on the back of the energy shock, but is expected to decrease from here.
- Labour market strength is overstated due to frontloaded hiring in services, causing a drag on Q3 hiring.

In its June meeting, the FOMC gave one of the largest Hawkish surprises on record. Two year treasury yields shot up 13 basis points in response to the meeting, the biggest one day swing since last year's Liberation Day. Warsh declined to share any insights on the FOMC's view on the economy. In our lead article we provide a number of arguments that could currently be part of the FOMC debate. Here, we give our own view on recent inflation and employment developments.

Last month, we flagged early warnings from producer prices (PPI) that the energy price shock could become more entrenched. The pattern looks eerily similar to the onset of the previous inflation surge, and data since then has only increased the tension ([see Global View](#)). At the same time, the arrival of a peace deal, and the slow reopening of the Strait of Hormuz, lowers the probability of a sustained PPI pass-through. The reason for that is twofold. First, the energy shock is essentially unwinding, even if oil prices rebound somewhat from here. Second, a big difference with the previous episode is the breadth of inflation pressures. We use granular PCE data to construct indices showing how inflation is distributed across spending. Each of 245 categories is allocated to a bucket based on its 3-month annualized inflation rate, ranging from prices that are decreasing (<0.0%) to prices that are rapidly increasing (>5%). The bucket's size reflects the total spending in each relevant category. At the start of 2021 we saw a sharp increase in the share of spending in the "rapidly rising category" at the expense of spending in categories with decreasing prices. So far this year, we do not see the same pattern taking place, although the next couple of prints will be key given pass-through lags. Until now, rising inflation is caused by intensifying of the narrow set of categories where price pressures exist, rather than a broadening. We expect that headline inflation has peaked in May, and core inflation will peak in June. Momentum should slow thereafter, as headline, and to a lesser extent, core inflation rapidly decelerate.

### Inflation pressures remain narrow

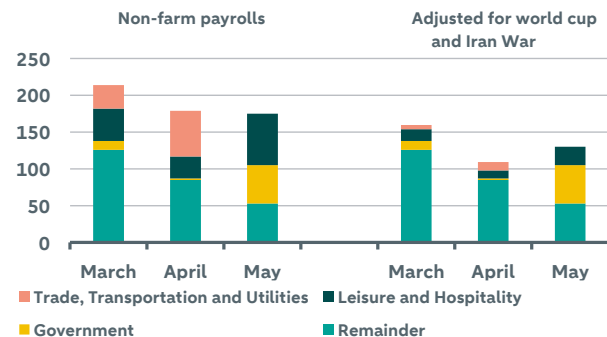
Share of PCE inflation at 3m annualized rate, %



Source: BEA, ABN AMRO Group Economics. Last observation: May 2026.

### Frontloading and one-off hiring boosted hiring

Non-farm payrolls, thousands. Adjustment based on usual seasonality



Source: Bloomberg, ABN AMRO Group Economics

We also saw three strong months of jobs hiring, after substantial volatility in the months preceding. The 3-month average rose from -39k in December, to -4k in February, and +188k in May. We think these figures overstate the current strength. First, total employment, from the other labour survey, trended strongly downward in recent months. That signal is probably too negative, but the divergence does usually resolve somewhere in the middle (see earlier [research](#)), suggesting that we will also see some genuine downward revisions of the NFP data. Second, and more forward looking, we saw excess hiring compared to usual seasonality in two areas. We suspect two causes. First, the World Cup effectively frontloaded the tourism season. Hires will either be let go in the coming months, or will keep vacancies from popping up, meaning we expect some payback for the frontloading. The second cause is the Iran war. We saw stronger hiring in the energy-related sector as the US increased its energy exports, while travel demand increased after the early war disruption. This showed up in the utilities and leisure NFP categories. As the right chart above shows, putting these two categories at historical averages shows payroll gains closer to 125k a month, which was further helped by substantial local government hiring, especially in May. We think these adjusted figures are a better reflection of the current level of strength, but we caution that, because of this effective frontloading, the excess in the past three months is likely to lead to a deficit in the coming months, relative to that trend. That would put us in the low 60k region again, a markedly different story. All in all, this implies that the recent dataflow in terms of inflation and employment was 'peak-hawk.' Inflation will mellow and the labour market will soften, gradually allowing room for a more dovish narrative.

## China: Balance of risks improves; imbalances get worse

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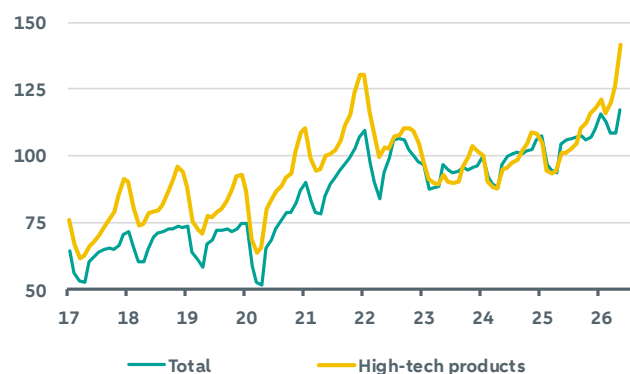
- Hit from energy shock offset by strong exports on the back of global tech/AI boom
- China managed energy shock quite well; officially reported oil imports sharply down in April/May
- Balance of risks to our growth forecasts is improving, but supply-demand imbalances are rising

### Hit from energy shock offset by strong exports on the back of global tech/AI boom

May data were a bit of a mixed bag, showing that parts of the economy were suffering from the energy shock, while other parts profit from the strength of the global tech/AI cycle. The energy shock hit oil refinery output and some other energy-intensive sectors, leading to a slowdown in industrial production in April. Still, industrial production picked up a bit in May again, underpinned by an acceleration of export growth (to 19.4% y/y), with high-tech exports outperforming. The tailwinds from the global AI boom are also illustrated by Chinese exports to the US accelerating to 36% y/y in May (of course also reflecting strong base effects from the start of tariff war 2.0 a year earlier). On the consumption side, the energy shock has impacted consumer confidence and spending. Annual retail sales growth turned negative in May for the first time since the messy Zero-Covid exit end-2022. With the oil shock fading, retail sales may improve somewhat again, but payback effects from the phasing out of consumer subsidies and a weak labour market will likely prevent a strong recovery. Meanwhile, weaker confidence also impacted the real estate market, with the contraction of new home sales and house price declines deepening again. Fixed investment also remains in contraction territory, driven down by a further slowdown in property investment, but going forward infrastructure investment may benefit from some new policy financing instruments. On the inflation front, producer price inflation accelerated to a four-year high of 3.9% y/y, but headline and core CPI remain low at just above 1% reflecting ongoing, deepening supply-demand imbalances.

#### Tailwinds from the ongoing global tech/AI boom

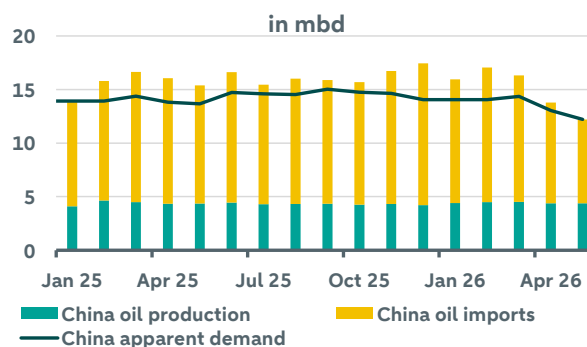
Chinese export values, indices, Jan-2024 = 100



Source: ABN AMRO Group Economics, Bloomberg

#### China managed the energy shock quite well

Million barrels per day



Source: Bloomberg, ABN AMRO Group Economics

### China managed energy shock well; officially reported oil imports down in April/May

The impact of the energy shock has been mitigated by special factors such as the previous build-up of oil reserves, access to other energy suppliers (including Russia), and the shift to other energy sources (electricity, coal, also see Spotlight [here](#)). In fact, China positioned itself as a kind of 'swing oil importer' during the crisis. Oil imports fell back to 2018 levels in April/May, although real oil imports were probably higher given that China was the key destination of unreported energy flows through the Strait of Hormuz during the double blockade. All in all, Beijing's strategic preparations to manage the fall-out from geopolitically driven disturbances have helped the economy to weather this specific crisis quite well. Going forward, China's oil imports will likely start recovering again over time (the IEA expects a pick-up in Chinese oil demand in 2H-26), although Beijing may show some patience regarding the replenishment of oil reserves.

### Balance of risks to growth forecasts improves, but supply-demand imbalances are rising

The fading of the energy shock will help reduce related risks to external and domestic demand. Meanwhile, tailwinds from the global tech/AI boom (explaining in part why Beijing shows restraint with additional stimulus) will likely stay for a while. All in all, the balance of risks versus our growth forecasts is improving (partly confirmed by an uptick in the official PMIs for June). However, recent data suggest domestic supply-demand imbalances are getting worse, and deserve more attention from Beijing as these are adding to trade tensions, including with the EU (see lead article [here](#)). We will review our growth forecasts (4.6% and 4.5% for 2026 and 2027) after the publication of Q2 GDP figures mid-July.

## Key views on a page

The global economy remains resilient in the face of a succession of shocks. With the latest energy shock now fading, a capex troika centred around AI, defence and the energy transition are likely to drive growth going forward. This is likely to support growth at roughly around trend rates in advanced economies over the coming quarters. The global investment surge is also supporting growth in China, the economy of which remains nonetheless imbalanced to the point that it is engendering new trade tensions with the EU. Against this backdrop, inflation will remain somewhat elevated over the coming months, and this should keep central banks leaning hawkish, with the ECB expected to raise rates one last time in September. Both central banks are then expected to resume rate cuts in early 2027.

Macro	Central Banks & Markets
<p><b>Eurozone</b> – Despite falling energy prices, inflation is expected to remain elevated over the coming months. This is being driven by a firming in goods inflation, which is linked not only to pass-through from prior energy price rises but more broadly to a rise in global supply bottlenecks. Underlying growth (ex-Ireland) meanwhile has been holding up, helped by the ongoing pickup in German defence spending, while consumption has stayed resilient, helped by the switch to EVs. A key focus will now be how quickly consumer confidence recovers on falling energy prices, and the extent to which this lifts consumption.</p>	<p><b>ECB</b> – Following its rate hike at the June meeting, we expect the Governing Council to raise rates again in September, taking the deposit rate to 2.50%. This is in order to keep inflation expectations well anchored, with core inflation expected to stay elevated despite the declines in energy prices we are now seeing. Ultimately, however, we expect second round effects to be contained, and by early 2027 we expect the ECB to be confident enough in the inflation outlook to gradually bring rates back to its estimate of a neutral policy setting. We expect one rate cut each in Q2 and Q3 2027, bringing the deposit rate back to 2%.</p>
<p><b>The Netherlands</b> – GDP figures for Q1 were upwardly revised. While the conflict in the Middle East affects growth, the Dutch economy is resilient, in part because of recent economic momentum and because the private sector deleveraged and built considerable buffers. With higher energy prices gradually filtering through to other inflation categories, we expect inflation to stay elevated. The Dutch economy is prone to second-round effects on wages. The upcoming first Budget Day of the minority Jetten Cabinet is an important indicator of the coalition's political strategy going forward.</p>	<p><b>Fed</b> – The Fed held rates at the 3.50-3.75% target range in the June meeting, accompanied by a significant hawkish shift in the dot plot. Due to the combined impact of the oil shock and increasing goods inflation on the back of the AI buildout, we expect the Fed to remain on hold for the rest of the year. With inflation gradually decreasing and the labour market softening, we expect a dovish Fed to gradually ease from March 2027 onwards, with 25bps per meeting, to arrive at 2.75-3.00% by the June of next year, the lower end of neutral estimates.</p>
<p><b>UK</b> – The resignation of PM Starmer means that the left-leaning Andy Burnham is likely to become PM before the summer is out. This could lead to some modest measures to help low income households with cost of living pressures, while keeping the UK largely committed to its fiscal consolidation trajectory. This could be mildly growth supportive next year. Meanwhile, though inflation is expected to stay elevated over the coming months, the much looser labour market means that a renewed pickup in wage growth looks much less likely than in 2022-23.</p>	<p><b>Bank of England</b> – The MPC has struck a more dovish tone of late, and the US-Iran deal strengthens our conviction that the BoE will keep policy on hold for the remainder of 2026. Ultimately we expect the MPC to resume rate cuts in early 2027, and we expect two rate cuts taking Bank Rate down to 3.25% by mid-2027. A focus of the new Burnham government will be on potential changes to the BoE's mandate. Even if there are, we expect the impact on monetary policy to be limited in practice given that the MPC is already not fully focused on its inflation objective.</p>
<p><b>US</b> – The first quarter of 2026 saw solid headline growth. The impulse from the energy shock has lifted inflation. The labour market has been strong on frontloaded acyclical hiring. We still expect decent headline growth figures due to the positive impulse of AI investments, and monetary and fiscal easing. Headline, and to a lesser extent, core inflation will start to decline, while the labour market will show some payback for the strong start of the year. Unemployment continues a gradual increase, with limited demand matching the strong decline in supply.</p>	<p><b>Bond yields</b> – The Middle East conflict pushed inflation expectations higher. In response, the ECB has already hiked once, and markets are pricing in a high probability (&gt;90%) of an additional rate hike this year. In the US, the more hawkish tone from the new Fed Chair has also led markets to expect more than one hike by year-end. As a result, bond yields have moved higher. As the market anticipates more rate increases in both Europe and the US compared to our base case scenario, we expect yield curves to re-steepen again, driven by the short end. Meanwhile, LT rates will lag the decline in front end yields, owing to increased term premiums caused by the deteriorating fiscal situation.</p>
<p><b>China</b> – May data were a mixed bag, showing some parts of the economy suffering from the energy shock, and others benefiting from the strength of the global tech/AI cycle. The gap between growth of industrial production and retail sales has risen again, illustrating rising supply-demand imbalances. Producer prices keep accelerating, but (headline and core) CPI inflation remains subdued. China has withstood the energy shock quite well, with registered oil imports sharply down in April/May. With risks from the energy shock starting to fade, and tailwinds from the global tech/AI boom still present, the balance of risks to our growth forecasts is improving.</p>	<p><b>FX</b> – We still expect the US dollar to weaken more broadly. However, we have made a modest adjustment to our EUR/USD forecasts because of two developments. First, our economists have revised their ECB view. We now expect one more rate hike this year. At the same time, our Fed view remains more dovish than the market expects. Second, we expect the French elections in April 2027 to weigh on the euro in Q4 2026 and Q1 2027. However, we also expect the US mid-term elections to bring policy risks and uncertainty in the US back into focus. Taken together, these factors point to slightly less upside for EUR/USD this year and next year. Our new year-end forecast is 1.18 for 2026 and 1.23 for 2027.</p>

Main economic & financial market forecasts												
	GDP				Inflation				Policy rate			
	2024	2025	2026	2027	2024	2025	2026	2027	2024	2025	2026	2027
Eurozone	0.9	1.5	0.5	1.2	2.4	2.1	2.5	2.1	3.00	2.00	2.50	2.00
Netherlands	1.1	1.6	0.9	1.1	3.2	3.0	3.0	2.6				
Germany	-0.5	0.3	0.7	1.0								
UK	1.0	1.4	1.0	1.3	2.5	3.4	3.1	2.2	4.75	3.75	3.75	3.25
US	2.8	2.1	2.2	2.1	2.6	2.6	3.4	2.4	4.50	3.75	3.75	3.00
China	5.0	5.0	4.6	4.5	0.2	0.1	1.1	1.3	3.10	3.00	2.90	2.80

Note: Annual average for GDP and inflation, end of period for the policy rate

Note: Energy price forecasts are averages

	2025	01/07/26	26Q3	2026	2027	Energy	2025	01/07/26	26Q3	2026	2027
	US Treasury	4.17	4.46	4.30	4.25		4.15				
German Bund	2.85	2.88	2.80	2.80	3.05	Brent - USD/bbl*	61	71.71	83	86	73
EUR/USD	1.17	1.14	1.16	1.18	1.23	WTI - USD/bbl*	57	68.31	75	78	68
USD/CNY	6.99	6.94	6.80	6.80	6.70	TTF Gas - EUR/MWh†	27	43.70	43	51	35
GBP/USD	1.35	1.32	1.35	1.36	1.40						

\* Brent, WTI: active month contract; TTF: next calendar year

	2025				2026				2027			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>GDP (q/q)</b>												
Eurozone	0.7	0.1	0.3	0.2	-0.2	0.3	0.3	0.3	0.3	0.3	0.4	0.4
Netherlands	0.2	0.4	0.4	0.4	0.2	0.1	0.2	0.2	0.3	0.3	0.4	0.4
US (saar)	-0.6	3.8	4.4	0.5	2.1	2.5	2.0	1.9	2.1	2.2	2.2	2.1
China (y/y)	5.4	5.2	4.8	4.5	5.0	4.6	4.5	4.5	4.4	4.6	4.6	4.6
<b>Inflation</b>	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	2.3	2.0	2.1	2.1	2.0	3.0	2.3	2.5	2.3	1.7	2.3	2.0
Netherlands	3.3	3.2	2.7	2.8	2.4	2.8	3.1	3.5	2.9	2.7	2.5	2.2
US (PCE)	2.6	2.4	2.7	2.8	3.1	3.8	3.4	3.2	2.6	2.0	2.4	2.6
China	-0.1	0.0	-0.2	0.6	0.8	1.3	1.2	1.0	1.2	1.3	1.3	1.3
<b>Unemployment</b>	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	6.3	6.3	6.3	6.3	6.2	6.3	6.4	6.3	6.3	6.2	6.2	6.2
Netherlands	3.8	3.8	3.9	4.0	4.0	4.0	4.3	4.4	4.4	4.4	4.4	4.4
US	4.1	4.2	4.3	4.5	4.3	4.4	4.6	4.7	4.7	4.6	4.6	4.6
<b>Policy rate</b>	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	2.50	2.00	2.00	2.00	2.00	2.25	2.50	2.50	2.50	2.25	2.00	2.00
US	4.50	4.50	4.25	3.75	3.75	3.75	3.75	3.75	3.50	3.00	3.00	3.00
UK	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.50	3.25	3.25	3.25
China	3.10	3.00	3.00	3.00	3.00	3.00	3.00	2.90	2.90	2.90	2.80	2.80

Source: LSEG, Bloomberg, ABN AMRO Group Economics

(saar = season adjusted annual rate)

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