ABN·AMRO

Global Monthly

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Where are we with supply-side bottlenecks?

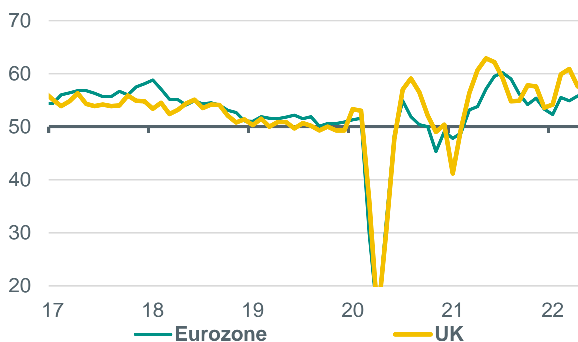
- **We are seeing early signs of the impact of the war in Ukraine on trade flows, and the constraint this is putting on industry. Alongside China lockdowns, bottlenecks look set to worsen in the near term**
- **However, a general cooling in consumption will help to ease pressure on the supply-side**
- **Risks to inflation continue to be to the upside. ECB worries over inflation expectations led us to bring forward our expectation for rate hikes, and we continue to expect the Fed to hike aggressively**
- **Regional updates: The Ukraine war is driving a divergence between manufacturing and services in the *eurozone*, while in the *Netherlands*, high inflation is expected to slow the economy in H2 2022**
- **In the *US*, the labour market is showing some tentative signs of an easing in inflationary pressure**
- **In *China*, authorities are walking the tightrope between pandemic control, and supporting growth**

Global View: Bottlenecks will worsen in the near-term, but cooling consumption is helping

Notwithstanding the significant headwinds, the global economy has largely continued its post-pandemic recovery over the past month. April PMIs in Europe and the US signalled further solid growth in output, although manufacturing PMIs in the eurozone and UK clearly indicate that the Russia-Ukraine conflict and the accompanying rise in commodity prices is beginning to constrain growth. However, with significant room still for recovery post-pandemic, the services sector is exhibiting resilience, at least so far. We continue to expect that resilience to fade as the year progresses, as the significant hit to real incomes from high inflation restrains consumers' ability to maintain the growth rates in consumption we have seen over the past few months. Already we are seeing signs of this in goods consumption, where the bulk of the inflation spike has been concentrated; retail sales volumes fell in the US and the UK, and we could well see similar moves in many eurozone countries (the forward-looking component of the services PMI gives an early signal of this). This will be a welcome development for the supply-side, which as we discuss in this month's *Global View*, is facing renewed headwinds from both the conflict in Ukraine, and lockdowns in China. Indeed, continued upside risks to inflation – still largely supply-side driven in the eurozone – have led us to bring forward our expectation for ECB rate hikes, and we expect monetary policy more broadly to continue to be tightened aggressively over the coming months.

PMIs suggest recovery remains solid for the time being

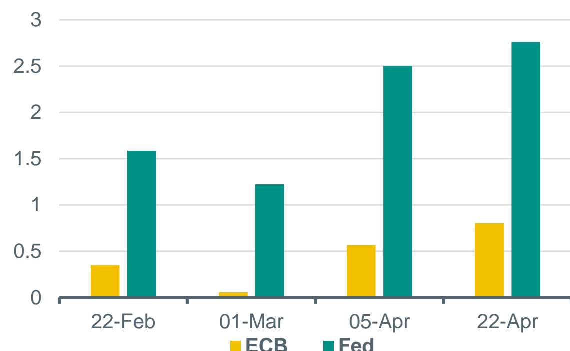
Index, >50 = expansion, <50 = contraction



Source: Bloomberg, ABN AMRO Group Economics

Rate hike expectations continue to rise

Market pricing for interest rate rises by end-2022, %



Source: Bloomberg, ABN AMRO Group Economics

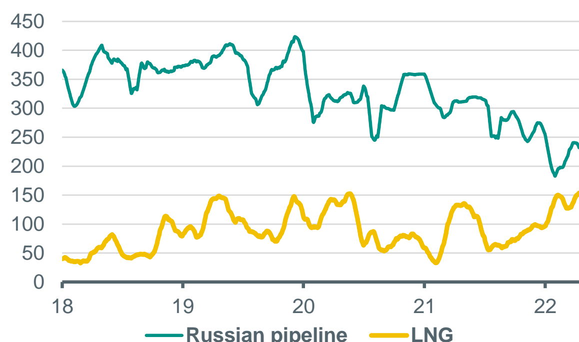
Early signs of trade realignment, and increased supply disruptions in Europe

Following the outbreak of the conflict in Ukraine, and the imposition of sweeping sanctions by western governments against Russian entities, we took the view that we were at the beginnings of a structural realignment of trade flows that would have major short- and long-term macro-economic implications. Although it is still early days and data is scant, sanctions have already encouraged a measurable shift in some trade flows; in the year to date so far, Russian pipeline flows to Europe are around 30% below 2021 levels, while European LNG imports are around 60% higher. At the same time, numerous companies have 'self-sanctioned' on the expectation of future restrictions on trade with Russia. Germany – whose industry is highly dependent on Russian energy – has announced that it has already reduced its dependence on Russian coal from 50 to 25%, oil from 35 to 25%, and gas from 55 to 40%. Detailed trade data come with a significant lag, but in the coming months it is likely to show more broadly how the conflict and sanctions are affecting trade flows.

Meanwhile, governments have followed up sanctions with the setting of explicit goals to reduce dependence on Russian energy. For instance, in early March, the EU announced the goal to reduce Russian gas imports by 2/3 in one year. Germany's goal is to all but wean itself off Russian gas by mid-2024 and, according to Vice Chancellor Habeck, become 'virtually independent' of Russian oil by December. These goals seek to strike a balance between doing so as quickly as possible, and minimising economic disruption. In our view, some of the goals (especially the EU's plan to reduce Russian gas imports by 2/3 in one year) are ambitious to the point of being unrealistic. However, the direction of travel is clear, and we continue to take the view that regardless of how the conflict evolves, trade flows will see a structural realignment over the coming months and years. In the meantime, there is the continued risk of a more abrupt shift in trade flows if Europe imposes a full embargo on Russian energy imports, or if Russia cuts off energy supplies to Europe.

Russian gas imports down, LNG imports up

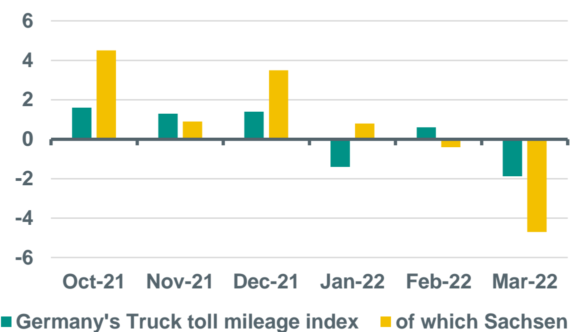
Mn cubic metres of gas imports to Europe per day, 30 day moving average



Source: Bloomberg, ABN AMRO Group Economics

Fall in German truck mileage signals hit to industry

% mom



Source: German Federal Statistical Office, ABN AMRO Group Economics

How disruptive has this realignment been for economies so far? Consistent with our base case, the bulk of disruption has been via the surge in energy and other commodity prices, rather than physical disruption to supplies. High frequency data and surveys suggest that there was a considerable negative impact from the jump in energy, food and other commodity prices. For instance, Germany's Truck toll mileage index fell by 1.9% mom in March, after growing by 0.6% in February. There is a clear correlation between regional truck toll mileage and turnover in manufacturing, especially in regions with a strong industrial base. Indeed, the sharpest drop was registered in the industrial region Sachsen in the east of Germany (see figure above). Given this, we view the fall in truck mileage as an early indicator that elevated prices are weighing on production. This was corroborated by eurozone manufacturing PMIs this morning, which fell in March (see eurozone). In the Netherlands, we have noted a number of construction projects being halted, in part at least due to surging materials costs. Some energy-intensive sectors such as horticulture have also seen production halts, while companies in other sectors have gone bankrupt – though some of these companies already faced difficulties even before the recent price spikes.

The US is a relative bright spot, with some signs of easing in domestic bottlenecks

As we indicated in our March *Global Monthly*, Europe is being more heavily impacted by these price surges and supply-side disruptions than the US. While US consumers are also suffering a blow to their real incomes – mainly via the surge in gasoline prices (see US for more) – industry is more insulated from the effects given that the US is largely energy

independent, with natural gas prices rising by a fraction of what we have seen in Europe. In some respects supply-side disruption has actually eased in the US. For instance, a major bottleneck for much of 2021 was a shortage of trucking capacity to meet the surge in goods demand. According to high frequency data from *Truckstop.com*, while there is still a shortfall in capacity compared to pre-pandemic levels, there has been a clear improvement in the year to date so far, with the number of trucks available up 25% on 2021 levels, albeit still around 30% below 2019 levels. According to Bloomberg, this improvement has been due to a flood of new entrants to the market, likely spurred by the jump in trucking rates.

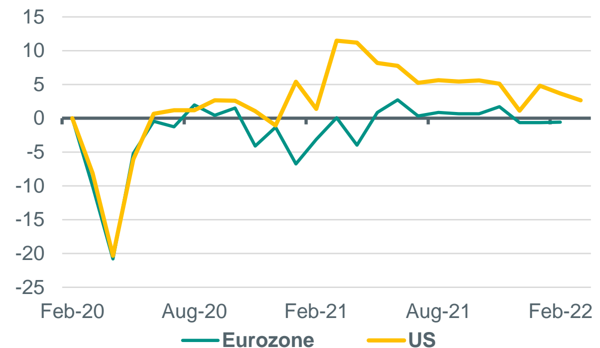
US trucking capacity has rebounded

Truck availability, thousands

Source: Bloomberg, ABN AMRO Group Economics

Goods consumption has cooled

Real retail sales, % vs pre-pandemic trend



Source: Refinitiv, ABN AMRO Group Economics

At the same time, the cooling in demand suggested by the fall in real retail sales has seemingly had a knock-on effect on trucking demand, which is c.30% below 2021 levels. The easing in the trucking bottleneck has helped relieve congestion in ports; the number of ships waiting to unload for more than 9 days is down by around half compared to levels last October. To be clear, supply-side bottlenecks remain significant in the US, as is the risk of spillover effects from European supply-side disruptions and lockdowns in China, and for this reason inflationary pressure is expected to remain elevated over the coming months. However, on the domestic front at least, there are some tentative signs of an easing (see also **here**).

Chinese lockdowns have broadened as the country is struggling with Omicron…

In China, meanwhile, the spread of Omicron has driven a renewed tightening of mobility restrictions including lockdowns of major cities. Shanghai has become the epicentre of the outbreak, driving the bulk of the recent rise in cases. The Shanghai government implemented a lockdown in late March that was broadened and extended, with shortages of food and medicine adding to social discontent. Tech hub Shenzhen in Guangdong was another large city implementing a full one-week lockdown in late March. More broadly, among the 100 largest cities in China, eight of them - accounting for almost 9% of GDP - were in a full or partially residential lockdown by 20 April, and a wider group of cities accounting for a third of GDP were in some form of a non-residential lockdown. Many local authorities have proactively tightened restrictions even in regions/cities were cases remained quite low. This reflects the central government's ongoing preference for a hawkish stance on covid-19 policy. In late 2021, China had tweaked its Covid-19 policy from a centralised 'zero-cases approach' to a decentralised 'dynamic clearing'. However, the spread of Omicron has prevented this shift from being effective so far. The bar for the central leadership to fundamentally ease Covid-19 policies at short notice is high, with the CCP balancing between ongoing strict pandemic control and economic stability in the run-up to high-profile political events later this year. That also implies that policy makers will remain gradual and cautious with regard to reopenings.

…adding to supply bottlenecks and transport and production issues

The widening of lockdowns in March/April does not only exacerbate the pandemic-related drags to China's economic growth (see China regional part), but also adds to disruptions in transport and production, with spillovers to global supply chains. A key issue are the problems in truck transport, caused by all kinds of city-specific restrictions. This contributes to delays in deliveries, shortages of supplies and port congestion, particularly around Shanghai. While there are reports of factories keeping staff at office overnight to ensure business continuity, supply bottlenecks within China have clearly intensified. The share of A-listed Chinese manufacturing companies that have reported covid-19 related disruptions has jumped to levels similar to the original outbreak in early 2020, although now with a broader regional spread. According to local reports, only

one third of the around 650 Shanghai manufacturing firms that were 'whitelisted' to restart production is fully operational yet. Several tech leaders have warned for wider production stops if these disruptions linger. There is also evidence of foreign companies temporarily halting production in Shanghai or other cities, such as Tesla and Taiwanese iPhone producer Pegatron. On the macro level, developments in Chinese industrial (including car) production and the manufacturing PMIs are another illustration that the widening of lockdowns is affecting the supply side of the economy. Meanwhile, the government has recognised these issues as a top priority and is rolling out measures to ease supply bottlenecks and support production.

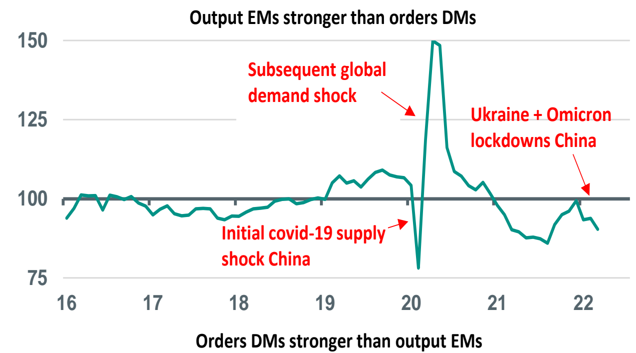
Our global supply bottlenecks index on the rise again …

Index (+6 = maximum bottlenecks)

Source: ABN AMRO Group Economics, Bloomberg, Refinitiv

… driven by the EM output/DM orders ratio

Global PMI, output EMs / orders DMs, ratio



Source: ABN AMRO Group Economics, Refinitiv

Global supply bottlenecks are intensifying for now, though there are also reasons for optimism

On balance, China's lockdowns and the impact of sanctions against Russia on a range of commodity markets are adding to global supply bottlenecks, notwithstanding some other signs of improvements. Our global supply bottlenecks index has risen again in early 2022, pointing to rising bottlenecks overall. In the short term, there is a risk that these disturbances to global supply chains will not only intensify but will also last longer. For instance, delivery times for electronic equipment have risen again somewhat in March, after easing in late 2021. Next to the risk of prolonged lockdowns in China, there is still also the risk of a broader European embargo on Russian oil and gas which would amplify disturbances on the energy front.

Still, there are some reasons for optimism. First, there are the aforementioned signs of an easing in certain domestic bottlenecks, partly driven by cooling demand from even higher inflation which is helping to ease supply-demand imbalances. The recent increase in our global supply bottlenecks index is mainly driven by a fall in markets output relative to developed market demand. However, this ratio should start improving as pandemic disturbances in China fade. Already a few underlying components used in our index (e.g. container tariffs, Baltic Dry Index) point to an easing in some of these bottlenecks. Even shipping tariffs from Shanghai have continued falling in recent weeks (see chart), despite lockdowns and rising port congestion. (Bill Diviney, Arjen van Dijkhuizen, Aline Schuiling, Jan-Paul van de Kerke)

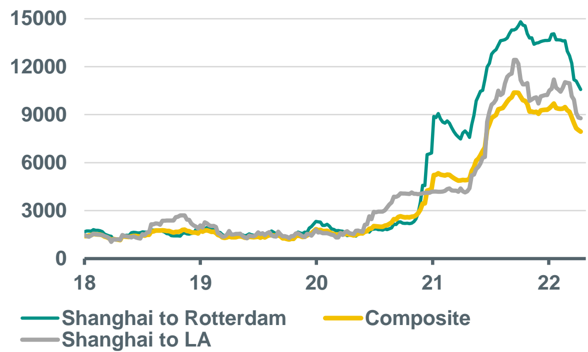
Electronic equipment delivery times have risen somewhat

Global PMI electronics delivery times (lower values = longer delivery times)

Source: Refinitiv

Freight tariffs from Shanghai down despite lockdowns

USD per 40 foot container



Source: Bloomberg

Eurozone: ECB removes stimulus despite weaker economy

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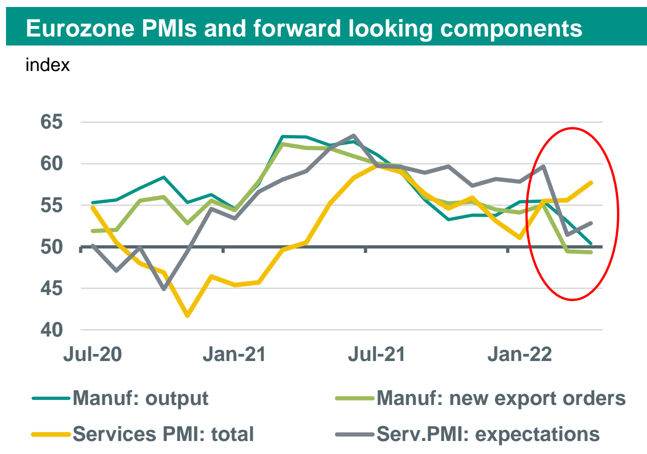
- **While hard economic data for March still is scarce, high frequency and sentiment indicators are abundant – and all have plummeted**
- **Further rises in inflation(-expectations) have strengthened the ECB's conviction to remove policy accommodation soon. We have moved forward our expectation for the first rate hike**

Eurostat has not yet published hard economic data for the period after Russia's invasion in Ukraine, however as we indicated in this month's *Global View*, there is some perceptible impact in high frequency truck mileage data of the hit to industry. This is corroborated by PMIs for April, which showed manufacturing staging another fall. The component gauging manufacturing output is now consistent with stagnation (see graph below). Also, the new export orders component of the manufacturing PMI dropped to below the 50 boom-bust level in April, indicating further weakness in activity lies ahead. In contrast, the services sector has been much more resilient in March-April, as it is benefiting from post-COVID rebounds in leisure and holiday-related services. However, expectations in services dropped in March-April, indicating that growth will ease in the months ahead. Finally, a period of weaker growth was already signalled by the ECB's Bank Lending Survey, which showed that banks tightened lending standard on loans to companies in Q1, and plan to tighten them much more in Q2. All in all, the eurozone economy is expected to grow only a bit above the trend rate this year, despite a post-COVID rebound in certain parts of services. We expect GDP growth to be weak in Q1 (when there were still restrictions related to COVID) and to pick up to somewhat above the trend rate (i.e. 0.5-0.6% qoq) during the rest of this year. Next year, slower global growth and less accommodative ECB policy should reduce growth to slightly below the trend rate (around 0.3-0.4% qoq). This implies that underlying, domestically-driven inflationary pressures should remain contained.

Inflation rose further in March (to 7.4%, up from 5.9% in February). The rise continued to be driven by energy and food prices (see graph below). Moreover, core inflation was lifted by the post-COVID normalisation of holiday and leisure prices, and the pass-through of high energy inflation into transport services. Finally, supply chain disruptions have raised the prices of industrial goods. Inflation is expected to remain elevated for a considerable time, but it should drop lower next year as the impact of past rises in energy prices dissipates. We expect it to be close to the ECB's 2% target by the end of 2023.

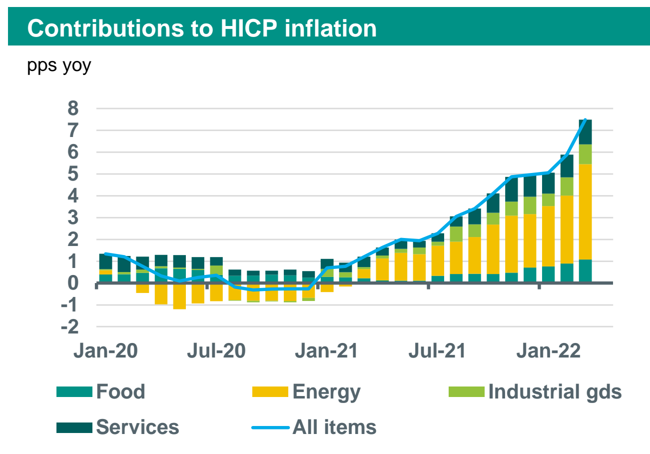
The ECB has become more worried about inflation expectations, with the hawkish shift in the Governing Council becoming more extreme. We have brought forward our expectations for the first ECB rate hike from December to September, and now expect a 25bp move in both September and December (previously, we expected the ECB to hike in smaller steps of 10bp). After the deposit rate reaches zero at the end of this year, we expect policy rates to subsequently remain on hold for a period. This reflects that we expect economic growth will likely be sub-trend during 2023. Moreover, headline inflation will likely fall sharply early in 2023, which should also bring down inflation expectations. Wage growth will not be a threat to the ECB's inflation goal, especially against the background of weak economic activity.

Eurozone PMIs and forward looking components



Source: Refinitiv, ABN AMRO Group Economics

Contributions to HICP inflation



Source: Refinitiv, ABN AMRO Group Economics

The Netherlands: Slowdown expected in second half of 2022

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- **High inflation will lower growth from the third quarter of 2022 onwards**
- **Wages are expected to pick up, but not enough to offset the decline in purchasing power**
- **The phasing-out of Covid support marks the end of historically low bankruptcy levels**

Soaring inflation is set to weigh on growth from the second half of 2022 onwards

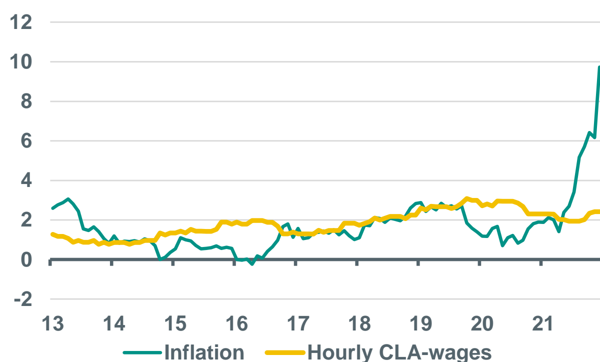
While inflation (CPI) hit a historic high of 9.7% yoy in March, the effects on growth have not been visible in the data yet. Indeed, we expect growth to slow from the second half of 2022 onwards. First quarter growth is being driven by a rebound in consumption following the end of Covid restrictions earlier in the year. Rising energy prices – responsible for over 70% of current inflation – are not yet felt fully by most consumers, as more than 50% of consumers have fixed prices in their energy contracts. Moreover, we expect the high level of (partly involuntary) savings – built up during the COVID lockdowns – to provide a cushion against initial price rises. With inflation expected to remain high throughout the year, the blow to consumption will materialise eventually, and growth will slow from the second half of 2022 onward. We expect the Dutch economy to expand by 3.1% in 2022, and by 1.3% in 2023.

Wages are expected to pick up, but not enough to match inflation

With inflation at very high levels and the labour market exceptionally tight, wage growth is an indicator to closely monitor. The Netherlands has a strong culture of wage moderation. This, together with roughly 55% of employees being part of a multi-year collective labour agreement, means that wages respond only slowly to macro-economic developments. Indeed, in the past when labour markets were tight (for instance in 2019), this was not mirrored by a strong increase in wages. That said, the combination of high inflation and labour market tightness might provide additional ammunition for negotiating labour unions. Recent Collective Labour Agreement (CLA) wages have so far only seen a modest pickup, increasing from an average of 2.1% in 2021 to 2.4% in first quarter of 2022. But there is likely more to come, as newly formed CLAs take into account the latest inflation figures, and thus lead to broader wage pressures. The metals industry is the most recent example, where the CLA settled on an increase in wages of 3.2%. On the back of these signals, we have revised our CLA wage expectation for 2022 upwards, from 2.2% to 2.8% and for 2023 from 2.3% to 3.2%. Despite the pickup, this is not anywhere near enough to prevent a significant reduction in real wages in 2022 and 2023.

Wage developments have not kept up with inflation

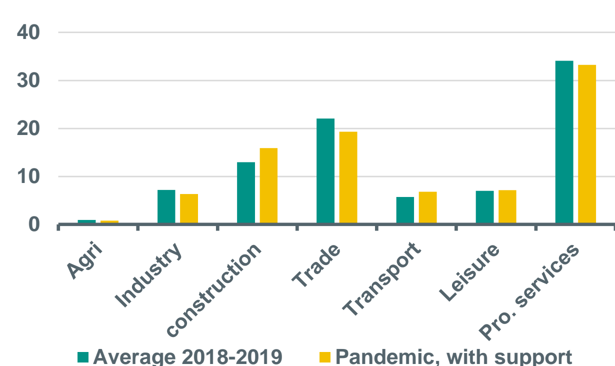
Hourly CLA-wages yoy; CPI inflation



Source: ABN AMRO, CBS

Sector shares in bankruptcies are broadly unchanged

Shares of sectors in total bankruptcies before and during Covid.



Source: ABN AMRO

As pandemic support ends in April, bankruptcies are expected to increase

April marks the first month since the pandemic without government support. The wage-subsidy scheme (NOW) and the ability to defer taxes have been successful in preventing a large increase in bankruptcies. In fact, bankruptcies declined to the lowest level in thirty years. Despite this, there was relatively little change in the distribution of bankruptcies among sectors. As support is phased out we expect bankruptcies to increase, perhaps significantly – if current levels jump to pre-Covid levels, bankruptcies would double. Moreover, with recent research showing that pandemic-related solvency issues are concentrated in the sectors particularly hard hit during Covid (such as hospitality, retail and travel services), we expect these sectors to be overrepresented in the rise in bankruptcy levels.

US: Labour market points to some easing in inflationary pressure

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- **Upside risks to inflation remain significant, which will keep the Fed hiking aggressively this year**
- **However, there are tentative signs of an easing in medium-term inflationary pressures**
- **Inflation will still be a major challenge, but provided these trends persist, it might well be peaking**

Inflation continues to be by far the biggest risk to the outlook. In March, we had another uncomfortably high inflation reading, with the passthrough from higher gasoline prices pushing headline inflation to a new four decade high of 8.5% y/y. Gasoline prices have eased a touch in recent weeks, tracking the move in global oil prices, and suggesting we may have seen the peak in headline inflation, provided we do not get a renewed sharp rise in commodity prices. The bigger medium term risk continues to come from core inflation, which strips out volatile food and energy components. Core inflation decelerated from recent readings, with prices rising 0.3% m/m compared with 0.5-0.6% rises in the five months prior. However, the details were less encouraging: services inflation accelerated, driven by continued sharp rises in housing rents, alongside a rebound in medical and transportation inflation. This was offset by a decline in used car prices, which was expected given that demand for cars is finally cooling. In our view, the bigger story here is the rise in services inflation, which tends to be much stickier and harder to bring back down once it has accelerated. Alongside continued near-term pipeline pressures in the form of exceptionally high producer price inflation, this will keep pressure on the Fed to raise rates sharply over the coming months. We continue to expect two 50bp hikes in May and June, followed by 25bp hikes in each subsequent meeting until the fed funds rate reaches 2.50-2.75%, in early 2023 (from 0.25-0.50% currently).

Housing rents becoming a bigger inflation driver

Shelter (housing rents) inflation, % yoy

Source: Refinitiv, ABN AMRO Group Economics

Labour force participation recovered strongly in Q1 22

Quarterly change in participation, percentage points

Source: Bloomberg, ABN AMRO Group Economics

A major driver of services inflation – in particular housing rents – is the labour market, and it is here that we had some more positive news. While employment continued to grow robustly in March, with 431k jobs added and unemployment falling to 3.6%, participation in the labour market also continued to rise, with wage growth showing some signs of moderation (on a 3m/3m basis, wage growth cooled to 5.1% annualised from 6.1% in January). For the first quarter as a whole, labour force participation rose by half a percentage point – the biggest rise since the pandemic began. The recovery in participation has been stronger than we expected, with ISM surveys reporting that the easing of the Omicron wave is improving the availability of labour. Indeed, surveys for both manufacturing and services quote hiring managers as saying they are finding it easier to source staff than before. While labour force participation is still some way short of pre-pandemic levels (by around one percentage point), the unexpectedly strong improvement is encouraging for the medium term inflation outlook.

Further comfort can be drawn from an easing in other domestic supply-side pressures (see this month's *Global View*), as well as declining goods consumption. March retail figures suggest a continued real-terms fall in goods consumption, once adjusting for inflation, although in level terms retail sales remain around 3pp above trend. Falling goods consumption is consistent with the sharp declines in consumer confidence, itself likely a result of the significant hit to real incomes, which as of March have fallen c.5% from their May 2020 peak as a result of high inflation. Thus, while the US is nowhere near out of the inflationary woods, to some extent at least, inflation could still prove to be a self-correcting problem.

China: Balancing between pandemic control and supporting growth

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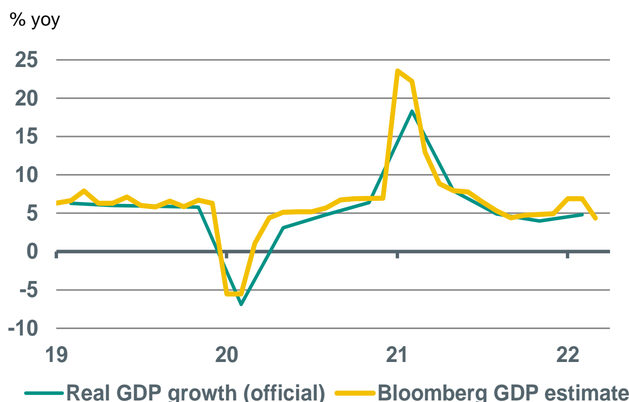
- **Q1 GDP growth came in stronger than expected, but March/April activity was hit by lockdowns**
- **We cut our near-term growth forecasts, but leave annual forecasts for 2022-23 unchanged for now**
- **Containing Omicron the near-term priority; Beijing cautious and targeted with support; yuan corrects**

Q1 GDP growth surprised to the upside 4.8% yoy (consensus: 4.2%, ABN AMRO: 4.3%). Quarterly growth (1.3% qoq) slowed compared to Q4 21, but by less than expected. Growth was particularly strong in January and February. Widening lockdowns showed up in weak activity data for March, with more weakness expected for April. We had already incorporated pandemic drags into our forecasts, but have revised our near-term forecast lower again due to lockdowns. Still, we leave our annual growth forecasts for 2022 (5.0%) and 2023 (5.4%) unchanged for now. This assumes a stepping up of piecemeal, targeted support, but we continue to expect growth to be 0.5pp lower than Beijing's formal growth target for 2022 (5.5%).

Impact of wider lockdowns hits March activity data; more weakness to come in April

In recent weeks, lockdowns in China have broadened as Omicron has spread. By 20 April, amongst the 100 largest cities, a group accounting for just over 40% of GDP was in full or partial lockdown. This has exacerbated headwinds and added to supply bottlenecks (see *Global View* for more). The impact of lockdowns is reflected in weak March data, with more weakness to come in April. All Chinese PMIs (from NBS and Caixin) fell below the neutral 50 mark, with both composite output indices dropping to the lowest levels since the initial covid-19 shock in February 2020 (although still not as much as they did back then). Industrial production, fixed investment and property investment slowed in March compared to Jan/Feb. Private consumption was hit particularly hard, with retail sales contracting by 3.5% yoy and by 1.9% mom sa. Lockdowns also brought an additional blow to the real estate sector, with residential sales dropping by 26% yoy in Q1. The weakening of domestic demand also translated into a slowdown in imports (-0.1% yoy), even though export growth remained strong (+14.7% yoy). Unemployment picked up to 5.8%, albeit remaining below the pandemic peak of 6.2% in February 2020. All this was also reflected in Bloomberg's monthly GDP estimate, which slowed from 6.9% yoy in Jan/Feb to 4.4% yoy in March.

Solid Q1 growth in Q1 based on Jan/Feb, March weak



Source: Bloomberg

Private consumption particularly hit by broader lockdowns

Source: Bloomberg

Balancing act between containing Omicron and economic stabilisation continues; yuan corrects sharply

The bar to fundamentally ease covid-19 policies in the near term remains high, with the leadership striking a balance between strict pandemic control and economic stability in a politically important year. This also means that reopenings will only be gradual. On the macro policy front, the PBoC recently announced a 25bp cut in bank RRRs, but refrained from rate cuts. This was in line with our view, as we anticipate the PBoC to wait until the covid-19 situation is more or less under control. What is more, the PBoC remains hesitant to ease monetary policy more broadly, with other major central banks on a hiking path. This is reflected in capital outflows and weakness in China's stock markets and the yuan. Meanwhile, we expect Beijing to tolerate a further modest pick-up in credit growth, with targeted (fiscal) measures to offset the impact of lockdowns. On 18 April, the PBoC presented a support package with measures aimed at for instance helping local governments to step up infrastructure spending, compensating sectors most hit by the pandemic, and stabilising the property sector.

Key views on a page

The post-pandemic recovery is being hampered by the Russia-Ukraine conflict. The services recovery is being weighed by the inflation hit to real incomes, while industry faces new headwinds from higher commodity prices and a delay to the normalisation – in some cases intensification – of supply bottlenecks. Lockdowns in China add to these risks. We still expect inflation to decline this year, but the jump in commodity prices and supply disruptions is delaying this. We expect energy prices to remain high over the next few years, with sanctions on Russia triggering a lasting trade realignment. Upside inflation risks mean the Fed is likely to raise rates much more quickly than we thought previously. The ECB has signalled its intent to normalise policy, and we now expect rates to start rising in September. Europe will also continue to feel the global spill-over effects of tighter US monetary policy over the coming year, pushing bond yields higher and ultimately dampening growth.

Macro	Central Banks & Markets
Eurozone – Hard economic data for the period after Russia's invasion in Ukraine still is scarce. However, high frequency data and surveys suggest that there was a considerable negative impact from the jump in energy, food and other commodity prices and the sanctions on Russia. All in all, the eurozone economy is expected to grow only a bit above the trend rate this year, despite a post-COVID rebound in certain part of the services sector. Next year, slower global growth and less accommodative monetary policy in the eurozone should reduce growth to slightly below the trend rate (around 0.3-0.4% qoq). This implies that underlying domestically driven inflationary pressures should remain contained.	**ECB** – The ECB has become more worried about inflation expectations. We have moved forward our expectations for the first rate hike from December to September. We now expect a 25bp move in each September and December (earlier we expected steps of 10bp). After the deposit rate reaches zero at the end of this year, we expect policy rates to subsequently remain on hold for a period. This reflects that we expect economic growth likely to be sub-trend during 2023. Also, headline inflation will likely fall sharply early in 2023, which should also bring down inflation expectations. Wage growth will not be a threat to the ECB's inflation goal, especially against the background of weak economic activity.
Netherlands – Strong growth from 2021 carries over to growth in 22, together with a rebound due to the phasing out of Covid restriction in January we expect the economy to expand by 0.3% in Q1 2022. The war in Ukraine however lowers the growth outlook. Second and third quarter growth will be modest and fourth quarter growth will be flat. We expect the drag on growth stemming from inflation to come fully into force in the second half of 22. For 22 as a whole growth this means growth is expected at 3.1%. We have lowered our forecast for 23 growth from 1.9% to 1.3%.	**Fed** – Given persistently elevated inflation in the US, and upside risks to the outlook, we expect the Fed to begin hiking rates in 50bp steps in May and June. Thereafter, we expect 25bp hikes until the Fed reaches our estimate of the terminal rate of 2.5-2.75% in early 2023. Thereafter, we expect the Fed to pause, assuming inflation is moving back towards its 2% target. In May, we expect the Fed to announce the unwind its balance sheet, initially at a gradual pace, but eventually for this to run at $100bn per month. There is a risk that the Fed reduces the balance sheet at an even faster pace, via outright Treasury sales, potentially using it as a tool in its fight against inflation.
US – Consumption growth has continued to slow, as real incomes are being squeezed by high inflation and – increasingly – tighter monetary policy. We expect this to continue through 2022. While there is still significant room for the services sector to recover following the easing of the Omicron wave, the pace of recovery is likely to be slower than we thought previously. Inflation continues to be the biggest risk to the outlook, although there are some tentative signs of easing pressures in the labour market. Should the Fed raising rates beyond our current expectation, there is a risk of a more prolonged downturn.	**Bond yields** – Both in the US and the Eurozone markets are well advanced with pricing in an aggressive rate hike cycle by the Fed and the ECB. We judge that markets run ahead of itself and we expect repricing of central bank hikes downwards in both the US and the Eurozone. This would in turn result in lower Euro rates as well as US rates. Indeed, we expect the 10y US treasury yield to drop from around 2.9% to 2.7% during the course of this year.
China – Real GDP growth in Q1-22 surprised to the upside (4.8% yoy). Growth was strong in January/February, but slowed sharply in March. This reflects wider lockdowns adding to supply bottlenecks and hitting domestic demand. We had priced pandemic drags into our growth forecasts, but revised our near-term forecast lower again due to the lockdowns. Still, we leave our annual growth forecasts for 2022 at 5.0% so far, remaining 0.5 pp below the official target of 5.5%. We still assume a cautious stepping up of piecemeal, targeted support, although Beijing gives short-term priority to containing Omicron. The yuan's correction is a reflection of this, combined with policy divergence.	**FX/EURUSD** – EUR/USD declined towards 1.08. This was on the back of widening yield spreads (nominal and real) between the US and Germany, expectations of more aggressive tightening of monetary policy by the Fed and uncertainty surrounding the war in Ukraine. Our views of the Fed are roughly priced in by the market but our view on the ECB is for less aggressive monetary policy tightening than financial markets now expect. If some of the expected rate hikes by the ECB are priced out, the euro will likely decline. Moreover, the outperformance of the US economy compared to the eurozone economy should also have a downward effect on EUR/USD.

Main economic/financial forecasts

GDP growth (% yoy)	2020	2021	2022e	2023e	Inflation (%)	2020	2021	2022e	2023e
United States	-3.4	5.7	3.1	2.2	United States	1.2	4.7	6.9	3.3
Eurozone	-6.5 ↑	5.4	2.9 ↓	1.7	Eurozone	0.2	2.6 ↑	6.1 ↑	2.3
Japan	-4.5	1.7	2.4	1.8	Japan	0.0	-0.2 ↑	1.5	0.9
United Kingdom	-9.3	7.4	3.9	1.8	United Kingdom	0.9	2.6	6.8	3.9
China	2.2	8.1	5.0	5.4	China	2.5	0.9	2.5	2.0
Netherlands	-3.8	5.0 ↑	3.1	1.3	Netherlands	1.1	2.8	5.5	2.4
Policy rate	**25/04/2022**	**+3M**	**2022e**	**2023e**	**10Y interest rate**	**25/04/2022**	**+3M**	**2022e**	**2023e**
Federal Reserve	0.50	1.50	2.50	2.75	US Treasury	2.83	2.60	2.70	2.25
European Central Bank	-0.50	-0.50 ↑	0.00 ↑	0.00	German Bund	0.84	0.60	0.60	0.90
Bank of Japan	-0.10	-0.10	-0.10	-0.10	Japanese gov. bonds	0.25	0.20	0.20 ↑	0.30
Bank of England	0.75	1.25	1.25	1.25	UK gilts	1.84	2.00	2.00	2.00
People's Bank of China	3.70	3.60	3.60	3.60					
Natural resources	**25/04/2022**	**+3M**	**2022e**	**2023e**	**Currencies**	**25/04/2022**	**+3M**	**2022e**	**2023e**
Brent - Oil USD/barrel	112.5	120	133	110	EUR/USD	1.07 ↓	1.07	1.05 ↑	1.10
WTI - Oil USD/barrel	106.0	115	128	105	USD/JPY	128.1 ↑	127 ↑	124 ↓	120
Henry Hub - Gas USD/mn	5.51	4.0	3.5	3.5	GBP/USD	1.27 ↓	1.26 ↓	1.22 ↑	1.26
TTF - Gas EUR/MWh*	67.7	35	35	25	EUR/GBP	0.84 ↑	0.85 ↑	0.86 ↑	0.87
Gold - USD/oz	1,923	2,000	2,000	2,000	USD/CNY	6.56	6.30 ↑	6.60 ↑	6.60

Source: Refinitiv, Bloomberg, ABN AMRO Group Economics * Brent, WTI, Henry Hub: active month contract; TTF: next calender year

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