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Global Monthly

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What Trump tariffs would mean for Europe

- Despite the rise of Harris in the polls, a Trump victory in the November election is still essentially 50-50
- Trump's most economically consequential plan is for a 10% universal tariff on all US imports
- Eurozone industry is already struggling to recover from recent shocks. Tariffs would cause a collapse in exports to the US, with trade-oriented Germany and the Netherlands likely to be particularly hard hit
- The policy would also drive a significant divergence in Fed & ECB monetary policy, weighing on the euro
- In a scenario where the EU negotiates a European exemption, the eurozone will still see an initial hit to growth, but might ultimately benefit from the diversion of US trade from tariff-hit countries
- Regional updates: Services is still driving the Eurozone recovery for the time being, while in the Netherlands, disinflation is taking longer due to rising rents and strong wage growth
- In the US, with the economy softly landing, the Fed is ready to start easing
- Trump also has tariff plans for China, but as before, diversion tactics are likely to mitigate the effects

Global View: Tariffs likely to harm – but might actually help – the eurozone economy

Since our last Global Monthly before the summer break, developments have gone remarkably to plan. As we flagged before the summer, the repricing in central bank rate cuts did indeed have further to run, and financial markets are now not far off our own view in expecting sharply lower rates by the end of 2025. Meanwhile, though the shift in expectations has been driven by somewhat higher recession risk in the US, we continue to think rumours of the US economy's looming collapse are – to quote a famous author – greatly exaggerated. Here in the eurozone, the Olympics and other summer cultural events are giving the expected boost to services activity that we flagged in June. While the summer sugar high is likely to mean a hangover – or payback – in Q4, it is giving a much needed boost at a time when the manufacturing sector remains firmly in the doldrums. Indeed, following a short-lived rebound at the beginning of the year, eurozone manufacturing has persistently disappointed even our cautious expectations for a bottoming out in the sector. This led to a surprise Q2 contraction in GDP in the most industry-exposed economy in Europe – Germany. Could recent political developments offer some hope? We have long viewed the potential re-election of Trump as the biggest risk to the outlook, given his plan for a 10% universal trade tariff on US imports. In this regard, the emergence of Harris and her subsequent surge in the polls appears to have lowered that risk somewhat. But, it is still essentially a coin-toss who will win in November. Given the still-high probability of a Trump victory, this month we look at what a 10% universal tariff may mean for the eurozone economy (and the ECB) over the coming years. In the most likely scenario, the tariffs would do significant damage to eurozone industry. However, should EU negotiations succeed in delivering a European exemption to the tariffs, the eurozone might after a time *benefit* from the diversion in trade.

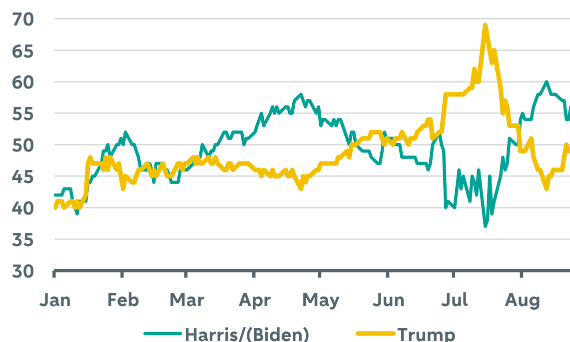
Market pricing of rate cuts: Back to square one

Market-implied policy rates by end 2025 for Fed (lhs) and ECB (rhs)

Source: Bloomberg, ABN AMRO Group Economics; as of 27 August

US election: Still essentially a coin-toss

Probability of winning US presidential election, % (*PredictIt*)



Source: Bloomberg, ABN AMRO Group Economics; as of 27 August

What could Trump mean for Europe?

A Trump win in the November US presidential election could have many implications for Europe[1]. Focusing purely on the macro-economics, however, the most consequential is his plan for a 10% universal tariff on all US imports. In our base case for the economy – which is built around policy rather than election outcomes per se – we assume either a Harris win (c.50% probability according to betting markets and election models), or a Trump win where he does not go ahead with the tariff plan (a 5-10% probability). The latter is conceivable if his economic advisors – and/or political pressure from within the Republican party – persuade Trump that the plan would be more harmful to the US economy than beneficial[2]. Add these two probabilities together, and you have a 55-60% chance that trade policy stays largely the same post-election. This is therefore by default our base case. But what if Trump wins, and what if he does implement the 10% universal tariff? We look at two scenarios centred around how the tariffs could impact Europe: one where the EU is subject to the same tariff as the rest of the world, and another where the EU secures an exemption to the tariff. In both scenarios, the eurozone suffers from the hit to global trade, but in the latter scenario, the economy ultimately benefits from the diversion in trade from tariff-hit countries towards the tariff-exempt eurozone.

Alternative Scenario 1: Universal 10% import tariff (*Hard Trump*)

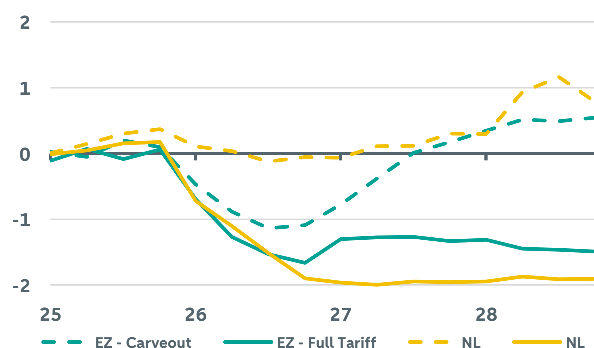
Europe would be heavily exposed to the universal tariff, with the hit to exports lowering growth by 1.5pp over a 3 year horizon. Inflation would also be much lower in this scenario, causing the ECB to cut rates back to near-zero.

The eurozone exports around €460bn annually to the US, which is 16% of total extra-EZ exports, and 4% of GDP. European Commission sources have estimated that, under a 10% universal tariff, exports to the US could fall by nearly 1/3, a figure consistent with our own analysis. Translating this directly to GDP would yield a 1.2pp growth hit. However, there would be second-round effects, via lower employment and business and consumer confidence. Indeed, the weak starting point for eurozone industry – still struggling to recover from the energy crisis – could amplify these second-round effects. Germany is especially vulnerable. Its three biggest exports to the US – chemicals, machinery and transport – are still experiencing demand shortfalls following recent shocks. The US tariffs could be the blow that tips the German economy into a more serious downturn. Taken together, and assuming the 10% tariff is implemented later in 2025 after Trump takes office, our analysis suggests the total hit to eurozone GDP would peak at close to 1.7pp, with the trough in growth occurring in Q1 2026. Such a scenario would probably not be enough to push the eurozone aggregate into a recession, but the growth impact would be akin to the energy crisis, with the economy essentially stagnating in 2026.

Inflation would also be much lower, with the biggest impact coming from lower energy prices – partially blunted by a weaker euro – but also through the hit to activity and confidence, which would weigh on core inflation. All told, we estimate inflation would be 0.5pp lower at peak impact (on average 0.2pp lower over the horizon), with the trough in inflation coming after the trough in GDP, in Q3 2026. Given the risk of recession and the significant inflation undershoot, we think the ECB would continue to cut rates well beyond our current base case (which sees the deposit rate falling to 1.5% by late 2025), with rates falling to 0.25% by early 2026. However, as we discuss later, the reaction of the ECB will also depend significantly on how the Fed responds to the growth and inflation shock in the US.

GDP significantly lower without a tariff exemption

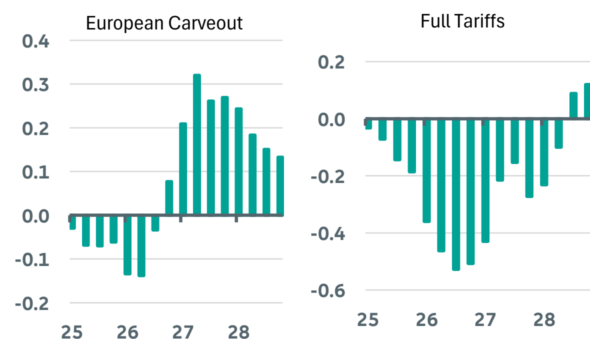
GDP, pp difference with baseline (level)



Source: Bloomberg, ABN AMRO Group Economics

Inflation much lower in Hard Trump/full tariff scenario

Eurozone Inflation scenarios, pp difference with baseline (rate)



Source: LSEG, ABN AMRO Group Economics

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[1] Geopolitically, the most consequential will be Trump's approach to NATO, a topic that is well beyond the scope of the analysis we present here. If Trump were indeed to win in November, we would explore other potential scenarios and channels of impact in greater depth.

[2] The plan could also run into legal trouble. Strictly speaking, trade policy is up to Congress. In his first term, Trump got around this legal barrier by invoking a national security provision when he put tariffs on imports from China. With the universal tariff, it is less clear that this would be possible. A lack of congressional majority could then scupper the plans.

Box 1: Trump Tariffs and the Netherlands – Economic structure and position in supply chains amplify impact

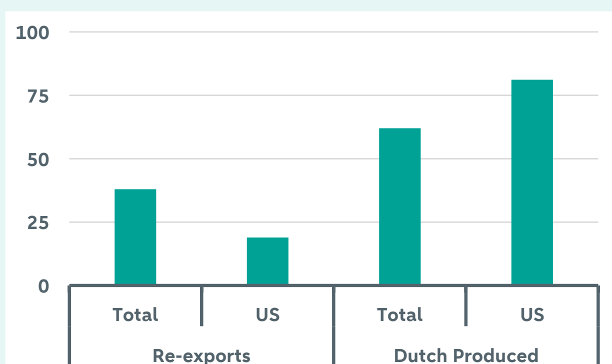
The impact of the two Trump tariff scenarios (see here for an explanation) on a specific country depends on the economic structure and its position in global supply chains. As a trade-oriented country with a high degree of participation in global value chains, high-value added goods exports to the US and as an entry point to the European mainland, our analysis shows the Netherlands stands to be significantly impacted (positively and negatively) in both Trump tariff scenarios. Additionally, but outside the scope of this analysis, are potential additional trade restrictions on the semiconductor sector. The semiconductor sector has become a flashpoint in US-Chinese rivalry, making additional measures possible. This sector has become increasingly important for Dutch exports, and further restrictions could amplify the effects described below.

Dutch-US trade: Value-added and capital goods heavy

Some 6% of Dutch goods exports are destined for the US, with around 20% constituting re-exports and 80% being Dutch-made goods. The value-added on domestic produce is significantly higher than for re-exports. This is visible in the GDP contribution of domestic produce exports to the US, which averages 0.8% of GDP (average 15-20) according to the CBS. It ranks fifth, even taking into account EU countries. Capital goods are the biggest export product: machines and transport (22.6% of total exports to the US) and chemicals (15.4% of total exports to the US). The high degree of internationalization of Dutch trade also affects Dutch-US trade: from the product groups that Dutch firms export to the US, over half of the inputs needed are imported from other EU countries.

Dutch produced goods boost value added of US

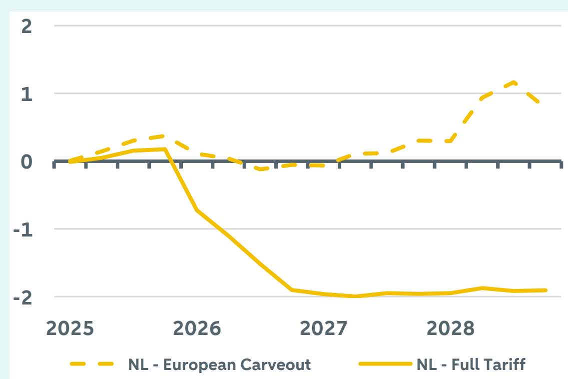
%, share of total goods exports



Source: CBS, ABN AMRO Group Economics

Dutch GDP worse off in full tariff scenario

GDP, pp difference with baseline (level)



Source: LSEG, ABN AMRO Group Economics

Full tariff scenario: International focus of the Netherlands means it is worse off than the broader eurozone

In the full tariff scenario, a global slowdown in growth and trade causes Dutch GDP to perform increasingly worse in the coming years compared to the baseline with no tariffs, with GDP a cumulative 2% lower by 2027. Relative to the broader euro area the Dutch economy is worse off. The impact is amplified by the fact that compared to the EU-average, the Dutch economy is more trade-orientated and is part of more international supply chains. However, similar to earlier tariff episodes, we initially observe a frontloading effect in 2025. The Dutch economy benefits from increased trade from companies anticipating the tariffs. From 2027 on, the GDP hit versus baseline stabilizes, but lower trade volumes still weigh on Dutch potential growth.

European carve out scenario: Substitution later on means the Dutch economy profits after a global slowdown

In this scenario the euro area and the Netherlands in particular ultimately benefit from substitution effects, as US trade shifts from tariff-hit countries to the eurozone. The Dutch product mix helps here as Europe and the Netherlands become increasingly attractive to import capital goods from. The Netherlands can – depending on the precise rules of origin – source inputs from other trading partners which are hit by US tariffs, and export capital goods to the US without the tariff. However, in this scenario the Dutch economy is not fully isolated from adverse effects. The tariffs cause a global economic slowdown which is why Dutch GDP is lower in 2026 and 2027, after which the substitution effect dominates and the Dutch economy benefits. (Aggie van Huisseling, Jan-Paul van de Kerke)

Alternative Scenario 2: EU exemption to 10% tariff (*Soft Trump*)

The EU negotiates an exemption to US import tariffs. With the tariff still applied to other countries, the eurozone is still hit in the near-term by weaker global trade. Over time, though, Europe's improved competitive position drives an export boost, lifting growth and inflation relative to the baseline.

There is also a scenario where Europe could actually benefit from the Trump tariffs. The FT reported last month that EU officials are preparing a 'carrot-and-stick' two-step strategy to persuade Trump to exempt the bloc from the 10% universal tariff. First, officials plan to offer to buy greater quantities of certain US goods in order to lower the EU's trade surplus with the US. If this offer is not accepted, the approach would be to target politically sensitive US imports with tariffs of 50% or more.

Assuming officials succeed in the negotiations and achieve a European exemption to the universal tariff, the eurozone would still see an initial growth hit from the overall decline in global trade (and global growth) that would result.

However, over time, the European exemption would lead to an increase in eurozone exports relative to the baseline, as Europe's competitive position improves relative to its trade rivals. We estimate that growth would be boosted by around 0.5pp by this rise in exports. Slightly higher inflation (c0.3pp at peak) in this scenario – resulting from stronger economic activity – also raises the risk that the ECB lowers rates more gradually than in our base case. Alternatively, and depending on the precise timing of the growth and inflation impact, the ECB may later opt to modestly raise rates again to contain a rise in inflation, particularly in an environment where Fed policy rates might still be well in restrictive territory.

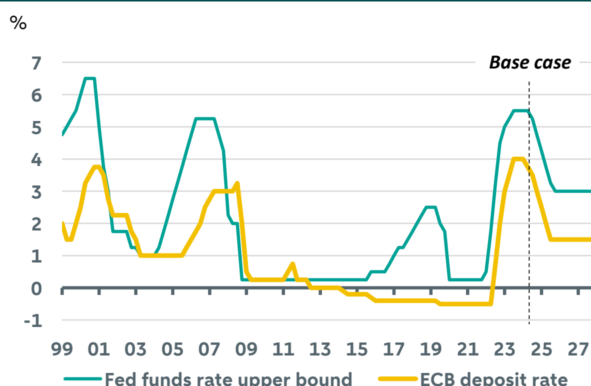
What about the US?

The US economy a is much weaker than in the baseline in either tariff scenario scenario, although the weakness comes somewhat later than in the eurozone in the Hard Trump scenario – via the monetary policy channel. This is because the universal tariff significantly raises inflation to well above the 2% target in the US, causing the Fed to either ease more slowly (Soft Trump), or to restart rate hikes in late 2025 (Hard Trump). In the latter scenario, this ultimately pushes the economy into a mild recession by early 2026. In the Hard Trump scenario in particular, we could be in for a rollercoaster ride with interest rates, as rates are initially raised to counter inflation risks, but and then lowered to fight the subsequent recession. For more on the macro implications of the election specific to the US, see here.

Fed-ECB policy divergence would weigh on the euro, limiting ECB's space to act

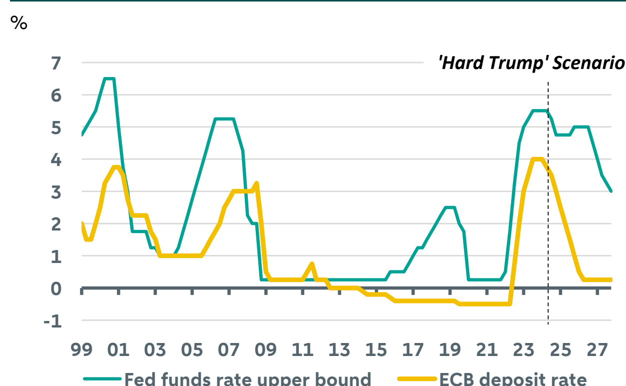
Absent a European carve-out (Soft Trump), a striking feature of the full tariff (Hard Trump) scenario is that it would lead to one of the biggest and most sustained monetary policy divergences between the Fed and the ECB since the launch of the euro in 1999. With the Fed raising rates just as the ECB continues to lower rates, the widening interest rate differential is likely to weigh on the euro, perhaps briefly to below parity. Given the upward impact on inflation stemming from a significantly weaker euro, we think the ECB would be mindful of the policy divergence with the Fed, and would seek to balance the need to support the economy via lower rates against the need to hedge against upside inflation risks via currency weakness. Related to this, a weaker euro would by itself do some of the easing work for the ECB, as it would (partially) offset the competitiveness hit from higher trade tariffs[3]. This in turn lessens the need to cut rates. Given how iterative the various macro-economic, financial market, and policy interactions are, there is naturally significant uncertainty around the precise policy path central banks would adopt. A weaker euro than we posit here could mean fewer ECB rate cuts, while a more limited FX market reaction could give the ECB more room to lower rates than we describe here.

Our base case sees the Fed and ECB cutting in tandem



Source: Bloomberg, ABN AMRO Group Economics

'Hard Trump' could drive a massive policy divergence



Source: Bloomberg, ABN AMRO Group Economics

Box 2: Tariffs 101 – How do tariffs affect the economy?

From a (global) welfare perspective there is consensus among economists that tariffs constitute a net welfare loss. Trade liberalization over the past decades has led to lower trade costs, which encouraged trade, regional specialization, international competition and economies of scale. The recent rise of protectionism, exemplified by the possible Trump Tariffs, risks reversing these net benefits. What are the channels of impact of tariffs on the economy? We highlight the most important channels:

1. The trade channel: The knock-on effects of higher trade costs

Tariffs increase the costs of trade, which lowers demand as well as the quantity of traded goods, and changes their price. Higher trade costs also induce switching to domestic producers. Moreover, tariffs lead to a misallocation of production factors across countries. Higher trade costs and barriers to trade hinder the optimal allocation of production and prevent specialization. Due to the net welfare

[3] This is corroborated by Jeanne & Son (2023), which showed how weakness in the renminbi in 2018-19 was driven largely by US tariffs on Chinese imports. Ironically, a universal import tariff would work in the opposite direction of one of Trump's other goals: a weaker dollar.

loss, all economies are, in the end, worse off. For the country imposing tariffs (in this case the US) the rise in trade costs is usually passed on to consumers, resulting in inflation. In the medium term there is the additional negative effect on productivity. Less international competition lowers incentives for innovation, and less productive firms stay in business, lowering aggregate productivity.

2. Uncertainty lowers (investment) activity
As the 2018 US tariffs showed, businesses anticipate tariffs by frontloading imports and raising prices to circumvent the impact of tariffs. In general, uncertainty over trade policy has negative consequences. For instance, business investments are postponed. This has a direct effect on economic activity (less investment), but globally speaking, lower investment also lowers demand for capital goods exports leading to an indirect effect on economic growth in regions that rely on capital good exports. Uncertainty over future trade policy also plays a role in financial markets as it may induce financial stress and tighten credit conditions, which limits the optimal allocation of capital.

3. Amplification via Global Value Chains (GVCs)
In recent decades, global trade has been increasingly optimized in global value chains where firms across different countries work together optimally and goods cross borders multiple times. This integration means the adverse effects of tariffs on trade might be amplified as the existing value chain is not optimal anymore. Countries more intertwined in GVCs, such as the Netherlands, or specific goods which are characterized by a global value chain, such as the supply of semiconductors, risk being more adversely affected.
(Jan-Paul van de Kerke)

In the table below we summarise our three main scenarios for trade tariffs and their macro-economic and policy implications.

	Harris/Benign Trump (BASE)	Hard Trump (Alternative 1)	Soft Trump (Alternative 2)
Scenario	No new trade tariffs	10% universal tariff; EU **included**	10% universal tariff; EU **exempt**
Description	Trade policy continues largely as it is, with only marginal tariff changes that do not have meaningful macro-economic consequences	EU fails to secure an exemption, leading to the 10% tariff applying to all US imports	A 10% universal tariff is imposed on all US imports, with the EU negotiating an exemption based on 1) commitments to buy more US goods (the carrot), and 2) the threat of retaliatory tariffs on politically sensitve US products (the stick).
Eurozone	Recovery continues and gradually gains momentum, helped by the tailwinds of rising real incomes and falling interest rates. Reduced uncertainty after the election may give a short-term lift to investment.	Growth slows sharply due to the hit to exports from higher tariffs, with a cumulative growth hit of c1.5pp by 2028, and the bulk of this weakness occuring in 2026. Inflation is c0.8pp lower (at trough) due to weaker economic activity and lower oil prices.	Economy still sees initial hit from fall in global trade, but EU exemption to tariffs mean trade is diverted from tariff-hit countries to tariff-exempt countries, ultimately leaving the economy 0.5pp bigger by 2028 than in baseline. Inflation is initially lower on falling energy prices; then rebounds to >2% as the stronger economy lifts core inflation with a lag.
NL	The Dutch economy sees below trend growth for the rest of 2024, with a more significant pick-up in growth in 2025 caused by increased real incomes and falling interest rates. Inflation stays above the 2% target.	A global slowdown in growth and trade causes Dutch GDP to perform increasingly worse in the coming years compared to the baseline. The Dutch economy is worse off than the broader eurozone as it is more trade-oriented. Inflation is lower due to weakened economic activity.	The Netherlands can (depending on the precise rules of origin) source inputs from other trading partners which are hit by US tariffs, and export capital goods to the US without the tariff. The tariffs cause a global economic slowdown, causing lower GDP in 2026 and 2027, after which the substitution effect dominates and the Dutch economy benefits.
US	The economy initially continues its steady slowdown before picking up again as interest rates approach neutral. Inflation continues on its path to 2%.	The universal tariff has an immediate impact on prices of imported goods and leads to an inflation increase of up to 1.7pp. The increase in inflation forces the fed Fed to respond and growth suffers on the back of more restrictive Fed policy and weaker demand, with a mild recession in the first half of 2026. Cumulative growth is 3.5pp lower.	Due to the non-universal nature of tariffs parts of import is rerouted through Europe. The tariffs on the remaining imports put inflationary pressure of up to 0.7pp. The Fed will ease more slowly and growth suffers, with a cumulative growth hit of 2.2pp.
ECB	Rate cuts follow base case, with a 25bp cut at each meeting from September onwards until the deposit rate reaches 1.5% in Q3 2025.	Rate cuts continue beyond our base case to counter the sharp slowdown in growth, with the deposit rate falling to 0.25% by 2027.	ECB initially lowers rates by more than in the baseline, to 1% in 2026. Then raises rates back to 1.5% in 2028 due to stronger activity and inflation.
Fed	Rate cuts follow base case, with a 25bp cut at each meeting from September onwards until the upper bound of the fed funds rate reaches 3% in Q4 2025	Rate cuts follow base case until mid-2025 on the back of the weakening labor market, ending at 4%. After Trump implements tariffs, and inflationary pressures build, the Fed raises rates by 25bp in projection meetings, reaching 4.5% by end-2025. The Fed subsequently eases gradually in 2027 to arrive at neutral by end-2028.	Rate cuts follow base case until mid-2025 on the back of the weakening labor market, ending at 4%. After Trump implements the tariffs, and inflationairy pressures begin, the Fed keeps rates at that level over 2025 before they are slowly eased starting in the second half of 2026. Rates reach neutral by end of 2027.

Eurozone: The recovery needs more from consumers

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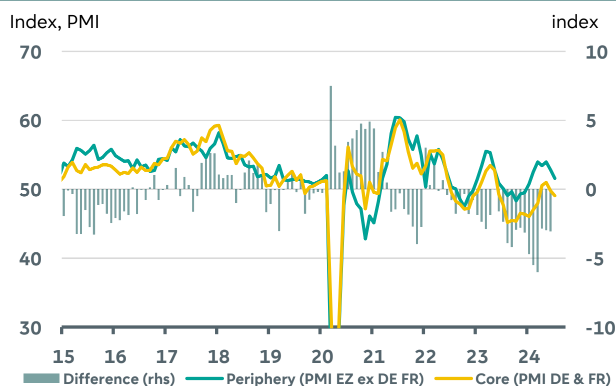
- Services continues to drive the recovery for the time being, helped by strong tourist inflows and, more recently, a host of summer cultural events. This is helping to offset weakness in manufacturing
- Services inflation remains on the high side, but falling wage growth comes as a welcome relief
- The slowing in negotiated wages gives the ECB the green light to restart rate cuts in September

Over the summer, major events influenced the eurozone's economy: elections in France, budget talks in Germany, the Olympics, and football championships. Since our last monthly update in June incoming GDP data showed the eurozone economy continued its expansion in Q2 at a similar pace as in Q1 (+0.3 q/q). Periphery countries carried growth, benefitting from tourism and recovery fund investments while Germany contracted against expectations (-0.1 q/q). Headline GDP was inflated slightly due to volatile Irish data. As such, the 0.3% q/q number likely overstates EZ strength. Zooming out, the eurozone economic recovery is struggling to gain momentum. We do expect a modest, below-trend growth rate in the near term. We have penciled in 0.3% q/q for Q3 and a slowdown to 0.2% q/q for Q4.

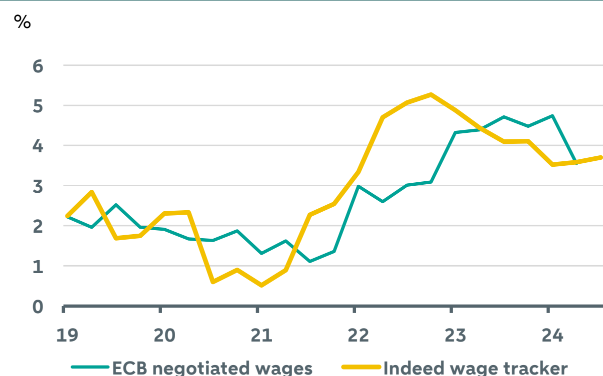
The components of GDP are not published yet, but judging from available data, growth in the past months was driven by the services sector whereas manufacturing, especially in Germany, is still in recessionary territory. In the first few months of the year, the eurozone manufacturing sector seemed to bottom out. But recently, that optimism has faded. So far, the bottoming out in world trade has not yet translated into rising demand for eurozone exports. This is partly because past shocks to competitiveness are still weighing on market share of eurozone exporters. Recent data suggest that a strong demand impulse remains elusive, leaving the manufacturing sector a drag on activity going forward. On the consumer side, private consumption in the eurozone likely continued to expand in Q2 and is set to do so in Q3 as well, helped by real income gains as well as some one-offs such as the Olympics in France (read more here). However, despite solid wage rises, easing inflation and strong labour markets, consumer demand has yet to fully pick up steam, with goods consumption in particular still stagnant. The high savings rate suggests consumers are less willing to spend real income gains, especially in France, the Netherlands and Germany. Over time, we expect rising consumer confidence to drive more normal rates of consumption growth.

Periphery continues to outperform core countries



Source: LSEG, ABN AMRO Group Economics

Wage development in Q2 sets the stage for



Source: LSEG, AMECO, ABN AMRO Group Economics

In July, headline inflation showed an unexpected marginal rise to 2.6% from 2.5% in June. The upside surprise was primarily driven by stronger energy inflation. Core inflation held steady at 2.9% despite a marginal fall in services inflation to 4% from 4.1%. Considering the heightened sensitivity around wage developments for the medium term inflation outlook, the sharp fall in Q2 negotiated wage growth – to 3.6% from 4.7% in Q1 – came as a welcome relief. The fall was flattered by base effects in German bonuses, and this measure of wage growth likely to rebound in the near-term. However, much of the current strength in wages is backward-looking, with leading indicators continuing to point to more subdued wage pressures as we move into 2025. Judging from the current economic momentum, and with the disinflationary process proceeding broadly as expected, the case for less restrictive monetary policy continues to strengthen. We expect the ECB to cut interest rates by 25bp at the September 12 ECB meeting, followed by two more 25bp steps before the end of 2024. In 2025, the ECB continues cutting interest rates at a steady once-per-meeting pace until the deposit rate reaches 1.5% in Q3 2025.

The Netherlands: Disinflation takes longer due to rents and wages

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- The Dutch economy unexpectedly grew by 1% q/q in Q2, primarily driven by increasing exports
- We expect continued but below trend growth for the second half of 2024, with an annual growth of 0.6% for 2024 and 1.3% for 2025
- Rent indexation and realised wage growth lead to uptick in our inflation forecasts. Inflation (HICP) is expected to average 3.1% in 2024 and 2.8% in 2025

The Dutch economy grew by 1% qoq in the second quarter, surpassing both our and consensus expectations. Growth was primarily driven by increasing exports and, to a lesser extent, government consumption. The contraction in the first quarter was revised up from -0.5% q/q to -0.3% q/q. In terms of growth, Q2 was the mirror image of Q1, with net exports contributing positively by 0.8pp after a decline in Q1 (-0.7pp). Private consumption fell following the strong expansion in Q1. The expansion in exports was largely fuelled by the export-oriented Dutch industrial sector, which retraced some of the losses born in Q1. On balance, export volumes are roughly unchanged in the first half of the year. Considering the weak industrial sentiment in the broader eurozone, the outlook for the Dutch industrial sector remains fragile. Quarterly figures have shown high volatility, with larger-than-average adjustments compared to the past five years. Looking at the bigger picture, the Dutch economy grew moderately in the first half of the year (+0.7% compared to 2023Q4). This aligns with our expectation of below-trend growth for 2024 as a whole, given the macroeconomic environment of weak external demand – particularly from key trading partner Germany – restrictive interest rates, and domestic constraints such as the tight labour market and the electricity grid, which continue to hamper activity. We expect continued positive q/q growth in the second half of 2024, with an average growth of 0.6% for 2024 and 1.3% for 2025.

Surprisingly, private consumption declined in Q1, while we expected an expansion due to easing inflation and high wage growth. However, Dutch households appear reluctant to spend their real wage gains. The savings rate remains high, and surveys indicate that households currently prioritize saving, to profit from the high interest rates. Other factors contributing to the decline in consumption include bad weather during Q2 which dampened services spending, the discontinuation of government support (such as the energy lump-sum payment), and unequal distribution of wage growth, with some households having already caught up in purchasing power while others might not have yet. This is all reflected in the consumer confidence index, which is on a decline again since the start of 2024.

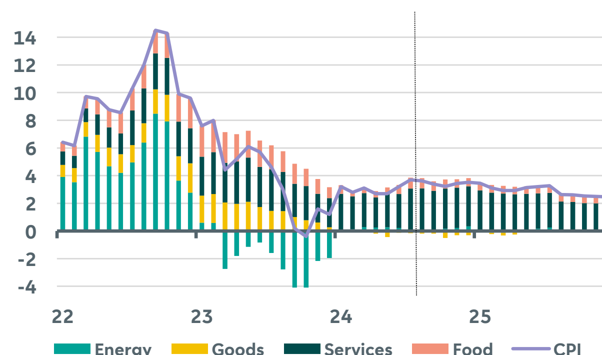
Consumer confidence is low

Average consumer confidence, seasonally corrected

Source: CBS, ABN AMRO Group Economics

Inflation is expected to fall only gradually

% y/y, contributions in pp



Source: CBS, ABN AMRO Group Economics

Wage growth accelerated again in June and July, with July's rise largely due to the minimum wage increase. While some upward wage pressure persists, many CLAs have already seen inflation compensation. This removes an important driver of recent strong wage growth. The tight labour market does give workers more bargaining power. On balance, wage growth is expected to have peaked, but will stay high for the rest of the year. This puts upward pressure on inflation, particularly in labour-intensive services. In July, inflation came in higher, mainly driven by higher housing rent indexation. This led to an upward adjustment of our services inflation forecasts for the coming 11 months. Additionally, the delayed transmission of the excise tax on tobacco played a role. All in all, we think services will be the key driver of inflation in the coming months. We have revised our inflation forecasts to reflect these developments. We expect the average HICP to come out at 3.1% this year, and 2.8% next year; staying above the 2% target of the ECB.

US: Fasten your seatbelt, prepare for landing

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- The Fed is ready to start the easing cycle
- The economy is still resilient, allowing for data-dependent and steady rate cuts
- We therefore expect a 25bps cut in September

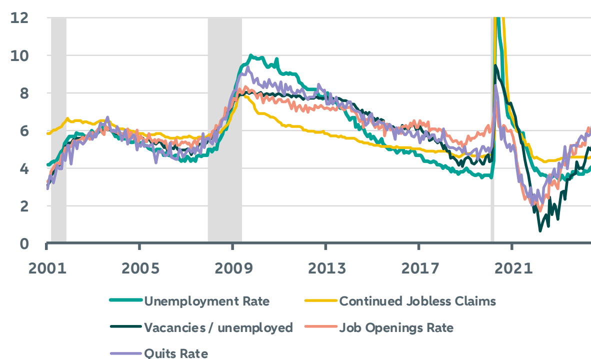
The Federal Reserve stands at the onset of an easing cycle. Chair Powell announced that the 'time has come for policy to adjust,' widely interpreted as a pre-announcement of an initial rate cut on September 18th. The start of the easing cycle is a sign that the landing of the economy is in sight, but will it be soft or hard? Over the summer, a disappointing July jobs report led markets, amplified by an unwinding of the yen carry trade, to believe the US was in for a hard landing. Fasten your seatbelts: the S&P500 lost 7%, the VIX peaked intraday at 61 (levels only seen during the GFC and start of Covid lockdown), and market pricing of Fed rate cuts shifted from 2.9 to 4.6 rate cuts by year-end, with widespread calls for immediate intermeeting cuts. For now, markets have calmed and are pricing 100bps of cuts by year-end. We expect the Fed to cut by 25bps in September in order to catch a softening labour market, which is not so weak as to warrant a rapid easing cycle.

GDP growth in Q2 surprised to the upside at 2.8% q/q saar, on the back of solid consumption and strong domestic investment. Final sales to private domestic purchasers, an indicator of demand which strips out inventories, trade and government spending also rose by 2.6%. CPI and PCE inflation continued their downward process, with core CPI inflation coming in at 0.1% and 0.2% m/m for June and July respectively, while core PCE inflation for June came in at 0.2%. The incoming figures are generally consistent with the 2% y/y target, but base effects from the second half of last year imply that the y/y figure has a bumpy road ahead.

July unemployment figures saw the unemployment rate suddenly shoot up to 4.3%, rising by 0.6 pp since the start of the year. The swift pace of the rate's ascent triggered the so-called *'Sahm rule'*, a technical rule based on moving averages. This rule suggests that if the unemployment rate rises sufficiently rapidly, a recession has started. We think this time is different. As we've argued before, the current increase in the unemployment rate is predominantly driven by above average growth in supply, while in previous episodes demand contracted. Other labour market indicators that usually move with the unemployment rate have not done so post-Covid, and have only just reached pre-Covid levels (left chart). Since the rise in unemployment is not as uniformly driven by a decline in demand, it is also less likely to have a strong impact on consumption and GDP growth, providing a weaker signal for a recession. Indeed, other coincident indicators paint a more benign picture. One example is the headline figure in the Senior Loan Officer Opinion Survey which has been steadily declining from its peak without a recession for the first time since its inception (right chart). Now, the gradual easing in lending standards suggests a strengthening in credit growth, and correspondingly subsequent investment and output growth.

The labour market is softening

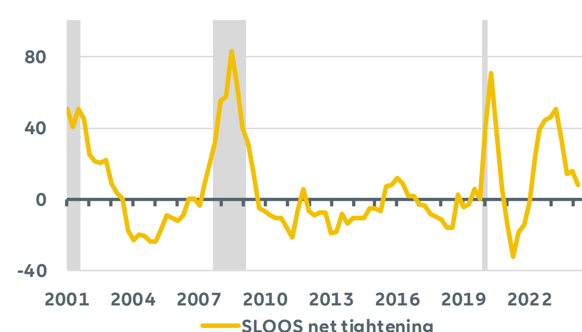
Indicators are rescaled to the unemployment rate, %.



Source: LSEG, ABN AMRO Group Economics

Credit standards

Net tightening of credit standards, index



Source: LSEG, ABN AMRO Group Economics

To summarize, putting on your seatbelt is just common sense, even mandatory, regardless of whether you expect a soft landing. The landing will be bumpy, with volatility in monthly data releases, base effects in y/y inflation, and markets reacting strongly to incoming data. Helped by the economic tailwind, the Fed will gradually ease off the brake with inflation reaching target, growth weakening a bit, but averting a recession.

China: A tale of Trump risks, tariffs, and trade diversion

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- New trade tariffs under a potential Trump 2.0 are a risk to exports, currently a key engine of growth
- Still, trade diversion (through countries like Vietnam/Mexico) mitigates effects of trade tariffs over time
- Meanwhile, domestic demand remains weak; we cut our 2024 growth forecast to 4.9% (from 5.1%)

We cut our 2024 growth forecast to 4.9% (from 5.1%)

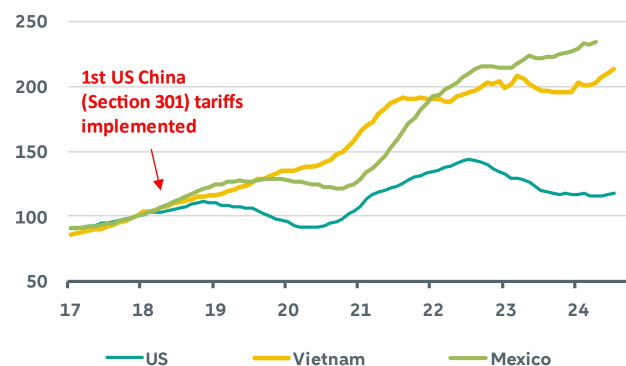
As expected, quarterly GDP growth in Q2-24 slowed from an above trend pace of 1.5% qoq s.a. in Q1 to 0.7% (see our earlier comments here), while annual growth slowed more than expected on revisions, to 4.7% yoy (Q1: 5.3%). We still expect some payback in Q3, but cut our 2024 annual growth forecast to 4.9%, from 5.1% (leaving our 2025 forecast at 4.5%). Meanwhile, the July monthly data point to a subdued growth momentum, with demand still hit by the property downturn. Retail sales picked up to 2.7% yoy in July (June: 2.0%) and 0.35% mom, but are still clearly lagging the pre-pandemic trend and industrial production (July: 5.1% yoy). Fixed investment slowed to 3.6% yoy ytd (Jan-June: 3.9%), with private investment at only 0.1% - driven down by an ongoing contraction in property investment. The surveyed jobless rate in urban areas rose to 5.2% (June: 5.0%), partly impacted by graduates entering the labour market.

External risks would rise under Trump 2.0, but trade diversion mitigates tariff impact

Exports are currently a key driver of growth, although export growth slowed in July. What is more, China's supply-focussed strategy contributes to a broadening of trade spats, with the US/EU (and others) protecting strategic sectors against Chinese (over)supply. This risk would rise under a potential 'Trump 2.0". Trump threatens with a 10% universal tariff (see Global View) and higher (±60%), broader China-tariffs compared to his first tariff war in 2018-20. It is uncertain to what extent Trump will stick to these 'promises'. Still, another tariff war would bring a faster US-China decoupling, although trade diversion (through countries like Vietnam or Mexico) mitigates the tariff impact over time (see chart). Meanwhile, although EU-China skirmishes continue (with China filing a WTO complaint against EV tariffs, and coming with a probe on EU dairy products), we still do not anticipate a broad China-EU trade war (also see here).

Trade diversion: rising export shares Vietnam/Mexico

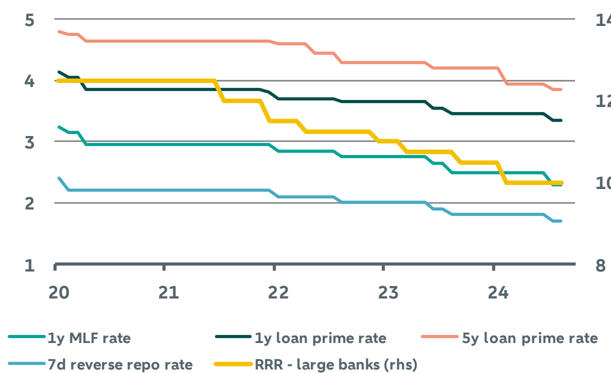
Chinese goods exports by destination, indices, 12m rolling, Dec-17 = 100



Source: ABN AMRO Group Economics, LSEG

PBoC resumed mini rate cuts in July, on hold in August

China policy rates and banks' reserve requirement ratio (large banks), %



Source: ABN AMRO Group Economics, Bloomberg

Beijing continues with (piecemeal) support, but more is needed to support demand

So far, policy easing did not really 'move the needle', with Beijing focused more on the supply than the demand side. Policy rates were cut (further) marginally in July, but kept on hold in August. This 'piecemeal' easing takes place amidst weak loan demand, with lending growth coming down. The PBoC is tweaking its monetary policy toolkit to make it more market-oriented, and introduced a form of (inverse) 'yield curve control' to put a floor under bond yields. With demand weak, inflation low, and the Fed expected to start cutting from September, we expect further RRR cuts and mini rate cuts going forward. Meanwhile, key focus of the CCP's Third Plenum held in July was Xi's (supply side) strategy of high-tech development, and self-reliance. More hints on support came from the Politburo meeting in late July, but recent measures to support consumption again primarily take the form of improving the supply of consumer services, rather than stimulate consumer demand. So far, the rolling-out of fiscal stimulus has been hampered by constraints at local governments, with the central government taking a stronger role. Last week, the housing regulator pledged to push forward with the plan (introduced in May) to let local governments buy homes from developers and turn them into affordable housing; progress on this front could help break the negative feedback loop in real estate.

Key views on a page

The eurozone is recovering, the US is cooling, and China is still weighed by the weak property sector. Big picture, the global economy is converging to more trend-like growth, and this remains our base case for late 2024 and into 2025. The recovery in global trade and industry has faltered recently, driven by a notable slowdown in the eurozone and especially Germany. A sharp rebound is unlikely while rates remain restrictive, and possible new trade tariffs should Trump be re-elected in November pose the biggest risk to the outlook. Disinflation has continued, with progress towards 2% resuming in the US following the hiccup in early 2024. The inflation impact of the Middle East conflict and the rise in shipping tariffs is expected to be limited. The ECB has started lowering interest rates, and we expect falling inflation and a softening labour market to enable the Fed to do the same in September. Still, rates will stay high for some time yet, keeping a lid on the recovery.

Macro	Central Banks & Markets
Eurozone – Growth remained solid in Q2, with strong services growth offsetting weakness in manufacturing, and southern Europe outperformance offsetting weakness in Germany. We expect growth to continue at a 0.3% q/q pace in Q3, boosted by summer events, with payback likely in Q4. The manufacturing recovery continues to disappoint, in stark contrast to services. Growth is expected to remain below the trend rate over 2024. Services inflation remains on the high side, but leading indicators for wage growth suggests the disinflation process is broadly on track.	**ECB** – We expect the ECB to resume rate cuts at the September meeting, following the July pause. Disinflation is broadly continuing, with negotiated wage growth falling sharply in Q2, while downside risks to growth have intensified. Although negotiated wages are expected to see a temporary rebound later this year, this is fully expected by the ECB and therefore unlikely to derail further cuts. Following the September cut we expect the ECB to cut at each meeting until the deposit rate reaches 1.5% in Q3 25.
The Netherlands – The Dutch economy unexpectedly grew by 1% qoq in Q2, primarily driven by increasing exports and, to a lesser extent, government consumption. The Q1 contraction was revised up to −0.3% q/q. We expect continued but below-trend growth for 2024 as a whole, given the environment of weak demand, restrictive interest rates, and domestic constraints. All in all, we expect growth to average 0.6% in 2024 and 1.3% in 2025. Services inflation will be the key driver of inflation in the coming months. We have revised our inflation forecasts (HICP) to 3.1% in 2024, and 2.8% in 2025.	**Fed** – We expect the easing cycle to start in September with an initial 25bps cut, followed by consecutive rate cuts at each meeting. The Fed will remain attentive to upside risks to inflation and downside risks to, in particular, the labor market. Monetary policy is expected to remain restrictive throughout 2024 and into 2025. We expect the upper bound of the fed funds rate to reach 4.75% by end-2024, and to reach the neutral 3.00% level by November 2025.
UK – Labour's election win has limited near-term implications for growth and inflation, but tax rises are likely to keep a lid on the recovery. This is due to the lack of fiscal space and the limited appetite to re-open Brexit policy. The economy is recovering relatively strongly for now, but growth is likely to cool in the coming quarters. Disinflation is continuing, but services inflation is stubbornly high, with wage growth still well above levels consistent with 2% inflation. The return to 2% inflation will take longer than elsewhere, due to historically higher inflation expectations in the UK.	**Bank of England** – The MPC kicked off its rate cutting cycle in August, lowering Bank Rate by 25bp to 5.25%. This was in line with our expectations. Incoming data suggests stubbornly high underlying inflationary pressure, and sticky wage growth – which poses upside risks to medium-term inflation – is likely to keep rate cuts at a more gradual pace than for the ECB and Fed, even into next year. We expect only one additional rate 25bp cut in 2024, and four rate cuts (total 100bp) in 2025, with Bank Rate falling to 3.5% by end-2025.
US – Growth rebounded strongly in Q2 2024 on the back of solid demand and investment. Increased policy uncertainty, and pockets of financial stress among households are likely to contribute to a slowdown in growth in the second half of the year, before returning to trend next year. The disinflationary process has resumed in recent months, and we expect it to continue in the remainder of the year, with the 2% y/y target in sight in the course of 2025.	**Bond yields** – The French election led to high volatility and higher spreads in June and July, but August was relatively calm. Spreads have tightened somewhat but we see little room for further spread tightening due to the uncertain political situation in France. We expect France to underperform Spain and Italy. Outright yields also stabilized in August after the significant decline of yields in July. The market's repricing of the terminal rate for the EZ brought it closer to our forecast while that of the US is now lower than ours.
China – On the back of Q2-24 GDP and recent monthly data, we cut our 2024 growth forecast to 4.9% (from 5.1%), while leaving our 2025 forecast unchanged at 4.5% . Exports are one of the remaining growth drivers, but export growth slowed in July and external risks are rising, as China's oversupply contributes to a broadening of trade spats. This risk would rise under a potential Trump 2.0 (higher, broader tariffs), although trade diversion mitigates the impact over time. On the policy front, we expect further piecemeal monetary easing, but more targeted (fiscal) measures are needed to move the needle.	**FX** – On 7 August our US economist changed his Fed view. Our view is somewhat less dovish than the market. Our view for the ECB has not changed and we hold the same view as the market. As a result of our change in Fed view, our view compared to market consensus and our expectations for the dollar on the US elections we have updated our EUR/USD forecasts. Our new yearend forecasts for EUR/USD are 1.10 (was 1.07) end 2024 and to 1.15 (was 1.10) end 2025.

Main economic & financial market forecasts

	GDP				Inflation				Policy rate			
	2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025
Eurozone	3.5	0.5	0.7	1.5	8.4	5.5	2.4	2.1	2.00	4.00	3.00	1.50
Netherlands	5.0	0.1	0.6	1.3	11.6	4.1	3.1	2.8				
UK	4.3	0.1	1.0	1.2	9.1	7.4	2.7	2.9	3.50	5.25	4.75	3.50
US	1.9	2.5	2.5	1.7	6.5	3.8	2.6	2.1	4.50	5.50	4.75	3.00
China	3.0	5.2	4.9	4.5	1.9	0.2	0.6	1.8	3.65	3.45	3.25	3.10

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

	2023	26/08/2024	Q3 24	2024	2025	Energy	2023	26/08/2024	Q3 24	2024	2025
US Treasury	3.88	3.82	3.80	3.80	3.45						
German Bund	2.02	2.25	2.00	2.00	1.80	Brent - USD/bbl*	77.04	81.43	85	85	85-90
EUR/USD	1.10	1.12	1.10	1.10	1.15	WTI - USD/bbl*	71.65	77.42	80	80	80-85
USD/CNY	7.14	7.12	7.10	7.10	6.80	TTF Gas - EUR/MWh*	35.25	40.64	40	40	35-40
GBP/USD	1.27	1.32	1.27	1.27	1.32						

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

	2023				2024				2025			
GDP (qoq)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	0.1	0.1	0.0	-0.1	0.3	0.3	0.3	0.2	0.4	0.5	0.5	0.5
Netherlands	-0.2	-0.3	-0.4	0.2	-0.3	1.0	0.2	0.3	0.2	0.3	0.3	0.4
US (saar)	2.2	2.1	4.9	3.4	2.9	3.1	2.3	1.8	1.9	1.6	1.7	1.7
UK	0.2	0.0	-0.1	-0.3	0.7	0.6	0.2	0.3	0.3	0.3	0.3	0.4
China (yoy)	4.5	6.3	4.9	5.2	5.3	4.7	4.9	4.8	4.4	4.7	4.5	4.5
Inflation	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	8.0	6.2	4.9	2.7	2.6	2.5	2.2	2.5	2.3	2.3	2.1	1.8
Netherlands	7.2	6.3	2.7	0.4	3.0	2.9	3.4	3.3	3.1	3.0	2.7	2.4
US (PCE)	5.0	3.9	3.3	2.8	2.6	2.7	2.3	2.5	2.2	2.1	2.0	2.0
UK	10.2	8.4	6.7	4.2	3.5	2.2	2.3	2.7	3.0	2.9	3.0	2.8
China	1.3	0.1	-0.1	-0.3	0.0	0.3	0.7	1.5	2.0	1.9	1.7	1.6
Unemployment	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	6.6	6.5	6.6	6.5	6.5	6.4	6.5	6.6	6.7	6.8	6.8	6.7
Netherlands	3.5	3.5	3.6	3.6	3.6	3.6	3.7	3.8	3.9	3.9	3.9	3.9
US	3.5	3.6	3.7	3.8	3.8	3.9	4.3	4.3	4.3	4.3	4.3	4.3
Policy rate	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	3.00	3.50	4.00	4.00	4.00	3.75	3.50	3.00	2.50	2.00	1.50	1.50
US	5.00	5.25	5.50	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	3.00
UK	4.25	5.00	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50
China	3.65	3.55	3.45	3.45	3.45	3.45	3.35	3.25	3.25	3.15	3.15	3.10

Source: LSEG, Bloomberg, ABN AMRO Group Economics

(saar = season adjusted annual rate)

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