Global Outlook 2024

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Back to *not so* normal

- **Advanced economies were resilient last year in the face of the steepest rate rises in decades**
- **While we expect growth to be sluggish for much of 2024, we do not expect a major downturn**
- **Inflation is expected to continue falling, enabling central banks to start the long process of bringing rates back down to normal. We expect the Fed and ECB to cut by 125bp in the second half of 2024**
- **Falling rates should help drive a recovery later in 2024, with momentum picking up in 2025**
- **But risks loom: From a possible *Trump 2.0,* to a potential EU-China trade spat, and more broadly, the tail-risk of a more disorderly decoupling between the west and China**
- **Whether these risks crystalise or not, the response of central banks will – as always – be crucial in shaping the longer-term impact on the economy**
- **Against this backdrop, climate policy is being increasingly challenged by a political shift to the right**
- **In this *Global Outlook*, we lay out how these and other drivers inform our calls for 2024 and beyond**
- **Regional Outlooks: Growth to stay weak for the next couple of quarters in *the eurozone* and *the Netherlands*, but easing financial conditions should support a recovery later in the year**
- **We expect the goldilocks-like *US* economy to slow, with a Trump re-election a risk for 2025**
- ***China* faces both cyclical and structural headwinds that are set to push growth below 5% in 2024**

Looking back, if we were to sum up the economy in 2023 in one word, it would be *resilience*. Considering the succession of shocks the global economy has faced in recent years – the most recent being the steepest interest rate rises in decades – it is a wonder that the hot topic right now isn't crisis and recession. What about next year? Following the resilience of 2023, we expect 2024 to be a year of *normalisation*. By the end of next year, we expect inflation to be back at 2%, growth to have returned to trend, and central banks to be well on their way to bringing rates down to more normal levels. So far, so benign. But 2024 also brings a lot of risks. Chief among these is the US presidential election in November, which could herald the return of president Trump. His plan for sweeping new tariffs would put disinflation into reverse, potentially causing rates to start rising again. Another key risk to watch is the outcome of the European Commission's probe into China EV subsidies. Finally, although we do expect policy rates to fall next year (and bond yields have already fallen in anticipation of this), given the monetary policy lags, there is still a risk that there could be more economic weakness in train from high rates than we currently foresee.

Aside from the near-term cyclical worries, in this *Global Outlook* we also tackle some more structural themes. First, we look at whether higher rates are here to stay, and – related to this – whether persistent price shocks are going to be the new normal (and how willing central banks will be to accommodate them). We also look at a major issue challenging policymakers in recent years – particularly since the pandemic – which is the worsening reliability of statistics, which has meant they (and we) are to some degree ‘flying blind’ in assessing the economy. Finally, we explore what the recent Dutch elections – which led to a surge in support for the far right – might mean for climate policy and the energy transition. To some degree, we think we are likely to see a watering down of climate targets, and this could end up being part of a broader international backlash against climate policy. Next year’s European Parliament elections will be an important test of that.

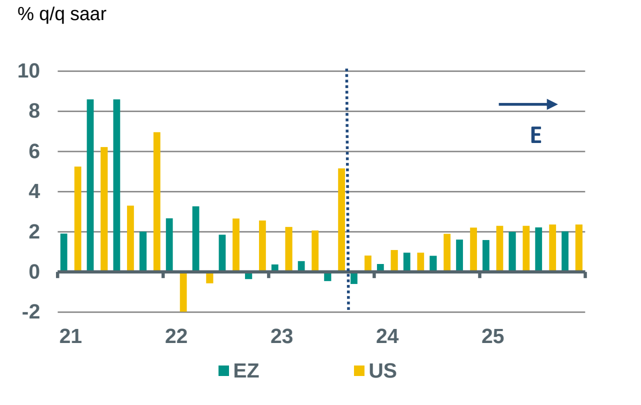
Wherever developments take us in 2024, we wish our readers a restful holiday period, and a happy new year!

Have we dodged recession? It depends how you define it (and where you look)

Despite the sharpest rise in interest rates in decades, advanced economies have been surprisingly resilient in 2023. Part of the unexpected strength in the US in 2023 has been due to the strong cash buffers of households, where there were large upward revisions to household disposable income and excess savings (see **here**). Alongside improvements in the supply-side, we expect this to help prevent a more severe slowdown in 2024. Cash buffers have also been a supportive factor in the eurozone, but ECB data shows eurozone households have now spent the bulk of their liquid excess savings in 2022 and 2023H1. Indeed, the household saving rate has increased in recent quarters, suggesting more caution among consumers.

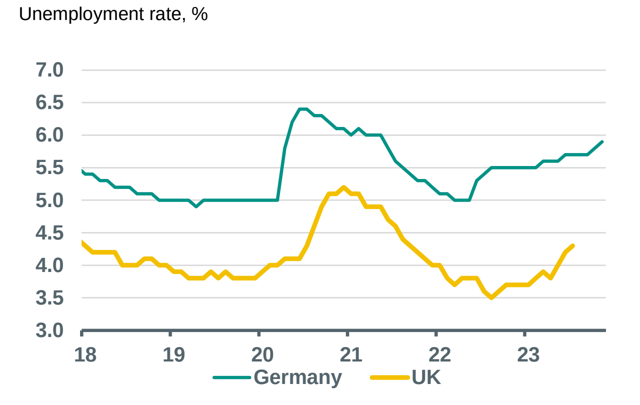
Zooming out, although GDP growth has been stronger than expected, growth still weakened significantly in the course of 2023 (with the exception of the US). Some countries have had occasional declines in GDP (such as Germany, in Q4 22 and in Q3 23), while the Netherlands has recorded three consecutive quarters of contracting GDP, therefore meeting the technical recession definition (see graph below). Others reported zero growth or contraction in 2023Q3, and could well experience another contraction in Q4, as is our base case for the eurozone – i.e. we think the eurozone is already in a technical recession. Still, although we expect a further decline in eurozone GDP in Q4, and see a risk of a one-off decline in the US, we do not expect falls in GDP to last long nor be deep.

Growth has slowed in 2023, besides in the US



Source: LSEG, ABN AMRO Group Economics

German & UK unemployment on the rise



Source: LSEG, ABN AMRO Group Economics

But GDP is not the only lens through which we consider whether a country is in recession or not – the labour market is also a crucial indicator[1]. Judged through this lens, some countries – notably Germany – do look to be rather recessionary, with unemployment rising nearly a percentage point to 5.9% over the past year, while in the UK, unemployment has risen 0.8pp to 4.3%. This is understandable given that the German and UK economies have essentially stagnated over the past year, and we expect this labour market weakness to spread to other countries over the coming quarters. With that said, although we expect some modest rise in unemployment, on both sides of the Atlantic we expect this rise to be limited to around a 1-1.5pp rise, i.e. we do not expect a sharp rise in unemployment that would normally be associated with recessions.

All in all, our base case sees the global economy remaining sluggish in 2024, staying well below trend for most of the year, but we do not expect a recession. Part of the pain of past ECB and Fed rate rises will still be feeding through with a lag in 2024, and there is a risk even with a June start to interest rate cuts that there is more economic weakness in train than we realise. However, our base case sees the end of rate hikes giving some lift to household and business confidence, which should support consumption and investment. Indeed, financial conditions are already easing ahead of expected rate cuts, with bond yields falling 50-75bp from recent peaks. As an export-dependent economy, we also expect the eurozone to benefit from a bottoming out in global trade and industry (read more in our **Macro Watch**), as well as easing competitiveness concerns (see **here**), though a sharp rebound is unlikely. In contrast, fiscal policy is expected to be tightened, as pandemic and energy crisis-related support is unwound, and this will keep a lid on growth. Taken together, we expect moderate GDP growth in the eurozone and US in 2024, with the growth gap between the two regions narrowing, but

[1] Indeed, in the US, the official arbiter of recessions – the NBER – **defines recession** as "a significant decline in economic activity that is spread across the economy and lasts more than a few months." This broader definition typically also requires a rise in unemployment.

the US continuing to outperform somewhat. Momentum should build moving into 2025, when we expect growth to rise somewhat above trend.

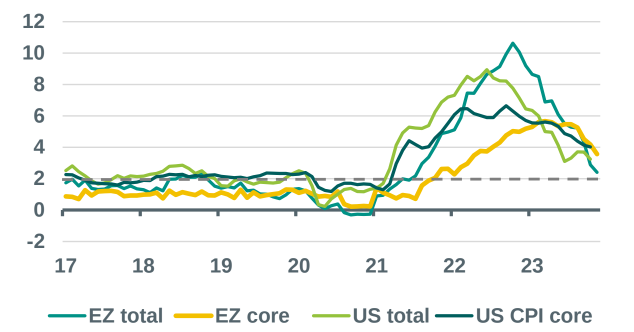
When will inflation get back to 2%?

A crucial underpinning for our benign growth view is that inflation continues to move steadily back near the 2% target of central banks – our base case being that this happens by mid-2024. Why is this crucial? Because if this doesn't happen, central banks could keep rates at restrictive levels for longer than we currently expect. This would then raise the risk of a bigger hit to economic activity than we have seen so far. As we describe below, though, despite growth being stronger than expected, the decline in inflation has actually been broadly in line with our expectations[2]. We expect that trend to continue.

Inflation in advanced economies fell sharply in 2023, following the 2021-2 inflationary surge. In the eurozone, most of the decline was due to plummeting energy inflation, which had soared in 2022; but in the US, core inflation (and its main driver, wage growth) has also fallen back significantly. Eurozone energy inflation dropped by more than 30 percentage points (pp) between January and October 2023 (from 18.9% to -11.2%), while food price inflation fell by almost 9pp in the same period. In the US, the comparable drops were 13 and 7pp, respectively. We think the drop in energy inflation has largely run its course, and expect energy prices to increase moderately in 2024, on recovering global demand. Food inflation, in contrast, is expected to fall further in both the US and the eurozone, which will weigh on headline inflation.

Headline rate dropping sharply, core more sticky

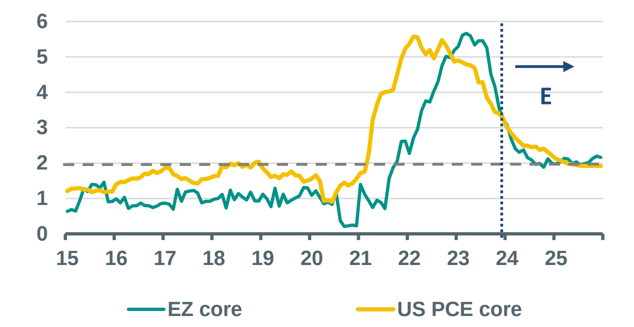
Change in consumer price index, % y/y



Source: LSEG, ABN AMRO Group Economics

Inflation to fall sustainably to close to 2% in 24H2

Change in core consumer price index, % y/y



Source: LSEG, ABN AMRO Group Economics

More important for the longer run inflation outlook is that core inflation (excluding food and energy) has also declined significantly in 2023, albeit it is somewhat stickier than the headline rate. We think core inflation will continue to fall at a steady pace in 2024. First, non-energy goods price inflation fell sharply in 2023 due to a combination of easing supply chain bottlenecks in global industry and weakening global demand for goods. As global goods demand is expected to recover only moderately in 2024, we expect the downward trend in goods price inflation to continue for a while. Core inflation is also seeing downward pressure from the fall in energy costs to goods and services. This had been a particularly big driver of the inflation surge in the eurozone, and the unwind has further to go, giving extra downward momentum to core inflation in 2024.

Services price inflation has also declined in 2023, albeit more so in the US. Services inflation is more domestically driven than any other component of inflation, and is chiefly driven by wage growth, so the dynamics can vary between countries. In the US, wage growth has largely normalised and is now close to the pre-pandemic level, while in the eurozone it is still somewhat elevated (largely because workers demanded compensation for the real income losses in 2022), although it does now look to be peaking. Indeed, given how much weaker the economy is in the eurozone, we think this elevated wage growth is unsustainable, and expect it to fall sharply in 2024. Another major difference between the US and eurozone relates to shelter (or housing), which has a relatively heavy weight of around a third in the US CPI (rent *and* owners' equivalent rent), versus 7% in EZ HICP (only rent). US shelter inflation has declined considerably in 2023, and more timely data on new rental leases suggests it will fall further in 2024. *(Aline Schuiling & Bill Diviney)*

[2] Interestingly, this suggests a reversion to the pre-pandemic experience, when the relation between growth, the labour market and inflation became much weaker than it was in the past.

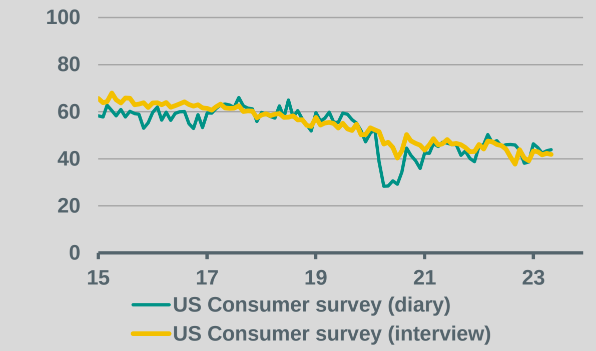
Box: Navigating through the fog

Policymakers already have a difficult time responding to the many challenges that have faced advanced economies in recent years, but what if they can't even see what is really happening? In recent years, and especially since the pandemic, economic data has become a less reliable reflection of what is happening on the ground. Statistical agencies are now urgently working to correct this, but in the meantime, this is causing policymakers to be both cautious and more nimble as their view of the economy evolves. Economic data are the raw material for both fiscal and monetary policy decisions. Since it takes time before policy changes impact the real economy, forecasts are essential. Forecasts are always uncertain, of course, but if there are doubts about the reliability of the underlying data, this complicates forecasting even more and hence policy decisions.

Recent examples of data that turned out to be unreliable or to have limited predictive power include UK labour market data, energy inflation, and surveys such as the purchasing managers' indices (PMIs). In Britain, doubts about unemployment data became so great that alternative ‘experimental’ estimates are now being used, with a shift to a new (hopefully more reliable) methodology expected next year. In both the **Netherlands** and **Belgium**, the household energy bills in consumer price inflation were grossly overestimated by statistical agencies during the energy crisis, as was shown by **analyses** using financial transaction data on monthly energy payments. Since the pandemic, surveys such as consumer confidence and the purchasing managers' indices (PMIs) – which usually is a good predictor of the business cycle – no longer have the same tight relationship with economic activity that they once did (though this relationship has since partly normalised).

Survey response rates keep declining

% of the sample that responds to or participates in a survey

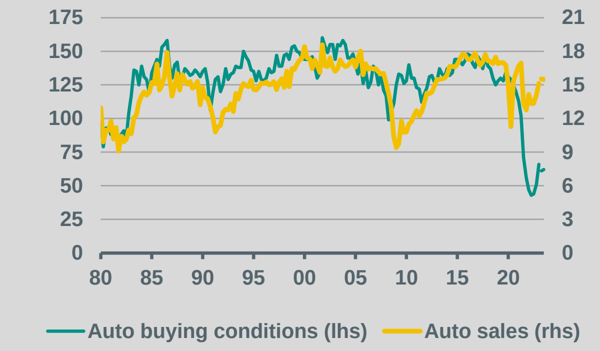


Source: LSEG, CITI, ABN AMRO Economisch Bureau

Limitations to surveys predictive power

Index

Seasonally adjusted index



Source: LSEG, ABN AMRO Economisch Bureau

Trust in government

The reliability of data has declined partly because households and businesses seem less willing to participate in surveys. During the pandemic, contact restrictions were naturally a factor, but response rates have since barely recovered. Declining social trust (which started well before the pandemic) is the most likely cause. This could lead to a vicious cycle if it is not adequately dealt with. If policymakers lack reliable information, the quality of their decisions – and the trust citizens put in them – will decline. This further reduces willingness to respond to surveys.

Data reliability will probably improve again, but in the meantime it raises the risk of abrupt policy shifts

Statistics agencies are innovating to keep providing reliable data. With the use of new communication channels, by shortening questionnaires and using financial compensation, or by demonstrating the importance and relevance of data, statistics offices are trying to innovate. Now-casting with real-time micro-data could also augment more traditional data collection. Real-time micro data reflect actual behaviour, eliminating the problem of reduced survey participation.

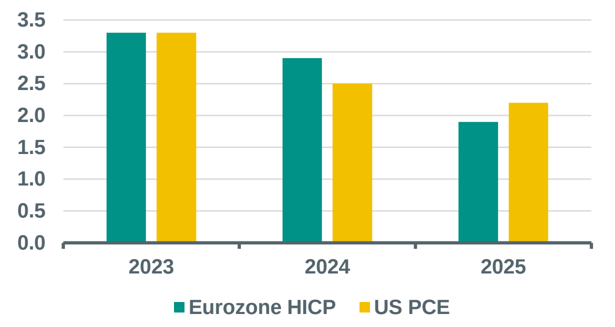
What does all of this mean for policy? Central bankers already rely on a range of data, including anecdotal sources such as industry contacts, and in the US, there is the Fed's Beige Book which formally compiles such qualitative evidence. But as Fed Chair Powell said, following the failure of central banks to predict how sustained the inflation wave would be, policymakers have to be 'humble', 'nimble' and work with a risk management mindset. This raises the prospect of more abrupt shifts and pivots in policy going forward, as the true picture of the economy becomes increasingly clear. *(Philip Bokeloh, Sandra Phlippen, Bill Diviney)*

Have central banks done too much or too little? Are high rates here to stay?

Advanced economy central banks have raised interest rates at the most aggressive pace in decades in response to high inflation. To understand whether they have done too much, or too little to fight inflation, we first need to define what ‘just enough' would be. The objectives of central banks can give us guidance here. Recent communication from the Fed and the ECB suggests they would be satisfied with inflation sustainably back at around 2% during 2025.[3] According to central banks themselves, they have now done more or less enough to meet their 2% medium-term objective. In the Summary of Economic Projections, FOMC members see inflation just above 2% in Q4 2025. The median projection suggests one more 25bp interest rate increase might be appropriate, though officials are indicating they are comfortable with where interest rates are given that inflation and labour market data since has been generally benign. The ECB's Staff Macroeconomic projections in September show inflation back around the target in the second half of 2025. The minutes of that meeting – when the ECB raised its policy rate by 25bp to 4% – suggested that decision was a close call. Commentary from Governing Council members also clearly suggests they think rates have peaked if their central view of the economic outlook plays out.

Inflation projections from the Fed and ECB

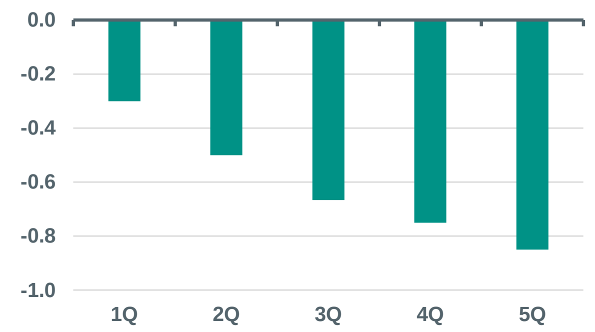
Projection each year is for Q4, % yoy



Source: FOMC, ECB, ABN AMRO Group Economics

Monetary policy takes time to take hold

Impact of 100bp rate hike on Eurozone GDP growth, %



Source: ECB, ABN AMRO Group Economics

So, central banks appear to judge that they have done just enough. Are they right? Broadly yes, given the current horizon and the upside risks to inflation they were facing over the last few quarters. However, we think the environment is changing, and as we move forward, the horizon is also shifting. Recent data on inflation and its drivers suggest it may come down more quickly than central banks project. In addition, the longer monetary policy is kept restrictive, the more likely we are to see an extended period of weak economic growth, which will eventually lead to undershoots of inflation targets if monetary policy is not recalibrated in time. This is especially true given that the full impact of any rate change takes a long time to feed through to the economy, and even longer to impact inflation. So, 'just enough' right now, may easily become 'too much' going forward if current interest rate levels are sustained for too long.

Interest rates likely to normalise over the next two years

This leads to the question of whether interest rates will remain high. Financial markets appear to have decided they will, though expectations have been scaled back over recent weeks. Just a few weeks ago, financial market pricing suggested investors thought not only that interest rates will be 'higher for longer', but rather 'higher for ever'. For instance, one month ago markets saw US interest rates settling at around 4.5% over the coming years, meaning that even when the Fed starts to cut interest rates, those rate cuts will be rather shallow. This is some 2 percentage points higher than the prior consensus view that 2.5% was normal. Although we have recently seen some re-tracing of these moves, interest rates are still expected to remain much higher than in the past (see chart, below-right). Are financial markets right about the new normal?

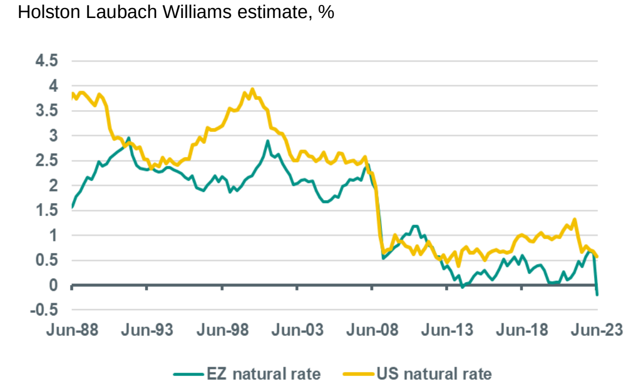
We think two factors have driven this change. First, despite the Fed taking the upper bound of its target range to 5.5%, the US economy has been resilient so far. Given that the 'normal' or 'neutral' interest rate is defined as the level which neither stimulates nor restricts the economy, it seems a logical conclusion to draw that this rate is now higher. However, this conclusion looks premature. Interest rates are not the only factor that impacts the economy. In particular, excess household savings accumulated during the pandemic appear to be insulating the economy to some extent, and this cushion is likely to fade. Furthermore, rate rises impact the economy with long and variable lags, and much of the negative impact is still in the

[3] Although the FOMC also has a 'full employment' objective, Chair Powell has clarified that price stability is seen by the Committee as a necessary pre-condition to achieving full employment over the long term. See also here

pipeline. For the eurozone economy, which has weakened materially on the back of interest rate hikes, there is obviously much less of a question of whether policy is currently restrictive.

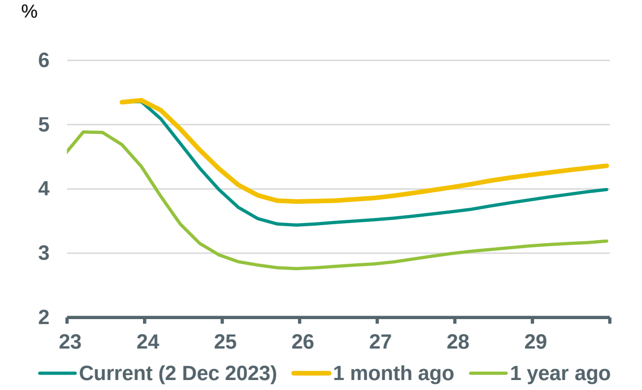
The other factor pointing to a higher normal is 1) a fall in the demand for US Treasury securities, as the Fed reduces its balance sheet, and 2) an increase in their supply, with persist high deficits combined with higher interest costs driving increased bond issuance. We think these are valid reasons to think normal interest rates are higher. Having said this, there are still other factors keeping normal interest rates low. Most importantly, the trend rate of grow remains lower than before the 2008-9 global financial crisis because of unfavourable demographics, and weaker productivity growth.

Real neutral rates



Source: New York Fed, Bloomberg, ABN AMRO Group Economics

Market expectations for the Fed still look too high

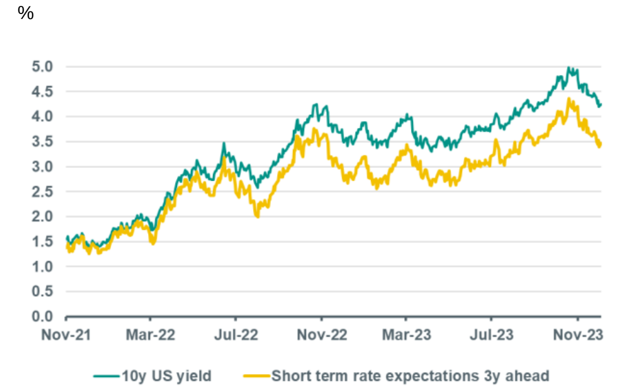


Source: Bloomberg, ABN AMRO Group Economics

So, although the normal interest rate may have risen in the US, we think the rise is likely to have been much more moderate than financial markets are currently pricing. In the eurozone, we judge that neutral rates are most likely broadly in line with their pre-pandemic levels. For both the US and eurozone, the most respected estimates of the neutral rate have remained low (see chart below on the left). These estimates appear to be supported by other evidence. For instance, the collapse in corporate loan demand (see chart below on the right) fits the view that monetary policy is in deeply restrictive territory. Overall, we see the neutral rate in the US at around 3%, and the neutral rate in the eurozone at around 1.5%.

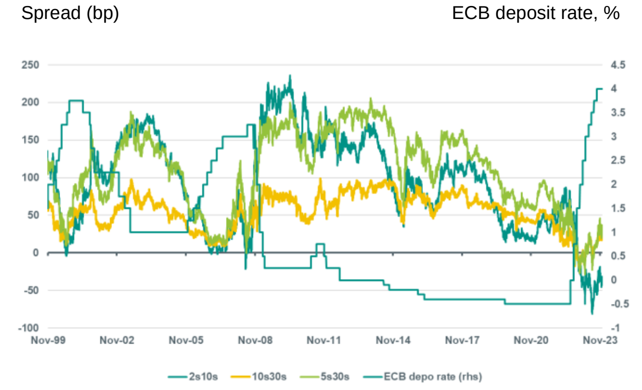
The upshot of all this is that as growth and inflation slow, and central banks do start cutting rates, there will still be a long way down from current levels. We therefore expect a downward re-appraisal of the ‘new normal’, which should be a supportive factor next year. Of course, just as rate hikes take time to negatively impact the economy, rate cuts take time to stimulate the economy. As such, compared to cycles where rate cuts came earlier, the recovery could take time to get going.

Long rates mainly driven by short-rate expectations



Source: Datastream, Bloomberg, ABN AMRO Group Economics

Monetary policy expectations and yield curves



Source: Datastream, Bloomberg, ABN AMRO Group Economics

Bond yields to drop, yield curves to steepen

The most important determinant of long-term interest rates is the market’s view of where the central bank will drive short-term interest rates over the coming years (see chart below-left). Although a risk premium (known as the term premium) also impacts yields, as investors price in inflation risks or changes in the supply and demand for bonds, the chart suggests that monetary policy expectations are the dominant driver. As markets price in more significant rate cuts for next year and beyond, bond yields will likely fall significantly in both the US and the eurozone. We also expect yield curves to steepen. The chart on the right below shows how yield curves move around monetary policy cycles. Yield curves tend to flatten during rate hike cycles, which is exactly what we have seen over the last two years. However, as rate hikes end and rate cuts approach, curves tend to steepen quickly. We have started to see the beginning of this trend, but we think it has much further to go. *(Nick Kounis)*

What if persistent price shocks are the new normal?

Though our base case sees inflation back near 2% by the middle of 2024 (see **here**), this assumes no further shocks on the scale of the pandemic or the Russia-Ukraine war. Such 'shocks', of course, are by definition impossible to predict. In the decade prior to the pandemic, inflation was persistently *below* central bank targets. Trade integration pushed down prices of goods, while lacklustre growth and slack in labour markets led to weak demand-side prices pressure. Now, after the energy crisis set off the biggest price shock since the 1970s, there are reasons to think the coming decade could bring more price turbulence. Two factors stand tall as potential new sources of price shocks: 1) geopolitics and deglobalisation, and 2) climate change and decarbonisation. But as Milton Friedman once said, "inflation is always and everywhere a monetary phenomenon." Shocks can temporarily disturb the inflation anchor, but whether high inflation really persists will depend on the central bank response.

'Shifts' are not 'shocks' – and the distinction matters

The global turbulence of recent years makes it easier to imagine new sources of shocks. One concrete risk to inflation on the horizon comes with the possible re-election of Donald Trump to the US presidency, which could bring broadbased new import tariffs – this is something we discuss in more detail in our US outlook. But for a shock to really be a *shock*, it needs to be big, and it needs to be unanticipated. To illustrate with a recent example: if Europe had expected Russia would invade Ukraine and weaponise its gas exports, energy supply would have been diversified more gradually, and the impact on energy prices would have been much milder.[4] Indeed, demographic change is an example of a more gradual shift rather than a shock, with its effect more gradually absorbed by the economy.

That 1970s feeling: The impact on expectations – and the policy response – is key

Inflationary turbulence is nothing new, but the scale of the supply shocks we have seen from the pandemic and the Russia-Ukraine war has dwarfed anything seen since the 1970s oil price shocks. This is why the recent inflation surge initially blindsided central banks (although **not all economists**). *Economics 101* teaches that a central bank should 'look through' (or wait out) **supply-driven price shocks** rather than clobber the economy unnecessarily with high interest rates. Supply shocks typically only temporarily raise inflation until supply adjusts, while monetary policy can only influence demand (and with a long lag) – not supply. But when it became clear in 2021-22 that the unfolding shocks were sufficiently large and persistent to risk a de-anchoring of inflation expectations, central banks acted with the most aggressive rate hike campaign in decades. What worried central banks was the second round effects – that higher prices would push people in a tight labour market to demand higher wages, risking a wage-price spiral. To some extent, this risk did indeed crystalise. In responding so forcefully, they knew full well that this risked triggering deep recessions. But their judgment was (and remains) that killing inflation now – even if it meant recession – was better than a re-run of the 1970s, when persistent inflation led to a highly volatile business cycle, and prolonged high unemployment.

Central banks appear committed to their targets, but will that always be so?

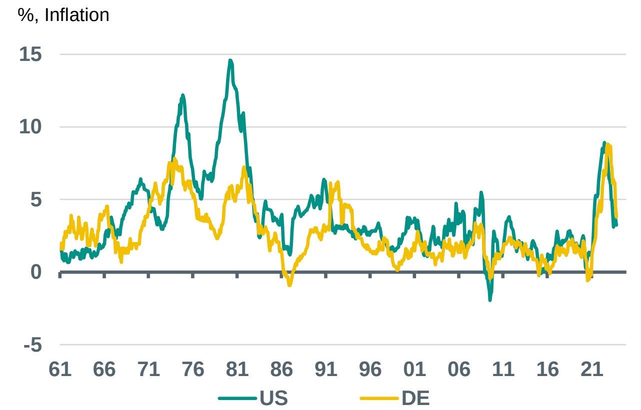
Central bankers surprised markets and forecasters in how aggressively they responded to the 2021-22 inflationary surge. This sent the clear message that, when push comes to shove, meeting their inflation targets matters more than avoiding a near-term recession.[5] We are confident that will continue to be the case, but we can also imagine scenarios where things could go differently. First, it could be that shocks are so numerous, and so varied in their nature, that the recession and

[4] The energy crisis has also made economies more resilient to a new energy shock: energy supply is more diversified, while policymakers and consumers are better prepared to adapt. Consecutive similar supply shocks can be thought to have less impact on inflation.

[5] This also applies to the Fed, which unlike the ECB, has a dual mandate: price stability and full employment. However, as Chair Powell always argues, price stability is a pre-requisite for a strong labour market, meaning that the Fed's *de facto* goal is also singularly on inflation.

unemployment consequences of bringing inflation back to target becomes intolerable. Related to that is the issue of hard-won central bank independence, which is a relatively recent phenomenon for most countries/regions (in the past, politicians had direct influence over interest rates). We could therefore also imagine scenarios where political pressure impedes a central bank from meeting its mandate; particularly in the current environment, where populist politicians with less respect for institutional boundaries increasingly hold sway[6]. *(Jan-Paul van de Kerke & Bill Diviney)*

Price shocks not a new phenomenon



Source: LSEG, CITI, ABN AMRO Economisch Bureau

Will elections intensify China's decoupling from the west?

The west's decoupling from China seems to have become the new normal. Relations are undergoing a reset – driven by both sides – over concerns on strategic competition, national security and other issues. The reset goes hand in hand with a correction in bilateral trade, although cyclical factors and a post-pandemic rotation in demand back to services from goods also play a role. Alongside trade, this is affecting foreign direct investment and portfolio flows, particularly in the tech sector (see our **October Monthly, *Six urgent questions on China*** and our recent **trade watch**). Our base case sees China decoupling continuing in a gradual way (given vested interests at stake), with no Russian-style accidents leading to sudden stops with severe macro implications. Still, we see three potential stumbling blocks in 2024 that could accelerate China decoupling: Taiwan elections (January), US elections (November), and an EU-China trade spat on EVs.

Taiwan presidential elections: Risks from DPP victory remain, but are mitigated by restart US-China (military) talks

Taiwan is a key friction point in US-China relations, with China aiming for reunification over time (preferably peacefully, but if necessary by force) and the US being the island's major backer. The fact that Taiwan is the world's largest semiconductor producer adds further to these frictions. Events last year showed how precarious the status quo is, as China reacted with large-scale military exercises and a de facto blockade of the Taiwan Strait to the Taipei visit of US House Speaker Pelosi in August 2022. Against this background, Taiwanese presidential elections (January 13) bear close watching. A victory for the pro-independence Democratic Progressive Party's candidate Lai (who is criticised by China) would add to risks of a reaction by Beijing, although Lai has softened his tone recently (the majority of the voters prefer stable cross-Strait relations). Lai is leading in the polls and his chances of winning the elections improved after a plan for the opposition pro-China Kuomintang party (favoured by Beijing) and the centrist Taiwan People's Party to join forces failed end-November. On the other hand, Biden and Xi discussed Taiwan during their recent meeting, and agreed to reopen military communication channels that had been closed after Pelosi's visit. This has somewhat lowered the risk of an escalation in the Taiwan Strait following the January elections, at least for the short term, though some risk naturally remains.

US elections November 2023: What if Trump returns to the White House 'with a vengeance'?

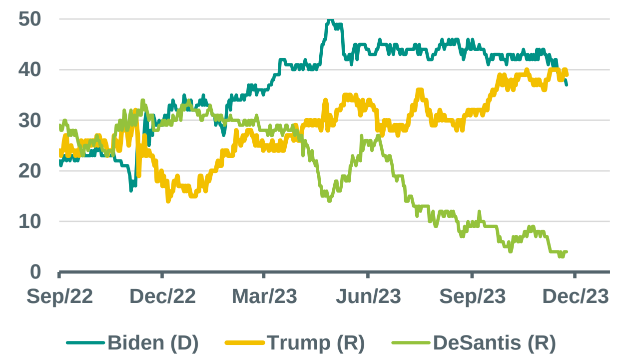
Beyond 2024, the US presidential elections next November will also have repercussions for the US-China relationship. Polls suggest that former president Trump is all-but certain to win the Republican candidacy, with a 50-50 chance of him going on to win the presidency, despite his legal woes. While rebuilding US industrial policy and containing China are now bipartisan goals, the approaches of Trump and Biden are radically different. Whereas Trump's approach was mercantilist, transaction-

[6] A recent example of this is Turkey. Under pressure from the government, the central bank *cut* rates in response to surging inflation.

based and unilateral, Biden's approach is more ideologically-based and multilateral. A re-elected Trump would likely play the protectionist card again: he has proposed a universal 10% import tariff (using presidential powers under Section 301 of the 1974 US Trade Act), which would hit the EU as well. He may also come with another round of China tariffs, as the US still has a large bilateral trade deficit (although this has come down, with US demand rotating back to services). All in all, we think a Republican/Trump re-election would raise the risk of a more abrupt deterioration in US-China relations, with a stronger macro/markets impact, and an acceleration in US-China decoupling. Another round of US isolationism under Trump 2.0 may also embolden China in its longer-term approach versus Taiwan.

Rising chance of Trump returning to White House

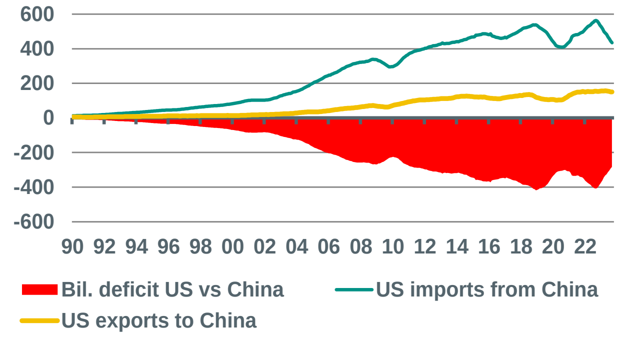
Implied probability of candidate winning the presidency, %



Source: Bloomberg, PredictIt, ABN AMRO Group Economics

US trade deficit with China: Down, but not out

USD bn, 12 month rolling sums



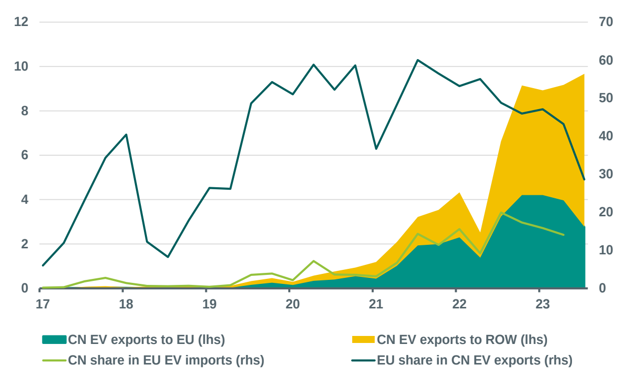
Source: ABN AMRO Group Economics, LSEG

Will the EU probe into China's EV sector trigger a serious trade spat between Brussels and Beijing?

The EU has so far taken a more measured approach in reshaping its China relationship compared to the US. More recently, however, the EU trade-offs seem to have shifted. In September 2023, the European Commission (EC) launched an investigation into made-in-China battery electric vehicle (BEV) subsidies, following a surge in China's BEV exports, which could harm Europe's nascent BEV industry. While BEVs still make up a relatively small share of total EU car sales, at 12.2% in 2022, sales are growing rapidly – by over 50% ytd y/y as of October. In Q2 2023, 18.5% of EU imports of BEVs were from China and, although this share has dropped somewhat recently, is expected to increase over time. Around 40% of the EU imports of China-made cars came from Tesla, but the share of Chinese brands is rising rapidly.

China's car exports to EU are on the rise

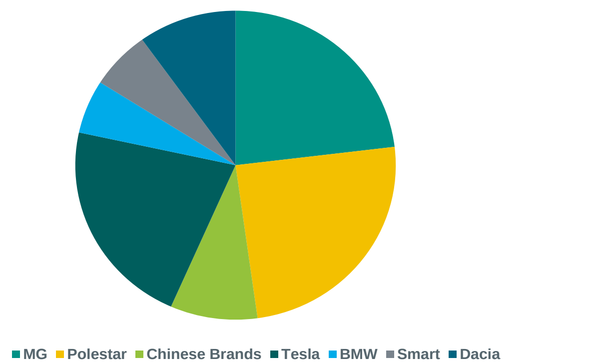
USD bn % share



Source: ITC, ABN AMRO Group Economics

Most China-made EV exports are not Chinese brands

Made-in-China EVs registered in Germany by brand*, 1H-2023, %



Source: CSIS, ABN AMRO Group Economics (* BEVs + hybrids)

To be able to impose countervailing duties (such as a higher import tariff, on top of the standard 10%), the EC must prove a) that Chinese BEV exports received equivalent subsidies from the Chinese government, and b) that European industry is imminently threatened by this. The EC probe will look at a range of support measures by the Chinese government (such as subsidies, grants, loans), will last for about one year, and will cover the period October 2022-September 2023. Although some countervailing measures may well be taken given the importance of the BEV industry for Europe, we expect Brussels to act carefully in this area, as it usually does given the broader interdependencies at stake, and with the possibility of Chinese retaliation in mind. That said, there is a risk of a more disruptive outcome, which could accelerate Europe's decoupling from China. *(Arjen van Dijkhuizen & Aggie van Huisseling)*

Has the energy crisis and the subsequent jump in wages hampered Europe's competitiveness?

High nominal wage growth and a shift away from Russian energy towards more costly suppliers has dented the eurozone's cost competitiveness. Business surveys, for instance by the European Commission indicate that eurozone businesses perceive a loss of competitiveness in domestic as well as international markets. This has knock-on effects: higher energy costs mean the eurozone lost some of its attractiveness as an area to invest in. There are offsetting factors though, which makes us believe loss of competitiveness is bottoming out. For a brief time, weakness in the euro dampened some of these effects. Also, lower inflation and increasing unemployment will reduce wage pressure in the coming quarters, which will weigh on unit labour cost growth. In the longer term, cost competitiveness hinges on innovation and productivity developments, where there is room for policymakers to act to improve future cost competitiveness.

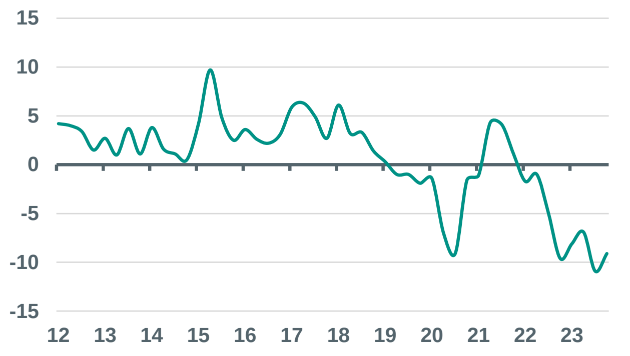
Cost-push shocks hampering competitiveness

Since the war in Ukraine and the subsequent energy crisis, energy costs soared more for eurozone firms than for most global competitors[7]. As the eurozone remains a net importer of energy, this is unlikely to fully reverse soon. This constitutes a disadvantage for eurozone industry, particularly the more energy-intensive (including in the Netherlands, see our report here). According to investment surveys, high energy costs are also holding back new investment. Next to energy, high inflation against the backdrop of a tight labour market has led to high nominal wage increases. Without increases in productivity, this has meant rising unit labour costs (the cost of labour per unit of output). Looking at unit labour cost developments, the recent increases have far exceeded the increases seen in the three years leading up to the pandemic.

As a result of these shocks, eurozone businesses report that their competitive position is slipping. This is more the case for exporters than for those producing for the domestic market. Interestingly, we also see signs of divergence *within* the eurozone. Particularly in terms of the competitive position in relation to energy. German businesses for instance, heavily dependent upon Russian gas for their energy-intensive industry, report a far steeper loss of competitiveness than for instance their French or Italian counterparts.

Eurozone businesses see decline in competitiveness

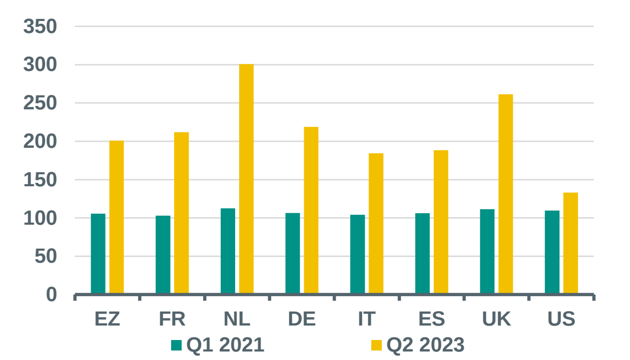
Index; negative is decreasing competitive position on global markets



Source: LSEG, ABN AMRO Group Economics

Rising energy costs and difference between countries

Index (2015=100)



Source: Eurostat, ABN AMRO Group Economics

Several factors provide temporary cushioning

There have been some off-setting factors that have reduced the perceived loss of competitiveness. First is exchange rate developments. When energy costs soared in 2022, the euro depreciated in value. This provided some relief for exporters, though it is a double-edged sword for energy-intensive exporters, as a weaker currency also puts upward pressure on input prices. Another temporary cushion over the past two years came from supply bottlenecks elsewhere in competitor countries. In 2021 and 2022 following the lockdowns, global supply chains were distorted leading to inefficiencies in logistics and international trade. As a result, domestic producers within the eurozone, even when they were more costly, gained an edge over international competitors as they were less affected by these global supply bottlenecks. This shielded domestic

[7] Japan and Korea – also major net importers of LNG – were also hit by the energy crisis and continue to face higher energy costs than before the crisis.

producers temporarily from the full extent of their loss of competitiveness. More recently, these two factors retreated; supply bottlenecks have since resolved and the euro has appreciated from the 2022 lows.

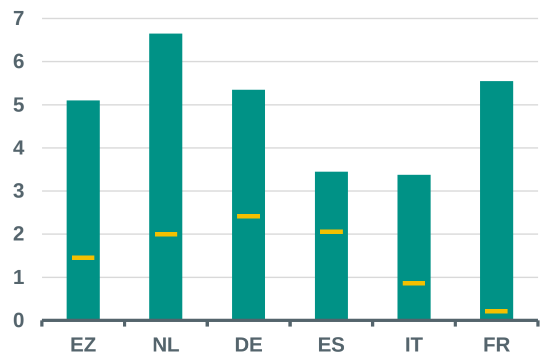
Going forward a bottoming out in competitiveness losses is expected

It remains to be seen whether the current dent in euro area competitiveness becomes structural, for now we expect a bottoming out in this loss of competitiveness. For instance, because labour costs pressures are expected to decrease. amid economic weakness (see **here**) and declining labour demand, labour markets are set to cool further and unemployment will pick up, which will further alleviate wage pressure. Not only will lower wage growth put a lid on rising unit labour costs, but so will rising layoffs, as business restructure in response to weak demand.

Europe's dependence on imported energy is unlikely to stop anytime soon, but measures are being taken to reduce it. In the past year a lot of progress has already been made in this area: supply of renewable energy has been ramped up, and energy demand from euro area businesses has fallen significantly, output kept stable constant. Indeed, one upside is that Europe arguably took a considerable step forward compared to most of the world when it comes to energy efficiency, which is essential in the energy transition. For specific energy intensive sectors, governments have implemented state aid schemes to assist those sectors and companies affected mostly. Still, despite these efforts the loss of competitiveness is visible. The coming years will show whether more progress will be made in this area and whether differences in energy input prices will decline as a result of current and future policies.

Unit labour cost growth well above historical levels

Nominal Unit Labour costs, 2017-2019 (-) and 22Q3-23Q3 (bars)



Source: LSEG, ABN AMRO Group Economics

Euro depreciation was briefly a cushioning factor

Real Effective Exchange Rate, Euro, index

Source: LSEG, ABN AMRO Group Economics

In the long term it is all about productivity growth

Longer term competitiveness is primarily driven by productivity growth. The recent track record in this area is not promising. Productivity growth has been low in most advanced economies, but the eurozone seems to lag behind other major regions. The productivity puzzle is not an easy one to crack. Indeed, national governments as well as the European Commission have tried a range of approaches to raise productivity, from capital market deepening, to improving the functioning of the internal market, to setting up public investment funds, such as the recovery and resilience fund. While this policy agenda is important from a structural angle, it is unlikely to provide any near-term relief to businesses facing a loss of competitiveness currently. *(Philip Bokeloh & Jan-Paul van de Kerke)*

What the Dutch election outcome could mean for the way forward on climate

General elections can trigger a shift in climate policies, according to the **IPCC**. We add that litigation can also trigger such a shift. In this note we argue why we think a shift away from an orderly transition towards a more delayed transition is now a more likely scenario for the Netherlands.

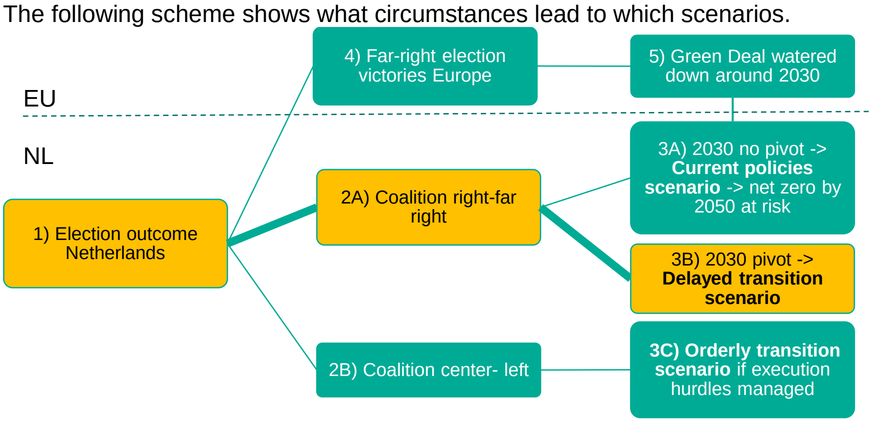
Indeed, the likely climate scenario of the Netherlands between now and 2050 is affected both directly and indirectly by the outcome of Dutch parliamentary election last month, which saw a climate sceptic party (PVV) winning the largest number of seats. The scheme below outlines the possible outcomes following this victory (1).

First, there is the direct impact of a new coalition. With a centre-left coalition (2B), ambitious energy transition policies are likely to stay on course (3C). These are **estimated** to enable 55 percent emissions reduction in an orderly fashion[8] by 2030. Alternatively, a far-right coalition may decide to slow or even reverse emissions reduction (2A), by rowing back on these policies. As the election was won by a party (PVV) that argues climate mitigation in the Netherlands is a useless activity, a slow down or reversal of the emission pathway is deemed more likely.

Should a new government decide to row back on climate policies, the next question is whether a subsequent government then lurches towards more disorderly transition policies again around 2030 so that net zero targets are achievable by 2050. Here we see two scenarios: one is where the legal and policy context of the Netherlands around 2030 enforces a decisive pivot that puts the Netherlands on a delayed transition path to still achieve net zero by 2050 (3B). Alternatively, the less ambitious climate agenda could continue after 2030, which puts emissions on a path where net zero by 2050 is out of reach (3A). For a medium-term pivot (around 2030) to be realistic, the direction the EU takes on climate policy matters. The 2024 European Parliament (EP) elections are therefore a key event to watch (4). If a more right-wing Parliament significantly waters down the Green Deal (5), it could reduce the legal necessity for a policy pivot further down the line in the Netherlands, making it highly unlikely the 2050 goals will be reached (3A).

We think a shift away from an orderly transition towards a more delayed transition is now a more likely scenario for the Netherlands (yellow). A climate sceptic coalition in the Netherlands, together with a still ambitious Green Deal from Europe and litigation cases that try to enforce climate policy execution to be in line with legal commitments, is likely to put the Netherlands more towards the delayed transition path, which is more costly than an orderly transition path in terms of its macro-economic consequences.

The following scheme shows what circumstances lead to which scenarios.



The Dutch elections: a (far) right-wing coalition most likely

Elections for the Dutch parliament were held on 22 November. The PVV – a far-right party with leader Geert Wilders – **surprised** by winning 37 out of the 150 seats. 76 seats are required for a majority in the parliament, so Wilders is now looking to the centre-right VVD and NSC parties (81 seats) to form a right-wing coalition with VVD and NSC. If you add BBB to this picture – which is attractive due to its position in the Senate – the coalition would have 88 seats. Since NSC and VVD expressed some concerns regarding aspects of the PVV party programme, a complicated negotiation process is now expected to follow. Indeed, the VVD recently stated it will not join a coalition, but rather support it from outside.

Big policy shifts expected in the area of climate and Europe

The PVV will likely be in favour of cutting spending on climate and energy-transition related projects. **According** to the party, the current Climate Law – which commits the Netherlands to reduce carbon emissions by 55% in 2030 and become climate neutral in 2050 – should be scrapped. The PVV is most vocal about cutting renewable energy investment. The other potential coalition parties are generally less ambitious on decarbonisation. With NSC and VVD in favour of nuclear energy, it

[8] Assuming execution hurdles are overcome.

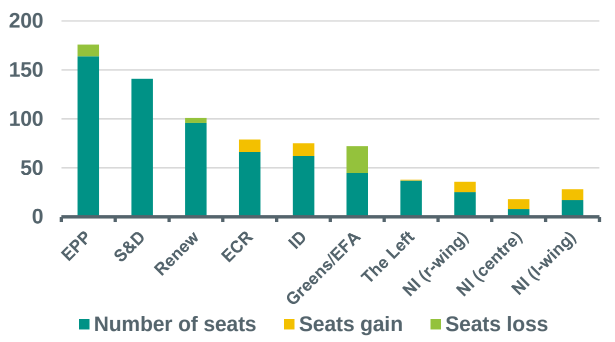
is possible we see a shift away from renewables to nuclear. Similar to the PVV, the NSC believes no mandatory switch to heat-pumps should be made, and they are calling for long-term LNG deals and further exploration of gas in the North-Sea. Next to climate, Europe is an area where all parties of the possible coalition favour a less accommodative policy. While PVV's idea of a Nexit (Netherlands Exit) is not supported by the other parties, the generally eurosceptic sentiment of the PVV is likely to be supported by the VVD and NSC. The new coalition is therefore likely to be more antagonistic towards the EU than the most recent government, particularly if EU policy comes into conflict with a domestic desire to water down climate policy.

The Dutch elections as canary in the coal mine?

The Dutch elections could prove a canary in the coal mine for the EP elections coming up in May 2024, signalling a bigger chance of broader shifts to the right in Europe. Based on national elections, the green and centrist parties are likely to lose ground, while centre-right and right gain ground (see chart below). Polls for the EP elections suggest a slight shift towards the right. However, even if the EP does move to the right, the centrist parties (mainly the EPP which is a strong advocate of the Green Deal) have such a large majority that their dominance is unlikely to be fully lost in one election round. This means that at this point, it seems the Green Deal is likely to remain intact. However, with Dutch climate policy diverging more from European targets, there is a chance that national execution is watered down.

EPP set to lose a few seats but remain the largest

Projected gains and losses to the number of seats after 2024 EP election



Source: EU Matrix, ABN AMRO Group Economics

Right and centre-right gain ground

Changes in the European Council between 2019 and 2024

	2019	2024
Left	2	2
Centre-left	7	7
Greens	1	0
Centre	7	4
Centre-right	8	9
Right	1	4
Extreme right	1	1
Total	27	27

Source: ECCO, ABN AMRO Group Economics

Green Deal safe but risks to implementation

Although the Green Deal is safe according to current polls, there is a risk that climate policy gets watered down on a national level and that there is weaker implementation of the Green Deal at the European level.

Climate policies are facing a growing backlash beyond the Netherlands. For example, Germany has watered down plans that encourage switching from gas boilers to heat pumps. In the UK, the ban on internal combustion engine cars was delayed. Recent polls suggest voters increasingly favour parties that put industry over climate. This increases the chances of climate policy being watered down in more countries.

The departure of Frans Timmermans – who was a vocal Commission vice-president for the Green Deal and climate action – might raise the chances of weaker implementation of the Green Deal with the current Commission. In the longer term, there will be another round of EP elections before 2030. This could increase the chance of a bigger right-wing parliament, which would be a risk for the Green Deal and climate policy.

Policy divergence or litigation will likely bring Dutch climate policy to a pivot by 2030

With a possible coalition which may be less ambitious on climate, and a Green Deal that remains intact, this means that Dutch policy could gradually diverge from European goals. This divergence could mean a sharp lurch back to energy transition policies after 2030 if new elections are won by parties supportive of that.

On top of elections, litigation could also cause a sharp policy turnaround to comply with legal commitments. Climate litigation cases[9] more than doubled globally in the last five years. The majority of the 62 cases in the EU (as of end 2022) were cases against the government. In France, the UK and in Germany, cases **are ongoing** which call for governments to comply with and implement their own legally binding mitigation commitments to the Net Zero target. The Urgenda in the Netherlands is the most famous example of litigation triggering a sharp policy turnaround.

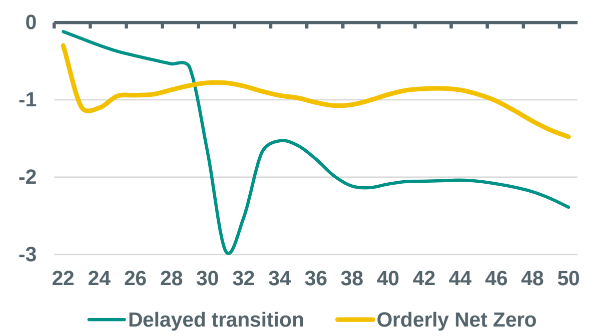
Delayed transition scenario becomes more likely

In economic terms, this means that the transition pathway moves more towards a 'delayed transition' scenario and moves away from an 'orderly Net Zero' scenario. This, in turn, implies more medium-term economic damage. A delayed transition scenario would require a sharp pivot after 2030, for which stronger policy measures would be needed. This creates more transition risk than in the orderly scenario, as it implies firms and households have less time to prepare for emissions reduction, hampering investment and consumption in particular. Additionally, rising carbon prices would push inflation higher. Through these channels, we would see weaker GDP growth than in an orderly scenario (see chart below).

Climate scenarios, such as those of the **NGFS**, thus illustrate that an immediate coordinated transition is less costly than a disorderly delayed transition in terms of medium-term GDP impact. In other words, an orderly transition is better for a longer-term economic growth. *(Sandra Phlippen, Aggie van Huisseling, Anke Martens)*

Larger cumulative costs from delayed transition

Impact on Dutch GDP (transition and chronic physical risk). % difference



Source: NiGEM NGFS v1.22, ABN AMRO Group Economics

[9] Climate change litigation includes cases that raise material issues of law or fact relating to climate change mitigation, adaptation or the science of climate change (Sabin Center for Climate Change Law 2022a). Such cases are brought before a range of administrative, judicial and other adjudicatory bodies.

In the below table, we summarise our key judgement calls and assumptions for macro and financial market developments in 2024.

Theme	View
Growth	• **Advanced economies to normalise** from the twin shocks of the pandemic and the European energy crisis • **Growth to be sluggish in the near-term,** due to aggressive monetary policy tightening, with a modest recovery in late 2024 as financial conditions ease • **Chinese annual growth to drop below 5% in 2024,** as headwinds from the property sector and from other structural challenges remain • **Global trade and industry is bottoming out,** but a sharp rebound looks unlikely with rates staying in restrictive territory for some time
Labour markets and inflation	• **Unemployment to rise moderately,** but we do not expect the kind of surge in unemployment normally associated with recessions • **Wage growth to normalise** on the back of softening labour markets • **Inflation to be back near 2% by mid-2024**
Interest rates and FX	• **Fed & ECB to start cutting rates from June**, with key policy rates expected to fall back to 2.75% in the eurozone and to 4.25% in the US by end-2024 • **We expect 3% to be the 'new normal' for the Fed in years to come,** but continue to see the eurozone neutral rate at around 1.5% • **Bond yields to continue declining in the course of 2024**, with the euro expected to hold near current levels
Geopolitics and structural challenges	• **The west's decoupling from China is expected to remain gradual,** but elections in Taiwan (January) and the US (November) pose risks of a more disorderly breakdown in relations • We expect **the European Commission to tread carefully in its China EV probe**, though some measures to counter China's alleged EV subsidies are likely • **Trump 2.0 could bring sweeping new tariffs in 2025,** putting US disinflation into reverse. This could cause the Fed to revert back to rate hikes, set off another trade war, and raise the risk once again of recession
Politics of the energy transition	• The Dutch parliamentary election result is likely to lead to **some watering down of climate and energy transition related measures**, and it could be part of a growing international backlash against climate policy

Eurozone: Setting the stage for the first rate cut

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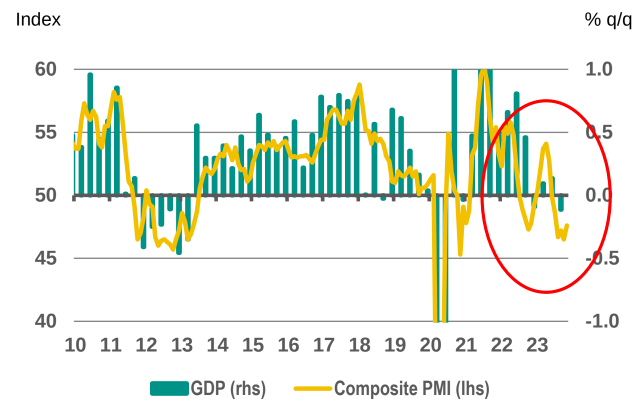
- **The eurozone economy has been stagnant over the past four quarters and growth is expected to remain lacklustre in 2024**
- **Domestic demand was hit by a significant tightening of financial conditions due to unprecedented monetary policy tightening by the ECB, while weak global growth weighed on exports**
- **Inflation has fallen rapidly since its 10.6% peak in October 2022, ending up at 2.4% in November 2023. Core inflation has been more sticky, but is also on a downward trajectory**
- **Wage growth accelerated in 2023, making up for past losses in real income, but deteriorating labour market conditions should result in lower wage growth moving into 2024**
- **Tightening government finances are expected to weigh on growth in 2024**

Growth to remain sluggish for most of 2024

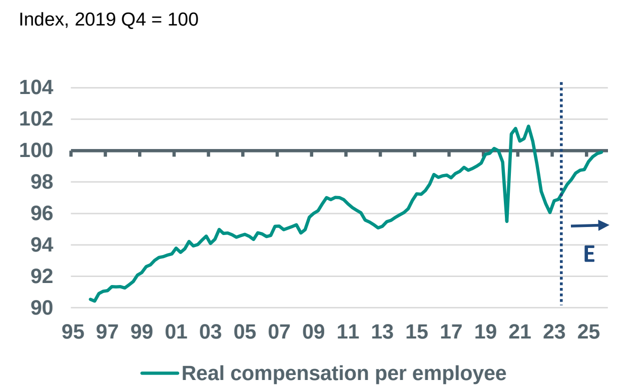
Eurozone (EZ) GDP has been stagnant over 2022Q4-2023Q3, expanding by 0.0% over these four quarters in total. Private consumption and (residential) investment were hit by the unprecedented scale of interest rate hikes by the ECB between July 2022 and September 2023 (by 450 basis points in total). This led to a drop in loan demand by companies and households and has sharply tightened banks' lending conditions. As the impact of monetary tightening works with a lag, it will still be felt in the first few quarters of 2024, which will keep domestic demand lacklustre. However, we do not expect a long period of contracting GDP. We have pencilled in a 0.2% qoq contraction in Q4, following -0.1% in Q3. Subsequently, we expect GDP to broadly stabilise in 2024Q1 and to grow moderately, at below the trend rate, for the remainder of 2024. Only towards the end of the year, we expect growth to gain momentum and rise above the trend growth rate.

PMI in contraction territory



Source: LSEG, ABN AMRO Group Economics

Real wage growth is normalising



Source: LSEG, ABN AMRO Group Economics

Some factors should prevent a deeper or longer contraction in GDP

To begin with, we see some early signs of global trade and industry bottoming out at the moment, which should benefit EZ exports and industry, putting an end to the sharp contraction in EZ industrial production that started in the final months of 2022. Next, the end of interest rate hikes by the main central banks has resulted in a rise in consumer and producer sentiment, although sentiment remains relatively weak. The bottoming out of consumer confidence means that households probably will spend a larger share of their income again, after the saving rate jumped higher in 2023H1. Moving further into 2024, the pivot in central bank policy will come into sight (see below). In anticipation of the first rate cut, financial conditions should ease (on some measures, such as bond yields, they already are), which will support consumption and investment further. Also, total investment will continue to be supported by funds from the European Recovery and Resilience Facility (RRF), which are expected to equal around 0.3% of EZ GDP in 2024 and 2025 each (the same as in 2023). Finally, private consumption will benefit from a normalisation in real wage growth, as inflation will drop further. Although we expect wage growth to slow noticeably in 2024, it should still be somewhat higher than inflation (but not to the extent that it would fuel inflation, as labour productivity is also expected to rise – see below).

But other factors should keep a firm lid on growth

To begin with, employment is expected to decline in 2024, which will limit the rise in consumption. Labour productivity collapsed over 2022Q4-2023Q3 and we think this will reverse in the coming quarters, resulting in declining employment and a rise in the unemployment rate. Next, fiscal policy will be tightened significantly in 2024 following the massive government support to companies and households during the pandemic and energy crisis, which resulted in a sharp rise in budget deficits and higher government debt ratios throughout the eurozone. The European Commission estimates that the reduction in support measures will reduce the total eurozone budget deficit by around 0.8 percentage points of GDP in 2024.

Disinflation is well on its way

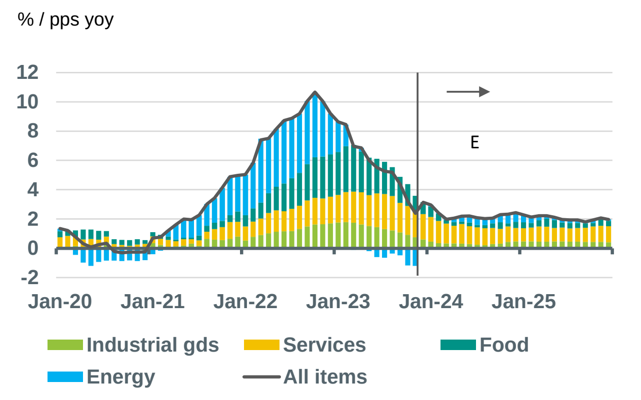
HICP inflation has fallen sharply since October 2023, when it peaked at 10.6% yoy. In November 2023 it dropped to a lower than expected 2.4% (down from 2.9% in October). Looking at the main components, energy price inflation probably is bottoming out at the moment and we see it moving higher in the coming months. Next, the inflation rates of food, alcohol and tobacco have been falling sharply since March 2023. This decline was driven by a drop in inflation of food commodity prices, and has further to go. Turning to core inflation, services inflation fell more than expected in November (to 4.0%, down from 4.6% in October). There seems to have been some one-off downward effects at play, meaning that there could be some upward payback in the next few months. Finally, the inflation rate of non-energy industrial goods also fell in November, to 2.9% from 3.5%. This part of inflation has been on a clear downward trajectory since the start of 2023, driven by the easing of global supply chain bottlenecks and weak global demand for goods. This trend should continue for a while.

Going forward, we think that headline inflation could temporarily rise again in the coming months, as base effects in energy inflation turn less negative, and there could also be some upward payback for the drop in services inflation in November. More fundamentally, however, we expect all components of inflation besides energy, to continue to weaken during the rest of the year and in the first half of 2024. Weak global and eurozone demand for goods and services will limit demand-side pressures, while the upward impact of higher energy costs on the prices of goods and services will continue to unwind. Finally, we think that wage growth will slow noticeably in 2024, as we already see clear signs that the eurozone labour market is deteriorating. All in all, we expect headline and core inflation to reach the ECB's 2% target around the middle of 2024.

ECB pivot expected in June 2024

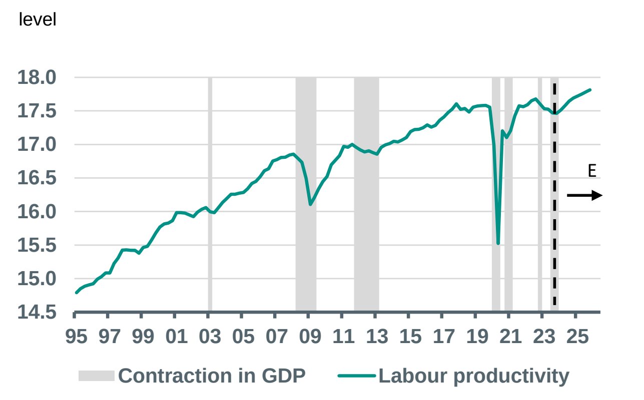
The ECB is expected to keep policy rates at their current level for a while. Based on our outlook for growth and inflation we think that the central bank will implement its first rate cut in June 2024. We expect the deposit rate to be lowered to 2.75% by the end of 2024 and to eventually reach 1.5% in the course of 2025.

Inflation and contribution from main components



Source: LSEG, ABN AMRO Group Economics

Labour productivity growth to pick up



Source: LSEG, ECB, ABN AMRO Group Economics

The Netherlands: Coalition talks kick off with weak growth prospects

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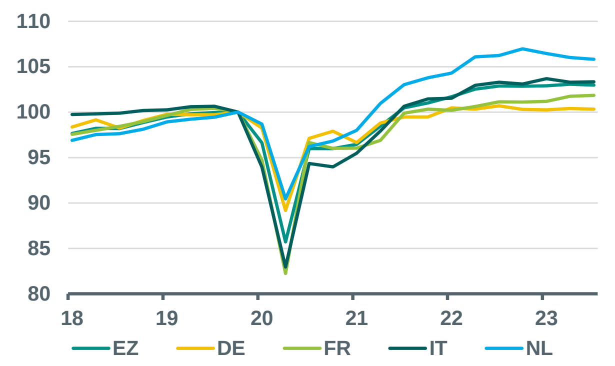
- **The formation process for a new coalition government kicks off with weak growth prospects**
- **Weak external demand and the pass-through of monetary tightening remain headwinds**
- **We expect growth to resume cautiously in 2024, as government policies, the labour market and wage growth support consumption and external demand is expected to recover slightly**
- **We forecast economic growth to reach 0.2% this year, 0.6% in 2024 and 1.1% in 2025**
- **Inflation continues to trend lower: we expect HICP to average 4.4% in 2023 and 3.2% in 2024**

After three quarters of contraction, growth is expected to pick up cautiously

With the elections behind us, the process to form a new coalition government has started. This formation is coming against the backdrop of weak growth prospects. Indeed, after three consecutive quarters of contraction, the headwinds from higher rates and inflation are still fierce. With annual growth in the Netherlands' main export destinations stagnant (eurozone) or projected to slow compared to 2023 (US & China), near term prospects remain weak. Still, in 2024 we expect the Dutch economy to start growing again, albeit cautiously. The ECB pivot, with policy rate cuts expected from June onwards due to more favourable inflation data, should enable the eurozone to recover somewhat later in the year. As a result, demand for Dutch exports is expected to recover again after declining in 2023. Domestically, as inflation moves lower and wage growth staying high, private consumption is likely to pick up again in the coming quarters. Annual growth is expected to recover to 0.6% in 2024 from 0.2% in 2023. In 2025, as interest rates fall further, we expect GDP growth to pickup further to 1.1%.

Dutch economy has contracted for three quarters

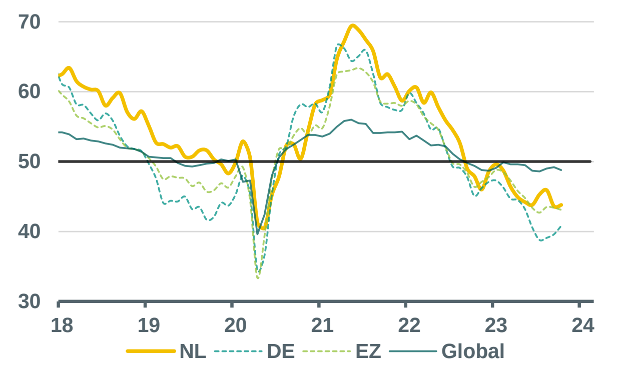
Real GDP; index, 2019Q4=100



Source: LSEG, ABN AMRO Group Economics

Dutch manufacturing follows global slump

Manufacturing PMIs, indices, 50 = neutral mark



Source: LSEG, ABN AMRO Group Economics

External demand to stay weak in the near term

As a highly trade-oriented economy, global weakness in trade and industry is weighing on the Dutch economy (see our *Macro Watch*). Globally, economic activity is being squeezed by higher interest rates and inflation. The slowdown in global demand for goods has already pushed Dutch industry into recession, with turnover and output in manufacturing down sharply year-over-year in September. Cyclical weakness in manufacturing is also compounded by structural factors: wage and especially energy costs have increased substantially since the energy crisis, even more so for Dutch manufacturers than for eurozone competitors. This has contributed to a loss of competitiveness (see here). Consistent with this, Dutch goods exports have fallen sharply over the past three quarters. As external demand is expected to bottom out next year, the negative contribution from the trade balance will gradually turn positive during 2024.

Inflation is taking the long way down

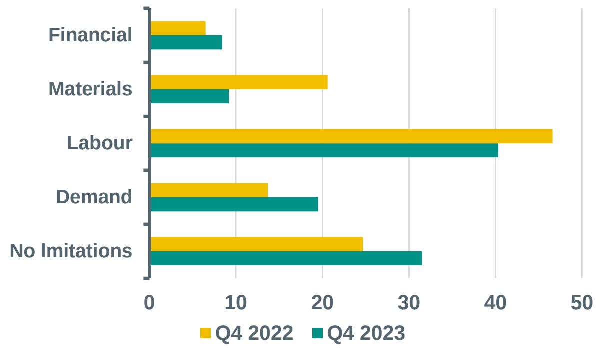
As in the eurozone, inflation is also declining in the Netherlands. Assuming no further price shocks in energy markets, energy prices will no longer be the main contributor to inflation in 2024. The indirect contribution of energy, through the prices of energy-intensive goods and services, is also declining. From a macro perspective, external price pressures resulting from worsening terms of trade are diminishing, while those from domestic factors are becoming more dominant. For instance, wage increases, especially in the labour-intensive services sector, suggest that it will take longer for inflation to move back to 2%. Furthermore, despite recent GDP contractions, the Dutch economy is still running close to capacity limits, and this is slowing the inflation decline. We expect inflation to reach 2% on a sustainable basis in 2025, which is later than in the eurozone and US. Inflation (HICP) is expected to average 3.2% in 2024 and 2.7% in 2025, down from 4.4% in 2023.

Investment outlook follows growth outlook down

A strong first half of the year brings full-year growth in investment to +2.7%. However, this somewhat distorts the bleak outlook for investment. Investment ambitions are linked to growth prospects and financing conditions, both of which remain unsupportive going forward. Domestic and international growth forecasts have recently been revised downwards and financing conditions remain tight for the time being. Moreover, the deteriorating outlook makes lenders more risk averse. We see this taking its toll. In business surveys, demand for credit and investment ambitions are being scaled back. The uncertainty stemming from the recent election outlook and possible new coalition are not supportive for investment either. With that said, housing investment is likely to see some support from the recent recovery in house prices.

Labour shortage still the main constraining factor

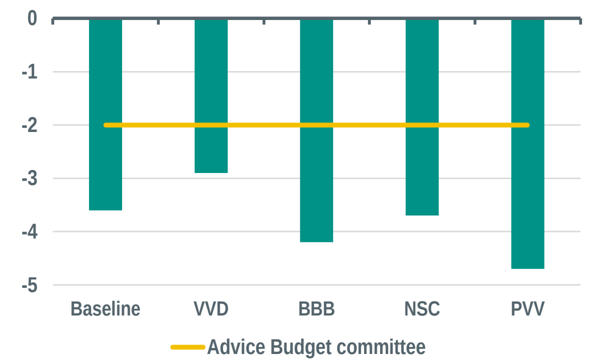
% of businesses, limitations faced



Source: CBS, ABN AMRO Group Economics

Spending of likely coalition exceeds target in 2028

EMU balance as % of GDP in 2028



Source: CPB KIK, Wim Suyker (link), ABN AMRO Group Economics

Consumption to pick up slightly in 2024

After contracting in H1 2023, the outlook for consumption is improving. Although consumer sentiment remains poor, inflation is easing. This will raise real incomes, as wage growth will likely stay elevated into 2024. The labour market remains tight and government policy is supporting purchasing power, particularly at the lower end of the income distribution. Consumption patterns are also reverting back to normal. The catch-up in services spending (which had weighed on goods spending) is behind us. Finally, the housing market stabilised and rebounded slightly. We expect consumption to pick up during 2024.

Labour market cools marginally, but unemployment remains low

Economic weakness has not yet led to slack in the Dutch labour market. Quite the opposite is true. In October, unemployment actually declined again slightly to 3.6% of the labour force (361 thousand people). We see labour demand marginally cooling though. Employers' expectations of labour demand are stabilising and the number of new vacancies is declining. Nevertheless, we still see signs of *labour hoarding*, and the labour market is expected to remain structurally tight. Expansive fiscal policy, particularly in labour intensive projects such as the energy transition, and other infrastructure investment will keep (public) labour demand high. An ageing population will also put downward pressure on labour supply. Particularly from 2027 onwards, when the Netherlands is expected to face outright declines in labour force volumes. For next year, we expect a limited rise in the unemployment rate to 4.1%, up from 3.6% this year.

Likely coalition is expected to raise deficits, exceeding the target set by Budget Committee

While still being in deficit, Dutch government finances have improved recently, particularly due to higher than expected revenues as well as inflation, which raises nominal GDP. However, a deterioration in the medium term looms. Based on calculations of party programmes, the trend of increasing deficits will continue, particularly when we look at the winners of the elections: BBB, NSC, and PVV. Deficits calculated from party programmes are much higher in 2028 than the current baseline. This is against the advice of the Budget Committee. The Committee advises future coalitions on appropriate fiscal policy. In its report, it targets a deficit of only 2% in 2028, citing the future burden on public finances coming from ageing, climate adaptation and the energy transition as already considerable. The resulting agreement between (expected) coalition parties is still undecided, but the party programmes suggest that Dutch government finances are set to deteriorate.

US: Could Trump throw Goldilocks off course?

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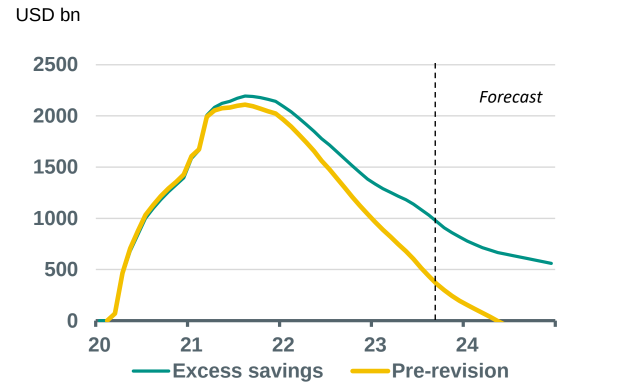
- **Strong household balance sheets and improved labour supply have helped stave off a recession**
- **The economy is expected to slow to an average 1% annualised growth over the next three quarters…**
- **…but a timely pivot to rate cuts by the Fed in June 2024 should keep the slowdown contained**
- **The main risk to the rather *Goldilocks*-like scenario is a potential Trump victory in the 2024 election**
- **This could herald sweeping new tariffs that put disinflation into reverse, triggering a new hiking cycle**

One could not have hoped for a better performance for the US economy in 2023. Against the backdrop of the biggest interest rate rises in decades – and income-crushing inflation – the economy is now tantalisingly close to a full normalisation from the pandemic shock. Inflation is within touching distance of the Fed's 2% target, and yet, contrary to going into recession, growth actually accelerated in 2023. How did this happen?

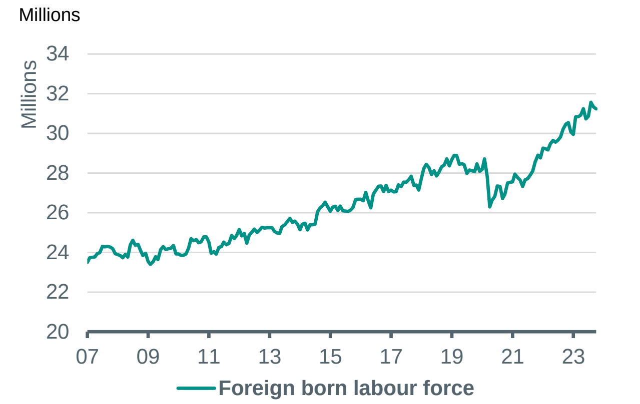
There are two main reasons. The first is that real incomes – and the excess savings buffer thereof – have been significantly higher than we thought they were just a few months ago. This became apparent with the 5-yearly comprehensive update to the national accounts, released on 28 September. It turns out that real incomes suffered less of a hit from high inflation than we thought – to the tune of 7% – while households still have around $1tn in excess savings left from then pandemic, instead of the $0.4tn we thought they would have at this point. This strength in household balance sheets has protected consumers from the jump in interest rates, and as a result, consumption has held up much better than we thought it would.

Excess savings estimates revised sharply higher



Source: LSEG, ABN AMRO Group Economics

Labour supply boosted by a surge in immigration



Source: LSEG, ABN AMRO Group Economics

The second major reason for this strength is an unexpected, significant improvement in labour supply. First, labour force participation is now already back near the pre-pandemic level – we thought that at least some of the post-pandemic fall in participation would be structural (as we see, for instance, in the UK), but that was not the case. The other positive development has been a surge in immigration to the US. Foreign workers initially left the US during the pandemic. They have since come back in droves: there are now around 3 million more foreign workers in the US than there were in 2019, and 5 million more than the pandemic trough in 2020-21.

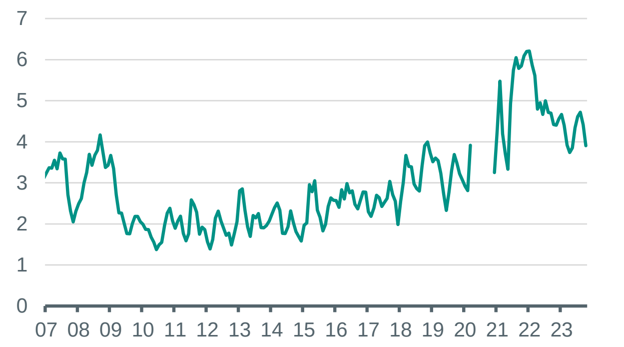
This improvement in labour supply has enabled the economy to continue to grow strongly without inflationary consequences. Indeed, despite labour demand remaining relatively strong, wage growth has fallen across the board, and on some measures is back near the pre-pandemic level. This fall in wage growth has in turn reduced the upward pressure on services inflation, meaning that despite the strength in the economy, inflation has halved from around 6% at the beginning of 2023 to nearer 3% today. As a result, the Fed was able to first slow down its rate rises, and then stop them entirely after the last hike in July. If inflation hadn't fallen back, the Fed would have likely continued raising rates until 'something broke' in the economy. The fall in inflation was therefore critical in the avoidance of recession.

But avoiding recession does not mean the economy won't weaken going forward, and reduced recession risk does not mean *no* recession risk. The incoming data for Q4 suggests the economy is slowing sharply: the Atlanta Fed's GDPNow tracker standing at around 1% q/q annualised, which is in line with our forecast and major pullback from the red-hot 5.2% growth reading for Q3. Our base case sees growth holding at this relatively subdued and well-below-trend rate of 1% over the next three quarters, though the volatility in GDP could even see growth turning negative for a time, with that risk particularly high in Q4. This is because inventory accumulation was a big driver of growth in Q3, and we expect this to go into reverse and be a major drag on growth in Q4. Recent consumption strength also looks unsustainable. While the labour market has been strong in 2023, jobs growth has been on a clear softening path, and combined with slowing real income growth we expect this to dampen spending. There are also signs of increasing stress among some households, with loan delinquencies rising, although the overall strength of household balance sheets is likely to keep this financial stress contained. All told, while high rates means that recession risk still looks somewhat higher than normal – we would put the probability at around 15-20% – this risk looks significantly lower than it did last year, when we had a mild recession as our base case.

Looking beyond the near-term slowdown, we expect the economy to regain momentum in the second half of 2024 and to return to slightly above trend growth in 2025. The main driver of this an expected easing in financial conditions. We expect continued falling inflation – with the Fed's target of PCE inflation likely to be back near 2% target by mid-2024 – to enable a gradual normalisation of interest rates from June. We expect the upper bound of the fed funds rate to fall to 4.25% by end-2024, and to 3% by mid-2025 – significantly lower than the current 5.50% (albeit somewhat higher than the 2.5% most Fed watchers including ourselves previously thought – see here). Market-based interest rates are already falling in anticipation of the expected rate cuts next year, and so the pass-through to the most interest rate-sensitive parts of the economy – such as housing and goods consumption – should be visible already by late 2024.

Hourly earnings growth has broadly normalised

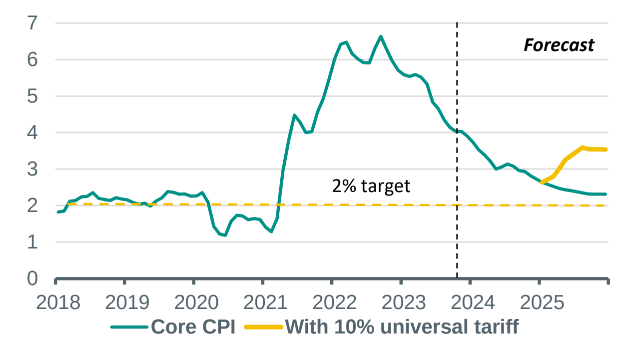
Average hourly earnings, % 3m/3m saar



Source: LSEG, ONS, ABN AMRO Group Economics

Trump tariffs would throw disinflation into reverse

% y/y



Source: LSEG, ABN AMRO Group Economics

Overall, then, it is a relatively benign outlook for the US economy – one could even describe it as 'goldilocks'-like. What could spoil things? We think the biggest risk to the outlook comes with the potential re-election of former President Trump next November, which according to polls, there is a 50:50 chance of happening. Trump has suggested he would impose a universal 10% minimum tariff on all imports for which the US does not currently levy duties, and further, to impose reciprocal tariff rates in product categories where the US's trading partners levy higher duties. Trump would face no major hurdle in imposing these tariffs as – similar to the China tariffs of 2017-18 – they are at the discretion of the president and do not require Congressional approval (in contrast, Trump's plans to roll back Biden's flagship Inflation Reduction Act would require Republican majorities in both chambers of Congress, and would therefore be much harder to implement).

While a 10% tariff may seem small, its universal nature means that it would have a much bigger impact on inflation than the China tariffs. We estimate the direct effect of this would be to raise US inflation by around 1 percentage point in 2025, if immediately imposed. This may seem relatively small compared to the pandemic and energy crisis shocks. However, the indirect effects could amplify this; for instance, it may push inflation expectations higher and encourage workers to demand higher wages to compensate. And with the Fed having just got through the last traumatic inflation episode, we would expect the Committee to not hesitate in tightening monetary policy in order to pre-empt a move higher in inflation expectations. A renewed tightening cycle in 2025 – when household finances are likely to be in a more fragile state than they are now – could then trigger a recession. Goldilocks better watch out.

China: : Navigating between cyclical and structural headwinds

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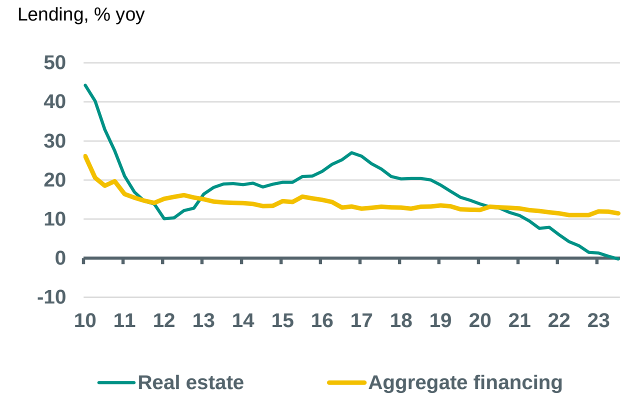
- **Beijing steps up property support; risks being shifted to banks, longer-term downsizing to continue**
- **Support measures should help a broader recovery in domestic demand, but this may take time**
- **Structural drags remain: we expect annual growth to fall below 5% in 2024 and 2025**

Looking back at 2023, the tailwind from the Zero-Covid exit that benefited consumer services proved insufficient to offset the intensifying headwinds from property sector woes and the slowdown in external demand. Ongoing piecemeal monetary easing and the stepping up of targeted support helped the economy to bottom out in the second half of the year, but the recovery is uneven and growth momentum remains fragile. The unambitious growth target for 2023 of 5% is within reach, but with structural headwinds remaining we expect annual growth to fall below 5% in 2024.

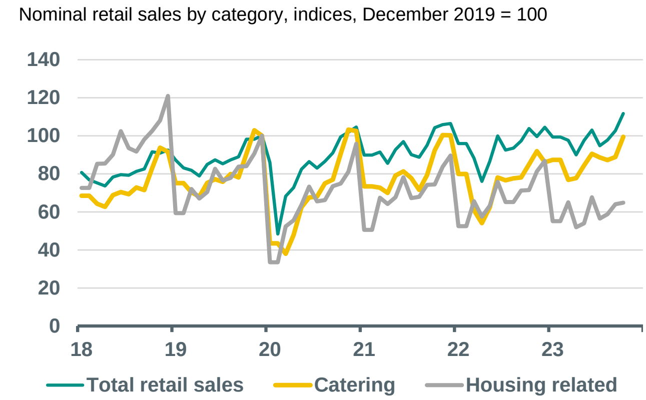
Beijing steps up support for property sector, but structural downsizing will continue while risks are shifted to banks
In the course of 2023 the property sector downturn increasingly led to systemic risks, threatening growth prospects. The stalling of new home sales added to financing problems for property developers, who already faced a retreat in bank lending. Repeated signs of distress at major developers such as Evergrande and Country Garden, rising loan defaults and signs of contagion to local governments, banks and trust funds did not help to stabilise sentiment either. The property downturn also affected the *land finance development* model, in which local governments raise cash from land sales and use that to fund infrastructure projects via local government financing vehicles. As a result of all of this, Beijing was forced to change course. In the second half of this year targeted support to the property sector was stepped up materially, also to safeguard growth in 2024. Mortgage rates were reduced, downpayment requirements were eased, and state banks were asked to extend loans to ensure the completion of existing construction projects. In November, the PBoC presented a CNY 1bn lending facility to support housing renovation/affordable housing aimed at reviving home sales, and drafted a list of 50 developers eligible for special financing support including unsecured bank loans. These measures make clear that Beijing's pendulum is shifting again, away from containing moral hazard towards preventing systemic risks, although the longer-term goal of reducing the size of the property sector will be maintained. Recent measures also make clear that the risks are being transferred from property developers to state/policy banks, who are already facing weak profit margins and a deterioration in asset quality.

Bank lending to property sector has slowed sharply



Source: Bloomberg, ABN AMRO Group Economics

Retail sales pick up, but housing related sales are lagging



Source: ABN AMRO Group Economics, LSEG

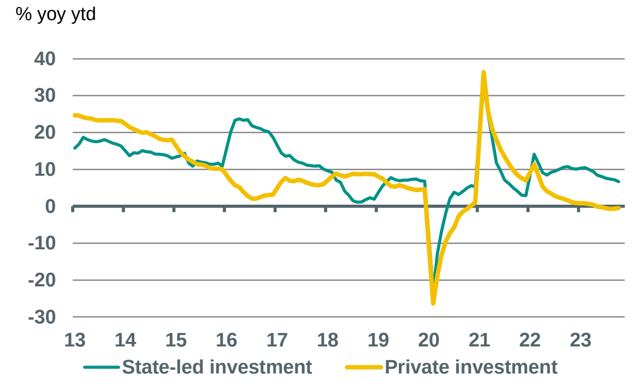
Support measures should also facilitate a broadening of the recovery in domestic demand, but this may take time
The scarring from previous stringent policies (Zero-Covid, crackdown internet platforms, three-red-lines policy in real estate) contributed to cautiousness amongst consumers and private firms (see also our October Monthly, Six urgent questions on China). During the pandemic years, China's private consumption was lagging in the recovery, a completely different picture compared to for instance the US. Following the Zero-Covid exit, consumption has recovered to some extent, but the rebound is still concentrated in sectors that were hit the most by Zero-Covid (transportation, tourism and entertainment). Also, the auto sector has done well this year, with car sales benefiting from discounting practices and a shift towards EVs. By contrast, housing-related retail sales (furniture, decoration, construction) are still in the doldrums. We expect the measures taken to stabilise the property sector to contribute to an improvement in consumer confidence and a broadening of

the consumption rebound, but this may take time and is also dependent on improvements in the labour market and household income. Meanwhile, on the investment front, there is a strong divergence between relatively solid public investment and weak private investment, with property investment still deeply in contraction territory. Going forward, it is likely that stronger government support initiatives will lead to a re-acceleration of public investment, and help private investment to bottom out.

Exports and manufacturing should benefit from a bottoming out in the global industrial cycle next year

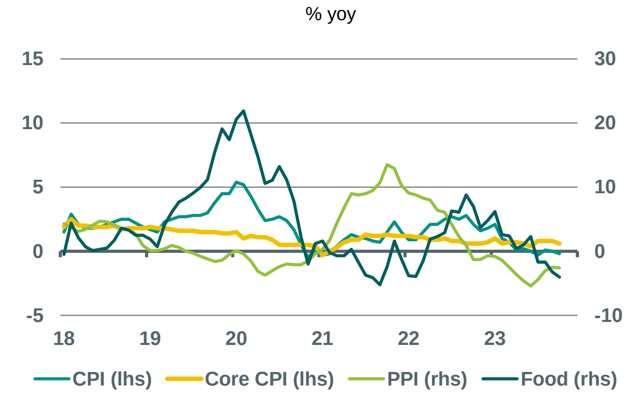
China's export strength evident in the pandemic years is over, with annual export growth in negative territory for a large part of 2023. Besides base effects, this reflects the cooling of global demand on the back of sharp monetary tightening, and a post-pandemic rotation in global demand back to services. Even so, Chinese car exports have shown a remarkable surge over the past few years, and the rise of EV exports to Europe has even triggered a EU probe. Moving into 2024, on the cyclical front we expect Chinese exports to benefit from a bottoming out in global industry and trade (with early cyclical sectors like electronics/semiconductors already showing a turnaround), although we do not expect a sharp rebound. Import growth should also recover further, on the back of the a broadening recovery in China's domestic demand. On the structural front, while a certain degree of tech decoupling between China and the West has become the new normal, we expect this process to remain gradual in nature given the large interests at stake. However, we see a few potential stumbling blocks (Taiwan/US elections, EU EV probe) that could accelerate this process (see global part of this report).

Strong divergence between public and private investment



Source: LSEG, ABN AMRO Group Economics

Food (pork) prices key driver of falling CPI inflation



Source: LSEG, ABN AMRO Group Economics

Deflationary spiral not likely; targeted fiscal support being stepped up alongside piecemeal monetary easing

Weak inflation prints over the past few months have added to negative sentiment, but we do not think that China is on the brink of a deflationary spiral. Food and particularly pork prices have been driving the fall in CPI inflation, but these effects will fade: we expect average CPI inflation to rise to 1.7% in 2024 from 0.3% in 2023. The drop in core inflation in the course of this year to relatively low levels is indeed partly a reflection of subdued domestic demand, but assuming a recovery in domestic demand on the back of ongoing support we expect a turnaround next year. Meanwhile, the easing of deflation in producer prices will likely continue. All in all, from an inflation perspective, there is ongoing room for further piecemeal monetary easing, but there are constraints from weak bank profit margins (partly impacted by a policy initiative to lower rates on existing mortgages). Therefore, additional mini cuts in lending rates will likely be accompanied by cuts in deposit rates. Further cuts in bank RRRs are also likely, and we expect the PBoC to continue safeguarding bank liquidity through its lending facilities. Still, given the constraints, we expect the recent shift to targeted fiscal support to continue next year, with the focus having clearly shifted to putting an end to the distress in the property sector at the expense of state/policy banks.

All in all, we expect annual growth to fall below 5% in 2024 and 2025

All told, the Chinese economy will continue to be faced with headwinds from the structural downsizing of the property sector and related debt issues (amongst property developers, local governments, banks, trust funds). Longer-term challenges also relate to private sector confidence issues, demographics (ageing, a shrinking population/labour force), and climate change. Coupled with Beijing's policy shift away from growth maximalisation towards goals related to national security and self-sufficiency, we expect China's structural slowdown to continue and annual growth to slow to 4.7% in 2024 and 4.6% in 2025.

Key views on a page

The global economy is likely to grow at a subdued pace in the near term, as high rates continue to bear down on demand in advanced economies, while China continues to face both cyclical and structural headwinds. Global trade and industry looks to be bottoming out, but a sharp rebound is unlikely while rates remain restrictive. On the positive side, inflation has fallen significantly and is now within touching distance of central bank targets. Further falls in inflation will enable central banks to pivot to rate cuts by mid-2024, and financial conditions are already easing in anticipation of this. Still, monetary policy will remain relatively tight for some time yet, and this will keep a lid on the post-slowdown rebound.

Macro	Central Banks & Markets
Eurozone – GDP contracted by 0.1% qoq in 2023Q3. Economic data and surveys published so far for September-November indicate that GDP probably contracted moderately again in Q4. Subsequently, we expect GDP to roughly stabilise in 2024Q1 and grow moderately, at below the trend rate, during the remainder of 2024. Only toward the end of 2024, we expect growth to strengthen and rise to above the trend growth rate. Disinflation has gained momentum, with the headline and core rate both declining markedly in the past few months. Despite somewhat higher energy inflation, HICP inflation is expected to continue to decline this year and the next. Core inflation should fall to around 2% by mid-2024.	**ECB** – The ECB kept interest rates unchanged in October. According to the central bank, policy rates now are at levels that, maintained for a sufficiently long duration, will make a substantial contribution to inflation returning to its 2% target. Although macro data continues to point in the direction of a start of a rate cut cycle over the next few months, we think it will take the Governing Council time to form consensus and change its communication Therefore, we now expect a first rate cut in June 2024, which is one quarter later than our earlier forecast. We see the deposit rate at 2.75% by the end of 2024 (2.25% previously). We think the deposit rate will eventually reach 1.5% in the course of 2025.
The Netherlands – GDP contracted in the first three quarters of 2023 which means the Dutch economy still is in a technical recession. We expect growth to resume over the course of 2024 but remain sluggish in the coming quarters on the back of higher rates and lower external demand. Dutch GDP growth is expected to average 0.2% in 2023 and pick up slightly to 0.6% in 2024. The Dutch economy remains resilient; the labour market is still tight and bankruptcies – although increasing in recent months – are still below 2019 levels. We expect inflation (HICP) to average 4.4% in 2023 and 3.2% in 2024.	**Fed** – The FOMC has kept rates on hold since its last rate hike in July. Committee members have expressed openness to further tightening, but we think the risk of further hikes now is very low given the data flow. We now expect the Fed to start cutting rates from June, with the risk that the Fed could pivot sooner given the softening labour market and continued falls in inflation. Even with rate cuts starting next year, monetary policy is expected to remain restrictive throughout 2024 and even into 2025. We expect the upper bound of the fed funds rate to reach 4.25% by end-2024, and 3% by mid-2025.
UK – Disinflation has continued, providing some relief to the Bank of England, but upside inflation risks remain significant given that wage growth is still elevated and well above levels consistent with the 2% target. At the same time, unemployment has started rising, and we expect a softening in demand to dampen wage growth over time. The economy is expected to broadly stagnate over the coming year or so, weighed by tight monetary policy.	**Bank of England** – The MPC kept policy on hold at the September and November meetings. We now think Bank Rate has peaked at 5.25%. However, we would not rule out one last rate hike if inflation springs another upside surprise. The BoE is in full data-dependent mode, and UK macro data has been erratic over the past year. We do not expect rate cuts until next August, and there is a risk that rate cuts get delayed even further, if inflation proves to be more persistent.
US – Growth was exceptionally strong in Q3, but there is likely to be payback in Q4, with inventories set to be a drag, while consumption strength is unsustainable. We expect growth to then stay weak for the following two quarters, before easing financial conditions sets the stage for a recovery in the second half of 2024. We expect a sharp slowdown in Q4, with the risk of a contraction. Wage growth has peaked, and inflation is moving in line with expectations back to the 2% target. A recovery next year hinges on a timely pivot to rate cuts by the Fed in response to falling inflation.	**Bond yields** – The ''higher-for-longer'' theme have now been fully priced out by the market. Bund yield reached its lowest level since May and US treasury also continue its decelerating trend. Given our macro and central bank view, this was indeed the turn we were expecting. Looking ahead, we still forecast further weakness in economic data which should push bond yields even lower. Although, the path is unlikely to be linear. Markets are now pricing rate cuts earlier than us and we think the move in rates has come a bit too far too fast. As such, an upward revision on rates can be expected in the coming weeks.
China – The unambitious growth target for 2023 of 5% is within reach, but with ongoing structural headwinds we expect annual growth to fall below 5% in 2024. Beijing is stepping up support for the property sector, while shifting risks from developers to banks, but the sector's structural downsizing will continue. Support measures should also help broadening the recovery in domestic demand, but this may take time. Exports and manufacturing should benefit from a bottoming out of global trade/industry next year. We do not expect China to enter a serious deflationary spiral.	**FX** – For 2024, we expect the same amount of interest rate cuts by the Fed and the ECB. In both cases, our base case calls for more substantial rate cuts than markets currently expect. The difference between our forecasts and market pricing is around the same for both central banks. So, if our views on both Fed and ECB policies play out, EUR/USD should stay near current levels. For 2025 we think that the ECB and Fed will continue to ease in 2025 by the same amount. Therefore, we expect EUR/USD to stay in a 1.05-1.10 range waiting for another driver to present itself to cause a more directional move.

Main economic & financial market forecasts

	GDP				Inflation				Policy rate			
	2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025
Eurozone	3.4	0.4	0.4	1.6	8.4	5.5	2.3	2.1	2.00	4.00	2.75	1.50
Netherlands	4.4	0.2	0.6	1.1	11.6	4.4	3.2	2.7				
UK	4.3	0.6	0.4	1.1	9.1	7.5	3.3	2.4	3.50	5.25	4.75	3.50
US	1.9	2.4	1.8	2.2	6.5	3.8	2.2	1.9	4.50	5.50	4.25	3.00
China	3.0	5.3	4.7	4.6	1.9	0.3	1.7	2.0	3.65	3.45	3.35	3.30

	2023	07/12/2023	Q1 24	2024	2025	Energy	2023	07/12/2023	Q1 24	2024	2025
US Treasury	4.25	4.15	4.05	3.75	3.55						
German Bund	2.37	2.20	2.40	1.90	2.10	Brent - USD/bbl*	80	74.05	80	90	80-85
EUR/USD	1.05	1.08	1.10	1.10	1.10	WTI - USD/bbl*	75	69.34	75	85	75-80
USD/CNY	7.25	7.16	7.20	7.00	6.80	TTF Gas - EUR/MWh*	45	40.40	45	50	40-45
GBP/USD	1.23	1.26	1.24	1.26	1.30						

* 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	-0.1	-0.2	0.1	0.2	0.2	0.4	0.4	0.5	0.6	0.5
Netherlands	-0.5	-0.4	-0.2	0.2	0.1	0.3	0.4	0.4	0.2	0.1	0.3	0.2
US (saar)	2.2	2.1	5.2	1.0	1.0	1.0	1.9	2.2	2.3	2.3	2.4	2.4
UK	0.3	0.2	0.0	0.1	0.1	0.0	0.2	0.3	0.3	0.3	0.3	0.4
China (yoy)	4.5	6.3	4.9	5.3	4.2	4.9	4.8	4.8	4.7	4.6	4.5	4.5
Inflation	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	8.0	6.2	4.9	2.9	2.5	2.2	2.0	2.3	2.1	2.2	2.1	2.1
Netherlands	7.3	6.3	2.8	1.0	3.4	3.3	3.2	2.9	2.8	2.7	2.7	2.4
US (PCE)	5.0	3.9	3.4	2.9	2.5	2.2	2.0	2.1	2.0	1.9	1.8	1.7
UK	10.2	8.4	6.7	4.8	4.4	2.7	3.0	3.0	2.7	2.5	2.2	2.2
China	1.3	0.1	-0.1	0.0	0.7	1.6	2.2	2.4	2.2	2.1	1.9	1.8
Unemployment	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Eurozone	6.6	6.5	6.5	6.7	7.0	7.2	7.3	7.3	7.3	7.1	7.0	6.9
Netherlands	3.5	3.5	3.6	3.7	4.0	4.2	4.2	4.1	4.0	4.0	4.0	4.0
US	3.5	3.5	3.7	3.9	4.2	4.1	4.2	4.3	4.3	4.2	4.0	3.9
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	3.25	2.75				1.50
US	5.00	5.25	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	3.00	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	3.40	3.40	3.35	3.35	3.30	3.30	3.30	3.30

Source: LSEG, Bloomberg, ABN AMRO Group Economics

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