

## ING Monthly: Recession's coat of many colours

Different shades of recession are spreading across the globe at record speed as soaring inflation, geopolitical tensions, and astronomical gas prices show no signs of abating. As central banks grapple with working out how to balance inflation and growth, there's one thing we're sure of: tough times lie ahead



### Recession's coat of many colours

*ING's Carsten Brzeski on the different shades of recession spreading across the globe.*

[Watch video](#)

### A return to reality for Europe

Returning from the summer break always helps when looking at the bright side of the world's economic prospects. An often heard truism is that relaxed economists make fewer pessimistic forecasts. But when you're tracking the European and, specifically, German economies, no summer break is long enough to make short-term economic forecasts more optimistic. On the contrary, returning to Europe's economic reality after the summer means returning to a recessionary environment, as gas prices are moving from one astronomic high to the other and

will lead to unprecedentedly high energy bills over the winter. Even without a complete stop to Russian gas, high energy and food prices will weigh heavily on consumers and industry, making a technical recession – at least – inevitable.

## The colours of recession

No two recessions, however, are the same. In fact, we are currently seeing different colours of recession across the world. The US economy has actually been in a technical recession – defined as two consecutive quarters of negative growth – but it feels nowhere close to a recession. Our chief international economist in New York, James Knightley, says weaker global growth, the strong dollar and the slowdown in the housing market on the back of higher interest rates, will make it feel like a ‘real’ recession at the turn of the year, however.

In other regions of the world, we are not currently seeing fully-fledged recessions, but given that China and emerging markets need higher growth rates than the Western hemisphere, the expected sub-potential growth rates can easily feel recessionary. As a consequence, even if Europe currently remains the epicentre of geopolitical tensions, it almost looks as if recession and recessionary trends are a new export item.

## Out with the old, in with the new

With different shades of recession spreading across the global economy, but inflation still stubbornly high as a result of post-pandemic mismatches of demand and supply as well as energy price shocks, the dilemma for major central banks is worsening: how to balance inflation and growth. In the past, the answer would have been clear: most central banks would have shifted towards an easing bias. Not this time around.

We are currently witnessing a paradigm shift, recently illustrated at the Jackson Hole conference. A paradigm shift that is characterised by central banks trying to break inflation, accepting the potential costs of pushing economies further into recession. This is similar to what we had in the early 1980s. Back then, higher inflation was also mainly a supply-side phenomenon but eventually led to price-wage spirals and central banks had to hike policy rates to double-digit levels in order to bring inflation down. With the current paradigm shift, central banks are trying to get ahead of the curve. At least ahead of the curve of the 1970s and 1980s.

Whether the paradigm shift of central bankers is the right one or simply too much of a good thing is a different question. What strikes me is that central bankers have implicitly moved away from measuring the impact of their policies by medium-term variables and expectations towards measuring it by current and actual inflation outcomes. This could definitely lead to some overshooting of policy rates and post-policy mistakes.

## Looking ahead

We still think that the paradigm shift will not last that long and looming recessions will bring new pivots, forcing the Fed to stop hiking rates at the end of the year and eventually cutting rates again in 2023, and stopping the ECB from engaging in a longer series of rate hikes. Reasons for this out-of-consensus view are that we expect a more severe recession than the Fed and ECB do, and a faster drop in US inflation, in particular, than the Fed expects. Also, in a recession, any neutral interest rate is lower than in a strong growth environment. Finally (and a bit meanly), central banks have not had a good track record with their inflation predictions over the past few years.

In any case, we are back from the summer break and looking ahead to a very exciting autumn. Enjoy reading and stay tuned.

## Author

### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.