

'May he live in interesting times'

Rarely have predictions for an upcoming year been so difficult and wide-ranging. But we are sure of some things, and we are doing our best to help you navigate this unprecedented uncertainty



3 calls for 2023: Recession, inflation and central banks

Carsten Brzeski on what he's expecting in 2023

[Watch video](#)

Goodbye to all that

'May he live in interesting times' is a Chinese proverb that many of us have heard, perhaps a little too often in recent times. The list of unprecedented crises gets longer by the year. 2022 was supposed to be the year of post-pandemic and post-lockdown reopenings. But it became the year of war, inflation, energy and commodity price crises, drought and floods.

It was also a year which saw a paradigm shift at major central banks, trying to fight inflation at all costs. It's where we said goodbye to low interest rates for longer and that easing bias. Central banks got all of us used to jumbo-size rate hikes and, at least in the US, the policy rate is almost back at levels last seen prior to other financial crises. 2022 was also the year of what the Germans call 'Zeitenwende' or 'game changer', at least for Europe: a war in the EU's backyard, which is still ongoing with no end in sight; an end to cheap energy, and an end to globalisation as we knew it.

Combined with the well-known longer-term challenges of population ageing, a lack of international competitiveness, and the never-ending debate on further European integration, Europe's to-do list is long. The chances are very high that the continent will have a hard time returning to a pre-crisis growth trajectory any time soon.

Different shades of recession

So what will 2023 bring? A natural reflex of many forecasters is to simply extrapolate recent trends and developments into the new year. And, indeed, many of this year's issues will also be prominent in the next: war, the energy crisis, inflation, trade tensions and even Covid are likely to affect the global economy significantly. This is not the moment to identify potential new black or grey swans... nor even pink ones. Our predictions and calls for 2023 reflect our base case: median forecasts backed by this year's events and assumptions.

We expect to see several different shades of recession in 2023. We should get a rather textbook-style recession in the US with the central bank hiking rates until the real estate and labour markets start to weaken, inflation comes down, and the Fed can actually cut policy rates again. Expect a recession that feels but doesn't read like a recession in China with Covid restrictions, a deflating real estate market and weakening global demand, bringing down economic activity to almost unprecedented low levels. And finally, look forward to an end to the typical cycle in the eurozone, where a mild recession will be followed by only very subdued growth, with a risk of a 'double dip', as the region has to shoulder many structural challenges and transitions. These transitions will first weigh on growth before, if successfully mastered, they can increase the bloc's potential and actually add to growth again.

The widest range of possible outcomes and forecasts

Inflation will continue to be one of the key themes of 2023. We expect it to come down quickly in America, given the very special characteristics of the US inflation basket, allowing the Fed to stop rate hikes and eventually even cut before the end of the year. In the eurozone, inflation could turn out to be stickier than the European Central Bank would like and also perhaps afford. Still, with interest rates entering restrictive territory in early 2023, the looming loss of economic wealth and a large need for investment, the bank will be forced to stop earlier than it perhaps might like. Or, alternatively, it could commit a policy mistake if it hikes rates far beyond mildly restrictive levels.

In any case, we are entering a year with the widest range of possible outcomes and forecasts in years. And this is not even taking into account potential blind spots such as the start of a pandemic or a war in Europe that markets simply did not have on their radar screens at the end of 2019 or 2021. It is both interesting and challenging, for the economy, for financial markets, for companies, for households but also for economists like us.

'May he live in interesting times'. A friend of mine just told me that this is actually not a Chinese proverb but more a curse. We shall see. In any case, Merry Christmas and a Happy New Year.

Author

Carsten Brzeski

Global Head of Macro

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>.