

Summertime sadness

Remember that 'back to school' feeling at the end of summer? A tedious car journey home after holiday fun, knowing you'll be picking up where you left off? I'm afraid we've got a very similar feeling about the global economy right now. 'Are we nearly there yet?'. No.



Very few reasons to be cheerful

Lana del Rey's Summertime Sadness classic comes to mind as we gear up for autumn. And I'm not just talking about chaotic weather or even, in my case, disappointing macro data. Most of us have had the chance to recharge and rethink over the past couple of months. and I'm afraid all that R&R has done little to brighten our mood as to where the world's economy is right now.

Sure, the US economy has been holding up better than we thought. And yes, the eurozone economy grew again in the second quarter. Gradually retreating headline inflation should at least lower the burden on disposable incomes. And let's be thankful for the build-up of national gas reserves in Europe, which should allow us to avoid an energy supply crisis this winter unless things turn truly arctic.

But that's about as upbeat as I can get. We still predict very subdued growth to recessions in many economies for the second half of the year and the start of 2024. The stuttering of the Chinese economy seems to be more than only a temporary blip; it seems to be transitioning towards a weaker growth path as the real estate sector, high debt and the 'de-risking' strategy of the EU and

the US all continue to weigh on the country's growth outlook.

In the US, the big question is whether the economy is resilient enough to absorb yet another potential risk factor. After spring's banking turmoil, the debt ceiling excitement, and more generally, the impact of higher Fed rates, the next big thing is the resumption of student loan repayments, starting in September. Together with the delayed impact of all the other drag factors, these repayments should finally push the US economy into recession at the start of next year.

And then there's Europe. Despite the weather turmoil, the summer holiday season seems to have been the last hurrah for services and domestic demand in the eurozone. Judging from the latest disappointing confidence indicators, the bloc's economy looks set to fall back into anaemic growth once again.

Little late summer warmth

This downbeat growth story does have an upbeat consequence; inflationary pressure should ease further. It's probably not going to be enough to bring inflation rates back to central banks' targets, but they should be low enough to see the peak in policy rate hikes. Central bankers would be crazy to call an end to those hikes officially; they don't want to add to speculation about when the first cuts might come, thereby pushing the yield further into inversion. And there's also the credibility issue - you never know, prices might start to accelerate again. So, expect major central bankers to remain hawkish at least until the end of the year.

In our base case, we have no further rate hikes from the US Federal Reserve and one final rate rise by the European Central Bank. However, in both cases, these are very close calls, and the next central bank meetings are truly data-dependent.

Sometimes, a Golden Fall or Indian Summer can make up for any summertime sadness. But it doesn't look as if the global economy will be basking in any sort of warmth in the coming weeks. The bells are indeed ringing loud and clear. Vacation's over; school is here. And while I'm certainly too old for such lessons, I'm taken back to that gloomy, somewhat anxious feeling I had as a kid as summer wanes and the hard work must begin once again.

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