The summer's feel-good factor didn't last long

While you might still be energised by your vacation, the Olympics and even the very short-lived summer market turmoil, the global economy is returning back to form. While August's recession fears were overdone, the outlook has weakened. And cyclical and structural factors are dominating the race

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As the nights start to draw in across Europe, we're becoming more gloomy about the world's economic prospects. And ING's Carsten Brzeski is looking very carefully at how global central banks are going to respond. Interest rate cuts are coming.

[Watch video]

It's getting chilly

Oh, to be back in August when the biggest worry was whether Simone Biles would take a tumble or I had to choose the pool or the beach for a cooling dip. And now I have to pour cold water on hopes of a global sustained economic recovery.

In the US, we're finally seeing what every textbook economic model tells us what would happen after a sharp tightening of monetary policy: the economy cools off as a result of higher interest rates. Admittedly, it took longer than we and many others expected, but recent developments clearly point to an American soft landing. In China, structural factors are still mainly holding back growth. Whether it is the ongoing correction of the labour market or increased protectionism in many developed economies, the Chinese economy is losing rather than gaining momentum after a positive start to the year.

And then there is Europe, where so often the worst of both worlds come together: cyclical and structural headwinds. Here, confidence indicators are starting to point south again, with the exception of an Olympic boost to services in France. Europe is not in recession, but it is in a low-growth environment. And, given weaknesses elsewhere, it's hard to see how Europe can rebound in the coming months. Here, too, we need to prepare for a soft landing... and we haven't been flying as high as the US.

Numerous reality checks

We're also facing a political reality check and something similar around the future of AI. Are election results really as adverse for economies as some feared, or is there too much panic and exaggeration? So far, the jury is still out. The new European Commission still has to start up after the June elections. France is still looking for a new government, and the German chancellor Olaf Scholz suffered severe defeats in two regional state elections. It’s too early to assess the economic impact of all of this, but we're not exactly on fertile ground. And the same politicians seem to be outpaced by big tech as far as regulating artificial intelligence is concerned.

At least inflation's come down to somewhere between 2 and 3%. But service inflation and wage growth are the two biggest worries for central banks, and that explains why none of the major ones has yet to engage in a full rate cut cycle.

The ageing process

So, we're set to get those rate cuts in the US and the eurozone in the coming few weeks. And it begs the question of whether the Fed and the European Central Bank are behind the curve. And I'm tempted to answer: does it really matter? Any hesitation is not just due to that inflation stickiness but also the very human reaction of having missed inflation targets for several years in a row; I'm not surprised they're treading carefully.

And we think that caution will persist. The Fed will kick things off, and we're predicting three cuts before the end of the year, possibly starting with a 50bp reduction later this month. The ECB will be more hesitant.

In the world of sports, there is a saying that nothing ages faster than yesterday’s success. And how we wish that the optimism surrounding the global economy at the start of the year hadn't withered quite so quickly. Let's hope we don't have to wait another four years before we see Olympian-style growth returning.

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