

THINK Ahead: Central banks' 'brat summer'

Don't let it be said we're not down with the kids here at ING. Here's James Smith's look at what Charli XCX and her 'brat' phenomenon can - or more likely can't - tell us about central banks, services inflation and a jam-packed week ahead



Charli XCX, responsible for Brat but not for inflation or interest rate decisions

Central banks' "brat summer"

Are central banks having a 'brat summer'?

Who says we don't ask the important questions here at ING? And no, I didn't have a clue what it meant either, so this economist hit Google so you don't have to.

The Charli XCX-inspired phenomenon, which has formed an [unlikely crossover with the US election](#), throws up phrases like "*melancholic self-reflection*", "*a bit volatile*", "*maybe says some dumb things sometimes*" and "*wears old, corded Apple headphones*".

I know what you're thinking: that doesn't sound anything like our beloved central bankers. Anyway, just be grateful that Charli has spared us the agony of my Olympics puns this week. The games kick off today, Friday. And here's something that caught my eye: [Bloomberg reported this](#)

[week](#) that Paris hotel prices are down 41% on their peak as occupancy rates flounder.

That'll be music to the ears of the central bankers in Frankfurt, though terrible news for me having booked my hotel six months ago. And it's just the latest sign that the crazy era of service price inflation may finally be at an end.

[Airline stocks also got hit this week](#) after Ryanair said further discounting was inevitable. And the European services purchasing managers numbers we had [this week told us](#) that lower demand means companies are no longer able to hike prices as aggressively.

So far, these straws in the wind are just that. They aren't showing up in the official numbers just yet. Policymakers on both sides of the Atlantic are grappling with services inflation rates that are stuck well above pre-Covid levels and have shown scant progress over recent months. Take a look at our chart of the week below.

But here's the question: is this really the best way of thinking about inflation right now? Ultimately central bankers need to know not where inflation is today, but where it will be in two years' time. And that means singling out the price trends that are slower moving and therefore might prove more persistent.

Services inflation is perhaps the least bad way of doing that, but it's far from perfect. It includes rents, which at least here in the UK and US, have kept inflation elevated for reasons that aren't as easily traced back to what's happening in the jobs market or corporate price-setting behaviour. And it doesn't include gas prices, which have been an overwhelming driver of services inflation, at least here in Europe.

I'm tempted to pick out things like restaurants, surely a perfect indicator of underlying price pressure in the economy, and where inflation has been falling much more rapidly. Here in the UK, we've estimated an alternative measure of services inflation that does look brighter than the official numbers suggest. And that's why [we're still expecting a Bank of England rate cut next week](#), even if the meeting looks like a close call.

Even if you take the official inflation metrics at face value, there are other reasons to think the story should soon improve. Not only are we getting more and more of those anecdotes on price-setting behaviour, but there's growing concern about what's happening over in the jobs market. Don't forget that wage growth is already slowing noticeably in the States.

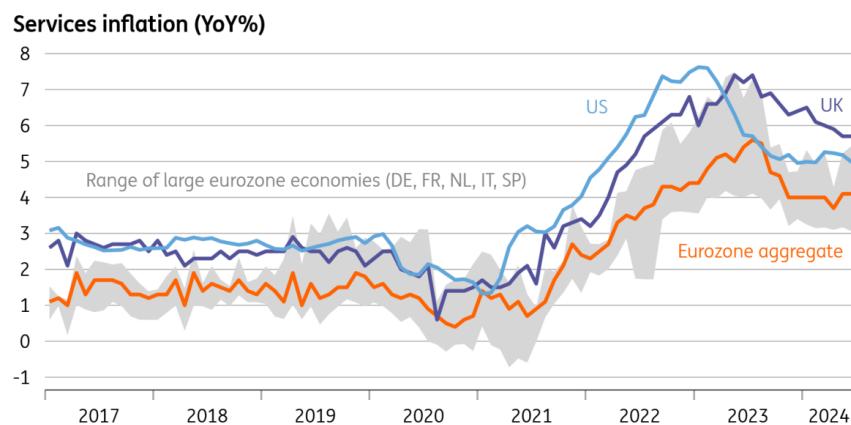
It's not a point that's lost on the central bankers. Take a read of James' [preview of next week's Fed meeting](#). He isn't expecting a rate cut. But he highlights some eye-catching comments which suggest a subtle-yet-important change in the vibe coming from even the more hawkish members of the committee, as well as its well-regarded [alumni](#). What was that about "melancholic self-reflection"?

A September rate cut is already nailed on according to financial markets. And watch out for the US unemployment data next week. Another rise would help lock in expectations of further cuts later in the year. It would also add to what appears to be growing wariness among policymakers, who fear that if the jobs market is really cooling more rapidly, then perhaps the Fed has been too late to start cutting rates.

So maybe Jay Powell can relate to Charli XCX when she says, "*Sometimes I just wanna rewind.*" I'm

sure you do, too after all this. And let's all hope he doesn't pick up on her dress sense.

Chart of the week: Progress on services inflation has stalled



Source: Macrobond, ING calculations

THINK Ahead in developed markets

United States (James Knightley)

- **FOMC Meeting (Wed):** Stronger-than-expected growth and hotter-than-predicted inflation in the 2Q GDP report have failed to dent market expectations of interest rate cuts from September. The Fed is widely expected to lay the groundwork for such a move at next week's FOMC meeting as they express growing confidence inflation is on the path to 2% and that economic challenges are more and more of their focus. The data is also expected to point towards policy easing with employment costs moderating, business surveys cooling and the all-important jobs report indicating growing slack in the labour market. [Read our full preview](#)

Eurozone (Peter Vanden Houte)

- **Inflation (Wed):** With companies signalling higher input costs, but at the same time seeing reduced pricing power, both Eurozone headline and core consumer prices have likely seen only a slightly higher seasonally adjusted month-on-month increase in July. This would still result in marginally lower year-on-year figures.

United Kingdom (James Smith)

- **Bank of England meeting (Thu):** We expect the first 25 basis-point rate cut, but it's a close call. That's because we've heard next to nothing from officials over recent weeks, though we know that some thought June's decision to keep rates on hold was "finely balanced". At face value, the latest services inflation data hasn't helped the cause, though we think the picture looks better once volatile items are stripped out. We think there's just enough in the latest numbers to convince the BoE to get on with the job of cutting rates next week. [Read our full preview here](#)

Sweden (James Smith)

- **GDP (Mon):** Expect activity to have fallen sharply in the second quarter on the back of a fall in manufacturing and an unwind of the inventories that were added earlier in the year. Some forward-looking indicators have been improving, but these GDP figures are a reminder of the economy's fragility and set the stage for multiple rate cuts in the second half of this year.

THINK Ahead for Central and Eastern Europe**Poland** (Adam Antoniak)

- **Inflation (Wed):** Household electricity/gas prices are no longer frozen at 2022 levels, which meant substantial increases in consumer bills from July. We estimate the overall impact on CPI was 1.3-1.5 percentage points. That means headline inflation, which has been close to target, probably jumped to 4.5% and higher energy prices will keep it elevated for the next 12 months. Expect headline inflation to rise to 5% at year-end and to peak above 6% in the spring. That should prevent any debate on monetary easing until the second quarter of next year.
- **PMI (Thu):** The Polish PMI report may reflect dismal PMI readings from Germany and the eurozone. We expect a deterioration to 44.5 from 45.0 during the past two months.

Hungary (Peter Virovacz)

- **GDP (Tue):** We expect the positive growth momentum in Hungary to continue in the second quarter of 2024. While quarter-on-quarter growth will slow somewhat to 0.6%, the base effect will push the year-on-year figure to 2.3%, significantly higher than in the previous quarter. We don't expect a major change in the structure of growth, with net exports and consumption making positive contributions via bleak import activity and positive real wage growth. However, investment will remain a drag due to budget constraints (public) and business sentiment problems (private). In terms of sectors, agriculture and industry are expected to hold back growth, with construction and services being the supporters.

Czech Republic (David Hvarlant):

- **GDP (Tue):** Robust household spending and net exports likely meant the economic rebound continued in Q2. But the outlook is less uncertain and our 1% annual GDP forecast is fairly conservative and reflects anemic industrial and investment performance. We'd expect that to be reflected in a disappointing manufacturing PMI.
- **Rate decision (Thu):** We expect a 25bp rate cut. Inflation is on target and real interest rates are elevated, while the economic recovery is uncertain. It's a close call between 25bp and 50bp, and it will depend on the Bank's assessment of domestic growth as well as the exchange rate and monetary policy overseas.

Key events in developed markets next week

Country	Time Data/event	ING	Prev.
Monday 29 July			
Germany	0700 May Retail Sales (MoM%/YoY%)	1.0/0.0	-1.2/-0.6
Sweden	0700 Q2 GDP (QoQ%/YoY%)	-0.6/0.1	0.7/0.7
	0700 Jun Retail Sales (MoM%/YoY%)	-/-	0.2/0.8
Tuesday 30 July			
US	1400 May Case-Shiller Home Prices (MoM%/YoY%)	0.3	1.4/7.2
	1500 Jun Job Openings	8	8.14
Germany	0900 Q2 GDP (QoQ%/YoY%)	0/0	0.2/-0.2
	1300 Jul CPI (MoM%/YoY%)	0.4/2.2	0.1/2.2
France	0630 Q2 GDP (QoQ%/YoY%)	-/-	0.2/1.1
Italy	0900 Q2 GDP (QoQ%/YoY%)	0.2/1.0	0.3/0.7
Spain	0800 Q2 GDP (QoQ%/YoY%)	-/-	0.8/2.5
	0800 Jul CPI (MoM%/YoY%)	-/-	0.3/3.4
Eurozone	1000 Q2 GDP (QoQ%/YoY%)	0.2/0.4	0.3/0.4
	1000 Jul Economic Sentiment	95	95.9
Wednesday 31 July			
US	1900 Fed Funds Rate (upper bound)	5.50	5.50
	1930 FOMC Press Conference	-	-
Germany	0855 Jul Unemployment Rate SA	6	6
France	0745 Jul CPI (MoM%/YoY%)	-/-	0.1/2.2
Italy	1000 Jul CPI (MoM%/YoY%)	0.3/1.1	0.1/0.8
Canada	1330 Jun GDP (MoM%)	-	0.1
Portugal	0930 Jul CPI (MoM%/YoY%)	-/-	0.0/2.8
Eurozone	1000 Jul CPI (MoM%/YoY%)	0.3/2.5	0.2/2.5
	1000 Jul Core CPI (YoY%)	2.9	2.9
Thursday 1 August			
US	1500 Jul ISM Manufacturing PMI	49.5	48.5
	1500 Jul ISM Manufacturing Employment	49	49.3
Germany	0855 Jul S&P Global/BME Manufacturing PMI	43.5	43.5
UK	0930 Jul S&P Global/CIPS Manufacturing PMI Final	-	-
	1200 BoE Bank Rate	5.00	5.25
Italy	0845 Jul S&P Global/IHS Manufacturing PMI	45.3	45.7
	0900 Jun Unemployment Rate	6.8	6.8
Eurozone	1000 Jun Unemployment Rate	6.5	6.4
Friday 2 August			
US	1330 Jul Non-Farm Payrolls	175	206
	1330 Jul Unemployment Rate	4.1	4.1
	1330 Jul Participation Rate	62.7	62.6
	1500 Jun Factory Orders (MoM%)	-2	-0.5
Italy	0900 Jun Industrial Output (MoM%/YoY%)	-/-	0.5/-3.3
Switzerland	0730 Jul CPI (MoM%/YoY%)	-/-	0.0/1.3

Source: Refinitiv, ING

Key events in EMEA next week

Country	Time Data/event	ING	Prev.
Tuesday 30 July			
Turkey	1200 Jun Bank NPL Ratio	-	1.52
Czech Rep	0800 Q2 GDP (QoQ%/YoY%)	0.5/0.6	0.2/0.3
Hungary	0730 Q2 GDP (QoQ%/YoY%)	0.6/2.3	0.8/1.1
Wednesday 31 July			
Poland	0900 Jul CPI (MoM%/YoY%)	1.7/4.5	0.1/2.6
Russia	1700 Jun Retail Sales (YoY%)	6.1	7.5
	1700 Jun Unemployment Rate	2.6	2.6
	1700 Jun GDP (YoY%)	3.5	4.5
Turkey	0800 Jun Trade Balance	-	-6.5
	0800 Jun Exports	-	24.07
	0800 Jun Imports	-	30.57
Thursday 1 August			
Russia	0700 Jul S&P Global Manufacturing PMI	-	54.9
Turkey	0800 Jul Manufacturing PMI	-	47.9
Poland	0800 Jul S&P Global Manufacturing PMI	44.5	45
Czech Rep	0830 Jul S&P Global PMI	45.0	45.3
	1300 Jul Budget Balance	-186.1	-178.6
	1330 CNB Repo Rate	4.50	4.75
Hungary	0730 May Trade Balance Final	1146	1146
	0800 Jul Manufacturing PMI	48.9	49.4

Source: Refinitiv, ING

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