

# THINK ahead: How Europe could pull Swiftly ahead

James Smith's indispensable guide to what you should be watching out for next week



ING's James Smith on next week's world today

## How Europe could grow faster than the US this year

Taylor Swift is in Europe, and that can only mean two things: some much-needed consumer spending and, more importantly, a ready-made excuse for if (when?) I get my GDP forecasts wrong this summer. Don't blame me; I'm just learning from [all those US economists](#) last year.

Anyway, what better time to ask: what if Europe grows faster than the US this year?

I accept that sounds unlikely, even with Taylor's help. But just look at the Purchasing Manager's indices (PMIs). They're telling us that US growth has slipped below the eurozone for the first time in a year; we'll get fresh figures next week.

We reckon there might be something in it. Out in the States, [James Knightley makes a compelling case](#) for recent consumer strength to ebb away later in the year. But look at Europe! Inflation fell back, pay's up, and households are starting to feel the love. Even here in the UK, headline inflation's set to drop towards the 2% target next week, but wage growth's around 6%.

And now look at household finances. US consumers have largely blown through all the savings they built up early on in the pandemic. European households have been far less impulsive.

I was chatting to my eurozone colleague, Bert Colijn, this week. He's not convinced all that's about

to change the European spending landscape. But it does seem to be making consumers more resilient. Where US delinquency rates are rising quickly, [new data from the ECB](#) on Thursday seems less troubling.

Then there's the jobs market. Across the pond, there are signs things are finally cooling down. [James K points to the US quits rate](#) – the proportion of workers voluntarily leaving their job for another – which is now below pre-Covid levels. And there are hints that the payrolls figures could look bleaker as the current quarter wears on.

Here in Europe, the jobs market is proving surprisingly resilient. Admittedly, it depends where you're looking, and of course, it's a lagging indicator. But this statistic surprised me: More than a third, yes a third, of Italian services companies are saying a lack of staff is limiting their business. Before the pandemic, it was 5%. It's similar but less dramatic in Spain. Even in Germany, vacancy levels are well above what we had before Covid, though the [story is less good beneath the surface](#).

Now, OK, spoiler alert: the eurozone almost certainly won't grow faster than the US this year—not strictly speaking, anyway.

[Our annual growth forecasts](#) for the US are light years ahead. And Bert reminds us that Europe lacks some of America's longer-term tailwinds, be it greater energy independence or more aggressive strategic industrial policy. A weaker US could also circle back into more muted European export growth, as Peter Vanden Houte [explains](#). Sharply rising German insolvencies are something to watch too.

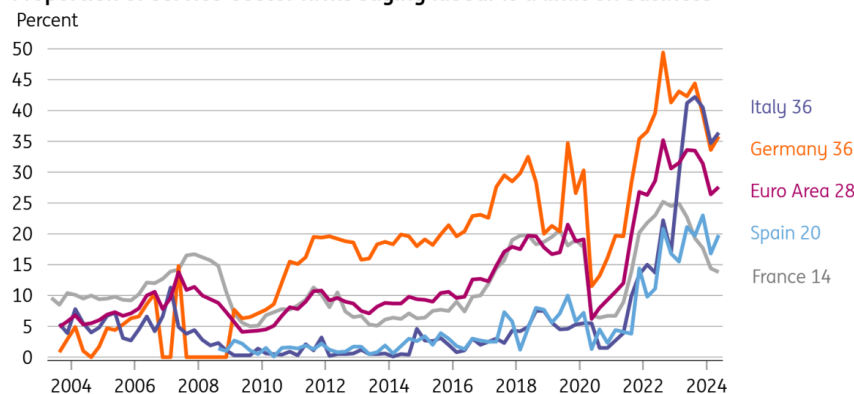
So, let's not get ahead of ourselves. Still, this summer, there's a case for some long-overdue optimism about Europe. And annual growth predictions—well, they can be misleading. They tell us as much about 2023 as they do 2024.

Wait instead until we get fourth-quarter GDP later this year and compare it to the same point last year. That's still a long way off, but on that metric, surely a better way of looking at growth in the current year, Europe may yet end up steaming ahead of the US.

If I'm wrong, well, I'll shake it off; you know who I'll be blaming.

## Chart of the week: Europe's surprisingly strong jobs market

**Proportion of service-sector firms saying labour is a limit on business**



Source: Macrobond  
Data from European Commission surveys

## THINK ahead for developed markets

Keep an eye out for all this next week:

**US FOMC Minutes (Wed):** The minutes offer clues on the thought processes of the committee. Officials are clearly suggesting no prospect of imminent action, but we may get hints as to what could change that position. We are looking for a September rate cut and think we would need to see a combination of things to deliver that – perhaps three core inflation prints of 0.2%MoM to show a moderation in the pace of price pressures, a cooler period for consumer spending and also the unemployment rate, which has already moved from 3.4% to 3.9%, breaking above 4% to around 4.2%. *James Knightley*

**US Existing Homes Sales/Durable goods orders (Wed/Fri):** In a high mortgage rate environment where affordability is so stretched, we expect to see continued weakness in transaction numbers. Durable goods orders should be soft given subdued ISM manufacturing orders and the fact Boeing aircraft orders totaled seven in April versus 113 in March. *James Knightley*

**Eurozone PMI (Thu):** The eurozone PMI has been showing signs of recovery recently as the services sector has returned to more solid growth. Manufacturing shows signs of bottoming out, but there are no guarantees that a meaningful recovery will happen before summer. Still, with the overall picture improving and given the already decent growth figure for 1Q, this could result in some optimism about a eurozone recovery. The May PMI will show how high those hopes should be. *Bert Colijn*

**UK inflation (Weds):** This will make or break a June Bank of England rate cut. We think services inflation could come in a bit hotter than the Bank is forecasting and if we're right, it would keep the odds tilted slightly in favour of August for the first cut. But it's a close call. Either way, headline inflation will get very close to target, and we expect it to fall below 2% in May's numbers. *James Smith*

**Germany 1Q24 GDP Growth (Fri):** The second estimate of first-quarter GDP growth will not surprise at the headline level but will shed more light on the underlying components. I expect net exports and the construction sector to have been the main driver of growth. What looks like a return of Germany's export-oriented growth model, however, is only a short-lived revival. As long as inventories remain high and order books are low, a sustainable recovery is not yet in sight. *Carsten Brzeski*

## THINK ahead for Central and Eastern Europe

**Poland Industrial Production/Retail Sales (Wed/Thu):** Following disappointing monthly data for March (especially dreadful industrial output), investors will seek signs of a continued rebound in the Polish economy in April. Remember the March readings were probably heavily distorted by statistical effects, including a lower number of working days. We expect a rebound in annual industrial output and further progress in retail sales to have taken place in April. *Adam Antoniak*

**Poland Labour Market (Wed):** This should confirm the jobs market remains tight with double-digit growth in wages. However, the annual decline in employment probably deepened in April. This is mainly a result of supply-side constraints rather than insufficient demand for workers. All in all the economy is on an expansion path led by private consumption. *Adam Antoniak*

**National Bank of Hungary meeting (Tue):** Given the recent favourable market sentiment and the strength of the Hungarian forint, we expect the NBH to cut the key rate by 50bp to 7.25%. The forward guidance remains as hawkish as possible, especially as we've just entered a temporary phase of reaccelerating inflation. *Peter Virovacz*

**Hungary Labour market (Thu/Fri):** Less favourable base effects and companies' reluctance to pay double-digit wage increases will push wage growth back into single digits. Seasonal factors will contribute to the decline in the unemployment rate, although the main issue from a real economic perspective will remain the less tight labour market. *Peter Virovacz*

**Czech Republic Producer Price Index (Mon):** Czech PPI growth has likely returned to positive territory and increased to 1.6% on an annual basis in April. Such a muted dynamic does not add much heat to the outlook of consumer inflation in the coming months, which should be welcome news for policymakers. *David Havrlant*

**Czech Republic Consumer and business confidence (Fri):** Both are expected to have improved in May. Household sentiment benefits from growing real wages and a robust labour market, while the mood in business can build on booming retail sales, positive export dynamics observed in the current account, and hints of a recovery in Germany. Lofty consumer confidence coupled with more spending could increase price pressures if the supply side does not catch up with the lift-off in demand. *David Havrlant*

**Turkey Interest Rate Decision (Thu):** Citing a significant tightening in financial conditions and lags in monetary transmission as the rationale for the decision, the Turkish Central Bank kept the policy rate unchanged last month. In May MPC, we expect the bank to remain on hold, though it will continue to reiterate its tightening bias and leave the door open for further hikes if required by the inflation outlook. *Muhammet Mercan*

## Key events in developed markets next week

Country	Time	Data/event	ING	Prev.
<b>Tuesday 21 May</b>				
Canada	1330	Apr CPI Inflation (MoM%/YoY%)	-/-	0.6/2.9
	1330	Apr CPI BoC Core (MoM%/YoY%)	-	0.5/2
	1330	Apr CPI BoC Core (MoM%)	-	0.5
Eurozone	0900	Mar Current Account SA, EUR	-	29.45
	1000	Mar Total Trade Balance SA	-	17.9
<b>Wednesday 22 May</b>				
US	1330	Apr existing home sales (mn)	4.15	4.19
	1900	FOMC minutes		
UK	0700	Apr Core CPI (YoY%)	3.6	4.2
	0700	Apr CPI (MoM%/YoY%)	0.1/2.1	0.6/3.2
	0700	Apr Services CPI (YoY%)	5.6	6
Sweden	0700	Apr Unemployment Rate	-	9.2
<b>Thursday 23 May</b>				
US	1445	May S&P Global Manufacturing PMI Flash	50.3	50
	1445	May S&P Global Services PMI Flash	51	51.3
	1445	May S&P Global Composite PMI Flash	51.2	51.3
	1500	Apr New Home Sales-Units (mn)	0.68	0.693
	1330	Initial Jobless Claims	225	222
	1330	Continuing Jobless Claims	1800	1794
Germany	0830	May S&P Global Manufacturing PMI Flash	43	42.5
	0830	May S&P Global Service PMI Flash	53.8	53.2
	0830	May S&P Global Composite PMI Flash	51	50.6
France	0815	May S&P Global Composite PMI Flash	-	50.5
UK	0930	May Flash Composite PMI	53.7	54.1
	0930	May Flash Manufacturing PMI	49.5	49.1
	0930	May Flash Services PMI	54.5	55
Eurozone	0900	May S&P Global Manufacturing PMI Flash	45.7	45.7
	0900	May S&P Global Services PMI Flash	53.5	53.3
	0900	May S&P Global Composite PMI Flash	51.8	51.7
	1500	May Consumer Confidence Flash	-14.3	-14.7
<b>Friday 24 May</b>				
US	1330	Apr Durable Goods orders (MoM%)	-1.0	2.6
	1500	May U Mich Sentiment Final	67	67.4
Germany	0700	Q1 GDP Detailed (QoQ%/YoY%)	0.2/-0.9	0.2/-0.9
UK	0700	Apr Retail Sales (MoM%/YoY%)	0.3/0.5	0.0/0.8
Canada	1330	Mar Retail Sales (MoM%)	-	-0.1

Source: Refinitiv, ING

## Key events in EMEA next week

Country	Time	Data/event	ING	Prev.
<b>Monday 20 May</b>				
Czech Republic	0900	PPI (MoM%/YoY%)	0.4/1.6	-0.1/0.0
<b>Tuesday 21 May</b>				
Hungary	1300	May Hungary Base Rate	7.25	7.75
<b>Wednesday 22 May</b>				
Russia	1700	Apr PPI (MoM%/YoY%)	-/-	2.4/19.1
Poland	0900	Apr Industrial Output (YoY%)	6.2	-6
	0900	Employment Growth (YoY%)	-0.4	-0.2
	0900	Corporate sector wages (YoY%)	13.2	12
	0900	PPI (YoY%)	-8.2	-9.6
South Africa	0900	Apr CPI (MoM%/YoY%)	-/-	0.8/5.3
	0900	Apr Core inflation (MoM%/YoY%)	-/-	0.7/4.9
<b>Thursday 23 May</b>				
Turkey	1200	May CBT Weekly Repo Rate	50	50
	1200	May O/N Lending Rate	53	53
	1200	May O/N Borrowing Rate	47	47
Poland	0900	Apr Retail Sales (YoY%)	7	6.1
Hungary	0730	Mar Average Gross Wages (YoY%)	9.5	14.0
<b>Friday 24 May</b>				
Czech Republic	0900	Businesss Confidence	96.2	95.6
	900	Consumer Confidence	104.6	103.8
Poland	1300	Apr M3 Money Supply (YoY%)	6.7	6.6
Hungary	0730	Apr Unemployment Rate 3M	4.5	4.6

Source: Refinitiv, ING

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