THINK Ahead: How inflation could surprise us in 2026

It's crystal ball time here at ING towers as we gaze into the foggy mist that is 2026. What if something comes out of nowhere - and what if that thing is a fresh inflation wave? James Smith explains how it all depends on governments. It's a budget-fuelled week ahead, at least for us in the UK, so buckle up as we look at what's to come

"How do the year end numbers look?"

How inflation could surprise us in 2026

Like most economists, I've been busy peering into the crystal ball for 2026. It's foggy, naturally, and dare I say it, a bit... boring.

The consensus? Reasonable US growth, underpinned by AI and high income consumers. Europe looks steady, though buoyed by German stimulus. The Fed is edging closer to neutral – albeit perhaps now more slowly – while the ECB is already there and is likely to keep rates on hold through 2026.

Our full outlook will be with you in a couple of weeks, but my FX colleagues think the net effect is a weaker dollar and a low volatility environment that favours the carry trade.

But life doesn't always go to plan – especially with a certain President in the White House. So what could shake things up?

An implosion of the AI bubble is the obvious risk. So consider this instead:

President Trump pushes through $2000 stimulus checks for 150 million Americans – worth 1% of GDP – ahead of the mid-terms. Then he cuts tariffs on key products, just as he's done with certain food items recently. That boosts US growth via lower income households, and collides with supply constraints to fuel inflation. All that, at a time when a more political Fed keeps cutting rates. Add Germany's fiscal expansion and possibly some extra Chinese stimulus into the mix. Equities love it – initially anyway. Bonds don't. And neither probably does the dollar, if real rates end up lower or even negative.

This isn't our base case, unsurprisingly, but after a tumultuous 2025, nothing's impossible.

If nothing else, it serves as a reminder that fiscal policy will be pivotal next year, at a time when there's already a lively debate about this year's US tax bill and how it will shape 2026.

Household tax cuts (tips, overtime, etc.) and increased investment incentives could moderately lift growth, before spending cuts bite later this decade. That's unlikely to spark a fresh inflation wave by itself; our view is that US headline CPI is set to end next year lower than it is today. The same is probably true in the eurozone and UK.

So-called tariff rebates could change things. Naturally, the concept is a reminder of the 2020/21 stimulus checks which turbocharged inflation. But James Knightley reminds us that times have changed. The economy isn't half closed due to Covid restrictions. Interest rates are much higher. Cost of living is a much bigger issue for households; confidence is low. These checks would more likely pay down debt than boost spending.

That's assuming they materialise at all - a big if. The numbers don't really add up, given recent undershoots on tariff revenue. Congress is sceptical - tariffs were already an important justification for this year's tax bill. A lot depends on the politics pre-November's midterms.

As for those tariffs, a lot still rests on whether the Supreme Court rules vast swathes of them illegal. If they do, rebuilding tariffs via other means is possible, though messier. It's uncertain, but the net result could be that tariffs end up lower than we have today – a potential upside risk for the economy.

Then there are supply constraints. Much of what's set to drive US inflation lower in the short-term is cyclical – think rents and wages. Structurally, we think inflation globally is likely to stay higher and more volatile than in the 2010s. The Fed already has a keen eye on immigration changes and the impact on worker availability, though James' concern is more about worker demand than supply at this point.

Then there's AI. Central bank doves might argue it will cut jobs and boost productivity, pushing inflation down. But near term, vast investment and the strain on local electricity networks from data centres could work in the opposite direction. It's a big question for next year.

As for politics at the Fed, we're getting closer to a new Chair being announced. Betting markets think it will be Kevin Hassett, a Trump advisor who wants faster rate cuts. But one person doesn't dictate policy and recent decisions show Trump appointees less susceptible to political pressure than some feared. The fresh doubt over a December rate cut is emblematic of that; a lack of new data has reduced the chances of another move before year-end.

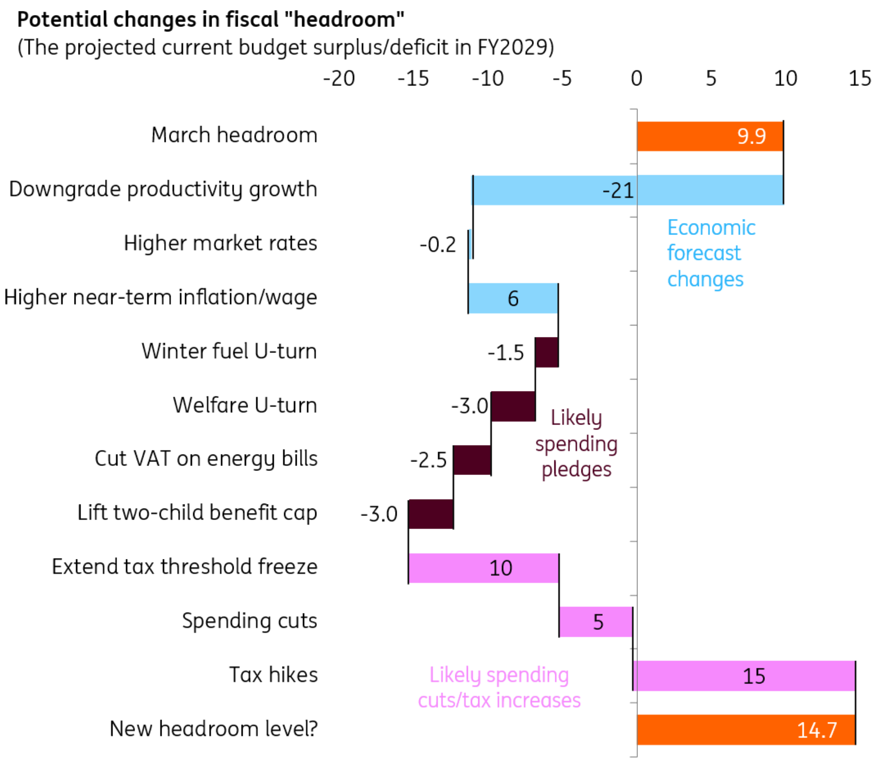
Outside of the US, don't bank on a major fiscal boost – particularly in Europe. Carsten, our man in Germany, doubts stimulus plans will deliver a big 2026 lift given investment delays, though defence spending and production could surprise.

Here in the UK, forecast downgrades make tax rises inevitable at Wednesday's budget. How much is front-loaded in 2026? That's what markets care about and I think the answer is £15bn/year – around half a percent of GDP. That should cement a December rate cut. But bigger picture: in Britain – as in France – politics and fraying political support for budget restraint is a key risk for 2026.

Anyway, that was all a bit of fun, wasn't it? Wasn't it...? We economists certainly know how to enjoy ourselves. And our central view, remember, is that inflation should come down next year.

But it's not difficult to see how looser purse strings could change that. It's just one of the risks we're thinking about as we pen our 2026 outlook – and you can be the first to hear all about it by signing up to our live webinar on 5 December. Put your name down today.

Chart of the week: How we see the UK's fiscal hole being filled



Source: OBR, IFS, FT, ING analysis

Based on ING expectations of the Autumn Budget and possible OBR forecast revisions, together with policy costings from IFS/others.

THINK Ahead in developed markets

United States (James Knightley)

- Given Thanksgiving on Thursday, all of the data will be squeezed into the first three days of the week. However, it isn't going to be particularly timely given the government shutdown has impacted the data collection process. Any potential market impact has been further

nullified by the news that the October and November official jobs data won't now be released until after the December 10 FOMC meeting. We still don't have information on what will happen with the October and November CPI reports, but there is the very real chance they, too, are delayed.
- Given the minutes to the October FOMC meeting indicated many Fed officials were "leaning" against a December cut, the fact we might not have the key jobs and inflation numbers is not going to convince them to vote differently. Instead, we will likely need to see very weak third-party evidence or some financial system stress to prompt a rate cut. Nonetheless, we would characterise this as a delay with 75bp of rate cuts remaining in our forecasts by the end of 2Q 2026. The main event will likely be the Fed's Beige Book – an anecdotal survey on the state of the economy, given 3Q GDP has been rescheduled for later in the year.

United Kingdom (James Smith)

- **Budget (Wed):** We think Chancellor Rachel Reeves faces a fiscal hole of £30bn/year, owing to forecast downgrades and past/likely spending U-turns. How much of that (we think half) is filled by upfront tax hikes is what matters for markets, as that will affect the likelihood/extent of further Bank of England easing, plus the required bond issuance in 2026. Whatever happens, next year's fiscal deficit is likely to be lower, on account of an ongoing freeze in tax thresholds. Read more

THINK Ahead in Central and Eastern Europe

Poland (Adam Antoniak)

- **Oct industry** (Mon): Since the reference base from 2024 was no longer as favourable as in September, October annual growth in industrial output most likely fell to slightly above zero. External demand remains subdued, and the European automotive industry is under pressure from fierce competition from Asian producers. Producers' prices (PPI) remain in deflation.
- **Oct labour (Mon):** Some cooldown in labour demand and lower inflation facilitate a continued decline in wage growth, while the limited supply of workers keeps wage growth rising. Lower than in recent years, an increase in the minimum wage and low hikes in public sector compensations in 2026 should facilitate further moderation of wage growth. Employment continues falling gradually.
- **Oct retail** (Tue): Demand for consumer goods remains solid, but annual growth in retail sales in October was probably less robust than in September amid the base effect. Durable goods sales should continue recovering as households' real disposable income is rising despite a slowdown in wage growth, thanks to lower inflation.
- **Nov flash CPI** (Fri): We estimate that in November CPI inflation moderated to 2.6% YoY, and was almost at the central bank target of 2.5%, giving room for further downward adjustment in the policy rate. Yet another 25bp cut in December is highly probable as the reference rate is still relatively high (4.25%).

Czech Republic (David Havrlant)

- **Confidence** (Mon): Consumer confidence in November has likely corrected the substantial gains seen earlier, reflecting further layoffs in the industry. That said, declining end-energy prices are about to support the still-upbeat consumer confidence ahead. Business confidence is expected to have further improved in November, on the back of postponed ETS2 and a gradual shift toward a more pragmatic approach to underlying business conditions emerging across Europe. The Statistical Office will likely confirm the headline GDP growth figures for Q3, while the breakdown is set to show strong domestic consumption and fixed investment bottoming out.

Kazakhstan (Dmitry Dolgin)

- **Rate Decision** (Fri): We expect the National Bank of Kazakhstan (NBK) to maintain its base rate at 18.00% at the upcoming meeting on 28 November. Following October's larger-than-anticipated 150 basis point hike, inflation has eased slightly to 12.6% year-on-year, inflation expectations among households remain contained, the tenge has appreciated by 3% against the US dollar, and global food price pressures have moderated. These factors support a pause in the rate hike cycle. However, the NBK is likely to maintain a cautious tone, as the upcoming VAT increase in January 2026, a weakening balance of payments, robust domestic demand and lending growth continue to pose medium-term inflation risks. We do not rule out the possibility of further rate hikes in the first half of 2026 if inflation accelerates again.

Key events in developed markets next week

Country	Time	Data/event	ING	Prev.
		Monday 24 November		
Germany	0900	Nov Ifo Business Climate	88.1	88.4
	0900	Nov Ifo Current Conditions	85.5	85.3
	0900	Nov Ifo Expectations	91	91.6
		Tuesday 25 November		
US	1330	Sep PPI (MoM%)	0.3	-0.1
	1330	Sep retail sales (MoM%)	0.3	0.6
	1400	Sep Case-Shiller 20 (MoM%/YoY%)	-0.1/1.3	0.2/1.6
	1500	Nov Consumer Confidence	93.5	94.6
Germany	0700	Q3 GDP Final (QoQ%/YoY%)	0/0.3	0/0.3
		Wednesday 26 November		
US	1330	Initial Jobless Claims (000s)	235	232
	1330	Oct personal income (MoM%)	-	-
	1445	Nov Chicago PMI	44.5	43.8
	1900	Fed Beige Book	-	-
UK	1230	Chancellor announces Autumn Budget		
		Thursday 27 November		
US	-	Thanksgiving Holiday	-	-
Eurozone	0900	Oct Money Supply (YoY%)	-	2.8
	1000	Nov Economic Sentiment	-	96.8
	1000	Nov Consumer Confidence Final	-	-14.2
Germany	0700	Dec GfK Consumer Sentiment	-24.3	-24.1
Italy	0900	Nov Consumer Confidence	97.8	97.6
		Friday 28 November		
Germany	0700	Oct Retail Sales Real (MoM%/YoY%)	-0.5/-0.2	0.2/0.2
	0855	Nov Unemployment Rate SA	6.3	6.3
	1300	Nov CPI (MoM%/YoY%)	-0.5/2.3	0.3/2.3
France	0745	Q3 GDP Final (QoQ%/YoY%)	-/-	0.5/0.9
	0745	Nov CPI Prelim (MoM%/YoY%)	-/-	0.1/0.8
Italy	0900	Q3 GDP Final (QoQ%/YoY%)	0/0.4	0/0.4
	1000	Nov CPI Prelim (MoM%/YoY%)	0/1.3	-0.3/1.2
Spain	0800	Nov CPI Flash NSA (YoY%)	-/-	0.7/3.1
Canada	1330	Sep GDP (QoQ%)	0.8	-0.3
Sweden	0700	Q3 GDP Final (QoQ%/YoY%)	-/-	1.1/2.4
Switzerland	0800	Q3 GDP (QoQ%/YoY%)	-/-	0.1/1.2
Portugal	1100	Nov CPI Flash (YoY%)	-	2.3
	1100	Q3 GDP Final (QoQ%/YoY%)	-/-	0.8/2.4

Source: Refinitiv, ING

Key events in EMEA next week

Country	Time (BST)	Data/event	ING	Prev.
		Monday 24 November		
Poland	0900	Oct Employment Growth (YoY%)	-0.8	-0.8
	0900	Oct Industrial Output (YoY%)	1.7	7.4
	0900	Oct PPI (YoY%)	-1.7	-1.2
	0900	Oct Wages (YoY%)	7.2	7.5
Turkey	0700	Nov Business Confidence	-	100.8
	0700	Nov Capacity Utilization Rate (MoM%)	-	74.2
Czech Rep	0800	Nov Consumer Confidence	107.0	107.4
	0800	Nov Business Confidence	103.6	103.4
	0800	Nov Composite Confidence	104.1	104.0
		Tuesday 25 November		
Poland	0900	Oct Retail Sales (YoY%)	3.8	6.4
	1300	Oct M3 Money Supply (YoY%)	10.1	11.1
		Wednesday 26 November		
Russia	1600	Oct Industrial Output	0.0	0.3
Poland	0900	Oct Unemployment Rate	5.6	5.6
		Thursday 27 November		
Turkey	0700	Oct Trade Balance (USD bn)	-	-6.9
	0700	Nov Economic Confidence	-	98.2
	1130	FX Reserves (USD bn)	-	82.0
Croatia	1000	Q3 GDP (YoY%)	3.2	3.4
		Friday 28 November		
Poland	0900	CPI Preliminary (MoM%/YoY%)	0.3/2.6	0.1/2.8
Turkey	0700	Nov Unemployment Rate (MoM%)	-	8.6
Czech Rep	0800	Q3 Final GDP (QoQ%/YoY%)	0.7/2.7	0.7/2.7
Hungary	0730	Oct Unemployment Rate	4.5	4.5
Kazakhstan	0700	Nov Interest Rate Decision	18.00	18.00

Source: Refinitiv, ING

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