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THINK Ahead: Beware of economic showers from the west

Europe has been basking in sunshine, literally and metaphorically. But pesky April showers keep moving in from the west, writes James Smith. Bring your umbrella as we forecast next week's market moves

Europe's somewhat sunnier economic outlook is not set to last

THINK Ahead: Europe's cold April shower

Are we all becoming too optimistic about Europe?

Bet you didn't expect to see those eight words printed this year, did you? Neither did I, if I'm honest. We European economists don't know what to do with ourselves; we simply aren't programmed for these levels of unalloyed positivity.

But two things can be true at once. The wave of fiscal activism unleashed by Germany's spending splurge could genuinely lift the continent out of its decade-long malaise. It could also make next to no difference to the growth story in 2025.

Maybe I'm being overdramatic (an economist, dramatic? Never!). However, it was notable how my colleagues made only minimal changes to their 2025 growth forecasts. Put simply, the impending trade war still looks like a much bigger deal for the eurozone economy this spring and summer than any boost to government budgets.

Remember that we're little more than a week off the publication of the Trump administration's varied investigations into unfair trade practices and deficits. And for all the flip-flopping on Canada and Mexico tariffs since inauguration day, we think sweeping and potentially long-lasting tariffs on Europe are just days away. Our trade expert, Inga, explains more in her latest video.

All of this explains why I'm still having a hard time seeing European growth taking off in quite such a meaningful way this spring. Certainly the activity data we've had so far this year hasn't been scintillating.

It seems the ECB agrees. I'm struck by how even some of the more hawkish members of the Governing Council aren't ruling out another rate cut in April.

That's not our base case, but speaking to our ECB guru, Carsten Brzeski, he reckons a hold at the next meeting certainly isn't a done deal, not least if Europe finds itself in the midst of a rapidly escalating tit-for-tat trade war.

As for that massive €500bn infrastructure fund, the question lingering in the back of my mind is how quickly the cash can land in the German economy. Certainly, the political incentives are there to get things moving; Carsten reminds us that there are crucial state elections next year.

But if it's anything like it is here in Britain, finding the proverbial shovel-ready projects can take time. I'm reminded of the infamous car tunnel under London's River Thames, which has cost upwards of £1bn, taken several years, and not a single ton of earth has yet been shifted.

Maybe woeful infrastructure deployment isn't the only cautionary tale Britain has for the rest of Europe. In many ways, the UK is six months ahead. It unveiled big changes to its fiscal rules and a sizeable budget boost last October. The rise in bond yields and Bank of England interest rate expectations will be eerily familiar to anyone tracking eurozone borrowing costs right now.

But those market moves are forcing a partial rethink upon the Treasury. More money on debt interest means less for everything else. Spending cuts are widely expected at next week's Spring Statement and we think further tax rises are inevitable come the next budget in Autumn.

Despite sweeping changes to the European Commission's budget rules, something very similar risks happening elsewhere. Bond yields are higher than they were a month ago and will keep rising, judging by our team's latest forecasts. Higher defence spending could ultimately necessitate cuts elsewhere, just as we're seeing in Britain.

If that happened, then my concern is that the growth impact would be asymmetrically negative. Austerity hits the economy today. Higher defence and infrastructure won't, either because of domestic production constraints (for the former) or potentially long lag times (for the latter). I'm obviously getting ahead of myself a bit here, but it's another reason to be wary about a big upswing in European growth this year.

It's not all bad, of course. Europe's jobs market remains a bright spot. As does consumer spending though, as Bert Colijn says, a lot hinges on an improvement in confidence. Speaking of confidence, next week's Purchasing Managers' Indices will give us an early sense of whether companies are quite as jubilant as their soaring stock market valuations imply.

Europe is bathing in sunshine – literally and metaphorically. But don't be fooled: cool April showers are only just around the corner. Happy weekend!

THINK Ahead in developed markets

United States (James Knightley)

- **Sentiment (Tue):** The US calendar is focused on the consumer, with sentiment and spending numbers set to be released. Consumer confidence has been sliding as households worry about the impact of Department of Government Efficiency spending cuts on jobs and entitlements. Meanwhile, the threat of tariffs is prompting concerns about higher prices that could squeeze spending power and lead to a deterioration in the standard of living. Falling equity markets are adding to consumer fears for the economic outlook.
- **Inflation (Fri):** Fed Chair Powell has downplayed the softer sentiment prints, saying that these "readings have not been a good predictor of consumption growth in recent years". As such "we do not need to be in a hurry [to alter monetary policy], and are well positioned to wait for greater clarity." February personal spending numbers will therefore be closely watched given that January's figure fell 0.2%MoM in nominal terms and -0.5% in volume terms. We expect to see stronger +0.7% and +0.4% prints this time, but consumer spending in general is likely to soften further in the months ahead, which would help leave the door open to a September Federal Reserve interest rate cut.

United Kingdom (James Smith)

- **Inflation (Wed)**: Expect headline CPI to dip fractionally, but generally,y the trend is upwards this year. Energy prices are increasingly no longer a drag on overall inflation, and that's largely why CPI is set to peak close to 4% in the second half of the year. Services inflation should show more progress, though. We expect a slight fall for February and further improvements through the Spring.
- **Spring Statement (Wed)**: Following a rise in debt interest costs, the Chancellor needs to find modest savings to make the fiscal rules add up once more. Despite all the noise, the impact of these changes won't be huge either on the economy or the Bank of England. But it does set up some difficult decisions in the Autumn. We expect further tax rises later this year. Read our full preview

THINK Ahead for Central and Eastern Europe

Poland (Adam Antoniak)

- **Retail sales (Mon):** February data readings from industry and construction were weak. The retail sales report should bring in a positive annual figure, confirming that consumption remains the main engine of economic growth in Poland. Slower annual growth in February as compared with January is linked to a negative calendar effect.
- **Unemployment (Tue):** Unemployment remains low and stable despite a continued decline in employment due to weak supply of workers stemming from demographic trends. The labour market remains tight as the net inflow of migrants is not as big as the first wave of refugees from Ukraine after Russian invasion. We expect the registered unemployment to run close to all-time lows in 2025.

Hungary (Peter Virovacz)

- **Interest rates (Tue):** The new era is about to begin, as the upcoming rate-setting meeting will be the first under the new leadership of Mihály Varga. Although there is a new sheriff in town, we expect the same result as in the last five months. Well, it is the same "town" after all. With the inflation outlook deteriorating, we see no room for anything other than a hawkish hold. Talk of rate hikes will also be premature as the NBH will most likely want to see the longer-term results of the recently introduced price curbs.

Czech Republic (David Havrlant)

- **Interest rates (Wed):** The CNB bank board will likely vote in favour of no change in the base rate as the policymakers are approaching the fine-tuning phase of establishing the appropriate capital cost landing runway. With headline inflation more potent than the CNB expected from the onset of the year, stronger wage growth, and a more buoyant economic outlook, we see reasons for a hawkish stance. Still, there is some space to ease the overall monetary conditions, yet this will be executed cautiously when a new fully-fledged forecast is available.

Key events in developed markets next week

Country	Time (GMT)	Data/event	ING	Prev.
		Monday 24 March		
US	1345	Mar S&P Global Manufacturing PMI Flash	52	52.7
	1345	Mar S&P Global Services PMI Flash	52	51
	1345	Mar S&P Global Composite PMI Flash	52.1	51.6
Germany	0830	Mar HCOB Manufacturing PMI Flash	48	46.5
	0830	Mar HCOB Service PMI Flash	51.5	51.1
	0830	Mar HCOB Composite PMI Flash	51.5	50.4
France	0815	Mar HCOB Composite PMI Flash	-	45.1
UK	0930	Mar S&P Global Composite PMI Flash	50.5	50.5
	0930	Mar S&P Global Manufacturing PMI Flash	47.0	46.9
	0930	Mar S&P Global Services PMI Flash	51.0	51.0
	1800	BoE Bailey Speech	-	-
Eurozone	0900	Mar HCOB Manufacturing PMI Flash	-	47.6
	0900	Mar HCOB Services PMI Flash	-	50.6
	0900	Mar HCOB Composite PMI Flash	-	50.2
		Tuesday 25 March		
US	1300	Jan Case-Shiller 20 (MoM%/YoY%)	0.2	0.5/4.5
	1400	Mar Consumer Confidence	93.0	98.3
	1400	Feb New Home Sales (mn)	0.69	0.657
Germany	0900	Mar Ifo Business Climate	86.5	85.2
	0900	Mar Ifo Current Conditions	85.2	85
	0900	Mar Ifo Expectations	86.4	85.4
Eurozone	1000	ECB Holzmann Speech	-	-
		Wednesday 26 March		
US	1230	Feb Durable Goods (MoM%)	-1.0	3.1
UK	0700	Feb CPI (MoM%/YoY%)	0.5/2.9	-0.1/3
	0700	Feb Core CPI (YoY%)	3.6	3.7
	0700	Feb Core CPI (YoY%)	4.8	5
Spain	0800	Q4 GDP Final (QoQ%/YoY%)	-/-	0.8/3.5
		Thursday 27 March		
US	1230	Q4 GDP Final (QoQ%)	2.4	2.3
	1230	Initial Jobless Claims (000s)	225	223
Spain	0800	Feb Retail Sales (YoY%)	-	2.2
Norway	0900	Interest Rate Decision	4.50	4.50
Eurozone	1830	ECB Schnabel Speech	-	-
		Friday 28 March		
US	1230	Feb Personal Income (MoM%)	0.4	0.9
	1230	Feb Personal Spending (MoM%)	0.7	-0.2
	1230	Feb Core PCE Price Index (MoM%/YoY%)	0.3/2.7	0.3/2.6
	1400	Mar Michigan Sentiment Final	58.0	57.9
Germany	0700	Apr GfK Consumer Sentiment	-24.1	-24.7
	0755	Mar Unemployment Rate	6.2	6.2
France	0745	Mar CPI (MoM%/YoY%)	-/-	0/0.8
UK	0700	Feb Retail Sales (MoM/YoY%)	-0.5/0.5	1.7/1.0
	0700	Feb Retail Sales ex fuel (MoM/YoY%)	-0.5/0.4	2.1/1.2
	0700	Q4 GDP (QoQ%/YoY%)	0.1/1.4	0.1/1.4
Italy	0900	Mar Consumer Confidence	98.1	98.8
Spain	0800	Mar CPI (YoY%)	-	3
Canada	1230	Jan GDP (MoM%)	0.1	0.2
Eurozone	1000	Mar Economic Sentiment	-	96.3

Source: Refinitiv, ING

Key events in EMEA next week

Country	Time (GMT)	Data/event	ING	Prev.
		Monday 24 March		
Poland	0900	Feb Retail Sales (YoY%)	2	4.8
	1300	Feb M3 Money Supply (YoY%)	8.8	9.4
		Tuesday 25 March		
Turkey	0700	Mar Business Confidence	-	102.4
Poland	0900	Feb Unemployment Rate	5.4	5.4
Hungary	1300	Hungary Base Rate	6.50	6.50
		Wednesday 26 March		
Russia	1600	Feb Industrial Output	1.00	2.2
Czech Rep	1330	CNB Repo Rate	3.75	3.75
		Thursday 27 March		
Russia	-	Jan GDP (YoY%)	-	4.5
Turkey	0700	Feb Trade Balance (USD bn)	-8.2	-7.54
	0700	Feb Unemployment Rate	-	8.4
		Friday 28 March		
Hungary	0730	Q4 Current Account Balance (EUR bn)	0.88	0.70
	0730	Feb Unemployment Rate	4.4	4.3

Source: Refinitiv, ING

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