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THINK Ahead: Shouting at the Quiet Price Hikers

James Smith has something to shout about this week as he tackles the biggest economic questions for 2025: is inflation merely lagging the surveys, or should we be far more worried? That, and next week's economic news today, in this week's THINK Quietly. Sorry, THINK Aloud

James Smith is worried about the Quiet Price Hikers this week...

As an economist, it's always a bit of a relief when another profession takes the heat for dodgy predictions. Forgive me for feeling a little bit of schadenfreude after the US pollsters were claiming the presidential election was on a knife-edge.

But I can sympathise. We often face the same issue in economics. People – or companies – often say one thing and end up doing quite another. Pollsters have the 'Quiet Trump voters'; we have the 'Quiet Price Hikers'.

Let me explain. Back in 2022, surveys suggested 60% of eurozone retailers were raising prices.

Now it's less than 20%, similar to pre-Covid averages. It's a very similar picture in the service sector.

The Inflation problem solved? Not exactly. The official numbers show services inflation has been stuck at 4% for a year now. And remember, services are the bit of the inflation basket that central bankers supposedly have the most control over. Likewise, data this week showed that negotiated wage growth hit a new high of 5.4%. It wasn't that long ago that the ECB was citing those figures as critical to the decision-making process.

It's the same story in the US. Surveys have, for some time, suggested firms are becoming more chilled about raising prices. The recent uptick in the monthly core inflation figures says otherwise. As James Knightley explains below, next week's core PCE deflator – the Fed's preferred measure of inflation – looks set to come in hotter than officials would like.

Here in the UK, our Quiet Price Hikers aren't even that quiet. Check out the Bank of England's monthly survey of CFOs. Asked how quickly they expect to hike wages over coming months, the answer has been 4% for some time, a fair bit below what the official figures are telling us. That same survey also asks them for their realised wage growth or what they're actually doing in practice, and the answer is typically much higher.

So here's the dilemma for central banks: Is inflation simply lagging what the surveys are telling us? Or is there something more worrisome going on? This is perhaps one of the biggest economic questions for 2025.

The conundrum isn't exactly new, nor is it straightforward. As is often the case, the answer is probably somewhere in between.

Here in Europe, those stubborn services inflation figures look less troubling when the more volatile stuff like airfares or holidays is taken out. In the US, rents are still doing a lot of the heavy lifting, something the Federal Reserve has signalled it's less bothered about in the past.

Even so, the discrepancy between the surveys and the official data has got central bankers scratching their heads. The Bank of England talks about three inflation scenarios: one where inflation drops naturally, another where firms and consumers clash over incomes, needing higher unemployment to gain full control of inflation, and a worst-case where price and wage behaviours change permanently.

The ECB, it seems, has concluded it sits in the first of those categories. Yes, wage growth has jumped again, but volatility was anticipated and most people expect it to trend down from here. And anyway, mounting growth concerns have become more important for the ECB outlook. As for next week's flash inflation figures, Bert Colijn expects 2.3%. Base effects are pushing inflation up towards year-end before it is expected to move lower again.

Over in Fed Towers in Washington, the jury's out, though maybe the recent uptick in those monthly inflation figures isn't totally unhelpful. US officials have bigger fish to fry right now, after all. President-elect Trump's policy proposals are universally seen as hawkish for the Fed.

James Knightley thinks that means a pause in the Fed's cutting cycle is coming; Chair Powell's recent commentary suggests that too. James expects a cut in December but a slower pace of rate cuts in the new year. And those stickier inflation numbers might just give the Fed the cover it needs to do so without having to discuss the thornier subjects of migration, tariffs and tax cuts.

THINK Ahead in developed markets

United States (James Knightley)

- **Inflation (Wed):** The market remains split 50:50 on whether the Fed will cut interest rates in December or instead pause and re-evaluate the situation at the January FOMC meeting. Next week we get another data point that will impact the Fed's thinking – the core personal consumer expenditure deflator. This favoured measure of inflation incorporates contributions from both the CPI report and the PPI report, and given the data we have had, it points to a 0.3%MoM outcome. We need the MoM rate to average 0.17%MoM over time to bring the annual rate down to 2% so a 0.3% outcome clearly is too hot for the Fed to be completely comfortable with the inflation story. This means that we need to see a soft jobs number on December 6th and subdued core CPI and PPI prints on December 11th and 12th, respectively, for the Fed to deliver a 25bp rate cut on December 18. Certainly possible, but definitely not guaranteed.

Eurozone (Bert Colijn)

- **Inflation (Fri):** Inflation for November will be out on Friday and is set to trend up further, mainly on base effects. Still, with inflation on the rise again and some mild growth surprises, the view on the economy is becoming more nuanced again. At the October press conference, Christine Lagarde gave a pretty downbeat view of the economy, which has since seen some upsides come in. While it is likely that the eurozone economy continues to underperform and while demand-driven inflationary pressures are set to abate further, this could impact the debate on the ECB cutting cycle for December. The European Commission survey on economic sentiment is also out next week and will bring some more detailed insights into how businesses are perceiving the current economic environment and what their pricing and hiring intentions are.

Canada (James Knightley)

- **GDP (Fri):** 3Q GDP will be the focus and a soft 0.9% annualised growth rate is expected by the market after a 2.1% gain in 2Q. We are forecasting a slightly softer 0.8% outcome, and anything weaker than that would increase market expectations that the Bank of Canada could cut interest rates by a further 50bp on December 11. At the moment the market is pricing 30bp of cuts at that meeting.

THINK Ahead for Central and Eastern Europe

Poland (Adam Antoniak)

- **Economic growth (Thu):** Data on GDP composition should confirm that households consumption slowed in 3Q24, fixed investment declined and net exports had negative contribution to economic growth last quarter. We also expect change in inventories had positive impact on GDP. Still, economic growth is still based on one engine i.e. consumption.
- **Inflation (Fri):** Flash CPI should point to lower CPI inflation in November amid a high reference base from November 2023, when fuel prices bounced back after being subdued ahead of elections (promotional prices).
- **Industry (Mon):** Industrial output remains subdued and stronger November reading vs.

October is mainly a result of the calendar effect. With external demand still weak, Polish manufacturing underperforms. Although the level of producers' prices started stabilising and even increased in November, annual deflation is set to continue, given a high reference base from 2023.

- **Labour market (Mon):** Average wage and salary in the enterprise sector eased somewhat from high levels in early 2024, but stays in double-digit territory. Shortages of labour, increases in public sector wages and substantial increases in minimum wage contribute to upward pressure. Employment continues declining slightly and some firms are announcing group redundancies (including businesses linked to the automotive industry) but a limited supply of labour does not allow for strong deterioration in the labour market.
- **Retail sales (Tue):** October data should help to answer a key question whether or not the disappointing September reading was a one-off, potentially linked to flood in the south of Poland, or marked the beginning of deterioration in private consumption. We expect some rebound, but consumption seems to be slowing indeed.

Czech Republic (David Havrlant)

- **Confidence (Mon): C**onsumer and business confidence likely marginally improved in November. Household budgets still benefitted from solid real wage increases, while manufacturing saw a positive inflow of new orders in the previous months and seems to have left the worst behind. The GDP figures are expected to confirm the previous reading, with household spending being the main driver of growth.

Turkey (Muhammet Mercan)

- **GDP (Fri):** Economic activity has lost momentum in the second quarter driven by domestic demand thanks to the tightening by the CBT. The forward indicators for the third quarter, on the other hand, revealed that the mild course of domestic demand continued, while supply daya were consistent with the slowdown in domestic demand. Given this backdrop, we expect 3Q GDP growth at 2.4% vs 3.8% in the first half.

Key events in developed markets next week

Country	Time	Data/event	ING	Prev.
		Monday 25 November		
Germany	0900	Nov Ifo Business Climate	85.5	86.5
	0900	Nov Ifo Current Conditions	85.2	85.7
	0900	Nov Ifo Expectations	86	87.3
UK	0900	BoE Lombardelli Speech	-	-
Eurozone	1630	ECB Lane Speech	-	-
		Tuesday 26 November		
US	1400	Sep Case-Shiller Home Prices (MoM%/YoY%)	0.3/4.9	0.4/5.2
	1500	Nov Consumer Confidence	114	108.7
	1500	Oct New Home Sales (mn)	0.73	0.738
	1900	FOMC Meeting Minutes	-	-
		Wednesday 27 November		
US	1330	Oct Durable Goods	0	-0.7
	1330	Q3 GDP 2nd Estimate	2.8	2.8
	1330	Q3 GDP Deflator Prelim	1.8	1.8
	1330	Q3 Core PCE Prices Prelim	2.2	2.2
	1330	Initial Jobless Claims (000s)	215	213
	1330	Continuing Jobless Claims (000)	1920	1908
	1500	Oct Personal Income (MoM%)	0.3	0.3
	1500	Oct Personal Consumption Real (MoM%)	0.2	0.4
	1500	Oct Consumption, Adjusted (MoM%)	0.4	0.5
	1500	Oct Core PCE Price Index (MoM%)	0.3	0.3
Germany	0930	Dec GfK Consumer Confidence	-19	-18.3
		Thursday 28 November		
US	-	National holiday	-	-
Germany	1300	Nov CPI (MoM%/YoY%)	0.4/2.2	0.4/2
Italy	0900	Nov Consumer Confidence	96	97.4
Spain	0800	Nov CPI (MoM%/YoY%)	-/-	0.6/1.8
Eurozone	1000	Nov Business Climate	-	-0.96
	1000	Nov Economic Sentiment	95.6	95.6
		Friday 29 November		
US	1445	Nov Chicago PMI	44	41.6
Germany	0700	Oct Retail Sales (MoM%/YoY%)	-/-	1.2/3.8
	0855	Nov Unemployment Rate	6.1	6.1
France	0745	Q3 GDP Final (QoQ%/YoY%)	-/-	0.4/1.3
	0745	Nov CPI (MoM%/YoY%)	-/-	0.3/1.2
Italy	1000	Nov CPI (MoM%/YoY%)	-0.3/1.3	0.3/1
Canada	1330	Q3 GDP (QoQ% ann.)	0.8	2.1
	1330	Sep GDP (MoM%)	0.2	0
Sweden	0700	Q3 GDP Final (QoQ%/YoY%)	-0.1/-0.1	-0.1/-0.1
Switzerland	0800	Q3 GDP (QoQ%/YoY%)	-/-	0.7/1.8
Portugal	0930	Nov CPI (MoM%/YoY%)	-/-	0.1/2.3
	1100	Q3 GDP Final (QoQ%/YoY%)	-/-	0.2/1.9
Eurozone	1000	Nov CPI (MoM%/YoY%)	2.2	0.3/2
	1000	Nov Core CPI (YoY%)	2.8	2.7

Source: Refinitiv, ING

Key events in EMEA next week

Country	Time	Data/event	ING	Prev.
		Monday 25 November		
Turkey	0700	Nov Business Confidence	-	100.9
Poland	0900	Oct Employment Growth (YoY%)	-0.5	-0.5
	0900	Oct Industrial Output (YoY%)	3	-0.3
	0900	Oct PPI (YoY%)	-5.5	-6.3
	0900	Oct Wages (YoY%)	10.5	10.3
Czech Rep	0800	Nov Business Confidence	96.2	96
	0800	Nov Consumer Confidence	100.9	100.7
		Tuesday 26 November		
Poland	0900	Oct Retail Sales (YoY%)	2.2	-3
		Wednesday 27 November		
Poland	0900	Oct Unemployment Rate	5	5
Russia	1600	Oct Industrial Output (YoY%)	-	3.2
	1600	Oct Retail Sales (YoY%)	-	6.5
	1600	Oct Unemployment Rate	-	2.4
	1600	Oct GDP (YoY%)	-	2.9
Croatia	1000	Q3 GDP (YoY%)	4.5	3.3
		Thursday 28 November		
Turkey	0700	Oct Trade Balance	-5.7	-5.13
	1100	MPC Meeting Summary	-	-
Poland	0900	Q3 GDP Final (QoQ%/YoY%)	-/-	-0.2/2.7
		Friday 29 November		
Turkey	0700	Q3 GDP (QoQ%/YoY%)	-/2.4	0.1/2.5
Poland	0900	Nov CPI (MoM%/YoY%)	0.3/4.6	0.3/5
Czech Rep	0800	Q3 GDP Final (QoQ%/YoY%)	-/-	0.3/1.3
Hungary	0730	Oct Unemployment Rate	4.6	4.6
Kazakhstan	0900	Interest Rate Decision	-	14.25
Croatia	1000	Nov CPI (MoM%/YoY%)	0.0/2.4	1.1/2.2

Source: Refinitiv, ING

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