THINK Ahead: Imagine what could go wrong...

Imagine no recession, no Fed cuts pre-July, no baseline tariff exemptions; it's easy if you try.

With apologies to John Lennon, these are actually our baseline predictions. But what could go wrong?

James Smith can think of a few things. Here's how he imagines next week to pan out

The Strawberry Fields memorial to John Lennon in Central Park

What could go wrong?

Folks, let me tell you, it's huge. A biggly, very beautiful thing, announced just this Thursday. Some great people from great nations involved. Tremendous numbers, some say the best numbers we've ever seen; it's incredible.

I'm referring, of course, to the latest ING Monthly, hot off the press this week, containing all our new forecasts. Here are the headlines:

No US or eurozone recession, though both are headed for stagnation. Baseline 10% tariffs to stay in place as long as President Trump is in office. No Fed rate cuts before July, by which time we'll have had two more from the ECB. And US 10-year yields set to go below 4% this quarter, though maybe not for long.

What could possibly go wrong? You haven't got all day, so here are a few things that spring to mind...

First, tariffs, obviously. Markets welcomed the UK-US deal this week, presumably because it increases the chances of a wider de-escalation.

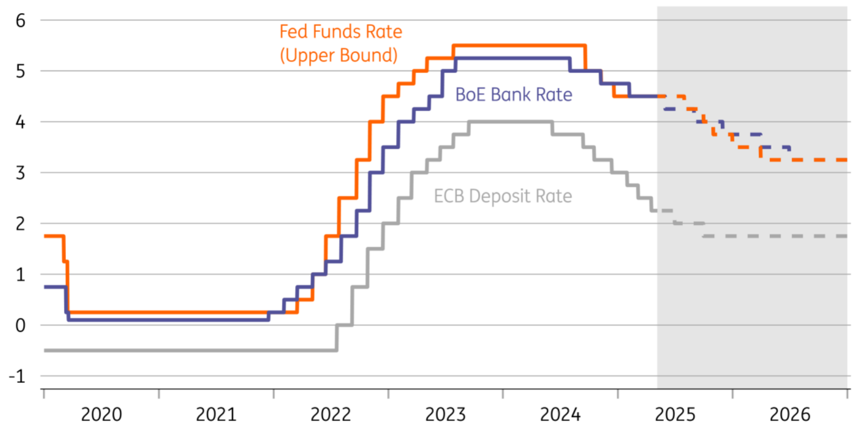
We're not so sure. The fact that the UK failed to negotiate the 10% baseline tariff says a lot. And other countries could struggle to gain similar exemptions on metals and cars. A British deal was low-hanging fruit, given the US has a trade surplus in goods (shhh, nobody mention that the UK stats say the opposite...).

Even if lots of other countries do gain these exemptions, and the Trump administration has hinted some might, it doesn't really change the big picture. I estimate that the US is now charging an average tariff of 23% across everything it imports – and the gigantic tariffs on China make up more than 15 percentage points of that.

That's why the talks between the US and China in Geneva this weekend matter so much. Reducing those China tariffs from 145% to 60% sounds like a possible first step at some point.

Time will tell, and maybe it's too late, anyway. The tariff hit is already here, judging by the sharp drop in trade volumes at the major US ports.

Chart of the week: Our latest central bank views



Source: ING Forecasts, Macrobond

That brings me to household spending. The omens aren't good. Confidence is down. But as James Knightley says in his monthly article, you write off the US consumer at your peril. And as he says below, next week's retail sales numbers should actually be OK.

You'd have to say that shouldn't last, and despite what I said earlier, we certainly don't rule out recession this year. But could we be pleasantly surprised? James points to the recovery in stock markets, which should support spending by the top 20% of earners. And remember it's them that propelled growth these past couple of years, even as lower-income groups struggled. Tax cuts, if much broader than we're expecting, would help too.

Then there's inflation. Our base case has US headline CPI above 4% later this year, but it's not all bad. Rents – a key driver of inflation for some time – should ease off, given the rates on new tenancies are actually falling. Reduced appetite for US tourism, were it to continue, could be an interesting source of downside too.

Then again, could inflation go above 5%? It's certainly possible if the supply chain damage is particularly severe. Covid taught us that. And this is an interesting one for Europe, too.

Conventional wisdom suggests US tariffs are disinflationary on this side of the Atlantic if we start to see goods previously destined for the American market get dumped on Europe. But supply chain damage might not be limited to the US, and if it's not, that could be an upside risk for European inflation. This was one of the reasons the Bank of England chose this week not to endorse market expectations of faster rate cuts.

Another factor was the UK jobs market, which has held up remarkably well in the face of big employer tax hikes. Redundancies haven't risen, and I'd expect next week's numbers to be fine, too. But a spike in unemployment is perhaps the biggest macro risk this year, not just for the UK but arguably for the rest of Europe, too. Surveys show that staff shortages are still a widespread issue in the continent's service sector. Will a gloomier growth outlook start to change that?

Lots of ways things could go wrong, anyway. And I know what you're thinking: no Taylor Swift concerts for us economists to blame this year.

Au contraire! Only four weeks until Beyoncé touches down in London...

THINK Ahead in developed markets

United States (James Knightley)

- **Inflation (Tue):** The Federal Reserve has made it clear that they are in no hurry to cut interest rates, acknowledging that trade uncertainty risks both higher unemployment and higher inflation. Next week's April inflation numbers are likely to show elevated inflation pressures persist with some evidence of pre-emptive price hikes as the influence of tariffs starts to show. We see June as the point where price hikes becomes more apparent given the lag between implementation, shipping the product, arriving in a warehouse before appearing in stores and online.
- **Retail sales (Thu):** We will also be closely watching what is happening to retail sales. March was a strong month as consumers brought forward purchases of big-ticket items that were thought could face big price hikes due to tariffs. Some of that will continue into April, particularly for auto sales, but the steep declines in sentiment as households worry about inflation, the state of the jobs markets, government spending cuts and a decline in household wealth suggest there could be weakness in other discretionary spending. University of Michigan sentiment and industrial production are also due to release.

United Kingdom (James Smith)

- **Jobs report (Tue):** The message is likely to be that the jobs market is continuing to cool, but not materially weaken following recent tax hikes. Last month saw a steep drop in payroll-based employment numbers, but that's likely to be revised up this month. Unemployment is set to rise, but the figures are subject to well-known reliability issues. Crucially for the Bank of England, wage growth should slow, which is mainly due to base effects. We'd

expect pay pressures to ease as the year wears on.
- **1Q GDP (Thu):** February's monthly GDP surged by 0.5% and even if we see a pullback in March, it means the first quarter as a whole should see very decent growth. Much of this looks like noise, driven in part by volatile manufacturing numbers. The second quarter will see a more muted figure, but in general growth should look ok this year, supported by government spending.

THINK Ahead in Central and Eastern Europe

Poland (Adam Antoniak)

- **Current account (Wed):** The current account continues to slip into negative territory, but external imbalances remain negligible. We forecast that in March, the 12-month cumulative current balance deteriorated to -0.3% of GDP from -0.1% in February, despite a projected €130mn surplus in March alone. The main driver is the deteriorating trade balance in goods, as import growth outpaces exports. Domestic demand remains solid, while external conditions continue to underperform, despite some recent signs of improvement.
- **1Q GDP (Thu):** The flash estimate should bring slightly lower annual growth (3.0% YoY) than reported in 4Q25 (3.4%). In seasonally-adjusted quarterly terms growth was probably close to zero. The composition will only be published at the end of the month, but we suspect fixed investment growth was still low, given EU recovery-funded projects are kicking in slowly. The StatOffice also sharply revised 2024 fixed investment from slightly positive to negative.
- **Inflation (Thu/Fri):** Detailed CPI data should be close to the flash estimate of 4.2% YoY, confirming that inflationary pressure is easing. Additional information should allow as to make even more precise estimate of core inflation that the NBP will unveil on Friday, but as of now we see it declining to 3.4% YoY from 3.6% YoY in March.

Romania (Valentin Tataru)

- **Interest rates (Wed):** We expect the National Bank of Romania to keep the key policy rate unchanged at 6.50% at its 16 May meeting, citing some known risks regarding the blurry outlook to economic activity, unpredictable commodities prices, regional and global central bank stances, but probably emphasizing more this time the uncertainties regarding the future fiscal stance and the electoral context.
- **Inflation (Tue):** An uptick in April inflation, which we expect to increase to 5.2% from 4.9% the month before, will help cement a no-change decision. The recent evolutions on the FX market, where the EUR/RON surpassed 5.10 will likely raise concerns regarding the inflation passthrough, hence we see chances for a relatively hawkish press release following the decision.

Czech Republic (David Havrlant)

- **Unemployment (Mon):** The unemployment rate likely softened in April, now that the tourism season is underway and the current boom in the construction sector is in full swing. Meanwhile, the industrial base remains cautious about employment, given global uncertainty.
- **Inflation (Tue):** The preliminary Inflation reading for April is set to be confirmed by the more detailed release, with food prices acting as a decisive drag on consumer prices. With price dynamics in services and goods headed in opposite directions, we will see that the upbeat

services price dynamic has bolstered core inflation.

- **Trade (Wed):** The current account surplus in March was likely less buoyant than the previous month, as demand from the main European trading partners remains under pressure. Such an environment continues to drive tepid pricing in manufacturing and cut-throat competition, with declining energy prices and a stronger Koruna contributing to a steeper decline in April's producer prices.

Key events in developed markets next week

Country	Time (BST)	Data/event	ING	Prev.
		Monday 12 May		
UK	-	BoE Lombardelli, Greene, Mann, Taylor Speeches	-	-
		Tuesday 13 May		
US	1100	Apr NFIB Small Business Optimism	93.0	97.4
	1330	Apr Core CPI (MoM%/YoY%)	0.3/2.9	0.1/2.8
	1330	Apr CPI (MoM%/YoY%)	0.3/2.4	-0.1/2.4
Germany	1000	May ZEW Economic Sentiment	-12	-14
UK	0700	Mar Unemployment Rate	4.5	4.4
	0700	Mar Employment Change (3M/3M, '000s)	120	206
	0700	Mar Avg. Weekly Earnings (3M/YoY%)	5.2	5.6
	0700	Mar Avg. Weekly Earnings ex. bonus (3M/YoY%)	5.6	5.9
	-	BoE Pill, Bailey Speeches	-	-
Netherlands	0530	Apr CPI Final (YoY%)	-	3.7
Eurozone	1000	May ZEW Economic Sentiment	-	-18.5
		Wednesday 14 May		
Germany	0700	Apr CPI Final (MoM%/YoY%)	0.4/2.1	0.4/2.1
Spain	0800	Apr CPI Final (MoM%/YoY%)	-/-	0.6/2.2
Sweden	0700	Apr CPIF Final (MoM%/YoY%)	-0.5/2.3	-0.5/2.3
Eurozone	1500	ECB Holzmann Speech	-	-
		Thursday 15 May		
US	1330	Initial Jobless Claims (000s)	230	228
	1330	Apr Retail Sales (MoM%)	0.3	1.5
	1330	Apr Retail Sales "Control Group" (MoM%)	0.0	0.4
	1330	Apr PPI (MoM%)	0.2	-0.4
	1340	Fed Powell Speech	-	-
	1415	Apr Industrial Production (MoM%)	0.2	-0.3
France	0745	Apr CPI Final (MoM%/YoY%)	-/-	0.5/0.8
UK	0700	Mar GDP (MoM%)	-0.1	0.5
	0700	Q1 GDP (QoQ%/YoY%)	0.6/1.1	0.1/1.5
Norway	0700	Q1 GDP (QoQ%/YoY%)	-/-	-0.6/-0.3
Eurozone	1000	Q1 GDP 2nd Estimate (QoQ%/YoY%)	-/-	0.4/1.2
	1000	Mar Industrial Production (MoM%/YoY%)	-/-	1.1/1.2
		Friday 16 May		
US	1330	Apr Building Permits (mn)	1.45	1.47
	1330	Apr Housing Starts (mn)	1.35	1.32
	1500	May Michigan Sentiment Flash	54	52.2
	1500	May Michigan Conditions Flash	59.6	59.8
	1500	May Michigan Expectations Flash	50.5	47.3
Eurozone	1000	Mar Trade Balance (EUR bn)	-	21

Source: Refinitiv, ING

Key events in EMEA next week

Country	Time (BST)	Data/event	ING	Prev.
		Monday 12 May		
Czech Rep	0900	Apr Unemployment Rate	4.1	4.3
Hungary	0830	Apr Budget Balance (HUF bn)	-500	-831.3
Ukraine	1300	Apr CPI (MoM%/YoY%)	-/-	1.5/14.6
Serbia	1100	Apr CPI (MoM%/YoY%)	0.6/4.2	0.1/4.4
		Tuesday 13 May		
Turkey	0800	Mar Current Account Balance	-4.2	-4.4
Czech Rep	0800	Apr CPI (MoM%/YoY%)	-0.1/1.8	-0.1/1.8
Romania	0700	Apr CPI (YoY%)	5.2	4.9
		Wednesday 14 May		
Poland	1300	Mar Current Account Balance (EUR mn)	130	-220
Czech Rep	0900	Mar Current Account Balance (CZK bn)	29.6	43.79
Romania	1300	Interest Rate Decision	6.50	6.50
		Thursday 15 May		
Turkey	0900	Apr Budget Balance	-	-261.5
Poland	0900	Apr CPI Final (MoM%/YoY%)	0.4/4.2	0.4/4.2
	0900	Q1 GDP (QoQ%/YoY%)	0.0/3.0	1.3/3.2
Romania	0700	Q1 GDP Flash (QoQ%/YoY%)	0.0/0.8	0.6/0.5
Kazakhstan	-	Q1 GDP (YoY%)	5.8	4.8
		Friday 16 May		
Russia	1700	Apr CPI (MoM%/YoY%)	0.5/10.3	0.7/10.3
Poland	1300	Apr Core CPI (YoY%)	3.4	3.6
Czech Rep	0900	Apr PPI (MoM%/YoY%)	-0.4/-1.0	-0.1/-0.3
Croatia	1000	Apr CPI (YoY%)	3.1	3.2

Source: Refinitiv, ING

Author

James Smith
Developed Markets Economist, UK
james.smith@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com