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Three scenarios for the global economy and energy prices as winter beckons

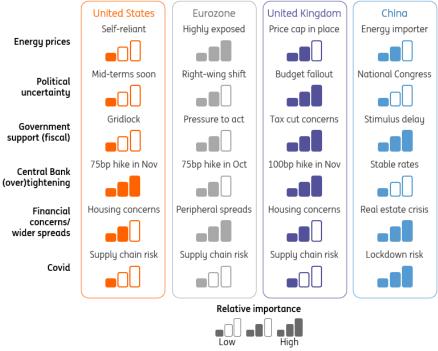
It's no secret that the global economic outlook hinges on energy prices this winter, but every country faces a unique cocktail of challenges ranging from central bank tightening to Covid-19. Our team have built three new scenarios for each of the major economies we cover



Three scenarios for the global economy and energy prices

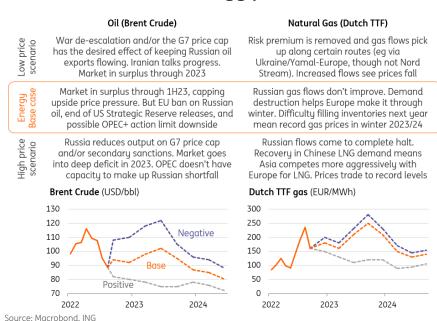
With the global economy in the grips of various crises and uncertainties, it once again makes sense to view the outlook through scenarios. But unlike during Covid – where most countries were up against a common set of challenges – each economy is facing a unique cocktail of several key issues. A one-size-fits-all approach to scenario planning no longer makes sense. This article outlines three scenarios for each of the major economies we cover, and delves into what they imply for growth, inflation and central bank policy.

Every economy is facing a different cocktail of challenges

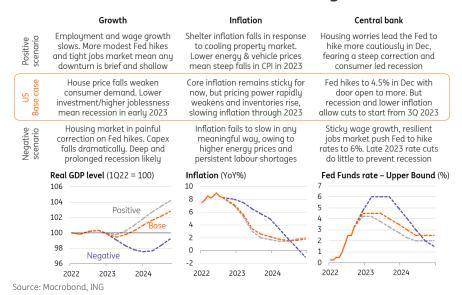


Source: ING

Three scenarios for energy prices



Three scenarios for the US economy



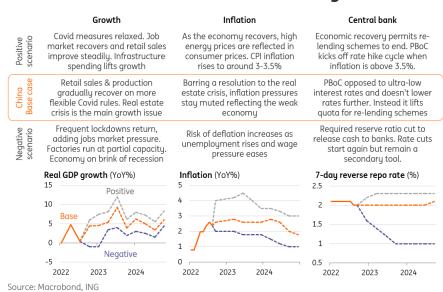
Three scenarios for the eurozone economy

	Growth	Inflation	Central bank
Positive scenario	Fiscal stimulus more than sufficient. Uncertainty and energy costs fall, aiding growth	Falls more quickly as negative energy base effects kick in earlier. At 2% target by end of 2023	ECB hikes deposit rate to 3% by Spring 2023 but cuts it in 2024 by a total of 75bp
Eurozone Base case	Europe avoids energy rationing, but fiscal stimulus only partly offsets impact of high prices. Economic downturn begins	Inflation averages 12% in 4Q. Stays above the ECB's target until mid-2024	ECB adds 150bp of extra tightening over three meetings. 75bp rate hike in late-October
Negative scenario	War escalation, gas rationing and Covid delays in Asia lead to deep recession. Financial instability adds to challenge	Inflation in double-digits through much of 2023, on higher energy prices and fresh Covid-related disruptions	ECB hikes by 75bp in Oct but cuts rates by 25bp in Feb. New euro crisis forces ECB to intervene to contain spreads
	Real GDP level (1Q22 = 100) 104	Inflation (YoY%) 14	ECB Main Refi Rate (%)
	Positive Positive	12 10	3
	100 Base	8 6	2
	98 Negative	2	1 1
	2022 2023 2024	2022 2023 2024	2022 2023 2024
Source: N	Macrobond, ING	2022 2023 2021	2022 2023 2024

Three scenarios for the UK economy

	Growth	Inflation	Central bank
Positive scenario	Energy price cap quickly restores confidence. Spending rebounds in 2023 on tight jobs market, better real wage story	Falls slightly faster but tight jobs market keeps core inflation above target in 2024	Divided BoE opts for 50bp hike in Nov. Rates peak at 3%. Heathier growth environment means rates stay higher in 2024
UK Base case	Energy prices still high despite cap, and rising mortgage costs draw spending away from essentials. Mild recession arrives	Inflation falls through all scenarios in 2023 due to energy cap. But weaker sterling, wage pressure keeps inflation stickier	Hikes by 100bp in Nov, but committee divided and cautious language suggest this is a one- off. Bank Rate peaks just sub-4%
Negative scenario	Corporate borrowing strain pushes up unemployment materially. That plus a housing crash mean deep recession	Inflation still falls noticeably despite higher oil prices. 2024 core CPI below target as wage pressure & pricing power fade	BoE mirrors market pricing, hikes by 200bp by year-end. Bank Rate hits 5% in 1Q but is slashed again from the summer
	Positive 102 100 Base 98 Negative 96 2022 2023 2024	Inflation (YoY%) 14 12 10 8 6 4 2 2022 2023 2024	Bank Rate (%) 6 5 4 3 2 2022 2023 2024

Three scenarios for China's economy



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