

## Today's inflation and GDP data deluge

We've seen a flood of GDP and inflation data releases coming in hot across the eurozone and the US today. Here's a roundup of our latest commentary on what they've revealed about the current state of various economies across the globe – and where they might be headed next

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# German inflation accelerates and that should hush the 50bp rate cut debate

With today's macro data, not just from Germany, the hawks at the European Central Bank will feel encouraged to object to a 50bp rate cut in December, at least for now



Shoppers in Düsseldorf

The just-released flash estimate of German inflation in October could make some members of the European Central Bank regret the latest rate cut and the ECB's new openness to more aggressive cuts. German headline inflation came in at 2.0% year-on-year, strongly up from 1.6% YoY in September. The European inflation measure came in at 2.4% YoY from 1.8% in September. The monthly increase by 0.4% shows that inflationary pressure in Germany is still very much alive and kicking.

## Inflation to remain sticky

Today's rebound in German inflation is not only the result of less favourable energy base effects but also of still increasing goods and food prices. Judging from available regional state data, services inflation - singled out by the ECB as being important for its decision-making - reaccelerated in October and is again close to 4% YoY.

Looking ahead, the stickiness of inflation at slightly too high a level still looks set to continue as favourable energy base effects will continue petering out while, at the same time, wages are increasing. Volkswagen's current woes could signal a turnaround for broader wage developments, with unions shifting from high wage demands to job security. On a more worrying note, leading indicators, such as selling-price expectations, have started to pick up again and have moved to their highest levels in more than a year.

As a result, we continue to expect inflation to accelerate further in the final two months of the year before hovering within the broader range of between 2% and 3% in 2025.

## A good day for ECB hawks

With [eurozone GDP growth](#) in the third quarter being higher than the ECB's September projections (0.4% QoQ vs. 0.2% QoQ) and now inflation in Germany surging again, some ECB members might start doubting both the October rate cut decision and the opening to even larger rate cuts. In fact, today's data makes the October rate cut decision even more data-point-driven and not data-dependency driven. The more hawkish ECB members are now also likely to start doubting the need for accelerated and more aggressive monetary policy easing, as was suggested by more dovish ECB members last week.

Looking ahead, a lot can still happen between now and the ECB's next meeting in December. The outcome of the US elections will matter for the eurozone economy and the ECB, but also the ordinary flow of macro data will provide more guidance on two essential questions for the ECB:

1. Were the disinflationary trends just halted, or are they for real? and
2. Will the ECB acknowledge structural weakness in the eurozone economy or continue believing in a return to potential growth from early 2025 onwards?

Also, interestingly, there is currently very little talk at the ECB about factors structurally pushing up inflation. What happened to 'greenflation' or the arguments made in the past that demographics and changes to globalisation would also potentially push up price pressures? What happened to the old central bankers' narrative that monetary policy cannot solve structural problems in an economy? Is the ECB really back in the 2010s, or was the panic we saw last week simply short-lived?

In any case, having been slow to address rising inflation and arguably late in stopping rate hikes last year, the ECB now appears determined to get ahead of the curve and return interest rates to neutral as quickly as possible. For the doves, this is a no-brainer, and for the hawks, the argument might be that getting rates back to neutral quickly could be enough to avoid another episode of unconventional monetary policy with quantitative easing and negative interest rates further down the line. Today's macro data releases in the eurozone, however, should encourage the ECB hawks to object to a 50bp rate cut in December. At least for now.

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## German economy surprises in the third quarter

The German economy avoided a technical recession in the third quarter, showing unexpected growth. However, this does not change the fact that the economy remains stuck in stagnation



A recession has been avoided. Has all the drama just been exaggerated? After a stream of negative economic news, the German economy just posted a positive surprise.

According to the just-released flash estimate, the German economy grew by 0.2 % quarter-on-quarter in the third quarter, from an initial -0.1% QoQ in the second. On the year, the economy shrank by 0.2%. This positive surprise is somewhat dampened by the downward revision of the second quarter's contraction to -0.3% QoQ, from the initially reported -0.1% QoQ.

As a result, although a technical recession was avoided, the German economy remains barely larger than it was at the start of the pandemic. According to the statistical agency, the unexpected growth was driven by both private and public consumption.

### Germany remains a magnet for negative macro news

If at first glance today's data brings some relief, the German economy currently remains a magnet for negative macro news. Since the start of the pandemic, quarterly growth has stagnated on

average. And at the risk of sounding like a broken record, the current state of the German economy is the result of both cyclical and structural headwinds.

The pandemic and the war in Ukraine have accelerated the structural weakness but are not the original reasons for the current situation. In a world in which, at least in manufacturing, China has become the "new Germany", Germany's old macro business model of cheap energy and easily accessible large export markets is no longer working.

## One, two, three years of stagnation

Looking ahead, there is very little reason to expect any imminent relief. In fact, the increasing number of insolvencies and individual company announcements of upcoming job restructurings are still hanging like the Sword of Damocles over what has been one of the few strongholds of the economy in recent years: the labour market. The case of Volkswagen suggests that the labour market could be turning swiftly and wage growth could decline. Job security instead of wage increases could soon be the new mantra in the German labour market. This morning's labour market data showed the weakest October performance of the labour market since the late 1990s.

On a more positive note, last week's rebound in the PMIs and the Ifo index suggests that the German economy can at least avoid a severe recession and is rather likely to move horizontally over the coming months. The main risks are possible US tariffs on European goods and a self-reinforcing negative loop on the back of more disappointing corporate news and few new policy answers from the German government.

Speaking of the German government, the awareness that the economic weakness is more than a cyclical dip has finally arrived. The step towards formulating policy answers, however, has not yet been made, at least not in a unified and coherent manner. Yesterday, for example, there were two different meetings with both Chancellor Olaf Scholz and Finance Minister Christian Lindner. Unfortunately, no clear results emerged from these discussions. It looks a little bit like "everything, everywhere, all separately". Today's positive surprise shouldn't blind German policymakers. As long as there is no clear policy guidance, an end to the stagnation looks unlikely.

All in all, today's GDP data brings welcome relief to the battered German soul. However, it doesn't take away the fact that the economy remains stuck in stagnation. At least it is not falling into a severe recession. It's the small things that matter these days.

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## US consumers keep their feet on the gas

GDP growth came in at a robust 2.8% annualised rate, led by another big increase in consumer spending, strong business investment and firm government defence spending. A soft landing remains our view with growth set to slow to around 1.5% for full year 2025 as a cooling jobs market takes some of the steam out of the economy



The University of Michigan consumer sentiment survey could have some impact on FX today, especially when it comes to inflation expectations.

**2.8%** 3Q annualised GDP growth

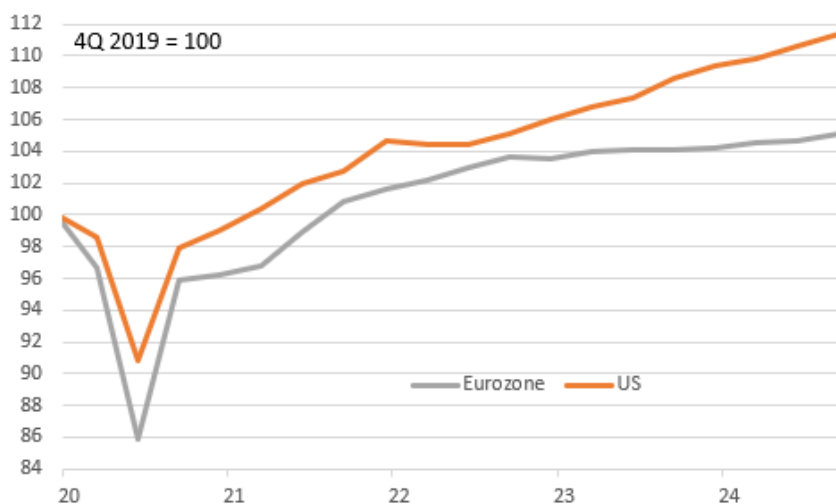
Strong consumer spending leads to another strong GDP print

The US economy grew at a 2.8% annualised rate in the third quarter, a touch below the 2.9% consensus and the 3% rate recorded in the second quarter, but still a very strong outcome. Consumer spending was very robust, as expected based on monthly retail sales data, growing

3.7% and within that spending on goods grew 6%. Non-residential fixed investment was firm, rising 3.3%, led by an 11.1% increase in equipment investment, but residential investment fell 5.1% as high mortgage rates and a general lack of affordability weighed on the sector.

Rounding out the numbers, government spending grew 5%, led by a 14.9% jump in national defence spending while net trade subtracted 0.56pp from headline growth (importers front running feared port strike action) while inventories subtracted 0.17pp. Overall, it is a strong set of growth numbers that compares very favourable with other major economies. We had eurozone GDP earlier today (0.4% quarter-on-quarter versus 0.2% consensus prediction – so roughly 1.6% annualised to be comparable to the US figure). Below is a chart of the levels of economic activity for the two economies since the start of the pandemic. The US economy is 11.4% larger than its pre-pandemic peak, while the eurozone economy is only 5.1% larger.

## US versus Eurozone GDP volumes versus 4Q 2019



Source: Macrobond, ING

## A soft landing narrative allows the Fed to cut rates further

We are currently forecasting GDP growth of 2.2% in the fourth quarter as the strong momentum in consumer spending continues to propel the US economy along nicely. However, a cooling jobs market will become more of a headwind with weaker business surveys suggesting a moderation in growth to around 1.5% for 2025 as a whole.

The inflation side of things was slightly worse than expected though. The core PCE deflator rose at a 2.2% annualised rate versus 2.1% that was expected (OK it was 2.16% to 2 decimal places so not a huge miss). This implies a month-on-month change in the monthly series tomorrow of 0.355% if there are no revisions to July or August's data. I suspect there will be and therefore it will round to 0.3% MoM tomorrow, in line with consensus. That is still running hot – we ideally need to see the MoM rate tracking at 0.17% MoM to deliver 2% year-on-year inflation over time. Nonetheless, this will still leave us looking for a 25bp rate cut from the Federal Reserve next week with a further 25bp likely in December as the Fed moves policy closer to neutral as it seeks to achieve the soft landing.

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## Eurozone GDP surprised to the upside in the third quarter

Economic growth accelerated in the eurozone from 0.2% to 0.4%, in part driven by one-offs. Underlying growth remains sluggish, but there are no signs of the deterioration that the European Central Bank has been concerned about either. For the quarters ahead though, we think it's fair to expect a slowdown in growth again as the outlook remains weak



Things might be looking slightly brighter for the eurozone, but we don't quite see today's data as the kick-off to a vibrant recovery for the region

PMIs have been indicating doom and gloom about the eurozone economy since May, but third-quarter GDP data has come in surprisingly strong. The acceleration from 0.2% to 0.4% growth quarter-on-quarter indicates that worries about an imminent recession are overdrawn. Still, don't overestimate the strength of the eurozone economy on the basis of this better-than-expected growth reading either.

First of all, notoriously volatile Irish GDP growth (significantly influenced by multinational accounting activity) contributed positively to today's reading; without Ireland, eurozone GDP would have grown 0.3%. Besides that, the French GDP growth figure of 0.4% is likely to have been boosted by the Olympics this summer. So looking through the one-offs, the eurozone economy is showing modest growth at the moment.

Still, Germany also performed better than expected and avoided recession by posting a 0.2% growth print. And Spain continued with its fast growth at 0.8%, in part boosted by the EU recovery fund investments. Italy remains a negative outlier as it experienced 0% growth, decelerating from 0.2% in the second quarter.

For the ECB, this provides a bit of a reality check on economic activity. The central bank had shown significant concerns around growth developments, indicating that all indicators were heading in the same downward direction. Clearly, even though one offs played a role, today's data should calm the ECB about growth developments. At the IMF meeting last week, discussions about a 25bp or 50bp cut from the ECB had opened up, but today's GDP data provides a hawkish argument to the debate ahead of the December meeting.

The question remains as to whether or not today's GDP data is not a dead cat bounce. We remain cautious about the outlook for the months ahead as the consumer continues to save, making a consumption recovery on the back of stronger real wage growth relatively muted. Investment will see some boost from lower rates, but the impact is set to be limited given the low capacity utilisation in industry and that the export environment is sluggish. So, don't see this as the kick-off to a vibrant recovery – the eurozone economy remains sluggish for the moment, and GDP growth in the fourth quarter is likely to come in lower than the surprisingly strong third quarter reading.

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# Italian GDP data disappoints as resilience begins to fade

The lack of a detailed demand breakdown means that an obvious explanation for Italy's flat GDP release isn't quite clear. We suspect it was a combination of factors involving investments, but possibly also consumption and inventories



Weaker-than-expected domestic demand components may be to blame for today's disappointing data in Italy

The preliminary estimate of Italian GDP for the third quarter (released by Istat) is a disappointing one. GDP was flat on the quarter (from 0.2% in the second) and up 0.4% (from 0.9% on the year) against a consensus of a 0.2% quarterly growth. The succinct press release by Istat adds that the flat quarter was the result of a positive contribution of domestic demand (gross of inventories) and of a negative contribution of net exports. From the supply side, there was an expansion of value added in services, a contraction in agriculture and a marked contraction in industry.

Given the lack of a detailed demand breakdown, it is hard to properly rationalise the negative surprise. We suspect that it was the result of a combination of factors affecting consumption, investment and inventories. On the consumption front, fundamentals had been positive over the quarter, as the combination of still-growing employment, decent wage dynamics and decelerating inflation had been improving households' purchasing power. Admittedly, confidence surveys had

been signalling some prudence in consumption intentions for durables, confirmed by poor car registration data – but consumers remained relatively unconcerned about future unemployment. We cannot rule out that consumer prudence has extended to the domestic component of tourism expenditure.

A more likely culprit might be weaker-than-expected investments, where until the second quarter we had noted a surprising resilience in the dwellings component, irrespective of the expiration of the superbonus incentive. We had anticipated that such resilience would fade away in the third quarter, but the process might have been even sharper than we expected. It may also have been combined with weakness in other components such as machinery, given the declining capacity utilisation and the delay in the introduction of a tax incentive. The drag from the investment component might therefore have been more marked than we had anticipated.

Last but not least, the inventory component is hard to pinpoint given its partly residual nature. The relevant subcomponents of manufacturing business surveys had not been signalling a sharp decline, however.

All in all, today's preliminary estimate is clearly disappointing and leaves a statistical carry over for full-year GDP growth of only 0.4%. Even a rebound in the fourth quarter, which we are still pencilling in, would likely leave average Italian GDP growth for 2024 in the 0.5-0.6% area, well below the 1% forecast recently reiterated by the Italian government in its medium-term structural plan submitted to the EU commission under the new fiscal governance.

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## The Austrian economy is on thin ice

The Austrian economy grew by 0.3% quarter-on-quarter in the third quarter of 2024, after stagnating in the second quarter. Given the ongoing economic weakness, however, the Austrian economy is on thin ice as it heads towards its second consecutive year of recession



Ice skating in front of Vienna City Hall

### A rebound from low levels is not yet a turning point

According to the first flash estimates from the Austrian Institute of Economic Research, the economy grew by 0.3% quarter-on-quarter in the third quarter of 2024, from an upwardly revised 0.0% QoQ in the second quarter of the year.

Judging by the preliminary estimate and the available hard data for the first two months of the quarter, weakness in industry and the construction sector continued to be a drag on the economy in the third quarter, while a slight recovery in private consumption had a positive effect. After contracting by 0.6% QoQ in the second quarter, private consumption rose by 0.5% QoQ in the third quarter. However, this is only a recovery from low levels and does not yet mark a clear turning point.

## Don't expect a swift recovery

Looking ahead, there is little to suggest an imminent trend reversal for the Austrian economy. With the US economy gradually losing steam and the eurozone's economic recovery slowing, both Austrian industry and trade are likely to remain under pressure. This is also reflected in survey-based leading indicators. The European Commission's most recent industry survey revealed that order books are still thinning out, while inventories remain at high levels.

However, sentiment has not only been muted in industry lately, but also among consumers. Political uncertainty at home, resulting from the ongoing process of forming a new government, geopolitical risks and the fear of a weakening labour market do not provide a fertile breeding ground for major spending.

As a result, Austrians' propensity to save has stood at its highest level since the Financial Crisis in September. At the same time, willingness to spend remains at levels that are significantly below the long-term average. However, strong wage growth of almost 8% year-on-year in 2023 and a further increase of 8% YoY in the first nine months of 2024 suggest at least a certain improvement in consumers' spending mood, especially as inflation has continued to slow further. The sharp rise in nominal wages is therefore increasingly translating into real wage growth, thereby gradually restoring consumers' purchasing power.

## Stagnation-like growth

The start of the skiing season might provide a further tailwind to the Austrian economy in the fourth quarter, although this does not mean that cyclical weaknesses will disappear overnight. Over the longer term, however, structural challenges such as demographic changes, the green transition of the economy and changing trade patterns will continue to weigh on economic growth.

Targeted investments and reforms are needed to break out of this extraordinary economic cycle, in which stagnation-like growth and not an upswing follow on the heels of a downturn.

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# Spain continues to be one of the growth engines of the eurozone

Spain continues to be a strong performer in terms of GDP growth within the euro area, according to the latest GDP report. Spanish GDP grew by 0.8% quarter-on-quarter in the third quarter of 2024. Meanwhile, inflation slightly increased to 1.8% in October



Thousands of tourists descend on Sardinero beach in Santander in August. Spanish tourism continues to soar

## Third-quarter GDP growth remains strong

The Spanish economy grew by 0.8% quarter-on-quarter (QoQ) in the third quarter of 2024, according to preliminary data from the National Institute of Statistics INE, in line with the QoQ growth in the second quarter of 2023. We had already seen signs that growth would remain strong as several soft indicators, such as the Purchasing Manager Indices, improved last quarter, but this growth still exceeded market expectations by 0.2 percentage points QoQ, resulting in 3.4% YoY growth.

With this new data, Spain continues to be one of the growth engines of the eurozone. Heavily reliant on tourism, Spain was hit hard by the Covid-19 crisis, but since then has been on a faster growth trajectory than its 2013-19 average. Tourism has rebounded and continues to hit record levels. In August, Spain received 7.3% more international tourists than in the same month in 2023.

Government consumption has benefited from the funds allocated under the Next Generation EU programme, while a strong labour market has boosted consumption. The unemployment rate, which measures the number of unemployed persons relative to the number of active persons in the economy, decreased to 11.21% in the third quarter, the lowest level since the financial crisis.

## Spanish headline inflation rises to 1.8%

Spanish inflation rose from 1.5% in September to 1.8% in October, primarily due to an increase in energy prices. As ECB President Christine Lagarde mentioned in her last speech, inflation numbers in the eurozone are expected to be slightly higher at the end of this year due to base effects from significant energy price declines a year ago. Harmonised inflation increased to 1.8% in October from 1.7% in September. Core inflation, which excludes volatile fresh food and energy prices, rose to 2.5% year-on-year, up from 2.4% in September.

While overall inflation remains subdued, there is a risk of higher inflation in Spain if the divergence in economic growth within the eurozone also leads to a divergence in price pressures. Recently, decreasing interest rates have improved housing affordability in Spain, putting upward pressure on housing prices. After rising by 4% in 2023, nominal house prices increased by 7.9% year-on-year in the second quarter of 2024, with prices for new buildings rising by 11.2%. We expect house price growth of 5.5% this year. Construction activity decreased by 1.4% in the third quarter of 2024, but we believe this might pick up as housing supply typically follows demand with a delay.

Overall, we anticipate GDP growth to reach 2.8% this year, with harmonised inflation projected at 2.9%.

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# Hungary slips into technical recession again

Three years, two technical recessions in Hungary. The flash GDP data for the third quarter surprised to the downside. Growth momentum has been lost again, which not only forces us to lower our GDP forecast for this year, but also puts the government's growth target for next year in jeopardy



We should no longer be talking about achieving 1.5% GDP growth in Hungary, but rather be cheering for 0.5%

# -0.7%

Worse than expected

GDP growth in Q3 (QoQ, swda)

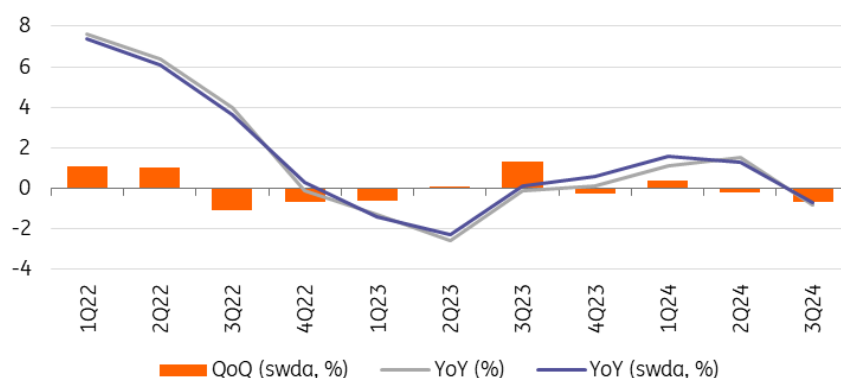
ING forecast -0.4% / Previous -0.2%

Even before the release of the third quarter GDP data, there was a rather strong negative momentum among local analysts. However, no one expected the Hungarian economy to perform so poorly.

Not only was GDP growth below the market consensus, but even the most pessimistic forecast was missed. In the third quarter of this year, Hungarian GDP fell by 0.7% compared to the previous quarter. This also means that a technical recession has occurred twice in three years.

In such a situation, the volume of GDP falls for at least two consecutive quarters (i.e., the quarter-on-quarter growth indices are negative). Moreover, the decline in the second quarter was somewhat larger due to the latest revision. Real GDP in Hungary has fallen in six out of the last nine quarters. In addition to the quarter-on-quarter contraction, the base was also high; the (raw) volume index dropped from 1.5% to -0.8% year-on-year. This means that after the second quarter of 2023, the yearly based growth rate is negative again.

## Hungarian GDP growth



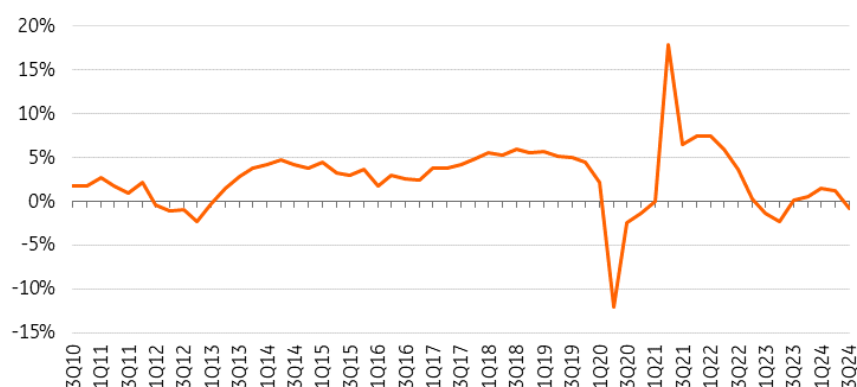
Source: HCSO, ING

The Hungarian Central Statistical Office (HCSO) usually provides few details of the underlying processes in its flash releases. However, what we have learned from this release is cause for serious concern. In itself, it is not surprising that agriculture, industry and construction have drastically slowed down the performance of the economy. The fact that the combined performance of these three sectors contributed almost two percentage points to the year-on-year contraction in the economy is also no great surprise. In our pre-publication commentary, we expected exactly this negative impulse from these sectors. The monthly production data supports this trend.

The surprise, therefore, is that the combined contribution to GDP growth from services and taxes less subsidies on products may have been only 1.2ppt. This is well below expectations. Of course, the weak performance of the economy itself implies a weak performance of taxes less subsidies on products. By contrast, the data for retail sales, accommodation and food service activities and tourism suggested a somewhat more encouraging picture for services, but cautiousness among households seems to remain very high.

It is still difficult to say what the picture might be on the expenditure side, when the HCSO is releasing the detailed third-quarter GDP data in early December, but it is likely that investment was in a slump and that consumption growth possibly slowed. Government consumption possibly also dampened GDP growth, and the role of net exports in supporting growth probably disappeared as exports continued to weaken.

## The quarterly annualised growth rate of Hungarian real GDP



Source: HCSO, ING

The weak overall economic performance over the past four quarters has led to another major change in the big picture. In light of the fresh GDP data, the four-quarter moving average of the annualised quarterly growth points to an economic contraction of 0.8%, with a return to negative territory after the second quarter of 2023.

In terms of GDP growth for the year as a whole, the third quarter figure has dramatically changed the outlook. On the basis of the new data alone, we should no longer be talking about achieving a 1.5% GDP growth (the government's latest official target), but rather be cheering for 0.5%. A further contraction or stagnation in the final quarter will not allow the Hungarian economy to achieve this. And the economic measures just announced by the government are unlikely to bring about a recovery for the rest of the year. So far, there are no signs that external demand will suddenly pick up or that investment will take off any time soon. A pick-up in consumption could possibly bring an improvement, but the latest data is likely to trigger a renewed deterioration in consumer confidence, which could further dampen the outlook as another negative feedback loop.

In addition, the increasingly weak performance of the Hungarian economy since the beginning of the year also weighs on growth prospects for next year due to the so-called carry-over effect. On the basis of the technical effects alone – the lower carry-over growth – we lower our GDP growth forecast for 2025 to 2.9%. In other words, it appears that another stimulus package may be needed to reach the lower end of the rather wide growth range (3-6%) set by the government for next year. The recent cabinet press conference revealed that next year's budget will be based on a (now rather optimistic) GDP growth of 3.4%. This casts further doubt on the feasibility of the 3.7% of GDP deficit target for next year.

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