ING

Monthly Economic Update
Emerging from the shadows

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THINK Economic and Financial Analysis

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US: The Fed looks set to pivot on inflation

- *The US recovery is powering on, but there are worries that the supply capacity of the economy isn't keeping pace. We think the Federal Reserve will soon switch position and acknowledge that inflation may not be as transitory as first thought, paving the way for the first steps towards policy "normalisation" later in the year*

Eurozone: Finally, ready for take-off

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UK: Outlook positive despite virus resurgence

- *The UK's final step of the reopening looks set to be postponed amid rapidly rising Covid-19 cases. But barring a return to stricter rules, the economic damage may be pretty small, though much hinges on whether higher case numbers begin to dent safety perceptions among consumers*

China: Chip disruptions from Covid

- *The small number of Covid cases in China's Guangdong province is disrupting production and shipments. Supply chains are once again being hit. If Covid can't be contained before the summer holidays, it will also hurt China's retail sales*

Asia: Shut that door!

- *Bucking the global trend in economic re-opening, Asia has recently been restricting movements again, which is leading us to trim many of our growth forecasts. If China goes further down this track, then we will have to do more than just trim*

CEE: The big inflation build-up

- *Spiking inflation in Central and Eastern Europe brought responses from central banks and a shift in bias will soon be followed by rate hikes. But price pressures are set to remain in place for the rest of the year as reopening economies boost demand. In FX, we tactically favour Hungary's forint and Poland's zloty to the Czech koruna mostly due to positioning*

FX: Trade and tightening; two key factors forcing the dollar lower

- *Two key themes have played out in FX markets so far this year; the commodity price boom and central banks looking at conventional normalisation policies. The dollar benefits from neither of these and can fall another 5% this year*

Rates: Put these on and inflation disappears!

- *With bond market goggles on there is no inflation, it seems. Leave them on and look hard enough and a tint of distant deflation dawns. That's one version of where we are. The other rationalises the slip lower in market rates by an intense overflow of liquidity. We like that explanation most. But we are also tempted to at least give those goggles a go, just in case*

Bankruptcies: Another source of eurozone divergence

- *The petering out of the support measures taken during the Covid crisis is likely to lead to an increase in bankruptcies across eurozone countries. But to what extent? Our analysis sows they'll be another source of divergence across the monetary union*

Shortages set to affect goods prices globally, but maybe not for long

- *As shortages and supply chain disruptions are priced through to consumers, goods inflation is set to trend higher. We still believe the impact will be temporary, but in the US less so than in the eurozone*

EU recovery fund boosts growth prospects for weaker economies

- *Almost all EU countries have now submitted their proposals for the EU Recovery and Resilience Facility. Thanks to a low take-up of loans, the fund's payouts so far will be smaller than expected. But don't underestimate the impact on GDP, which will be sizable for some of the eurozone periphery countries*

Biden's big bang budget

- *We are getting used to seeing some massive numbers being thrown around when it comes to US government spending, but the latest budget spending plan is going to come up against major hurdles*

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Emerging from the shadows

The return of summer in Europe coincides with a new sense of optimism that freedom from restrictions is just around the corner. Not so fast! Economies are booming in the continent and in the US, but fears of a fourth wave of Covid-19 are real. And countries in Asia are already seeing a rise in new infections and subsequent shutdowns

The world in 2 minutes

From New York to Singapore, Hong Kong to Frankfurt, ING's global economists tell you what's going on in the world right now. Growth, inflation, Covid, the dollar... we've got it covered, all in two minutes

It's looking good in Europe and the US

With a bit of luck, David Hasselhoff, the former Baywatch star and now surprise front-man of Germany's vaccination campaign, might turn up somewhere on a crowded sunny terrace or plaza these days to celebrate the end of the lockdowns with his evergreen song "Looking for freedom". While this might risk creating a new voluntary lockdown wave with people hiding at home until the Hasselhoff show is over, truth is that at least the developed world is currently looking into a very bright economic future.

In the US, the Modern Monetary Theory or as some have put it the Magic Money Tree are in full swing with ongoing investment plans and accommodative fiscal policies as recently illustrated by Joe Biden's budget proposal. Despite fears of a quickly overheating labour market, payroll data rather tell the opposite. With further openings of hospitality, retail and leisure services, the lack of workers or simply the fact that low-wage workers earn more by sitting at home and receiving government support cheques is likely to put temporary pressure on wages.

As much as the Fed wants to make everyone believe that there is no reason to withdraw some monetary stimulus, we see this stance gradually changing. Watch out for the Jackson Hole meeting in August. This could be the moment for the Fed to gradually enter the exit lane and start the taper talk. In the eurozone, the vaccination roll-out will now lead to accelerated reopenings.

Just in time, at least for some, to ensure a somewhat acceptable tourist season for Southern European countries. With all soft indicators pointing to a strong surge in economic activity, all hurdles cleared for the European Recovery Fund to pay out money and support for services from reopenings, the economic rebound is already happening and will show in hard data soon. Divergence between countries will continue to be a concern in the eurozone as the first countries could reach pre-crisis levels already this

year, while others might still take until 2023 to get there. For the eurozone as a whole, we currently expect the economy to return to its pre-crisis level in the summer of 2022. All of this will be the economic backdrop which eventually will allow the ECB to also start the tapering. Slower and later than the US but it will come.

A warning from Asia: Don't get carried away

Despite all euphoria about lockdown relief, China and the rest of Asia are currently sending the first warnings against too much optimism. Although at very low levels, new infections in China and other Asian countries could eventually return Covid to the US and Europe again. While any fourth wave in the next winter season would hopefully hardly be as severe as the first or second waves, another distorted winter cannot entirely be ruled out. Currently, an even bigger risk for China, the rest of Asia and actually the rest of the world is the shortage of semiconductors and chips as well as the first signs of how climate change can affect the economy. Excessive rainfall in Taiwan and consequently electricity blackouts are critical for semiconductor factories, leaving marks on the global economy.

Talking shortages and semiconductors, we still think that higher global inflation is transitory and should subside in the course of 2022, even if some of the post-lockdown inflationary pressure could easily last until next summer. Admittedly, as all major central banks, we will keep a close eye on labour markets in the coming months but fundamentally low participation rates and higher unemployment than before the crisis still argue against significantly and structurally higher core inflation. This, however, will not take away from the fact that even with subsiding headline inflation rates, prices are likely to remain elevated which in turn could accentuate and contribute to social inequality.

If you are young enough not to know David Hasselhoff, feel blessed. He was a TV hero in the late eighties and early nineties of the last century, giving the world hit shows with talking cars and barely dressed good-looking people. Maybe exactly the right intellectual level to digest endless months of lockdowns and finally enjoy a bit of freedom again.

ING's three scenarios for the global economy and markets

2021: Virus, vaccines and the reopening

ING base case

Assumptions

Vaccines have a strong impact on transmission, reducing need for medium-term restrictions

New Covid-19 variants emerge but are mitigated by winter booster shots in developed world

Global travel increases but remains constrained this year

EM vs DM split persists in reopening ability given differing vaccine rollout pace

	United States	Eurozone	Asia
Herd immunity & restrictions	A large majority of adults have already been vaccinated allowing a broad re-opening of the US economy in Q2	Vaccine roll-out will gain momentum through Q2, accompanied by gradual reopenings.	Rollout slow but will speed up over 2H21. Widespread vaccination not likely until 2022
2021 growth ING forecast	**6.90%**	**4.40%**	**China: 8.70%** **Japan: 2.20%**

Optimistic scenario

Vaccines overwhelmingly reduce transmission

Full 2Q reopening in US/Europe. Social distancing gone by end of 2021

2021 growth
US: 7.60% Eurozone: 5.00% China 9.20%

Pessimistic scenario

More transmissible & vaccine-evading variants emerge

Restrictions return in 3Q/4Q. Social distancing continues into 2022. Borders tightened

2021 growth
US: 5.80% Eurozone: 3.30% China 2.80%

2022: The full recovery and long-term 'scarring'

ING base case

Assumptions

Unemployment rises in Europe as wage support ends, but globally jobs market is faster to recover than after the GFC

US **infrastructure** package comes online in chunks. EU **recovery fund** kicks-in in H2 2021/2022 but no additional stimulus

Global travel begins to return to normality

Fed tapers and signals 2023 rate hikes. **ECB** starts to unwind PEPP but increases APP

	United States	Eurozone	Asia
Recovery strength (Growth, jobs, inflation)	A re-opened economy offers more opportunities to spend stimulus cash with employment rising rapidly. Supply constraints mean inflation is likely to be more of a theme than in Europe.	Later reopening delays recovery and muted fiscal stimulus leads to solid but not impressive growth in 2022 and 2023. Inflation falls back to around 1.5% in 2022.	Massive spike in India, border tightening, 2nd waves and extended/deepened restrictions amidst slow vaccine rollout will dampen bounceback in 2021/22. China keeping Covid-19 controlled
2022 growth ING forecast	**4.9%**	**4.00%**	**China: 4.6%** **Japan: 1.80%**

Optimistic scenario

Strong fiscal support (US infrastructure, EZ recovery fund)

Buoyant economies triggers faster jobs rebound than past crises. Hardly any increase in unemployment

2022 growth
US: 5.50% Eurozone: 4.8% China 4.6%

Pessimistic scenario

Cashflow/wage support extended but recovery/ infrastructure plans on hold

Lengthier crisis sees bankruptcies rise, triggering longer-lasting rise in unemployment

2022 growth
US: 2.6% Eurozone: 2.0% China 5.0%

Note: GDP forecasts have been rounded to nearest whole or half number. Source: ING

US: The Fed looks set to pivot on inflation

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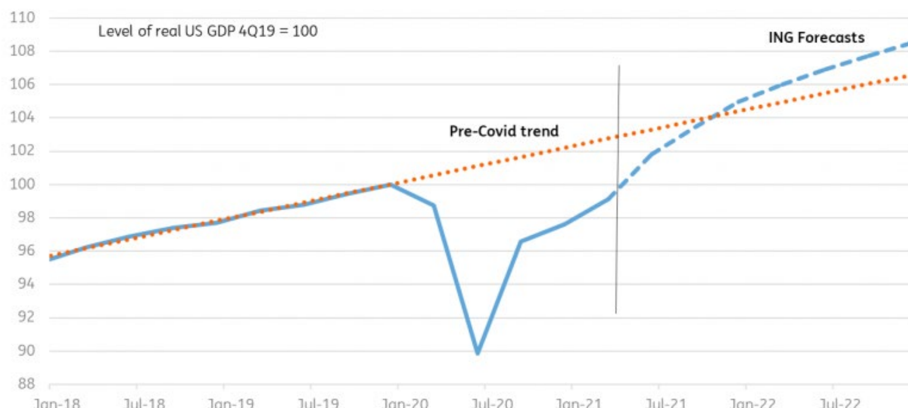
The US recovery is powering on, but there are worries that the supply capacity of the economy isn't keeping pace. We think the Federal Reserve will soon switch position and acknowledge that inflation may not be as transitory as first thought, paving the way for the first steps towards policy “normalisation” later in the year

Source: A labour shortage and rising wage costs are just two factors contributing to US inflation

Back in the green with 7% growth

The US activity story remains incredibly positive with the economy on course to have recovered all pandemic-related lost output in the current quarter – well ahead of all other major developed market economies. Even more remarkably, we believe that with so much stimulus still in the system (both fiscal and monetary), economic output will end the year higher than would have been the case had the pandemic not happened and the economy merely continued along its 2014-19 trend path.

The US economy is on track to end the year larger than if there were no pandemic



Source: Macrobond, ING

Growing nervousness

However, there is growing nervousness that the supply-side capacity of the economy has been scarred by the pandemic and may not be able to fully meet demand.

Businesses have gone bust; millions of people remain out of work while lingering Covid containment measures are leading to production bottlenecks around the world. Supply capacity should eventually catch up, but this could take time with the risk that we see more elevated inflation readings for longer than we have experienced at any point in the past 20 years.

The desperate search for workers

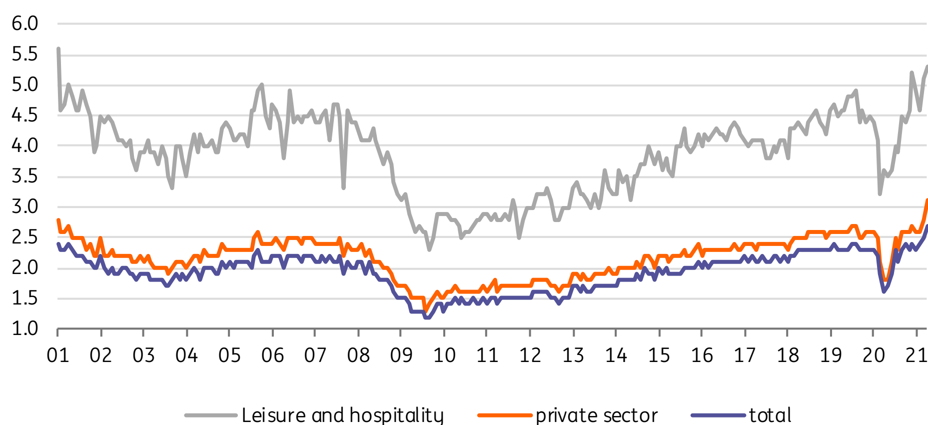
The labour market is also experiencing supply and demand imbalances. Non-farm payrolls growth disappointed for the second month in a row despite firms looking to take advantage of the strong consumer demand environment by hiring and expanding. Instead, businesses are faced with a real battle to recruit staff as highlighted by the National Federation of Independent Businesses, which recently reported that 48% of businesses had job openings they have been unable to fill. This is the fourth new all-time high in as many months – and this survey goes back to 1975!

"Four factors explain the lack of supply"

This lack of supply is down to four factors. Firstly, many pupils are still remote learning, so parents have to stay home too. Secondly, some workers are still nervous about returning given the pandemic is ongoing while, thirdly, some older workers who lost their jobs may have chosen to subsequently take early retirement and leave the workforce. Finally, there is the effect of extended and uprated unemployment benefits that may have diminished the attractiveness of seeking work in lower-paid sectors.

These strains should gradually ease in the coming months, but we think there is a window of three to four months where businesses will continue to struggle to find suitable staff.

Competition is heating up - Proportion of workers 'quitting' their jobs to move to a new employer



Source: Macrobond, ING

Therefore, if businesses want extra staff they are having to offer more attractive pay. The retaining of experienced and talented staff is just as crucial, with the quit rate, the proportion of workers leaving their current job to move to a new one, hitting a new all-time high last month. Employment costs grew at the fastest rate for 15 years in the first quarter and we will almost certainly see an acceleration in the second and into the third quarter.

Corporate pricing power is back

Rising wage costs, commodity costs, supply chain frictions and higher freight charges mean that businesses are feeling the financial strain. That said, there is more and more evidence that firms are able to pass higher costs onto their customers given the strong demand environment. This was reflected in both the latest Federal Reserve Beige Book

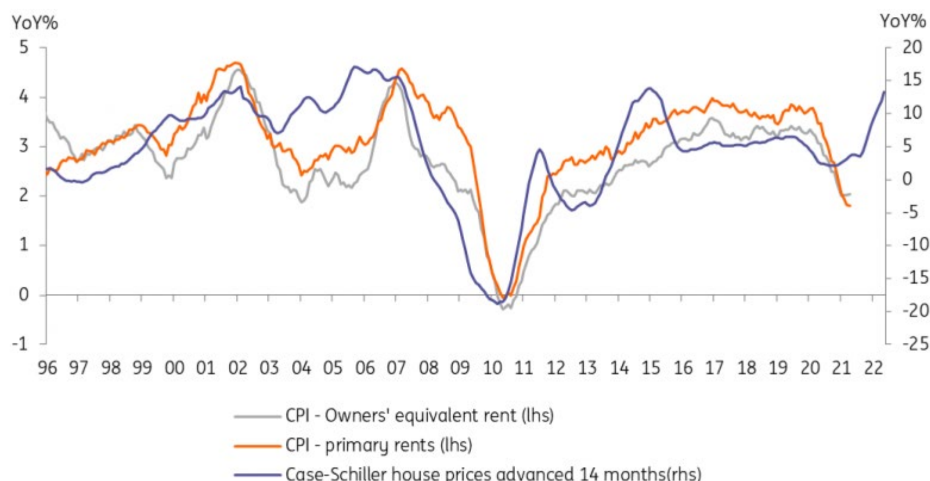
and the Philadelphia Fed manufacturing index. Meanwhile, the NFIB survey showed a net 40% of small businesses plan to raise their selling prices in the next three months – the highest proportion since 1980.

In the service sector, people are desperate to experience things that they haven't done for many, many months, such as travel, go to restaurants, see a sporting event, socialise in a pub. The strong desire to do these things means that companies faced with higher costs in the service sector are also in a strong position to pass the costs on through higher prices, particularly with so many restaurants, bars and entertainment venues having closed permanently.

Inflation - higher for longer

Rising housing costs will be yet another factor that keeps inflation higher for longer. They account for around a third of the inflation basket with the chart below being suggesting it will keep headline inflation above 3% for the next 12 months in a lagged response to surging property prices.

Housing costs set to keep inflation elevated



Source: Macrobond, ING

Moreover, an oft-repeated argument from the Fed as to why inflation is likely to be "transitory" is that inflation expectations are "well-anchored". However, even here we are seeing both market-based measures of inflation expectations and surveys of consumer price inflation expectations moving higher.

So, after a decade of inflation largely undershooting the Federal Reserve's target we believe the ingredients are all here for a period where inflation pressures are more sustained.

A shift is coming

The Federal Reserve has already pre-empted this to some extent by moving to an average inflation target and indicating that it is prepared to let the economy run hotter than it would have done in the past before raising interest rates. It has also emphasised a shift in its priorities towards making sure more people in society feel the benefits of the recovery through jobs and income growth versus a focus on price stability that has always dominated in the past.

Nonetheless, we are already hearing some Fed officials sounding a little less relaxed about the situation with several suggesting that it may soon be time to start talking about tapering quantitative easing.

A couple more months of strong growth and inflation data plus ongoing job gains and evidence of wages picking up will, we suspect, prompt a change in language at the

Federal Reserve Jackson Hole symposium in late August. A more formal warning of QE tapering is possible at the September FOMC meeting, with a slowing in the rate of actual asset purchases expected at the turn of the year. We continue to see the first actual interest rate rise coming in early 2023.

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Eurozone: Finally, ready for take-off

With the accelerated reopening of the economy, the eurozone is heading for a strong upturn. While price increases are grabbing headlines, core inflation remains subdued. Although the European Central Bank is in wait-and-see mode, we think the PEPP is unlikely to be lengthened beyond March 2022, but too strong a drop in bond purchases will be avoided

Like these kites at a festival in France, the eurozone economy is starting to soar

Open for business

With vaccination rates rising steadily, Covid-19 infection rates are falling rapidly, leading many European governments to reopen the economy.

As parts of the economy that were partially closed begin to reopen, the second quarter should show decent growth. On top of that, European Union member states are putting schemes in place that should allow for a better tourist season this year, although we don't expect things to go back to 2019 levels just yet. There are indeed supply disruptions in several manufacturing sectors that are hampering production, but this will probably be compensated by the robust activity in services sectors.

Economic and inflation surprise index

Source: Refinitiv Datastream

Reasons to be cheerful

There is still very little hard data for the second quarter, apart from disappointing April eurozone retail sales in April and a weak German industrial production reading. But then again, April was a month of tighter lockdown measures.

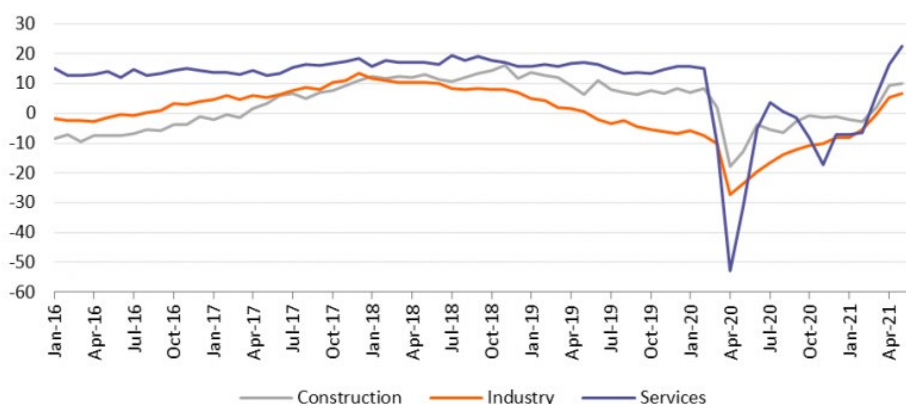
In May, the sentiment indicator in the retail sector rose to the highest level since December 2019, probably reflecting healthy consumption growth. The same goes for most recent confidence indicators, like the PMI or the European Commission's economic sentiment indicator - all showing strong readings for May. Admittedly, in extreme circumstances, these indicators, mostly based on a balance of opinion between optimists and pessimists, should be interpreted with some caution, but it seems safe to say that the recovery is gaining speed.

We are now looking at 4.4% growth this year and 4.0% next year

There might be some concern that unemployment might rise again once the furlough schemes end, but we believe that this effect will remain limited. Hiring intentions are strong, and employers are already beginning to complain about labour shortages in many subsectors. The unemployment rate is more likely to rise because people are returning to the labour market enticed by better job prospects. When forecasting eurozone GDP prospects, we have been disappointed many times, but now we think there are genuine reasons to be cheerful.

Considering the upward revision of GDP growth in 1Q, we are now looking at 4.4% growth this year and 4.0% next year, with a balanced risk profile around these forecasts.

Employment expectations improve



Source: Refinitiv, Datastream

The inflation riddle

The bigger debate is on the inflation outlook. While the flash estimate of the HICP inflation rate came in at 2.0% in May, this was largely an energy story, as core inflation was only 0.9%. To be sure, the commodity scarcity and supply chain disruptions are front-page stories, but this does not necessarily have a direct impact on consumer prices.

According to PMI surveys, the upward price pressures are still more upstream in sectors like chemicals, forestry, machinery and engineering, while most sectors closer to the consumer report more subdued price increases. Moreover, the biggest part of the cost base for most companies is wages, and we don't see much happening there just yet.

Moreover, over the next 12 to 18 months, we expect a pick-up in productivity, keeping unit labour costs at bay. To be sure, the opening of the economy and the current supply chain problems will lead to higher inflation over the course of this year. Still, those price increases are unlikely to be repeated to the same extent in 2022, which will lead to

some moderation next year. In the course of 2023, a tightening labour market might gradually start to cause upward wage pressure, but even then, we don't expect core inflation to settle above 2%.

The waiting game

The ECB is still in wait-and-see mode.

As we've said before, the Pandemic Emergency Purchase Programme is unlikely to be extended beyond March 2022, though we expect the ECB to increase purchases under the Asset Purchase Programme to €40-50 billion a month to achieve a more gradual decline in bond purchases. In this scenario bond yields are expected to slowly increase.

We expect the 10-year Bund yield to reach 0.5% by the end of 2023.

UK: Outlook positive despite virus resurgence

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The UK's final step of the reopening looks set to be postponed amid rapidly rising Covid-19 cases. But barring a return to stricter rules, the economic damage may be pretty small, though much hinges on whether higher case numbers begin to dent safety perceptions among consumers

The London Underground is becoming increasingly busy since lockdown measures were eased

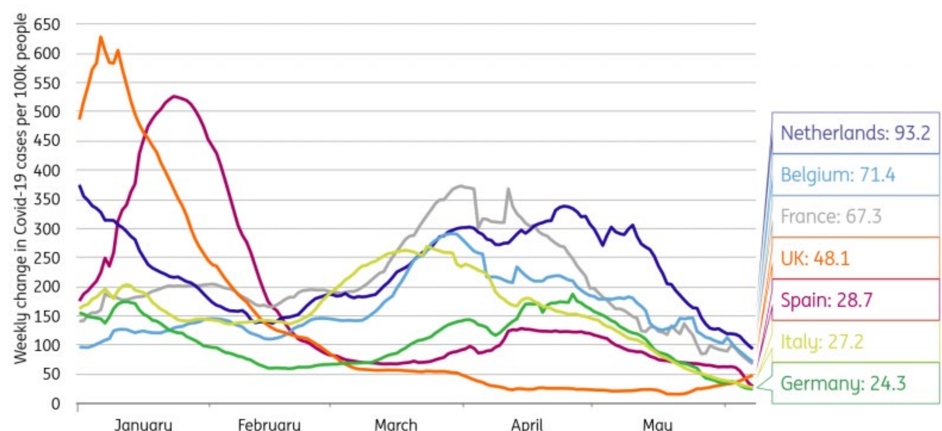
UK Covid-19 cases are on the rise once more

We're a little under two weeks away from the date – 21 June – where the UK government had hoped to do away with the vast majority of remaining coronavirus restrictions. But amid rapidly rising case numbers, thanks to the now-dominant 'delta' variant (first detected in India), that's now looking less likely.

The good news though is that the current batch of vaccines is so far proving successful in stopping disease. As of the last weekend, only 4% of UK cases so far recorded with the new variant were among twice-vaccinated people.

But with just under half of adults still awaiting their second dose, there is a period of vulnerability over the coming weeks. While the proportion of vulnerable adults that are not vaccinated is very small, scientists have warned that low percentages of a population of 68 million people can quickly still translate into large absolute numbers of people entering hospitals.

UK cases are low but unlike most of Europe, are rising (2021)



Source: Macrobond, ING calculations

Ultimately the goal, as has been the case throughout the pandemic, is to avoid a situation whereby hospitals are full and can't provide usual service levels. Whether or not that happens, in large part, depends on how much more transmissible this new strain is. The faster it spreads, the more quickly admissions rise and the more condensed the peak of the exit wave will be.

Early estimates of a 70% transmissibility advantage – potentially pretty bad news – have since been reduced to 40-50%. There have also been hints, though only anecdotal so far, that many hospital admissions are less serious than they were in previous peaks given the lower average age, resulting in quicker turnaround times. The vaccine programme is also being accelerated as far as deliveries allow, to bring forward second doses, while those in their 20s are now being (informally) offered their first dose.

The direct economic impact of a delay needn't be huge

In short, the end of most restrictions on 21 June is likely to be postponed, but perhaps only by a period of a few weeks until more people have been fully vaccinated. And that would mean that from an economic perspective, the impact probably won't be huge.

Ongoing work-from-home guidance may slow the recovery in city centres, though rising transport usage suggests the return to office is already happening to some extent anyway. Capacity constraints on restaurants and events will slow the return to full profitability for some firms, though clearly, a return to closures would be a far bigger deal - and for the time being, that seems unlikely.

In other words, we think at most we're talking a few tenths-of-a-percentage points off near-term GDP. However, much will hinge on confidence, and whether the negative virus news tempers some of the confidence among consumers and businesses that has emerged over recent weeks. So long as vaccines continue to be shown effective, then we suspect most consumers will remain comfortable with going out-and-about. Incidentally, we think has been a key factor in driving social spending back above last summer's levels, even before indoor dining reopened a couple of weeks back.

Could the Bank of England join the early-hikers?

Assuming the recovery isn't derailed over the summer, then the next question is whether the Bank of England will join the likes of Norway and Canada with rate hikes before 2023. That prospect was raised by BoE dove Gertjan Vlieghe (who admittedly is leaving the committee shortly), who floated a possibility of a 2H22 hike.

For now, we're pencilling in a move in 2023, which is more consistent with our Federal Reserve call – particularly given that UK inflation is likely to moderate beyond the first few months of next year. However, a more rapid recovery – perhaps triggered by greater-than-expected unloading of household savings – could conceivably bring that forward.

China: Chip disruptions from Covid

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The small number of Covid cases in China's Guangdong province is disrupting production and shipments. Supply chains are once again being hit. If Covid can't be contained before the summer holidays, it will also hurt China's retail sales

Movement has been restricted in parts of Guangdong province in China because of a rise in Covid cases

Even limited Covid cases can cause significant disruption

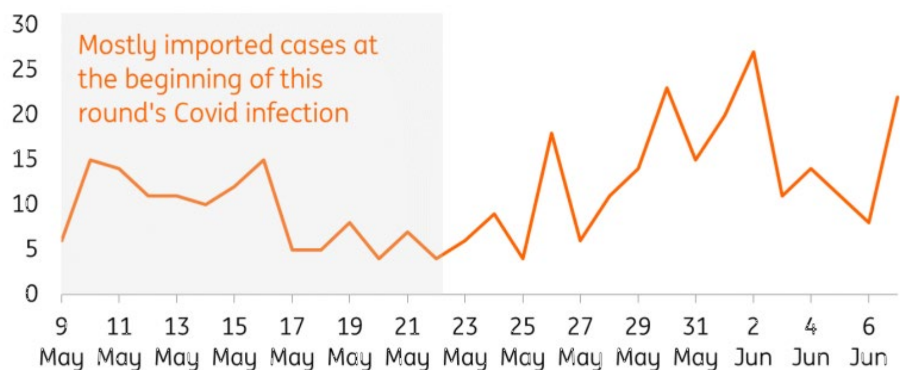
There have been around 10-20 confirmed Covid cases every day in Guangdong province, which is the location for many electronic factories. There were also confirmed cases at Yantian port, which is located in Shenzhen, which is the major port for electronics' throughput.

This small number of Covid infections has resulted in shipment delays of more than a week and is expected to increase further if there are more infected cases coming from the port. The media has reported that there were 40 vessels waiting outside the port as of 3rd June 2021. This number has likely increased further, and it will take several weeks to clear these vessels.

Apart from port disruptions, people in Guangdong are queuing up for testing, and therefore factories are not operating at their usual capacity.

Supply chain disruption, mostly in electronics, will add to growing price pressures, especially on semiconductors, and producers are likely to pass at least some of these costs on to consumers. These consumers include Mainland China consumers as well as those in the rest of the world.

Guangdong province, China's factory base, confirmed Covid cases



Source: Health Commission of Guangdong Province, ING

How long will this last?

To clear the vessels outside Yantian port could take the whole month of June. This is given by the assumption that Yantian port can run at normal capacity from the beginning of July. This is not impossible because China is taking very strict steps on localised area lockdowns and many people are being tested following this round of infections. The speed at which this virus will spread should hopefully now begin to slow.

Cross province and cross border travels will be strict

The impact of the lockdowns and testing will not only be felt in production and shipments. The medium-term impact could be restrictions on travel across provinces within China and from overseas. This will affect business activity. It will also affect retail sales which were being supported by internal leisure travel within China.

Even though the numbers are small, if this recent outbreak cannot be contained before the summer holidays, retail sales in China will be hurt.

We will continue to monitor the situation to gauge if we need to change our GDP forecasts.

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Asia: Shut that door!

Bucking the global trend in economic re-opening, Asia has recently been restricting movements again, which is leading us to trim many of our growth forecasts. If China goes further down this track, then we will have to do more than just trim

Anti Covid-19 restrictions are being strongly enforced across Asia; indoor dining in Thailand can be a miserable affair

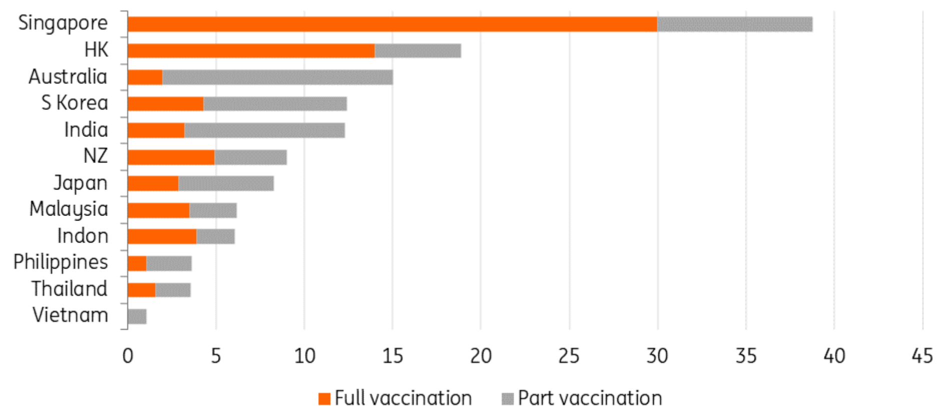
Asia's differential response to Covid

The relatively mild pandemics experienced by much of Asia (India excluded) have not delivered the economic dividend you might have anticipated. This is mainly because the authorities' reaction functions in Asia have been quite different to those in the West.

Where a few thousand daily cases of Covid, most of them asymptomatic, would be a green light to re-opening economies in most European countries and American states, in Asia, it is cause for aggressive and in many cases protracted lockdowns.

Coupled with the very weak vaccine rollouts across most of the region, as you can see in the chart below, the last month has seen Asia bucking the global trend towards reducing its daily infection count, as well as bucking the trend towards economic re-opening.

Asia share of population vaccinated by dose (%, as of 3 June 2021)



Source: Our World in Data

Response by authorities has been aggressive in many cases

The increase in daily cases in Asia is still comparatively small, though they are increasingly of the "new" delta virus variant. Sentiment in the region may well have been affected by the harrowing images of mass funeral pyres in India. In any event, small increases in daily case counts have often led to substantial additional restrictions to movements.

We've outlined the current state of play for countries in our region in the table below. Whether you view these as disproportionate or not, the recent lesson from India is that you can move from a situation of "under control" to "catastrophe" in about four weeks. So some caution is certainly warranted.

Current state of restrictions

Economy	Latest restricitons other measures
Japan	States of Emergency Extended in Tokyo, Osaka and 7 other prefectures from May 31 to June 20
Thailand	State of Emergency extended until July 31
Taiwan	Suspension of mass gatherings, in-restaurant dining, limits on indoor family/social gathering, entry to gyms, libraries, cafes etc
Singapore	Working from home the norm, no in-restaurant dining, limit on social gathering size to two, occupancy limits for malls reduced - measures reviewed by June 13
Malaysia	National Movement control order - increases working from home, reduces capacity of public transport, reduced opeing hours of food establishments, ban for non-essential inter-state and inter-district travel
Indonesia	Expanded and extended restrictions (PPKM) until at least June 14, in all 34 provinces.
Philippines	Relaxed Metro Manila capital region to medium level restrictions (GCQ) until June 14 but elevated restrictions in 14 provinces to upper medium restrictions (MECQ)
Hong Kong	Some relaxation of restrictions, e.g. schools open for half day
India	Phased unlocking started May 31 in Delhi, Tamil Nadhu extends but relaxes measures, Uttar Pradesh relaxes in some districts, West Bengal extends to June 15, but relaxes measures, Madhya Pradesh announces phased unlocking from 1 June, Pune Withdraws weekend lockdown.

Source: ING, National sources

Restrictions do most of the economic damage

As we have highlighted elsewhere, it is the restrictions on movement that do most of the damage to economies, and recent increases and extensions in such restrictions have led us to trim many of our growth forecasts.

India has seen the biggest cut to our GDP forecasts for 2021, but we have also cut our forecasts for Japan, Thailand, Taiwan and the Philippines. A number of other economies are under review for GDP downgrades (Malaysia, Singapore) and what we do here will depend on whether current measures are eased or extended/tightened.

Elsewhere, where the news on the economy and on Covid has been better (Korea, Australia) we are holding back some of the upgrades we would ordinarily have put in place, at least until vaccine rollouts have progressed further and the risk of a new Covid wave has retreated. However, these economies are the exception rather than the rule.

Covid-19 has forced some revisions this month

Economy	Previous forecast	Revision
India	9.2%	7.8% ↓
Japan	3.5%	1.2% ↓
Thailand	2.8%	2.1% ↓
Taiwan	4.9%	4.1% ↓
Philippines	5.0%	4.7% ↓
Singapore	4.9%	Under review for downgrade
Malaysia	5.3%	Under review for downgrade
Korea	3.1%	3.8% Scope for upgrade
Australia	4.4%	5.2% ↑

Source: ING

If China goes down the same route, trimming GDP will not be enough

Please see the separate article by Iris Pang for comments on China. But she will not mind me saying that if the recent increase in cases of the delta variant in Guangdong become more widespread, and China's response to this is expanded, then the impact on the rest of Asia's exports, which have benefited substantially from China's relative domestic strength, will result in us having to do much more than just trim our other Asian GDP forecasts.

CEE: The big inflation build-up

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Spiking inflation in Central and Eastern Europe brought responses from central banks and a shift in bias will soon be followed by rate hikes. But price pressures are set to remain in place for the rest of the year as reopening economies boost demand. In FX, we tactically favour Hungary's forint and Poland's zloty to the Czech koruna mostly due to positioning

Prices are rising in many parts of central and eastern Europe, not least for these shoppers in Poland

Cost-driven price pressures to be joined by the demand side

Inflation pressures in the CEE region are clear and material.

Headline inflation is above target across the entire region, with the overshoots being particularly pronounced in Poland and Hungary. The region shares the same trend. While the worst in terms of core prices should be behind us and core CPIs should continue grinding lower from their peaks, the risks to headline inflation remain on the upside.

Generally, headline CPI pressures have so far been cost-driven; a mix of higher commodity, food and regulated prices. While these are largely due to base effects, the demand side of CEE economies should start to contribute from the summer onwards as the economic reopening unleashes pent-up demand.

Trend wise, the Czech, Hungarian and Polish CPIs should all see a double top this year, with the high price pressures observed this quarter normalising somewhat in the third quarter before rising again towards the end of the year. By contrast, Romania CPI should linearly increase into the year-end, reaching 4.3%, due to the hikes in gas and electricity prices starting on 1 July 2021.

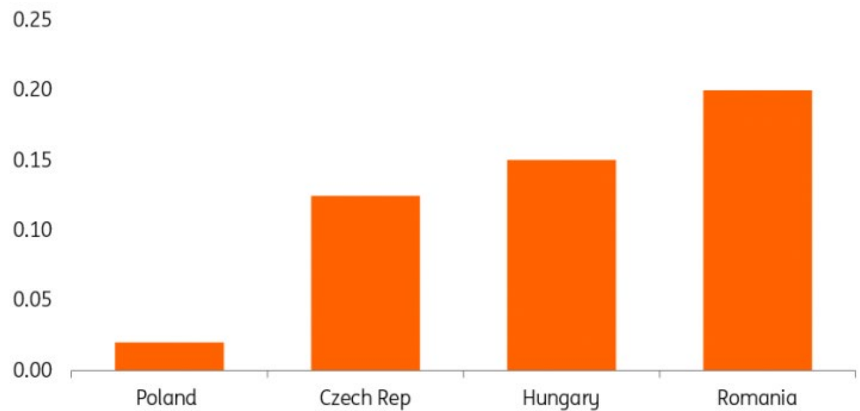
In 2022, these price pressures should ease as some of the base effects wear off. Yet, the rest of this year should be characterised by the upside risks to CPI, largely stemming from the reopening of local economies.

Rate hikes ahead

In terms of the risk of de-anchoring inflation expectations, the recent shift in Poland and Hungary's central banks away from an ultra-dovish stance, where both the National Bank of Poland and the National Bank of Hungary hinted at policy normalisation, should help to tame such concerns. We expect the NBH to deliver the first hike in June and the Czech National Bank to raise the base rate by 25bp either at the June or August

meeting; there's a 50:50 probability in our view. The NBP is likely to deliver a mix of QE tapering and modest hikes in the second half of the year.

Romania has the highest FX pass-through



Source: ING

CEE FX: A lot of positives

As for FX, the wider European and CEE economic recovery coupled with a shift in the CEE central bank biases are positive for local currencies. Tactically, we favour HUF and PLN to CZK, largely due to the positioning. We judge the CZK's positioning to be one way (long). However, HUF gains should not last long and we expect EUR/HUF to end the year around/above 355 as a lot is already priced in and, unlike CZK or PLN, the forint should not have a tailwind of the current account surplus this year. We like short EUR/RON positions as high CPI and high FX pass-through should keep the NBR tolerance for further RON weakness rather low.

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FX: Trade and tightening; two key factors forcing the dollar lower

Two key themes have played out in FX markets so far this year; the commodity price boom and central banks looking at conventional normalisation policies. The dollar benefits from neither of these and can fall another 5% this year

South African Finance Minister Tito Mboweni, has seen his country's currency rise the most against the US dollar this year

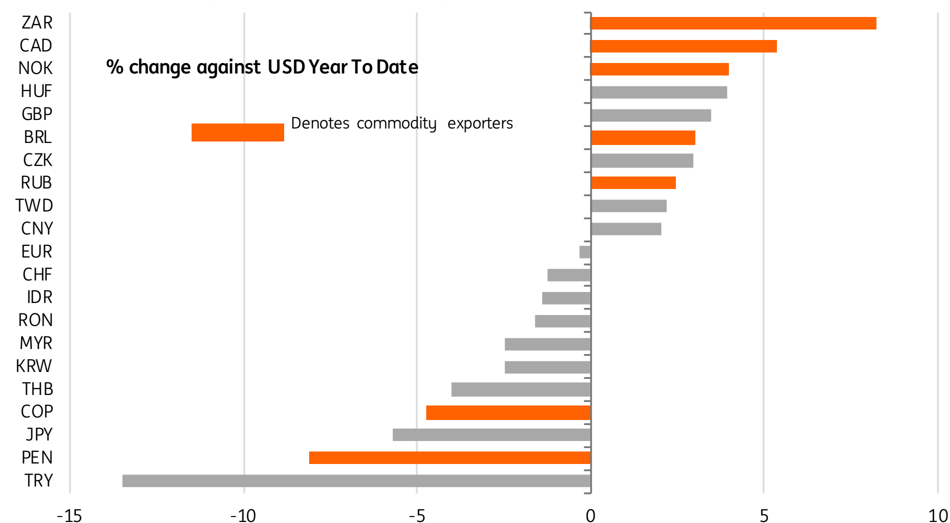
Terms of trade delivers the positive income shock

The ability to contain the Covid-19 outbreak has clearly played a major role in the strong performance of asset markets this year. Yet the success of the US vaccination programme has so far delivered little benefit to the dollar.

Instead, it's the commodity exporters who are at the top of the leader board as far as FX performance this year is concerned. In a world suffering higher import prices, the commodity exporters have been fortunate enough to enjoy terms-of-trade gains where export price increases have exceeded those of import prices. This has delivered a positive income shock. South Africa, Norway, and Canada stand out here.

Big natural importers of commodities, such as Turkey and Japan, have been on the other side of that trade and this is reflected in their currency performance. While it seems unlikely that commodities will sustain the same pace of increase later this year – and that some doubts are emerging about the strength of Chinese demand in the second half – our team broadly expects the commodity complex to stay supported through the rest of 2021 so maintaining this theme as a driving force in FX.

FX performance against the dollar this year



Source: Refinitiv, ING

Tightening camp swells

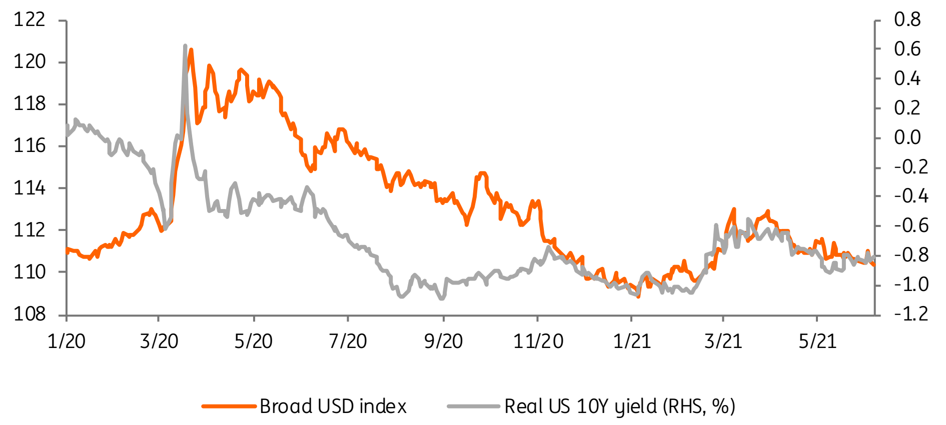
As we discussed last month, Norway and Canada also deserve their place on the FX leader-board given that local central banks look set to respond to better economic prospects with rate hikes. The market prices in 125bp and 75bp of Norges Bank and Bank of Canada hikes respectively over the next two years.

Joining Norway and Canada are many currencies in Eastern Europe. These have recently seen good demand on the switch to more hawkish policies in the region, where 125-150bp of tightening is now priced in the likes of the Czech Republic, Poland, Hungary and Russia over the next two years. Petr Krpata discusses this is in more detail in the CEE section of our monthly report. This theme will continue through the second half of the year and markets will increasingly focus on the next central bank to shift to a hawkish tilt.

Patience at the Fed and the ECB keeps EUR/USD subdued

Positioning themselves at the back of the tightening queue are the US Federal Reserve and the European Central Bank. Indeed, it seems the ECB would like to position itself as more patient than the Fed in order to keep a lid on EUR/USD. With both banking systems awash with liquidity, volatility is unsurprisingly dropping. This tends to point to subdued EUR/USD trading this summer in a 1.20-1.24 range and traded levels of volatility continuing to sink.

Yet if the Fed can stay patient through key events risks such as the June 16th FOMC meeting, we suspect that negative real US yields can keep the dollar gently offered into the late August Jackson Hole symposium. And assuming equity investors rotate into the European growth story – as they have started to do over recent weeks – we suspect EUR/USD can head up to 1.25 late summer and 1.28 by year-end.



Source: Refinitiv, ING

Rates: Put these on and inflation disappears!

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With bond market goggles on there is no inflation, it seems. Leave them on and look hard enough and a tint of distant deflation dawns. That's one version of where we are. The other rationalises the slip lower in market rates by an intense overflow of liquidity. We like that explanation most. But we are also tempted to at least give those goggles a go, just in case

A woman in New York wears protective goggles which must make seeing clearly what's in front of her pretty difficult

Inflation is a concern if we actually get it. And if we do, market rates should rise in anticipation of eventual rate hikes

Higher inflation is supposed to coincide with higher market rates. Why? Two main reasons. First, market rates contain inflation, so if inflation rises then so too should market rates. Second, higher inflation will typically cause central banks to raise rates; maybe not immediately, but eventually. Market rates would then typically rise as a consequence of the former and in anticipation of the latter.

But let's break this out. Inflation only matters if it persists. In other words, if inflation rises well above trend but then falls back to well below trend, then it matters far less, or at least it is less scary. Moreover, if the bond market believes that to be the future with a degree of conviction, then it need not worry about a short-term burst in inflation.

> *"Central banks are intent on staring down inflation only when it is actually there"*

In addition, central banks during this particular recovery are very unlikely to anticipate inflation through a forecasting model. Rather, they seem intent on staring down inflation when it is actually there. The Federal Reserve has an explicit average inflation targeting policy now, which allows them to take some risks to the upside for inflation, and they have also mandated upon themselves a requirement to secure a recovery for the most vulnerable segments of society (and not just the median household). So an imminent rate hike risk is significantly downsized.

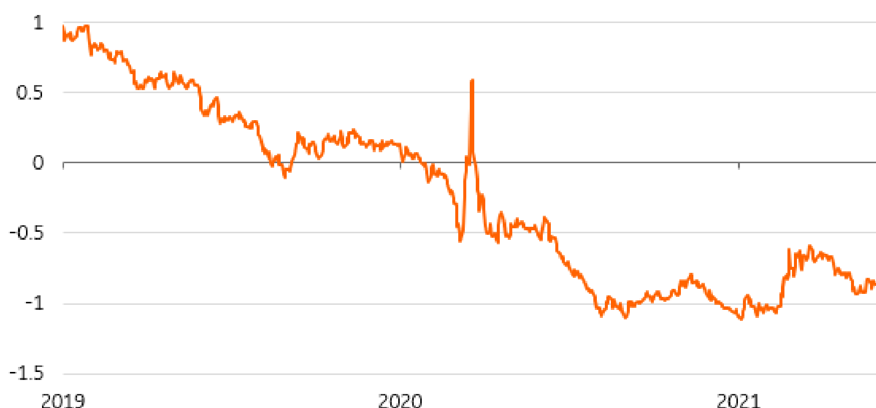
So far we've (just) had a rise in prices. Inflation has yet to be proven. Is this why market rates have fallen?

And as of yet, inflation has not been proven. Yes prices have risen, but that is not inflation - a lot of it is a base effect (not all, but a decent chunk). All the signs point to inflation. The very simple spurt in demand against an inability to supply is enough, and we are seeing that right left and centre.

"Some in bond markets fear real wage erosion rather than a wage-price spiral"

But that can be rectified - get the supply chains sorted and coax employees away from stimulus cheques and the supply side can come roaring back. Then, what we could have is a one-off rise in prices, with no follow-through. More worryingly, if price rises are followed by a lack of wage inflation, we would see real wage erosion, and more a deflationary feeling than a reflationary one.

US 10yr real rate (nominal market rate less inflation expectations), %



Source: Macrobond, ING estimates

We relate this, not because it is our view, but to help look into the mindset of certain segments of the bond market that are simply not believers that we have an inflation problem. And in fairness their opinion does matter, as bond holders receiving fixed coupons have the most to lose if inflation is in fact the real deal.

Negative real yields don't paint a pretty picture either.

The bond market has, in fact, built an elevated inflation expectation, but to do so it has had to dig deep into negative real yield territory. That in itself is a worrying sign. A negative real yield is not telling us anything positive about the future.

Or is it because market rates have been bullied lower by an excess of liquidity and strong international buying of Treasuries?

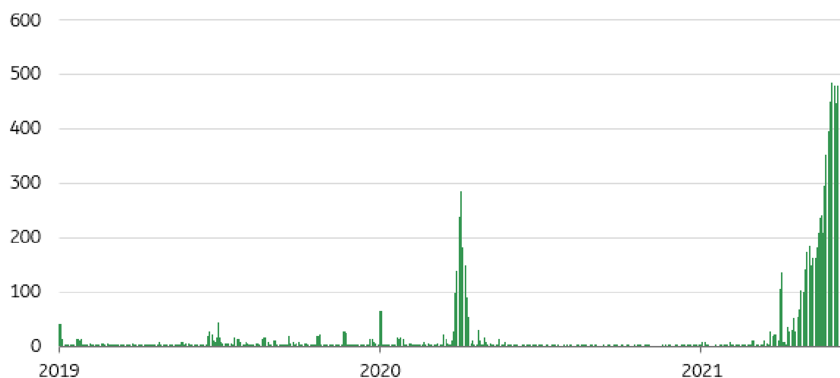
The counterargument is that bond markets are in fact concerned about inflation, but market rates are being bullied lower by an excess of liquidity. There is some merit in this argument. The near $500bn of overnight cash being posted back to the Fed on a daily basis from market players with nowhere better to put it is indicative of an excess of liquidity in the system.

"Big liquidity is swashing around. This is really pushing market rates down"

The fact that front end bills rates and general collateral repo rates are posting negative rates tells us the same story and, in fact, is a partial cause for the posting at the Fed in the first place - zero percent at the Fed's window is better than sub-zero elsewhere. And what we see going into the Fed's reverse repo window is only a part of the excess. A lot of other

forms of roaming liquidity will make their way into other asset classes, including the fixed income market, thus placing downward pressure on market rates.

Surplus cash going back to the Fed at 0% through its reverse repo facility, USD bn



Source: Federal Reserve, ING estimates

On top of that, we have the Fed buying bonds through its bond-buying programme (generating the liquidity in the first place), and non-public demand for US bonds remains high, too. Not just from domestic players, but also from international players that get a decent pick-up (even when FX adjusted). And remember, players sitting in Tokyo or Frankfurt don't care where US inflation is. The inflation rate that they need to outperform is their own domestic one.

> *"Steady market rates have also tempted in (boring) carry buyers"*

The other important technical factor is volatility. Long end rates have done effectively nothing since the end of February. In March, the higher rates' narrative was still a very persuasive one, especially given the rapid rise in the rear-view mirror. But as we progressed through April, into May and now June, the environment has been one very conducive to simply holding bonds that may not yield a lot, but are churning out a steady running yield that is well in excess of funding costs (Fed at zero and ECB deeply negative); being long carry.

Probably more liquidity-driven, with long carry flows. But a nagging risk case scenario persists till its disproved

So which is it? Why are market rates facing down rather than up? Either there is no inflation concern, and central banks in consequence will not have to hike by much (if at all). Or, there is in fact an inflation concern, but it is being dominated by an excess of liquidity and desire to buy into boring carry positions that do just fine for as long as rates are steady.

If pushed, we are in the latter camp. This is a liquidity-driven spurge that is resulting in mis-valuation (market rates too low). But that's no more than an educated judgement. Nothing is for sure. In fact, using bonds as a pure predictor of the future, precisely the reverse is being discounted.

Bankruptcies: Another source of eurozone divergence

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The petering out of the support measures taken during the Covid crisis is likely to lead to an increase in bankruptcies across eurozone countries. But to what extent? Our analysis sows they'll be another source of divergence across the monetary union

We're closed! Bankruptcies could increase across the eurozone

Collateral damage

The economic shock of a "classic" recession will, with some delay, also increase the number of bankruptcies, job losses and therefore unemployment. Having said that, a consensus was established at the very beginning of this crisis to cushion the shock in an unprecedented way through multiple support measures. Now that economies are reopening and the economic recovery is taking shape, the question is how bankruptcies will evolve once support measures are withdrawn.

Looking at past experience and the relationship between the economic cycle and bankruptcies, we have some idea about the worst-case scenario. In this case, a tsunami of bankruptcies and job losses could unfold once the support measures and bankruptcy moratoriums are stopped. Although such a scenario is not the one favoured by the European Central Bank, officials have recently warned that banks could face significant losses from a sharp increase in the number of bankruptcies.

The most optimistic scenario would be that the economic recovery (which would coincide with the end of the support measures) would be so strong as to give companies and their investors enough of a positive outlook that the bankruptcies avoided during the worst of the crisis never materialise.

As is often the case, the reality is probably somewhere between these two extreme scenarios. However, this reality could be very different from country to country and within each country from sector to sector. The case study of The Netherlands leads to the conclusion that the number of bankruptcies expected as a result of the Covid crisis should remain limited and lower than what was experienced during and after the Great Financial Crisis.

Can this conclusion be extrapolated to all eurozone countries? Probably not for all member states. In this article, we try to identify the countries most vulnerable to a strong increase in bankruptcies.

This time, it's different

The widespread lockdown in the second quarter of 2020 brought a significant part of the economy to a halt. The fall in activity was unprecedented. As a result, the gap between the peak of the economic cycle and the trough of activity was much larger than in previous crises. During the financial crisis, this gap for the eurozone as a whole was 5% of GDP compared to almost 15% (Chart 2) during the pandemic. The depth of the crisis would therefore suggest that the economic consequences of the shock, particularly in terms of business failures, would be greater than during the financial crisis.

That said, while economies contracted very quickly, they have also rebounded relatively quickly. The current situation has therefore improved significantly compared to the low point in the second quarter of 2020. In the eurozone, the loss of activity from the peak of the cycle is now approaching 5%, which is precisely the size of the shock of the financial crisis. Better still, the next few quarters should see a more vigorous recovery as economies reopen. With a reopening widely anticipated, the level of economic sentiment has already exceeded its long-term average (100) barely 14 months after the initial shock. During the financial crisis, it took almost twice as long for confidence to return (Chart 1). The Covid crisis was therefore very deep, but based on current knowledge, it is not likely to be extremely long. According to our own forecasts, the eurozone economy will have returned to its pre-crisis level in 1Q 2022, seven quarters after the trough of the crisis and 17 quarters earlier than after the financial crisis (marked by a double dip...). Therefore, even if the Covid crisis was deep, this argues for a limited effect on the number of bankruptcies. While the number of bankruptcies increased by 35% after the financial crisis in many developed countries, the dynamics of the current crisis argue for a smaller effect.

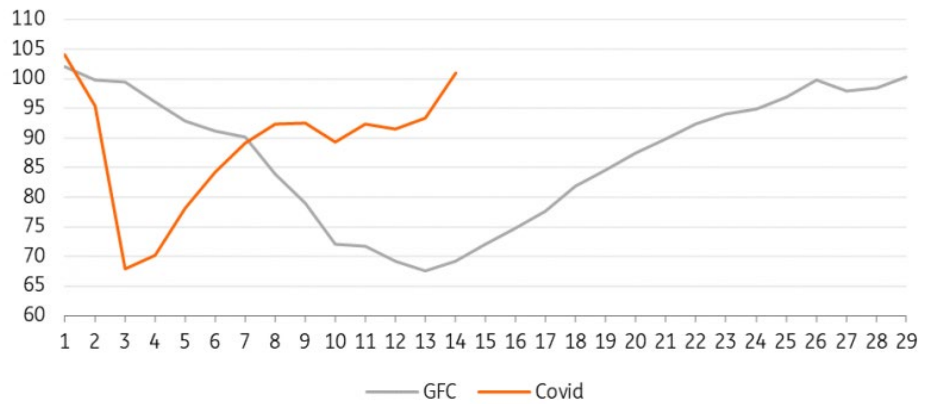
Within the eurozone, there are significant differences between countries. The Netherlands, Finland and Ireland are already close to their pre-crisis level and at this stage of the cycle (i.e. five quarters after the peak of the cycle), the loss of activity is less than that incurred during the same period in the financial crisis.

In contrast, the situation appears to be particularly difficult in Spain, Portugal and Greece, where the loss of activity in relation to the peak of the cycle is still around 9%. More importantly, this shortfall in activity is almost double that experienced over the same period during the financial crisis. It is difficult to imagine that, all other things equal, bankruptcies would not be more numerous in these countries.

1

Confidence in the eurozone (ESI) has recovered much faster than after the financial crisis

Top of cycle (month #1) is March 2008 in the case of the GFC and February 2020 in the case of the Covid crisis

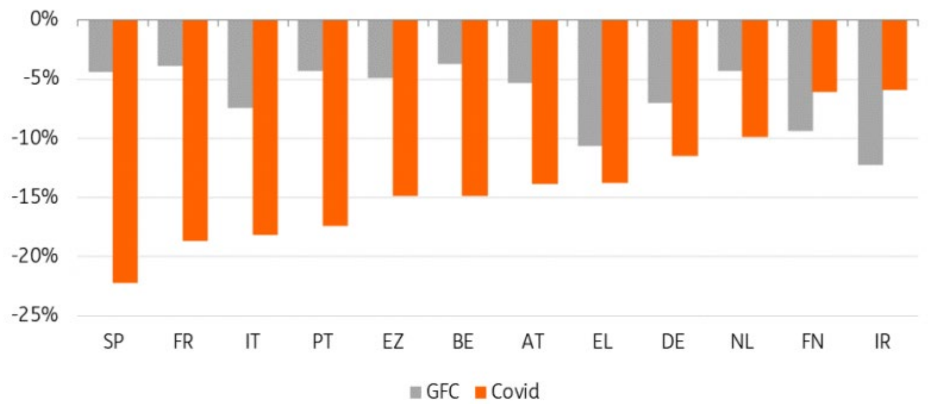


Source: Refinitiv, Datastream

2

The 2Q 2020 lockdown had induced an exceptional contraction of GDP

Peak-to-trough loss of activity, in % of pre-crisis GDP level

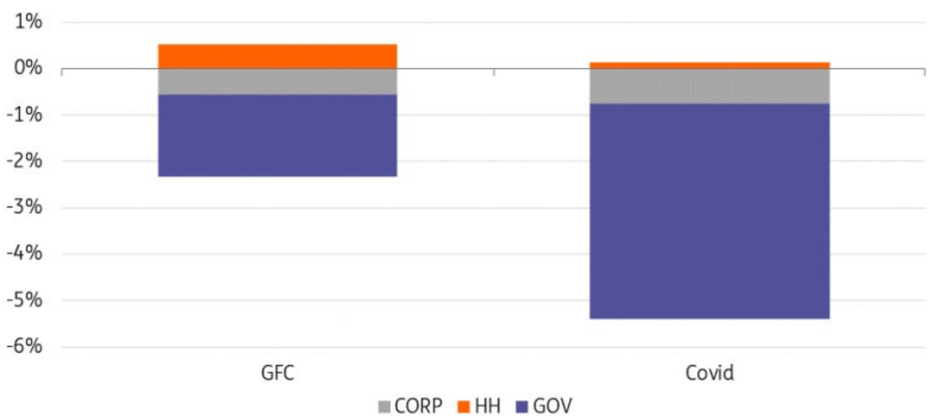


Source: Refinitiv Datastream, ING computation

3

Government encountered the biggest loss of income during the crisis

Loss of Gross Disposable Income during the first four quarters of the crisis (in % of previous year GDP)



Source: Eurostat, ING computation

Government intervention

As said before, massive intervention of governments to compensate for the effects of the loss of activity linked to containment measures is likely to limit the future number of bankruptcies. To obtain a consistent comparison across countries, this argument can be captured by using sector accounts and measuring the loss of disposable income for the three main sectors of the economy (households, business and government)[1].

At the level of the eurozone as a whole, Chart 3 is unequivocal: while the loss of disposable income for businesses is, as a percentage of GDP, broadly the same in the financial crisis and the Covid crisis (which will be decisive in terms of bankruptcies), it is indeed the general government that has suffered the greatest loss of income, which is both an illustration of lower tax revenues, but also transfers to other sectors of the economy as part of the support measures.

There is, in fact, a double argument here. By supporting household income in a context where it was not possible to consume, governments have increased the capacity of households to consume when economies reopen, which should boost the economic recovery and support the sectors most affected by the confinement measures, and therefore most at risk of bankruptcy. And by supporting corporate income, this is likely to have had a direct impact on the financial health of companies and also argues for a limited impact on bankruptcies, or at most similar to what was observed during the financial crisis.

In all countries in our sample, the government bore the largest share of the overall loss of disposable income. That said, the measures taken have not been able to compensate for all the effects of the crisis everywhere. We observe a loss of household income in 2020 in Greece (very limited), Spain, Italy and Austria. In these countries, a consumption-led recovery could be weakened and thus increase the bankruptcy rate in sectors related to household consumption, despite the economic reopening. The loss of corporate disposable income appears to be particularly significant (more than two GDP points) in Spain, Greece and France, which means that companies have suffered more in these three countries, increasing the risk of bankruptcies.

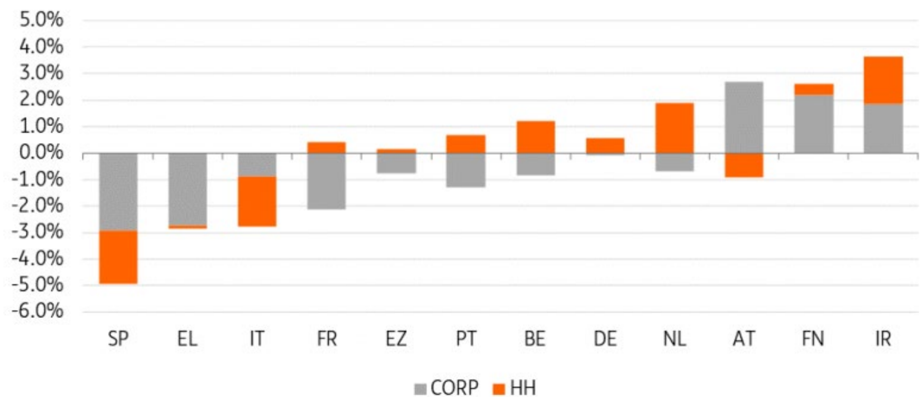
How could those countries encounter such a loss in corporate disposable income? The loss of operating surplus (the money a company earns from its core activity) was indeed the greatest in these countries (Chart 5), but once the effect of net capital income and transfers paid and received (including aid received in the context of the crisis) is added, the loss of disposable income remains significant. The cases of Portugal and Belgium are interesting in this respect: the loss of operating surplus also exceeds two percentage points of GDP, but once the corrections are applied, the drop in disposable income is much smaller. It seems that in these cases, the measures taken by the governments have made it possible to better absorb the shock.

Considering the cumulative effect of household and corporate income losses on the risk of bankruptcy, Spain, Greece and Italy appear to be the most fragile economies, while the Netherlands, Finland, Ireland and to a lesser extent Austria are apparently in a more comfortable situation.

4 Divergent impact on households and corporates across eurozone countries

Evolution of 2020 Gross Disposable Income[1] compared to 2019, in % of 2019 GDP

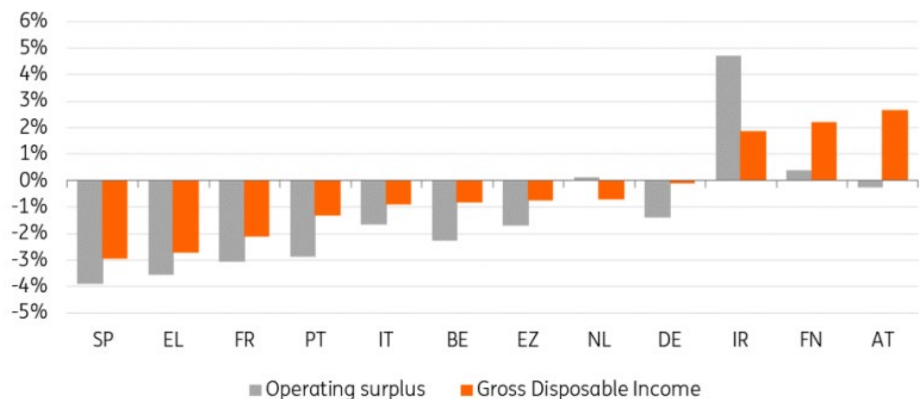
[1] GDI of households is the sum of compensation of employees, mixed income (self-employed), net capital income and net transfers. GDP of corporates equal the sum of operating surplus, mixed income, net capital income and net transfers.



Source: Eurostat, ING computation

5 The loss of operating surplus could not be compensated for by other net income

2020 loss of corporates operating surplus and gross disposable income, in % of 2019 GDP



Source: Eurostat, ING computation

Conclusion

In the eurozone, if we disregard the huge shock of the lockdown on economies in the second quarter of 2020, the economic crisis generated by the pandemic is not much deeper than the financial crisis of 2008-2009. The Covid crisis also appears shorter than the GFC, meaning that for some countries, it is even cumulatively less deep than the financial crisis. Economies are also benefiting from stronger-than-usual recovery prospects thanks to the forthcoming reopening of all activities as well as the major stimulus plans put in place.

So what should we expect? First of all, it should be remembered that the measures taken during the crisis artificially reduced the number of bankruptcies by 25% in the euro area. However, once the support measures come to an end, it is very likely that we will see a rapid return to the trend observed in 2019, which will result in a sharp increase in the number of bankruptcies. Moreover, we expect the number of bankruptcies to exceed the past trend by 10% to 20%, particularly in view of the loss of income that it has caused for businesses. Structural changes driven or accelerated by the crisis are also likely to insert more upward pressure on bankruptcies. Nevertheless, this increase in bankruptcies would still be lower than what was observed in most developed economies after the financial crisis.

That said, the situation in the euro area masks significant differences between countries, due to the shock suffered and the capacity of the aid granted to compensate for it. Spain, Greece and Italy are the most at risk.

Summary of national strengths and weaknesses

Argument	Impact on risk of higher bankruptcy risk	EZ	BE	DE	IR	EL	SP	FR	IT	NL	AT	PT	FN
Depth of the crisis	The deeper the crisis, the bigger the risk												
Length of the crisis	The longer the crisis, the bigger												
Perspectives (confidence)	The more time the confidence takes to recover, the bigger the risk												
State intervention to keep HH GDI	The stronger the intervention, the lower the risk as HH will be able to consume once the economy re-opens												
State intervention to keep Corp GDI	The stronger the intervention, the lower the risk												

Source: ING

Shortages set to affect goods prices globally, but maybe not for long

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As shortages and supply chain disruptions are priced through to consumers, goods inflation is set to trend higher. We still believe the impact will be temporary, but in the US less so than in the eurozone

Global shortages are particularly hitting the auto industry

A perfect storm

Problems in production and supply chains and the surprisingly quick recovery of demand for goods after the first lockdown have caused shortages for all sorts of inputs around the world. With demand returning quickly and supply having been scaled down in the aftermath of the first wave of Covid-19, isolated events have created a perfect storm in the markets for lumber, plastics and semiconductors.

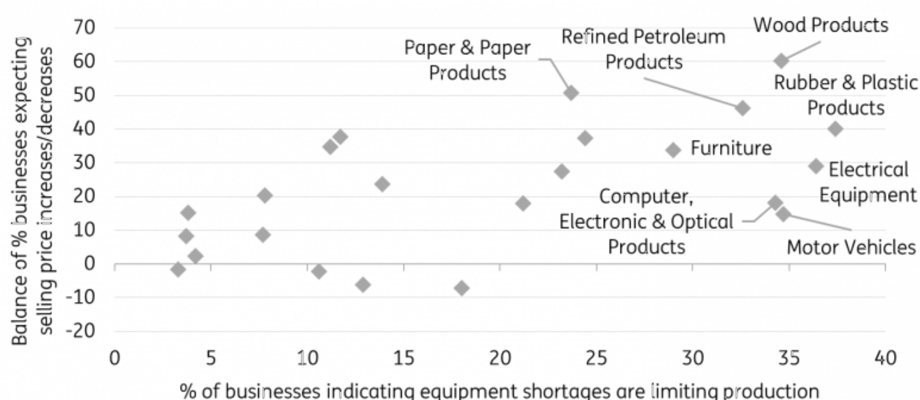
With input costs rising sharply, the rise in consumer price inflation has only just begun, as businesses grappling with shortages have indicated they will pass higher costs onto the consumer. However, past episodes show us that there is no lasting effect once shortages end, suggesting the surge in prices will be temporary.

Shortages in many eurozone sectors

When you look at industry as a whole in the eurozone, reported input shortages are now at their highest level since the start of the indicator in 1985, with 22.8% of businesses reporting equipment shortages as a key factor limiting production. The impact of shortages on production is varied, with the main problems accumulating in the auto sector so far due to semiconductor shortages. This has brought production down -14.3% from its November peak.

Furniture production is also down 6% from its recent highs, while smaller declines are reported among computer and electronics producers. Input price pressures are starting to build, although there are big differences in the importance of imported inputs in overall costs across sectors, and stages of production. Strikingly, even where input price rises have remained modest, businesses are reporting raised expectations of increasing their selling prices – especially in sectors experiencing shortages.

Eurozone industries with equipment shortages expect to increase selling prices



DG ECFIN Industrial Confidence Indicator
Source: European Commission, ING

Expect surging goods prices from here on, but we do expect it to remain mostly temporary

Shortages have driven increases in selling price expectations in the past, especially when scarcity is widespread and synchronised across many sectors, as was the case in 2011 following natural disasters in Japan and Thailand. In the past, once shortages had fallen back to normal levels, selling price expectations were also quick to normalise, mainly within the same quarter. But given the historic highs that reported shortages have reached, it's possible that a longer period of elevated selling price expectations is in store.

"Consumer prices are going to increase further from here"

Consumer prices have only risen modestly so far, but with supply chain issues, shortages of inputs and strong demand likely to continue through the rest of this year, they are going to increase further from here, and add to inflation that is already above the European Central Bank's target. This means that when energy base effects start to fade, the ECB will still not be off the hook, and we expect inflation to remain above 2% for a large part of 2021, making a discussion around tapering unavoidable in the coming months.

As the global recovery becomes more established, we do expect most disruptions, and the shortages, to ease, (with semiconductors being the major exception, where tight markets are likely to remain). This means that barring any second-round effects, in the eurozone the spell of above-target inflation is likely to end sometime early next year.

In the US, shortages are broader-based, including the labour market

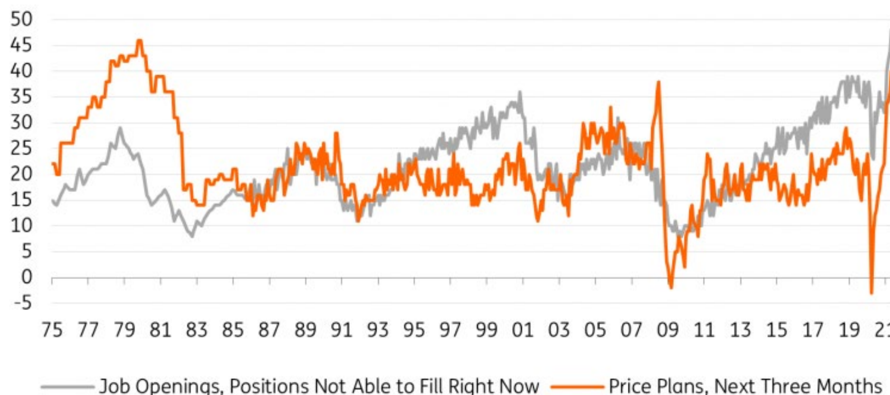
In the US case, the problem of supply shortages is broadly spread across the manufacturing sector. The ISM reported 17 out of 18 industries were facing slower supplier delivery times with the index showing the worst conditions since 1974. Semiconductor shortages are well documented with several auto plants having already slowed output as a result, but this is not the only issue. Covid containment measures have forced changes to manufacturing operations and this has led to bottlenecks across a range of production facilities.

"Demand for workers continues to rise"

The shortage of workers is another huge issue for the sector. Demand for workers continues to rise as the economic recovery gathers momentum, yet employment growth has slowed noticeably as companies struggle to find applicants. There have been anecdotal reports of some firms offering payments just to turn up to a job interview.

It has got to the point where for the small business sector a record 48% of companies have vacancies they can't fill. The consequence is that if you want to hire workers you are having to pay more to recruit and retain, as highlighted by the latest Federal Reserve Beige Book survey.

Small businesses in the US are reporting hiring difficulties and planning higher prices



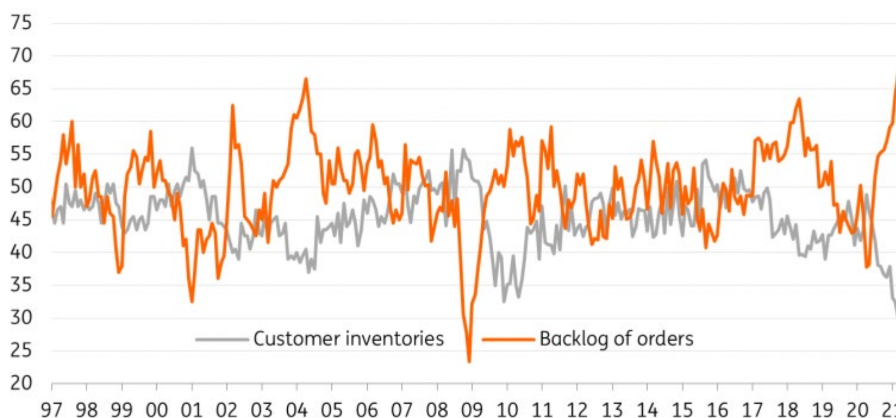
NFIB Small Business Survey Indices, seasonally adjusted
Source: Macrobond, ING

Now factor in the oil price

Commodity prices, components and employment costs are all on the rise and this is being compounded by gasoline prices hitting 7-year highs, adding to other cost pressures in freight shipping. The good news for manufacturers is that economic conditions mean that they can pass much of these higher costs onto their customers.

We are at a point currently where new orders are growing rapidly, but output cannot keep pace with demand. Consequently, the backlog of orders has hit a new all-time high according to the ISM. At the same time, manufacturers know that their customer inventory levels are at historical lows. The scramble for stock means manufacturers have significant pricing power and their customers can't do little about it.

US businesses are seeing order backlogs rising and customer inventories are running low



ISM Purchasing Managers Indices
Source: Macrobond, ING

US inflation risks being higher for longer

Of course, these strains should ease in time, but there is significant uncertainty as to when that will be. We expect labour supply to become more abundant from September once schools fully return to in-person tuition and the additional Federal unemployment benefit expires for all current recipients.

Nonetheless, there are still likely to be issues given the strength of economic demand. With the global growth story roaring back, the competition for commodities and components may not be so swiftly resolved. This is yet another reason to conclude the risks are skewed to US inflation staying higher for longer.

EU recovery fund boosts growth prospects for weaker economies

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Almost all EU countries have now submitted their proposals for the EU Recovery and Resilience Facility. Thanks to a low take-up of loans, the fund's payouts so far will be smaller than expected. But don't underestimate the impact on GDP, which will be sizable for some of the eurozone periphery countries

An emergency phone at a tram stop close to the ECB's headquarters in Frankfurt

The recovery fund: taking stock

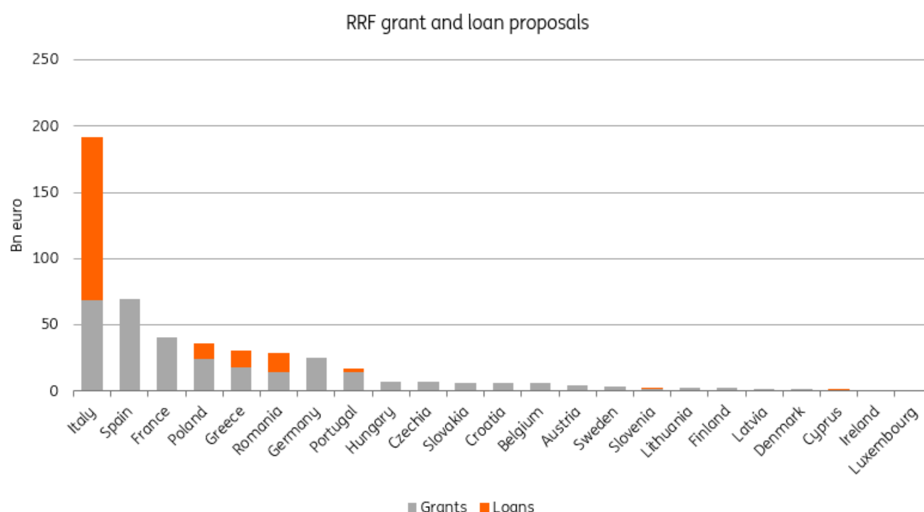
More than a month after the deadline, proposals are still coming in. Out of 27 countries, 23 have now submitted their proposals and the largest part of the available grants will be tapped if approved. The biggest one not tapping funds for the moment is the Netherlands, which stands to gain €6bn in grants. Still, with very few countries opting for loans, the total amount of proposals comes in at 'just' €493.2bn, well shy of the total €672.5bn in the fund.

Now that all countries have ratified the Own Resources Decision, there are no hurdles left for the EU to start borrowing from the market which will happen first later this month. Very important is that the Commission is going to review the proposals within two months of receipt, which will be at the end of June for the largest countries. One month after the Commission agreement, the Council will have to approve the plans as well. When agreed, the countries will receive 13% as an early payout to get projects going. That means that money can start flowing in the third quarter of this year, providing a welcome boost to the eurozone recovery.

Italy takes the lion's share

When you look at the chart below, it is obvious that Italy has gone big and bold with its proposal. Not only has the country applied for the maximum amount of grants available to them, they have also gone for an even larger amount in loans and add their own contribution on top. That makes the amount for Italy - if approved – about 39% of the total money demanded from the fund. But don't count out Spain's fiscal efforts either. While Italy's plans spread out over the total period of 2021-2026, Spain's plans are set to take effect in the first three years only, making the impact on GDP in the first recovery phase very large.

Most grants from the fund have now been applied for



Note: some country data – like Italy - also includes the funds requested from the REACT-EU part of the Next Generation EU

Source: Source: European Commission, National Recovery and Resilience Proposals, ING Research

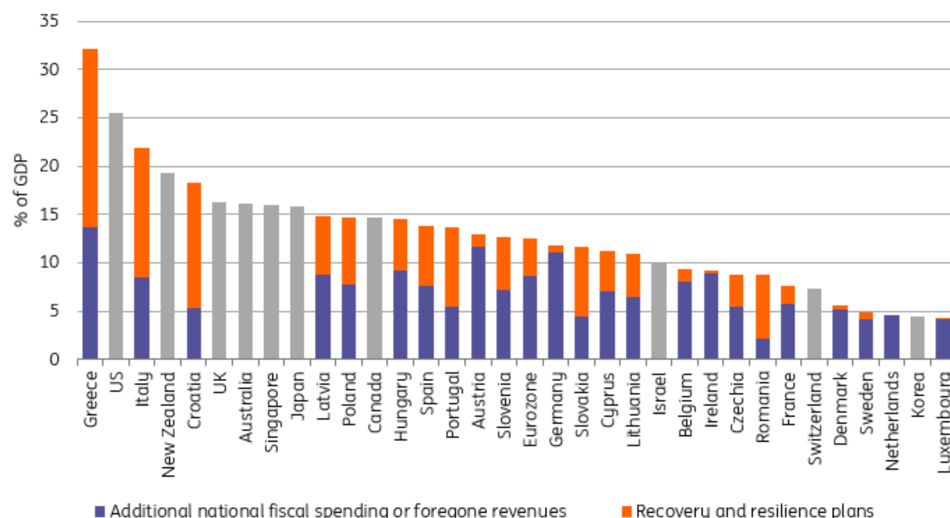
The plan still leaves eurozone fiscal efforts at less than half of the US

The impact of the plan is definitely sizeable, although the amount applied for is well shy of the total available in the fund. At €493.2bn, it has to be said that the impact will spread out over the full period 2021-2026 for almost all countries. That makes the fiscal impact of the programme for the initial recovery phase somewhat underwhelming.

Looking at the additional fiscal spending that countries have done or promised to do in response to Covid-19, the US stands out with a whopping 25.5% of GDP. This includes the approved proposal for the American Rescue Plan, but not the new plans put forward by President Biden which have yet to find approval in Congress.

The eurozone comes in at just 12.4% of GDP when adding the Recovery and Resilience Proposals to national fiscal spending to fight the pandemic. This might even overstate the total amount as there may be some double-counting in projects originally planned to be nationally financed that are now included in the national RRP.

Average eurozone fiscal spending since the start of the pandemic is half that of the US



Note: possible double counting due to projects initially nationally funded now included in RRPs. France has been corrected for double counting as total spending funded from RRF is part of previous proposals.

Source: IMF database of fiscal policy responses to Covid-19, National Recovery and Resilience Proposals, ING Research

Of course, it is more relevant to look at the fiscal impulse for individual countries as the fund was designed to help those most in need. Given the sizeable loans that countries like Greece and Italy have taken out, these countries do move to the global frontrunners in terms of fiscal spending in response to Covid-19. Greece even surpasses the US at 32.1% of GDP, while Italy stands at 21.9% of GDP (keep the possible double-counting caveat in mind for the exact number though; view this as an upper estimate). It is important to remember the time span though, as US support agreed on so far has a far larger immediate impact than the Italian and Greek RRPs.

As Spain and Portugal have weak automatic stabilisers, this is of concern from a crisis response perspective. That shows that while the project helps significantly in terms of fiscal support, it is still unlikely to cause the harder hit eurozone economies to recover quicker than their northern eurozone partners as we have extensively written about here. The big wins are for the medium term as investment and reforms have the potential to improve trend growth, which has been a clear eurozone problem since the global financial crisis.

Biden's big bang budget

We are getting used to seeing some massive numbers being thrown around when it comes to US government spending, but the latest budget spending plan is going to come up against major hurdles

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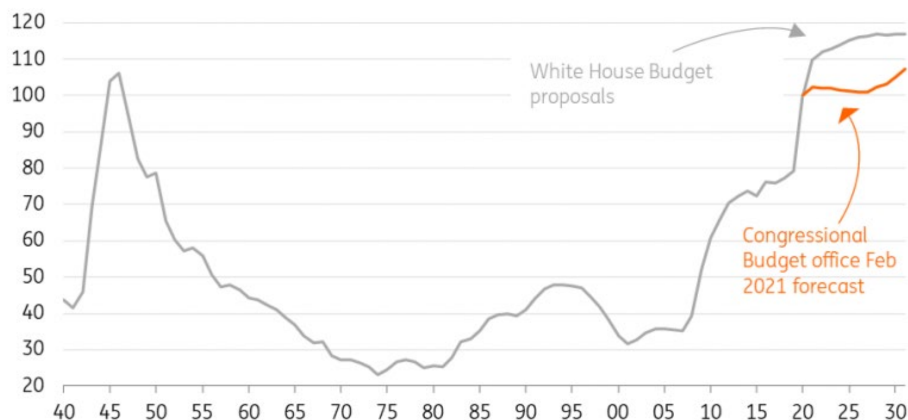
Spend, spend, spend

The US government response to the pandemic has been astonishing. Between them, Presidents Trump and Biden have overseen $5tn of fiscal support, which undoubtedly helped to mitigate the economically damaging effects of Covid containment measures.

With the economy on the verge of having fully recovered all its lost output, President Biden is now pushing on with his key election promise of "Building Back Better" as he seeks to fulfil his vision of a more equitable, sustainable and greener America. This centres on the $2.25tn infrastructure spending plan over the next eight years and a further $1.8tn American Families Plan that includes money for health, education, welfare and childcare.

These proposals have now been formally wrapped up into President Biden's 2022 fiscal year budget plan that begins 1 October. Coming in at $6tn of spending, up from the $4.8tn price tag attached to President Trump's last annual budget, it also includes significantly more for the US military.

Federal government debt as a % of GDP 1940-2031



Source: White House, Congressional Budget Office, ING

Debt, debt, debt

Over the next decade, the budget proposals would add around $14.5tn to the national debt, but it is also important to point out that the proposal includes delayed tax hikes on corporates and the wealthy that would rapidly erode the deficits and supposedly mean the spending plan is completely paid for after 15 years.

While those on the left have applauded the President (although many would like to have seen him go further), it's fair to say that critics are not as enthused. Senate Minority Leader Mitch McConnell labelled it a "socialist daydream" that would "drown American families in debt, deficits and inflation".

"You shall not pass!!"

In reality, this budget will not pass in its current form. It is better to view the plans as aspirational or a signal of intent. Normally, legislation needs a 60 vote Senate majority to pass, which is virtually impossible given the partisan nature of politics in the US today and the fact that the Senate is split 50-50.

In an effort to get at least some of his proposals through with bi-partisan support, President Biden has already offered to cut the infrastructure plan to $1.7tn and could go even lower with Republicans holding out for a figure sub-$1 trillion. If successful this would result in smaller spending, but there is clearly a high risk that talks fail and much of the budget proposals would need to go through the budget reconciliation process.

Partisanship means we take the reconciliation route

If this route is chosen, budget proposals can be passed with just 51 votes in the Senate rather than the usual 60, yet even here the Democrats' wafer-thin majority means that just one dissenting voice in the party can block it.

There are several candidates who could throw the proverbial spanner in the works. The most obvious is West Virginia Democrat Senator Joe Manchin, who managed to retain his seat in what is viewed as a "Republican" state - 69% of the electorate backed Donald Trump for president last year. He has already refused to back calls to remove the filibuster that would make it easier to pass legislation and could also oppose some of the spending proposals in the budget. Also, some on the left are hostile to the extra spending on the US military and police and could choose to oppose key aspects of the plan as well.

> *"This process is a long-winded affair"*

This process is also long-winded with bills proposed, revisions adopted, debates held, and amendments proposed before a final vote is held. And there isn't much time for this. Congress has to get this done and dusted by the

end of September otherwise we could have a politically painful government shutdown that wouldn't look good coming little more than 12 months before the mid-term elections. (Lawmakers have until midnight on the final day of the fiscal year – 30 September – to sign off on the annual budget, or the government will shut down.)

Consequently, the time and political pressures are likely to end in smaller spending plans, but also less ambitious tax plans too. The result will still be higher deficits and debt than estimated by the Congressional Budget Office in February, but unlikely to the same extent as envisioned in the White House's proposals.

Less bang for a buck

One other interesting part of the proposals has slipped a little under the radar. The White House's own economic projections don't anticipate much bang for each buck spent. They project that the US economy will grow by less the 2% per year for the next decade with inflation staying subdued, and barely any action from the Federal Reserve. This appears to be a pretty poor return for all the trillions of dollars scheduled to be spent. So much for Biden's revolutionary Big Bang...

White house Economic forecasts applied for the budget proposals

Table S–9. Economic Assumptions[1]

(Calendar years)

	Actual	Projections											
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Gross Domestic Product (GDP):													
Nominal level, billions of dollars	21,433	20,933	22,411	23,799	24,808	25,778	26,767	27,794	28,860	29,986	31,166	32,414	33,723
Percent change, nominal GDP, year/year	4.0	–2.3	7.1	6.2	4.2	3.9	3.8	3.8	3.8	3.9	3.9	4.0	4.0
Real GDP, percent change, year/year	2.2	–3.5	5.2	4.3	2.2	1.9	1.8	1.8	1.8	1.9	1.9	2.0	2.0
Real GDP, percent change, Q4/Q4	2.3	–2.5	5.2	3.2	2.0	1.8	1.8	1.8	1.8	1.9	1.9	2.0	2.0
GDP chained price index, percent change, year/year	1.8	1.2	1.8	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Consumer Price Index,[2] percent change, year/year	1.8	1.2	2.1	2.1	2.2	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Interest rates, percent:[3]													
91-day Treasury bills[4]	2.1	0.4	0.1	0.2	0.4	0.8	1.2	1.5	1.6	1.7	1.8	2.1	2.2
10-year Treasury notes	2.1	0.9	1.2	1.4	1.7	2.1	2.4	2.6	2.7	2.8	2.8	2.8	2.8
Unemployment rate, civilian, percent[3]	3.7	8.1	5.5	4.1	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8

Note: A more detailed table of economic assumptions appears in Chapter 2, "Economic Assumptions and Overview," in the *Analytical Perspectives* volume of the Budget.
[1] Based on information available as of mid-February 2021.
[2] Seasonally adjusted CPI for all urban consumers.
[3] Annual average.
[4] Average rate, secondary market (bank discount basis).

Source: White House

ING global forecasts

			2021					2022					2023		
	1Q21	2Q21	3Q21	4Q21	FY	1Q22	2Q22	3Q22	4Q22	FY	1Q23	2Q23	3Q23	4Q23	FY
United States															
GDP (% QoQ, ann)	6.40	11.20	6.70	5.90	6.90	4.00	3.60	3.10	2.90	4.90	3.00	3.00	2.90	2.90	3.00
CPI headline (% YoY)	1.90	4.50	4.10	4.10	3.60	3.90	2.80	2.70	2.60	3.00	2.70	2.60	2.50	2.50	2.60
Federal funds (%, eop)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.75	1.00	1.00
3-month interest rate (%, eop)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.60	0.60	0.90	1.20	1.20
10-year interest rate (%, eop)	1.74	1.75	2.00	2.25	2.25	2.25	2.50	2.50	2.75	2.75	2.75	3.00	3.00	3.00	3.00
Fiscal balance (% of GDP)					-14.60					-8.00					-5.10
Gross public debt / GDP					104.50					104.70					104.30
Eurozone															
GDP (% QoQ, ann)	-1.20	5.90	8.20	5.70	4.40	3.20	2.00	1.90	1.60	4.00	1.90	1.60	1.30	1.40	1.70
CPI headline (% YoY)	1.00	1.70	2.20	2.00	1.70	1.90	1.90	1.50	1.60	1.70	1.60	1.60	1.60	1.60	1.60
Refi minimum bid rate (%, eop)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3-month interest rate (%, eop)	-0.55	-0.55	-0.55	-0.50	-0.50	-0.50	-0.45	-0.40	-0.40	-0.40	-0.40	-0.30	-0.30	-0.20	-0.20
10-year interest rate (%, eop)	-0.35	-0.10	0.00	0.20	0.00	0.20	0.25	0.30	0.35	0.35	0.35	0.40	0.50	0.50	0.50
Fiscal balance (% of GDP)					-6.80					-3.90					-2.90
Gross public debt/GDP					104.10					101.70					100.70
Japan															
GDP (% QoQ, ann)	-3.90	-0.10	3.50	2.80	2.20	1.70	0.90	1.10	1.80	1.80	1.20	1.20	1.20	1.20	1.30
CPI headline (% YoY)	-0.40	-0.20	0.00	0.70	0.00	0.60	0.90	0.60	0.60	0.70	0.60	0.60	0.60	0.60	0.60
Interest Rate on Excess Reserves (%)	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
3-month interest rate (%, eop)	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
10-year interest rate (%, eop)	0.10	0.10	0.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Fiscal balance (% of GDP)					-9.60					-8.70					-7.50
Gross public debt/GDP					228.70					232.50					237.50
China															
GDP (% YoY)	18.30	6.00	5.00	5.50	8.70	3.00	5.00	5.50	5.00	4.60	4.80	4.60	4.40	4.20	4.50
CPI headline (% YoY)	-0.10	1.00	1.40	2.50	1.20	2.50	2.00	2.40	2.50	2.40	1.80	2.60	1.90	1.80	2.00
PBOC 7-day reverse repo rate (% eop)	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20
3M SHIBOR (% eop)	2.64	2.50	2.70	2.90	2.90	3.00	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.70	3.70
10-year T-bond yield (%, eop)	3.19	3.10	3.20	3.40	3.40	3.45	3.55	3.65	3.70	3.70	3.70	2.80	3.90	4.00	4.00
Fiscal balance (% of GDP)					-6.00					-4.00					-4.00
Public debt (% of GDP), incl. local govt.					115.00					118.00					121.00
UK															
GDP (% QoQ, ann)	-5.9	21.7	8.5	3.9	6.7	2.7	2.6	1.9	1.5	4.5	0.9	0.3	0.7	1.1	1.1
CPI headline (% YoY)	0.6	1.7	1.7	2.3	1.6	2.3	1.8	1.8	1.6	1.9	1.6	1.6	1.7	1.7	1.6
BoE official bank rate (%, eop)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.25	0.5	0.25	0.5	0.5
3-month interest rate (%, eop)	0.00	0.00	0.10	0.15	0.15	0.20	0.20	0.25	0.35	0.30	0.40	0.40	0.60	0.70	0.70
10-year interest rate (%, eop)	0.80	0.90	1.00	1.10	1.10	1.10	1.20	1.20	1.30	1.30	1.30	1.50	1.50	1.50	1.50
Fiscal balance (% of GDP)					-12.9					-8.2					-4.0
Gross public debt/GDP					112.00					115.00					117.00
EUR/USD (eop)	1.18	1.22	1.25	1.28	1.3	1.28	1.25	1.23	1.22	1.22	1.22	1.21	1.20	1.20	1.20
USD/JPY (eop)	108	108	108	108	108	108	109	110	110	110	111	112	113	115	115
USD/CNY (eop)	6.54	6.48	6.40	6.30	6.30	6.25	6.20	6.15	6.10	6.1	6.05	6.00	5.95	5.90	5.9
EUR/GBP (eop)	0.85	0.85	0.85	0.85	0.85	0.84	0.83	0.82	0.82	0.82	0.82	0.82	0.82	0.82	0.82
ICE Brent -US$/bbl (average)	61	67	70	70	67	68	70	73	70	70	70	75	78	75	75

GDP forecasts are rounded to the nearest whole/half number, given the large magnitude and uncertainty surrounding our estimates

Source: ING forecasts

ING's forecasts under three different scenarios

	2021					2022					2023				
	1Q	2Q	3Q	4Q	FY	1Q	2Q	3Q	4Q	FY	1Q	2Q	3Q	4Q	FY
Scenario 1: Optimistic scenario															
Real GDP growth (QoQ% annualised)															
United States	6.40	12.70	9.20	7.10	7.60	4.30	3.50	3.00	3.00	5.50	3.00	3.00	3.00	3.00	3.00
Eurozone	-1.20	7.50	9.40	6.60	5.00	4.90	2.40	1.90	1.60	4.80	1.80	2.20	1.80	1.80	1.90
China (YoY%)	18.30	7.00	6.00	5.50	9.20	3.00	5.00	5.50	5.00	4.60	4.80	4.60	4.40	4.20	4.50
Japan	-3.90	4.90	2.70	3.50	3.00	2.80	1.40	1.00	1.50	2.50	1.20	1.20	1.20	1.20	1.20
United Kingdom	-5.90	23.40	12.40	4.20	7.50	1.00	1.10	0.80	1.50	4.20	1.00	-0.10	0.50	0.90	0.80
Real GDP level (Indexed at 4Q19=100)															
United States	99.11	102.11	104.39	106.19	-	107.32	108.24	109.05	109.85	-	110.67	111.49	112.32	113.15	-
Eurozone	94.46	96.18	98.36	99.95	-	101.15	101.75	102.23	102.64	-	103.10	103.66	104.12	104.59	-
Japan	98.02	99.20	99.86	100.72	-	101.42	101.78	102.03	102.41	-	102.72	103.02	103.33	103.64	-
United Kingdom	91.30	96.23	99.08	100.10	-	100.35	100.63	100.83	101.20	-	101.46	101.43	101.56	101.78	-
EUR/USD	1.18	1.25	1.32	1.30	-	1.25	1.22	1.20	1.15	-	1.13	1.10	1.10	1.10	-
US 10-year yield (%)	1.74	2.00	2.50	2.75	-	2.75	3.00	3.00	3.25	-	3.25	3.50	3.50	3.50	-
Scenario 2 – ING base case															
Real GDP growth (QoQ% annualised)															
United States	6.40	11.20	6.70	5.90	6.90	4.00	3.60	3.10	2.90	4.90	3.00	3.00	2.90	2.90	3.00
Eurozone	-1.20	5.90	8.20	5.70	4.40	3.20	2.00	1.90	1.60	4.00	1.90	1.60	1.30	1.40	1.70
China (YoY%)	18.30	6.00	5.00	5.50	8.70	3.00	5.00	5.50	5.00	4.63	4.80	4.60	4.40	4.20	4.50
Japan	-3.90	0.60	3.50	2.80	2.20	1.70	0.90	1.10	1.80	1.80	1.20	1.20	1.20	1.20	1.30
United Kingdom	-5.90	21.70	8.50	3.90	6.70	2.70	2.60	1.90	1.50	4.50	0.90	0.30	0.70	1.10	1.10
Real GDP level (Indexed at 4Q19=100)															
United States	99.11	101.77	103.44	104.93	-	105.96	106.90	107.72	108.50	-	109.30	110.11	110.90	111.70	-
Eurozone	94.46	95.80	97.61	98.88	-	99.57	100.06	100.53	100.93	-	101.38	101.79	102.12	102.47	-
Japan	98.02	98.17	99.01	99.70	-	100.12	100.35	100.62	101.07	-	101.37	101.67	101.98	102.28	-
United Kingdom	91.30	95.89	97.87	98.81	-	99.47	100.11	100.58	100.96	-	101.18	101.26	101.44	101.71	-
EUR/USD	1.18	1.22	1.25	1.28	-	1.28	1.25	1.23	1.22	-	1.22	1.21	1.20	1.20	-
US 10-year yield (%)	1.74	1.75	2.00	2.25	-	2.25	2.50	2.50	2.75	-	2.75	3.00	3.00	3.00	-
Scenario 3: Pessimistic scenario															
Real GDP growth (QoQ% annualised)															
United States	6.40	8.80	6.00	-3.30	5.80	-3.30	10.60	4.60	4.50	2.60	3.60	3.20	3.10	3.10	4.10
Eurozone	-1.20	3.40	5.60	0.20	3.30	-0.30	3.50	3.10	2.20	2.00	2.00	2.40	2.40	2.40	2.40
China (YoY%)	3.00	4.00	3.00	0.00	2.80	3.00	5.00	6.00	6.00	5.00	6.00	5.80	5.50	5.80	5.78
Japan	-3.90	-0.10	2.10	-1.60	1.30	2.10	1.20	0.70	0.90	0.70	0.80	1.20	1.20	1.20	1.00
United Kingdom	-5.89	18.09	7.27	-5.31	5.33	0.49	3.61	2.83	2.34	2.18	1.42	0.57	0.74	1.15	1.64
Real GDP level (Indexed at 4Q19=100)															
United States	99.11	101.22	102.70	101.85	-	101.00	103.57	104.74	105.90	-	106.84	107.69	108.51	109.34	-
Eurozone	94.46	95.25	96.56	96.60	-	96.53	97.36	98.11	98.65	-	99.14	99.72	100.32	100.91	-
Japan	98.02	98.00	98.51	98.11	-	98.62	98.91	99.09	99.31	-	99.51	99.80	100.10	100.40	-
United Kingdom	91.29	95.16	96.85	95.53	-	95.65	96.50	97.18	97.74	-	98.09	98.23	98.41	98.69	-
EUR/USD	1.18	1.20	1.20	1.10	-	1.11	1.12	1.13	1.15	-	1.16	1.17	1.18	1.20	-
US 10-year yield (%)	1.74	1.50	1.50	0.75	-	1.00	1.00	1.25	1.25	-	1.25	1.25	1.25	1.25	-

Source: ING. Note most growth forecasts rounded to nearest whole or half number)

*Scenario two is our current base case for China

GDP forecasts

(%YoY)	1Q21F	2Q21F	3Q21F	4Q21F	2021F	2022F	2023F
World (USD)	4.0	10.8	4.6	4.8	4.8	4.3	3.7
US	0.4	13.3	7.1	7.5	6.9	4.8	3.0
Japan	-1.5	7.1	2.6	0.5	2.2	1.8	1.3
Germany	-3.0	9.8	4.7	5.3	4.0	4.7	1.7
France	1.2	17.5	1.3	4.0	5.6	3.8	2.0
UK	-6.1	22.5	6.9	6.6	6.7	4.5	1.1
Italy	-0.8	14.7	0.9	3.8	4.3	4.0	2.5
Canada	0.3	13.6	6.2	5.4	6.2	4.6	2.3
Australia	1.1	9.6	6.5	4.1	5.2	2.9	2.8
New Zealand	3.6	14.5	0.9	3.0	5.2	2.8	2.9
Eurozone	-1.5	13.0	2.5	4.6	4.4	4.0	1.7
Austria	-5.5	10.7	1.5	5.3	3.0	4.3	2.5
Spain	-4.3	18.4	4.2	5.8	5.5	5.0	2.0
Netherlands	-2.8	9.0	2.3	3.4	2.9	2.8	1.6
Belgium	-0.6	13.7	2.7	3.4	4.5	2.8	1.9
Ireland	12.8	13.6	3.9	9.6	9.8	2.9	2.3
Greece	-2.3	8.5	7.4	6.0	4.7	3.3	2.5
Portugal	-5.4	13.8	2.8	4.1	3.5	5.1	1.7
Switzerland	-0.3	8.6	2.4	2.8	3.3	2.6	1.3
Sweden	-0.1	9.1	2.0	2.4	3.2	2.1	1.3
Norway	-0.3	7.4	3.5	2.5	3.2	2.8	2.0
Bulgaria	-1.8	10.3	6.7	5.6	5.4	3.9	3.2
Croatia	-0.7	14.8	10.5	7.4	8.0	4.1	4.0
Czech Republic	-2.12	8.27	2.91	3.33	3.10	4.06	3.0
Hungary	-2.1	17.4	8.2	6.2	7.4	4.4	3.9
Poland	-0.90	10.10	5.40	6.90	5.40	5.00	5.20
Romania	-0.2	14.7	10.0	6.7	7.5	5.0	4.5
Turkey	7.0	19.0	-1.6	1.0	5.5	4.0	4.0
Serbia	1.7	13.5	7.0	6.1	7.0	5.0	5.0
Russia	-1.0	6.0	3.0	1.5	2.5	2.2	3.0
Kazakhstan	-1.5	3.1	3.1	2.4	3.2	3.7	4.0
Ukraine	-1.5	10.2	4.2	2.7	4.3	4.7	4.0
Azerbaijan	1.30	2.21	1.89	2.47	2.70	2.10	2.5
China	18.30	6.00	5.00	5.50	8.70	4.60	4.50
Hong Kong	7.9	8.5	6.0	5.0	6.9	3.1	4.3
India	1.6	17.1	4.9	4.3	7.8	6.7	6.4
Indonesia	-0.7	7.3	5.2	4.1	4.0	4.3	5.0
Korea	1.8	5.8	4.3	3.5	3.8	2.7	3.2
Malaysia	-0.5	13.9	2.5	6.6	5.3	4.6	4.4
Philippines	-4.2	11.0	5.9	5.0	4.4	4.5	4.7
Singapore	1.30	12.20	4.50	2.50	4.90	3.50	3.0
Taiwan	8.9	6.1	1.0	0.5	4.1	2.3	3.5
Thailand	-2.60	6.20	2.30	3.10	2.10	2.80	3.00

Source: ING estimates

CPI forecasts (pa)

(%YoY)	1Q21F	2Q21F	3Q21F	4Q21F	2021F	2022F	2023F
World	1.8	3.0	3.1	3.4	2.5	2.7	2.7
US	1.9	4.5	4.1	4.1	3.6	3.0	2.6
Japan	-0.4	-0.2	0.0	0.7	0.0	0.7	0.6
Germany	1.7	2.0	3.1	3.9	2.7	1.3	1.7
France	0.7	1.4	1.7	1.4	1.3	1.5	1.3
UK	0.6	1.7	1.7	2.3	1.6	1.9	1.6
Italy	0.8	1.2	1.7	1.7	1.4	1.3	1.3
Canada	1.4	3.7	3.6	3.4	3.0	2.7	2.3
Australia	1.1	3.8	2.7	2.4	2.7	2.5	2.4
New Zealand	1.5	2.8	2.9	2.9	2.5	2.3	2.2
Eurozone	1.0	1.7	2.2	2.0	1.7	1.7	1.6
Austria	1.5	1.9	2.1	1.7	1.8	1.7	1.7
Spain	0.5	2.1	1.9	1.7	1.6	1.7	1.7
Netherlands	1.8	1.9	1.6	2.0	1.8	1.6	1.8
Belgium	1.1	2.5	1.8	1.9	1.8	1.7	1.8
Ireland	0.1	1.7	2.1	2.1	1.5	1.7	1.5
Greece	-2.1	-0.5	1.0	1.1	-0.1	0.9	0.8
Portugal	0.2	0.5	1.5	1.7	1.0	1.7	1.7
Switzerland	-0.4	0.6	1.0	0.5	0.4	0.6	0.6
Sweden	1.7	2.3	1.9	1.9	1.8	1.5	1.4
Norway	3.0	3.0	3.0	3.2	3.0	2.4	2.0
Bulgaria	0.0	2.3	3.2	3.7	2.3	3.0	3.0
Croatia	0.4	2.1	1.7	2.1	1.6	1.6	1.5
Czech Republic	2.4	2.4	2.5	2.9	2.2	1.9	2.4
Hungary	3.7	5.1	4.7	4.8	4.4	3.3	3.1
Poland	2.7	4.6	4.7	5.1	4.3	3.8	3.2
Romania	3.1	3.3	3.8	4.3	3.7	3.2	2.5
Turkey	16.2	17.0	17.0	14.5	16.2	12.2	9.9
Serbia	1.4	2.9	2.9	3.6	2.7	2.9	3.0
Russia	5.8	6.2	6.2	5.0	5.8	4.3	5.2
Kazakhstan	7.0	6.5	6.5	6.1	6.7	6.1	5.5
Ukraine	8.5	9.5	9.2	7.5	8.7	6.0	5.0
Azerbaijan	4.2	4.9	5.5	4.9	4.8	3.2	3.5
China	-0.1	1.0	1.4	2.5	1.2	2.4	2.0
Hong Kong	1.3	1.0	2.4	3.5	2.1	2.4	2.5
India	4.9	5.1	5.3	5.5	5.5	5.2	5.1
Indonesia	1.4	1.7	2.5	2.6	2.2	3.2	3.1
Korea	1.1	2.5	2.3	2.7	2.2	1.7	1.7
Malaysia	0.5	3.6	2.3	1.6	2.0	1.5	1.7
Philippines	4.5	4.4	3.7	3.5	4.0	3.0	3.4
Singapore	0.8	2.1	1.7	1.5	1.5	1.2	1.3
Taiwan	1.0	1.6	1.7	1.4	1.4	1.5	2.0
Thailand	-0.5	2.3	1.2	1.0	1.0	1.1	1.5

Source: ING estimates

Oil forecasts (avg)

$/bbl	1Q21F	2Q21F	3Q21F	4Q21F	2021F	2022F	2023F
Brent	61	67	70	70	67	70	75

Source: ING estimates

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