Fast Comment Global

Upward revision of our central bank forecasts

- Fed primed for July rate rise, but beyond that hiking cycle halted by cooling economy
- ECB inflation fight has further to run; We now see rate rise in September as well
- Bank of England, Norges Bank and the Riksbank also revised up

Fed primed for July rate rise, but beyond that hiking halted by cooling economy

We now see the Federal Reserve raising its policy rate by 25bp in July, despite having made some progress on inflation, with gradual slowing in underlying inflation measures. Tighter credit conditions should also help the Fed's inflation-fighting cause, see e.g. the negative private credit impulse tendency in our May Global Macro Forecast report. It is also true that pandemic-era excess saving is diminishing, as household incomes are not rising fast enough to sustain the current spending trend (see graph), but on the other hand the NFIB small business survey suggests that firms are still raising prices to protect profits, and continue hiring - the labour market is still too hot. All told, we expect the hiking cycle to be halted after the summer as the cooling of the economy continues, and a shallow recession takes hold.

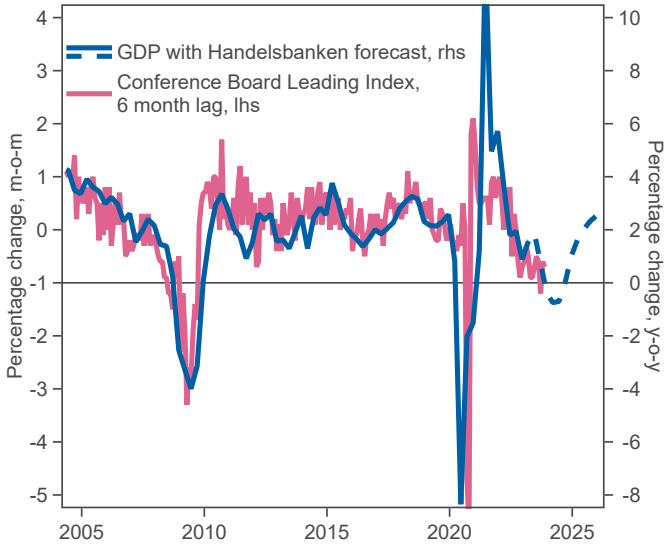
ECB inflation fight has further to run; We add September hike to our forecast

Turning to the Eurozone, headline inflation is falling on the back of declining energy prices, but underlying inflation remains sticky. That has been noticeable in not least HICP excluding food and energy, as well as various measures of labour costs. Due to both a hawkish tilt in the latest Eurosystem macroeconomic forecasts (at the June ECB meeting) and recent commentary from key ECB Governing Council members, we add one more policy rate hike to our forecast. We now expect that the ECB will hike by 25bp not only in July, but also at its September meeting. Hence, we see the ECB deposit rate reach a 4% peak in this cycle.

Bank of England, Norges Bank and the Riksbank also revised up

On Friday, we raised our Bank of England forecast for the second time in a matter of weeks. And today, we are also raising our forecasts for Norges Bank and the Riksbank, see separate comments and the graph below.

US recession signal strengthening



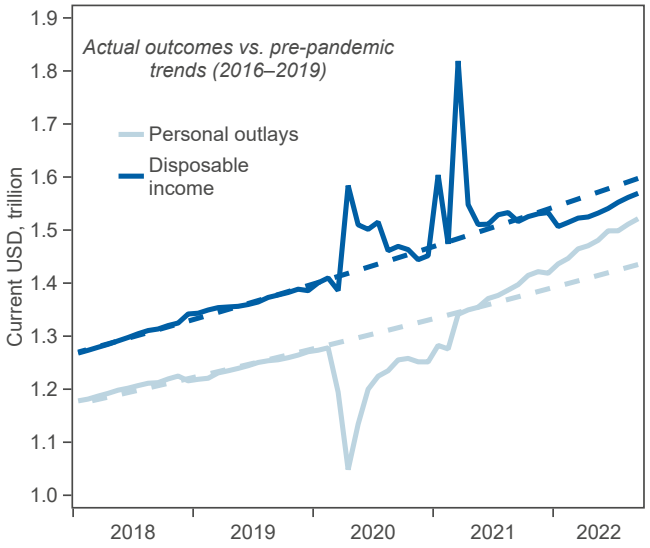
Sources: Macrobond, Conference Board and Handelsbanken

...but inflationary feedback-loop not yet broken



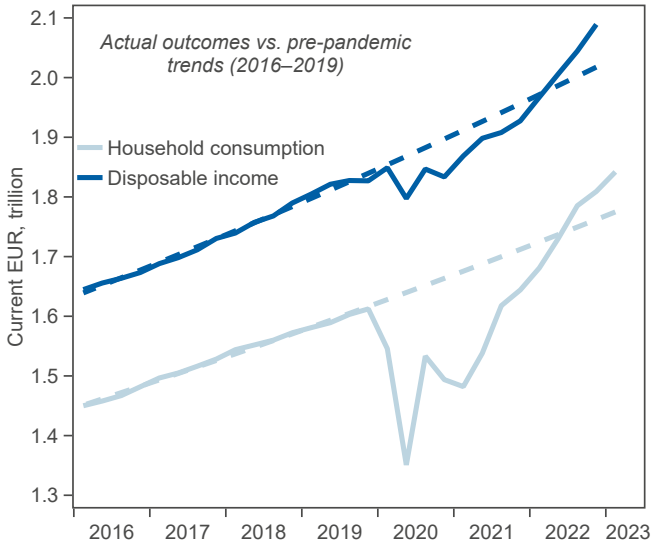
Sources: Macrobond, NFIB and Handelsbanken

US incomes not strong enough to sustain spending trend



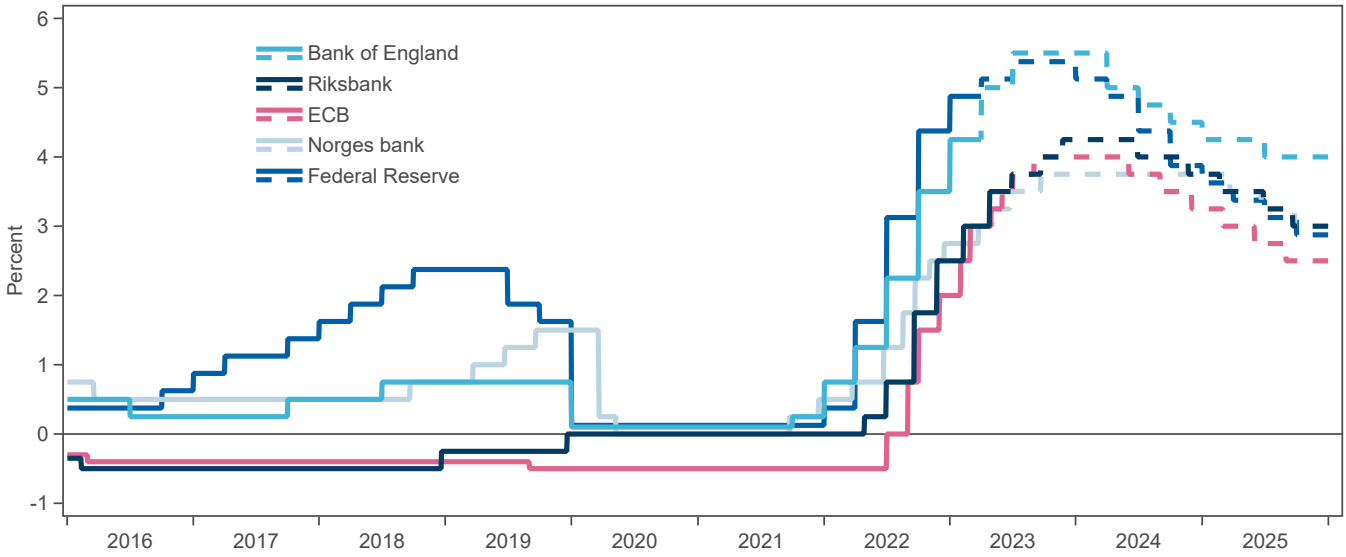
Sources: Macrobond, BEA and Handelsbanken

Eurozone nominal economy still surging



Sources: Macrobond and Handelsbanken

Central bank forecasts revised up



Sources: Macrobond, national sources and Handelsbanken

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