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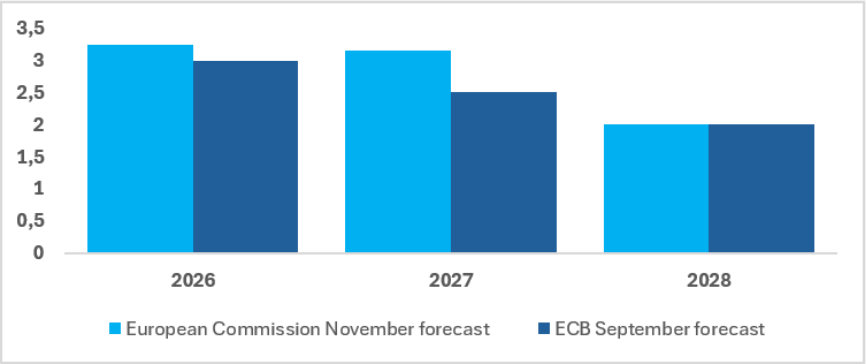
Inflationary pressures persist

In the euro area, it has reached its highest level since 2023

A trajectory favoring a rate hike in December

- **Inflation** The European Commission has raised its inflation forecasts to 3.2% in 2026 and 3.1% in 2027, before a slowdown to 2.1% in 2028.
- **Kevin Warsh** wants to limit the Fed's forward guidance, while differences over the pace of tightening are widening amid persistent inflation and a resilient economy.
- **FED** GDP growth was revised up to an annualized 4.3% in the third quarter, despite early signs of a slowdown in household spending.
- **BoE** Andrew Bailey believes that persistently high energy prices could warrant another rate hike in December.
- **RBA** One-year inflation expectations reached 4.19% in November, strengthening the case for a prolonged restrictive policy stance by the RBA.

Euro area inflation forecasts



Source: Bloomberg 26/11//2026

The inflation outlook for the euro area has deteriorated since the ECB's latest projections. The European Commission now forecasts average inflation of 3.2% in 2026 and 3.1% in 2027, compared with the ECB's September forecasts of 3.0% and 2.5%, respectively. This revision is due in particular to higher energy futures prices amid the ongoing conflict in the Middle East, as well as the gradual broadening of inflationary pressures. Inflation is then expected to slow markedly to 2.1% in 2028, close to the ECB's 2% target and its previous forecast.

Figure of the week

4.3%

This is the annualized growth rate of U.S. GDP in the third quarter of 2026.

Kevin Warsh

Differences within the Federal Reserve over the pace of monetary tightening are widening. C. Waller is advocating a 50 basis-point hike in December to tackle inflation more forcefully, while John Williams favors a more gradual approach. Kevin Warsh, for his part, is maintaining a cautious stance and refusing to publicly commit to a rate path. Since taking the helm at the Fed in May, Warsh has sought to limit forward guidance in order to preserve the institution's flexibility. This approach is, however, struggling to gain traction. Against a backdrop of persistent inflation and resilient economic activity, the Fed's stance nevertheless remains restrictive, leaving open the possibility that rates will remain elevated for an extended period. Kevin Warsh has also cut monetary policy statements to around 130 words their shortest format since 2008 shortened press conferences to less than 40 minutes, and stopped taking part in the quarterly economic projections.

USA: U.S. growth beats expectations

U.S. growth surprised to the upside in the third quarter, demonstrating the economy's continued resilience despite high interest rates. Between July and September, GDP grew at an annualized rate of 4.3%, 0.9 percentage points above the initial estimate of 3.4% and nearly double the 2.2% recorded in the previous quarter.

This acceleration is mainly explained by the strength of investment, particularly in infrastructure related to artificial intelligence, as well as the resilience of household consumption.

The rebound in public spending also supported activity, while the decline in exports weighed on growth.

Early fourth-quarter indicators point to a possible slowdown in household consumption.

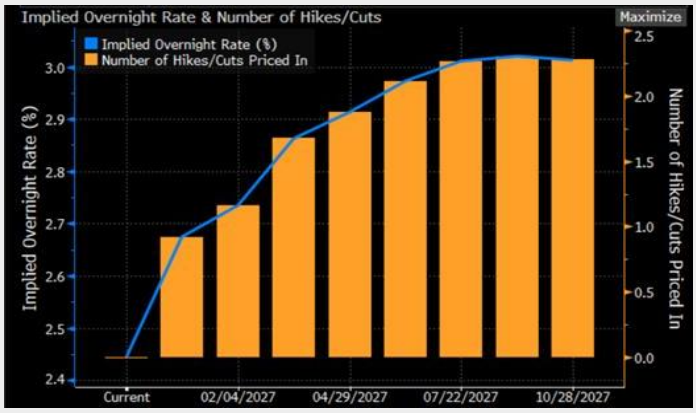
The Beige Book, a qualitative report published by the Fed, reports slight to moderate growth in eight of the twelve districts, while the other four recorded no growth. Employment also edged up, while households are becoming more selective in their spending. In October, consumption increased in value terms but remained stable after adjusting for inflation.

This slowdown in demand could ease inflationary pressures, without, however, calling into question the prospect of a further Fed rate hike in December.

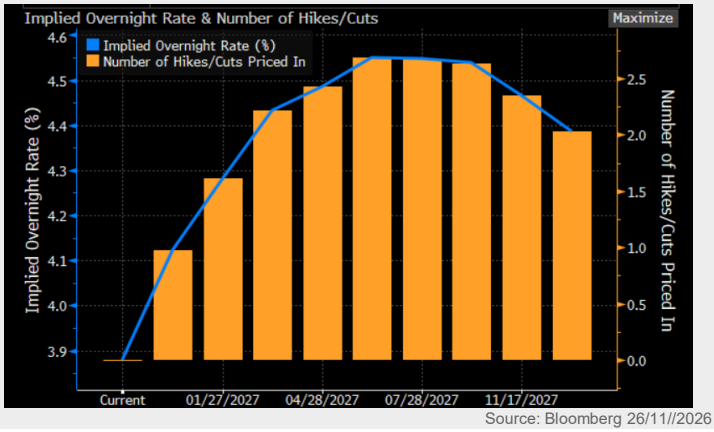
"Inflation has been above target for more than five and a half years, and each additional day presents a major risk"

Lisa Cook - Federal Reserve Governor, 20/11/2026

ECB



FED



Source: Bloomberg 26/11//2026

Interest rate projections for the euro area indicate that the ECB's tightening cycle is far from over. Markets have almost fully priced in a 25-basis-point hike at the 17 December 2026 meeting, with an estimated probability of 92.2% and an implied rate of 2.67%.

A second hike is expected in the first half of 2027, taking the rate to 2.97%. The curve continues to rise, reaching a peak of close to 3.02% in September.

In the United States, the curve retains an upward bias. A 25-basis-point hike is almost fully priced in for the 9 December 2026 meeting, with a 97.6% probability of an increase and an implied rate of 4.12%.

The curve then continues to rise, reflecting several further hikes, before reaching a peak of close to 4.55% in June 2027. It then points to a slight easing in the second half of the year.



Andrew Bailley, BOE

A. Bailey believes the BoE should consider a rate hike

Andrew Bailey, Governor of the Bank of England, believes that persistently high energy prices could warrant another rate hike at the 17 December meeting. According to Bailey, if energy prices do not fall, the Bank of England will have to raise rates further. The institution now expects inflation to peak at around 5% in the summer of 2027.

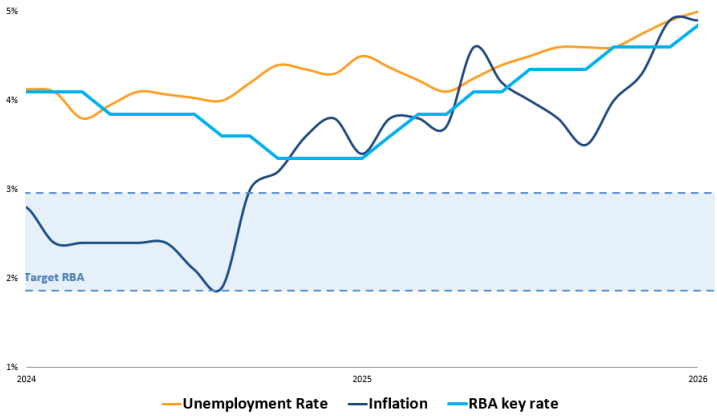
Andrew Bailey also warned that disinflation may be losing momentum, given the resilience of wages and services prices. The Bank of England is particularly concerned that the energy shock could feed through to domestic inflation on a lasting basis via wages and businesses. The Bank of England had raised rates by 25 basis points to 4% on 5 November. Markets now put the probability of another hike in December at close to 80%.

Inflation surges in Australia

Annual inflation in Australia accelerated to 4.9% in October, up from 4.3% the previous month, confirming the persistence of price pressures. Australian businesses also expect inflation of 4.19% over the next twelve months, up from 3.99% in October. Longer-term expectations are also rising, with the five-to-ten-year indicator reaching 3.86%, fuelling concerns about a sustained increase in inflation expectations.

Despite five rate hikes in 2026, inflationary pressures remain high. The RBA therefore raised its policy rate to 4.85% in November, its highest level in eighteen years. With underlying inflation also exceeding expectations in October, the central bank now expects it to return to its target range only towards the end of 2027, before reaching 2.5% in mid-2028.

This situation reinforces the prospect of a prolonged restrictive monetary policy, despite the gradual deterioration in the labour market.



Source: Bloomberg, 26/11//2026

The RBA must nevertheless contend with a slowing economy and rising unemployment, which has reached its highest level in five years. Businesses therefore expect the policy rate to be 4.70% in one year, suggesting a slight monetary easing over that horizon.

News

- **UK |** Annual inflation accelerates to 3.6% in October, up from 3.5% the previous month.
- **Japan |** Annual inflation accelerates to 2.3% in October, up from 2.1% the previous month.

Agenda

- **30 November |** Publication of the inflation indices for France, Italy and Germany.
- **1 December |** Publication of the November eurozone inflation data.

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