CHART OF THE WEEK

8 April 2026

DEMAND SHOULD CONTRIBUTE LESS TO INFLATION IN 2026 THAN IN 2022 IN THE EUROZONE AND THE UNITED STATES

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Will a different situation lead to different outcomes? In other words, will the combination of weaker demand and more moderate supply constraints in 2026, as compared to 2022, help to limit the rise in inflation? Having illustrated the impact of the energy shock caused by the war in the Middle East on six key variables in the Eurozone (see here), we now move on to a new comparison between these two dates, this time focusing on the relative levels of supply and demand issues. In the Eurozone, weaker demand has resulted in a more pronounced decline in inflation, unlike in the United States, where both demand and inflation have remained more sustained. In both regions, business climate surveys have recently shown a deterioration in some supply-side indicators (input prices), while demand indicators have not weakened yet. This asymmetry is likely to push inflation upwards in the coming months, albeit to a lesser extent than in 2022.

In the Eurozone, demand constraints are limiting the production, but supply constraints remain significant

PERCENTAGE OF BUSINESSES FACING DEMAND OR SUPPLY FACTORS LIMITING THEIR PRODUCTION

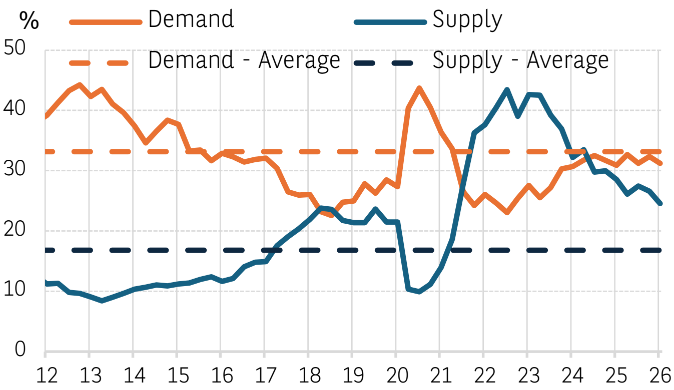

CHART 1

SOURCE: DG ECFIN, BNP PARIBAS

In the US, demand is contributing a bit more to inflation

DEMAND AND SUPPLY CONTRIBUTIONS TO PCE INFLATION

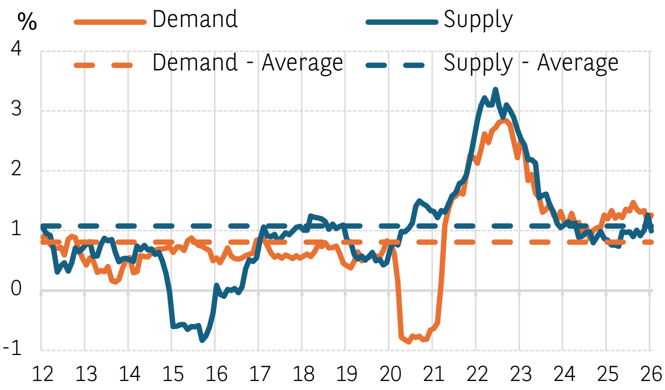

CHART 2

SOURCE: BEA, BNP PARIBAS

In the Eurozone, demand is exerting a downward pressure on inflation, unlike in 2022. The European Commission's survey shows to which extent supply constraints (such as shortages of inputs or labour, which drive inflation upwards) or demand constraints (which limit inflation) are affecting business output. The increase in supply constraints and the decrease in demand constraints, typical of the post-Covid period, were two factors that contributed to the acceleration of inflation at the time (10.6% y/y at its peak in October 2022). The level of these constraints in January 2026 allows for cautious optimism (*see Chart 1*). The lack of demand has exerted a greater influence than supply since mid-2024, while supply-side constraints have continued to ease. This trend has allowed inflation to return to the ECB's 2% target. However, it has not fallen below this target, as supply constraints, despite their reduction, remain significantly higher than the historical average. Furthermore, while harmonised inflation rose by 0.6 percentage points to 2.5% year-on-year in March (at this stage, only due to the rise in fuel prices), the conflict in Iran could well trigger a resurgence of these constraints, as indicated by the rise in input price indices in business climate surveys. These same surveys do not currently indicate that these pressures are being passed on to selling prices by the end of Q2, but this may occur in the longer term, which would then suggest a rebound in core inflation.

In the United States, demand plays a more significant role in inflation, but less so than in 2022. In the absence of a survey similar to that conducted by the European Commission, we use a different method to compare the impact of supply and demand (*see Chart 2*): we examine the direct contributions of supply and demand to inflation dynamics based on a breakdown between these two factors, as provided by the Bureau of Economic Analysis (using a methodology developed by A. Shapiro from the San Francisco Fed). Although significantly lower than in 2022, the contribution of supply to inflation is not negligible and plays roughly the same role as in 2018–19. These constraints even appear to have increased slightly since the Trump administration's tariff hikes and are likely to rise further with the recent rebound in input prices and delivery times. The contribution of demand to inflation continues to be more substantial, reflecting the resilience of consumption (and its post-Covid outperformance; see our analysis). However, this momentum has been moderating in recent months, against a backdrop of a deteriorating labour market.

Inflation is expected to rise due to increased supply constraints, before easing. In both regions, the war in Iran is likely to trigger a resurgence in supply constraints, although probably less than in 2022. Nevertheless, these constraints are expected to push inflation higher, while the negative effects of the conflict on demand would take longer to materialise, as would their disinflationary effects.

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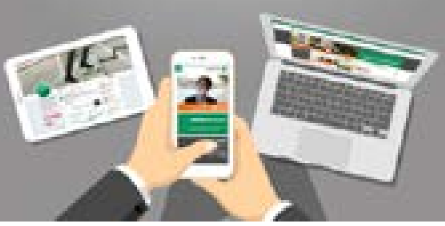

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