

EUROZONE: LOOKING FOR HOPEFUL SIGNS IN THE INFLATION DATA

The September data show that disinflation continues in the Eurozone. Moreover, this development is broad-based and for more than half of the HICP items, 3-month inflation is below the ECB's target expressed on an equivalent basis. This increases the likelihood that the decline in inflation continues to spread through the Eurozone economy. However, despite the progress, inflation remains well above target. This implies that, if going forward monthly core inflation would correspond to the ECB's target (expressed as a monthly number), it would still take until September next year for it to get back to 2% in terms of annual inflation. Finally, the latest geopolitical developments imply a risk of higher energy prices, which could slow the decline of headline inflation and complicate matters for core inflation due to spillover effects.

Disinflation continues in the Eurozone. In September, annual headline inflation declined to 4.3% from 5.2% the month before and 9.9% in September last year. Energy prices were down (-4.6%) and inflation was lower for industrial goods excluding energy (4.1% versus 4.7% the month before) as well as services (4.7% versus 5.5% in August).

The broad-based nature of the disinflation trend is illustrated in chart 1, which shows the ranked inflation over 3 months of the HICP items¹. This inflation measure reached its peak in April of last year. Since then, the curve has gradually shifted downwards and the frequency of extremely negative or positive observations -the left and right part of the chart- has declined as well. Chart 2 provides the same information but focuses on the middle part of the curves. The downward shift of the inflation curve is clearly visible. Consequently, more than half of the HICP items show 3-month inflation below the ECB's target calculated on an equivalent basis.

To shed a light on the speed and extent of disinflation, table 1 looks at the major HICP categories. When inflation is below the ECB's target the cell is highlighted. Annual inflation peaked in October of last year, so this month serves as a reference point. Since then, headline inflation, food inflation, non-energy industrial goods inflation and energy inflation have seen significant declines. Nevertheless, except for energy inflation, they still showed annual inflation well above target in September 2023.

On the other hand, the latest readings on 3-month inflation have brought hopeful news for food inflation and non-energy industrial goods inflation. The recent rebound in energy inflation is a source of concern because of its direct economic effects -households' purchasing power, the cost structure of companies, its impact on headline inflation- as well as spillover risks to other price categories if it were the start of a new trend. Turning to services, a diverse picture emerges.

EUROZONE INFLATION: RANKED HICP ITEMS (3 MONTH, NON-ANNUALISED)

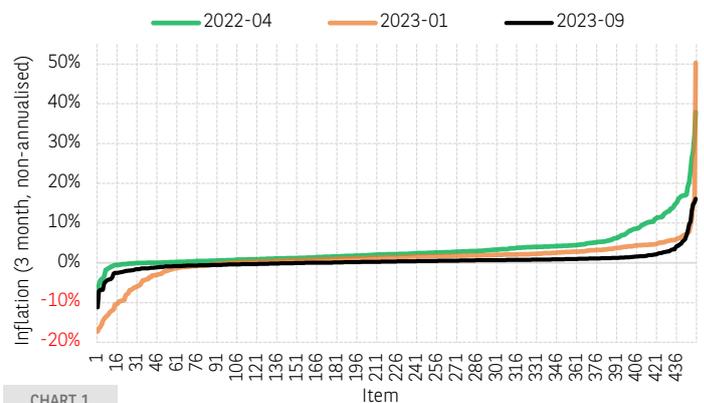


CHART 1

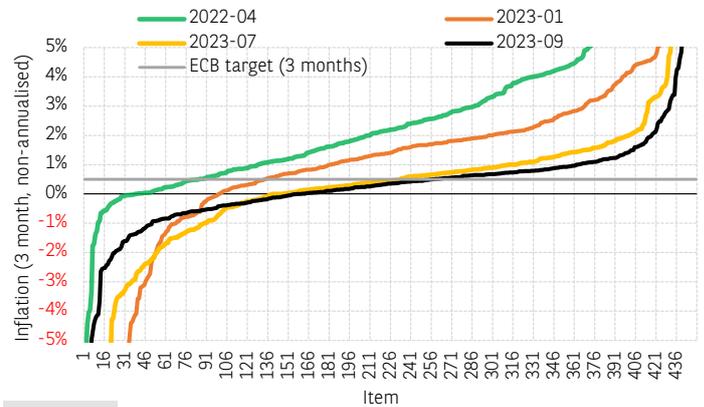


CHART 2

SOURCE: EUROSTAT, BNP PARIBAS

¹ The choice for a 3-month window to calculate the change in the price index seeks to strike a balance between having inflation sufficiently sensitive to the changes in the economic environment, whilst avoiding the potential volatility of inflation calculated on a month-over-month basis.

“ The broad-based nature of disinflation should be welcomed because it increases the likelihood that the decline in inflation continues to spread through the Eurozone economy. However, this should not make us forget that despite the progress, inflation remains well above target and it is likely to take time before it gets back to 2%.



EUROZONE INFLATION

TABLE 1	annual inflation			3-month inflation									weight HICP	
	2022-10	2023-09	Change in annual inflation versus peak (Oct 2022)	2023-01	2023-02	2023-03	2023-04	2023-05	2023-06	2023-07	2023-08	2023-09		
All-items HICP	10.6%	4.3%	-6.3%	-0.6%	0.2%	1.5%	2.4%	1.6%	0.9%	0.2%	0.7%	0.8%	100%	
Food including alcohol and tobacco	13.1%	8.8%	-4.3%	3.0%	3.8%	4.4%	3.1%	1.8%	0.9%	0.8%	0.5%	0.2%	19.98%	
Non-energy industrial goods	6.1%	4.1%	-2.0%	-1.1%	-0.8%	1.2%	3.8%	3.3%	0.9%	-2.5%	-2.2%	0.0%	26.27%	
Energy	41.5%	-4.6%	-46.1%	-7.8%	-7.1%	-2.7%	-4.2%	-5.2%	-3.6%	-3.0%	2.4%	4.6%	10.23%	
Services (overall index excluding goods)	4.3%	4.7%	0.4%	0.3%	1.5%	1.4%	2.7%	2.0%	2.0%	2.2%	2.2%	0.7%	43.53%	
Services related to communication	-0.7%	0.0%	0.7%	0.9%	1.0%	1.2%	0.5%	0.5%	-0.2%	-0.8%	-1.0%	-0.4%		2.23%
Services related to housing	2.9%	3.7%	0.8%	1.1%	1.4%	1.4%	1.0%	0.8%	0.7%	0.8%	0.7%	0.7%		9.52%
Services - miscellaneous	2.7%	4.1%	1.4%	1.8%	1.9%	1.8%	0.9%	0.8%	0.8%	0.7%	0.4%	0.5%		9.23%
Services related to recreation, including repairs and personal care	7.3%	6.7%	-0.6%	-0.9%	1.9%	1.5%	4.4%	3.8%	4.0%	4.7%	4.5%	1.3%		15.25%
Services related to recreation and personal care, excluding package holidays and accommodation	6.1%	5.9%	-0.2%	1.9%	1.9%	1.8%	1.6%	1.4%	1.4%	1.2%	1.1%	1.1%		11.62%
Services related to package holidays and accommodation	12.5%	7.4%	-5.1%	-10.4%	2.9%	0.4%	14.3%	11.8%	12.4%	15.4%	14.7%	1.9%		3.63%
Services related to transport	5.9%	3.9%	-2.0%	-0.1%	1.0%	0.8%	4.2%	1.8%	1.8%	1.6%	2.4%	0.0%		7.31%
Overall index excluding energy, food, alcohol and tobacco	5.0%	4.5%	-0.5%	-0.2%	0.6%	1.3%	3.1%	2.5%	1.6%	0.4%	0.6%	0.4%		69.79%

TABLE 2	average monthly inflation since									
	2023-01	2023-02	2023-03	2023-04	2023-05	2023-06	2023-07	2023-08	2023-09	
All-items HICP	0.36%	0.43%	0.37%	0.28%	0.21%	0.26%	0.26%	0.43%	0.32%	
Food including alcohol and tobacco	0.60%	0.51%	0.34%	0.19%	0.19%	0.14%	0.08%	0.05%	0.07%	
Non-energy industrial goods	0.23%	0.50%	0.46%	0.15%	0.03%	-0.01%	0.01%	1.34%	2.11%	
Energy	-0.21%	-0.30%	-0.19%	0.15%	0.36%	0.98%	1.53%	2.39%	1.53%	
Services (overall index excluding goods)	0.46%	0.52%	0.48%	0.45%	0.31%	0.33%	0.24%	-0.32%	-0.85%	
Services related to communication	0.06%	-0.06%	-0.08%	-0.11%	-0.19%	-0.27%	-0.14%	-0.07%	-0.07%	
Services related to housing	0.31%	0.27%	0.24%	0.24%	0.24%	0.22%	0.23%	0.17%	0.14%	
Services - miscellaneous	0.35%	0.24%	0.22%	0.22%	0.19%	0.19%	0.18%	0.15%	0.36%	
Services related to recreation, including repairs and personal care	0.75%	0.98%	0.91%	0.88%	0.69%	0.65%	0.44%	-0.58%	-1.82%	
Services related to recreation and personal care, excluding package holidays and accommodation	0.47%	0.43%	0.40%	0.40%	0.37%	0.35%	0.35%	0.32%	0.27%	
Services related to package holidays and accommodation	1.71%	2.82%	2.58%	2.42%	1.77%	1.68%	0.85%	-2.99%	-7.40%	
Services related to transport	0.29%	0.46%	0.36%	0.31%	-0.10%	0.17%	0.00%	-1.06%	-1.78%	
Overall index excluding energy, food, alcohol and tobacco	0.37%	0.51%	0.46%	0.32%	0.20%	0.10%	0.14%	0.28%	0.22%	

SOURCE: EUROSTAT, BNP PARIBAS

For several categories -overall index, communication-related, housing-related, miscellaneous services- annual inflation in September was higher than in October last year. For other categories -recreation, package holidays, transport services- annual inflation has declined. Except for communication, all categories have annual inflation well above target. Looking at the evolution of 3-month inflation this year, communication-related services inflation has been low to negative since last April. Housing-related services have also seen a slower pace of price increases although inflation remains above target. Transport-related services inflation has also remained high although over the past three months inflation has dropped to zero. Package holidays and accommodation have seen a huge jump in inflation during spring and summer although the latest data show a significant decline in inflation. Finally, the recent evolution of core inflation ('Overall index excluding energy, food, alcohol and tobacco') is hopeful. Of the last three months, two had 3-month inflation slightly below target (0.4%) and one slightly above (0.6%).

Table 2 looks at the price data from another angle by showing the average monthly inflation for ever longer horizons². This allows to gauge

the inflation momentum and whether there is convergence towards the ECB target. One can note a favourable development in terms of food inflation and since April of non-energy industrial goods. Energy inflation has seen significant fluctuations and rebounded recently. Package holidays and accommodation as well as transport-related services have also been volatile. Their recent decline has pulled down overall services inflation.

To conclude, the picture that emerges from a detailed look at inflation developments thus far this year is mixed. On the one hand, the broad-based nature of disinflation should be welcomed because it increases the likelihood that the decline in inflation continues to spread through the Eurozone economy. On the other hand, despite the progress, inflation remains well above target. This implies that, if going forward monthly core inflation would correspond to the ECB's target (expressed as a monthly number), it would still take until September next year for it to get back to 2% in terms of annual inflation. Finally, the latest geopolitical developments imply a risk of higher energy prices, which could slow the decline of headline inflation and complicate matters for core inflation due to spillover effects.

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² The table shows the latest reading (September 2023) as well as average inflation over the past 2, 3, etc. months.