

CHART OF THE WEEK

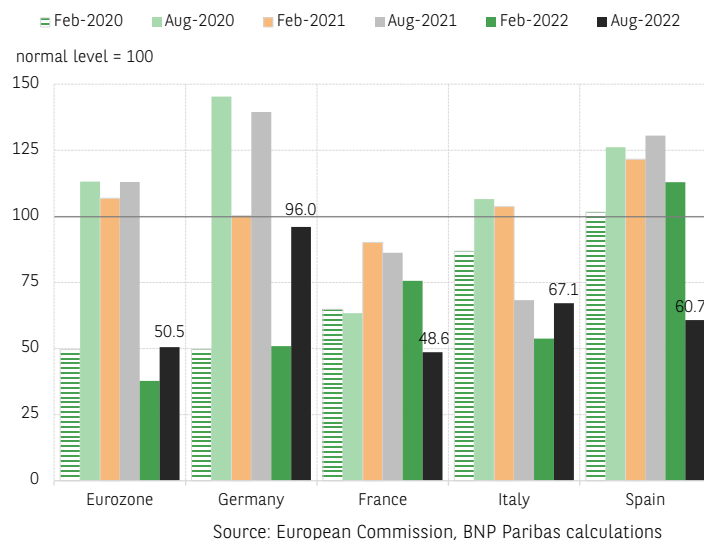


12 October 2022

EUROZONE: THE CONTRIBUTION OF SUPPLY-SIDE ISSUES TO FOOD PRICE INFLATION

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Eurozone: index of inventories in the agrifood sector



Eurozone inflation reached the 10% y/y mark in September, according to Eurostat's preliminary estimate, the highest-ever reading since the zone's inflation rate has been measured. Energy prices were a major factor (up 40.8% y/y). In parallel, food prices rose at an increasingly rapid pace, with the harmonised index (also including alcohol and tobacco) up 11.8% y/y in September.

Some of this increase in food prices stemmed from the impact of the surge in energy prices on the sector's production costs. Even so, supply-side constraints linked to production difficulties also appear to have had a hand in this. Finished goods inventories in the agrifood sector were well below their normal levels, unlike other manufacturing sectors (which had built their inventories back up again during the slowdown in demand over recent months).

This low level of inventories in the agrifood sector reflects supply-related constraints. These were exacerbated by production difficulties arising from the drought that hit most Eurozone countries during summer 2022.

In France, strikingly, the increase in the price index's food component accelerated significantly in September (up 9.9% y/y, according to Insee's index, versus 7.9% one month earlier), while food price inflation had previously remained well below the level in the remainder of the Eurozone as a result of the caps on regulated gas and electricity prices.

Food price inflation is expected to remain a factor for the next few months, both in the Eurozone and in France, owing to the persistent effect of higher energy prices and also because demand for food products is not very cyclical, which means demand is unlikely to be affected much by the risk of recession in the Eurozone. So the shortfalls are set to continue until the situation improves, which, in turn, will have an impact on inflation.

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Published by BNP PARIBAS Economic Research
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Internet: www.group.bnpparibas.com - www.economic-research.bnpparibas.com
Head of publication : Jean Lemierre / Chief editor: William De Vijlder



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