

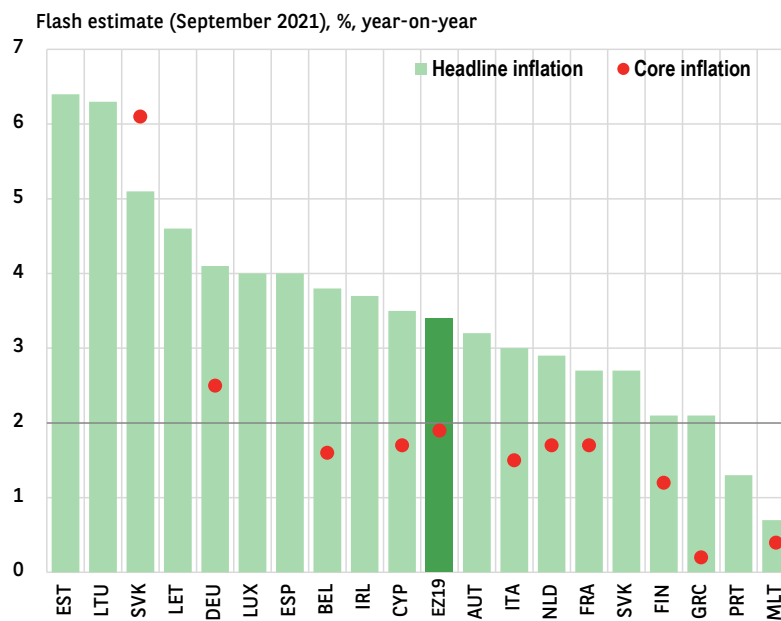
# CHART OF THE WEEK



06 October 2021

## EUROZONE: HEADLINE INFLATION AT ITS HIGHEST SINCE 2008

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Source: Eurostat, BNPParibas

Since year-end 2020, Eurozone inflation has risen almost vertically. A year ago, year-on-year inflation was still slightly negative, but by September 2021, it had risen to 3.4% (according to Eurostat's preliminary estimate), the highest level since September 2008. The surge was strongest in Germany, followed by Spain, and to a lesser extent, Italy and France. In Germany, inflation bears the marks of the temporary VAT cut in H2 2020. In Spain, the upturn in energy prices was accentuated by a higher VAT rate on electricity than in most of the other European countries. The updating of weights in the price index also played an important role at the beginning of the year.

Does this upsurge signal that inflation is back? No, at least not for the moment, since price increases are neither widespread nor self-sustaining. At 1.9%, core inflation is not as high. For the most part, the increase in inflation is due to a relative, and hopefully temporary, distortion of prices. A major base effect is at work, notably due to oil prices. It is exacerbated by the recent sharp rise in gas prices. There is also the impact of supply-side constraints on the prices of a number of commodities and industrial inputs, as well as the impact of extra demand for certain products following the end of lockdown measures.

These upward pressures should dissipate in 2022. Before easing, however, inflation is expected to continue rising through the end of the year. We expect inflation to peak at nearly 4% year-on-year in Q4. As temporary and limited in scope as it might be, this inflationary surge is bound to have an impact on corporate margins and household purchasing power, and thus on growth. Another factor to watch is the possible transmission of inflation to all consumer prices and the triggering of a wage-price loop against a backdrop of strong hiring difficulties, which could trigger a more lasting upturn in inflation. But there are no signs of this yet.

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