

# Week Ahead

Focus: EZ inflation and GDP

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## EZ Inflation by components



Source: Eurostat, Erste Group Research

## EZ – inflation stable at a high level?

Next week (April 29), a first flash estimate of Eurozone inflation for April will be published. In March, inflation rose to an all-time high of 7.5% y/y, up from 5.9% y/y in February. A further significant increase in energy prices (+44.7%) and food prices (5.0% y/y) was largely responsible for this.

Based on our assessment, inflation will probably stabilize at a high level in April. On the one hand, we expect food inflation to rise further. The rise in prices on the world markets for agricultural commodities is only passed on from producers to consumers with a time lag. We therefore expect the rise in consumer food prices to continue for some months. By contrast, based on the price trend for gasoline and diesel in April, energy inflation could ease somewhat in April. However, the development of gas and electricity prices is a factor of uncertainty in this context, as the substantial increase in wholesale gas and electricity prices is also passed on to consumers with a time lag. We expect core inflation (+3.0% in March) to remain at a high level.

We expect food prices in particular to be a key driver of inflation in the months ahead. The development of core inflation will also come into focus. An upward trend in prices can already be observed for individual components (tourism, vehicles and housing). It will now be necessary to observe the extent to which continued problems in supply chains caused by the war in Ukraine and Covid-19 lockdowns in China, as well as rising wage demands, will impact the dynamics of core inflation. We currently forecast inflation of 6.1% for 2022 as a whole. In the current environment, however, the risks to this forecast are still tilted to the upside. In the short term, the development of energy prices represents the biggest uncertainty factor for our inflation forecast.

## EZ – growth acceleration in 1Q 2022

Next week (April 29), a first flash estimate of Eurozone GDP growth for 1Q22 will also be published. In 4Q21, growth slowed significantly to 0.3% q/q. In 3Q21, growth was still 2.3% q/q. The main reason for this was Covid-19 related retrenchment measures, as well as supply chain issues leading to industrial production bottlenecks.

For 1Q22, we expect a slight acceleration of growth. On one hand, restriction measures to contain Covid-19 were already largely lifted in many Eurozone countries in February. On the other hand, there were initial signs of an easing of the situation in supply chains until the outbreak of the war in Ukraine. On average, industrial production therefore rose by 1.5% from January to February compared with 4Q21. However, the situation is already expected to have deteriorated again in March. In

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22. April 2022

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Note: Past performance is not necessarily indicative of future results

addition, increased inventory building in the face of the uncertain geopolitical situation may have had a positive impact on 1Q growth.

In the current environment, the economic outlook is subject to a high degree of uncertainty. We expect high energy prices to have a dampening effect on consumption and industrial production in the coming months. In addition, high energy prices will weigh on the Eurozone's foreign trade balance. However, there is still considerable pent-up demand, particularly in the services sector. Despite the difficult situation, we therefore expect the recovery in services to continue, especially in tourism, which is particularly important in summer for countries such as Spain and Italy. In addition, southern Europe will benefit significantly from EU recovery plan funding in 2022 (to the tune of close to 2% of GDP). We therefore continue to expect GDP growth of 3.5% for 2022.

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## Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
<b>Eurozone</b>						
EA	29-Apr	11:00	GDP q/q	1Q A	0.3%	0.3%
EA	29-Apr	11:00	GDP y/y	1Q A	5.1%	4.7%
EA	29-Apr	11:00	CPI flash y/y	Apr	7.5%	7.5%
DE	25-Apr	10:00	Ifo Index	Apr	87.2 Index	90.8 Index
DE	29-Apr	10:00	GDP y/y	1Q P	3.8%	1.8%
FR	29-Apr	7:30	GDP y/y	1Q P		5.4%
IT	29-Apr	10:00	GDP y/y	1Q P		6.2%
<b>USA</b>						
	28-Apr	14:30	GDP q/q	1Q A	0.9%	6.9%
	29-Apr	14:30	PCE Deflator	Mar	6.7%	6.4%
<b>China</b>						
	30-Apr	3:45	PMI Index	Apr	46.6 Index	48.1 Index

## Central bank events

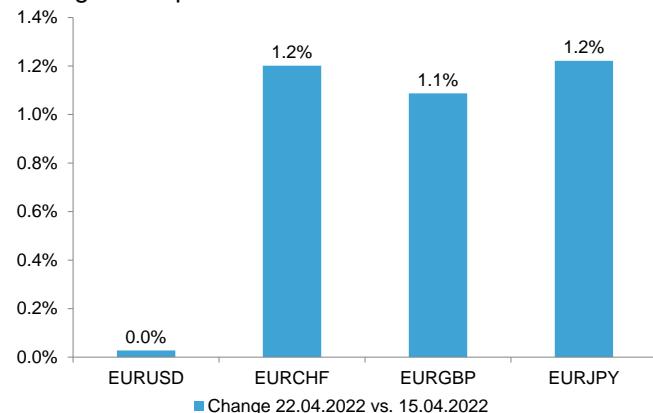
	Date	Time	Representative	Forum	Location
ECB	25-Apr	19:00	Fabio Panetta	speech	Columbia University New York
	27-Apr	18:00	Christine Lagarde	speech	Manager Magazin
Fed	No monetary policy relevant events				

Source: Market Data Provider, ECB, Federal Reserve, Erste Group Research

## Forex and government bond markets

### Exchange rates EUR: USD, CHF, GBP and JPY

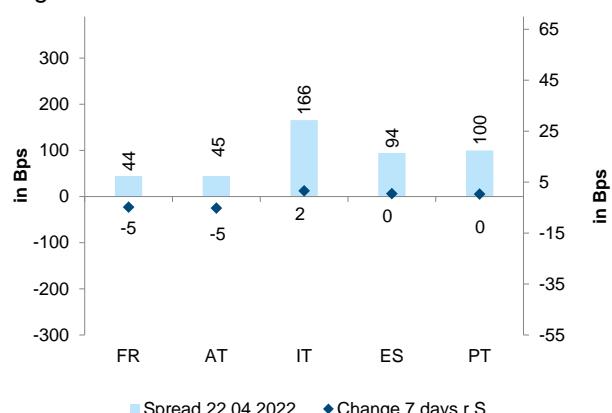
Changes compared to last week



Source: Market Data Provider, Erste Group Research

### Eurozone spreads vs. Germany

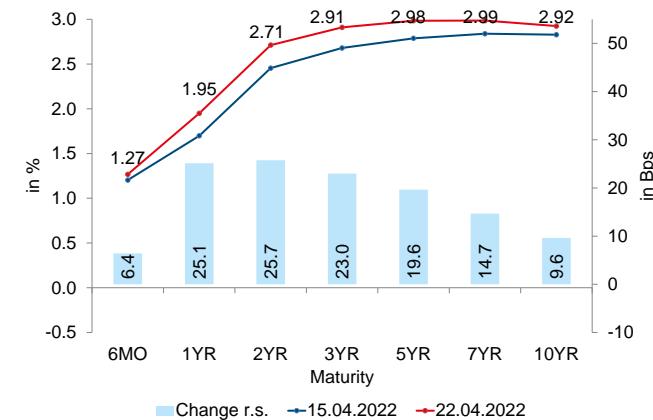
10Y government bonds



Source: Market Data Provider, Erste Group Research

### US Treasuries yield curve

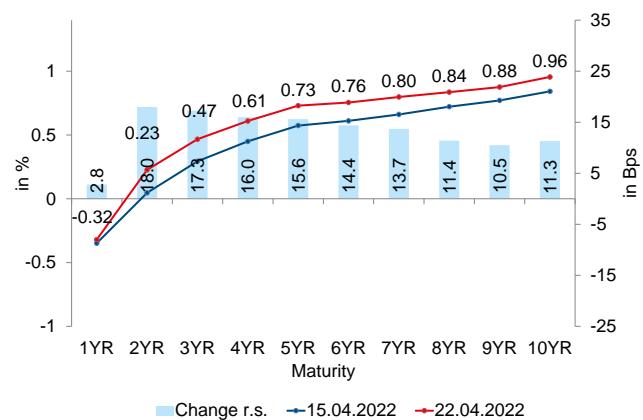
Changes compared to last week



Source: Market Data Provider, Erste Group Research

### DE Bund yield curve

Changes compared to last week



Source: Market Data Provider, Erste Group Research

## Forecasts<sup>1</sup>

GDP	2020	2021	2022	2023
<b>Eurozone</b>	-6.5	5.3	3.5	2.5
<b>US</b>	-3.5	5.7	3.3	2.3

Inflation	2020	2021	2022	2023
<b>Eurozone</b>	0.3	2.6	6.1	2.2
<b>US</b>	1.2	4.7	6.2	2.0

Interest rates	current	Jun.22	Sep.22	Dec.22	Mar.23
<b>ECB MRR</b>	0.00	0.00	0.00	0.00	0.25
<b>ECB Deposit Rate</b>	-0.50	-0.50	-0.50	-0.25	0.00
<b>3M Euribor</b>	-0.46	-0.50	-0.50	-0.27	0.00
<b>Germany Govt. 10Y</b>	0.95	0.40	0.50	0.60	0.70
<b>Swap 10Y</b>	1.64	1.00	1.00	1.10	1.10

Interest rates	current	Jun.22	Sep.22	Dec.22	Mar.23
<b>Fed Funds Target Rate*</b>	0.33	1.38	1.88	2.38	2.38
<b>3M Libor</b>	1.14	1.63	2.04	2.46	2.46
<b>US Govt. 10Y</b>	2.92	2.40	2.40	2.40	2.40
<b>EURUSD</b>	1.08	1.11	1.13	1.13	1.15

\*Mid of target range

*In case of changes to our forecasts compared to the previous issue, arrows show the direction of the change.*  
Source: Market Data Provider, Erste Group Research

<sup>1</sup> Note: In accordance with regulations, we are obliged to issue the following statement:  
Forecasts are not a reliable indicator of future performance.

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22. April 2022

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