

WEEK AHEAD | INFLATION | EUROZONE

# Producer prices continue to fall

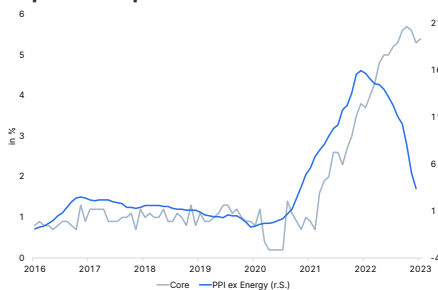
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## EZ – easing tension in supply chains has a dampening effect on prices

The Producer Price Index for May was published this week. As expected, the dynamics of producer prices (excluding energy) fell further to 3.4% y/y (previously 5.1% y/y). Price pressure is currently lowest for intermediate goods (-1.5% y/y), as competition is particularly high here, due to interchangeability. In contrast, the inflation rate for short-lived consumer goods was still at 9.6% y/y in May.

**EZ producer prices vs. core inflation**



Source: Eurostat, Erste Group Research

Since the development of producer prices allows conclusions to be drawn for the future dynamics of goods in core inflation, it is also relevant for our analyses. In our assessment, the current declining trend is due to the sustained easing of the situation in global supply chains. We therefore expect the declining momentum in producer prices to continue in the coming months. Due to the strong increase in 2021 and 2022, declining values on a monthly basis are also conceivable. However, the end of the destocking, which we expect for the second half of the year, should also bring an end to the declining producer prices at the global level.

Until the outbreak of the pandemic, the goods price component had a dampening effect on Eurozone inflation, whereas services price dynamics were almost always above those of goods. This had a lasting dampening effect on the level of inflation in the Euro Area before the pandemic. If, in the medium term, the inflation dynamics of goods generally increase at the global level (e.g. due to de-globalization), then the inflationary pressure in the Euro Area could increase sustainably. This therefore poses upside risks to the medium-term inflation outlook, in our view.

Consumer expectations also play a crucial role in the further inflation outlook. The ECB's latest survey of consumers' medium- and long-term inflation expectations shows that they are still well above the ECB's inflation target of 2% at 3.9% (12 months) and 2.5% (3 years), respectively. This means that, also based on this factor, the risks for the inflation outlook in the Eurozone are currently on the upside. It is now important to closely monitor the development of the inflation components in the coming months. However, due to a temporary effect, service inflation in Germany will remain at an elevated level until August (last summer, the climate ticket artificially lowered inflation in Germany). By September, one will be able to draw better conclusions about the actual inflation trend in the Eurozone from the data in France, Italy and Spain.

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Note: Information on past performance is not a reliable indicator of future performance.

## Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
<b>Eurozone</b>						
<b>USA</b>						
	12-Jul	14:30	Inflation y/y	Jun	3.1%	4.0%
<b>China</b>						
	10-Jul	3:30	Inflation y/y	Jun	0.1%	0.2%

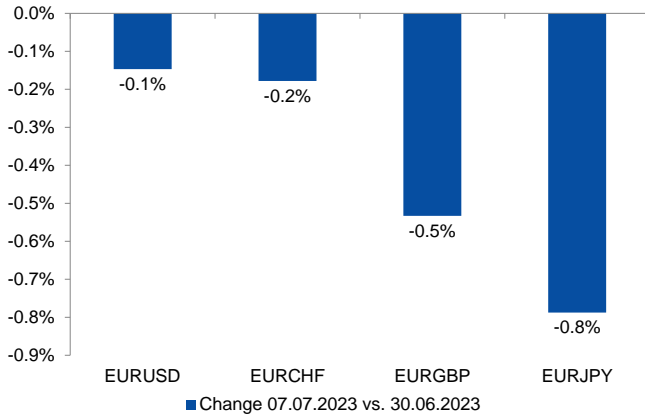
## Central bank events

	Date	Time	Representative	Forum	Location
<b>ECB</b>					
	12-Jul	15:45	Philip Lane	Panel discussion	NBER conference, Cambridge Massachusetts, USA
	13-Jul	12:00	Christine Lagarde, Fabio Panetta	Participation	Eurogroup Meeting, Brussels
	14-Jul	12:00	Luis de Guindos	Participation	Ecofin Meeting, Brussels
<b>Fed</b>					
	14-Jul	00:45	Christopher Waller	Speech	Money Marketeers Speech, New York

Source: Market data provider, EZB, US Fed, Erste Group Research

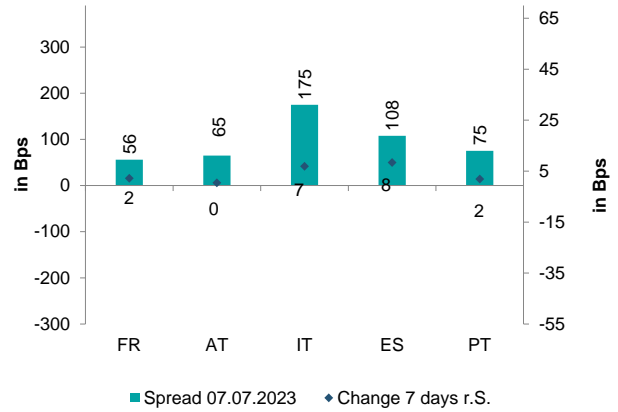
## Forex and government bond markets

### Exchange rates EUR: USD, CHF, GBP and JPY Changes compared to last week



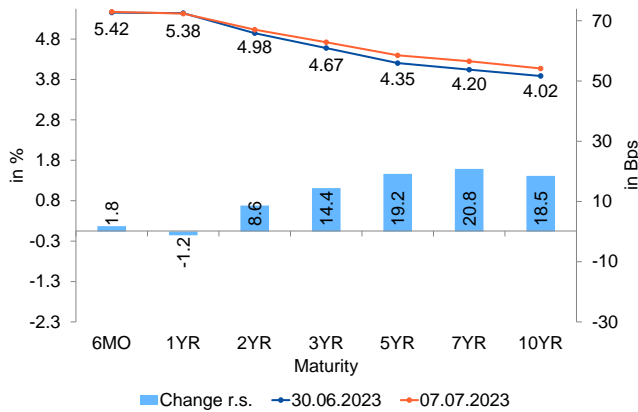
Source: Market data provider, Erste Group Research

### Eurozone spreads vs. Germany 10Y government bonds



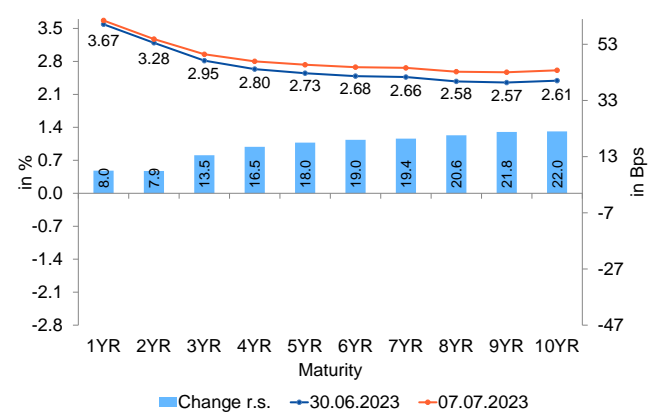
Source: Market data provider, Erste Group Research

### 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>

<b>GDP</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>Eurozone</b>	5.3	3.5	0.5	1.3
<b>US</b>	5.9	2.1	1.6	1.1

<b>Inflation</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>Eurozone</b>	2.6	8.4	5.6	2.8
<b>US</b>	4.7	8.0	4.4	2.5

<b>Interest rates</b>	<b>current</b>	<b>Sep.23</b>	<b>Dec.23</b>	<b>Mar.24</b>	<b>Jun.24</b>
<b>ECB MRR</b>	4.00	4.25	4.25	4.25	4.00
<b>ECB Deposit Rate</b>	3.50	3.75	3.75	3.75	3.50
<b>3M Euribor</b>	3.61	3.72	3.74	3.77	3.54
<b>Germany Govt. 10Y</b>	2.61	2.20	2.20	2.20	2.30
<b>Swap 10Y</b>	3.23	2.70	2.70	2.70	2.80

<b>Interest rates</b>	<b>current</b>	<b>Sep.23</b>	<b>Dec.23</b>	<b>Mar.24</b>	<b>Jun.24</b>
<b>Fed Funds Target Rate*</b>	5.08	5.38	5.38	5.13	4.88
<b>3M Libor</b>	5.54	5.46	5.46	5.21	4.96
<b>US Govt. 10Y</b>	4.02	3.60	3.30	3.20	3.10
<b>EURUSD</b>	1.09	1.11	1.14	1.16	1.19

\*Mid of target range

Note: If the forecasts have been changed from the previous week, the arrows indicate the direction.

Source: Market data provider, Erste Group Research

<sup>1</sup> By regulations we are obliged to issue the following statement: Forecasts are no reliable indicator of future performance.

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