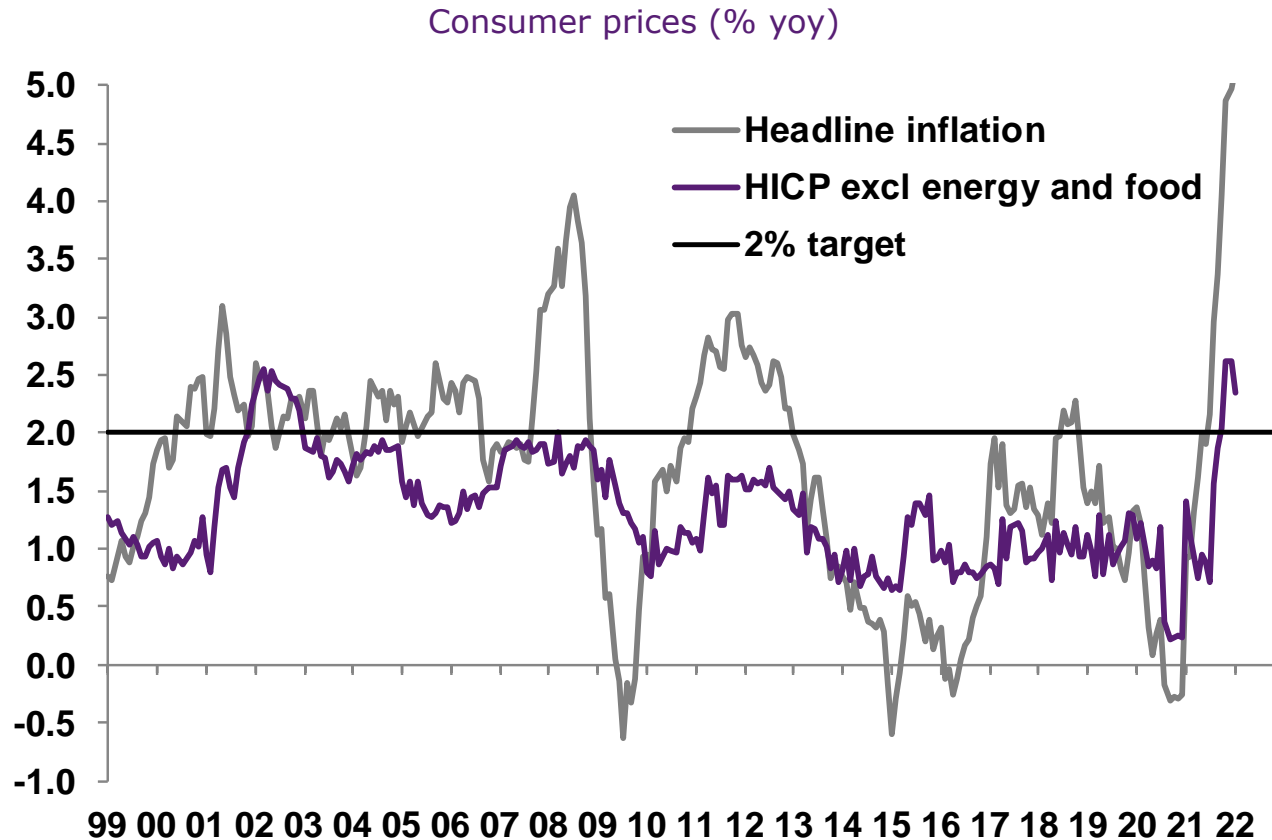




High inflation: Here today, gone tomorrow?

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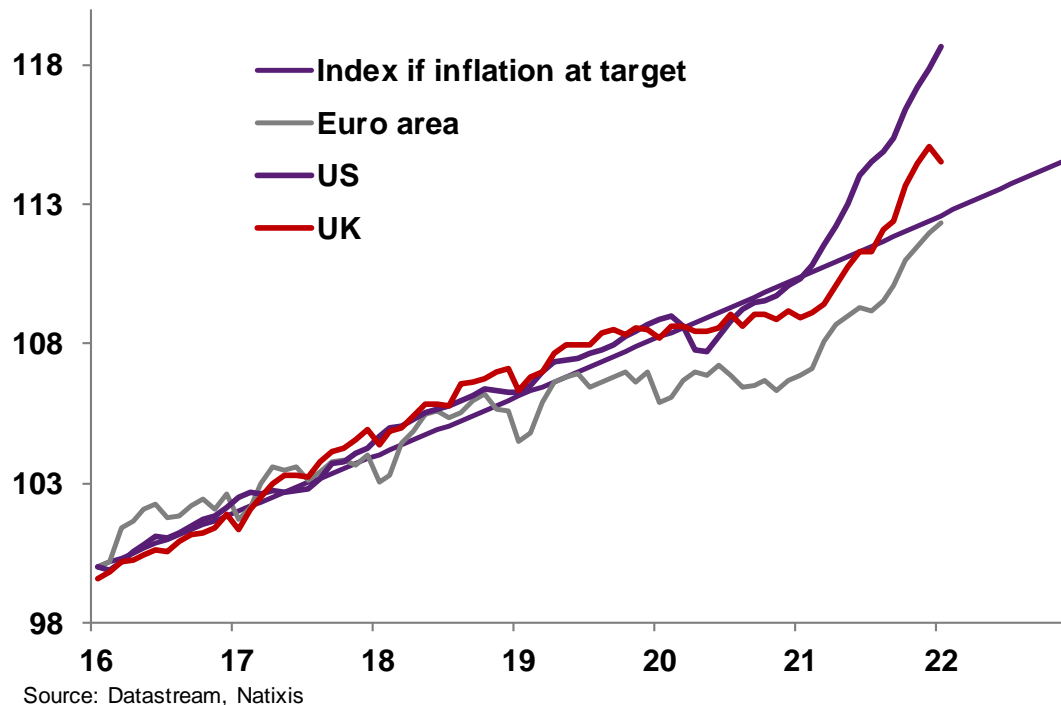
Headline inflation hit a record high in January – defying expectations of a moderation on the back of base effects.



Sources: Datastream, Natixis

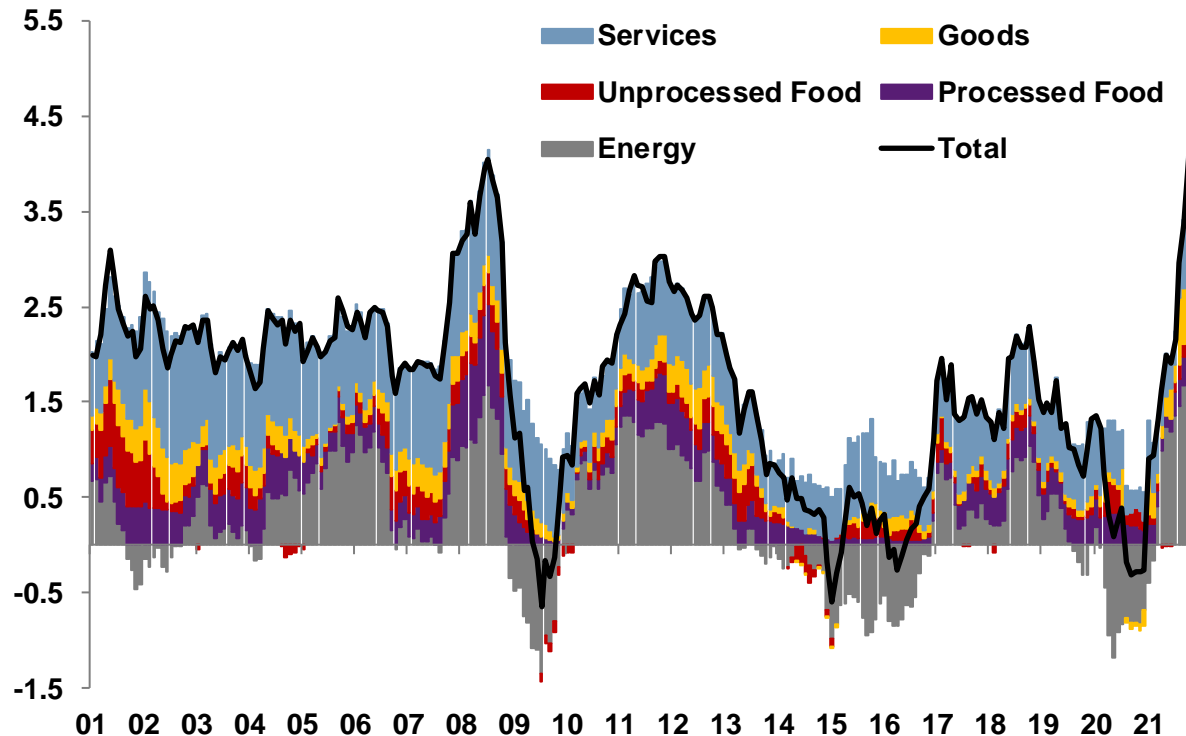
High inflation in the euro area is coming after a significant undershooting in the years prior to the pandemic. The level of the index of consumer prices has only now reached its “target path”.

Consumer prices (index)



Energy accounts for more than half of the increase in headline inflation. But core inflation is also rising.

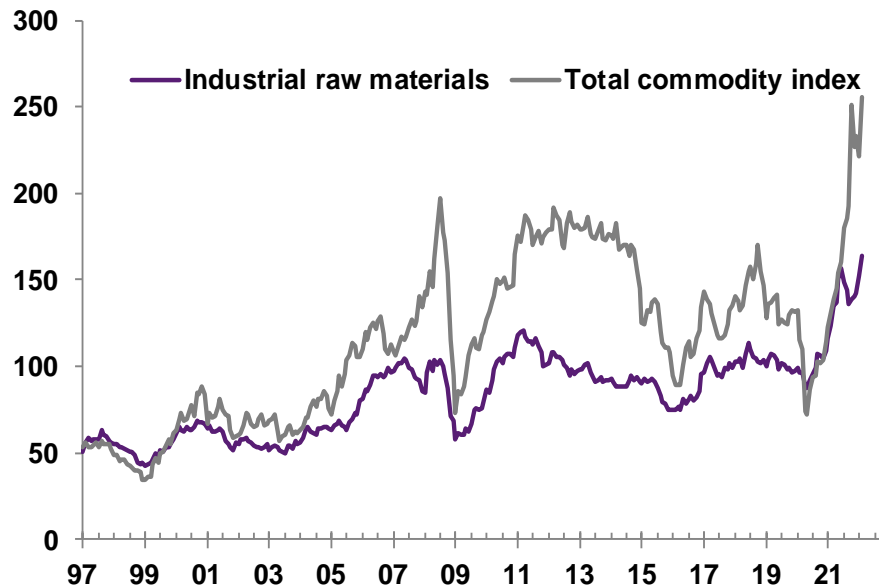
Headline inflation and main spending categories (%yoy)



Source: Datastream, Natixis

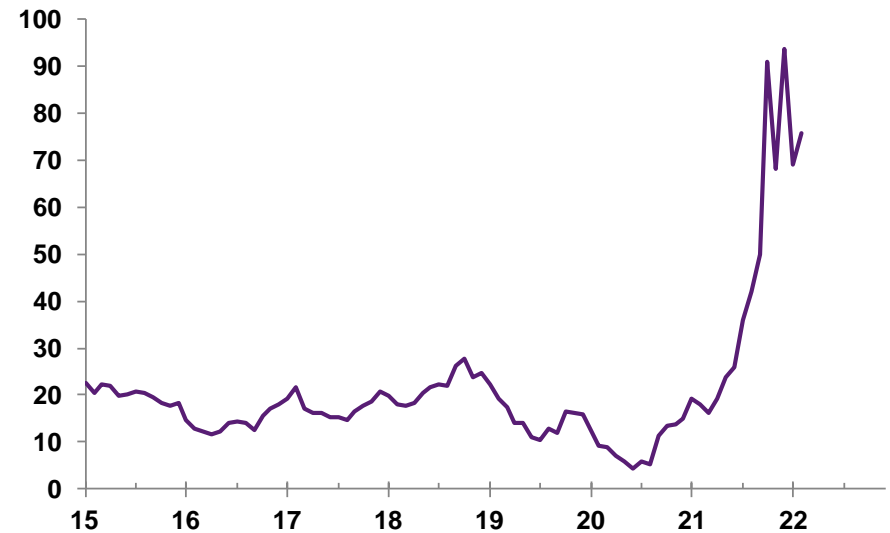
This is not the first commodity price shock hitting the euro area. But it may be the biggest and it is hitting at an “unfortunate” time.

HWWI commodity prices (index)



Sources: NATIXIS,HWWI; Thomson Reuters

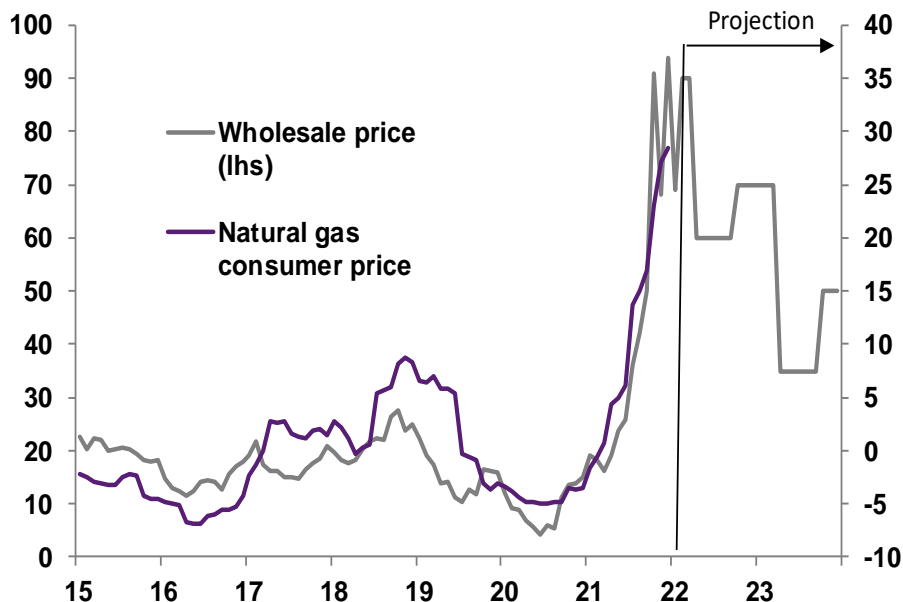
Natural gas (euro per MWh)



Sources: NATIXIS,Thomson Reuters

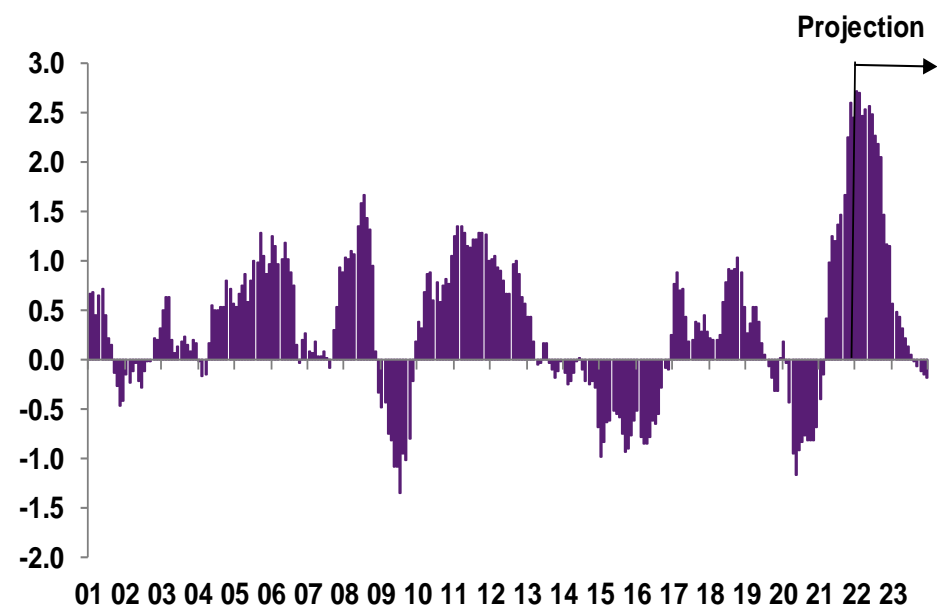
The surge in gas prices is/will push headline inflation up significantly. One important question in this context is to what extent governments will shield the private sector from higher energy costs?

Core inflation (% yoy); oil price (USD)



Source: Datastream, Natixis

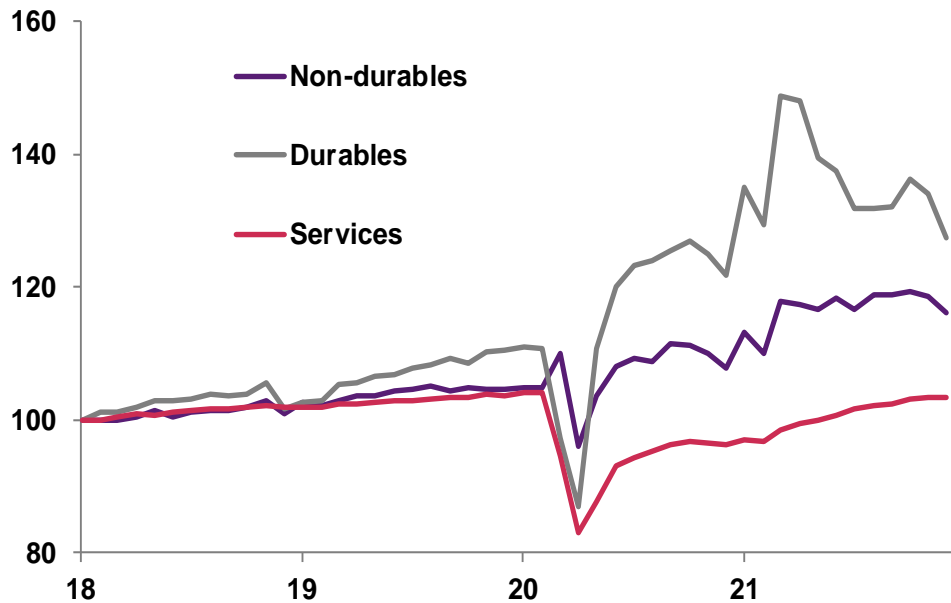
CPI: Energy component (% contribution)



Source: Datastream, Natixis

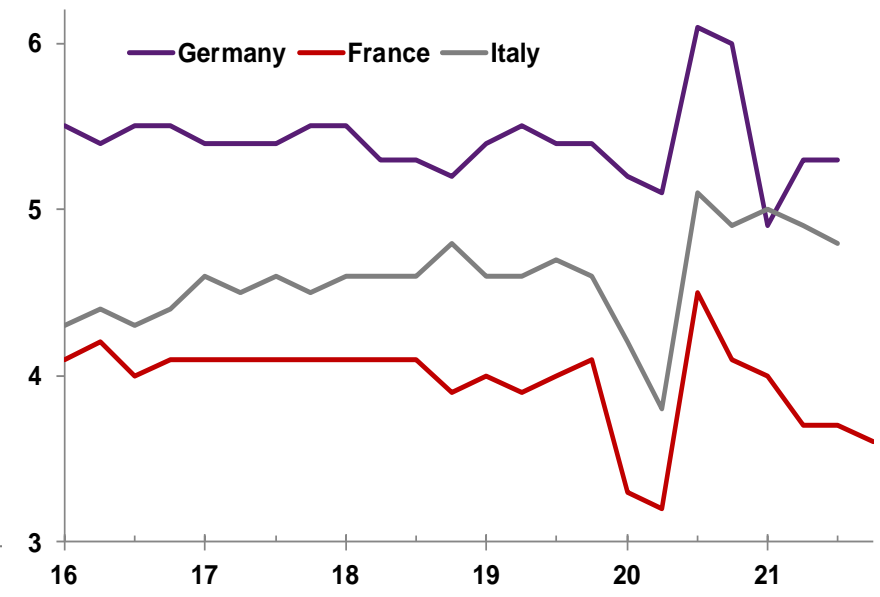
The pandemic caused a shift in consumption patterns towards durable goods.

US consumption details (index)



Source: CSSE, Natixis

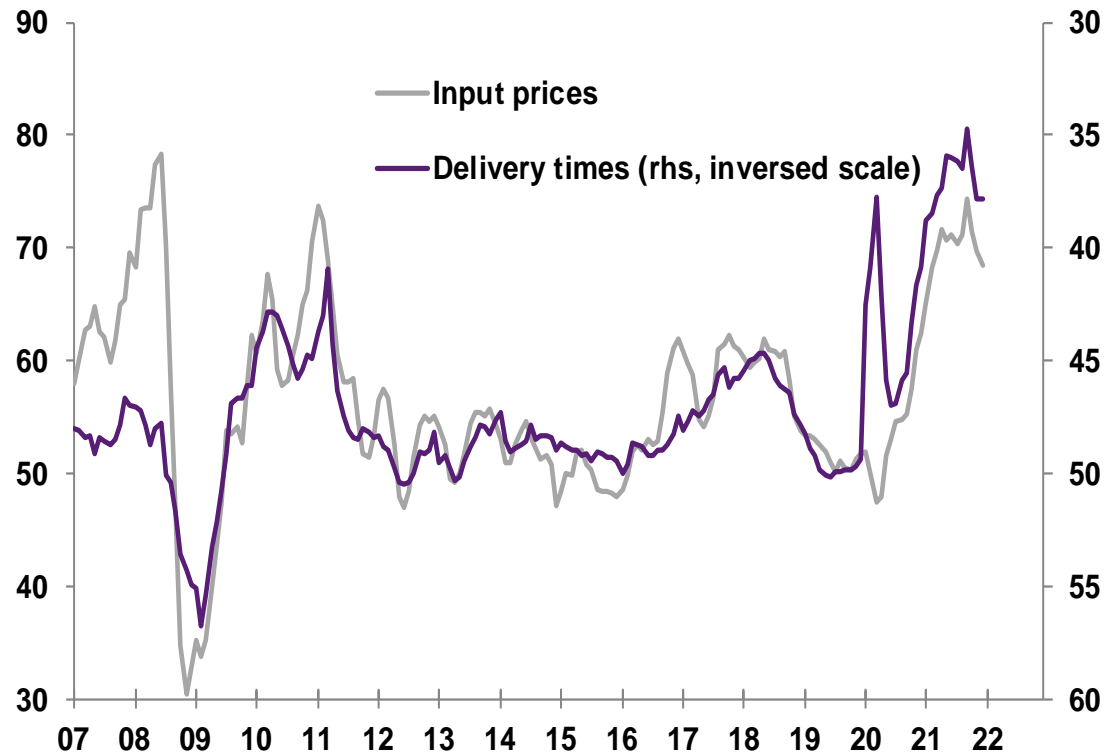
EMU3 consumption of durable goods (% of GDP)



Sources: NATIXIS, Thomson Reuters

Global industrial sentiment has eased recently but remains on a relative high level. Bottlenecks are holding back production.

Global PMI manufacturing survey (index)



Sources: Markit, Natixis

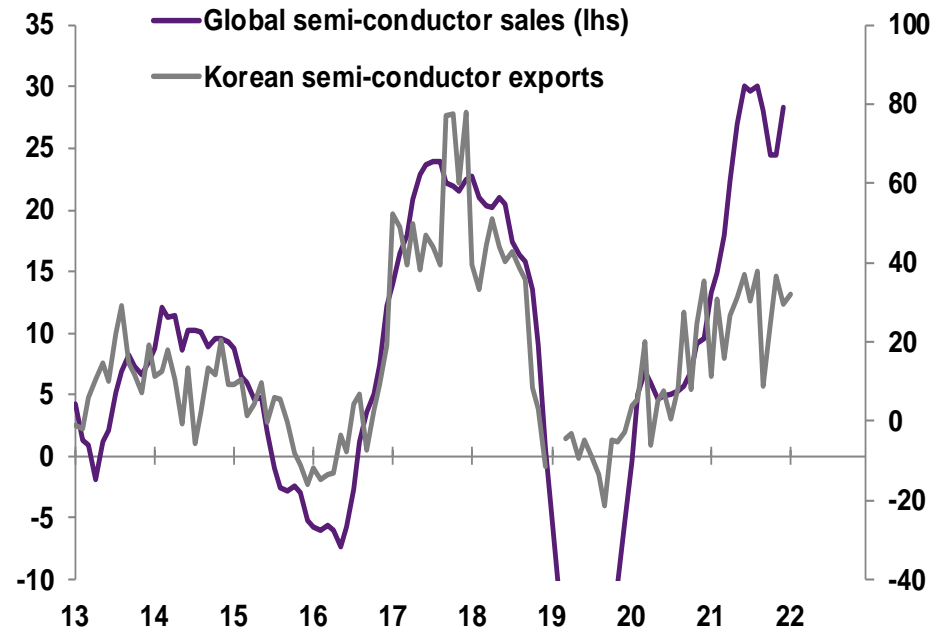
Container turnover and semi-conductor sales have been growing robustly.

RWI „Container Throughput“ index
(90 harbours globally)



Sources: Datastream

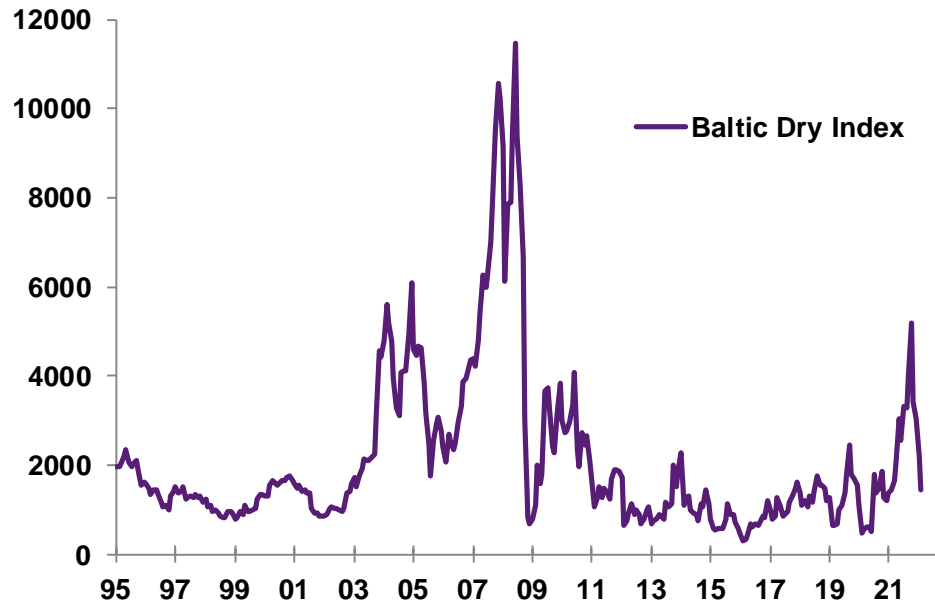
Semi-conductor sales/exports (% yoy)



Sources: Datastream, NATIXIS

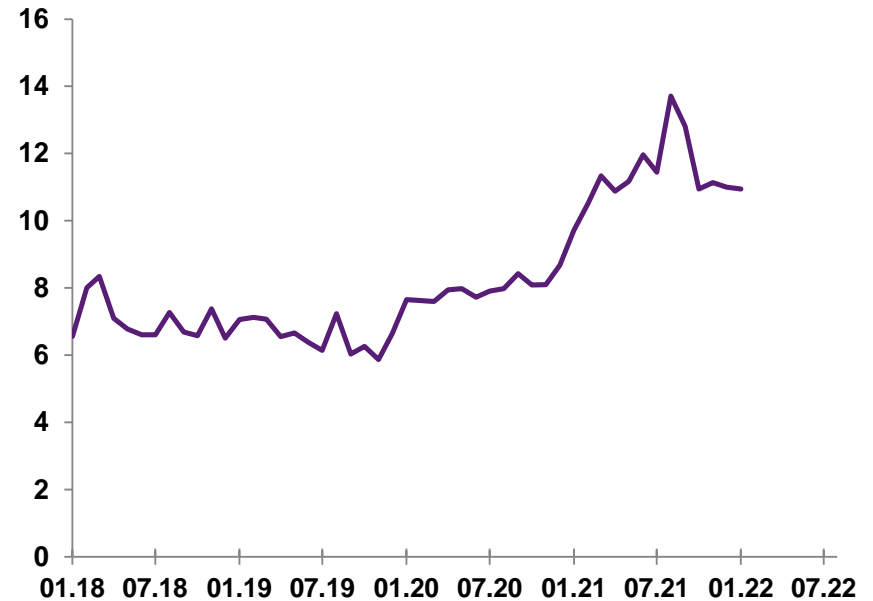
Some tentative signs that bottlenecks are getting smaller.

Baltic Dry Index



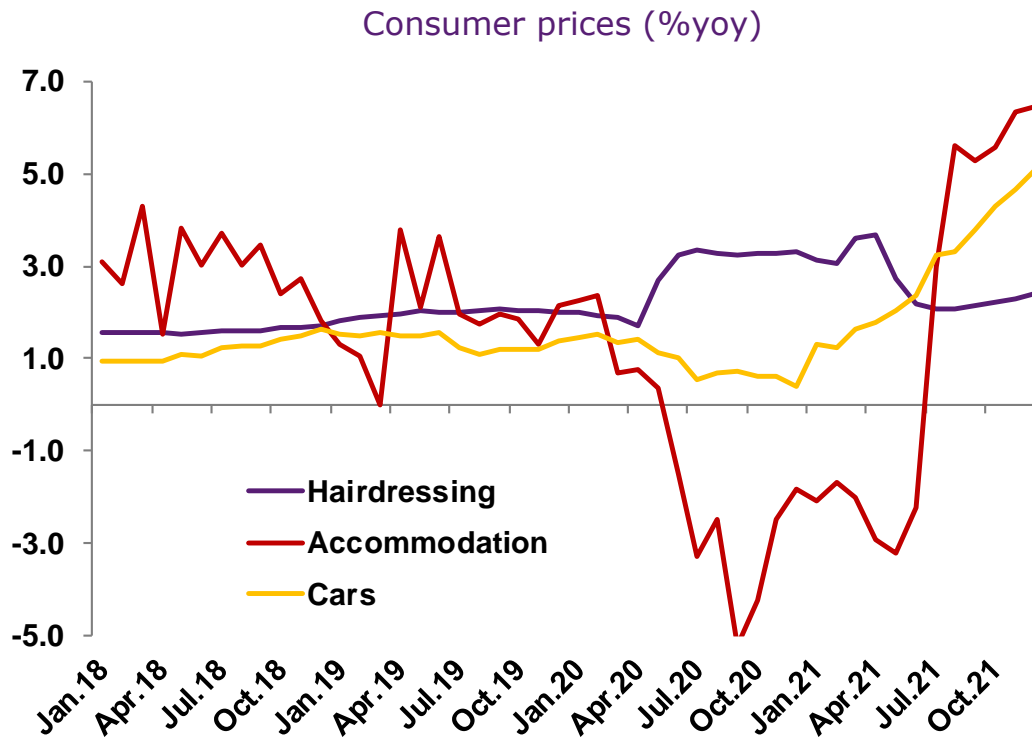
Sources: Datastream

Share of goods sitting on blocked ships (%)



Sources : NATIXIS

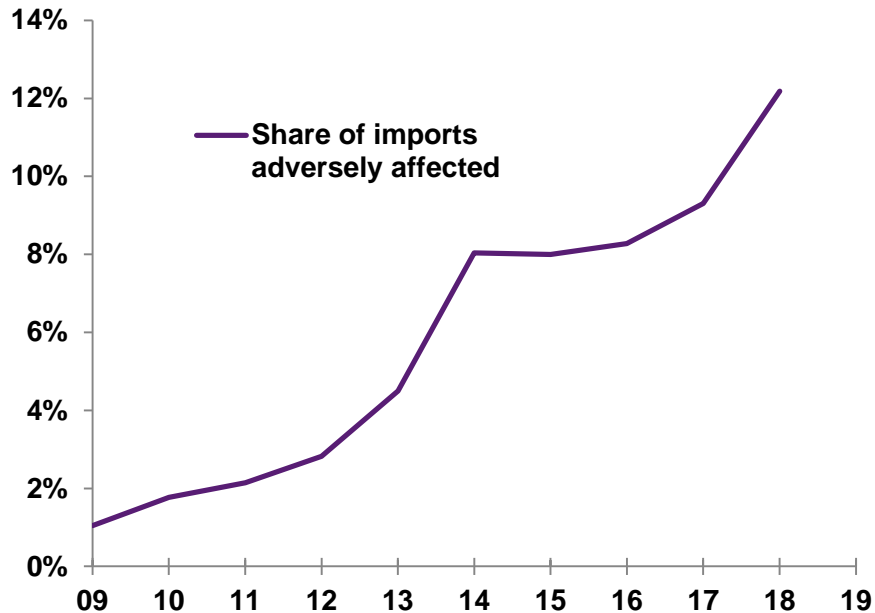
Bottlenecks are pushing up car prices. The re-opening effect after lockdown measures is leading to higher prices in the services sector



Source: Datastream, Natixis

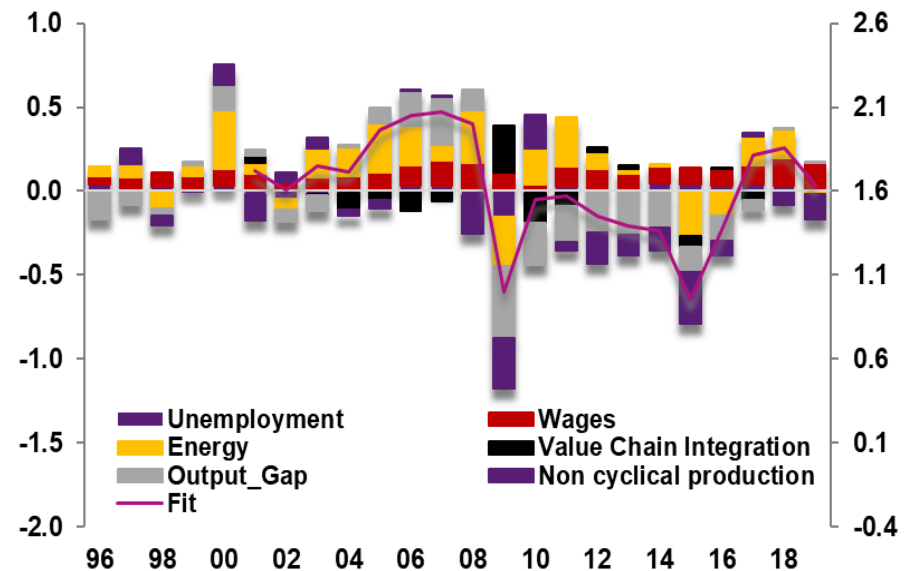
Inflationary implications of de-globalization likely to be small.

Share of global imports affected by trade barriers (%)

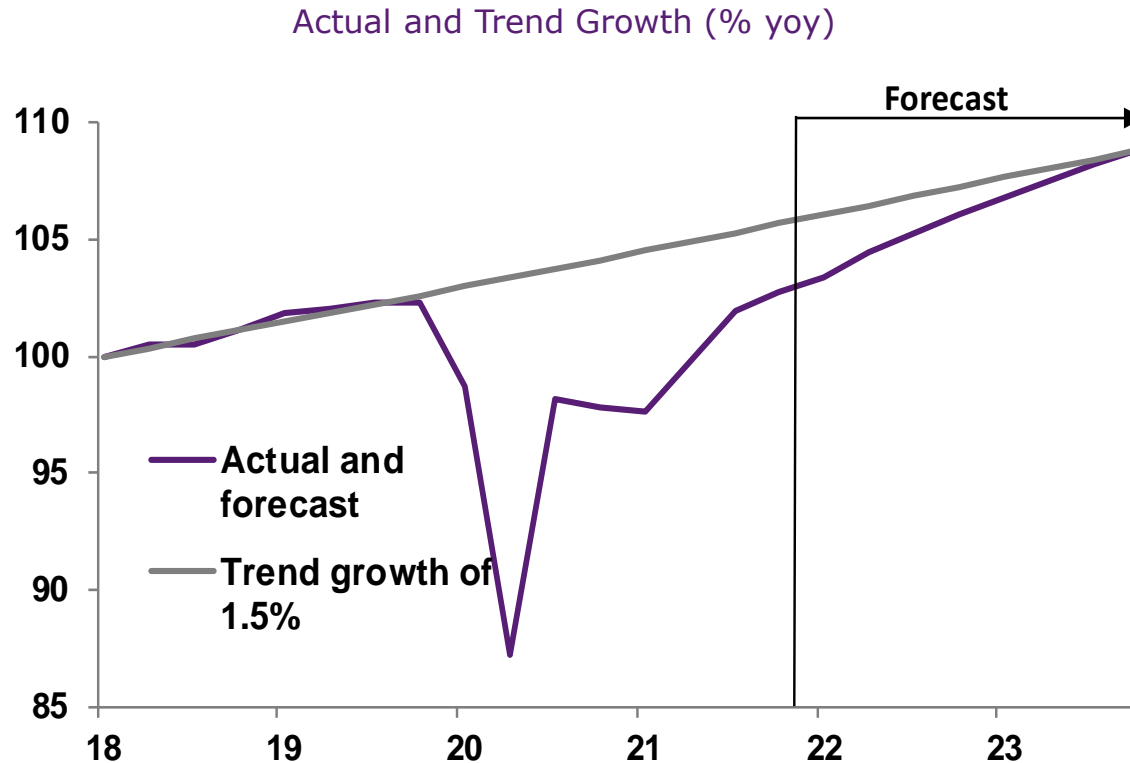


Sources: Global Trade Alert

Decomposition of inflation for advanced economies (% yoy)



A “naïve” output gap model would point to on-going – but diminishing - slack in the economy, arguing against a genuine overheating.



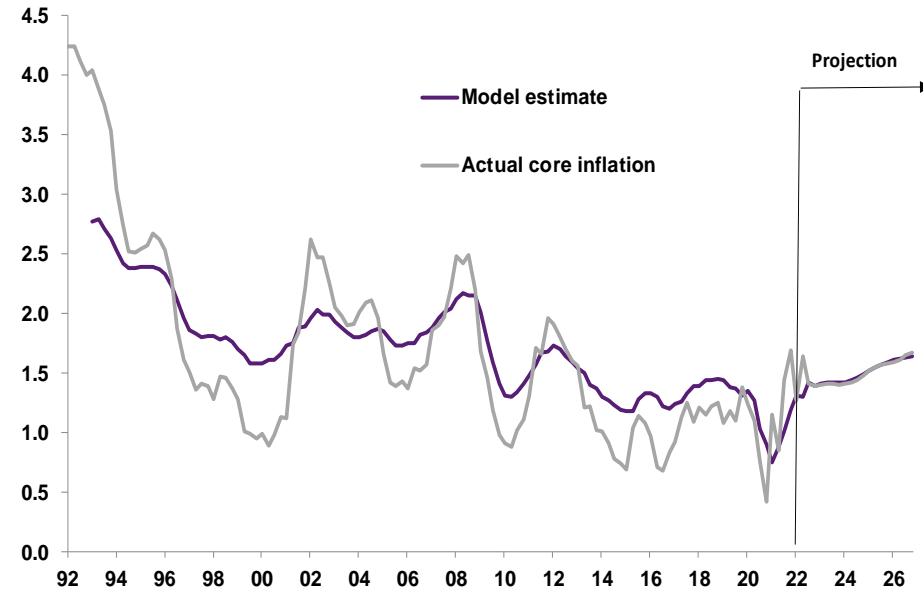
Source: Datastream, Natixis

A more “sophisticated” estimation of the output gap also points to significant slack and only a gradual build up of underlying inflationary pressure.

Output gap* (% of GDP)



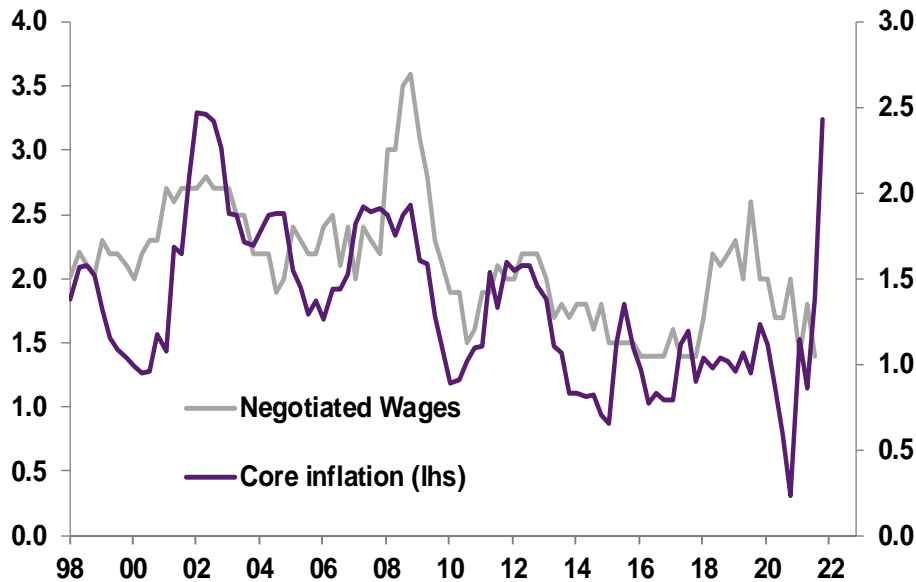
Consumer price inflation (% yoy)



*Based on Jarocinski, Lenza „An inflation-predicting measure of the output gap in the euro area” ECB Working Paper No 1966.

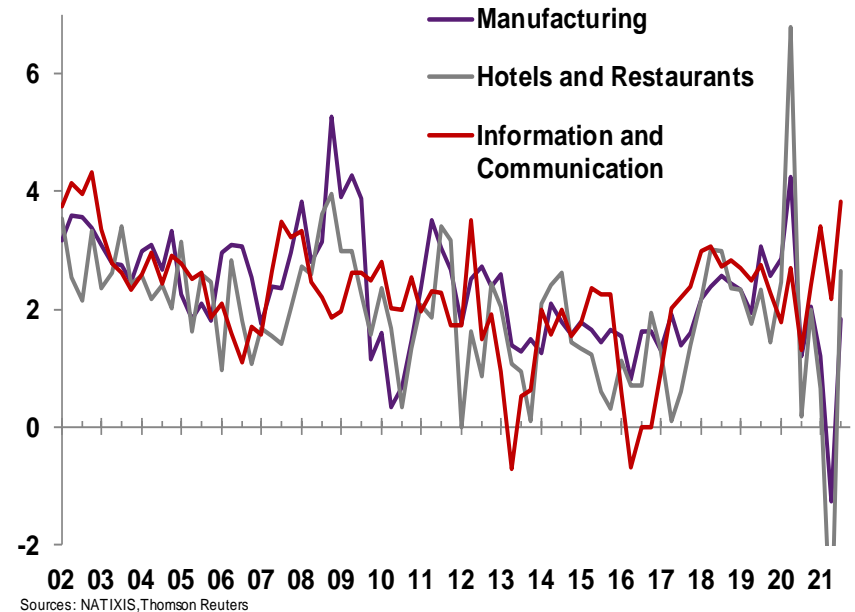
Wage growth has been so far rather muted. That is true even in sectors that are booming, such as ICT.

Wage growth(% yoy); Core inflation (%yoy)



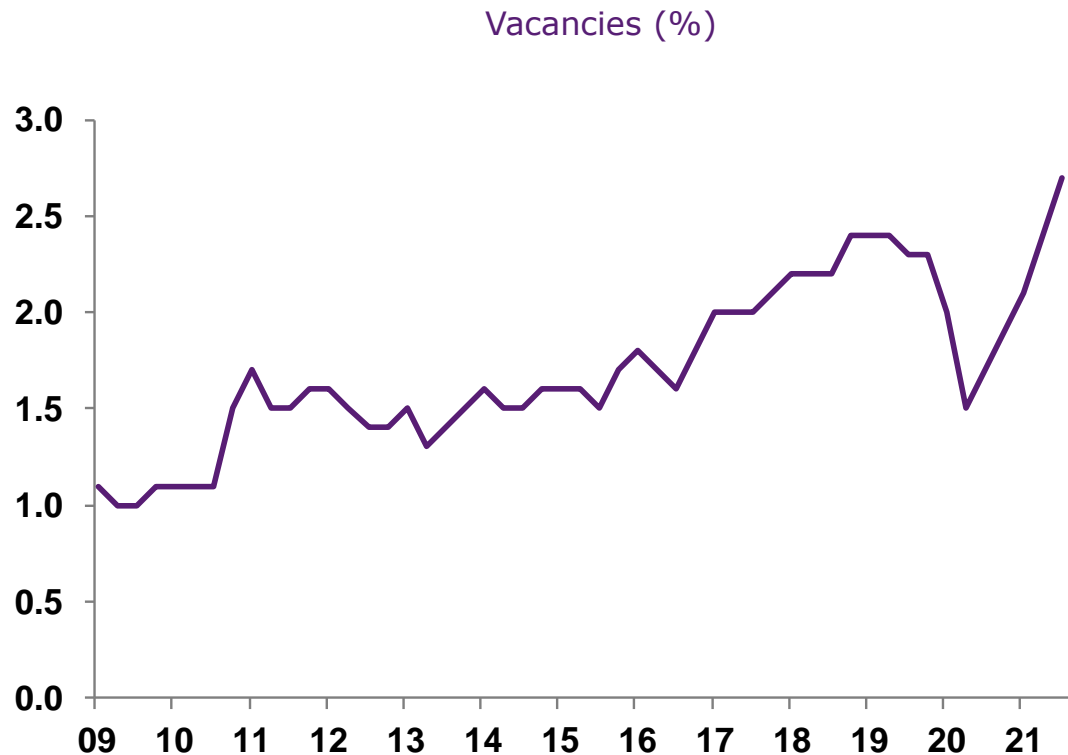
Source: Haver Analytics

Labour costs (index)



Sources: NATIXIS, Thomson Reuters

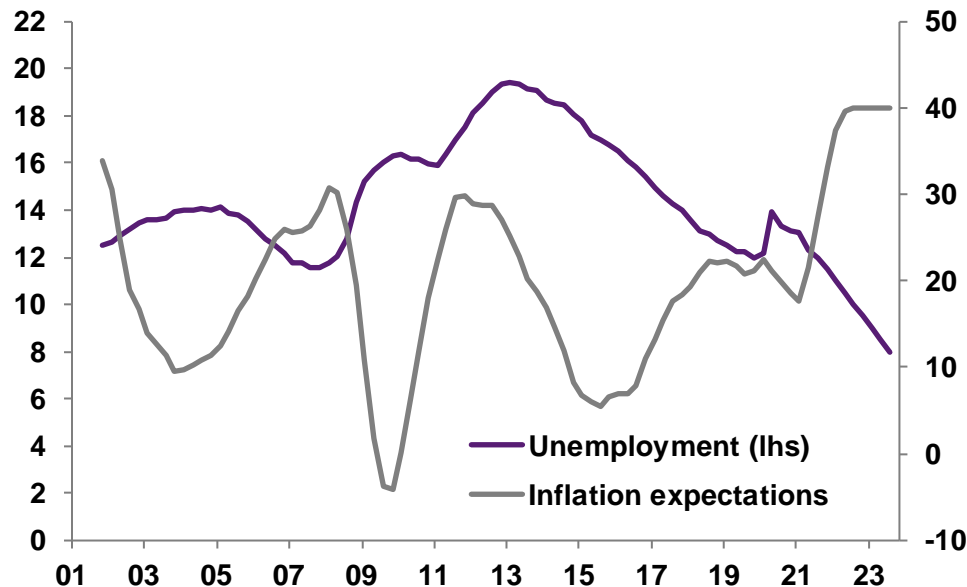
Signs of labour market tightness are clearly emerging, though similar levels of tightness have not spilled over into higher wage growth in the past.



Source: Datastream, Natixis

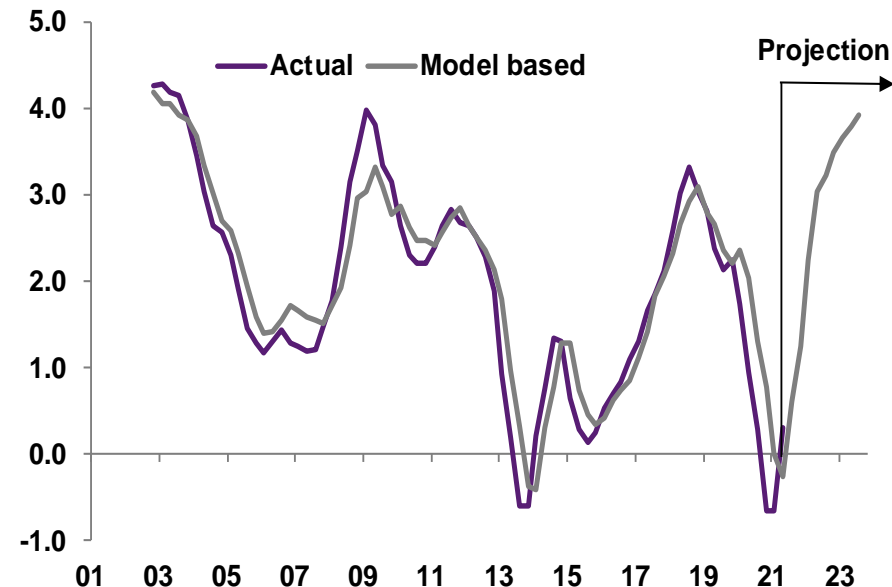
Labour costs are set to rise. But even under rather aggressive assumption regarding the decline of the unemployment rate and inflation expectations, labour costs are likely to remain within the historical range.

Unemployment rate (%);
Household inflation expectations (index)



Source: Datastream, Natixis

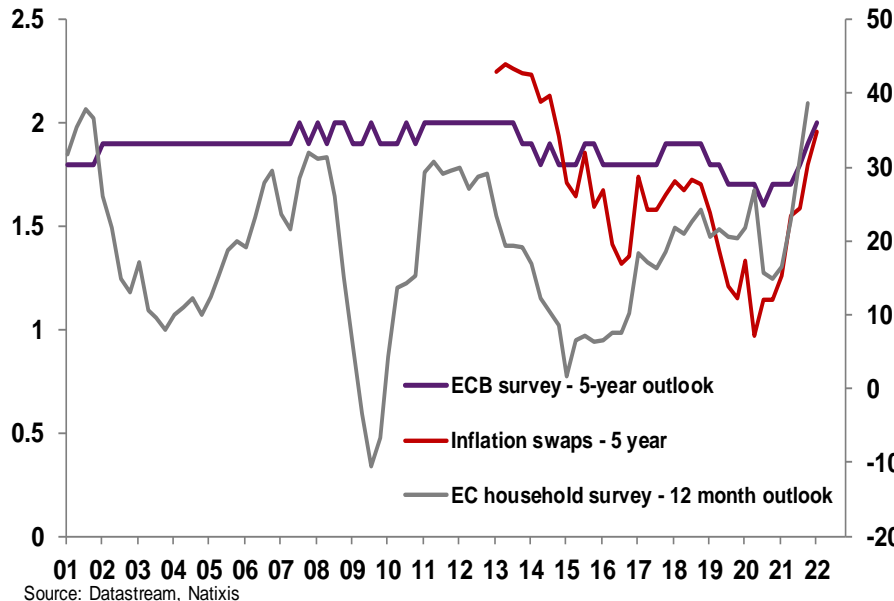
Labour costs
(% yoy; 4-quarter moving average)



Source: CSSE, Natixis

Inflation expectations have increased only moderately so far. Market based inflation expectations often react to short-term drivers of inflation.

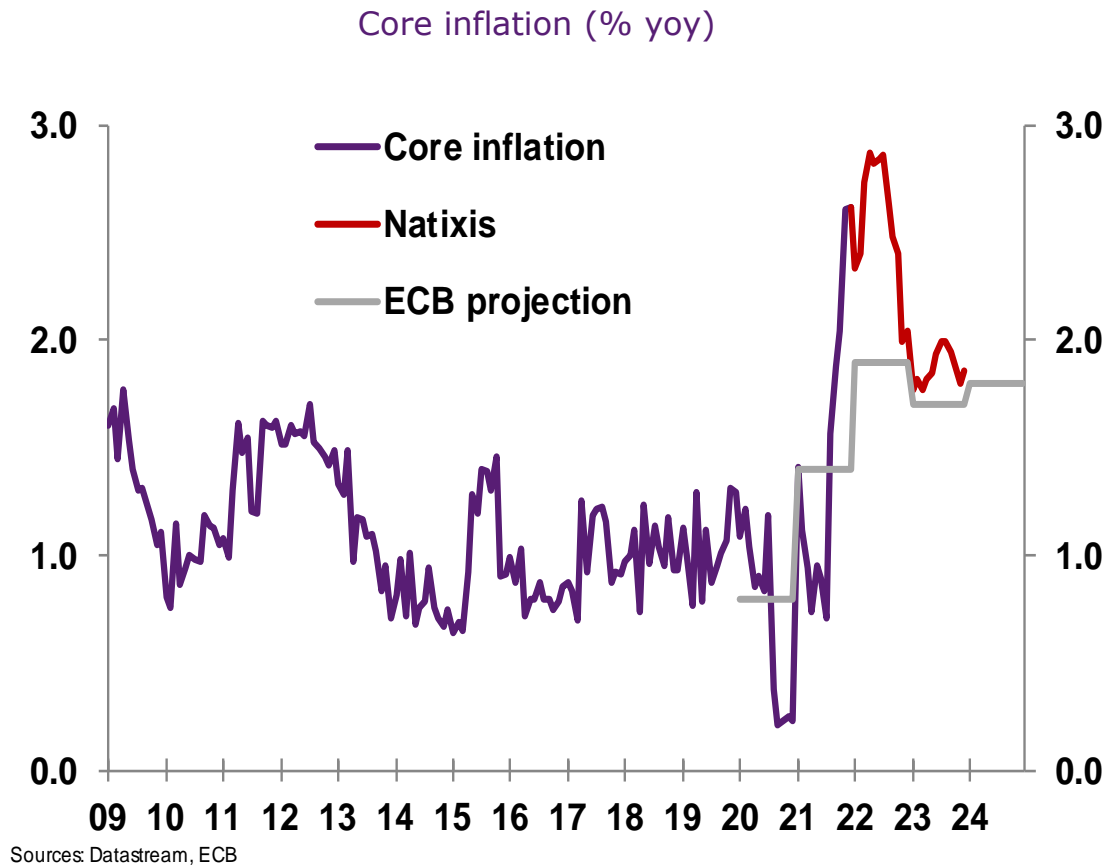
Inflation expectations (%yoy; index)



Inflation expectations (%yoy); GS Commodity Index

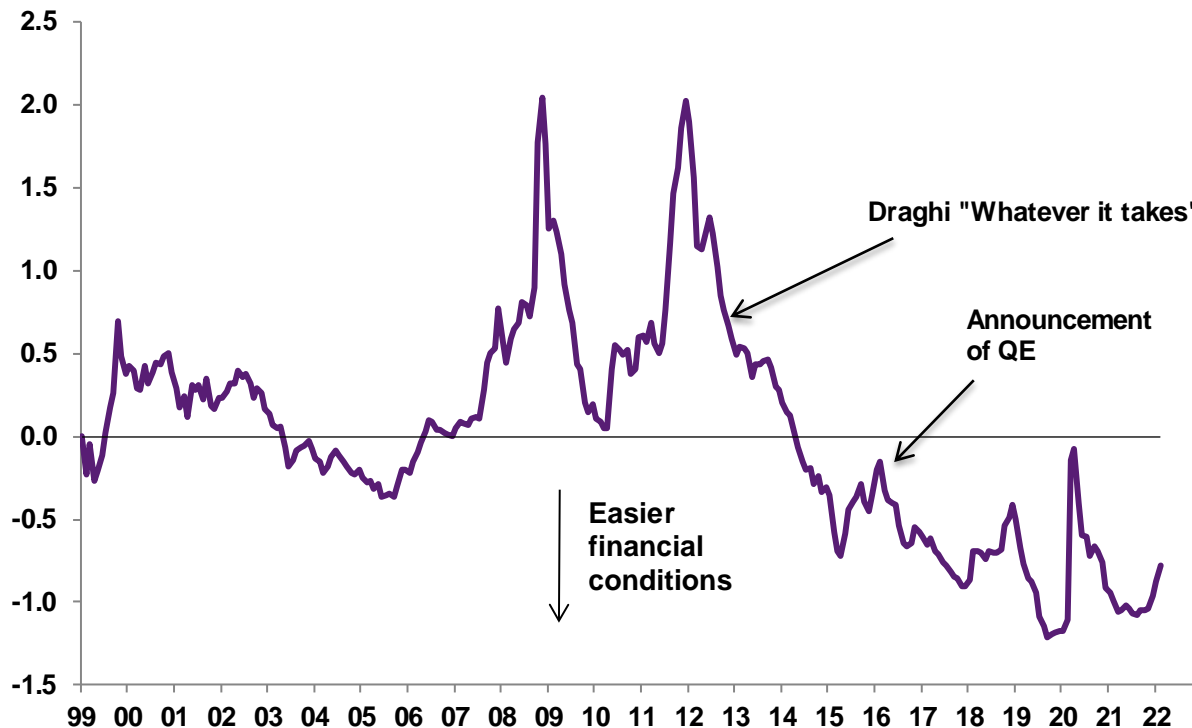


High inflation rates have not led the ECB to re-assessment the inflation outlook differently. The March meeting will show a significant upward revision of the projection.



Financial conditions have tightened now noticeably – though they remain accommodative in historical perspective.

Nat –Financial Conditions Index*



Source: Natixis

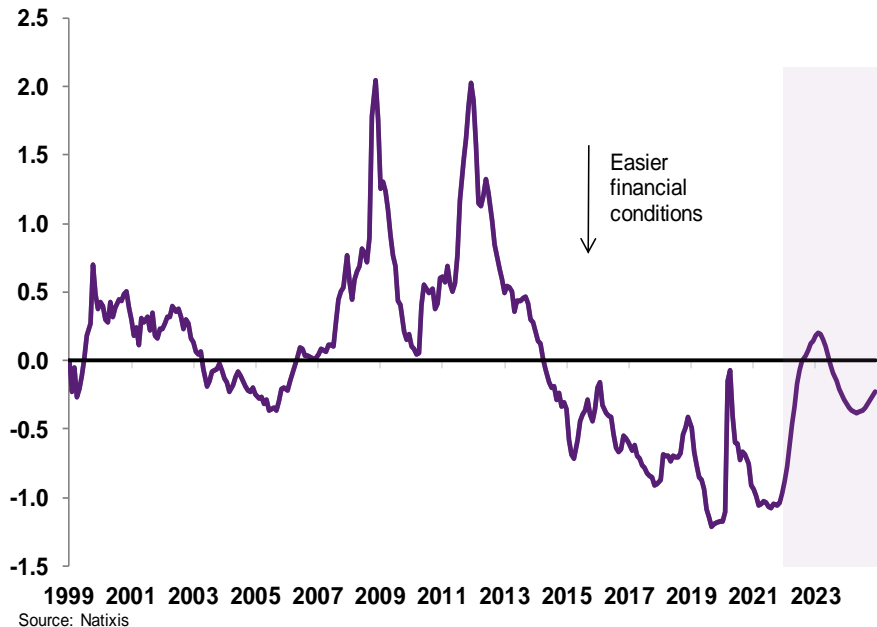
Table 1 : Variables used in the construction of Nat-FCI

Financial Variables
Eurostoxx 600 index
VIX index
Iboxx euro corporate index
Banks CDS 5Y premium index
EONIA
Spread 3-month Euribor - EONIA
Spread 10 year Italian/German government bond
10 year German government bond
Euro trade-weighted effective exchange rate
Macro-economic variables
Composite PMI
Unemployment rate
Core inflation
Oil Price

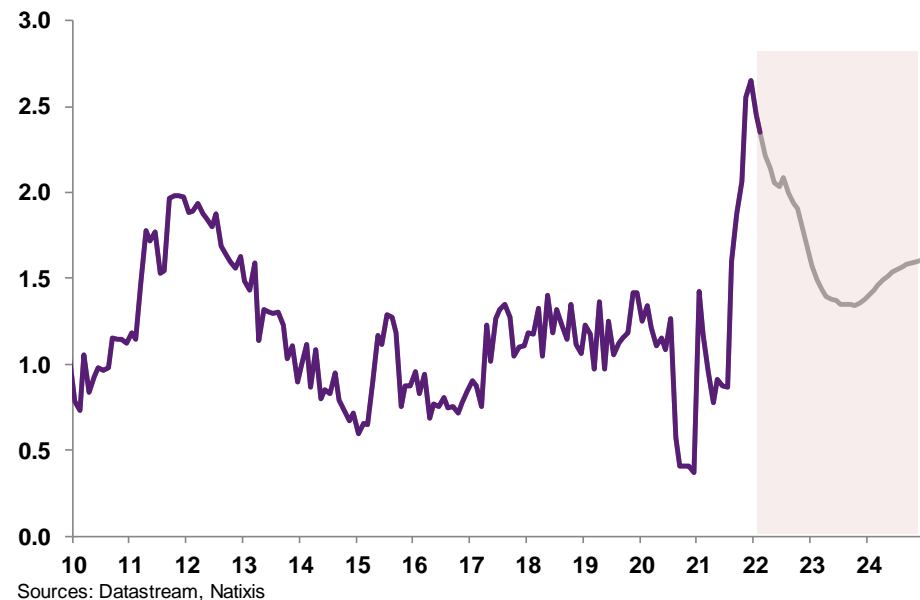
* Based on Koop, Korobilis „A new index for financial conditions”; European Economic Review (2014)

What degree of tightness/accommodation is consistent with the ECB's inflation target? Our FCI model would suggest some further mild tightening.

Natixis-Financial Conditions Index

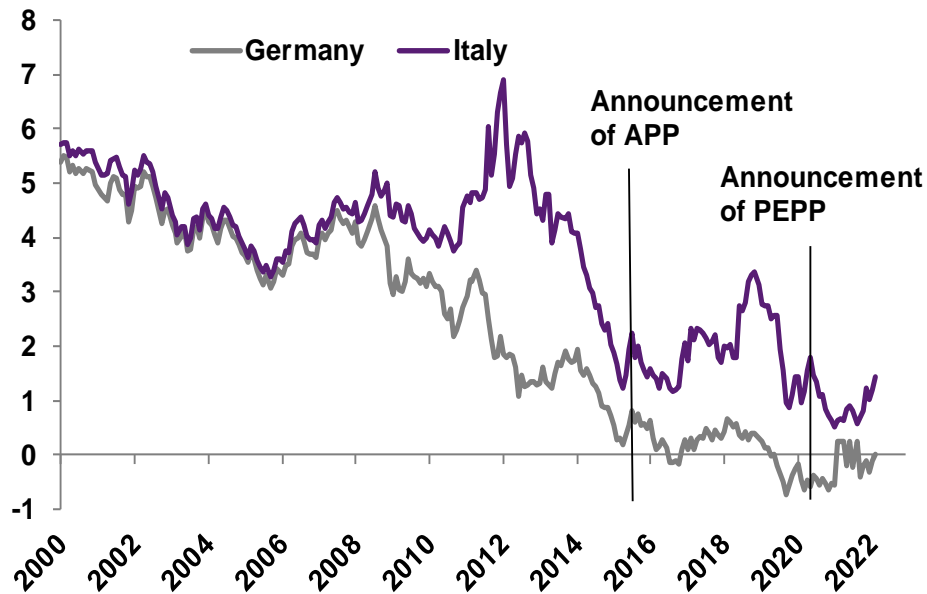


Core inflation (% yoy)



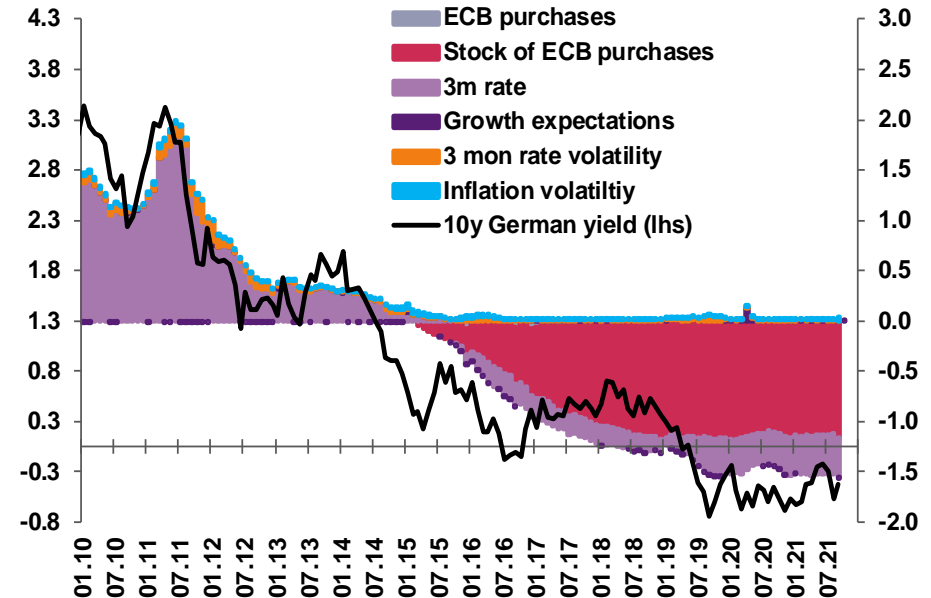
The 10-year Bund-OIS spread remains negative, which is indicative for a stock effect of the PSPP. We find this also confirmed by a regression model.

10-year sovereign yields (%)



Sources: Datastream, NATIXIS

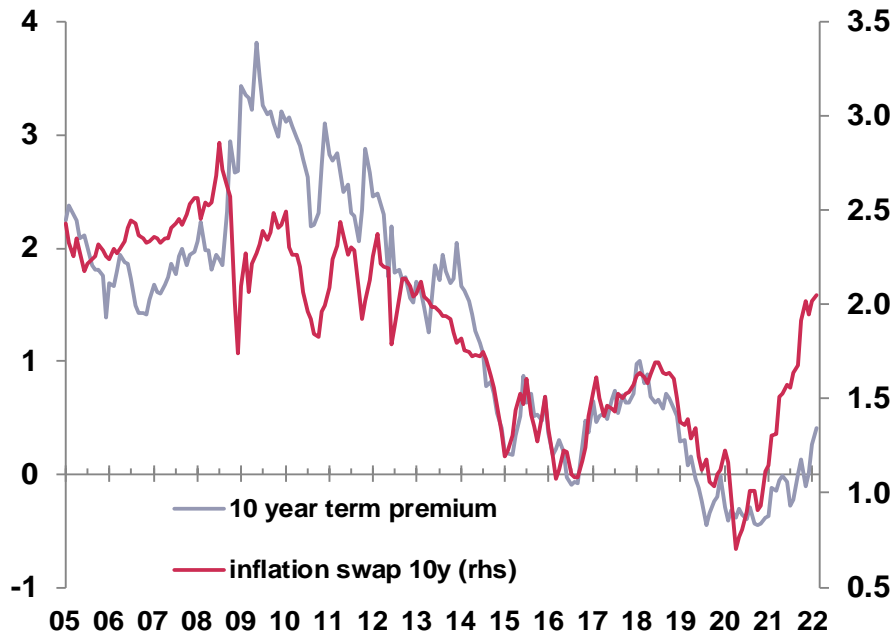
Decomposition of 10-year Bund rate (%)



Source: Datastream, ECB, Natixis

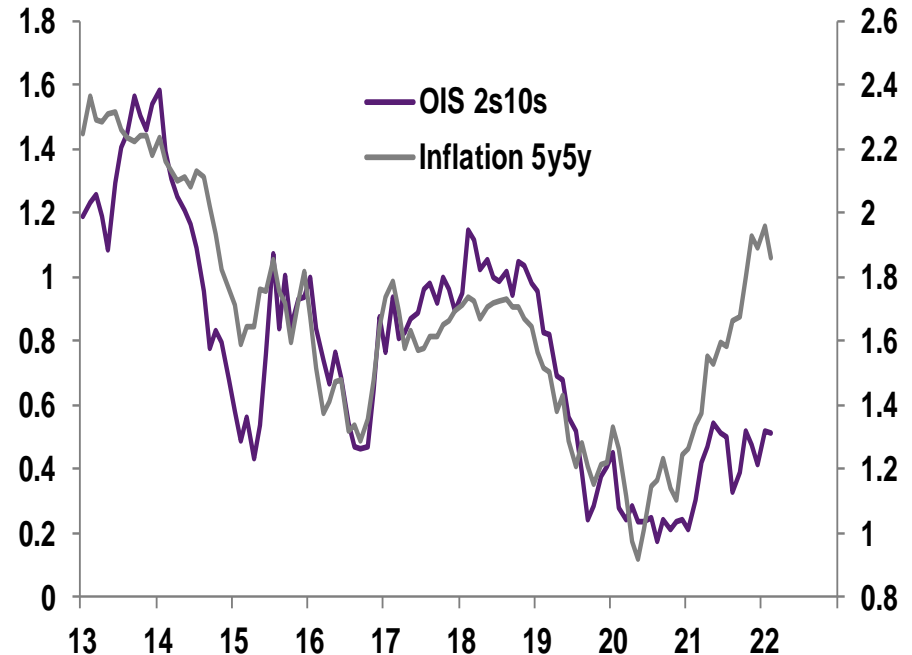
Still a big difference between market based inflation expectations and interest rates.

Term-premium and 10-year inflation expectations



Sources: Datastream, Natixis

10y-2y OIS (%); 5y5y inflation expectations (%)



Source: Datastream, Natixis

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