

Snap | 30 May 2022

High eurozone inflation set to continue despite dip in selling price expectations

Despite signs of slowing across the economy, there's still considerable pressure on the European Central Bank. We're expecting another high inflation rate tomorrow and price expectations for the coming months remain elevated



The Economic Sentiment Index was roughly unchanged from April, with a 0.1 point increase in the ESI to 105. Since the war in Ukraine started, sentiment has been much weaker than before. While the index has been trending down, this is a level that is historically still quite strong and not usually associated with an economic recession. Nevertheless, signs that the economy continues to cool are significant, especially in manufacturing right now.

The manufacturing sector continues to see sentiment trend down on the back of continuing supply chain problems and weakening demand. The order book component fell to its lowest level since May last year. Thanks to high backlogs of work due to shortages in recent months, production expectations are not dropping just yet, but supply chain problems did cause recent production to disappoint again.

The economy continues to profit from stronger services though. Services' confidence increased

from 13.6 to 14 in May as demand surged in recent months as pandemic reopening effects play in the eurozone's favour at the moment. Consumers may be pessimistic about their own financial situation and the general economy, but they do want to spend again after long periods of limitations.

The survey continues to indicate strong price increases for the months ahead for services and goods. Selling price expectations did in fact tick down for both services and industry in May, but given the volatile environment, it is too early to call a peak on inflation rates. It is in any sense consistent with elevated inflation for some time to come.

For the ECB, it's also important to note that employment expectations continue to remain strong despite economic sentiment having dropped in recent months. This keeps labour market pressures on and could result in stronger wage growth effects in the quarters ahead. With German state CPIs and Spanish CPI surprising on the upside for May, expect tomorrow's inflation rate to come in hot again. Overall, the economic environment shows modest signs of slowing but post-pandemic effects are boosting economic growth enough to keep inflation expectations from trending down strongly so far. In other words: the pressure on the ECB is considerable.

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