

INFLATION IN THE U.S. AND EUROPE

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Outline

- 1) Persistent inflation
- 2) The U.S.
- 3) The Eurozone
- 4) The monetary conundrum

1. Persistent inflation

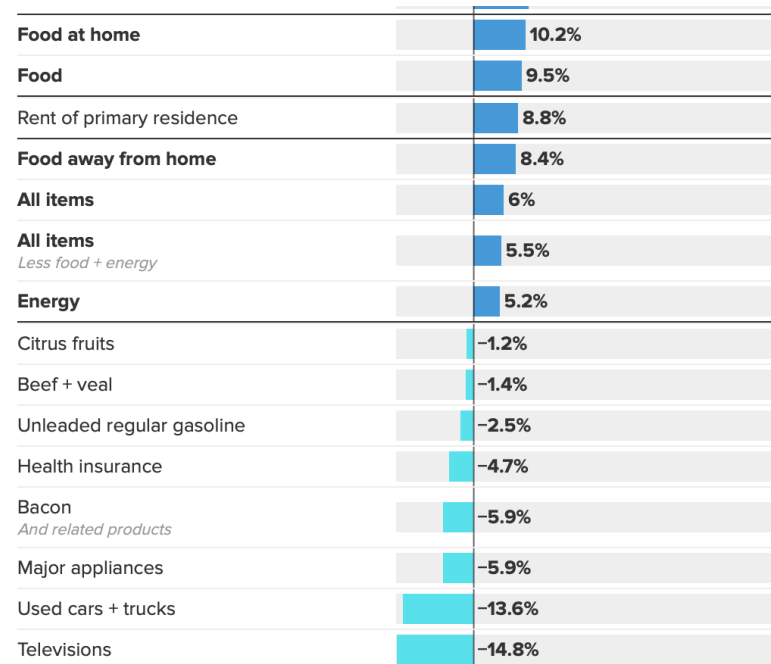
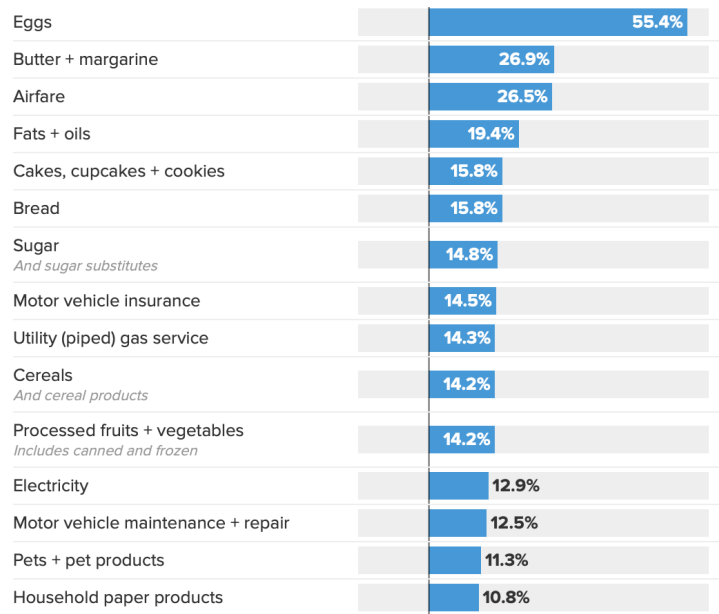


1. Persistent inflation

- ❑ Global growth is projected to fall from an estimated 3.4% in 2022 to 2.9% in 2023, then rise to 3.1% in 2024.
- ❑ The rise in central bank rates to fight inflation and Russia's war in Ukraine continue to weigh on economic activity.
- ❑ The rapid spread of COVID-19 in China dampened growth in 2022, but the recent reopening has paved the way for a faster-than-expected recovery.
- ❑ Global inflation is expected to fall from 8.8 percent in 2022 to 6.6 percent in 2023 and 4.3 percent in 2024, still above pre-pandemic (2017–19) levels of about 3.5 percent.

2. The U.S.

- ❑ The Fed is facing its most difficult challenge in years. Inflation going down but still high and with geopolitical and financial risks still high
- ❑ A very heterogenous behaviour in the CPI



Source: U.S. Bureau of Labor Statistics' consumer price index

2. The U.S.

- ❑ Some signs that economic activity is slowing down... and possibly prices

- ❑ A key measure of inflation fell dramatically in February, according to the latest Producer Price Index, which tracks what America's producers get paid for their goods and services.

- ❑ Producer price increases slowed to an annual pace of 4.6% last month, significantly lower than the downwardly revised 5.7% in January.

- ❑ Unclear expectations:
 - ❑ Markets pressing the Fed to ease amid financial stability concerns
 - ❑ ECB sticks to inflation fight, hints that Fed could do the same

3. The Eurozone

- ❑ Euro area annual inflation is expected to be 8.5 % in February 2023, down from 8.6 % in January 2023.
- ❑ Still unclear if inflation is under control.
- ❑ The role of fiscal policies
- ❑ The role of the lack of coordination

Euro area annual inflation and its main components, February 2013 - February 2023 (estimated)



Source: Eurostat (online data code: prc_hicp_manr)

3. The Eurozone

ECB raises rates with signal that market unrest will direct next steps

Benchmark increases from 2.5% to 3% ahead of crunch UK and US central bank meetings next week



❑ Inflation battle is far from finished but...

- ❑ Contagion rumours affect banks
- ❑ Liquidity channels are critical
- ❑ Financial stability is essential now but inflation is too sticky

3. The Eurozone

- In any event, the ECB is now more “optimistic” that it was in December, according to its projections as of March 2023

Table

Growth and inflation projections for the euro area

(annual percentage changes)

	March 2023					December 2022			
	2021	2022	2023	2024	2025	2022	2023	2024	2025
Real GDP	5.3	3.6	1.0	1.6	1.6	3.4	0.5	1.9	1.8
HICP	2.6	8.4	5.3	2.9	2.1	8.4	6.3	3.4	2.3

Notes: Real GDP figures refer to seasonally and working day-adjusted data. Historical data may differ from the latest Eurostat publications owing to data releases after the cut-off date for the projections.

4. The monetary conundrum

