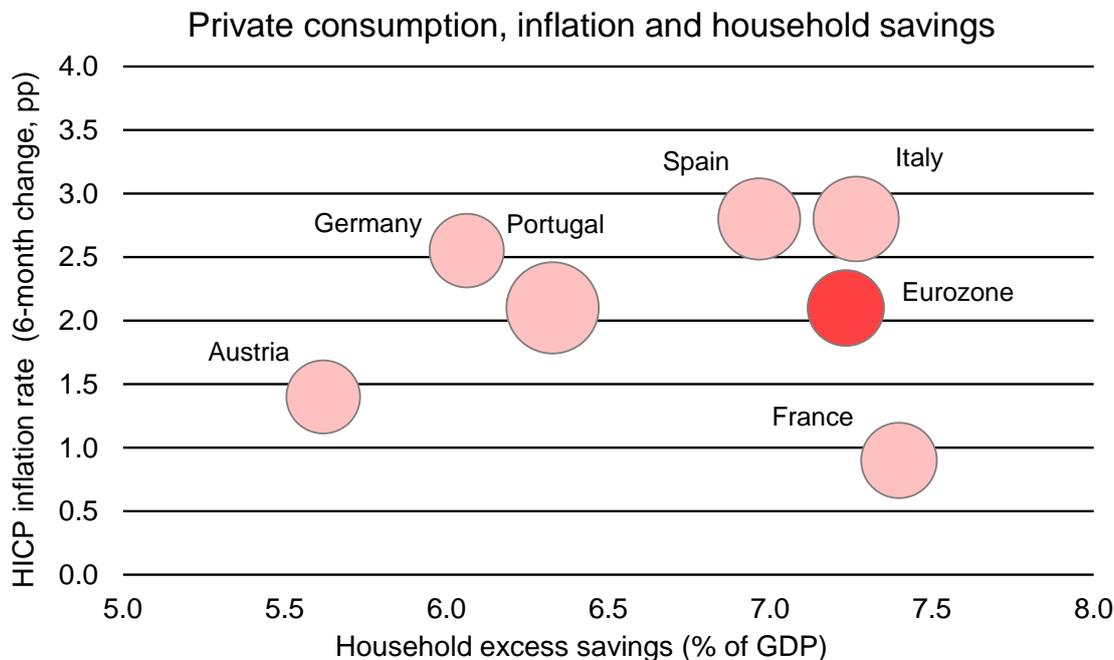


The periphery looks to be more exposed to a consumption slowdown due to higher inflation



The size of the circles corresponds to the share of private consumption in nominal GDP. Excess savings is computed as the cumulative amount of quarterly savings (1Q20-3Q21) above the 2018-19 average quarterly level. It is represented as a percentage of the four-quarter sum of GDP. For Germany, we neutralized the VAT-related base effect on the yoy inflation rate.

Source: Eurostat, UniCredit Research

- Inflation in the eurozone has repeatedly surprised to the upside in recent months. These higher-than-expected increases in inflation will affect household purchasing power and spending, most probably leading to a period of more moderate GDP growth over the coming quarters than initially expected.
- Our *Chart of the Week* compares selected eurozone countries according to three potentially relevant indicators:
 1. The increase in inflation over the last six months, driven, above all, by the surge in energy prices.
 2. The importance of private consumption among the expenditure components that determine GDP growth, as reflected by the share of GDP associated with private consumption in the respective country.
 3. The savings buffer accumulated during the pandemic – this indicator can be viewed as a mitigant of the deterioration in purchasing power.
- Italy, Portugal and Spain seem to be more exposed and are likely to suffer the most from a private consumption slowdown given the recent significant increase in inflation and, particularly, the higher relevance of private consumption in determining GDP in these countries. The share of nominal GDP associated with private consumption is 66% for Portugal, 61% for Italy and 58% for Spain (as indicated by the size of the circles in the chart). Austria, France and Germany look relatively better positioned to cope with the negative impact of higher inflation on the expected economic recovery. Their share of private consumption of GDP, for example, is closer to 53%. France, in particular, has so far been (and is likely to be) less exposed to a surge in inflation as the government last year decided to freeze potential increases in regulated gas tariffs for 2022, and also capped increases in electricity prices.

- Nevertheless, the chart also shows that, for Italy and Spain, excess savings accumulated during the pandemic (amounting to more than 7% of the countries' GDP) might represent an important mitigating factor, as consumers might fall back on such savings to finance spending in the coming quarters, thus supporting economic growth. In Spain, in particular, the recovery of private consumption from the decline induced by the COVID-19 shock has been lagging. In 4Q21, private consumption was still about 8% below its pre-pandemic level (almost double the level in Italy). There is, therefore, a lot more potential, particularly in Spain, in terms of a recovery in consumption.

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