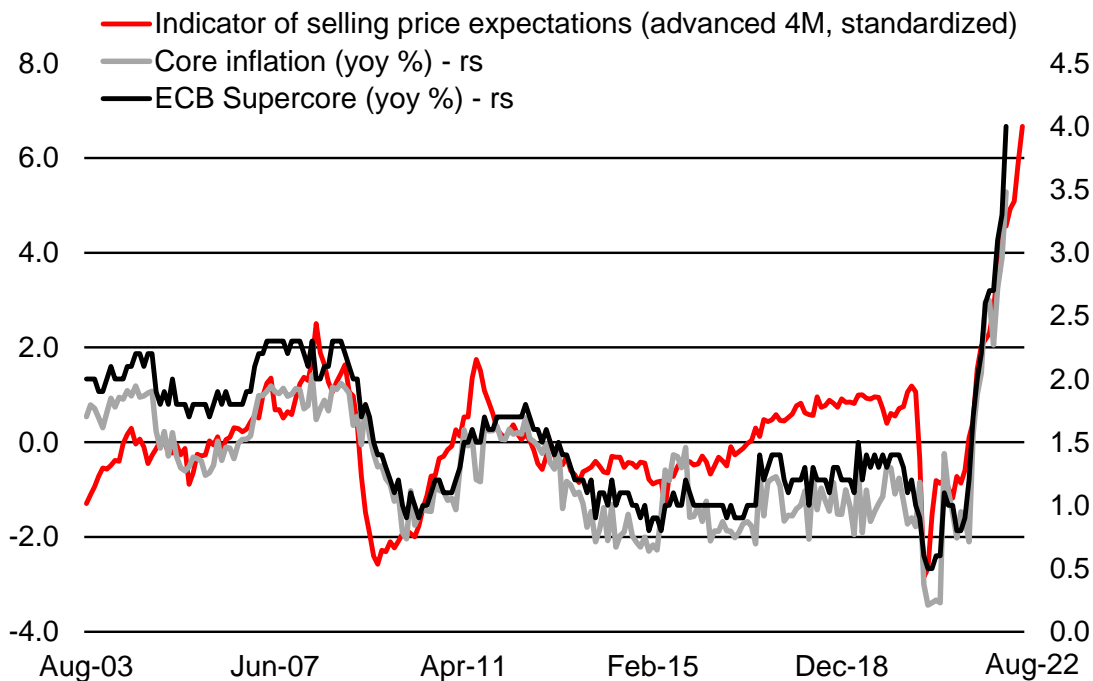


No let-up in eurozone underlying inflation yet



Source: EC, ECB, Eurostat, UniCredit Research

Our indicator of selling-price expectations is built using selling-price expectations as reported by the European Commission's monthly business survey. It is a weighted average of the assessment of firms producing consumer goods and of those producing services. The weights are those for goods and services in the HICP excluding food, energy, alcohol and tobacco.

- Eurozone inflation is not letting up. Core inflation (excluding food, energy, alcohol and tobacco) climbed to a new record high of 3.5% yoy in April, while the ECB's Supercore measure of underlying inflation, which is based only on those items of the HICP that are deemed sensitive to economic slack, hit 4.0% yoy.
- Our *Chart of the Week* shows that a turning point is not imminent. Our composite indicator of selling-price expectations remains on a steep upward trajectory, having recorded a further large increase in April. It tends to lead core inflation and the ECB's Supercore measure by four months.
- Most of the current intense upward pressure reflects ongoing supply-chain bottlenecks, indirect effects from surging commodity prices and the reopening of the economy, which is boosting prices of a number of services. Domestic drivers of inflation remain tame, given that wage growth is only accelerating gradually from very low levels.
- With underlying inflation expected to be uncomfortably high for some time, inflation expectations will remain a source of concern for the ECB. Only a major growth shock would derail the central bank's plan to exit negative rates this year, probably already by the end of the summer.
- However, reducing monetary accommodation while economic growth prospects deteriorate increases the downside risks of policy normalization. In a separate note published earlier today entitled "**Tightening in a slowdown: the ECB should be more mindful of downside risks**", we look at the factors that complicate the ECB's balancing act, making it likely that the rate-hike path priced in by financial markets will prove too aggressive.

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