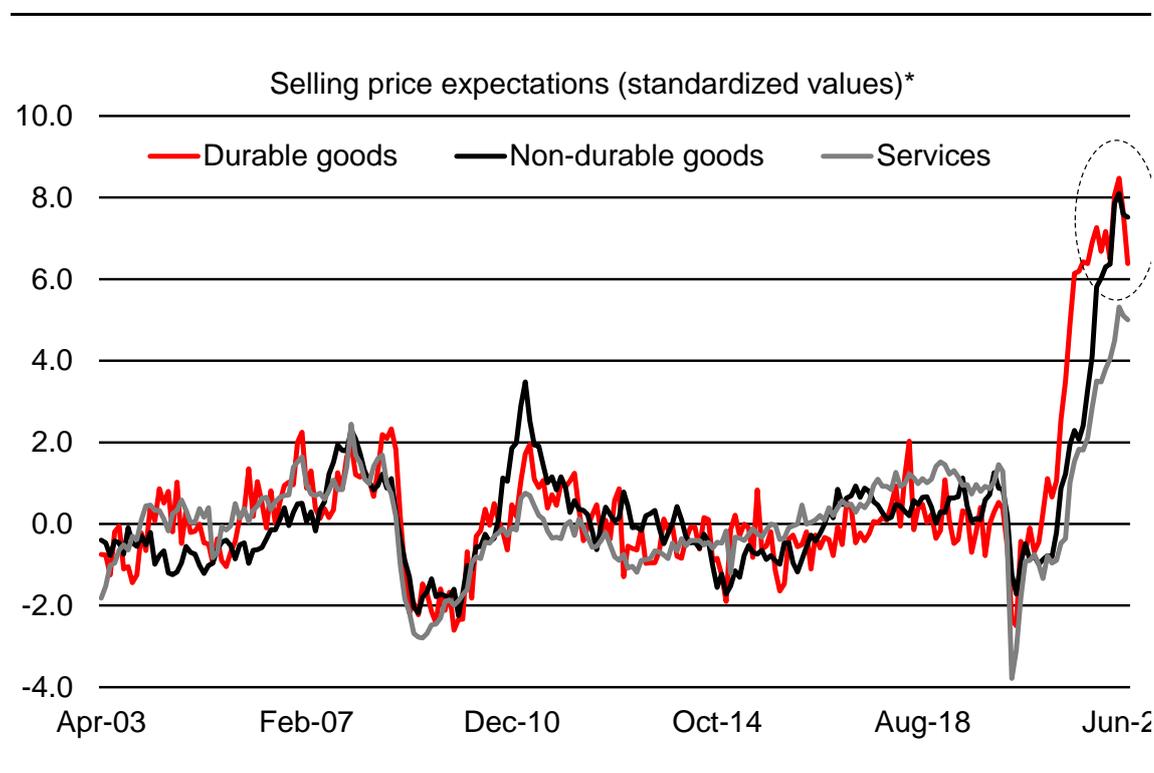


Are durable goods foreshadowing future disinflation?



*The indicators are published in the monthly survey carried out by the European Commission. In the goods-producing sector, these indicators lead the PPI and are published in a more timely fashion (the latest data refer to June).

Source: EC, UniCredit Research

- Released today, eurozone headline inflation for June accelerated to a fresh record high of 8.6% yoy (+0.5pp from May). Core inflation fell back slightly, easing by 0.1pp to 3.7% yoy, probably also reflecting temporary government measures in Germany to help households cope with surging transport costs. We expect eurozone core inflation to peak at above 4% yoy in the fall, before entering a clear downward trend next year. Our *Chart of the Week* shows that indicators of pipeline price pressure have started to signal a possible turning point (from extremely high levels), led by durable goods.
- This might be an important indication, because prices of durable goods were the first to accelerate in early 2021, kickstarting the wave of price increases that eventually led to the strong and increasingly broad-based inflation surge we are currently witnessing.
- There are good reasons why durable goods would be the first spending category for which price increases start to ease, both in the eurozone and globally. First, they are likely to be most vulnerable to households switching expenditure following the reopening of economies. Second, they are usually comparatively more sensitive to the interest-rate cycle. Third, they tend to suffer the most during times of uncertainty and low consumer confidence.
- We expect that lower inflation for durable goods will eventually be followed by a deceleration in the other components of underlying inflation, with non-durable goods probably the next in line. The substantial easing of price increases of industrial raw materials is likely to support this process. However, the timing and the extent of future disinflation remains highly uncertain.

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