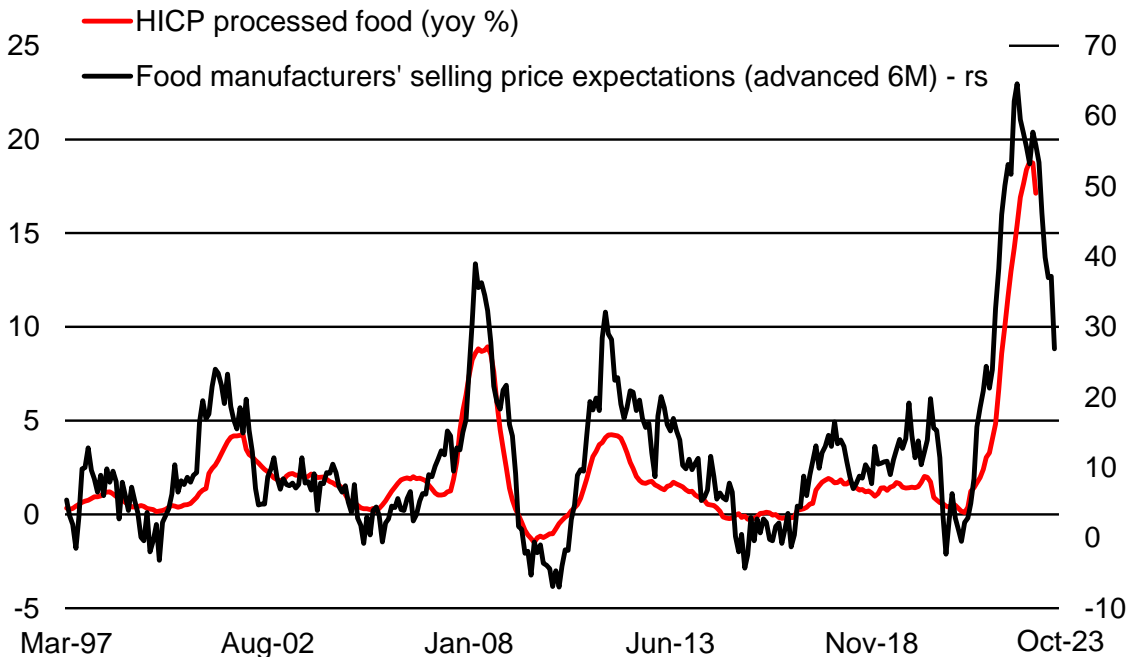


Eurozone food inflation at a turning point



Source: EC, Eurostat, UniCredit Research

- Food inflation in the euro area has peaked and a downward trend lies ahead. This week, Eurostat reported that processed-food inflation (excluding alcohol and tobacco) eased in April for the first time in almost two years, from 18.8% yoy to 17.1%. Our *Chart of the Week* shows that the slowdown still has a long way to go.
- The chart plots the yearly percentage change in the price of processed food along with selling-price expectations of food manufacturers, as reported by the European Commission's monthly business survey. The two series display a tight correlation, with the latter consistently leading the former by six months, hence providing important forward-looking information.
- The significant decline in the gauge for selling-price expectations from record-high levels points to a clear slowdown in processed-food inflation – to well below 10% before the end of the year, if the statistical relationship holds. This reflects reduced pipeline pressure as prices of food commodities and energy have declined. At this stage, however, it is not clear if margin compression in the food industry will also play a role.
- It is important to consider that the food component of inflation includes both processed and unprocessed food. In the eurozone, the latter accounts for 25-30% of overall food inflation and displays much higher volatility than the former (it is actually one of the most volatile items in the whole HICP basket), as it tends to be meaningfully affected by weather conditions. Swings in unprocessed-food prices can lead to volatility in overall food inflation, but the trend for the latter clearly points south.

Marco Valli, Global Head of Research, Chief European Economist (UniCredit Bank, Milan)
 +39 02 8862-0537
marco.valli@unicredit.eu

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l) UniCredit Bank AG New York Branch (UniCredit Bank, New York), 150 East 42nd Street, New York, NY 10017. Regulatory authority: "BaFin" – Bundesanstalt für Finanzdienstleistungsaufsicht, Marie-Curie-Str. 24-28, 60439 Frankfurt, Germany and New York State Department of Financial Services, One State Street, New York, NY 10004-1511
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UniCredit Research*

Macro Research



Marco Valli
 Global Head of Research,
 Chief European Economist
 +39 02 8862-0537
 marco.valli@unicredit.eu



Dr. Ingo Heimig
 Head of Research Operations
 & Regulatory Controls
 +49 89 378-13952
 ingo.heimig@unicredit.de

Head of Macro Research



Marco Valli
 Global Head of Research,
 Chief European Economist
 +39 02 8862-0537
 marco.valli@unicredit.eu

European Economics Research



Dr. Andreas Rees
 Chief German Economist
 +49 69 2717-2074
 andreas.rees@unicredit.de



Dr. Loredana Federico
 Chief Italian Economist
 +39 02 8862-0534
 loreadanamaria.federico@unicredit.eu



Stefan Bruckbauer
 Chief Austrian Economist
 +43 50505-41951
 stefan.bruckbauer@unicreditgroup.at



Tullia Bucco
 Economist
 +39 02 8862-0532
 tullia.bucco@unicredit.eu



Edoardo Campanella
 Economist
 +39 02 8862-0522
 edoardo.campanella@unicredit.eu



Walter Pudschedl
 Economist
 +43 50505-41957
 walter.pudschedl@unicreditgroup.at



Chiara Silvestre
 Economist
 chiara.silvestre@unicredit.eu

International Economics Research



Daniel Vernazza, Ph.D.
 Chief International Economist
 +44 207 826-7805
 daniel.vernazza@unicredit.eu

EEMEA Economics Research



Dan Bucsa
 Chief CEE Economist
 +44 207 826-7954
 dan.bucsa@unicredit.eu



Gökçe Çelik
 Senior CEE Economist
 +44 207 826-6077
 gokce.celik@unicredit.eu



Mauro Giorgio Marrano
 Senior CEE Economist
 +43 50505-82712
 mauro.giorgiomarrano@unicredit.de



Artem Arkhipov
 Head, Macroeconomic Analysis
 and Research, Russia
 +7 495 258-7258
 artem.arkhipov@unicredit.ru



Hrvoje Dolenc
 Chief Economist, Croatia
 +385 1 6006-678
 hrvoje.dolenc@unicreditgroup.zaba.hr



Pavel Sobišek
 Chief Economist, Czech Republic
 +420 955 960-716
 pavel.sobisek@unicreditgroup.cz



Ľubomír Koršňák
 Chief Economist, Slovakia
 +421 2 4950 2427
 lubomir.korsnak@unicreditgroup.sk



Anca Maria Negrescu
 Senior Economist, Romania
 +40 21 200-1377
 anca.negrescu@unicredit.ro



Kristofor Pavlov
 Chief Economist, Bulgaria
 +359 2 923-2192
 kristofor.pavlov@unicreditgroup.bg

UniCredit Research, UniCredit Bank AG, Arabellastraße 12, D-81925 Munich, globalresearch@unicredit.de
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