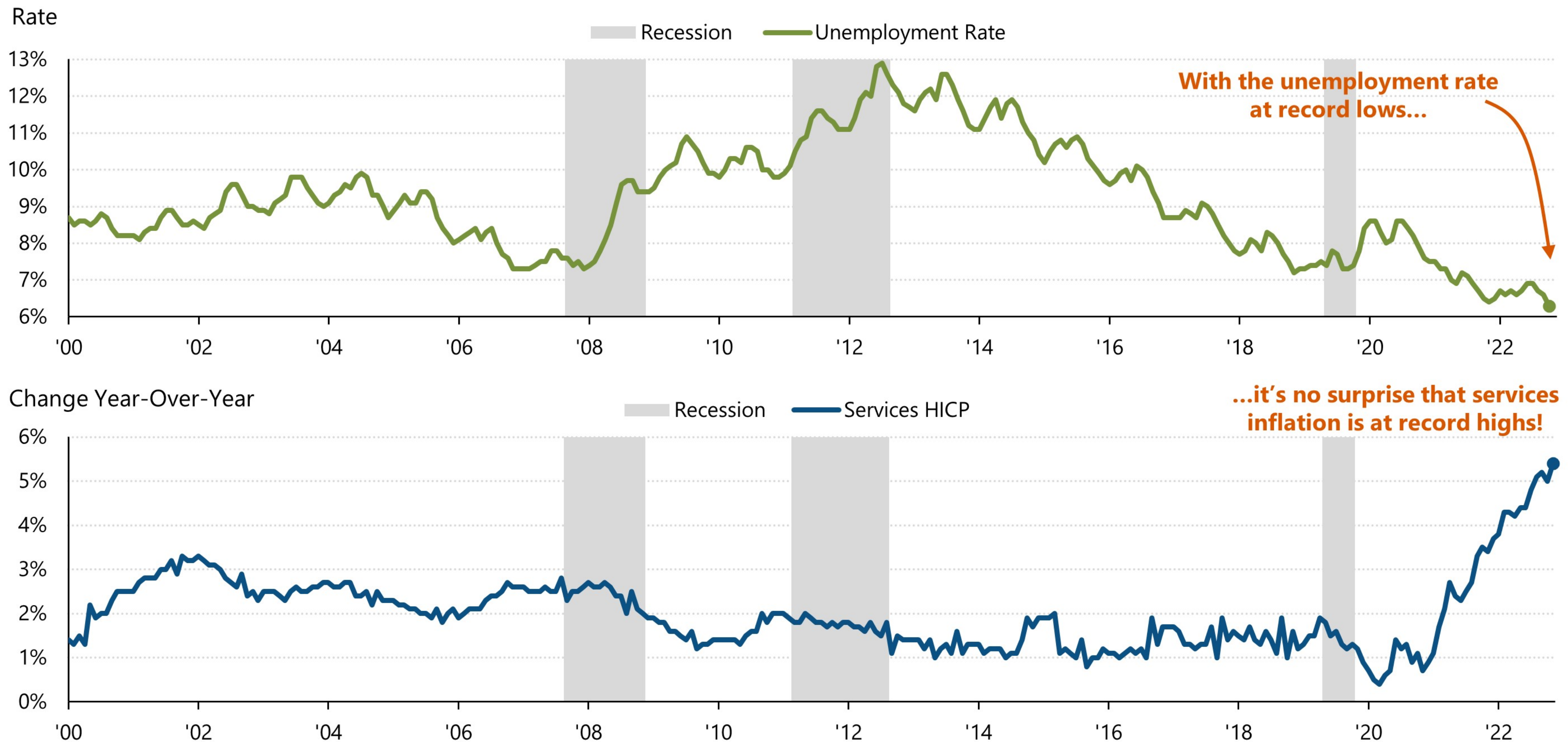


Bearers Of Bad (Inflation) News

Euro Area HICP Services Component Versus Unemployment Rate

For The Week Ending 07/21/2023



Source: Eurostat, EABCN

Following last week's softer-than-expected U.S. inflation reading, the euro area reported more good news this week. Eurozone headline inflation fell to 5.5% year-over-year, down from 6.1% in May and a record-high 10.6% last October. Energy prices in Europe are down 5.6% year-over-year and have been negative for four straight months. But, at the risk of being labeled bad news bears (bearers?), we remain cautious on the inflation front. Euro area services inflation lurched to its highest level in 30 years in the June data, rising 5.4% versus last summer, a persistent problem we highlighted early this year. Why are services prices trending up despite the slowdowns in input prices? As in the U.S., the labor market may hold the key. The euro area unemployment rate fell to an all-time low in May, supporting consumer demand. So, despite investor optimism of late, the inflation dragon has yet to be slayed.