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Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

Global Risk Watch Newsletter

Are we better to focus on the impacts of re-emergence of
“left” rather than “far-right” in Europe?, etc.

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29 March 2017

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ECB’s stance and the tone of prices (Toshikazu Kumagai, Senior Staff, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

At Recently inflation has become more notable in Europe where deflation was once feared. Meanwhile, it drew attention as a sign of changing stance of ECB (European Central Bank) that the official statement released after the Governing Council on March 9th excluded the wording “act [against deflation] by using all the instruments available.” President Draghi is indicating his recognition that inflationary pressures remain subdued, but it is true that the current condition no longer calls for concerns over potential deflation.

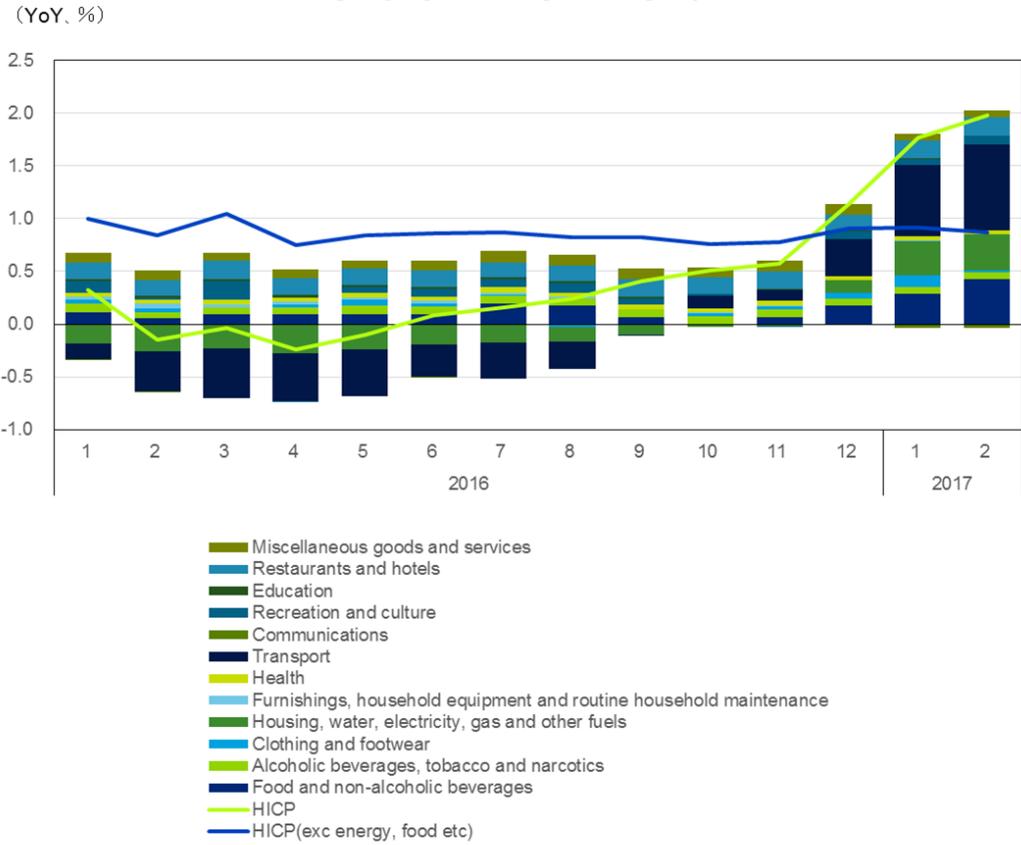
Now let us confirm the price conditions in Europe thus far (Chart 1). February HICP (Harmonised Index of Consumer Prices) composite was at +2.0% yoy, reaching the ECB benchmark. In the breakdown, however, the contribution from three categories, “Housing, water, electricity, gas, and other fuels” with rising utility costs, “Transport” due to higher transportation service fees, and “Food and beverages” with increasing food prices, turn out to be key drivers, therefore the core index excluding energy and food prices did not show a sign for extensive growth.

Next, let’s look into wage trends (Chart 2). Generally, it is said that rise in wages brings rise in household consumption, which evokes inflation based on increased demands. Although the available data is slightly out of date, as of the third quarter last year, there is no upward trend in the European wage standards. Perhaps this type of environment led to President Draghi’s judgement that “inflationary pressures remain subdued.”

On the other hand, real estate prices in Europe has been increasing (Chart 3), and some are alarmed about the potential bubble. BIS (Bank for International Settlements), as of the third quarter last year, has issued a warning of the German real estate prices largely exceeding the long-term trend.

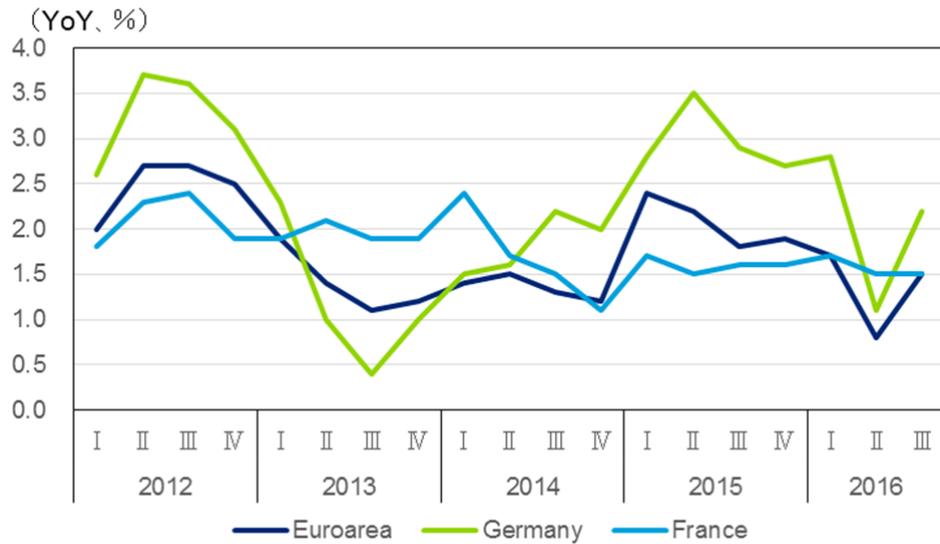
Under these conditions where the tone in prices is not yet vibrant and concerns over the real estate bubble are looming, it is intriguing when and what types of move ECB will take next.

Chart1 : HICP Trend



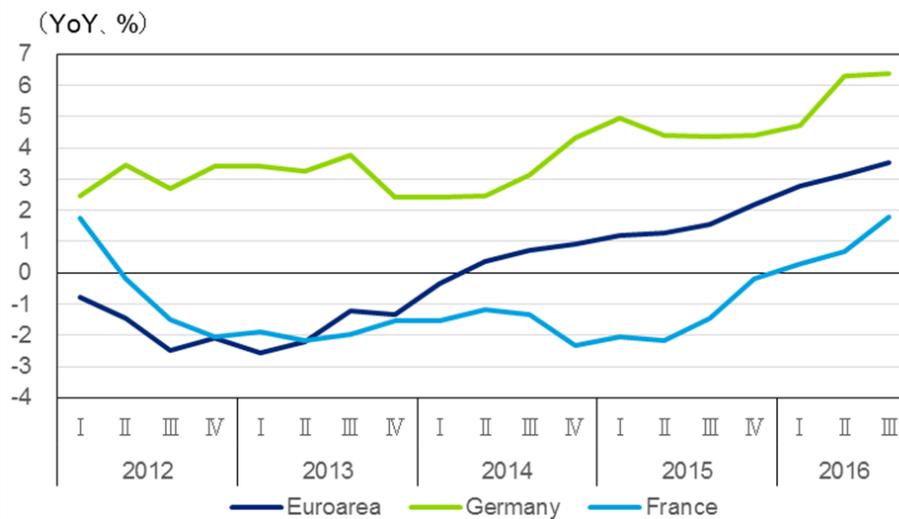
* (Source) Eurostat, Deloitte Touche Tohmatsu LLC.

Chart2 : Trend in Wages and Earnings



*(Source) Eurostat, Deloitte Touche Tohmatsu LLC.

Chart3 : Trend in Real Estate Prices



*(Source) BIS, Deloitte Touche Tohmatsu LLC.

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