



# Economic Situation and Strategy

21 June 2024

## Inflation target of two percent: probably wishful thinking!

Since the inflation rate peaked in fall 2022, the rate of price increases has declined significantly. Inflation rates in most countries are now back between two and three percent and therefore within a reasonably tolerable range. The still restrictive monetary policy - in conjunction with an economy that is still not booming - will also help to ensure that inflation rates continue to fall in the coming months. On the face of it, it could therefore be said that the spectre of inflation has been tamed. However, it cannot be made that easy.

On the one hand, low inflation rates do not change the fact that prices are now at a permanently higher level. This harbors a certain political explosiveness. Even with a hypothetical inflation rate of zero percent in 2025, many components of the basket of goods will be 20% or 30% more expensive than a few years ago - this will not leave people unaffected who had previously become accustomed to almost constant prices over longer periods of time. On the other hand, it must be warned that reaching the two percent inflation target (and this will be the case in the next few quarters) means that the inflation problem will then be fundamentally solved. On the contrary, there are many reasons to believe that a slightly higher structural inflation rate can be expected in the coming years.

When talking about inflation rates, it is also important to understand that the calculation of the inflation rate is always associated with certain uncertainties. There is no such thing as a "true" inflation rate. The level of the inflation rate depends on the composition of the basket of

goods and the calculation method. This applies in particular to periods in which the price development of the items in the basket of goods is very heterogeneous. This has recently been the case, but there has also been a huge difference in price trends between different groups of goods and services in Europe over the last 20 years, as the following tables illustrate.

### *Goods and services with a sharp rise in prices since 2004 (in percent)*

ELECTRICITY, GAS AND OTHER FUELS	150%
LIQUID FUELS	147%
GAS	145%
ELECTRICITY	142%
HEAT ENERGY	140%
JEWELLERY, CLOCKS AND WATCHES	131%
TOBACCO	128%
SOLID FUELS	120%
OILS AND FATS	106%
PASSENGER TRANSPORT BY AIR	92%
NEWSPAPERS AND PERIODICALS NADJ	92%
ALCOHOLIC BEVERAGES, TOBACCO & NARCOTICS	91%
PASSENGER TRANSPORT BY SEA AND INLAND WATERWAY	84%
FUEL & LUBRICANTS FOR PERSONAL TRANSPORT EQUIPMEN	83%
MAINTENANCE & REPAIR OF PERSONAL & TRANSPORT EQUI	79%

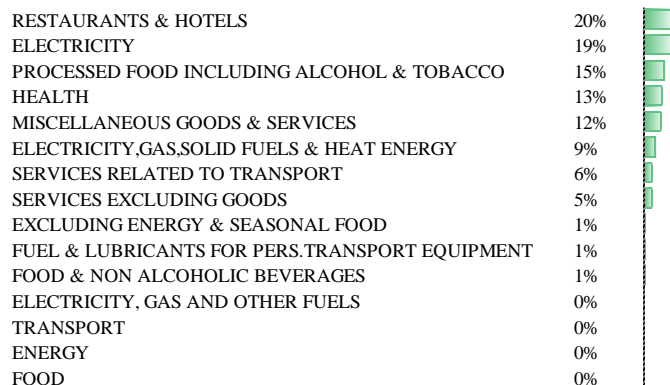
### *Goods and services with a decrease or slight increase in prices since 2004 (in percent)*

TELEPHONE & TELEFAX EQUIPMENT	-84%
EQUIP. FOR RECEPTION, RECORDING OF SOUND, PICTURES	-73%
INFORMATION PROCESSING EQUIPMENT	-71%
PHOTOGRAPHIC & CINEMATOGRAPHIC EQUIP.& OPTC. INSTF	-63%
AUDIO VISUAL.PHOTOGRAPHIC & INFO. PROCESSING EQUIP	-61%
RECORDING MEDIA	-29%
COMMUNICATIONS	-27%
TELEPHONE & TELEFAX SERVICES	-19%
GAMES, TOYS & HOBBIES	-6%
HOUSEHOLD APPLIANCES INC. ELECTRICAL	-5%
HOUSEHOLD APPLIANCES	-1%
EQUIPMENT FOR SPORT, CAMPING & OPEN AIR RECREATION	5%
GARMENTS	14%
E CLOTHING	15%
CLOTHING & FOOTWEAR	16%

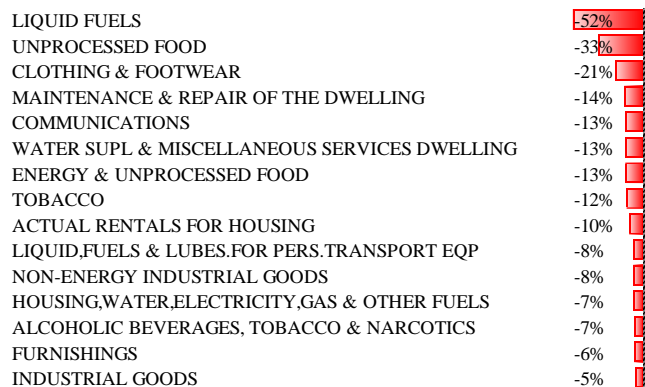
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It can now be assumed that groups of goods that experience a particularly strong increase in prices will also experience an increase in weighting in the basket of goods in the long term. This is because the rise in prices means that an increasing proportion of consumption is absorbed by these groups of goods. However, the following two tables show that this assumption is not necessarily true.

## *Goods and services with a sharp increase in weighting in the basket of goods as a percentage since 2004*



## *Goods and services with a sharp decline in weighting in the basket of goods as a percentage since 2004*



For example, the share of "liquid fuels" in the basket of goods has halved, although prices have risen by around 150%. At first glance, this development does not seem very plausible and is interpreted by conspiracy theorists as an indication of manipulation in the statistics. However, the reason for this development is quite mundane. Such relative changes are simply the expression of substitution effects. When prices rise, expensive goods are avoided and replaced by other goods. There is also technical progress and structural change. This is quite obvious in the case of liquid fuels. Today, dramatically less oil is used for heating than 20 years ago, and the first effects of electromobility can also be observed in cars. However, the handling of quality improvements in the statistics is somewhat more critical. It is noticeable, for

example, that there have been some significant price falls in the last 20 years, particularly for many technology-based goods. This may come as a surprise, as one would initially assume from one's own memory that cameras, mobile phones, computers and games consoles have definitely not become cheaper. However, the price statistics also take quality development into account. It is claimed that the price per unit of quality has fallen, which is also true if, for example, the computer price is set in relation to processor speed. The problem here is that, depending on the method used, pretty much any price increase can be derived for technology-intensive goods. This is probably one of the reasons why "perceived" inflation is always a little higher than the official statistics.

## *Slightly higher inflationary pressure in the long term*

However, we are more concerned about the long-term perspective. If we assume that the world will gradually split into two economic spheres (Western world vs. autocratic states), this could lead to inflationary effects if tariffs on trade between these two blocs rise. The massive rise in price levels could also lead to above-average wage demands in the coming years, even if inflation rates are comparatively moderate again. This "reverberation" of the massive inflation from 2021-2023 could therefore also leave its mark in the medium term and promote a wage-price spiral. This will certainly be much more moderate than in the 1970s - but it should still be measurable. We are also concerned about the current and rising levels of national debt in many countries. The EU Commission has just initiated deficit proceedings against seven EU countries, but government debt is also growing at an astonishing rate in the USA and the UK. The worrying development is that populist parties and politicians are successful in many countries, which will reinforce rather than weaken this trend. As a result of this development, yields could tend to rise, which in turn could prompt central banks to take countermeasures with an expansive monetary policy in the medium term. This would also have inflationary effects with a certain time lag. All these reasons suggest that a long-term average inflation rate of two percent is an (overly?) optimistic scenario. We would assume that a value of around 2.5% is a more realistic scenario.

Dr. Christian Jasperneite

## Market data

	As of 21.06.2024 08:32	Change versus				
		14.06.2024 -1 week	20.05.2024 -1 month	20.03.2024 -3 months	20.06.2023 -1 year	29.12.2023 YTD
<b>Stock markets</b>						
Dow Jones	39135	1,4%	-1,7%	-1,0%	14,9%	3,8%
S&P 500	5550	2,2%	4,6%	6,2%	26,5%	16,4%
Nasdaq	17722	0,2%	5,5%	8,3%	29,7%	18,1%
DAX	18254	1,4%	-2,7%	1,3%	13,3%	9,0%
MDAX	25716	0,0%	-6,4%	-2,1%	-3,8%	-5,2%
TecDAX	3311	-1,2%	-4,2%	-1,7%	4,4%	-0,8%
EuroStoxx 50	4948	2,2%	-2,5%	-1,1%	13,9%	9,4%
Stoxx 50	4545	1,6%	0,3%	3,9%	14,1%	11,0%
SMI (Swiss Market Index)	12128	0,7%	0,7%	4,4%	8,1%	8,9%
Nikkei 225	38596	-0,6%	-1,2%	-3,5%	15,6%	15,3%
Brasilien BOVESPA	120446	0,7%	-5,7%	-6,7%	0,7%	-10,2%
Russland RTS	1137	0,0%	-5,5%	2,1%	9,1%	5,0%
Indien BSE 30	77267	0,4%	4,5%	7,2%	22,0%	7,0%
China CSI 300	3493	-1,4%	-5,4%	-2,6%	-11,0%	1,8%
MSCI Welt	3520	0,8%	1,2%	3,1%	19,7%	11,1%
MSCI Emerging Markets	1096	1,8%	-0,6%	6,2%	8,1%	7,0%
<b>Bond markets</b>						
Bund-Future	132,24	-83	172	33	-153	-498
Bobl-Future	116,68	-36	11	-88	65	-260
Schatz-Future	105,74	-14	60	17	69	-81
3 Monats Euribor	3,71	5	-19	-20	13	-17
3M Euribor Future, Dec 2024	3,32	3	1	24	4	102
3 Monats \$ Libor	5,61	0	2	2	9	2
Fed Funds Future, Dec 2024	4,99	5	-2	39	115	115
10 year US Treasuries	4,25	4	-20	-3	52	39
10 year Bunds	2,41	7	-11	-1	0	41
10 year JGB	0,98	5	1	25	59	35
10 year Swiss Government	0,66	-4	-9	-5	-29	-4
US Treas 10Y Performance	593,82	-0,3%	1,9%	1,2%	-0,4%	-1,2%
Bund 10Y Performance	554,28	-0,5%	1,1%	0,8%	2,5%	-2,0%
REX Performance Index	443,77	-0,3%	0,7%	0,7%	2,6%	-0,9%
IBOXX AA, €	3,45	7	-1	7	-24	38
IBOXX BBB, €	4,03	8	1	6	-54	27
ML US High Yield	8,01	-2	1	12	-57	22
<b>Commodities</b>						
MGBase Metal Index	432,68	0,2%	-9,2%	9,7%	10,6%	10,7%
Crude oil Brent	85,74	3,8%	2,2%	-0,3%	12,9%	10,4%
Gold	2361,28	1,3%	-2,6%	9,5%	22,0%	14,3%
Silver	30,60	4,9%	-4,4%	22,8%	32,3%	26,2%
Aluminium	2471,63	0,4%	-4,0%	11,2%	13,0%	5,4%
Copper	9721,50	1,1%	-10,0%	10,2%	13,7%	14,9%
Iron ore	107,15	-0,2%	-8,6%	-2,8%	-5,2%	-21,4%
Freight rates Baltic Dry Index	1984	1,8%	7,4%	-13,1%	84,0%	-5,3%
<b>Currencies</b>						
EUR/ USD	1,0715	0,3%	-1,3%	-1,2%	-2,0%	-3,0%
EUR/ GBP	0,8458	0,2%	-1,1%	-1,0%	-1,2%	-2,4%
EUR/ JPY	170,29	1,5%	0,6%	3,5%	10,2%	8,9%
EUR/ CHF	0,9550	0,2%	-3,3%	-1,1%	-2,6%	3,1%
USD/ CNY	7,2610	0,0%	0,3%	0,8%	1,0%	2,2%
USD/ JPY	158,92	1,0%	1,7%	5,1%	12,3%	12,7%
USD/ GBP	0,79	0,0%	0,4%	0,4%	0,6%	0,7%

Source: Refinitiv Datastream

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