ECB HICP forecasts: more pressure for 2027

- **On 10 September, the ECB will update its macroeconomic projections. The cut-off date for assumptions was probably around 19 August, leading to lower Brent but higher gas prices compared to the last macroeconomic projections.**
- **We expect the ECB to make upside revisions to its baseline scenario for 2027 as higher gas and electricity prices would imply larger second-round effects on core and food HICP. In contrast, we expect the ECB to revise its 2026 forecasts marginally to the downside due to the current weakness in food HICP.**
- **All in all, we expect the ECB baseline to have headline inflation at 2.9% in 2026 (-10bp), 2.6% in 2027 (+30bp) and 2.0% in 2028, with core inflation at 2.5% in 2026, 2.7% in 2027 (+20bp) and 2.2% in 2028.**

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ECB forecast errors

In Q226, headline inflation came out at 3.0% YoY, 20bp below the ECB's June baseline forecasts, while core was in line with the ECB's estimates at 2.4% YoY. In fact, energy prices collapsed in June after the ceasefire agreement between the US and Iran, leading energy HICP to fall to 8.5% YoY in June. With this figure, the Q226 average reached 10.1% YoY for energy HICP, far below the 11.3% expected by the ECB. On top of that, food HICP also surprised by its weakness, printing at 1.9% YoY in Q226 while the ECB expected 2.3%. In contrast, both services and core goods were in line with the ECB's forecasts.

For Q326, after two of the three monthly prints, we track headline inflation at 3.19% and core inflation at 2.44%. Headline inflation would thus be again 20bp below the ECB's forecasts (3.4%), but core would be broadly in line (2.5%). However, considering the rebound of energy prices over the summer (especially for gas and electricity), energy HICP would print above the ECB's take for Q326 (we track 13.3% vs 12.5%). Nonetheless, food inflation weakness accentuated, and we now track food HICP at 1.2% YoY for Q326, far below the 2.5% expected by the ECB.

As a result, ECB forecast errors on inflation should lead to large downside revisions for food (at least in the short term) and some upside revisions for energy.

Turning to activity, **Q126 GDP was revised 20bp lower at 0.0% QoQ but Q226 GDP came out 20bp above the ECB's forecast (0.4% QoQ vs 0.2%).** Thus, overall H126 growth was broadly in line with the ECB's estimates. That being said, the survey data improved significantly since the last macroeconomic projections as services PMI rebounded from 47.7 in May to 51.7 in August, and manufacturing PMI rose from 51.6 to 52.7. It seems that activity is so far quite resilient despite the energy shock. However, the burden from higher electricity and gas costs is growing and could dampen activity over the next few quarters. **In that context, we expect little change to the GDP outlook, thus little impact on inflation going forward.**

Changes in assumptions

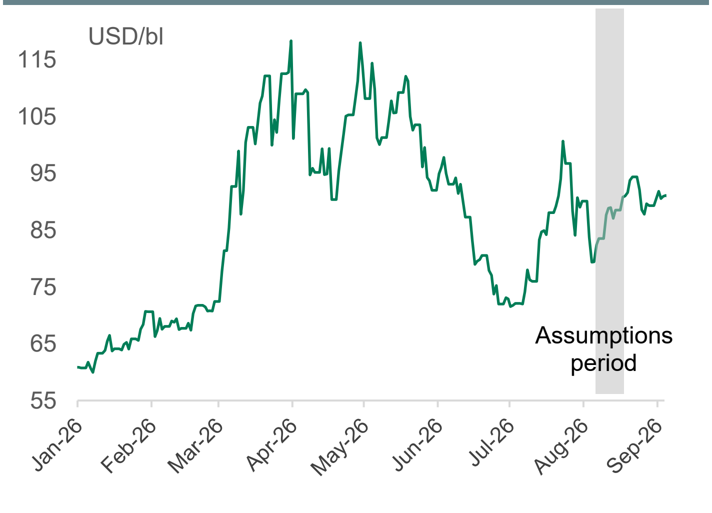
With a monetary policy decision to be delivered on 10 September, we expect the assumption cut-off date to be around 19 August. We assume the usual ten-day average window for commodities and FX assumptions.

In June, the ECB's baseline assumptions included an oil price at USD96.9/bl on average in 2026, USD82.2/bl in 2027 and USD77.1/bl in 2028. **Under this new set of assumptions, Brent prices should be down**, around USD89/bl in 2026, USD78/bl in 2027 and USD73/bl in 2028. However, the ECB should now take into account not only Brent prices but also crack spreads, which have widened since the last macroeconomic projections, offsetting part of the impact of lower Brent prices. By the way, we would not be surprised (and we hope) that the ECB will write a dedicated box on the matter.

In contrast, natural gas price assumptions should be higher. The ECB's former assumptions had TTF prices averaging EUR45.6/MWh in 2026, EUR37.5/MWh in 2027 and EUR27.9/MWh in 2028. New assumptions should be close to EUR51/MWh in 2026, EUR43/MWh in 2027 and EUR30/MWh in 2028.

It is worth noting that the cut-off date occurred before the further increase in Brent and TTF prices (see Figures 1 and 2).

Fig 1. Oil prices – Brent 1st future (USD/bl)



Source: Bloomberg, Crédit Agricole CIB

Fig 2. Natural gas prices – TTF 1st future (EUR/MWh)

Source: Bloomberg, Crédit Agricole CIB

Finally, the EUR/USD assumption should at 1.16 over the forecast horizon, only marginally down from the 1.17 in June.

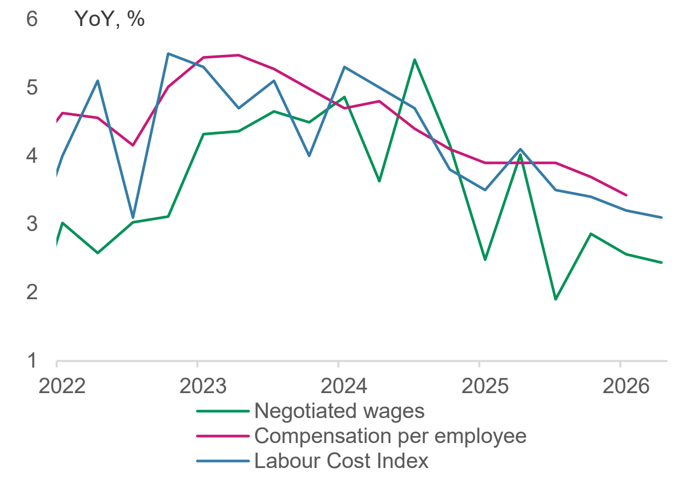
All combined and all else equal, higher crack spreads would offset part of the decline in Brent prices, while higher TTF would push HICP higher. In fact, using the usual ECB pass-through, this new set of assumptions should have a +5bp effect in 2026, a +10bp effect in 2027 and a -2bp effect in 2028.

Wages

For wages, there is an interesting divergence between hard data and soft data. In fact, hard data continued to ease, with both negotiated wages and labour cost index slowing in Q226 (see Figure 3). However, soft data like the Indeed tracker or the ECB wage tracker are showing increasing wage pressure (see Figure 4). In particular, the Indeed wage tracker rose from 2.5% YoY at the beginning of 2026 to 3.2% YoY in July. On top of that, the forward-looking ECB wage tracker shows an uptick in early 2027 underlying that wage growth might be higher next year.

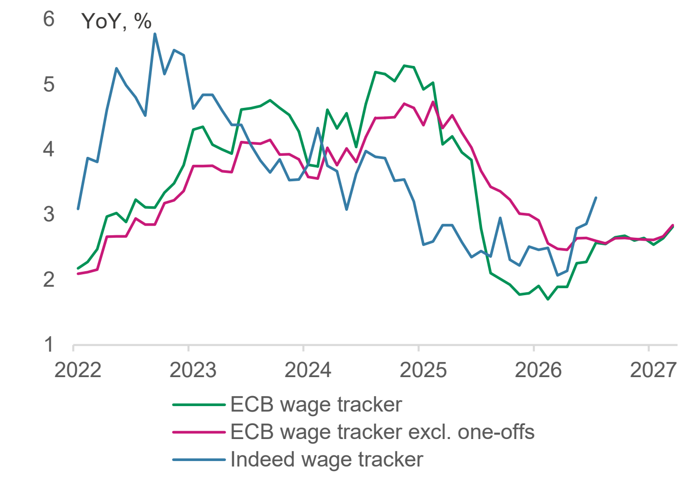
In this context, we expect the ECB to revise compensation per employee (the main ECB wage gauge) slightly to the upside, from 3.2% to 3.3% in 2026, from 3.2% to 3.4% in 2027 and unchanged at 3.2% in 2028, which would slightly support services HICP in 2027. On our end, we believe the current energy shock will start to bite on wages around the end of 2026 when negotiations take place for 2027 wages among firms. We believe wage growth might be a bit larger for 2027 (slightly above 3.5% YoY), which is why we have our labour-intensive services rising above 4% YoY in early 2027.

Fig 3. Eurozone wage data



Source: ECB, Eurostat, Crédit Agricole CIB

Fig 4. Eurozone wage trackers



Source: ECB, Indeed, Crédit Agricole CIB

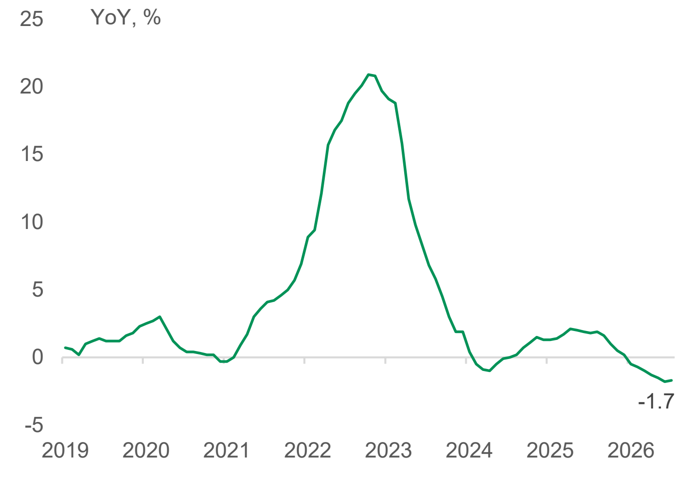
About second-round effects

As often underlined in our publications, so far we see no obvious second-round effects from the energy shock. We continue to believe that we cannot use the 2021-22 playbook as there were non-linear impacts from cumulative shocks (demand shock from the reopening of economies and massive fiscal stimulus, supply bottlenecks & shortages of some key components like microchips and on top of that the energy & commodities shock from the war in Ukraine). This time, the shock is essentially about energy – and even the energy shock is much smaller than in 2021-22 – with a slower pass-through to non-energy components. In addition, consumer demand is likely more sensitive to price changes this time as consumers do not have the same large savings as in 2021-22 after on-and-off lockdowns. Thus, the pricing power of firms was larger back then than it probably is right now.

Let's now take a deeper look at the three different aggregates ex-energy:

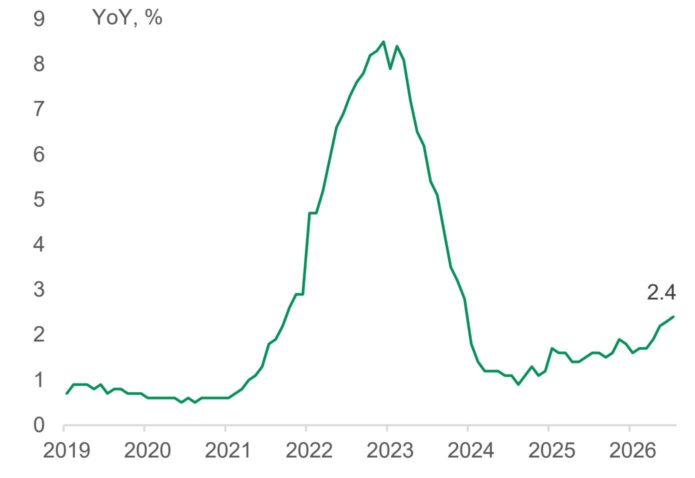
- **Food:** food inflation surprised to the downside month after month this year, following super weak PPIs (see Figure 5) despite higher energy prices and harsh weather conditions this year (many floods in winter, heatwaves in summer). We continue to expect some mild rebound after the summer season (essentially coming from the adverse weather conditions which would impact unprocessed food) and a more pronounced increase throughout H127 (from higher energy costs, especially for processed food). By the way, while fertiliser prices was a huge topic three months ago, prices have collapsed and are now back to pre-shock levels.
- **Core goods:** core goods inflation rose above 1% YoY, but essentially from specific drivers, unrelated to the energy shock. In fact, the German pharmacy fee increase alone explains more than 20bp of core goods inflation. In addition, information & communication equipment momentum keeps ongoing (this component has been averaging -5.5% YoY over 2024 & 2025 and is currently above +1% YoY), led by higher RAM prices. However, we are starting to see a small upside pressure on PPI data as consumer goods (excluding food, beverages and tobacco) PPI for the domestic market rose from 1.6% YoY in January to 2.4% YoY in July (see Figure 6). By way of comparison, this very same indicator reached 8.5% YoY in December 2022. On our side, we continue to expect only a small impact on core goods HICP from the energy shock.

Fig 5. PPI Eurozone manufacture of food products and beverages – domestic market



Source: Eurostat, Crédit Agricole CIB

Fig 6. PPI Eurozone consumer goods (ex. food, beverages and tobacco) – domestic market



Source: Eurostat, Crédit Agricole CIB

- **Services:** services experienced a lot of volatility due to the timing of Easter and airfares saw extreme volatility. However, we are not seeing any impact from the energy shock in services – even airfares are now in negative territory in YoY terms (our estimate for August-26 after the preliminary release), despite the surge in jet fuels. In the meantime, labour-intensive services remained stable around 3.8% YoY so far this year and services with resets continued to ease, now below 3% YoY. It is not surprising that services have so far not reacted to the energy shock as there is a lot of latency before services get affected, especially since nothing has happened yet for food and core goods. And even if wages are not reacting yet (see section above), we expect some upside pressure for the upcoming 2027 cycle of wage negotiations due to higher overall inflation. It should support higher labour-intensive services and larger resets at the beginning of the year. On top of that, we also expect airfares to start to bounce back as a lot of airlines relied on their jet fuel hedging so far, which will need to be rolled at some point. Finally, extreme weather events over the course of 2026 should also support car and home insurance prices (but unrelated to the energy shock).

Conclusion

All combined, we believe the ECB will revise its inflation forecasts to the downside in 2026 due to food HICP current weakness. In contrast, higher gas and electricity prices would lead to higher second-round effects in 2027 on core and food prices, supporting an upside revision on both headline and core HICP. Finally, we do not expect any significant revision for 2028 considering the backwardation of energy futures curves.

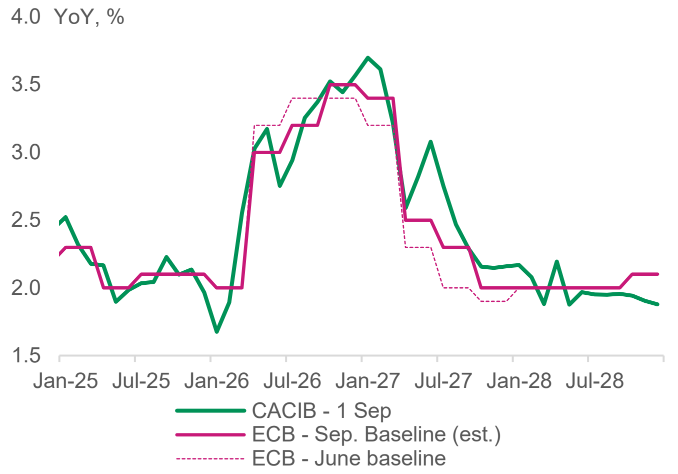
In details, we expect the ECB to have headline inflation at 2.9% in 2026 (-10bp vs June), 2.6% in 2027 (+30bp) and at 2.0% in 2028. Core would be at 2.5% in 2026, 2.7% in 2027 (+20bp) and at 2.2% in 2028.

Fig 7. Expected ECB inflation forecasts

Inflation forecasts	2026	2027	2028
ECB Dec – headline	**2.9%**	**2.6%**	**2.0%**
(difference vs Jun forecasts)	**(-0.1)**	**(+0.3)**	**(=)**
CACIB 1 Sep – headline	2.93%	2.75%	1.98%
ECB Dec – core	**2.5%**	**2.7%**	**2.2%**
(difference vs Jun forecasts)	**(=)**	**(+0.2)**	**(=)**
CACIB 1 Sep – core	2.39%	2.65%	2.10%

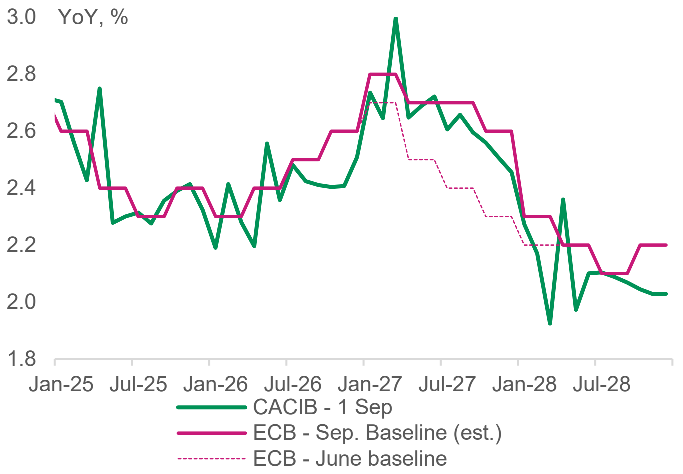
Source: Crédit Agricole CIB

Fig 8. Eurozone headline inflation



Source: ECB, Crédit Agricole CIB

Fig 9. Eurozone core inflation



Source: ECB, Crédit Agricole CIB

For more details on our forecasts, you can download our latest forecast spreadsheet here.

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Recent inflation publications

Release	Publication	Link
01/09/2026	Inflation-linked Weekly	Energy, elections, Livret A: a strategy Q&A
27/08/2026	Inflation-linked Focus	Eurozone HICP preview: August 2026, highest print in three years
26/08/2026	Inflation-linked Focus	Inflation slide deck at Red Mount Analytics
25/08/2026	Inflation-linked Weekly	The energy crisis is worsening
25/08/2026	Inflation-linked Trade Idea	Deepening energy crisis, buy 5Y HICPx
21/08/2026	Inflation-linked Focus	US CPI outlook update, adding 2028
21/08/2026	Inflation-linked Focus	Back to work: HICP update
19/08/2026	Inflation-linked Trade Idea	Sell OATei Jul-36 vs BTPei May-36, target reached
12/08/2026	Inflation-linked Focus	US July CPI: a relatively benign month
06/08/2026	Inflation-linked Focus	US CPI: July 2026 preview
03/08/2026	Inflation-linked Focus	July HICP debrief and summer break
28/07/2026	Inflation-linked Weekly	Up and down
24/07/2026	Inflation-linked Focus	Eurozone HICP preview - July 2026: energy back in the driver's seat
21/07/2026	Inflation-linked Weekly	Looking ahead, beyond the double energy crisis
21/07/2026	Inflation-linked Focus	Adding 2028 to our HICP path
15/07/2026	Inflation-linked Weekly	Threat, deal, break, repeat
10/07/2026	Inflation-linked Focus	US CPI: June 2026 preview
03/07/2026	Inflation-linked Focus	Quick HICP update
30/06/2026	Inflation-linked Weekly	Food for doves
26/06/2026	Inflation-linked Focus	HICP, June preview and outlook update (complete version)
22/06/2026	Inflation-linked Trade Idea	Sell OATei Jul-36 vs BTPei May-36
17/06/2026	Inflation-linked Trade Idea	Taking profit on sell 5YF5Y FRCPIx vs buy HICPx
16/06/2026	Inflation-linked Weekly	We're still below what the market implies
10/06/2026	Inflation-linked Focus	US May CPI: little sign of pass-through in core
09/06/2026	Inflation-linked Weekly	Mixed US CPI incoming

	Still useful documents from 2024-2025 (subjective list)	
09/03/2026	*Inflation-linked Focus*	*Updating our HICP forecasts as oil exceeds USD100/bl*
02/03/2026	*Inflation-linked Focus*	*War in Iran: another inflation shock?*
21/01/2026	*Inflation-linked Focus*	*New HICP methodology and weight adjustments*
21/11/2025	*Inflation-linked Focus*	*2026 Inflation Outlook: more mess ahead*
12/11/2025	*Inflation-linked Focus*	*Eurozone linker supply outlook 2026*
03/10/2025	*Inflation-linked Focus*	*Adding 2027 to our US CPI outlook*
16/06/2025	*Inflation-linked Focus*	*2027 HICP now in our forecasts*
06/03/2025	*Inflation-linked Focus*	*Are the German and EU plans that inflationary?*
10/02/2025	*Inflation-linked Focus*	*Revisiting the oil pass-through to HICP*
27/01/2025	*Inflation-linked Focus*	*Does EUR/USD parity matter for EZ inflation?*
02/12/2024	*Inflation-linked Focus*	*US CPI, what impact from Trump 2.0 policies?*
26/11/2024	*Inflation-linked Focus*	*Eurozone 2025 inflation outlook: in depth Q&A*
19/11/2024	*Inflation-linked Focus*	*The 100-component US CPI model*
18/09/2024	*Inflation-linked Focus*	*Q&A on (ECB's) domestic inflation*
04/06/2024	*Inflation-linked Weekly*	*Guess who's back*
03/05/2024	*Inflation-linked Focus*	*Separating noise from trend in Eurozone core HICP*
11/04/2024	*Inflation-linked Focus*	*The 1000-component HICP model*

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EUR linker supply: supply since 2009, linker by linker, tap by tap. Supplied vs target for the year. US TIPS: auctions statistics since 2009

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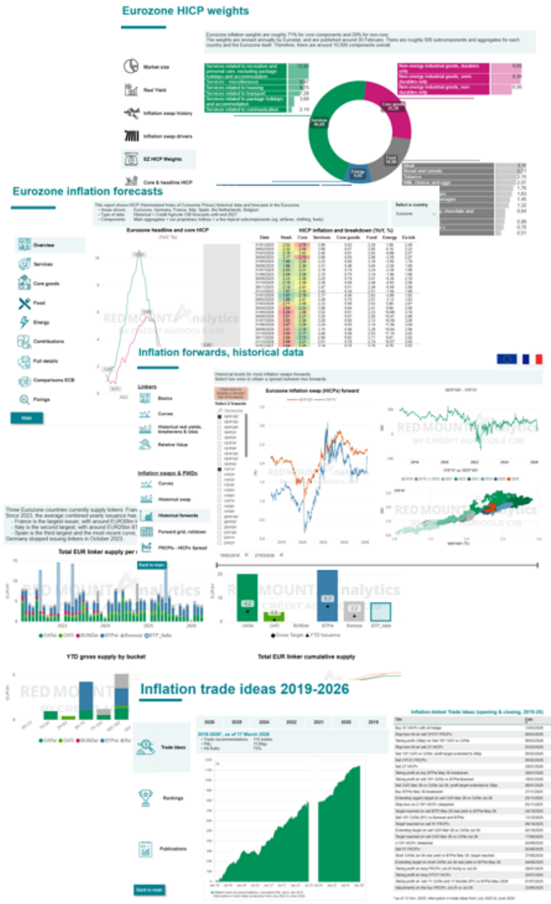

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