Euro area inflation

22 October 2026

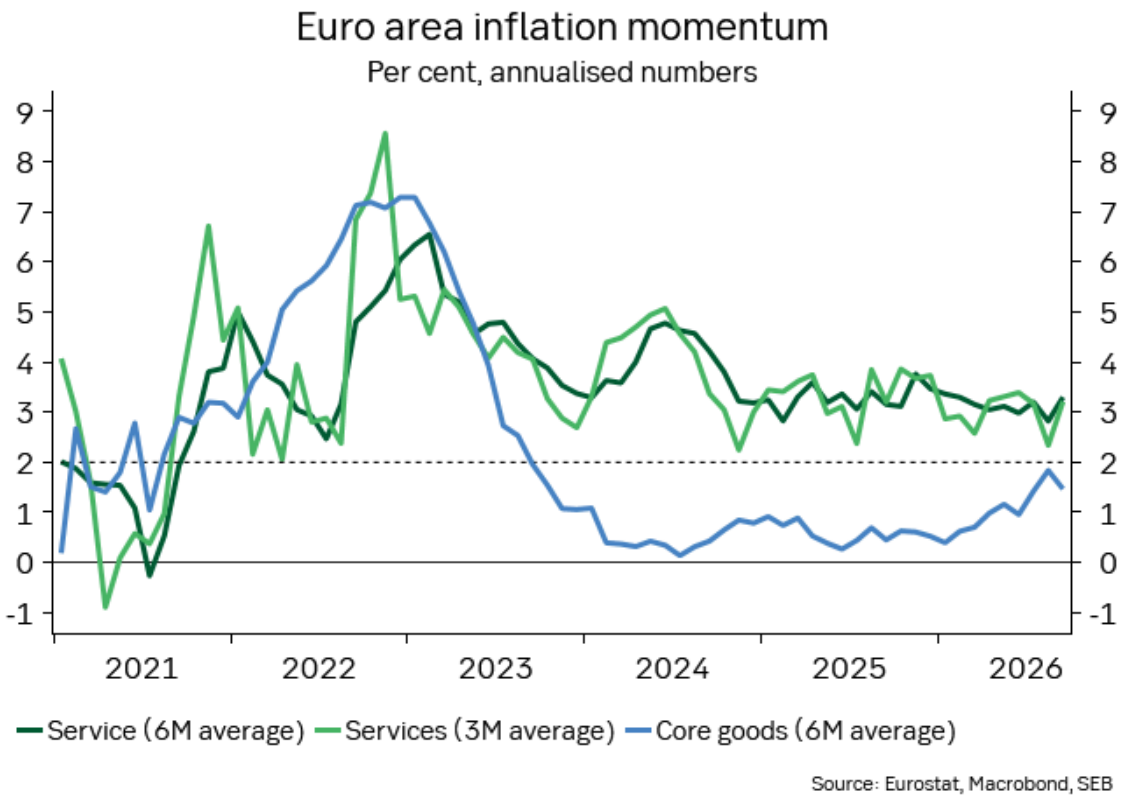
Rising goods prices, but not war related drivers

Goods prices in the euro area have gradually risen in 2026, and the inflation rate is now clearly above its historical average. However, while the ECB has focused on the indirect effects of higher energy prices and the possibility that these may spill over into a broader rise in inflation, the increase so far appears to reflect a shift in the rate of change in ICT goods prices. The annual rate of change in ICT goods prices is normally negative, but in recent months it has even turned positive. This means that inflation developments this year and expectations for the period ahead are not fully comparable with the historical pattern.

Key points

- Core goods prices are rising higher
- ICT-product a key driver
- Signs of energy-related indirect effect still absent

The inflation rate for core HICP in the euro area, has broadly moved sideways since the beginning of 2025. However, trends in the various subcomponents have diverged in 2026. Services inflation has gradually declined, albeit in small steps, and remains too high. At the same time, the trend in core goods inflation has been upward, and the annual rate is now well above its historical average (here we are referring to consumer goods excluding energy, food, alcohol and tobacco). Looking at shorter-term price momentum in seasonally adjusted data, the trend core goods inflation has clearly diverged from that of services.

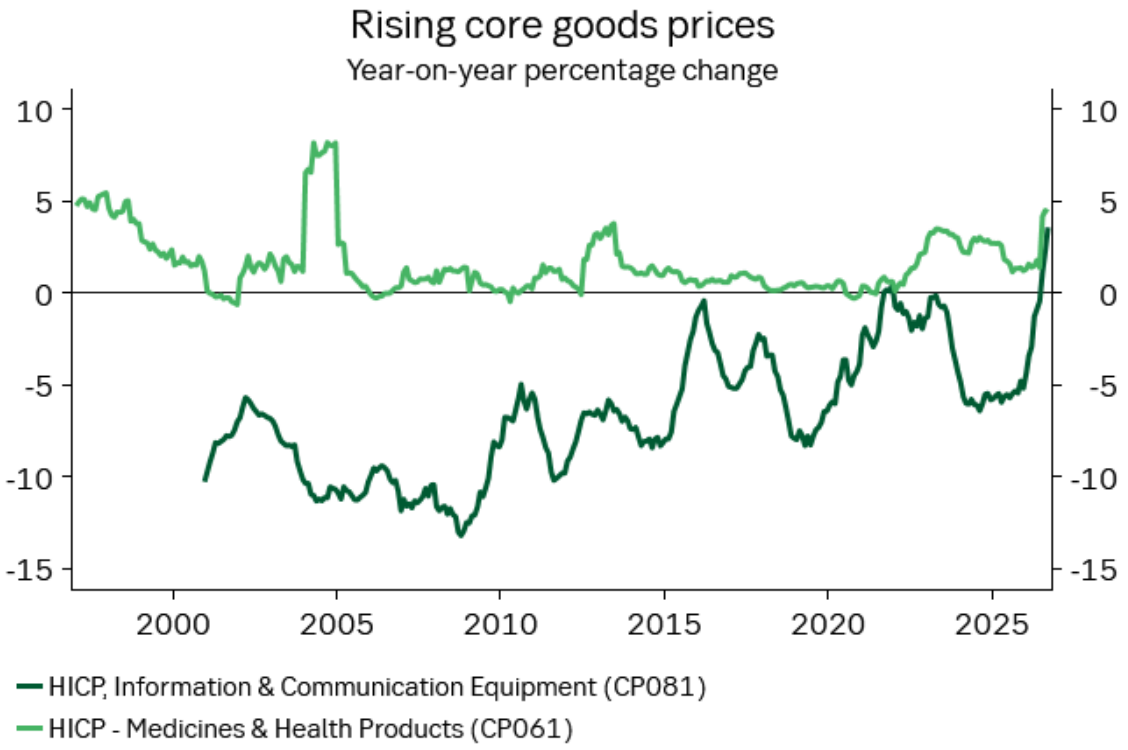


One of the ECB's most important questions this year has been whether, to what extent and when any indirect effects from high energy prices will spill over into rising prices across broader product groups (i.e. indirect inflation effects). In addition to being highly uncertain, indirect effects also materialise with a time lag. Both we and the ECB have assessed that the largest indirect effects will emerge only in the first half of 2027. Even so, it is important to understand the current situation, not least to assess whether the effects are arriving earlier than expected.

Still few signs; other drivers dominate for now.

We agree with the ECB that there have so far been few signs of spillover effects, although there are some. Food price developments, for example, have been weak in 2026, even though this is an area where pass-through might otherwise be expected to occur relatively quickly. But when we look at core goods and their subgroups, the latest inflation report (for September) reinforced the pattern for which we had previously seen indications.

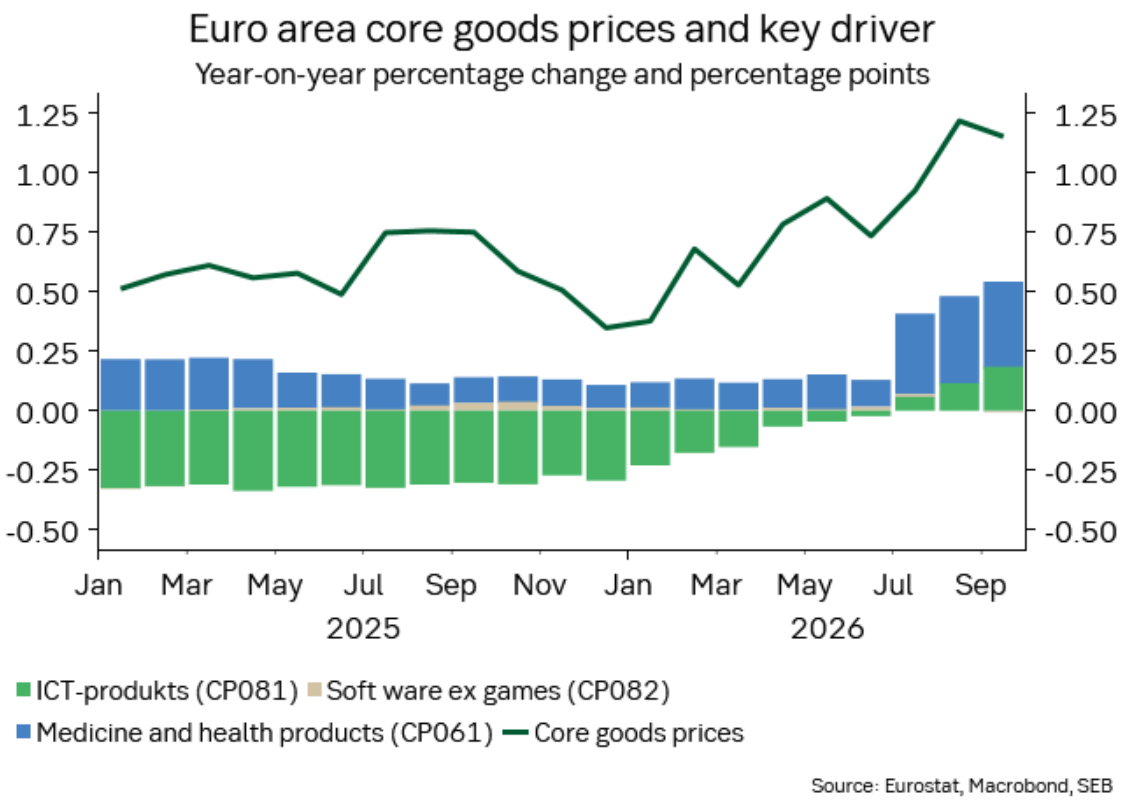
The rise in goods prices is largely being driven by higher medicine and health product prices, but above all by the fact that the trend in ICT goods this year has been completely different and stronger than we are historically used to (by ICT we mean mobile phones, computers, audio systems, etc.). Pharmaceutical prices are often affected by various regulations, which appears to be the case this time, and the effect also seems fairly isolated to Germany. Although the rise in medicine and health product prices is approaching historically high levels, the shift seen specifically in ICT goods is of greater interest.



Source: Eurostat, ECB (European Central Bank), Macrobond, SEB

In fact, when we calculate the contribution from these two subgroups, they explain virtually the entire rise in goods inflation. The increase in ICT-related products is also visible in German and US producer prices (and is even more pronounced in the US). We know that pressure from AI investment has pushed up the prices of processors, memory chips and computers. But it now also appears that these increases have reached final consumer prices. Whether this effect is temporary or more persistent is, of course, uncertain. However, a potential change in trend means that, for a time, we should expect goods prices overall to rise somewhat faster than in the past.

The fact that we have even seen outright price increases in ICT products in recent months marks a clear reversal and is something we have essentially never seen before. In one sense, the threshold for higher technology prices to feed through to the CPI is higher. Because the CPI is adjusted for quality changes, improvements in the performance of technology products have historically often meant falling prices in CPI terms. The fact that prices are now rising means that the underlying price increases are more than offsetting the effect of quality improvements.



Source: Eurostat, Macrobond, SEB

Higher goods prices, but not because of energy

As we approach the end of 2026, we can conclude that central banks are having to deal with several price trends. Headline inflation is rising as a result of higher energy prices, but the risk of indirect effects will be determined more by the inflation data in spring 2027. Goods prices, by contrast, are already rising faster than we expected.

Central banks normally try to look through supply shocks such as rising energy prices and are more inclined to respond to demand-driven inflation. What we have seen so far can instead be linked to stronger demand, which under normal circumstances should make the central bank more inclined to raise interest rates.

Much suggests, however, that the price increase is related to higher demand for AI goods and services across the wider economy, rather than being driven by consumer demand itself. The driver can therefore be found at an early stage of the production process and could accordingly be viewed as a supply shock.

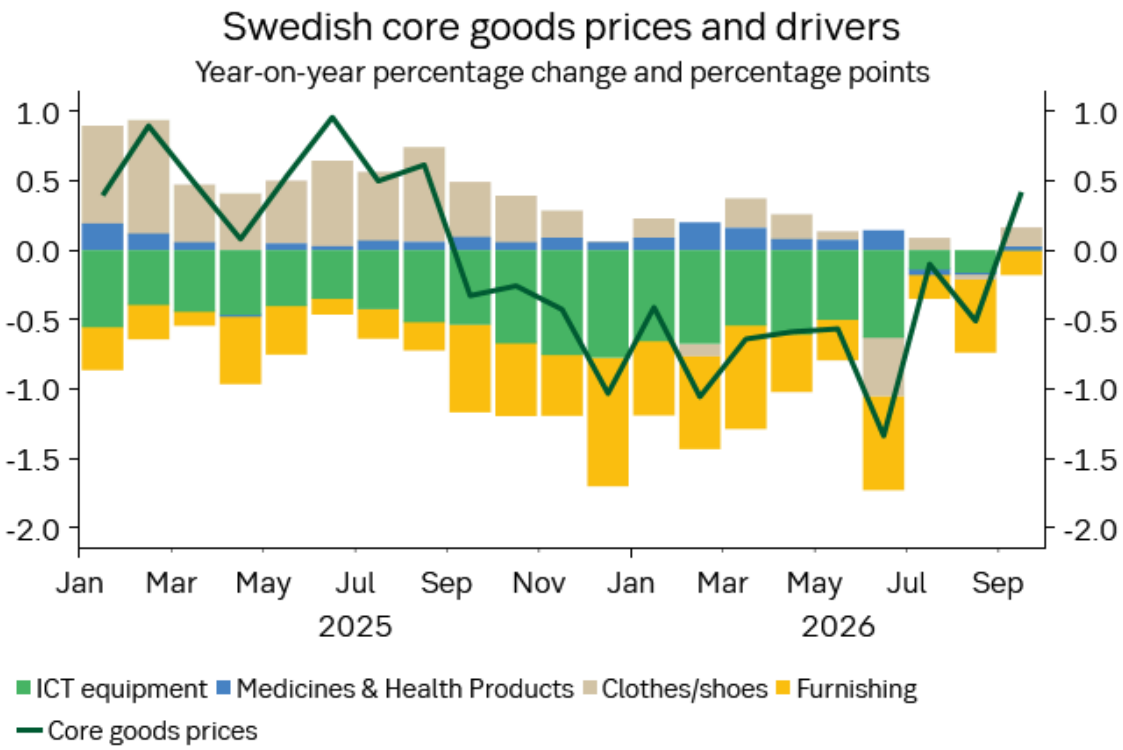
This would amount to a change in relative prices across the economy: technology should cost more, while something else becomes relatively cheaper. Exactly how this will play out remains unclear. But if it is merely a relative-price change, there are arguments for central banks to allow the price increase to pass through without trying to dampen demand for what is driving the change in that particular part of the economy. A parallel can be drawn with periods when commodities become more expensive, something central banks cannot influence (unless it drives up prices for final consumers).

At the same time, this coincides with growing concern at the ECB about indirect effects from energy. It therefore cannot be ruled out that the combined impact of several drivers will nevertheless contribute at

the margin to higher interest rates (all else equal).

Brief comparison with Sweden: Similar, yet different

It is natural to ask whether we see the same pattern in the Swedish CPI. As regards the change in the contribution from ICT products, the answer is yes. In recent months, the contribution from ICT products has been considerably less negative than before. Developments in overall goods prices are, however, much more subdued in Sweden than in the euro area, because the contribution from other major goods categories, such as clothing, footwear and furniture, is lower or even negative. The appreciation of the krona in recent years has also contributed to this year's decline.



Source: Eurostat, Macrobond, SEB

Marcus Widén
Economist, Sweden & Euro area
marcus.widen@seb.se
+46706391057