M.M.WARBURG & CO
BANK



Economic Situation and Strategy

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Low Inflation, High Prices: Why Groceries Feel Expensive

Anyone standing at a checkout counter these days is almost certain that: many things have become more expensive. Statistics, however, paint a different picture. The inflation rate for food in the eurozone has recently fallen significantly, standing at 1.1 percent in August - the lowest level in five years. How can these two things be reconciled?

The answer lies in a distinction that is easily overlooked in everyday life. The inflation rate measures how the prices of a "basket of goods" have changed compared to the same month the previous year; it says nothing about the absolute level that prices have already reached. A simple example illustrates this: if a bread roll costs one euro and then rises to 1.20 euros, that represents a 20 percent price increase. If the price rises by only about two percent the following year - to 1.22 euros - the inflation rate is low. Yet, the bread roll remains permanently more expensive than it was before, and the figures confirm this: food prices in the eurozone have risen by around 30 percent since the end of 2021.

Why food price inflation has eased recently

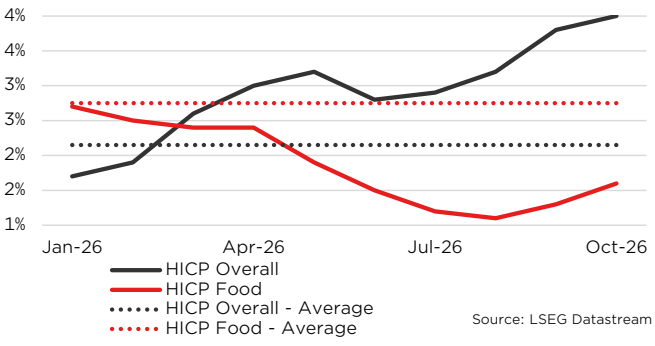
The decline is primarily linked to developments that began some time ago. The 2025 harvest in Europe was better than average, particularly for cereals and oilseeds. At the same time, global market prices for commodities such as coffee, tea, cocoa, and sugar have fallen from their previous highs. This relief is now gradually making its way to store shelves.

The trend is especially notable for products that saw sharp price increases in 2025. By September 2026, items like coffee, chocolate, fruit, and dairy products were contributing almost nothing to food price inflation. This explains part of the ease - though many consumers have yet to feel the relief in their own pockets, as the overall price level remains high.

New price pressure on the horizon

However, there are several factors likely to intensify price pressures on food once again. The first is energy. Since the onset of the conflict in the Middle East, energy prices have risen sharply - most recently - by 20.8 percent compared to the previous year. Overall inflation in the eurozone climbed from 1.7 percent in January to 4.0 percent in October. Energy does not affect food prices directly, but rather indirectly; it drives up the costs of transport, packaging, and processing. Of particular importance is fertilizer, which is largely produced from natural gas and has seen a significant price increase since the blockade of the Strait of Hormuz.

Overall and food inflation in the Eurozone
(annual percentage changes)



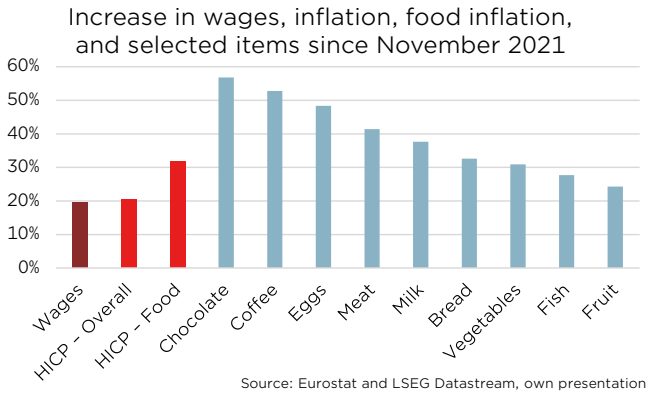
Source: LSEG Datastream

The second factor is the weather. In 2026, heat and drought struck large parts of Europe during a critical phase of the growing season. The ECB estimates that this will add between 0.3 and 0.8 percentage points to food inflation over the coming year. This impact is likely to be felt more quickly than the energy effect, as weather conditions directly influence the supply of unprocessed food. An early indication of this appeared in the September data: inflation for unprocessed food rose to four percent, driven primarily by vegetable prices. In contrast, processed food - which accounts for the larger share of the consumer basket - saw an increase of only 0.4 percent. This low figure likely still reflects earlier price declines, while the recent surge in energy costs has yet to fully filter through. We believe that food inflation could rise more significantly in the near future, a view supported by the European Central Bank's latest macroeconomic projections. It could climb to 3.4 percent in the third quarter of 2027 before beginning to ease. New models that incorporate weather data anticipate a delayed reaction, while other short-term forecasting models point to an even steeper increase. All the models examined agree on one point: food inflation is likely to rise again in 2027. The magnitude of this increase will depend on developments in energy prices and weather conditions.

Certain factors could help cushion the impact. The EU produces a portion of the fertilizer it consumes domestically. Furthermore, in July, the EU approved a temporary support measure, providing farmers with aid that can cover up to 80 percent of their additional fertilizer costs. There are also regional variations regarding weather; Western Europe was most severely affected by drought and heatwaves during the summer, whereas the situation in Eastern Europe was more varied. These regional differences show that close European cooperation - for instance, through the exchange of harvest volumes and supply coordination - can help mitigate shortfalls in specific regions.

Why the shopping cart feels expensive

The cost of a typical shopping basket has become noticeably higher in recent years, and a declining inflation rate does not reverse this increase. Three factors contribute to this. The first is the price level itself. Over long periods, food prices tend to rise slightly faster than other prices - this is normal. However, the gap that opened between 2022 and 2025 was exceptionally large and persistent. The recent decline has only partially closed this gap. Relative to other goods, food remains significantly more expensive than it was before the price surge that began nearly five years ago. The second factor is wages. When looking at overall inflation, real wages in the eurozone have returned to their pre-surge levels; on average, wages have kept pace with the general rise in prices. Yet, when focusing specifically on food, the picture is different: the purchasing power of wages with respect to food remains below where it stood before the price surge. This is particularly evident in frequently purchased items such as coffee, chocolate, milk, and meat. The third factor is frequency. People buy groceries regularly - often several times a week - meaning consumers encounter these prices more often than almost any other. Consequently, food prices have a particularly strong influence on how inflation is perceived.



Source: Eurostat and LSEG Datastream, own presentation

In our view, two points are worth noting. First, it is worth looking at the price level rather than just the inflation rate. Anyone who focuses solely on month-to-month changes overlooks the fact that the purchasing power of wages for food has not yet fully recovered since 2021. Inflation, however, remains the central factor for monetary policy; and since the ECB incorporates food price trends into its assessments, food inflation continues to be of fundamental importance for interest rates and bond prices. Secondly, uncertainty remains high. Energy prices, fertilizer markets, and weather conditions can rapidly alter forecasts.

While food inflation has lost its bite for the moment, it has not lost its influence. A low rate of price increases does not mean that food is becoming cheaper - it is only that it is becoming more expensive at a slower pace. With energy, fertilizers, and weather as factors, the drivers for renewed upward pressure on food prices are already apparent.

Jan Mooren

Market data

Stock markets (in local currency)	As of 05.11.2026 13:38	Change versus 29.10.2026 -1 week	02.10.2026 -1 month	04.08.2026 -3 months	04.11.2025 -1 year	31.12.2025 YTD
S&P 500	7728	0,1%	0,1%	-0,1%	14,1%	12,9%
Nasdaq	25737	-1,7%	-5,3%	-3,2%	10,2%	10,7%
DAX	26598	2,1%	5,4%	1,5%	11,1%	8,6%
MDAX	31370	1,9%	3,0%	-3,7%	6,6%	2,5%
TecDAX	4116	-0,8%	0,8%	3,4%	14,0%	13,6%
EuroStoxx 50	6297	1,5%	0,9%	-2,9%	11,3%	8,7%
Stoxx 50	5467	1,0%	3,2%	-0,7%	14,8%	11,2%
SMI (Swiss Market Index)	15020	1,8%	9,9%	3,8%	22,0%	13,2%
Nikkei 225	61078	-5,5%	-10,6%	-4,5%	18,6%	21,3%
Brasilien BOVESPA	167563	-1,0%	-12,8%	-5,8%	11,2%	4,0%
Indien BSE 30	79310	7,0%	10,3%	1,1%	-5,0%	-6,9%
China CSI 300	4113	1,8%	-5,6%	-10,6%	-10,9%	-11,2%
MSCI Welt	4922	-0,3%	-0,1%	-1,1%	13,2%	11,1%
MSCI Emerging Markets	1557	-2,2%	-8,9%	-5,7%	11,8%	10,9%
Bond markets						
Bund-Future	122,72	61	166	-238	-657	-485
Bobl-Future	113,49	39	69	-80	-467	-267
Schatz-Future	105,07	7	10	-55	-198	-172
3 Monats Euribor	2,76	12	16	26	75	73
3M Euribor Future, Dec 2026	2,87	1	-2	15	90	77
3 Monats $ Libor	4,21	3	2	32	25	54
10 year US Treasuries	5,25	28	-3	63	116	111
10 year Bunds	3,28	-5	-15	20	67	46
10 year JGB	2,77	-6	-29	-2	110	73
10 year Swiss Government	0,45	-6	-8	7	33	13
US Treas 10Y Performance	629,52	0,9%	3,6%	-0,7%	-1,4%	-1,6%
Bund 10Y Performance	555,26	0,6%	1,6%	-0,6%	-1,7%	-0,5%
REX Performance Index	458,23	0,5%	1,0%	0,2%	-0,5%	-0,1%
IBOXX AA, €	4,12	-2	-8	39	103	79
IBOXX BBB, €	4,49	-5	-7	56	111	93
Commodities						
MG Base Metal Index	566,94	-1,3%	-1,4%	-1,7%	22,2%	9,9%
Crude oil Brent	96,79	-15,8%	-5,3%	22,0%	50,1%	59,1%
Gold	4118,34	2,6%	-0,7%	0,8%	3,9%	-4,8%
Silver	52,22	-0,4%	-13,6%	-12,3%	10,8%	-26,7%
Aluminium	3103,00	-0,1%	0,6%	-4,3%	8,8%	4,5%
Copper	14116,83	-3,2%	-1,4%	-0,4%	32,8%	13,4%
Iron ore	91,95	1,4%	0,7%	-1,9%	-12,0%	-14,2%
Freight rates SPCI	3687	0,2%	0,7%	15,0%	137,8%	122,6%
Currencies						
EUR/ USD	1,1217	0,8%	-0,1%	-2,6%	-2,4%	-4,5%
EUR/ GBP	0,8329	-0,2%	-2,2%	-2,8%	-5,4%	-4,6%
EUR/ JPY	177,74	1,0%	0,4%	-1,9%	0,8%	-3,4%
EUR/ CHF	0,9177	-0,5%	-1,1%	-1,5%	-1,3%	-1,5%
USD/ CNY	6,6680	0,1%	-0,7%	-1,2%	-6,5%	-4,6%
USD/ JPY	158,45	0,5%	0,4%	0,4%	3,1%	1,1%
USD/ GBP	0,74	-0,6%	-1,6%	-0,1%	-3,1%	-0,1%

Source: LSEG Datastream







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