

Inflation Focus Q3

24 September 2026



Key Points

- Inflation rebounds on higher energy prices, but pass-through to non-energy related components is limited
- Goods price inflation is picking up from a low level as the global capex cycle gains traction
- Labour markets are balanced, helping to contain broader price pressures in the global economy
- Central banks hike rates and signal more to come, strengthening their focus on inflation

Energy prices rise as the Middle East conflict re-escalates

Global energy prices have rebounded on renewed conflict in the Middle East, with increased concerns over disruptions to oil production and shipping. Brent crude climbed from around USD 90 per barrel in August to above USD 100 in September, briefly approaching USD 108, while European gas prices rose sharply amid concerns over global LNG flows. While energy prices at these levels should be manageable for the global economy, upward pressure on inflation is once again intensifying.

Headline inflation rebound, but core inflation is contained

As a result, headline CPI inflation has rebounded and is tracking at above 3% YoY in major regions. The good news is that the impact on CPI remains narrow, with only the most energy intensive CPI components, including household energy and transportation costs, affected. Core CPI has been relatively well behaved, moving sideways in key regions, helped by easing services price pressures and slowing wage growth. That said, core inflation rates are still running above central bank targets, at around half a percentage point globally.

Growth momentum is picking up, led by AI

Despite elevated energy prices, global economic activity has been robust, with growth strengthening. US hyperscaler capex spending on data centres, semiconductors and power infrastructure, is the key driver. Companies feeding into the AI supply chain are benefitting, with a robust pickup in

manufacturing activity and exports, particularly in Asia but more recently also in Europe, while the US economy remains robust. The fiscal stance is additionally loose in major regions, with spending on defence and energy systems being ramped up, while energy subsidies in parts of the world help to maintain consumer spending.

Goods price pressures are strengthening

As a result, global goods price inflation has picked up in recent months, following a disinflationary period. Higher energy prices and transportation costs and rising prices on inputs for the AI buildout are noticeable. DRAM memory prices have increased six-fold over the past year, which is now being reflected in rapidly rising producer prices on electronics and hardware components. In China, a prolonged period of producer price deflation, which kept global export prices in check, appears to be coming to an end. While some sectors, most notably autos, still struggle with overproduction and weak demand and globally, the broader goods pricing environment is improving. A combination of high diesel costs, the arrival of 'Super Niño', and extreme summer heat in Europe, is additionally generating upside risk to food prices, posing a challenge for emerging markets in particular.

As goods inflation is likely to move higher in coming months, emphasis is once again shifting towards services for central banks to achieve their inflation targets.

Labour markets do not signal tight conditions

For non-housing services, labour market dynamics are key for overall price pressures.

While global growth is improving, labour markets are still subdued, with sluggish job growth and low vacancy rates. Early data additionally suggest that rising AI adoption rates are tentatively weighing on job creation in services. In stark contrast to the post-Covid period, wage growth is moderate, running at a level which is broadly consistent with inflation at target. However, unless labour markets deteriorate from current levels, which we do not anticipate, a deeper decline in wage growth and services inflation is unlikely. As a result, inflation is likely to remain above target for the time being, unless energy prices fall more meaningfully.

Central banks are vigilant and continue to hike rates

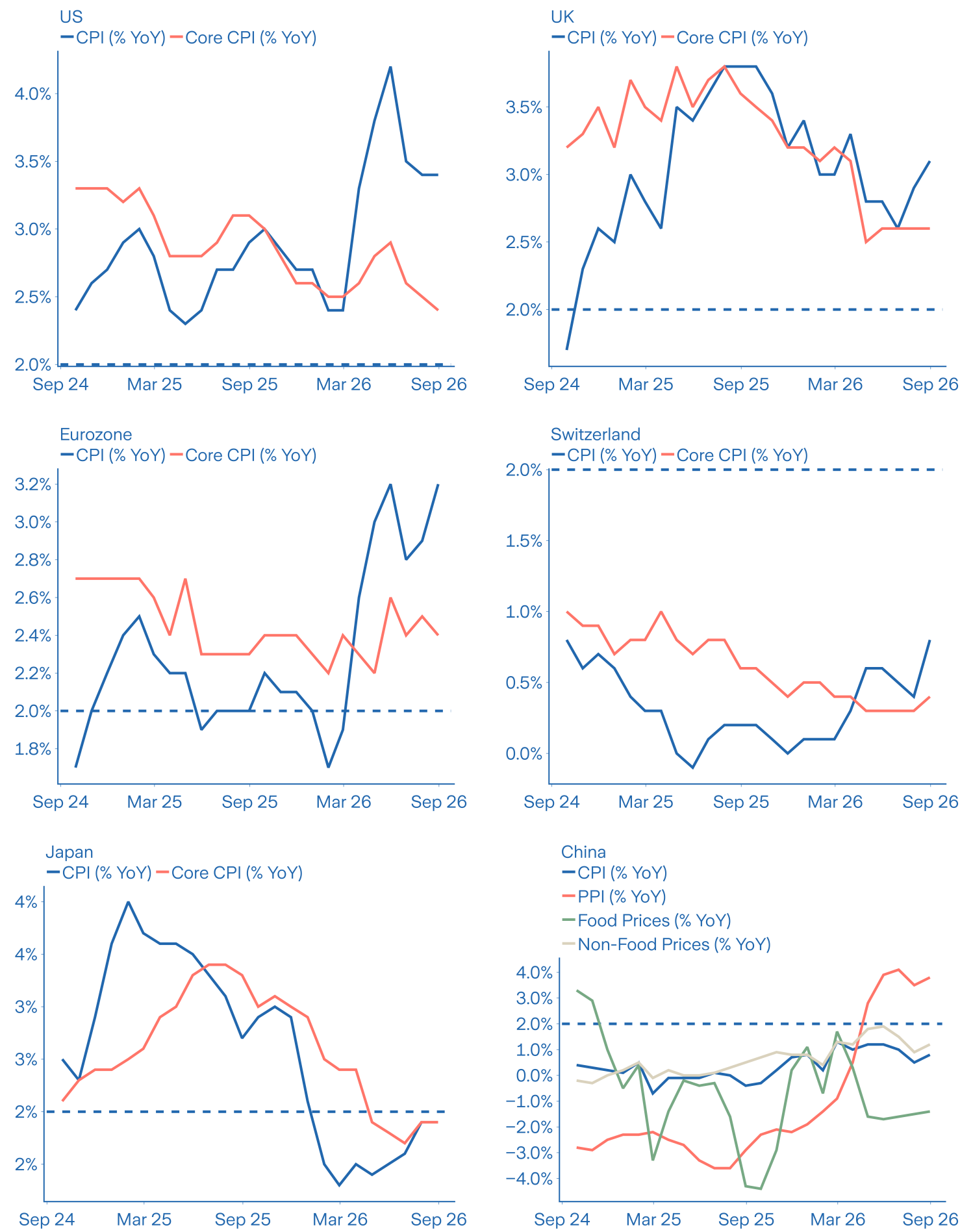
While the current level of inflation is manageable, risk to inflation is to the upside, as economic activity is improving and input prices are rising. As a result, central banks have sharpened their focus, choosing not to 'look through' the energy price shock and delivering further rate hikes.

A key development over the past quarter is that this now also includes the Fed, which has delivered its first rate hike since 2023. Meanwhile, the ECB has maintained its hawkish stance while the BoJ has stepped up its pace of tightening. Long-term borrowing costs have additionally risen to decade highs. We expect this will weigh on non-tech related sectors of the global economy, which remain interest rate sensitive, and contain overall inflation. Meanwhile, the AI buildout is likely to continue, potentially resulting in more divergent growth, both across sectors and economies.

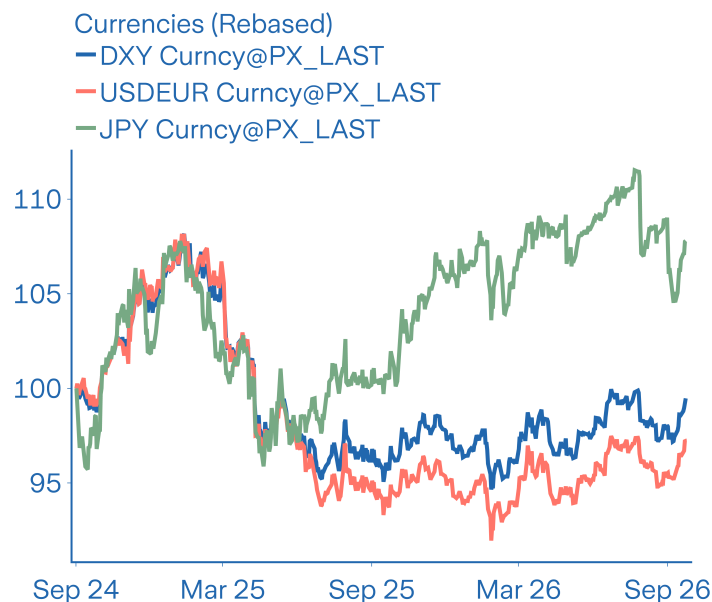
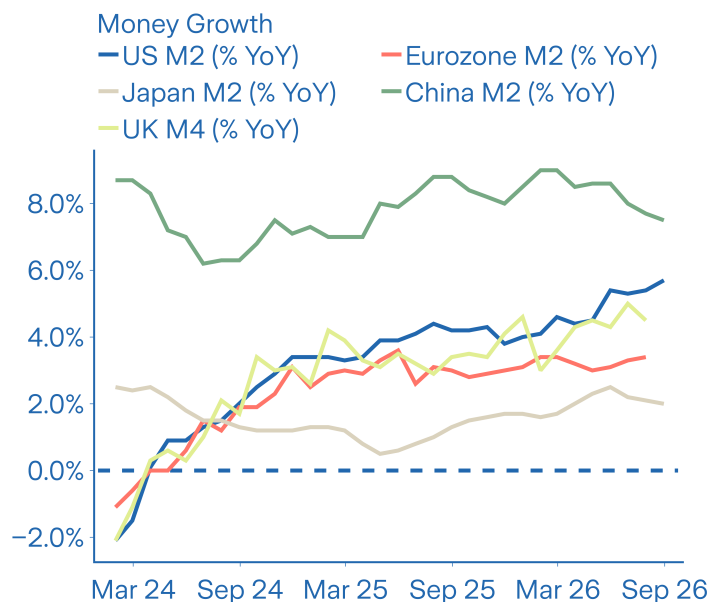
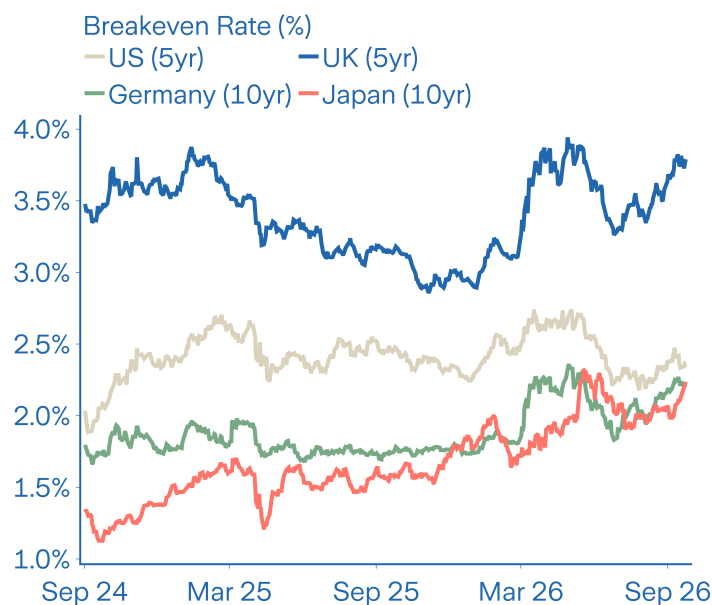
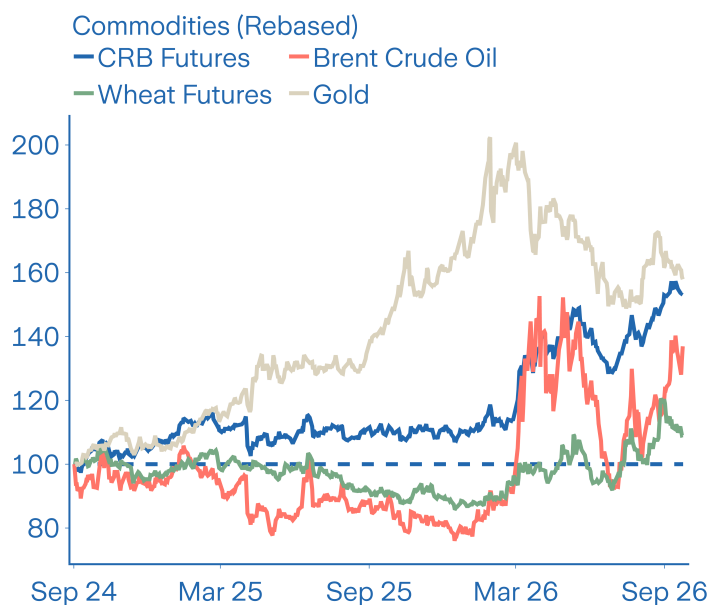
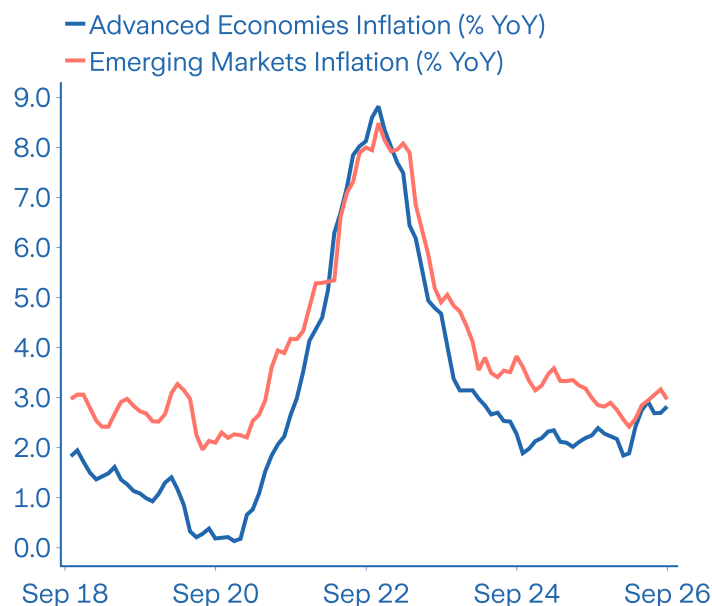
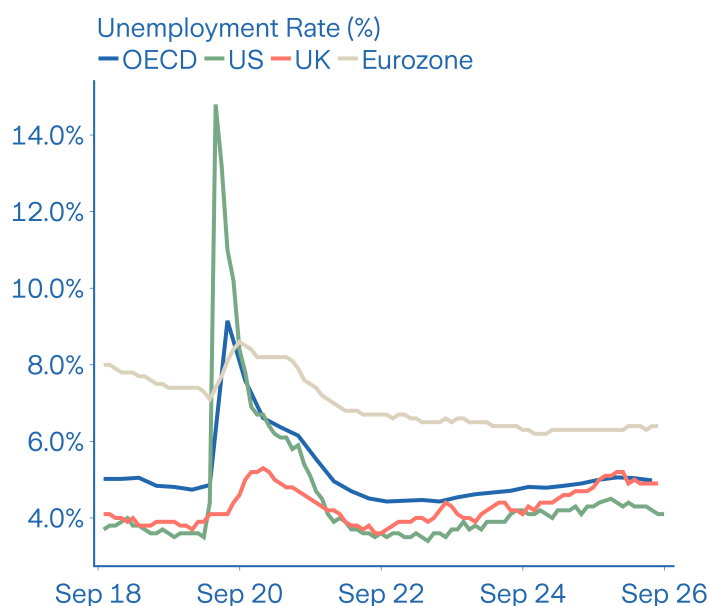
US The Fed follows up on hawkish comments and hikes rates	Headline CPI inflation accelerated from 0.1% MoM in July to 0.4% MoM in August while core CPI ticked up from 0.2% MoM to 0.3% MoM. This left annual headline CPI inflation at 3.4%, with core inflation slowing to 2.4% YoY. Broader price pressure still looks contained and spill-over effects from higher energy prices are limited. At the same time, inflation expectations remain very well anchored, indicating that markets still believe that inflation will be contained in the long run. That said, the PMI survey showed that price pressures intensified in September with average input costs across both goods and services rising. Meanwhile, the US labour market is in a low-hire, low-fire environment, with wage pressure still modest. Despite this, the Fed felt the need to tighten its policy at its meeting in September. The move was widely expected following a series of hawkish comments by members of the FOMC. We expect inflation to remain contained but given the Fed's hawkish stance some further tightening is likely, although market expectations of three more rate hikes by the middle of next year seem overdone.
UK Higher energy prices push up inflation, but spill-over effects are limited	Headline CPI inflation accelerated to 3.1% YoY in August from 2.9% YoY in July, mostly driven by a pickup in energy prices. Core CPI held steady at 2.6% YoY while services inflation remained at 3.4% YoY, a tick below consensus expectations. The rebound in energy prices has pushed up headline inflation, but spillover effects remain limited so far, which allowed the Bank of England to stay on hold at its meeting in September, though with a hawkish tilt. With the unemployment rate not far from the highest levels since Covid and wage growth contained there is no urgency for tighter monetary policy right now. However, the latest PMI survey points at stronger input price pressures in the services economy, with survey respondents mentioning higher fuel prices and efforts by suppliers to pass on rising transportation costs. Clearly, elevated energy prices provide an upside risk to overall inflation and rates. The BoE remains on hold for now, but it will keep a watchful eye on stubbornly high inflation rates and potential second round effects, particularly given that the economy remains resilient.
Eurozone Strait up	Eurozone HICP inflation rose 3.2% YoY in August, up from 2.9% in July, primarily on higher energy prices. While price pressures remain limited to directly energy-sensitive areas, risks of spillovers are rising. The ongoing Iranian situation, combined with fuel refinery attacks across Ukraine and Russia, have led to renewed upward price pressure on imported energy – Eurozone petrol prices are at 2022 levels, and natural gas prices are up over 150% since March. The outlook remains highly sensitive to volatile energy price developments. Current prices look consistent with inflation rising to a 4% YoY pace over Q4 and into next year. This is considerably lower than the double-digit peak in 2022, but still unwelcome. On a positive note, we continue to see limited evidence of energy prices spilling over into broader price pressures. Core inflation rose at 2.4% YoY in August, a broadly unchanged pace since 2025, and services inflation is running too high at 3% YoY, but this is the slowest pace since 2022. Wage pressures are not building. While unemployment is low, job growth is slowing, vacancies are dropping, and uncertain international conditions are weighing on confidence. The ECB has hiked interest rates twice since June, taking the deposit rate to 2.5%. It is in a difficult situation, balancing higher inflation and early signs of financial market strain. At current energy prices a December hike looks likely, but this could change rapidly if there is a diplomatic breakthrough.
Switzerland Disinflationary pressures ease	Consumer prices rose by 0.4% MoM in August, which caused annual CPI to accelerate from 0.4% to 0.8%. The increase largely reflected energy prices, with petroleum prices up 9% MoM, while core CPI remained subdued at 0.4% YoY. While imported inflation rose in August as a result of higher oil prices, domestic inflation continues to run well below 1%. Producer prices remain in deflationary territory, down -1.3% YoY, though the details of the latest report were slightly stronger than the headline suggests, helped by rising prices on goods destined for exports. Activity data have also improved for the manufacturing sector, reflecting a combination of fading tariff headwinds, rising global capex demand, improving Eurozone activity, and a weaker currency. The labour market appears to have stabilised, with job growth tentatively improving within the manufacturing sector. Overall labour market conditions are likely to remain subdued though, both reflecting continued focus on keeping costs in check, but also AI-driven automation. As a result, we anticipate upward pressure on wages to remain limited, ensuring that the underlying inflation trend stays subdued. As expected, the SNB left the policy rate at 0% in the September meeting. However, they raised the inflation forecast while emphasising the improving growth backdrop. We now expect one rate hike over the coming year from the SNB.
Japan Rate normalisation continues	Inflation has eased notably over the past year, from around 3% to just under 2% for both headline and core. August headline CPI held at 1.9% YoY, core (ex-fresh food) eased to 1.7%, and core-core (ex-fresh food and energy) stayed at 1.9%. The softer readings, however, reflect temporary electricity and gas subsidies. The BoJ's adjusted series (ex-subsidy) put core at 2.4% and core-core at 2.0%, above the official prints, but close to the sweet spot for the BoJ's target. Market-implied inflation expectations sit near 2%, and wage growth remains supportive for inflation, at close to 3%. September's BoJ hike reassured markets that the BoJ is catching up with the curve, but the BoJ's message stayed measured rather than outright hawkish. The BoJ needs to walk the tightrope of rate normalisation but not too aggressively, lest it kill off Japan's hard-won inflation. We expect a further hike next year, with the terminal rate reaching 1.75% by H1 2027, though a December move is possible if the Fed hikes again.

China Inflation remains subdued	Inflation has remained subdued despite a modest uptick in recent months. As of August, CPI stood at 0.8% YoY and core CPI at 1.0%. The rebound has been driven by oil prices and higher prices of tech-related products, not stronger domestic demand. Most of the energy shock has shown up in producer prices, with PPI inflation rising from negative territory at the start of the year to 3.8% YoY in August, but pass-through to consumer prices remains limited. While exports are surging, domestic demand-side signals have stayed soft: retail sales rose just 0.4% YoY in August, while property activity and credit demand continue to deteriorate. The labour market remains notably weak, with youth unemployment stuck in double digits. Underlying price pressures are therefore still contained. Weak momentum has spurred targeted fiscal support, but its scale and scope remain small. We do not expect consumer price inflation to pick up meaningfully any time soon.
Australia Fighting the inflation battle	Inflation has remained stubbornly above the top of the RBA's 2–3% target band since early 2025, with headline CPI at 3.5% YoY and the trimmed mean at 3.6% in August. Risks stay tilted to the upside. Higher energy prices are passing through to core inflation, and the labour market remains somewhat tight, with unemployment at 4.4% against an estimated equilibrium rate of unemployment (NAIRU) of around 4.5% and wage growth at 3.2% YoY. Persistently weak productivity has been a key driver of underlying price pressure. The RBA has recently emphasised that upside inflation risks are beginning to materialise, prompting markets to price a more prolonged period of restrictive policy. At the same time, the housing market correction continues, with higher rates already weighing on housing activity and household balance sheets. We do not expect the RBA's extended tightening to tip the economy into a sharp slowdown. However, if the Bank's focus remains on containing inflation, a further hike in September is likely, with one more pencilled in for early next year.
EM Asia Pressure from high energy prices and the Fed's rate hike	Inflation remains relatively well contained across most of the region, with Malaysia and Thailand having CPI inflation below 2%. Elsewhere, however, rising oil prices are creating renewed upside risks. Energy importers India, Korea, and the Philippines are particularly exposed. Most of the pressure has shown up in producer prices but pass-through to CPI and core CPI has now emerged. El Niño's impact on food prices is also evident in India and the Philippines. Inflation looks hottest in India, as well as the Philippines and Korea, where the AI boom is driving impressive growth and starting to spill over into prices. Central banks remain cautious and focused on inflation, seeking to prevent imported inflation from feeding into broader price pressures. With the Fed now hiking, several central banks look set to follow. Rate hikes are expected to come through in India and the Philippines while the Bank of Korea already delivered a pre-emptive hike. After an episode of pronounced currency weakness earlier this year amid the prospect of an MSCI downgrade to frontier status and governance concerns, Indonesia, where inflation is not particularly strong, may still need to raise rates if the currency moves adversely.
Brazil Softer inflation and weaker growth preserve policy flexibility	Brazil's inflation backdrop improved during Q3. August CPI fell 0.3% MoM, taking annual inflation down from its May peak of 4.7% to 4.2% YoY and back within the target tolerance range. Part of the decline reflected temporary factors, including the Itaipu electricity rebate and lower food, fuel, and airfare prices. Underlying inflation also moderated, although services price pressures remained comparatively persistent. At the same time, Q2 GDP growth slowed from 1.1% to 0.5% QoQ, while the IBC-Br activity index declined sequentially in June and July. This softer combination of inflation and activity allowed the BCB to deliver another 25bp cut in September, taking the Selic rate to 13.75%. The remaining policy path is becoming increasingly data dependent. Our base case remains a pause in November, but weaker activity and more benign underlying inflation have increased the likelihood of the BCB extending its cautious easing cycle. The expected reversal of temporary electricity relief, persistent services pressures, and potential El Niño-related food disruptions nevertheless argue for caution. Post-election fiscal signals will also be critical to the policy outlook, particularly following the recent expansion of welfare transfers ahead of the October election.
LatAm Diverging inflation trends, but policy rates set to remain steady	Mexico's inflation pressures have eased considerably since Q1. Headline inflation declined from 4.6% YoY in March to 3.3% in August while core inflation fell to 3.9%. Services inflation also moderated, but remained elevated at 4.3%, while low non-core inflation continues to restrain the headline rate. Despite renewed Fed tightening and the historically narrow policy-rate differential, we expect Banxico to continue holding its rate at 6.5%. Subdued demand, a resilient MXN and benign inflation allow it to look through a limited Fed hiking cycle, although sustained US tightening or material currency depreciation would challenge this outlook. Chile's inflation outlook has deteriorated significantly since early 2026, when headline inflation fell below the 3.0% target. The August CPI surprised materially to the upside, lifting annual inflation to 4.1%, mainly due to food and fuel-price pressures. Inflation is now expected to end 2026 well above the 4.0% upper tolerance bound, reflecting Chile's high exposure to imported energy costs. Even so, inflation expectations remain anchored at the 3.0% target over the policy horizon. Alongside the current economic slowdown, this supports our expectation that the BCC will keep the policy rate unchanged at 4.5% well into 2027.

Current and historic inflation



Key Indicators



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Investment Management
Mythenquai 2
8002 Zurich