

Energy shock drives broader inflation in Belgium - a warning sign for Europe

April's inflation jump in Belgium is no longer “just energy”. It's starting to look broader. If this were to be seen across the eurozone, the European Central Bank would need to act or risk falling behind the curve again



2022 all over again?

For a central bank, a stagflation shock is a policy nightmare. Hiking rates won't lower oil prices, so it barely touches the root cause of inflation. Worse, higher rates would hit demand that is already squeezed by lost purchasing power. Yet if demand holds up, firms can pass costs on, and inflation broadens. That's exactly what happened in 2021–2022: what looked like a temporary energy spike became the strongest inflation surge since the 1970s, helped by post Covid pent up demand. The question is: are we heading down that path again?

A quick, sharp shock

Central banks, therefore, need to track prices closely to see whether the energy shock stays

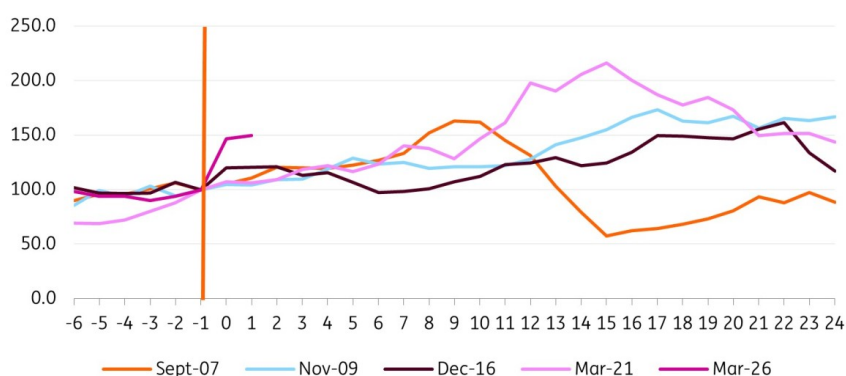
contained, or turns into a broader inflation wave. In Belgium, early signs of spillover are starting to stack up.

The initial jump in energy prices has been striking. The chart below compares recent episodes of oil shocks (here: at least +10% year on year in euro terms). It is rare to see oil rise this sharply and this quickly. As a consequence, Belgium’s energy inflation swung from around –8% in January to above +12% in April.

This surge pushed Belgian headline inflation from 1.65% in March to 4% in April. Still, a broader inflation wave is not guaranteed. A violent energy shock can also curb consumption enough to limit pass through. To judge the risk, we need to look beyond headline figures.

Oil prices: the sharpest rise in 20 years

(oil price in euros during oil shocks; start of shock = 100)



Source: LSEG Datastream. Note : An oil shock is defined here as an increase of at least 10% in the price of oil in euros.

Belgium: signs of spillover

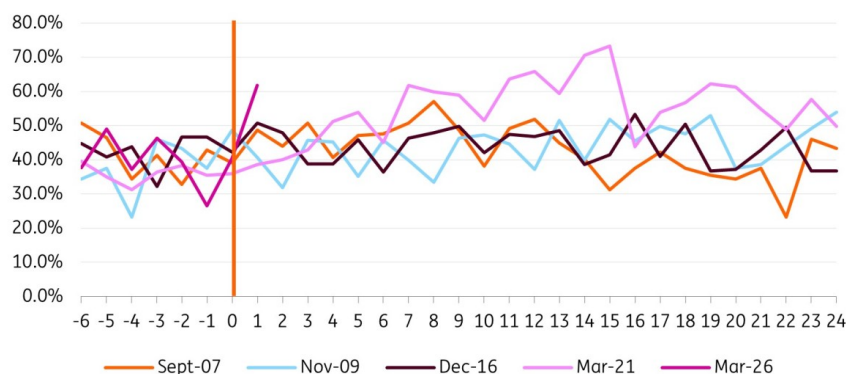
Belgium’s consumer price index tracks roughly 215 categories of goods and services, each weighted by its share in household spending.

To see whether the shock is spreading, we can examine how prices move across those 215 items. In Belgium, the distribution is already shifting in a worrying direction:

- In a typical month, the price of 46% of items rises by at least 2%. That share was 39% early this year, but jumped to 51% in April.
- On a yearly basis, 24% of items usually run above 4% inflation. The share moved from 21% at the start of the year to 27% by April.
- Most telling: the share of items whose inflation rose versus the previous month. Historically, it averages 43%. It fell to 27% early this year, as a clear sign of inflation normalisation, then surged to 62% in April, a level rarely seen (chart below). During the last inflation wave, this metric led headline inflation (62% in Oct 2021; peak 73% in Jun 2022).

Low inflation early in the year made April’s jump look even sharper. But it is becoming harder to argue that this is “just” energy. If April’s pattern persists, and especially if it spreads across the euro area, the ECB’s lesson from 2022 is clear: move early, or risk falling behind the curve again.

Share of items whose inflation increased month to month, across oil shocks



Source: Statbel. Computation: ING

Competitiveness at stake

In Belgium, inflation quickly feeds into competitiveness and public finances. Automatic indexation links wages and many benefits to prices, so inflation shocks rapidly lift labour costs and government spending. This renewed inflation will trigger nominal wage increases that were not priced in at the start of the year. Because neighbouring countries adjust more slowly, Belgium risks a short term competitiveness hit.

That said, the government had planned to tweak indexation from July. For a limited period, pay above the median wage (€4,000 gross) and benefits/pensions above €2,000 would no longer be fully indexed beyond those thresholds. The proposal satisfies neither workers, who would lose purchasing power, nor employers, who will face extra social contributions in exchange for the capped indexation system.

Unions and employers negotiated an alternative: keep automatic indexation, but smooth its timing, so wage costs adjust more gradually and competitiveness shocks are less abrupt. Despite the difficult social climate, the government has so far rejected this historic deal, arguing it would cost the public finances more in the short run than its own plan.

The timing of this new energy shock could hardly be worse: the price shock intensifies the debate over automatic indexation for most incomes, and raises the stakes for business competitiveness.

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