

The eurozone flirts with double-digit inflation

The final estimate of eurozone inflation has been adjusted down from 10% to 9.9%. When looking at the details there's little to be optimistic about. But the chances of peak inflation happening soon are increasing

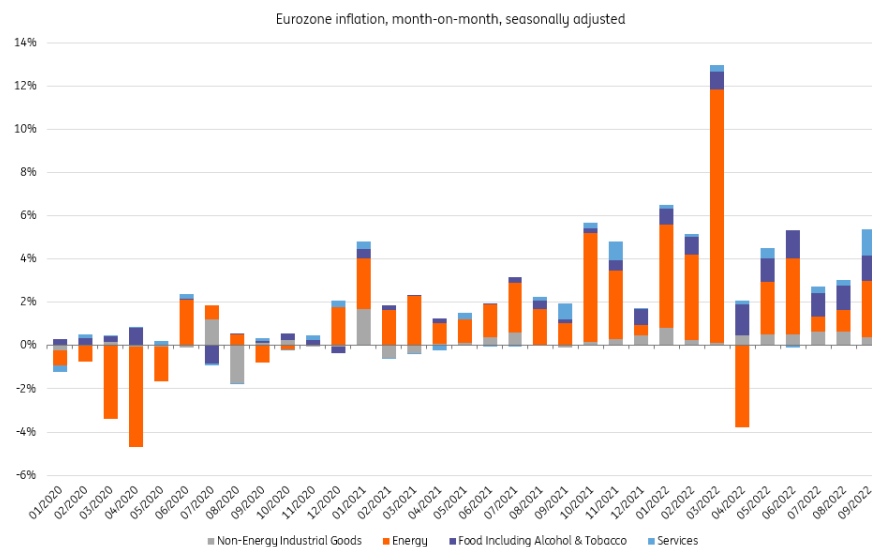


Monthly developments in inflation are concerning

Inflation of 9.9% in the eurozone in September marks a huge jump from the 9.1% seen in August. We discussed our first thoughts on the reading [here](#). Now that more detail has been released, let's see whether there are any positive signs of inflation turning around.

Let's look at monthly developments, which we judge on a seasonally-adjusted basis to allow for month-on-month comparisons (seasonal adjustments are our own). The one bright spot was goods inflation, which fell on a seasonally-adjusted monthly basis from 0.8% to 0.3%. Other than that, jumps in services and food inflation stand out. Energy inflation continues to be too high as well, so the broad conclusion is that inflation remains far too high across all broad categories.

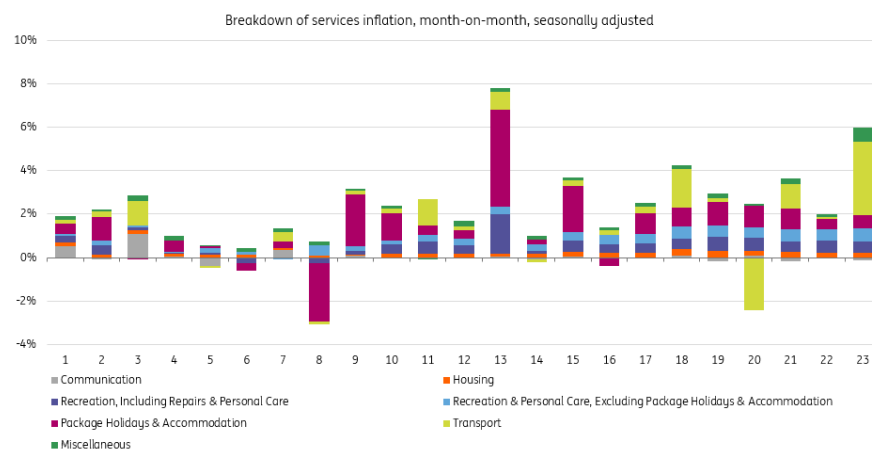
Monthly inflation came in hot again as most categories saw prices grow faster than in August



Source: Eurostat, Macrobond, ING Research
Seasonal adjustment from ING Research

Looking somewhat deeper under the hood, we see that the jump in September was mainly driven by the end of the German €9 ticket for public transport as most other services saw stable price growth compared to last month. Package holidays' inflation was elevated over the summer but dropped back in August and September, while other categories have been fairly stable (albeit at rates that are far too high). So, next month is likely to see slower services inflation on a monthly basis.

Services inflation was driven by the reversal of the €9 public transport ticket in Germany



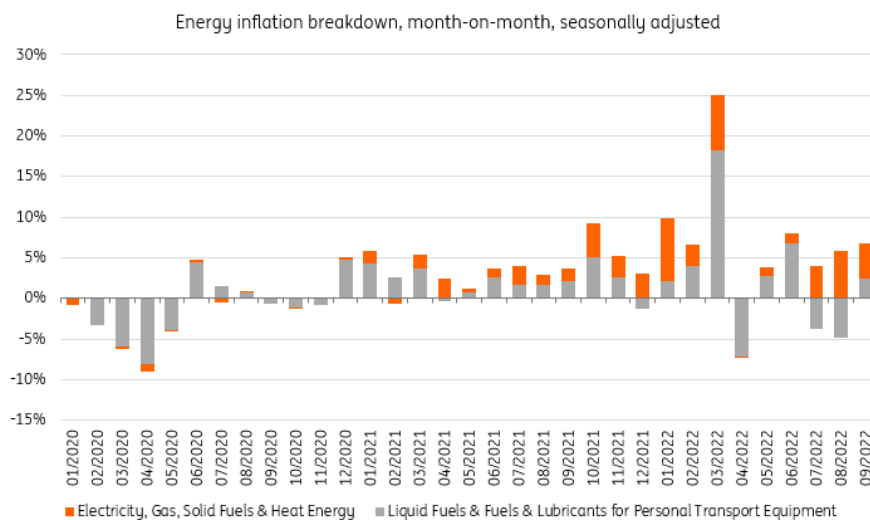
Source: Eurostat, Macrobond, ING Research
Seasonally adjusted by ING Research

It's far too early to call peak inflation, but chances of a peak soon are increasing

Energy inflation saw another uptick in both fuel and electricity and gas categories on a monthly basis due to the bounce back in oil prices and pass-through to the consumer of the August peak in gas prices.

For the months ahead, the energy price declines of recent weeks are very welcome for the overall economy, but the question is how quickly that feeds through to consumer prices. Do expect some relief of course as year-on-year growth in spot prices for natural gas has turned negative this month, while it was still 192% in September and 425% in August. We also see declining futures prices, albeit at a slower pace. Annual growth in fuel prices is also steadily dropping, from 15% in September to 11% in October.

Energy inflation remains high, but drop in market gas prices should provide some relief



Source: Eurostat, Macrobond

Base effects will be more favourable in October and November. The monthly increase in the index last year was strong at 0.7% and 0.8%, which will drop out of the calculations this month. That should add to some relief. But on the other hand, steady increases in food and core inflation are unlikely to be reversed quickly so not too much is expected from the upcoming inflation reading. While we see encouraging news from the energy side, there is too much uncertainty about key drivers of price, such as geopolitical developments and weather, to call peak inflation at this point. Also, core inflation drivers show only modest improvements at this point, so we're cautious about an immediate peak there too. Still, the current improvements on the energy side should provide some relief for the moment and as strong base effects are fading and price caps are discussed, chances of an inflation peak soon are increasing.

Author

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.