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The eurozone flirts with double-digit inflation

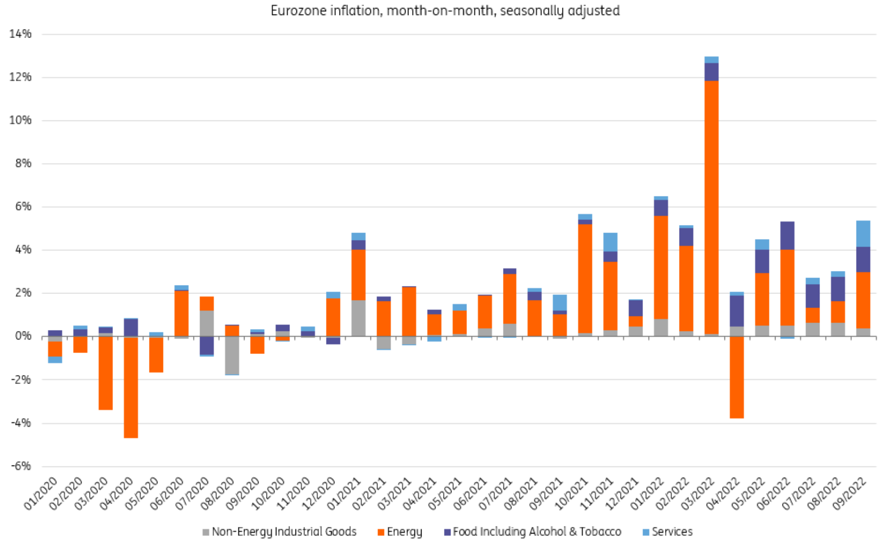
The final estimate of eurozone inflation has been adjusted down from 10% to 9.9%. When looking at the details there's little to be optimistic about. But the chances of peak inflation happening soon are increasing

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

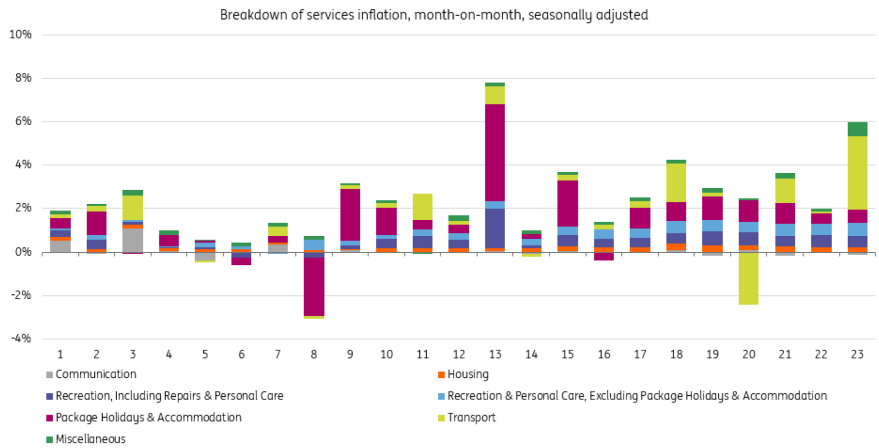


Source: Eurostat, Macrobond, ING Research

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

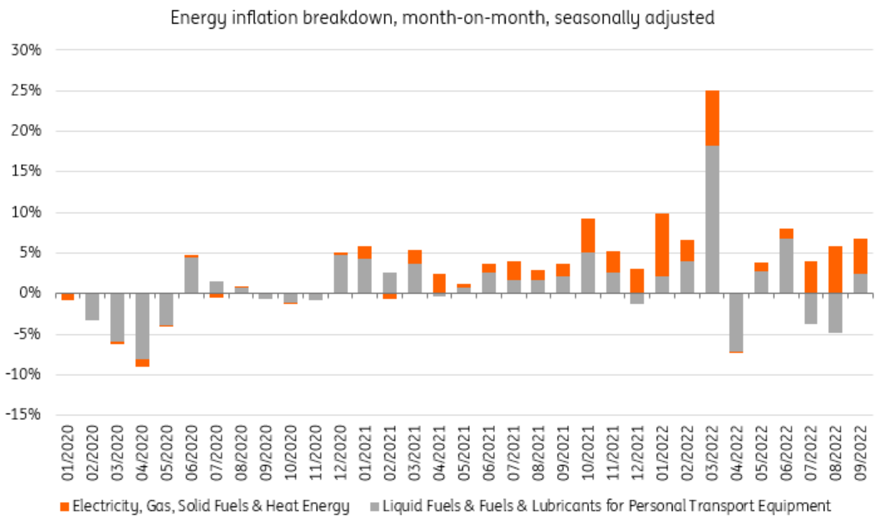
Seasonally adjusted by ING Research

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

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