

## Disappointing eurozone inflation makes September rate cut a close call

Preliminary figures for both headline and core inflation came in slightly higher than expected in the eurozone. While we believe that the downtrend remains intact, today's figures make a September rate cut from the ECB a very close call



A supermarket in Barcelona

### July inflation higher than expected

The year-on-year increase in eurozone HICP rose to 2.6% in July from 2.5% in June, according to the flash estimate. Consensus had pencilled in 2.5%. Core inflation remained stable at 2.9%, also above the consensus expectation. Looking at the different components, energy inflation rose to 1.3%. In the first quarter, the energy contribution to inflation was still negative. On this front, base effects will continue to have a volatile impact in the second half of the year. Non-energy industrial goods inflation remains low at 0.8%, while unprocessed food inflation declined to 1.0%.

The component the European Central Bank is probably scrutinising the most is services inflation, since it is the most “domestic” component and also very sensitive to wage increases. Services inflation did come down – but only marginally, to 4.0% from 4.1% in June.

## September rate cut remains a close call

Where do we go from here? Bear in mind that in the ECB's June staff forecasts, headline inflation is estimated at 2.3% in the third quarter and 2.5% in the fourth. But as mentioned, base effects for energy prices remain an important driver of this forecast, which makes headline inflation a bit more volatile. For underlying inflation – likely the more important metric in the central bank's assessment – ECB staff are banking on 2.7% in the third quarter and 2.6% in the fourth. Looking at today's data, we would definitely need better inflation figures in August and September to remain on course. This is still possible, since in both the PMI survey and the European Commission's business and consumer survey, it appears that businesses' pricing power has started to weaken, now also in services.

The latest data has not given the ECB the certainty it needs to confirm that the inflation battle has been won. That said, survey data still suggests that the downward trend in inflation is likely to continue. And keep in mind that, at the current level, interest rates still imply restrictive monetary policy. Today's figures have slightly reduced the probability of a rate cut in September, but there's still six weeks of data to be seen before the ECB has to make a decision.

### Author

#### **Peter Vanden Houte**

Chief Economist, Belgium, Luxembourg, Eurozone

[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@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](http://www.ing.com).