

Snap | 29 September 2023

## Encouraging drop in eurozone inflation in September but concerns remain

Inflation fell more than expected from 5.2 to 4.3% in September, an encouraging sign. Weak demand and base effects are currently impacting inflation favourably, but higher energy and wage costs do keep the risk alive that inflation could remain above target for longer than hoped



As expected, inflation fell in September - not just the headline rate but the core as well, which saw a strong decline from 5.3 to 4.5%. Base effects from government support last year ended, which was the main reason for the fall, but the good news is that the sharp decline was more than anticipated, as current price developments have become more benign. Using our own seasonal adjustment, non-energy industrial goods inflation was negative month-on-month in September. Services inflation may have ticked up MoM and remains elevated although businesses in the service sector do indicate that pricing power is diminishing as demand for services weakens.

There are big differences between countries at the moment in large part driven by how energy translates to consumer prices, but also by differences in wage growth and economic performance. Spain saw inflation increase from a low base on the back of the increasing energy prices, while Germany, Netherlands and Belgium experienced sharp drops.

## Still, inflation worries cannot be buried just yet

Higher oil prices are a concern for the inflation outlook. Energy prices did not fall as much as expected in recent months and are now set to contribute positively again to inflation as the oil price has risen above US\$90 per barrel. We expect that this will mainly push eurozone inflation higher at the start of next year, and a contribution of one percentage point to headline inflation is not unimaginable. This is well below last year's impact, but still sizable enough to prevent headline inflation from hitting the European Central Bank's 2% target as soon as forecast.

A big question is if this will again spark significant second-round effects. In the current, much weaker economic environment, businesses are indicating that pricing power is weakening. This seems to limit any significant resurgence of inflation. Still, higher energy costs and high wage growth – in combination with current weak productivity – should continue to put upward pressure on inflation in 2024. With demand currently alleviating pressures, we do expect inflation to continue to gradually trend down. But as uncertainty about the pace of the normalisation of inflation will persist for some time, higher-for-longer interest rates from the ECB are definitely a realistic scenario despite September's very promising drop in inflation.

### Author

#### Bert Colijn

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto: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 <http://www.ing.com>.