

Snap | 4 June 2019

Eurozone core inflation drops below 1% ahead of ECB meeting

Core inflation drops to 0.8% and headline to 1.2% in May, indicating that price pressures remain mild in times of economic uncertainty. This puts further pressure on the ECB



Weaker than expected, the inflation rate remains uncomfortably stuck around 1%, despite the maturing economic cycle. The weak inflation rate comes despite continuing labour market pressures. The unemployment rate dropped from 7.7 to 7.6% in April, which was the lowest rate since August 2008. While businesses are indicating that hiring may slow over the coming months, the unemployment rate is already low enough to expect a continued gradual pick up in wage growth.

But as the economy provides plenty of concern for businesses, higher input prices are taken into businesses' margins instead of priced through to the consumer. In fact, business survey indicators for inflation have been cooling over the past months. This means that the delay of higher core inflation continues.

With global growth worries increasing and the eurozone vulnerable to the global cycle, this is becoming an increasing concern, as the downside risk is that core inflation will not move much above 1% this cycle. Market-based inflation expectations trade around all-time lows, indicating

that at least some investors are taking that risk seriously.

This will no doubt make some ECB board members a little hot under the collar, as pressure to take action is mounting. At the April meeting, it was already mentioned that price pressures remain uncomfortably low, which has certainly not improved since then. Expect a dovish tone from the ECB on Thursday.

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