

Snap | 3 May 2018

Eurozone core inflation drops well below 1%

Core inflation falls to 0.7% in April, while headline falls back to 1.2%. Anything but an extension to the QE programme would be a surprise at this point



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The question is almost what will come first, an agreement on the next EU budget or a meaningful rise in Eurozone inflation. April again caused disappointment as core inflation dropped well below 1% and further than analysts had expected. The jump in services inflation in March was because of an earlier Easter than last year. That effect was reversed this month with a drop of 1.5% to 1%. The surprising March drop in goods inflation from 0.6 to 0.2% was not reversed as it recovered to just 0.3% this month. Despite steady unemployment declines over the past year - the March data showed a drop of 1.4 million in unemployment and a decline of 0.9 percentage points to 8.5% in the rate - inflation is failing to move.

Still, additional slack is significant and people returning to the labour market as employment expectations improve could dampen a possible wage growth recovery. Similarly, uncertainty about economic conditions seems to have impacted the expected selling price growth for businesses. This could delay the pickup in core inflation further. While ECB officials like Weidmann and Praet

may consider the recent weak spell in Eurozone data to be a temporary blip, that can hardly be said of the inflation rut that the Eurozone experiences. Ending QE in September will be an incredibly hard sell for the hawks on the governing council. With just the May inflation data to go before the June meeting and core inflation well below 1%, anything but an extension to the QE programme would be a surprise at this point.

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