

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



Source: Shutterstock

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.

Author

Bert Colijn

Chief Economist, Netherlands

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 www.ing.com.