Snap | 31 July 2017

# Eurozone core inflation ticks up

While core inflation ticks up to 1.2%, there is still no reason for ECB to turn hawkish

The economic euphoria continues in the Eurozone with strong growth and improving labour markets, but inflation remains miles away from the ECB target.

The one bit of good news for ECB hawks was core inflation ticked up to 1.2%, a level last seen in April. There is some cautious upward pressure on core inflation, which has been expected for some time now as businesses have been increasing their selling price expectations and unemployment has been coming down, boosting sales.

June's unemployment rate dropped to 9.1%, the lowest since February 2009. The modest pressures on core inflation from these developments are still unlikely to cause it to increase much further this year and also headline inflation is unlikely to rise above 1.5% this year.

9.1

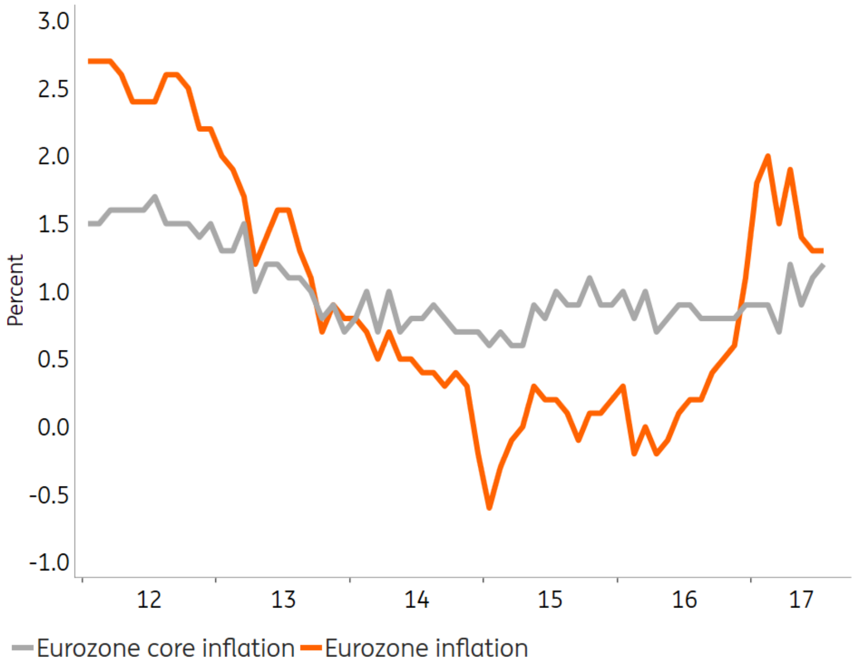
## Eurozone unemployment rate

Unemployment decline rate should boost domestic demand

Better than expected

In fact, continued weakness in oil prices and strength in the euro make weakness in inflation likely. For the ECB, this could result in downward revisions to their inflation expectations at the September meeting. The ECB staff projections currently have a euro-dollar rate of 1.09 priced in for 2018 and 2019, quite far from current levels. That means quite a substantial adjustment could be in the works, which would reduce inflation expectations for 2018 and possibly 2019 further.

## Headline and core inflation converge below ECB target




So while positive economic data from the Eurozone is encouraging ECB hawks, the outlook for 2018 inflation is hardly any stronger.

## Author

**Bert Colijn**
Chief Economist, Netherlands
bert.colijn@ing.com