

Eurozone core inflation up but trend remains weak

Inflation in the Eurozone continues to weaken on lower energy prices and euro strength.



The Eurozone inflation rate decreased from 1.4 to 1.3% in June, slightly better than expected. Core inflation increased to 1.1%, but this may well be driven mostly by a temporary jump in German package holidays. The overall trend remains weak on lower oil prices, which means that a normalisation of ECB policy does not seem to be around the corner.

The Eurozone inflation rate declined for a third month in a row in June, with energy price effects weakening. The recent weakness in oil prices and euro strength will likely depress headline inflation for the months ahead as well. The more interesting developments are in core inflation, as improvements here would suggest a more sustainable upturn in inflation rates. This month's increase to 1.1% may be mostly temporary though, due to the timing of a public holiday in Germany. Still, with some evidence of price pressures building, we are expecting further cautious improvements in core inflation. Just not the kind that ECB hawks would like to see though as we do not expect core inflation to reach 1.5% this year.

Click [here](#) for June Eurozone inflation data.

1.1%

Core inflation

Core inflation jumped in June, but mostly on temporary factors

Better than expected

With Draghi's new lynchpin for self-sustained adjustment in inflation, wage growth, faltering at the beginning of the year, it seems that there is little upside to price growth for the rest of the year. While Draghi mentioned that the factors that are currently dampening inflation are temporary, the question is what timeframe can still be considered temporary. Some structural factors that impact price growth like globalization and digitization might be affecting wage growth for the decade ahead, while other factors like additional slack in the market and increased flexibility in wage setting in the Eurozone could also still dampen price pressures in the coming years.

That means that while the ECB might be looking to announce tapering sometime soon, it seems unlikely that normalization of policy is to follow shortly after.

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