

Eurozone: Inflation falls as ECB prepares to act on coronavirus fears

Inflation in the eurozone dropped on lower oil prices as core inflation edged up. What's more important for the ECB right now is how the coronavirus will develop as these figures confirm the subdued inflation environment



Source: istock

As expected, inflation fell from 1.4 to 1.2% as energy price effects impact the headline figure negatively in February. Core inflation inched up from 1.1 to 1.2%, as both goods and services inflation trended slightly higher than in January.

How the Covid-19 impact on the economy will distort the inflation figures in the months ahead is too early to tell. For now, the decline in oil prices is the most significant channel through which the virus is impacting inflation. Energy prices dropped -0.3% year-on-year and even by -1.6% month-on-month. A small tick up in goods inflation from 0.3 to 0.5% is more related to base effects than to a supply chain effect, it is too soon for hints of supply chain disruptions in these February figures.

Looking at underlying price pressures, we see that businesses remain cautious to increase prices in

the current highly uncertain economic environment. Unemployment figures released today for January actually showed a slight increase in the number of unemployed at the start of the year, while the rate remained stable at 7.4%. Nothing to worry about too much, but a sign on the wall that labour market tailwind has weakened. This means that even outside of any distortions in inflation that Covid-19 may cause, underlying inflation is set to remain subdued.

For the ECB, today's figures will be no more than confirmation of the current modest inflation environment. For the 12 March meeting, immediate Covid-19 measures will be much more relevant than the February inflation environment. As Christine Lagarde announced yesterday evening, the ECB stands ready to take appropriate and targeted action. It could be that this will first entail measures to counter immediate and specific Covid-19 related problems, think of liquidity issues, before thinking of more conventional measures.

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