

## Eurozone inflation back in the single digits

Inflation fell back to 9.2% in December, but rising core inflation means that not much will sway the European Central Bank from the hawkish path it set out late last year



Inflation fell in December on the back of slowing energy price rises

A combination of price caps and lower oil and natural gas prices have caused a significant dip in energy inflation (from 34.9% to 25.7%), which was the main driver of the decline in headline inflation. The decline was broad-based by country, with all the major eurozone economies showing significant drops in price growth. It is likely that the peak in inflation is behind us now, but far more relevant for the economy and policymakers is whether inflation will structurally trend back to 2% from here on.

Core inflation continues to show little sign of relief for now. It increased from 5% to 5.2% and saw sizable increases for both goods and services. The next two months will be critical as many businesses traditionally change prices at the start of the year. It could therefore be that core inflation rises further from now. While consumption remains under pressure and retail sales have been trending down for quite some time now, businesses continue to adjust their prices to the supply-side shocks of 2021 and 2022.

So while supply-side shocks are fading – not just energy, but also think of container prices and

various production inputs – core inflation is still adjusting with a lag. The ECB has taken a very hawkish stance towards this development and has indicated that it will hike through a mild recession to bring inflation structurally down to 2%. With energy inflation dropping quickly and energy supply forecasts improving, 2% could be reached much sooner than expected. Still, rising core inflation will be enough for the ECB to continue to hike by 50bp in February and March.

## Author

### Bert Colijn

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto: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 <http://www.ing.com>.