

Snap | 30 November 2022

Eurozone inflation comes down in November, paving way for 50bp ECB hike

Inflation dropped more than expected from 10.6 to 10% in November, mainly on energy price developments. Core inflation remained stable at 5% though. While we're far from out of the woods yet, it does look like the current economic environment could push the European Central Bank to a smaller 50bp hike next month



We were due some good news. The eurozone inflation rate ticked down after a few nasty upside surprises. Energy inflation has been the most important driver of the decline going from 41.5 to 34.9%. Food inflation continues to trend up, while core inflation was stable at 5%. This is still far too high, but tentative signs that we're at or close to a peak are increasing.

Whether this is the peak in inflation remains to be seen. Another episode in the energy crisis could easily push inflation back up again and core inflation usually proves to be sticky after a supply shock.

The question is how relevant the talk about a peak in annual inflation actually is. We think it is far more relevant to focus on month-on-month developments as base effects will become significant in the coming months. Using our own seasonal adjustment, we see that monthly

inflation was slightly negative for the first time since April and that food inflation is the largest contributor to monthly headline inflation at the moment.

We also think the focus should be more on what level inflation will trend down to, as opposed to whether this is the peak or not. The big question, therefore, is how core inflation is going to move in the coming months. Don't expect a miracle just yet, core inflation tends to adjust slowly to energy shocks and a lot of the higher costs have not yet been priced through to the consumer.

The tricky thing here is that the effects of the previous supply shock – the pandemic – are also still playing into the numbers. Large inventory increases at retail stores are the result of falling demand for goods and restocking as supply problems improved. That adds some disinflationary pressures for the months ahead. Overall, more volatility in core inflation can be expected as the effects of two massive supply shocks play out but we don't expect a quick drop in core inflation anytime soon.

For the ECB though, tentative signs of inflation peaking are mounting, evidence of a wage-price spiral continues to remain absent and the environment is turning recessionary. In our view, that is likely to sway the ECB from 75 basis point hikes to a smaller hike of 50 basis points in December.

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.