

Eurozone inflation continues slide on lower oil prices

Inflation drops to 1.6% as oil price effects dominate the index. Core inflation remains at 1% as higher wages haven't translated into higher prices just yet



Source: Shutterstock

Even though wage growth has undoubtedly started to improve in the Eurozone and is now back at growth rates seen during the 2000s, this is not yet translating into stronger core inflation. With other input prices weakening and uncertainty about the Eurozone economy increasing, businesses are not yet pricing through the higher wages.

As the labour market continues to tighten, businesses are tightening their margins for the moment, but the question is for how long are they prepared to do this. If the economic situation continues to worsen, it could be that higher wages don't translate into significantly higher core inflation for the months ahead, although some upward movement can be expected.

Headline inflation is expected to move towards core for most of 2019. Depending on how long oil prices remain in the 50 dollar range, headline inflation could even fall to around 1%. This leaves the ECB in an awkward spot with regards to their first rate hike.

According to its forward guidance, the ECB will leave rates unchanged through the summer, but with inflation moving away from the target and an economy that is slowing, the question is whether the ECB will see a chance to hike at all. Much will depend on businesses pricing through higher wages to the consumer, which would be the upside the ECB is hoping for.

But with many downside risks that will be with us for a while to come, the ECB is set for a year of uncertainty.

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