

Eurozone inflation dropped below 1% again in September

Inflation fell from 1 to 0.9% in September, while core inflation moved up from 0.9 to 1%. The overall picture of underlying softness in core inflation should worry the European Central Bank as it could persist due to recession fears



Vasco da Gama shopping center in Lisbon, Portugal

The small movements in inflation in September are indicative of the current pricing environment, which is lacklustre. Sure, energy price base effects are likely to boost inflation over the coming months, but that will not result in a sustainable move towards the ECB's 2% target. The underlying picture for inflation continues to be weak as drivers of inflation have recently started to soften. This is partly driven by weaker producer price developments, but also related to significant declines in selling price expectations of businesses over recent months. Even though services inflation did tick up to 1.5% in September, it is unlikely that we'll see a significant jump in core inflation in the months ahead.

The economic uncertainty means businesses are still very reluctant to increase their margins, and so recent positive wage growth developments are not translating into higher inflation. This has been the case for some time now but as recession fears will likely loom for at least a few months to come, it seems unlikely that core inflation will improve significantly in the months ahead.

Interestingly, this modest inflation environment could in itself be helpful to stave off a recession as it boosts real household incomes which, in turn, helps to keep domestic demand growth in positive territory.

For the ECB, today's figures will not be a surprise, but the underlying picture remains one of concern nonetheless. The smorgasbord of stimulus that ECB President Mario Draghi announced a few weeks ago will need to have quite some impact to see core inflation move out of the 1% range in the course of 2020. If it does not, the ECB's own expectations for core inflation may once again need to be lowered.

Author

Bert Colijn

Senior Economist, Eurozone

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>.