

## Eurozone inflation drops back to 2.1% as services inflation ticks up

Energy price developments have resulted in a tick down in headline inflation, while core inflation remains at 2.4%. Overall, the inflation environment seems to remain very stable around the ECB's target for the moment



With inflation remaining stable around the ECB's target, we think the central bank is set to stay in its 'good place' for some time still to come

Thanks to easing energy base effects – what a snooze, I know – headline inflation in the eurozone has ticked back down from 2.2 to 2.1% again. The European Central Bank calls this ‘the good place’ that it's currently in, illustrating that boring times are the best times for central bankers. It made yesterday's decision to hold rates quite straightforward, and today's numbers emphasise that this was probably the right call. Eurozone inflation has moved within 0.2ppt of the 2% target since March, and we don't expect it to deviate much for the foreseeable future.

Still, at the ECB press conference yesterday, President Christine Lagarde emphasised the concern around services inflation being persistently too high to balance out downside risks to inflation. Today's data actually showed a further acceleration in services inflation, from 3.2 to 3.4%. The focus has been a bit more on downside risks to the inflation outlook in recent weeks, which could well push the inflation outlook lower. Today's data stresses that the risks to the outlook do remain quite balanced, though, and resulted in a still-elevated core inflation rate at 2.4%.

Inflation is measured on a year-on-year basis, but the shorter-term developments do show a slight

pickup of momentum in core inflation on the back of services prices. The three-month rate of core inflation is currently increasing to an annualised 2.7% rate. Then again, selling price expectations for services have eased further, which is a decent predictor of future price developments. For the months ahead, we do expect a further easing of the inflation rate, but not much below the 2% mark. The 'good place' seems to be with us for some time to come.

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