

Eurozone inflation drops, but not by as much as you'd expect

Headline inflation fell from 1.2 to 0.7% in March - the month oil prices collapsed and Covid-19 disrupted the eurozone economy. As measuring inflation now becomes harder, make no mistake, this environment is deflationary



Source: Shutterstock

The enormous shock to oil prices has been one of the most important stories of the month and that feeds through to eurozone inflation.

At the beginning of the month, a barrel of Brent oil still cost \$52 but within the month the price has more than halved. Energy inflation has fallen from -0.3 to -4.3 in March on the back of this. For the months ahead energy inflation is expected to remain strongly negative as long as demand for oil continues to drop and Saudi Arabia and Russia don't strike a deal on supply.

Core eurozone inflation also declined in March - from 1.2 to 1% - with services inflation falling from 1.6 to 1.3%. Most of the lockdown period is not taken into account here, but these numbers confirm caution in the service sector ahead of the more severe economic disruption in the latter part of the month.

From here on, inflation figures should be taken with a massive pinch of salt. If you thought working with that Easter effect was tough this time last year, try getting a good sense of price developments when businesses have closed en masse. The April release will definitely require lots of creativity.

Looking through those shaky April numbers, some stockpiling and supply chain disrupted activities and you will see that this crisis is deflationary. Businesses have lowered their selling price expectations for both goods and services dramatically in March and service sector inflation has already dropped a bit.

For the ECB, this makes life easier. All signs point towards an expansionary policy for the moment.

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