

Eurozone inflation falls below target as the ECB mulls faster easing

Eurozone inflation dropped to 1.8% as core inflation fell to 2.7% in September. With inflation moving towards target faster than expected, the European Central Bank's concerns seem to be shifting towards the lacklustre growth environment



The ECB knew that this inflation print would come in weak as President Christine Lagarde mentioned at the September press conference but it still came in a tad weaker than most analysts had expected. While a bounce back in the fourth quarter has been expected, the question is to what extent this can materialise as petrol prices have been dropping quickly on the back of falling oil prices.

With core inflation slowly dropping at this point, it looks like the 2% target in the medium term is achievable. Recent survey data has confirmed slowing selling price expectations from businesses. This is mainly because of weak demand as the same surveys indicate that growth is slowing from an already modest pace in the second quarter. Since the summer, concerns about inflation have made way for concerns about economic growth.

As the ECB seems quite convinced that inflation is on track towards 2%, the question is now how

fast it wants to move interest rates back to neutral. If it keeps interest rates restrictive for too long with the economy already slowing, it risks pushing inflation below its 2% target. With growth under pressure now, it seems that the door is open for the ECB to move faster. While it does not seem like a done deal, it does bring the October meeting into play for a possible step up in easing.

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 <http://www.ing.com>.