

## 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.

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