Eurozone inflation falls further as core rises to 1.1%

Inflation drops on weaker oil prices, but core inflation ticks up to 1.1% as services inflation increases

The decline in oil prices is working its way through to fuel prices in the eurozone, causing headline inflation to drop. The decline to 1.4% in January was significant, but is not yet the bottom of what is to be expected. As base effects of the energy price index continue to have a dampening effect on inflation in the months ahead, the headline rate is expected to slow further towards the summer. Only at the end of the year is a recovery expected again.

The big question remains what will happen to core inflation, which has been stubbornly stuck at around 1% for ages. Wage growth picked up substantially over the course of 2018 as labour markets tightened, but businesses have not yet passed on these higher costs to customers. In current times of economic uncertainty, it is likely that businesses will continue to accept some squeeze in margins.

The question of “where are we and where are we going” that the ECB tried to answer in the last governing council meeting remains key to the core inflation outlook. If the economy picks back up as transitory factors fade out, it is likely that core inflation will slowly but gradually rise. That remains the base case for the moment, also for the ECB. The ECB’s own expectations of 1.4% core inflation for the year look a tad optimistic already, meaning that downward adjustments could well happen in March.

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