

Snap | 1 February 2019

## 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.

## Author

### Bert Colijn

Senior Economist, Eurozone

[bert.colijn@ing.com](mailto: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>.