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Eurozone inflation falls further in February

With inflation dropping to 1.2% and core inflation stable at 1%, expectations of a quick return of inflation seem exaggerated for the Eurozone making a cautious ECB next week very likely



The decline in the headline rate from 1.3% to 1.2% mainly reflected a decline in unprocessed food prices from 1.1% in January to -0.9% in February. Energy inflation also fell somewhat as petrol prices have been declining over the past weeks despite higher oil prices, not least because of the offsetting effect of the appreciation of euro-dollar.

Price pressures remain weak for the moment, but recent data does support a snail pace recovery in core inflation over the course of the year. Services saw price growth increase from 1.2 to 1.3% in February, which is a sizable part of the core inflation measure. With unemployment getting close to the natural rate, vacancy rates increasing and labour shortages indicated by businesses at an all-time high, labour market pressures are up. The German wage negotiations are a cautious first sign of improving wage growth, but other countries still experience significant slack in the market, limiting the potential of wage growth recoveries.

At the same time, surveys do suggest that the current economic acceleration has started to give businesses more pricing power. Cautious improvements in selling price expectations support

improvements in core inflation, but February's data are a clear sign that it is much too early to call the return of Eurozone inflation.

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