

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.

Author

Bert Colijn

Senior Economist, Eurozone

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>.