

Eurozone inflation increased less than expected in December

The inflation rate went up from 2.4 to 2.9%, mainly due to fading energy base effects. The increase serves as a reminder that interest rate cuts in the first quarter are unlikely but this shouldn't dispel expectations of cuts later in the year. We stick to our expectation of a first cut in June



The increase in headline inflation was mainly driven by energy base effects in Germany. The core inflation rate dropped from 3.6 to 3.4%, indicating that the underlying trend in inflation remains relatively benign for the moment. Food inflation also continued to trend down rapidly.

Inflationary pressures made way for disinflation over the course of 2023 as demand weakened and supply shocks faded. This has brought inflation down more than expected at the start of last year. Currently though, base effects from easing supply shocks are moderating and some new inflationary concerns are surfacing. Think of the increased supply chain concerns related to the Red Sea. Besides that, German government measures are also adding to inflation for 2024. The European Central Bank's mantra has always been that the last leg is the hardest. Is this what we are currently witnessing?

Don't overestimate the inflationary pressures for now though. Demand remains weak, which is a very important disinflationary driver right now. Also, inventories are high, making current supply chain concerns much less inflationary than the ones from 2021. And even though energy price shocks related to the Middle East are a clear risk to the outlook, oil prices are currently still below US\$80 per barrel. So overall, the outlook for inflation continues to be quite benign and we expect eurozone inflation to be around 2% again by the end of the year.

Current inflationary developments therefore seem to support our view that recent market expectations of a first-quarter hike are premature, but don't think that we're back to 'higher for longer' either. We expect the ECB to start cautiously cutting rates from June onwards, with 75bp in total for 2024.

Author

Bert Colijn

Chief Economist, Netherlands

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>.