

Snap | 2 February 2022

## Eurozone inflation hits record 5.1%, driven by higher energy prices

The headline inflation rate surprised with another increase as energy inflation jumped. The decline in core inflation is more in line with expectations and shows very little evidence of second-round effects in the eurozone so far. Expect the European Central Bank tomorrow to push back against early rate hikes



The main driver of the increase in inflation was energy prices

The surprise is that headline inflation remains higher than expected. With shrinking base effects from the oil price and the German value-added tax (VAT)-hike from last January dropping out of the numbers, most were expecting a larger decline in headline inflation than this. Those effects were outstripped by another tick up in energy prices, causing energy inflation to soar to 28.6% in January. This is not at all surprising. Thanks to volatile market energy prices and uncertain pass-throughs to the consumer, short-term energy inflation movements are very difficult to predict. Expect this to improve from Spring onwards.

The higher headline inflation and dropping core inflation reading means the following:

- Concerns about future second-round effects remain valid as energy inflation keeps the inflation rate at a higher level for now.

- The dropping core inflation rate confirms that the high inflation rate is not yet spreading and that the pass-through of high producer prices remains more modest than expected. Goods inflation fell back to 2.3% and services inflation stayed put at 2.4%. This shows that there is still no evidence of widespread second-round effects happening at the moment.

So this results in an inflation rate that provides both the hawks and doves plenty of ammunition for tomorrow's European Central Bank (ECB) meeting. It far from settles the debate between how structural or temporary this current inflation rate is. While expectations are that energy inflation will steadily decline, we also expect wage growth to rebound over the course of this year and still see more room for goods inflation to increase as high producer prices get priced through to the consumer. Overall, we expect headline inflation to weaken to about 2% at the end of the year.

With improving expectations for GDP and inflation for 2023 and 2024, that should be enough for an ECB rate hike in early 2023, but it is also important to stress that the eurozone inflation situation is much less acute than the US as second-round effect evidence remains largely lacking. Don't expect too much from the ECB tomorrow as we could well see President Christine Lagarde disappoint anyone expecting a 2022 rate hike.

## 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>.