

## Eurozone inflation: It's back...

Eurozone inflation shoots up to 0.9% while core inflation increases to a whopping 1.4%, thanks to temporary factors. And that's precisely why the ECB shouldn't be too alarmed



The increase in Eurozone inflation from -0.3 to 0.9% was due to a variety of factors.

Think German VAT increase, delayed winter sales that are usually in January. As they are delayed, prices are measured against last year's discounts, increasing the rate. This effect will be reversed once the sales do occur. This boosted core inflation from 0.2 to 1.4%. Besides that, energy inflation increased on the back of a strong base effect from -6.9 to -4.1%.

---

*Temporary factors are pushing up inflation at the moment, and there is more to come*

---

So temporary factors are pushing up inflation at the moment, and there is more to come. Expect prices for product categories impacted by social distancing measures to return to normal levels when the economy reopens - think package holidays, accommodation and transport.

When that will happen ultimately depends on the development of the virus and the pace of vaccination, but once it does occur it is set to push up inflation even further.

## No this shouldn't alarm the ECB!

Even with more temporary factors set to drive up inflation over the course of 2021, medium-term price pressures are set to remain weak thanks to the recessionary forces at play.

This means that the ECB shouldn't be too alarmed about passing jumps in price levels. With wage growth weakening and unemployment expected to increase in 2021, sustainable moves towards target remain a while away.

### Author

#### Bert Colijn

Chief Economist, Netherlands

[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>.