

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%.

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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.

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