

Eurozone inflation rises once again as risks to 2025 outlook linger

Inflation rose from 2.4 to 2.5% in January, the fourth increase in a row for the eurozone. While it's set to moderate over the course of the year, upside risks surrounding inflation have far from abated



Inflationary risks are still prevalent, and with uncertainty on the rise, the question now is how low the ECB can push rates to give the eurozone economy more breathing room

Inflation across the eurozone ticked up thanks to a higher contribution from energy prices, while food inflation fell and core inflation remained stable at 2.7%. Base effects – which have driven inflation higher in recent months – eased in January, which contributed to keeping the increase in inflation muted.

The trajectory for 2025 should be disinflationary, but the question is to what degree. With wage growth set to drop substantially towards the end of the year, a big current driver of domestic inflation is set to fade. At the same time, energy prices have jumped to higher levels again and businesses are expecting to price higher costs through to consumers as business surveys indicate stronger goods and services inflation in the coming months.

And now that the US is moving closer to introducing tariffs on the EU, the question is what the European Commission's response will be. Retaliatory tariffs would add to inflation again as tariffs usually result in higher consumer prices. So clearly, inflationary risks have far from fully abated.

The European Central Bank sees a sluggish economy and seems quite convinced that inflation is now under control. But with inflationary risks still prevalent and uncertainty increasing, the question is how low the ECB can push rates to give the economy more breathing room.

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