

Snap | 29 November 2019

## Eurozone inflation jumps more than expected in November

The increase in both headline and core inflation was driven by strong growth in services prices. Still, don't assume this has implications for the European Central Bank, given weak underlying economic developments



Vasco da Gama shopping center in Lisbon, Portugal

Going by all the advertisements for today's Black Friday sales you would expect the eurozone to be going through significant deflation in November. Instead, inflation increased from 0.7 to 1% this month and core inflation jumped from 1.1 to 1.3%. Except for energy prices, all the underlying series increased, with the largest jump happening in services prices.

The question is whether this is the start of a more sustained increase. Indeed, core inflation has been rising for three months in a row now and wage growth for the third quarter does suggest that upward pressure on prices is increasing. Then again, as businesses continue to lack confidence to push higher input costs onto the consumer, it is unlikely that this will lead to materially higher core inflation in the months ahead. In fact, selling price expectations for the months ahead declined again this month in both services and industry and haven't been this low all year.

We would need to see much more optimism among businesses or substantially higher wage

growth to see inflation rise sustainably. What a lovely environment to buy holiday gifts. All in all, for the ECB this increase in inflation seems to be good news for the hawks on the surface, but more evidence of a sustained increase is unlikely to follow unless business confidence increases substantially. As the economic environment is unlikely to be strong enough to see inflation move sustainably towards 2% over the course of 2020, this means that the forward guidance in place since September could keep ECB President Christine Lagarde's first full year in office somewhat dull if economic circumstances don't deteriorate.

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