

Eurozone inflation jumps to 8.6% on food and energy effects

Another ugly inflation reading as energy and food prices push inflation to a new high. Core inflation moderated slightly, in part due to domestic support packages. For the European Central Bank, this adds pressure to act quickly



Today's record inflation was mainly caused by energy and food. Importantly, the oil embargo and gas supply squeeze that unfolded over the month of June have caused energy prices to soar. Increasing food prices remains a key theme for the inflation outlook as it now adds well above 1ppt to total inflation. This month, price growth accelerated from 7.5 to 8.9%.

The positive note in the release is that core inflation fell from 3.8 to 3.7% in June on the back of slightly weaker services inflation than last month. Goods inflation still increased from 4.2 to 4.3% though.

At this point, the inflation picture is starting to muddy a bit. Domestic support packages are important drivers of diverging inflation paths at this point, think of Germany's cheap public transport and petrol tax rebate. We also see a surprise decline in core inflation in France while Spain saw continued higher core inflation.

Peak inflation?

The big question for the second half of the year is when peak inflation will be reached. This is a very tough question to answer at this point because of the volatility around energy price developments and uncertainty around the persistence of second-round effects. We do see more disinflationary pressures ahead as recessionary pressures are building in the eurozone, and global commodity prices – excluding energy - have been coming off their peak.

Surveys suggest that price pressures are easing somewhat for both services and industry, but are still close to all-time highs. While government support packages can temporarily bring down core inflation readings now, we expect underlying price pressures to persist over the summer months. Starting in the autumn, negative base effects and rapidly cooling demand should start to have more of a dampening effect on the inflation rate.

Still, for the ECB this is another upside surprise to the inflation rate and will add pressure to act forcefully. The drop in core inflation is impacted by fiscal support and therefore not a reliable measure of underlying inflation in the eurozone. Hawks will push further for a 50bp hike in July on the back of this given the uncertain inflation outlook at this point.

Author

Bert Colijn

Senior Economist, Eurozone

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>.