

## Eurozone inflation looks encouraging, but be careful interpreting the data

Headline inflation continues its fast decline and dropped to 8.5% in January, while core inflation remains stubbornly high at 5.2%. Lacking German inputs, these numbers are tricky to interpret, but for the ECB high core inflation will be enough to hike by another 50bp tomorrow



January's eurozone inflation data does not include Germany's numbers

Tread carefully with these January inflation figures. A day ahead of a crucial ECB rate decision, January inflation data have been released but are hard to interpret as German inputs have been postponed. A model has been used to infer German data, making it more prone to revision than in other months. Besides that, we have the annual item weights revision influencing the data, already making it a difficult month to interpret. It's also a month the ECB has put a lot of emphasis on as President Christine Lagarde mentioned in the Q&A of the December press conference that she expected January to have higher inflation as it is a traditional month for passthrough of energy to reach retail prices.

If we take the data at face value – and we'll see on 23 February when final data are released if we were right to do so – we see that core inflation did not show the feared increase. The core inflation rate was flat at 5.2%, but monthly seasonally-adjusted data show another cautious decline to 0.4% growth compared to December. While this is still far too high – annualised this makes 5.3%

core inflation – it does mark the fourth month of consecutive declines.

While it's all about core from here on, we do of course see an encouraging trend in headline inflation. The drop from 9.2% to 8.5% is faster than expected. Food inflation remains stubbornly at 14.1%, but energy drives the rate down at the start of the year. A decline from 25.5% to 17.2% reflects lower market prices and significant negative base effects.

In recent days, both the Brent oil price in euros and natural gas market prices have declined year-on-year, which will put more downward pressure on consumer prices in the coming months. Price ceilings for energy also have their effect of course, which does work both ways in January. From here on, energy contributions are set to decline substantially given the relatively low market prices we are currently seeing.

All in all, the data looks decent as a jump in core inflation has been avoided but uncertainty remains without final German figures. For the ECB, the muddled picture of inflation is annoying, but don't expect it to throw it off course for tomorrow. The jump in core inflation in some key countries will be enough for the central bank to confirm its current hawkish stance and add another 50 basis points to policy rates.

## 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>.