

Snap | 31 July 2020

## Eurozone inflation moves up on the back of goods inflation

Inflation ticked up from 0.3 to 0.4% in July, mainly because of a slower decline in energy prices and a sudden surge in goods inflation. This causes a swing in core inflation to 1.2%, but that is unlikely to be permanent



While there have been some factors that could point towards higher core inflation during the coronavirus crisis, deflationary factors continue to dominate. An important one this month is the German VAT cut that has come into effect. This will be ignored by the European Central Bank in terms of policy making, but besides that it does not look like the current economic environment would warrant overall rising core inflation. The increase from 0.8 to 1.2% in core inflation is therefore noteworthy, but almost certainly more noise than signal.

Many countries that have seen a surge in inflation in July are ones that have postponed their sales seasons, think of Belgium, Italy and France. These countries saw headline inflation rates rise from 0.2 to 1.7%, -0.4 to 0.9 and 0.2 to 0.9%, respectively. This will mainly be caused by the sales season shift, which predominantly ends up in non-energy industrial goods prices. In Italy, it shifted by a full month. In France, which saw a somewhat smaller rise in inflation, the season has been postponed by just two weeks. These effects can therefore be expected to reverse in the months

ahead. With services inflation decreasing from 1.2 to 0.9%, the trend in core inflation seems to be weakening.

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