

Eurozone inflation: no sign of upward pressure ahead of September ECB meeting

Headline inflation is at 1%, with core inflation at 0.9% in August and unemployment falling by just 16,000 in July. These are the final readings the ECB will get before the important stimulus decision. Don't expect the ECB to hold back.



European Central Bank
HQ, Frankfurt

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Headline inflation had been elevated for some time thanks to energy price growth, but recent developments in the oil price and a downward base effect have brought headline inflation more or less in line with core. The fact that this is happening at around 1% is indicative of rather anemic economic growth and is cause for the activist ECB speeches that seem to be the prelude to significant action in September.

While core inflation has not moved out of the 1% range for quite some time now, drivers of inflation have not provided much reason for optimism about a quick core inflation recovery in the months ahead. Producer price growth has fallen significantly in recent months and wage growth,

while justifying a much higher core inflation rate than 1%, has dropped back from 2.25% to 2% YoY. Businesses also indicate a stagnation of selling price expectations at the moment as downside economic risks remain top of mind.

The job market has remained an important reason for growth to remain positive and has provided some much needed upward pressure on inflation, even though they have so far not materialized. One of the crucial questions surrounding the economy at the moment is whether the labour market can continue to provide enough job growth to maintain wage pressure and boost household consumption.

The July unemployment numbers saw just a minor decline, with 16,000 fewer people unemployed. While these numbers are volatile, a slowing labour market would raise red flags about economic growth and inflationary pressures. Taking all of this into account, there's good reason not to expect the ECB to hold back next month.

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