

## Eurozone inflation pushes higher but keep structural weakness in mind

Up, up, and away! Eurozone inflation continues to increase and will be above 2% for a large part of 2021. Don't expect it to remain there much beyond the end of the year, which will test the ECB's communication seriously in the months ahead



Shoppers in Turin, Italy

Eurozone headline inflation increased from 0.9 to 1.3% in March, mainly on the back of energy price inflation. Gasoline prices continued to climb throughout March despite oil prices falling from the middle of the month, spurring energy inflation higher while base effects from last year also inflate the figure for the moment. Energy inflation increased from -1.7 to a whopping 4.3% in March and will continue to push up the headline index in the months to come.

Core inflation fell back from 1.1 to 0.9% thanks to a much lower goods inflation reading. Expect this to be temporary though as goods inflation is actually expected to rise substantially over the coming months on the back of surging input prices. With supply chains disrupted and commodity prices rising, goods producers have indicated an expected rise in selling prices for the months ahead.

Still, with wages weak, fiscal stimulus set to fade and growth expectations slower than in the US,

overheating in the eurozone is really not an issue for the moment. Most factors pushing up inflation are temporary or statistical in nature: energy inflation, the German VAT increase and the changes in weights in the inflation basket are important ones to name a few key ones.

Perhaps some elements could result in inflation not coming down all the way to 1% again; think of global inflation pressures causing spillovers through higher commodity prices or small second-round effects. But still, we expect inflation to fall back below 1.5% in the first half of 2022 again.

The European Central Bank will be challenged in terms of its communication by this inflation path expected for 2021 and 2022. Perhaps it seems evident that the ECB is not yet behind the curve on inflation now with the economy still contracting and lockdowns extended into 2Q. But come summer when economies are expected to have reopened and show rapid rebound growth it could be more of a challenge when inflation exceeds 2%. For an ECB that has been struggling with providing clarity on the strategy regarding rising yields, this will become a hot summer.

## Author

**Bert Colijn**

Senior Economist, Eurozone

[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>.