Eurozone inflation reaches new record high in February

Inflation has jumped to 5.8% on energy and goods inflation increases. Further spikes are likely in the near term due to the war in Ukraine, but the European Central Bank is likely to refrain from clear commitments on the monetary path next week as economic uncertainty is massive

Food prices are rising on the back of the Russia-Ukraine conflict

The inflation rate continues to soar on energy price effects. With brent oil now above $110 per barrel and natural gas prices soaring as much as 60% this morning as the war in Ukraine continues, further spikes are to be expected in the short-run although base effects for fuel are becoming a substantial drag on the number. It's not just energy, food prices are also rising further on the back of the conflict and that adds to worries about elevated inflation for the months ahead.

Core inflation also jumped up, wiping out January's decrease due to the German value-added tax (VAT) effect. Increasing from 2.3 to 2.7%, it is once more seriously above target. This is mainly due to soaring goods prices as high input prices due to supply chain problems get priced through to the consumer. Goods inflation is now at 3% and will remain elevated at least for the first half of the year before abating disruptions could dampen goods inflation somewhat again.

For the European Central Bank (ECB), the war does mean a rethink of monetary policy. Until a week ago the main concern was around second-round effects of high inflation and a possible wage-price spiral, but thinking has shifted quickly. The main risk now seems to be whether the effects on inflation are not going to be seriously stagflationary in the short run as the purchasing power of consumers gets squeezed. Quick monetary tightening on the back of that would result in extra negative effects on an economy already under pressure.

As the situation regarding Russia and Ukraine changes so rapidly at the moment and no one can predict what the actual economic impact will be, expect the ECB to refrain from big commitments around its policy for the coming year. We think that the December commitments around ending the pandemic emergency purchase programme (PEPP) at the end of the month and increasing the asset purchase programme (APP) from April will hold, but don't expect much more in these times of high uncertainty.

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