

Snap | 2 March 2022

## 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.

## 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 [www.ing.com](http://www.ing.com).