Eurozone inflation remains muted ahead of ECB March meeting

Inflation increased slightly from 1.4 to 1.5% in February, but the decline of core inflation to 1% highlights the continued weakness in Eurozone price developments. Don't expect a hawkish ECB next week, if anyone (still) was

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A small recovery of energy prices and a jump in unprocessed food prices have caused headline inflation to tick up slightly in February, but baseline effects will continue to weigh on headline inflation in the months ahead.

The main story is therefore that core inflation edged down again, stressing continued weakness in price developments. The uncertainty about the economic outlook among businesses has made companies more hesitant to price through higher wages to consumers though and are taking the higher costs in their margins.

The most recent Economic Sentiment Indicator showed a slowing in selling price expectations for both services and industry. This is causing delays in the pickup in core inflation. The muted inflation rate seems to be a blessing for an economy that is struggling with manufacturing weakness. The slower price growth boosts households' real incomes as nominal wage growth has risen significantly over recent quarters.

The breakdown of the wage-price relation through the uncertainty about the economic outlook should concern the ECB as it dampens the core inflation outlook for the months ahead. The new staff projections are sure to see weaker growth projections to be released, but core inflation also looks high for 2019.

Add to that the significant downside risks that hang over the Eurozone economy, and you'll find an ECB gearing up towards measures to counter unwarranted tightening next week, not normalisation.

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