

Eurozone inflation remains stable as ECB prepares fresh stimulus

As expected, core inflation bounced back after the weak May reading, but this does not seem to be the start of faster price growth



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Headline inflation remained stable at 1.2% in June, with base effects from energy prices starting to dampen the inflation rate more significantly. Even though oil prices have increased over the past few weeks as the conflict in the Middle East has cast doubts over supply, the 12-month effect will remain quite negative for some time to come.

More interesting have been developments in core inflation. It has been bouncing around on Easter timing effects and the recovery from 0.8 to 1.1% should more realistically reflect the current underlying inflation environment. Even though wage growth continues to increase at a steady pace, reflecting the improved labour market environment, businesses continue to be reluctant to price through those higher costs to the consumer.

The inflation outlook therefore remains sluggish. With energy base effects pushing down the outlook for the coming months, headline inflation will continue to face downward pressures. On top of that, businesses have indicated softer expectations for selling prices on the back of economic uncertainty. The improved core inflation figure will therefore be easily brushed aside in

the discussions about fresh ECB action: it's coming.

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