

Eurozone inflation remains on track amid huge price uncertainty

The eurozone's headline inflation rate came in at 2.2%, continuing its steady drop towards the European Central Bank's target. Expect disinflationary pressures to prevail in the short term, but medium-term inflation developments are clouded in huge uncertainty



This morning's inflation release suggests it's business as usual in the eurozone for the time being. The medium-term outlook, however, is more complicated

Eurozone inflation remains very stable at just above 2%. Surprisingly dull, in fact, given the turmoil that the global economy is currently in. Down from 2.5% in January to 2.2% in April, inflation is on track towards the European Central Bank's target, which justifies a continued careful easing of the monetary policy stance.

Trade turmoil is so far impacting the eurozone in a disinflationary manner, with energy prices down and the euro well above 1.12. This is reflected in falling energy prices, which amounted to 3.5% compared to April last year. Furthermore, postponed retaliatory measures from the European Commission and pressure on European prices as Chinese goods are increasingly locked out of the American market mean that goods inflation is not set to experience more of a price increase in the months ahead.

At the same time, we do note that businesses continue to see selling price expectations for the coming months at elevated levels. For services in particular, this means that inflation is unlikely to drop dramatically in the months ahead. Services inflation increased again in April, following a larger-than-expected drop in March. The usual effect of a late Easter has likely played a role here as package holiday prices dropped sharply in March. This probably reversed in April. But it also serves as a general reminder that a decently growing eurozone economy with a strong labour market and high wage growth can keep inflation somewhat elevated in the months ahead, even when the trade war initially dampens inflationary pressures.

So while eurozone inflation looks quite steady, the outlook is very uncertain. A reshaping of the global trade order could have significant inflationary effects, while slower growth implications are set to dampen inflation. The degree to which global trade really changes is anyone's guess at the moment, making the medium-term outlook for inflation highly unpredictable.

Author

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

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