Eurozone inflation lands right at ECB target in June

The inflation rate in the eurozone ticked up slightly to 2% on higher energy prices, but core inflation remained stable at 2.3%. Inflationary pressures have clearly weakened as wage growth is coming down and economic performance remains sluggish, keeping the door open to another rate cut in autumn

The underlying picture in the eurozone shows inflation around target, thanks to moderating wage growth and sluggish economic growth for the foreseeable future

The slight increase in inflation in June is not going to cause much excitement for anyone. It's strange to say in a global economy experiencing huge uncertainty, but eurozone inflation has become delightfully dull again.

Most importantly, services inflation experienced barely any bounce back after an unusually low reading in May. Package holiday prices fell in May on the back of fewer public holidays and likely bounced back somewhat in June, but softness in the services sector means that the overall services inflation rate only ticked up from 3.2 to 3.3%.

Goods inflation fell from 0.6 to 0.5%, generally indicating that despite supply chain distortions in recent months, demand remains too weak to cause immediate consumer price pressures. In fact, surveys indicate weakening selling price expectations among goods manufacturers since May.

Overall, the domestic inflation environment is expected to remain benign. Wage growth has fallen markedly over recent quarters. We expect it to trend around 3% at the end of the year, which is consistent with inflation at the 2% target now that productivity is picking back up.

Risks of inflation spikes are not hard to spot in the current global economy. Think of the recent oil price spike, for example, or possible retaliatory tariffs by the European Commission if negotiations with the US fail next week. But the underlying picture is one that shows inflation around target, thanks to moderating wage growth and sluggish economic growth for the foreseeable future.

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