

Snap | 30 November 2018

Eurozone inflation slides back to 2%

Inflation falls on oil price drop, but the decline in core inflation back to 1% will add to discussion about the ECB's path to normalising rates



Source: Shutterstock

The slight drop in inflation was mainly due to the fall in energy prices.

The drop in the oil price was much larger than the slide in inflation suggests, mainly caused by logistical problems that hindered supply in Germany and Netherlands for example, but also by higher taxes. The logistical issues are likely to fade out, which suggests that the inflation rate will continue to fall modestly over the coming months.

More problematic is the decline in core inflation, which was below analyst expectations. The weak core inflation is in part due to concerns about a cooling economy, which have made businesses hesitant to price through higher input prices such as increased wages.

Softer headline inflation for the beginning of 2019 is largely expected, but the degree to which inflation will drop will be key for the ECB to determine when to hike. For now, the ECB maintains its forward guidance of a rate hike after the summer of next year, but if economic conditions continue to slow sluggishness, the question is if that will be maintained.

With downside risks likely to remain a key factor for the Eurozone and already some

moderation in the labour market, it could be that the expected core inflation improvements are delayed further, which would make the forward guidance harder to maintain.

Author

Bert Colijn

Chief Economist, Netherlands

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.