

Eurozone: inflation stable in February, but more increases to come

Inflation was stable at 0.9% in February. We expect inflation to temporarily exceed 2% later in the year, but the only worry for the European Central Bank at the moment is higher bond yields, not higher prices



Core inflation dropped from 1.4% to 1.1% in February, which was driven by slowing goods inflation and to a lesser degree by slowing services prices. This is, in part, because of cancelled winter sales in France, which pushed the January reading higher. With the core rate still at 1.1%, after having been as low as 0.3% until December, core inflation is still trending higher.

Headline inflation was stable as energy inflation has been running less negative due to rising oil prices and favourable base effects. The energy inflation rate improved from -4.2% to -1.7% in February and we can expect it to turn positive in the coming months. This adds to other temporary price pressures like input price increases due to supply chain problems and base effects from services categories that reduced prices over the course of the pandemic.

With all the market jitters about an economy running hot in the US, rising eurozone inflation could give a similar impression at face value. Not much more than that though, as temporary factors are

pushing up the rate right now and the economy continues to contract as the second round of lockdowns has been extended well into 1Q. This means that we expect the elevated levels of inflation in 2021 to be largely transitory and that weaker inflation is set to return in 2022.

For anyone in doubt: the ECB is clearly not concerned about being behind the curve at the moment. They will see these inflationary drivers as largely fleeting. The big concern is around the higher bond yields that have been driven by developments in the US. Because of that, we expect the ECB to increase asset purchases and address the rising bond yields at next week's meeting.

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.