

## Eurozone inflation stagnates ahead of ECB September meeting

Inflation in the eurozone did not fall in August, which could tip the ECB in favour of a final 25bp hike at the governing council meeting in two weeks' time. Still, overall inflation dynamics remain relatively benign, and we still expect inflation to trend much lower at the end of the year



The eurozone inflation rate was stable at 5.3% in August, with core inflation also dropping to 5.3% (from 5.5% in July). Headline inflation was slightly higher than expectations due to energy price developments which increased by 3.2% month-on-month. This will fuel concern about inflation remaining more stubborn than anticipated. The overall trend in inflation remains cautiously disinflationary though as developments in goods and services inflation were more or less as expected.

By country, we see that rising prices mainly came from France and Spain, while drops in the Netherlands and Italy kept inflation broadly in check. Energy effects and how they translate to consumer prices – look at rising regulated prices in France – were important drivers of differences this month.

Looking ahead, more declines in inflation are in the making. In Germany, we expect a significant

drop next month as base effects from government support drop from the data. Surveys also point to a sizable disinflationary effect for goods prices, while services inflation is set to fall more slowly thanks to higher wage costs. Indeed, wage growth is still trending above a level consistent with 2% inflation.

For the European Central Bank, these August inflation data were among the most important data points ahead of the governing council meeting in two weeks' time. While inflation remains stubborn enough to make ECB hawks uncomfortable, it does look like a further deceleration in inflation is in the making for the months ahead. Given the ECB mantra over recent months that doing too little is worse than doing too much in terms of hikes, we still expect another 25 basis point rate rise, despite this being a close call.

## Author

### Bert Colijn

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto: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 <http://www.ing.com>.