

## 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.

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