

## Eurozone inflation surges by far more than expected in October

With inflation above 4% and core inflation above 2%, the breeding ground for second round effects on inflation becomes more fertile. Whether it is fertile enough for inflation to turn structural remains to be seen, but the ECB will have to keep a close eye on it.



The inflation rate jumped to 4.1% in October, which ties this century's peak of July 2008. The jump was mainly caused by soaring energy prices on the back of the gas crisis and a steady rise in oil prices, but services inflation also boosted core inflation, from 1.9 to 2.1%.

The energy inflation rate is now a remarkable 23.5% and consumer gas prices have yet to be fully incorporated into these numbers because of contract adjustments not all happening immediately. Still, expectations of falling energy prices over the course of 1H do lead to disinflationary pressures, meaning that sustained energy inflation for the coming quarters is far from a base scenario at the moment.

The core picture is one of steadily increasing goods inflation as businesses price through supply chain price pressures to the consumer. This is set to last for some time as we don't expect the price pressures to abate until well into 2022. The jump in services inflation was more related to base

effects from last year than anything else though, so while an increase from 1.7% to 2.1% looks alarming, the monthly rate of 0% inflation reveals cautious price increases despite the strong reopening in terms of demand.

Christine Lagarde said yesterday that the ECB is confident that their analysis is correct on how temporary inflation is. The market seems far from confident though as rate hike expectations have been coming forward to within a year from now.

The key question for whether that earlier rate hike is justified is when second round effects will come into play. The higher inflation rate will provide more fertile ground for fiercer wage negotiations, which could lead to second round effects on inflation. If this happens quickly enough, the current spell of high inflation may not be as temporary as the ECB suggests. While this is not the base case as wage growth is still very low and has yet to break from a declining trend, it should be watched with caution in the months ahead.

## 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 [www.ing.com](http://www.ing.com).