

## Eurozone inflation surges to ECB target as economies reopen

There it is, inflation moves to 2% and we believe it is set to remain at or above this level for the rest of the year. All eyes now turn to the European Central Bank ahead of the June meeting. However, we do see inflation falling back below 2% in 2022 as most inflationary pressures we identify remain temporary, for now



Everyone saw it coming, but still it is starting to make a lot of people sweat. Inflation is returning rapidly at the moment at a time when news about economies is increasingly upbeat and labour markets are profiting from the reopening. All eyes now turn to the ECB, which is unlikely to put tapering on the table at the June meeting as prominent ECB speakers have in recent weeks come out against premature tightening, and price pressures are expected to remain temporary.

## What to make of an inflation rate at 2%

Energy inflation continues to dominate the increase in prices. Even though the oil price has effectively moved sideways since February, eurozone petrol prices have continued to rise modestly, reaching the highest level since mid-2019 two weeks ago. This, together with base effects, pushed energy inflation up from 10.4% in April to 13.1% in May. With the base effect moderating, we expect the energy impact to be reduced in the months ahead, but that doesn't mean that higher inflation is over.

Goods inflation is set to rise as well – which has hardly happened so far – as supply chain problems, shortages and high capacity utilisation are resulting in price pressures. In May, it increased from 0.4% to 0.7%, which is likely to be the start of a longer rally, as supply side issues are set to last for at least a few more months, and demand for goods continues to come in very strong.

For services, a lot of prices are still imputed as restrictions remain in place in a lot of countries, which makes real price developments harder to read. Reopenings have occurred over the course of May though, but the full inflation impact is probably going to show up in June. German data did reveal yesterday that prices for package holidays increased more significantly in May. We expect more reopening jumps to play into the services inflation data over the months ahead.

## Unemployment declined to 8% in April, boosting recovery prospects

The labour market continues to improve as economies lift restrictions. With furlough schemes still in place across the eurozone, this is resulting in a very low unemployment rate given the GDP shock of last year, and this helps the prospects of a swift economic rebound. With incomes largely retained in the eurozone and savings rates surging over the lockdown periods, consumers stand ready to recover some pent-up demand. That will boost the GDP recovery and add to inflationary pressures, but the big question remains what happens when furlough schemes end. A strong economic recovery will limit delayed layoffs, but we do expect restructurings to occur, causing a more muted labour market recovery once support schemes end.

## Temporary or structurally higher inflation?

With goods and services inflation set to increase more, elevated eurozone inflation is the best bet for the coming months. The discussion about whether this is indeed temporary or structural will be a very prominent debate for the months to come. We expect the recovery to moderate after a few strong months initially and see most goods inflation disruptions fading towards the start of 2022. That means we still expect inflation to come down to about 1.5% in 2022.

### 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>.