

## Eurozone inflation ticks up, but 'core' is stable

The eurozone's inflation rate increased to 2.3% in November, with 'core' stable at 2.7%. Some upward pressure on prices is likely to remain in December, but weak eurozone demand will be a key driver for softer inflation next year



Shoppers in Italy

We expected November's data to show an increase in headline inflation because of base effects, but some upward pressure from input prices is starting to become more pressing. Commodity prices, such as food and natural gas, have been on the rise again, which is starting to impact headline inflation, although that impact is fairly modest so far. The substantial weakening of the euro against the dollar adds to this modest upward pressure on inflation at the moment.

At the same time, economic activity continues to show signs of weakness. And while wage growth has come in hotter than expected in the third quarter, this is likely more of a 'last hurrah' than an accelerating trend. The labour market is softening and we expect that to come with moderating wage growth over the course of next year. With demand expected to remain weak, it doesn't look like the ECB should be overly concerned about the current uptick in inflation. While December is likely to come in high again when it comes to headline inflation, moderation can be expected for early next year.

Core inflation remains high and has been stuck at 2.7% for three months in a row. Some easing can be expected in the coming months, mainly from easing services inflation. Services inflation fell slightly in November, from 4 to 3.9%, while goods inflation ticked up from 0.5 to 0.7%. Expectations for continued weak demand should help core inflation trend down in the months ahead.

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