Eurozone inflation ticks down but pipeline pressures remain

Headline inflation moved lower on energy prices in June, but goods and services inflation are set to trend higher. This will push inflation back above 2% for the rest of the year

Headline inflation is at 1.9% and for a brief moment in time, the European Central Bank has achieved its goal. I know, I know, it's just under 2% for the medium term, but you just hope they can enjoy this moment in Frankfurt in otherwise turbulent times.

Energy inflation is coming off its peak as expected, as the more extreme declines from 2020 fade out of the comparison. In June, energy inflation dropped from 13.1% to 12.5%. Over the rest of the year, expect energy inflation to decline further if we don't see a more pronounced increase in the oil price again. In fact, the Spanish decision to decrease VAT on electricity will push down energy inflation more than initially expected for the second half of the year, which will push headline inflation down a tad from our previous expectations.

Core inflation is set to take off from here though. The June decline from 1 to 0.9% was mainly due to declining services inflation which was in part influenced by the timing of the Pentecost holiday. Preliminary German data suggests that a decline in package holiday prices impacted service sector prices. The German VAT reversal will come into the numbers next month though. Moreover, once reopening effects are better reflected in the data and as base effects from last year start to play into the numbers, services inflation is set to increase for the rest of the year.

Goods inflation is already taking off. It jumped from 0.4% in April to 1.2% in June, which is in line with our expectations of producers pricing through higher input costs to consumers. Surveys have been showing this for a while already and we expect that the coming months will continue to see increases in goods inflation.

Overall, the small decrease in June headline inflation is not so relevant. What's more important is the imminent surge in goods and services inflation. For now, most of the evidence points to this being largely temporary, but upside risks to the inflation outlook haven't been this substantial in years and should keep the ECB on the edge of its seat. Let them enjoy this 1.9% for a brief moment, these are tense times in central banking.

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