Eurozone inflation ticks up but not much to like here for the ECB

Headline inflation came in at 1.4% and core inflation at just 1%, while the labour market continues to thrive with unemployment down to 8.5%, there's not much here to like for the ECB

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As usual, the timing of Easter has a somewhat distorting effect on core inflation figures. With package holidays more expensive around Easter, core figures tend to push slightly higher.

German regional data suggest that this is indeed the case this month, but core inflation still failed to pick up. Lower inflation undid a slight pickup in services inflation from 1.3 to 1.5% for industrial goods. The increase in headline inflation from 1.1% to 1.4% was mainly due to the bounce back of food prices, which dropped significantly in February.In the months ahead, we still expect a weak upward trend in core inflation although our expectations have come down.

Labour market conditions continue to tighten with lower unemployment and higher vacancy rates. Unemployment was at 8.5% in February, which is the lowest rate in nine years. Still, with wage growth not showing a meaningful increase, the transmission to price pressures is taking even longer than we were expecting. Selling price expectations have increased significantly over the past year though and as this is a fairly good leading indicator of inflation, a snail-pace improvement in core inflation is to be expected over the coming year.

> Nothing in this release seems to justify a more hawkish ECB.
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> This is in line with recent communication as even the more hawkish governing council members like Knot and Weidmann have struck dovish tones recently, expressing comfort with a first rate hike mid-2019.
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> A decision about QE is the next big thing to focus on, and with inflation like this, another extension seems to be in the making.

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