

Snap | 4 April 2018

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



Source: Shutterstock

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.

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.

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.

Author

Bert Colijn

Chief Economist, Netherlands

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>.