

## Eurozone inflation up to 2.2% but don't let the increase fool you

Both headline and core inflation increased in October, but underlying inflation is still moving at a slow pace. With economic conditions weakening in the eurozone, worries about the ECB being behind the curve are far-fetched



Headline inflation increased to 2.2% in October from 2.1% last month. The increase was mainly driven by stronger energy price growth, which jumped to 10.6% on the back of higher average oil prices on the month and the weaker euro. Core inflation rebounded stronger than expected, up to 1.1% from 0.9%, partly due to an increase in package holiday prices.

The increase in underlying inflation seems to have been rather small. The labour market is creating more wage pressures, but the pickup in wage growth remains modest for the moment. Unemployment actually increased a little bit in September and the unemployment rate has been stable at 8.1% since July. This could reflect some of the business uncertainty about the outlook, slowing the process of increasing wage pressure.

Even though inflation is now a little above target, the ECB will not be thinking about earlier rate hikes. In fact, worries about deteriorating economic conditions are likely to become a larger

concern in Frankfurt.

Mario Draghi brushed off weaker economic data as still being in line with broad-based economic expansion at the latest press conference. It looks like the ECB needs some more positive news to maintain that position ahead of the December meeting. Still, the ECB seems rather determined to end QE in December, but the path towards rate normalisation for 2019 will be much debated as uncertainty about the outlook has increased.

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