

Snap | 3 May 2019

Eurozone inflation: What goes down must come up...surely!

Easter and oil effects have pushed up inflation to 1.7% in April, but don't get thrown off by this jump in price growth; the trend is still downwards. In May, Easter effects will probably bring core inflation down considerably



Source: Shutterstock

Inflation data usually bounces around this time of the year, as the timing of Easter influences holiday related price growth. This year is no different as March saw a drop in core inflation from 1 to 0.8% and it went up to 1.2% in April. The differences in services inflation, which include package holidays were even more pronounced as they jumped from 1.1 to 1.9% in April. Core inflation improvements are likely to reverse again next month as Easter effects fade out.

With business confidence continuing to be weak, the underlying story remains one of higher wage growth taken into margins as businesses remain too uncertain about the future of price increases. In April, we again saw selling price expectations drop for the months ahead, indicating that core inflation environment remains soft for now as business confidence hasn't picked up yet.

The recent rise in oil prices is pushing up inflation now, but base effects from energy prices are still

going to push inflation down over the coming months with headline inflation moving further away from the ECB's target until the end of 2020.

The ECB is unlikely to bat an eyelid towards March and April fluctuations, but may still be confused by the recent signals about growth and inflation. The Q1 growth figures were surprisingly strong, but recent surveys indicate new orders continue to come in weak.

With selling price expectations falling, the ECB won't be too optimistic in how the pick up in growth in Q1 will translate into price growth, but will eagerly wait for more evidence ahead of the June meeting.

Author

Bert Colijn

Senior Economist, Eurozone

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>.