

## 3.4% eurozone inflation puts more heat on the ECB

With yet another surge in headline inflation, the heat is on for the European Central Bank's December discussion on whether a pure recalibration of asset purchases is enough or whether a more significant rewinding would be better



ECB President, Christine Lagarde, has more inflation dilemmas to worry about

Eurozone inflation just came in at 3.4% year-on-year in September, from 3.0% in August. A 13-year-high. Core inflation accelerated to 1.9%, from 1.6% in August.

The surge in headline inflation is still mainly driven by so-called one-off factors such as higher energy prices, the German VAT reversal or price mark-ups post-lockdown in the leisure and hospitality services. However, higher inflation has been spreading across the entire economy, with almost half of the major 100 components in the consumer price basket recording inflation rates of above 2%.

### **Inflation prospects gradually moving from 'transitory' to 'more persistent'**

Today's inflation surge will do very little to bridge the gap between the two inflation camps, the

'transitory' and the 'more persistent' camps. While the recent rise in energy prices and the prospect of supply chain frictions lasting far into 2022 are giving the 'transitory' camp a hard time, slack in the labour market and some base effects disappearing next year still undermine the 'more persistent' view.

---

### *We see two kinds of second-round effects materialising*

---

In our view, some one-off factors should indeed fade away next year but inflation could turn out to be stickier than the 'transitory' camp currently assumes. In fact, we see two kinds of second-round effects materialising, keeping inflation higher than expected next year.

The first is the pass-through from higher producer prices to consumer prices. In the past, producers absorbed higher costs by squeezing profit margins. This time around, they seem to be willing to pass on higher costs to consumers as illustrated by the fact that selling price expectations in both the manufacturing and services sector are currently at or are close to record highs. The second pass-through channel will be wages. The mismatch in the labour market between the lack of skilled workers and still high unemployment rates as well as a re-regionalisation of production as a result of supply chain frictions could give rise to higher wages.

## **ECB still behind the curve with its inflation forecasts**

Admittedly, monetary policy can hardly bring down inflation driven mainly by one-off factors. However, constantly higher inflation rates and a high risk that the ECB has actually entered a period in which its longer-term inflation forecasts frequently turn out to be too low, compared with too high in the years prior to the pandemic, will put more pressure on how much monetary accommodation the eurozone economy really needs. With today's inflation data, the ECB's own forecasts have once again been too low. The September staff projections had headline inflation at 2.7%, it now comes in at 2.9%.

This week's speech by ECB president Christine Lagarde already signalled a changed stance on inflation compared with a few months ago; a shift from a very benign assessment to one of more alertness and awareness that inflationary pressure might be less short-lived than initially thought. This marks already some convergence between doves and hawks at the ECB but we still expect a heated debate at the December meeting. Recent and future inflation developments are still no reason at all to discuss policy rate hikes but definitely a reason to discuss a (more significant) reduction of the asset purchases and not just a recalibration.

### **Author**

#### **Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

## 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 [www.ing.com](http://www.ing.com).