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Snap

Inflation continues to be the lagging element in Eurozone recovery

Pipeline price pressures seem to be increasing, but eurozone inflation only increased to 1.5% in November and core inflation didn't bounce back

1.5%

Eurozone inflation
November

November's higher inflation figure was mostly due to energy prices. The oil price, which increased from $45 per barrel at the end of June to around $63 per barrel now, has countered negative energy price effects that were expected earlier. This caused the energy price index to increase by 4.7% YoY in November, up from 3% in October. Current oil market developments, such as the expected extension of production cuts at the OPEC meetings today, could further subdue the negative impact on headline inflation from energy prices.

With headline inflation improving, concerns remain around core inflation. Last month's drop to 0.9% was caused not just by one-off declines in certain categories, but by a decline in price growth among quite a few categories. Continued weakness was, therefore, to be expected, but a complete lack of recovery is surprising.

The question is now when core inflation will finally start to see meaningful improvements? Pipeline inflation pressures have been steadily increasing, with input prices edging higher and businesses indicating that selling price expectations are higher than a few months ago. The continued improvements in the unemployment rate should start to impact wage growth at some point as well.

Even though there is still quite some slack in the Eurozone labour market, today's release of the unemployment rate for October provides encouragement. The drop to 8.8% indicates that the pace of job market recovery remains fast, which should have a positive effect on wage growth in 2018. Still, with broader definitions of unemployment still elevated, a swift pickup in wage growth seems to be wishful thinking for the moment.

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