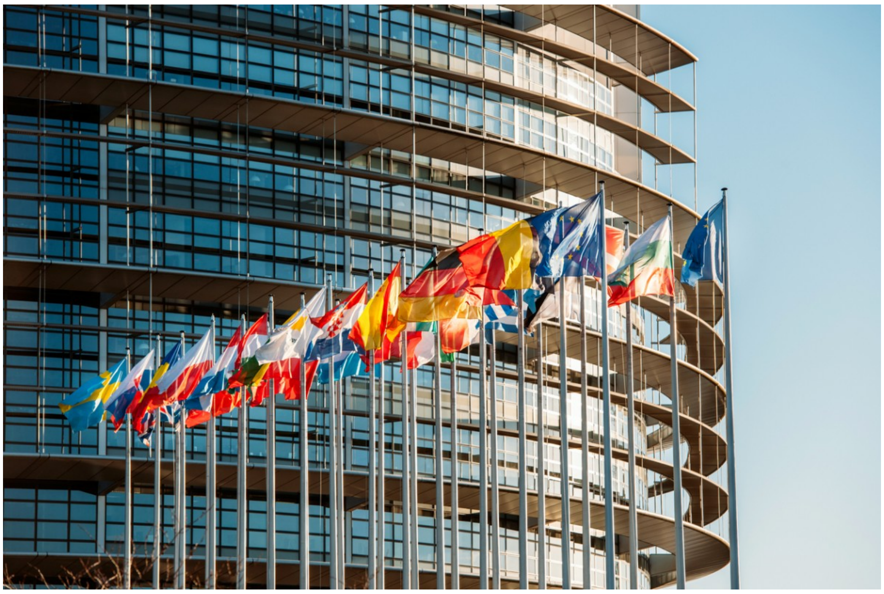
The Euroboom is everywhere but in the inflation rate

Eurozone inflation drops to 1.4% in December, and core inflation ends 2017 where it started, at 0.9%. The economic acceleration is still not translating into accelerating inflation



Source: iStock

Core inflation is stuck below 1% for the third month in a row and has barely moved over 2017. Energy prices are largely to blame for the drop in the headline rate to 1.4%. The recent surge in oil prices at the start of the year have not had a large impact on December inflation yet. In fact, energy price growth dropped significantly as fuel price growth came to a halt at the end of last year. With petrol prices now below the levels seen in early 2017, the base effect of energy price growth becomes more of a drag on the inflation rate. The current oil price surge will therefore not translate one for one to a higher inflation rate but will cause headline inflation expectations to improve if it persists.

Can the Goldilocks economy be maintained and can the porridge stay at just the right temperature for yet another year in the Eurozone? While there are increasing signs of pipeline inflation pressures, wage growth continues to disappoint. Despite increasing signs of labour shortages, wage growth fell in the third quarter. Still, the number of businesses indicating labour as a factor limiting production reached an all-time high recently, so expectations are that wage growth will start to pick up more meaningfully this year. This is likely to lift core inflation somewhat, but we don't expect it to increase much above 1.5%.

> Therefore, the ECB is unlikely to change course early in the year, even if economic data continues to surprise on the upside. So despite an economy that is picking up, Goldilocks is unlikely to burn her tongue on the porridge just yet.

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