

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.

Author

Bert Colijn

Chief Economist, Netherlands

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>.