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EUROZONE INFLATION LOWER, UNDERLYING PRICE PRESSURES SLOWLY BUILDING

Berenberg Macro Flash

Eurozone inflation, June, in %

	Headline	Core
Actual:	1.3	1.1
Previous:	1.4	0.9
Consensus:	1.2	1.0
Berenberg:	1.2	1.0

Headline and core inflation converging: Eurozone inflation decelerated further in June amid lower energy prices. Consumer prices rose by 1.3% in June versus the previous year, after increasing 1.4% yoy in May (see chart 1). Oil prices have fallen throughout most of June. That weighed on overall inflation. Higher inflation from services and non-energy industrial goods, however, partially offset the fall in oil prices – they contributed proportionally more than before to the headline rate (see chart 2). Those two components make up core inflation, which, contrary to headline, increased from 0.9% to 1.1%, surprising slightly on the upside. One-off elements such as package holidays in Germany may have pushed the rate beyond the 1.0% expected by us and others.

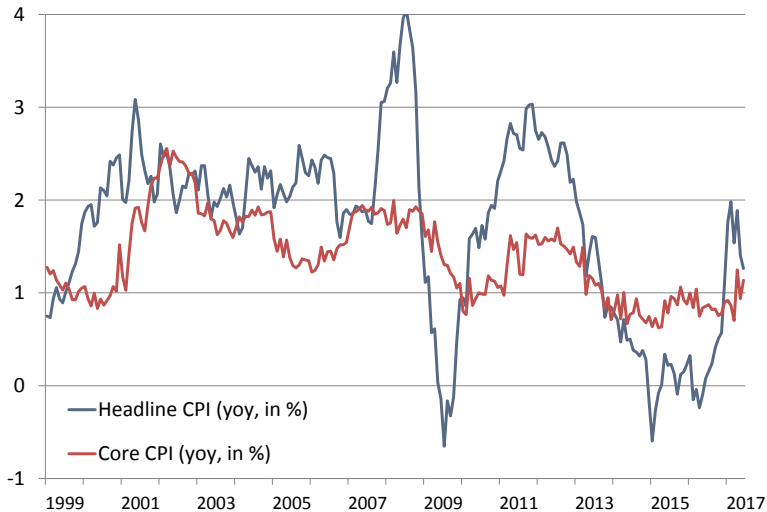
Gradual upward trend in underlying inflation: In the coming months, temporary factors will continue to weigh on headline inflation unless oil prices rebound or the Euro softens. The rise in core inflation likely signals the start of a gradual upward trend in underlying price pressures. Also, since wages account for around 50% of the input costs in services, we may have seen a very first blink of wage growth acceleration.

ECB will (continue to) exit at a snail's pace: In a speech on Tuesday this week ECB president Draghi stressed that “reflationary dynamics [were] slowly taking hold”. The market took it hawkish. But what Draghi was saying was nothing new. An updrift in price pressures is part of the ECB projections. And today's reading of headline and core inflation does not provide the ECB with any reason to change those projections. We, therefore, continue to expect the ECB to withdraw its considerable monetary accommodation at a snail's pace and in baby steps. That means announcing in September that they will taper from January 2018 onwards, with the first rate hike before Draghi leaves in October 2019. For more details on the ECB, its next steps and the market reaction this week, see our comment [A hawkish ECB? Not really.](#)



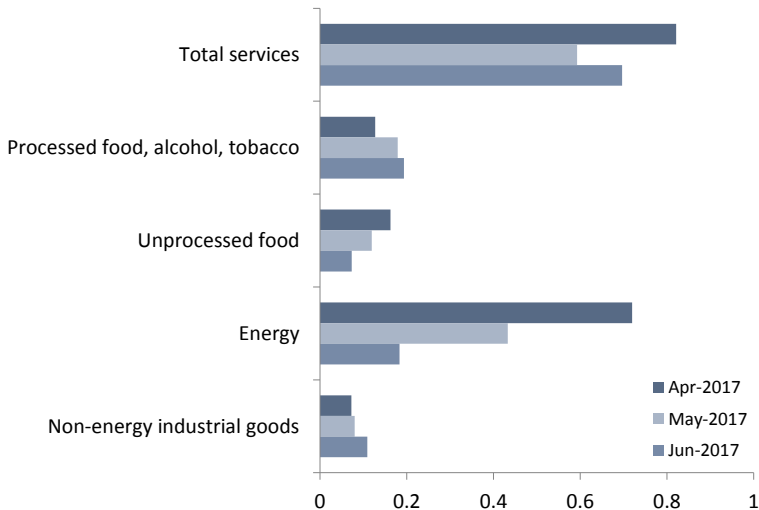
MACRO NEWS

Chart 1: Headline CPI versus core inflation (yoy, in %)



Source: Eurostat

Chart 2: Contribution to headline CPI by component (yoy, in %)



Source: Eurostat

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