



**BERENBERG**

PARTNERSHIP SINCE 1590

## MACRO NEWS

01/04/19

Florian Hense, Economist | [florian.hense@berenberg.com](mailto:florian.hense@berenberg.com) | +44 20 3207 7859

### EUROZONE INFLATION DIP ADDS TO ECB HEADACHE

#### Berenberg Macro Flash

##### Eurozone inflation, March, in %, yoy

	Headline	Core
<b>Actual:</b>	<b>1.4</b>	<b>0.8</b>
Previous:	1.5	1.0
Consensus:	1.5	0.9
Berenberg	1.5	1.0

**Waiting for Godot?** Judging by the weak March inflation print it is a stretch to argue that the convergence of inflation towards the 2% target is “delayed rather than derailed” – as ECB President Mario Draghi has put it recently. Watching the monthly inflation figures feels more like waiting for something which is not going to come. Still, there are reasons to think that inflation is not Godot and (its pick-up) will come eventually. While headline inflation dipped in March, we note that base effects likely distorted the March inflation to the downside.

**Lower inflation across all components except energy:** Headline inflation fell from 1.5% yoy to 1.4% in March according to a first Eurostat estimate (see Chart 1). A jump in oil prices by 9.4% yoy and by 4.3% mom drove the energy component higher (from 3.6% yoy in February to 5.3% in March, see Chart 2). But the push was more than offset by weaker inflationary pressures across the remaining components. Food prices fell from 2.3% yoy to 1.8%. Lower duties for alcohol and tobacco in France may have been partly to blame. Also, the core components softened and drove core inflation from 1.0% yoy to 0.8%. Non-energy industrial goods inflation was down from 0.4% yoy to 0.2% and services inflation fell from 1.4% yoy to 1.1%, the weakest rate since April 2018. A later Easter this year than in 2018 (21 April vs. 1 April) meant less spending than usual on expensive package holidays – as suggested by last week’s German data. The Easter base effect likely weighed on both headline and core inflation in March. Conversely, in April it may distort the number slightly to the upside.

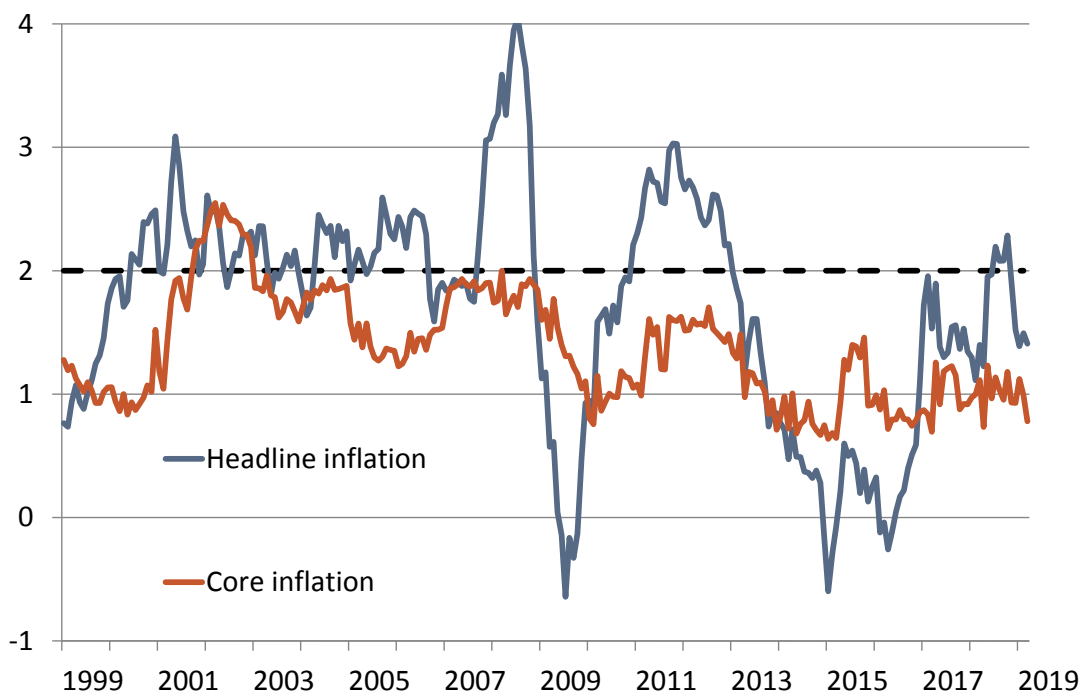
**Underlying prices pressures at odds with wage growth:** Despite the short-term base effect driven volatility, the weak services price pressures are counterintuitive. Wage growth has been picking up for a while. Compensation per employee is growing by 2.2% yoy (see Chart 3). And that is not just for one-off payments (bonus, overtime etc.). Negotiated wages are also up by 2.2% yoy. The labour market has remained robust despite the slowdown in the rate of real GDP growth – employment growth has slowed down only mildly from 1.6% yoy in Q2 2018 to 1.3% in Q4. Unemployment stood at 7.8% in February, the lowest level since September 2008. Going forward, a solid labour market should support wage gains.



## MACRO NEWS

**Weak pass-through from wages to prices:** There are a number of reasons why stronger wage gains are not yet translating into higher price inflation. After a long period of low inflation, businesses are wary to increase prices amid fears it could result in a loss of market share. The wariness is particularly pronounced in times of soft demand. Another reason could be that the impact from a strengthening euro from mid 2017 to mid 2018 which drives imported inflation lower has come with a longer-than-normal lag. Unlike core inflation, the growth rate of the GDP price deflator, a better gauge for domestically generated inflation, has accelerated from 0.6% in Q4 2016 to 1.5% in Q4 2018 (see Chart 4). In sum, if and when Eurozone growth returns to trend throughout the second half of 2019, price pressures could build again

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

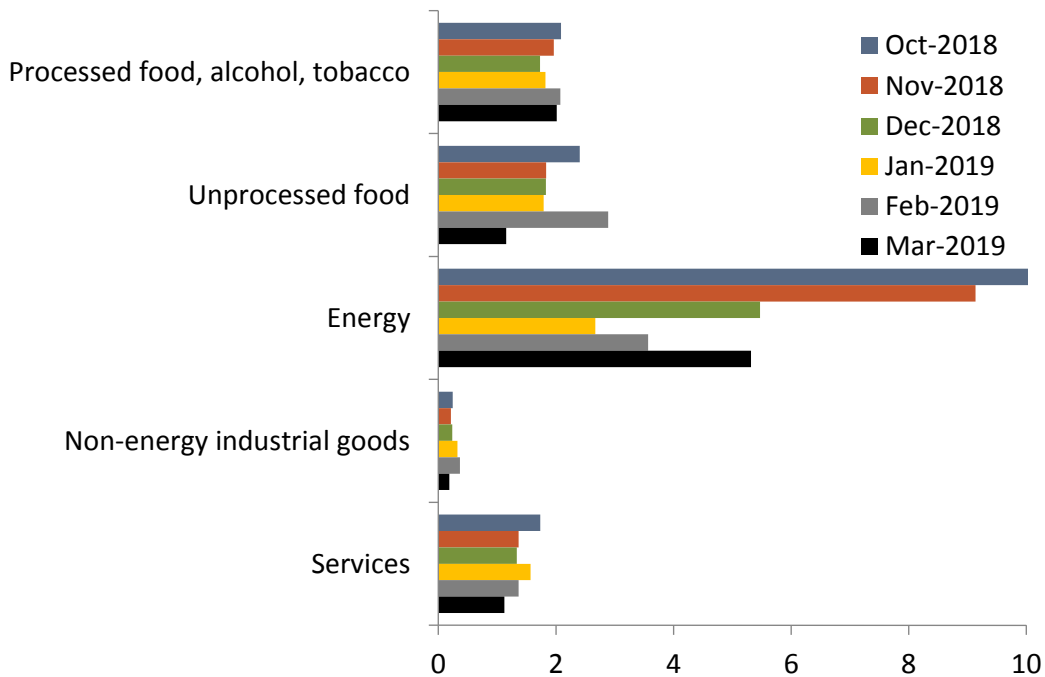


Sources: Eurostat, Berenberg calculations



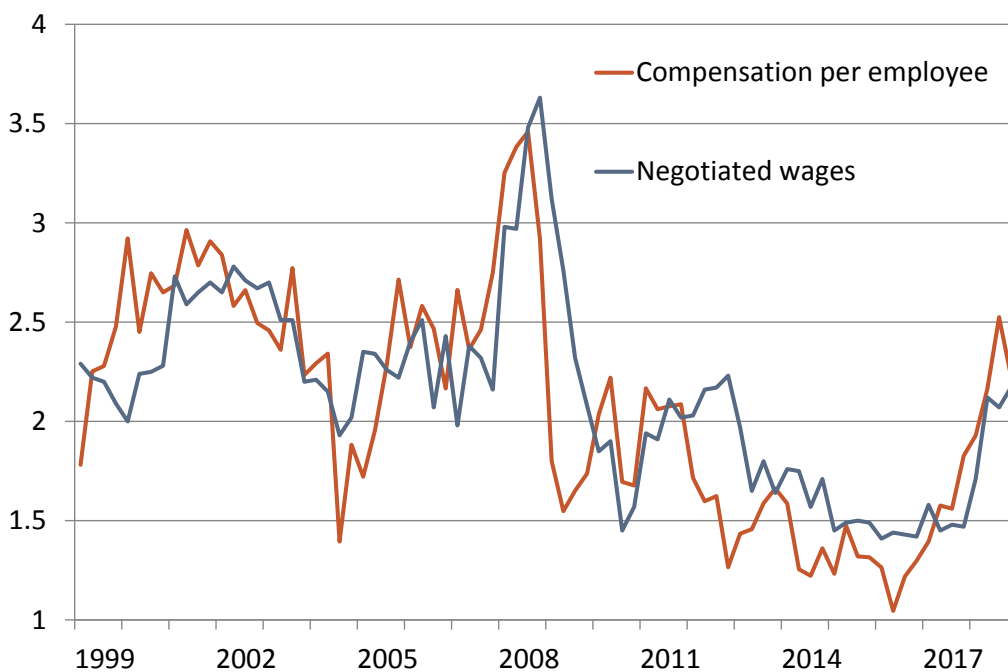
## MACRO NEWS

Chart 2: Inflation by component (yoy, in %)



Source: Eurostat

Chart 3: Compensation and wage growth (yoy, in %)

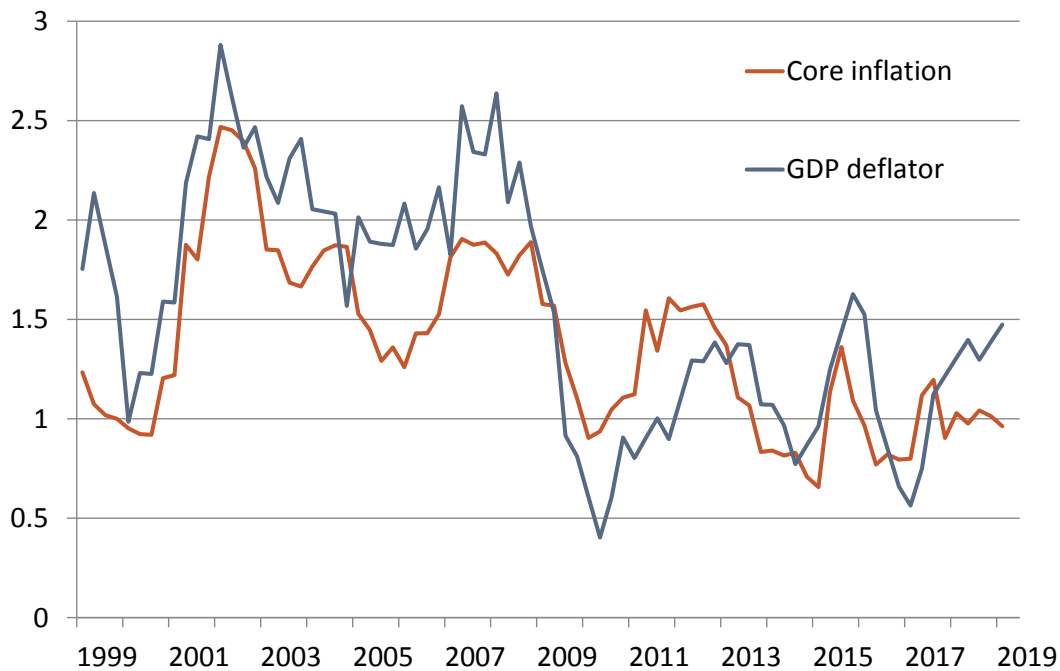


Source: ECB



## MACRO NEWS

Chart 4: Core inflation versus GDP price deflator (yoy, in %)



Sources: Eurostat

This message has been produced for information purposes for institutional investors or market professionals, it is not a financial analysis within the meaning of § 34b or § 31 of the German Securities Trading Act (Wertpapierhandelsgesetz), no investment advice or recommendation to buy financial instruments. The message does not claim completeness regarding the information on the developments referred to in it. On no account should it be regarded as a substitute for the recipient's procuring information for himself or exercising his own judgements. The message may include certain descriptions, statements, estimates, and conclusions underlining potential development based on assumptions, which may turn out to be incorrect. Berenberg and/or its employees accept no liability whatsoever for any direct or consequential loss or damages of any kind arising out of the use of this message or any part of its content. -- For full economics reports please visit our website or contact [capitalmarkets@berenberg.de](mailto:capitalmarkets@berenberg.de).

Joh. Berenberg, Gossler & Co. KG  
60 Threadneedle Street  
London EC2R 8HP  
Phone +44 20 3207 7859  
[www.berenberg.com](http://www.berenberg.com)  
[florian.hense@berenberg.com](mailto:florian.hense@berenberg.com)