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EUROZONE INFLATION RISES ON BACK OF ENERGY PRICES

Berenberg Macro Flash

Eurozone inflation, December, in %, yoy

	Headline	Core
Actual:	1.3	1.3
Previous:	1.0	1.3
Consensus:	1.3	1.3
Berenberg	1.3	1.2

Broad-based uptick in prices at the end of 2019: Bolstered by gains in energy prices – which had dragged in previous months – headline inflation rose to 1.3% (1.34%) in December after 1% (0.96%) in November. If, due to increased geopolitical tensions in the Middle east, the current oil price of \$68 per barrel of Brent crude persists throughout January (implying c17% yoy gains and 4.7% mom), headline inflation could rise to 1.5-1.6% yoy in January. Thereafter, headline inflation will likely fall, before rising again from May onwards.

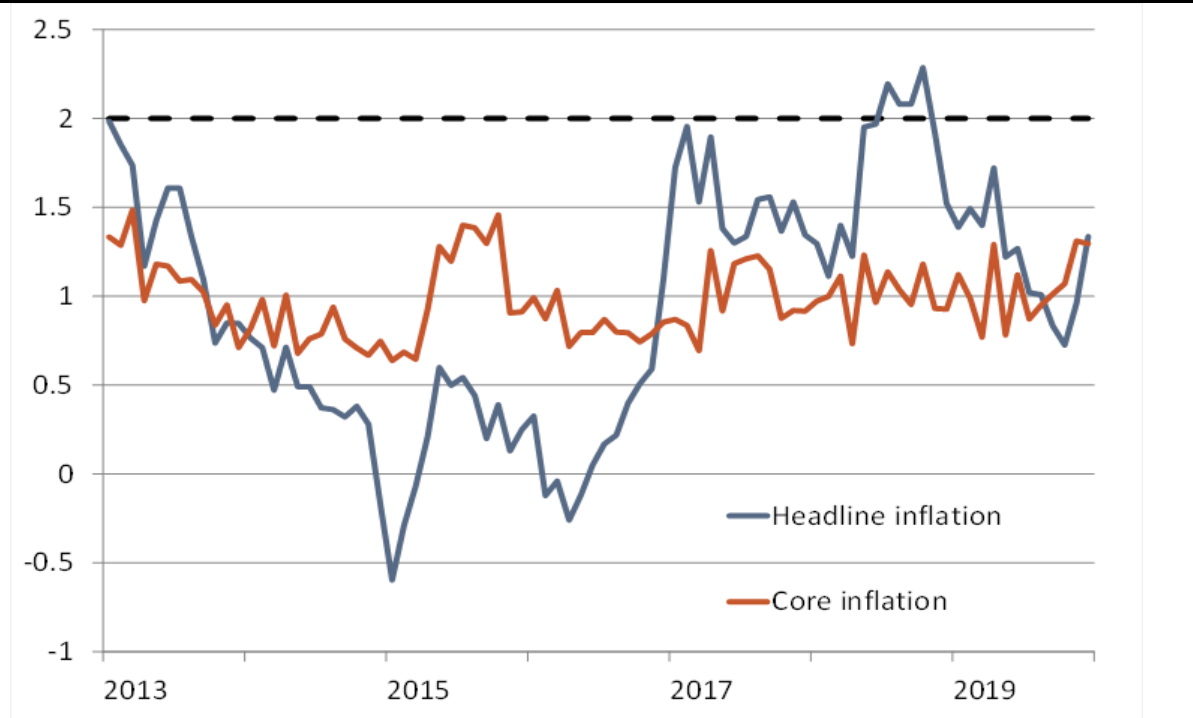
Despite the expected uptick in the headline rate, energy price gains contributed less than expected to the rise in CPI in December. Other categories added more to inflation than we had estimated. Energy inflation was only up by 0.2% yoy in December versus an increase in the price for a barrel of Brent crude in Euros of 16% yoy and 3.4% mom. But this was still up from November's fall in energy inflation of 3.2%. Plus, energy inflation shares a closer link with pump prices than oil prices, and pump prices rose by less than 2% yoy in December. Processed and unprocessed food also contributed to higher headline inflation, with prices for such items rising from 1.97% to 2.05% and from 1.82% to 2.12%, respectively.

Stable underlying inflation: Core inflation, which strips out the volatile energy and food components from headline inflation and includes NEIGs and services inflation, was unchanged at 1.3% in December. Prices for non-energy industrial goods (NEIGs) provided a boost after rising from 0.37% to 0.45% – the highest since January 2018 when trade tensions started to emerge. If global trade and manufacturing rebound over the course of 2020, as [we expect](#), NEIG inflation could continue to edge higher. Offsetting the stronger price gains in NEIGs and, thereby, keeping core inflation flat, services inflation fell from 1.85% in November to 1.8% in December. A special statistical effect stemming from German package holidays had distorted the Eurozone inflation readings over the past couple of months. After dragging the inflation rate lower from July until October, in November the special statistical effect pushed inflation higher. December provides a cleaner picture of services inflation.



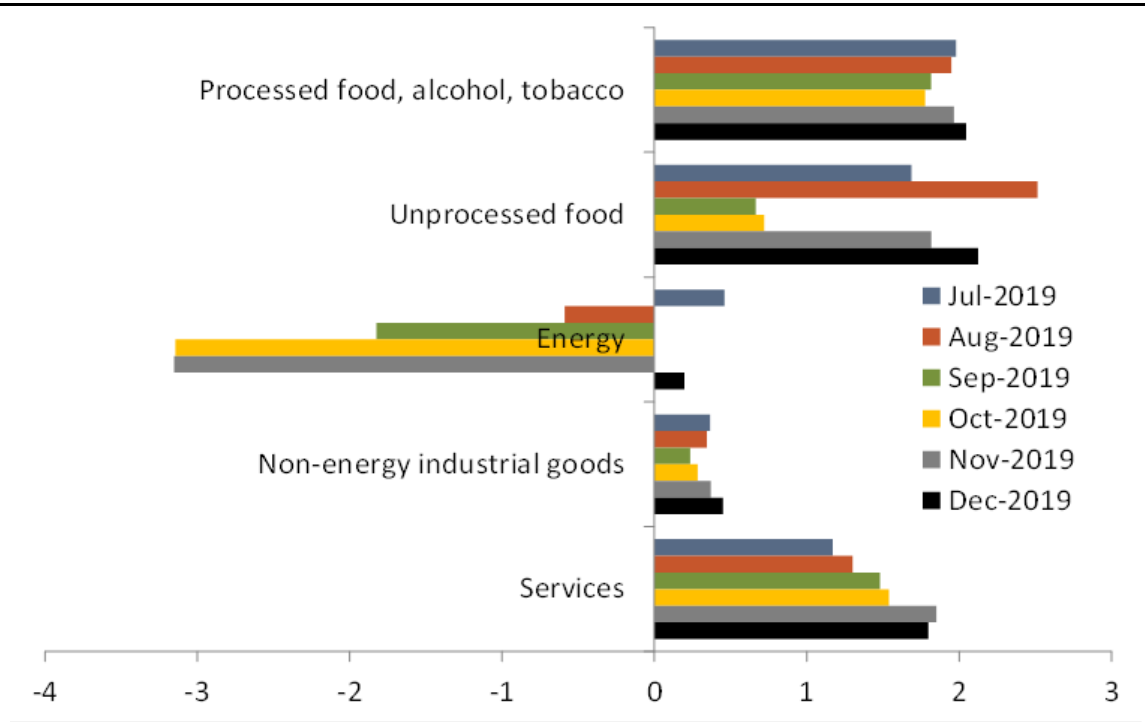
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Chart 1: Headline and core inflation (yoy, in %)



Sources: Eurostat, Berenberg calculations

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



Source: Eurostat



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