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## LOW EUROZONE INFLATION REMAINS SOURCE OF CONCERN FOR ECB

### Berenberg Macro Flash

Eurozone inflation yoy (%), August

	CPI	Core CPI
<b>Actual:</b>	<b>0.2</b>	<b>0.8</b>
Previous:	0.2	0.9
Consensus:	0.3	0.9
Berenberg:	0.3	0.9

Underlying price pressures in the Eurozone continue to lack a convincing upward trend. Eurozone inflation disappointed in August falling short of an expected acceleration.

Headline inflation remained unchanged at 0.2% yoy in August, below expectations of 0.3%. Core inflation, an indicator of underlying price increases that excludes the most volatile components of the headline inflation (energy, food, alcohol and tobacco), slipped to 0.8%, from 0.9% in July and vs. expectations of 0.9%.

Looking at the components of inflation, energy (-5.7% yoy) weighed on overall inflation, whereas food, alcohol, tobacco (1.3%), services (1.1%) and non-energy industrial goods (0.3%) pushed overall price increases. Compared to the average yoy contribution of the various components to inflation from January to July 2016, there was less drag from energy, while also less support from unprocessed food (see chart). Price dynamics of services and especially industrial goods slowed recently (August vs. first seven months of the year).

All in all, August, just like the first seven months, does not provide much evidence for a material shift in price dynamics (with the exception of the receding deflationary pressure of energy prices, of course). This remains an ongoing source of concern for the ECB. But whether today's numbers cause headache to the central bankers in Frankfurt remains to be seen. Whereas market-based gauges remained close to record lows, survey-based indicators had shown more resilience.

Next week's Governing Council meeting (8 September) will unlikely bring big news. Draghi will continue to stress that the ECB keeps all options open. There is some chance that the ECB will already announce an extension of asset purchases beyond the end of March 2017, but that is more likely to come in December when the ECB knows more about the Brexit impact and political risks in the US and Europe. On a technical level, the ECB may announce small adjustments to the list of eligible bonds for the ECB'S asset purchase programme ("QE") without breaking much new ground (no extension to bank bonds).

We expect a gradual rise of inflation in the second half of H2 as the late 2015 oil price plunge drops out of the yoy numbers. Still-high unemployment in the Eurozone (published today with the July number unchanged at 10.1%) will keep core inflation subdued. Unemployment in Germany (4.2% in July after 4.3% in June), Italy (11.4% after 11.6%) and Spain (19.6% after 19.9%) dropped. In France, the rate rose from 10.1% to 10.3%.

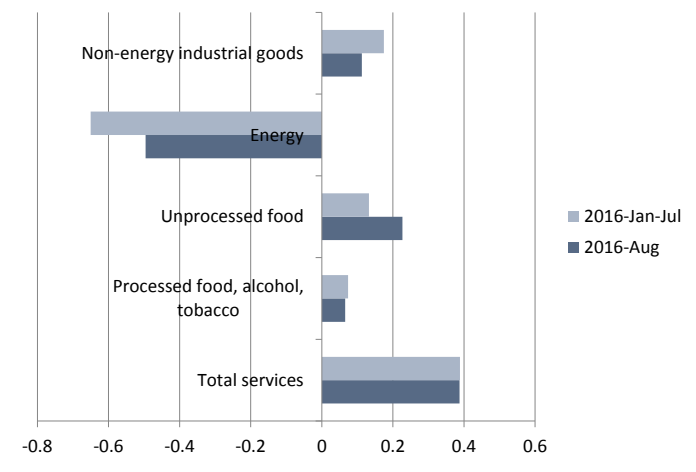


## MACRO NEWS

### Eurozone inflation

yoy (%)	AUG	JUL	JUN	MAY	APR	MAR
CPI	0.2	0.2	0.1	-0.1	-0.2	0.0
Core CPI	0.8	0.9	0.9	0.8	0.7	1.0

### Contribution to CPI yoy by components, %



Source: Eurostat.

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