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## EUROZONE INFLATION INERTIA POINTS TO QE EXTENSION

### 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:	0.2	0.8
Berenberg:	0.2	0.8

Eurozone headline inflation remains well below the ECB's target of 'close to but below 2.0%'. While the headline rate should increase over the medium-term, to gradually converge with core inflation, both headline and core inflation will likely still be subdued by the end of the year. We, therefore, expect the ECB in December to announce an extension of its current asset purchase programme.

Consumer prices increased by 0.2% yoy in August, unchanged compared to July (index levels show a small pick up in August, see chart). However, the sub-components show some early signs that the expected convergence between the headline and core series is starting to take place, driven by the receding deflationary pressure of energy prices and unprocessed food.

Concerning is the subdued rate of core inflation (see chart). Core inflation excludes volatile prices for goods such as auto fuel and food. This gauge even slipped in August to 0.8%, after 0.9% in July, as price pressures in the service sector softened from 1.2% in July to 1.1% in August. Domestically generated price pressures remain weak across the Eurozone. The still-high unemployment rate continues to be a drag with wage growth slowing recently – the slack in the economy looks to be bigger and to persist longer than expected. The inertia of core inflation throughout this year, with no real shift in underlying inflation dynamics, remains a source of concern for the ECB.

While we expect overall inflation to pick up for the remainder of this year (0.3% in Q3 and 0.6% in Q4), we expect only a limited knock-on effect on core inflation. As core inflation is the gauge the ECB watches much closer, the central bankers in Frankfurt are more likely than not to add 3-6 months to their current QE programme, at either the current monthly pace of € 80bn or at a gradually tapered pace.

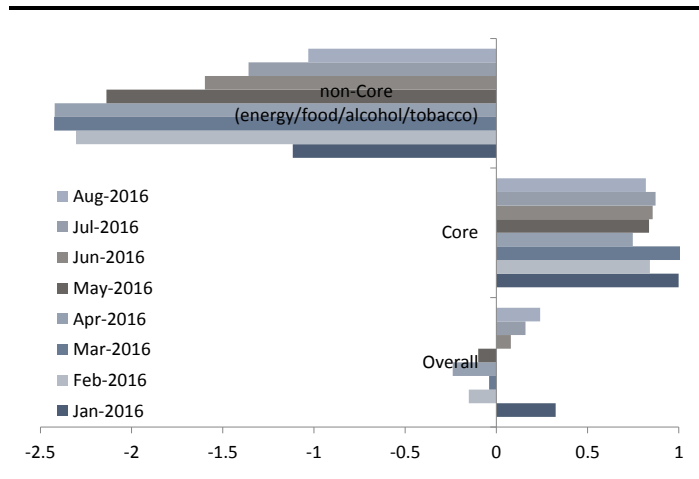
Eurozone inflation

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



## MACRO NEWS

### CPI yoy by components, %



Source: Eurostat.

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