

Eurozone inflation hits 3 year high; 4%+ by year-end

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Eurozone inflation jumped to a three year high of 3.8% y/y in September, up 0.6pp from the 3.2% reading in August. This was a bigger rise than both we (3.6%) and consensus (3.7%) had expected. Energy was by far the biggest contributor, jumping to 18.8% y/y from 14.3% in August. We do not yet have the full details but the rise in energy was likely driven largely by petrol and diesel prices, as well as the more gradual pass-through of higher gas and electricity prices to household energy bills. While we had expected a big jump in energy, the rise was even bigger than our expectations and indications suggest this was driven by earlier pass-through to heating oil from the very elevated wholesale diesel prices at present.

Core inflation meanwhile was much better behaved, picking up 0.1pp to 2.5%, in line with our and consensus expectations. Services inflation edged slightly higher to 3.2%, likely mostly driven by rising airfares and package holiday prices according to the individual country releases. In other words, the pickup in services inflation looks still to be confined to energy-related services rather than reflecting a broadening in inflationary pressure, which is consistent with benign wage growth. Goods inflation actually moved back slightly, though we think this is unlikely to last given the building pressures from higher energy prices as well as electronics-related goods, prices of which are being pushed higher by the ongoing AI boom (see also Theme 1 here).

We expect inflation to continue to move higher over the coming months, although the biggest of the rises is probably behind us with today's release. Our base case assumes energy prices stay elevated well into 2027, and the broadening pass-through from energy to other categories is expected to push inflation to a peak of a little over 4% by the turn of the year. The still-rising inflation trajectory alongside the continued diplomatic failure to fully resolve the energy supply crunch is likely to keep the ECB's Governing Council hiking rates over the coming months. We expect two additional rate hikes by the ECB, ultimately taking the deposit rate to 3%. (Bill Diviney & Adrian Quinn)

The Netherlands: Inflation edges up

The flash CPI for the Netherlands rose marginally to 3.4% in September, up from 3.3% in August. The increase was largely driven by higher energy prices, particularly the recent rise in fuel prices (diesel and petrol). So far, the impact on household energy bills has remained limited, as many households benefit from fixed-rate energy contracts. Moreover, while energy contract prices are higher than they were before the conflict with Iran, contracted electricity prices are less substantially above levels seen one or two years ago. As a result, the pass-through to households is likely to be more muted than in 2022, when tariffs for new energy contracts increased much more sharply.

Industrial goods inflation also edged higher. Energy price increases typically become visible in this component first, although the AI boom is also contributing to upward price pressures; for instance for computers. By contrast, food inflation has eased and is currently exerting downward pressure on the headline inflation rate. Looking ahead, we expect food inflation to pick up again, reflecting renewed energy-related cost pressures and weather conditions, such as heat and drought, which affect

agricultural commodity prices. At the same time, several mitigating factors remain in place: many firms continue to be protected by existing energy contracts, and global inventories remain ample.

Nevertheless, we expect the pass-through of higher energy prices to the broader inflation basket to remain limited compared to the previous energy crisis. The same is true for services inflation, which we expect to remain elevated for longer but not to experience a resurgence comparable to that observed during the last energy shock. Overall, we think inflation will remain above 3% both this and next year.

Source: <https://www.abnamro.com/research/en/our-research/eurozone-inflation-hits-3-year-high-4-by-year-end>