

# The NewsLine

January 04, 2017

} MACROECONOMICS | FINANCIAL MARKETS | ECONOMIC POLICY | SECTORS

## EUROZONE

# Trend in inflation argues for ECB flexibility in both directions

Claudia Broyer  
Phone +49.69.24431-3667  
[claudia.broyer@allianz.com](mailto:claudia.broyer@allianz.com)  
Allianz SE  
<https://www.allianz.com/economic-research/en>

 Allianz Research  
<https://twitter.com/AllianzResearch>

One higher inflation figure is not a tipping point, but the latest numbers (and good purchasing manager indices) show that surprises in every direction are possible. Although the next ECB Council meeting is still likely to be too early, the ECB should replace its one-sided bias to expand its bond purchasing program if things turn out worse than expected with a balanced statement soonest.

Today's flash estimate shows a jump in eurozone inflation to 1.1% in December (November: 0.6%). Alongside energy prices, this was fueled by the unprocessed food component. Core inflation (stripping out energy and unprocessed food) edged up marginally to 0.9% on a year earlier. As early as January the headline inflation rate in the eurozone will climb further to around 1.5% and later in the year approach 2%. Via higher import prices, the weaker euro will also be making itself felt.

At the last ECB press conference President Draghi was asked whether bond purchases could be reduced if things developed better than expected. He answered that this had not been discussed in the ECB Council – such a “high-class problem” seemed to be fairly far away. We believe, however, that there is every reason to place more confidence in the performance of the eurozone economy. This is underpinned for instance by the results of the purchasing managers survey published today. The composite index for the eurozone rose to 54.4 points in December, the highest for more than 5 years. Economic growth this year is likely to come in at 1.6% as last year.

# The NewsLine

---

January 04, 2017

In our view the ECB should abandon its one-sided preparedness to ramp up the bond purchasing program again (reduced from EUR 80bn to 60bn from April 2017) should adverse circumstances require. Instead it should also expressly give itself room to rein in bond purchases more swiftly than currently planned. Regardless of whether this is labeled tapering or not, yields are bound to move up to a certain extent. But this will be limited as the ECB will certainly not be reducing its presence on the market abruptly.

These assessments are, as always, subject to the disclaimer provided below.

## ABOUT ALLIANZ

Together with its customers and sales partners, Allianz is one of the strongest financial communities. About 85 million private and corporate customers insured by Allianz rely on its knowledge, global reach, capital strength and solidity to help them make the most of financial opportunities and to avoid and safeguard themselves against risks. In 2015, around 142,000 employees in over 70 countries achieved total revenues of 125.2 billion euros and an operating profit of 10.7 billion euros. Benefits for our customers reached 107.4 billion euros.

This business success with insurance, asset management and assistance services is based increasingly on customer demand for crisis-proof financial solutions for an aging society and the challenges of climate change. Transparency and integrity are key components of sustainable corporate governance at Allianz SE.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained herein may include prospects, statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such forward-looking statements.

Such deviations may arise due to, without limitation, (i) changes of the general economic conditions and competitive situation, particularly in the Allianz Group's core business and core markets, (ii) performance of financial markets (particularly market volatility, liquidity and credit events), (iii) frequency and severity of insured loss events, including from natural catastrophes, and the development of loss expenses, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) particularly in the banking business, the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the euro/US-dollar exchange rate, (ix) changes in laws and regulations, including tax regulations, (x) the impact of acquisitions, including related integration issues, and reorganization measures, and (xi) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

## NO DUTY TO UPDATE

The company assumes no obligation to update any information or forward-looking statement contained herein, save for any information required to be disclosed by law.