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EUROZONE

Higher inflation around the corner, no turnaround on the labor market

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The ECB should take a relaxed view of today's inflation figures. Inflation rates in the eurozone are set to pick up markedly very soon, pushing inflation expectations back up with them. The picture on the labor market in the eurozone countries is mixed, but, overall, unemployment is likely to decline (slowly) further. That is important for the economic outlook and public sentiment.

According to today's flash estimate for August, eurozone inflation continued to hover only marginally above the zero line at 0.2%. But from September, oil-price induced base effects will probably change the picture. At the end of the year inflation is likely to stand above 1% and then climb further to around 1.5% in the first quarter of 2017 (at least as long as oil prices don't collapse again). As inflation expectations are frequently influenced by current inflation rates, the former are likely to rise as well. As we see it, the ECB only needs to be seriously alarmed if inflation expectations do not move up despite persistently higher headline inflation rates. By contrast, it should not be ruffled by today's inflation figures. At next week's Governing Council meeting, we see no reason to expand easing measures or raise the concrete prospect thereof – not least given few signs of a slowdown in the wake of the Brexit vote.

Having previously been on a downward trend, the unemployment rate in the eurozone in July remained mired at 10.1% for the fourth consecutive month. Going forward, groups of countries are likely to perform differently: in countries emerging from a deep recession such as Ireland, Portugal or Spain,

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the pace of improvement on the labor market is unlikely to be maintained. In core countries such as Germany, the Netherlands and Austria, already relatively low unemployment limits the room for further major declines. Conversely, it is to be hoped that in France and Italy the ongoing recovery will finally feed through into greater progress on the labor market. For the eurozone as a whole we are not expecting a turnaround, but a gradual decline in the unemployment rate (end 2016: 9.8%; end 2017: 9.5%). This will buoy private consumption and, in turn, economic growth. The situation on the labor market is also of major significance for public sentiment – although the current tailwind for populist, euroskeptic or “anti-establishment” currents in many eurozone countries doubtless has other reasons as well (worries about immigration, security fears given terror risks etc.).

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