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Euro-area flash inflation: Climbing higher

Marketing communication

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Euro-area inflation continued to accelerate in September mainly due to higher energy and food inflation. As the broader price pressures are still rather moderate, we stick to our quarterly profile for the ECB rate hikes.

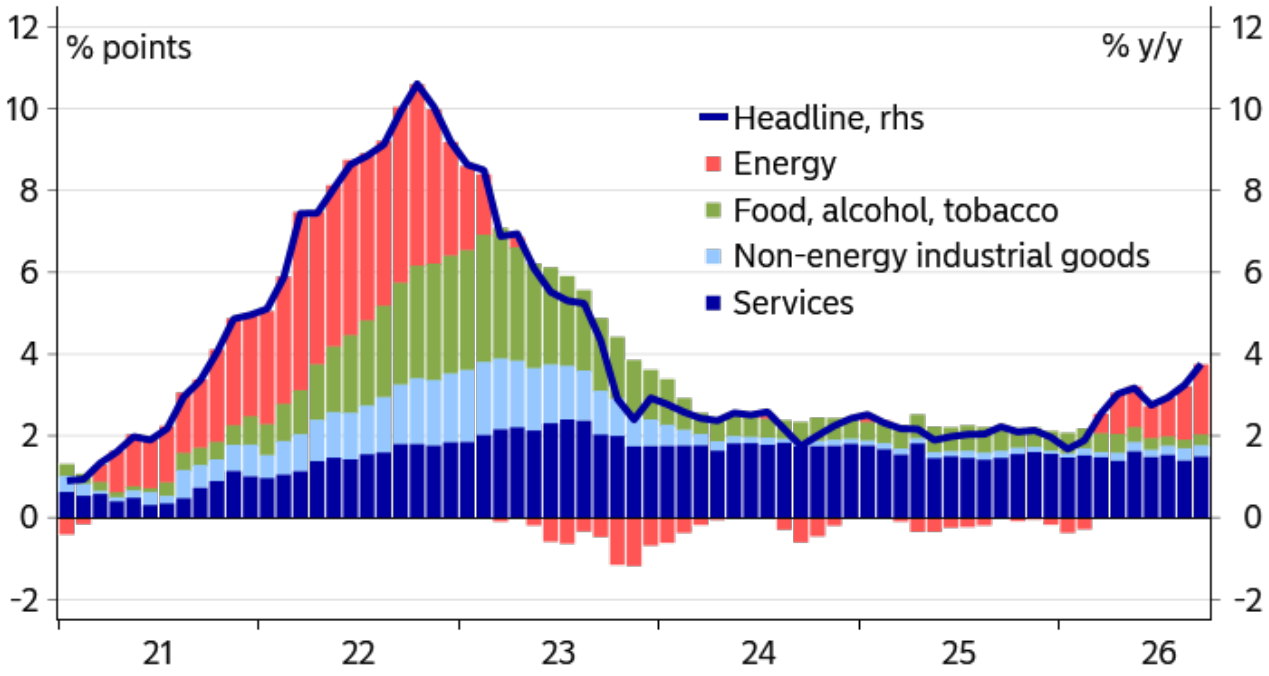
Euro-area flash inflation increased from 3.3% to 3.8% in September. That was faster than expected by the consensus (3.6%), though expectations have likely adjusted to some extent after higher national data. **The far largest reason for the acceleration was energy price inflation** which increased from 14.3% to 18.8% and is now the biggest contributor to headline inflation. Also food price inflation picked up after some weak observations to 1.4% (1.1% in August).

Core inflation rose by one tick to 2.5% just like the consensus had expected. Service price inflation (3.2% vs. 3.0% in August), which in monthly terms had been very weak in August, recovered now especially in Italy and France and continues to be strongest in Spain.

The global cost pressures have found their way to non-energy industrial goods but their contribution to the Euro-area inflation is still very small. Inflation in that subcategory declined slightly from 1.2% to 1.1%.

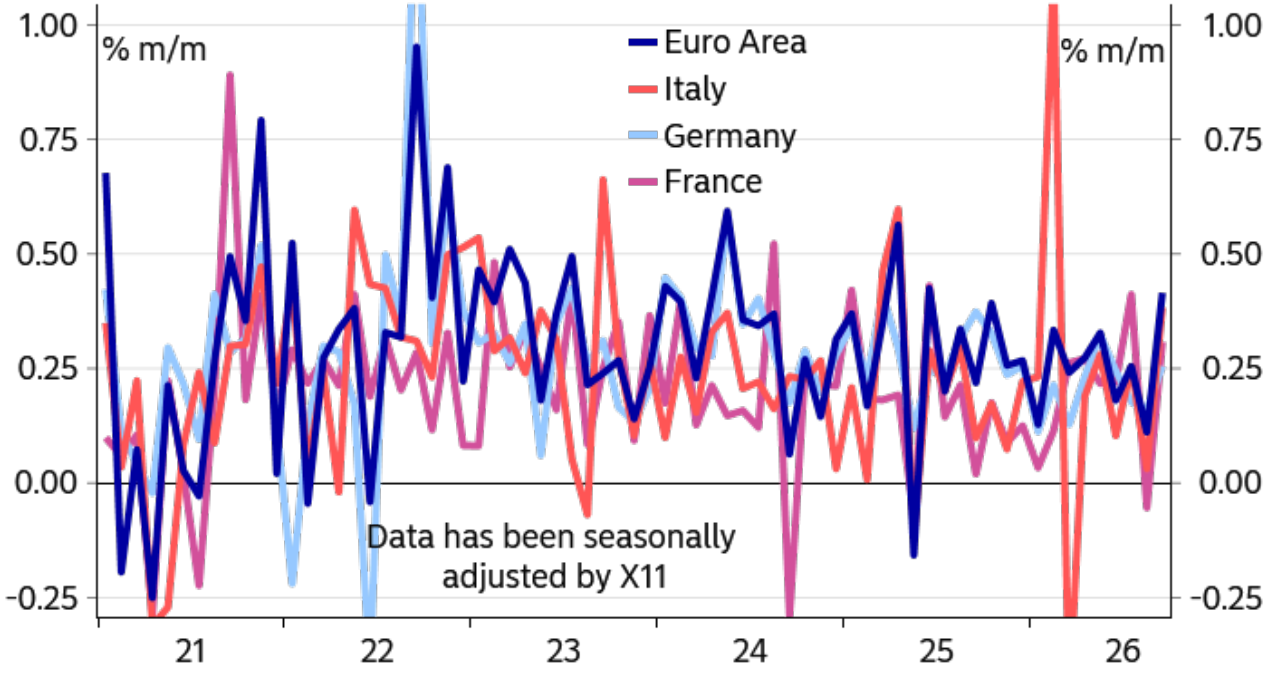
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Contributions to Euro-area inflation



Source: Nordea and Macrobond

Service price inflation in monthly terms in EA



Source: Macrobond and Nordea

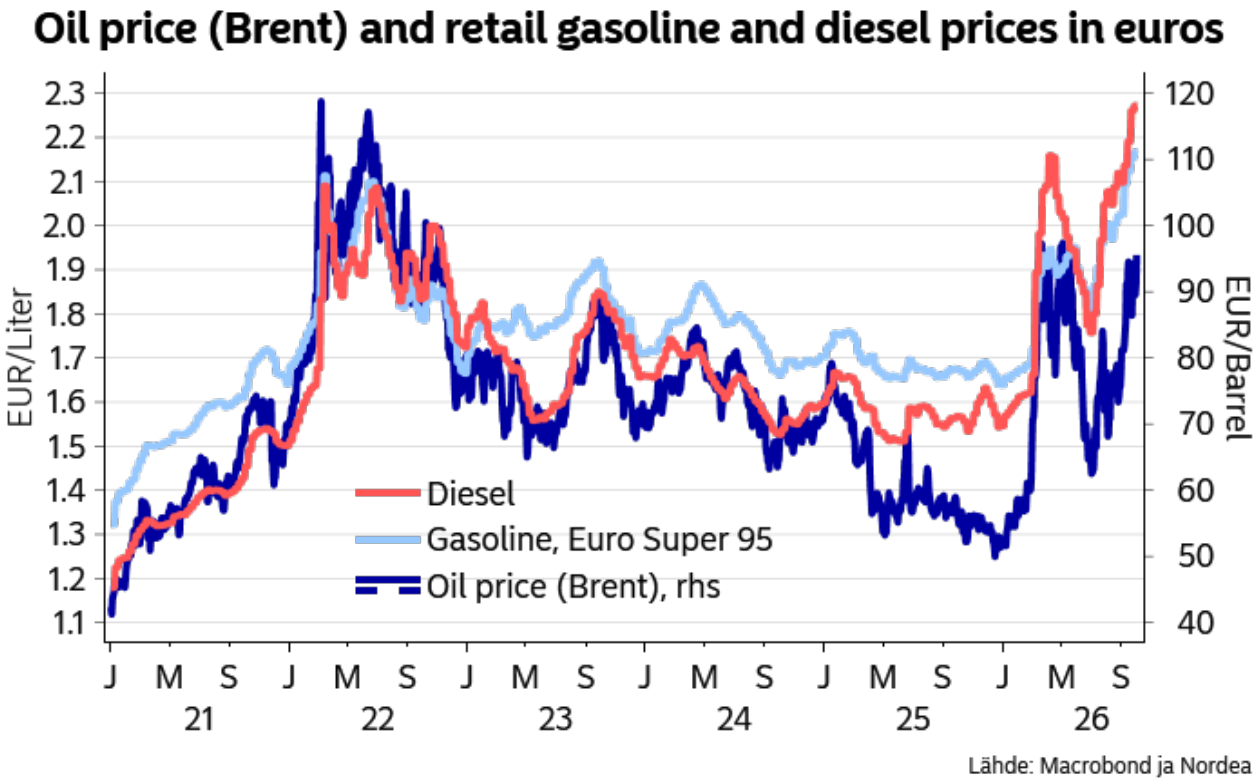
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Forecasting energy inflation is a complicated exercise

The energy inflation increased probably more in September than many analysts had expected based on the pure crude oil and gas prices which typically are used as a benchmark in the energy inflation models. **The recent rise in the refinery margins has implied that the transmission mechanism from the oil price to consumer prices on fuel has strengthened significantly.**

Furthermore, predicting the future energy price pressures is challenging at the moment given the extremely high uncertainty regarding the developments in the oil market. On one hand, the geopolitical tensions in the Middle East do not show signs of cooling down but at the same time, the most recent estimates about the global oil production and the positive information about the traffic in the Red Sea imply that there could be room for positive surprises from that segment. Given these uncertainties, it is not a surprise to see the recent significant daily volatility in especially oil prices but at the same time, many expect the refinery margins to stay at elevated levels for a long time due to the lost production capacity in the Middle East.



Lähde: Macrobond ja Nordea

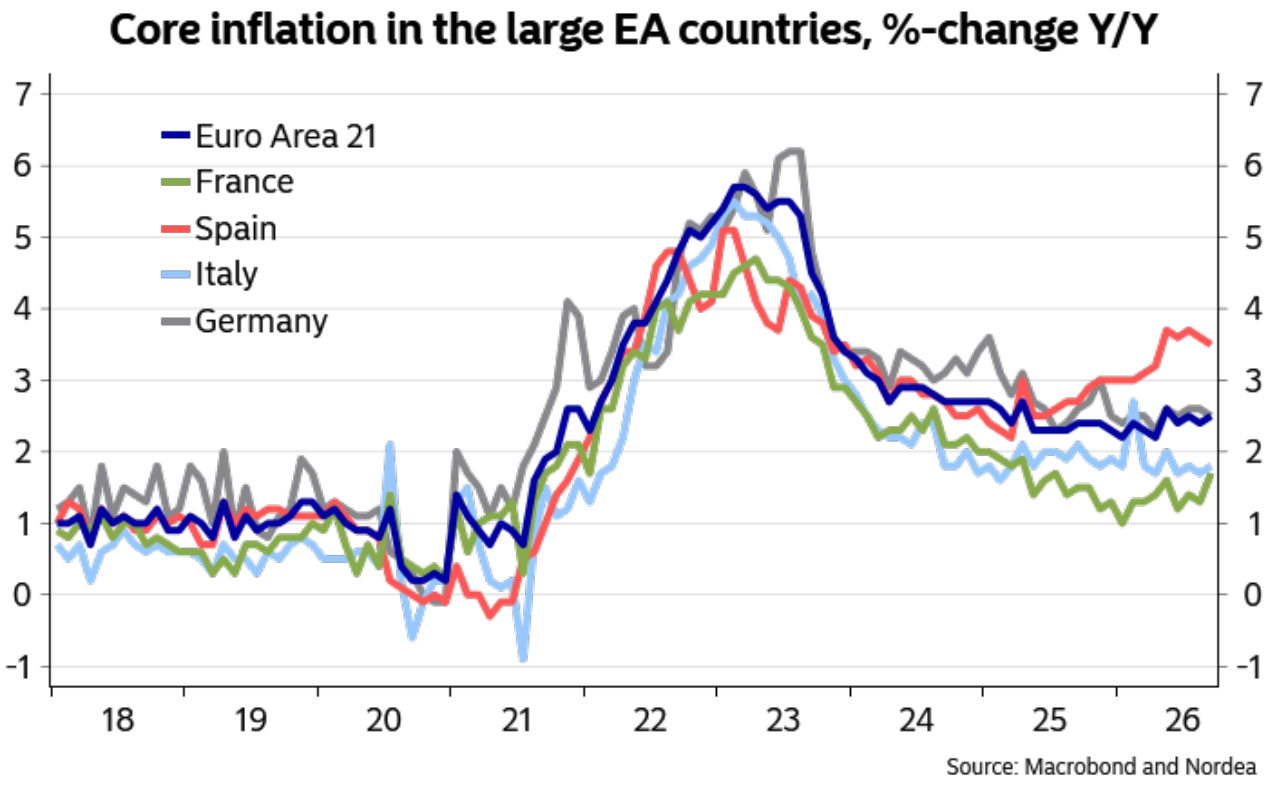
What about the second round effects?

Euro-area annual core inflation has fluctuated only very little since the beginning of 2025. In September, the data did not signal that second-round effects from high energy prices would have started to broaden quickly. One of the exceptions have been transport service prices which have become clearly more expensive since the beginning of the summer and based on the available information that trend continued in September at least in Germany and Italy.

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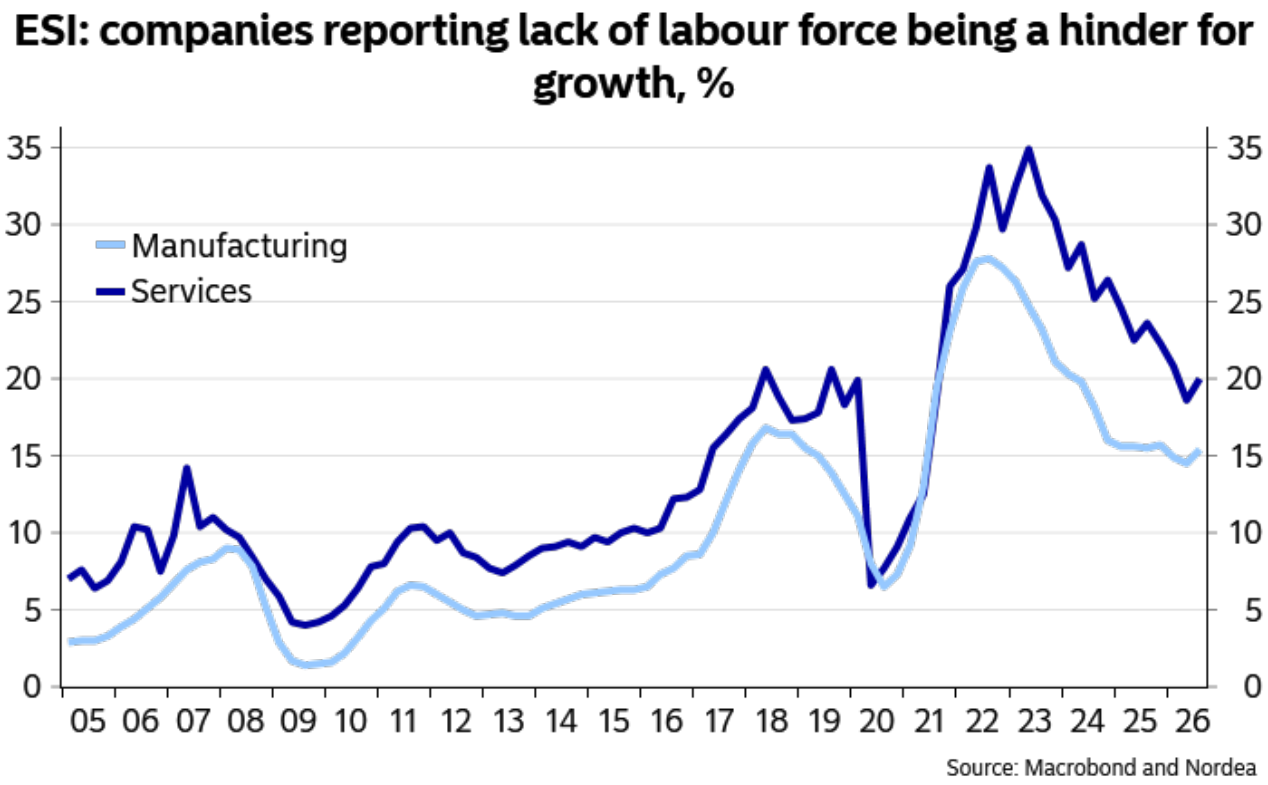
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The second round-effects in the labour markets will probably take some more time to materialize and we have not seen any major impact, yet. Labour market indicators continue to point to relatively stable development going forward. For example, the unemployment rate at 6.4% has stabilized to only marginally higher levels than what was seen last year and the companies' comments on lack of labour force are back to the levels seen prior to pandemic. In addition, the ECB's wage tracker was slightly revised down for the coming quarters in the most recent publication. This increases the likelihood that the second-round effects of high energy price inflation on wage formation will be in a smaller scale than in 2022-2023.



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We do not expect the ECB to hike in October

From the ECB's point of view, the fact that headline inflation continues to climb higher is of course worrying but on the other hand, the high inflation numbers continue to be mainly driven by energy. We think that in this uncertain situation the Governing Council remains calm and continues to tighten the monetary policy at a quarterly pace.

Thus, we keep keep our forecast of rate hikes in December and in March unchanged and do not see another hike already in October to be likely at this point (read our lates ECB analysis here)**.** Also the most recent communication by the ECB and especially by Isabel Schnabel earlier this week seems to point to this direction. Furthermore, despite the relatively robust PMI numbers, the growth outlook is still fragile given that the recovery of consumer confidence paused in September and confidence continues to be at low levels. This implies that in a case of sudden downside moves in the energy market, also the risks around the ECB core inflation projections are likely to be biased to the downside. Given the elevated uncertainty, many rate paths remain possible.

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