# Flash Note

# Europe chart of the week – ECB cut-off date

## Oil prices to push ECB staff projections for inflation slightly higher

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The cut-off date for ECB staff projections implies that financial assumptions for macro projections will likely be derived from market expectations as at 23 November.

We expect higher oil prices to push ECB staff forecasts for inflation higher, by about 20bp in 2018 (to 1.4%) and 10bp in 2019 (to 1.6%). Meanwhile, a lower starting point for core inflation in 2017 (1.0%) should be offset by strong GDP growth throughout the forecast horizon.

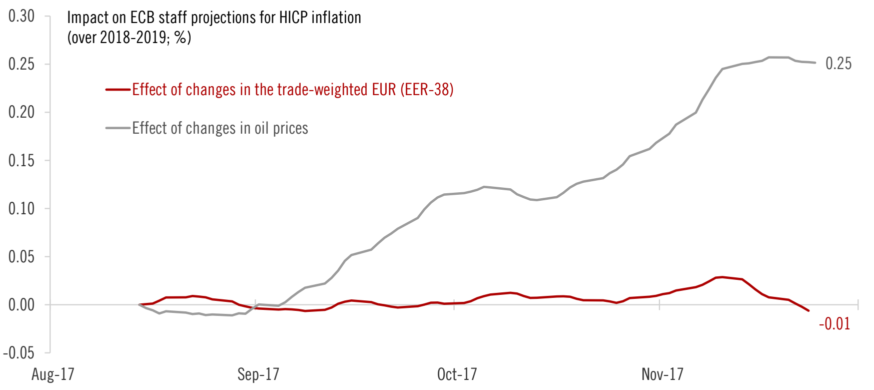
Importantly, the ECB staff will publish projections for 2020 for the first time at the 14 December meeting. Against an increasingly supportive global backdrop, we expect inflation to edge closer to the ECB's target, to around 1.8% in 2020, eventually helping the central bank to embark on cautious policy normalisation.

This week was all about stellar euro area PMIs and hawkish nuances in the accounts of the October ECB meeting. However, the arrival at another deadline went unnoticed – the cut-off date for ECB staff projections, which implies that financial inputs will be derived from market expectations as at 23 November. Using elasticities derived from OECD and ECB models, the chart below shows the impact of changes in oil prices and the currency on ECB staff projections for inflation over a two-year horizon.

In all, we expect the roughly **20% rise in oil prices over the past three months to push ECB staff forecasts for inflation higher by about 20bp in 2018** (from 1.2% to 1.4%), **and by 10bp in 2019** (from 1.5% to 1.6%). Other factors should offset each other, including a slightly lower starting point for core inflation (1.0% in 2017) and a faster closing of the output gap, led by stronger growth. Indeed, we also expect the **ECB staff to revise GDP growth higher again**, to 2.1% in 2018 (up from 1.8%) and 1.8% in 2019 (up from 1.7%). The broader trade-weighted EUR has remained remarkably stable in the past three months, ending up only a touch higher than the level assumed by the ECB staff in September. As a result, **the impact of currency changes is likely to be minimal**.

Last but not least, we expect **2020 projections**, which the staff will publish for the first time in December, **to show further improvement in inflation to around 1.8%** while GDP growth should ease to around 1.7%. We will discuss the ECB's assumptions in more detail in a later note, including the all-important core inflation forecasts and the underlying Phillips curve framework which the ECB still views as valid, and rightly so in our opinion.

**Chart: effect of changes in oil prices and the EUR on ECB staff projections**




*Source: Pictet WM – AA&MR, ECB, Bloomberg*

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