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Eurozone Inflation Edges Lower, but Pressure on Prices Continues

The annual rate of inflation was 8.5 percent in February, down from 8.6 percent a month earlier, among countries using the euro.

Inflation in the eurozone

Year-over-year change in consumer prices in the eurozone

Source: Eurostat • By The New York Times

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With the winter drawing to a close, inflation levels eased in Europe last month, the European Commission reported on Thursday, even as concerns grew that stubbornly high prices could put pressure on central bankers to keep raising interest rates.

Consumer prices in the 20 countries that use the euro as their currency rose at an annual rate of 8.5 percent in February, down slightly from January's rate of 8.6 percent. Year-over-year rates have been declining since reaching a peak 10.6 percent in October.

But some of the largest economies showed troubling increases, and core inflation — a measure that excludes the most erratic categories like food and energy — rose to a record high of 5.6 percent in February, from 5.3 percent.

In France, inflation hit 7.2 percent in February, its highest point in more than two decades while in Spain, inflation grew at an annual rate of 6.1 percent. Germany, Europe's largest economy, reported that the annual rate crept up to 9.3 percent.

The grim economic outlook for Europe that had been predicted last fall has considerably brightened. Fears of a deep recession turned out to be overblown. Vertigo-inducing energy prices have dropped thanks in part to a warm winter and conservation efforts. Still, the road is bumpy.

Food prices remain high. The war between Russia and Ukraine, notable exporters of energy and agriculture, has squeezed the global food supply and disrupted fertilizer production. Uncertainty about whether Russia will continue to abide by an agreement to ease its blockade of Ukrainian ports is also fueling anxiety about the food supply.

Devastating droughts in Europe, China, the Horn of Africa and the United States caused by climate change have also contributed to smaller harvests and higher food prices.

Even Belgium, where inflation dropped to an annual rate of 5.5 percent last month, among the lowest in the eurozone, saw a rise in food prices.

In addition to food, inflation was driven by higher prices for alcohol, tobacco and services.

The Baltic countries continued to top the charts with annual inflation rates above 17 percent. Slovakia was next in line at 15.5 percent.

Some of the inflationary pressure can be traced to governments' pullback from policies like price controls and subsidies that blunted the impact of rising energy prices on households. In France, electricity prices for some consumers were allowed to rise in February after being frozen.

A bounceback in Chinese production may also be nudging prices upward. China's mammoth manufacturing capacity, combined with its starring role in the world's supply chain, gives it an outsize impact on the global economy by, for example, driving up the demand for energy.

Analysts, though, are split about whether the increase in manufacturing will ease price pressures by expanding supply, or stoke consumer spending by finally making longawaited goods available.

Some economists and policymakers keep a particularly close eye on core inflation because it indicates whether inflation is taking hold throughout the broader economy.

“The key here is what happened to the core rate,” said Melanie Debono, senior Europe economist at Pantheon Macroeconomics. It seems pretty clear that European Central Bank policymakers who believe interest rates need to be higher will “call to expand the string of rate hikes,” she added.

Businesses have continued to raise prices sharply in some sectors. “Companies have been increasing prices much more quickly than they tend to do,” Ms. Debono said, a sign that they are looking to protect their profit margins.

Pressure from workers to raise wages could further fuel inflation this year.

Though well below the peak in October, inflation is still far above the central bank’s goal of 2 percent. Christine Lagarde, the bank’s president, has said that a half-point rate increase this month is all but certain. In media interviews earlier this week, she added that the bank would continue to raise rates if that was necessary to meet inflation goals.

Eswar Prasad, a trade policy professor at Cornell University, said that rising interest rates put unwelcome financial strains on governments that are already struggling with huge public debt.

He added that “recent inflation data and the likely policy responses put a damper on the eurozone’s growth prospects for 2023, which had brightened somewhat earlier in the year.”