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Economic Research

Economic Briefing

# Drop in inflation rate not a liberating blow

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**The inflation rate in the euro area fell slightly to 2.5% in June. This partially offsets the surprising rise in May. The core rate remains unchanged at 2.9% – mainly due to the sharp rise in service prices. The inflation rate is likely to fall further until September, giving the ECB the opportunity to cut interest rates again. However, due to the high underlying inflation, the inflation rate is likely to rise again by the end of the year.**

According to preliminary data from Eurostat, the inflation rate fell from 2.6% in May to 2.5% in June – in line with the consensus (Table 1). However, this only partially reverses the surprising rise in the previous month. In May, the previous year's rate had risen contrary to market expectations due to service prices.

Prices for energy, as well as food, alcohol and tobacco contributed to the decline in June, with the previous year's rates falling slightly. In the case of food, this is due to the fact that a strong monthly figure in the previous year was excluded from the comparison. The previous year's rate for goods excluding energy remained at 0.7%. However, due to the lower year-on-year rates for these components, their month-on-month changes only play a minor role in the overall change in inflation.

## The core rate remains constant

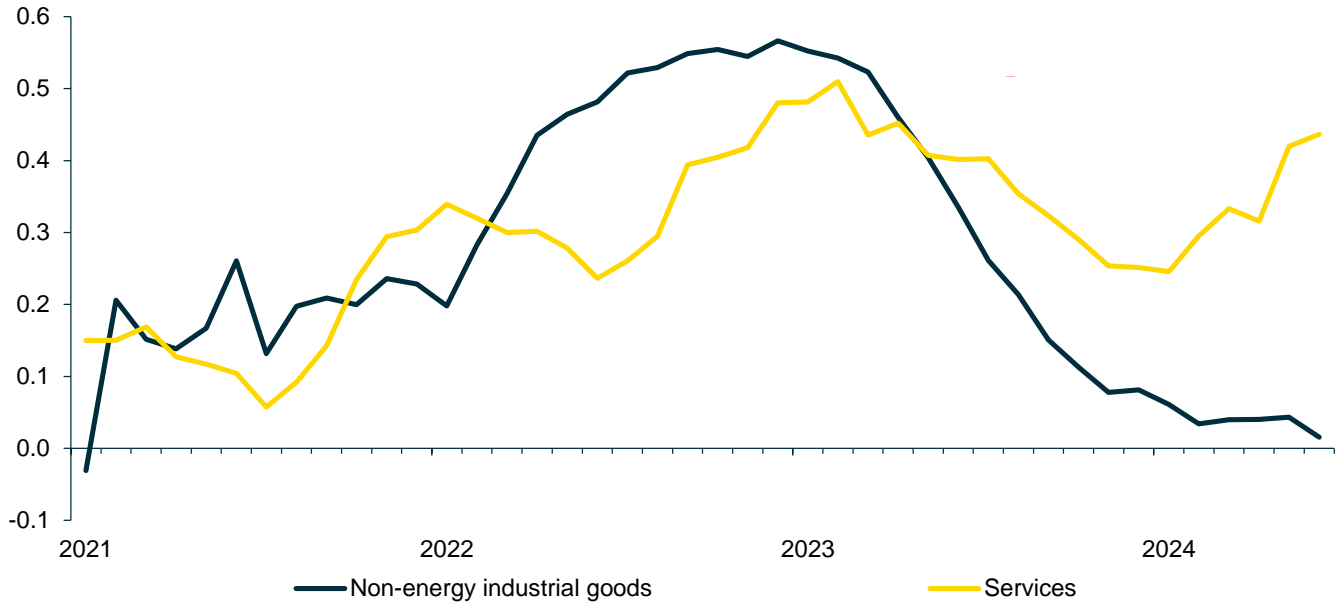
The inflation rate excluding energy, food and beverages remained constant at 2.9% in June and, contrary to expectations, did not fall. The core rate also surprisingly rose to 2.9% in May after falling for a long time. This increase in May was also due to strong underlying price inflation. This upward pressure on prices is particularly evident in services (Chart 1). As these are especially labor-intensive, the recent high wage settlements have had a particularly strong impact on them. The previous year's rate for goods excluding energy and food is approaching zero. However, prices for goods are also likely to rise again in the medium term. This is suggested by purchasing manager surveys for input prices in industry and rising transportation costs worldwide.

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**Chart 1 - Service prices drive the core inflation this year**

Subcomponents of the harmonized consumer price index, seasonally adjusted monthly values, 6-month changes annualized in percent, June 2024: Estimated by Commerzbank on the basis of the previous year's rates



Source: Eurostat, Commerzbank-Research

**Decline strong enough for the ECB?**

Inflation fell only slightly in June. The underlying upward pressure on prices appears to be solidifying, particularly in services. On the other hand, year-on-year inflation could continue to fall until September due to the elimination of stronger monthly figures (base effects). This may give the ECB the desired window for further interest rate cuts this year. However, the central bank will have to take a critical look at price trends for services and goods excluding energy at the beginning of next year at the latest.

**Table 1 - Euro area consumer price index**

Year-over-year changes in percent

Indicator		May-24	Forecasts		May-24	Apr. 24	Mar-24
		preliminary	CB	Consens			
Consumer prices	%, y-o-y	2.5	2.4	2.5	2.6	2.4	2.4
Core rate 1)	%, y-o-y	2.9	2.9	2.8	2.9	2.7	2.9

1) HICP excluding energy, food, alcohol and tobacco. Source: Eurostat, Commerzbank Research



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