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Economic Research

Economic Briefing

ECB – no October rate cut

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At today's press conference, the ECB gave the impression that it does not intend to cut its policy rates again in October. ECB President Lagarde played down the significance of an below 2% inflation rate in September. In our opinion, the persistently high underlying inflation and the sharp rise in wages suggest that the ECB will wait until December to cut rates again, when it has the new inflation projections. We continue to expect two further interest rate cuts in the first half of next year, with the deposit rate likely to reach 2.75% by mid-2025.

As expected, the ECB Governing Council today lowered the deposit rate from 3.75% to 3.5%. The ECB reiterated its well-known **statement** that monetary policy will remain restrictive for as long as necessary to achieve the inflation target of 2%. The ECB follows a data-dependent and meeting-by-meeting approach.

Next interest rate cut as early as October?

Before the start of the press conference, the futures markets saw a probability of around 40% that the ECB would not wait until the next inflation and economic projections in December, but would cut interest rates again at the October meeting. Many observers point to the inflation rate in September, which is likely to be below the ECB's target, mainly due to favourable base effects. However, ECB President Lagarde referred to these special factors; she expects inflation to rise again in the fourth quarter. The ECB has also slightly raised its forecast for core inflation this year from 2.8% to 2.9% (see table). During the press conference, the probability of an October cut fell to around 25%.

Another argument against an early rate cut is that even several ECB doves recommend focussing on the quarterly projections when making interest rate decisions. In addition, inflation excluding the volatile prices for energy and food has stabilised at just under 3%, i.e. well above the ECB's target. Furthermore, according to ECB data, collectively agreed wages are continuing to rise rapidly. We do not expect the next interest rate cut in October, but only in December.

Interest rates to fall further in 2025

In the first half of next year, the ECB is likely to lower interest rates twice by 25 basis points each. The deposit rate would then stand at 2.75% in mid-2025. We expect further rate cuts, although underlying inflation should remain noticeably above the 2% mark in 2025, mainly due to sharply rising wages. The ECB Council, which is dominated by doves, is likely to cut interest rates as long as inflation points roughly in the intended direction. The ECB is less data dependent than it claims. Only when the underlying

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inflation problem becomes more visible from the middle of next year is the ECB likely to end the rate cut process.

Table 1 - ECB slightly raised core inflation forecast

ECB experts' September projections; in parentheses: ECB June projection; growth and inflation rates in percent

	2024	2025	2026
GDP growth	0.8 (0.9)	1.3 (1.4)	1.5 (1.6)
Inflation	2.5 (2.5)	2.2 (2.2)	1.9 (1.9)
Core rate	2.9 (2.8)	2.3 (2.2)	2.0 (2.0)

Source: ECB, Commerzbank Research



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