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Economic Research

Economic Briefing

€-inflation details – price pressure for services falls

Today's published details on the October inflation reading confirm a low month-over-month rate of core inflation of around 0.2%. If the data is adjusted for volatile components of service prices, the core rate would be even lower. All this points towards a further ECB interest rate cut in December.

Details confirm low core rate

According to the final figures from Eurostat and the ECB, core consumer prices rose by only 0.22% in seasonally adjusted terms in October as compared to September. This means that core inflation was lower than the average of the previous three months (Chart 1). Our analyses show that core inflation could, in fact, be even lower. If we use an alternative seasonal adjustment procedure that would have led to less fluctuation in the core rate in recent months, core inflation measured on a month-on-month basis falls slightly to 0.20%. If the rate is also adjusted for particularly volatile components of services inflation (such as transport services), the previous month's core inflation rate would be only 0.15%. In the following sections, we discuss the details of these adjustments.

19 November 2024

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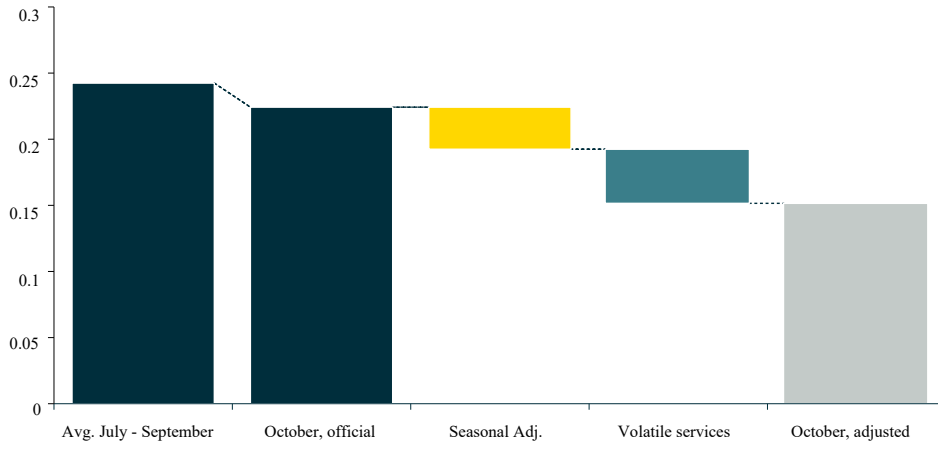
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Chart 1 - Volatile services components have pushed up the core rate in October

Harmonized consumer price index in the euro area, excluding energy, food and beverages, seasonally adjusted, month-over-month rates in %; adjustments in percentage points



Source: ECB, Commerzbank-Research

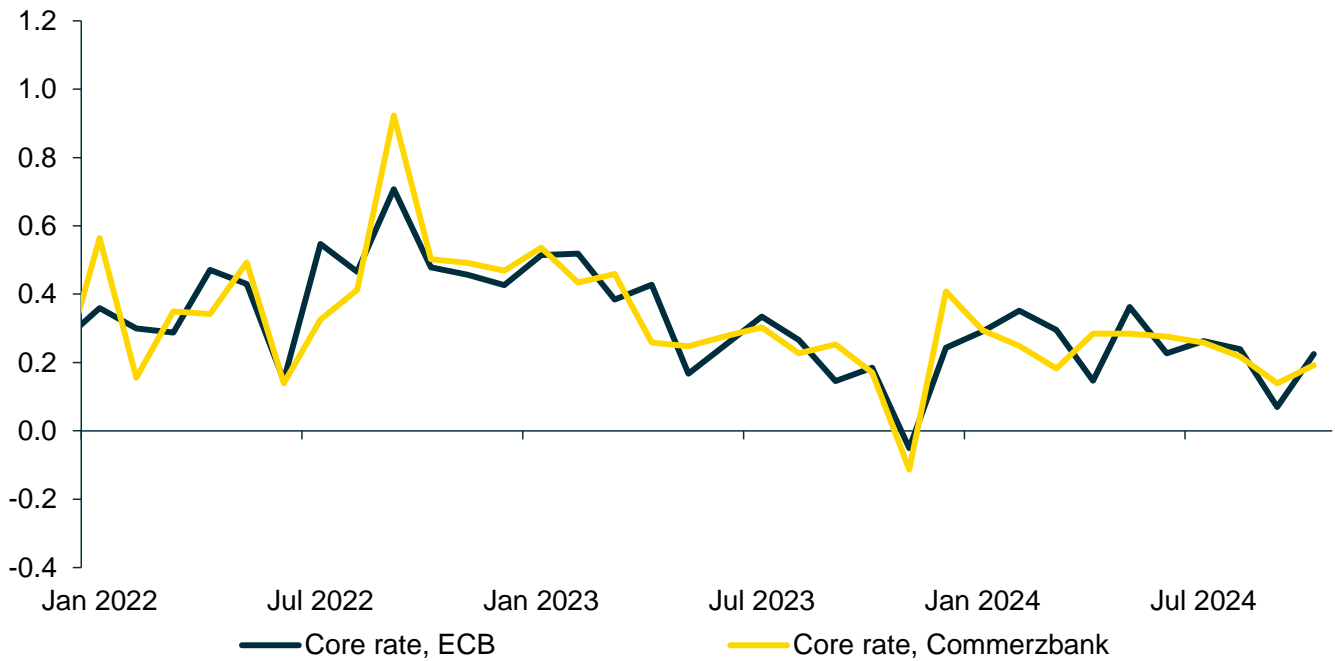
Seasonal adjustment procedure in October with little influence

If the previous month's core rate is not adjusted for seasonal fluctuations using the ECB procedure, but rather using our preferred method (X-13 ARIMA model), the differences in October are very small at only 2 basis points (Chart 2). Using our method, there has been a clear downward trend in the core rate in recent months.



Chart 2 - The core rate inches lower

Core rate of consumer prices in the euro area, seasonally adjusted month-over-month rates in %, Commerzbank adjustment using X-13 method



Source: Eurostat, Commerzbank-Research

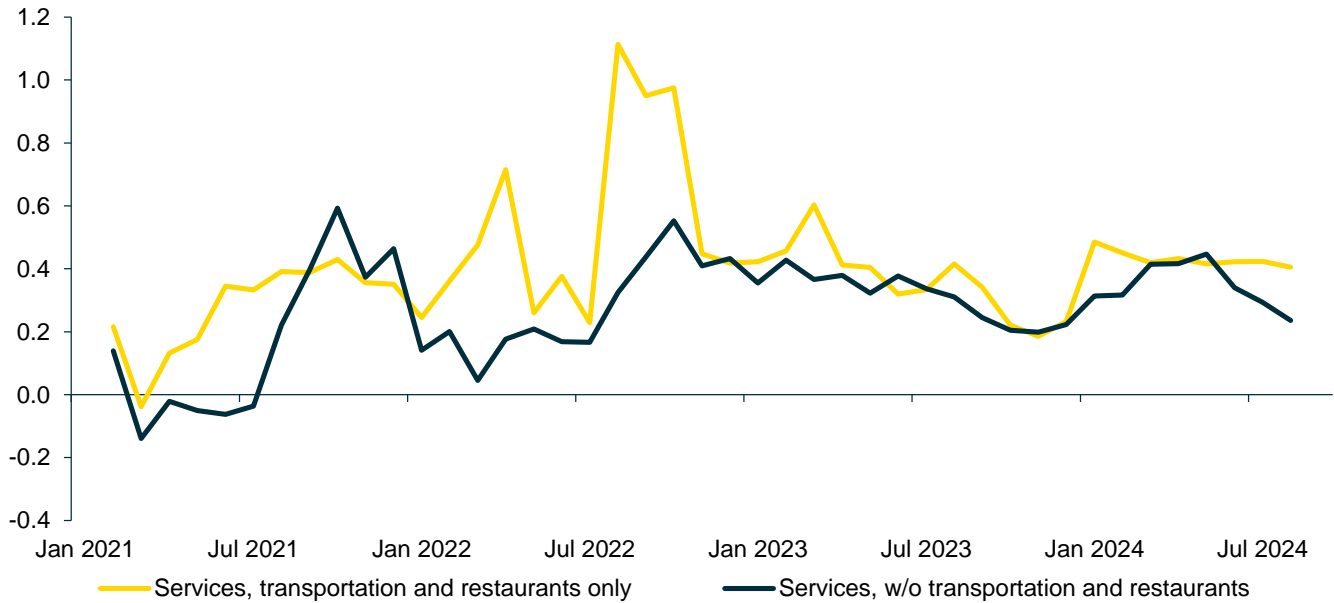
Services price inflation is already pointing downwards

Furthermore, the core rate can be adjusted for particularly volatile prices of transport and restaurant services. These two inflation components are heavily influenced by commodity and food prices and therefore often follow a different trend than the remaining services. Excluding these volatile components, service inflation has already fallen noticeably from 0.4% to around 0.2% (seasonally adjusted month-on-month rate). This suggests that services price inflation as a whole is likely to fall in the coming months.



Chart 3 - Service price inflation is already pointing downwards.

Harmonised consumer price index in the euro area, services, seasonally adjusted, month-on-month changes in %



Source: Eurostat, Commerzbank-Research

The inflation details should reinforce another ECB rate cut

The inflation details show that the core rate is softening and on track to reach the ECB's 2% target. It is true that further price increases for insurance and restaurant services at the beginning of next year could temporarily push up the core rate. However, excluding these special effects, we expect core inflation to weaken further in the coming months. This should pave the way for the ECB to cut interest rates in December.



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