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Economic Research

Economic Briefing

Euro inflation details - Have prices fallen in November?

The euro inflation details for November published today confirm the extremely low month-on-month core inflation rate. At -0.04%, this is well below the values of recent months and indicates falling prices compared to October. However, if the data is adjusted for seasonal effects using a different method, the month-on-month rate would be higher. Overall, the figures are likely to encourage the ECB to cut interest rates further.

Details confirm extremely low core rate

According to the final figures from Eurostat and the ECB, consumer prices excluding energy, food, alcohol and tobacco (core rate) fell by 0.04% in seasonally adjusted terms in November compared to October. This is only the second negative monthly value in the last three years and is significantly less than the average of the last three months (Chart 1). However, our analyses show that core inflation could have been higher than assumed. Using an alternative seasonal adjustment procedure, core inflation measured against the previous month rises to 0.10%. If the rate is further adjusted for particularly volatile components of services prices (such as transport services), the month-on-month rate of core inflation would be 0.17%. This implies that the annualized rate is almost exactly in line with the ECB's target of two percent. We will discuss these details in the following sections.

18 December 2024

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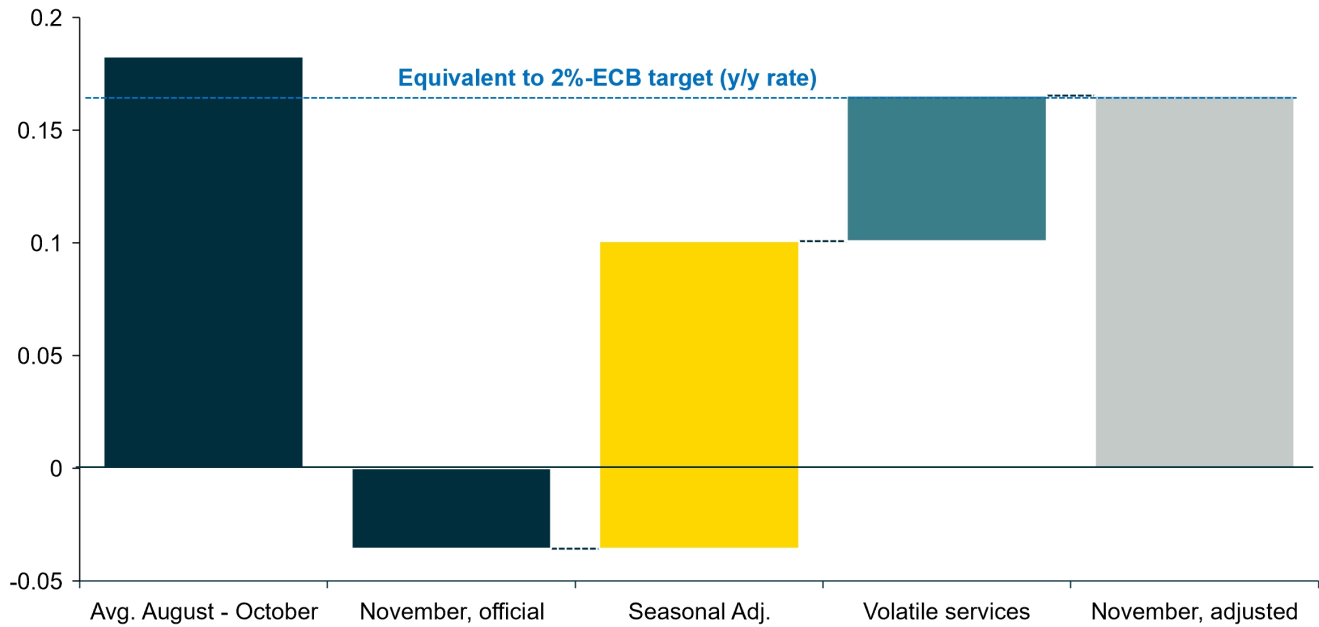
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Chart 1 - ECB's seasonal adjustment distorts core rate

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



Source: ECB, Commerzbank-Research

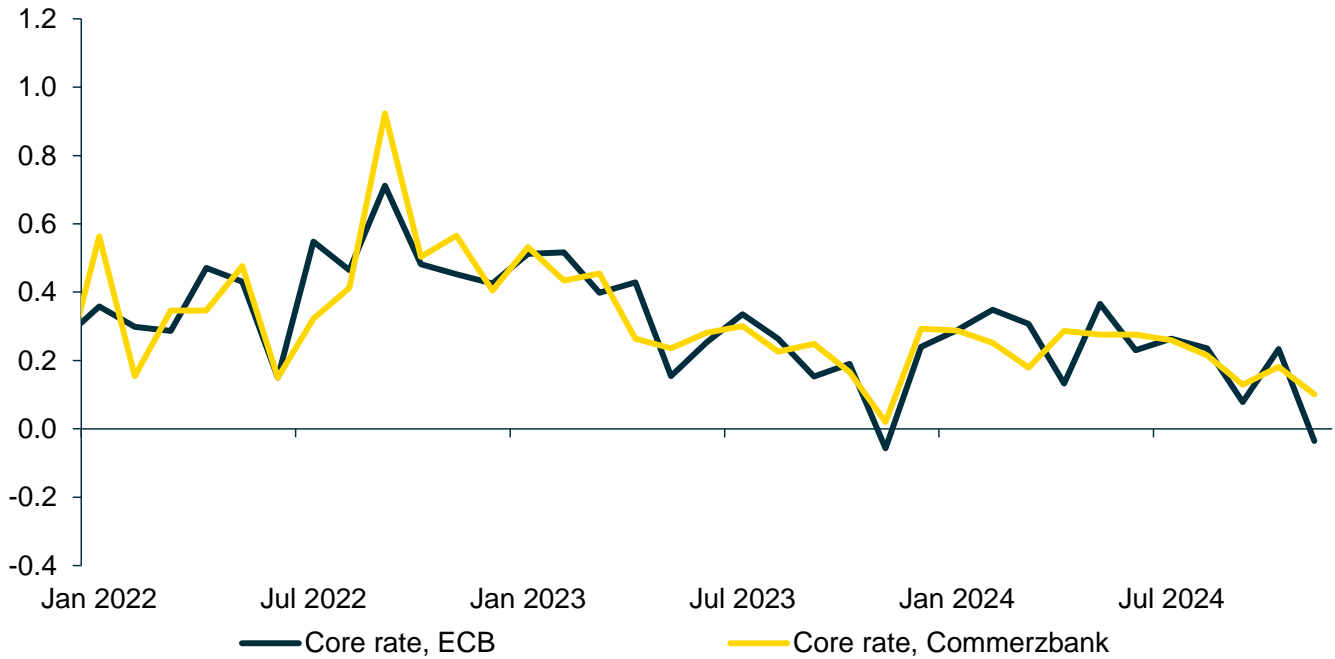
The ECB significantly underestimates inflation

The ECB's seasonal adjustment procedure could significantly underestimate the month-on-month core rate in November. If, instead, the core rate is adjusted using our preferred method (X-13 ARIMA model), which has been less prone to fluctuations in recent months, the core rate in November would be 0.10% (Chart 2). This means that the core rate does not fall as sharply as reported by the ECB. Rather, prices would have risen month-on-month. However, the trend of the core rate also points downwards with this calculation method.



Chart 2 - Seasonal adjustment distorts the core rate

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

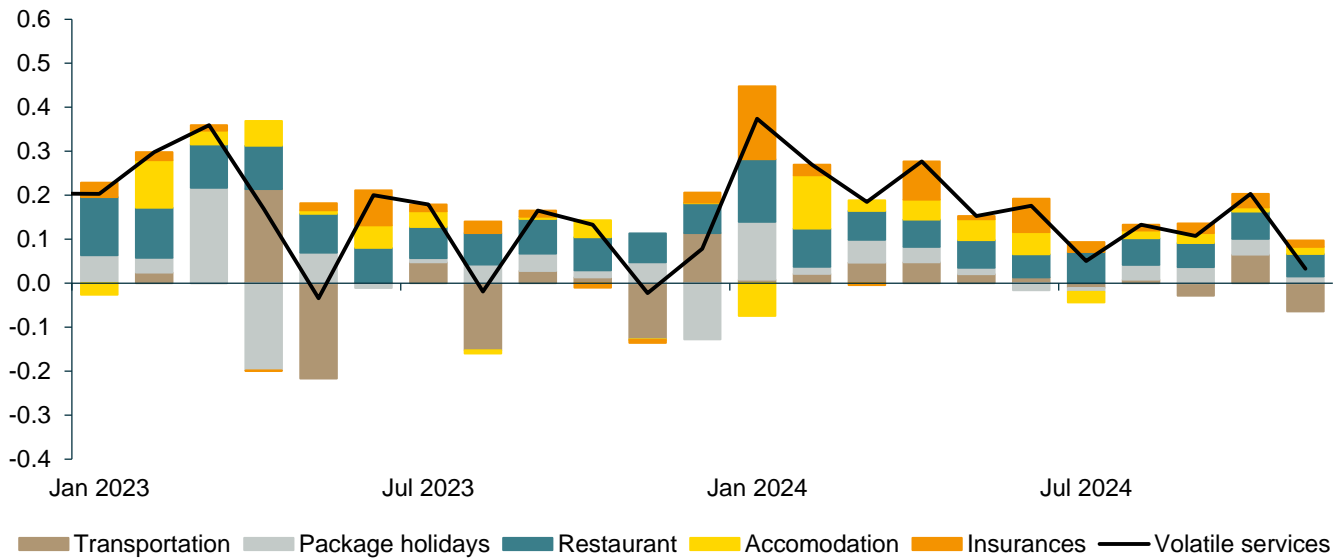
Falling prices in the transport sector lower services inflation

In addition, we adjust the core rate for the prices for services that are particularly prone to fluctuations. These include insurance premiums, package holidays, restaurant visits, hotel accommodation and transport services. In particular, falling prices in the transport sector have led to a low month-on-month rate of volatile services prices in November (Chart 3). Without these volatile components, the core rate would have been slightly higher in November (seasonally adjusted month-on-month rate).



Chart 3 - Transportation puts a drag on service prices

Consumer price index in the euro area, contributions to the month-on-month service price index from selected sectors, in percentage points



Source: Eurostat, Commerzbank-Research

The inflation details should reinforce the ECB's interest rate cut plans

The inflation details show that the official very low month-on-month rate of core inflation probably significantly underestimates actual inflation. According to our adjustments, consumer prices in the euro area probably did not fall in November compared to October, but rose slightly. Overall, however, the trend of a slowly falling core rate continues. In November, the increase in core components was probably in line with the ECB's 2% target. It is true that further price increases at the beginning of next year, for example insurance premia, could temporarily raise the core rate. However, excluding these special effects, we expect core inflation to weaken further in the coming months. This should encourage the ECB to cut key rates further next year.



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