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Economic Research

Economic Briefing

Euro area – Inflation rollercoaster briefly below 2%

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The inflation rate in the euro area fell significantly to 1.8% in September, falling below the ECB's target of 2% for the first time in three years. This was mainly due to the sharp fall in energy prices. The core inflation rate excluding energy, food and beverages fell only slightly to 2.7%. Nevertheless, the ECB is likely to cut its key interest rates again in October, even if inflation is likely to rise again by the end of the year.

The inflation rollercoaster falls below the 2% mark,...

According to preliminary data from Eurostat, the inflation rate fell significantly to 1.8% in September (from 2.2% in August). The economists surveyed in advance had expected this (Table 1). As in the previous month, the significant fall in inflation was mainly due to a further fall in energy prices (from -3.0% in July to -6.0%). The core inflation rate, excluding the volatile prices of energy, food and luxury foods, fell only slightly to 2.7%, in line with expectations (Chart 1). Due to the persistently high price increases for services (4.0% in September), the core inflation rate is likely to remain well above the ECB's target in the coming quarters.

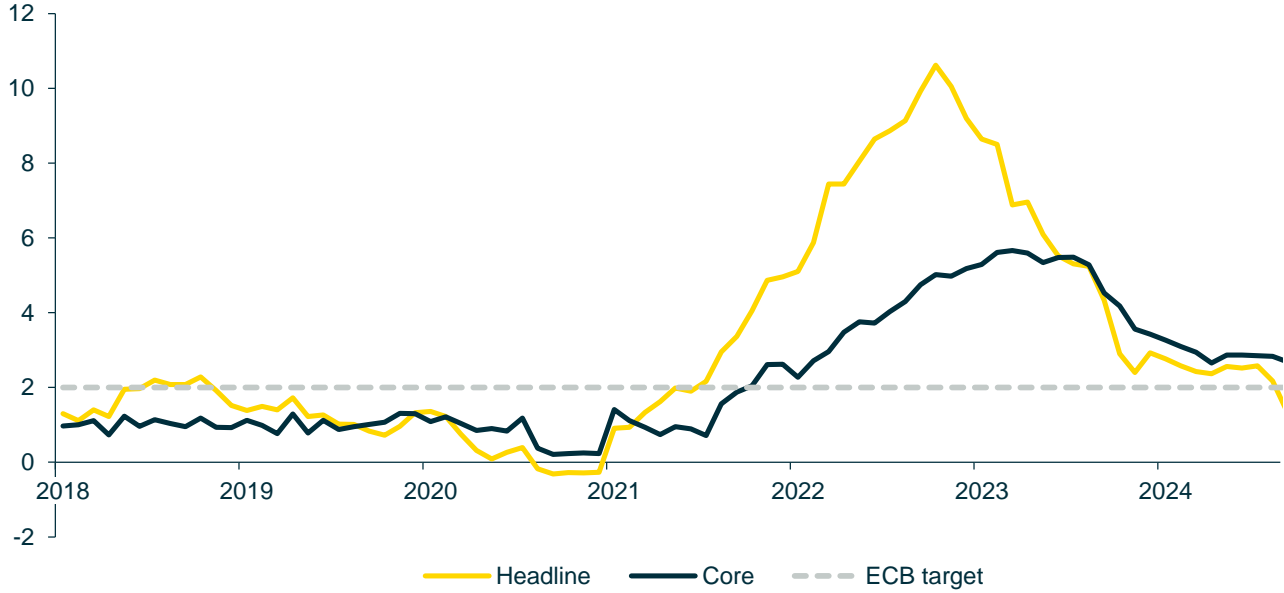
Last Friday, France (from 2.2% to 1.5%) and Spain (from 2.4% to 1.7%) had already published their inflation rates according to the EU harmonization procedure. Inflation rates in these countries have not only fallen significantly, but have also clearly fallen short of economists' expectations. However, this has not happened to the same extent in the euro area as a whole. This suggests that special effects in France and Spain – such as the absence of the Olympic effect in France – have influenced the picture.

Important disclosure Information at the end of the document



Chart 1 - Inflation rate falls below the ECB target of 2%

Harmonized consumer price index in the euro area, year-over-year rates in %



Source: Eurostat, S&P Global, Commerzbank-Research

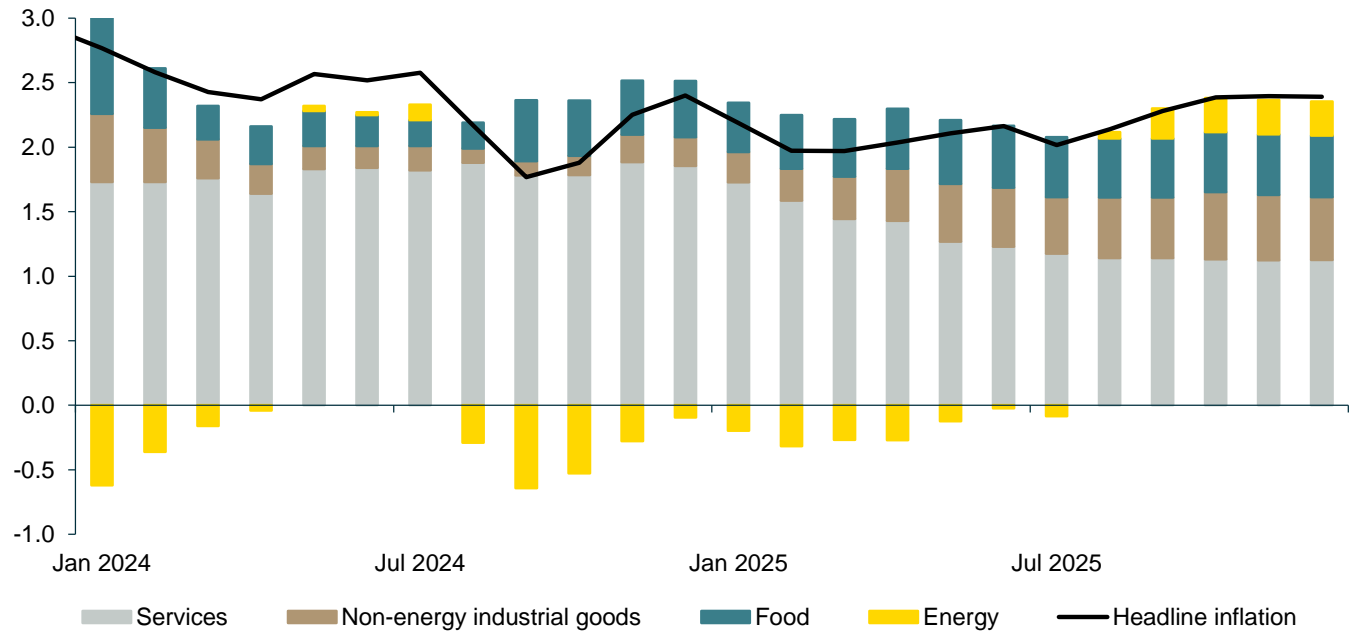
... to rise again at the end of the year

In October, the energy component is also likely to exert a significant downward pressure on the inflation rate (Chart 2). This is not only due to the continued weak oil price, but also to the fact that price increases in the fall of 2023 will fall out of the previous year's comparison. By the end of this year, however, stubbornly rising service prices are also likely to make a higher contribution again. Overall, the inflation rate is therefore likely to rise to around 2.4% by the end of 2024, well above the ECB's target.



Chart 2 - The inflation rate could rise towards the end of the year

Contributions to the year-over-year rate of consumer prices by sub-component, in percentage points; from October 2024 forecast



Source: Eurostat, Commerzbank-Research

Lower inflation rate sets the stage for ECB interest rate cut in October

This was the last update of the inflation data before the ECB Governing Council meeting on October 17. The fact that the inflation rate has fallen well below the ECB’s target level today and that the purchasing managers’ indices have recently indicated economic headwinds should open a wide window of opportunity for the ECB to make an additional interest rate cut. In a speech to the European Parliament yesterday, ECB President Lagarde had already indicated that the ECB would use this window for an interest rate cut. We therefore also changed our forecast yesterday (see [here](#)) and now expect a cut in key interest rates of 25 basis points at the October meeting. In December, the ECB is then likely to return to its rhythm of one 25 basis point cut every two Council meetings. In the course of spring 2025, inflation is likely to prove more stubborn than expected. The deposit rate is therefore unlikely to fall below 2.5%.

Table 1 - Euro area inflation

Year-over-year change in percent

Indicator		Sep-24	Forecasts		Aug-24	Jul-24	Jun-24
		preliminary	CB	Consensus			
Consumer prices	%, y-o-y	1.8	1.7	1.8	2.2	2.6	2.5
Core rate 1)	%, y-o-y	2.7	2.6	2.7	2.8	2.9	2.9

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



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