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Economic Research

Economic Briefing

# Euro area inflation rises slightly

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## Table of contents

Inflation is rising due to base effects	1
Service prices continue to rise	2
Inflation is well below the ECB's expectations	2

**The inflation rate in the euro area rose to 2.3% in November. However, this is largely due to base effects. Market participants had expected inflation to reach this level. Core inflation, excluding energy, food and beverages, remained constant at 2.7%. Overall, the ECB will see its monetary policy as having been successful and will cut key rates again in December.**

## Inflation is rising due to base effects

According to preliminary data from Eurostat, the inflation rate rose to 2.3% in November (from 2.0% in October). The economists surveyed in advance had expected with this rate of inflation (Table 1). Inflation rose particularly sharply for energy prices, which are prone to fluctuation (from -4.6% in October to -1.9%). The core inflation rate, excluding energy, food and beverages, remained constant at 2.7%, slightly surprising on the downside.

The rise in inflation is not a surprise overall. This is because the bulk of the increase in November can be explained by a base effect. This is because the decline in energy prices a year ago is dropping out of the year-on-year comparison this month (Chart 1). Without this effect, the inflation rate would hardly have risen. At the beginning of next year, the base effect could reverse again and even push the inflation rate down noticeably.

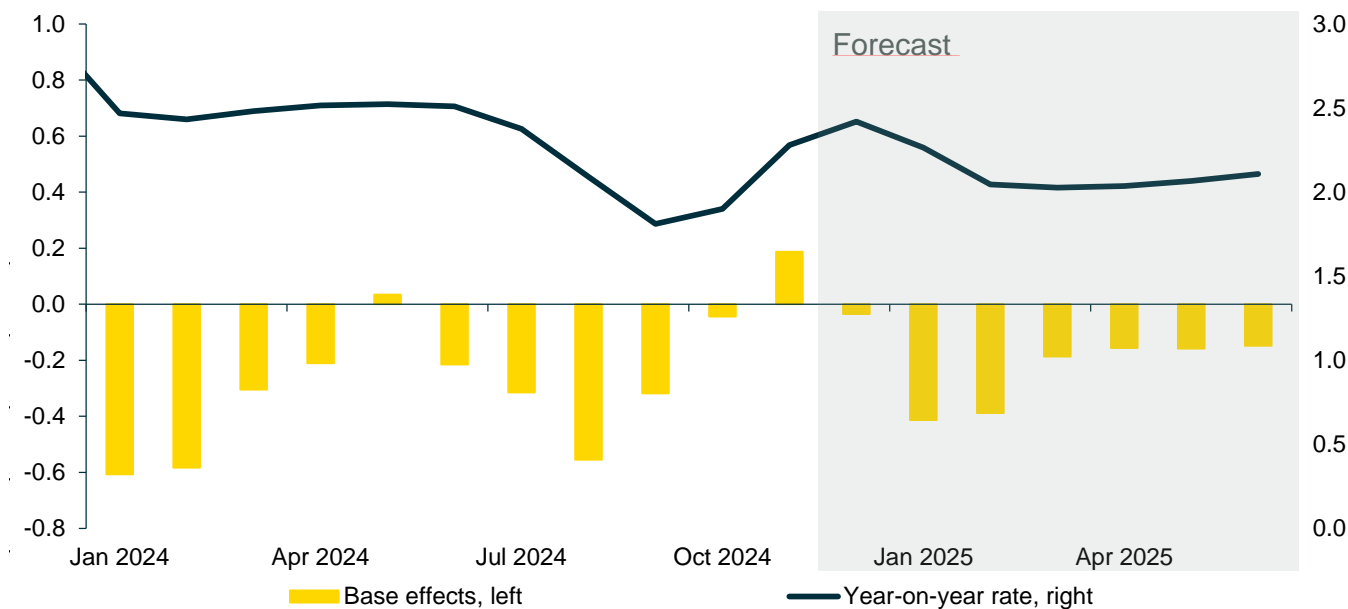


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**Chart 1 - Base effects drive inflation in November**

Euro area consumer price index, base effects on year-on-year rates in percentage points, year-on-year rate in %



Source: Eurostat, Commerzbank-Research

**Service prices continue to rise**

In particular, service price inflation remains stubbornly high. Since the beginning of this year, the inflation rate in this area has fluctuated around the 4% mark, falling only slightly to 3.9% in November. One reason for this is likely to be the sharp rise in wages, which is having a particular impact on labour-intensive services. In the third quarter, negotiated wages in the euro area rose sharply by 5.4%.

Goods price inflation also rose slightly to 0.7% in November and has apparently bottomed out. The recently rising inflation in food price inflation remained almost unchanged at 2.8% in November.

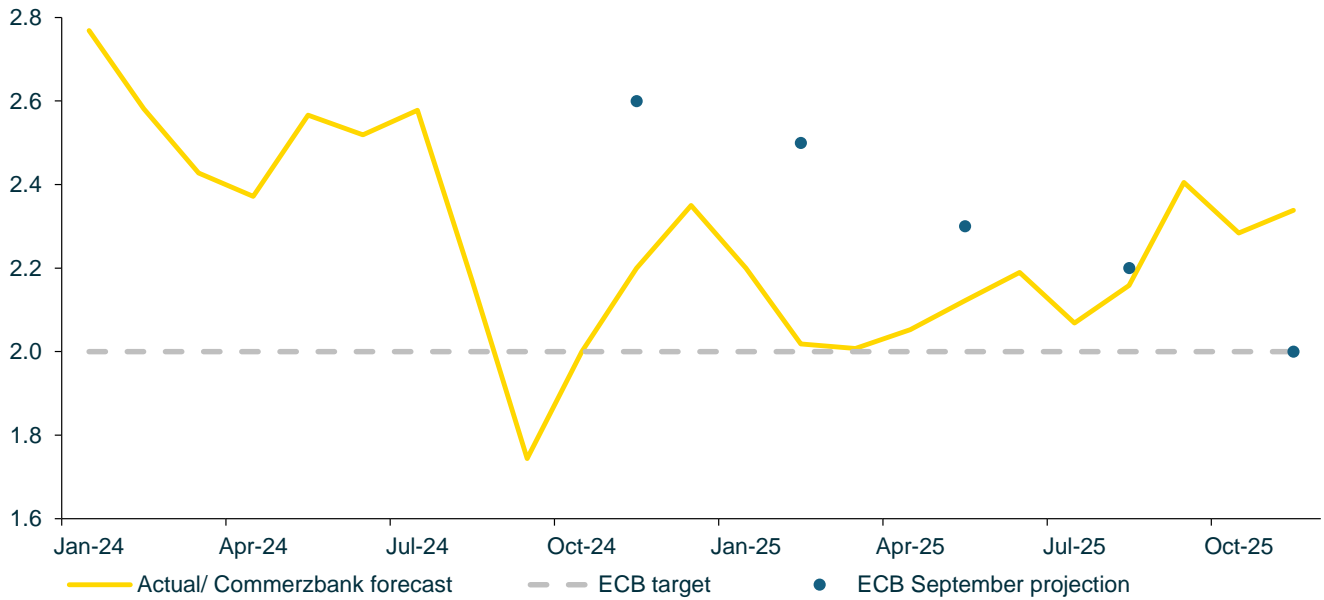
**Inflation is well below the ECB's expectations**

Despite the rise in inflation in November, the ECB is unlikely to be dissuaded from its policy of cutting interest rates. One reason for this is that inflation is well below the ECB's expectations. In September, the ECB had still assumed that inflation in the fourth quarter would be 2.6% (Chart 2). According to our calculations, inflation is likely to be around 2.3%. Next year, too, actual inflation will be below the ECB's expectations from September. As a result, the central bank will consider the inflation problem to be under control. We therefore expect a 25 basis point interest rate cut in December.



**Chart 2 - The inflation lies below ECB's expectations**

Consumer price index in the euro area, year-on-year rates in %, actual data until November 2024, forecasts afterwards



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

**Table 1 - Euro area inflation**

Year-over-year change in percent

Indicator		Nov-24	Forecasts		Oct-24	Sep-24	Aug-24
		preliminary	CB	Consensus			
Consumer prices	%, y-o-y	2.3	2.4	2.3	2.0	1.7	2.2
Core rate 1)	%, y-o-y	2.7	2.8	2.7	2.7	2.7	2.8

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



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