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Economic Research

Economic Briefing

Euro area – The core rate continues to drop

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Inflation in the euro area fell to 2.2% in March. Higher food prices largely offset lower gasoline and diesel prices. Core inflation, excluding energy, food and beverages, fell to 2.4%, continuing its downward trend. In the coming months, core inflation is likely to fall further and come very close to the ECB target of 2%. This argues in favor of a further interest rate cut by the ECB in April.

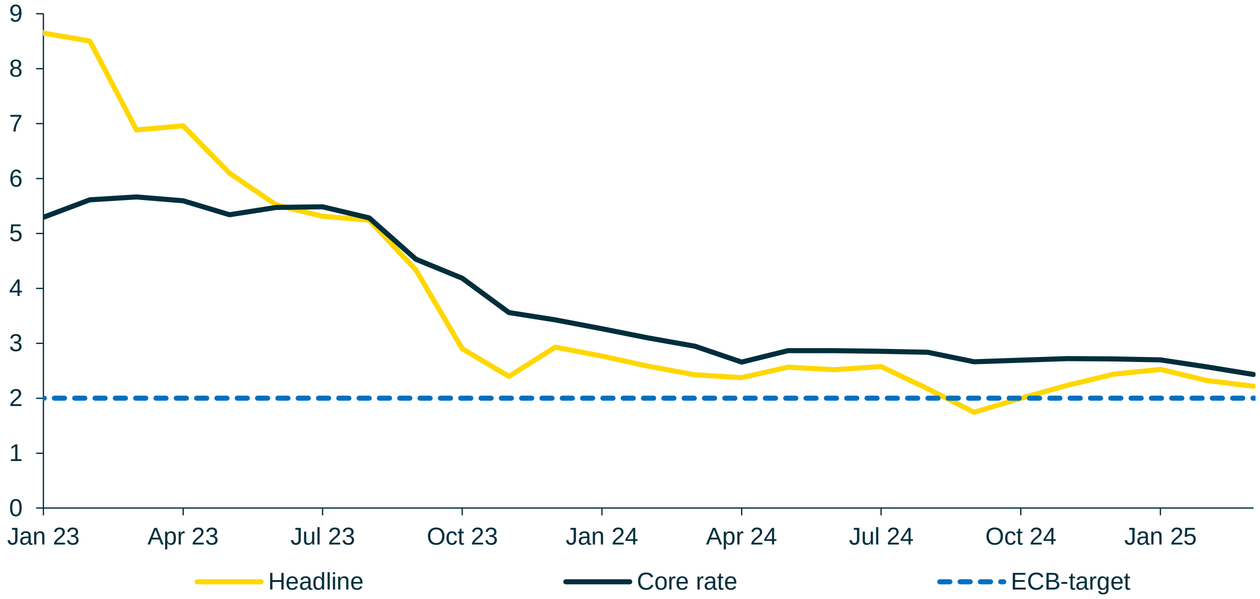
Inflation will come close to the ECB target in the short term

According to preliminary data from Eurostat, the headline inflation rate fell slightly to 2.2% in March (from 2.3% in February; Chart 1), which was in line with the expectations of economists surveyed in advance. This brings inflation closer to the ECB target of 2.0%. The inflation rate excluding energy, food, alcohol and tobacco (core rate) fell to 2.4% (from 2.6% in February), which was slightly below expectations.

In the coming months, however, headline inflation is likely to remain at this level and thus above the ECB target of 2.0%. After a short-term breather, the core rate is likely to fall noticeably again over the summer months.

Chart 1 - The inflation rates inch closer to the ECB-target

Harmonized Consumer Price Index, year-on-year rates in %



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

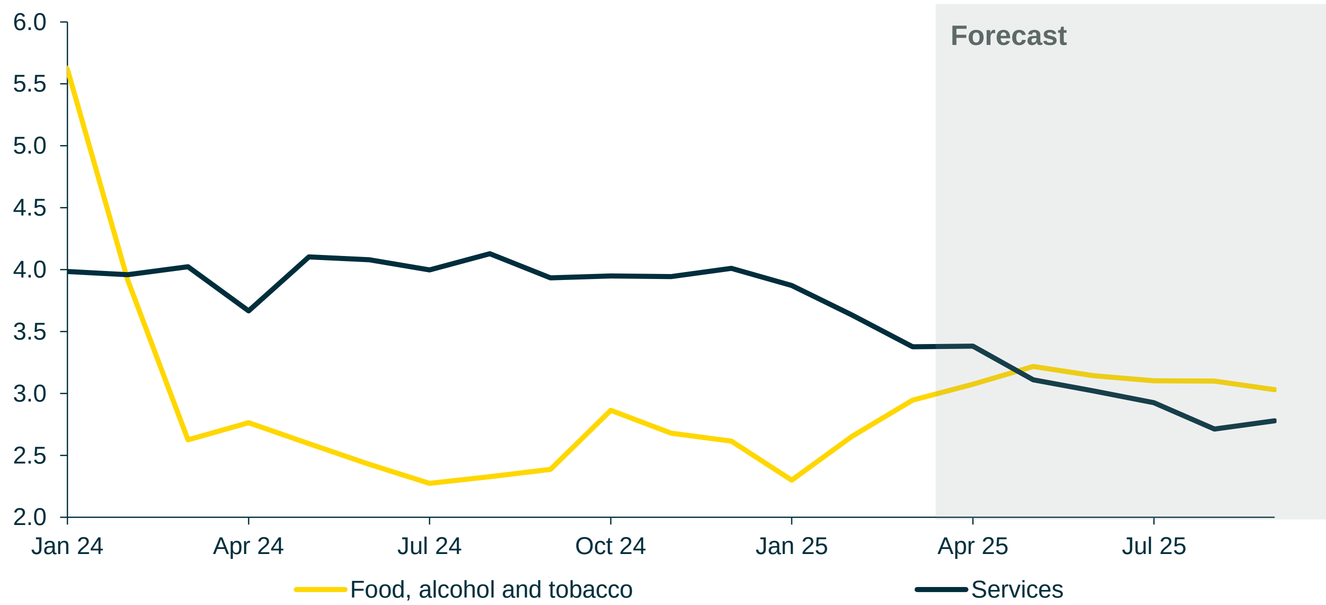
Inflation is rising in the food and falling in the services component

A look at the subcomponents of the consumer price index shows that the year-on-year rate of consumer prices for food, alcohol and tobacco has risen (from 2.7 to 2.9%, Chart 1), thus partially offsetting the lower energy prices. Prices for oil products such as gasoline, diesel and heating oil fell noticeably in March.

Furthermore, inflation in service prices fell again (from 3.7 to 3.4%). Service price inflation has thus continued its downward trend since the beginning of the year, after remaining at the 4% mark all of last year. In the coming months, however, services price inflation is likely to fall further, thus depressing the core rate further.

Chart 2 - The services price inflation is falling

Consumer price index in the euro area by subcomponent, in %; data as of April 2025: Commerzbank Forecast



Source: Eurostat, Commerzbank-Research

Falling core rate in line with ECB

Today's inflation figures are likely to give the doves in the ECB Governing Council a boost. At 2.2%, inflation is only just above the ECB's target of 2.0%. The ECB is also likely to take a favorable view of the falling core inflation. This makes a cut in key rates in April much more likely than a pause. Another step is likely to follow after the April meeting, before the ECB switches to a wait-and-see mode at a deposit rate of 2.0%.

Table 1 - Euro area inflation

Year-over-year change in percent

Indicator		Mar-25	Forecasts		Feb-25	Jan-24	Dec-24
		prel.	CB	Consensus			
Consumer prices	%, y-o-y	2.2	2.1	2.2	2.3	2.8	2.4
Core rate 1)	%, y-o-y	2.4	2.4	2.5	2.6	3.3	2.7

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

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