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Economic Research

Economic Briefing

€-inflation details – Underlying inflation remains slightly too strong

16 April 2025

Dr. Vincent Stamer [AC]

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Euro area consumer prices excluding energy, food, alcohol and tobacco rose by a seasonally adjusted 0.19% in March compared to February. As in previous months, the annualized rate is above the ECB's target, although it was somewhat lowered by special effects. In view of the trade conflict and the drop in the oil price, the ECB is nevertheless likely to lower its key interest rate tomorrow, with two further steps to follow by the fall.

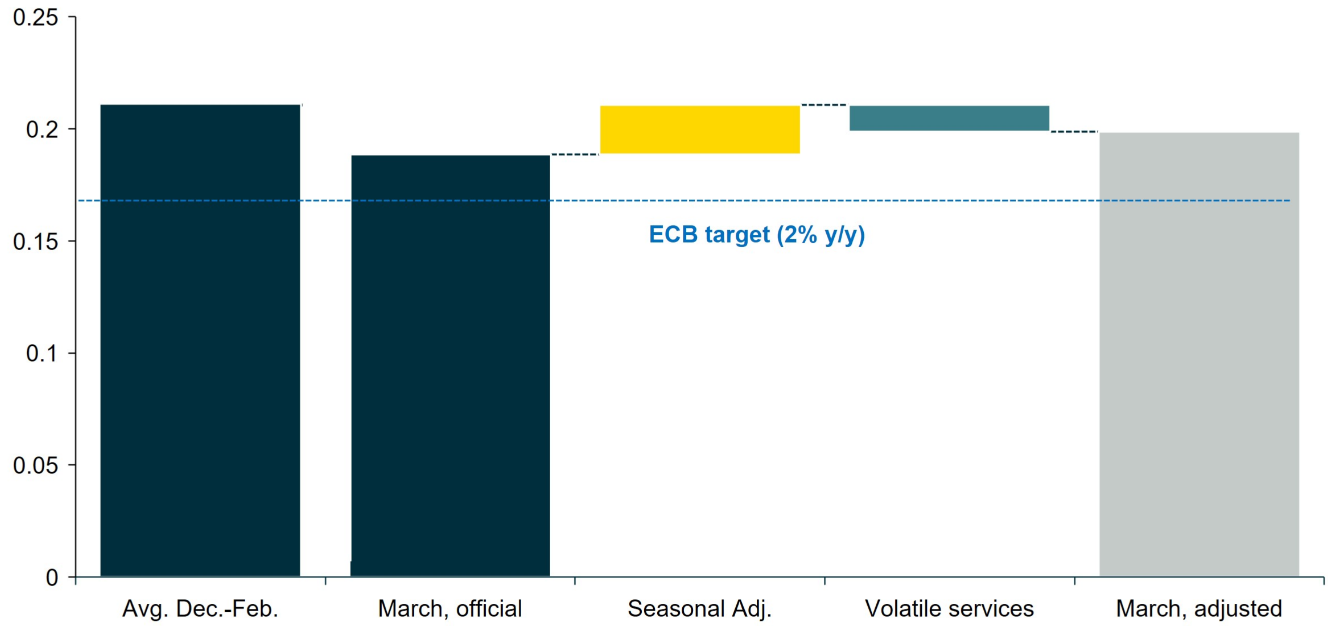
Details confirm core rate above ECB target

According to the final figures from Eurostat and the ECB, consumer prices in the euro area excluding energy, food, alcohol and tobacco (core rate) rose by a seasonally adjusted 0.19% in March compared to February. Although the core rate is below the average of the preceeding three months, it is still above the ECB target of a year-on-year rate of 2% (Chart 1). If we adjust the official core rate for one-off effects, it would even be slightly higher than published by the ECB today.

However, the one-off effects we identified were small in March: if we adjust the month-on-month core rate for seasonal effects using our preferred method (X-13 ARIMA model), the core rate in March would be 0.21%. In the past months, the X-13 ARIMA method was less prone to fluctuations. Prices for particularly volatile services, such as transportation services or package holidays, also rose in March in line with previous months. For this reason, there is hardly any need for adjustment here either. Adjusted for all one-off effects, the month-on-month core rate is therefore 0.20%.

Chart 1 - Core rate too high in March

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

The trade conflict and the oil price are playing into the ECB's hands

Core inflation, measured against the previous month's rates, was once again higher than the ECB's target. However, due to base effects, the year-on-year rate of core inflation is still falling – to 2.4% in March – and this downward trend is likely to continue until autumn. The ECB will interpret this as a success in its fight against inflation.This is supplemented with the lower oil price and the US tariffs imposed by the Trump administration. The latter are reducing export activity of the euro area, and the stronger influx of Chinese goods into the European market could further curb price increases here. Both developments play into the hands of the ECB, which is likely to lower key interest rates three more times. By the end of the year, we expect the deposit rate to be 1.75%.

Analysts

Dr. Vincent Stamer AC
Senior Economist
+4969935345800
vincent.stamer@commerzbank.com

This report was completed 16/4/2025 13:36 CEST and disseminated 16/4/2025 13:36 CEST.

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Commerzbank Offices

Frankfurt	**London**	**New York**	**Singapore**
Commerzbank AG	Commerzbank AG	Commerz Markets LLC	Commerzbank AG
DLZ - Gebäude 2, Händlerhaus	PO BOX 52715	225 Liberty Street, 32nd floor,	128 Beach Road
Mainzer Landstraße 153	30 Gresham Street	New York,	#17-01 Guoco Midtown
60327 Frankfurt	London, EC2P 2XY	NY 10281-1050	Singapore 189773
Tel: + 49 69 136 21200	Tel: + 44 207 623 8000	Tel: + 1 212 703 4000	Tel: +65 631 10000