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Economic Research

Economic Briefing

Euro area inflation – Below the ECB target for the time being

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The inflation rate in the euro area fell surprisingly sharply in May and, at 1.9%, is now just below the ECB's target of two percent. However, inflation is unlikely to fall any further and is likely to stabilize at this level. In addition, the core inflation rate excluding energy, food and beverages has fallen surprisingly sharply and, at 2.3%, is lower than in March before the Easter effect.

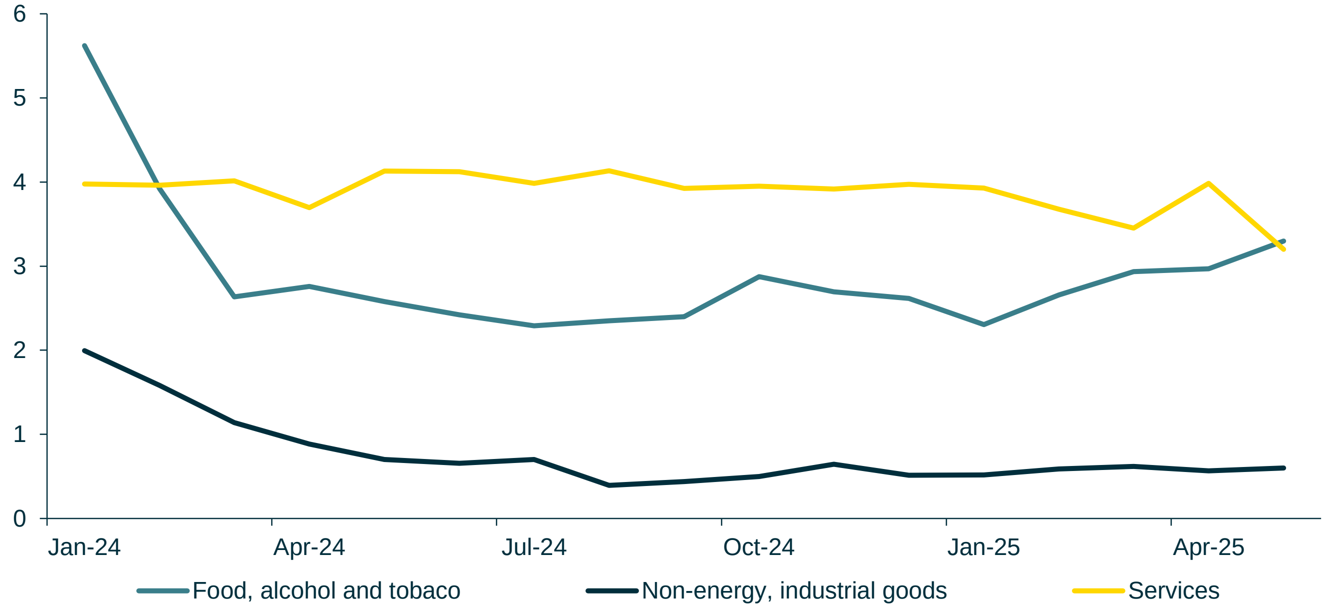
Vanishing Easter effect causes inflation to drop

According to preliminary data from Eurostat, the inflation rate fell to 1.9% in May, after 2.2% in the previous month, and was therefore lower than the consensus (2.0%). The inflation rate excluding energy, food and beverages (core rate) also fell from 2.7% to 2.3%. This was also below consensus expectations. As expected, the surprising rise in the core rate in April was not permanent.

The fall in the inflation rate is mainly due to the inflation rate for services. This fell noticeably from 4.0% to 3.2% in May (Chart 1), following a surprisingly sharp rise in April, partly due to expensive flight ticket prices around Easter. The only blemish was the rise in the inflation rate for food and beverages to 3.3%.

Chart 1 - The services price inflation falls after the Easter effect

Consumer price index in the euro area, year-on-year rates in % by subcomponent



Source: Eurostat, Commerzbank-Research

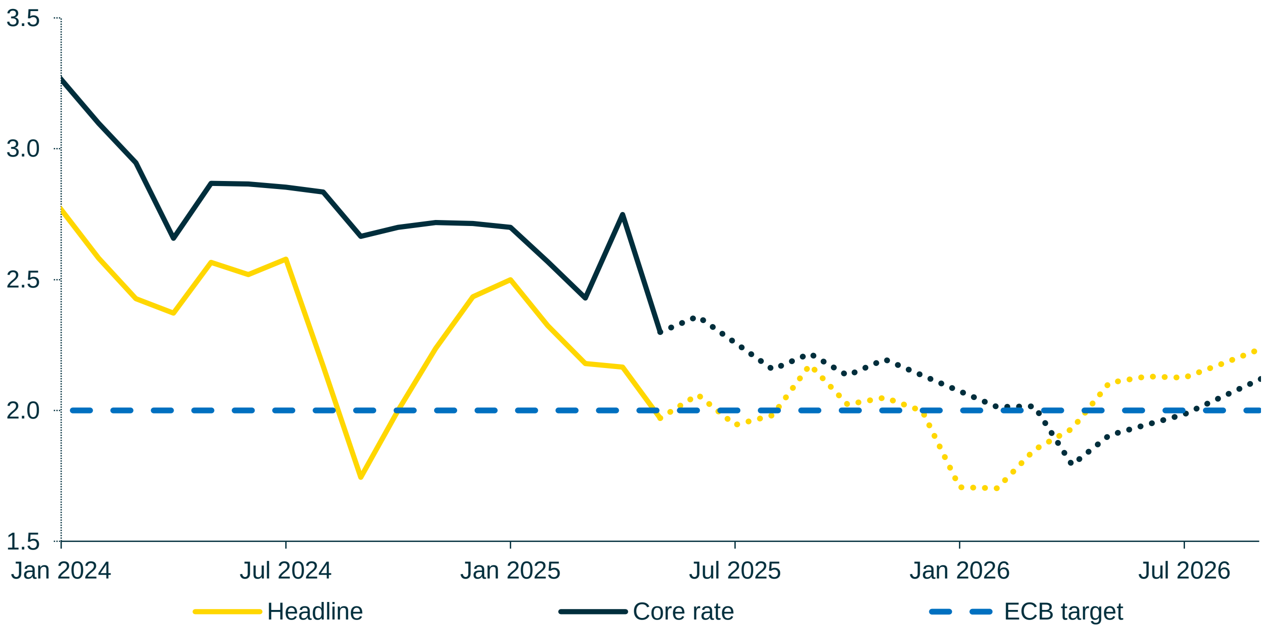
Inflation has reached the ECB target for the time being

With a year-on-year rate of 1.9%, inflation is now just below the ECB's target of two percent. However, this should put an end to the downward trend in inflation for the time being. Instead, inflation is likely to fluctuate around the ECB target over the course of the year (Chart 2). The core rate is likely to fall further in the coming months. In addition to the slower rise in negotiated wages in the euro area, this is also supported by the fact that Chinese goods are likely to be increasingly diverted to Europe as a result of the US tariffs. However, the oil price has stabilized in recent weeks, meaning that energy prices should not fall any further.

In the course of 2026, a reviving economy and structural effects such as unfavorable demographics are likely to drive inflation up again.

Chart 2 - The core rate will continue its downwards trend

Harmonized consumer price index in the euro area, year-over-year rates in %, from May 2025 Commerzbank forecasts



Source: Eurostat, Commerzbank Research

The ECB will cut the interest rate this week

The ECB's next meeting will take place the day after tomorrow on June 5. Now that the inflation rate has reached the ECB's target, there is no longer any doubt that the central bank will cut the deposit rate by a further 25 basis points to 2.0%. This also follows from the fact that the ECB's previous inflation forecast for this year is still quite high, meaning that the central bank is in the comfortable position of being able to lower its forecasts. Overall, we expect the ECB to cut its key interest rates by a further 25 basis points by the end of the year. The deposit rate would then stand at 1.75%.

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