

# Euro area inflation remains just above ECB target

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The inflation rate in the euro area rose slightly to 2.1% in August, stabilizing just above the ECB's target. Core inflation, excluding energy, food, alcohol and tobacco, remained at 2.3%. Major movements of the inflation rate are also unlikely until the end of the year. As inflation is no longer falling, further interest rate cuts by the ECB are unlikely.

## Inflation rate settles just above ECB target

According to preliminary data from Eurostat, the inflation rate rose slightly to 2.1% in August. This is in line with the consensus expectations. However, the inflation rate excluding energy, food, alcohol and tobacco (core rate) stagnated at 2.3% (consensus: 2.2%).

Among the individual components, the inflation rate for services continued its downward trend since the beginning of the year. The corresponding year-on-year rate fell from 3.2% in July to 3.1% in August. Inflation for food, alcohol and tobacco also fell by one-tenth to 3.2%, ending its upward trend. Nevertheless, prices for these products are still rising faster than those for other components compared with the previous year. The year-on-year rate for non-energy industrial goods (0.8%) remained unchanged compared with July. Only the year-on-year rate for energy rose significantly compared with the previous year (from -2.4% to -1.9%). Although energy prices fell compared with the previous month, an even sharper decline in energy prices from last summer is no longer included in the year-on-year comparison (base effect). As a result, the year-on-year rate for the energy component rose overall.

## The core inflation stabilizes above the ECB target

Inflation excluding volatile energy and food prices (core inflation) has fallen from 2.7% at the beginning of the year to 2.3% currently (Chart 1). However, a look at developments during the year shows that the downward trend in the core rate is likely to have come to an end for the time being. The seasonally adjusted, annualized 3-month rate has fluctuated between 2% and 3.5% in recent months. This rate rose again in August. This means that the core rate, which is important for the ECB, is now likely to stabilize at around 2.3%. Another factor arguing against a further decline in the core rate is the continued strong rise in wages, which was still sizable at just under 4% in the second quarter.



### Chart 1 - The core rate settles above the ECB target

Harmonized core consumer price index in the euro area, year-over-year rates and seasonally-adjusted 3-month rate, in %



Source: Eurostat, ECB, Commerzbank Research

### Inflation remains above the ECB's expectations

In its June projections, the ECB had forecast inflation rates below its own target of 2% for the second half of the year. In fact, however, inflation is emerging at just above the ECB's target. As a result, the ECB will likely revise its inflation forecast upward in its September projections. In addition, with inflation stagnating in the euro area, the high hurdles of significant changes in inflation that ECB President Lagarde had set for a change in key interest rates are unlikely to be cleared. We therefore do not expect any further interest rate cuts.



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