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Economic Research

Economic Briefing

Update €-inflation – The core rate does not budge

21 October 2025

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Our quant model based on machine learning forecasts higher core inflation in the euro area for the coming months than it did in August. Inflation excluding energy, food, alcohol and tobacco will therefore decline more slowly than previously assumed. Our analysis of inflation details also shows no movement in underlying inflationary pressure at present. Only in the coming months is the momentum of service inflation likely to slow due to slower wage growth and lower energy prices.

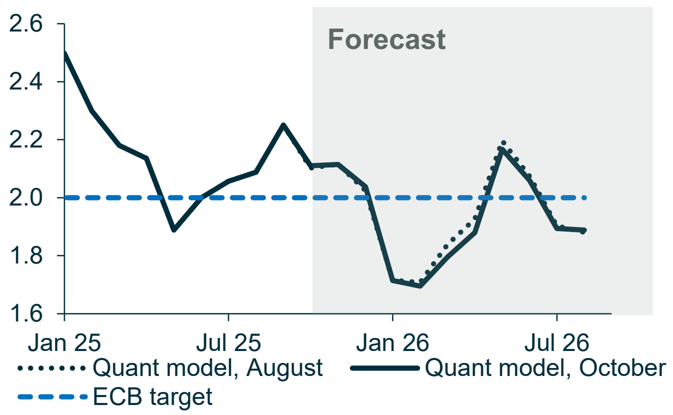
Core inflation remains stubborn

Our machine learning-based quant model for inflation in the euro area (see **here**) continues to expect inflation to fluctuate around the ECB's target of 2% in the coming months (Chart 1). Energy prices are likely to continue to fall in the coming months due to low oil prices. However, the quant model expects higher inflation excluding energy, food, and beverages than previously forecast. As a result, the year-on-year core rate is likely to fall only very slowly toward the ECB's target of 2% over the next twelve months (Chart 2).

However, some other indicators signal a short-term downside risk for services inflation (see DeepDive below.)

Chart 1 - The model forecasts remains unchanged

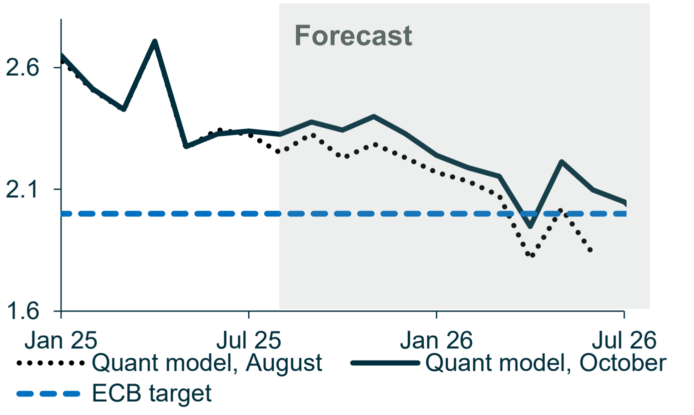
CPI in the euro area, year-on-year rate in %, as of October 2025 CBK quant forecasts



Source: Eurostat, Commerzbank Research

Chart 2 - The core rate will fall more slowly

Core-CPI in the euro area, year-on-year rate in %, CBK quant forecasts as of October 2025



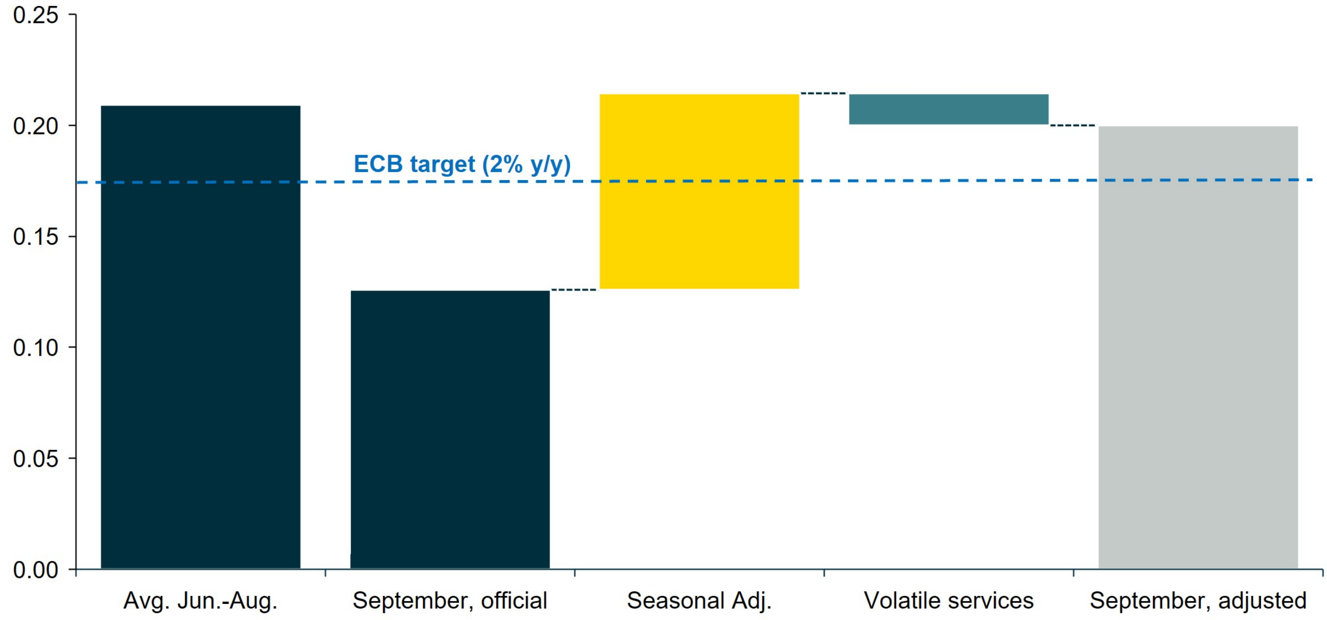
Source: Eurostat, Commerzbank Research

The official core rate may be too low

According to final figures from Eurostat and the ECB, consumer prices in the euro area excluding energy, food, alcohol and tobacco (core rate) rose by only 0.13% in September compared with August, after seasonal adjustment. This increase was lower than the average for the previous three months and also below the ECB's target. However, the seasonal adjustment used by ECB is likely to underestimate the pace in September. Based on our preferred seasonal adjustment, the core rate was significantly higher (Chart 3). Prices for volatile services such as transport, package holidays, and insurance, on the other hand, had little impact on the inflation rate in September.

Chart 3 - The core rate settles above the ECB target

Harmonized consumer price index in the euro area, excluding energy, food, acohol and tobacco seasonally adjusted, month-over-month rates in %; adjustments in percentage points



Source: ECB, Commerzbank Research

Core inflation does not require action by the ECB

Overall, the core rate is therefore likely to remain stubbornly high and is also likely to exceed the ECB's target in the winter half of the year. Furthermore, the slowdown in wage inflation could be lower than expected by the ECB. In addition, companies are unlikely to have passed on the full extent of the rise in input prices and wages to their customers in recent months, but have instead accepted falling profit margins. Given the now significantly lower profit margins, they are likely to pass on rising input prices more strongly in the future.

ECB President Christine Lagarde has already made it clear that the hurdles for further interest rate cuts are now high. With inflation moving sideways in the coming months, it is unlikely to argue in favor of interest rate cuts.

DeepDive services: Right on trend?

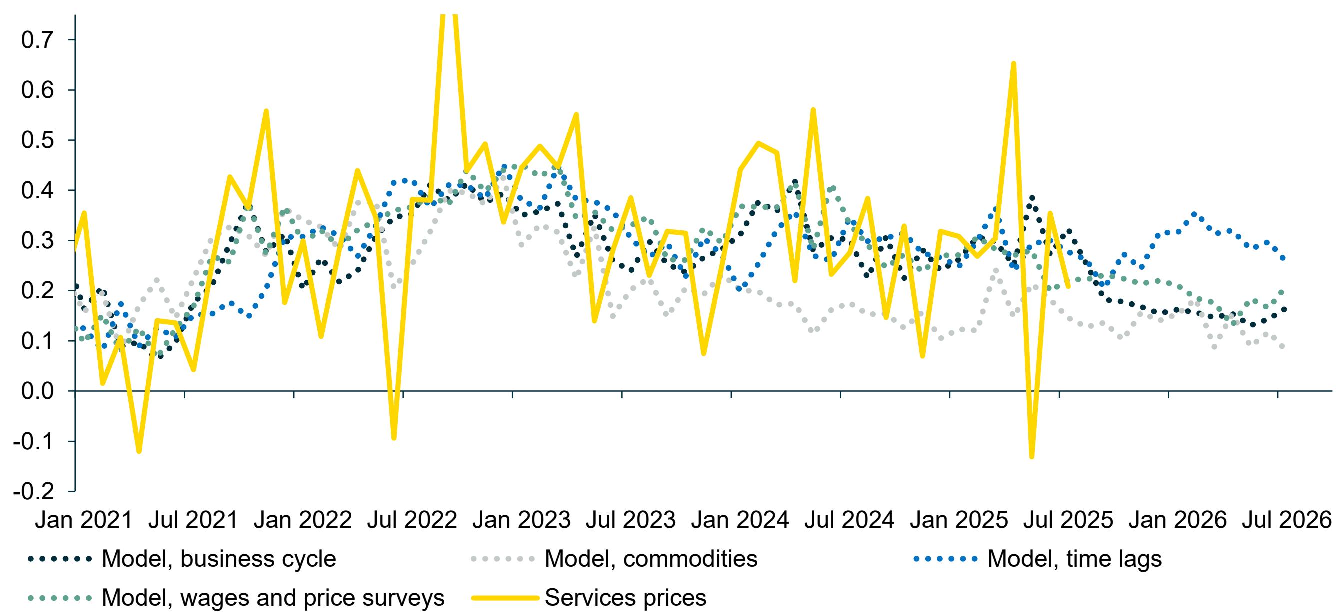
In September, seasonally adjusted service prices rose by 0.2% compared with August, which was comparable to the average for the first eight months of the year (Chart 4). Accordingly, based on past trends in inflation components, the model also forecasts that service price inflation will remain stubbornly high (time lag model, Chart 4). This model also includes past inflation in other inflation components such as food and beverages. Since prices for food and beverages have recently risen at least as sharply as service prices, more expensive restaurant and hotel services are likely to continue to drive service inflation.

However, the other important models for services inflation assume that the previous month's rate will fall to 0.1% over the next twelve months. This is supported, for example, by the negative output gap (business cycle model), as well as the downward trend in PMI input and sales prices in the services sector and the ECB's wage tracker, which continues to fall (wages and price surveys model). The development of commodity prices also does not currently point to an increase in prices in the transport sector, for example.

Overall, service inflation could therefore remain close to the 0.2% mark. This is because it is entirely possible that service prices will follow their trend and that the most important indicators do not take all information into account. Nevertheless, the models do signal a downside risk for the core rate.

Chart 4 - All models expect lower services inflation except for the time lags model

Consumer price index for services in the euro area and forecasts on the basis of various indicator groups, seasonally adjusted, month-on-month rate in %



Source: ECB, Commerzbank Research

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This report was completed 21/10/2025 11:48 CEST and disseminated 21/10/2025 11:48 CEST.

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