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Economic Research

Economic Briefing

# Euro area – the inflation wave

31 July 2024

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**The inflation rate in the euro area surprisingly rose to 2.6% in July – mainly due to volatile energy prices. Contrary to expectations, the core rate remained at a high 2.9%. However, the inflation rate is likely to fall significantly by September, giving the ECB the opportunity to cut interest rates further. Due to the higher underlying inflation, which was once again visible in today's figures, the inflation rate is likely to rise again at the end of the year.**

## Energy prices lead to higher inflation

According to preliminary data from Eurostat, the inflation rate rose surprisingly from 2.5% to 2.6% in July. The economists surveyed in advance had on average expected a stagnation at 2.5% (Table 1). The reason for the surprise was a year-on-year increase in the often volatile energy prices (from 0.2% in June to 1.3% in July). Contrary to expectations, the inflation rate excluding energy, food and beverages remained at 2.9%. In a year-on-year comparison, inflation for services fell slightly and rose modestly for goods excluding energy and food. All in all, the underlying price pressure in July continued to be significantly higher than would be compatible with the ECB's inflation target.

## The inflation wave could recede to below 2% by September...

However, as sharp jumps in energy prices will be excluded from the year-on-year comparison by September, the contribution of energy prices to inflation is likely to weaken in the coming months. In September, the inflation rate could even dip below the ECB's target of 2%.

## ... only to rise again in the fall.

However, the wave-like movement of inflation also means that the previous year's rate will rise again by the end of the year after a temporary low in September. This is also supported by the high underlying inflationary pressure, which has once again become clear in today's data. Service prices have risen more strongly again in a 6-months comparison since the beginning of the year. High wage settlements should continue to support this trend. In addition, inflation for goods excluding energy and food has not fallen for several months (Chart 1). Due to rising producer prices for intermediate goods and soaring freight rates in the container shipping network, a trend reversal is likely to

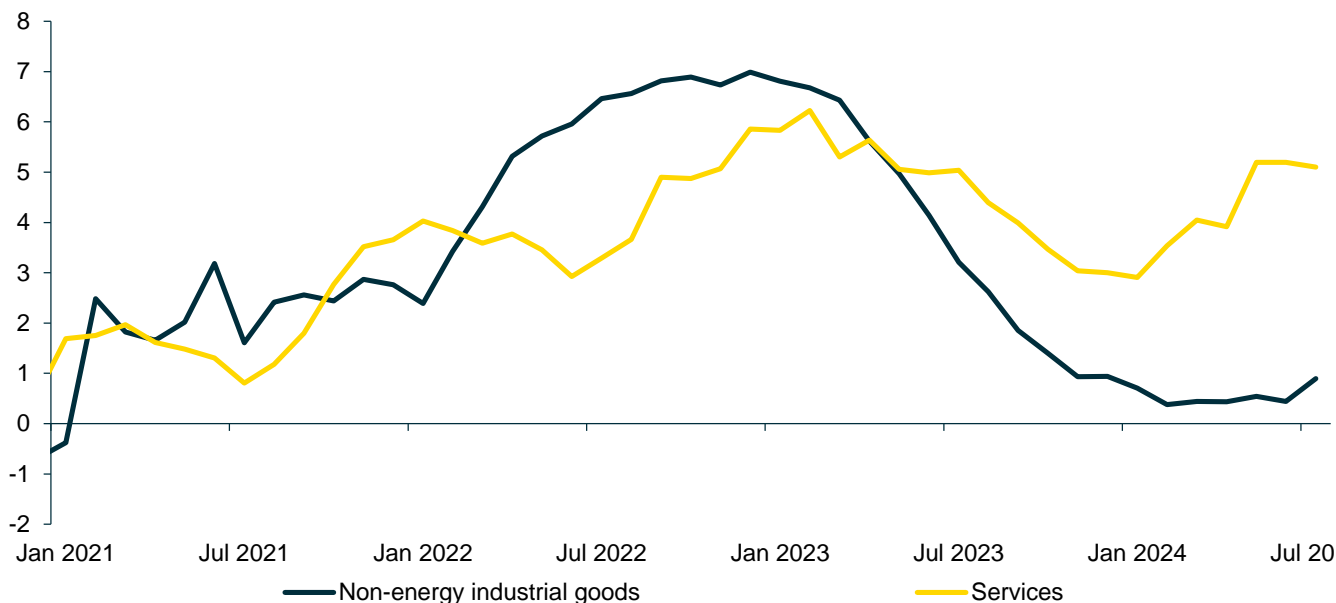
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occur here, meaning that goods prices will rise somewhat more strongly again. All in all, we expect the inflation rate to rise to 2.7% in the fourth quarter.

**Chart 1 - An upward movement of the core rate returns**

Subcomponents of HCPI, seasonally adjusted 6-months rates, annualized in percent, July 2024: Estimated by Commerzbank based on annual rates



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

**What are the chances for the ECB to win gold in the race against inflation?**

Before inflation rises again in the fall, however, an ECB Governing Council meeting is scheduled for September 12. In its run towards lower key interest rates, the ECB will hardly see inflation as a hurdle in July and will keep an eye on the downward trend. However, the underlying price pressure on services and goods is becoming more entrenched and this trend could now set in. The supposed sprint against stubborn inflation could thus turn into a marathon with an uncertain outcome.

**Table 1 - Euro area consumer price inflation**

Year-over-year change in percent

Indicator		May-24	Forecasts		May-24	Apr. 24	Mar-24
		preliminary	CB	Consensus			
Consumer prices	%, y-o-y	2.6	2.3	2.5	2.5	2.6	2.4
Core rate 1)	%, y-o-y	2.9	2.7	2.8	2.9	2.9	2.7

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



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In accordance with ESMA MAR requirements this report was completed 31/7/2024 11:56 CEST and disseminated 31/7/2024 11:56 CEST.

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