

Update inflation model – The overlooked risks

Our Quant model based on machine learning predicts higher inflation in the euro area for the months starting in April than it did last month. This is due to the strongly rising prices for food and services. By contrast, the lower oil price is likely to lower inflation only in the short term. Accordingly, inflation will remain above the ECB's target in the coming months. This also applies to the core inflation, which may fall more slowly than previously expected by the Quant model.

Higher inflation forecasts are defying the drop in oil prices

In recent weeks, the fall in oil prices and the appreciation of the euro have fueled hopes that inflation will fall rapidly. Indeed, this could cause eurozone inflation to fall from 2.3% to 2.2% or even 2.1% in March. But from April onwards, our Quant model based on machine learning (see [here](#)) expects higher inflation than previously assumed (Chart 1). The higher forecasts are due, among other things, to a further strong increase in food and services prices. This means that inflation is likely to remain above the ECB's target of 2% this year.

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Dr. Vincent Stamer^{AC}

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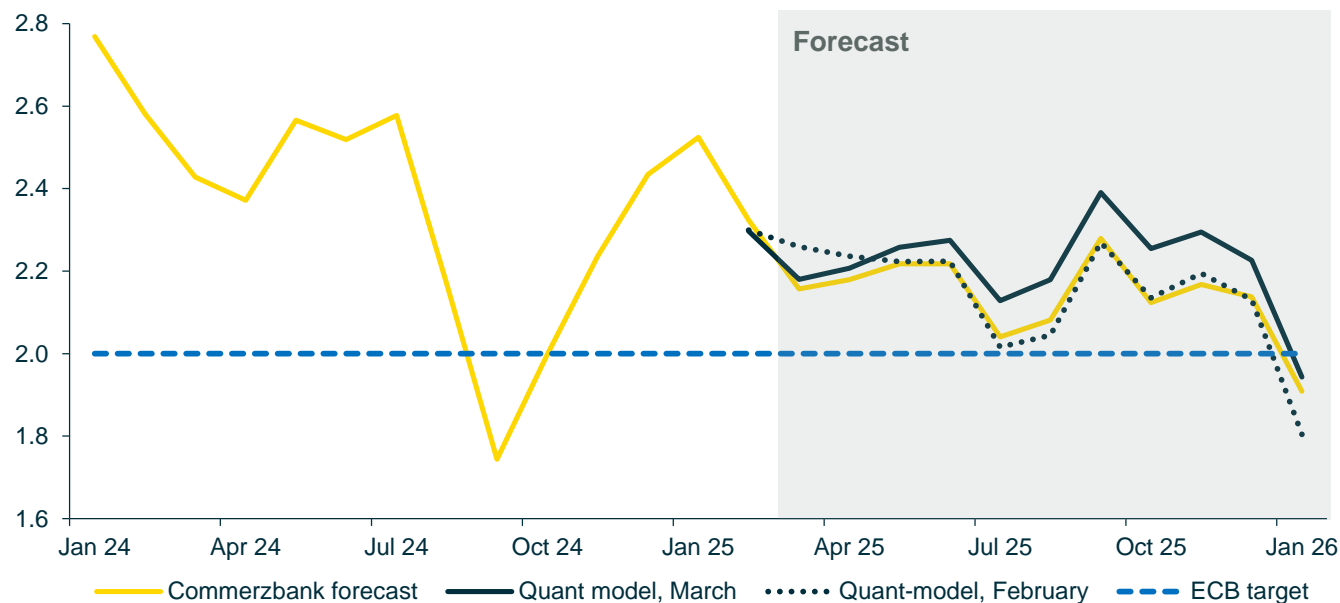
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Chart 1 - The quant model expects a higher inflation than before starting in April

Consumer price index in the euro area, year-on-year rate in %, beginning February 2025

Commerzbank forecasts



Source: Eurostat, Commerzbank forecasts

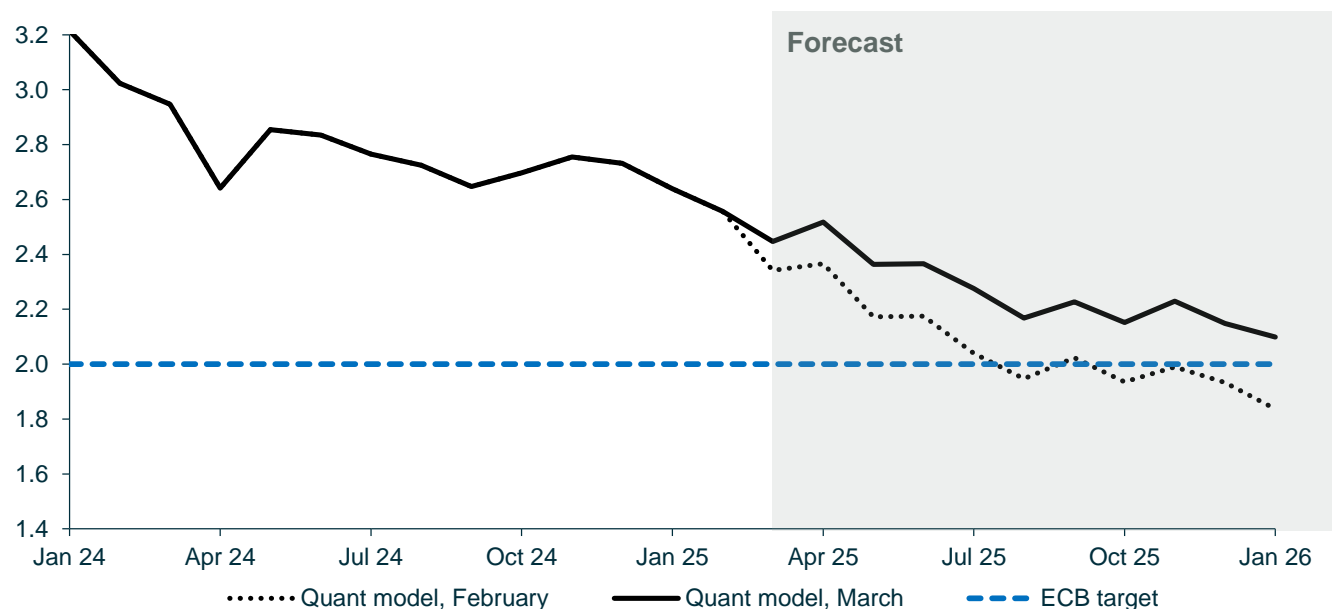
The core rate could fall more slowly than assumed

The Quant model for inflation excluding the volatile prices for energy, food, alcohol and tobacco (core rate) still expects core inflation to fall noticeably (Chart 2). However, the core rate might not fall as quickly as previously assumed. Among other things, the model is reacting here to the recent stubbornly strong price increases in February. Core consumer prices in February had risen by 0.26% in seasonally adjusted terms compared with January; extrapolated to the annual rate, the price increase was well above the ECB's target. Furthermore, the February development was not due to special effects such as strongly fluctuating prices for transport services or package holidays (see [here](#)). Therefore, there is clearly still a strong underlying price trend here, which the model takes into account in its forecast.



Chart 2 - The quant model expects a slower drop in the core rate

Consumer price index in the euro area excluding energy, food, beverages and tobacco, year-on-year rate in %, Commerzbank quant-forecasts as of January 2025



Source: Eurostat, Commerzbank Research

Deep Dive: Services inflation is slowly falling

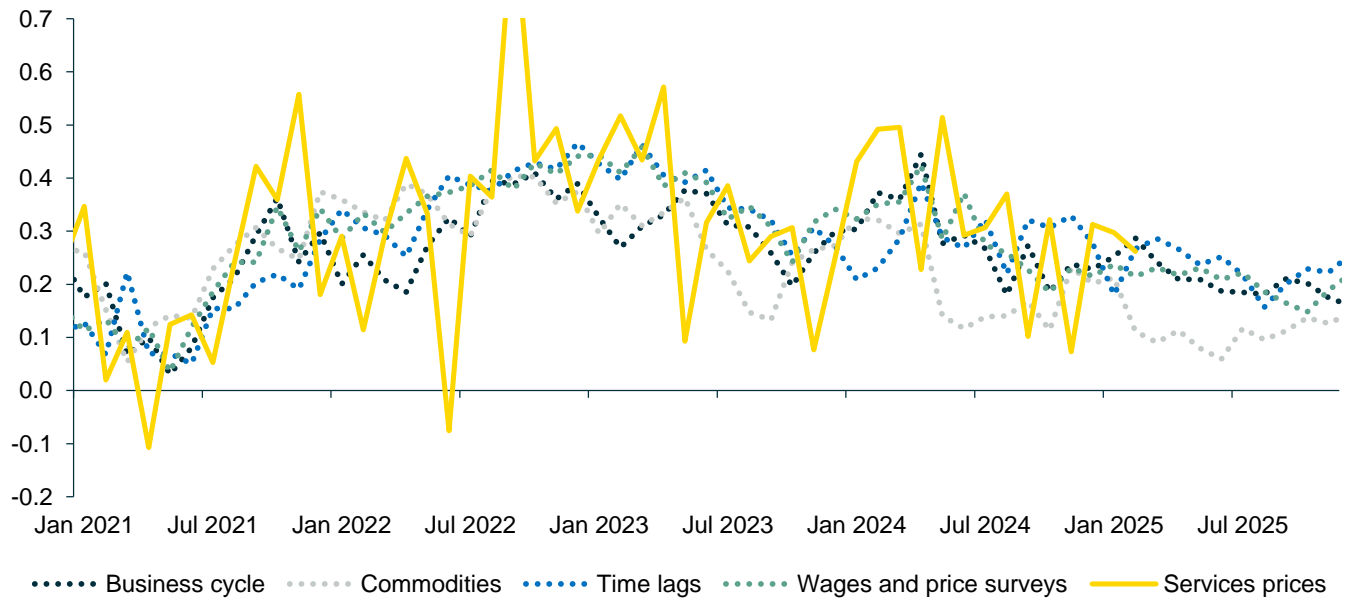
With a 45% weight in the consumer basket, service prices are particularly important for inflation as a whole. However, seasonally adjusted prices for services have risen quite sharply in the past three months, by an average of 0.3% over the previous month. In the coming months, this picture is likely to change only slowly (Chart 3). This is because many factors are still causing a fairly sharp rise in service prices. These include, for example, persistently high wage increases (4.1% collective wage increase in the fourth quarter compared to the previous year) and rising food prices, which are reflected in restaurant prices.

Only the fall in oil prices is curbing the rise in service prices, as the commodity-based inflation forecast in the chart below shows. This is because lower gasoline prices could cause the prices of transportation services to stagnate. Overall, however, we continue to expect stubborn service price inflation.



Chart 3 - The services prices inch lower slowly

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



Analysts

Dr. Vincent Stamer^{AC}

Economist

+4969935345800

vincent.stamer@commerzbank.com

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Commerzbank Offices

Frankfurt

Commerzbank AG
DLZ - Gebäude 2,
Händlerhaus
Mainzer Landstraße 153
60327 Frankfurt
Tel: + 49 69 136 21200

London

Commerzbank AG
PO BOX 52715
30 Gresham Street
London, EC2P 2XY
Tel: + 44 207 623 8000

New York

Commerz Markets LLC
225 Liberty Street, 32nd
floor,
New York,
NY 10281-1050
Tel: + 1 212 703 4000

Singapore

Commerzbank AG
128 Beach Road
#17-01 Guoco Midtown
Singapore 189773
Tel: +65 631 10000