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Economic Briefing

Euro area – Inflation rate breaks the 4% mark

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Dr. Vincent Stamer [AC]

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In October, the inflation rate in the euro area broke the 4% mark for the first time in three years. After the inflation rate had already risen to 3.8% in September, it climbed to 4.0% in October, as expected. This was driven not only by energy prices, but by a broad-based increase in prices across the entire consumer basket. As in September, the core rate stood at 2.5%. In light of more expensive energy, companies are likely to increasingly raise the prices of other goods and services in the coming months.

Inflation rate reaches highest level in three years

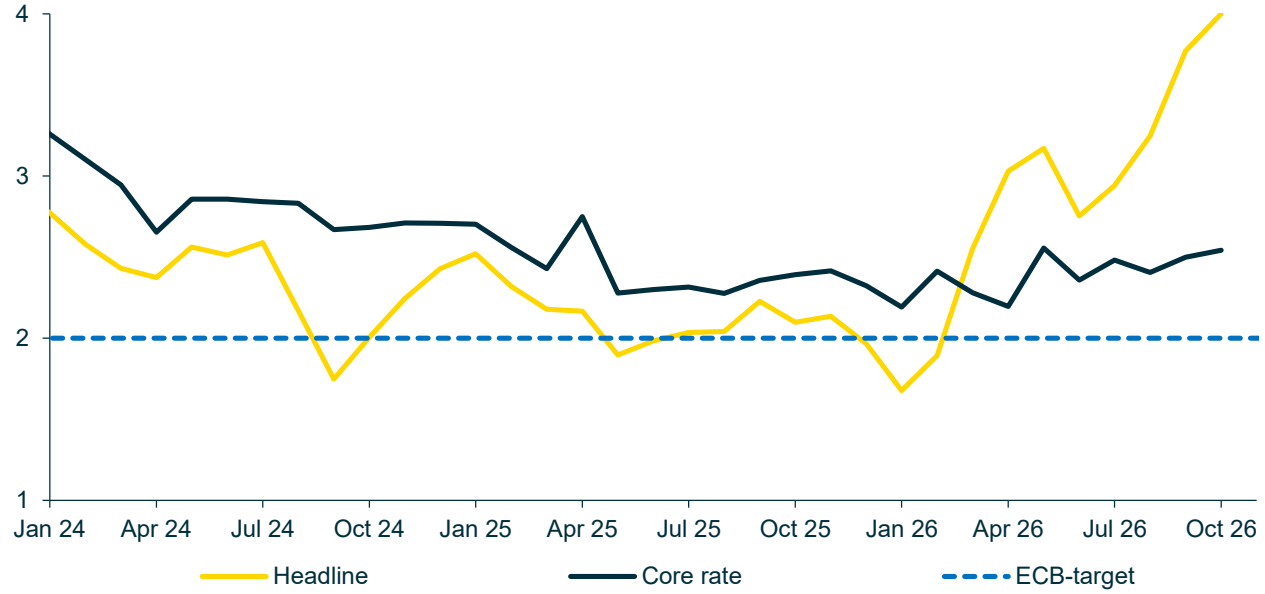
According to preliminary data from Eurostat, the inflation rate for the euro area jumped to 4.0% in October – up from 3.8% in September (Chart 1). This marks the first time since September 2023 that it has broken the 4% threshold, which was in line with the expectations of economists surveyed beforehand. The inflation rate excluding energy, food, alcohol, and tobacco (core rate) remained at 2.5% – also as expected.

Energy prices once again contributed to the higher inflation rate. The year-on-year rate for energy prices rose from 18.9% to 20.8%. However, the inflation rate also increased for the other sub-categories: for food, alcohol, and tobacco, the inflation rate rose noticeably from 1.3% to 1.6%. For non-energy industrial goods, as well as services, it increased slightly by one-tenth of a percentage point to 1.2% and 3.3%, respectively. Consequently, the overall core rate (2.54%) remained just below the rounding threshold to 2.6%.

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Chart 1 - The inflation rate falls again

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



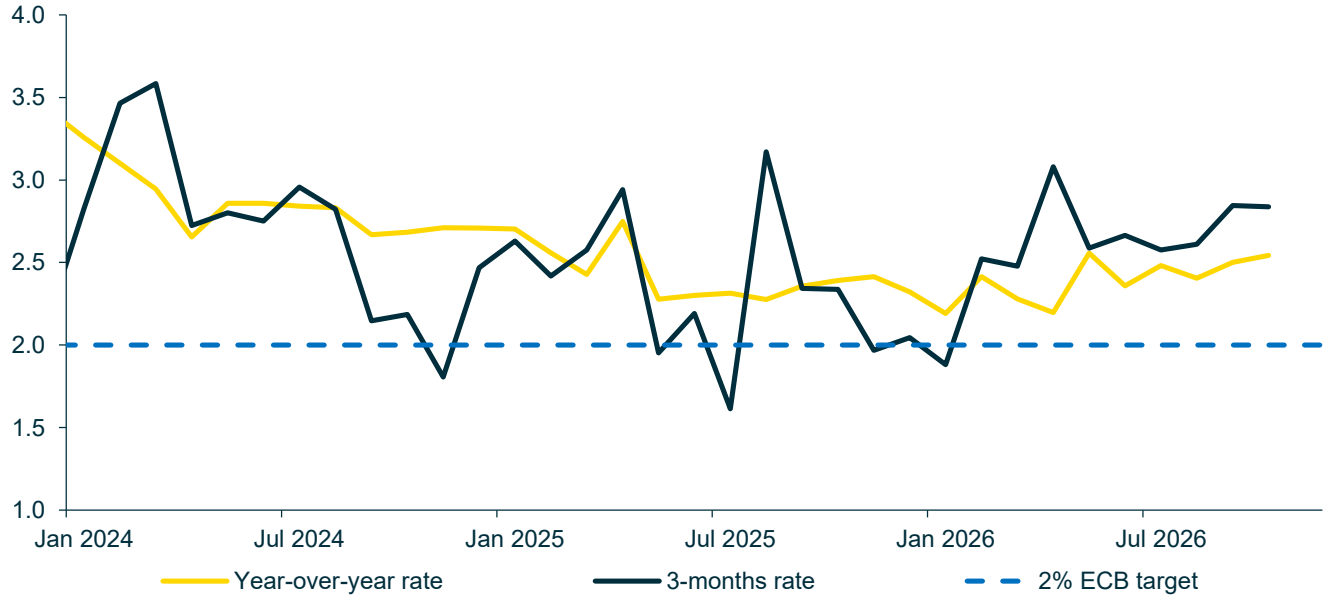
Source: Eurostat, S&P Global, Commerzbank Research

Core rate likely to rise in the coming months

We expect many companies to pass the higher energy prices on to their customers in the coming months. In addition to more expensive fuels, the increased price of natural gas is also likely to raise costs for electricity, for example, in the coming quarters. These "indirect effects" of energy prices on other inflation components are already becoming apparent, such as in the rising prices of transport services like airline tickets. Flash estimates from individual countries suggest this. Furthermore, the 3-month annualized core inflation rate stands at nearly 3% – and is thus above the year-on-year rate (Chart 2). This is another indication of a rising core rate in the coming months. By the middle of next year, the core rate could even climb above 3%. This would exceed the ECB's expectations, thereby increasing the risk of another interest rate hike next year.

Chart 2 - The core rate will likely rise in the coming months

Consumer price index in the euro area without energy, food, alcohol and tobacco, changes over 12 and 3 months annualized in %



Source: Eurostat, ECB, Commerzbank-Research

Analysts

Dr. Vincent Stamer AC
Senior Economist
+4969935345800
vincent.stamer@commerzbank.com

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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