COMMERZBANK

Economic Research

Economic Briefing

€-inflation details – Insurances only slightly more expensive

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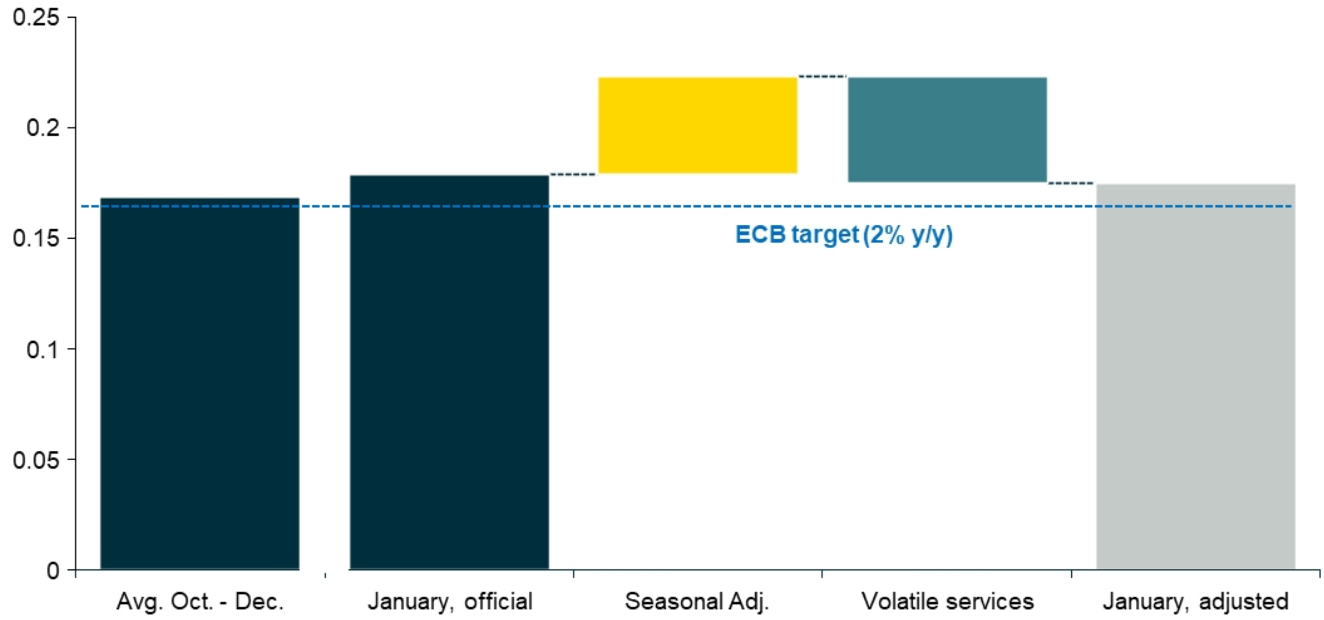
Consumer prices excluding energy, food, alcohol and tobacco in the euro area rose by a surprisingly low 0.18% in January compared to December on a seasonally adjusted basis. The details on inflation published today show that special factors at the beginning of each year, such as insurance premiums, were significantly weaker this January than last year. Adjusted for these and other special effects, core consumer prices rose in January roughly in line with the ECB's target.

Details confirm core rate close to ECB target

According to the final figures from Eurostat and the ECB, consumer prices in the euro area excluding energy, food, alcohol and tobacco (core rate) rose by a seasonally adjusted 0.18% in January compared to December. As in the previous quarter, the core rate is therefore close to the value that would be compatible with the ECB target of 2% year-on-year (Chart 1). Observers had assumed that special effects such as rising insurance premiums would drive the core rate significantly higher in January. However, this has largely not been confirmed and the necessary correction for volatile services is therefore only minor. The differences between the ECB's and our seasonal adjustment procedure compensate for this almost completely. We will go into the details in the following sections.

Chart 1 - One-off effects play a minor role in January

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



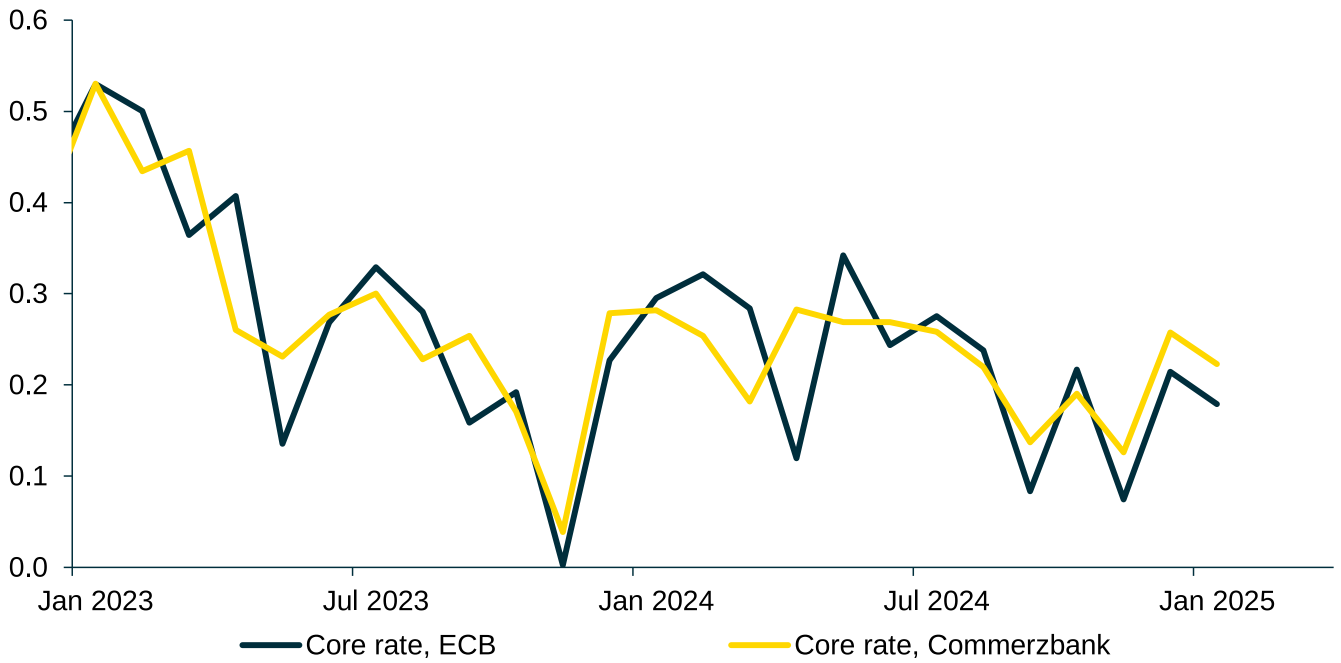
Source: ECB, Commerzbank-Research

Slight deviations in the seasonal adjustment procedures

The ECB's seasonal adjustment method may have slightly underestimated the previous month's core rate in the last few months. If the previous month's core rate is adjusted using our preferred method (X-13 ARIMA model) instead, which has been less susceptible to fluctuations in recent months, the core rate in January would be 0.22% (Chart 2).

Chart 2 - Seasonal adjustment with small differences

Core rate of consumer prices in the euro area, seasonally adjusted month-over-month rates in %, Commerzbank adjustment using X-13 method



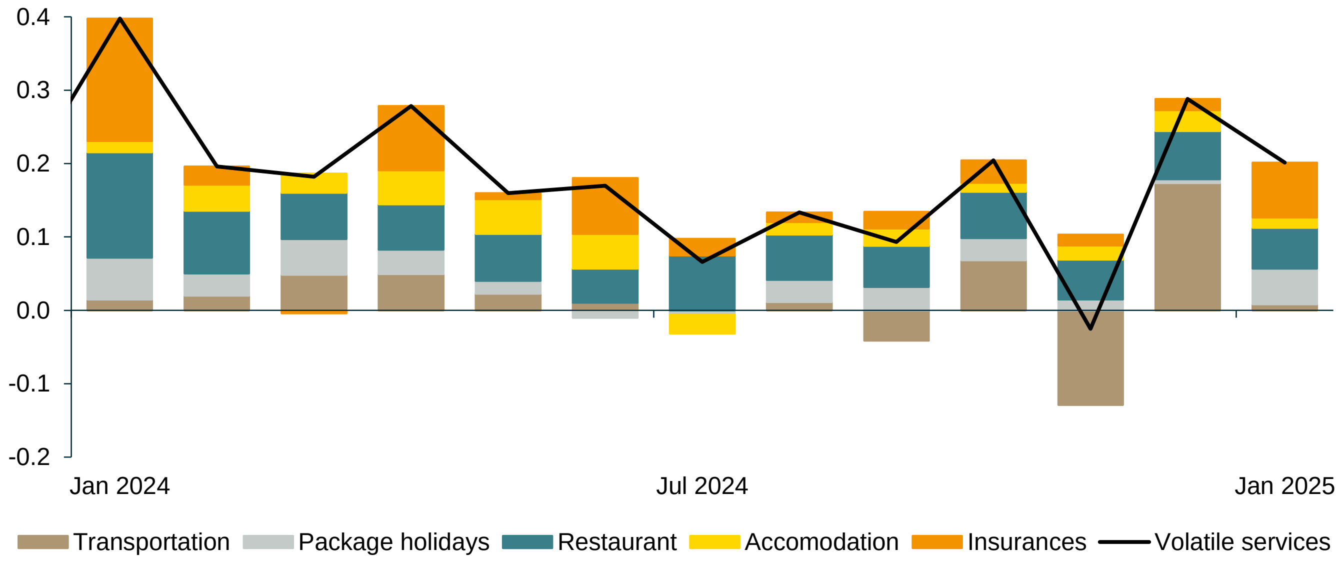
Source: Eurostat, Commerzbank-Research

Insurance premiums hardly noticeable this January

Contrary to expectations, the inflation details show that volatile service prices only had a minor impact on the core rate in January. These include insurance premiums, package holidays, restaurant visits, hotel accommodation and transportation services. Insurance premiums in particular rose sharply in January 2024. However, this has not been repeated this year to the same extent as feared (Chart 3). Accordingly, the core rate corrected for the volatile services in January 2025 is only slightly lower than without the correction at 0.17% (month-on-month rate).

Chart 3 - Insurance premiums only increase slightly

Consumer price index in the euro area, contributions to the month-on-month service price index from selected sectors, in percentage points



Source: Eurostat, Commerzbank-Research

The inflation details confirm the ECB's course

The inflation details show that the core index continued to develop in line with the ECB's target of 2% at the beginning of this year. In the coming months, the weak euro exchange rate could push up the prices of imported goods. However, this is unlikely to prevent the year-on-year rate of core inflation (currently 2.7%) from weakening significantly. This will encourage the ECB to lower its deposit rate further – to 2.0% by the middle of the year.

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