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Economic Research

Economic Briefing

Euro area – Inflation remains stubborn

The rate of inflation in the euro area rose to 2.4% in December, as expected by the majority of economists. The main reason for the rise in inflation is the increase in energy and food prices. Core inflation, excluding energy, food and beverages, remained constant at 2.7%. An undershooting, a drop in inflation below the ECB target, appears unlikely in the first half of the year.

Inflation is rising due to energy and food

According to preliminary data from Eurostat, the inflation rate rose to 2.4% in December (from 2.2% in November). This is in line with the consensus. Inflation rose sharply in energy prices (from -2.0% in October to 0.1%). The core inflation rate excluding energy, food and beverages remained at 2.7%, which also was in line with economists' expectations.

Inflation in the euro area has risen largely due to volatile energy and food prices (Chart 1). Energy prices pushed up inflation in December, after having significantly lowered it in autumn. This is also due to the fact that energy prices fell in December 2023 and the year-on-year rate for energy is therefore rising (base effect).

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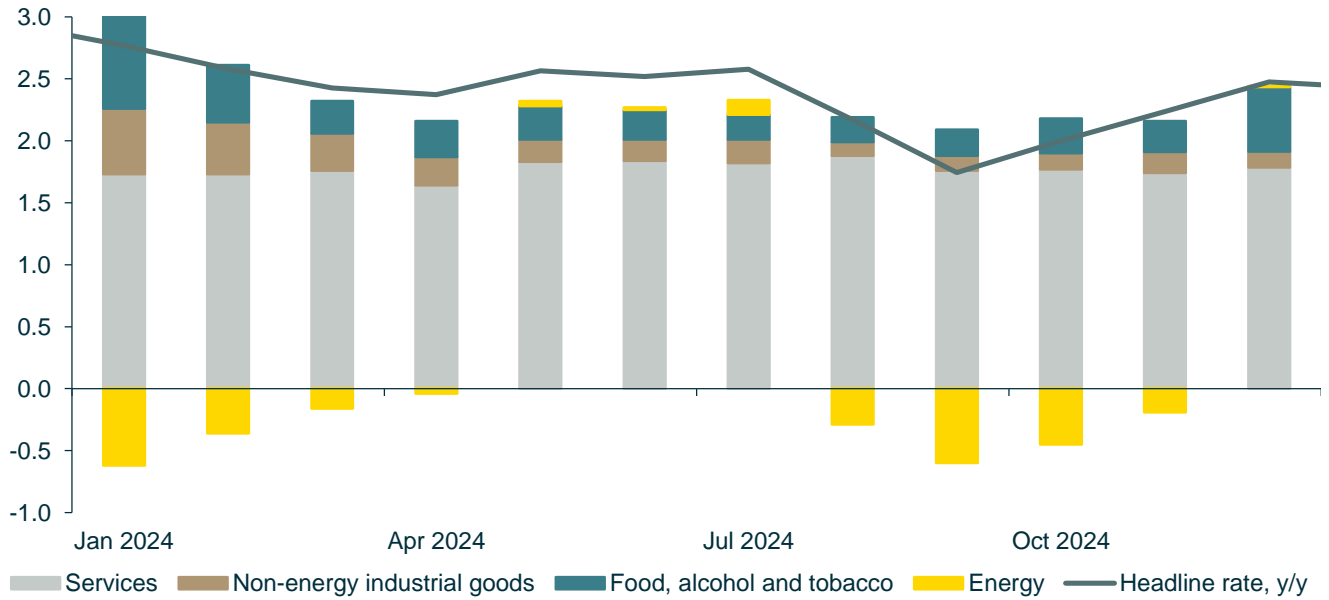
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Chart 1 - Energy and food prices are driving up inflation

Contributions to year-on-year rate of consumer price index by subcomponent, in percent; contributions in percentage points, December 2024: Commerzbank forecast



Source: Eurostat, Commerzbank-Research

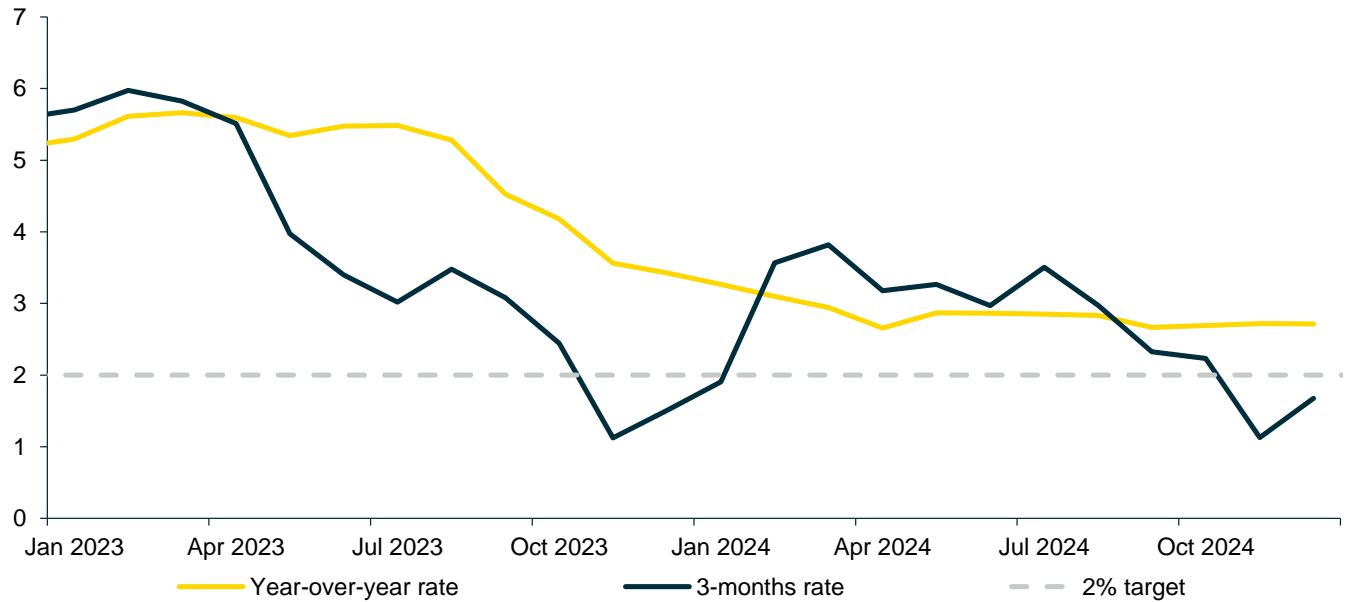
The core rate remains stubbornly high

Over the entire year of 2024, the year-on-year rate of inflation excluding the volatile energy and food prices (core inflation) remained above the ECB target at just under 3% (Chart 2). In recent months, however, the short-term 3-month rate had fallen, fuelling hopes that the core rate could fall sustainably. In December, however, the three-month rate is apparently up again. This means that hopes of a swift decline in the year-on-year core inflation rate are fading. This is particularly true given that insurance premiums could rise significantly in January. The rise in oil and natural gas prices at the turn of the year is also likely to be reflected in core inflation with a time lag.



Chart 2 - The core rate remains stubbornly high

Consumer price index excluding energy, food and beverages, seasonally adjusted, annualized changes over 3 and 12 months, in %



Source: Eurostat, Commerzbank-Research

No undershooting of the ECB target

In the first half of this year, inflation is likely to again fall slightly - we expect inflation to hover around 2.2% in the second quarter. However, the year-on-year rate will still be above the ECB target of 2.0%. We consider it unlikely that inflation will undershoot, i.e. fall below the ECB target, in the coming months. We still expect the ECB to cut rates four more times this year. However, despite the weak economy in the euro area, the central bankers are likely to act more cautiously in the future.

Table 1 - Euro area inflation

Year-over-year change in percent

Indicator		Dec-24	Forecasts		Nov-24	Oct-24	Sep-24
		preliminary	CB	Consensus			
Consumer prices	%, y-o-y	2.4	2.5	2.4	2.2	2.0	1.7
Core rate 1)	%, y-o-y	2.7	2.7	2.7	2.7	2.7	2.7

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



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