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Economic Research

Economic Briefing

€ inflation details – The core rate settles above the ECB target

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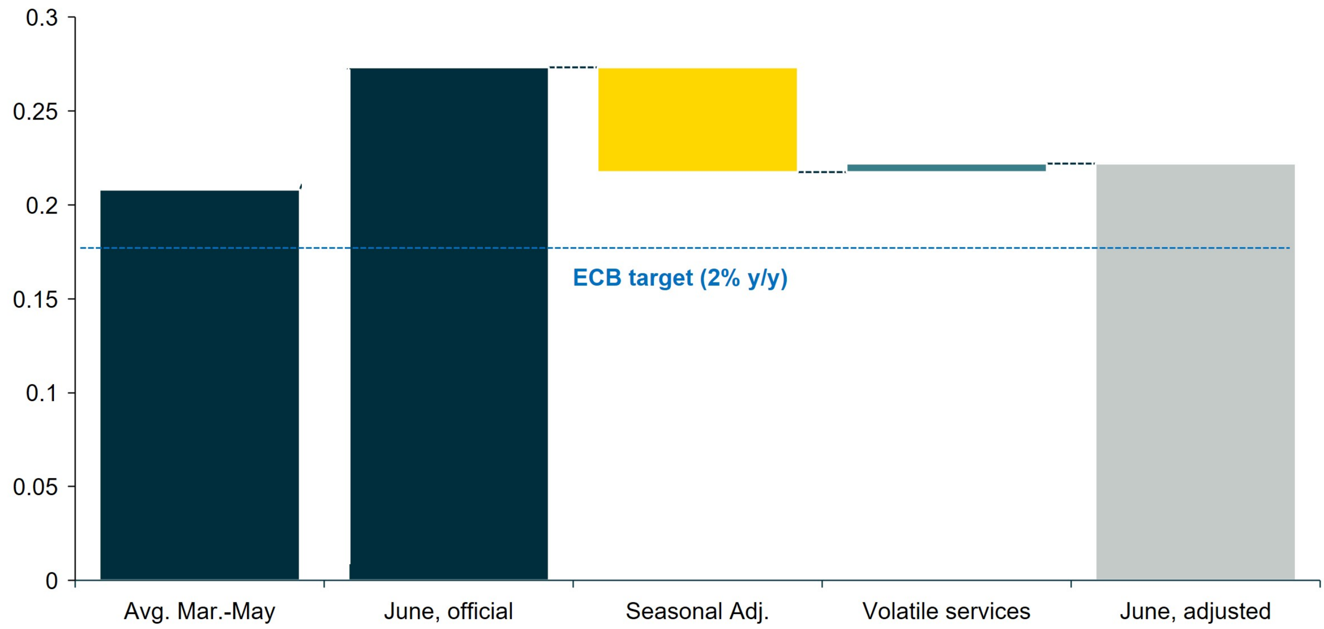
In June, inflation in the euro area excluding energy, food, and beverages remained above the ECB's target on a month-on-month basis. In the spring, various one-off effects had significantly distorted the core rate. Excluding these special effects, the core rate has been moving sideways for a year. This is evident from Eurostat's final figures for consumer prices in June, published today, and from our calculations.

The core rate settles above the ECB target

According to figures from Eurostat and the ECB, consumer prices in the euro area excluding energy, food, and beverages (core rate) rose by 0.27% in June compared with May, after seasonal adjustment. This means that the official core rate is above the average for the previous three months (Chart 1). In recent months, one-off effects related to the Easter holidays distorted the core rate, and the ECB's seasonal adjustment is likely to slightly overestimate the core rate this month as well. Adjusted for special effects, however, the core rate appears to be settling above the ECB's target in June (Chart 1).

Chart 1 - The core rate settles above the ECB target

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



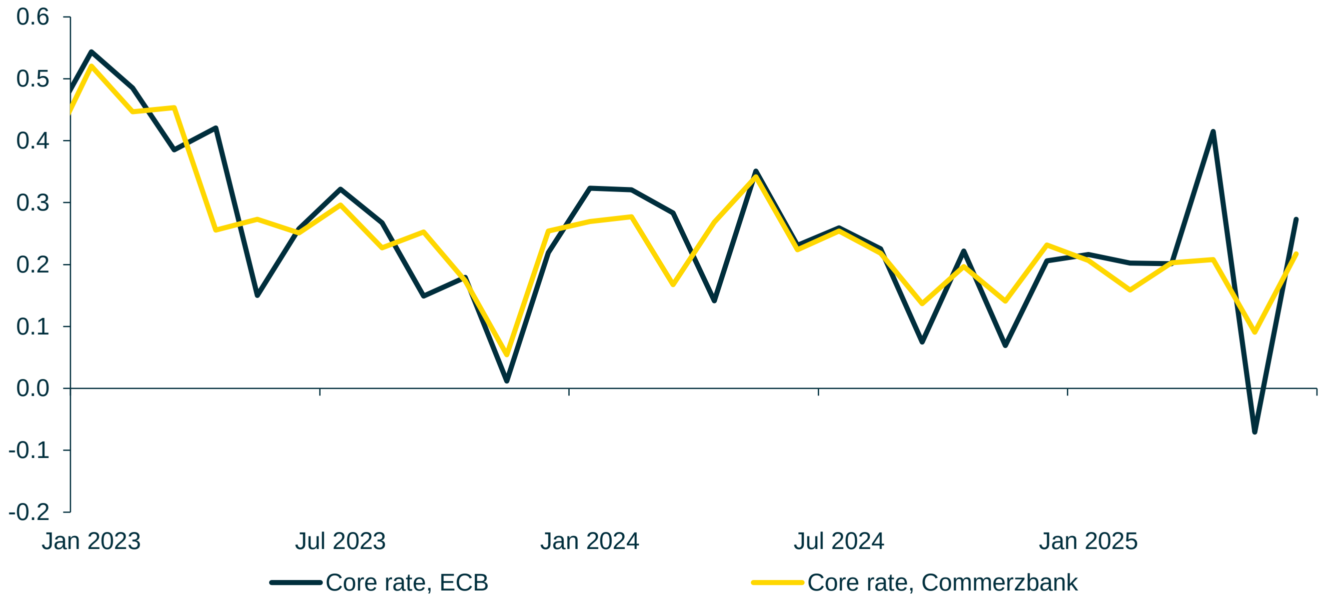
Source: ECB, Commerzbank Research

The core rate has been moving sideways for a year

The ECB's seasonally adjusted figures for the core rate have fluctuated sharply on a month-on-month in recent months (Chart 2). This is mainly due to special effects related to the Easter holidays, which the ECB's seasonal adjustment did not adequately capture. If, instead, the previous month's core rate is adjusted using our preferred method (X-13 ARIMA model), the core rate has been moving sideways for about a year. According to our calculations, the core rate would be around 0.22% in June.

Chart 2 - The core rate has moved sideways for a year

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



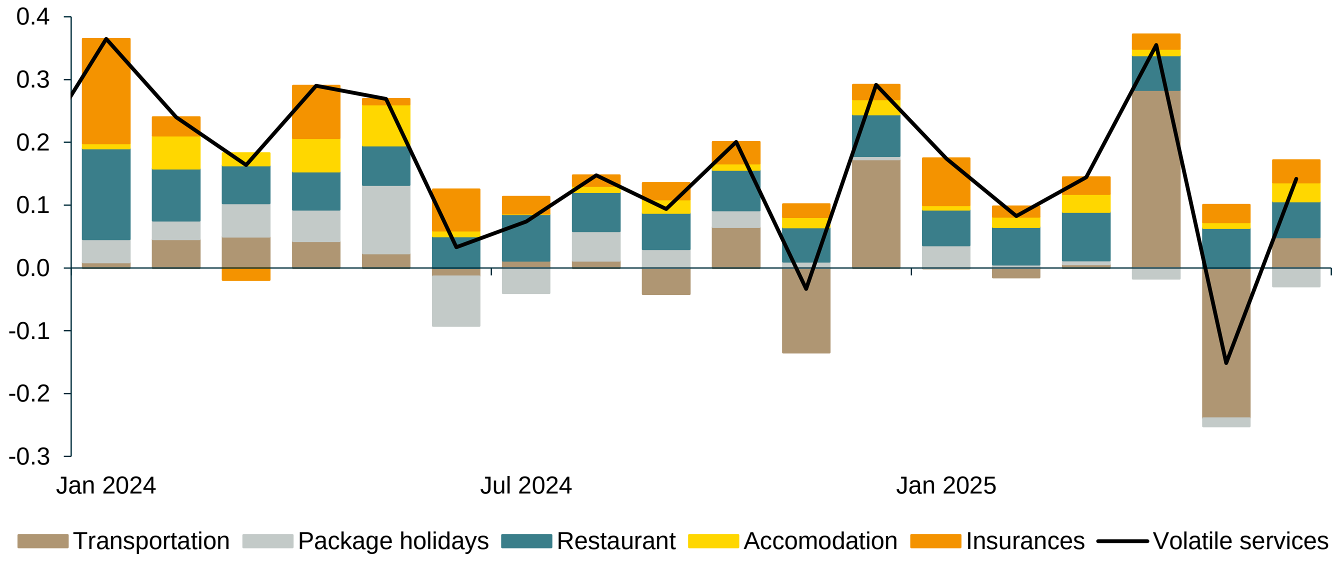
Source: Eurostat, Commerzbank Research

Volatile services remain muted in June

The inflation details published today also show that volatile service prices had only a negligible impact on the core rate in June. Their effect in June was in line with the average for recent months (Chart 3). These services include insurance premiums, package holidays, restaurant visits, hotel accommodation, and transport services. Without these volatile components, the core rate would therefore have remained at 0.22% in June (seasonally adjusted month-on-month rate).

Chart 3 - Volatile services remain muted in June

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

Difficult situation for the ECB

Our analysis of the details shows that the underlying inflation trend is still above the ECB's target. This is another reason why we consider a further cut in key interest rates at next week's meeting to be virtually out of the question. However, a persistently high core rate is also likely to make a further cut more difficult in the course of the year. Nevertheless, we expect the core rate to fall in the second half of the year as a result of weaker wage inflation. This is another reason why we are sticking to our forecast of another interest rate cut in September.

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