



COMMERZBANK

Economic Research

Economic Briefing

Euro area – inflation stagnates, economy grows

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While the inflation rate in the euro area stagnated at 2.4% in April, the core rate fell further from 2.9% to 2.7%. However, the scope for price increases could increase in the future due to the recovering economy. Real GDP in the euro area rose by a surprisingly strong 0.3% q-o-q in the first quarter. The economy in the euro area is leaving the technical recession behind.

According to preliminary data from Eurostat, the inflation rate remained at 2.4% in April. This marks the end of the downward trend of the last one and a half years. This was the average expectation of the economists surveyed in advance (Table 1). The fact that the dampening effect of energy prices has largely dried up has contributed to the stagnation. The year-on-year rate for food prices even rose slightly from 2.6% in March to 2.8% in April. Their declining contribution to the inflation rate had also dampened inflation in recent months.

The core rate continues to fall

With declining contributions from energy and food prices, overall inflation is increasingly based on the inflation rate excluding energy and food. This rate fell from 2.9% to 2.7% in April. However, the decline in recent months is primarily due to the fact that the high price increases in spring 2023 are increasingly falling out of the year-on-year comparison. Underlying inflation has picked up again since the start of the year, particularly in services. The slightly weaker seasonally adjusted increase compared to March (+0.2%) does not change this. The 5-month moving average is continuing its upward trend (Chart 1). Extrapolated for the year as a whole, the average of the past few months implies an inflation rate of just under 4%.

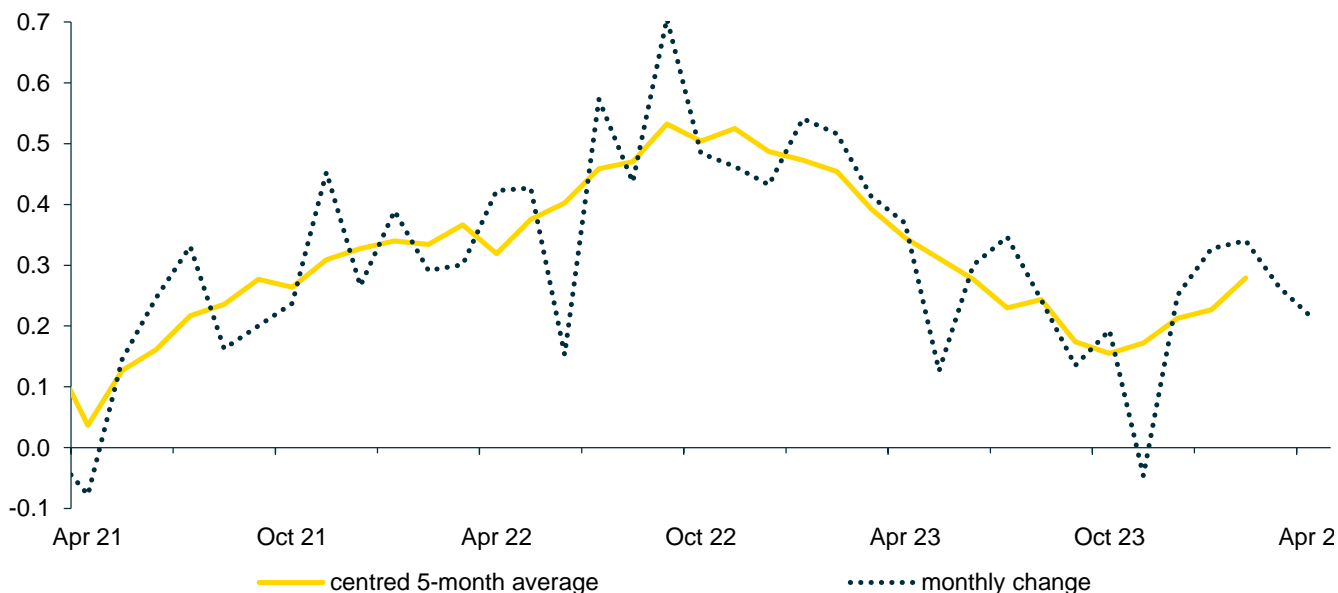
Increasingly strong wage increases are having an impact on the core rate, supporting the year-on-year price increase of around 4% for the labor-intensive services. According to ECB estimates, collectively agreed wages are likely to rise by an average of 4.5% overall this year. If the trend continues as we expect, the core inflation rate is likely to fall further in the coming months before settling at around 3% at the end of the year.

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Chart 1 - Euro area: Underlying price inflation picks up again

Consumer price index excluding energy, food, alcohol and tobacco, month-on-month change in per cent, seasonally adjusted



Source: ECB, Commerzbank Research

Table 1 - Euro area inflation

Indicator		Apr-24	Forecasts		Mar-24	Feb-24
		preliminary	CB	Consens		
Consumer prices	%, y-o-y	2.4	2.4	2.4	2.4	2.6
Core rate 1)	%, y-o-y	2.7	2.7	2.6	2.9	3.1

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

Economy grows out of recession

According to an initial preliminary estimate by Eurostat, the eurozone economy grew slightly by 0.3% in the first quarter of 2024 on a seasonally adjusted basis. Real GDP had contracted by 0.1% in each of the previous two quarters. With Germany (0.2%), France (0.2%), Italy (0.3%) and Spain (0.7%), some of the major eurozone economies recorded significantly higher growth rates in the first quarter than in the previous year. However, countries such as Spain and Portugal continue to grow significantly faster than Germany (Chart 2).

The eurozone economy also grew more rapidly again in the first quarter because private consumption and investment activity are picking up and the effects of key interest rates are diminishing. Economic indicators such as the Purchasing Managers' Index for manufacturing and services also signal continued growth in the second quarter. There is therefore a clear upside risk for our 2024 economic forecast.

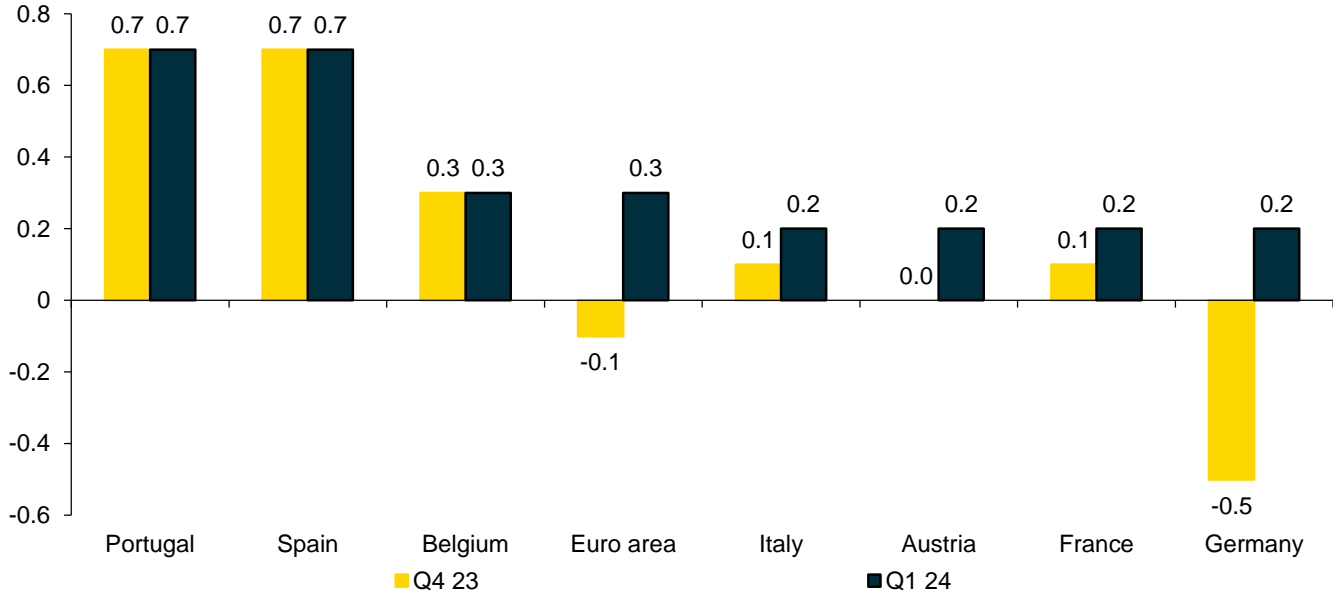
Mixed signals for the ECB

The upturn in the eurozone economy and the rising purchasing power of households is creating new scope for companies to increase prices. They could then increasingly pass on the sometimes strong wage increases to consumers. As observed in recent months, the inflation rate is likely to remain above the ECB's target in the future.



Chart 2 - Euro area: significant differences in growth in the fourth quarter

Real GDP, q-o-q in %



Source: Eurostat, Commerzbank Research



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