



COMMERZBANK

Economic Research

Economic Briefing

Euro area inflation rate declines to 2.8%

In terms of inflation, 2024 has been off to a decent start. The euro area inflation rate fell from 2.9% in December to 2.8% in January. The main reason for this was the continued decline in the inflation rate excluding the volatile prices for energy, food and luxury foods, which fell further from 3.4% to 3.3%. The doves in the ECB Governing Council are likely to feel vindicated in their call for rapid interest rate cuts.

According to preliminary calculations by Eurostat, the inflation rate in the Euro zone fell from 2.9% in December to 2.8% in January, and therefore not quite as much as expected by surveyed economists (see table). Once again, the weaker rise in food prices contributed to the decline (5.7%, after 6.1%). The fall in energy prices was slightly lower than in the previous month (-6.3%, after -6.7%).

Core inflation rate falls to 3.3%

The ECB should be particularly pleased with the continued decline in the inflation rate excluding energy, food and beverages, which fell from 3.4% to 3.3%. This indicates that the underlying upward pressure on prices has continued to ease. In particular, the rise in prices for goods excluding energy weakened noticeably – from 2.5% to 2.0% (Chart 1). The easing of supply bottlenecks and falling energy costs are having a positive impact here.

By contrast, the inflation rate for services remained at 4.0% for the third consecutive month. The fall in fuel and food prices is also dampening price increases in this sector. However, this was offset by the sharp rise in labor costs, which had a major impact on service prices.

Underlying price increases are likely to slow further for the time being

The second-round effects of cheaper energy and barely rising food prices will also dampen price increases for non-energy goods and services for some time. The core inflation rate should fall to 2.5% by the middle of the year.

However, higher inflation rates again in the medium term

Later in the year, however, companies are likely to pass on the recent significant rise in labor costs to their customers to a greater extent and the core inflation rate should settle at just under 3%.

1 February 2024

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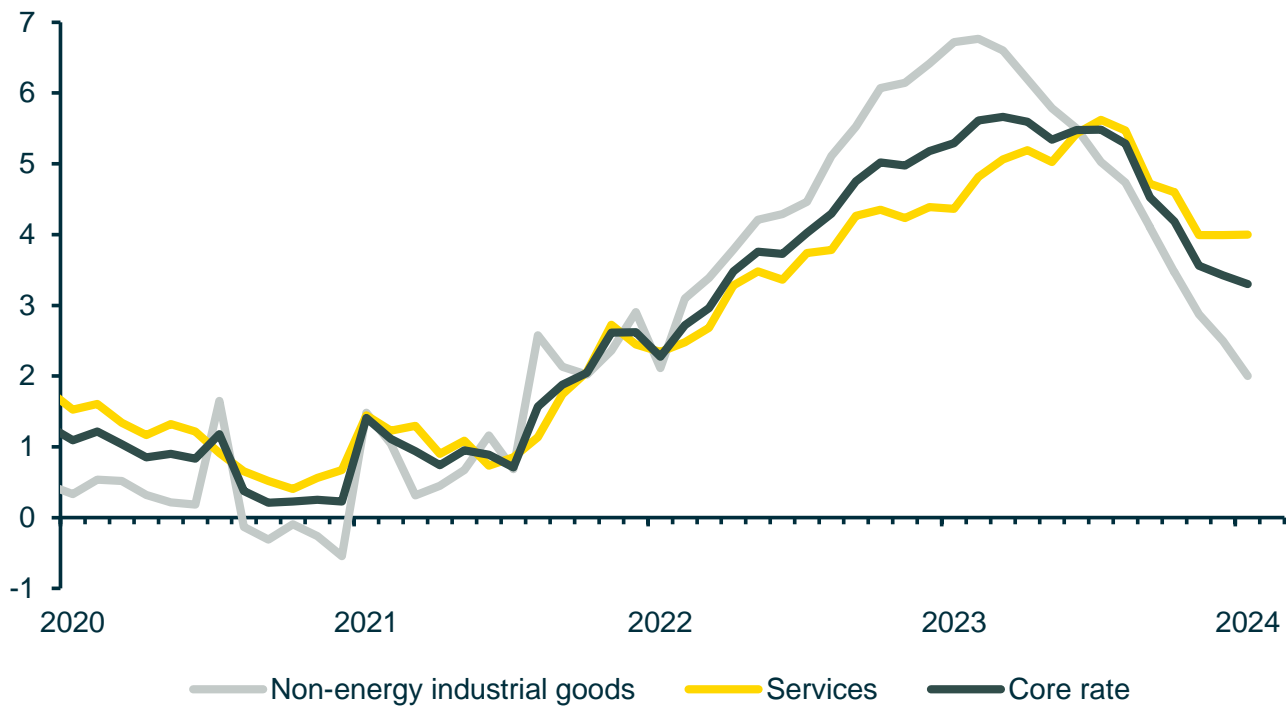
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ECB will probably lower its key interest rates from June

Against this backdrop, it would be premature to declare victory over inflation. We continue to believe that market expectations of interest rate cuts totaling 150 basis points by the end of the year are exaggerated. We only expect interest rate cuts of 75 basis points in total.

Chart 1 - Euro area: slowdown in non-energy industrial goods prices in particular depresses core inflation rate
 HICP, y-o-y in %, core rate: HICP excluding energy, food, alcohol and tobacco



Source: S&P Global, Commerzbank Research

Table 1 - Euro area inflation

Indicator		Jan 24	Forecasts		Dez 23	Nov 23	Okt 23
		preliminary	CB	Consens			
Consumer prices	%, y-o-y	2.8	2.6	2.7	2.9	2.4	2.9
Core rate 1)	%, y-o-y	3.3	3.2	3.2	3.4	3.6	4.2

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



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