

Eurozone inflation rises with the oil price

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The inflation rate in the euro area rose slightly to 2.0% in June, which is exactly in line with the ECB's target. The reason for the slightly higher inflation rate is the temporary increase in oil prices in mid-June. As a result, the inflation rate could slip back below the ECB's target in the coming months. Core inflation, excluding energy, food, alcohol and tobacco, remained at 2.3%.

Energy prices cause slight rise in inflation

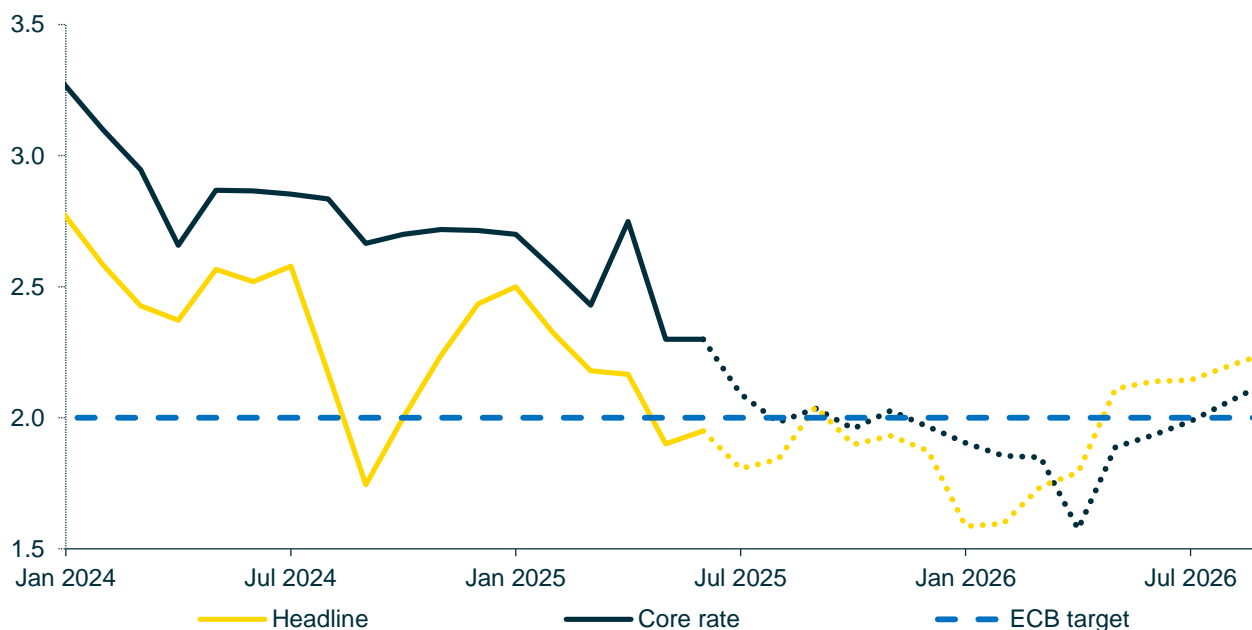
According to preliminary data from Eurostat, the inflation rate rose to 2.0% in June after falling to 1.9% in the previous month. The inflation rate excluding energy, food, alcohol and tobacco (core rate) remained at 2.3%, as in the previous month. Both figures are in line with the consensus expectations.

The slight rise in the inflation rate is mainly due to the temporary increase in oil prices in June. The conflict between Israel and Iran caused oil prices to jump temporarily by more than 10%. As a result, the year-on-year rate for energy prices also rose to -2.7% (from -3.6% in May). As oil prices fell again at the end of June, the inflation rate could slip back below the ECB's target of 2% in the coming months (Chart 1). The year-on-year rates for other components of inflation hardly changed compared with May. The year-on-year rate for important service prices, for example, rose slightly to 3.3% (from 3.2%).



Chart 1 - Eurozone inflation rises slightly with oil prices

Harmonized consumer price index in the euro area, year-over-year rates in %, from July 2025 Commerzbank forecasts



Source: Eurostat, Commerzbank Research

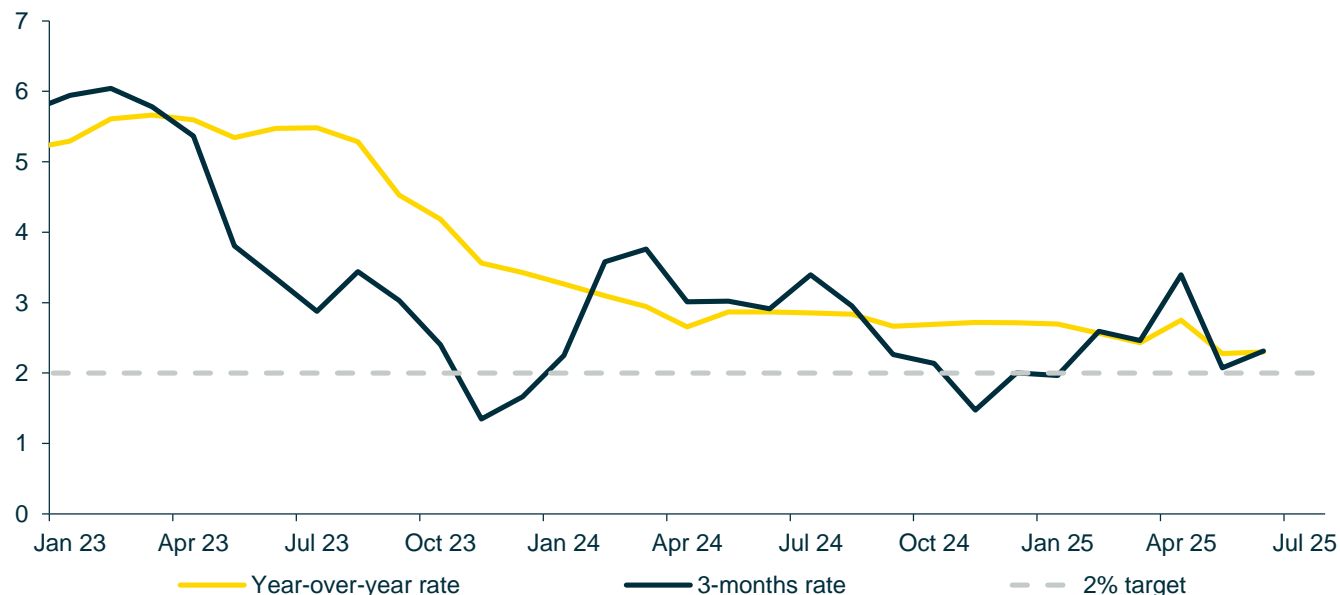
The core rate hovers just above the ECB target

At 2.3% year-on-year, core inflation is only slightly above the ECB's target of 2%. After one-off factors influenced the core rate in the months before and after Easter, the shorter-term 3-month rate (i.e. the 3 months inflation rate, annualized) has now also settled just above the ECB target (Chart 2). The core rate is likely to reach the 2.0% mark in the coming months. This is supported not only by slower wage growth in the eurozone, but also by the fact that Chinese goods are likely to be increasingly diverted to Europe as a result of US tariffs.



Chart 2 - The core rate remains slightly above the ECB-target

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



Source: Eurostat, Commerzbank Research

ECB interest rate cut in September remains likely

At its next monetary policy meeting in three weeks, the ECB is likely to pause after eight consecutive interest rate cuts. One reason for this is that the exact impact of US tariffs on the euro area economies is still unclear. In the coming months, it should become increasingly clear that the tariffs is slowing European exports and putting downward pressure on goods prices in the euro area. This is another reason why we expect the ECB to cut key interest rates by another 25 basis points this autumn. The deposit rate would then stand at 1.75%.



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