Article | 14 July 2024

# ECB on mission “Gentle Summer Break”

When the European Central Bank meets on Thursday, the main, if not only goal will be to have a gentle start to the holiday season and to avoid sending markets on a rocky summer road

There hasn’t been a lot of important data releases since the ECB’s June meeting. If anything latest data have pointed to weaker growth, lower headline inflation but still sluggish core and services inflation. In more detail, dropping confidence indicators in June and weak hard data for May underline that the eurozone’s economic recovery has lost steam. The ECB’s June projections had eurozone growth returning to potential already in the second quarter of this year. This is a scenario that has become less likely in recent weeks. As regards inflation, the drop in headline inflation was broadly in line with the ECB’s June projections. However, core inflation came in slightly higher than the ECB’s forecast. Also, core inflation remains sticky and official ECB comments since the June meeting suggest that the ECB’s focus is shifting towards exactly this domestic inflation. Clearly related to this are wage developments. Latest data from the ECB’s wage tracker showed an increase in wage growth in June. While the ECB’s June projections include a small acceleration of wage growth over the summer, latest developments and anecdotal evidence of new union demands puts the expected gradual slowing of wage growth after the summer at risk.

## No need to change the policy stance

With only marginal macro changes, there is no need for the ECB to change its policy stance on Thursday. In fact, it seems as if a majority at the ECB is broadly fine with current market expectations of one to two more rate cuts this year. At the current juncture, it would be premature, if not to say irresponsible, for the ECB to give any forward guidance for the September meeting and beyond on Thursday. It is clear, however, that the ECB will have to find a balance between potential reputational damage and rising concerns about a too-optimistic inflation forecast. The ECB won't have any interest in making the June cut look like a policy mistake over the coming weeks, which would be a strong non-economic argument in favour of another rate cut at the September meeting. At the same time, however, the weakening economic momentum, stubbornly high domestic inflation and a risk of elevated wage growth is not a combination to cheer for.

## When will the ECB continue to cut?

This is not, yet, a typical rate-cutting cycle in the eurozone. In the past, easing cycles had always been triggered by recessions or crises. Fortunately, none of these are currently the case. Therefore, any further rate cuts will not be on autopilot. In fact, given the dissenting views at the June meeting and the above-mentioned upside risks to inflation, a September cut is not a done deal, yet. A first Fed cut in September before the ECB's meeting as well as a weakening growth outlook could still cement the September cut over the coming weeks. However, for now and for this week's meeting, the ECB's one and only mission will be to find a gentle start to the summer season.

### Author

**Carsten Brzeski**
Global Head of Macro
carsten.brzeski@ing.de