

Snap | 18 July 2024

## The ECB's gentle start to the summer season

The European Central Bank has kept rates unchanged and has refrained from providing any further forward guidance



There's the expected gentle start to the European summer season. The ECB just announced its decision to keep all policy interest rates unchanged. The official policy statement did not provide any new clues on the central bank's future path, but confirmed that it has for now given up on forward guidance.

There haven't been a lot of important data releases since the ECB's June meeting. If anything, the latest data has 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. At the same time, inflation has been broadly in line with ECB forecasts, even if sticky services inflation and continued wage pressure have increased upward risks to these forecasts. But for now, there simply hasn't been enough new data for the ECB to change course.

Looking ahead, it is important to remember that 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, neither of these are currently the case. Therefore, any further rate cuts will not be on autopilot. In

fact, it is clear that the ECB will have to find a balance between potential reputational damage and rising concerns about an overly 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, weakening economic momentum, stubbornly high domestic inflation and a risk of elevated wage growth is not a combination to cheer for, and this will make it harder for the hawks to agree on a September cut.

Let's listen to ECB President Christine Lagarde at 2:45pm CET for any potential clues on the ECB's future path – or why she might not want to disrupt the gentle start to the European summer season.

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