

Snap | 3 April 2024

Eurozone inflation drop is encouraging, but don't expect an April rate cut

Inflation in the eurozone came in lower than expected at 2.4% in March, down from 2.6% in February. Core inflation also fell from 3.1 to 2.9%. This better-than-expected reading boosts chances of ECB rate cuts, but don't expect them to happen this month



An early Easter usually means a bump in inflation due to the holiday effect, but this doesn't show up in today's data. The monthly seasonally adjusted data shows a decline for both goods and services in March, which is a very benign signal on eurozone inflation. While services inflation has been too high for comfort - and that's drawn a lot of focus from the European Central Bank recently - today's reading will be a relief to ECB doves as it provides some comfort that domestic inflation is easing. Surveys have recently been telling a similar story, which helps the inflation outlook for the months ahead.

The labour market remains hot

The labour market remains hot though, with unemployment, also released today, staying at 6.5%, an all-time low since the start of the eurozone in 1999. Wage growth has started to cautiously retreat but remains elevated, and a tight labour market could add to that. This could result in inflation falling more slowly than hoped for by the ECB. Then again, with the bank's own forecasts for inflation falling to 2% next year and 1.9% in 2026, the labour market is unlikely to delay rate cuts much. We do think that a continued tight labour market will limit the amount of reductions the ECB will ultimately do. We expect 0.75% in total for this year.

While at first sight this looks like it opens up a possible rate cut in April, the ECB is unlikely to act this month. More data on wage growth will come in May, and the ECB needs to be certain of its path. In President Lagarde's own words: "*we will know a little more in April, but we will know a lot more in June*". Also, the economy is not in recession and unemployment is at an all-time low.

While today's data is definitely encouraging, the ECB is in no rush to cut rates this month. We think June will be the moment for the ECB to start cautiously reducing rates.

Author

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.