

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.

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*The labour market remains hot*

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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.

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