

## Eurozone inflation drops much more than expected again in November

Headline inflation fell from 2.9 to 2.4% in November, while core inflation dropped more, from 4.2 to 3.6%. This shows that signs of an imminent victory on inflation are mounting for the European Central Bank. When will they dare to admit so themselves? We expect a first rate cut before the summer



The decline in inflation was seen across the board in November. Energy inflation is still driven by significant base effects (-11.5% year-on-year), and food inflation dropped from 7.4 to 6.9% year-on-year. Goods and services inflation also both fell significantly, to 2.9% and 4% year-on-year, respectively. In fact, on a monthly basis, core inflation was negative. We always expected inflation to drop significantly in the final months of the year, but the process of disinflation is happening even more quickly than we expected, particularly for core inflation, where expectations were for price pressures to remain more stubborn. But weak demand and quickly fading supply-side problems have set core inflation on a much quicker path down than thought a few months ago. Taking the monthly pace of price increases seen in the past three months, core inflation will drop below 2% well before the end of next year. While we think that might be a bit optimistic given the remaining price pressures coming from wages, for example, it does show that inflation is now much more benign than earlier in the year.

For the ECB, signs of an imminent victory on inflation are mounting. The central bank worries about factors like wage growth and possible spikes in the energy market that could put inflation on a higher path again. But current monetary policy is sufficiently restrictive as bank lending data [out earlier this week](#) showed that the effects of higher rates are impacting lending significantly. Also, there is still a lot more of the impact of tightening to come as interest payments are still increasing. The market is therefore right to start looking at rate cuts for 2024. We think the first one could well happen before the summer.

## Author

### Bert Colijn

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

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