

## Eurozone inflation up to 2% in October as unemployment hits new record low

The eurozone's inflation rate increased more than expected, with core inflation stable at 2.7%. The direction of incoming data in the region is not quite clear, which provides the ECB with confusing signals for the path of rate cuts



After the rapid decline in September, today's data provides a reality check about the eurozone's disinflationary process

Inflation ticked up slightly more than expected in October, mainly on energy and food prices. Core inflation remained stable at 2.7%, also slightly higher than expected. After the rapid decline in September, this provides a reality check about the eurozone's disinflationary process.

The European Central Bank frequently used the motto that 'the last mile is the hardest' when it comes to inflation fighting before summer, but hasn't done so recently. The slow decline in core inflation gives us the feeling that there is still some truth to that. The labour market remains tight at the moment, which still adds to wage pressures. We expect wage growth to come down over the course of 2025 as labour market tightness continues to ease, but we aren't seeing this effect just yet.

In fact, unemployment came in at 6.3% in September – a historic low since the eurozone was established in 1999. This indicates that inflationary pressures from the job market are not yet a

thing of the past. Including yesterday's accelerating GDP growth figures, this week's data has provided some counterweight to the ECB's dovish view presented on inflation at the October press conference. ECB President Christine Lagarde referred to all data pointing in the same direction: downward.

Two weeks later, all data points in a different direction: upward. Lagarde has often warned against data point dependency, but may have fallen into the trap of the plural of that – data points dependency. Taking a step back from the short-term confusing signals, we see a eurozone economy that continues to struggle to rebound, with third-quarter GDP data overstating momentum due to one-offs. The job market remains strong, but with profit growth down, we expect this to affect the labour market negatively over the course of next year. This keeps demand driven inflation down, which should help to bring inflation – including core – down to target in 2025. Still, upside risks to the outlook remain as labour market pressures have yet to fade and wage growth remains elevated for now.

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