

Euro zone: inflation (finally) below 2%!

Too early to claim victory?

The symbolic 2% mark has finally been passed. After 2.6% in July and 2.2% in August, Eurostat has announced that inflation in the eurozone slowed to 1.8% year-on-year in September. This is the lowest level since June 2021, and above all, below the ECB's target.

Core inflation - i.e., inflation adjusted for volatile energy and food prices - which is particularly closely watched by the ECB and the markets, also continued its slow decline to 2.7% year-on-year, after 2.8% in August.

September's good inflation figures were mainly due to a 6% year-on-year fall in energy prices, including fuel prices, which had already fallen by 3% in August. The rise in services prices slowed slightly to 4% (-0.1 points versus August). Food prices (including alcohol and tobacco) rebounded very slightly to 2.4% (+0.1 points), while industrial goods prices stabilized at a very low level (+0.4% year-on-year, as in August).

Overall, the rise in consumer prices in the eurozone has been almost halved since the record 10.6% year-on-year reached in October 2022, when energy prices soared due to the outbreak of war in Ukraine.

Number of the week

1,8%

Euro zone inflation rate
(September)



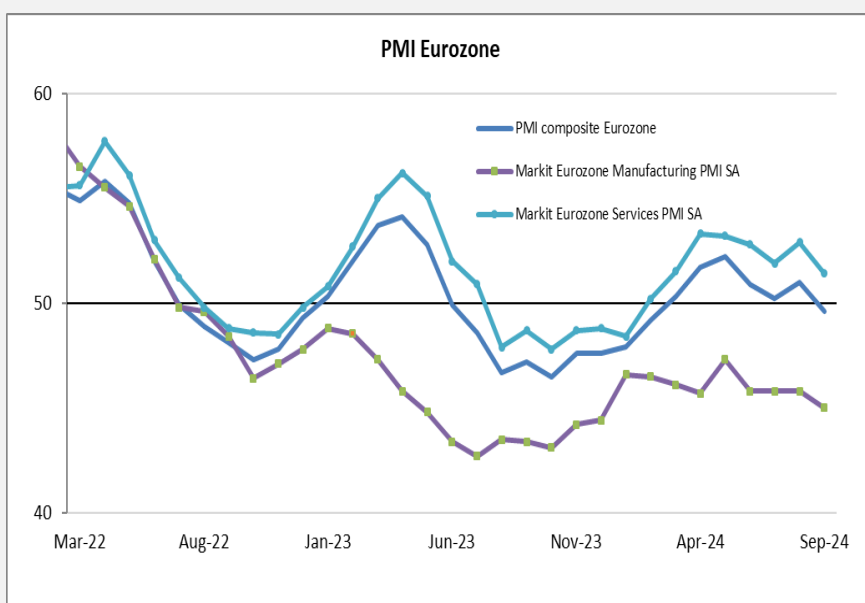
Good news for the ECB

These encouraging figures reinforce the expectation that the European Central Bank will cut rates again at its October 17 meeting.

The markets are convinced of this, and are anticipating (100%) 2 rate cuts between now and the end of the year. This change is due to a sharp deceleration in inflation in the Euro zone.

These expectations have risen, as on the one hand inflation is falling faster than expected, and on the other, the latest macroeconomic data point to a slowdown in the European economy.

Economists now expect the ECB to ease monetary policy at every meeting until June 2025. This would bring the deposit rate down from the current 3.5% to 2%.



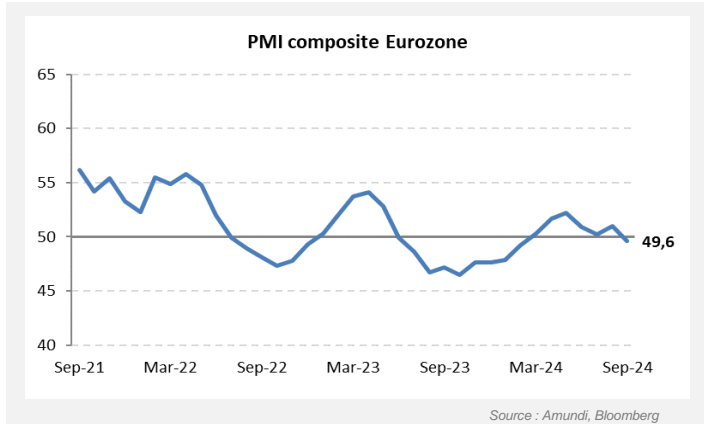
Source : Amundi, Bloomberg



Euro zone PMI index

Economic activity in the Euro zone fell back into contraction territory last month, although the slowdown was not as pronounced as had been expected. The S&P Composite PMI fell to 49.6 in September, after 51 in August. This is the first time in seven months that this index has been in negative territory.

The services PMI fell from 52.9 in August to 51.4 in September, while the manufacturing PMI fell to 45, slightly above the initial estimate of 44.8. This situation reflects the region's current economic challenges, with domestic demand in decline and industrial activity under pressure.

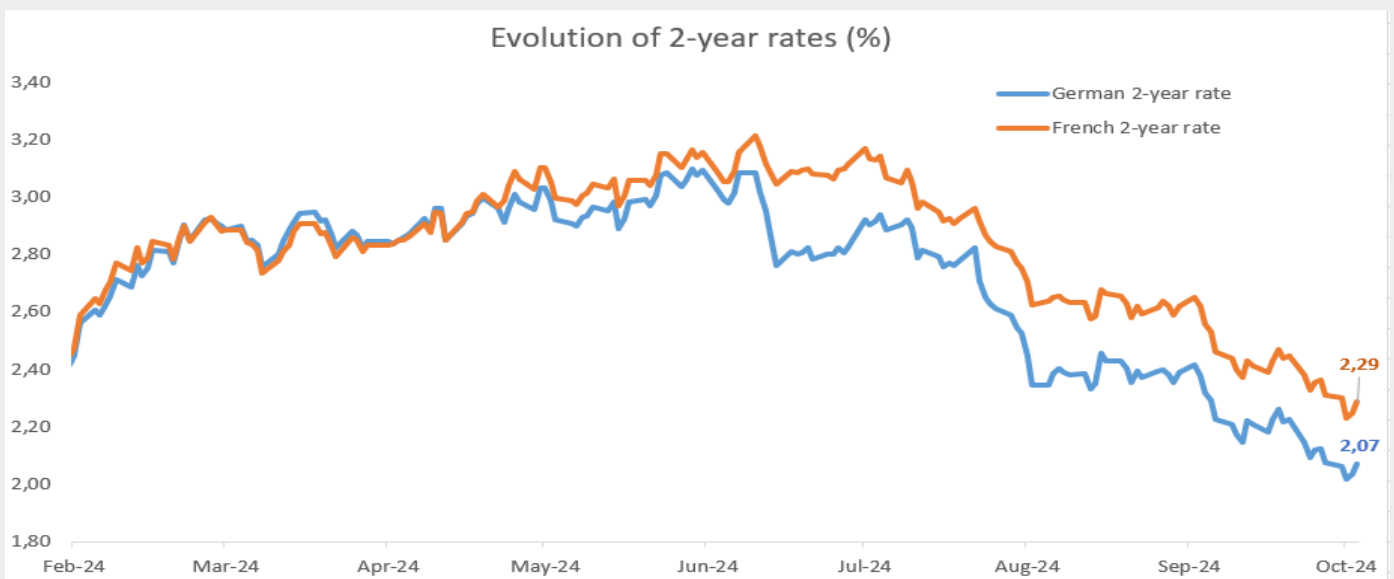


Recent data reinforce our confidence that inflation will return to target in due course



Christine Lagarde, President of the ECB, 30 September 2024

Market impact



Inflation rates came in lower than expected in France and Spain. This triggered a further easing in bond yields, helped by a rise in the probability of an ECB rate cut of 25 bp in October (over 80%). Thus, German and French 2-year yields had lost 4 bp and 7 bp respectively between September 30 and October 1.

Source : Amundi, Bloomberg

German yield curve



Continued steepening of the 3-10 year part of the German yield curve.

Over the month, the 3-year rate fell more than the 10-year rate. The German 3-10 year curve continued to normalize.

Source : Amundi, Bloomberg

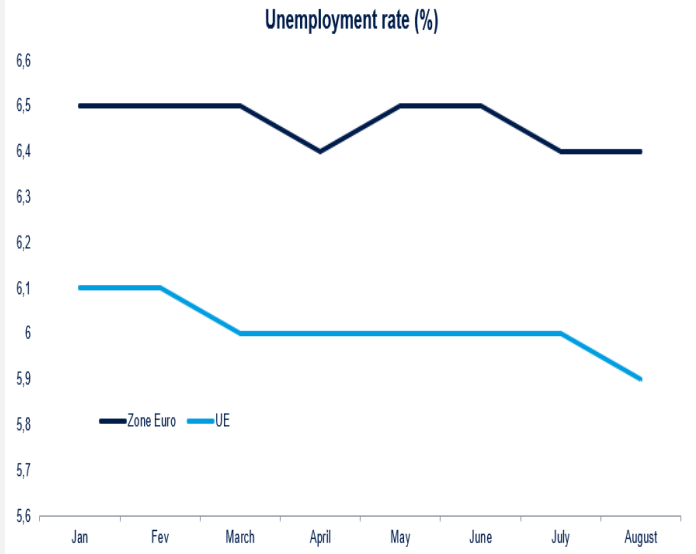


Euro zone unemployment rate stable

Employment is holding steady in the eurozone. The unemployment rate remained stable in August compared with July, at 6.4% of the working population, according to data published by Eurostat. Year-on-year, the figure is down 0.2 points. Compared with July 2024, unemployment fell by 108,000 in the European Union and by 94,000 in the euro zone.

Unemployment fell sharply in Europe after mid-2021, thanks to the very strong economic recovery that followed the historic recession triggered by the pandemic in 2020. Since spring 2023, it has stabilized.

Overall, the job market has held up well in the gloomy economic climate that has gripped Europe since the end of 2022. However, there are significant disparities between countries. Unemployment stands at 7.5% in France, compared with 3.5% in Germany. The lowest rates in the European Union were recorded in the Czech Republic (2.6%) and Poland (2.9%). The highest were in Spain (11.3%) and Greece (9.5%).



Source : Amundi, Eurostat

News



- ▶ **Germany** | Inflation down to 1.6% (Sept)
- ▶ **Euro Zone** | Unemployment rate stable at 6.4% (August)

Agenda



- ▶ **04 October** | Publication US unemployment rate (Sept)
- ▶ **10 October** | Publication US inflation rate (Sept)

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