ECONOMICS

ECB CUTS RATES AGAIN

Dr. Jörn Quitzau, 12 September 2024

- **The European Central Bank (ECB) lowers key interest rates.**
- **The ECB's inflation projections remain unchanged.**
- **US Federal Reserve expected to lower Fed Fund Rates next week.**

The economy in the eurozone is not really gaining momentum, while inflation fell to 2.2% in August. In Germany, the largest economy in the eurozone, inflation has even fallen to the ECB's target of 2%. This macroeconomic environment made it easy for the ECB to cut the key interest rate by 25 basis points at its meeting today. Nevertheless, the ECB must remain vigilant, as core inflation (excluding energy and food) remains stubbornly high at 2.8%. ECB President Christine Lagarde emphasized mantra-like at the press conference that further decisions will be data dependent and will be taken on a meeting-by-meeting basis. The ECB will not pre-commit itself to a particular rate path. The market currently believes that up to two further rate cuts are likely by the end of the year.

The interest rate for the deposit facility, which the ECB uses to steer the monetary policy stance, will be lowered by 25 basis points to 3.50% on September 18. One change, which was already announced in March 2024, was in the relationship between the different interest rates. The gap between the deposit facility and the main refinancing rate will be reduced from 50 to 15 basis points. This will reduce the main refinancing rate from 4.25% to 3.65%. The interest rate for the marginal lending facility will remain 25 basis points above the main refinancing rate and will therefore fall to 3.90%.

The ECB's inflation projections remain unchanged. The ECB forecasters expect an average inflation rate of 2.5% for 2024, a decline to 2.2% for 2025 and finally only 1.9% for 2026. The ECB also expects core inflation to fall, albeit at a slightly higher level (2024: 2.9%; 2025: 2.3%; 2026: 2.0%).

The next ECB meeting will take place on October 17, 2024.

Outlook: Next Wednesday, all eyes will be on the Fed's interest rate decision in Washington. The central bank will now also initiate a turnaround in monetary policy in the US and we expect a rate cut by 25 basis points. The latest macroeconomic data gives it the scope for a U-turn, as the economy is cooling and overall inflation is continuing to fall. In August, consumer price inflation fell to 2.5% (from 2.9% in July). Lower energy prices are the main reason for the decline. The core rate of inflation rose very slightly from 3.2% to 3.3%. Shelter costs (+5.2% year-on-year) remain a key driver of inflation. The Fed has therefore not yet given the all-clear on the inflation front. However, it must now also pay closer attention to its second target, maximum employment, as the labor market is cooling. In August, the number of people in employment (excluding the agricultural sector) rose by 142,000. The three-month average now stands at 116,000, which is below the 2014-2023 average of 166,000. The unemployment rate has fallen slightly from 4.3% to 4.2%.

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KREUZSTRASSE 5
8008 ZÜRICH, SCHWEIZ
T +41 44 284 20 20
BERGOS.CH