

## Another inflation shocker from Germany

German inflation reached another peak in September, providing more ammunition for the ECB to hike by 75bp at the October meeting



German inflation data in January was surrounded by statistical noise

German inflation just reached unprecedented double-digit levels coming in at 10.0% year-on-year in September, from 7.9% YoY in August. The HICP measure increased to 10.9% YoY, from 8.8% YoY in August and 8.5% in July. The fact that monthly inflation (1.9% month-on-month) is far above the historical average for September also illustrates that inflation is running red hot in Germany.

### Inflation will continue to increase

We knew that the September numbers would be the first inflation reading without the dampening effect of the government's energy relief package over the summer months. The end of the so-called €9 ticket for public transportation and the end of a gasoline rebate alone would have pushed up inflation. But inflationary pressure is all over the economy.

Looking ahead, the only way for German inflation is up. With high wholesale gas prices now reaching people's homes and pockets as well as more inflationary pressure in the industrial pipeline – with producer price inflation at 45% YoY – inflation will test even higher levels. It will take until next Spring before headline inflation could start to move down as negative base effects kick in. Based on today's numbers, peak inflation could come in at around 13%.

## ECB to hike by 75bp in October and more to come

For the ECB, today's German inflation data will add to the long list of arguments in favour of a 75bp rate hike at the October meeting. Since the late summer and probably marked by Isabel Schnabel's Jackson Hole speech, the ECB's reaction function has clearly changed. Following in the Fed's footsteps, the ECB has increasingly focused on actual inflation and to a lesser extent on inflation expectations. It is hard to see how the ECB cannot move again by 75bp with headline inflation still on the rise. In this context, the discussion on whether or not the ECB can actually bring down headline inflation is no longer relevant for the central bank. Even if the unfolding recession is not enough to slow down the ECB's process of rate normalisation. It clearly is an experiment with a risk of becoming a policy mistake, but for the time being the ECB looks fully determined to continue on the path of aggressive rate hikes.

The first real test of how sustainable the consensus within the ECB is will only come at the December meeting. Then, a new round of staff projections is likely to show further downward revisions to growth and could show 2025 inflation at 2%, tempting some of the newly self-declared tough inflation fighters to blink. Unless we see more central banks performing a major U-turn as the Bank of England had to do this week, we expect the ECB to hike rates by some 150bp until early 2023 and the risk is currently rather tilted to more rather than fewer rate hikes.

Still, it is not the ECB that can provide short-term relief against inflation, but governments. However, the idea that governments can completely offset all inflationary pressures should also be discarded after this week's developments in the UK.

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