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GERMANY

German inflation hits 6%

German inflation hit 6% in November and more is to come before a gradual retreat next year



Early Christmas shoppers in Cologne

More than thirty years ago, the famous alternative rock band 'Pixies' wrote a song about global warming in which "the devil is six". After today's inflation data, many Germans might also think of their national devil: inflation. At 6% Year-on-Year in November, HICP inflation is another shocker. The national definition of headline inflation came in at 5.2%, still shy of the all-time record of 6.2% in the summer of 1992. All these numbers are obviously a first estimate based on the inflation outcomes of several regional states.

Another inflation surge in December but gradual retreat in 2022

As shocking as the headline number might be, the drivers of this surge should be well-known by now: base effects from the VAT reversal, which also shows in subcomponents such as prices for clothing and leisure, higher energy costs and price mark-ups post-lockdown in the leisure and hospitality services. More generally, higher producer prices on the back of supply chain disruptions and higher commodity prices will continue to impact those of the consumer. The December inflation number could be a new record high since German reunification.

Looking further ahead, the base effect from the VAT reversal will disappear and alone should

bring headline inflation down by more than 1 percentage point. Other one-off factors like base effects from higher energy prices and post-lockdown price mark-ups will also gradually start to abate. However, it could take until the end of 2022 before headline inflation will drop below 2%, if not until 2023.

All in all, higher inflation together with new virus-related restrictions will dent private consumption towards the end of the year and into early 2022. The announced and expected wage increases will not be able to entirely compensate for the loss in purchasing power.

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