

German December numbers mark worst inflation year since 1993

Headline inflation increased once again, ending the year at 5.3% year-on-year. While the December number should mark the peak of the inflation surge, inflationary pressure will first broaden before it finally abates towards the end of the year



The year 2021 ended with another inflation shocker as German headline inflation came in at 5.3% YoY from 5.2% YoY in November, the highest level since June 1992. HICP inflation came down somewhat at 5.7% YoY, from 6.0% in November. The all-time high of German inflation since reunification dates back to the summer of 1992, at 6.2%. For the entire year 2021, inflation came in at 3.1%, the highest since 1993. All these numbers are obviously a first estimate based on the inflation outcomes of several regional states.

Inflation should first broaden before coming down towards end of the year

By now, the main drivers of surging headline inflation in Germany are well known: it is base effects from the VAT reversal, which also shows up in subcomponents such as prices for clothing and leisure, higher energy costs and price mark-ups post-lockdown in the leisure and hospitality

services. However, high inflation is no longer only concentrated in a few sectors or a few goods. Almost half of the 92 largest components of the inflation basket currently have an inflation rate of 4% or more. A year ago, this was less than 10%.

Looking ahead, the base effect from the VAT reversal will disappear which alone should bring headline inflation down by more than 1 percentage point. However, at the same time, the pass-through from higher energy and producer prices is far from over. Higher gas prices have been passed on to most German households with the start of the new year. Based on personal anecdotal evidence, all kinds of administrative prices and even TV broadcasting prices have gone up. Add to this additional price-markups in the hospitality, culture and leisure sectors once the current round of restrictions is over and it is hard to see inflation coming down significantly any time soon. It will take until late summer to see inflation slowing down to any significant degree, when lockdown-related price markups are over and negative energy price base effects kick in.

The year 2021 brought Germany the worst inflation surge since the early 1990s. Today's inflation numbers should, in our view, mark the peak of the inflation surge. However, inflation is unlikely to come down in a straight line from here. Instead, inflationary pressures will first broaden further across sectors and goods before abating towards the end of the year.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.