

German hyperinflation remains a distant dream

German inflation remained broadly unchanged in July, giving no further guidance for the ECB



Source: istock

Inflation figures

Based on the results of six regional states, German headline inflation increased somewhat unexpectedly to 1.7% YoY in July, from 1.6% YoY in June. On the month, German prices increased by 0.4% . Based on the harmonised European definition (HICP), and more relevant for ECB policy making, headline inflation stay the same.

1.5%

July headline inflation YoY

remained unchanged

Looking at the available components at regional levels show that lower energy prices, a continued

decline in communication costs and lower prices for services were broadly offset by somewhat higher prices for consumer goods.

Growth but no inflation, no signals to the ECB

With almost everything being stable, Monday's inflation data from Germany does not bring any kind of new signals to the ECB; at least not in the short run. From a more structural perspective, the numbers once again underline the ECB's current dilemma: a cyclical upswing without significant inflationary pressure. If an economy which has just entered into its ninth year of economic expansion and which has record high employment and record-breaking confidence indicators hardly shows any inflationary pressures, how could the Eurozone as a whole do so anytime soon as well?

Inflation unlikely to rise

Even worse, lower oil prices and a stronger euro clearly argue in favour of cyclical downward pressure on inflation in the coming months. On top of that, downward pressure on prices due to higher transparency and competition through digitalisation and downward pressure on wages, stemming from globalisation, automation or slack is likely to keep inflationary pressure structurally low.

All of this means that five years after Mario Draghi's famous whatever-it-takes speech, the economic nightmares of many Germans have still not come true. Despite QE and negative interest rates, hyperinflation or even a disorderly acceleration of inflation are still far away from becoming reality.

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