

## German inflation brings comfort for ECB

A drop in headline inflation in October and strong retail sales in September provide further evidence of Germany's 'Goldilocks' economy



### Not too hot, not too cold

While many in Germany are enjoying a long weekend due to public holidays, Monday's macro data suggest that the economy is in the midst of a 'Goldilocks' period. Strong industrial data over the summer and an Ifo index at record high were today supplemented by strong retail sales and dropping inflation in September and October.

Retail sales, in real terms, increased by 0.5% MoM in September, from -0.2% in August, providing further evidence of strong private consumption. On the year, retail sales were up 4.1% (partly driven by favourable base effects). The strong labour market and low inflation remain the main drivers of German private consumption. And there are no signs there'll be any changes to this picture anytime soon.

# 1.6%

 German CPI (YoY)

## Inflation to remain low

In fact, inflation remains low. Based on the results of five regional states, German headline inflation dropped to 1.6% YoY in October, from 1.8% YoY in September; the first drop since June this year. Based on the harmonised European definition (HICP), and more relevant for ECB policymaking, headline inflation even dropped to 1.5% YoY, from 1.8%.

Looking at the available components at the regional level shows that today's drop in headline inflation was mainly driven by energy base effects. Measures of core inflation remained stable. Stable core inflation, however, masks two diverging trends in German prices. While prices for consumer goods have increased with an annual rate of above 2% for quite some time, the ongoing decline in communication costs and lower prices for services continue to keep core inflation at bay.

With the current upward trend in oil prices, negative base effects from energy prices could quickly disappear again. However, ongoing structural factors such as increased competition in the service sector on the back of digitalisation, little upward pressure on wages due to the stronger euro, and globalisation and automatisisation should keep German headline inflation clearly below 2% until the end of the year and beyond.

As long as the current showcase model of the Eurozone economy – the German economy – which is also most advanced in the current cycle does not show any signs of accelerating inflationary pressure, the ECB will feel extremely comfortable with its dovish tapering.

## Author

### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto: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 <http://www.ing.com>.