Snap | 29 June 2022 GERMANY

German inflation comes down as government measures bite

The government s energy relief package pushed down German headline inflation in June. This is not a turning point – yet – but rather evidence that it is currently governments and not central banks that can bring down inflation

Inflationary pressure is far from over in Germany

German headline inflation has dropped for the first time since January. However, this is not yet the end of surging inflation rates but rather a good example that it is currently governments, not central banks, that can stop inflation. According to a first estimate based on the regional inflation data, German headline inflation came in at 7.6% year-on-year in June, up from 7.9% YoY in May. The HICP measure came in at 8.2% YoY, from 8.7% in May. Don't be mistaken, this is not the start of the end but rather a government-induced temporary relief.

Lower inflation will be temporary

Judging from the available regional inflation components, the drop in headline inflation is mainly the result of the government's energy relief package which became effective on 1 June. In fact, the tax rebate for gasoline as well as the €9 per month ticket to use regional public transportation clearly show up in lower motor fuel or transportation inflation. At the same time, however, food price inflation continued to pick up and the expected price mark-ups in the services sectors, such as leisure, hospitality and tourism gained more momentum.

The energy relief package will end in August. This will also be the moment when the temporary relief to headline inflation stops. Even if pricing power both in industry and services should have reached its peak, we still expect the pass-through from higher costs to last at least over the summer months if not longer. The potential end to Russian gas for Germany is also likely to increase energy prices going into the winter season. This makes any significant retreat of headline inflation highly unlikely for 2022. It will take until 2023 before negative base effects should send the headline rate towards 2% again.

For the ECB, today's drop in German headline inflation does not bring any relief. Instead, the increase in Belgian and Spanish inflation suggests that eurozone inflation is moving up and not down like German inflation. To some extent, today's German inflation data also sends an important message: it is currently not central banks but governments that can effectively bring down inflation.

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