

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.

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.

THINK economic and financial analysis

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