

German inflation accelerates and that should hush the 50bp rate cut debate

With today's macro data, not just from Germany, the hawks at the European Central Bank will feel encouraged to object to a 50bp rate cut in December, at least for now



Shoppers in Düsseldorf

The just-released flash estimate of German inflation in October could make some members of the European Central Bank regret the latest rate cut and the ECB's new openness to more aggressive cuts. German headline inflation came in at 2.0% year-on-year, strongly up from 1.6% YoY in September. The European inflation measure came in at 2.4% YoY from 1.8% in September. The monthly increase by 0.4% shows that inflationary pressure in Germany is still very much alive and kicking.

Inflation to remain sticky

Today's rebound in German inflation is not only the result of less favourable energy base effects but also of still increasing goods and food prices. Judging from available regional state data, services inflation - singled out by the ECB as being important for its decision-making - reaccelerated in October and is again close to 4% YoY.

Looking ahead, the stickiness of inflation at slightly too high a level still looks set to continue as

favourable energy base effects will continue petering out while, at the same time, wages are increasing. Volkswagen's current woes could signal a turnaround for broader wage developments, with unions shifting from high wage demands to job security. On a more worrying note, leading indicators, such as selling-price expectations, have started to pick up again and have moved to their highest levels in more than a year.

As a result, we continue to expect inflation to accelerate further in the final two months of the year before hovering within the broader range of between 2% and 3% in 2025.

A good day for ECB hawks

With [eurozone GDP growth](#) in the third quarter being higher than the ECB's September projections (0.4% QoQ vs. 0.2% QoQ) and now inflation in Germany surging again, some ECB members might start doubting both the October rate cut decision and the opening to even larger rate cuts. In fact, today's data makes the October rate cut decision even more data-point-driven and not data-dependency driven. The more hawkish ECB members are now also likely to start doubting the need for accelerated and more aggressive monetary policy easing, as was suggested by more dovish ECB members last week.

Looking ahead, a lot can still happen between now and the ECB's next meeting in December. The outcome of the US elections will matter for the eurozone economy and the ECB, but also the ordinary flow of macro data will provide more guidance on two essential questions for the ECB:

1. Were the disinflationary trends just halted, or are they for real? and
2. Will the ECB acknowledge structural weakness in the eurozone economy or continue believing in a return to potential growth from early 2025 onwards?

Also, interestingly, there is currently very little talk at the ECB about factors structurally pushing up inflation. What happened to 'greenflation' or the arguments made in the past that demographics and changes to globalisation would also potentially push up price pressures? What happened to the old central bankers' narrative that monetary policy cannot solve structural problems in an economy? Is the ECB really back in the 2010s, or was the panic we saw last week simply short-lived?

In any case, having been slow to address rising inflation and arguably late in stopping rate hikes last year, the ECB now appears determined to get ahead of the curve and return interest rates to neutral as quickly as possible. For the doves, this is a no-brainer, and for the hawks, the argument might be that getting rates back to neutral quickly could be enough to avoid another episode of unconventional monetary policy with quantitative easing and negative interest rates further down the line. Today's macro data releases in the eurozone, however, should encourage the ECB hawks to object to a 50bp rate cut in December. At least for now.

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 <http://www.ing.com>.