

Snap | 29 May 2026

GERMANY

German inflation dropped in May amid state measures to cut gasoline prices

Headline inflation came down in May as the government's measures to tackle higher energy prices started to take effect



Energy, food, transportation, clothing and household goods prices all fell in Germany in May

You have heard it before: there is very little central banks can do to bring down energy prices. This is an argument often used to justify a muted monetary policy response to energy price shocks. But while central banks cannot lower energy prices, governments can – at least temporarily. This is the main message coming from the just-released German inflation data.

Despite the ongoing war in the Middle East, German headline inflation dropped in May to 2.6% year-on-year, from 2.9% YoY in April. The European inflation measure, more relevant for the European Central Bank, came in at 2.7% YoY, from 2.9% YoY in April. On the month, prices actually dropped by 0.2%; the first monthly drop since January. Both core inflation and services inflation increased in May and are now back at levels seen before the war in the Middle East started.

Looking at the available components, it was not only energy prices that actually dropped compared to April, but also food prices and prices for transportation, clothing and household goods. The drop in energy prices was obviously the most notable move but can be explained by the government's so-called tax rebate, lowering fuel and diesel taxes by some 17 cents per

litre in May and June. This also means that today's inflation numbers should not be read as a sign that the inflation wave is already over before it actually started but rather as a confirmation that this is a relatively mild inflation wave.

Looking ahead, we still expect knock-on effects from higher energy prices on transportation costs, food prices and other industrial products over the coming months. In fact, not everyone will benefit from tax rebates. Needless to say, the longer the war in the Middle East and the blockade of the Strait of Hormuz last, the higher the likelihood that the initial energy price shock will not only have knock-on effects but could also be accompanied by additional supply chain frictions and, in turn, a self-enhancing inflationary spiral. So far, both the latest inflation data and the recent decline in inflation expectations suggest that a self-reinforcing inflationary spiral remains a distant prospect.

Today's inflation data was a welcome, though not fully unexpected, surprise. However, it would be naive to think that the inflation wave has stopped before it really got started. Instead, inflation will crawl up in the coming months, probably reaching 4% by late summer. However, we take today's data as another piece of evidence that any repetition of the 2022 inflation shock is unlikely.

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