

## German inflation drops in October

German inflation continues to drop, and the trend of disinflation looks set to continue at least until year-end



German headline inflation continues to drop. According to the just released flash estimate, October headline inflation came in at 3.8% year-on-year, from 4.5% YoY in September. The harmonised European inflation measure for Germany plunged to 3.0% YoY from 4.3% in September. This discrepancy between the national and the European measures can mainly be explained by base effects and different measures of packaged holidays. Disinflation in Germany is still mainly a base effects story, even if some sectors have started to show actual price drops.

### More disinflation to come

Some of the earlier statistical noise that surrounded inflation data this year has finally disappeared. What we are now noticing are base effects, mainly in energy and food price inflation, but also monthly price drops in some sectors. Some regional states saw food prices dropping again, a trend which started in spring this year. At the same time, prices for services – particularly for hospitality services and tourism – reflect the expected reaction after the summer holiday period and fading demand. In fact, for the first time in a long while, monthly price developments were more favourable than their historical average.

Looking ahead, base effects should continue to drive inflation down further over the coming months. Actual price drops, however, have not gained momentum or really spread across the

entire economy. This could soon change with the economy stagnating and a further weakening of demand. The price drops in tourism and hospitality services could be a leading indicator for a broader trend that the time for bargain hunters has come. At the same time, the recent rollercoaster ride of oil prices was a strong reminder of how fragile the base case of further abating inflationary pressures is. For now, we continue to see German inflation falling to around 3% by the end of the year.

Admittedly, the risks to this outlook are obvious and clearly to the upside. Let's also not forget that inflation will be higher over the coming years than it was pre-pandemic. Demographics, derisking and decarbonisation all argue in favour of upward pressure on price levels. At some point in time, the European Central Bank (ECB) might regret that it redefined its inflation target at 2.0% and not "at around 2%".

Speaking of the ECB, today's German inflation data strengthens the case for staying put. The clear change in tone at last week's ECB meeting has confirmed our view that what started as a pause last week will soon become the official peak in rate hikes. It was not only the ECB's more cautious take on the eurozone's growth outlook but also a more benign take on how to react to higher oil prices which signalled that the ECB has de facto entered the next phase of its current hiking cycle: staying high for longer.

## 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>.