

## German inflation falls back below 2%

Ongoing favourable energy base effects and abating food price pressure have pushed down German inflation to 1.9% year-on-year in February



A softening in food price pressures played a role in bringing inflation down this month

German headline inflation, according to the national measure, fell below the ECB's 2% target in February, coming in at 1.9% year-on-year, from 2.1% YoY in January. The European measure also slowed somewhat and came in at 2.0% YoY, from 2.1% YoY in January. Core inflation and services inflation remained unchanged at 2.5% YoY and 3.2% YoY respectively.

The available regional state data shows that the drop in inflation was mainly driven by somewhat abating price pressure on food and still favourable energy price effects. At the same time, higher prices for clothing and footwear limited the drop.

### Headline inflation to fluctuate around 2%

Looking ahead, two rather opposing external drivers are shaping the inflation outlook. The stronger euro is inserting more disinflationary pressures, as reflected in dropping import prices, for example, while the recent surge in oil prices will clearly insert new inflationary pressures. Just check gasoline prices, which have surged to the highest levels in a year. Which of these two factors will prevail is

currently hard to tell, which is why we are expecting inflation to fluctuate around 2% this year.

For the ECB, today's German inflation data will not change the course of monetary policy. Three weeks ahead of the next meeting, there seems to be no imminent threat to the ECB's 'good place'. With recent market developments, even the new round of staff projections will not be so different from the last projections in December. A slightly stronger euro and slightly higher oil prices than in December should offset each other in terms of impact on inflation, while being negative for eurozone growth. However, the changes are too small to trigger a significant forecast revision, let alone a change to monetary policy.

All in all, today's German inflation data confirms that, at least for the time being, inflation no longer tops the list of concerns for European policymakers.

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