

German October inflation marks start of more disinflation to come

Favourable base effects have pushed down German headline inflation. It's a trend that will continue for a few more months before inflationary pressures return



Turning point! After several months of increasing headline inflation, the just-released inflation data points to a trend reversal. Headline inflation, according to the national measure, decreased to 2.3% year-on-year in October, from 2.4% YoY in September. The European measure also came down to 2.3% YoY. Core inflation remained unchanged at 2.8% YoY, while services inflation even increased somewhat to 3.5% YoY, from 3.4% YoY.

Moving towards 2%

The available regional state data shows that the drop in German inflation was mainly driven by favourable base effects. On the month, almost all categories saw prices slightly increase.

Looking ahead, the stronger euro and still favourable energy base effects should push German inflation back towards – and below – 2% over the coming months. At the same time, the worsening labour market and AI will further moderate wage growth. Finally, US tariffs could also bring disinflationary pressures to Europe due to overcapacity and weaker sales in the US. While

these elements clearly bring disinflationary forces to Germany over the coming months, the longer-term picture brings more upward pressure on inflation. Restructuring of supply chains, labour costs in an era of ageing and the green transition remain three important structural drivers of price pressures. And not to forget the inflationary impact from Germany's fiscal stimulus.

In short, today's inflation reading marks another turning point and the start of at least a short-lived period of rather disinflationary pressures before inflationary forces take over again.

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