German inflation remains unchanged in November as outlook clouds over

Headline inflation remained unchanged in November, providing new ammunition for those at the European Central Bank arguing against further rate cuts

Today's data could support the case against more ECB rate cuts

Still too high

German headline inflation, according to the national measure, remained unchanged at 2.3% year-on-year in November. The European measure increased to 2.6% YoY from 2.3% YoY in October. Core inflation dropped somewhat to 2.7% YoY, while services inflation remained unchanged at 3.5% YoY.

The available regional state data shows that prices for leisure and services actually dropped in November compared to October. Year-on-year inflation in almost all categories remained broadly unchanged.

Looking ahead, the inflation outlook has become more mixed, with both disinflationary and inflationary drivers at play. On the one hand, the stronger euro and favourable energy base effects, as well as domestic and foreign companies re-channelling products from the US to Europe at dumping prices, are all disinflationary forces. The disinflationary story is also supported by the ongoing drop in producer and import prices, normally a good leading indicator for headline inflation. On the other hand, selling price expectations in both services and manufacturing have increased again recently, and the incoming fiscal stimulus should also lead to new inflationary pressures, at least in certain sectors.

In short, due to base effects, German headline inflation should move towards 2% at the turn of the year before reaccelerating again. However, to echo the words of the ECB, German inflation risks to the outlook in both directions are higher than normal. This is why today's inflation data will hardly have any impact on the ECB's meeting in December. If anything, it strengthens the point of those at the ECB arguing against additional rate cuts.

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