

German inflation slows down at the end of 2025

Headline inflation ended the year on target as the national measure dropped to 1.8% and the ECB-relevant measure to 2.0% year-on-year



German headline inflation, according to the national measure, came down to 1.8% year-on-year in December, from 2.3% YoY in November. The European measure decreased to 2.0% YoY from 2.6% YoY in November. Core inflation dropped somewhat to 2.4% YoY, while services inflation remained unchanged at 3.5% YoY.

The available regional state data shows that the drop in inflation was not only driven by favourable energy base effects but also by falling prices for leisure, clothing and food in December compared to November. The drop in food prices should be particularly welcome news for German consumers.

Inflation first below but then above 2%

Looking ahead, German headline inflation looks set to drop further over the coming months and will remain below the 2% mark, before re-accelerating again later this year. In the shorter run, disinflationary drivers will prevail, like 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. This disinflationary story is also supported by the ongoing drop in producer and import

prices, normally a good leading indicator for headline inflation. In the longer run, however, the incoming fiscal stimulus should lead to new inflationary pressures, at least in certain sectors. What complicates the German inflation picture a bit are recent policy measures. The VAT reduction for food sales by hospitality businesses will probably improve profit margins in the hospitality sector rather than bring down inflation, while the latest increase in the minimum wage could also fuel longer-term inflationary pressures.

All in all, German inflation should basically fluctuate around 2% throughout 2026; initially slightly below that level and later somewhat above. This is good news for the European Central Bank and the German government as it removes one concern from an otherwise long list of economic challenges.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

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