

German inflation still unstoppable

German inflation continues to accelerate and we're unlikely to see a turnaround until early next year



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This is definitely not making the wait until the ECB's press conference any easier. German inflation data for October just came in at 4.5% year-on-year, another acceleration. In September, headline inflation was at 4.1% YoY. The harmonised index relevant for the ECB jumped to 4.6%, from 4.1% in September.

More to come

The headline is not new and the reasons for the surge in inflation aren't either. It is still the full base effects from a VAT reversal, which also shows up in the subcomponents such as prices for clothing and leisure, as well as higher energy prices and price mark-ups post-lockdown in the leisure and hospitality services which are contributing to the rise. Without this series of one-off factors, German headline inflation could, according to our estimates, be some 1.5 percentage points lower. To be clear, this would still be above the ECB's 2% target. Currently, three quarters of the 100 most important items in the consumer price basket have an inflation rate of more than 2%.

Looking ahead, for German inflation, the only way is up. Higher producer prices on the back of supply chain disruptions, higher commodity prices and post-lockdown price mark-ups will continue

to impact consumer prices. Producers' and services providers' selling price expectations at record highs suggest further inflationary pressure for consumers in the pipeline. Together with the ongoing base effects from the reversal of the German VAT rate, headline inflation could even breach 5% in the final two months of the year.

Beyond the short term, some one-off factors should disappear at the start of next year but the recent surge in energy prices, as well as continued supply chain frictions and post-lockdown price mark-ups, are likely to keep German inflation above 2% throughout most of 2022.

Today's German inflation data comes too late to have mattered for the ECB. However, it is clearly a data point which will have to be addressed during the ECB press conference.

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