

# German inflation data tilts balance towards a September rate cut

German inflation dropped below 2% for the first time since March 2021, opening the door for a rate cut at the European Central Bank's September meeting



The just-released flash estimate of German inflation in August has everything the ECB needs to continue cutting rates at the September meeting. Coming in at 1.9% year-on-year, from 2.3% YoY in July, German headline inflation is now at the lowest level since March 2021. The European inflation measure came in at 2.0% YoY, from 2.6% in July. Even better, the monthly drop of 0.1% was the first monthly decline in the month of August since 2020.

## Finally signs of broader disinflation

Today's drop in German inflation is the result of lower energy prices and favourable base effects as well as lower prices for goods. Judging by available regional state data, services inflation remained close to 4% YoY but core inflation seems to have come down as well. While hotel and restaurant prices rose somewhat, leisure costs and clothing price inflation went down. Monthly changes show actual price drops in food and beverages as well as household goods and transportation.

At face value, this inflation report is great news for the ECB as it finally shows the first signs of a

broader disinflationary trend, which goes beyond energy prices. At the same time, however, it is too early to give the all-clear on inflation both in Germany and the entire eurozone. This morning's wage data is one of the reasons for concern. German real wages increased for the fifth consecutive quarter, potentially fuelling inflationary pressures further down the road. Also, don't forget that German unions are going into the post-summer bargaining rounds with high demands. It could take longer than the ECB expects before wage growth in the eurozone comes down significantly. Finally, leading indicators like selling price expectations are currently sending mixed signals. After a recent re-acceleration, selling price expectations in both industry and services came down in August but remain slightly above the historical average in services and below the historical average in manufacturing.

All in all, we continue to expect inflation to hover within the broader range of between 2% and 3% rather than staying at the current 2%.

## Today's inflation data clearly tilts the balance towards a September rate cut

If confirmed by tomorrow's eurozone inflation data, today's German data should make the decision to cut interest rates at the September meeting a bit easier for the ECB. Fading inflationary pressure combined with fading growth momentum offer an almost perfect macro backdrop for another rate cut. At the same time, however, forward-looking inflation indicators like selling-price expectations and wage growth show that there are still reasons to be cautious. In fact, let's not forget that for central banks, orchestrating a soft landing with inflation nicely settling at target without hurting the economy is like winning a gold medal at the Olympics: rare.

### Author

#### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10

Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).